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Approved
at the written procedure of the
Fiscal Discipline Council
on 6 April 2017
Minutes No 1-08/443

FISCAL DISCIPLINE SURVEILLANCE INTERIM REPORT

ON LATVIA'S STABILITY PROGRAMME FOR 2017-2020

Riga, 2017

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EXECUTIVE SUMMARY

Despite a positive overall budget outcome in 2016, the special budget balance continued to deteriorate, and further action is required to limit the shadow economy. Based on data published by the Treasury, the consolidated government budget balance in 2016 was better than planned, and preliminary estimates suggest that the general government budget will be balanced for the first time in 19 years. Furthermore, the State Revenue Service revenue target was exceeded, despite nominal GDP growth being considerably lower than forecasted by the MoF. However, special budget expenditures continued to grow, and the balance was worse than planned. In addition, further action is required to ensure public trust in the government's proposals and establish that measures to combat tax evasion will make a significant contribution to the achievement of the intended tax-to-GDP ratio.

The tax reform should be introduced based on a cautious and comprehensive assessment to prevent a long-term deterioration of the budget balance. Their implementation should be informed by a detailed cost-benefit analysis and quantitative assessment of the impact on the budget balance and the level of public debt. Conservative estimates of the fiscal impact should be produced, and measures should be put in place to ensure a smooth transition, compensate for the loss of personal income tax and corporate income tax revenues, and limit opportunities for tax optimisation and avoidance.

A clear strategy is required aiming to reach a tax-to-GDP ratio of 1/3 in the foreseeable future despite the tax rate reduction envisaged in the tax reform. One of the goals outlined in the Declaration of Māris Kučinskis' Cabinet is a tax-to-GDP ratio of 1/3. Data shows that in the past the tax-to-GDP ratio has consistently hovered around 28-29%. The government's tax-to-GDP target, therefore, requires an unprecedented increase in tax revenues. However, the proposed tax reforms reduce several significant revenue flows in the hopes that this will stimulate economic growth. Sufficient evidence, based on cautious estimates, should be provided to show how the intended tax-to-GDP ratio will be achieved. Sustainable revenue flows will be crucial to perform government functions and maintain public services at desired levels as the availability of foreign financial assistance decreases.

Attempts to motivate people to join the formal labour force are salutary, but estimates suggest that reform measures may have a negligible impact on the reduction of economic inequality. The proposed measures have the potential to encourage the currently unemployed to join the labour market and reduce social expenditures. However, according to estimates produced by the EC, individuals in the lowest deciles of the income distribution will benefit very little from the reforms. Furthermore, a lower level of government revenues will restrict the ability of the government to provide public services and alleviate poverty.

Reform plans for the health care sector should be based on clear performance indicators and envisage a more efficient use of the available resources. The Council has repeatedly expressed concerns regarding the use of deficit financing to implement reforms in health care and contends that further allocation of budgetary resources should be based on robust reform plans that contain concrete targets and performance indicators. Furthermore, reform plans should foresee a comprehensive expenditure review, which would yield savings that could be diverted for critical needs.

The Council endorsed the MoF's macroeconomic forecast on 16 February 2017. The Council believes that macroeconomic development perspectives are currently positive: the external environment supports growth, recession in the construction and investment sectors has slowed down, and inflation is picking up. The Council commends the inclusion of a more detailed macroeconomic sensitivity analysis in the SP 2017/2020. However, it is recommended to consider the effect of a more significant deviation from the macroeconomic scenario on the government budget balance than currently included in the analysis.

The Council does not support (i) the use of deficit financing to implement structural reforms in health care and (ii) the classification of the tax reform as a one-off measure, which leads to lower expenditure ceilings (by 249.2 million euro) than those included in MoF calculations. The Council invites the government to carry out medium-term and long-term assessments in order to determinte whether the tax reform can be classified as a one-off measure. The Council currently cannot asses the provided calculations for the expenditure growth rule, and invites the MoF to discuss and agree on a common approach to calculating several indicators, such as (a) non-accelerating wage rate of unemployment level, (ii) scope of discretionary measures, (iii) smoothed GDP deflator and (iv) deficit reducing factor, by 28 April.

ABBREVIATIONS

JSC	joint stock company
BoL	Bank of Latvia
Council	Fiscal Discipline Council
EC	European Commission
ESA	European system of accounts
EU	European Union
FDL	Fiscal discipline law
Surveillance report	Fiscal Discipline Surveillance Report 2016
MoF	Ministry of Finance
MTBF	Medium term budget framework
MTBFL 2017/19	Medium term budget framework law for 2017-2019
MTO	medium term objective
GDP	Gross domestic product
-	Not applicable / not available
OECD	Organization for Economic Cooperation and Development
PIT	Personal income tax
SGP	Stability and growth pact
SP	Latvia's Stability Programme
SP 2017/20	Latvia's Stability Programme for 2017-2020
SRS	State revenue service
VAT	Value added tax

MANDATE OF THE COUNCIL

According to the FDL (FDL Chapter III Fiscal Discipline Surveillance) the Council is an independent collegial institution which has been established to monitor compliance with the FDL. The Council's core competence is related to the assessment of fiscal discipline, and assess fiscal policy and issues related to macroeconomic developments.

Specifically the Council is responsible for:

- monitoring compliance with FDL provisions in the annual state budget law and the MTBFL during their preparation, execution, and amendment;

- verifying whether the fiscal balance and the expenditure growth provisions have been properly applied, including an independent assessment of the potential GDP and nominal GDP, and the calculation of the structural balance;

- supervising the observance of FDL provisions in the implementation of the annual state budget law, conformity of total fiscal indicators of the consolidated budget of local governments and budgets of derived public persons with the forecasted values.

- preparing opinions regarding major permitted departures from the balance condition during a severe economic downturn;

- preparing an opinion on whether the FSR is set at an appropriate level to counter extant fiscal risks

- preparing a surveillance report on fiscal discipline and, if necessary, a non-conformity report;

- preparing and submitting to the Saeima and the Government opinions regarding issues of fiscal policy and macroeconomic development if they pertain to compliance with the terms set out in the FDL;

- endorsing the MoF macroeconomic forecasts twice a year – while preparing the SP, and the annual state budget and while preparing the MTBF (according to the Memorandum of Understanding (hereafter – MoU)[1], signed on 8 February 2016);

- preparing interim report (opinion) on SP (according to the MoU);

- assessing and analysing the sustainability of fiscal policy for the purposes of preparing the reports stipulated by the FDL.

[1] Memorandum of Understanding, available: *http://fiscalcouncil.lv/files/uploaded/FDP_1_09_281_20160208_MoU_FDC_MoF.pdf*, accessed on: 17/03/2017

1 FISCAL POLICY CHALLENGES

1.1 EXPENDITURE

The budget outturn for 2016 was better than anticipated. Based on data published by the Treasury, the consolidated government budget balance in 2016 was -101.7 million euro, while the balance target was -341.9 million euro. Likewise, preliminary estimates suggest that, according to ESA2010 methdology, in 2016 the general government budget will be balanced for the first time in 19 years.

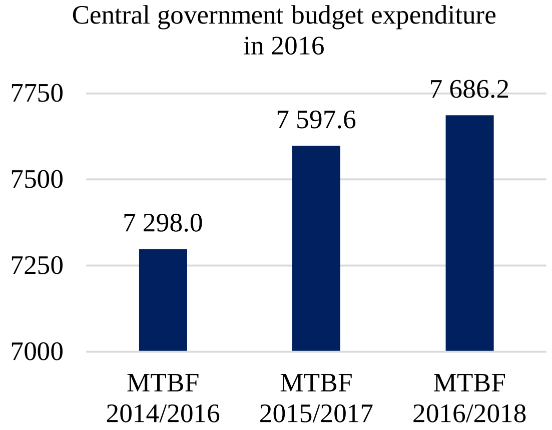
Despite a positive overall outcome, special budget expenditure continued to grow leading to a lower balance outturn compared to SBL 2016. In 2016 consolidated government budget expenditure amounted to 9.19 billion euro, which is lower than in 2015. However, special budget expenditure was higher than in 2015, and the balance was worse than planned, continuing the recent trend.

	2015	2016
Consolidated government budget balance (plan)	-286.6	-341.9
Consolidated government budget balance (fact)	-373.5	-101.7
Special budget balance (plan)	162.9	104.6
Special budget balance (fact)	91.1	47.3

Table 1.1 Comparison of plans and outcomes (mln. euro). Source: MoF

Expenditure reviews will improve efficiency, but additional revenue measures are required. The Council welcomes the decision to carry out expenditure reviews for improved budget formulation. Regular in-depth re-evaluation of expenditure needs will lead to improvements in budgetary spending and a more efficient allocation of resources. However, high expenditure needs in several areas (e.g. health care and defence) and the decreasing availability of EU funds for essential government priorities suggest that further revenue increases will be necessary.

Medium-term expenditure plans should realistically reflect stated policy priorities. The medium-term budgetary framework sets budgetary targets for three years. However, while the plan for the first year of the MTBF is closely followed, the expenditure targets for subsequent years are prone to changes and amendments (usually upward revisions). In view of this, the Council suggests that policy priorities and structural reform plans should be more accurately reflected in expenditure commitments for the entire MTBF period, thus lending credibility to medium-term expenditure estimates.



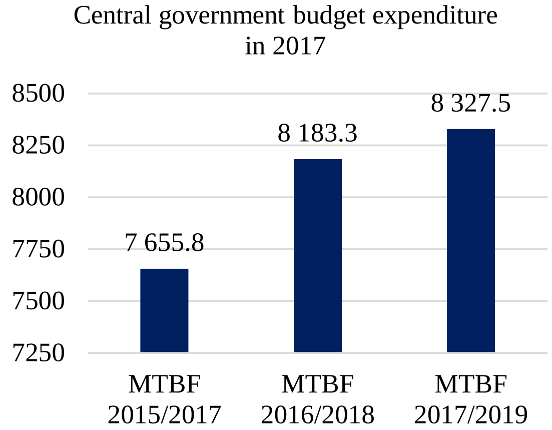


Chart 1.1 Central government expenditure plan revisions (mln. euro). Source: MoF

1.2 REVENUES

Tax and social security contribution revenues remain resilient despite lower than forecasted economic growth in 2016. The Council has previously noted that the execution of the revenue plan is consistent, even during periods of subdued growth. In 2016 the State Revenue Service revenue target was exceeded, while nominal GDP growth was lower than forecasted by the MoF.

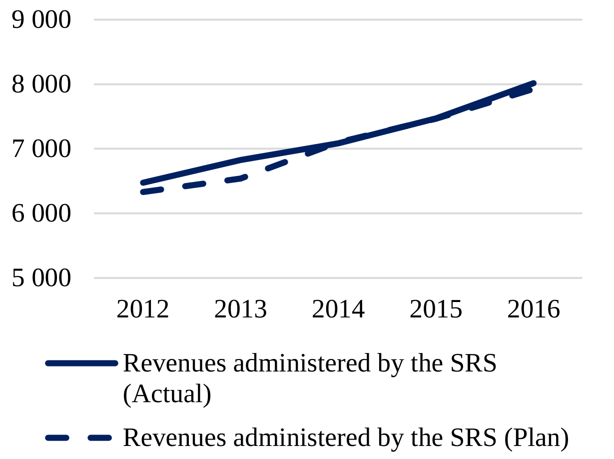


Chart 1.2 Execution of the revenue plan (mln. euro). Source: SRS

Continued action is required to limit the shadow economy. The steady increase in tax revenues despite slower growth suggests that the efforts to limit informal economic activities have had some success. Estimates suggest that in 2016 approximately 50-60 million euro in tax revenues are attributable to the implementation ofmeasures aimed at combatting the shadow economy[2]. Nonetheless, several independent estimates of the size of the shadow economy in Latvia indicate that further gains can be made.

A deliberate and transparent approach to reforming the tax system would reduce uncertainty. Poorly communicated changes to the micro-enterprise tax regime and compulsory state social contributions in December 2016 created uncertainty for both employers and employees. The discussions following the presentation by the Minister of Finance on February 28 created further confusion, as public officials presented conflicting accounts of the fiscal impact of the proposed tax reforms. Withholding the fiscal estimates for the proposed tax reform until the last moment decreased the transparency of the reform process and precluded independent assessment. By developing and communicating changes to the tax system in a transparent manner and providing quantitative assessments of the proposed changes, the government may increase support for their implementation and receive valuable feedback.

The proposed changes to the tax system should be introduced based on a cautious assessment of their fiscal impact so that reform measures do not increase the budget deficit. The MoF presented its approach to reforming the tax system on 28 February 2017. The proposal included the reduction of the personal income tax rate from 23% to 20% for people whose annual income is below 45 000 euro, as well as modifications to the capital gains tax and the corporate income tax. The proposed changes will have considerable fiscal impact. Consequently, their implementation should be informed by a detailed cost-benefit analysis and quantitative assessment of the impact on the budget balance and the level of public debt. If reform measures foresee loss of revenues, credible compensatory measures should be outlined. Finally, the analysis should also establish the impact of the tax reform beyond the horizon period to avoid a deterioration of the budget balance.

The Council has concerns that the proposed reforms will not achieve the intended tax-to-GDP ratio. One of the goals outlined in the Declaration of Māris Kučinskis' Cabinet is to reach a tax-to-GDP ratio of 1/3. Eurostat data suggest that in 2015 Latvia's tax-to-GDP ratio was just above 29%. The proposed tax reforms reduce several significant revenue flows in the hopes that this will increase competitiveness and stimulate economic growth. The Council believes that reform proposals should not be based on optimistic assessments that rely on rapidly accelerating economic growth, which, in turn, will increase government revenues. Sufficient evidence, based on cautious estimates, should be provided to show how the intended tax-to-GDP ratio will be achieved.

Historical data shows that Latvia has had limited success in increasing its tax revenues, and bold measures will be required to achieve the intended target. Data shows that in the past the tax-to-

[2] Interview with Ilmārs Šņucins, http://www.lsm.lv/lv/raksts/ekonomika/zinas/pern-no-enu-ekonomikas-atkaroti-50--60-miljoni-eiro.a220396/, accessed on: 2017/04/01.

GDP ratio has consistently hovered around 28-29%, and the ratio decreased during the crisis. Consequently, the government's target requires an unprecedented increase in tax revenues. This suggests that considerable reform measures will be required to achieve a tax-to-GDP ratio of 1/3 by 2020.

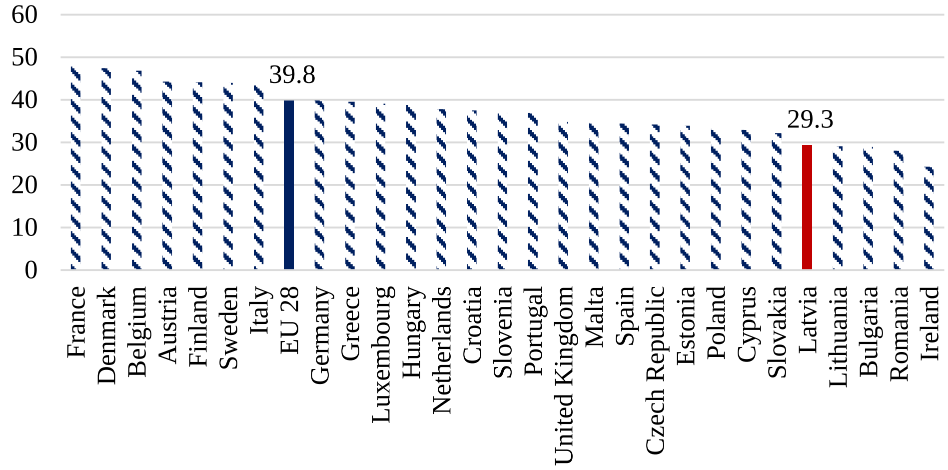


Chart 1.3 Total receipts from taxes and social contributions in 2015 (% of GDP) Source: Eurostat

The claim that the proposed tax reform targets will lead to a substantial reduction of the shadow economy needs to be supported by specific measures. The Declaration of Māris Kučinskis' Cabinet claims that the intended tax-to-GDP ratio of 1/3 will be achieved primarily by limiting the shadow economy. While the MoF suggests that the proposed tax policy changes will encourage voluntary compliance, specific measures to limit the shadow economy have not been adequately spelled out. Additional evidence is required to ensure public trust in the government's proposals and establish that measures to combat tax evasion will make a significant contribution to the achievement of the intended tax-to-GDP ratio.

Further evidence is required that short-term revenue losses will be compensated in the long-term, or expenditure plans need to be revised to reflect lower public sector involvement in the economy. The published reform plan claims that, while tax revenues will decrease in the short-term, (i) economic activity, encouraged by the tax reform, and (ii) the reduction of the shadow economy, as a result of a more transparent and simplified tax system, will contribute to long-term revenue growth. Due to the uncertainty attendant to such forecasts, especially in the case of small open economies, in-depth analysis is required to substantiate the plausibility of these assumptions and ensure the sustainability of public finance. Furthermore, serious attention needs to be paid to the impact of lower government and municipal revenues on the public sector and the provision of public services. If necessary, the Cabinet's declaration should be revised to adequately reflect the policy shift to a smaller public sector.

The proposed reform measures increase tax expenditures, whilst having a negligible impact on the reduction of economic inequality. The Declaration of Māris Kučinskis' Cabinet states that the reduction of economic inequality is among the government's priorities. However, according to estimates produced by the EC, the impact of the proposed reforms on the reduction of income inequality will be limited. Individuals in the lowest deciles of the income distribution will benefit very little from the tax reform, and the proposed cut to the income tax rate and a more substanatial non-taxable allowance may lead to a significant reduction of revenues both at the level of central and local governments. This will restrict the ability of the government to provide assistance and alleviate poverty.

The Council urges for a comprehensive assessment of the proposed modifications to the corporate income tax to avoid a substantial deficit increase. While the proposal to make the corporate income tax rate comparable to the personal income tax rate is salutary, the decision to levy a

0% tax rate on reinvested profit is controversial. Research suggests that this may encourage growth, investment and the disclosure of profits. However, this measure will narrow the tax base and significantly reduce corporate income tax revenues, as evidenced by the example of Estonia. Conservative quantitative estimates of the fiscal impact should be produced, and measures should be put in place to ensure a smooth transition, contain the impact on tax revenues and limit opportunities for tax optimisation and avoidance.

The decision to retain the microenterprise tax regime should be reconsidered. The microenterprise tax regime was a measure to facilitate recovery and reduce informality after the crisis. The Cabinet has considered eliminating the microenterprise tax on many occasions. As part of the preparation of the MTBF 2017/19 the decision was made to eliminate it at the end of 2018. However, the proposed tax reforms suggest that the microenterprise tax regime will remain in place. The Council has repeatedly stressed that this regime has a negative impact on the sustainability of the special budget, discourages company growth and violates the neutrality of the tax system, favouring a specific business model. Maintaining the microenterprise tax is even more risky strategy in the context of the proposed tax reform that could negatively affect the government revenues.

Attempts to motivate people to re-join the formal labour force are salutary. Several measures to reduce the the tax burden on low-wage earners were included in the tax reform proposal announced on February 28. The minimum wage will be increased to 430 euro per month, and the non-taxable allowance will be raised to 300 for people earning the minimum wage. These measures have the potential to encourage the currently unemployed to re-join the labour market and reduce social expenditures.

Plans for increasing government revenues are necessary to ensure fiscal sustainability. Government revenue in Latvia is among the lowest in the EU. A considerable portion of the funds used to finance expenditures comes from foreign financial aid whose availability will gradually decrease. For example, EU financial support for road construction and maintenance will cease in 2019 and will have to be funded from tax revenues. Sustainable revenue flows will be crucial to perform government functions and provide public services at desired levels without deteriorating the budget balance and increasing public debt. Furthermore, any tax reform proposals, particularly those associated with lowering tax rates and narrowing the tax base, should be accompanied by an assessment of tradeoffs in the long-term, and the impact on the deficit and public debt for the next 20 years.

1.3 Health care

A decision must be made as to the level of government involvement in the provision and funding of health care to ensure adequate coverage in a fiscally sustainable manner. In EU member states health care is financed through various financing schemes, relying either on general government revenues or health insurance schemes. Recently, the possibility of increasing the role of health insurance has been raised in Latvian public debate. While health insurance schemes may stimulate competition, increase choice and make health care systems more responsive, they pose equity challenges and could make coverage for high-risk groups prohibitively expensive. Furthermore, there is only limited international evidence that private health insurance removes cost pressure from public health financing systems. When implementing reforms in the health care sector, the government needs to weigh these considerations in the context of regulating entitlement for publicly financed health care, and balancing expenditure commitments and fiscal sustainability.

The Council maintains that Latvia needs an evidence-driven monitoring of the health care system to support a strategic vision for the sector as a whole. The availability and widespread use of a comprehensive database of indicators would allow for the identification of inefficient expenditures. This information could be used to develop policies to incentivise organisational and behavioural changes that are in line with a long-term view of the provision of public health care.

Reform plans for the health care sector should be fully spelled out and justified. The Council repeatedly expresses concerns regarding the use of deficit financing to implement reforms in health care. While the Council agrees that additional funding is necessary, further allocation of budgetary resources should be based on robust reform plans that are financed from budget revenues and do not increase the debt burden. Such plans should justify the need for additional funds by outlining concrete targets and courses of action that would allow the government to achieve medium-term objectives.

Reform plans should be based on clear progress indicators. Latvia's poor public health indicators necessitate a revision of the governments approach to the provision of public health care and suggest a need for increased funding. Furthermore, the Council maintains that reform plans should include specific indicators aimed at improving public health. This would increase accountability and allow specialists to assess whether sufficient progress is being made on reaching the government's targets and whether the allocated funds are being used efficiently.

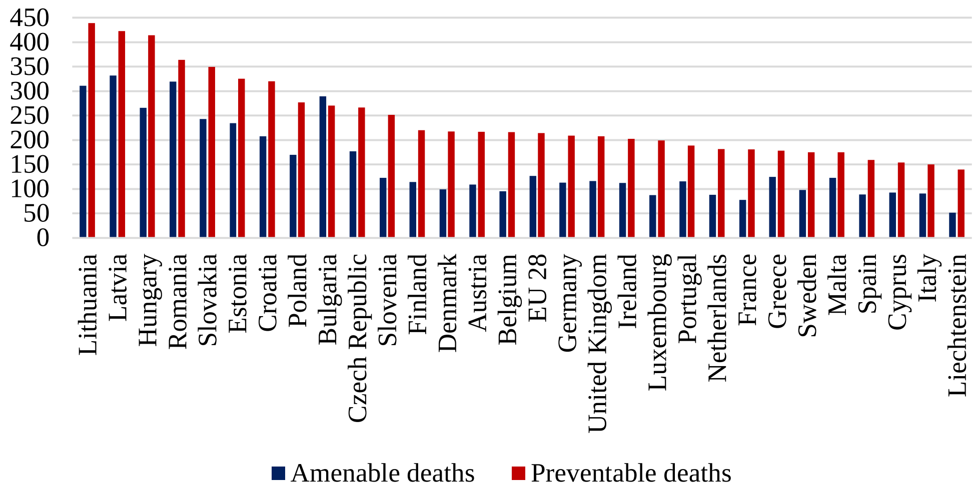


Chart 1.4 Amenable and preventable mortality in 2014 (per 100 000 inhabitants) Source: Eurostat

A comprehensive expenditure review would allow for a more efficient use of scarce financial resources. Health care accounts for a significant part of public expenditure, and current demographic trends may exacerbate this further. A recent report[3] suggests that OECD countries have major budgetary commitments in health care that they struggle to keep in check, thus permitting inefficiency. Estimates show that approximately one-fifth of health care spending can be channelled towards better use. A comprehensive expenditure review would allow containing inefficiencies and rectifying issues. This would yield savings that could be diverted for critical needs.

Health care reforms should be based on a thorough analysis of the factors increasing expenditure on health care. Age-related spending pressures will have an increasing effect on the sustainability of public finances, and health expenditures are a key component. Nonetheless, a report by the EC[4] suggests that the importance of non-demographic factors should not be underestimated. Specifically, the EC suggests that growing living standards may result in higher expectations towards one's own health and require substantial resources to finance new medical interventions and medication.

[3] OECD (2017) *Tackling Wasteful Spending on Health*, Paris: OECD Publishing.
[4] European Commisson's report on Latvia – 2017, *https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-latvia-en.pdf*, accessed on: 17/03/2017

Recommendations

1. Improve special budget expenditure forecasts and carry out a comprehensive risk analysis to limit an unplanned deterioration of the budget balance.
2. Improve the credibility of medium-term budgetary planning by fully reflecting reform commitments in the MTBF.
3. Limit the negative fiscal impact of the proposed tax reforms by performing a detailed long-term cost-benefit analysis and carefully planning and implementing a communications strategy.
4. Implement tax reforms that ensure the achievement of a tax-to-GDP ratio of 1/3 to meet the government's long-term needs.
5. Strengthen reform plans for the health care sector by outlining clear objectives and progress indicators to (i) increase accountability, (ii) ensure the long-term financial sustainability of the health care sector and (iii) justify the deviation from the budget deficit target.

2 MACROECONOMIC OUTLOOK AND OUTPUT GAP

According to the MoU, the Council has assumed the responsibility to endorse MoF's macroeconomic forecast. The Council endorsed MoF's macroeconomic forecast on 16 February 2017. Full endorsement text is available in the Annex 1. Early review and endorsement of the MoF's macroeconomic projections by the Council has been agreed to support the effort in the Government in preparation of annual documents - the Stability Programme and the Medium-term Budget Framework. The Council assessed the forecast as a whole, and provides an endorsement of the key macroeconomic indicators (Table 2.1).

After the Council endorsed the macroeconomic forecast, CSB published a revised GDP time series data twice: on 28 February 2017 and on 24 March 2017. The newest data shows that, compared to previous estimates, GDP is lower in 2015 (by 0.1%) and higher in 2016 (by 0.2%). Accordingly, the MoF submitted the revised macroeconomic forecast to the Council on 29 March 2017. The Council accepted the revisions made by the MoF.

	2017	2018	2019	2020
Real GDP growth	3.2	3.4	3.2	3.0
Nominal GDP growth	5.2	5.2	6.0	5.7
Inflation	2.3	2.0	2.0	2.0
GDP deflator	1.9	1.8	2.7 *(2.6)*	2.6
Potential GDP growth	2.8 *(2.5)*	2.9	2.8	3.0 *(2.9)*
Output gap	*-0.2*	0.3	0.7	0.7

Table 2.1 Macroeconomic forecast indicators endorsed by the Council on 16 February (in parenthesis, if the number was changed after the CSB data revision) or accepted after revision by the MoF on 29 March, %.

In general, the economy is developing in accordance with the MoF’s macroeconomic forecasts that the Council endorsed on 16 February 2017. Industrial production output data for January and February showed stable growth (4.7% and 7.7% compared to the respective months in 2016). Retail trade turnover has grown by 3.8% (in January) and 1.2% (in February) compared to 2016. Retail sales of automotive fuel increased by 10.7% in the first two months of 2017 compared to 2016. Inflation is rapidly picking up: annual increase in consumer prices in the first three months varied from 2.9% to 3.4%. The severe downturn in the investment sector in the first three quarters of 2016 (decrease of 14.2% in real terms compared to the first three quarters of 2015) slowed down in the fourth quarter (decrease of 5.9%). However, seasonally adjusted quarter-on-quarter data show a 1.5% increase in the fourth quarter compared to the third quarter of 2016.

The Council commends the more detailed than previously macroeconomic sensitivity analysis that is included in SP 2017/2020, but the analysis does not consider the effect of significant deviation on the government budget. The Council contends that the positive and negative deviations for several of the indicators presented in the analysis deviate only slightly from the baseline scenario. For example, the assumed deviations for the absorption of EU funds (+10% and -20% deviation from the baseline), wage increase (0.1% deviation from the baseline) appear to be insignificant given recent experience. Furthermore, in addition to the risks included in SP 2017/2020, risks associated with a slower recovery of the lending sector can have an impact on the investment sector and GDP growth.

Recommendation

A more significant deviation from the baseline macroeconomic scenario on the government budget balance than currently included in the sensitivity analysis should be considered.

3 Assessment of Compliance with Numerical Fiscal Rules

As part of the European Semester's activities to facilitate the coordination of economic policies, the Government assesses the application of fiscal rules in accordance with the requirements of the SGP and the FDL. The Council conducts an assessment of the numerical fiscal rules established in the FDL in close cooperation with the MoF during the preparation of the SP.

The results of the assessment of the numerical fiscal rules determine the central government expenditure ceilings for 2018/20 by taking into account the following conditions for each of the rules: (1) according to the balance rule – evaluating the impact of the phase of the economic cycle and permitted deviations from the MTO (0.5% of GDP); (2) according to the expenditure rule – calibrating the pace of government expenditure changes with the pace of potential GDP growth and (3) according to the continuity rule – evaluating natural changes in the number and distribution of recipients across different categories.

3.1 The Assessment of Fiscal Rules for SP 2017/20

The Council has made an alternative assessment of numerical fiscal rules[5] for 2018-2020 in line with the Council's decisions adopted in the Council meeting on 3 April 2017 and approved in written consultation by 6 April 2017.

The Council has considered the MoF's core proposals regarding deviations from the MTO –

(1) **the pension reform deviation** in the amount of -0.3% of GDP for 2018 **is accepted**. The Council finds the deviation from the MTO in compliance with Article 5 of Regulation (EC) No 1175/2011[6];

(2) **the health reform deviations** in the amount of -0.4% of GDP for 2018 and -0.5% of GDP for 2019 **are rejected**. The reform still lacks a framework for monitoring its implementation, and the Council invites the Government not to use deficit financing. The Council does not find the deviation from the MTO related to the reform proposal in violation of the requirements of Article 5 of Regulation (EC) No 1175/2011, but it does not conform with FDL principles;

(3) **the deterioration of the fiscal balance resulting from classifying the tax reform as a one-off measure** in the amount of -0.7% of GDP for 2018, -0.4% for 2019 and -0.3% for 2020 **is not supported** due to lack of a detailed reform proposal and analysis about the planned tax reform at the time of the Council meeting on 3 April 2017. Currently there is not enough information to assess if the deviation should be categorised as a structural reform or a one-off measure.[7] The Council invites the Government to perform medium-term and long-term assessments to estbalish that the one-off measure is in line with five principles[8].

The final decision regarding both reforms is postponed until there is sufficient information to perform an overall fiscal evaluation.

[5] Numerical fiscal rules calculations received from the MoF on 4 April 2017.

[6] Regulation (EC) No 1175/2011 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, available: *http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32011R1175&from=LV*, accessed on 5/04/2017.

[7] One-offs are "measures having a transitory budgetary effect that does not lead to a sustained change in the budgetary position". EC Report on Public Finances in EMU, December 2015, available: *https://ec.europa.eu/info/sites/info/files/file_import/ip014_en_2.pdf*, accessed on 5/04/2017.

[8] Vade Mecum on the Stability and Growth Pact - 2017 Edition, available: *https://ec.europa.eu/info/sites/info/files/ip052_en_0.pdf*, accessed on 5/04/2017.

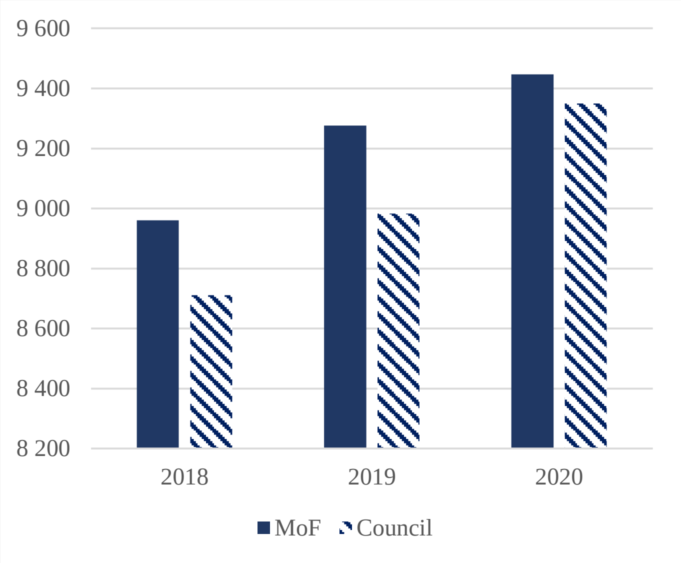


Chart 3.1. State budget expenditure according to the stricktest rule applied. Source: The MoF and Council calculations.

Taking into account different approaches to the flexibility clauses for the fiscal rules, there is difference between the assessments of expenditure ceilings by the MoF and the Council. As the result of the fiscal rules calculations the MoF has obtained the maximum expenditure ceilings for 2018 (8 960.5 million euro), for 2019 (9 276.3 million euro) and for (9 446.5 million euro).

In view of the need to clarify the methodology employed for the expenditure growth rule, the Council currently does not provide its final assessment regarding the conformity of all rules to the FDL. By employing the balance and continuity rules, the expenditure ceilings established by the Council are as follows: 8 711.3 million euro for 2018, 8 982.9 million euro for 2019 and 9 350.4 million euro for 2020 (see Chart 3.1).

The considerations that explain the difference from MoF calculations for each of the conditions are as follows:

(1) For the balance rule, the Council does not support the deviation for implementing reforms in health care and the one-off expenditures to implement tax reforms, thus resulting in expenditure ceilings that, for 2018, are lower by 249.2 million euro. The Council agrees with the calculation of output gap and cyclical component estimates in accordance with the values endorsed on 16 February 2017.

(2) For the expenditure rule, the invites the MoF to discuss and agree on a common approach to calculating several indicators, such as (a) non-accelerating wage rate of unemployment level, (b) scope of discretionary measures, (c) smoothed GDP deflator and (d) deficit reducing factor, in the next two weeks.

(3) For the continuity rule, the Council includes additional expenses that arise out of court decisions (a total of -22 million euro).

Table 3.1 (below) provides a summary of the deviations among the Council and the MoF calculations, incl. the minimum structural balance for 2018 in the amount of 0.2% of GDP and for 2019 – 0,5% of GDP. Maximum expenditure ceiling for the central government for 2018 makes the deviation in the amount of -249.2 million euro.

	2017	2018	2019	2020
General government structural budget deficit (-) / surplus (+), % of GDP				
MTBFL 2015/17	-0.8	x	x	x
SP 2015/18	-0.9	-1.2	x	x
MTBFL 2016/18	-1.0	-0.8	x	x
SP 2016/19	-1.05	-1.2	-0.8	x
MTBFL 2017/19	-1.0	-1.1	-1.0	x
SP 2017/20	x	-1.0	-1.0	-0.5
Council	*x*	*-0.8*	*-0.5*	*-0.5*
Deviation among the MoF and the Council	*x*	*-0.2*	*-0.5*	*0*
Central government budget expenditure ceiling, in millions euro				

MTBFL 2015/17	7 930.8	x	x	x
SP 2015/18	8 025.8	8 480.5	x	x
MTBFL 2016/18	8 243.8	8 749.5	x	x
SP 2016/19	8 240.9	8 767.0	8 844.8	x
MTBFL 2017/19	8 328.4	8 807.7	9 001.6	x
SP 2017/20	x	8 960.3	9 276.3	9 446.5
Council	*x*	*8 711.3*	*8 982.9*	*9 350.4*
Deviation among the MoF and the Council	*x*	*-249.2*	*-293.4*	*-96.2*

Table 3.1 General government budget structural balance and central government budget expenditure ceiling in accordance with the fiscal rules assessment.

The MoF's bottom-up calculations (so called no policy change) (please see Table 3.2 below) already eliminating fiscal space for 2018 (for the basic budget – from a surplus 0.4% to deficit of 0.1%) highlighting substantial changes in government commitments for 2018.

	2017	2018	2019	2020
General government headline budget deficit (-) / surplus (+)				
MTBFL 2015/17	0.4	x	x	x
SP 2015/18	-0.2	0.2	x	x
MTBFL 2016/18	-0.71	0.3	x	x
SP 2016/19	-0.75	-0.2	0.8	x
MTBFL 2017/19	-1.0	-0.6	0.2	x
SP 2017/20	x	-0.3	0.3	0.8
Change since MTBFL 2017/19	*x*	*-0.3*	*0,1*	*x*
Basic budget deficit (-) / surplus (+)				
MTBFL 2015/17	-1.3	x	x	x
SP 2015/18	-1.7	-0.2	x	x
MTBFL 2016/18	-1.7	0.2	x	x
SP 2016/19	-1.0	0.4	0.9	x
MTBFL 2017/19	-1.1	0.4	0.4	x
SP 2017/20	x	-0.1	0.2	1.1
Change since MTBFL 2017/19	*x*	*-0.5*	*-0.2*	*x*

Table 3.2 General government and basic budget headline balance, % of GDP (by bottom-up approach)

3.2 Public debt

Latvia's *Government debt management strategy*[9] is based on the assumption that the government will continue to implement sustainable fiscal policies and abide by the principles outlined in the Fiscal Discipline Law.

The spirit of the FDL is countercyclical fiscal policy. This approach prescribes that the government should run surpluses when the economy is expanding and allow deficits only when the economy is performing below its potential.

[9] *http://www.kase.gov.lv/texts_files/Parada_vadibas_strategija_2015.pdf*, accessed on 17/03/2017.

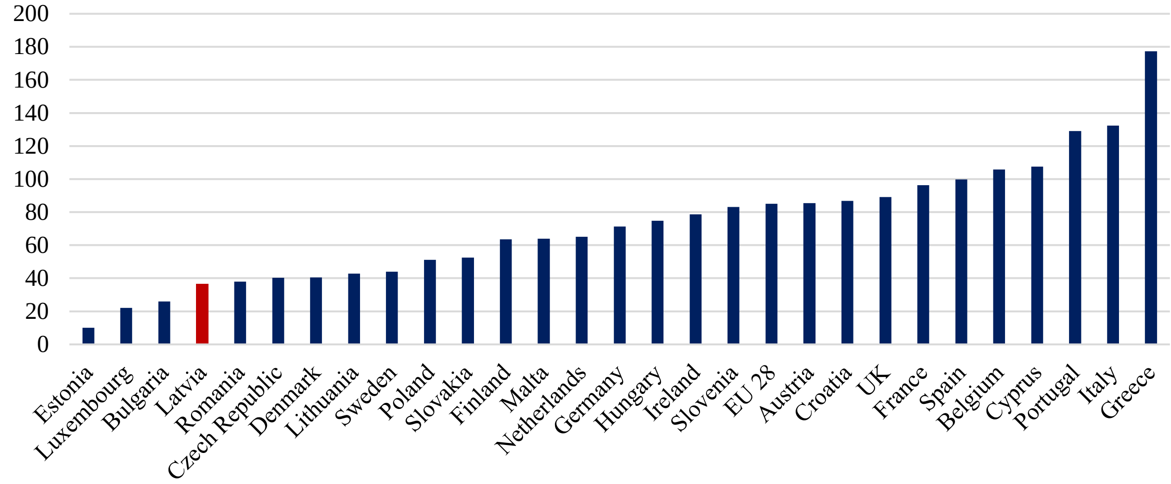
Both the Maastricht treaty and the FDL stipulate that public debt should not exceed 60% of GDP. The FDL contains several fiscal rules that were introduced to constrain the budget deficit, which is the main cause of the increase of government debt. In particular, the debt rule limits general government debt to 60% of GDP, which corresponds to the limit established in the Maastricht Treaty.

Both the level and growth rate of public debt should be sustainable. The government has to be able to service its debt even during an unfavourable period of the economic cycle. During a crisis or recession, the government may have to run higher deficits to stimulate economic growth. In addition, the impact of one-off measures should also be noted as they have a direct impact on the level of public debt. This means that deficits have to be contained during periods of economic growth to limit the growth of public debt.

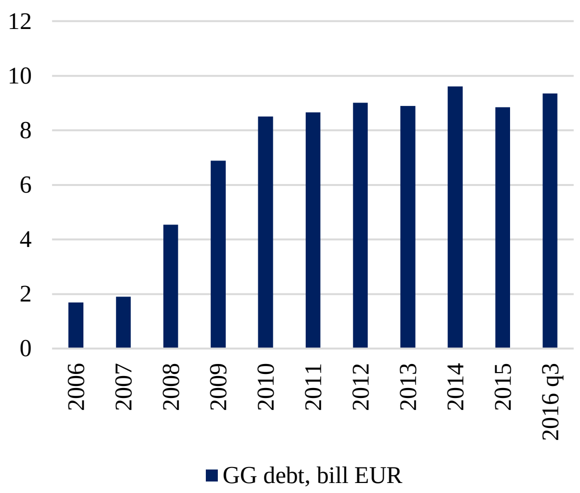
The Council maintains that a low debt level is essential to allow Latvia to weather another crisis. A downturn in the business cycle, disruption in the financial system, geopolitical shocks or a combination of the above may create a strain on public finances. Countries with a solid institutional reputation, the capacity and track record of financial management, as well as a low burden of previously accumulated debts will have better access to further loans at favourable interest rates necessary to overcome a cyclical downturn.

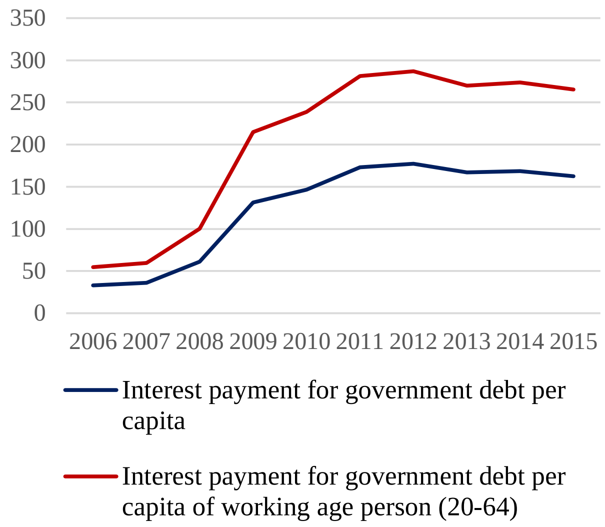
At the end of 2015 Latvia's public debt reached 36.3 of GDP and was the fourth lowest in the EU. However, a number of EU governments have adopted policies to reduce their debt burden, taking into account the need to build buffers in case conditions deteriorate and reduce interest payments.

General government gross debt, % of GDP: EU 28, 2015



Latvia has one of the lowest levels of public debt in the EU, but the government has not managed to reduce it significantly during a period of growth. Public debt increased considerably during the crisis, and it has not been substantially decreased in the post-crisis period of growth. Furthermore, despite the historically low interest rates, interest payments per capita have increased – especially per person of working age.





Latvia's public debt has grown considerably in the last ten years and this can create negative consequences. As a result of the Great Recession and several one-off measures Latvia's public debt grew from 8.4% of GDP in 2007 to 36.3% of GDP in 2015. Increased expenditure on debt servicing, rising interest rates attached to higher debt levels and loans with longer maturation lengths, and increased costs to the private sector as a result of high public debt can hamper economic growth and the quality of public services.

Latvia's public debt forecast is revised upwards. It was noted in the 2016 Surveillance report that the forecasted level of public debt has gradually been increased, and MTBF 2017/2019 indicates that the practice of deficit spending will persist in the medium-term. Even though the growth of public debt is partly due to several one-off measures and economically justified investments, the inability to reduce public debt and the budget deficit in times of growth is problematic and in conflict with FDL principles, which foresee a cyclically balanced budget.

	2017	2018	2019	2020
General government debt				
MTBFL 2015/17	34	x	x	x
SP 2015/18	37	34	x	x
MTBFL 2016/18	38	36	x	x
SP 2016/19	38	38	38	x
MTBFL 2017/19	39	38	39	x
SP 2017/20	39	38	39	40
Change since MTBFL 2017/19	0	0	0	x

Table 3.3 Changes in the general government debt as % of GDP

Given the practice of deficit spending and current demographic trends, debt servicing costs may create difficulties in the future. Latvia's interest payments on general government debt grew from 80 million euro per annum before the Great Recession to more than 300 million euro currently. This corresponds to a per capita increase from 33 euro to 162 euro. Latvia's position becomes worse if interest payments are expressed as a percentage of government expenditure. This is a consequence of the comparatively small public sector. The inability to reduce public debt, the practice of deficit spending and current demographic trends means that the per capita debt burden will increase, despite the currently "safe" debt level.

Recommendations:

1. The Council invites the Government to perform medium-term and long-term assessments to substantiate the claim that the deviation caused by the tax reform meets the legal criteria of a one-off measure.
2. The Council invites the MoF to discuss and agree on a common approach to calculating several indicators, such as (a) non-accelerating wage rate of unemployment level, (ii) scope of discretionary measures, (iii) smoothed GDP deflator and (iv) deficit reducing factor, by 28 April.

ANNEX 1 COUNCIL'S ENDORSEMENT OF MOF MACROECONOMIC PROJECTIONS (16 FEBRUARY 2017)

The Council endorsed MoF's macroeconomic forecast on 16 February 2017. Early review and endorsement of the MoF's macroeconomic projections by the Council has been agreed to support the effort in the Government in preparation of annual documents - the stability programme and the medium-term budget framework.

According to the Memorandum of Understanding (hereafter – MoU), signed on 8 February 2016, the Council has a responsibility to endorse MoF's macroeconomic forecast. The Council assessed the forecast as a whole, and provides an endorsement of the key macroeconomic indicators, which are outlined below. During the endorsement process the Council was presented with detailed information on MoF's forecast, such as the gross domestic product (hereafter – GDP) structure and development scenarios of GDP components. The Council has consulted with external experts to gain as comprehensive as possible understanding of the developments in Latvia's economy. The Council endorses the forecast for the indicators according to the scope of Article 20 of the Fiscal discipline law. The endorsed indicators are summarised in the Table 2 at the end of this document.

	2017	2018	2019	2020
Real GDP growth				
MoF (Feb 2017)	**3.2**	**3.4**	**3.2**	**3.0**
BoL* (Dec 2016)	3.0	-	-	-
EC (Feb 2017)	2.8	3.0	-	-
IMF (Oct 2016)	3.4	3.7	3.9	3.9
Nominal GDP growth				
MoF (Feb 2017)	**5.2**	**5.2**	**6.0**	**5.7**
BoL (Dec 2016)	-	-	-	-
EC (Feb 2017)	-	-	-	-
IMF (Oct 2016)	5.0	5.8	6.0	6.0
Inflation				
MoF (Feb 2017)	**2.3**	**2.0**	**2.0**	**2.0**
BoL (Dec 2016)	1.6	1.7	-	-
EC (Feb 2017)	1.9	2.0	-	-
IMF (Oct 2016)	1.7	2.0	2.0	2.0
GDP deflator				
MoF (Feb 2017)	**1.9**	**1.8**	**2.6**	**2.6**
BoL (Dec 2016)	-	-	-	-
EC (Feb 2017)	1.5	2.6	-	-
IMF (Oct 2016)	1.6	2.0	2.0	2.0
Output gap				
MoF (Feb 2017)	**-0.2**	**0.3**	**0.7**	**0.7**
BoL (Dec 2016)	-	-	-	-
EC (Feb 2017)	1.6	1.4	-	-
IMF (Oct 2016)	-	-	-	-

Table 1 Key macroeconomic indicator forecasts by various institutions, % y-o-y. Data sources: MoF, BoL, EC, IMF.
**Seasonal and calendar adjusted.*

The MoF macroeconomic forecast is largely in line with the forecasts of the European Commission (hereafter – EC), the International Monetary Fund (hereafter – IMF) and the Bank of Latvia's (hereafter – BoL) (Table 1). GDP growth will increase in 2017 after a slowdown in 2016, and so will inflation after several years of insignificant changes in the price level.

In its latest economic forecast the EC emphasises that economic growth in the EU in 2016, although moderate, was broadly persistent and performed in line with projections despite a number of unfavourable events in 2016, such as terrorist attacks, the UK's vote for Brexit, the US election results and uncertainty that followed. However, a number of factors that are expected to hamper growth in 2017 are mentioned: the investment weakness, the remaining slack in the labour market, and political uncertainty attendant to the upcoming elections in a number of the EU member states[10].

The Council endorses the real GDP growth forecast for the horizon period. MoF has revised downwards both real and nominal GDP growth forecasts compared to the forecasts for the MTBF 2017/19. The real GDP growth rate has been reduced by 0.3 percentage points to 3.2% for 2017, unchanged at 3.4% for 2018 and lowered by 0.2 percentage points to 3.2% for 2019 (Chart 1). The forecasted growth rate for 2020 (3.0%) is even lower.

[10] European Economic Forecast. Winter 2017. Last accessed on 14 February 2017. Available: *https://ec.europa.eu/info/publications/european-economic-forecast-winter-2017_en*

Real GDP growth for 2016 was substantially lower than expected, which was largely caused by a recession in the construction sector, which dropped by 18.2% in current prices compared to 2015. This is reflected in the total investment figure and is at least partly explained by the delay in the inflow of EU funds into the economy. Similarly, a decrease in freight and cargo sector, especially railways and ports, contributed to slower than planned GDP growth in 2016. On the positive side, exports (in volumes) showed good results, and there were tentative signs of renewed activity in the lending sector in the last two quarters. Moreover, stable confidence indicators in Latvia (with the exception of a deterioration in consumer confidence in December 2016) and a positive economic sentiment in Latvia's main export countries suggest better real GDP growth results in 2017.

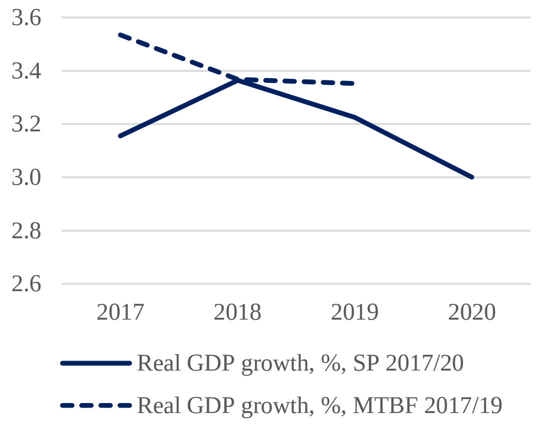


Chart 1 Forecast for real GDP growth, y-o-y. Data source: MoF.

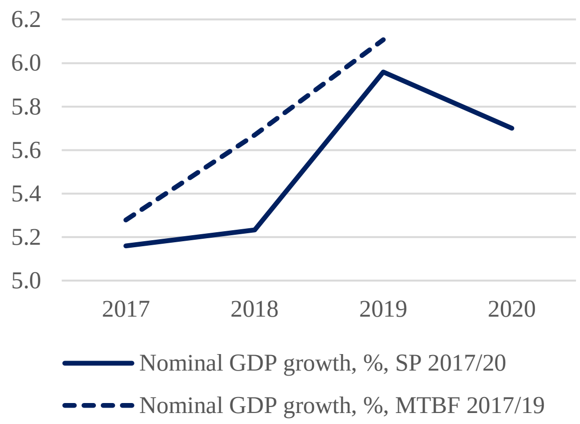


Chart 2 Forecast for nominal GDP growth, y-o-y. Data source: MoF.

At the same time, the Council points to the risk of lower than planned EU funds disbursement in the economy. The progress of the disbursement has been poor compared to the plans during the last three years and continual postponement of the disbursement is one of the key reasons for stagnating investments and the severe recession in the construction sector. The latest MoF data show that on 1 January 2017 only 5.5% of the total EU funding for 2014-2020 had been actually paid out for the projects.

Consequently, the Council is uncertain regarding the realisation of the current plan for the disbursement of EU funds. The government should devote all efforts to accelerate implementation of EU co-financed projects and hence streamline the inflow of public financing into the economy. Council notes that there has been substantial progress in adopting the Government regulations required for starting the selection and implementation of the projects. At the same time the risks for smooth implementation of EU co-funded investments might come from quality issues in the project pipeline and respective delays in project implementation (e.g. delays with the procurement procedures, cost increases and respective amendments to projects etc.). This is of particular importance because the macroeconomic development scenario prepared by the MoF relies on the assumption of recovery of the construction and investment sectors.

In addition to the risk of project quality, it should be taken into account that the ability of the construction sector to absorb large amount of financing may turn out to be insufficient. The Council has previously noted the possible bottleneck effect that can affect the construction sector as EU financing becomes available for investments. This is due to the fact that the sector as a whole has been weakened, and part of the firms and labour have switched to projects abroad, which may result in a limited ability of the sector to absorb the funding timely and effectively.

Therefore, the Council recommends to assess and quantify the impact of investment falling behind the forecasted amount on macroeconomic indicators and budget balance for the horizon period.

The Council endorses the nominal GDP growth forecast for the horizon period. The MoF has slightly lowered the nominal GDP growth forecast for all years of the horizon period (Chart 2). 2018 has experienced the sharpest decline in the forecast by 0.5 percentage points to 5.2%.

The Council endorses the change in the consumer price index (hereafter – CPI) (inflation) forecast for the horizon period. The Council supports the upward revision in the inflation forecast from 1.6% in the MTBF 2017/19 to 2.3% currently for 2017, and the forecasted inflation level at 2.0% for 2018-2020 (Chart 3). The actual change in the CPI show a 2.9% average annual inflation in January 2017, which makes the forecast of 2.3% average annual inflation cautiously realistic. The forecast for all the years is slightly higher than what the European Central Bank projects for Europe as a whole (1.3% for 2017 and 1.5% for 2018 and 1.7% for 2019)[11], which can be explained by ongoing price convergence.

The Council endorses the GDP deflator forecast for the horizon period. The GDP deflator has been raised by 0.3 percentage points to 1.9% for 2017, mainly due to an upward revision in the consumer price index and a decrease in the imports deflator (Chart 4). At the same time, the GDP deflator for 2018 is revised down by 0.4 percentage points to 1.8% due to decreased government consumption and capital formation deflators. GDP deflators for 2019 and 2020 are projected at the 2.6% level.

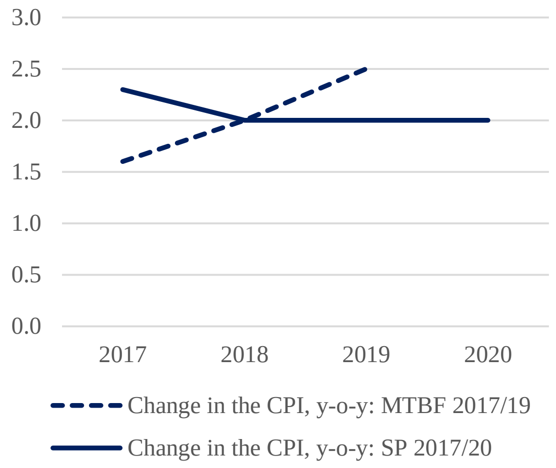


Chart 3 Forecast for inflation, y-o-y. Data source: MoF.

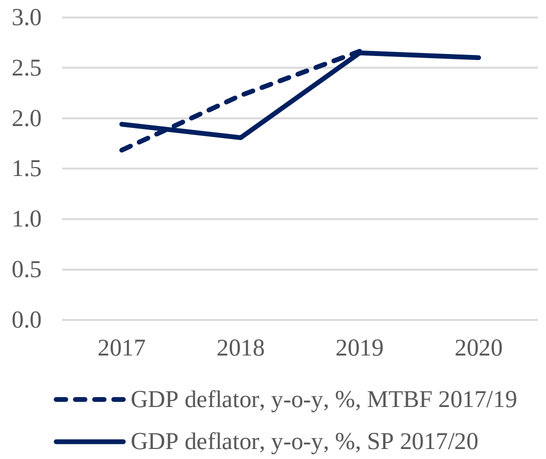


Chart 4 Forecast for GDP deflator, y-o-y. Data source: MoF.

The Council endorses the potential GDP growth and output gap forecast for the horizon period. While the potential GDP growth estimate for 2017 has been reduced from 2.6% to 2.5% compared to the projection in the MTBF 2017/19. The economy of Latvia is expected to perform rather close to its potential in 2017 and 2018, while a positive output gap is expected to start slowly opening after 2018 (Charts 5 and 6).

[11] December 2016 Eurosystem staff macroeconomic projections for the euro area. Last assessed on 13 February 2017. Available: *https://www.ecb.europa.eu/pub/pdf/other/eurosystemstaffprojections201612.en.pdf?29929e44e31cc1d35e6d01f2d9f5a341http://ec.europa.eu/economy_finance/publications/eeip/pdf/ip025_en.pdf*

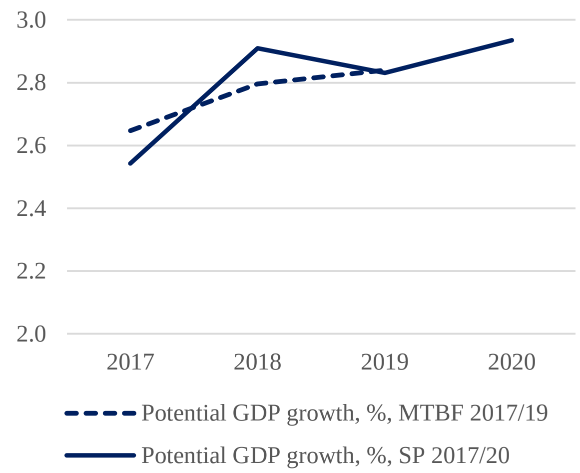


Chart 5 Potential GDP growth, %, y-o-y. Data source: MoF.

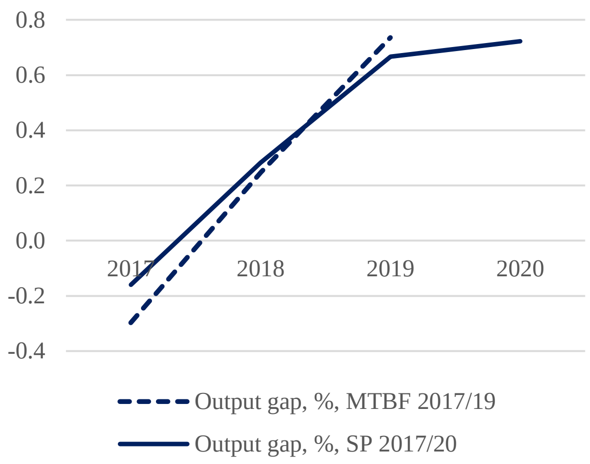


Chart 6 Output gap, % of potential GDP. Data source: MoF.

The Council notes MoF's explanation that the reduction in the potential growth rate for 2017 is related to the accumulated effect of weakening of the investment sector. This translates into lower potential capital level than previously estimated.

	2017	2018	2019	2020
Real GDP growth	**3.2**	**3.4**	**3.2**	**3.0**
Nominal GDP growth	**5.2**	**5.2**	**6.0**	**5.7**
Inflation	**2.3**	**2.0**	**2.0**	**2.0**
GDP deflator	**1.9**	**1.8**	**2.6**	**2.6**
Potential GDP growth	**2.5**	**2.9**	**2.8**	**2.9**
Output gap	**-0.2**	**0.3**	**0.7**	**0.7**

Table 2 Macroeconomic forecast indicators endorsed by the Council.

Broadly, the Council considers the MoF’s macroeconomic forecast to be realistic. At the same time, the Council concludes that both downside risks (persistent delay in EU funds disbursement) and upside risks (credit growth recovery combined with EU funds inflow) for the forecast are present. Therefore, the Council recommends improving sensitivity analysis of the macroeconomic development scenario for Latvia's Stability programme 2017/20, assessing the impact of the materialisation of the risks mentioned above on macroeconomic indicators and the budget balance.

Skaitlisko nosacījumu izpildes kopsavilkums P2.1.tabula
Summary of numerical conditions fulfilment Table P2.1
(milj. eiro)
(million euro)

No; formula	Rādītājs	**2018**		**2019**		**2020**		
		SP 2017/20 MoF	SP 2017/20 Council	SP 2017/20 MoF	SP 2017/20 Council	SP 2017/20 MoF	SP 2017/20 Council	
1.	Bilances nosacījums	8 960.5	8 711.3	9 276.3	8 982.9	9 446.5	9 350.4	Balance rule
2.	Izdevumu pieauguma nosacījums	8 972.7	-	9 568.7	-	9 568.7	-	Expenditure growth rule
3.	Pārmantojamības nosacījums	8 849.2	8 871.2	9 033.9	9 033.9	x	x	Continuity rule
4. = MIN (1.; 2.)	Stingrākais no Izdevumu nosacījuma un Bilances nosacījuma	8 960.5	8 711.3	9 276.3	8 982.9	9 446.5	9 350.4	Stricktest rule out of Expenditure rule and Balance rule
5.1. FNR_t	Fiskālā nodrošinājuma rezerve$_t$	27.7	27.7	29.3	29.3	31.0	31.0	Fiscal safety reserve$_t$
5.2. FNR_{t-1}	Fiskālā nodrošinājuma rezerve$_{t-1}$	26.3	26.3	27.7	27.7	29.3	29.3	Fiscal safety reserve$_{t-1}$
6.1.	Fiskālās disciplīnas likuma 5.panta otrās daļas nosacījums	110.0	-161.3	240.8	-52.6	9 446.5	9 350.4	Condition set in Fiscal discipline law Article 5(2)
6.2.	Modulis no 6.1.	110.0	161.3	240.8	52.6	9 446.5	9 350.4	Module of 6.1.
7.1.	IKP, faktiskajās cenās	27 690.4	27 690.4	29 344.7	29 344.7	31 020.7	31 020.7	GDP, current prices
7.2.	0,1% no IKP	27.7	27.7	29.3	29.3	31.0	31.0	0.1% of GDP
8. = IF (6.2. > 7.2.; 4.; 3.)	Valsts budžeta izdevumi, atbilstoši izvēlētajam stingrākajam nosacījumam	8 960.5	8 711.3	9 276.3	8 982.9	9 446.5	9 350.4	State budget expenditure according to the stricktest rule applied

Avots: Finanšu ministrija, Fiskālās disciplīnas padomes aprēķini

Source: Ministry of Finance, Fiscal Discipline Council calculations

Bilances nosacījums
Balance rule
(milj. eiro)
(million euro)

P2.2. tabula
Table P2.2

No; formula	Rādītājs	2018		2019		2020		Item
		SP 2017/20 MoF	SP 2017/20 Council	SP 2017/20 MoF	SP 2017/20 Council	SP 2017/20 MoF	SP 2017/20 Council	
1.	Valsts budžeta ieņēmumi (naudas plūsmas metode)	8 576.4	8 576.4	8 887.3	8 887.3	9 375.7	9 375.7	Central government budget revenue (cash-flow)
2.	Pašvaldību budžeta bilance	5.7	5.7	-4.8	-4.8	-5.3	-5.3	Local government budget balance
3.	No valsts budžeta daļēji atvasināto publisko personu un budžeta nefinansētu iestāžu budžeta bilance	-0.5	-0.5	-3.2	-3.2	-8.7	-8.7	Derived public persons budget balance
4.	EKS korekcijas	-59.4	-59.4	32.8	32.8	-83.1	-83.1	ESA corrections
5. = 10. - 7. - 6.	Minimāli atļautā strukturālā bilance, % no IKP	-1.0	-0.8	-1.0	-0.5	-0.5	-0.5	Minimal structural balance, % of GDP
6.	Vienreizējie pasākumi, % no IKP	-0.7	x	-0.5	x	-0.3	x	One-off, % of GDP
7. = 18.	Cikliskā komponente, % no IKP	0.1	0.1	0.3	0.3	0.3	0.3	Cyclical component, % of GDP
8.	IKP, faktiskajās cenās	27 690.4	27 690.4	29 344.7	29 344.7	31 020.7	31 020.7	GDP, at current prices
9. = 1. + 2. + 3. + 4. - (5. + 6. + 7.) * 8.	**Valsts budžeta izdevumi atbilstoši bilances nosacījumam**	**8 960.5**	**8 711.3**	**9 276.3**	**8 982.9**	**9 446.5**	**9 350.4**	**State budget expenditure according to the balance rule**
10. = MAX (11.; 24.)	Izvēlētā stingrākā vispārējās valdības budžeta bilance, % no IKP	-1.6	-0.7	-1.2	-0.2	-0.5	-0.2	Selected stricktest general government budget balance, % of GDP
11. = 23.	Fiskālās disciplīnas likuma (FDL) metodoloģija, vispārējās valdības budžeta (nominālā) bilance, % no IKP	-1.8	-0.7	-1.3	-0.2	-0.5	-0.2	Fiscal discipline law (FDL) methodology, general government budget (headline) balance, % of GDP
12.	Fiskālās disciplīnas likuma 10.pantā noteiktais vidēja termiņa mērķis, % no IKP	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	Fiscal discipline law Article 10 medium-term objective, % of GDP
13. = 13.1. + 13.2. + 13.3.	Atkāpe no mērķa iemaksu palielināšanai 2.pensiju līmenī, % no IKP	-0.3	-0.3	x	x	x	x	Deviation from the objective to increase contributions to the second pension pillar, % of GDP
13.1.	Iemaksu palielināšana no 2% uz 4%	x	x	x	x	x	x	Contribution change from 2% to 4%
13.2.	Iemaksu palielināšana no 4% uz 5%	x	x	x	x	x	x	Contribution change from 4% to 5%
13.3.	Iemaksu palielināšana no 5% uz 6%	-0.3	-0.3	x	x	x	x	Contribution change from 5% to 6%
14.	Atkāpe no mērķa veselības aprūpes sistēmas reformas īstenošanai, % no IKP	-0.4	x	-0.5	x	x	x	Deviation from the objective for the helath care reform, % of GDP
15.	Atkāpe no mērķa nodokļu sistēmas reformas īstenošanai, % no IKP		x		x		x	Deviation from the objective for the tax system reform, % of GDP
16. = 12. + 13. + 14. + 15.	Strukturālā bilance atbilstoši Fiskālās disciplīnas likumam un papildu atkāpēm	-1.2	-0.8	-1.0	-0.5	-0.5	-0.5	Structural balance according to the Fiscal discipline law and to the additional deviations
17.	VTBIL noteiktā vispārējās valdības budžeta strukturālā bilance, % no IKP	-1.2	-0.8	-1.0	-0.5	-0.5	-0.5	MTBFL general government structural balance, % of GDP
18. = 23. - 19.	Vispārējās valdības budžeta faktiskā strukturālā bilance, % no IKP	-1.2	-0.8	-1.0	-0.5	-0.5	-0.5	General government actual structural balance, % of GDP
19.	Cikliskā komponente, % no IKP	0.1	0.1	0.3	0.3	0.3	0.3	Cyclical component, % of GDP
20. = 23. - 21.	Cikliski koriģētā bilance, % no IKP	-1.9	-0.8	-1.5	-0.5	-0.8	-0.5	Cyclically adjusted balance, % of GDP
21.	Vienreizējie pasākumi, % no IKP	-0.7	x	-0.51	x	-0.31	x	One-off, % of GDP
22.	VTBIL noteiktā vispārējās valdības budžeta (nominālā) bilance, % no IKP	-1.8	-0.7	-1.3	-0.2	-0.5	-0.2	MTBFL general government headline balance, % of GDP
23.	Vispārējās valdības budžeta faktiskā (nominālā) bilance, % no IKP	-1.8	-0.7	-1.25	-0.2	-0.54	-0.2	General government actual headline balance, % of GDP
24.	Stabilitātes un izaugsmes pakta (SIP) metodoloģija, vispārējās valdības budžeta (nominālā) bilance	-1.58	-1.2	-1.2	-0.7	-0.7	-0.7	Stability and growth pact (SGP) methodology, general government budget (headline) balance, % of GDP
25.	Stabilitātes un izaugsmes paktā noteiktais vidēja termiņa mērķis, % no IKP	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	Stability and growth pact medium-term objective, % of GDP
26. = 26.1. + 26.2. + 26.3.	Atkāpe no mērķa iemaksu palielināšanai 2.pensiju līmenī, % no IKP	-0.3	-0.3	x	x	x	x	Deviation from the objective to increase contributions to the second pension pillar, % of GDP
26.1.	Iemaksu palielināšana no 2% uz 4%	x	x	x	x	x	x	Contribution change from 2% to 4%
26.2.	Iemaksu palielināšana no 4% uz 5%	x	x	x	x	x	x	Contribution change from 4% to 5%
26.3.	Iemaksu palielināšana no 5% uz 6%	-0.3	-0.3	x	x	x	x	Contribution change from 5% to 6%
27.	Atkāpe no mērķa veselības aprūpes sistēmas reformas īstenošanai	-0.4	x	-0.5	x	x	x	Deviation from the objective for the helath care reform, % of GDP
28.	Atkāpe no mērķa nodokļu sistēmas reformas īstenošanai		x		x		x	Deviation from the objective for the tax system reform, % of GDP
29. = 25. + 26. + 27. + 28.	Strukturālā bilance atbilstoši Stabilitātes un izaugsmes paktam un papildu atkāpēm	-1.7	-1.3	-1.5	-1.0	-1.0	-1.0	Structural balance according to the Stability and growth pact and to the additional deviations
30.	Vispārējās valdības budžeta stukturālā bilance atbilstoši SIP, % no IKP	-1.7	-1.3	-1.5	-1.0	-1.0	-1.0	General government structural balance according to the Stability and growth pact, % of GDP
31.	Maksimālā strukturālā bilance atbilstoši SIP, % no IKP	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	Maximum structural balance according to the Stability and growth pact, % of GDP
32. = 35. - 33.	Cikliskā komponente, % no potenciālā IKP	0.11	0.1	0.3	0.3	0.3	0.3	Cyclical component, % of potential GDP
33.	Cikliski koriģētā bilance, % no potenciālā IKP	-1.6	-1.2	-1.2	-0.7	-0.7	-0.7	Cyclically adjusted balance, % of potential GDP
34.	Vienreizējie pasākumi, % no IKP	x	x	x	x	x	x	One-off measures, % of GDP
35.	Vispārējās valdības budžeta (nominālā) bilance atbilstoši SIP, % no IKP	-1.6	-1.2	-1.2	-0.7	-0.7	-0.7	General governement headline balance according to the Stability and growth pact, % of GDP

Avots: Finanšu ministrija, Fiskālās disciplīnas padomes aprēķini

Source: Ministry of Finance, Fiscal Discipline Council calculations

Pārmantojamības nosacījums
Continuity principle
(milj. eiro)
(million euro)

P2.3. tabula
Table P2.3

No; formula	Rādītājs	2018		2019		
		SP 2017/20 MoF	SP 2017/20 Council	SP 2017/20 MoF	SP 2017/20 Council	
01.	Koriģētie maksimāli pieļaujamie valsts budžeta izdevumi (Vispārējās valdības budžeta plāns iepriekšējā gadā)	7 240.3	7 240.3	7 409.4	7 409.4	Adjusted maximum permissible state budget expenditure (Draft budgetary plan of previous year)
02. = 1. + 2. + 3. + 4. + 5. + 6. + 7. + 8. + 9. 10.	*koriģēto maksimāli pieļaujamo valsts budžeta izdevumu* ***korekcijas*** *saskaņā ar FDL 5.pantu, t.sk.:*	*7.1*	*29.1*	*18.3*	*18.3*	*adjustments of maximum permissible state budget expenditure according to the FDL Article 5, incl.:*
1. = 1.1. + 1.2. + 1.3. + 1.4.	1) pamatbudžeta izdevumos sakarā ar aktuālākām valsts sociālo pabalstu un pensiju saņēmēju kontingenta prognozēm;	0	0	0	0	1) state budget expenditure due to more actual forecasts in contingent receiving state social allowances and pensions;
1.1.	Labklājības ministrijas pamatbudžeta programma 20.01.00 "Valsts sociālie pabalsti"	0	0	0	0	20.01.00 Programme of the Ministry of Welfare basic budget "State Social Benefits"
1.2.	Labklājības ministrijas pamatbudžeta programma 20.02.00 "Izdienas pensijas"	0	0	0	0	20.02.00 Programme of the Ministry of Welfare basic budget "Work pensions"
1.3.	Labklājības ministrijas budžeta apakšprogramma 20.03.00 "Piemaksas pie vecuma un invaliditātes pensijām"	0	0	0	0	20.03.00 Programme of the Ministry of Welfare basic budget "Supplement to the old age and disability pensions"
1.4.	Aizsardzības ministrijas pamatbudžeta programma 31.00.00. "Militārpersonu pensiju fonds"	0	0	0	0	31.00.00 Programme of the Ministry of Defence basic budget "Military pension fund"
2. = 2.1. + 2.2. + 2.3. + 2.4.	2) speciālā budžeta izdevumos sakarā ar aktuālākām sociālās apdrošināšanas pakalpojumu saņēmēju kontingenta, kā arī pensiju un pabalstu vidējā apmēra prognozēm;	-2.3	-2.3	-4.6	-4.6	2) state social security budget expenditure due to more actual forecasts in contingent receiving social security services, so as forecasts of average amount of pensions and allowances;
2.1.	Labklājības ministrijas speciālā budžeta programma 04.01.00 "Valsts pensiju speciālais budžets"	-0.7	-0.7	-4.6	-4.6	04.01.00 Programme of the Ministry of Welfare special budget "State pensions"
2.2.	Labklājības ministrijas speciālā budžeta programma 04.02.00 "Nodarbinātības speciālais budžets"	-0.9	-0.9	-0.9	-0.9	04.02.00 Programme of the Ministry of Welfare special budget "Employment"
2.3.	Labklājības ministrijas speciālā budžeta programma 04.03.00 "Darba negadījumu speciālais budžets"	2.8	2.8	4.7	4.7	04.03.00 Programme of the Ministry of Welfare special budget "Occupational accidents"
2.4.	Labklājības ministrijas speciālā budžeta programma 04.04.00 "Invaliditātes, maternitātes un slimības speciālais budžets"	-3.4	-3.4	-3.7	-3.7	04.04.00 Programme of the Ministry of Welfare special budget "Disability, maternity, and sickness"
3.	3) izdevumos, kuri izriet no prognozēto maksas pakalpojumu un citu pašu ieņēmumu izmaiņām, kā arī no kārtējā gada sākumā fiksētās maksas pakalpojumu un citu pašu ieņēmumu atlikuma summas;	2.2	2.2	1.0	1.0	3) expenditure, which results from change in forecasted revenues from paid services and other self-earned revenues as well as fixed sum of remaining revenues from paid services and other self-earned revenues at the beginning of current year;
5.	5) to izdevumu palielināšana, kuri nepieciešami, lai izpildītu starptautisko tiesu un Satversmes tiesas spriedumus;	0	22.0	0	0	5) increase of expenditure necessary for execution of verdicts of international courts and Constitutional court;
6.	6) izdevumos saistībā ar Eiropas Savienības politiku instrumentu un pārējās ārvalstu finanšu palīdzības līdzekļu finansētiem projektiem un pasākumiem;	6.0	6.0	21.0	21.0	6) expenditure in relation with projects and measures financed from European Union policy instruments and other foreign financial assistance programmes;
8.	8) kārtējos maksājumos Eiropas Savienības budžetā un starptautiskai sadarbībai;	1.3	1.3	0.9	0.9	8) regular payments in the budget of the European Union and for international co-operation;
11.	Faktiskie ES fondu izdevumi pozīcijās, kas pakļaujas izlīdzināšanai	1 347.6	1 347.6	1 346.3	1 346.3	Expenditure of European Union structural funds, Cohesion fund, Common Agricultural Policy and Common Fisheries Policy as subject to the smoothing mechanism
12.	Valsts parāda vadības izdevumi pozīcijās, kas pakļaujas izlīdzināšanai	254.1	254.1	259.9	259.9	Government debt service expenditure, what is in the Treasury's competence as subject to the smoothing mechanism
13. = 0.1. + 0.2. + 11. + 12.	**Valsts budžeta izdevumi atbilstoši pārmantojamības nosacījumam**	**8 849.2**	**8 871.2**	**9 033.9**	**9 033.9**	**State budget expenditure according to the continuity rule**

Avots: Finanšu ministrija, Fiskālās disciplīnas padomes aprēķini

Source: Ministry of Finance, Fiscal Discipline Council calculations