

ANNEX 1. DEVELOPMENT OF THE FISCAL RISK STATEMENT

	2014	2015	2016	2017	2018
Quantifiable fiscal risks					
State guarantees	<ul style="list-style-type: none"> Precisely defined fiscal impact (0,01% of GDP) 	<ul style="list-style-type: none"> Additional description of risk calculation More detailed description of the risk monitoring process The fiscal impact has decreased comparing with FRD 2014 	<ul style="list-style-type: none"> More detailed explanation of the nature of state guarantees More detailed description of the risk monitoring process 	<ul style="list-style-type: none"> No significant changes 	<ul style="list-style-type: none"> Precisely defined fiscal safety reserve (0.001% of GDP in 2019), however it is not included in total FSR
State loans	<ul style="list-style-type: none"> Precisely defined fiscal safety reserve (0,003% of GDP) 	<ul style="list-style-type: none"> Additional description of risk calculation Estimated FSR has decreased New regulations of the Cabinet of Ministers, which contribute to risk monitoring and reduction, come into force 	<ul style="list-style-type: none"> More detailed explanation of the nature of state loans More detailed description of the risk monitoring process 	<ul style="list-style-type: none"> No significant changes 	<ul style="list-style-type: none"> No significant changes
Risks to the welfare industry	<ul style="list-style-type: none"> There are four groups of fiscal risks and one 	<ul style="list-style-type: none"> A risk group has been taken away which was related 	<ul style="list-style-type: none"> A risk group has been taken away which was related with an inflation, 	<ul style="list-style-type: none"> No significant changes 	<ul style="list-style-type: none"> The fiscal risk of welfare are accompanied by information on

	additional risk (liquidity risk)	with an increase in social contributions	<p>which may lead to an increase in social expenditure</p> <ul style="list-style-type: none"> • More detailed recent year statistics analysis • Risk asymmetry mistake is noted, but it is concluded that asymmetry exists in the long run period 		decisions taken by the Saeima regarding welfare sector and their fiscal impact
Current payments to the EU budget	<ul style="list-style-type: none"> • Includes both planned and paid payments to the EU budget 	<ul style="list-style-type: none"> • Detailed explanation why the execution of payments may be higher or lower than projected (depends on GDP) 	<ul style="list-style-type: none"> • No significant changes 	<ul style="list-style-type: none"> • Additional two factors which affects contributions to the EU budget (approving EU budget amendments and Latvia's growth rates) 	<ul style="list-style-type: none"> • The risk is accompanied by up-to-date information on the impact factors of the EU budget contribution
Assistance from EU financial instruments	<ul style="list-style-type: none"> • Exactly reflected both planned and paid payments to the EU budget 	<ul style="list-style-type: none"> • No significant changes 	<ul style="list-style-type: none"> • The State Treasury has not released data for 2015 • No significant changes 	<ul style="list-style-type: none"> • The State Treasury has not released data for 2016 • No significant changes 	<ul style="list-style-type: none"> • The Treasury has released the latest data on EU policy instruments expenditure
State guarantee for study loans	<ul style="list-style-type: none"> • Fiscal safety reserve for this risk is not created 	<ul style="list-style-type: none"> • No significant changes 	<ul style="list-style-type: none"> • More detailed explanation of the guarantee statistics 	<ul style="list-style-type: none"> • No significant changes 	<ul style="list-style-type: none"> • No significant changes

Capital on demand	<ul style="list-style-type: none"> Capital presented on demand broken down by international institutions 	<ul style="list-style-type: none"> Detailed explanation of the risk occurrence The total demand for capital in 2015 has increased 	<ul style="list-style-type: none"> No significant changes 	<ul style="list-style-type: none"> No significant changes 	<ul style="list-style-type: none"> No significant changes
Public Energy Trader	–	–	–	–	<ul style="list-style-type: none"> The FRS adds a risk to the Public Energy Trader (PET). Irrespective of the fact that the risk is included in the quantifiable risks, it is not included in the FNR calculation because the analysis is not completed and the risk is considered to be symmetrical

<p>State corporations (non-quantifiable risk until 2017, risk quantifiable from 2018)</p>	<ul style="list-style-type: none"> The FRS emphasizes that the responsible shareholder body has to analyse the risks affecting the financial result Detailed risk description 	<ul style="list-style-type: none"> The FRS emphasizes that the responsible shareholder body has to analyse the risks affecting the financial result In the absence of history, it is not possible to carry out a fiscal risk assessment Difference from FRS 2014, there is no timetable for forecast estimation 	<ul style="list-style-type: none"> The MoF intends to make amendments to the FDL due to the agreement on borrowing The numerical impact on the budget balance is reflected, but actual, not predicted one 	<ul style="list-style-type: none"> No significant changes Minor changes to numerical values, including changes in indicators for 2015 	<ul style="list-style-type: none"> For the first time, public corporation risk is part of the quantifiable risk; however, the risk is not included in the FSR calculation, as it has historically been symmetric. Similarly, this risk has been the subject of an in-depth analysis of the deviations of the balance sheets of general government classified health companies, but the final conclusion is that the risk is symmetric
<p>Non-quantifiable fiscal risks</p>					
<p>PPP</p>	<ul style="list-style-type: none"> Fiscal impact cannot be determined No PPP projects mentioned It is mentioned that it is necessary to establish a responsible institution that 	<ul style="list-style-type: none"> The benefits of PPP projects are explained in more detail Fiscal impact can be set only partially A nursery PPP project comes up It is mentioned that it is necessary to 	<ul style="list-style-type: none"> Information on PPP, which in 2015 increased the deficit by 0.3% of GDP, is mentioned The Çekava PPP project is mentioned 	<ul style="list-style-type: none"> No significant changes 	<ul style="list-style-type: none"> Additional information is given on the fiscal impact for the PPP risk and the probability is set to be close to zero, therefore it is not quantified and

	would manage the risk of PPP projects	establish a responsible institution that would manage the risk of PPP projects			included in the FSR calculation.
The execution of the International Court of Justice and the Constitutional Court	<ul style="list-style-type: none"> One of the possible risks related to litigation is related to airBaltic and RIX 	<ul style="list-style-type: none"> Planned court decisions regarding RIX and airBaltic case are not taken into account, preparing this risk assessment 	<ul style="list-style-type: none"> More detailed description of the EU Court and the Constitutional Court in essence and more detailed description of their impact on the state budget It is mentioned that low-cost risks are covered by FUE Higher cost risk are usually included in the annual budget 	<ul style="list-style-type: none"> No significant changes 	<ul style="list-style-type: none"> There is no subsection on the salaries of judges which is mentioned in content
Financial Sector	–	–	<ul style="list-style-type: none"> First time financial risk is included in FRS It is mentioned that the risk is low and there is no need for the quantification, however it can be concluded that risk quantification is possible More detailed description of Parex case 	<ul style="list-style-type: none"> No significant changes Additional Reverta is mentioned 	<ul style="list-style-type: none"> Additional information on the Latvian Deposit Guarantee Fund and its impact on the general government sector are added (changes are foreseen in the EKS methodology)

Tax reform	–	–	–	<ul style="list-style-type: none"> Actual fiscal risk that is included in the FRS 	–
Additional information		<ul style="list-style-type: none"> A section on risk management improvement is coming up in FRS 2015 It is mentioned that consideration should be given to the inclusion of macroeconomic risks in the FRS 	<ul style="list-style-type: none"> In FRS 2016 there is explanation for the symmetrical fiscal risks and why fiscal safety reserve for these risk is not created FRS has become more extensive and more detailed A detailed macroeconomic review is presented 		<ul style="list-style-type: none"> Chapter 1 explains that the symmetry of risks should be at least the medium term (3 to 5 years), while if it is not practically possible to identify symmetric signs of fiscal risk during the relevant period, the observation period should be extended to 7 years, which could be considered as long term