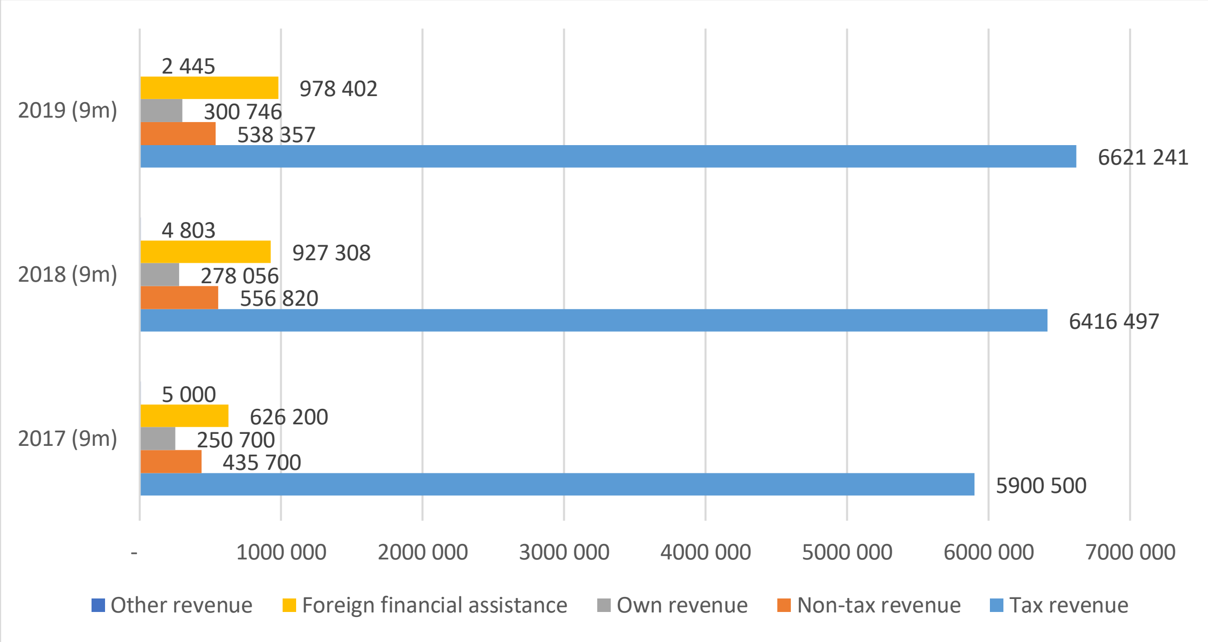
Fiskālās disciplīnas padome

REVENUES

In the nine months of 2019, consolidated budget revenue increased by 3.1% in comparison to respective period in previous year, reaching € 8.4bn. In the third quarter of 2019, revenues were down by 8.6% when compared to the third quarter of 2018, and down by 20.5% when compared to the second quarter of 2019. However, the considerable decrease in revenue is due to repayments of foreign financial assistance, while the tax revenue in the third quarter of 2019 were higher by 6.7% than in the third quarter of 2018.There are following highlights for Revenues in nice years of this year:

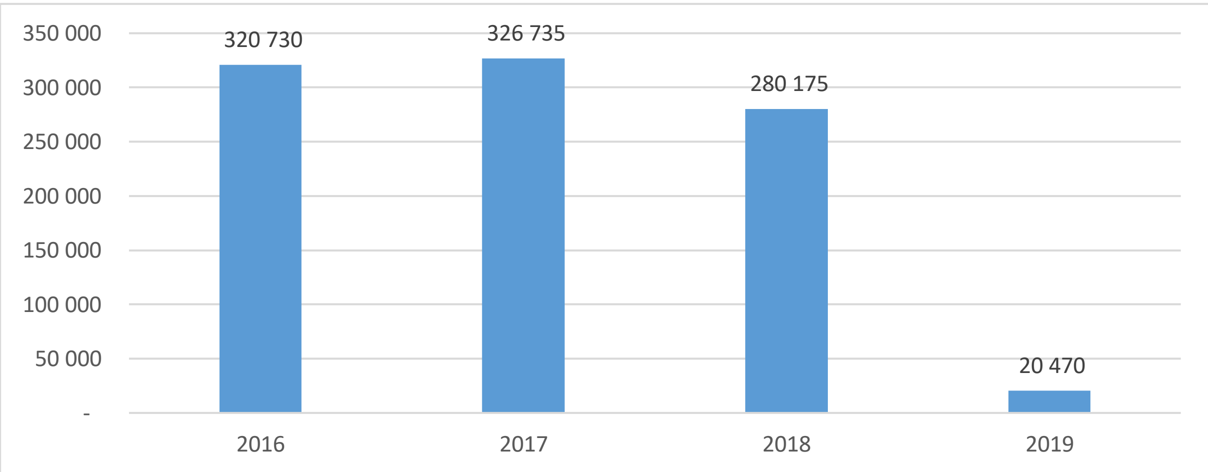
- The main contributor to the consolidated budget **– tax revenues – slightly improved in the third quarter**: if half a year tax revenue growth was only 1.4% when compared to 2018, then nine month revenue comparison gives 3.2% growth in tax revenues,
- **EU Structural Funds have been spent in nine months at 84% of the annual plan.** As a result there will be some revenue for the consolidated general budget in the final quarter of the year,
- Nine month tax revenue growth rate of 3.2% lags significantly behind expected nominal GDP growth of 6.4%,
- During nine months, SRS collected revenues (excluding Social contributions) in amount of 99% of the planned target,
- Social security contributions, including occupational pensions (VSAOI), have been collected at 103.1% of the target.

As mentioned earlier, the revenues from European funds in the final quarter should improve consolidated budget revenues in the final quarter of 2019. However, decrease in revenues in the fourth quarter of the year could be caused by a reduction in excise duty revenues on spirits from 1 July, faster than expected GDP growth decline, and negative external economic and political factors.



Picture 1: Consolidated budget revenue nine months of 2019 (thou. euros). Source: Treasury

The fall in collecting corporate income tax (CIT) continues because of the changed collection base of the tax. In nine months of the year only 20.4 million were collected instead of the planned 145 million euros, which is only 14.1% of the target. The FDC had previously pointed to the risks of a narrowing tax base because of the tax reform. Ministry of Finance predicts that CIT credit repayments ends in the near future and the revenues from CIT would approach the previous levels: 260 million revenues from CIT is planned in draft budget 2020.

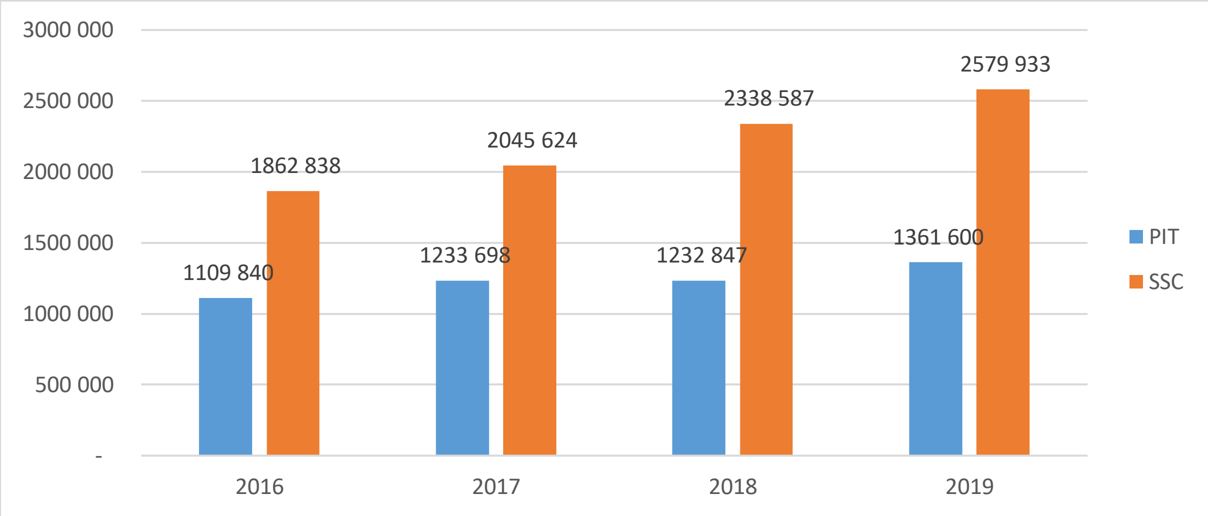


Picture 2: Corporate income tax in nine months of 2019 (thou. euros). Source: SRS

Collection of revenues from value added tax (VAT) slightly slowed down in the third quarter: in nine months of 2019 € 1.9 billion were collected, which is 7.7% more than in nine months of 2018. However, unlike the first half of the year plan which was exceeded by 2.1%, the nine month target was not met by 0.5%. VAT is the most important source of tax revenue, accounting for about 29% of total tax revenue (excluding social contributions).

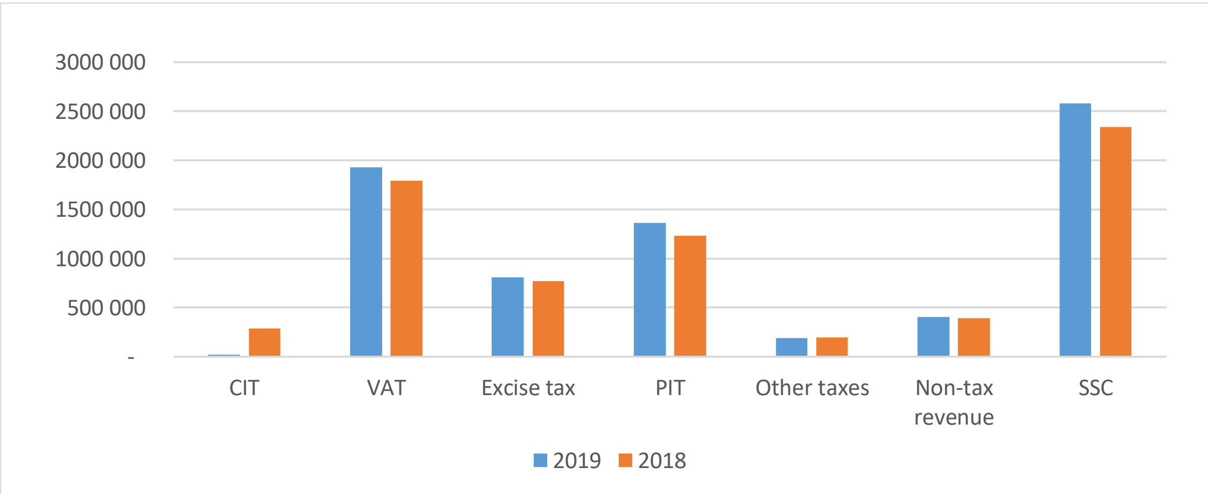
As expected, the collection of revenues from excise duty slowed down a bit in nice months of the year: even though the amount collected 805.9 million euros is by 4.6% more than a year ago in the same period, the collection target was met only by 96.7%.

National social security contributions (SSC) revenues continue to grow rapidly. In nine months of 2019, SSC collected increased by 10.3% year-on-year (before rising 14.3% in nine months of 2018). The personal income tax (PIT), which is related to SSC, increased by 10.4% in nice months of this year.



Picture 3: SSC and PIT revenues in nine months of 2019 (thou. euros). Source: SRS

In total, the SRS collected revenues in amount of 7.3 billion in nine months of 2019, an increase of 4% over nine months of 2018.



Picture 4: SRS collected revenues (nine months, thou. euros). Source: SRS

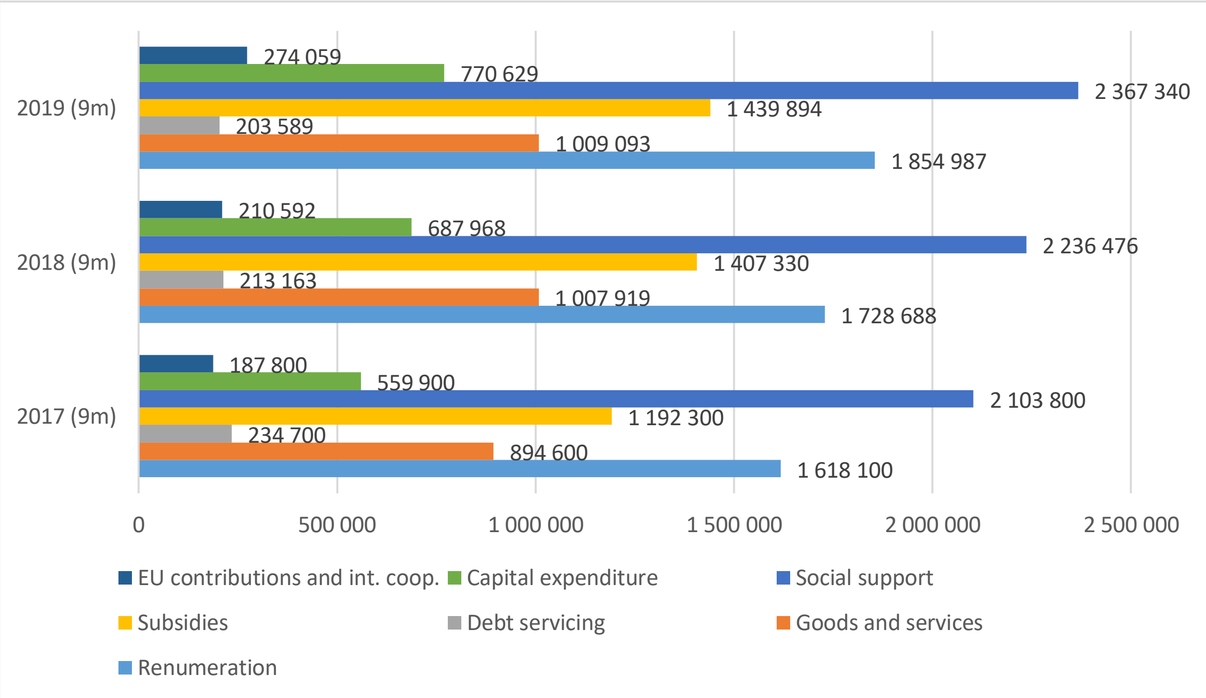
	2019	**2018**	**2019/2018 (%)**
CIT	20 470	290 053	-92.9%
VAT	1 930 812	1 792 771	7.7%
Excise tax	805 866	770 512	4.6%
PIT	1 361 601	1 232 847	10.4%
Other taxes	189 930	195 681	-2.9%
Non-tax revenues	402 109	389 244	3.3%
SSC	2 579 933	2 338 587	10.3%
Total	7 290 721	7 009 695	4.0%

Table 1: SRS collected revenues (nine months, thou. euros). Source: SRS

EXPENDITURE

In nine months of 2019, consolidated general government expenditure increased by 5.7% to reach EUR 7.9 billion. In the third quarter of 2019, general government consolidated budget expenditure increased by 5.2% compared to the third quarter of 2018. There are following highlights for expenditure in nine months of this year:

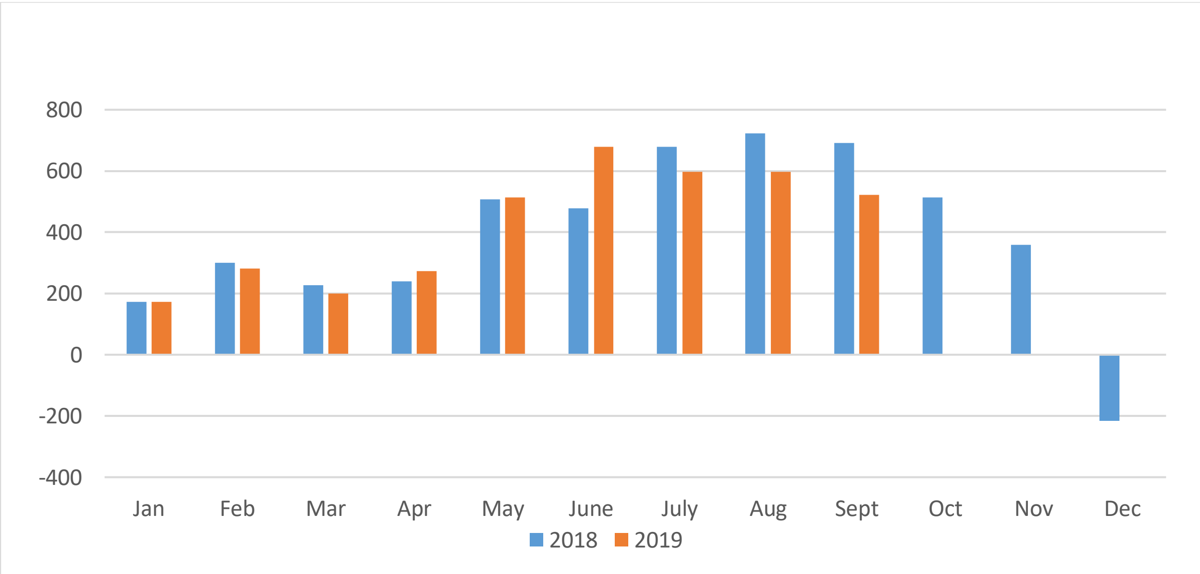
- Social benefits account for the largest percentage of general government consolidated budget expenditure at around 30% - are up by 5.9% in nine months of 2019 (6.3% a year ago),
- The second most significant item of expenditure was remuneration (wages, 24.3% of total expenditures) are up by 7.3% (6.8% the year earlier in respective period),
- Capital expenditure that are linked to European funds- increased by 12% (23.9% a year ago),
- Contributions to the EU budget increased the most at around 30% in nine months of 2019(12% the year earlier in respective period). However, the share of this expenditure in the consolidated general budget is relatively small - around 3.5%,
- Debt servicing- is the only item that has declined by 4.5% in this year's general government consolidated budget expenditure. A year earlier, an even more significant decrease of 9.2%.



Picture 5: Consolidated budget expenditure nine months of 2019 (thou. euros). Source: Treasury

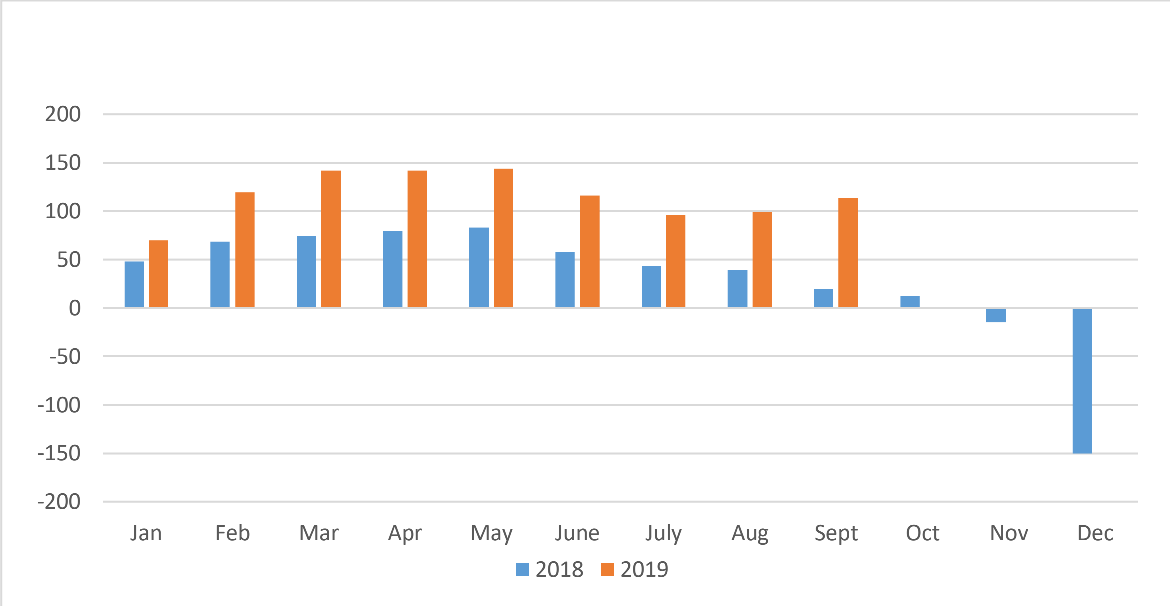
BALANCES

Historically, the consolidated general government balance is positive after nine months: this year revenues exceed expenditure by € 679 million, representing 1.7% of GDP. Last year the respective figures were slightly better- € 478 million and 2.3% respectively. The main reason for the slight worsening of the balance is fall in revenues from European funds in the third quarter. In the final quarter of the year, revenues from the EU funds are expected at 15% of the year plan. In addition, as expected in the third quarter, there were slight decrease in excise tax and VAT revenues because of the reduced excise duty rate on spirits. The decline in GDP growth rate of 2% in the second quarter relative to the corresponding period in 2018 may also have a negative impact on tax revenues and the balance as a whole. On the expenditure side, we see increasing pressure from the public sector to provide additional financial resources for staff salaries. In view of the risks mentioned above and other risks, as well as the tendency of the general government consolidated budget balance to worsen towards the end of the year (see picture below), the government should follow developments in the general government balance and, if necessary, fiscal adjustment should be taken.



Picture 6: Consolidated budget balance (mil. euros) accrued values at end of month. Source: Treasury

The trend that the state basic budget balance worsens, while the state special budget and local governments budgets balances improve continued in the third quarter of 2019. State basic budget surplus after nine months of 2019 were 129 million euros, while a year ago at this time the surplus was considerably higher at 475 million euros. Because of rapidly growing salaries, the special budget balance continues to improve, reaching 247 million euros at the end of September. The balance was 149 million euros a year ago at this time. The local governments budget balance after nine months of this year is also better than a year ago - 114 million euros (€ 19 million in 2018). However, it is too early to forecast the local governments budget balance at the end of the year as it traditionally tends to worsen in the second half of the year, especially in December (see picture below).



Picture 7 : Local governments budget balance (mil. euros) accrued values at end of month. Source: Treasury