



Fiskālās disciplīnas  
padome

## REVENUES

Due to the economic crisis caused by Covid-19 in 2020, the general government consolidated budget revenue increased by 0.8% compared to 2019, reaching 11.4 billion euros at the end of 2020. Tax revenue increased by 0.6% in the fourth quarter, compared to the respective period of 2019, while non-tax revenue decreased by 4.5%. At the same time, own revenues increased by 10.5%, while foreign financial assistance increased by 2.9% compared to 2019. Tax revenue plays the largest role in the revenue structure of the consolidated budget, accounting for 79.6% of total revenue. Their share increased by 0.2% compared to the 4th quarter of 2019.

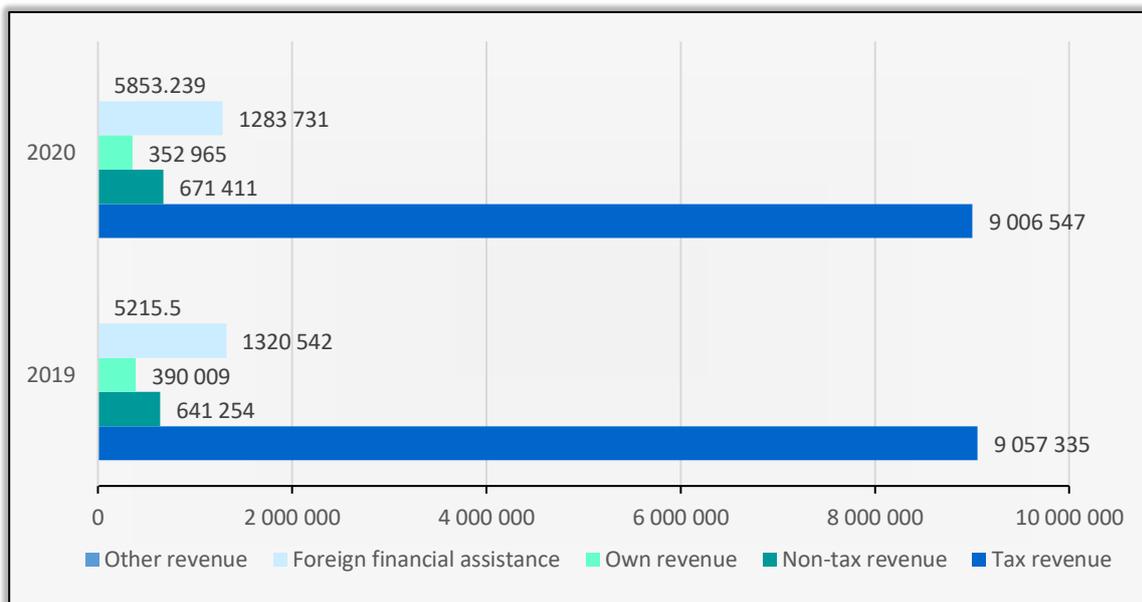


Figure 1. Consolidated budget revenue in 12 months (thou. euros). Source: Treasury

Overall, absolute figures show that revenues in 2020 decreased slightly compared to 2019, however, the decrease in budget revenues was expected due to the Covid-19 crisis, as well as the related consequences. However, despite the crisis, own revenues rose sharply, tax revenues remained at about the same level as a year ago, and the decline in revenues is due to non-tax revenues and other revenues. This is positive news, as the fact that tax collection has not fallen shows the relatively viable state of the economy during the crisis.

Considering the results of the general budget revenue, the collection of corporate income tax (CIT) looks better, despite the fact that the amount collected in the 4th quarter of 2020

reaches only 79.5% of the planned one. Comparing this result with the corresponding period of 2019, the amount of taxes actually collected reached the number almost 4.5 times bigger. Overall, significant progress has been made in the collection of CIT, despite the Covid-19 crisis. The cash flow of the budget is slowly stabilizing after the previous CIT tax reform.

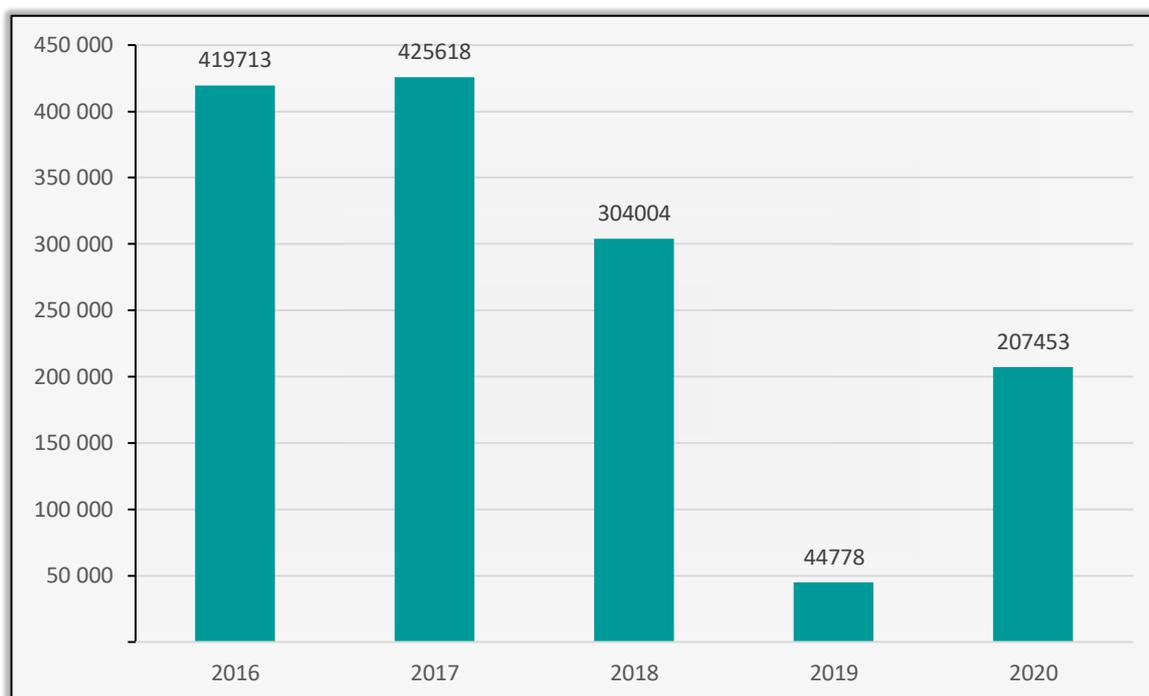


Figure 2. Corporate income tax revenues in 12 months of 2020 (thou. euros). Source: SRS

The collection of excise tax in the 4th quarter of 2020 decreased compared to the corresponding period of 2019. The plan was fulfilled by 88% and a total of 1.1 billion euros was collected, which is 0.4% less than in the 4th quarter of 2019. The tax on natural gas had a worst collection results (75.2%) compared to 2019. The largest absolute decrease was observed in the collection of excise tax on alcoholic beverages - the amount of taxes decreased by almost 10 million euros or 4.8% from the 2019 level.

|                    | 2019           | 2020           | 2020 vs 2019 |
|--------------------|----------------|----------------|--------------|
| Alcohol            | 201236         | 191661         | -4.8%        |
| Beer               | 54494          | 52577          | -3.5%        |
| Tobacco            | 228228         | 223425         | -2.1%        |
| Oil products       | 540574         | 556910         | 3.0%         |
| Gas                | 22388          | 16826          | -24.8%       |
| Other excise goods | 17136          | 18285          | 6.7%         |
| <b>Total</b>       | <b>1064056</b> | <b>1059684</b> | <b>-0.4%</b> |

Table 1. Excise tax revenues in 12 months (thou. euros). Source: SRS

At the end of 2020, the value added tax (VAT) collection plan was fulfilled by 88%. Revenue from VAT amounted to EUR 2.5 billion, which is 3.9% less than in the corresponding period of 2019. It was also forecasted that due to the SRS economic stimulus program, within the framework of which VAT is reimbursed to entrepreneurs faster, the collection of this tax deteriorated. Due to an emergency situation approved by the government at the end of 2020, some companies were unable to sell goods and services, which also worsened collection results.

The personal income tax (PIT) collection plan was exceeded by 3% in the last quarter. The plan was overfulfilled due to good pre-crisis results (+72.2 million above the plan) due to faster-than-expected wage growth, and part of the withholding tax on dividends paid in December, 2019, was transferred to the budget in early January. In March, the plan was not implemented, which was due to an increase in repayments after the submission of PIT declarations, as the consequences of the crisis were not yet fully felt. In May and June, when there was a period of isolation in Latvia, 32.3 million taxes were collected under the plan, which reduced the good results of the beginning of the year back to the limit of the plan. However, in the third quarter, collection has improved again, with a total of EUR 7 million above plan being collected during this period. The second wave of Covid-19 took place in the last quarter, which caused new difficulties in the economy, however, the collection of PIT was not significantly affected.

The social security contribution (SSC) plan was fulfilled by 96% in the last quarter. In general, 0.2% less SSC was collected compared to the corresponding period of 2019. It should be noted that PIT revenues are less affected by the crisis than SSC, as their share in payroll taxes is much more significant and creates a greater burden on entrepreneurs. This is also confirmed by the fact that the extensions of deadlines granted by the SSC are approximately 7 times higher than the PIT. This could explain why the SSC is a slightly larger deviation from the plan compared to the PIT.

In total, in the last quarter of 2020, the SRS administered revenues in the amount of 9.9 billion, which is 0.5% less than in the 4th quarter of 2019. Three months ago, the difference was 0.9% between 2020 and 2019. The fact that the gap is slowly closing indicates a gradual recovery of the economy after the Covid-19 crisis and a return to a stable economic situation before the crisis.

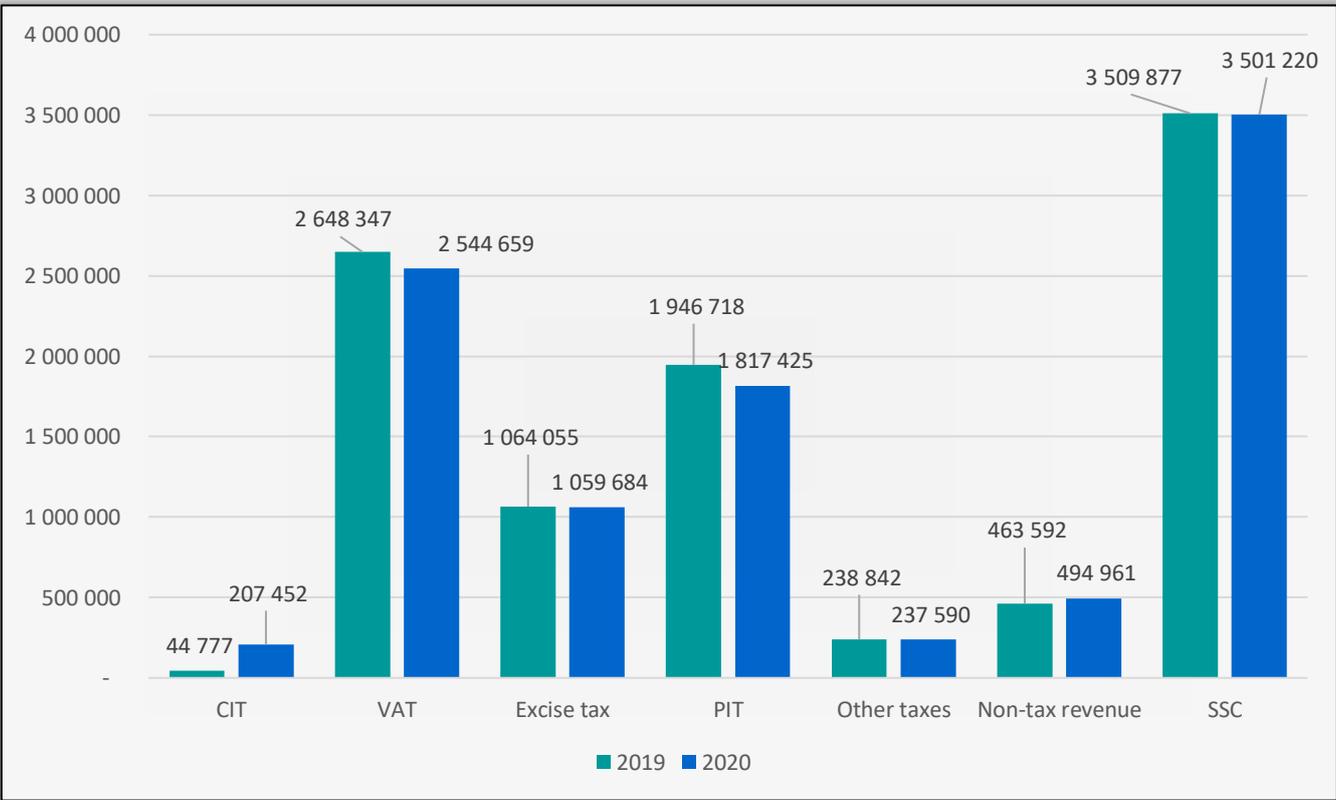


Figure 3. SRS collected revenues in 12 months of 2020 and 2019 (thou. euros). Source: SRS

|                  | 2019             | 2020             | 2020 share     | 2020/2019 (%) |
|------------------|------------------|------------------|----------------|---------------|
| CIT              | 44 777           | 207 452          | 2.10%          | 363.3%        |
| VAT              | 2 648 347        | 2 544 659        | 25.80%         | -3.9%         |
| Excise tax       | 1 064 055        | 1 059 684        | 10.74%         | -0.4%         |
| PIT              | 1 946 718        | 1 817 425        | 18.43%         | -6.6%         |
| Other taxes      | 238 842          | 237 590          | 2.41%          | -0.5%         |
| Non-tax revenues | 463 592          | 494 961          | 5.02%          | 6.8%          |
| SSC              | 3 509 877        | 3 501 220        | 35.50%         | -0.2%         |
| <b>Total</b>     | <b>9 916 207</b> | <b>9 862 991</b> | <b>100.00%</b> | <b>-0.5%</b>  |

Table 2. SRS collected revenues in the fourth quarter of 2020 and 2019 (thou. Euros). Source: SRS

## EXPENDITURE

In the last quarter of 2020, general government consolidated budget expenditure increased by 8.13% compared to the corresponding period of 2019, reaching 12.5 billion euros. The largest percentage increases were in subsidies and grants, which increased by 19.1%, as well as social benefits, which increased by 11.1%. However, this phenomenon is not surprising - during the Covid-19 crisis, the state provided support to a number of risk groups affected by the crisis. In total, subsidies, grants and social benefits account for more than half of all expenditure.

Contributions to the EU and expenditure on international cooperation have increased (6.3%), and there also was an increase in capital expenditure by 3.5%. Given that this type of spending has risen, but investment usually fall during the crisis, it can be said that the worst times are over and the economy is starting to recover - in previous reports for the second and third quarters, capital spending fell. A decrease in expenditure on goods and services can be observed (-2.2%) compared to the 4th quarter of 2019. In addition, the share of this type of expenditure also decreased (-1.8%). Compared to the corresponding period of 2019, remuneration expenses increased slightly (3.8%), but their share decreased (-0.9%).

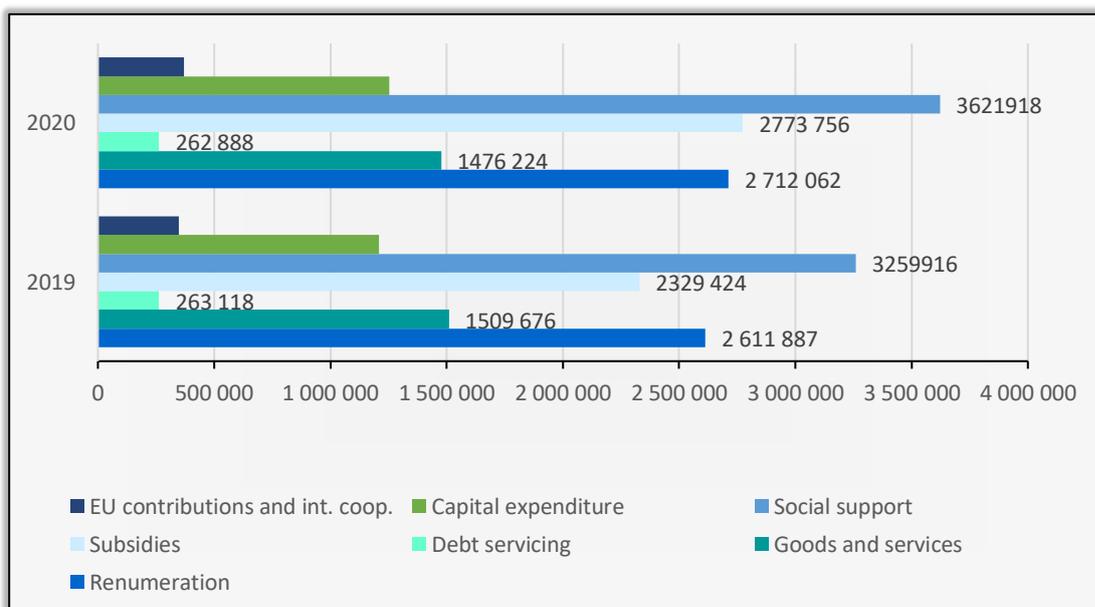


Figure 4. Consolidated budget expenditure in 12 months of 2020 and 2019 (thou. euros). Source: Treasury

## BALANCES

Data for the fourth quarter of 2020 show a budget deficit of € 1.1 billion, or 3.5% of GDP. Compared to 2019, after the fourth quarter, the budget deficit was about 10 times smaller - 117 million euros, or 0.4% of GDP. This increase was due to the Covid-19 crisis and also exceeded all projections for 2020. However, this figure is lower than expected after the crisis. The budget plan developed by the Ministry of Finance in October 2020 envisages that the consolidated general budget deficit in 2020 will reach 2143 million euros, or 7.6% of GDP. The fact that the real figure at the end of 2020 is twice lower than the projected deficit after the start of the Covid-19 crisis indicates that Latvia is experiencing the crisis relatively successfully.

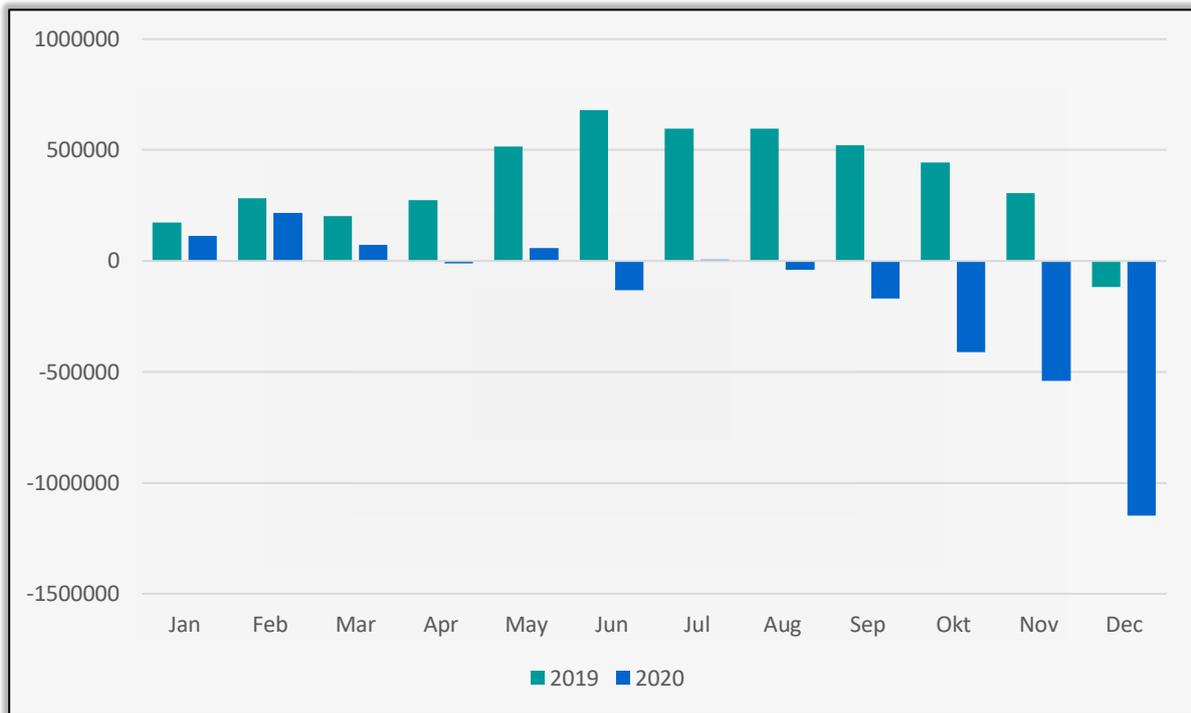


Figure 5. Consolidated budget balance (mil. euros) accrued values at end of month. Source: Treasury