

DRAFT BUDGETARY  
PLAN OF THE  
REPUBLIC OF LATVIA  
2016

RIGA, 2015

## Content

Introduction .....	3
Macroeconomic Development Scenario.....	4
Fiscal strategy and structural balance objective .....	8
Annex: Methodological aspects.....	38

## Tables

Table 0.i) Basic assumptions .....	5
Table 1a: Macroeconomic prospects .....	6
Table 1b: Price developments .....	7
Table 1c: Labour market developments .....	7
Table 1d: Sectoral balances .....	7
Table 2.a: General government budgetary targets broken down by subsector.....	10
Table 2.b: General government debt developments .....	11
Table 2.c: Contingent liabilities.....	11
Table 3: General government expenditure and revenue projections at unchanged policies broken down by main components .....	12
Table 4.a: General government expenditure and revenue targets, broken down by main components.....	13
Table 4.b: Amounts to be excluded from the expenditure benchmark.....	14
Table 4.c General government expenditure by function .....	14
4.c.i) General government expenditure on education, healthcare and employment.	14
4.c.ii) Classification of the functions of the Government.....	14
Table 5: Description of discretionary measures included in the draft budget .....	16
5.a.i) Discretionary revenue measures taken by General Government .....	16
5.a.ii) Discretionary expenditure measures taken by General Government .....	19
5.b.i): Discretionary revenue measures taken by Central Government.....	20
5.b.ii): Discretionary expenditure measures taken by Central Government.....	22
5.c: Discretionary measures taken by sub-sectors of the General Government .....	23
Table 6.a: Country specific recommendations .....	24
Table 6.b: Targets set by the Union's Strategy for growth and jobs .....	28
Table 7: Divergence from Stability Programme 2015-2018 .....	37

## **Introduction**

Within the framework of the European Semester Latvia submits the draft budgetary plan according to the European Parliament and Council Regulation No.473/2013. The Regulation provides for a coordination and strengthening of the process of budgetary surveillance in the euro area as a whole:

- ensuring common budgetary timeline – surveillance of budgetary process, which is carried out in the spring within preparation and submission of Convergence and Stability Programmes to the European Commission (EC), is supplemented by the second surveillance phase, which is implemented in autumn when euro area Member States are preparing annual state budgets;
- establishing common principles for the budget based on fiscal rules in accordance with strengthened Stability and Growth Pact (SGP).

Draft Budgetary Plan of Latvia has been approved by the Cabinet of Ministers on September 29, 2015.

## Macroeconomic Development Scenario

After three years of strong economic growth when Latvia's economy was among the fastest growing in the EU, GDP growth became slower in 2014. Growth volumes continued to decline also in the first half of 2015. Between 2011 and 2013 Latvia's GDP on average grew by 4.7% annually, however in 2014 GDP increased by only 2.4% but in the first half of 2015 economic growth slowed down to 2.3%.

Taking into account developments of external environment and comparatively weak economic growth data for 2014 as well as for the first half of 2015, short-term growth projected by the Ministry of Finance (MoF) is relatively moderate, however in the medium-term growth is expected to return to its potential level.

In the short-term private consumption will continue to support economic growth, as well industrial production and export growth. Moreover, in the second half of 2015 due to the base effect annual economic growth volumes will no longer suffer from Russian sanctions, which were imposed in August 2014. However, uncertainty in the external environment will further hamper investment activity therefore growth volumes will accelerate only gradually. In accordance with MoF forecasts, Latvia's GDP growth at constant prices will reach 2.1% in 2015 and 3.0% in 2016.

Economic growth will become more balanced between domestic and external demand as soon as external uncertainty diminishes and entrepreneurs manage to switch to markets with higher growth potential. According to the MoF, Latvia's annual GDP growth will be 3.6% in 2017 and in 2018.

During the process of development of medium-term macroeconomic growth scenario, MoF consulted with experts from Latvia's commercial banks, International Monetary Fund and EC. In order to ensure independence of macroeconomic forecasts, macroeconomic growth scenario has been agreed with the Ministry of Economics as well as the Bank of Latvia. In addition, MoF presented forecasts of macroeconomic indicators to the Potential and Nominal Gross Domestic Product Assessment Working Group of the Council of Fiscal Discipline on July 9, 2015. The Working group supported that the State Budget for 2016 and the Medium-Term Budget Framework for 2016-2018 are developed based on these forecasts.<sup>1</sup>

The medium-term macroeconomic growth scenario for 2016-2018 was developed in June 2015 taking into account the GDP data for the first quarter of 2015 and actual short-term statistical information available up to June 8, 2015.

The macroeconomic growth scenario is based on the EC technical assumptions regarding external environment included in the European Economic Forecast Spring 2015. These assumptions foresee that prices for Brent oil will be on average 59.4 USD/bbl in 2015 and 66.0 USD/bbl in 2016. It is also assumed, that EUR/USD exchange rate will be 1.08 in 2015 and 1.07 in 2016 on average.

The EC forecast assumes slow but steady economic recovery in the euro area with growth rates becoming faster and moving towards the 1.5-2.0% growth in the medium-term. It also assumes that Greece remains in the euro area and its economic problems will not significantly affect economic growth in other EU countries. Consequently, the demand for

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<sup>1</sup> The protocol of the Potential and Nominal Gross Domestic Product Assessment Working Group of the Council of Fiscal Discipline meeting on July 9, 2015  
[http://fdp.gov.lv/files/uploaded/FDP\\_1\\_01\\_486\\_20150710\\_IKPDG\\_protokols2\\_projekts.pdf](http://fdp.gov.lv/files/uploaded/FDP_1_01_486_20150710_IKPDG_protokols2_projekts.pdf)

Latvian goods and services will increase contributing to the acceleration of economic growth in 2016 and 2017. Macroeconomic growth scenario also envisages that Russian sanctions against the EU countries will remain in place in the medium-term, nevertheless Latvian companies will manage to offset the fall of exports to Russia by shifting to the new markets.

The macroeconomic growth scenario is based on the conservative assumptions about the increase of domestic and external demand and takes into account both internal and external risks. In the medium-term negative and positive risks are balanced, but in the short-term negative risks prevail, out of which the most significant are associated with the geopolitical situation in the Eastern European, recession in Russia, weak economic growth in the euro area, expanding immigration problem, continuous uncertainty regarding Greece's financial situation as well as economic slowdown in the world's second-largest economy China.

In addition to the external risks, the implementation of the macroeconomic scenario will also depend on internal factors, including situation in the labour market, companies' ability to attract financial resources and carry out investment projects to increase production capacity, lending trends and other factors that directly affect country's credit rating, interest rates, confidence indicators and domestic demand.

**Table 0.i) Basic assumptions**

	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Short-term interest rate in euro area (annual average)</b>		0.0	0.0
<b>Long-term interest rate in euro area (annual average)</b>		0.2	0.3
<b>USD/EUR exchange rate (annual average)</b>	1.3	1.1	1.1
<b>Nominal effective exchange rate</b>	4.6	-10.7	-0.8
<b>World excluding EU, GDP growth</b>	3.8	3.8	4.3
<b>EU GDP growth</b>	1.4	1.8	2.1
<b>Growth of relevant foreign markets</b>	3.0	3.9	4.8
<b>World import volumes, excluding EU</b>	3.0	3.9	4.8
<b>Oil prices (Brent, USD/barrel)</b>	99.7	59.4	66.0

Table 1a: Macroeconomic prospects

	ESA Code	2014	2014	2015	2016
		Level	Rate of change		
<b>1. Real GDP</b>	B1*g	21.3	2.4	2.1	3.0
<b>of which</b>					
<b>Attributable to the estimated impact of aggregated budgetary measures on economic growth</b>					
<b>2. Potential GDP</b>		21.2	2.5	2.9	3.1
<b>Contributions</b>					
<b>Potential GDP contributions:Labour</b>			0.0	0.2	0.3
<b>Potential GDP contributions:capital</b>			1.1	1.0	1.0
<b>Potential GDP contributions: total factor productivity</b>			1.4	1.6	1.8
<b>3. Nominal GDP</b>	B1*g	24.1	3.6	3.2	5.2
<b>Components of real GDP</b>					
<b>4. Private consumption expenditure</b>	P.3	13.4	2.3	2.6	3.5
<b>5. Government consumption expenditure</b>	P.3	3.6	3.4	3.0	2.5
<b>6. Gross fixed capital formation</b>	P.51	4.7	1.3	-0.9	2.5
<b>7. Changes in inventories and net acquisition of valuables (% of GDP)</b>	P.52 + P.53	0.2	-26.2	-160.0	2.5
<b>8. Exports of goods and services</b>	P.6	12.3	2.2	2.5	4.5
<b>9. Imports of goods and services</b>	P.7	12.9	1.6	-0.4	4.7
<b>Contribution to real GDP growth</b>					
<b>10. Final domestic demand</b>			2.3	1.9	3.2
<b>11. Changes in inventories and net acquisition of value</b>	P.52 + P.53		-0.3	-1.5	0.0
<b>12. External balance of goods and services</b>	B.11		0.4	1.7	-0.2

Table 1b: Price developments

	ESA Code	2014	2014	2015	2016
		Level	Rate of change		
<b>1. GDP deflator</b>			1.2	1.1	2.1
<b>2. Private consumption deflator</b>			0.6	0.8	2.0
<b>3. HICP</b>			0.6	0.8	2.0
<b>4. Public consumption deflator</b>			0.4	3.3	2.0
<b>5. Investment deflator</b>			1.2	1.5	2.5
<b>6. Export price deflator (goods and services)</b>			-1.0	-0.2	1.0
<b>7. Import price deflator (goods and services)</b>			-0.3	0.9	1.0

Table 1c: Labour market developments

	ESA Code	2014	2014	2015	2016
		Level	Rate of change		
<b>1. Employment, persons ('000)</b>		884.6	-1.0	0.1	0.2
<b>2. Employment, hours worked</b>		1303265233.0	1.0	0.1	0.2
<b>3. Unemployment rate (%)</b>			10.8	9.7	9.1
<b>4. Labour productivity, persons</b>			3.4	2.1	2.8
<b>5. Labour productivity, hours worked</b>			1.3	2.1	2.8
<b>6. Compensation of employees, bln.euro</b>	D.1	10275.6	7.3	5.7	5.2
<b>7. Compensation per employee (Gross wage), euro</b>		765.2	6.8	5.5	5.0

Table 1d: Sectoral balances

	ESA Code	2014	2015	2016
		% GDP		
<b>1. Net lending/borrowing vis-a-vis the rest of the world</b>	B.9	1.2	1.2	0.8
<b>of which</b>				
- Balance on goods and services		-2.2	-2.0	-2.1
- Balance of primary incomes and transfers		0.3	0.2	0.2
- Capital account		3.1	2.9	2.7
<b>2. Net lending/borrowing of the private sector</b>	B.9	0.5	2.6	1.8
<b>3. Net lending/borrowing of general government</b>	EDP B.9	-1.4	-1.4	-1.0
<b>4. Statistical discrepancy</b>		2.1	0.0	0.0

## **Fiscal strategy and structural balance objective**

Latvian fiscal policy principles, medium-term structural balance objective (MTO), the deviations applied due to increase in contributions to the second pension pillar has not changed and has been described in the Latvia's Stability Programme for 2015-2018. Also general objective of Latvian fiscal policy – to raise sustainably the quality of life of population – has not changed.

In preparation of the current general government draft budgetary plan fiscal policy specific goals have been updated taking into account circumstances which were already known in the preparation of the Latvia's Stability Programme for 2015-2018, for instance, the necessity to provide additional resources for defence. Similarly in defining the specific objectives of fiscal policy, government course of actions foreseen in Latvia's Stability Programme for 2015-2018 has been maintained - increase the proportion of tax revenue to GDP and reduce income inequality.

Therefore the specific fiscal policy objectives simultaneously being also medium-term budgetary policy priority directions are the following:

- 1) increase state defence capacity by raising state defence funding to 2% of GDP in 2018;
- 2) promotion of sustainable and balanced economic development, primarily providing increase in funding for defence, internal security, health and education within limits of the state budget;
- 3) income inequality reduction by gradually increasing minimum wage and introducing progressive non-taxable minimum;
- 4) gradual increase of tax revenue to 1/3 of GDP, basically by improving tax collection.

Above mentioned updated specific objectives of fiscal policy are also significantly in line with principles defined in Latvia's Stability Programme for 2015-2018:

- to provide responsible and sustainable fiscal policy in line with the fiscal discipline;
- to raise the quality of life of population;
- to ensure favourable environment for economic development;
- to ensure public defence capacity appropriate to geopolitical risks.

Discretionary revenue and expenditure measures to ensure implementation of above mentioned principles were included in both the Law on Medium-Term Budget Framework for 2014, 2015 and 2016 and the Law on Medium-Term Budget Framework for 2015, 2016 and 2017 for each year and has been described in the Latvia's Stability Programme for 2015-2018.

Fiscal data in the Table No.3 has been prepared on the basis of a no-policy change scenario, which for the year 2016 takes into account discretionary revenue and expenditure measures already included in the Law on Medium-Term Budget Framework for 2014, 2015 and 2016 and in the Law on Medium-Term Budget Framework for 2015, 2016 and 2017. In the no-policy change scenario in 2016 in addition to the changes stemming from updated macroeconomic scenario, expenditure forecasts in some general government levels are also updated, for instance in the budgets of local governments taking into account actual execution

data - these are not being classified as discretionary expenditure measures and respectively are not included in Table 5. Thus those changes in 2016 additionally explains the expenditure difference between no-policy change scenario and policy change scenario.

During the preparation of the Latvia's Stability Programme for 2015-2018 there was known that in 2016 negative fiscal space is forecasted and therefore in the development of the annual budget for 2016 the government will need to adopt discretionary decisions to fill the negative fiscal space. In the evaluation of submitted Latvia's Stability Programme, EC on the basis of their current spring forecasts and taking into account the Stability Programme measures concluded that in 2016 Latvia substantially deviates from the MTO and the corrective measures to avoid the non-compliance are necessary during the next year's budget preparation process. Latvia's Stability Programme for 2015-2018 envisaged that due to the implemented reforms in the health sector, Latvia applies for additional deviation from the MTO, according to the EC communication on making the best use of the flexibility within the existing rules of the SGP. Fiscal scenario of the Latvia's Stability Programme for 2015-2018 also envisaged that additional defence expenditure were defined as one-off expenditure that do not affect achievement of the structural balance objective. It should be noted that EC in their assessment of the Stability Programme did not support the approach that additional defence expenditure is defined as a one-off measure and did not support application of flexibility on structural reform clause in the health sector, as the safety distance to the Maastricht deficit ceiling in the amount of 3% of GDP is exceeded. Consequently, EC in its recommendations stated that Latvia needs to ensure that the deviation from the medium-term budgetary objective in 2016 is only associated with the systemic pension reform.

In the view of the above mentioned, the budget for 2016 has been drawn up:

- 1) by forecasting that the general government nominal deficit is 1% of GDP in 2016, that according to the Latvian forecasts allows to ensure EC fiscal recommendation;
- 2) by developing additional revenue increasing and expenditure reducing discretionary measures in order to eliminate negative fiscal space and to ensure funding for the priorities defined by the government – internal and external security, health and education;
- 3) by approving additional discretionary decisions to reduce income inequality;
- 4) by providing further actions to reduce shadow economy and to improve tax collection.

Table 2.a: General government budgetary targets broken down by subsector

	ESA Code	2015	2016
		% of GDP	
<b>Net lending (+) / net borrowing (-) ( B.9) by sub-sector</b>			
<b>1. General government</b>	S.13	-1.4	-1.0
<b>2. Central government</b>	S.1311	-1.6	-1.0
<b>3. State government</b>	S.1312		
<b>4. Local government</b>	S.1313	0.0	-0.1
<b>5. Social security funds</b>	S.1314	0.1	0.1
<b>6. Interest expenditure</b>	D.41	1.2	1.2
<b>7. Primary balance</b>		-0.2	0.2
<b>8. One-off and other temporary measures</b>			
<b>9. Real GDP growth (%) (=1. in Table 1a)</b>		2.1	3.0
<b>10. Potential GDP growth (%) (=2 in Table 1.a)</b>		2.9	3.1
<b>contributions:</b>			
<b>- labour</b>		0.2	0.3
<b>- capital</b>		1.0	1.0
<b>- total factor productivity</b>		1.6	1.8
<b>11. Output gap (% of potential GDP)</b>		-0.2	-0.4
<b>12. Cyclical budgetary component (% of GDP)</b>		-0.1	-0.1
<b>13. Cyclically-adjusted balance (1 - 12) (% of GDP)</b>		-1.4	-0.9
<b>14. Cyclically-adjusted primary balance (13 + 6) (% of GDP)</b>		-0.1	0.3
<b>15. Structural balance (13 - 8) (% of GDP)</b>		-1.4	-0.9

Table 2.b: General government debt developments

	ESA Code	2015	2016
		% of GDP	
<b>1. Gross debt</b>		36.3	39.9
<b>2. Change in gross debt ratio</b>		-3.8	3.6
<b>Contributions to change in gross debt</b>			
<b>3. Primary balance</b>		-0.2	0.2
<b>4. Interest expenditure</b>	EDP D.41	1.2	1.2
<b>5. Stock-flow adjustment, i.e.</b>		-5.2	2.6
<b>Implicit interest rate on debt</b>		3.2	3.4
<b>Other relevant variables</b>			
<b>6. Liquid financial assets</b>			
<b>7. Net financial debt (7=1-6)</b>			
<b>8. Debt amortization (existing bonds) since the end of the previous year</b>		0.7	1.0
<b>9. Percentage of debt denominated in foreign currency</b>		29.4	25.9
<b>10. Average maturity</b>		5.06 years	
<i>For information - in calculations used GDP data:</i>			
<b>Nominal GDP. mln euro</b>		24841.6	26126.5

Table 2.c: Contingent liabilities

% of GDP	2015	2016
<b>Public guarantees</b>	0.87	0.94

**Table 3: General government expenditure and revenue projections at unchanged policies broken down by main components**

	ESA Code	2015	2016
		% GDP	
<b>1. Total revenue at unchanged policies</b>	TR	34.8	33.3
<b>of which</b>			
<b>1.1. Taxes on production and imports</b>	D.2	12.4	12.3
<b>1.2. Current taxes on income, wealth, etc.</b>	D.5	7.6	7.3
<b>1.3. Capital taxes</b>	D.91	0.0	0.0
<b>1.4. Social contributions</b>	D.61	8.3	8.1
<b>1.5. Property income</b>	D.4	0.7	0.6
<b>1.6. Other</b>		5.8	5.0
<b>p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)</b>		28.2	27.6
<b>2. Total expenditure at unchanged policies</b>	TE	36.2	34.6
<b>of which</b>			
<b>2.1. Compensation of employees</b>	D.1	9.6	9.3
<b>2.2. Intermediate consumption</b>	P.2	6.4	6.0
<b>2.3. Social payments</b>	D.62 D.632	11.4	11.0
<b>of which Unemployment benefits</b>		0.4	0.4
<b>2.4. Interest expenditure</b>	D.41	1.2	1.2
<b>2.5. Subsidies</b>	D.3	0.6	0.6
<b>2.6. Gross fixed capital formation</b>	P.51	4.2	3.5
<b>2.7. Capital transfers</b>	D.9	0.0	0.1
<b>2.8. Other</b>		2.7	3.0

**Table 4.a: General government expenditure and revenue targets, broken down by main components**

	<b>ESA Code</b>	<b>2015</b>	<b>2016</b>
		% GDP	
<b>1. Total revenue target</b>	TR	34.8	34.3
<b>Of which</b>			
<b>1.1. Taxes on production and imports</b>	D.2	12.4	12.6
<b>1.2. Current taxes on income, wealth, etc.</b>	D.5	7.6	7.9
<b>1.3. Capital taxes</b>	D.91	0.0	0.0
<b>1.4. Social contributions</b>	D.61	8.3	8.2
<b>1.5. Property income</b>	D.4	0.7	0.7
<b>1.6. Other</b>		5.8	4.8
<b>p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)</b>		28.2	28.6
<b>2. Total expenditure target</b>	TE3	36.2	35.3
<b>Of which</b>			
<b>2.1. Compensation of employees</b>	D.1	9.6	9.6
<b>2.2. Intermediate consumption</b>	P.2	6.4	6.2
<b>2.3. Social payments</b>	D.62 D.632	11.4	11.0
<b>of which Unemployment benefits</b>		0.4	0.4
<b>2.4. Interest expenditure (= Table 2.a.9.)</b>	D.41	1.2	1.2
<b>2.5. Subsidies</b>	D.3	0.6	0.6
<b>2.6. Gross fixed capital formation</b>	P.51	4.2	3.6
<b>2.7. Capital transfers</b>	D.9	0.0	0.1
<b>2.8. Other</b>		2.7	3.0

**Table 4.b: Amounts to be excluded from the expenditure benchmark**

	ESA Code	2014	2014	2015	2016
		mln. euro	% GDP		
<b>1. Expenditure on EU programmes fully matched by EU funds revenue</b>		1214.3	5.0	4.6	3.9
<b>2. Cyclical unemployment benefit expenditure</b>					
<b>3. Effect of discretionary revenue measures</b>		0.0	0.0	0.2	0.5
<b>4. Revenue increases mandated by law</b>					

**Table 4.c General government expenditure by function****4.c.i) General government expenditure on education, healthcare and employment**

	2015		2016	
	% GDP	% general government expenditure	% GDP	% general government expenditure
<b>Education</b>	5.6	15.7	5.4	15.5
<b>Health</b>	3.6	9.9	3.4	9.8
<b>Employment</b>	0.1	0.4	0.2	0.4

**4.c.ii) Classification of the functions of the Government**

	COFOG Code	2015	2016
		% of GDP	
<b>1. General public services</b>	1	4.7	4.5
<b>2. Defense</b>	2	1.0	1.4
<b>3. Public order and safety</b>	3	1.9	1.8
<b>4. Economic affairs</b>	4	4.7	4.5
<b>5. Environmental protection</b>	5	0.7	0.6
<b>6. Housing and community amenities</b>	6	1.2	1.1
<b>7. Health</b>	7	3.6	3.4
<b>8. Recreation, culture and religion</b>	8	1.5	1.4
<b>9. Education</b>	9	5.6	5.4
<b>10. Social protection</b>	10	11.4	11.0
<b>11. Total Expenditure (= item 2 in Table 2.c.i)</b>	TE	36.2	35.3

State draft budget 2016 is drawn up in accordance with the following basic principles:

1. Improvement in the state internal and external defense capabilities. Taking into account still fragile security situation in the region, the government as an absolute necessity considers to increase national defense capabilities by rapidly raising funding for the defense sector. It is important to note that additional increase in expenditure was provided within available fiscal space, ensuring compliance with fiscal rules.
2. Limited government support to other priority sectors. This year elaboration of budget started with the need to eliminate a negative fiscal space. Government decisions by increasing revenue and reducing expenditure thus eliminating the negative fiscal space and finding funding for defense and internal security, gave an opportunity to provide additional funding for other sectors only of very limited scope. Therefore, in this draft medium-term budgetary framework except defense and internal security only two more additional priorities were set – health and education.
3. Increasing the tax chargeability so as to move towards the ratio of tax revenue to GDP – 1/3. Latvia traditionally has been a country with relatively low tax burden, which is one of the lowest in the European Union, however current government decisions, which foresees to revise several tax policy aspects, ensures that in further years tax revenue with respect to GDP will stabilise and in the medium-term will be with upward trend.
4. Reduction in population income inequality. To reduce social and income inequality from 2016 it is foreseen to raise minimum wage from 360 to 370 euro, to raise non-taxable minimum from 75 to 85 euro and to start introducing process of differential non-taxable minimum. Current government policy also foresees to continue providing support for citizens by compensating impact of mandatory procurement component in the final electricity tariff, respectively, ensuring horizontal support as well as support for vulnerable population groups.

**Table 5: Description of discretionary measures included in the draft budget****Table 5.a.i) Discretionary revenue measures taken by General Government<sup>2</sup>**

List of measures	Detailed description	Type of tax	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
						2016	2017	2018
						% GDP		
Shifting of the payment procedure changes of vehicle operation tax to 2017	Shifting of the payment procedure changes of vehicle operation tax to 2017	Vehicle operation tax	D.29, D.5	Accrual	Approved by government	0.13	-0.25	0.12
Introduction of the solidarity tax	Solidarity tax application to the sum, which exceeds the social security contribution (SSC) maximum	Solidarity tax	D.5	Accrual	Approved by government	0.17	0.00	0.00
		PIT	D.5	Accrual	Approved by government	-0.01	0.00	0.00
Increase of the excise duty on oil products	Increase of the excise duty on unleaded petrol from 411,21 euros to 436,0 euros per 1000 litres, on diesel fuel, kerosene and fuel oil, the colorimetric index of which is less than 2.0 and kinematic viscosity at 50°C is less than 25 mm <sup>2</sup> /s, from 332,95 euros to 341,0 euros per 1000 litres and on petroleum gases and other gaseous hydrocarbons from 161,0 euros to 206,0 euros per 1000 kilograms as of 1 <sup>st</sup> January, 2016	Excise duty	D.2	Accrual	Approved by government	0.04	0.00	0.00
		VAT	D.2	Accrual	Approved by government	0.01	0.00	0.00
Increase of the excise duty on alcoholic beverages and beer	Increase of the excise duty on alcoholic beverages and beer as of 1st April in years 2016, 2017 and 2018.	Excise duty	D.2	Accrual	Approved by government	0.01	0.02	0.02
		VAT	D.2	Accrual	Approved by government	0.00	0.00	0.00

<sup>2</sup> Supported decisions by government (increase of the minimum wage and the non-taxable minimum of € 10 per month in 2016, as well as introduction of the differentiated non-taxable minimum and the solidarity tax from 2016) will reduce income inequality, because tax burden of low-wage earners fall, while tax burden of the employees with higher income increase. For instance, after the MoF calculations, employee (without dependents) who receive 500 euros per month, the tax burden (personal income tax, employer's and employee's social security contribution amount to gross salary and the amount of employer's social security contribution) will decline from 41.4% in 2015 to 38.5% in 2021. By contrast, the employee (without dependents) who receives 5000 euros a month, the tax burden will increase from 40.6% in 2015 to 44.2% in 2021.

Application of the value added tax to the administration of residential premises	Application of the value added tax to the administration of residential premises as of 1st July, 2016 (according to the EC infringement procedure)	VAT	D.2	Accrual	Approved by government	0.04	0.04	0.00
Introduction of the minimal mandatory monthly SSC payment for employees and employers	As of 2017 the minimal mandatory monthly SSC payment will be introduced for employees and employers	SSC	D.61	Accrual	Approved by government	0.00	0.21	0.00
		PIT	D.5	Accrual	Approved by government	0.00	0.03	0.00
		CIT	D.5	Accrual	Approved by government	0.00	0.00	0.00
Application of the value added tax to supply of cultural services	Application of the value added tax to supply of cultural services as of 1 <sup>st</sup> January, 2016	VAT	D.2	Accrual	Approved by government	0.01	0.00	0.00
Abolition of the PIT allowance for dependents - full aged persons and persons able to work (maintaining the allowance for persons aged 24 years and less and for socially sensitive groups)	Abolition of the PIT allowance for dependents - full aged persons and persons able to work (maintaining the allowance for persons aged 24 years and less and for socially sensitive groups)	PIT	D.5	Accrual	Approved by government	0.10	0.00	0.00
Increase of the monthly non - taxable minimum	Increase of the monthly non - taxable minimum from 75 euros to 85 euros	PIT	D.5	Accrual	Approved by government	-0.07	0.00	0.00
Increase of the minimal monthly wage from 360 to 370 euros	Increase of the minimal monthly wage from 360 to 370 euros	PIT	D.5	Accrual	Approved by government	0.01	0.00	0.00
		SSC	D.61	Accrual	Approved by government	0.01	0.00	0.00
		VAT	D.2	Accrual	Approved by government	0.00	0.00	0.00
Introduction of the differentiated non - taxable minimum	Introduction of the differential non - taxable minimum	PIT	D.5	Accrual	Approved by government	0.00	0.02	0.02
Improvement in information exchange between financial institutions and the State Revenue Service	Improvement in information exchange between financial institutions and the State Revenue Service	PIT	D.5	Accrual	Approved by government	0.00	0.00	0.00
		VAT	D.2	Accrual	Approved by government	0.01	0.00	0.00
		CIT	D.5	Accrual	Approved by government	0.00	0.00	0.00
Improvement of the technical requirements for cash registers, hybrid cash registers, cash systems and specialised appliances and equipment	Improvement of the technical requirements for cash registers, hybrid cash registers, cash systems and specialised appliances and equipment	VAT	D.2	Accrual	Approved by government	0.00	0.07	0.00
		CIT	D.5	Accrual	Approved by government	0.00	0.00	0.00

Increase of the tax on gambling	Increase of the tax on gambling as of 1 <sup>st</sup> January, 2016 by increasing the tax rate on slot gaming machines from 3 141,70 euros to 3 300 euros per each machine and tax rate on gaming tables (roulette, cards, dice) from 17 279,36 euros to 18 000 euros per each gaming table	Tax on lotteries and gambling	D.29	Accrual	Approved by government	0.01	0.00	0.00
Limitation of the special value increment of the rural land	From 2016 till 2020 the special value increment of the rural land shall be limited and shall not exceed 20 percent from the estimated special value of the rural land unit in the previous year (for the purposes of calculating the real estate tax)	Real estate tax	D.29	Accrual	Approved by government	-0.01	0.00	0.00
Increase of the base of the financial stability fee according to the Deposit Guarantee Law	Increase of the base of the financial stability fee according to the Deposit Guarantee Law	Financial Stability Fee	D.2	Accrual	Approved by government	0.01	0.00	0.00
Increase of the minimum amount of dividends on state capital from 70% to 90% in 2016, from 27% to 75% in 2017 and from 27% to 70% in 2018.	Increase of the minimum amount of dividends on state capital from 70% to 90% in 2016, from 27% to 75% in 2017 and from 27% to 70% in 2018.	Payments for the use of state capital	D.4	Accrual	Approved by government	0.10	0.22	0.18
Maintenance of the PIT rate at the level of 2015	Maintenance of the PIT rate at the level of 2015 in the amount of 23%	PIT	D.5	Accrual	Approved by government	0.23	0.00	0.00
Abolishment of the micro-enterprise tax rate changes	Abolishment of the micro-enterprise tax rate changes (before it was planned to raise the rate from 11% to 13% in 2016 and from 13% to 15% in 2017 for enterprises whose turnover is between 7000 and 100 000 euros)	SSC	D.61	Accrual	Approved by government	-0.02	-0.02	0.00
Other measures	Other measures			Accrual	Approved by government	0.01	0.00	0.00
<b>Total</b>						<b>0.80</b>	<b>0.34</b>	<b>0.34</b>

**Table 5.a.ii) Discretionary expenditure measures taken by General Government**

List of measures	Detailed description	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
					2016	2017	2018
					% GDP		
Increase in the minimum monthly wage up to 370 euros from 1 January 2016		D.1	Cash flow	Approved by government	0.01	0.00	0.00
Other measures (reallocation of revenue (including implementation of EU funds) from paid services and other own revenue increase, etc.)			Cash flow	Approved by government	0.09	0.40	0.12
The Cabinet decisions (including reduction of expenses by 3%)			Cash flow	Approved by government	-0.16	0.51	0.10
Building fighting capacity of the National Armed Forces		P.2, D.1	Cash flow	Approved by government	0.20	0.15	0.16
Development of the Young Guard Movement		P.2, D.1	Cash flow	Approved by government	0.01	0.01	0.00
Ensuring remuneration to officials with special service ranks of the Ministry of Interior system		D.1	Cash flow	Approved by government	0.10	0.00	0.00
Providing necessary firearms to ensure functions of the Ministry of Interior subordinated institutions		P.2	Cash flow	Approved by government	0.01	0.00	0.00
Arrangement and maintenance of the state border of the Republic of Latvia and settlements of the land ownership issues		P.2	Cash flow	Approved by government	0.01	0.00	0.00
National security-building measures		P.2	Cash flow	Approved by government	0.01	0.00	0.00
Compensation of regional postal deliveries		D.3	Cash flow	Approved by government	0.01	0.00	0.00
Grant to cover losses of public transport service providers		D.3	Cash flow	Approved by government	0.01	0.00	0.00
Development and modernization of technical equipment, as well as reducing the row after technical equipment		P.2	Cash flow	Approved by government	0.01	0.00	0.00
Ensure additional remuneration to officials with special service ranks of the Prison Administration		D.1	Cash flow	Approved by government	0.01	0.00	0.00
Ensure implementation of a set of liquidation measures in the Salaspils nuclear reactor		P.2	Cash flow	Approved by government	0.00	0.01	0.00
Ensure payments for reimbursable drugs for hepatitis-C and HIV/AIDS patients		D.3	Cash flow	Approved by government	0.02	0.00	0.00
Ensure repayments of state-guaranteed loans for hospitals		D.99	Cash flow	Approved by government	0.03	0.00	0.00
Other measures			Cash flow	Approved by government	0.03	0.00	-0.01
				<b>Total</b>	<b>0.39</b>	<b>1.09</b>	<b>0.38</b>

**Table 5.b.i): Discretionary revenue measures taken by Central Government**

List of measures	Detailed description	Type of tax	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
						2016	2017	2018
						% GDP		
Shifting of the payment procedure changes of vehicle operation tax to 2017	Shifting of the payment procedure changes of vehicle operation tax to 2017	Vehicle operation tax	D.29, D.5	Accrual	Approved by government	0.00	-0.13	0.12
Introduction of the solidarity tax	Solidarity tax application to the sum, which exceeds the SSC maximum	Solidarity tax	D.5	Accrual	Approved by government	0.17	0.00	0.00
		PIT	D.5	Accrual	Approved by government	0.00	0.00	0.00
Increase of the excise duty on oil products	Increase of the excise duty on unleaded petrol from 411,21 euros to 436,0 euros per 1000 litres, on diesel fuel, kerosene and fuel oil, the colorimetric index of which is less than 2.0 and kinematic viscosity at 50°C is less than 25 mm <sup>2</sup> /s, from 332,95 euros to 341,0 euros per 1000 litres and on petroleum gases and other gaseous hydrocarbons from 161,0 euros to 206,0 euros per 1000 kilograms as of 1 <sup>st</sup> January, 2016	Excise duty	D.2	Accrual	Approved by government	0.04	0.00	0.00
		VAT	D.2	Accrual	Approved by government	0.01	0.00	0.00
Increase of the excise duty on alcoholic beverages and beer	Increase of the excise duty on alcoholic beverages and beer as of 1st April in years 2016, 2017 and 2018.	Excise duty	D.2	Accrual	Approved by government	0.01	0.02	0.02
		VAT	D.2	Accrual	Approved by government	0.00	0.00	0.00
Application of value added tax to the administration of residential premises	Application of value added tax to the administration of residential premises as of 1st July, 2016 (according to the EC infringement procedure)	VAT	D.2	Accrual	Approved by government	0.04	0.04	0.00
Introduction of the minimal mandatory monthly SSC payment for employees and employers	As of 2017 the minimal mandatory monthly SSC payment will be introduced for employees and employers	SSC	D.61	Accrual	Approved by government	0.00	0.21	0.00
		PIT	D.5	Accrual	Approved by government	0.00	0.01	0.00
		CIT	D.5	Accrual	Approved by government	0.00	0.00	0.00
Application of the value added tax to supply of cultural services	Application of the value added tax to supply of cultural services as of 1 <sup>st</sup> January, 2016	VAT	D.2	Accrual	Approved by government	0.01	0.00	0.00
Application of the value added tax to supply of cultural services	Application of the value added tax to supply of cultural services as of 1 <sup>st</sup> January, 2016	PIT	D.5	Accrual	Approved by government	0.02	0.00	0.00
Abolition of the PIT allowance for dependents - full aged persons and persons able to work (maintaining	Abolition of the PIT allowance for dependents - full aged persons and persons able to work (maintaining	PIT	D.5	Accrual	Approved by government	-0.01	0.00	0.00

the allowance for persons aged 24 years and less and for socially sensitive groups)	the allowance for persons aged 24 years and less and for socially sensitive groups)							
Increase of the monthly non - taxable minimum	Increase of the monthly non - taxable minimum from 75 euros to 85 euros	PIT	D.5	Accrual	Approved by government	0.00	0.00	0.00
		SSC	D.61	Accrual	Approved by government	0.01	0.00	0.00
		VAT	D.2	Accrual	Approved by government	0.00	0.00	0.00
Improvement in information exchange between financial institutions and the State Revenue Service	Improvement in information exchange between financial institutions and the State Revenue Service	PIT	D.5	Accrual	Approved by government	0.00	0.00	0.00
		VAT	D.2	Accrual	Approved by government	0.01	0.00	0.00
		CIT	D.5	Accrual	Approved by government	0.00	0.00	0.00
Improvement of the technical requirements for cash registers, hybrid cash registers, cash systems and specialised appliances and equipment	Improvement of the technical requirements for cash registers, hybrid cash registers, cash systems and specialised appliances and equipment	VAT	D.2	Accrual	Approved by government	0.00	0.07	0.00
		CIT	D.5	Accrual	Approved by government	0.00	0.00	0.00
Increase of the base of the financial stability fee according to the Deposit Guarantee Law	Increase of the base of the financial stability fee according to the Deposit Guarantee Law	Financial Stability Fee	D.2	Accrual	Approved by government	0.01	0.00	0.00
Increase of the minimum amount of dividends on state capital from 70% to 90% in 2016, from 27% to 75% in 2017 and from 27% to 70% in 2018.	Increase of the minimum amount of dividends on state capital from 70% to 90% in 2016, from 27% to 75% in 2017 and from 27% to 70% in 2018.	Payments for the use of state capital	D.4	Accrual	Approved by government	0.10	0.22	0.18
Maintenance of the PIT rate at the level of 2015	Maintenance of the PIT rate at the level of 2015 in the amount of 23%	PIT	D.5	Accrual	Approved by government	0.05	0.00	0.00
Other measures	Other measures					0.01	0.01	0.01
<b>Total</b>						<b>0.50</b>	<b>0.44</b>	<b>0.33</b>

**Table 5.b.ii): Discretionary expenditure measures taken by Central Government**

List of measures	Detailed description	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
					2016	2017	2018
					% GDP		
Increase in the minimum monthly wage up to 370 euros from 1 January 2016		D.1	Cash flow	Approved by government	0.01	0.00	0.00
Other measures (reallocation of revenue (including implementation of EU funds) from paid services and other own revenue increase, etc.)			Cash flow	Approved by government	0.09	0.40	0.12
The Cabinet decisions (including reduction of expenses by 3%)			Cash flow	Approved by government	-0.16	0.51	0.10
Building fighting capacity of the National Armed Forces		P.2, D.1	Cash flow	Approved by government	0.20	0.15	0.16
Development of the Young Guard Movement		P.2, D.1	Cash flow	Approved by government	0.01	0.01	0.00
Ensuring remuneration to officials with special service ranks of the Ministry of Interior system		D.1	Cash flow	Approved by government	0.10	0.00	0.00
Providing necessary firearms to ensure functions of the Ministry of Interior subordinated institutions		P.2	Cash flow	Approved by government	0.01	0.00	0.00
Arrangement and maintenance of the state border of the Republic of Latvia and settlements of the land ownership issues		P.2	Cash flow	Approved by government	0.01	0.00	0.00
National security-building measures		P.2	Cash flow	Approved by government	0.01	0.00	0.00
Compensation of regional postal deliveries		D.3	Cash flow	Approved by government	0.01	0.00	0.00
Grant to cover losses of public transport service providers		D.3	Cash flow	Approved by government	0.01	0.00	0.00
Development and modernization of technical equipment, as well as reducing the row after technical equipment		P.2	Cash flow	Approved by government	0.01	0.00	0.00
Ensure additional remuneration to officials with special service ranks of the Prison Administration		D.1	Cash flow	Approved by government	0.01	0.00	0.00
Ensure implementation of a set of liquidation measures in the Salaspils nuclear reactor		P.2	Cash flow	Approved by government	0.00	0.01	0.00
Ensure payments for reimbursable drugs for hepatitis-C and HIV/AIDS patients		D.3	Cash flow	Approved by government	0.02	0.00	0.00
Ensure repayments of state-guaranteed loans for hospitals		D.99	Cash flow	Approved by government	0.03	0.00	0.00
Other measures			Cash flow	Approved by government	0.03	0.00	-0.01
<b>Total</b>					<b>0.39</b>	<b>1.09</b>	<b>0.38</b>

**Table 5.c: Discretionary measures taken by sub-sectors of the General Government**

List of measures	Detailed description	Type of tax	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
						2016	2017	2018
						% GDP		
Introduction of the solidarity tax	Solidarity tax application to the sum, which exceeds the SSC maximum	PIT	D.5	Accrual	Approved by government	-0.01	0.00	0.00
Introduction of the minimal mandatory monthly SSC payment for employees and employers	As of 2017 the minimal mandatory monthly SSC payment will be introduced for employees and employers	PIT	D.5	Accrual	Approved by government	0.00	0.02	0.00
Abolition of the PIT allowance for dependents - full aged persons and persons able to work (maintaining the allowance for persons aged 24 years and less and for socially sensitive groups)	Abolition of the PIT allowance for dependents - full aged persons and persons able to work (maintaining the allowance for persons aged 24 years and less and for socially sensitive groups)	PIT	D.5	Accrual	Approved by government	0.08	0.00	0.00
Increase of the monthly non - taxable minimum	Increase of the monthly non - taxable minimum from 75 euros to 85 euros	PIT	D.5	Accrual	Approved by government	-0.05	0.00	0.00
Increase of the minimal monthly wage from 360 to 370 euros	Increase of the minimal monthly wage from 360 to 370 euros	PIT	D.5	Accrual	Approved by government	0.01	0.00	0.00
Introduction of the differentiated non -taxable minimum	Introduction of the differential non – taxable minimum	PIT	D.5	Accrual	Approved by government	0.00	0.02	0.02
Limitation of the special value increment of the rural land	From 2016 till 2020 the special value increment of the rural land shall be limited and shall not exceed 20 percent from the estimated special value of the rural land unit in the previous year (for the purposes of calculating the real estate tax)	Real estate tax	D.29	Accrual	Approved by government	-0.01	0.00	0.00
Maintenance of the PIT rate at the level of 2015	Maintenance of the PIT rate at the level of 2015 in the amount of 23%	PIT	D.5	Accrual	Approved by government	0.19	0.00	0.00
Other measures	Other measures			Accrual	Approved by government	0.00	0.00	0.00
<b>Total</b>						<b>0.20</b>	<b>0.04</b>	<b>0.02</b>

Table 6.a: Country specific recommendations

CSR number	List of measures	Description of direct relevance
1	Ensure that the deviation from the medium-term objective in 2015 and 2016 is limited to the allowance linked to the systemic pension reform.	<p>The general government deficit for 2015 is projected to be at 1.4% of GDP, which is by 0.4% of the GDP above the projected value according to the Law "On the Medium-Term Budget Framework for 2015, 2016 and 2017". The higher deficit is primarily driven by significantly lower tax revenue as slower economic growth is projected, as well as higher expenditure for social benefits and higher local government expenditure for remuneration and capital investments.</p> <p>The general government structural deficit for 2015 is forecasted to be at 1.4% of GDP, which is 0.4% of the GDP above the projected value according to the Law "On the Medium-Term Budget Framework for 2015, 2016 and 2017". The change by 0.1% consists of the reduced cyclical components, that reduced from 0.0% of GDP to -0.1% of GDP by comparing to the Law "On the Medium-Term Budget Framework for 2015, 2016 and 2017".</p> <p>The permissible structural deficit target for 2016 is determined using a multi-step approach, which is described in detail in the Latvia's Stability Programme for 2015 - 2018. Regarding MTO the same approach is retained as it was approached in the Latvia's Stability Programme, defining two different MTOs: national MTO, which remains -0.5% of GDP, and MTO in the meaning of the SGP, which is set as -1.0% of GDP. The aim of this approach was to create a safety <i>buffer</i> to ensure that the stated objective of the structural balance is in line not only with the national approach, but also when the output gap is recalculated according to the EC standardized methodology, ensuring compliance with the SGP provisions. At first, MTO is taken as a point of reference (two scenarios are developed – one with the national MTO, and another with the MTO in the meaning of the SGP) and then deviations are being applied, which result from the increase in contributions to the second pension pillar according to the European Parliament and Council Regulation (EU) No. 1175/2011. After performing calculation it was found that stricter rules were determined by the SGP and according to this approach objective of the structural balance for 2016 was set at -0.9% of GDP.</p>
2	Improve vocational education and training, speed up the curricula reform and increase the offer of apprenticeships.	<p>Amendments in the Vocational Education Law were developed. On the April 23, 2015, the Amendments were adopted in Saeima and they came into force on May 15, 2015. Amendments in Vocational Education Law contains the framework of compatibility of professional qualification levels with levels of Latvian Qualification Framework. The Law specifies the foundation of Convents of vocational education schools, the areas of responsibility of Convents, specifies the foundation of Sectoral Expert Councils (SEC) and their areas of responsibility.</p> <p>On 18 June 2015, the Saeima passed the Law "Amendments to the Education Law", which came into force on 16 July 2015 (hereinafter - EL amendments). EL amendments define Latvian Qualifications Framework (hereinafter - LQF) and its levels, stating that LQF levels are tied to the European Qualifications Framework, as well as emphasizing learning outcomes and their succession.</p> <p>Until 30 November 2015, the procedures for setting up and operating a SEC as well as implementation operations for determining the work based learning will be developed and approved and the Cabinet of Ministers.</p> <p>Institutional network arrangement of the vocational education is in its final stage. Since 2010, the number of the vocational education institutions under the MoES has indicatively decreased by 42.9%. By September 1, 2015 9 vocational schools have been eliminated, some of them have been merged with Vocational competence centers, some of them transferred education programmes to the nearest vocational schools.</p> <p>At the same time there are made investments in the infrastructure of vocational education institutions for further modernization within the operational program "Growth and Employment" program of EU funds 2014 - 2020 programming period. So far, the government examined the informative report - an initial assessment of specific objective (SO) 8.1.3. "To increase the number of modernized vocational education institutions" implementation. Right now we are working on extended original impact assessments, project selection criteria, the application of the methodology and the Cabinet of Ministers draft regulations harmonization.</p>

		<p>Work has begun on SO 8.5.1. "To increase the number of qualified VET students through participation in work-based learning and practise" document development, project implementation is planned to start in 2016 / 2017th school year.</p> <p>The methodical material "Recommendations for self-assessment in vocational and general educational institutions" was created, which also describes the process how to implement the European Quality Assurance in Vocational Education and Training (EQAVET) indicators, which are common in European countries. Some of the indicators are: completion rate in VET programmes, prevalence of vulnerable groups etc.</p> <p>SO 8.5.2. "To ensure conformity of vocational education to European qualifications framework" initial assessment and project selection criteria have been adopted by the EU Funds Monitoring Sub-Committee meeting on 28 May 2015, Cabinet Regulations project coordination, is currently in progress, project implementation is planned to launch in 2016.</p>
	<p>Ensure that the new financing model of the higher education system rewards quality.</p>	<p>In 2015 introduction of performance based financing elements has been one of the priorities of the Ministry of Education and Science (MoES). It has prepared the Conceptual Note on the Implementation of a New Higher Education Funding Model, which provides an overview of the World Bank project and its results, describes the design of the new higher education funding model and the implementation solutions depending on available funds and their likely impact on the competitiveness and accessibility of Latvian higher education system. The new financing model of higher education has been developed. According to the World Bank proposal Latvian higher education system would benefit from a three-pillar funding model. In such a model, basic funding (1st pillar) is combined with a performance-oriented component, using a formula with performance indicators (2nd pillar), and an innovation-oriented component allocated via performance agreements (3rd pillar).</p> <p>In 2015, MoES reviewed the financing procedure of higher education institutions and colleges from the national budget. On 28 July 2015, the Amendments to the regulation of the Cabinet of Ministers No. 994, "Procedures for the Financing of Institutions of Higher Education and Colleges from the Funds of the State Budget" were supported, determining the criteria for performance-based funding policy, which marked the second pillar implementation phase of the finance model. In 2015 was launched the third pillar of the EU's financial planning Structural Funds Operational Programme "Growth and Employment", determining specific support activities within the framework of the target. Meanwhile further amendments to the Regulations No. 994 of the Cabinet of Ministers are prepared, determining the base cost of the study place and study cost factors in the thematic fields of education.</p> <p>On 14 July 2015, the Cabinet of Ministers approved new procedure for the study program licensing and study direction accreditation of high schools and colleges, which include:</p> <ul style="list-style-type: none"> <li>-Cabinet Regulation No. 407 "Accreditation Regulations for Colleges and Study Directions"</li> <li>-Cabinet Regulation No. 408 "Study Program Licensing Regulations"</li> <li>-Cabinet Regulation No. 409 "Price List of the Foundation "Academic Information Centre"</li> </ul> <p>New study program licensing and accreditation procedure for high schools, colleges and study directions will contribute to improving the quality of study programs. Licensing and accreditation will be conducted by independent organization - <i>Academic Information Centre</i> (hereinafter - AIC) It is planned to register AIC into the <i>European Higher Education Quality Assurance Register (The European Quality Assurance Register for Higher Education - EQAR)</i> by 2018. On August 18, 2015 the Cabinet of Ministers adopted regulations No. 479 "Operational Programme" Growth and Employment" specific objective 8.2.4. „to provide support for implementation of requirements of EQAR agency ", which will contribute to the capacity development of the AIC.</p>
<p>Better target research financing and incentivise private investment in innovation on the basis on</p>		<p>Implementation of science structural reforms was continued according to the Informative Report of the Cabinet of Ministers of 19 August 2014, "On the Implementation of the Reforms of Science in Latvia until 1 July 2015". Latvian science structural reforms until 1 July, 2015, includes four main strands: 1) reforms initiated by the scientific institutions; 2) the regulatory framework and improvement of the governance of science; 3) support for the reforms initiated by research institutions, and 4) research activity monitoring system.</p>

	of the Smart Specialisation Framework.	<p>The information reports project "Smart specialization strategies monitoring system" is submitted to the Cabinet of Ministers on 15 September 2015, which is designed to provide public investment in science, technology and innovation in the development of impact monitoring and comply with the conditions of the investment program to start implementation of investments in research and development of the EU Structural Funds 2014-2020. Informative report on the scientific activities of the territorial mapping was announced in meeting of State Secretaries on 16 April 2015.</p>
3	Take concrete steps to reform social assistance, ensuring adequacy of benefits, and take measures to increase employability.	<p>On June 11, 2015 the amendments in the Law „On social security” defining the minimum income level have been announced at the State Secretary meeting.</p> <p>In 2015 an implementation and improvement of the active labour market policy measures (further – the ALMP measures) is continued. Amendments to the Regulation of the Cabinet of Ministers No.75 „Regulations Regarding the Procedures for Organising and Financing of Active Employment Measures and Preventative Measures for Unemployment Reduction and Principles for Selection of Implementers of Measures” introduced on June has improved a number of the ALMP measures implementation conditions:</p> <ul style="list-style-type: none"> <li>• financial support within regional mobility measure is being expanded providing it to the unemployed who participate in subsidized employment measures, training at the employer and Vocational training and non-formal training;</li> <li>• the choice of educational institutions providing training of unemployed and job seekers is not intended for the public procurement procedure and the educational authorities choose themselves unemployed or job seekers, thus facilitating access to training, while setting a fixed value of training vouchers;</li> <li>• expanding measures for specified groups of persons by introducing a new measure - support person to work with people with mental disorders, which helps to integrate into the workplace (participation in negotiations with employers, support for supervisor specified terms of reference acquisition and execution of communication and contact building with the employer, supervisor and co-workers, psychological and motivational support) and to comply with work rules and job responsibilities, etc.</li> </ul> <p>In September 2015 within the project „Latvia: Developing a Comprehensive Active Ageing Strategy for Longer and Better Working Lives” (hereinafter - the project) the final report of the World Bank's study „The Challenge for Active Aging Longer Working Lives in Latvia” was submitted. The study provides recommendations for the improvements in active ageing situation and for developing an active ageing strategy and activities within EU funded SO 7.3.2. „To prolong workability and employment of older workers” of the Operational programme „Growth and Employment”.</p> <p>At the beginning of October 2015 the Conference on active ageing issues and technical seminar on the World Bank's study will be organised to discuss and analyze the active ageing situation and challenges in Europe, focusing on the employment aspects, as well as get acquainted with the experience of other countries in relation to adapting to changing labour market conditions and an effective use of current labour potential, and to examine in depth the results of the study.</p> <p>At August 27, 2015 the workshop where the OECD study „Investing in young people: Latvia 'results” results has been examined took place. Recommendations of this study are focused on development youth support mechanisms. OECD experts have recommended Latvia to enhance and improve the exchange of information between the school and community for young people at risk in order to further reduce the early school leavers. The experts also calls for improving the link between the receipt of benefits and the participation of young people in programs to create high-quality work-based learning environment in close cooperation between schools and employers. At the same time the OECD recommends strengthening and improving the availability of career counseling in schools to motivate students who want to stop learning, to engage in vocational education programs.</p> <p>OECD experts highly appreciated the Latvian extra-curricular „interest-education” activities/ system and offering it to link with other social, health care and employment services, thus achieving and involving a greater number of youth at-risk. Similarly, the OECD calls for increasing capacity of the State Employment Agency and the municipal social services, especially counselors who work with young people at risk of social exclusion.</p> <p>OECD study preliminary results will be used to develop the new support programs for NEET within the project „Know and do!” administrated by the Agency for International Programs for Youth and implemented in collaboration with all Latvia’s local municipalities. Proposals for the</p>

		<p>improvement of support systems for youth will be examined by the advisory council of Youth Guarantee programme. A study in English is available at the website of the OECD <a href="http://www.oecd.org/countries/latvia/investing-in-youth-latvia-9789264240407-en.htm">http://www.oecd.org/countries/latvia/investing-in-youth-latvia-9789264240407-en.htm</a>.</p> <p>Continuing the reduction of the income inequality, the government has supported the increase of the minimum monthly wage from 360 to 370 euros as of 1<sup>st</sup> January, 2016 and also it is planned to increase the monthly non-taxable minimum from 75 to 85 euros, at the same time introducing the differentiated non-taxable minimum from 2016. Additionally it is planned to introduce the solidarity tax (for wages which exceed 4050 euro per month), which will eliminate the inequalities that the employees with higher income pay less labour taxes as a percentage of gross salary than the employees with lower income.</p> <p>As of 1<sup>st</sup> January, 2016 it is planned to increase the excise duty on oil products: on unleaded petrol, diesel fuel, kerosene, petroleum gases and other gaseous hydrocarbons and fuel oil, the colorimetric index of which is less than 2.0 and kinematic viscosity at 50°C is less than 25 mm<sup>2</sup>/s.</p> <p>As of 1<sup>st</sup> January, 2016 it is also planned to increase the excise duty on smoking tobacco and tobacco leaves and as of 1<sup>st</sup> July, 2016 it is planned to introduce a new tax object: liquids used in electronic cigarettes.</p> <p>According to the amendments in the Law On Excise Duties adopted in June 18, 2015 the excise duty rates for alcoholic beverages and beer were increased as of 1<sup>st</sup> August, 2015 and it is planned to increase them further as of 1<sup>st</sup> April in years 2016, 2017 and 2018.</p> <p>The Ministry of Health continues to work on the measures mentioned in the progress report National Reform Programme of Latvia for the implementation of the "Europe 2020" strategy.</p>
4	<p>Reduce the high tax wedge for low-income earners by shifting tax burden to other sources less detrimental to growth.</p> <p>Take action to improve accessibility, cost-effectiveness and quality of the healthcare system and link hospital financing to performance mechanisms.</p> <p>Improve efficiency of the judicial system, by increasing accountability of all parties (including insolvency administrators), by providing adequate means to fight tax evasion and by strengthening the role of the Judicial Council.</p>	<p>To strengthen and extend the role of the Board of Justice, amendments were prepared to the Law on Judicial Power (submitted to the State Chancellery on 25.08.2015 to be reviewed at a session of the Cabinet of Ministers), providing for a competence of the Board of Justice to appoint and dismiss a chairperson of a district (city) court and regional court; to reallocate a judge to a vacant judge position at a court of higher or lower level; to set procedure for selection of candidates for the position of a judge, apprentice and qualification examinations; to approve training programmes for judges and court employees.</p> <p>On March 9, 2015 the Cabinet of Ministers approved the Action Plan for Consolidation of Human Resources Capacity and Development of Competences of the Staff of Judicial and Law Enforcement Authorities for 2015-2020 (amendments to the Action Plan were approved by the Cabinet of Ministers on 18.08.2015). The tasks provided for in the Action Plan constitute a set of actions to be implemented within the Operational programme "Growth and Employment" to achieve the SO 3.4.1, namely to improve the competence of the staff of courts and law enforcement authorities to promote improvement of business environment. On 27.08.2015 at the meeting of State Secretaries the draft project of the Cabinet of Ministers regulations "Regulations for Implementation of the Operational Programme "Growth and Employment" to Achieve the SO 3.4.1 "To Improve the Competence of the Staff of Courts and Law Enforcement Authorities to Promote Improvement of Business Environment"" was announced, providing therein that the actions will be implemented from the 1st quarter of 2016 to the 4th quarter of 2022 by using the funding from the European Social Fund.</p> <p>The reorganization of the position of insolvency administrators is currently under way to improve the supervision and education system. It is expected that the mechanisms provided for in the reorganization will improve the supervision system for activities performed by administrators; it will also raise the level of liability of administrators and the level of transparency for actions performed by administrators, as well as the prestige of the profession. Currently, there are two draft laws being developed within the reorganization: 1) draft law "Amendments to the Insolvency Law" (draft</p>

		<p>law on the reorganization of the profession of administrators); 2) draft law “Amendments to the Law on Prevention of Conflict of Interest in Activities of Public Officials” regarding which the Ministry of Justice has submitted a proposal to apply restrictions and prohibitions provided for in the law also to insolvency administrators (public officials). Previously it was expected that changes determining official status of insolvency administrators will come into force on July 1, 2015; however, after prolonged discussions at the responsible commission of Saeima, the entry into force of the changes was postponed to January 1, 2016.</p> <p>The Court Administration, in cooperation with the Ministry of Justice, the Council of Latvian Sworn Bailiffs and the Insolvency Administration, has developed an electronic auction website <a href="https://izsoles.ta.gov.lv/">https://izsoles.ta.gov.lv/</a> which, starting with July 1, 2015, includes electronic auctions of sworn bailiffs, but starting with January 1, 2016 the website will also include electronic auctions of insolvency administrators. The switch to electronic auctions is necessary to ease the procedure of auctions and make it more cost-efficient, as well as to avert the current issues with the procedure of auctions which have negative impact on the selling outcome, execution of judgments and interests of insolvency proceedings in general. Furthermore, the electronic environment will increase the numbers of participants of auctions and contribute significantly to achieving the object of auctions, namely to sell the immovable property for the maximum possible price and to make payments to creditors.</p>
	<p>Improve the public service legislation to strengthen the conflict of interest regime and link remuneration to responsibilities.</p>	<p>The Law on Remuneration System for Central and Local Government Institutions currently ensure that the determination of the monthly salary is linked to the responsibility. One of the key factors in the monthly salary determination process is position’s classification and Job family and job level determination according to the Job catalogue - Regulations of Cabinet of Ministers on Job Catalogue (adopted 30 November 2010 Nr.1075). There are some criteria which are taken into account in the position’s classification process: level of the education, professional experience, work and thinking complexity, cooperation nature and scope of cooperation, responsibility for workflow and resources in the organization, as well as responsibility for the impact of resolve on the institution, industry, national or international level.</p>

**Table 6.b: Targets set by the Union’s Strategy for growth and jobs**

<b>National 2020 headline targets</b>	<b>List of measures</b>	<b>Description of direct relevance to address the target</b>
<p><b>National 2020 employment target [73,0%]</b></p>	<ol style="list-style-type: none"> <li>1. Improving training measures for the unemployed;</li> <li>2. Implementing support measures to reduce youth unemployment;</li> <li>3. Efficient return of the long-term unemployed and social assistance clients to the labour market and supporting regional mobility;</li> <li>4. Making the work of the State Employment Agency more efficient;</li> </ol>	<p>Main employment promoting actions are related to improvement of implementation conditions of the active labour market policy measures. During the reporting period Amendments of a Law on Support for Unemployed Persons and Persons Seeking Employment were reviewed at the Parliament 1st reading. These amendments envisage the obligation to national and local government institutions to register information on open competitions for job vacancies within the State Employment Agency’s (SEA) portal of CV and vacancies in order to ensure a more effective state support in case of unemployment and availability to collect comprehensive information on available job vacancies in public sector at the SEA databases. Also, these amendments envisage that the regional mobility support further will be provided to employed, regardless of whether working with an employer in the public or private sector. Currently, support for regional mobility can only receive persons employed by merchants.</p> <p>The Cabinet of Ministers has approved Regulation on inclusion of long-term unemployed into society and employment or training (approved at 11.08.2015, Regulation of Cabinet of Ministers No.468 „Implementation of the SO 9.1.1. „To facilitate inclusion of disadvantaged unemployed people in the labour market” measure „Long-term unemployed activation measures” of the Operational Programme „Growth and Employment”). The total estimated eligible financing to these measures is</p>

	1. Promoting self-employment and entrepreneurship.	40.04 million euro, including the ESF financing in the amount of 34.04 million euro and the state budget financing of 6 million euro. In total, 20 thousand long-term unemployed are expected to be engaged in the new programme during the period from 2015 to the 3rd quarter of 2021.
<b>National 2020 R&amp;D target [1,5% of GDP]</b>	<p>1. Developing potential of scientific activity;</p> <p>2. Developing a long-term cooperation platform for enterprises and scientists;</p> <p>1. Supporting development of innovative enterprises.</p>	<p>Work is continued on measures within the EU Structural Funds programming period 2014-2020 with a view to:</p> <ul style="list-style-type: none"> <li>- Develop a technology transfer system in order to create an environment for research institutions to increase their revenue from the commercialization of publicly-funded research, as well as to facilitate translation of research results into practical businesses (measure “Support for improvement of technology transfer system”);</li> <li>- Support cooperation between business and research sectors for development and commercialization of new products and technologies (measures “Support for development of new products and technologies within the competence centres”, “Innovation vouchers for SMEs”, “Support for new product introduction in production”);</li> <li>- Support training of employees, in order to provide businesses with the appropriate labour and to increase skills of employees (measure “Support for ICT and non-technological training incl. training to facilitate attraction of investors”);</li> <li>- Motivate and encourage society to engage in entrepreneurship and innovation activities (measure “Innovation Motivation Programme”).</li> </ul> <p>It is expected that implementation of these activities would lead to attraction of the public funding (EU Structural Funds) on amount of 193.5 million euros (from which 163.8 million euros are directly for R&amp;D-related activities).</p> <p>Latvian companies since July 1, 2014 can use corporate income tax incentive for the R&amp;D costs which can be written-off in the year when they occurred by applying the value-enhancing factor “3”. Eligible costs: (1) costs of the company’s scientific and scientific technical personnel if related with R&amp;D work in company; (2) costs of the research services, received from research institutions; (3) costs of certification, testing and calibration services if received from accredited certification, testing and calibration institutions.</p> <p>Scientific institutions actions for the implementation of the international evaluation recommendations of research institutions development strategies, legal framework for the institution merging plans, merging and restructuring measures for the implementation, as well as resource management of scientific institutions and output management system development is supported. Project implementation is expected by the end of 2015. To promote the consolidation and concentration of the resource base, starting from 2016, funding will not receive scientific institutions rated "1" and "2" that are not participating in the consolidation process of scientific institutions. Given that the next scientific evaluation is planned in 2017, scientific institutions with low rating are encouraged to look for opportunities to integrate in more advanced institutions, thus contributing to the concentration of resources and the formation of a critical mass of these institutions, or are no longer funded.</p> <p>To ensure the potential development of scientific activity during the 2007 - 2013 period EU Structural Funds human resources for science were attracted. In 2015 the second round of activity was finalised. The total number of projects – 48. During the 2016 it is planned to commence post-doctoral research programme, where funding will be granted to new doctors for work in universities, research institutions and private sector.</p> <p>Support for the nine national research centers (hereinafter - NRC) to develop and concentrate scientific and technological resources is continued. Within the first round of ERDF activity "Development of Research Infrastructure" research infrastructure and laboratory modernization and acquisition of new hardware (2011-2015) is funded, overall modernization of the 27 participating research institutions.</p> <p>In August 2015, a public discussion cycle on further development opportunities of NRC was held with a view to assessing NRC leading and forming institutions and entrepreneurs’ views on the further development of the NRC. Discussions will be</p>

		<p>used in the planning of EU funds programming period 2014 - 2020 financial instruments, as well as for relevant Cabinet of Ministers legislative preparation.</p> <p>In 2015/2016 academic year is planned to start the implementation of post-doctoral research programme under which financing will be granted for new PhDs research and mobility, including the research needs of entrepreneurs, attracting private sector financing. Cabinet Regulation project "Operational Programme "Growth and Employment" is developed and agreed with the SO 1.1.1."To increase research and innovation capacity and the ability to attract external financing of Latvian scientific institutions, investing in human resources and infrastructure" and 1.1.1.2. measure "Implementation Rules for "Post-doctoral research support", criteria for the project evaluation adopted by the EU Funds Monitoring Committee in April 30, 2015.</p> <p>The initial assessment and evaluation criteria also for this target's 1.1.1.1. measure "Practical Research Support" are approved, as well as agreement of the Cabinet Regulations (promulgated 07.23.2015.) is currently in process of agreement.</p> <p>These measures are aimed at the implementation of the post-doctoral research or applied research projects realized in scientific groups in universities and scientific research institutions (including those carried out in companies and foreign research centers) that facilitate the transfer of knowledge in the economy according to strategic priorities set in RIS3.</p>
<b>GHG emission reduction target [12,2 Mt CO<sub>2</sub>]</b>	<p>1.Limiting non-ETS sector emissions;</p> <p>2.Research, innovations, raising public awareness.</p>	<p>In order to ensure implementation of harmonized GHG emission reduction policies "Climate Change action plan 2015 -2020" and "Strategy for moving to a low-carbon development by 2050" currently are being developed. In order to promote public involvement on plan and strategy development and approval process 3 workshops are planned to be organized within European Economic Area Financial Mechanism 2009-2014 programme "National climate policy" predetermined project "Development of the National System for Greenhouse Gas Inventory and Reporting on Policies, Measures and Projection" in 2015.</p> <p>LEPF administers a number of projects' tenders with the aim of promoting the implementation of climate policy and inform the society about current developments in climate policy.</p> <p>By 30 June 2015 implementation of projects within the framework of Climate Change Financial Instrument (CCFI), including the non-ETS sectors (eg., introduction of electric vehicles and their charging infrastructure, installation of renewable energy technology in households), has been completed.</p> <p>From 15 to 18 October 2015 exhibition "Environment and Energy" will take place the to educate the public and exhibition participants on a variety of interdisciplinary environmental and energy related issues of climate change and the reduction potential of greenhouse gas emissions and adaptation to climate change in Latvia, thereby promoting greenhouse gas emission reduction projects and the transition to a low carbon development in Latvia.</p>
<b>Renewable energy target [40,0%]</b>	<p>1. Adjusting the legal basis;</p> <p>2. Ensuring availability of financial resources for the production of renewable energy;</p> <p>1. Promoting the use of biofuels in the transport sector.</p>	<p>By 30 June 2015 within CCFI 2614 projects with a total disbursed financing of 196 million euros CCFI funding have been completed, including 306 projects with the disbursed financing 31 million euros.</p> <p>Development and implementation of Emissions Auctioning Instrument (EKII) has been launched and will continue in 2016, such as a development of a project competition for financial support for energy efficiency measures in national architectural monuments.</p> <p><b>Adjusting the legal basis</b></p> <p>In 2015 it has been continued the evaluation of the existing support mechanism for electricity generation from renewables and high efficient cogeneration and has been made the proposals for future solutions.</p> <p>July 14, 2015 the Cabinet of Ministers adopted the Cabinet Regulations No. 395 "Procedure for Energy-Intensive Manufacturing Companies to Obtain the Right to Reduce Their Participation in the Mandatory Procurement Component Payment", which provides the opportunity for energy-intensive businesses to qualify for the reduced participation in the</p>

mandatory procurement component payments. This support mechanism has been submitted to the EC for compliance check with EU internal market rules.

Given that the Cabinet of Ministers set a moratorium (determined by Cabinet Regulations No 221 “Regulations Regarding Electricity Production and Price Determination upon Production of Electricity in Cogeneration” (from March 10, 2009) and by Cabinet Regulation No. 262 “Regulations Regarding the Production of Electricity Using Renewable Energy Sources and the Procedures for the Determination of the Price” (March 16, 2010)) for the right to qualify for aid to sell electricity within the framework of mandatory procurement or receive a guaranteed payment for the installed capacity and is in force until 1 January 2016. It has been decided to extend the moratorium.

Parallel the Ministry of Economics has prepared the assessment of the progress of subsidized electricity tax (hereinafter - SET) within 2014 and 2015 and made further forecasts of SET included in the conceptual paper “Complex measures for the development of the electricity market”. This paper is approved by Cabinet of Ministers in 31 August 2015. Cabinet of Ministers has taken decision that the mandatory procurement components should be kept at current levels - 26.79 EUR/MWh within next three years. The necessary financial resources to stabilize the mandatory procurement component at the level of 26.79 EUR/MWh will come from SET, VAT and the profits of JSC “Latvenergo”.

#### **Ensuring availability of financial resources for the production of renewable energy**

Each year the total amount of paid aid for the producers that sell electricity within the framework of mandatory procurement or receive a guaranteed payment for installed electric capacity is increasing. The aid above the market price for the 1st half of 2015 was 65% of the paid aid in 2014 exceeding the paid amount for the same period in 2014 by 22%.

*Support for the production of electricity from renewable energy sources in the 1st half of 2015*

	<b>The purchased amount of electricity, GWh</b>	<b>The paid amount for producers, mln. euro</b>	<b>The aid above market price, mln. euro</b>
<b>Mandatory procurement component from RES</b>	417.6	69.50	53.96
<i>Biogas power plants</i>	186.3	33.91	26.89
<i>Biomass power plants</i>	131.10	20.99	16.10
<i>Wind power plants</i>	48.4	5.27	3.55
<i>Hydroelectrical power plants (until 5 MW)</i>	51.7	9.32	7.42
<b>Guaranteed payment for installed electric RES capacity</b>	n/a	2.58	2.58
<b>Total</b>	<b>417.6</b>	<b>72.08</b>	<b>56.54</b>

#### **Promoting the use of biofuels in the transport sector**

2015 it is still valid the mandatory biofuel admixture of 5% and continues to apply reduced excise duty rates on biofuels and biofuel and fossil fuel blends (B100, E85) to facilitate consumer access to biofuel.

#### **Planned activities 2016**

After the receiving of EC decision on the compliance of implemented mandatory procurement component and guaranteed payment for the installed capacity with Union internal market rules Latvia will need to improve the existing legal framework to minimize overcompensation of producers of electricity from renewable energy and efficient cogeneration.

<p><b>National energy efficiency target [0,670 Mtoe]</b></p>	<ol style="list-style-type: none"> <li>1. Improving energy efficiency in households and industrial production</li> <li>2. Improving energy efficiency in public buildings</li> <li>3. Introducing efficient lighting infrastructure in public territories of municipalities;</li> <li>1. Improving energy efficiency in heat energy production.</li> </ol>	<p><b>Towards a national energy efficiency target</b></p> <p>Latvia fulfils its notified trajectory of primary energy savings target until 2020. There has been a reduction of gross inland energy consumption from 4.47 Mtoe in 2008 to 4.31 Mtoe in 2013. This reduction in energy consumption of 0.16 Mtoe is essential for the implementation of energy efficiency measures.</p> <p>Main policies and measures taken by Latvia has introduced the improvement of energy efficiency - in housing insulation, energy efficiency in public and industrial buildings, efficient lighting infrastructure of municipalities in public areas and the efficiency of district heating system. Reduction of energy consumption of products is made by the introduction of the EU minimum requirements for the energy labelling which will also contribute to the reduction of primary energy consumption.</p> <p><b>Improving energy efficiency in households and industrial production</b></p> <p>Ministry of Economics has prepared proposals for the implementation of measure 4.2.1.1 „To promote the increase of energy efficiency in residential buildings” in the operational programme “Growth and Employment” (draft of the Regulation of the Cabinet of Ministers “Regulations on the implementation of Operational Programme „Growth and Employment“ SO 4.2.1 „To promote the increase of energy efficiency in public and residential buildings“ measure of SO 4.2.1.1 „To promote the increase of energy efficiency in residential buildings””, announced in the State Secretaries’ meeting on March 12, 2015). At the moment reconciliation process on conditions is going on between the state institutions and EC. It is planned that programme will start at the end of 2015.</p> <p>At the moment ex-ante assessment is being prepared for SO 4.1.1. “To promote effective use of energy resources, reduction of energy consumption and transfer to RES in manufacturing industry” in the operational programme “Growth and Employment”. After its development proposal for project selection criteria and programme implementation rules will be drafted. It is planned that programme will start at the third quarter, 2016.</p> <p><b>Improving energy efficiency in public buildings</b></p> <p>At the moment initial assessment is being prepared for measure 4.2.1.2 „To promote the increase of energy efficiency in public buildings” in the operational programme “Growth and Employment”. At the same time project selection criteria and programme implementation rules have been drafted. It is planned that programme will start at the first half, 2016.</p> <p><b>Improving energy efficiency in heat energy production</b></p> <p>In September/October 2015 the initial assessment will started for SO 4.3.1. “To promote energy efficiency and use of local RES in district heat supply” in the operational programme “Growth and Employment”. After finishing initial assessment proposal for project selection criteria and programme implementation rules will be drafted in 2016. It is planned that programme will start at the 3<sup>rd</sup> quarter, 2016.</p>
<p><b>National early school leaving target [13,4% (10,0%)]</b></p>	<ol style="list-style-type: none"> <li>1. Ensuring access to primary and secondary education;</li> <li>2. Introducing modern teaching methods.</li> <li>3. Implementing structural reforms in vocational education;</li> <li>1. Strengthening the cooperation with sectoral social partners to improve and develop vocational education;</li> </ol>	<p>The survey on the students’ study delays in vocational education was launched, to aware the situation and to prepare the recommendations for preventing students’ study delays and support for the youth.</p> <p>A survey "Policy Alternatives creation of early school leaving problem" has started. The survey is designed on the basis of quantitative data to develop an alternative to the policy-making by providing a systematic early school leaving problem resolving. After completion the survey (end of September 2015, October), normative documents for SO 8.3.4. "To reduce early school leaving by implementing preventive and intervention measures” will be launched in implementation, so preventive and compensatory measures for education availability and early school leaving reduce could be implemented on 2016.</p> <p>The vocational education training programme with a time lapse of 1 to 1,5 years is continued for youth in the age group of 17 to 29. They are unemployed and are not involved in study process. This activity is carried out under the SO 7.2.1. “Increase</p>

employment and education of young people who are unemployed and are not involved in study process within context of youth guarantee” and specific measure “Initial vocational education programme implementation within context of youth guarantee”.

A career education implementation plan for the state and local municipalities’ general and vocational education institutions in 2015-2020. The Plan identifies challenges, possible solutions and action directions for the career guidance and career management skills development. A draft of the plan has been developed and will be submitted to the Cabinet of Ministers in October of this year. At the same time development of regulatory documents of 8.3.5. SO "To improve access to career support for students in general and vocational education institutions” is in process, it is expected, that regulation draft will be announced in State Secretaries' meeting in early October 2015. It is planned that the project will be launched in the second quarter of 2016.

A draft on the Adult education governing model implementation for 2015-2020 have been proposed on the meeting of the State Secretaries on 2 July, 2015.

There will be launched competence-based approach to general education content development, as well as approbation of the 80 educational institutions within the project of EU funds SO 8.3.1. "To develop competency- based general education curriculum " 8.3.1.1.activity "Competency-based approach to general education content approbation and implementation" until the end of 2015.

In the frame of the pilot project five different education programmes for ICT skills development will be tested in 157 schools starting from September 2015. The Ministry jointly with the Latvian Information and Communications Technology Association, has developed a new ICT study programmes for schools, which includes an integrated teaching and learning approach aiming to contribute to the development of a new curriculum standard based on the learning outcomes.

While the pilot exam in Physics, chemistry or natural sciences (optionally) for the 12 grade pupils is to be applied from 2015/2016 study year.

Vocational education programmes are substantively restructured with the intent of developing flexible vocational study programmes, which would ensure the possibility to react quickly to the demands in labour market in both long and short term. The development of the 55 modular vocational education programmes, Sectoral qualification framework linked with the EQF eight levels, qualification exams and 80 professional standards will be finalized till 30 November 2015 in the frame of the ESF 1.2.1.1.1. activities project "Development of sectoral qualifications system and vocational education enhancing efficiency and quality".

The competences are identified in the process of sector research and can be acquired in separate modules, in order to prevent premature expulsion of students from the educational establishment and competences that can be acquired by people with special needs, thereby providing systematic approach in vocational education. In collaboration with the Sectoral Expert Councils the validation of the qualification, which gained outside formal education, have been ensured. 2290 persons have acquired professional qualification certificate till July 2015. Young people who failed from the education system can take a professional exam receiving the professional qualification which opens their possibilities in the labour market. It is possible to evaluate professional competences in 130 different professional qualifications. 42 vocational education institutions are qualified to do it.

The 6th Annual European Quality Assurance in Vocational Education and Training forum has been organized in June 2015. Vocational education and training experts from EU member states took part in it. The aim of the annual forum – to evaluate the work programme 2013 - 2015, as well as set aims for the next period from 2016 till 2017, as well as to strengthen the involvement of social partners to the vocational education and training, work-based learning and support for the youth.

<p><b>National target for tertiary education [34-36%]</b></p>	<ol style="list-style-type: none"> <li>1. Modernisation of higher education — implementation of a new financing model of higher education;</li> <li>2. Modernizing the material-technical base of higher education institutions and raising the efficiency of resources' use;</li> <li>3. Ensuring equal access to higher education;</li> <li>4. Establishment of a national institution for quality assurance;</li> <li>5. Reducing fragmentation of study programmes, joint use of resources;</li> <li>1. Attracting foreign students.</li> </ol>	<p>In order to ensure preparation of young, skilled professionals, suitable to labour market needs, who could possibly continue to work in one of the research institutions, within the EU Structural Funds period 2007-2013 sub-activity 3.1.2.1.1. "Modernisation of premises and equipment of institutions of higher education, including, provision of possibility to master educational programmes also to the persons with reduced mobility", support was granted for the modernization of infrastructure of higher education institutions that implement relevant education programs. Within the framework of sub-activity 3.1.2.1.1., 31 agreement on the modernization of higher education institutions to improve study process were concluded for the total eligible funding 142.20 million euro, including 120.86 million euro ERDF funding.</p> <p>At present seven projects of total eligible funding of 115 million euro, including 97.75 million euro ERDF funding, are implemented. Thirteen projects of necessary infrastructure modernization to ensure study process are completed of total funding of 22.08 million euro, of which ERDF funding - 18.77 million euro and 11 projects carried out by colleges, diverting the total eligible funding of 5.10 million euro, including 4.33 million euro of ERDF funding.</p> <p>The Latvian University Academic Center in Torņakalns, bringing together in one building all natural science faculties and seven life science research institutes, as well as equipped Riga Technical University laboratory teaching corps in joint territorial complex in Ķīpsala were put in to the operation.</p> <p>With ESF support from 2009 until the end of 2015 2,130 postgraduate students and 1,975 doctoral students received grants, including 126 master's and 35 doctoral in 2015 and 26 doctoral and 100 postgraduate students in 2014, who received scholarships anew.</p> <p>In 2015/2016, within the EU Funds programming period 2014 – 2020 implementation of the first stage post-doctoral grants will begin (total indicative funding for post-doctoral research - 64 mln. euro, including ERDF financing 54.4 mln. euro).</p> <p>In 2015, within the 2nd round of EU structural funds activity "Attraction of Human Resources to Science", there are 48 ongoing projects providing support to science, creating jobs for new re-emigrating scientists, and attracting young researchers to research projects with funding for costs young research staff. The total referable financing activities for the implementation of the activity - 23.1 million euro.</p> <p>Within the EU funds programming period 2014-2020 it is planned to provide support to the development, approbation and accreditation of the joint doctoral study programs in EU languages, including covering accreditation costs in the international professional organizations, as well as international publicity of the developed and accredited study programs.</p> <p>Within the EU funds programming period 2014-2020 it is planned to support:</p> <ul style="list-style-type: none"> <li>- implementation of the development strategies of higher education institutions, including elaboration, improvement and external evaluation of development strategies;</li> <li>- higher education institutions' internal quality assurance systems in order to increase efficiency according to the standards and guidelines for quality assurance in the European Higher Education Area, including staff reward and promotion system of the external evaluation and improvement of the system;</li> <li>- e-solutions, including e-sharing mechanisms and an inter-institutional collaborative solution development</li> </ul> <p>58 Latvian state scholarships have been granted to foreigners for studies and research at Latvian higher education institutions in the academic year 2015/2016 and 18 Latvian state scholarships for participation in summer schools in Latvia in 2015. It is planned to gradually increase the number of the granted Latvian state scholarships starting with the academic year 2016/2017 in order to fulfill the target set in the Education Development Guidelines 2014–2020 (i.e. 150 scholarships in 2020).</p> <p>During the implementation of ESF project "Development of sectoral qualification system and enhancement of effectiveness and quality of vocational education" (under the activity 1.2.1.1.1.) development of 55 modular vocational education</p>
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<p><b>National poverty target [21,0%]</b></p>	<p>1. Reducing income inequality; 2. Encouraging people at risk of poverty and social exclusion to participate in the labour market; 1. Eliminating discrimination threats and stereotypes, as well as fostering participation of the civil society.</p>	<p>During elaboration of state budget for 2016, the government has adopted a number of decisions aimed at reducing income inequality and promoting tax progressivity:</p> <ol style="list-style-type: none"> <li>1) in order to improve financial situation of low-wage earners as of 2016 the minimum monthly wage will be increased from 360 euro to 370 euro;</li> <li>2) to reduce the tax burden of low-wage earners and increase their revenues in 2016 the general non-taxable minimum will be increased by 10 euro (from 75 euro to 85 euro) and gradual implementation of a differentiated non-taxable minimum will be started, in 2020 reaching 160 euro per month for low wage earners ;</li> <li>3) solidarity tax for high wage earners with a salary above the monthly average of 4000 euro will be introduced, directing revenues to the state social benefit payments;</li> <li>4) for the prevention of the negative impact of the crisis and alleviate poverty, the pensions granted or recalculated during the crises will be reviewed (from 2010), namely the pensions that has been granted or recalculated from 1 January 2010 until 31 December 2015 and when the annual index thereto of the social security contribution wage is smaller than “1”, will be recalculated starting from the period of granting a pension. The total financing envisaged in 2016 - 4 million euro, in 2017 - 20.8 million euro and in 2018 - 46.7 million euro.</li> </ol> <p>In order to promote an integration of people at risk poverty and social exclusion into labour market:</p> <ol style="list-style-type: none"> <li>1) starting from 2017 additional public funding (754.7 thousand euro) will be granted aimed at reducing waiting line for short-term social rehabilitation service. Social rehabilitation services shall be entitled to such groups of persons who have difficulties in integration into society, including persons with disabilities, persons with forecasted disabilities and persons with functional disorders. The service is aimed at ensuring that individuals learn to live with functional disorders, restore or learn the skills for various reasons have been lost, with the aim not only to return persons active in public life, but primarily in the labour market that contribute to personal economic autonomy. Additional funding will provide social rehabilitation services for 855 people with disabilities requested social rehabilitation services for the first time, for 114 people with disabilities, who are requested again social rehabilitation service and for 171 politically repressed persons and the Chernobyl nuclear power plant emergency relief actors and victims;</li> <li>2) in 2016 additional funding of 1.6 million euro is allocated for development and modernization of technical aids according the needs of persons with functional impairments (including visual or hearing impairments or anatomical defects), thereby contributing to the independence of target group and their inclusion in society;</li> <li>3) the regulatory framework of the ESF co-financed measures for inclusion of disadvantaged unemployed people in the labour market has approved (11.08.2015, regulation of the Cabinet of Ministers No. 467 „Implementation of the SO 9.1.1. „To facilitate inclusion of disadvantaged unemployed people in the labour market” measure 9.1.1.3 „Support to social</li> </ol>

entrepreneurship” of the Operational Programme „Growth and Employment”) with an aim to assess alternative options for the development of inclusive social entrepreneurship in Latvia offering a support direction to operators of social entrepreneurship, to increase employment opportunities for disadvantaged unemployed persons with disabilities and persons with mental disorders. The total eligible funding 19 920 206 euro, including financing of the ESF – 16 932 175 euro and the state budget – 2 988 031 euro;

4) the regulatory framework of the ESF co-financed measure for inclusion groups of population, who are subject to discrimination risks, in society and the labour market has approved (30.06. 2015, Regulation of the Cabinet of Ministers Regulation No.352 „Implementation of the specific objective 9.1.4. „To facilitate integration of people at risk of discrimination into society and labour market” measure “Professional rehabilitation” of the Operational Programme „Growth and Employment”). It is envisaged to implement support measures for vocational rehabilitation for people with severe disability (I and II disability group) and people with mental disorders in the period from 2015 Q4 to 2019. Total funding 1.25 million euro, including the ESF financing - 1.06 million euro and the state budget - 187 thousand. euro.

The general government budget deficit for 2015 is projected at 1.4% of GDP, which is at the same level as compared to the preparation of the Stability programme, i.e., with deficit forecasted in the spring.

The general government budget deficit under no-policy change scenario for 2016 is projected at 1.3% of GDP, which is by 0.3% lower, compared to the Stability Programme. Difference is mainly due to higher than projected tax revenue, updated amount of expenditure base in the state budget, updated forecast of implementation of the EU fund projects, updated expenditure in the budgets of local governments, taking into account the latest performance data. No-policy change scenario does not include additional expenditure for the defence, to ensure rapid defence expenditure growth to 2% of GDP in 2018.

In the development of the state budget for 2016 government took decisions on the revenue increasing and expenditure reducing discretionary measures, as well as decisions on additional funding for the defence, internal affairs bodies, education and health sector, the general government budget deficit is projected at 1.0% of GDP. Given that the cyclical component in 2016 is projected to be -0.1% of GDP, the general government structural deficit is projected to be 0.9% of GDP, which corresponds to the structural balance target.

**Table 7: Divergence from Stability Programme 2015-2018**

	ESA Code	2014	2015	2016
		% GDP		
<b>Target general government net lending/ net borrowing</b>	B.9			
Stability Programme		-1.4	-1.5	-1.6
Draft Budgetary Plan		-1.4	-1.4	-1.0
Difference		0.0	0.02	0.6
<b>General government net lending projection at unchanged policies</b>	B.9			
Stability Programme		-1.4	-1.5	-1.6
Draft Budgetary Plan		-1.4	-1.4	-1.3
Difference		0.0	0.02	0.3

## **Annex: Methodological aspects**

Macroeconomic forecasts are developed by a medium-term macro-economic model, which ensures proper macroeconomic relationships within the forecasts and employs short-term and medium-term results of econometric models as well as expert assessment.

Preparing tax revenue projections, widely known forecasting methods and assumptions are applied, however the most used is specially developed tool, i.e. the model LATIM-F. The most frequently tax revenue forecasting techniques are as follows:

- using a detailed tax revenue estimations;
- forecasting of tax revenue share in GDP, %;
- forecasting the actual taxable base/base modelled relationships;
- using expert assessment;
- using other techniques.

In order to project tax revenue, as stated above, the MoF uses tax revenue forecast model LATIM-F, whose main components are data base of macroeconomic indicators, actual tax revenue and legislative changes (including tax rates, etc.). Moreover in the process of analysis the information from the Treasury, the State Revenue Service, the Central Statistics Bureau and other sources is used.