



MINISTRY OF FINANCE
REPUBLIC OF LATVIA

Updated
Draft budgetary plan
of the Republic of Latvia
2015



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Contents

Introduction	3
Macroeconomic growth scenario.....	4
Fiscal strategy and structural balance objective	7
Annex: Methodological aspects.....	34

Tables

Table 1a: Macroeconomic prospects	5
Table 1b: Price developments	6
Table 1c: Labour market developments	6
Table 1d: Sectoral balances	6
Table 2.a: General government budgetary targets broken down by subsector.....	8
Table 2.b: General government debt developments	9
Table 2.c: Contingent liabilities.....	9
Table 3: General government expenditure and revenue projections at unchanged policies broken down by main components	10
Table 4.a: General government expenditure and revenue targets, broken down by main components	11
Table 4.b: Amounts to be excluded from the expenditure benchmark.....	12
Table 5: Description of discretionary measures included in the draft budget	14
Table 5.a.i) Discretionary revenue measures taken by General Government	14
Table 5.a.ii) Discretionary expenditure measures taken by General Government.....	15
Table 5.b: Discretionary measures taken by Central Government.....	17
Table 5.c: Discretionary measures taken by sub-sectors of the General Government	18
Table 6.a: CSR recommendations	19
Table 6.b: Targets set by the Union's Strategy for growth and jobs	28
Table 7: Divergence from Stability Programme 2014-2017	33

Introduction

The Republic of Latvia submits updated Draft budgetary plan prepared by new government, which was approved by Parliament on November 5, 2014 after the parliamentary elections held on October 4, 2014. On October 15, 2014 Republic of Latvia for the first time submitted Draft budgetary plan to the European Commission and the Eurogroup and it was based on a no-policy change scenario. Updated Draft budgetary plan has been prepared on the same macroeconomic scenario that was used in the Draft budgetary plan submitted on October 15, 2014. Fiscal forecasts at no-policy change scenario are slightly modified.

Macroeconomic growth scenario

After recovery of Latvia's economy in the second half of 2010 and 3 years of strong economic growth, expansion of the economy has become slower in the first part of 2014. In 2013, GDP increased by 4.2%, but in the first quarter of this year it slowed down to 2.8%, and to 2.3% in the second quarter, however this is still above the EU average GDP growth rate.

Economic slowdown in the first quarter of 2014 was largely determined by short-term factors, including shutdown of the largest metallurgic factory *Liepājas Metalurģs* and weaker demand for energy and heating supply due to warm winter season. In the second quarter of 2014, geopolitical situation in the region and weakening of Russia's economic situation started to negatively influence development of Latvia's economy. As a result, export volumes to Russia and other Commonwealth and Independent States (CIS) fell. However, economy was supported by construction sector, as well as retail trade became stronger in the second quarter of 2014 after weak performance observed in the first quarter.

Economic growth in 2014 was supported primarily by private consumption, which is prompted by continuous improvements in the labour market and rising wages. Nevertheless, economic model will gradually transform and growth will be more balanced between domestic and external demand since the economic situation in the EU is expected to improve, as well as negative impact of the closure of *Liepājas Metalurģs* and large base effect in agriculture will vanish.

Taking into account macroeconomic indicators on the first half of 2014, as well as tensions between Russia and the EU, Russia's trade sanctions and its indirect implications, forecasts for economic growth of Latvia has been revised from 4% to 2.9% in 2014, and from 4% to 2.8% in 2015.

Latest macroeconomic forecasts were developed in August 2014 based on the macroeconomic data available up to 18 August 2014. In order to ensure independence of macroeconomic forecasts, macroeconomic growth scenario has been agreed with the Ministry of Economics and the Bank of Latvia. Moreover, there were consultations with experts from the commercial banks as well as international partners – EC and International Monetary Fund (IMF).

In developing macroeconomic forecasts, MoF has taken into account EU's sanctions against Russia, as well as import ban on several food products introduced by Russia in the beginning of August. However, there is extremely large uncertainty in the external environment and it is impossible to foresee how the situation is going to develop, hence latest macroeconomic forecasts were created assuming that neither further escalation, nor rapid de-escalation of geopolitical situation happen. It is also assumed that the sanctions imposed by Russia will remain in place and will negatively affect growth until the end of 2015, following by gradual recovery of economic growth to 3.3% in 2016 and 3.6% in 2017.

Geopolitical tensions in the region still remain the most significant risk to economic growth of Latvia. In case of the further escalation of tensions between Russia and Ukraine, and additional sanctions or larger than expected indirect impact of current round of sanction on Latvian economy, contraction of economic growth could be larger than currently forecasted. In addition to geopolitical risks, dynamics of the economic sentiment indicator (ESI) in the

European Union suggest that consumers and businesses have become more cautious since in September the indicator demonstrated a fall for the fourth consecutive month. On positive side, resumption of production at *Liepājas Metalurgs* in November 2014 could provide significant positive boost to GDP growth.

Table 1a: Macroeconomic prospects

	ESA Code	2013	2013	2014	2015
		bln. euro	Rate of change		
1. Real GDP	B1*g	20.8	4.2	2.9	2.8
of which					
Attributable to the estimated impact of aggregated budgetary measures on economic growth					
2. Potential GDP		20.7	2.6	3.0	3.3
Contributions					
Potential GDP contributions:Labour			0.2	0.4	0.5
Potential GDP contributions:capital			1.2	1.1	1.1
Potential GDP contributions: total factor productivity			1.1	1.5	1.7
3. Nominal GDP	B1*g	23.2	5.3	3.8	5.2
Components Of real GDP					
4. Private consumption expenditure	P.3	13.1	6.2	3.1	3.2
5. Government consumption expenditure	P.3	3.3	-4.2	2.8	2.8
6. Gross fixed capital formation	P.51	4,7	-5.2	1.6	0.6
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	-0.5	215.0	-5.0	1.5
8. Exports of goods and services	P.6	12.0	1.5	0.6	1.0
9. Imports of goods and services	P.7	12.8	0.3	0.2	0.7
Contribution to real GDP growth					
10. Final domestic demand			1.7	2.7	2.6
11. Changes in inventories and net acquisition of value	P.52 + P.53		1.8	-0.1	0.0
12. External balance of goods and services	B.11		0.7	0.2	0.2

Table 1b: Price developments

	ESA Code	2013	2013	2014	2015
		Levels	Rate of change		
1. GDP deflator			1.1	0.9	2.4
2. Private consumption deflator			0.4	1.0	2.4
3. HICP			0.0	0.8	2.4
4. Public consumption deflator			3.8	0.0	2.0
5. Investment deflator			2.7	1.5	2.4
6. Export price deflator (goods and services)			1.3	-0.5	0.0
7. Import price deflator (goods and services)			0.7	-0.3	0.0

Table 1c: Labour market developments

	ESA Code	2013	2013	2014	2015
		Levels	Rate of change		
1. Employment, persons ('000)		893.9	2.1	0.3	0.2
2. Employment, hours worked		1289793194.0	2.4	0.4	0.2
3. Unemployment rate (%)			11.9	10.8	10.1
4. Labour productivity, persons			2.1	2.6	2.5
5. Labour productivity, hours worked			1.7	2.5	2.5
6. Compensation of employees, bln.euro	D.1	9.6	11.6	7.3	4.7
7. Compensation per employee (Gross wage), euro		716.2	4.6	7.0	4.5

Table 1d: Sectoral balances

	ESA Code	2013	2014	2015
		% of GDP		
1. Net lending/borrowing vis-a-vis the rest of the world	B.9	0.1	0.6	0.7
of which				
- Balance on goods and services		-3.3	-2.9	-2.8
- Balance of primary incomes and transfers		1.0	1.1	0.9
- Capital account		2.5	2.4	2.4
2. Net lending/borrowing of the private sector	B.9	0.3	2.0	1.7
3. Net lending/borrowing of general government	EDP B.9	-0.9	-1.4	-1.0
4. Statistical discrepancy		0.8	0.0	0.0

Fiscal strategy and structural balance objective

Latvian fiscal policy principles, medium-term structural balance objective (MTO), the deviations applied from contributions to the 2nd pension pillar has not changed and has been described in the Latvia's Stability Programme for 2014-2017. Also general objective of Latvian fiscal policy – to raise sustainably the quality of life of population – as well as the resulting specific objectives:

1. to provide responsible and sustainable fiscal policy, observing a fiscal discipline;
2. to raise the quality of life of population and to facilitate the economic development of the state;

has not changed and has been described in the Latvia's Stability Programme for 2014-2017.

Two courses of action were determined to achieve these objectives in the Latvia's Stability Programme for 2014-2017:

1. The first course of action: correction of tax policy, revising the burden of labour taxes with a purpose to reduce income inequality of population and to raise a quality of life, especially in families with children. The most substantial measures in this field, which are included in the Law on Medium-Term Budget Framework for 2014, 2015 and 2016, is increase in the non-taxable minimum of personal income tax, increase in personal income tax allowance for dependant persons, decrease in the rate of the state mandatory insurance contributions of an employer and an employee as well as reduction of the rate of personal income tax in a medium term.
2. The second course of action is a rational shifting of the amount of available public resources to the priority courses of development of the medium-term budget which in the Law on Medium-Term Budget Framework for 2014, 2015 and 2016 were defined according to:
 - Latvian National Development Plan, in which there are three priorities determined – economic growth, human securitability and regional development;
 - State defence concept;
 - Other policy initiatives to solve the issues of remuneration for the employed in the public sector, provision of funding for the development of science, a development of a cultural environment.

Based on these courses of action, discretionary revenue and expenditure measures had been included in the Law on Medium-Term Budget Framework for 2014, 2015 and 2016 for particular year and are described in the Latvia's Stability Programme for 2014-2017.

Fiscal data in the Table No.3 have been prepared according to no-policy change scenario, which includes above mentioned discretionary revenue and expenditure measures for 2015 which are incorporated in the Law on Medium-Term Budget Framework for 2014, 2015 and 2016. This scenario also includes expenditure increase for defence according to Law on National Defence Financing, which was adopted on July 3, 2014.

Budget for 2015 has been prepared:

1. In accordance with general government structural balance objective **-1% of GDP** determined in the Law on Medium-Term Budget Framework for 2014, 2015 and 2016;
2. Keeping discretionary revenue and expenditure measures for 2015 provided by the Law on Medium-Term Budget Framework for 2014, 2015 and 2016;
3. By developing additional discretionary revenue increasing and expenditure increasing measures in accordance with the priorities of new government.

Draft budgetary plan for 2015 has been prepared taking into account permissible general government deficit of 1.0% of GDP. The cyclical component of a budget balance for 2015 has decreased against Stability Programme projection from 0.2% of GDP to 0% of GDP. Thus, the permissible general government nominal deficit has increased from 0.8% of GDP to 1.0% of GDP.

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

	ESA Code	2014	2015
		% of GDP	
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	-1.4	-1.0
2. Central government	S.1311	-1.9	-1.5
3. State government	S.1312		
4. Local government	S.1313	-0.2	0.1
5. Social security funds	S.1314	0.6	0.5
6. Interest expenditure	D.41	1.4	1.3
7. Primary balance		0.02	0.3
8. One-off and other temporary measures		-0.4	
9. Real GDP growth (%) (=1. in Table 1a)		2.9	2.8
10. Potential GDP growth (%) (=2 in Table 1.a)		3.0	3.3
contributions:			
- labour		0.4	0.5
- capital		1.1	1.1
- total factor productivity		1.5	1.7
11. Output gap (% of potential GDP)		0.7	0.1
12. Cyclical budgetary component (% of GDP)		0.2	0.0
13. Cyclically-adjusted balance (1 - 12) (% of GDP)		-1.7	-1.0
14. Cyclically-adjusted primary balance (13 + 6) (% of GDP)		-0.2	0.2
15. Structural balance (13 - 8) (% of GDP)		-1.3	-1.0

Table 2.b: General government debt developments

% of GDP	ESA Code	2014	2015
1. Gross debt		40.0	35.0
2. Change in gross debt ratio		1.8	-5.1
Contributions to change in gross debt			
3. Primary balance		0.02	0.3
4. Interest expenditure	EDP D.41	1.4	1.3
5. Stock-flow adjustment, i.e.		0.3	-6.6
Implicit interest rate on debt		3.9	3.7
Other relevant variables			
6. Liquid financial assets			
7. Net financial debt (7=1-6)			
8. Debt amortization (existing bonds) since the end of the previous year		1.8	0.7
9. Percentage of debt denominated in foreign currency		24.4	31.7
10. Average maturity		4.81 years	
<i>For information - in calculations used GDP data:</i>			
Nominal GDP, mln euro		24 107.0	25 365.6

Table 2.c: Contingent liabilities

% of GDP	2014	2015
Public guarantees	2.5	1.9
GDP, mln euro	24 107.0	25 365.6

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

	ESA Code	2014	2015
		% of GDP	
1. Total revenue at unchanged policies	TR	35.1	33.3
Of which			
1.1. Taxes on production and imports	D.2	12.0	11.9
1.2. Current taxes on income, wealth, etc.	D.5	7.6	7.3
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	8.6	8.2
1.5. Property income	D.4	0.7	0.5
1.6. Other		6.2	5.2
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		28.5	27.8
2. Total expenditure at unchanged policies	TE	36.5	34.2
Of which			
2.1. Compensation of employees	D.1	9.4	9.1
2.2. Intermediate consumption	P.2	6.1	6.1
2.3. Social payments	D.62 D.632	10.4	10.3
of which Unemployment benefits		0.4	0.4
2.4. Interest expenditure	D.41	1.4	1.3
2.5. Subsidies	D.3	0.6	0.6
2.6. Gross fixed capital formation	P.51	4.2	3.6
2.7. Capital transfers	D.9	0.4	0.0
2.8. Other		3.9	3.2

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

	ESA Code	2014	2015
		% of GDP	
1. Total revenue target	TR	35.1	33.6
Of which			
1.1. Taxes on production and imports	D.2	12.0	12.2
1.2. Current taxes on income, wealth, etc.	D.5	7.6	7.4
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	8.6	8.3
1.5. Property income	D.4	0.7	0.6
1.6. Other		6.2	5.1
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		28.5	28.2
2. Total expenditure target	TE3	36.5	34.6
Of which			
2.1. Compensation of employees	D.1	9.4	9.4
2.2. Intermediate consumption	P.2	6.1	6.2
2.3. Social payments	D.62 D.632	10.4	10.3
of which Unemployment benefits		0.4	0.4
2.4. Interest expenditure (= Table 2.a.9.)	D.41	1.4	1.3
2.5. Subsidies	D.3	0.6	0.6
2.6. Gross fixed capital formation	P.51	4.2	3.7
2.7. Capital transfers	D.9	0.4	0.0
2.8. Other		3.9	3.2

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

	ESA Code	2013	2013	2014	2015
		mln.euro	% of GDP		
1. Expenditure on EU programmes fully matched by EU funds revenue		1101.4	4.7	5.2	4.5
2. Cyclical unemployment benefit expenditure					
3. Effect of discretionary revenue measures		-58.0	-0.2	0.0	0.3
4. Revenue increases mandated by law					

As mentioned earlier, in addition to discretionary revenue and expenditure measures stipulated for 2015 in the Law on Medium-Term Budget Framework for 2014, 2015 and 2016, which have already been included in the no-policy change scenario, the draft State Budget for 2015 as prepared by the government includes additional discretionary revenue and expenditure measures. Given that at no-policy change scenario the updated structural deficit is 0.9% of GDP, while the structural deficit target is 1.0% of GDP, additional discretionary revenue-increasing measures nearly offset discretionary expenditure-increasing measures.

The draft State Budget for 2015 is prepared in accordance with the following principles:

1. Medium-term planning: the general government structural deficit target and planned discretionary revenue and expenditure measures as stipulated for 2015 in the Law on Medium-Term Budget Framework for 2014, 2015 and 2016, are not to be revised;
2. Stability in tax policy: the annual budget preparation is not the time to substantially revise tax policy, so 2015 draft budget has been prepared keeping the previous commitments to reduce the tax burden on labor, increase contributions to the 2nd pension pillar in accordance with the previously adopted decisions and not to make changes to the other important tax rates.
3. Increasing the tax collection so as to move towards the ratio of tax revenue to GDP – 1/3. Currently Latvia has the tax burden that is one of the lowest in the European Union and it is unable to meet the growing needs on the expenditure side. The strategy of the new government to deal with this problem is not by raising tax rates, but intensify work towards enhancing the tax collection, including introduction of the necessary legislative changes.
4. Reduction of population income inequality. To reduce social and income inequality from 2015 it is foreseen to raise the minimum wage from 320 to 360 euro, with a view to gradually increase it up to the half of the average wage in the economy. In addition, from 2016 it is foreseen to introduce the progressive non-taxable minimum of personal income tax , increasing it for low-wage recipients, keeping it close to existing amount for individuals who receive average wage, but for wages, which substantially surpass average wage in the country, non-taxable minimum will not be applied.

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

List of measures	Detailed description	Type of tax	Target (Expenditure / Revenue component)	Accounting principle	Adoption Status	Budgetary impact		
						2015	2016	2017
						% GDP	% GDP	% GDP
Combating the shadow economy and improve tax administration measures	Combating the shadow economy and improve tax administration measures	Value added tax	D.2	Accrual	Approved by government	0.13%		
		Excise tax	D.2	Accrual	Approved by government	0.01%		
		Personal income tax	D.5	Accrual	Approved by government	0.03%	0.02%	
		Corporate income tax	D.5	Accrual	Approved by government	0.02%	0.01%	0.004%
		Social security contributions	D.61	Accrual	Approved by government	0.02%	0.003%	
Minimum wage increase	Increase of minimum wage from 320 to 360 euro a month	Personal income tax	D.5	Accrual	Approved by government	0.03%		
		Social security contributions	D61	Accrual	Approved by government	0.05%		
		Value added tax	D.2	Accrual	Approved by government	0.01%		
The minimum share of profits for which dividends shall be paid for using the State capital	To retain the currently determined minimum share of profits for which dividends shall be paid for using the State capital in the amount of 90%; in 2016 - to determine 70% for the profit of the year 2015	Non-tax	D.4	Accrual	Approved by government	0.04%	0.17%	-0.19%
Other measures	Other measures (increase in the forecasts for non-taxes and subsidised energy tax and changes in non-taxable income of pensioners)	Subsidized electricity tax	D.2	Accrual	Approved by government	0.00%		
		Non-tax	D.29	Accrual	Approved by government	0.07%		
			D.4	Accrual	Approved by government	0.02%		
			P.13	Accrual	Approved by government	0.01%		
		Personal income tax	D.5	Accrual	Approved by government	0.002%		
TOTAL						0.45%	0.20%	-0.19%

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

List of measures	Detailed description	Target (Expenditure / Revenue component)	Accounting principle	Adoption Status	Budgetary impact		
					2015	2016	2017
					% GDP		
Increase of the minimum monthly wage up to 360 euro and a correction of the minimum of monthly wage scales as from 1 January 2015		D.1	Cash flow	Approved by government	0.032%		
Activities for combatting the shadow economy		D.1	Cash flow	Approved by government	0.026%	0.000%	0.000%
Provision of a remuneration based on equal principles (vacation pay, severance pay (retirement benefit), premium depending on the annual evaluation of work and its results, health insurance, provision of competitive wages to officials of the Security Police)		D.1	Cash flow	Approved by government	0.026%	0.000%	0.000%
Restoration of the State budget grant to ensure a scientific activity in higher educational institutions and colleges		P.2	Cash flow	Approved by government	0.016%	0.004%	0.000%
Facilitation of the attraction and availability of vocational education (scholarships for learners)		D. 62	Cash flow	Approved by government	0.010%	0.019%	0.000%
Activities for facilitating investments and the State Aid of Transitional Period (PPVA) in agriculture		other	Cash flow	Approved by government	0.130%	-0.025%	-0.086%
Implementation of public transport services in a joint routes' network		D. 3	Cash flow	Approved by government	0.020%	0.000%	0.000%
Earmarked grants for daily maintenance of municipal motor roads and streets		P.2	Cash flow	Approved by government	0.028%	0.000%	0.000%
Provision of an assistant service to disabled persons in municipalities		D.1	Cash flow	Approved by government	0.012%	0.000%	0.000%

Securitability (increase of a remuneration in state capital companies (theatres, concert organisations), cultural heritage institutions, museums as well as in secondary schools of music and arts)		D.1	Cash flow	Approved by government	0.010%	0.000%	0.000%
Compensation for an increase of the minimum wage in the tariffs of health care services		D.1	Cash flow	Approved by government	0.030%	0.000%	0.000%
Reduction of waiting queues for ambulatory health care services and the improvement of regional availability		P.2	Cash flow	Approved by government	0.039%	0.000%	0.000%
Increase in the amount of hospital services by increasing the amount of the planned hospitalizations		P.2	Cash flow	Approved by government	0.017%	0.000%	0.000%
Reduction of patients' payments and co-payments		P.2	Cash flow	Approved by government	0.011%	0.000%	0.000%
Improvement in the system of compensated medicines and materials as well as in the system for medicinal treatment of rare diseases		P.2	Cash flow	Approved by government	0.010%	0.000%	0.000%
Grants for municipalities		P.2	Cash flow	Approved by government	0.026%	-0.024%	0.000%
Other measures				Approved by government	0.116%	0.013%	0.022%
				TOTAL	0.560%	-0.015%	-0.065%

Table 5.b: Discretionary measures taken by Central Government

List of measures	Detailed description	Type of tax	Target (Expenditure / Revenue component)	Accounting principle	Adoption Status	Budgetary impact		
						2015	2016	2017
						% GDP	% GDP	% GDP
Combating the shadow economy and improve tax administration measures	Combating the shadow economy and improve tax administration measures	Value added tax	D.2	Accrual	Approved by government	0.13%		
		Excise tax	D.2	Accrual	Approved by government	0.01%		
		Personal income tax	D.5	Accrual	Approved by government	0.01%	0.004%	
		Corporate income tax	D.5	Accrual	Approved by government	0.02%	0.01%	0.004%
		Social security contributions	D.61	Accrual	Approved by government	0.02%		
Minimum wage increase	Increase of minimum wage from 320 to 360 euro a month	Personal income tax	D.5	Accrual	Approved by government	0.01%		
		Social security contributions	D61	Accrual	Approved by government	0.05%		
		Value added tax	D.2	Accrual	Approved by government	0.01%		
The minimum share of profits for which dividends shall be paid for using the State capital	To retain the currently determined minimum share of profits for which dividends shall be paid for using the State capital in the amount of 90%; in 2016 - to determine 70% for the profit of the year 2015	Non-tax	D.4	Accrual	Approved by government	0.04%	0.17%	-0.19%
Other measures	Other measures (increase in the forecasts for non-taxes and subsidised energy tax and changes in non-taxable income of pensioners)	Subsidized electricity tax	D.2	Accrual	Approved by government	0.00%		
		Non-tax	D.29	Accrual	Approved by government	0.07%		
			D.4	Accrual	Approved by government	0.02%		
			P.13	Accrual	Approved by government	0.01%		
		Personal income tax	D.5	Accrual	Approved by government	0.0003%		
TOTAL						0.39%	0.18%	-0.19%

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

List of measures	Detailed description	Type of tax	Target (Expenditure / Revenue component)	Accounting principle	Adoption Status	Budgetary impact		
						2015	2016	2017
						% GDP	% GDP	% GDP
Combating the shadow economy and improve tax administration measures	Combating the shadow economy and improve tax administration measures	Value added tax	D.2	Accrual	Approved by government			
		Excise tax	D.2	Accrual	Approved by government			
		Personal income tax	D.5	Accrual	Approved by government	0.02%	0.01%	
		Corporate income tax	D.5	Accrual	Approved by government			
		Social security contributions	D.61	Accrual	Approved by government			
Minimum wage increase	Increase of minimum wage from 320 to 360 euro a month	Personal income tax	D.5	Accrual	Approved by government	0.03%		
		Social security contributions	D61	Accrual	Approved by government			
		Value added tax	D.2	Accrual	Approved by government			
The minimum share of profits for which dividends shall be paid for using the State capital	To retain the currently determined minimum share of profits for which dividends shall be paid for using the State capital in the amount of 90%; in 2016 - to determine 70% for the profit of the year 2015	Non-tax	D.4	Accrual	Approved by government			
Other measures	Other measures (increase in the forecasts for non-taxes and subsidised energy tax and changes in non-taxable income of pensioners)	Subsidized electricity tax	D.2	Accrual	Approved by government			
		Non-tax	D.29	Accrual	Approved by government			
			D.4	Accrual	Approved by government			
			P.13	Accrual	Approved by government			
		Personal income tax	D.5	Accrual	Approved by government	0.001%		
TOTAL						0.05%	0.01%	

Table 6.a: CSR recommendations

CSR number	List of measures	Description of direct relevance
1	<p>Preserve a sound fiscal position in 2014 and strengthen the budgetary strategy as of 2015, ensuring that the deviation from the medium-term objective remains limited to the impact of the systemic pension reform.</p>	<p>In 2014, the general government deficit is projected to be 1.4% of GDP, which is 0.5% above the projected value for the year as according the Law on Medium-Term Budget Framework for 2014, 2015 and 2016. A deviation of 0.4% of GDP is caused by possible changes in fair value of derivatives as presented in the audited accounts of the Privatisation Agency. It should be noted that this is a one-off and has no impact on the structural deficit. Other changes account for 0.1% of GDP deviation.</p> <p>The general government structural deficit for 2014 is forecasted to be at 1.3% of GDP, which is 0.3% of GDP in excess of the projected value for 2014 as stipulated in the Law on Medium-Term Budget Framework for 2014, 2015 and 2016. A 0.1% rise is caused by increase of a cyclical component of the balance from 0.1% of GDP as projected for 2014 in the Law on Medium-Term Budget Framework for 2014, 2015 and 2016 to 0.2% of GDP. The increase of the cyclical component can be explained by the changes in GDP, resulting from changes in the methodology of estimating the GDP and do not show changes, which stem from the national economic situation. Theoretically, it would be expected that reducing the projected growth (in Law on Medium-Term Budget Framework for 2014, 2015 and 2016 GDP growth for 2014 was forecasted to be 3.7% of GDP, while the current forecast is 2.9% of GDP) the cyclical component should decrease and thus a deviation from the structural deficit should be smaller.</p> <p>Even without taking into account these considerations, the general government structural deficit deviation, in accordance with the Stability and Growth Pact, is considered to be insignificant.</p> <p>The permissible structural deficit target has been determined on the national medium-term objective (-0.5% of GDP), as well as by applying the possible deviations from the increase in contributions to the 2nd pension pillar in accordance with Regulation (EU) No 1466/97 of the European Parliament and of the Council. Based on this condition, the structural deficit target for 2015 has been determined in the amount of 1% of GDP. Latvia has committed to completely eliminate deviations and return to the medium-term objective in 2019.</p>
	<p>Pursue efforts to further reduce the tax burden on low-income earners in the context of a shift towards more growth-friendly property and environmental taxes</p>	<p>The most important measures in reducing taxes for low-income earners are:</p> <ul style="list-style-type: none"> • From January 1, 2014, state social security contribution rate reduced by 1 percentage point, including employer rate from 24.09% to 23.59% and the employee's rate from 11% to 10.5%; • From 1 January 2014, the personal income tax non-taxable minimum increased from 64.03 to 75 euro per month;

<p>and by improving tax compliance and collection.</p>	<ul style="list-style-type: none"> • From 1 January 2014, the personal income tax allowance for dependent persons increased from 113.83 to 165 euro per month; • From 1 January 2015, the personal income tax rate will be reduced from 24% to 23%, but from January 1, 2016 - to 22%. <p>From January 1, 2014:</p> <ul style="list-style-type: none"> • introduced new environmental tax objects and increased rates for existing natural resources tax rates for extraction of natural resources, air and water pollution, environmentally harmful products, product packaging and disposable cutlery, end of life vehicles and waste disposal; • introduced a new tax on subsidized electricity. <p>According to the Latvian government declaration, from 2016 it is planned to introduce a progressive personal income tax non-taxable minimum: for the low wage earners it will be raised, while for the average wage earners it will be kept close to the existing and for earners with wages well above the average wage it won't be applied. At the same time it is planned to raise the personal income tax allowances for dependent persons, assessing the possibility of greater facilities for the second and each subsequent child in the family.</p> <p>In order to improve the filling of the tax liability and tax collection in 2015, government decided to:</p> <ol style="list-style-type: none"> 1) extend the taxable income of physical person from capital from partnership profit share of the capital; 2) publish information on the amount of tax paid by merchants; 3) improve the information exchange process between financial institutions, Money Laundering Prevention Service and State Revenue Service; 4) make distinction between economic activity and the profit-making activity of associations and foundations; 5) introduce the Information Declaration to consumer lenders; 6) determine action of the Register of Enterprises after receiving information from the State Revenue Service of risk addresses; 7) supplement the criteria of risk person to improve accessibility of company officials from abroad; 8) determine the personal responsibility of Members of the Board of the corporation for the delayed tax payments; 9) determine a ban in certain cases for tax debtor to carry out cash transactions;
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		<p>10) from January 1, 2015 apply the excise duty on tobacco leaves at the rate 55.49 euro per 1,000 grams;</p> <p>11) from January 1, 2015 determine minimum excise duty rate on biofuel B100 at the rate 2.3 euro / GJ or 75.9 euro per 1000 liters;</p> <p>12) determine the types of equipment which may use excise duty-exempt diesel fuel for agricultural production;</p> <p>13) reduce non-taxable minimum of foreign pension from 235 euro per month to 75 euro per month until reaching of retirement age.</p> <p>Besides from 1 January 2015 it is planned that the minimum wage will be increased from 320 euro to 360 euro per month.</p>
2	<p>Step up implementation of the higher education reform, in particular through the establishment of an independent accreditation agency and a financing model that rewards quality.</p>	<p>In December, 2013, a research was launched in collaboration with the International Bank for Reconstruction and Development (World Bank) experts on the new higher education funding model. Ministry of Education prepared an informative report which provides an overview of the research and its results.</p> <p>The government has conceptually supported funding for 2nd pillar of financing model in those universities, which until the middle of the next year will introduce management of results. Funding will be awarded for research in universities and colleges on the basis of performance indicators. In the new financing model, it is planned to differentiate places of study as a basic funding and to provide additional funding for the attainment of high-performance indicators. The planning process for places of study is being optimised, by providing more intense involvement of employers and line ministries. Performance indicators are discussed with universities and line ministries in order to determine the specific quality indicators of university activities.</p> <p>The Cabinet has examined and approved the concept 'Improvement in the External Quality Provision System of Latvia's Higher Education' that is a vision harmonised with social partners for the establishment of an institutional system for ensuring a sustainable quality of higher education, providing for an establishment of the national higher education quality provision institution as a centre for introduction, accreditation of topical quality provision principles for higher education and for the organisation of licencing. On 3 November 2014, Cabinet Regulation No 640 was issued in order to introduce this concept, i.e. to establish an agency within the Academic Information Centre.</p> <p>When deciding on the allocation of financial resources for sectors within the budget of 2015, the government has decided to shift 4.0 million euro for financing of higher education in 2015. It is planned to provide similar amount of funding also in subsequent years.</p>

	<p>Provide career guidance at all education levels, improve the quality of vocational education and training, including by strengthening apprenticeship, and make progress as regards the employability of young people including by putting in place outreach measures for non-registered youth not in employment, education or training.</p>	<p>With regard to the employment of young people, in 2014 the program "Youth Guarantee" has been launched. Youth Guarantee applies to possibility for young people, who have left the formal education or training, to receive various kinds of support in order to improve their competitiveness in the labour market, including - subsidized employment measures, training and education. Young people will be offered job-search assistance and acquisition of key competencies, career counselling, as well as according to the results of the profiling to engage in the most appropriate activity. To contribute to career support, amendments to Education Law have been adopted (separation of responsibilities). The number of career advisors in schools has been increasing. At the same time we organize a variety of support measures (Career Week, World of Professions - the web site, e-games). Support of structural funds is planned for expansion of activities in all-round and vocational education institutions.</p>
	<p>Take steps for a more integrated and comprehensive research system also by concentrating financing towards internationally competitive research institutions.</p>	<p>On the basis of the international evaluation of Latvia's science carried out by the North Ministerial Council, the implementation of structural reforms in science has been started. On 19 August 2014, the Cabinet has approved an informative report 'On Implementation of Structural Reforms in Latvian Science Until 1 July 2015' that specifies the activities for implementing recommendations of the evaluation, for the functional and territorial consolidation of science resources and for improving the funding model for scientific institutions. The Ministry has started the development of Cabinet Regulation to support the projects that facilitate consolidation of scientific institutions and promote scientific excellence from the funding of EU structural funds' planning period for 2007-2013 in the amount of 9 million euro.</p>
3	<p>Continue to reform social assistance and its financing further to ensure better coverage, adequacy of benefits, strengthened activation and targeted social services.</p>	<p>On the October 21, 2014 the government approved the concept paper "On defining the minimum income level". In the concept paper it is proposed to define a common and adequate minimum income level based on concrete calculation methodology which will serve as the reference point to develop support measures set within the social security system (state social benefits, social insurance, social assistance). Until December, 2014 the Minister for Welfare has to establish a working group that will comprise all stakeholders affected by the proposed changes. The task of the working group will be to prepare a detailed analysis of each system (state social benefits, minimum pensions, social assistance), assessing the possible impacts on income of various target groups after linking the concrete social transfers with the new minimum income level, and integrate all the fields together to make a detailed calculation of the necessary financial resources. It is determined that all the changes shall become effective as of January 1, 2017.</p> <p>On September, 25, 2014 in the State Secretary meeting there were announced amendments in Cabinet Regulations on removing disincentives for social assistance recipients to move to paid work, anticipating to introduce gradual withdrawal of social assistance benefit upon starting to work and to disregard several</p>

		<p>kinds of income (family state benefit, income from work during summer vacation for pupils a.o.) to improve the situation for certain groups to access the necessary assistance.</p> <p>On July, 17, 2014 in the State Secretary meeting there were announced amendments in the Law on Social Services and Social Assistance, inter alia proposing improving the professional rehabilitation by separating system of vocational assessment. The proposed changes are aimed to ensure more effective cooperation between the Social Integration State Agency and the State Employment Agency in integration disabled people into labour market and in providing support adequate to person's needs and skills.</p> <p>Within the budget of 2015, additional funding in the amount of 3.0 million euro will be allocated for providing an assistant service to persons with disabilities in municipalities. There will be also additional funding in the amount of 1.6 million euro provided to increase a pay for services in the institutions that on the basis of concluded contracts provide state-funded long-term social care and social rehabilitation services as well as in four long-term social care and social rehabilitation units of psychoneurological hospitals. In a medium term, it is planned to finance both aforementioned measures to the same extent.</p>
	<p>Increase coverage of active labour market policies.</p>	<p>Since April 2014 the implementation of a whole scope of measures within YG under competence of Ministry of Welfare has started (in the first quarter 2014 only career guidance, profiling and short-term training programmes were available). Thus the coverage of persons involved in these ALPM has increased.</p> <p>The elaboration of legislative base for an implementation of the ESF co-financed projects of new programming period has started – in the meeting of State Secretaries several regulations of Cabinet of Ministers (regulation on implementation a measure “Subsidized working places for disadvantaged unemployed people” and e measure „To raise the qualification of the unemployed and improve their skills according to the demand of labour market”) has announced. The announced projects envisage stock-taking of implementation criteria of these measures and applying them to the current labour market situation (support for facilitation the regional mobility has extended by applying this support to those participating in the training and subsidized employment, as well by involving additional experts to ensure participation of wider scope of persons with disabilities).</p> <p>Public consultations on most effective and appropriate activations methods for long-term unemployed has started – proposals for activation programme for long-term unemployed will be submitted to the Cabinet of Ministers in December 2014.</p>
	<p>Improve the cost-effectiveness, quality and accessibility of the healthcare system.</p>	<p>In order to improve accessibility of health care services, additionally allocated budgetary funds for health care have been used to increase the volume of the state-funded outpatient services, as well as to fully refund the state reimbursed medicines for children less than 18 years old.</p>

		<p>In addition, measures are being taken to partially implement health care accounting and payment system (DRG) depending on diagnoses starting from 2015, as well as to expand the available e-health solutions.</p> <p>On 28 October 2014, the Regulations of the Cabinet of Ministers No. 666 “Regulations on the implementation of the specific objective Nr. 9.2.3 “to support the development and implementation of the quality assurance system and development guidelines on health networks in the priority areas (cardiovascular, oncology, perinatal and neonatal period care and mental health), particularly for people at risk of social exclusion and poverty” of the Operational Programme “Growth and Employment”” was approved, launching the investment activities for the new planning period of EU funds for 2014-2020.</p> <p>Development guidelines will form the basis for evidence-based development plans in priority areas with regard to access, quality and efficiency of health care services, assessing the location and expertise of service provider, availability of human resources and technologies, cross - sector cooperation and integration of services. Within the approved activities health sector quality assurance system will be also developed.</p> <p>In 2015, in the framework of the Public Health Strategy 2014 - 2020 (approved on 14 October 2014 by the order Nr. 589 of the Cabinet of Ministers), it is planned to assess various options of implementation of mixed health care financing model, with possible linkage between health and social budget as one of the solution. Within this measure, further advancement of the Health care financing law (draft) will be evaluated, which requires changing the health care financing system by introducing compulsory national health insurance.</p> <p>In the budget of 2015, the government has decided to allocate substantial additional funding to the health sector in the amount of 30.1 million euro, including 7.7 million euro for a remuneration in order to ensure mutual proportionality between particular categories of medical personnel, and 22.4 million euro for a provision of medical services. In subsequent years, it is also planned to provide funding for the aforementioned activities in the same amount as in 2015.</p>
4	Accelerate the development of gas and electricity interconnections to neighbouring Member States to diversify energy sources and promote competition through improved integration of the Baltic energy markets.	<p>1) It is anticipated to build the third interconnection between Estonia and Latvia till 2020, and it is included in to the European Transmission system development plan.</p> <p>In August 2013, with the EC TEN-E co-financing support the Environmental Impact Assessment (EIA) and track research process for Estonian-Latvian third interconnection was initiated, as well as public consultation with local governments and residents about potential routes in the territory of Latvia carried out. On 1 August 2014, JSC „Augstsprieguma tīkls”, JSC „Elering” and JSC „Latvijas elektriskie tīkli” signed a letter of intent, which agreed on the development of interconnection and reciprocal obligations for interconnection implementation.</p> <p>2) The third stage „Ventspils-Tume-Imanta” of Kurzeme Ring. Kurzeme Ring is a part of the larger „NordBalt” project that provides implementation of construction of Lithuanian-Swedish interconnection,</p>

		<p>as well as strengthen the Latvian, Lithuanian and Swedish transmission network. Kurzeme Ring project is expected to be completed by the end of 2019.</p> <p>Using the European co-financing on 25 September 2013 is realized 330 kV cable line project „Riga TEC-1-Imanta” together with newly constructed 330 kV substation „Riga TEC-1” and reconstructed 330 kV substation „Imanta”. The second stage 330 kV line „Grobina-Ventspils” of Kurzeme Ring was put into operation on 26 August 2014. The third stage 330 kV line „Ventspils-Tume-Imanta” of Kurzeme Ring is expected to be completed by the end of 2019. In 2013 with the European co-financing is realized EIA and track research of electricity transmission line.</p> <p>According to the requirements of Regulation 347/2013, the European Commission has adopted a decision on the EU financial support of 506.4 million euros to the Baltic region projects of European Connection Instrument (Connecting Europe Facility (CEF)) framework, including the project „Kurzeme Ring”, Estonian-Latvian third interconnection, exploration and construction of Lithuanian-Polish natural gas interconnection (GIPL), exploration of Finnish-Estonian interconnection (Balticconnector), construction of gas pipeline Klaipeda-Kursenai, identification of technical requirements and costs for the Baltic States connection with European transmission networks. More than 167.4 million euro will be invested for the implementation of electricity infrastructure projects in Latvia and Estonian-Latvian third electricity interconnection, the third stage of Kurzeme Ring.</p> <p>The work on the projects will continue in 2015. Moreover, in 2015 the Projects of Common Interest (PCI) for the second financment call of the CEF instrument are to be selected.</p>
	Pursue efforts to further increase energy efficiency in transport, buildings and heating systems.	In the year 2014 the implementation of EU co-financed activities concerning energy efficiency measures was continued. In addition the Ministry of Economics is working on undertaking the requirements of Energy Efficiency Directive into national legislature. The Ministry of Economics has worked out and announced in the meeting of the State Secretaries the draft law „Energy Efficiency Law” (VSS- 512). The amendments to the laws „Energy Law” and „Law on the Energy Performance of Buildings” were endorsed to Saeima and considered in the first reading.
5	Complete judicial reforms including the pending reforms of insolvency, arbitration and mediation frameworks to ensure a more business- and consumer-friendly legal environment.	<p>The amendments to the Insolvency Law were adopted in the Parliament`s third reading on September 25, 2014. The President of the Republic of Latvia has proclaimed the amendments to the Insolvency Law on October 15, 2014. Law comes into force on first of January, 2015.</p> <p>The Arbitration law was adopted by the Parliament on September 11, 2014 and it will come into force in January 1, 2015.</p> <p>The law on Mediation has been adopted in 22nd of May 2014 and has entered into force on 18th of June 2014.</p>

		<p>During the 2015 budgetary process, the government has decided to allocate additional funding to the Ministry of Justice in the total amount of 1.6 million euros with the aim to ensure a wage increase to employees of the lowest instance courts (on average by 8%) as well as to provide a compensation based on equal principles to the Prison Administration, including medical personnel. Within the budget of 2015, additional funding in the total amount of 0.9 million euros has been allocated also to independent institutions of the justice sector such as the Supreme Court, Constitutional Court, Prosecutor's Office and the Ombudsman's Office, <i>inter alia</i> for the increase of wages (on average by 8%) to employees of the Supreme Court and the Prosecutor's Office, for material supply that is necessary to perform of the functions determined for the Prosecutor's Office, for availability of the Ombudsman in regions and for other needs. In a medium term, it is also planned to provide the aforementioned additional funding to the justice sector.</p>
	<p>Step up public administration reforms, including by implementing state-owned enterprise management reform and increasing institutional and financial independence of the Competition Council.</p>	<p>Ministry of Economics has launched a work on drafting the necessary amendments to legislative acts. On 16 October 2014 on the final reading Parliament adopted the draft law "Public person enterprises and capital shares governance law" (hereinafter – Governance Law) and it will entry into force on January 1 2015.</p> <p><u>The Governance Law provides:</u></p> <ol style="list-style-type: none"> a) commercial and non-commercial (sector policy) aims of state-owned enterprises (hereinafter – SOEs) are defined in medium-term and the results achieved will be evaluated yearly; b) common standards to ensure disclosure, transparency and access to the information regarding SOEs. c) The Cabinet determines Coordination institution that performs tasks determined by this Law and other normative acts. The tasks are connected with public enterprises and state capital shares governance (hereinafter – coordination institution). d) Until the 30th of August of the running year, the Coordination institution prepares and submits for information to the Cabinet and the Saeima the annual public report on enterprises and capital shares owned by the state during the previous year. The report includes information about the state participation at enterprises, resources invested by the state and return of such resources, services provided by enterprises, information about industries, in which enterprises with state participation operate, as well as other information that provides clear view on the state enterprises and capital shares. e) In the Company can establish a council (supervisory board) if parameters of the Company conform to all such criterions during the year of report: <ol style="list-style-type: none"> 1) net turnover exceeds 21 million euro; 2) balance totality exceeds 4 million euro.

		<p>f) members of the supervisory board and the executive board shall be appointed using the candidate data base, based on the criteria of professionalism and competence.</p> <p>In 2015, in order to improve the work of authorities supervising the efficiency of public administration, the government within the budget of 2015 has allocated additional funding of 0.5 million euros to the State Audit Office to facilitate the work quality of public administration and trust of society in public administration's work, by increasing the efficiency of public sector audits and implementing preventive measures in order to decrease offences and useless expenditure. It is planned to provide additional funding in the amount allocated for 2015 also in subsequent years in order to increase work efficiency of the State Audit Office.</p>
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Table 6.b: Targets set by the Union's Strategy for growth and jobs

National 2020 headline targets	List of measures	Description of direct relevance to address the target
National 2020 employment target [73,0%]	<ol style="list-style-type: none"> 1. Improving training measures for the unemployed; 2. Implementing support measures to reduce youth unemployment; 3. Efficient return of the long-term unemployed and social assistance clients to the labour market and supporting regional mobility; 4. Making the work of the State Employment Agency more efficient; 5. Promoting self-employment and entrepreneurship. 	<p>Since April 2014 the implementation of a whole scope of measures within Youth Guarantees. Thus the coverage of persons involved in these ALPM has increased.</p> <p>The elaboration of legislative base for an implementation of the ESF co-financed projects of new programming period has started – in the meeting of State Secretaries several regulations of Cabinet of Ministers (regulation on implementation a measure “Subsidized working places for disadvantaged unemployed people” and e measure „To raise the qualification of the unemployed and improve their skills according to the demand of labour market”) has announced. The announced projects envisage stock-taking of implementation criteria of these measures and applying them to the current labour market situation (support for facilitation the regional mobility has extended by applying this support to those participating in the training and subsidized employment, as well by involving additional experts to ensure participation of wider scope of persons with disabilities).</p> <p>Public consultations on most effective and appropriate activations methods for long-term unemployed has started – proposals for activation programme for long-term unemployed will be submitted to the Cabinet of Ministers in December 2014.</p>
National 2020 R&D target [1,5% of GDP]	<ol style="list-style-type: none"> 1. Developing potential of scientific activity; 2. Developing a long-term cooperation platform for enterprises and scientists; 3. Supporting development of innovative enterprises. 	<p>Amendments have been made to Cabinet Regulation No 1316 on a base funding for science. As from 2015, the most highly evaluated ("4" and "5") scientific institutions (SI) will receive additional funding amounting to 10% of a science base funding. SI that get "1" and "2" and have not participated in consolidation processes, will not receive a base funding as from 2016. In 2015, it is planned to make amendments to regulation, by determining criteria for financing a research that is based on performance, <i>inter alia</i> stating as a performance indicator the funding attracted from industry for scientific activity.</p> <p>Draft Cabinet Regulation is being prepared on sub-activity 2.1.1.3.3. ‘Development of Institutional Capacity of Scientific Institutions’ of the supplement to the action programme ‘Entrepreneurship and Innovations’, in which evaluation criteria for project applications are determined in order to obtain consolidation and scientific excellence aid funding.</p> <p>As from 2015, support for closer linking of higher educational institutions’ academic and scientific activity. As from 2015, there will be single agreements with higher educational institutions concluded on the allocation of funding for studies and research. In the agreements, there will be a requirement for co-operation with industry.</p>

		<p>Co-funding is being provided for projects in order to implement international co-operation programmes (for example, the Seventh Framework Programme, BONUS, ERATOM etc.) in the field of research and technologies, thus increasing a capacity of scientific institutions for attracting an external funding as well as ensuring mobility of knowledge, technologies and scientific personnel in compliance with the initiative of the common European Research Area.</p> <p>In different cross-border co-operation programmes (for example, the co-operation fund of Latvia-Lithuania-Taiwan; Latvia-Belarus bilateral programme), scientific co-operation projects are being supported as well as different problem situations are being solved in order to provide more successful co-operation between scientists of different countries, thus developing a potential of scientific activity – both in terms of infrastructure and human capital.</p> <p>Work is continued on activities which will be co-funded from EU SF (2014-2020) with a view to:</p> <ul style="list-style-type: none"> • Develop a technology transfer system in order to create an environment in which scientific institutions can increase their revenues from the commercialization of publicly-funded research, as well as to promote research results into business. • Encourage businesses to co-operate research sector in order to speed up new product and technology development and further commercialization. • Support the training of employees to provide enterprises with the appropriate manpower and to improve skills of employees. • Motivate and encourage the wider community to engage into business and innovation activities. <p>According to amendments in the Corporate Income Tax Law, taxable income can be reduced by expenses directly attributable to personnel involved in R&D and costs of research services purchased from specialized scientific institutions, multiplied by factor 3. Within the tax incentive such eligible costs are allowed: 1) Remuneration of scientific & technical staff with in companies; 2) Costs of scientific institutions' services; 3) Costs of accredited certification, test and calibration institutions' services. This tax incentive is applicable to costs incurred from the July 1, 2014.</p>
<p>GHG emission reduction target [12,2 Mt CO₂]</p>	<p>1. Limiting non-ETS sector emissions; 2. Research, innovations, raising public awareness.</p>	<p>1. Climate Change Mitigation Plan for 2014-2020 is being developed in which concrete actions for each involved institution will be set to jointly reduce GHG emissions.</p> <p>2. Project implementation will continue in year 2015, in the framework of Climate Change Financial Instrument (CCFI, international known as Green investment scheme), including projects in non-ETS sector (for example, introducing electromobiles and their charging infrastructure in Latvia). Elaboration of a new Emission allowances auction instrument and regulations for its implementation has started and will continue in year 2015. This includes, for example, the elaboration of a new Open Tender, in scope of which financial support for the installation of biomass boilers in households will be available.</p>

		<p>3. According to 11.20.2013. Regulation of Cabinet of Ministers Nr.551 "On priority directions of scientific research for 2014-2017" and 10.07.2014. Order of Cabinet of Ministers Nr.558 "On the state of research programs", 10 national research programs on GHG emission reduction solutions were approved.</p> <p>4. From the 16th till 19th of October the exhibition "Environment and energy" was organised, during which the society was informed on the latest achievements in climate change mitigation and further actions.</p>
<p>Renewable energy target [40,0%]</p>	<p>1. Adjusting the legal basis; 2. Ensuring availability of financial resources for the production of renewable energy; 3. Promoting the use of biofuels in the transport sector.</p>	<p>Adjusting the legal basis</p> <p>In 2014, the work on the efficiency assessment of the current support mechanism for electricity production from RER and cogeneration was continued and proposals for further solutions were prepared.</p> <p>In 2014, the legislation has been amended, introducing a body of measures to improve the competitive capacity of energy sector, including amendments in Cabinet Regulations No 382 (adopted 12 June, 2007) „Procedure for exemption from electricity tax payment obligation” that provide regulation for merchants full participation in wholesale energy market promoting electricity prices to conform to real market prices that has a positive long-term impact on further development of Latvian national economy.</p> <p>The assessment of functioning of the Subsidised Electricity Tax Law in the first 9 months of 2014 and further forecasts for subsidised electricity tax have also been prepared.</p> <p>Ensuring availability of financial resources for the production of renewable energy</p> <p>Projects for promotion of development of cogeneration power plants using RER are being implemented within the EU funds programming period 2007–2013. 10 contracts have been concluded for the CF financing of 29.6 million euro, out of which 8 projects have been completed for the CF financing of 22.03 million euro (according to: https://www.em.gov.lv/lv/es_fondi/istenosanas_progress_/). Within the implementation of projects, the expected installed capacity is 36 MW_{el} and heat capacity 105 MW.</p> <p>The total public financing in 2011–2013 for the support to energy production from biomass of agricultural and forestry origin if the produced energy is intended to be used mainly outside the farm was 201.9 million euro (including the EU funds of 133 million euro and the CCFI –60.9 million euro). Thus 40 projects have been implemented for the public financing of 46.4 million euro.</p> <p>The development of legal framework has been launched in order to ensure emission allowances auctioning revenues for climate change mitigation and to promote the adaptation to climate change, including: reducing or restricting greenhouse gas emissions. For the open competition project “The use of biomass in heat production” has been developed.</p> <p>Promoting the use of biofuels in the transport sector</p>

		<p>In order to increase accessibility of biofuels for consumers in 2014 the mandatory biofuel admixture and the reduced excise duty rates to biofuels and biofuel blends with fossil fuel containing at least 30% biofuel have been kept.</p> <p>Planned in 2015</p> <ol style="list-style-type: none"> 1. To improve the existing state aid mechanism implemented in the form of mandatory procurement and guaranteed payment for the electric capacity by making the necessary amendments in the Latvian law according to the decision of European Commission on the compatibility of the state aid mechanism with the European Union internal market. 2. In order to improve the competitiveness of Latvian energy-intensive companies the state aid mechanism prescribing to minimise the energy-intensive companies' participation in financing the production of energy from renewable resources will be prepared and submitted to European Commission. 3. As the moratorium established by the Cabinet of Ministers (set in Cabinet Regulation No 221 of 10 March 2009 „Regulations regarding electricity production and price determination upon production of electricity in cogeneration” and Cabinet Regulation No 262 of 16 March 2010 “Regulations Regarding the Production of Electricity Using Renewable Energy Sources and the Procedures for the Determination of the Price”) regarding rights to qualify for receiving support in the form of right to sell electricity within the scope of mandatory procurement or receipt of guaranteed payment for installed electric capacity is in force until 1 January 2016, it is necessary to make a decision on further possibility to prolong the existing moratorium.
<p>National energy efficiency target [0,670 Mtoe]</p>	<ol style="list-style-type: none"> 1. Insulation of buildings; 2. Increasing energy efficiency in public and industrial buildings; 3. Introducing efficient lighting infrastructure in public territories of municipalities; 4. Improving energy efficiency in heat energy production. 	<p>The amendments to national legislative acts were made due to the necessity of transposition of requirements of the Energy Efficiency Directive 2012/27/ES.</p> <p>The Ministry of Economics has worked out and announced in the meeting of the State Secretaries the draft law „Energy Efficiency Law” (VSS- 512). The amendments to the laws „Energy Law” and „Law on the Energy Performance of Buildings” were endorsed to Saeima and considered in the first reading.</p> <p>In the case of EM-managed EU funds for 2007 - 2013 programming period, in the activities aimed to increase energy efficiency in multifamily buildings it is expected in 2014 to complete 403 projects (for a total funding of 167 565 667 euro, including EU funding 65,860,430 euro) (now completed 186 projects constitute payments made 94 101 168 euro, including EU funding 37 500 244 euro). In 2015 233 renovation projects are expected to be completed. It is planned that when these projects will be completed a total volume of 128 373 117 euro, including EU funds 53 101 313 euro respectively will be absorbed.</p> <p>In addition in 2014 the sixth selection of project proposals was announced in the activity "Measures for the increasing of efficiency of district heating systems" with the financing from the Cohesion Fund 14 196 678.02 euro. This stage of the selection within the approved projects will be implemented in 2015.</p>

National early school leaving target [13,4% (10,0%)]	<ol style="list-style-type: none"> 1. Ensuring access to primary and secondary education; 2. Introducing modern teaching methods. 	<p>In the Guidelines for the Development of Education for 2014-2020, there are priority courses of actions specified both for the arrangement of a schools' network and for a transition to a new content that is based on competences, what is connected also with the revision of training methods, improvement of educational environment, promotion of the usage of technologies.</p> <p>There is also aid of structural funds planned in order to facilitate these activities.</p>
National target for tertiary education [34-36%]	<ol style="list-style-type: none"> 1. Modernizing higher education; 2. Modernizing the material-technical base of higher education institutions and raising the efficiency of resources' use; 3. Ensuring equal access to higher education; 4. Improving the quality of studies and scientific activity; 5. Attracting foreign students. 	<p>Research conducted by the World Bank has ended, amendments to financing regulations have been started in order to ensure financing of SI on the basis of performance as from 2016.</p> <p>According to recommendations by the World Bank, on the basis of which the Ministry will form a new financing model, the attraction of foreign students shall be determined as one of the criteria for obtaining funding that is based on performance. In the process of introducing the new financing procedure, there will be also the existing system of state-funded places and paid places of study evaluated as well as the system of scholarships, study credits, what in the opinion of experts is a significant availability aspect of SI.</p> <p>Amendments on the evaluation of professor qualifications are being prepared, by determining as compulsory criteria the number of publications and the number of doctors prepared as well as determining that the compliance of professor shall be evaluated by 3 foreign experts.</p>
National poverty target [21,0%]	<ol style="list-style-type: none"> 1. Reducing income inequality; 2. Encouraging people at risk of poverty and social exclusion to participate in the labour market; 3. Eliminating discrimination threats and stereotypes, as well as fostering participation of the civil society. 	<p>The government approved the concept paper "On defining the minimum income level". In the concept paper it is proposed to define a common and adequate minimum income level based on concrete calculation methodology which will serve as the reference point to develop support measures set within the social security system (state social benefits, social insurance, social assistance). It is determined that all the changes shall become effective as of January 1, 2017.</p>

The general government budget deficit for 2014 is projected at 1.4% of GDP, which compared to Stability programme's projections is by 0.4 percentage points higher. Deficit increase was mainly due to tax revenue decline according to the latest macroeconomic development scenario, as well as expenditure increase for social support, payments into EU budget, as well as projections of other expenditure items, based on actual performance, and other one-off factors.

The general government budget deficit under no-policy change scenario for 2015 is projected at 0.9% of GDP, which is by 0.1 percentage points higher, compared to Stability programme's projections. That is mainly due to lower tax revenue projections based on the latest macroeconomic development scenario and higher expenditure for social support, and increased defence expenditure in line with the law.

Having regard to the supported new discretionary revenue and expenditure measures in the State budget for 2015, the general government deficit is projected at 1.0% of GDP. Given that the cyclical component in 2015 is projected to be 0% of GDP, the general government structural balance is projected to be 1.0% of GDP, which corresponds to the structural balance target.

Table 7: Divergence from Stability Programme 2014-2017

	ESA Code	2013	2014	2015
		% of GDP		
Target general government net lending/ net borrowing	B.9			
Stability Programme		-1.0	-1.0	-0.8
Draft Budgetary Plan		-0.9	-1.4	-1.0
Difference		0.1	-0.4	-0.2
General government net lending projection at unchanged policies	B.9			
Stability Programme		-1.0	-1.0	-0.8
Draft Budgetary Plan		-0.9	-1.5	-0.9
Difference		0.1	-0.4	-0.1

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.