

# ON THE BASE OF THE STATE BASIC BUDGET AND SPECIAL BUDGET AND THE RESULTS OF THE PUBLIC SPENDING REVIEW FOR THE YEARS 2026, 2027, 2028 AND 2029

## SCOPE

On 27 March 2025 the Cabinet of Ministers approved the following:



### 1. Planning and implementation of performance-based budget:

1.1. line ministries should carry out an analysis of the budget expenditure in the areas under their responsibility and prepare proposals to improve the efficiency of their budget expenditures, including expenditure reductions through the optimization of functions, public services, and the implementation of structural reforms. Proposals regarding potential changes in sectoral policies and funding reallocations must be submitted to the Ministry of Finance for consolidation and further submission to the Cabinet of Ministers.

1.2. pilot ministries (the Ministry of Finance, the Ministry of Economy and the Ministry of Transport) should review the detailed structure for their budgets with the aim of improving performance-based budget programmes and submit relevant information to the Ministry of Finance for inclusion in the information report on State basic budget and special budget base and the results of the spending review.

### 2. Horizontal review of State budget programs:

2.1. The Ministry of Finance should carry out a horizontal review of State Budget programmes, including a review of funding allocated to priority measures, as well as an analysis of implementation performance indicators and the use of allocated funding in 2024.

The funds obtained through the spending review are primarily intended for reallocation to defense expenditures and demographic measures.

In accordance with paragraph 7 of the minutes of the Cabinet of Ministers meeting of 13 May 2025 (No. 19, §50), a mandate was given **to implement public sector efficiency measures and to reduce general government expenditures** by no less than EUR 450 million over the period 2026 to 2028, including at least EUR 150 million in 2026.

## FINANCIAL RESULTS OF THE SPENDING REVIEW



The results were adopted by the Cabinet of Ministers on 26 August 2025.

In fiscal terms, efficiency gains of **EUR 190,5 million** for 2026 were achieved, which provided additional funds for general government priorities and for reprioritizing expenditures within line ministries:

- EUR 171,1 million were allocated for government priorities;
- EUR 19,4 million were identified as ministerial internal resources.

Spending review results, EUR				
Method of the spending review	2026	2027	2028	2029
<b>Changes in State budget policy, expenditure reduction</b> Implementation of paragraph 7 of the minutes of the Cabinet of Ministers meeting of 13 May 2025 (No. 19, §50) regarding expenditure reduction has been completed.	171 065 563	155 216 927	152 763 845	152 777 505
<b>Review of the funding allocated for priority measures</b> The review of funding allocated by the Ministry of Finance for priority measures during the periods 2022 to 2024, 2023 to 2025, and 2024 to 2026 evaluated the relevance, results achieved, and effectiveness of the priority measures.	14 058 648	13 395 540	13 233 135	13 027 507
<b>Centralization of the accounting function</b> Funding to be allocated to the Shared Service Centre from the resources of the Ministry of Education and Science, the Ministry of Culture, and the Ministry of Justice for the implementation of the centralization of the accounting function.	5 385 861	5 385 861	5 349 272	5 312 914
<b>TOTAL:</b>	<b>190 510 072</b>	<b>173 998 328</b>	<b>171 346 252</b>	<b>171 117 926</b>

# DRAFT BASIC BUDGET AND SPECIAL BUDGET BASE

In accordance with paragraphs 13 and 17 of the Cabinet of Ministers Regulation No 15<sup>1</sup>, the Ministry of Finance submits to the Cabinet of Ministers for approval the draft basic budget and special budget base in accordance with the budget preparation schedule, accompanied by a list of measures not included in the basic expenditure. The 2026, 2027, 2028 and 2029 budget bases of the ministries are established in accordance with the requirements of Regulation No 15 and taking into account the decisions taken by the Cabinet of Ministers.

## DETAILED INFORMATION ON BENEFITS AND RESULTS OF THE SPENDING REVIEW

### **i** Horizontal review of State budget programs

#### 1. Expenditure analysis and impact on the 2026 budget

##### 1.1. Proposals from ministries, central State and independent institutions for expenditure reduction

In accordance with paragraph 7 of the minutes of the Cabinet of Ministers meeting of 13 May 2025 (No. 19, §50), a mandate was given to **implement public sector efficiency measures and to reduce general government expenditures** by no less than EUR 450 million during the period 2026 to 2028, including at least EUR 150 million in 2026. As part of the expenditure reduction process, an algorithm was established for expenditure subject to reduction, identifying **non-reducible expenditures (such as state liabilities, EU funds, social protection, remuneration of teachers, and expenditures directly related to national security, etc.)** and for other expenditures a percentage reduction has been calculated, reducing them by 8.6%. As part of spending review process, Minister of Finance organized budget negotiations with each line ministry in two parts, to ensure the implementation of the government's mandate for budget efficiency and expenditure reduction.

**Measures to ensure the public sector expenditure reduction mandated by the Cabinet of Ministers, EUR**

Measure	2026	2027	2028	2029
<b>Proposals from ministries and central State institutions</b>	98 883 903	77 982 244	79 295 930	79 168 551
<b>Proposals from independent institutions for expenditure reduction</b>	1 154 642	2 500 641	4 089 353	4 230 392
<b>Review of the remuneration system for elected officials (salary freeze)</b>	4 190 799	4 357 473	4 357 473	4 357 473
<b>Planned funding for the increase of remuneration in direct State administration institutions (horizontal priority)</b>	6 221 847	6 221 847	6 221 847	6 221 847
<b>Additional measures, including:</b>	1 918 881	1 159 112	1 159 112	1 159 112
<i>Amendments to the Law on Financing of Political Organisations (Parties)</i>	759 769			
<i>Forest Development Fund</i>	549 881	549 881	549 881	549 881
<i>Hunting Management Development Fund</i>	181 504	181 504	181 504	181 504
<i>Fisheries fund</i>	427 727	427 727	427 727	427 727
<b>Refined compensation for the impact of the tax reform</b>	58 695 491	62 995 610	57 640 130	57 640 130
<b>TOTAL:</b>	<b>171 065 563</b>	<b>155 216 927</b>	<b>152 763 845</b>	<b>152 777 505</b>

##### 1.2. Proposals by ministries, central State and independent institutions for fiscally neutral and structural measures

Summary of fiscally neutral and structural measures proposed by ministries and independent institutions. These proposals include the reallocation of resources, the review and optimization of expenditures to ensure more rational use of state budget funds. The financing is redirected to implement sectoral priorities and to address current issues.

#### 2. Analysis of the under-execution of basic budget programs and sub-programs and its impact on the 2026 budget

The programs and sub-programs of the basic budget function were analyzed, with a detailed look of the announced expenditure plans, revised plans, and actual execution for the period from 2022 to 2024. Average execution and under-execution rates were calculated, to provide insights into the accuracy of budget planning and implementation, regardless of the funding source. Additionally, the average performance level of operational outcome indicators for basic budget programs and sub-programs was evaluated, offering a perspective on the effectiveness of budget execution. This approach allows the identification of basic budget programs and sub-programs that require improvements and serves as a foundation for analytically supported budget planning for 2026, taking into account both government priorities and the international situation.

#### 3. Review of the funding allocated for priority measure

The following components of the priority measures were evaluated: flexibility (reallocation of allocated funding); efficiency (implementation of expenditure and performance indicators); actuality of priority measures; public interest (whether the priority measure can be continued with reduced funding); the role of government (whether the priority measure is included in the Government Action Plan).

<sup>1</sup> Cabinet of Ministers Regulation No 15 of 17 January 2023 "Procedure for determining the total maximum allowable amount of State budget expenditure and the total amount of expenditure for each ministry and other central State institution for the medium term.

#### 4. Analysis of performance indicators of the basic functions of the basic budget of 2024

To provide the public with an overview of the tangible and intangible benefits derived by them and the country as a whole from the use of public budget resources, the Report includes performance analysis of the main functions of the basic budget. The correlation between the performance of indicators and the level of expenditures was analysed.

##### **i** Implementation of performance-based State budget programs

Pilot ministries (the Ministry of Finance, the Ministry of Economics, and the Ministry of Transport), in accordance with paragraph 30 of the minutes of the Cabinet of Ministers meeting of 12 November 2024 (No. 48, § 35), reviewed the structure and level of detail of their budgets with the aim of improving the implementation of performance-based budget programs.

- **The Ministry of Economics** implemented structural reforms within the ministry and made structural changes to the definition of existing policy areas through the adoption of performance-based budgeting. As part of this process, the number of policy and resource management scorecards was reduced from five to three. Additionally, changes were made to State budget programs and sub-programs, optimizing both the structure and the number of budget programs.
- **The Ministry of Finance** reviewed the structure and level of detail of its budget, reduced the number of policy and resource management scorecards from five to three, and analyzed potential expenditure scenarios to ensure the efficiency of planned spending. As a result, the ministry applied the zero-based budgeting principle to its most resource-intensive functions, which account for 84% of the total ministry budget in 2025.
- **The Ministry of Transport** consolidated policy and resource management scorecards with smaller financial resources - reducing the number from seven to five in 2025, and from five to four in 2026 - and defined them in accordance with the ministry's strategic priorities. The ministry reviewed the alignment of the performance indicators with the objectives of the programs.

##### **i** Centralization of the accounting function

In 2025, work will continue on the development of the centralized accounting platform, the creation of common solutions, and the integration of additional institutions into the Shared Service Centre. The aim is to centralize the accounting function and staff of the Ministry of Justice, the Ministry of Education and Science, and the Ministry of Culture within the State Treasury of Latvia from January 1, 2026. Centralizing the accounting function will ensure a common accounting policy and methodology, reduce the possibility of inaccuracies and guarantee compliance with regulatory requirements. It will also facilitate the collection of consistent and comparable financial data, which is essential for state budget planning and execution, and enable for more efficient use of technological solutions and automated processes, thereby reducing manual work, costs, and the risk of inaccuracies.