

# The government approves the bill on the State budget for 2023 and the budget framework for 2023, 2024 and 2025

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On Tuesday, 7 February, the Cabinet of Ministers approved a bill on the State budget for 2023 and the budget framework for 2023, 2024 and 2025. The consolidated State budget income for 2023 is planned to be EUR 12.7 billion and expenses – EUR 14.7 billion. Compared to the 2022 budget, the planned State budget income in 2023 is EUR 2.025 billion higher. However, the State budget expenses this year are EUR 2.233 billion higher than in the 2022 State budget law. This is due to the geopolitical situation in the region, as well as the government's commitment to support the Latvian population by partially compensating for energy price increases and the planned support to Ukraine in its fight against Russian aggression.

The planned income in the basic budget is 8.8 billion, but the expenses are 10.9 billion euros. In the special budget, income is projected to be EUR 4.2 billion, but expenses EUR 4.1 billion. The general government budget deficit for 2023 (covering all State and local government administrations, as well as State social insurance institutions) is planned at EUR 1.77 billion, or 4.2% of gross domestic product (GDP).

The budget bill sets the debt ceiling at EUR 19.2 billion, or 45% of GDP, with the flexibility to take additional financing measures to raise resources in time to repay the planned debt in the event of favourable financial market conditions or in the event of risks with a negative impact on the economy and the State deficit. In the absence of the above mentioned conditions, State debt is projected at EUR 18 billion, or 42% of GDP.

## Priorities of the government

In order to achieve economic transformation in the coming years, the government declaration identifies State security, education, energy, competitiveness and quality of life, human and public health as key priorities. Following extensive discussions on the proposals for priority measures submitted to the government by line ministries, the 2023 State budget proposes to implement priority measures that will ensure the balanced achievement of the objectives set out in the government declaration.

Funds amounting to EUR 710 million are earmarked for new government priorities. The 2023 State budget foresees EUR 215 million from the fiscal space to implement additional measures. Also, financial resources to be reallocated during the budget execution process and additional instalments to the State budget from public corporations have been used as necessary financial resources, providing the necessary funding of EUR 141 million. Similarly, outside the fiscal space, EUR 354 million are earmarked for one-off investments to strengthen State security capabilities and support Ukraine.

In the field of education, EUR 61.6 million is earmarked for increasing teachers' salaries. The lowest monthly salary for pre-school teachers has been set at EUR 1,070 (previously EUR 970). As from 1 September, the lowest salary for teachers in general education institutions will be increased to EUR 1080 for 36 hours. An additional EUR 8.6 million is planned to prepare for the transition to teaching in Latvian, to introduce State examinations in STEM subjects (science and technology), to increase the remuneration of assistant service providers and to provide free lunches for pupils in Grades 1-4.

In the area of higher education and science, additional funding of EUR 31.8 million has been allocated, of which the largest expenses positions are for increasing the science base funding, projects under the basic and applied research programme and the implementation of the State research programme, as well as for building a world-class tenure-track professorship, changing the funding model in universities and increased targeted grants for qualified teachers in schools. And EUR 5.6 million will be earmarked for the sporting field.

Additional funding of EUR 85.8 million is earmarked for priority measures in the health sector. This includes improvements in oncology, such as more diagnostic capacity, better access to and quality of palliative care for patients at home, the provision of specialised food and the inclusion of new oncology medicines in the system of reimbursable medicines. It is also planned to continue existing therapies for patients and to review payment tariffs. Wage increases for doctors, nurses, nursing assistants and

other health professionals, initiated in previous years, will be continued, with primary concern for the lowest wages. Improvements in children's health care are also planned, such as payment for cochlear implants and glucose monitoring systems for children with hearing impairment and diabetes, and reimbursable medicines for cystic fibrosis patients.

There are plans to create an innovation fund for early-stage research projects with commercialisation potential, to develop an ecosystem of start-ups and to develop human capital that meets the needs of the labour market. The housing guarantee support programme and the support programme Balsts are to be continued with a budget of EUR 3 million. It is also planned to ensure access to finance for companies through an investment fund for the development of large export-orientated investment projects and export transaction insurance for Latvian companies. The amount of EUR 12.19 million is earmarked for this purpose.

Additional funding is also foreseen in the area of welfare. Minimum income support will be increased, i.e., the level of minimum income will change annually in line with socio-economic indices, providing support for the most vulnerable in the State – beneficiaries of minimum old-age, invalidity and survivor pensions, state social security benefits and basic social assistance benefits. Reimbursement for assistants and companions will be increased and queues for the receipt of technical aids will be reduced.

In the area of internal affairs, EUR 24 million is earmarked for salary increases for officials with ranks. EUR 23.1 million will be earmarked for the acquisition of fire-fighting and rescue vehicles, and EUR 23.8 million for the development of the eastern border infrastructure. A further EUR 4.7 million will be used to set up disaster management centres and equip new premises for the State Police.

This year is the 150<sup>th</sup> anniversary of the Song Festival, so in the year of the anniversary the government has agreed on additional funding for the successful organisation of the festival. A solution has also been found to increase the funding and predictability of the State Culture Capital Foundation, linking it to tax revenues.

#### Key indices and forecasts

It should be noted that this year, for the first time, the State budget for the current year and the medium-term budget framework are merged, with one law setting the main budget indicators not only for 2023, but also for 2024 and 2025.

At the end of last year, the Ministry of Finance updated its forecasts of macroeconomic indicators for 2022-2025. The indices were updated taking into account GDP dynamics in the first three quarters of last year, as well as the projected slowdown in economic growth in Latvia's main foreign trade partners this year. It should be noted that the projections are made in a context of high uncertainty.

The general government budget balances were updated in line with the updated macroeconomic forecasts and in the light of the government's decisions on additional financing for sectors. The general government budget deficit will decline from 4.2% of GDP in 2023 to 2.3% of GDP in 2024 and 2.0% of GDP in 2025.

Latvia's economic development is most affected by the situation in its main foreign trade partners, many of which are among the countries most affected by the Russian war and price rises. GDP is projected to decrease by 0.6% in 2023 and to grow by 3.0% in 2024 and 2025. At the same time, it should be noted that so far economic growth in EU countries during 2022 has been higher than expected immediately after the outbreak of the war and the sharp jump in energy prices, and the stronger negative impact will be more evident in the first half of 2023.

The inflation forecast for 2022 is 17.3% and for 2023 8.5%, up 0.8 and 2.0 percentage points respectively compared to the August forecast. The higher inflation outlook is mainly due to rising energy prices, in particular natural gas and associated heating costs, as well as higher food prices and stronger second-round effects. Inflationary pressures will ease in the coming years and stabilise at 2.0% by 2025. Central banks, including the European Central Bank, have started to raise interest rates in order to reduce inflation. This should allow monetary and fiscal policy to be aligned in a way that minimises the upsurge in inflation.

#### Collaboration with partners and local governments

The preparation of the budget and the medium-term framework also involved discussions with the government's social and collaboration partners, as well as with sectoral associations and local governments. As a result of the negotiations, an agreement and a protocol of disagreement between the Cabinet of Ministers and the Latvian Association of Local and Regional Governments (LPS) have been signed.

In 2023, local governments can project 22.5% or EUR 369.9 million more tax revenue in their budgets than in 2022. At the same time, the government has committed to guaranteeing that local governments will meet 100% of the forecast for personal income tax, the largest source of local government revenue. This provides a stable and predictable revenue base for local governments in 2023, which will ensure the necessary financial resources to carry out local government functions and the fulfilment of their obligations.

It has been agreed to maintain the existing financial equalisation procedure for local governments in 2023. For all local governments, a growth of 15.2% on average in equalised revenues is planned in 2023 compared to 2022. The government has also prepared a proposal to provide a one-off additional grant to local governments with the most limited financial resources and the lowest growth compared to the previous year. The one-off additional grant is set at EUR 0.9 million in total, to be distributed among seven local governments according to clearly defined criteria.

The annual agreement and protocol of disagreement between the Cabinet of Ministers and the LAS has reached a number of important agreements aimed at the development of local governments, including by providing for more borrowing possibilities. The implementation of European Union funds and Recovery Fund projects and the construction of new pre-school institutions to reduce queues of children remain the main borrowing priority in the medium term.

The draft 2023 State budget and medium-term budget framework is scheduled to be submitted to the *Saeima* on Thursday, 9 February.

<https://www.fm.gov.lv/en/article/government-approves-bill-state-budget-2023-and-budget-framework-2023-2024-and-2025>