Finanšu ministrija

DRAFT BUDGETARY PLAN OF THE REPUBLIC OF LATVIA 2026

RIGA, 2025

Content

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Abbreviations

CCT	Company Car Tax
CEF	Connecting Europe Facility
CIT	Corporate Income Tax
CoM	Cabinet of Ministers
CSB	Central Statistics Bureau
DIA	Distributional Impact Assessment
DRM	Discretionary revenue measures
EC	European Commission
ED	Excise Duty
EQMS	Educational Quality Monitoring Systems
ERDF	European Regional Development Fund
ESA	European System of Accounts
ESF+	European Social Fund Plus
ETS	Emissions Trading System
EU	European Union
FDL	Fiscal Discipline Law
FFA	Foreign Financial Assistance
GDP	Gross Domestic Product
GFCF	Gross fixed capital formation
GMI	Guaranteed minimum income
HICP	Harmonised Index of Consumer Prices
ICT	Information and communication technologies
IDAL	Investment and Development Agency of Latvia
ILA	Individual learning account
JSC	Joint stock company
LB	Bank of Latvia
LGT	Lottery and Gambling Tax
MoD	Ministry of Defence
MoE	Ministry of Economy
MoES	Ministry of Education and Science
MoF	Ministry of Finance
MoH	Ministry of Health
MoI	Ministry of Internal Affairs
MoJ	Ministry of Justice
MoSARD	Ministry of Smart Administration and Regional Development
MoT	Ministry of Transport
MoW	Ministry of Welfare
NAF	National Armed Forces
NATO	North Atlantic Treaty Organization
NNFPE	Net Nationally Financed Primary Expenditure
NRT	Natural Resources Tax

OECD	Organisation for Economic Co-operation and Development
PIT	Personal income tax
pp	Percentage points
RRF	Recovery and Resilience Facility
SAF	Sustainable aviation fuel
SCSSC	State Compulsory Social Security Contributions
SEZ	Special Economic Zone
SRS	State Revenue Service
STEM	Science, Technology, Engineering and Mathematics
TEN-T	Trans-European Transport Network
UN	United Nations
VAT	Value Added Tax
VOT	Vehicle Operation Tax
VPVKAC	State and local government unified customer service center

Introduction

Within the framework of the European Semester and according to the Regulation No. 473/2013 of the European Parliament and of the Council *on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area* Latvia submits the Draft Budgetary Plan for 2026.

The Draft Budgetary Plan for 2026 has been prepared based on the macroeconomic development scenario developed in June 2025, which projects a Gross Domestic Product (GDP) growth of 2.1% for 2026. The fiscal development scenario for 2026 includes a no-policy change scenario prepared in August 2025, as well as a policy change scenario, which encompasses discretionary revenue and expenditure measures adopted by the Cabinet of Ministers (CoM), including measures financed under the National Escape Clause for defence. The budget for 2026 has been prepared, projecting that the nominal deficit of the General Government budget at 3.3% of GDP and net nationally financed primary expenditure growth at 5.0%

The CoM approved the Draft Budgetary Plan for 2026 on October 14th of this year.

Fiscal commitments

A slightly higher NNFPE increase is planned for 2025, which is mainly explained by a lower NNFPE level in 2024. A higher NNFPE increase is planned for 2026, which is mainly explained by additional defence expenditures within the framework of the National Escape Clause.

Table 1a: Fiscal commitments

		2024	2025	2026
1a. Council recommendation of NNFPE, %	annual		5.9	3.6
1b. Outturn/projection of NNFPE, %	annual		6.2	5.0

Table 1b: Main variables

		2024	2025	2026
		% of GDP	% of GDP	% of GDP
1	**Net lending/borrowing**	-1.8	-2.9	-3.3
2	**Structural balance**	-1.5	-2.4	-3.0
3	**Structural primary balance**	-0.4	-1.2	-1.6
4	**Gross debt**	46.8	48.9	50.6
5	**Change in gross debt**	2.1	2.1	1.7

Macroeconomic development scenario[1]

The medium-term macroeconomic development scenario for 2025–2029 was prepared in June 2025, based on GDP data for the first quarter of 2025 and short-term macroeconomic information available up to June 2025. In developing the medium-term macroeconomic scenario, the MoF consulted with the LB, MoE, and commercial bank experts. The macroeconomic indicator forecasts were agreed with the LB and the MoE and were approved by the Fiscal Discipline Council on June 9, 2025.

Until 2023, Latvia's economy had overcome the challenges caused by the Covid-19 pandemic and Russia's war better than expected. However, negative external conditions became more pronounced, and in 2024 Latvia's GDP decreased by 0.4% compared to the previous year. Growth in external markets was constrained by Russia's war in Ukraine and the resulting price increases, as well as persistently high interest rates. The tense geopolitical situation, high uncertainty, and insecurity about the future also negatively affected domestic demand.

In the first half of 2025, economic growth has resumed, and unlike in 2024 when the main contribution came from sectors linked to public consumption growth was driven by most business sectors, particularly trade, construction, information and communication services, and manufacturing.

The macroeconomic development scenario for 2025–2029 foresees the stabilisation of Latvia's economy with a moderate growth in 2025, when **GDP** is projected to increase by 1.1%. Growth is expected to accelerate to 2.1% in 2026 and continue at around 2.2% in the following years. The recovery will be driven by increases in both public and private consumption, more intensive absorption of EU funds, and a faster rise in exports.

Private consumption is expected to increase by 0.2% in 2025, supported by rising household incomes and the recovery of purchasing power. In the following years, as consumer confidence improves and wage growth continues, private consumption growth will accelerate reaching 1.9% in 2026 and further increasing to 2.3–2.5% over the next two years. The reduction of interest rates, which will lessen the attractiveness of savings, will also contribute to higher private consumption. The contribution of private consumption to GDP growth will amount to 0.1 pp in 2025, gradually increasing to around 1.4 pp in the medium term**.**

Public consumption, which has so far been driven by wage increases for public sector employees, primarily in the interior and education sectors as well as by higher defence expenditures, is expected to grow at a slower pace in 2025 (+4.4%). In the following years, growth will further moderate and stabilise at around 2% annually in the medium term.

Investment growth in 2025 is projected at 3.7% in real terms, supported by a recovery in construction activity, improved lending conditions, and the accelerated implementation of EU fund investment projects. In 2026, total gross fixed capital formation is expected to increase to 4.5%, before stabilising at around 2% annually over the period up to 2029.

Following the decline experienced in the previous two years, **exports** of goods and services are expected to return to moderate growth of 1.9% in 2025 as external demand improves. Over the medium term, export growth is projected to approach 3%.

Inflation in 2025 is projected to be higher than in 2024, reflecting a faster increase of food prices in Latvia and certain energy resource prices on global markets, which will gradually affect heating and gas supply tariffs. According to MoF forecasts, annual average inflation in 2025 is expected to reach 3.5%, compared to 1.3% in 2024. In 2026, inflation is projected to

[1] The information presented in this section does not take into account the revised national accounts data published by the CSB on September 30, 2025.

decline to around 2.3%, and thereafter stabilize at approximately 2.2% till 2029, which corresponds to the price increase level of a converging economy.

After the rapid growth observed over the past two years, the **average monthly gross wage** is expected to increase at a slightly slower pace in 2025. This will be influenced by the overall economic situation - relatively low growth and moderate inflation, as well as by the planned public sector wage bill restrictions. The MoF projects that the average gross monthly wage will rise by 7.5% in 2025, reaching 1811 EUR, with the growth rate gradually slowing down to around 5–6% per year over the period up to 2029.

The lower economic growth has so far not significantly affected labour market indicators or unemployment, primarily due to demographic factors and the declining number of working-age population. After a brief and minor increase in 2024, the **unemployment rate** is projected to stabilise at around 6.9% of the economically active population in 2025. In the following years, driven by stronger economic growth and demographic trends, unemployment could gradually decline close to 5%. The number of employed persons is expected to remain relatively stable over the medium term at around 860-876 thousand with a slight downward trend.

In the forecast, the MoF assumed that the geopolitical situation would not significantly deteriorate. Both external and internal risks were assessed. The forecasts were prepared under conditions of very high uncertainty, with the main downside risks linked to geopolitical developments, where rising tensions could substantially weaken investor and consumer confidence, trigger another sharp increase in energy prices, or disrupt supply chains. Other risks include slower growth in Latvia's external trading partners, persistently higher inflation and interest rates than projected, delays in the implementation of EU fund investment projects, and the potential economic impact of U.S. import tariffs.

Table 2: Macroeconomic scenario

			2024	**2024**	**2025**	**2026**
	GDP	ESA Code	bn EUR	growth rate	growth rate	growth rate
1	Real GDP	B1*g		-0.4	1.1	2.1
2	GDP deflator			2.6	3.3	2.5
3	Nominal GDP	B1*g	40 208	2.1	4.4	4.7
	Components of real GDP	ESA Code	bn EUR	growth rate	growth rate	growth rate
4	Private consumption expenditure	P.3		0.5	0.2	1.9
5	Government consumption expenditure	P.3		7.6	4.4	3
6	Gross fixed capital formation	P.51		-6.7	3.7	4.5
7	Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		-	-	-
8	Exports of goods and services	P.6		-1.6	1.9	2.4
9	Imports of goods and services	P.7		-2.3	3.2	3.2
	Contribution to real GDP growth			growth rate	growth rate	growth rate
10	Final domestic demand			-1.0	2.0	2.8
11	Changes in inventories and net acquisition of value	P.52 + P.53		-1.3	0.0	0.0

			2024	2024	2025	2026
12	External balance of goods and services	B.11		0.6	-0.9	-0.7
	Deflators and HICP			growth rate	growth rate	growth rate
13	Private consumption deflator			3.4	3.5	2.3
14	HICP			1.3	3.5	2.3
15	Government consumption deflator			0.6	4.3	-1.2
16	Investment deflator			2.5	3.7	3.4
17	Export price deflator (goods and services)			0.9	1.6	2.9
18	Import price deflator (goods and services)			0.1	2	2.3
	Labour market	ESA Code	level	growth rate	growth rate	growth rate
19	Domestic employment (1000 persons, national accounts)		877	-0.8	-0.2	-0.2
20	Average annual hours worked per person employed		1 871	0.7	0.0	0.0
21	Real GDP per person employed			0.3	1.3	2.3
22	Real GDP per hour worked			-0.2	1.3	2.3
23	Compensation of employees (bn NAC)	D.1	22.281	7.7	7.3	5.8
24	Compensation per employee (= 23 / 19)		0.03	9.6	7.5	6.0
				%	%	%
25	Unemployment rate (%)			6.9	6.9	6.3
	Potential GDP and components			growth rate	growth rate	growth rate
26	Potential GDP			2	1.7	1.7
	Contribution to potential growth					
27	Labour			0	-0.3	-0.5
28	Capital			0.6	0.7	0.8
29	Total factor productivity			1.4	1.4	1.4
				% pot. GDP	% pot. GDP	% pot. GDP
30	Output gap			-0.7	-1.3	-0.9

Table 3: External assumptions[2]

	2024	2025	2026
Short-term interest rate (annual average)	3.6	2.0	1.7
Long-term interest rate (annual average)	2.3	2.5	2.7
USD/EUR exchange rate (annual average)	1.08	1.11	1.13
World real GDP (excluding EU) (%)	3.6	3.1	3.2
EU real GDP (%)	1	1.1	1.5
World import volumes, excluding EU (%)	3.2	2	2.2
Oil prices (Brent, USD/barrel)	80.5	69.5	65

[2] Data source: EC 2025 spring scenario.

Fiscal strategy and structural balance objectives

On April 30, 2024, the new EU economic governance framework, consisting of two regulations and one directive[3], came into force. In accordance with this framework, Latvia in the fall of 2024 developed and the Council on January 21, 2025, approved the first Fiscal Structural Plan for 2025–2028 and binding fiscal trajectory.

In 2025, taking into account developments in the geopolitical situation, the EC called on EU Member States to use the flexibility offered by the new EU economic governance framework and activate the National Escape Clause in order to facilitate the transition to a permanently higher level of defence spending. In July 2025, the Council activated the National Escape Clause for 15 Member States, including Latvia[4].

Based on the Council recommendation of July 8, 2025, allowing Latvia to deviate from the maximum growth rates of net expenditure set by the Council under Regulation (EU) 2024/1263 (Activation of the National Escape Clause), the deviation from the balance rule provided for in Article 12 of the FDL has also been activated and will be used in accordance with the conditions of the aforementioned Council recommendation[5] (CoM meeting minutes No. 32, § 48, point 5).

The Draft Budgetary Plan for 2026 has been prepared in line with the fiscal trajectory of the Fiscal Structural Plan, applying the conditions of the National Escape Clause for the increase in defence spending.

In the context of budget preparation, the following CoM decisions are important, as a result of which the Draft Law "On the State Budget for 2026 and the Budget Framework for 2026, 2027, and 2028" has identified **security, demography, and education as medium-term budgetary priorities and allocated additional funding to the priorities set by the CoM.**

On May 13, 2025, the CoM approved the Informative Report "Plan for Effective Increase of Defence and Security Funding" (CoM meeting minutes No. 19; §50) and its protocol decision:

- it has been determined that, for the purposes of national defence, achieving NATO capability targets, security needs, and military support for Ukraine, the CoM plans to move toward spending 5% of GDP by 2026;

- possible sources of financing for additional necessary expenditure are envisaged, including an increase in the general government budget deficit, which will be implemented in the period 2025–2028 in accordance with the provisions of the National Escape Clause;

- it is stipulated that the increase in defence funding shall be carried out in such a way that the general government debt does not exceed 55% of GDP.

In accordance with point 7 of the minutes of the CoM meeting of May 13, 2025 (meeting protocol No. 19, § 50), the goal was set to increase the efficiency of the public sector and reduce

[3] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97.

Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure.

Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.

[4] Brussels, 4.6.2025 COM(2025) 610 final, https://data.consilium.europa.eu/doc/document/ST-10474-2025-INIT/lv/pdf

[5] Informative Report „On macroeconomic indicators, revenue and general government budget balance forecasts for 2026, 2027, 2028 and 2029", available: https://tapportals.mk.gov.lv/legal_acts/1b22acf1-7d8a-413f-95b0-5e23c60029bc

overall government expenditure by at least 450 million EUR in 2026–2028, including at least 150 million EUR in 2026.

Amendments have been made to CoM Order No. 179 (CoM Order No. 377 of June 26, 2025, “Amendments to Cabinet of Ministers Order No. 179 of 27 March 2025 “On the schedule for the preparation of the draft law “On the state budget for 2026 and the budget framework for 2026, 2027 and 2028”””), stipulating that **ministries and other central government institutions shall not submit proposals for priority measures, while independent institutions were invited not to submit proposals for priority measures.** At the same time, it was noted that Order No. 179, subparagraph 2.4, stipulating that the funds obtained as a result of the review of expenditure shall be allocated primarily to the **financing of defence expenditure and demographic measures** (CoM meeting minutes No. 25, § 46) and it has been determined that, after ministries have reduced their expenditure by the specified amount, they have the right to submit proposals for inclusion in the expenditure review report on the allocation of additional savings to urgent priorities in their sector.

At the CoM meeting on May 27, 2025, when reviewing the Draft Law “Amendments to the Education Law”, it was decided to establish a transition to a **new model “Program at School” as a priority** for financing the remuneration of teachers in general basic and secondary education in the process of developing the Draft Law “On the State Budget for 2026 and the Budget Framework for 2026, 2027, and 2028” (CoM minutes No. 21, § 41).

At the CoM meeting on August 26, 2025, having reviewed the Informative Report “On the results of the review of the state basic budget and state special budget base and expenditures for 2026, 2027, 2028 and 2029”, it was agreed that the fiscal space available in 2026, amounting to 39 717 846 EUR would be allocated to the implementation of the action plan to provide support to Ukrainian civilians in the Republic of Latvia.

At the CoM meeting on September 22, 2025, the CoM reviewed the Informative Report “On Priority Measures to be Included in the Draft State Budget Law for 2026, 2027, and 2028” (CoM meeting minutes No. 38, § 1).

Fiscal rules and the objective of the general government structural balance

In preparing the Draft Budgetary Plan for 2026, four fiscal rules are applied in determining the **general government structural balance objective**:

1. FDL structural balance rule;
2. EU structural primary balance rule;
3. EU net nationally financed primary expenditure rule;
4. Nominal balance rule.

Each of the fiscal rules relates to a different fiscal indicator, but in order to ensure comparability and to determine which fiscal rule is determining, the fiscal indicators are expressed by means of a single fiscal indicator. For this purpose, starting with the Stability Program for 2024–2028[6], the **FDL structural balance indicator** is used. Its calculation takes into account the total amount of **one-off measures**, which is **1.64% of GDP for 2026**. It should be noted that are no new expenditure measures to be recognized as one-off measures (in addition to those already approved[7]), accordingly, the scope of one-off measures covers measures that are attributable to already approved investment projects to be implemented over

[6] Stability Programme of Latvia 2024-2028 (mk.gov.lv)

[7] Within the framework of Article 5 of the Law “On the State Budget for 2023 and the Budget Framework for 2023, 2024 and 2025” and “On the State Budget for 2024 and the Budget Framework for 2024, 2025 and 2026”

several years, and the rule is maintained that the increase in national defence base expenditure compared to the previous year is excluded from the general government budget structural balance objective in accordance with the amortization mechanism.

Fiscal rules and objectives in the no-policy-change scenario

It should be noted that in 2026, the National Escape Clause is planned to be used at 0.24% of GDP.

When recalculating fiscal rules in terms of the FDL structural balance, the values of the objective for the general government budget structural balance in 2026 under the no-policy-change scenario are:

- -1.24% of GDP, based on the FDL structural balance rule;
- -1.38% of GDP, based on the EU structural primary balance rule;
- -2.79% of GDP, based on the EU expenditure growth rule in cumulative terms;
- -1.28% of GDP, based on the nominal balance rule.

Accordingly, the determining rule is the FDL structural balance rule and the general government budget structural balance objective, which meets all rules, is -1.24% of GDP for 2026. Accordingly, the fiscal space in 2026 was set positive 39.7 million EUR.

Fiscal rules and objectives in the policy-change scenario

In the process of preparing the Draft Budgetary Plan for 2026, fiscal space was expanded through new policy measures, decisions were taken in the context of tax policy and expenditure reviews, as well as new fiscally neutral measures. Taking into account all the new measures approved by the CoM, the fiscal rules determine a different structural balance.

When setting the general government structural balance objective, the fiscal impact of the National Escape Clause for the relevant year is taken into account, which has been updated in accordance with the informative report reviewed by the CoM at its meeting on September 23, 2025 "On additional measures necessary to increase combat capabilities in accordance with the conditions of the National Escape Clause" (25-TA-1795) (CoM meeting minutes No. 39, § 52) – 0.48% of GDP in 2026.

When recalculating fiscal rules in terms of the FDL structural balance, the values of the objective for the general government budget structural balance in 2026 under the policy-change scenario are:

- -1.48% of GDP, based on the FDL structural balance rule;
- -1.56% of GDP, based on the EU structural primary balance rule;
- -2.91% of GDP, based on the EU expenditure growth rule in cumulative terms;
- -1.51% of GDP, based on the nominal balance rule.

Accordingly, the determining rule is the FDL structural balance rule and **the general government budget structural balance objective**, which meets all rules, is -1.48% of GDP for 2026.

Following the adoption of policy measures, **the growth of NNFPE**, excluding the fiscal security reserve, is 5.0% in 2026 (Table 4, row 30). The general government budget deficit, excluding the fiscal security reserve, is projected at 3.3% of GDP.

A fiscal security reserve of 0.1% of GDP was established in 2026 to mitigate fiscal risks. The growth of NNFPE in 2026, including the fiscal security reserve, is 5.2%.

Table 4a: Budgetary projections

		ESA Code	2024	2024	2025	2026
	Revenue		bn EUR	% of GDP	% of GDP	% of GDP
1	Taxes on production and imports	D.2	5.9	14.5	14.8	14.7
2	Current taxes on income, wealth, etc	D.5	3.7	9.3	8.7	8.7
3	Social contributions	D.61	4.7	11.6	12.1	12.3
4	Other current revenue	(P.11+P.12+ P.13)	3.0	7.6	7.0	6.4
5	Capital taxes	D.91	0.0	0.0	0.0	0.0
6	Other capital revenue	D.92+D.99	0.3	0.9	1.9	1.5
7	Total revenue (= 1+2+3+4+5+6)	TR	17.7	43.9	44.6	43.7
8	Of which: Transfers from the EU (accrued revenue. not cash)	D.7EU+D.9 EU	0.8	2.0	2.6	2.0
9	Total revenue other than transfers from the EU (= 7-8)		16.9	42.0	42.0	41.7
10	p.m. Revenue measures (increments, excluding EU funded measures)		0.2	0.6	0.2	-0.1
10b	p.m. Revenue reductions funded by transfers from the EU (levels)					
11	p.m. One-off revenue included in the projections (levels, excluding EU funded measures)					
	Expenditure		bn EUR	% of GDP	% of GDP	% of GDP
12	Compensation of employees	D.1	5.3	13.2	13.1	12.7
13	Intermediate consumption	P.2	2.6	6.4	6.6	6.2
14	Interest expenditure	D.41	0.4	1.1	1.2	1.4
15	Social benefits other than social transfers in kind	D.62	5.4	13.3	13.5	13.8
16	Social transfers in kind via market producers	D632	0.7	1.7	1.9	1.8
17	Subsidies	D.3	0.3	0.7	0.8	0.8
18	Other current expenditure	D.29+(D.4-	1.1	2.6	3.5	3.4
19	Gross fixed capital formation	P.51	2.3	5.7	6.4	6.3
20	Of which: Nationally financed public investment		2.0	4.9	4.7	5.0
21	Capital transfers	D.9	0.1	0.3	0.3	0.5
22	Other capital expenditure	P.52+P.53+ NP	0.2	0.6	0.2	0.2
23	Total expenditure (= 12+13+14+15+16+17+18+19+21+22)	TE	18.4	45.7	47.5	47.0

		ESA Code	2024	2024	2025	2026
24	Of which: Expenditure funded by transfers from the EU (= 8)	D.7EU+D.9 EU	0.8	2.0	2.6	2.0
25	Nationally financed expenditure (23-24)		17.6	43.7	44.9	45.0
26	p.m. National co-financing of programmes funded by the Union		0.1	0.3	0.5	0.3
27	p.m. Cyclical component of unemployment benefits		0.01	0.03	0.04	0.02
28	p.m. One-off expenditure included in the projections (levels, excluding EU funded measures)		0	0	0	0
29	NNFPE (before revenue measures) (= 25-26-27-28-14)		17.0	42.3	43.2	43.2
	NNFPE				% of GDP	% of GDP
30	NNFPE growth	Table 1a			6.2	5.0
	Balances		bn EUR	% of GDP	% of GDP	% of GDP
31	Net lending/borrowing (= 7-23)	B.9	-0.7	-1.8	-2.9	-3.3
	Net lending/borrowing by subsector					
31a.	Central government		-1.1	-2.8	-3.7	-4.3
31b.	State government					
31c.	Local government		0.1	0.2	0.0	0.1
31d.	Social security fund		0.4	0.9	0.8	0.8
32	Primary balance (= 31+14)	B.9-D.41p	-0.3	-0.7	-1.7	-1.9
	Cyclical adjustment			% of GDP	% of GDP	% of GDP
33	Structural balance			-1.5	-2.4	-3.0
34	Structural primary balance			-0.4	-1.2	-1.6
	Debt		bn EUR	% of GDP	% of GDP	% of GDP
35	Gross debt		18.8	46.8	48.9	50.6
36	Change in gross debt		1.2	2.1	2.1	1.7
37	Contributions to changes in gross debt					
38	Primary balance (= minus 32)			0.7	1.7	1.9
39	Snowball effect			0.2	-0.7	-0.8
40	Interest expenditure (= 14)			1.1	1.2	1.4
41	Growth			0.2	-0.5	-1.0
42	Inflation			-1.1	-1.5	-1.2
43	Stock-flow adjustment (= 36-38-39)			1.3	1.2	0.6
				%	%	%
44	p.m. Implicit interest rate on debt (= 14 / DEBT(t-1))			2.5	2.8	3.0
	Defence expenditure			% of GDP	% of GDP	% of GDP

		ESA Code	2024	2024	2025	2026
45	Total defence expenditure	COFOG 2	1.2	3.0	3.3	4.2
46	Of which: Defence investment	COFOG 2, P.51g	0.3	0.8	1.4	2.1

Table 4b: Budgetary projections under unchanged policies

	ESA Code	2024	2024	2025	2026
		bn EUR	% GDP		
Revenue					
1. Taxes on production and imports	D.2	5.9	14.5	14.8	14.7
2. Current taxes on income, wealth, etc	D.5	3.7	9.3	8.7	8.7
3. Social contributions	D.61	4.7	11.6	12.1	12.3
4. Other current revenue	(P.11+P.12+P.131) + D.39 + D.4 + D.7	3.0	7.6	7.0	6.3
5. Capital taxes	D.91	0.0	0.0	0.0	0.0
6. Other capital revenue	D.92+D.99	0.3	0.9	1.9	1.5
7. Total revenue (= 1+2+3+4+5+6)	TR	17.7	43.9	44.6	43.5
Expenditure					
8. Compensation of employees	D.1	5.3	13.2	13.1	12.7
9. Intermediate consumption	P.2	2.6	6.4	6.6	6.2
10. Interest expenditure	D.41	0.4	1.1	1.2	1.4
11. Social benefits other than social transfers in kind	D.62	5.4	13.3	13.5	13.6
12. Social transfers in kind via market producers	D.632	0.7	1.7	1.9	1.8
13. Subsidies	D.3	0.3	0.7	0.8	0.8
14. Other current expenditure	D.29 + (D.4-D.41) + D.5 + D.7 + D.8	1.1	2.6	3.5	2.9
15. Gross fixed capital formation	P.51	2.3	5.7	6.4	6.5
16. Of which: Nationally financed public investment		2.0	4.9	4.7	5.2
17. Capital transfers	D.9	0.1	0.3	0.3	0.3
18. Other capital expenditure	P.52+P.53+NP	0.2	0.6	0.2	0.2
19. Total expenditure (= 8+9+10+11+12+13+14+15+17+18)	TE	18.4	45.7	47.5	46.6
Balances					
20. Net lending/borrowing (= 7-19)	B.9	-0.7	-1.8	-2.9	-3.0
21. Primary balance (= 20+10)	B.9+D.41p	-0.3	-0.7	-1.7	-1.6

Implementation of Medium-Term Budgetary Policy Priority Directions

The Draft Budgetary Plan for 2026 provides funding for priority measures in the areas of **security** (measures related to defence and internal security), **demographic measures** and **education**, enforcement of legal acts, and other priority measures for 2026 in the amount of 693.5 million EUR (1.6% of GDP). Taking into account the fiscal space, which is positive but still limited in 2026, several compensatory measures will be used to implement priority measures in addition to the previously allocated base funding. In preparing the Draft Law "On the State Budget for 2026 and the Budget Framework for 2026, 2027, and 2028," financial resources outside the fiscal space are no longer used (except for expenditures planned in accordance with the provisions of the National Escape Clause).

More than half (65%) or 448.3 million EUR (1.0% of GDP) of this funding has been earmarked for the medium-term budget priority - Security, which was made possible by the activation of the National Escape Clause at EU level.

According to the Informative Report "On priority measures to be included in the draft state budget for 2026, 2027 and 2028" (CoM meeting minuts No. 38, §1.), the priority area "Security" has been allocated funding of 15. 0 million EUR in 2026: for internal security measures (security institutions, classified information) 6.0 million EUR, for support to border municipalities (Alūksne Municipality, Augšdaugava Municipality, Balvu Municipality, Krāslava Municipality, and Ludza Municipality, in accordance with the length of the EU's external border) (64th Budget Unit) 3.0 million EUR, and for ensuring a reinforced border protection regime (74th Budget Unit) 6.0 million EUR.

At its meeting on September 23, 2025, the CoM reviewed the Informative Report "On additional measures necessary to increase combat capabilities in accordance with the provisions of the National Escape Clause" and, based on the CoM decision, funding is provided in the process of preparing the Draft Law "On the State Budget for 2026 and the Budget Framework for 2026, 2027 and 2028" in the Budget Unit "74. Funding to be reallocated during the implementation of the Annual State Budget" under the Budget Program "State Defence and Security Fund" in accordance with the planned distribution of funding (CoM meeting minutes No. 39, § 52, item 4) and is indicatively planned for:

- strengthening intelligence and threat monitoring capabilities;
- implementing measures to maintain the NBS and provide personnel, with a view to accelerating the development of defence capabilities;
- ensuring the maintenance of the Sēlija training ground;
- providing support to Ukraine;
- implementing the Defence Innovation Fund and research and innovation.

The CoM decision of September 23, 2025 supplements the decisions of July 22, 2025, which were adopted after reviewing the Informative Report "Development of the capabilities of the National Armed Forces using the European Union's SAFE (Security Action for Europe) instrument" (CoM 22.07.2025. meeting minutes No. 29 81.§), where additional funding under the National Escape Clause is already outlined in the no-policy change scenario in the Budget Unit "74. Funds to be reallocated during the annual state budget implementation process" program 24.00.00. "State Defence and Security Fund" for the implementation of NATO capability targets:

- developing a Mechanized Infantry Brigade, ensuring an adequate level of armoured equipment and combat support capabilities, including indirect fire support;

- developing combat-capable division-level support units, including artillery, air defence, and intelligence capabilities;

- building ammunition stocks and combat support capabilities that can support both national and NATO units;

- promoting the development of unmanned capabilities in the NBS and improving national countermeasures capabilities for unmanned systems.

Within the **priority area of "Demography"**, during the preparation of the Draft Law "On the State Budget for 2026 and the Budget Framework for 2026, 2027, and 2028," additional funding has been allocated to several important measures, including:

- 42.0 million EUR for improving material support (benefits) for families with children;
- 24.2 million EUR for improving material support for children in out-of-family care;
- 7.7 million EUR for maintaining parental benefit at 75% for working benefit recipients;
- 10.0 million EUR for improving the health of mothers and children.

The Draft Law "On the State Budget for 2026 and the Budget Framework for 2026, 2027 and 2028" has identified additional funding of 45.0 million EUR for 2026 for the **implementation of the "Program at School" financing model**.

The Draft Law "On the State Budget for 2026 and the Budget Framework for 2026, 2027 and 2028" provides for the implementation of measures in 2026 **to ensure compliance with legal acts** (provision of palliative care services) by implementing policy changes, ensuring remuneration for election commissions, providing social rehabilitation services, one-off investments for the implementation of urgent security measures for the Ministry of Foreign Affairs' representation in Brussels, adaptation of the IT systems of the SRS and the Ministry of the Interior in connection with changes in tax laws and other legal acts, allocating 17.9 million EUR for these measures, and a number of other measures, for which 87.5 million EUR has been allocated, totalling 105.4 million EUR.

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	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
						2026	2027	2028
						% of GDP		
Changes in the CIT	Increase in the share of dividends paid to the state (increase to 90%)	CIT	D.5	Accrual	Partly approved by government	0.02	0.01	0.00
	Reduction of CIT restrictions regarding interest payments	CIT	D.5	Accrual	Partly approved by government	0.00	0.00	0.00
	Balancing the tax burden for individual investors	CIT	D.5	Accrual	Partly approved by government	0.00	0.00	0.00
	ESA corrections	CIT	D.5	Accrual	Partly approved by government	0.00	0.00	0.00
Changes in the NRT	Increase in NRT rate: sand	NRT	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
	Increase in NRT rate: sand-gravel	NRT	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
	Increase in NRT rate: peat	NRT	D.2	Accrual	Partly approved by government	0.00	0.02	0.02
	Increasing the NRT rate: unprocessed wood (new object)	NRT	D.2	Accrual	Partly approved by government	0.00	0.03	0.01
Increase in the LGT	Increase in gambling tax rates in 2026 (one year earlier)	LGT	D.2	Accrual	Partly approved by government	0.02	-0.02	0.00

List of measures	Detailed description	Type of tax	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
						2026	2027	2028
						% of GDP		
Changes in the ED	Increase in ED rate for oil products	ED	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
	Increase in ED rate for alcoholic beverages and beer	ED	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
	Increase in ED rate for tobacco products and products similar in their intended use	ED	D.2	Accrual	Partly approved by government	0.01	0.01	0.02
	Increase in ED rate for non-alcoholic beverages	ED	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
	ESA corrections	ED	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
Changes in the VAT	Increase in ED rate for oil products	VAT	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
	Increase in ED rate for alcoholic beverages and beer	VAT	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
	Increase in ED rate for tobacco products and products similar in their intended use	VAT	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
	Increase in ED rate for non-alcoholic beverages	VAT	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
	VAT increase for press and books not published in the national language. in the official languages of EU and OECD member states or candidate countries	VAT	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
	Application of a reduced VAT rate of 12% to supplies of bread, milk, poultry meat and eggs (01.07.2026.-30.06.2027.)	VAT	D.2	Accrual	Partly approved by government	-0.03	0.00	0.04

List of measures	Detailed description	Type of tax	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
						2026	2027	2028
						% of GDP		
	ESA corrections	VAT	D.2	Accrual	Partly approved by government	0.00	0.01	0.00
Changes in the PIT	Balancing the tax burden for individual investors	PIT	D.5	Accrual	Partly approved by government	0.00	0.00	0.00
Changes in the non-tax revenue	Increase in the share of dividends paid to the state (increase to 90%)	Non-taxes	D.4	Accrual	Partly approved by government	0.08	0.02	-0.01
	Increase in revenue from fines imposed by the State Police for violations in road traffic recorded by the merchant's technical means	Non-taxes	P.11. P.12. P.13	Accrual	Partly approved by government	0.00	0.00	0.00
					Total	**0.11**	**0.06**	**0.08**

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

Title	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
				2026	2027	2028
				% of GDP		
Expenditure review		**Cash flow**	**Approved by government**	**-0.39**	**0.05**	**0.02**
Expenditure review - compensation of employees	D.1	Cash flow	Approved by government	-0.07	0.00	0.00
Expenditure review - intermediate consumption	P.2	Cash flow	Approved by government	-0.05	0.01	0.00
Expenditure review - current transfers	D.7	Cash flow	Approved by government	-0.06	-0.01	0.00
Expenditure review - gross fixed capital formation	P.51g	Cash flow	Approved by government	-0.06	0.04	0.00

Title	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
				2026	2027	2028
				% of GDP		
Expenditure review - other expenditures	D.1, D.62, D.632, D.7, P.2, P.51g	Cash flow	Approved by government	-0.02	0.00	0.00
Expenditure review - expenditures in the local government budget (including compensation of employees, intermediate consumption, gross fixed capital formation)	D.1, D.62, D.632, D.7, P.2, P.51g	Cash flow	Approved by government	-0.13	0.00	0.02
Support to Ukraine civilians	**D.7**	**Cash flow**	**Approved by government**	**0.09**	**-0.09**	**0.00**
Priority measures		**Cash flow**	**Approved by government**	**0.33**	**0.07**	**0.01**
Internal security measures	P.2, P.51g	Cash flow	Approved by government	0.01	-0.01	0.00
Implementation of the "Program at School" financing model	D.1	Cash flow	Approved by government	0.10	0.09	-0.02
Improvement of material support (benefits) for families with children	D.62	Cash flow	Approved by government	0.10	0.00	0.03
Improving material support for children in out-of-family care	D.62	Cash flow	Approved by government	0.05	0.00	0.01
Retention of parental allowance at 75% for working recipients	D.62	Cash flow	Approved by government	0.02	-0.02	0.00
Improving the health of mothers and children	P.2	Cash flow	Approved by government	0.02	0.00	0.00
Access to healthcare and medicines for children	P.2	Cash flow	Approved by government	0.02	0.00	0.00
Ensuring compliance with regulatory acts	**D.1, D.62, D.7, P.2**	**Cash flow**	**Approved by government**	**0.04**	**-0.02**	**0.00**
Other priority measures		**Cash flow**	**Approved by government**	**0.19**	**-0.16**	**0.00**

Title	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
				2026	2027	2028
				% of GDP		
Support for farmers	D.7	Cash flow	Approved by government	0.13	-0.13	0.00
Strengthening the availability of medicines in the price segment up to 10 EUR and for people with disabilities	D.7	Cash flow	Approved by government	0.02	0.00	0.00
Other priorities	D.7, P.2, P.51g	Cash flow	Approved by government	0.03	-0.03	0.00
Compensatory expenditure measures		Cash flow	**Approved by government**	**-0.02**	**-0.17**	**0.02**
Adjustment of 74th budget unit expenditure	D.7	Cash flow	Approved by government	0.03	-0.07	0.13
Contributions to the EU budget	D.7	Cash flow	Approved by government	0.00	0.00	-0.12
Debt management expenditure (Interest expenditure)	D.41	Cash flow	Approved by government	-0.05	0.00	-0.01
Reduction in expenditure for ministries and other central institutions (cancellation of bonuses for performance assessments, etc.)	D.1	Cash flow	Approved by government	0.00	-0.04	0.00
Reduction of long-term vacancies in public administration (longer than 6 months)	D.1	Cash flow	Approved by government	0.00	-0.01	0.00
Reduction of expenditure by entities included in the general government	P.2, P.51g	Cash flow	Approved by government	-0.01	-0.02	0.02
Review of special budget expenditure	D.62	Cash flow	Approved by government	-0.01	-0.04	0.00
Fiscally neutral measures	**D.1, D.7**	**Cash flow**	**Approved by government**	**0.03**	**0.02**	**0.03**
Redistribution between FFA programs	D.7	Cash flow	Approved by government	0.16	-0.04	-0.09
Redistribution between FFA programs	P.51g	Cash flow	Approved by government	-0.16	0.04	0.09
Other fiscally neutral measures	D.1, D.7	Cash flow	Approved by government	0.03	0.02	0.02
Strengthening defence capabilities (additional spending using the National Escape Clause)	**D.1, P.2, P.51g, D.9**	**Cash flow**	**Approved by government**	**0.23**	**-0.10**	**0.00**

Title	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
				2026	2027	2028
				% of GDP		
Other expenditure, including ESA corrections	**P.2, P.51g, D.7**	**Cash flow**	**Approved by government**	**0.00**	**0.00**	**0.00**
			Total	**0.50**	**-0.40**	**0.07**

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

List of measures	Detailed description	Type of tax	ESA code	Accounting principle	Adoption Status	Budgetary impact		
						2026	2027	2028
						% of GDP		
Changes in the CIT	Increase in the share of dividends paid to the state (increase to 90%)	CIT	D.5	Accrual	Partly approved	0.02	0.01	0.00
	Reduction of CIT restrictions regarding interest payments	CIT	D.5	Accrual	Partly approved	0.00	0.00	0.00
	Balancing the tax burden for individual investors	CIT	D.5	Accrual	Partly approved	0.00	0.00	0.00
	ESA corrections	CIT	D.5	Accrual	Partly approved	0.00	0.00	0.00
Changes in the NRT	Increase in NRT rate: sand	NRT	D.2	Accrual	Partly approved	0.00	0.00	0.00
	Increase in NRT rate: sand-gravel	NRT	D.2	Accrual	Partly approved	0.00	0.00	0.00
	Increase in NRT rate: peat	NRT	D.2	Accrual	Partly approved	0.00	0.01	0.01
	Increasing the NRT rate: unprocessed wood (new object)	NRT	D.2	Accrual	Partly approved	0.00	0.03	0.00
Increase in the LGT	Increase in gambling tax rates in 2026 (one year earlier)	LGT	D.2	Accrual	Partly approved	0.02	-0.02	0.00
Changes in the ED	Increase in ED rate for oil products	ED	D.2	Accrual	Partly approved	0.00	0.00	0.00

List of measures	Detailed description	Type of tax	ESA code	Accounting principle	Adoption Status	Budgetary impact		
						2026	2027	2028
						% of GDP		
	Increase in ED rate for alcoholic beverages and beer	ED	D.2	Accrual	Partly approved	0.00	0.00	0.00
	Increase in ED rate for tobacco products and products similar in their intended use	ED	D.2	Accrual	Partly approved	0.01	0.01	0.02
	Increase in ED rate for non-alcoholic beverages	ED	D.2	Accrual	Partly approved	0.00	0.00	0.00
	ESA corrections	ED	D.2	Accrual	Partly approved	0.00	0.00	0.00
Changes in the VAT	Increase in ED rate for oil products	VAT	D.2	Accrual	Partly approved	0.00	0.00	0.00
	Increase in ED rate for alcoholic beverages and beer	VAT	D.2	Accrual	Partly approved	0.00	0.00	0.00
	Increase in ED rate for tobacco products and products similar in their intended use	VAT	D.2	Accrual	Partly approved	0.00	0.00	0.00
	Increase in ED rate for non-alcoholic beverages	VAT	D.2	Accrual	Partly approved	0.00	0.00	0.00
	VAT increase for press and books not published in the national language. in the official languages of EU and OECD member states or candidate countries	VAT	D.2	Accrual	Partly approved	0.00	0.00	0.00
	Application of a reduced VAT rate of 12% to supplies of bread, milk, poultry meat and eggs (01.07.2026.-30.06.2027.)	VAT	D.2	Accrual	Partly approved	-0.03	0.00	0.04
	ESA corrections	VAT	D.2	Accrual	Partly approved	0.00	0.01	0.00
Changes in the PIT	Balancing the tax burden for individual investors	PIT	D.5	Accrual	Partly approved	0.00	0.00	0.00
Changes in the non-tax revenue	Increase in the share of dividends paid to the state (increase to 90%)	Non-taxes	D.4	Accrual	Partly approved	0.08	0.02	-0.01
	Increase in revenue from fines imposed by the State Police for violations in road traffic recorded by the merchant's technical means	Non-taxes	P.11, P.12, P.13	Accrual	Partly approved	0.00	0.00	0.00
					Total	**0.11**	**0.05**	**0.06**

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

Title	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
				2026	2027	2028
				% of GDP		
Expenditure review		**Cash flow**	**Approved by government**	**-0.25**	**0.06**	**0.00**
Expenditure review - compensation of employees	D.1	Cash flow	Approved by government	-0.07	0.00	0.00
Expenditure review - intermediate consumption	P.2	Cash flow	Approved by government	-0.05	0.01	0.00
Expenditure review - current transfers	D.7	Cash flow	Approved by government	-0.06	-0.01	0.00
Expenditure review - gross fixed capital formation	P.51g	Cash flow	Approved by government	-0.06	0.04	0.00
Expenditure review - other expenditures	D.1, D.6, D.7, P.2, P.51g	Cash flow	Approved by government	-0.01	0.00	0.00
Support to Ukraine civilians	**D.7**	**Cash flow**	**Approved by government**	**0.09**	**-0.09**	**0.00**
Priority measures		**Cash flow**	**Approved by government**	**0.21**	**-0.01**	**0.03**
Internal security measures	P.2, P.51g	Cash flow	Approved by government	0.01	-0.01	0.00
Improvement of material support (benefits) for families with children	D.62	Cash flow	Approved by government	0.10	0.00	0.03
Improving material support for children in out-of-family care	D.62	Cash flow	Approved by government	0.05	0.00	0.01
Improving the health of mothers and children	P.2	Cash flow	Approved by government	0.02	0.00	0.00
Access to healthcare and medicines for children	P.2	Cash flow	Approved by government	0.02	0.00	0.00
Ensuring compliance with regulatory acts	**D.1, D.62, D.7, P.2**	**Cash flow**	**Approved by government**	**0.04**	**-0.02**	**0.00**
Other priority measures		**Cash flow**	**Approved by government**	**0.19**	**-0.16**	**0.00**
Support for farmers	D.7	Cash flow	Approved by government	0.13	-0.13	0.00

Title	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
				2026	2027	2028
				% of GDP		
Strengthening the availability of medicines in the price segment up to 10 EUR and for people with disabilities	D.7	Cash flow	Approved by government	0.02	0.00	0.00
Other priorities	D.7., P.2, P.51g	Cash flow	Approved by government	0.03	-0.03	0.00
Compensatory expenditure measures		**Cash flow**	**Approved by government**	**-0.02**	**-0.13**	**0.02**
Adjustment of 74th budget unit expenditure	D.7	Cash flow	Approved by government	0.03	-0.07	0.13
Contributions to the EU budget	D.7	Cash flow	Approved by government	0.00	0.00	-0.12
Debt management expenditure (Interest expenditure)	D.41	Cash flow	Approved by government	-0.05	0.00	-0.01
Reduction in expenditure for ministries and other central institutions (cancellation of bonuses for performance assessments, etc.)	D.1	Cash flow	Approved by government	0.00	-0.04	0.00
Reduction of long-term vacancies in public administration (longer than 6 months)	D.1	Cash flow	Approved by government	0.00	-0.01	0.00
Reduction of expenditure by entities included in the general government	P.2, P.51g	Cash flow	Approved by government	-0.01	-0.02	0.02
Fiscally neutral measures	**D.1, D.7**	**Cash flow**	**Approved by government**	**0.02**	**0.08**	**-0.01**
Redistribution between FFA programs	D.7	Cash flow	Approved by government	0.16	-0.04	-0.09
Redistribution between FFA programs	P.51g	Cash flow	Approved by government	-0.16	0.04	0.09
Other fiscally neutral measures	D.1, D.7	Cash flow	Approved by government	0.02	0.00	-0.02
Transfers to social security funds	D.7	Cash flow	Approved by government	0.02	0.00	0.01
Transfers to local government	D.7	Cash flow	Approved by government	-0.02	0.08	0.00
Strengthening defence capabilities (additional spending using the National Escape Clause)	**D.1, P.2, P.51g, D.9**	**Cash flow**	**Approved by government**	**0.23**	**-0.10**	**0.00**

Title	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
				2026	2027	2028
				% of GDP		
Other expenditure, including ESA corrections	**P.2, P.51g, D.7**	**Cash flow**	**Approved by government**	**0.00**	**0.00**	**0.00**
			Total	**0.51**	**-0.38**	**0.04**

Table 5.c.i1): Discretionary revenue measures taken by Local Government

List of measures	Detailed description	Type of tax	ESA code	Accounting principle	Adoption Status	Budgetary impact		
						2026	2027	2028
						% of GDP		
Changes in the NRT	Increase in NRT rate: sand	NRT	D.2	Accrual	Partly approved	0.00	0.00	0.00
	Increase in NRT rate: sand-gravel	NRT	D.2	Accrual	Partly approved	0.00	0.00	0.00
	Increase in NRT rate: peat	NRT	D.2	Accrual	Partly approved	0.00	0.01	0.01
	Increasing the NRT rate: unprocessed wood (new object)	NRT	D.2	Accrual	Partly approved	0.00	0.00	0.01
Increase in the LGT	Increase in gambling tax rates in 2026 (one year earlier)	LGT	D.2	Accrual	Partly approved	0.00	0.00	0.00
Changes in the PIT	Balancing the tax burden for individual investors	PIT	D.5	Accrual	Partly approved	0.00	0.00	0.00
					Total	**0.00**	**0.01**	**0.02**

Table 5.c.ii1): Discretionary expenditure measures taken by Local Government

Title	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
				2026	2027	2028
				% of GDP		
Expenditure review		**Cash flow**	**Approved by government**	**-0.13**	**0.00**	**0.02**
Expenditure review - expenditures in the local government budget	D.1, D.3, D.632, P.2, P.51g	Cash flow	Approved by government	-0.13	0.00	0.02
Priority measures		**Cash flow**	**Approved by government**	**0.10**	**0.09**	**-0.02**
Implementation of the “Program at School” financing model	D.1	Cash flow	Approved by government	0.10	0.09	-0.02
Fiscally neutral measures		**Cash flow**	**Approved by government**	**0.01**	**0.02**	**0.05**
Other fiscally neutral measures (including additional NRT revenue)	D.1, P.2, P.51g	Cash flow	Approved by government	0.01	0.02	0.04
			Total	**-0.02**	**0.11**	**0.04**

Table 5.c.ii2): Discretionary expenditure measures taken by Social Security Funds

Title	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
				2026	2027	2028
				% of GDP		
Expenditure review		**Cash flow**	**Approved by government**	**0.00**	**0.00**	**0.00**
Review of special budget expenditure	D.1, D.62, P.51g	Cash flow	Approved by government	0.00	0.00	0.00
Priority measures		**Cash flow**	**Approved by government**	**0.02**	**-0.02**	**0.00**
Retention of parental allowance at 75% for working recipients	D.62	Cash flow	Approved by government	0.02	-0.02	0.00
Compensatory expenditure measures		**Cash flow**	**Approved by government**	**-0.01**	**-0.04**	**0.00**
Review of special budget expenditure	D.62	Cash flow	Approved by government	-0.01	-0.04	0.00
			Total	**0.01**	**-0.05**	**0.00**

Table 6: RRF grants

	2021	2022	2023	2024	2025	2026
Revenue from RRF grants (% of GDP)						
RRF grants as included in the revenue projections		0.02	0.39	0.94	1.78	1.54
Cash disbursements of RRF grants from EU	0.74	0.56	0.00	0.90	0.70	1.99
Expenditure financed by RRF grants						
	2021	**2022**	**2023**	**2024**	**2025**	**2026**
CURRENT EXPENDITURE		0.00	0.11	0.29	0.54	0.58
Gross fixed capital formation P.51g		0.02	0.28	0.65	1.23	0.95
Other capital expenditure D.9						
CAPITAL EXPENDITURE		0.02	0.28	0.65	1.23	0.95

Table 7: Country Specific Recommendations

No.	EU Council Recommendation 2025	Description
1	Reinforce overall defence spending and readiness in line with the European Council conclusions of 6 March 2025. Adhere to the maximum growth rates of net expenditure recommended by the Council on 21 January 2025, while making use of the allowance under the national escape clause for higher defence expenditure. Make public finances fit to cope with rising structural spending needs including for defence, healthcare and social protection, such as by broadening taxation to sources less detrimental to growth, moving informal or undeclared activities into the formal economy, and redirecting expenditure to priority areas based on public spending reviews.	Taking into account the Council Recommendation of 8 July 2025 allowing Latvia to deviate from the maximum growth rates of net expenditure set by the Council under Regulation (EU) 2024/1263 (Activation of the National Escape Clause) and taking into account the activated derogation from the balance rule provided for in Article 12 of the Fiscal Discipline Law, in the policy change scenario, i.e. after the adoption of policy measures, the growth of net nationally financed primary expenditure (excluding the fiscal security reserve) in 2026 is 5.0%. The fiscal impact of the escape clause in 2026 is 0.48% of GDP. If expenditure supported under the National Escape Clause is deducted from the net nationally financed primary expenditure, then the growth of net nationally financed primary expenditure (excluding the fiscal security reserve) in 2026 is 3.9%. In its communication of 19 March 2025, the EC called for the use of the opportunities offered by the national escape clause to maximize the impact on EU defence capabilities by facilitating the transition to a higher level of defence spending. With the recommendation approved by the EU Council on 8 July 2025, Latvia has been granted permission to enhance defence capabilities and increase defence spending from the maximum net expenditure growth rates set by the Council in accordance with Regulation (EU) 2024/1263 (triggering the national escape clause). In accordance with the minutes of the CoM meeting of 18 February 2025, No. 7, Section 2 of the Information Report "On the initial assessment of NATO requirements for the development of defence capabilities" allocated to Latvia, the NATO capability objectives and the operational analysis of the NAF, the MoD has identified

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		the areas of capabilities that should be developed in the short and medium term. All capability areas identified by the MoD are identifiable as defense spending according to the Classification of Functions of Government (COFOG) classification system or NATO definition. In 2026, additional one-off measures are planned in the MoD budget: ◉ Air defense systems 200 million EUR (funding reserved for air defense systems in the 74th budget unit 18.00.00); ◉ Equipment for increasing combat capabilities 10.48 million EUR (in the separate program of the state budget unit "74th Annual State Budget Execution Process Redistributed Funding"). Additional needs have been identified to ensure increased defense, both through the European Union's Security Action for Europe (SAFE) and outside the SAFE funding mechanism, which, in line with the government's commitment to move towards spending 5% of GDP on defense, could be directed to the defense sector, strengthening defense capabilities. As part of the budget development process, the government is evaluating two reports on the necessary additional funding for 2026: ◉ through the SAFE mechanism - for a total funding amount of 286 million EUR in 2026, including 166 million EUR accepted by the government and allocated to the defense sector to implement the purchase of infantry fighting vehicles project, but other measures and the necessary funding for them require government approval; ◉ measures planned outside the SAFE - included in the exception clause for a total funding amount of 128 million EUR in 2026 and which will be decided separately by the government. At the end of 2024, the Saeima adopted the amendments to the Law on Excise Duties, which provide for a gradual increase of excise duty rates for alcoholic beverages in 2025 and in 2026 (on average by 5% for other alcoholic beverages, by 10% for wine, fermented beverages and beer, by 30% for intermediate products), as well as by 5% on average for all alcoholic beverages in 2027. Regarding tobacco products and similar products by purpose, these amendments provide for a 10% increase in excise duty rates in the following three years (2025, 2026 and 2027). In addition, the rate of excise duty on sweetened soft drinks with a sugar content from 8 g/100 ml and energy drinks was increased in 2025. According to the informative report approved by the CoM on 22 September 2025, On Priority Measures to be Included in the State Budget Draft Law for 2026, 2027 and 2028, the following changes in tax policy are envisaged: ◉ to increase the excise duty rate laid down in the Law more rapidly for the group of alcoholic beverages “other alcoholic beverages” (by 100 liters of absolute alcohol) by 15 EUR as of 1 March 2026; ◉ to increase the excise duty rates on alcoholic beverages, including beer, with effect from 1 March 2028; ◉ to increase the excise duty rates more rapidly for tobacco products and for similar products by purpose in 2026 and 2027 (excluding cigars, cigarillos and liquid used in electronic smoking devices, ingredients for preparation of liquid used in electronic smoking devices in 2026); ◉ to increase the excise duty rates for tobacco products and similar products by purpose from 2028;

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		◉ to increase the excise duty rates for non-alcoholic beverages with sugar content up to 8 grams (excluding) per 100 millilitres and with sugar content from 8 grams (including) and energy beverages as of 2028, as well as separately determine (distribute) the excise duty rate for energy beverages as of 2028; ◉ to increase the gambling tax rates from 2026.
2	In view of the applicable deadlines for the timely completion of reforms and investments under Regulation (EU) 2021/241, accelerate the implementation of the recovery and resilience plan, including the *REPowerEU* chapter. Accelerate the implementation of cohesion policy programmes (ERDF, JTF, ESF+, CF), building, where appropriate, on the opportunities offered by the mid-term review. Make optimal use of EU instruments, including the scope provided by the *InvestEU* and the Strategic Technologies for Europe Platform, to improve competitiveness.	To ensure the implementation of the recommendation, the MoF, in cooperation with the responsible line ministries, has developed mid-term amendments to the EU Funds Cohesion Policy Programme for 2021-2027 (hereinafter – the Programme), which reflect the current stage of implementation of the Programme - we are in the middle of the EU Funds 2021-2027 planning period, therefore it is important not only to increase the pace of investment implementation, but also to carefully review the use of remaining investments, taking into account today's geopolitical situation and current national priorities. The amendments to the program include a mid-term assessment, within the framework of which the possibilities for using flexibility amount funding have been reviewed, taking into account current needs. On October 7, 2025, the CoM supported the specified mid-term amendments to the Program, which were prepared in accordance with the proposal for amendments to the EC REARM regulations. Within the framework of the aforementioned amendments, the Program investments have been restructured to meet the conditions of the regulation on directing at least 10% of investments to security and defense, which will make it possible to extend the implementation period of the entire Program by 1 year - until the end of 2030. The focus of the amendments is the national priority - SECURITY. The amendments provide for the restructuring of existing funding (i.e. the already approved mid-term redistribution) into new specific support objectives in accordance with the proposal for amendments to the regulations, restructuring a total of 470.0 million EUR (10%): 34.0 million EUR for improving the capabilities of business and industry in the field of defense; 54.9 million EUR for infrastructure to attract renewable energy producers; 35.0 million EUR for energy independence; 53.4 million EUR for dual-use infrastructure; 245.9 million EUR for military mobility; 46.8 million EUR for civil protection. In order to ensure the successful implementation of the Latvian RRF Plan, reforms and investments, which are closely linked to the achievement of all milestones and targets, thus ensuring that Latvia could qualify for all the RRF funding intended for it, the third amendments to the RRF Plan and the Council Implementing Decision on the Implementation of the RRF (CID) are currently being prepared so that Latvia can submit the fourth RRF payment request to the EC in the amount of 302.1 million EUR by the end of 2025. The amendments provide for the specification of some reform and investment indicators, reflecting objective changes in external conditions that affect the implementation of reforms and investments, minimizing the risks of non-receipt of RRF Plan funds. It is planned to: ◉ Reallocate funding between four investments for a total amount of 19.07 million EUR;

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		◉ Make technical clarifications in at least 116 indicators. On September 30, 2025, the coordination of the documents amending the RRF Plan was launched on the *Legislative Draft Portal* (TAP) for approval by the CoM. It is planned to officially submit the RRF amendments to the EC at the end of October or November of this year. Through targeted measures, the replanning of investments in line with national priorities (including in the context of the mid-term review), and government-imposed financial discipline for the approval of the investment regulatory framework, actual and projected investments for the implementation of EU funds and the RRF have increased significantly in 2025. The cash flow forecasts updated in July 2025 show a positive trend – potential state budget expenditures in 2025 and 2026 of around 1.4 billion EUR in total for EU Cohesion Policy funds and RRF investments, with 100% use of the RRF. For example, by 30 September 2025, budget expenditures had reached 985 million EUR, while in the same period in 2024, expenditures were only 432 million EUR. As the implementation of RRF investments concludes, the 2025 and 2026 forecasts for Cohesion Policy EU fund investments under the new 2021–2027 programming period indicate dynamic cash flow growth in the coming years. In 2026, the implementation of significant RRF Plan investment projects for municipalities will continue (including processes related to the final stage of project implementation, such as preparing completion documentation and making final payments), to ensure the successful and timely completion of both individual projects and investments as a whole. By the third quarter of 2026 (in line with the deadline included in the Recovery Fund plan proposals), four projects for the development of industrial parks in regions outside the Riga planning region will be implemented, which will promote the attraction of non-financial investments and the creation of new jobs in the regions. Investments aimed at achieving climate goals will be completed, within which the direct implementation of project activities must be carried out by the end of 2025 (in exceptional cases until June 30, 2026) – by improving energy efficiency and promoting the use of renewable energy technologies, a reduction in primary energy consumption in municipal buildings and infrastructure will be ensured. At the same time, to enhance access to education, zero-emission vehicles (electric school buses) will be delivered to municipalities, replacing municipal vehicles powered by fossil fuels. Within the framework of the EU Cohesion Policy Program 2021–2027, the implementation of projects significant for the national economy and municipalities will continue, including initiatives important for society, such as the development of public outdoor spaces, reduction of air pollution, development and implementation of nature protection plans, waste recycling and separate collection, water management development, environmental monitoring, national-scale flood and coastal erosion prevention measures, and other climate adaptation measures; development of public infrastructure for business; promotion of zero-emission vehicles in municipalities; development of childcare services and infrastructure for pre-school education institutions.

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		For the implementation of priority projects in the field of digital transformation, Latvia will use EU Cohesion Policy Program 2021–2027 investments for the development of state information and communication technology (ICT) solutions and services, as well as for opening them for data exchange and other integrations with private sector ICT solutions, thereby promoting digital transformation in both the public and private sectors, as well as for the increase of cybersecurity of state ICT solutions. MoSARD through mid-term amendments to the EU Cohesion Policy Program 2021–2027, proposed reallocations between programs by redistributing unused funding from project application selections to programs with the highest demand from municipalities and other beneficiaries, such as public infrastructure for business development and biodiversity promotion. Similarly, MoSARD, along with the consideration of mid-term amendments to the EU Cohesion Policy Program 2021–2027, requested to the CoM the opportunity to announce the selection of project applications for flexibility funding before the mid-term evaluation is approved by the EC, thus making it possible to implement projects in 2026 that would otherwise only be in the selection or evaluation process in 2026, thus significantly accelerating the flow of investments into the water management, ICT and cybersecurity, dual-use road infrastructure and civil protection sectors. At the same time, in order to accelerate the project application evaluation process and ensure faster project implementation and the flow of investments into the economy, MoSARD proposed simplifying the project application evaluation process by defining responsible authority's role in project evaluation (specifically, that the voting members from the responsible authority evaluate only quality criteria, while voting members delegated by the responsible authority from the sectoral ministry or other institution evaluate only specific eligibility and/or quality criteria), as well as stipulating that in selections that ended without a competition for funding, those quality criteria that are not exclusionary are not evaluated. To promote the synchronization of the electricity transmission system, the modernisation and development of electricity transmission and distribution networks, as well as to increase the share of biomethane in final consumption, the implementation of *RePowerEU* investments included in the RRF Plan will continue in 2025. A total of 134 743 378 EUR from the RRF has been allocated for these objectives, with certain targets and milestones already achieved. To foster the use of renewable energy resources and reduce dependence on fossil fuels, in January 2025, regulatory provisions were approved for investments in the development of biomethane production, financed by EU funds in the amount of 18 246 193 EUR (CoM Regulation No. 21 of 7 January 2025 Specific objective 2.1.2 of the EU Cohesion Policy Program 2021-2027 “Promotion of renewable energy sources – biomethane”). The implementation of these investments is scheduled to begin in 2025.

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		Furthermore, to promote energy efficiency and renewable energy technologies in district heating and cooling, in January 2025 regulatory provisions were adopted for investments in district heating and cooling, financed by the EU funds with 47 440 102 EUR (CoM Regulation No. 20 of 7 January 2025 "Implementation Provisions for the Second Round of the Specific Support Objective "Promotion of Energy Efficiency and Reduction of Greenhouse Gas Emissions" (Measure 2.1.1.3 "Use of Renewable Energy and Increase of Energy Efficiency in District Heating and Cooling") of the EU Cohesion Policy Programme 2021–2027"). The implementation of these investments is also planned to begin in 2025. The MoE is involved in the implementation of cohesion programmes and actively ensures the use of EU instruments (ERDF, CF etc.). Among other things, the programme is currently open and actively used in accordance with the CoM Regulation No. 407 of 13.07.2023 "Implementation regulations for the specific support objective 1.2.3. "Promoting sustainable growth, competitiveness and job creation in SMEs, including through productive investments" of the EU Cohesion Policy Programme 2021–2027, measure 1.2.3.1. "Support for the development of innovative entrepreneurship in SMEs". Also, the MoE is currently developing a new support programme "Support regulations for market participation activities" (25-TA-867), which has been developed with the aim of increasing the proportion of large export-capable merchants in the economy, promoting entrepreneurship, ensuring the availability of financing for market participation activities, thus promoting investment attraction and export growth in Latvia. On November 26, 2024, CoM Regulation No. 748 "European Union Cohesion Policy Program for 2021-2027 1.2.2. Specific Support Objective "Exploiting the Benefits of Digitalization for Business Development" 1.2.2.1. Measure "Support for the digitization of processes in commercial activities"", which aims to ensure the availability of funding for the digitization of processes in commercial activities as well as to promote productivity growth through targeted investment of resources to create higher added value in the commercial processes of businesses.
3	Simplify regulation, improve regulatory tools and reduce administrative burden on companies. Improve access to finance for small and medium-sized enterprises, including by stimulating competition in the financial markets and promoting public lending and guarantee schemes to facilitate investments of strategic importance, in particular in the areas of the green transition, scaling-up and commercialisation of innovations, and regional development. Facilitate private investment in research and	On May 6, 2025, CoM Regulation No. 277 "Procedure for Ensuring the Provision of Priority Public Services to Commercial Entities" (hereinafter referred to as CoM Regulation No. 277), or the improved "fast-track" regulation came into force with the aim of attracting investments, promoting exports, as well as facilitating the development of the defense industry. The regulation significantly expands the range of businesses that can receive public services on an expedited basis, supporting not only the implementers of priority projects, but also those businesses that have already made significant investments in Latvia. The range of services available under the fast-track procedure has also been expanded, promoting the attraction of foreign labor, reducing the administrative burden, and speeding up coordination processes for businesses that are important to Latvia's economy.

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	innovation, including by pursuing further reforms in the higher education system to strengthen cooperation between businesses and academia.	The MoE monitored the "fast-track" regulations and received a number of proposals from the institutions involved on how to improve the process. The compiled proposals and improvements to the "fast-track" regulation were discussed at the meeting of the Large Investment Council on September 4, 2025. In cooperation with the parties involved, the MoE plans to prepare amendments to CoM Regulation No. 277 to improve the "fast-track" regulation. To reduce bureaucracy in the real estate development sector, on April 2, 2024, the CoM reviewed and approved the informative report prepared by the MoE, “Action Plan for Reducing the Administrative Burden in the Field of Real Estate Development” (Minutes of the CoM meeting of April 2, 2024, No. 14, para 35). The action plan includes a set of comprehensive measures in five areas—territorial development planning, environmental impact assessment, construction, deforestation, and property registration. Most of these measures are to be implemented by the end of 2025. One of the priority measures is the introduction of a “unified building registration process”—a digital solution that ensures the entry of data about buildings in the construction phase into the construction information system, with the automatic transfer of this data for subsequent building registration in the State Real Estate Cadastre Information System and for recording the building in the Land Register. The cadastral surveying stage for buildings is eliminated, and a one-stop agency principle is implemented for the process. To implement the unified building registration process, European co-financing for the development of additional functionality in three information systems (the construction information system, the State Real Estate Cadastre Information System, and the State Unified Computerised Land Register) has been approved; earmarked funding for the project implementation is included in the draft law “On the State Budget for 2026 and the Budget Framework for 2026, 2027, and 2028” for the MoE. The CSB plans to reduce 34 positions by 2026 through targeted structural changes within the institution. This step is part of a broader efficiency and modernization process aimed at increasing operational effectiveness, rationalizing resource use, and developing the digitalization of data processing and service delivery. The planned changes will significantly contribute to reducing administrative burdens for entrepreneurs. The government's action plan include measure 22.7 - to provide support for the start-up of new financial service providers to start operations in Latvia in at least one foreign bank, thereby increasing competition in the banking sector. Credit funds are available to residents and companies for the development of enterprises on more favorable terms. Faster economic growth is promoted. This measure is set to be implemented by 30.10.2026. Currently, the implementation is taking place as planned. In cooperation with IDAL and other involved institutions, including the State Treasury and the LB, the MoF, as a co-executor of the task, has participated in a meeting with representatives of 12 foreign credit institutions from Germany, Austria, France, Poland and Japan in 2024 to discuss potential opportunities for starting operations in the Latvian market. Taking into account the information received

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		during the meeting with representatives of foreign credit institutions about their possible expansion of operations in Latvia and the Baltics, IDAL, in cooperation with the involved institutions, continues to work on the list of large investment projects. In order to **improve access to finance for small and medium-sized enterprises and reduce administrative burden**, it is intended to: ◉ Expand the range of support applicants for implementing business projects in intervention LA19 of Latvia's Common Agricultural Policy Strategic Plan for 2023-2027 "Implementation of activities in accordance with the community-led local development strategy, including cooperation activities and their preparation", as well as reducing the requirements for documents to be submitted, including easing the requirements during project monitoring (amendments have been drafted to Regulation No. 580 of 10 October 2023 "Procedure for granting state and EU support for the European Agricultural Fund for Rural Development intervention "Implementation of activities in accordance with community-led local development strategies, including cooperation activities and their preparation""). ◉ The funding has been increased by 9 million EUR for the program of small loans in rural areas, which provides loans for investments and working capital, in order to ensure the continuity of lending. ◉ Under the working capital loan program, farmers can obtain a loan for the purchase of working capital to cover short-term needs – the purchase of seeds, mineral fertilizers, fuel, and other farm expenses, the program will provide an additional 3 million EUR in The European Agricultural Fund for Rural Development funding in 2025. This will ensure that loans continue to be issued at the lowest possible interest rate, starting at 3.5%. In the fourth quarter of 2025, it is planned to start providing working capital loans without de minimis aid. The Ministry of Agriculture is also currently preparing amendments to allow Altum to extend the loan repayment period to seven years (currently, the regulations allow for a five-year period). ◉ Additional funding of 6.7 million EUR has been secured for the partial cancellation of credit interest support for primary agricultural producers in 2025 (Amendments to Regulation No. 59 of February 3, 2015, "Procedures for the Granting of State and EU Support for the Promotion of Investment in Agriculture"), providing for a total of 27.7 million EUR in partial cancellation of credit interest support in 2025. Reduction of administrative burden - beneficiaries are not required to submit statements on loans issued by Altum. ◉ In order to promote the purchase of insurance policies in the vegetable, fruit and berry growing sectors, where the value per hectare is high and insurance policy prices are correspondingly higher, the maximum aid rate for areas under vegetables, fruit and berries, including perennial crops, has been increased to EUR 200/ha under the support measure " Insurance premiums of crop, animal and sowed and planted areas" (until 2024, the rate was the same for all areas – no more than EUR 50/ha). ◉ Latvia's Common Agricultural Policy Strategic Plan for 2023–2027 provides for investment support (interventions LA 4.1.1., LA 4.1.2., LA 4.1.3. and LA 4.1.4.) for rural farms, including small and medium-sized

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		farms, in order to improve competitiveness, promote cooperation, implement green investments to mitigate climate change and adaptation measures, promote energy efficiency improvements and renewable energy production for own consumption, as well as biosecurity measures and animal welfare improvements. National regulations (CoM Regulation No. 303 of 21 May 2025) on the implementation of support have simplified and clarified the requirements for the submission of documents and shortened the project monitoring period. In order to promote the availability of financial resources for project implementation, the conditions for receiving advances without a credit institution guarantee have been eased. **To strengthen the higher education system, the following initiatives are being introduced or continued:** ◉ The EU Funds 2021–2027 programming period measure 4.2.2.6 **“Implementation of Cyclical Institutional Accreditation in Higher Education”.** The goal is to support the transition to cyclical institutional accreditation for universities and colleges in order to improve the quality of higher education. The support includes 1. Preparation of the necessary regulatory framework for the implementation of cyclical institutional accreditation (proposals, methodologies, guidelines); 2. Enhancement and improvement of the accreditation agency’s e-platform functionality (simulations); 3. Pilot implementation of cyclical institutional accreditation, including conducting pilot accreditations; 4. Training for accreditation experts, accreditation agency staff, and university employees to ensure institutional accreditation; 5. Support measures for the improvement of internal quality assurance systems within higher education institutions. ◉ The pilot project for **the institutional funding model** has been launched in six Latvian higher education institutions. In parallel, amendments to external regulatory enactments are being developed to implement the institutional funding model across all higher education institutions. The institutional funding model foresees a shift by the MoES from process control to a results-oriented approach — instead of determining the number of students to be admitted and the principles of their funding, the model sets the number of specialists to be trained, giving universities the autonomy to achieve these targets. From the state's side, the number of specialists to be trained is defined in funding agreements with higher education institutions, based on labour market forecasts. ◉ The objective of the second round of investment 5.2.1.1.i. “Research, Development, and Consolidation Grants” under the RRF Plan is to **support structural changes in higher education institutions and scientific institutes, including their internal and external consolidation.** The aim is to strengthen institutional capacity, improve the quality and efficiency of investments in higher education and science, enhance research and educational infrastructure, develop new study programs tailored to future challenges and thematic specialization, and promote digitalization and technological development. For each consolidation case, at least 45% of the total allocated funding for the investment project must be dedicated to the implementation of grants for doctoral students, postdoctoral researchers, scientists (professors), and internal research and development, in order to increase scientific capacity and promote research excellence. ◉ **At the end of 2024, the evaluation of project applications for the 1st phase of the ERDF measure “Applied Research” was launched.** The aim of the measure is to support the implementation of applied and collaborative research that drives the development of the specialization areas of Latvia's smart specialization strategy, with the

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		goal of increasing the capacity and export potential of Latvia's innovation system in line with the National research and innovation strategy (RIS3). As a result of the project implementation, it is expected that scientific institutions and businesses will develop new products and technologies that will contribute to the growth of Latvia's economy and its intellectual research potential. It is planned that the project implementation will continue until September 30, 2029. The total available public funding is 50.2 million EUR (+ 6.6 million EUR flexibility funding), including 35 million EUR for the 1st round and 15.2 million EUR for the 2nd round (+6.6 million EUR in flexibility funding). On 3rd of April 2025, Parliament adopted “Amendments to the Law on Subterranean Depths”– the administrative burden on mineral resource extractors has been reduced: the volume of required documentation has been decreased. Starting from July 1, 2026, all licenses will be issued by the State Environmental Service (municipalities will no longer issue permits for mineral extraction). A draft law “Amendments to the Law on Environmental Impact Assessment”, has been developed and submitted to Parliament. Amendments include provisions to improve the environmental impact assessment process and reduce administrative burden – in the future, acceptance decisions will be made by the Energy and Environmental Agency. Amendments have been approved by Parliament in the first reading on 12th of June 2025. Amendments to existing CoM regulation, or the introduction of new rules, are being made to reduce the administrative burden associated with the implementation of ETS and ETS2.
4	Reduce reliance on fossil fuels and increase energy security by accelerating the deployment of renewable energy, particularly wind and solar. Improve permitgranting procedures and electricity grid queue management, and promote energy storage, demand response and market-based flexibility solutions. Reduce primary and final energy consumption, and carbon intensity by strengthening energy efficiency measures, especially in the buildings sector, and by promoting further electrification. Accelerate the decarbonisation of transport, especially road transport, by promoting the uptake of electric vehicles, the production and distribution of renewable transport fuels and the expansion of recharging infrastructure. Increase resource efficiency and the transition to a circular economy through	Until August 2027, 139 electric vehicle charging stations will continue to be maintained in Latvia, which were built in accordance with CoM Regulation No.637 Operational Program "Growth and Employment" 4.4.1. Specific Support Objective Project "Developing ETL Charging Infrastructure in Latvia". The maintenance costs are covered by the state budget program 06.00.00 "Creation, development and maintenance of alternative fuel infrastructure", with approximately 300 thousand EUR allocated annually. Regarding the Alternative Fuels Infrastructure regulation requirement for 3.6 MW charging pools every 60 km on the TEN-T network, Latvia is taking an approach in line with the market situation. Currently, eight electric freight vehicles are registered in Latvia, and the market is in its early stage of development. The main obstacles are: ◉ limited power grid capacity along main roads; ◉ high maintenance costs for high-power charging infrastructure; ◉ state budget priorities that limit co-financing opportunities (for example, in 2025, Cohesion Fund resources amounting to 32.1 million EUR were allocated to the *Rail Baltica* project and defense). State budget funding has been allocated to the Riga Freeport Authority project “Establishment of a port and logistics infrastructure necessary for the development of wind technology production in Kundziņsala”. The total project funding is planned to be 85.5 million EUR, including 9.7 million EUR in state budget funding.

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	eco-innovation and sustainable resource management practices.	In 2025 Ventspils Free Port Authority has started implementing the project financed by the Cohesion Fund of the EU "Restoration of Ventspils Free Port ship traffic Management Centre and electrification of piers", project No. 3.1.1.6/1/24/I/001. Activities envisaged within the framework of the project: ◉ Restoration of the port vessel traffic management system, within the framework of which the supply and installation of equipment necessary for the management of ship traffic, including monitoring, communication and communication, shall be performed, restoration, reconstruction and construction of structures necessary for the installation of equipment; ◉ Construction of power grid connection points for ships arriving at pier no.16, within the framework of which the installation of a shore-side power supply point with a total capacity of 4000 kW will be carried out, ensuring with connection at least two cargo passenger (RO-PAX) ships, in accordance with the requirements of Article 9 of Regulation (EU) 2023/1804 of the European Parliament and of the European Parliament of 13 September 2023 on the introduction of alternative fuel infrastructure for shore-side electricity supply in seaports. The eligible costs of the project are 4 million EUR, 85% of which is the amount of Cohesion Fund support. The project is planned to be implemented by 31.12.2020, the final date of implementation of the project is 31.12.2029. Liepaja SEZ Authority is implementing the project "Ensuring safe mooring of ro-ro ferries in Liepaja port" of the Connecting Europe Facility (hereinafter – CEF), within the framework of which construction of shore-side electricity connection for the supply of electricity of two freight passenger ferries (voltage: 11 kV, capacity: 4MW) will be carried out, which will reduce fossil fuel consumption of ships visiting the port while they are at Liepaja Port pier no. 46. The project is planned to be completed by 31 December 2027. Total cost of the project: 23 million EUR. Sources of funding: 6.9 million EUR (CEF), 10.2 million EUR (planned Cohesion Fund financing), 5.9 million EUR (funding from the Liepaja SEZ Board). In relation to promoting decarbonisation of transport and aviation, one of the priorities of the aviation sector in Latvia is the development of sustainable aviation fuel (SAF) production. Local SAF production, based on renewable resources and the principles of the circular economy, could significantly reduce Latvia's dependence on fossil fuels, increase energy security and contribute to the decarbonisation of the aviation sector. Thanks to its geographical location and the infrastructure developed by Riga airport, Latvia has significant potential to become one of the largest regional air traffic hubs in northern Europe, as well as a sustainable aviation and technology hub. In 2024, the Ministry of Transport, in cooperation with the Estonian Ministry of Climate, launched a research project on SAF production possibilities in the Baltic region. The main objective of the study is to carry out a comprehensive assessment of the production opportunities of the SAF, which will serve as a guide for investors and provide support to policy makers in the development policy of the future sector. The project is supported by

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		the EC Directorate-General for Structural Reform support (DG REFORM). The study will conclude at the end of 2025 and its results will form the basis for the next policy. To implement the European-defined horizontal principle "Energy Efficiency First" and to achieve the climate goals set by the EU, the MoE is implementing several support programs to promote building energy efficiency and the transition to the use of renewable energy resources (ERDF and Just Transition Fund funding). The state budget funding has also been reserved to ensure co-financing of the aforementioned programs in the period from 2024 to 2029. Measures are planned to promote energy efficiency in public buildings, residential buildings (including developing the ESCO market), enterprises, scientific and cultural infrastructure, and industry. Accroding the requirements of Regulation (EU) 2024/1735 of the European Parliament and of the Council of 13 June 2024 on establishing a framework of measures for strengthening Europe's net-zero technology manufacturing ecosystem, and amending Regulation (EU) 2018/1724, since 2025 the Investment and Development Agency of Latvia (IDAL) has effectively started operating as the single contact point for net-zero technology projects. This function includes receiving strategic project applications, coordinating their assessment, and making decisions on granting strategic project status, thereby providing targeted support to investors. The single contact point significantly improves investment process coordination, accelerates administrative procedures, enhances inter-institutional cooperation, and promotes the development of green technologies—thus strengthening energy security, reducing dependence on fossil fuels, and supporting sustainable economic transformation. Latvia's Common Agricultural Policy Strategic Plan for 2023–2027 provides for investment support in the agricultural sector to improve energy efficiency and renewable energy production for own consumption, intervention LA4. 1.4. in accordance with CoM Regulation No. 303 of 21 May 2025. Within the framework of the RRF Plan and the EU Cohesion Policy Program 2021–2027, MoSARD is implementing programs under its responsibility, providing support for improving the energy efficiency of municipal buildings and related infrastructure, to reduce annual primary energy consumption and achieve energy savings: ◉ Under the RRF Plan investment 1.2.1.3.i “Improvement of municipal buildings and infrastructure, promoting the transition to renewable energy technologies and enhancing energy efficiency” measures are supported that reduce annual primary energy consumption and achieve energy savings by implementing the most effective CO_2 reduction measures for improving energy efficiency and thermal performance, while also reducing municipal budget expenditures for the future maintenance and management of buildings. As a result of project implementation, it is planned that by the end of 2025, primary energy consumption in municipal buildings and infrastructure will be reduced by at least 4 544 563 kWh/year. In 2026, processes related to the final stage of project implementation will be carried out to ensure the successful and timely completion of both individual projects and investment as a whole.

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		◉ Within the second phase of the EU Cohesion Policy Program 2021–2027 measure 2.1.1.6 “Increasing the energy efficiency of municipal buildings”, support is granted for improving the energy efficiency of infrastructure necessary for the provision of public water management services, reducing annual primary energy consumption and increasing the use of technologies utilizing renewable energy sources. In 2026, the implementation of nine projects initiated in 2025 and implementation of three projects supported in the first round of the measure will continue, as well as it is planned to announce the third round of the measure to improve the energy efficiency of municipal buildings, using the flexibility funding available after the mid-term evaluation. At the same time, in 2026, the implementation of projects supported under the second round of measure 6.1.1.1. “Phase out the use of peat in energy” under the responsibility of the MoSARD will continue, which provides for the replacement of peat combustion equipment for district heating services in municipalities, and the fifth call for project applications under measure 2.2.3.6. “Implementation of measures to reduce air pollution by improving household heating systems” will be announced, in which, with the aim of reducing air pollution, residents can replace individual heating equipment (e.g., one that uses peat) with equipment using renewable resources, heat pumps, solar panels, and connection to a district heating system. These investments will continue to promote the phase out of fossil energy resources, the reduction of carbon intensity, increasing the use of renewable resources and electrification. To promote the use of renewable energy resources, reduce dependence on fossil fuels and strengthen energy security: ◉ In January 2025, the regulatory framework for investments in EU funds for the development of biomethane production was approved for financing from EU funds in the amount of 18 246 193 EUR (CoM Regulation No. 21 of 7 January 2025 Specific objective 2.1.2 of the EU Cohesion Policy Program 2021-2027 “Promotion of renewable energy sources – biomethane”). The implementation of investments is planned to begin in 2025; ◉ Within the framework of the EU cohesion policy programme for 2021-2027, investments of 35 million EUR from EU funds are planned to strengthen energy security (infrastructure development to increase electricity connection capacity, construction of safe power lines, purchase of mobile substations to ensure mobility in emergency and disaster relief, as well as construction of biomethane entry points to integrate gas produced from renewable energy sources into the existing natural gas infrastructure). The implementation of investments is planned to begin in 2026; The following support programs are being implemented within the framework of the Emission Allowances Auctioning Instrument – a state budget program under the supervision of the Ministry of Climate and Energy: ◉ An open project tender financed by the Emission Allowances Auctioning Instrument “Reduction of greenhouse gas emissions in households – support for the use of renewable energy resources” – in implementation (Regulations of the CoM No. 150 of 1 March 2022). The aim of the open project tender is to reduce greenhouse gas emissions and improve energy efficiency in households by supporting the purchase of heat or electricity generation equipment to ensure the production and supply of heat or electricity for household needs, or the establishment of connections

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		to the district heating system. The total support available within the framework of the open project tender is 85 million EUR. Application is open until 31 December 2029 or until the funding is available. As of September 25, 2025, more than 14 000 project applications have been submitted within the framework of the open project tender, and the submission of project applications continues. ◉ An open project tender financed by the Emission Allowances Auctioning Instrument “Reduction of greenhouse gas emissions in buildings of the system institutions of the Ministry of the Interior and local government police institutions” – in implementation (Regulations of the CoM No. 807 of 10 December 2024). The aim of the open project tender is to reduce greenhouse gas emissions and improve energy efficiency by carrying out the reconstruction or renovation of buildings owned, held or used by the system institutions of the Ministry of the Interior and local government police institutions. The available funding within the framework of the open project tender is 20 million EUR. The evaluation of project applications within the first round of the open project tender has been completed. It is planned to make amendments to the CoM Regulations, for the organization of the second round of the open project tender. ◉ An open project tender financed by the Emissions Allowances Auctioning Instrument “Reduction of greenhouse gas emissions in the transport sector – support for the purchase of zero-Emission and low-emission vehicles” – in implementation (Regulations of the CoM No. 896 of 21 December 2021). The aim of the open project tender is to promote the reduction of greenhouse gas emissions by supporting the introduction of electric vehicles and plug-in hybrid electric vehicles for natural persons. The available funding within the framework of the open project tender is 30 million EUR. Application is open until 31 December 2025 or until the funding is available. As of 25 September 2025, 6465 project applications have been submitted within the framework of the open project tender. The following support programs are being implemented and are under development within the framework of the Modernisation Fund – a financial instrument under the supervision of the Ministry of Climate and Energy: ◉ An open project tender financed by the Modernisation Fund “Increasing energy efficiency in the transport sector – support for the introduction of electric vehicles and their charging infrastructure” – in implementation (Regulations of the CoM No. 701 of 5 November 2024). The aim of open project tender is to promote the reduction of greenhouse gas emissions by supporting the purchase of electric vehicles and the introduction of corresponding charging infrastructure for state direct administration institutions, municipalities and companies. The available funding within the framework of the open project tender is 5 million EUR. By September 2025, two rounds have been implemented within the open project tender, currently the implementation of approved projects within the first round and the evaluation of project applications within the second round are ongoing. ◉ An open project tender financed by the Modernisation Fund “Promotion of the use of renewable energy resources in apartment buildings, state and municipal buildings and energy communities” has been opened – in the development stage (planned to be approved by the CoM in the 4th quarter of 2025). The aim of the open project tender is to promote the reduction of greenhouse gas emissions and the improvement of energy efficiency in

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		apartment buildings, state and municipal buildings and energy communities by supporting the purchase of electricity and heat generation equipment (solar collectors, heat pumps, solar panels, energy accumulation and storage equipment, related infrastructure) to ensure energy production for self-consumption. The available funding within the framework of the open project tender will be 26.8 million EUR. More information about the programs implemented both within the framework of the Emission Allowance Auctioning Instrument and the Modernisation Fund is available – www.ekii.lv. At the end of 2024, the Saeima adopted amendments to the Law on Excise Duties, which provide for a gradual increase of excise duty rates for all fossil motor fuels and heating fuels in both 2025 and 2026, as well as for natural gas in 2027. The increase in excise duty depends on the carbon content of each fossil fuel. Also as of 2025, the excise duty exemption for petroleum products used in electricity generation and cogeneration has been abolished. On September 22, 2025, the CoM approved the informative report *On Priority Measures to be Included in the State Budget Draft Law for 2026, 2027 and 2028*, which provides that, as of 2028, the application of reduced excise duty rates to petroleum products used in free ports and special economic zones will be abolished, stipulating that such petroleum products shall be subject to excise duty as fuel.
5	Address labour and skills shortages, in particular in science, technology, engineering and mathematics (STEM) and in other specialisations needed for the green transition, for research and for digitalisation, as well as in the social and healthcare sectors, including through targeted upskilling and reskilling and improved working conditions. Strengthen social protection to reduce inequality, including by improving the adequacy of old-age pensions and the access to quality social services, notably home care, while maintaining fiscal sustainability. Strengthen the adequacy and accessibility of the health system to improve health outcomes, including by providing additional human and financial resources, broadening the statutory benefits package and reducing out-of-pocket payments. Increase the availability and quality of social and affordable energy-efficient housing, including through renovations.	**In the context of addressing the skills deficit, particularly in the STEM field, the following initiatives are being launched or continued:** ◉ **Improvement of qualifications and skills for employed individuals, including those with low levels of education** (re-skilling / up-skilling), as well as the development of a quality monitoring system for adult formal and non-formal education under the ESF+ 4.2.4.2 measure "Support for adult education based on individual needs". The objective of the measure is to provide support to 28,000 employed individuals, including 14,000 employed individuals with low levels of education, to acquire or improve the skills or qualifications needed in the labor market. This will also include the development of a conceptual solution description and action plan for reaching, informing, and motivating employed individuals with low education levels to participate in training. ◉ **Development and piloting of skill funds (ESF+ 4.2.4.1 measure "Support for adult education based on sector needs," second phase).** The goal is to develop a funding and operational model for skill funds tailored to Latvia, with the intention of making it a self-regulating and self-financing structure in the long term. This will involve developing a system based on social dialogue to support skill development for employees in sectoral companies, including the self-employed and the potential workforce, enabling the quick and efficient adaptation of the labor force to the needs of labor market development. ◉ **Improve the accessibility of vocational education and ensure that the vocational education offering meets labor market demands.** In order to ensure the availability of vocational education, public funding for its implementation will be planned

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		based on labour market forecasts and demand. In the 2024/2025 academic year, 28.6 thousand students pursued basic and secondary vocational education, which is an increase of 3.7% or 1,017 students compared to the previous year (CSP data). Over the past decade, the highest increase in student numbers has been observed in natural sciences, information technology, and mathematics programs, with an increase of 445 students. The most in-demand programs were in engineering, manufacturing, and construction, where 4.2 thousand students, or 39.4% of the total intake, enrolled, as well as programs relevant to the service sector, with 2.3 thousand students, or 21.2%. Going forward, public funding for vocational education will continue to be planned, prioritizing the preparation of specialists in STEM fields and other sectors crucial for the implementation of digital and green transitions, in accordance with Latvia's labour market priorities. ◉ **Stronger work-based learning for the enhancement of vocational education and training in Latvia.** Under the second period of the Latvia-Switzerland Cooperation Programme, the support program “Stronger Work-Based Learning for the Enhancement of Vocational Education and Training in Latvia” aims to achieve the following by 2029: 1) Development of industry-based qualification acquisition, including the development of examinations; 2) Development of digital learning tools for vocational education; 3) Training of new vocational education teachers. ◉ **ESF+ 4.2.2.9 Measure "Individualization of the Educational Process and Intersectoral Cooperation for Excellence in Vocational Education".** The aim of the measure is to develop a systematic coordination mechanism for the continuous improvement of vocational education content and to ensure cooperation between vocational education institutions and industries in implementing the educational content. This will involve identifying relevant skills for the labour market and integrating those skills into the curriculum to ensure sustainability, digitalization, and a green economy. Additionally, it aims to develop a model for collaboration and implementation of work-based learning in vocational education. As part of the measure, new learning and methodological materials will be developed, work-based learning processes will be improved, a digital platform for the vocational qualification system will be created, and collaboration with industries and educational institutions will be built and strengthened. ◉ **Several ESF+ measures aim at improving education quality at all levels (state, local government, school) starting from availability of reliable data to improving data literacy at all levels.** Among them ESF+ measure 4.2.2.5. aims to ensure participation in international educational research and programs conducted by international organizations for the development of education policy, the implementation of action policies, and the evaluation of their impact. Additionally, the measure 4.2.2.4 foresees the development of an Education Quality Monitoring System (EQMS) for monitoring, evaluating, and ensuring the quality of education at the national, municipal, and educational institution levels, as well as at the individual level. It also aims to strengthen data literacy capacities for the effective use of EQMS in data-driven decision-making for education quality monitoring, evaluation, and assurance.

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		◉ **ESF+ measure 4.2.3.1. "Integrated 'school within the community' Cooperation Program for Reducing the Risk of Marginalization in Educational Institutions".** This measure provides support for students who have only received a certificate for completing basic general education and are either repeating the 9th grade or have enrolled in a vocational education institution. The result will be the promotion of continued education, the completion of general basic education, and the acquisition of skills, trades, and professions. ◉ **ESF+ measure 4.2.3.4. "Promoting the Integration of NEET Youth into Education and Employment".** The goal of this measure is to develop the skills of young people aged 15 to 29 (inclusive), who, prior to participating in the project, area young person who is no longer in the education system and who is not working or being trained for work, and are not registered with the National Employment Agency as unemployed. The program aims to encourage their involvement in education and training activities, including apprenticeships with master craftsmen, employment, or participation in programs run by the National Employment Agency, as well as activities organized by non-governmental organizations or youth centers. ◉ **Continuation of the ESF+ measure 4.2.2.3 "Improving the Quality of the Educational Process through the Development of Teacher Professional Support Systems, Ensuring Excellence Activities for Learners, and Developing Methodological Support Materials for Teachers."** This measure focuses on: a) Creating a professional support system for teachers, b) Improving the professional competence of teachers in didactics, methodologies, etc., as well as education institution management teams and other stakeholders involved in the implementation of education, c) Providing methodological support materials, particularly for STEM subjects, d) Supporting talented learners in participating in regional, national, and international olympiads in general education. ◉ **In 2025, the implementation of the ESF+ measure 4.2.2.1 "Implementation of Quality and Modern Education at Pre-school, Basic, and Secondary Education Levels" was launched.** This measure provides support to students in gaining broader learning experiences in STEM fields and civic participation. ◉ In January 2025, the implementation conditions for the ERDF measure 1.1.1.7. **"Innovation Grants for Students"** were approved. The aim of this measure is to support the implementation of student innovation applications in RIS3 areas, developing students' innovation capacity and entrepreneurship, including their entrepreneurial skills. It also addresses significant problems in sectors, society, or its parts, including in national priority areas such as artificial intelligence, security, educational technologies, and strengthens cooperation between universities, students, and businesses. The project implementation is expected to start in the first quarter of 2025, with projects running until October 31, 2029. The total available funding for the measure is 13.9 million EUR (+2.6 million EUR in flexibility funding). ◉ In February 2025, the ERDF measure 1.1.1.8. **"Doctoral Grants"** was launched. The goal of this measure is to strengthen the research and development human capital capacity necessary for economic growth and transformation in smart specialization fields. At the end of 2024, seven project submissions were evaluated and approved at the

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		beginning of 2025. As a result, between the beginning of 2025 and the end of 2029, doctoral students in Latvian universities will have the opportunity to apply for doctoral grants (funding for participation in studies or scientific research work, including the development of a doctoral thesis), allowing them to complete their doctoral studies in 3–4 years. This will increase the number of doctoral graduates, ensure the renewal of academic and scientific staff, and raise the number of researchers employed in the field. The total available public funding for this measure is 16.1 million EUR (+3 million EUR in flexibility funding). ◉ In Latvia, the **“Micro-qualification Pilot Project”** continues, and its implementation period will end in 2027. The goal of this pilot project is to establish a support program for the creation of micro-qualifications, within which the first micro-qualifications in Latvia will be developed. The project participants include state universities in applied sciences, universities of arts and culture, and colleges. The introduction of micro-qualifications is crucial for professions in the healthcare sector, especially in acquiring specializations and therapeutic and diagnostic methods. **Several initiatives are being launched or continued in the context of developing green and digital skills:** ◉ **ESF+ measure 6.1.1.5. “Improving Skills of Employed People and Supporting Qualification Acquisition, Supporting Workforce Training”**: The goal of this measure is to enhance the skills of the population in the statistical regions of Kurzeme, Latgale, Vidzeme, and Zemgale and support the acquisition of professional qualifications to adapt to the labor market needs created by the green transformation of the economy. It also focuses on preparing specialists for the economic transformation in the regions most affected by climate-neutral economies through short-cycle educational programs, including work-based learning. ◉ **Development of Digital Skills – Development of Self-Directed ICT Specialist Learning Approaches (RRF 2.3.1.3.i “Development of Self-Directed ICT Specialist Learning Approaches”)**: Objective – by June 30, 2026, to ensure the provision of self-directed ICT specialist training implemented outside the formal education system, including the necessary learning environment, training content, and support for individuals participating in such training. This will help increase the number of ICT specialists (including women) in Latvia. Approximately 1,000 participants are expected to be involved, each completing at least one ICT education program within the framework of non-formal, self-directed ICT specialist training. ◉ **Development of Digital Skills – Development and Piloting of Individual Learning Account Approaches (RRF 2.3.1.4.i. “Development of Individual Learning Account Approaches”)**: The goal is to develop and test an individual learning account (ILA) approach tailored to the Latvian context, which strengthens the management and tracking of the learner's learning journey and the storage of information about learning outcomes. It also aims to encourage adult participation in education, helping to acquire and improve digital skills, with 3,500 adults involved in the ILA piloting process. ◉ **High-Level Digital Skills (RRF 2.3.1.1.i. “Ensuring Acquisition of High-Level Digital Skills”)**. This investment includes three projects: the Quantum Technology Initiative, the Language Technology Initiative, and

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		the High-Performance Computing (HPC) Technology Initiative. These are being implemented by Latvian science universities in collaboration with leading research institutions. ◉ **Development of Digital Skills under the RRF 2.3.2.1 “Digital Skills for Citizens, including Youth”**. This investment includes two primary objectives: 1. a)To promote the development of digital self-service skills in society, thus fostering individuals’ successful integration into society, including in employment, modern solutions to everyday life issues, and improving quality of life; 2. b)To create a modern, flexible, sustainable digital system for youth work in municipalities, focused on addressing the target group's issues, linking it with other municipal services and the target group's needs, to ensure broad opportunities for young people to develop and apply their digital skills. ◉ In 2025–2026, under RRF 2.3.2.3.i. **“Reducing the Digital Divide for Socially Vulnerable Learners and in Educational Institutions”**, the availability of data transmission in educational institutions will be improved to ensure the high-quality, meaningful, and planned use of digital technologies in the learning process. ◉ERDF measure 4.2.1.5. **“Educational institutions' provision for the qualitative implementation of improved general education content at the primary and secondary education levels” 2nd and 3rd round.** In 2026, municipalities will launch projects with the aim of improving the infrastructure of general education institutions to ensure the quality and accessibility of education, including by providing investments for the creation or renovation of STEM classrooms, as well as for the purchase of relevant equipment. ◉ **RRF 3.1.1.5.i “Improvement and Equipment of Educational Institution Infrastructure”**. As part of this investment, innovative information and communication technology solutions are being implemented in schools. This includes the establishment or reconstruction of internet, wireless internet, and high-performance internet network connections, the acquisition of equipment and software necessary for the learning process, as well as the purchase of technical devices and equipment for teaching natural sciences (chemistry, biology, physics) and the subject "Design and Technology." ◉ **ERDF measure 4.2.1.6 “Learning Environment of Vocational Education Institutions and Colleges for Acquiring Industry-Relevant Skills”**. This measure aims to modernize the learning environment of vocational education institutions to support the acquisition of industry-relevant skills. This includes the acquisition of necessary teaching equipment and tools, the implementation of information and communication technology solutions for digitalizing learning content and processes, and ensuring ICT accessibility and capacity. The measure will strengthen students' innovative capacity, the development of technological and creative skills, as well as the transfer of innovation and creative experimental results into products and services for interdisciplinary education development. ◉ **ERDF measure 4.2.1.8 “Modernization of University Study Environment”**. The aim of this measure is to modernize the study environment in higher education institutions – universities and colleges – for STEAM (Science,

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		Technology, Engineering, Arts, and Mathematics), including creative industries and medicine (STEAM), and to introduce industry-relevant technologies into the study process. MoSARD in cooperation with 35 municipalities and state cities until 30 April 2026 implements training for the public in order to increase their digital self-service skills, thus promoting more successful integration of people into society, including employment, modern solution of everyday household issues and improvement of life quality. The training is available to residents free of charge and can be acquired in person, remotely with a teacher – mentor or through self-study. So far, 4308 residents have already participated in the project. The training is implemented under the EU RRF Plan investment 2.3.2.1.i (Project No. 2.3.2.1.i.0/1/23/I/CFLA/001). Until 1 June 2026, the School of Public Administration in cooperation with the MoSARD shall implement training for employees of public administration (state direct administration institutions, independent institutions, local government administrations, institutions and agencies) in order to increase the skills of public administration employees in digital transformation and use of technologies, to develop policies appropriate to the digital age. The training will also contribute to the achievement of the objectives set out in the common framework for assessing basic digital skills, identifying learning needs and planning, including in line with the *DigComp* framework. To date, the project indicator has reached 85% of the planned. The training is being implemented within the investment 2.3.2.2.i. of the EU RRF Plan (project No. 2.3.2.2.i.0/1/23/I/VARAM/001). By 31 December 2029, the MoSARD plans to implement training for residents to develop competences of digital self-service skills, as well as for employees of state and local government unified customer service centers (VPVKAC), as a result of which the provision of higher quality services and consultations to residents in the VPVKAC network will be ensured. The training will be available free of charge, residents will be able to learn it in person or remotely (in e-course format), but VPVKAC employees will be able to learn it remotely both in e-course format and online with a tutor. It is planned to train 11,454 residents and 337 employees of the VPVKAC. The training will be implemented within the framework of the ESF+ investment 4.2.4.3 (project application No.: 4.2.4.3/1/25/I/001). According to the CoM protocol of May 13, 2025 (protocol No. 19, § 50), point 7 orders to carry out public sector efficiency and a general government expenditure reduction of at least 450 million EUR in 2026-2028, including at least 150 million EUR in 2026. According to the agreement reached concerning proposals for budget cuts from ministries to ensure the overall government-mandated expenditure reduction of 150 million EUR, an algorithm has been established for the expenditures subject to reduction, that has identified non-reducible expenditures (state obligations, EU funds, social protection, teacher remuneration, expenditures directly related to national security, etc.), and for the remaining expenditures, a percentage reduction of 8.6% has been calculated, **resulting in a reduction of 4.6 million EUR for the Ministry of Health.**

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		The mentioned reduction in the budget of the **Ministry of Health relates to the administrative costs of the Ministry of Health and its subordinate institutions, without affecting the remuneration of medical staff, the volume, quality, and accessibility of services.** At the same time, work will continue to improve the efficiency of the healthcare system and accessibility of healthcare, including revising the healthcare financing model, enhancing primary healthcare, improving quality and accessibility, implementing measures aimed at monitoring the quality of the healthcare process and effectively managing the hospital network, ensuring the integration of general and expanded care nurses into the healthcare system. Funding from EU funds contributes to strengthening healthcare. Within this framework, measures will be taken to continue to: ◉ attract and retain healthcare professionals to work in the publicly funded healthcare services sector, especially in hospitals, throughout Latvia and ◉ ensure opportunities for improving and maintaining the qualifications of healthcare professionals; ◉ implement health promotion and disease prevention measures; ◉ develop healthcare facilities' infrastructure; ◉ improve patient safety and care quality; ◉ strengthen healthcare governance and develop digital solutions. To reduce the risks of energy poverty and improve the quality of life for low-income households, the Social Climate Fund foresees diverse investments in energy efficiency measures for vulnerable households in the indicative amount of EUR 364 139 573 (Latvia's Social Climate Fund Plan 2026–2032 was approved by the CoM on 1 July 2025 and is currently under negotiation with the EC). In order to strengthen social protection, including increasing the adequacy of social transfers: ◉ in 2026, there will be regular revision of the minimum income thresholds, which are applied when determining the state social security benefit, minimum pension, guaranteed minimum income benefit, income thresholds for a needy and low-income household, as well as benefits for an orphan who has reached the age of majority and a child left without parental care after out-of-family care (in an institution, foster family or with a guardian) ending. The revised minimum income thresholds in 2026 see: https://www.lm.gov.lv/lv/minimalo-ienakumu-limenis; ◉ in 2026, the gradual granting of supplements to the old-age and disability pension for the insurance years accumulated up to December 31, 1995, will continue. In 2026, supplements will be granted to those retired in 2018, 2019 and 2020. The supplement to the pension, similarly to pensions, is annually indexed; ◉ in 2025, the indexation of pensions took place in accordance with the improved procedure, that is, the part of pensions to be indexed was 100% of the previous calendar year's average salary of insurance contributions (so far - 50%), as well as the entire pension amount for persons who were granted an old-age pension before reaching the

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		general retirement age due to the care and upbringing of a child with disability, or due to the care and upbringing of five or more children; ◉ CoM has approved proposals for increasing material support for families with children, which envisages from 2026: 1) increasing the lump-sum allowance for the birth of a child from 421.17 EUR to 600 EUR; 2) childcare allowance from 171 EUR to 298 EUR per month and envisage revision every 2 years; 3) to increase coverage of the family state benefit, to pay it for children from 16 to 20 years of age, regardless of the type of education they receive, incl. for those studying abroad. The additional funding planned for these measures is 42 million EUR. The decision on the approval of these measures must be taken in the Parliament; ◉ proposals approved by the CoM for the increasing of material support for children in out-of-family care, which envisage for 2026: 1) to ensure state social insurance contributions for pension insurance, disability insurance and unemployment insurance for guardians; 2) increase the allowance for the guardian for child support from 215 EUR to 390 EUR per month for a child under 6 years of age, from 258 EUR to 468 EUR per month for a child between 7 and 17 years of age and envisage revision every 2 years; 3) increase the child adoption allowance from 107.5 EUR to 195 EUR per month for a child under 6 years of age, from 129 EUR to 234 EUR per month for a child from 7 to 17 years of age; 5) to increase the compensation for the performance of the guardian's duties from 54.07 EUR to 298 EUR per month and envisage revision every 2 years; 6) to increase the remuneration for the care of the adoptable child (70% of the national average salary of social insurance contributions); 7) increase the lump-sum compensation for the adoption of a child from 1422.87 EUR to 2433 EUR; 8) increase the salary of specialized foster families to 1560 EUR; 9) introduce support measures for specialized foster families (respite, civil law insurance, health insurance, support person service); 10) balance the availability of services of out-of-family care support centers; 11) to increase the state compensation to local governments for child maintenance allowance for foster families from 215 EUR to 390 EUR per month for a child under 6 years of age, from 258 EUR to 468 EUR per month for a child from 7 to 17 years of age. The additional funding planned for these measures is 24.16 million EUR. The decision on the approval of these measures must be taken in the Parliament To ensure the availability of social services: ◉ in the unified basket of minimum social services, which all municipalities, regardless of the size of the municipality and the number of people, must provide to their residents as of 2025, the following services are specified: home care for people with severe functional disorders, group home (apartment) for people with mental disorders, long-term social care and social rehabilitation institution, crisis center for persons in crisis, shelter, night shelter for persons without a fixed place of residence and persons in crisis. According to the results of the municipal survey conducted at the beginning of 2025, home care service and long-term social care and social rehabilitation in the institution are provided in all municipalities; ◉ CoM has approved a proposal for the allocation of additional funding: 1) from 2026.6 million EUR for palliative care mobile team service at the patient's place of residence in accordance with the growing demand; 2) 3.2 million EUR in 2026, for state support to municipalities for social services provided to individuals at the person's place of

No.	EU Council Recommendation 2025	Description
		residence to prevent the formation of lines, social rehabilitation services for adults who have committed violence and victims of violence, as well as for the provision of state-funded long-term social care and social rehabilitation services. The decision on the approval of these measures must be taken in the Parliament.

Distributional Impact Assessment

A Distributional Impact Assessment (DIA) is used to assess the impact of government policy measures on income inequality and household equivalized disposable income[8] (hereafter – household income). The DIA is conducted using the EUROMOD – tax-benefit microsimulation model[9]. The data used as input is based on Latvian EU-SILC 2023 data containing information on a representative sample of 5 835 households and 12 229 individuals, adjusted to the population to obtain information on 834 205 households and 1 854 342 individuals. The EU-SILC data on household income is updated on the basis of the MoF's macroeconomic projections for consumer price inflation and gross wages (see Table 2).

The DIA assesses the impact of several measures on income inequality and household income in 2026. These measures are divided into three groups: changes to the non-taxable minimum in accordance with the Informative Report "Review of State Budget Revenue and Tax Policies 2025-2027"[10], raising the minimum income threshold and support measures to promote demographics in accordance with the Informative Report "On Priority Measures to be included in the State Budget Law for 2026, 2027, and 2028"[11].

The decision to change the non-taxable minimum amount was made back in 2024 when the Draft Law "On the State Budget for 2025 and the Budget Framework for 2025, 2026 and 2027" was being prepared, providing that from 2025, a fixed non-taxable minimum threshold of 510 EUR per month will be introduced for all taxpayers regardless of income level, replacing the differentiated non-taxable minimum (0-500 EUR per month). In accordance with the 2024 CoM decision, the non-taxable minimum will be increased to 550 EUR per month in 2026. The results of the DIA of changes to the non-taxable minimum are presented in Table 8 and Table 9.

The decision to raise the minimum income threshold to 22% of median income was also made back in 2024. However, on January 1, 2026, the minimum income threshold values will be revised[12] to ensure that the minimum income threshold values remain at 22% of the median income. The DIA assesses the updated minimum income thresholds used to determine Guaranteed minimum income (GMI) benefits and housing benefits, state social security benefits, minimum old-age pension, disability and survivor's pensions. The results of the analysis are presented in Tables 8 and 9.

The promotion of demographics was established as one of the government's priorities in preparing the Draft Law "On the State Budget for 2026 and the Budget Framework for 2026, 2027 and 2028"[13], which includes support measures such as an increase in the one-time childbirth allowance, an increase in compensation for fulfilling guardian duties, an increase in adoption allowance, and others[14]. Given the limited EU-SILC data for Latvia and the limitations

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[8] Household disposable income divided by its "equivalent size", which is calculated with the help of the so-called "modified OECD" equivalence scale. This scale gives a weight of 1.0 to the first adult, 0.5 to any other household member aged 14 and over and 0.3 to each child aged less than 14.

[9] EUROMOD. Tax and benefit microsimulation model, available: https://euromod-web.jrc.ec.europa.eu/

[10] Informative Report "Review of State Budget Revenue and Tax Policies 2025-2027", approved by the CoM on September 19, 2024, available: https://tapportals.mk.gov.lv/legal_acts/efd239f3-9bcd-4b5c-ae73-60750ace3d9d

[11] Informative Report "On Priority Measures to be included in the State Budget Law for 2026, 2027, and 2028" approved by the CoM on September 22, 2025, available on the MoF website: https://www.fm.gov.lv/lv/valsts-budzeta-2026-gadam-izstrade

[12] Information on the planned minimum income thresholds is available on the website of the MoW: https://www.lm.gov.lv/lv/minimalo-ienakumu-limenis

[13] Minutes of the CoM meeting of June 25, 2025, No.25 § 46.

[14] Information on measures to promote demographics can be found on the CoM website: https://www.mk.gov.lv/lv/jaunums/atbalstam-gimenem-ar-berniem-un-socialo-pakalpojumu-nodrosinasanai-2026-gada-papildus-paredzeti-95-miljoni-eiro

of EUROMOD in assessing the impact of demographic promotion measures on income inequality and household income, only three demographic promotion measures are assessed in the DIA: 1) increasing the one-time childbirth allowance to 600 EUR; 2) increasing the childcare allowance for children under one and a half years to 298 EUR per month; 3) extending the 75% parental benefit for working beneficiaries until December 31, 2026. The results of the analysis are summarized in Table 8 and Table 9.

Table 8: Impact of policy measures on household income in 2026, in EUR and %

	2026						
	Average household income	Changes in the non-taxable minimum		Changes in the minimum income threshold		Measures to promote demographics	
	EUR	EUR	%	EUR	%	EUR	%
1. decile	4 443	6	0.14%	142	3.19%	6	0.13%
2. decile	7 295	23	0.31%	13	0.17%	16	0.23%
3. decile	9 702	38	0.39%	16	0.16%	11	0.11%
4. decile	11 918	60	0.51%	9	0.08%	32	0.27%
5. decile	14 019	70	0.50%	5	0.04%	50	0.36%
6. decile	16 275	84	0.51%	6	0.03%	45	0.28%
7. decile	18 775	95	0.50%	3	0.02%	77	0.41%
8. decile	21 977	98	0.45%	4	0.02%	98	0.45%
9. decile	27 275	100	0.37%	6	0.02%	176	0.65%
10. decile	42 952	111	0.26%	1	0.00%	186	0.43%

Overall, the measures increase household incomes in all income deciles, with the fastest increase in the first decile (the lowest-income households), where the changes in the minimum income threshold have a high impact on household income (see Table 8). The planned measures generally improve income inequality indicators by reducing the Gini coefficient[15] and the income quintile share ratio (S80/S20)[16] and at-risk-of-poverty rate[17] (see Table 9).

Table 9: Impact of policy measures on income inequality in 2026

	2026			
Inequality indicator	The coefficient value	Changes in the non-taxable minimum	Changes in minimum income threshold	Measures to promote demographics
Gini coefficient	33.30	-0.02	-0.12	0.07
S80/S20	5.98	-0.001	-0.08	0.01
At-risk-of-poverty rate	22.2%	-0.21 pp	-0.02 pp	-0.01 pp

[15] The Gini coefficient characterizes inequality of income. It varies from 0 to 100. The Gini coefficient is 0, if there is absolute equality of income (i.e., all population have the same income), but the closer it gets to 100, the greater is inequality of income.

[16] S80/S20 income quintile share ratio is the ratio of total equivalized disposable income received by the 20% of the country's population with the highest equivalized disposable income (top quintile) to that received by the 20% of the country's population with the lowest equivalized disposable income (bottom quintile).

[17] The at-risk-of-poverty rate is the share of people with an equivalised disposable income (after social transfer) below the at-risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income after social transfers.

Annex: Methodological aspects

Macroeconomic forecasts are developed by applying the 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.

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

- using 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 applies the tax revenue forecast model LATIM-F, its main components of which are a database of macroeconomic indicators, actual tax revenue and legislative changes (including tax rates, etc.). Moreover, in the process of analysis the information from the State Treasury, the SRS, the CSB and other sources is used.

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