

# DRAFT BUDGETARY PLAN OF THE REPUBLIC OF LATVIA 2017

RIGA, 2016

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## **Introduction**

Within the framework of the European Semester and according to the Regulation (EU) 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 2017.

The Regulation provides for a coordination and strengthening of the process of budgetary surveillance in the euro area as a whole:

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

Draft Budgetary Plan of Latvia has been approved by the Cabinet of Ministers on October 13, 2016.

## Macroeconomic Development Scenario

The medium-term macroeconomic growth scenario for 2016-2019 was developed in June 2016 taking into account the GDP data for the first quarter of 2016 and actual-short-term statistical information available up to June 8, 2016. GDP growth and inflation forecasts have been revised down and employment growth forecasts remained unchanged, if compared to the Latvia's Stability Programme for 2016-2019.

During the process of development of medium-term macroeconomic growth scenario, Ministry of Finance (MoF) held consultations with experts from the Ministry of Economics, the Bank of Latvia, Latvia's commercial banks, International Monetary Fund and EC. Macroeconomic indicators' forecasts were approved by the Fiscal Discipline Council on June 10, 2016.

The macroeconomic growth scenario is based on EC technical assumptions of the Spring 2016 forecast regarding external environment, taking into account the latest information available up to beginning of June 2016. These assumptions foresee that prices for Brent oil will be 41.1 USD/bbl in 2016 and will increase to 45.9 USD/bbl in 2017 on average. It is also assumed, that average EUR/USD exchange rate will be 1.1260 in 2016 and 1.1336 in 2017 on average.

According to the EC scenario, economic growth outside the European Union (EU) will be slow, mainly affected by weak economic growth in emerging markets. Economic cycle has reached the peak in major developed countries, hence it is expected that there will be no significant increase in foreign demand. Markets remain highly uncertain about improvements of the global economic growth. As a result, the global GDP growth forecast has been revised down by 0.2 and 0.1 percentage points for 2016 and 2017 to 3.1% and 3.4% respectively.

Slowdown in the world's merchandise trade will negatively affect growth in the euro area despite the low oil prices and favourable euro exchange rate. In the coming years, the euro area economic growth will be based mainly on domestic demand with declining growth of private consumption and rising investments. Thus, the euro area GDP growth rates according to the EC forecasts have been reduced by 0.1 percentage point for 2016 and 2017 to 1.6% and 1.8% respectively.

Since the major part of Latvian exports goes to the EU, slower growth in demand growth in the EU will limit Latvia's revenues from foreign trade. So far, entering the new markets has failed to fully offset the fall of exports to Russia, which share in Latvia's foreign trade gradually becoming less significant, down to 6.9% in the first seven months of 2016. This level is expected to remain because Russian sanctions against the EU countries are assumed not to be lifted for the forecast period. As a result, similarly to the EU, Latvia's economic growth in the medium-term will depend on the domestic demand, i.e., consumption and investment growth.

**Table 0.i) Basic assumptions**

	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Short-term interest rate in euro area (annual average)</b>		-0.2	-0.3
<b>Long-term interest rate in euro area (annual average)</b>		0.2	0.3
<b>USD/EUR exchange rate (annual average)</b>	1.1	1.1	1.1
<b>Nominal effective exchange rate</b>	-7.4	0.3	-0.1
<b>World excluding EU, GDP growth</b>	3.2	3.3	3.7
<b>EU GDP growth</b>	2.0	1.8	1.9
<b>Growth of relevant foreign markets</b>	0.5	2.1	3.4

<b>World import volumes, excluding EU</b>	0.5	2.1	3.4
<b>Oil prices (Brent, USD/barrel)</b>	53.4	41.1	46.0

**Table 1a: Macroeconomic prospects**

	<b>ESA Code</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
		Level	Rate of change		
<b>1. Real GDP</b>	B1*g	21.4	2.7	2.5	3.5
<b>of which</b>					
<b>Attributable to the estimated impact of aggregated budgetary measures on economic growth</b>					
<b>2. Potential GDP</b>		21.7	2.7	2.4	2.6
<b>Contributions:</b>					
<b>labour</b>			-0.2	-0.1	0.0
<b>capital</b>			0.9	0.5	0.7
<b>total factor productivity</b>			1.9	1.9	1.9
<b>3. Nominal GDP</b>	B1*g		3.4	2.8	5.3
<b>Components of real GDP</b>					
<b>4. Private consumption expenditure</b>	P.3	13.5	3.3	4.0	3.4
<b>5. Government consumption expenditure</b>	P.3	3.7	3.1	3.5	3.0
<b>6. Gross fixed capital formation</b>	P.51	4.8	2.7	-11.8	9.5
<b>7. Changes in inventories and net acquisition of valuables (% of GDP)</b>	P.52 + P.53				
<b>8. Exports of goods and services</b>	P.6	12.5	1.4	-0.6	3.9
<b>9. Imports of goods and services</b>	P.7	13.0	1.8	5.1	5.1
<b>Contribution to real GDP growth</b>					
<b>10. Final domestic demand</b>			3.2	0.5	4.5
<b>11. Changes in inventories and net acquisition of value</b>	P.52 + P.53		-0.2	5.5	0.0
<b>12. External balance of goods and services</b>	B.11		-0.3	-3.5	-1.0

**Table 1b: Price developments**

	ESA Code	2015	2015	2016	2017
		Level	Rate of change		
<b>1. GDP deflator</b>		113.7	0.6	0.3	1.7
<b>2. Private consumption deflator</b>		111.2	0.4	0.0	1.6
<b>3. HICP</b>			0.2	0.0	1.6
<b>4. Public consumption deflator</b>		117.6	2.8	1.0	2.8
<b>5. Investment deflator</b>		112.6	0.4	-3.3	4.8
<b>6. Export price deflator (goods and services)</b>		114.5	0.7	-0.5	3.5
<b>7. Import price deflator (goods and services)</b>		112.7	-1.0	-7.5	4.5

**Table 1c: Labour market developments**

	ESA Code	2015	2015	2016	2017
		Level	Rate of change		
<b>1. Employment, persons ('000)</b>		896	1.3	0.2	0.2
<b>2. Employment, hours worked</b>		1311479086	0.6	0.2	0.2
<b>3. Unemployment rate (%)</b>			9.9	9.8	9.4
<b>4. Labour productivity, persons</b>			1.4	2.3	3.3
<b>5. Labour productivity, hours worked</b>			2.1	2.3	3.3
<b>6. Compensation of employees, bln.euro</b>	D.1	10585	7.4	6.2	6.0
<b>7. Compensation per employee (Gross wage), euro</b>		818	6.8	5.5	5.5

**Table 1d: Sectoral balances**

	ESA Code	2015	2016	2017
		% GDP		
<b>1. Net lending/borrowing vis-a-vis the rest of the world</b>	B.9	2.0	3.3	1.2
<b>of which</b>				
- Balance on goods and services		-1.1	-0.3	-1.5
- Balance of primary incomes and transfers		0.4	0.9	0.8
- Capital account		2.8	2.7	1.9
<b>2. Net lending/borrowing of the private sector</b>	B.9	3.3	4.2	2.3
<b>3. Net lending/borrowing of general government</b>	EDP B.9	-1.3	-0.9	-1.1
<b>4. Statistical discrepancy</b>		0.0	0.0	0.0

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

Latvian fiscal policy principles, medium-term structural balance objective (MTO), the deviations applied due to increase in contributions to the second pension pillar have not changed and have been described in the Stability Programme for 2016-2019. In addition to that within elaboration of the Stability Programme for 2016-2019 Latvia announced the reform of the healthcare system which was recognized as well-founded and approved by EC to qualify for an additional deviation from the MTO in 2017 in the amount of 0.1% of GDP.

The general objective of Latvian fiscal policy – raise sustainably the quality of life of population – has not changed and similarly as in previous years it is implemented with the following medium-term budgetary policy priority directions:

- 1) increase state defence capacity by raising state defence funding to 2% of GDP in 2018 and ensure to maintain that in 2019;
- 2) promotion of sustainable and balanced economic development, primarily providing increase in funding for defence, internal security, health and education within limits of the state budget;
- 3) income inequality reduction by gradually increasing minimum wage and introduction of progressive non-taxable minimum;
- 4) gradual increase of tax revenue to 1/3 of GDP, in particular by improving tax collection.

For the implementation of above mentioned medium-term budgetary policy priority directions the government during successive budgetary preparation cycles has adopted discretionary revenue and expenditure measures by continuing the previously implemented policy course, which has been described in the Stability Programme for 2016-2019.

Preparation of the state budget for 2017 was launched by negative fiscal space in the amount of -4.9 mln euro. Taking into account this situation the government has had to make decisions not only to eliminate the negative fiscal space but also to ensure funding for the medium-term budgetary priorities. Consequently, the government decided on a series of tax policy measures which provided additional revenues to the state budget as well as allowed the government to continue the previously determined course of action - improve the tax collection, continue the fight against the shadow economy and reduce income inequality. In regard to discretionary revenue measures the basic principle of decision-making was not to substantially change existing tax policy.

At the same time it should be noted that the additional resources for government's priorities were provided not only by deciding on the revenue increasing measures, but also by carrying out state budget expenditure revision which allowed to ensure additional funding both for own sectoral priorities and common government priorities.

Fiscal data in the Table No.3 has been prepared on the basis of a no-policy change scenario, which for the year 2017 takes into account discretionary revenue and expenditure measures already included in the Law on Medium-Term Budget Framework for 2015, 2016 and 2017 and in the Law on Medium-Term Budget Framework for 2016, 2017 and 2018. In 2017 no-policy change scenario envisage the changes stemming from updated macroeconomic scenario, but also updated expenditure forecasts in particular general government levels are also updated, for instance in the state social security special budget

and budgets of local governments taking into account actual execution data - these are not being classified as discretionary expenditure measures and respectively are not included in Table 5.

In the view of the above mentioned, the budget for 2017 has been drawn up:

- 1) by forecasting that the general government nominal deficit, by including identified fiscal risks, is 1.1% of GDP in 2017, that according to the Latvian forecasts allows to ensure EC fiscal recommendation;
- 2) by implementing state budget expenditure revision and by developing additional discretionary revenue and expenditure measures in order to ensure funding for the priorities defined by the government – internal and external security, health and education;
- 3) by continuing to provide discretionary measures to reduce the shadow economy, to improve tax collection and to reduce income inequality.



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

	ESA Code	2016	2017
		% of GDP	
<b>Net lending (+) / net borrowing (-) ( B.9) by sub-sector</b>			
<b>1. General government</b>	S.13	-0.9	-1.1 <sup>1</sup>
<b>2. Central government</b>	S.1311	-1.0	-1.3
<b>3. State government</b>	S.1312		
<b>4. Local government</b>	S.1313	0.2	0.1
<b>5. Social security funds</b>	S.1314	-0.2	0.1
<b>6. Interest expenditure</b>	D.41	1.1	1.0
<b>7. Primary balance</b>		0.3	0.0
<b>8. One-off and other temporary measures</b>			
<b>9. Real GDP growth (%) (=1. in Table 1a)</b>		2.5	3.5
<b>10. Potential GDP growth (%) (=2 in Table 1.a)</b>		2.4	2.6
<b>contributions:</b>			
<b>- labour</b>		-0.1	0.0
<b>- capital</b>		0.5	0.7
<b>- total factor productivity</b>		1.9	1.9
<b>11. Output gap (% of potential GDP)</b>		-1.1	-0.3
<b>12. Cyclical budgetary component (% of GDP)</b>		-0.4	-0.1
<b>13. Cyclically-adjusted balance (1 - 12) (% of GDP)</b>		-0.4	-1.0
<b>14. Cyclically-adjusted primary balance (13 + 6) (% of GDP)</b>		0.7	0.0
<b>15. Structural balance (13 - 8) (% of GDP)</b>		-0.4	-1.0

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<sup>1</sup> According to the government's adopted decisions the general government deficit in 2017 reaches 1.0% of GDP. In addition, it is assumed that fiscal security reserve, which is 0.1% of GDP, will be used in accordance with the fiscal risks identified in the Fiscal risk statement.

**Table 2.b: General government debt developments**

	ESA Code	2016	2017
% of GDP			
<b>1. Gross debt</b>		40.1	39.1
<b>2. Change in gross debt ratio</b>		3.7	-0.9
<b>Contributions to change in gross debt</b>			
<b>3. Primary balance</b>		0.3	0.0
<b>4. Interest expenditure</b>	EDP D.41	1.1	1.0
<b>5. Stock-flow adjustment, i.e.</b>		2.8	-1.9
<b>Implicit interest rate on debt</b>		3.2	2.7
<b>Other relevant variables</b>			
<b>6. Liquid financial assets</b>			
<b>7. Net financial debt (7=1-6)</b>			
<b>8. Debt amortization (existing bonds) since the end of the previous year</b>		1.0	3.9
<b>9. Percentage of debt denominated in foreign currency</b>		20.5	11.0
<b>10. Average maturity</b>		5.32 years	
<i>For information - in calculations used GDP data:</i>			
<b>Nominal GDP. mln euro</b>		25 072.0	26 403.4

**Table 2.c: Contingent liabilities**

% of GDP	2016	2017
<b>Public guarantees</b>	0.9	1.0

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

	ESA Code	2016	2017
		% GDP	
<b>1. Total revenue at unchanged policies</b>	TR	36.1	36.2
<b>of which</b>			
<b>1.1. Taxes on production and imports</b>	D.2	13.1	13.2
<b>1.2. Current taxes on income, wealth, etc.</b>	D.5	8.3	8.2
<b>1.3. Capital taxes</b>	D.91	0.0	0.0
<b>1.4. Social contributions</b>	D.61	8.5	8.8
<b>1.5. Property income</b>	D.4	0.8	0.7
<b>1.6. Other</b>		5.4	5.2
<b>p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)</b>		29.8	30.1
<b>2. Total expenditure at unchanged policies</b>	TE	37.0	37.1
<b>of which</b>			
<b>2.1. Compensation of employees</b>	D.1	10.2	10.1
<b>2.2. Intermediate consumption</b>	P.2	6.4	6.3
<b>2.3. Social payments</b>	D.62 D.632	11.8	11.8
<b>of which Unemployment benefits</b>		0.5	0.5
<b>2.4. Interest expenditure</b>	D.41	1.1	1.0
<b>2.5. Subsidies</b>	D.3	0.6	0.6
<b>2.6. Gross fixed capital formation</b>	P.51	4.1	4.4
<b>2.7. Capital transfers</b>	D.9	0.1	0.1
<b>2.8. Other</b>		2.7	2.9

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

	ESA Code	2016	2017
		% GDP	
<b>1. Total revenue target</b>	TR	36.1	36.6
<b>Of which</b>			
1.1. Taxes on production and imports	D.2	13.1	13.4
1.2. Current taxes on income, wealth, etc.	D.5	8.3	8.4
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	8.5	8.8
1.5. Property income	D.4	0.8	0.7
1.6. Other		5.4	5.3
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		29.8	30.4
<b>2. Total expenditure target</b>	TE3	37.0	37.7
<b>Of which</b>			
2.1. Compensation of employees	D.1	10.2	10.4
2.2. Intermediate consumption	P.2	6.4	6.6
2.3. Social payments	D.62 D.632	11.8	11.8
of which Unemployment benefits		0.5	0.5
2.4. Interest expenditure (= Table 2.a.9.)	D.41	1.1	1.0
2.5. Subsidies	D.3	0.6	0.6
2.6. Gross fixed capital formation	P.51	4.1	4.4
2.7. Capital transfers	D.9	0.1	0.1
2.8. Other		2.7	2.9

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

	ESA Code	2015	2015	2016	2017
		mln. euro	% GDP		
<b>1. Expenditure on EU programmes fully matched by EU funds revenue</b>		500.0	2.1	1.8	1.8
<b>2. Cyclical unemployment benefit expenditure</b>		-14.7	-0.1	0.0	0.0
<b>3. Effect of discretionary revenue measures</b>		-30.9	-0.1	0.6	0.8
<b>4. Revenue increases mandated by law</b>					

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

	2016		2017	
	% GDP	% general government expenditure	% GDP	% general government expenditure
<b>Education</b>	5.6	15.1	5.7	15.1
<b>Health</b>	3.6	9.8	3.7	9.8
<b>Employment</b>	0.2	0.5	0.2	0.5

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

	COFOG Code	2016	2017
		% of GDP	
<b>1. General public services</b>	1	4.7	4.9
<b>2. Defense</b>	2	1.5	1.7
<b>3. Public order and safety</b>	3	1.9	1.9
<b>4. Economic affairs</b>	4	4.6	4.7
<b>5. Environmental protection</b>	5	0.6	0.7
<b>6. Housing and community amenities</b>	6	1.1	1.1
<b>7. Health</b>	7	3.6	3.7
<b>8. Recreation, culture and religion</b>	8	1.6	1.6
<b>9. Education</b>	9	5.6	5.7
<b>10. Social protection</b>	10	11.8	11.8
<b>11. Total Expenditure (= item 2 in Table 2.c.i)</b>	TE	37.0	37.7

State draft budget 2017 is drawn up in accordance with the following basic principles:

1. The priority sectors – external and internal security, health, education. During the preparation of the state budget for 2017 similarly as in the previous budget the government defined following priority sectors – external and internal security, health and education. Decision to **increase funding for defence** was adopted in the previous Framework Law that includes not only strengthening external but also internal security. Regarding the remaining two priorities – health and education – maintaining those on the top of the government's list of priorities results from the fact that in relevant sectors, which are cornerstones of successful economic development, problems have been accumulating already for several years. **Health sector** has long functioned under the condition of inadequate public financing, which in turn has increased patient co-payments, significantly inhibiting satisfaction of patients' health needs. Increase of public funding is to be addressed both in the medium-term ensured by additional allocated resources within the scope of new policy initiatives and permission to deviate from MTO, which is approved by the EC to use the SGP flexibility mechanism with regard to structural reforms thus providing temporary additional funding for solving problems of the health sector, and in the long-term by developing a sustainable health funding model. In turn, the general government expenditure for the **education** in Latvia according to COFOG exceeds the EU average. It indicates that funding for education is adequate, but the network of education system and number of pupils per teacher are not optimal. However, a significant increase in the number of pupils per teacher cannot be managed in a short-term without jeopardizing the quality of education. Therefore, it is necessary to invest additional funding in the system to raise teachers' remuneration otherwise quality of education would significantly suffer.
2. State budget expenditure revision. As a result of expenditure revision for 2017 it was possible to find resources of 61.3 mln euro which were distributed respectively – 32.6 mln euro for common government priorities and 28.7 mln euro allocated as internal resources for funding sectorial priorities. Amendments to the Law on Budget and Financial Management which came into force on 1st January, 2016 have established State budget expenditure revision as a permanent and systematic process.
3. Increasing the tax chargeability so as to move towards the ratio of tax revenue to GDP – 1/3. Latvia traditionally has been a country with relatively low tax burden, which is one of the lowest in the EU. Current government decisions to increase budget revenue were grounded in the need to finance government priorities at the same time ensuring that the existing tax policies are not substantially changed. Nevertheless approved tax policy measures both in the current and in the previous budget cycles ensure that in coming years the tax revenue with respect to GDP will be on the upward trend.
4. Reduction of population income inequality. As of 2017, to reduce social and income inequality it is foreseen to raise minimum wage from 370 to 380 euro per month as well as to implement a number of measures to raise the quality of life of particular social groups, especially for families with children. It should be noted that the reduction of income inequality is still a relevant item in the government's agenda and it is foreseen to be developed during the preparation of the State Tax Policy Guidelines for 2017-2021.

**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		
						2017	2018	2019
						% of GDP		
Abolition of car and motorcycle tax	Abolition of car and motorcycle tax	Car and motorcycle tax	D.2	Accrual	Approved by government	-0.04	0.00	0.00
Changes in vehicle exploitation tax rates/introduction of fee for cars registered abroad.	Changes in vehicle exploitation tax rates/introduction of fee for cars registered abroad.	Vehicle operation tax	D.5;D29	Accrual	Approved by government	0.04	0.00	0.00
The introduction of Personal Income Tax (PIT) allowance for one of the social guarantees for employees who have collective agreement	The introduction of PIT allowance for one of the social guarantees for employees who have collective agreement	PIT	D.5	Accrual	Approved by government	0.00	0.00	0.00
		SSC	D.61	Accrual	Approved by government	-0.01	-0.01	0.00
		CIT	D.5	Accrual	Approved by government	0.00	0.00	0.00
Retaining of payment procedure of the vehicle exploitation tax (tax is paid for the whole year); changes of payment procedure introduced as from January 1, 2019.	Retaining of payment procedure of the vehicle exploitation tax (tax is paid for the whole year); changes of payment procedure introduced as from January 1, 2019.	Vehicle operation tax	D.2, D.29	Accrual	Approved by government	0.13	0.00	-0.15
The introduction of non-refundable tax prepayment in the taxi industry (130 euro per month for each taxi)		PIT	D.5	Accrual	Approved by government	0.01	0.00	0.00
		SSC	D.61	Accrual	Approved by government	0.01	0.00	0.00
Increase of tax on natural resources rates and introduction of new tax object	Increase of tax on natural resources rates on extraction of natural resources (coal, coke and lignite, dolomite, marl, tuff, sapropel, curative sludge, mineral waters, surface waters, ground waters), on carbon dioxide emissions, on disposable tableware and packaging of goods and products, on (used) vehicles registered for the first time in Latvia and on all types of tyres as of January 1, 2017. It is planned to apply tax on natural resources for the	NRT	D29FA	Accrual	Approved by government	0.03	0.00	0.00

	use of water resources for electricity generation in hydroelectric power stations, whose total installed capacity is more than two megawatts as of January 1, 2017.							
Introduce a risk management system in the Company Register	Introduction of a risk management system in the Company Register which during the new company registration process or in the event of pre-registered company board members' change will evaluate the risks associated with the board members' true willingness and ability to engage in business	VAT	D.2	Accrual	Approved by government	0.01	0.00	0.00
Cancellation of electricity tax exemptions	Cancellation of exemptions set by the first part and first and second points of second part of Article 6 in Electricity Tax Law. Exemptions were provided for electricity produced from renewable energy sources (hydroelectric power plants or cogeneration units that comply with efficiency criteria) and electricity used for electricity production or heat and electricity production in cogeneration. This comes into force as of January 1, 2017.	Electricity tax	D.2	Accrual	Approved by government	0.02	0.00	0.00
Improvement of road user fee collection		Non-tax	D.29f	Accrual	Approved by government	0.03	0.00	0.00
Payment for dividends (for state owned enterprises) and changes in forecasts	85% in year 2017 (calculated of profit of 2016), 80% in year 2018 (calculated of profit of 2017), 70% in year 2019 (calculated of profit of 2018)	Payments for the use of state capital	D.421	Accrual	Approved by government	0.03	-0.02	0.11
Restriction of deduction of losses for Corporate income tax	Limit of deduction is set at 75% from the loss of the taxation period	CIT	D.5	Accrual	Approved by government	0.00	0.04	0.00
Correction of the planned revenue from the state fee for the issuance	Correction of the planned revenue from the state fee for the issuance of	State fee	D.29e	Accrual	Approved by government	0.00	0.00	0.01



of passports	passports							
Correction of the planned revenue from the state fee for the issuance of ID cards	Correction of the planned revenue from the state fee for the issuance of ID cards	State fee	D.29e	Accrual	Approved by government	0.00	0.00	0.01
To support the Working Group's proposal about additional revenues in the amount of 20 000 000 euro in 2017 from confiscation of proceeds of crime	Revenues from confiscation of proceeds of crime			Accrual	Approved by government	0.08	-0.07	0.00
State fee for the maintenance of security reserves of petroleum products	Correction of the planned revenue from the state fee for the maintenance of security reserves of petroleum products according to the Ministry of Economics	State fee	D.29e	Accrual	Approved by government	-0.01	0.00	0.00
		VAT	D.2	Accrual	Approved by government	0.00	0.00	0.00
Increase of the minimal monthly wage from 370 to 380 euros	Increase of the minimal monthly wage from 370 to 380 euros	SSC	D.61	Accrual	Approved by government	0.02	0.00	0.00
		PIT	D.5	Accrual	Approved by government	0.02	0.00	0.00
		VAT	D.2	Accrual	Approved by government	0.00	0.00	0.00
Other measures	Other measures			Accrual	Approved by government	0.03	0.00	0.00
<b>Total</b>						<b>0.40</b>	<b>-0.06</b>	<b>-0.01</b>

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

List of measures	Detailed description	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
					2017	2018	2019
					% of GDP		
The lowest monthly wage equalization from 1 January 2017		D.1	Cash flow	Approved by government	0.02	0.00	0.00
Decisions of the Cabinet of Ministers, including:			Cash flow	Approved by government	0.00	-0.12	0.14
<i>decrease in expenditure for achieving amount of funding for the defence with respect to GDP</i>		P.51	Cash flow	Approved by government	-0.03	-0.02	-0.01
<i>decrease in expenditure for the maintenance of security reserves of petroleum products</i>		P.2	Cash flow	Approved by government	-0.01	0.00	0.00

<i>increase in expenditure for the implementation of NPI "Radical action to combat the shadow economy in the field of tax administration and customs affairs" for 2018 and 2019</i>		D.1, P.2	Cash flow	Approved government	by	0.00	0.05	-0.04
<i>increase in expenditure for 2019 for long-term measure "Dispensation of EU compliant passports, electronic ID cards and residence permits"</i>		P.2	Cash flow	Approved government	by	0.00	0.00	0.01
<i>compensation for hydropower plants for the damages caused to fish resources</i>		D.3	Cash flow	Approved government	by	0.01	0.00	0.00
<i>changes of the funding for long-term measure "Construction of a new prison in Liepaja"</i>		P.51	Cash flow	Approved government	by	-0.11	0.11	0.08
<i>decrease in resources and expenditure in 2017 and 2018 for subsidy to the hospitals annually liabilities in the amount of 7 000 000 euro reallocating funding to ensure access of outpatient and inpatient healthcare services</i>		D.7	Cash flow	Approved government	by	-0.03	0.00	0.03
<b>74. The annual state budget execution process of reallocating funding, including:</b>								
<i>adjustments in accordance with the supported proposals of the Cabinet of Ministers (reallocation to the Ministry of Interior and the Ministry of Justice to fully ensure implementation of the new wage system for the officials with special service ranks of the institutions of the system of the Ministry of the Interior and the Prison Administration and to the State Revenue Service to improve remuneration system)</i>		D.1	Cash flow	Approved government	by	-0.07	-0.03	0.07
<i>compensation for overtime work by officials with special service ranks of the institutions of the system of the Ministry of the Interior and the Prison Administration</i>		D.1	Cash flow	Approved government	by	0.06	-0.06	0.00
<i>funding for implementation of the healthcare reform</i>		D.1, P.2	Cash flow	Approved government	by	0.13	-0.12	0.00
<i>transitional measures of equalization of the state aid</i>		D.3	Cash flow	Approved government	by	0.05	-0.05	0.00
Other measures (reallocation of revenue (including implementation of EU funds) from paid services and other own revenue increase, etc.)			Cash flow	Approved government	by	0.03	0.05	0.03
EU policy instruments and other foreign financial assistance funds established in the framework of information and communication technology system maintenance		P.2	Cash flow	Approved government	by	0.01	0.00	0.00
Increase in the minimum monthly wage up to 380 euros from 1 January 2017		D.1	Cash flow	Approved government	by	0.03	0.00	0.00
Latvian National Centenary programme		P.2/D.3	Cash flow	Approved government	by	0.02	0.02	-0.01
Contributions to the OECD (including OECD participation fees covering the special chemical control programme)		D.7	Cash flow	Approved government	by	0.01	0.00	0.00

The new wage system for officials with special service ranks of the institutions of the system of the Ministry of the Interior and the Prison Administration		D.1	Cash flow	Approved government	by	0.11	0.00	0.00
Wage increase for the court system employees		D.1	Cash flow	Approved government	by	0.02	0.00	0.00
Increase in remuneration of judges and prosecutors		D.1	Cash flow	Approved government	by	0.00	0.02	0.00
Clarification of the Saeima budget in accordance with the Saeima's decision on 29 August 2016 on the parliamentary budget request for 2017-2019		P.2	Cash flow	Approved government	by	0.00	0.00	0.01
The State guarantee mortgages for the acquisition or construction of living space for families with children (provision of housing programmes)		D.3	Cash flow	Approved government	by	0.02	0.00	0.00
Motivation for professional officials of the high risk unit and employees of State Revenue Service		D.1	Cash flow	Approved government	by	0.01	0.00	0.00
State Revenue Service remuneration system's improvement		D.1	Cash flow	Approved government	by	0.01	0.00	0.00
Takeover of liabilities for the state guaranteed medical institutions		D.41	Cash flow	Approved government	by	0.00	0.00	0.01
Establishment and maintenance of the state border zone between the Republic of Latvia and the Russian Federation		P.2	Cash flow	Approved government	by	0.01	0.00	0.00
The planned renewal of the aircraft fleet (two light helicopters of the single-engine class purchase), staff training and maintenance		P.51	Cash flow	Approved government	by	0.01	0.00	0.00
Capacity building of the judicial police (classified information)			Cash flow	Approved government	by	0.01	0.00	0.00
Extraordinary State aid to milk producers		D.3	Cash flow	Approved government	by	0.03	0.00	0.00
The national forest service capacity building		D.1	Cash flow	Approved government	by	0.01	0.00	0.00
Road alignment programme 2014-2020		P.51	Cash flow	Approved government	by	0.04	0.00	0.00
Large families as a new category of passengers who are entitled to use the fare relief intercity public transport		D.3	Cash flow	Approved government	by	0.01	0.01	0.00
An alternative form of family care development		D.62/D.99	Cash flow	Approved government	by	0.02	0.00	0.00
Increase in support for the survivor's pension beneficiaries		D.62	Cash flow	Approved government	by	0.02	0.00	0.00
Increase in family state benefit for the fourth and subsequent children		D.62	Cash flow	Approved government	by	0.01	0.00	0.00
The Constitutional protection Office's operating activities (classified information)			Cash flow	Approved	by	0.01	0.00	0.00

				government			
Row reduction to specialist services in ambulatory healthcare		P.2	Cash flow	Approved government by	0.01	0.00	0.00
Access of outpatient and inpatient healthcare services		P.2	Cash flow	Approved government by	0.03	0.00	0.00
Introduction of teachers new wage model		D.1	Cash flow	Approved government by	0.02	0.00	0.00
Regional infrastructure		P.51	Cash flow	Approved government by	0.02	0.00	0.00
Planned lower expenditure for unemployment and sickness benefits due to the legislative changes that reviews the qualifying period for benefit		D.62	Cash flow	Approved government by	-0.04	-0.01	0.00
Other measures			Cash flow	Approved government by	0.05	-0.01	0.00
<b>Total</b>					<b>0.54</b>	<b>-0.04</b>	<b>0.17</b>

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

List of measures	Detailed description	Type of tax	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
						2017	2018	2019
						% of GDP		
Abolition of car and motorcycle tax	Abolition of car and motorcycle tax	Car and motorcycle tax	D.2	Accrual	Approved by government	-0.04	0.00	0.00
Changes in vehicle exploitation tax rates/introduction of fee for cars registered abroad.	Changes in vehicle exploitation tax rates/introduction of fee for cars registered abroad.	Vehicle operation tax	D.5;D29	Accrual	Approved by government	0.04	0.00	0.00
The introduction of Personal Income Tax (PIT) allowance for one of the social guarantees for employees who have collective agreement	The introduction of PIT allowance for one of the social guarantees for employees who have collective agreement	PIT	D.5	Accrual	Approved by government	0.00	0.00	0.00
		SSC	D.61	Accrual	Approved by government	-0.01	-0.01	0.00
		CIT	D.5	Accrual	Approved by government	0.00	0.00	0.00

Retaining of payment procedure of the vehicle exploitation tax (tax is paid for the whole year); changes of payment procedure introduced as from January 1, 2019.	Retaining of payment procedure of the vehicle exploitation tax (tax is paid for the whole year); changes of payment procedure introduced as from January 1, 2019.	Vehicle operation tax	D.2, D.29	Accrual	Approved by government	0.13	0.00	-0.15
The introduction of non-refundable tax prepayment in the taxi industry (130 euro per month for each taxi)		PIT	D.5	Accrual	Approved by government	0.00	0.00	0.00
		SSC	D.61	Accrual	Approved by government	0.01	0.00	0.00
Increase of tax on natural resources rates and introduction of new tax object	Increase of tax on natural resources rates on extraction of natural resources (coal, coke and lignite, dolomite, marl, tuff, sapropel, curative sludge, mineral waters, surface waters, ground waters), on carbon dioxide emissions, on disposable tableware and packaging of goods and products, on (used) vehicles registered for the first time in Latvia and on all types of tyres as of January 1, 2017. It is planned to apply tax on natural resources for the use of water resources for electricity generation in hydroelectric power stations, whose total installed capacity is more than two megawatts as of January 1, 2017.	NRT	D29FA	Accrual	Approved by government	0.04	0.00	0.00
Introduce a risk management system in the Company Register	Introduction of a risk management system in the Company Register which during the new company registration process or in the event of pre-registered company board members' change will evaluate the risks associated with the board members' true willingness and ability to engage in business	VAT	D.2	Accrual	Approved by government	0.01	0.00	0.00
Cancellation of electricity tax exemptions	Cancellation of exemptions set by the first part and first and second points of second part of Article 6 in Electricity Tax Law. Exemptions were provided for electricity produced from renewable energy sources (hydroelectric power plants or	Electricity tax	D.2	Accrual	Approved by government	0.02	0.00	0.00

	cogeneration units that comply with efficiency criteria) and electricity used for electricity production or heat and electricity production in cogeneration. This comes into force as of January 1, 2017.							
Improvement of road user fee collection		Non-tax	D.29f	Accrual	Approved by government	0.03	0.00	0.00
Payment for dividends (for state owned enterprises) and changes in forecasts	85% in year 2017 (calculated of profit of 2016), 80% in year 2018 (calculated of profit of 2017), 70% in year 2019 (calculated of profit of 2018)	Payments for the use of state capital	D.421	Accrual	Approved by government	0.03	-0.02	0.11
Restriction of deduction of losses for Corporate income tax (CIT)	Limit of deduction is set at 75% from the loss of the taxation period	CIT	D.5	Accrual	Approved by government	0.00	0.04	0.00
Correction of the planned revenue from the state fee for the issuance of passports	Correction of the planned revenue from the state fee for the issuance of passports	State fee	D.29e	Accrual	Approved by government	0.00	0.00	0.01
Correction of the planned revenue from the state fee for the issuance of ID cards	Correction of the planned revenue from the state fee for the issuance of ID cards	State fee	D.29e	Accrual	Approved by government	0.00	0.00	0.01
To support the Working Group's proposal about additional revenues in the amount of 20 000 000 euro in 2017 from confiscation of proceeds of crime	Revenues from confiscation of proceeds of crime			Accrual	Approved by government	0.08	-0.07	0.00
State fee for the maintenance of security reserves of petroleum products	Correction of the planned revenue from the state fee for the maintenance of security reserves of petroleum products according to the Ministry of Economics	State fee	D.29e	Accrual	Approved by government	-0.01	0.00	0.00
		VAT	D.2	Accrual	Approved by government	0.00	0.00	0.00
Increase of the minimal monthly wage from 370 to 380 euros	Increase of the minimal monthly wage from 370 to 380 euros	SSC	D.61	Accrual	Approved by government	0.02	0.00	0.00
		PIT	D.5	Accrual	Approved by government	0.00	0.00	0.00
		VAT	D.2	Accrual	Approved by government	0.00	0.00	0.00
Other measures	Other measures			Accrual	Approved by government	0.03	0.00	0.00
<b>Kopā</b>						<b>0.38</b>	<b>-0.06</b>	<b>-0.01</b>

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

List of measures	Detailed description	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
					2017	2018	2019
					% of GDP		
The lowest monthly wage equalization from 1 January 2017		D.1	Cash flow	Approved government by	0.02	0.00	0.00
Decisions of the Cabinet of Ministers, including:			Cash flow	Approved government by	0.00	-0.12	0.14
<i>decrease in expenditure for achieving amount of funding for the defence with respect to GDP</i>		P.51	Cash flow	Approved government by	-0.03	-0.02	-0.01
<i>decrease in expenditure for the maintenance of security reserves of petroleum products</i>		P.2	Cash flow	Approved government by	-0.01	0.00	0.00
<i>increase in expenditure for the implementation of NPI "Radical action to combat the shadow economy in the field of tax administration and customs affairs" for 2018 and 2019</i>		D.1, P.2	Cash flow	Approved government by	0.00	0.05	-0.04
<i>increase in expenditure for 2019 for long-term measure "Dispensation of EU compliant passports, electronic ID cards and residence permits"</i>		P.2	Cash flow	Approved government by	0.00	0.00	0.01
<i>compensation for hydropower plants for the damages caused to fish resources</i>		D.3	Cash flow	Approved government by	0.01	0.00	0.00
<i>changes of the funding for long-term measure "Construction of a new prison in Liepaja"</i>		P.51	Cash flow	Approved government by	-0.11	0.11	0.08
<i>decrease in resources and expenditure in 2017 and 2018 for subsidy to the hospitals annually liabilities in the amount of 7 000 000 euro reallocating funding to ensure access of outpatient and inpatient healthcare services</i>		D.7	Cash flow	Approved government by	-0.03	0.00	0.03
<b>74. The annual state budget execution process of reallocating funding, including:</b>							
<i>adjustments in accordance with the supported proposals of the Cabinet of Ministers (reallocation to the Ministry of Interior and the Ministry of Justice to fully ensure implementation of the new wage system for the officials with special service ranks of the institutions of the system of the Ministry of the Interior and the Prison Administration and to the State Revenue Service to improve remuneration system)</i>		D.1	Cash flow	Approved government by	-0.07	-0.03	0.07
<i>compensation for overtime work by officials with special service ranks of the institutions of the system of the Ministry of the Interior and the Prison Administration</i>		D.1	Cash flow	Approved government by	0.06	-0.06	0.00
<i>funding for implementation of the healthcare reform</i>		D.1, P.2	Cash flow	Approved government by	0.13	-0.12	0.00
<i>transitional measures of equalization of the state aid</i>		D.3	Cash flow	Approved by	0.05	-0.05	0.00

				government			
Other measures (reallocation of revenue (including implementation of EU funds) from paid services and other own revenue increase, etc.)			Cash flow	Approved government by	0.03	0.05	0.03
EU policy instruments and other foreign financial assistance funds established in the framework of information and communication technology system maintenance		P.2	Cash flow	Approved government by	0.01	0.00	0.00
Increase in the minimum monthly wage up to 380 euros from 1 January 2017		D.1	Cash flow	Approved government by	0.03	0.00	0.00
Latvian National Centenary programme		P.2/D.3	Cash flow	Approved government by	0.02	0.02	-0.01
Contributions to the OECD (including OECD participation fees covering the special chemical control programme)		D.7	Cash flow	Approved government by	0.01	0.00	0.00
The new wage system for officials with special service ranks of the institutions of the system of the Ministry of the Interior and the Prison Administration		D.1	Cash flow	Approved government by	0.11	0.00	0.00
Wage increase for the court system employees		D.1	Cash flow	Approved government by	0.02	0.00	0.00
Increase in remuneration of judges and prosecutors		D.1	Cash flow	Approved government by	0.00	0.02	0.00
Clarification of the Saeima budget in accordance with the Saeima's decision on 29 August 2016 on the parliamentary budget request for 2017-2019		P.2	Cash flow	Approved government by	0.00	0.00	0.01
The State guarantee mortgages for the acquisition or construction of living space for families with children (provision of housing programmes)		D.3	Cash flow	Approved government by	0.02	0.00	0.00
Motivation for professional officials of the high risk unit and employees of State Revenue Service		D.1	Cash flow	Approved government by	0.01	0.00	0.00
State Revenue Service remuneration system's improvement		D.1	Cash flow	Approved government by	0.01	0.00	0.00
Takeover of liabilities for the state guaranteed medical institutions		D.41	Cash flow	Approved government by	0.00	0.00	0.01
Establishment and maintenance of the state border zone between the Republic of Latvia and the Russian Federation		P.2	Cash flow	Approved government by	0.01	0.00	0.00
The planned renewal of the aircraft fleet (two light helicopters of the single-engine class purchase), staff training and maintenance		P.51	Cash flow	Approved government by	0.01	0.00	0.00
Capacity building of the judicial police (classified information)			Cash flow	Approved government by	0.01	0.00	0.00
Extraordinary State aid to milk producers		D.3	Cash flow	Approved government by	0.03	0.00	0.00



The national forest service capacity building		D.1	Cash flow	Approved government by	0.01	0.00	0.00
Road alignment programme 2014-2020		P.51	Cash flow	Approved government by	0.04	0.00	0.00
Large families as a new category of passengers who are entitled to use the fare relief intercity public transport		D.3	Cash flow	Approved government by	0.01	0.01	0.00
An alternative form of family care development		D.62/D.99	Cash flow	Approved government by	0.02	0.00	0.00
Increase in support for the survivor's pension beneficiaries		D.62	Cash flow	Approved government by	0.02	0.00	0.00
Increase in family state benefit for the fourth and subsequent children		D.62	Cash flow	Approved government by	0.01	0.00	0.00
The Constitutional protection Office's operating activities (classified information)			Cash flow	Approved government by	0.01	0.00	0.00
Row reduction to specialist services in ambulatory healthcare		P.2	Cash flow	Approved government by	0.01	0.00	0.00
Access of outpatient and inpatient healthcare services		P.2	Cash flow	Approved government by	0.03	0.00	0.00
Introduction of teachers new wage model		D.1	Cash flow	Approved government by	0.02	0.00	0.00
Regional infrastructure		P.51	Cash flow	Approved government by	0.02	0.00	0.00
Planned lower expenditure for unemployment and sickness benefits due to the legislative changes that reviews the qualifying period for benefit		D.62	Cash flow	Approved government by	-0.04	-0.01	0.00
Other measures			Cash flow	Approved government by	0.05	-0.01	0.00
<b>Total</b>					<b>0.54</b>	<b>-0.04</b>	<b>0.17</b>

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

List of measures	Detailed description	Type of tax	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
						2017	2018	2019
						% GDP		

Increase of the minimal monthly wage from 370 to 380 euros	Increase of the minimal monthly wage from 370 to 380 euros	PIT	D.5	Accrual	Approved by government	0.01	0.00	0.00
Other measures	Other measures			Accrual	Approved by government	0.00	0.00	0.00
<b>Total</b>						<b>0.02</b>	<b>0.00</b>	<b>0.00</b>

**Table 6.a: Country specific recommendations**

CSR number	List of measures	Description of direct relevance
1	Ensure that the deviation from the adjustment path towards the medium-term budgetary objective in 2016 and 2017 is limited to the allowance linked to the systemic pension reform and the major structural reform in the healthcare sector.	<p>The general government deficit for 2016 is projected to be at 0.9% of GDP, which is by 0.1% of the GDP lower as compared to deficit level in the Law "On the Medium-Term Budget Framework for 2016, 2017 and 2018". The lower deficit is primarily driven by lower-than-projected interest expenditure, less contributions to the EU budget and lower capital expenditure on EU fund projects, particularly in local government budgets.</p> <p>The general government structural deficit for 2016 is forecasted to be at 0.9% of GDP, which is at the same level as it was foreseen in the Law "On the Medium-Term Budget Framework for 2016, 2017 and 2018".</p> <p>In addition to the deviation from MTO that results from the increase in contributions to the second pension pillar EC has approved application of deviation as regards to the planned healthcare reform in the amount of 0.1% of GDP for 2017. Taking into account permissible deviations, the general government structural deficit target for 2017 was set at 1.0% of GDP, which is at the same level as it was determined by the Law "On the Medium-Term Budget framework for 2016, 2017 and 2018".</p>
	Reduce the tax wedge for low-income earners by exploiting a growth-friendly tax shift towards environmental and property taxes and improving tax compliance.	See Latvian National Reform Programme (NRP), Chapter 2.3.
2	Improve the adequacy of social assistance benefits and step up measures supporting recipients in finding and retaining work, including through increased coverage of activation measures.	<p>As of 1st January 2017, the family state benefit for the fourth and subsequent children will be increased up to 50.074 euro per month.</p> <p>The amendments to the Social Services and Social Assistance Law (proposals for 3rd reading are submitted to the <i>Saeima</i> in September 2016) intends to improve the access of the social assistance for families with children and the family state benefit will not be taken into account for income assessment anymore. Having regard the increase of the family state benefit for the fourth and subsequent children, the social assistance for large families will be even more accessible.</p> <p>For more information see NRP, Chapter 2.3.</p>
	Speed up the curricula reform in vocational education, establish — with the involvement of social partners — a regulatory framework for	The previously started curricula reform in vocational education will continue within the EU structural funds. On April 26, 2016, the Cabinet of Ministers has approved Regulation No.262 “Operational Programme “Growth and Employment” 8.5.2. specific objective “To ensure conformity of vocational education to European qualifications framework” implementing rule”. Specific objective No 8.5.2. of project is planned to start in October, 2016 and will be implemented till the end of 2021. Currently the evaluation of project application takes place. Within the project it is planned to consummate 14 sectoral qualification structures to develop 160 occupational standards of qualification basic requirements (90 till 2018), 184 modular programmes (10 till 2018) and to develop examination content for 210 professional qualifications in accordance with the

<p>work-based learning and increase their offer.</p>	<p>European/Latvian qualification framework and the requirements of the labour market. Project will be implemented by the National Centre for Education in cooperation with Latvian Employment Confederation, the Free Trade Union Confederation of Latvia, State Education Quality Service and union "Farmers' Organisation Co-operation Council.</p> <p>According to the amendments to the Vocational Education Law, which were adopted by the Saeima on April 23, 2015, with the aim to facilitate further developments in vocational education institutions and their co-operation with employers. Development of vocational education institutions –Conventions - were established. Currently the Conventions are operational in all vocational education institutions under the supervision of the Ministry of Education and Science.</p> <p>The Amendments also determined work-based learning as one of the forms for the implementation of vocational education (full time education, distance education, self-education and work-based learning). Following the Amendments, on July 15, 2016 Regulation No 484 "Procedure on the organisation and implementation of work-based learning" have been adopted by the Cabinet of Ministers. The Regulations provides involvement of employers and social partners in the implementation of work-based learning and the responsibilities of Sector expert councils by coordinating and enhancing the companies' co-operation with education institutions and by ensuring the compliance of vocational education with the labour market needs.</p> <p>At the same time a collaborative project with the International Labour Organization regarding to the work-based learning development issues in Latvia.</p> <p>In order to promote involvement of vocational education students in work-based learning, on July 15, 2016, the Cabinet of Ministers has approved Regulation No.483 "Operational Programme "Growth and Employment" 8.5.1. specific objective "To increase number of qualified VET student's through participation in work-based learning and practices in enterprise" implementing rule". EU Structural Fund 8.5.1. SO project has planned to start at the end of IV quarter of 2016. Until III quarter of 2023 in the work-based learning will be involved 3150 VET students, but in practical trainings and training practices will be involved 11 025 VET students. Project will be implemented by the Employers' Confederation of Latvia in cooperation with VET schools and enterprises, which will provide work-based learning and practices.</p> <p>In the framework of NEET (youth not in education, employment or training) youth have the possibility to participate in the work-based learning given the opportunity to the youngsters more than half of the teaching time spend in a real work environment.</p>
<p>Improve the accessibility, quality and cost-effectiveness of the healthcare system.</p>	<p>As regards to the implementation of healthcare reform it is important to separate two aspects:</p> <ol style="list-style-type: none"> <li>1) implementation of Public Health Guidelines for 2014 – 2020;</li> <li>2) sustainable health financing aspect and further improvements of system efficiency.</li> </ol> <p>During the preparation of Stability Programme for 2016 – 2019 Latvia applied for additional deviation from MTO in order to implement Public Health Guidelines for 2014 – 2020. This document includes measures that are recognized as a structural reforms from the SGP point of view.</p> <p>On the basis of Stability programme's assessment, the EC in the country-specific recommendations has concluded that Latvia both for the very nature of healthcare reform (it is recognized that planned positive effect on the economy and public finances in the result of reform implementation is credible) and technically (compliance with the lower margin of structural budget deficit of 1.7% of GDP) qualifies for the deviation from MTO. Currently, the deviation has been granted in the amount of 0.1% of GDP (the maximum amount of the deviation provided by the SGP flexibility instrument for structural reforms is 0.5% of GDP).</p> <p>Taking into account that Public Health Guidelines for 2014 – 2020 are implemented from the resources of the state budget, resources of the EU funds and during the period of 2017-2019 from the resources of the state budget that were allocated as a result of granted deviation from deficit. Based on latter case it is planned to allocate resources to the separate group of measures on which the Cabinet of Ministers will adopt separate decision and on which the MoF will gain confidence that those measures will improve the accessibility and quality of the healthcare system in the most efficient way. Development and evaluation of such measures is quite time consuming process thus the resources from granted deviation have already been reserved in the separate budget programme of the state budget for 2017 and will be transferred to the Ministry of Health after the</p>

		<p>government approves proposals on the usage of the funds prepared by Ministry of Health.</p> <p>During the state budget expenditure revision it was found that it is necessary to improve healthcare system and from that perspective the healthcare system reform, that focuses on better governance, clearer principles of resource allocation and more efficient use of funds, is currently topical in the society. Under the previously mentioned considerations we can speak of a new healthcare system reform. However, in any case it does not abrogate tasks foreseen by Public Health Guidelines for 2014 – 2020. If Public Health Guidelines for 2014 – 2020 prescribes what kind of healthcare services should be provided, the new healthcare reform will determine the framework of institutional and resource management to ensure those services as effective as possible. And finally society now is talking about the healthcare funding system reform. This reform should provide an answer on how to significantly increase funding for the health sector as well how to compensate decrease in funding for 2020 after the expiry of the permissible deviations from deficit.</p> <p>In addition to what is mentioned in the NRP, Ministry of Health has taken important steps, which are a prerequisite for further implementation of ongoing health reform and creation of sustainable health financing model. As a result of discussions with industry and government partners a conceptual report "On the Change of Latvian Healthcare Financing Model" and informative report "On the Scope of State-Funded Healthcare Services" have been developed. The work in collaboration with the World Bank on review of the structure of health systems and healthcare providers is continuing, as well as a matter of priority the healthcare payment rates are being reviewed. Since June 22, 2016 inhabitants have access to the public part of e-health portal <a href="http://www.eveseliba.gov.lv">www.eveseliba.gov.lv</a>. Since September 12, 2016 the restricted part of the e-health portal is available in which residents can access their electronic health records, but medical personnel in production environment can initiate issuing of a e-prescription and e-sick-leave certificate.</p> <p>Measures planned by Ministry of Health during the 2017:</p> <ol style="list-style-type: none"> <li>1) In order to ensure that the measures provided within the framework of health sector reform are mutually compatible and systematically, financially, socially and politically evaluated, as well as discussed with stakeholders and the general public, the Ministry of Health in parallel with the work launched on implementation of the government action plan will develop and until 1 April 2017 submit to the Cabinet of Ministers an informative report on health sector reform implementation process, as well as the package of draft regulations of Cabinet of Ministers and draft policy planning documents.</li> <li>2) The adjustment of structure of institutions subordinated to the Ministry of Health within the framework of health sector reform, as well as the legal harmonization of mandates and rights of these institutions.</li> <li>3) Development and improvement of legal acts in order to ensure the implementation of health sector reform.</li> <li>4) Launch implementation of complex measures for health promotion and diseases prevention, as well as the activities of the local communities for health promotion and diseases prevention using the EU funds available for investment.</li> </ol>
3	Pursue the consolidation of research institutions and provide incentives for private investment in innovation.	<p>In order to ensure concentration of available resources in scientific institutions with a high development potential, following to the regulation of allocation of sciences base, it has been defined that since 2016 the basic research funding is not being allocated to those scientific institutions, which have received low international evaluation. See in detail: NRP, Chapter 2.2. The next evaluation of scientific institutions will be carried out in 2017.</p> <p>In order to justify the planned investment in infrastructure of science from EU funds for the of period 2014-2020 the Cabinet of Ministers accepted an informational report on August 16, 2016 "On the territorial mapping of research and innovation infrastructure and the concentration of research activity".</p> <p>In line with Latvian Smart specialization strategy defined areas with a high competitiveness degree and export potential (bio-economy, intelligent materials, biomedicine, smart energy and information and communication technologies) on September 17, 2016 the Regulation of Cabinet of Ministers on implementation the measure 1.1.1.4., "R&amp;D infrastructure development in fields of smart specialization and strengthening institutional capacity of scientific institutions" of action programme's "Growth and Employment 1.1.1. specific objective "To increase the research</p>

	<p>and innovative capacity of scientific institutions in Latvia, and their capacity to attract external funding via investments in human resources and infrastructure” entered into force. According to the Regulation funding in the amount of 120 mln euro will be provided for 14 strongest research institutions. Under this measure support will be provided for the research institutions to strengthen institutional capacity, modernization of research infrastructure and research capacity in the concentration of competitive research institutions.</p> <p>In framework of the EU funds of the planning period 2014-2020 support will be provided for postdoctoral researchers. In the framework of the Action Programme “Growth and Employment” specific objective “To increase the research and innovative capacity of Latvian research institutions and their capacity to attract external funding via investments in human resources and infrastructure” 1.1.1.2 measure “Support for postdoctoral research” support will be provided for more than 450 young scientists for the implementation of postdoctoral research. Please see also NRP, Chapter 2.2.</p> <p><b>Provide incentives for private investment in innovation</b></p> <p>The following activities of EU funds for the period of 2014-2020 are going to be implemented to increase private sector investments in R&amp;D:</p> <ul style="list-style-type: none"> <li>• Support for innovation activity in SME’s by providing them with the support of outsourcing R&amp;D activities for making new or significantly improved products or technologies (Technology Transfer Programme). Regulation of the Cabinet of Ministers will be approved on October, 2016.</li> <li>• Support for cooperation between scientists and businesses to develop and commercialize new products and technologies using Competence centres programme established in the areas of RIS3. On May 16, 2016, selection for project proposals has finished, as a result 8 projects were approved, providing establishment of 8 centres of competence.</li> <li>• Support to increase productivity and competitiveness of enterprises by developing and implementing new products and technology into production by the measure “Support of new products into production”. Submission of the projects ended on 12 September, 2016 and evaluation process of projects will be finished at the end of 2016. Support will be given for development of experimental technologies, as well as for installation and testing in an real environment of production, making economic activities from the fourth to the eighth technology readiness level (TRL4-8);</li> </ul> <p>Overall in the period of 2014-2020 more than EUR 118 million will be available to support company’s efforts in implementation of R&amp;D and innovation projects thus it is planned to attract at least EUR 80 million private co-financing for R&amp;D activities.</p> <p>Starting from 1 July 2014, companies in Latvia can use the incentive of Corporate Income Tax for R&amp;D costs, which can be written off in the year when such costs have occurred, by applying a value increasing coefficient “3”. The tax incentive can be applied to the following eligible R&amp;D costs: (1.) costs of the scientific and scientific technical staff, which are related to the research and development work performed by a company, (2.) costs for research services provided by scientific institutions, (3.) costs for certification, testing and calibration when receiving services provided by accredited certification, testing or calibration institutions. This incentive has a direct impact on increase of private sector investments in R&amp;D.</p>
Strengthen the conflict of interest prevention regime and set up a common legal framework for all public employees.	<p>A working group is set up by the Saeima (Parliament) Public Administration and Local Government Committee, which assesses and reviews efficiency of the provisions in the Conflict of Interest Prevention Law in Activities of Public Officials (the Law), including possibilities to simplify them. In August 2016 the MoF submitted a draft proposal for consideration to other public institutions to improve the verification of asset declarations of public officials and strengthen the reporting requirements (asset declarations of public officials is a part of the Law). In 2016, the Corruption Prevention and Combating Bureau is preparing a compendium of its explanatory notes on application of provisions of the Law in order to enhance understanding about requirements of the Law and more efficient application (explanatory notes are available at <a href="http://www.knab.gov.lv/lv/education/interpretations/">http://www.knab.gov.lv/lv/education/interpretations/</a>). Until the end of 2016 the Corruption Prevention and Combating Bureau will evaluate the legal framework for the preparation of possible proposals for amendments to the legislation on supervision over implementation of additional employment restrictions to submit disciplinary application to the head of public person institution. In 2017, according to the Corruption Prevention and</p>

		<p>Combating Guidelines 2015 – 2020 (adopted on 16 July 2015 by the Cabinet of Ministers Regulation No. 393), a comprehensive in-depth evaluation on practical implementation of the Law will be carried out involving key public institutions and non-governmental organisations.</p> <p>The State Chancellery has developed a draft law “Public Service Law” (submitted to the Saeima (Parliament) on 04.11.2014.) As the draft legislation has not advanced, setting up a common legal framework is among key issues included in the draft Public Administration Reform Plan 2017-2020 (plan is at the stage of development and green paper will be provided to the public for discussion, due to be adopted by the end of 2016). Also it is agreed with the members of Saeima to renew the debate and look for the best solutions to set up a common legal framework.</p>
	Increase the accountability and public oversight of insolvency administrators.	Government bodies implements measures to increase capacity of the Insolvency Administration. Cabinet of Ministers authorized, that part of the State entrepreneurial risk fee, shall be transferred to the budget of the Insolvency Administration, thus providing extra resources to supervise activities of insolvency administrators and strengthening state authorities’ oversight of insolvency administrator’s activities.

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

<b>National 2020 headline targets</b>	<b>List of measures</b>	<b>Description of direct relevance to address the target</b>
<b>National 2020 employment target [73,0%]</b>	<ol style="list-style-type: none"> <li>1. Improving training measures for the unemployed;</li> <li>2. Implementing support measures to reduce youth unemployment;</li> <li>3. Efficient return of the long-term unemployed and social assistance clients to the labour market and supporting regional mobility;</li> <li>4. Making the work of the State Employment Agency more efficient;</li> <li>5. Promoting self-employment and entrepreneurship.</li> </ol>	See NRP, Chapter 3.3.
<b>National 2020 R&amp;D target [1,5% of GDP]</b>	<ol style="list-style-type: none"> <li>1. Developing potential of scientific activity;</li> <li>2. Developing a long-term cooperation platform for enterprises and scientists;</li> <li>3. Supporting development of innovative enterprises.</li> </ol>	<p><b>Developing potential of scientific activity</b></p> <p>(1) See table 6a “Pursue the consolidation of research institutions and provide incentives for private investment in innovation”.</p> <p>(2) The measure 1.1.1.1. “Research of practical orientation” partial provides a contribution to creation of long-term cooperation platform between enterprises and scientists with the total available funding of 66.89 mln euros. Under this measure, the support will be provided for the implementation of research projects in scientific groups, developing innovative solutions for solving practical problems of economy, including fostering cooperation between enterprises, scientific</p>



institutions and higher education institutions.

(2)(3) Promoting the implementation of the second and third direction of reforms, “Basic research funding” is being allocated by taking into consideration, inter alia, R&D contract works with enterprises and other commissioning parties, as well as revenue from the intellectual property.

The Budget programme “Development of Scientific Activity” provides funding for fundamental and applied research that secures the knowledge base and human resources for the transformation of economy to higher added value, as well as increase the proportion of high technologies in export of Latvian goods and services. This in turn contributes the growth of remuneration in both – export sectors, and, indirectly, the growth of purchasing power of employees of exporting sectors makes a positive impact on growth of remuneration in sectors oriented towards the local market. Fundamental science can be regarded as the basis of science and a foundation for qualitative higher education.

The implemented State Research programmes provide funding for the state order for the implementation of scientific researches in certain fields (economics, education, culture and other fields stated as priority) thus promoting link between enterprises and science. Enterprises enjoy the opportunity of employing the achievements of science. The benefit for scientific institutions is the provided ability to raise their scientific capacity, undertake applied and result-oriented research, as well as to contribute to scientific continuity and to prepare new qualified experts for further research activity. Such cooperation facilitates the joint effort of both - enterprises and scientists, in order to contribute the transformation of economy towards providing higher value added products, and change the structure of export.

Please see also NRP, Chapter 3.2.3.

#### **Developing a long-term cooperation platform for enterprises and scientists**

The following activities of the EU funds are going to be implemented to develop long-term cooperation between enterprises and scientists:

- Support for innovation activity in SME's by providing them with the support of outsourcing R&D activities for making new or significantly improved products or technologies (Technology Transfer Programme). Regulation of the Cabinet of Ministers will be approved on October, 2016.
- Support for cooperation between scientists and businesses to develop and commercialize new products and technologies using Competence centres programme. On May 16, 2016, call for project proposals finished, as a result 8 projects were approved, providing 8 centres of competence establishing in RIS3.

#### **Supporting development of innovative enterprises**

The following activities of the EU funds are going to be implemented to support development of innovative enterprises:

- Technology Transfer Programme's (Voucher scheme) aim is to support innovation activities in SME's by providing them with the support of outsourcing R&D activities for making new or significantly improved products or technologies. Regulation of the Cabinet of Ministers will be approved on October, 2016.

- Innovation Motivation programme's aim is to promote understanding about innovation and business, as well as to practically involve different society groups in business activities, and development and further implementation of innovative ideas and solutions. Programme has been developed by the Ministry of Economics and introduced by the Investment and Development Agency of Latvia (LIAA). Evaluation process of the programme will be finished on September 2016.

- In 2016, the development of a support programme for the introduction of new products in production continued. A support programme for businessmen Support in the Introduction of New Products in Production has been developed and



		<p>approved. Its purpose is to foster the increase in productivity and competitiveness of businesses by developing and introducing new products and technologies in production, as well as increasing investments of the private sector in research, development, and innovations. The aid provided to experimental production facilities within the programme will be a significant contribution to the Latvian economy, providing companies the possibility to increase their competitiveness in the local and export market. The support will be granted for the manufacturing or purchasing, as well as installation and testing in real production environment of experimental technologies, ensuring that at least 20% of the experimental technology are unique components and no more than 80% of components or equipment of the experimental technology have been chosen from those available in the market.</p> <ul style="list-style-type: none"> <li>• Implementation of the Norwegian financial instrument programme Green Industry Innovation continues in 2016. Within the programme support is provided for pre-incubation and incubation services (Green Technology Incubator), as well as for activities in order to develop, commercialize and introduce into production new or significantly improved environmental products and technologies (Small Grant Scheme, Open Competition Scheme). Total financing available within the programme constitutes 12,6 million euros (2012-2017).</li> </ul>
<b>GHG emission reduction target [12,2 Mt CO<sub>2</sub>]</b>	<ol style="list-style-type: none"> <li>1. Limiting non-ETS sector emissions;</li> <li>2. Research, innovations, raising public awareness.</li> </ol>	<p>Latvia's total GHG emissions in 2005-2014 are reduced by 0.3% and in 2014 were 11,4 Gg CO<sub>2</sub> eq., and this amount is 6,6% lower than the target that Latvia has set – 12,2 Gg CO<sub>2</sub> eq.</p> <p>Latvia is allowed to increase its non-ETS emissions in the period 2005-2020 by 17% comparing to the non-ETS emissions in 2005. In 2014 Latvia's non-ETS emissions have been increased by 5.4% and in 2014 Latvia's GHG emissions that are not covered by EU Emission Trading Scheme were 9,0 Gg CO<sub>2</sub> eq. This amount is 3,6% lower than the 2014 target set for Latvia in Decision No 406/2009/EC of European Parliament and Council.</p> <p>It is projected that Latvia will fulfil the targets set in national and EU level.</p>
<b>Renewable energy target [40,0%]</b>	<ol style="list-style-type: none"> <li>1. Adjusting the legal basis;</li> <li>2. Ensuring availability of financial resources for the production of renewable energy;</li> <li>3. Promoting the use of biofuels in the transport sector.</li> </ol>	<p><b>Adjusting the legal basis</b></p> <p>In 2016 the evaluation of the existing support mechanism for electricity generation from renewables and in high efficient cogeneration has been continued and the proposals for future solutions has been made.</p> <p>On July 5, 2016 amendments to the Cabinet Regulation No.221 "Regulations Regarding Electricity Production and Price Determination upon Production of Electricity in Cogeneration" (adopted on March 10, 2009) and amendments to Cabinet Regulation No.262 "Regulations Regarding the Production of Electricity Using Renewable Energy Resources and the Procedures for the Determination of the Price" (adopted on March 16, 2010) were adopted. These amendments prescribe that mandatory procurement prices for electricity produced from RES shall be unlinked from the natural gas price and introduce the overcompensation prevention mechanism. The amendments are submitted to the EC for review and will come into force after its decision thereof.</p> <p>On March 1, 2016 amendments to the Cabinet Regulation No.395 "Procedure for Energy-Intensive Manufacturing Companies to Obtain the Right to Reduce Their Participation in the Mandatory Procurement Component Payment" (adopted on July 14, 2015) were adopted, to ensure compliance with conditions applicable to all EU member states regarding compliance with EU single market principles, including development of support mechanisms for energy-intensive producer support. The amendments are submitted to the EC for review and will come into force after its decision thereof.</p> <p>On September 13, 2016 the Cabinet of Ministers, considering conceptual report "Complex measures for the development of the electricity market", accepted changes in the mandatory procurement costs recovery mechanism. From 1st April, 2017, it is intended to cover the costs of the public trader in the following order: costs based on the installed capacity arising from the payments to cogeneration units will be allocated to the end-users in proportion to their requested capacity</p>

		<p>from the system, while the additional costs of purchased electricity within the mandatory procurement will be shared in proportion to the energy end-use.</p> <p><b>Ensuring availability of financial resources for the production of renewable energy</b></p> <p>The total estimated amount of the aid above the market price for the energy producers that sell electricity within the framework of mandatory procurement or receive a guaranteed payment for installed electric capacity in 2016 is about 97,7 mil.EUR and it is about 2% less than the amount paid in 2015. This decrease is related to the decrease in natural gas prices. In turn, the total projected volume of electricity purchased within the support mechanism in 2016 is 5% higher as compared to 2015.</p> <p><b>Promoting the use of biofuels in the transport sector</b></p> <p>In 2016 the mandatory biofuel admixture of 5% is saved and continues to apply reduced excise duty rates on biofuels and biofuel and fossil fuel blends (B100, E85) to facilitate consumer access to biofuel.</p>
<b>National energy efficiency target [0,670 Mtoe]</b>	<ol style="list-style-type: none"> <li>1. Improving energy efficiency in households and industrial production</li> <li>2. Improving energy efficiency in public buildings</li> <li>3. Introducing efficient lighting infrastructure in public territories of municipalities;</li> <li>4. Improving energy efficiency in heat energy production.</li> </ol>	<p><b>Progress towards national energy efficiency target</b> (see NRP, Chapter 3.6.2.)</p> <p>Latvia is moving towards the set target to achieve energy savings in the amount of 0.67 Mtoe in 2020 (the total energy savings in both the final consumption and the transformation sector). The gross domestic energy consumption has decreased from 4.47 Mtoe in 2008 to 4.35 Mtoe in 2014 (decrease by 0.12 Mtoe), and the implementation of energy efficiency measures has an important role in this progress.</p> <p><b>1.Improving energy efficiency in households and industrial production</b></p> <p>1.1. Ministry of Economics within operational programme “Growth and Employment” has developed specific objective No 4.2.1.1. “Energy efficiency in multi-apartment residential buildings” (hereinafter – Measure 4.2.1.1.).</p> <p>In 15.03.2016. Regulations of the Cabinet of Ministers regarding implementation of Measure 4.2.1.1. were approved, in 18.04.2016. Altum started consultations for apartment owners about energy efficiency projects, in 13.09.2016. Altum and Central Finance and Contracting Agency (CFCA) signed agreements and started implementation of Measure 4.2.1.1.</p> <p>1.2. Ministry of Economics within operational programme “Growth and Employment” has developed specific objective No 4.1.1. “To promote effective use of energy resources, reduction of energy consumption and transfer to RES in manufacturing industry” (hereinafter – Measure 4.1.1.).</p> <p>In 06.09.2016. Regulations of the Cabinet of Ministers regarding implementation of Measure 4.1.1. were approved, selection of project applications will start in October.</p> <p><b>2.Improving energy efficiency in public buildings</b></p> <p>2.1.Ministry of Economics within operational programme “Growth and Employment” has developed first stage of the project application selection of the specific objective No 4.2.1.2. “Energy efficiency in state owned buildings”.</p> <p>In 09.08.2016. Regulations of the Cabinet of Ministers regarding implementation of Measure 4.2.1.2. were approved, selection of project applications was started in 16.09.2016.</p> <p>The implementation of the EU Allowances Auctioning Instrument (Latvian abbreviation - EKII) continues in the year 2016. In the scope of the open tender „Reduction of Greenhouse Gas Emissions in national significance protected architectural monuments” there were 9 project contracts entered into. While in the scope of the open tender „Reduction of Greenhouse Gas Emissions – Low Energy Consumption Buildings” entering into 7 project contracts is taking place.</p>

		<p><b>4.Improving energy efficiency in heat energy production</b></p> <p>In 25.08.2016. Ministry of Economics submitted ex-ante assessment and selection criteria of specific objective No 4.3.1. "To promote effective use of energy resources and use of RES in district heating system" (hereinafter – Measure 4.3.1.). It is planned that in 2016 Regulations of the Cabinet of Ministers regarding implementation of Measure 4.3.1. will be approved and at the beginning of 2017 selection of project applications will be started.</p>
<p><b>National early school leaving target [13,4% (10,0%)]</b></p>	<ol style="list-style-type: none"> <li>1. Ensuring access to primary and secondary education;</li> <li>2. Introducing modern teaching methods.</li> <li>3. Implementing structural reforms in vocational education;</li> <li>1. Strengthening the cooperation with sectoral social partners to improve and develop vocational education;</li> </ol>	<p>(1) In the Ministry of Education and Research on September, 2016, inter-institutional working group were launched in the composition of the representatives of the Ministry of Transport, the Ministry of Environmental Protection and Regional Development Affairs, the State Employment Agency, the Latvian Association of Local Governments, Latvian Large Cities Association. Working-group's task is to assess the agreement of local institutions for the services provided by the system modification and to develop proposals for a network of educational institutions for alignment of the transport route network, thereby ensuring primary education as close to the place of residence, while providing the primary and secondary education in competitive educational institution. Until 2017 it is planned to prepare proposals for a complex solution by developing possible "ideal" school network based on the quality of education, common criteria and support measures for the development of the school network.</p> <p>In 2016/2017 school year, it is planned to launch the implementation of the EU funds for specific objective No 8.3.4. „To reduce early school leaving by implementing preventive and intervention measures”. In 2017, it is planned to develop the guidelines for on how to identify and prevent early school leaving risks, as well as recommendations to advise learners, to offering improvement of professional competences for teachers but from 4<sup>th</sup> quarter of 2017 implementation of support programme for pupils will be launched for pupils of the general education institutions of 5-12 grade and of the vocational education institutions for students of 1-4 year. The planned support includes individual approach for early school leaving risk group, i.e. additional consultations, compensation of travel expenses from home to school and back, as well as dormitory costs and free meals. In addition, in the framework of the project it is planned to increase the motivation of young people to learn and get involved in youth organizations' work. At the same time, to reduce early school leaving risk, the project will provide activities and information for parents to be more involved in the schooling of children-related problems.</p> <p>In 4th quarter of 2016 the implementation of the EU Structural funds for the specific objective No 8.5.3 “improvement of career support accessibility for students in both general and vocational education institutions” will be launched. It is foreseen that in 2017 the total number of education institutions, which provide career education services, will reach 262.</p> <p>The ESF project “Initial vocational education programmes in the framework of Youth Guarantee” ensures the possibility for the young people aged 17 to 29 years to acquire marketable professions through the free of charge short-cycle vocational education programmes. Starting from 1 September, 2016, 37 vocational education institutions and colleges offers ensures the education programmes, allowing to obtain a professional qualification in more than 70 professions. The project was launched in June, 2014 and its implementation is foreseen until 31 August, 2018. It is planned that within the project 6500 of NEET young people and 1,496 employees will receive support for acquisition of the second or third level of professional qualification. Until August, 2016, 2,786 young people has already acquired professional qualifications in the framework of the project, and 2,205 students continue their education.</p> <p>Is planned that in 2016/2017 school year the implementation of the particular projects or its' part could be started in the framework of the of EU structural funds for the specific objective No 8.1.2. "Improving the general education learning environment" within which the local authorities in the line with the municipal development programme for investment plans</p>

will prepare and submit project applications for the learning environment improvement and arrangement of the educational institutions network at regional level.

Within the EU structural funds the specific objective No 8.1.3 “Increase modernized vocational education institutions the number” 27 vocational education institutions have received an invitation from August, 2016 until December, 2020, to submit infrastructure modernization projects in accordance with agreed education development strategies. The implementation of the projects (starting with development of construction design, expertise and supervision) is foreseen to start from 2017.

Please see *also* NRP, Chapter 3.4.2.

(2) The elaboration of competency-based general education curriculum will be launched under the EU Structural Funds for the specific objective No 8.3.1. „To Develop Competency-based General Education Curriculum” in 2016/2017 school year. The project will provide approbation of the newly created curriculum in 80 general education institutions, elaboration of methodology and education materials, incl. digital means as well as improvement of professional competences of teachers, inter alia, for the implementation of inclusive education. Gradual introduction of competency based general education curriculum is planned to be launched from September 1, 2018.

In 2016/2017 school year previously launched approbation of the computing curricula for various learning models (teaching computing curricula integrated as a separate subject, as an optional classes or interest education programmes) is being expanded involving 153 schools in piloting.

Implementation of measure No 8.3.2.1. „Support to the Implementation of National and International Measures for the Development of the Students’ Talents” under the EU Structural Funds of the specific objective No 8.3.2. „To Increase Support for General Education Institutions to Develop Students’ Individual Competences” will be launched at the end of 2016. Project will provide support for the implementation of the research activities and participation in public and international competitions and Olympiads, international school science exhibitions and competitions. Within the framework of the Project the support is planned for the development of the methodical material for teachers to help them identify talented students and to provide support for the perfection of their talents.

Implementation of measure No 8.3.2.2. „Support to the development of students’ individual competences” will be launched at the beginning of 2017. The project will provide teachers with methodology for working with students who have learning difficulties and disorders. Improvement of professional competences of teachers will focus on the use of effective tools for the development of students’ competences, implementation of out of school activities and teachers’ lifelong learning competences. Students will receive complex support for the development of their individual competences by introducing new study forms for the development of personalized approach in the process of learning of curriculum and out of school activities in the following fields: STEM (Science, Technology, Engineering and Mathematics), languages, cultural education and creative industries, multi-disciplinary field and sport. Please see *also* NRP, Chapter 3.4.3.

(3) Please *see* information in the table 6a; see *also* NRP, Chapter 3.4.3.

Simultaneously in 2016 State Education Quality Service started to implement European quality assurance in vocational education and training (EQAVET) and project will last until March 31, 2017. It provides support measures for the implementation of the EQAVET indicators, development of the information materials and education activities for the directors of the vocational education institutions. Currently the relevant Regulation of the Cabinet of Ministers are being developed and this Regulation will provide united quality evaluation indicators for vocational education. It is planned that new Regulation could enter into force on January 1, 2017.

(4) Please *see* information in table 6a, table 6b (1) and NRP, Chapter 3.4.4.

		On July 15, 2016 the Cabinet of Ministers approved Regulation No.485 "The Regulation on Sectoral Expert Councils establishing, performance and operational coordination mechanism" ensuring the co-ordination of the Sectoral Expert Councils establishing, operating and development.
<b>National target for tertiary education [34-36%]</b>	<ol style="list-style-type: none"> <li>1. Modernisation of higher education — implementation of a new financing model of higher education;</li> <li>2. Modernizing the material-technical base of higher education institutions and raising the efficiency of resources' use;</li> <li>3. Ensuring equal access to higher education;</li> <li>4. Establishment of a national institution for quality assurance;</li> <li>5. Reducing fragmentation of study programmes, joint use of resources;</li> <li>6. Attracting foreign students.</li> </ol>	<p>(1) Contribution in both the modernization of higher education and the implementation of new model of higher education funding, the budget sub-programme 03.01.00 "The Institutions of Higher Education" and 03.11.00 "Colleges" provides funding for the first pillar of the new funding model – the funding of study places. The budget sub-programme 03.03.00 "The Development of Scientific Activity in Higher Education Institutions and Colleges" provides funding for the second pillar, thus stimulating research as a foundation of qualitative higher education, creating new members of academic and scientific staff, and attracting funding from enterprises, international projects and other sources. Please see <i>also</i> NRP; Chapter 2.2.</p> <p>(2) On September 2, 2016, the Cabinet of Ministers Regulation of the Action programme "Growth and Employment" specific objective "To increase the number of study programmes of modernized STEM, including medicine and creative industries" came into force. These rules provides contribution to the modernization of materially technical base of higher education institutions promoting STEM and growth of efficiency in terms of use of resources. Please see <i>also</i> NRP; Chapter 3.4.4.</p> <p>(3) The Academic Information Centre has commenced the implementation of ESF project "Support for fulfilment of requirements for EQAR Agency". The aim of the project is to secure support for fulfilling requirements for Agency of European Quality Assurance Register for Higher Education (EQAR), including the increase of quality of Agency operation and strengthening capacity. After the implementation of the project, the Latvian system of securing quality of the higher education will function according to European Standards and Guidelines for Quality Assurance. This will increase the credibility to Latvian higher education system and to the earned diplomas. Please see <i>also</i> NRP; Chapter 3.4.4.</p> <p>(4) Please see information provided in the table 6b (2) and table 6a (science sector).</p> <p>(5) As a continuation to strengthen research institutions, the implementation of new project in the cooperation with World Bank was launched. From 2016 to 2018, research on the improvement of governance of higher education institutions (HEI) will be enacted. It will provide the evaluation of internal governance of the higher education institutions and finance management. Research will be provided on how to make governance structures more conducive to internal reforms and how to comply with the demands of economy.</p> <p>In 2017 it is being planned to launch the specific objective No 8.2.1. "To reduce the fragmentation of study programmes and strengthen the joint use of resources". It provides to develop joint doctoral study programmes and study programmes in EU languages, as well as international publicity of the developed and accredited study programmes. It will foster attraction of foreign students. For instance, University of Latvia, Latvia University of Agriculture and Riga Stradins University are implementing a joint master study programme "Diet-science".</p> <p>Please see <i>also</i> NRP; Chapter 3.4.4.</p> <p>(6) Between 2009 and 2016, the number of foreign students in Latvian higher education institutions continuously increased by 1-2% per year, reaching 8% (6465 students) in 2015/2016 academic year. Please <i>see</i> NRP; Chapter 3.4.4.</p>
<b>National poverty target [21,0%]</b>	<ol style="list-style-type: none"> <li>1. Reducing income inequality;</li> <li>2. Encouraging people at risk of poverty and social exclusion to participate in the labour market;</li> </ol>	See NRP, Chapter 3.5.

	1. Eliminating discrimination threats and stereotypes, as well as fostering participation of the civil society.	
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Based on updated macroeconomic scenario of June, 2016 as well taking into account the budget execution data in the first half of year, MoF estimates that the general government deficit in **2016** will be 0.9% of GDP, which is slightly lower as compared to both the Law "On the State budget for 2016" and Stability Programme for 2016-2019. The lower deficit is primarily driven by lower-than-projected interest expenditure, less contributions to the EU budget and lower capital expenditure of EU fund projects, particularly in local government budgets.

The general government budget deficit under no-policy change scenario for 2017 is projected at 0.9% of GDP which is by 0.1% higher compared to the projected deficit level of Stability Programme for 2016-2019. Difference is mainly due to higher expenditure for social benefits against the Stability Programme for 2016-2019 given that in the first half of 2016 both the average amount of the social benefits and the number of beneficiaries, especially, in case of sickness and unemployment have increased. Starting from 2015 this is determined by the abolition of the restrictions regarding amount of benefits. As a result expenditure projection for social benefits were increased for 2016 and 2017 as compared to the projections of Stability Programme for 2016-2019.

In the development of the state budget for 2017 government took decisions not only to eliminate negative fiscal space but also to ensure funding for medium-term budgetary policy priorities. Consequently, the government decided on a series of tax policy measures which provided additional revenues to the state budget and also carried out revision of state budget expenditure. Adopted decisions made it possible to provide additional funding for both own sectorial priorities and common government priorities – external and internal security, health and education. Taking into account above mentioned decisions the general government budget deficit for 2017 is projected at 1.1% of GDP<sup>2</sup> which corresponds to the structural balance target -1.0% of GDP given the cyclical budgetary component -0.1% of GDP.

**Table 7: Divergence from Stability Programme 2016-2019**

	ESA Code	2015	2016	2017
		% GDP		
<b>Target general government net lending/ net borrowing</b>	B.9			
Stability Programme		-1.0	-1.0	-1.0
Draft Budgetary Plan		-1.3	-0.9	-1.1
Difference		-0.3	0.1	-0.1
<b>General government net lending projection at unchanged policies</b>	B.9			
Stability Programme		-1.0	-1.0	-0.8
Draft Budgetary Plan		-1.3	-0.9	-0.9

<sup>2</sup> According to the government's adopted decisions the general government deficit in 2017 reaches 1.0% of GDP. In addition, it is assumed that fiscal security reserve, which is 0.1% of GDP, will be used in accordance with the fiscal risks identified in the Fiscal risk statement.

Difference		-0.3	0.1	-0.1
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## **Annex: Methodological aspects**

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

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

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

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