



Country-specific recommendations for Latvia and the assessment of the Stability Programme

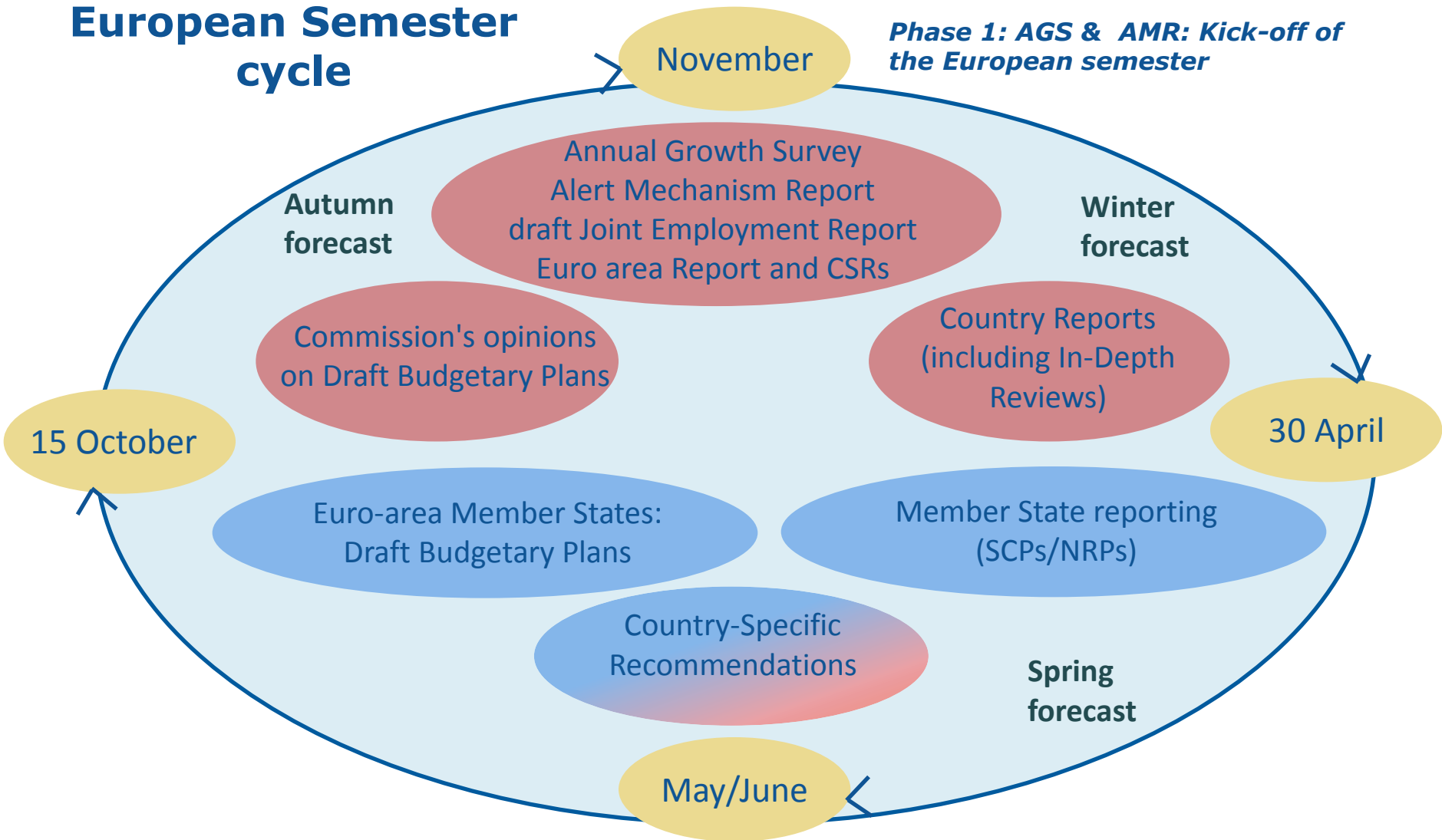
European Semester 2017

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European Commission

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European Semester cycle

Phase 1: AGS & AMR: Kick-off of the European semester



Progress on the 2016 country-specific recommendations

1. Fiscal discipline and taxation

Some progress

- **Full compliance** with the fiscal requirements in 2016 and 2017
- **Limited** progress in shifting the tax burden away from low wages.
- **Some** progress in improving tax compliance.

2. Social assistance, activation, vocational education and healthcare

Limited progress

- **Limited** progress in improving adequacy of social assistance benefits.
- **Some** progress in supporting social assistance recipients in finding work.
- **Some** progress in improving vocational education.
- **Limited** progress in improving healthcare system.

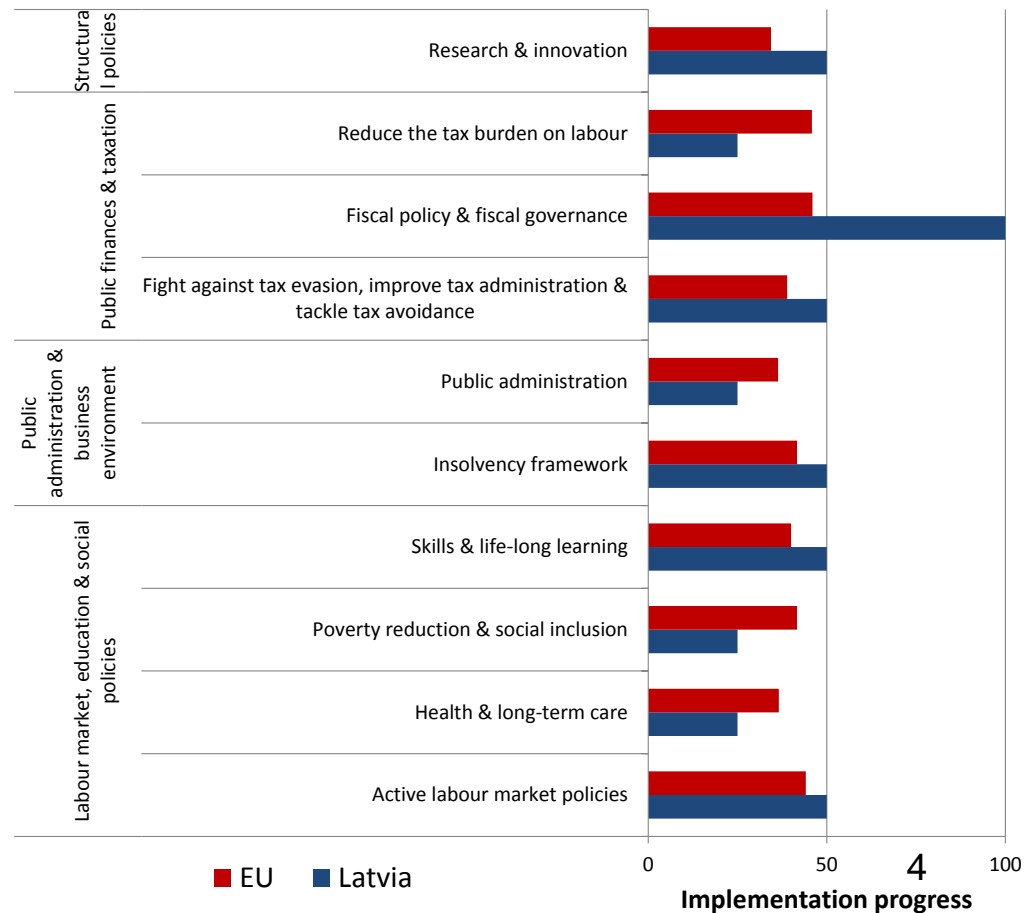
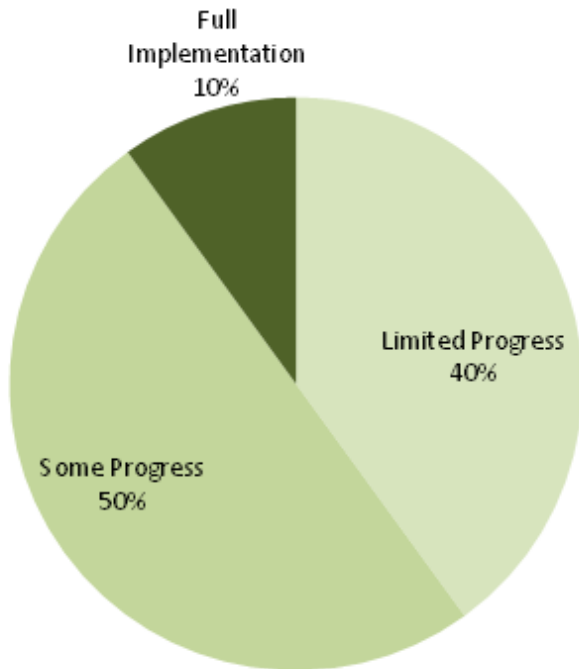
3. R&D, public administration, insolvency

Some progress

- **Some** progress in supporting research and innovation.
- **Limited** progress in strengthening the conflict of interest prevention regime and setting up a common legal framework for all public employees.
- **Some** progress in increasing the accountability and public oversight of insolvency administrators.

Progress on the 2016 country-specific recommendations

Latvia: progress by subparts



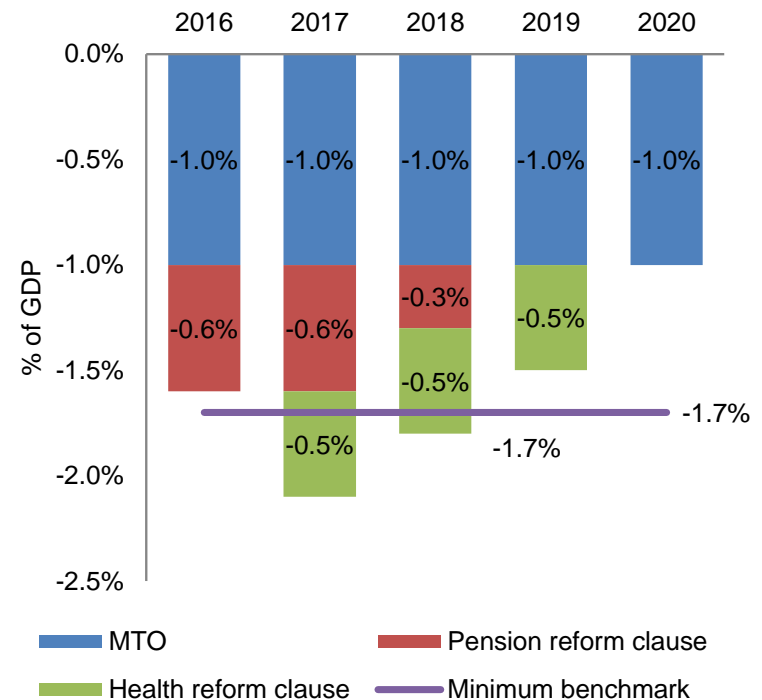
Country-specific recommendations for 2017

1. Fiscal discipline and tax shift

Achieve MTO in 2018, taking into account the reform clauses.

Reduce taxation for low-income earners by shifting it to other sources that are less detrimental to growth and by improving tax compliance.

Structural balance requirements with the reform clauses



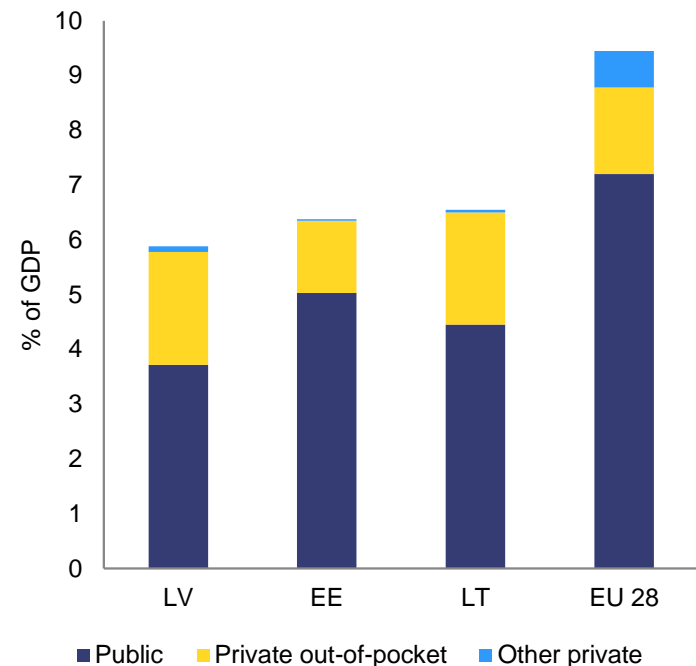
Country-specific recommendations for 2017

2. Social assistance, vocational education and healthcare

Improve the adequacy of the social safety net and up-skill the labour force by speeding up the curricula reform in vocational education.

Increase cost-effectiveness and access to healthcare, including by reducing out of pocket payments and long waiting times.

Health expenditure in 2014

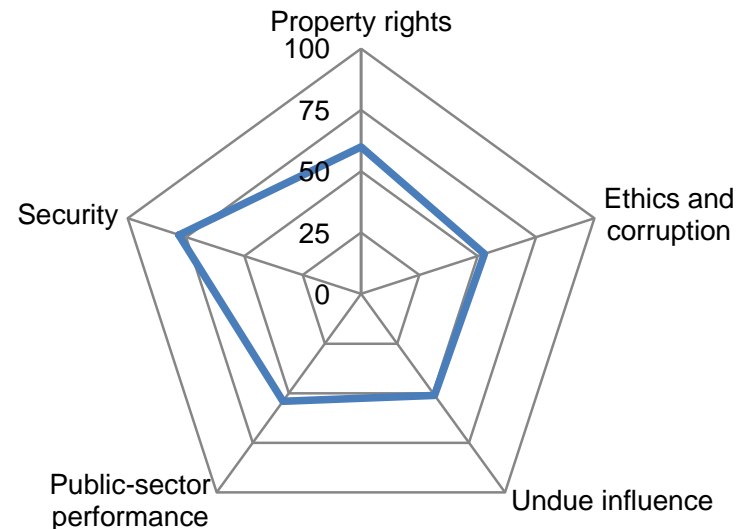


Country-specific recommendations for 2017

3. Public governance

Increase efficiency and accountability in the public sector, notably by simplifying administrative procedures and strengthening the conflict of interest prevention regime, including for insolvency administrators.

Public institutions (best = 100)



Source: Global Competitiveness Index 2015

The Commission spring forecast

	2015	2016	2017	2018
Real GDP growth (%)	2.7	2.0	3.2	3.5
Inflation (%)	0.2	0.1	2.2	2.0
Unemployment rate (%)	9.9	9.6	9.2	8.7
General government balance (% of GDP)	-1.3	0.0	-0.8	-1.8
Structural budget balance (% of GDP)	-1.7	-0.8	-1.4	-2.4
General government gross debt (% of GDP)	36.5	40.1	38.5	36.0

Stability programme assessment

Compliance with the fiscal requirements

2016	Compliance
2017	
2018	Significant deviation

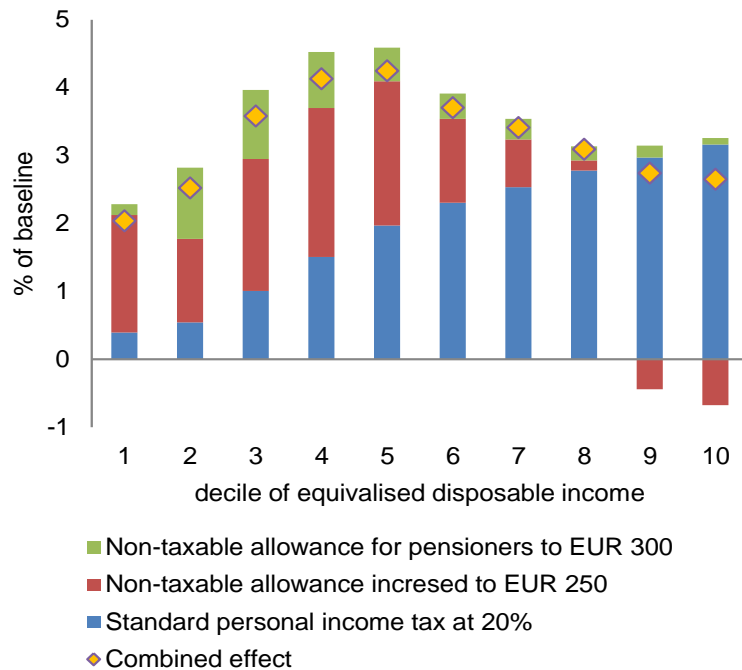
<i>% of GDP</i>	2016	2017	2018
Structural balance	-0.8	-1.4	-2.4
Headline government balance	0.0	-0.8	-1.8
Cyclical component	-0.6	-0.7	-0.6
One-off measures	-0.2		
Deviation from the balance requirement	0.9	0.3	-0.7
	2016	2017	2018
Net public expenditure annual growth (nominal), %	2.0	5.2	7.1
Expenditure benchmark (nominal), %	3.3	7.0	6.0
Deviation from the expenditure benchmark, % of GDP	-0.2	-0.1	-1.3

Tax reform

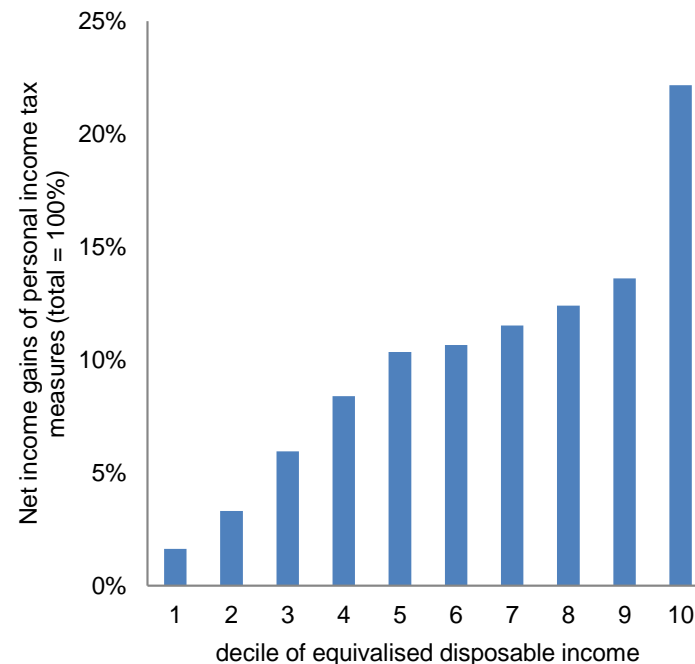
- **Expensive** – costs **1,7%** of GDP IKP: **0,8%** (PIT 23% -> 20%), **0,7%** (CIT 0% for reinvested profits), **0,2%** (PIT allowances)
- **Limited compensatory measures** - **0,6%** of GDP, of which **0,2%** are unspecified tax compliance measures
- **Pro-cyclical** – economic stimulus at the time of the pick-up in economic activity
- **Regressive** – low income groups are not the primary target of the reform; medium and high income groups gain the most
- **Increase fiscal deficit and limit resource for public services** – the target of the tax revenue share in GDP of 1/3 is not met.

Distributional effect of personal income tax measures

Distributional effect of the personal income tax measures for each income group



Nominal gains of the personal income tax measures across income groups



Thank you for your attention!



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Extra slides

European Semester

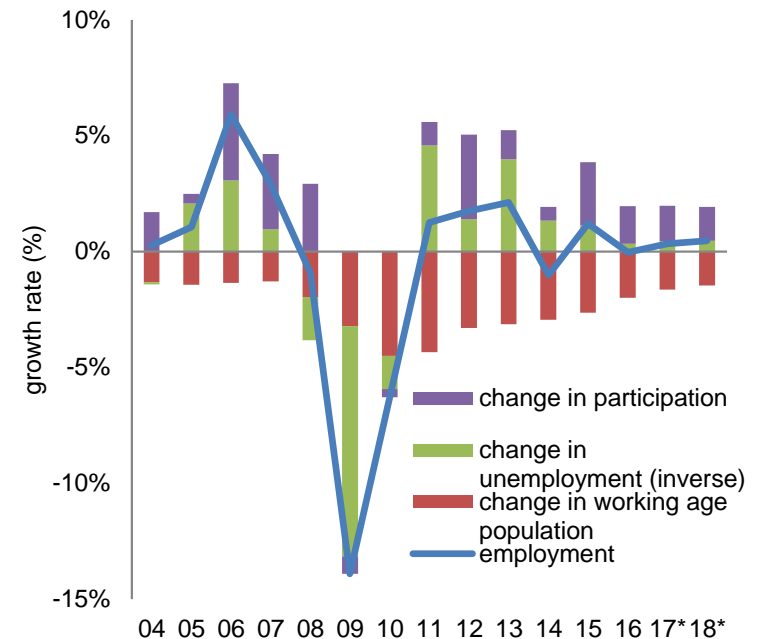
- Annual cycle for the coordination of fiscal and macro-economic policies across the European Union
- Three priority areas for inclusive economic growth:
 - 1. boosting investment**
 - 2. pursuing structural reforms**
 - 3. ensuring responsible fiscal policies**

Reform priorities

Labour supply and quality

- **Emigration** reduces the working age population and increases age dependency
- **Skill mismatches:** unemployment is higher among low-skilled and in rural areas, shortage of high-skilled
- **Inequality:** high tax wedge on low wages; unequal access to healthcare and education; weak social protection.

Contribution to employment growth



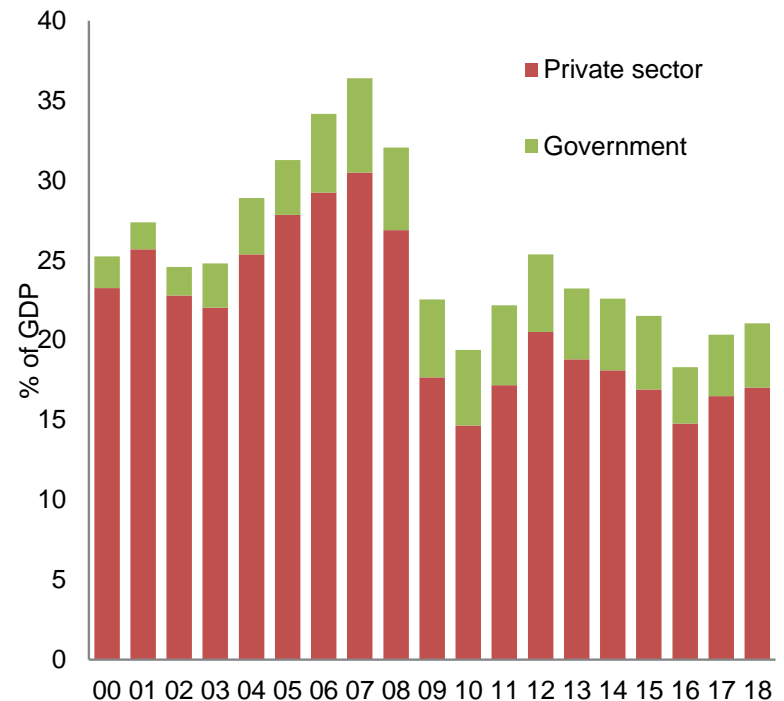
Source: European Commission

Reform priorities

Investment environment

- **Uncertainty over the tax policy**
- **Weak investment protection in case of insolvency**
- **Large informal economy**

Investment by sector

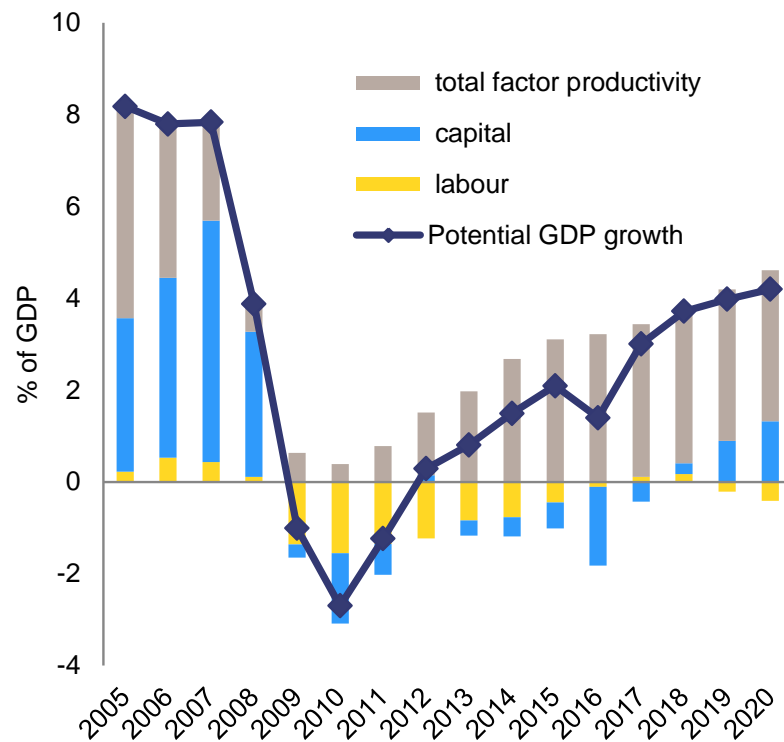


Source: European Commission

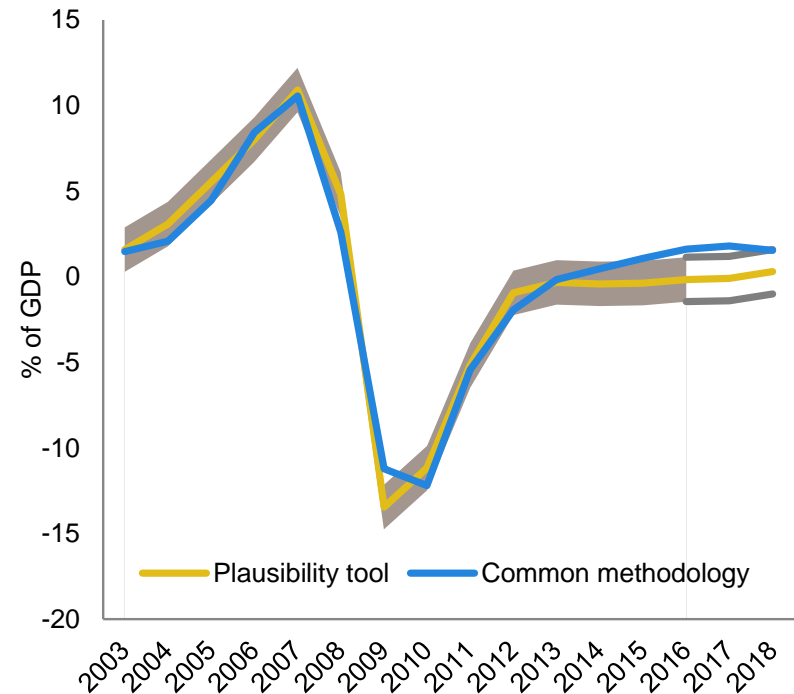
Stability programme assessment

Assessment of the cyclical position of the economy

Contribution to potential GDP growth

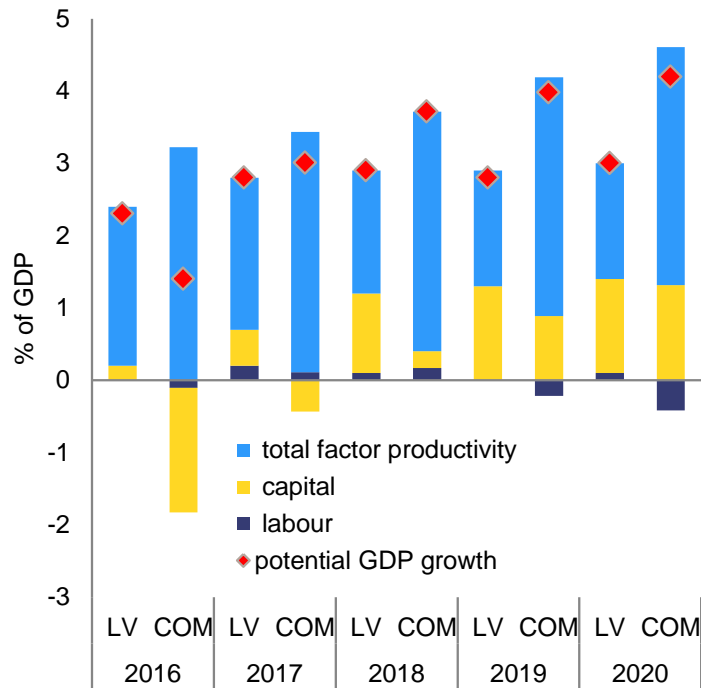


Output gap plausibility



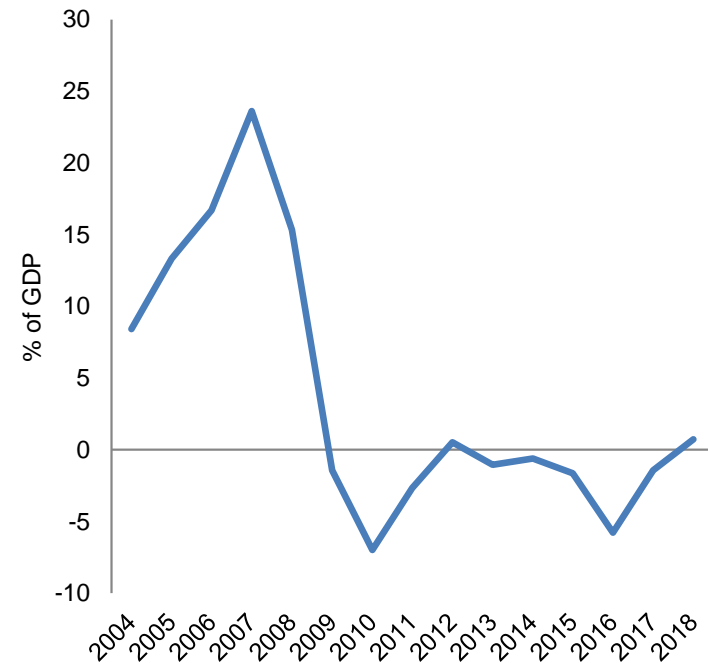
Potential growth estimates

Contribution to potential GDP growth



Source: European Commission (COM), Stability programme (LV)

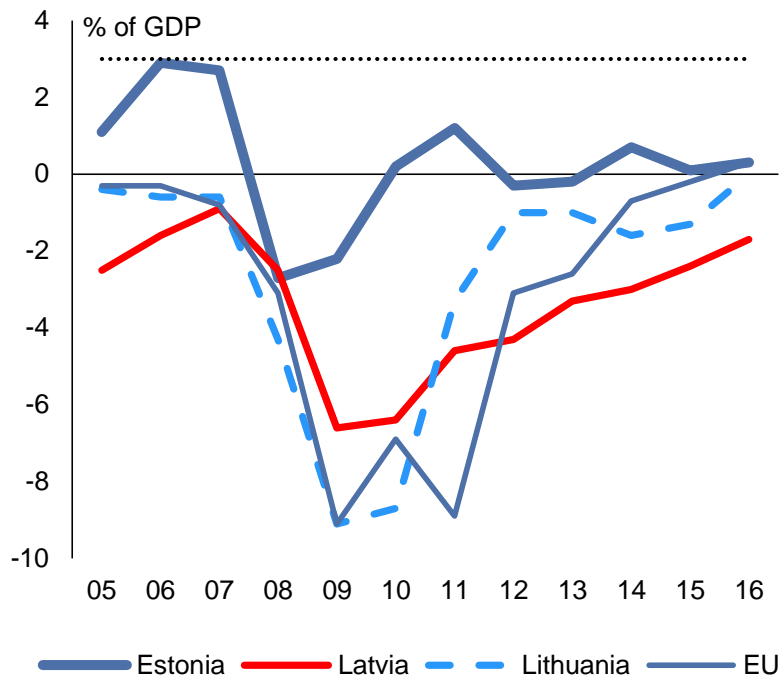
Net real capital formation (investment – depreciation)



Source: European Commission

Government balance and debt

General government balance



General government debt

