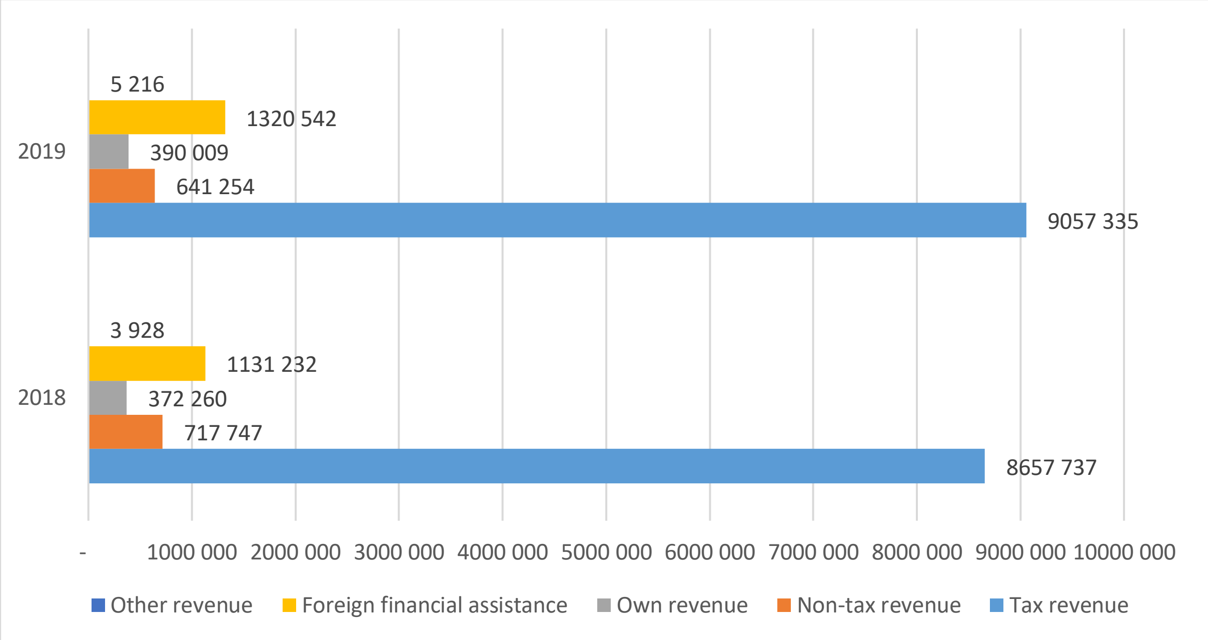
Fiskālās disciplīnas padome

REVENUES

In 2019 consolidated budget revenue increased by 4.9% in comparison to previous year, reaching € 11.4bn. In the final quarter of 2019, revenues increased by 10.1% when compared to the fourth quarter of 2018, and increased by 17.3% when compared to the third quarter of 2019. However, the considerable increase in revenue in the fourth quarter is due to repayments of foreign financial assistance, and strong tax revenue in the fourth quarter of 2019, which were by 8.7% higher than in the fourth quarter of 2018. There are following highlights for Revenues in year 2019:

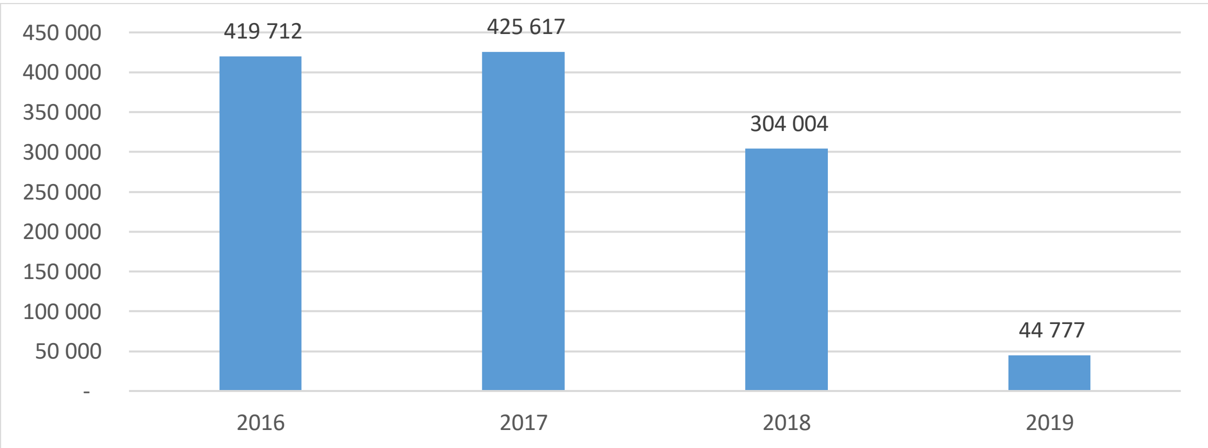
- The main contributor to the consolidated budget **– tax revenues – increased by 4.6% in 2019;**
- Consolidated budget **revenues plan was fulfilled by 100.2% in 2019,** in large measure thanks to strong revenues from labor taxes;
- **Personal income tax** (PIT) revenues in consolidated budget **exceeded the budget plan by 198.4 million euros or 11.5%**; social security contributions (SSC) were collected by 70.9 million euros or by 2.5% more than planned;
- Despite the overall fulfillment of the budget revenue target, there are few important taxes whose collection targets were not met: Corporate income tax (CIT), Excise tax, Customs tax, Natural resources tax etc.;
- **EU Structural Funds have contributed to revenues in amount of 1.3 billion euros**, which is by 189.3 million or 16.7% more than in 2018.

Overall, year 2019 could be characterized as good in terms of revenue in the consolidated general budget, as the revenue target was met despite the development of unfavourable conditions: the unplanned but necessary excise duty cuts on strong alcohol from 1 July, faster than projected slowing GDP growth, and negative external economic and political factors.



Picture 1: Consolidated budget revenue in 2019 and 2018 (thou. euros). Source: Treasury

Revenues from Corporate income tax (CIT) - which changed its structure in 2018 - continues to decline. In 2019, only € 44.8 million from CIT was collected instead of the planned € 201.8 million, which is only 22.2% of the target. The FDC had previously pointed to the risks of a narrowing tax base because of the tax reform. With the end of 2019, the transition period of the new CIT has ended, where companies had been able to recoup advances paid and pay dividends in the pre-reform order. As a result, the MoF is planning that the revenues collected from CIT will approach the previous levels - the budget law for 2020 forecasts EUR 261 million in CIT revenue.

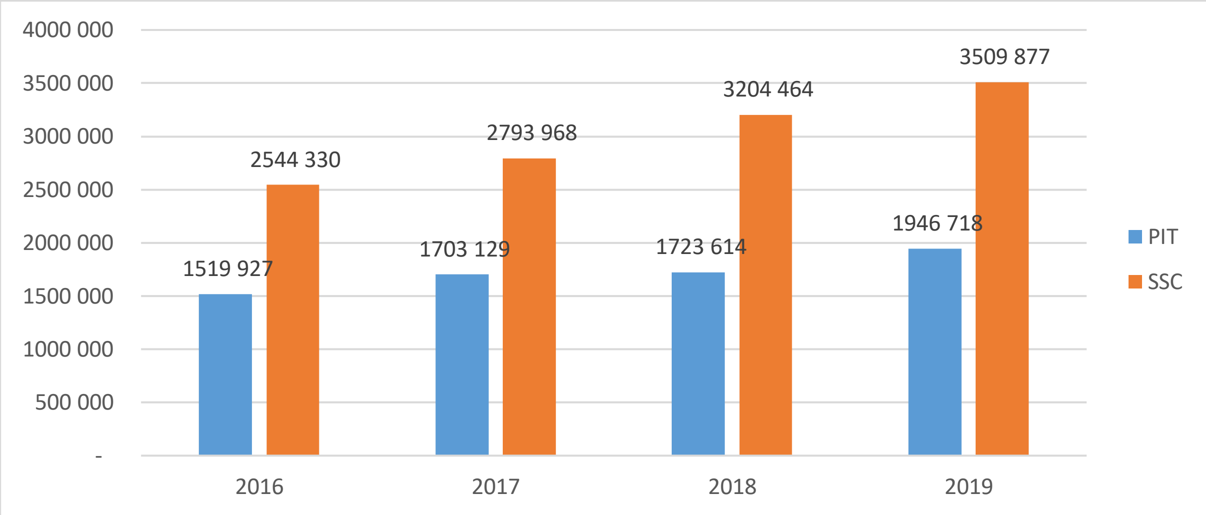


Picture 2: Corporate income tax revenues (thou. euros). Source: SRS

After a relatively weak third quarter, Value Added Tax (VAT) was well collected in the 4th quarter of 2019, exceeding the amount collected during the same period of the previous year by 8.0%. Overall, € 2.6 billion was collected in 2019, an increase of 7.8% over 2018, and meeting the VAT revenues budget target by 100% . VAT is a major source of tax revenue, accounting for about 29% of total tax revenue (including SSC).

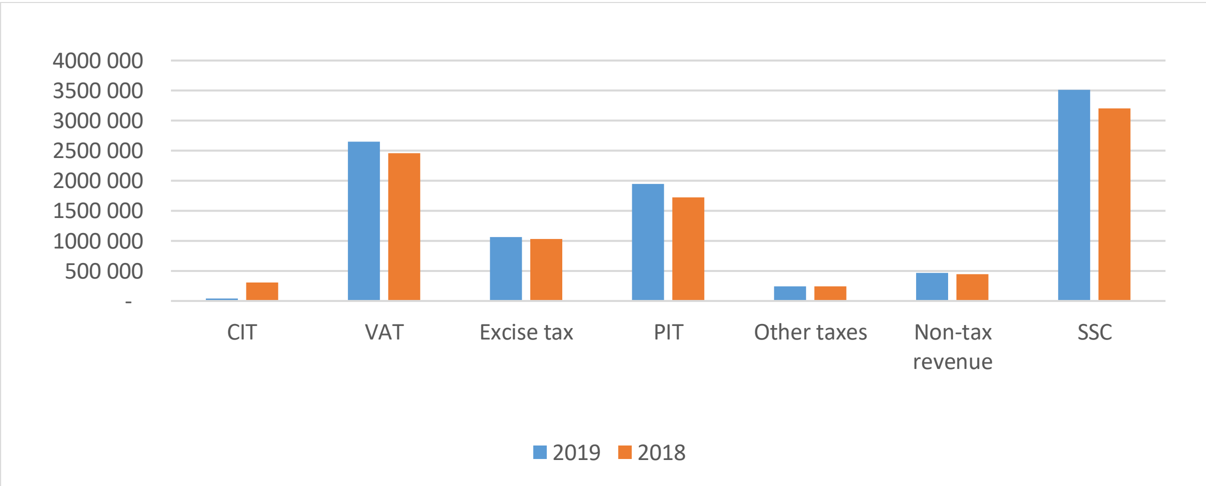
As expected, the collection of excise tax also slowed down slightly in 2019 - although the € 1.06 billion collected was 3.4% more than a year earlier, the tax collection plan was only executed by 95.1%.

National social security contributions (SSC) collected continue to grow rapidly. In 2019, SSC contributions (including occupational pensions) increased by 9.5% compared to 2018, reaching EUR 3.5 billion. The increase in revenues from personal income tax (PIT) – which is correlated to SSC - was 12.9% in 2019, amounting to EUR 1.9 billion.



Picture 3: SSC and PIT revenues in 2016-2019 (thou. euros). Source: SRS

In total, the SRS collected revenues in amount of 9.9 billion in 2019, an increase of 4% over 2018.



Picture 4: SRS collected revenues in 2019 (thou. euros). Source: SRS

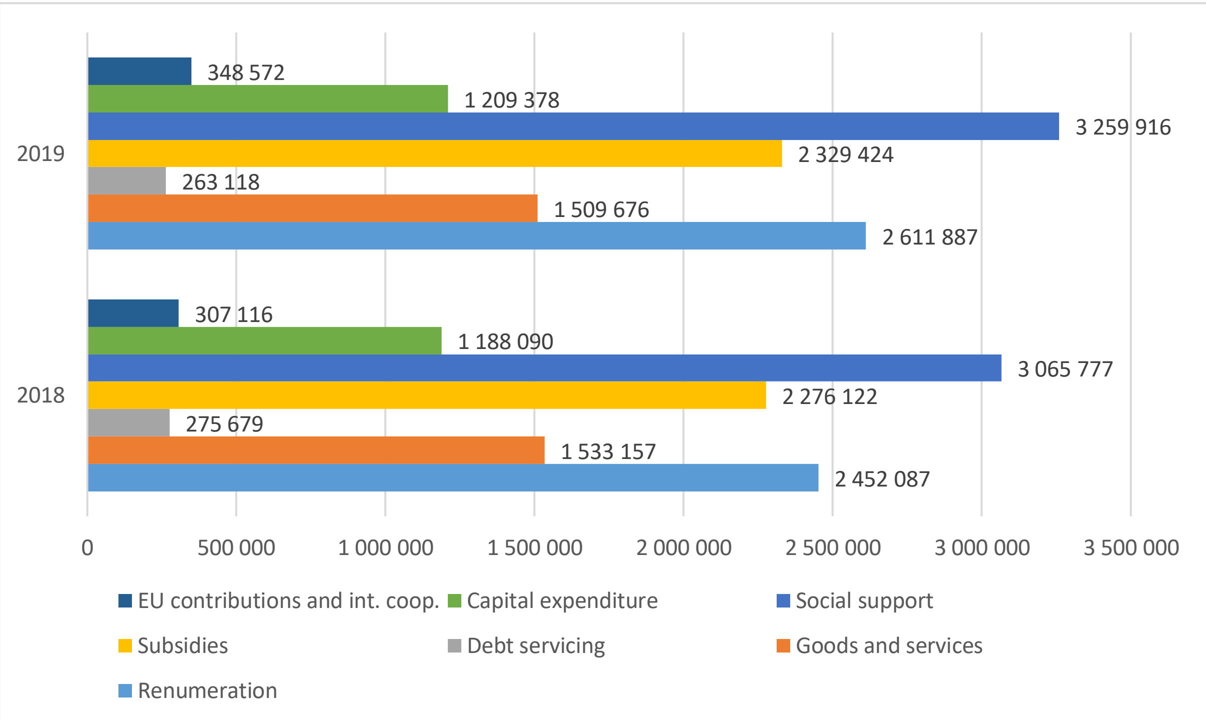
	2019	2019 plan	Fulfilment (%)
CIT	44,8	201,8	22,2
VAT	2 648,3	2 648,4	100,0
Excise tax	1 064,1	1 118,9	95,1
PIT	1 946,7	1 731,2	112,5
Other taxes	238,8	264,2	90,4
Non-tax revenues	463,6	448,5	103,4
SSC	3 509,9	3 406,0	103,1
Total	9 916,2	9 818,9	101,0

Table 1: SRS collected and planned revenues in 2019 (thou. euros). Source: SRS

EXPENDITURE

In 2019, consolidated general government expenditure increased by 3.9% reaching EUR 11.5 billion. In the fourth quarter of 2019, general government consolidated budget expenditure increased only by 0.2% in comparison to the fourth quarter of 2018. There are the following highlights for year 2019:

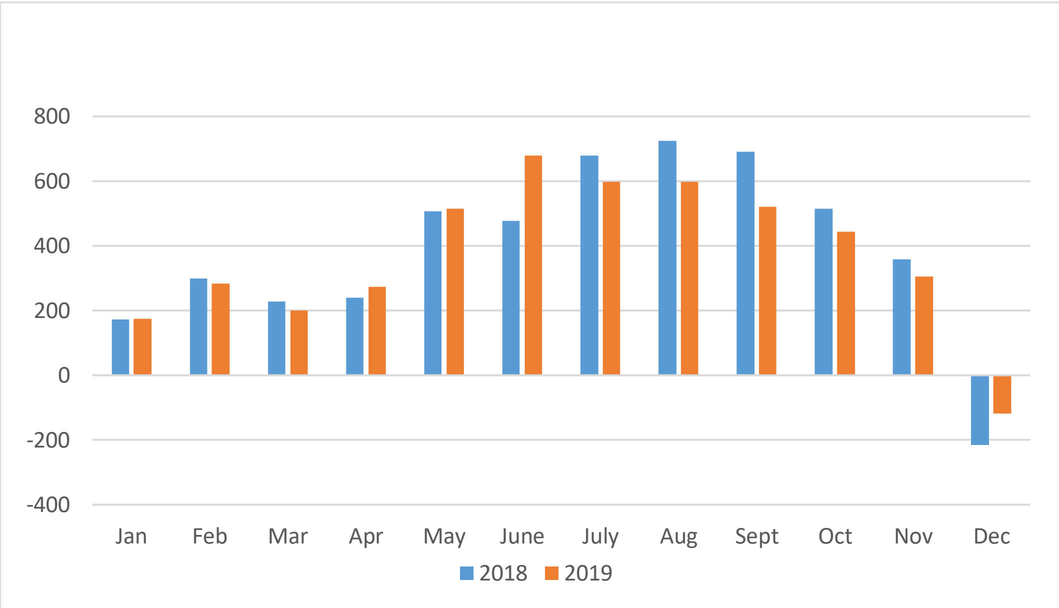
- **Social benefits** account for the **largest percentage** of general government consolidated budget expenditure at **around 28%** - are up by 6.3% in 2019,
- The second most significant item of expenditure was remuneration- around 23% of total expenditures- are up by 6.5%,
- **Capital expenditure increased by only 1.2% in 2019,**
- **Contributions to the EU budget international cooperation increased the most at around 13.5% 2019**. However, the share of this expenditure in the consolidated general budget is relatively small - around 3%,
- Debt servicing has declined by 4.6% in this year's general government consolidated budget expenditure.



Picture 5: Consolidated budget expenditure in 2018 and 2019 (thou. euros). Source: Treasury

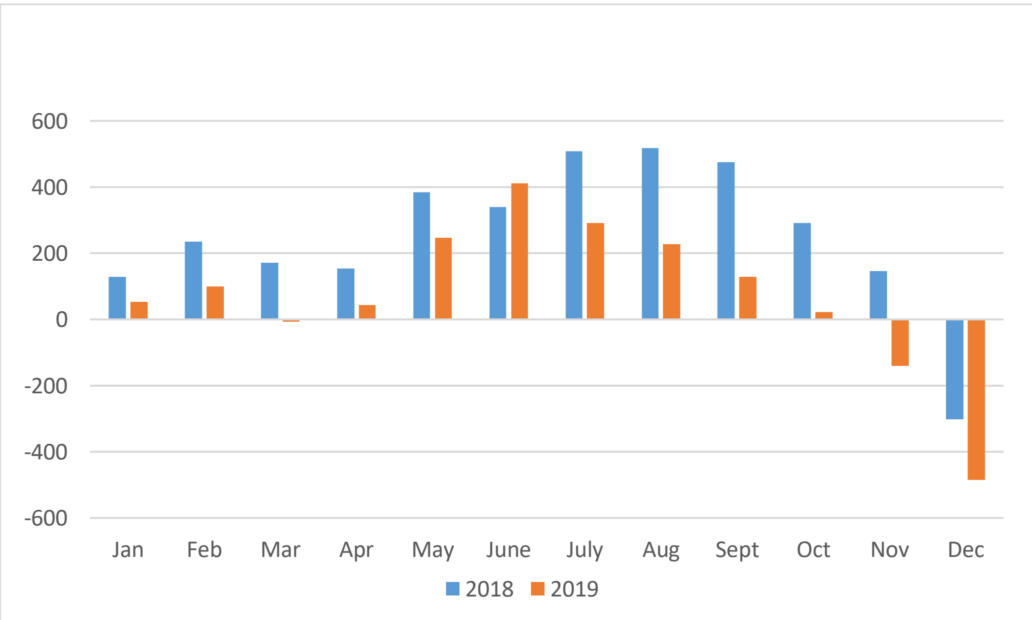
BALANCES

In 2019, the general government consolidated budget had a deficit of EUR 117.6 million, which is EUR 97.5 million less than in 2018 and 153.5 million less than projected in the Law on the State Budget for 2019. The more favourable general budget balance is explained by higher foreign financial assistance (FDI) revenues (EUR 178.3 million more than budgeted), and more positive local government budget balance (by EUR 111.6 million more than budgeted). Although starting with July 2019, the consolidated general budget balance developed worse than in 2018, strong tax and FDI revenues helped to achieve better-than-expected results.



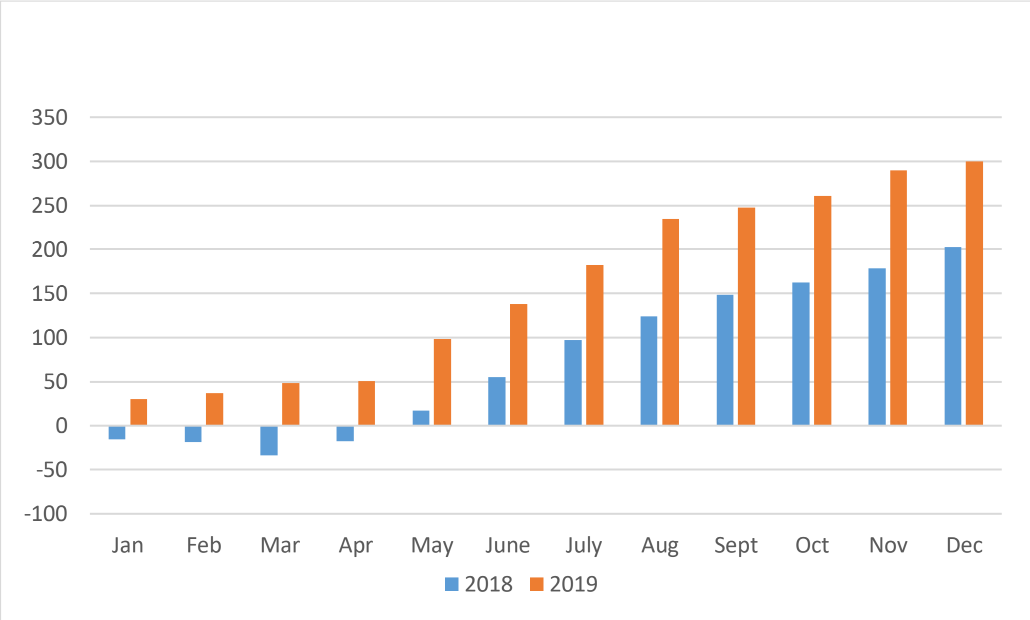
Picture 6: Consolidated budget balance (mil. euros) accrued values at end of month. Source: Treasury

State basic budget balance started deterioration in the third quarter of 2019 in large measure due to weaker than planned tax revenues.



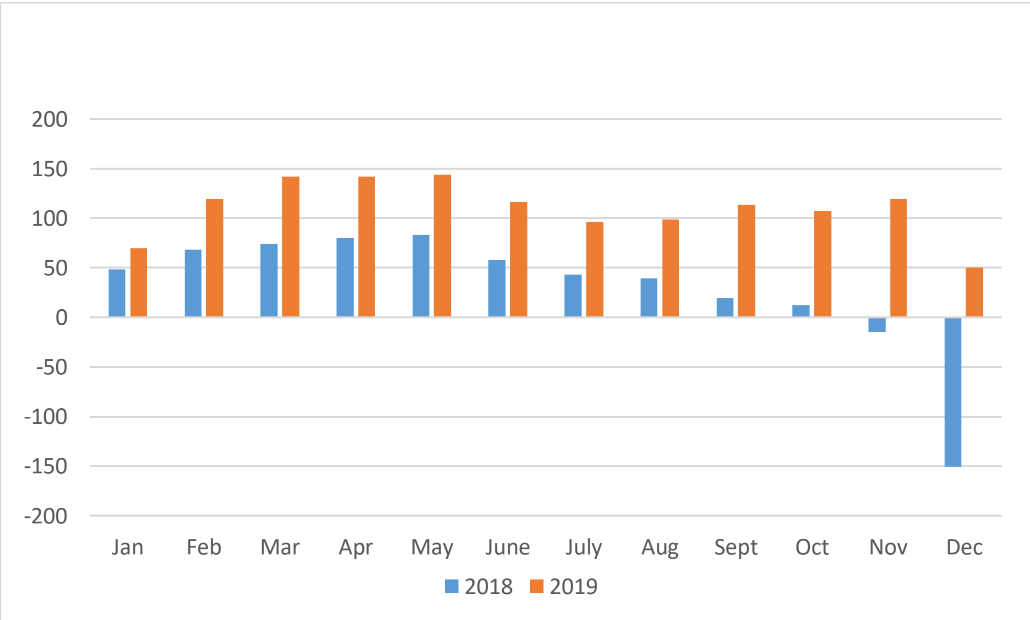
Picture 7 : State basic budget balance (mil. Euros) accrued values at the end of month. Source: Treasury

Because of fast raising salaries, the balance of state special budget has improved and reached 300 million euros surplus, which is 75.6 million euros more than planned.



Picture 8: State special budget balance (mil. euros) accrued values at end of month. Source: Treasury

As mentioned above, the balance of the local governments provided a pleasant surprise by reaching 50.1 surplus at the end of the year, instead of the planed deficit of 61.4 million euros. T



Picture 9 : Local governments budget balance (mil.euros) accrued values at end of month. Source: Treasury