



Fiskālās disciplīnas padome

REVENUES

Due to the economic crisis caused by Covid-19, **general government consolidated budget revenue decreased by 6.4% in the first 6 months of 2020 compared to the same period of the year before, reaching 5.5 billion euros.** Tax revenue in the first half of this year dropped by 2.3% compared to 2019, while non-tax revenue increased by 2.2%. At the same time, own revenues and foreign financial assistance decreased by 13.7% and 26.4%, respectively, during the period considered. The tax revenue plays the largest role in the revenue structure of the consolidated budget at 75.5%, the share of which decreased by 2% compared to the 1st half of 2019.

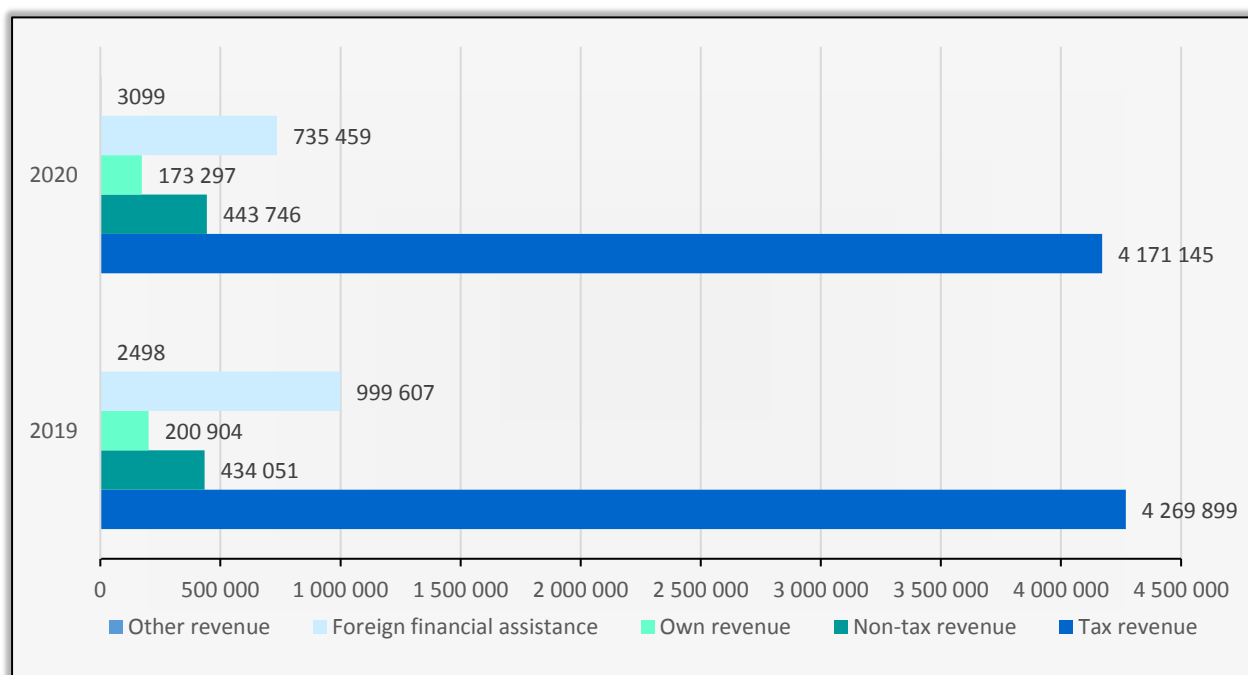


Figure 1. Consolidated budget revenue in 6 months (thou. euros). Source: Treasury

Overall, the absolute values show that the revenues of 2020 have a negative trend, however, the revenue decrease was expected due to Covid-19 crisis and its consequences. Another reason of total revenue decrease is related to a fall in the foreign financial assistance during the first half of 2020 compared to the previous year, which impacted the total consolidated budget revenue decrease the most.

Considering the state of the consolidated budget revenue, the collection of corporate income tax (CIT) does not look that pessimistic, even though the collected amount was only 72.1% of the planned one. However, the collected amount of CIT in 2020 has grown more than 10 times compared to 2019. Another positive fact is that the deviation from plan has decreased – in 2019 the collected amount of CIT was only 11.9% of the planned one. Overall, in spite of Covid-19 crisis, there is a considerable progress in collecting CIT.

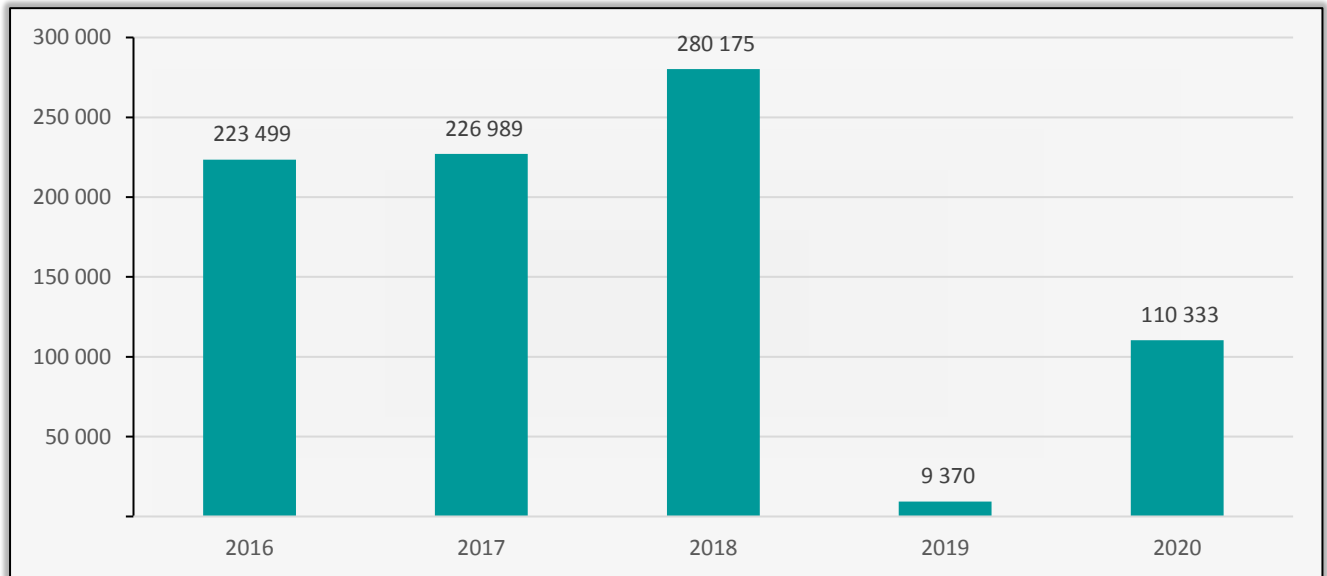


Figure 2. Corporate income tax revenues in the first half of 2020 (thou. euros). Source: SRS

The collection of excise tax has decreased in the first 6 months of 2020 compared to the same period of 2019. The plan has been fulfilled only by 85.3%, and only 489.2 million euros were collected, which is 6% less compared to the first half of 2019. The highest deviation from the previous year belongs to the excise tax collection from natural gas equal to 76.6% from the tax amount collected in 2019. However, in 2020 the biggest drop happened to the excise tax collection from alcohol – the amount of the collected tax plummeted roughly by 15 million euros or by 14.6% compared to 2019.

	2020 (6 months)	2019 (6 months)	2020 vs 2019
Alcohol	87989	102975	85.4%
Beer	22615	24824	91.1%
Tobacco	100933	107307	94.1%
Oil products	259212	264373	98.0%
Gas	9990	13045	76.6%
Other excise goods	8486	8196	103.5%
Total	489227	520719	94.0%

Table 1. Excise tax revenues in the first 6 months (thou. euros). Source: SRS

In the first half of 2020, the value added tax (VAT) collection plan was fulfilled by 85.2%. Revenues from VAT amounted to 1.13 billion euros, which is 8.8% less than in the corresponding period of 2019. As it was expected, due to the new state revenue service (SRS) economic stimulus program which performs faster VAT repayments to entrepreneurs, the collection of VAT also decreased.

The personal income tax (PIT) collection plan was overrun by 2.7% in the first six months. Such outcome happened due to the excellent results in January and February (+72.2 million above the plan). This was due to the faster-than-expected wage growth, and partly because the withholding tax on dividends paid in December was transferred to the budget in early January. In March, the planned target was not met, which was due to an increase in PIT repayments after the submission of PIT yearly declarations, but the consequences of the crisis were not yet fully felt on PIT revenues. Furthermore, during the isolation period in Latvia, the collected tax amount in May and June was lower by 32.3 million euros than the planned one which lowered the total six-month result back to the six-month plan level.

The social security contribution (SSC) plan was fulfilled by 94.7% in the first half of 2020. It should be noted that PIT revenues are less affected by the crisis compared to SSC, as their share in payroll taxes is much more significant and creates a greater burden on entrepreneurs. This is also confirmed by the fact that the extensions of deadlines granted for the SSC payments are approximately 7 times higher than those for the PIT. This might explain why the deviation from the plan of SSC is higher than the deviation of PIT.

In total, in the first half of 2020, the SRS administered revenue in the amount of 4.71 billion, which is 1.5% less than in the first six months of 2019.

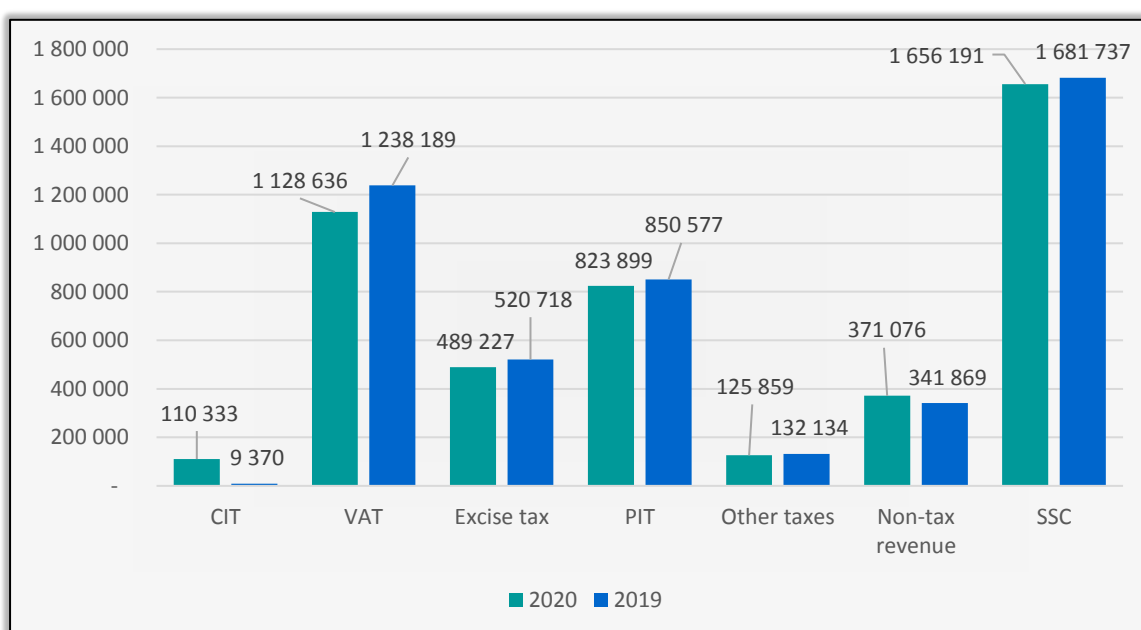


Figure 3. SRS collected revenues in 6 months of 2020 and 2019 (thou. euros). Source: SRS

	2020	2020 share	2019	2020/2019 (%)
CIT	110 333	2.3%	9 370	1077.6%
VAT	1 128 636	24.0%	1 238 189	-8.8%
Excise tax	489 227	10.4%	520 718	-6.0%
PIT	823 899	17.5%	850 577	-3.1%
Other taxes	125 859	2.7%	132 134	-4.7%
Non-tax revenues	371 076	7.9%	341 869	8.5%
SSC	1 656 191	35.2%	1 681 737	-1.5%
Total	4 705 222	100%	4 774 592	-1.5%

Table 2. SRS collected revenues in the first half of 2020 and 2019 (thou. Euros). Source: SRS

EXPENDITURE

In the first half of 2020, the general government consolidated budget expenditure increased by 8.2% compared to the same period of 2019, reaching 5.66 billion euros. Subsidies and social support expenses experienced the largest jump in percentage terms equal to 22.1% and 15.1% respectively. However, this was expected because the government of Latvia supported different groups of risk affected by the crisis. The share of these two types of expenditures exceeds half of the total budget expenditure.

The expenditure on EU contributions and international cooperation increased by 5.1%. Also, there was a small drop in expenditure on goods and services (6.1%) and capital expenditure (4.9%) compared to the first half of 2019. Considering that usually the investments are reduced during crisis times, the reduction by 5% is acceptable. Moreover, the share of these two types of expenditure is small – goods and services constitute only 11.2% of the whole expenditure, while capital expenditure makes even less, 6.8%. The lowest share of expenditure (3.2%) is constituted by debt servicing which has grown by 4.7% compared to 2019.

Expenses for Remuneration have increased by only 2.1%. Considering that the negative effect on PIT and SSC collection was not dramatic, it can be concluded that the reduction in wages has mostly taken place only the public sector. The share of expenditure on remuneration, however, decreased by 1.5% compared to the same period of 2019

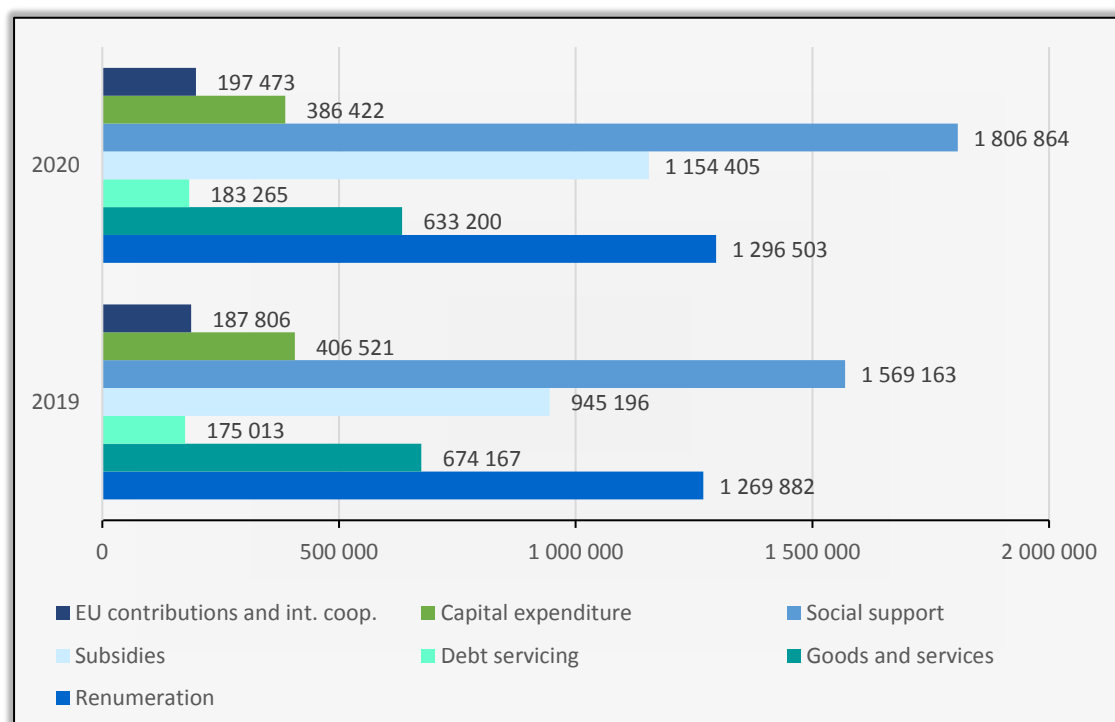


Figure 4. Consolidated budget expenditure in the first half of 2020 and 2019 (thou. euros). Source: Treasury

BALANCES

The data about first half of 2020 indicates the budget deficit of 131.4 million euros which is equal to 0.47% of the country's GDP. To compare, the previous year data shows that there was a budget surplus of 679.2 million euros equal to 2.4% of the country's GDP. It is clear that the revenue targets will not be met this year, and expenditure will increase significantly because of the Covid-19 crisis. The "Covid-19" scenario developed by the Ministry of Finance expects that the consolidated general budget deficit in 2020 will reach 2398 million euros, or 8.5% of GDP. Given the high level of uncertainty in economic and fiscal developments, it is currently difficult to judge the state of the general government consolidated budget balance at the end of the year.

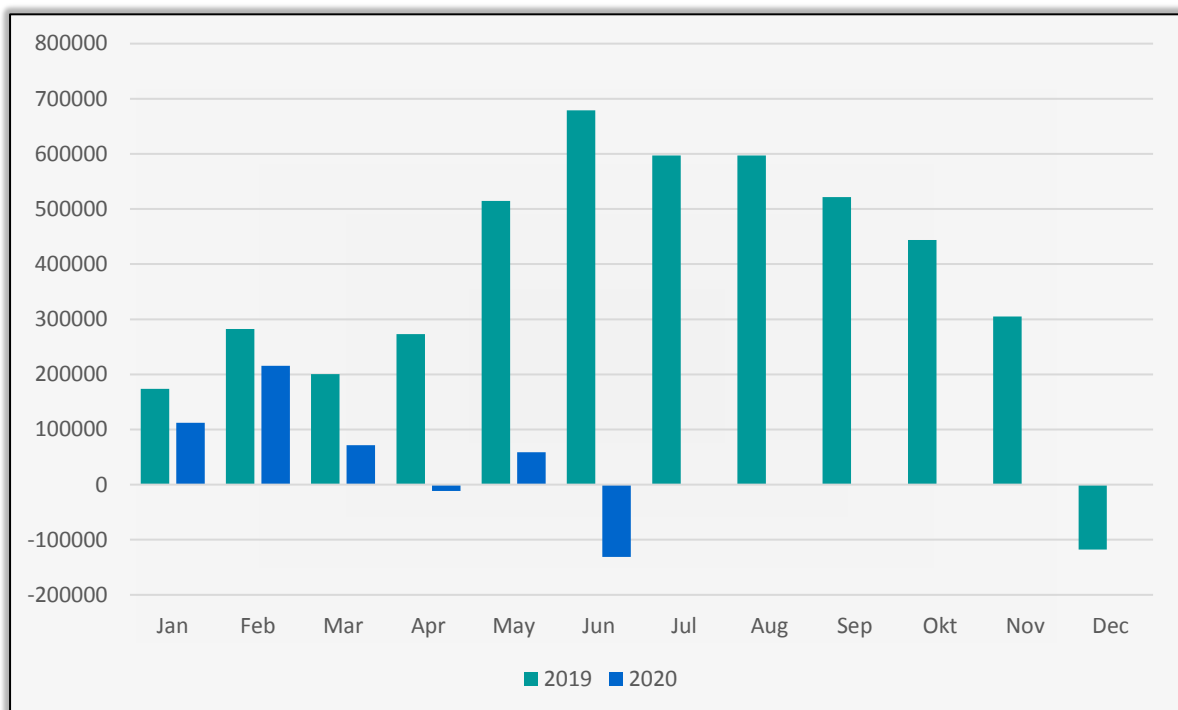


Figure 5. Consolidated budget balance (mil. euros) accrued values at end of month. Source: Treasury