MONITORING REPORT NO.7
08.08.- 02.09.2020.

SUMMARY

1. The statement of the international credit rating agency S&P Global Ratings on maintaining Latvia's credit rating at "A +" level with a stable future valuation is considered a high assessment of the government's fiscal sustainability-proportionate and well-targeted economic and social support programs.
2. The GDP decline in the second quarter reached 8.6% this year, which happened mainly due to a drop in the household consumption (-12.6%) and a decline in exports of goods / services by 7.4%. In the second quarter, GDP was positively affected by government consumption (+ 0.5%) and investments (+ 1.7%), which include government investments in Airbaltic, hospital and healthcare infrastructure and hospital share capital and financing for the construction of public roads and bridge repairs, etc.
3. Economic indicators in the second quarter show a cautious improvement in the business sentiment, including in Latvia's trade partner countries. Special mention should be made of Germany, where sentiment indicators improved by 6% compared to July, Estonia (+ 3.2%) and Sweden (+ 2.9%).
4. This year's second quarter saw a significant decline in exports (-11%) compared to the corresponding period in 2019. A particularly difficult situation was in July for exports of services. This decline happened mainly due to a decrease in exports of transport services and a decrease in exports of travel services. While the decrease of exported travel services is a direct Covid-19 effect, then the drop of exported transport services is related to a decrease in transit which was already took place in the fourth quarter of 2019 and is not related to the Covid-19.
5. According to the State Employment Service, the registered unemployment rate in this year's July was 8.6%. At the same time, a relatively sharp slowdown in wage growth (3.9%) was observed in the second quarter. Overall, wages have almost leveled off in both the private and public sectors. As a result, the effects of Covid-19 have to some extent cooled the recent labor market tensions.
6. The sharpest rise in the government debt took place this year in April. However, government debt continues to grow moderately, reaching 12.610 billion euros in July. The consolidated debt of the state and local governments has increased by more than 2 billion (2.313 billion) euros since the declaration of the state of emergency in March. Analyzing the positive effects of the debt increase, the Council sees a stabilization of the unemployment rate and improvements in economic indicators, as well as an increase in retail trade turnover. However, the weak performance of exports, which had a negative impact on GDP, suggests that the negative impact of Covid-19 on the economy will outweigh the time-limited support measures. Therefore, the Council emphasizes the need to focus support on those areas that will have a direct positive impact on restoring GDP growth and will be justified in the context of rising public debt.
7. Tax collection keeps improving – the amount of collected taxes in basic budget during this year's August is higher by 8% compared to the same month a year before.
8. The Informative Report on the Development Directions of Tax Policy prepared by the Ministry of Finance has been approved at the Cabinet of Ministers meeting. In general, the FDC sees positive things in the proposed tax changes - labor taxes are being reduced, especially in low-wage groups, which leads to reducing the tax gap and making the Latvian tax system more competitive. A fairer and more similar tax burden is also achieved for all groups of taxpayers. However, the planned tax changes do not lead to an increase in amount of collected taxes, which should be one of the objectives of the tax reforms. In its opinion on tax reform, the FDC stated that any tax reforms must meet the following criteria: (i) achieve an increase in total tax revenue relative to gross domestic product (GDP), (ii) reduce the tax burden on labor, and in particular on lower income groups; (iii) eliminate inefficient tax incentives; (iv)

ensure fair competition in the business environment, equality in tax claims and equal social protection for employees[1].

Retrospective review of FDC recommendations in previous monitoring reports

Looking back at the recommendations of the Fiscal Discipline Council (FDC) there emerged a number of action lines, which FDC would like to reiterate **- the proportionality of support measures, regular updates of the macroeconomic scenario, close monitoring of Covid-19 support program implementers and FDL restrictions during the Covid-19 exposure period.**

From the beginning, the FDC has been expressing concerns that the support measures could have too lasting impact on the government balances, and has called for government support instruments to be designed as short-term measures to stimulate the economy and maintain economic potential.[2] In later reports, the FDC has specified its message:

- Noting, firstly, the insufficiently balanced distribution of risk between the government, on one hand, and business and the public, on the other hand; secondly, the possible re-outbreak of Covid-19 with its economic consequences, and, thirdly, a sharp increase in government debt service costs in the medium term.[3]
- Stating that the state's aid to companies must be proportionate to the problems caused by the crisis and that it must not run counter to the principles of fair competition and serve as a basis for business growth. The government's "generosity" towards individual companies contradicts the EU Council's reprimand that too many small and medium-sized enterprises in Latvia suffer from excessively strict requirements for receiving guarantees. In the FDC's view, the loan guarantees should not exceed a period of five years.[4]
- Calculating that already in June the country's existing and planned support to the economy had reached a significant level (especially in view of potential EU support) and the Council noted that this could not be indefinite due to fiscal sustainability and the principle of intergenerational responsibility. The Council also noted the need to realize that fiscal conditions will sooner or later have to be in force again and that today's support mechanisms should not place a disproportionate burden on future budgets. It should be noted that the EU support instruments available in the future are very large and have little or no impact on the general government budget balance (GGBB). Therefore, priority should be given to the development of effective mechanisms for the absorption of these support instruments, and the creation of additional economic stimulus measures should be limited, given that they directly undermine the fiscal sustainability of the GGBB.[5]
- Emphasizing that support must be increasingly selective, better targeted and have an immediate effect. Investment projects must primarily promote the development of Latvia's economic potential, productivity growth and competitiveness. The impact on the social protection of the population and the fiscal multiplier could be two additional criteria against which support measures are assessed. Some planned public investment projects (Riga Concert Hall, Liepaja Prison) poorly meet or do not fully meet these criteria. There is a need to set up a framework for analyzing the effectiveness of aid to help justify the choice of the most effective projects and support mechanisms.[6]

[1] FDC opinion regarding the tax reform. Available: https://fdp.gov.lv/files/uploaded/FDCnodokluzinojumsgalaversija.pdf. Viewed: 02/09/20
[2] https://fdp.gov.lv/jaunumi/padomes-monitoringa-zinojums-nr1
[3] https://fdp.gov.lv/files/uploaded/MZNR3final.pdf
[4] https://fdp.gov.lv/files/uploaded/MZ4galaversija.pdf
[5] https://fdp.gov.lv/files/uploaded/0_MZ5_09_07_2020.pdf
[6] https://fdp.gov.lv/files/uploaded/0_MZ5_09_07_2020.pdf

The FDC has also called on the Ministry of Finance to develop a number of medium-term macroeconomic development scenarios and to review them regularly in the light of current trends.[7] Since February 2020, the FDC has updated the macroeconomic scenario three times (in February and April for the Stability Program 2020/2023 and in June for the VTBI 2021/2023) and has found that the Ministry has not been consistent in leaving the government debt forecast intact since the Stability Program 2020-2023 was drawn up. It left the forecast unchanged while restoring the macroeconomic framework VTBI 2021/23: Government decisions on support measures combined with a decision to limit the application of fiscal conditions suggest that debt growth will be higher than projected.[8]

At the same time, the FDC welcomes the modeling and presentation of the Covid-19 second wave macroeconomic scenario to the Cabinet, and calls on the government to see this scenario as realistic when planning expenditures and expenditure priorities in the medium term.

At the same time, the FDC has called for stronger oversight of institutions that have concentrated significant resources for mitigating the effects of Covid-19 such as Altum. In the interests of good governance and the prevention of financial risks, information on the aid instruments granted to Altum and the projects approved must be made publicly available. It is also desirable to plan audits of support measures and expenditure in a timely manner.[9]

Regarding the intention to grant long-term support guarantees to large companies, the Council agreed with the Bank of Latvia that long-term (up to 25 years) support for entrepreneurs is unacceptable, as the created fiscal risks are not commensurate with the potential benefits.[10] The Council is satisfied that the maximum guarantee period was set at 8 years, in line with EC guidelines.

The FDC has responded to changes in the regulation of fiscal discipline. Namely, at the May 28 meeting of the Cabinet of Ministers, the draft law "Law on Prevention and Management of State Threats Caused by the Spread of Covid-19 and Its Consequences" was approved. It stipulated that the budget expenditure ceilings set in the Financial Discipline Law will not be applied in 2021, as well as the deviation from the balance condition is permissible only to the extent necessary to overcome a severe recession and may not exceed the projected reduction in revenue (Article 12 (3) of the FDL3). Such changes make it possible to increase budget expenditure in 2021 to a level disproportionate to the country's fiscal sustainability and could run counter to EU fiscal regulation.[11] The Covid-19 Influence Management Act stipulated that the fiscal conditions of the FDL would not apply in 2021 either. In the FDC's view, this creates a situation where the increase in budget expenditures is no longer an anchor of volume and that it poses a political risk to populist expenditure growth.

[7] https://fdp.gov.lv/files/uploaded/Kr%C4%ABzesmonitoringsnr2.pdf

[8] https://fdp.gov.lv/files/uploaded/0_MZ5_09_07_2020.pdf

[9] https://fdp.gov.lv/files/uploaded/MZ_11082020v2.pdf

[10] https://fdp.gov.lv/files/uploaded/0_MZ5_09_07_2020.pdf

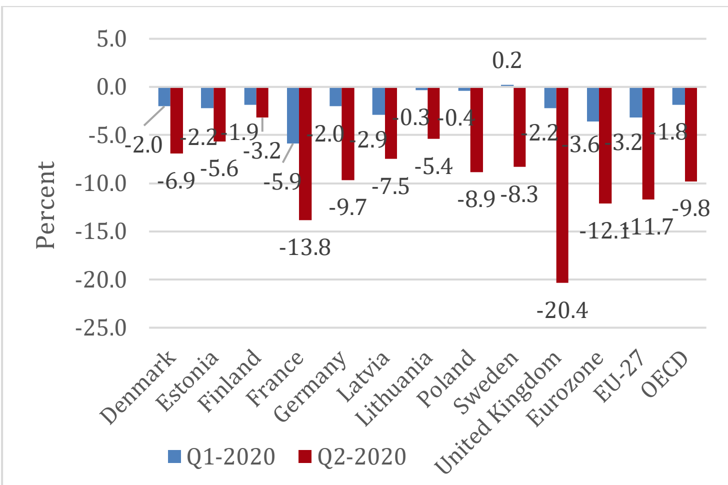
[11] https://fdp.gov.lv/files/uploaded/MZ4galaversija.pdf

THE DETAILE ANALYSIS

1. The description of the overall situation

According to the OECD recently published data, OECD countries experienced a dramatic decline of GDP by 9.8% (!) in the second quarter of 2020 compared to the first quarter. The decline in GDP in the OECD countries reached 10.9% on an annual basis. Of the large countries, Great Britain (-20.4%) and France (-13.8) have suffered the most. The GDP in Germany fell by 9.7% in the second quarter. In the European Union (EU), the GDP decreased by 11.7%, which is slightly less than the decline in the Eurozone (-12.1%). The OECD also predicts that unemployment in the OECD countries will rise up to 10% by the end of 2020, but if the pandemic wave recurs, as shown in Figure 1.2. In this figure, this scenario is becoming increasingly plausible, with unemployment in the OECD countries reaching as high as 12%. In any scenario, unemployment is not expected to return to pre-crisis levels in 2021. Among the Baltic States, similarly to the first quarter, in the second quarter Latvia also experienced the largest decline in GDP - 7.5%.

Figure 1.1. Impact of Covid-19 on the GDP of OECD member countries in the 1st and 2nd quarters of 2020

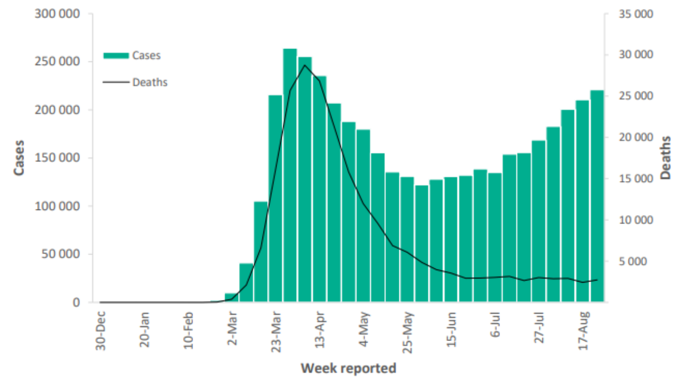


Source: *OECD Quarterly National Accounts*

In August, the epidemiological situation in many European countries including neighboring Lithuania and Estonia dramatically worsened. The renewal of travel restrictions to neighboring countries will have a negative impact on Latvia's transit through these countries. The transit services sector will also be negatively affected by disagreements over the legitimacy of the results of the recent presidential elections in Belarus. The EU Member States including Latvia have imposed sanctions on a number of Belarusian officials accused of falsifying election results, while Belarus has threatened retaliatory sanctions.

In general, it must be concluded that the external background for Latvia's economic recovery is still unfavorable. Extending travel restrictions to Lithuania and the possible severance of economic ties with Belarus could create a new economic shock to the Latvian economy.

Figure 1.2. Covid-19 infection and mortality rate in Europe

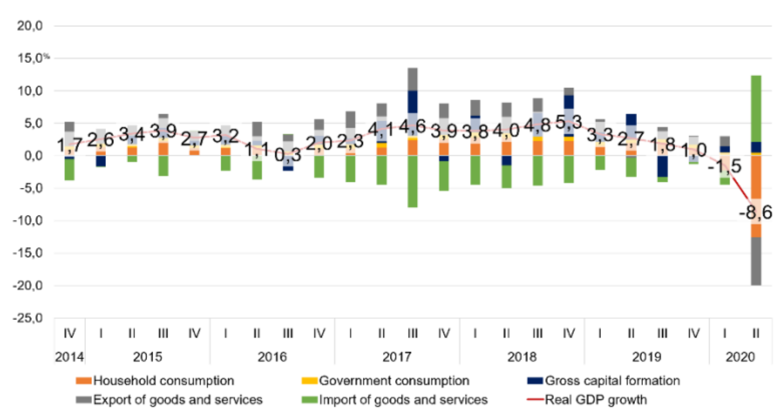


Source: *World Health Organization, Coronavirus disease (COVID-19) Weekly Epidemiological Update, 30 August 2020*

2. Macroeconomic situation in Latvia

The statement of the international credit rating agency S&P Global Ratings on maintaining Latvia's credit rating at "A +" level with a stable future valuation is considered a high assessment of the government's fiscal sustainability-proportionate and well-targeted economic and social support programs

Figure 2.1. Contribution to GDP growth
(increase over the corresponding period of the previous year)



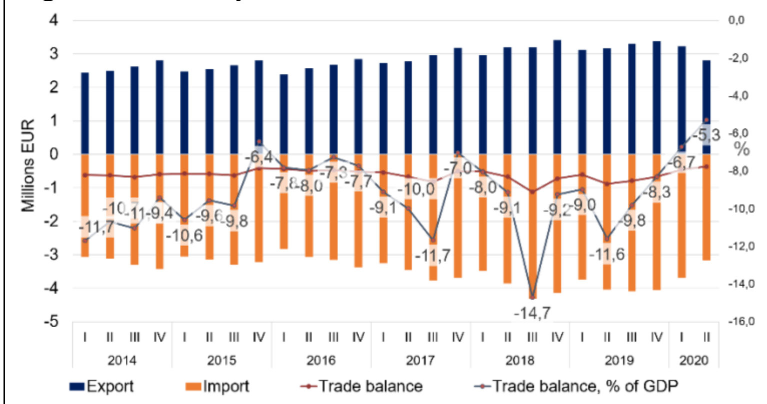
Source: CSB [IK10_070c]

2.1. GDP dynamics

This year the GDP decline in the second quarter reached 8.6%, which was driven by a decline in the household consumption (-12.6%) and a decline in exports of goods/services (-7.4%). However, there was a positive effect on the GDP in the second quarter from the government consumption (+ 0.5%) and investments, incl. government investments in Airbaltic, hospital and healthcare infrastructure, including hospital share capital, construction of public roads, bridge repairs, etc.
As there has been observed a gradual improvement of the trade balance since the 3rd quarter of 2019 and a sharp decline of imports of goods in the second quarter of this year, the trade balance showed the best result of the last six years.

2.2 Economic sentiment indicators

Figure 2.2. Quarterly trade balance in absolute values and % of GDP



Source: CSB [AT020c; IK10_070c]

Latvian confidence indicators keep improving, however, the balance is still in the negative range. In August, the minimum value of the positive balance (1.8%) was shown by the confidence indicator in retail trade, while the confidence of entrepreneurs in the construction sector is recovering the slowest. In the industrial sector, confidence indicators have risen in recent months, but the balance stabilized at around -7% in July and August. It should be noted that the long-term average economic sentiment indicator (long-term average = 100) has generally improved from 87.6 points in July to 91 points in August.

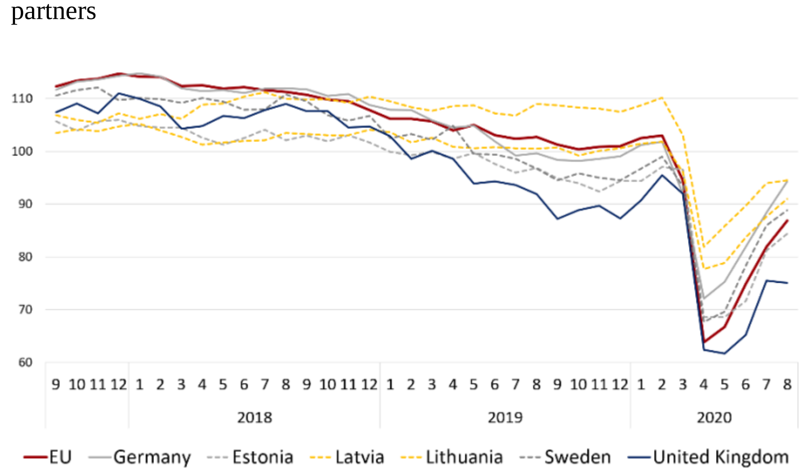
Eurostat data show that in August, economic sentiment indicators continued to improve for Latvia's main trading partners. Of particular note are Germany, where sentiment rates improved by 6 percentage points compared to July, Estonia (+ 3.2% points), and Sweden (+ 2.9% points).

Eurostat data on Latvia show that compared to July, Latvia's sentiment indicator has increased by 3.4 percentage points.

Figure 2.3. Confidence indicators (seasonally adjusted)

Source: CSB [KR020m]

Figure 2.4. Economic sentiment indicators for Latvia's main trading partners



Source: Eurostat [Code: teibs010]

As Latvia's economic recovery depends on the stabilization of foreign trade partners, this is a positive signal, however, it does not yet correlate with Latvia's exports, especially to EU countries.

2.3. Exports and cargo turnover indicators

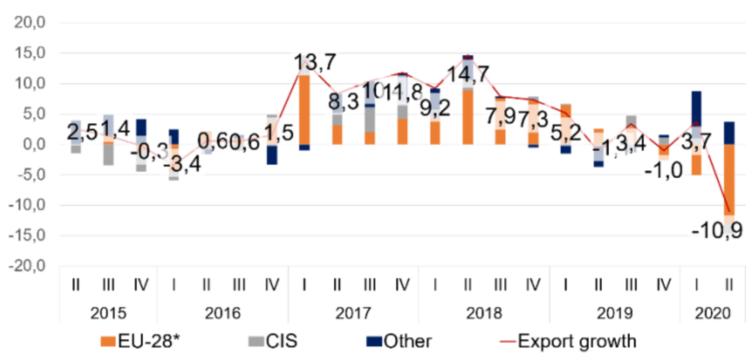
A significant decrease in exports (-11%) was observed in the second quarter of this year, compared to the corresponding period of 2019. The largest decline was observed in exports to the EU countries (-12.1%) and the CIS countries (-1.6%). Exports to "Other" countries, on the other hand, have increased by 2.8%.

According to the Central Statistical Bureau's (CSB) second quarter export data by Combined Nomenclature section and country (euro), the largest exports were to Lithuania (16.7%) and Estonia (12.1%), as well as to Russia (8%) and Germany (7.1%).

The Bank of Latvia data show that in the second quarter of 2020, there was a sharp decline in exports of services, averaging -31%, incl. the drop by 30% in June compared to June 2019. This decline happened mainly due to a drop in exports of transport services (-19.5%) and a decrease in travel services exports (-11%), which is a direct effect of the Covid-19 crisis.

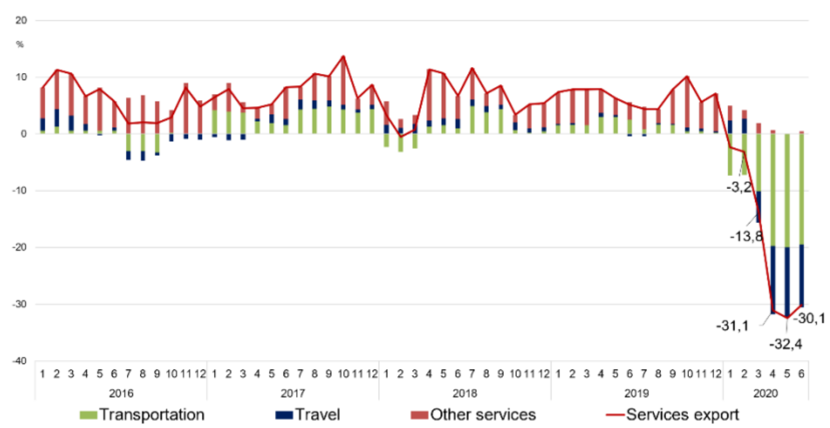
CSB operational data[12] show that, Latvia's foreign trade turnover amounted to 2.1 billion euros in June 2020, which was by 3.5% less than a year ago using current prices. This included a 1.4% decrease in the value of exports of goods and a 5.2% decrease in the value of imports.

Figure 2.5. Contribution to growth by region, quarter over the corresponding quarter of the previous year



Source: CSB [AT020c]
**EU-28 data used until 2020, EU-27 data used from 2020*

Figure 2.6. Contribution to services export growth by type of service, monthly vs corresponding period of the previous year



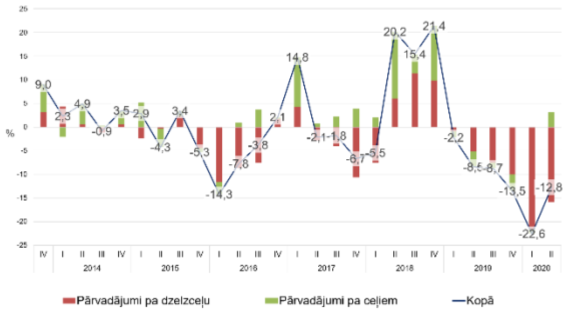
Source: Bank of Latvia [02 MB]

The rail and land transport saw a general decline (-13%) in 2nd quarter of 2020 compared to the same period in 2019, which is slower than the same comparison of the 1st quarters (-22.6). The worst performance was recorded in freight transport by rail (-16%), while in road transport it increased (+3.2), after declining in the five previous quarters.

In the 2nd quarter of 2020, cargo turnover in Latvian ports decreased by 31% year-on-year. Cargo turnover in the port of Riga decreased by 15% and in the port of Ventspils - by 14%.

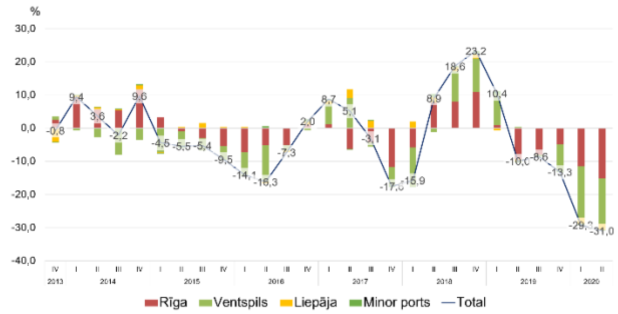
[12] In June, Latvia's foreign trade turnover was 3.5% lower than a year ago https://www.csb.gov.lv/lv/statistika/statistikas-temas/areja-tirdznieciba/apkopojums/meklet-tema/2724-latvijas-areja-tirdznieciba-2020-gada

Figure 2.7. Contribution of rail and road transport to freight growth (quarter over the corresponding quarter of the previous year)



Source: CSB [TR200c; TR210c]

Figure 2.8. Contributions of ports to growth of cargoes turnover (quarter over the corresponding quarter of the previous year)



Source: CSB [TR250c]

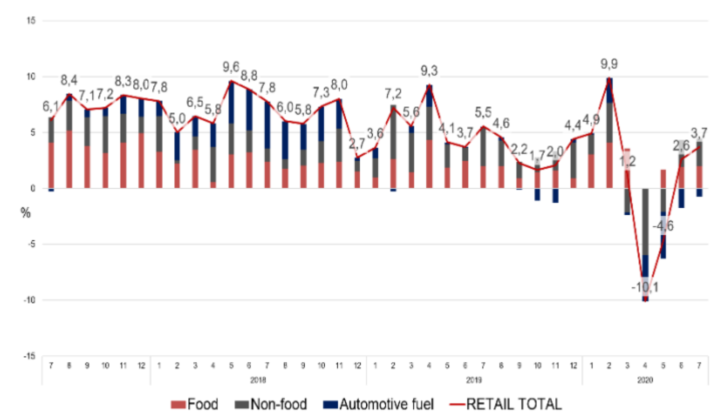
2.4. Retail

Retail sales resumed growing in June and July of this year. Overall the growth was observed only in June (+ 2.6%) of the second quarter, however, the positive dynamics continued in July (+ 3.7%) compared to July of 2019. The July results were positively affected by both non-food retail trade (+ 2.5%) and food retail trade (+ 2%), however, compared to July of the previous year, the retail trade turnover of automotive fuel decreased (-0.8%).

2.5. Labour market indicators

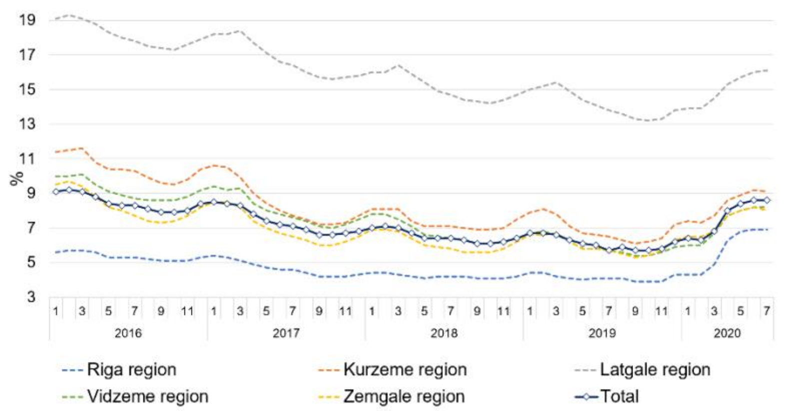
According to CSB data, the seasonally adjusted unemployment rate reached 9% in July. The registered unemployment rate in July was 8.6%, according to the State Employment Agency (SEA). The unemployment rate recorded in June and July stabilized in all regions and generally did not increase significantly, so the sharpest increase in unemployment during Covid-19 period took place in April. In terms of regions, the highest registered unemployment in July was observed in Latgale region (16.1%), but the lowest - in Riga and Riga region (6.9%).

Figure 2.9. Retail (month over the corresponding month of the previous year)



Source: CSB [TI030m]

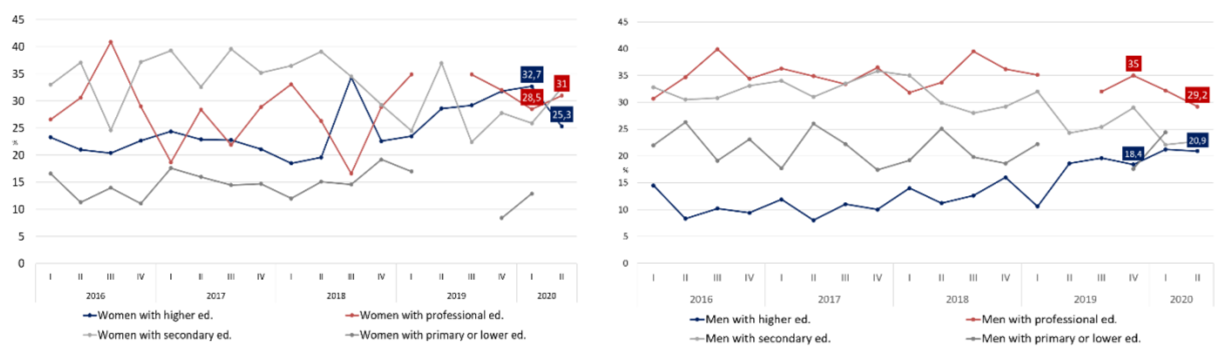
Figure 2.10. Registered unemployment rate by region



Source: National employment agency

Observing the dynamics of the number of unemployed by sex and level of education by quarters, it can be concluded that the number of unemployed with higher education has been increasing among both men and women since the second quarter of 2019. However, the number of unemployed women with higher education decreased sharply exactly during Covid-19 period, while the unemployment rate for men with higher education continued to fluctuate around 20-21%. It is interesting to note that the unemployment rate decreased among men with professional education or professional secondary education, while women with such education became unemployed more frequently during the Covid-19 period.

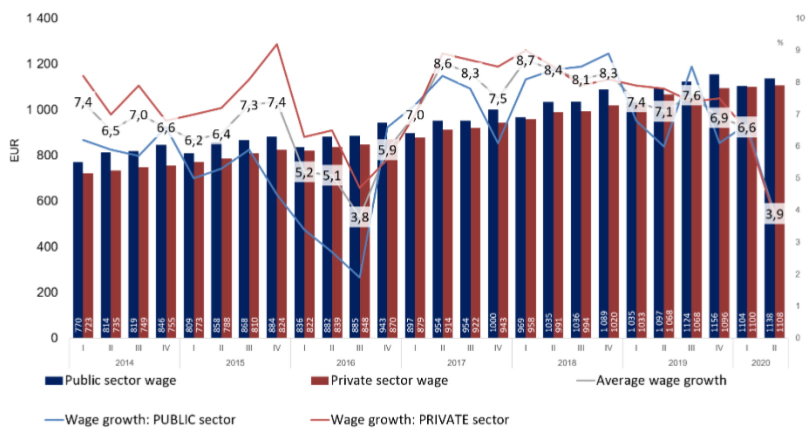
Figure 2.11. Unemployed persons by education, sex and quarter



Source: CSB [NB030c]

The latest CSB data show that there was a sharp slowdown in the growth of the average monthly wage of employees (+ 3.9%) in the second quarter compared to the corresponding period of the previous year. In the 2nd quarter of 2020 the gross wages and salaries increased by 1.6%, compared to the 1st quarter of 2020. The average gross wage in the private sector was 1,108 euros, but in the public sector - by 30 euros higher (1,138 euros) in the 2nd quarter of 2020. In both the public and private sectors, average gross monthly earnings before taxes increased identically by 3.8%.

Figure 2.12. Average gross wage and annual wage growth (increase over the corresponding period of the previous year)



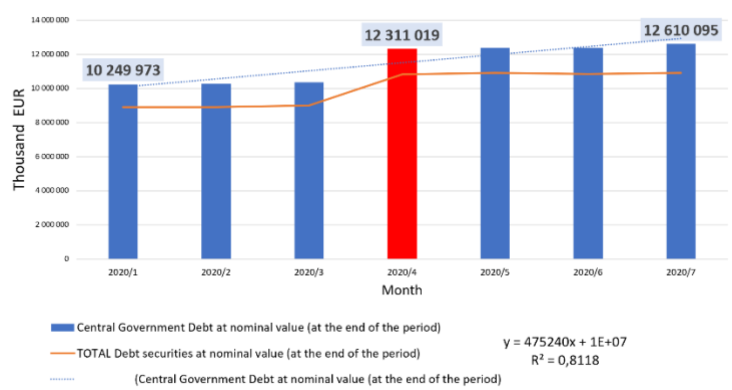
Source: CSP [DS020c]

2.6. Public debt

The operational data of the Treasury show that the total nominal value of central government and local government debt was 10.487 billion euros at the end of this year's first quarter, but already at the end of the second quarter, it reached 12.485 billion euros. In July, the central and local government debt already reached 12.7 billion euros.

The amount of central government debt in July was 12.610 billion euro. As a result, the central government debt has risen by more than 2 billion euro (or 2,248 billion) since the state of Covid-19 lockdown declared in March. The sharpest rise in government debt took place in April when it was necessary to obtain funds to mitigate the effects of Covid-19 in a short time. In the following months, the debt level remained relatively stable - rising, but without such a sharp rise as in April.

Figure 2.13. Dynamic of the central government debt before/after Covid-19



Source: Treasury Republic of Latvia

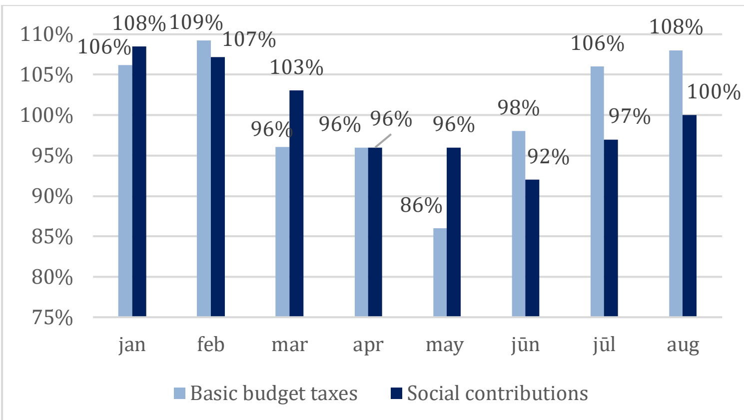
3. Budget balance and tax revenues

Tax collection continued to improve in August: 8% more taxes were collected in the basic budget than in August 2019. The collection of the social security contributions (SSC) has also improved and reached the level of the previous year in August. This proves the earlier forecast that the lowest tax collection point could be reached in May to be accurate. Citizens, who have become more optimistic about their financial situation, are making deferred purchases at the beginning of the crisis, thus improving the collection of both consumption taxes and other taxes.

Despite the improvement in tax collection in recent months, the tax collection plan in 2020 is expected not be met. For example, in the first eight months of the year, the value added tax (VAT) collection plan has been fulfilled by only 86.1%, excise tax - by 87.3% and corporate income tax (CIT) - by 76.3%. The personal income tax (PIT) plan - slightly unexpectedly - has been exceeded by 2.3%, while the SSC plan has been fulfilled by only 93.2%. Overall, tax collection should be seen as good - it can be seen as another sign of economic recovery.

In August, the Ministry of Finance (MoF) reassessed the impact of the planned extension of Covid-19 tax payments on the general government balance (GGB) in 2020 and concluded that the impact of deferred tax payments is much smaller (139.9 million) than the initially forecasted 331 million euros. The Ministry of Finance forecasts that in the coming years the taxes postponed during the crisis will improve the budget balance by 38.4 million euros.

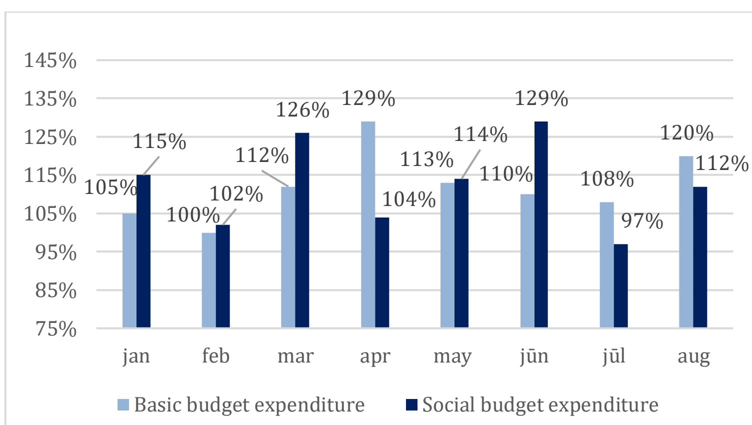
Figure 3.1. Basic budget tax revenues and social contributions dynamics: year 2020 vs 2019 in respective period



Source: Treasury operational data

In contrast to tax collection which has remarkably improved, the dynamics of the government expenditure is unclear. Although there has been an increase in expenditure due to state aid measures, the overall level of expenditure growth has been uneven over the month. This is due to the fact that the financing of support measures is not balanced. Also, small repayments to the state budget were received from the European Union (EU) in August, - only 31.9 million euros. In general, both the basic budget and the special budget balances can be considered adequate for an emergency situation: according to the Treasury's operative data, the central government basic budget balance was -216.3 million euros at the end of August (a surplus of 227.9 million euros a year ago). The special budget balance at the end of August 2020 was positive (27.9) million euros, respectively at the end of August 2019 it was 234.5 million euros.

Figure 3.2. Basic budget and Social budget expenditure dynamics: year 2020 vs 2019 in respective period



Source: Treasury operational data

4. Detailed analysis of state economic support measures from a fiscal point of view

The government did not approve any new support measures in August, but the MoF has reassessed the impact of a number of support measures on the SGBB based on the latest data provided by ministries. The largest reductions in the aid intensity of the measures are for various types of social benefits and tax extensions. Thus, the cost of various types of social benefits related to Covid-19 (unemployed, families, children, etc.) is now estimated at only € 58.4 million, compared to the previous estimate of €134.6 million. Consequently, the share of social benefits in the total amount of measures is only 1% - this is surprisingly low, considering that the fight against poverty has been one of the government's priorities for a long time. On the other hand, as indicated above, the impact of tax extensions on the SGBB in 2020 is now estimated at 139.9 million euros (previously 331 million euros), i.e. more than half as much. The total impact of state aid measures is currently estimated at 8% of GDP, of which 5.2% has an impact on the SGBB and 2.8% has no impact on the SGBB. The FDC has grouped the support measures according to the main beneficiaries of the measures (Table 4.1). Grouping and calculations are both approximate and interpretations may vary. For example, the beneficiaries of subsidized jobs are both workers (who are not dismissed) and employers (cheaper labor), but the table nevertheless gives an idea of the amounts of aid and its beneficiaries.

4.1. Table. MoF and FDC estimates of the support measures impact on the State General Budget Balance (SGBB) in 2020 and 2021

Measure	GGBB 2020/2021 (mil. euro)*	Redistribution of EU funds (without affecting GGBB)	Measures with no effect on GGBB	Total	Proportion of total support %
Aid to the population and the workforce	**154.5**	**88.7**	**19.7**	**262.9**	**12**
Downtime (including assistance) allowance	58.4			58.4	3
Different types of benefits - unemployment, families, children, etc.	18.9			18.9	1
Retraining of employees		25.7		25.7	1
Subsidized jobs for the tourism industry and exporters; aid for young professionals	77.6			77.6	3
Subsidized employment		63.0		63.0	3
Human capital and demography	0.4		19.7	20.1	1
Aid to entrepreneurs	**511.2**	**52.8**	**113.7**	**677.7**	**30**
Deferral of taxes **	139.9			139.9	6
ALTUM working capital loans	50.0	35.0		85.0	4
ALTUM guarantees and investments	190.0			190.0	8
ALTUM investment fund for modernization and aid for large businesses			165.0	165.0	7
Aid to the road sector	75.0			75.0	3
Supporting companies for international competitiveness		17.8		17.8	1
Aid to agricultural and food production companies	56.3		113.7	170,0	8
Aid to state corporations and sector	**811.5**	**354.5**	**135.8**	**1301.9**	**58**
Aid to the air transport industry	310.4		36.1	346.5	15
Aid to the public transport sector	66.0	283.0		349.0	16
Aid to the healthcare sector	204.8	30.0	42.4	277.2	12
Aid to the cultural and sports sector	37.0			37.0	2
Aid to municipal investments	150.0	41.5	35.0	226.5	10
Other, including private and public media	43.3		22.3	65.6	3

TOTAL	**1478.0**	**496.0**	**269.3**	**2243.3**	**100**
Of GDP (28 206 mil. euro)	**5.2%**	**1.8%**	**1.0%**	**8.0%**	

*MoF data and FDC calculations
** The calculations do not take into account the planned tax refund in the coming years

The FDC has already pointed out in previous monitoring reports the low correlation between economic growth and sentiment, on the one hand, and tax revenues, on the other. The relatively low demand for tax holidays and good tax collection data point to an economic recovery and, unless a second wave of Covid-19 with a major impact on national economies follows, there is hope for a 'V' recovery.

Although the FDC generally welcomes the government's work in overcoming the Covid-19 crisis, in previous monitoring reports the FDC has repeatedly called on the government to limit the development of additional economic stimulus measures, as they directly undermine the fiscal sustainability of the GGBB and the country. Overall, the planned amount of state aid has reached 8% of GDP, and the impact of support instruments on the GGBB has reached about 5.2%, which is relatively large (most of this support affects the GGBB in 2020). The FDC is pleased that the government has not launched any major new support initiatives during the reporting period. Nevertheless, the FDC reiterates that state-funded support must be increasingly selective, better targeted and have the fastest possible economic impact. Public investment projects must primarily promote Latvia's economic potential development, productivity growth and competitiveness.

Chairwoman of the Fiscal Discipline Council

Inna Šteinbuka