



Fiskālās disciplīnas padome

REVENUES

Due to the economic crisis caused by Covid-19, **general government consolidated budget revenue decreased by 0.3% in the third quarter of 2020 compared to the same period of the year before, reaching 8.4 billion euros.** Tax revenue in the first half of this year dropped by 1.0% compared to 2019, while non-tax revenue increased by 1.2%. At the same time, own revenues and foreign financial assistance decreased by 11.5% and 7.2%, respectively, during the period considered. The tax revenue plays the largest role in the revenue structure of the consolidated budget at 77.9%, the share of which decreased by 0.6% compared to the third quarter of 2019.

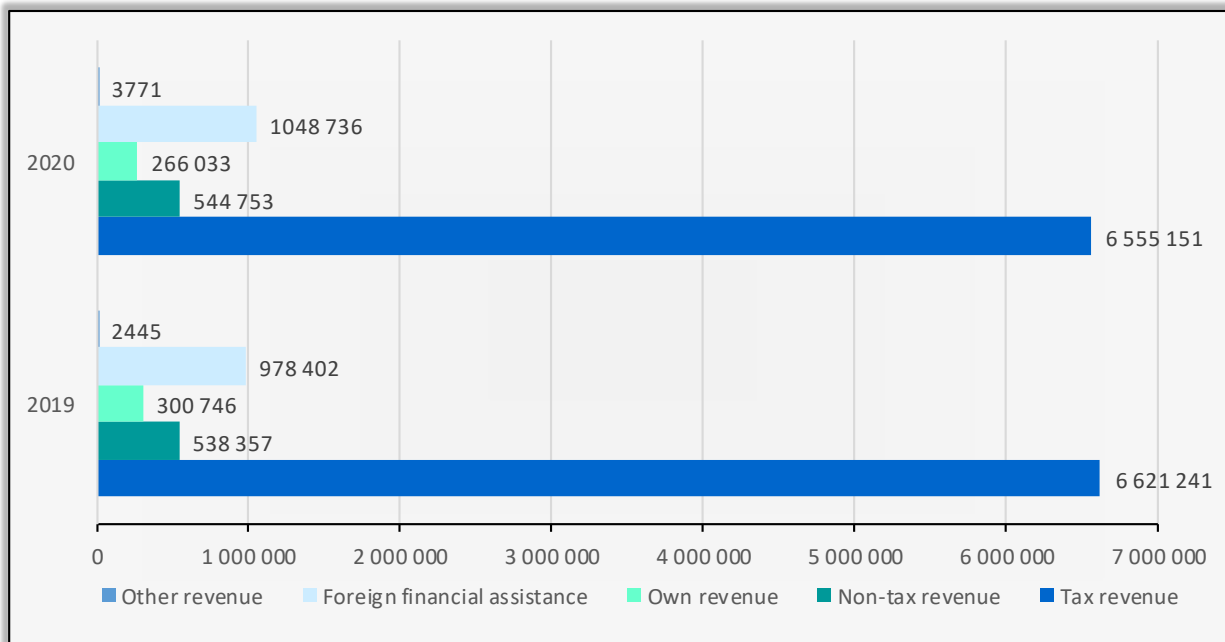


Figure 1. Consolidated budget revenue in 9 months (thou. euros). Source: Treasury

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. However, the foreign financial assistance mitigated the decline in revenue, because it was higher by 70 million euros in absolute terms than in the third quarter of 2019.

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 77.5% of the planned one. However, the collected amount of CIT in 2020 has grown almost eight times

compared to 2019. Another positive fact is that the deviation from plan has decreased – the collected amount of CIT was only 13.7% of the planned one in 2019. Overall, in spite of Covid-19 crisis, there is a considerable progress in collecting CIT.

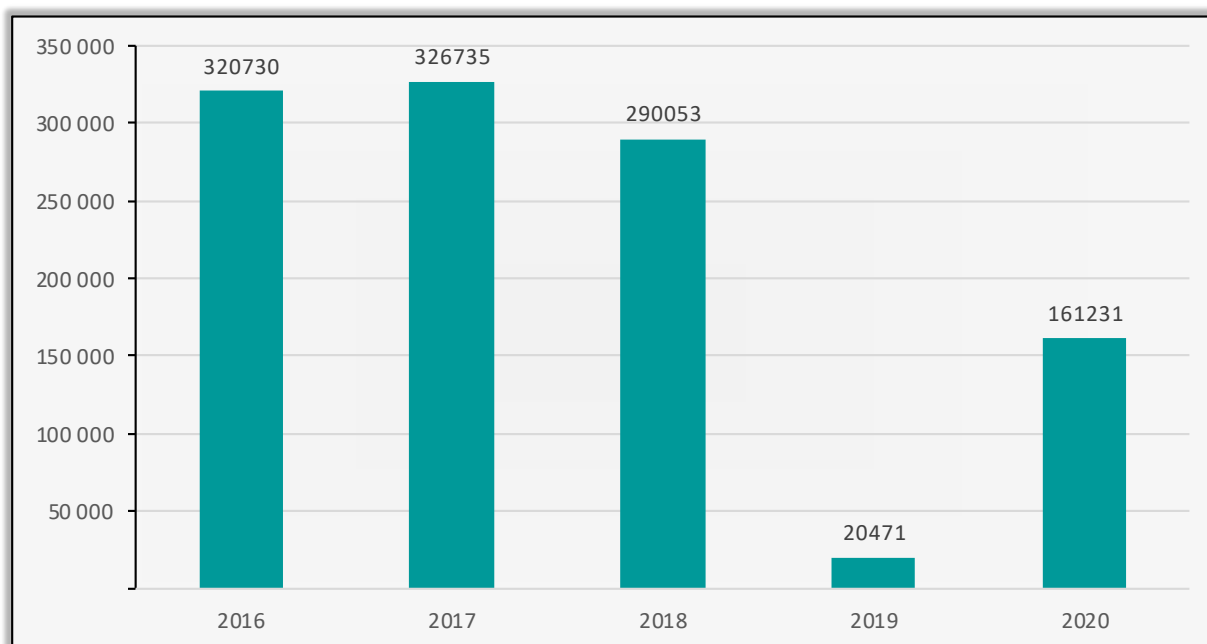


Figure 2. Corporate income tax revenues in 9 months of 2020 (thou. euros). Source: SRS

The collection of excise tax has decreased in the first 9 months of 2020 compared to the same period of 2019. The plan has been fulfilled only by 87.7%, and only 791.2 million euros were collected, which is 1.8% less compared to the same period in 2019. The highest deviation from the previous year belongs to the excise tax collection from natural gas equal to 76.1% 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 almost by 11 million euros or by 7.1% compared to 2019.

	2019	2020	2020 vs 2019
Alcohol	153008	142106	-7.1%
Beer	43062	41312	-4.1%
Tobacco	172352	168608	-2.2%
Oil products	407731	413213	1.3%
Gas	16818	12795	-23.9%
Other excise goods	12895	13552	5.1%
Total	805867	791587	-1.8%

Table 1. Excise tax revenues in the first 9 months (thou. euros). Source: SRS

In the third quarter of 2020, the value added tax (VAT) collection plan was fulfilled by 86.5%. Revenues from VAT amounted to 1.83 billion euros, which is 5.5% 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 2.3% in the third quarter. 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. However, in the third quarter the tax collection improved again – in total 7 million euros more were collected above the plan.

The social security contribution (SSC) plan was fulfilled by 95.1% in third quarter of 2020. In total, the State Revenue Service collected 1.4% SSC less compare to the same period of 2019. 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 third quarter of 2020, the SRS administered revenue in the amount of 7.23 billion, which is by 0.9% less than in the same period of 2019. Before three months, the difference was 1.5% between the first halves of 2020 and 2019. The fact that the difference is decreasing means that the economy is gradually returning after Covid-19 crisis to its initial stable state

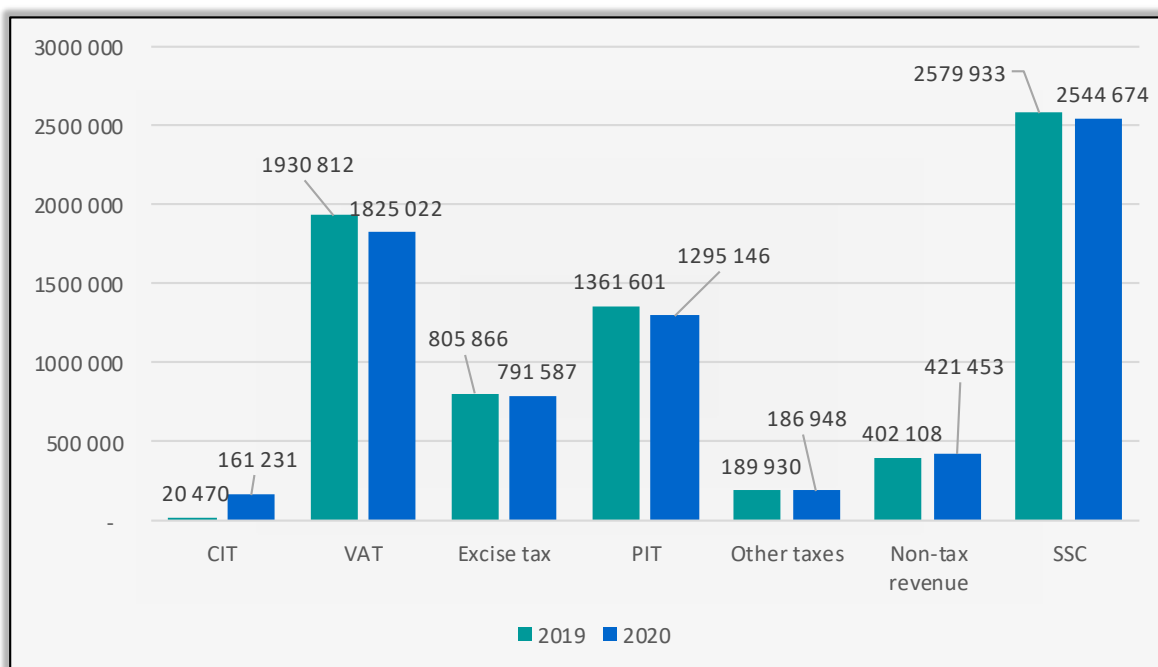


Figure 3. SRS collected revenues in 9 months of 2020 and 2019 (thou. euros). Source: SRS

	2019	2020	2020 share	2020/2019 (%)
CIT	20 470	161 231	2.23%	687.6%
VAT	1 930 812	1 825 022	25.26%	-5.5%
Excise tax	805 866	791 587	10.95%	-1.8%
PIT	1 361 601	1 295 146	17.92%	-4.9%
Other taxes	189 930	186 948	2.59%	-1.6%

Non-tax revenues	402 108	421 453	5.83%	4.8%
SSC	2 579 933	2 544 674	35.22%	-1.4%
Total	7 290 720	7 226 061	100.00%	-0.9%

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

EXPENDITURE

In the third quarter of 2020, the general government consolidated budget expenditure increased by 8.5% compared to the same period of 2019, reaching 8.59 billion euros. Subsidies and social support expenses experienced the largest jump in percentage terms equal to 25.2% and 13.8% 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.

There was a decrease in the EU contributions and expenditure on international cooperation (5.0%), as well as a slight expenditure decrease on goods and services (1.69%) compared to the third quarter of 2019. The capital expenditure decreased more considerably - by 6.85%. Considering that during crisis times the investments usually drop the first, such reduction seems acceptable. Moreover, the share of these expenditure types is small in total – EU contributions and expenditure on international cooperation constitute only 3% from the total expenditure, goods and services - only 11.6%, while the capital expenditure 8.4%. The lowest share of expenditure (2.4%) consists of debt servicing which has grown by 0.2% compared to the third quarter of 2019.

Expenses for Remuneration have increased by only 3.3%. 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 1.1% compared to the same period of 2019

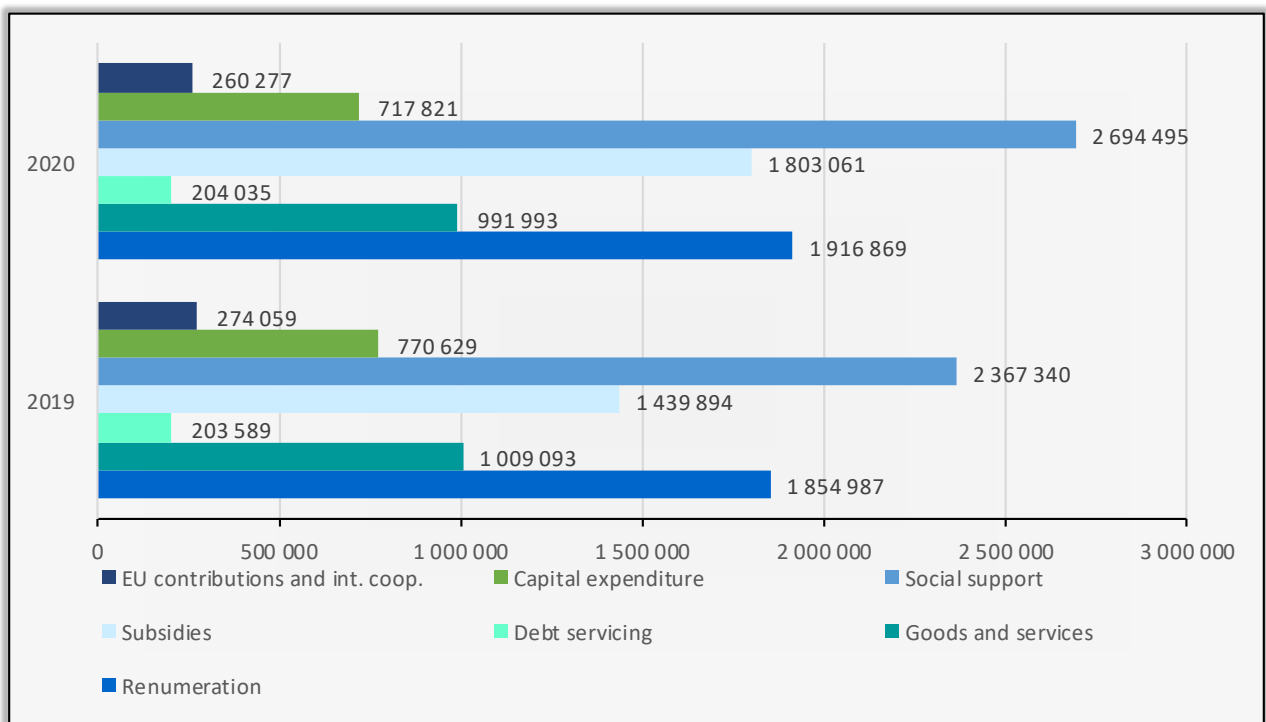


Figure 4. Consolidated budget expenditure in the first 9 months of 2020 and 2019 (thou. euros). Source: Treasury

BALANCES

The data about the third quarter of 2020 indicates the budget deficit of 170.1 million euros, which is equal to 0.6% of the country's GDP. To compare, the previous year data shows that there was a budget surplus of 521.6 million euros equal to 1.7% 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 Budget plan developed by the Ministry of Finance expects that the consolidated general budget deficit in 2020 will reach 2143 million euros, or 7.6% of GDP. Given the new increase in Covid-19 cases in Latvia, it is currently difficult to judge the state of the general government consolidated budget balance at the end of the year.

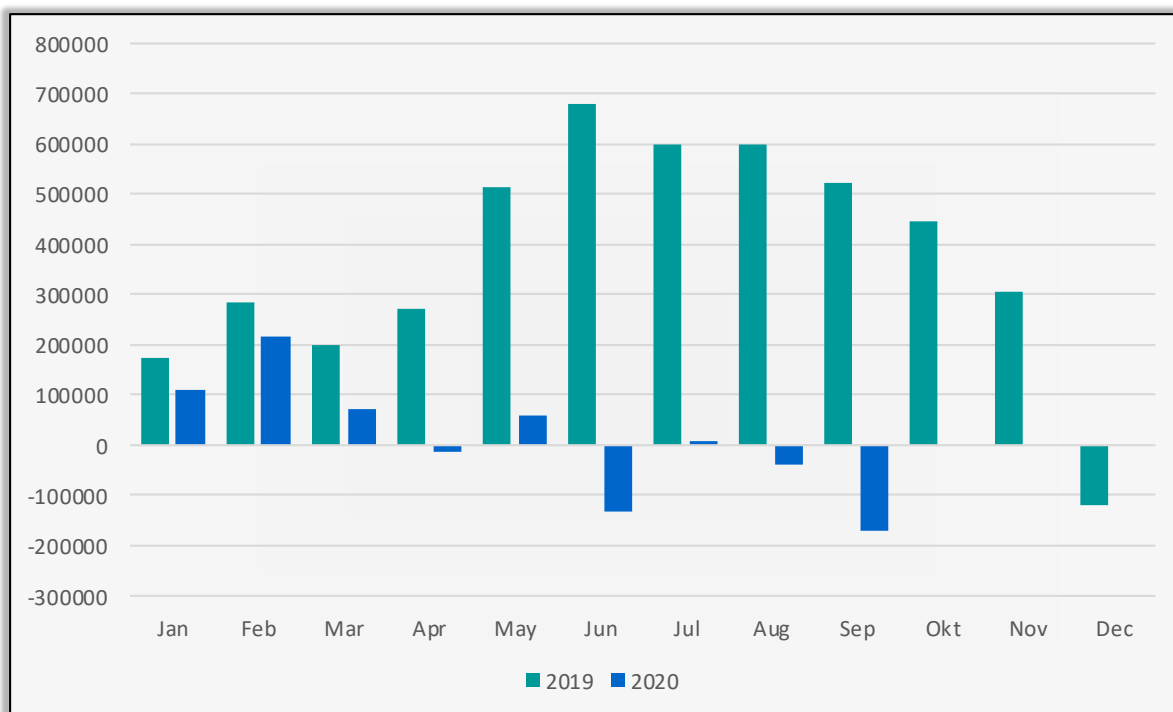


Figure 5. Consolidated budget balance (mil. euros) accrued values at end of month. Source: Treasury