



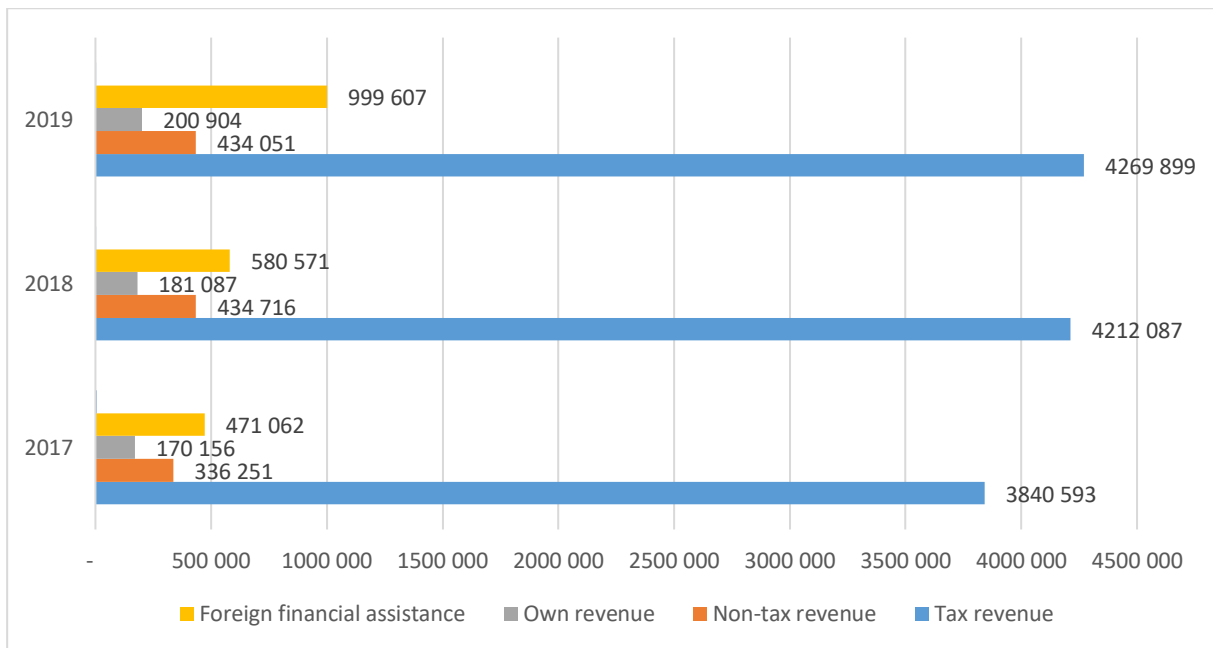
Fiskālās disciplīnas
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REVENUES

In the first half of 2019, consolidated budget revenue increased by 9% to reach EUR 5.9bn euros. In the second quarter, revenues were up 11% compared to the second quarter of 2018. This indicates that revenues growth was higher in the second quarter of 2019 than in the first. There are following highlights for Revenues in the first half of this year:

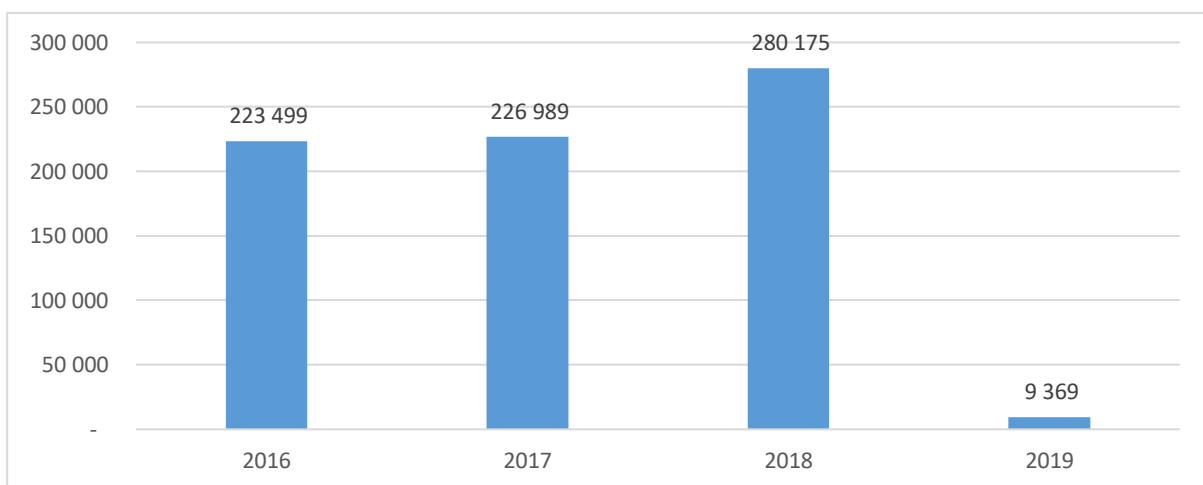
- **The increase in revenues was largely due to the increase in foreign financial assistance (EU Structural Funds) - in the first half of this year it increased by 72% compared to the first half of the previous year (23% the year earlier),**
- **EU Structural Funds have already been spent in the first six months at 87% of the annual plan.** As a result, in the second half of the year, it will no longer generate substantial revenue for the consolidated general budget,
- In the first half of this year, tax revenue in the consolidated general budget increased by only 1% compared to the first six months of 2018 (10% the year earlier),
- First-half year tax revenue growth lags significantly behind first-quarter nominal GDP growth of 6.9% yoy,
- During the first six months, SRS collected revenues by in amount of 98.2% of the planned target,
- Non-tax revenue was collected at 107% of the planned target,
- Social security contributions, including occupational pensions (VSAOI), have been collected at 103.7% of the target.

In addition to the aforementioned depletion of European funds, the planned decrease in revenues in the second half of the year could be caused by a reduction in excise duty revenues on spirits from 1 July, faster than expected GDP growth decline, and negative external economic and political factors.



Picture 1: Consolidated budget revenue I. half of 2019 (thous. euros). Source: Treasury

In the first half of the year, corporate income tax collection (CIT) has been the worst, because this year the collection base of the tax has been changed. In the first half of the year, only 9.4 million were collected instead of the planned 79 million, which is only 12% of the target. The FDC had previously pointed to the risks of a narrowing tax base because of the tax reform.



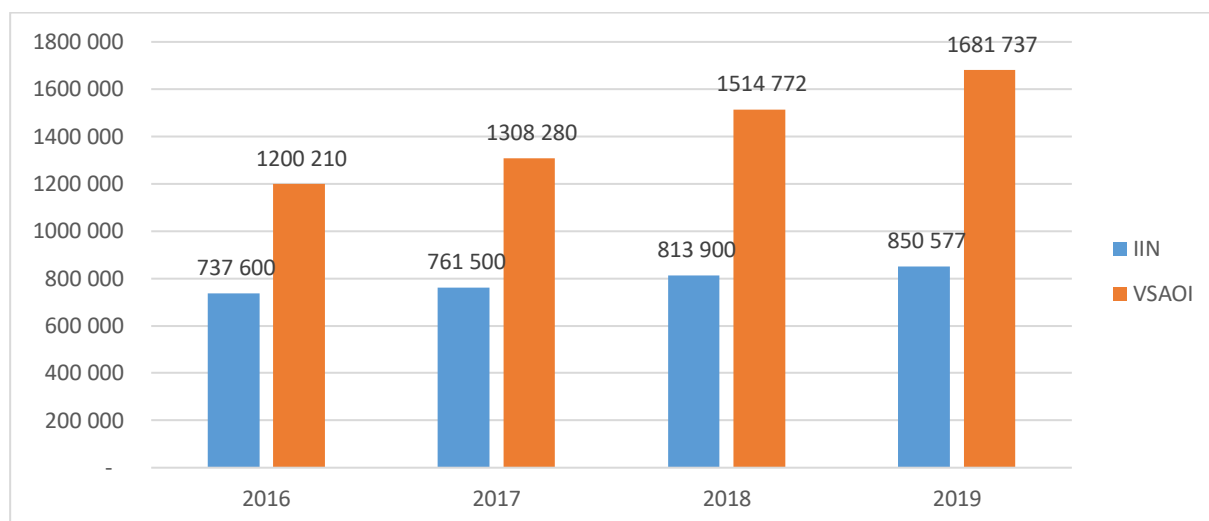
Picture 2: Corporate income tax I. half of 2019 (thous. euros). Source: SRS

In the first half of 2019, value added tax (VAT) was relatively well collected at € 1.24 billion, up 11% from the first half of 2018 and 2.1% higher than planned for the corresponding period in 2019. VAT is a major source of tax revenue, accounting for about 44% of total tax revenue.

Although excise duty was collected in the first half of the year at 99% of the target, it amounted to EUR 521 million, an increase of 8% over the corresponding period in 2018. The collection of other major taxes in the first half of 2019 did not differ significantly from what was planned.

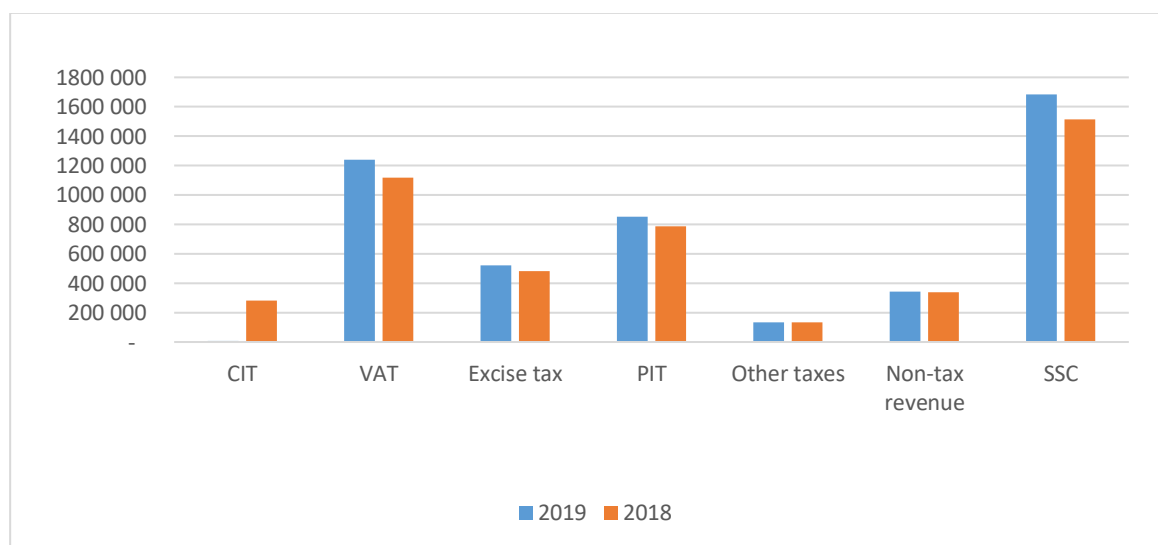
National social security contributions (SSC) collected continue to grow rapidly. In the first half of 2019, SSC collected increased by 11% year-on-year (before rising 16% in the first half of

2018 and 9% in the first half of 2017). The personal income tax (PIT) which is related to SSC increased at a slower pace: by 5% this year and by 7% and 3% in the first half of previous years, respectively.



Picture 3: SSC and PIT revenues I. half of 2019 (thous. euros). Source: SRS

In total, the SRS collected revenues in amount of 4.77 billion in the first half of 2019, an increase of 2.7% over the first six months of 2018.



Picture 4: SRS collected revenues (thous. euros). Source: SRS

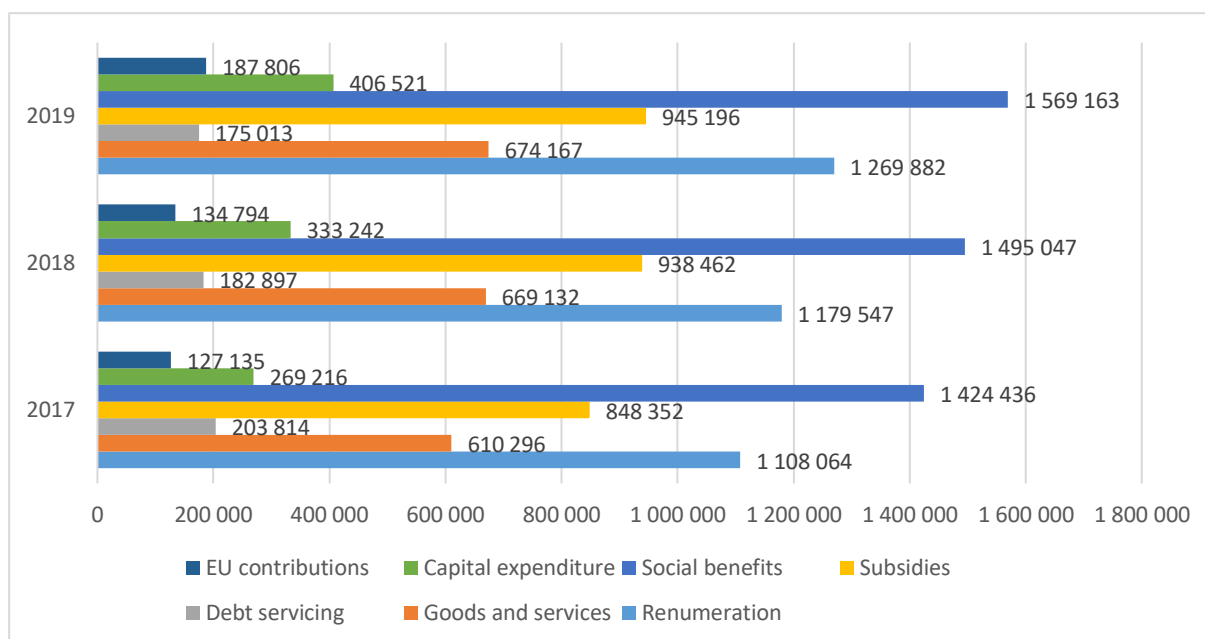
	2019	2018	2019/2018 (%)
CIT	9 369	280 175	-96.7%
VAT	1 238 189	1 117 338	10.8%
Excise tax	520 718	481 838	8.1%
PIT	850 577	785 496	8.3%
Other taxes	132 133	135 652	-2.6%
Non-tax revenues	341 869	336 768	1.5%
SSC	1 681 737	1 515 664	11.0%
Total	4 776 611	4 652 931	2.7%

Table 1: SRS collected revenues (thous. euros). Source: SRS

EXPENDITURE

In the first half of 2019, consolidated general government expenditure increased by 6% to reach EUR 5.2 billion. In the second quarter of 2019, general government consolidated budget expenditure increased by 3.2% compared to the second quarter of 2018. There are following highlights for expenditure in the first half of this year:

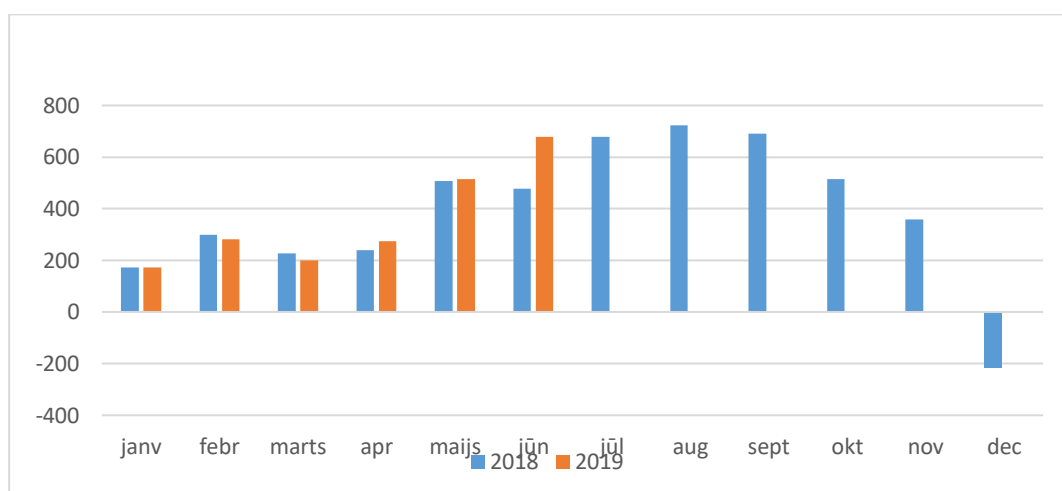
- Social benefits account for the largest percentage of general government consolidated budget expenditure, at around 30%, up 5% in the first half of 2019 (5% a year ago),
- The second most significant item of expenditure was remuneration (wages, 24.3%), up 7.7% (6.5% the year earlier),
- Capital expenditures increased by 22% (23.8% a year ago) due to the rapid uptake of European funds (accounting for 7.8% of total spending),
- Contributions to the EU budget increased the most at around 44% in the first half of 2019(6% the year earlier). However, the share of this expenditure in the consolidated general budget is relatively small - around 3.5%,
- Debt servicing- is the only item that has declined by 4.3% in this year's general government consolidated budget expenditure. A year earlier, an even more significant decrease of 10.3%.



Picture 5: Consolidated budget expenditure I. half of 2019 (thous. euros). Source: Treasury

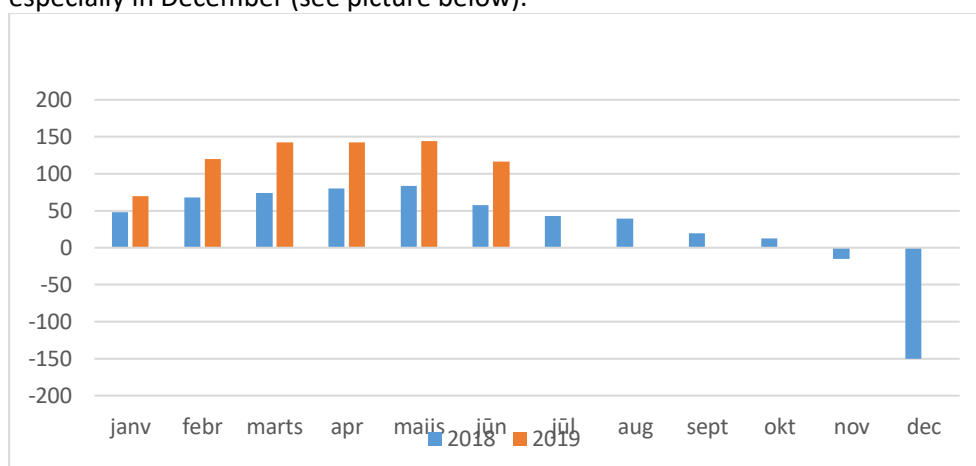
BALANCES

Traditionally, the consolidated general government balance is positive after six months: revenues exceeding expenditure by EUR 679 million, representing 2.2% of GDP. Last year the figures were EUR 478 million and 1.6% respectively. It should be noted that in the first half of the year, a large share (87% of the annual plan) of the EU Structural Funds was used, which will be available in significantly smaller amounts in the second half. In addition, excise tax and VAT revenues could decline in the second half of the year due to the reduced excise duty rate on spirits. The decline in GDP growth rate of 2.1% in the second quarter relative to the corresponding period in 2018 may also have a negative impact on tax revenues and the balance as a whole. On the expenditure side, we see increasing pressure from the public sector to provide additional financial resources for staff salaries. In view of the risks mentioned above and other risks, as well as the tendency of the general government consolidated budget balance to worsen towards the end of the year (see picture below), the government should follow developments in the general government balance and, if necessary, fiscal adjustment should be taken.



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

Due to rapidly increasing salaries, the special budget balance continues to improve, reaching 138 million euros at the end of the first half of the year. The balance was EUR 54.7 million a year ago. The local government budget balance after the first half of this year is also better than a year ago - 116.2 mil. euros (EUR 57.8 million in 2018). However, it is too early to forecast the local government budget balance at the end of the year as it traditionally tends to worsen in the second half of the year, especially in December (see picture below).



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