



Weekly Briefing

Latvia political briefing:
Political solutions to mitigate the effects of COVID-19
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The amortization of social and economic consequences

For more than half a month the citizens of Latvia have been living under the emergency situation. Undoubtedly the economic impact on the daily lives of the Latvian citizens has been massive as the unemployment levels have been increasing.¹ However, the precaution activities taken has proved them to be successful as the number of active cases of Coronavirus have been decreasing.² Although the limitations are relatively small in comparison to other European countries, Latvia has been able to sustain one of the lowest death rates per 100 000 citizens in the European countries.³ Despite the success in health system and the provided support tools Latvia is in front of upcoming political challenges and is already facing restructuring process to improve the welfare of Latvian citizens during these challenging times.

The borrowing limit for local governments is increased by 150 million euros to mitigate the effects of COVID-19

One of the key priorities for Latvia during the Covid-19 crisis is to improve the unemployment level. The data from State Employment Agency shows that the share of unemployment is increasing, which is mainly explainable due to the Covid-19 crisis.⁴ Because of that the Parliament of Latvia has been actively creating solutions to boost the economics of Latvia. This decision of increasing the municipal borrowing limit for 2020 by 150 million euros in order to be able to invest in high-readiness projects co-financed by European Union funds and other foreign financial assistance with economic significance, as well as investment projects submitted by the Ministry of Environmental Protection and Regional Development.

Proposals for redistribution of EU funding to mitigate the effects of COVID-19 have been supported

The opportunity approved by the European Commission to restructure and reorganize the European Union funding to fields which currently need the most support has a great influence since Latvia will be able to save the State budget funds. The redeployment proposal

¹ https://www.nva.gov.lv/docs/31_5ea6a81ed129f1.00708681.pdf

² <https://spkc.gov.lv/lv/tavai-veselibai/aktualitate-par-jauno-koronavi>

³ <https://www.statista.com/statistics/1111779/coronavirus-death-rate-europe-by-country/>

⁴ <https://www.nva.gov.lv/index.php?cid=6>

for European Union funding was designed to address three current needs. Primarily, strengthening the capacity of the health system by ensuring urgent investments in strengthening the capacity of infectious and psychiatric fields. Providing support to companies - in the provision of working capital of export-capable and productive companies, modernization of production and heating of the economy. As well as investments in mitigation of socio-economic consequences - employment measures. In total, it has been decided to redistribute 500 million euros of European Union funding. It has now been decided to allocate 100 million Euros to the Ministry of Transport for the discontinuation of railway projects for the strengthening of health services, 30 million euros for entrepreneurs, 35 million Euros for working capital and fixed assets instruments, 20 million Euros for employment support measures and workforce training and reorientation measures. In its turn, the financing of energy efficiency projects under the Ministry of Economics in the amount of approximately 7.5 million Euros should be directed to the projects of municipal energy efficiency measures to be implemented in 2020.

The Latvian Parliament approves additional measures to overcome the difficulties caused by Covid-19

To amortize the caused political and economic consequences by the outbreak of global pandemic during April 2020 the Parliament of Latvia enforced new amendments. Amendments to the law stipulate that expenses incurred in providing social assistance are recognized as operating expenses of the company and are not subject to corporate income tax. This will support companies that are actively involved in providing social support during an emergency, such as providing computers and other smart devices to schools, handing over disinfectants to medical facilities, and providing lunch and coffee to doctors. The amendments also stipulate that municipal capital companies, whose turnover has decreased by 50 percent due to the crisis caused by Covid-19, may receive a state budget loan to increase the company's share capital in order to finance its maintenance costs. The amendments also provide for the establishment of an alternative investment fund, in which it is planned to invest not only public but also private funds, thus providing support to entrepreneurs, for example, by investing in the company's capital. The fund will be managed by the development finance institution Altum.⁵

During April 2020, a big proportion of political discussion revolved around the State downtime support payments. During March 2020 in support of the local enterprises the

⁵ <https://www.saeima.lv/lv/aktualitates/saeimas-zinas/28894-saeima-apstiprina-papildu-pasakumus-covid-19-radito-sarezgijumu-parvaresanai>

government of Latvia supported the Law of Idle payment, which aims to support the enterprises and businesses which have been negatively affected by measures to control the spread of the Covid-19 virus. Entrepreneurs in all sectors that meet the set criteria can apply for state aid measures to mitigate the effects of the crisis - the distribution of downtime benefits and arrears of taxes in time or deferral for up to three years. In the beginning the companies whose income in March or April 2020 had decreased by at least 30% compared to the corresponding month of 2019 were able to apply for the downtime benefit and tax extension.

However, during April 2020 the enforced amendments received a lot of criticism from the public sector as around 40% of the Idle payment applicants received rejection and were not qualified to receive monthly Idle payment.⁶ As more well-known Latvian enterprises received rejection it raised more public and political discussion regarding the Idle payments. The qualifications were written in a manner that made it really difficult to apply for the Idle payment support and therefore by data from State Revenue Agency it can be concluded that only around less than five percent of the Latvian workers were able to receive Idle payment support. Because of the public resonance and the flaws of the enforced amendments in April 2020 in approval by the Parliament of Latvia the criteria for granting the downtime allowance to employees of companies affected by the COVID-19 crisis have been improved and additionally the application deadline was extended. The amendments stipulate that in the future, when deciding on the granting of downtime benefit and / or “tax holidays”, the State Revenue Agency will consider the income of companies and their reduction due to the COVID-19 crisis from the moment of starting a real economic activity and not from the moment of registration. The amendments also stipulate that an employee of a company may receive a downtime allowance even if his or her employer or a member of the company's board has been penalized for a violation related to tax, customs or employment relations in the previous year and at the time of assessment as previously it was one of the main reasons why workers were not able to receive Idle payment support.

The Parliament of Latvia conceptually supports amendments to the law on repayment of mortgage debts during the 2008 crisis

Before the economic crisis of 2008, there was a huge increase in lending rates in Latvia, but the sharp drop in income after that created very great difficulties in fulfilling the assumed

⁶ <https://lat.bb.lv/raksts/ekonomika/2020/04/17/dikstaves-pabalstus-vid-atsaka-gandrizz-puse-gadijumu-kads-pamatojums>

obligations. These debts are now practically irrecoverable. The data at the disposal of the Bank of Latvia and the Financial Industry Association show that there are currently about 13 thousand debtors affected by the crisis in Latvia and the total amount of debt is estimated at up to 600 million euros. Because of that in April 2020, the Latvian Parliament conceptually supported the amendments to the Law on Credit Institutions and the amendments to the Law on Personal Income Tax, which provide for the possibility for credit institutions to unilaterally repay debts on mortgage loans taken before the 2008 economic crisis. With the changes in the personal income tax law, it is planned to determine the basic principles of repaying mortgage loans. It is envisaged that credit institutions will be able to unilaterally erase debts on loans taken by residents for the purchase of real estate by the end of 2008.⁷ It is also envisaged that the settled liabilities to the debtor will not be treated as income and will not be subject to capital gains tax. At present, some credit institutions already implement various settlement programs by concluding a mandatory bilateral agreement in writing. The proposal for unilateral debt forgiveness is encouraged because the current practice is considered to be a significant impediment to full or partial repayment.

Conclusion

In order to mitigate the effects of Covid-19 and to improve the regional unemployment levels the borrowing limit of funds for municipalities have been increased by 150 million euros, which will allow to invest in high-readiness projects. To strengthen the capacity of the most current significant fields like medicine and export-capable and profitable companies, modernization by the approval of the European Commission the available European Union funds will be reorganized. To amortize the caused social and economic consequences by the outbreak of global pandemic the Parliament of Latvia enforced new amendments, focusing on companies that are actively involved in providing social support during an emergency situation. Additional focus has been put on municipal capital companies, which have been deeply affected by the Covid-19 crisis meaning increasing the company's share capital in order to finance its maintenance costs. The public discussions were raised regarding the State Idle payments as the created support system showed to be ineffective in several ways.

⁷ <https://www.saeima.lv/lv/aktualitates/saeimas-zinas/28917-saeima-konceptuali-atbalsta-likumu-grozijumus-par-2008-gada-krizes-laika-hipotekaro-paradsaistibu-dzesanu>