






# Weekly Briefing

**Latvia economy briefing:**  
**Support for Latvian companies affected by Covid-19**  
**Institute of Economics of the Latvian Academy of Sciences**

## China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.  
Szerkesztésért felelős személy: Chen Xin  
Kiadásért felelős személy: Huang Ping

 1052 Budapest Petőfi Sándor utca 11.  
 +36 1 5858 690  
 [office@china-cee.eu](mailto:office@china-cee.eu)  
 [china-cee.eu](http://china-cee.eu)

# **Support for Latvian companies affected by Covid-19**

## **Summary**

*The demand of companies for working capital to cover operating costs continues to grow, so the funding for the support program has been increased. Also, the state support is now focused on the most directly affected by the Covid-19 crisis businesses. Despite the phasing out of restrictions, many sectors are still unable to carry out their economic activities fully. The Ministry of Economics has received the approval of the European Commission for the companies affected by the working capital grant program Covid-19, which extends the working capital grant program by one month, increases the total funding for business support while reducing the amount of support and changing several conditions for working capital obtained by the most Covid-19 affected companies in May and June.*

## **Introduction**

Covid-19 influenced Latvian business significantly. So, it is important to help entrepreneurs in this difficult period to preserve jobs and retain employees, as well as to compensate for the losses incurred. Therefore, European Commission (EC) has approved to extend the provision of grants to businesses in need. The extension of the support program requires additional funding of EUR 223 million, increasing the total funding of the aid program up to EUR 533.8 million. However, starting from May 2021 conditions for obtaining financial support from the state are changed. In this briefing, the information about the conditions, the amount of aid and other changes are provided along with the analysis of the current situation in the Latvian business environment.

## **Overview of the current situation with business support**

The EC has coordinated the Latvian proposal to extend the current funds grant program for a month, to increase the overall funding of entrepreneurs while reducing the amount of aid and changing a number of conditions for support of working capital for the most affected companies in May and June this year.

The EC has coordinated the plan for the continuation of the aid program to allocate additional funding of EUR 223 million, increasing the funding of the common support program

up to EUR 533.8 million. That agreement was necessary since the EC had harmonized the smaller amount to Latvia, however, in order to continue the program, the government had to increase the amount of funding. Some companies that qualify for the support program did not receive it because the State did not have enough funds. However, the means necessary for EC harmonization are available.

Overall, the situation with the pandemic in Latvia is becoming better and more stable. However, some sectors especially those connected with tourism and entertainment are still highly influenced by Covid-19 restrictions. Therefore, it is difficult to say whether a one-month support extension will be enough for a plethora of companies to survive in these times. So, the future is unpredictable but there is a real chance that in July some of the restrictive measures will be in force and a lot of companies will not be able to conduct full economic activity. All in all, the question about a further extension of the grant program can arise in Latvia again.

### **Updated conditions for grant obtaining**

The situation with Covid-19 spreading is becoming more stable in Latvia, less people are getting infected from week to week. Therefore, from May 2021, gradually reducing the restrictions on the performance of economic activity, the conditions for receiving support will be changed, focusing on the provision of support directly to those enterprises whose activities are still fully or partially restricted. So, the conditions for grant obtaining are the following:<sup>i</sup>

1. Support will also be available in June,
2. A sectoral restriction for receiving support is set. Entrepreneurs from 54 sectors have been identified, for whom, starting from May 2021, grants are not available. These are sectors that have not previously been restricted and are currently engaged in full-fledged economic activities. For example, such sectors include construction; information and communications technology, electricity generation and trade, office administrative services, etc.
3. Additionally, starting from June 2021 the amount of the grant is determined not more than the decrease in turnover in May 2021 and, respectively, also in June, compared to the turnover of 30% for new companies in the respective month of 2019 or 2020; or in comparison with the average turnover in August, September and October 2020 in the total amount of 20%.

The amount of aid for May and June is set at 30% of the company's gross salary, for which payroll taxes were paid in August, September and October 2020, but not more than EUR 50,000 per month.

The aid program is extended until 30 June 2021. This means that supporting previous months, including May with specified conditions, merchants will be able to apply until June 15, while on June 15, the adoption of applications for the previous months of the aid period is terminated. In order to get the support for June merchants will be able to submit an application until July 15. Taking into account quite a dynamic vaccination process and stabilization of the overall situation with the pandemic, hopefully, one-month extension of the support program will be enough for Latvian businesses.

### **Conditions for ineligibility**

At the same time, there are cases where the company does not qualify for support. For example, if the company is excluded from the State Revenue Service's register of value-added taxpayers and it is not renewed in the value of value-added taxpayers, or has been suspended economic activity in the last two years.

The rules on the identification of the pre-existing penalty, stating that the aid is not granted if the company or its board member of the previous year and the evaluation of the application is punished at the time of the infringement of the company's tax liabilities, irregularities in customs and regulatory laws. Infringement of the Act, except where a separate infringement is an appropriate warning and the total amount of fines shall not exceed EUR 500.

Also, the aid cannot be granted if the company meets one of the following conditions:

4. Previous six months (May, June, July, August, September and October of 2020) before the announcement of the emergency in November 2020 and freely selected six months of 2019 of the State Revenue Service average monthly administered taxes were less than EUR 200 EUR;
5. Companies referred to Action Program "Growth and Employment" (specific support target according to municipal integrated development programs to promote energy efficiency and the use of renewable energy in municipal buildings) are freely selected within three months before the emergency announcement in November 2020, the State Revenue Service administered taxes on average per month were less than EUR 200.

These conditions were created to deliver support mechanisms only to businesses in need. In general, the measures are a good tool to avoid government spending on businesses, which do not qualify for it. The state deficit of Latvia has been increasing since the beginning of the pandemic, so now the country does not have any additional funds to waste. Therefore, the reliable process of identification of the most affected enterprises is an absolute must for Latvia now.

The current situation in Latvia shows that in practice, given the company's accounting policies and the resulting transactions turnover for a particular period may differ, thus affecting the grant of the aid. This situation is influenced by the choice of the advance invoice form for the processing and entry of the transaction, as well as the choice of revenue declaration. In order to address this situation, the Cabinet of Ministers clarifies that the turnover and the decline is determined by the value added tax return data. For companies other than value added taxpayers, the turnover decline is assessed considering the revenue from economic activity.

## **Conclusion**

Despite the gradual abolition of restrictions, some sectors can still not fully carry out their economic activities. The extension of the grant program and EC approval of it will help businesses to survive but the question is whether one more month of this support is enough. As it was mentioned, restrictive measures in Latvia are now gradually lifting but they do still exist and significantly influence some sectors. Therefore, it is difficult to say if a one-month support extension will lead to needed businesses result and will considerably increase the number of survived companies. However, there is still a chance that the grant program can be further extended if the situation with Covid-19 in Latvia will not become more stable in the following month.

---

<sup>i</sup> Ekonomikas ministrija. (07.06.2021). EK saskaņojusi izmaiņas apgrozāmo līdzekļu granta programmā Covid-19 ietekmētajiem uzņēmumiem. Available at: <https://www.em.gov.lv/lv/jaunums/ek-saskanojusi-izmainas-apgrozamo-lidzeklu-granta-programma-covid-19-ietekmetajiem-uznemumiem>