



Weekly Briefing

Latvia social briefing:
State Support for the Population of Latvia
During the Rise in Energy Prices
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State Support for the Population of Latvia During the Rise in Energy Prices

Summary

On January 29, 2022, the Law on Measures to Reduce the Extraordinary Rise in Energy Prices came into force, which provided for various financial support mechanisms for the population during the rise in prices. For short-term support, the state will fully reimburse the costs of the electricity distribution tariff and the mandatory procurement component, a new monthly allowance of 50 euros will be introduced for each child, including students under 24, a new monthly allowance of 20 euros will be introduced for all seniors, regardless of vaccination, and people with a disability. The coalition has also agreed to pay the increased housing benefit by the end of this year, as well as compensate public households for the extreme rise in the cost of heating and gas heating. Although the support package is broad, some groups in society are outraged at the range of beneficiaries, the amount of support, and whether support payments will be able to reduce the negative socio-economic impact on the well-being of the population in times of rising prices.

Introduction

This year, both electricity and natural gas prices have risen, which has also affected heating costs. The year 2021 ended with an absolute record in the price of electricity. In December last year, several price records were exceeded: the average electricity price in the Latvian trade area exceeded the price record set in November by 65.4% and is less than five times higher than in December a year earlier. Also in December 2021, the highest hourly price of electricity was reached. To compensate for the sharp rise in electricity prices during the winter season, the government planned to introduce various support mechanisms for the population during the price increase. This analytical briefing will set out the types of support for citizens approved in February 2022 and the views of groups in society.

I Current Support Mechanisms

In addition to the forms of support for the heating season decided by the government at the end of 2021, a new package of proposals has been prepared to cover a much wider range of

people who are facing a sharp rise in energy prices this winter. On January 29, 2022, the Law on Measures to Reduce the Extraordinary Rise in Energy Prices came into force. It provides for four months, from 1 January to 30 April 2022, to provide various types of support measures to legal and natural persons to partially offset rising energy costs.

The aim of the law is to reduce the negative socio-economic impact on the well-being of the population and economic growth associated with the unprecedented sharp rise in energy prices and to set time-limited state aid measures to mitigate the negative effects of soaring energy prices. Funding - 250 million euros - for the implementation of statutory support measures will be provided from the state budget program "Contingency Funds". The support mechanisms adopted are shown in Table 1: the mechanisms adopted last year are disbursed with an initial period of 1 November 2021, while those adopted in February this year are disbursed with an initial period of 1 January 2022.

Table 1.

Current support mechanisms for reducing energy consumption expenses in the face of rising prices

Beneficiaries	Type of Support	Period of Support
For families with 3 or more children	20 EUR monthly payment	01.11.2021. – 31.12.2022.
For persons with group 1 disability	15 EUR monthly payment	01.11.2021. – 31.12.2022.
For families / persons caring for children with disabilities	15 EUR monthly payment for each child	01.11.2021. – 31.12.2022.
For poor, low-income households / individuals	15 EUR monthly payment	01.11.2021. – 31.12.2022.
For 60+ year old vaccinated seniors, who were vaccinated in 2021	20 EUR monthly payment for 5 months	01.11.2021. – 31.03.2022.
For families with children, as well as students up to the age of 24	50 EUR monthly payment	01.01.2022. – 30.04.2022.
For low-income households	State 50% co-financing for municipalities for housing benefit	01.01.2022. – 31.12.2022.
Pensioners, people with disabilities and survivors	20 EUR monthly payment	01.01.2022. – 30.04.2022.
For all electricity consumers	100% reduction in OIK ¹ fees	01.01.2022. – 30.04.2022.
	100% reduction in distribution system service fee	01.01.2022. – 30.04.2022.
For district heating customers with extreme price increases	In municipalities where the district heating tariff is above 68 EUR / MWh, the state will	01.01.2022. – 30.04.2022.

¹ OIK [Latvian “obligātā iepirkuma komponente”] - mandatory electricity procurement component or subsidized electricity tax. Compulsory purchase of electricity is a state-defined support mechanism for electricity producers that produce electricity in cogeneration plants or from renewable energy sources.

	cover the difference up to the tariff approved by the Public Utilities Commission	
For households using natural gas for heating	With consumption above 221 kWh / month, the state will cover the difference between the current tariff of the Public Utilities Commission and the tariff for the second half of 2021	01.01.2022. – 30.04.2022.

Source: Cabinet of Ministers of the Republic of Latvia, 2022

From 1 January to 30 April 2022, all end users will be fully covered by the state budget for the service and mandatory procurement components of the electricity system (including value added tax). Approximately 860,000 electricity end-users could be covered by the electricity system service and OIK charges, at an estimated cost of around EUR 85 million.

In turn, for the customers of district heating - households, for which an extreme increase in prices is observed - the state will cover 100% of the difference up to the tariff approved by the Public Utilities Commission – EUR 68 per megawatt hour. The reduction in district heating charges could be extended to around 78,500 households, with a total support of EUR 7 million over a four-month period.

State aid is also provided to households and users who use natural gas for heating, if their average monthly consumption of natural gas over a 12-month period is more than 221 kilowatt-hours per month. The support amounts to a total of EUR 27.4 million, covering around 65,000 households using natural gas for heating.

II Stance of the Different Society Groups

Although the general public is satisfied with the additional support during the price increase, some groups of the society have pointed to shortcomings in the support mechanisms. For example, students under the age of 24 who are married will not receive student benefits, and there is widespread dissatisfaction with the age threshold below which students will no longer receive support. Kristafers Zeiluks, President of the Latvian Students' Union, mentioned these arguments at the government meeting at which the law on measures to reduce the extraordinary increase in energy prices was decided.

The Minister of Welfare Gatis Eglitis, responding to the uncertainty about the exclusion of married students from the list of beneficiaries, stated that such clarification should be supported. Meanwhile, Prime Minister Krisjanis Karins and Finance Minister Janis Reirs noted that the proposal would not be supported. Politicians explained that if the government supported the proposal of the Student Union, the law would have to be recalculated and its annotation clarified, which means that the law could not be supported within the specified period. He also mentioned that any extension of support would mean an increase in the country's external debt. Members of the government also did not support raising the age limit for students to receive support.

Seniors are also dissatisfied with the amount of support. The Latvian Pensioners' Federation called on the Parliament and the government to urgently decide on support for seniors and to grant a payment of at least EUR 200 this winter season. However, the planned support is half as much as seniors would have liked, but pensioners are already receiving the benefit granted in the autumn, which was partly to compensate for the increase in electricity prices and partly as an incentive to get vaccinated against COVID-19. The benefit of one hundred euros is paid only to vaccinated seniors.

However, some politicians have said that the value-added tax cuts that many countries have made would have been a more effective tool. There should also have been a price cap that would make the mechanism simpler, and we could have an overall effect. Mentioning these arguments, it was also noted that the amount of support set was irrational, citing as an example the fact that last year the parents of the children were paid a benefit of EUR 500 during a stable economic situation, but now only EUR 200.

Conclusions

Every inhabitant of Latvia will feel state support during the price increase - even though the inhabitant may not meet the conditions for receiving support. The government has sought to minimize the number of beneficiaries in order to minimize the external deficit. The newly enacted law is likely to reduce the negative socio-economic impact on the well-being of the population and economic growth driven by rising electricity prices. However, these aid payments increase the country's external deficit, which is already one of the highest in the European Union, and may not be as effective, given that Latvia has taken a different approach.

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