



Weekly Briefing

Latvia economy briefing:

Latvian State Budget for 2023

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Latvian State Budget for 2023

Summary

Latvia has approved the state budget for 2023, which provides funding for priority areas such as national security, education, energy, competitiveness, quality of life, and public health. Revenues of the consolidated state budget are projected to be €12.7bn in 2023, with expenses estimated to be €14.7bn. The increase in expenditures is attributed to the geopolitical situation in the region, along with the government's efforts to compensate citizens for rising energy costs and provide support to Ukraine against Russian aggression. The budget earmarks €710m to fund new government priorities, with an additional €215m from the fiscal space for implementation of additional measures. Key budget allocations include €61.6m for salary increases for teachers. Additionally, €85.8m is allocated to improve the field of oncology in the health sector, including wider diagnostic options and better availability of palliative care. However, criticism from the opposition highlights the budget's lack of attention to declining quality of life and competitiveness compared to neighbouring countries. The budget has also caused disagreements among coalition partners, with some advocating for more funding for health and demographic issues.

Introduction

The obligation to prepare the state budget is enshrined in the Constitution of the Republic of Latvia, which states that the Parliament of the Republic of Latvia (Saeima) decides on the state income and expenditure budget, the draft of which is submitted to it by the Cabinet of Ministers every year before the start of the financial year. The Latvian state budget is the basis of the government's financial activity and management, and its purpose is to determine and justify what funds are needed by the government, other state institutions and municipalities for the fulfilment of their state obligations, the financing of which is determined by legislative acts, ensuring that during the period for which these funds are intended, the expenses would be covered by the corresponding revenues. The Cabinet of Ministers usually submits the state budget bill and the package of accompanying bills to the Saeima by October 15 but considering that 2022 was the year of the parliamentary elections the budget has been prepared up until February 2023. This Latvia Economy briefing presents the priorities of the state budget and

their distribution, and the budget framework for 2023-2025, as well as an analysis of its relevance to the current geopolitical and socio-economic state in the country.

Key Priorities of the Latvian State Budget for 2023

On February 7, 2023, the Cabinet of Ministers endorsed the draft law concerning the state budget for the year 2023 and the budgetary framework for the years 2023, 2024, and 2025. The proposed revenues of the consolidated state budget for 2023 are estimated to be around €12.7bn, while the expenses are projected to be approximately €14.7bn. In comparison with the 2022 budget, the expected state budget revenues for 2023 are anticipated to increase by €2.025bn. Conversely, the planned state budget expenditures for the current year are forecasted to rise by €2.23bn as compared to the 2022 state budget law.

The upsurge in expenditures can be elucidated by the geopolitical situation prevailing in the region. Furthermore, the government has demonstrated its commitment to assist the citizens of Latvia by offering them partial compensation for the hike in energy resource prices. Additionally, the government is planning to provide support to Ukraine to fight against the aggression of Russia.

National security, education, energy, competitiveness, quality of life, and public health are declared as the most important priorities for economic transformation in the coming years.

In the field of education, the budget earmarks €61.6 million for salary increases for teachers. The lowest monthly salary rate for preschool teachers will be €1,070 (previously €970). The lowest salary rate for teachers of general education institutions will be increased to €1,080 for 36 hours from September 1 of this year. The budget additionally earmarks €8.6mln to prepare for the transition to learning in the Latvian language, introduce state tests in STEM¹, increase the remuneration of assistant service providers, and provide free lunches for students in classes 1-4.

In the field of higher education and science, an additional €31.8mln has been allocated for increasing science base funding, funding for fundamental and applied research program projects, implementation of the national research program, creation of world-class tenured professorships, changing the funding model in universities, and increasing targeted scholarships for providing qualified teachers in schools.

¹ Science, Technology, Engineering and Mathematics.

The budget provides an additional €85.8mln for priority measures in the health sector, which include improvements in the field of oncology, such as wider diagnostic options, improving the availability and quality of palliative care for patients at home, provision of specialized food, and inclusion of new oncology drugs in the reimbursement system. The wage increase for medical personnel will continue, primarily taking care of the lowest wage earners. Improvements in children's healthcare are also planned, including payment of cochlear implants and glucose monitoring systems for children with hearing impairment and diabetes, and payment of compensable drugs for cystic fibrosis patients.

The government plans to establish an innovation fund to support early-stage research projects with commercial potential, thereby fostering a startup ecosystem and enhancing the quality of human capital in line with labor market needs. The housing guarantee support program and the "Balsts" support program will be continued with a budget allocation of 3 million euros. Moreover, the government aims to facilitate access to finance for businesses by creating an investment fund to promote the development of large export-oriented investment projects, along with insurance of export transactions for Latvian companies, which is estimated to cost €12.19mln.

In the welfare sector, the government plans to provide additional funding for supporting the minimum income level of vulnerable citizens, such as recipients of minimum old-age, disability, and survivors' pensions, state social security benefits, and basic social assistance benefits. This support will be adjusted annually based on socioeconomic indicators. Additionally, remuneration for assistant and companion service providers will be raised, and the waiting time for technical aid provision will be reduced.

Within the domain of internal affairs, the government will allocate €24mln to increase the monthly salaries of officials with service ranks, €23.1mln for purchasing firefighting and rescue vehicles, and €23.8mln for establishing infrastructure along the eastern border. Further, €4.7mln are earmarked to establish disaster management centers and equip new premises for the State Police.

This year marks the 150th anniversary of the Song Festival, and the government has decided to provide extra funding to ensure its successful organization. Furthermore, to ensure the growth and predictability of funding for the Culture Capital Fund, it will be linked to tax revenues.

The proposed 2023 state budget in Latvia has received mixed reviews from various stakeholders. The government has allocated over 1 billion euros towards national security, with

funds set aside for the strengthening of the National Armed Forces, the purchase of anti-aircraft defence equipment, equipment for the internal affairs services, and the creation of crisis centres. However, concerns have been raised regarding other areas such as education and healthcare, with some trade unions expressing doubts about the promised funding increase for teachers and medical professionals. The budget has also faced criticism from opposition parties, who claim that it lacks reforms and does not address strategic growth models for the country.

The budget's proposed allocation towards national security has been well-received by some stakeholders, as it is deemed necessary for the country's safety. The budget's accompanying draft laws have been accepted in their current state, with attention drawn towards strengthening the pension fund and funding the State Cultural Capital Fund from tax revenues. The budget will be discussed in further detail in the budget commission, with decisions expected on March 8th.

Conclusions

The Latvian government's proposed state budget for 2023, includes increased revenues and expenditures compared to the previous year. The budget highlights the government's priorities, such as national security, education, energy, competitiveness, quality of life, and public health. The budget also includes various allocations for specific initiatives, such as salary increases for teachers, funding for science and research projects, improvements in the healthcare sector, and support for vulnerable citizens. Additionally, the government aims to foster innovation and entrepreneurship, provide financial support for businesses, and allocate resources for internal affairs and cultural events. The budget also reflects Latvia's commitment to providing support to Ukraine amidst the ongoing conflict with Russia. Overall, the proposed budget demonstrates the Latvian government's efforts to promote economic growth, enhance the welfare of its citizens, and address important national and regional priorities. However, while the budget has allocated funds for national security, education, energy, competitiveness, and public health, it has faced criticism from the opposition for not addressing other issues, including the declining quality of life and competitiveness compared to neighbouring countries. The budget has also caused disagreements among coalition partners, with some advocating for more funding for health and demographic issues.

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