

BASIC SOCIO-ECONOMIC INDICATORS

Income group - HIGH INCOME: OECD Local currency - Euro (EUR)

POPULATION AND GEOGRAPHY

AREA: **64 589** km²

POPULATION: **1.995** million inhabitants (2014), a decrease of -1.25% per year (2010-14)

DENSITY: **31** inhabitants/km²

URBAN POPULATION: **67.4%** of national population

CAPITAL CITY: **Riga** (30.8% of national population)

Sources: OECD, Eurostat, World Bank, UNDP, ILO

ECONOMIC DATA

GDP: **46.9** billion (current PPP international dollars) i.e. 23 537 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **10.8%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **878** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **23%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.819** (very high), rank **46**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
119	-	-	119
119 LOCAL GOVERNMENTS: 110 DISTRICTS (NOVADS) AND 9 REPUBLICAN CITIES (REPUBLIKAS PILSETA) AVERAGE MUNICIPAL SIZE: 16 760 INH.			

MAIN FEATURES OF TERRITORIAL ORGANISATION. Latvia's territorial organisation is relatively new, resulting from a large territorial reform conducted in 2009 changing from dual-level municipalities to single-level municipalities: Local authorities numbering 524 (municipalities, rural territories, district towns, "republican cities"), were merged in one single tier of government, comprising 110 districts and 9 "republican cities" (i.e. the largest cities - 50% of the population and 74% of GDP). These "republican cities" have well-developed commercial activities, transport and community jurisdiction facilities, social and cultural infrastructure, as well as a minimum resident population of 25 000. This city status grants them a certain administrative and financial independence. Districts have resident populations of at least 4 000 inhabitants and must comprise a village of at least 2 000 inhabitants. Five planning regions were also established in 2002. They have no legal status but have indirectly elected regional governments (councils) made up of local authority representatives.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. The 1992 Constitution has no explicit specific provisions giving local self-government a constitutional foundation. However, the Constitutional Court considered that Article 101 on citizen participation in local authority activities was a safeguard for local self-government. The Local Government Act dates back to 1994 and has been amended several times to define SNG powers and responsibilities. Local governments have three types of competences: mandatory autonomous functions prescribed by laws, autonomous functions performed as voluntary initiatives, and delegated functions on behalf of the State. Each type of task has to match its own funding source. Local government competences include organisation of public utilities (water supply and sewerage, heating, waste management), local planning, environment, pre-school, primary and secondary education, housing (including housing benefits), social assistance and social services (child care, elderly, disabled), culture, public transport, local roads, etc.

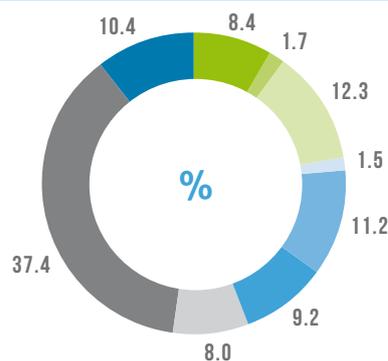
SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	10.2%	27.5%	100%
CURRENT EXPENDITURE	8.0%	-	78.4%
STAFF EXPENDITURE	4.3%	46.2%	42.7%
INVESTMENT	2.2%	49.0%	21.3%

The local government share of public expenditure is below the EU average of 33% but slightly above the EU average of 23% if only the local level is considered. The share of staff expenditure in SNG expenditure is particularly high corresponding for the large part to teacher wages. Investment is a key function of SNGs, representing 2.2% of GDP (vs 1.6% in the EU) and 21% of SNG expenditure (vs 10% in the EU). However, the share of SNGs in public investment is lower than the EU average (55%).

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE



A significant share of SNG expenditure is allocated to education (teacher salaries), but also for the financing of the maintenance and operational costs of educational facilities. Other significant expenditure functions include economic affairs (transport, roads), housing and community amenities (water, lighting, etc.) and social protection.

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	9.7%	27.0%	100%
TAX REVENUE	5.5%	27.3%	56.1%
GRANTS AND SUBSIDIES	3.3%	-	34.1%
OTHER REVENUES	1.0%	-	9.8%

The Local Government Act of 1994 has been complemented by the 1995 Act on self-government budgets and the 1998 Act on equalisation of self-government finance (currently being revised). The main source of SNG revenue is derived from taxes, while grants and subsidies amount to 34%.

TAX REVENUE. Shared taxes are the major source of SNG tax revenue. The most significant taxes include a share of the PIT (the share is around 80% of tax collected in local authority area and negotiated annually), the natural resources tax, the lottery and gambling tax and the real estate tax levied on lands and buildings (share of 100%, amounting to 0.8% of GDP). Local authorities cannot set their own tax rates which are set by the central government. However, since 2013 they were granted greater autonomy over the adjustment of tax rates on the property tax (within a pre-defined bracket of 0.2-3%). PIT receipts represent 85% of SNG tax revenues while real estate tax represents 14%.

GRANTS AND SUBSIDIES. Nearly all grants from the central government are earmarked. Transfers include, in particular, grants for the remuneration of teachers, road maintenance and construction, investment projects or financing of EU projects. Another grant (non-earmarked) is the Local Government Finance Equalisation Fund, which aims at balancing the different tax capacities (PIT and real estate tax) and service obligations of municipalities based on an estimation of the "financial needs" itself calculated using several demographic criteria. A Draft Law on Municipal Financial Equalisation is under preparation to simplify the mechanisms and improve equity while stimulating economic development.

OTHER REVENUES. Other revenues come from assets sales and rentals, user charges and fees as well as from income generated by local public companies.

OUTSTANDING DEBT

OUTSTANDING DEBT (2013)	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	8.0%	18.7%

SNGs can only carry out long-term borrowing to finance investment projects (golden rule). However, they do not have free access to the banking system or the capital market, as loans must be contracted with the State Treasury or within specific funding programmes. Borrowing from another institution must be justified and authorised by the Ministry of Finance. SNG borrowing in a given year cannot exceed 20% of current revenues (excluding earmarked grants and contributions to the Equalisation Fund). In case of non-compliance, the national Treasury can apply sanctions, and SNGs may be placed under supervision. Seventy-seven percent of outstanding debt is composed of loans and 23% of other accounts payable.

A joint- study of:



Sources: Eurostat (Government Finance Statistics) • Central Statistical Bureau of Latvia (2015), Latvia Statistical year-book 2015 • OECD (2015), OECD Economic Surveys: Latvia 2015 • European Committee of the Regions (2014), Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism • Gross E. and Bruna S. (2012), Municipal Finance Equalization Process In Latvia, Economics and Management Vol 17 • The Congress of Local and Regional Authorities of the Council of Europe (2011), Local and regional democracy in Latvia • Dexia (2008) Subnational governments in the EU: organisation, responsibilities and finance.