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DROŠĪBA
KVALITĀTE
ILGTSPĒJA

Latvian Construction industry statuss

31.08.2022



Iceland
Liechtenstein
Norway grants

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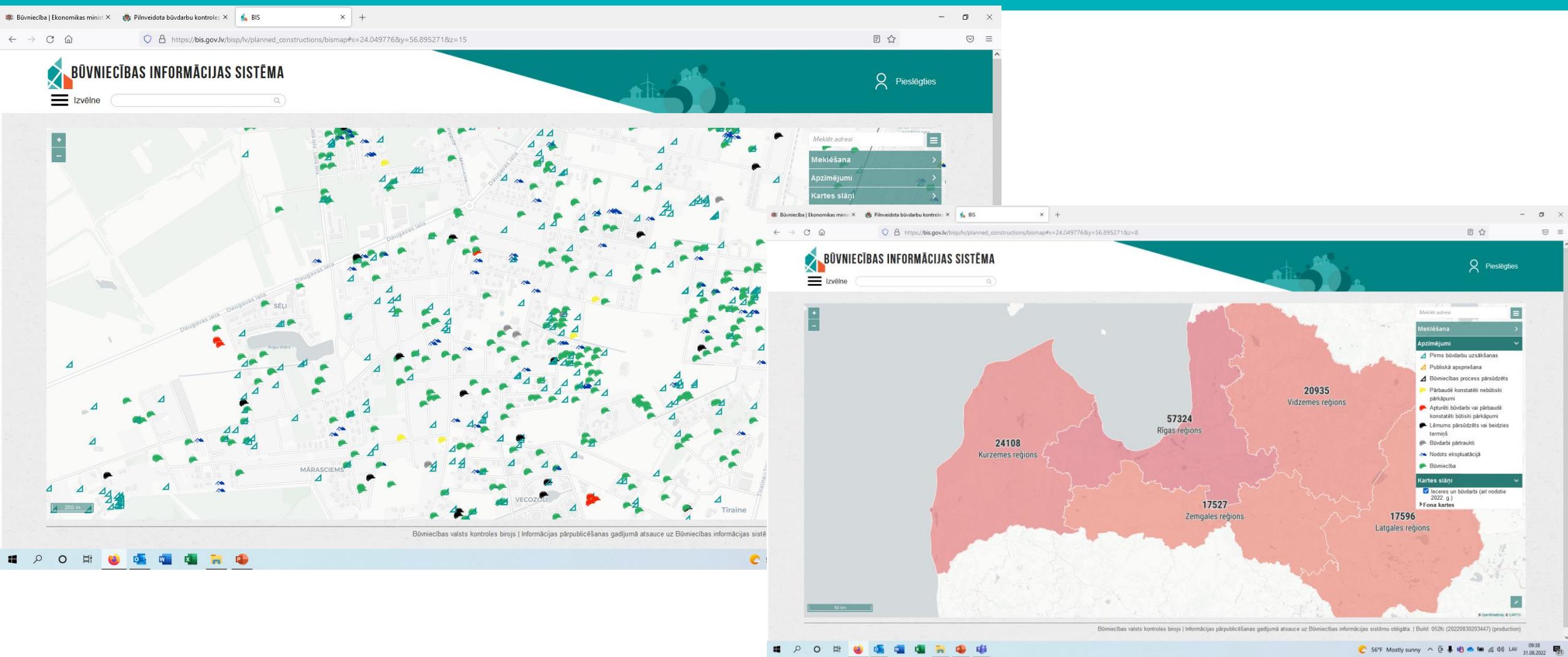


LV Construction industry 2021

- 2.4 Mjrd Eur turnover (export ~350M Eur)
- Effect on GDP 7-15%
- 60% public investment (~3k tenders/year, ~350 public customers)
- Costs increase +20%
- ~10k companies, ~5k licenced
- Construction companies EBITDa ~0%
- 40-75k jobs, ~12k licenced
- Average salary 1170 Eur/bruto (or 11 Eur/hour)
- Payed social taxes ~330M Eur
- New Construction sites ~3k (new construction permits 11k)



LV Construction industry - today



https://bis.gov.lv/bisp/lv/planned_constructions/bismap#x=24.049175&y=56.898576&z=14

Main challenges

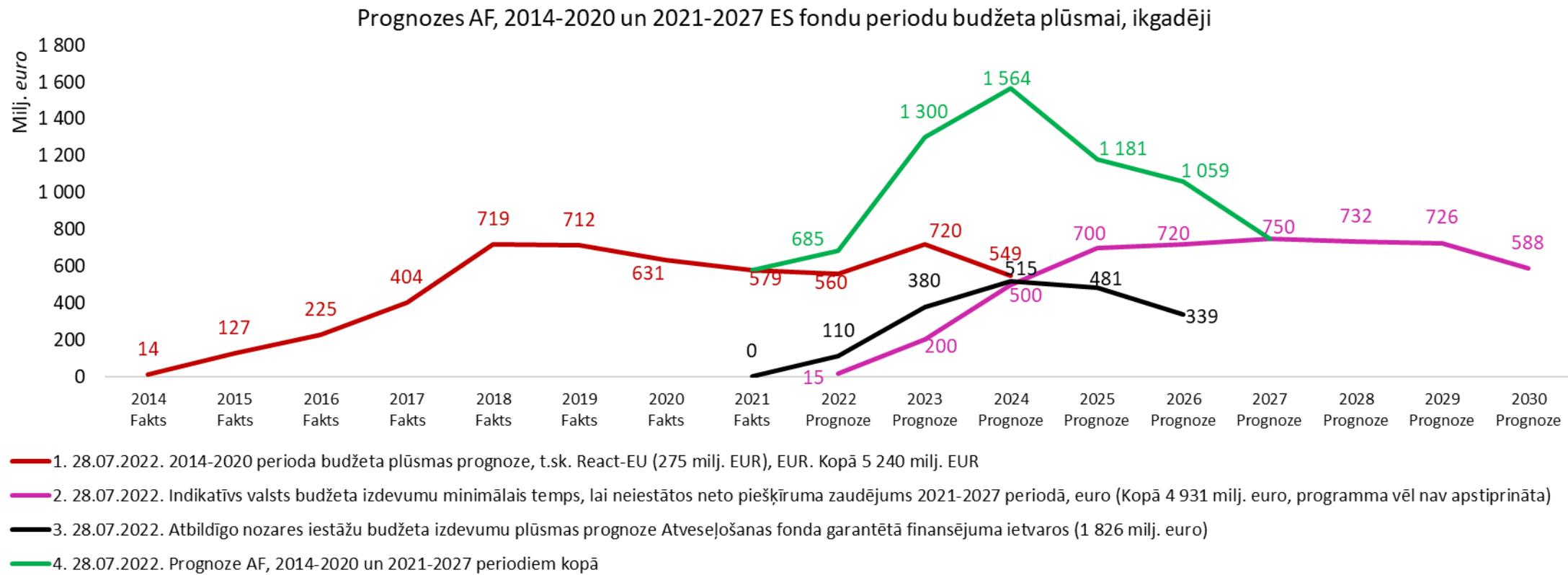
- Construction products new delivery chains
- Weak public contract costs indexation(existig/new), gap ~100M Eur
- Q2.2022 output decrease -13.8%
- Decrease in construction permits 1H.2022 (-10%)
- Delays in EU funding investment projects (2 years!)
- Bureaucratic public procurement process
- Constant shortage with working specialists (~5k)
- High demand AE solutions
- Winter season in energy turbulence





Finanšu ministrija

Latvian EU funding investment forecast



~70% will be public real estate & infrastructure investments, total ~ 4.5 Mjrd. EUR till 2030

Who we are

- **Partnership of Latvian Constructors (focuss civil & housing)**
- **Leading Latvian Construction council (~15 NGOs)**
- **Members in Construction General agreement committe, LDDK, LTRK**
- **Active dialog with Ministries (Economy, Finance, Environment, Transport)**



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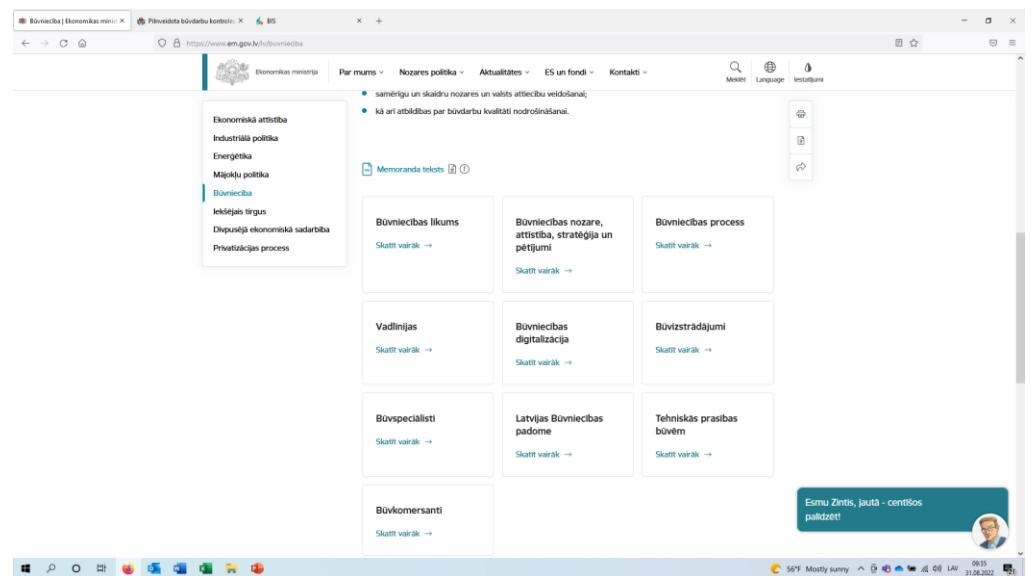
Our priorities 2022

1. Construction process de-bureaucracy
2. Public investment process (forecasts & standartization)
3. Green Construction standards & solutions
4. Digitalization solutions
5. Shadow economy



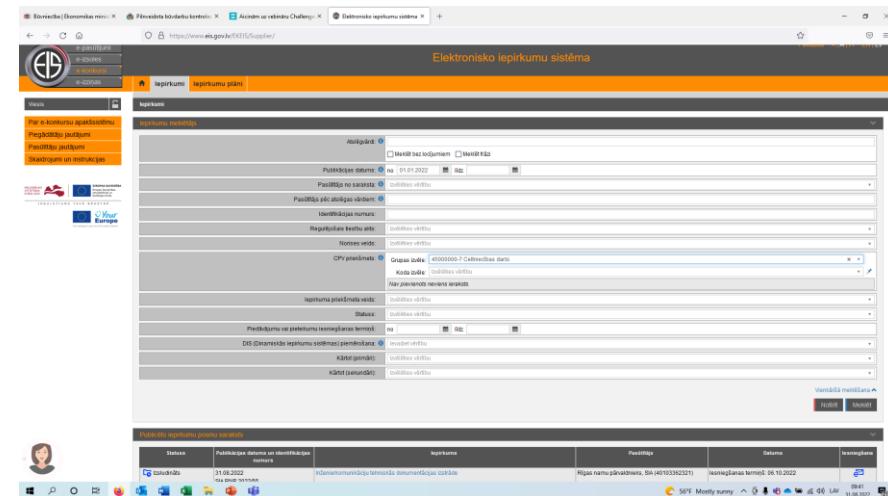
Construction process

- Construction design standard improvements
- FIDIC engineer consultants statuss
- Firesafety responsibility changes
- Construction insurance
- BIM standards
- E-construction 3.0 (BIS)



Public Procurement

- From 2023 focuss on subcontractor controll
- From 2023 new standartised public construction contracts
- Revision public tender evaluation criteria
- Public investment forecast 2023+2
- E-tender system docs standartisation



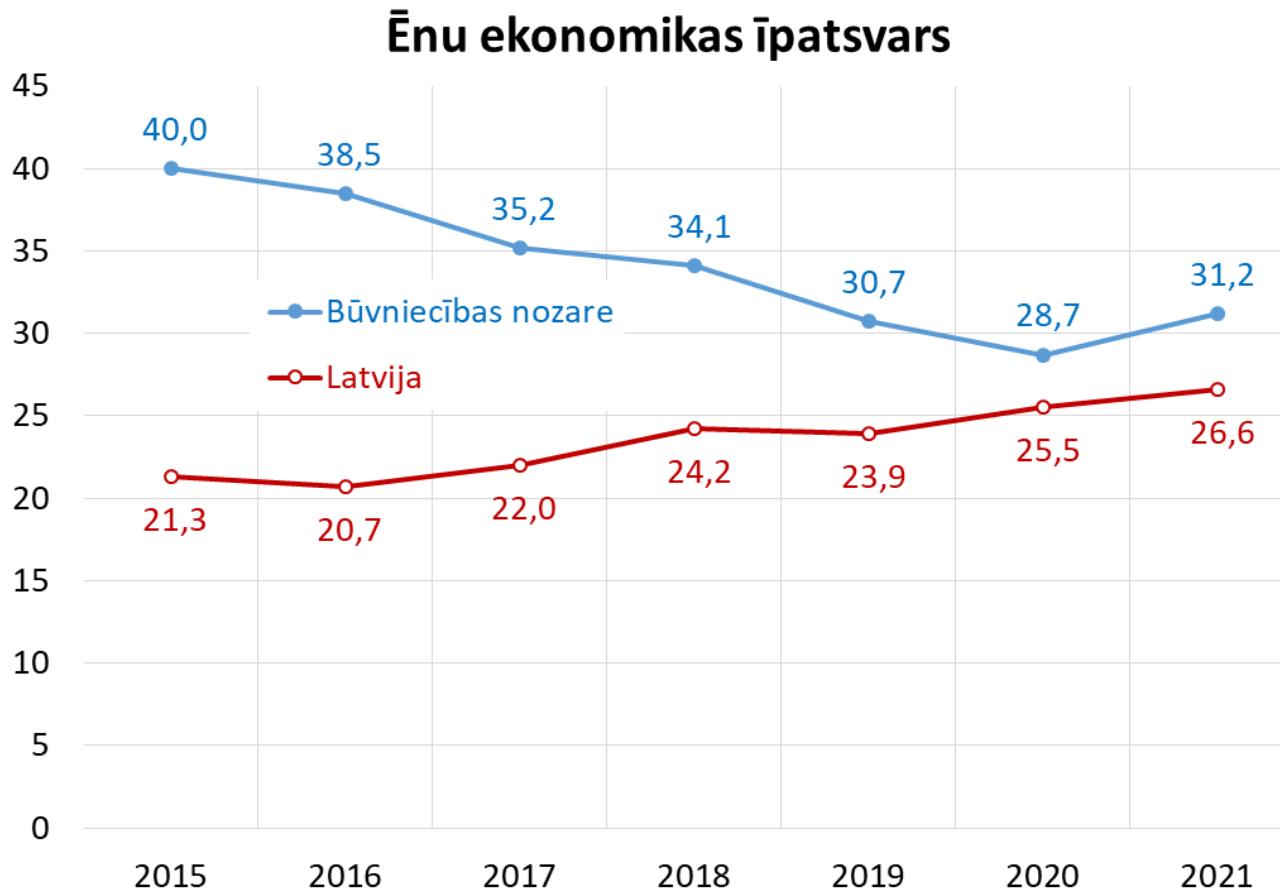
Green Construction

- New GPP ~15 mandatory criteria 2023
- Public demand for BREEAM, LEED, DGNB
- Taxonomy mapping Commercial banks
- Construction material waste new Recycling system (LifeIP)
- Solar & Wind energy solutions
- Local Wood Housing promotion



Ogres library

Shadow economy LV construction



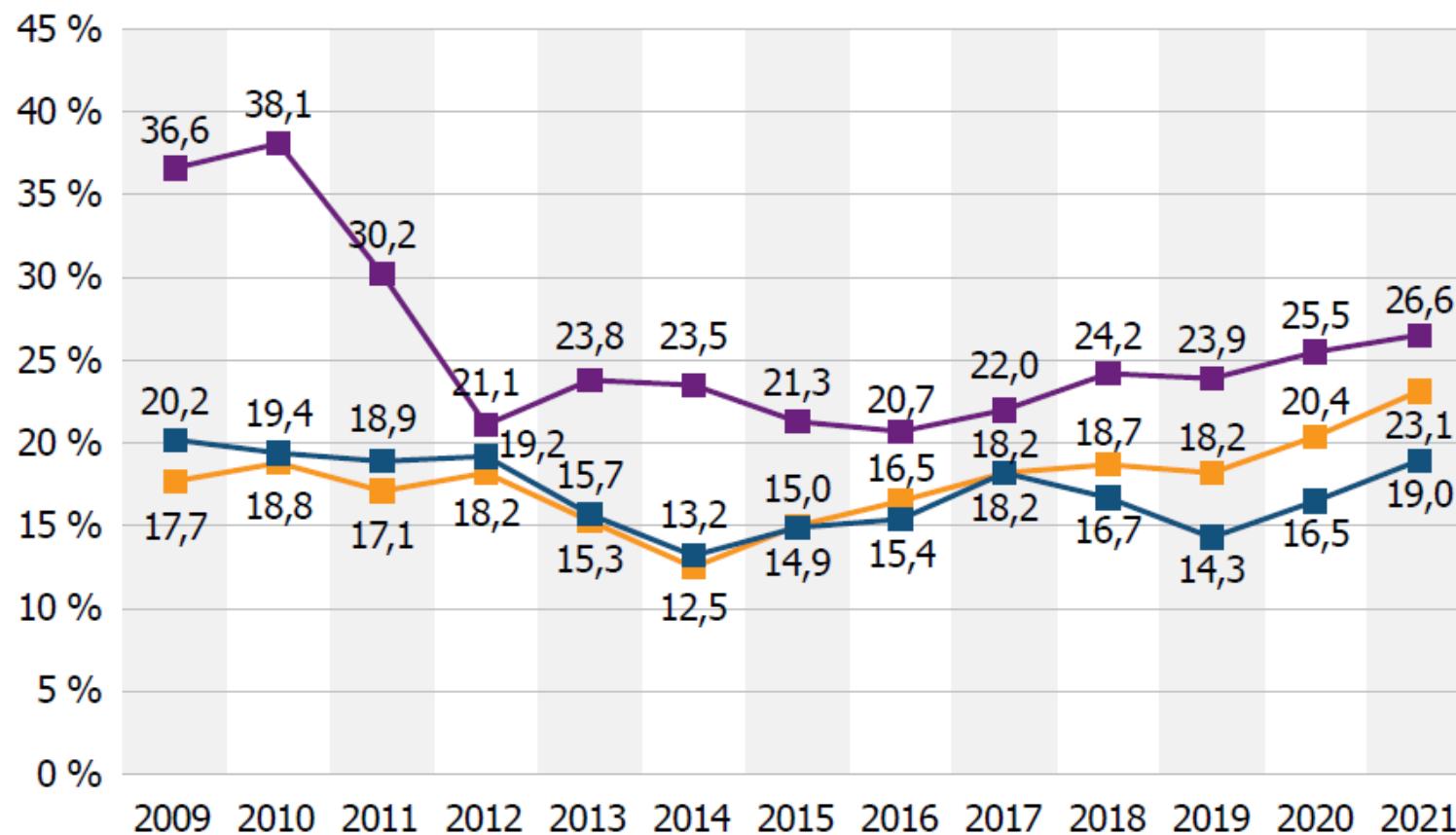
- *Feels-like indicator*

In 5 years decrease due to

- General Agreement on minimum salary 780 Eur
- EDLUS in >350k Eur construction sites



Ēnu ekonomikas dinamika Baltijas valstīs (% no IKP) 2009.–2021. gadā



LV
LT
EE

Saskaņā ar SSE Rīga (A.Saukas) pētījumu ēnu ekonomika Latvijā turpina palielināties, un tā ir augstākā starp Baltijas valstīm.

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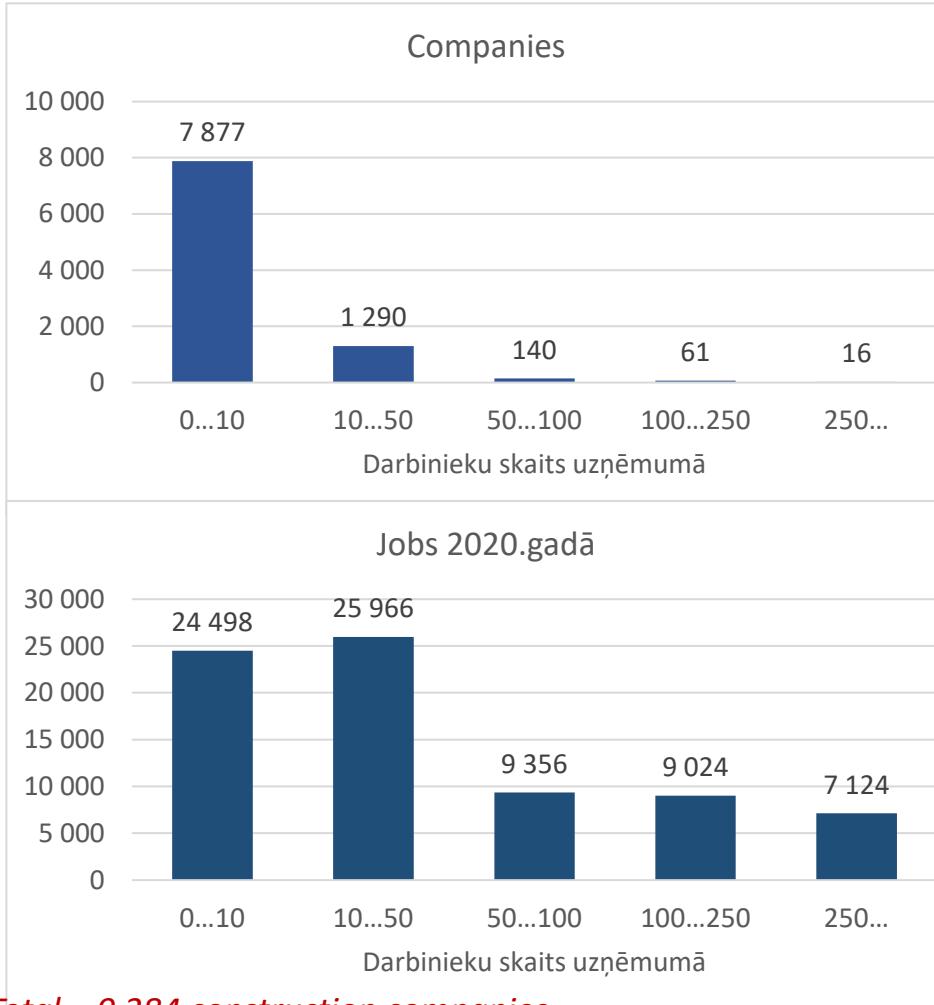
Avots: Ēnu ekonomikas indekss Baltijas valstīs 2009.–2021. gadā, SSE Rīga
Ilgtspējīga biznesa centrs (A.Sauka)

Shadow economy challenges

- 2+3 years as General Agreement on min salary (780 Eur)
- Mandatory EDLUS (ID cards) objects >350K Eur, ~550 /year, ~25% jobs market share
- Envelope wages segments (big companies ~18%, medium ~40%, small ~54%)
- Reverse tax VAT for construction services
- Construction industry in extraordinary status since 03.2020, weak financials
- Shadow economy actions should be segment oriented
- Shadow economy monitoring BigData (BIS, EDLUS, EDS)
- Goal for next 5 years -10%, level ~20%
- Focus on Envelope wages -> potential +50M Eur / year
- Residential & small companies carrot vs whip
- More state control on small companies



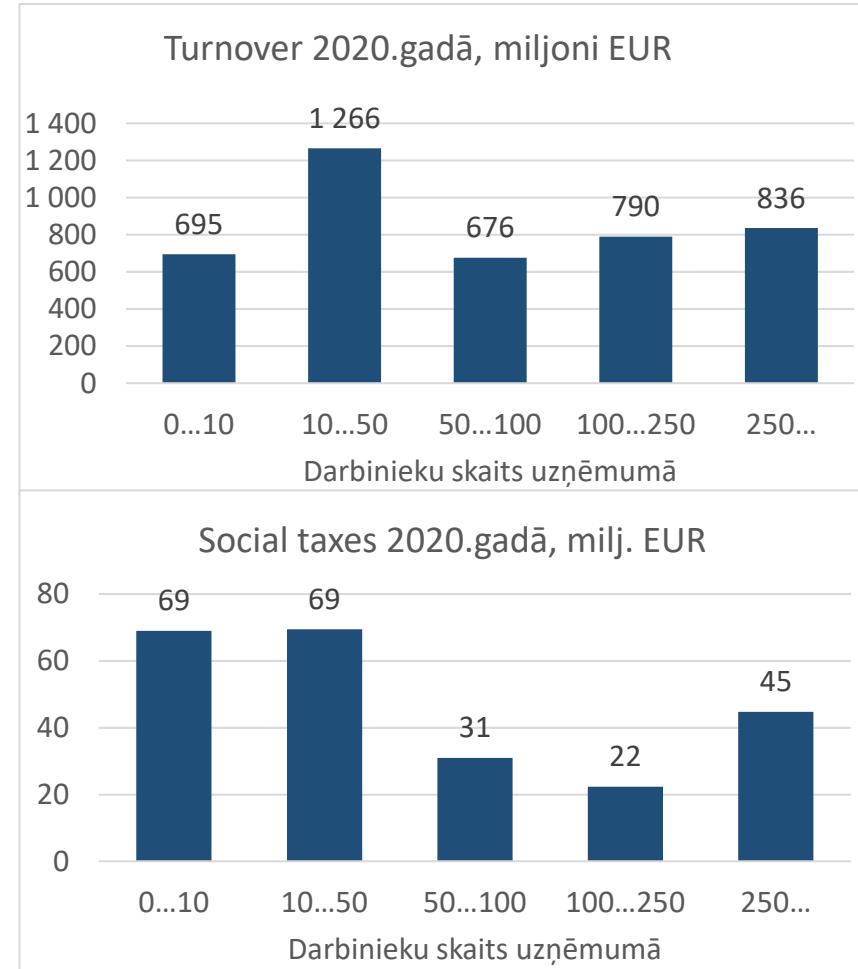
Construction market segments



* Total – 9 384 construction companies

* Total – 75 968 jobs (included office jobs);

* Construction site jobs - 38 268, 2021.gada augusts

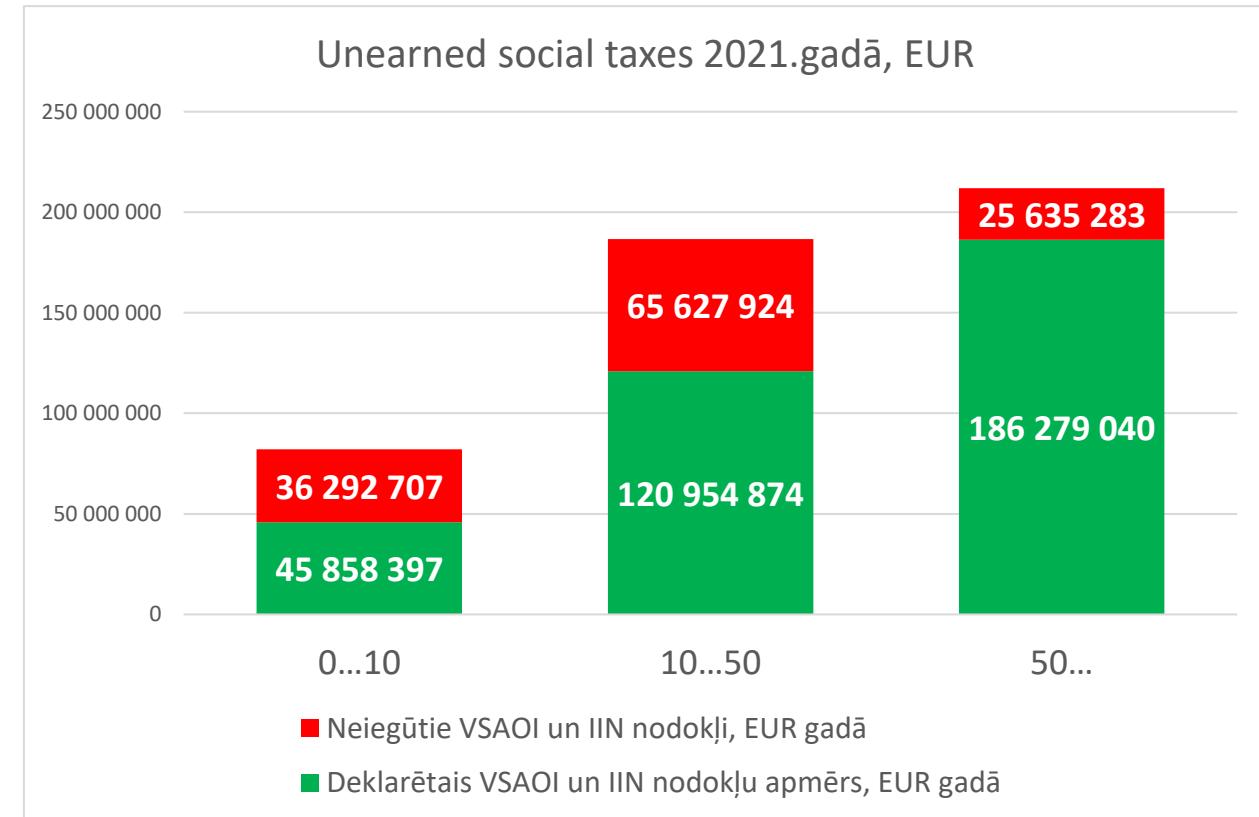
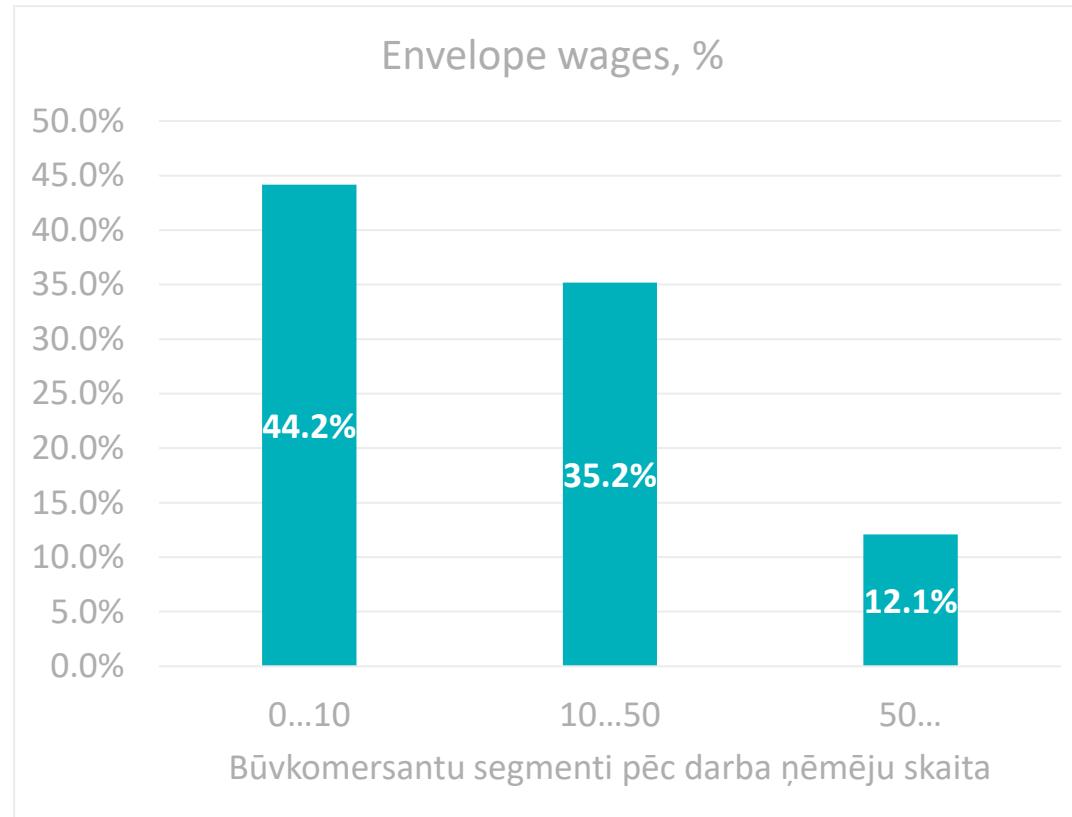


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Datu avots: Valsts ieņēmumu dienests

Envelope wages in segments



Total estimated unearned social taxes 2021.y. ~130 milj. EUR

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Shadow economy actions – ideas (Government)

1. Construction contract related payments registration in EDLUS
2. Tax accounting for construction projects/contracts/sites in EDLUS
3. Solidar responsibility (subcontractors vs general contractors)
4. Construction E-bills

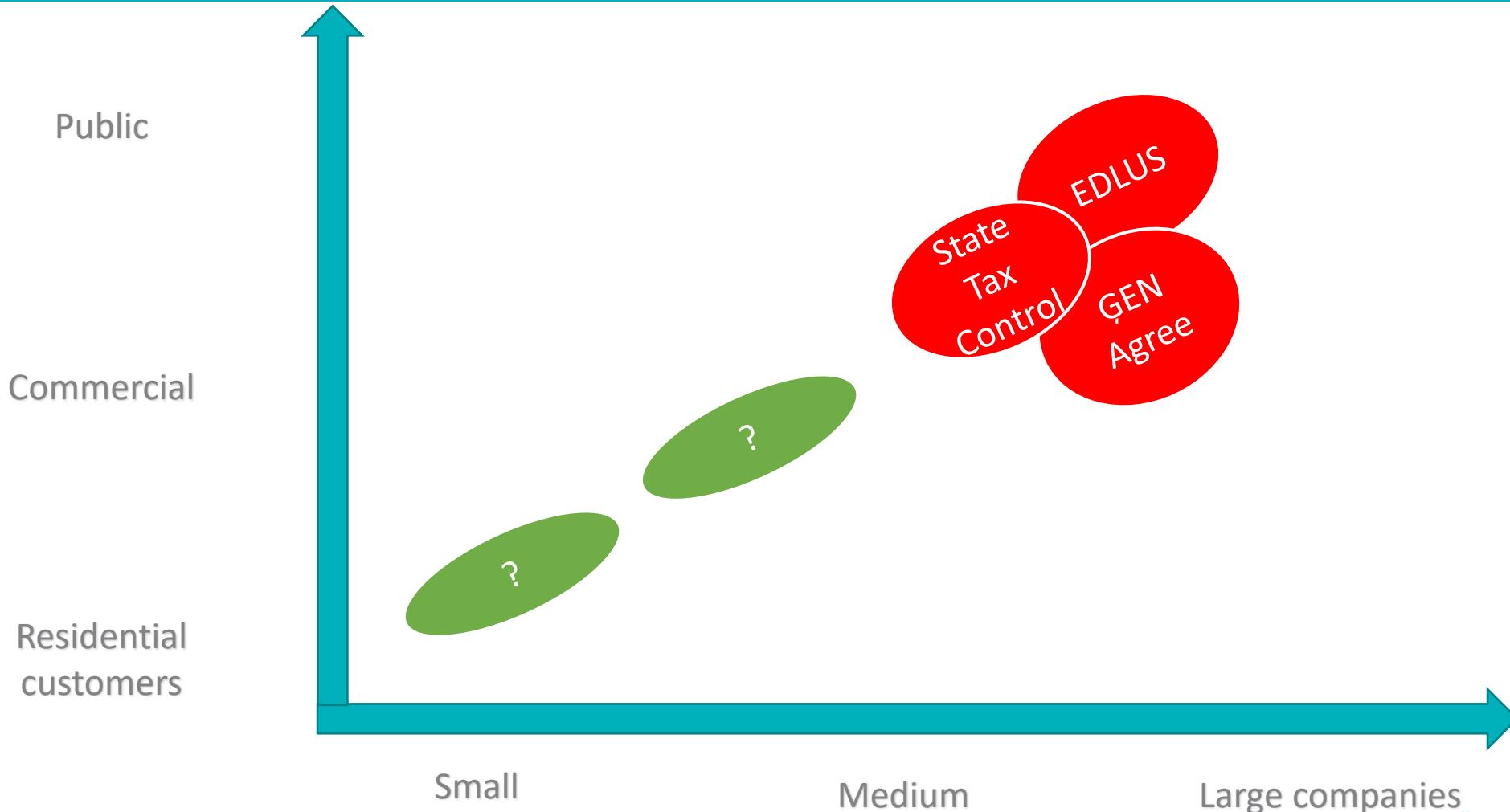


Shadow economy actions – ideas (Industry)

1. Eligible expenses (yearly tax declarations) 50% VAT for home repairs
2. VAT reduced by 50% for green, energy-efficient, private house green building materials
3. Fixed seasonal construction worker income tax of 15%, similar to agricultural workers
4. Commissioning of multi-apartment buildings only after full interior
5. EDLUS starting from 170k Eur in public procurement, as value added criteria
6. Public procurement social taxes forecast/fact, as value added criteria
7. Reverse tax VAT for specific construction materials (for example, concrete, bloks, wood, metal)
8. Industry min salary increase 900 Eur



Construction shadow segment map



Final conclusions

1. During crisis -> industry centralised mgmt & improved dialog with NGOs
2. Extraordinary cost indexation → solidary responsibility
3. More state control -> less industry professional responsibility
4. Green Construction new priorities & speed
5. Shadow Economy segment oriented solutions
6. More Baltic construction industry common messages

How to stabilize cost increase?



Contacts



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