



Fiskālās disciplīnas  
padome

# PRECARIOUS SUSTAINABILITY

A report on the 2017 survey

## ABSTRACT

The annual opinion survey on budget discipline was carried out in April 2017, in cooperation with the social research centre SKDS. This report presents the results of the survey, which (i) provide insight into public opinion on issues related to fiscal policy and sustainability, and (ii) raise questions that have to be addressed in the fiscal sustainability report currently being prepared by the Council. The results show that there is strong public support for countercyclical fiscal policy and a pronounced preference for sound long-term thinking. However, dissatisfaction with the quality of public services and the perceived inadequacy of health care and social protection may be a source of future pressure to increase expenditures. This may entail higher deficits and threaten fiscal sustainability.

*Emīls Kīlis*

Research Paper 01/2017

## Table of Contents

Introduction.....	2
IFIs and public debate.....	2
The first iteration of the survey.....	3
Fiscal sustainability.....	4
Latvia’s public debt.....	5
The impact of expenditure on health care and social protection .....	6
The results of the 2017 survey .....	8
Analysis.....	15
Conclusions.....	17
Bibliography .....	18

## Introduction

Public interest in, and knowledge of, fiscal policy contributes significantly to the quality of public discussions on public finance. For this reason, engagement in public debate is among the activities expected of independent fiscal institutions (IFIs). By participating in different fora, such institutions can bring complex issues to the attention of the public and clarify their intricacies. Hopefully, this will make a contribution to increasing the transparency of fiscal policy and the accountability of public officials.

In 2016 the Fiscal discipline council commissioned the social research agency SKDS to carry out a survey. The aim of the survey was to ascertain public opinion on matters pertaining to fiscal discipline and the budgetary process. This was the first iteration of what is now a medium-term commitment to carry out annual surveys that focus on particular aspects of fiscal policy and budgetary practices. The second iteration of this survey was carried out in the spring of 2017.

While the 2016 edition was quite general, this year the focus was placed on issues of fiscal sustainability. The decision to focus on fiscal sustainability derives from the fact that the Council began work on Latvia's first ever fiscal sustainability report. The results of the survey provide context and insight into public opinion on the sustainability of Latvia's public finances.

The report is divided into four sections. The first section will provide a general overview of the communicative responsibilities of IFIs and the results of the previous survey. The second section will outline the Council's concerns regarding the sustainability of public finances. The third section will present the results of the 2017 survey. The final section will relate the results of the survey to the topics raised in the first two sections.

## IFIs and public debate

IFIs are public institutions mandated to conduct an independent and politically impartial assessment of fiscal policy. Such institutions monitor whether fiscal policy is formulated taking into account (i) macro-economic developments, (ii) possible fiscal complications and (iii) the sustainability of public debt. However, IFIs should also contribute to public debate and persuade the public about the merits of sound public finances and prudent policy-making<sup>1</sup>.

An informed and educated public is a significant factor that influences the quality of public discussions and facilitates the interaction between the public and its representatives. This, in turn, may allow for a more cautious assessment of policy proposals, increase the accountability of politicians and dissuade them from opportunistic spending.

However, there is an important obstacle hampering public competence in matters concerning fiscal policy. Specifically, fiscal policy in the European Union (hereafter – EU) is highly technical and relies on specialised knowledge. The complexity of budgetary processes and the distributed and interdisciplinary nature of the information and competences involved means that the public and officials are generally on unequal footing. The public often has an incomplete understanding of the legal frameworks regulating fiscal policy, the flow of public finances, the fiscal costs of certain services and the potential long-term consequences of policy decisions. Such asymmetries mean that the public may underestimate or overestimate the costs of a policy proposal. Alternatively, public officials may conceal potentially relevant

---

<sup>1</sup> For a detailed overview see Debrun et al. (2013), Debrun et al. (2014), Hagemann (2011) and OECD (2014).

information with a strategic use of technical jargon or by simply withholding their assessments from public scrutiny.

Consequently, by raising public awareness and enhancing the transparency of public finances, IFIs improve the ability of voters to critically evaluate the consequences, costs and benefits of policy proposals. This sentiment is neatly encapsulated in a quote from a paper prepared by experts working for the International Monetary Fund.

[B]y informing and educating the general public and policymakers on the merits of sound public finances, fiscal councils can promote a stability culture, contributing to better aligned incentives between voters and their representatives.

(Debrun et al. 2013: 23)

For example, by promoting transparent budgetary planning and policy costing IFIs may increase the reputational risks associated with opportunistic spending. This, however, assumes that the public is able to effectively identify instances of competent policy-making and differentiate between competence and spurious reasoning that seeks to validate courses of action that are against the principles of countercyclical fiscal policy (Beetsma and Debrun 2016). Consequently, increased transparency needs to be complemented by a public that is able to make informed judgements and act accordingly.

In order to be able to improve public understanding, IFIs have to earn public trust. IFIs do not have any instruments at their disposal which would allow them to set fiscal policy. The role and influence of IFIs is based on persuasion and dissuasion, which means that public trust is crucial (OECD 2014). In order to ensure trust in the pronouncements and estimates provided by IFIs, such institutions should establish and maintain a reputation for political impartiality. In other words, IFIs should be seen as providing ideologically neutral expertise. This can be achieved by stipulating membership requirements<sup>2</sup> and ensuring institutional independence. However, an equally important aspect is the perceived independence of the IFI.

To persuade the public that they are independent, IFIs should make it clear that members and staff are selected on the basis of technical proficiency, experience and expertise in pertinent areas, rather than political affiliation. By demonstrating its competence, the IFI strengthens public trust and the confidence of different political parties in the neutrality and analytical capacity of the institution. This will, hopefully, improve the credibility of the IFI and allow it to effectively contribute to public debate and improve public understanding.

### The first iteration of the survey

In order to get a sense of public opinion, the Fiscal discipline council commissioned a survey in the first half of 2016 to study public perception of Latvia's budget, opinion of the government's budgetary practices and attitudes towards countercyclical fiscal policy. The results showed that people living in Latvia wanted a responsible and realistic approach to budgeting. Respondents supported countercyclical fiscal policy and regular expenditure reviews. However, the overall results also showed considerable gaps in knowledge.

---

<sup>2</sup> For example, the Fiscal discipline law stipulates that Council members cannot hold positions in political parties, though they are allowed to be members of political parties.

In the report that summarised the results of the survey I suggested that this posed a problem for IFIs. Specifically, the public's imperfect knowledge on matters pertaining to fiscal policy, coupled with distrust in state institutions, requires attention because it hinders the achievement of the IFI's main goal – responsible fiscal policy that is consistent with the long-term needs and interests of the public.

Furthermore, the results of the survey also indicated that publicly available information on the budget-drafting process was not believed to be sufficient to provide a good sense of how the budget was put together. More importantly, however, respondents believed that revenues and expenditures were not planned realistically, even though execution results show revenue forecasts are consistently fulfilled and expenditure plans are seldom exceeded by a significant margin, and in most cases this is due to one-off measures. In view of public opinion on the government's budgetary practices, it was unsurprising that respondents also believed that Latvia is worse than other euro area states at meeting budgetary requirements, even though official statistics showed that Latvia's results are consistently above average.

From the perspective of this year's survey, however, the most important finding was that 67% of respondents replied that the increase of public debt was a problem that concerned them. In short, the survey indicated that, generally speaking, people were concerned about fiscal sustainability.

## Fiscal sustainability

Issues of sustainability and sustainable development are currently as important as they have ever been. Indeed, many people in Europe believe that climate change is a serious issue and consider changing their behaviour in light of this knowledge (European Commission 2014a). Considerable human and material resources are expended on the most efficient ways to decrease undesirable human impact on the environment and develop sustainable alternatives to our current practices.

In Northern Atlantic societies notions of sustainability emerged from concerns related to the environment – deforestation in particular. However, it is important to note that even at the outset concerns over ecological sustainability were intertwined with economic considerations. In particular, deforestation was a problem because wood was the prime source of fuel, and unsustainable usage would deplete this valuable resource. Indeed, Caradonna (2014) devotes a great deal of his book on sustainability to illustrate the way our understanding of sustainability has influenced, and been influenced by, economic debates and economic thinking.

Given the popularity of this idea and the intellectual attention it has attracted among economists, it should come as no surprise that sustainability concerns have also reached the topic of government finance. In particular, the considerable strain placed on government budgets and the manifold increase of public debt as a result of the Great Recession have fostered debate and action to stimulate economic activity, whilst keeping budget deficits low in the current macroeconomic context of slow GDP growth (European Commission 2016).

The so-called Great Recession damaged the credibility of government commitment to prudence with regard to public finance and government debt. The crisis led to the largest increase in average government debt levels since World War II. According to Ostry, Ghosh and Espinoza (2015), the average level of public debt rose by almost 27 percentage points during the period between 2007 and 2012. The effect of the financial crisis and its aftermath was even more pronounced in Latvia - its public debt level rose by 33 percentage points during the same period.

This has led to concerns over the long-term effects of growing debt levels, and stimulated attempts at restoring public debt sustainability and thinking about fiscal sustainability more generally.

Fiscal sustainability is often defined as the ability of a government to sustain current practices without failing to meet its financial commitments (e.g. public services) and obligations (e.g. interest payments). For example, if the government can sustain its current expenditure level (including interest payments) and attendant deficit without having to raise tax revenues, it can be said that the government’s fiscal policy is sustainable. If, however, budget deficits continually increase public debt, more money has to be diverted for debt servicing. This, in turn, limits the funds available for public services or necessitates a revision of existing tax rates to bolster revenues.

Fundamentally, both the level and growth rate of public debt should be sustainable. The government has to be able to service its debt even during unfavourable periods of the economic cycle. This means that deficits have to be contained during periods of economic growth to limit the increase of public debt, which would consume the fiscal space available during a downturn in economic activity.

The Council maintains that a low debt level is essential for ensuring that Latvia’s public finances can weather the impact of another economic crisis. A downturn in the business cycle, shocks to the financial system, the materialisation of geopolitical risks or a combination of the above may place unexpected demands on public finances.

The ability to weather a crisis also depends on the availability of loans. This suggests that the Latvian government should strengthen the reputation of, and confidence in, its institutions by building their financial management capacity. Furthermore, limiting budget deficits will reduce the debt burden, and strengthen the perception of Latvia’s commitment to fiscal responsibility (see International Monetary Fund 2013). If the factors mentioned above are addressed, the government will likely have better access to further loans at favourable interest rates in a time of need.

### Latvia’s public debt

The Council’s cautious position derives from the belief that, even though Latvia’s debt-to-GDP ratio is among the lowest in the European Union, there are troubling aspects that have to be addressed to ensure stability and international confidence in the long-term.

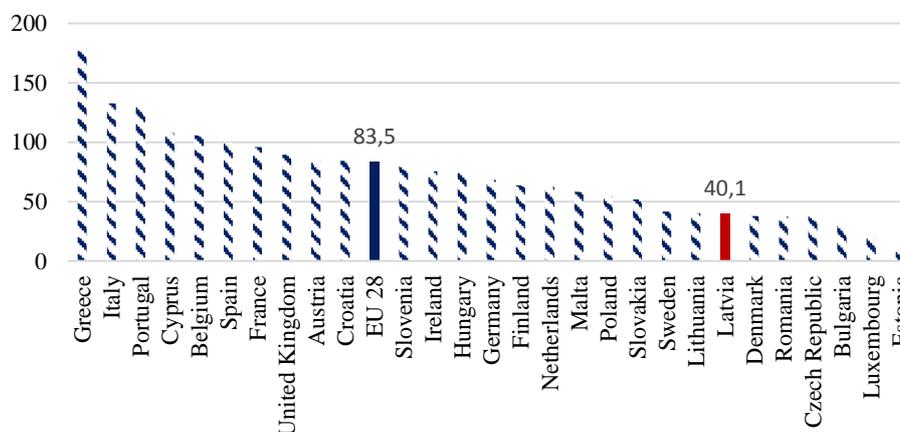


Chart 1: General government gross debt in 2016, % of GDP. Source: Eurostat

Firstly, the Latvian government has consistently practised deficit spending – even during periods of growth. As can be seen below, periods of growth have not witnessed positive budget balances or even balanced budgets, even though deficits were lower.

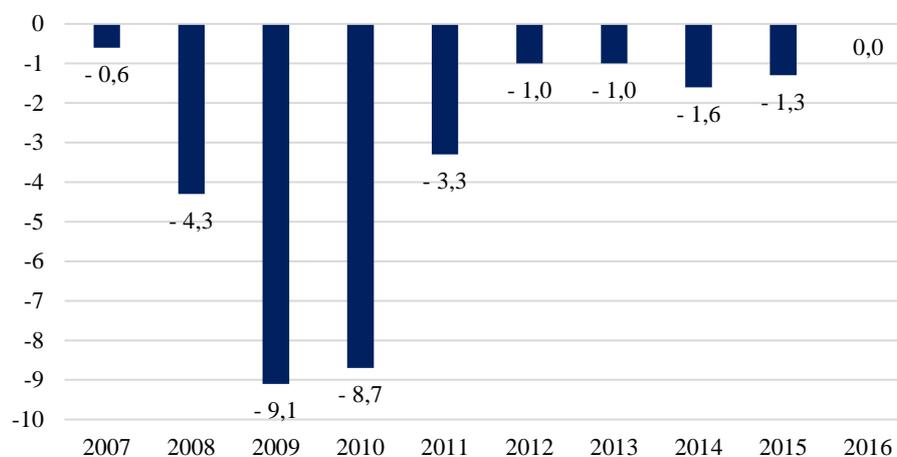


Chart 2: Latvia's general government balance, % of GDP. Source: Eurostat

Secondly, public expenditure on interest payments has grown considerably – mainly as a result of the Great Recession. If interest payments are expressed as a percentage of government expenditure, Latvia's position with regard to the other European Union member states becomes more concerning. The result is mainly the consequence of a comparatively small public sector<sup>3</sup>.

The inability to significantly reduce public debt, coupled with the practice of deficit spending and current demographic trends, means that the per capita debt burden will increase, despite the currently “safe” debt level. This is particularly concerning in view of population ageing and expectations of increased expenditure on social protection (e.g. pensions), health care and education. For this reason the Council is currently working on a fiscal sustainability report, though the report will mainly consider the impact of increased expenditures on public health care and social protection.

### The impact of expenditure on health care and social protection

In Latvia, public expenditure<sup>4</sup> on health care has decreased over the past decade. While the government has named health care as one of its priorities, Eurostat data paint a slightly different picture. In 2006 spending on health care was approximately 2/3 of the European Union average, and higher than in Estonia. After the financial crisis, however, government expenditure on health care decreased both in relation to the European Union average and as a percentage of GDP.

<sup>3</sup> For a more detailed overview see. [http://fiscalcouncil.lv/files/uploaded/20161201\\_GDebt\\_LV.pdf](http://fiscalcouncil.lv/files/uploaded/20161201_GDebt_LV.pdf)

<sup>4</sup> General government expenditure and public expenditure are used interchangeably, unless otherwise specified.

## Precarious sustainability

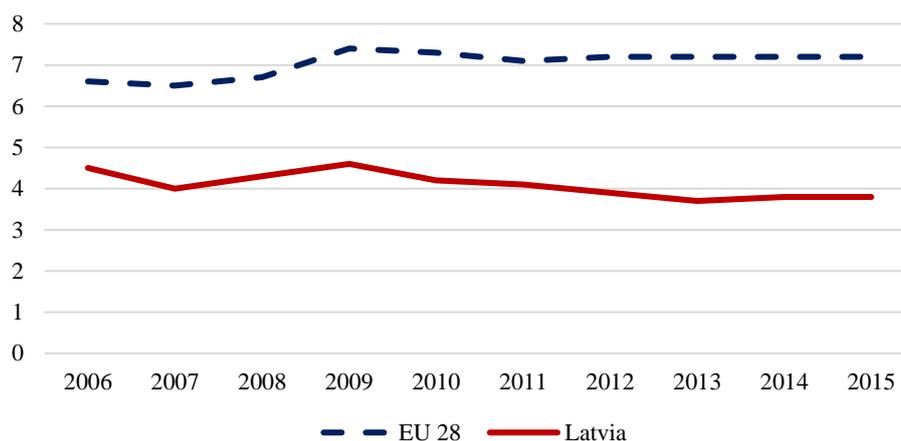


Chart 3: General government expenditure on health care, % of GDP. Source: Eurostat

Expenditure on health care is expected to increase, however. Repeated demands for additional funding from the health care sector and the government's commitment to oblige<sup>5</sup> indicate that further government funds will have to be diverted to meet the population's medical needs.

There are a number of significant factors that will create additional strain on the public health care system. From the demographic side, population ageing will increase expenditure on, among other things, long-term care. Likewise, as living standards converge towards European Union average levels, it is expected that people's attitudes towards their own health will change and demand for high quality health care services is likely to increase (European Commission 2017).

There is cause for similar concerns regarding public expenditure on social protection. Eurostat data show that general government expenditure on benefits, pensions and social protection more generally has been considerably lower than the European Union average.

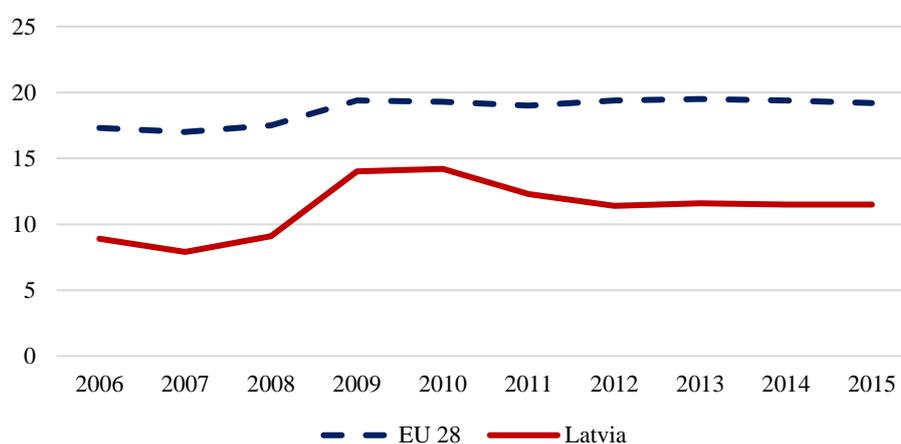


Chart 4: General government expenditure on social protection, % of GDP. Source: Eurostat

The population above the pension age is steadily increasing, while the working age population is declining. This population trend is expected to continue, which means that age-related costs will have to be borne by a decreasing number of workers.

<sup>5</sup> Meeting minutes of the Cabinet meeting (9 May 2017), available at: <http://tap.mk.gov.lv/mk/mksedes/saraksts/protokols/?protokols=2017-05-09>

Economic inequality is high, and the number of people living at risk of poverty or social exclusion remains a major social challenge and an obstacle to economic growth (European Commission 2017).

Surprisingly, however, the projected public pension expenditure (% of GDP) is the lowest in the European Union (European Commission 2015). Such results have to be placed in context, as the sustainability of the pension systems relies on funded pensions and low pension adequacy. This implies that a high proportion of pensioners will have inadequate incomes. Consequently, while the current system is fiscally sustainable, it may be politically and socially unsustainable (European Commission 2017; OECD 2016).

## The results of the 2017 survey

In order to gauge public opinion on the sustainability of Latvia’s public finances, the Council commissioned the social research centre SKDS to carry out a survey. The questionnaire contained 21 questions. While approximately one third of the questions were identical to those posed last year, the remaining questions focused on different aspects of fiscal sustainability.

The results of the survey show that, compared to 2016, slightly fewer people follow the budget-drafting process. In general, people with higher education and high incomes showed a greater interest in the budget, as did people over the age of 54. Furthermore, those who follow the budget-drafting process mainly rely upon information provided on television and online. Only a small minority rely on official sources – same as last year.

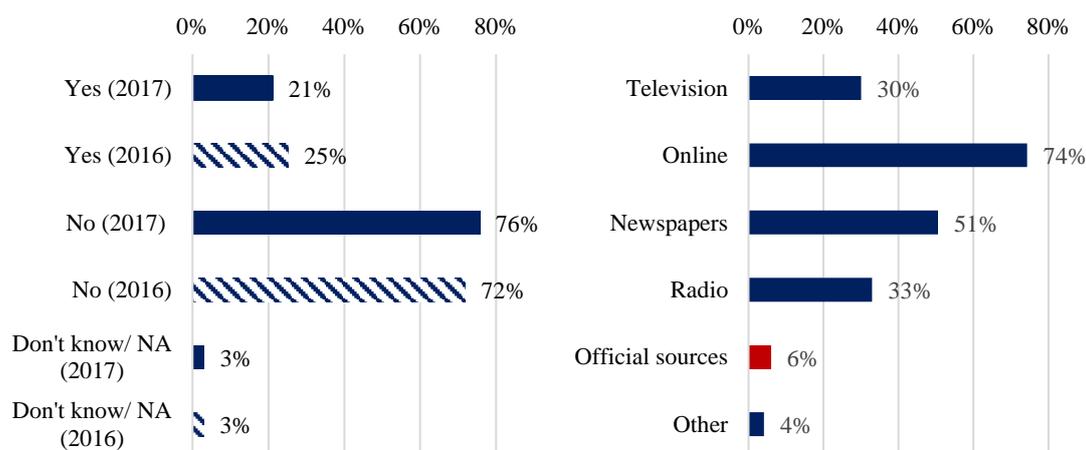


Chart 5: Do you follow the budget-drafting process? Results from 2016 & 2017.

Chart 6: How do you follow the budget-drafting process? Results from 2017.

Public opinion regarding the quality of the information about the budget, and the government’s revenue and expenditure estimates has not changed significantly since the previous survey.

Precarious sustainability

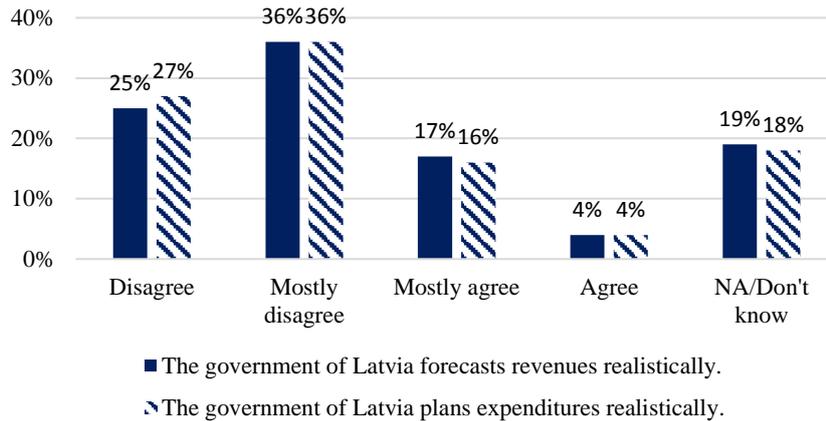


Chart 7: Public perception of revenue and expenditure forecasts

Furthermore, people who follow the budget-drafting process expressed a more positive opinion of the available information - same as last year.

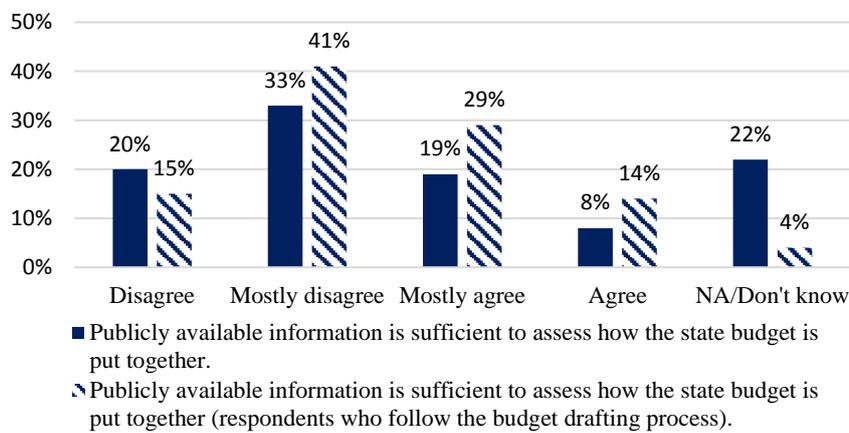


Chart 8: Public perception of available information

The results show that support for countercyclical fiscal policy has slightly declined. The survey contained two questions intended as proxies for public support for countercyclical fiscal policy. In both cases the survey shows that the public still generally agrees with the principles.

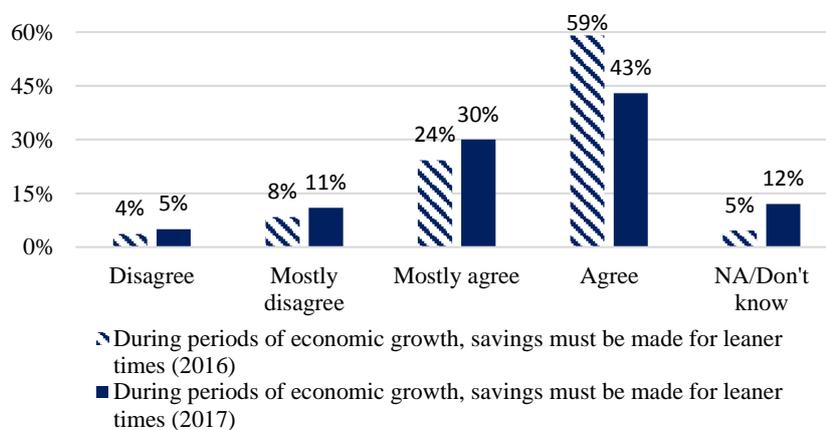


Chart 9: Public opinion on the need to make savings during periods of growth (results from 2016 & 2017)

Nonetheless, the results suggest that there are fewer people who agree with the principles and more people who are unsure about their position. In particular, there was a significant decline in the number of people who agreed that savings should be made during periods of economic growth.

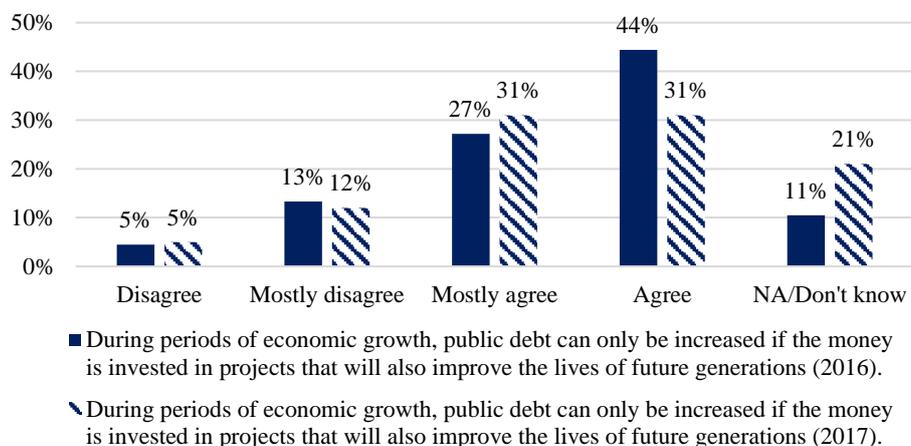


Chart 10: Public opinion on increasing public debt during periods of growth (results from 2016 & 2017)

Roughly half of all respondents answered that public debt has mainly grown as a result of budget deficits and the provision of government assistance to systemically relevant companies. This suggests that a fair number of respondents have an accurate sense of the main reasons for the increase of public debt. Nonetheless, it is important to note that the most popular answer to this question was corruption. This is congruent with the results of a previous social survey, which showed that 43% of respondents believed that stealing was the main reason behind Latvia's budget deficits (Baltic International Bank 2016).

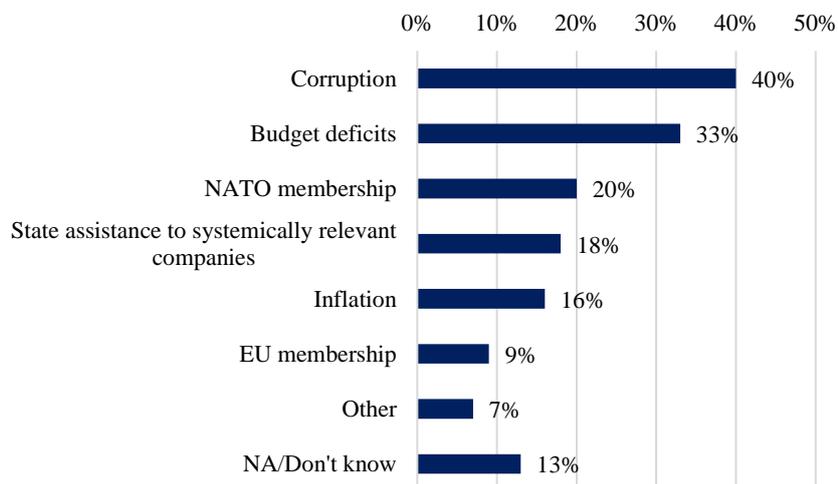


Chart 11: In your opinion, what were the main reasons for the increase of public debt in the last ten years?

Public knowledge about Latvia’s public debt is poor. When asked about how much Latvia’s debt has grown since 2007, 47% replied that they did not know. An additional 36% gave answers that were much lower than the actual public debt<sup>6</sup>.

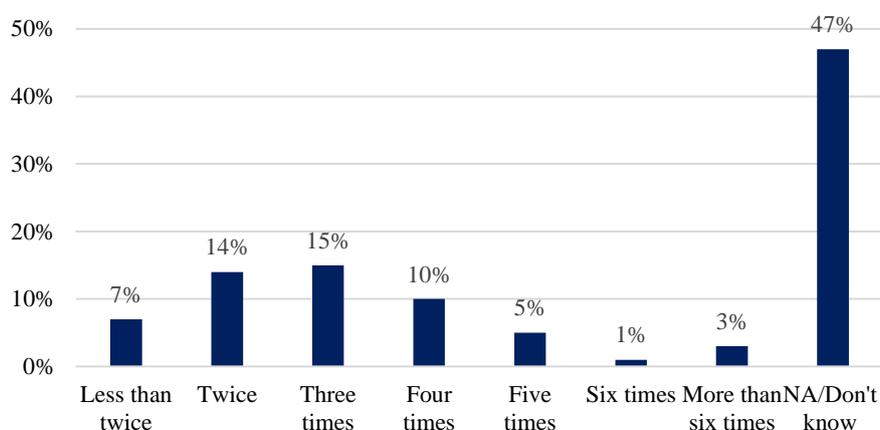


Chart 12: How much bigger is Latvia's public debt compared to 2007?

Similarly, the results show that the presentation of budget deficits in percent of GDP has a limited effect on giving people a sense of the actual costs. One of the questions specified that Latvia’s consolidated government budget deficit in 2016 was 0.4 of GDP, and respondents were asked how much this was in nominal terms. The correct answer 101.7 million euro, and the correct option provided considerable room for error. Nonetheless, only 14% answered correctly, and the majority chose not to answer.

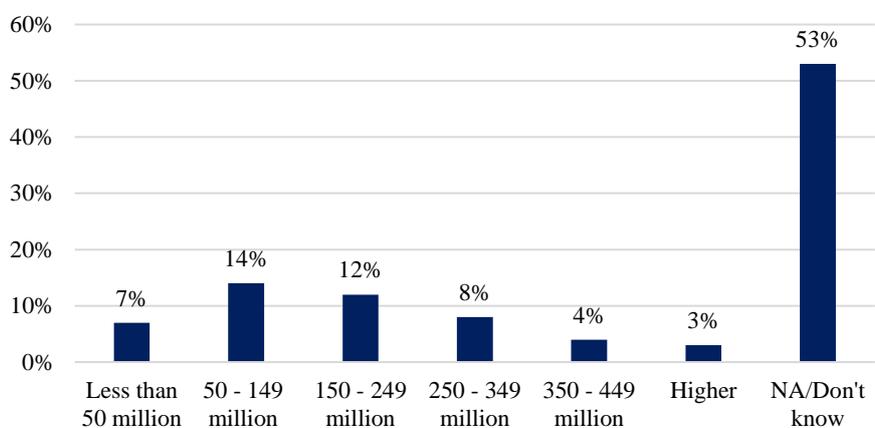


Chart 13: How high was Latvia's consolidated government budget deficit in 2016 in nominal terms?

The majority believe that defence and public safety are the most significant public expenditure items. This is congruent with the results of a previous social survey, which showed that 36% of respondents thought that defence is the most significant expenditure item (Baltic International

<sup>6</sup> A potential problem was that the question did not specify whether we were talking about public debt or the level of public debt (% of GDP). Nonetheless, 36% of all respondents gave answers that were lower than either option.

Bank 2016). This is incorrect, however, as considerably more is spent on social protection<sup>7</sup>, but only 24% chose this option.

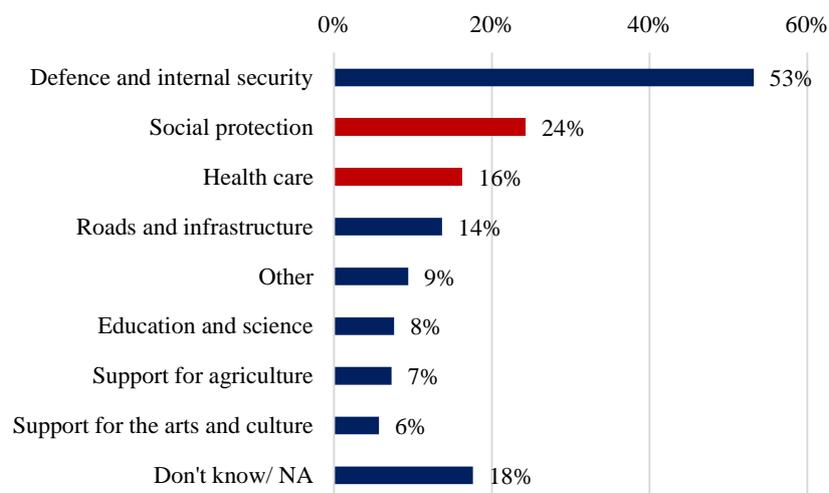


Chart 14: Which two of these are the most significant public expenditure items?

Furthermore, when asked about the least significant public expenditure item, 25% chose social protection. The most population choice, however, was health care.

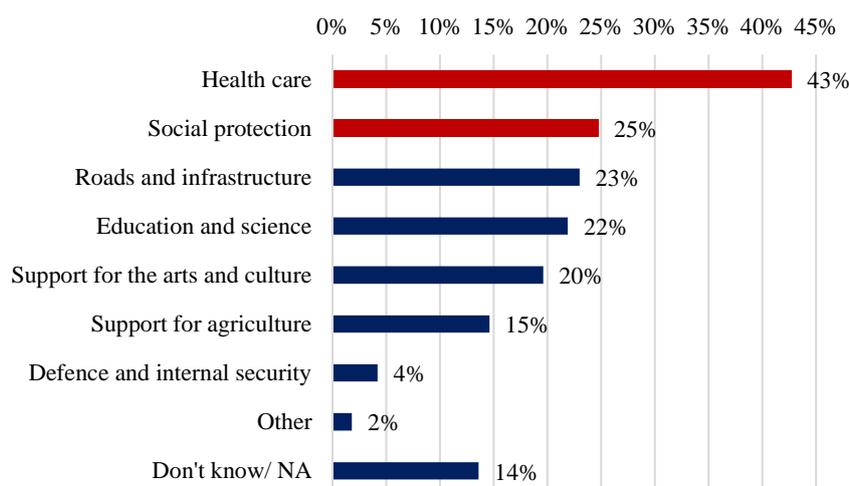


Chart 15: Which two of these are the least significant public expenditure items?

The public's misperception of social expenditures is further highlighted by the fact that the vast majority do not have a clear sense of how much is actually spent. 41% of respondents replied that they did not know what proportion of total government expenditure was used for social protection. Furthermore, an additional 36% gave answers that were much lower than the actual share of total consolidated government expenditure (roughly 1/4).

<sup>7</sup> According to Eurostat data, social protection is consistently the most significant expenditure item and accounted for 11.5% of GDP in 2015, see: [http://ec.europa.eu/eurostat/statistics-explained/index.php/Government\\_expenditure\\_by\\_function\\_%E2%80%93\\_COFOG](http://ec.europa.eu/eurostat/statistics-explained/index.php/Government_expenditure_by_function_%E2%80%93_COFOG)

## Precarious sustainability

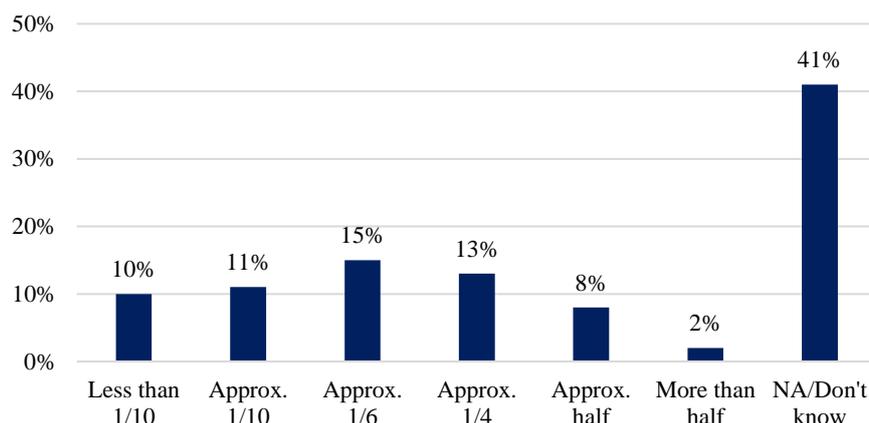


Chart 16: What proportion of government expenditure is used for the special budget?

In view of the above, it is not surprising that respondents were sceptical of the government's ability to take care of them in old age. The survey asked respondents (i) whether they trusted the state's social security system to take care of them in old age and (ii) whether the public health care system can adequately meet the medical needs of pensioners. In both cases respondents showed strong disagreement. This is consistent with the opinion that both health care and social protection are inadequately financed.

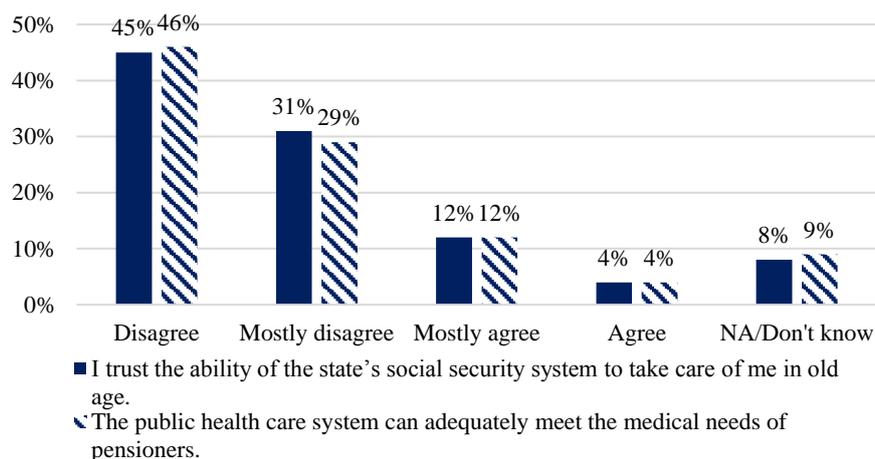


Chart 17: Trust in the public health care and social security systems

People's concerns about the future also include the sustainability of Latvia's public finances. 72% of respondents either agree or mostly agree that the long-term stability of Latvia's public finances concerns them. A similar proportion agree or mostly agree that it is important to them that the government address issues that can have a negative economic impact in the long term.

## Precarious sustainability

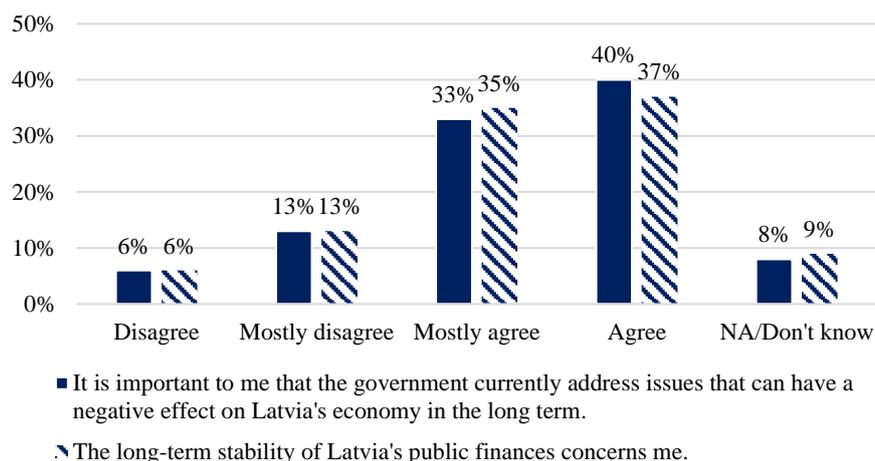


Chart 18: Long-term concerns

High tax rates are seen as the main problem hampering the long-term growth of Latvia's economy, though the other choices were also popular. Respondents were provided with four possible answers. Only a minority (3%) thought that some other factor was more important and 6% said they did not know. The difference between the most popular choice (high tax rates) and the least popular (emigration) was only 13 percentage points, though there was some regional variation.

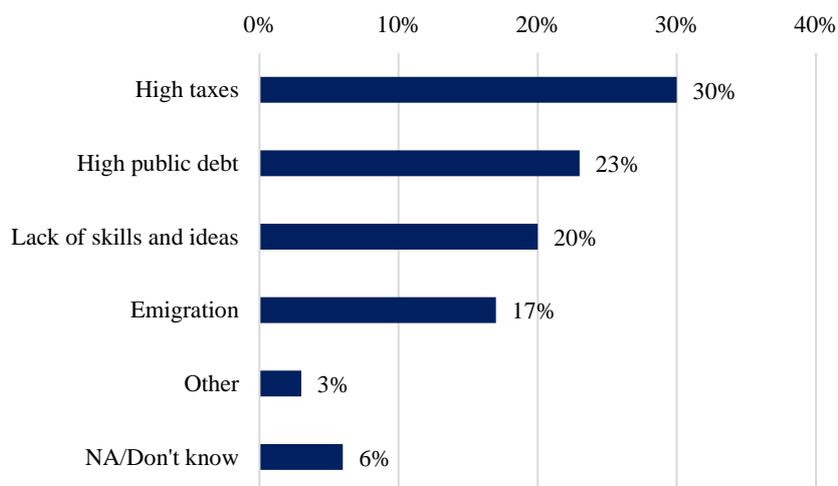


Chart 19: Perceived main long-term problem hampering Latvia's economic development

Slow economic growth is believed to be the main threat to the sustainability of Latvia's public finances. Respondents were provided with four possible answers. Only a minority (2%) thought that some other factor was more important and 5% said they did not know. Slow economic growth was the most popular choice (39%), followed by ageing (21%) and the increase of public debt (19%).

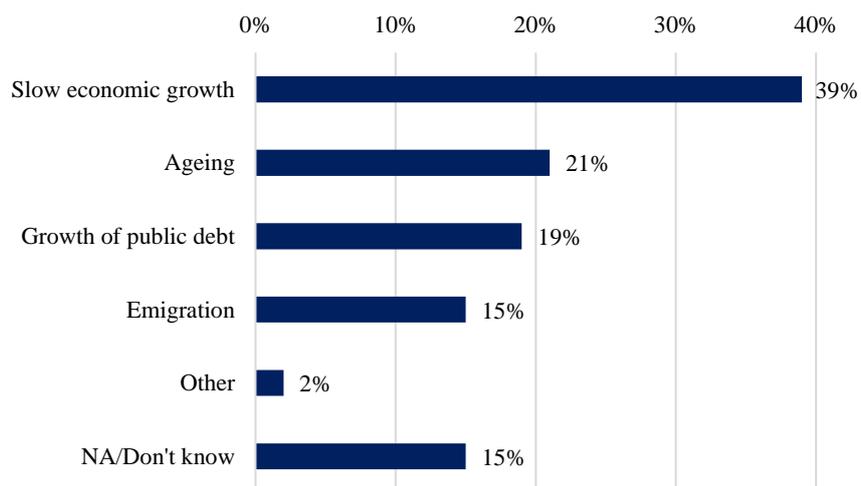
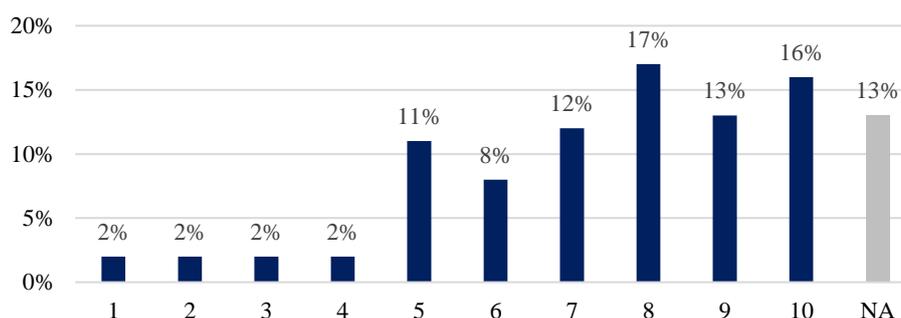


Chart 20: Perceived main threat to long-term stability of Latvia's public finances

On the whole, people would prefer policies with a gradual and predictable effect in the long-term. The idea behind this question was to see whether people prioritise instant short-term effects over long-term effects that are less immediate but more sustainable. Only 16% strongly preferred the latter, but, overall, the answers were skewed towards long-term sustainability.



(1) I would prefer government decisions with a significant positive impact in the short term but unclear consequences in the long term.  
 (10) I would prefer government decisions with a moderate, gradual and predictable long-term impact.

Chart 21: Opinion on government decisions

## Analysis

Compared to the results of the previous iteration of the survey, there have been few significant changes, but they require some elaboration, especially in relation to the questions on fiscal sustainability.

Firstly, the slight decrease in the number of respondents who follow the budget-drafting process is concerning, as it would seem to suggest that interest is declining. It remains to be seen, however, if this is a temporary decline or the results of the previous survey were simply the exception.

Secondly, the decline in the number of people who agreed that savings should be made during periods of rapid economic growth is worrying. This could mean that the public is less willing

to accept tight fiscal policy and may push for additional spending. Furthermore, this could be an instance of a kind of public fiscal fatigue.

This has to be seen in relation to the perception that several public services are inadequately financed. In such circumstances, deferring much-needed improvements in the name of sound countercyclical fiscal policy may seem less appealing. A specific example of this is health care. While the Fiscal discipline council has expressed concerns regarding the use of deficit-financing to implement reforms in the health care system without a clear long-term view<sup>8</sup>, few (if any) other parties have made similar claims.

Questions regarding the quality of the health care and pension systems are also highly relevant in relation to this. The vast majority of respondents were sceptical of the ability of these services to meet their old-age needs at an adequate level. Furthermore, the results visualised in Charts 14 and 15 show that public perception of health care and social protection is contradictory; a significant number of respondents believe that health care and social protection are both the least and the most significant expenditure items. This, however, is unsurprising as only a small number of respondents knew how much is spent on social protection.

The low satisfaction with health care and social protection is a cause for concern. It may lead to political pressure to spend more as living standards improve and expectations increase. If not compensated by commensurate modifications to the tax system, this may lead to a deterioration of the budget balance, higher budget deficits and strain on public debt.

Concurrently, the ability of the public to differentiate between competent policy-making and opportunistic spending may be minimal. The results show that (i) few people have a clear sense of how much public debt has increased over the past ten years and (ii) expressing expenditures and deficits in percent of GDP may potentially obscure the actual costs. While respondents may accept countercyclical fiscal policy in principle, it may be difficult for them to establish whether their chosen representatives actually practise prudent fiscal policy.

This is further compounded by the persistent belief that high tax rates are an obstacle hampering the long-term growth of Latvia's economy. While certain incomes are taxed more heavily than on average in the European Union (e.g. the so-called tax wedge), the majority of Latvia's tax rates compare favourably to those of other European Union member states.

A possible explanation for the critical attitude towards the tax system is the low level of trust in state institutions. Trust in the government represents that citizens are confident that the government will act appropriately and fairly. In the report on tax morale published in 2016 I noted that people's tolerance for tax evasion may be partly explained by their belief that corruption is prevalent. This year's iteration of the survey confirmed that the perceived level of corruption in the public sector is high; moreover, it is believed to be a key reason behind Latvia's public debt. If the government is not perceived as doing a good job or seen as using public resources inappropriately, it is likely that even moderate tax rates will be treated as exorbitant, especially in view of the low satisfaction with health care and social protection.

It should be noted that the survey results indicated that there is no clear consensus as to the main reason behind Latvia's slow economic growth, but the pace of growth itself was the most popular choice as regards the main threats to Latvia's fiscal sustainability. Consequently, it would appear reasonable to assume that attempts to foster growth would be greeted with

---

<sup>8</sup> See: <http://fiscalcouncil.lv/news/the-council-recommends-implementing-and-monitoring-well-conceived-reforms-in-the-health-care-sector>

approval. However, the reform measures for 2018 (e.g. the tax reform) are highly ambitious, and it is unclear whether they will have the desired long-term impact.

Overall, the results show that the long-term stability of Latvia's public finances is something that concerns respondents, and they would prefer that the government address potential issues in a timely manner. Furthermore, respondents would also prefer a predictable long-term vision. Nonetheless, the low level of satisfaction with public services, coupled with a limited understanding of the flow of public finances, endangers the rather pronounced preference for countercyclical fiscal policy and long-term stability.

## Conclusions

Issues of sustainability and sustainable development are currently very prominent. Given the contemporary relevance of sustainability and the intellectual attention it has attracted, it is unsurprising that sustainability concerns have also reached the topic of government finance.

Fiscal sustainability is often defined as the ability of a government to sustain current practices without failing to meet its financial commitments and obligations. An integral part of fiscal sustainability is the level of public debt. Even though Latvia's debt-to-GDP ratio is among the lowest in the European Union, the practice of deficit spending, and current demographic trends, mean that the debt burden will increase. This has motivated the Fiscal discipline council to commence work on a fiscal sustainability report.

The second iteration of the Fiscal discipline council's annual survey focused on fiscal sustainability to provide context for the main report. The results of the survey provide insight into public opinion regarding the sustainability of Latvia's public finances, and highlight a number of issues to consider when working on Latvia's fiscal sustainability report.

Furthermore, the results of the survey suggest that the dissatisfaction with the quality of public services and the perceived inadequacy of health care and social protection may be a source of future pressure to increase expenditures. This means that public support for countercyclical fiscal policy and a pronounced preference for sound long-term thinking has to be seen in context, and approached cautiously. Persistent dissatisfaction with both the tax system and the current level of public services may lead to support for policies that entail higher deficits without sufficient compensatory measures.

In view of the above, it is necessary that the government increase public confidence in its actions and ability to use tax revenues efficiently. Furthermore, there are persistent gaps in public understanding of public debt, the budget deficit and the extent to which highly visible public services are funded. This means that the Fiscal discipline council has to make a greater effort to clarify the costs of public services and the trade-offs necessary to ensure fiscal sustainability.

## Bibliography

- Baltic International Bank (2016) *Baltic International Bank Latvijas barometrs: 2016. gada oktobris*, available at:  
[https://www.bib.eu/uploads/2017/02/2016.10.Latvijas\\_valsts\\_budzets\\_Baltic\\_International\\_Bank\\_Latvijas\\_barometrs.pdf](https://www.bib.eu/uploads/2017/02/2016.10.Latvijas_valsts_budzets_Baltic_International_Bank_Latvijas_barometrs.pdf)
- Beetsma, R. M. W. J. and Debrun, X. (2016) *Fiscal Councils: Rationale and Effectiveness*, *IMF Working Paper*, No. 16/86, available at:  
<https://www.imf.org/external/pubs/ft/wp/2016/wp1686.pdf>
- Caradonna, J. L. (2014) *Sustainability: A History*, Oxford: Oxford University Press.
- Debrun, X. And Kinda, T. (2014) “Strengthening Post-Crisis Fiscal Credibility: Fiscal Councils on the Rise—A New Dataset”, *IMF Working Paper*, No. 14/58, available at:  
<https://www.imf.org/external/pubs/cat/longres.aspx?sk=41472.0>
- Debrun, X., Kinda, T., Curristine, T., Eyraud, L., Harris, J. and Seiwald J. (2013) “The Functions and Impact of Fiscal Councils”, *IMF Policy Paper*, available at: <http://www.imf.org/external/np/pp/eng/2013/071613.pdf>
- European Commission (2014a) “Climate Change”, *Special Eurobarometer 409*, available at:  
[http://ec.europa.eu/commfrontoffice/publicopinion/archives/ebs/ebs\\_409\\_en.pdf](http://ec.europa.eu/commfrontoffice/publicopinion/archives/ebs/ebs_409_en.pdf)
- European Commission (2014b) “Independent Fiscal Institutions Across the EU”, in *Public Finances in the EMU – 2014*, European Economy 9: pp. 54-67, available at:  
[http://ec.europa.eu/economy\\_finance/publications/european\\_economy/2014/ee9\\_en.htm](http://ec.europa.eu/economy_finance/publications/european_economy/2014/ee9_en.htm)
- European Commission (2015) *The Ageing Report 2015*, European Economy 3/2015, Luxembourg: Publications Office of the European Union.
- European Commission (2016) *The Fiscal Sustainability Report 2015*, Institutional Paper 018, Luxembourg: Publications Office of the European Union.
- European Commission (2017) *Report on Latvia – 2017*, available at:  
<https://ec.europa.eu/info/sites/info/files/2017-europeansemester-country-report-latvia-en.pdf>
- Hagemann, R. (2011) “How Can Fiscal Councils Strengthen Fiscal Performance?”, *OECD Journal: Economic Studies*, Vol. 2011/1: pp. 75-98.
- International Monetary Fund (2013) *Fiscal Adjustment in an Uncertain World*, Fiscal Monitor (April 2013), available at: <http://www.imf.org/en/Publications/FM/Issues/2016/12/31/Fiscal-Adjustment-in-an-Uncertain-World>
- OECD (2014) *Recommendation of the Council on Principles for Independent Fiscal Institutions*, available at: <http://www.oecd.org/gov/budgeting/recommendation-on-principles-for-independent-fiscal-institutions.htm>.
- OECD (2015) *Government at a Glance 2015*, Paris: OECD Publishing.
- OECD (2016) *OECD Reviews of Labour Market and Social Policies: Latvia 2016*, Paris: OECD Publishing.
- Ostry, J. D., Ghosh A. R. and Espinoza, R. (2015) *When Should Public Debt Be Reduced?*, Staff Discussion Notes No. 15/10, available at:  
<https://www.imf.org/external/pubs/cat/longres.aspx?sk=42931.0>