LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

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Approved
at the meeting of the
Fiscal Discipline Council
on 6 April 2016
Minutes No 2(15) 5§4

FISCAL DISCIPLINE MONITORING INTERIM REPORT

ON LATVIA'S STABILITY PROGRAMME FOR 2016-2019

Riga, 2016

CONTENT

EXECUTIVE SUMMARY

The Government of has been pursuing a responsible fiscal policy in line with the requirements of the SGP and the FDL. The Government has set bold new medium-term objectives that it plans to achieve in a fiscally responsible manner. The external environment and the need to implement effective structural reforms will remain challenges on the path to achieving these objectives.

The Council notes minor deviations from the requirements of the FDL in SP 2016/19. The Council recommends the following during the preparation of the MTBF for 2017-2019:

- The Council agrees with the MoF assessment that the expenditure ceilings for 2017-2018 should be assessed based on the balance rule, while the expenditure rule should be used for 2019, but the ceilings should be reduced to exclude the allowance for conducting a structural reform in the healthcare sector and update the assumptions used for the calculation, incl. the updated values of the output gap;
- The proposed deviation from the MTO on account of the reform in the healthcare sector does not comply with the FDL;
- The assmuptions for the structural balance for 2017 should be improved by 35 million euro (0.13% of GDP), for 2018 – by 116 million euro (0.4% of GDP), and for 2019 – by 106 million euro (0.3% of GDP).

The Council believes that the implementation of structural reforms is essential in all aspects of the Latvian economy, but it would not be appropriate to involve deficit financing for the impementation of such reforms due to the following considerations:

- The FDL does not foresee deficit financing for supporting structural reforms;
- The Council made an exception regarding the structural reform in the pension system, as increasing contributions to the second tier of the pension system has a clear impact on increasing savings and improving the sustainability of the public pension system in view of an ageing population;
- The deviation from the MTO to implement structural reforms in the healthcare sector during the phase of generally balanced economic development and further accumulation of public debt creates a risk of absence of fiscal buffers to face economic downturn.

The Council notes that the debt and deficit levels indicated in SP 2016/19 have increased compared to projections in earlier budget documents. The tendency of not reducing the debt to GDP ratio (and even increasing it in 2018 by two percentage points of GDP) is a threat to economic stability, and, by increasing the risk of incurring higher interest payments, reduces the available fiscal space. FDL principles suggest achieving a generally balanced budget over the duration of the business cycle.

The Council welcomes the proposed allocation of funds for establishing the fiscal safety reserve and suggests that the fiscal safety reserve is established at least in the amount of 0.1% of GDP annually during the horizon period of the SP. The practice of reallocating the fiscal safety reserve for expenditure priorities should be discontinued. It should be noted that the expenditure projections for the special budget have become more realistic. However, it would be advisable to look for more accurate models of forecasting the behaviour of beneficiaries, depending on the social policy options being considered.

The Council is looking forward to the tax system review, based on which the Government objective of increasing the tax-to-GDP ratio to 1/3 by 2020 could be reached. The priority here would be to reduce the grey economy by limiting tax evasion. However, the reduction of the grey economy will not allow the government reach its stated objective without other measures, such as broadening the tax base and spreading the tax burden to areas, which have enjoyed low tax rates. The changes should be introduced after the systematic review of the tax system currently being conducted by the World Bank. The Council also reiterates that the revised tax policy should give proper consideration to the objective of further reducing inequalities in society.

The Council notes long-term fiscal risks associated with:

- the increase in the number of working age population not contributing adequately to the social insurance schemes, who will later claim benefits at the expense of other contributers as well as the general government finance;
- the public healthcare system facing increased demand for services, but the public not willing to pay for it;
- the expectations of line ministries regarding government support and services, which are not commensurate with the available funding.

A stronger fiscal position is essential for the government to implement the necessary structural reforms, build sufficient capacity to ensure investment into infrastructure and increasing economic potential. A bold government strategy for improving economic potential should be adopted eliminating bottlenecks for economic growth and renewing the convergence towards the development levels of advanced EU countries.

The economy has been performing broadly in line with the MoF's macroeconomic forecasts, endorsed by the Council in February. The economy continues to develop at the reassessed potential level without a noticeable output gap. The inflation levels have been lower than and should be followed carefully.

ABBREVIATIONS

JSC	joint stock company
BoL	Bank of Latvia
Council	Fiscal Discipline Council
EC	European Commission
ESA	European system of accounts
EU	European Union
FDL	Fiscal discipline law
Monitoring report	Fiscal Discipline Monitoring Report 2015
MoF	Ministry of Finance
MTBF	Medium term budget framework
MTBFL 2016/18	Medium term budget framework law for 2016-2018
MTO	medium term objective
GDP	Gross domestic product
-	Not applicable / not available
OECD	Organization for Economic Cooperation and Development
PIT	Personal income tax
SGP	Stability and growth pact
SP	Latvia's Stability Programme
SP 2016/19	Latvia's Stability Programme for 2016-2019
SRS	State revenue service
VAT	Value added tax

MANDATE OF THE COUNCIL

According to the FDL (FDL Chapter III Monitoring of fiscal discipline) the Council is an independent collegial institution which has been established to monitor compliance with the FDL. The Council's core competence is related to the assessment of fiscal discipline, and assess fiscal policy and issues related to macroeconomic developments.

Specifically the Council is responsible for:

- monitoring compliance with FDL provisions in the annual state budget law and the MTBFL during their preparation, execution, and amendment;
- verifying whether the fiscal balance and the expenditure growth provisions have been properly applied, including an independent assessment of the potential GDP and nominal GDP, and the calculation of the structural balance;
- supervising the observance of FDL provisions in the implementation of the annual state budget law, conformity of total fiscal indicators of the consolidated budget of local governments and budgets of derived public persons with the forecasted values.
- preparing opinions regarding major permitted departures from the balance condition during a severe economic downturn;
- preparing an opinion on whether the FSR is set at an appropriate level to counter extant fiscal risks
- preparing a monitoring report on fiscal discipline and, if necessary, an irregularity report;
- preparing and submitting to the Saeima and the Government opinions regarding issues of fiscal policy and macroeconomic development if they pertain to compliance with the terms set out in the FDL;
- endorsing the MoF macroeconomic forecasts twice a year – while preparing the SP, and the annual state budget and while preparing the MTBF (according to the Memorandum of Understanding (hereafter – MoU)[1], signed on 8 February 2016);
- preparing interim report (opinion) on SP (according to the MoU);
- assessing and analysing the sustainability of fiscal policy for the purposes of preparing the reports stipulated by the FDL.

[1] Memorandum of Understanding, available: http://fiscalcouncil.lv/files/uploaded/FDP_1_09_281_20160208_MoU_FDC_MoF.pdf, accessed on: 29/03/2016

1 FISCAL POLICY CHALLENGES

The Council notes that 2015 budget execution may lead to better outcomes then initially expected, anticipating that the general government balance will be close to the target established in the MTBFL 2015-2017. In 2015 the general government budget deficit increase compared to the approved balance was largely offset by corrections in accordance with *Eurostat* methodology, largely due to the implementation of EU funds, interest payments and the reassessment of derivatives. Favourable conditions lower the risks of increased accumulated deviations from the budget balance targets, which would require significant corrections to the available fiscal space. During the preparation of the state and MTBFL 2016/2018, it was anticipated that the deviation from the approved budget balance would reach 0.4% of GDP.

The execution of the consolidated government budget improved compared to 2014, but the result was worse than planned (Table 1.1.)**.** The most significant departures from the plan were in the special budget (Table 2.1) and the derived public persons' budget. Local government budgets had a lower deficit than planned.

	2011.	2012.	2013.	2014.	2015.
Consolidated government budget balance (plan)	-836.22	-182.41	-227.66	-175.20	-286.63
Consolidated government budget balance (outcome)	-647.06	38.39	-127.60	-397.30	-372.26

Table 1.1 Execution of the consolidated government budget plan in 2011-2015, million euro. Source: MoF

	2011.	2012.	2013.	2014.	2015.
Special budget balance (plan)	-337.79	-190.38	-80.11	132.40	162.87
Special budget balance (outcome)	-177.66	-70.4	-57.91	100.35	91.13

Table 1.1 Execution of the special budget plan in 2011-2015, million euro. Source: MoF

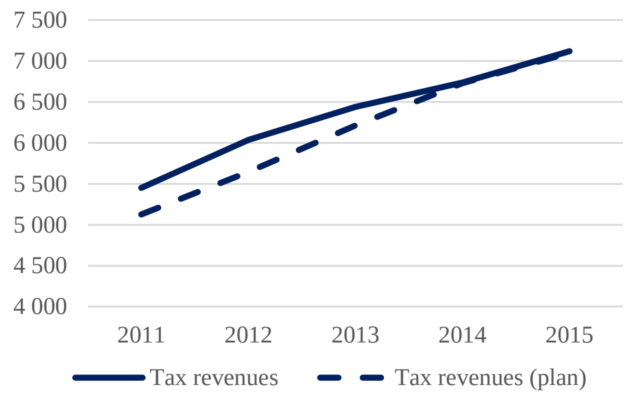

Chart 1.1 Execution of the tax revenue plan 2011-2015, mill.euro. Source: SRS.

In recent years tax revenue forecasts have been conservative. After summarising the information on the execution of the revenue forecasts in the last five years, the Council concludes that government revenue forecasts have been based on a conservative approach. Information published by the State Revenue Service indicates that in 2011-2015 tax revenues were higher than planned (Chart 1.1). The results in 2015 are of particular note, as revenue collection was executed according to plan, even though nominal GDP growth was lower than what was planned when the revenue forecasts were developed.

The Council supports the Government's commitment to continue work on the development of a tax policy and commends the clearly defined tax revenue target and timeframe for reaching it. The Government's declaration (hereafter – Declaration) clearly states that the tax-to-GDP will reach 1/3 by 2020, and a commitment to review budget expenditures is also mentioned. The Government has engaged experts from the World Bank with the aim of developing a predictable and balanced tax policy, thus fostering public trust in the stability of the tax system. The Council has previously noted that the Government will not be able to ensure the provision and improvement of public services without raising tax revenues[2]. A clear tax policy is an important step towards achieving this.

The Council supports the objectives listed in the Declaration, such as reducing economic inequality, eliminating the regressive features of the tax system and shifting the tax burden from low income earners to people with higher incomes. The Council has previously suggested these priorities in its recommendations. The Declaration claims that a tax policy shall be developed with the aim of reaching the country's strategic development goals. One of these goals is the reduction of economic inequality, which is among the highest in the EU. The Government also intends to shift the tax burden from labour income to capital gains, consumption, immovable property and the use of natural resources.

The Government's plan to increase tax revenues primarily by limiting the grey economy is commendable, even though the Council believes that reducing the grey economy to average EU levels will not be enough to reach the intended tax-to-GDP ratio. Limiting the shadow economy means that the tax burden will not be increased on individuals and companies that already pay taxes. The plan for limiting the shadow economy outlined in the Declaration is general but includes both preventive measures and measures that seek to positively motivate the integration of companies into the formal sector. A diversified approach will allow the Government to address the shadow economy with a wider range of instruments. The choice in favour of focusing the limited resources on a specific course of action with the greatest potential impact is commendable. The plan to broaden the application of reverse-charge VAT is also noteworthy, as this could limit tax evasion.

Revenue generating measures should focus on options that do not have distortive effects and do not increase the burden on participants of the formal economy. The 2015 edition of *Tax Reforms in EU Member States*[3] argues that Latvia has (i) comparatively high labour income taxes, (ii) widespread tax evasion and non-compliance and (iii) a significant gap between the nominal and effective VAT rates. Opportunities for increasing revenues from non-distortive taxes and measures for limiting tax evasion should be considered when working on revenue-increasing measures. Such an approach would allow for a stable and foreseeable revenue policy, which encourages growth and does not place additional burdens on individuals who already pay taxes.

The activities in the health sector included in the Declaration touch upon issues that the Council noted in the 2015 Monitoring Report. The Council has previously noted the low funding levels in the healthcare sector and poor public health indicators, which could have a negative effect on the quality of life and lead to loss of productivity in the long-term. The activities referred to in the Declaration show Government commitment to developing a systematic approach to healthcare funding, and the SP 2016/2019 describe a healthcare reform that was developed in accordance with the Public health guidelines 2014-2020.

The Council indicates that the FDL does not envisage a departure from the government finance balance target due to the implementation of structural reforms. The Council's stance does not negate the need for the implementation of structural reforms that would foster development and increase the level of economic potential. A strong fiscal position and bold strategy are essential for the government to implement the necessary structural reforms, build sufficient capacity to ensure investment into infrastructure and increasing economic potential, and renew convergence towards the development levels of advanced EU countries. The Council agrees that the healthcare reform outlined in SP 2016/19 is necessary. However, the FDL does not permit a departure from the budget deficit targets for the implementation of structural reforms in a period of economic growth. Increasing the

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[2] Latvia's tax revenues compare unfavourably to average EU levels. Eurostat data indicate that in 2014 tax revenues on average accounted for 40% of GDP in the EU. In Eurozone countries this indicator was slightly higher – 41.5%. This same publication noted that in 2014 tax revenues only accounted for 29.2% of Latvia's GDP. Historical data suggest that this indicator has hovered around 28%-29%. This is below average EU levels, which have consistently been around 39%-40%. Information available here: http://ec.europa.eu/eurostat/web/products-press-releases/-/2-15012016-BP, accessed on 08/04/2016.

[3] Available at: http://ec.europa.eu/economy_finance/publications/eeip/ip008_en.htm, accessed on: 29/03/2016.

deficit during the growth phase is procyclical and reduces the fiscal buffer, thus reducing the ability to absorb shocks in case of an economic downturn.

The Council continues to support the departure from the government finance balance target due to the reform in the pension system. The reform reintroduced transfers to the second tier, which were decreased during the crisis to avoid a deficit in the first tier of the pension system and the need to borrow funds for a timely disbursement of pensions and social security benefits. The Council's support for this reform was due to the creation of savings in the economy, with the inflow of the accumulated pension contributions into the banking sector improving the sustainability of the future pension system. The Council believes that the balance reduction due to an increase of savings in the second tier of the pension system for future expenditures is in accordance with Article 5 of Regulation Nr. 1175/2011[4].

The main problem facing the healthcare system are the growing expectations of the public for effective and high-quality services in a situation where issues concerning the funding of such a system are unresolved. The development of an appropriate funding model is hampered by the fact that a significant proportion of medical services are used by non-working age people. Not all the population is aware of the need for savings to cover unforeseen medical needs that cannot be covered by the funds collected through taxation. However, financing healthcare expenditure by increasing the deficit and public debt is financially irresponsible towards the future development of the state.

An OECD review of the labour maker and social policies[5] indicates a need to assess budget sustainability, in view of demographic trends and the situation in the labour market. The decline in the number of people who make compulsory state social social insurance contributions can create serious consequences for the sustainability of special budget expenditures. The OECD review indicates that the growing number of retirees and lack of a targeted social support system creates political risks, which can exacerbate fiscal risks in the future. For this reason, it is necessary to carefully assess labour market issues and social policy issues in relation to budget sustainability, especially in view of demographic trends in Latvia.

The Council notes that the planned line ministry demands for additional funding are higher than the available fiscal space. After summarising the funding requests for the implementation of the Government's action plan in 2017, it was established that line ministries require approximately 500 million euro, even though the available fiscal space is smaller.

The Council recommends a careful consideration of the fiscal and economic impact and justification of the current regulatory framework concerning the micro-enterprise tax (MET) . The main purpose of introducing MET in 2010 was to stimulate economic activity in the post-crisis period, because the unemployment level had grown considerably as a result of the economic crisis. The Council is not convinced that the MET regime ahs managed to effectively reduce the unemployment level. The analysis performed by the Council indicates that the MET regime may have several significant consequences. The existence of the MET regime impedes macroeconomic development and revenue increase by encouraging small enterprises and holding back the development of big enterprises who are also major tax payers. The MET regime provides almost no social benefits, which will be especially problematic in the long-term when micro-enterprise employees will be entitled to retirement and disability benefits, for example, current estimates suggest that micro-enterprise employees will create an annual burden of 17 million euro.

The Council concludes that fiscal risks, which can manifest as an unplanned deterioration of the government budget balance and have to be offset by an adequate fiscal safety reserve, have to be

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[4] European Parliament and of the European Council Regulation (EU) No. 1175/2011 of 16 November 2011, amending Council Regulation (EC) No. 1466/97 on strengthening the surveillance of budgetary positions and the surveillance of economic policies and coordination, available on: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32011R1175, accessed on 08/04/2016.

[5] *OECD Reviews of Labour Market and Social Policies: Latvia 2016*, available at: http://www.oecd-ilibrary.org/social-issues-migration-health/oecd-reviews-of-labour-market-and-social-policies-latvia-2016_9789264250505-en;jsessionid=bdtnfk5t77984.x-oecd-live-03, accessed on: 08/04/2016.

considered. After summarising the data on the general government balance between 2007 and 2014, the Council concludes that during this period there have been significant deviations, and the Government has had to make several payments with a negative impact on public finance. Of special note is the fact that in previous years Government support for the banking sector and loan guarantees have had a significant impact – JSC "Parex bank", JSC "Latvian Mortgage and Land Bank", as well as JSC "Air Baltic Corporation". The negative corrections due to the construction costs of the Southern bridge are also of note. In the 2015 Monitoring report the Council noted that the decision not to establish a fiscal security reserve in 2016 set an unfortunate precedent. In view of the significant impact that the abovementioned payments have had on the general government budget balance, the Council urges the Government to establish a fiscal safety reserve for 2017 and refrain from decreasing the allocated amount to finances expenditure priorities, thus creating risks for reaching fiscal targets.

Recommendations

1. Consider implementing growth-enhancing structural reforms, without increasing the deficit during a time of economic growth.
2. In view of identified fiscal risks, establish a fiscal safety reserve for the SP2016/2019 horizon period in the amount of no less than 0.1% of GDP, before assessing the available fiscal space for expenditure needs.
3. Advance with developing new tax policy proposal that would make possible to reach the objective of 1/3 tax-to-GDP ratio in 2020, focusing primarily on limitting the gray economy and reducing income inequalities.
4. Identify the long-term risks for the special budget, in view of demographic trends and the situation in the labour market.
5. Carefully assess the fiscal and economic impact of the micro-enterprise tax.

2 MACROECONOMIC OUTLOOK AND OUTPUT GAP

According to the MoU, the Council has assumed the responsibility to endorse MoF's macroeconomic forecast. The Council endorsed MoF's macroeconomic forecast on 19 February 2016. Full endorsement text is available in the Annex 1. Early review and endorsement of the MoF's macroeconomic projections by the Council has been agreed to support the effort in the Government in preparation of annual documents - the Stability Programme and the Medium-term Budget Framework. The Council assessed the forecast as a whole, and provides an endorsement of the key macroeconomic indicators (Table 2.1).

	2016	2017	2018	2019
Real GDP growth	**3.0**	**3.3**	**3.4**	**3.4**
Nominal GDP growth	**4.3**	**5.8**	**6.3**	**6.5**
Inflation	**0.4**	**2.0**	**2.5**	**2.5**
GDP deflator	**1.3**	**2.4**	**2.8**	**2.9**
Potential GDP growth	**2.7**	**2.8**	**3.0**	**3.0**
Output gap	**-0.3**	**0.1**	**0.5**	**0.9**

Table 2.1 Macroeconomic forecast indicators endorsed by the Council, %.

The economy in general develops in accordance with the MoF macroeconomic forecasts that the Council endorsed on 19 February 2016. The economy continues to expand in line with the potential. Inflation in the two months of 2016 has performed below the forecasted level (showing 0.1% annual inflation), which points to the risk of lower inflation outcome for 2016 than forecasted, and it has to be carefully watched. This puts the nominal GDP at risk of falling short of the forecasted levels for all years of the forecast period, even if the inflation outcomes meet the forecasts from 2017 onwards. This may hinder reaching the forecasted tax revenue level.

The Council emphasises the necessity for a more in-depth sensitivity analysis of the macroeconomic scenario than presented in the Stability programme. The current version of the sensitivity analysis produces two alternative macroeconomic development scenarios – a more pessimistic and a more optimistic one compared to the base scenario, without analysing the impact on budget revenue and expenditure resulting from deviations from the base scenario. Also, the sensitivity analysis does not discuss the probabilities of the more positive or more negative outcomes than the base scenario.

The Council notes increasingly optimistic past MoF forecasts regarding consumer prices since 2013. Historically, MoF's nominal GDP forecasts that are used as the basis for drafting annual budgets can be characterised as conservative for all the years from 2003 to 2013, except 2009 when the recession turned out to be deeper than was expected. However, since 2014 nominal GDP outcomes were lower than forecasted[6]. Looking at the CPI in particular, it had been underestimated in the budget drafting process in the period between 2003 and 2008. Between 2009 and 2012, the deviation of forecasts from actual CPI outcomes were volatile, but between 2013 and 2015 the forecasts considerably exceeded the actual outcomes.

The Council observes a general pattern of more optimistic forecasts for outer years covered in the MTBFs. Thus, the preparation of the SP and MTBF requires adjustments for the closest year compared to the previous forecast round.

Recommendations

1. The Council advises, when drafting the MTBF 2017/19, to expand the sensitivity analysis of macroeconomic scenario, incorporating the impact of deviations from the base scenario on budget balance and consider estimating probabilities of more positive or more negative macroeconomic outcome than the base scenario.

[6] Meanwhile, it must be noted that for 2009 key international forecasters were also forecasting higher results than the actual outcomes.

3 THE ASSESSMENT OF NUMERICAL FISCAL RULES

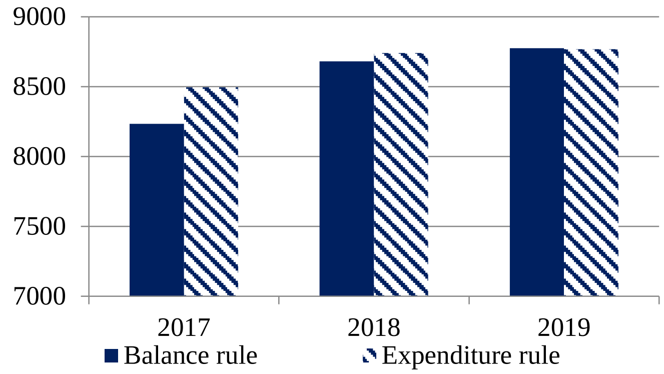

Chart 3.1 Central government budget expenditure ceiling. Data source: Council's calculations.

As part of the European Semester's activities to facilitate the coordination of economic policies, the Government assesses the application of fiscal rules in accordance with the requirements of the SGP and the FDL. The Council conducts the assessment of the numerical fiscal criteria established in the FDL in close cooperation with the MoF during the preparation of the SP. The assessment of the numerical fiscal criteria results into determination of the central government expenditure ceilings for 2017-2019.

The Council broadly agrees with the approach of the MoF for calculating the numerical fiscal criteria and the assumptions applied except minor deviations discussed below. The assessment is based on the data as provided by the MoF during the preparation of the SP draft[7].

However, the Council notes that despite balanced economic growth the estimated fiscal targets lag behind the MTO, which, in accordance with the FDL, may not be lower than -0.5% of GDP. The SP should demonstrate an explicit drive towards a balanced budget during conditions of balanced growth and in the case of positive output gap forecasts. The Council notes that the cyclical component for 2017 is zero, and estimated to move into positive territory in 2018 and 2019. The Council has already agreed to the structural reform measure in the pension system, which allows a deviation from the MTO to cushion the effects of restoring the allocation of contributions to the second tier of pension funds. This measure increases savings in the economy and improves sustainability of the pension system.

The Council draws attention to slight differences in its approach compared to MoF, resulting in a different assessment of the expenditure ceilings. They are as follows:

1) In the calculations of the balance rule constant values of the output gap are used, the maximum amount of permitted deviation for the implementation of the healthcare reform in the amount of 0.5% of GDP, as well as a rounded cyclical component are employed. The overall impact of the updated assumptions lead to a reduction of the expenditure ceilings for 2018 in the amount of 1.5 million euro and for 2019 - 51.1 million euro. In the balance rule the deviation from the MTO on account of the healthcare structural reform should not be made, resulting in adjustments for 2017 –35 million euro, 2018 – 114 million euro and 2019 – 101 million euro in comparison with MoF calculations (see discussion on the deviation from the MTO on account of the healthcare reform in Section 1 *Fiscal policy challenges*).

2) The calculations of the expenditure rule should also be adjusted on account of the healthcare reform, i.e. the impact of discretionary measures in 2017, as well as by updating general government expenditure figures due to stricter balance rule outcomes (please see above).

3) The assessment of the continuity rule has not been completed due to a lack of updated information from the Ministry of Welfare on the number of recipients of pensions and benefits funded from the basic state budget.

[7] Up to date data regarding the balance rule and expenditure rule were received on 8 April 2016 when the interim report was submitted to the Ministry of Finance for data review.

The Council agrees with the MoF assessment that the expenditure ceilings for 2017-2018 should be assessed based on the balance rule, while the expenditure rule should be used for 2019. Such a selection of the rules creates the most severe requirements in comparison to other fiscal rules (Chart 3.1). The continuity rule full assessment is not carried out due to the lack of updated forecasts. Data tables and calculations are available in Annex 2.

	2016	2017	2018	2019
General government structural budget deficit (-) / surplus (+), % of GDP				
MTBFL 2015/17	-0.9	-0.8		
SP 2015/18	-1.0	-0.9	-1.2	
MTBFL 2016/18	-0.9	-1.0	-0.79	
SP 2016/19		-1.05	-1.19	-0.8
Council		*-0.92*	*-0.79*	*-0.5*
Central government budget expenditure ceiling, in millions euro				
MTBFL 2015/17	7 618.9*	7 930.8		
SP 2015/18	7 566.5	8 025.8	8 480.5	
MTBFL 2016/18	7 685.6*	8 243.8	8 749.5	
SP 2016/19		8 240.9	8 767.0	8 844.8
Council		*8 205.9*	*8 651.5*	*8 738.4*

Table 3.1 General government budget structural balance and central government budget expenditure ceiling in accordance with the fiscal rules assessment.

* In the process of adoption of the MTBFL 2015/17 and MTBFL 2016/18 the fiscal safety reserve was not envisaged in breach of the requirements of the FDL, but it was intended to be established still in preparation of SP 2015/18.

The Council considers that meeting the requirements of fiscal rules allows for adequate growth of budgetary resources for 2017 (Table 3.1). According to the Council's estimates, the central government budget expenditure ceilings in 2017 increased by 520 million euro compared to the approved MTBFL for 2016, more than 400 million euro growth in 2018 and 10 million euro decrease in 2019. In 2017 a large proportion of the permissible expenditure growth is related to the expected foreign financial aid revenue measures and the implementation of these measures.

	2015	2016	2017	2018	2019
General government headline budget deficit (-) / surplus (+)					
MTBFL 2015/17	-1.0	-0.8	0.4		
SP 2015/18	-1.5	-1.6	-0.2	0.2	
MTBFL 2016/18	-1.4*	-1.0	-0.71	0.3	
SP 2016/19	-1.0	-1.0	-0.75	-0.2	0.8
Change since MTBFL 2016/18	*0.4*	*0.0*	*-0.04*	*-0.5*	
Basic budget deficit (-) / surplus (+)					
MTBFL 2015/17	-1.5	-1.6	-1.3		
SP 2015/18	-1.6	-2.0	-1.7	-0.2	
MTBFL 2016/18	-1.4*	-1.5	-1.7	0.2	
SP 2016/19	-1.6	-1.3	-1.0	0.4	0.9
Change since MTBFL 2016/18	*-0.2*	*0.2*	*0.7*	*0.2*	
General government debt					
MTBFL 2015/17	35	37	34		
SP 2015/18	37	40	37,3	34,1	
MTBFL 2016/18	36	40	38	36	

SP 2016/19	36	40	38	38	38
Change since MTBFL 2016/18	*0*	*0*	*0*	*2*	

Table 3.2 General government and basic budget headline balance and changes in the general government debt as % of GDP (by bottom-up approach)

* In the process of preparation of the MTBFL 2016/18 general government headline balance and basic budget balance was assessed at the drafting stage, but not at the moment of the adoption of the MTBFL 2016/18.

The Council notes the deterioration of the general government balance in SP 2016/19 compared to MTBFL 2016/18 by -0.04% of GDP in 2017 and -0.5% in 2018, most of which (0.4% of GDP) is due to corrections in accordance with *Eurostat* methodology (Table 3.2).

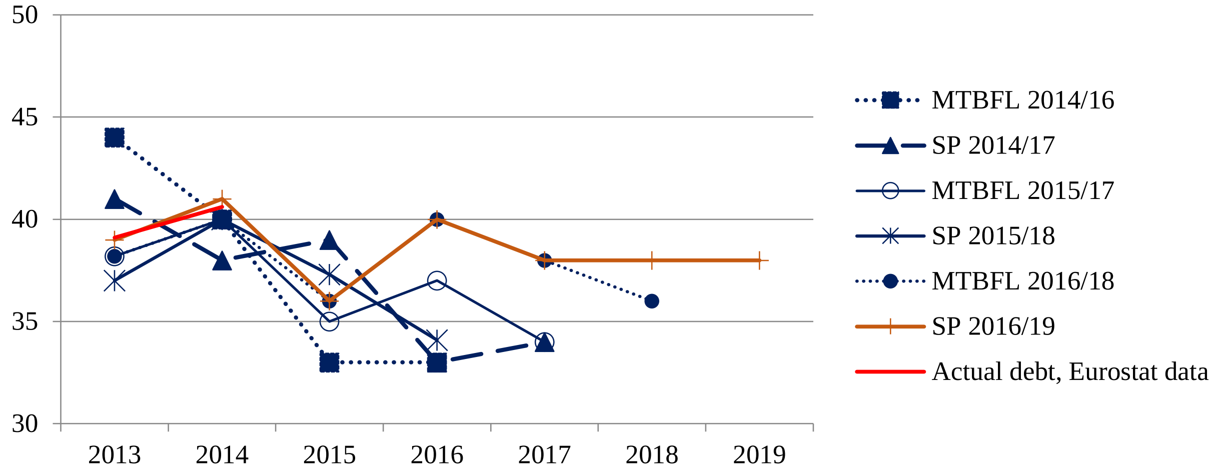

Chart 3.2 General government debt forecasts.

The Council notes that the debt and deficit levels indicated in SP 2016/19 have increased compared to projections in earlier MTBFLL, that were planning general government debt on average by 3-4% points lower (Figure 3.2). The tendency of not reducing the debt to GDP ratio (and even increasing it in 2018 by two percentage points of GDP) is a threat to economic stability and, by increasing the risk of incurring higher interest payments, reduces future fiscal space and the ability to absorb shocks.

Recommendations

1. In the process of assessing the implementation of fiscal rules the Council notes minor deviations from the requirements of the FDL. The Council recommends the following during the preparation of the MTBF for 2017-2019:
   - The Council agrees with the MoF assessment that the expenditure ceilings for 2017-2018 should be assessed based on the balance rule, while the expenditure rule should be used for 2019;
   - The proposed deviation from the MTO on account of the reform in the healthcare sector does not comply with the FDL;
   - The assumptions for the structural balance for 2017 should be improved by 35 million euro (0.13% of GDP), for 2018 – by 116 million euro (0.4% of GDP), and for 2019 – by 106 million euro (0.3% of GDP).
2. The Council notes that the debt and deficit levels indicated in SP 2016/19 have increased compared to projections in earlier budget documents. FDL fiscal policy principles suggest achieving a generally balanced budget over the duration of the business cycle.

ANNEX 1 COUNCIL'S ENDORSEMENT OF MOF MACROECONOMIC PROJECTIONS (19 FEBRUARY 2016)

The Council endorsed MoF's macroeconomic forecast on 19 February 2016. Early review and endorsement of the MoF's macroeconomic projections by the Council has been agreed to support the effort in the Government in preparation of annual documents - the stability programme and the medium-term budget framework.

According to the Memorandum of Understanding (hereafter – MoU), signed on 8 February 2016, the Council has a responsibility to endorse MoF's macroeconomic forecast. The Council assessed the forecast as a whole, and provides an endorsement of the key macroeconomic indicators that are outlined below. During the endorsement process the Council were presented with detailed information on MoF's forecast, such as gross domestic product (hereafter – GDP) structure and development scenarios of GDP components. The Council has also analysed developments in the labour market. The Council endorses the forecast for the indicators according to the scope of Article 20 of the Fiscal discipline law. The endorsed indicators are summarised in the Table 2.2 at the end of this section.

The MoF macroeconomic forecasts are largely in line with those of the European Commission (hereafter – EC) and International Monetary Fund (hereafter – IMF) (Table 2.1).

	2016			2017			2018			2019		
	MoF	**EC**	**IMF**	**MoF**	**EC**	**IMF**	**MoF**	**EC**	**IMF**	**MoF**	**EC**	**IMF**
Real GDP growth	**3.0**	3.1	3.3	**3.3**	3.2	3.7	**3.4**	n/a	3.9	**3.4**	n/a	3.9
Nominal GDP growth	**4.3**	n/a	5.1	**5.8**	n/a	6.1	**6.3**	n/a	6.2	**6.5**	n/a	6.1
Inflation (CPI)	**0.4**	0.4	1.8	**2.0**	2.0	2.3	**2.5**	n/a	2.2	**2.5**	n/a	2.0
Output gap	**-0.3**	1.8	-0.5	**0.1**	1.6	-0.3	**0.5**	n/a	0.1	**0.9**	n/a	n/a

Table 2.1 Key macroeconomic indicator forecasts by various institutions, % y-o-y. (MoF forecast from 15 February 2016; EC forecast from 4 February 2016; IMF forecast from October 2015). Data sources: MoF, EC, IMF.

Latvia is currently experiencing downward revisions of the forecasts for both real and nominal GDP growth compared to the forecasts in the medium-term budget framework (hereafter – MTBF) 2016/18. The development prospects of Latvia's economy, similar to the global economy, are characterised by uncertainty: while the euro exchange rate, interest rates and oil prices create favourable conditions for economic development, the effect of slow-down in the emerging economies hampers economic growth globally.

The Council endorses the real GDP growth forecast for the horizon period.

Compared to the previous forecast prepared for the MTBF 2016/18, the growth rates have been slightly reduced for 2017 and 2018 to 3.3% and 3.4% respectively, while the growth rate for 2016 has remained unchanged at 3.0% (Chart 2.1). The Council considers the real GDP growth forecast by MoF to be realistic.

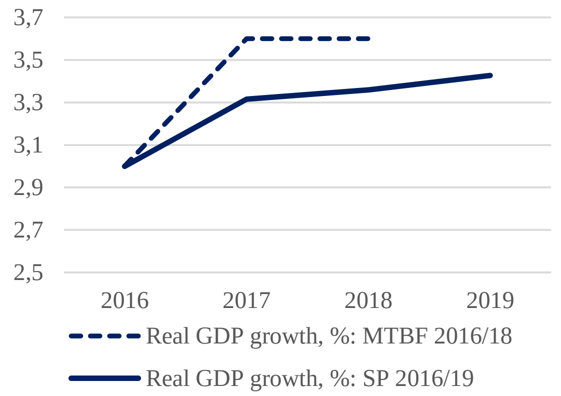

Chart 2.1 Forecast for real GDP growth, y-o-y. Data source: MoF.

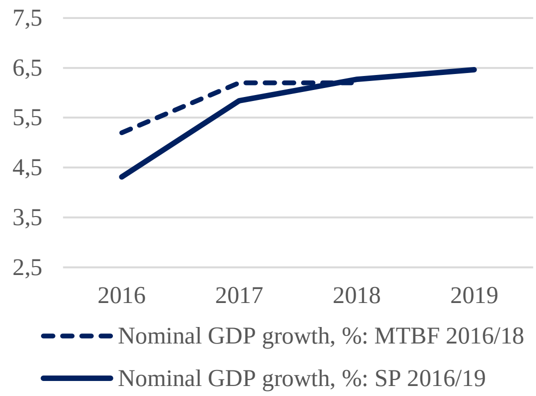

Chart 2.2 Forecast for nominal GDP growth, y-o-y. Data source: MoF.

The Council notes the following reasons for downward revision of the real GDP growth forecast by MoF:

- relatively slow growth in Latvia's major export markets (Lithuania, Estonia and Europe in general);
- the continued effect of geopolitical uncertainties in Russia and in Ukraine, and the Middle East that impact Latvia's economic development both directly and indirectly;
- the protracted slow-down of the global economy (including the indirect effects of growth slow-down in China and the economic downturn in Finland);
- the substantial reduction of the formerly significant export market of Russia. However, the reorientation towards new export markets has turned out to be successful for exporters.

On the positive side, it is realistic to expect that the economy will benefit from the favourable euro exchange rate and oil prices, and that sturdy private consumption will continue supporting Latvia's GDP growth in the future. Also, it can be expected that the investment sector will regain activity with the launch of the European Investment plan and the launch of the European Structural funds new planning period.

The Council endorses the nominal GDP growth forecast for the horizon period.

Meanwhile, a risk for a lower nominal GDP outcome is present, despite the fact that the projected growth rates have already been slightly revised downwards, namely, from 5.2% to 4.3% for 2016 and from 6.2% to 5.8% for 2017 compared to the projections in the MTBF 2016/18 (Chart 2.2). This translates into a risk of lower nominal GDP levels than forecasted, leading to a lower tax base. The risk of the nominal GDP falling behind the forecasted figures is related to a possibility of a lower inflation outcome than forecasted.

The Council endorses the change in consumer price index (hereafter – CPI) (inflation) forecast for the horizon period, but at the same time emphasizes the need to maintain vigilance on inflation.

The Council supports the downward revision in the inflation (change in CPI) forecast for 2016 from 2.0% in the MTBF 2016/18 to 0.4% currently, and for 2017 from 2.5% to 2.0% respectively (Chart 2.3). Although the inflation forecast for 2017 has been revised downwards, the events abroad suggest a possibility of even lower price levels persisting into 2017: price pressures from abroad remain subdued and there are clear signs that the low inflation period in Europe will last longer than it was expected[8].

The Council endorses the GDP deflator forecast for the horizon period.

The GDP deflator, similar to inflation, has been reduced for 2016, but has not been changed for 2017 and has been slightly increased for 2018 (Chart 2.4). The GDP deflator is forecasted at considerably higher rates than the inflation due to the effect of the government consumption deflator and the investment deflator. This is mainly explained by the forecasted increase in wage level.

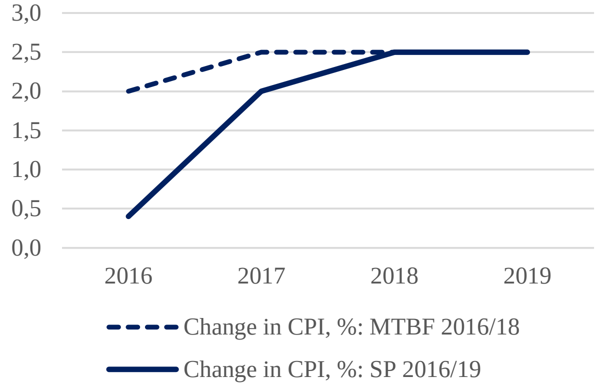

Chart 2.3 Forecast for inflation, y-o-y. Data source: MoF.

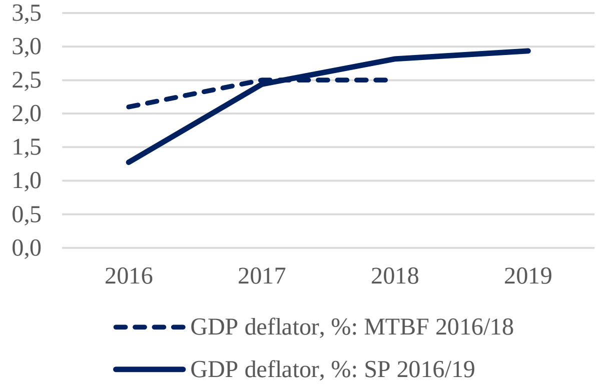

Chart 2.4 Forecast for GDP deflator, y-o-y. Data source: MoF.

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[8] European Central Bank. *How central banks meet the challenge of low inflation.* 4 February 2016. Last assessed on 17 February 2016. Available: https://www.ecb.europa.eu/press/key/date/2016/html/sp160204.en.html

The Council endorses the potential GDP growth and output gap forecast for the horizon period.

The potential GDP development was the most discussed part of the macroeconomic forecast during the endorsement procedure. During two rounds of consultations between the Council and the MoF, a mutual agreement was reached on the potential GDP trend and the resulting output gap scenario (Charts 2.5 and 2.6). While minor differences in opinions of the Council and the MoF still persist, the Council considers the current forecast acceptable for drafting the SP 2016/19.

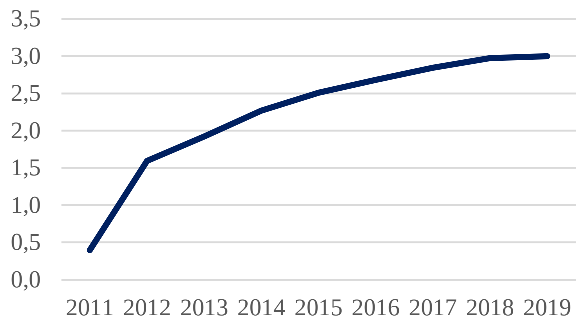

Chart 2.5 Potential GDP growth, %, y-o-y. Data source: MoF.

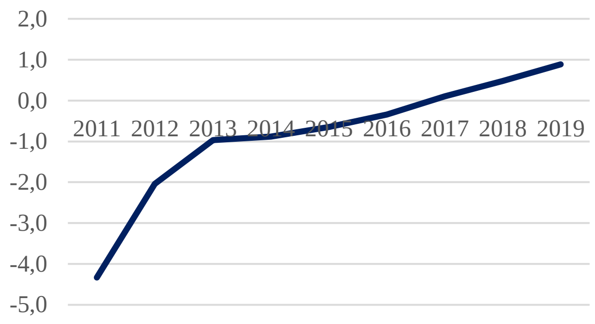

Chart 2.6 Output gap, % of potential GDP. Data source: MoF.

It should be mentioned that the EC's opinion on the output gap of Latvia's economy differs from that of MoF's (Table 1). The EC estimates a positive output gap of 1.8% for Latvia in 2016, slightly falling to 1.6% in 2017. This is explained by EC's approach to output gap estimation – a common methodology is used for all European Union countries. One of the key assumptions in EC's methodology that makes the output gap for Latvia positive is a higher potential unemployment rate than MoF estimates. The Council supports MoF's opinion that the optimal unemployment rate for Latvia's economy currently could be around 8%.

Several risks should be mentioned regarding the potential GDP and output gap developments:

- There is a risk of potential GDP growth slowing down in the medium term if structural reforms concerning the labour market (this includes education, especially tertiary education and vocational education, and healthcare) and other spheres are not implemented effectively.
- The Council sees the labour market of Latvia as warming up (this is substantiated by the low unemployment indicators for Latvia as a whole and in particular for Riga region, as well as the growth rate of wages exceeding that of labour productivity). This means that with the current trends in the labour market continuing, the economy of Latvia may develop an even more pronounced positive output gap than reflected in MoF's forecast over the horizon period.

	2016	2017	2018	2019
Real GDP growth	**3.0**	**3.3**	**3.4**	**3.4**
Nominal GDP growth	**4.3**	**5.8**	**6.3**	**6.5**
Inflation	**0.4**	**2.0**	**2.5**	**2.5**
GDP deflator	**1.3**	**2.4**	**2.8**	**2.9**
Potential GDP growth	**2.7**	**2.8**	**3.0**	**3.0**
Output gap	**-0.3**	**0.1**	**0.5**	**0.9**

Table 2.2 Macroeconomic forecast indicators endorsed by the Council.

Skaitlisko nosacījumu izpildes kopsavilkums[1]
P2.1.tabula

Summary of numerical conditions fulfilment[1]
Table P2.1

(milj. eiro)
(million euro)

	2017		2018		2019		
	FM MoF	Padome Council	FM MoF	Padome Council	FM MoF	Padome Council	
(1) Bilances nosacījums	8 267,8	8 232,8	8 795,6	8 680,1	8 926,1	8 774,0	(1) Balance rule
(2) Izdevumu pieauguma nosacījums	8 608,3	8 496,0	8 812,7	8 741,0	8 875,3	8 768,8	(2) Expenditure growth rule
(3) Pārmantojamības nosacījums	x	x	x	x	x	x	(3) Continuity rule
(4) = MIN [(1);(2)]	8 267,8	8 232,8	8 795,6	8 680,1	8 875,3	8 768,8	(4) = MIN [(1);(2)]
(5) = (4) - (3)	x	x	x	x	x	x	(5) = (4) - (3)
(6) = [5]	x	x	x	x	x	x	(6) = [5]
(7) Iekšzemes kopprodukts, faktiskajās cenās	26 903,4	26 903,4	28 584,7	28 584,7	30 429,2	30 429,2	(7) Gross domestic product, at current prices
(8) 0,1% no IKP, (8) = 0,1%* (7)	26,9	26,9	28,6	28,6	30,4	30,4	(8) 0,1% of GDP, (8) = 0,1%* (7)
(9) Valsts budžeta maksimālie izdevumi atbilstoši fiskālajiem nosacījumiem, (9) = IF [(6) > (8); (4); (3)]	8 267,8	8 232,8	8 795,6	8 680,1	8 875,3	8 768,8	(9) CG maximally permissible expenditure in accordance with fiscal rules, (9) = IF [(6) > (8); (4); (3)]
(10) Fiskālā nodrošinājuma rezerve	26,9	26,9	28,6	28,6	30,4	30,4	(10) Fiscal safety reserve
(11) Valsts budžeta izdevumi, ņemot vērā fiskālā nodrošinājuma rezervi, (11) = (9) - (10)	8 240,9	8 205,9	8 767,0	8 651,5	8 844,8	8 738,4	(11) CG expenditure, taking into account fiscal safety reserve, (11) = (9) - (10)

Avots: Finanšu ministrija, Fiskālās disciplīnas padomes aprēķini

Source: Ministry of Finance, Fiscal Discipline Council calculations

[1] *Padome veica FDL skaitlisko kritēriju izvērtēšanu balstoties uz SP 2016./19. un tās sagatavošanas stadijā 2016.gada 24.martā no FM saņemtajem datiem. Tālākajā darbā pie gadskārtējā valsts budžeta 2017.gadam un vidēja termiņa budžeta ietvara 2017./19. gadiem sagatavošanas stadijā šie rādītāji varētu mainīties.*

[1] *The Council performed FDL numerical conditions evaluation on the basis of the SP 2016/19 and on 24 March 2016 received data from the MoF at the preparatory phase. During the further work on the annual state budget 2017 and medium-term budget framework 2017/19 these figures could change.*

Bilances nosacījums
Balance rule

P2.2.tabula
Table P2.2

(milj. eiro)
(million euro)

	2017		2018		2019		
	FM MoF	Padome Council	FM MoF	Padome Council	FM MoF	Padome Council	
(1) Valsts budžeta ieņēmumi (naudas plūsmas metode)	8 039,1	8 039,1	8 796,0	8 796,0	8 871,1	8 871,1	(1) Central government budget revenue (cash-flow)
(2) Pašvaldību budžeta bilance	-25,9	-25,9	-53,3	-53,3	-56,3	-56,3	(2) Local government budget balance
(3) No valsts budžeta daļēji atvasināto publisko personu un budžeta nefinansētu iestāžu budžeta bilance	-3,3	-3,3	-3,8	-3,8	-6,9	-6,9	(3) Derived public persons budget balance
(4) EKS korekcijas	-16,5	-16,5	-234,8	-234,8	-83,9	-83,9	(4) ESA corrections
(5) Minimāli atļautā strukturālā bilance, % no IKP	-1,05	-0,92	-1,19	-0,79	-1,00	-0,50	(5) Minimal structural balance, % of GDP
(6) Vienreizējie pasākumi, % no IKP	x	x	x	x	x	x	(6) One-off, % of GDP
(7) Cikliskā komponente, % no IKP	0,0	0,0	0,2	0,2	0,3	0,3	(7) Cyclical component, % of GDP
(8) IKP, faktiskajās cenās	26 903,4	26 903,4	28 584,7	28 584,7	30 429,2	30 429,2	(8) GDP, at current prices
Kopā (1)+(2)+(3)+(4)-[(5)+(6)+(7)]*(8)	**8 267,8**	**8 232,8**	**8 795,6**	**8 680,1**	**8 926,1**	**8 774,0**	**Total** (1)+(2)+(3)+(4)-[(5)+(6)+(7)]*(8)

Avots: Finanšu ministrija, Fiskālās disciplīnas padomes aprēķini

Source: Ministry of Finance, Fiscal Discipline Council calculations

Izdevumu pieauguma nosacījums
Expenditure rule
(milj. eiro)
(million euro)

P2.3.tabula
Table P2.3

	2017		2018		2019		
	FM MoF	Padome Council	FM MoF	Padome Council	FM MoF	Padome Council	
(1) Vispārējās valdības kopējie izdevumi	9 776,9	9 716,0	10 426,3	10 293,6	10 643,2	10 507,2	(1) GG total expenditure
(2) Procentu maksājumi, D.41	278,4	278,4	279,0	279,0	308,5	308,5	(2) Interest expenditure, D.41
(3) ES programmu izdevumi, kuriem ir atbilstoši ES fondu ieņēmumi	1 115,0	1 115,0	1 223,0	1 223,0	1 193,8	1 193,8	(3) Expenditure on EU programmes fully matched by EU funds revenue
(4.1) Bruto pamatkapitāla veidošana (BPKV), t-3, P.51	1 042,7	1 042,7	1 104,4	1 104,4	949,4	949,4	(4.1) Gross fixed capital formation (GFCF), t-3, P.51
(4.2) BPKV, t-2, P.51	1 104,4	1 104,4	949,4	949,4	1 217,9	1 217,9	(4.2) GFCF, t-2, P.51
(4.3) BPKV, t-1, P.51	949,4	949,4	1 210,0	1 210,0	1 366,1	1 366,1	(4.3) GFCF, t-1, P.51
(4.4) BPKV, t, P.51	1 210,0	1 210,0	1 366,1	1 366,1	1 317,2	1 317,2	(4.4) GFCF, t, P.51
(5) Nediskrecionāras bezdarba izmaiņas	-22,0	-22,0	-24,8	-24,8	-26,3	-26,3	(5) Non-discretionary change in unemployment
(6) Diskrecionāri ieņēmumu pasākumi	285,7	151,2	44,2	44,2	-122,2	-122,2	(6) Discretionary revenue measures
(6.1) Valdības nodokļu politikas izmaiņas	151,2	151,2	121,4	121,4	-35,1	-35,1	(6.1) Government tax policy changes
(6.2) Pensiju reformas atkāpes izmaiņas	134,5		-77,2	-77,2	-87,0	-87,0	(6.2) Changes in deviation on pension reform
(7) Izlīdzinātie kopējie izdevumi (nominālie), (7) = (1)-(2)-(3)-(4.4.)+[VID (4.1) (4.2) (4.3)]	8 250,1	8 189,2	8 715,7	8 583,1	9 036,3	8 900,3	(7) Smoothed total expenditures (TE) (nominal), (7) = (1)-(2)-(3)-(4.4.)+[AVE (4.1) (4.2) (4.3)]
(8) Koriģētie kopējie izdevumi (nominālie), (8) = (7)-(5)-(6)	7 986,4	8 060,0	8 696,3	8 563,6	9 184,7	9 048,7	(8) Adjusted TE (nominal), (8) = (7)-(5)-(6)
(9) Nominālo koriģēto kopējo izdevumu pieaugums, %	0,7	1,4	5,4	4,6	5,4	5,4	(9) Growth of nominal adjusted expenditure, %
(10) IKP deflators, %	2,4	2,4	2,8	2,8	2,9	2,9	(10) GDP deflator, %
(11) Reālo koriģēto izdevumu pieaugums, %	-1,6	-1,0	2,6	1,7	2,4	2,4	(11) Growth of real adjusted expenditure, %
(12) Potenciālā IKP 10 gadu vidējais pieaugums, %	2,6	2,6	2,7	2,7	2,8	2,8	(12) 10-year average growth of potential GDP, %
(13) Deficītu samazinošais faktors, %	-1,5	-1,5	-1,5	-1,5	-1,5	-1,5	(13) Deficit reduction factor, %
(14) Potenciālais pieaugums bez VTM, %, (14) = (12)+(13)	1,1	1,1	1,2	1,2	1,3	1,3	(14) Potential growth reference rate if not at MTO, %, (14) = (12)+(13)
(15) Potenciālais pieaugums ar VTM, %, (15) = (12)	2,6	2,6	2,7	2,7	2,8	2,8	(15) Potential growth reference rate, if at MTO, %, (15) = (12)
(16) Vispārējās valdības kopējie izdevumi, ja kopējo izdevumu pieaugums = potenciālā IKP pieaugumu	10 118,4	10 006,1	10 444,5	10 372,8	10 644,0	10 537,6	(16) GG total expenditure, if TE growth = potential GDP growth
(17) Vispārējās valdības kopējie ieņēmumi	9 503,5	9 503,5	10 135,9	10 135,9	10 492,7	10 492,7	(17) GG total revenue
(18) Valsts budžeta ieņēmumi (naudas plūsmas metode)	8 039,1	8 039,1	8 796,0	8 796,0	8 871,1	8 871,1	(18) CG budget revenue (cash-flow)
(19) Pašvaldību budžetu bilance	-25,9	-25,9	-53,3	-53,3	-56,3	-56,3	(19) Local government budget balance
(20) No valsts budžeta daļēji atvasināto publisko personu un budžeta nefinansētu budžeta iestāžu budžetu bilance	-3,3	-3,3	-3,8	-3,8	-6,9	-6,9	(20) Derived public persons budget balance
(21) EKS korekcijas	-16,5	-16,5	-234,8	-234,8	-83,9	-83,9	(21) ESA corrections
Kopā (18)-[(17)-(16)-(19)-(20)-(21)]	**8 608,3**	**8 496,0**	**8 812,7**	**8 741,0**	**8 875,3**	**8 768,8**	**Total** (18)-[(17)-(16)-(19)-(20)-(21)]

Avots: Finanšu ministrija, Fiskālās disciplīnas padomes aprēķini

Source: Ministry of Finance, Fiscal Discipline Council calculations

Pārmantojamības nosacījums
Continuity principle

P2.4.tabula
Table P2.4

(milj. eiro)
(million euro)

	2017	2018	
(1) Koriģētie maksimāli pieļaujamie valsts budžeta izdevumi (precizētais Vispārējās valdības budžeta plāna projekts 2015.gadam)	6 808,0	7 237,7	(1) Adjusted maximum permissible state budget expenditure (updated Draft budgetary plan of 2015)
koriģēto maksimāli pieļaujamo valsts budžeta izdevumu korekcijas saskaņā ar FDL 5.pantu, t.sk.:			*adjustments of maximum permissible state budget expenditure according to the FDL Article 5, incl.:*
1) pamatbudžeta izdevumos sakarā ar aktuālākām valsts sociālo pabalstu un pensiju saņēmēju kontingenta prognozēm;[2]	0,0	0,0	1) state budget expenditure due to more actual forecasts in contingent receiving state social allowances and pensions;[2]
2) speciālā budžeta izdevumos sakarā ar aktuālākām sociālās apdrošināšanas pakalpojumu saņēmēju kontingenta, kā arī pensiju un pabalstu vidējā apmēra prognozēm;	45,7	56,7	2) state social security budget expenditure due to more actual forecasts in contingent receiving social security services, so as forecasts of average amount of pensions and allowances;
3) izdevumos, kuri izriet no prognozēto maksas pakalpojumu un citu pašu ieņēmumu izmaiņām, kā arī no kārtējā gada sākumā fiksētās maksas pakalpojumu un citu pašu ieņēmumu atlikuma summas;	1,0	1,0	3) expenditure, which results from change in forecasted revenues from paid services and other self-earned revenues as well as fixed sum of remaining revenues from paid services and other self-earned revenues at the beginning of current year;
4) to izdevumu palielināšana, kuri nepieciešami Satversmes 62.pantā minētā apdraudējuma novēršanai, kā arī dabas katastrofu, avāriju un citu dabas vai sociālo procesu izraisītu materiālo zaudējumu novēršanai, — ievērojot FDL 12.panta otrās daļas nosacījumu;	0,0	0,0	4) increase of expenditure which is subject to the Constitution Article 62 as well as material losses arising from natural disasters, emergencies and natural or social processes complying with provision of second Paragraph of the FDL Article 12;
5) to izdevumu palielināšana, kuri nepieciešami, lai izpildītu starptautisko tiesu un Satversmes tiesas spriedumus;	0,0	0,0	5) increase of expenditure necessary for execution of verdicts of international courts and Constitutional court;
6) izdevumos saistībā ar Eiropas Savienības politiku instrumentu un pārējās ārvalstu finanšu palīdzības līdzekļu finansētiem projektiem un pasākumiem;	-53,7	10,0	6) expenditure in relation with projects and measures financed from European Union policy instruments and other foreign financial assistance programmes;
7) izdevumos tās valsts parāda daļas apkalpošanai, kura ietilpst Valsts kases kompetencē;	-17,0	-17,0	7) expenditure for servicing that part of state debt falling under the competence of the Treasury;
8) kārtējos maksājumos Eiropas Savienības budžetā un starptautiskai sadarbībai;	1,9	2,1	8) regular payments in the budget of the European Union and for international co-operation;
9) FDL 16.panta piektajā daļā neminētu fiskālo risku izraisīto izdevumu palielināšana FDL 17.panta ceturtajā un piektajā daļā minētajos gadījumos, — ievērojot šo daļu nosacījumus;	0,0	0,0	9) increase of expenditure related to fiscal risks not mentioned in the fifth Paragraph of the FDL Article 16 in accordance with fourth and fifth Paragraphs of the FDL Article 17, by complying with provisions of these Paragraphs;
10) to izdevumu palielināšana, kuri izriet no normatīvā akta pieņemšanas saskaņā ar FDL 9.pantu, ja atbilstoši tā nosacījumiem pieņemts normatīvais akts, kas paredz palielināt valsts budžeta ieņēmumus, lai segtu attiecīgo izdevumu palielinājumu, vai izdevumu samazināšana apjomā, kas kompensē valsts budžeta ieņēmumu kritumu, ja tiek pieņemts normatīvais akts, kas paredz samazināt valsts budžeta ieņēmumus.	0,0	0,0	10) increase of expenditure resulting from adopting of normative act in accordance with the FDL Article 9, if according its provisions normative act is adopted which foresees to increase state budget revenues in order to cover respective increase of expenditure or reducing expenditure in amount compensating fall in state budget revenues, if normative act is adopted foreseeing to reduce state budget revenues.
(2) Faktiskie ES fondu izdevumi pozīcijās, kas pakļaujas izlīdzināšanai	1 168,1	1 254,4	(2) Expenditure of European Union structural funds, Cohesion fund, Common Agricultural Policy and Common Fisheries Policy as subject to the smoothing mechanism
(3) Valsts parāda vadības izdevumi pozīcijās, kas pakļaujas izlīdzināšanai	293,4	285,4	(3) Government debt service expenditure, what is in the Treasury's competence as subject to the smoothing mechanism
Kopā (1)+ [Summa no 1) līdz 10)]+(2)+(3)	**8 247,3**	**8 830,3**	**Total** (1)+ [Sum from 1) to 10)]+(2)+(3)

Avots: Finanšu ministrija, Labklājības ministrija, Fiskālās disciplīnas padomes aprēķini

Source: Ministry of Finance, Ministry of Welfare, Fiscal Discipline Council calculations

[2] 2016.gada 6.aprīļa Fiskālās disciplīnas padomes sēdē Labklājības ministrijas pārstāvji apstiprināja Finanšu ministrijas sniegto informāciju par to, ka kontingenta izmaiņu prognozes attiecībā uz pamatbudžetu, būs pieejamas lielākā noteiktībā uz gadskārtējā valsts budžeta 2017.gadam un vidējā termiņa budžeta ietvara 2017./19.gadiem veidošanu.

[2] On 6 April 2016 Fiscal discipline council meeting the representatives of the Ministry of Welfare prooved the information provided by the Ministry of Finance on the forecasts of contigent changes in the basic budget availability (in better quality) at the stage of preparation of annual state budget 2017 and medium-term budget framework 2017/19.