LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

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To ______ No ______

Mrs Baiba Bāne
State Secretary
Ministry of Finance
e-mail: pasts@fm.gov.lv

Mrs Inta Vasaraudze
The Director of
Department of Economic Analysis

On the endorsement of the macroeconomic indicator forecast with commentaries

Dear Mrs B. Bāne,
Dear Mrs I. Vasaraudze!

According to Article 20 of the Fiscal Discipline Law (hereafter – FDL) medium-term macroeconomic forecasts, including forecasts of growth rate of the gross domestic product (hereafter – GDP), deflator forecasts of the GDP and forecasts of growth rate of the potential GDP shall be developed by the Ministry of Finance (hereafter – MoF). According to the Article 28, Part 2 of the FDL, the Fiscal Discipline Council (hereafter – Council) shall perform an independent assessment of potential GDP and nominal GDP calculation by the MoF.

Article 4, Part 4 of *the Regulation (EU) Nr.473/2013 (21 May 2013) of the European Parliament and the Council on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area*, stipulates that draft annual state budget and draft medium term budget framework (hereafter – MTBF) shall be based on independent macroeconomic forecasts that are prepared or endorsed by independent bodies.

According to the Memorandum of Understanding (hereafter – MoU) between the MoF and the Council, signed on 8 February 2016, the Council shall assume the responsibility of the independent body and endorse the MoF macroeconomic forecasts twice a year – (i) while preparing the Stability Programme, and (ii) the annual state budget and the MTBF.

The first version of the macroeconomic forecast for drafting *Latvia's Stability Programme (hereafter – SP) 2018-2021* was provided to the Council by the MoF on 5 February 2018, and later on 8 February 2018 with incorporated changes to the macroeconomic framework suggested by external consultations with the Ministry of Economics and the Bank of Latvia.

The MoF's macroeconomic forecast was presented and discussed at the Council meeting with the MoF on 9 February 2018. As a result of the discussion, ***the Council did not agree with the 2017 output gap as 0.1% of potential GDP***, asking the MoF to clarify macroeconomic projections.

On 12 February 218 the Council received the updated macroeconomic projections by the MoF – adjusting the potential GDP growth and output gap for 2016-2025, and ***decided to endorse the macroeconomic indicators forecast for the purposes of preparing the SP 2018-2021*** (for the list of the endorsed macroeconomic indicators see Table 1 below) ***with such commentaries***:

The Council draws attention to the fact that the inflation forecast for 2019-2021 has been developed relatively cautiously. The Council finds substantial risks of prices accelerating mostly because of the labour market conditions and the steady wage growth. Wage growth and accelerating inflation beyond the current MoF's forecasts would highlight deterioration of productivity and result as lower economic growth potential and would indicate widening positive output gap.

The Council expresses its gratitude for the smooth co-operation and data exchange with colleagues from the MoF.

	2018	2019	2020	2021
Real GDP growth	**4.0**	**3.4**	**3.0**	**2.9**
Nominal GDP growth	**7.2**	**6.5**	**5.8**	**5.4**
Inflation (consumer prices)	**2.8**	**2.4**	**2.1**	**2.1**
GDP deflator	**3.1**	**3.0**	**2.7**	**2.5**
Potential GDP growth	**3.4**	**3.4**	**3.3**	**3.3**
Output gap	**1.1**	**1.0**	**0.7**	**0.3**

Table 1. Endorsed macroeconomic indicators by the Council.

Annex: opinion on the Ministry of Finance's macroeconomic forecast.

Kind regards,

Council chairman J. Platais