



LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

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RIGA

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To _____ No _____

Mrs Baiba Bāne
State Secretary
Ministry of Finance

Mrs Inta Vasaraudze
The Director of
Department of Economic Analysis

On the endorsement of the macroeconomic indicator forecast

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 MoF's macroeconomic forecast for *the Stability Programme 2019-2022* was first submitted to the Council in 6 February 2019 and presented and discussed at the Council meeting on 7 February 2019. After the Council meeting, the Council prepared a list of follow-up questions for the MoF that were discussion between the parties on 11 February 2019.

On 11 February after discussion between the Council and MoF, *a decision was made to endorse the macroeconomic indicators forecast for the purposes of preparing the SP 2019-2022 with such commentaries:*

The Council agrees that the current output gap is larger-positive than previously forecasted, as the Council has pointed out in previous endorsements. The Council has taken into consideration the changes in GDP data and its price levels after revision of data series for last 10 years.

The Council points to possible risks to the development of the Latvian economy, that have appeared in 2018 and will be present in 2019, including less favourable international trade, lower external demand, Brexit, insufficient progress with implementation of Moneyval recommendations. If conditions would evolve unfavourable, the real GDP growth rate may fall, although in the last forecast it is 0.2 percentage points higher than forecast in October 2018. Furthermore, the consequences of insufficient progress with implementation of Moneyval recommendations could lead to significant risks for further Latvia's economic growth.

The Council does not observe sufficient measures in the Government's work plan to achieve structural improvements in the labour market that would contribute to higher potential GDP growth.

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

	2019	2020	2021	2022
Real GDP growth	3.2	3.0	2.9	2.9
Nominal GDP growth	6.4	5.9	5.5	5.5
Inflation (consumer prices)	2.5	2.2	2.1	2.0
GDP deflator	3.1	2.8	2.5	2.5
Potential GDP growth	3.5	3.4	3.2	3.2
Output gap	1.4	1.0	0.7	0.4

Table 1. Endorsed macroeconomic indicators by the Council.

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

Kind regards,

Council chairman

J. Platais