



LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

Reģ.nr. 90010248231; Smilšu ielā 1-512, Rīgā, LV-1919
tālrunis: (+371) 6708 3650; e-pasts: info@fdp.gov.lv; mājaslapa: http://fdp.gov.lv

RIGA

25.06.2019. No 1-08/724

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

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 Medium-term budget framework for 2020-2022 was provided to the Council by the MoF on 11 June 2019 incorporating changes to the macroeconomic framework endorsed on 14 February 2019. The MoF's macroeconomic forecast was discussed at the Council meeting with the MoF on 13 June 2019.

On 13 June after discussion between the Council and MoF, *a decision was made to endorse the macroeconomic indicator forecast for 2019 with comments.*

The Council agrees that the current output gap is in line with what previously forecasted with slightly reduced output gap forecasts for the years starting from 2020. As there have been no adjustments made to the growth of potential GDP, all the impact on output gap comes from changes made to the real GDP growth rates.

The Council points at much slower products and imports tax revenue growth (at +1.3%) compared to the fast growth of wage bill (at +8%) along with the operating surplus of businesses (at +7.1%) in period from 2018 to 2019, from the GDP income prospective. Council, in its previous reports, has highlighted the risks associated with the Tax Reform implementation, which has a negative impact on public revenue. Both members of the Council and representatives of the Ministry of Finance agreed, that in 2018 Latvia passed the peak in the economic cycle, which is expected to be followed by a moderate slowdown of economic growth in the near future.

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	2.8	2.8	2.8
Nominal GDP growth	6.4	5.6	5.3	5.3
Inflation (consumer prices)	2.8	2.5	2.1	2.0
GDP deflator	3.1	2.7	2.4	2.4
Potential GDP growth	3.5	3.4	3.2	3.2
Output gap	1.4	0.8	0.4	0.0

Table 1. Macroeconomic indicators.

Kind regards,

Deputy Chairman of Fiscal Discipline Council

I.Eriņš