



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

17.02.2020. No 1-08/96

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 8th 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.

Because of the above and because of Article 23 of the Fiscal Discipline Law- terms of the three members of the Council have expired on December 31, 2019- and until now, according to the provisions of the Fiscal Discipline Law, replacement three candidates for Council was not nominated for approval by the Saeima: for that reason the Council works in incomplete staff. In accordance with Article 30 (3) of the Fiscal Discipline Law, that means that the Council has no quorum (as at least four of its members) and cannot take a formal decision. Because of this, the Council will express an opinion on the macroeconomic forecasts.

The MoF's macroeconomic forecasts for the Stability Programme 2020-2023 were first submitted to the Council on 7th February 2020. These forecasts were updated, compared to earlier forecasts endorsed by Council on 25th June 2019. At the Council meeting on 11 February 2020, the updated macroeconomic forecasts were discussed with the MoF.

On 11 February after discussions between the Council and MoF, the Council expressed an opinion that the MoF macroeconomic forecasts for the period 2020-2023 are realistic and acceptable for the purposes of preparing the SP 2020-2023 with commentaries, according to point 4.4.2. of MoU.

The Council wishes to highlight the global and local risks that may reduce economic growth in the coming years, especially in 2021/22, which should be taken into account in the sensitivity analysis of macroeconomic development scenarios:

1. *The impact of untraditional warm and humid winters (observed in previous years) and its impact on performance of the energy market and the forestry sector;*
2. *The impact of the decrease of investments during the period of decrease of EU funds financing;*
3. *Recession in the freight transit industry, Low lending activity to business and individuals and possible consolidation of the banking sector;*
4. *The impact of the global COVID-19 epidemic.*

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

	2019	2020	2021	2022	2023
Real GDP growth	2.1	2.2	2.8	2.8	2.4
Nominal GDP growth	5.2	5.0	5.3	5.1	4.6
Inflation (consumer prices)	2.8	2.3	2.1	2.0	2.0
GDP deflator	3.0	2.7	2.4	2.3	2.2
Potential GDP growth	3.0	2.9	2.9	2.8	2.9
Output gap	1.1	0.5	0.4	0.4	0.0

Table 1. Endorsed macroeconomic indicators by the Council.

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

Kind regards,

Council chairwoman

I. Šteinbuka