



LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

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Fiscal discipline council
Fiscal safety reserve assessment working group meeting
Minutes Nr. 2 (15)

Rīga

20 August 2021

Chairperson:

Member of the Fiscal Discipline Council, head of the FR working group M.Āboliņš.

Participants:

Member of Fiscal Discipline Council	A.Jakobsons
<i>Secreteriat –</i>	
Fiscal Discipline Council secretary	N.Malnačs
Fiscal Discipline Council fiscal risks expert	A.Migunovs
Fiscal Discipline Council lawyer-clerk	I.Jansone
Fiscal Discipline Council macroeconomic expert	V.Zaremba

Taking minutes:

Fiscal Discipline Council lawyer-clerk

I. Jansone

The meeting starts at 14:00 and takes place in remote meeting mode via MS Teams.

M.Āboliņš opens the meeting

The head of the FR working group M.Āboliņš opens the meeting.

The head of the FR working group M.Āboliņš opens the meeting and thanks the working group for operatively reviewing the fiscal risks declaration.

1. Fiscal risks declaration (FRD)

The head of the fiscal risks working group M. Āboliņš informs that the Ministry of Finance has prepared the Fiscal Risk Declaration, which provides that the fiscal security reserve for years 2022, 2023 and 2024 at the minimum amount stated in the Fiscal Discipline Law, i.e. 0.1% of GDP. However, because of the spread of Covid-19 infection, the EU fiscal framework in 2022 does not set a maximum expenditure ceiling for the 2022 state budget, the fiscal security reserve is formal in the context of the 2022 budget.

N. Malnačš points out that although the FRD covers most of the potential fiscal risks, the declaration can be improved by expanding the information on fiscal risks related to: the impact of state-owned companies on the GGBB, Deposit Guarantee Fund liabilities, Maintenance Guarantee Fund expense dynamics, and the impact of macroeconomic shocks on the GGBB.

The members of the fiscal risks working Group discuss possible improvements to the fiscal risks declaration, the adequacy of the risks addressed in the fiscal risks declaration (FRD), and the adequacy of the fiscal risk reserve allocated to cover the risks mentioned in the statement.

The working group concludes from the discussion that currently state joint-stock companies are one of the largest sources of fiscal risks, which already has and may continue to have an impact on the GGBB. This applies both to those companies which belong to the general government sector and to those that do not. The working group considers that, in the light of historical data, it would be necessary to establish a reserve for this source of risk in the future. Currently, the biggest concerns are the existing and potential impact of Latvijas dzelzceļš and Airbaltic on the GGBB.

A. Jakobsons, a member of the working group, starts a discussion on the proportionality of AirBaltic support. N. Malnačš points out that support is needed because Covid-19 has had a very significant impact on the air transport industry, with most countries supporting their airlines. However, the fact that information on Airbaltic's business and financial plans is not provided is negative, which makes it difficult to assess the adequacy of state aid.

The working group concludes that the FRD has a separate section on fiscal risks associated with Altum and is pleased that the MoF is paying increased attention to Altum. However, the working group would like the FRD to reflect more details on Altum monitoring.

The working group notes that the financial sector section of the FRD has improved. However, the section still needs to be expanded. For example, including planned cash flow (Pasta bank) of the Deposit Guarantee Fund.

The working group concludes that the debt of Maintenance Guarantee Fund to the state on July 1 of this year has already reached 429 million euros, which is a huge amount. There are signs that the system needs serious reform. The amount of the debt is significant enough to be devoted to a separate section in FRD.

M. Āboliņš concludes that in the future, when the fiscal regulation will be in force again, it would be desirable to include the pessimistic macroeconomic scenario in the declaration of fiscal risks, with a correspondingly calculated fiscal reserve.

M. Āboliņš also points out that the FRD analyzes the comparison of the results of the occurrence of fiscal risks with the forecasted impact, often concluding that the fiscal risk is symmetric. However, the FRD could be improved by analyzing the factors that led to the difference.

Referring to the above, the Fiscal Discipline Council's fiscal reserve adequacy assessment working group **d e c i d e d:**

1.1. To take note of the information provided by the Ministry of Finance in Fiscal Risks Declaration;

1.2. To accept the fiscal security reserve in the amount of 0.1% of GDP for 2022. Postpone the

opinion on the fiscal reserve for years 2023 and 2024;

1.3. Note the following recommendations for further completion and improvement of the Fiscal Risks Declaration:

- The FRD requires a more detailed analysis of the activities of state-owned companies and their impact on the GGBB. This risk requires the creation of a fiscal reserve. The risk related to the possible classification of SJSC Latvijas dzelzceļš in the general government sector should be further analyzed and expanded;
- There is a need for deeper monitoring and analysis of the use and allocation of Covid-19 support programs administered by JSC “Development Financial Institutions Altum”;
- There is insufficient analysis and information published on the state aid requested by and granted to AirBaltic. In addition, considering the regularity of the company's demand for funds, the risk of future requests for funds has a high probability of fulfillment;
- There is a significant risk related to the liabilities administered by the Ministry of Welfare in relation to the debt of non-payers to the Maintenance Guarantee Fund. The debt has reached approximately EUR 429 million, but Fund is still not included and analyzed in the FRD;
- As the realization of environmental protection goals in the coming years will require additional investments, including from the state budget, in the future the FRD should devote a special section to the analysis of such fiscal risks;
- Considering that macroeconomic shocks are one of the most significant sources of fiscal risks, it is desirable to develop a pessimistic scenario of macroeconomic development and to create a corresponding fiscal reserve;
- Risks in FRD are analyzed and assessed as symmetric or asymmetric. But a more in-depth analysis of the causes of past risks that materialized is needed to better assess the likelihood of these risks in the future.

1.4 Express a detailed opinion on the FRD in the surveillance report

M.Āboliņš – for;

A.Jakobsons – for;

The meeting closes at 15:00.

Head of the working group

M. Āboliņš

Secretary of the meeting

I.Jansone

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