



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

Fiscal discipline council
Potential and nominal GDP assessment working group
Minutes No 2 (18)

Riga

4 August 2022

Chairman:

Member of Fiscal Discipline Council deputy chairman, Head of the Potential and nominal GDP assessment working group (GDP WG) – **M.Hansen**

Participants of the meeting:

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

Invited persons paragraph 1 and 2 of the agenda:

Head of Monetary Policy Department, the Bank of Latvia	U.Rutkaste
Chief Economist of the Macroeconomic Analysis Division, Monetary Policy Department, the Bank of Latvia	D.Paula
Member of Fiscal Discipline Council	I.Golsts

Taking minutes:

Meeting secretary

I.Jansone

The meeting starts at 11:00 and takes place in remote meeting mode via MS Teams.

M.Hansen opens the meeting

Head of the GDP WG opens the meeting and announces the agenda.

1 Discussions on main issues of the Latvian economy development and baseline scenario, incl. potential GDP growth and output gap assumptions

Reporters: U. Rutkaste, D.Paula

U. Rutkaste: informs about significant developments and challenges in the Latvian economy, talks about the initiated work on the economic projections update and the upcoming research on the causes of the sharp inflation growth. Informs about the assumptions on technical recession at the end of the year, the risk of a new Covid outbreak, the slowdown of economic activity and the drop in demand.

D. Paula: reports on the main current developments in the Latvian economy in the first half of 2022 and the macroeconomic projections published by the Bank of Latvia in June. The economy continues to be

threatened by the war in Ukraine, the rapid rise in inflation, and the dynamics of consumer behaviour and the decrease in demand. Reports the latest available quarterly statistics for GDP, sectoral trends, labour market statistics, and assumptions about average wage development trends. Analyses structural changes in export and import in the context of trade disruptions between Latvia and Russia and Belarus. Reports on operational and medium-term solutions for natural gas shortage prevention.

Participants discussed the main risks of economic development in the coming years.

Decision:

1.1 To take note of the Bank of Latvia presentation on the baseline scenario, and current developments of the Latvian economy.

M.Hansen votes for;

I.Šteinbuka votes for.

2 Discussions on Latvian economy alternative development scenarios

I.Šteinbuka: asks about the specific causes of the high inflation rate in the Baltic countries, which is half as high as in the other EU countries.

U. Rutkaste: the main factor determining Baltic inflation is the structure of the consumption basket the large share of which takes the food and housing maintenance costs. Another factor is the regional specificity of the energy market, including relatively shorter fixed connection tariff terms. Competition in the labour market and labour shortages also affect inflation growth. BoL works on research on the causes of inflation, which will be published in early October.

I. Šteinbuka: asks about foreign trade structure changes impact on the economy. How the exports and imports closure between Latvia and Russia and Belarus affected businesses.

U. Rutkaste: It is indicated that the negative impact exists, however, it is smaller than it was initially expected, and entrepreneurs have mostly been able to diversify their exports and supply markets.

M. Hansen: Asks about the GDP forecast for next year and whether it is too optimistic, what will be the drivers of growth?

U. Rutkaste: The GDP forecast was updated in June, and it was largely influenced by the GDP growth of the first quarter. The GDP forecast will be revised soon in September/October and will be based on the latest data. In general, this year's forecasts are unlikely to be radically changed, but slower economic growth is expected next year.

N. Malnačs: asks whether the decrease in private car purchases this year and the rising fuel prices have affected fuel consumption volumes.

D. Paula: comments that with the beginning of the war in Ukraine, there was a rapid trend of fuel demand, which soon stabilized. The latest June data do not show a decrease in fuel consumption.

Participants discussed the economic development scenarios in context of identified risks.

Decisions:

2.1 To take note of the Bank of Latvia information on the Latvian economy alternative development scenarios.

M.Hansen votes for;

I.Šteinbuka votes for.

Meeting ends at 12:00.

Head of the working group

M.Hansen

Meeting secretary

I.Jansone