



LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

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Fiscal discipline council
Fiscal risks working group meeting
Minutes Nr. 1 (16)

Riga

18 August 2022

Chairperson:

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

Participants:

Member of Fiscal Discipline Council	I.Golsts
Member of Fiscal Discipline Council	A.Jakobsons
<i>Secretariat –</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
<i>The Ministry of Finance --</i>	
Deputy Director of the Fiscal Policy Department of the Ministry of Finance; Head of the Fiscal management division	I.Blauberģa
Deputy Head of the Fiscal Management Division of the Ministry of Finance	M. Trautmanis

Taking minutes:

Fiscal Discipline Council lawyer-clerk

I. Jansone

The meeting starts at 13:00 and takes place at the premises of FDC and in semi-remote meeting mode via MS Teams.

M.Āboliņš opens the meeting

The head of the FR working group M.Āboliņš opens the meeting and thanks the representatives of the Ministry of Finance for the opportunity to participate in the meeting.

M. Āboliņš: informs that the meeting with the representatives of the Ministry of Finance (MoF) has been organized to inform the representatives of the MoF about fiscal risks, which, in the view of the Fiscal risks working group (FRWG), should be reflected and analysed in more detailed manner in the annual Fiscal Risk Declaration (FRD). FRWG would like to know the MoF's opinion on the possibilities of an in-depth analysis of fiscal risks related to the impact of

(i) state-owned capital companies on the general government budget balance, (ii) the supervision of the support programs administered by JSC Altum, (iii) the amount of funds requested/allocated by AirBaltic, (iv) the development of the debt to the Maintenance Guarantee Fund administered by the Ministry of Justice (MOJ), (iiv) fiscal risks related to the goals of the Green Deal. In addition, the FRWG is interested in the opinion of the MoF regarding ex-post fiscal risks analysis, which would allow to prevent some cases recurrence in the future.

1. Supplementing the Fiscal Risk Declaration (FRD).

Report: MoF's representatives I. Blauberga, M. Trautmanis

MoF representatives indicate that the fiscal reserve for state capital companies is not planned, because in case of a wide economic crisis, the reserve will not be large enough to cover all losses. In addition, the analysis of the historical data of each state company, on which the fiscal reserve would be based, will not give accurate results in conditions of high uncertainty, so the fiscal risk of state JSC companies is not quantified for the time being. The situation with JSC "Latvijas dzelzceļš" should be mentioned separately, for which a special fiscal reserve may be created after an in-depth analysis of financial indicators, taking into account the impact of negative events in the company. MoF's representatives think that there is a high probability that AS "Latvijas dzelzceļš" will be classified under the public sector.

MoF has concluded that there remains a high probability that additional support will be needed for AirBaltic.

FRWG representatives: the financial support to AirBaltic needs to be more transparent in order to be able to assess its proportionality.

MoF representatives report on the situation of JSC Altum, concluding that it remains stable. Altum is currently backed by reserves and in-depth monitoring of the company is underway.

FRWG representatives: recommend analysing not only the overall activity of Altum, but also individual programs. Expresses concern about whether Altum is ready for a recession and will be able to offer support instruments that would promote counter-cyclical activity in the event of a possible economic crisis.

Discussion of participants

FRWG representatives: ask about the statistical classification of heat supply companies and indicate the risks of these companies in the next heating season, which may cause additional expenses in the state budget.

MoF representatives: answer that no special support measures are planned for these companies, which means that there will be no impact on the structural balance. In case, that additional support will be needed, it will be classified as a one-off event.

FRWG representatives offers to include in-depth analysis of the Maintenance Guarantee Fund (MGF) into next FRD, as the amount owed by defaulters to the fund is already reached 482 million euros and continues to grow every year.

MoF representatives: indicate that the fund's revenues and expenses are accounted according to the cash flow method, so as revenues and expenses of the basic state budget. Doubts whether annual costs from MGF can be classified as fiscal risk. However, MoF's representatives agree

to supplement the FRD with a thematic section on SGF.

FRWG representatives: recommend carrying out an assessment of the fiscal risks of achieving the goals of the Green Deal and to include such section in the FRD in the future.

MoF representatives: note that they would like to supplement the FRD with a section on the Green Deal, however, in the current conditions of high uncertainty, this kind of risks cannot be correctly assessed. In addition, the topic of the Green Course is very broad, so the creation of the relevant section requires greater resources and capacity than the MoF currently has at its disposal. However, work in this field will be carried out, as the MoF is aware of the potential fiscal impact of the Green Deal.

FRWG representatives: recommend expanding the analysis of fiscal risks to symmetric and asymmetric risks, especially those related to the financial sector. Although some risks were previously classified as symmetric or asymmetric in the FRD, historical data show that their effect is nonetheless negative. To make the analysis of such risks deeper, the FRDG also offers to study the causes of the occurrence of risks. In addition, the FRDG recommended a more detailed description of the risks of the financial sector from the point of view of their danger, as well as a description of the reserves to cover losses if the relevant risks occur.

The meeting closes at 14:00.

Head of the working group

M. Āboliņš

Secretary of the meeting

I.Jansone

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