



LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

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Council meeting minutes Nr 8 (60)

Rīga

01 December 2022

Chairwoman:

Chairwoman of Fiscal Discipline Council – I.Šteinbuka

Participants of the meeting:

Vice-Chairman of the Fiscal Discipline Council	M.Hansen
Member of the Fiscal Discipline Council	M.Āboliņš
Member of the Fiscal Discipline Council	A.Jakobsons
Member of the Fiscal Discipline Council	U.Kaasik
Member of the Fiscal Discipline Council	I.Golsts
<i>Secretariat –</i>	
Fiscal Discipline Council lawyer	I.Jansone
Fiscal Discipline Council macroeconomics expert	V.Zaremba

Invited participants 1 item of the agenda:

Ministry of Finance Director of Economic analysis department	I.Vasaraudze
Ministry of Finance Deputy Director of Economic analysis department, Head of Macroeconomic analysis division	D.Stikuts
Ministry of Finance Deputy Head of Unit of Macroeconomic analysis division	I.Vēja
Ministry of Finance senior expert of Economic analysis department	A.Jurša

Taking minutes:

Fiscal Discipline Council lawyer

I.Jansone

The meeting starts on December 01, 2022, at 16:00.

I.Šteinbuka opens the meeting

Fiscal Discipline Council (Council) chairwoman I.Šteinbuka opens the meeting and announces the agenda (annexed).

The meeting is partially remote, the Council discusses the agenda issues via MS Teams.

1 Macroeconomic forecasts presentation**Report:** I.Vasaraudze, D.Stikuts, A.Jurša, I.Vēja

The Ministry of Finance (hereinafter - FM) informs about the renewed macroeconomic forecasts for 2022 and forecasts for the next three-year period, which will be used as a basis for the development of the Medium-term Budget Framework for 2023-2025.

MoF's presentation is followed by a participant's discussion about presented forecasts, used assumptions and risks. Council members ask questions and listen to the MoF's answers about the assumptions of inflation forecasts in relation to wage growth, the possible GDP recession scenario and the distribution of investment flows.

Representatives of the Ministry of Finance:

Commenting on the Council's questions about the justification for the proportion of wage and inflation growth. MoF argued that, according to statistical data, the increase in the average wages does not indicate the formation of a wage/inflation spiral, and the increase in wages in the public sector has not been so rapid that forecasts could be based on the assumption that wages follow inflation. Also, the structural changes in the labour market are currently not so significant that wage growth can be expected significantly higher.

Regarding the Council's questions about the development of the recession MoF representatives commented. Currently, the most important recession trigger is household consumption, which shrinks as the structure of the population's consumption basket changes. The pessimistic economic confidence of consumers also shows that as consumer prices increase, especially housing maintenance expenses, purchasing power decreases.

Commenting on the Council's question about the flow of private and public investments, it is argued that the assumptions about the distribution of the flow, where public investment dominates, are justified, especially taking into account the schedule of the acquisition of EU funds. Expresses confidence that the government formation process cannot be an obstacle to the implementation of the schedule of EU funds, however, it may be threatened by an increase in costs above the previously calculated amount of expenses.

Decided:

1.1. Take note of the information submitted by the MoF on the forecasts of macroeconomic indicators.

I.Šteinbuka votes for;
 M.Hansen votes for;
 A.Jakobsons votes for;
 M.Aboliņš votes for;
 I.Golsts votes for;
 U.Kaasik votes for.

2 Internal discussions on macro forecasts

The Council members discuss the macroeconomic forecasts and comments by the MoF. Key takeaways:

- The Council emphasizes that the period of high uncertainty is still continuing. In the context of uncertainty, forecasts have been affected by a set of factors that drive revised projections in a pessimistic direction.
- The impact of inflation on wage development has not been fully reflected in the forecasts, however, MoF argumentation is acceptable.
- The increase in the prices of energy resources is not the only cause of inflation. Currently, the problem of disruptions in supply chains has also become an issue, which also manifests itself in the delay of production processes and the delivery of goods to consumers.

- The Council expresses concern about the possible increase in the deficit in the context of the upcoming recession. The updated forecasts foresee an economic downturn in 2023 and a negative output gap in 2023 and 2024. On the one hand, an expansive fiscal policy must be implemented during the recession, on the other hand, the fiscal space is already limited. Consequently, fiscal policy should be cautious given the limited fiscal space. However, it is necessary to ensure targeted support for socially vulnerable population.
- The Council has no significant objections to the forecasts of macroeconomic indicators submitted by the Ministry of Finance in general. The Council considers them acceptable at the current time of high uncertainty.
- The Council recommends updating the macroeconomic forecast in the 1st quarter of 2023.

Decided:

2.1 To endorse the forecasts of macroeconomic indicators submitted by the MoF and provide the MoF with an answer on the Council decision taken at the meeting within one working day.

2.2 To instruct the Council macro-economic expert V.Zaremba to prepare the summary of the meeting discussions.

2.3 To instruct the Council Secretariat to prepare and send the Council's opinion to the MoF in accordance with the provisions of the Cooperation Agreement.

I.Šteinbuka votes for;

M.Hansen votes for;

A.Jakobsons votes for;

M.Aboliņš votes for;

I.Golsts votes for;

U.Kaasik votes for.

The meeting was closed on December 01, 2022, at 17:00.

Council Chairwoman

I.Šteinbuka

Meeting Secretary

I.Jansone

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