



## LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

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### Council meeting minutes No. 3 (64)

Riga

31 March 2023

#### **Chairwoman:**

Chairwoman of Fiscal Discipline Council – I.Šteinbuka

#### **Participants of the meeting:**

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

#### **Taking minutes:**

Fiscal Discipline Council lawyer-clerk

I.Jansone

The meeting starts at 15.00.

#### **I.Šteinbuka opens the meeting.**

The Chairwoman of the Fiscal Discipline Council (hereinafter Council) I. Šteinbuka opens the meeting and explains to the meeting participants that the Fiscal Discipline Council has received from the Ministry of Finance all the necessary documents for preparing an interim report (opinion) on the Stability Program 2023/26.

#### **1. Fiscal discipline surveillance interim report on Latvia's Stability Program for 2023-2026**

**I.Šteinbuka** emphasizes that the Council evaluates the Stability Program for 2023/2026 at a time of high uncertainty when the economic and fiscal policy both in the European Union and in Latvia depends on the development of the war in Ukraine and the global geopolitical situation. The fiscal indicators of the stability program related to Macroeconomic forecasts were approved at the Council meeting on February 10. However, forecasts are indicative and may deviate from predicted values. Meeting participants start a discussion on the main emphasis of the surveillance report on Latvia's Stability Program for 2023-2026.

As a result of the discussion, the Council concludes that this and, most likely, the coming years will be times of great economic, political and fiscal uncertainty due to Russian aggression, energy prices, and an uncertain geopolitical situation. If we talk about local challenges, the report should point out the risks that hinder and reduce the growth rates of the national economy, the main ones are the inflation persistence, the widening of the wage and productivity gap, the lack of investment and limited lending to companies, the slowdown in exports, the limited capacity to absorb intensive EU fund financing, the risk of overheating of the construction industry due to the potential shortage of labour force. It should also be noted the risk of inflation/wage spiral development, as well as population ageing and poor health, are fiscal risks in the long term.

**M. Āboliņš** notes that, of course, in addition to local risks, global risks continue to affect Latvia. In the world, the risks of the financial sector are increasing, related to the very rapid rise of interest rates in a short period, which recently caused turbulence in the financial markets, and we must not forget about the demographic situation and climate risks. All this can affect the global financial position and fiscal sustainability.

**I.Golsts** recommends including the topic of tariffs for the next heating season. Attention should be drawn to the risk that without the state support component, heat energy tariffs for the final consumer may increase significantly. However, the current prices in the energy market allow maintaining the same tariffs as in this heating season but without the support component.

The government has started work on the tax reform and the Minister of Finance has declared the goal of the reform - to increase budget revenues. During the discussion, the members of the Council conclude that international experts rate the Latvian tax system relatively highly, the stability and immutability of the tax system are values in themselves, especially in times of high uncertainty. Consequently, any reduction in tax revenues should be offset by other tax revenues. In an environment of uncertainty, as it is now, tax reform can lead to unpredictable negative fiscal and economic consequences. Therefore, before the planned tax changes, it would be necessary to comprehensively evaluate the short-term and long-term economic, fiscal and social effects of the reform. In addition, Council indicate that it is necessary to strengthen the measures to reduce the shadow economy as well.

**U.Kāsiks** points out that we are the Council of Fiscal Discipline and we should pay more attention to the fiscal aspects of the tax reform than the macro aspects. We shouldn't focus on specific types of taxes to change, but the general concept would be a tax system that promotes aggregate demand and as a result tax revenue.

**M.Āboliņš** agrees with U. Kāsiks that taxes should activate aggregate demand it is desirable in general, but we do not have to comment on reforming a specific type of tax, including social tax, because currently there is insufficient data on how it will affect the economy in the long term.

**I.Šteinbuka** agrees that tax reform would be necessary, but not in the current times of uncertainty because it is difficult to predict consequences. Stimulating demand through tax instruments during this time would only continue to maintain high inflation.

Summarizing the comments and proposals expressed by the members of the Council all proposed topics will be collected and included in the interim surveillance report on the Stability Programme 2023/26. That way the **Council decides:**

**1.1.** To take note of the information on the content proposals and comments of the Fiscal Discipline surveillance Interim Report on Latvia's Stability Program for 2023-2026 and to include them in the final version of the report, as well as to authorize the Chairwoman of the Council I. Šteinbuka together with the staff of the Secretariat of the Fiscal Discipline Council to complete the work on preparation and submission of the final version of the Surveillance interim report to the Cabinet of Ministers, the Commission of European Affairs of the Saeima, the Budget and Finance (Tax) Commission of the Saeima and the Ministry of Finance on April 3, 2023.

I.Šteinbuka – votes for;  
I.Golsts – votes for;  
A.Jakobsons – votes for;  
M.Āboliņš – votes for;  
U.Kāsiks – votes for.

The meeting was closed at 17:00.

Council Chairwoman

I.Šteinbuka

Meeting Secretary

I.Jansone

Secretary of the Council:

N.Malnačs

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