



LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

Reģ.nr. 90010248231, Smiļšu ielā 1-512, Rīgā, LV-1919

E-pasts: fiskala.padome@gmail.com

Fiscal discipline council
Potential and nominal GDP assessment working group.
Minutes Nr. 2 (21)

Riga

4th of September 2023

The meeting is chaired by:

Inna Šteinbuka, chairwoman of the Fiscal Discipline Council.

Participants of the meeting:

Member of Fiscal Discipline Council	Ū.Kaasik
Member of Fiscal Discipline Council	I.Golsts
<i>Secretariat –</i>	
Fiscal Discipline Council secretary	N.Maļnačs
Fiscal Discipline Council macroeconomic expert	V.Zaremba
Fiscal Discipline Council lawyer-clerk	I.Jansone

Invited persons

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

Taking minutes:

Meeting secretary

I.Jansone

The meeting starts at 13:00 and takes place in partly remote meeting mode via MS Teams.

Opening of the meeting - I. Šteinbuka opens the meeting and announces the meeting's agenda.

1. Discussion on the current developments of the Latvian economy, the basic development scenario, including potential GDP growth and assumptions about the output gap

Reporters: U.Rutkaste, D.Paula

D. Paula reports on the main aspects in the Latvian economy in 2023 and their impact on economic development in the current year and in the medium term.

- Current trends in industrial production indicate a drop in the output of industries which have an important share in the national economy. It is indicated that although the production volume of the wood industry, which was very high in previous years, has significantly dropped, the production volume of electrical equipment has increased.
- Presents the results of the decomposition of consumer prices, which show that the influence of food and service prices is still high in maintaining the inflation level, while the influence of energy prices has fallen.
- Describes Latvia's exports, which shows that despite the decrease in export volume as a whole, Latvian companies still maintain their competitiveness.

- Compares GDP growth in the Baltic countries, where the economic development of Lithuania is ahead, which is largely due to higher investment level. Estonia's economy is experiencing a recession, but its GDP level is still higher than Latvia's.
- Analysing the lending trends, it is indicated that loans to households are issued more often than loans to companies. Indicates, that Latvia lags dramatically behind the rest of the EU.
- Data on resident balances in bank accounts demonstrates a sharp decrease in the amount of deposits, which will be a limiting factor for private consumption in the coming months.
- Positive factors for economic development are the stability in the labour market and the first signals of real wage growth levelling off with inflation. A gross wage increase of 12% has been recorded for two quarters in a row. A minimal increase in real wages was recorded in the second quarter, after several quarters of decline.
- It is recognized that the set of factors currently slowing down economic growth makes the economy function below its potential, which leads to forecast a negative output gap for this and the next two years.

U. Rutkaste points out that, in general, since the forecasts published by the Bank of Latvia in June, the situation has developed in a pessimistic direction, which will be reflected in the updated forecasts at the end of September.

Participants discussion.

Decision:

1.1. To take note of the presentation of the Bank of Latvia on current events in the development of the Latvian economy, including potential GDP and gap assumptions.

I.Šteinbuka – votes for;

Ü.Kaasik – votes for.

2. Discussion on scenarios of Latvian economic development

The participants of the discussion agree that the current economic development could not ensure GDP growth higher than 1% this year. Economic growth in the coming years will be determined by the recovery of domestic consumption and investments, which are mostly related to the inflow of EU funds into the economy.

Decision:

2.1. To take note of the report of the Bank of Latvia on the development trends of the Latvian economy.

I.Šteinbuka – votes for;

Ü.Kaasik – votes for.

Meeting ends at 14:00.

4th of September 2023

chairwoman of the Fiscal Discipline Council

I.Šteinbuka

Meeting secretary

I.Jansone