FISCAL DISCIPLINE COUNCIL OF THE REPUBLIC OF LATVIA

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Minutes of the Council meeting No 5 (66)

Riga 2nd October, 2023.

The meeting chaired by:
Chairwoman of the Fiscal discipline council I. Šteinbuka

Participants of the meeting:

Vice-President of the Fiscal discipline council	M.Abolins
Fiscal discipline council member	I.Golsts
Fiscal discipline council member	A.Jakobsons
Fiscal discipline council member	U.Kaasik
Secretariat -	
Secretary of the Fiscal discipline council	N.Malnacs
Macro-economic expert of the Fiscal discipline council	V.Zaremba
Lawyer of the Fiscal discipline Council	I.Jansone

Invited person:

Chair of the Independent Advisory Board of Germany's Stability Council	Thiess Buettner

Taking minutes:
Fiscal discipline Council lawyer I.Jansone
The meeting starts at 12:00 on 2nd October, 2023

Opening of the meeting – I. Steinbuka
I.Šteinbuka, Chairwoman of the Fiscal discipline council (hereinafter – Council), opens the meeting and announces the meeting agenda.

The Council works partially remotely and discusses the issues on the online conference platform *MS Teams*.

1. Development of the EU fiscal governance reform

Reporting: T. Buettner

I. Steinbuka: introduces Professor Thies Buettner from Germany to the Council. He is the Chair of the Independent Advisory Board of Germany's Stability Council and an influential expert in EU fiscal policymaking. Mr. Buettner has kindly agreed to meet the Council and discuss the actual developments in EU's fiscal governance reform, economic developments in EU.

T. Buettner: As is already known, the European Commission has published a report on the orientations of the reform of the EU economic governance framework, which envisages changes of the euro area fiscal framework governance. The main objectives of the new economic governance are related to balance debt sustainability and sustainable economic development. Fiscal regulation is currently being reformed in the European Union and this process has become particularly topical due to COVID-19 consequences. European countries became increasingly polarized at the size of public debt and their politically acceptable fiscal governance regime. There are doubts about the effectiveness of the new proposed framework. The old regulation set clear fiscal targets in a quantitative form, but the new regulation has a greater emphasis on national negotiations with the EU institutions, thus there is more subjectivity in it. In the case of Germany, a substantial part of the fiscal numerical rules is enshrined in the national constitution, so the introduction and integration of the new fiscal framework into national law requires changes in the constitution. This kind of task is legally and politically difficult to accomplish. Discussions between fiscal institutions are still ongoing on the use of "output gap"- as this is an unobservable indicator and different methodologies returns different numerical results. There is still no consensus on how reasonable it is to base fiscal decisions on such an indicator. In this context, the following issues also arise:

- Member States need huge investments, considering Member States' climate objectives and economic decarbonisation. It is not possible to attract bank funding for such ambitious objectives, therefore the attraction of investments is addressed through government bonds. Germany also faces a shortage of qualified engineering stuff and an ageing population, as is the similar case in many other EU countries.
- Germany's industrial sector is facing very high energy costs, dampening overall German growth as the economy is basically industrial.
- One of the options for energy could be the resumption of nuclear energy production, but German legislation stipulates that nuclear energy is not "green energy". At the same time, it contradicts to taxonomy of EU energy types, where nuclear energy is recognized as green. Thus, economic sustainability depends on smart and long-term political decisions.

I. Šteinbuka thanks for the provided opinion and suggests the members of the Council to start a discussion regarding the presented issues.

I. Steinbuka: Latvia's fiscal discipline Law is directly linked to EU fiscal governance legislation in some of its articles, so the reform of EU fiscal governance will also require a review of national legislation. Currently, Latvia's fiscal framework is tighter than the EU and there is a high probability that such arrangements will be maintained.
The current period of fiscal reform is largely similar of the post-global financial crisis, when the consultations contained many theoretical concepts that could not be applied equally effectively in each Member States. Currently we observe a wide variety of opinions in Europe, but the main contradictions arise between Member States with high and low levels of public debt.
Currently, the EU's priorities are the Green deal, digitisation, artificial intelligence, etc., which require a lot of investment in both infrastructure and human resources. Fiscal discipline, as a set of restrictive conditions, is therefore not a top priority on the agenda of EU governments. However, such an attitude can further worsen the situation of countries whose debt is higher than the Maastricht criteria and create undesirable precedents in the community of other member states as well.

M. Abolins: COVID times marked some relaxation to fiscal rules and discipline as well, and currently it is not easy to return to the fiscal discipline framework, even for such disciplined countries like Latvia. New challenges have also emerged regarding deterioration of global security. Geopolitical tensions and war in the region lead to increase an expenditure and hold structural balance in acceptable level via one-off measures usage. The EU's new fiscal framework envisages a longer budget planning period for member states (5 years), however, we see how sharply situation can change even within a one-year period, so the implementation of such approach could yield hard predictable results.

U.Kaasik: Estonia's practice in fiscal governance is also stricter than the EU's. During the fiscal governance transition period consensus is sought between the national government and the European Commission regarding the permissible amount of expenditure and the level of the deficit. Although Estonia is in a better position due to the very low public debt, at the same time there is a complete contrast to countries with debt above 100% of GDP.

I.Golsts: Given that the global economy is currently stagnating and there is a lack of consensus on many issues related to fossil and renewable energy, the issue of extending the deadlines regarding Green deal is expected to arise. It is crucially to set reasonable deadlines and produce smart political decisions which will not dampen the economic development of already weakened EU countries.

I. Šteinbuka thanks all Council members for the opinion expressed during the discussion and summarize what was said above, the Council **d e c i d e d:**

Decided:

1.1. Take note of the information provided on the new fiscal framework and its developments.
1.2. Instruct the Council and the Secretariat to play an active role in the reform of Latvia's fiscal framework and, in the context of the reform of EU fiscal governance, to monitor changes in Latvia's fiscal framework.

I.Steinbuka – votes for;
I.Golsts – votes for;
A.Jakobsons – votes for;
M.Abolins – votes for;
U.Kaasik – votes for.

The meeting was closed at 15:00, on 2nd October 2023

Council Chairwoman I.Steinbuka

Meeting Secretary I.Jansone

Fiscal Discipline Council secretary *visa*: N.Malnacs

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