



FISCAL DISCIPLINE COUNCIL OF THE REPUBLIC OF LATVIA

TAIL No. 90010248231; sand Street 1-512, Riga, LV-1919
phone: (+371)29178183; email: info@fdp.gov.lv; website: http://fdp.gov.lv

Council meeting minutes No 1 (69)

Riga

12th of February 2024.

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
Member of the Fiscal Discipline Council	J.Priede
<i>Secretariat -</i>	
Fiscal Discipline Council secretary	N.Malnačs
Fiscal Discipline Council macroeconomics expert	V.Zaremba
Fiscal Discipline Council lawyer	I.Jansone

Invited participants 1st 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 senior expert of Economic analysis department	A.Jurša
Ministry of Finance Deputy Head of Unit of Macroeconomic analysis division	I.Vēja

Taking minutes:

Fiscal Discipline Council lawyer

I.Jansone

The meeting starts at 14:00

I.Šteinbuka opens the meeting.

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

The meeting takes place in partly remote meeting mode via *MS Teams*.

1. Presentation of macroeconomic projections

Reporting: I.Vasaraudze, D.Stikuts, A.Jurša

The Ministry of Finance (hereinafter - FM) informs about updated macroeconomic forecasts for years 2024-2026 and newly prepared forecasts for years 2027-2028. The forecasts for the five-year period will be used as the basis for the development of the Fiscal Structural Plan for 2024-2028. From 2024 onwards, the Stability Program will be replaced by a new document – The Fiscal Structural plan. The Fiscal Structural is integrated in the new frame-

work for fiscal and economic governance of the European Union and being now in an adoption process. The assumptions and changes in the updated macroeconomic forecasts since June 2023 are related to the economic situation worsening. FM representatives report on development in economic sectors, foreign trade, investments and domestic consumption. The absorption of EU funds, which lags behind the plan and also hinders GDP growth rates, is crucial in the assumptions of GDP projections. An analysis of inflation indicators shows that restrictive monetary policy has been effective, but at the same time there has been a significant reduction in the population's savings. Real wages have outpaced inflation from the second quarter of 2023, making domestic consumption options scarce. Labour market is still experiencing labour shortages, even in spite of the economic recession, so as growth resumes - it may become a significant limiting factor for economic development. At present, however, weak overall demand is the most significant limiting factor. The resumption of growth is currently dependent on the recovery of the economies of the trading partner countries, however, at present the growth forecasts of international forecasters (European Commission, International Monetary Fund), the largest economies in the region, have been reduced and growth is also forecast to be weak.

The FM, considering the most up-to-date information on economic development, has produced conservative and very cautious forecasts for year 2024 and also for a further period. Forecasting for 2027-2028, amid high uncertainty, is challenging. Therefore, the projections for subsequent years are indicative and the values for both years are the same.

Discussion of projections, assumptions and risks of macroeconomic creators.

I. Šteinbuka: have the projections been compared to the scenario forecasted by the Bank of Latvia and that underpins the differences in forecasts?

D. Stikuts I. Vasaraudze: forecasts are always compared and consultations with experts of the Bank of Latvia are also taking place. This time, FM has taken a more conservative approach than the Bank of Latvia, and the Bank's forecasts will soon be updated. Estonian colleagues have done the same, and their forecasts are more conservative than Estonian Bank.

A. Jakobsons: wage growth is predicted to be quite cautious, compared to other forecasters, what does it involve?

I. Vasaraudze: the Ministry of Welfare's data on the increase in the minimum wage, which usually reaches the Ministry of Finance in August, is used when projecting pay. Other forecasters, such as commercial banks, do not have such a limit, so their estimates of pay rises are higher.

N. Malnačs: in the same context, the average pay growth in 2024 is forecasted at +7.5%, how does it correlate with the rather small private consumption growth of +3.5%?

A. Jurša, I. Vēja: in previous years, the rapid rise in consumer prices has stalled, however, prices for goods and services have stabilised at a new level. Population income growth has yet to adapt to this. Moreover, not all households are recipients of wages, there are a significant number of pensioners whose purchasing power is recovering at a much slower pace. This explains the rather small impact of private consumption in the 2024 GDP structure.

I. Šteinbuka: since the investment plays important role in GDP structure, and it is apparent that the financial absorption of EU funds is lagging behind, that will be implications?

I. Vasaraudze, D. Stikuts: if you watch the investment decomposition, the share of private investment is also high. Investments are mostly in construction projects. For EU funds, they have a very rigid absorption schedule, with the current funding period closing in 2026. This is the underlying assumption, predicting a significant decline in the share of investment in the post-2026 GDP structure.

Decided:

1.1. Take note of the information submitted by FM on macroeconomic projections.

I. Šteinbuka for;

I. Golsts for;

A. Jakobsons for;
M. Āboliņš for;
U.Kāsiks for;
J.Priede for.

2. Internal discussion on macroeconomic projections

Those present discuss the macroeconomic projections submitted by FM and commented by FM. Key insights:

- The Council has no substantive objections to the macroeconomic projections presented by the Ministry of Finance as a whole. The Council considers them credible and adequate to the actual economic situation;
- The Council notes the current set of difficult-to-predict risks, in particular for the five-year period;
- The Council stresses the need to note the risks associated with the slowness of the absorption of European funds. On the one hand, EU funds have a significant impact on GDP growth and, if the timetable is followed, it will boost growth. On the other hand, delays are a significant negative factor in ensuring GDP growth;
- The risks are related to a possible recurrence of the inflation wave. This can be caused by geopolitical instability, rapid change of political course in the USA, possible trade wars and disruptions in supply chains.

Decided:

2.1. Confirm the macroeconomic projections submitted by FM.

2.2. Instruct the Council's macroeconomic expert, Mrs. Zaremba, to formulate a summary opinion on what was discussed at the meeting.

2.3. Instruct the Council Secretariat to prepare and send the opinion of the FM Council in accordance with the agreed cooperation arrangements.

I. Šteinbuka for;
I. Golsts for;
A. Jakobsons for;
M. Āboliņš for;
U. Kāsiks for;
J. Priede - for.

the meeting of 12 February 2024 shall be closed at noon. 16:00.

Chairwoman of the Council

I. Šteinbuka

Meeting Secretary

I. Jansone

I.Jansone 29495878
Inga.Jansone@fdp.gov.lv