FISCAL DISCIPLINE COUNCIL OF THE REPUBLIC OF LATVIA

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Council meeting minutes No 5 (80)

Riga 9of June 2025

Chairwoman:
Chairwoman of Fiscal Discipline Council – I.Šteinbuka

Participants of the meeting:

Vice-Chairman of the Fiscal Discipline Council	J.Priede
Member of the Fiscal Discipline Council	A.Jakobsons
Member of the Fiscal Discipline Council	U.Kāsiks
Member of the Fiscal Discipline Council	I.Golsts
Secretariat -	
Fiscal Discipline Council secretary	N.Malnačs
Fiscal Discipline Council fiscal risks expert	I.Verpakovska
Fiscal Discipline Council macroeconomics expert	V.Zaremba
Fiscal Discipline Council lawyer	I.Jansone

Invited participants 1st item of the agenda:

Director of the Department of Economic Analysis, MoF	D.Stikuts
Head of the Macroeconomics Division of the Department of Economic Analysis, MoF	I.Vēja

Taking minutes:
Fiscal Discipline Council lawyer I.Jansone
The meeting starts at 13:00

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 mode via *MS Teams.*

1. Presentation of macroeconomic projections
Reporting: D.Stikuts

Dainis Stikuts presents the current macroeconomic situation and the forecasts for 2025–2029, outlining the changes since the February 2025 forecast prepared for the Fiscal Structural Plan Progress Report 2025–2028.
He notes that, despite external challenges, Latvian exports are showing signs of recovery. While economic growth among key export partners — such as Germany, Sweden, and Finland — was weak in the first quarter, Latvia's exports, particularly in services, have begun to rebound. The increasing market share of service exports since 2024 signals a positive trend in competitiveness.
Turning to domestic demand, **D. Stikuts** emphasizes that economic growth in 2024 was

very weak. However, some positive momentum was observed in several sectors in the first quarter of 2025, although this was not reflected in overall quarterly GDP growth, which remained weak.
He highlights that investment activity is strengthening, largely due to a significant inflow of EU funds. In the first four months of 2025, investments financed by EU funds increased by more than 50% compared to the same period in the previous year. Civil engineering production is expanding particularly rapidly, and companies are actively investing in equipment and technologies to modernize operations and address labor shortages.
On inflation, D. Stikuts notes that early 2025 price increases were mainly driven by rising food prices. In Latvia, a notable gap has emerged between food producer prices and retail prices, indicating higher profit margins for retailers. Inflation could reach approximately 4% in the second half of the year. He also draws attention to energy price volatility — while natural gas prices have fallen, heating tariffs are expected to rise later in the year. Inflation expectations are increasing both in Latvia and across the euro area, potentially impacting consumption and monetary policy decisions.
In the labor market, the employment rate is falling faster than previously projected. Nonetheless, registered unemployment remains at a historically low level. At the same time, wage growth continues, including a recovery in the private sector. Real wages are rising, which supports increased savings and lays the foundation for future consumption growth.
In conclusion, D. Stikuts presents the Ministry of Finance’s macroeconomic forecasts through 2029:

- GDP growth is projected at 1.1% in 2025, rising to 2.2% by 2029;
- Inflation is expected to reach 3.5% in 2025, then stabilizes around 2.2% in the medium term.

Key downside risks to economic performance include geopolitical tensions, trade tariff disputes, delays in EU fund absorption, and elevated inflation expectations, which could constrain household consumption.

I. Šeinbuka asks for a comment on the Latvian economic development scenario presented by the Minister of Economics during the economic policy debate in the Saeima on May 8, and why the forecast of the Ministry of Finance is much more conservative.

D. Stikuts explains that the forecasting methodologies of the Ministry of Finance and the Ministry of Economics differ and are not aligned. Additionally, the Ministry of Economics’ forecast was prepared earlier and may not incorporate the most recent data.
N. Malačs inquires whether household savings data includes information from Revolut.
I. Vēja responds that it does not — the data is primarily based on statistics from Latvian commercial banks.
V. Zaremba raises a question regarding the assessment of the output gap and potential GDP.
D. Stikuts replies that potential GDP is negatively influenced by developments in the labor market, while the main driver of potential growth is total factor productivity, which includes contributions from both labor and capital.

Decided:
1.1. Take note of the information submitted by MoF on macroeconomic projections.

I. Šteinbuka votes for;
A. Jakobsons votes for;
I.Golsts votes for;
U.Kāsiks votes for;
J.Priede votes for.

2. Internal discussion on macroeconomic projections

V. Zaremba presents the main conclusions to be reflected in the Council’s opinion. She notes that, compared to previous forecasts, changes in GDP projections are minimal, while

inflation forecasts have been significantly revised upwards.
She also presents the results of the assessment of potential GDP and the output gap, which were conducted using a methodology similar to that of the Ministry of Finance. As a result, the findings are comparable, and the output gap trend aligns with the Ministry's estimates.
V. Zaremba highlights several key risks that could impede economic growth, including geopolitical tensions, labor market constraints, insufficient productivity growth, and other contributing factors. She also reminds participants that the draft Council opinion will need to be updated to incorporate the latest forecasts from the Bank of Latvia, which are expected to be available from June 10.
The participants then discuss the macroeconomic forecasts submitted and commented on by the Ministry of Finance.

Key takeaway:

- The Council does not have any substantial objections to the macroeconomic forecasts provided by the Ministry of Finance.

Decided:

2.1. To approve the macroeconomic forecasts for 2025 submitted by the Ministry of Finance, as well as the VTBI forecasts for the period 2025–2029.
2.2. To instruct the Council's macroeconomic expert, V. Zaremba, to formulate a consolidated opinion on the matters discussed during the meeting, to explain the differences between the scenario presented by the Ministry of Economics on May 8 and the forecast of the Ministry of Finance, and to supplement the risk analysis with insights from the LV PEAK report.
2.3. To instruct the Council Secretariat to prepare and submit the Council's opinion to the Ministry of Finance in accordance with the existing Agreement on Cooperation.

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

The meeting of 9 of June 2025 closed at noon 15:00.

Chairwoman of the Council I. Šteinbuka

Meeting Secretary I. Jansone

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