



LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

Reģ.nr. 90010248231; Smilšu ielā 1-512, Rīgā, LV-1919
tālrunis: (+371) 29178183; e-pasts: info@fdp.gov.lv; mājaslapa: <http://fdp.gov.lv>

Minutes of the meeting of the Council No. 7 (82)

Rīga

7th of October 2025

The meeting is chaired by:

Chairwoman of the 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.Kaasik
Member of the Fiscal Discipline Council	I.Golsts

Secretariat –

Fiscal Discipline Council secretary	N.Malnačs
Fiscal Discipline Council macroeconomics expert	V.Zaremba
Fiscal Discipline Council fiscal risk expert	I.Verpakovska
Fiscal Discipline Council lawyer	I.Jansone

Taking minutes:

Fiscal Discipline Council lawyer

I.Jansone

7th of October 2025 meeting starts at 12:00

Opening of the meeting – I.Šteinbuka

The Chair of the Fiscal Discipline Council (hereinafter – the Council), I. Šteinbuka, opens the meeting and announces the agenda.

I.Šteinbuka informs that the Fiscal Discipline Council has received from the Ministry of Finance the explanatory notes to the draft law "On the State Budget for 2026 and the Medium-Term Budgetary Framework for 2026, 2027, and 2028", as well as numerical calculations in Excel files, which serve as the basis for preparing the Fiscal Discipline Surveillance Report on the State Budget for 2026 and the Medium-Term Budget Framework for 2026–2028 (hereinafter – MTBF 2026–2028), in accordance with Paragraph six of Article 28 of the Fiscal Discipline Law. Considering that the Council is required to prepare and submit the aforementioned document to the Ministry of Finance of the Republic of Latvia by the beginning of the working day on October 8, the Chairperson of the Council requested to commence discussion of the said matter.

1. Fiscal Discipline Surveillance Report

N.Malnačs informs that the Secretariat of the Council, following the guidelines provided by the Council members, has prepared a draft of the Fiscal Discipline Surveillance Report. The draft Surveillance Report was sent to the Council members by e-mail on the evening of October 6, so that the Council members could review the prepared report and provide comments or additions.

I.Šteinbuka points out that the summary of the report contains several paragraphs describing the macroeconomic situation and forecasts of macroeconomic indicators. These paragraphs describe the situation but do not draw conclusions, and therefore are not relevant in the context of evaluating the budget draft. Additionally, the first paragraph is unclear because it includes too

many different topics. It could be incorporated into paragraphs dealing with the respective topics. Also, the last paragraph should be added to the paragraphs that describe the MTBF for 2026–2028.

I.Šteinbuka states that the current quality of the draft report is insufficient and improvements are needed in the summary; therefore, more time is required to prepare a qualitative Surveillance Report. It is necessary to place greater emphasis on, and include the Council's opinion regarding, the rising deficit and the sustainability of the debt.

U.Kaasik emphasizes that it is unacceptable for the Ministry of Finance to submit data at the last minute and expect the Council to prepare the report without delay.

A.Jakobsons, I.Golsts, and J.Priede agree that the Council's report is of significant importance, and that its preparation requires more time.

J.Priede agrees that greater emphasis should be placed on the debt and related risks, as well as on debt servicing costs. Positively evaluates the paragraphs on the reduction of VAT for certain food products, household deposit trends, and lending trends. Expresses the opinion that it would be useful to conduct a more in-depth assessment of the fiscal situation after 2028 and the risks related to fiscal sustainability. Emphasizes the need to place greater focus on the Council's main mandate – evaluating the budget deficit and potential risks.

U.Kaasik points out that the national escape clause will no longer be in effect in 2029. If the government does not implement structural changes, the fiscal sustainability situation could become challenging. In his view, this aspect should be included in the introduction of the report.

I. Šteinbuka agrees, emphasizing that until 2028 the fiscal rules are formally being met, but afterwards, if there is no rapid GDP growth or no additional sources of revenue are found (e.g., tax review), fiscal stability will be at risk. Therefore, this aspect should be included in the report as an important warning.

N.Malnačs agrees that it would be appropriate to include a paragraph in the report on possible risks in 2029, even though the report prepared by the Ministry of Finance relates to the Medium-Term Framework for 2026–2028.

I.Golsts suggests changing the emphasis of the report:

- Highlight that, starting from 2029, fiscal policy may not be sustainable.
- Point out that the problems are being addressed by increasing debt rather than implementing structural reforms.

As a result of the discussion on the prepared draft report, the Council members agree that the main focus of the report should be on the sustainability of the national debt, fiscal risks, and the need for a more thorough review of expenditures.

I.Šteinbuka thanks all Council members for their opinions on the draft of the Fiscal Discipline Surveillance Report on the State Budget for 2026 and the Medium-Term Budget Framework for 2026–2028. Notes that the preparation of the State Budget for 2026 and the MTBF for 2026–2028 is carried out under very tight deadlines for several reasons, which makes detailed and comprehensive analysis difficult due to the changing information. Consequently, the Council considers that it was not provided with the opportunity to review the documents prepared by the Ministry of Finance in a timely manner and, accordingly, to prepare the Surveillance Report in a qualitative and comprehensive manner. Therefore, a longer period of time is needed to responsibly prepare the Surveillance Report.

Taking all of the above into account, I. Šteinbuka proposes continuing work on the report's draft and convening a follow-up Council meeting for a joint review.

Based on the above, the **Council decides to:**

1.1. The meeting of October 7, 2025, is closed at 13:00 p.m., and the Council meeting is adjourned until October 9, 2025, at 9:30 a.m.

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

On October 9, 2025, the Council meeting of October 7, 2025, is resumed at 9:30 a.m.

The meeting is opened by I. Šteinbuka, who informs that all Council members have joined, and the meeting can begin. The Chair of the Council gives the floor to N. Malnačs to provide information on the prepared draft of the Fiscal Discipline Surveillance Report, including whether the comments of the Council members have been taken into account and what changes have been made to the draft Surveillance Report.

N.Malnačs presents an overview of the additions and corrections made, emphasizing:

All Council members' comments have been taken into account – paragraphs 9 and 15 have been moved to the beginning and revised to reflect the Council's main position. Comments on one-off military expenditures have been included, highlighting the Council's consistent objection to recognizing them as one-off expenditures. It has been emphasized that the strictest fiscal numerical rule remains unchanged, regardless of the inclusion or exclusion of one-off measures in the structural balance. The structural balance rule remains in force as the strictest rule, setting the target for the structural balance. The possible fiscal situation in 2029 is mentioned in paragraph 10, but a detailed analysis has not been conducted, as it exceeds the period covered by both budget draft and the report (2026–2028).

In view of the changes already made, N. Malnačs invites the Council members to share their opinions on the draft report and on any additional points that should be included in the report.

I.Golsts suggests adding a concise key message (a "summary of the summary") at the beginning of the report to improve communication with the public and the media. He emphasizes the importance of timely communication with the public and the media, particularly in light of ongoing public discussions regarding government expenditures.

U.Kaasik agrees that the report contains clear messages, but notes that they are "hidden" in the text and difficult to perceive. He proposes moving them to the beginning of the summary, also including an explanation of the national escape clause, which currently allows the budget to comply with fiscal rules. He warns that this national escape clause will remain in effect only for a limited period, and that in the future, once it expires, difficult times may arise.

J.Priede thanks the Secretariat for their work and supports the proposal to create a concise key message. Points out that paragraphs 2 and 11 in the summary essentially repeat each other, as both discuss debt and its sustainability. Suggests merging or restructuring them. Asks the other Council members whether information on public sector wage growth above 2.6% should also be included in the summary.

N.Malnačs clarifies that, according to information provided by the Ministry of Finance, the main wage increase occurs in the defense sector, while in other areas bonuses are reduced or canceled. Additionally, the Council was the first institution in the country to identify the sharp rise in public sector remuneration at the beginning of 2024.

J.Priede: notes that in paragraph 86 of the main text, which addresses the shadow economy and references the Stockholm School of Economics, it would be useful to also refer to the government plan for combating the shadow economy. Notes that the State Audit Office is currently evaluating the effectiveness of this plan and may publish a report on it in the near future. Emphasizes that although the plan is being implemented, the Stockholm School of Economics study shows that improvements in the shadow economy are minimal. Furthermore, the methodology used mainly reflects public perception rather than the actual size of the shadow economy. Suggests noting that alternative approaches to measuring and addressing the shadow economy exist, as the methodology used by the Stockholm School of Economics is increasingly

debated as insufficient. Stresses the importance of acknowledging the existence of the government plan and its role in addressing the problem.

I.Šteinbuka agrees that the Stockholm School of Economics methodology raises questions but notes that there is currently no alternative.

N.Malnačs emphasizes that the Council has previously expressed critical views on the methodology used. The Secretariat additionally employs another objectively measurable indicator in its reports—the reduction in the share of cash transactions.

J.Priede points out that the cash indicator can be misleading in different contexts, for example, in Germany, cash is widely used but the shadow economy is low.

Consequently, the Council members agree that the report should include a section on the shadow economy, referencing the existing government plan and adding a comment on the chosen evaluation methodology and its limitations.

A.Jakobsons supports the previously expressed proposals, noting that the summary requires a brief introduction, as suggested by I. Golsts.

I.Šteinbuka asks the Secretariat, taking into account the suggestions of the Council members, to prepare a revised draft of the report and summary and present it to the Council members by 2:00 p.m. today.

Based on the above, the **Council decides to:**

1.1. After reviewing the revised draft of the Fiscal Discipline Surveillance Report, approve the Surveillance Report on the State Budget for 2026 and the Medium-Term Budget Framework for 2026–2028.

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

The meeting closed at 14:30, 9th of October 2025.

Chairwoman of the Fiscal Discipline Council

I.Šteinbuka

Secretary of the meeting

I.Jansone

Fiscal Discipline Council secretary *visa*:

N.Malnačs

I.Jansone
29495878; inga.jansone@fdp.gov.lv