



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 extraordinary meeting of the Council No. 2 (86)**

Riga

13<sup>th</sup> of February 2026

**The meeting is chaired by:**

Chairman of the Fiscal Discipline Council - J.Priede

**Participants of the meeting:**

|  |             |
|--|-------------|
| Vice-Chairwoman of the Fiscal Discipline Council | I.Šteinbuka |
| Member of the Fiscal Discipline Council          | A.Jakobsons |
| Member of the Fiscal Discipline Council          | Ū.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 risks expert   | I.Verpakovska |
| Fiscal Discipline Council lawyer                | I.Jansone     |

**Invited participants for agenda item 1:**

|  |           |
|--|-----------|
| Ministry of Finance Director of Economic analysis department               | 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

13<sup>nd</sup> of February 2026 meeting starts at 14:30

**Opening of the meeting – J.Priede**

The Chair of the Fiscal Discipline Council (hereinafter – the Council) J.Priede opens the meeting and announces the agenda.

The Council operates in a hybrid format, conducting discussions on the agenda items via the **MS Teams** online video conferencing platform.

**1. Macroeconomics Forecasts by Ministry of Finance**

**Reports:** D.Stikuts A. Jurša

The Ministry of Finance (hereinafter – MoF) informs the Council about the assumptions and revisions in the updated macroeconomic forecasts compared to June 2025, as well as about the current situation in the national economy. These forecasts will serve as the basis for the preparation of the Progress Report of the Fiscal Structural Plan (hereinafter – FSP PR) for the period 2026–2030.

Representatives of the MoF report on developments in economic sectors, external trade, investment, and domestic consumption.

**Dainis Stikuts:** reports that GDP growth is projected at 2.6% in 2026 and 2.7% in 2027, mainly driven by investment and private consumption. The increase in investment is supported by the

active absorption of EU funds, including the Recovery and Resilience Facility, and is expected to be further supported by the next EU Multiannual Financial Framework, as well as possible defence spending. Export performance has stabilised since 2024 and shows gradual improvement; moderate but steady growth in external trade is expected during 2026–2030. Current data indicate that economic growth is becoming broader-based, with increases in retail trade, manufacturing, construction, and lending.

**Aleksejs Jurša:** informs that inflation, after rising by 3.7% last year, is stabilising this year; in January 2026 it stood at 2.9%, marking the third consecutive month of slowdown. Food price growth is expected to moderate, reflecting declining global prices and domestic policy measures; however, domestic cost factors continue to exert upward pressure. Tax changes, particularly increases in excise duties, are expected to raise inflation by approximately 0.4 percentage points overall.

**Ieva Vēja:** notes that the labour market remains stable. The unemployment rate is at its lowest level since 2008, while labour force participation is increasing. In the medium term, unemployment is expected to decline gradually. Wage growth is slowing but remains relatively strong. The wage growth forecast has been revised slightly upward, reflecting more persistent wage dynamics and higher inflation than previously anticipated.

**Dainis Stikuts:** indicates that potential growth over the forecast period is estimated at around 2.2%; the contribution of capital is increasing, while the contribution of labour remains negative due to demographic factors. The output gap is projected to remain negative throughout the forecast period.

The most significant risks identified are as follows:

**Downside risks:**

- Elevated uncertainty in external markets, including trade tariff disputes and political conflicts, which may slow economic growth in Latvia's main trading partners.
- Continued geopolitical tensions in the region.
- A decline in consumer confidence and a rapid increase in housing costs, which may constrain household consumption.
- Persistently strong wage growth, which may weaken Latvia's competitiveness in export markets.
- Delays in the absorption of EU funds, which may hinder investment and growth.

**Upside risks:**

- A reduction in political tensions and trade tariff disputes.
- Accelerating economic growth in Europe.

*Discussion among the participants on the macroeconomic forecasts, underlying assumptions, and associated risks.*

**Inna Šteinbuka:** Thanks the representatives of the Ministry of Finance for the presentation. As is known, the Ministry of Economics — and in fact the government — has approved a very optimistic scenario under which the economy should double in approximately 25 years. Of course, if growth remains at 2–2.5%, such a projection appears unlikely. Nevertheless, it is a government-approved target scenario.

My question is the following: I understand that the Ministry of Finance traditionally takes a rather cautious approach in its forecasts. However, in your view, are there any factors that could significantly accelerate growth — if not in the coming years, then at least in the foreseeable future?

**Dainis Stikuts:** The approved scenario assumes that specific policy measures aimed at accelerating growth will be implemented. Without policy changes, such an acceleration would indeed be difficult to achieve.

Regarding military spending, we observe that it has increased; however, at present it appears to be more short-term in nature. It is difficult to assess how strong and how lasting the long-term impact of defence spending on the economy could be.

Therefore, in our assessment, stronger growth is primarily considered an upside risk scenario — meaning that the economy could grow faster if growth-supporting policies and structural reforms are implemented.

**Ulo Kāsiks:** If I recall correctly, the Bank of Latvia's forecast regarding wages and prices appears more optimistic. I believe their wage growth projection for the next three years was close to 8%, while the Ministry of Finance forecast is closer to 6%. Their real GDP growth projection also seems slightly higher.

Do you have an explanation for this difference? Have you compared your forecast with that of the Bank of Latvia? Do you consider their assumptions too optimistic, or is there a specific reasoning behind this divergence?

**Dainis Stikuts:** In response, regarding economic growth, it is possible that they are somewhat more optimistic, as their forecasts are not directly constrained by fiscal policy considerations. The Bank of Latvia's approach is primarily based on macroeconomic modelling rather than fiscal planning assumptions.

As for prices, as Aleksejs Jurša mentioned earlier, in recent years our inflation forecasts have generally been more accurate compared to those of the Bank of Latvia.

In the medium term, we assume that wage growth will gradually converge to a more sustainable level — broadly in line with productivity growth plus inflation.

In other words, by around 2030, nominal wage growth is expected to reflect underlying productivity dynamics together with the inflation rate. This implies a gradual slowdown compared to the currently elevated wage growth rates, moving towards a level consistent with balanced and sustainable economic growth.

**Aleksejs Jurša:** If I may further clarify the differences between the Bank of Latvia's and our forecasts regarding inflation and overall macroeconomic development.

The Bank of Latvia is, of course, an independent central bank. At the same time, it follows common rules and assumptions applied across the euro area, particularly those aligned with the European Central Bank. This is especially relevant for external assumptions, such as natural gas and oil prices. In this respect, the Bank of Latvia relies on the ECB's assumptions about external factors, while our approach is more flexible, as we are not strictly bound by a single set of external assumptions.

Secondly, earlier this week we had a discussion with the Bank of Latvia regarding the forecasts. At that time, the flash estimate for January was already available, and the harmonised consumer price index stood at 2.6%. This relatively low figure was somewhat surprising for the Bank of Latvia. Therefore, it is quite likely that in their next forecast revision they may adjust their inflation projection downward.

Overall, the Bank of Latvia's forecast is more optimistic, projecting stronger GDP growth and higher investment flows in the medium term. This, in turn, implies higher wage growth and greater price pressures, resulting in a higher inflation outlook compared to our assessment.

**Jānis Priede:** The practical impact of the VAT reduction remains to be assessed, as research shows that the effect of tax cuts is often only partially passed on to consumers. The cost of living remains a pressing issue.

Geopolitical tensions in the region continue to pose a significant downside risk. Although direct trade dependence on Russia has declined substantially since 2022, potential risks may materialise indirectly — through transit flows, energy markets, and the investment environment — rather than through a direct drop in exports.

**Dainis Stikuts and Aleksejs Jurša:** The Russian direction is not fully closed — minimal transit and railway flows still remain, which could theoretically disappear.

Our forecast is based on a no-policy-change assumption. If new sanctions were introduced, they would affect external trade; however, at present there is no specific information regarding additional restrictions. Therefore, in the baseline scenario, we do not expect significant new changes in trade with Russia.

**Jānis Priede:** Comments that the long-term impact of defence spending depends on its structure. If it is mainly directed towards imports and short-term procurement, the effect on the domestic economy will be limited. In contrast, investment in domestic production, innovation, and capacity-building could support productivity and long-term growth.

**Inna Šteinbuka:** Asks about the expected EU funding for the period 2028–2034.

**Dainis Stikuts:** Explains that the data presented reflect the programmes currently approved and under implementation. Some of them end this year, while others continue until 2029. These

amounts are based on financing already agreed within the existing EU Multiannual Financial Framework.

The new EU Multiannual Budget period will start in 2028. Since it has not yet been formally approved, the figures included for that period are provisional estimates. They are incorporated for forecasting purposes in order to avoid an artificial decline in investment at the end of the forecast horizon.

These figures are not based on final decisions but on indicative assumptions regarding the possible availability and scale of future EU funding.

**Andrejs Jakobsons:** Asks about the consistency between the GDP deflator and inflation indicators and requests clarification on why the GDP deflator is higher than the CPI.

**Dainis Stikuts:** Your interpretation is correct — in our forecast, the GDP deflator is higher than the CPI. This is mainly explained by structural differences between the two indicators. The GDP deflator is significantly influenced by domestically generated value added, particularly in the services sector, whereas the CPI has a larger share of imported goods, such as food and fuel. Average CPI inflation is projected at around 2.9%, while services price growth is expected to remain significantly higher, mainly due to strong wage dynamics, as labour costs constitute a large share of total costs in the services sector.

The GDP deflator covers price developments across the entire economy, including domestically produced services and investment goods. As wage growth remains relatively strong and services account for a substantial share of GDP, the deflator is higher than the CPI.

At the same time, prices of tradable goods, which are exposed to international competition, are increasing more slowly, while prices of non-tradable services, largely driven by domestic wage costs, continue to grow at a faster pace.

**Dainis Stikuts:** Additionally comments on the next forecasting session. A new forecasting calendar is currently being prepared, and two options are under consideration.

The first option is to prepare the forecasts by June and review and approve them in June.

The second option is to move the main forecasting cycle to September.

A hybrid solution is also possible — approving the baseline forecast in June based on first-quarter GDP data, and preparing an update in September incorporating second-quarter and half-year data. This would allow for improved forecast accuracy.

*The Chair of the Council thanked the representatives of the Ministry of Finance for the detailed presentation and discussion.*

## **Council decides:**

1.1. To take note of the information submitted by the Ministry of Finance on the macroeconomic forecasts.

J.Priede – votes for;

I.Šteinbuka – votes for;

I.Golsts – votes for;

A.Jakobsons – votes for;

Ü.Kaasik – votes for.

## **2. Internal discussion about MoF's macroeconomics forecasts**

**Viktorija Zaremba** presents to the Council the main differences compared to the previous forecasting round. The latest data showing stronger growth in 2025 have improved the starting position for the new forecast period — the growth forecast for this year has been raised by 0.9 percentage points and for 2026 by 0.5 percentage points. In the medium term, the growth trajectory is slightly stronger (around 0.4 percentage points higher). The main revisions are related to significantly higher investment projections. The forecast for private consumption has also been slightly increased, while the contribution of public consumption is smaller. In 2026, the main drivers of growth will be investment and private consumption, while the contribution of exports will remain limited. The Ministry of Finance forecast is slightly above the consensus estimates (European Commission, Bank of Latvia, IMF), but the difference is moderate.

The nominal GDP forecast has been revised upward, reflecting stronger real growth and slightly higher price dynamics. A higher nominal GDP improves the debt-to-GDP and budget deficit-to-GDP ratios. After 2026, a gradual moderation of growth is expected.

Inflation is gradually declining but remains above 2%. In the short term, the Ministry of Finance forecast is slightly higher than the average projections of the European Commission, Bank of Latvia, and IMF. The GDP deflator exceeds consumer price inflation, reflecting broader price pressures in the economy, including investment goods, government services, and exports. In the medium term, price pressures are expected to ease gradually.

Potential GDP has been assessed somewhat higher; however, the output gap remains negative throughout the forecast period, indicating that the economy is still operating below its potential. Statistical filter results generally confirm the Ministry of Finance calculations, although they suggest a slightly faster move toward a positive output gap in the later years. The Bank of Latvia also projects a negative output gap until 2027 and a positive gap from 2028 onward.

**Inna Šteinbuka:** Proposes supplementing the Council's opinion. She notes that not all risks can be precisely quantified; however, in the context of domestic fiscal risks, several large-scale projects should be highlighted as they may create significant budgetary pressure.

In particular, Rail Baltica and Air Baltic should be mentioned. For Rail Baltica, substantial financing from EU funds is expected, but this is not fully guaranteed and will depend on decisions regarding the next EU budget. In the case of Air Baltic, uncertainty is greater — the potential need for further state support could create additional pressure on public finances.

**Normunds Malnačs:** Raises the issue of the output gap. According to some models, it could turn positive next year, which would have important implications for fiscal policy, including the application of fiscal rules (for example, Article 11 of the Fiscal Discipline Law). At the same time, estimates differ across institutions — in some cases the output gap turns positive, while in other models, including the Ministry of Finance's assessment, it remains negative for a longer period. These differences may have significant policy implications and should therefore be closely monitored.

Finally, regarding external risks, concerns about global fiscal sustainability are significant, particularly in the United States. The persistently high US budget deficit over several years and broader discussions about the international role of the US dollar raise questions about the stability of the global financial system. In addition to the US, fiscal vulnerabilities in several major economies, including France and the United Kingdom, contribute to global uncertainty. Although Italy has shown some improvement, overall public debt levels in advanced economies remain high.

These global fiscal risks could potentially affect financial markets, borrowing costs, exchange rates, and capital flows, thereby indirectly influencing Latvia's economic outlook. Although such systemic risks to the international financial order are difficult to quantify, they should be recognised as part of the broader risk assessment.

In addition, international media, including *Politico*, have raised concerns about the risk of a new global financial crisis. This could be mentioned, not to create alarm, but to underline the importance of maintaining adequate fiscal space, avoiding structural expenditure increases without sustainable financing, preserving prudent debt dynamics, and ensuring efficient public administration.

**Ulo Kāsiķs:** With regard to the communication of the forecast, context is indeed important. When comparing the current projections with the previous forecast and with estimates by other institutions, it may appear that the Ministry of Finance has suddenly become very optimistic, as the current projections are significantly above earlier forecasts and above the average of other forecasters.

It would therefore be useful to include a comparative slide presenting forecasts of different institutions (for example, in the form of a range or data points) to demonstrate that our assessment falls within the spectrum of professional forecasts. This would help underline two key messages: forecast uncertainty remains high, and the Ministry of Finance forecast is not outside the overall range. Such an approach would enhance transparency and reduce the perception of excessive optimism.

Regarding the role of EU funds, current growth is to a large extent supported by external financing, including the Recovery and Resilience Facility, the resources of which will gradually expire. Excessive reliance on short-term external funding creates medium-term vulnerabilities.

It would therefore be appropriate to emphasise that part of the current increase in investment is temporary and externally financed, and that as EU support declines, domestic growth drivers

will need to play a greater role. Structural reforms and productivity-enhancing investments will be essential to ensure sustainable growth.

Such wording would be balanced and forward-looking, highlighting the need to strengthen domestic growth potential and fiscal resilience in an uncertain global environment.

**Andrejs Jakobsons:** From my side, I would like to add a remark regarding the key messages. We could more clearly emphasise the risk of excessive reliance on EU funding, particularly given that the resources of the Recovery and Resilience Facility (RRF) will be gradually exhausted in the coming years.

This could serve as an additional argument for the timely strengthening of domestic growth drivers and for adjusting fiscal policy in a way that ensures sustainable economic development even without substantial external support. In other words, the government should ensure that the foundations of growth remain solid even when part of the EU financing is no longer available or becomes less predictable.

At present, given moderate growth and elevated uncertainty, fiscal policy can be characterised as moderately supportive.

However, if the output gap were to turn positive in the coming years, the macroeconomic context would change. A positive output gap would indicate that the economy is operating above its potential, which would typically require a more neutral or even slightly restrictive fiscal stance to reduce the risk of overheating.

Therefore, the message could be formulated conditionally: in the short term, a moderately supportive fiscal policy may be justified; in the medium term — if the output gap becomes positive — fiscal policy should adjust accordingly to avoid pro-cyclicality.

Such an approach underlines that fiscal policy should be flexible and aligned with the economic cycle, rather than permanently stimulative or restrictive.

**Ivars Golts:** Continuing Andrejs' previous remarks, attention should also be drawn to the State Audit Office report published yesterday on the procurement of electric buses for municipalities. The report indicates that the project was largely implemented for the purpose of absorbing EU funds rather than being based on a clearly justified practical need. This serves as an example of the risk that the absorption of funding may become an end in itself, rather than a rational and efficient use of public resources.

With regard to preparation for a potentially more challenging period, the issue of fiscal discipline and the creation of reserves is well founded. However, in order to avoid overly politicised or confrontational wording, it would be advisable to use more technical language — for example, by emphasising the need to strengthen fiscal resilience, build budgetary buffers, and carefully assess expenditure efficiency. Such an approach highlights the precautionary principle and preparedness for potential difficulties, while maintaining a professional and constructive tone.

**Ulo Kāsiks:** If certain calculations suggest that the output gap may turn positive in the future, this implies that a more optimistic growth scenario could lead to a situation in which the economy is no longer operating below its potential.

If the output gap becomes positive, this would mean that the economy is operating above its potential, which in turn may require a more cautious fiscal stance in order to avoid additional pro-cyclical stimulus. Therefore, this aspect should be reflected, particularly if the forecasts become more optimistic.

Concluding the discussion, the

### **Council decides:**

- 2.1. To approve the macroeconomic forecasts submitted by the Ministry of Finance.
- 2.2. To task the Council's macroeconomic expert, V. Zaremba, with preparing a summary opinion reflecting the discussion held at the meeting, including comments and warnings to the government to closely monitor the budget deficit and refrain from using additional revenues for increased spending, in view of rising global risks.
- 2.3. To task the Council Secretariat with preparing and sending the Council's opinion to the Ministry of Finance, in accordance with the Cooperation Agreement concluded between the Ministry of Finance and Council.

J.Priede – votes for;

I.Šteinbuka – votes for;

I.Golsts – votes for;  
A.Jakobsons – votes for;  
Ü.Kaasik – votes for.

The meeting closed at 16:30, 13<sup>th</sup> of February 2026.

Chairman of the Fiscal Discipline Council

J.Priede

Secretary of the meeting

I.Jansone

Fiscal Discipline Council secretary *visa*

N.Malnačs

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