

Re: Interim Surveillance report enclosed for your review - the Council meeting is open!

Inna Šteinbuka <inna.steinbuka@lu.lv>

Ot, 05.04.2022 22:25

Kam: Normunds Malnačs <normunds.malnacs@fdp.gov.lv>

Kopija: Mārtiņš Āboliņš <martins.abolins@citadele.lv>; andrejs.jakobsons@rbs.lv <andrejs.jakobsons@rbs.lv>; Ivars Golsts@latvenergo.lv <Ivars.Golsts@latvenergo.lv>; Morten Hansen <morten.hansen@sseriga.edu>; ulo.kaasik@eestipank.ee <ulo.kaasik@eestipank.ee>; Inga Jansone <inga.jansone@fdp.gov.lv>; Viktorija Zaremba <viktorija.zaremba@fdp.gov.lv>; Andrejs Migunovs <andrejs.migunovs@fdp.gov.lv>

 2 pielikumi (2 MB)

UZ_2022_25_Padomes_komentariem.docx; Summary_EN.docx;

Dear all,

Many thanks to the secretariat for preparing a draft SR. In general, I agree with the conclusions. As to "one-offs", I am inclined to include Covid and energy prices support to the same category: either both should be considered one-offs or not.

Kind regards

Inna

Sent from phone

Re: Interim Surveillance report enclosed for your review - the Council meeting is open!

① You forwarded this message on Wed 06/04/2022 16:26

Ivars.Golsts@latvenergo.lv

Wed 06/04/2022 16:00

To: Normunds Malnačš



Liels paldies par labi sagatavoto ziņojumu! Atbalstu tajā izteikto viedokli.
Ivars

Sent from my iPhone using HCL Verse

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Re: Interim Surveillance report enclosed for your review - the Council meeting is open!

📄 You replied on Wed 06/04/2022 12:31

AJ

Andrejs Jakobsons <andrejs.jakobsons@rbs.lv>

Wed 06/04/2022 12:29

To: Normunds Malnačš; Inna Steinbuka <inna.steinbuka@lu.lv>

Cc: Morten Hansen <morten.hansen@sseriga.edu>; Mārtiņš Āboliņš <Martins.Abolins@citadele.lv>



Dear All,

Thanks to the Team for preparing the report, I agree with the conclusions.

Some comments on the key points:

- agree with the proposed scenario regarding the transition to a neutral fiscal position (although, this is certainly subject to the developments in 2022);

- regarding the proposed "one-off" measures - in general I would say it is better to be on the hawkish side in the pre-election time regarding energy support and COVID.

Ultimately, there probably will be specific triggers for these policies (energy support, COVID). For example - for energy-related measures it would probably make sense to link support to the actual prices and target those in need. However, if this is implemented, it would be even harder to think of them as "one-off". Another aspect to take into account in relation to energy support is that one of the major target groups (pensioners) are partly covered against this through the process of annual pension indexation (which, by the way will be quite significant this year because of high inflation and increases in tax revenues).

- for military spending the trigger has already happened, so there will be a response in terms of spending. To me - this looks like a one-off with specific timing proposed.

Best regards,
Andrejs

RE: Interim Surveillance report enclosed for your review - the Council meeting is open!

Mārtiņš Āboliņš <Martins.Abolins@citadele.lv>

Tr, 06.04.2022 23:18

Kam: "Ülo Kaasik" <Ylo.Kaasik@eestipank.ee>; Normunds Malnačs <normunds.malnacs@fdp.gov.lv>; Morten Hansen <morten.hansen@sseriga.edu>

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Dear all,

First of all thanks to secretariat for preparing the report. Regarding one-off's I would not want to take strong stance here. In general too many one off's are not preferable. But as far as I understand Eurostat has the final say in these matters? In 2022 fiscal rules are suspended so does it matter if it is labeled one off or not? Does it change fiscal space in 2023 (apart from defense)? We should note it, but is it that important and do we need to focus on this issue in detail?

I'm more concerned about energy costs. Baseline forecasts assume no additional subsidies or spending in the 2nd half of 2022 or in further years. I agree that energy prices are likely to remain high. It will create huge pressure on the government to do something and it is very optimistic to assume no additional spending or lower tax rates. Maybe we could be more specific and state clearly that this is not taken into account in projections?

Also I think we should stress that current situation is very different from 2020. Budget deficit is already significant, and inflation is high. Trade balance has deteriorated, housing sector is getting warmer (although I'm not too worried about Latvia). I would also assume that we are heading into recession. Additional fiscal support measure will likely to add to price pressures. So it is much more important that measures are targeted as much as possible and subsidies should be supplemented by investments in energy sector to reduce reliance if possible. Fiscal support measures that subsidize consumption will not solve lack of energy and we should clearly avoid expensive general economic stimulus measures (checks to all children or pensioners) that we had during COVID-19 pandemic. Already

current subsidies reduced electricity below 2021 levels. This is very wasteful.

Finally we should probably note changing interest rate environment. Although rates remain low especially relative to inflation, they are increasing and debt is no longer free.

Best,
Martins