Fiskālās disciplīnas padome

Opinion of the Fiscal Discipline Council on the Ministry of Finance's macroeconomic forecasts

For the Medium-Term Budgetary Framework Law 2027–2030

Preamble

This document presents the opinion of the Fiscal Discipline Council (hereinafter – the Council) on the macroeconomic forecasts for 2026–2030 prepared by the Ministry of Finance (hereinafter – the MoF). These forecasts will serve as the basis for the preparation of the draft Medium-Term Budgetary Framework (hereinafter – the MTBF) for 2027–2030 (2027/30), which is planned to be submitted to the Cabinet of Ministers towards the end of 2026.

In accordance with Article 4(4) of Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficits of the Member States in the euro area, the annual state budget and the medium-term budgetary framework shall be based on independent macroeconomic forecasts produced or endorsed by independent institutions.

Pursuant to Article 20(2) of the Fiscal Discipline Law, as well as the Cooperation Agreement signed on 8 February 2016, the Council is responsible for endorsing the macroeconomic forecasts prepared by the MoF. During the endorsement procedure, the Council was provided with detailed annual forecast data, including estimates of the development of gross domestic product (GDP) and its components.

The Council received the macroeconomic forecasts prepared by the MoF on 9 September 2026.

At the Council meeting of 10 September 2026, the MoF informed the Council about the assumptions and revisions incorporated in the macroeconomic forecasts since June 2026, as well as about the current state of the national economy. At the request of the government led by A. Kulbergs, in June this year the MoF updated the forecasts endorsed by the Council on 13 February and submitted an information report to the Cabinet of Ministers. In this opinion, the forecasts submitted by the MoF on 9 September are compared with those endorsed by the Council on 13 February, as well as with the forecasts updated in June and presented to the Cabinet of Ministers.

The Council's mandate is to provide an opinion on the macroeconomic indicators within the scope defined in Article 20(1) of the Fiscal Discipline Law (the indicators are summarised in Table 3 at the end of this document). Considering the materials and explanations provided by the MoF, and based on internal deliberations, the members of the Council decided to endorse the forecasts, while providing comments on the assessment of potential GDP and highlighting the main economic risks in the conclusions section.

Situation report

The MoF forecasts for real GDP growth for 2026 and 2030 have been updated compared with the forecasts previously endorsed by the Council on 13 February 2026 and the June forecasts.

The Council takes into account that on 30 September this year the CSB will publish a revision of national accounts data for previous years, which may affect the results of the macroeconomic forecasts currently endorsed. The Council reserves the right to request additional information from the MoF and supplement this opinion, if necessary.

The real GDP growth rates projected by the MoF for 2026–2030 reflect moderate economic growth. In 2026, the MoF projects real GDP growth of 2.4%, followed by a temporary slowdown to 1.9% in 2027. Growth is expected to remain moderate in subsequent years, reaching 2.0% in 2028, 2.3% in 2029 and 2.4% in 2030. Overall, average real GDP growth over the period 2026–2030 is projected at approximately 2.2%. The MoF GDP forecast is rather conservative and does not indicate a rapid economic acceleration.

The inflation forecast reflects uneven price growth. The MoF projects consumer price inflation at 3.4% in 2026, rising to 3.7% in 2027 before gradually declining to 2.9% in 2028 and 2.2% in 2029 and 2030. Thus, in the second half of the forecast period, inflation is expected to stabilise at a level close to the ECB's medium-term target of 2%.

Table 1 summarises the latest forecasts for key macroeconomic indicators of the Ministry of Finance (MoF)[1], the Bank of Latvia (BoL)[2], the European Commission (EC)[3] and the International Monetary Fund (IMF)[4].

	2026	2027	2028	2029	2030
Real GDP growth					
FM (2026.g. Sept.)	2.4	1.9	2.0	2.3	2.4
LB (2026.g. Jūn.)	2.0	2.4	3.0	-	-
EK (2026.g. Mai.)	1.4	1.6	-	-	-
SVF (2026.g. Apr.)	2.2	2.4	2.4	2.4	2.4
Nominal GDP growth					
MoF (Sept. 2026)	6.2	5.7	5.2	5.1	5.3
BoL (June 2026)	-	-	-	-	-
EC (May 2026)	-	-	-	-	-
IMF (Apr. 2026)	5.4	4.8	4.3	4.4	4.5
Inflation (CPI)					
MoF (Sept. 2026)	3.4	3.7	2.9	2.2	2.2
BoL (June 2026)	3.6	3.8	3.4	-	-
EC (May 2026)	3.6	2.2	-	-	-
IMF (Apr. 2026) *End-of-period inflation	3.0	2.2	2.9	2.2	2.2
GDP deflator					
MoF (Sept. 2026)	3.7	3.8	3.2	2.7	2.8
BoL (June 2026)	-	-	-	-	-
EC (May 2026)	3.1	2.1	-	-	-
IMF (Apr. 2026)	-	-	-	-	-

Table 1. Forecasts of key macroeconomic indicators by various institutions, %.

Although the comparison uses the latest available forecasts, their different preparation dates should be taken into account: the MoF forecasts were prepared in September 2026, incorporating developments in the first half of this year, while the BoL forecast was prepared in June, the EC forecast in May and the IMF forecast in April.

Taking into account developments in the first half of this year, the MoF forecast for 2026 is the most optimistic among the institutions included in the comparison. For 2027, the MoF estimate occupies a middle position between the lower EC forecast and the higher BoL and IMF forecasts. For 2028, the MoF projects real GDP growth of 2.0%, below the BoL (3.0%) and IMF (2.4%) projections. Based on the available data, the MoF and IMF forecasts for 2029 and 2030 do not differ significantly.

[1] MoF macroeconomic forecasts (September 2026) Tautsaimniecības un budžeta izpildes analīze | Finanšu ministrija
[2] Bank of Latvia forecasts (June, 2026) https://www.bank.lv/darbibas-jomas/monetaras-politikas-istenosana/prognozes
[3] European Commission spring forecasts (May 2026) Economic forecast for Latvia - Economy and Finance - European Commission
[4] IMF WEO (April, 2026) https://www.imf.org/en/publications/weo/issues/2026/04/14/world-economic-outlook-april-2026

Inflation forecasts for 2026 differ across institutions, although the MoF projection of 3.4% is closer to the upper end of the forecast range. For 2027, the MoF estimate significantly exceeds the EC and IMF projections but is close to the BoL forecast.

Such substantial differences reflect the fact that institutions prepared their reports at different times, and the data published in early spring did not yet incorporate assumptions regarding the escalation of tensions in the Middle East.

For a broader basis of comparison, Figures 1 and 2 compare the MoF projections with a wider group of forecasters, including commercial banks, the OECD and the University of Latvia's LV PEAK consensus forecast. The different preparation dates should be taken into account: commercial bank and MoF forecasts incorporate the latest information on economic developments, whereas the BoL, EC and IMF forecasts were prepared earlier. Consequently, the dispersion of forecasts partly reflects changes in the macroeconomic outlook for the coming years since spring.

Figure 1. Real GDP Growth Forecasts for 2027–2028

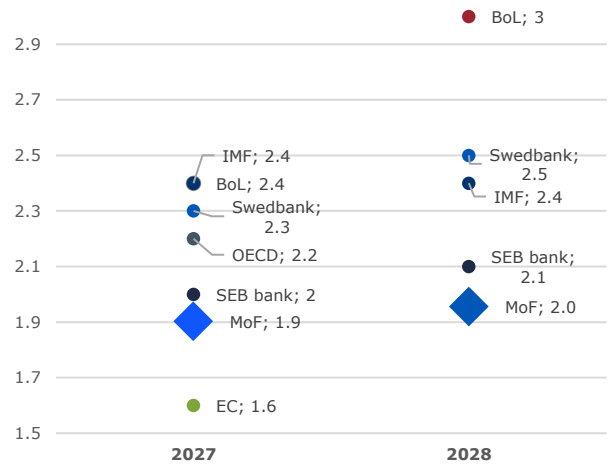
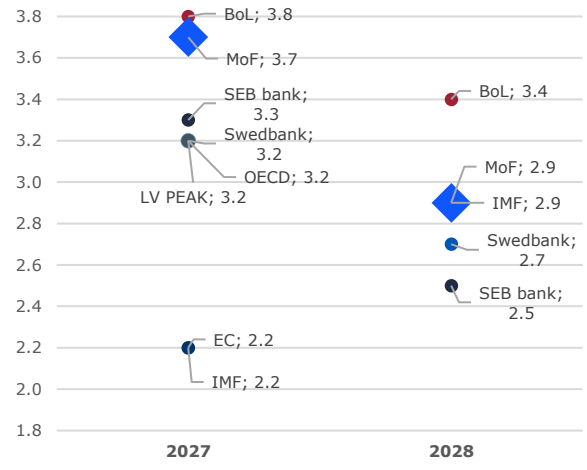


Figure 2. Inflation (CPI) Forecasts for 2027–2028



Sources: BoL[5], MoF[6], Swedbank[7], IMF[8], OECD[9], SEB banka[10], EC[11], LU LV PEAK[12]

Figures 1 and 2 show that the MoF assessment of economic growth in 2027–2028 is cautious and lies in the lower (more conservative) part of the forecast range. The latest commercial bank forecasts also generally point to more moderate growth than the earlier BoL and IMF projections. At the same time, the dispersion of forecasts for 2028 remains considerable. Uncertainty is even more pronounced in inflation forecasts, particularly for 2027, when projections range from 2.2% to 3.8%, with the MoF forecast of 3.7% situated near the upper end. Overall, the latest forecasts point to the risk of more moderate economic growth and more persistent price pressures than expected in spring, as well as to rapidly changing macroeconomic conditions that pose challenges for forecasting.

[5] Bank of Latvia forecasts (June, 2026) https://www.bank.lv/darbibas-jomas/monetaras-politikas-istenosana/prognozes
[6] MoF macroeconomic forecasts (September 2026) Tautsaimniecības un budžeta izpildes analīze | Finanšu ministrija
[7] swedbank-research.com/english/swedbank_economic_outlook/2026/q2/seo_august_2026_eng_final.pdf
[8] IMF WEO (April, 2026) https://www.imf.org/en/publications/weo/issues/2026/04/14/world-economic-outlook-april-2026
[9] OECD Economic Surveys: Latvia 2026 (EN)
[10] SEB bank Nordic Outlook (August, 2026) seb.lv/sites/default/files/invest_reviews/nordic_outlook_august2026_eng.pdf
[11] European Commission spring forecasts (May 2026) Economic forecast for Latvia - Economy and Finance - European Commission
[12] LV_PEAK_BAROMETRS_Nr_9.pdf

Economic Development in the First Half of 2026

GDP. According to the Central Statistical Bureau (CSB), in the second quarter of 2026 Latvia's GDP, at 2020 constant prices, increased by 3.0% compared with the corresponding period of the previous year, and by 2.8% in the first half of the year overall (seasonally adjusted data). In the first quarter, GDP increased by 2.6%. From the expenditure perspective, the strongest growth was observed in investment, which increased by 3.2%, and household consumption, which rose by 2.5%; exports grew by 1.4%, while government consumption declined by 1.6%. In the second quarter, household and government consumption followed similar trends: household consumption increased by 3.1%, while government consumption declined by 1.6%. However, investment and exports grew considerably faster in the second quarter, by 6.0% and 7.7%, respectively.

In the first half of the year, total gross value added increased by 2.7% (seasonally adjusted data), with growth across most sectors of the economy. Stronger growth was observed in trade (+6.0%), professional, scientific and technical activities (+5.2%) and manufacturing (+4.4%). Value added in financial and insurance activities increased by 4.5% in the first half of the year, but quarterly developments differed markedly: following a decline of 1.0% in the first quarter, growth of 10.4% was recorded in the second quarter, the highest growth rate among sectors in that quarter. Actual data for 2026 so far confirm strengthening economic growth, although it should be noted that growth is often driven by sectors with volatile dynamics.

Investment. In the first half of 2026, gross fixed capital formation increased by 4.6%. Investment growth in the second quarter was mainly driven by investment in machinery, equipment and vehicles, while construction investment grew more moderately. Although investment activity remains high, its growth rate is lower than in 2025. EU funding continues to provide substantial support to investment, although private investment activity is also strong. According to the MoF estimate, financing from EU funds and the Recovery and Resilience Facility (RRF) will decline from approximately EUR 2.1 billion in 2026 to EUR 1.6 billion in 2027 and EUR 1.1 billion in 2028–2029, and to approximately EUR 0.7 billion in 2030. The most significant reduction in the funding structure is associated with the expiry of RRF financing, while cohesion policy funding flows remain relatively high in 2027–2029. The amount of funding for the next EU funding period has not yet been approved and remains uncertain.

Household Consumption and Wages. In the first half of 2026, household consumption showed a gradual recovery. Compared with the corresponding periods of the previous year, household consumption increased by 2.5% in the first quarter and 3.1% in the second quarter, with overall growth of 2.8% in the first half of the year. Retail turnover also increased by 4.6% in the first half of the year. The recovery in consumption was accompanied by strong lending activity: the volume of newly issued mortgage loans increased by 13.4%, while consumer loans increased by 28.5%.

At the same time, several factors may constrain a further acceleration in household consumption. Wage growth has slowed considerably: gross wages increased by 4.9% in the first quarter of 2026 and by 4.3% in the second quarter. By comparison, considerably stronger growth was recorded in 2025, averaging 7.7%. Households also continue to increase their financial savings: at the end of July, deposits were 7.9% higher than a year earlier, while consumer sentiment remains cautious despite improvements in recent months. However, given existing income inequality, it cannot be concluded that savings are increasing uniformly across all household groups.

An additional constraining factor in the first half of this year was the emergence of a tighter ECB monetary policy stance. Against a background of elevated inflation and energy price risks, moderate interest rate increases have resumed. The latest ECB monetary policy decision was published on 10 September: the ECB decided to raise all three key interest rates by 25 basis points, the second increase of this magnitude this year[13].

Exports. Export performance improved considerably in the first half of 2026. CSB data show that, following a decline of 0.9% in the first quarter, goods exports increased by 13.2% in the second quarter, resulting in overall growth of 5.9% in the first half of the year compared with the corresponding period of the previous year. EU countries were the main market driving goods export growth, with exports to these countries increasing by 8.6% in the first half of the year. Exports to CIS countries increased by 7.4%, while exports to other countries declined by 4.7%.

According to BoL data, services exports also increased by 5.1% in the first half of the year, although developments across categories were uneven. Strong growth was recorded in exports of financial services (+27.6%) and other business services (+14.8%), while exports of transport services increased by 4.6%. At the same time, exports of construction services declined by 10.7% and exports of other unclassified services by 9.1%.

Industrial output. In the first half of 2026, industrial output increased by 6.7% compared with the corresponding period of the previous year. However, growth slowed to 4.2% in the second quarter following an increase of 9.2% in the first quarter. Manufacturing output increased by 3.6% in the first half of the year. Growth was driven by the second quarter, when output increased by 6.2%, following subdued growth of 1.0% in the first three months of the year. Overall, growth has returned to all major manufacturing subsectors. Output in mining and quarrying declined by 14.4% in the first half of the year.

Construction. Construction output increased by 3.1% in the first half of 2026. Unlike in 2025, when growth in the sector was mainly driven by civil engineering, building construction became the main driver of growth in the first half of 2026 (+6.3%), while growth in civil engineering slowed to 0.7% and output in specialised construction activities increased by 1.4%.

Labour Market. In the first quarter of 2026, the employment rate among persons aged 15–74 was 63.8%, with the number of employed persons reaching 871,200, an increase of 3,200 compared with the corresponding period of the previous year. In the second quarter, as seasonal labour market activity increased, the employment rate rose to 65.1% and the number of employed persons reached 885,500. However, this was 3,800 fewer than in the second quarter of 2025.

According to CSB data, the unemployment rate remains stable, standing at 7.1% in the first quarter and declining by 0.1 percentage point to 7.0% in the second quarter. According to CSB data, slightly more than 66,000 people were unemployed during this period. The registered unemployment rate reported by the State Employment Agency remains lower: the latest data show that it stood at 4.6% at the end of August, with 41,500 registered unemployed persons.

At the same time, labour shortages persist in several sectors, including healthcare, education and IT, and there is a substantial mismatch between the skills demanded in the labour market and those offered by workers. The MoF projects a gradual decline in unemployment from 6.8% in 2026 to 6.1% in 2030, driven by an increasingly constrained

[13] Key ECB interest rates

labour supply. Although declining labour supply creates conditions for a reduction in unemployment, structural barriers to greater labour market participation among the unemployed remain. In recent years, there have been no convincing signs of a reduction in structural unemployment; therefore, the MoF projection of a decline in unemployment to a historical low of 6.1% should be regarded as optimistic.

In the medium term, labour availability is increasingly becoming a constraint on economic growth, reflecting population decline and ageing. Under these circumstances, labour supply constraints are further exacerbated by uncertainty regarding the future development of labour migration regulations.

Inflation. Inflation remained volatile in the summer of 2026: after declining to 2.6% in July, it increased to 3.2% in August. The composition of inflation has changed considerably compared with 2025: food and non-alcoholic beverage prices in August were 4.0% lower than a year earlier, while price growth was mainly driven by energy and services.

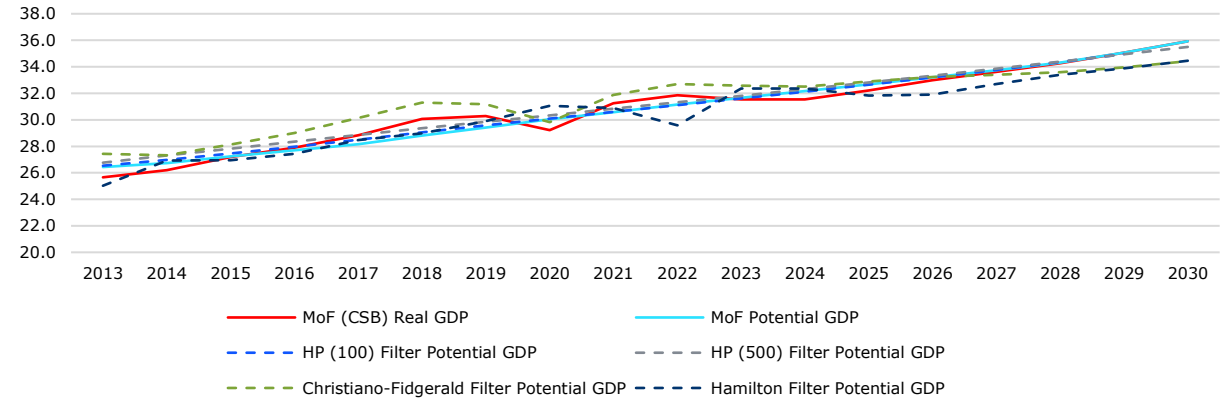
In August, transport prices increased by 8.6% year on year, including increases of 18.3% in petrol prices and 24.5% in diesel prices. Goods prices are increasing more slowly, with average growth of 2.2% in the first eight months of this year, while services prices increased by an average of 5.3% over the same period.

Elevated price pressures also persisted in other services categories. Thus, despite the substantial decline in food prices, rising energy prices and persistent services inflation constrain a more rapid moderation in overall inflation. MoF estimates indicate increasing inflationary pressures in the coming months, particularly during the heating season.

Assessment of the Latvian economic cycle

The Council's experts assess Latvia's position in the economic cycle using several statistical filtering methods. The analysis applies the Hodrick–Prescott filter with smoothing parameters of 100 and 500, as well as the Christiano–Fitzgerald and Hamilton filters. These statistical techniques are used to distinguish between short-term and long-term fluctuations in GDP and to estimate the level of potential output, thereby allowing for a comparable assessment of the output gap relative to the MoF forecast. Figure 3 illustrates that, over the period from 2013 to 2030, the potential GDP series derived using the HP (100) filter is closest to the MoF estimate. The series calculated using the Hamilton filter shows the greatest divergence from the MoF assessment. The Hamilton filter suggests both a sharper decline in potential GDP in 2022 – the year of the energy price shock – and a lower level of potential GDP in the medium term after 2025.

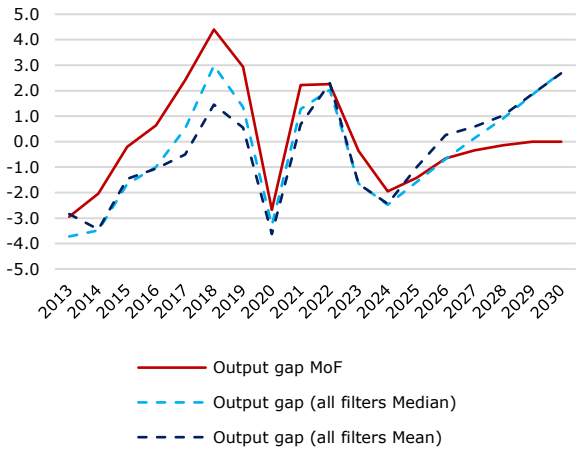
Figure 3. Real GDP (actual and forecast), MoF estimate of potential GDP and Council estimates of potential GDP (HP 100, HP 500, Christiano–Fitzgerald and Hamilton filter methods)



Source: MoF and Council calculations

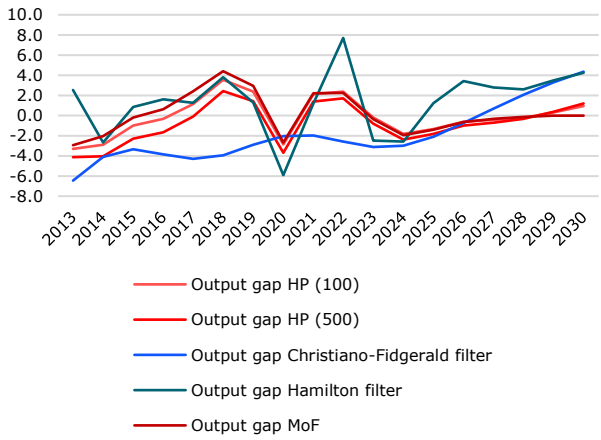
Using the above-mentioned statistical filtering approach, alternative estimates of the output gap were derived. It can be concluded that, over the period from 2013 to 2030, the output gaps calculated using different statistical filters follow a trajectory broadly similar to that of the MoF data. The output gap estimated using the Hamilton filter shows higher and positive values, whereas the output gap calculated using the HP filters (100) and (500) differs only marginally from the MoF estimates. However, the HP-based estimates indicate a positive output gap (0.3–0.4% of GDP) starting from 2029 (see Figure 4).

Figure 4. Output Gap Estimates: Comparison of Three Statistical Filters with the MoF Estimate



Source: MoF and Council calculations

Figure 5. Comparison of Output Gap Calculation Results – Average and Median of Statistical Filters Compared with the MoF Estimate



Source: MoF and Council calculations

Figure 5 presents the median and average values of the output gap calculated using all statistical filters, compared with the MoF estimate. The median indicates a negative output gap in 2026; however, in subsequent years the output gap returns to positive territory. The average of all filter-based estimates points to a positive output gap already in 2026 (see Table 2).

Given the current set of economic risks and persistent global uncertainty, the scope for long-term assessment of the output gap remains limited. The Council agrees with the MoF's assessment of the output gap as reflecting the current economic situation. Nevertheless, a small positive output gap towards the end of the forecast horizon cannot be ruled out, as indicated by the Council's modelling results. Information obtained during consultations with experts from the Bank of Latvia also indicates that the BoL estimates show a positive output gap starting from 2028.

Table 2

Output gap: MoF estimates and median and average of the Council's statistical filter estimates

	MoF output gap	Median (all filters)	Arithmetic mean (all filters)
2026	-0.6	-0.7	0.3
2027	-0.3	0.1	0.6
2028	-0.1	0.9	1.0
2029	0.0	1.8	1.9
2030	0.0	2.7	2.7

Source: MoF and Council calculations

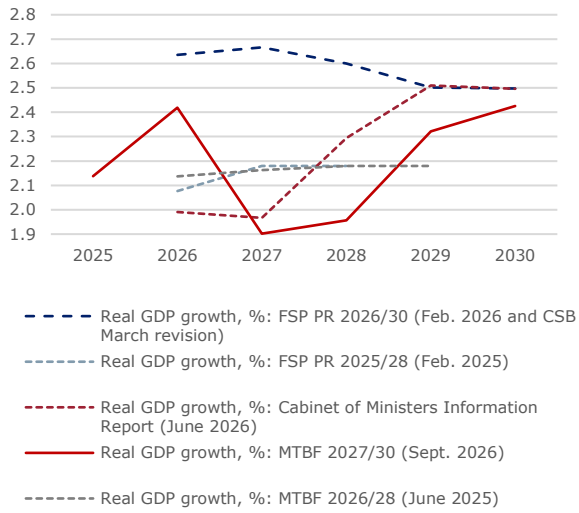
Comparison of Current and Previous MoF Forecasts

The following section compares the macroeconomic forecasts submitted by the MoF on 9 September with those endorsed by the Council in February 2026 (FSP PR 2026/30), [14] while also presenting revisions relative to the forecasts updated in June this year for the information report to the Cabinet of Ministers[15].

The Council has decided to endorse the forecasts described below. The Council endorses the real GDP growth forecast for the period 2026–2030. Compared with the forecast endorsed by the Council in February 2026, real GDP growth rates have been revised downward throughout the forecast period: by 0.2 percentage points for 2026, 0.8 percentage points for 2027, 0.6 percentage points for 2028, 0.2 percentage points for 2029 and 0.1 percentage point for 2030. At the same time, compared with the updated June MoF forecast, the growth estimate for 2026 has been revised upward from 2.0% to 2.4%, while the projections for 2027–2030 have been revised slightly downward (see Figure 6).

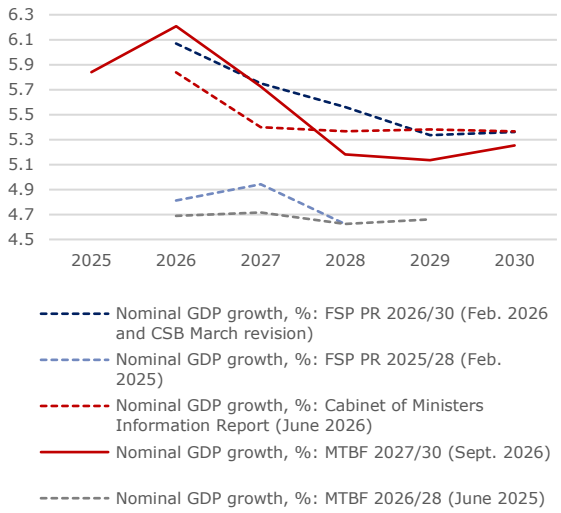
[14] The Council Approves the Ministry of Finance's Macroeconomic Forecasts for the FSP PR 2026–2030 | Fiskālās disciplīnas padome
[15] MoF indicative forecasts of macroeconomic indicators, revenue and the general government budget balance for 2027, 2028, 2029 and 2030PowerPoint Presentation

Figure 6. Real GDP Growth Forecasts



Source: MoF

Figure 7. Nominal GDP Growth Forecasts

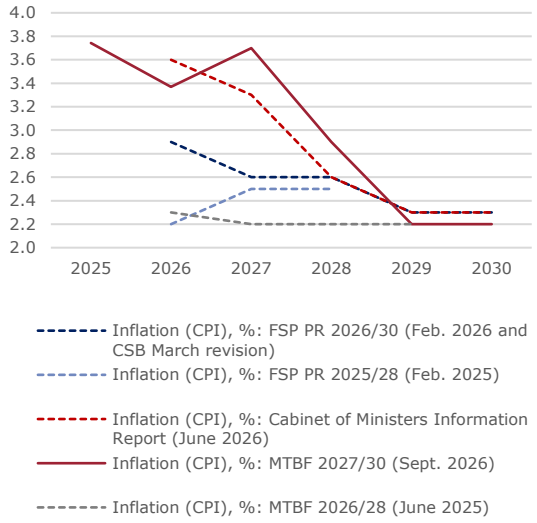


Source: MoF

The Council endorses the nominal GDP growth forecast for the period 2026–2030. Compared with the forecast endorsed by the Council in February 2026, nominal GDP growth for 2026 has been revised upward by 0.1 percentage point, remains unchanged for 2027 and has been revised downward by 0.4, 0.2 and 0.1 percentage points for 2028–2030, respectively. Compared with the updated June MoF forecast, nominal GDP growth estimates for 2026 and 2027 have been revised upward from 5.8% to 6.2% and from 5.4% to 5.7%, respectively, while the projections for 2028–2030 have been revised downward (see Figure 7).

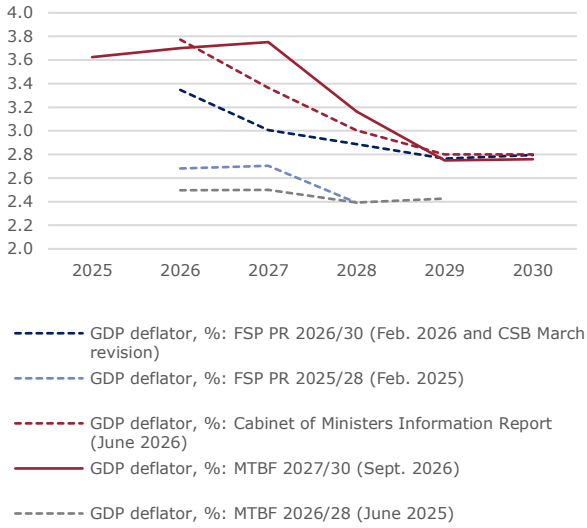
The Council endorses the updated inflation (CPI) forecast for the period 2026–2030. Compared with the forecast endorsed by the Council in February 2026, inflation has been revised upward by 0.5 percentage points for 2026, 1.1 percentage points for 2027 and 0.3 percentage points for 2028, while the forecasts for 2029 and 2030 have been revised downward by 0.1 percentage point. Compared with the updated June MoF forecast, inflation for 2026 has been revised downward from 3.6% to 3.4%, while the estimates for 2027 and 2028 have been revised upward from 3.3% to 3.7% and from 2.6% to 2.9%, respectively. At the end of the forecast period, inflation is projected at 2.2% (see Figure 8).

Figure 8. Inflation Forecasts



Source: MoF

Figure 9. GDP Deflator Forecasts

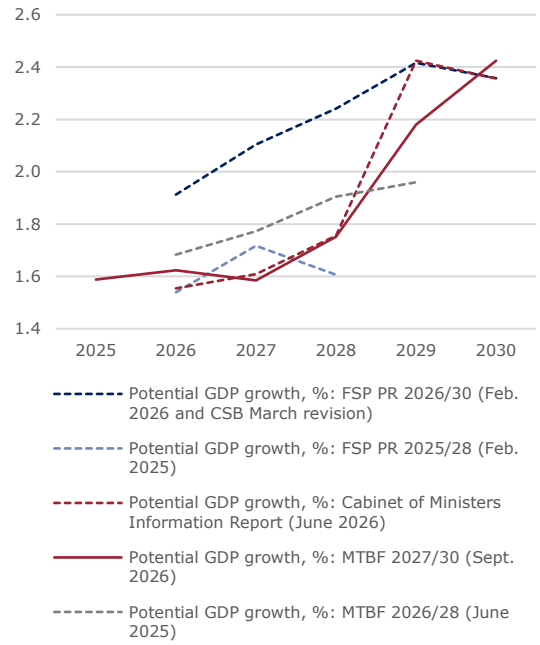


Source: MoF

The Council endorses the updated GDP deflator forecast for the period 2026–2030. Compared with the forecast endorsed by the Council in February 2026, GDP deflator growth has been revised upward by 0.4 percentage points for 2026, 0.7 percentage points for 2027 and 0.3 percentage points for 2028, while the forecasts for 2029 and 2030 remain unchanged. Compared with the updated June MoF forecast, the deflator estimate for 2026 has been revised slightly downward from 3.8% to 3.7%, while the estimates for 2027 and 2028 have been revised upward to 3.8% and 3.2%, respectively. At the end of the forecast period, GDP deflator growth is projected at 2.8% (see Figure 9).

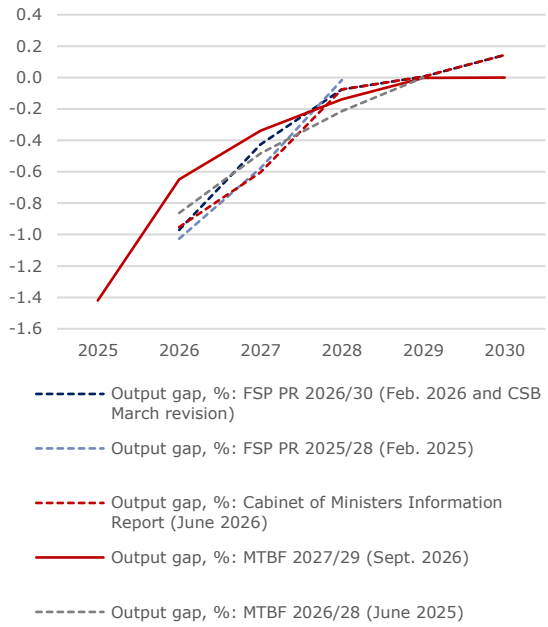
The Council endorses the potential GDP growth forecast for the period 2026–2030, with comments. Compared with the forecast endorsed by the Council in February 2026, potential GDP growth has been revised downward by 0.3 percentage points for 2026, 0.5 percentage points for 2027 and 2028, and 0.2 percentage points for 2029, while the forecast for 2030 has been revised upward by 0.1 percentage point. Compared with the June MoF assessment, the contribution of capital for 2026–2029 has been revised slightly upward, while the contribution of total factor productivity (TFP) for 2027–2029 has been revised downward (see Figure 10).

Figure 10. Potential GDP Growth Forecasts, %



Source: MoF

Figure 11. Output Gap Forecasts, %



Source: MoF

The acceleration of potential GDP growth towards the end of the forecast period requires further justification. In the Council's view, it is necessary to provide a clearer justification of whether the high level of investment in recent years will ensure sufficiently sustained capital accumulation and productivity growth to support the acceleration in potential GDP growth projected by the MoF towards the end of the forecast period, in 2029 and 2030, given the negative contribution of labour.

The MoF projects an acceleration in potential GDP growth from 1.6% in 2026–2027 to 2.4% in 2030. Owing to adverse demographic trends, the contribution of labour remains negative throughout the forecast period. Consequently, the acceleration in potential growth is mainly driven by an increase in the contribution of capital from 0.9 percentage points in 2026 to 1.4 percentage points in 2030, while the contribution of total factor productivity remains relatively stable at approximately 0.8–1.1 percentage points, rising to 1.5 percentage points in 2030. The MoF justifies these developments by the high level of investment in recent years and the impact of capital accumulation on future potential growth.

At the same time, this potential growth scenario assumes sustained labour productivity growth: the MoF projects an acceleration from 2.1% in 2027 to 2.9% in 2030. The Council notes that actual productivity growth over the past decade has been considerably more volatile and lower on average. This is also confirmed by LV PEAK productivity studies, which identify a slowdown in productivity growth. In Latvia, productivity increased by an average of 7.2% per year in 1998–2007, whereas real labour productivity per employed person increased by an average of 1.6% per year in 2016–2025 [16]. Eurostat data also indicate considerable

[16]University of Latvia, Faculty of Economics and Social Sciences, Productivity Research Institute (LV PEAK think tank) – Latvia Productivity Report 2025 [LPZ2025.pdf]

annual fluctuations in real labour productivity, from –2.7% in 2023 to 1.4% in 2024 and 2.7% in 2025.[17].

The Council endorses the updated output gap forecast for the period 2026–2030. Compared with the assessment endorsed by the Council in February 2026, the output gap has been revised upward by 0.3 and 0.1 percentage points for 2026 and 2027, respectively, downward by 0.1 percentage point for 2028, remains unchanged for 2029 and has been revised downward by 0.1 percentage point for 2030. In the updated forecast, the negative output gap narrows from –0.6% in 2026 to –0.1% in 2028 and closes in 2029. Compared with the June MoF assessment, the output gap for 2026 and 2027 is 0.3 percentage points less negative, mainly reflecting an upward revision of actual GDP levels, while the estimated level of potential GDP has changed considerably less (see Figure 11).

Conclusions

The Council endorses the MoF macroeconomic forecasts for the MTBF 2026–2030, but draws attention to the current set of risks that may adversely affect the country's fiscal position. The Council considers the MoF no-policy-change baseline macroeconomic scenario to be justified, but emphasises that, in the context of declining labour supply, productivity growth becomes a crucial prerequisite for sustaining potential growth. At the same time, slowing wage growth, higher energy prices and a possible weakening of private consumption pose risks not only to real growth but also to the state budget revenue base. The Council draws attention to the risks described below.

1) Geopolitical and energy price risks have increased considerably. The escalation of the conflict in the Middle East and the US–Iran military confrontation sustain high volatility in oil and gas prices and threaten energy supplies. As a small and open economy, Latvia is exposed to this shock through global markets. The impact on diesel prices is already pronounced, while the increase in wholesale gas prices has not yet been fully passed through to consumer tariffs. As the heating season approaches, a significant risk is associated with rising heating tariffs. Consequently, the impact of the current energy price shock on inflation in 2026 remains limited, but will begin to materialise towards the end of the year through heating tariffs, with a broader pass-through to food prices also possible in 2027. High energy prices affect the economy through several channels: they increase the financial burden on households and constrain private consumption and its contribution to GDP, while also weakening the consumption tax revenue base. An additional risk stems from the reduced VAT rate applied since July to certain food categories (bread, milk, eggs and poultry meat). This is a temporary measure, and its expiry after one year, coinciding with the expected increase in global food prices, may create dual upward pressure on inflation and adversely affect household consumption. **The Council calls on the MoF to closely monitor food price developments and collect data for the period when discussions on VAT as an instrument for regulating food prices resume.**

2) Slowing potential growth poses a medium-term fiscal risk. The MoF projects an acceleration in potential GDP growth to 2.4% in 2030, driven primarily by an increasing contribution of capital and sustained productivity growth against a background of a negative labour contribution. At the same time, actual productivity growth over the past decade has been volatile and, on average, lower than projected towards the end of the forecast period.

[17] Eurostat [https://doi.org/10.2908/NAMA_10_LP_ULC]

If investment growth does not deliver the expected capital accumulation and productivity gains, economic growth may be lower than projected, thereby weakening the medium-term tax revenue base and increasing the need for fiscal consolidation.

3) The recovery in private consumption may prove weaker than projected, thereby also weakening the tax revenue base. Private consumption strengthened in the second quarter of this year following a prolonged period of consumer caution. The MoF has slightly revised upward the medium-term growth forecast for the consumption component. However, wage growth has already slowed considerably in both the private and public sectors. If wage growth continues to slow amid elevated energy prices and inflationary pressures, growth in household real incomes and purchasing power may be weaker. This poses a downside risk to the private consumption forecast and, consequently, to the revenue base of taxes related to consumption and wages.

4) Investment growth is currently strong, but its composition poses a risk to medium-term growth. The substantial increase in investment in previous years was largely supported by EU funds and the RRF. The MoF expects expenditure financed by foreign financial assistance to decline already in 2027, while sufficient clarity regarding the next EU funding programming period (2028–2034) is still lacking. As EU funding flows decline, private investment will become increasingly important. Overall, however, the investment component will be insufficient to sustain higher GDP growth rates in the coming years.

5) Financing defence expenditure is becoming an increasingly significant medium-term fiscal challenge, while its contribution to economic growth should be assessed with caution. Higher defence funding competes with other budgetary priorities, and following the expiry of the period of application of the EU national escape clause in 2029, sustainable financing of this expenditure will need to be ensured within the general fiscal framework. At the Council meeting, the MoF noted that Latvia's defence industry currently accounts for a small share of the economy and that a substantial proportion of defence procurement consists of imports. According to MoF estimates, the cumulative impact of defence expenditure on the level of GDP in the medium term is approximately 0.5%, whereas its impact on annual GDP growth rates is very small. International literature also generally estimates the multiplier effect of military expenditure to be lower than that of productive investment in civilian sectors. Therefore, increased defence expenditure cannot automatically be interpreted as a significant additional source of economic growth.

6) Significant fiscal risks related to the Rail Baltica project and the airline airBaltic persist. Risks concerning the adequacy of financing and implementation of Rail Baltica remain, while uncertainty regarding project financing increases uncertainty about medium-term investment activity. The financial position of airBaltic has also deteriorated seriously, creating a risk that additional state support may be required in the future, increasing pressure on public finances. The Council draws attention to one of the fundamental principles of fiscal discipline: when taking decisions to increase public expenditure or reduce revenue, the government is obliged to ensure appropriate compensatory measures at the same time.

7) High global debt levels and rising borrowing costs exacerbate fiscal sustainability risks both globally and in Latvia. Government debt levels in the world's major economies remain high, while inflationary pressures and expansionary fiscal policy increase long-term bond yields, raising debt refinancing costs. Although Latvia's government debt remains moderate compared with many EU countries, its level continues to increase in the medium term, accompanied by rising debt servicing expenditure. Concerns regarding the

sustainability of countries' fiscal policies are increasing in global financial markets. Particular attention should be paid to projections for the US budget deficit and government debt, given the role of the US dollar as the world's principal reserve currency in the global financial system. At the same time, recent years have seen diversification of central bank reserves through an increase in the share of gold, while gold prices have risen considerably. **It is important for Latvia's economic policymakers to monitor these trends and assess their potential impact on the Latvian economy and the sustainability of public finances.**

Table 3

Indicators of macroeconomic forecasts endorsed by the Council, %.

Macroeconomic indicators	2026	2027	2028	2029	2030
Real GDP growth	2.4	1.9	2.0	2.3	2.4
Nominal GDP growth	6.2	5.7	5.2	5.1	5.3
Inflation (consumer prices)	3.4	3.7	2.9	2.2	2.2
GDP deflator	3.7	3.8	3.2	2.7	2.8
Potential GDP growth	1.6	1.6	1.8	2.2	2.4
Output gap	-0.6	-0.3	-0.1	0.0	0.0

Source: MoF