



## LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

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Reģistrācijas nr. 90010248231, Smiļšu ielā 1, Rīgā, LV-1919

### **Fiscal discipline monitoring report recommendations**

#### **The key recommendations for consultation with the Parliamentary Budget and Finance committee**

1. Establish a Fiscal Safety Reserve for fiscal year 2016 in the amount of 26.9 million euro or 0,1% of GDP and for 2017 37.3 million euro or 0,13% of GDP.
2. Prepare measures to achieve the budget balance targets in 2015 and 2016 to avoid the consequences of Article 11 of the FDL requiring compensation for the accumulated over three years shortfall exceeding 0,5% of GDP taking into account the estimated budget balance shortfall in 2014 of 0,3% of GDP.
3. Aim for the accumulation of fiscal space in the medium-term budget framework for 2015-2017 is to enable response to the changing situation and to achieve Government's priorities, taking into account that the 2015 and 2016 fiscal space actually has been exhausted before the start of the budget process.
4. Prepare tax policy strategy, simultaneously with the development the Latvia's Stability Programme for 2015 -2018, with the objective to allow the Government to achieve the goal – to provide for tax revenue at 1/3 of GDP by 2018.

### Full Schedule of Recommendations for discussion with the Ministry of Finance

No	Report Chapter	Recommendation
1.	<b>3. Numerical fiscal conditionality assessment</b>	Conclude a MoU with the Ministry of Finance (hereinafter – MoF) for the exchange of information and cooperation in the monitoring of fiscal discipline.
2.		Prepare measures to achieve budget balance in 2015 and 2016, the appropriate adjustments in the annual budgetary plans to avoid the consequences of Article 11 of the Fiscal Discipline Law (hereinafter – FDL), resulting into the increase in the budget target balance to compensate the accumulated budget balance lagging the target in excess of the 0,5% of GDP during three years consecutive years taking into account the estimated budget balance the shortfall by 0,3% of GDP in 2014.
3.	<b>4. Macroeconomic Outlook and the output gap</b>	Request the MoF to prepare a broader explanation of the output gap estimates, including the economic reasoning for the key assumptions.
4.		Request the MoF to explain the second principle of the fiscal policy, i.e. savings requirement, according to which the budget should be prepared and executed with a surplus, while the economy performs with positive output gap, to ensure balanced budget over the economic cycle, provided that the economic situation allows.
5.		Address the need for additional fiscal space in the medium-term budget framework for 2015-2017 in order to be able to respond adequately to the challenges and to realise the Government's priorities, taking into account that the 2015 and 2016 fiscal space actually has been already exhausted before the start of the budget process.
6.		Attach to the draft Annual budget law and draft Framework law the explanation of the planned structural reforms to promote sustainable economic development and effective use of the budgetary resources.
7.	<b>5. Fiscal Policy Challenges</b>	Prepare tax policy strategy, to accompany the Stability Programm for 2015 -2018 with the objective of allowing to achieve the Government's goal tax burden at 1/3 of GDP by 2018.
8.		Consider the options for tax base expansion, including value added tax, which could be simultaneously accompanied by measures to alleviate the impact of higher rates on socially vulnerable population.
9.		Strengthen the regulatory framework to contain the "shadow" economy.
10.		Examine all options for the cancellation of the tax exemptions. Simplify the tax system by reducing the multiple rates and the number of exemptions in support of efficient State Revenue Service operation.
11.		Consider the options for replacing the personal income tax rate reduction with an increase in tax-exempt income, thus reducing the tax burden on lower paid workers, promoting the legalisation of employment and the general drive to return to the formal labor market rather than relying on social benefits. The Council

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		supports the plans for the progressive tax exemption.
12.		Examine the options for property tax increase, together with the review of cadastral values, to improve the equity of income distribution. Long-term residents in areas with high cadastral values should be allowed to capitalize the increase of the property tax, the settlement of which may be deferred until the property is being transferred.
13.		Transfer of certain state government services to the private sector, thus demonstrating a clear strategy to reduce public spending in the medium term, specifically, explore the possibility of using better targeted grants and services to support vulnerable groups, in order to increase the benefits and effectiveness of the delivery.
14.	<b>6. Fiscal risk assessment and the adequacy of the fiscal stability reserve</b>	Endorse the Government's fiscal risk declaration taking into account the Council's proposals.
15.		Provide the public with adequate information regarding the boundaries of the Government's obligations and promote the purchase of private insurance for businesses and households to reduce fiscal risks associated with natural disasters and business risks.
16.		Improve the risk management in the state owned corporations, which are classified to the general government sector to ensure access to timely information on activities that may have an impact on the fiscal balance management.
17.		Review the realism of the local government budget balance in the Framework law projections, taking into account the agreements reached for the local government borrowing and the past trends in the fiscal balance of the local government's sub-sector.
18.		Propose establishing the fiscal safety reserve for 2016 in the amount of 26.9 million euro or 0,1% of GDP and in 2017 at 37.3 million euro or 0,13% of GDP.