LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

Reģ.nr. 90010248231, Smilšu ielā 1-512, Rīgā, LV-1919
E-pasts: fiskala.padome@gmail.com

RĪGĀ

14.04.2015. Nr. 1-02/277

Uz Nr.

The Chairperson of the Saeima
of the Republic of Latvia
Mrs Ināra Mūrniece
e-mail: saeima@saeima.lv

Prime Minister
of the Republic of Latvia
Mrs Laimdota Straujuma
e-mail: vk@mk.gov.lv

Chairman of the Budget and Finance (Tax) Committee
Saeima of the Republic of Latvia
Mr Kārlis Šadurskis
e-mail: budzeta.komisija@saeima.lv

The Minister of Finance
of the Republic of Latvia
Mr Jānis Reirs
e-mail: pasts@fm.gov.lv

Dear Madams Mūrniece and Straujuma,
Dear Messrs Šadurskis and Reirs,

Opinion regarding the Latvia Stability Programme 2015-2018

According to the Law on Fiscal Discipline (FDL) Article 28 Part 7 the Fiscal Discipline Council (Council) shall prepare and submit to the Saeima and the Cabinet's attention of fiscal policy matters, where it finds them important to comply with the FDL terms.

The Council has been cooperating with the staff of the Ministry of Finance in the process of the preparation of the Latvia's Stability Programme for 2015-2018 (hereinafter – Stability Programme) trying to understand if it complies with the requirements of the FDL. The FDL does not require the Council commenting on the annual Stability Programme. However, the Council has been of the opinion that the Stability Programme is the key document outlining the Government's intentions for the preparation of 2016 annual State budget and the budget framework for 2017-2018. Therefore the Council is issuing this opinion and will continue working to study the Stability Programme to prepare a separate report.

The Council welcomes the Ministry of Finance update of the macroeconomic outlook, which reduces the estimated real growth and the price increases to lower – more realistic levels in line with the Council's observations in the Fiscal Discipline Monitoring Report 2014.

The Council agrees that the economy has been developing at a generally balanced manner with no significant departure of the actual growth from the potential growth. The potential growth stabilizing at lower than previously experienced levels results from the complicated geopolitical situation, insufficient new investment, and slow growth in the Latvia's traditional export markets. Meanwhile, the salary increases have been significant, while the Council does not see them eroding the competitiveness yet. The Council and the Government should remain vigilant to ensure that the future wage growth does not create the risks for the competitiveness in the future. Only bold structural reforms enhancing growth could assist enabling better economic development perspectives and convergence towards the average income levels in the European Union.

The Council has concerns regarding the plans to reduce in the Stability Programme the fiscal balance below the levels fixed in the Medium Term Budget Framework Law for 2016 and 2017. The central government fiscal balance excluding social insurance funds would deteriorate in 2016 from -1.56 percent of GDP to -2.0 percent and in 2017 from -1.3 percent to -2.0 percent. Higher fiscal deficit would result into the general government debt level increasing in 2017 from 34 percent projected under the budget framework law for 2015-2017 to 37 percent under the Stability Programme.

The reduction in the fiscal balance proposed in the Stability programme, resulting from accelerated increase in defence expenditure to the planned 2 percent level of GDP should not be treated as one-off measure. This defence expenditure should be treated as permanent expenditure. Moreover, the Council draws attention that the reduction in the fiscal balance related to structural reforms in health care does not comply with the FDL. The Council believes that the government's funding priorities, including specifically defence, have to find the necessary resources adopting effective measures to increase budget revenues or reducing other spending of lesser priority.

The general expectations regarding additional funding for different government priorities have been huge. Line ministries have provided costing of their measures passed in the Government Action Plan adopted on 10 February 2015 in the amount of about 700 million euros for 2016, excluding the funding requirements for the defence. The public expectations regarding increase of different government benefits have been enormous. These expectations have not been balanced by adequate revenue measures. The Council has not been introduced with a revenue measures that would allow the government gradually closing the gap between the target tax burden of 33 percent to GDP from the current 28 percent.

The Council urges the Government to pay attention to the high risk of accumulating the general government deficit at amounts exceeding 0.5 percent of GDP, which would trigger correction mechanism according to the article 11 of the FDL.

Council chairman Jānis Platais