LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

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Fiscal discipline surveillance report recommendations

Key recommendations for the consultation with the Parliamentary Budget and Finance committee

1. Establish a fiscal security reserve for 2019 to strengthen the ability of public finances to absorb fiscal shocks.

2. Implement well-targeted reform measures to address skill-mismatch and low productivity growth, thus ensuring long-term growth prospects.

3. The Council reiterates its request that the MoF perform a restrospective assessment of all fiscal rules (as outlined in Section 11 of the FDL) since benchmark year of 2013.

4. Strong government commitment, evidenced by specific plans to bring down the level of the public debt and taking into account the current phase of the economic cycle, is required. Plans need to include a more aggressive reduction of budget deficits and borrowing for the purposes of investment activities, by accommodating investment and financing activities in the MTBF.

Full Schedule of Recommendations for discussion with the Ministry of Finance

No	Report Chapter	Recommendation
1.	**1. Fiscal Policy Challanges**	Establish a fiscal security reserve for 2019 to strengthen the ability of public finances to absorb fiscal shocks.
2.		Observe the requirements of responsible countercyclical fiscal policy by implementing policy measures appropriate to the current (expansionary) period of the business cycle.
3.		Improve the sensitivity analysis by including an assessment of the risks associated with the tax reform.
4.		Ensure transparency and improve voluntary compliance by clearly communicating changes to the tax system.
5.		Carry out in-depth expenditure reviews to further strengthen the efficiency of government spending.
6.		Develop and implement reform measures to improve the capacity of the health care system to respond to demographic changes without increasing the budget deficit.
7.		Improve fiscal risk management by supplementing qualitative assessments with quantitative estimates of potential impacts, incl. commitments that are not adequately reflected in budget planning documents.
8.		Implement proposed measures to improve the management of state- and municipality-owned enterprises.
9.	**2. Macroeconomic Outlook and Output Gap**	Implement well-targeted reform measures to address skill-mismatch and low productivity growth, thus ensuring long-term growth prospects.
10.		Reassess potential output forecasts and develop more in-depth analyses of potential growth to ensure prudent fiscal planning beyond the horizon period of MTBF 2018/20.
11.	**3. Assessment of Compliance with Numerical Fiscal Rules**	The Council reiterates its request that the MoF perform a restrospective assessment of all fiscal rules (as outlined in Section 11 of the FDL) since benchmark year of 2013.
12.		In view of the differences in the application of fiscal rules in the MTBF 2018/2020, the Council contends that Section 15 of the FDL, which stipulates that fiscal rules should be observed when calculating maximum permissible government expenditures, has been violated. Consequently, the Council urges the Government to reduce expenditure ceilings for 2018 for 113.4 million euro, for 2019 for 337.6 million euro and for 2020 for 369.0 million euro until the recalculation of fiscal rules.
13.		Strong government commitment, evidenced by specific plans to bring down the level of the public debt and taking into account the current phase of the economic cycle, is required. Plans need to include a more aggressive reduction of budget deficits and borrowing for the purposes of investment activities, by accommodating investment and financing activities in the MTBF.