Approved by Fiscal Discipline Council
on 26 September 2019
Minutes No 5 (37)

# FISCAL DISCIPLINE SURVEILLANCE REPORT

# ON LATVIA'S MEDIUM TERM BUDGETARY FRAMEWORK 2020/2022

Riga, 2019

# Content

# Excecutive Summary

The government has made considerable efforts to consolidate the fiscal balance since its significant worsening in 2017 and 2018, but the Council sees a need to further improve the balance in 2020 by EUR 94.6 million compared to draft budget. The Council notes that in the draft budget for 2020 the expenditure increases by 5.1%, although an increase of 4.2% is recommended. The Council considers that the targets for 2021 and 2022 are appropriate given the deterioration of the economic environment and notes positively that no deviations from the structural balance rule are envisaged from 2020 onwards.
The Council welcomes the creation of the fiscal security reserve for 2020 and the medium-term in the minimal amount as required by the FDL, but it should be increased in the future.

The tax reform adopted in 2017 has a significant adverse effect on the fiscal space, which is most pronounced in 2019 and 2020. As a result, tax revenues lost around 1% of GDP per annum, while providing a fiscal stimulus in times of rapid economic growth. Tax reform has reduced the resources needed to maintain the public sector salaries in line with growth rates in other sectors of the economy. A further increase in public sector remuneration can only be achieved by reducing the number of employees by means of structural reforms. It would also support necessary government policies to limit wage growth ahead of productivity growth.

In recent years fiscal policy has not been sufficiently countercyclical, leading to imbalances and the inability to accumulate the reserves needed to cope with the new economic slowdown, as indicated by current economic trends. The Council endorsed the MoF macroeconomic projections in June, but other experts have downgraded economic growth projections for 2019 and 2020 in subsequent statements.

The Council shares the view on the need for administrative-territorial reform in order to improve the efficiency of the public services provided to citizens and to redirect resources towards more important social priorities. The greatest benefit of the reform could be achieved by concentrating public service delivery in larger administrative units and developing productive economic activity there, taking into account demographic trends.

The Council agrees with the government's view to postpone the next tax reform until it is in line with medium- and long-term government spending priorities and provides broad public consensus on the relationship between the tax burden (% of GDP) and government services. Particular attention should be paid to funding requirements for public health and social insurance measures, in view of the aging of the population and related costs, as well as government immigration policies. Also, the electricity Mandatory Purchase Component (OIK) policy review should be conducted in the context of tax policy, not as a policy objective to reduce the burden on electricity consumers.

The Council notes that the government lacks a proper analysis of economic cycles and has not developed an adequate policy action plan. The initiative to review unemployment benefits in the face of high labor demand is welcome, albeit somewhat late. Other external problems of the economic cycle have not been adequately addressed. Adequate measures need to be prepared in view of the possible future economic downturn, with a particular focus on infrastructure projects that could be prepared for start-up when cyclical reasons could lead to unused capacity reserves in the construction sector.

The government should consider the long-term spending needs of the various sectors and demand that priorities be set for tasks and resource allocation within the long- term spending ceilings, based on industry development strategies. This includes the need to coordinate the development of public infrastructure and public services in line with demographic trends.

The government should consider improving its fiscal governance framework, including fiscal policy-making, with a view to stabilizing public debt over the medium term and containing expenditure growth below potential GDP growth.

# Abbreviations

| | |
|---|---|
| - | Not applicable / not available |
| BFVL | Law on Budget and financial management |
| BoL | Bank of Latvia |
| BPP | Draft budgetary plan |
| Council | Fiscal discipline council |
| EFB | European fiscal board |
| EK | European Commission |
| EKS | European system of accounts |
| ES | European Union |
| FDL | Fiscal discipline law |
| FFA | Foreign financial assistance |
| FM | Ministry of Finance |
| FRD | Declaration of fiscal risks |
| FSR | Fiscal security reserve |
| GDP | Gross domestic product |
| GGB | General government balance |
| GGBB | General government budget balance |
| MTBF | Medium term budgetary framework |
| MTO | Medium term objective |
| OECD | Organization for economic co-operation and development |
| SGP | Stability and growth pact |
| SP | Latvia's Stability program |
| SRS | State revenue service |
| Surveillance Report | Fiscal discipline surveillance report |
| VAT | Value-added tax |

## Mandate of the Council

According to the FDL (FDL Chapter III Fiscal Discipline Surveillance) the Council is an independent collegial institution which has been established to monitor compliance with the FDL. The Council's core competence is related to the assessment of fiscal discipline, and assess fiscal policy and issues related to macroeconomic developments.

Specifically the Council is responsible for:

(1) monitoring compliance with FDL provisions in the annual state budget law and the MTBFL during their preparation, execution, and amendment;
(2) verifying whether the fiscal balance and the expenditure growth provisions have been properly applied, including an independent assessment of the potential GDP and nominal GDP, and the calculation of the structural balance;
(3) supervising the observance of FDL provisions in the implementation of the annual state budget law, conformity of total fiscal indicators of the consolidated budget of local governments and budgets of derived public persons with the forecasted values.
(4) preparing opinions regarding major permitted departures from the balance condition during a severe economic downturn;
(5) preparing an opinion on whether the FSR is set at an appropriate level to counter extant fiscal risks
(6) preparing a surveillance report on fiscal discipline and, if necessary, a non-conformity report;
(7) preparing and submitting to the Saeima and the Government opinions regarding issues of fiscal policy and macroeconomic development if they pertain to compliance with the terms set out in the FDL;
(8) endorsing the MoF macroeconomic forecasts twice a year – while preparing the SP, and the annual state budget and while preparing the MTBF (according to the Memorandum of Understanding (hereafter – MoU) [1][1], signed on 8 February 2016);
(9) preparing interim report (opinion) on SP (according to the MoU);
(10) assessing and analyzing the sustainability of fiscal policy for the purposes of preparing the reports stipulated by the FDL.

The Surveillance Report on the State Budget for 2019 was prepared on the basis of legislation reviewed by the Cabinet of Ministers for approval of the 2019 state budget, as well as information received from the Ministry of Finance.

[1] Vienošanās par sadarbību, pieejama:*http://fdp.gov.lv/files/uploaded/FDP_1_09_281_20160208_VPS_FDP_FM.pdf*, skatīts: 09.10.2019.

# 1. FISCAL POLICY DEVELOPMENTS

## 1.1. GENERAL GOVERNMENT BALANCE RECENT OUTTURN

1. **General government budget balance deteriorated in 2018, but the target of -1% of GDP was broadly met despite 30 million euro deficit and implied fiscal stimulus of around 0.4% of GDP.** The local government overspending in amount of 182 million euros at the very end of the year did not let to have a better balance at the time of GDP gap reaching its peak. Rising wages, both in the private and in public sectors left Special budget with 202 million euros surplus, 76 million euro more than planned (see Table 1).

Table 1

**Budget balance plans and outcomes 2017 -2018, mil. euro**

| Balance | 2018 | | 2017 | |
|---|---|---|---|---|
| | plan[2] | outcome | plan[3] | outcome |
| General government budget balance | -265.3 | -295.4 | -263.1 | -155.7 |
| ESA2010[4] corrections | -101.6 | -80.3 | 38.3 | 66.2 |
| Consolidated budget | -163.7 | -215.1 | -301.4 | -221.9 |
| State basic budget | -321.7 | -302.1 | -366.6 | -357.0 |
| Special budget | 125.9 | 202.2 | 65.3 | 113.8 |
| Local governments budget | 31.6 | -150.5 | 0.0 | -14.2 |
| Derived public persons budget | 0.6 | 35.2 | -0.1 | 35.6 |

*Source: Ministry of Finance*

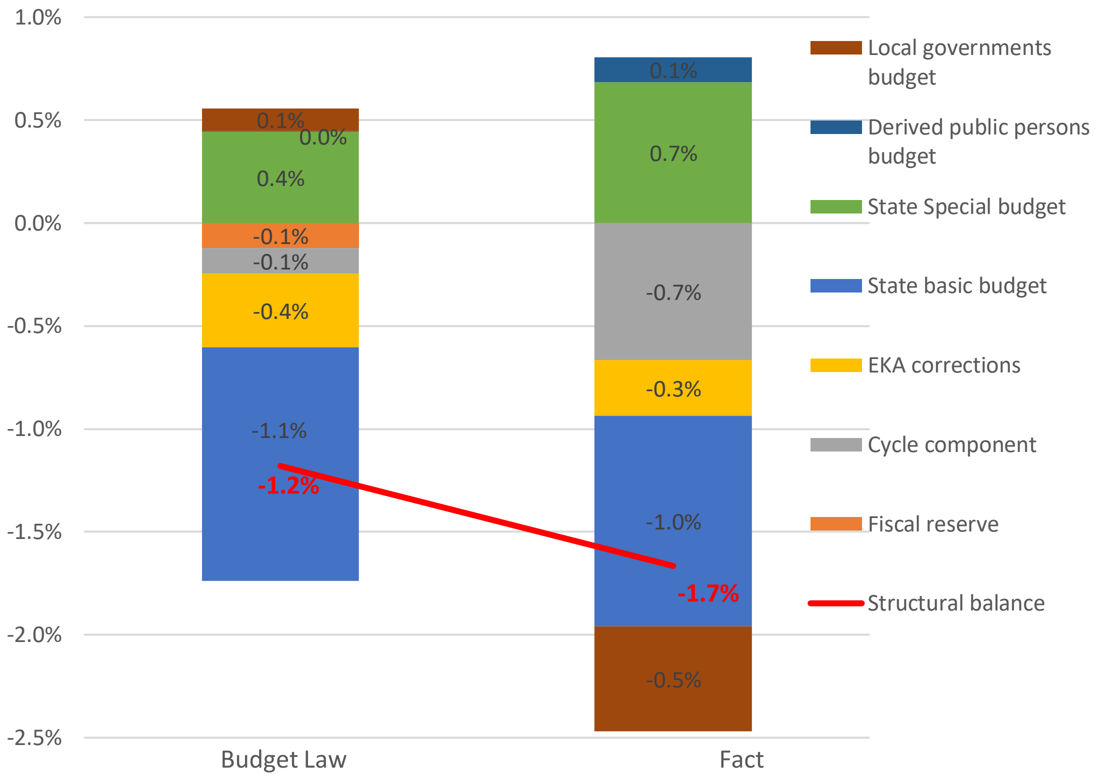
2. **General government structural balance target of -1.2% of GDP in 2018 set in the budget law was not met as the latest data suggest a deficit in amount of 1.7%** (see Fig. 1). The main reasons for the deviation were the worsening of the local government balance and changes in the cyclical component due to faster-than-expected economic growth in 2017 and 2018[5]. Other components of the general government consolidated budget helped improve the general government balance.

[2] Law "On state budget for 2018" explanations. Chapter 2. Fiscal outlook. Available at: *http://www.fm.gov.lv/files/files/FMPask_D_050218_bud2018.pdf*, accessed on: 27/08/2019

[3] Law "On state budget for 2017" explanations. Chapter 2. Fiscal outlook. Available at: *http://www.fm.gov.lv/files/valstsbudzets/FMPask_D_100217_bud2017.pdf*, accessed on: 27/08/2019

[4] According to SGP and FDL, fiscal outturn is measured based on European System of Accounts 2010 (ESA2010) methodology on accrual basis, while government budget is approved and measured in Latvia on cash basis.

[5] Here and further in the text FDC refers to statistical data by Ministry of Finance that was provided on August 2019 and that was used to produce economic and fiscal policy developments forecasts for years 2020-2022.

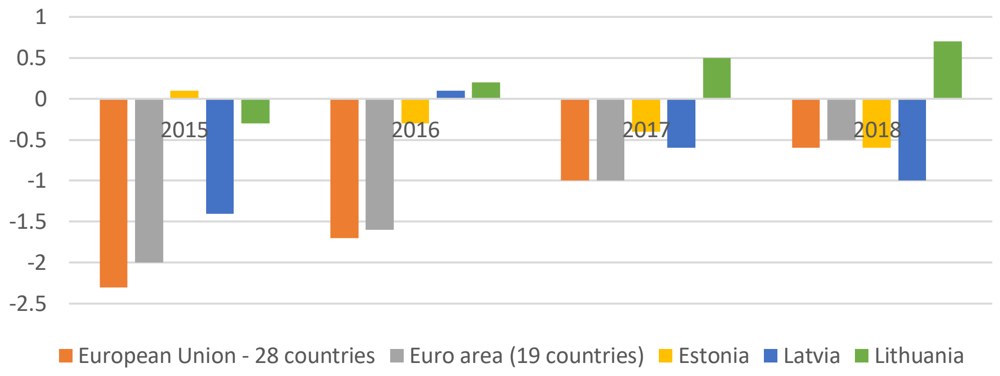



*Source: Law on State budget 2018, Ministry of Finance.*

Fig. 1. **General government structural balance in 2018: the approved budget vs execution (% of GDP)**

3. **The sharp increase in tax revenue in 2018 (8%) was accompanied by an even faster 12.8% increase in expenditure.** VAT revenue increased by 12.3%, excise tax by 13.5% and social security contributions by 14.9%; while corporate income tax revenue decreased by 28.6%, reflecting changes in the tax base. Foreign financial assistance also increased by 55% in 2018, providing a 13.1% increase in general government revenue. Expenditure was boosted by EU-funded investment, public sector wages and health and defense spending. The Medium-Term Budget Framework Law for 2018-2020[6] allowed a maximum of EUR 8.977 billion of adjusted expenditure in the state budget for 2018. This ceiling was exceeded by 43.4 million- 0.5% off the target. Most of the overrun, EUR 41.5 million, is the result of the difference between the real interest expenditure and the adjusted interest expenditure provided for in the budget law.
4. **In general, since the world financial crisis, the General government budget deficit of Latvia is at manageable level.** In recent years, the general government deficit in Latvia on average is lower than in EU and Eurozone countries, and meets the Maastricht Treaty criteria on budget deficit, but is slightly worse than in neighboring countries Estonia and Lithuania (see Figure 2).

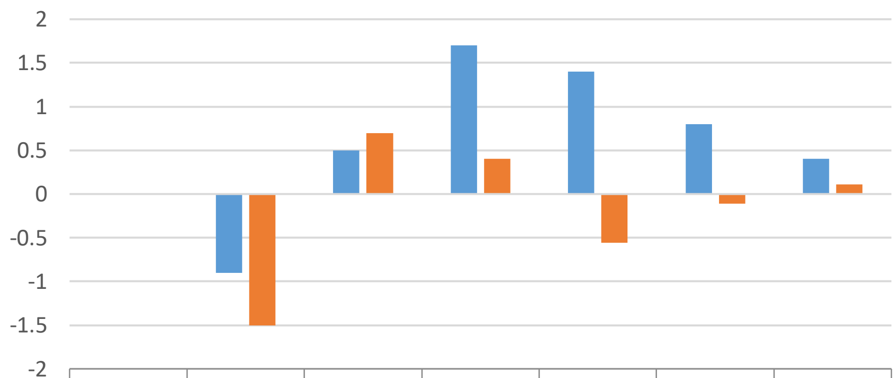
[6] Available at: *https://likumi.lv/ta/id/295595-par-videja-termina-budzeta-ietvaru-2018-2019-un-2020-gadam*, accessed on 12/09/2019




*Source: Eurostat*

Fig. 2 **General government budget balance (% of GDP) EU28, Eurozone and the Baltic states 2015-2018**

5. **Government's recent fiscal policy has not been sufficiently counter-cyclical, incurring disbalances and failing to accumulate buffers necessary for facing a new economic slowdown, to which the current economic trends indicate.** It is also a contradiction to counter-cyclical principle set in Fiscal Discipline Law. Structural deficit was at the highest level in 2018 (-1.7%) when the GDP gap was the widest (1.7%), but is expected to narrow in 2019 and further years- when the economy starts to slow down. In order to observe the FDL principles in life, years of rapid economic growth should be used to form a budget with surplus, which could be used for stimulating economy in stagnation periods. (See Figure 3).




| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|
| Output gap | 0 | -0.9 | 0.5 | 1.7 | 1.4 | 0.8 | 0.4 |
| Fiscal stimulus | 0 | -1.5 | 0.7 | 0.4 | -0.56 | -0.11 | 0.11 |

Output gap    Fiscal stimulus

*Source: Eurostat, Ministry of Finance and Council calculations*

Fig.3. **Output gap and fiscal stimulus[7] (% of GDP) period 2015-2021, including forecast for 2019-2021**

[7] Fiscal stimulus is defined as change in General government balance in comparison to year earlier (% of GDP) to stimulate economy. Fore example, see IMF 2019 report on Latvian economy. Available: https://www.imf.org/en/Publications/CR/Issues/2019/08/06/Republic-of-Latvia-2019-Article-IV-Consultation-Press-Release-and-Staff-Report-48565. Accessed: 09/10/2019

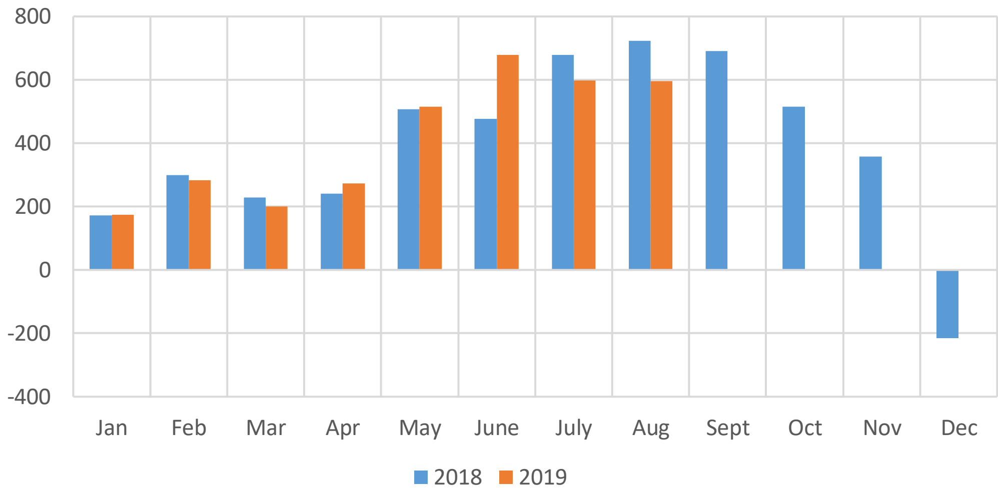
6. **The Council notes the lack of adequate analysis of the economic cycles and the development of appropriate policy action**. The Government initiative to review unemployment benefits at the stage of hot labor market is welcome, while slightly late[8]. Other externalities of the economic cycle have not been adequately addressed.

   ***Recommendation:*** *The Council recommends that the government formulate counter-cyclical policy and develops instruments and measures for its implementation.*

## 1.2. 2019 OUTLOOK

7. **The government aims to reduce the General government structural balance deficit to 0.6% of GDP in 2019 as stipulated in Medium-Term Budgetary Framework Law 2018-2020[9] and reconfirmed in Law on Budget 2019[10].**
   Meeting the target might be challenging amid increased external uncertainty, slowing domestic economy, lower than expected tax revenues and increasing expenditure. International economic and political environment gets increasingly uncertain: hard Brexit fears, potential international trade wars, slowing major economies and Italian budget fears are the major causes of worry. Latvian economy grew less than expected in 2019: 3 % in the first quarter, and 2% in the second - against the background of 3.2% forecast for year 2019 used by Ministry of Finance for macro-economic and tax revenues projections. The Council has approved Ministry of Finance June's projections, but the economic indicators have worsened since then.
8. **At this point in time it is difficult to assess if the structural balance target in 2019 will be meet.** Slowing revenues growth, apart from payroll taxes, and factors mentioned above has resulted in government consolidated budget balance worse by some 100 million at the end August compared to year ago[11]. However, the fiscal outcome of the year in large measure hinges on central government, and especially local governments' end of year expenditure splurges and ESA corrections, which has tendency to fluctuate in a wide range.

[8] CM meeting on 01/10/2019 Available: http://tap.mk.gov.lv/lv/mk/tap/?pid=40478158&mode=mk&date=2019-10-01 Accessed: 04/10/2019
[9] Available at: *https://likumi.lv/ta/id/295595-par-videja-termina-budzeta-ietvaru-2018-2019-un-2020-gadam,* accessed on: 02/09/2019
[10] Law "On state budget for 2017" explanations. Chapter 2. Fiscal outlook. Available at: *http://www.fm.gov.lv/resources/web/images/pdf,* accessed on: 02/09/2019
[11] Treasury data. Available: https://www.kase.gov.lv/index.php/parskati/kopbudzeta-izpildes-parskati/menesa-parskati. Accessed: 04/10/2019




*Source: Treasury*

Fig. 4 **State consolidated budget balance (cash flow, accumulated, end of period, mil. euros)**

## 1.3. Fiscal Stance for 2020-2022

9. **The Government has made efforts to consolidate the fiscal position since substantial fiscal overrun in 2017 and particularly 2018, while the Council sees the need for further tightening in the amount of 94 million euros for 2020 compared to the proposal. The Council sees the objectives for 2021 and 2022 adequate considering the deterioration of the economic environment.** The Council notes difficult circumstances the current Government found itself in because of significant fiscal loosening over 2017 and 2018, rapid increase of expenditure commitments and delays in forming a new government after the *Saeima* election in 2018. The fiscal stance is complicated by the expected budget revenue after tax reform 2017 when compensatory measures for revenue decrease were not adequate.
10. **In its recent report „On macro-economic indicators, revenues, and general government budget balance forecasts 2020-2022"** [12] **the government sets objective to reduce general government budget deficit to 0.44% in 2020, 0.33% in 2021, and 0.48% in 2022.** The targets were set to observe the requirements of both EU and local legislation. The targets mentioned above would translate into general government structural balances of **-0.46% in 2020, -0.50% in 2021, and -0.50% in 2022.** The Council endorses government's plans; however, it believes that government's inclusion of tax reform impact in amount of 0.29% of GDP in its calculations for 2020 is not objective as tax reform provides lasting impact on revenues base and cannot be considered as one-off measure. Therefore, the budget balance target for 2020 should be set at 0.17% of GDP.
11. **Draft budget 2020 tax revenues projections are optimistic taken the current economic environment and recent slowing tax revenues growth.** The Council notes the slower revenue growth in comparison to other economic indicators. Ministry of

[12] Available: http://tap.mk.gov.lv/lv/mk/tap/?pid=40476569&mode=mk&date=2019-08-20. Accessed: 04/10/2019

Finance has decreased revenue projections for certain taxes in 2019. The statement above is confirmed by figures in the table below: even though tax revenues grew by 1.9% in eight months of 2019, a 7% growth in tax revenues is projected in Draft Budgetary Plan for 2020 (See table 2) .

Table 2

**Tax revenue by type of tax**

| Type of Revenue | 2018 fact/ 2017 fact | 2019 budget/ 2018 fact | 8 m 2019 fact /8 m 2018 fact | 2020 DBP/ 19 budget |
|---|---|---|---|---|
| Tax revenue | 8% | 4% | 1.9% | 7% |
| Corporate income tax | -29% | -34% | -94% | 29% |
| Personal income tax | 2% | 0% | 7% | 2% |
| Social s. contributions | 15% | 6% | 9% | 8% |
| Real estate tax | -2% | 10% | 2% | -4% |
| Value added tax | 12% | 8% | 8% | 9% |
| Excise tax | 13% | 9% | 5% | 8% |
| Other indirect taxes | -1% | 8% | -3% | 2% |

*Source: Council calculations and Ministry of Finance data (GG file, August 2019)*

12. **It is a general tendency in 2017-2019 that revenue grows faster in special and local government budgets than in the basic state budget.** (See table 3) While this balances the general government deficit, it leaves state basic budget in deficit, and local governments' budget and special budget in surplus. Since the latter is intended to finance only social programs, and local governments' revenue is intended for local governments, the central government should think how to address this dichotomy and balance state basic budget. The relatively good revenue growth in Basic budget in 2018 is accountable for substantial increase in FFA, as tax revenues grow more modestly by 7.7% in that year.

Table 3

**Budget revenue growth 2017 to 2019 (I-VIII)**

| Budget revenue | 2017 | 2018 | 8 months 2019 vs 8 months 2018 |
|---|---|---|---|
| Basic | 4.4% | 17% | 0.1% |
| Special | 7.1% | 11% | 10.6% |
| Local g. | 11.7% | 8% | 10.2% |

*Source: Ministry of Finance*

13. **The Council notes that the quality of the budget expenditure review has deteriorated, with no savings from structural reforms and irrational budget cuts**. The Ministry of Finance summarized the results of the budget expenditure review to redirect savings to free up fiscal space and to use for priorities. 93.7 million savings were found for 2020: 47.7 million of these were allocated to the general fiscal space and the rest to the priorities of the respective ministries. While reviewing and analyzing expenditure is a valuable tool for reallocating budget appropriations for

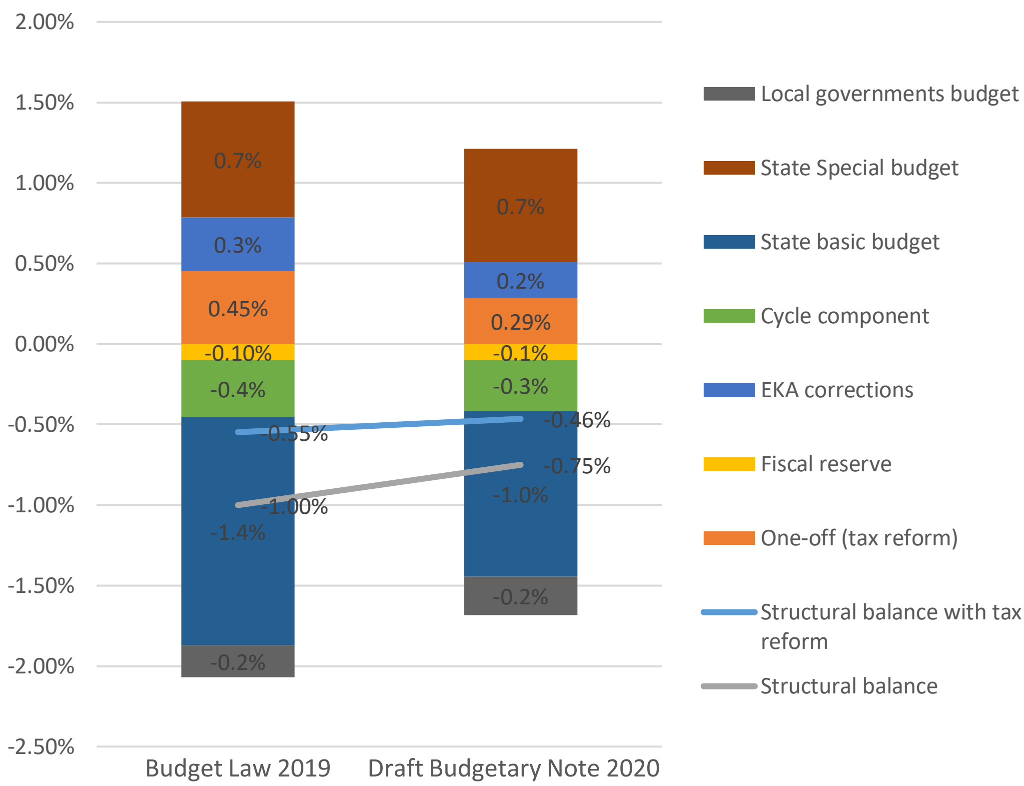
more efficient use of budgetary resources and policy priorities, the Council considers that it is done rather formally[13].

14. **Cabinet of Ministers further expanded fiscal space for 2020-2022 by various measures in its meeting on September 13, 2019. The fiscal space for 2020 was expanded to 192.4 million (Annex 1[14]).** The Council notes that as a result of tax reform and economic developments, the surplus generated in local government budgets will be reallocated to the state basic budget in 2020, in order to improve its balance. The government has increased its fiscal space at the expense of local governments' revenue in amount of 140 million euros, including 38 million euros compensation from the Riga city for its company "Rigas Satiksme" impact on GGB.
15. **Despite relatively strong economic growth in recent years, inequality remains one of the biggest problems in Latvia.** The Council welcomes the government's efforts to reduce income inequality among low-paid workers and to increase the non-taxable minimum faster than planned. However, it should be noted that scarce resources in the budget limit the potential for a more rapid improvement of the social benefit system for the most deprived people.
16. **The draft budget[15] envisions that the government balance will improve, mainly due to an improvement in the state basic budget balance and a reduction in the negative impact of the tax reform on budget revenue.** Figure 5 below shows that the structural balance of the general government is projected to improve as the general government basic budget is expected to perform better, with the rest remaining at about the same level.

[13] CM meeting 20/08/2019 protocol Nr. 35 26.§, p. 39. Available: http://tap.mk.gov.lv/mk/mksedes/saraksts/protokols/?protokols=2019-08-20#26, Accessed: 04/10/2019

[14] https://fdp.gov.lv/files/uploaded/1_pielikums_FDP_09102019_fiskalas_telpas_pasakumi.xlsx

[15] Draft budget prepared taking into account the revised base budget, the expanded fiscal space and its usage for priority measures (Bilances file 04102019)




*Source: Ministry of Finance*

Fig. 5. **Expended improvement in structural balance (% of GDP) in 2020 in comparison to the approved budget 2019**

17. **Both Latvian and international economists believe that the economic downturn is very likely in the medium term; therefore, the government should prepare appropriate measures and policies for the expected economic downturn.** The focus could be on infrastructure projects that could be ready for launch at a time when the construction industry is in cyclical downturn. At an unfavorable stage of the economic cycle, it would be necessary to extend state support (guarantees) for the acquisition of first homes by young families, but the measure should also be reduced when economic development accelerates. Another measure could be the preparation of financial instruments designed to mitigate the effects of slowdown in corporate sector.

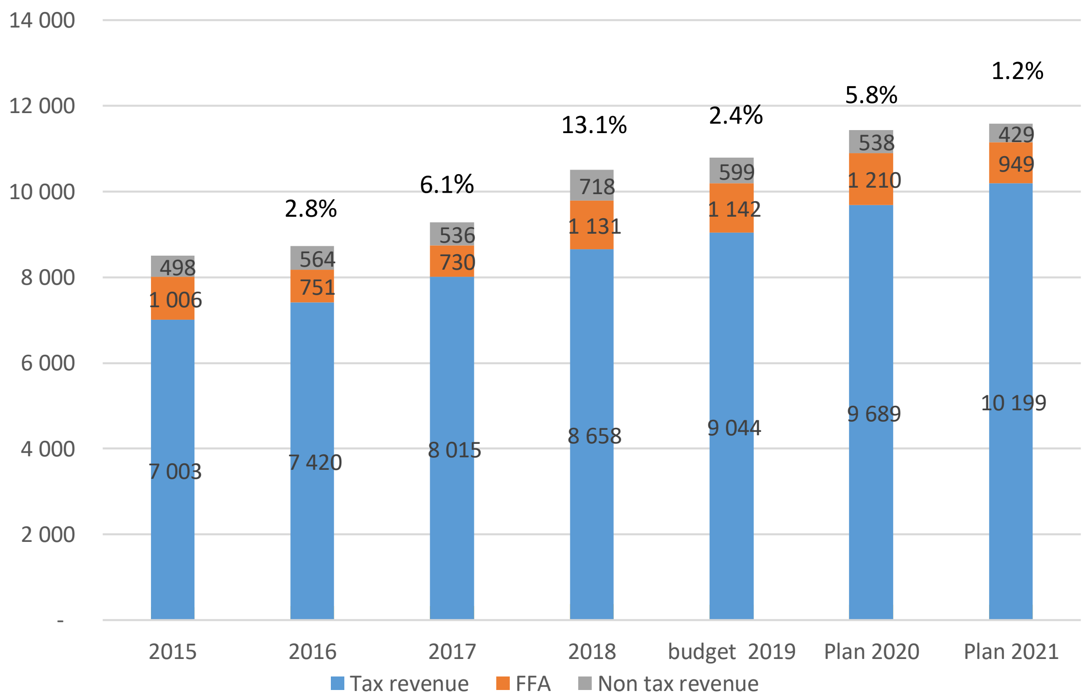
## 1.4. Revenues and expenditure 2015-2019 forecast for 2021

18. **Economic expansion in recent years has ensured steady increase in tax revenues, which grew by 8% in both 2018 and 2017, and 6% in 2016 in nominal terms. Tax revenue growth slowed down in eight months of 2019 –1.1% decrease compared to 2018, excluding social security contributions which rose by 9%[16].** Tax collection target met by 98.3%[17] in eight months of 2019 (excluding SSC and real estate tax). There are two apparent taxation based explanations for the slowing growth in tax revenues. First, 2017 tax reform considerably changed corporate income tax

[16] Ministry of Finance data
[17] SRS data. Available: https://www.vid.gov.lv/lv/statistika/nodoklu-ienemumi. Accessed: 04/10/2019

base, in essence transforming it into dividend tax. In seven months of 2019, CIT was collected only at 5% of last year amount in the given period. Second, Estonian decision to cut its excise tax on alcohol and subsequent Latvian decision to temporary reduce Latvian excise tax rate on hard spirits must have impact on excise and VAT revenues. Ministry of Finance has estimated fiscal impact from this in amount of 32 million euros. The two factors mentioned above are expected to have a lasting impact also on next year tax revenues.

19. **Apart from tax revenues, foreign financial assistance (FFA) plays an important role of budget revenues (around 10% of all revenues in 2018)[18]. FFA is expected to broadly remain at the same level in 2019, grow by 6% in 2020, and sharply decrease by 22% in 2021 as European structural funds cycle closes.** Brexit uncertainties makes it difficult to estimate the size of planned FFA in years beyond 2022. Non-tax revenues, constituting 7% of all revenues in 2018, is planned to decrease in 2019 by 17% and by 10% in 2020.
20. **Overall, the general consolidated budget revenues have grown steadily in recent years, with revenue growth peaking in 2018 at 13.1%** (see Figure 6). Budget Law 2019 envisioned a modest growth 2.4%, even though in August Ministry of Finance slightly improved its revenue forecast by 106 million euros (0.95%), mostly because of expected improvements in tax revenues and foreign financial assistance. Thus, with assumption of no change in policy, the Ministry of Finance in August planned a revenue growth of 5.8% in 2020 when compared to budget law 2019, and a 4.8% growth when compared to revised forecasts for 2019.




*Source: Ministry of Finance*

Fig. 6. **Consolidated budget revenues (mil. euros) and revenue growth (%) 2015-2019 and forecast 2020-2021**

[18] Ministry of Finance data

21. **Despite government's ever-growing need for finances to implement various policies, Latvia has relatively low tax burden in relation to the size of GDP – approximately 30%[19] (see Table 4). Even though the current government has promised not to substantially revise tax regime more frequently than once in three years in its Fiscal Discipline Agreement[20], there seems to be potential to increase revenues without unduly increasing tax rates.** Proceeds from VAT could be increased by simplifying the rate structure and improving compliance: despite the recent improvements in tax collection Latvia still has a considerable VAT gap by EU standards[21] and one of the largest shares of shadow economy.

Table 4

**Tax revenues, including social contributions, % of GDP**

| | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** |
|---|---|---|---|---|---|---|---|
| Tax revenues (% of GDP) | 29.6 | -30.0 | 30.4 | 31.4 | 31.4 | 30.9 | 30.4 |

*Source: Eurostat (2013 -2017) and Draft Budgetary Plan (2018-2019)*

22. **The Council agrees with the position of the Government to delay the tax reform until 2021- when it is harmonized with medium to long term government expenditure priorities and ensures broad public consensus regarding the balance of the tax burden (in %% to GDP) and the services and transfers provided by the government.** Particular attention should be paid to the funding requirements of public health care and the measures of social protection taking into the account the aging of the population and increase of associated costs, as well as the government immigration policies.
23. **When designing tax reform for 2021, lessons from the previous tax reform should be taken into account.** For example, the well-intended CIT reform thought to increase working capital for companies, but in fiscal aspect has not increased revenues for the state. Likewise, the fast growing wages in private and public sectors have translated into comparable consumption (VAT, Excise revenues).

    ***Recommendation:*** *The Council recommends that tax reform to be designed in 2020: (i) takes into account ever-increasing government's fiscal needs, (ii) balances tax burden with tax compliance, (iii) reviews numerous tax allowances and loopholes[22].*

24. **The fiscal space for government priorities have been used up as the result of the tax reform adopted in 2017, where most of adverse impact has been on 2019 and 2020. This resulted into the loss of tax revenue equal to about 1% of GDP annually, adding**

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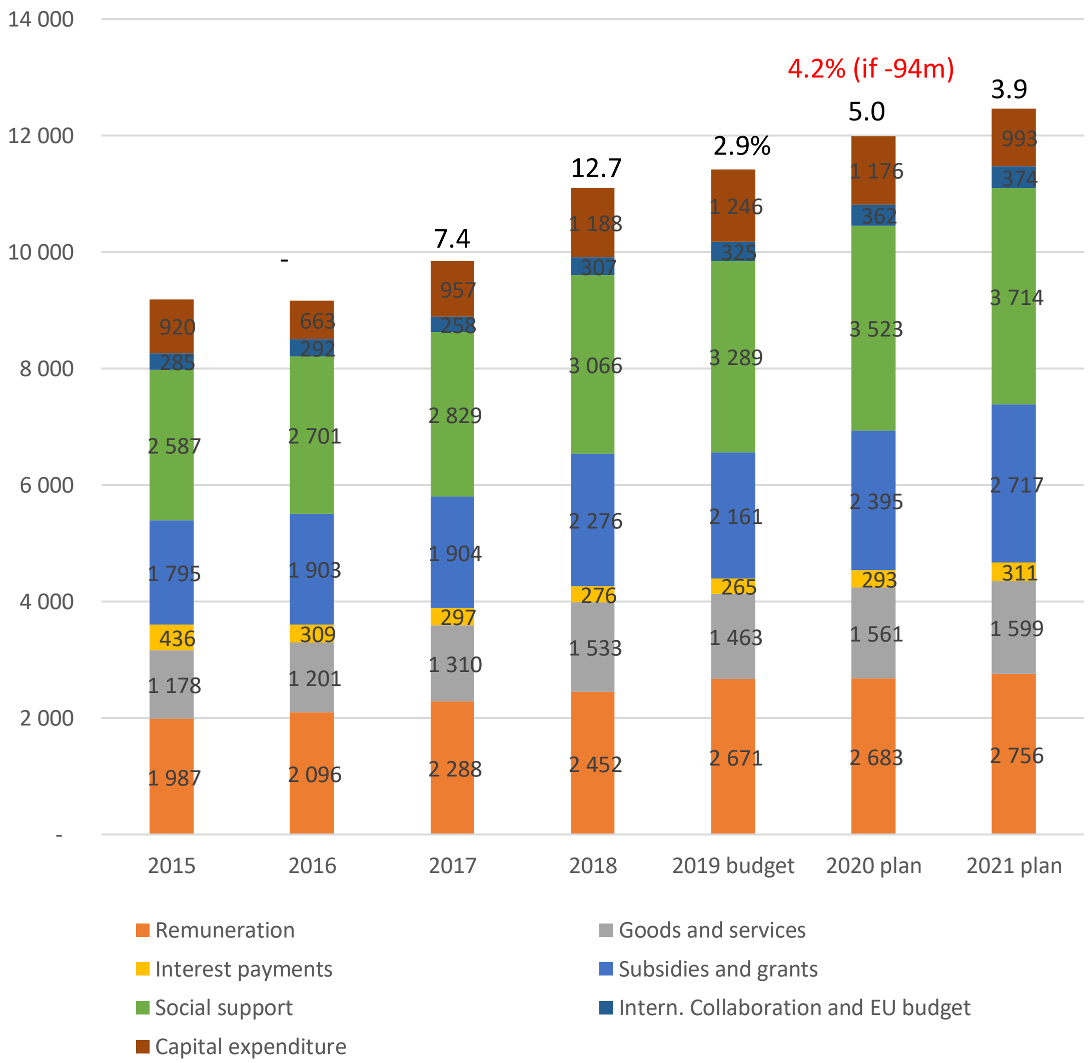
[19] FDC calculations for year 2019, based on MoF data
[20] Available*: https://www.mk.gov.lv/sites/default/files/editor/fiskalas-disciplinas-ligums_red.pdf* Accessed: 02/09/2019
[21] Study and Reports on the VAT Gap in the EU-28 Member States: 2019 Final Report. Available: *https://ec.europa.eu/taxation_customs/sites/taxation/files/vat-gap-full-report-2019_en.pdf* Accessed: 16/09/2019

[22] State Control report "Tax allowances – the invisible tax expenditure". Available: http://www.lrvk.gov.lv/uploads/reviziju-zinojumi/2017/2.4.1-41_2017/31.05.2019.%20rev.zin.%20%28publisko%C5%A1anai%29.pdf . Accessed: 07/10/2019

**to the fiscal stimulus at the time of fast economic growth.** Moreover, the tax reform has reduced the resources necessary for the keeping up of government paid staff salaries with their growth levels in other sectors of the economy. Further increases in budgetary sector employees' payroll may be implemented only through the reduction in staff numbers, which could be supported only through structural reforms.

25. **Like revenues, the government expenditure grew steadily in recent years: 7.4% in 2017, and 12.7% in 2018 in nominal terms. Expenditure growth slightly slowed down in eight months of 2019 – 5.7%, with remuneration (7.3%), capital expenditure (16.1%), and payments to EU budget (35.2%) being the main contributors[23].** The expenditure should slow down in the second half of 2019, as the budget law for 2019 envisions a relatively modest growth of 2.9%, even though in August Ministry of Finance increased its expenditure forecast by 165.8 million euros, mostly because of expected expenditure on subsidies and grants. Thus, with assumption of no change in policy, the Ministry of Finance in August planned an expenditure growth of 5% in 2020 when compared to budget law 2019, and a 3.5% growth when compared to revised forecasts for 2019. If expenditure in 2020 is reduced by 94 million as FDC suggests, expenditure growth is 4.2% when compared to 2019 budget (see Figure 7).

[23] Data provided by the Ministry of Finance




*Source: Ministry of Finance*

Fig. 7. **Consolidated budget expenditure (mil. euros), expenditure growth 2015-2019 and expected growth 2020-2021 by expenditure type**

***Recommendation:*** *Authorities should avoid public sector wage increases that are not aligned with productivity in the economy*

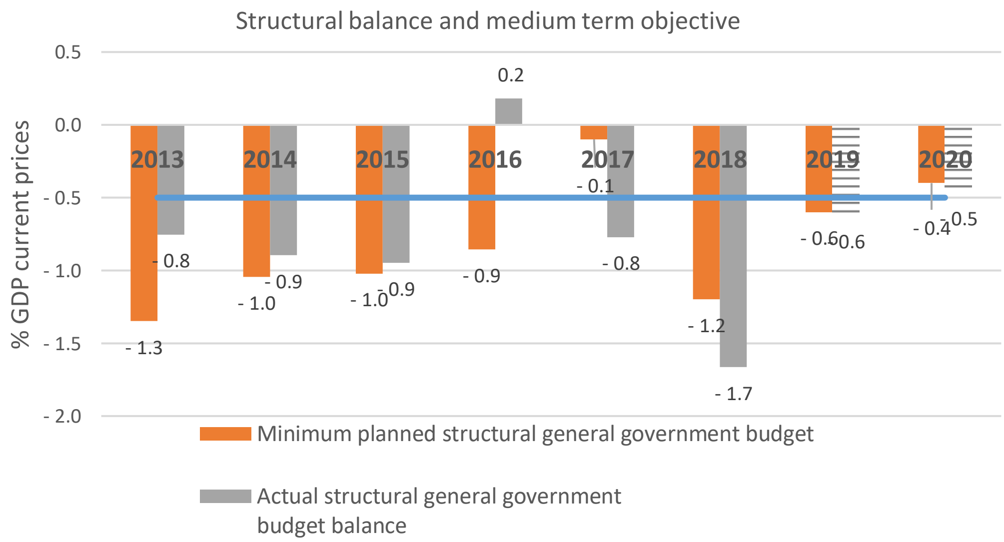
26. **Public expenditure growth have to follow potential GDP growth - to ensure balanced economic growth and observe FDL requirements**. The potential GDP growth in 2019 (in year 2010 prices) is 3.5%. But it is expected that potential GDP growth will slow down from 2020 to 2022 to 3.4% to 3.2%, thus state expenditure growth should be harmonized with general economy prowess in coming years.

# 2. ASSESSMENT OF COMPLIANCE WITH NUMERICAL FISCAL RULES

## 2.1. Ex-post assessment of fiscal rules 2013-2019

*In accordance with the FDL, the Council verifies Medium-term budgetary framework compliance with numerical fiscal rules, which prescribe the calculation of expenditure ceilings for the medium-term budgetary period.*

27. **In recent years the government has created higher structural balance deficit than required in FDL (-0.5 of GDP).**
The exception was 2017 when the structural balance deficit was projected at -0.1% but the outcome was -0.8% and exceeded the limitations. During previous years the government used a different kind of deviations from the medium-term objective of the structural balance allowed in EU legislation for structural reforms. Only in 2016, the FDL's medium-term government structural balance target was reached, and budget surplus was 0.2%, (see Figure 8).




*Source: Council's calculations and MTBF for the period 2013-2018*

Fig. 8 **Level of the structural balance and objectives of the medium-term budgetary framework law, in terms of plan and execution for the period 2013-2020**

28. **The Council made an assessment and recalculation of the government expenditure ceilings according to the three FDL numerical rules, using updated data for 2013-2018. The results show that in 2018 the budget balance should have been adjusted at -2.6% of GDP if all FDL numerical conditions had been respected, taking into account actual macroeconomic and fiscal indicators (see Chart 9).** It can be concluded that the pro-cyclical budgeting policy was not followed in previous years and it was reflected in the accumulated balance sheet deviations for all years starting from 2013. The Council expects, that the deviation will exceed the limitation (-0.5%

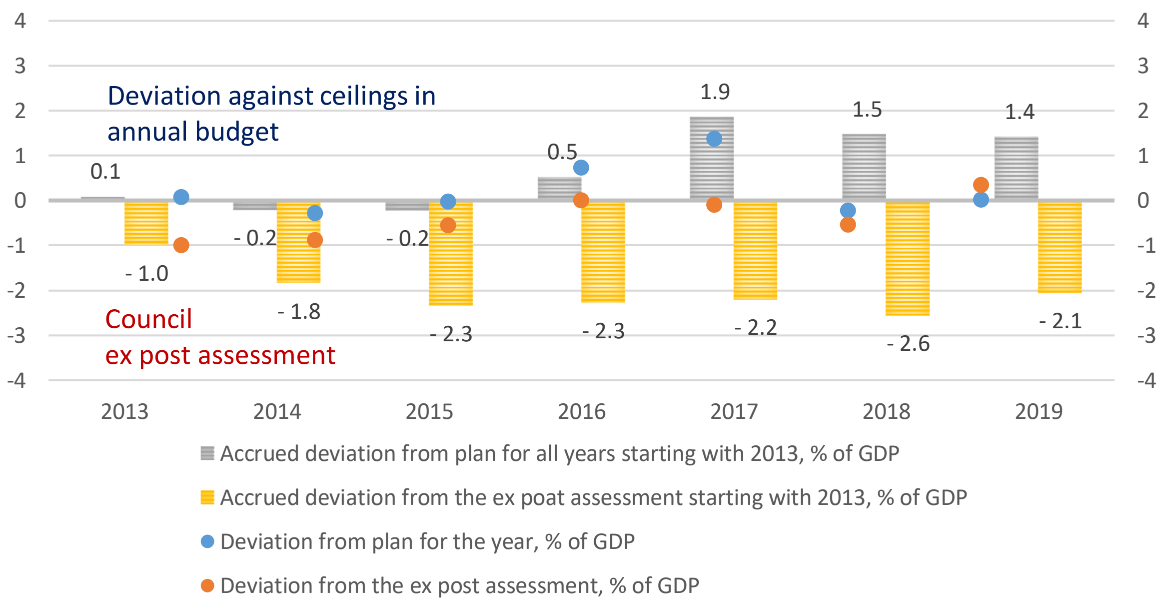
of GDP) in 2019 as well. Considering the accumulated deviation, the Council notes the risk of a possibility of corrective mechanism implementation, in accordance with Articles 10 and 11 of the FDL, which requires an improvement of the budget balance to offset deficits accumulated in previous years.

In the recalculation process, the following components were updated for each numerical rule:

(i) under the rule of the structural balance, the adjustment of local government budget balances, public budget balances, ESA, government budget revenue and cyclical component;

(ii) the expenditure benchmark rule for interest payments, EU program expenditure, investment amount, employment budget programs data, unemployment rate, natural unemployment rate, GDP deflator, potential GDP change data;

(iii) the recalculation of the continuity rule after changes in the basic budget and special budget beneficiaries of the Ministry of Welfare, changes in paid services, changes in current EU budget payments and changes in government debt service costs.



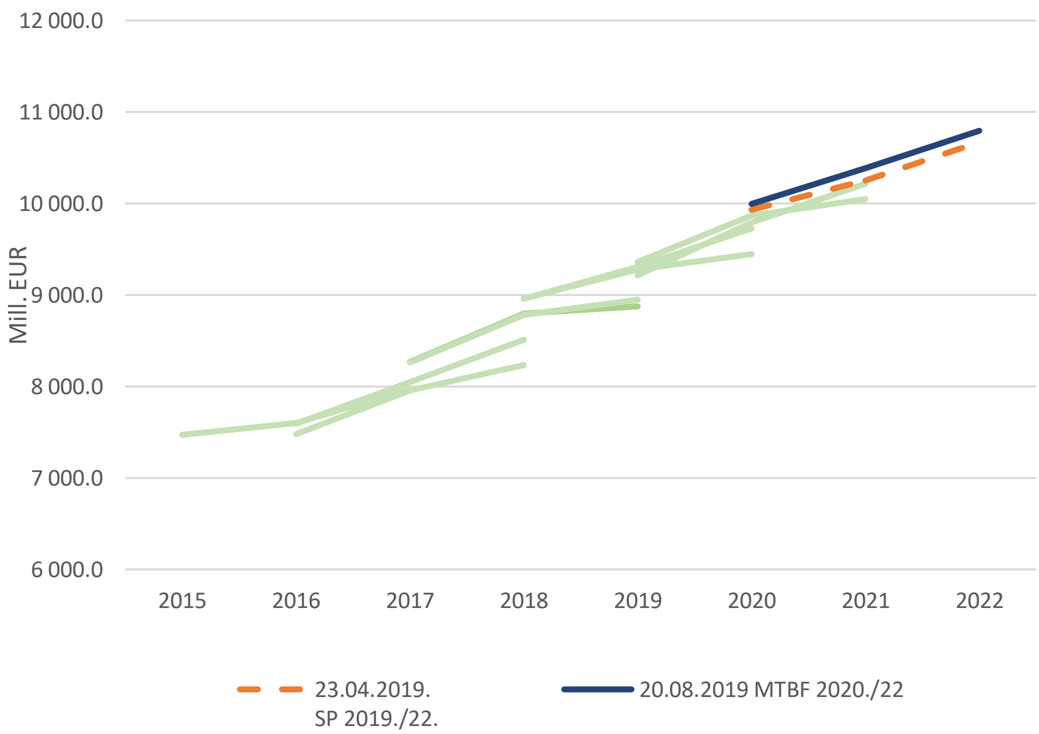

*Source: Council calculation*

Fig. 9 **Ex post assessment of government expenditure ceilings according to all three numerical rules, % of GDP, yearly and accrued deviation, 2013-2019**

**29. The Council appreciates the Government's intentions to improve the budget balance in 2019 following a deep deterioration in the structural balance in 2018.** The structural balance deficit is projected to be -0.6% of GDP in 2019, compared with 1.7% in 2018.

## 2.2. Assessment of the compliance of numerical fiscal rules for the Medium-term budgetary framework 2020-2022

**30. The Council took note of the proposals prepared by the Ministry of Finance for the fiscal framework 2020-2022 [24].** Compared to the expenditure ceilings planned in the Stability Program (2019-2021), the expenditure ceilings for the Medium-Term Budgetary Framework was increased (see figure 10). As a result of calculations, the Ministry of Finance set the expenditure ceilings for the state budget for 2020 at the amount of 9 995.2 million EUR (expenditure benchmark rule); for 2021 at the amount of 10383.2 million EUR (structural balance rule) and for 2022 at the amount of 10794.8 million EUR (structural balance rule). Compared with the projections of expenditure ceilings for the Stability Program 2019-2021, current expenditure ceilings have increased by 0.6% for 2020, by 1.3% for 2020, and by 1.2% for 2022.




*Source: MoF*

Fig. 10 **Expenditure ceilings in million euro - ex-post for 2015-2019 and MoF projections for the Stability Program2019/22 and MTBF 2020-2022**

**31. The Council has reviewed the calculations of numerical fiscal rules prepared by the Ministry of Finance, and agrees that the expenditure benchmark rule is applicable for 2020, with the following comments:**

**31a. The Council estimates the expenditure ceilings for 2020 at EUR 9 901.9 million (expenditure benchmark rule), which is EUR 94.6 million euro less than the expenditure ceilings calculated by the MoF.** At the regular meeting on 26 September 2019, the Council

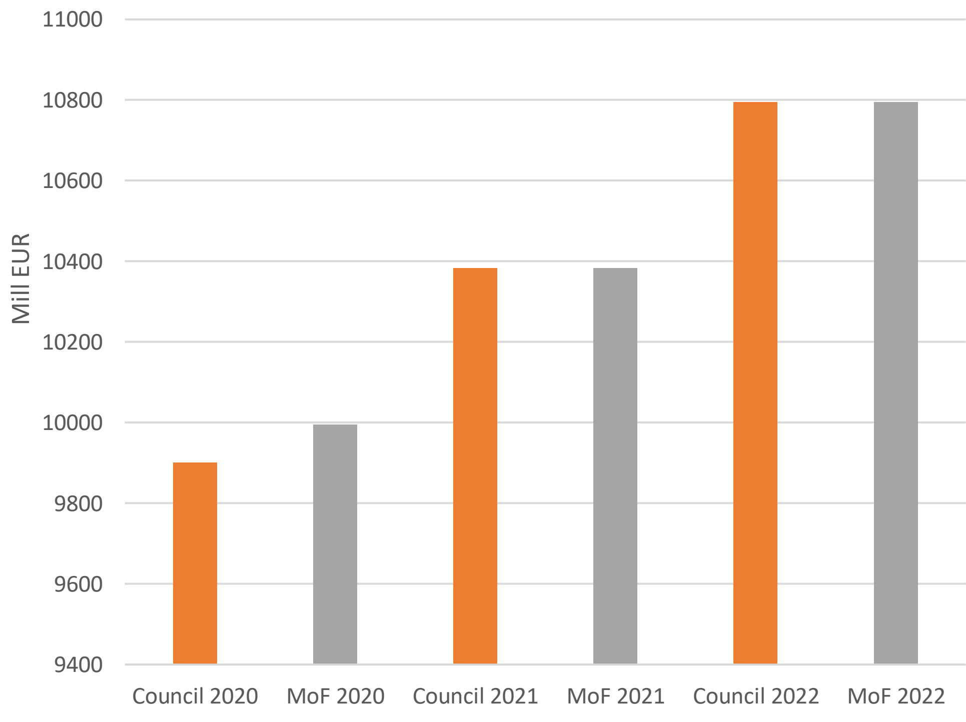
[24] MK 20.08.2019 VI Ar **valsts budžeta likumprojektu saistītie jautājumi** http://tap.mk.gov.lv/lv/mk/tap/?pid=40476569&mode=mk&date=2019-08-20. Skatīts 04/10/2019

carried out an assessment of alternative numerical fiscal rules for the period 2020 to 2022. The difference between the Council's and the Ministry of Finance estimates for 2020 is due to the different approaches -- to consider the Tax Reform as a one-off discretionary measure or not. The Council does not consider the Tax Reform as one-off measure which was repeatedly stated in previous surveillance reports. Council continues to underline, that the expenditure ceiling for 2020 should be set at EUR 94.6 million euro less than proposed by the Ministry. The Council's estimates of the 2021 and 2022 ceilings are in line with those of the Ministry of Finance.

The Council also notes that MTBF 2019-2021 was not carried out, which had a negative impact on the continuity of the budgeting process. The failure to develop a medium-term budget framework is at odds with the FDL and BFVL norms and should be tightened further in the future to prevent such occurrences.

**31b. The Council agrees with the MoF that the stronger fiscal rule in 2021 is the balance sheet condition, which stipulates that the maximum allowable expenditure should be set at EUR 10 383.4 million. EUR**;

**31c. The Council agrees with the MoF that the stronger fiscal condition in 2022 is the structural balance rule, which stipulates that the maximum allowable expenditure should be set at EUR 10 794.8 million. (see Figure 11), (see Annex 2[25]).**



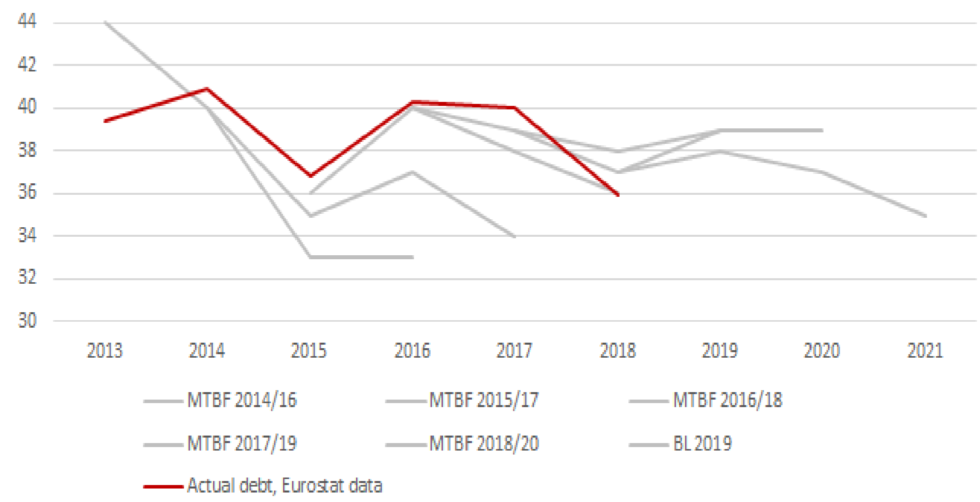

*Source: MoF information and Council calculations*

Fig. 11 **Summary of expenditure ceilings in million EUR for the period 2020 - 2022**

[25] https://fdp.gov.lv/files/uploaded/2_Pielikums_FDP_09102019_fiskalie_skaitliskie_nosacijumi.xlsx

## 2.3. General Government debt 2015-2022 (current and projected)

32. **The public debt during upturn of the economic cycle in 2014-17 grew faster than allowed by fiscal discipline rules.** It should be noted that the actual level of debt in these years exceeded the target, except for 2018, when faster nominal GDP growth and decrease of gross debt improved the debt-to-GDP ratio.
33. **Debt has tended to increase in recent years, reflecting the practice of preparing and executing public deficits, but the fact that public debt decreased in 2018, as seen in Fig. 12, is positive.** According to CSB data, general government consolidated gross debt decreased by 0.2 billion euros in 2018 compared to 2017 or 1.8% and was 10.6 billion euros. In the coming years the macroeconomic environment will be less favorable than before, consequently impacting debt management. In recent years, in a context of rapid economic development, insufficient attention has been paid to debt reduction in order to provide a "safety cushion" for a more unfavorable period in the economic cycle. In a positive context, the Council notes that from 2021 no deviations from the balance sheet target are planned.

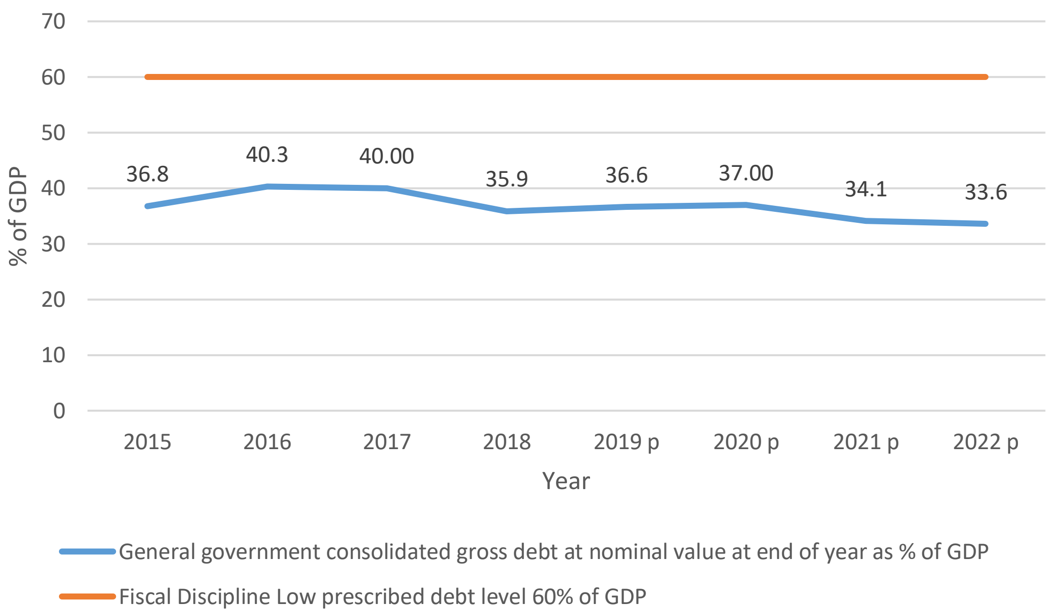



*Source: VTBIL 2014/16, VTBIL 2015/17. , VTBIL 2016/18. , VTBIL 2017/19, VTBIL 2018/20, Eurostat*

Fig. 12 **General government debt dynamics as% of GDP**

34. **General government debt meets the requirements of the FDL under the Treaty on European Union (Maastricht Treaty), but it is unclear whether this is sufficient regulation in the longer term.** Ministry of Finance forecasts gradual decline in government debt-to-GDP ratio in the medium term (see Figure 13). It should be taken into account that a large-scale financial crisis could rapidly increase government debt by 25-40% of GDP. Therefore, the growth of government debt in the context of economic growth, despite the possibility of reducing it to create the necessary reserves to mitigate the effects of the cyclical downturn, is unacceptable. In Latvia, there would be a need for discussion on adequate levels of government debt and reflection of the targets for achieving it, when formulating and analyzing fiscal policy, taking into account, for example, Sweden's experience:

• The desired medium-term level of debt in Sweden should be 35% of GDP.
• The target for the annual budget surplus becomes less important if the desired level of debt is achieved in the medium term.
• The government should explain to the parliament any deviation from the debt target that exceeds 5% of the debt target.
• The current trend of the budget surplus in Sweden is projected to fall below the debt level of 30% of GDP in 2022.




*Source: CSB and State Treasury*

**Fig. 13** General government debt for 2015-2018 and debt projections for 2019-2022

# 3. SUSTAINABILITY AND REGULATORY ASPECTS

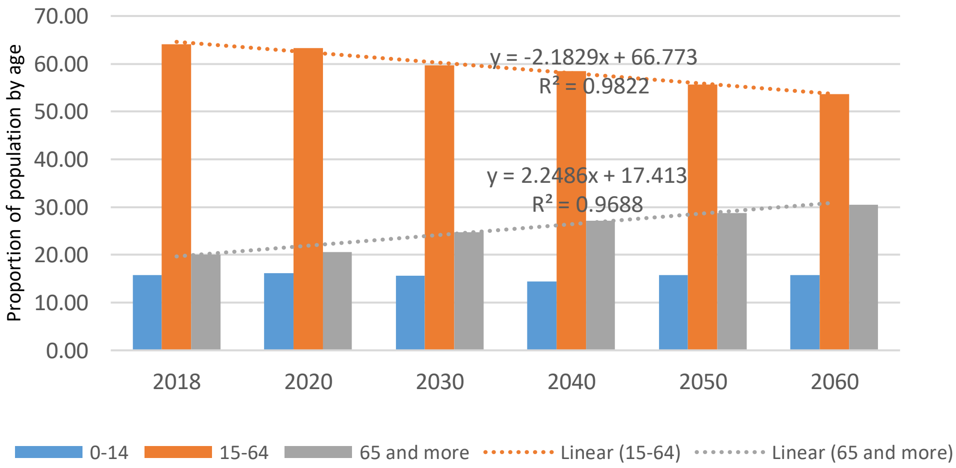
**35. Recently European Fiscal Board assessed EU fiscal rules with a focus on the six and two-pack legislation and concluded: (i) public finances of EU countries have become more sustainable, but major vulnerabilities remain, (ii) fiscal policies remain pro-cyclical, (iii) some impact on quality of public finance.** EFB recommends that EU fiscal rules should be simplified and focus on: i) sustainability, in particular, on achieving a reduction of very high debt-levels, ii) encouraging counter-cyclical policies, iii) improving the quality of public finances.

**36. EFB recommendations could be used to improve Latvian fiscal regulation.** EFB recommends a two fiscal target system: a simple medium-term debt ceiling, and one operational target – ceiling on the growth rate of primary expenditure net of discretionary revenue measures.

***Recommendation:*** *The government should consider improving fiscal governance framework, including adoption of debt anchor and improving the policy discussion based on the expenditure growth limited to the growth rates of the potential GDP.*

**37. The principle of Sustainable Fiscal Policy as defined by the FDL is to ensure that general government debt does not impose a disproportionate burden on the economy but contributes to its long-term development.** From this perspective, effective management of state resources and infrastructure that is commensurate with existing and projected population in the country is essential.

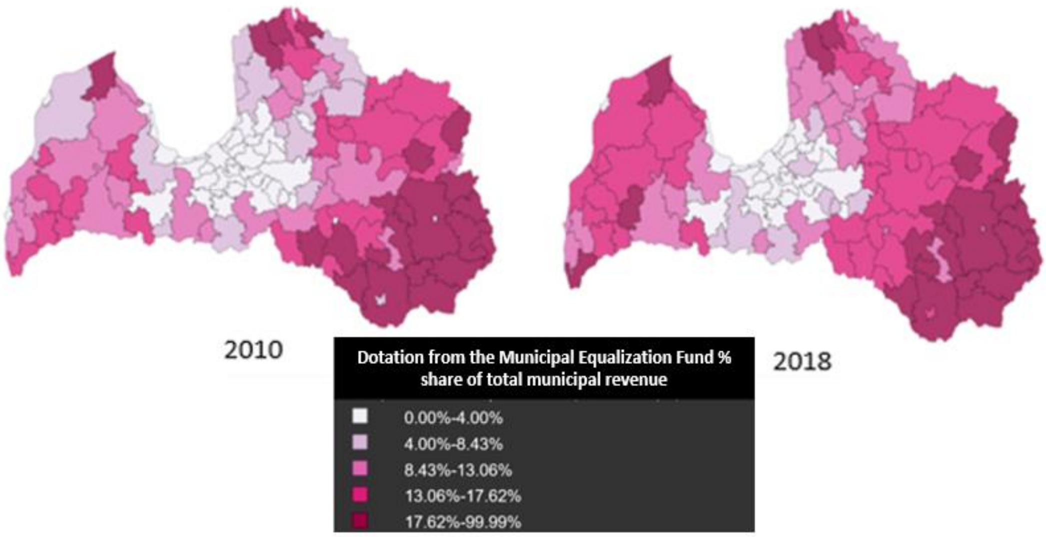
**38. As the population of Latvia declines and ages, the demographic burden and related budget expenditures will increase.** Council estimates based on Eurostat's demographic projections show that the working-age population will continue to decline by an average of 2.18% over a decade while the population over the retirement age will increase by 2.24% over a decade. Against this background, the most worrying trend is the number of newborns and children under the age of 14. The age ratio may change as the retirement age increases, however, such a solution would be purely formal as it would not address the overall population growth (see Figure 14).




*Source: Eurostat demographic projections*

Fig. 14 **Long-term forecast on the age structure of the Latvian population by 2060**

39. **The demographic situation in the regions of Latvia is characterized by an increasing depopulation in most of the territory of Latvia, which means that the economic base of local governments will continue to deteriorate.** Currently there are 119 municipalities in Latvia that have the right to manage their finances. However, in most municipalities, per capita expenditure consistently exceeds income. The administrative-territorial division is very fragmented - 110 counties and 9 cities. As a result, it leads to the existence of municipalities that are not capable of being development centers but are solely self-serving.
40. **Since the administrative-territorial reform in 2010, the number of municipalities with an increasing share of grants from the Municipal Equalization Fund, from donors to beneficiaries, has increased (see Figure 15).** This shows that there is a need for improvement in the management of municipal funding. Given the depopulation processes in rural areas and the tendency of the population to concentrate in larger centers, the existing network of municipalities needs to be reformed to form larger administrative units capable of economic development and efficient service to their citizens.




*Source: Regional Development Indicators Module (RAIM)*

Fig. 15 **Cartographic Information on Changes in Share of Municipal Equalization Fund Grants in Local Government Budgets from 2010 to 2018.**

***<u>Recommendation:</u>*** Pay particular attention to the improvement of financial flow management in the municipal sector when implementing the Administrative Territorial Reform. As a result, the reform is also expected to involve local governments in spending reviews and reduce the overall burden on taxpayers while making more efficient use of the funds.

41. **Latvia currently fulfills requirements on the sustainability of health care and social assistance in a formal way, but the lack of concrete future commitments does not mean, that addressing these issues will not require major fiscal reforms in the long term.** Following the principle of sustainable fiscal policy, the Government needs to develop a multi-decade-based policy for Latvia's future spatial development, taking into account demographic trends and paying particular attention to future technology and infrastructure developments, especially in the segment of IT solutions for remote territories.

42. **Workers are still in high demand in the labor market, which both contributes to wage growth and may potentially delay retirement for workers of pre-retirement age. One of the resources for employers can be a more active involvement of young people in employment.** According to CSB data, in 2018 before retirement age (55-64 years) was 13.9% of working age population, of whom 167.2 thousand were employed. In terms of educational attainment, 66.4% of employees with secondary and vocational education, 27% with tertiary education and 6.6% with primary education make up the structure of the workforce. These employees are mainly employed in industry, commerce, tourism and catering, as well as financial, insurance and scientific services. More than half of the workers in this age group work in the private sector. Pre-retirement employment in Latvia is higher than the EU average, largely due to the current pension system. Before retirement age people are the largest group at risk of material deprivation, including in terms of wages, and these workers receive lower wages than the national average wage. In the next decade 184.6 thousand people will gradually enter the labor market. Young people between the ages of 10 and 19 will need to develop their professional skills.

***Recommendation:*** Demographic burden on Latvia's population will increase in the future, therefore, compliance with the principle of sustainable fiscal policy in relation to the maintenance of public infrastructure will become ever more urgent challenge: including funding of the road network, school network, and healthcare network from the state budget.

***Recommendation:*** As labor supply constraints lead to rapid wage increases and hence the decline in price competitiveness, the following should be considered:
• the involvement of young people in the labor market by providing them with the education they need to meet future challenges in the labor market,
• leaving in the labor market pre-retirement age workers,
• taking political action to develop structured labor immigration.

# 4. ASSESSMENT OF THE FISCAL RISK DECLARATION

43. **The Council welcomes the formation of the fiscal security reserve (FSR) for 2020 in amount of 0.1% GDP, which generally coresponds to level of fiscal risks overviewed in fiscal risks declaration and is the minimum amount required by the FDL.** However, depending on external and internal changes, that increases the likelihood of potential fiscal risks and potential magnitude of their impact, the FSR might need an increase in the medium term.
44. **Further deepening and widening of fiscal risks assessments is needed.** The Council expects further improvements in broadening the range of quantified fiscal risks. International experience shows that most fiscal shocks are caused by either macroeconomic instability or problems in the financial sector; often the former triggers the latter, thus exacerbating fiscal risks and the weakening ability of a country to meet its fiscal targets
45. **The Latvian financial sector has successfully completed the clean-up of non-resident segment, but certain risks remain until the assessment of the implementation of *Moneyval* recommendations has been completed.** In 2018, ABLV started the process of self-liquidation; in 2019, the court declared the bank of PNB insolvent and its liquidation has begun. Both of these events are not expected to have a direct negative fiscal impact. However, the financial sector can be a source of significant fiscal risks and needs to be carefully assessed and appropriate risk management measures implemented.
46. **State and local authorities owned enterprises that belong to GGS recently has negative effect on general government balance.** Municipal company "Rigas Satiksme" is expected to be classified as part of GGS as of 2020: the Council welcomes government's decision to include company's impact in government balance calculations. The Council also agrees with the Ministry of Finance proposal for stronger regulation and control over companies, which are part of GGS. In accordance with Ministry of Finance calculations, last three years state and municipal companies included in GGS had impact that is more negative on general government balance than planned: by 22 million in 2016, 44 million in 2017, and 100 million euros in 2018 – all figures include "Rigas Satiksme" impact. The Council believes that the potential fiscal impact of state and municipal companies that belong to BBS on GGB is considerable and should be included in FSR calculations.
47. **The government has taken a conceptual decision to transfer the burden of subsidized electricity surcharge (OIK) from electricity consumers to government starting with 2021.** This item should be among priorities for FRS 2021 as the expected fiscal effect on general government balance is around 150 million euros annually, with potential complications, including litigations. The OIK should be treated as a tax policy matter rather than a political objective to reduce cost burden on electricity consumers. Eurostat has classified OIK as tax revenue and related expenditure is also classified in the general government sector. Reducing OIK revenues and reducing the cost burden on electricity consumers will have a corresponding effect in the effort to reduce public payment obligations.

48. **Brexit is another potential source of fiscal risks: FRD mentions that in accordance to Ministry of Finance estimate Latvia's contribution to the EU budget might increase by some 23 million in 2020 in case of hard Brexit.** Bank of Latvia estimates[26] that hard Brexit potential impact on Latvian GDP could range between 0.8 and 1.7% in the next three-year period. Since there are too many aspects and uncertainties to Brexit, it is extremely difficult to provide an accurate fiscal impact from Brexit, however Latvia's export to Great Britain which currently accounts for 6.5% might be hit.

[26] Available at: *https://www.bank.lv/par-mums/jaunumi/678-raksti/11688-par-makroekonomiskajiem-riskiem-saistiba-ar-lielbritanijas-izstasanos-no-es* accessed on: 20/09/2019

# 5. MACROECONOMIC DATA AND KEY DEVELOPMENTS SINCE THE LAST FORECAST CONFIRMATION

**49. On 25 June 2019, the Council approved the Ministry of Finance's macroeconomic forecasts used for the planning of MTBF 2020-22.** Compared with previous projections for the Latvian Stability Program 2019-2022 economic growth projections for the years ahead have declined from 2020 onwards, while real GDP growth projections for 2019 have remained at 3.2% (see Table 5).

Table 5

**Comparison of the FM macroeconomic forecasts approved by the Council in 2019- 2022**

| Indicators | Projections for SP 2019-2022 11.02.2019. | | | | Projections for MTBF 2019-2022 13.06.2019. | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2019 | 2020 | 2021 | 2022 |
| Real GDP growth | 3.2 | 3.0 | 2.9 | 2.9 | 3.2 | 2.8 | 2.8 | 2.8 |
| Nominal GDP growth | 6.4 | 5.9 | 5.5 | 5.5 | 6.4 | 5.6 | 5.3 | 5.3 |
| Inflation (CPI) | 2.5 | 2.2 | 2.1 | 2.0 | 2.8 | 2.5 | 2.1 | 2.0 |
| GDP deflator | 3.1 | 2.8 | 2.5 | 2.5 | 3.1 | 2.7 | 2.4 | 2.4 |
| Potential GDP growth | 3.5 | 3.4 | 3.2 | 3.2 | 3.5 | 3.4 | 3.2 | 3.2 |
| Output gap | 1.4 | 1.0 | 0.7 | 0.4 | 1.4 | 0.8 | 0.4 | 0.0 |

*Source MoF*

**50 Since the adoption of the macroeconomic forecasts in June 2019, a number of less favorable conditions have emerged for economic development.** Economic growth has slowed down compared to rapid growth in 2017 and 2018, and insecurity has increased in the international economic environment, driven mainly by the difficulties of the Brexit process and volatility in international trade.

**51. GDP growth is slowing down. According to seasonally adjusted data, GDP growth decelerated to -0.1% in the first quarter and rose by 0.7% in the second quarter compared with the first quarter of this year[27].** Comparing GDP growth over the corresponding quarters of the year, value added growth slowed in the second quarter of 2019 compared to the second quarter of 2018. These include:

- Wood and wood products industry, down by 3.2%
- The drop in value added by monetary financial institutions reached 13.8%, mainly due to the outflow of non-resident deposits,
- Construction growth has slowed down as EU funding for construction projects, including civil engineering, has fallen in 2018,
- the performance of the transport and storage sector has declined, mainly due to the decline in international freight transport;
- Product taxes (value added tax, excise duties and customs duties) also contributed 3.2% to GDP.

**52. Weaker economic prospects threaten the fiscal targets set for 2019 and 2020.** Insufficient revenue poses a fiscal risk that impedes the achievement of the

[27] *CSB report, available on: https://www.csb.gov.lv/en/statistics/statistics-by-theme/economy/gdp/search-in-theme/2537-changes-gross-domestic-product-2nd-quarter-2019*

government's balance target. The latest real GDP projections have worsened in both 2019 and 2020, cf. Table 6.

Table 6

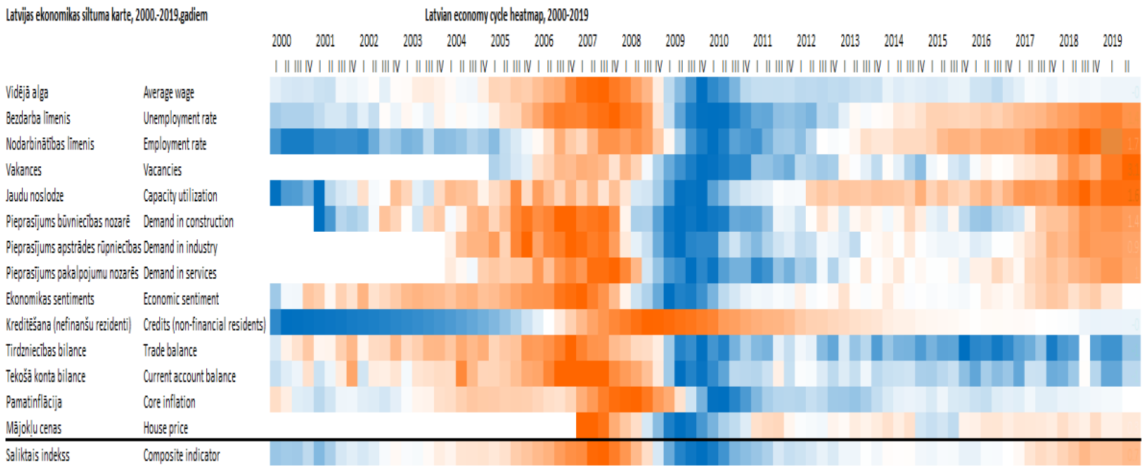
**Real GDP growth forecasts for the period 2019 -2021g a comparison from different sources**

| Real GDP growth | 2019 | 2020 | 2021 |
|---|---|---|---|
| LB (Sep) | 2.5% | 2.6% | - |
| EK (May) | 3.1% | 2.8% | |
| IMF (Aug) | 3.2% | 3.1% | - |
| **MoF (Jun)*** | **3.2%** | **2.8%** | **2.8%** |
| OECD (May) | 2.7% | 2.7% | - |
| SEB banka (Aug) | 2.4% | 2.0% | 2.5% |
| SWEDBANK (Aug) | 2.8% | 2.0% | - |

**Endorsed by council 25/06/2019*

*Source: BoL, EK, IMF, MoF, OECD, Seb Bank, Swedbank.*

53. **Although the Latvian economy continues to maintain growth momentum in some segments in 2019, overall, the growth peak in this cycle has been surpassed in 2018.** As reflected in the heat map of the Latvian economic cycle, the demand for labor remained high in the labor market in the second quarter of 2019 as well. Overall, economic indicators started to decline. While capacity utilization remains high, demand in the construction, industry and services sectors has started to decline. The economic sentiment indicator has cooled significantly (see Figure 16), (see Annex 3[28]).




*Source: CSB, BoF, Eurostat and Council calculations*

**Fig. 16** Latvian Economic Cycle Heat Map for 2000 -2019 Q2

54. **The Council welcomes the sensitivity analysis of macroeconomic scenarios developed by the Ministry of Finance, which deepens the analytical framework of the Stability Program.** The Council welcomes the fact that the Stability Program 2019-2022 a section on the impact of positive and negative scenarios on the state budget has been included for the period. Admittedly, in 2019, economic indicators have come

[28] https://fdp.gov.lv/files/uploaded/3_pielikums_FDP_09102019_2019_Q2_siltuma_karte.xlsx

close to the pessimistic scenario projected in SP 2019/22. The Council recommends further work on sensitivity analysis, taking into account economic cycle trends.