



LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

Reģ.nr. 90010248231; Smiļšu ielā 1-512, Rīgā, LV-1919
 tālrunis: (+371) 6708 3650; e-pasts: info@fdp.gov.lv; mājaslapa: http://fdp.gov.lv

Council meeting minutes Nr. 4 (50)

Rīga

June 14, 2021

Chairwoman:

Chairwoman of Fiscal Discipline Council – I.Šteinbuka

Participants of the meeting:

Vice-Chairman of the Fiscal Discipline Council	M.Hansen
Member of the Fiscal Discipline Council	M.Abolins
Member of the Fiscal Discipline Council	A.Jakobsons
Member of the Fiscal Discipline Council	U.Kaasik
Member of the Fiscal Discipline Council	A.Ubelis
<i>Secretariat –</i>	
Fiscal Discipline Council secretary	N.Malnačs
Fiscal Discipline Council lawyer-clerk	I.Jansone
Fiscal Discipline Council fiscal risks expert	A.Migunovs
Fiscal Discipline Council macroeconomics expert	V.Zaremba

Invited participants 1 item of the agenda:

Ministry of Finance Deputy Director of Economic analysis department, Head of Macroeconomic analysis division	D.Stikuts
Ministry of Finance Director of Economic analysis department	I.Vasaraudze
Ministry of Finance senior expert of Economic analysis department	A.Jurša
Economic Analysis Department of the Ministry of Finance, Deputy Head of the Macroeconomic division	I.Vēja

Taking minutes:

Fiscal Discipline Council lawyer-clerk

I.Jansone

I.Šteinbuka opens the meeting

Fiscal Discipline Council (Council) chairwoman I.Šteinbuka opens the meeting and announces the agenda (annexed).

The meeting starts at 16:00 and takes place in remote meeting mode via MS Teams.

1 Macroeconomic forecasts presentation

Rapporteurs: I.Vasaraudze, D.Stikuts, A.Jurša

Ministry of Finance (MoF) informs on the latest macroeconomic indicators forecasts prepared

for Latvia's Stability programme 2021-2024.

Attendance discussion on forecasts, assumptions and risks of macroeconomic indicators.

Council opinion:

1.1 Take note of the MoF information on the macroeconomic indicators forecasts.

I.Šteinbuka votes for;
 M.Hansen votes for;
 A.Jakobsons votes for;
 M.Aboliņš votes for;
 A.Ūbelis votes for;
 U.Kaasik votes for.

2 Internal discussions on macro forecasts

Discussion of those present about the forecasts of macroeconomic indicators sent and commented by the Ministry of Finance.

Council opinion:

2.1. The Fiscal Discipline Council has no significant objections to the macroeconomic forecasts submitted by the MoF as a whole, but has comments on the inflation forecast.

The Governing Council considers that there are a number of factors that could significantly increase inflation. In April, producer price inflation in Latvia already exceeded 5%. This suggests that consumer price inflation in Latvia will also exceed 3% in the second half of the summer. Worldly traded food prices are rising sharply, so consumer food prices will continue to rise. Globally, raw material supply chains are disrupted, raising producer costs, rising raw material prices, and producers and service providers trying to make up for losses during a pandemic. All these circumstances suggest that inflation in 2021 may increase faster than currently forecast.

The Council generally approves the macroeconomic forecasts of the Ministry of Finance MTBF 2022/24. considers, however, that they should be complemented by fiscal projections and draws attention to the following risks that could worsen macroeconomic indicators, including: epidemiological risks, risks to inflation, political risks, fiscal risks and administrative risks.

2.2. To instruct the Council's macroeconomic expert V.Zaremba to formulate a summary opinion on what was discussed at the meeting, including the risks emphasized by the Council in the content of the opinion.

2.3. To instruct the Secretariat of the Council to prepare and send the opinion of the Council of the Ministry of Finance in compliance with the concluded Agreement on cooperation.

I.Šteinbuka votes for;
 M.Hansen votes for;
 A.Jakobsons votes for;
 M.Aboliņš votes for;
 A.Ūbelis votes for;
 U.Kaasik votes for.

3 On the OECD report

Rapporteur: N.Malnačs

N.Malnačs introduces the members of the Council to the prepared presentation - on the recommendations included in the OECD report. N.Malnačs first of all points out that the report positively assesses the activities of the Council, despite the limited resources available. The report emphasizes that the Council covers a wide range of fiscal and economic issues in its reports and, from 2020, publishes monthly crisis monitoring reports providing information on the Latvian economy and how the government's fiscal position is changing during the COVID-19 pandemic. The report concludes that the Fiscal Discipline Council is effective in its work and can achieve even greater influence. The OECD report recommends expanding its activities to the Council. Given the small size of the secretariat, it is recommended that one full-time economist or fiscal risk analyst be added to the secretariat. In addition, there is a recommendation that the Secretariat should focus on the further development of modeling and analytical capabilities in fiscal matters in Latvia.

Discussion of the OECD report.

Council opinion:

3.1. To take note of the OECD report and to implement the recommendations as far as possible.

I.Šteinbuka votes for;
 M.Hansen votes for;
 A.Jakobsons votes for;
 M.Aboliņš votes for;
 A.Ūbelis votes for;
 U.Kaasik votes for.

4 Strengthening the analytical capacity of the Fiscal Discipline Council**Rapporteur:** V.Zaremba

V.Zaremba informs that, considering the recommendation of the OECD report there is a need to develop analytical models. V. Zaremba has prepared a presentation, which aims to show the analysis tools available to the Secretariat and present progress in developing a new macroeconomic model, as well as conceptually agree on the best modeling approach corresponding to the capacity of the secretariat and be as close as possible to the methodology of the Ministry of Finance.

V.Zaremba talks about previously tested modeling approaches, production function approach in combination with HP filter, comparison of HP filter and Kalman filter, their advantages and disadvantages.

The development of a new econometric model was launched in March 2021 in collaboration with OECD experts. V.Zaremba outlines the current progress: currently the theoretical basis for two approaches has been created and it is necessary to choose which of them to further develop. The initial input database has been created, test calculations have been performed in the STATA environment. The statistical filter approach is proposed as the best Hamiltonian (2018) filter for future work, while the second approach is based on the development of a semi-structural model that includes the Okun condition and the analysis of principal components.

Discussion of those present about on the types of modeling, recommending the development of a statistical filtering approach.

Council opinion:

4.1. To take note of the prepared information on modeling and to entrust the Secretariat with choosing the most suitable type of modeling, corresponding to the Latvian economy.

The meeting was closed at 18:00.

Council Chairwoman

I.Šteinbuka

Meeting Secretary

I.Jansone

Visa: Council Secretary

N.Malnačs

I.Jansone 6708 3650
inga.jansone@fdp.gov.lv