



LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

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**Fiscal discipline council**  
**Fiscal safety reserve assessment working group meeting**  
Minutes Nr. 1 (16)

Riga

30 June 2021

**Chairperson:**

Member of the Fiscal Discipline Council, head of the FR working group M.Āboliņš.

**Participants:**

Member of Fiscal Discipline Council	A.Ūbelis
Member of Fiscal Discipline Council	A.Jakobsons
<i>Secreteriat –</i>	
Fiscal Discipline Council secretary	N.Malnačs
Fiscal Discipline Council fiscal risks expert	A.Migunovs
Fiscal Discipline Council lawyer-clerk	I.Jansone
Fiscal Discipline Council macroeconomic expert	V.Zaremba
<i>The Ministry of Finance --</i>	
Head of the Fiscal Management Division of the Ministry of Finance	G. Trupovnieks
Deputy Head of the Fiscal Management Division of the Ministry of Finance	M. Trautmanis

**Taking minutes:**

Fiscal Discipline Council lawyer-clerk

I. Jansone

The meeting starts at 10:00 and takes place in remote meeting mode via MS Teams.

**M.Āboliņš opens the meeting**

The head of the FR working group M.Āboliņš opens the meeting and thanks the representatives of the Ministry of Finance for the opportunity to participate in the meeting.

M. Āboliņš informs that the meeting with the representatives of the Ministry of Finance has been organized to inform the representatives of the MoF about fiscal risks, which in the opinion of the Council should be reflected and analyzed in more detail in the annual FRD, as well as to find out the MoF's opinion. Consequently, the FR Working Group would like to discuss the following issues: (i) quantification of macroeconomic risks, (ii) in-depth monitoring of Altum and other state-owned companies, (iii) the financial sector section of the FRD.

## **1. Quantification of macroeconomic risks**

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**Report:** G. Trupovnieks and M. Trautmanis

Representatives of the Fiscal Discipline Council fiscal risks working group inform that they consider it appropriate to develop an alternative (pessimistic) macroeconomic scenario, with a corresponding negative fiscal scenario, for which a fiscal reserve should be provided. For example, Stability Programs (SPs) develop a baseline and pessimistic scenario that could be used for reserve calculations.

FM representatives G. Trupovnieks and M. Trautmanis report on the process of preparation of macroeconomic forecasts and possible risks, which are planned to be included in the declaration of fiscal risks. Representatives of the Fiscal Discipline Working Group of the Fiscal Discipline Council discuss with the representatives of the MoF on the quantification of various risks and the frequency of macroeconomic shocks. The Ministry of Finance informs that the current macroeconomic forecasts are used as a basis for the analysis of fiscal risks. In addition, pessimistic and optimistic scenarios are modeled in the sensitivity analysis and included in the budgetary remarks and the Stability Program. The representatives of the Ministry of Finance point out that Article 17 of the FDL provides for the creation of a fiscal reserve only in case of small macroeconomic fluctuations. For example, if there are major macroeconomic shocks, other economic indicators take precedence over the budget deficit.

The participants of the meeting discuss different approaches to quantifying fiscal risks in the Ministry of Finance and the European Commission. The Ministry of Finance accepts as risk cases for which specific government decisions have been made, while the European Commission's approach assesses the entire set of risks ex-post and immediately includes the risks that have materialized in the risk calculation. The FR Working Party considers the European Commission's approach to be optimal, especially when it comes to assessing the risks associated with the necessary investments in public companies.

However, the FR working group calls on the MoF to provide a fiscal margin for the pessimistic scenario developed by the SP.

## **2. In-depth monitoring of the activities of Altum and other state joint stock companies**

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**Report:** G. Trupovnieks and M. Trautmanis

Representatives of the FR working group ask the representatives of the Ministry of Finance to explain about Altum's activities and the related fiscal risks. G. Trupovnieks and M. Trautmanis report on the fiscal risks associated with Altum's operations. The representatives of the Ministry of Finance explain the procedures of the Altum control mechanisms provided for in the legal framework, as well as explain how the government expenses are calculated in case the risks materialize. G. Trupovnieks and M. Trautmanis explain that Altum's activities are closely monitored and, if potential losses are identified, they will be quantified and included in the fiscal risk statement.

The FR working group takes note of the information provided by the Ministry of Finance on Altum's operational risks and invites the MoF to offer more detailed information on Altum's situation in FRD.

The FR working group also calls on the MoF to assess the need to provide a fiscal reserve for the activities of other state-owned joint stock companies, based on their historical financial performance and the state grants granted.

### **3. FRD Financial Sector Section**

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**Report:** G. Trupovnieks and M. Trautmanis

The FR Working Party notes that the financial sector is one of the main sources of fiscal risk and that the financial sector section of the FRD needs to be more detailed, including basic information on the Deposit Guarantee Fund balance sheet and projected financial flows.

G. Trupovnieks and M. Trautmanis report on the fiscal risks and operation process of the Deposit Guarantee Fund. Representatives of the FR working group are discussing and asking for clarification on the aspects on which information is missing in the FRD. Representatives of the Ministry of Finance G. Trupovnieks and M. Trautmanis specify that the Deposit Guarantee Fund is included in the balance sheet of the general government. During periods when the banking system is stable, the funds paid into the fund accumulate and the existence of the fund is fiscally neutral. In cases where the risks associated with the closure of a bank materialize, the fund's provisions cover the losses incurred and have a negative effect on the nominal balance sheet, but as such cases are of a one-off nature, they do not affect the structural balance sheet.

The FR Working Party asks the MoF to pay more attention to the FRD section of the financial sector so that it includes basic information on the financial sector and the Deposit Guarantee Fund.

At the end of the discussion, the representatives of the Ministry of Finance inform the participants of the meeting that the proposals of the Fiscal Discipline Council will, as far as possible, be taken into account in the process of preparation of the FRD.

The meeting closes at 11:00.

Head of the working group

M. Āboliņš

Secretary of the meeting

I.Jansone

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