



Fiskālās disciplīnas padome

# ***OECD Review: Case of Latvia's Fiscal Discipline Council (FDC)***

**Chair of FDC, Prof., Inna Šteinbuka**

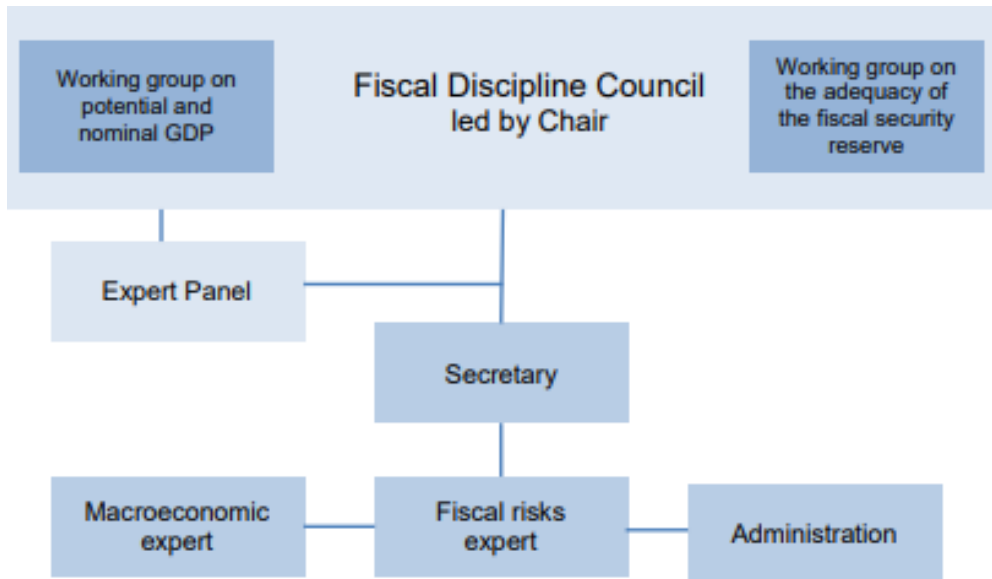
**PBO virtual meeting**

**05.11.2021**



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# ***FDC structure and resources***



- Established in 2014 as a response to Financial crisis 2008
- Staff: Council (6 members) & secretariat (4 persons: 2.5 analytic, 1.5 administrative) vs average 4 analysts in IFI with similar functions;
- Budget of €200,000 vs average €862,000 for IFIs with similar functions;
- Council member remuneration around €4,000 per year; gross wage of experts around €1,800 a month



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# ***Mandate and functions***

- Prescribed by Fiscal discipline law and MoU with FM:
  - verifying whether fiscal rules are applied correctly,
  - monitoring implementation of budget, issuing non-conformity report in case of violation,
  - verifying whether Fiscal reserve has been calculated properly,
  - yearly preparing 2 Surveillance reports – on draft budget and Stability program,
  - preparing opinion on ex-post compliance with str. balance rule (correction mechanism),
  - approving MoF macro-economic forecasts twice a year (MoU with FM),
- Additional work:
  - 15 Monitoring reports in response to C19 (2000-2021),
  - Assessment of RRF fiscal impact, in response to government request (2021),
  - Various working papers, i.e. Fiscal sustainability report(2017), Fiscal assessment of Tax reform (2019).
  - Various meetings with rating agencies, government officials, stakeholders, etc.



# ***EC/OECD joint technical assistance I***

## 1. DG Reform report on compliance with EU requirements:

- Review of European requirements regarding IFI,
- Assessment of mandate and operations of FDC,
- Evaluation of FDC

| <b>Main findings</b>  | <b>Recommendations</b>  |
|---|---|
| Legal provisions governing the mandate and operations of FDC are in line with EU requirements   | Give a legal basis to the «comply-or-explain» principle and extend it to all reports of FDC |
| Measures are in place to ensure an effective independence of FDC in accordance with the Common principles on national correction mechanisms | Amend the budgeting principles of FDC   |
| FDC have improved quality of Latvian macro-economic forecasts   | Improve potential GDP and output gap projection methodologies                               |



# ***EC/OECD joint technical assistance II***

## 2. OECD Review of Latvia's Fiscal Discipline Council:



- A broader review of FDC compliance with OECD IFI principles,
- Main conclusion: «FDC adheres closely to the OECD principles for IFIs and is an effective fiscal monitoring body for Latvia»,
- Main recommendations:
  - Increase secretariat modelling capacities for fiscal analysis,
  - Commit to regular long-term sustainability analysis,
  - Strengthen engagement with the Parliament,
  - Increase capacity of the secretariat,
  - Pursue communications strategy that increases engagement of non-technical stakeholders

## 3. Project to upgrade FDC forecasting tools:

- Output gap model,
- Budget revenues and expenditure model,
- Both tools will be operationalized in 2022



# Strengths and weaknesses

| Strengths  | Weaknesses  |
|--|--|
| Impartial and intellectually strong Council  | Weak financial incentives  |
| Good public image and frequent appearances on mass media                                     | High turnover at secretariat- need to increase capacity and technical knowledge                |
| Generally good relations with stakeholders (FM, BoL)   | Need for more independence from FM and more resources  |
| Good access to information   | Need to improve communication, especially with non-technical stakeholders                      |
| Transparent operations   |  |
|  |  |
|  |  |



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# ***Lessons learned (conclusions)***

- Independent IFI reviews – excellent tool to have impartial view on ourselves and get ideas for further improvements;
- Can have immediate effect – FDC budget increased by 20% next years thanks to EU/OECD recommendations;
- FDC significance as an important fiscal institution re-confirmed. Especially important during C19 crisis when EU restrictions are put on hold;
- Some recommendations can be implemented immediately, some depends on other stakeholders (legislative changes);
- Excellent opportunity to strengthen analytical capacity by implementing mathematical fiscal tools with help of experience colleagues



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# Thank you!

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