



LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

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Minutes of the meeting of the Council No Nr. 6 (74)

Riga

9th of October 2024

The meeting is chaired by:

Chairwoman of the Fiscal Discipline Council - I.Šteinbuka

Participants of the meeting

Member of the Fiscal Discipline Council	A.Jakobsons
Member of the Fiscal Discipline Council	U.Kaasik
Member of the Fiscal Discipline Council	I.Golsts
<i>Secretariat -</i>	
Fiscal Discipline Council secretary	N.Malnačs
Fiscal Discipline Council macroeconomics expert	V.Zaremba
Fiscal Discipline Council fiscal risk expert	I.Verpakovska
Fiscal Discipline Council lawyer	I.Jansone

Taking minutes:

Fiscal Discipline Council lawyer

I.Jansone

9th of October 2024 meeting starts at 14:30

Opening of the meeting – I.Šteinbuka

The Chair of the Fiscal Discipline Council (hereinafter – the Council), I. Šteinbuka, opens the meeting and announces the agenda.

I. Šteinbuka informs that, on October 9, the Fiscal Discipline Council received from the Ministry of Finance the draft of "State Budget for 2025 and the Medium-Term Budget Framework for 2025, 2026, and 2027" and, on October 8, received the draft Fiscal Structural Plan (FSP) 2025–2028, along with numerical calculations in Excel files. These materials serve as the basis for preparing the Fiscal Discipline Surveillance Report on the State Budget for 2025, the Medium-Term Budget Framework for 2025–2027 (hereinafter MTBF 2025–2027), and the Fiscal Structural Plan 2025–2028.

Considering that the Council is required to prepare and submit the aforementioned document to the Saeima of the Republic of Latvia, the Cabinet of Ministers, the Saeima's Budget and Finance (Tax) Committee, and the Ministry of Finance by the start of the working day on October 11, the Council's work is being conducted remotely, with the matter under review discussed through written consultation.

In reference to the above, the Council Secretariat, following the guidelines provided by Council members, has prepared a draft Fiscal Discipline Surveillance Report. The Council Secretary will send an email to Council members, requesting their comments, additions, and opinions on the prepared draft of the Surveillance report.

The meeting of October 9, 2024, is closed at 2:30 p.m., and the Council meeting is adjourned until October 10, 2024, at 3:00 p.m.

On October 10, 2024, the Council meeting of October 9, 2024, is resumed at 3:00 p.m.

1. Fiscal Discipline Surveillance Report

I. Šteinbuka thanks all Council members for their input provided during the written consultation and explains that the comments submitted by Council members will be compiled and incorporated in the Fiscal Discipline Surveillance Report on the State Budget for 2025 and MTBF 2025–2027.

I. Šteinbuka highlights that in evaluating the State Budget for 2025, MTBF 2025–2027, and FSP 2025–2028, the new EU fiscal conditions were considered. This follows the implementation of the new EU economic governance framework introduced spring of 2024, aimed at gradually and sustainably reducing the fiscal deficit and debt levels of EU countries. In planning Latvia's fiscal policy, compliance with EU Regulation 2024/1263 is required for both medium- and long-term fiscal policy frameworks. According to this regulation, EU member states must prepare a medium-term FSP, which will replace the annual Stability Program and the National Reform Program and establish a fiscal trajectory based on technical information provided by the European Commission. This fiscal trajectory determines the permissible growth rate for net primary expenditures funded by the state. The Fiscal Discipline Council acknowledges that the fiscal trajectory calculated by the Ministry of Finance aligns with the conditions of Regulation 2024/1263 (EC technical information). Consequently, the draft law "On the State Budget for 2025 and the Budget Framework for 2025, 2026, and 2027" must comply not only with the structural balance requirement of the Fiscal Discipline Law, allowing a permissible structural deficit increase to 1%, but also with the newly established EU fiscal conditions.

I. Šteinbuka also emphasizes that the preparation of the state budget for 2025 and the budget framework for 2025–2027 is proceeding within a very limited timeframe due to several factors, making it challenging to conduct a thorough analysis as information continues to change. The Council did not receive the Fiscal Structural Plan and other necessary data and calculations required for assessing fiscal conditions in a timely manner. Therefore, the Council will conduct a more detailed analysis of the Fiscal Structural Plan in its Spring 2025 Surveillance interim report.

U. Kaasik expresses appreciation for the summary of the Surveillance report but raises uncertainty regarding the information received from the Ministry of Finance, noting that he is unsure whether the Council has an official document from the Ministry on which to base its opinion. He also suggests that the report should highlight that the Bank of Latvia's fiscal forecast is more conservative, indicating the potential risk that fiscal flexibility may be constrained. It is recommended that this information be included as a possible risk. U. Kaasik generally supports the report.

A. Jakobsons expresses his gratitude for the draft report, acknowledging the work as high-quality. He advises addressing risks related to state-owned companies generally in the summary, rather than highlighting each one individually. Additionally, he points out another risk that should be mentioned: the increase in debt servicing costs, as the projected debt servicing costs in 2028, will reach 1.5% of GDP, which is a substantial amount. A. Jakobsons supports the report, with the understanding that minor adjustments will be made based on the comments provided.

I. Golsts: expresses gratitude for the preparation of the report and approves it.

Summarizing the Council's opinion, it calls for accumulating, rather than redistributing, funds saved during budget execution to achieve the set budget goals.

The Council also highlights several significant risks that could threaten economic growth and fiscal indicators in the medium term:

- Geopolitical tensions, particularly along the border with Russia and Belarus, deter investors and tourists;
- Weak demand in Latvia's primary export markets could lead to a potential decline in exports;
- Persistent weakness in the production sector continues to constrain economic growth;

- Fiscal risks associated with the implementation of the Rail Baltica project;
- Fiscal risks stemming from the activities of state-owned enterprises (e.g., AS Airbaltic and others);
- Rapidly increasing public debt servicing costs in the coming years;
- Rising compensation in the public sector, which may expand the budget base, impact the labor market, and diminish the country's competitiveness.

Based on the above, the **Council decides to:**

1.1. Take note of the information on the proposed content for the Fiscal Discipline Surveillance report. Authorize the Chair of the Council, I. Šteinbuka, and Council member I. Golsts, along with the staff of the Fiscal Discipline Council Secretariat, to complete the preparation and submission of the final version of the Surveillance Report by October 11, 2024, to the Saeima of the Republic of Latvia, the Cabinet of Ministers, the Saeima's Budget and Finance (Tax) Committee, and the Ministry of Finance.

I.Šteinbuka – votes for;
 I.Golsts – votes for;
 A.Jakobsons – votes for;
 U.Kāsiks – votes for.

The meeting closed at 15:30, 10th of October 2024.

Chairwoman of the Fiscal Discipline Council

I.Šteinbuka

Secretary of the meeting

I.Jansone

Fiscal Discipline Council secretary *visa*:

N.Malnačs

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