LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

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Minutes of the meeting of the Council No Nr. 1 (76)

Riga 12 February 2025

The meeting is chaired by:
Chairwoman of the Fiscal Discipline Council - I.Šteinbuka

Participants of the meeting:

Vice-Chairman of the Fiscal Discipline Council	J.Priede
Member of the Fiscal Discipline Council	A.Jakobsons
Member of the Fiscal Discipline Council	U.Kāsiks
Member of the Fiscal Discipline Council	I.Golsts
Secretariat –	
Fiscal Discipline Council secretary	N.Malnačs
Fiscal Discipline Council macroeconomics expert	V.Zaremba
Fiscal Discipline Council lawyer	I.Jansone

Pieaicinātās personas uz 1. darba kārtības punktu:

Ministry of Finance Director of Economic analysis department	D.Stikuts
Ministry of Finance senior expert of Economic analysis department	A.Jurša
Ministry of Finance Deputy Head of Unit of Macroeconomic analysis division	I.Vēja

Taking minutes:
Fiscal Discipline Council lawyer I.Jansone
The meeting starts at 15:00

I.Šteinbuka opens the meeting
The **Chairwoman** of the Fiscal Discipline Council (hereinafter – the Council), **I. Šteinbuka**, opens the meeting and announces the agenda.
The Council operates in a hybrid format, conducting discussions on the agenda items via the **MS Teams** online video conferencing platform.

1. Presentation of macroeconomic indicators forecasts

Reported by: D.Stikuts, A.Jurša

The Ministry of Finance (hereinafter – MoF) provides information on the assumptions and changes in the updated macroeconomic forecasts, compared to June 2024, as well as the current state of the national economy. These forecasts will serve as the basis for the Fiscal Structural Plan (FSP) Progress Report for the period 2025–2028.
When updating its macroeconomic forecasts, the MoF lowered the projections for 2025–2028. This adjustment was influenced by both economic stagnation and revisions to national accounts data conducted by the Central Statistical Bureau (CSB).

The MoF reports on developments in the economy, foreign trade, investment, and domestic consumption. Compared to the June forecast, the GDP growth rate has been revised downward for all forecasted years. Information compiled by the MoF indicates that macroeconomic forecasts for Latvia's main trading partners are also being adjusted downward. Economic growth in Estonia, Finland, and Germany in 2024 is weaker than previously expected, with regional stagnation observed in the economy.
Investment and exports in Latvia have been weak in 2024. In terms of production, the industrial, construction, and transport sectors have experienced a decline. However, the latest January data shows improvements in economic sentiment indicators. Although insufficient demand remains a significant factor in the industrial sector, its impact is gradually diminishing. At the same time, the number of companies reporting that there are no limiting factors in their operations is increasing.
The forecasts do not take into account the potential risks associated with the U.S.-initiated tariff wars, as these are currently difficult to quantify. However, trade restructuring is anticipated, which the MoF has identified as a potential risk that could negatively impact economic growth. It should be noted that trade is not the only channel through which U.S. policy may influence the global economy.
In terms of inflation, the impact of high food prices remains significant, and it is expected that the recent increase in gas prices could affect tariffs for the next heating season. Wage growth this year is unlikely to be as rapid as in previous years.
The Ministry of Finance identifies the following as the main risks to the economy:

- Potential trade wars,
- Geopolitical tensions,
- A slower-than-expected reduction in interest rates by the European Central Bank (ECB),
- Delays in the absorption of European Union funds, among others.

Taking into account the latest information on economic developments, the MoF has developed conservative and cautious forecasts for 2025 and beyond. Given the high level of uncertainty, forecasting for 2025–2028 remains particularly challenging.

Discussion among attendees on macroeconomic indicators forecasts, assumptions and risks.

I. Šteinbuka asks whether the investment forecasts consider only investments from European Union (EU) funds or if they also include private investments.
A. Jurša responds that both private and public investments are taken into account, as a significant inflow of EU funds is expected to enter the economy next year. Additionally, as interest rates begin to decline, companies are showing increased interest in obtaining loans for business development and investments.
N. Malnačs inquires whether the forecasts account for the potential impact of decisions made by the U.S. administration.
D. Stikuts explains that while these factors have been identified as risks, it is currently not possible to quantify their impact, particularly in relation to tariff war scenarios. Therefore, the Ministry of Finance acknowledges these as risks but has not incorporated them into the forecasts at this stage.
U. Kāsiks asks whether the new EU fiscal framework has influenced macroeconomic estimates and how, in the long run, expenditure trajectory constraints may affect the macroeconomic environment.
D. Stikuts responds that the expenditure trajectory represents a binding constraint that must be observed when formulating fiscal policy and cannot be deviated from. This restriction has implications for the economy as a whole.
I. Golsts asks why inflation is expected to be affected by rising gas prices, considering that U.S. policy is focused on increasing oil and gas production.
A. Jurša replies, that c*urrently, gas prices have increased in response to high demand. Inflation could be impacted if gas prices were to fall from the current approximately 60–70 EUR/MWh to 40 EUR/MWh. However, the effects of the current high gas prices may become evident in the next heating season.*

V. Zaremba raises three questions:

- What is the justification for the projected downward trend in the GDP deflator, given that the medium-term inflation forecast remains at 2.5%?
- The potential GDP level is estimated to be significantly lower than in previous years. Is this due to the Central Statistical Bureau (CSB) audit results, or does it reflect structural changes in the economy?
- Regarding the output gap, the forecast for 2025 is (-1.5%), which is lower than in 2024 (-1.2%), while in 2026 it improves to (-1%) and continues to increase in subsequent years. What explains the 2025 figure?

D. Stikuts responds that the downward trend in the GDP deflator is related to the negative value of the public consumption deflator. The assessment of potential GDP is linked to the CSB's national accounts audits, which resulted in downward revisions of GDP values dating back to 1995.
Regarding the output gap, 2025 is projected to be lower because real GDP will be weaker relative to potential GDP than in 2024.

Decided:
1.1. To take note of the information submitted by the Ministry of Finance regarding the forecasts of macroeconomic indicators.

I.Šteinbuka – votes for;
I.Golsts – votes for;
A.Jakobsons – votes for;
U.Kāsiks – votes for:
J.Priede - votes for.

2. Internal discussion on macroeconomic indicators forecasts

The participants discuss the macroeconomic forecasts submitted and commented on by the Ministry of Finance. The Council has no significant objections to the macroeconomic forecasts presented by the Ministry of Finance.
The Council approves the macroeconomic forecasts for 2025–2028, considering them conservative. However, it draws attention to the fact that these forecasts do not account for the latest geopolitical trends concerning U.S. trade policy or the growing role of the military sector in the economy, both in terms of expenditures and revenues. While the Council acknowledges that these factors are currently difficult to quantify, it urges their consideration in future forecasts.
The Council also highlights a set of existing risks that could negatively impact the projected economic growth trajectory:

- The security situation in the region remains highly tense and uncertain, with an increasing risk of hybrid attacks.
- Rising regional and global economic uncertainty.
- Potential expansion of Chinese goods into Europe.
- Weak external demand and slow export growth.
- Structural challenges in the labor market and a decline in Latvia's competitiveness.
- Wage increases in the public sector may create additional pressure for wage growth in the private sector, which will be particularly challenging given the slow pace of economic growth.
- Inflationary pressures in the services and food sectors.
- Fluctuations in energy prices.
- Increasing financial management risks in public joint-stock companies, particularly in the transport sector.

Decided:
2.1. To approve the macroeconomic forecasts submitted by the Ministry of Finance.
2.2. To instruct the Council's macroeconomic expert, V. Zaremba, to formulate a summary opinion on the discussions held during the meeting.

2.3. To instruct the Council Secretariat to prepare and submit the Council's opinion to the Ministry of Finance, in accordance with the Agreement on Cooperation.

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

The meeting on 12 February 2025, was closed at 17:00.

Chairwoman of the Council I. Šteinbuka

Meeting Secretary I. Jansone

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