



Fiskālās disciplīnas
padome

POLITICAL PARTIES FISCAL RESPONSIBILITY

Report on political parties survey
on fiscal discipline issues in 2018

ABSTRACT

Taking into account international experience the Council has invited political parties to participate in the survey to strengthen their pre-election promises with fiscal impact calculations. For the first time in Latvia political parties experts tried to assess the impact of political initiatives on budget expenditures and revenues. The calculations were based on a single framework for macroeconomic and fiscal policy projections based on the Latvia's Stability Programme 2018-2021. By submitting a questionnaire, political parties demonstrated their fiscal responsibility, thinking both about a balanced budget and the possibilities of reducing the government debt. Those parties that submitted their opinions could also be assessed positively, as they expressed support for the survey, while calling on the Council to strengthen the methodological side of the questionnaire at other times and to provide for a longer period for data submission. At the end of the report, the Council also evaluates parties 4000 sign programs, concluding that in the programs there are dominating the spending side proposals, although the biggest challenge would be to find sustainable revenues to cover spending priorities. A regular annual survey also helped to reinforce the idea that it is important for inhabitants to have the budget drawn up in the interest of the common good and to ensure the continuity of growth and economic stability.

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Table of Contents

- Abbreviations 3
- Executive summary 4
- Why the Council performs political parties' survey on fiscal discipline issues?..... 6
- International experience 6
- How the survey was organised? 6
- Inhabitants' priorities regarding parties' promises: common interests and reality feeling..... 7
- Economic and fiscal framework baseline scenario taken from Latvia's Stability programme for 2018-2021 8
 - Optimistic economic growth and inflation 8
 - Budget expenditures and revenues, and negative balance (deficit)..... 9
 - State debt level is not reducing..... 9
- Comparative analysis of parties' scenarios against the baseline 10
 - Budget balance changes: from huge deficit to negligible surplus 10
 - Changes in state debt levels: more those who will be able to reduce the debt 11
 - Tax collection will improve 13
 - Expenditure priorities: emphasis on social protection..... 14
 - The offer of political parties for revenue measures 15
 - Reserves will be created in the budget 16
 - There is understanding of fiscal risks 16
- Comparative analysis of parties' if only opinion letter submitted — procedurally correct 16
- Fiscally essential issues in political parties' programmes..... 16
- Next steps 17
- Bibliography 19
- Annex 1. Summary of the political parties' proposals: changes of the budget balance and the state debt 20

Abbreviations

Council	Fiscal discipline council of the Republic of Latvia
CPB	Central Planbureau Netherlands Bureau for Economic Policy Analysis
EU	European Union
FDL	Fiscal discipline law
GDP	gross domestic product
JKP	Jaunā konservatīvā partija
JV	Jaunā Vienotība
KPV	Politiskā partija "KPV LV"
Nacionālā apvienība	Nacionālā apvienība "Visu Latvijai!"-"Tēvzemei un Brīvībai/LNNK"
NSL	No sirds Latvijai
Progresīvie	Politiskā partija "PROGRESĪVIE"
Saskaņa	"Saskaņa" sociāldemokrātiskā partija
ZZS	Zaļo un Zemnieku savienība

Executive summary

¹In numerous countries has been established a good practice to perform fiscal impact calculations of the political parties pre-election promises. Among European countries the most substantial experience is obtained by the Netherlands' Independent Fiscal institution *Central Planbureau Netherlands Bureau for Economic Policy Analysis (CPB)*. Taking into account this experience, the Council has also addressed the political parties of Latvia in spring 2018 with an invitation to participate in the survey on fiscal discipline and fix the parties' intentions for the next four years. The FDL requires the Council to evaluate both the budget plans and the implementation of the budget plans, while such a survey promotes a closer understanding of the forthcoming Government Declaration and its priorities.

To gather additional surrounding information and using the regular annual survey conducted by the social research centre SKDS the Council has included three additional questions about the political parties' work in the field of budgetary matters. The answers provided give an insight into how an inhabitant sees the work of politicians in budgeting process and politicians' promises during the election period. The poll suggests that inhabitants expect a state budget that is compliant with the interests of society and would be able to balance fluctuations in the economy. In relation to the budget process the inhabitants positively assess the annual expenditure reports by the ministries. In turn, a negative opinion of the inhabitants is received to the narrow interest lobbying.

Invitations to the parties' interviews were sent on 25 April 2018. Interviews with seven parties were conducted from 22 May until 13 June², providing information on the methodological aspects of completing the questionnaire. By 7 August, seven parties replied to the poll, incl. five of them provided completed MS Excel files. In the report was not included the file submitted from Jaunā Vienotība, as it was submitted belated. Nevertheless it is published online with other questionnaires.

List of parties in the order in which the questionnaire were submitted:

- Jaunā konservatīvā partija
- Nacionālā apvienība "Visu Latvijai!"-"Tēvzemei un Brīvībai/LNNK"
- Zaļo un Zemnieku savienība (opinion letter)
- No sirds Latvijai
- "Saskaņa" sociāldemokrātiskā partija (opinion letter)
- Attīstībai/Par!
- Progresīvie
- Politiskā partija "KPV LV" (opinion letter submitted after the deadline on 9 August)
- Jaunā Vienotība (questionnaire submitted after the deadline on 13 August)

Such response level shows political parties' fiscal responsibility and their attitude towards fiscal discipline issues per se. The report offers the reader the opportunity to evaluate the replies from the five parties that have submitted MS Excel files from following such perspectives: (i) balanced budgeting,

¹ In the report the was expressed the authors – Council chairman and employee – opinion, that is not always reflecting official Council's opinion. The authors take full responsibility about all mistakes and omissions. E-mails: janis.platais@fdp.gov.lv and dace.kalsone@fdp.gov.lv. This report is the summary of the political parties survey and also the second report about the annual survey on budget discipline. The first report was published in June 2018. The authors express their gratitude for the help and co-operation during the project to: the Council members: Andžs Ūbelis, Ingars Eriņš, MortenHansen and Ūlo Kaasik; the Council current and previous employees: Agnese Vaivade, Elīna Lucka, Emīls Ķīlis and Viktors Miglinieks; Ekonomistu apvienība 2010 by provided valuable comments during the pivot seminar on 28 February 2018; Saeima's Budget and finance (tax) committee by the meeting on 17 April 2018; Latvia's political parties by the hold interviews and immediate feedback on the survey questionnaire: Attīstībai/Par!, KPV, ZZS, Saskaņai, JKP, NSL and Progresīvie; CPB colleagues for the valuable practical advises. The authors express gratitude also to Jaunā Vienotība for the submitted questionnaire, even we were not be able to include it into this report.

² Interviews were hold on 22 May 2018 with Attīstībai/Par! and KPV, on 23 May with ZZS, on 25 May with Saskaņa, on 29 May with JKP, on 31 May with NSL and on 13 June with Progresīvie.

Political parties fiscal responsibility

(ii) sustainability of the government debt level, (iii) changes in tax-to-GDP ratios and revenues measures, (iv) sectoral priorities, as well as (v) fiscal reserve creation and (vi) risk assessment issues.

Without evaluating the content of political parties' suggested reforms, the main conclusion is that all parties support the creation of bigger or smaller fiscal reserves, and all parties are planning a budget balance not exceeding -3% of GDP. Three parties were able to take into account the fiscal discipline rules about -0.5% of GDP. Almost parties envisage more active debt reduction initiatives and also assess additional risks that may have an impact on the state budget targets.

- The cumulative effect of the four-year budget balance from the responses varies from a deficit of 2.5 billion euro to 25.5 million euro surplus, or in average from 1.8% of GDP deficit towards overall balanced budget in perspective of upcoming four years.
- The debt at the end of 2022 ranges from 36.8% of GDP to 34.0% of GDP.
- In tax to GDP, all parties see a more rapid increase in comparison to the current baseline scenario, in range of 30.4% to 35.7% of GDP in 2022. From the revenue measures side parties have not seen joined tendencies and their offers are within quite a range of measures.
- Regarding sectoral priorities social protection is important for all parties, but nobody has indicated interest to help with reforms in environmental protection. Still there were two parties that were able to put environmental protection issues at the revenue side.
- The necessity to establish fiscal safety reserve mentioned in all replies, and almost parties provide the identification of additional risks with the exception of Nacionālā apvienība that has mentioned as the main priority the defence issues.

When analysing the views expressed by the ZZS and the Saskaņa, the Council evaluates them positively and in line with the spirit of the procedure towards Latvia's fiscal framework, but at the same time quantified proposals would be clearer to the public for a comprehensive assessment.

When analysing the available programs of the other parties on the website of the Central Election Commission, there are available broad perspective regarding expenditure measures or substantial reduction on budget revenue side without the provision of adequate source. We may highlight that those parties that submitted the survey questionnaire were those that have been more paid attention to the budget process details and options for the budget balance, i.e. balance among the expenditure priorities and difficult decisions regarding budget revenue side.

The Council expects commentaries and critique about the survey as well as the recommendations for the improvements, if there will be support for other such exercises in future. From the current co-operation we may conclude that in case the repeating of such survey there is a need for more substantial attention towards the formulation of political parties' priorities and broader discussion about the realistic fiscal impact assessment.

Why the Council performs political parties' survey on fiscal discipline issues?

With the growing importance of fiscal discipline in the implementation of public policies, it is very important for political decisions to be aligned with the opportunities of the public finances. Many good political initiatives are difficult to implement, since there is not enough free fiscal space available in the budget. Decisions to increase budget revenues have also proved to be more difficult than initially hoped.

In the spring of 2018, using the Saeima elections year opportunity, the Council has also invited Latvia's political parties to engage in a similar survey to record the parties' intentions for the next four years. The FDL requires the Council to evaluate both the budget plans and the implementation of the budget plans, while such an exercise would promote a closer understanding of the forthcoming Government Declaration and its priorities.

The Council was expecting that political parties would try to evaluate their own political initiatives, regarding that many of the priorities, that electorate expect to be implemented, might be demanding high costs. FDL and Latvia's commitments in the European Union do not allow budget deficit and expenditure growth to exceed the established limits.

International experience

The experience of calculating the fiscal impact of main political party initiatives has been developed in many countries around the world, however, it has spread most widely in Australia, New Zealand and the United States. This practice has enabled voters to understand the potential impact of policy changes, both on tax payments and on public services and transfers that are financed through budget expenditure.

In Europe, this practice has been most widely developed in the Netherlands. In 1986, three political parties appealed to the Netherlands' Independent Fiscal institution (CPB) to assess party programs submitted to the elections (CPB 2017a). This has been the work of the CPB for more than thirty years, which helps the public to assess the parties' intentions for the next parliamentary term. Reports on the evaluation of party programs help to assess both short-term effects on the annual and medium-term budgetary frameworks, and the impact on macroeconomic indicators and potential long-term effects on the Netherlands economy (CPB 2017b). Last year 11 political parties participated in this pre-election project.

In the Netherlands, the timetable for a medium-term budgetary framework is in line with the political cycle. After the elections, during the formation of a government coalition, a medium-term budget framework is being created, which execution will continue until the next national elections.

How the survey was organised?

At the separate meeting in the Saeima's Budget and Finance (Tax) Committee, the Council addressed the political parties represented in the Saeima and, individually, invited other political parties via e-mail to attend an informative seminar, that video is available on the Council's website. During these meetings, the Council presented to the political party representatives an approach to the survey and the Council's model in the MS Excel file.

Political parties were called upon to assess their political priorities, taking into account their impact on budget expenditures or budget revenues, and to assess the amount of reserves to be included in the budget and potential fiscal risks that could affect the ability of the state to achieve its fiscal targets.

The Council has met with the representatives of the political parties individually to help shape approaches to assess the impact of priority measures and how to correctly fill out Excel tables. As the

deadline for submission of responses was set 7 August 2018, which coincides with the last date for the list of candidates and short (4000-sign) programs submission to the Central Election Commission. The alignment of this date was aimed at coordinating the key political party priorities with an assessment of their fiscal impact.

The Council, as far as possible, tried to avoid actions that would give an advantages to individual political parties over others. As a result, information on the progress of the survey and general issues was distributed in a separate section of the Council's website.³

Inhabitants' priorities regarding parties' promises: common interests and reality feeling

In preparation for a survey of political parties, the Council also took into account the results of the regular annual survey. Using the opportunity of the inhabitants annual survey conducted by the social research centre SKDS (SKDS 2018⁴), the Council included three additional questions on the work of political parties in the budget process. The answers given by the society allow us to assess how the inhabitant sees the work of politicians in budget formation and the promises of politicians during the election period.

The inhabitants, getting into a political decision maker role, pointed out that the main goals for the state budget process are to ensure, first of all, stable economic development; secondly, the increase of the minimum wage and, third, the reduction of unemployment. Unemployment and lack of stability are existential threats that many people have experienced in recent years of crisis, and as a result, they were marked as a priority from the options presented in the survey.

On questions about the likes and dislikes in the budget adoption process – the highest appreciation received the ministries' ability to report about the previous year's budget expenditures. Meanwhile, the worst negative assessments was selected that members of parliament lobbied their and their group interests.

The assessment of the inhabitants regarding positive and negative public budget work involves calling for the awareness that the state budget has been jointly designed and that the parliament should be able to exercise its distribution function in the most appropriate and fair manner. The ministries' ability qualitatively report – as a positive and members of parliament shameless, narrow lobbying – as a negative assessment, it is evidenced by the inhabitants.

The closest question to the report was about the assessment of political parties' promises. The three prevailing criteria from the inhabitants side are, firstly, the compliance of political party promises with the interests of all society and the state; secondly, the realism of political party promises, taking into account the situation in the country and, thirdly, to what extent the party and its politicians have fulfilled their previous promises (see Chart 1).

The sequence of answers chosen by the inhabitants makes it possible to conclude that the main value is the interest of the society (against narrow interest lobbies) and thereafter follows two criteria for the reality check – both the linking of the promises with the existing framework and the fact how the previous promises have been fulfilled.

³ The survey process and all information are available at the Council website here: <http://fiscalcouncil.lv/political-parties-survey-on-fiscal-discipline>

⁴ The full presentation (in Latvian) of the SKDS survey is available at the Council website here: http://fdp.gov.lv/files/uploaded/20180817_aptaujas_kopsavilkums_SKDS.pdf

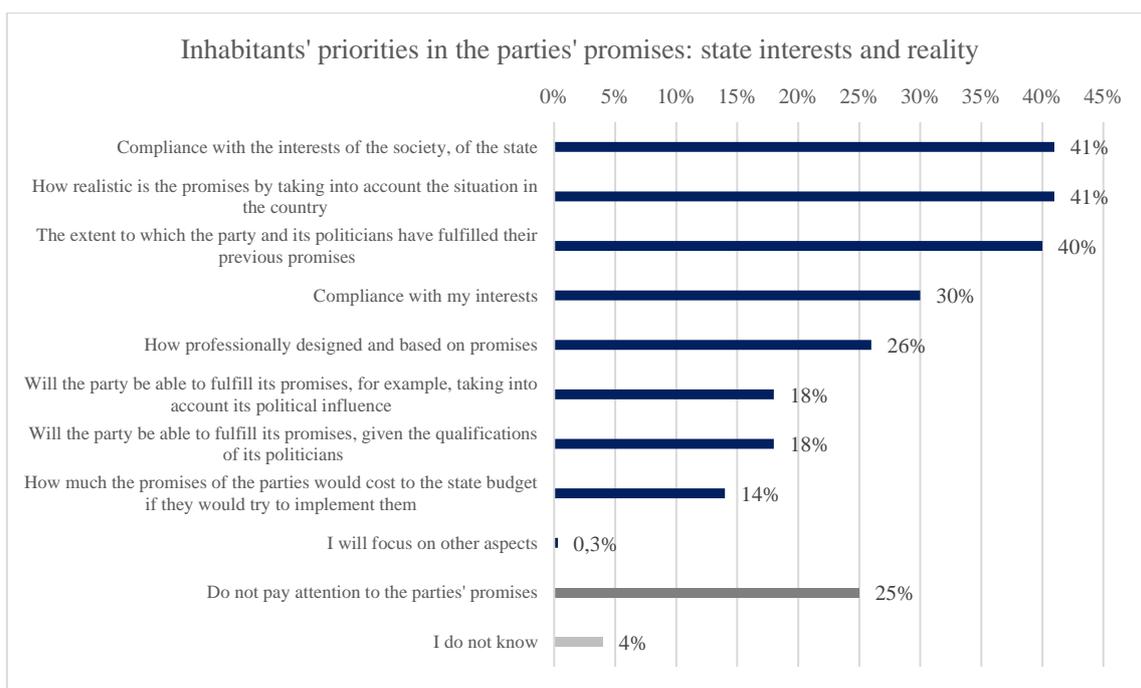


Chart 1. Responses to the question: "When you evaluate parties' promises, which of the four aspects of this card seem to you most important, to whom do you always pay attention?" % from all respondents. Source: SKDS survey, 2018.

The survey suggests that inhabitants expect a state budget that is able to balance fluctuations in the economy. The positive habit of the ministries to prepare expenditure reports are already appreciated by the society. In turn, a negative opinion of the inhabitants is received to the narrow interest lobbying. From the first report on the inhabitants survey (Kalsone 2018), it should also be mentioned that in cases where it would be necessary to reduce the state budget deficit, the society strongly contends for reducing expenditures rather than increasing taxes.

Economic and fiscal framework baseline scenario taken from Latvia's Stability programme for 2018-2021

To ensure the same level playing field for all political parties the economic and fiscal framework baseline scenario is based on the Latvia's Stability programme for 2018-2021 (Stability programme 2018) adopted by the Government in April 2018. There follows illustrative key assumptions about economic growth, inflation, budget expenditure and revenue, deficit and debt levels.

Optimistic economic growth and inflation

In the spring of 2018, economic forecasts remained vigilant, however, the economic warm-up in 2018 was felt already in the spring, and that time forecasts were positively corrected. Table 1 contains the information that is currently (in August 2018) the last officially approved macroeconomic framework. The updates of this information will take place later in the autumn, respecting the extension of a budget development schedule for the Saeima election year.

Despite the fact that during the political parties' survey they (some parties) have informed the Council that their experts might have a different vision of economic development and the new Saeima's decisions would be driving elements to the national economy, all the parties participating in the survey were responsible to accept the baseline scenario for economic and fiscal development for this exercise.

Political parties fiscal responsibility

	2018	2019	2020	2021
Real GDP growth	4.0	3.4	3.0	2.9
Nominal GDP growth	7.2	6.5	5.8	5.4
Inflation	2.8	2.4	2.1	2.1
GDP deflator	3.1	3.0	2.7	2.5
Potential GDP growth	3.4	3.4	3.3	3.3
Output gap	1.1	1.0	0.7	0.3

Table 1. Macroeconomic indicators forecast endorsed by the Council on 14 February 2018. Source: Council Fiscal discipline surveillance interim report on Latvia's Stability programme for 2018-2021 (Interim report 2018).

The last indicator in Table 1 is the measurement of the economic *good* or *bad* times. If this number is positive, then the economy *heats up*, if negative – then it *cools down*. Objective method for determining the output gap continues to be an international challenge, however, it is important for two reasons – first, to see the direction of warming up or cooling down – is it increasing or decreasing; and secondly, in order to be able to contract or to expand the expenditures of the state budget. This is theoretical measurement, but with very practical application in the budgeting.

Budget expenditures and revenues, and negative balance (deficit)

In the field of fiscal discipline, the government respected the rules set by the FDL (see Table 2), but at the same time, each year using all possible derogations, increasing the budget deficit to its maximum permissible limit. The maximum allowable budget expenditures and other budget parameters are specified in the baseline scenario.

	2018	2019	2020	2021
General government expenditures, million euro	10 891.8	11 386.0	11 950.4	12 223.1
% of GDP	37.8	37.1	36.8	35.7
General government revenues, million euro	10 603.7	11 079.1	11 820.5	12 086.1
% of GDP	36.8	36.1	36.4	35.3
incl. tax and social contributions revenues	8 846.0	9 268.4	9 904.5	10 374.2
% of GDP	30.7	30.2	30.5	30.3
Budget balance, million euro	-288.1	-306.9	-129.9	-137.0
deficit/surplus, % of GDP	-0.9	-1.0	-0.4	-0.4

Table 2. General government budget indicators. Source: Latvia's Stability programme for 2018-2021.

State debt level is not reducing

The opportunity to increase the public debt during the financial crisis of 2008-2010 has made it possible to mitigate the impact of the crisis on the economy and the society. Unfortunately, even during the post-crisis period, the budget was drawn up and implemented with a deficit that increased the amount of public debt. At the moment, the FDL restricts government debt to 60% of GDP.

	2018	2019	2020	2021
General government debt, million euro	11 064.7	11 478.0	12 340.0	12 188.9
% of GDP	38.4	37.4	38.0	35.6
per 1 economically active inhabitant, euro	11 877.2	12 484.8	13 605.0	13 628.4

Table 3. General government debt. Source: Latvia's Stability programme for 2018-2021, Council calculations.

Despite the fact that the debt-to-GDP ratio is relatively stable in recent years, the per capita (especially economically active population) burden is increasing year on year (see Table 3).

For 2022 macroeconomic and fiscal policy indicators in the Council model were projected to remain at the pace of growth projected in the Stability Programme for 2021.

Comparative analysis of parties' scenarios against the baseline

In the following section, we have compared the scenarios presented by the five political parties with the baseline scenario described above.

The baseline scenario envisaged that the current policy and government commitments were fully included in the national budget tables (so-called "base"), while political parties could indicate in their programs and in the calculations, submitted to the Council, their changes to the baseline scenario. Proposals that reduce budget expenditures are indicated by a minus sign in the table of expenditure measures and vice versa – measures that require an increase in budget expenditures to be shown in a plus sign in the expense table. Similarly, with the revenue side of the budget, revenue-increasing measures are included in the table with plus sign, while revenue-reducing measures with minus sign.

For example, measures such as indexing pensions and social benefits in the current budget law would be maintained at the current level, but for parties to propose amendments to the current arrangements, their impact on the increase or decrease of expenditure should be calculated.

Similarly, in the baseline scenario, for example, funding for defence is estimated at 2% of GDP annually, but as a result of the introduction of new policies, the expenditure table should reflect changes by increasing or decreasing expenditure.

Tax revenue in the baseline scenario is reflected in the assessment of the Ministry of Finance in the Latvia's Stability Programme 2018-2021, based on the current legal framework. In order to implement the policy changes, the increase in tax revenue should be reflected with the plus sign of revenue, but tax discounts and measures that reduce revenue by a minus sign.

This time, the Council did not take the role of assessing the accountability of fiscal impacts from political parties. The Council believes that party experts have thoroughly investigated the potential fiscal impact and parties' officials will take responsibility for implementing the proposed measures when they come to power to ensure that the expected fiscal effects is achieved.

Budget balance changes: from huge deficit to negligible surplus

The policy regarding the budget balance is a central issue for political parties, developing the policy direction for the next four-year cycle.

Comparing the result of the parties' reforms proposal – both on the revenue side and on the expenditure side – the national budget balance, it can be concluded that there are parties seeing the need for a deterioration of the balance and there are parties, in turn, trying to make it more balanced than the current baseline scenario (see Table 4).

The only participating coalition party (Nacionālā apvienība) maintains its position and, despite of this party's proposals on both revenue and expenditure side, they support the approved baseline. A similar result was also for Attīstībai/Par! whose expenditure and revenue proposals were able to maintain the average four-year impact of the baseline scenario.

The NSL and JKP would create a budget with a larger deficit compared to the baseline scenario – as on average, by 1.3% and 0.5% of GDP respectively per year. This would mean heating the economy and safety reserve reduction when the economy is growing rapidly.

A stronger fiscal policy is offered by Progresīvie, with an improvement of 0.6% of GDP in budget balance for each year over the next four years.

Political parties fiscal responsibility

Period	Baseline	Jaunā konservatīvā partija	Nacionālā apvienība	No sirds Latvijai	Attīstībai/Par!	Progresīvie
2019	-1.0	0.2	0.0	-1.4	0.3	0.1
2020	-0.4	-0.3	0.0	-1.3	0.3	0.4
2021	-0.4	-0.9	0.0	-1.3	-0.1	0.7
2022	-0.4	-1.0	0.0	-1.2	-0.3	1.0
Average 2019-2022	-0.5	-0.5	0.0	-1.3	0.0	0.6

Table 4. Budget balance⁵, changes against the baseline (first column), % of GDP (+ balance improvements / - balance worsening).

As a result of the proposed changes, all parties would provide a budget balance not less than -3% of GDP each year (see Table 5). However, only three parties, on average over four years, comply with the Fiscal discipline law (FDL) that the structural balance may not be less than -0.5% annually (here used the assumption that the structural balance is equal to the nominal balance). Progresīvie foresees a structurally balanced budget for a four-year period. JKP and NSL plan a significantly lower average budget balance in four years than the FDL allows.

Period	Baseline	Jaunā konservatīvā partija	Nacionālā apvienība	No sirds Latvijai	Attīstībai/Par!	Progresīvie
2019	-1.0	-0.8	-1.0	-2.4	-0.7	-0.9
2020	-0.4	-0.7	-0.4	-1.7	-0.1	0.0
2021	-0.4	-1.3	-0.4	-1.7	-0.5	0.3
2022	-0.4	-1.4	-0.4	-1.6	-0.7	0.6
Average 2019-2022	-0.5	-1.1	-0.5	-1.8	-0.5	0.0

Table 5. Budget balance⁶, current baseline scenario in comparison with the parties' proposals for new scenarios, % of GDP.

Changes in state debt levels: more those who will be able to reduce the debt

The deficit budget practice leads to a rise in government debt to fund the difference between expenditures and revenues. So far, it has been a major source in the growth of government debt. The Council's survey model assumes that the budget balance is the only factor affecting the level of debt. For sure, political parties' plans to accept and execute a budget with deficits resulted in increasing state debt.

The survey participants assume different scenarios for the development of the state debt level (relative to GDP) (see Table 6). A balanced budget allows the Progresīvie offering reduction of the debt to GDP by 1% point by 2021. In the Nacionālā apvienība offer the country's debt-to-GDP ratio isn't changing, but for Attīstībai/Par! and NSL questionnaires suggest increase of the debt. It is worth mentioning that JKP

⁵ Budget balance comparisons on year-by-year available in the report MS Excel file annex in the sheet "Balance".

⁶ Budget balance comparisons on year-by-year available in the report MS Excel file annex in the sheet "Balance".

proposes to find compensatory funds for the budget deficit and also to reduce the size of public debt by selling public assets⁷.

Period	Baseline	Jaunā konservatīvā partija	Nacionālā apvienība	No sirds Latvijai	Attīstībai / Par	Progresīvie
2019	37.4	-0.2	0.0	1.4	-0.3	-0.1
2020	38.0	-1.0	0.0	1.3	-0.3	-0.4
2021	35.6	-0.6	0.0	1.3	0.1	-0.7
2022	35.6	-1.6	0.0	1.2	0.3	-1.0

Table 6. State debt level⁸, changes against the baseline, % of GDP (– debt reduction / + debt increase).

The plans for all parties in the four-year period provide that economic growth will overtake the rise of debt (see Chart 2), which means a certain automatic impact on the fact that public debt will be reduced. Reducing the size of public debt, as it is suggested by JKP and Progresīvie, could save budget spending for public debt servicing, and in both cases more rapidly than in the baseline scenario.

The positively assessed responses might be distinguished between two approaches: a more responsible approach in planning the budget, and by providing additional direct measures to reduce debt.

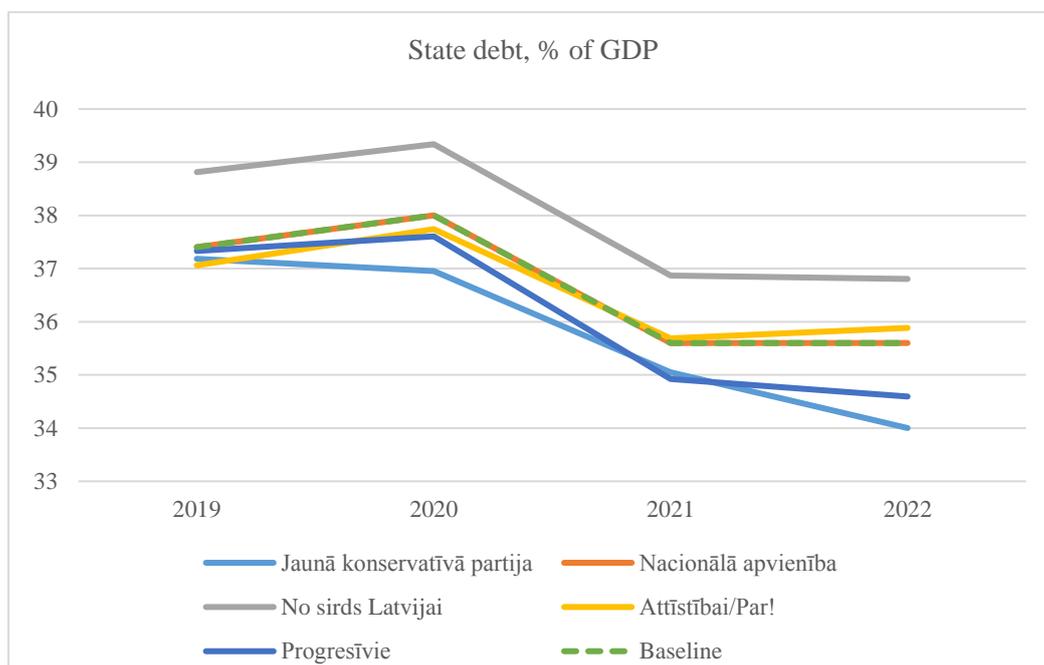


Chart 2. State debt assumptions, % of GDP. Source: Political parties survey, 2018.

⁷ A full quotation from the questionnaire submitted by JKP: "We are ready to sell shares of some large state-owned enterprises (initially around 20%) to Latvian residents, pension funds and foreign investors, in order to prematurely repay part of the government debt, also reducing the annual government debt servicing costs (around 15 million). It would also improve the management of state-owned enterprises to work according to the principles of private companies, in the boards and councils, the parties' representatives would be replaced by professional, business-oriented executives."

⁸ State debt comparisons on year-by-year available in the report MS Excel file annex in the sheet "Debt".

Tax collection will improve

The most significant differences are found in the political parties' offers with regard to the budget revenue (see Table 7). All the political parties that participated in the survey plan to increase their tax collection compared to the baseline scenario, although this would happen at a different level. JKP estimates that as a result of the introduction of tax measures, tax revenue would increase by 0.1% of GDP over the four years compared to the baseline scenario, but higher tax revenue growth has been planned by Progresīvie (4% points of GDP) and Attīstībai/Par! (3% points of GDP). The Council did not seek to review the assessment on the possible fiscal impact of budget revenue measures provided by the political parties' experts.

Period	Baseline	Jaunā konservatīvā partija	Nacionālā apvienība	No sirds Latvijai	Attīstībai / Par	Progresīvie
2019	30.2	0.0	1.1	1.9	1.1	1.0
2020	30.5	0.1	1.1	1.8	1.8	2.2
2021	30.3	0.1	1.1	1.7	2.5	3.2
2022	30.3	0.1	1.1	1.6	3.0	4.0

Table 7. Tax-to-GDP⁹, changes against the baseline, % of GDP (- revenue reduction / + revenue increase).

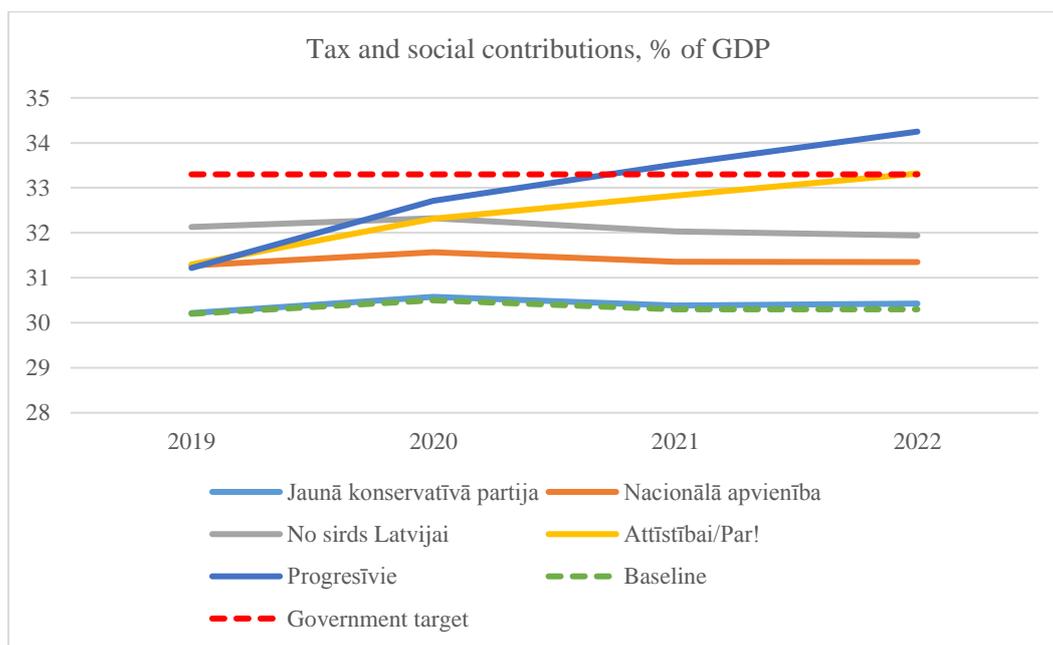


Chart 3. Tax and social contribution assumptions, % of GDP. Source: Political parties survey, 2018.

Achieving 33% of GDP tax collection Progresīvie are planning in 2021, but Attīstībai/Par! would reach this level in 2022 (see Chart 3). Achieving a tax-to-GDP of 33% of GDP has been the target of the last three governments, but the approach has been very slow. Other political parties have not marked the measures that could achieve the achievement of this tax-to-GDP target for the next four years.

⁹ Tax-to-GDP comparisons on year-by-year available in the report MS Excel file annex in the sheet "Tax-to-GDP".

Expenditure priorities: emphasis on social protection

One of the most significant issues in the survey is related to the expenditures priorities that political parties' experts have estimated for the next four years. The steep expenditure increase is expected by NSL (3.1% of GDP per year) and Progresīvie (2.2% per year), as well as Attīstībai/Par! (2.1% per year). JKP, meanwhile, expects spending on average to grow just 0.4% annually.

According to the information submitted by the parties, the Council has prepared a comparison of these expenditure priorities according to the international classification of government functions (COFOG) (see Chart 4). All political parties envisage additional expenditures on social protection, but the need to increase overall expenditures on healthcare is seen by Progresīvie and Attīstībai/Par! Agriculture support and road construction and maintenance in addition to social protection are serious priorities for NSL, but expenditures on national defence above 2% of GDP is an essential priority for NA.

Overall, the substantial expenditure increase is expected by both NSL and Progresīvie, while the most conservative increase in expenditures is seen by JKP.

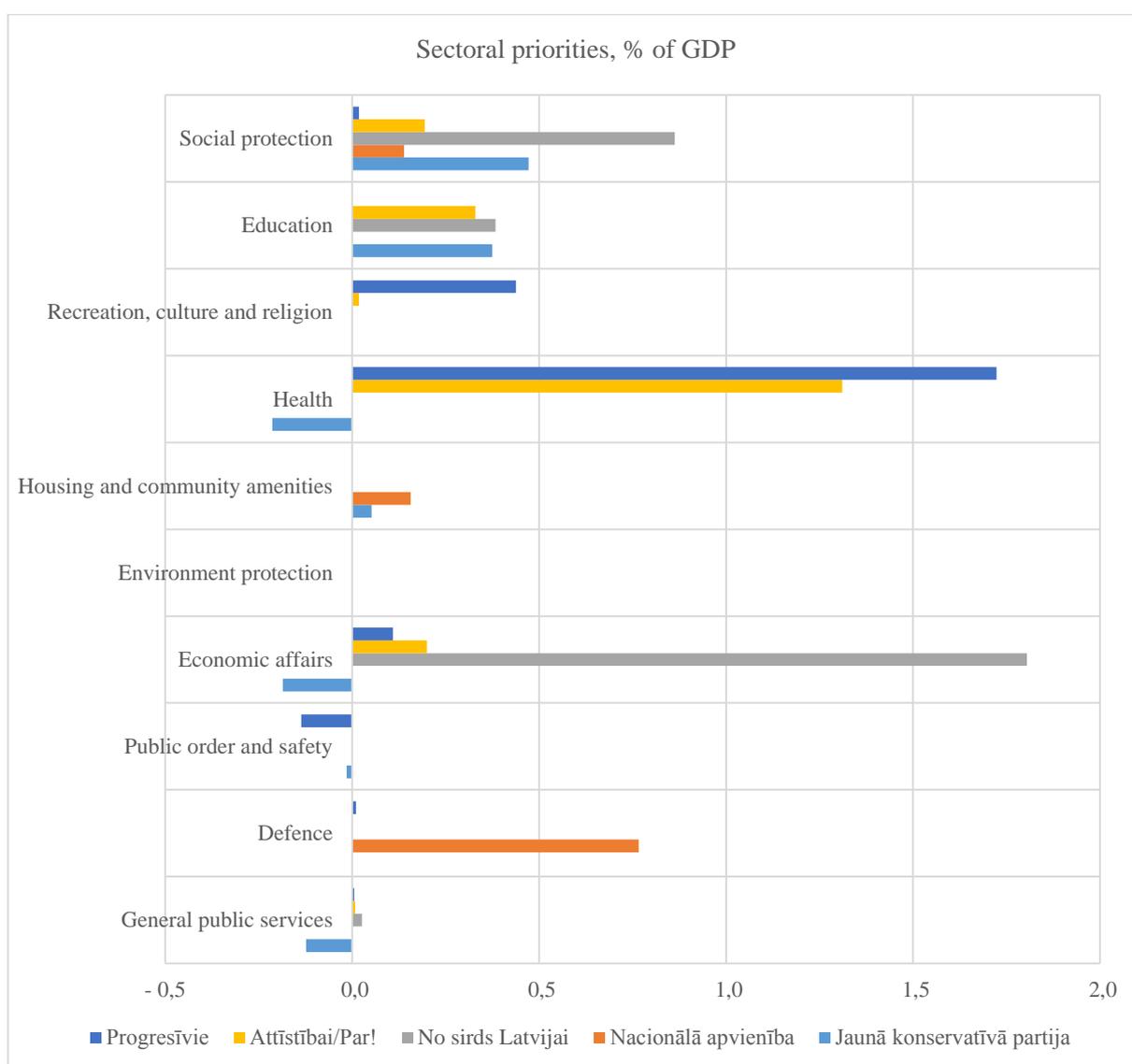


Chart 4. Sectoral priorities in terms of expenditure growth or reduction, % of GDP. Source: Political parties survey, 2018.

The offer of political parties for revenue measures

The proposals do not highlight common trends for the individual revenue groups and the parties had a different offer for strengthening budget revenues (see Chart 5). The Council is not trying to assess in depth how realistic the fiscal impact would be assessed for the various policy initiatives in the share of budget revenues. However, in certain cases, for the implementation of equal measures, parties' experts have assessed completely opposing impact on the budget. Raising the minimum wage is reflected in both the increase and the reduction in budget revenue. Similarly, there is no complete confidence in whether the cost and other revenue reduction considerations have been fully taken into account in forecasting revenue growth. In several cases, there is a forecast increase in budget revenue from the compulsory energy component reforms or the renewal of the subsidised electricity tax, although these measures may lead to a large amount of public budget expenditure, or to create litigation risks and specific losses for the national budget.

Nacionālā apvienība admitted to achieving a significant increase in budget revenues without exposing concrete measures to achieve them. Certain measures of revenue priorities were difficult for the Council to apply to categories of revenue classification. Some parties forecast a significant increase in budget revenues as a result of individual economic incentives or social measures, such as increasing direct payments for farmers, reforms in the judicial system, education or closing orphanages.

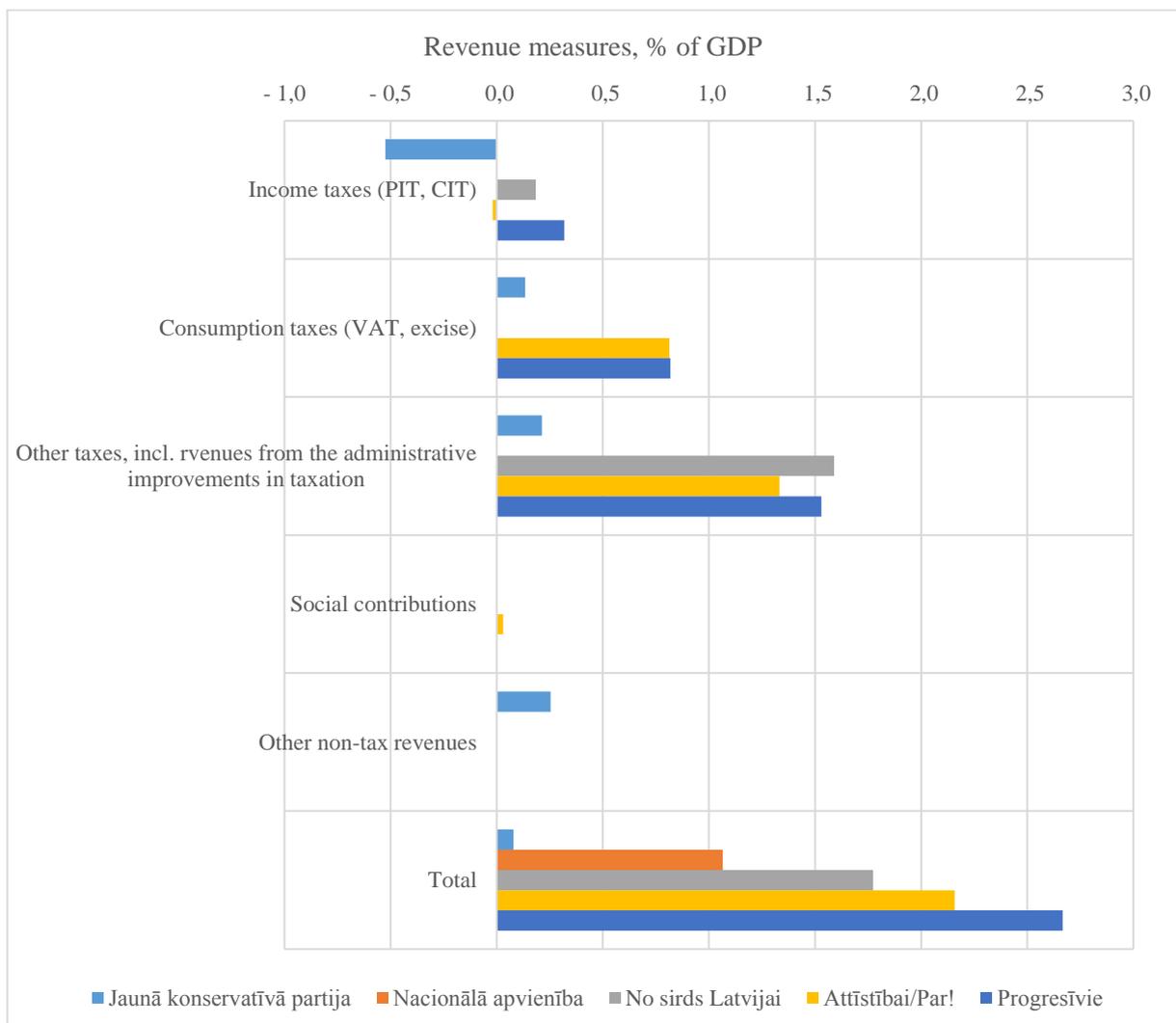


Chart 5. Revenue measures, measured from revenue increase or reduction, % of GDP. Source: Political parties survey, 2018.

Political parties fiscal responsibility

There is a reduction in income and capital taxes in the proposals of JKP and Attīstībai/Par!, mainly by increasing the non-taxable minimum of personal income tax. NSL expects economic and social development measures to boost income tax revenue growth.

Higher tax revenue increases are forecasted from the consumption tax measures for goods and services, as well as from improvements of the tax administration.

Reserves will be created in the budget

Every year, in the national budget there are established reserves which are used for the unforeseen cases or which serve as the cushion in cases of the deviations from the budget plan. The creation of such reserves is also included in the baseline scenario, although experts from political parties were able to bring their adjustments here.

The Council positively notes that all parties confirm the need for the budget reserves. As compared to the baseline scenario, JKP foresees slight increase in the reserve, but Progresīvie expects that the budget could also be appropriate even with slightly lower reserves amount, but on the other hand this party also offers an additional reserve type – a reserve for the social consequences of crises.

There is understanding of fiscal risks

The FDL defines the government's responsibility for assessing and managing fiscal risks. With fiscal risks here understands events that can lead to unplanned deviations from the fiscal targets. The identification and quantification of fiscal risks raises the likelihood that an adequate risk management mechanism will be prepared and implemented in necessary occasions to mitigate the negative effects of these risks.

The Council positively notes that almost all parties are able to expand their vision by providing the list of potential additional risks that may affect the state budget. JKP and Attīstībai/Par! offers a quantitative estimation for the individual risks.

Comparative analysis of parties' if only opinion letter submitted — procedurally correct

When assessing the opinion letters submitted by ZZS and Saskaņa, the Council positively notes the responsible and procedurally precise approach of both parties in shaping the fiscal framework of Latvia, but at the same time considers that the society would have benefited if both parties had also submitted their own vision in more specific quantitative outlines.

After the survey deadline, the Council received KPV opinion e-mail, whose content might be accepted, since the Council had not provided a detailed methodological description at the first time of the survey, leaving freedom for political parties. During the interviews the Council explained a few calculation principles that might not be sufficient to fill out the questionnaire quickly.

The Council welcomes the questionnaire prepared by Jaunā Vienotība and adds it to the materials prepared by other parties, but does not include it in this report, since the questionnaire was submitted after the deadline.

Fiscally essential issues in political parties' programmes

Regardless of the questionnaires submitted, the Council carried out an overview of the 4000-sign parties' programmes available at the Central Election Commission from the point of view of fiscal management.

Political parties fiscal responsibility

ZZS intends to continue responsible national budgetary policies, to create a balanced budget, to ensure a stable and predictable reformed tax system. Meanwhile, Latvijas centriskā partija offers to prevent an increase in debt, which would, by nature, mean the execution of balanced (non-deficit) budget, or to take advantage of the sale of public assets, as a means of financing the deficit.

Attīstībai/Par! expects to increase tax-to-GDP ratio till 35% of GDP. The main sources to achieve this target would be significant reduction of the shadow economy, expanding the tax base, removing exceptions and making the tax system more progressive and transparent.

Unfortunately, in other cases, parties' programmes often cover a range of measures which would require large budget expenditures or a significant reduction in budget revenues, largely without providing adequate sources of funding. In other cases, it is not explained what measures will be taken to achieve certain programmatic objectives. The least detailed are revenues filling measures that make it difficult to assess their fiscal effects.

Political priorities included in parties' programmes have not appeared in all cases in the questionnaires submitted to the Council, although they may be expected to have a significant fiscal impact. This points to the possibility of improving the offers by political parties and providing more sound estimates of their fiscal effects.

However the Council notes that the political parties who submitted the questionnaires were more deeply absorbed in the details of the accountable budget process and have thought more about the possibilities of balancing expenditure priorities with the difficult decisions regarding the budget revenues.

Next steps

For the first time in Latvia the Council and political parties carried out such a fiscal discipline survey in the context of the planned parliamentary elections on 6 October 2018, and **the main success of this exercise was cooperation and responsiveness**. The survey would be a good opportunity to deepen the offer of political parties in the pre-election process and to raise awareness of the necessity to balance the political process and financial consequences.

By participating in the survey parties showed their maturity and ability to think about reforms in particular cost categories. The content of the reforms and the assumptions of the calculations remain as political decisions, **but a detailed assessment of the financial coverage of political priorities, including quantified revenue measures, was a crucial feature that distinguishes this survey from the publicly available parties' 4000-sign programmes**.

Inhabitants expect from the parties skills to balance the budgets in good and bad times of the economy, as well as to keep care of the public common interests, and the questionnaires submitted by the parties allow the inhabitants to assess the analytical (professional) capacity of these parties.

The Council expects a thorough work in the pre-election phase, improving the fiscal impact assessment of political proposals and identifying plans to achieve political priorities, and will contribute to the quality of political discussion. This work, after the election, will help in preparing the government's declaration and corresponding financial plans for those political parties that have gained voters' support to form a core of a new government. It would also be important for the opposition parties to realise that political choices are with a certain fiscal impact and the use of budgetary resources for smaller priority measures reduces their availability for more important goals. Opposition parties must also be aware that they may become members of the coalition one day, and their further work will be determined by the consequences of the fiscal policy of previous governments.

The Council expects comments and criticism about the survey as well as proposals for improving it if support for the continuation of such cooperation will take place. From the current cooperation we can

Political parties fiscal responsibility

conclude that in case of the repeating survey it is more important to focus on more timely formulation of political priorities and a broader discussion on the realistic assessment of their fiscal impacts.

The Council could conduct a study on international experience to promote this process by improving the formulation of the political offering so that more concrete action plans and their financial impacts may help to improve overall quality.

On behalf of the authors of this report, we would like to ask other political parties to engage more actively in the survey process and to cooperate so that they can reach the destination by preparing and submitting their offer in the form of a questionnaire.

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Annex 1. Summary of the political parties' proposals: changes of the budget balance and the state debt

All subsequent charts have the same scales chosen, to cover the range of the maximum values submitted. The summary of the surveys is available here:

http://fiscalcouncil.lv/files/uploaded/political_parties_survey_replies.xlsx

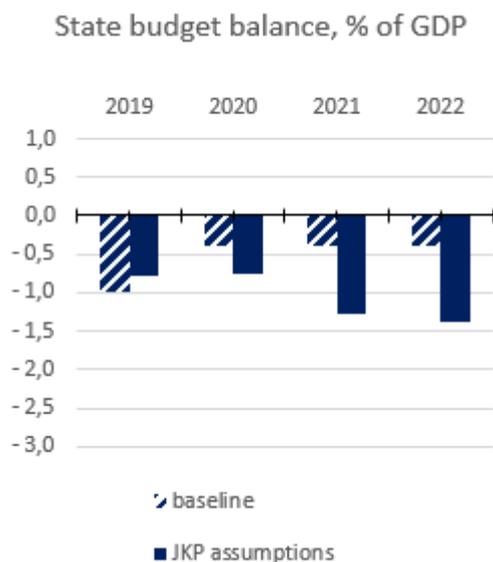


Chart 1a. State budget balance; baseline and JKP assumptions, % of GDP

Whole questionnaire submitted by Jaunā konservatīvā partija available here:

http://fdp.gov.lv/files/uploaded/politisko_partiju_aptauja_atbildes_konservativie.xlsx

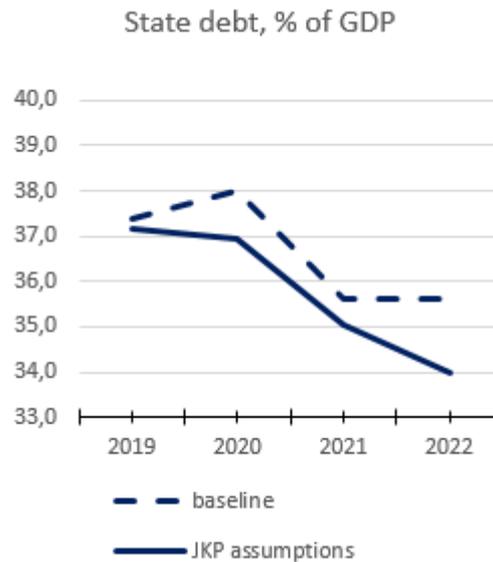


Chart 1b. State debt: baseline and JKP assumptions, % GDP

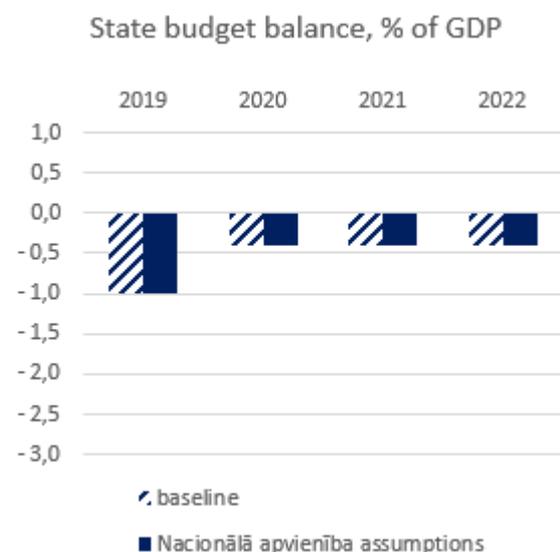


Chart 2a. State budget balance; baseline and Nacionālā apvienība assumptions, % of GDP

Whole questionnaire submitted by Nacionālā apvienība available here:

http://fdp.gov.lv/files/uploaded/politisko_partiju_aptauja_atbildes_nacionala_apvieniba.xlsx

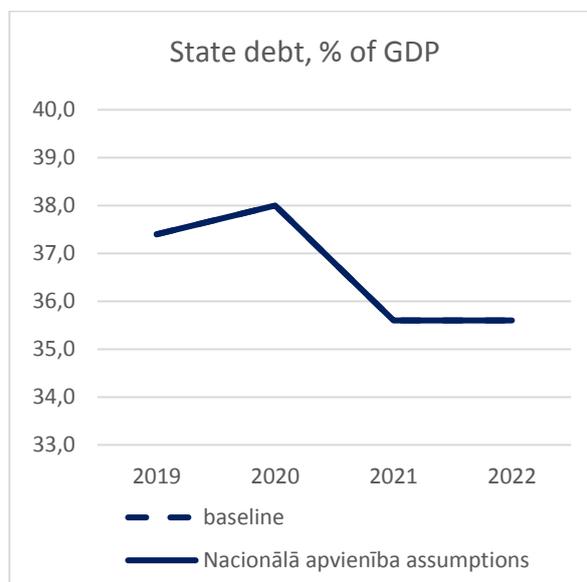


Chart 2b. State debt: baseline and Nacionālā apvienība assumptions, % GDP

Political parties fiscal responsibility

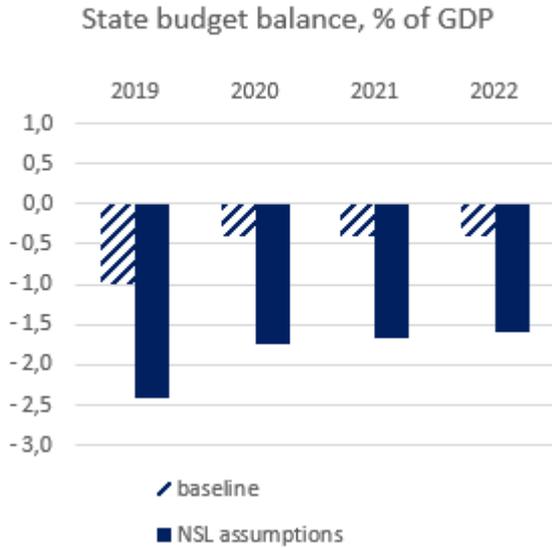


Chart 3a. State budget balance; baseline and NSL assumptions, % of GDP

Whole questionnaire submitted by No sirds Latvijai available here:

http://fdp.gov.lv/files/uploaded/politisko_partiju_aptauja_atbildes_NSL.xlsx

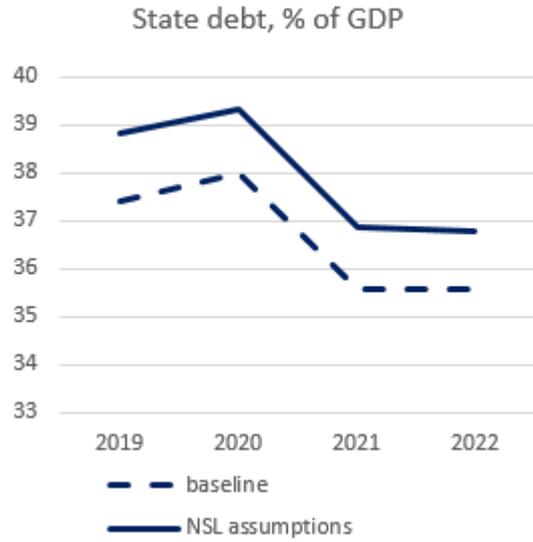


Chart 3b. State debt: baseline and NSL assumptions, % GDP

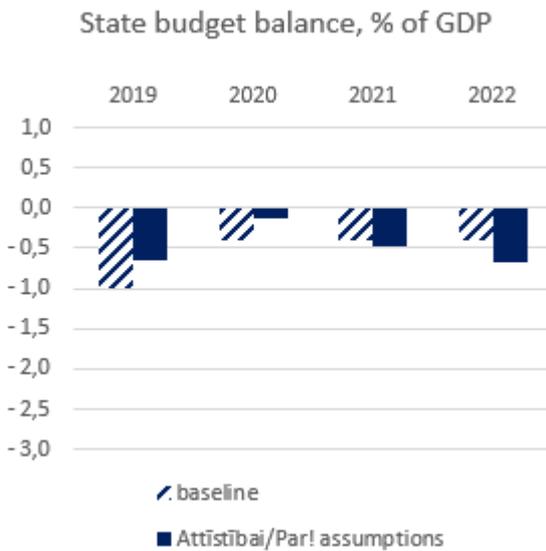


Chart 4a. State budget balance; baseline and Attīstībai/Par! assumptions, % of GDP

Whole questionnaire submitted by Attīstībai/Par! available here:

http://fdp.gov.lv/files/uploaded/politisko_partiju_aptauja_atbildes_AttistibaiPar.xlsx

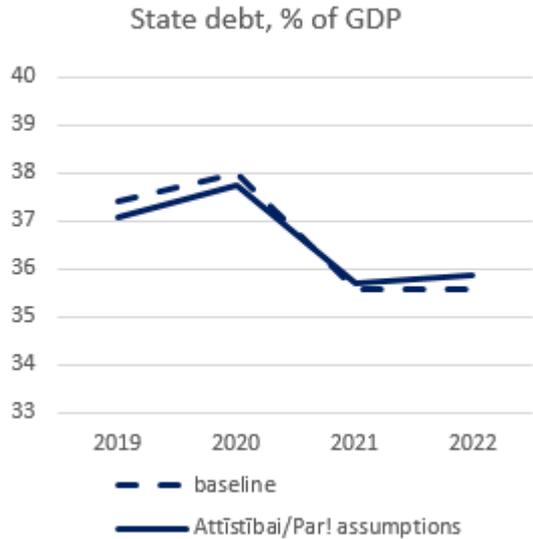


Chart 4b. State debt: baseline and Attīstībai/Par! assumptions, % GDP

Political parties fiscal responsibility

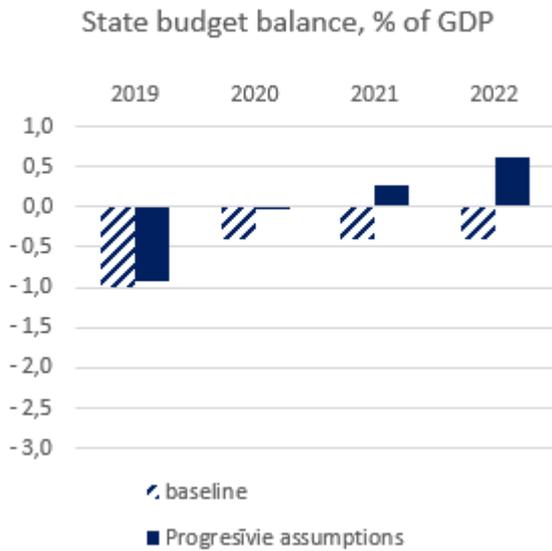


Chart 5a. State budget balance; baseline and Progresīvie assumptions, % of GDP

Whole questionnaire submitted by Progresīvie available here:

http://fdp.gov.lv/files/uploaded/politisko_partiju_aptauja_atbildes_progresivie.xlsx

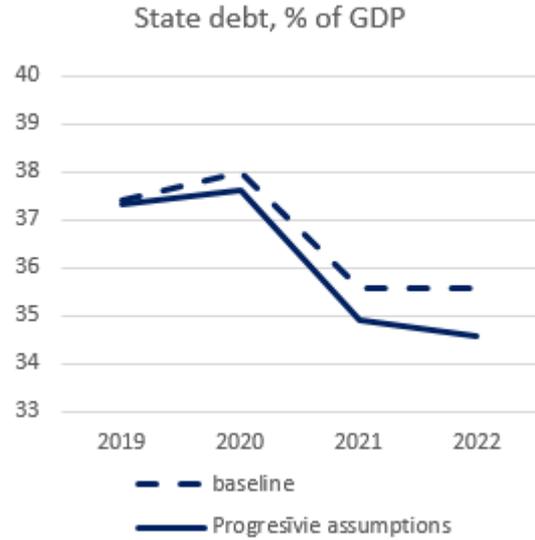


Chart 5b. State debt: baseline and Progresīvie assumptions, % GDP

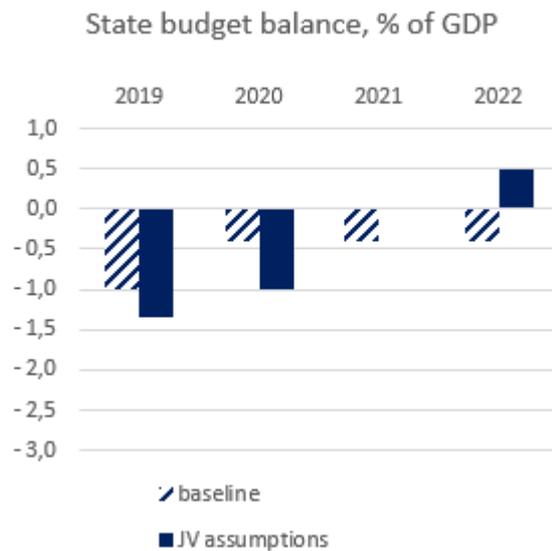


Chart 6a. State budget balance; baseline and Jaunā Vienotība assumptions, % of GDP

Whole questionnaire submitted by Jaunā Vienotība available here:

http://fdp.gov.lv/files/uploaded/politisko_partiju_aptauja_atbildes_jauna_vienotiba.xlsx

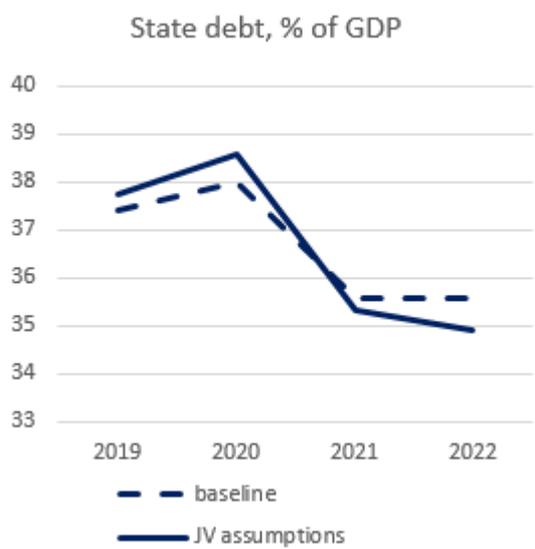


Chart 6b. State debt: baseline and Jaunā Vienotība assumptions, % GDP