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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	COUNCIL RECOMMENDATION endorsing the national medium-term fiscal-structural plan of Latvia

COUNCIL RECOMMENDATION

endorsing the national medium-term fiscal-structural plan of Latvia

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121 thereof,

Having regard to Regulation (EU) 2024/1263, and in particular Article 17 thereof,

Having regard to the recommendation from the Commission,

Whereas:

GENERAL CONSIDERATIONS

- (1) A reformed EU economic governance framework entered into force on 30 April 2024. Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance¹, together with the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure², and the amended Council Directive 2011/85/EU on the budgetary frameworks of Member States³ are the core elements of the reformed EU economic governance framework. The framework aims at promoting sound and sustainable public finances, and sustainable and inclusive growth and resilience through reforms and investments, and preventing excessive government deficits. It also promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement of the rules.

¹ Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30.4.2024, ELI: <http://data.europa.eu/eli/reg/2024/1263/oj>).

² Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: <http://data.europa.eu/eli/reg/2024/1264/oj>).

³ Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: <http://data.europa.eu/eli/dir/2024/1265/oj>).

- (2) The national medium-term fiscal-structural plans that Member States submit to the Council and to the Commission, are at the centre of the new economic governance framework. The plans are to deliver on two objectives: i) ensuring that, inter alia by the end of the adjustment period, general government debt is on a plausibly downward trajectory, or stays at prudent levels, and that the government deficit is brought and maintained below the reference value of 3% of GDP over the medium term, and ii) ensuring the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the EU. To that end, each plan is to present a medium-term commitment to a net expenditure⁴ path, which effectively establishes a budgetary constraint for the duration of the plan, covering four or five years (depending on the regular term of legislature in a Member State). In addition, the plan is to explain how the Member State will ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations (including those pertaining to the macroeconomic imbalances procedure (MIP), if applicable), and how the Member State will address the common priorities of the Union. The period for fiscal adjustment covers a period of four years, which may be extended by up to three years if the Member State commits to delivering a set of relevant reforms and investments that satisfies the criteria set out in Regulation (EU) 2024/1263.
- (3) Following the submission of the plan, the Commission is to assess whether it complies with the requirements of Regulation (EU) 2024/1263.
- (4) Upon a recommendation from the Commission, the Council is to then adopt a recommendation to set the net expenditure path of the Member State concerned and, where applicable, endorses the set of reform and investment commitments underpinning an extension of the fiscal adjustment period.

⁴ Net expenditure as defined in Article 2 of Regulation (EU) 2024/1263, namely government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on Union programmes fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure and (vi) one-offs and other temporary measures.

CONSIDERATIONS CONCERNING THE NATIONAL MEDIUM-TERM FISCAL-STRUCTURAL PLAN OF LATVIA

- (5) On 15 October 2024, Latvia submitted its national medium-term fiscal-structural plan to the Council and to the Commission. The submission took place following an extension of the deadline set out in Article 36 of Regulation (EU) 2024/1263, as agreed with the Commission in view of the reasons provided by Latvia.

Process prior to the submission of the plan

- (6) Prior to the submission of its plan, Latvia requested technical information⁵, which the Commission provided on 21 June 2024, and published on 15 October 2024⁶. The technical information indicates the level of the structural primary balance in 2028 that is necessary to ensure that the general government deficit is maintained below 3% of GDP over the medium term and that the general government debt remains below 60% of GDP over the medium term, even in the absence of further budgetary measures beyond the 4-year adjustment period. The medium term is defined as the ten-year period after the end of the adjustment period. The technical information was prepared and transmitted to the Member States under two scenarios: a scenario including consistency with the deficit resilience safeguard⁷, in line with Article 9(3) of Regulation (EU) 2024/126, and a scenario without this safeguard.

⁵ Prior guidance transmitted to the Member States and Economic and Financial Committee includes technical information i) without and with an extension of the adjustment period (covering 4 and 7 years, respectively), and ii) with and without the deficit resilience safeguard. It also includes the main initial conditions and underlying assumptions used in the Commission's medium-term government debt projection framework. The reference trajectory was calculated on the basis of the methodology described in the Commission's *Debt Sustainability Monitor 2023* (https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2023_en). It is based on the European Commission Spring 2024 Forecast and its medium-term extension up to 2033, and long-term GDP growth and ageing costs are in line with the joint European Commission-Council 2024 Ageing Report (https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en).

⁶ https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/national-medium-term-fiscal-structural-plans_en#latvia.

⁷ The deficit resilience safeguard established in Article 8 of Regulation (EU) 2024/1263 establishes that the annual improvement in the structural primary balance is of 0.4 percentage points of GDP (or 0.25 percentage points of GDP in case of an extension of the adjustment period) until the structural deficit is lower than 1.5% of GDP.

The technical information for Latvia sets out that, in order to comply with the applicable fiscal rules over an adjustment period of 4 years, and based on the Commission's assumptions underpinning the prior guidance transmitted in June 2024, the structural primary balance should amount to at least -1.3% of GDP at the end of the adjustment period (2028); scenario without the deficit resilience safeguard), as per the following table. For information, considering also the deficit resilience safeguard, the structural primary balance should amount to at least -0.1% of GDP at the end of the adjustment period (2028). However, the deficit resilience safeguard is not a requirement for Latvia, which is eligible for technical information.

Table 1: Technical information provided by the Commission to Latvia

Final year of the adjustment period	2028
Minimum value of the structural primary balance (% of GDP), scenario without the deficit resilience safeguard	-1.3
<i>For information only:</i> Minimum value of the structural primary balance (% of GDP), scenario with the deficit resilience safeguard	-0.1

Source: Commission's calculations.

- (7) In line with Article 12 of Regulation (EU) 2024/1263, Latvia and the Commission engaged in a technical dialogue in September 2024. The dialogue centred on the net expenditure path envisaged by Latvia and its underlying assumptions (in particular potential output and interest rates), as well as the envisaged delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and the common priorities of the Union in fair green and digital transition, social and economic resilience, energy security and the build-up of defence capabilities.

- (8) In September 2024, in line with Article 11(3) and 36(1), point (c) of Regulation (EU) 2024/1263, according to the information provided by Latvia in its plan, Latvia reported that it had engaged in a consultation process with social partners and other relevant stakeholders, including the Association of Employer's Organisations, the Confederation of Free Trade Unions and the Association of Local and Regional Governments. According to the information provided by Latvia in its plan, the meeting centred on how Latvia is planning to address the country-specific recommendations (CSRs) and EU common priorities, with a particular focus on tax policy, education and healthcare.
- (9) In June 2024, the Fiscal Discipline Council (Latvia's independent fiscal institution) endorsed the macroeconomic forecast underpinning the Medium-Term Budget Framework 2024–2028 acknowledging that the macroeconomic forecast presented by the Ministry of Finance was overall prudent and reflected actual economic developments. In October, the Fiscal Discipline Council delivered an opinion on the Medium-Term Budget Framework 2025–2028, the Budget 2025 and the Medium-Term Fiscal Structural Plan. They concluded that, although up-to-date national fiscal data were used for the 2024 fiscal forecasts and the preparation of the 2025 Budget, the macroeconomic forecast endorsed in June this year was not revised and therefore did not take into account the outcome of the benchmark revision and the most recent economic trends. At the same time, the Fiscal Discipline Council acknowledged that the fiscal trajectory of the medium-term fiscal-structural plan complies with the conditions of Regulation 2024/1263 (the Commission's technical information).

Other related processes

- (10) On 15 October, Latvia submitted its Draft Budgetary Plan for the year 2025. The Commission adopted an opinion on this Draft Budgetary Plan on 26 November 2024⁸.

⁸ Commission Opinion of 21 October 2024 on the Draft Budgetary Plan of Latvia, 26.11.2024, C(2024) 9060 final.

- (11) On 21 October 2024, the Council addressed to Latvia a series of CSRs in the context of the European Semester⁹.

SUMMARY OF THE PLAN AND THE COMMISSION'S ASSESSMENT THEREOF

- (12) In line with Article 16 of Regulation (EU) 2024/1263, the Commission assessed the plan as follows:

Context: macroeconomic and fiscal situation and outlook

- (13) Economic activity in Latvia grew by 1.7% in 2023, driven by investments and public expenditures. According to the European Commission Autumn 2024 Forecast, the economy is expected to stagnate in 2024, due to weak private consumption and investments and despite strong government consumption. In 2025, real GDP is set to increase by 1%, and by 2.1% in 2026, as private consumption and investments are expected to recover. In 2026, exports are also expected to pick up. Over the forecast horizon (i.e., 2024-2026), potential GDP growth in Latvia is expected to pick up after a drop in 2024, to 1.5% in 2026. The unemployment rate stood at 6.6% in 2023 and is projected by the Commission to amount to 6.7% in 2024, 6.7% in 2025 and 6.5% in 2026. Inflation (GDP deflator) is projected to decrease from 9.1% in 2023 to 1.2% in 2024, and to reach 2.2% in 2025 and 2.2% in 2026.
- (14) Regarding fiscal developments, in 2023 Latvia's general government deficit amounted to 2.4% of GDP. According to the European Commission Autumn 2024 Forecast, it is set to reach 2.8% of GDP in 2024 and to increase to 3.2% of GDP in 2025 and, on a no-policy-change basis, remain at 3.2% in 2026. The European Commission Autumn 2024 Forecast includes Latvia's draft budget for 2025 that the government proposed to the national parliament in October. General government debt was 45.0% of GDP at end-2023. According to the European Commission Autumn 2024 Forecast, the debt ratio is expected to increase to 48.1% of GDP at end-2024. It is projected to further increase to 50.3% of GDP at end-2025 and 51.6% at end-2026. The fiscal forecast by the Commission does not consider the policy commitments in the medium-term plans as such until they are underpinned by credibly announced and sufficiently specified concrete policy measures.

⁹ Council Recommendation of 21 October 2024 on economic, budgetary, employment and structural policies of Latvia.

Net expenditure path and main macroeconomic assumptions in the plan

- (15) Latvia's national medium-term fiscal-structural plan covers the period 2025–2028 and presents a fiscal adjustment over four years.
- (16) The plan contains all information required by Article 13 of Regulation (EU) 2024/1263. Contrary to the Guidance to Member States on the Information Requirements for the Medium-Term Fiscal-Structural Plans and for the Annual Progress Reports published in the Official Journal on 21 June 2024, the plan does not contain tables 7c and 7d. However, these tables are not essential for the assessment of the Latvian plan.
- (17) The plan commits Latvia to the net expenditure path indicated in Table 2, corresponding to average net expenditure growth of 4.1% over the years 2025-2028. The technical information (assuming a linear adjustment path) is consistent with an average net expenditure growth of 3.7% over the adjustment period (2025-2028). The net expenditure path committed to in the plan is reported to lead to a structural primary balance of -1.3% of GDP at the end of the adjustment period (2028). This is equal to the minimum level of the structural primary balance of -1.3% of GDP in 2028 provided by the Commission in the technical information on 21 June 2024¹⁰. The plan assumes potential GDP growth to decrease to 2.1% in 2025 (from 2.2% in 2024), before decreasing to 0.9% in 2028. In addition, the plan expects the GDP deflator to remain stable at 2.5% during the adjustment period (2025–2028).

¹⁰ In the scenario without the deficit resilience safeguard.

Table 2: Net expenditure path and main assumptions in Latvia's plan

	2024	2025	2026	2027	2028	Average over the period of validity of the plan 2025-2028
Net expenditure growth (annual, %)	9.1	5.9	3.6	3.4	3.3	4.1
Net expenditure growth (cumulative, from base year 2023, %)	9.1	15.5	19.7	23.8	27.9	n.a.
Potential GDP growth (%)	2.2	2.1	1.2	0.9	0.9	1.3
Inflation (GDP deflator) (%)	2.4	2.5	2.5	2.5	2.5	2.5

Source: Medium-term fiscal-structural plan of Latvia and Commission calculations.

Implications of the plan's net expenditure commitments for general government debt

- (18) If the net expenditure path committed to in the plan and the underlying assumptions materialise, general government debt would, according to the plan, gradually increase from 45.8% in 2024 to 50.8% of GDP at the end of the adjustment period (2028), as per the following table. After the adjustment, over the medium term (i.e. until 2038), the debt ratio is expected to gradually increase according to the plan, reaching 59.9% by 2038.

Table 3: General government debt and balance developments in Latvia's plan

	2023	2024	2025	2026	2027	2028	2038
Government debt (% of GDP)	43.6	45.8	47.5	48.5	49.7	50.8	59.9
Government balance (% of GDP)	-2.2	-2.6	-2.9	-2.9	-2.9	-2.9	-2.9

Source: Medium-term fiscal-structural plan of Latvia.

Thus, according to the plan, general government debt would stay below the Treaty reference value of 60% of GDP over the medium term. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for debt as set out in Article 16(2) of Regulation (EU) 2024/1263.

Implications of the plan's net expenditure commitments for general government balance

- (19) Based on the plan's net expenditure path and assumptions, the general government deficit would remain at 2.9% of GDP annually over the adjustment period. Thus, according to the plan, the general government balance would not exceed the 3% of GDP reference value at the end of the adjustment period (2028). In addition, in the ten years following the adjustment period (i.e. until 2038), the government deficit would not exceed 3% of GDP but would remain just below the deficit reference value. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for the deficit as set out in Article 16(2) of Regulation (EU) 2024/1263.

Macroeconomic assumptions of the plan

- (20) The plan is based on a set of assumptions which differs from the Commission's assumptions transmitted to Latvia on 21 June 2024. In particular, the plan uses different assumptions for 6 variables, namely the starting point (structural primary balance, potential GDP growth, actual GDP growth, nominal implicit interest rate on debt, stock-flow adjustment and GDP deflator growth). A careful assessment of these differences is necessary to ensure they are underpinned by sound and data-driven economic arguments, especially as average net expenditure growth in the plan is higher than implied by the technical information.

The differences with the most significant impact on average net expenditure growth are listed below, together with an assessment of each difference considered in isolation.

- The plan assumes an initial structural primary budget balance of -0.8% of GDP in 2024, which is 0.6 pps higher than the structural primary balance of -1.4% of GDP assumed in the technical information of 21 June 2024, and 0.7 pps higher compared to the European Commission Autumn 2024 Forecast. This contributes to higher average net expenditure growth over the adjustment period than according to the Commission's assumptions.

The better fiscal position in 2024 reflects the plan's assumptions of:

- a lower headline deficit. The plan's assumptions regarding updated budget expenditure and higher non-tax revenue are in line with the European Commission Autumn 2024 Forecast, whereas the assumptions on tax revenue in 2024 seem optimistic.
- a worse cyclical position of the economy. The plan's assumption of higher potential GDP growth in 2024 is not consistent with the common Debt Sustainability Analysis framework, whereas the downward revision in actual GDP growth in 2024 and assumptions on real and potential output growth from 2025 onwards are in line.
- higher interest payments. The plan's assumptions of a higher nominal implicit interest rate are based on a more recent assessment by the national authorities and are consistent with the European Commission Autumn 2024 Forecast.

Overall, the assumptions in the plan regarding the improvement in the starting point in 2024, which are not duly justified, are balanced by assumptions in line with the common Debt Sustainability Analysis framework used as of 2025 onwards. The remaining differences do not have a significant impact on average net expenditure growth compared to the Commission's assumptions. This implies that the difference between the net expenditure path in the plan and the technical information is explained by differences in assumptions that overall can be accepted. Based on this assessment, the plan fulfils the requirement under Article 13, point (b), of Regulation (EU) 2024/1263. The Commission will take into account the above assessment of the plan's assumptions in future assessments of compliance with the net expenditure path.

Fiscal strategy of the plan

- (21) According to the indicative fiscal strategy in the plan, the commitments on net expenditure will be delivered through both expenditure and discretionary revenue measures. On the revenue side, discretionary measures include revisions of labour taxation as of 2025, in particular an upward revision of personal income tax rates and an increase and horizontal application of non-taxable income. As these revenue measures result in a negative fiscal impact, the government has proposed: a bank windfall profit tax as of 2025; shifting 1 percentage point of pension contributions levied on earned income from the funded to the state pension; as well as other compensatory measures, including an upward revision of excise rates for different product groups and an increase of tax rates for private and company cars. On the expenditure side, expenditure-increasing discretionary measures are mainly dedicated to strengthening internal and external security, including capacity of internal security services (including increase of remuneration), cybersecurity, purchase of ammunition and individual equipment as well as military support to Ukraine and support for Ukrainian civilians in Latvia. Expenditure-decreasing measures include limiting the remuneration growth in the public sector, reduction of expenditure for goods and services across sectoral ministries, revision of municipal expenditure for salaries and investment, as well as revision of expenditure for companies included in the general government. The specification of the policy measures to be adopted is to be confirmed or adjusted and quantified in the annual budgets. Some risks remain with respect to the implementation of the indicative fiscal strategy in the plan. These stem from lower-than-expected fiscal impact of certain discretionary revenue measures, as well as the increasing spending needs on defence, all of which may necessitate further discretionary revenue measures or expenditure restraint. The Draft Budgetary Plan for 2025 specifies the policy measures through which the net expenditure commitment will be achieved¹¹.

¹¹ See Commission Opinion on the Draft Budgetary Plan of Latvia, 26.11.2024, C(2024) 9060 final.

Reform and investment intentions in the plan responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the Union

- (22) The plan describes policy intentions concerning reforms and investments to respond to the main challenges identified in the context of the European Semester, especially the CSRs and to address the common priorities of the EU. The plan includes more than 130 reforms and investments addressing the common priorities of the EU, of which more than 40 are financially supported by the Recovery and Resilience Facility (RRF) and more than 50 by the Cohesion policy funds.
- (23) Concerning the common priority of a fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119, the plan includes an extensive list of measures grouped under such policy directions as transition to a circular economy, education and skills, fostering investment, transport sustainability and digital infrastructure. The reforms and investments included in the plan intend to address CSRs to foster transition to a circular economy and sustainable resource management issued in 2024, on sustainable transport issued in 2020 and 2019, on investments in green and digital skills issued in 2024 and 2023, digital services and infrastructure, including in regions issued in 2022, 2020 and 2019, as well as focus investment related economic policy on research and innovation to support green and digital transition issued in 2023, 2022, 2020 and 2019. The measures to support the green transition priority through fostering investment, improving energy efficiency, and increasing the share of renewables in the final consumption are included in the National Energy and Climate Plan.

- (24) Concerning the common priority of social and economic resilience, including the European Pillar of Social Rights, the plan includes an extensive list of measures grouped under several policy areas such as social protection and safety, health care, education and skills, employment policy, fostering investment, and availability of housing. The reforms and investments included in the plan intend to address CSRs to improve the adequacy of social protection, including pensions, accessibility, resilience, affordability and quality of health care, quality of education, in particular vocational education and training, to deliver skills needed for the labour market, issued in 2024, 2023, 2022, 2020, 2019; to improve the labour market participation issued in 2024, 2019, 2020; to foster investment for innovation and access to finance issued in 2024, 2023, 2022, 2020, 2019 as well as increase the provision of affordable and social housing issued in 2019.
- (25) Concerning the common priority of energy security, the plan includes a set of measures aimed at reducing the country's reliance on fossil fuels, promoting energy efficiency, deploying renewable energy, and most notably completing the synchronisation of its electricity system with the Continental European Network, supported through the Connecting Europe Facility for Energy and the RRF. These measures are included under the policy direction on energy and energy efficiency. Furthermore, the reforms and investments included in the plan intend to address the CSRs to reduce reliance on fossil fuel and accelerate deployment of renewables issued in 2024, 2023, 2022, 2020, strengthen energy infrastructure and networks issued in 2022 and 2019, improve energy efficiency issued in 2023, 2022, 2019, and increase the security of supply and continue synchronisation with the Union electricity grid issued in 2023 and 2022.
- (26) Concerning the common priority of defence capabilities, the plan sets out an intention to develop a set of measures related to the National Armed Forces, which is primarily aimed at countering threats to the country, and to ensure the protection of the civilian population.

- (27) In addition, the plan includes other policy measures going beyond the common priorities of the EU. Under the policy direction on tax policy, the measures intend to address CSRs to broaden taxation issued in 2024, 2023, 2022, 2019 by reducing the tax burden on low and medium wage earners as well as improving tax payment and compliance. Under the policy direction on the efficiency of the public sector, the plan includes measures that intend to address the CSR to strengthen the accountability and efficiency of public sector issued in 2019, for instance reforms to improve the management of state-owned and municipal enterprises, the prevention of conflicts of interest, which is included in the recovery and resilience plan (RRP). To address the CSR to improve the business environment issued in 2024, the plan includes reforms to identify and remove bureaucratic barriers, reduce the administrative burden for real-estate development, market surveillance in the banking sector and, with the support of the RRP, the modernisation of the enterprise registry.
- (28) The plan provides information on the consistency and, where appropriate, complementarity, with the cohesion policy funds and Latvia's RRP. The plan makes appropriate references to the measures included in the RRP and cohesion policy programme, as well as references to the various funding sources. The plan also makes references to demarcation and complementarity across the various funding sources.

- (29) The plan provides an overview of the public investment needs of Latvia related to the common priorities of the EU. The total investment needs correspond to around EUR 15.5 billion and cover the period of 2025-2028. Examples of investment needs identified by Latvia to support a fair green transition and digital transformation, in line with the climate objectives set out in Regulation (EU) 2021/1119, include digitalisation and modernisation of the ports in Riga and Liepaja, sustainable transport, energy efficiency in buildings, production of electricity and heat, digitalisation of public administration, water and wastewater management, and restoration of degraded ecosystems in both terrestrial and marine areas, with total investment needs amounting to EUR 6.6 billion. Concerning the common priority of social and economic resilience, including the European Pillar of Social Rights, Latvia has identified investment needs of EUR 3.9 billion, for instance for a large-scale, multi-modal industrial and logistics park in the port of Riga with a Rail Baltica rail connection, investments in roads, support for higher education, innovation, research and skills development, as well as improving the adequacy of social protection. Concerning the common priority of energy security, Latvia's plan identifies investment needs of EUR 2.9 billion, including, for example, the establishment of an offshore wind farm service terminal in Ventspils port, investments in the ports of Liepaja, Salacgriva, and Roja, synchronisation of grids with the Continental European electricity network, modernisation of the Incukalns underground gas storage facility, and investments in storage solutions in high-capacity power plants. To increase defence capabilities, Latvia's plan identifies investment needs of EUR 2.2 billion, for example to restore and construct shelters, build new disaster management centres, and develop infrastructure to strengthen the response capacity of home affairs services, to enhance maritime safety and defence capabilities in the ports of Riga, Liepaja, and Ventspils, as well as for a set of measures to be implemented by the National Armed Forces.

Conclusion of the Commission's assessment

- (30) Overall, the Commission is of the view that Latvia's plan fulfils the requirements of Regulation (EU) 2024/1263.

OVERALL CONCLUSION OF THE COUNCIL

- (31) The Council welcomes the medium-term fiscal-structural plan of Latvia and considers that its full implementation would be conducive to ensuring sound public finances and supporting public debt sustainability as well as sustainable and inclusive growth.
- (32) The Council takes note of the Commission's assessment of the plan. However, the Council invites the Commission to present its assessment of future plans in a separate document from the Commission recommendations for Council recommendations.
- (33) The Council takes note of the Commission assessment of the net-expenditure path and the main macroeconomic assumptions in the plan, including in relation to the prior guidance by the Commission, as well as the implications of the plan's net expenditure path for government deficit and debt. The Council takes note of the Commission assessment that the macroeconomic and fiscal assumptions, while differing in some instances from the Commission's assumptions, including to cater for updated macroeconomic and fiscal data, are overall duly justified and underpinned by sound economic arguments. The Council takes note of the broad fiscal strategy of the plan and the risks to the outlook, which could affect the materialisation of the macroeconomic scenario and the underlying assumptions and the delivery of the plan's net expenditure path. In particular, the Council also welcomes that relevant stakeholders were engaged with at the national level prior to the submission of the plan. The Council also notes that geopolitical risks may put pressure on defence expenditures.
- (34) The Council expects Latvia to stand ready to adjust its fiscal strategy as needed to ensure delivery of its net expenditure path. The Council resolves to monitor closely economic and fiscal developments, including those underlying the scenario of the plan.
- (35) The Council considers that further discussions to find a common understanding on the annual surveillance implications of the cumulative net-expenditure growth rates is warranted in time for the next round of fiscal surveillance.

- (36) The Council takes note of the Commission description of the reforms and investment needs and intentions responding to the main challenges identified in the context of the European Semester, and stresses the importance of ensuring the delivery of such reforms and investments. The Council will, on the basis of reports submitted by the Commission, assess such reforms and investments and monitor their implementation within the framework of the European Semester.
- (37) The Council looks forward to the annual progress reports from Latvia that shall contain, in particular, information about the progress in the implementation of the net expenditure path as set by the Council, and the implementation of broader reforms and investments in the context of the European Semester.
- (38) In accordance with Article 17 of Regulation (EU) 2024/1263, the net expenditure path as set in the plan should be recommended by the Council to Latvia.

HEREBY RECOMMENDS that Latvia:

1. Ensure that net expenditure growth does not exceed the maxima established in Annex I to this Recommendation.

Done at Brussels,

For the Council

The President

**Maximum growth rates of net expenditure
(annual and cumulative growth rates)**

Latvia

Years		2025	2026	2027	2028
Growth rates (%)	Annual	5.9	3.6	3.4	3.3
	Cumulative*	15.5	19.7	23.8	27.9

* The cumulative growth rates are calculated by reference to the base year of 2023. The cumulative growth rates are used in the annual monitoring of ex-post compliance in the control account.