

Second post-programme surveillance (PPS) mission to Latvia carried out jointly by the Commission services and the IMF ends today.

Following the successful conclusion on 20 January 2012 of the three-year financial support by the EU, the second post-programme surveillance (PPS) mission to Latvia was carried out by the Commission services from 20 to 26 November, together with the IMF, with participation from the ECB and the World Bank. PPS missions are scheduled to take place twice a year until 75% of the EU loan provided to Latvia will be repaid.

Latvia's recent macro-economic development is impressive and shows that Latvia has successfully used the financial assistance programme to reform its economy. GDP growth is, at 4.3%, the fastest in the EU; the budget deficit is down to 1.7% and inflation quite low at 2.4% (Commission autumn forecast data for 2012) while the latest unemployment figures confirm the, much-needed, downward trend. It is now important to ensure that current positive developments, in particular the low budget deficit and inflation figures, can be maintained sustainably, by pursuing prudent fiscal policies and by further strengthening the fiscal framework, i.e. adoption of the Fiscal Discipline Law.

The Commission will continue the close monitoring of planned and implemented structural reforms through the Post Programme Surveillance and the European Semester framework. The Commission is encouraged by the proposed reforms in higher and vocational education and the science sectors, which are in line with previous Commission recommendations in these fields. Further steps need to be taken towards the finalisation of the sale of commercial assets of the Mortgage and Land Bank and to establish a single development institution, inter alia to ensure efficient implementation of Structural Funds transfers in the new EU funds planning period. Close monitoring of increasing non-resident bank deposits remains important. The agenda of necessary reforms also includes better targeting of social benefits and ensuring a more effective social policy based on the results of an upcoming World Bank study; pushing forward reform of the management of state-owned enterprises; strengthening capacities of the Competition Council; strengthening public administration reform (HR strategy, wage grid, public procurement) and the judiciary system.

Background

From 2009 to 2011, Latvia benefited from a financial assistance programme (Balance of Payment Support) from the EU, provided in conjunction with an IMF stand-by agreement and financing commitments by the World Bank, the European Bank for Reconstruction and Development, several EU countries and Norway. Funds available amounted to € 7.5 billion, of which Latvia used € 4.5 billion (60%), with € 3.1 billion lent by the European Commission, on behalf of the EU. The lending was subject to an ambitious action plan, including fiscal consolidation and wide-ranging structural reforms, which have proven quite effective to help the country to recover from a deep financial and economic crisis.

For more information:

http://ec.europa.eu/economy_finance/eu_borrower/balance_of_payments/latvia/latvia_en.htm

See also the recent ECFIN Occasional Paper "EU Balance-of-Payments assistance for Latvia: foundations of success":

http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/op120_en.htm