

Joint statement by the Presidency of the Ecofin Council and the Commission on providing EU medium-term financial assistance to Latvia

In light of the major imbalances facing the Latvian economy, accentuated by the financial market strains, and given the Latvian authorities' firm commitment to implement a major programme of economic adjustment, the European Union intends to provide medium-term financial assistance to Latvia of up to € 3.1 billion.

The support will be provided in conjunction with the International Monetary Fund (€1.7 billion), the Nordic countries (Sweden, Denmark, Finland and Norway) (€1.8 billion together) and the World Bank (€0.4 billion). The European Bank of Reconstruction and Development, the Czech Republic, Poland and Estonia will also provide a total of €0.5 billion, bringing the total to up to € 7.5 billion over the period to the first quarter of 2011.

The financial assistance will be conditional on the implementation of a comprehensive economic policy programme. The financial assistance and the policy programme are designed to enable the economy to withstand short-term liquidity pressures while improving competitiveness and supporting an orderly correction of imbalances in the medium term, hence bringing the economy back on a sound and sustainable footing. This will also help meet the conditions for the adoption of the euro.

The programme is based on maintaining Latvia's existing exchange rate peg, which will remain a key policy anchor going forward, thereby underpinning systemic stability.

Key elements of the economic policy package are an immediate and sustained fiscal consolidation to limit the budget deficit to 5% of GDP in 2009, falling further to 3% of GDP in 2011. Supporting wide-ranging structural reforms and wage reductions, led by the public sector, will contribute to restoring Latvia's cost competitiveness.

Furthermore, in order to limit the vulnerabilities stemming from the high private sector debt levels and limit the negative consequences on indebted households, the programme also foresees measures to facilitate restructuring of domestic and external debt.

The economic policy conditionality will be set in a forthcoming Council decision and further spelled out in a Memorandum of Understanding to be concluded shortly with the Latvian authorities. The Commission in collaboration with the Economic and Financial Committee will monitor regularly and closely that the economic policy conditions attached to the financial assistance are fully implemented and may request additional measures when and if circumstances so require.

We also urge the large financial institutions operating in Latvia to continue providing adequate funding of their operations there as well as appropriate financing of the economy. In this context we very much welcome the confirmation of the long-term

commitment of foreign parent banks to Latvia and to support their subsidiaries in the country.

EU assistance will take form of a BoP loan

The proposed medium-term financial assistance to Latvia will consist of a European Community loan, which has yet to be approved by the Commission. This is expected to happen early in January. It will then require approval by the EU finance ministers. Such support is provided under Council Regulation 332/2002 which provides for a medium-term financial assistance facility for non-euro area EU Member States' balance of payments (BoP).

Background

The EU in November also agreed to grant a BoP loan to Hungary of €6.5 billion. On a proposal by the Commission, the Council decided to increase early December the overall financial assistance ceiling in Regulation 332/2002 to €25 billion from an original €12 billion.