International Monetary Fund

Latvia and the IMF

Press Release:
IMF Completes Fourth Review Under Stand-By Arrangement With Latvia
May 26, 2011

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Latvia: Letter of Intent, and Technical Memorandum of Understanding

May 9, 2011

REPUBLIC OF LATVIA: LETTER OF INTENT

Riga, May 9, 2011

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

1. **The Latvian economy is showing clear signs of recovery.** The economy started growing at the end of 2009, and, despite continued turbulence in the global economy, the expectation is for further, more rapid, growth in 2011 and 2012. While rising world food and energy prices have led to an increase in prices, core inflation remains contained. Financial conditions have improved considerably, with much lower CDS spreads, and interest rates in the government securities and interbank market close to all-time lows. A recent upgrade of Latvia's credit rating, coupled with the decision by another rating agency to raise the outlook on Latvia's sovereign debt, is further evidence of the improved economic environment.

2. **The improved economic situation reflects continued implementation of our program.** Since the Third Review we have:

- Lowered our basic fiscal deficit to 6.5 percent of GDP (comfortably meeting the end-December performance criterion on the adjusted primary balance). We have also met the indicative target on the public-sector wage bill (Table 1). In ESA terms our fiscal deficit in 2010 was 7.7 percent of GDP or, excluding bank restructuring costs, 5.5 percent of GDP.

- Comfortably met our net international reserves (NIR) and monetary (NDA) targets.

- Met many of the program's structural benchmarks, including preparation of a strategy on pension reform and a list of all state-owned enterprises in Latvia (Table 3). Other structural benchmarks were met, but with delay. These include changes to our tax regime to strengthen the incentives for debt restructuring, and submission of a transformation plan for Mortgage and Land Bank (MLB) to the EC. However, more work is needed before we can submit a Fiscal Responsibility Law to Parliament, and on options for ensuring that provisions of this law has a greater legal standing than other laws. More time is also needed to develop a strategy for improved management of our state-owned enterprises. Our revised economic program includes structural benchmarks to encourage further progress in these areas (Table 4).

3. **Our policy agenda for 2011 aims to move us toward the goal of euro adoption by January 2014, and sustained growth.** Our 2011 budget and supplementary budget should lower the fiscal deficit to around 4.5 percent of GDP (ESA95 terms). This is consistent with our commitment at the First Review to reduce the 2011 fiscal deficit to no more than 6 percent of GDP (ESA95 terms). For 2012, we will cut our deficit to below 3 percent of GDP (ESA95 terms), consistent with the program target. Aiming for a 2.5 percent of GDP (ESA95) deficit will demonstrate our commitment to fiscal discipline and debt sustainability, and to meeting the Maastricht criterion on a sustainable basis. Provided that we can keep this year's deficit to 4.5 percent of GDP, preliminary estimates suggest that achieving this target will require a further L150 to L180 million in net additional measures, well below previous estimates. We are also committed to strengthening our financial system, including by divesting the commercial part of MLB by end-2011. We believe these policies will further rebuild confidence in our economy.

4. **Against this background and the policies outlined below, we request completion of the Fourth Review and Financing Assurances Review under the Stand-By Arrangement.** We decided in late December to maintain until end-June 2011 the restriction on some deposits in Parex Bank. Since we received Fund approval in 2011 (after the previous approval had lapsed), we request a waiver for nonobservance of the continuous performance criterion against imposing or intensifying restrictions on the making of payments and transfers for current international transactions. Moreover, given the delayed completion of this review, we request the rephasing of Latvia's remaining purchases under the arrangement. The program will continue to be monitored through quantitative performance criteria and indicative targets, as well as continuous performance criteria on domestic and external debt arrears of the general government. Performance criteria for end-August 2011 and structural benchmarks through program expiration on December 22, 2011 are set out in Tables 2 and 4, as well as in the attached Technical Memorandum of Understanding. The Fifth and final review under the Stand-By Arrangement will take place on or after November 15, 2011.

5. **Given our improved economic situation and strong financial position, we do not intend to draw the funds available to us at this review.** Completion of this review by the IMF and EC potentially unlocks around €970 million in additional resources from the Fund, the EU, the Nordic countries, and other EU countries. However, given our much stronger financial situation we only intend to draw the €100 million expected to be approved by the World Bank. Any undrawn funds will remain available to us provided that we sustain our record of satisfactory program performance.

6. **Given the overall stabilization of the financial system that reduces potential banking sector funding needs, money currently in the sub-account for banking sector support at the Bank of Latvia (BoL) can be released** for the purpose of financing general government needs. The funds will be released according to the procedures established in the EC's fourth Supplemental Memorandum of Understanding (SMoU) and according to the following schedule, with progress assessed by the EC and IMF:

- €300 million, on the basis of submission to the EC of the transformation plan for MLB in April 2011, and of the adoption of the sale strategy for Citadele and workout strategy for Parex in May 2011.

- €100 million, on the basis of submission of the sale strategy for MLB to the EC.

- The remaining €249 million, on the basis of progress with the sale of Citadele and of the commercial assets and liabilities of Mortgage and Land Bank (MLB).

I. Macroeconomic Framework

7. **The economy bottomed out in 2010, and we expect GDP to expand by 3.3 percent in 2011 and 4 percent in 2012.** We expect domestic demand to increase at a modest pace in 2011. In particular, the improvement in consumer confidence suggests that private consumption will increase despite higher taxes, and food and fuel price shocks, while investment is projected to increase even though access to credit remains difficult. The ongoing recovery in Latvia's trading partners should help sustain export growth, although this will largely be offset by rising imports due both to the high import content of Latvia's exports and the increase in domestic demand. The registered unemployment rate was 14.4 percent at end-March 2011, and is projected to decline further during 2011, while the labor force survey measure (ages 15 – 74) is expected to decline from 18.7 to 16.4 percent, as the demand for labor gradually recovers. Strong export performance at the start of the year, suggests that growth this year may exceed our forecast. However, the moderation in industrial production and retail sales at the beginning of 2011, and the uncertain global outlook, also suggest that the recovery remains fragile.

8. **Inflation has increased due to rising food and energy prices, but should remain in the low single digits.** Inflation in 2011 could average around 3.5 percent (CPI measure) as a result of rising food and energy prices, and recent tax increases. However, still weak domestic demand and high unemployment are expected to keep core inflation in check. As a result, we expect inflation in 2012 to decline to around 2 percent (CPI measure), which should ensure that the Maastricht inflation criterion remains within reach. These projections are sensitive, however, to developments in food and energy markets.

9. **We are committed to ensuring that inflation remains contained.** Under our fixed (narrow band) exchange rate regime the responsibility for price stability is shared between the BoL and the Ministry of Finance. While still high unemployment and continued deleveraging by banks should limit inflation pressures, we are considering a range of measures that could help contain inflation (and boost longer-term competitiveness) to maximize the chances of meeting the Maastricht inflation criterion in a sustainable manner.

10. **We expect competitiveness—which has improved significantly as a result of wage and price adjustment—to remain broadly stable.** After two years of decline, unit

labor costs stabilized in 2010 as nominal wages bottomed out. As a result, the improvement in competitiveness observed in recent years has slowed down. The CPI-based real exchange rate has stabilized approximately 10 percent below its peak at end-2008, while the PPI-based exchange rate has declined by 12 percent. Although nominal wages are projected to rise in 2011, inflation differentials with trading partners should remain in Latvia's favor. Competitiveness is therefore projected to improve, albeit at a more modest pace than in recent years.

II. POLICIES FOR 2011

A. Fiscal Policy

11. **We comfortably met our program deficit target for 2010.** Significantly lower than programmed government expenditure, coupled with an increase in the share of spending financed by EU transfers, more than offset weaker than projected revenue collection. This allowed us to meet the performance criterion on the primary non-EU cash fiscal balance with a wide margin (see Table 1). As a result, the fiscal deficit (ESA95) declined to an estimated 7.7 percent of GDP compared to the program target of 8.5 percent. Excluding bank restructuring costs, the 2010 deficit was only 5.5 percent of GDP. The downward revision of the 2009 fiscal deficit (ESA95) from 10.2 to 9.7 percent of GDP—to correct the accounting of revenue from the sale of emission quotas—implies that the program target of a fiscal deficit of no more than 10 percent of GDP in 2009 was also met.

12. **Consistent with ESA95 methodology, we have brought forward an estimated L289 million (2.3 percent of GDP) in expected future bank restructuring costs.** These costs, which are reflected in the 2010 ESA deficit, consist mainly of the expected future capitalization of State Treasury deposits in Parex Bank envisaged in the baseline scenario in the EC-approved restructuring plan for Parex, for 2011-2013.

13. **Parliament passed the 2011 budget on December 21, 2010 and a supplementary budget on April 14, 2011.** Together these include measures totaling around L370 million (full year impact, though not all of these will yield permanent savings), which should reduce the ESA95 deficit to below 4.5 percent of GDP. This should ensure that we remain on track to restore fiscal sustainability, and ensures that the Maastricht criterion of a fiscal deficit below 3 percent of GDP (ESA95 terms) in 2012 remains within reach. The two budgets include the following measures:

- **Revenue measures (1.8 percent of GDP).** We have: (i) taken steps to increase the amount of VAT we collect, including by raising both standard and reduced VAT rates, and reducing the categories for which the reduced VAT regime applies; (ii) raised employee's social security contributions; (iii) increased taxation of private vehicles and privately used company cars; (iv) introduced a financial stability duty and a fee for non-bank companies providing consumer loan services; (v) doubled real estate taxes; and (vi) increased excise duties and reduced duty-free allowances on certain products. The budget also incorporates measures which may yield revenue in the short-term, but are unlikely to lead to a permanent reduction in the deficit. These include temporary increases in dividend payout ratios for many state-owned enterprises, and a reduction in pension contributions diverted to the second pillar.

- **Cuts in expenditure and net lending (0.8 percent of GDP).** We have: (i) reduced staff and wage costs in the public administration; (ii) reduced appropriations relative to last year's level in a number of areas, including health spending, social programs, and defense spending; (iii) reduced subsidies for general education and financing for education innovation programs; and (iv) cut railway subsidies.

14. **Although the improving economy is likely to reduce the demand for social safety net spending, we remain committed to protecting the poorest in society.** While spending on the Workplaces with Stipend Emergency Public Works (WWS) program will decline this year, we have kept appropriations for the guaranteed minimum income program broadly unchanged from 2010. Moreover, we are preparing an active labor market policy (ALMP) strategy (end-November structural benchmark) that will replace the WWS program which is set to be wound down by end-2011. This will allow us to transition away from emergency social safety net spending toward more traditional ALMP spending, financed by sufficient European Social Fund resources in 2011 and reallocating EU structural funds if necessary in coming years. Finally, our program includes an adjustor to allow additional social safety net spending of up to ½ percent of GDP if necessary.

15. **We are making a concerted effort to strengthen tax administration and combat the grey economy.** In the 2011 budget and supplementary budget we introduced: (i) measures to speed payment of tax arrears; (ii) an increase in the minimum wage, which should limit the underreporting of wages; (iii) steps to combat smuggling of goods; and (iv) an approach to improve cooperation with sectoral business associations. While battling the grey economy is an important component of our fiscal adjustment strategy, we recognize that the revenue yield is uncertain and hard to quantify. However, we intend to set up a task force comprised of government and program partners by end-June, with a view to assessing the effectiveness of various measures and to report on their expected yield in 2012 and beyond by mid-August. We also intend to revise our tax compliance strategy, taking into account the recommendations of an upcoming technical assistance mission from the IMF (end-August structural benchmark).

16. **Given the need for further adjustment in 2012, we will not increase spending or cut taxes during the year, beyond what is envisaged in the 2011 budget and supplementary budget.** We will use any revenue over performance or other savings to achieve a lower-than-targeted budget deficit or—after consultation with the EC and IMF—to accelerate the absorption of EU funds or increase spending on social safety nets or active

labor market policies. This will limit the amount of adjustment needed in 2012 to meet the Maastricht deficit criterion.

17. **We will take steps to strengthen fiscal discipline and maintain fiscal sustainability over the medium-term.**

- To limit the scope for expenditure overruns and to encourage accurate budgeting, we amended Article 30 of the Law on 2011 State Budget to reduce the maximum state budget appropriation for unforeseen events from 0.4 to 0.2 percent of GDP.

- To limit future commitments and fiscal risk and to meet our fiscal deficit targets, we will launch no new PPPs in 2011 (except concessions in which the government assumes no risk or liability). We also continue to cap public guarantees at L754 million (the level in June 2009, when the 2009 supplementary budget was passed).

- We have completed a concept paper on the long-run sustainability of social security—which benefitted from technical assistance on expenditure policy from the IMF and was prepared with assistance from the World Bank—that will form the basis for a comprehensive pension reform which we intend to introduce in the context of the 2012 budget. In that context, we reiterate our commitment to preserving the sustainability of the three pillars of our pension system and to restoring contributions to the second pillar to 6 percent of gross salaries by 2013, provided that the budgetary situation improves in line with our forecast.

- We have prepared an exhaustive list of all state-owned enterprises in Latvia, including information on their financial situations. However, preparation of a strategy for improving management of these enterprises, including which of these should remain state-owned enterprises, be transformed into government agencies, or privatized, has been delayed. We now intend to engage a consultant by end-June, to help us complete this strategy by end-October 2011 (structural benchmark).

- Following discussions with constitutional experts and members of Parliament, we decided to delay submission of a Fiscal Responsibility Law to Parliament—originally scheduled for end-September 2010—to allow more time to improve the Law and reach agreement on the constitutional amendments necessary to ensure that the provisions of the Fiscal Responsibility Law has greater legal standing than other laws. In particular, we intend to further improve the law, including by incorporating suggestions from the IMF and EC. We intend to agree on the substance of a draft of the Fiscal Responsibility Law with the IMF and the EC by end-August 2011, which we will submit to Parliament by end-November 2011 (structural benchmark). This will help anchor fiscal policy on a credible path following completion of the program, ensure the sustainability of public debt, and allow for counter-cyclical fiscal policy.

- As envisaged in the Fiscal Responsibility Law, we intend to prepare a Medium-Term Budget Framework Law that specifies binding multi-year expenditure ceilings, a prohibition on raising within-year appropriations due to over-performing revenues, and limitations on the introduction of expansionary fiscal measures after adoption of the budget. At a minimum, we will supplement the draft State Budget Law for 2012 with a medium-term macroeconomic development and fiscal policy framework (including a non-binding version of the Medium-Term Budget Framework for 2012).

- We are taking steps to ensure that the provisions in the Fiscal Responsibility Law and the Medium-Term Budget Framework Law—which we intend to submit to Parliament by mid-2012—have greater legal standing than other laws by submitting a constitutional amendment to Parliament by end-November. In addition, we will submit a report to the relevant parliamentary committee by end-May making recommendations on ways to ensure that the Ministry of Finance is given adequate time to evaluate all tax proposals before Parliament votes on these proposals.

18. **For 2012, we will cut our deficit to below 3 percent of GDP (ESA95 terms), consistent with the program target.** Aiming for a 2.5 percent of GDP (ESA95) deficit will demonstrate our commitment to fiscal discipline and debt sustainability, and to meeting the Maastricht criterion on a sustainable basis. Provided that we keep this year's deficit to 4.5 percent of GDP, our current estimates suggest L150 to L180 million (1.1 to 1.3 percent of GDP) in additional net measures will be needed to achieve the necessary fiscal consolidation. To improve revenue collection, we are working on proposals to reform the property tax and to implement a comprehensive strategy to reduce the grey economy. We are also working to reallocate personal income taxes paid to local governments to the state budget. On the expenditure side, we are considering reducing the public sector wage bill and reducing state subsidies (including subsidies to Riga international airport). In order to identify additional options for fiscal consolidation, we intend to prepare a menu of options that we anticipate will focus primarily on expenditure cuts (mid-August structural benchmark). We anticipate that this menu will include elements from the 2011 menu of options—which benefitted from input from the IMF, EC, and the World Bank—that were not incorporated in this year's budget. The menu should include options for rationalizing the system of social benefits and for improving the sustainability of the pension system that is consistent with the long-term stability of the social security system. We will also extend the temporary cap on benefit payments to high earners (set to expire at end-2012) till 2014. We intend to submit a 2012 budget to Parliament by end-September (structural benchmark) consistent with our goal of convincingly meeting the Maastricht deficit target.

19. **We are committed to ensuring a smooth transition back to private market financing during the remainder of the program.** Consistent with our medium-term debt strategy we intend to increase reliance on domestic financing, while working to lengthen the maturity structure of public debt to reduce rollover risk. It is also our intention to access international capital markets once conditions are favorable, to ensure that we are able to meet

our external repayment obligations in the coming years. In order to limit macroeconomic volatility we intend to maintain a smooth domestic borrowing profile, while limiting the amount of overall borrowing to an amount consistent with continued debt sustainability.

III. Monetary and Exchange Rate Policy

20. **The fixed (narrow band) exchange rate will remain the anchor for monetary policy until we adopt the euro.** Should NIR fall by more than EUR 500 million in any given 30-day period, we will consult with IMF and EC staff. We will also consult with IMF staff prior to any changes to official interest rates and minimum reserve requirements. Maintaining monetary and financial stability requires credible policymaking independence. As such, we reaffirm the existing strong institutional and financial independence of the BoL and FCMC as a basis for continued stability.

21. **Our fixed (narrow band) exchange rate regime entails that monetary conditions should be consistent with liquidity conditions in the Euro area.** Overnight interbank rates in the Euro area have increased in recent months due to the tightening of liquidity conditions, and are now above those in Latvia. We will adjust our policy stance if necessary to ensure monetary conditions in Latvia remain consistent with our fixed exchange rate.

22. **Treasury has started exchanging program financing on market, rather than off market at the BoL.** While the sale of foreign exchange on market may increase exchange rate volatility, we believe it will help contain the buildup of excess liquidity and facilitate liquidity management. We recognize the importance of ensuring that Treasury sales of foreign exchange on-market are determined by fiscal financing needs and are not perceived as intervention in the foreign exchange market. To that end, we have designed—in consultation with the IMF—a transparent approach whereby Treasury conducts foreign exchange sales at daily public auctions, with the amount of foreign exchange that Treasury intends to sell preannounced four weeks ahead. After building up a buffer in January and February to cope with intra-monthly spending flows, amounts sold are linked to Treasury's fiscal financing need in the coming month. The amount sold is reported on the Treasury's website the following week, together with historical data. Through April this year, we have sold approximately L350 million in foreign exchange.

IV. Financial Sector

23. **We continue to strengthen our supervision of the financial system in Latvia.** Revised regulations on the management of large exposures and remuneration policies came into effect in December last year, to reflect recent changes to the EU Capital Requirements Directive. We also revised our guidelines on stress-testing in February 2011 to improve banks' internal risk management, and to incorporate the guidelines on stress-testing issued by the Committee of European Banking Supervisors last August. We will strictly enforce these

regulations, while continuing to amend our supervisory framework as needed to keep pace with evolving international best practice. In addition, we will maintain our intensified supervision of banks that have received state aid, and will continue to strictly enforce other prudential rules. Finally, we have improved our cooperation with neighboring countries on cross-border financial stability and crisis management through the establishment of the high-level Nordic-Baltic Cross-Border Stability Group in June 2010—the first meeting of the Group took place in November 2010—and through enhanced cooperation with the relevant foreign supervisors.

24. **We are committed to implementing the sales strategies for Citadele Bank and Parex Bank, which we expect to be approved by Cabinet on May 10.** We intend to carry out the sale of Citadele and Parex separately, and will not bundle any of Parex's assets with those in Citadele, since that could undermine Citadele's attractiveness to potential investors. To achieve adequate burden sharing, we are committed to ensuring that none of Parex's shareholders that were a party to the Investment Agreement at the time of the initial government intervention in Parex, or any investors associated with these shareholders, are allowed to purchase any part of the balance sheet of these banks.

- The sales process for Citadele will be started in the near future to allow us to quickly recover the state aid provided to the bank, free up managerial resources, and ensure compliance with the EC-approved restructuring plan. We intend to market the bank as a whole, but, in order to maximize the potential recovery of state aid, we will also allow investors to bid for individual parts of the balance sheet in a public auction.

- The sales strategy for Parex—which will be implemented by Parex management — envisages a gradual but aggressive asset realization (i.e. collections, workouts, and sales) for assets that are less likely to decrease in value, coupled with the short-term sale of the remainder of the portfolio. In particular, our intention is to avoid the fire-sale of assets while maximizing the recovery of state aid.

- We will ensure that all state-owned banks have sufficient liquidity to meet their external obligations without resorting to liquidity assistance from other state-owned banks.

25. **We intend to pursue Parex's former shareholders and senior managers for losses they caused to Parex bank and to the state.** In particular, we intend to seek compensation from the two former majority shareholders and senior managers in the courts in order to—at a minimum—recover amounts the state originally expended in stabilizing the bank. To that end, we will swiftly determine the amount of losses caused to the bank and to the state, and intend to file suit expeditiously.

26. **We remain committed to fair and equitable treatment of depositors and creditors in the Latvian banking system.** Under our deposit insurance system, we are committed to respecting the rights of all depositors, both resident and non-resident. The partial freeze limiting withdrawal amounts from deposits in Parex was relaxed at end-2010, and will only be removed when there is no risk that the withdrawal of deposits will threaten successful implementation of the restructuring plan of Parex Bank.

27. **We submitted a transformation plan for MLB to the EC on April 15:**

- The plan, which has been delayed due to difficulties in reaching a consensus among all stakeholders on the best way forward, envisages the sale of the assets and liabilities of the commercial part of the bank in an open and transparent process. We intend, to the extent possible, to transfer deposits to acquiring bank(s). After divesting the assets and liabilities of the commercial part of the bank we intend to merge the development part of the bank with other state development institutions (see ¶28).

- We have already started preparing for the sale of the commercial segment of MLB later this year. To facilitate this, we have appointed a senior government official to take charge of the restructuring process. We will also hire a qualified, experienced, and independent sales consultant mobilizing a team of internationally reputable experts to prepare and run the sales strategy (end-May structural benchmark). We will consult with the EC and IMF on both appointments and their terms of reference.

- The sales consultant will be tasked with preparing a sales strategy for the commercial segment of MLB, on which we intend to consult with the Fund and the EC. We will submit this strategy to the EC by end-June, in order to allow the actual sales process to start in July, and will appoint a qualified and independent head of restructuring with international experience—who will report to MLB's supervisory council—to oversee the restructuring and sales process (end-June structural benchmark). This should allow us to achieve our goal of selling the commercial part of the bank by mid-December 2011 (structural benchmark).

- Because of potential conflicts of interest, as well as restrictions imposed by the EC-approved restructuring plan, Citadele Bank will not be allowed to purchase any part of MLB's balance sheet. Given the ban on any new economic activities in the EC-approved restructuring plan, any purchase by Parex of MLB assets will be limited.

28. **We will approve a plan to optimize the system of development lending in Latvia by end-October.** The plan envisages creating a single development institution to realize synergies across existing institutions and allow more effective use of EU funds, including by on-lending concessional funds using commercial banks as intermediaries. There will be no direct lending to clients by the development institutions except already approved concessional programs (we estimate this at L245 million), and special programs as described

below. Looking ahead, direct lending will be limited to instances where the lending is: (i) associated with the delivery of products not offered by the commercial banking sector; (ii) dependent on highly specialized knowledge that commercial banks do not possess: or (iii) of too small volume or too risky to be of interest to commercial banks. We will cap new direct lending in line with our consultant's findings. We intend to work closely with the EC on implementation of this plan, as set out in the EC SMoU.

29. **We intend to request technical assistance from the IMF to improve our decision making during the resolution of a credit institution.** The Law on Credit Institutions and the Law on Bank Takeovers provides legal indemnity for the FCMC and its agents—including private individuals authorized by the FCMC—while carrying out their duties. We are working with the IMF to ensure that our legal framework also allows for effective decision making among other government officials, including employees of the Ministry of Finance and the Latvian Privatization Agency, involved in the resolution or restructuring of a credit institution.

V. PRIVATE DEBT RESTRUCTURING

30. **We are working with the IMF to strengthen the incentives for market-based debt restructuring.**

- Regulations were issued in late-2010 to clarify the tax implications of debt write-downs. In addition, we have amended our legislation to ensure that the transfer of a distressed loan to a third party is a tax neutral event, and to waive personal income tax liabilities from debt write-downs for a period of two years, to increase incentives for faster debt resolution. We also intend to reduce the current two percent stamp duty once the economic situation improves. Finally, by end-July, we intend to take steps to clarify the method for collecting VAT on the sale of foreclosed assets.

- A new law regulating inter alia personal insolvency—which allows financially responsible individual debtors a fresh start at the end of the insolvency proceedings—became effective on November 1, 2010. The new law is expected to significantly decrease the cost and time needed for personal insolvency procedures, thus facilitating debt resolution and rehabilitation of such debtors.

- We have submitted amendments to the Civil Procedure Law to Parliament to grant priority status to unsecured claims relating to administration charges for apartment buildings and charges for heating and natural gas supplied to an apartment owner. We intend to work with the IMF to address a number of concerns with the initial proposal—especially the fact that it applies retroactively—and will submit amendments to the initial proposal to Parliament by end-July (structural benchmark).

- Amendments to the Civil Procedure Law that allow the winning bidder at a foreclosure auction to obtain a bank guarantee letter—instead of a bank loan which would require the buyer to pledge the asset auctioned as collateral—to facilitate the simultaneous payment of the auctioned property, transfer of title, and vesting of the first priority security interest in the bank, became effective last year. We believe this will increase the number of successful auctions and facilitate price-discovery. In addition, we are working with the IMF to identify ways to accelerate and reduce the costs of post-auction approval procedures.

- We have submitted amendments to the Civil Procedure Law to Parliament to simplify and accelerate the resolution of small claims.

VI. OTHER ISSUES

31. **We will continue to place all long-term program funds in special sub-accounts at the Treasury's euro account at the BoL**. Should these program accounts intended for budget support fall by more than EUR 250 million in any 30-day period, the Ministry of Finance will consult with EC and IMF staff. Treasury will also continue to keep its deposits (except daily working balances) with the BoL.

32. **The Latvian government will work closely with the EC to pursue reforms as specified in our SMoU with the EC**, in particular to improve the business environment and to make more efficient use of EU-cofinanced financial instruments and R&D support programs.

VII. IMF ARRANGEMENT

33. **On top of our previous commitments under the program, we believe the policies described above are sufficient to achieve the goals of our economic program.** Nevertheless, we stand ready to take additional measures needed to keep the program on track. We will consult with the EC, IMF, and other program partners on the adoption of these measures and in advance of any revisions to the policies contained in this Letter in accordance with the IMF's policies on such consultation. In addition, we will supply information the IMF requests on policy implementation and achievement of program objectives in a timely manner.

34. **We authorize the IMF to publish this Letter of Intent and its attachments (including the Technical Memorandum of Understanding), and the related staff report.**

Sincerely yours,

/s/

Valdis Dombrovskis
Prime Minister

/s/

Andris Vilks
Minister of Finance

/s/

Ilmārs Rimšēvičs
Governor of the
Bank of Latvia
For the
responsibilities
of the BoL

/s/

Irēna Krūmane
Chairwoman
Financial and Capital Market Commission

Table 1: Latvia: Quantitative Performance Criteria and Indicative Targets under the Stand-By Arrangement, Third Review

(In millions of lats unless otherwise indicated)

	2010												2011		
	Performance Criteria												Indicative Target		
	end-March			end-June			end-Sept			end-Dec			end-March		
	Program	Adjusted	Outcome	Program	Adjusted	Outcome	Program	Adjusted	Outcome	Program	Adjusted	Outcome	Program	Adjusted	Prel. Outcome
I. Quantitative performance criteria															
Floor on net international reserves of the Bank of Latvia (millions of euros) 1/	1	29	1,451	-506	-361	1,415	694	839	1,586	141	286	1,200	-281	-136	978
Ceiling on net domestic assets of the Bank of Latvia 1/	1,707	1,679	445	2,056	1,911	708	1,344	1,199	696	1,741	1,596	968	1,960	1,815	1,302
Floor on primary non-EU cash fiscal balance 2/ 3/	-124	-116	-94	-353	-338	-100	-401	-401	-135	-782	-782	-319	-123		
Ceiling on public guarantees	836		379	836		389	754		416	754		426	754		
II. Continuous performance criteria															
Ceiling on accumulation of general government domestic arrears	40		12	40		15	40		12	40		5	40		
Ceiling on accumulation of general government external arrears (millions of euros)	0		0	0		0	0		0	0		0	0		
III. Staff consultation clauses															
If international reserves fall by more than €500 million in any given 30-day period															
If sub-accounts for program budget support fall by more than €250 million in any 30-day period	Consultation held in mid-March														
IV. Indicative target															
Ceiling on the general government wage bill 2/	194		188	457		423	654		604	948		846	197		

1/ NIR targets will be adjusted downwards/upwards and NDA targets will be adjusted upwards/downwards by the net change in emergency liquidity assistance (TMU ¶6). NIR targets will be adjusted upwards (and NDA targets adjusted downwards) for any non-concessional external debt issued by the government (TMU ¶7).

2/ Cumulative from the beginning of the fiscal year.

3/ Adjusted downwards for additional social safety net spending (TMU ¶13), and adjusted upward for shortfalls on private debt restructuring costs (Third Review TMU ¶14) and excess EU funds-related spending (TMU ¶14).

Table 2: Latvia: Quantitative Performance Criteria and Indicative Targets under the Stand-By Arrangement, Fourth Review

(In millions of lats unless otherwise indicated)

	2011			
	Indicative Target	Performance Criteria	Indicative Targets	
	end-June	end-Aug	end-Sept	end-Dec
	Program	Program	Program	Program
I. Quantitative performance criteria				
Floor on net international reserves of the Bank of Latvia (millions of euros) 1/	222	76	3	-580
Ceiling on net domestic assets of the Bank of Latvia 1/	1,648	1,754	1,808	2,262
Floor on primary non-EU cash fiscal balance 2/ 3/	-52	-33	-23	-69
Ceiling on public guarantees	754	754	754	754
II. Continuous performance criteria				
Ceiling on accumulation of general government domestic arrears	40	40	40	40
Ceiling on accumulation of general government external arrears (millions of euros)	0	0	0	0
III. Staff consultation clauses				
If international reserves fall by more than €500 million in any given 30-day period				
If sub-accounts for program budget support fall by more than €250 million in any 30-day period				
IV. Indicative target				
Ceiling on the general government wage bill 2/	505	635	700	929

1/ NIR targets will be adjusted downwards/upwards and NDA targets will be adjusted upwards/downwards by the net change in emergency liquidity assistance (TMU ¶6). NIR targets will be adjusted upwards (and NDA targets adjusted downwards) for any non-concessional external debt issued by the government (TMU ¶7).

2/ Cumulative from the beginning of the fiscal year.

3/ Adjusted downwards for additional social safety net spending (TMU ¶13), and adjusted upwards for excess EU funds-related spending (TMU ¶14) and excess net lending (TMU ¶16).

Table 3. Latvia: Structural Benchmarks through end-December 2010

Structural Benchmarks	Motivation	Status
By end-June:		
Conduct thorough review of welfare benefits	Fiscal sustainability: Some measures in the 2010 budget are due to expire in 2012. Permanent (perhaps different) measures are needed to ensure welfare benefits remain at a sustainable level which this review should identify.	Partially done. A separate report was not produced, although a proposal to make permanent the reduction in parental benefits was included in the pension strategy paper.
Pension reform	Fiscal sustainability: Prepare changes in pension system in order to preserve future sustainability of three pillars of pension system, with a view to introducing these changes by January 2011, with international assistance and in close cooperation with social partners.	Done. A strategy paper was produced on schedule that offers a number of possible approaches to reform the pension system and improve the system's sustainability.
Prepare a draft fiscal responsibility law	Fiscal sustability: Anchor fiscal policy on a credible and sustainable path	Done. A draft fiscal responsibility law was produced on schedule but staff are encoruaging the authorities to make revisions before the law is submitted to Parliament.
By end-July:		
Prepare a report on whether any legislative changes are necessary to allow credit institutions, their subsidiaries, and separated entities to deduct losses from debt write-downs against corporate income tax	Financial stability: Reduce non-performing loans. Growth: Enable new bank lending.	Done with delay. A report was produced which lays out the regulations and laws which need to be amended to allow credit institutions to deduct losses from debt write-downs against corporate income tax.
Engage a reputable and qualified independent advisor to assist with formulation of a transformation plan for MLB	Financial stability: Crucial to stem further erosion in the bank's value. Fiscal sustainability: limit the need for continued public recapitalization.	Done with delay. The authorities have hired SEB Enskilda to assist in the formulation of a transformation plan.
By end-September:		
Complete strategy paper for defence sector	Fiscal sustainability: Budget cuts have reduced defence expenditures to 1.14 percent of GDP in 2010. To ensure this lower appropriation is feasible over the medium-term, this strategy will set out priorities for the sector within this reduced budget envelope.	Done.
Submit a transformation plan for MLB to the EC	Financial stability: Crucial to stem further erosion in the bank's value. Fiscal sustainability: limit the need for continued public recapitalization.	Done with delay. A transformation plan was submitted to the EC on April 15.

Table 3. Latvia: Structural Benchmarks through end-December 2010 (concluded)

By end-September (continued):		
Parliamentary approval of revisions to our tax legislation to allow credit institutions to deduct losses from debt-write downs against corporate income tax	Financial stability: Reduce non-performing loans. Growth: Enable new bank lending.	Done with delay.
Introduce a temporary one-year waiver for personal income tax liabilities resulting from debt write-downs	Financial stability: Reduce non-performing loans. Growth: Enable new bank lending.	Done with delay.
Submit a Fiscal Responsibilty Law to Parliament	Fiscal sustainability: Anchor fiscal policy on a credible and sustainable path	Not done. Staff encouraged the authorities to delay submission to improve the draft law.
Submit a report to Parliament on options for ensuring that the Fiscal Responsibility Law has a greater legal standing than other laws	Ensure fiscal sustainability.	Partially done. The Finance Ministry made a presentation to the Parliament's budget and finance committee. A draft constitutional amendment to be submitted with the FRL is being prepared.
Produce list of state-owned enterprises	Fiscal transparency and sustainability.	Done.
By end-October:		
Prepare menu of potential structural reforms.	Fiscal sustainabiltity: Preparation of a menu of possible structural reforms in key sectors will help achieve sustainable savings in the 2011 budget.	Done
By end-December:		
Produce strategy on state-owned enterprises	Improve fiscal transparency, reduce fiscal risks, potentially raise government revenues by spelling out which enterprises will be brought back under the budget, considered for privatization, or maintained as state-owned enterprises.	Not done. The government is working to strengthen SOE management under the current structure while engaging a consultant to develop a strategy by end-October 2011.

Table 4. Latvia: Structural Benchmarks for 2011

Structural Benchmark	Motivation	Target date
Fiscal Policy:		
Prepare a menu of options to achieve the 2012 deficit target.	Fiscal sustainability: A menu of options developed early in the budget cycle will facilitate preparation of the 2012 budget based on high-quality measures.	Mid-August
Revise the tax compliance strategy, taking into account recommendations of an upcoming technical assistance mission from the IMF.	Fiscal sustainability: Improved tax compliance will increase revenue and facilitate the achievement of fiscal deficit objectives. Governance: reduce the gray economy.	End-August
Submission of a 2012 budget to Parliament consistent with the goal of convincingly meeting the Maastricht deficit criterion.	Fiscal sustainability: A strong 2012 budget will be needed to convincingly meet the Maastricht deficit criterion and move Latvia toward the goal of euro adoption in 2014.	End-September
Complete a strategy to improve management of state-owned enterprises.	Fiscal sustainability: Improve fiscal transparency, reduce fiscal risks, and potentially raise government revenues.Growth: Increase economic efficiency by reducing state involvement in areas that could be served by the private sector.	End-October
Submission to Parliament of a draft Fiscal Responsibility Law in consultation with the IMF and the EC.	Fiscal sustainability: This will help anchor fiscal policy on a credible path following completion of the program, ensure the sustainability of public debt, and allow for counter-cyclical fiscal policy.	End-November
Prepare an active labour market policy (ALMP) strategy that will replace the WWS program.	Fiscal sustainability: The new policy will allow a transition away from emergency social safety net spending towards more traditional ALMP spending.	End-November
Financial Sector:		
Hire a qualified, experienced, and independent sales consultant mobilizing a team of internationally reputable experts to prepare and run the MLB sales strategy.	Financial stability: Stem further erosion in the bank's value and maintain depositor confidence. Fiscal sustainability: Limit the need for continued public recapitalization.	End-May
Submit a MLB sales strategy to the EC and appoint a qualified and independent head of restructuring with international experience to oversee the restructuring and sales process.	Financial stability: Stem further erosion in the bank's value and maintain depositor confidence. Fiscal sustainability: Limit the need for continued public recapitalization.	End-June
Submit amendments to the initial proposal to amend the Civil Procedure Law to Parliament.	Financial stability: The amendments will address a number of concerns with the initial proposal to address unpaid debts to utility companies, including its retroactive character.	End-July
Sell the commercial part of MLB.	Financial stability: Stem further erosion in the bank's value and maintain depositor confidence. Fiscal sustainability: Limit the need for continued public recapitalization.	Mid-December

Republic of Latvia: Technical Memorandum of Understanding (TMU)

May 9, 2011

35. This Technical Memorandum of Understanding (TMU) defines the variables subject to quantitative targets (performance criteria and indicative targets) established in the Letter of Intent dated May 9, 2011 signed by the Prime Minister, the Minister of Finance, the Chairwoman of the Financial and Capital Market Commission, and the Governor of the Bank of Latvia. It describes the methods to be used in assessing program performance with respect to these targets.

36. For program purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "program exchange rates" as defined below, with the exception of the government fiscal balances, which will be measured at current exchange rates. The program exchange rates are those prevailing on November 28, 2008. In particular, for the purposes of the program, the exchange rate of the Latvian Lats (LVL) to the euro is set at LVL 0.702804 = €1, to the U.S. dollar at LVL 0.544 = $1, and to the Japanese yen at LVL 0.00571 = 1 JPY, as shown on the Bank of Latvia (BoL) website.

A. Floor on Net International Reserves of the BoL

	(in millions of euros)
Floors on level of NIR:	
June 30, 2010 (performance criterion)	-506
September 30, 2010 (performance criterion)	694
December 31, 2010 (performance criterion)	141
June 30, 2011 (indicative target)	222
August 31, 2011 (performance criterion)	76
September 30, 2011 (indicative target)	3
December 31, 2011 (indicative target)	-580

Definitions

37. **For program purposes, the following definitions apply**:

- ***Net international reserves*** (NIR) of the BoL are the difference between the BoL's foreign reserve assets and the BoL's foreign reserve liabilities, minus Treasury liabilities to the IMF, the European Union, and other official creditors participating in the program. If not otherwise captured under this definition, assets associated with SDR allocations will be added to NIR assets, and liabilities associated with SDR allocations will be added to NIR liabilities.

- ***Foreign reserve assets*** of the BoL are claims on nonresidents denominated in convertible currencies. They include the BoL's holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, participating interests in the European Central Bank and the Bank for International Settlements, and other foreign assets. Excluded from foreign reserve assets are any assets that are frozen, pledged, used as collateral, or otherwise encumbered, except if already included as foreign liabilities, precious metals other than gold, assets in nonconvertible currencies, and illiquid assets. As of December 31, 2010, foreign reserve assets thus defined amounted to 5,753 million euro.

- ***Foreign reserve liabilities*** of the BoL comprise all liabilities to nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options) and banks' foreign currency deposits against reserve requirements. Government foreign exchange deposits with the BoL are not treated as a foreign reserve liability. As of December 31, 2010, reserve liabilities thus defined amounted to 78.6 million euro.

- ***Base money*** is defined as lats in circulation (both outside banks and vault cash), required and excess reserve deposits of financial institutions in lats and in foreign currency held at the BoL (excluding financial sector funds deposited in the BoL's deposit facility and in term deposits in the BoL). As of December 31, 2010, base money amounted to 1,811 million lats.

- ***Net domestic assets*** (NDA) of the BoL are defined as base money minus the net foreign assets (NFA) of the BoL, plus Treasury liabilities to the IMF, the European Union and other official creditors participating in the program, expressed in local currency, at program exchange rates. If not otherwise captured under this definition, assets associated with SDR allocations will be subtracted from NDA, and liabilities associated with SDR allocations will be added to NDA. As of December 31, 2010, net domestic assets of the BoL amounted to 968 million lats.

- ***Net foreign assets*** of the BoL are the difference between the BoL's foreign reserve assets and the BoL's foreign reserve liabilities defined above, plus those foreign reserve assets of the BoL that were excluded from the definition of foreign reserve assets above. As of December 31, 2010, net foreign assets of the BoL amounted to 3,988 million lats (5,674 million euro).

38. As of December 31, 2010 the sum of Treasury liabilities to the IMF, the European Union, and other official creditors participating in the program over the program period, amounted to 4,335 million euro. Liabilities associated with the SDR allocation amounted to 140 million euro.

39. The ceilings set out below are based on the assumption that all program related financing will be extended to the Latvian government and will be deposited in special sub-accounts of the Treasury at the BoL. If the reserve requirement ratio and/or the definition of liabilities subject to reserve requirements is changed during the program period, the BoL will consult with the IMF staff to modify the above limits appropriately

B. Ceiling on Net Domestic Assets of the BoL

	(in millions of lats)
Ceiling on level of NDA:	
June 30, 2010 (performance criterion)	2,056
September 30, 2010 (performance criterion)	1,344
December 31, 2010 (performance criterion)	1,741
June 30, 2011 (indicative target)	1,648
August 31, 2011 (performance criterion)	1,754
September 30, 2011 (indicative target)	1,808
December 31, 2011 (indicative target)	2,262

Adjustors

40. So as to not constrain legitimate provision of emergency liquidity assistance (ELA) —subject to the limits implied by Latvia's quasi currency board arrangement—the NDA ceiling will be adjusted upwards/downwards (and correspondingly the NIR target will be revised down/up) by the net change in ELA relative to the outstanding amount on March 31, 2011, provided that net foreign assets of the BoL remain above base money. The outstanding amount on March 31, 2011 was zero.

41. The NIR targets will be revised up (and NDA targets revised down) for the full amount of any non-program external debt contracted by the government. For this adjustor, non-program external debt does not include Treasury liabilities to the IMF, the European Union, or other official creditors participating in the program.

C. Floor on the primary Non-EU Cash Fiscal Balance of the General Government

	(in millions of lats)
Cumulative adjusted primary cash fiscal balance from January 1, 2010:	
June 30, 2010 (performance criterion)	-353
Sept.30, 2010 (performance criterion)	-401
Dec. 31, 2010 (performance criterion)	-782
Cumulative adjusted primary cash fiscal balance from January 1, 2011:	
June 30, 2011 (indicative target)	-52
August 31, 2011 (performance criterion)	-33
September 30, 2011 (indicative target)	-23
December 31, 2011 (indicative target)	-69

42. The general government includes: (i) the central government, including all ministries, agencies and institutions attached thereto, as defined in the basic budget; (ii) derived public persons, including universities; (iii) the social security fund (first pillar), as described in the special budget; (iv) municipalities, provincial, regional governments including their basic and special budgets, including all agencies and institutions attached thereto, which are classified as part of general government according to the budget documents and which are included by the BoL in its monthly submissions to the IMF of balance sheets of the central bank and the consolidated accounts of the commercial banks. No off-budgetary funds will be maintained or created. This definition of general government also includes any new funds, or other special budgetary and extra-budgetary programs that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF's *Manual on Government Finance Statistics 2001*. The authorities will inform IMF staff of the creation of any such new funds or programs immediately.

43. The non-EU cash primary fiscal balance of the general government is defined as **general government overall balance**, in cash:

- excluding bank restructuring costs (¶12);
- plus interest expenditure;
- minus revenues from EU funds (reimbursements and advances) at the general government level (central and local governments);

- plus EU-related spending by the central government (including national co-financing and pre-financing), including transfers from the central budget to local governments for EU-related spending (excluding net lending).

44. Foreign financial assistance not managed by the European Commission is excluded from the revenues from EU-funds and from the associated spending.

45. The net government overall balance includes all recognitions of liabilities by the general government unit. This includes in particular the following debt-related transactions: debt assumption (i.e. when the general government assumes responsibility for the debt as the primary obligor, or debtor), debt payments on behalf of others, debt forgiveness, debt restructuring and rescheduling, debt write-offs and write-downs, debt-for-equity swaps, and defeasance. For example, if a loan guarantee is called, the general government records a transfer to the defaulter and an incurrence of a liability to the creditor.

Bank restructuring costs

46. For program purposes, the cash fiscal balance of the general government excludes the restructuring costs of troubled banks, when carried out under the program's banking sector restructuring strategy. Costs that may be excluded from the cash balance include loans to financial institutions and investments in equity of financial institutions (requited recapitalization); unrequited recapitalization; and purchase of troubled assets. However, any financial operation from the general government to support banks, including the emission of guarantees or the provision of liquidities, will be immediately reported to IMF staff.

Social spending (adjustor)

47. The floor for the non-EU cash primary fiscal balance of the general government will be adjusted downward for any additional spending on social safety nets, as defined under the World Bank strategy, cumulated from January 1, 2010, above 17.5 million lats and up to 35 million lats per quarter.

Excess EU-related spending (adjustor)

48. Should spending on EU-related items exceed 1,200 million lats (remaining funds divided by remaining number of years), the floor on the non-EU primary cash fiscal balance will be adjusted upwards by the excess.

Financing

49. Consistent with the NDA ceilings in section B, the government will deposit all program related financing in special sub-accounts of the Treasury at the BoL. The accounts will be distinct from those receiving financing from other program partners, including the European Commission, which will be reported separately.

D. Ceiling on the General Government Wage Bill

	(in millions of lats)
Wages and salaries (Cumulated from January 1, 2010):	
June 30, 2010 (indicative target)	457
September 30, 2010 (indicative target)	654
December 31, 2010 (indicative target)	948
Wages and salaries (Cumulated from January 1, 2011):	
June 30, 2011, (indicative target)	505
August 31, 2011 (indicative target)	635
September 30, 2011 (indicative target)	700
December 31, 2011 (indicative target)	929

50. General government net lending will be excluded from calculation of the floor for the non-EU cash primary fiscal balance of the general government up to 115 million lats. Should actual cumulative net lending exceed 115 million lats, the floor will be adjusted upwards by the difference.

51. The ceiling on the general government wage bill includes general government (as defined above) wages and salaries, including allowances (including separation allowances) and bonuses. No in kind benefits will be increased or created during the program period.

E. Ceiling on Public Guarantees

52. The stock of outstanding guarantees issued by the general government and by all public agencies and enterprises, excluding public banks and their subsidiaries, will not exceed 754 million lats for the duration of the program:

- This ceiling includes all guarantees that can be issued or committed by the Latvian Guarantee Agency, the Rural Development Fund, or any other public agency or enterprise, excluding public banks;

- It does not include up to 313 million lats of one-off guarantees already issued, committed or planned in the June 2009 supplementary budget to Mortgage and Land Bank; however, further guarantees to Mortgage and Land Bank, except for bank restructuring operations, will be counted under the ceiling on public guarantees;

- It does not include 541 million lats of guarantees already issued, committed or planned, at the date of June 2009 supplementary budget, to Parex or to the privatization agency for Parex-related operations;

- It does not include guarantees extended within the general government.

53. Consistent with the Law on Budget and Financial Management, the estimated fiscal costs of guarantees will be covered by budget appropriations in the contingency reserve. The ceiling on public guarantees will only be raised if required for bank restructuring operations and after consultation with EC and IMF staff.

F. Continuous Ceiling on Domestic Arrears by the General Government

54. General government domestic arrears are defined as amounts that have not been paid by the date specified in a contract or within a normal commercial period for similar transactions by the general government. This applies in particular to (i) all employment contracts and arrears, thereby capturing delayed wage payments to employees of the public sector and (ii) mandatory contributions to the social insurance funds. The ceiling for arrears will be set at 40 million lats for the duration of the program. As of December 31, 2010, the stock of arrears stood at 5 million lats. This performance criterion will apply on a continuous basis.

G. Continuous Performance Criterion on Non-accumulation of External Debt Payments Arrears by the General Government

55. The general government will accumulate no new external debt payments arrears during the program period. For the purposes of this performance criterion, an external debt payment arrear will be defined as a payment due to nonresidents by the general government, which has not been made within seven days after falling due. This performance criterion does not cover trade credits, or nonresident deposits in state-owned banks. This performance criterion will apply on a continuous basis.

56. The stock of external debt payments arrears of the general government will be calculated based on the reported schedule of external payments obligations. Data on external debt payments arrears will be reconciled with the relevant creditors, and any necessary adjustments will be incorporated in these targets as they occur.

H. Monitoring and Reporting Requirements

57. Performance under the program will be monitored using data supplied to the IMF by the BoL, the Financial and Capital Market Commission, and the Ministry of Finance as outlined in Table 1. The authorities will transmit promptly to IMF staff any data revisions.

Table 1. Republic of Latvia: Data to be Reported to the IMF

Item	Periodicity
To be provided by the Ministry of Finance	
Consolidated central (basic and special budgets), local and general government operations based on the IMF fiscal template	Monthly, within four weeks of the end of each month
Detailed information on revenues from EU funds at the general government level, and EU-related spending by the central government, including transfers to local governments for EU-related spending	Monthly, within three weeks of the end of each month
Social safety net spending	Quarterly, within four weeks of the end of each quarter and within four weeks of test dates for quantitative performance criteria
Data on general government net lending.	Quarterly, within four weeks of the end of each quarter and within four weeks of test dates for quantitative performance criteria.
Public sector guarantees, with a detailed breakdown by issuing institution or agency and purpose.	Quarterly, within four weeks of the end of each quarter and within four weeks of test dates for quantitative performance criteria
Consolidated central and general government bank restructuring operations	Daily, by end of next working day
Privatization receipts received by the general government budget (in lats and foreign exchange, and payments in governments bonds)	Monthly, within four weeks of the end of each month
Information on debt stocks and flows, domestic and external (concessional and non concessional), by currency, and guarantees issued by the (i) consolidated central, local and general governments and (ii) public enterprises (including the Latvian guarantee agency and the Rural guarantee fund), including amounts and beneficiaries	Monthly, within four weeks of the end of each month
Information on new contingent liabilities, domestic and external, of the consolidated central, local and general governments	Monthly, within four weeks of the end of each month
Data on general government arrears, including to suppliers	Monthly, within four weeks of the end of each month
Data on operations of extra budgetary funds	Monthly, within four weeks of the end of each month
Data on the stock of the general government system external arrears	Daily, with a seven days lag
To be provided by the Bank of Latvia	
Balance sheet of the BoL, including (at actual exchange rate) (i) data on components of program NIR; (ii) government balances at the BoL, broken into foreign exchange balances—distinguishing various program partner sub-accounts for program financing—and balances in lats.	Daily, within one working day

Balance sheet of the BoL (at program and actual exchange rates) (i) data on components of program NIR; (ii) government balances at the BoL, broken into foreign exchange balances—distinguishing various program partner sub-accounts for program financing—and balances in lats.	Weekly, within one week of the end of each week
Consolidated accounts of the commercial banks	Monthly, within two weeks of the end of each month
Monetary survey	Monthly, within two weeks of the end of each month
Currency operations, including government foreign receipts and payments and breakdown of interbank market operations by currencies (interventions)	Daily, by end of next working day
Aggregated data on free collateral—available, unpledged collateral held at the Bank of Latvia	Weekly, within one week of the end of each week
Daily data with banks' current accounts, minimum reserve requirements, stock of repos ,foreign exchange swaps, use of standing facilities, overnight and 7-day deposit facility amounts, and use of emergency liquidity assistance	Monthly, capturing data over the preceding month, within one week of the end of the month
Foreign exchange rate data	Daily, by end of next working day
Volume of foreign exchange lats trades	Monthly (weekly for a sample of large banks), within one week of the end of each week
Projections for external payments of the banking sector falling due in the next four quarters, interest and amortization (for medium and long-term loans)	Quarterly, within four weeks of the beginning of the quarter
Projections for external payments of the corporate sector falling due in the next four quarters interest and amortization (for medium and long-term loans)	Annually, within three months after the end of the second quarter
The stock of external debt for both public and private sector	Monthly, within four weeks of the end of each month for the public and the banking sector; quarterly, within three months of the end of each quarter for total external debt
The BoL will continue to provide balance of payments data in electronic format.	Monthly, within six weeks of the end of each month
To be provided by the Financial and Capital Market Commission	
Daily deposit monitoring bank by bank in the agreed format	Weekly, within three working days after the end of each week
Daily detailed deposit monitoring in Parex Bank and Citadele Bank in the agreed format	Weekly, within three working days after the end of each week
Banking system monitoring indicators in the agreed format (liquidity, credit quality, summary capital adequacy, simplified balance sheet and income statements)	Monthly, within four weeks of the end of each month
Detailed capital adequacy reporting in the agreed format	Quarterly, within four weeks of the end of each quarter
Commercial banks' balance sheets (bank-by-bank)	Quarterly, within four weeks of the end of each quarter
Commercial banks' income statements (bank-by bank)	Quarterly, within four weeks of the end of each quarter