



The fact sheet was prepared by the Latvian Institute based on information provided by the Latvian Ministry of Finance.

BASIC FACTS ABOUT LATVIA'S LOAN

In the next three years (2009-2011) Latvia will receive a loan of EUR 7.5 billion from international financial donors. Following is a brief explanation of why the loan was needed.

Why did Latvia need a loan from the IMF, EC and other countries?

Over the last five years, Latvia enjoyed the fastest growing economy in the EU. This raised living standards. But the growth was driven by private consumption and investments in real estate and other non-tradable sectors.

As expenditures grew, so did demand. Wages grew as well, but at a pace that exceeded productivity. Inflation grew, but national competitiveness shrank.

There was a greater demand for imports, which increased the current account deficit. Commercial banks issued credits which increased the Latvian government's gross external deficit. Turmoil in the financial markets intensified these risks.

Until now, the Latvian Treasury attracted resources to finance its state budget by issuing domestic debt securities and taking loans in foreign markets.

Subsequently, two factors decreased Latvia's availability of financial resources in the second half of 2008: 1) An unprecedented global financial crisis. 2) A lowering of Latvia's credit rating.

In response to this situation, the Latvian Government initiated discussions with various international financial donors. Actually, this loan is similar to other loans the State has taken in the past. But this time the size of the required loan was much bigger and was accompanied by special conditions that had to be met in order for the Government to receive and use the loan.

Even if the entire loan (EUR 7.4 billion) is used, the Latvian government's debt will not exceed 50% of GDP, which is acceptable under Maastricht criteria (not to exceed 60%). This is significantly lower than in other EU Member States of the euro zone, where the average government debt level is 66%.

What if Latvia had not received the loan?

The global financial crisis has dramatically decreased the availability of credit resources. A slowdown of the national economy would substantially reduce State budget revenues. Expenditures would have to be cut considerably.

Latvia had already undertaken substantial reductions in the State budget in the second half of 2008. This was primarily affected public administration wage funds and expenditures for procurement of goods and services. (State salaries were reduced and purchased curtailed.) Any additional cuts would have begun to affect the social sector, affecting pensions, healthcare and other critically important sectors affecting the welfare of Latvia's residents.

In its letter to the IMF, the Latvian Government explained that reforms would be undertaken in several sectors in order to optimize public services and increase productivity. The financial support provided by the IMF and other institutions enables Latvia to undertake these reforms in a systematic and orderly fashion, without endangering the health and welfare of its residents.

Who will provide the financial support to Latvia, and when?

In the end of December 2008, the European Commission, IMF, World Bank, European Reconstruction and Development Bank (ERDB) and several Member States of the European Union (EU) agreed on provision of financial support to Latvia in amount of EUR 7.4 billion. The loan will be available to Latvia within three coming years as several instalments.

On December 23, 2008, IMF Executive Board took the official decision to provide financial support to Latvia in the amount of EUR 1.7 billion. Within a week the first instalment – EUR 589.57 million (LVL 414.35 million) – was transferred to the Latvian Treasury. Subsequent IMF installments will be transferred every quarter on the basis of Latvia's Economic Stabilisation and Growth Revival Programme Action Plan implementation process. The largest part of the loan will be transferred in 2009. In total, 10 instalments are planned from the IMF.

<i>EUR million</i>	2009	2010	2011	Total:
European Commission	2 900	100	100	3 100
IMF	1 200*	400	100	1 700
Nordic Countries (Finland, Sweden, Denmark, Norway)		1 800		1 800
The World Bank	200		200	400
ERDB, Estonia, Czech Republic and Poland	200	300		500
Total by years:	4 500	2 600	400	7 500

* including EUR 590 received on December 29, 2008

<i>LVL million</i>	2009	2010	2011	Total:
European Commission	2 038	70	70	2 179
IMF	843*	281	70	1 195
Nordic Countries (Finland, Sweden, Denmark, Norway)		1 265		1 265
The World Bank	141		141	281
ERDB, Estonia, Czech Republic and Poland	141	211		353
Total by years:	3 163	1 827	281	5 271

* including LVL 415 million received on December 29, 2008

THE LATVIAN INSTITUTE

The Latvian Institute (Latvijas institūts) was established by the Latvian state to provide a wide range of information about Latvia, its society, culture and history.

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