



## MINISTRY OF ECONOMICS RELEASES SEMI-ANNUAL REPORT ON ECONOMIC DEVELOPMENT OF LATVIA

On 9 September 2009, The Latvian Ministry of Economics has released its semi-annual Report of Economic Development in Latvia. The full text of the 138-page report can be found at <http://www.em.gov.lv/em/2nd/?cat=137>. Minister of Economics Artis Kampars' introduction and summary of the report follows.

In the first half of 2009, as the financial problems in the world remained, Latvia's economic recession continued. In the 1st quarter of 2009, the GDP was by 18% lower than the year before. The recession is observed across the EU, including our neighbouring countries. The global economic recession has affected the labour market too, and as a result there has been a decrease in the labour demand. The data of the State Employment Agency shows, that in June 2009 the registered unemployment level has reached 11.5% – more than 129,000 unemployed persons have been registered. Bearing in mind the deepening of the global financial and economic crisis, the government of Latvia is acting to stabilise and revive the financial system, to improve the efficiency of public administration by reducing its expenditures. In order to restructure the economy by increasing its competitiveness, productivity and production with high value added, the Ministry of Economics will submit to the government at the beginning of August 2009 a Mid-Term Economic Recovery Plan of Latvia (until 2015).

Currently, the *Economic Stabilisation and Growth Revival Programme of Latvia* (adopted by the Saeima, Parliament of the Republic of Latvia, on 12 December 2008 and updated on 16 June 2009), which includes the main directions for action of the government that are as follows:

- Strict and stable monetary policy based on the fixed exchange rate of the national currency against the single EU currency – euro. The government will do all the necessary steps to fulfil the Maastricht convergence criteria that would ensure introduction of the euro as soon as possible – by 2013;
- Strict fiscal policy – balancing of state and local government expenditures with the opportunities provided by revenues. In order to ensure a further decrease of the budget deficit, the aim to be reached via consolidation measures is to decrease the budget deficit in 2011 by up to 3% of GDP. The programme prescribes that, as from 2013, the consolidated budget, excluding expenditures related to absorption of EU and other foreign financial assistance, must be balanced or with a surplus;
- In the economy of Latvia (in both, the public sector – public administration and services, and the private sector), the decrease in the level of wages to align it with the developments of productivity. In addition to the reductions of wages and the number of the employed in the public sector, the government will encourage understanding and agreement with the private sector to promote the moderation of wages in all sectors;
- Fostering the efficiency of the public administration, reforms of education, health and other public services sectors decreasing and restructuring the human resources employed in these sectors and optimising the activities and the number of ministries and their agencies;
- Increasing the flexibility of the labour market, promoting retraining and stimulating the unemployed to return to the labour market;

- Improving economic competitiveness by concentrating the financing of the EU structural funds to increase support to exportable sectors and infrastructure projects. Simultaneously, the government implements the necessary measures to simplify the administration procedures of the EU funds by fostering a more efficient use of resources and faster circulation of financial means. By attracting the financing of the EU structural funds, several programmes have been launched, such as *Development of New Products and Technologies, Introduction of New Products and Technologies in Production, Support to Technology Transfer Contact Points, Business Incubators, High Value Added Investments*. These programmes are aimed at promotion of a knowledge-based economy, i.e., to facilitate knowledge and technology transfer in production in order to ensure production of the products with higher value added;
- Decreasing the administrative burden especially for small and medium-sized enterprises by simplifying the processes of tax administration, real estate registration, receiving construction permits, as well as by promoting a wider usage of the state integrated information systems among institutions and enterprises. The state and the municipal governments implement the measures to foster the development of entrepreneurship and to facilitate business registration and licensing procedures. In order to improve the processes of business insolvency and liquidation, the government has drafted amendments to the Insolvency Law;
- Stabilisation of the financial sector – provision of state support to strengthen the reliability and operability of credit institutions, also implementing stricter supervision of credit institutions;
- Maintenance of social protection measures to reduce the social tension.

The *Economic Stabilisation and Growth Revival Programme of Latvia* in general prescribes the injection of LVL 600–700 million in the economy of Latvia in the form of support to entrepreneurship. In reality, several financial instruments are already in operation. Firstly, there are loans available for the improvement of enterprise competitiveness, where the total financing is LVL 202 million. This financial instrument is implemented by the Mortgage Bank of Latvia, and the loans are available. Secondly, the entrepreneurs can receive guarantees to improve their competitiveness. This financial instrument is implemented by the Latvian Guarantee Agency. By the end of June, applications have been approved from entrepreneurs for the total amount of LVL 25 million. There are also plans to introduce state guarantees for enterprise credits, support for risk capital and technology transfer, venture loan programme, launching of self-employment and entrepreneurship.

An important economy revival instrument is the export credit guarantee system that has been introduced as of 1 June 2009. The programme on the improvement of energy efficiency of apartment buildings has been also started its operation actually and is implemented with the support of the EU structural funds.

The year 2009 will bring changes to Latvia's economic structure and it will show the ability of our country and entrepreneurs to accept new challenges and find new solutions to ensure growth. The Ministry of Economics will closely monitor the implementation of the *Action Plan on Improvement of the Business Environment*, absorption of financing available in the framework of the EU structural funds programmes and provision of state support to the entrepreneurs.

The situation of Latvia's industrial enterprises will depend on the situation in the traditional export markets, as well as on the ability of the entrepreneurs to acquire new markets, therefore a special attention will be paid to supporting exports. It will be definitely reflected in the abovementioned Mid-Term Economic Recovery Plan of Latvia. It will be based on the determination of priority sectors and state support instruments for these priority sectors. It is expected, that the implementation of the abovementioned plan could start already this year.

In order to achieve the set goals, we will continue the dialogue with our social partners (entrepreneurs and non-governmental organisations representing them). This is the only possible way to provide sustainable growth in the long-term perspective.

In the Report, you will find information about both, the development of main economic and social indicators, growth of national economy sectors, external economic environment, and

government's economic policy for promotion of growth and employment, foreign trade policy, utilisation of the EU structural funds and the Cohesion Fund, innovation and entrepreneurship policy and other economic reforms. In the conclusion, the authors of the Report provide recommendations on the improvement of the national economic policy.

The Cabinet of Ministers has not assessed all the issues addressed in the Report. Thus, several conclusions on the economic development of the country and proposals for further action reflect purely the opinion of experts of the Ministry of Economics. I hope that the Report will be useful for economists and entrepreneurs, as well as for everyone who is interested in the issues of the economic development of Latvia and that it will encourage exchange of opinions between the public institutions, various organisations and interest groups, as well as other stakeholders.

I would like to express my gratitude to the authors of the Report.

June 2009

**Artis Kampars**

Minister of Economics



### **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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