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August 25, 2021

**Statement by Mr. Alhomaly and Ms. Alaqla on Republic of Latvia
(Preliminary)
Executive Board Meeting
August 27, 2021**

We thank staff for the informative report and Mr. Pösö and Ms. Skrivere for their helpful Buff statement. We broadly concur with staff's assessment and policy recommendations and would like to make the followings points.

1. There is no doubt that saving lives and livelihoods, including tackling unemployment, is the immediate priority to help the country exit the crisis and pave the way towards sustained recovery. While the authorities' policy actions have been appropriately focused on supporting the most vulnerable segment of the population, we note that these measures have less impact on unemployment. Here, we agree with staff that labor market policy should remain nimble and flexible to ensure a smooth reallocation of labor. Going forward, we see scope for maintaining essential support measures over the short-term to help limit scarring effects and support recovery while being attentive to financial stability risks.

2. Fiscal policy should remain supportive in the near term, and we see merit in increasing capital spending supported by EU-financed investment to support the recovery. We encourage the authorities to continue their efforts to improve the public investment management and agree that the investment strategy should be supported by efficient public investment management to maximize the investment returns. We also welcome the authorities' commitment to maintaining high standards of governance and transparency, particularly in crisis-related expenditures. In addition, we underscore the importance of enhancing the anticorruption framework in line with the 2020 GRECO recommendations.

3. While banking system remains stable, the risk of a prolonged crisis calls for close monitoring of the asset quality to safeguard financial stability. Recognizing that the supportive monetary and financial policy actions, including the regulatory forbearance, have helped mitigating the financial stability risks, attention is needed to contain any potential weakness in banks' balance sheets once these measures are lifted. Further, we welcome the concurrence between the authorities and staff that the exit strategy from the support measures depends on corporate recapitalization and insolvency regime enhancement. We also welcome the ongoing efforts to further strengthen the AML/CFT framework and commend the authorities for their improvements in this area, as indicated in the Buff statement.

4. Finally, we welcome that the authorities are taking advantage of the Resilience and Recovery Facility (RRF) to support medium-term growth and accelerate the digital transformation. Going forward, it is becoming more urgent for the authorities to embark on deep structural reforms to prevent scarring in the labor market. The authorities should articulate a multi-pronged strategy to help promote sustainability, boost productivity, increase labor flexibility, strengthen social protection, and enhance the business climate to promote inclusive growth.

With these remarks, we wish the authorities all the best in their policy endeavors.