Press Release No. 08/332
FOR IMMEDIATE RELEASE
December 19, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Announces Staff-Level Agreement with Latvia on a €1.7 Billion Stand-By Arrangement as Part of Coordinated Financial Support

Mr. Dominique Strauss-Kahn, Managing Director of the International Monetary Fund (IMF), issued the following statement on Latvia today:

"An IMF staff mission and the Latvian authorities have today reached agreement, subject to approval by IMF Management and the Executive Board, on an economic program supported by a 27-month Stand-By Arrangement for about €1.7 billion (US$2.4 billion). The agreement could go to the Executive Board for approval before the end of this year under the Fund's fast-track Emergency Financing Mechanism procedures.

"Under the program the Latvian authorities are implementing a strong package of policy measures aimed at stabilizing the economy. In assembling the financial support for the authorities' program, the IMF coordinated closely with the European Union, the World Bank and several Nordic countries.

"The EU will provide a loan of €3.1 billion (US$4.3 billion), the Nordic countries €1.8 billion (US$2.5 billion), the World Bank €400 million (US$557.6 million), the Czech Republic €200 million (US$ 278.8 million), and the European Bank for Reconstruction and Development, Estonia, and Poland €100 million each (US$139.4 million).

"The total financial package amounts to €7.5 billion (US$10.5 billion).

"The IMF-supported program aims to alleviate immediate liquidity pressures, restore long-term stability, and enhance competitiveness. It is centered on the authorities' objective of maintaining the current exchange rate peg, recognizing that this calls for extraordinarily strong domestic policies, with the support of a broad political and social consensus.

"The program includes measures to stabilize the financial sector and restore depositor confidence. It will also require a substantial tightening of fiscal policy, including a headline fiscal deficit of less that 5 percent of GDP in 2009, compared to a deficit of 12 percent of GDP if no additional measures were taken, to reduce financing needs and support an improvement in competitiveness. Supporting structural reforms and wage reductions, led by the public sector, will further strengthen competitiveness and facilitate external adjustment.

“Expenditure cuts are necessary but should be structured to support long-term growth and respect social objectives. The IMF supports the protection of social spending embedded in the program.

“These strong policies justify the exceptional level of access to Fund resources—equivalent to around 1200 percent of Latvia’s quota in the IMF—and deserve the support of the international community.

“With Latvia’s commitment to strengthened economic policies, we expect that banks and other financial institutions operating in the country will continue to provide adequate financing, and the key players have made commitments to this effect.

“We will continue assisting the Latvian authorities in their courageous efforts to adjust in the midst of the global financial turmoil and we will work closely with them and other stakeholders as the program unfolds,” Mr. Strauss-Kahn said.