

**IMMEDIATE
ATTENTION**

EBD/09/85

November 17, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Republic of Latvia—Request for Approval of Retention of Exchange
Restriction Subject to Article VIII**

Attached for consideration by the Executive Directors is a request for approval of retention of an exchange restriction subject to approval under Article VIII for the Republic of Latvia.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by **noon on Tuesday, November 24, 2009**. In the absence of such a request, the draft decision that appears on page 3 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Questions may be referred to Mr. John, EUR (ext. 35637).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

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INTERNATIONAL MONETARY FUND

REPUBLIC OF LATVIA

Request for Approval of Retention of Exchange Restriction Subject to Article VIII

Prepared by the European Department
(In consultation with Other Departments)

Approved by Anne-Marie Gulde and Tessa van der Willigen

November 17, 2009

The Republic of Latvia maintains an exchange restriction subject to Fund approval under Article VIII, Section 2(a) arising from a partial deposit freeze on Parex Bank.

On December 1, 2008, the Latvian authorities imposed a partial deposit freeze on Parex Bank to prevent an excessive outflow of deposits from the bank that would have undermined its stability and solvency, and threatened the stability of the Latvian financial sector. The Executive Board initially approved the retention of the restriction until June 30, 2009 when the deposit freeze was scheduled to expire, or the next Article IV consultation with Latvia, whichever was earlier (Decision No. 14226-(08/114), adopted December 23, 2008).

Parex Bank experienced a further outflow of funding in early 2009. Although the bank's management took a number of steps to address this situation, its financial situation had not recovered sufficiently to ensure full compliance with the Latvian regulatory requirements without an imposition of restrictions on the settlement of liabilities. Accordingly, the authorities decided on June 19, 2009 to extend the restriction to end-November 2009. The Executive Board approved in June 2009 the retention of the restriction until November 30, 2009, or the next Article IV consultation with Latvia, whichever was earlier (Decision No. 14382-(09/07), adopted June 30, 2009).

Parex Bank's financial position has stabilized somewhat, which has allowed for a limited relaxation of the deposit freeze (e.g., the ceiling on withdrawal amounts has been raised moderately and an administrative requirement has been eliminated)¹ in line with plans for

¹ On top of the previous monthly withdrawal limits (LVL 35,000 for individuals and small businesses and LVL 350,000 for larger businesses), additional withdrawals can now be made for up to 5 percent of the previous month's credit turnover (i.e., deposits into the account), to a maximum additional monthly increase of LVL 150,000. With elimination of an administrative requirement, enterprises no longer need to demonstrate that withdrawals of funds are "in the course of ordinary business," which had been administratively onerous.

gradual withdrawal, but has not improved sufficiently to allow for a full removal of the restriction. Accordingly, on November 10, 2009, the authorities informed staff of their intention to extend the exchange measure to end-June 2010 and have requested Board approval of the retention of this measure for balance of payments reasons until June 30, 2010.

Since the exchange restriction is nondiscriminatory, and the authorities have proposed a timetable for its removal, the staff recommends Executive Board approval for its further retention until June 30, 2010 or the next Article IV consultation with Latvia, whichever is earlier.

PROPOSED DECISION

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. The Republic of Latvia maintains an exchange restriction arising from the imposition by the government of a partial deposit freeze on Parex Bank subject to Fund approval under Article VIII, Section 2(a).
2. In the circumstances of the Republic of Latvia, the Fund grants approval for the retention of the exchange restriction until June 30, 2010 or the conclusion of the next Article IV consultation with the Republic of Latvia, whichever is earlier.