

SU/23/132

September 11, 2023

**The Acting Chair's Summing Up
Republic of Latvia—2023 Article IV Consultation
Executive Board Meeting 23/70
September 11, 2023**

Executive Directors agreed with the thrust of the staff appraisal. Directors welcomed Latvia's economic resilience and notable progress in energy security in the face of unprecedented shocks. They noted that Latvia is facing a difficult environment with high inflation, slow growth and labor shortages, and geopolitical headwinds. In that context, Directors emphasized the need to lower inflation in the near term, while sustaining the income convergence with European peers and paving the way for the green transition and digital transformation.

Directors concurred that fiscal policy should help contain inflationary pressures and create fiscal space to increase spending in social sectors and support public investment over the medium term. They recommended pursuing a tighter fiscal stance in 2023, including by better targeting energy support measures. Such efforts would help to reduce the cash deficit, while allowing the full pass-through of international fuel prices to domestic consumers. Looking ahead, fiscal policy should remain flexible and adapt if adverse risks materialize.

Directors agreed that fiscal reforms should focus on growth-enhancing tax measures, coupled with policies to improve public investment management and to safeguard the sustainability of the pension system. Carbon tax reforms for emissions not covered by the EU Emissions Trading System could also be considered to mitigate climate change and generate revenues.

While welcoming the financial sector's resilience, Directors underscored that tighter financial conditions warrant close monitoring and contingency plans. They encouraged vigilance of risks stemming from the housing market and urged the authorities to continue regular risk-based monitoring of banks' asset quality and liquidity. Directors welcomed the authorities' decision to gradually raise the countercyclical capital buffer rate. Noting Latvia's significant progress with the AML/CFT framework, they encouraged the authorities to keep the momentum and pursue further improvements. Implementing the newly adopted Anti-Corruption Plan and National Strategy is also important.

Directors encouraged the authorities to accelerate structural reforms to build resilience and lift long-term growth, including by implementing the National Recovery and Resilience Plan. Further enhancing energy security, boosting investment in clean energy, and facilitating the transition to renewable energy would be important. Directors also encouraged

advancing reforms to mitigate the impact of an aging population, address skill mismatches, and boost high-skilled labor supply. They also emphasized the need to strengthen Latvia's digital transformation to help reduce labor shortages and support productivity.

It is expected that the next Article IV consultation with the Republic of Latvia will be held on the standard 12-month cycle.