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September 7, 2023

**Statement by Mr. Massourakis and Mr. Coccozza on Republic of Latvia
(Preliminary)
Executive Board Meeting
September 11, 2023**

We thank staff for the comprehensive report, and Mr. Vasiliauskas and Ms. Allika for their informative Buff statement. We associate ourselves with Mr. Buisse's statement and we offer the following additional comments:

- **Fiscal policy should remain tight to help contain inflationary pressures, while the fiscal space should be employed to sustain the economic convergence.** The prudent medium-term fiscal strategy will help contain the structural fiscal deficit. At the same time, the low level of public debt may allow to address long-standing issues of low productivity growth and economic inequality, also stemming from demographic pressures. We welcome the authorities' focus on reducing old-age poverty, safeguarding the sustainability of pension systems, and addressing healthcare underfinancing. Social safety nets should be strengthened, and support measures should be better targeted to the most vulnerable. *Could staff clarify if energy support measures are foreseen in 2024 under the current macroeconomic scenario?*
- **Although the financial sector remains resilient, more efforts are needed to deal with emerging risks.** We note that credit and liquidity risks indicators have not deteriorated, and that households' indebtedness level remains low. We encourage caution against risks stemming from the housing market, given the high share of mortgages with variable interest rates, as well as the low housing supply. We welcome that the authorities engage with domestic capital market players to revisit their conservative lending policies and promote investments. We welcome progresses in strengthening the AML/CFT framework, and we encourage further cooperation to tackle cross-border supervision and information sharing. We see merit in considering the IMF regional Technical Assistance Project recommendations to further develop the Virtual Asset Service Providers supervisory regime. We also commend the authorities for governance reforms to address GRECO's recommendations to strengthen the anticorruption framework.

- **The acceleration of public investments should be matched with productivity and growth enhancing reforms.** We welcome the focus of the National Recovery and Resilience Plan (NRRP) on energy security and efficiency, enhancing digital skills, and addressing the shortage of high-skilled labor, and we encourage its timely implementation. Further streamlining the regulatory burden for companies in product and services markets could help increasing investment, as well as attracting new Foreign Direct Investments flows. We concur that the implementation of corporate reforms is needed to accelerate investment growth. *Could staff provide additional details on the measures to address the large number of negative equity companies?*