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COUNCIL DECISION

of 20 January 2009

providing Community medium-term financial assistance for Latvia

(2009/290/EC)

(OJ L 79, 25.3.2009, p. 39)

Amended by:

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▼B

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(2009/290/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for Member States' balance of payments [1] and in particular Article 3(2) thereof,

Having regard to the proposal from the Commission made after consulting the Economic and Financial Committee (EFC),

Whereas:

(1) By Decision 2009/289/EC [2], the Council decided to grant mutual assistance for Latvia.

(2) Against a background of very high external financing needs, Latvian capital and financial markets have recently come under pressure, reflecting a general deterioration in market sentiment, and increasing concerns about the health of the Latvian economy given its large imbalances in terms of wide external deficit, weakening public finances and high rates of cost and price inflation. The Latvian banking sector has experienced serious liquidity and confidence problems. The level of foreign currency reserves has decreased as the central bank intervened to preserve the currency peg.

(3) Latvia's total external financing needs up to the first quarter of 2011 are estimated at EUR 7,5 billion.

(4) It is appropriate to provide Community support to Latvia of up to EUR 3,1 billion under the Facility providing medium-term financial assistance for Member States' balance of payments established by Regulation (EC) No 332/2002. That assistance should be provided in conjunction with a loan from the International Monetary Fund (IMF) of SDR 1,5 billion (1 200 % of Latvia's IMF quota, around EUR 1,7 billion) under an IMF Stand-by arrangement approved on 23 December 2008. The Nordic countries (Sweden, Denmark, Finland, Estonia and Norway) are to contribute EUR 1,9 billion together, the World Bank — EUR 0,4 billion, the European Bank of Reconstruction and Development, the Czech Republic and Poland — a total of EUR 0,4 billion, bringing the total to EUR 7,5 billion over the period up to the first quarter of 2011.

(5) The Community assistance should be managed by the Commission. The specific economic policy conditions agreed with the authorities of Latvia after consultation of the EFC should be laid down in a Memorandum of Understanding. They should include, inter alia, measures intended to stem immediate liquidity pressures, to restore long-term stability by strengthening the banking sector, to correct fiscal imbalances and to adopt domestic policies that will improve competitiveness. The measures should include an immediate and sustained fiscal

[1] OJ L 53, 23.2.2002, p. 1.
[2] See page 37 of this Official Journal.

▼B

consolidation, a comprehensive bank resolution strategy, a strengthened crisis management capacity of regulatory authorities, comprehensive structural reforms, as well as other important measures. The detailed financial terms should be laid down by the Commission in the Loan Agreement.

(6) The assistance should be provided with a view to stemming immediate liquidity pressures and conditional on policies to restore long-term stability by strengthening the banking sector, correcting fiscal imbalances and adopting domestic policies that will improve competitiveness, while maintaining the narrow-band exchange rate at its existing central rate,

HAS ADOPTED THIS DECISION:

Article 1

1. The Community shall make available to Latvia a medium-term loan amounting to a maximum of EUR 3,1 billion, with a maximum average maturity of seven years.

2. The Community financial assistance shall be made available during a period of three years starting from the first day after the entry into force of this Decision.

Article 2

1. The assistance shall be managed by the Commission in a manner consistent with Latvia's undertakings and recommendations by the Council. Those conditions shall be laid down in a Memorandum of Understanding. The detailed financial terms shall be laid down by the Commission in the Loan Agreement.

2. The Commission shall, in collaboration with the EFC, verify at regular intervals that the economic policy conditions attached to the assistance are fulfilled. The Commission shall keep the EFC informed of possible refinancing of the borrowings or restructuring of the financial conditions.

3. Latvia shall be ready to adopt and implement additional consolidation measures to stabilise the economy, in case such measures will be necessary during the assistance programme. The Latvian authorities shall consult the Commission in advance of the adoption of any such additional measures.

Article 3

1. The Community financial assistance shall be made available by the Commission to Latvia in a maximum of six instalments, the size of which will be laid down in the Memorandum of Understanding.

2. The first instalment shall be released subject to the entry into force of the Loan Agreement and Memorandum of Understanding.

3. If required in order to finance the loan, the prudent use of interest rate swaps with counterparties of highest credit quality shall be permitted.

4. The Commission shall decide on the release of further instalments after having obtained the opinion of the EFC.

5. The disbursement of each further instalment shall be made on the basis of a satisfactory implementation of the new economic programme (Economic Stabilisation and Growth Revival Programme) of the Latvian Government, included in the convergence programme, and, more par-

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ticularly, of the specific economic policy conditions laid down in the Memorandum of Understanding. These shall include, inter alia:

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(a) implementation of a clearly-set medium-term fiscal programme so as to bring the general government deficit below the Treaty reference value of 3 % of GDP with a timeframe and consolidation path consistent with the Council recommendation(s) to Latvia adopted under the excessive deficit procedure;

(b) implementation of the budget for 2009 and adoption of the budget for 2010 with sustainable measures consistent with the consolidation path;

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(c) reduction of average public sector remuneration in nominal terms in 2009 by at least 15 % relative to the original 14 November 2008 budget and a further 2 % in 2010-11;

(d) continuing measures started in 2008 to reduce employment in central government ensuring at least a 5 % reduction by the end of 2008 and total reduction of 10 % by 30 June 2009;

(e) strengthening the design and implementation of budgetary procedures by the adoption of a fiscal framework and budgetary reform through an amendment to the current Budget and Financial Management law;

(f) introduction of a clear and transparent wage payment system for direct public administration employees and establishment of a single human resource planning and management system for public administration institutions;

(g) mechanisms to ensure wider banking sector stability in the medium to longer term, including a wide range of supervisory, prudential and monetary policy measures. These should limit credit growth to sustainable levels and avoid heavy reliance on unsecured foreign funding. Targeted examinations shall be conducted in the banking system to ensure that all banks are solvent and sufficiently capitalised;

(h) appropriate measures regarding private sector debt restructuring. The appropriate legal basis for maturity and currency restructuring of existing debt shall be strengthened. Facilitating insolvency procedures and quick implementation of rehabilitation plans shall also be made a priority;

(i) ensuring that the remaining minority shareholders of Parex Bank do not benefit from the resolution of the bank and measures to enhance financial stability, by means of fully nationalising Parex Bank;

(j) structural reform measures supported in the context of the Lisbon strategy and implemented in Latvia's National Reform Programme, including active labour market and lifelong learning policies, greater involvement of private sector actors in R & D and innovation activities, export promotion measures and removal of administrative burdens for businesses;

(k) implementation of EU-funded projects at the planned level to help improve the contribution of the tradeable sector to economic growth;

(l) measures to improve access to financing for companies and entrepreneurs, whose applications for Structural Funds have been approved, or who may be planning to apply for Structural Funds.

Article 4

This Decision is addressed to the Republic of Latvia.

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Article 5

This Decision shall be published in the *Official Journal of the European Union*.