

LSE European Institute – APCO Worldwide Perspectives on Europe Series

Latvia Turns the Corner

Valdis Dombrovskis

Prime Minister of Latvia

Professor Janet Hartley

Chair, LSE

 LSE events

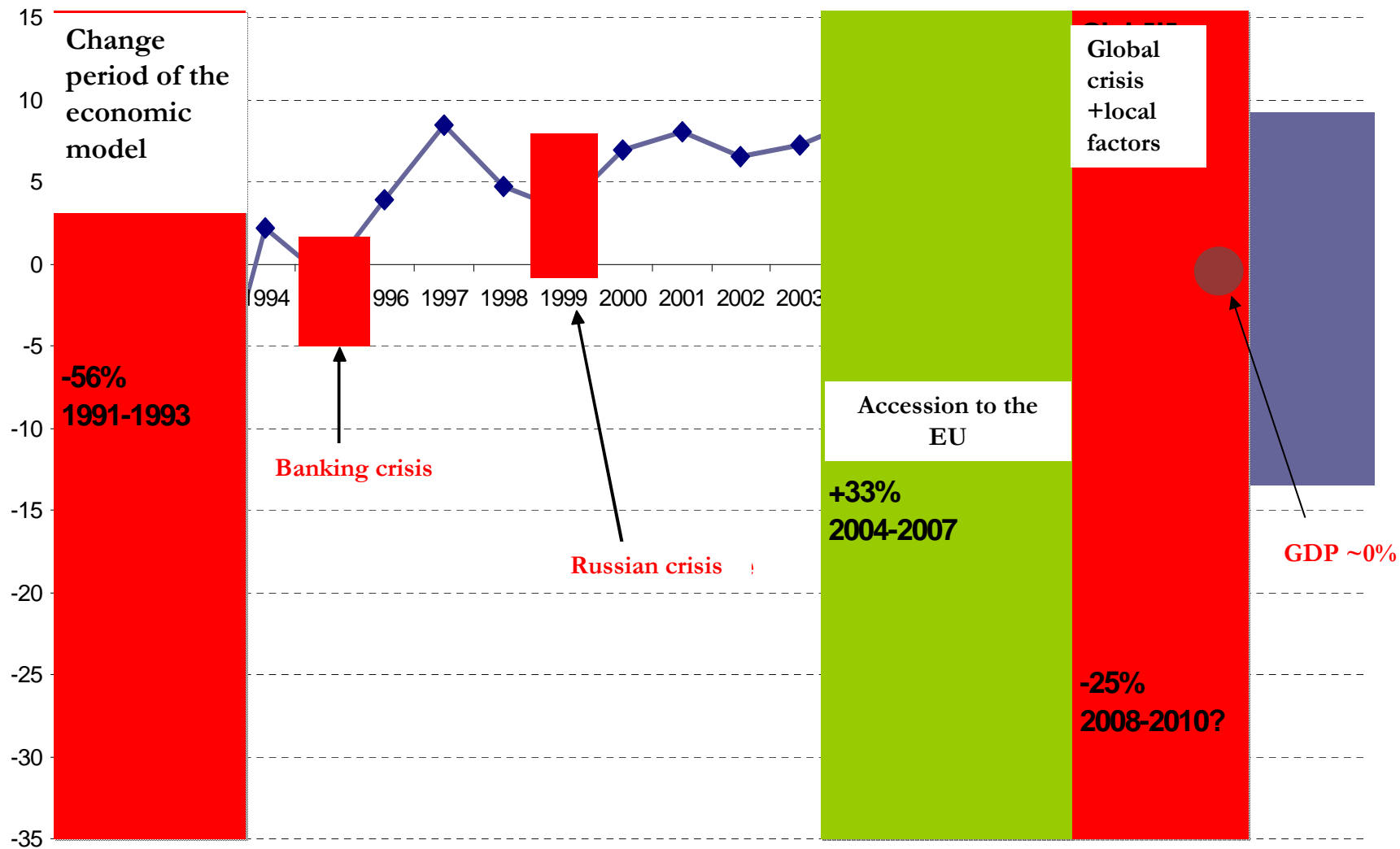




Economic Trends and Macroeconomic Indicators

Historical experience

GDP 1991-2012 (% against previous year)



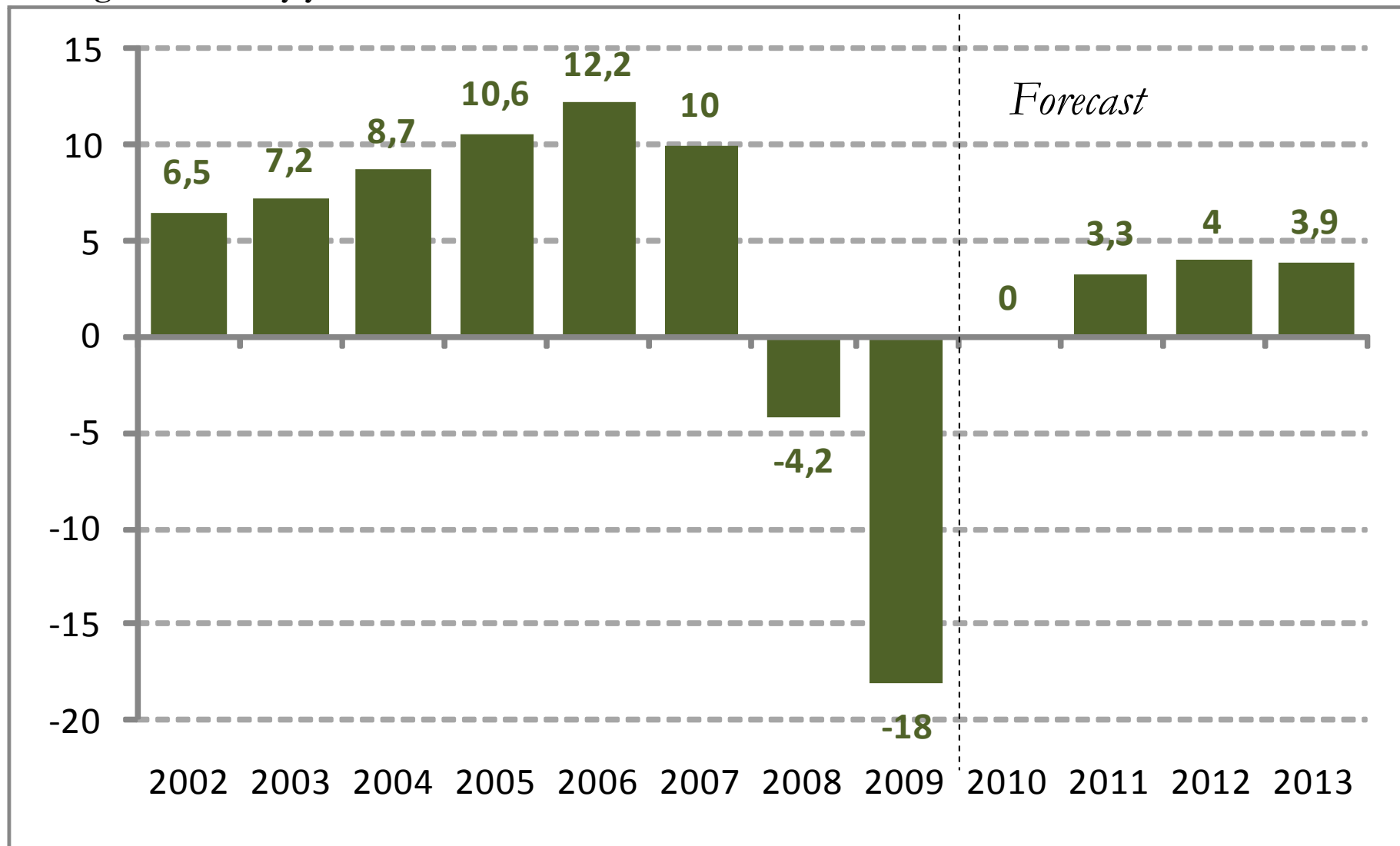
“Full speed ahead!”

	2004	2005	2006	2007
Annual inflation, %	7.3	7.6	6.9	14.1
Budget expenditure, m LVL	2150	2620	3420	4210
Retail turnover growth, %	12.4	21.3	20.1	18.8
Gross wages growth, %	9.6	16.5	22.8	32.0
Import of goods, m LVL	3810	4870	6380	7782
Current account deficit, % of GDP	12.8	12.5	22.5	22.3
Credits of commercial banks, m LVL	4380	6960	10870	14920



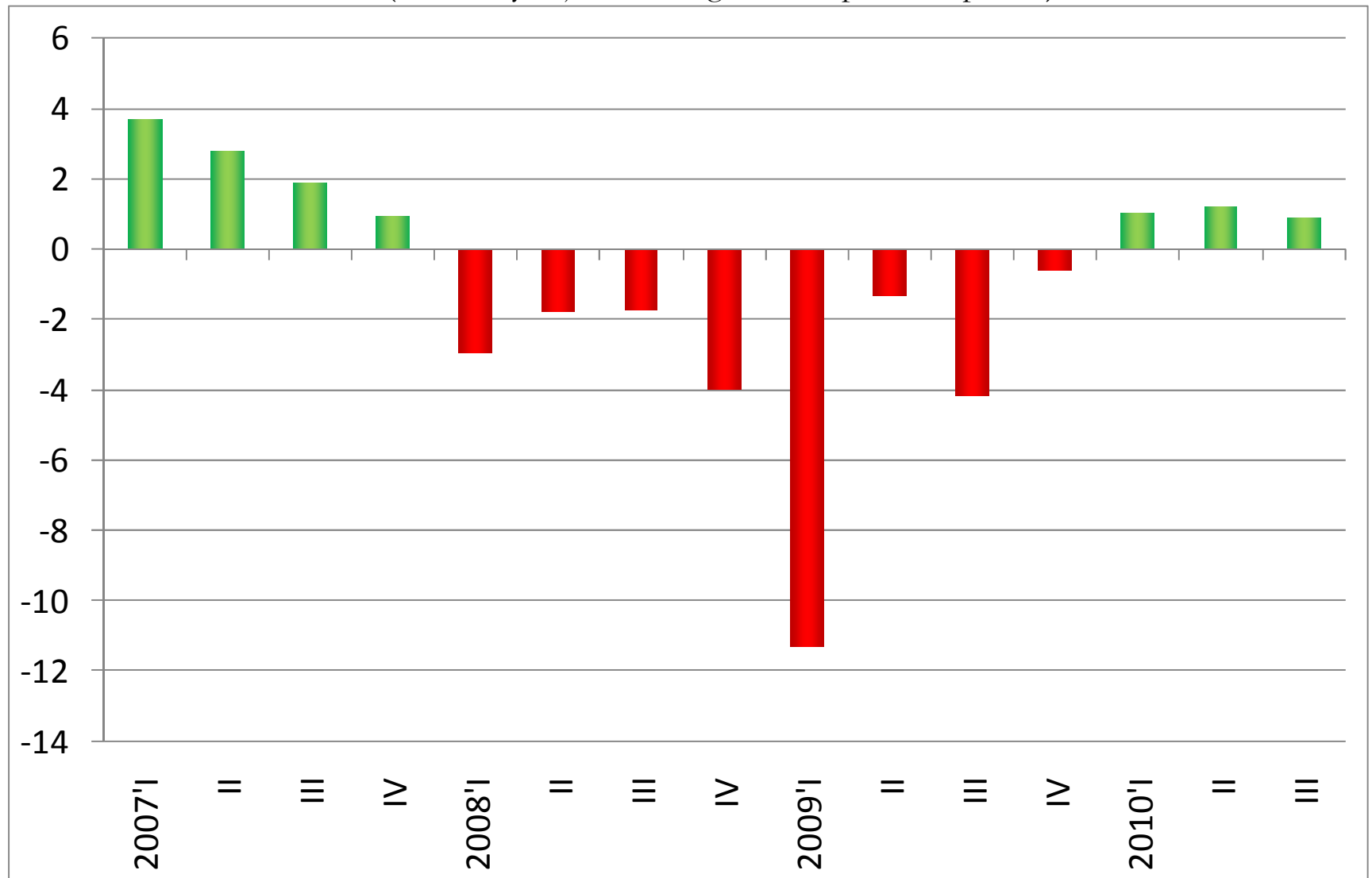
Economic trends at the time when the new Government took office: dramatic fall in GDP

Changes in GDP by years



Recession is over

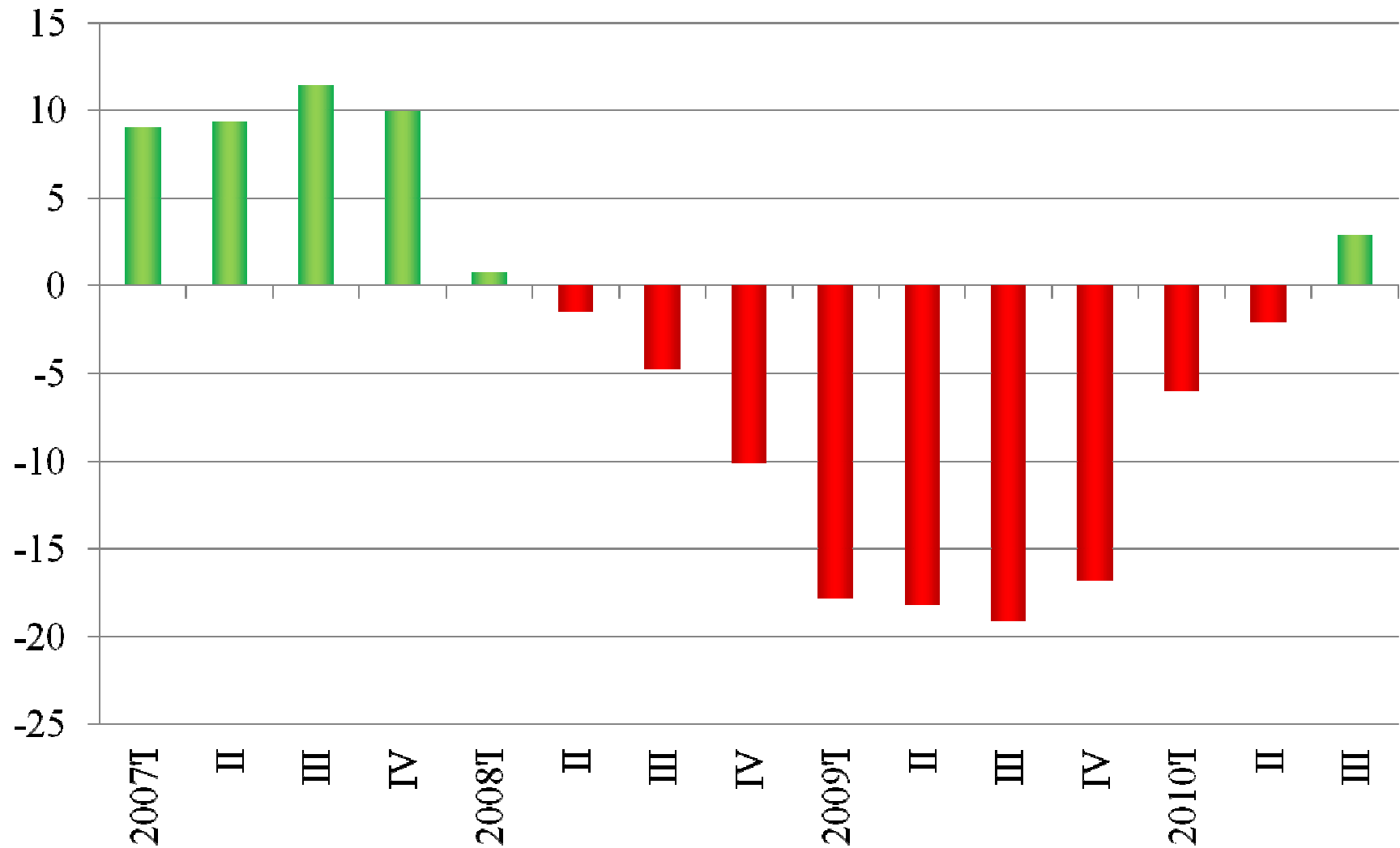
Changes in GDP by quarter
(seasonally adjusted, % against the previous period)



Economy resumed growth in the second half of 2010

GDP growth by quarter

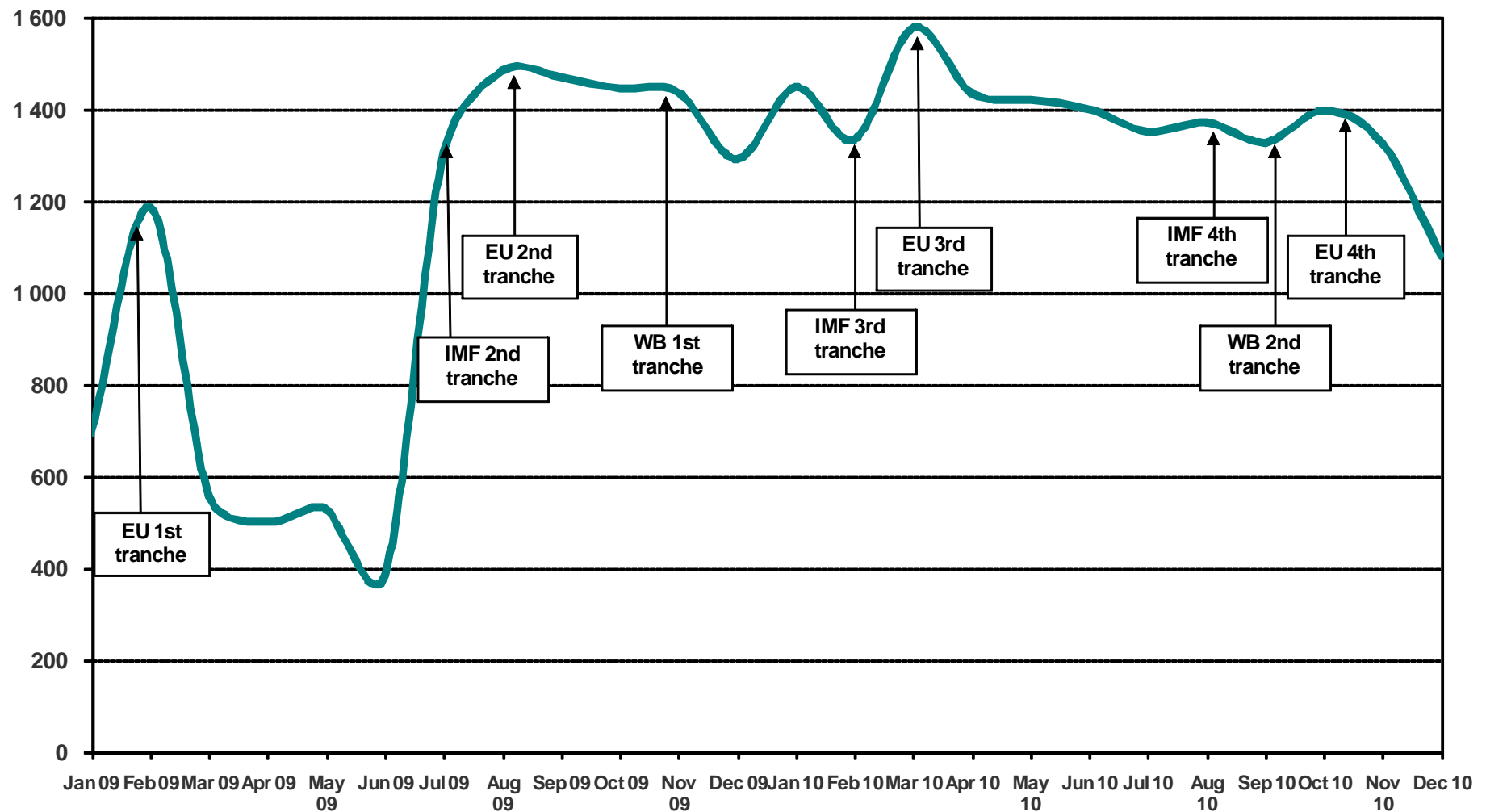
(%, against respective period of the previous year)



Liquidity of accounts of the State Treasury was fully assured

TOTAL RESERVE at the Treasury's accounts at the end of corresponding period
(incl. resources earmarked for banking sector support measures)

mLVL



International support

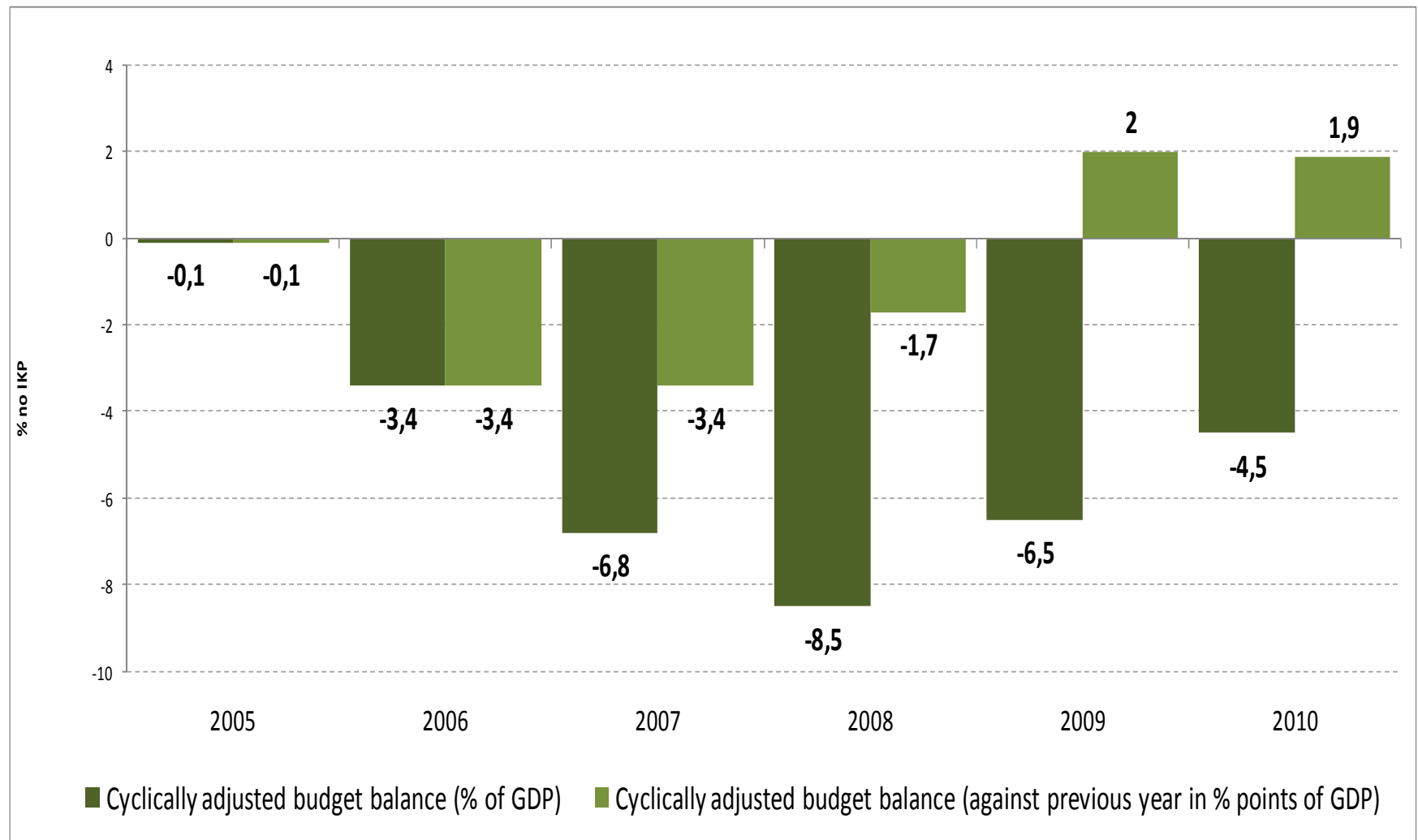
International Assistance Loans Available and Disbursed (millions of EUR)

Year	Received			Available	Total
	2008	2009	2010		
European Commission		2 200	700	200	3 100
Nordic (SE, DK, FI, NO,)				1 800	1 800
EE				100	100
The World Bank		200	100	100	400
Czech Republic				200	200
EBRD		100			100
Poland				100	100
IMF	600	200	300	600	1 700
Total (EUR)	600	2 700	1 100	3 100	7 500

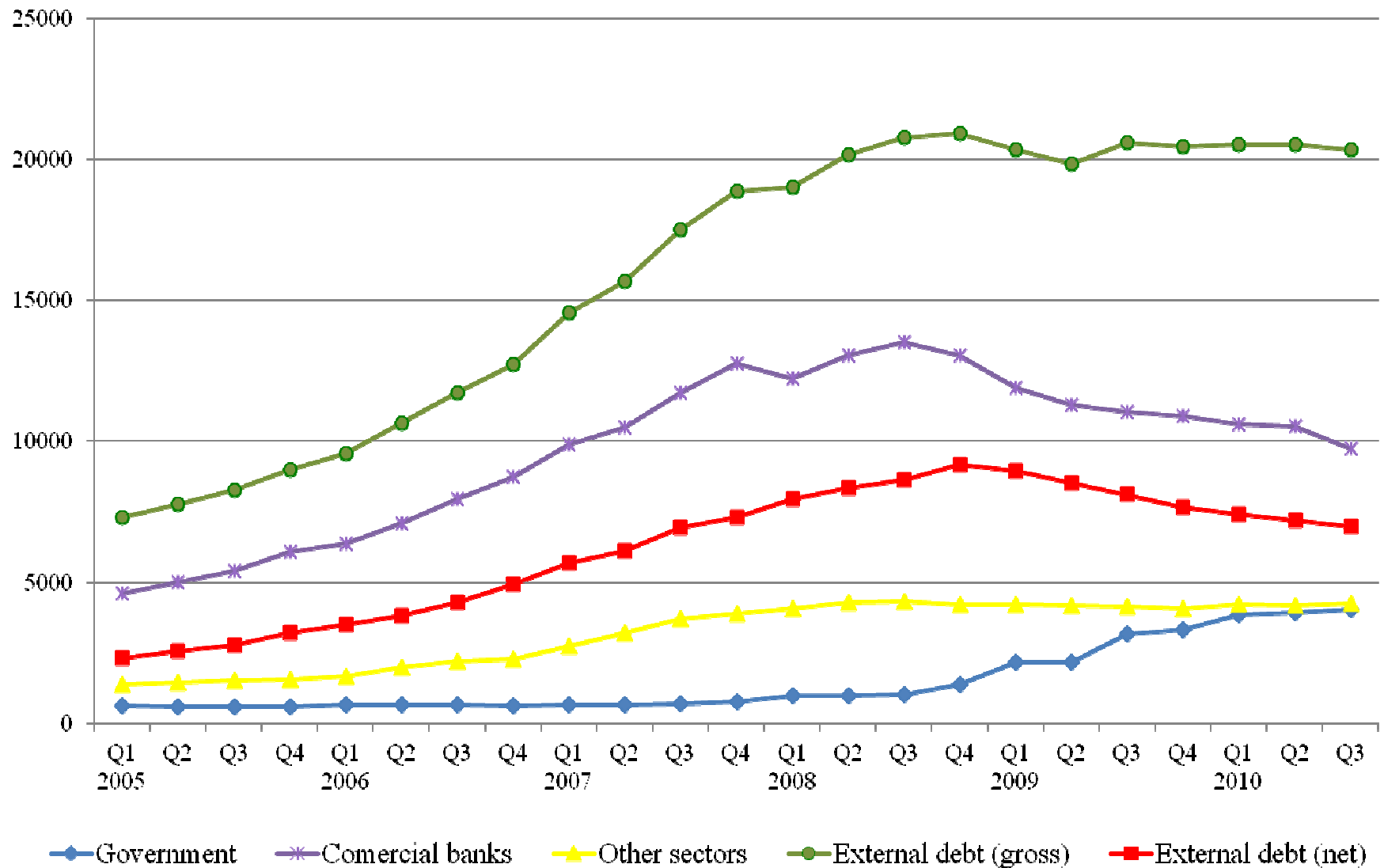
■ In 2011 borrowings within the International Assistance Program planned from the World Bank in the amount of €100 million

■ The agreement signed with Nordic countries on ensuring loan facility

Cyclically adjusted budget balance of the consolidated state budget



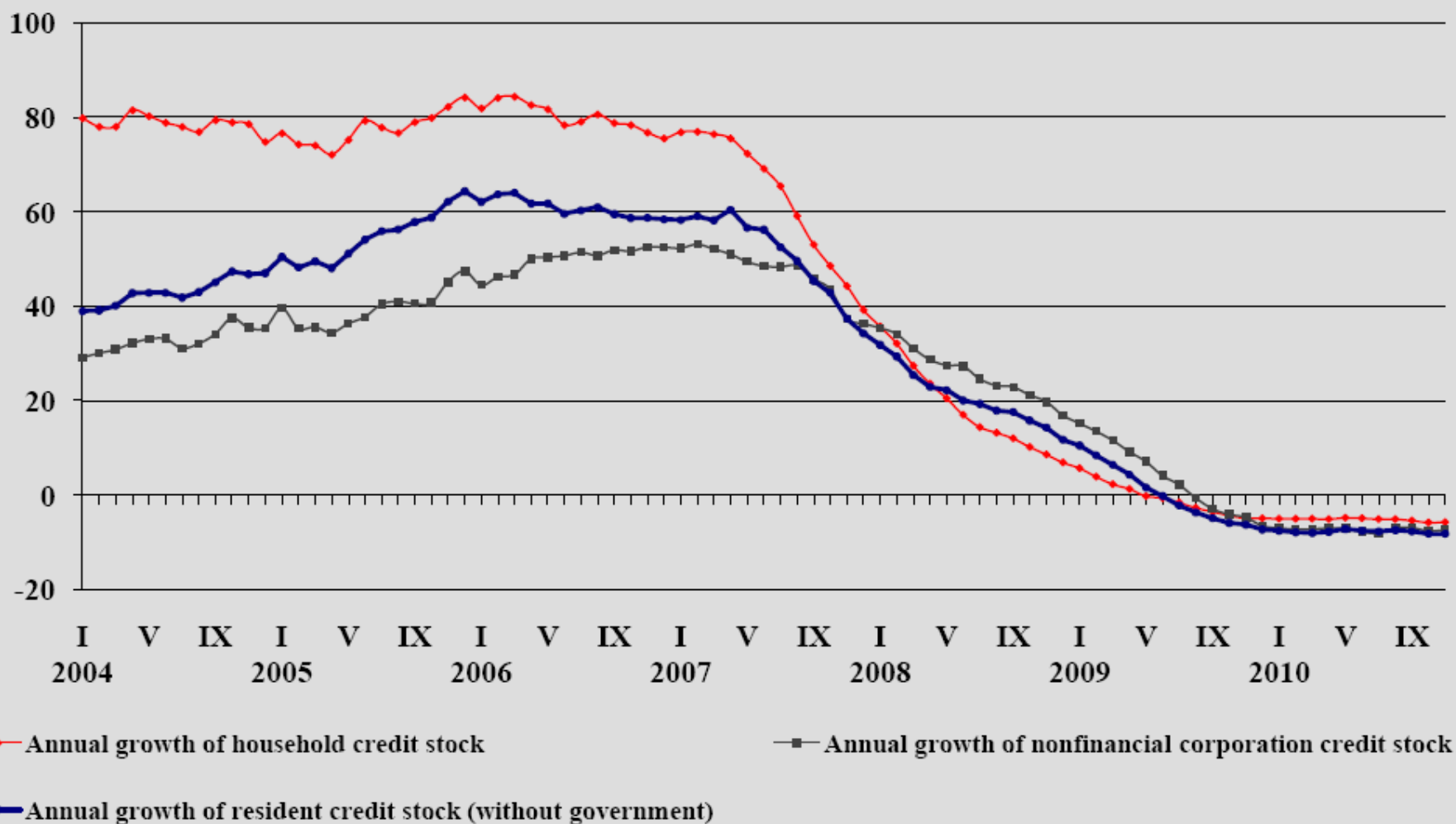
Net external public debt declines





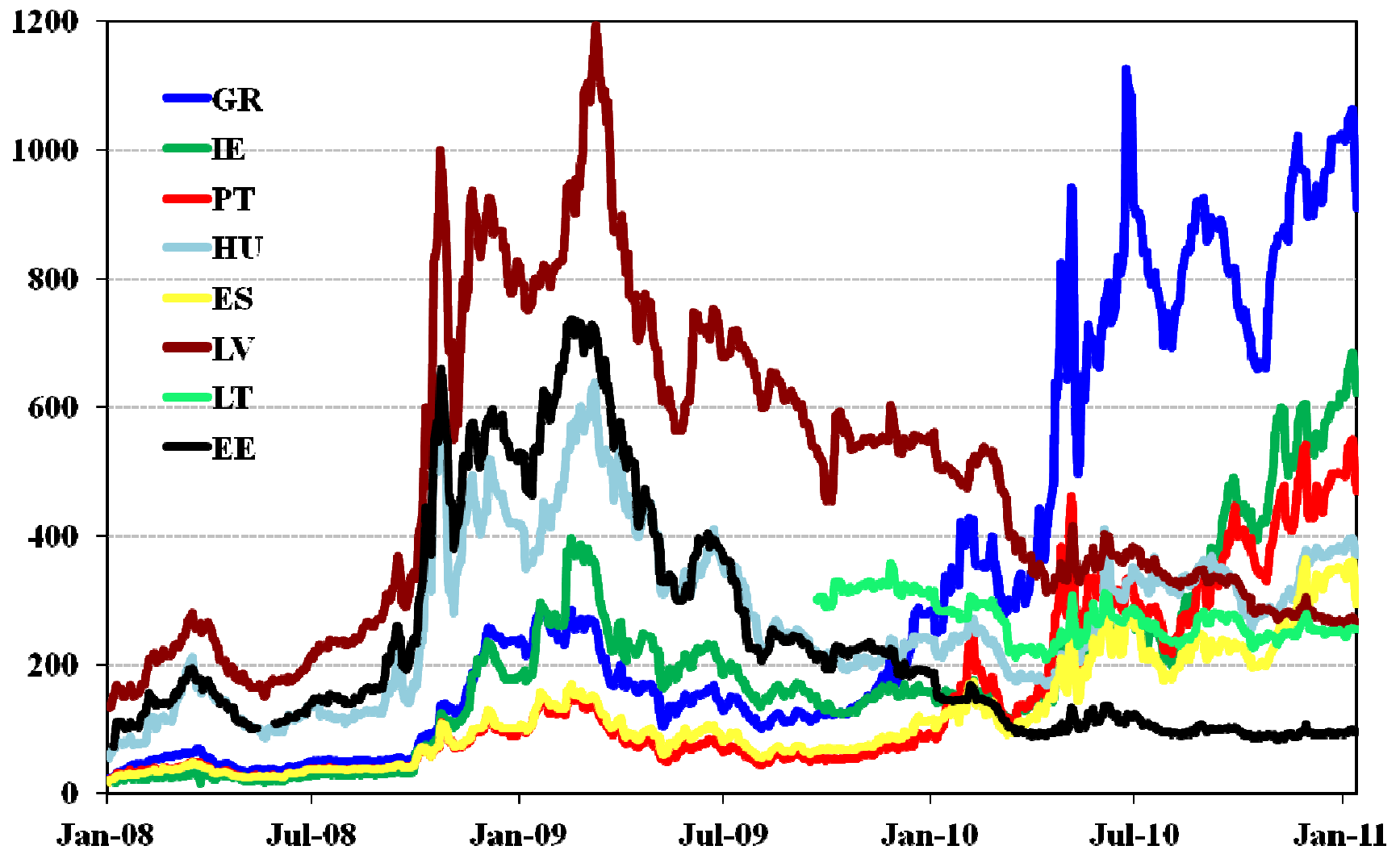
CHANGES IN FINANCIAL INDICATORS

Credit to private sector (y-o-y; %)



Source: Bank of Latvia

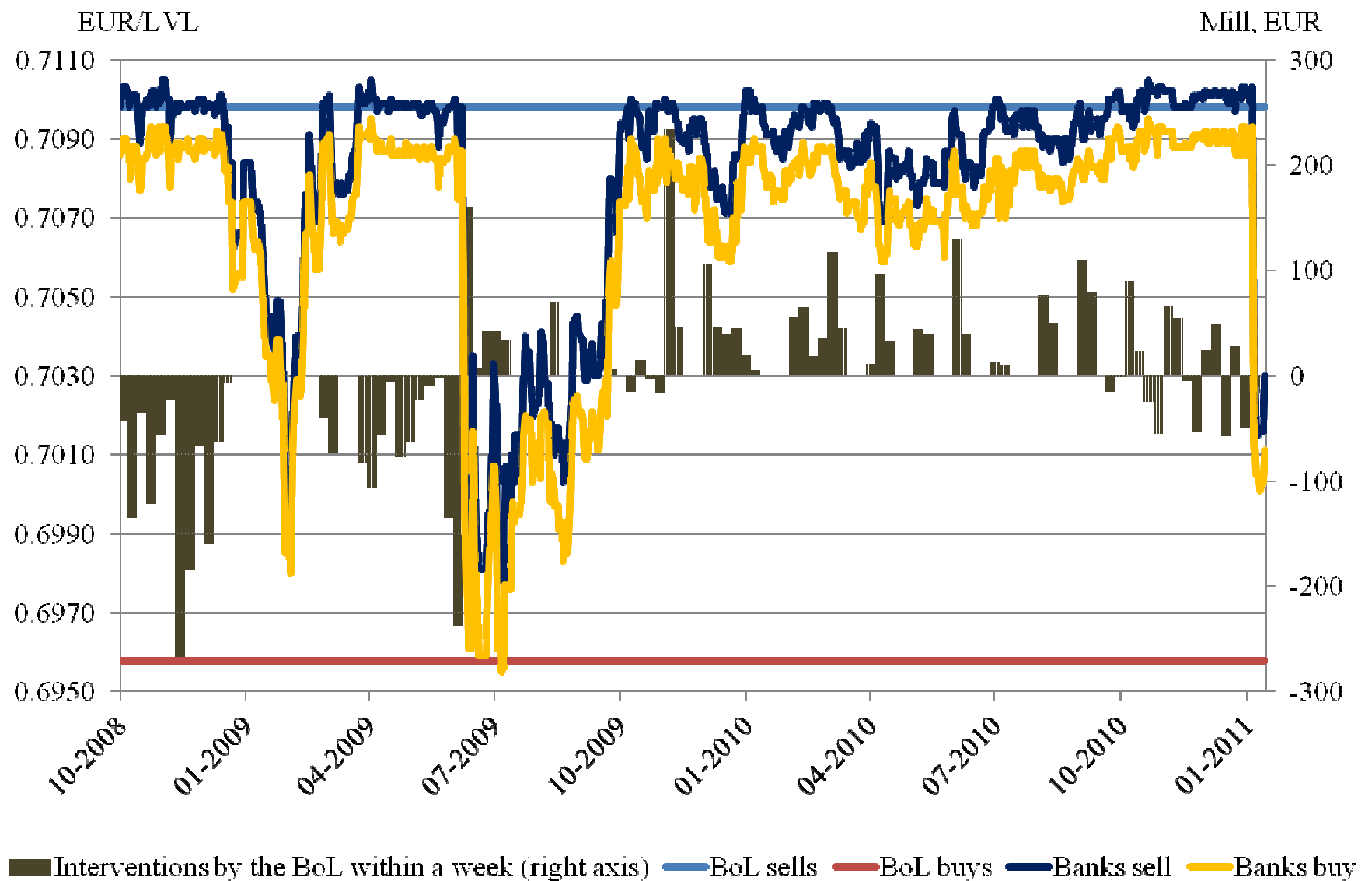
Credit default swap (CDS) rates have fallen substantially



Data source: The Bloomberg.

Latvia has overcome capital outflow

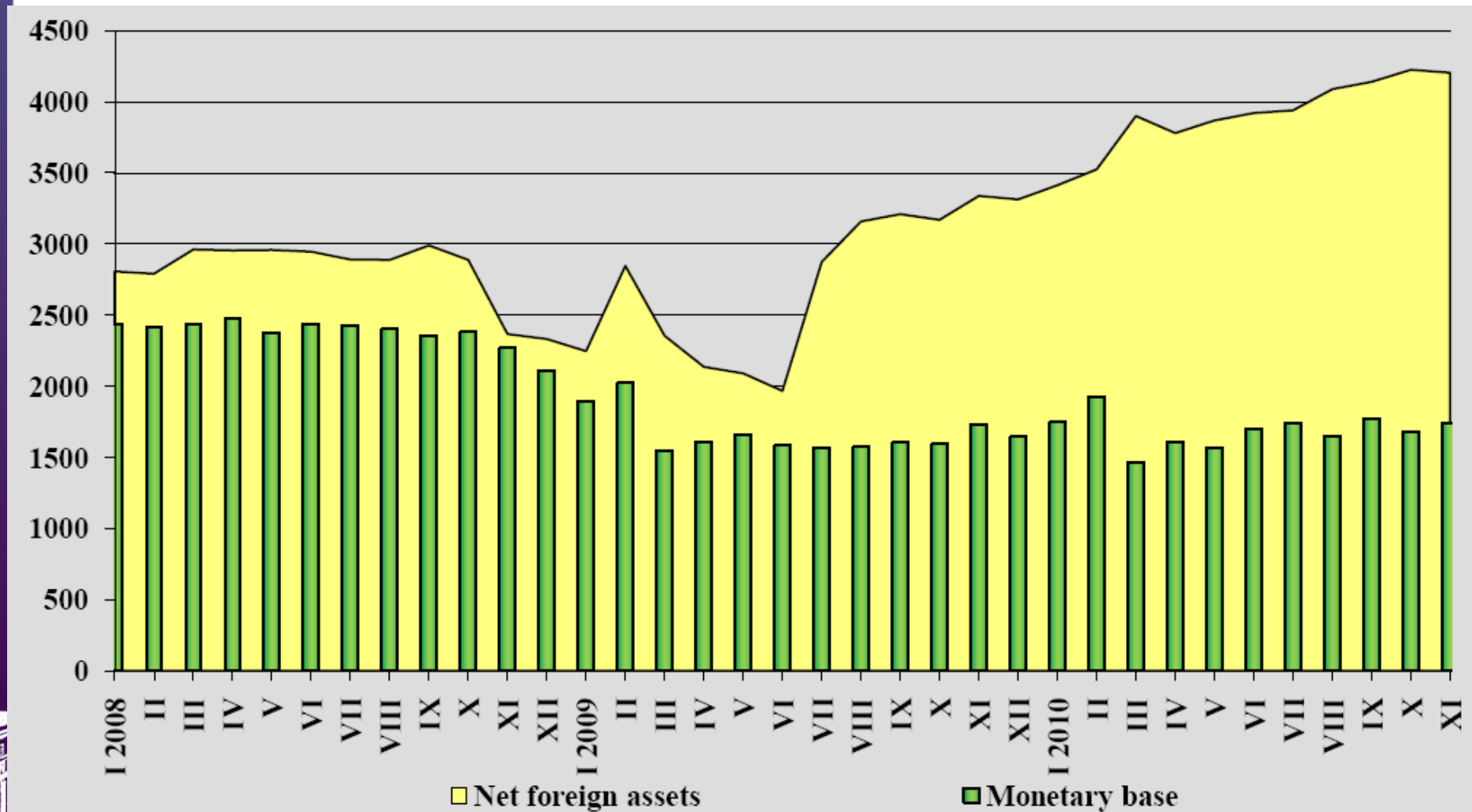
Exchange rate of the lat and interventions of the Bank of Latvia



Data source: Bank of Latvia

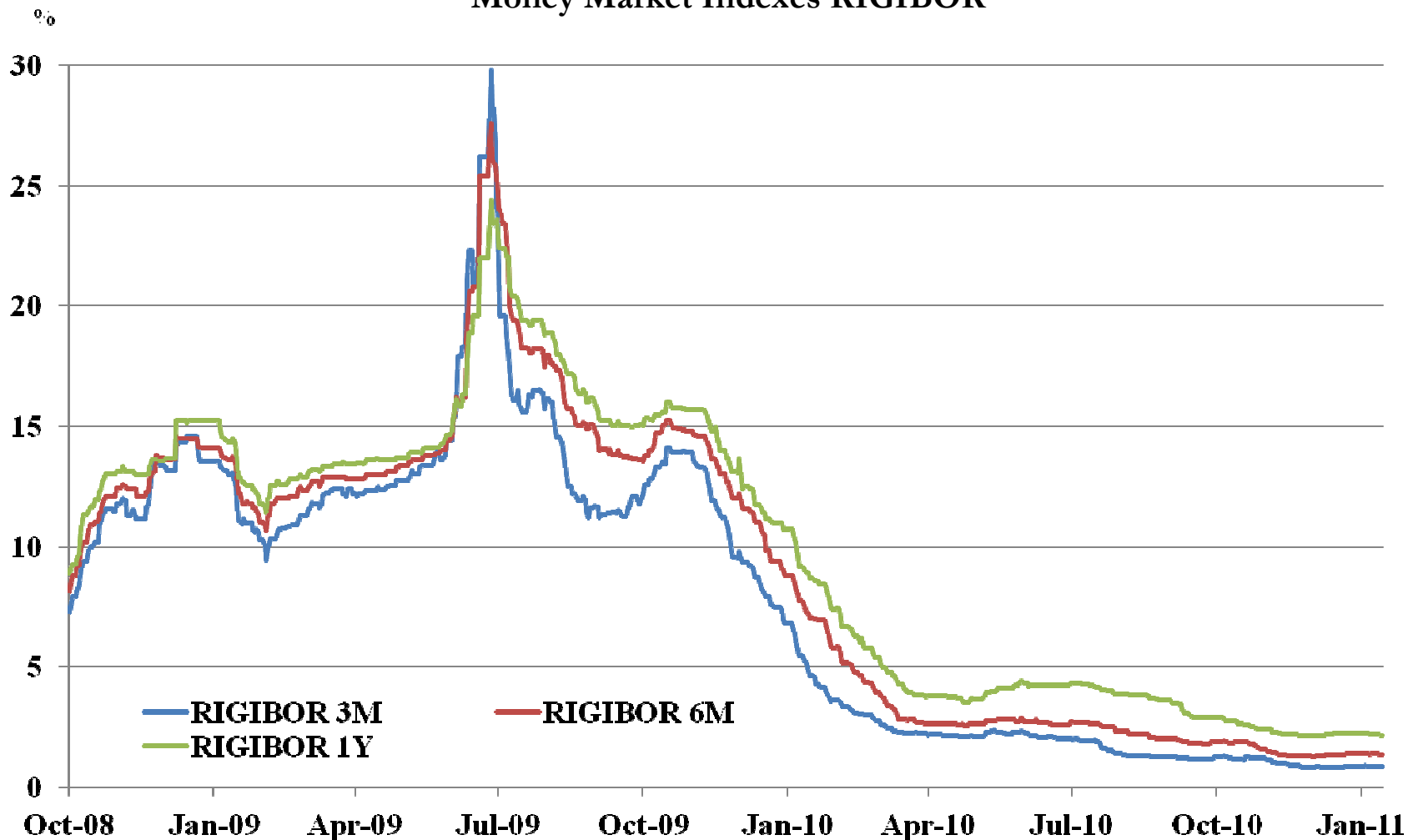
Backing of the monetary base with foreign reserves exceeds 200%

Net foreign assets and Monetary base (millions LVL)



Improvement in macroeconomic indicators and decline in government spending increases the confidence in the financial system of Latvia

Money Market Indexes RIGIBOR



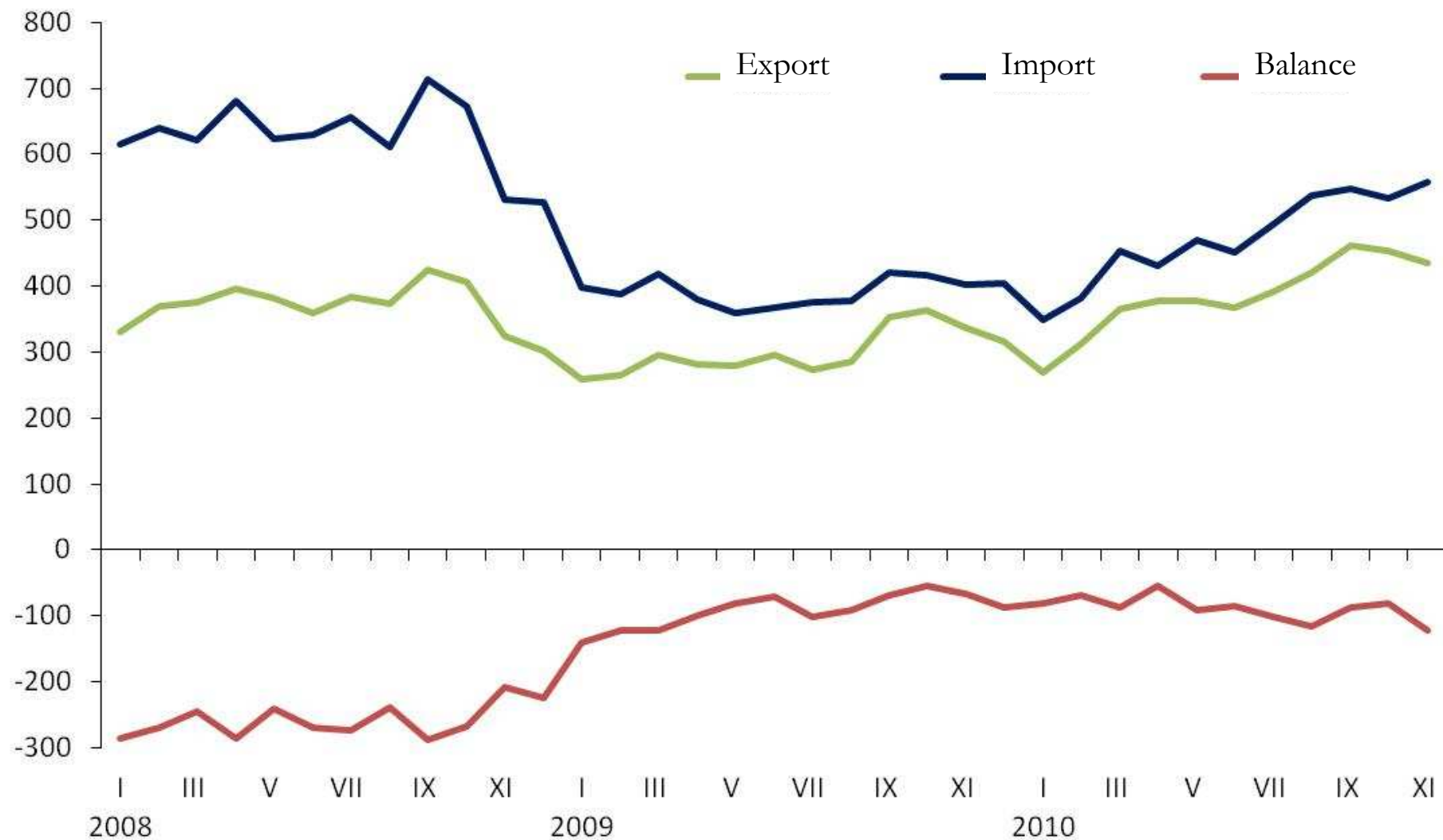
Data source: Bank of Latvia



EXPORT, IMPORT, MANUFACTURING INDICATORS

Export and import

External trade (LVL million)



Data source: CSB

Export shows rapid growth

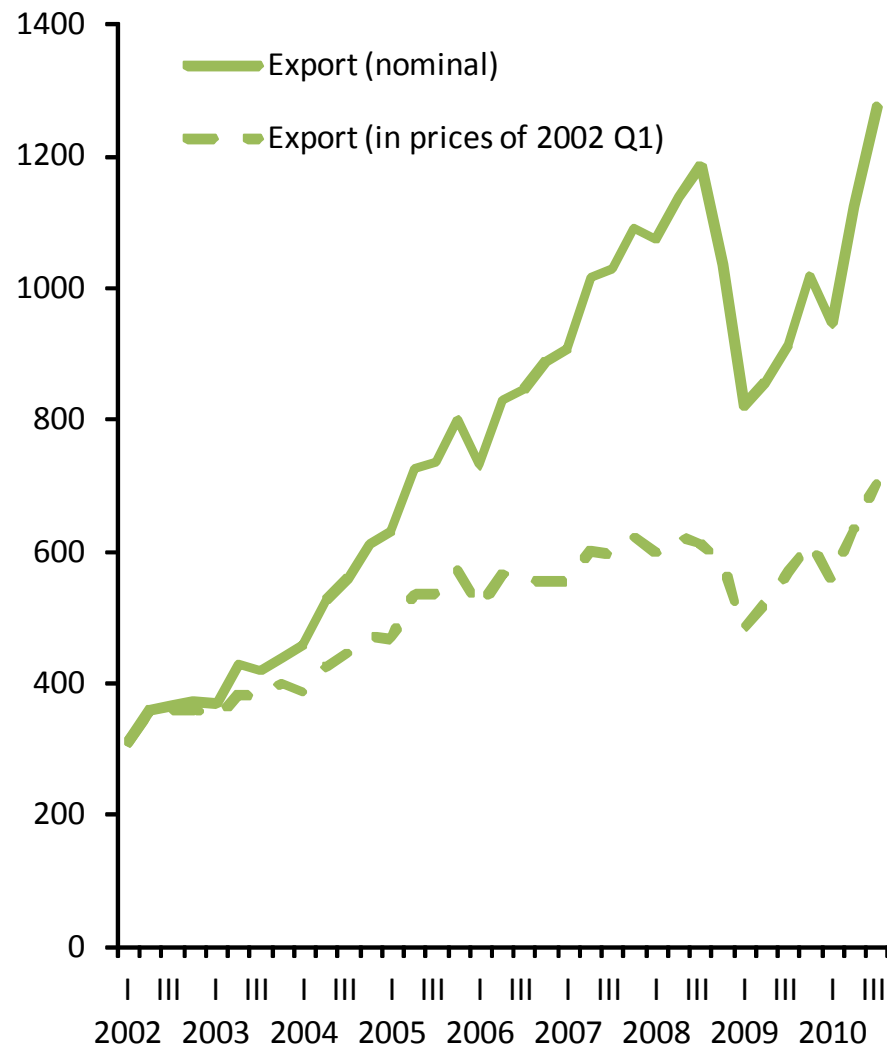
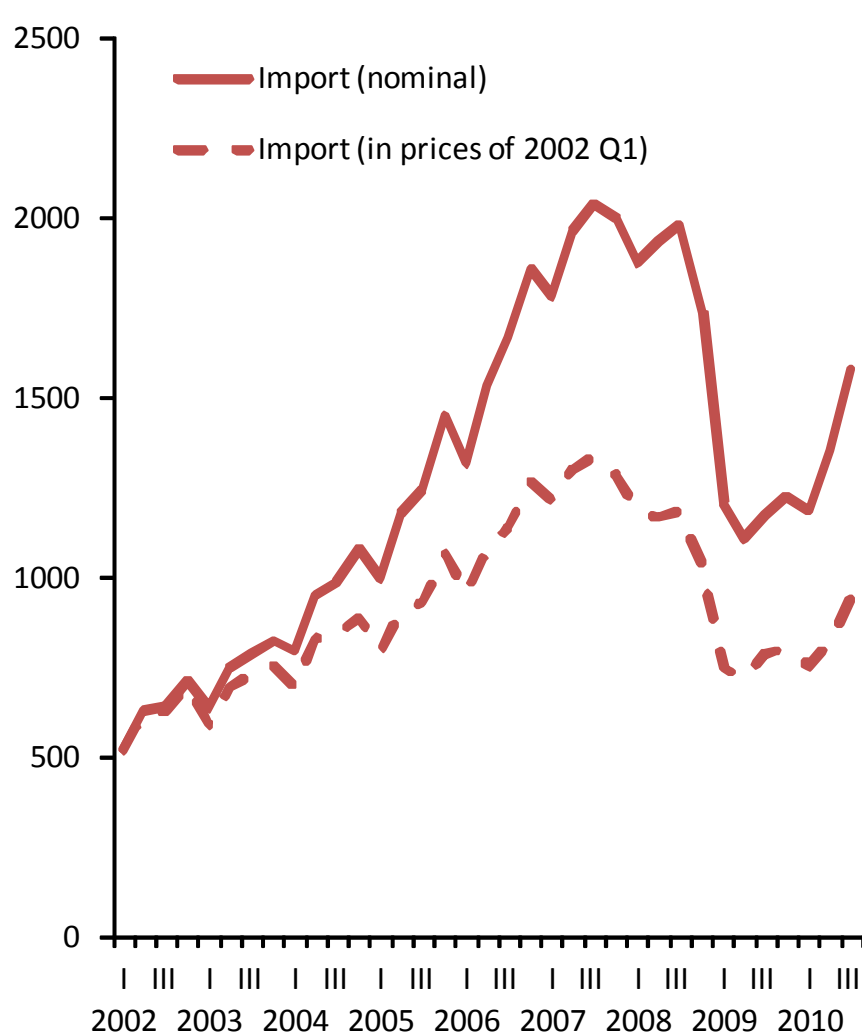
Manufacturing turnover and export of goods

(December 2007 = 100)



Data source: CSB

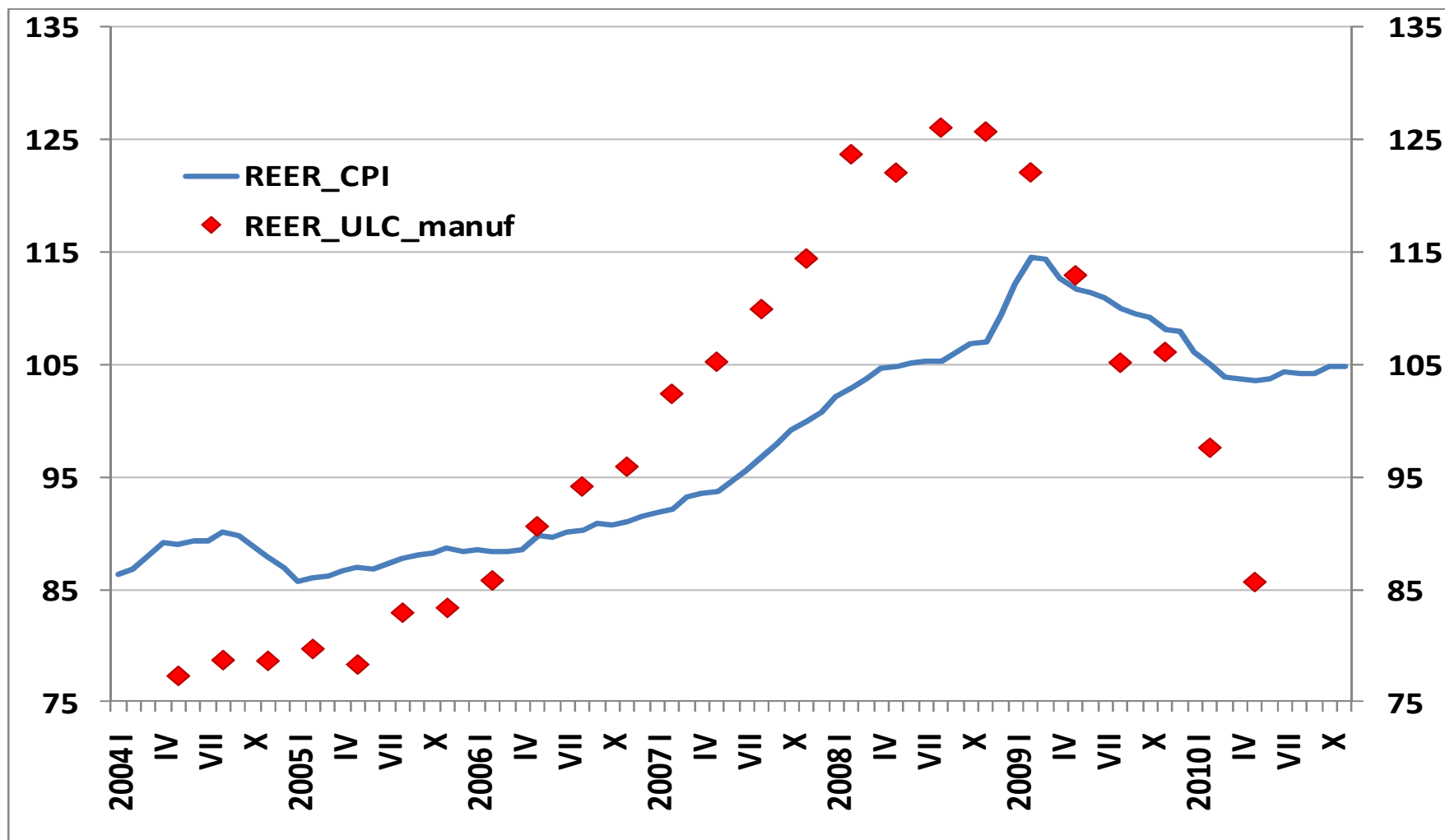
Rapid growth in exports is affected by the price level



Data source: CSB

Decrease in costs improves competitiveness: effective exchange rate of the lat is decreasing

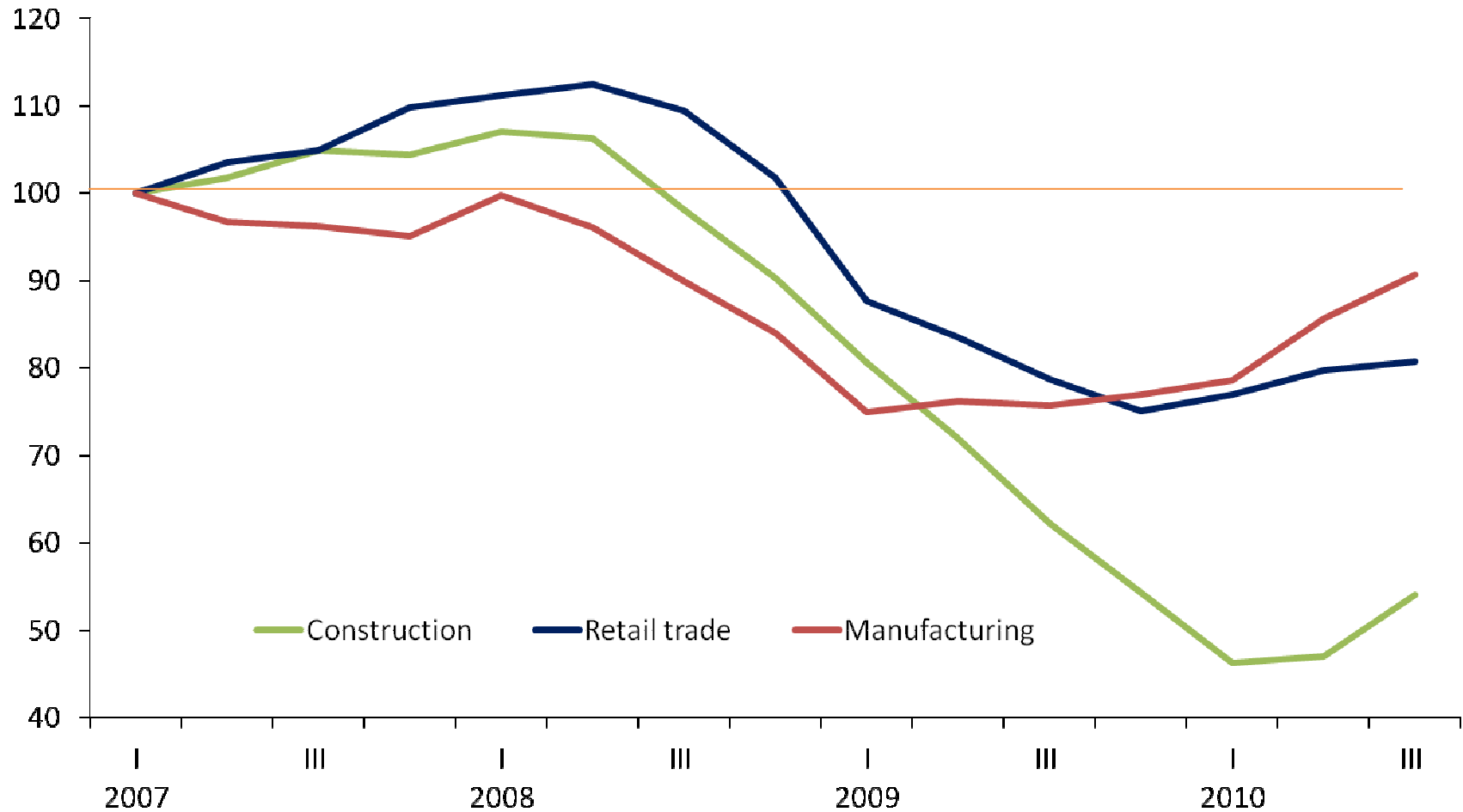
Real effective exchange rate of the lat (Jan 2000/Q1 2000 =100)



Data source: Bank of Latvia

Positive turning-point starting from Q1 2010

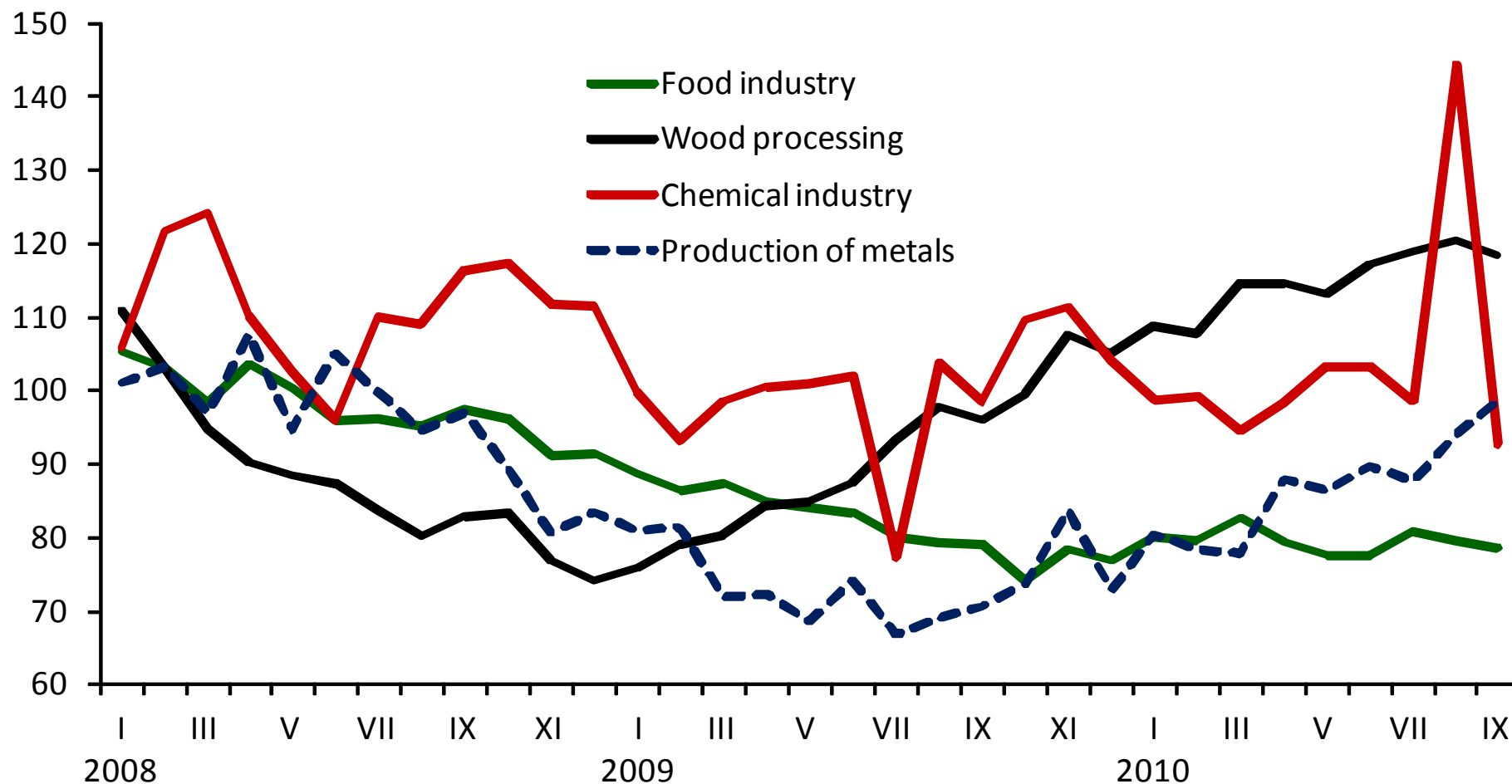
Output in industry, construction and retail trade
2007 Q1 = 100, seasonally adjusted data



2010 shows increase in some sectors

Volumes in main industry sectors

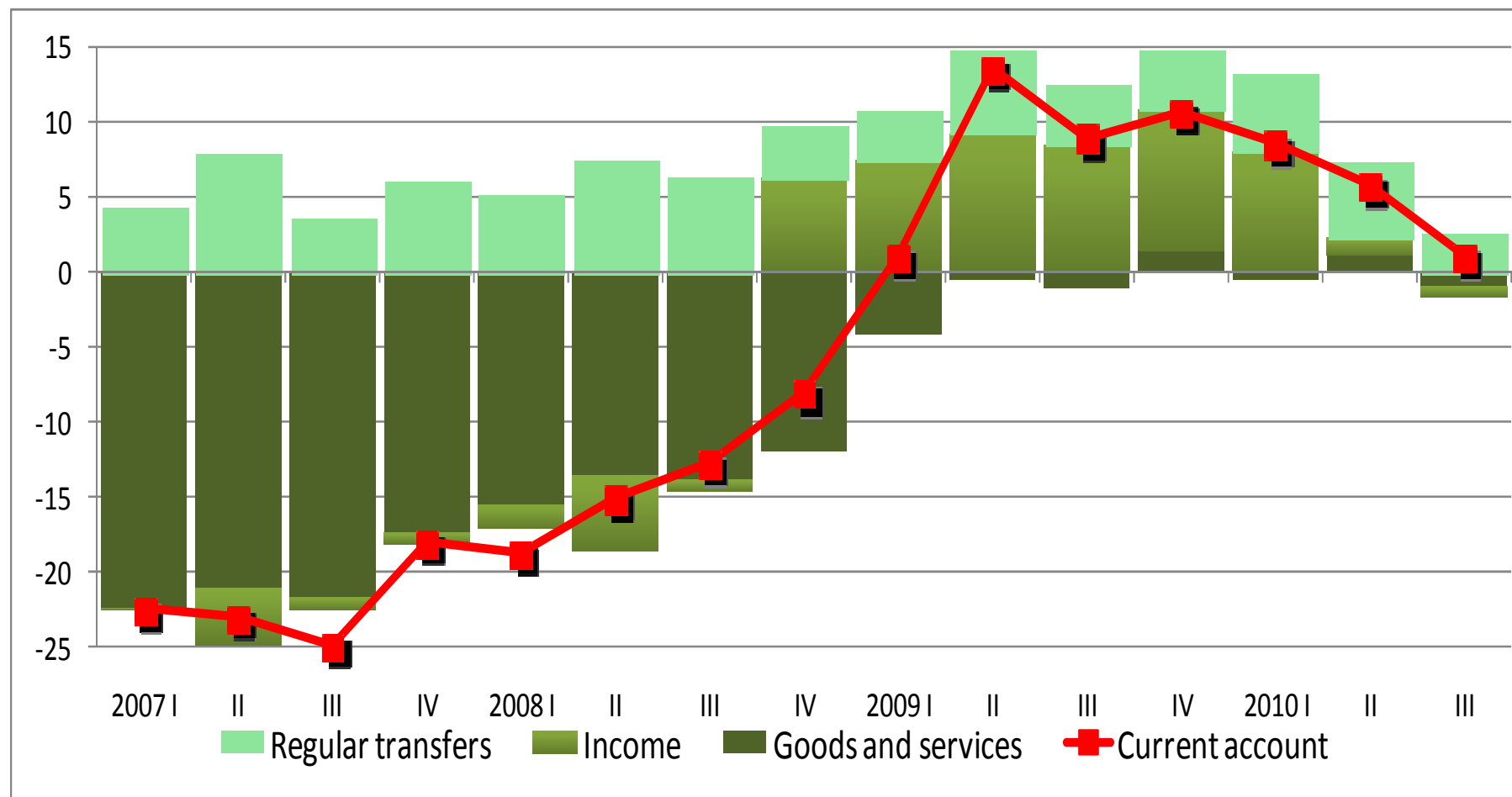
December 2007 = 100, seasonally adjusted data



Data source: CSB

Export growth and decrease in imports have contributed to the current account surplus

Balance of Payments (Principal items)
% of GDP



Data source: Bank of Latvia

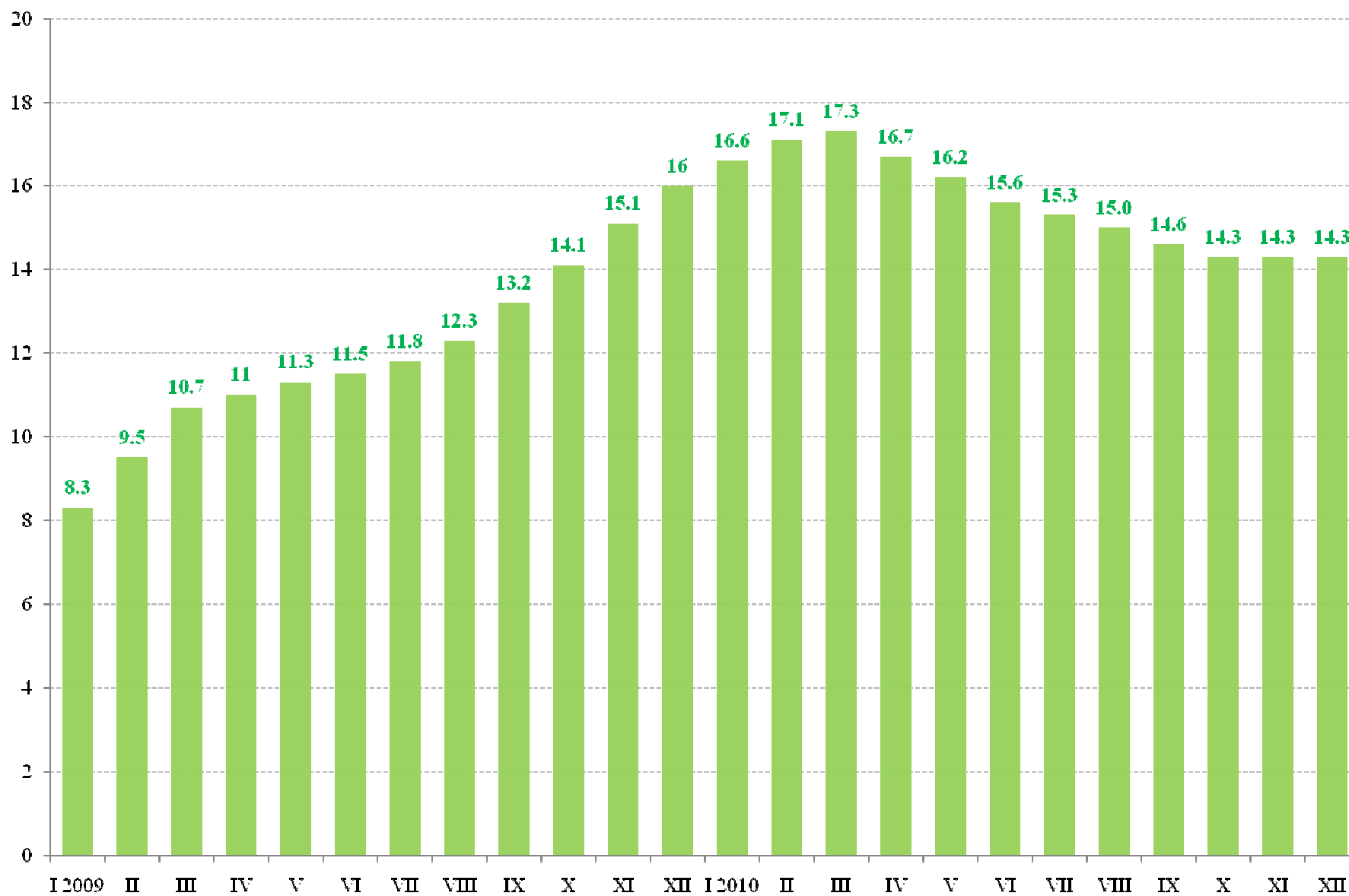
Effects of economic downturn

- Fall in GDP in two years amounted to 25%
- S&P credit rating has declined from A- to BB
- Tax revenues in 2009 decreased by 30% and in 2010 decreased by 5,8%
- Budget consolidation for the period 2008 - 2011 amounts to 16.3% of GDP
- Wage fund decreased by 35%
- Tax increase (VAT, PIT, Real estate tax, Excise, Social security contributions)
- Housing prices fell by 70% compared to peak of 2007 and bottomed out in mid 2009
- Non-performing loans in banks in Q3 2010 amounted to 19%



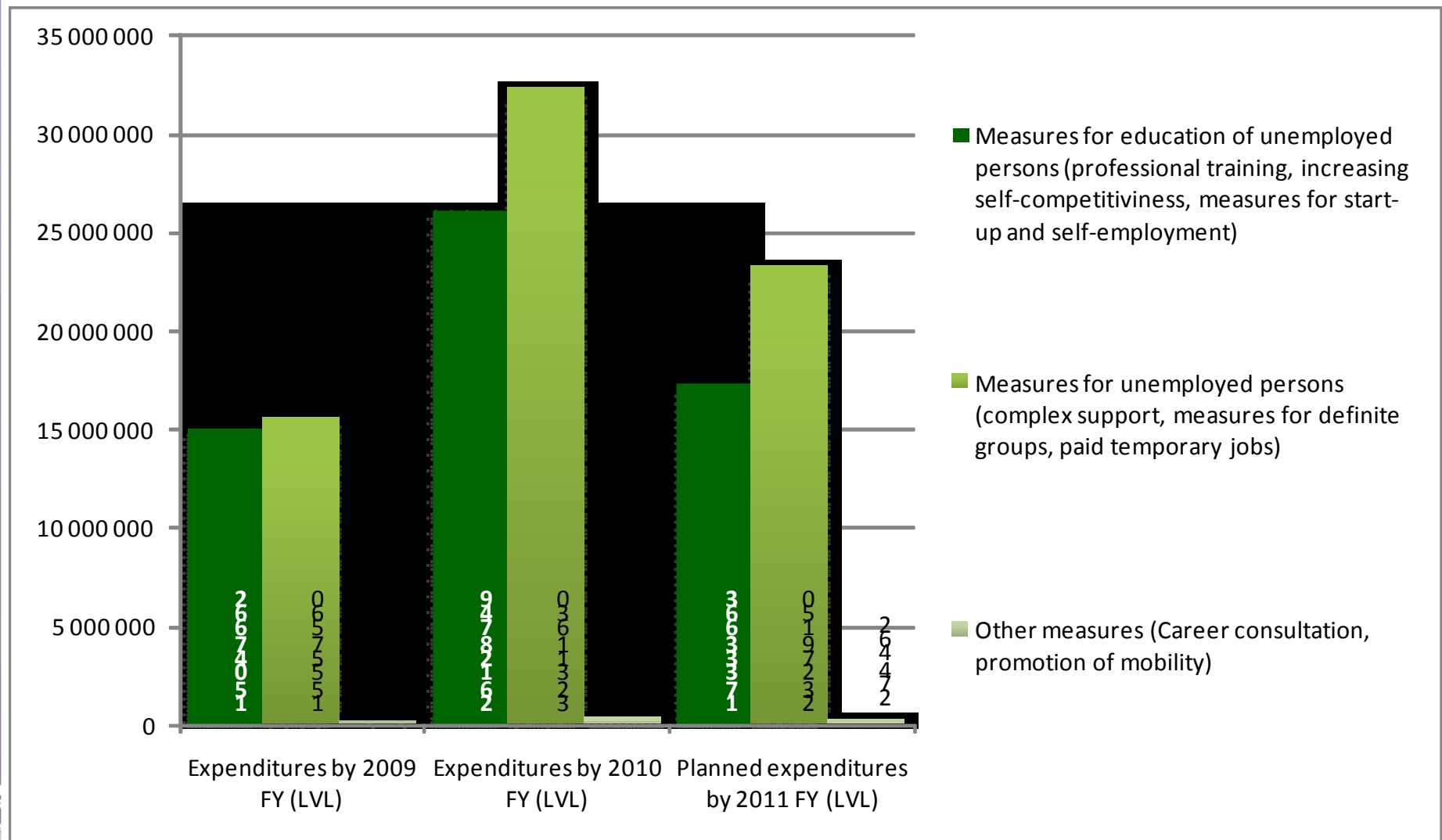
Unemployment indicators

Registered unemployment level (%)



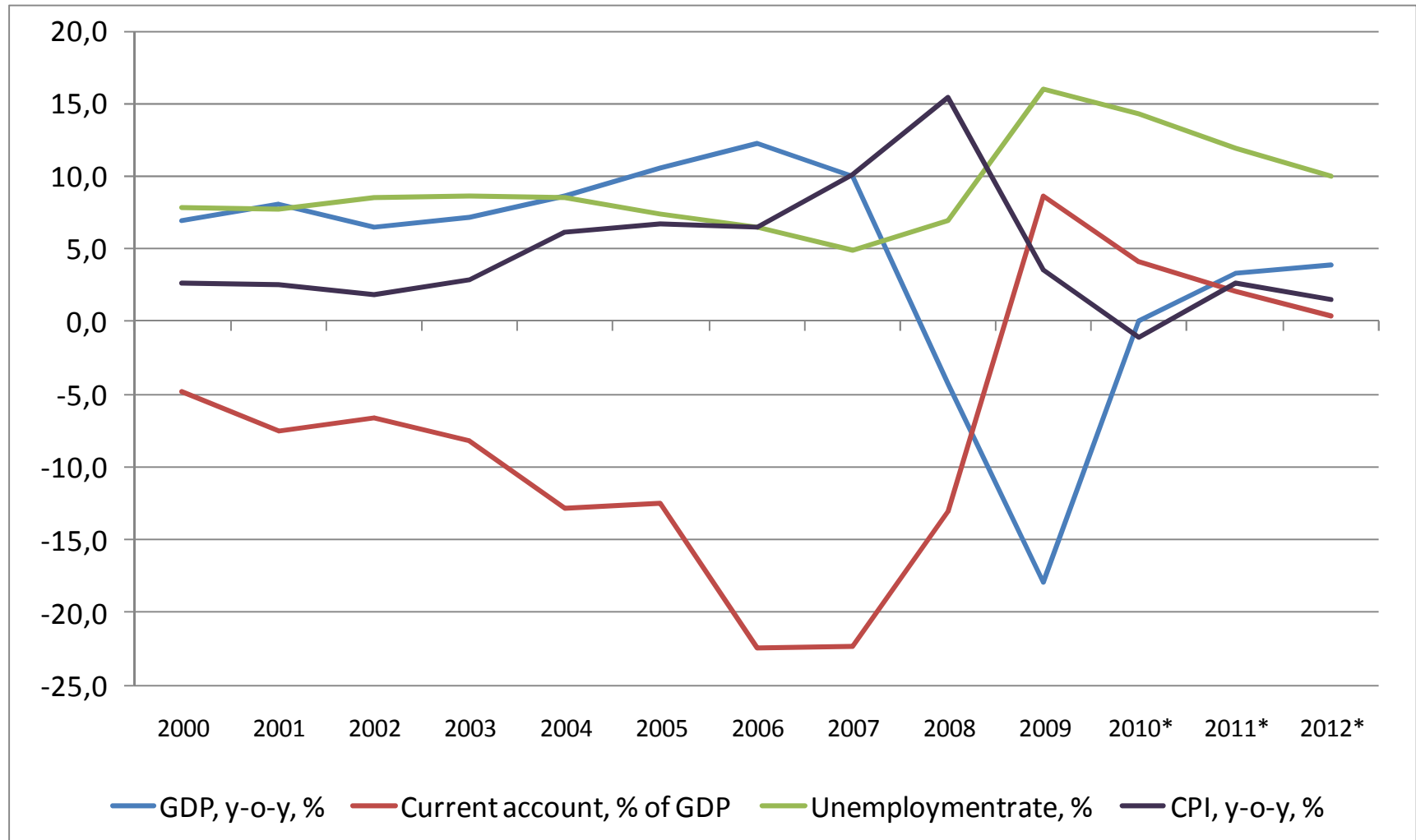
Data source: NVA

Budget for employment measures in 2009-2011

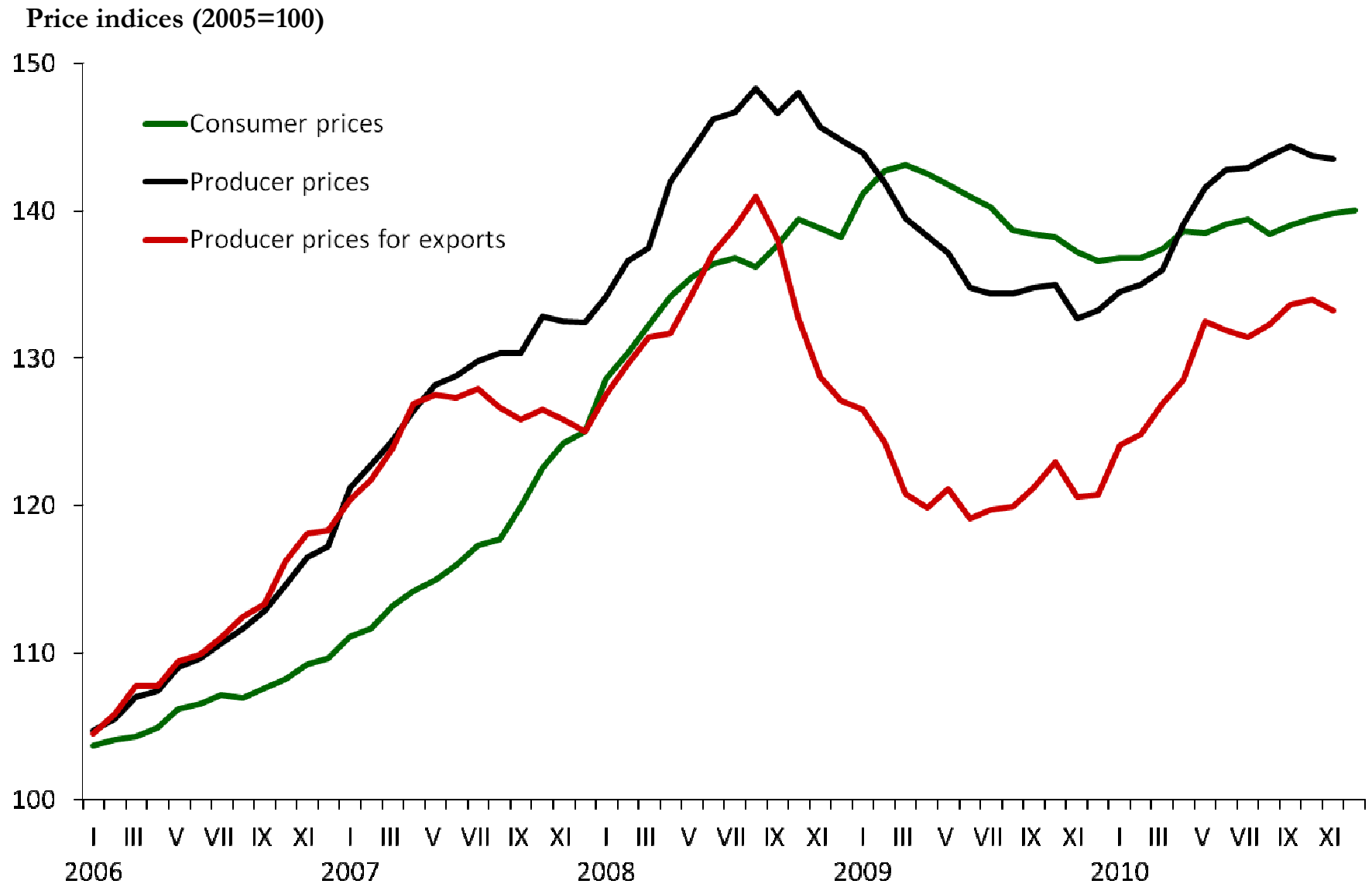


Unprecedented challenges for the Government

Main economic indicators of Latvia, 2000-2012 (%)



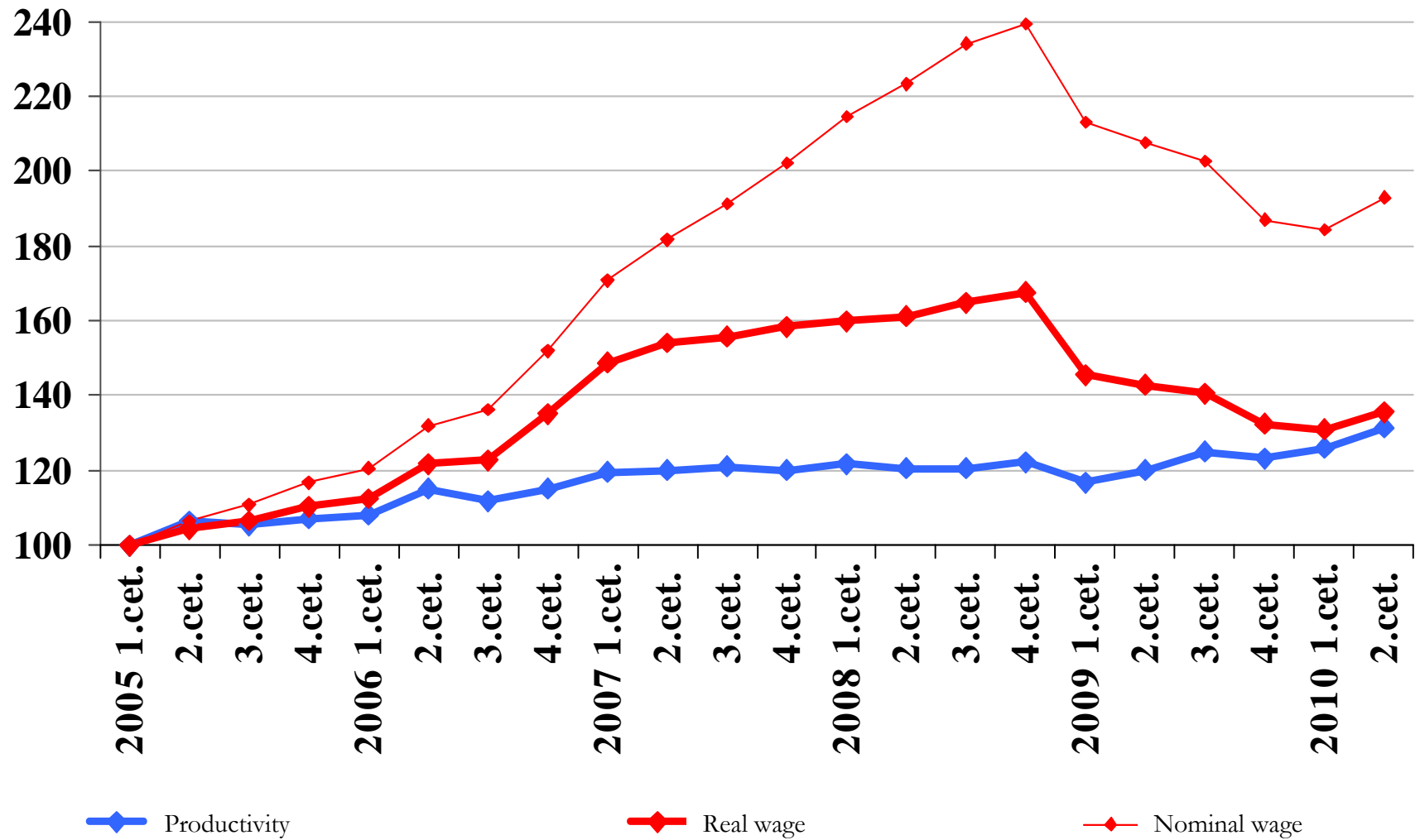
Prices signal about economic growth



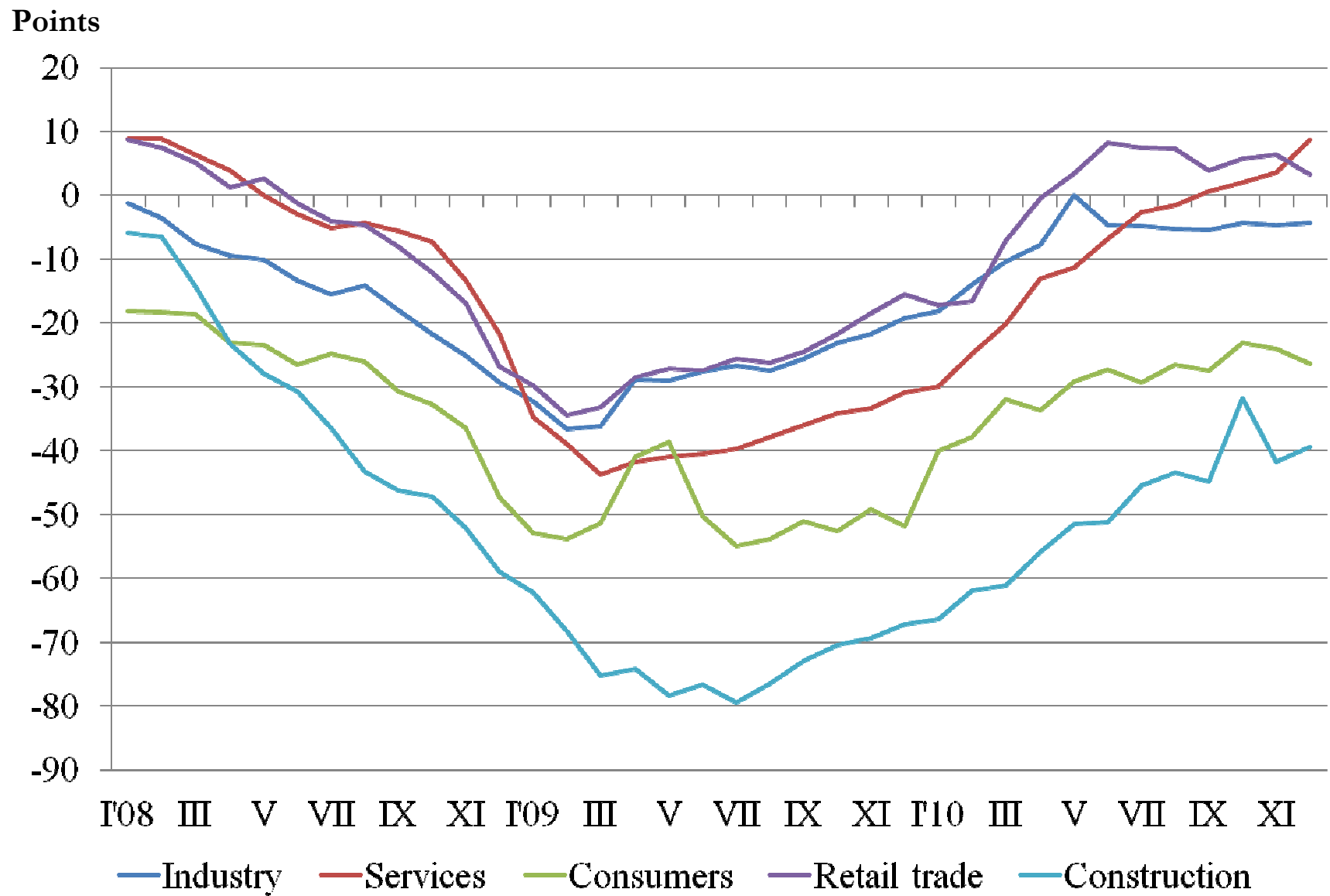
Data source: CSB

Productivity increases

Hourly wage and productivity index
(Q1 2005=100, seasonally adjusted data)

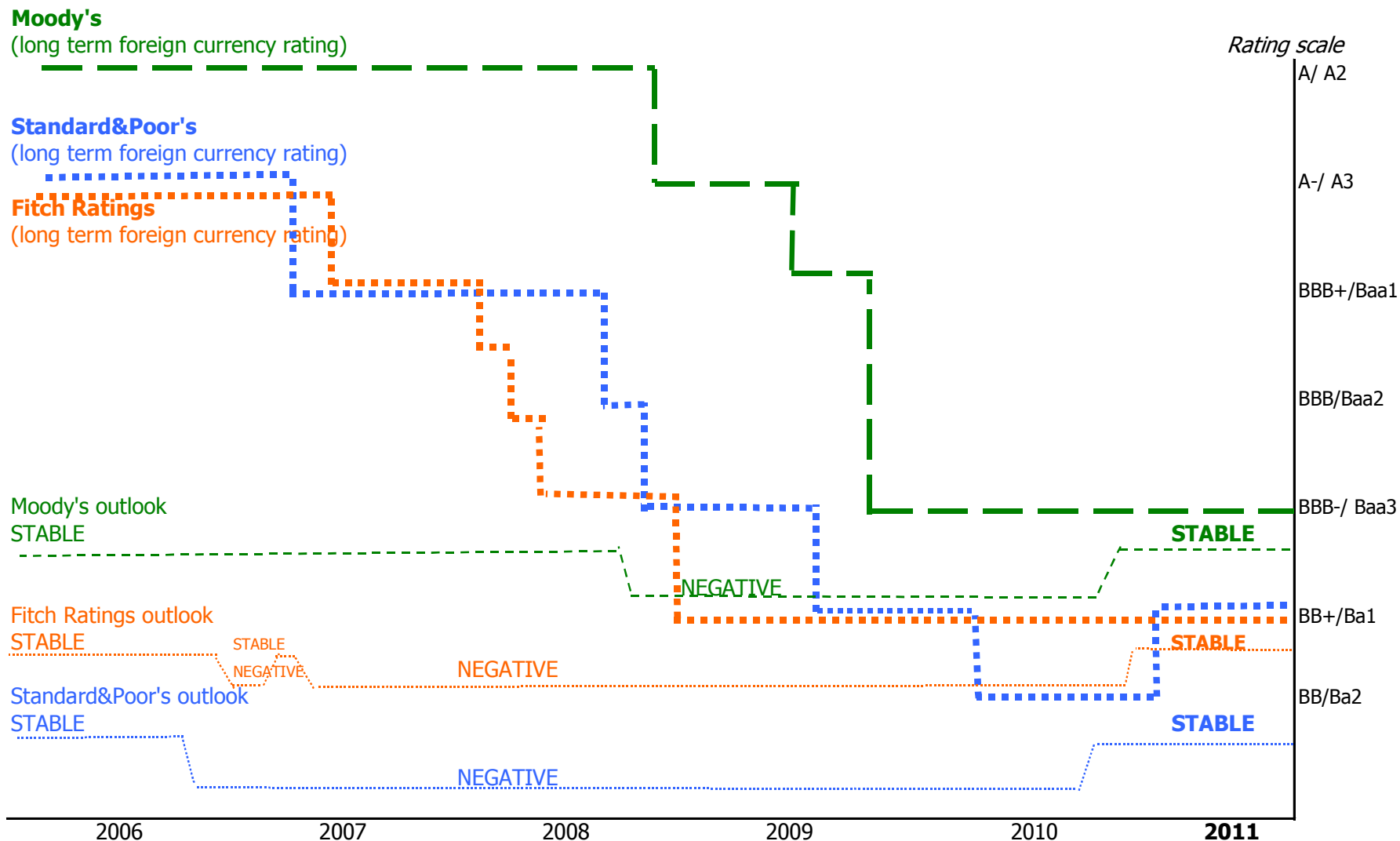


Confidence indicators have recovered



Data source: Bank of Latvia

Achievements of Latvia in economic recovery are recognized



Data source: State Treasury



Activities of the Cabinet of Ministers – through the prism of three pillars

**Promotion
of national competitiveness**

Economic growth

**Measures of
the Social Sector**

**Efficiency
of Public
Administration**

**Budget and structural reforms, incl. implementation of Letter of
Intent (IMF) and Memorandum of Understanding (EC)**



Economic growth: implemented government actions in 2009-2010

Expenditure side stimulus:

- speeding-up the allocation of EU structural funds,
- increasing government co-financing for EU projects
- Increasing resources for high value-added projects, new product support programs, energy efficiency projects
- using revenue from emission trading schemes for energy efficiency and insulation projects

Reducing administrative burden

Expanding export credit guarantees

Establishing "The Coordination Council for Large and Strategically Important Investment Projects" to focus on large-scale investment projects

Introducing tax reduction for large investments

Beneficial tax regime and easy start-up for micro companies



Social sector: activities in 2009 and 2010

- Expanding eligibility period for unemployment benefits
- Increasing guaranteed minimal income (GMI) benefits
- Increasing government co-financing to municipalities for GMI and housing benefits
- Financing temporary job positions in public works (100 LVL program)
- Increasing compensation for medical expenses for low-income persons



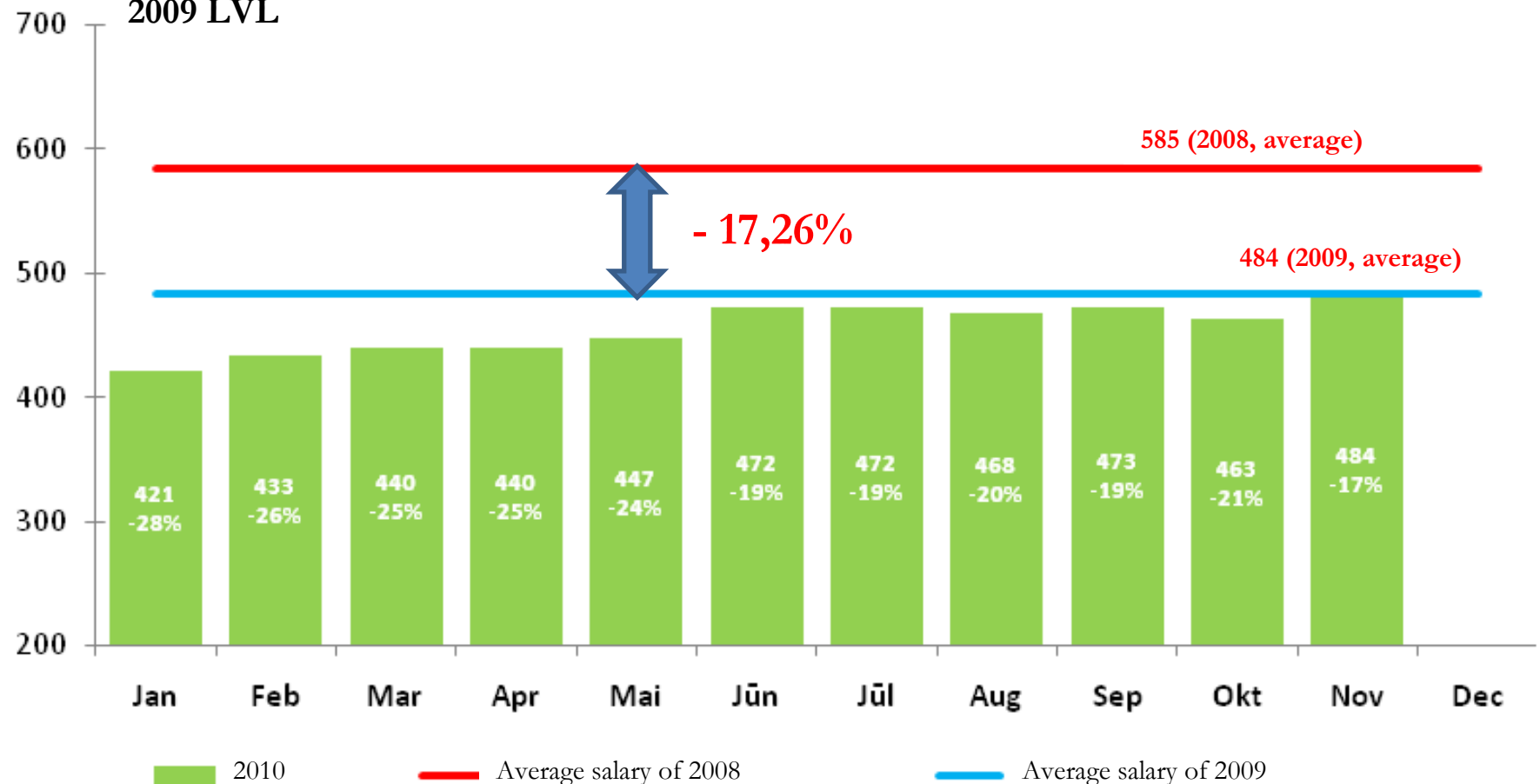
Efficient public administration as part of national competitiveness

- Introduction of systematic revision of public functions
- Results of expenditure reduction of functions are:
 - total economy comparing the beginning of 2010 and the beginning of 2009 - LVL 719 million incl.:
 - as a result of delegation of functions - more than LVL 5 million
 - as a result of suspending the implementation of functions - LVL 40 million
 - as result of optimization of functions by reorganizing the public administration institutions and implementing other qualitative changes - economy of more than LVL 671 million



Wage reduction in state budget-funded institutions

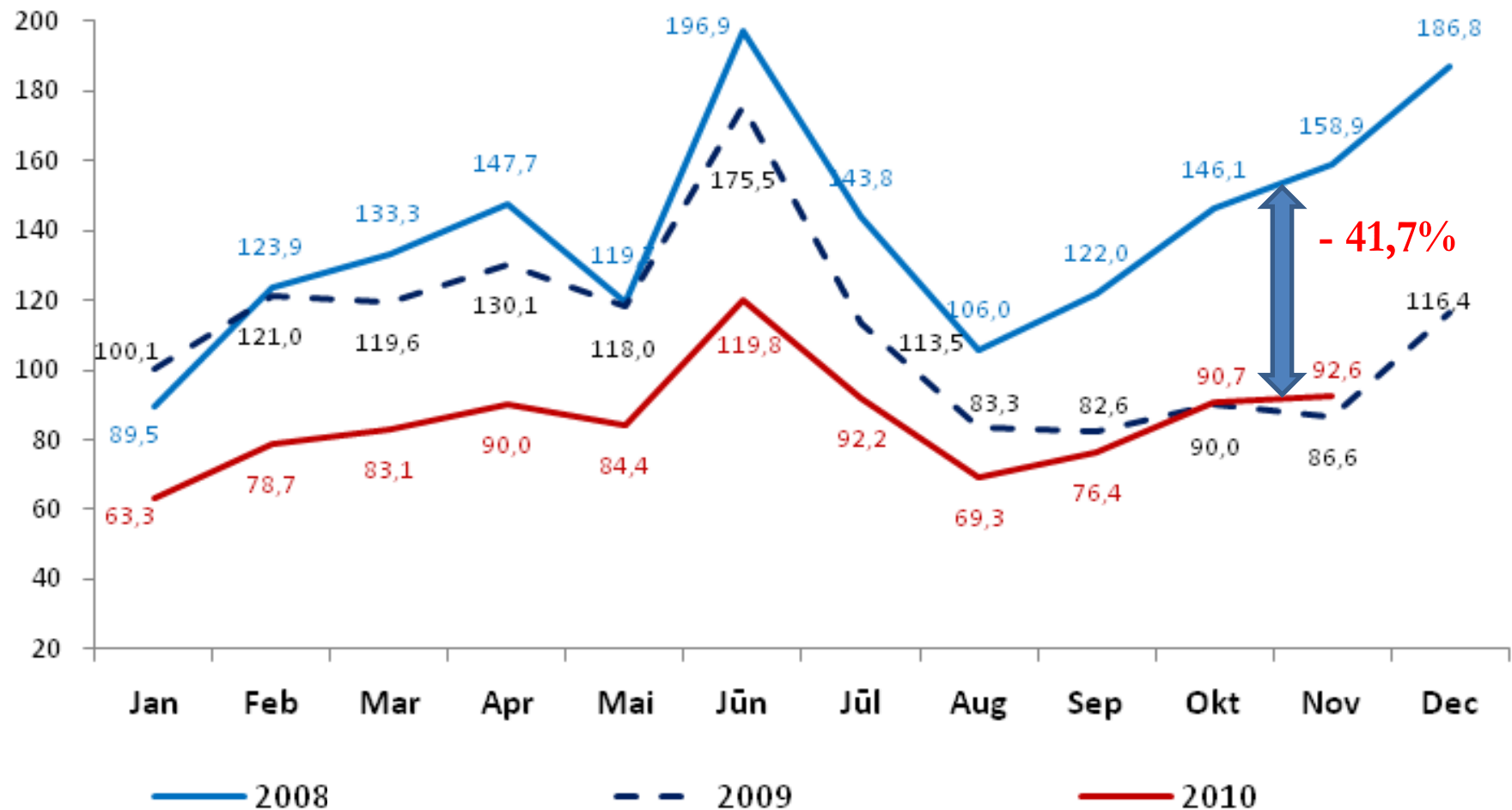
Average monthly salary (calculated by the MoF) in state budget institutions by month in 2010, LVL and %, and compared with average indicators of 2008 and 2009 LVL



Percentage decrease calculated against the average index of 2008

Actual expenditures for reimbursement

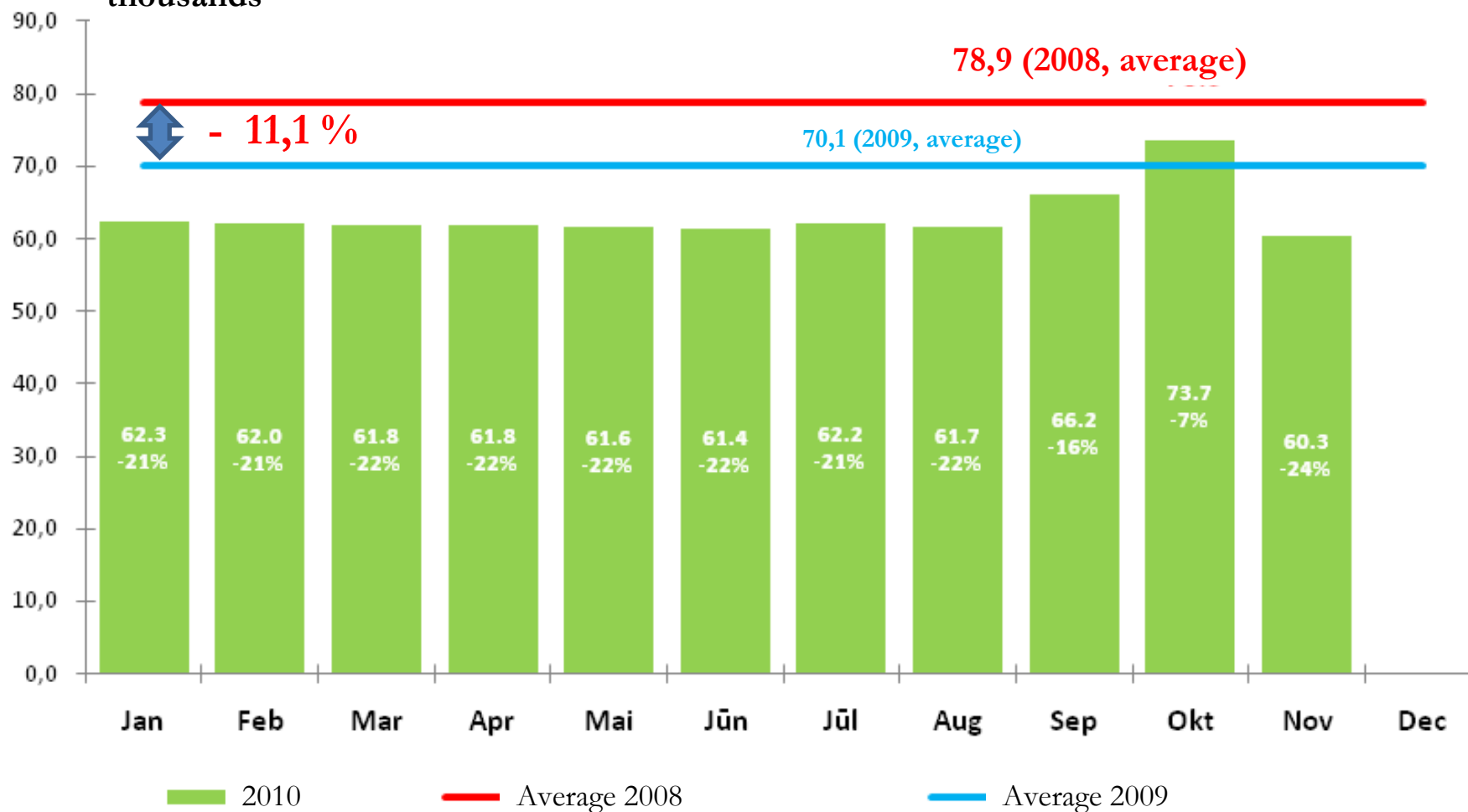
Expenditures for reimbursement in state and local government budget institutions in 2008, 2009 and 2010, LVL Million



Expenditures for reimbursement in November 2010 decreased by **41,7%** comparing with November 2008

Number of employees in public administration has been significantly reduced

Number of employees (calculated by MoF) in the state budget institutions by month in 2010, thousands and %, and compared with average indicators of 2008 and 2009, thousands



Percentage decrease calculated against the average index of 2008

Employees of the public sector (summary)

- In November 2010, there were **60 336 employees in state budget funded institutions** (includes independent institutions, for example, State Audit, as well as the courts, but does not include information on derived public entities such as state-founded universities and scientific institutes) **(decreased by 24% compared to average of 2008)**
- In November 2010, there were **3 024 employees in central apparatus of the ministries** **(decreased by 21,2% compared to average of 2008)**
- **The number of employees in state companies in November 2010** according to data by the Ministry of Finance was **39 839**
- The average number of employees in September 2010 (data by CSB):
 - **In local governments and institutions subordinated to the local governments : 88 685 (decreased by 12,1% compared to Q1 2008)**
 - In businesses controlled and financed by **local government structures: 10 421 (decreased by 30,1% compared to Q1 2008)**



Changes in the number of public administration institutions

- Number of state agencies has declined by **53 %** compared to January 1, 2009
- Total number of institutions subordinated to the ministries (state agency and direct administration institution) has declined by **34%** compared to January 1, 2009



Measures intended by the Government for 2011 and 2012

The objectives are:

- **To develop competitiveness of Latvian enterprises:**

- to ensure sustainable economic growth and employment;
■ prepare the first Latvian Competitiveness Assessment;

- **To provide social support by developing the social security network:**

- consistent implementation of measures of the social security network;
■ evaluating the social benefits and support for target groups to strengthen human security;

- **To increase efficiency of public administration:**

- aiming to establish a small, professional and client - oriented public administration;
■ in-depth revision of functions and services and reform of the existing civil service.



Thank you for Your attention!

Valdis Dombrovskis, Prime Minister of Latvia

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