

Latvia - Situation Update

Growing concerns

This is a brief update on the situation in Latvia and the troubles apparent in complying with requirements set out by lenders:

- **On 17 September the Latvian Parliament surprisingly voted 52-28 against a bill containing fiscal fulfilment of the binding loan conditions** laid down by the EU/IMF. This signalled a strong opposition to accepting the terms laid down. Notably the largest party in Latvia voted against the bill and even expelled an MP from its own party for having voted in favour of the bill (i.e. for doing the right thing in the eyes of the lenders).
- The lenders have loudly protested this political refusal to live up to the loan conditions, and have so far remained adamant about Latvia's obligation to comply with the terms agreed upon. The Swedish Finance Minister, Anders Borg, has warned that **the lenders' patience is wearing thin and that they will accept nothing less than complete fulfilment on the part of Latvia.**
- The Latvian government needs to improve its fiscal position by some LVL500m. The government has said that it can go as far as 225m in spending cuts and 100m in tax increases, but it **will still fall well short of the lender demands.**
- Consequently, **we are in a stand-off situation** where the lenders seem to have tied themselves to the mast by refusing to change the loan terms, while at the same time the borrowers fail to show the political will to comply with these terms. **Something has to give – in this case the ball seems to be in Latvia's court – in order for the situation to be resolved.**
- A major Swedish newspaper has during the weekend published an article alleging **that the Swedish Finance minister has contacted the management of Swedish banks with large Baltic exposure and warned them of an imminent collapse in the talks in Latvia.** Moreover, the same article states that the IMF is pushing hard for a devaluation as the only viable solution. The contents of the article have not been confirmed by any government source, and must therefore be considered as hearsay until further notice.
- **No later than 23 October the Latvian government must submit its budget proposal for 2010 to the Parliament.** The Latvian Parliament thus has another 2.5 weeks to gather support for further austerity measures, or face the consequences of failing to meet with its obligations.

Key points

This one-pager gives a short recap of the ongoing dispute between international lenders and the Latvians. Events seen over the past couple of weeks have heightened the risk of a disorderly resolution of the situation, and we continue to monitor the development closely

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