Latvia reaches broad accord on IMF, EU bailout: PM

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Latvia has reached a working deal with lenders including the IMF and EU to help it cope with a deepening economic slump, but the accord still needs fine-tuning, Prime Minister Ivars Godmanis said Monday.

"I have to be very precise. Today, at this point when I'm standing here, we have not reached the final deal. We have discussed the broad numbers, the broad principles," Godmanis told reporters.

Godmanis's centre-right government has been locked in talks with parties across Latvia's political spectrum as it tries to win support for budget cuts that would form part of an international rescue package for Latvia.

If their support, which is essential, is secured, the government is set to sign a so-called letter of intent with lenders, paving the way for a final bailout accord.

Godmanis said the letter could be inked late Monday or on Tuesday morning.

The size of the loan is expected to be announced then. Latvian authorities had earlier said they were seeking up to five billion euros (6.4 billion dollars) to help the country deal with the crisis.

The package could be put before parliament as soon as Thursday.

Latvia launched talks last month with the International Monetary Fund, the European Union, the European Bank for Reconstruction and Development, and countries including Sweden, a leading investor in the Baltic state, in search of help to shore up its ailing economy.

The government has been trying to stem a financial crisis following a run on the country's second-largest bank, Parex, which is being taken over by the state.

It has said its priority is to cut state spending to try to fend off the worst and is slated to introduce economic adjustment measures aimed at cutting budgetary outlays, including salaries.

Latvia, a country of 2.3 million people which broke free from the crumbling Soviet bloc in 1991, has been seen as an economic "tiger" in recent years, notably since joining the EU in 2004.

But after years of double-digit growth, it is confronting the sharpest recession in the 27-nation EU as once-robust domestic demand slumps in the face of high inflation, tighter domestic credit rules and the global economic crisis.

According to official forecasts, the economy may contract 1.5-1.7 percent this year and 3.5-5.0 percent in 2009.

Other ex-communist countries have turned to global lenders to try to deal with their economic woes.

The IMF, the World Bank and the EU extended a 20-billion-euro credit line to EU member Hungary at the end of October to help it cope with a severe balance of payments crisis as the global credit crunch sapped investors' confidence.

Last week, Latvian Finance Minister Atis Slakteris said that the IMF had suggested that Riga drop the peg linking its national currency, the lat, with the euro to help ease the country's economic strains, but that the government did not want to go down that track.

Devaluation has been used in other crisis-stricken countries in the past to help make their exports more competitive, but such moves can also spark a damaging run on the currency which can compound problems in the short term.

In a statement issued on Sunday, IMF negotiator Christoph Rosenberg said that the priority was "a programme that maintains Latvia's current exchange rate parity and band".

"This will require agreement on exceptionally strong domestic adjustment policies and sizeable external financing, as well as broad political consensus in Latvia," he said in the statement, which was echoed almost word-for-word in a communique Sunday by the European Commission, the EU's executive body.

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