

INTERNATIONAL MONETARY FUND



# **Staff Country Reports**

August 2000

IMF Staff Country Report No. 00/100

## **Republic of Latvia: Selected Issues and Statistical Appendix**

This Selected Issues and Statistical Appendix report on Republic of Latvia was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of Republic of Latvia or the Executive Board of the IMF.

Copies of this report are available to the public from

International Monetary Fund • Publication Services  
700 19th Street, N.W. • Washington, D.C. 20431

Telephone: (202) 623-7430 • Telefax: (202) 623-7201

Telex (RCA): 248331 IMF UR

E-mail: [publications@imf.org](mailto:publications@imf.org)

Internet: <http://www.imf.org>

Price: \$15.00 a copy

**International Monetary Fund**  
**Washington, D.C.**

INTERNATIONAL MONETARY FUND

REPUBLIC OF LATVIA

**Selected Issues and Statistical Appendix**

Prepared by a staff team consisting of Jerald Schiff (head),  
Johannes Mueller, Roman Zyteck, Alexandra Merlino (all EU2),  
and Khaled Sakr (PDR)

Approved by European II Department

June 16, 2000

	Contents	Page
Basic Data .....		4
I.	Introduction .....	5
II.	Developments and Prospects of Nonbank Financial Institutions .....	6
	A. Introduction .....	6
	B. Development of Nonbank Financial Institutions—An Overview .....	7
	C. Regulatory and Other Issues .....	12
III.	Foreign Direct Investment in Latvia .....	15
	A. Introduction .....	15
	B. Trends in FDI in Latvia .....	15
	C. Observed Benefits from FDI .....	18
	D. Promoting FDI .....	20
	E. Prospects for Future FDI .....	21
	F. Conclusions .....	22
IV.	Privatization: Role of the Latvian Privatization Agency .....	34
	A. Introduction .....	34
	B. Managing the Privatization Process .....	36
	C. LPA Involvement in Social Assistance and Economic Development .....	39
	D. Conclusions .....	41
Text Tables		
1.	Growth of the Nonbank Financial Sector .....	8
2.	Credit Unions, 1996-2000 .....	12
3.	Foreign Direct Investment, 1995-99 .....	23

4.	FDI Inflow Per Capita and as a Percentage of GDP in Selected East European, Baltic and European CIS countries, 1997-98 .....	24
5.	Accumulated Foreign Direct Investment by Kind of Activity, 1995-99 .....	25
6.	Accumulated Foreign Direct Investment by Country of Origin, 1995-99 .....	26
7.	FDI Inflow as a Percentage of Current Account Balance in Selected East European, Baltic and CIS Countries, 1997-99 .....	27
8.	Export Share of FDI Companies by Sector, 1996-99 .....	28
9.	Share of FDI Companies in Total Sales and Employment by Sector, 1996-98 .....	29
10.	Labor Productivity by Sector, 1996-98 .....	30
11.	Annual Average Salaries, 1996-98 .....	31
12.	Fixed Assets per Worker, 1996-98 .....	32
13.	Economic Performance Indicators, 1996-98 .....	33
14.	Value Added per Employee, Wages and Depth of Privatization by Sector, 1994-99 .....	42
15.	Revenues and Expenditure of the State Property Privatization Fund, 1993-99 .....	43
16.	Use of Privatization Revenues by the Latvian Privatization Agency, 1994-2000 .....	44
17.	Summary of Public Offerings, 1995-99 .....	45
18.	Balance Sheet of the Latvian Privatization Agency, 1994-98 .....	46

## Figures

1.	FDI by Activity and by Country of Origin, 1995-99 .....	17
2.	FDI as a Percentage of the Current Account Deficit in Selected East European and Baltic Countries, 1997-99 .....	19

## Text Box

1.	Foreign Assistance to the LPA .....	37
----	-------------------------------------	----

## Appendices

1.	Tax Summary .....	47
2.	Summary Overview of the Trade System, 1999 .....	56

## Statistical Appendix Tables

20.	Savings-Investment Balance, 1995-99 .....	57
21.	Gross Domestic Product by Sector of Economic Activity at Current Prices, 1990-99 .....	58
22.	Gross Domestic Product by Sector of Economic Activity at Constant Prices, 1990-99 .....	59
23.	Gross Domestic Product by Expenditure at Current Prices, 1995-99 .....	60
24.	Gross Domestic Product by Expenditure at Constant Prices, 1995-99 .....	61
25.	Agricultural Production, 1995-99 .....	62
26.	Energy Consumption, 1995-99 .....	63
27.	Labor Market Indicators, 1995-2000 .....	64
28.	Average Employment by Sector of Economic Activity, 1990-99 .....	65
29.	Average Wages, 1995-2000 .....	66

30.	Average Gross Wages by Sector of Economic Activity, 1995-99 .....	67
31.	Consumer Price Inflation, 1995-2000 .....	68
32.	Summary of General Government Operations, 1995-99 .....	69
33.	Operations of the Central Government and Social Fund, 1995-99 .....	70
34.	Local Government Operations, 1995-99 .....	71
35.	General Government Consolidated Budget: Expenditure by Function, 1995-99 .....	72
36.	General Government Budget Tax Arrears, 1995-2000 .....	73
37.	Employment and Wages in Budget Organizations, 1995-99 .....	74
38.	Treasury Bill Auctions, 1995-2000 .....	75
39.	Pension System, 1995-99 .....	76
40.	Family Benefits, 1995-99 .....	77
41.	Reserve Money and Net Domestic Assets of the Bank of Latvia, 1996-2000 .....	78
42.	Broad Money and Net Domestic Assets of the Bank System, 1996-2000 .....	79
43.	Enterprise and Household Deposits, 1996-2000 .....	80
44.	Enterprise and Household Credits, 1996-2000 .....	81
45.	Sectoral, Currency, and Maturity Distribution of Credit, 1996-2000 .....	82
46.	Banking System Indicators, 1997-2000 .....	83
47.	Balance of Payments, 1995-99 .....	84
48.	Exports and Imports by Area and Country, 1995-99 .....	85
49.	Commodity Structure and Foreign Trade, 1996-99 .....	86
50.	Foreign Trade by Free Trade Agreement Countries, 1996-99 .....	87
51.	Domestic Arrears in the Energy Sector, 1995-2000 .....	88

# Latvia: Basic Data

## Social and demographic indicators

Area	64,589 sq. km.
Population	2.4 million
Urban	69 percent
Rate of population growth	-0.8 percent per year
Life expectancy at birth	
Male	64.1 years
Female	75.5 years
Infant mortality rate (per 1,000 births)	14.9
Hospital beds (per 10,000 inhabitants)	89
Physicians (per 10,000 inhabitants)	33

	1995	1996	1997	1998	1999
	In percent of GDP				
Shares of gross domestic product					
Agriculture and hunting	8.9	7.8	4.6	2.9	2.4
Fishing	0.4	0.3	0.2	0.3	0.1
Forestry and logging	1.5	0.9	1.0	1.2	1.5
Mining and quarrying	0.2	0.2	0.2	0.2	0.2
Manufacturing	22.4	20.9	22.2	17.9	14.8
Electricity, gas, and water	5.5	5.3	5.0	5.3	5.0
Construction	5.1	4.7	4.8	6.8	7.6
Services	56.0	59.9	62.0	65.4	68.4
GDP					
Nominal GDP (in millions of lats)	2,349	2,829	3,275	3,589	3,662
GDP per capita (in lats)	934	1,136	1,327	1,466	1,506
Real GDP (percentage change)	-0.8	3.3	8.6	3.9	0.1
Consumer prices (percentage change, end-period)	23.1	13.1	7.0	2.8	3.2
General government finances	In millions of lats, unless otherwise stated				
Total revenue	875	1,057	1,352	1,529	1,561
(in percent of GDP)	37.2	37.4	41.3	42.6	42.6
Total expenditure	952	1,104	1,332	1,554	1,707
(in percent of GDP)	40.5	39.0	40.7	43.3	46.6
Financial balance	-77	-47	20	-25	-146
(in percent of GDP)	-3.3	-1.7	0.6	-0.7	-4.0
Net lending	15	5	10	3	7
(in percent of GDP)	0.6	0.2	0.3	0.1	0.2
Fiscal balance	-92	-52	10	-27	-153
(in percent of GDP)	-3.9	-1.8	0.3	-0.8	-4.2
Money and credit (end-period)					
Net foreign assets	300	445	619	415	364
Broad money	524	628	871	923	997
Domestic credit	332	366	479	647	745
Velocity (level)	4.5	4.5	3.8	3.9	3.7
Balance of payments					
Total exports (GNFS)	1,102	1,475	1,702	1,873	1,728
Total imports (GNFS)	1,156	1,668	1,945	2,329	2,109
Current account balance	-9	-120	-167	-362	-354
Official reserves (in months of imports of goods and nonfactor services)	3.2	3.1	3.0	2.7	3.1
Exchange rate, lats per US\$, end-period	0.537	0.556	0.590	0.569	0.583

Sources: Latvian authorities; and Fund staff estimates.

## I. INTRODUCTION

1. The past year has seen Latvia emerge from a recession brought on by the Russian crisis of August 1998. Following three consecutive quarters of negative growth, the Latvian economy grew by 3 percent in the fourth quarter of 1999 and appears to have picked up steam in the first half of 2000.<sup>1</sup> Exports have rebounded sharply from their depressed level following the dramatic depreciation of the ruble in late 1998 and the subsequent collapse in import demand in the CIS. In the first quarter of 2000, total merchandise exports rose by 14 percent over the same period of the previous year and—despite the weakness in the euro—exports to the EU increased by 17 percent. Private sector credit growth has recovered as well, growing by a healthy 14 percent in the fourth quarter of 1999 and the first quarter of 2000. Aided by the incipient economic recovery, and consequent improved revenue performance, the fiscal deficit was contained to just over 1 percent of GDP in the first quarter of the year.

2. The ability of the Latvian economy to weather the impact of this large external shock reflects the sound economic policies that have been pursued throughout the transition period. In particular, the long-standing commitment to macroeconomic stability enabled it to survive the economic downturn without a serious challenge to its exchange rate regime. Further, a thorough program of structural reform had largely succeeded in creating a flexible market economy in Latvia, allowing a relatively shallow recession and quick economic recovery.

3. At the same time, however, the Russian crisis brought into focus several remaining weaknesses in the Latvian economy. In particular, the substantial exposure of the banking system to Russia led, in the aftermath of the crisis, to the closure of three small banks, the suspension of operations of the fifth largest bank (which has since resumed operations under foreign ownership), and a significant reduction in financial intermediation. While the Bank of Latvia (BoL) has subsequently taken appropriate action to strengthen banking sector oversight and bring the prudential framework closely in line with international norms, the health of the financial sector remains a subject for continued close monitoring.

4. In addition, the disappointing export performance in 1999—which contributed importantly to the large current account deficit of nearly 10 percent of GDP—points to the importance of completing the structural reform program. In particular, difficulties encountered in diversifying export products and markets to compensate for diminished opportunities in the CIS suggest that further restructuring on the level of both the economy and individual enterprises may well be required. At the same time, the decline in the last two years in FDI flows, from the very high level of 1997, underlines the need to privatize the remaining large state-owned enterprises and continue efforts to enhance the business climate.

---

<sup>1</sup> For details see "Latvia—Staff Report for the 2000 Article IV Consultation and First Review Under the Stand-By Arrangement," forthcoming, and "Savings, Investment, and External Adjustment in the Face of Exogenous Shocks in the Baltics," forthcoming.

5. In this context, the following chapters examine several of the key policy issues facing Latvia:

- Chapter II reviews developments in the **nonbank financial sector** and examines potential policy issues. While the BoL's prudential standards for banking sector regulation are now largely in line with international standards, oversight of nonbank financial institutions is far less developed. This will likely become an increasingly important issue, in particular as private pension plans develop in the context of ongoing pension reform,<sup>2</sup> and as Latvia moves toward unified financial sector supervision, scheduled to begin in mid-2001.
- Chapter III describes trends in **foreign direct investment (FDI)** over the transition period, examines its impact on the Latvian economy, and discusses prospects for future FDI. While FDI in Latvia has been quite strong overall, and has had a positive impact on economic performance, the level of FDI has declined in the last two years; in 1999, FDI financed about 60 percent of the current account deficit compared with 180 percent in 1997. Given the sizable current account deficits expected over the next several years, it is imperative that Latvia takes measures to ensure that it continues to attract substantial FDI. In that context, the authorities aim *inter alia* to complete privatization and remove unnecessary impediments to investment.
- Chapter IV reviews the process of **privatization** to date and, in particular, the role of the Latvian Privatization Agency (LPA). It is argued that privatization has been generally successful and the process efficient and transparent, although the LPA has engaged in certain activities that would have been better left for budgetary institutions or the private sector. It is particularly important, as Latvia moves now to privatizing the large public utilities, that the process remains efficient and transparent to ensure public support and to generate the largest possible gains for the country.

## **II. DEVELOPMENTS AND PROSPECTS OF NONBANK FINANCIAL INSTITUTIONS**

### **A. Introduction**

6. While much attention has been devoted in recent years to the Latvian banking system, other players in Latvia's financial sector have received little attention. This was largely due to the fact that non-bank financial institutions (NBFIs) have only recently begun to play a more important role in mobilizing and intermediating savings, thereby complementing, and at times competing with, the role played by commercial banks and forcing them to be more efficient and responsive to market demands.

---

<sup>2</sup> See "Pension Reform in the Baltics: Issues and Prospects," forthcoming.



7. While there is no uniformly accepted definition of NBFIs, their common characteristic is that they mobilize savings and facilitate the financing of different activities, but do not accept deposits from the public *at large*. NBFIs, therefore, are often defined to comprise insurance companies, leasing companies, private pension funds, and nonbank credit institutions, with the latter usually only accepting deposits from their members. Their relative importance and development is often assessed against financial intermediation by commercial banks and the state of development of capital markets.

8. The slow emergence of NBFIs in Latvia since the mid-1990s is largely in line with international experience in that NBFIs usually only emerge to a noticeable extent once the financial system has reached a certain degree of development and maturity. In fact, the state of development of NBFIs is often used as an indicator for the state of development of the financial system as a whole. In the case of Latvia, the emergence of NBFIs has been somewhat delayed compared to other transition economies in Central and Eastern Europe, in particular neighboring Estonia, as two major banking crises in 1995 and 1998 may have impaired the public's acceptance of these new forms of financial intermediation. But the impact of the Russian crisis was also quite noticeable and slowed the growth of NBFIs in the second half of 1998 and the first half of 1999.

9. Nevertheless, there is no doubt that the nonbank financial sector has taken off in Latvia, and there are clear indications that NBFIs will undergo a similarly rapid development as in neighboring Estonia, where especially leasing operations have expanded buoyantly. It should be noted though that the Latvian insurance market is already outpacing the Estonian one. The challenge for the Latvian authorities is to ensure that (i) the growth of NBFIs develops in an orderly fashion; (ii) an appropriate legal and regulatory framework is put in place to reduce potential vulnerabilities; and (iii) possible obstacles to their development and their ability to play a useful role in fostering financial intermediation and resource allocation be removed.

10. This chapter focuses on the role of NBFIs in Latvia over the last few years, with a view to assessing their development, relative importance, and prospects in the run-up to EU accession, as well as the legal and regulatory framework governing their business conduct and supervision. The latter is important with respect to the implications on the creation and setup of the Unified Financial Sector Supervision Agency, which is to become operational in July 2001. While existing vulnerabilities will be mentioned, it should be noted that this chapter is only intended to provide a preliminary overview of the nonbank financial sector, and the analysis will be fine-tuned and deepened in the context of the Financial System Stability Assessment (FSSA) for Latvia, which is currently planned for early 2001.

## **B. Development of Nonbank Financial Institutions—An Overview**

11. The growth of NBFIs has outpaced the growth of commercial banks over the last two years, albeit starting from a very low base. Notwithstanding the economic slowdown and crisis in the banking system triggered by the Russian crisis, combined assets of the nonbank financial sector rose by more than two-thirds from below 4 percent of GDP at end-1997 to

6½ percent of GDP at end-1999 (Table 1). This compares to growth in the banking system's domestic assets by about one third, from 22½ percent of GDP at end-1997 to 30 percent of GDP at end-1999, which is still quite rapid given the circumstances.<sup>3 4</sup> In general, most players in the NBFIs markets are either affiliated with major commercial banks or foreign-owned and -managed. It should be noted that NBFIs taken together have surpassed the stock market capitalization at the Riga Stock Exchange (RSE) at end-1999. Overall, their rapid growth notwithstanding, NBFIs are still too small to create significant vulnerabilities for their owners or the economy at large, but it is nevertheless important to ensure that such vulnerabilities do not arise in the future.

Table 1. Latvia: Growth of the Nonbank Financial Sector  
(In percent of GDP)

	End-1997	End-1998	End-1999
Leasing companies assets	1.7	3.0	3.8
Insurance companies premia	2.1	2.3	2.6
Life insurance	0.3	0.3	0.3
Non-life insurance	1.8	2.0	2.3
Private pension funds contributions	0.0	0.0	0.1
Credit unions assets	0.01	0.02	0.02
Memorandum items:			
Stock market capitalization	5.3	5.8	5.8
Banking system total assets	49.6	50.3	56.1
<i>Of which: domestic assets</i>	22.6	27.4	30.0

Sources: Bank of Latvia; Latvian Leasing Association, Insurance Supervision Inspectorate, Riga Stock Exchange; and Fund staff estimates.

<sup>3</sup> For an overview on developments and problems in the Latvian banking system, see the 1995 and 1999 reports on Recent Economic Developments (SM/95/265) and (SM/99/174).

<sup>4</sup> As a side note, the sources of growth in the banking system have shifted over time. While most of the growth before the Russian crisis was driven domestically—credit to the non-government sector expanded by 76 percent in 1997 and 59 percent in 1998—the 1999 growth is from non-residents' sharply increased transfer of funds into the Latvian banking system, which Latvian banks in turn largely invested abroad in assets in OECD countries.

12. Leasing companies have expanded their market share particularly rapidly, with a more than doubling of their assets within only two years. Based on evidence from more advanced leasing markets in other transition economies (such as Estonia), their exponential growth can be expected to continue unabated for several years before slowing to more sustainable growth rates once the stock adjustment effect dissipates. By contrast, insurance companies' premia have risen relatively slowly, as the concept of life insurance has not yet taken off in Latvia, which is similar to the experience of other transition economies. This likely reflects the attitude of a large share of the public that private insurance is not needed for something that the state provides for through the public pension system, namely adequate retirement income and support of surviving widows and orphans. The prospects for life insurance policies are likely to be further impaired by the rapidly emerging private pension funds which since their formalization in late 1998 have grown quite impressively; the potential for further expansion by the latter is promising in that they are assigned a crucial role under the pension reform being undertaken in Latvia.<sup>5</sup> Finally, credit unions, while quintupling their assets within the last five years, are still of marginal importance in Latvia, and although they play a pivotal role in providing financing to their members in markets currently underserved by commercial banks, their overall size will remain relatively small.

### Leasing

13. While the leasing market in Latvia has expanded rapidly over the last few years, its size relative to the Estonian leasing market is still quite small, lagging its development by two or three years. In addition, the market has been marked by a noticeable consolidation, with the number of companies reporting to the Latvian Leasing Association (which covers companies accounting for more than 90 percent of all assets) having fallen from 17 at end-1997 to 11 at end-1999. Most players are affiliated with a commercial bank, accounting for more than 95 percent of the leasing market, with the two largest leasing companies owned by two major banks having a market share of 74 percent. To the extent that commercial banks own leasing companies, the BoL supervises them as a result of the recent introduction of supervision of banks on a consolidated basis. Other leasing companies—with a market share of less than 5 percent—are not subject to any direct supervision by government authorities but are subject to the standard laws underlying private contracts.

14. The leasing industry is marked by very stable customer relationships, with many leasing companies working with a set circle of partners, which also translates into a high degree of specialization. About 90 percent of leasing companies' assets are related to contracts with corporate customers, while households account for the remainder, mainly for consumption articles, such as cars. Concentration in terms of leased products is high, which could lead to increased vulnerability in the event the economy slows, defaults rise, and seized

---

<sup>5</sup> See Box 4 in the Staff Report for the 2000 Article IV Consultation and First Review under the Stand-By Arrangement; and "Pension Reform in the Baltics: Issues and Prospects," forthcoming.

assets prove difficult to recover and sell: as of end-1999, about 45 percent of the leasing portfolio was for vehicles, 18 percent for machinery and equipment, and 12 percent for real estate, while factoring—the assignment of accounts receivable from customers—accounted for about 13 percent. The term structure of leasing contracts is focussed on medium-term maturities, in line with the term structure on bank loans: 19 percent of contracts are up to one year, 40 percent between 1 and 3 years, 25 percent between 3 to 5 years, and the remainder for long-term leases with maturities exceeding 5 years.

### **Insurance Companies**

15. The insurance density (insurance premia in percent of GDP) in Latvia, at about 2½ percent of GDP at end-1999, is still significantly below the level of EU countries (where it generally ranges between 5 and 7 percent of GDP) but above the level observed in other transition economies of similar income, such as Estonia and Lithuania. Based on premia collected, life insurance companies account for only about one-tenth of the insurance market, with a slightly declining trend, indicating that this form of insurance has not yet achieved a high level of acceptance by the Latvian public. At end-1999, there were eight life insurance companies and 19 non-life insurance companies operating in Latvia, down from nine and 21 companies, respectively, at end-1998, as three licenses were withdrawn during the year. This decline is part of an overall trend of consolidation which has been going on in the insurance market—contrary to the banking sector—and led to the reduction in the number of insurance companies from 42 in 1995 to 27 at end-1999. All such companies are privately owned, with 19 of them having major foreign ownership, mostly from Scandinavia, Germany, Switzerland, and the U.S., and accounting for about 40 percent of the capital of Latvian insurance companies at end-1999. Concentration in the market is relatively high, with the five largest players representing about three-fifths of the non-life insurance premia in 1999, although with a declining trend (1997: 66 percent), which is a sign of the increasingly competitive market environment.

16. Insurance premium growth, at about 8½ percent in 1999, slowed markedly compared to the 31 percent growth in 1998, reflecting both the impact of the economic recession but also a certain degree of market satisfaction. At the same time, claims have increased substantially, by close to 50 percent in 1999, and equaled about one-third of insurance companies' investments.

17. Investments by insurance companies reached LVL 70 million in 1999 (1.9 percent of GDP), of which about one-third came from life insurance companies. The share of investment undertaken in Latvia rose from about 70 percent at end-1998 to about 85 percent at end-1999, which is surprisingly high in view of the very lenient restrictions on investment abroad, compared to the restrictions applying to private pension funds (see below).<sup>6</sup> However, the losses related to the holdings of securities from Russia and other CIS

---

<sup>6</sup> Most importantly, investment of insurance companies in securities that are quoted at stock exchanges in Latvia and other countries are limited to 30 percent.

countries—such securities represented about 10 percent of all investments prior to the onset of the crisis—may have contributed on this renewed focus on investment in Latvia. At end-1999, about two-fifths of all investment consisted of bank deposits and cash, also surprisingly high by international standards, while Latvian stocks accounted for 22 percent of the investments of life-insurance companies and only 12 percent of non-life insurance companies, with Latvian bonds representing 23 percent and 17 percent of investments, respectively. It should be noted, however, that the shares of investment in the Latvian securities market have been increasing noticeably lately.

18. The Laws on Insurance Companies and their Supervision and on Insurance Contract, which were adopted in September 1998, strengthened the legal foundation of the Insurance Supervision Inspectorate (ISI) in charge of supervision of all insurance companies and private pension funds. Both laws also removed most of the major areas of non-compliance with EU directives, which was also confirmed by an outside evaluation by the EU. Nevertheless, some remaining obstacles still need to be addressed, most importantly the current restriction on foreign insurance companies establishing branches in Latvia; foreign insurers can currently provide services in Latvia only through the establishment of a joint-stock company.

#### **Private Pension Funds**

19. Following the enactment of the Law on Pension Funds in July 1998, Latvia has begun to move toward a three-tier pension system that will comprise (i) the pay-as-you-go pension; (ii) the newly created mandatory, fully-funded second pension pillar; and, (iii) as a third pillar, the voluntary pension funds. As of end-May 2000, licenses to operate four private pension funds have been granted, two of which are majority-owned by private banks and one by a major insurance company. The fourth private pension fund is a closed fund managed by an Estonian brokerage company for the employees of Lattelekom, the Latvian telecommunications company. While these private pension funds only started operations in mid-1999, their assets have already reached about one-third the level of life insurance company premia (Table 1).

20. Private pension funds are licensed and supervised by the ISI. The Law on Pension Funds currently imposes a limit of 15 percent for investments abroad—much tighter than the limits on insurance companies. This was intended to help foster the development of Latvian capital markets but may prove overly restrictive over time, with an undesirable impact on returns and risk of pension investments, in particular if the funds continue to grow much more rapidly than the Latvian capital markets. Management of the investment of the capital accumulated in the pension fund can only be assigned to banks, life insurance companies, investment companies, and brokerage houses licensed by the Securities Markets Commission (SMC) to perform brokerage activities in the securities markets.

## Credit Unions

21. Credit unions in Latvia differ from banks in that they are only entitled to take deposits from their members. They are also subject to less lenient regulatory and supervisory standards. The principal goal of credit union activities is to satisfy the economic and household needs of the credit union members by issuing credit and taking deposits. Currently, eleven credit unions are operating in Latvia, with eight of them conducting business in rural areas (Table 2). While their total assets have more than quintupled over the last three years or so, they are still quite small relative to the size of the economy. Concentration is quite high: the assets of the biggest credit union alone account for three-fourth of the total assets of all credit unions.

Table 2. Latvia: Credit Unions, 1996-2000

	End- 1996	End- 1997	End- 1998	End- 1999	April 2000
Number of credit unions	4	5	7	9	11
Total assets (in thousands of LVL)	140	339	542	677	733

Source: Bank of Latvia

22. Credit unions are supervised by the Bank of Latvia, based on the Law on Credit Institutions and the Law on Cooperative Societies which govern the foundation, operations, organisation, and liquidation of credit unions. The former law stipulates that credit unions may be established by natural persons that live in the same civil parish or city or are employees of companies and institutions located in the administrative territory of the same municipality. The minimum foundation capital of credit unions is LVL 2000.

## C. Regulatory and Other Issues

23. The Latvian financial sector has been evolving quickly over the last few years, and the vulnerability of its largest component, the banking sector, was displayed during the banking crisis triggered by the Russian crisis. While these problems have been appropriately addressed by the Latvian authorities by enhancing banking supervision and bringing the prudential framework in line with international standards,<sup>7</sup> the authorities are only beginning to set an adequate framework for the rapidly growing non-bank financial sector. While the expansion of NBFIs has, admittedly, been from a low base, there are two main areas of vulnerabilities that need to be addressed: (i) the regulation and supervision of NBFIs' activities; and (ii) the stability of their funding and investment decisions, which is

<sup>7</sup> See Box 1 in the accompanying Staff Report for the 2000 Article IV Consultation and First Review under the Stand-By Arrangement, forthcoming.

increasingly becoming foreign and could be a drag on Latvia's capital account and increase its volatility.<sup>8</sup>

### **Regulatory and Supervisory Framework**

24. As stated above, regulation and supervision of activities of NBFIs has been spread between two different institutions: (i) the Bank of Latvia, which supervises credit unions and is also in charge of leasing companies owned by commercial banks; and (ii) the ISI, which is in charge of supervising insurance companies and the newly emerging private pension funds. In addition, the SMC, whose main task is the supervision of brokerage firms, investment companies, and other securities market professional specialists and intermediaries, is involved in monitoring the activities of NBFIs to the extent that such activities do have an impact on Latvia's securities markets. Finally, some very small players in the rapidly growing leasing market are not subject to any specific supervision of their activities by government institutions, but are subject to the laws underlying private contracts.

25. This segmentation of supervision, which is compounded by the limited scope for exchanging information between the various supervisory bodies due to existing restrictive secrecy laws, may lead to the emergence of financial instruments or activities that are intended to take advantage of these regulatory gaps or deficiencies. Further, the recent considerable strengthening of banking sector regulation may contribute to the growth of NBFIs, as financial intermediaries seek ways to undertake more risky activities.

26. Against this background, the Latvian authorities decided to adopt an integrated approach to supervision encompassing the entire scope of the financial and capital markets by merging the existing three supervisory bodies into a consolidated supervisory agency. The law to create the Unified Financial Sector Supervisory Agency was adopted in early June 2000 and the agency is to become operational by July 1, 2001. Apart from enhancing the quality of all supervisory staff to the standards currently set by BoL staff and reaping cost savings as a result of economies of scale, the unified agency is expected to reduce the current regulatory loopholes and facilitate the supervision of financial conglomerates (which operate diverse groups of financial institutions, such as banking, securities, and insurance) with a view to deriving an overall risk assessment of the supervised institutions on a consolidated basis.<sup>9</sup>

---

<sup>8</sup> A report published by the World Bank in July 1998 ("Latvia—Macroeconomic and Financial Sector Vulnerability Review") mentioned as an additional vulnerability factor the degree to which the growth of the sector is adequately captured in official statistics.

<sup>9</sup> For a discussion on the experiences with, and advantages and disadvantages of, unified financial sector supervision, see Taylor, Michael and Alex Flemming, "Integrated Financial Supervision: Lessons of Scandinavian Experience", in: *Finance & Development*, December 1999, pages 42-45.

27. However, in spite of the authorities' laudable efforts, a few vulnerabilities remain. Some NBFIs, mainly independent leasing companies, will continue to fall "in between the cracks" and not be subject to any supervision, although their market share is currently negligible. In addition, given the high concentration of leasing contracts on specific sectors (such as cars and machinery), leasing companies could be particularly vulnerable to a slowdown of the economy as default rates may rise and seized assets may be difficult to sell, which may affect the financial well-being of the parent company, usually a bank. As to insurance companies, the withdrawal of several licenses in 1999 points to some problems in the sector that require the authorities' heightened attention. The same holds true for the surge in insurance claims in 1999, which together with the high investment in low-yielding bank deposits and the high operating costs, is not conducive to a strengthening of the financial situation of the sector.

28. Overall, the speed with which the market for NBFIs has been expanding over the last two or three years, coupled with the few remaining regulatory deficiencies and the authorities' current preoccupation with reorganizing the supervisory institutional setup, translate into a heightened vulnerability which needs to be carefully monitored, especially in the near future. Nevertheless, as pointed out at the outset, the nonbank financial sector is still small relative to the size of the economy, and any difficulties that may arise should only have a limited impact on the parent company and the economy at large.

### **Impact on Capital Account**

29. The nonbank financial sector has also, as of yet, had only a limited impact on the balance of payments, or specifically the capital account. However, it can be expected that—with NBFIs beginning to play an increasingly large role in the mobilization of savings and the provision of financing in the years to come—such impact could become more noticeable.

30. This holds particularly true for private pension funds and insurance companies, where a significant unused market potential is evident if measured against their prevalence in the EU. A particularly large catch-up can be expected in the case of private pension funds, with the pension reform undertaken by the Latvian authorities expected to provide additional impetus. While the expected strong growth rates for private pension funds may initially undermine the growth potential of life insurance companies, their growth may, over time, boost the marketing of life insurance contracts as well by helping overcome the engrained mindset that the public pension system will sufficiently provide for an adequate standard of living during retirement or to the survivors of an insured person.

31. These developments would make the Latvian market for insurances and private pension funds even more interesting for foreign investors—which by that time will be likely to also benefit from the EU-mandated removal of the currently still existing barriers of entry—tending to increase foreign direct investment. On the other hand, the rising insurance premia and contributions to private pension funds will increase the search for profitable investment opportunities, which—given the still limited size of Latvian capital markets—may lead to a rising outflow of capital and a rising exposure to market developments abroad.



32. Finally, the currently very restrictive limits for private pension funds on investing abroad may overstretch the availability of investment options in Latvia if growth of private pension funds continues at the current pace—or even accelerates. A loosening of the current investment restrictions may then become necessary and lead to increased investments abroad.

### **III. FOREIGN DIRECT INVESTMENT IN LATVIA**

#### **A. Introduction**

33. Foreign direct investment (FDI) in Latvia has been large relative to CIS and emerging markets, and has played a crucial role in financing the current account deficit, enhancing productivity, and promoting exports to new markets. The main challenge facing Latvia now is to continue to attract a high level of FDI independent of the privatization process, which is expected to be largely completed within the next year or so. While macroeconomic stability, a highly skilled labor force, a stable tax system, and overall progress in economic reform and in the EU accession process provide a great potential for FDI in Latvia, there remain important obstacles that continue to pose a challenge.

#### **B. Trends in FDI in Latvia**

##### **Overall Trends in FDI<sup>10</sup>**

34. Latvia's performance with regard to FDI has been excellent, although annual FDI has declined from the unusually high level reached in 1997. In that year, FDI inflows reached about US\$520 million, more than double their level two years earlier and about 40 percent higher than their levels in 1999 (Table 3). In per capita terms, FDI in Latvia in 1997 was the highest among the Baltic, CIS and Central European states (Table 4). Accumulated FDI in per capita terms in Latvia was fourth in size within this group of countries through 1998, outperformed only by Hungary, the Czech Republic, and Estonia. As a percent of GDP, FDI in Latvia was almost double that in any other country in the group in 1997, and was outperformed only by Estonia and Lithuania in 1998.

35. As in most other countries in transition, large inflows of FDI were associated with the privatization of large state-owned companies.<sup>11</sup> This was particularly the case in 1997 and

---

<sup>10</sup> For an overview of FDI in transition economies, see K. Meyer, "Foreign Direct Investment in the Early Years of Economic Transition," in *The Economics of Transition*, Vol. 3, No. 3, EBRD, September 1995; and "Foreign Direct Investment in the States of the Former USSR," The World Bank, 1992. For Latvian data see the publications and web sites of the Latvian Central Statistics Bureau (CSB; [www.csb.gov.lv](http://www.csb.gov.lv)), and the Latvian Development Agency (LDA; [www.lda.gov.lv](http://www.lda.gov.lv)), as well as "Foreign Direct Investment and the Latvian Economy," LDA and EU Phare Occasional Report 9, December 1999, which compiled some of the data used here.

1998, when receipts of the Latvian Privatization Agency (LPA) reached about US\$100 million per year, or some 20-30 percent of total FDI.<sup>12</sup> Overall, for the period 1994-98, foreign investors purchased some US\$150 million in privatized enterprises and properties from the LPA, and took over approximately an additional US\$250 million in liabilities; the sum of these is equal to about one-fourth of total FDI during that period. Despite the importance of privatization for FDI, Latvia has been able more recently to sustain still sizable amounts of FDI in the absence of large privatizations, including through FDI to previously privatized enterprises. In this regard, it is worth noting that foreign investors in privatized firms had, through 1998, committed themselves to about \$135 million in subsequent investment.

### **Structure of FDI by Sector**

36. Those sectors attracting the largest share of FDI have changed over time, reflecting both the evolution of the economy away from a focus on agriculture and toward the services sector, and the impact of the privatization process. In 1992-93, FDI was largely directed to agriculture, food processing, construction and retail trade. By the mid-1990s more than 40 percent of accumulated FDI had flowed into the transport and communication sector, due in a large part to the privatization of Lattelekom, and another approximately 20 percent each into financial sector and manufacturing, including textiles, chemicals, and metals (Table 5 and Figure 1). Over the last several years, the most rapidly growing sectors in terms of FDI have been retail trade and real estate. For the transition period as a whole, the transport and communication sector has attracted the most FDI, about 25 percent of the total, followed by the financial sector (19 percent), manufacturing (17 percent), and retail trade (16 percent).

### **FDI by Source Country**

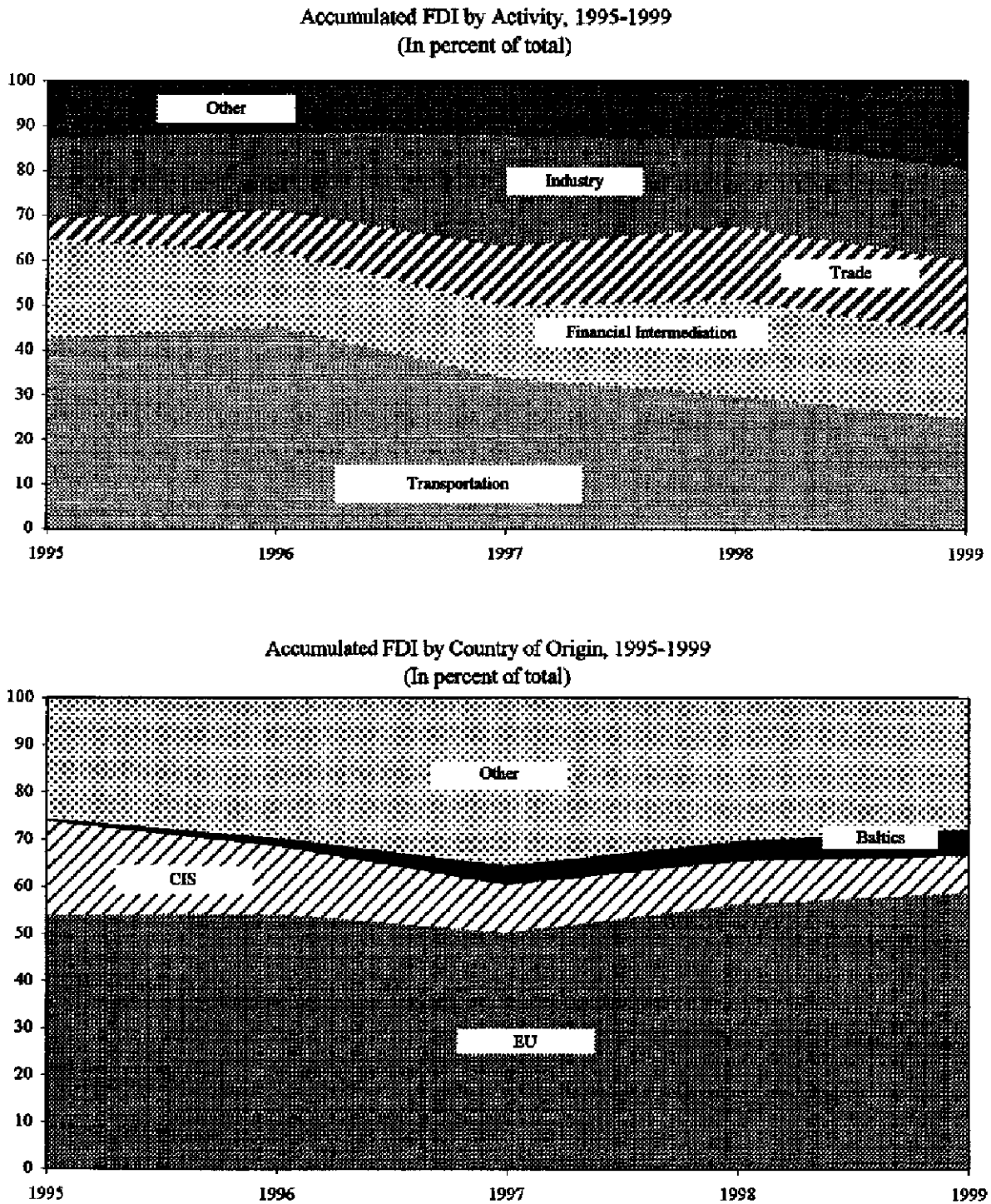
37. The sources of FDI to Latvia has changed as well over the transition, with the EU and other Baltic countries playing an increasingly important role, and Russia and the CIS becoming less active. About 70 percent of accumulated FDI in Latvia in 1999 came from the industrial countries, including 59 percent from the EU, up from about 54 percent in 1995 (Table 6 and Figure 1). Within the EU, the largest accumulated investment has come from Denmark and Germany, although FDI from Sweden, the UK, and Finland have grown quite rapidly over the past five years. The share of FDI from the US has remained roughly constant, at about 10 percent of the total. Nearly 6 percent of total FDI came from the other Baltic states, primarily Estonia, in 1999, compared with just ½ percent five years earlier. Meanwhile, the share of Russia in total FDI has declined sharply, from almost 19 percent in 1995 to 7 percent in 1999.

---

<sup>11</sup> For details on the privatization process in Latvia, see Chapter IV.

<sup>12</sup> This understates the contribution of privatization to FDI, as foreign investors also took over substantial liabilities of privatized firms (see footnote 5).

Figure 1. Latvia: FDI by Activity and by Country of Origin, 1995-99



Source: *Investment in Latvia, Quarterly Bulletin*, Central Statistical Bureau of Latvia.

## **C. Observed Benefits from FDI**

### **Current Account Deficit Financing**

38. Foreign direct investment in Latvia has contributed in an extremely important way to external viability in Latvia, financing an average of 95 percent of the current account deficit in the four years since 1996. While FDI typically contributes to higher current account deficits due to the subsequent increased imports of investment goods, high levels of FDI can be regarded as extremely positive not only because FDI is non-debt creating, but also because any increase in imports is likely to be more than compensated for in the future due to the generally high efficiency of FDI projects in generating exports and substituting for imports (see below). In addition, a considerable part of FDI does not lead to more imports, but rather is spent to acquire domestic assets and to pay for domestic investment, wages and other operational costs. The ratio of FDI financing to the current account deficit is therefore an important indicator of external sustainability. This ratio peaked in Latvia at the exceptionally high level of almost 180 percent in 1997, before declining to about 50 percent and 60 percent in 1998 and 1999, respectively, which are broadly in line with other reforming transition economies (Table 7 and Figure 2).

### **FDI and Exports**

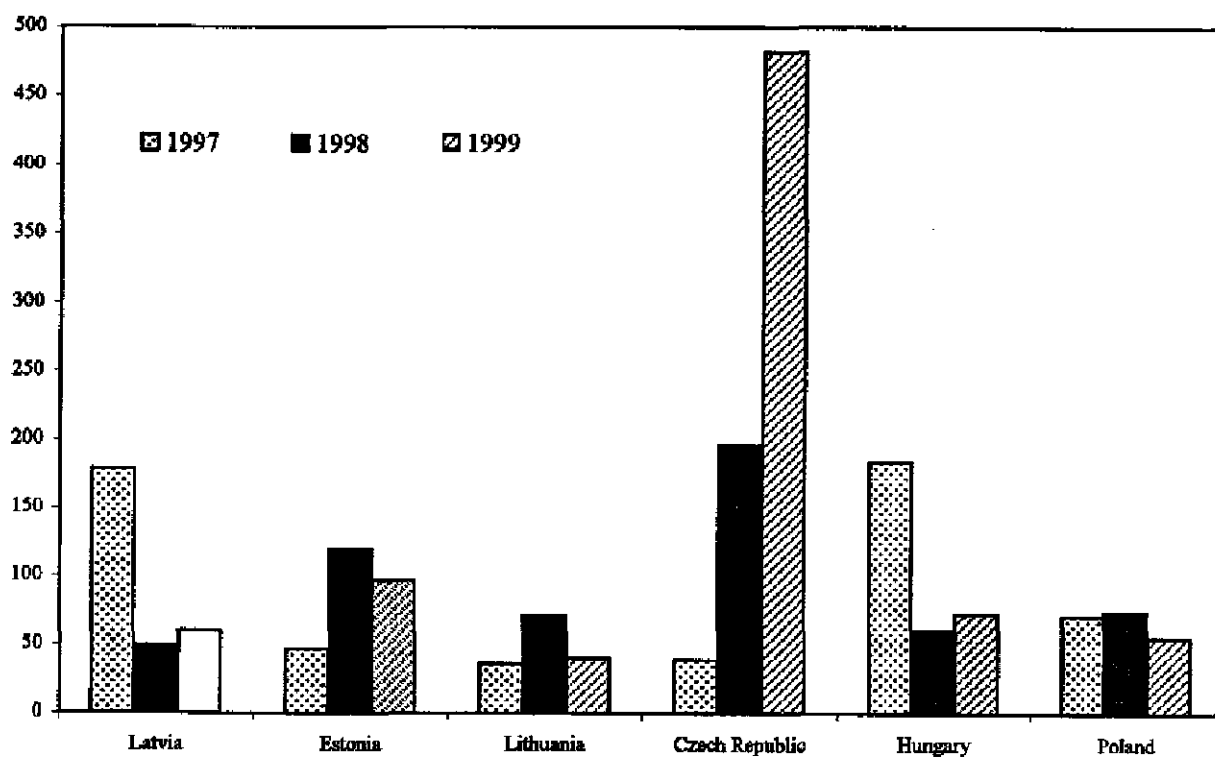
39. Foreign-owned companies in Latvia tend to be more export-oriented than domestic firms, as is generally the case in transition economies.<sup>13</sup> In particular, while accounting for 39 percent of total sales, foreign companies were responsible for 53 percent of all Latvian exports in 1998 (Tables 8 and 9). Furthermore, the share of foreign firms in total exports has been on the rise from about 40 percent in 1996. Moreover, the ratio of the share in total exports to the share in total sales has increased for foreign-owned companies over 1996-98, from 1.18 to 1.37, suggesting that the relative export orientation of foreign firms compared with domestic companies has increased over this period.

40. The increasing importance of foreign-owned firms in Latvia's exports appears to reflect both their relative effectiveness in generating such exports as well as the fact that FDI has been attracted precisely to those sectors with the greatest export potential. The increase in foreign firms' share of exports has been driven mainly by a rise in their share of exports in the dynamic manufacturing industries—including food and beverages, textiles, chemicals, and mining. Meanwhile, the share of foreign enterprises in the exports of machinery as well as agricultural, forestry, and fishing—declining sectors in Latvia—fell during the same period. This provides indirect evidence as well regarding the importance of FDI in the restructuring of the Latvian economy; FDI appears to have helped ensure that resources are reallocated to their most efficient use.

---

<sup>13</sup> A foreign-owned firm is defined throughout this chapter as a firm with more than 10 percent foreign ownership.

**Figure 2. FDI as a Percentage of Current Account Deficit in Selected East European and Baltic Countries, 1997-99 1/**



Source: International Financial Statistics.

1/ Current account is expressed as a positive number.

## **FDI and Productivity**

41. The favorable export performance of FDI companies partly reflects their relatively high productivity. While these companies accounted for about 24 percent of total employment in 1998, they were responsible for almost 40 percent of total sales. This productivity difference was consistent across all sectors, with the exception of the financial sector, and was particularly dramatic in transport and communication, where the largest FDI has taken place.

42. On average, labor productivity in FDI companies was double its level in domestic companies (Table 10). Again this difference was consistent across sectors, other than finance, and was especially large in transport and communications. This greater productivity was reflected in the fact that salaries in foreign companies was nearly 60 percent higher than those in domestic companies in 1998, and this difference had grown considerably since 1996 (Table 11). The higher labor productivity is consistent with the greater degree of capital intensity in foreign-owned firms; overall fixed assets per worker in the foreign-owned sector were almost double that of domestic enterprises (Table 12). Despite this higher capital intensity, the efficiency of capital is also higher than the domestic sector (Table 13).

## **D. Promoting FDI**

### **Obstacles to Investment**

43. While Latvia has been successful in attracting FDI, important obstacles to continued growth of foreign and domestic investment remain. According to a 1998 study by the Foreign Investment Advisory Service (FIAS) of the World Bank<sup>14</sup> and a survey conducted by the LDA in cooperation with EU/Phare in 1999,<sup>15</sup> the three major general administrative barriers that hinder business as identified by respondents were corruption, excessive bureaucracy, and difficulty in obtaining long-term credit in LVL at a reasonable interest rate. Four specific barriers that adversely affected the every day management of business as identified by the majority of correspondents were the lack of a customer-oriented approach in government institutions, unpredictable action by government officials, insufficient communication between government agencies and levels of government, and lack of information on procedures. As to the different aspects of conducting business, important problems noted by respondents were inconsistency in customs processing of cargo, the lengthy periods needed to prepare for and process property registration, and the difficult and nontransparent procedures required to process construction permits and obtain work and residence permits.

---

<sup>14</sup> This report was commissioned by the LDA.

<sup>15</sup> The main findings are published by the LDA on its web site ([www.lda.gov.lv](http://www.lda.gov.lv)).

## **Policy Recommendations and Action**

44. Based on the FIAS report and the LDA/Phare Survey, in May 1999 the Latvian authorities approved an action plan and began to introduce measures to improve the business climate and eliminate barriers to investment. In addition, an LDA/Phare project to improve the business environment was established, working with representative of the different cities and districts of Latvia. Furthermore, a foreign investors council was also created to incorporate the views of these investors. In February 2000, the Government approved the recommendations of that council as a part of a combined action plan to improve the business environment.<sup>16</sup>

45. Several significant steps have been taken to combat the lack of transparency in government and other barriers to investment, but progress in some areas has proved more difficult than anticipated. A Corruption Prevention Council, comprising a number of key ministers, has been established and a Corruption Prevention Program has been approved by government. Administrative barriers—a potential breeding ground for corruption—are being reduced, including via the simplification of procedures for obtaining work and construction permits; the easing of the registration process for real estate; improvements in, and standardization of, government inspections; and the streamlining of the system of municipal fees. Further, a simplified system of customs declarations is being introduced incrementally. Improvements are also being made gradually to the court system, including through the ongoing training of judges, particularly in tax law. In each of these areas, however, additional measures are needed and their implementation is, in some cases, behind the ambitious schedule presented in the government's action plan.

## **E. Prospects for Future FDI**

46. While the prospects of continued strong FDI in Latvia appear good, a lot will depend on economic policies, including continued prudent macroeconomic policy and a strengthening of structural reform efforts. Staff has projected conservatively that FDI will decline from about 6 percent of GDP in 2000 to about 5 percent of GDP in 2005. The successful privatization of remaining large public enterprises and utilities is particularly important, not only because it would lead to FDI flows into these enterprises and sectors, but also because it would help improve productivity and competitiveness in the economy; the fact that Latvia is likely to be in the next wave of EU accession is also an important factor that should help attract increased FDI. However, this positive effect is not automatic and is dependent on progress in meeting EU standards, including in labor and environmental areas,

---

<sup>16</sup> In addition to those areas noted above, the action plan addresses, inter alia, steps needed to improve the education system to enhance the labor skills and to ensure a better skill match with the market's needs; to make tax policy and tax administration more transparent; and to improve transport infrastructure.

implementing measures to improve the business climate, and maintaining economic stability and enhancing competitiveness in general.

47. Latvia also enjoys a strong comparative advantage in some sectors, especially transport, forestry, and related industries. This could open the way for FDI participation in large projects such as the US\$900 million pulp mill—with Finnish and Swedish participation—that is now under consideration with implementation tentatively set for 2002-04. Again, success in attracting these investments is importantly conditional on addressing the main administrative difficulties that are currently facing investors.

## **F. Conclusions**

48. While FDI inflows to Latvia remain sizable, they have declined compared to their very high levels in 1996 and 1997. This poses an important policy challenge because of the substantial benefits of FDI in terms of financing the large current account deficit, contributing to capital formation, enhancing productivity, and promoting exports. The prospects for FDI in Latvia should benefit from the EU accession process, the planned completion of privatization, economic stability, a skilled labor, and Latvia's comparative advantage in important areas. These positive factors, however, are not sufficient and need to be supported by progress in a wide range of structural reforms aiming at improving the business environment in general and addressing specific obstacle identified by the business community in particular. Latvia is already progressing in this direction but important efforts are still needed.



Table 3. Latvia: Foreign Direct Investment, 1995-99

	1995	1996	1997	1998	1999
Foreign direct investment (in millions of US dollars)	179.6	381.7	521.1	356.7	366.5
FDI in percent of current account deficit	1,513.5	174.3	179.1	49.3	60.5

Source: *Balance of Payments of Latvia, Quarterly Bulletin*, Central Statistical Bureau of Latvia; and Fund staff estimates.

Table 4. Latvia: FDI Inflow Per Capita and as a Percentage of GDP in Selected East European, Baltic and European CIS Countries, 1997-98

	FDI per capita		Accumulated	Annual FDI as a percentage	
	1997	1998	FDI per capita	1997	1998
	(In US dollars)			(In percent)	
Bulgaria	60	17	131	5.0	1.1
Croatia	87	191	469	1.9	4.0
Czech Republic	126	157	1010	2.5	2.9
Hungary	205	191	1720	4.6	4.1
Poland	80	163	385	2.1	4.0
Romania	54	71	180	3.5	4.2
Slovakia	30	75	267	0.8	2.0
Slovenia	161	83	638	1.8	0.8
Estonia	184	339	1085	5.7	9.3
Latvia	212	118	689	9.4	4.8
Lithuania	96	286	462	3.7	9.8
Belarus	19	11	41	1.4	0.9
Ukraine	12	15	54	1.3	1.9
Russian Federation	42	13	111	1.4	0.7

Source: Economic Commission for Europe, Economic Survey of Europe, 1999 No. 1, United Nations, New York and Geneva 1999.

Table 5. Latvia: Accumulated Foreign Direct Investment by Kind of Activity, 1995-99

	1995	1996	1997	1998	1999
	(In percent of total)				
Total	100.0	100.0	100.0	100.0	100.0
Agriculture, hunting and forestry	0.1	0.1	0.1	0.2	0.2
Fishing	0.0	0.0	0.1	0.6	0.5
Industry	18.2	17.4	24.7	19.7	20.2
<i>of which: Manufacturing</i>	18.1	17.1	22.8	17.7	17.1
Construction	1.0	0.7	0.3	0.3	0.3
Retail Trade	4.5	9.2	13.2	16.2	16.3
Hotels and restaurants	2.3	2.0	1.5	1.3	1.4
Transportation and Communication	42.5	45.1	33.8	30.0	24.9
Financial intermediation	22.2	16.9	16.1	21.5	18.9
Real estate and renting	0.6	2.4	2.0	4.7	7.4
Public administration and defense	0.0	0.0	0.0	0.0	0.0
Education	0.0	0.1	0.1	0.1	0.1
Health and social work	2.4	1.1	0.8	0.6	0.5
Other community activities	0.4	0.4	0.2	0.2	0.3
Other	5.7	4.5	7.2	4.8	9.0

Source: *Investment in Latvia, Quarterly Bulletin*, Central Statistical Bureau of Latvia.

Table 6. Latvia: Accumulated Foreign Direct Investment by Country of Origin, 1995-99

	1995	1996	1997	1998	1999
	(In percent of total)				
Total	100.0	100.0	100.0	100.0	100.0
EU	53.8	54.2	50.1	56.3	58.7
Germany	6.0	4.7	8.8	8.6	8.4
Denmark	26.0	26.3	18.1	15.1	13.7
Finland	2.8	2.8	3.0	4.6	5.1
United Kingdom	4.9	7.3	6.0	7.5	7.4
Ireland	4.0	3.2	4.8	5.3	3.9
Netherlands	3.9	1.5	2.1	2.5	2.9
Norway	0.0	0.4	0.2	4.0	3.7
Sweden	2.8	4.9	4.9	6.7	8.2
Baltic States	0.5	1.6	4.1	4.1	5.6
Estonia	0.3	1.4	4.0	3.9	5.3
Lithuania	0.3	0.2	0.1	0.2	0.3
CIS	20.0	14.4	10.2	9.2	7.9
Russia	18.7	13.5	9.5	8.6	7.3
Other main partners					
Switzerland	3.6	3.9	2.9	2.3	1.3
Singapore	0.0	0.1	8.1	2.8	2.2
United States	12.0	10.9	10.4	10.7	9.7
Isle of Man	0.0	0.2	0.1	2.6	2.0
Liechtenstein	0.5	1.7	1.4	1.3	1.4
Liberia	0.0	2.6	2.2	1.9	1.6
Other	9.6	10.4	10.4	8.8	9.5

Source: *Investment in Latvia, Quarterly Bulletin*, Central Statistical Bureau of Latvia.

**Table 7. Latvia: FDI Inflow as a Percentage of Current Account Balance  
in Selected East European, Baltic and CIS Countries, 1997-99**

	1997	1998	1999
	(In percent)		
<b>Bulgaria</b>	118.2	869.3	87.0
<b>Croatia</b>	21.7	57.6	91.8
<b>Czech Republic</b>	39.3	196.7	482.7
<b>Hungary</b>	184.6	61.4	72.3
<b>Poland</b>	71.4	74.8	55.9
<b>Romania</b>	56.9	69.6	73.8
<b>Slovakia</b>	8.9	26.4	...
<b>Slovenia</b>	878.9	4,352.6	14.4
<b>Estonia</b>	47.1	119.6	96.8
<b>Latvia</b>	179.1	49.3	60.5
<b>Lithuania</b>	36.1	71.3	40.7
<b>Belarus</b>	25.1	15.0	87.3
<b>Ukraine</b>	43.5	57.7	1,358.1
<b>Russian Federation</b>	187.4	267.3	11.6

Source: *International Financial Statistics*, IMF.

Table 8. Latvia: Export Share of FDI Companies by Sector, 1996-99  
(In percent)

	1996	1997	1998
Total	39.7	51.4	53.4
Agriculture, forestry, hunting	62.0	65.8	61.4
Fishing	...	13.5	3.8
Mining and quarrying	40.2	43.9	59.7
Manufacturing of which:	38.7	50.6	53.1
Food and beverages	29.7	34.9	50.9
Tobacco	85.3	72.0	92.9
Textiles	43.2	63.3	56.7
Garments	55.1	61.6	65.0
Leather products	37.9	15.0	28.0
Wood products	49.7	51.5	47.5
Pulp and paper	76.7	69.3	63.6
Publishing, printing	35.2	45.2	18.3
Petroleum products	40.8	...	...
Chemical products	24.5	54.7	63.7
Rubber and plastic	45.7	61.8	56.8
Metal products	33.1	40.4	47.5
Basic metals	13.3	89.4	88.7
Other non-metallic mineral products	30.3	49.6	58.1
Machinery and equipment	47.4	48.0	41.2
Office machinery and computers	72.6	65.1	42.4
Electrical machines and apparatus	22.9	15.7	24.3
Radio, TV and telecommunication equipment	...	39.7	...
Medical, precious instruments	40.6	41.7	35.6
Motor vehicles	12.5	18.7	29.6
Other transport equipment	10.5	41.5	44.8
Other manufacturing	55.7	48.1	61.3
Recycling	17.7	70.8	55.1
<i>Memorandum item:</i>			
Share in total sales	33.6	38.3	38.9

Source: Central Statistical Bureau of Latvia.

Table 9. Latvia: Share of FDI Companies in Total Sales and Employment by Sector, 1996-98  
(In percent)

	Sales			Employment		
	1996	1997	1998	1996	1997	1998
Total	33.6	38.3	38.9	18.3	23.7	23.6
Manufacturing	33.6	40.5	44.1	25.6	35.2	33.9
Electricity, gas and water supply	...	22.9	22.0	...	15.4	14.8
Construction	23.9	27.7	27.9	...	13.4	16.1
Trade	44.8	40.9	39.7	11.6	23.2	24.2
Hotels and restaurants	40.1	48.6	44.8	20.3	31.1	30.5
Transport and storage	25.6	35.7	37.8	11.4	15.2	17.2
Communication	84.7	85.0	87.6	49.4	43.6	42.1
Financial sector	64.8	43.8	38.5	94.3	95.6	93.3
Real estate, renting and business activities	20.0	36.0	29.3	7.3	10.7	14.0

Source: Central Statistical Bureau of Latvia.

Table 10. Latvia: Labor Productivity by Sector, 1996-98  
(In lats per employee)

	FDI companies			Non-FDI companies		
	1996	1997	1998	1996	1997	1998
Total	19,783	23,023	27,079	8,757	11,549	13,575
Manufacturing	11,071	12,671	16,246	7,506	10,122	10,847
Electricity, gas and water supply	...	28,979	31,027	16,697	17,737	19,133
Construction	14,459	20,317	26,111	6,008	8,195	12,899
Trade	11,651	12,710	12,333	5,838	6,075	6,669
Hotels and restaurants	69,038	73,540	74,129	21,724	32,106	37,335
Transport and storage	26,163	34,550	33,125	9,745	11,148	11,313
Communication	14,280	21,498	30,571	2,505	2,923	3,125
Financial sector	1,047	1,200	2,068	9,396	33,618	46,248
Real estate, renting and business activities	13,120	25,050	19,337	4,407	5,317	7,774

Source: Central Statistical Bureau of Latvia.



Table 11. Latvia: Annual Average Salaries, 1996-98  
(In lats)

	FDI companies			Non-FDI companies		
	1996	1997	1998	1996	1997	1998
Annual average salaries	1,862	2,046	2,550	1,342	1,313	1,617

Source: Central Statistical Bureau of Latvia.

Table 12. Latvia: Fixed Assets per Worker, 1996-98  
(In lats per employee)

	FDI companies			Non-FDI companies		
	1996	1997	1998	1996	1997	1998
Total	7,418	8,563	10,237	4,186	4,875	5,883
Manufacturing	3,840	4,882	5,751	2,485	2,709	3,213
Electricity, gas and water supply	...	14,473	15,865	10,051	13,624	17,106
Construction	2,640	3,448	3,574	1,172	1,794	1,688
Trade	25,185	24,651	22,335	3,627	3,740	4,184
Hotels and restaurants	6,593	8,695	10,177	2,064	2,445	3,020
Transport and storage	18,424	17,985	17,397	7,315	7,608	9,412
Communication	23,344	34,543	45,521	843	1,043	1,274
Financial sector	24	124	387	1,775	1,673	3,866
Real estate, renting and business activities	7,239	8,859	13,248	14,684	14,658	17,444

Source: Central Statistical Bureau of Latvia.

**Table 13. Latvia: Economic Performance Indicators, 1996-98**  
(In lats per employee, unless otherwise indicated)

	FDI companies			Non-FDI companies		
	1996	1997	1998	1996	1997	1998
Labor productivity	19,783	23,028	27,079	8,757	11,549	13,575
Capital intensity	7,418	8,563	10,237	4,186	4,875	5,883
Capital efficiency (output/fixed assets)	2.7	2.7	2.6	2.1	2.4	2.3
Share of exports in sales (percent)	20.5	21.9	21.7	15.8	14.1	13.4

Source: Central Statistical Bureau of Latvia.

#### IV. PRIVATIZATION: ROLE OF THE LATVIAN PRIVATIZATION AGENCY

49. This chapter discusses the role of the Latvian Privatization Agency (LPA) in the privatization of Latvia's public enterprises and property, its contribution to promoting economic development and the use of privatization receipts. Following a brief review of the economic impact of privatization, the paper discusses the privatization process and the role of the LPA, and reviews the non-privatization activities of the LPA. The Chapter concludes with a brief evaluation of the privatization process in Latvia.

##### A. Introduction

50. The privatization of the state and municipal property and enterprises that commenced in the middle of 1991 is now approaching its completion. By late-1999, over 95 percent of the former state-owned enterprises had been privatized; the percentage of private sector output in the Latvian economy exceeded 70 percent; and almost all small and medium size enterprises were fully in private hands. In construction, trade, and many manufacturing sub-sectors, privately owned companies now account for almost 100 percent of output (Table 14). Reflecting these gains in privatization, employment in the public sector declined from 59 percent of total employment in 1992 to 30 percent of total employment in 1999.<sup>17</sup> A small number of large, mostly utility enterprises still remain in public hands.

51. Privatization has led to improvements in asset use and growing productivity per employee. Productivity grew much faster in sectors dominated by private companies—such as manufacturing, mining, construction, and trade—than in those sectors dominated by publicly-owned companies (Table 14).

52. In addition, privatization generated substantial financing for the budget and extrabudgetary operations and privatized assets were used to retire privatization and compensation vouchers issued in the early 1990s. Since its establishment in 1994, privatization managed by the LPA has generated close to LVL 200 million in cash receipts (equivalent to about 7 percent of the average annual GDP during this period), and retired over LVL1 billion (face value) in privatization and compensation vouchers.<sup>18</sup> Of the LVL 200 million in cash receipts, over LVL 95 million was transferred to the state budget—i.e., the State Property Privatization Fund—and another LVL 6 million to the local government

---

<sup>17</sup> Public sector comprises general government (budget-financed institutions) and financial and nonfinancial enterprises with public ownership share of at least 51 percent. Most of the companies with partial private ownership are fully commercialized and operate with only limited government interference.

<sup>18</sup> Assuming that the market value of each voucher (with a nominal par value of LVL 28) was about LVL 1.5 (the actual market price for vouchers increased from about LVL 0.5, in the very early years of privatization, to a trading range of LVL 1.0-3.0 in the later years) the market value of all redeemed vouchers was closer to LVL 60 million.

privatization fund, with the remainder going to LPA administrative expenses (LVL 25 million), social expenditures and investment (LVL 24 million) and purchases of real estate (LVL 3 million) (Tables 15 and 16). Pending privatizations are expected to bring in even larger cash financing in the forthcoming year or two, when the sale of the largest enterprises is completed.

53. The need to privatize even the largest public enterprises has seldom been questioned by the Latvian government; most disagreements have focused on the mode and pace of privatization. Except for the privatization of some parts of the electric power sector, the government and the political majority in the Saeima remain committed to completing the privatization of the utilities sector.<sup>19 20</sup> The success of the privatization has owed much not only to the political commitment to the process, but to the institution that was vested with the task of privatizing Latvia's public assets, the LPA.

54. This chapter argues that privatization has succeeded in Latvia in large part because it was carried out by a single, professionally staffed government agency that was given a clear mandate and resources to accomplish the job, was required to operate in a transparent manner, and, to a large extent, succeeded in shielding itself from outside political influences. However, the chapter also maintains that the LPA's mandate should have been limited to privatization only, and should not have been extended to promoting of economic development. In this regard, its revenues should not have been used for activities such as the provision of social assistance, financing of bank recapitalization scheme, and more recently, financing of government expenditure on the national census, participation in Hanover's EXPO 2000, and others. The use of privatization receipts for extrabudgetary fiscal operations may have adversely affected the agency's efficiency, and certainly had a negative impact on the transparency of Latvia's fiscal accounts and operations. This last issue is very important especially now, when the forthcoming privatization of last remaining public enterprises is expected to yield relatively large sums of privatization receipts.

---

<sup>19</sup> The latest government to take office pledged on May 20, 2000 to complete within a year privatization of the remaining major enterprises: *Latvian Shipping Company*, *Latvenergo*, *Ventspils Nafta*, and *Lattelekom*.

<sup>20</sup> The delay in the privatization of *Lattelekom* (Latvian Telecommunications Company) is primarily the result of the granting of a very generous, long-term monopoly over fixed-line telecommunications in Latvia in the early 1990s to the strategic investor in the company. The need to align the utilities legislation with the WTO rules requires a substantial reduction in the monopoly period from 2013 to 2003; this has led to an extended ongoing negotiation, which must be concluded before the sale of the remaining 51 percent government share can be completed. Political upheavals and related uncertainties in 1999-2000, and attempts to maximize privatization revenues have contributed to delays in privatizing *LASCO* and *Latvenergo*.

## B. Managing the Privatization Process

### Overview

55. The LPA was established in April 1994, in response to the poor privatization experience during the 1991-93 period when the management of the process was decentralized among different ministries supervising individual enterprises.<sup>21</sup> A professional and focused institution was needed to direct the task of privatizing state property in a transparent manner and monitor the implementation of privatization regulations and compliance with provisions provided by purchase agreements for the post-privatization period. The LPA was registered as a non-profit state joint stock company and became the main executor of state-owned enterprise privatization in Latvia.

56. The privatization process accelerated only gradually following the establishment of the LPA. In part, this reflected the fact that privatization remained decentralized until early 1996, when the government decided to accelerate privatization by centralizing it in the hands of the LPA.<sup>22</sup> In the first two months of 1996 alone, the cabinet of ministers decided to privatize a total of 318 state enterprises, statutory companies and their structural units, or 50 percent more than for the entire previous year.<sup>23</sup> Among these were large companies including *Latvijas Savings Bank*, *Ventspils Nafta*, *Latvenergo*, and state passenger carriage motor transport companies. By the end of 1997, the cabinet of ministers had assigned 861 state-owned companies and 75 companies under liquidation for privatization. In addition, state capital shares in 165 companies and 48 properties were submitted for privatization. However, it was only in 1997, that The LPA was able to begin privatizing major enterprises when it sold 32.5 percent share in the *Latvijas Gaze* to the German consortium *Ruhrgas/PreussenElektra* and Russian gas supply enterprise *Gazprom* (16.25 percent to each) on April 2, 1997.<sup>24</sup>

---

<sup>21</sup> In February 2000, the Latvian government decided the liquidation of LPA would start in January 2001. Some of the LPA's functions will be handed over to the Latvian Development Agency and the State Real Estate Agency.

<sup>22</sup> Before the centralization took place, the State Property Fund and individual ministries were in charge of privatization of public enterprises.

<sup>23</sup> Before privatization could start, the cabinet of ministers had to transfer the control over an enterprise to the LPA. With control formally transferred, the LPA could announce in the media that the privatization of the company has started. The announcement invited potential claimants to declare their pre-emptive ownership or other (such as debt) claims, and sought privatization proposals.

<sup>24</sup> The Latvian government became the minority shareholder in *Latvijas Gaze* only in December 1998, when it sold an additional 25 percent equity in the company at a public auction for privatization certificates to residents and company employees. After several smaller auctions and re-capitalizations, the government's share in the company declined to  
(continued...)

57. During the six years of the LPA's existence more than 1000 companies and properties have been privatized. In addition, shares of 85 companies have been offered in public offerings, and, as a result, there are over 110,000 shareholders in the new companies. Shares of a number of the privatized enterprises have been listed on the Riga Stock Exchange. The fact that early on in the privatization process the government determined which companies would not be privatized played an important role in ensuring the transparency and credibility of the process.<sup>25</sup>

#### **Box 1. Foreign Assistance to the LPA**

International advisers to the LPA actively supported Latvia's privatization effort. The German Government provided technical assistance to the LPA to help prepare enterprises for privatization. In 1997, an EU Phare project, aimed at developing the strategy for restructuring the large state-owned enterprises in order to facilitate their privatization, was completed. The project was also intended to help identify potential foreign investors, as well as to disseminate information about the course of state-owned enterprise privatization process and investment possibilities in Latvia, by way of different communication tools, including the Internet. Another EU Phare technical assistance project was implemented during 1997-99 to provide guidance in the privatization of large enterprises, including *Ventspils Nafta* and *Lattelekom*. World Bank consultants also participated in the development and implementation of several LPA projects, including the work on the privatization of *LASCO* and *Lattelekom*, launched in 1995. In 2000, the LPA, with advice from the World Bank, began a search for international advisers to accelerate the privatization of *LASCO* and the restructuring and eventual privatization of *Lattelekom*.

#### **Modes of Privatization**

58. The LPA has used three methods to privatize companies: public offer (auction), international tenders, and sale of shares to employees and pensioners. Public offerings have provided the quickest way to privatization and spread the ownership of assets among the entire population. International tenders were intended to bring in foreign capital from investors that could provide company-specific expertise, and sector-specific link to foreign markets. International tenders are more costly to organize and, therefore, have been limited to the larger companies with an international presence. Sales to employees and pensioners offered the fastest way to dispose of assets that were too small to be offered more broadly and in cases where the revitalization of the privatized units depended more heavily on management and employee incentives than on infusion of significant capital.

---

36.9 percent in early late February 2000 and to 10 percent following the latest auction in March 2000.

<sup>25</sup> The nearly fifty public organizations excluded from privatization comprised regional road maintenance units, agricultural units (such as research stations and laboratories), many culturally oriented entities, and some strategic enterprise units such as ports, the postal service and the railway company. This remainder included very few, if any, truly "business-oriented" organizations.

59. Since 1995, the LPA has offered the possibility to settle part of payments for state assets, including land, apartments or company shares, with privatization vouchers. By October 1, 1999, the government had issued over 100 million privatization certificates, with a face value of nearly LVL 3 billion. Latvian residents were eligible to receive the certificates for the time lived in Latvia and as a compensation for being subjected to political repression in the Soviet Union. In addition, former property owners and their heirs have been granted property compensation certificates. In the public offering program the privatization certificates are a means of payment and are used at their face value—28 LVL. The deadline for applying privatization vouchers had been initially set for 30 December 1999, but was subsequently extended by one year.

60. **Public offering.** This program offered to all residents an opportunity to participate in the privatization process and promoted the development of stock market in Latvia by increasing its depth and liquidity. Shares of profitable companies were offered for sale within the public offering program. This program was launched in 1995, and by end of 1999, shares of 85 companies had been sold (Table 17). Most commonly, shares were sold for privatization vouchers at a price determined during the offering. In addition, however, the LPA introduced a second type of public offering—the so called "People's round"—in which the price was determined in a regular public offering of the company's shares that had been held previously without restrictions on participation.<sup>26</sup> Further, in 1996 a public offering for cash program was launched, and has been successfully used for a number of large enterprises, including *Latvijas Unibanka* and the *Latvian Savings Bank*.

61. **International Tenders.** To attract foreign investment the LPA has organized international tenders for 153 companies, and sold 79 of these companies attracting US\$40 million in investments. It is estimated that foreign investors have added about 9,000 jobs in these companies. The first (and so far only) program to issue Global Depository Receipts started in August 1997. GDRs were issued in ratio 1:1 with shares, and later these receipts were offered to institutional investors outside the U.S., with quotation on the London Stock Exchange, and to qualified U.S. investors. At present, the shares are also quoted on the Berlin Stock Exchange. Plans are under way to execute similar programs for other Latvian companies under privatization, including *Lattelekom* and the *Latvian Shipping Company*.

62. **Sales to employees and pensioners.** In state stock companies employees and pensioners could acquire up to 20 percent of the company shares using privatization certificates, and 5 percent were reserved for pension funds. For some companies, without debts, the management could acquire up to 25 percent using privatization certificates. For strategically important companies, the government could maintain shares as well.

---

<sup>26</sup> This method, however, was used only once to sell 6 million shares of *Ventspils Nafta*.



## **Dealing with Insolvent Companies**

63. Insolvent companies can be liquidated, and sold as a single entity or in parts. In some cases, the LPA has overseen a transformation of public companies into stock companies before they were fully or partially sold. According to the law, the LPA can exchange the outstanding debt with company shares; later the state could sell the shares for certificates or cash. Other adjustments include increasing the company's equity by adding private capital or investment of the company as a tangible asset into another company. In a number of rehabilitation projects the LPA has required companies to retain a certain number of workers. As a result, about 8,000 jobs have been retained in the purchase agreements signed in 1998.<sup>27</sup> To ensure that investors keep their commitments, the LPA has a policy of monitoring companies for three years following privatization, and can withdraw from the contract if the buyer does not meet its contractual obligations.

## **Transparency of the Privatization Process**

64. To ensure transparency of the privatization process the LPA has made a considerable effort to inform the general public how, to whom and on what conditions state property was sold. Announcements on enterprises at different privatization stages are published in the official government information bulletin and in local newspapers, as well as in the most popular daily and weekly periodicals.<sup>28</sup> The mass media are regularly informed about all privatization decisions and briefed on the issues addressed during the meetings of the LPA's Executive and the Supervisory Boards. Every two weeks, LPA's management, joined by representatives of privatized companies, hold press conferences to discuss current developments and prospects. Also, the LPA provides on a regular basis information to Saeima factions, committees, the cabinet of ministers and the Office of the President of the Republic of Latvia.

## **C. LPA Involvement in Social Assistance and Economic Development**

65. The LPA, in addition to attracting new owners and investments to enterprises, has also been made responsible for finding solutions to specific social problems that affect the

---

<sup>27</sup> Failure to retain jobs triggers the requirement that, within five working days from the termination of the employment contract, the company has to pay to the future Employment Fund an amount equal to 140 per cent of the total minimum salary for six months, or 420 LVL for each dismissed employee. This amount shall be transferred to the state social insurance budget until the Employment Fund has been established.

<sup>28</sup> The weekly TV and radio programs *Mine Will Be Mine* and *Privatization News* became popular with the public; they have provided information on the program of enterprise public offering. The LPA has also established its own home page on the *Internet*, with links to information on its privatization offers. LPA's Annual Report for 1998, including its audited financial statements, is freely available on the site

employees of state-owned enterprises in privatization, in particular, payment of wage arrears, benefits to laid off employees, and social tax debts. (Tables 16 and 18 present detailed information on LPA's cash flows and its balance sheet.) Typically, upon taking control of state-owned enterprises in financial distress or in liquidation, the LPA prepares proposals for protecting employees, including those laid off during insolvency with claims for work injuries, wage arrears or social tax debts, in accordance with the requirements of the EU in this area.<sup>29</sup> The LPA has also set aside a part of the privatization receipts to fund employees' claims; in cases when settlement agreement or rehabilitation has been approved, the LPA can ask for the repayment of the compensation amounts from the company. In addition, the cabinet of ministers has issued several orders whereby claims by employees of insolvent enterprises are to be settled directly from the state privatization fund.

66. The significant social role of the LPA is reflected in its spending (Table 16). Social tax payments and salaries of laid-off employees accounted for more than LVL 8 million through 1999. In 1998, for example, the claims of employees of 63 insolvent state-owned enterprises or statutory companies controlled by the state were settled, with a cost to the LPA of almost LVL 3 million.

67. The LPA has also participated in the development of financial markets. To facilitate securities market development in Latvia, in 1995 the LPA participated in establishing the Latvian Central Depository (LCD), in which it still holds a 19 percent stake (see Table 18). In addition, the LPA is one of the founders and shareholders of non-profit *Latvijas Tehnologiskais parks* (Latvia Technology Park), established in 1996 and dedicated to finding commercial applications for scientific research & development-based production in Latvia. Further, in 1996, the LPA and the LDA jointly established the non-profit *Privatizācijas agentūras starptautiska skirejtiesa* (LPA International Court of Arbitration) to resolve disputes (including those pertinent to the privatization of state and municipal property) between companies, institutions or persons under the civil law.

68. Finally, the LPA has undertaken certain activities aimed at economic development more broadly. To extend support to enterprises under privatization that were in short-term financial problems, the LPA and LDA founded *Insolvency, Rehabilitation, and Bankruptcy*. To be eligible for assistance under this program, enterprises had to prove that their long-term sales agreements demonstrated the scope for further development, and, most importantly, that the termination of these enterprises would create serious social problems. Most recently, LPA's subsidiary *Birojs 2000*, established in 1998, organized the Annual Meeting of the

---

<sup>29</sup> The 1980 EU directive, *On Approximation of the Laws of the Member States Relating to the Protection of Employees in the Event of Insolvency of Their Employers* and Convention No.173 of the International Labor Organization require that an institution be set up to provide guarantees to the employees of both state and private companies in the event of their insolvency. Since such an institution has not yet been established in Latvia the cabinet of ministers has prescribed the procedure for settling employees' claims on insolvent companies.

Board of Governors of the European Bank for Reconstruction and Development in Riga, during May 19-23, 2000. It is estimated that this has accounted for about LVL 3 million in spending in 2000.

#### **D. Conclusions**

69. Despite a relatively slow start, Latvia has succeeded in privatizing a large part of its productive assets. Frequent changes of government and the resulting political uncertainty, the banking crisis in 1995, and the economic recession in 1999 have failed to derail the privatization process. Privatization in Latvia succeeded primarily because once the cabinet of ministers decided to privatize particular state enterprises the actual, often protracted, privatization process has been mostly insulated from political influence.

70. The performance of the LPA, however, has not been free of problems. In particular, the LPA has been asked to undertake activities that went beyond their work on privatization, and could probably have been better accomplished by budgetary institutions or the private sector. In addition, privatization receipts should have been spent in a more transparent way; in particular, much of the spending on social assistance and economic development should have been considered within the overall budget process. In the next year or two, Latvia can expect significant privatization receipts from completing the sell-off of the remaining major companies. It is critical that these revenues not be earmarked for out-of-the-budget expenditure, and that Latvia continue strengthening its fiscal management.

Table 14. Latvia: Value Added per Employee, Wages, and Depth of Privatization by Sector, 1994-99

	1994	1995	1996	1997	1998	1999	Change in real value added Per employee 1993-99	Change in nominal wages in sectors Public Private 1995-99	
	(In 1995 lats per employee, per year)							(In percent)	
GDP per employee (economy average)	2,187	2,246	2,385	2,543	2,626	2,666	22	66.4	53.2
Agriculture and hunting 1/	1,017	962	940	912	874	924	-9	87.6	31.1
Fishing	131	1,780	1,678	1,053	1,021	1,959	1,401	-31.8	9.2
Mining and quarrying	3,022	1,056	1,081	1,762	1,906	3,808	26	-15.9	99.5
Manufacturing	2,195	2,353	2,640	2,975	3,384	2,973	35	46.2	43.6
Electricity, gas and water supply	6,369	6,590	5,784	5,456	5,844	4,594	-28	83.2	94.9
Construction	1,894	1,837	1,868	1,954	2,177	2,522	33	105.8	37.8
Wholesale and retail trade	1,249	1,567	1,707	1,740	1,876	2,317	86	24.3	45.1
Hotels and restaurants	1,055	963	1,112	1,122	1,138	1,170	11	34.5	42.7
Transport and communication	4,033	3,529	4,099	4,451	4,279	4,557	13	46.7	73.6
Financial intermediation	9,753	8,201	7,040	7,321	7,263	10,601	9	145.2	83.1
Real estate and related services	1,902	1,743	2,270	2,677	2,338	2,876	51	91.6	66.9
Public administration and defense	2,172	1,824	1,821	1,867	1,853	1,533	-29	81.9	442.9
Education	1,137	1,182	1,220	1,218	1,264	1,267	11	74.6	75.1
Health and social work	1,236	1,238	1,235	1,280	1,228	1,453	18	74.7	29.0
Other community services	1,509	1,557	1,366	1,889	2,005	2,085	38	82.3	60.9
	(In percent of total)								
Memorandum items:									
Gross value added at basic prices contributed by privatized enterprises									
Average for the economy	37	53	59	62	65	70	...	...	...
Agriculture, hunting, and forestry	81	88	91	91	91	...	...	...	...
Fishing	26	37	58	77	92	...	...	...	...
Mining and quarrying	18	35	74	85	95	...	...	...	...
Manufacturing	24	71	80	90	96	...	...	...	...
Electricity, gas and water supply	1	2	8	8	12	...	...	...	...
Construction	50	91	97	98	98	...	...	...	...
Wholesale and retail trade	68	93	95	98	98	...	...	...	...
Hotels and restaurants	56	78	88	92	92	...	...	...	...
Transport and communication	19	25	36	41	42	...	...	...	...
Financial intermediation	46	73	80	84	82	...	...	...	...
Real estate and related services	39	49	56	67	69	...	...	...	...
Public administration and defense	-	-	-	-	-	...	...	...	...
Education	2	4	4	4	7	...	...	...	...
Health and social work	9	15	22	22	26	...	...	...	...
Other community services	17	39	53	58	62	...	...	...	...
Total employment (in thousands)	1,083	1,046	1,018	1,037	1,043	1,028	...	...	...
Public sector	460	422	382	357	331	311	...	...	...
Private sector	623	624	636	680	712	717	...	...	...

Source: Economic Development of Latvia Report, 1999, Ministry of Economy; Fund staff estimates.

Table 15. Latvia: Revenues and Expenditure of the State Property Privatization Fund, 1993-99 1/  
(In thousands of lats)

	1993	1994	1995	1996	1997	1998	1999
Total revenues	2,133	7,065	10,178	7,898	41,511	37,043	6,213
Income from privatization, <i>of which</i> :	1,453	5,493	8,750	7,012	40,923	36,814	...
From LPA	...	--	7,630	5,598	40,700	35,851	5,039
Income from municipal privatization	622	921	597	454	357	229	...
Other income	58	651	831	432	231	...	...
Total expenditure 1/	1,427	5,881	11,057	7,868	41,834	22,140	4,487
Payments into state basic budget	50	--	4,266	1,000	21,400	13,790	3,636
Financing of public programs	360	--	2,909	1,636	8,664	2,460	240
State support to private sector	1,017	5,658	3,646	3,765	6,262	1,817	122
Property compensation	--	--	--	--	2,111	--	--
Support of privatization activities	--	150	50	923	506	42	...
Other expenditure	--	73	186	544	2,891	4,031	489

Source: *Economic Development Report 1999*, Ministry of Economy.

1/ Note: Data on expenditure for 1998 and 1999 apply to the first 10 months of the year only.

Table 16. Latvia: Use of Privatization Revenues by the Latvian Privatization Agency, 1994-2000  
(In thousands of lats)

	1994	1995	1996	1997	1998	1999	2000	Total for 1994-2000
Cash expenditure and transfers	3,978	13,582	15,368	57,964	57,665	22,950	29,845	201,352
LPA expenses	1,226	4,724	6,813	9,548	6,325	5,624	5,240	39,500
Subcontractors	816	3,398	4,918	6,610	3,901	3,119	1,032	23,794
Sub-contractor expenses	762	2,902	4,413	5,885	3,131	2,339	...	19,432
Other	...	...	...	13	278	254	...	545
Advertisement and public relations	54	496	505	712	492	526	...	2,785
Own expenditure, of which:	410	1,326	1,895	2,938	2,424	2,505	4,208	15,706
Salaries, bonuses and social tax (staff)	244	690	1,308	1,683	1,747	...	...	5,672
Communication expenses	73	718	673	888	583	...	...	2,935
Purchase of real estate	703	458	656	465	213	155	11	2,661
Transfers to state funds	2,049	8,365	7,332	43,758	41,084	8,222	8,059	118,869
State privatization fund	0	7,630	5,598	40,700	35,851	5,039	400	95,218
Local government privatization fund	146	223	1,347	1,061	1,462	2,383	6,515	12,937
Debt capitalization	0	0	0	161	2,973	754	365	4,253
Latvia Nafta debt repayment fund	0	77	587	1,836	798	46	0	3,344
Real estate income transferred to budget	1,903	435	0.0	0.0	0.0	0.0	779	3,117
Social expenditure and investments	0.0	35	567	4,193	10,043	8,949	911	24,698
Social tax payments for closed companies	0.0	...	211	260	2,144	2,722	3,168	8,505
Salaries of employees	0.0	...	181	800	796	1,101	...	2,878
Other - administrators of closed companies	0.0	...	72	2,604	256	502	...	3,434
Air Baltic, capital investment	0.0	0.0	0	29	1,222	4,624	...	5,875
Krajabanka rehabilitation program	0.0	0.0	0	0	5,623	...	...	5,623
Investment in related companies	0.0	35	103	500	2	...	...	640
Transfer to state treasury							15,624	15,624
For compensation of land compensation certificates	...	...	...	...	...	...	9,511	9,511
For redemption of compensation certificates granted to repressed people	...	...	...	...	...	...	5,000	5,000
Support of free economic zone in Liepajas	...	...	...	...	...	...	920	920
Accounting fee	...	...	...	...	...	...	193	193
Vouchers redeemed (in nominal lats)	8,883	116,436	169,007	244,812	546,784	33,377	...	1,119,299
Privatization vouchers	8,883	116,436	169,007	242,640	542,461	21,163	...	1,100,590
Compensation vouchers	0	0	0	2,172	4,323	12,214	...	18,709
Total vouchers redeemed since inception	8,883	125,319	294,326	539,138	1,085,922	1,119,299	...	...

Source: Latvian Privatization Agency.

Table 17. Latvia: Summary of Public Offerings, 1995-99

	1995	1996	1997	1998	1999
Number of companies	21	15	27	17	3
with employment 1-49	3	4	2	4	...
with employment over 50	18	11	25	13	...
Fixed capital (in millions of lats)	27.6	51.3	65.6	94.5	4.7
Number of shareholders (in thousands)	4.7	8.0	39.3	58.7	0.2
Shares sold (in millions)	8.1	16.2	14.4	22.6	1.3
Share in privatized capital (in percent)	29.5	31.6	24.1	18.5	29.6
Average shares per buyer (in thousands)	1.8	2.0	0.4	0.4	5.7

Source: *Economic Development of Latvia Report, 1999*, Ministry of Economy; and the Latvian Privatization Agency.

Table 18. Latvia: Balance Sheet of the Latvian Privatization Agency, 1994-98  
(In thousands of lats)

	1994	1995	1996	1997	1998
<b>Total assets</b>	<b>1,842</b>	<b>5,298</b>	<b>21,358</b>	<b>78,241</b>	<b>44,832</b>
Accounts receivable from privatization	0	1,256	12,983	55,269	35,368
Due in more than one year	...	...	...	35,883	25,840
Due in less than one year	...	...	...	19,386	9,528
Other accounts receivable and assets	424	2,624	5,741	13,354	5,074
Claims on insolvent companies	0	0	3,778	2,061	3,785
Fees receivable	0	0	239	741	976
Loan portfolio (from Krajbanka)	0	0	0	4,410	0
Shares (from Krajbanka)	0	0	0	577	279
Other receivables	30	69	63	30	36
Advance payments for advertisements	35	...	...	...	...
Advanced payments to the State Privatization Fund and municipalities	358	2,555	1,661	5,535	0
Long-term investments	35	36	76	572	566
Latvian Technology Park	0	1	1	1	2
Birojs 2000	0	0	0	0	2
Latvian Central Depository (accrued in 1994)	35	35	25	54	31
Latvian International Arbitration Court	0	0	38	17	20
MSB 1/	0	0	0	501	512
URP Latvia 2/	0	0	13	0	0
Stocks	2	6	1	0	0
Fixed assets	774	1,029	1,449	2,795	2,643
Intangible assets	5	80	163	304	289
Cash	602	266	945	5,947	891
<b>Total liabilities and equity</b>	<b>1,842</b>	<b>5,298</b>	<b>21,358</b>	<b>72,706</b>	<b>44,832</b>
Liabilities to the State Property Privatization Fund	0	0	10,491	54,224	37,404
To State Privatization Fund	0	0	9,441	42,384	25,520
To municipalities	...	...	1,050	8,487	9,364
To the state budget (for debt capitalization)	...	...	...	3,353	2,519
Due within one year	...	...	6,572	20,359	11,564
Due after more than a year	...	...	3,919	33,865	25,840
Other accounts payable	305	787	5,690	13,026	3,542
Due to World Bank loans	0	0	3,764	2,112	785
Liabilities from taken over companies	206	100	361	0	49
Salaries of employees in privatized companies	7	99	41	3	9
Liabilities to Krajbanka	0	0	0	4,410	0
Other liabilities	92	588	1,524	6,500	1,127
Liability to SIA "Aromabaltfarm"	0	0	0	0	1,091
Deferred income	1,187	4,087	4,753	3,692	2,121
Unissued share capital	0	74	74	0	0
Equity capital	350	350	350	1,765	1,765

Source: *Latvian Privatization Agency Annual Reports*, (1994-1998).

1/ Company formed by the LPA and the Latvian Development Agency to manage insolvent companies.

2/ The LPA invested in URP investment company on behalf of the state. The company has been closed and investment written off in 1997.



## **I. TAX SUMMARY**

### **A. Taxes on Income and Property**

#### **The Corporate Income Tax**

##### ***Nature of the tax***

1. The Law on the Corporate Income Tax replaced the Law on the Profit Tax effective April 1, 1995. Together with the Law on the Personal Income Tax, the law forms a unified system of taxation on all types of income in Latvia unless otherwise stipulated by acts of legislation. The tax applies both to residents and permanent establishments of nonresidents. Taxable income is defined as the annual profit (loss) as determined in the profit and loss statement under the Law on Annual Reports of Enterprises or the law On Credit Institutions or the Law on Insurance Companies and their Supervision, adjusted according to provisions of the Law. The annual depreciation amount for fixed assets is set at twice the depreciation rate under the law (rates between 5 percent and 35 percent) multiplied by the remaining balance. Tax losses can be carried forward for five years. The thin capitalization rules limit the amount of interest payments that can be deducted in any year, and the transfer pricing rule is applied to cross-border transactions between Latvian residents and nonresidents. Amendments to the enterprise income tax law were introduced in 1997, allowing the transfer of losses between members of an enterprise group. By the later amendments the period for carry forward of losses is set at twice of standard period for enterprises that are registered and operating in a specially supportable region (since 1998), and for enterprises that are engaged in oil research and extraction works (since 2000).

##### ***Tax rates***

2. The standard tax rate is 25 percent. There are withholding rates of 5-25 percent on income paid to non-residents including the rate of 10 percent that is applying to interest payments in the case when the payer and recipient are associates enterprises and dividends. Tax credits apply to charitable deductions, small enterprises, enterprises that use prisoner labor, income from agricultural activity, enterprises producing high technology products and software and on tax paid in foreign countries. Small enterprises are defined as those satisfying requirements on the value of fixed assets, net turnover, or the number of employees.

##### ***Tax exemptions***

3. Exempt entities include nonprofit organizations and enterprises run by associations for the handicapped, charities, and health-care foundations. Amendments to the Law On Foreign Investments in the Republic of Latvia introduced in 1995 abolish the tax holidays for enterprises with foreign capital.

## **The Personal Income Tax (PIT)**

### ***Nature of the tax***

4. The personal income tax is assessed on salary, income from self-employment, property income, as well as on all other remuneration, bonuses, compensation for unused vacation time, disability assistance payments, and all other kinds of payments which have not been exempted from the income tax. Tax levied on salaries and wages is withheld at source. Taxpayers must file an annual income return by April 1 of the year following the taxation year. Individuals whose only income is employment income and from whom income tax is withheld do not submit returns.

### ***Tax rates***

5. The tax rate is 25 percent of taxable income.

### ***Exemptions and deductions***

6. The income tax is imposed on taxpayers' income for the taxation (calendar) year, except for nontaxable activities. The following are deducted from taxpayer income: (a) a nontaxable minimum (LVL 21/month effective January 1, 1997), (b) a deduction for each dependent (LVL 10.50/month effective January 1, 1997); (c) state social insurance contributions; (d) contributions into private pension funds not exceeding 10 percent from the person's annual taxable income; (e) expenses for the education and health care of the taxpayer or family members; (f) donations to charity; and (g) benefits for handicapped or politically repressed persons or members of the movement of national opposition.

7. Income tax is not assessed on: agricultural income of individual farmers if it does not exceed LVL 3,000; dividends or business profits subject to the Corporate Income Tax; interest income; social benefits from the budget including unemployment compensation and social maintenance, except for temporary disability payments; scholarships; child support; alimony; compensation for damages for disability caused by the bodily injury or due to other health harm, as well as for loss of supporter; insurance compensation and payments; income from the sale of private property.

## **Social Insurance Contributions**

### ***Nature of the tax***

8. The social insurance contribution is imposed on salaries, wages, fees, royalties and other remuneration and rewards for work.

### ***Tax rates***

9. According to the provisions of the Law On State Social Insurance the tax rate will be 33 percent from taxable object, starting with January 1, 2002. During the transition period,

the social insurance contribution rate was established at 37 percent plus an additional 0.09 percent for insurance against work injuries and occupational diseases. Since 2000 the rate is 36 plus 0.09 percent.

10. The proportions to be paid by an employer and an employee during this transition period will be 28.09 : 9, with the exception that the rate for insurance against work injuries and occupational diseases can change every year. Since 2000 the proportion is 27.09 : 9.

### ***Exemptions***

11. The social insurance contribution is not assessed on: income from property, dividends, interest payments, royalties, and other income, which is not related to employment.

## **Real Estate Tax**

### ***Nature of the tax***

12. The law On Real Estate Tax replaces the law On Land Tax in 1998 and the law On Property Tax in 2000. The tax is paid directly to the respective village, town or city budget.

### ***Tax rates***

13. The real estate tax is 1 percent of the cadastral value of real estate. During the transition period, the tax rate will be 1.5 percent of land value and book value or inventory value for buildings and constructions.

### ***Exemptions and deductions***

#### ***Exemptions***

14. The following are exempt from the real estate tax:

- ◆ real estate owned by local government located in its administrative territory and used by the local government or its institutions or financed by the budget of local authority;
- ◆ real estate owned by foreign countries and used as diplomatic and consular representatives if Latvia enjoys the similar rights in that foreign country;
- ◆ public roads, streets, air and water navigation buildings, public waters;
- ◆ real estate owned by religious organisation up to December 31, 2000;
- ◆ real estate owned by religious organisation and used for religious purposes from January 1, 2001;
- ◆ land on which an economic activity has been prohibited;
- ◆ historical buildings and monuments of Latvian culture and land for their maintenance, except dwelling houses and land for their maintenance, as well as real estate used for economic activities;
- ◆ land which is occupied by newly planted forest;

- ◆ public recreation centres, sports grounds and buildings as well as land under them;
- ◆ individual dwelling houses and privately owned apartment in an apartment houses if they are not commercially used up to December 31, 2003;
- ◆ buildings in cemeteries, funeral constructions, crematorium and land for their maintenance;
- ◆ real estate that is indictable to the central or local government and which is not assign for application or rent;

Until December 31, 2001 the following buildings and constructions are exempt:

- ◆ not used for an economic activities;
- ◆ those used only for agricultural activities;
- ◆ those maintained from the budgetary resources;
- ◆ those used for the purpose of health service (care), sports, educational and cultural needs;
- ◆ post and telecommunication offices in rural areas;
- ◆ communication lines, local pipelines and cables;
- ◆ those used for the purpose of environmental protection and fire-fighting;
- ◆ those owned by public organizations and their enterprises according to the list of organisations approved by the Parliament;
- ◆ dwelling-houses or their parts which are rented or used for living;

Local governments may reduce the tax for the certain groups of taxpayers in accordance with their own judgments.

15. The law provides tax relief of 50% for politically repressed persons who own or possess land and individual dwelling houses at least for 5 years and do not use them for economic activities. Tax relief is provided for special economic zones enterprises in the special economic zones.

**Property tax is abolished**

## **B. Taxes on Goods and Services**

### **Value-Added Tax**

#### *Nature of the tax*

16. This is a tax on value added, which uses the credit system and is levied on goods and services at the manufacturing/import, wholesale, and retail stages. The new law became effective on May 1, 1995 and replaced the old Turnover Tax Law which had been administered as a VAT.

### ***Tax rates***

17. The standard tax rate is 18 percent of taxable value of supplies of goods (including imports), services, and supplies for internal consumption. A tax rate of zero applies to exports, international transportation, or services connected with export supplies of goods.

### ***Exemptions***

18. The VAT is not charged on: educational services; school books, scientific literature, and certain Latvian language literature; public library services; scientific research; services of nursing homes, day-care centers and kindergartens; banking, financial and insurance services; betting, lotteries and other types of gambling; registered mass media; used real estate sales and apartment rent payments by individuals; movies (except video), visits to theatres, concerts, museums, exhibitions, cultural and sporting events, etc.; certain approved medical goods supplies and services; certain approved baby-foods; funerals and religious services; foreign non-refundable shipments of technical aid; consular services; certain services provided by agricultural companies to farmers; fire-fighting services; supplies of imported goods not subject to customs duties; certain approved fixed assets; catering in penitentiaries; post offices services; tuition for unemployed persons' professional training organized by the State Employment Service; sales of land; works of art brought in to supplement museum reserves; school students transportation financed from the municipality budgets.

### ***Excise tax***

#### ***Nature of the tax***

19. Tax is paid when excise goods are imported into the customs territory of the Republic of Latvia for release in free circulation or when excise goods are taken out from the excise goods warehouse for consumption on the internal market. The tax for excise goods that are marked with excise tax stamps (alcoholic drinks and cigarettes) are paid for received tax stamps.

20. Taxpayers are importers of excise goods and keepers of excise tax warehouses. Excise goods warehouse is a territory where it is allowed to produce, store, process, receive and consign excise goods applying suspended tax payment procedure. Suspended tax payment procedure for alcoholic beverages, tobacco products and mineral oils may be applied only when a guarantee is submitted.

***Tax rates***

<b>Item to be taxed</b>	<b>Unit tax (LVL) or general rate (in percent of price)</b>
<b>1. Alcoholic beverages:</b>	
Wine and other fermented products (per 100 liters)	LVL 30
Intermediate products (up to 15%, per 100 litres)	LVL 42
Intermediate products (above 15% and up to 22%, per 100 litres)	LVL 70
Alcohol and other alcoholic drinks (per 100 liters of absolute alcohol)	LVL 550
Beer above 0,5% and up to 2,8% (per 1 hectolitre)	LVL 2
Beer above 2,8% and up to 4% (per 1 hectolitre)	LVL 3
Beer above 4% and up to 5,5% (per 1 hectolitre)	LVL 3
Beer above 5,5% and up to 7% (per 1 hectolitre)	LVL 4
Beer above 7% (per 1 hectolitre)	LVL 42
<b>2. Tobacco products:</b>	
Smoking tobacco (per 1,000 grams)	LVL 6,1
Cigarettes with filter (per 1000 cigarettes)	LVL 5,1
Cigarettes without filter (per 1000 cigarettes)	LVL 6,1
Cigars and cigarillos (per 1000 units)	LVL 11
<b>3. Other goods:</b>	
Passenger cars (depending on age)	LVL 75-250
Motorcycles (depending on age)	25% of tax rate on cars
Precious metals and precious stones and products from said metals and stones (excluding amber and products from it)	20%
Coffee (per 100 kilograms)	LVL 50
Soft drinks (per 100 liters)	LVL 2
<b>4. The excise tax schedule for mineral oils is as follows:</b>	
♦ Unleaded petrol, its substitutes and components per 1000 liters:	
From January 1, 1999	LVL 160

From January 1, 2000	LVL 160
From January 1, 2001	LVL 170
From January 1, 2002	LVL 180
From January 1, 2003	LVL 220
With addition of ethanol, from January 1, 2003	LVL 200

♦ **Leaded petrol, its substitutes and components per 1000 liters:**

From January 1, 1999	LVL 190
From January 1, 2000	LVL 210
From January 1, 2001	LVL 230
From January 1, 2002	LVL 250
From January 1, 2003	LVL 260
With addition of ethanol, from January 1, 2003	LVL 240

♦ **Gas oil and kerosene, their substitutions and components per 1000 liters:**

		<i>For heating purpose</i>
From January 1, 1999	LVL 130	LVL 13
From January 1, 2000	LVL 130	LVL 13
From January 1, 2001	LVL 140	LVL 13
From January 1, 2002	LVL 150	LVL 13
From January 1, 2003	LVL 170	LVL 13

♦ **Heavy fuel oil, its substitutes and components, per 1000 kilograms:**

From March 16, 1999	LVL 2
From January 1, 2000	LVL 4
From January 1, 2001	LVL 6
From January 1, 2002	LVL 8
From January 1, 2003	LVL 10

♦ **Oil gases and other gaseous hydrocarbons, except natural gas, per 1000 kilograms:**

From January 1, 1999	LVL 30
From January 1, 2000	LVL 50
From January 1, 2001	LVL 70

### ***Exemptions***

Excise tax is not imposed on following goods:

**1. Alcoholic beverages:**

- denatured alcoholic beverages;
- alcoholic beverages used for the determination of alcoholic drink quality;
- alcoholic beverages lost due to unsurpassable forces;
- alcohol for the needs of medicine, veterinary medicine, pharmaceutical industry and research works;
- wine, fermented drinks or beer produced by a natural person for self-consumption;
- alcoholic beverages imported by natural person for personal consumption:
  - 1) up to 2 liters of still wine,
  - 2) up to 2 liters of intermediate products, fermented products, sparkling wine or up to 1 liter of other alcoholic beverages,
  - 3) up to 10 liters of beer.

**2. Tobacco products:**

- denatured tobacco products;
- tobacco products used for the determination of tobacco article quality;
- losses caused by unsurpassable forces;
- tobacco products imported by natural person for personal consumption:
  - 1) up to 200 cigarettes,
  - 2) up to 20 cigars or cigarillos,
  - 3) up to 200 grams of smoking tobacco.

**3. Mineral oils:**

- mineral oils, which are used for the supply of air traffic means and sea transport
- mineral oils that are used as raw material in the technological process of production
- oil gases and other gaseous hydrocarbons that are used as heating or are used in gas ovens and other equipment ( other than fuel)
- for producers of agricultural products the excise tax shall be refunded, calculating 80 liters of gas oil for a calendar year per each hectare of land used for agricultural purposes
- excise tax on heavy fuel oil shall be refunded to the legal persons using heavy fuel oil as a heating fuel

**4. Other excise goods:**

- cars and motorcycles older then 25 years
- cars and motorcycles which are exempted from custom tax and value added tax
- cars with electrical engine
- trucks, vans



- motor caravans
- hearses
- soft drinks and coffee used for the determination of quality of soft drinks and coffee
- losses of soft drinks and coffee caused by unsurpassable forces
- up to 12 liters of soft drinks imported by natural person for personal consumption
- up to 1 kilogram of coffee imported by natural person for personal consumption
- soft drinks made by natural person for self-consumption
- precious metals and stones for dentures
- precious metals and stones used for producing of goods which are not jewellery
- precious metals and stones used for producing of articles for scientific, technical, medical and other specific purposes

### **C. Other Taxes**

#### **Tax on Natural Resources**

##### ***Nature of the Tax***

21. The current version of the law, "Tax on Natural Resources" became effective on January 1, 1996. The tax is paid by all natural and legal persons who obtain natural resources in the territory of Latvia (or continental shelf), or pollute the environment, or sell self-produced or imported goods which are dangerous to the environment. In the latter case, a permit is required for such activities.

22. The tax on acquisition of natural resources and environmental pollution is calculated on a per unit basis for each unit of natural resources or pollutant. For imports of goods dangerous to the environment, the tax is calculated in lats and levied per unit or as a percentage of the total value at customs including an import duty if applicable. The tax on the sale of self-produced goods dangerous to the environment is calculated in lats and levied per unit or as a percentage of the selling price, net of excise tax and VAT.

23. The tax on natural resources is paid into a special state budget of environmental protection and into special local government budgets of environmental protection in the territory from where the resource originates.

Table 19. Latvia: Summary Overview of the Trade System, 2000

Trade policy instrument	Status as at April 1, 2000
1. Import customs tariffs	There are 13 tiers of <i>ad valorem</i> rates of the basic tariffs, ranging from zero to 75 percent (0, 1, 2, 5, 6, 10, 20, 25, 30, 35, 40, 55 and 75 percent)
Ad valorem tariff rate for final non-agricultural goods:	
Basic rate:	Simple average of 3.78 percent with 1 percent the most common rate
MFN rate:	Simple average of 2.51 percent
Tariff rates (ad valorem and some specific) for agricultural goods:	
Basic rate:	Simple average of 12.71 percent
MFN rate:	Simple average of 9.2 percent
2. Goods subject to specific import tariffs:	Sugar and cigarettes
3. Goods subject to quantitative restrictions:	None
4. Goods subject to import licensing:	Nondiscriminatory and in accordance with WTO requirements. For health and related reasons import licenses for some goods are issued by a designated authority. Except for weapons, explosives and fuels, licensing is virtually automatic. The processing period for applications is no more than 10 working days and fees reflect processing costs.
5. Anti-dumping and countervailing provisions:	Broadly consistent with WTO provisions; new anti-dumping law fully consistent with WTO provisions will become effective July 1, 2000.
6. Customs valuation of goods:	In accordance with WTO, utilizing the transaction value
7. Goods subject to export duties:	Ferrous waste and scrap; antique printed material; and works of art
8. Goods subject to export quotas:	Only in the case of goods for which Latvia's international agreements specify export quotas (e.g., textiles under the EU FTA)

Sources: Information supplied by the authorities.  
1/ Estimated production-weighted average tariff rates.

Table 20. Latvia: Savings-Investment Balance, 1995-99  
(In percent of GDP)

	1995	1996	1997	1998	1999
Foreign savings 1/	3.6	4.2	5.1	10.1	9.7
Gross national savings	14.0	14.6	17.7	17.5	16.6
Government 2/	-2.3	0.5	3.0	3.4	0.8
Nongovernment	16.3	14.1	14.7	14.1	15.8
Gross domestic investment	17.6	18.8	22.8	27.6	26.3
Government 3/	1.5	2.3	2.7	4.2	5.0
Nongovernment	16.1	16.5	20.1	23.4	21.3
<i>Memorandum item:</i>					
Nominal GDP (in millions of lats)	2,349	2,829	3,275	3,580	3,662
Real GDP growth rate	-0.8	3.3	8.6	3.9	0.1
Inflation (annual average rate)	25.0	17.6	8.4	4.7	2.4
Fiscal balance (in percent of GDP) 2/	-3.9	-1.7	0.1	-0.8	-4.2
External public debt/GDP (end-year)	14.4	14.2	13.8	17.8	22.1

Sources: Latvian authorities; and Fund staff estimates. Compared with previous staff reports the value of nominal GDP has been lowered to bring it in line with the data published by the Central Statistics Office; as a result the investment and saving to GDP ratios increased.

1/ External current account deficit.

2/ Government revenues do not include privatization receipts.

3/ Including net lending.

Table 21. Latvia: Gross Domestic Product by Sector of Economic Activity at Current Prices, 1990-99  
(In thousands of current lats)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Agriculture and hunting 1/	12,690	30,535	161,649	155,516	170,122	180,782	190,932	132,290	88,559	77,584
Forestry, logging and related services	...	...	...	...	...	29,983	22,996	27,489	37,068	48,633
Fishing	490	1,680	3,640	1,311	1,101	8,898	8,189	6,466	8,614	4,192
Mining and quarrying	125	270	1,425	2,414	3,688	3,168	3,978	4,869	5,123	5,994
Manufacturing	20,745	49,690	264,785	307,089	360,622	456,444	516,196	634,793	554,230	478,573
Electricity, gas and water supply	1,060	3,190	13,795	100,205	94,379	112,026	130,880	141,839	164,576	159,901
Construction	5,850	8,020	47,310	56,603	107,324	102,886	116,519	136,710	212,200	243,691
Services	19,230	45,800	445,965	708,685	1,071,603	1,139,656	1,479,129	1,770,333	2,025,446	2,204,062
Wholesale and retail trade; repair services	3,305	12,615	108,770	113,532	177,359	230,352	378,979	459,824	521,060	573,770
Hotels and restaurants	790	3,760	27,410	14,488	28,632	22,154	27,322	36,213	38,619	40,645
Transport, storage and communications	6,545	10,270	166,445	307,651	370,154	324,715	419,816	480,176	515,544	526,203
Financial intermediation	1,035	1,925	39,410	54,547	128,170	114,808	139,983	137,153	110,403	162,321
Real estate, renting and related	2,640	5,180	24,680	49,892	90,155	87,160	81,518	144,364	237,954	299,877
Public administration and defense	450	1,250	13,520	40,674	68,920	103,957	126,125	166,215	201,188	196,095
Education	1,580	3,740	29,460	58,089	96,051	107,522	127,883	139,199	169,802	147,353
Health and social work	1,060	2,555	19,270	40,319	63,125	80,496	86,117	97,093	110,210	129,042
Other community, social and personal services	1,825	4,505	17,000	29,493	49,037	68,492	91,386	110,096	120,666	128,756
Taxes on products	10,635	12,350	69,740	135,189	234,576	318,328	363,941	432,683	510,937	458,445
Subsidies on products	8,385	8,210	3,755	...	860	2,947	3,625	12,016	17,277	18,769
Gross domestic product	62,440	143,325	1,004,554	1,467,012	2,042,555	2,349,224	2,829,135	3,275,456	3,589,476	3,662,306

Source: Latvian Central Statistics Bureau.

1/ For 1990-94 includes forestry, logging, and related services.

Table 22. Latvia: Gross Domestic Product by Sector of Economic Activity at Constant Prices, 1990-99  
(In thousands of 1995 lats)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Agriculture and hunting 1/	418,402	411,202	293,610	240,295	204,332	180,782	170,145	170,483	155,564	135,961
Forestry, logging and related services	...	...	...	...	...	29,983	29,450	38,855	42,638	45,702
Fishing	2,851	2,773	1,351	1,091	1,044	8,898	8,391	6,319	6,126	7,836
Mining and quarrying	12,882	11,373	6,243	4,237	6,044	3,168	3,244	3,523	3,811	4,189
Manufacturing	1,425,898	1,436,531	741,861	507,010	458,773	456,444	475,158	556,410	578,667	521,775
Electricity, gas and water supply	183,422	178,828	126,664	102,761	101,909	112,026	109,898	109,128	111,030	105,202
Construction	802,230	478,132	197,300	100,754	113,643	102,886	108,339	117,247	137,178	148,267
Services	1,314,692	1,163,724	1,006,335	1,080,725	1,164,608	1,139,654	1,197,022	1,287,353	1,344,726	1,412,218
Wholesale and retail trade; repair services	237,047	162,701	129,887	157,320	183,561	230,352	232,195	264,469	317,049	349,938
Hotels and restaurants	91,973	64,547	38,271	25,644	34,806	22,154	23,360	23,572	25,027	25,394
Transport, storage and communications	469,889	420,154	306,021	333,206	383,144	324,713	368,875	396,173	385,105	385,967
Financial intermediation	68,275	68,062	95,298	100,461	107,278	114,808	105,593	109,817	108,938	114,494
Real estate, renting and related	140,810	135,171	110,402	116,576	104,619	87,160	93,087	101,744	109,899	129,427
Public administration and defense	46,804	53,323	80,572	95,708	104,256	103,957	111,057	117,610	118,570	120,191
Education	108,912	101,047	106,413	100,690	103,510	107,522	109,780	110,883	113,766	114,015
Health and social work	72,717	70,358	73,137	87,104	81,573	80,496	76,578	78,097	76,145	75,434
Other community, social and personal services	78,265	88,361	66,334	64,016	61,861	68,492	76,497	84,988	90,227	97,358
Taxes on products	582,345	566,162	394,463	319,312	321,067	318,328	328,832	350,207	362,466	363,206
Subsidies on products	6,144	5,343	3,637	3,007	2,985	2,947	2,774	2,771	3,085	3,352
Gross domestic product	4,736,578	4,243,382	2,764,190	2,353,178	2,368,435	2,349,223	2,427,705	2,636,754	2,739,121	2,741,004

Source: Latvian Central Statistics Bureau.

1/ For 1990-1994 includes forestry, logging, and related services.

Table 23. Latvia: Gross Domestic Product by Expenditure at Current Prices, 1995-99  
(In thousands of lats)

	1995	1996	1997	1998	1999
Final consumption expenditure	1,992,317	2,525,226	2,807,319	3,084,103	3,096,602
Households and of non-profit institutions serving households (NPISH)	1,470,541	1,912,924	2,181,073	2,316,028	2,400,019
General government	521,776	612,302	626,246	768,075	696,583
Gross capital formation	413,625	532,642	746,309	990,773	964,455
Gross fixed capital formation	354,876	512,774	613,670	979,450	914,505
Changes in inventories	58,749	19,868	132,639	11,323	49,950
Exports of goods and services	1,101,040	1,440,078	1,669,117	1,841,352	1,711,074
Imports of goods and services	1,157,759	1,668,811	1,947,289	2,326,752	2,109,825
GDP at purchasers' prices	2,349,223	2,829,135	3,275,456	3,589,476	3,662,306

Source: Latvian Central Statistics Bureau.

Table 24. Latvia: Gross Domestic Product by Expenditure at Constant Prices, 1995-99  
(In thousands of 1995 lats)

	1995	1996	1997	1998	1999
Final consumption expenditure	1,992,317	2,153,375	2,236,061	2,374,749	2,352,398
Households and of non-profit institutions serving households (NPISH)	1,470,541	1,622,276	1,703,541	1,809,935	1,825,247
General government	521,776	531,099	532,520	564,814	527,151
Gross capital formation	413,625	438,258	491,880	684,786	683,038
Gross fixed capital formation	354,876	434,026	523,996	754,489	675,810
Changes in inventories	58,749	4,232	-32,116	-69,703	7,228
Exports of goods and services	1,101,040	1,323,911	1,497,675	1,570,381	1,479,683
Imports of goods and services	1,157,759	1,487,839	1,588,862	1,890,795	1,774,115
GDP at purchasers' prices	2,349,223	2,427,705	2,636,754	2,739,121	2,741,004

Source: Latvian Central Statistics Bureau.

Table 25. Latvia: Agricultural Production, 1995-99

	1995	1996	1997	1998	1999
<b>Livestock and meat production</b>					
Meat, deadweight (in thousands of tons)	123	76	71	71	62
<i>Of which:</i> (thousands heads)					
Cattle	537	509	477	434	378
Pigs	553	460	430	421	405
Poultry	4,198	3,791	3,551	3,209	3,237
<i>Of which:</i> private farms (percent of total)	72.6	58.5	58.3	59.3	57.3
Beef and veal	48	27	26	26	21
Pork	63	40	37	36	35
Poultry	11	9	8	8	6
<b>Milk production</b>	948	923	988	950	799
<b>Egg production</b>	421	471	465	456	416
<b>Crop production</b>					
Cereals	694	969	1043	970	787
Sugar beets	250	258	388	597	452
Potatoes	864	1,082	946	694	796
Fodder	611	569	595	661	641
Vegetables	224	180	162	120	130
<i>Of which:</i> private farms (percent of total)					
Cereals	72.1	74.8	80.1	81.8	82
Potatoes	96.2	95.8	96.8	96.2	97
Fodder	76.4	78.3	87.4	88.3	87.6
<i>Of which:</i> area sown (thousand hectares)					
Cereals	411	450	488	473	418
Sugar beets	10	10	11	16	15
Potatoes	75	79	70	59	50
Fodder	413	429	418	419	405
Vegetables	17	16	13	12	10
<b>Indexes of production (1990=100)</b>					
Livestock and meat production	37.8	28.6	28.7	27.9	24.8
Meat, deadweight	39.8	24.5	23.1	23.0	20.1
Milk Production	50.0	48.7	52.2	50.2	42.2
Egg Production	51.4	57.5	56.8	55.7	50.8
Crop Production	65.5	76.4	76.5	63.8	54.5
Cereals	42.8	59.7	64.3	59.8	48.5
Sugar beets	56.9	58.8	88.2	136.0	103.0
Potatoes	85.0	106.5	93.1	68.3	78.3
Fodder	18.5	17.2	18.0	20.0	19.4
Vegetables	132.5	106.5	95.9	71.0	76.9
<b>Memorandum items:</b>					
<b>Yield per hectare for cereals (in 100 kg)</b>					
Private farms	17	21	22	21	19
State-owned farms	17	22	21	21	19

Sources: Latvian Central Statistical Bureau; and Fund staff estimates.



Table 26. Latvia: Energy Consumption, 1995-99  
(In thousand tons, unless otherwise specified)

	1995	1996	1997	1998	1999
Coal	252	239	196	146	126
Gasoline	412	406	374	350	338
Diesel oil	502	375	391	391	393
Heavy fuel oil	1,017	1,141	832	733	601
Natural gas (million cubic meters)	1,254	1,088	1,326	1,299	1245
Liquefied petroleum gas	34	35	38	44	39
Electricity (million kilowatt hours)	6,235	6,351	6,325	6,327	6065

Source: Latvian authorities.

Table 27. Latvia: Labor Market Indicators, 1995-2000  
(In thousands)

	1995	1996				1997				1998				1999				2000
	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	March
Registered unemployed 1/	83.2	88.2	88.5	88.5	90.8	94.7	95.3	88.6	84.9	85.3	87.6	92.9	111.4	120.5	120.1	114.3	109.5	108.5
Of which:																		
Women	43.5	45.5	45.6	47.5	49.7	52.9	55.2	52.2	50.4	50.2	50.9	54.6	65.2	69.5	69.6	66.5	62.8	60.9
Long term unemployed 2/	37.5	41.9	45.1	47.1	49.5	53.8	54.8	53.6	52.7	31.3	31.2	29.1	29.3	30.5	30.5	31.4	34.0	33.2
Benefit recipients 3/	27.5	26.5	26.2	30.1	32.2	32.1	32.8	32.4	26.2	23.2	29.7	32.3	37.5	47.2	50.0	49.4	44.5	43.0
Memorandum items:																		
Hidden unemployment 4/ 5/	7.2	7.1	6.5	6.0	6.6	11.0	9.5	8.7	9.1	9.6	8.2	10.3	10.8	14.8	13.1	13.5	11.8	
Total employment 6/	1,046	1,024	1,020	1,016	1,012	1,020	1,037	1,048	1,043	1,045	1,048	1,047	1,033	1,025	1,026	1,035	1,026	
Unemployment rate 1/ (In percent of labor force)	6.6	7.0	7.0	7.0	7.2	7.7	7.8	7.3	7.0	7.1	7.2	7.6	9.2	10.1	10.0	9.5	9.1	9.0

Source: Central Statistical Bureau.

1/ End of the period.

2/ Persons unemployed for six months or more, starting in 1998.

3/ Average number of recipients.

4/ Defined as the full time work equivalent of working time that is reported lost due to enforced reduced hours and unpaid leave.

5/ 1995—in the period from the beginning of the year, since 1998 - average quarterly.

6/ Average quarterly.

Table 28. Latvia: Average Employment by Sector of Economic Activity, 1990-99  
(In thousands)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total employment 1/ 2/	1,409	1,397	1,294	1,205	1,083	1,046	1,018	1,037	1,043	1,028
Public sector	...	...	763	593	460	422	382	357	331	311
Private sector	...	...	531	612	623	624	636	680	712	717
Agriculture, hunting and forestry	233	236	252	228	201	188	181	187	178	147
Agriculture and hunting	218	219	239	216	188	174	167	172	164	...
Forestry and logging	15	17	13	12	13	14	14	15	14	...
Fishing	12	12	7	7	8	5	5	6	6	4
Industry - total	391	371	328	278	227	214	202	209	192	...
mining and quarrying	4	4	3	2	2	3	3	2	2	1
manufacturing	373	356	309	260	209	194	180	187	171	176
electricity, gas and water supply	14	11	16	16	16	17	19	20	19	23
Construction	136	130	85	66	60	56	58	60	63	59
Wholesale and retail trade	109	119	133	141	147	147	136	152	169	151
Hotels and restaurants	61	59	47	31	33	23	21	21	22	22
Transport, storage and communication	106	107	101	104	95	92	90	89	90	85
Financial intermediation	7	7	9	10	11	14	15	15	15	11
Operations of real estate, renting and other business activities	81	78	62	59	55	50	41	38	47	45
Public administration and defense; compulsory social security	21	24	36	44	48	57	61	63	64	78
Education	101	94	97	93	91	91	90	91	90	90
Health and social work	68	66	67	77	66	65	62	61	62	52
Other community, social and personal services	83	94	70	67	41	44	56	45	45	47

Source: Latvian authorities.

1/ For 1999, the number of employed is based on labor force survey for November.

Table 29. Latvia: Average Wages, 1995–2000

	Whole Economy	State Sector 1/	Budgetary Organizations	State Enterprises	State Sector In US\$	Min. Wage In Lats
(In lats per month)						
1995	89.50	94.48	80.57	107.23	178.94	28.00
Jan-Mar	82.35	87.18	73.54	98.99	162.65	28.00
Apr-June	89.50	94.80	80.37	107.79	185.52	28.00
July-Sep	90.27	93.65	79.23	107.28	177.70	28.00
Oct-Dec	95.29	101.83	87.65	115.54	189.98	28.00
1996	98.73	105.63	88.89	123.68	191.71	35.50
Jan-Mar	89.41	95.20	79.99	109.79	174.36	28.00
Apr-June	99.21	105.70	87.55	123.99	191.14	38.00
July-Sep	102.29	106.20	88.27	125.61	192.74	38.00
Oct-Dec	107.54	117.51	99.68	137.55	212.11	38.00
1997	120.03	126.89	107.12	149.31	218.40	38.00
Jan-Mar	109.81	116.91	98.64	137.26	203.68	38.00
Apr-June	118.55	125.26	104.21	148.90	216.34	38.00
July-Sep	122.24	127.12	106.31	150.57	216.93	38.00
Oct-Dec	129.59	138.90	119.62	161.52	237.44	38.00
1998	133.30	142.97	124.32	166.35	242.32	42.00
Jan-Mar	123.07	128.49	109.53	151.61	216.31	42.00
Apr-June	132.98	142.00	120.13	169.19	237.86	42.00
July-Sep	136.50	145.42	126.49	169.44	243.58	42.00
Oct-Dec	140.82	156.64	141.53	176.13	273.85	42.00
1999	140.99	156.77	140.07	179.48	267.98	50.00
Jan-Mar	132.61	144.91	127.45	168.97	250.71	50.00
Apr-June	141.04	156.84	136.60	184.83	264.49	50.00
July-Sep	142.59	156.74	139.74	179.96	266.56	50.00
Oct-Dec	147.71	168.90	157.25	184.22	291.21	50.00
2000						
Jan-Mar	142.49	157.48	138.71	182.19	266.46	50.00
(Real terms, index 1993=100)						
1995 average	108.08	108.55	113.87	114.78	n.a.	131.84
1996 average	102.36	103.74	107.23	112.81	n.a.	142.14
1997 average	113.79	114.48	119.30	125.22	n.a.	140.29
1998 average	120.85	123.38	132.38	128.06	n.a.	148.21
1999 average	128.62	130.44	144.14	133.62	n.a.	172.34

Source: Latvian authorities.

1/ The state sector includes enterprises where central or local government capital participation in the company capital is equal to or above 50 percent.

Table 30. Latvia: Average Gross Wages by Sector of Economic Activity, 1995-99

	1995			1996			1997			1998			1999		
	Whole economy	of which public sector	private sector	Whole economy	of which public sector	private sector	Whole economy	of which public sector	private sector	Whole economy	of which public sector	private sector	Whole economy	of which public sector	private sector
Total	89.50	94.15	84.31	98.73	103.86	93.00	120.03	126.83	112.60	133.30	142.91	124.62	140.99	156.67	129.19
Agriculture, hunting and forestry	64.29	79.23	64.87	69.76	83.07	70.95	83.03	112.31	74.36	93.76	128.13	83.67	98.45	148.65	85.02
Fishing	118.82	121.54	100.18	115.07	126.97	93.86	149.86	235.92	98.19	105.80	83.22	108.95	105.58	82.95	109.43
Industry of which:	94.74	98.32	95.45	108.81	116.28	107.97	132.34	144.36	127.38	140.99	168.37	134.32	146.60	194.77	139.72
Mining and quarrying	81.59	80.74	78.94	112.79	109.35	119.19	130.49	111.23	134.25	139.85	110.45	140.31	157.40	67.92	157.50
Manufacturing	91.84	94.96	95.32	104.31	109.71	107.97	127.42	127.33	127.44	134.15	131.92	134.40	136.95	138.85	136.88
Electricity, gas and water supply	120.19	115.67	117.24	144.10	138.04	97.07	169.56	173.30	115.35	193.46	198.24	116.26	215.32	211.94	228.46
Construction	86.74	86.08	99.01	85.63	75.22	96.42	112.55	136.13	109.38	131.54	173.34	126.99	137.47	177.17	136.42
Wholesale and retail trade	67.26	102.55	69.94	69.11	104.73	72.94	84.32	122.67	82.29	95.67	125.04	94.83	101.79	127.46	101.50
Hotels and restaurants	68.33	120.97	52.48	66.52	140.88	53.34	85.75	148.04	74.86	85.02	153.27	76.56	81.51	162.71	74.90
Transport, storage and communication of which:	135.71	138.66	91.80	151.71	152.02	133.33	177.87	184.34	161.82	185.70	197.04	164.61	186.85	203.48	159.39
Land transport; transport via pipelines	102.31	107.32	57.20	113.96	...	...	136.27	147.98	96.00	142.15	160.56	95.45	142.48	163.27	96.69
Railway	...	...	...	130.95	...	...	...	...	...	169.02	169.12	56.32	166.58	166.69	69.94
Road	...	...	...	87.61	...	...	...	...	...	108.69	143.63	77.67	113.51	156.98	78.47
Waterway	257.64	248.90	207.71	292.47	283.65	296.93	353.06	403.18	216.38	526.90	584.38	354.31	487.53	542.08	281.44
Air	154.22	166.81	129.57	196.94	239.71	124.32	238.31	375.28	106.16	288.21	457.57	154.21	312.67	495.41	134.87
Post and communication	120.31	114.61	159.11	134.60	126.45	168.06	158.02	154.87	208.13	193.75	192.03	213.76	219.56	217.84	236.22
Financial intermediation	166.42	170.54	169.93	210.92	201.13	230.96	267.52	284.72	261.02	309.95	346.98	297.80	335.47	418.13	311.22
Operations of real estate and related activities	83.17	78.36	98.47	92.55	90.42	98.45	114.18	112.08	116.78	139.83	133.02	147.13	158.29	150.10	164.31
Public administration and defense	107.69	103.09	86.32	117.44	167.63	116.62	144.38	143.98	343.37	168.14	167.69	413.45	187.97	187.48	468.59
Education	71.58	68.66	68.78	78.20	74.05	77.44	93.07	92.93	100.55	108.11	107.87	119.06	119.90	119.89	120.45
Health and social work	71.73	68.66	82.43	77.64	74.23	78.13	90.60	91.90	80.19	104.19	105.41	93.48	118.42	119.94	106.31
Other community and social services of which:	72.67	72.66	68.19	82.48	80.02	84.08	99.43	101.51	93.27	111.47	113.61	106.08	125.62	132.49	109.74
recreation, culture and sport	68.68	66.22	73.31	75.13	71.59	78.58	94.04	92.01	107.77	108.12	105.51	120.66	117.54	116.01	123.03

Source: Latvian authorities.

Table 31. Latvia: Consumer Price Inflation, 1995-2000

Year/Month	Consumer Price Index	Percentage Change Over Previous Month	Percentage Change Over Same Month Last Year			Annual Average Inflation	Quarterly Inflation	
			All Items	Goods	Services		Over Previous Quarter	Over Previous Year
1995								
December	8045.2	1.7	23.1	20.0	30.3	25.0	4.6	23.7
1996								
December	9100.6	0.6	13.1	11.0	18.6	17.6	2.2	14.4
1997								
December	9738.1	0.2	7.0	4.2	18.2	8.4	1.4	7.3
1998								
January	9861.6	1.3	6.3	3.7	16.5	...		
February	9879.7	0.2	6.1	3.8	15.3	...		
March	9908.2	0.3	6.0	3.6	15.2	...	1.8	6.2
April	9977.7	0.7	6.0	3.7	14.9	...		
May	9982.4	0.1	5.4	2.9	14.9	...		
June	10053.8	0.7	5.9	3.2	16.5	...	1.2	5.8
July	9972.9	-0.8	4.6	2.5	12.1	...		
August	9925.4	-0.5	3.7	2.4	8.1	...		
September	9928.2	0.0	3.5	2.5	7.0	...	-0.6	3.9
October	9945.3	0.2	2.9	1.9	6.5	...		
November	9987.2	0.4	2.8	1.6	7.1	...		
December	10006.2	0.2	2.8	1.6	7.0	4.7	0.4	2.8
1999								
January	10121.4	1.2	2.6	1.6	6.2	...		
February	10142.8	0.2	2.7	1.7	6.0	...		
March	10138.8	0.0	2.3	1.2	5.9	...	1.6	2.5
April	10126.5	-0.1	1.5	0.7	4.2	...		
May	10170.9	0.4	1.9	1.1	4.4	...		
June	10243.4	0.7	1.9	1.0	4.7	...	0.5	1.8
July	10150.1	-0.9	1.8	0.9	4.5	...		
August	10130.5	-0.2	2.1	1.3	4.4	...		
September	10163.5	0.3	2.4	1.4	5.4	...	-0.3	2.1
October	10231.7	0.7	2.9	2.1	5.4	...		
November	10309.8	0.8	3.2	2.6	5.1	...		
December	10328.3	0.2	3.2	2.6	5.1	2.4	1.4	3.1
2000								
January	10436.9	1.1	3.1	2.5	5.3			
February	10488.6	0.5	3.4	2.5	6.5			
March	10465.6	-0.2	3.2	2.3	6.4		1.7	3.2
April	10513.3	0.4	3.8	2.7	7.2			
May	10492.3	-0.2	3.2	1.8	7.1			

Sources: Latvian authorities; and Fund staff estimates.

Table 32. Latvia: Summary of General Government Operations, 1995–99

	1995	1996	1997	1998	1999
	(In millions of lats)				
Revenue	875	1,057	1,352	1,529	1,561
<i>Of which:</i>					
Profit tax	48	57	79	92	92
Income and social tax	419	481	564	647	693
Taxes on goods and services	281	374	431	506	487
Expenditure	952	1,104	1,332	1,554	1,707
<i>Of which:</i>					
Wages and salaries	209	266	297	355	386
Transfers to households	408	447	432	537	616
Interest	29	40	33	25	25
Other current	284	292	491	491	502
Capital expenditure	22	59	79	145	177
Financial surplus(+)/deficit(-)	-77	-47	20	-25	-146
Net lending	-15	-5	-10	-3	-7
 Fiscal surplus(+)/deficit(-)	 -92	 -52	 10	 -27	 -153
Financing of fiscal balance	92	52	-10	27	153
Privatization	9	2	47	39	6
Domestic	51	37	-63	-25	36
Banking system	49	25	-57	-25	35
Other domestic	2	12	-6	0	2
Foreign	32	12	6	13	111
	(In percent of GDP)				
Revenue	37.2	37.4	41.3	42.6	42.6
<i>Of which:</i>					
Profit tax	2.0	2.0	2.4	2.6	2.5
Income and social tax	17.8	17.0	17.2	18.0	18.9
Taxes on goods and services	11.9	13.2	13.1	14.1	13.3
Expenditure	40.5	39.0	40.7	43.3	46.6
<i>Of which:</i>					
Wages and salaries (incl. social tax)	8.9	9.4	9.1	9.9	10.5
Transfers to households	17.4	15.8	13.2	15.0	16.8
Interest	1.2	1.4	1.0	0.7	0.7
Other current	12.1	10.3	15.0	13.7	13.7
Capital expenditure	0.9	2.1	2.4	4.1	4.8
Financial surplus(+)/deficit(-)	-3.3	-1.7	0.6	-0.7	-4.0
Net lending	-0.6	-0.2	-0.3	-0.1	-0.2
Fiscal surplus(+)/deficit(-)	-3.9	-1.8	0.3	-0.8	-4.2

Sources: Latvian authorities; and Fund staff estimates.

Table 33. Latvia: Operations of the Central Government and Social Fund, 1995-99

	1995	1996	1997	1998	1999
	(In millions of lats)				
Revenue	647	788	968	1,106	1,099
Current revenue	647	787	968	1,106	1,099
Taxes on income, profits and property	49	58	81	92	92
Tax on profits	48	57	79	92	92
Property tax	0	0	2	0	0
Social security taxes	291	328	381	427	453
Taxes on goods and services	273	347	393	452	438
Taxes on domestic transactions	255	328	372	432	422
Turnover/VAT	220	268	289	316	316
Excise	35	61	83	116	106
Taxes on international trade	18	19	22	20	16
Other taxes	24	14	8	0	0
Other current revenue	9	40	105	134	116
Transfer from priv. fund	4	1	21	27	5
Non-budgeted revenues	...	18	53	69	62
Capital revenue	1	1	0	0	0
Expenditure	725	815	909	1,089	1,196
Current expenditure	714	800	878	1,028	1,131
Wages and salaries	180	178	155	181	189
Supplies and maintenance	81	94	119	132	124
Interest payments	30	38	31	25	24
Subsidies	9	9	12	20	19
Transfers	389	465	558	662	767
To individuals	334	427	453	550	612
Social budget	275	337	361	430	500
Basic budget	58	90	92	120	112
To local government	55	38	92	92	92
To extrabudgetary funds	...	...	13	20	63
Other current expenditure	24	16	4	8	8
Investment	12	15	31	61	64
Financial Surplus(+)/Deficit(-)	-78	-27	58	17	-97
Net lending	-18	-5	-10	-12	-9
Fiscal Surplus(+)/Deficit(-)	-96	-32	34	5	-106
Basic budget	-112	-23	14	8	-59
Social budget	16	-9	20	-3	-47
Financing fiscal balance	96	32	-34	-5	106
Domestic	64	20	-40	-18	-5
Banking system	55	12	-36	8	-6
Other domestic	9	8	-4	-26	2
Foreign	32	12	6	13	111
	(In percent of GDP)				
Revenue	26.0	26.8	29.0	30.8	30.0
Of which: Basic budget	14.3	15.6	17.6	18.9	17.6
exc. non-budgeted revenues	14.3	15.0	16.0	17.0	16.0
Of which: Social budget	11.7	11.1	11.4	11.9	12.4
Expenditure	29.1	27.7	27.3	30.3	32.6
Financial balance	-3.1	-0.9	1.7	0.5	-2.6
Net lending	-0.7	-0.2	-0.3	-0.3	-0.2
Fiscal balance	-3.8	-1.1	1.0	0.1	-2.9

Sources: Latvian authorities and Fund staff estimates.



Table 34. Latvia: Local Government Operations, 1995-99 1/

	1995	1996	1997	1998	1999
(In millions of lats)					
Revenue	222	238	334	396	412
Taxes on income, profits and property	153	189	163	206	217
Tax on profits	0	0	0	0	0
Income tax	127	157	132	158	172
Property tax	15	19	20	27	25
Land tax	11	13	17	21	20
Taxes on goods and services	0	4	4	1	1
Turnover/VAT	0	0	0	1	1
Other taxes	9	7	0	0	0
Other current revenue	57	38	138	160	166
Transfers from central government	55	38	95	116	122
Other revenue	2	0	12	26	26
Expenditure	212	238	334	394	424
Current expenditure	202	218	308	306	380
Wages and salaries	61	63	123	128	142
Interest payments	5	2	3	2	2
Supplies and maintenance	70	87	147	130	128
Subsidies	0	0	4	6	6
Transfers	65	50	22	31	32
To enterprises	0	0	0	0	0
To individuals	67	50	22	31	32
Other current expenditure	8	19	7	10	70
Capital expenditure	10	20	27	60	75
Investment	10	20	22	21	23
Net lending	...	...	...	-9	-2
Fiscal Surplus(+)/Deficit(-)	4	-4	-1	-7	-14
(In percent of GDP)					
Revenue	8.8	8.1	10.2	11.0	11.3
Expenditure	9.0	8.4	10.2	11.0	11.6
Fiscal balance	0.2	-0.1	0.0	-0.2	-0.4

Sources: Latvian authorities and Fund staff estimates.

1/ For 1997-99 includes special funds of local governments.

Table 35. Latvia General Government Consolidated Budget Expenditure by Function, 1995-99 1/  
(In thousands of lats)

	1995	1996	1997	1998	1999
Total expenditure (incl. lending & repayment)	951,118	1,112,235	1,266,759	1,572,263	2,026,009
Central government	...	393,101	423,818	537,630	763,439
Central government special budget	...	-41,253	538,748	631,313	805,340
Local government	...	214,385	276,376	356,947	408,655
Local government special budget	...	63,496	27,817	46,373	48,575
General public services	64,351	94,370	111,928	142,770	139,712
Central government	...	42,860	60,192	85,344	79,350
Central government special budget	...	19,850	18,687	12,376	6,496
Local government	...	20,045	28,598	40,198	45,849
Local government special budget	...	11,615	4,451	4,852	8,017
Defense	23,158	21,155	23,054	37,197	32,603
Central government	...	19,202	22,705	36,767	32,254
Central government special budget	...	1,701	0.0	94	204
Local government	...	229	349	336	145
Local government special budget	...	23	0.0	0.0	0.0
Public order and safety	48,021	56,370	67,115	91,930	116,451
Central government	...	44,807	63,592	84,787	110,261
Central government special budget	...	3,513	...	1,469	315
Local government	...	2,826	3,523	5,579	5,875
Local government special budget	...	224	0.0	95	0.0
Education	161,783	182,586	184,916	246,526	266,952
Central government	...	78,726	56,506	73,187	78,870
Central government special budget	...	8,448	0.0	819	5,234
Local government	...	56,810	128,402	170,372	182,848
Local government special budget	...	18,602	8	2,148	0.0
Health care	92,485	110,413	125,625	148,489	215,204
Central government	...	52,837	49,922	61,417	70,051
Central government special budget	...	2,101	67,624	79,942	138,426
Local government	...	51,812	8,071	7,124	6,727
Local government special budget	...	3,663	8	6	0.0
Social security and welfare	352,505	415,355	458,625	541,059	633,512
Central government	...	49,554	60,810	65,782	82,901
Central government special budget	...	337,612	372,517	444,327	518,220
Local government	...	25,414	25,142	30,443	32,391
Local government special budget	...	2,775	156	507	0.0
Housing and environmental protection	37,728	50,594	64,178	86,764	77,719
Central government	...	4,576	4,498	5,165	4,199
Central government special budget	...	2,303	6,479	12,396	8,947
Local government	...	35,540	50,473	63,916	62,070
Local government special budget	...	8,175	2,728	5,287	2,503
Recreation, sport, cultural and relig. affairs	30,030	33,004	33,219	43,859	49,139
Central government	...	18,859	16,589	19,819	20,648
Central government special budget	...	1,498	1,928	4,089	5,427
Local government	...	11,376	14,702	19,685	23,064
Local government special budget	...	1,271	0.0	266	0.0
Fuel and energy	265	3,339	9,228	5,246	2,566
Central government	...	98	320	377	169
Central government special budget	...	110	0.0	0.0	0.0
Local government	...	2,827	8,908	4,869	2,397
Local government special budget	...	304	0.0	0.0	0.0
Agriculture, forestry and fishing	17,797	42,142	46,585	72,100	79,754
Central government	...	17,886	25,812	50,897	55,341
Central government special budget	...	23,884	20,325	20,815	24,005
Local government	...	202	448	388	410
Local government special budget	...	170	0.0	0.0	0.0
Transport and communication	6,637	48,563	72,797	91,507	122,992
Central government	...	2,431	5,657	10,302	8,085
Central government special budget	...	34,326	51,133	53,797	87,727
Local government	...	3,704	4,708	8,072	11,423
Local government special budget	...	8,102	11,299	19,336	15,757
Other economic affairs	8,398	4,256	6,359	16,105	54,866
Central government	...	2,986	5,823	13,610	20,983
Central government special budget	...	907	55	1,189	10,326
Local government	...	132	481	782	1,259
Local government special budget	...	231	0.0	524	22,298
Other expenditures not classified above	107,960	70,088	63,130	48,711	234,539
Central government	...	58,279	51,392	30,176	200,327
Central government special budget	...	0.0	0.0	0.0	15
Local government	...	3,468	2,571	5,183	34,197
Local government special budget	...	8,341	9,167	13,352	...

Source: Latvian State Treasury and Latvian Central Statistical Office.

1/ Data for 1999 are not consolidated. Data are not fully comparable with Tables 32-34, due to different methods of consolidation.

Table 36. Latvia: General Government Budget Tax Arrears, 1995-2000  
(In millions of lats)

	General gov. tax arrears	Central gov. basic budget tax arrears	of which actual arrears	VAT	Excise Taxes	Corp. Income Tax	Special budget tax arrears	of which actual arrears	Local gov. tax arrears	of which actual arrears
1/1/95	75.9	75.9	...	33.5	4.4	35.9	...	...	...	...
1/1/96	122.0	122.0	...	61.9	14.6	44.3	...	...	...	...
1/1/97	154.8	154.8	...	81.8	23.5	48.1	...	...	...	...
1/1/98	142.6	142.6	94.3	78.5	21.3	41.5	...	...	...	39.1
1/2/98	144.4	144.4	94.1	79.7	22.1	41.5	...	...	...	37.0
1/3/98	142.3	142.3	94.2	78.3	22.9	39.8	...	...	...	35.5
1/4/98	141.7	141.7	92.1	77.8	22.0	40.8	...	...	...	37.5
1/5/98	140.8	140.8	90.8	77.3	21.9	40.4	...	...	...	42.8
1/6/98	338.7	148.9	94.0	78.5	23.6	45.6	189.8	159.9	...	43.4
1/7/98	294.6	145.1	93.5	76.4	23.8	43.7	149.5	124.1	...	44.3
1/8/98	294.4	145.4	94.5	77.2	24.1	43.1	148.9	110.1	...	40.1
1/9/98	290.2	145.6	97.0	78.3	24.5	41.7	144.6	102.4	...	41.2
1/10/98	289.0	144.0	95.8	76.3	24.7	42.1	145.0	89.7	...	39.2
1/11/98	290.5	145.8	96.6	77.1	25.1	42.6	144.8	87.5	...	42.5
1/12/98	290.7	146.2	95.8	77.3	25.5	42.6	144.6	82.9	...	42.9
1/1/99	295.7	146.6	93.6	77.0	25.6	41.3	149.1	81.8	...	44.1
1/2/99	297.8	151.3	92.5	81.2	25.8	43.2	146.4	70.1	...	44.2
1/3/99	291.8	151.8	92.9	81.1	26.1	43.5	140.0	64.5	...	44.7
1/4/99	152.1	152.1	...	81.6	26.4	43.1	...	...	...	...
1/5/99	361.3	154.3	89.9	83.1	25.7	44.5	143.7	51.3	63.3	34.8
1/6/99	367.4	158.3	80.7	84.0	26.0	47.3	141.5	46.6	67.6	36.5
1/7/99	376.6	160.0	77.6	85.8	26.0	47.2	146.3	43.9	70.3	36.4
1/8/99	375.9	160.3	76.8	87.0	24.9	47.4	140.6	43.4	74.9	39.7
1/9/99	377.2	158.8	75.1	88.9	24.6	44.3	141.1	44.7	77.3	39.6
1/10/99	378.7	161.4	78.1	90.7	25.0	44.8	139.7	47.0	77.6	40.2
1/11/99	379.3	163.2	78.9	91.6	26.2	44.5	140.0	46.9	76.0	39.2
1/12/99	388.7	168.1	81.3	93.7	26.9	46.5	142.4	47.5	78.2	40.5
1/1/00	389.2	167.2	79.3	95.3	26.0	44.9	139.4	43.2	82.7	44.1
1/2/00	401.2	178.5	84.8	105.9	26.3	45.4	141.2	43.8	81.5	42.1
1/3/00	401.4	178.7	85.4	106.3	25.9	45.5	138.6	40.7	84.1	43.1
1/4/00	403.9	180.8	85.6	107.9	26.0	45.9	138.3	39.7	84.7	42.3
1/5/00	402.9	183.7	...	109.7	28.5	47.0	137.0	...	82.2	...

Source: Ministry of Finance.

Table 37. Latvia: Employment and Wages in Budget Organizations, 1995-99

	1995			1996			1997			1998			1999		
	Average number of employees on the main job			Average number of employees on the main job			Average number of employees on the main job			Average number of employees on the main job			Average number of employees at the main job		
	Budget institutions	of which: state budget institutions	local government budget	Budget institutions	of which: state budget institutions	local government budget	Budget institutions	of which: state budget institutions	local government budget	Budget institutions	of which: state budget institutions	local government budget	Budget institutions	of which: state budget institutions	local government budget
Employment															
Total	186,389	91,568	94,821	188,418	86,868	101,550	186,646	83,578	103,268	180,360	80,866	99,494	173,963	76,841	97,122
Agriculture, hunting and forestry	5,945	5,945	-	4,823	4,823	-	4,802	4,802	-	4,608	4,608	-	4,339	4,339	-
Fishing	16	16	-	16	16	-	17	17	-	17	17	-	16	16	-
Transport, storage and communication	254	254	-	262	262	-	175	175	-	148	148	-	149	149	-
Real estate, renting and business activities	2,515	2,455	60	2,451	2,359	92	1,241	1,147	94	1,143	1,033	110	1,086	984	102
Public administration and defense	49,733	36,738	12,995	55,020	40,087	14,933	57,223	41,775	15,448	56,888	41,455	15,433	57,723	42,221	15,502
Education	81,723	20,142	61,581	84,477	19,246	65,231	84,598	18,468	66,130	83,247	18,279	64,968	81,807	17,633	64,174
Health and social work	33,509	22,480	11,029	29,654	16,510	13,144	27,572	13,858	13,814	23,259	12,025	11,234	17,872	8,301	9,571
Other community services	12,694	3,538	9,156	11,715	3,565	8,150	11,118	3,336	7,782	11,050	3,301	7,749	10,971	3,198	7,773
Wages															
	1995			1996			1997			1998			1999		
	Average monthly gross wages and salaries, lats			Average monthly gross wages and salaries, lats			Average monthly gross wages and salaries, lats			Average monthly gross wages and salaries, lats			Average monthly gross wages and salaries, lats		
	Budget institutions	of which: state budget institutions	local government budget institutions	Budget institutions	of which: state budget institutions	local government budget institutions	Budget institutions	of which: state budget institutions	local government budget institutions	Budget institutions	of which: state budget institutions	local government budget institutions	Budget institutions	of which: state budget institutions	local government budget institutions
Total	80.6	90.2	71.3	88.9	102.3	77.4	107.1	124.8	92.6	124.3	144.2	107.9	140.1	164.0	120.8
Agriculture, hunting and forestry	87.7	87.7	-	98.5	98.5	-	127.9	127.9	-	141.6	141.6	-	156.6	156.6	-
Fishing	45.6	45.6	-	61.5	61.5	-	60.0	60.0	-	61.3	61.3	-	64.8	64.8	-
Transport, storage and communication	84.1	84.1	-	122.1	122.1	-	104.7	104.7	-	95.4	95.4	-	108.9	108.9	-
Real estate, renting and business activities	72.7	72.3	89.8	91.5	91.1	102.6	118.5	117.2	132.7	137.0	134.7	157.1	143.5	139.2	183.5
Public administration and defense	106.2	112.6	88.2	115.1	121.5	97.7	139.1	147.7	120.8	161.4	167.9	143.3	181.7	187.1	166.3
Education	71.7	74.7	70.7	78.3	85.9	76.0	92.8	105.4	89.3	107.7	122.9	103.5	119.7	140.7	114.0
Health and social work	70.7	74.2	63.6	77.5	82.8	70.8	89.8	95.3	84.0	102.6	107.1	97.5	116.0	122.9	109.8
Other community services	61.7	66.0	60.0	66.3	76.9	61.7	80.2	84.6	78.2	91.2	98.5	87.9	100.5	105.2	98.5

Source: Latvian Central Statistical Bureau.

Table 38. Latvia: Treasury Bill Auctions, 1995-2000

(In millions of lats, at face value)

	Gross sales of treasury bills 1/								Outstanding stock (end-month) 1/							
	28 day	91 day	182 day	1 year	2 year	3 year	5 year	Total	28 day	91 day	182 day	1 year	2 year	3 year	5 year	Total
1995	197.4	102.8	26.0	0.0	0.0	0.0	0.0	326.2	15.0	47.0	21.9	0.0	0.0	0.0	0.0	83.9
1996	67.6	103.2	123.2	57.4	0.0	0.0	0.0	355.4	4.5	12.8	56.0	57.4	0.0	0.0	0.0	130.6
1997	30.7	47.8	58.5	86.0	34.0	0.0	0.0	257.0								
Jan.	5.5	6.1	7.3	10.0	0.0	0.0	0.0	28.9	4.2	13.3	52.0	67.4	0.0	0.0	0.0	136.9
Feb.	2.6	3.8	6.0	0.0	0.0	0.0	0.0	12.4	2.5	15.0	48.7	67.4	0.0	0.0	0.0	136.9
Mar.	2.9	4.4	7.5	12.0	0.0	0.0	0.0	26.8	2.8	14.2	46.2	79.4	0.0	0.0	0.0	142.6
Apr.	3.4	6.5	7.0	0.0	17.0	0.0	0.0	33.9	2.5	14.6	42.0	75.9	17.0	0.0	0.0	153.7
May	2.0	4.0	2.0	10.0	0.0	0.0	0.0	18.0	2.0	14.8	36.0	80.2	17.0	0.0	0.0	149.9
June	2.0	3.7	4.0	0.0	0.0	0.0	0.0	9.7	2.0	14.2	33.8	75.6	17.0	0.0	0.0	142.5
July	2.1	4.3	4.0	12.0	0.0	0.0	0.0	22.4	1.9	11.2	30.5	81.3	17.0	0.0	0.0	141.9
Aug.	1.9	3.1	4.0	12.0	0.0	0.0	0.0	21.0	1.9	10.3	28.5	89.5	17.0	0.0	0.0	147.2
Sep.	2.0	2.7	4.0	10.0	0.0	0.0	0.0	18.7	2.0	9.3	25.0	94.5	17.0	0.0	0.0	147.8
Oct.	2.5	4.1	5.0	0.0	17.0	0.0	0.0	28.6	2.0	9.9	23.0	80.8	34.0	0.0	0.0	149.7
Nov.	1.8	2.3	3.7	10.0	0.0	0.0	0.0	17.8	1.8	9.1	24.7	86.0	34.0	0.0	0.0	155.6
Dec.	2.0	2.8	4.0	10.0	0.0	0.0	0.0	18.8	1.5	8.5	24.7	86.0	34.0	0.0	0.0	154.7
1998	13.6	21.4	30.8	46.4	34.1	0.0	0.0	146.3								
Jan.	0.7	0.8	0.5	0.0	0.0	0.0	0.0	2.0	0.7	5.9	21.2	76.0	34.0	0.0	0.0	137.8
Feb.	1.1	1.5	2.1	5.4	0.0	0.0	0.0	10.1	1.1	5.1	19.3	81.4	34.0	0.0	0.0	140.8
Mar.	0.3	0.7	4.0	2.6	0.0	0.0	0.0	7.6	0.3	2.9	19.3	72.0	34.0	0.0	0.0	128.4
Apr.	2.0	2.8	6.0	10.0	0.0	0.0	0.0	20.8	2.0	4.9	20.3	82.0	34.0	0.0	0.0	143.1
May	2.0	2.8	4.0	0.0	17.0	0.0	0.0	25.8	2.0	6.2	20.6	72.0	51.0	0.0	0.0	151.8
June	2.0	2.8	4.0	10.0	0.0	0.0	0.0	18.8	2.0	8.4	20.6	82.0	51.0	0.0	0.0	163.9
July	2.5	3.5	4.0	10.0	0.0	0.0	0.0	20.0	2.0	9.1	24.1	80.0	51.0	0.0	0.0	166.2
Aug.	1.3	2.6	3.9	8.0	0.0	0.0	0.0	15.8	1.3	8.9	25.9	76.0	51.0	0.0	0.0	163.1
Sep.	1.0	1.7	1.1	0.0	0.0	0.0	0.0	3.8	1.0	7.7	23.0	66.0	51.0	0.0	0.0	148.7
Oct.	0.2	0.3	0.3	0.2	0.0	0.0	0.0	1.0	0.2	4.5	17.3	66.2	51.0	0.0	0.0	139.2
Nov.	0.2	1.1	0.3	0.0	7.8	0.0	0.0	9.4	0.2	3.1	13.6	56.2	58.8	0.0	0.0	131.8
Dec.	0.3	0.8	0.6	0.2	9.3	0.0	0.0	11.2	0.3	2.1	10.2	46.4	68.0	0.0	0.0	127.0
1999	16.4	24.1	30.4	69.7	34.0	0.0	0.0	174.5								
Jan.	0.0	1.6	1.8	13.3	0.0	0.0	0.0	16.7	0.0	3.5	8.0	59.6	68.0	0.0	0.0	139.1
Feb.	1.7	2.8	4.0	6.2	0.0	0.0	0.0	14.7	1.7	5.2	8.0	57.8	68.0	0.0	0.0	140.7
Mar.	2.1	2.7	2.8	2.4	0.0	0.0	0.0	10.0	2.1	7.0	9.8	60.2	68.0	0.0	0.0	147.1
Apr.	2.6	2.5	2.5	6.2	17.0	0.0	0.0	30.8	2.1	8.0	11.9	56.5	68.0	0.0	0.0	146.5
May	1.3	1.8	3.2	4.3	0.0	0.0	0.0	10.6	1.3	6.3	14.8	61.0	68.0	0.0	0.0	151.4
June	2.3	3.1	4.0	10.6	0.0	0.0	0.0	20.0	1.8	7.0	18.2	61.6	68.0	0.0	0.0	156.6
July	1.5	2.5	2.6	0.0	0.0	0.0	0.0	6.6	1.5	7.3	19.1	51.6	68.0	0.0	0.0	147.5
Aug.	2.0	2.8	4.0	8.7	0.0	0.0	0.0	17.5	2.0	8.4	19.1	52.3	68.0	0.0	0.0	149.7
Sep.	0.4	0.4	1.1	0.0	0.0	0.0	0.0	1.8	0.2	5.7	17.1	52.3	68.0	0.0	0.0	143.2
Oct.	0.3	0.2	0.0	8.0	17.0	0.0	0.0	25.5	0.3	3.4	14.9	60.1	68.0	0.0	0.0	146.6
Nov.	0.3	1.1	0.4	0.0	0.0	0.0	0.0	1.7	0.3	1.6	12.1	60.1	68.0	0.0	0.0	142.0
Dec.	2.0	2.8	4.0	10.0	0.0	0.0	0.0	18.8	1.5	4.0	12.1	70.0	68.0	0.0	0.0	155.5
2000	9.0	15.9	24.0	10.0	15.0	25.0	60.0	158.9								
Jan.	1.8	2.8	4.0	0.0	0.0	25.0	0.0	33.6	1.8	6.7	13.5	56.7	68.0	25.0	0.0	171.6
Feb.	2.0	2.8	4.0	10.0	0.0	0.0	0.0	18.8	2.0	8.4	13.5	60.5	68.0	25.0	0.0	177.3
Mar.	1.8	3.4	6.0	0.0	0.0	0.0	20.7	31.8	1.3	9.0	18.4	51.6	68.0	25.0	20.7	193.9
Apr.	2.0	2.8	4.0	0.0	0.0	0.0	39.3	48.1	2.0	9.0	22.4	51.6	68.0	25.0	60.0	238.0
May	1.5	4.1	6.0	0.0	15.0	0.0	0.0	26.6	1.0	9.6	28.0	43.6	66.0	25.0	60.0	233.2

Sources: Latvian authorities; and Fund staff estimates.

1/ Dates refer to those of auctions rather than settlements.

Table 39. Latvia: Pension System, 1995-99

	1995	1996	1997	1998	1999
	(In thousands)				
Number of recipients	657.0	641.0	643.0	638.7	643.3
Old age	497.0	504.0	511.0	512.5	521.0
Disability	103.0	98.0	94.0	90.1	85.8
Survivors	30.0	30.0	29.0	29.0	28.5
Social	19.6	n.a.	n.a.	n.a.	n.a.
Service	6.1	6.1	6.3	5.1	5.2
Special resolution	1.5	2.0	2.3	2.4	2.6
	(Lats per month)				
Average benefit	32.7	38.5	42.4	51.2	58.3
Old age	32.6	38.3	42.6	51.6	58.5
Disability	33.9	39.2	42.8	50.9	57.3
Survivors	28.2	32.2	35.9	42.2	47.3
Social	n.a.	n.a.	n.a.	n.a.	n.a.
Service	31.8	37.4	45.7	61.2	69.8
Special resolution	68.7	66.5	73.1	86.5	87.6
	(In millions of lats)				
Expenditure	239.1	299.3	340.9	401.7	450.0
Old age	181.8	231.5	268.6	316.1	365.8
Disability	43.5	48.2	50.3	59.8	59.0
Survivors	10.4	12.4	13.6	15.8	16.2
Social	n.a.	n.a.	n.a.	n.a.	n.a.
Other	3.4	7.3	8.4	10.0	4.4
Memorandum item:					
Total expenditure (percent of GDP)	10.2	10.6	10.4	10.6	11.7

Sources: Ministry of Welfare; and Fund staff estimates.

Table 40. Latvia: Family Benefits, 1995-99

	1995	1996	1997	1998	1999
<b>Number of beneficiaries (thousands)</b>					
Birth grant	22.0	19.0	19.0	18.0	19.0
Maternity leave 1/	70.2	63.7	74.3	95.3	96.0
Child care allowances	58.2	56.0	47.0	45.0	45.0
Ages 0-1.5	27.3	26.0	23.0	22.0	23.0
Ages 1.5-3	30.9	30.0	24.0	23.0	22.0
Family allowances	545.8	540.0	515.0	500.0	481.0
<b>Average benefit (lats per month)</b>					
Birth grant	73.4	97.5	117.0	180.4	182.0
Maternity leave (lats per day)	2.9	3.4	3.0	3.5	4.0
Child care allowances	9.6	9.6	9.8	14.3	19.0
Ages 0-1.5	12.0	12.0	12.0	21.0	30.0
Ages 1.5-3	7.5	7.5	7.5	7.5	7.5
Family allowances	6.5	7.4	5.2	5.2	8.6
<b>Expenditure (millions of lats)</b>					
Birth grant	38.2	41.5	41.0	45.5	49.4
Maternity leave	1.6	1.8	2.2	3.3	3.5
Child care allowances	2.4	2.6	2.7	3.9	4.8
Family allowances	7.1	6.5	5.6	8.3	10.9
Total expenditure	27.1	30.6	30.5	30.0	30.1
<b>Memorandum item:</b>					
Total expenditure (percent of GDP)	1.6	1.5	1.3	1.3	1.3

Sources: Ministry of Welfare; and Fund staff estimates.

1/ Monthly average number of paid maternity days, in thousands.

Table 41. Latvia: Reserve Money and Net Domestic Assets of the Bank of Latvia, 1996-2000  
(in millions of lats)

	1996		1997			1998				1999				2000
	Dec	March	June New Acct. 1/	Sept	Dec	Mar	Jun	Sept	Dec	Mar	Jun	Sept	Dec	Mar
Reserve money	340.7	350.0	370.9	382.3	441.7	433.9	470.5	457.4	471.5	481.0	491.5	449.6	526.3	482.6
Currency in circulation	282.6	291.8	310.0	327.7	359.4	357.2	380.5	374.0	374.4	393.4	407.9	386.5	426.1	411.1
Bank deposits	58.1	58.2	60.9	54.7	82.4	76.7	90.0	83.4	97.0	87.6	83.7	63.1	100.2	71.6
Foreign currency deposits	6.8	8.3	3.1	0.1	0.1	--	--	--	--	--	--	--	--	--
Other	51.3	49.9	56.9	54.5	82.2	76.7	90.0	83.4	97.0	87.6	83.7	63.1	100.2	71.6
Net foreign assets 2/ 3/	349.4	357.5	391.0	426.0	433.1	463.8	529.7	480.9	463.9	488.5	556.8	477.4	523.4	524.9
Net International Reserves 1/	354.6	362.6	396.1	431.0	438.2	462.7	528.6	480.4	463.6	488.2	556.5	477.1	523.1	524.7
Correspondent accounts 1/ 2/	-5.2	-5.1	-5.1	-5.1	-5.1	1.1	1.1	0.5	0.3	0.3	0.3	0.3	0.2	0.2
Net domestic assets	-8.7	-7.5	-21.0	-43.6	8.7	-30.0	-59.2	-23.5	7.6	-7.4	-65.3	-27.7	2.9	-42.3
Domestic credit	43.3	52.3	47.8	30.4	83.0	47.9	44.9	84.6	113.8	100.8	17.6	54.3	68.0	-7.5
Banks	10.0	28.4	6.3	1.1	7.6	10.3	13.0	33.4	52.0	84.0	44.8	39.1	63.3	47.4
BoP assistance	5.6	24.0	3.0	0.6	0.6	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Refinance credits	4.3	4.4	3.3	0.5	6.9	10.1	12.9	33.3	51.9	83.9	44.7	39.0	63.2	47.3
Government, net 4/	33.3	23.9	41.5	29.3	75.5	37.6	31.9	51.2	61.7	16.8	-27.2	15.2	4.6	-53.0
BoP assistance	50.3	42.4	59.8	60.7	59.4	59.2	60.7	55.8	54.3	55.6	54.7	51.4	50.1	33.8
Other government, net 5/	-16.9	-18.4	-18.3	-31.4	16.1	-21.6	-28.7	-4.6	7.4	-38.7	-81.9	-36.2	-45.5	-88.8
Other items, net	-52.0	-59.8	-68.8	-74.0	-74.4	-77.8	-104.1	-108.1	-106.2	-108.2	-82.9	-82.0	-65.1	-34.8
<b>Memorandum items:</b>														
	(Percentage change from previous quarter)													
Reserve money	10.0	2.7	5.7	3.3	15.5	-1.8	8.4	-2.8	3.1	2.0	2.2	-8.5	17.1	-8.3
Domestic credit	-30.8	19.5	-8.7	-39.2	173.3	-42.3	-6.2	88.3	34.5	-11.4	-82.6	208.9	25.2	-111.1
Banks	-67.6	-4.3	-77.8	-95.2	579.0	35.9	26.3	157.4	56.0	61.4	-46.7	-12.7	62.0	-25.1
Government, net 4/	4.6	33.1	73.3	9.7	157.9	-50.2	-15.1	60.3	20.5	-72.8	-261.7	-156.0	-69.5	-1283.4
Exchange rate (LVL/US\$) 6/	0.556	0.580	0.574	0.586	0.590	0.595	0.602	0.583	0.569	0.590	0.598	0.579	0.583	0.596
NFA total (US\$mn)	637.8	625.1	690.1	726.9	734.0	779.5	879.9	824.9	815.2	827.9	931.1	824.4	897.7	880.8

Sources: Bank of Latvia, and staff estimates.

1/ New accounting to include changes instituted in June 1997 by the BOL and is a break in series.

2/ Valued at current exchange rates.

3/ As the Bank of Latvia has almost no medium- and long-term foreign currency liabilities, NFA equals NIR.

4/ Excluding proceeds from foreign loans for balance of payments support.

5/ Includes purchase of Treasury bills and change in government deposits.

6/ Keeping the end-March 2000 exchange rate constant for the remainder of 2000.



Table 42. Latvia: Broad Money and Net Domestic Assets of the Banking System, 1996-2000  
(in millions of lats)

	1996	1997				1998				1999				2000
	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar
		New Acct. 1/												
Broad money (M2X)	628	654	724	805	871	879	975	921	923	920	971	947	997	1070
Currency held by public	264	274	285	304	333	332	352	344	340	358	372	352	377	373
Household deposits	67	71	76	86	96	104	114	111	118	109	117	114	121	134
Enterprise deposits	104	98	133	148	170	173	211	197	200	195	211	186	200	235
Residents' FC deposits 2/	193	211	229	267	272	271	298	269	264	259	272	295	298	328
Total deposits	364	380	438	501	538	547	623	577	583	563	599	596	619	698
Net foreign assets (total) 3/ 4/	445	457	548	619	619	606	676	485	415	416	494	417	364	417
Convertible net int'l reserves 2/ 4/	440	436	450	493	512	459	534	509	501	497	580	511	497	528
Nonconvertible reserves 2/ 3/	5	21	98	126	107	146	142	-24	-86	-81	-86	-94	-133	-110
Net domestic assets 4/	183	197	177	186	252	272	299	436	508	504	477	530	633	653
Domestic credit	366	371	390	428	479	465	538	584	647	676	622	685	745	748
Credit to the non-government sector	207			298	344	440	512	575	577	596	607	625	665	713
Households	21	23	25	31	37	43	52	58	64	70	79	86	94	104
Enterprises	185	196	230	267	327	397	460	517	513	527	528	539	571	609
Government, net	160	152	135	129	115	54	27	9	70	79	15	60	80	35
Restructuring Bonds	53	33	33	32	24	24	24	24	24	24	24	12	6	6
Other Credit to Government	107	119	102	97	91	30	3	-15	46	55	-9	48	74	29
Other items, net 4/	-183	-173	-214	-242	-227	-222	-239	-148	-140	-172	-145	-154	-112	-95
Memorandum items:														
Broad money (M2X)	4.4	4.2	10.7	11.2	8.1	8.9	10.9	-5.5	0.2	-0.3	5.5	-2.4	5.2	7.4
Domestic credit	5.2	6.3	5.3	14.0	12.0	3.2	8.8	8.5	10.8	4.4	-8.0	10.2	8.8	4.4
Households	-14.7	7.3	8.0	26.5	17.4	18.8	19.4	12.5	9.7	8.7	13.1	9.0	9.9	10.3
Enterprises	10.4	5.7	17.5	16.1	22.5	21.3	15.8	12.4	-0.8	2.6	0.2	2.2	5.9	6.7
Other credit to Government	4.2	33.3	-13.6	11.0	-6.5	-66.9	-91.5	-696.9	-400.1	19.9	18.8	368.9	133.8	...
Exchange rate (LVL/US\$) 6/	0.556	0.580	0.574	0.586	0.590	0.595	0.602	0.583	0.569	0.590	0.598	0.579	0.583	0.596
Total NFA (US\$mn) 3/														
Total	800	788	955	1057	1049	1019	1123	832	729	706	827	720	624	700
of which: comm. Banks 4/	172	171	273	330	315	240	243	8	-86	-122	-104	-105	-274	-180

Sources: Bank of Latvia; and Fund staff estimates.

1/ New accounting charts that became effective in June 1997, leading to a break in the series.

2/ As of June 1997, residents' foreign currency deposits are deposits in all currencies except lats.

3/ In currencies of OECD countries, valued at the current exchange rates.

4/ Up to end-June 2000, NFA of commercial banks include equity in Latvian commercial banks that is owned by non-residents; thereafter, such equity is treated like domestic capital and captured in "other items, net".

As of end-March 2000, this equity amounts to LVL 129 million.

5/ Under the assumption that the government will not draw on the external credit lines (US\$ 45 million), which was envisaged under the program. This will activate the adjustment on the performance criteria on NIR and on NDA of the Bank of Latvia, as well as on the indicative ceiling on the NDA of the banking system.

6/ Loans to the Privatization Fund.

6/ Keeping the end-March 2000 exchange rate constant for the remainder of 2000.

Table 43. Latvia: Enterprise and Household Deposits , 1996-2000  
(In millions of lats)

	1996	1997				1998				1999				2000
	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar
Enterprise deposits	234.8	240.5	288.8	332.7	345.8	337.6	386.4	358.7	353.9	348.9	361.7	356.5	360.5	409.7
Commercial banks	233.1	238.2	285.9	329.1	337.6	323.1	353.7	338.4	349.3	341.1	357.6	350.2	354.3	377.2
Latvian Savings Bank	1.7	2.3	2.9	3.6	8.2	14.5	32.7	20.3	4.4	7.8	4.1	6.3	6.0	32.5
Household deposits	129.4	139.9	149.6	169.0	192.8	209.9	236.7	218.6	229.0	214.2	237.9	239.6	239.4	288.3
Commercial banks	79.4	89.3	97.6	113.6	132.5	147.3	171.2	152.8	157.5	146.1	169.9	172.3	190.0	216.9
Latvian Savings Bank	50.0	50.6	52.0	55.4	60.3	62.6	65.5	65.8	71.5	68.1	68.0	67.3	69.4	71.4
Total deposits from private sector	364.3	380.4	438.4	501.7	538.6	547.5	623.2	577.3	582.9	563.1	599.6	596.1	619.8	697.9
Commercial banks	312.5	327.5	383.5	442.7	470.1	470.4	525.0	491.2	507.0	487.3	527.5	522.5	544.4	594.0
Latvian Savings Bank	51.7	52.9	54.9	59.0	68.5	77.1	98.2	86.1	75.9	75.8	72.1	73.6	75.4	103.9
<i>Memorandum item:</i>														
Share of enterprise deposits (in percent)	64.5	63.2	65.9	66.3	64.2	61.7	62.0	62.1	60.7	62.0	60.3	59.8	58.2	58.7

Sources: Bank of Latvia; and Fund staff calculations.

Table 44. Latvia: Enterprise and Household Credits, 1996-2000  
(In millions of Lats)

	1996	1997				1998				1999				2000
	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar
Enterprise credit	190.1	203.4	234.6	275.1	337.2	389.7	451.3	508.1	504.7	519.2	519.8	530.5	561.3	599.6
Commercial banks	178.7	191.7	223.2	266.2	323.5	376.9	432.3	482.2	485.7	494.7	493.6	511.6	542.6	577.0
Latvian Savings Bank	11.4	11.7	11.4	8.9	13.7	12.8	19.0	25.9	19.0	24.5	26.2	18.9	18.7	22.6
Household credit	21.4	23.0	24.9	31.5	37.1	43.8	52.3	58.8	64.4	70.1	79.2	86.4	95.0	104.6
Commercial banks	16.3	17.8	19.8	23.5	30.4	37.0	44.7	50.6	54.9	60.1	69.1	75.6	82.9	92.2
Latvian Savings Bank	5.1	5.2	5.1	8.0	6.7	6.8	7.6	8.2	9.5	10.0	10.1	10.8	12.1	12.4
Total credit to private sector	211.5	226.4	259.5	306.6	374.3	433.5	503.5	566.9	569.1	589.3	599.1	616.8	656.3	704.2
Commercial banks	195.0	209.6	243.0	289.6	353.9	413.9	476.9	532.8	540.6	554.8	562.8	587.1	625.5	669.2
Latvian Savings Bank	16.5	16.8	16.5	17.0	20.4	19.6	26.6	34.1	28.5	34.5	36.3	29.7	30.8	35.0
<i>Memorandum item:</i>														
Share of enterprise credits (in percent)	89.8	89.8	90.4	89.7	90.1	89.9	89.6	89.6	93.4	93.6	86.8	86.0	85.5	85.1

Sources: Bank of Latvia.

Table 45. Latvia: Sectoral, Currency, and Maturity Distribution of Credit, 1996-2000  
(In percent of total)

	1996	1997	1998				1999				2000
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Agriculture	7.5	5.7	6.5	7.7	7.4	7.2	7.2	8.2	7.6	7.1	6.4
Manufacturing	25.4	27.4	26.8	26.7	26.1	26.2	25.4	24.2	25.6	26.4	25.4
Electricity, gas, and water supply	9.2	3.7	3.1	2.3	1.6	1.6	2.3	2.3	3.0	3.8	4.6
Construction	7.6	3.8	3.7	3.8	4.0	4.5	5.3	6.0	6.3	5.0	4.7
Trade	31.6	29.2	26.7	26.1	24.9	25.3	26.5	26.9	24.5	24.8	25.0
Transport, storage, and communication	5.4	14.3	16.1	15.6	15.1	14.8	14.3	12.3	14.2	13.0	13.4
Financial intermediation	3.5	4.2	7.3	7.0	5.7	5.4	5.3	6.2	4.1	3.9	4.8
Other services	7.2	9.2	7.8	8.4	13.4	13.0	11.9	12.1	11.2	12.5	13.0
Other	2.7	2.5	2.0	2.4	1.8	2.0	1.8	1.8	3.5	3.5	2.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
In domestic currency	32.4	46.8	45.3	44.8	45.6	45.3	44.4	41.8	44.0	41.4	39.7
In foreign currency (incl. G-24 credits)	67.6	53.2	54.7	55.2	54.4	54.7	55.6	58.2	56.0	58.6	60.3
Short-term credits (up to 1 year)	44.5	44.4	40.2	39.0	36.9	32.9	30.5	31.8	29.6	28.2	27.7

Source: Bank of Latvia.

Table 46. Latvia: Banking System Indicators, 1997-2000  
(In millions of lats)

Banking institution	Total Assets 1/							Capital and Reserves						
	1997	1998	1999				2000	1997	1998	1999				2000
	Q4	Q4	Q1	Q2	Q3	Q4	Q1	Q4	Q4	Q1	Q2	Q3	Q4	Q1
Bank of Latvia	658.5	741.7	814.3	833.4	768.8	820.1	807.2	36.6	47.2	54.3	52.3	48.7	47.2	45.9
Commercial banks and other credit institutions	1,771.8	1,733.2	1,708.9	1,764.4	1,839.1	2,001.3	2,220.1	219.6	196.3	134.4	134.8	146.8	192.8	192.6
Five largest	744.1	1,044.0	1,034.6	1,055.1	1,048.8	1,202.4	1,281.6	87.7	106.0	86.2	91.4	92.3	107.0	106.5
Unibank	222.0	300.0	313.5	335.7	342.1	353.1	366.8	33.2	32.9	30.3	32.7	34.5	37.0	36.8
Parex	294.6	327.2	303.6	335.3	337.2	419.6	428.6	34.0	38.1	34.8	36.9	35.2	40.7	39.5
Hansabank	88.8	148.8	158.8	175.7	171.6	203.8	226.6	6.6	11.2	11.1	11.4	11.8	18.2	19.2
Rietums	184.9	156.8	148.6	98.4	99.3	119.6	130.7	17.8	10.4	6.8	6.8	7.1	7.0	6.7
Latvian Savings Bank	89.1	106.4	110.2	110.0	98.6	106.3	128.9	5.5	4.1	3.2	3.6	3.7	4.1	4.3
Riga Commercial 2/	138.4	111.7	72.3	69.5	64.9	63.0	66.4	15.0	13.4	-30.0	-32.9	-23.2	5.6	3.9
Baltija	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Other commercial banks and credit institutions	1,027.7	689.2	674.3	663.3	749.7	760.4	839.2	131.9	90.3	48.2	43.4	54.5	85.8	86.1
Of which:														
Merita Nordenbanken 3/	25.4	...	...	36.20	40.40	46.50	48.70	5.3	...	...	3.74	3.74	3.30	3.40
Credit Unions	0.34	0.54	0.58	0.39	0.62	0.68	0.72	0.11	0.16	0.17	0.18	0.19	0.20	0.23

Source: Bank of Latvia.

1/ Computed on the basis of the net asset position of the government.

2/ Riga Commercial Bank became First Latvian Bank in October 1999 upon implementation of its rehabilitation plan.

3/ Former Latvian Investment Bank (excluded from other credit institutions until end 1997).

Table 47. Latvia: Balance of Payments, 1995-99

	1995	1996	1997	1998	1999
(In millions of U.S. dollars)					
Current account balance	-16.2	-217.2	-287.5	-613.3	-605.2
excluding official transfers	-51.3	-266.3	-320.2	-695.1	-666.1
Trade Balance	-579.6	-798.3	-847.9	-1,130.4	-1,027.1
Exports, f.o.b.	1,367.6	1,487.6	1,838.1	2,011.1	1,889.1
Imports, f.o.b.	-1,947.2	-2,285.9	-2,686.0	-3,141.5	-2,916.1
Services, income and transfers balance	563.5	581.1	560.4	517.2	421.8
Of which:					
Transport sector, net	506.1	533.1	515.1	506.2	521.7
Travel, net	-4.4	-93.7	-75.7	-68.9	-115.3
Interest, net	19.8	2.7	14.3	12.2	-88.7
Other income	-1.2	38.6	40.5	41.5	41.1
Other services	-27.6	9.1	-11.2	-80.3	-30.0
Current transfers, net	70.8	98.1	77.4	106.5	93.0
Capital account balance	653.3	547.9	360.7	614.2	695.4
Capital transfers	0.0	0.0	13.7	14.1	12.6
Foreign investment, net	207.8	237.6	-56.8	296.0	427.3
Foreign direct investment, net	244.6	378.6	515.0	302.5	366.2
FDI in Latvia	179.6	381.7	521.1	356.7	366.5
Direct investment abroad	65.0	-3.0	-6.1	-54.2	-0.3
Portfolio investment, net	-36.8	-141.0	-571.8	-6.5	61.1
Other medium and long-term capital	142.2	57.4	164.9	177.9	226.9
Government, net	55.5	44.7	20.2	45.2	249.9
Other sectors, net	86.7	12.7	144.7	132.6	-23.0
Other capital and investment, net	303.4	252.9	238.9	126.6	167.9
Errors and omissions	-662.6	-104.5	29.0	61.7	-139.2
Overall balance	-25.5	226.2	102.2	62.6	90.2
Financing items:	25.5	-226.2	-102.2	-62.6	-90.2
Change in NFA, total	43.2	-215.3	-102.2	-62.6	-90.2
Official NIR (increase,-)	32.1	-211.1	-102.2	-62.6	-165.0
Gross convertible reserves	46.1	-189.8	-65.4	-37.9	-75.1
Use of Fund credit net	-2.9	-25.5	-36.8	-24.7	-15.1
Natural gas arrears	-17.7	-10.9	0.0	0.0	0.0

Sources: Data provided by the Latvian authorities and staff estimates.

Table 48. Latvia: Exports and Imports by Area and Country, 1995-99  
(In percent of total unless otherwise indicated)

	Exports					Imports				
	1995	1996	1997	1998	1999	1995	1996	1997	1998	1999
Total (in millions of lats)	688	795	972	1,069	1,008	960	1,278	1,582	1,881	1,724
European Union	44.0	44.7	48.9	56.6	62.5	49.9	49.3	53.2	55.3	54.5
CIS	38.3	35.8	29.5	19.0	12.0	28.2	25.5	19.7	16.0	15.0
Europe	94.0	91.3	89.6	87.9	90.4	90.7	91.0	91.4	91.3	94.3
Belarus	5.3	5.3	4.9	2.0	1.7	2.5	1.3	1.0	1.7	2.9
Belgium	1.7	2.0	2.0	1.6	1.4	2.2	2.9	2.7	3.1	1.9
Denmark	3.8	6.9	6.6	7.4	6.1	4.7	6.3	5.1	5.3	3.9
Estonia	3.4	3.5	3.8	4.5	4.7	5.7	6.1	5.9	6.6	6.4
Finland	6.1	4.5	2.6	3.1	1.9	17.0	14.7	14.3	13.4	9.1
France	2.4	2.4	2.2	2.5	1.8	2.5	2.5	3.1	3.7	3.2
Germany	25.6	26.0	23.4	22.6	16.9	25.2	22.2	23.6	23.6	15.2
Italy	2.2	2.1	1.6	2.6	1.7	3.8	4.2	4.6	5.1	3.7
Lithuania	6.5	7.1	7.1	7.4	7.5	4.4	5.1	5.2	6.3	7.3
The Netherlands	3.7	3.6	4.1	5.0	3.5	5.0	5.6	5.5	5.0	3.9
Poland	4.7	2.6	2.1	2.6	1.8	3.1	4.1	4.7	5.0	4.4
Russian Federation	26.7	23.8	24.1	12.1	6.6	19.8	20.4	19.7	11.8	10.5
Sweden	17.5	12.3	14.1	14.9	10.7	13.1	12.6	11.3	10.1	7.2
Ukraine	5.6	6.3	8.1	2.9	2.9	2.1	1.9	1.5	1.9	1.1
United Kingdom	17.1	20.9	24.4	19.6	16.4	4.4	4.4	4.8	4.4	3.3
Africa	1.0	2.9	1.3	1.4	0.6	0.2	0.2	0.2	0.1	0.1
Asia and Middle East	2.3	4.3	5.8	4.7	2.2	3.3	2.5	2.8	4.0	3.1
China	0.0	0.2	0.2	0.0	0.0	0.2	0.2	0.3	0.6	0.5
Thailand	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Western Hemisphere	2.7	1.5	3.2	5.9	6.6	4.4	6.1	5.5	4.3	2.4
United States	2.5	1.2	2.3	4.2	5.3	3.2	3.4	3.5	2.9	2.0
Australia	0.0	0.0	0.1	0.1	0.0	1.4	0.2	0.1	0.3	0.1
Total (outside BRO)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Latvian authorities.

Table 49. Latvia: Commodity Structure of Foreign Trade, 1996-99

(In percent of total)

	1996	1997	1998	1999
<b>Exports</b>				
Live animals and animal products (I)	4.6	3.7	3.1	1.9
Vegetable products (II)	0.4	0.7	0.6	0.6
Animal, vegetable fats and oils (III)	0.1	0.1	0.4	0.2
Food, drinks and tobacco (IV)	11.8	10.1	6.7	3.8
Mineral products (V)	2.6	1.5	2.3	3.3
Chemicals (VI)	6.7	6.5	5.8	6.1
Plastics and rubber products (VII)	0.9	1.0	1.3	1.1
Hide, skin and leather (VIII)	1.4	1.1	0.8	0.7
Wood and wood products (IX)	24.4	29.7	33.5	37.3
Pulp and paper products (X)	2.2	2.6	2.9	2.6
Textiles and textile articles (XI)	16.9	15.6	16.1	15.4
Footwear, feather/down products (XII)	0.6	0.8	0.6	0.3
Stone, cement and ceramic products (XIII)	1.9	1.7	1.9	2.0
Precious metals (XIV)	0.3	0.5	0.3	0.4
Base metals and base metals products (XV)	7.0	8.5	9.8	11.5
Machinery and electrical equipment (XVI)	9.7	9.0	6.8	4.9
Transport vehicles and parts; vessels (XVII)	4.1	2.1	1.6	1.4
Optical equipment and musical instruments (XVIII)	0.3	0.4	0.6	0.9
Arms and ammunition (XIX)	0.0	0.1	0.0	0.0
Furniture; miscellaneous manufactured goods (XX)	4.0	4.2	4.8	5.4
Works of art and antiques (XXI)	0.0	0.0	0.0	0.0
Other goods	0.1	0.1	0.1	0.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Imports</b>				
Live animals and animal products (I)	2.0	2.4	1.9	1.6
Vegetable products (II)	4.4	3.5	3.2	3.5
Animal, vegetable fats and oils (III)	0.9	1.1	1.1	1.1
Food, drinks and tobacco (IV)	6.1	6.9	7.1	6.7
Mineral products (V)	22.2	14.0	10.5	11.4
Chemicals (VI)	11.0	10.9	11.1	12.0
Plastics and rubber products (VII)	3.9	4.3	4.4	4.4
Hide, skin and leather (VIII)	0.4	0.5	0.4	0.4
Wood and wood products (IX)	0.5	0.7	0.8	1.1
Pulp and paper products (X)	4.5	4.5	4.2	4.2
Textiles and textile articles (XI)	8.0	7.8	7.8	7.7
Footwear, feather/down products (XII)	0.7	0.8	0.8	0.8
Stone, cement and ceramic products (XIII)	1.9	2.3	2.3	2.4
Precious metals (XIV)	0.1	0.3	0.2	0.4
Base metals and base metals products (XV)	6.4	8.0	8.4	7.0
Machinery and electrical equipment (XVI)	16.8	19.3	20.5	22.0
Transport vehicles and parts; vessels (XVII)	5.9	8.3	10.4	8.3
Optical equipment and musical instruments (XVIII)	2.2	2.0	2.3	2.4
Arms and ammunition (XIX)	0.1	0.1	0.1	0.0
Furniture; miscellaneous manufactured goods (XX)	2.0	2.3	2.5	2.6
Works of art and antiques (XXI)	0.0	0.0	0.0	0.0
Other goods	0.0	0.0	0.0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Latvian authorities.



Table 50. Latvia: Foreign Trade by Free Trade Agreement Countries, 1996-99  
(In thousands of lats)

	Exports				Imports			
	1996	1997	1998	1999	1996	1997	1998	1999
<b>Total</b>	795,172	971,749	1,068,852	1,008,333	1,278,169	1,582,352	1,881,285	1723931
EU	355,457	474,807	604,459	630,655	629,465	841,225	1,039,492	940166
Czech Republic	3,817	3,425	3,346	3,511	11,368	15,113	25,570	21016
Estonia	29,088	40,570	48,526	47,196	72,818	94,691	124,827	110235
Lithuania	59,147	72,990	79,325	75,905	80,626	100,788	118,518	126335
Slovakia	1,847	2,450	1,956	3,630	4,552	8,090	7,339	5691
Slovenia	452	1,344	2,110	1,270	2,074	1,857	1,966	3831
Iceland	852	1,843	2,324	656	615	690	508	...
Liechtenstein	215	2,751	136	14	3,768	298	251	...
Norway	5,274	5,721	8,237	8,192	17,467	23,738	29,049	29599
Switzerland	2,787	5,260	4,868	4,625	11,516	21,973	28,871	36685
Ukraine	49,066	37,809	30,646	29,035	32,671	32,306	35,350	19331
Other countries	287,170	322,779	282,919	203,644	411,229	441,583	469,544	431,042

Source: Central Statistical Bureau of Latvia.

Table 51. Latvia: Domestic Arrears in the Energy Sector, 1995-2000  
(In millions of lats)

	Debtor Arrears		Creditor Arrears	
	Latvenergo	Latvijas Gaze	Latvenergo	Latvijas Gaze
1995				
March	82.4	65.6	55.0	39.9
June	79.6	54.1	57.1	35.1
September	69.1	54.8	60.2	46.4
December	48.5	59.4	44.9	50.5
1996				
March	60.2	65.9	51.2	51.1
June	56.2	61.0	36.3	45.7
September	53.7	57.4	38.3	46.1
December	56.9	13.8	49.8	30.6
1997				
March	57.5	13.1	59.9	28.7
June	43.2	11.2	49.9	17.2
September	33.6	11.7	45.5	19.5
December	37.4	11.7	61.1	14.0
1998				
March	40.5	11.6	53.5	6.9
June	36.2	8.3	49.9	5.1
September	36.4	8.8	46.9	11.3
December	37.4	10.0	47.6	7.9
1999				
March	38.9	8.8	45.0	3.0
June	37.4	8.7	48.7	3.3
September	40.6	7.7	56.8	8.7
December	28.2	12.3	68.8	7.3
2000				
March	31.4	9.9	63.2	4.3

Source: Latvian authorities.