

**UPDATE 1-Latvia needs "sizable" aid, to keep peg -IMF**

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WASHINGTON, Dec 7 (Reuters) - The International Monetary Fund said on Sunday it was working on a sizable aid package for **Latvia**, which would include preserving the current exchange rate peg.

Latvia sought rescue funds after it slid into recession, its budget deficit swelled and it had to take over its second-largest bank, **Parex**.

The reassurance from the IMF over the peg of the lat currency to the euro came after worries that the Baltic state faced a devaluation, which on Friday caused the shares of Swedish banks, which have invested heavily in the region, to sink.

"In cooperation with the European Commission, some individual European governments, and regional and other multilateral institutions, we are working with the authorities on the design of a program that maintains **Latvia's** current exchange rate parity and band," the IMF mission chief to **Latvia**, Christoph Rosenberg, said in a statement.

"This will require agreement on exceptionally strong domestic adjustment policies and sizable external financing, as well as broad political consensus in **Latvia**," he added.

Shares in Swedbank and SEB, two top Swedish banks that have entered the Baltic market, sank on Friday after the **Latvian** central bank unexpectedly raised its overnight lending rate for periods longer than five days to 15 percent and to 30 percent for longer than 10 days.

Some investors saw the move as the central bank taking further steps to protect the lat, stuck at the weak end of its 1 percent band against the euro for nine weeks.

The central bank has spent nearly 1 billion euros (\$1.27 billion) to protect the peg over that period.

Devaluation fears were also raised when **Latvian** Finance Minister Atis Slakteris last week said that an IMF official had raised the idea in discussions of letting the lat weaken.

The IMF statement made no mention of how much money **Latvia** would need to borrow, but Slakteris has said his experts have estimated the need at 5 billion euros, though he stressed no concrete sums had been mentioned in the IMF talks.

An adviser to Slakteris also told Reuters last week that Sweden was considering taking part in the rescue package.

Rosenberg said in the statement that good progress had been made toward a possible IMF-supported program for the country.

"All participants are working to bring these program discussions to a rapid conclusion," he added.

Slakteris's adviser has told Reuters the government wanted to have the package finalized and approved by parliament in time to be presented to an EU finance ministers meeting on Dec. 19. (\$1=.7880 Euro) (Reporting by Lesley Wroughton; Editing by Leslie Adler)

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