

ACCESSION OF LATVIA

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on Latvia's Accession to the WTO
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I. Macroeconomic status of Latvia

Existence of private property as an institute has been ensured. At the beginning of 1996, the share of people employed in the private sector has reached 62 per cent. In the result of privatization - property structure in agriculture has essentially changed, the majority of trading, public catering and household service companies belonging to local governments has been privatized, restructuring and privatization of banks is successfully continued. Privatization of medium size and big public companies in the first years of reforms has proceeded at a considerably slower pace. Main reasons for the delayed privatization were: financial problems, the national currency was introduced only in March 1993, substantial economic dependence from the former Soviet Union, weak private sector, low purchasing power of population of Latvia, political decision to grant priority status to matters of denationalization and not privatization, etc. As a consequence of centralization of privatization activities and creation of Privatization Agency of Latvia at the beginning of 1994 - privatization process of big and medium size public companies has substantially accelerated and the government has taken certain steps for its still greater activation.

A recognizable level of macroeconomic stability has been achieved in comparison with other countries of transition economy: rapid fall of GDP in the first years of reforms has been stopped already in the middle of 1993, inflation has been lowered from the level close to hyper-inflation amounting to 951.3 per cent in 1992 to 25 per cent in 1995; budget deficit with the exception of 1995 has not exceeded 2 per cent of GDP (in 1995 due to the crisis of commercial banks budget deficit reached 4 per cent); State external debt at the end of 1995 was 9.6 per cent from GDP and together with the internal debt constituted 16.8 per cent from GDP.

Starting with the middle of 1994 exports have started to gradually increase which particularly refers to countries of the European Union, yet imports within the same period have grown even faster thus deteriorating the overall external trade balance. However, owing to the positive balance of services which has been achieved using advantages of the geographical situation of Latvia - the current account of the Balance of Payments has been balanced.

A substantial amount of foreign investments has been attracted practically starting from a zero level (according to the statistic data as of 1 October 1995, the amount of foreign investments constituted approximately 261.5 million Ls, i.e. more than US\$500 million). Direct investments per one inhabitant in 1994 have been drawn in the amount of approximately US\$86, the same amount based on preliminary data has also been attracted in 1995.

The work of creation of a strong and stable banking system is continued. Ahead of the official application of Latvia to join the EU - Latvia has started to implement all the most important EU banking

directives. However, in 1995 Latvia went through serious banking problems caused by insolvency of some individual commercial banks which was based on wrong banking strategy, involvement in unjustified and risky transactions and absence of realistic loan guarantees, etc. The Bank of Latvia and the Government have taken fast action to eliminate the overall crisis of the banking system and to prove that the strategy of separation of the best and requirements respecting banks is working in practice. Now, the bad experience is behind and system of banks is not as bulky as before, yet substantially stronger.

Despite the achievements in ensuring of stability of national economy is still quite a lot of problems: a significant part of inhabitants live on the level of poverty; unemployment has stabilized at a rather high level (at the beginning of 1996 the registered level of unemployment reached 6.6 per cent from economically active population and there exists also hidden unemployment); rehabilitation of national economy is observed only in some individual areas and many branches of national economy and particularly those which were previously deeply integrated in national economy of the USSR are unable to get out of stagnation.

The objective of economic policy of the government in 1996 is to continue lowering inflation so that its level in 1996 is less than 20 per cent, to reach a real economic increase and growth of foreign reserves of the Bank of Latvia. The government has committed to restrict the internal and external State debt and budget deficit for 1996 has been approved in the amount of 2.3 per cent of GDP despite the current difficulties with budget revenues and public pressure to increase expenditure which should be viewed upon as a strategy of its further restriction. Such policy is going to promote private sector investments and will form the basis of the economic growth of the country in the following years. Forecasts indicate that starting with 1998 increase of GDP by 5-6 per cent per year can be realistically achieved.

2. Economic Policy of the Government

The new government which came into office at the end of 1995 has committed to ensure irrevocability of the process of economic reforms. Its fundamental standpoints in the further flow of economic reforms are as follows:

In the area of finances and monetary policy:

- to support strict monetary policy allowing to issue only the amount of money determined by objective necessities of growth of GDP (economic activity) and continuation of lowering inflation;
- to consistently move in the direction of a deficit-free budget;
- to improve collection of taxes by distributing not more than 35 per cent of GDP through the tax system;
- not to allow internal and external State debt in conjunction with other State liabilities to exceed 20 per cent of GDP;
- to perfect legislation on banking system of Latvia, crediting regulations and control over enforcement of such legislation;
- to develop financial infrastructure to enable it to provide residents of Latvia, entrepreneurs, foreign customers with adequate services rendered by banks, credit institutions and insurance agencies;

- to create a viable real estate market and develop mortgage loans;
- to develop securities' market and improve mechanisms of its supervision.

In the area of promotion of entrepreneurial activity and investment:

- to create a stable and safe economic environment by properly settling economic legislation, especially in the field of taxes and customs procedures;
- to ensure development of fair competition and settle supervision procedures over natural monopolies;
- to consistently follow activities of monopolies in the fields of communications, transport and energy supply;
- to further promote foreign investments by establishing procedures of filing of entrepreneurial activities and by simplifying procedures of purchasing land by foreign investors;
- to secure safety of goods and services, responsibility of manufacturers and servicers;
- to implement public investment programmes for the development of infrastructure.

In the area of settling property relations:

- to intensify privatization process by accelerating privatization of big public companies, by specifying possibilities of utilization of private certificates in privatization, by simplifying privatization procedures and by active involvement into privatization process of investors from the countries with which Latvia has entered into agreements on protection of investments;
- to organize management of public property;
- to create a system of State and local government procurement.

In the area of supporting manufacturers of Latvia:

- to implement exports promotion activities including creation of credit guarantees, export insurance and financing funds;
- to promote the development of small and medium size business with favourable tax policy by creating specific funds of financing and credit guarantees;
- to provide State assistance in obtaining information about international standards and quality systems by improving and financing the respective agencies;
- to undertake forecasting and organization of retraining of the work force;
- to promote development of transit and improve border infrastructures;
- to eliminate smuggling of goods when imported, exported or transited.

In the area of regional development and environment protection:

- to implement regional development programmes chief objective of them being creation of optimal displacement of production factors and social infrastructure on the whole territory of Latvia, a decentralized, balanced development of the territory of the State;
- to achieve essential improvement of quality of the environment in higher risk territories and not to allow its deterioration in other territories.

In the area of social policy:

- to improve the started implementation of social security and insurance principles, i.e. social insurance payments should correspond to contributions and to continue working at the pension reform;
- to provide opportunities for unemployed to get involved in public works, retraining and educating programmes;
- to support and perfect system of education.

3. Integration into the international communities

The government considers the continuation of the integration of Latvia into economic circulation of international communities. To implement this the government has committed to get oriented towards deepening of integration and cooperation in the already existing regional unions and international organizations. It is planned:

- to promote creation of a unified Baltic market: to enter into a free trade agreement between the Baltic States on trading with agricultural products; to conclude a trilateral agreement between the Baltic States on the joint border and customs control, to agree on unification of customs documents and procedures and their reciprocal recognition;
- to enter WTO in 1996/1997;
- to make free trade agreements with countries of the Central Europe (Hungary, Poland, Czech and Slovak Republics, Slovenia) as well as with other associated Member States of the EU (Romania, Bulgaria, Cyprus, Malta) by the end of 1998;
- stabilization of relations with the CIS States, taking into consideration the process of joining WTO by these States.