



EU Balance of Payments for Latvia: Foundations of Success

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From Crisis to Recovery



Impact of the Crisis

Access to financial markets closed

Fall in external demand

21% contraction of GDP, frontloaded adjustment 17% of GDP

Correction of domestic imbalances

Adjustment of the labor market

Internal devaluation

2008

Agreement on the International Loan Programme

Euro target - crisis exit strategy

Return of economic growth in 2010

Fiscal consolidation and structural reforms underpin competitiveness

Target consolidation improve fiscal position

Support from domestic and international community

Credit rating upgrade

2011

Completion of the International Loan Programme

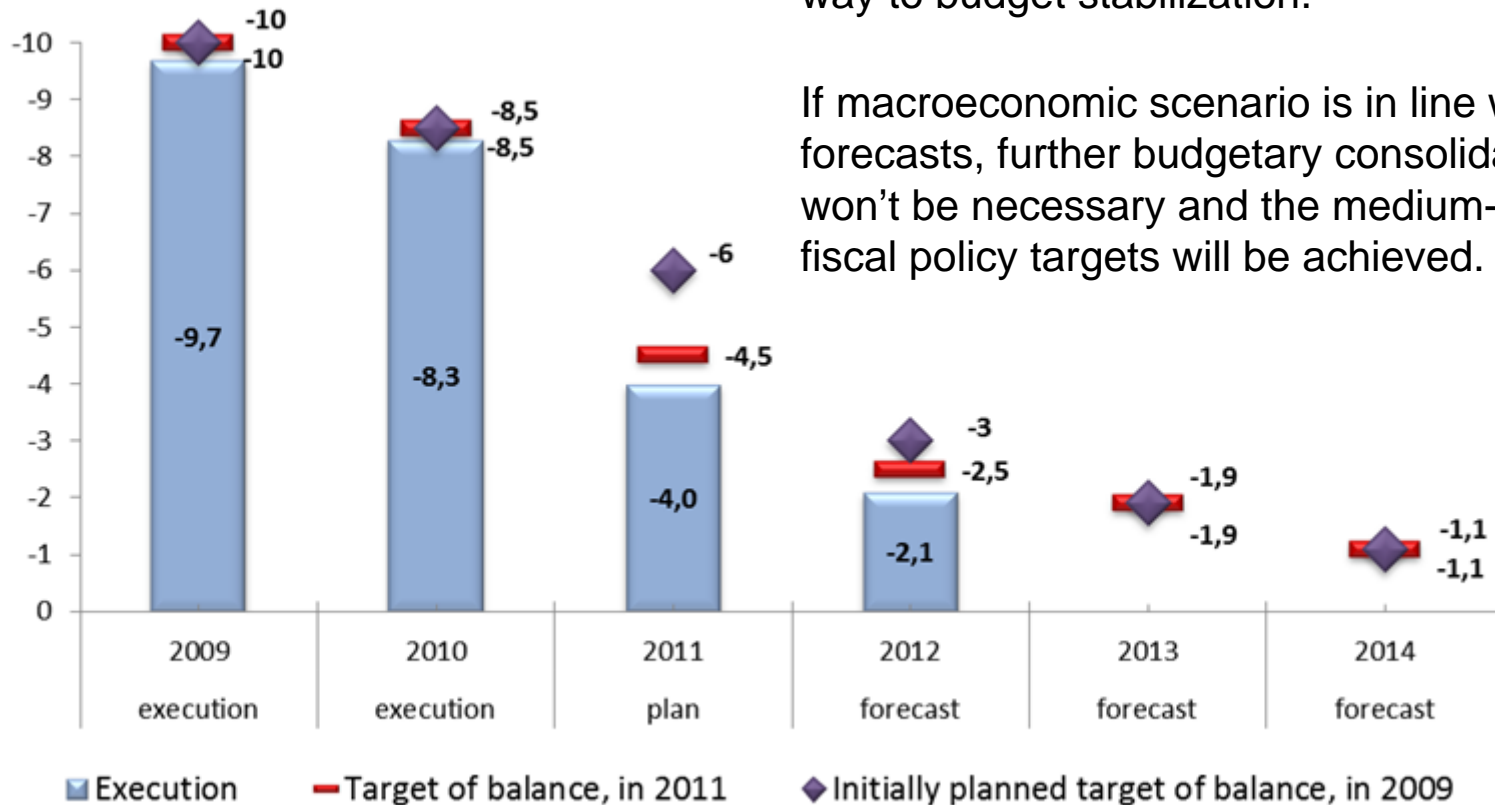
Return to financial markets

Outcome of the Crisis

Fiscal Targets and Results



% of GDP



Latvia achieved great progress on the way to budget stabilization.

If macroeconomic scenario is in line with forecasts, further budgetary consolidation won't be necessary and the medium-term fiscal policy targets will be achieved.

Lessons Learned



Devaluation was
neither necessary
nor inevitable

Early fiscal
adjustment is
preferable

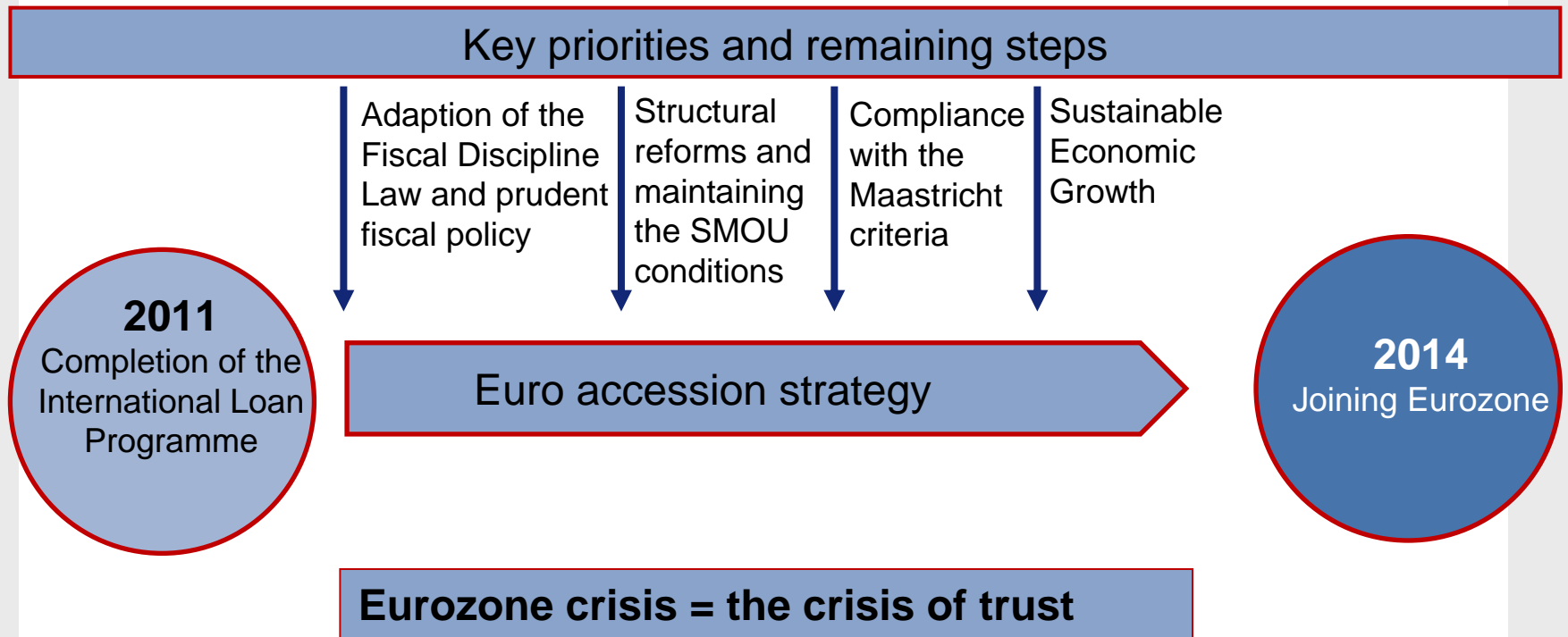
Better to cut public
expenditures than to
raise taxes

International rescue
should be
appropriate and
front-loaded

Unstable coalition
government is not
necessarily an
obstacle for crisis
resolution

Populism doesn't
work in a serious
crisis

On the Way to Euro



Challenges in Future



Sustainable Economic Growth

- Business environment
- Enhanced competitiveness

Structural Reforms

- Social sector
- Education
- Public administration