

Table 1. Latvia: Quantitative Performance Criteria and Structural Benchmarks  
Under the Stand-By Arrangement, 1999-2000 1/

Variable and Periods	Amounts	
	(In millions of lats)	
I. Limits on the general government fiscal deficit 2/		
January 1, 1999-September 30, 1999: Indicative		114
January 1, 1999-December 31, 1999: Performance criterion		154
January 1, 2000-March 31, 2000: Performance criterion		26
January 1, 2000-June 30, 2000: Performance criterion		54
January 1, 2000-September 30, 2000: Indicative		73
January 1, 2000-December 31, 2000: Indicative		81
II. Limits on net domestic assets of the Bank of Latvia 3/		
September 30, 1999: Actual (preliminary)		-28
December 31, 1999: Performance criterion		-24
March 31, 2000: Performance criterion		-7
June 30, 2000: Performance criterion		-10
September 30, 2000: Indicative		-11
December 31, 2000: Indicative		-14
		(In millions of US\$)
III. Floor on convertible net international reserves of the Bank of Latvia 4/		
September 30, 1999: Actual (preliminary)		724
December 31, 1999: Performance criterion		804
March 31, 2000: Performance criterion		815
June 30, 2000: Performance criterion		848
September 30, 2000: Indicative		888
December 31, 2000: Indicative		915
IV. Cumulative limits on contracting and guaranteeing of medium- and Long-term nonconcessional external debt 5/		Of which:
		1-5 year
	<u>Total</u>	<u>maturity</u>
From June 30, 1999 to:		
September 30, 1999: Indicative	150	100
December 31, 1999: Performance criterion	285	200
March 31, 2000: Performance criterion	435	200
June 30, 2000: Performance criterion	565	200
September 30, 2000: Indicative	615	200
December 31, 2000: Indicative	665	200
V. Limits on external government debt of up to one year 6/		
September 30, 1999: Indicative		0
December 31, 1999: Performance criterion		0
March 31, 2000: Performance criterion		0
June 30, 2000: Performance criterion		0
September 30, 2000: Indicative		0
December 31, 2000: Indicative		0

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Variable and Periods	Amounts
	(In millions of lats)
VI. Indicative limits on reserve money	
September 30, 1999: Actual (preliminary)	450
December 31, 1999:	499
March 31, 2000:	523
June 30, 2000:	539
September 30, 2000:	561
December 31, 2000:	575
VII. Indicative limits on net domestic assets of the banking system 3/	
September 30, 1999: Actual (preliminary)	531
December 31, 1999:	564
March 31, 2000:	594
June 30, 2000:	612
September 30, 2000:	645
December 31, 2000:	665
VIII. Indicative floors on central government revenue 7/	
January 1, 1999-September 30, 1999:	894
January 1, 1999-December 31, 1999:	1235
January 1, 2000-March 31, 2000:	290
January 1, 2000-June 30, 2000:	605
January 1, 2000-September 30, 2000:	943
January 1, 2000-December 31, 2000:	1290

IX. Structural benchmarks under the program

**By end-December 1999:**

1. Cabinet of Ministers to approve the method of privatization and timetable for Latvenergo.
2. Enact the Law on Concerns, as described in paragraph 23 of the MEP.
3. Complete functional reviews for two ministries, as described in paragraph 11 of the MEP.

**By end-January 2000:**

1. Implement the prudential regulations on loan classification and loan-loss provisioning.
2. Complete the sale of 44 percent of government-owned shares in the Latvian Shipping Company to a strategic investor.

**By end-March 2000:**

1. Enact legislation providing the basis for the implementation of the second pillar of the pension system.
2. Approve prudential regulations to cover the market risk, in line with the Basle Core Principles of Effective Banking Supervision and the relevant EU Directive.

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3. Sell additional government-owned shares in the Latvian Shipping Company to make the government a minority shareholder.
4. Enact the new Commercial Code, as described in paragraph 24 of the MEP.
5. Amend legislation to eliminate tax benefits to special economic zones and free ports that are inconsistent with EU regulations.

**By end-June 2000:**

1. Enact the Civil Service Law and adopt a new public sector wage scale, as described in paragraph 11 of the MEP.
2. Submit to Parliament the Law on Public Sector Agencies, as described in paragraph 11 of the MEP.
3. Make effective the law reducing agricultural tariffs as described in paragraph 21 of the MEP.
4. Implement the prudential regulations to cover the market risk.
5. Enact a telecommunications law, as described in paragraph 23 of the MEP.

**By end-September 2000 (indicative):**

1. The Bank of Latvia to divest its investment in Rīgas Komerc Banka (RKB).
  2. Sell the remaining government-owned shares in Lattelekom.
  3. Sell a substantial share of Latvenergo (to be specified during first review).
  4. Reduce all tariff rates above EU levels to EU levels or below, to become effective January 1, 2001.
  5. Submit to Parliament the 2001 budget eliminating all earmarked taxes, with the exception of the social tax.
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1/ Definitions of the performance criteria and indicative targets are included in the Annexes to the Memorandum of Economic Policies. In addition to the performance criteria specified in the table, a continuous performance criterion on the non-accumulation of external arrears by the government applies. The performance criteria for end-September and end-December 2000 will be established at the time of the first review.

2/ The limits on the general government fiscal deficit will be adjusted upward (downward) for any excess (shortfall) of disbursements of foreign project financing from programmed levels, and downward by the amount by which the central government revenue exceeds the indicative targets mentioned under VIII (see Annex I).

3/ The limits will be adjusted upward (downward) for any shortfall (excess) of disbursements of foreign balance of payments assistance from programmed levels (see Annex II).

4/ The floors will be adjusted downward (upward) for any shortfall (excess) in disbursements of foreign balance of payments assistance from programmed levels (see Annex III).

5/ Applies to the government, the Bank of Latvia, or any other agencies acting on behalf of the government.

6/ Excluding normal import-related trade credits.

7/ Includes all central government revenues from the basic and social budgets, excluding fee and service revenue that can be spent by ministries without assignation (see Annex I).

**PERFORMANCE CRITERIA ON GENERAL GOVERNMENT FISCAL DEFICIT AND  
INDICATIVE TARGETS ON CENTRAL GOVERNMENT REVENUE**

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Limits on the General Government Fiscal Deficit

(In millions of lats)

January 1, 1999–September 30, 1999 (indicative)	114
January 1, 1999–December 31, 1999	154
January 1, 2000–March 31, 2000	26
January 1, 2000–June 30, 2000	54

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Indicative Targets on Central Government Revenue

(In millions of lats)

January 1, 1999–September 30, 1999	894
January 1, 1999–December 31, 1999	1235
January 1, 2000–March 31, 2000	290
January 1, 2000–June 30, 2000	605

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The general government is defined to include the central government basic and special funds and the local governments basic and special funds, including the privatization funds. The general government fiscal deficit is defined as the increase in net claims on the general government of domestic and foreign banks, plus the net increase in all other claims on the general government of domestic and foreign financial and nonfinancial institutions or households, plus the net privatization receipts (revenue minus expenditure) of the central government privatization fund.

The net claims of domestic and foreign banks, including the Bank of Latvia, on the general government are defined as all claims of these banks on the general government, less all deposits of the general government with these banks. The claims of the banking system on the general government include: bank loans to the general government; securities issued by the general government held by banks; and overdrafts on the current accounts of the general government with banks. Deposits of the general government with banks include domestic or foreign currency deposits with banks.

Government expenditure includes (as net lending) the on-lending by the government of funds received from international organizations. It is intended that such funds be used for the financing of the Public Investment Program (PIP). To the extent that foreign project financing exceeds (falls short) programmed amounts, the limit on the fiscal deficit shall be adjusted upward (downward) by these excess amounts. The programmed amounts are as follows: January 1–September 30, 1999, LVL 12 million; January 1–December 31, 1999, LVL 18 million; January 1–March 31, 2000, LVL 2 million; and January 1–June 30, 2000, LVL 7 million.

For the calculation of the indicative target on central government revenue, the central government shall be defined as the basic budget plus the special budgets. Revenue as defined for these purposes excludes the nonbudgeted (self-earned) revenues of individual ministries. The revenue floor is calculated as follows:

Total general government tax revenue  
- (minus) local government tax revenue (comprising personal income tax revenues allocated to local governments and real estate and property taxes collected by local government)  
+ (plus) other non-tax revenue of the central government basic and special budgets (excluding nonbudgeted revenue)  
- (minus) EU grants to central government basic and special budgets.

It is assumed that the railway fund is included in the central government special budgets.

The limits on the general government fiscal deficit will be adjusted downward by the extent to which the central government revenue exceeds the respective indicative targets.

Monthly data on net claims of the domestic banking system on the general government are taken from the balance sheets of the Bank of Latvia and other banks. The Ministry of Finance shall provide information on, and confirm the amounts of general government deposits held abroad, disbursements of foreign loans to the general government, net sales of treasury bills and other securities, borrowing from the nonbank sector, gross receipts and expenditures of the central government privatization fund, net lending operations of the general government, expenditures under the PIP and any other data regarding the fiscal balance.

**NET DOMESTIC ASSETS OF THE BANK OF LATVIA  
AND THE BANKING SYSTEM**

Net domestic assets of the Bank of Latvia are defined as the difference between: (i) reserve money (issuance of lats plus deposits of commercial banks with the Bank of Latvia (including obligatory reserves)); and (ii) the Bank of Latvia's net international reserves (as defined in Annex III to this memorandum). Both (i) and (ii) will be expressed in lats. Net domestic assets of the Bank of Latvia would thus include: net credit to the general government; credit to commercial banks; and other net assets.

The foreign currency-denominated components of the balance sheet of the Bank of Latvia will be converted into lats at the official exchange rate of the lats to the U.S. dollar prevailing at the end of the respective quarter. The prevailing cross exchange rates will be used to convert items denominated in currencies other than the U.S. dollar. Balance of payments assistance accruing to the government will be converted into lats at the prevailing official exchange rate at the time the loan is disbursed and recorded as a government deposit in the balance sheet of the Bank of Latvia.

The ceilings on net domestic assets are established on the basis of an assumption of disbursements in balance of payments assistance of US\$ 75 million in the fourth quarter of 1999, US\$ 40 million in the first quarter of 2000, and US\$ 45 million in the second quarter of 2000. The net domestic assets ceilings (both at the Bank of Latvia and banking system levels) will be adjusted upward (downward) for any shortfall (excess) in disbursements from foreign creditors of balance of payments assistance relative to the programmed levels. The limits indicated in the table below are stock numbers for the respective date and will be monitored monthly from the balance sheet of the Bank of Latvia.

Net Domestic Assets of the Bank of Latvia

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	(In millions of lats)
Ceiling for September 30, 1999 (actual preliminary)	-28
Ceiling for December 31, 1999	-24
Ceiling for March 31, 2000	- 7
Ceiling for June 30, 2000	-10

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Net domestic assets of the banking system are defined as the difference between the liabilities of the banking system to the nonbank public (M2X) and net foreign assets of the banking system. Net foreign assets will be converted into lats at official prevailing exchange rate at the end of the respective quarter. Net foreign assets of the banking system are the sum of all gross claims on nonresidents, *less* liabilities to nonresidents. Thus, net domestic assets of the banking system include: net credit to the general government; gross credit to the nongovernment sector; and other net assets.

The indicative limits shown in the table below are stock numbers and will be monitored monthly from the consolidated balance sheets of the banking system.

### Net Domestic Assets of the Banking System

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	(In millions of lats)
Ceiling for September 30, 1999 (actual preliminary)	531
Ceiling for December 31, 1999	564
Ceiling for March 31, 2000	594
Ceiling for June 30, 2000	612

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### TARGET FOR THE NET INTERNATIONAL RESERVES OF THE BANK OF LATVIA

Net international reserves of the Bank of Latvia consist of gross international reserves *minus* foreign liabilities in all currencies, both expressed in U.S. dollars.

For purposes of the program, gross international reserves will comprise all liquid foreign assets of the Bank of Latvia which are readily available, including monetary gold, holdings of SDRs, any reserve position in the Fund, holdings of foreign exchange, and any deposits with nonresident financial institutions. For purposes of the program, foreign liabilities will be defined as use of Fund credit, and currency liabilities of the Bank of Latvia.

For the entire period of the program the exchange rates of the SDR, and currencies vis-à-vis the U.S. dollar, will be those prevailing at the end of each quarter.

The performance criteria on the floor for net international reserves of the Bank of Latvia are specified below, and will be monitored from information provided monthly by the Bank of Latvia. The floor on net international reserves is established on the basis of an assumption of disbursements in balance of payments assistance of US\$ 75 million in the fourth quarter of 1999, US\$ 40 million in the first quarter of 2000, and US\$ 45 million in the second quarter of 2000. The net international reserves floor will be adjusted downward (upward) for any shortfall (excess) in disbursements from foreign creditors of balance of payments assistance relative to the programmed levels.

#### Net International Reserves of the Bank of Latvia

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Minimum

(In millions of U.S. dollars)

Floor on September 30, 1999 (actual preliminary)	724
Floor on December 31, 1999	804
Floor on March 31, 2000	815
Floor on June 30, 2000	848

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**EXTERNAL DEBT**

Cumulative limits on the contracting and guaranteeing of nonconcessional external debt 1/	Maximum Limits		
	0-1 year Maturity 2/	Medium- and long-term	of which: 1-5year maturity
(In millions of U.S. dollars)			
From June 30, 1999 to:			
September 30 1999 (indicative)	0	150	100
December 31, 1999	0	285	200
March 31, 2000	0	435	200
June 30, 2000	0	565	200

1/ Concessional borrowing refers to loans with a grant element of at least 35 percent discounted on the basis of the OECD Commercial Reference Interest Rates (CIRRs).

2/ Excluding normal import-related trade credits.

External debt limits apply to external debt of original maturities of up to and including one year and to nonconcessional medium- and long-term external debt of original maturities of more than one year that are contracted or guaranteed after June 30, 1999 by the government, the Bank of Latvia or any other agencies on behalf of the government, with sub-limits for such debt of maturities of more than one year up to and including five years. The stock of medium- and long-term debt was US\$ 883 million as of June 30, 1999. The definition of the government is the same as in Annex I. For the purpose of measuring the performance criteria on short-term (0-1 year maturity) external debt, the outstanding stock of this debt, which excludes normal import-related trade credits, was zero at June 30, 1999. Excluded from the limits are use of Fund resources; but other balance of payments support of maturity longer than one year would be covered by these limits, including loans from official creditors and foreign banks. Contracted loans shall be valued in the currency of transactions and converted into U.S. dollars at the exchange rate prevailing at the time the loan is contracted.

Compliance with the limits shall be verified at quarterly intervals for the dates shown above. Information on the contracting and guaranteeing of external debt, as well as the outstanding stock of government debt with maturities of up to and including one year, will be reported by the Ministry of Finance to Fund staff.

In addition to the performance criteria specified above, a continuous performance criterion respecting the nonaccumulation of external arrears by the government applies.