

# Absorbing EU funds in Latvia

Imants Tiesnieks

Counsellor, Permanent Representation of  
Latvia to the EU

September 7, 2006

# The Content

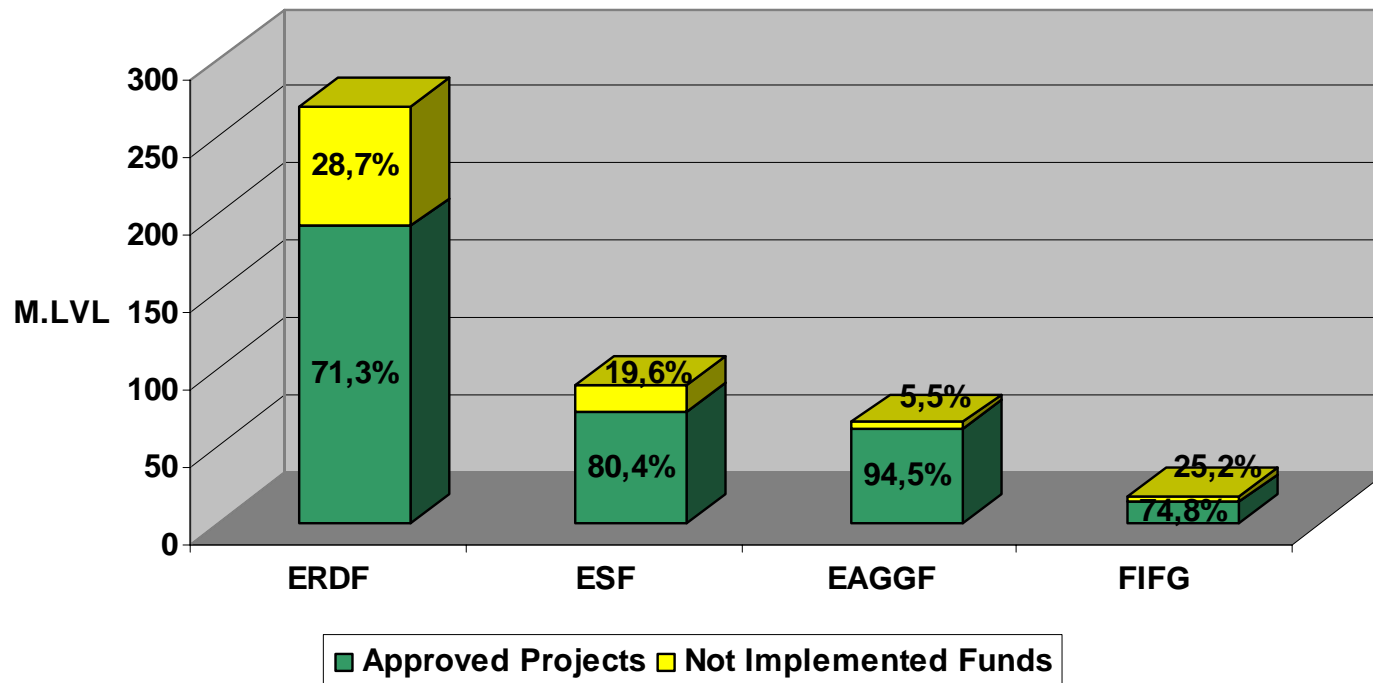


- The Implementation of the EU funds in 2000-2006
- The Economic outlook and risks
- Issues to be studied
- Operational Programmes for 2007-2013

# Implementation of SF (on 30.06.2006)



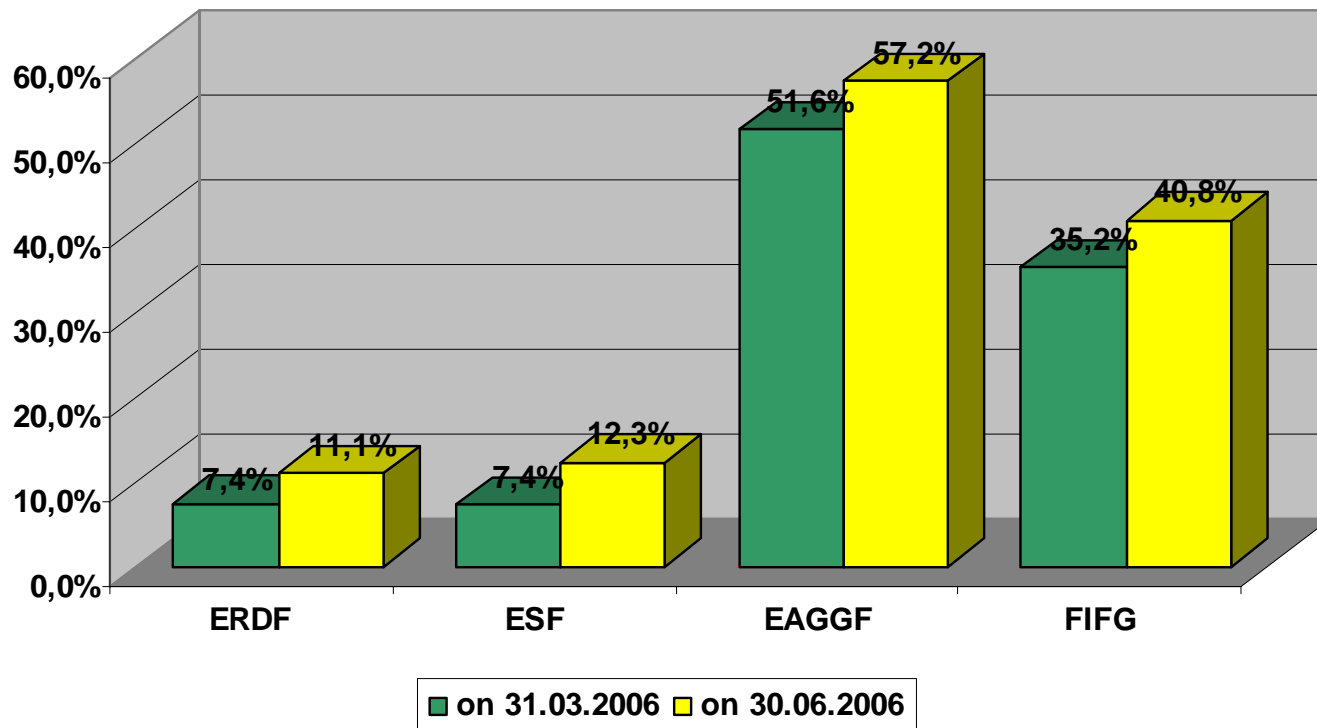
1 EUR=0,7028 LVL



# Implementation of SF (on 30.06.2006)



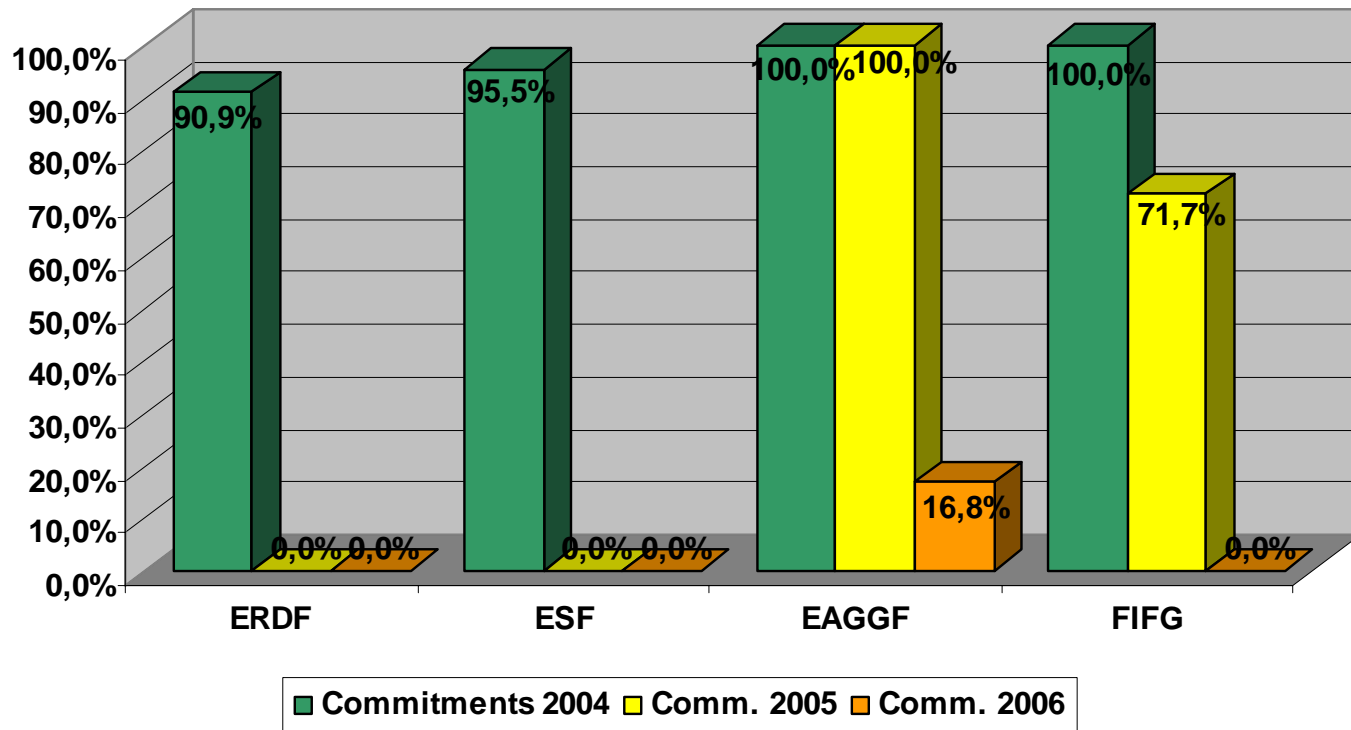
SF Paid to the Beneficiaries of the Total Funding (%)



# Implementation of SF (01.01.2004 – 30.06.2006. *Advance payments and Amount declared to the EC*



Implementation of SF in respect to n+2 (%)





## Some remarks:

- In Latvia, the administrative organisation of SF is centralised and simple (1 MA and SPD with 5 general priorities).

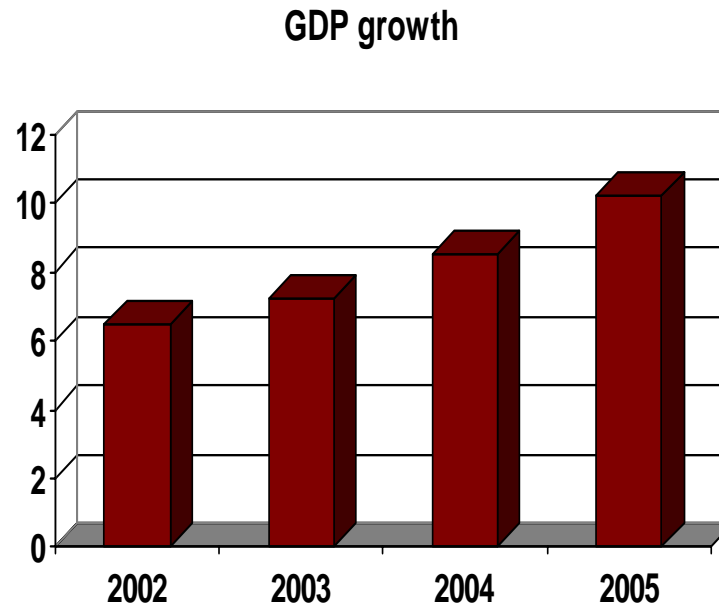
This approach will be continued.

- Better results delivered by the institutions with an early experience of pre-accession measures.

# Economic Environment



- High economic growth – GDP grew by 10.2% in real terms in 2005

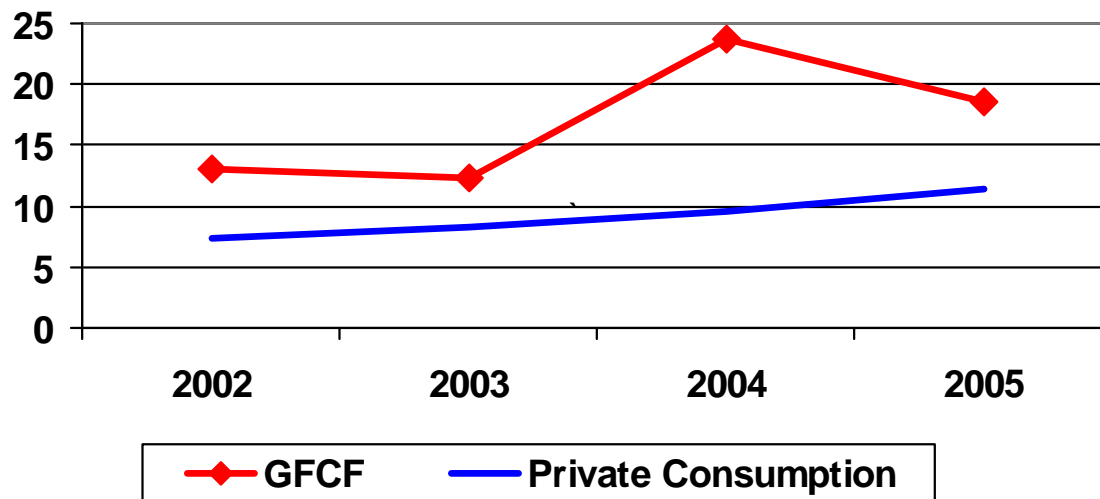


# Economic Environment



- Growing domestic demand – private consumption, domestic and foreign investments

**Investment and Consumption growth**







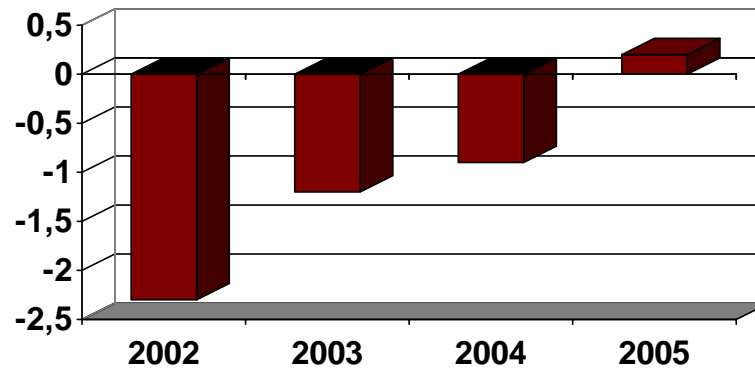
- **Structural changes after EU accession**
  - Switch to euro peg from SDR and participation in ERM II
  - Common agriculture policy
  - Indirect tax harmonisation
  - Declining differences in price levels
  - Increased access to the structural funds
  - Substantially increased labour mobility (emigration)
  - Common rules on trade with third countries
  - etc.

# Economic Environment

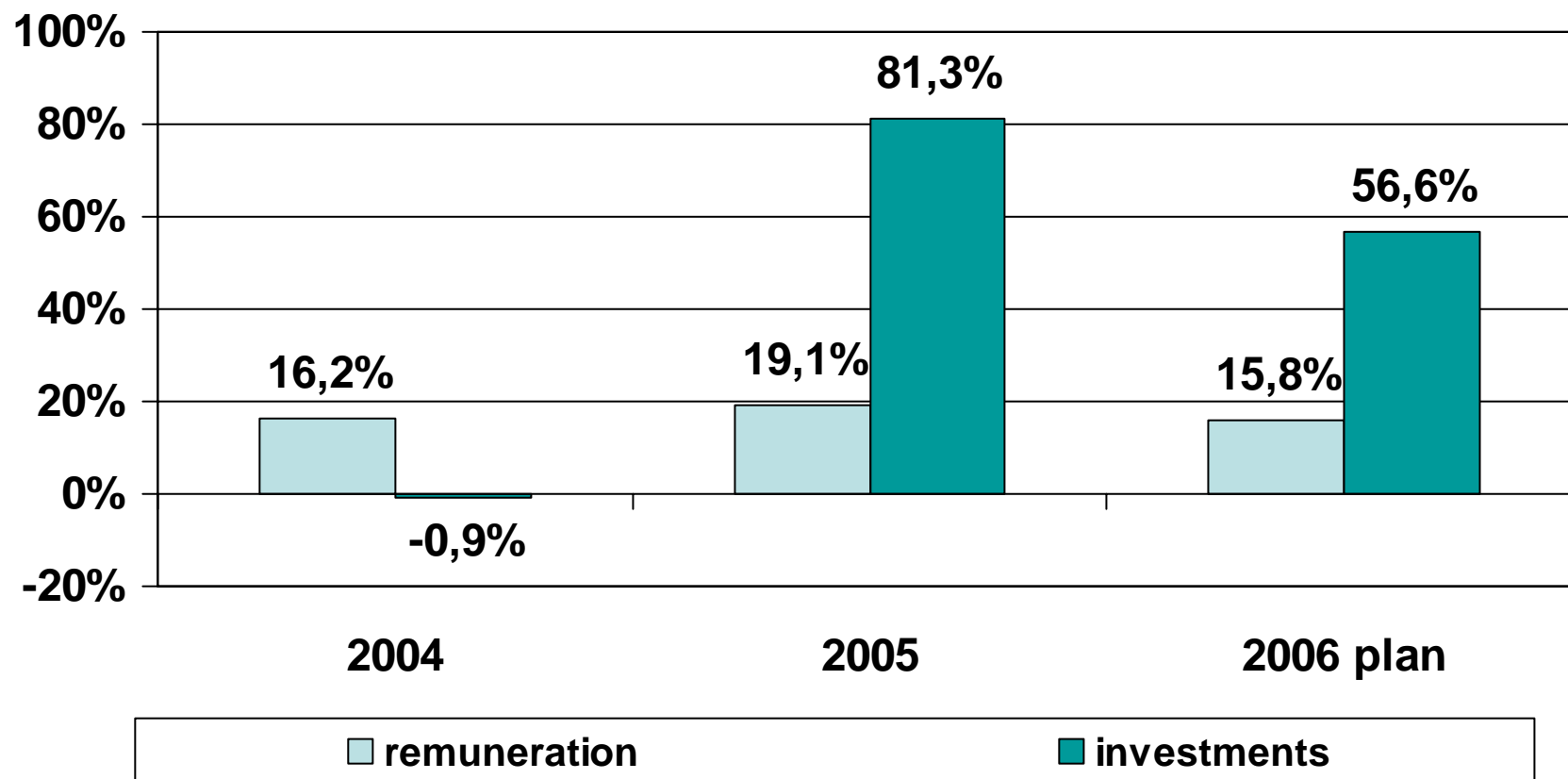


- Fiscal policy with budget surplus of 0.2% of GDP in 2005 (from deficit of -0.9% of GDP in 2004) could be characterized at least as neutral

**Budget balance, % of GDP**



# General government consolidated budget expenditure growth y-o-y, %

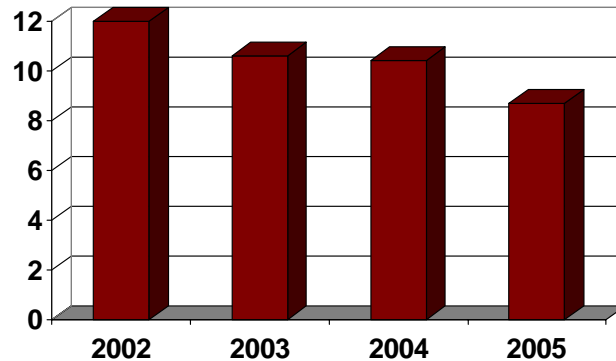


# Labour market

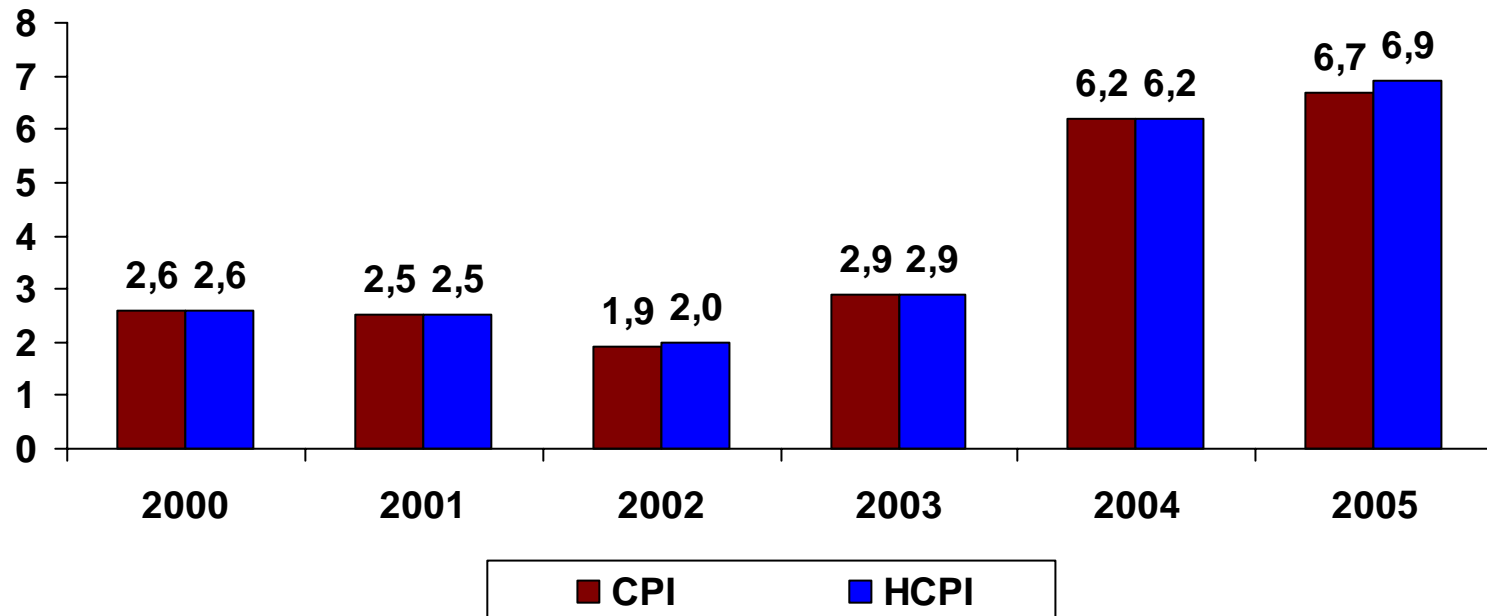


- Increased demand for labour – higher participation rates, lower unemployment
- Wage growth increases, but from the medium-term perspective it is in line with productivity growth

Unemployment rate



# Inflation





- High credit growth and optimistic borrowers
- Tight monetary policy:
  - Increase of the reserve ratio for commercial banks
    - The increase implies greater costs involved in attracting deposits and other short-term capital for banks, thus affecting their lending capacities
    - In order to reduce amount of resources of banks for lending the Bank of Latvia raised the compulsory reserve ratio from 4% to 6% in August 24 of 2005 from 6% to 8% in December 24 of 2005.
    - As of May 2004 this year the compulsory reserve base is expanded and is applied also to bank liabilities with a set term over two years.

# Evaluating the impact of the SF Funds



- The funds for 2007-2013 creates public interest on the effects of the SF funds on the economy, particularly, discussing the risks,
- Data on the funds absorbed become available,
- Methods of impact modelling are being considered,
- Draft OP's are prepared, based on long term priorities,
- Limited possibilities of an adjustment in spending in the short term.