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Recommendation for a
COUNCIL RECOMMENDATION
on the National Reform Programme 2011 of Latvia
and delivering a Council opinion
on the updated Convergence Programme of Latvia, 2011-2014
{SEC(2011) 722 final}

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COUNCIL RECOMMENDATION

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, and in particular Article 9(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

- (1) On 20 January 2009, the Council of the European Union (EU) adopted a Decision (2009/290) to make available to Latvia medium-term financial assistance for a period of three years under the provisions of Article 143 of the Treaty. The accompanying Memorandum of Understanding signed on 28 January 2009 and its successive supplements lay down the economic policy conditions on the basis of which the financial assistance is disbursed. The Council decision was amended on 13 July 2009. The last supplement to the Memorandum of Understanding was signed in June 2011.
- (2) On 26 March 2010, the European Council agreed to the European Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.
- (3) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on Guidelines for the employment policies of the

Member States¹, which together form the “integrated guidelines”. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

- (4) On 12 January 2011, the Commission adopted the first Annual Growth Survey, marking the start of a new cycle of economic governance in the EU and the first European semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy.
- (5) On 25 March 2011, the European Council endorsed the priorities for fiscal consolidation and structural reform (in line with the Council’s conclusions of 15 February and 7 March 2011 and further to the Commission’s Annual Growth Survey). It underscored the need to give priority to restoring sound budgets and fiscal sustainability, reducing unemployment through labour market reforms and making new efforts to enhance growth. It requested Member States to translate these priorities into concrete measures to be included in their Stability or Convergence Programmes and National Reform Programmes.
- (6) On 25 March 2011, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments to be included in their Stability or Convergence Programmes and their National Reform Programmes. Specific commitments and actions for 2011 are not explicitly communicated in the Latvian Convergence Programme and the National Reform Programme but are expected to be submitted to the European Council.
- (7) On 29 April 2011, Latvia submitted its 2011 Convergence Programme update covering the period 2011-2014 and its 2011 National Reform Programme. In order to take account of the interlinkages, the two programmes have been assessed at the same time.
- (8) The Latvian economy grew faster than any other EU Member State from 2000 to 2007, reflecting convergence prospects, foreign financial inflows and very strong consumption demand. However, at least partly as a result of an expansionary macroeconomic policy, the economy overheated. Sizable imbalances accumulated, illustrated by a current account deficit of 22.3% of GDP in 2007 and 13.1% in 2008; consequently, during 2008-2009, the economy experienced the steepest contraction in the EU. During this period real GDP contracted by 25% from peak to trough as a collapse in domestic demand was amplified by a slump in global trade. The Latvian employment rate, previously amongst the highest in the EU (75.8% in 2008), fell by over 10 percentage points and the unemployment rate of over 18% is now one of the highest in the EU. The general government deficit was 9.7% in 2009 but as a result of fiscal consolidation measures, decreased to 7.7% in 2010. This outcome includes sizeable financial sector stabilisation measures that amounted to 1.1% of GDP in 2009 and 2.3% of GDP in 2010.
- (9) Based on the assessment of the updated Convergence Programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible. The

¹ Maintained for 2011 by Council Decision 2011/308/EU of 19 May 2011.

medium-term budgetary strategy of the programme is to bring the headline general government deficit below the 3% reference value by the deadline foreseen in the Council Recommendation of 7 July 2009. Taking into account the measures implemented since the issuance of the recommendation to correct the excessive deficit situation and additional consolidation implied in the updated Convergence Programme, the planned fiscal effort for 2011-2012 is in line with the required adjustment. In view of the starting point, the programme does not foresee the achievement of the medium-term objective (MTO) by the end of the programme period, while the planned fiscal effort to reach the MTO after the correction of the excessive deficit situation could be accelerated in particular in 2013. The fiscal consolidation path envisaged in the programme is mostly expenditure based. The budgetary targets are subject to downside risks, as the programme does not provide full information on measures to underpin the achievement of the set targets. These measures are expected to be spelled out in the forthcoming budgets. Reducing the primary deficit over the medium term, as foreseen in the programme, would help reduce the risks to the sustainability of public finances.

- (10) The Commission has assessed the Convergence Programme and National Reform Programme². It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Latvia but also of their conformity with EU rules and guidance, given the need to strengthen the overall economic governance of the European Union by providing EU level input into future national decisions. In this context, the Commission stresses the urgency of implementing the planned measures to comply with Council Decision (2009/290/EC).

HEREBY RECOMMENDS that Latvia should :

Implement the measures as laid down in the Council Decision 2009/290/EC, as amended by Council Decision 2009/592/EC, and further specified in the Memorandum of Understanding of 20 January 2009 and its subsequent supplements [in particular the last supplement of June 2011].

Done at Brussels,

*For the Council
The President*

² See SEC(2011) 722.