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One for all and all for one

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By TBT staff

RIGA - The IMF was in Riga in February to consider the release of 200 million euros in the latest tranche (of which it approved) in the 27-month bailout loan package totaling 7.5 billion euros. The next part of the package, 500 million euros to be extended from the EU, is expected to be released later this month. So far, Latvia has received 3.5 billion euros of the total.

Teams of lenders regularly visit Riga to inspect the books, to check on the progress in reducing the budget deficit, and to see that a restructuring of the government and its priorities is being carried out, under terms of the loan.

Latvia was in desperate shape when the second largest bank, Parex, collapsed, in the midst of the global financial meltdown in late 2008, forcing a group of international lenders to come to its rescue with the loan package. In addition to the IMF and the EU, other participants include the World Bank, the Nordic countries, Poland, the Czech Republic, Estonia and the EBRD.

Despite the haggling and the politicking going on in the government over the difficult decisions in cutting the budget deficit through spending cuts and tax increases - and relying on the so-called ‘internal devaluation’ to readjust the country’s relative prices and international competitiveness - the government, and the Latvian people, have pretty much held together to work through very painful times in the hope that there will be light at the end of the tunnel.

It’s in times of crisis that those who pull together have the best chance of succeeding. Latvia since independence hasn’t been a paragon of people pulling together to achieve a common goal, except for social or cultural events like the Song Festivals and Eurovision, or the occasional serious matters like joining the EU and NATO.

Latvians seem more used to seeing a lack of collective effort, and more of individualistic self-interested work like that of the mini-oligarchs, pushing their own interests, often at the expense of the state and their fellow citizens.

We ran a story in the Feb. 11 issue discussing the Czech Republic’s reported reluctance to carry out its part of the deal in its participation in the lending group, specifically that it has yet to release an agreed 100 million euro loan from last year to Latvia, amid concerns that “Czech Finance Minister Eduard Janota had expressed concerns as to whether the 200 million euros allocated to Latvia, as a loan, would ever be paid back.”

In response to the article, the Polish Finance Ministry told TBT:

“The manifest success of the Latvian program, in spite of everything that people were saying in America about it not being possible for Latvia to succeed in sustaining its exchange rate and the impossibility of Latvia carrying out an adjustment with the peg it has to the euro, is also a great success for Europe and strong proof of the EU’s ability to deal with problems.”

The Baltic Times asked the Czech Ambassador in Riga about these statements, and on what his country’s position really is. Specifically, we asked about the status of any final decision on the release of the money; what does the Czech finance minister disapprove of by not releasing the loans; what is the parliament’s disagreement with how the Latvian government spends the money; why the parliament doesn’t believe Latvia will repay the loans.

The ambassador's response:

Dear TBT,
As I feel that Czech financial assistance to Latvia is a complex (and not always well understood) issue, I am sending to you the following explanation. I am answering your questions.

First, I must rectify your information about the whole matter.
There was no recent debate in the true sense of the word, in the Czech Parliament, which would cast doubt upon the intention to disburse the loan of 200 million euros to Latvia. The loan, as a part of the international bailout, was accepted by the Czech Parliament and agreed on by the Czech government already at the end of 2008. It was crucial that the program of the financial help to Latvia (based upon the release of the state bonds for this purpose) was accepted by both major political parties in the Parliament without any reservations. The only parliamentary party which in the following months voiced its doubts about the loan were the Communists, in the form of two interpellations to the Minister of Finance. Both interpellations, in December 2009, and February 2010, were made by the same deputy. The content of the second interpellation, which attacked the credibility of Latvia to repay its debts, leaked into one of the leading Latvian business newspapers where it was presented in a strongly biased and slanted way.

Unfortunately, one of the impacts of this situation was the absolutely wrong interpretation of the whole matter, by some media outlets, as a general disapproval of the loan by the Czech parliament. This doesn't correspond to reality. From discussions with one of the Czech parliamentary delegations visiting Latvia recently, I am glad to infer that the very idea of financial help to Latvia, based upon the principle of solidarity, always enjoyed an overwhelming majority in the Czech parliament, in spite of some different views of its technical solution.

Frankly speaking, there were several objective reasons for the misunderstanding. From the very beginning, the Czechs were trying to put through the conception of implementation (at least partially) of a loan for the support of small and medium businesses. One must not forget that this approach was seen by some of our financial experts as an efficient way to secure a concrete, visible effect of the loan. In addition, this occurred during a time when the credibility of Latvia to use it economically, and in a sustainable way, could seem to many as something that one could not take for granted. It was left up to the development in the following months to find out whether these misgivings were substantiated or not.

But as it turned out, during the first round of negotiations between the Czech and Latvian Finance Ministers, the envisaged way by the Czechs on how the money would be used was difficult for the Latvian side to accept, not only for some practical reasons, but first of all, because it presented a major departure from the main official goal of the financial bailout, i.e. the direct consolidation of the State Budget. Czech negotiators tasked with the preparation of the loan agreement were confronted with the fact that the whole process was under strict criteria from the IMF and EC, having their respective priorities, targeted mainly at the stabilization of the Latvian financial sector.

As you can imagine, any negotiations on an international loan is a long process, not only from the legalistic point of view but also in terms of leveling mutual differences and finding a common ground of understanding. That's why the preparation of the final agreement takes such a long time. As a consequence, the original goal, to release the first tranche of 100 million euros before the end of last year, couldn't be realized, but the release of the same amount planned for 2010 seems to be possible in the first quarter of this year. Nevertheless, the 'missed' first tranche can be postponed, with the conceivability of an easy passage of this change through the Czech parliament.

Returning back to the February interpellation in the Czech parliament, I must say that the whole misunderstanding around its content took place in the context of a completely new situation, when Czech negotiators already subscribed to standard loan guarantees in accordance with the specific Latvian situation and international law. The arguments used in the interpellation were thus simply already out of question and suggested a misleading view of the actual Czech position. I must stress again that this position was formed not only by a matter-of-fact account of what can be achieved, but above all by the latest appraisals of Latvia's competence to cope with the crisis according to the agreed economic and political criteria stated by the IMF and EC. The trust in Latvia's will and competence to overcome the current crisis situation, and Latvia's enhanced credibility as for any later repayments, contributed significantly to the current Czech position. The words of the Czech Finance Minister E. Janota about the need of some coordination between Czech and Polish creditors in the strengthening of the conditions for repayment are to be seen in this light: as a technically-minded effort to get the loan properly (i.e. realistically) secured, and by no means as a retreat from the goal to have the final agreement as soon as possible.

am personally, firmly convinced that the final agreement on the first tranche of our loan will soon be concluded, and any doubts about our will to do it on a realistic basis will be thus definitely dissipated. The latest communication between the Finance Ministers of Latvia and the Czech Republic corroborate these expectations.

Dr. Tomáš Pštross
Ambassador of the Czech Republic in Latvia
March 1, 2010

Parex bank chief Nils Melngailis has said of the banking industry that "there's quite a lot of support that commercial banks give to each other… [in] how much moral support the banking industry is ready to give Latvia and the Baltics" in these times of crisis.

Latvia finds itself in a jam as much due to the global financial crisis as by its own public and private sector behavior over the past several years. The country's not alone in its problems, as escalating problems in Greece, and elsewhere in Europe, show.

The offer from the Czech Republic, Poland, and the rest of the group for the financial support package for Latvia shows that when the going gets tough, responsible individuals can and do provide leadership, and rise to the top to build a stronger neighborhood.