

LATVIA

Statement by Mr. Jānis Reirs, EBRD Governor for the Republic of Latvia

As EBRD Governor for the Republic of Latvia I like to congratulate the Bank on its 30th anniversary, years that span over an entire generation. During those years, the Bank has grown into one of the leading multilateral institutions worldwide in its primary focus on private sector development. In countries of operations, the Bank has thereby helped to pave the way in their transitions towards more resilient and inclusive economies. I wish to extend my sincere greetings to the President, Madam Odile Renaud-Basso, the Bank's management and its staff, the Board of Directors and fellow Governors.

2020 Operational Results

Latvia endorses the Bank's results achieved in 2020, leading to EUR 11 billion in annual investments relative 411 individual projects – and this despite all the challenges due to the COVID-19. We are aware that the significant drop in green investments from 46% to 29%, and the historically low share of equity at 12%, can be largely attributed to difficulties caused by the pandemic. Overall, we accept the financial performance, applaud the reaffirmed AAA rating, and support the allocation of the net income proposed for 2020.

We appreciate the speedy response by the Bank in launching the “Solidarity Package” that targeted the financing of distressed clients facing liquidity constraints. It was much-needed and expected support: however, prospective clients in countries of operations such as Latvia, with a traditionally small client base, were not benefiting from this package.

Building Back Better Economies

The past year was most challenging for governments across the globe – lockdowns and restrictions, measures to support peoples and economies, access to and distribution of vaccines, and above all – rising public criticism. This has caused many governments and their officials to look for new and uncharted ways. All this has been a test of endurance.

COVID-19 has had a significant impact on the economies in Europe and elsewhere. Indications show that this pandemic may become more of a chronic challenge – entailing virus mutations and constraints in vaccine supplies. Are we prepared to manage these risks, containing the virus and the effects on economies it has caused?

Less advanced countries of operations affected by the pandemic should, we feel, be prioritized in receiving the Bank's support. Yet again, the Bank must not overlook recipient countries that are comparatively more advanced while struggling with the effects of the crisis. In this regard, the strategic direction of “Building Back Better” –

transiting to a low carbon economy, alleviating inequality of opportunity, accelerating the digital transition – apply equally to all countries of operations, and many important challenges such as the development of capital markets remain.

One of the key challenges and priorities for policymakers today and the years ahead will be fair and equitable taxation - a sustainable source to finance public goods and services. We, therefore, encourage the Bank to continue striving for the highest governance standards regarding domiciliation and tax avoidance by preventing operations where the client's structure points to harmful tax practices in a country of operations.

EBRD Climate Ambition

Latvia supports the resolution on “EBRD Climate Ambition” including the Bank’s objective of accelerating the alignment of investments and operations with the Paris Agreement by the end of 2022. Increasing finances for renewable energy programs while – at the same time – limiting support for fossil fuels in order to accelerate the transition to a low carbon environment, paying due consideration to the specific country contexts, is the right way forward. The energy policy is a complicated trilemma of energy security, affordability, and climate issues. The challenges in these dimensions are different region-by-region and country-by-country, and this should be well reflected in the operationalization of the new policy approach. We encourage the Bank to pay particular attention to the regional cooperation in the climate-related projects, promoting the development of basic infrastructure needed for unlocking the green potential, as well as to the policy dialogue in the area of regulation for fair competition. The close coordination with other multilateral development banks, as well as other institutions and partners, towards a carbon transition and climate-resilient development cannot be underlined enough.

Preparatory Work on a Possible Limited and Incremental Expansion to Sub-Saharan Africa and Iraq

Latvia principally supports the resolution on “Preparatory Work for an Update on the EBRD’s Possible Limited and Incremental Expansion to Sub-Saharan Africa and Iraq – Governors’ Direction”. We underscore, though, that this preparatory work does not pre-define any elements for the decision by EBRD’s Governors in the 2022 Annual Meeting on a future expansion.

In these efforts, it is important to adhere to the agreed principle by the shareholders that any potential expansion should not negatively affect EBRD’s engagement in the current countries of operations. Moreover, this process must not be linked to any possible graduation involving the current countries of operation.

It is important to underline, regarding potentially new countries of operation, that due regard has to be paid to the basic principles laid down in Article 1 of the “Agreement Establishing EBRD”, meaning the commitment and application of those countries regarding multiparty democracy, pluralism and market economy.

The unique business model of the Bank compares favourably relative other similar programs when it comes to private sector development in new markets. However, in certain countries the Bank’s activities should complement rather than be in competition with the efforts of other multilateral development banks. We encourage the Bank’s management to closely follow the guidance put forward by the “Council Conclusions on Enhancing the European Financial Architecture for Development”.

Latvia and the EBRD

The economic downturn caused by COVID-19 has again amplified the importance of support by international financial institutions to countries in need. In 2020, to our regret, the level of EBRD’s investment in Latvia was one of the lowest in recent years, and the lowest in the whole of Central Europe and the Baltic region. As the response of the Bank to the crisis was primarily focused on already existing clients, and the Bank having a small client base in Latvia, the result was a lack of concrete support to our country. Addressing the negative impact of COVID-19 on Latvia’s economy, the Government of Latvia, therefore, was forced to significantly increase its borrowings in international markets, thereby raising the public debt, financing various public and private sector programs through the national budget.

Forward looking, we anticipate the finalization of EBRD’s “Country Strategy for Latvia 2021-2025” later this year. In this connection, I want to thank the Bank’s country team for constructive work laid down during the preparation of this strategy. We feel that a continuous dialogue with Latvian authorities and stakeholders has resulted in a well-balanced approach, which will lay the base for future investment by the Bank in Latvia.