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2002
REGULAR REPORT
ON

LATVIA'S

PROGRESS TOWARDS ACCESSION

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2002

REGULAR REPORT

ON

Latvia's

PROGRESS TOWARDS ACCESSION

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Introduction

Preface

In Agenda 2000, the Commission said it would report regularly to the European Council on progress made by each of the candidate countries of Central and Eastern Europe with preparations for membership, and that it would submit its first Report at the end of 1998.

The Luxembourg European Council decided that:

"From the end of 1998, the Commission will make Regular Reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and Eastern European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis* [...] The Commission's reports will serve as the basis for taking, in the Council context, the decisions on the conduct of the accession negotiations or their extension to other applicants. In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating applicant States' ability to meet the economic criteria and fulfil the obligations deriving from accession."

On this basis, the Commission presented a first series of Regular Reports in October 1998, a second in October 1999, a third in November 2000, and a fourth in November 2001.

In its 2001 Enlargement Strategy Paper, which accompanied the 2001 Regular Reports, the Commission indicated that, given the pace of negotiations and the progress made so far, the Commission should be able to make recommendations on those candidate countries ready for accession on the basis of its 2002 Regular Reports. At its meeting in Seville in June 2002, the European Council concluded that "in order to enable the European Council to be held in the coming autumn to decide which will be the candidate countries with which negotiations can be concluded at the end of 2002, [...] the Commission will have to draft appropriate recommendations in the light of the Regular Reports." The Commission has prepared this fifth series of Regular Reports with a view to the Brussels European Council in autumn 2002.

. At its meeting in Seville in June 2002, the European Council concluded that "in order to enable the European Council to be held in the coming autumn to decide which will

The structure followed for this Regular Report is largely the same as that used for the 2000 and 2001 Regular Reports. In line with previous Regular Reports, the present Report:

- describes the relations between Latvia and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Latvia's situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);
- addresses the question of Latvia's capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. In this part, special attention is paid to nuclear safety standards, which were emphasised by the Cologne and Helsinki European Councils. This part includes not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*. The European Council stressed the importance of this latter aspect at its meeting in Madrid in 1995 and on a number of subsequent occasions, most recently at Seville in June 2002. At Madrid, the European Council stressed that the candidate countries must adjust their administrative structures, so as to create the conditions for the harmonious integration of these States. The Seville European Council also stressed how important it was that candidate countries should continue to make progress with the implementation and effective application of the *acquis*, and added that candidate countries must take all necessary measures to bring their administrative and judicial capacity up to the required level.

This Report takes into consideration progress since the 2001 Regular Report. It covers the period up to 15 September 2002. In some particular cases, however, measures taken after that date are mentioned. It looks at whether planned reforms referred to in the 2001 Regular Report have been carried out, and examines new initiatives. In addition, this Report provides a global assessment of the overall situation for each of the aspects under consideration, setting out for each of them the main steps still to be taken by Latvia in preparing for accession.

Furthermore, in view of the fact that the 2002 Regular Reports will provide the basis on which the Commission will formulate its recommendations as to which countries are ready to conclude negotiations, this Report includes an evaluation of Latvia's track record since the 1997 Opinion. As regards the economic criteria, the report also provides a dynamic, forward-looking evaluation of Latvia's economic performance.

For each of the negotiating chapters, this Report provides a summary evaluation of the extent to which commitments made in the negotiations have been implemented, as well as an overview of transitional arrangements that have been granted. The commitments made by each country reflect the result of the accession negotiations, and, in accordance with the principle of differentiation underlying the negotiation process, may differ between countries. Where negotiating countries have committed themselves to completing specific measures by the time of accession, the Commission assesses the relevant preparatory processes. For chapters on which the accession negotiations continue, and final commitments remain to be defined, an indicative assessment is given of the state of implementation of the commitments that have been made to date.

The Report contains a separate section examining the extent to which Latvia has addressed the Accession Partnership priorities. This section also assesses the progress Latvia has made in implementing the measures set out in the Action Plan for strengthening administrative and judicial capacity that the Commission developed with each negotiating country in the spring of 2002.

As has been the case in previous Reports, "progress" has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures which are in various stages of either preparation or Parliamentary approval have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment of each country in terms of their concrete progress in preparing for accession.

The Report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. The information each of the candidate countries has provided within the framework of the Association Agreement and the negotiations, the National Programmes for the Adoption of the *Acquis* where they are available, as well as the process of developing the Action Plans, and various peer reviews that have taken place to assess candidate countries' administrative capacity in a number of areas, have served as additional sources. Council deliberations and European Parliament reports and resolutions have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the international financial institutions, as well as those of non-governmental organisations.

Relations between the European Union and Latvia

Recent developments under the Europe Agreement, including bilateral trade

Latvia has continued to implement the Europe Agreement and has contributed to the smooth functioning of the various joint institutions.

The fifth meeting of the Association Council and the fifth Association Committee were held in February and June 2002 respectively. The system of sub-committees continues to function as a forum for technical discussion.

Since the Commission's last Regular Report, the Joint Parliamentary Committee, comprising representatives of the Latvian and European Parliaments, met in June 2002. Co-operation with the Committee of the Regions has continued at a working level.

Latvia's trade with the EC has continued to increase, both in absolute terms and in its rate of growth. Latvia's exports to the EC accounted for 61 % (€ 2 billion) of total 2001 exports, while its imports from the EC amounted to 53 % (€ 2.4 billion) of total imports in the same year. In 2001 Latvia's exports to the EC increased by 3 % by comparison with the previous year and imports from the EC increased by 19 %. Latvia's export to the EC is heavily dominated by minerals, machinery and electrical equipment, while its most important imports from the Union are machinery, electrical and transport equipment, and agricultural goods.

As a consequence of the agreement which emerged from the first round of trade negotiations in the agriculture sector (adopted on an autonomous basis, pending the conclusion of an Additional Protocol to the Europe Agreement), approximately 94% of EC agricultural imports from Latvia and 74% of EC agricultural exports to Latvia are duty-free or benefit from preferential reduced duty rates (average trade figures for 1998-2000).

Negotiations on a further round of liberalisation, covering more sensitive sectors, began at the end of 2001 and were concluded in April 2002. The result of this further round, applicable as of July 2002, enhances the existing agricultural trade preferences between the parties and promotes the abolition or reduction of import duties either within tariff quotas or for unlimited amounts, in sectors such as cereals, dairy products, beef and sheep meat. This further agreement also includes a commitment by the parties to eliminate export refunds in certain sectors.

In October 2001, the Association Council took a decision on improvements in the trade with processed agricultural products in Protocol 2 to the Europe Agreement. Both parties agreed on the application of a more favourable trade regime for processed agricultural products. Tariff quotas on export and import of processed agricultural products between Latvia and the EC became effective from December 2001.

With regard to further liberalisation of trade in fish and fisheries products, technical negotiations on reciprocal tariff concessions have been concluded between the European Community and the Republic of Latvia.

In March 2002, in response to protectionist measures taken by the US, which greatly restricted access to their market and created the risk of considerable trade diversion, the EU initiated provisional safeguard measures, with erga omnes effect, on imports of certain steel products. The measures were partly confirmed in September 2002.

The Protocol to the European Agreement on Conformity Assessment and Acceptance of Industrial Products (PECA) and four sector annexes to the Protocol were signed in May 2002 in Brussels. New sectoral legislation on chemicals, cosmetics, medical equipment, explosives, food safety, and other areas was adopted in 2001.

Accession Partnership

A revised Accession Partnership was adopted in January 2002. Its implementation is reviewed in Part D of this report.

Action Plan for reinforcing administrative and judicial capacity

As announced in the Commission's 2001 Enlargement Strategy, in spring 2002 the Commission and Latvia jointly developed an Action Plan to strengthen Latvia's administrative and judicial capacity, on which a common understanding was reached in April. The revised Accession Partnership adopted in January has served as the point of departure for this exercise.

The purpose of this Action Plan is to identify jointly the next steps required for Latvia to achieve an adequate level of administrative and judicial capacity by the time of accession, and ensure that all necessary measures in this regard are taken, providing Latvia with targeted assistance in areas that are essential for the functioning of an enlarged Union. As such, the Action Plan is a key tool for meeting the common objective of the EU and Latvia, i.e. to ensure that Latvia's preparations for accession take place as effectively as possible within the planned timeframe.

The implementation of the Action Plan is reviewed in Part D of this Report.

National Programme for the Adoption of the Acquis

In April 2002 - check with Latvia, Latvia adopted a revised National Programme for the Adoption of the Acquis (NPAA), in which it outlined its strategy for accession including how to achieve the priorities set out in the revised Accession Partnership.

Community Assistance

Three **pre-accession instruments** have been financed by the European Community to assist the applicant countries of Central and Eastern Europe with their pre-accession preparations: the **Phare** programme; **SAPARD**, which provides aid for agricultural and rural development; and **ISPA**, which finances infrastructure projects in the fields of environment and transport. The support provided by these programmes is focused on the Accession Partnership priorities, which are intended to help the candidate countries meet the criteria for membership.

For the years 2000-2002, total financial assistance to Latvia amounts to around €35 million annually from Phare, €22.2 million from SAPARD, and between €36.4 and €57.2 million from ISPA.

The **Phare** programme has been providing support to the countries of Central and Eastern Europe since 1989, helping them through a period of fundamental economic and social transition and political change. Its current "pre-accession" focus was established in 1997, in response to the Luxembourg European Council's launching of the present enlargement process.

Phare provides the applicant countries of Central and Eastern Europe with support for institution building, investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis*, and investment in economic and social cohesion. This support comprises co-financing for technical assistance, "twinning" and investment-support projects, to help these countries with their efforts to adopt the *acquis* and strengthen the institutions necessary for implementing and enforcing the *acquis*. Phare also helps the candidate countries develop the mechanisms and institutions that will be needed to implement Structural Funds after accession and is supported by a limited number of measures (investment and grant schemes) with a regional or thematic focus. In the context of the Action Plans for strengthening administrative and judicial capacity, a particular emphasis is placed on the issue of institution building and associated investment intended to ensure compliance with the *acquis*. For 2002, the Commission has mobilised special financial assistance of up to €250 million to accompany negotiating countries' efforts, over and above the indicative annual allocations for each of the Phare countries, bringing total Community assistance for strengthening the administrative and judicial capacity of the negotiating countries in 2002 to around €1 billion.

The Phare programme allocated commitments of €320.3 million to Latvia during the 1992-1999 period, €34.8 million in 2000, and €36.2 million in 2001. The **2002 Phare Programme** for Latvia consists of an allocation of € 27 million for the National Programme, complemented by 5 million under the Phare 2002 supplementary institution building facility. The 2002 Phare programme focuses on the following priorities:

priority 1: Political Criteria (€3.1 million), including Promotion of Society in Latvia and Civil Society;

- priority 2: Free Movement of Goods / Consumer Protection (€2.2 million), including Market Surveillance in the Non-Food Sector and Food Chain Surveillance;
- priority 3: Free Movement of Services (€0.8 million) including Data State Inspection;
- priority 4: Agriculture (€0.9 million), including TSE/BSE Control;
- priority 5: Statistics (€1 million), including Intra-Community Trade Statistics;
- priority 6: Social Policy and Employment (€1.8 million), including the Employment Strategy (Institution Building);
- priority 7: Telecommunications and Information Technologies (€0.5 million), including the Public Utilities Commission;
- priority 8: Regional Policy and Co-ordination of Structural Instruments (€4.5 million), including Public Finance Management and a Project Preparation Facility;
- priority 9: Environment (€1.9 million), including Environment Monitoring;
- priority 10: Co-operation in the Field of Justice and Home Affairs (€6.5 million), including Preparation for Participation in the Schengen Information System, Sea Border Surveillance and State Police;
- priority 11: Customs Union (€4.8 million), including the Customs Business Strategy and Customs Data Systems;
- priority 12: Overall Administrative Capacity (€4.2 million) including Community Programmes and Agencies, Twinning Light Facility.

An additional €3 million has been allocated for the Baltic Cross-Border Co-operation Programme.

Latvia also participates in and benefits from Phare-funded multi-country and horizontal programmes, such as TAIEX, the Small and Medium-sized Enterprises Facility, SIGMA and the nuclear safety programme.

Furthermore, Latvia participates in the following Community programmes: Leonardo da Vinci II, Socrates II, Youth, Life III, the Multi-annual Programme for Enterprises and Entrepreneurship, Culture 2000, Gender Equality, Combating Social Exclusion and the Fifth Framework on Research and Technological Development. It is also affiliated to the European Environment Agency.

Overall, the impact of Phare has been positive. Effective transfer of know-how, equipment and financial resources has taken place in important fields such as the public finance sector, health and safety at work, agriculture, justice and home affairs, eastern border management and statistics. In the agriculture and food control sector, know how and equipment have been supplied to veterinary services and border facilities including training in food safety, hygiene and quality matters at central and regional level.

For example, in Latvia, Phare has played a particularly important role in:

- Major support for the development of the Latvian Eastern Border Management. The facilities of 9 Latvian border-crossing-points are being upgraded to EU standards (€7.3 million) with Phare support, while the other improvements necessary are financed through the Latvian state budget.
- The development of a Latvian Integrated Border Control System (€1 million). This project implemented through a Twinning partnership, has focused on the development of an Integrated Border Management Strategy. It has facilitated a comprehensive assessment of current border security and aims to improve the effectiveness of co-operation and the implementation of joint tasks by the border agencies. All agencies involved in border surveillance have been closely involved in the project.
- Society integration, where Phare has been the most important supporter of the Latvian Language Training Programme (€5.1 million since 1996), a multi-donor programme hitherto administered by the United Nations Development Programme. The programme, now managed by the Latvian authorities, has focused on enhancing Latvian language training in minority schools, providing language training opportunities for targeted groups of adults and promoting society integration at community level through various means.

The 2000 Phare Review confirmed the accession-driven approach and emphasised the importance of helping countries to prepare for the Structural Funds. The trends introduced in 1997 have continued, with an increased role for Commission Delegations, further streamlining of procedures and increasing emphasis on raising the verifiable and quantifiable impact of Phare projects in institution building, investment in compliance with the *acquis* and economic and social cohesion.

The Review also provided for the possibility of further decentralisation of Phare management, by waiving the requirement for *ex ante* approval by the Commission Delegations for tendering and contracting. For this to be possible, strict pre-conditions covering programme management, financial control and structures regarding public finance must be met. An extended decentralised implementation system (EDIS) should be put in place for each negotiating country at the latest by the time of accession. High-Level Working Groups have been established for each country to oversee this process, along with other key procedural steps in the run-up to accession.

The Commission approved the Latvian SAPARD programme in October 2000. The indicative allocation for SAPARD in Latvia for 2002 is € 22.9 million, at 2002 prices (allocation 2001: € 22.6 million at 2001 prices).

The operational programme is based on the following three priorities: development of sustainable agriculture (4 measures: 54% of the EC funds); integrated rural development (2 measures: 36%); improvement of the environment (3 measures: 4%).

The *Multi-annual Financing Agreement (MAFA)*, which sets out the rules for implementing SAPARD, is in force since July 2001. The *Annual Financing Agreement (AFA)*, which sets out the Community financial commitment to Latvia for the year 2000, is in force since May 2001.

The Annual Financing Agreement for 2001. was signed in February 2002, and entered into force in June 2002.

The following structures are responsible for the implementation of SAPARD: the National Fund, located within the Ministry of Finance, administers the SAPARD funds under the responsibility of the National Authorising Officer (NAO) and is responsible for the national accreditation of SAPARD Agency; the Managing Authority is located within the Latvian Ministry of Agriculture; the Rural Support Service (RSS) has been designated by the Latvian Government as the SAPARD agency responsible for the implementation and financial management of the programme. The agency operates from its headquarters in Riga with 9 regional offices throughout Latvia.

The Commission adopted a Decision in December 2001 provisionally conferring management authority for SAPARD, on a fully decentralised basis, to the Rural Support Service (SAPARD Agency) in Latvia. The decision includes approval of six measures covering 92% of the amount available for Latvia. Simultaneously, an initial payment on account of € 5.4 million was made to the SAPARD Euro Account in the National Fund. Up to June 2002 the SAPARD Agency has received 444 project applications potential beneficiaries. Of these 219 have been approved, involving around € 10.4 million of public support.

A Monitoring Committee has been established by the Managing Authority and has met three times.

The **ISPA** programming framework is governed by the national strategy papers for transport and environment which the Latvian authorities finalised in 2000. In the case of transport, the emphasis is on the rehabilitation of the TINA (Transport Infrastructure Needs Assessment) Road Corridor I and the modernisation of the TINA East-West railway link. In the environmental field, the Latvian Government's priorities for ISPA financing are waste and drinking water (in the seven largest cities, as well as for the most important river basins) and waste management (closure of old landfills and opening of new ones that meet European standards).

For the years 2000 and 2001, the full (mid-range) allocation for Latvia has been committed, i.e. €94.8 million (€46.8 million in 2000 and €48 million in 2001). The allocation for 2002 will be between €38.1 million and €59.9 million.

Five environmental projects were approved in 2001, dealing with solid waste management in Ventpils (with an ISPA contribution of €3.0 million), in Liepaja (€5.1 million) and in Ziemeļvidzeme (€3.4 million), water services in the Eastern Latvian river basins (€44.6 million) and technical assistance for environmental projects (€3.4 million). Three transport projects were approved in 2001: upgrading of the Riga-Adazi section of the Via Baltica (€10.6 million) and technical assistance for road projects (€0.6 million). So far in 2002, two measures have been approved: a water services project in Jurmala (€8.3 million) and the rehabilitation of the security system on the East-West railway link (€11.3 million). More projects are in preparation.

As regards the decentralisation process (EDIS) for ISPA, the Commission approved a technical assistance package at the end of 2001 (with ISPA financing of €0.7 million) to assist the Latvian authorities in their preparations.

Contracts have been signed for three projects in the transport sector, in addition to the technical assistance for EDIS. The tenders for most other ISPA 2000 projects are currently in preparation (except for the Jelgava water services project).

Twinning

One of the main challenges still facing the candidate countries is the need to strengthen their administrative and judicial capacity to implement and enforce the *acquis*. As of 1998, the European Commission began to mobilise significant human and financial resources to help them with this process, using the mechanism of twinning administrations and agencies. In 2001, the Commission strengthened this emphasis on institution building through the launch of the Action Plans for strengthening administrative and judicial capacity.

ing process makes the vast body of Member States' expertise available to the candidate countries and long-term secondment of civil servants and accompanying short-term expert missions and training.

A total of 503 twinning projects were funded by the Community between 1998 and 2001. Between 1998 and 2000, these projects primarily targeted the main priority sectors identified in the Accession Partnerships: agriculture, the environment, public finance, justice and home affairs and preparation for the management of Structural Funds. Since 2000, other important sectors of the *acquis* have also been addressed through twinning, such as social policy, the fight against drugs, transport, and telecommunications regulation. Twinning now covers all sectors pursuant to the *acquis*.

Thanks to the strong support of the EU Member States, 103 twinning partnerships were funded by Phare 1998, involving all the candidate countries and almost all the Member States. These first-generation projects have already come to an end. Under Phare 1999 a further 123 projects are currently being implemented and the programming exercise for Phare 2000 included a further 146 twinning projects. The 2001 programming exercise includes 131 twinning projects embracing all the Phare beneficiary countries, as well as Cyprus and Malta. Under the 2002 programming exercise, 119 twinning projects have already been planned and approved for implementation. A substantial number of additional twinning projects are planned, and these should be approved and implementation launched before the end of 2002. They include twinning projects identified in the Action Plans for strengthening administrative and judicial capacity in the negotiating countries. It is estimated that around 300 twinning projects are operational throughout the candidate countries at any one time. Furthermore, the candidate countries are being offered a further way of drawing on Member States' expertise through "Twinning light", a mechanism to address carefully-circumscribed projects of limited scope which emerge during the negotiation process as requiring adaptation.

In Latvia, ten projects are currently being implemented through twinning. They include a project with partners from France to help develop the capacity required for Latvia's participation in the Structural Funds. A significant project in the area of public expenditure management, with a particular focus on external audit and procurement matters and audit issues in public agencies is being implemented together with UK partners. A drug prevention project with a Spanish partner organisation has just started.

In addition, an agricultural project to help Latvia develop the requisite management mechanisms for the Common Agriculture Policy is being implemented with a partner from the Netherlands. Another project, run in tandem with a team from Denmark, addresses the institutional strengthening of the Tax and Customs Administration. In the field of Social Policy and Employment, a project with partners from Germany and the United Kingdom focuses on strengthening the dialogue between the two sides of industry. Another project with a team from Greece and Sweden will help Latvia establish a system for asylum and migration management. The remaining twinning projects financed under the 2001 programme are being prepared and are scheduled to start soon. They include support to enhance the administrative capacity of the Latvian maritime administration. Finally, another project to fight organised crime is being prepared with partners from Germany and Sweden.

Negotiations

Since the opening of the accession negotiations, substantial discussions on the individual chapters of the *acquis* have been launched, and by June 2002, negotiations on all chapters apart from, Chapter 31 – "Other" were underway.

By the end of September 2002 the following 27 negotiation chapters had been provisionally closed: free movement of goods, freedom of movement for persons, freedom to provide services, free movement of capital, company law, competition policy, fisheries, transport policy, taxation, EMU, statistics, social policy and employment, energy, industrial policy, SMEs, science and research, education and training, telecommunications, culture and audio-visual policy, regional policy, environment, consumer and health protection, justice and home affairs, customs union, external relations, common foreign and security policy and financial control.

Criteria for membership

Political criteria

Introduction

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved "stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities."

In its 1997 Opinion on Latvia's application for EU membership, the Commission concluded:

"Latvia's political institutions function properly and in conditions of stability. They respect the limits on their competencies and co-operate with each other. Elections in 1992 and 1995 were free and fair, and in each case permitted the establishment of coalition governments. The Opposition plays a normal part in the operation of the institutions. Efforts to improve the operation of the judicial system and to intensify the fight against corruption need to be sustained."

There are no major problems over respect for fundamental rights. But Latvia needs to take measures to accelerate naturalisation procedures to enable the Russian-speaking non-citizens to become better integrated into Latvian society. It should also pursue its efforts to ensure general equality of treatment for non-citizens and minorities, in particular for access to professions and participation in the democratic process."

With the reservation that steps need to be taken to enable the Russian-speaking minority to become better integrated into society, Latvia demonstrates the characteristics of a democracy, with stable institutions guaranteeing the rule of law and human rights."

In its 2001 Regular Report, the Commission found that:

"In its 1997 Opinion, the Commission concluded that Latvia fulfilled the political criteria. Since that time, the country has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. Over the past year, further efforts have been made in this direction. Latvia continues to fulfil the Copenhagen political criteria."

During the last year, the government remained committed to reforming the Public Administration and the judiciary, as well as to fighting against corruption. Strategic documents on public administration reform and corruption prevention were adopted, as was framework legislation on public agencies, and practical measures were pursued in all three areas. It will now be necessary to maintain the momentum of public administration reform with the completion of the legal framework and the development of a stable civil service, including through the introduction of pay reform. In parallel, the reform of the judicial system must be carried on, with particular attention to the legal framework, speeding up and enforcing court decisions, and addressing the issue of pre-trial detention. Measures to combat corruption, which remains a source of concern, need to continue with a view to achieving concrete results on a broad scale."

Further important steps were taken to promote the integration of non-citizens into Latvian society, notably measures to facilitate the naturalisation procedure and the adoption of both a more elaborate Society Integration Programme and the legal basis for the future Social Integration Foundation. The ongoing efforts to support the integration of non-citizens need to be sustained through the implementation of the comprehensive Society Integration Programme in all its aspects, including activities to encourage naturalisation and the expansion of Latvian language training. Latvia should ensure that the implementation of the Language Law respects the principles of justified public interest and proportionality, Latvia's international obligations and the Europe Agreement."

Latvia has achieved progress towards meeting the short-term priorities of the Accession Partnership in the areas of the Language Law and language training, as well as administrative and judicial capacity. Some progress has also been made towards meeting the medium-term priorities in the areas of further integrating non-citizens, developing the civil service and improving the capacity of the public administration; however, these efforts need to continue."

The section below provides an assessment of developments in Latvia, seen from the perspective of the Copenhagen political criteria, including the overall functioning of the country's executive and its judicial system. Developments in this context are in many ways closely linked to developments regarding Latvia's ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of Latvia's ability to *acquire* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Co-operation in the field of justice and home affairs*) of part B.3.1. of this Report.

Recent developments

No major shift in government policy has taken place over the past year, and EU membership remains among the government's key objectives.

On 5 October 2002, parliamentary elections took place. The elections were free and fair and in line with international standards and commitments on democratic elections.

Democracy and the rule of law

Latvia has achieved stability of institutions guaranteeing democracy and the rule of law. This was the conclusion of the 1997 Opinion and the subsequent Regular Reports, and has been confirmed by the developments over the past year. This section focuses on the most significant developments since the last Regular Report.

The parliament

Over the past year, no major changes in the structure of Parliament have been reported. Parliament has been involved actively in the vital issues related to Latvia's integration that should be addressed to muster the support of citizens for EU issues. The changes already introduced in early 2001 on rules of procedure regarding EU matters have continued to function properly. Regular meetings were held between the parliamentary secretaries and the Eur Integration Bureau regarding European integration issues, especially the negotiation process.

In February 2002, Parliament adopted three reports on the implementation of Latvia's Strategy for Integration into the EU. At the same time the Saeima EU Information Centre (SEUIC) opened a new office and broadened its activities.

In May 2002, with a majority of more than 75%, Parliament amended the election laws, abolishing the provisions requiring citizens standing as candidates in national and local elections to be proficient in the Latvian language.

The executive

During the past year, implementation of the reform of public administration continued on the basis of the Latvian Action Plan for the implementation of the Public Administration Reform Strategy. With the adoption of the Framework Law on Public Administration and secondary legislation ensuring implementation of the Civil Service Law and the Law on Agencies, the legal framework for the reform of the public administration is in place. Preparations for enforcement of the Administrative Procedure Law have continued, and the reform of the remuneration system is under way. Further improvements have been achieved in setting up the framework for policy co-ordination and strategic planning.

The Action Plan for the implementation of the Public Administration Reform Strategy for the years 2001-06 was approved by the Government in December 2001, and a corresponding Co-ordination Council was established to monitor its implementation. The Council reports twice a year to the Government on the results achieved in implementing the Action Plan.

In June 2002, the Framework Law on Public Administration, which regulates the establishment, subordination, control, accountability and funding arrangements of public administration bodies, was adopted. It seeks to introduce the principles of good governance throughout the whole public administration, including in self-government bodies and in those institutions, which perform public administration functions delegated by the state.

A new Law on Administrative Procedure defining administrative procedure in public institutions and courts was adopted in October 2001 and is due to enter into force in July 2003. The implementation of the Civil Service Law is in progress, and the confirmation of civil service posts and assignment of civil service status was completed in February 2002. In addition, the performance-appraisal system for civil servants was put in place and the first annual performance-appraisal round was completed in December 2001. In October 2001 the Government adopted a regulation to define the procedure for the determination of qualification grades of civil servants, which will also constitute the basis for the new pay scale.

As regards the development of a unified pay system, the ongoing evaluation of the qualification grades will be decisive in determining the necessary financial resources to be allocated to the state budget in 2003. Adequate information on actual needs and job descriptions in the administration as well as details of category scales and corresponding financial costs are essential inputs for legislation to establish the new system.

Latvia has made good progress since the last Regular Report regarding implementation of the Law on Agencies. Criteria for the establishment of public agencies were set by the Government and around 150 enterprises and non-profit organisations have been analysed. So far a list has been adopted of 25 agencies to be restructured as state agencies by the end of the year. In addition, a number of regulations have been adopted defining the operational conditions of public agencies, including state responsibility for public agencies' liabilities, the obligation to establish internal audit units and the methodology for setting fees for services provided by public agencies.

During the reporting period, the Government has adopted a number of guidelines and rules to improve policy planning, involve society, strengthen the link between policy planning and budgeting, speed up the decision-making process and implement government policies.

Since the last Regular Report, 7 753 civil servants have attended training courses at the Latvian School of Public Administration. Training priorities included EU policies, administrative procedures, legal drafting, prevention of corruption, project management, internal audit, strategic management, personnel management and quality management.

Latvia has continued to address the remaining reform issues, and the legislative and administrative framework will be quite comprehensive once the Civil Service Law and the Framework Law on Public Administration are fully implemented. As the importance of a professional and stable civil service is widely recognised, it is now important to ensure minimum staffing levels, training, and adequate financial resources, including the completion of a uniform civil service pay system, at all levels of the public administration, with a view to strengthening the capacity to implement the *acquis*.

The judicial system

Since the last Regular Report, limited progress has been made on the reform of the judicial system.

The need for the reform of the judiciary has been recognised at the highest political level, and some steps have been taken to strengthen the effectiveness and independence of the judicial system mainly on the basis of the Judicial System Development Programme for the years 2001-2006. Efforts need to be stepped up to ensure continued and effective implementation of the programme.

The Latvian judicial system is composed of three tiers: district (city) courts, regional courts and the Supreme Court. In addition, there is a Constitutional Court, which may be addressed directly by citizens in cases of violation of fundamental rights. In Latvia, judges are nominated by the Ministry of Justice and confirmed by Parliament. Their independence is enshrined in the Constitution. The Ministry of Justice determines the number of Judges and administers the budgetary resources of the Judiciary. It supervises the organisation of activities at regional and district courts.

The last Regular Report mentioned three pending pieces of legislation: the Law on Sworn Court Bailiffs, the new Law on Criminal Procedures and the amendments to the Law on Judicial Power, as being essential for improving the functioning of the judiciary. So far, none of these laws has been adopted.

Despite international support, including Community assistance, the proposed new Law on Criminal Procedures, which would simplify and modernise the criminal procedure including court proceedings, reduce the backlog of court cases, speed up the consideration of juvenile cases, and extend the use of alternative penalties, is still at the drafting stage. This is regrettable.

Pending the adoption of the proposed new Law on Criminal Procedures, a number of other measures are being implemented to achieve the above-mentioned aims, in particular through relevant amendments to the existing Criminal Procedure Code. Amendments have been made in order to provide for an even case distribution among courts. Priority is now also given to the expeditious consideration of juvenile cases. In addition, other amendments to the Code aimed at simplifying and modernising the criminal procedure and at aligning legislation with EU requirements, including those on extradition, transfer of persons and recognition of decisions, were adopted in June 2002.

Amendments to the Law on Judicial Power, aimed at increasing the efficiency of court proceedings, by allowing judges to consider several cases at the same time, still remain to be adopted. In addition, in order to simplify court proceedings further, amendments to the Civil Procedure Law also need to be introduced.

The Law on Sworn Court Bailiffs, which has been pending for several years, should be adopted without delay. It aims at establishing an effective mechanism for enforcing court decisions, and at determining the rights and obligations of sworn bailiffs. It is thus essential in establishing the grounds for better co-ordination between court bailiffs and the court system.

The issue of the independence and efficiency of the judicial system, including the establishment of an independent court administration, still needs to be addressed. Furthermore, other issues such as the absence of well defined criteria and transparent methods for selecting judicial apprentices and appointees, and the Ministry of Justice's influence over career paths, also need to be tackled.

As a measure to address the issue of judges' remuneration, which remains comparatively low, judges and court staff are to benefit from a special scheme in addition to the general remuneration reform of the public administration. In January 2002, amendments to the Law on Judicial Power entered into force, which introduce the same social guarantees and benefits for judges as for civil servants. However, while a policy document on the Remuneration of Judges still needs to be adopted, its financial implications have been included in the list of budget priorities for 2003. In the meantime, concerns over perceived corruption among the judiciary remain. While the budget available for the judicial system remains largely insufficient, a limited increase was made in the budget of the Ministry of Justice for 2002, which was increased to LVL 28 551 258 (€ 50 984 871), compared with LVL 25 845 085 (€ 46 234 499) in 2001. In addition, the number of posts at the Ministry was increased from 175 in 2001 to 203 in 2002. The number of judges' posts remained unchanged at 333. In total, eighteen posts were vacant at the time of writing.

In the absence of decisive new legislative measures to reform the judicial system, the number of pending court cases rose even further during 2001. At the beginning of July 2002, there was still a total of 5 062 criminal court cases and 22 829 civil cases pending, compared with 5 396 and 22 371 in 2001. Since the bulk of the backlog is in Riga, 350 cases were transferred from Riga district court to other courts in Latvia. The increasing backlog is pre-occupying, and needs urgently to be addressed.

As mentioned in previous Reports, lengthy pre-trial detention, a related issue stemming from the backlog of cases, has continued to pose a serious problem. While fundamental measures to address the problem are still pending, and the length of pre-trial detention is not always in conformity with international standards, initial progress has been made in speeding up the review of juvenile cases (*see also below, section 'Civil and Political Rights'*). Decisive further measures are needed to further improve this situation.

More frequent use is being made of alternative penalties. While in 2000 4.7% of convicted offenders were sentenced to community service, the figure rose to 8% in 2001. The establishment of a probation service has, however, been postponed until 2003, due to a lack of funding for implementing such a system.

As regards training, the implementation of a training policy for judges and other legal professions has continued mainly through the Judicial Training Centre, which has offered training measures on national, international and EC law and on human rights. All judges of regional and district courts participated in training seminars at the Centre at least once in 2001. A series of seminars on European law, human rights, corruption, economic crimes, narcotic and toxic substances and intellectual property rights has been organised, and there is an ongoing project to modernise university law studies. Priority should be now be given to providing training for court managers, other court staff, prosecutors and bailiffs.

In 2002, the allocation to the Judicial Training Centre from the state budget was increased to LVL 60 000 (€ 107 143), from LVL 40 000 (€ 71 556) in 2001. However, the training of judges and other legal professions, especially in EC law and human rights issues, continues to depend largely on bilateral support and international donors. In order to address the generally low level of qualification in these fields and to increase the capacity to enforce the *acquis*, training needs to be intensified and adequate funding from the state budget secured.

The modernisation of courts continued by upgrading the infrastructure of court buildings and by setting up a unified information network. The reconstruction of Daugavpils Regional Court was completed by July and work continued at the Riga Regional Court. The renovation of Riga District Court, where there is the largest backlog of court cases, will not be finished before the end of 2002. The computerisation of courts has continued, and a computer-based civil case management system is due to be operational in early 2003.

There is a need to improve citizens' access to justice (see below under Civil and political rights). The existing Criminal Procedure Code provides for a system of free legal aid in criminal cases, whereby the Ministry of Justice covers the costs from the budget allocated for this purpose. The Civil Procedure Law provides statutory legal aid and relief of litigation expenses. However, contrary to the principles generally applied to legal aid, at present, defendants have to pay back legal aid when a case is lost. Generally, the implementation of existing provisions on criminal and civil matters poses certain problems. Next to continued reforms of the court administration, the adoption of the new Law on Criminal Procedure as well as new legislation on civil matters should also address this issue.

Overall, while most of the deficiencies of the judicial system have been identified, only part of them have been addressed. Efforts in this field need to be multiplied in order to ensure a thorough systemic reform, based on political support to modernise the judiciary and sufficient funding. The legislative framework still remains to be completed and the increasing backlog of court cases should be reduced. Further significant efforts to strengthen the de facto independence, efficiency and quality of the judiciary are needed. The upgrading of the infrastructure of courts needs to be completed.

Anti-corruption measures

Surveys indicate that corruption remains a source of concern in Latvia. The last Regular Report stated that further sustained efforts were still needed to complete the legal framework and to ensure effectiveness in the fight against corruption, and added that the perceived level of corruption in Latvia continued to be relatively high, to the detriment of public trust in the public administration, the judiciary and private investors' confidence. Since then the Government has remained committed to preventing and fighting corruption and has taken further steps to deal with the problem. The legislative framework has been improved, foreseeing strengthening of the institutional set-up, and both public awareness and the involvement of civil society are on the increase. However, a number of critical legislative and administrative measures still need to be taken.

The Corruption Prevention Programme of 2001 has been largely implemented and important pieces of legislation concerning the fight against corruption have been passed. The Law on the Anti-Corruption Bureau entered into force in May 2002. It gives the Bureau, which is to start its operations before the end of 2002, the power to initiate criminal proceedings and to conduct investigative and operational activities. The Bureau is also responsible for checking officials' income declaratio auditing party finances. The adoption of the law and the appointment of the Head of the Bureau by the Government are positive steps. It is now of vital importance that, following confirmation of this appointment by Parliament, the Bureau swiftly become operational.

In April 2002, Parliament passed the Law on the Prevention of Conflict of Interest in Activities of Public Officials replacing the existing Law on Corruption Prevention. The law, which entered into force in May 2002, specifies in more detail the circle of public officials who are subject to regulations on conflict of interest and designates the newly established Anti-Corruption Bureau as the institution responsible for implementing the law. The law lays down restrictions on assuming outsi de employment, accepting gifts and donations, etc. Since June 2002 public officials have not been allowed to hold more than one position in state institutions. This has led to resignation of officials from the board of public companies.

An important step in the fight against corruption was the adoption of amendments to the Law on the Financing of Political Organisations in June 2002. Parties are now required to publish the names of donors together with the amount and date of donations on the Internet before and after the elections. The maximum allowable donations from a single donor within a calendar year has been reduced from LVL 25 000 (€ 41 736) to LVL 10 000 (€ 17 857). Parties are no ed to accept donations from companies in which the state or a municipality has holdings. The law also prohibits loans and provision of free services to political parties.

The adoption of the law represents a positive step in the promotion of transparency in party financing. However, the enforcement of the law will require the Anti-Corruption Bureau to build up quickly its capacity to effectively check the financial declarations submitted by the parties. As the checking of financial declarations will pose major administrative challenges for the Bureau, adequate financial and human resources will have to be provided.

Several other pieces of legislation were adopted which also affect the fight against corruption. In January 2002, the Law on Procurement for Government and Municipal Needs entered into force and the Public Procurement Surveillance Bureau was established in order to enforce transparency, surveillance and review mechanisms in the public procurement procedure. In April 2002, amendments to the criminal law adopted by Parliament introduced provisions including criminal liability for trading in influence and offering bribes, and defined a public official. The amendments also aim to complete the legal framework for the implementation of the Council of Europe Criminal Law Convention on Corruption. Further training, particular for public officials in charge of public procurement, should be provided.

In order to increase the efficiency of Latvia's anti-corruption policy further and to ensure better co-ordination with the policies for fighting other forms of crime, the Corruption Prevention Council has been merged with the Crime Prevention Council to form the Corruption and Crime Prevention Council. The new Council and its secretariat are to co-ordinate the activities of the institutions involved in preventing and combating corruption at the highest political level. It is chaired e Prime Minister. The budget of the Council's secretariat has, however, been significantly reduced, and it remains unclear how the functioning of the secretariat will be financed.

However, despite the recent steps taken, the institutional set-up continues to be scattered among a number of institutions which are to a greater or lesser extent directly involved in the fight against corruption, including the Anti-Corruption Bureau. Their competencies continue to overlap and the lack of co-ordination continues to significantly weaken the effectiveness of the fight against corruption in Latvia. The establishment of the new Anti-Corruption Bureau could offer a chance to overcome these shortcomings, thanks to its institutional independence and investigative power, provided it can be given a clearly co-ordinating role and establish a clear corruption prevention strategy. Besides the question of competencies, the success of the Bureau largely depends on the political will to fight high-level corruption and state capture and to supply the Bureau with sufficient funding and human resources.

During the reporting period, particular emphasis has been put on the fight against corruption in the customs and police services. The Customs Officials' Code of Ethics and Conduct was approved in October 2001, and it is now important for the State Revenue Service to implement the Code and the Action Plan for the prevention of corruption.

Since 2001, territorial customs units have performed regular high corruption-risk analyses, opinion polls have been carried out, hot-lines have been put in place and 15 internal audits have been carried out leading to a total of 161 disciplinary measures and four dismissals in 2001. In the police sphere, a series of activities have taken place, including better control of document flow, rotation of road-traffic police officers, an internal audit of the State Police, and selective inspections of the territorial police boards. In 2001, 15 police officers were detained for delinquent behaviour and seven were sentenced. In 2001 a total of 56 cases of abuse of official status, 53 cases of "passive bribery" (bribe-taking) and 12 cases of "active bribery" (bribe-giving) were detected in state institutions. Five persons were sentenced for the abuse of official status, 11 for passive bribery and six for active bribery.

The Civil Service Code of Ethics, which came into force in January 2001, continues to be applied, and training on ethics in the civil service has been intensified at the Latvian School of Public Administration.

In addition, an active seminar policy was pursued in co-operation with international donors to raise public awareness and involvement in corruption prevention. Seminars have been held for judges, prosecutors, policemen and representatives of the mass media. At the Latvian School of Public Administration 276 civil servants attended training courses on conflict of interest in 2001 and 264 during the first five months of 2002. In 2001, 92 civil servants were trained in corruption prevention (by May 463 individuals had attended these courses).

Latvia ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of Proceeds from Crime in 1998 and the Council of Europe Criminal Law Convention on Corruption in February 2001. The necessary changes to criminal law were adopted by Parliament in April 2002. Latvia is involved, jointly with Estonia and Lithuania, in the Baltic Anti-Corruption Initiative, with the support of the OECD Secretariat. The Government has applied for accession to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The Council of Europe Civil Law Convention on Corruption has not yet been signed (*see Chapter 24 – Co-operation in the field of Justice and Home Affairs*).

Latvia joined the Council of Europe Group of States Against Corruption (GRECO) in June 2000. As a member of GRECO, Latvia received a GRECO evaluation mission in December 2001. According to the evaluation report that was made public in March 2002, the scale of the problem of corruption in Latvia is difficult to quantify, but public perception is that corruption is a worrying phenomenon that affects the activities of some public institutions in Latvia such as customs, traffic police and judicial authorities. The report added that the seriousness of the problem appeared to be recognised at the highest political level and that the Government seemed to be more committed to further improving the legal framework and its implementation, but that the real challenge was changing attitudes and behaviour. The report noted that Latvian society's mentality vis-à-vis corruption was changing and that people increasingly reported to the police or other law-enforcement agencies cases of suspecte uption, but that dissatisfaction with the rate of progress of reform had bred suspicion and resentment. The report indicated that this raised two real challenges for institutions combating corruption: to gain the trust of the public and demonstrate effectiveness by producing results. It added that there are at present in Latvia a range of institutions that contribute to the fight against corruption, and that their efforts are fragmented, with an obvious lack of direction and co-ordination. In conclusion, GRECO addressed fifteen specific recommendations to Latvia, which it is strongly encouraged to follow up.

Overall, since the last Regular Report, Latvia has made further progress in the fight against corruption. The legislative framework has been improved, foreseeing the strengthening of the institutional set-up, and both public awareness and the involvement of civil society are on the increase. However, further efforts are needed to clarify and consolidate the institutional set-up and to provide the new Anti-Corruption Bureau with the necessary means to effectively ensure its independence. The Latvian Government should remain strongly committed to further combating high-level political corruption and state capture. The effective implementation of the existing anti-corruption legislation will be vital for overcoming the public's continuing mistrust of the judiciary and the public administration and for gaining the confidence of private investors.

Human rights and the protection of minorities

Latvia continues to respect human rights and freedoms. This was the conclusion of the 1997 Opinion and the subsequent Regular Reports, and has been confirmed by developments over the past year. This section focuses on the most significant developments since the last Regular Report.

Latvia has acceded to most of the major international human rights instruments. The Council of Europe Framework Convention for the Protection of National Minorities has, however, not yet been ratified.

In April 2002, Latvia signed Protocol No 13 to the Convention for the Protection of Human Rights and Fundamental Freedoms, concerning the abolition of the death penalty in all circumstances. In January 2002, Latvia ratified the European Social Charter.

Latvia has signed but not ratified the Additional Protocol No 12 to the European Convention on Human Rights prohibiting discrimination on any grounds. No significant new developments regarding the transposition and implementation of the anti-discrimination *acquis* can be reported (*see Chapter 13 – Social policy and employment*).

On 31 December 2001, the OSCE mission to Latvia was closed, following the Chairman-in-Office's statement that its tasks under the missions' guidelines concerning citizenship, language (in particular, language provisions in the election law), education, the integration programme and the ombudsman institution had been completed, were being completed or could be achieved by other more appropriate instruments.

The institutional set-up of the National Human Rights Office (NHRO) remains largely unchanged. The working group established in 2001 with the aim of studying different options, including the Office's conversion to an ombudsman institution with a broader mandate, has provided recommendations, which have been partly implemented. Some improvements of the institutional structure took place, but duplication of tasks between state human rights bodies seems to persist, especially between the NHRO and the State Children's Rights Protection Centre.

Civil and political rights

There have been positive developments since the previous Regular Report regarding legislation on trafficking in human beings and asylum. There have also been some improvements in prison conditions. Some limited steps have been taken to address the situation regarding pre-trial detention, but the situation on the issue remains a source of serious concern.

Since July 2001, when individuals were granted the right to apply to the Constitutional Court regarding violations of their basic rights, 16 cases out of 575 complaints received have been deemed admissible and the Court has pronounced 12 judgements.

Latvia has made progress in adopting, in April 2002, amendments to the criminal law regarding *trafficking in human beings* and organised criminal groups which bring Latvia's anti-trafficking legislation into line with the UN Protocol to 'prevent, suppress and punish trafficking in persons, especially women and children'. Latvia remains a country of origin. It co-operates with Interpol and various countries to prevent such crimes.

While some legislation has been put in place, the length of *pre-trial detention* remains a very serious concern. In April 2002, about 44% of inmates in Latvian prisons were pre-trial detainees (no significant change compared with 2001). However, in most recent months figures have slightly gone down as a result of amendments to the existing Criminal Procedure Code. Concerns have been expressed regarding cases of excessive use of force by the police against people in custody.

As reported above, as a result of measures taken to speed up the review of juvenile cases, in April 2002, juveniles accounted for 63% of the total number of persons in pre-trial detention, compared with 70% in mid 2001. This remains very high. The length of pre-trial detention for juveniles is not always in conformity with international standards. A working group established on the initiative of the State President has drawn up a draft Law on Education and Correctional Measures for Juveniles in order to improve the situation.

Several regulations have been adopted in order to improve *prison conditions*, covering such issues as internal rules on imprisonment, payment for work by prisoners, financial aid to released prisoners, medical aid, the provision of nourishment and other daily necessities, and facilities for children to stay with their imprisoned mothers.

Since the last Regular Report, progress has been made towards renovating detention facilities under the Public Investment Programme. Reconstruction of Liepaja prison, as well as parts of the central prison and the Matisa prison has been completed. Further reconstruction work is in progress in Olaine prison (including the building of a tuberculosis hospital), parts of the central prison and Matisa prison, and in Jelgava prison. Nevertheless, the situation in prisons continues to be reported as critical in terms of health and sanitary conditions, overcrowding and occupational measures. A positive development is the fact that the number of tuberculosis cases in prisons has further decreased. Furthermore, several social rehabilitation programmes are being implemented in co-operation with NGOs, including a special programme for juveniles.

Some structural problems still remain unresolved. As mentioned in the 2001 Regular Report, seven detention centres and prisons (out of a total of 15 institutions) continue to be guarded by a special regiment of the Ministry of the Interior. In October 2001 the Cabinet of Ministers decided to transfer three more prisons to professional guards in 2002 and to complete the reform by the end of 2003.

Regarding *legal aid*, further improvements of legislation and practice are necessary. As set out above, the Criminal Procedure Code provides for a system of free legal aid in criminal cases (which is mandatory in the case of minors, the disabled, persons not knowing the language, and for all pre-trial investigations). The Civil Procedure Law also provides statutory legal aid. However, there are difficulties with the implementation of this legislation, exacerbated by a general shortage of lawyers, lack of sufficient budget, as well as a lack of knowledge and experience. Further efforts are necessary to bring the existing legislation fully in line with existing international standards in this field. In this context, the adoption of the new Law on Criminal Procedure as well as of legislation regarding civil matters is of particular importance and should take place without delay.

Latvia has made particular progress on *asylum*, with the adoption of a law on asylum in March 2002 which covers general procedures for refugee asylum seekers, guarantees with regard to relevant appeal procedures, and the competencies and responsibilities of the various parties concerned. While this law is generally perceived as an important step towards aligning the legislation, particular attention will now have to be paid to adequate implementation, including the application of accelerated procedures, the 'third country concept' and the minimum guarantees for appeal. No concrete progress to improve living conditions at Olaine Detention Centre can be reported.

Freedom of expression and *freedom of religion* are enshrined in the Constitution of Latvia, and no particular problems have been reported in this respect.

Economic, social and cultural rights

Since the last Regular Report, the main positive developments in this area have been the ratification of the European Social Charter and the entry into force of the new labour legislation.

With regard to *equal opportunities*, the Government adopted in March 2002 an Action Plan, which provides for a National Gender Equality Strategy 2003-07. In 2001, one case involving the principle of gender equality was brought to court. The claimant sued the prison administration for refusing to employ her as a prison guard because she was a woman. The Court confirmed that there had been gender discrimination. The new Labour Law, which entered into force in June 2002, is a major step forward and should contribute to addressing the discrimination which women continue to face in the workplace in terms of recruitment and pay (see *Chapter 13 – Social policy and employment*). There were 21 female members of Parliament (out of a total of 100) and 2 women in the Government.

Regarding *children's rights*, Latvia ratified the European Convention on the Recognition and Enforcement of Decisions concerning Custody of Children and on Restoration of Custody of Children in April 2002.

Improvements are needed with regard to the treatment of *disabled and mentally ill persons*. Further legislation to protect the rights of the mentally ill has to be adopted. Recourse to proper proceedings in case of detention of persons and prevention of degrading treatment of those in care need to be systematically ensured. Despite gradual improvement, the conditions in some facilities, including the Riga main psychiatric hospital, and the lack of state support for medicines required by some patients remain a source of serious concern.

Regarding *the role of trade unions*, all the essential legislative preconditions for the formation and functioning of trade unions exist. However, trade unions continue to struggle with distrust from the legacy of the past.

In January 2002, the Latvian Parliament ratified the *European Social Charter*. Latvia has selected ten Articles in Part II of the Charter as binding, guaranteeing the right to work, the right of organisation, the right of collective bargaining, the right to protection of employed women, the right to vocational guidance, the right to health protection, the right to social and medical assistance, the right to benefit from social welfare services, the right of the family to social, legal and economic protection, and the right of mothers and children to social and economic protection. The Charter entered into force in March 2002.

Minority rights and the protection of minorities

In March 2001, the Latvian Parliament rejected ratification of the Council of Europe Framework Convention for the Protection of National Minorities. The Framework Convention has thus still not been ratified. Latvia is urged to ratify it.

Since the last Regular Report, positive developments have included abolition of language restrictions in the election law, further facilitation of naturalisation with a view to increasing the rate of naturalisation, the inception of the Society Integration Foundation and an increase in its funding, and extended language training. However, the fact that funding for the Naturalisation Board has been reduced in 2002 is a cause for concern.

The Naturalisation procedure

Of Latvia's total population of about 2.34 million, around 523 100 (22.4%) were non-citizens in 2002. The number of non-citizens is slowly decreasing (from 24.6% in 2000 to 22.4% in 2002).

By June 2002, more than 54 000 naturalisation applications had been received and 53 681 persons had obtained Latvian citizenship since the beginning of naturalisation in 1995. Altogether, 7 156 children had been granted Latvian citizenship by June 2002. In 2001, 10 637 persons obtained Latvian citizenship. In the first three months of 2002, the number of naturalisation applications increased by approximately 30% compared with the same period in 2001 (2 997 in 2002 ; 2 298 in 2001), but the rate is still low.

The increase in the rate of naturalisation during the first months of 2002 appears to be largely linked to the reduction in the naturalisation fee, the second stage of free language courses for persons wishing to be naturalised, and a public awareness and information campaign.

One of the most important obstacles for many potential applicants remains the lack of language proficiency. To address this problem, the Society Integration Foundation has adopted a plan for the further development of the state language training system for naturalisation candidates, indicating sources of financing from the national budget in 2003, and gradually increasing the number of places on the courses by 5 000 per year. Taking into account that the language courses offered were greatly oversubscribed, the allocation of adequate financial and human resources is of utmost importance.

At the end of 2001, an extensive campaign informing the public about citizenship issues was launched, with advertising in the mass media and regional newspapers, an Internet web site and the organisation of a citizenship day at Latvian schools. A free information hot-line on Latvian citizenship and related issues started to operate at the Naturalisation Board.

In 2001, the number of employees at the Naturalisation Board remained unchanged with an average of 170. With a view to strengthening the administrative capacity of the Naturalisation Board, all civil servants attended in-service training courses at least once in 2001. However, in a preoccupying development, the budget allocated to the Board in 2002 is significantly lower than in previous years.

As regards children whose parents are stateless or non-citizens, the number of applications for citizenship remained low. Since February 1999, when it became possible to obtain citizenship for children born in Latvia after 21 August 1991, a total of 887 had been registered as citizens by August 2002.

Latvia has continued to follow the recommendations expressed by the OSCE in the area of citizenship and naturalisation. In the period ahead, Latvia should continue and enhance activities to encourage the naturalisation process. In order to make this possible, it will be important to provide adequate funding for the Naturalisation Board so that it can properly discharge all its responsibilities.

Special passports for non-citizens

By April 2002 a total of 600 000 special passports had been issued since 1997, representing virtually all eligible non-citizens. It was still possible to exchange the old Soviet passport, which had expired at the end of March 2000. Travelling to Russia is still easier with a non-citizenship passport than with a Latvian passport, as the cost and the nature of the visa differ.

Integration of minorities

Since the last Regular Report, attention has focused on the implementation of the "Integration of Society in Latvia" programme, the establishment of the Society Integration Foundation, and the implementation of language legislation. A positive development has been the repeal of language provisions in Latvian election legislation. However, a number of concerns remain.

The Society Integration Foundation, which is one of the main implementing mechanisms of the National Programme for Integration of Society in Latvia, became fully operational in October 2001.

The Latvian state provides the Society Integration Foundation with a total budget of LVL 282 000 (€ 503 571) for 2002 compared to LVL 170 000 (€ 303 571) for 2001. The Society Integration Foundation supported 21 projects last year, including 17 projects on ethnic integration and four projects on social integration. By June 2002, 64 out of 390 projects submitted for the first half of 2002 had been approved. Three projects have been completed to date. Training of staff is in progress.

In implementing the programme, there is a need to ensure the awareness, consultation and involvement of all sections of the Latvian population.

The National Programme for Latvian Language Training (1996-2006) continues as planned. The funding provided by the government remains almost unchanged at LVL 426 000 (€ 760 714), compared with LVL 428 000 (€ 765 653) in 2001. So far, 57 503 (June 2002) individuals have attended Latvian language courses free of charge under the National Programme. It will be important that this support be maintained and increased in the years to come, including by addressing the shortage of qualified teachers.

In accordance with the provisions of the Education Law of 1998, the introduction of bilingual education has continued. As of 2004, all state-funded schools will provide secondary education (from 10th grade onwards) with the Latvian state language as the only language of instruction. This will result in about 70% of subjects being taught in Latvian, and about 30% in the minority language, such as the minority language in question, geography, history of culture and literature. Transition to education in the state language in secondary schools is planned to be completed by 2007/08. Under the National Programme for Latvian Language Training, teaching materials and textbooks have been produced and training for schoolteachers has continued. Until now, 9 498 non-Latvian-speaking kindergarten teachers and 23 156 non-Latvian-speaking teachers have attended courses provided by the National Programme.

Teachers who teach in Latvian or bilingually in minority schools have continued to benefit from a bonus scheme. The government funding allocated to this scheme was further increased from LVL 600 000 (€ 1 043 333) in 2000 to LVL 718 000 (€ 1 284 436) in 2001. Further efforts to involve parents and minority schools and to train and recruit bilingual teachers will continue to be necessary. Sufficient flexibility should be provided for in the transition phase to ensure equal education opportunities, and efforts should be enhanced to closely involve minority representatives in any relevant decision-making processes.

As already stated in previous Regular Reports, the Latvian Language Law (of 1999) and the implementing regulations are essentially in conformity with Latvia's international obligations and the Europe Agreement. Furthermore, neither the Language Law itself nor the implementing regulations contain provisions that are manifestly incompatible with Latvia's obligations under the Europe Agreement. However, some of the provisions are worded in such a way that they could give rise to interpretations.

The State Language Centre carries out the supervision and control of the implementation of the State Language Law. Currently the Centre has 21 staff members, 14 inspectors, three employees in the Consultation Department and four administrators. Since September 2001, employees of the Centre have issued six warnings and imposed 77 penalties. The most common violations have been the failure to master the state language as necessary for special professional duties and the disregard of government regulations when providing information to the public. It should be noted that the Centre has so far not checked enterprises on a systematic basis but has reacted to complaints by the population. So far, around 7 000 complaints have been received and 3 000 companies have been inspected. In February 2002, an Information and Consultation Department was created at the State Language Centre. In co-operation with the OSCE and the Council of Europe, practical manuals for language inspectors are being drawn up and remain to be introduced.

So far no court has applied the provisions of the Administrative Violations Code imposing fines for "disrespect towards the state language".

Some limited changes have been made regarding the rules for spelling foreign names in the Latvian language in official documents, following a decision of the Constitutional Court which concluded that the way of recording a person's name and surname in the original in the passport excessively restricted the person's privacy and therefore did not comply with the State Language Law. In compliance with the new passport regulations, and upon request, the person's name in the is now to be recorded more prominently. A case related to this question was declared admissible by the European Court of Human Rights in Strasbourg. According to the European Court of Justice, every person has a right to use his/her name in its own language and according to the correct spelling in that language.

As regards in previous Regular Reports, it is important that the competent authorities, including the State Language Centre and the judicial system, only apply and enforce the Language Law and its implementing regulations to the extent required by legitimate public interest, having regard to the principle of proportionality, as contained in Article 2 of the Language Law, and in view of Latvia's obligations under international human rights instruments and the rights and freedoms guaranteed under the Europe Agreement.

As regards the linguistic restrictions, which still figure in legislation other than the Language Law, important developments have taken place over the past year. The Latvian State President actively supported the repeal of election legislation imposing language requirements on political candidates. In January 2002, the State President, supported by the Prime Minister, took the decision to establish a standing Commission on the State Language, composed of linguists, sociologists and philosophers and of civil servants responsible for the application of the state language policy. The main task attributed to the Commission is to draw up guidelines for Latvian language policy for the next three years and to recommend concrete measures for enhancing the status of the Latvian language.

In April 2002, the Constitution was amended with the aim of strengthening the state language in the context of planned changes to the election laws. A loyalty oath for Members of Parliament was introduced and the status of Latvian as the official procedural language in parliament and municipalities was confirmed. As the previous constitutional text already incorporated a provision on the Latvian language as the official language of the Republic of Latvia, the amendments essentially do not introduce substantive changes likely to affect the functioning of either parliament or local government.

However, the amendments to the Constitution opened the way for the repeal of election law provisions requiring candidates in national and local elections to be proficient in Latvian. As mentioned above, in May 2002 the Latvian parliament abolished these requirements and amended the election laws by a majority of more than 75% of its members.

On the other hand, recent amendments to the Law on Local Councils concerning the working language in such councils and their subordinate institutions reportedly represent a potential risk to the opportunities that exist in practice for the use of minority languages in dealings with public authorities.

As reported last year, in February 2001 the European Court of Human Rights declared admissible the case of a Latvian citizen of Russian origin who had not been allowed to stand as a candidate in the 1998 parliamentary elections due to an alleged insufficient knowledge of the official language, despite the fact that the candidate had previously presented the required language proficiency certificate. In April 2002, the Court ruled that Latvia had violated the claimant's right to free election in terms of the procedures applied by the administration and ordered Latvia to pay € 9 000 in damages. At the same time, the European Court of Human Rights also found that the purpose of the legislation on parliamentary elections barring citizens without an advanced degree of proficiency in the national language from standing for election was to ensure the proper functioning of the Latvian institutional system. It was not for the Court to determine the choice of the working language of a parliament, as that choice was dictated by historical and political considerations and, in principle, was exclusively for the State concerned to determine.

Several other elements limit the integration of non-citizens in the economic sphere. Non-citizens continue to be excluded from some professions (lawyers, armed security guards and private detectives) on the grounds of state security.

General evaluation

In its 1997 Opinion, the Commission concluded that Latvia fulfilled the political criteria. Since that time, the country has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. This has been confirmed over the past year. Latvia continues to fulfil the Copenhagen political criteria.

Regarding public administration reform, Latvia has continued to address the remaining reform issues and the legislative and administrative framework will be fairly comprehensive once the Civil Service Law and Public Administration Law are fully implemented. It is now important to speed up the introduction of the uniform civil service pay system and to ensure sufficient funding.

Overall, while most of the deficiencies of the judicial system have been identified, only part of them have been addressed. Efforts in this field need to be multiplied in order to ensure a thorough systemic reform, based on political support for modernising the judiciary and sufficient funding. The legislative framework still remains to be completed and the increasing backlog of court cases should be reduced. The issue of pre-trial detention requires continued attention. Further significant efforts to strengthen the *de facto* independence, efficiency and quality of the judiciary are needed. The upgrading of the infrastructure of courts needs to be completed.

Latvia has made further progress in the fight against corruption, which remains a cause for serious concern. The legislative framework has been improved, the institutional set-up has been strengthened and public awareness as well as the involvement of civil society are rising. However, further efforts are needed in order to complete the institutional set-up and to provide the new Anti-Corruption Bureau with the necessary means in order to achieve concrete results.

Latvia continues to respect human rights and freedoms.

Latvia has encouraged the further integration of non-citizens into Latvian society by removing language requirements in the election law, and increasing support to facilitate the naturalisation process, and through the activities of the Society Integration Foundation. The integration process needs however to be accelerated and sufficient funding made available to encourage naturalisation and language training in particular. Latvia should ensure that at all levels the implementation of the language law respects the principles of justified public interest and proportionality, Latvia's international obligations and the Europe Agreement.

Economic criteria

Introduction

In its 1997 Opinion on Latvia's application for EU membership, the Commission concluded:

"Latvia has made considerable progress in the creation of a market economy"; it "... would face serious difficulties in coping with competitive pressure and market forces within the Union in the medium-term".

ociety Integration Foundation. The integration process needs however to be accelerated and sufficient funding made available to encourage naturalisation and language training in particular. Latvia should ensure that at all levels the implementation of the

In its 2001 Regular Report, the Commission found that:

"Latvia is a functioning market economy. Provided that it makes further substantial efforts in maintaining the pace of, and completing, its structural reforms, it should be able to cope with the competitive pressure and market forces within the Union in the near term."

In examining the economic developments in Latvia since the Opinion, the Commission's approach was guided by the June 1993 conclusions of the European Council in Copenhagen in, which stated that membership of the Union requires:

- the existence of a functioning market economy;
- the capacity to cope with the competitive pressure and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the Opinion and the previous annual Regular Reports. The analysis in this year's Regular Report takes stock of developments since the Opinion was drafted.

Summary of economic developments since 1997

Macroeconomic development has been favourable in most respects. GDP growth has been strong, steady and broad-based, underpinned by both domestic and external demand. Only in 1999 did development deviate from this trend, as the economy was hit by the Russian crisis, but the economy succeeded in recovering rapidly. However, strong private consumption and investment have led to a large current account deficit. It has, nonetheless, been covered by FDI to a large extent. In 2001, FDI fell considerably but that was due to a single transaction by a domestic enterprise and it should not be too emphasised. Despite strong domestic demand, inflation has remained moderate and stable. The general government deficit has varied somewhat over the years, with a peak in 1999. Since then, however, it has decreased every year. Recent economic developments have, by and large, confirmed these trends, although the weakening of external demand has started to influence exports. The budget law for 2002 provides for an increase in the budget deficit to 2.75% of GDP. So far, however, the actual deficit has been much lower than that and in agreement with the IMF, the target for the year has been set to 1.8% of GDP.

Main Economic Trends								
Latvia		1997	1998	1999	2000	2001	Average	2002 latest
Real GDP growth rate	per cent	8.4	4.8	2.8	6.8	7.7	6.1	3.8 Q1
Inflation rate ^a - annual average	per cent	8.1	4.3	2.1	2.6	2.5	3.9	2.8 July ^c
- December-on-December	per cent	6.4	2.7	3.0	1.7	3.2	3.4	1.1 July
Unemployment rate - LFS definition	per cent	14.4	14.5	13.7	14.2	13.1	14.0	13.5 Q2
General government budget balance	per cent of GDP	1.8	-0.7	-5.3	-2.7	-1.6	-1.7	
Current account balance	per cent of GDP	-6.1	-10.6	-9.7	-6.9	-9.7	8.6	
	Million ECU/€	-305	-576	-599	-538	-825 ^d	569	-275 Jan.-June ^d
Gross foreign debt of the whole economy - debt export ratio	per cent of exports of goods and services	20.6	70.6	111.8	100.0	:	:	
	Million ECU/€	523	1,968 ^b	3,052	3,546	:	:	
Foreign direct investment inflow - balance of payments data	per cent of GDP	9.3	5.8	5.2	5.7	2.3	5.7	
	Million ECU/€	460	318	324	442	198	348	304 Jan.-June ^d

Sources: Eurostat, National sources, OECD external Debt Statistics

^a PROXY HICP since 1998 (see methodological notes);

^b series break as a result of some technical changes to the definition.

^c Moving 12 months average rate of change.

^d Source: Website of the National Bank.

Structural reforms have strengthened the performance of the economy, even if the implementation of the reforms can be a challenge. An ambitious work to improve the business environment began in 1999. An essential element was the systematic involvement of the business community in the programming of structural reforms, which has paid off in terms of a wide range of actions undertaken. Legal certainty has been strengthened in the land market and in the business sector. The privatisation process is almost completed, but the process has gone much slower during the last years than initially planned. Progress was made during the last year, but some large enterprises are still awaiting their privatisation. With the introduction of a mandatory funded pillar in 2001, the pension reform is now largely completed. The financial sector has undergone substantial progress. Although financial intermediation is still relatively limited, restructuring and consolidation of the sector have gone far. Supervision of the financial sector has also been significantly strengthened.

The transition to a market economy, and subsequent restructuring, has contributed to a rise, though geographically uneven, of incomes. GDP per capita in PPS reached 33.1% of the EU average in 2001. This measure shows good progress made since the Opinion in the process of catching up to income levels seen in the EU. However, growth has not been evenly distributed, but largely concentrated to a few areas. This is reflected both in terms of GDP, and in terms of unemployment. The Riga region reached close to half the EU level in 1999, whereas some inland rural areas have significantly lower levels. However, this measure, GDP per capita, do not fully reflect income per capita, and should therefore be treated cautiously. The economic activity rate, around 68%, and the employment rate, around 59% have been overall fairly stable. The unemployment rates in some eastern districts are more than five times higher than in Riga city. Unemployment rates for men are, by about 3 percentage points, higher than those of women and have, unlike that for women not fallen over the past years.

Main Indicators of Economic Structure in 2001		
Population (average)	Thousand	2,355
GDP per head ^a	PPS	7,700
	per cent of EU average	33
Share of agriculture ^b in:		
- gross value added	per cent	4.7
- employment	per cent	15.1
Gross fixed capital formation/GDP	per cent	27.3
Gross foreign debt of the whole economy/GDP ^c	per cent	45.7
Exports of goods & services/GDP	per cent	44.9
Stock of foreign direct investment	Million € € per head ^a	2,284 ^c 970
Long term unemployment rate	per cent of labour force	7.7

ECCHR Convention on Human Rights)	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 1 (right of property)	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 4 (freedom movement et al.)	X	X	X	X	X	X	X	X	X	X	X	X	X	O
Protocol 6 (death penalty)	X	X	X	X	X	X	X	X	X	X	X	X	X	O
Protocol 7 (ne bis in idem)	X	X	X	X	X	X	X	O	O	X	X	X	X	O
European Convention for the Prevention of Torture	X	X	X	X	X	X	X	X	X	X	X	X	X	X
European Social Charter	O	X	X	O	X	X	O	X	X	O	X	O	X	X
Revised European Social Charter	X	X	O	X	O	O	X	O	O	X	O	X	O	O
Framework Convention for National Minorities	X	X	X	X	X	O	X	X	X	X	X	X	X	O
ICCPR (International Covenant on Civil and Political Rights)	X	X	X	X	X	X	X	X	X	X	X	X	X	O
Optional Protocol to the ICCPR (right of individual communication)	X	X	X	X	X	X	X	X	X	X	X	X	X	O
Second Optional Protocol to ICCPR (death penalty)	X	X	O	O	X	O	X	X	O	X	X	X	X	O
ICESCR (International Covenant on Economic, Social and Cultural rights)	X	X	X	X	X	X	X	X	X	X	X	X	X	O
CAT (Convention against Torture)	X	X	X	X	X	X	X	X	X	X	X	X	X	X
CERD (Convention on the Elimination of All Forms of Racial Discrimination)	X	X	X	X	X	X	X	X	X	X	X	X	X	O
CEDAW (Convention on the Elimination of All Forms of Discrimination against Women)	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Optional Protocol to the CEDAW	O	X	X	O	X	O	O	O	O	O	X	O	O	O
CRC (Convention on the Rights of the Child)	X	X	X	X	X	X	X	X	X	X	X	X	X	X

Basic data	in 1000				
Population (average a)	2,433	2,410	2,390	2,373	2,355
	in 1000				
Total area	64,589	64,589	64,589	64,589	64,589
	1000 Mio Lats				
National accounts	1000 Mio Lats				
Gross domestic product at current prices	3.3	3.6	3.9	4.3	4.8
	1000 Mio ECU/euro				
Gross domestic product at current prices	5.0	5.4	6.2	7.8	8.5
	ECU/euro				
Gross domestic product per capita b) at current prices	2,000	2,200	2,600	3,300	3,600
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	8.4	4.8	2.8	6.8	7.7
Employment growth	1.9	0.6	-0.5	0.0	-0.1
Labour productivity growth	6.4	4.1	3.4	6.8	7.8
	in Purchasing Power Standards				
Gross domestic product per capita b) at current prices	5,200	5,600	6,100	7,000	7,700
	% of Gross Value Added c)				
Structure of production	% of Gross Value Added c)				
- Agriculture	5.6	4.4	4.3	4.9	4.7
- Industry (excluding construction)	27.4	23.4	19.9	18.6	18.7
- Construction	4.8	6.9	7.1	6.7	6.2
- Services	62.1	65.4	68.6	69.8	70.4
	as % of Gross Domestic Product				
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	85.9	85.9	83.4	81.7	81.5
- household and NPISH	66.7	64.5	62.9	61.9	62.3
- general government	19.2	21.4	20.6	19.7	19.2
- Gross fixed capital formation	18.8	27.3	25.2	26.5	27.3
- Stock variation d)	3.9	0.4	1.7	0.5	2.6
- Exports of goods and services	51.1	51.3	43.9	45.6	44.9
- Imports of goods and services	59.6	64.8	54.2	54.3	56.2
	% change over the previous year				
Inflation rate	% change over the previous year				
Consumer price index e)	8.1	4.3	2.1	2.6	2.5
	in Mio ECU/euro				
Balance of payments	in Mio ECU/euro				
- Current account	-305	-576	-599	-538	-825g
- Trade balance	-748	-1,007	-956	-1,152	:
<i>Exports of goods</i>	1,621	1,798	1,772	2,232	:
<i>Imports of goods</i>	2,369	2,805	2,729	3,384	:
- Net services	327	271	314	479	:
- Net income	49	48	-44	28	:
- Net current transfers	68	111	87	106	:
- of which: government transfers	29	73	57	39	:
- FDI (net) inflows	460	318	324	442	198
	in % of Gross Domestic Product				
Public finance	in % of Gross Domestic Product				
General government deficit/surplus	1.8	-0.7	-5.3	-2.7	-1.6p
General government debt	:	10.6	13.7	13.9	16.0p
	in % of Gross Domestic Product				
Financial indicators	in % of Gross Domestic Product				
Gross foreign debt of the whole economy f)	10.5	36.2	47.6	45.7	:
	as % of exports				
Gross foreign debt of the whole economy f)	20.6	70.6	111.8	100.0	:

Infrastructure	in km per 1000 km²				
Railway network	37.4	37.4	37.4	37.4	37.4
	km				
Length of motorways	0	0	0	0	0
	previous year=100				
Industry and agriculture	previous year=100				
Gross sales of industrial production volume indices	113.8	103.1	94.6	104.7	108.4p
Gross agricultural production volume indices (in prices 1993)	103.8	92.1	89.4	104.7	105.0p
	per 1000 inhabitants				
Standard of living	per 1000 inhabitants				
Number of cars	178.0	201.0	221.0	235.0	250.0
Main telephone lines	306.0	309.0	307.0	311.0	308.0
Number of subscriptions to cellular mobile services	31.0	70.0	117.0	170.0	267.0
Number of internet subscriptions	:	:	:	:	:
p=provisional figures					
a) Calculation of the CSB of Latvia based on the 2000 Population and Housing Census provisional results.					
b) Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.					
c) Including FISIM.					
d) These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.					
e) Changes in Methodology: PROXY HICP since 1998 (see methodological notes).					
f) Series break after 1997.					
g) Source: Website of the National Bank					

Methodological Notes

Infrastrucure

As part of the preparations for the common census the EU Member States (MS) have designed a new survey-type index in order to comply with the obligations of the EU Treaty. The aim was to produce GDP comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonised Index of Consumer Prices (HICP). A similar exercise has been carried out with Candidate Countries (CC). In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards aligning the new index. Since January 1999 CCs report monthly to Eurostat so-called proxy HICPs that are based on national CPIs but adapted to the HICP coverage. They are not yet fully compliant with the HICP of the MSs. In the table, the proxy HICPs are back-calculated to 1997 (base year 1996).

Finances

Public finance: The government deficit and debt statistics of the Candidate Countries are presented in the table that they do not fully comply with EU methodological requirements. Broadly speaking, the general government deficit is equal to the net interest on the national account coverage of consolidated general government net borrowing / net lending of 1995. Consolidated government debt is defined as consolidated gross debt and net external debt. The rates for Latvia are presently available from 1998 only; the 1996-97 data are an approximation derived from the IMF's GFS methodology.

Cost of living: Data of the whole economy, covering both shops and long-term, but excluding equity investment and money market instruments. The source for each of concerning data is: HICP, while the source of GDP is Eurostat. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used (current pricing). The data for 2000 on Eurostat estimates, based on prior HICP/IMR/ISL/old Bank index.

Money aggregates: are end-year stock data, as reported to Eurostat. General, M1 means notes and coins in circulation plus bank sight deposits. M2 means M1 plus savings deposits plus other short-term claims on banks. M3 means M2 plus certain placements in bank liquid or long-term form. Net all countries produce an M3 index. Total credit means loans to resident monetary financial institutions (MFI) minus MFI liabilities.

Interest rates: Annual average rates based on monthly rates reported to Eurostat. Lending rates refer to bank lending to enterprises for over 1 year. Deposit rates refer to bank deposits with an agreed maturity of up to one year. Day-to-day money rates are overnight interbank rates.

Exchange rates: EU-11 exchange rates are those that were officially notified to until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank. The effective exchange rate index (nominal), as reported to Eurostat, is weighted by major trading partners.

Reserve assets: are end-year stock data, as reported to Eurostat. They are defined as the sum of central bank holdings of gold, foreign exchange, SDRs, reserve positions in the IMF, and other claims on non-residents. Gold is valued at end-year market prices.

External trade

Imports and exports (current prices): This data is based upon the special trade system, according to which, central bank companies cover the current balance of the country. Trade data includes direct re-exports, trade in services and trade with customs free zones as well as tourism, lease hire and patents. Value of external trade turnover includes the market value of the goods and the additional costs (freight, insurance etc.). The sum FOB means that all costs incurred in course of transport up to the customs frontier are charged to the seller. The sum CIF means that the purchaser pays the additional costs.

Trade Classification: Merchandise trade flows are using the commodity classification according to the Combined Nomenclature. Imports are recorded on CIF basis. Exports are recorded both on FOB basis.

External trade price indices: Export unit value index is calculated using two sources of information: the index calculator; the main source is customs data and other is price data collected from manufacturing enterprises that export their products. The base price (the average price of the previous year) is calculated as the weighted average price of the previous year.

Imports and exports (EU-11): Data declared by the Republic of Latvia.

Demography

Net migration: Net migration (reclassified by EUROSTAT) for year X, is population (X+1) - population (X) - Deaths (X) + Births (X). This assumes that any change in population not attributable to births and deaths is attributable to migration. This indicator includes therefore also administrative corrections (paid population entries if the total population is based on estimates and the births and deaths on registers).

Labour force

The European Labour Force Survey is conducted in spring each year in accordance with Council Regulation (EEC) No. 377/78 of 3 March 1978. A detailed description of the sampling methods, the selection procedures, the definition and the common Community coding currently used in the labour force survey is presented in the publications 'Labour Force Survey - Methods and Definitions, 1998' and 'Labour Force Survey in central and east European definitions, 2000'.

All definitions apply to persons aged 15 years and over, living in private households. The concepts and definitions used in the survey follow the guidelines of the International Labour Organisation. Persons carrying out obligatory military service are not included.

Persons in employment: were those who during the reference week did any work for pay or profit for at least one hour, or were not working but had jobs from which they were temporarily absent. Family workers are included.

Unemployed: (Commission Regulation (EEC) No 1867/2006 of 7 September 2006), unemployed persons comprise persons aged 15 to 74 who were:

(a) without work during the reference week, i.e. neither had a job nor were at work (for one hour or more) in paid employment or self-employment;

(b) currently available for work, i.e. were available for paid employment or self-employment before the end of the two weeks following the reference week;

(c) actively seeking work, i.e. had taken specific steps in the two weeks period ending with the reference week to seek paid employment or self-employment or to be found a job to take later, i.e. within a period of at most three months.

Compatibility with results prior to 2005: unemployment results used to refer to persons aged 15 and over. Persons who held a job to start later used to be considered as unemployed with the same condition as here on job in the reference week; however, the new conditions on time limits of at most three months is not yet applied.

Duration of unemployment is defined as:

(a) the duration of search for a job, or

(b) the length of the period since the last job was held (if the period is shorter than the duration of search for a job).

The active population is defined as the sum of persons in employment and unemployed persons.

Inactive persons: are those who are not classified as persons in employment nor as unemployed persons.

Employment rate: represents employed persons aged 15-64 as a percentage of the same age population.

