



EUROPEAN CENTRAL BANK

EUROSYSTEM

Prof. José M. GONZÁLEZ-PÁRAMO
Member of the Executive Board

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CONFIDENTIAL

L/JMGP/08/06

Ilmars Rimsevics
President
Bank of Latvia
K Valdemara iela 2°
Riga LV-1050

Dear Mr. Rimsevics,

Thank you for your letter of 27 October 2008 requesting support from the ECB to maintain intervention bands of +/-1% around the current EUR/LVL central rate and the establishment of a repo agreement.

The ECB's Governing Council recently agreed on a set of general principles to guide our policy with regards to any potential liquidity assistance that the ECB may offer to central banks from countries outside the euro area. Indeed, the ECB's recent agreement with Magyar Nemzeti Bank (MNB) on repurchase transactions to support the MNB's provision of euro liquidity, which you quote in your letter, is based on these principles.

In line with these principles, we would like to recall that the bands of +/- 1% are set unilaterally by the Bank of Latvia and that these are not provided for by the ERMII agreement (which foresees for the case of Latvia the standard +/-15% fluctuation band).

The ECB would, however, be prepared to agree to a repurchase transaction agreement with LB in case of clear disfunctioning of markets in order to provide euro liquidity assistance to the Latvian banking sector. In this respect, it would be appreciated if you could provide more evidence to us that the pre-condition for a repo of clear disfunctioning of markets is fulfilled.

Finally, it would be helpful if you could inform us which policy adjustments Latvia has had so far recourse to and what it is planning to do in the period ahead, in order to deal with the economic and financial challenges.

Yours sincerely,