



PARLIAMENT APPROVES GOVERNMENT'S 500 MILLION LVL BUDGET CUTS

European Commission welcomes new fiscal package IMF praises „courageous measures”

On Tuesday, June 16, the Saeima (Parliament) held an extraordinary session to adopt amendments to the Law on National Budget for 2009, and amendments to 111 budget-related laws which were drafted by the government.

The amendments enable a decrease in national budget expenditures by LVL 500 million (771,4 million EUR). Of the 93 members of the Parliament who voted, 63 MP's supported the government's budget, while 30 voted against it.

„We are well aware that today's decisions are very unpopular. However, we are also aware that in the current situation there are no other options and that we, politicians, had to take nationally responsible decisions. After serious and heated discussions in the parliament and negotiations with social partners, the Saeima managed to reach the only possible compromise,” said Gundars Daudze, Speaker of the Saeima.

The Speaker of the Saeima emphasised that by adopting government's proposed amendments to the budget, Latvia has affirmed its readiness to take difficult decisions in order to overcome its current difficulties. The receipt of international financial loans will enable Latvia to resume its path on the road towards economic growth and recovery.

Daudze added that today's agreement with social partners is extremely significant because it envisages the development of the 2010 budget in accordance with the so-called “zero principle”. By joining efforts with experts and trade unions it is planned to re-examine the usefulness of all programmes presently being financed by the state, and shape the new budget from scratch.

Amendments to the Law on the National Budget for 2009 and amendments to budget-related laws will enter into force as of 1 July 2009.

On June 16 Joint statement by the Presidency of the ECOFIN Council and the Commission on the fiscal package adopted by the Latvian Parliament was issued.

The Presidency and the Commission welcome the new fiscal package for 2009 and 2010 adopted by the Latvian Parliament, which is a courageous and ambitious step forward to address fiscal imbalances. In particular, we commend the support given by social partners to the package. This shows that there is awareness and commitment amongst key stakeholders on the need for bold action in the current difficult economic situation, which is crucial.

The Presidency and the EC stresses that implementation and full delivery of the measures is necessary to achieve the budgetary consolidation foreseen for 2009 and 2010 (amounting to about LVL 500 million or 4% of GDP per year). While the urgency to act in the current situation may warrant to some extent the recourse to one-off measures in 2009, work on permanent measures to reduce the budget deficit in a sustainable way and improve the competitiveness of the economy in 2010 and the following years should start immediately. In this context, the decision taken to ring-fence the co-financing of EU structural funds is important as it ensures access to EU financing that will be used for productivity-enhancing expenditures. Building on the

current fiscal package, it is crucial that Latvia develops a credible medium-term budgetary strategy aiming at bringing the deficit below the 3% of GDP Maastricht threshold by 2012.

The budgetary measures adopted today will be assessed thoroughly in the next days, based on an analysis of the European Commission, in close co-operation with the IMF and together with the Latvian authorities. Following this, a decision on the disbursement of the second instalment of the EU balance-of-payments assistance will be taken without delay.

Commenting on the vote, European Economic Affairs Commissioner Joaquín Almunia said: *“I very much welcome the vote by the Latvian parliament and the support given by the social partners to the package of budgetary savings. This is necessary to reduce the deficit to levels that are consistent with the need to overcome the present difficulties with the financial help of the EU and other contributors. The reduction in the deficit will have to continue in 2010 and in the next years, so as to anchor the economy in a credible and sustainable path. This should be done while preserving social fairness and avoiding that the cost of the adjustment falls on the most deprived parts of the population.”*

On June 16 Mr. John Lipsky, First Deputy Managing Director of the International Monetary Fund, issued the following statement.

The fiscal package approved today by the Latvian Parliament contains some important and courageous measures. As the ECOFIN Council and the European Commission have stated, we are now engaged in assessing these measures carefully.

In addition to containing the budget deficit, the policy program will need to ensure a path to medium-term fiscal sustainability and, as IMF Managing Director Dominique Strauss-Kahn has said, should include actions to minimize the impact on vulnerable groups.

IMF will continue to work closely with the Latvian authorities, the European Commission, and other international partners to help Latvia overcome this crisis and return to growth.

THE LATVIAN INSTITUTE

The Latvian Institute (Latvijas institūts) was established by the Latvian state to provide a wide range of information about Latvia, its society, culture and history.

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