



PRESIDENT, GOVERNMENT, AND SOCIAL PARTNERS CONTINUE COMBINED EFFORTS TO AGREE ON BUDGET CUTS

On Thursday, June 11, the Latvian Cabinet of Ministers continued to meet with representatives of business and labor in an attempt to reach an agreement on how to structure a 500 million lats reduction of the state budget.

Summary of this week's events:

Monday, June 8 - President Valdis Zatlers held a three-hour emergency meeting with the leaders of the government coalition, Prime Minister, Minister of Finance, Speaker of the Saeima (Parliament), Bank of Latvia, and social partners (business and labor NGO's). Following the meeting, President Zatlers announced that all participants had agreed that the 2009 budget still had to be cut by 500 million lats. It was also agreed that non-governmental 'social partners' would actively participate in all future discussions of the budget.



These social partners include: *The Employers' Confederation of Latvia, the Free Trade Union Confederation of Latvia, the Latvian Association of Local and Regional Governments, and the Latvian Chamber of Commerce and Industry.*

Tuesday, June 9 – The Cabinet of Ministers held an expanded meeting, which included President Zatlers, as well as social and coalition partners, and reached an agreement that the government would submit budget amendments to the parliament by June 17 which would reflect a 500 million lat (711,4 million EUR) reduction. They also agreed to include the social partners in a government-level crisis working group which would review and determine where the budget cuts would be made.

Following the meeting, Prime Minister Dombrovskis stated,

“Today, together with our social partners, we have continued a discussion begun yesterday on measures for ensuring country's solvency and on ways how to gain, in the middle-term, the budget deficit of 3%. During the meeting, we reached agreement on several important issues.

Firstly, the Government and social partners agreed on additional reduction of the 2009 budget by 500 million lats. Secondly, we had a broad discussion about the untaxed minimum, and during the meeting we agreed that in Latvia we can conceptually move towards the introduction of a progressive income tax which is planned to be accomplished by 2010. This year, the untaxed minimum is reduced to 45 lats and an additional rate is introduced on population with high incomes. The Ministry of Finance will prepare concrete proposals by Thursday's extraordinary sitting of the Government.

The third issue concerned the social budget. We agreed that by the Thursday's sitting of the Government the Ministry of Welfare together with the Pensioners' Federation will also prepare proposals on how to reduce the social budget by 35 million lats. I can already say that information about reduction of pensions by 15% is not true.

The fourth issue dealt with continued state co-financing in the acquisition of the European Union funds, as it remains as the most essential instrument for revival of the economic growth.”

Wednesday, June 10 - Prime Minister Valdis Dombrovskis met with José Manuel Barroso, President of the European Commission, and Joaquín Almunia, European Commissioner for Economic and Monetary Affairs in Brussels.

According to the Prime Minister's office, the EC officials expressed their satisfaction with the current activities of the Latvian Government and the parties agreed on further progress. The representatives of the European Commission stressed that the programme offered to Latvia by the EC and IMF is the only way to overcome the economic crisis in the country, prevent devaluation of the Latvian national currency (lat) and calm the financial markets. Both J.M.Barroso and J.Almunia indicated that lat's devaluation would cause considerable losses to the people of Latvia and therefore the EC believes that devaluation of the Latvian national currency is not permissible. The European Commission officials also highlighted that the international loan means security to the lat's stability and economic recovery of Latvia.

The representatives of the European Commission welcomed the readiness of the Latvian Government to approve, in the second reading, amendments in the 2009 budget providing for reductions in the amount of 500 million lats. The European Commission stressed that it is the first step for Latvia towards ensuring a budget without deficit, and gaining favourable indicators in the upcoming years, as well as ensuring Latvia's admission to the euro area in 2012. J.M.Barroso also highlighted that Latvian should continue its work on structural reforms and simplify the obtaining of the European Union structural funds.

The European Commission officials expressed their readiness to provide all possible assistance to Latvia in order to achieve financial stability not only in Latvia but also in other Baltic States and all European Union. Next week during the meeting of the European Council the heads of governments of the EU Member States will decide on formation a common financial market supervision system in European Union in order to prevent a repeated situation that supervision of the financial market is weak and speculations could adversely contribute to its ruining. Representatives of the European Commission urged to cooperation in this matter and called for active participation of Latvia.

Involvement of President and social partners

According to Ilze Rassa, spokesperson for the President Valdis Zatlers, the President has actively used his constitutional powers to get involved in economic stabilization measures being undertaken by the government. For several months he has met regularly with the Prime Minister, as well as with business leaders and non-governmental organizations representing various Latvian social groups.

Said Rassa, *"The President has been publicly praised for taking on a role as an arbitrator. He is being thanked for bringing political leaders and social partners together at one table, for conducting constructive talks and for helping reach a necessary result – an agreement that the budget has to be reduced by 500 million lats. This decision helped stabilize the financial markets and the value of the lat reached its highest level in several years."*

According to Rassa, it has been assured that the social partners will also be directly involved in the preparation of the 2010 budget as well.

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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