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STATEMENT AND PRESS CONFERENCE OF JOAQUÍN ALMUNIA, EUROPEAN COMMISSIONER FOR ECONOMIC AND MONETARY AFFAIRS

On October 13, Joaquín Almunia, European Commission for Economic and Monetary Affairs, visited Latvia. The discussions centred on the economic and budgetary situation and the preparation of the 2010 budget. During the visit Commissioner Almunia issued a statement after meeting with the Latvian government and held a press conference.

During the visit Joaquín Almunia admitted: *“After these meetings, after having heard what the PM has transmitted to me, I welcome the preliminary agreement reached by the Latvian government to reduce the 2010 budget deficit by 500 million lats. It was the figure that was agreed in our program in June, and now there is political commitment of the government to translate this figure into the budget that will be presented to the Parliament in the coming weeks. I think this is very good news.”*

Commissioner Almunia had meetings with President Valdis Zatlers, Prime Minister Valdis Dombrovskis, Finance Minister Einars Repše, the leaders of all political parties and of the Parliament's Budget and Finance Committee chaired by Solvita Āboltiņa, Deputy Speaker of the Saeima, and Governor of the Bank of Latvia Ilmārs Rimšēvičs. He also met with bank representatives and the social partners and other stakeholders.

Further you can read full text of statement and Almunia's speech and Q&A during press conference.

Statement by Joaquín Almunia, European Commissioner for Economic and Monetary Affairs, after meeting with the Latvian government in Riga

I welcome the preliminary agreement reached by the Latvian government to reduce the 2010 budget deficit by 500 million LVL, thereby targeting a 2010 general government deficit of no more than 8.5% of GDP (in European System of Accounts, ESA95, terms). I am looking forward to seeing that agreement translated in the draft budget that will be presented to the Latvian parliament later this month.

In my meetings today with the Prime Minister and Finance Minister, I have welcomed the fact that the necessary budgetary adjustment will be achieved also on the revenue side. Doing it only through expenditure cuts would be too hard on society, particularly for low-income families.

The European Union and other international lenders are helping Latvia weather the global financial and economic crisis. Without the €7.5 billion loan, most of which is being provided by the EU and other individual lenders in the Union, the budgetary adjustments would be much bigger and painful.

If delivered, the fiscal adjustment agreed in a Memorandum of Understanding last July will put the Latvian public finances on a more sustainable path, will help the country to ultimately be able to finance itself in the markets without international assistance and will allow it to share the EU economic recovery expected for 2010. Delivering the commitments agreed in July will also support the Latvian strategy on euro adoption.

**Press Conference of Joaquín Almunia,
European Commissioner for Economic and Monetary Affairs**

Thank you very much. First of all I want to thank PM Dombrovskis for being here, in the EU House, thank him very much for accepting to have this press conference here, and indeed I would like to thank him for the meetings that we had this morning, our bilateral meeting, our meeting with the ministers of the cabinet, meeting with the political leaders. After these meetings, after having heard what the PM has transmitted to me, I welcome the preliminary agreement reached by the Latvian government to reduce the 2010 budget deficit by 500 million lats. It was the figure that was agreed in our program in June, and now there is political commitment of the government to translate this figure into the budget that will be presented to the Parliament in the coming weeks. I think this is very good news. I hope that after this draft budget that will be adopted by the government, the Latvian parliament will discuss and adopt the budget for next year in due time – this would be extremely important to increase confidence in the markets vis-à-vis the Latvian economy, vis-à-vis the Latvian capacity to overcome the present very difficult situation.

In my meetings today with the PM and with the ministers, and in particular with the Finance minister Repše, I have welcomed the fact that this 500 million consolidation is based both on the expenditure side and on the revenue side of the budget. We have always had the opinion that to succeed in an ambitious consolidation that is needed to solve the problems of the Latvian economy, both sides of the budget have to contribute, not only expenditure but also the revenue side, and in this regard the commitments that have been agreed at the government level and have been transmitted to me today are welcome. One comment regarding the VAT and income tax regarding which the PM has said that these will not be changed: it is not a commitment with us, it is an opinion and a decision that belongs to the government. We are not intervening in this kind of decisions. We have always said that the revenue side should be used, we have no objections to use VAT and to use income tax on the opposite, but we recognize that these are decisions that do not belong to the Commission to adopt, it belongs to the Latvian government and authorities.

What is clear is that without the support of the European Commission and other international lenders, the solution to the problems of the Latvian economy will not be met. The decisions today by the Latvian government showed that the implementation of the program is possible, and that in this regard the implementation of the program will help towards the solutions of the problems. Even if the budgetary adjustment, as everybody knows, is a painful path, there is no alternative to this path. All the other supposed alternatives to the budgetary consolidation are wrong, are not viable or are more painful. This should be clear, and I have transmitted this not only to the ministers but also to the political [party] leaders and to the Parliament.

I am sure that thanks to the implementation of this program, the Latvian economy will find a sustainable path for the future that will help the Latvian economy to be financed by itself, not with the support of international lenders. This is our objective and this is indeed the objective of the government as well. In doing so, we will open the doors for the Euro adoption, and this, I think, is the most important anchor of this strategy, of this medium-term program. The success of the program will be measured in terms of growth, in terms of employment, in terms of welfare, and all these achievements will be consolidated, will be guaranteed, if in the coming years, as we wish, the success of the implementation of this program will open the doors definitely to the euro adoption in Latvia. Thank you very much.

Q. How much has Latvia damaged its reputation and image by trying not to fully comply with its own agreement with the international lenders on budget consolidation?

A. The political commitment of the government that has been expressed right now by the Prime Minister shows that the Latvian government is complying with the consolidation that was agreed in the program last June. I hope that this commitment will be transmitted to the parliament in the budget for 2010 and the parliament will adopt this. In this case, and I hope this will be the case, the financial reputation of Latvia will surely improve in the markets.

Q. Do you feel that a precedent is being set for other states who might seek financial help?

A. In fact, on top of Latvia we are dealing with similar programs in the case of Hungary and Romania. In all the cases we indeed are having some difficulties with the implementation of the programs, because these programs by definition are difficult to implement because of their conditions and because of the economic situation. But in all cases, the cooperation that we have established with the authorities, with the stakeholders involved and also with the other international lenders, in particular with the IMF, is very positive. All in all, this kind of financial support from international lenders, the EU and others, to EU members in financial difficulty has so far had very positive results, and I hope that this will contribute in a very important way to the solution of problems that had been created by the crisis in these countries.

Q. Did all the political party leaders say they support the program to consolidate budget by 500 million?

A. I didn't ask the opinion of all the political leaders, it is up to them to decide what to say. But at the government level, the Prime Minister confirms that the government has clear support for this commitment.

Q. How do you evaluate the progress in structural reforms made by the Latvian government?

A. There are some structural reforms going on, but I always transmitted to Latvian authorities, in particular the government, that the real sustainability of the consolidation strategy, the one we are putting forward, should be based on the structural reforms. It was not an issue today, today we were discussing short-term issues linked with the 2010 budget, but indeed structural reforms in the public sector, in education and health service sectors, local governments and other areas are a key to creating conditions for a more sustainable pattern of growth in the Latvian economy once the economy will be there.

Q. What will be the consequences if the Parliament does not approve the 2010 budget?

A. We have to monitor how the program we agreed in the Memorandum of Understanding that we signed with the Prime Minister and the Latvian authorities before the summer break, in July, is being implemented or not. I hope we will not be obliged at any moment to consider that the program is not being implemented, because the consequences are obvious. Let's consider the program will be implemented.

Q. Did some of the parties succeed in convincing you that there was a need for consolidation smaller than 500 million?

A. No.

Q. What was the initial agreement – consolidation or cutting expenses?

A. What we have agreed in the Memorandum of Understanding is fiscal consolidation or reduction of budget deficit by 500 million lats and, as I have said on many occasions, for this consolidation to happen, both sides of the budget, revenues and the expenditures, should contribute.

Q. Can you explain to the people why we need all these cuts?

A. The only thing I can explain is that I never spoke about cuts. I have always spoken of fiscal consolidation of 500 million Lats.

Q. Don't you have a feeling that Latvian politicians are blaming the international lenders, attaching the international lenders the role of the bad cop?

A. I don't know what each one of the politicians thinks about the fact that international lenders are supporting the Latvian economy that has financial needs. From the European Commission point of view, we are international lenders. We were asked by the Latvian authorities to provide lending and, of course, as it always happens – those who lend set some conditions.

Q. After today's visit, are you more optimistic or pessimistic about Latvia's chances of fulfilling the agreement?

A. I have received from the Prime Minister and the Latvian government the assurances that they are committed to prepare budget for 2010 with fiscal consolidation of 500 million Lats, both on the expenditure and revenue side of the budget. This is a very important condition to continue implementing the program that was agreed before the summer break. The implementation of the program is one of the most important conditions for the recovery of the Latvian economy, to overcome the very serious problems that it has. I can even say that thanks to the efforts that were done at the beginning of this year, during this year, some good signals are starting to appear at the economic horizon of Latvia. I think, and I am not the only one, that if this budget 2010 is adopted as it has been agreed, this will create conditions to have again positive figures of growth in the Latvian economy before the end of 2010.

Q. Is the exit of the program – the introduction of Euro – in jeopardy?

A. If the program that has been agreed is implemented and given that the external economic outlook gets better and not worse than the outlook we had in mind when we initiated the program, the program will have a successful end and this end, among other things, will imply that Latvia enters the Euro zone.

Q. Is the issue of devaluation not being considered?

A. This is something I don't consider.

Q. Are you not concerned about the possibility of social tensions?

A. As I told the Prime Minister and the ministers this morning, I am indeed concerned about the possibility of social tensions. I know that the consolidation process is a painful one here and everywhere but I could recommend the Latvian government to decide a fair and adequate distribution of the efforts. I have been recommending it since the beginning of this program, and there have been some clear achievements in 2009 in this regard. I will continue to recommend a fair distribution of efforts both on the expenditure and revenue side of the budget.

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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