

# BULLETIN

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## Implications of the Referendum on the Dissolution of the Latvian Parliament

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On 28 May, 2011 Latvian President Valdis Zatlers promised a referendum on the dissolution of parliament. It will be held on 23 July, and probably the majority of the population will opt for the dismissal of the Saeima, the country's unicameral parliamentary body. Early elections could lead to a new political constellation in parliament and one probably less reformist than the current group. If this happens, or there are difficulties in forming a new government, Latvia's position in the region will be weakened.

The impetus to declare a referendum in Latvia to dissolve parliament was spurred by the Saeima's decision to reject a request by the Office for the Prevention and Combating of Corruption for permission to search the private property of influential entrepreneur and politician Ainārs Šlesers. The president's decision to call for the early parliamentary election, independent of any political parties, was unexpected, especially as it came just before the election of the head of state by parliament. Zatlers said his action was motivated by a desire to raise the standards of political life. In his speech, he warned against rampant "privatization of policy," the growing influence of "oligarchs" and called for a fight against corruption. This explanation, as confirmed by the polls, was convincing to the public. Concern about political culture in the country also was expressed by independent analysts and NGOs. According to surveys conducted by Transparency International, Latvia is one of the most corrupt countries in the European Union.

**The Political Situation in Latvia.** The current parliament was elected quite recently, in October 2010, and most of the 100 seats in parliament were won by the centre-right Unity coalition (33 seats). Unity then formed a government with the centrist Union of Greens and Farmers (22 seats), over which the mayor of Ventspils, Aivars Lembergs, one of the richest men in the Baltic countries, enjoys considerable influence. The right-wing coalition National Alliance (8 seats) did not join the new government but often supports the government of Prime Minister Valdis Dombrovskis in parliament. In the opposition was the leftist Harmony Centre (29 seats), representing mainly the interests of the Russian speaking minority (it took second place in the election) and the so-called "party of Latvian oligarchs," For a Good Latvia (8 seats). It should be stressed that in Latvia, the lines of socio-political divisions are unclear. Distinctions between left and right can be made on the basis of two criteria. The first is the extent of state interference in economic activity and the second is the attitude to the question of nationality, especially to demands made by the Russian-speaking minority (representing approximately 35% of the population, but with only half having citizenship to be able to participate in the election). National parties, which have a negative attitude towards the Russian-speaking minority, are linked with liberal or conservative programs while those who represent the interests of the Russian-speaking minority are considered social democrats. On the question of ethnicity and cooperation with Harmony Centre, the ruling parties are divided.

On 2 June, the presidential election by secret ballot resulted in the victory of Andris Bērziņš (Union of Greens and Farmers), a recent political activist and ex-banker supported by the Latvian "oligarchs." It was an unexpected victory and he defeated Zatlers by winning a surprising number of votes (53 of 97 valid votes). Most parties declared they did not coerce the voting. This situation has split the ruling coalition as well. Officially only Unity and National Alliance endorsed Zatlers, while other MPs probably voted against him.

**Economic Situation.** Although the economic crisis already has reached its apogee in Latvia, the early elections planned for September will be held in its shadow. Among the EU countries, Latvia has been hit the hardest by the effects of economic collapse. In 2009, GDP decreased by 18% per year, unemployment reached 20%, emigration remained at a high level and foreign trade turnover decreased by 30%. In 2010, the downward trends were reversed and GDP grew by about 3% while the number of unemployed slightly decreased (to 17%). Although the Latvian currency has been pegged to the euro and despite the risk of domestic devaluation, the disciplined budgetary policies of the first (March 2009) and second (November 2010) Dombrovskis governments and the bail-out from the European Commission and International Monetary Fund (a loan of 7.5 billion euro, given in tranches) helped to stabilize the economic situation. Forecasts for 2011 predict GDP growth of more than 3%, and the introduction of the euro is planned for 2014. For this reason, early elections also will show if Latvians, already tired of the economic crisis and the savings policies, still will be willing to delegate the mandate of their trust to Dombrovskis. So far, he has taken a lot of regressive decisions (such as an increase in VAT, an excise tax and the reduction of welfare benefits). He also has attempted to meet the stringent conditions set by the IMF and the EC to keep the budget deficit in 2011 to less than 6% of GDP and reduce expenses by 3% of GDP. This has decreased the standard of living in Latvia, which still maintains a high level of unemployment (14.5% in the first quarter of 2011) and declining incomes (the average monthly wage fell again in 2010 to €630 per person).

**Perspectives.** There are several possible post-election scenarios. One of them assumes a victory by Unity, which has declared to fight corruption and the influence of the “oligarchs.” However, in order to form a government with National Alliance, both parties would have to significantly increase the number of seats they hold in parliament (by at least 10). Equally likely is the success of the Union of Greens and Farmers and Harmony Centre, which could co-rule with For a Good Latvia. This coalition probably would strive to reduce the current financial and monetary discipline. However, with regard to the financial obligations of the state and the economic situation, the possibilities for action in this area are quite limited. The participation of Harmony Centre in the government would set a precedent because the Russian-speaking minority party would take part in the government. It also may come to stalemate if after the elections the establishment of a majority government proves to be impossible. The results of the parliamentary elections will be influenced mainly by three elements: the economic crisis, which directly affects public opinion, ethnic issues and the fight against corruption. If after the early election, the parties opposing the restrictive economic policy would take power, or if difficulties arise in establishing a new government, the country’s internal situation may deteriorate and that would affect external relations. This scenario probably would cause a downgrade of Latvia’s credit rating, a decline in the level of foreign investment and difficulties in the repayment of debt to the IMF and the EC. The subsequent delay of the introduction of the euro also might be possible. Such a situation could weaken the competitiveness of the Latvian economy and its position in the region.

Latvia belongs to a group of so-called “small states” (it has 2.23 million people) but implements strategic projects that often have a regional character. A key project for the entire region is the development of the transport links Rail Baltica and Via Baltica. Latvia could lose EU funds if there is a lack of progress in building the rail links. Priority also is placed on energy security and the diversification of energy sources, including the integration of Latvia’s electricity transmission system with UCTE and NORDEL. Currently, the Baltic states still operate under the Russian system of transmission—UPS. Moreover, Latvia is completely dependent on Russian gas supplies and there is a plan to build a gas terminal.

Regardless of which party would create a government, a very important element in Latvian foreign policy, especially in the economic area, will be its relations with Russia. Recently, they have been improving. The breakthrough came in December 2010 with the first visit of a head of state since the 1994 visit by the president of Latvia to Moscow. Latvia has supported, among other things, Russian efforts to simplify the visa regime with the EU and has opted for modernization of the transport connection between Riga and Moscow. It should be noted that in 2010, annual trade turnover with Russia increased by 35% and has almost already reached its pre-crisis level. It can be supposed that the assumption of power by the current opposition would further improve the atmosphere of relations with its eastern neighbour, and this may result in a greater inflow of Russian capital.