

BULLETIN

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Parliamentary Elections in Latvia: Problems with the Appointment of the Coalition Government

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On 17 September, the party that mainly represents the interests of the Russian-speaking minority won the parliamentary elections in Latvia for the first time. The victory for Harmony Centre is expected to bring about calls for an increase in social benefits and a moderate approach to national issues. Although this group's share of the ruling coalition has not yet been decided, it would likely result in a change in Latvia's restrictive financial policy and may contribute to the intensification of relations with Russia.

Early Parliamentary Elections. Early elections for the Latvian parliament took place after former President Valdis Zatlers requested in May a dissolution of the parliament. Most of the population supported his proposal (94%) during a referendum in July. The president's decision was taken only a few months after the previous parliamentary elections. It was an expression of his opposition to the prevailing corruption, but its immediate cause was parliament's rejection of a request by Latvia's anti-corruption agency to search the property of one of the deputies. As a result, President Zatlers lost his chance at re-election when MPs, during a June vote for a new president, supported the candidacy of Andris Bērziņš from the Union of Greens and Farmers.

In this year's parliamentary elections, Harmony Centre obtained 31 seats (about two more than a year ago). It is one of the two main parties that represent the interests of the Russian-speaking minority. However, when compared to the For Human Rights in United Latvia party, which remains outside parliament, Harmony Centre is not so radical in its demands. It is worth noting that the Russian-speaking minority, which in Latvia is more than 35% of the population and which has increasingly stronger political representation, is still unsuccessful in its demands that Russian be recognized as a second official language. The pro-Russian Harmony Centre can cooperate with the Reform Party, which was founded by former President Zatlers and which won 22 seats and came second in the recent elections. Perhaps its success is partly because it took votes from its potential coalition partner, the centre-right Unity party, which won only 20 seats (vs. 33 in 2010). At the same time, the radical National Union party strengthened its position in parliament and increased its number of seats from eight to 14, while the Union of Greens and Farmers, which retained 13 of its 22 seats in parliament, and the new Ainārs Šlesers–Reform Party LPP/LC, which did not surpass the minimum threshold, suffered a painful defeat. The latter two parties are commonly associated with the largest Latvian businessmen, the so-called oligarchs, who are suspected of financial embezzlement and corruption.

The Economic Crisis and the Socio-Political Changes. Harmony Centre's victory, which according to unofficial estimates was supported by up to 15% of Latvia's voters, could have happened only partly from changes in the electoral preferences associated with its relationship to the issue of nationality. In practice, this would mean a permanent change in the existing division of the Latvian political scene, according to which right-wing forces are commonly associated with national parties and present a liberal or a conservative program, while the left forms social-democratic parties that appeal primarily to the Russian-speaking minority. Latvia is slowly coming out of an economic decline, as evidenced by a gradual increase in GDP by 3% in 2010

with a similar projection for 2011. However, given the still difficult financial situation of the state because of high unemployment (16%) and inflation (4.5%), this year's election undoubtedly took place in the shadow of an economic crisis. The low results for the ruling Unity party clearly shows that the majority of society has tired of restrictive government policies, which in 2009 drastically reduced the expenses of the budget in order to receive an aid package from the International Monetary Fund and the European Commission. At the same time, the electoral success of Harmony Centre was based on social slogans, a promise to index pensions to inflation, and the resignation from an ethnicity-focused platform because of escalating problems with it. However, the country's difficult economic situation did not cause changes in its socio-political cleavages or on the ethnic issues that still divide the inhabitants of Latvia. This is evidenced by an increase in support for the National Alliance—the party appealing to nationalist slogans.

The New Ruling Coalition. Assuming the Reform Party and Unity will probably form a coalition, the following scenarios are possible to get to a majority. The first involves a coalition with the radical National Alliance party. The second is with the pro-Russian Harmony Centre as the third coalition partner. A coalition of Reform Party, National Alliance and Unity would guarantee the continuity of the current economic policy of the country. Unity would seek to introduce the euro by 2014, which would mean maintaining strict financial discipline and a budget deficit at a level no greater than 2.5% of GDP. Some controversy may arise in that coalition's strategy towards ethnic minorities, since National Union supports the strengthening of educational policy.

The second scenario of the formation of a coalition involving Harmony Centre also could have a significant impact on Latvia's domestic politics, particularly if Harmony Centre wanted to escalate problems based on ethnicity. However, because Harmony Centre and Reform Party lack experience in government, Unity would like to keep the strategic ministries, including the Ministry of Finance and Economy. Even with pressure from Harmony Centre, the country's fiscal policy could be limited only in accordance with commitments made to the IMF and the EC. The quick introduction of the euro would be questionable, even though during the campaign Harmony Centre opted for conducting a referendum on the issue. Moreover, the party promised to increase social benefits and to run a "society-oriented policy", which meant it would be willing to renegotiate the repayment of Latvia's IMF debt.

However, a coalition under either scenario would not remain neutral when it comes to the formation of Latvia's foreign policy, particularly in relations with Russia. The new government's policy in a coalition with National Alliance would be a continuation of Latvia's pro-European course, which is set to intensify regional cooperation. If Harmony Centre joins the coalition, it would strive to further deepen relations with Russia (especially since in the last half of the year trade between the two countries increased). Moreover, with a share in the government, Harmony Centre's declared desire to name one of its own as Minister of Transport probably means there would be an increase in investment in the transport infrastructure that links the two countries.

Proposals for the EU. For the EU, it is essential that European issues are a priority for Unity, Reform Party and National Alliance. Since it would intend to develop cooperation in the Baltic Sea region, this government probably would tend to implement the EU's strategic projects, which is especially important for Latvia's energy security. However, in case a coalition is formed with Harmony Centre, significant changes in the financial management of the country could be possible. This would cause concern amongst EU countries (it is worth noting that so far the Latvian government has opted for a restrictive financial policy as sought by the EU). A reduction in budgetary discipline also could discourage foreign investors and lower Latvia's credit ratings.

Harmony Centre's participation in the coalition also would be significant for EU energy policy. Using Harmony Centre's position in the government, Russia probably would seek to maintain its economic influence in Latvia, particularly in the gas and electricity sectors. That may be why Russia would seek favourable provisions in relation to the EU's third energy package (Russia's Gazprom is Latvia's main supplier of gas and the country's electricity networks operate on a post-Soviet transmission system). Also, with the rapid pace of Russian Rosatom's competitive nuclear power projects in Kaliningrad and Belarus, Latvia's participation in the construction of a new nuclear power plant in Visaginas could prove to be even more doubtful, which would increase the already considerable investment risk of the project.