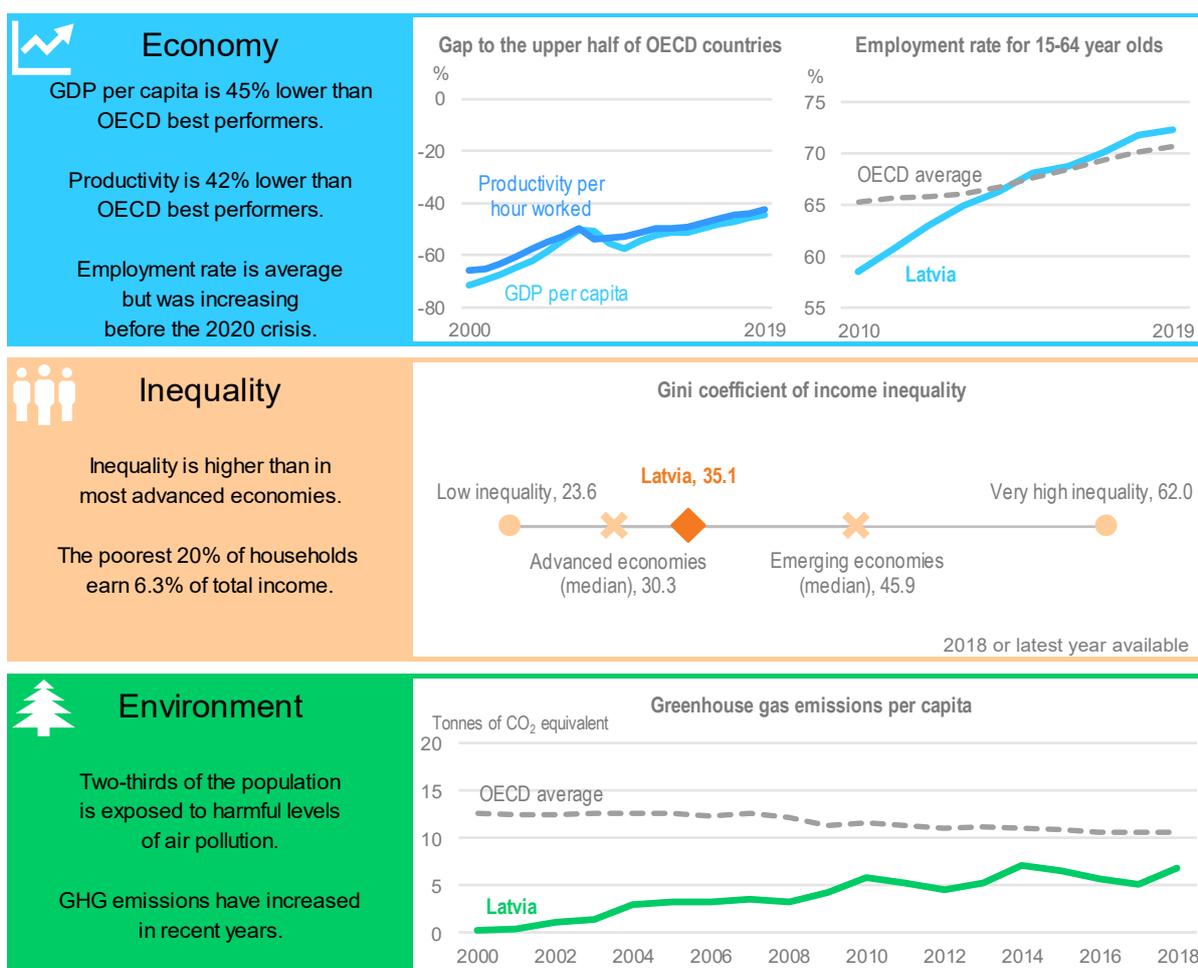


Latvia

Bolstering the social safety net should become the top priority. The European Recovery and Resilience Mechanism and low interest rates offer a unique opportunity not only to mitigate the immediate consequences of the pandemic but also to enhance green and digital transition. Such investments should be complemented by measures that improve skills and facilitate the reallocation of labour and capital.

Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

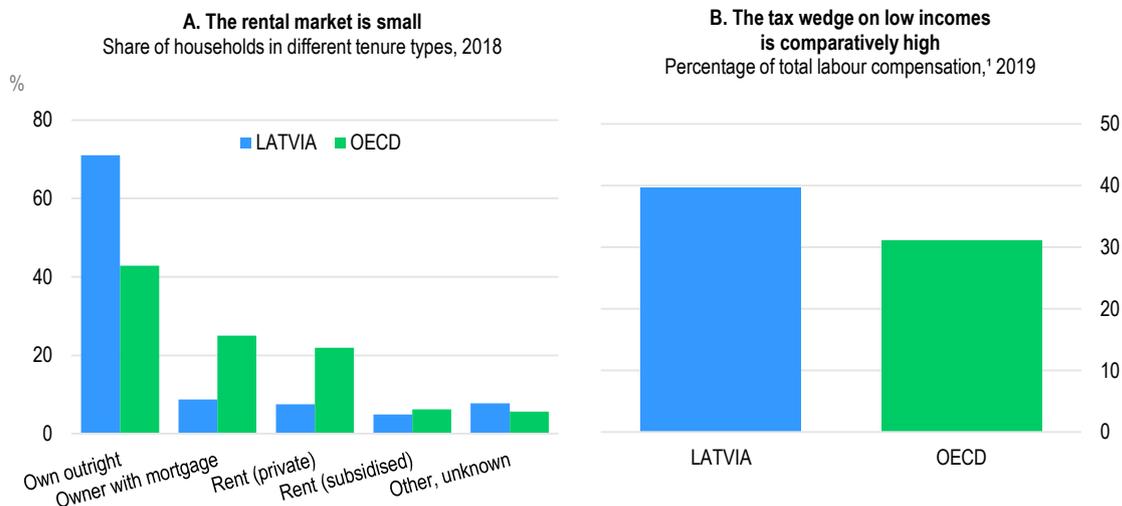
Building resilience by strengthening social protection and skills

Living standards have improved, but disparities are still pronounced while coverage and adequacy of social protection policies are limited. To ensure more inclusive growth and **bolster the social safety net**, spending on healthcare and guaranteed minimum income schemes should further increase. Despite the fast improvement, life expectancy is still among the lowest in OECD countries and highly unequal. Risky behaviour plays a role, and actions to encourage a healthy lifestyle (lower alcohol consumption and use of tobacco products in particular) should continue. For a sizeable proportion of the population access to healthcare remains limited due to high out-of-pocket payments, which should be lowered.

Initial **education and adult learning have to become more responsive to labour market needs**. Prior to the pandemic skills shortages, aggravated by high emigration, were most evident in high-skilled occupations. Population ageing will add to these tensions. Spending on active labour market policies has been justifiably shifted from public-works schemes to more effective training and activation measures, but remains low and should be increased. More spending could help to reduce unemployment faster and offer upskilling, in particular in terms of digital skills, to facilitate the adoption of new productivity-boosting technologies. A sustainable funding mechanism for adult learning would be welcome.

There is scope to **increase infrastructure spending while prioritising green investments and digital technology uptake**. Training to improve digital skills (in the private and public sectors) would help increase the adoption of digital technologies and participation in global value chains. Increasing taxes on pollutants by eliminating exemptions needs to be combined with public transport investments to ensure access to affordable and environmentally-friendly transportation while protecting low-income households from rapid increases in transport costs. Lifting barriers to investment in wind-energy infrastructure would help reduce emissions and complement the substantial share of biomass in energy production.

Vulnerabilities and areas for reform



1. Average tax wedge for a single person without child, at 67% of average earnings. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.

Source: Panel A: OECD, Affordable Housing Database; Panel B: OECD, Taxing Wages Database.

StatLink  <https://stat.link/zfo2wm>

Latvia's rental housing market offers few affordable choices, with a small formal rental market and very limited social housing (Panel A). As a result, many remain in poor-quality or unsuitable housing and do not move to areas where jobs are available. To **strengthen access to housing**, the authorities should

rebalance landlord-tenant relations, expand the competencies of municipal housing companies and facilitate the development of non-profit or limited-profit providers. The generosity and coverage of the housing benefit could be also increased.

Increasing the effectiveness of the tax system could ease labour reallocation and help to ensure a more inclusive and greener recovery from the COVID-19 crisis. The personal income tax schedule remains insufficiently progressive, and effective tax rates on labour income for low earners are high (Panel B). This contributes to informality, high unemployment and weak incentives to move to better paying jobs. Meanwhile, there is scope to rely more on property and environmental taxes. Increasing energy taxation by eliminating exemptions and taxing pollutants at the same rate across fuels and sectors would help to reduce emissions and improve health outcomes.

Latvia: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Social protection: Bolster the social safety net	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Increase of the Personal Income Tax non-taxable minimum for pensioners (every year from 2018 to 2021). <input checked="" type="checkbox"/> From 2019, old age pensions with a contribution of at least 45 years were increased. <input checked="" type="checkbox"/> In January 2021, the minimum wage was increased from EUR 430 to EUR 500 per month. <input checked="" type="checkbox"/> A minimum social security contribution has been introduced. From July 2021, It will equal the amount paid by those earning the monthly minimum wage. <input checked="" type="checkbox"/> Higher public financing for healthcare has helped reduce waiting times and out-of-pocket payments. <input checked="" type="checkbox"/> The government approved proposals to raise the minimum income thresholds starting in 2021. 	<ul style="list-style-type: none"> <input type="checkbox"/> Increase the guaranteed minimum income thresholds. <input type="checkbox"/> Further increase funding for healthcare to improve access and reduce out-of-pocket payments. <input type="checkbox"/> Continue actions to encourage a healthy lifestyle through further increases in taxes on alcohol and tobacco, information campaigns and training for pharmacists.
Labour market: Increase the responsiveness of education and training to labour market needs	
<p>*New priority *</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Strengthen the responsiveness of the tertiary education system to changing skills demand. <input type="checkbox"/> Hire more counsellors in the Public Employment Services and prioritise training to improve digital skills. <input type="checkbox"/> Increase spending on active labour market policies.
Infrastructure: Strengthen infrastructure while prioritising green investments and digital technology uptake	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In 2020, the government increased support to green projects such as energy efficiency measures for buildings and construction of combined pedestrian and cycling paths. 	<ul style="list-style-type: none"> <input type="checkbox"/> Promote renewable energy generation, and remove administrative barriers to the development of wind energy. <input type="checkbox"/> Increase taxes on pollutants by eliminating exemptions combined with more investment in public transport. <input type="checkbox"/> Co-operate with employers' associations to develop courses and improve the uptake of the latest digital technologies.

2019-2020 Reforms	Recommendations
Housing: Improve access to good-quality housing	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In the 2021 budget, the government increased funding for housing guarantee support programmes. <input checked="" type="checkbox"/> From 2020, all administrative procedures for new construction activities are performed only through digital means. 	<ul style="list-style-type: none"> <input type="checkbox"/> Expand housing support for lower- and middle- income households. <input type="checkbox"/> Diversify the supply of housing providers. <input type="checkbox"/> Rebalance landlord-tenant relations by setting a finite period of time for tenancy agreements and allowing rent increases only where the tenancy agreement sets out the relevant principles and procedures.
Tax system: Increase the effectiveness of the tax system	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Social security contributions have been reduced by one percentage point and the personal income tax threshold increased by 50% (in force from 2021). <input checked="" type="checkbox"/> Tax rates on several natural resources (sand, CO2 emissions, coal) were increased in 2020. <input checked="" type="checkbox"/> Increase of the Personal Income Tax non-taxable minimum (in 2019 and 2020). <input checked="" type="checkbox"/> Increase of the excise duty rates for tobacco products, alcoholic beverages and beers (2020 and 2021). <input checked="" type="checkbox"/> In 2021, the Natural Resource tax rates and the Company car tax rates were raised. <input checked="" type="checkbox"/> In 2021, the excise duty on e-cigarettes was restructured and increased. 	<ul style="list-style-type: none"> <input type="checkbox"/> Further reduce the labour income tax wedge on low earnings. <input type="checkbox"/> Collect more revenues from the taxation of real estate and energy. <input type="checkbox"/> Make better use of ICT technologies for tax law enforcement.

Recent progress on structural reforms

The government has implemented reforms in several key areas. In addition, it plans to further increase spending on healthcare and energy infrastructure, and to reduce taxes on low and medium incomes. A reform to substantially reduce the total number of municipalities is in its final stages. It will also create new administrative units to better channel funding and improve governance. Key objectives of administrative reform include reducing disparities between regions and improving the availability and quality of public services.