LATVIA[1]

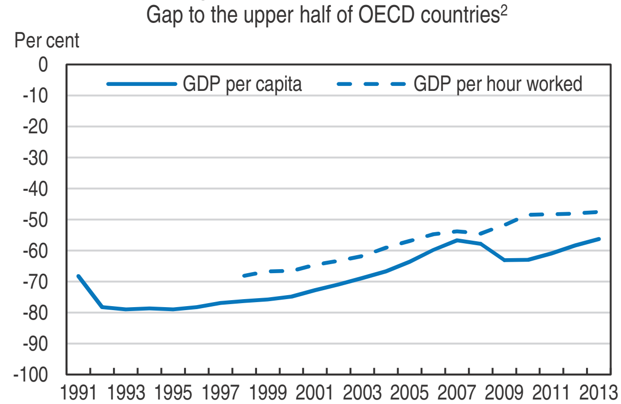
- Latvia has experienced a significant catch-up over the past ten years in terms of GDP per capita. Following a big hit during the crisis, convergence has resumed. Yet, the income gap remains substantial, at about a half compared with advanced OECD countries. Both hours worked and productivity lag significantly behind the OECD average. In addition, the share of long-term unemployment remains high.
- Ensuring a sustainable catch-up will require boosting competition and innovation in domestic markets, encouraging formal labour force participation and tackling infrastructure bottlenecks.
- Improving employment and wage prospects of the most vulnerable by stepping-up active labour market policies and lowering the tax burden on low wages would achieve both growth and equity objectives.

Growth performance indicators

A. Average annual growth rates
Per cent

	2003-08	2008-13
GDP per capita	8.3	0.4
Labour utilisation[1]	3.5	-2.0
Labour productivity	4.7	2.4

B. Convergence in GDP per capita has resumed
Gap to the upper half of OECD countries[2]



1. Labour utilisation is defined as the ratio of total employment over population.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per employee and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts Database*; and World Bank, *World Development Indicators (WDI) Database.*

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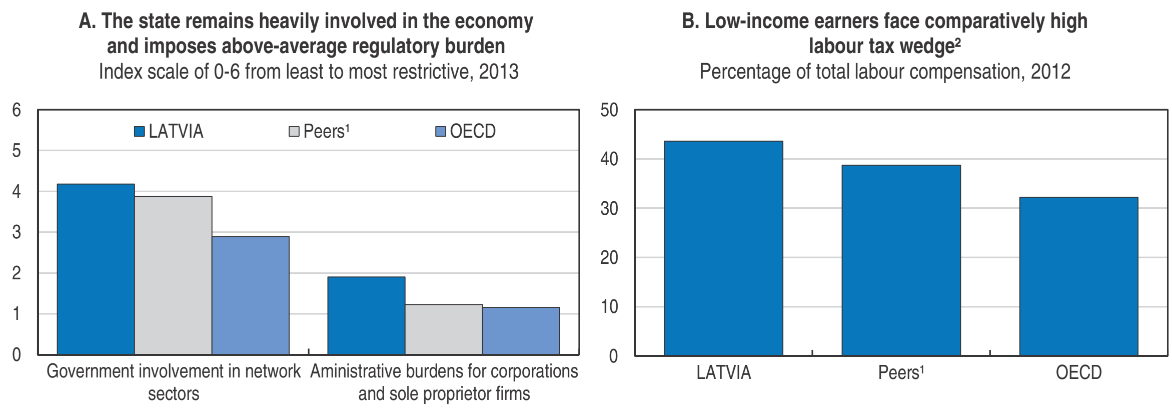
1. Since this country is covered for the first time in *Going for Growth*, structural reform priorities are all new by definition, which implies that there is no follow-up on actions taken on those priorities. Available data do not yet allow to identify indicator-based priorities by matching performance against policy indicators, as a result in this edition the identification of priorities is of qualitative nature and relies on country expertise.

LATVIA

Policy indicators



1. Average of the Czech Republic, Estonia, the Slovak Republic and Slovenia.
2. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. Single person at 67% of average earnings without children. 2013 data for OECD average and peers.

Source: Panel A: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*. Panel B: OECD, *Taxing Wages Database*; and *European Commission: Economic Databases and Indicators*.

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Going for Growth 2015 priorities

Reduce labour tax wedges and strengthen active labour market policies. Labour utilisation and productivity are held-back by high unemployment, inactivity and informality, with associated risks of social exclusion and poverty. This partly reflects work disincentives embedded in tax and benefits system as well as insufficient active labour market policies.

Recommendations: Continue decreasing the labour tax wedge in line with a gradual withdrawal of social benefits, ensuring that work pays. Continue to improve activation policies, for instance by strengthening the role of individual counselling and co-operation of the public employment service with local municipalities who distribute social benefits and services.

Reduce regulatory burdens and state involvement in the economy. Red tape weighs on both corporations and sole proprietors firms and the state maintains a significant presence in the economy, with only weak corporate governance standards.

Recommendations: Reduce regulatory burdens by cutting down red tape, reviewing existing legislation and streamlining various procedures, such as getting electricity and construction permits. Reduce state ownership in the economy. Improve corporate governance of state-owned enterprises by reinstating boards of governors, requiring mandatory annual reporting and centralising oversight and management in line with arm's length principles.

LATVIA

Strengthen infrastructure. Energy, road and port infrastructure are underdeveloped. Weak connectivity of energy networks isolates Latvia from European markets.

Recommendations: Enhance the quality of transport infrastructure, focusing on roads and ports. Promote port efficiency, including by enhancing management transparency and facilitating private investment. Improve connectivity of energy networks to the rest of the EU.

Improve efficiency of the tax system. Weak revenue collection and tax evasion hamper growth. This also makes it difficult to reduce the tax burden on labour.

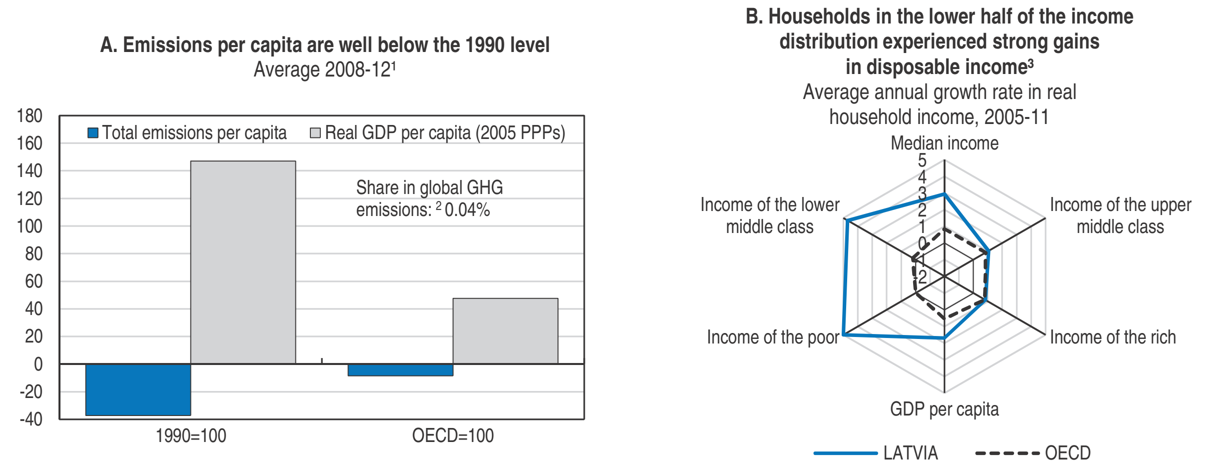
Recommendations: Continue to strengthen revenue collection, including by fighting against tax evasion. Revise the tax mix by reducing labour taxes and increasing immovable property and environmentally-related taxes. Review rules that allow micro-enterprises to pay lower social security contributions, because such rules risk reducing firms' incentives to expand and hamper tax compliance.

Improving R&D and innovation framework. R&D investment and output is low and weak in both public and private sectors.

Recommendations: Implement the planned reform of public R&D and tertiary education, ensuring a higher degree of internationalisation and strengthening collaboration with the private sector. Review the current public support to ensure that small start-ups can benefit from both tax incentives and grants.

LATVIA

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178966