



# 2017 OECD ECONOMIC SURVEY OF LATVIA

*Boosting productivity and inclusiveness*

September 15<sup>th</sup> 2017, Riga Latvia



<http://www.oecd.org/eco/surveys/economic-survey-latvia.htm>





## Main messages

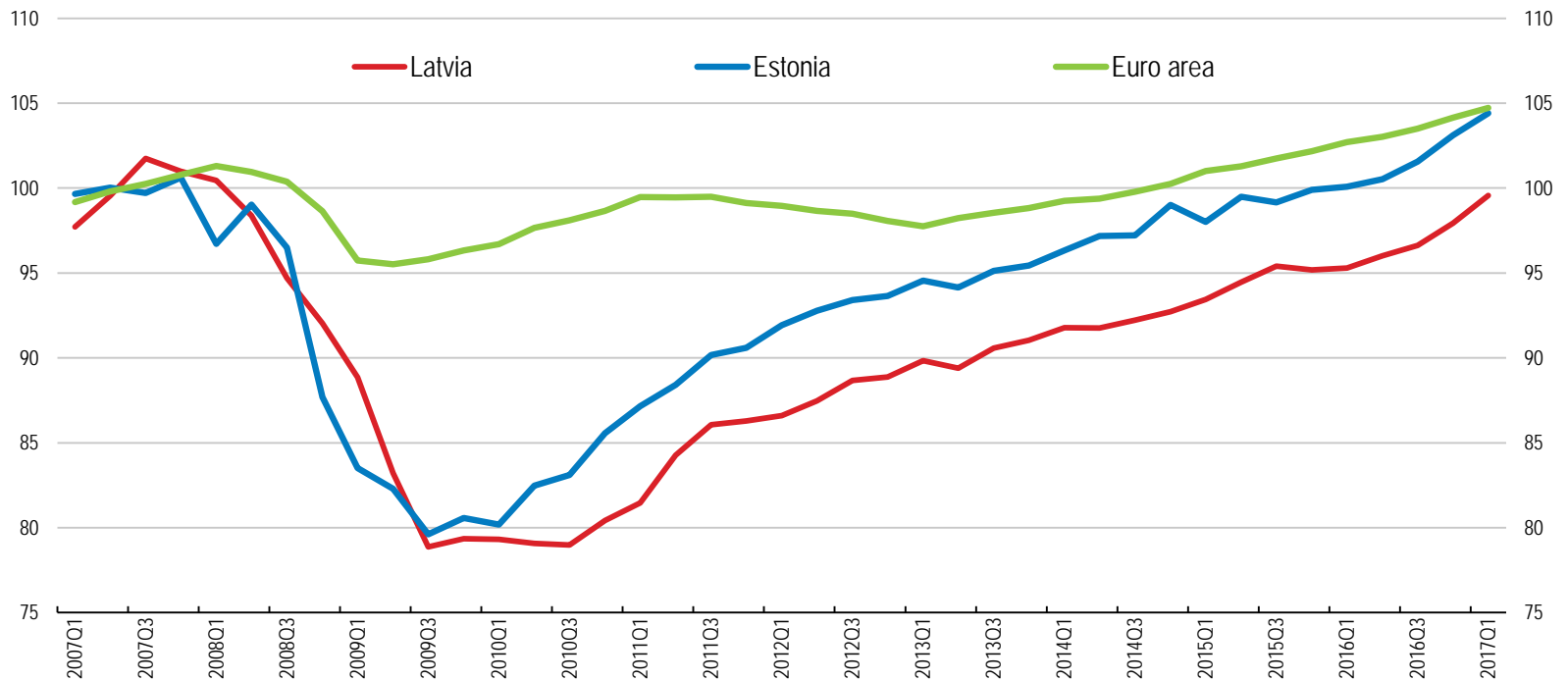
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- The Latvian economy is growing strongly, underpinned by progress with economic reforms.
- Deeper integration into international trade is necessary to catch up with high-income countries.
- Poverty and unemployment are still high. Access to jobs, housing and health services need to improve.



# Growth has been strong

Real GDP, Index 2007 =100

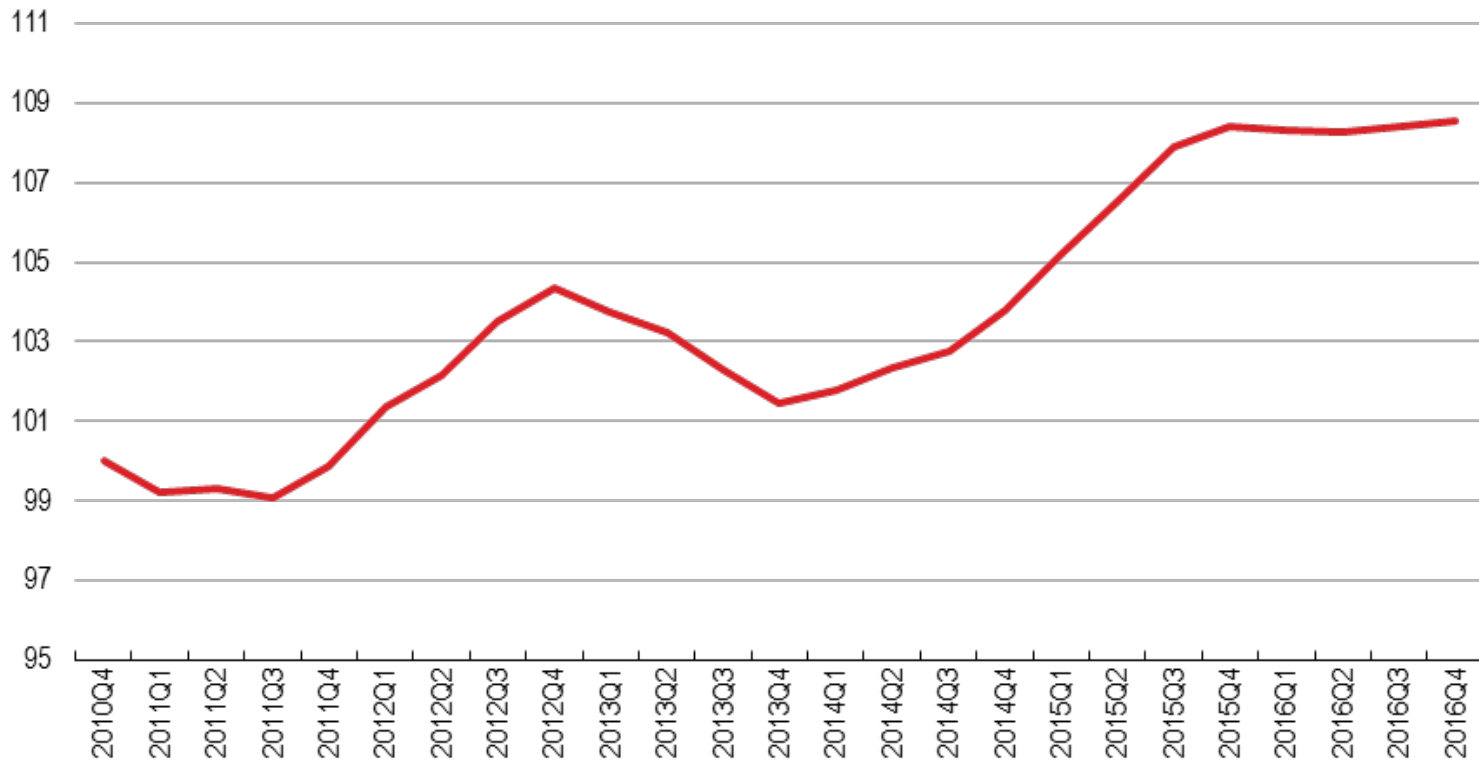


Source: OECD (2017), OECD Economic Outlook: Statistics and Projections (database).



# Exports have gained market share

**Export performance indicator, moving average 2010=100**

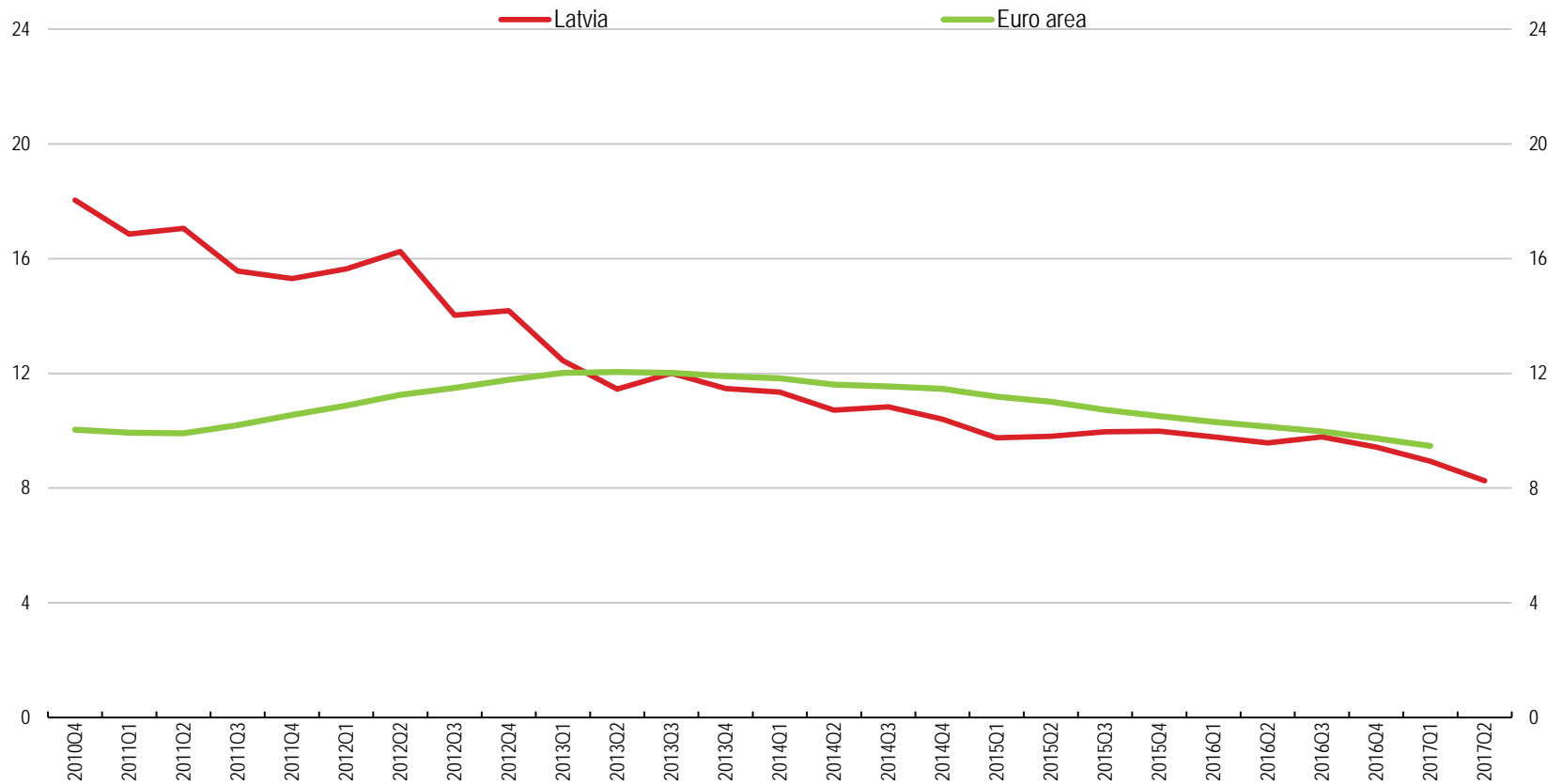


Source: OECD (2017), OECD Economic Outlook: Statistics and Projections (database).



# Unemployment has fallen

## Unemployment rate as % of labour force

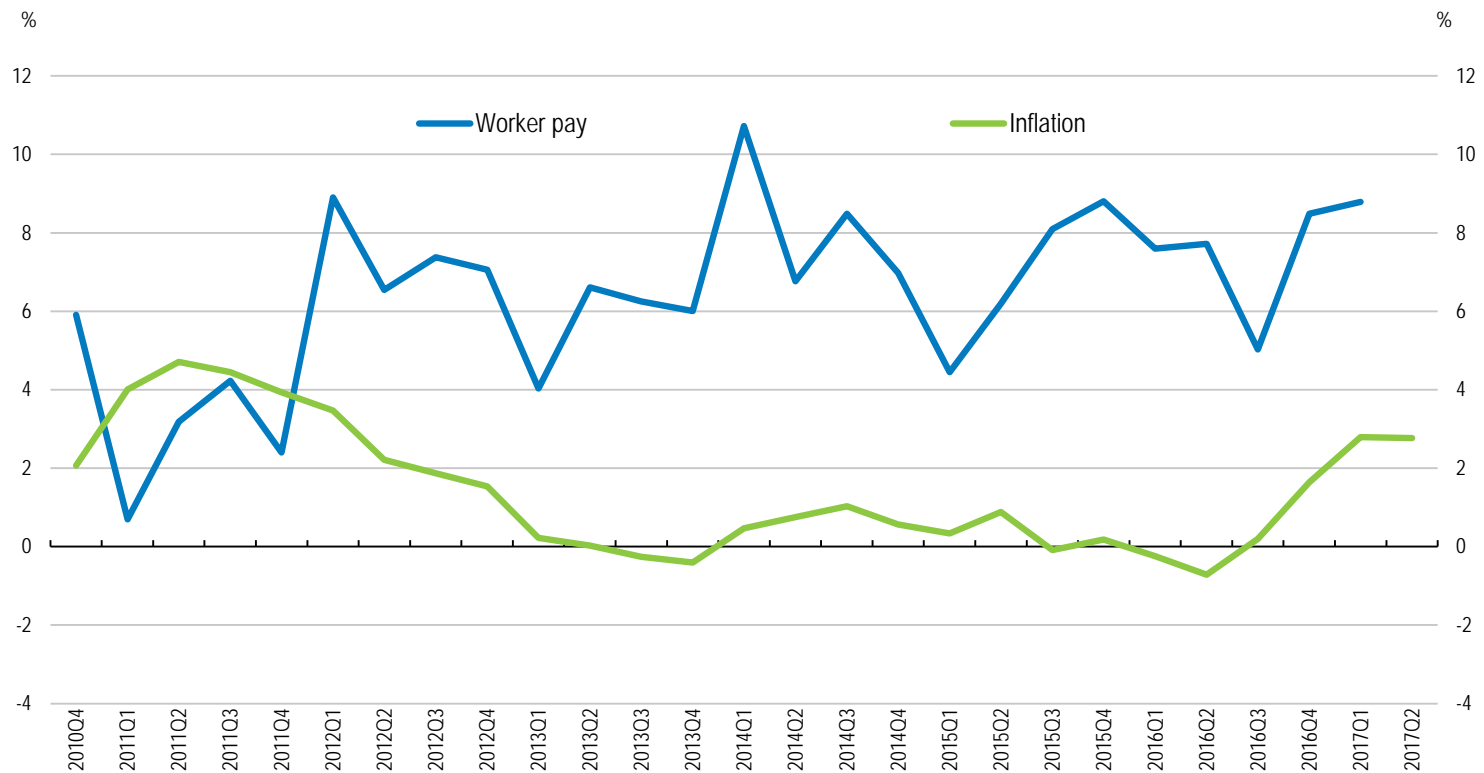


Source: OECD (2017), OECD Economic Outlook: Statistics and Projections (database).



# Wages have grown more than prices

## Growth of labour compensation per employee and consumer price inflation

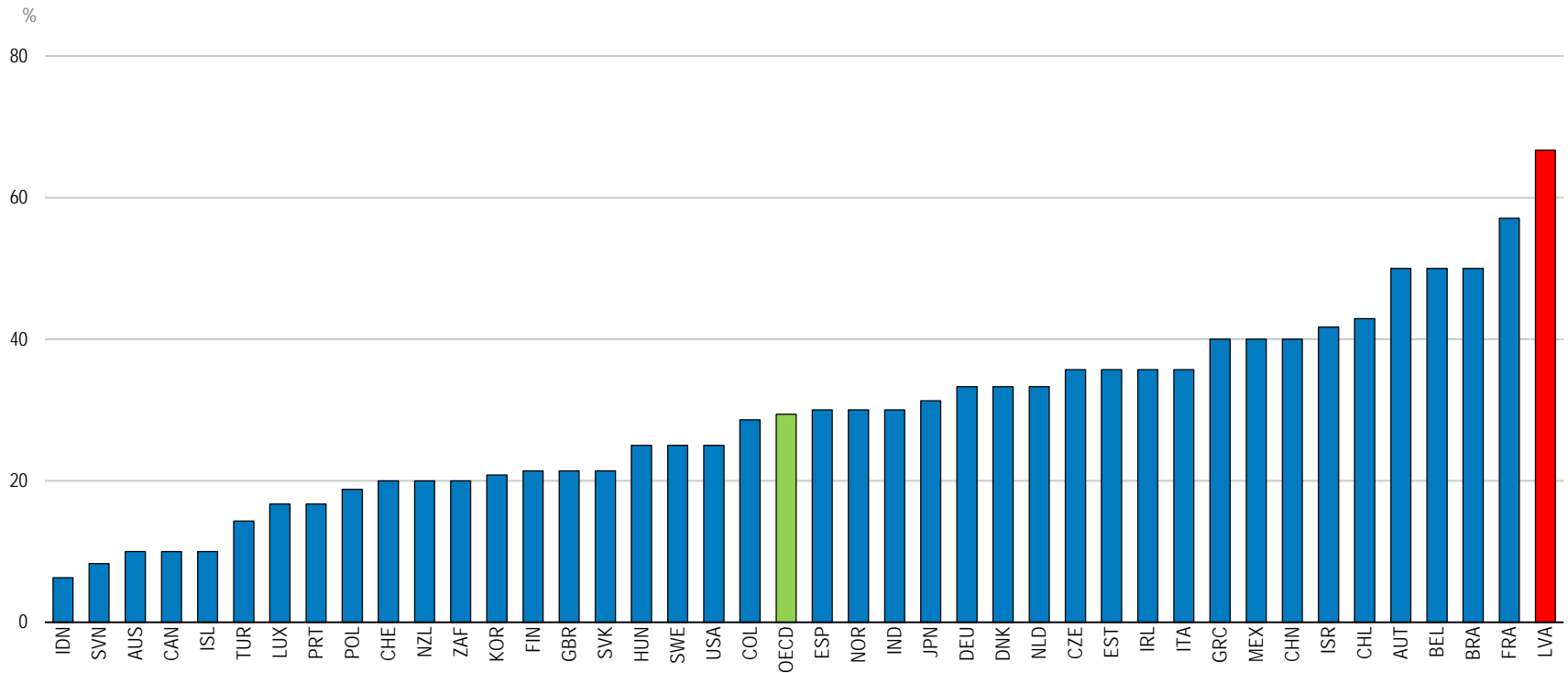


Source: OECD (2017), OECD Economic Outlook: Statistics and Projections (database).



# Latvia is a top reformer

## The 2017 Going for Growth reform responsiveness indicator

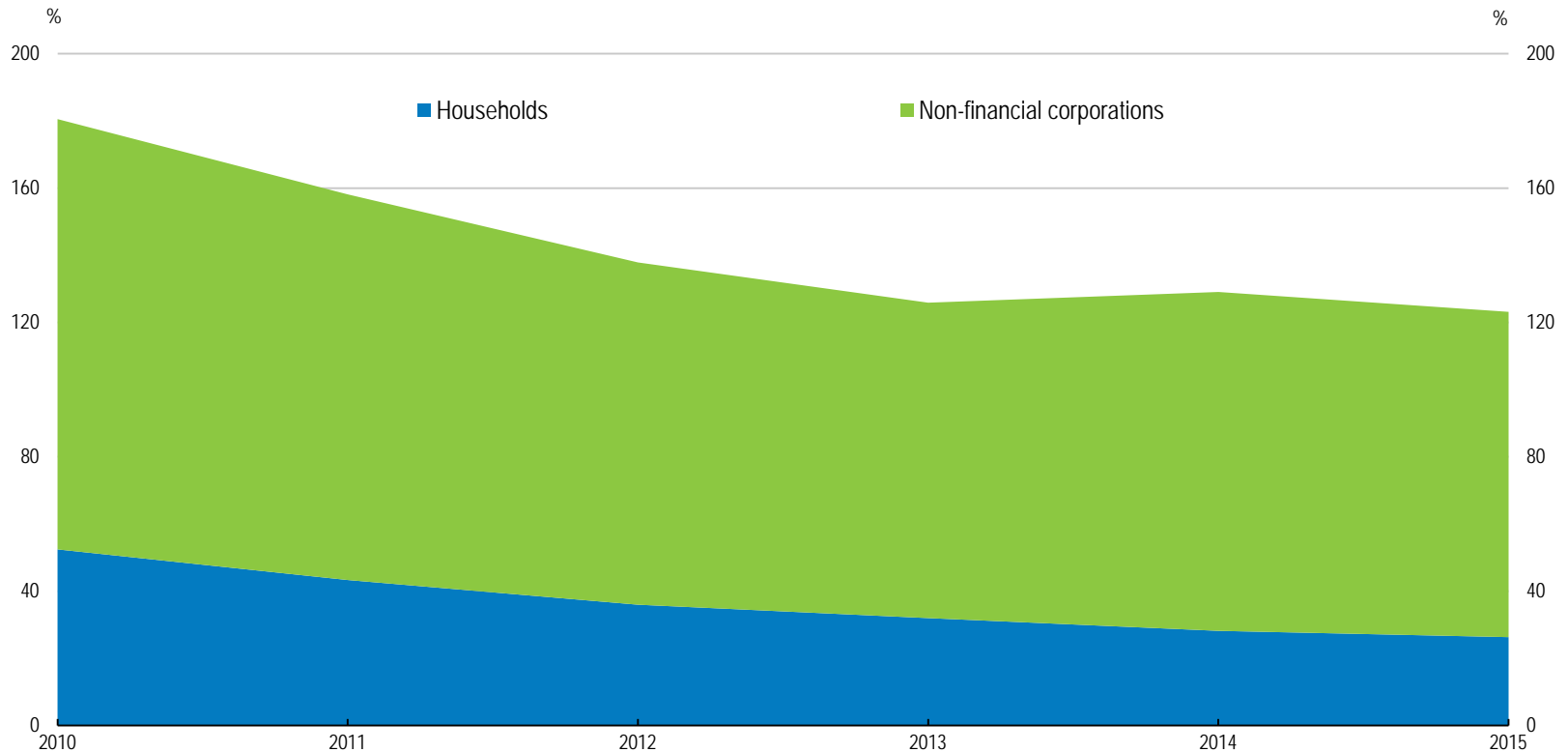


Source: OECD (2017) Going for Growth 2017 edition.



# Debt has fallen

## Debt as % of GDP



Source: OECD (2017), OECD Economic Outlook: Statistics and Projections (database) and OECD National Accounts Statistics (database).





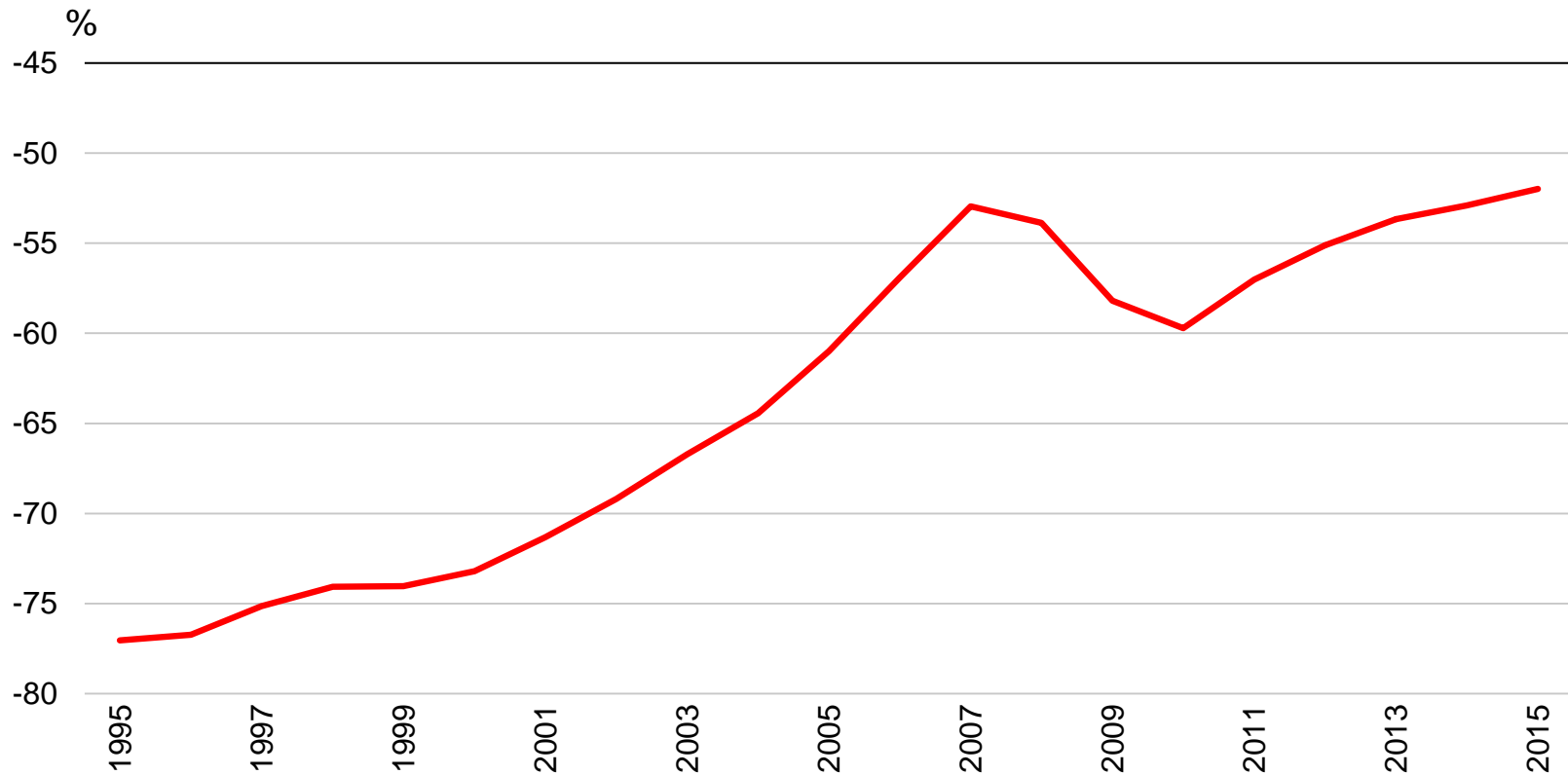
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# Important challenges remain



# The gap in productivity remains large

Gap in GDP per capita of Latvia vis-à-vis the upper half of OECD countries

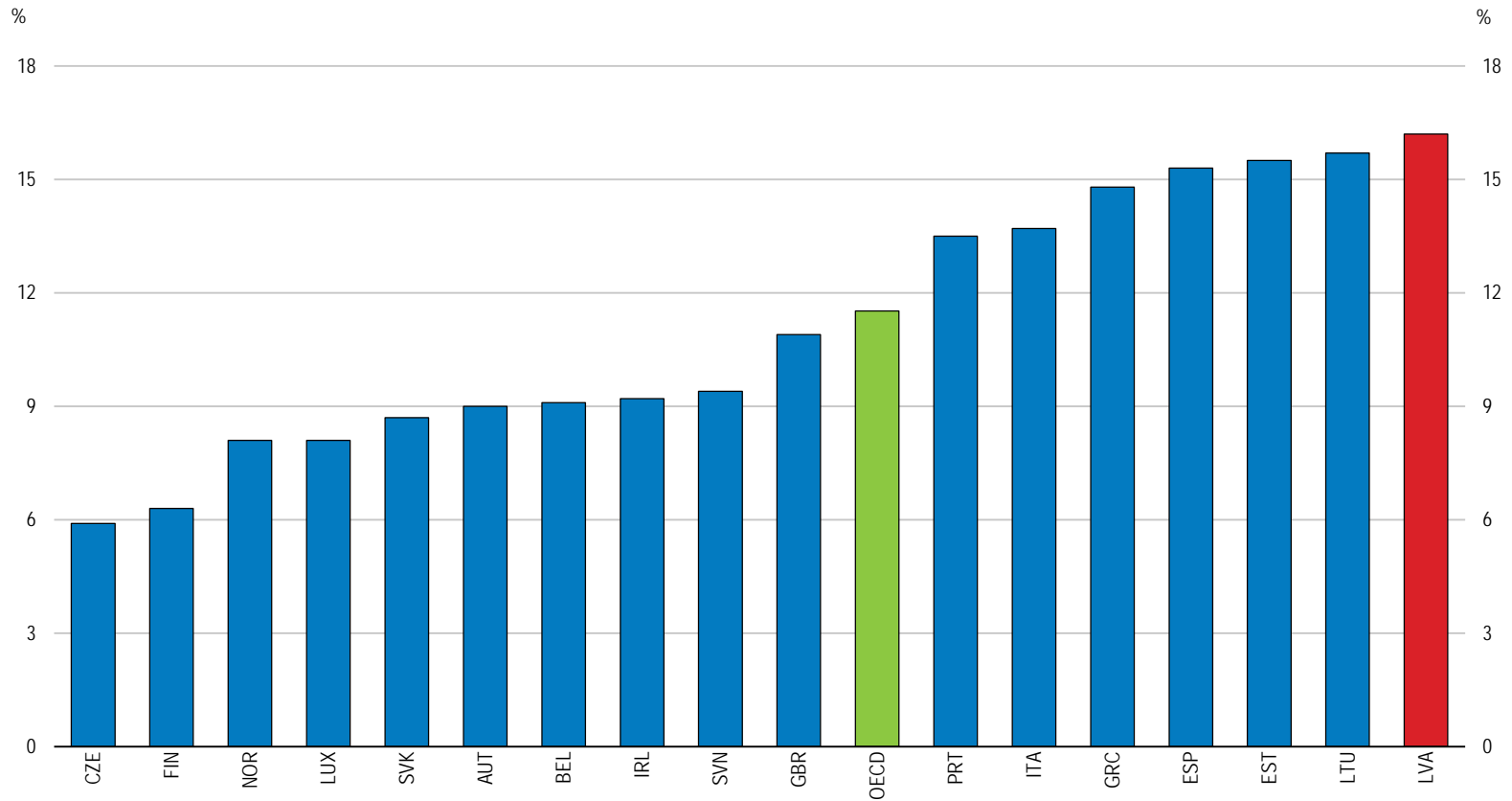


Source: OECD (2017), OECD National Accounts Statistics (database) and OECD Productivity Statistics (database).



# Poverty is high

## Share of population with disposable income below the poverty line, 2015 or latest

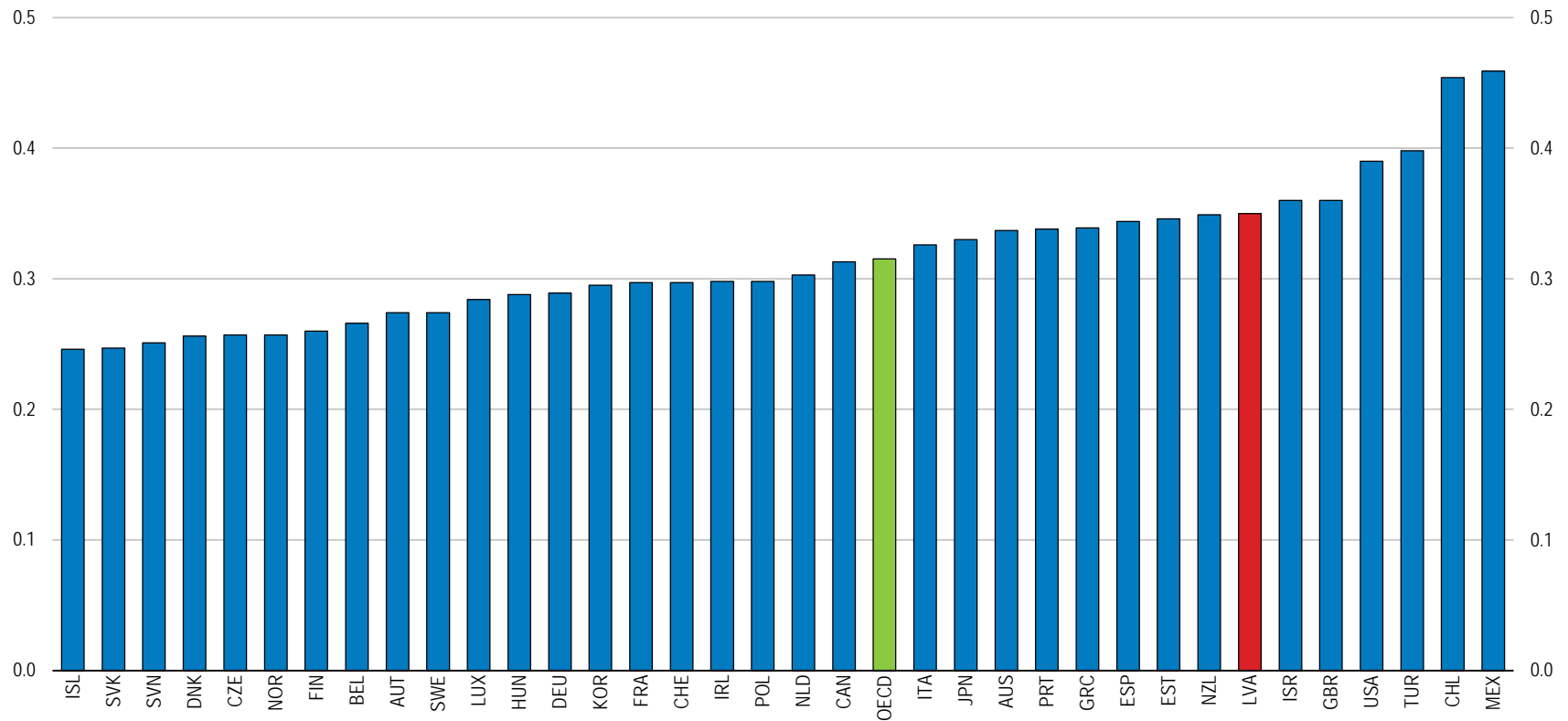


Source: OECD (2017), OECD Social and Welfare Statistics (database).



# Income inequality remains high

Gini coefficient, scale from 0 (perfect equality) to 1 (perfect inequality), 2015 or latest available

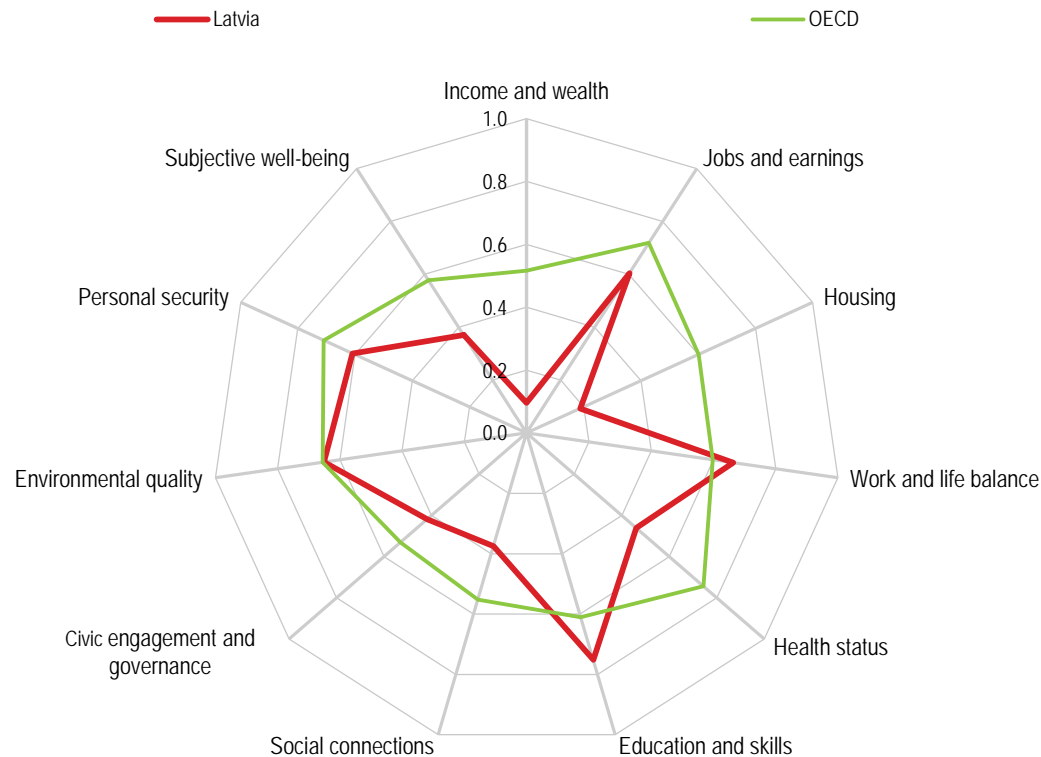


Source: OECD (2017), OECD Social and Welfare Statistics (database).



# Higher income, better housing and better health would raise wellbeing

OECD Better Life Index, from 0 (worse) to 1 (best), 2016

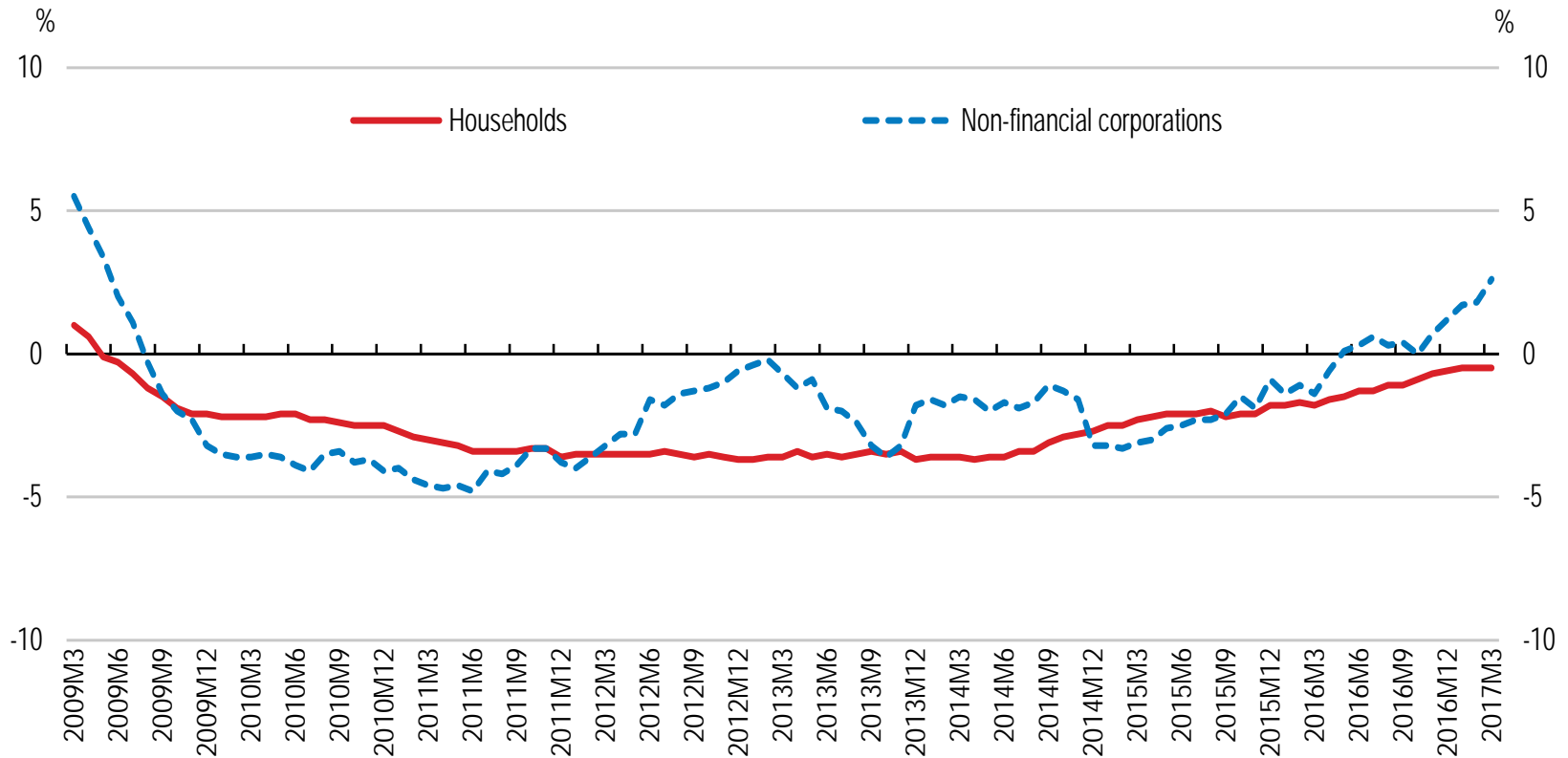


Source: OECD (2016), OECD Better Life Index- Edition 2016.



# Credit growth is still weak

Year-on-year percentage change of credit stock



Source: Bank of Latvia.

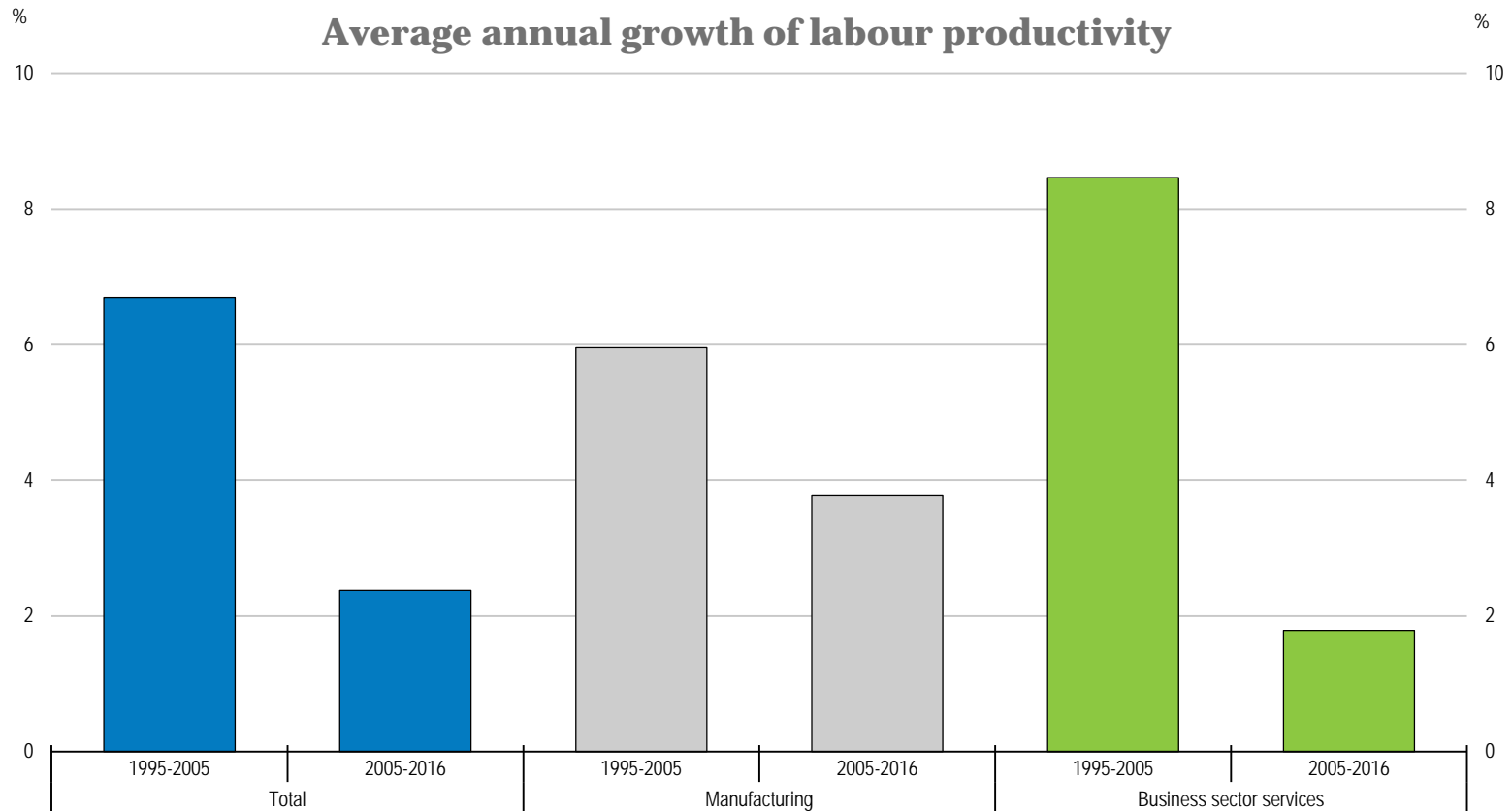


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**Seize opportunities in global markets to catch up with high-income countries**



# Productivity growth has slowed



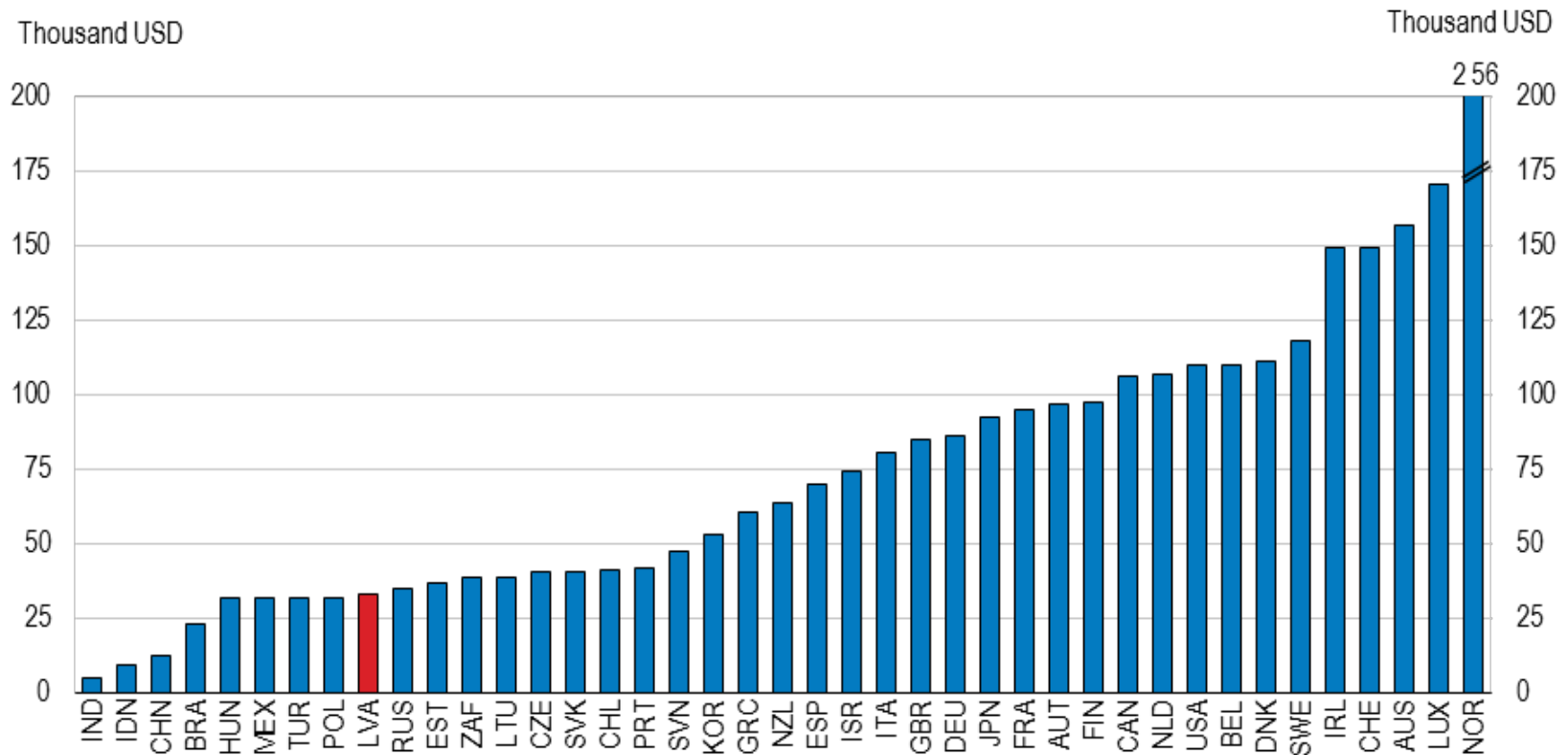
Source: OECD (2017), OECD Productivity Statistics (database).





# Trade could boost productivity and income

## Domestic value added per worker embodied in foreign final demand, 2011

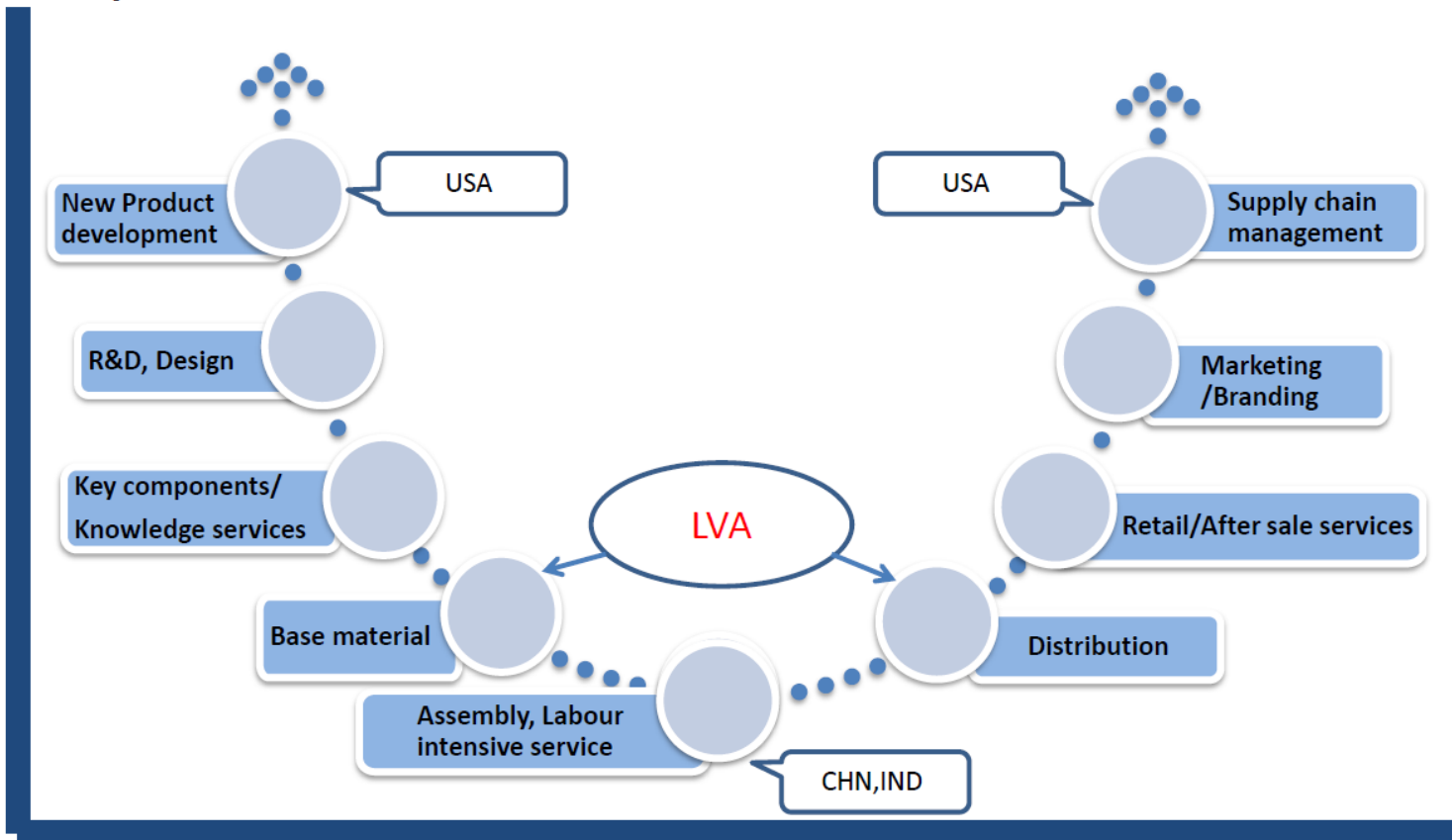


Source: OECD/WTO (2016), Statistics on Trade in Value Added (database) and OECD (2016), "Trade in Employment: Core Indicators" in OECD Structural Analysis (STAN) Databases.



# Latvia must move up the value chain to knowledge-intensive activities

value added embodied in foreign final demand per worker

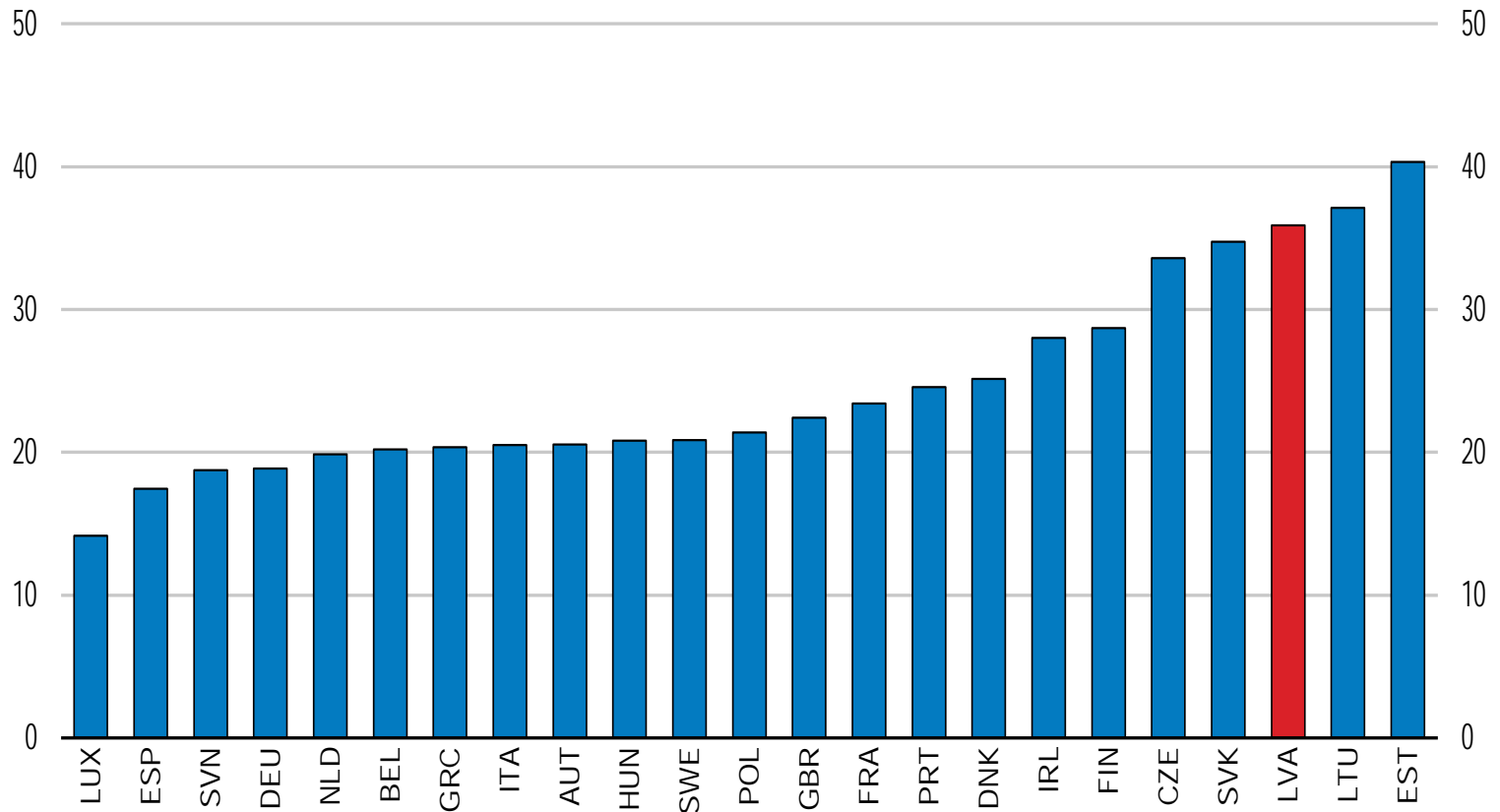


**Value chain activities**



# Many workers feel under-skilled at the time of hiring

Share of employees reporting lower skill level than required for their jobs at the time of hiring, 2014

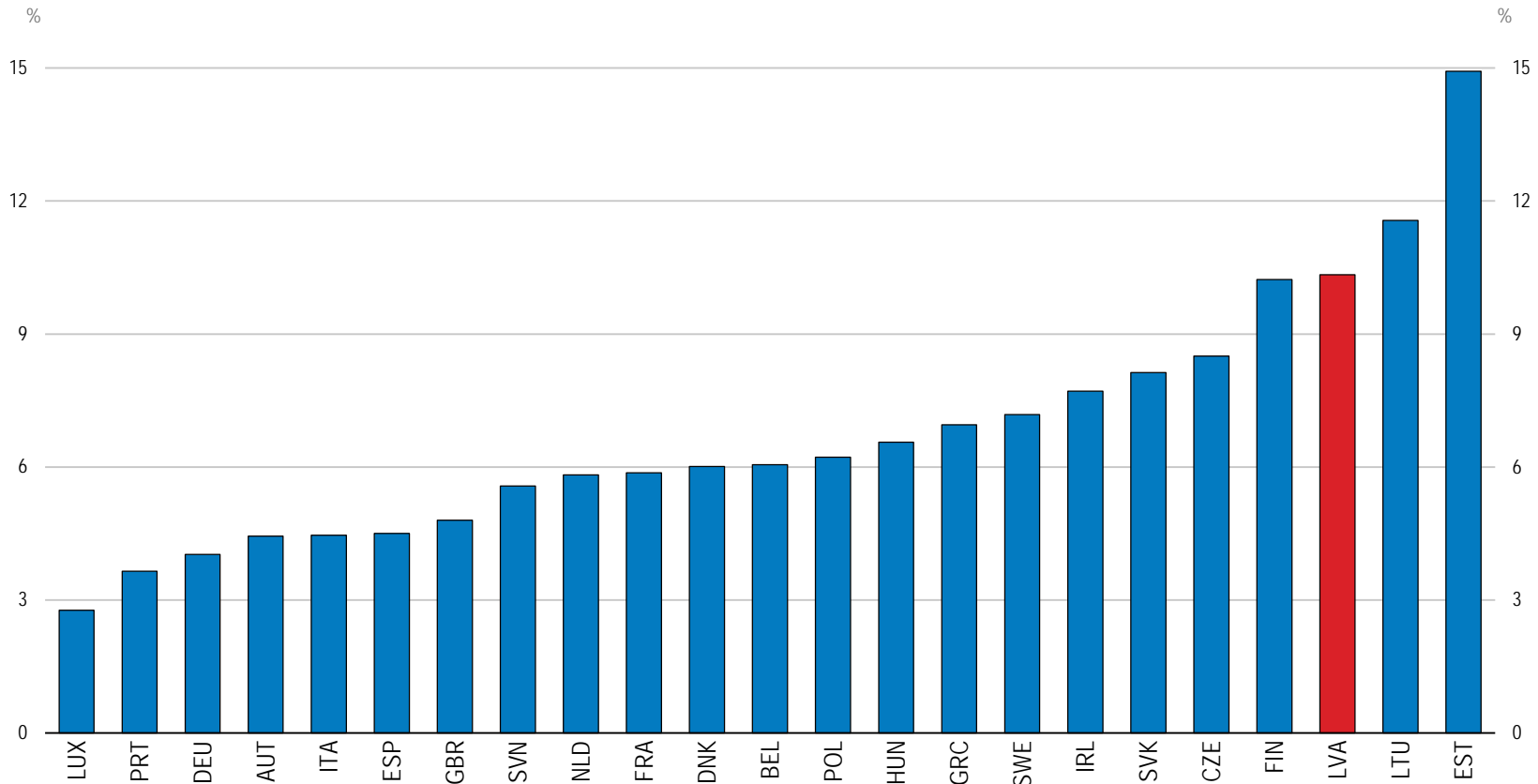


Source: CEDEFOP (2016), "Skills Panorama" (<http://skillspanorama.cedefop.europa.eu>).



# Skill shortages are holding back participation in global value chains

Share of employees reporting lower skill level than required for their current jobs, 2014



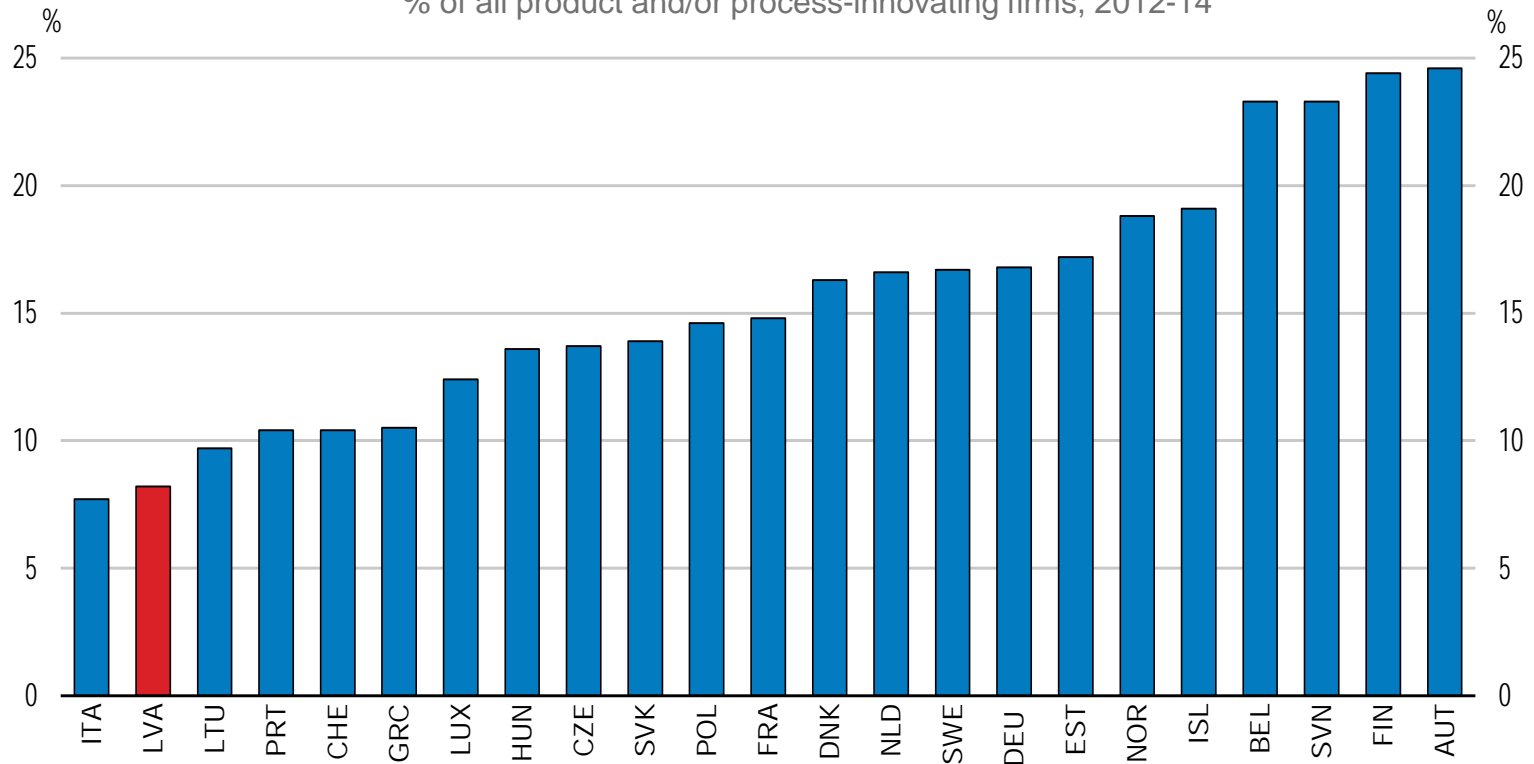
Source: CEDEFOP (2016), "Skills Panorama" (<http://skillspanorama.cedefop.europa.eu>).



# Few firms cooperate with research institutions

## The share of firms engaging in research cooperation

% of all product and/or process-innovating firms, 2012-14

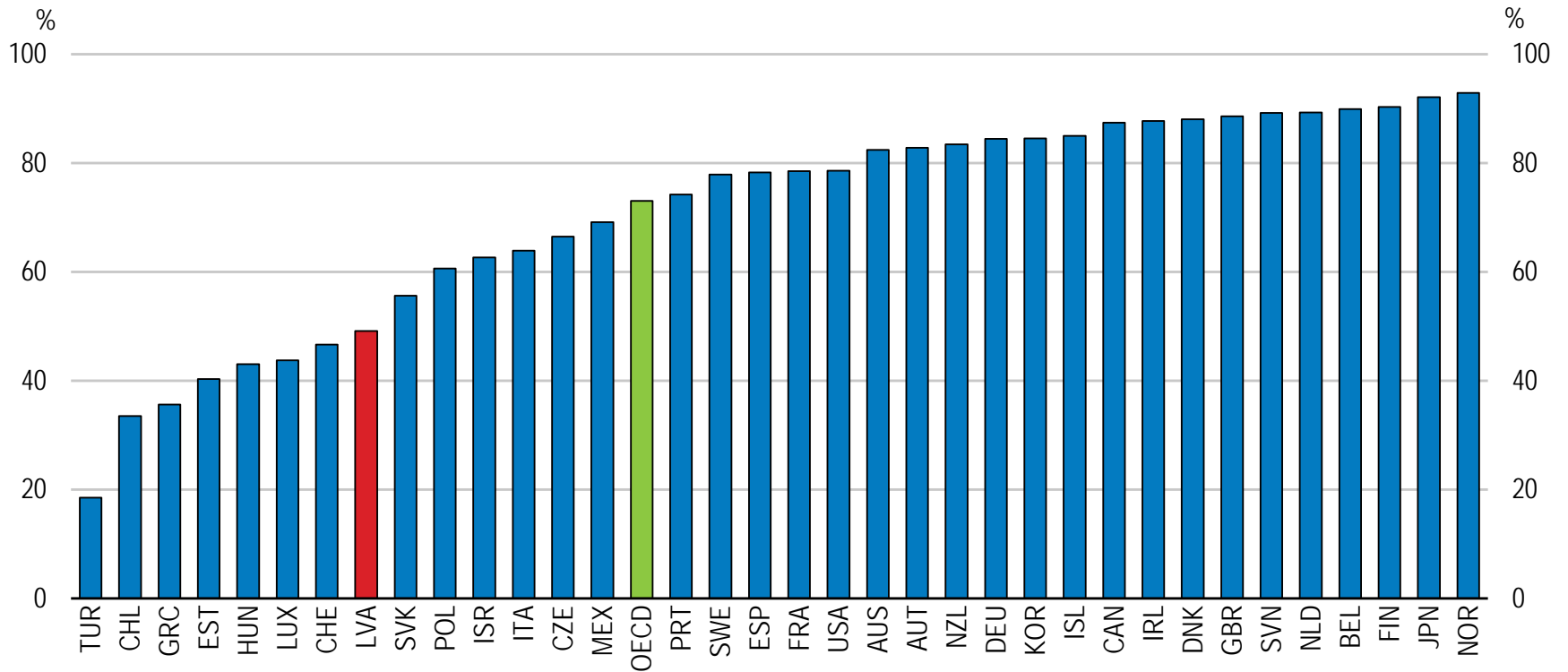


Source: Eurostat (2016), Community Innovation Survey (CIS).



# Low debt recovery hampers access to credit

Average recovery rate from insolvency, 2016

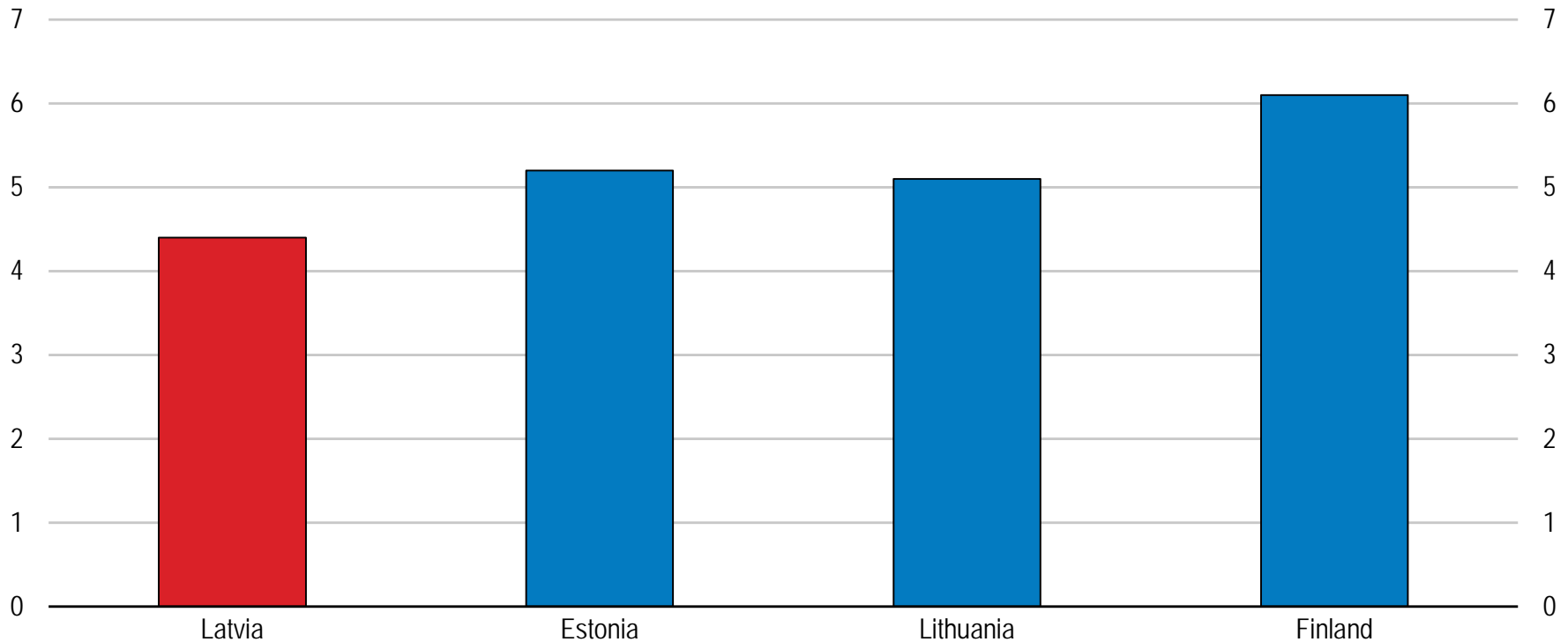


Source: World Bank (2017), Doing Business 2016: Measuring Regulatory Quality and Efficiency (Resolving insolvency database).



# Infrastructure lags behind peer countries

Global Competitiveness Index, scale from 1 to 7 (best)  
2016-17



Source: World Economic Forum, "The Global Competitiveness Report 2016-2017".



## Recommendations to seize opportunities in global markets to catch up with high-income countries

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- **Provide more generous grants for students attending vocational schools who are from low-income families.**
- **Expand grants for university students and target them to students from low-income families.**
- **Increase government funding of innovation promotion programmes with strong evaluation results.**
- **Strengthen the specialisation of judges to improve the insolvency regime.**
- **Apply the same cost-benefit tests to large national infrastructure projects as are applied to EU-funded projects.**



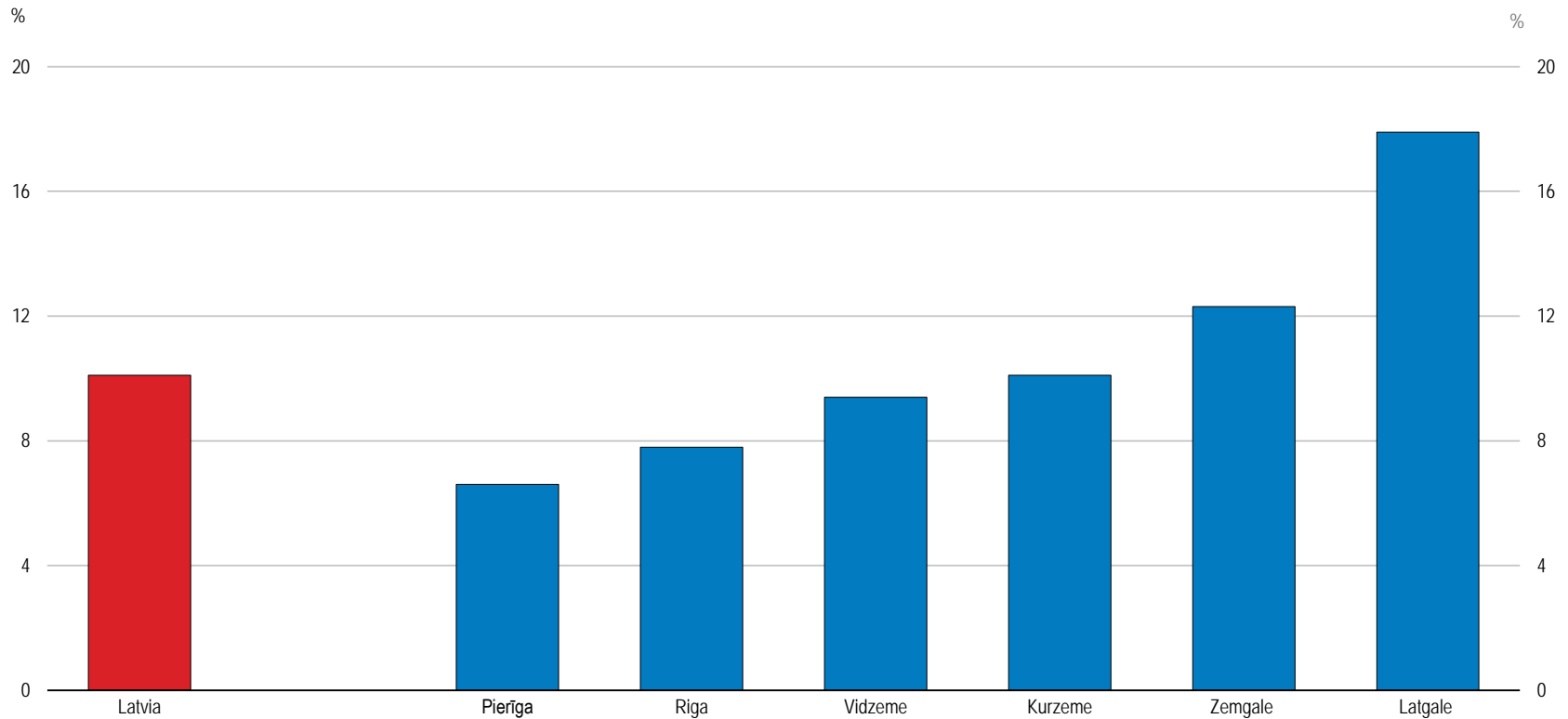


# Improving access to jobs, housing, and health services



# Unemployment is high in some regions

Unemployment as % of the labour force, 2016

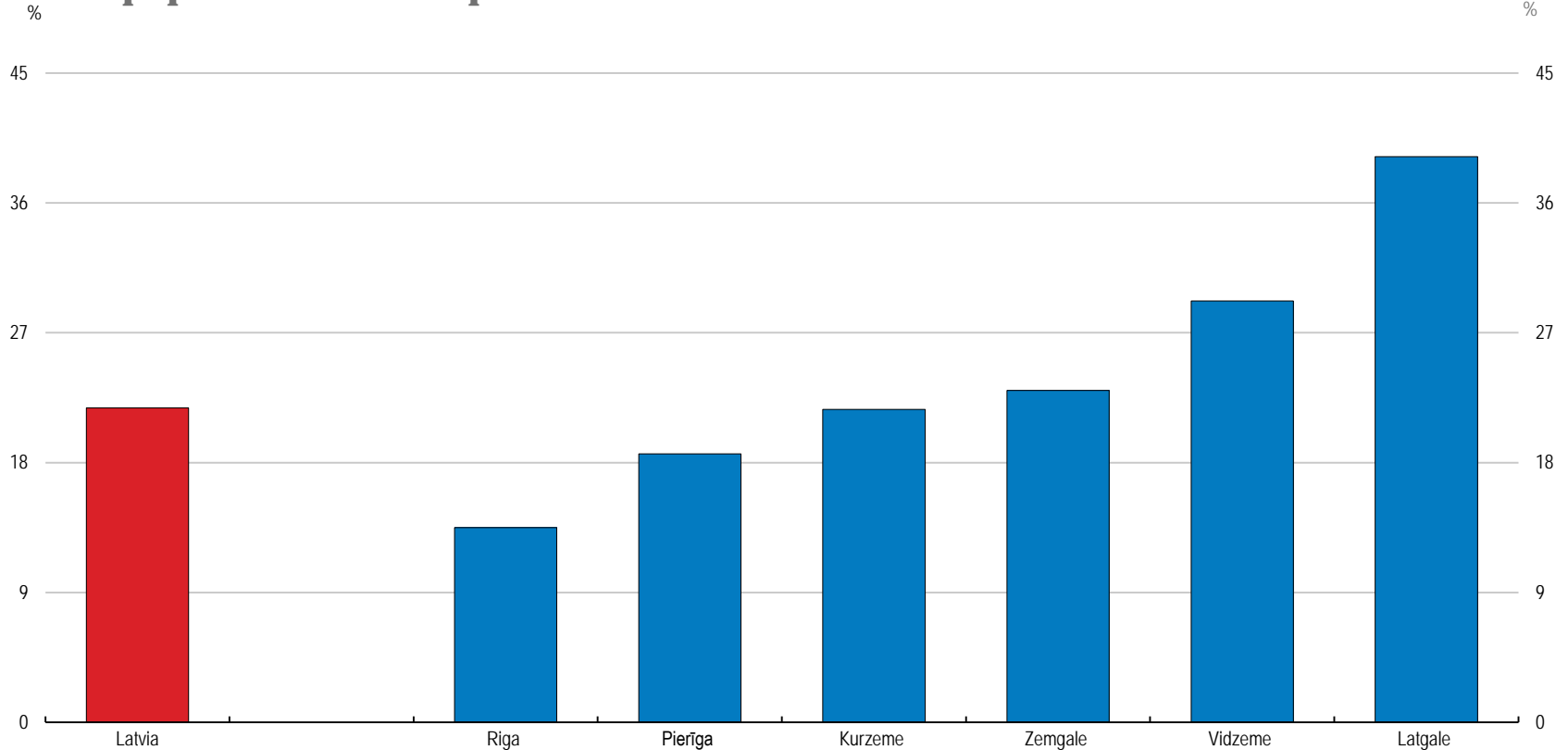


Source: Central Statistical Bureau of Latvia.



# High unemployment keeps poverty high

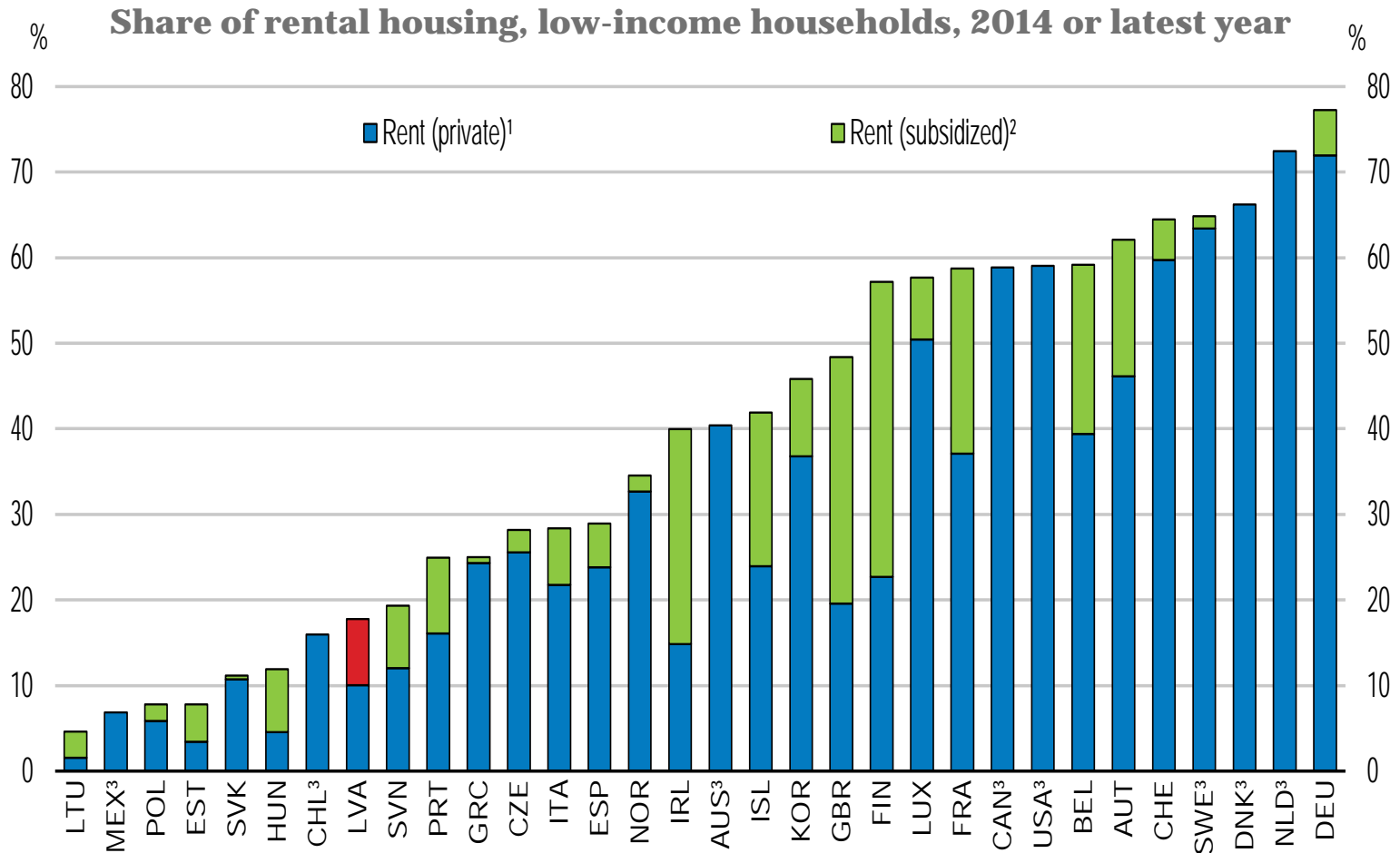
Share of population with disposable income below 60% of median household income



Source: Central Statistical Bureau of Latvia.



# Access to affordable rental housing is low

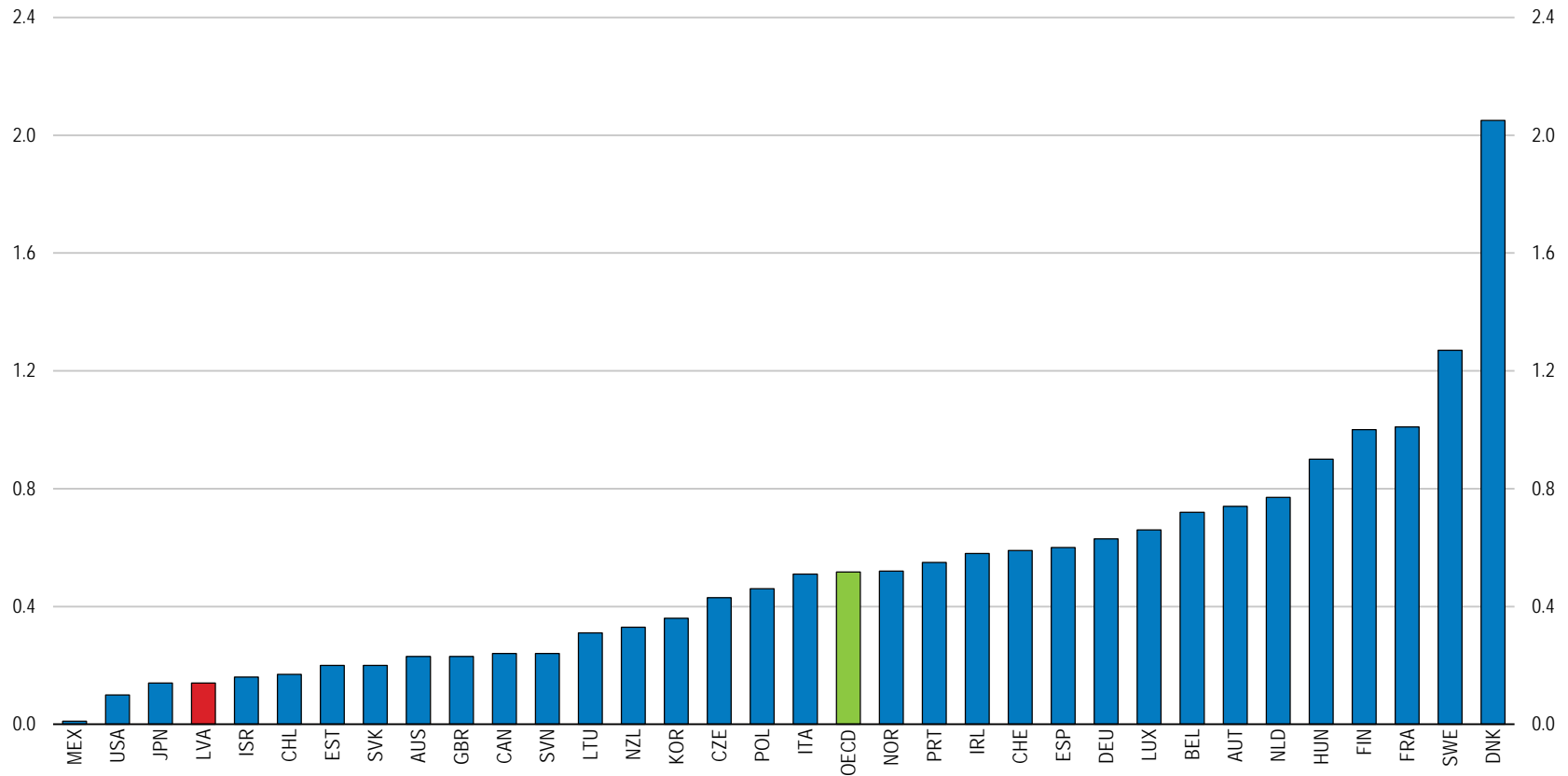


Source: OECD (2016), OECD Affordable Housing Database.



# Spending on active labour market policies is low

Public expenditure, % of GDP, 2015 or most recent

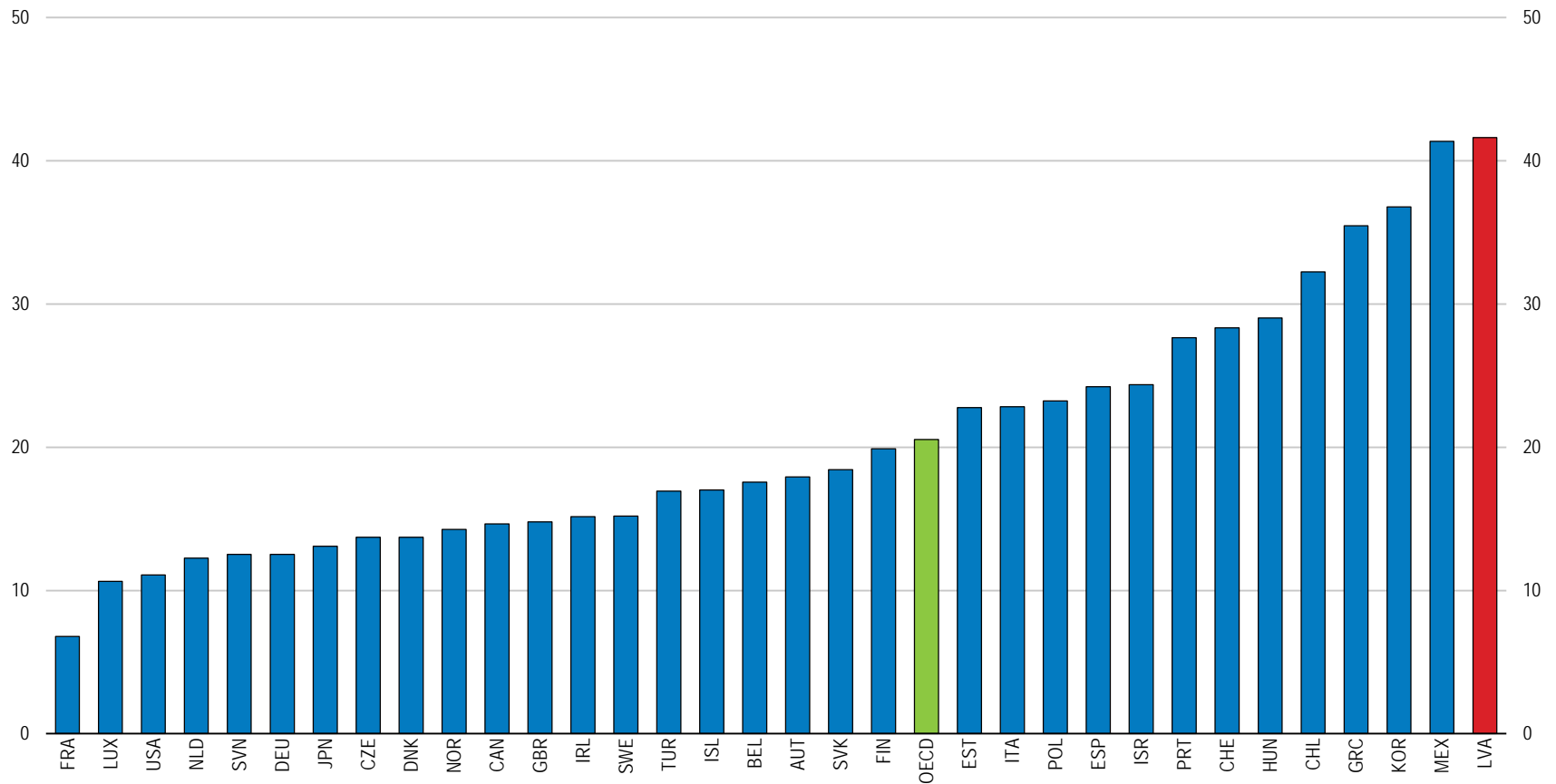


Source: OECD (2017), OECD Employment and Labour Market Statistics (database).



# Out-of-pocket payments in healthcare are high

Household out-of-pocket expenditure, % of total current expenditure on health care, 2015

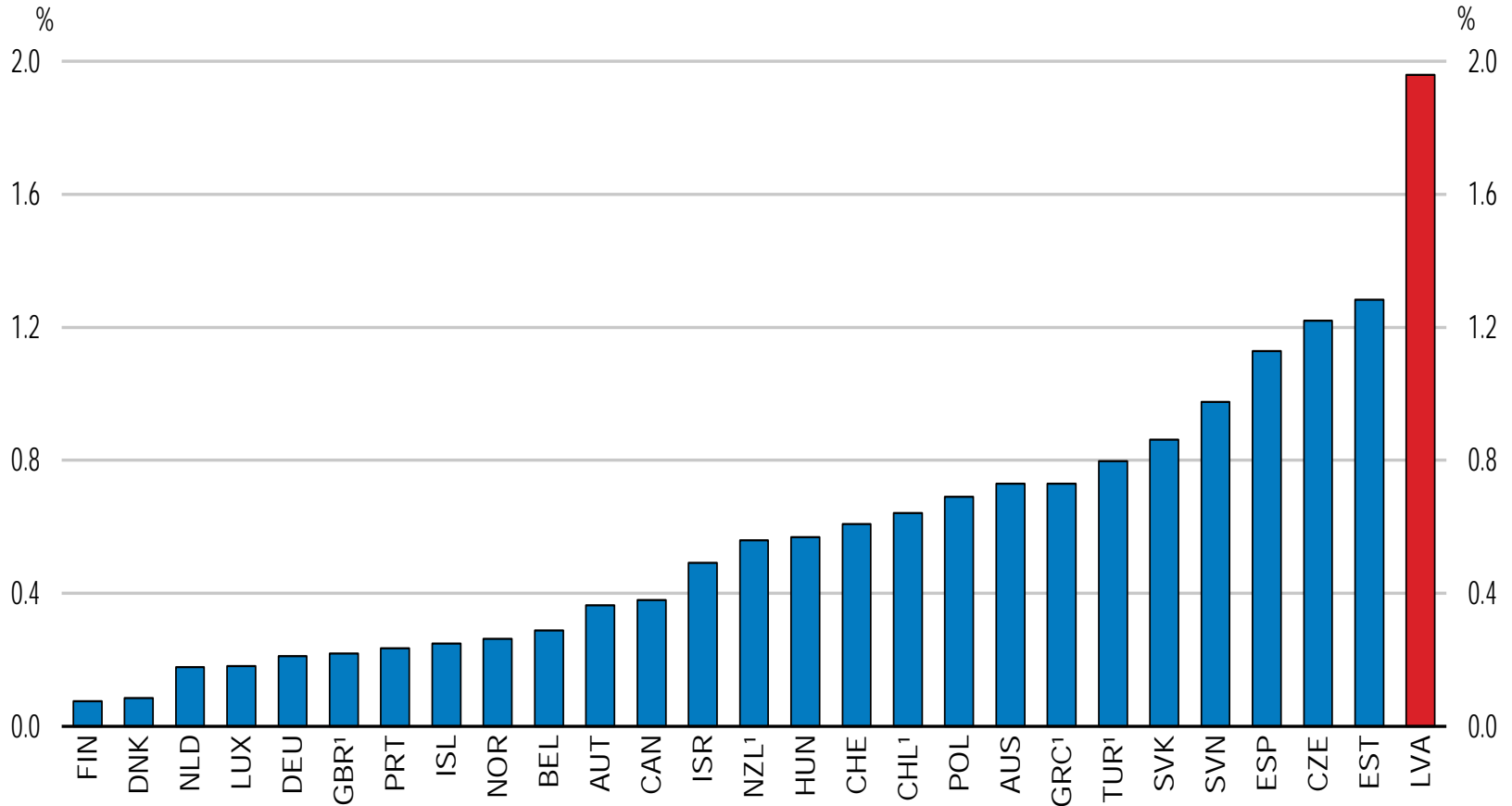


Source: OECD (2017), OECD Health Statistics (database)



# Workers pay high fees for private pensions

**Operating costs of the private pension system**  
% of assets under management, 2015



Source: OECD (2017), OECD Pensions Statistics (database).



# Recommendations to improve access to jobs, housing, and health services

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- **Expand the mobility programme, which provides temporary support for relocation and transport to unemployed moving to a job.**
- **Provide more funding for low-cost rented housing in areas of expanding employment.**
- **Improve legal certainty in rental regulation and encourage out-of-court procedures.**
- **Simplify the administrative process for obtaining a building permit.**
- **Promote the provision of adult education by vocational education schools.**
- **Lower operating costs in the compulsory private pension system, for example by introducing a low-cost fund as the default choice.**
- **Reduce health care out-of-pocket payments especially for the low-income population.**





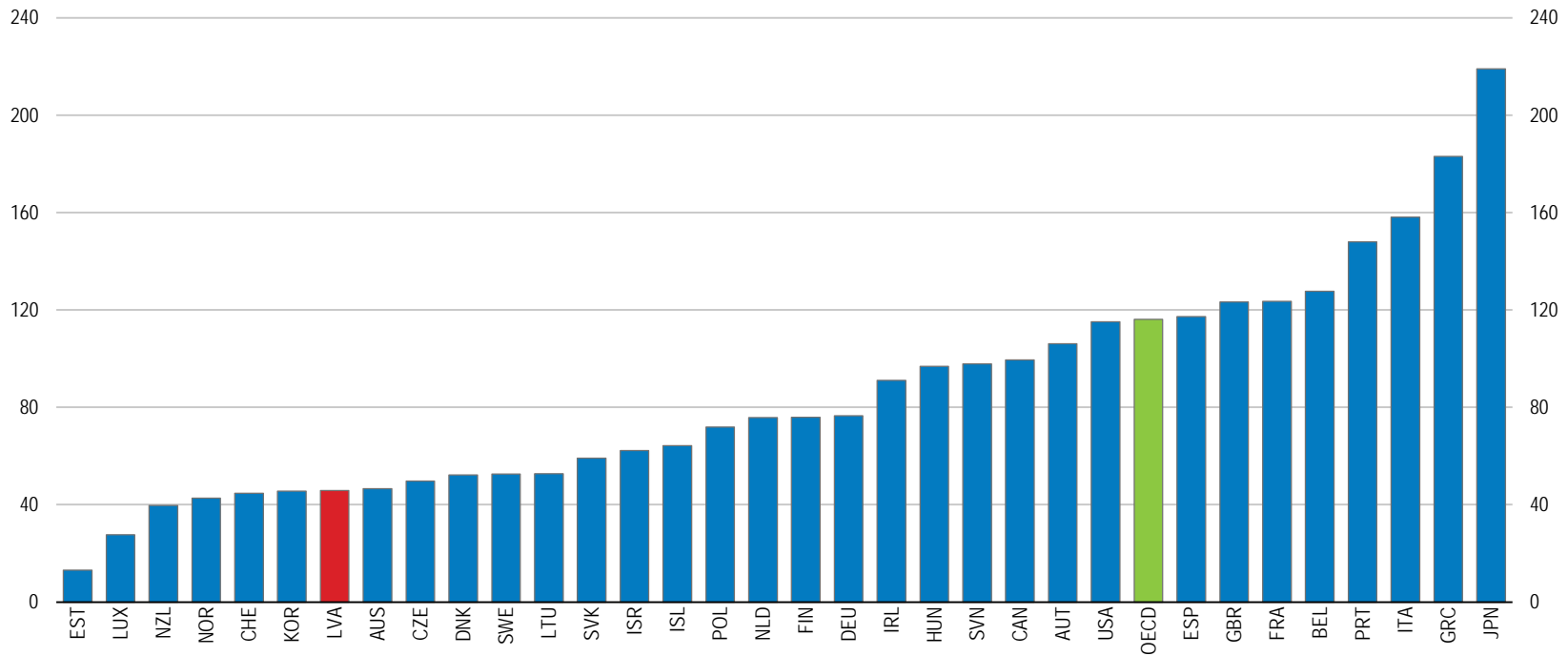
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# Using budget and tax policy to support inclusive growth



# Government debt is low

General government debt % of GDP, 2016

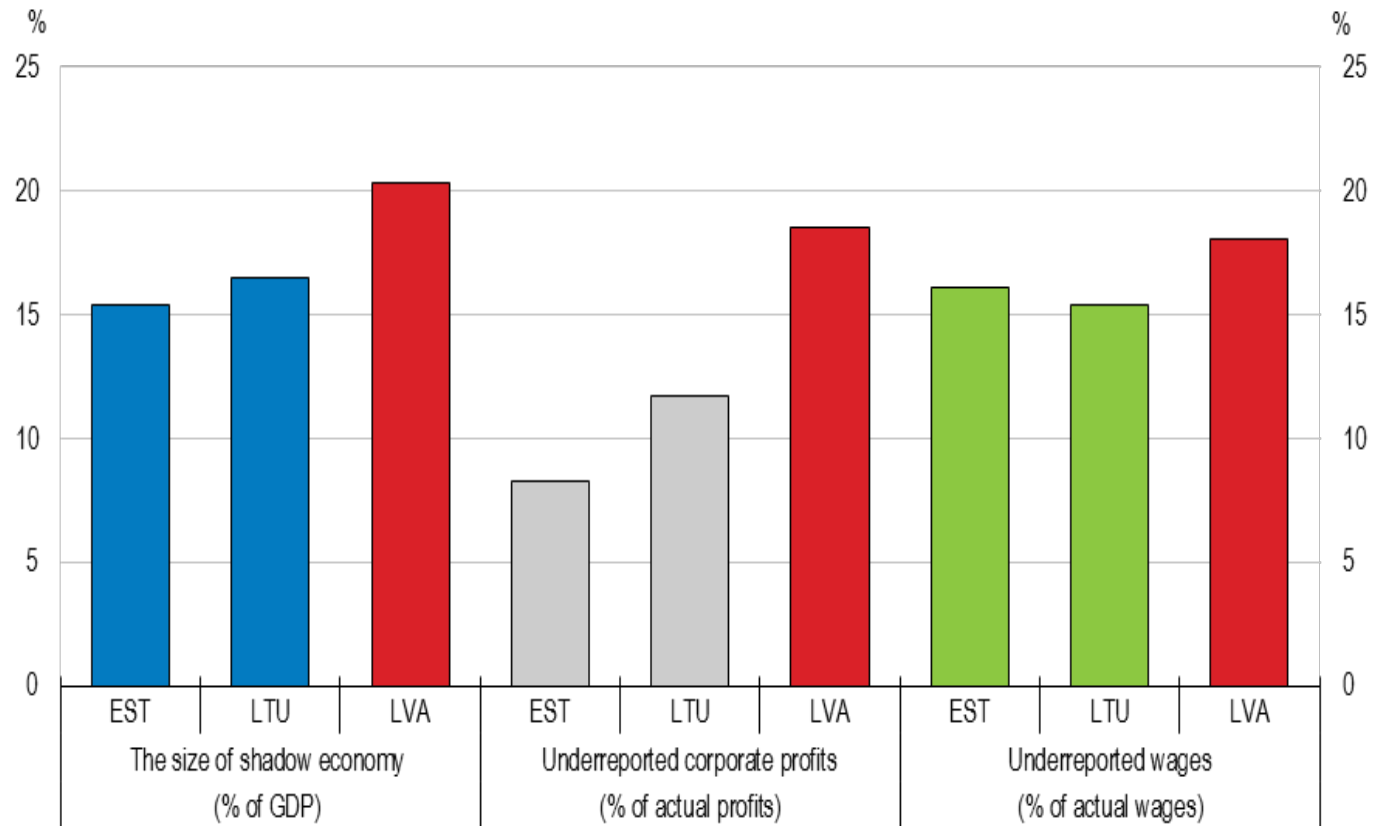


Source: OECD Economic Outlook 101 database. National Accounts definition of government debt (not Maastricht).



# Informality remains high

## Estimated size of the shadow economy and underreported corporate profits and wages, 2016



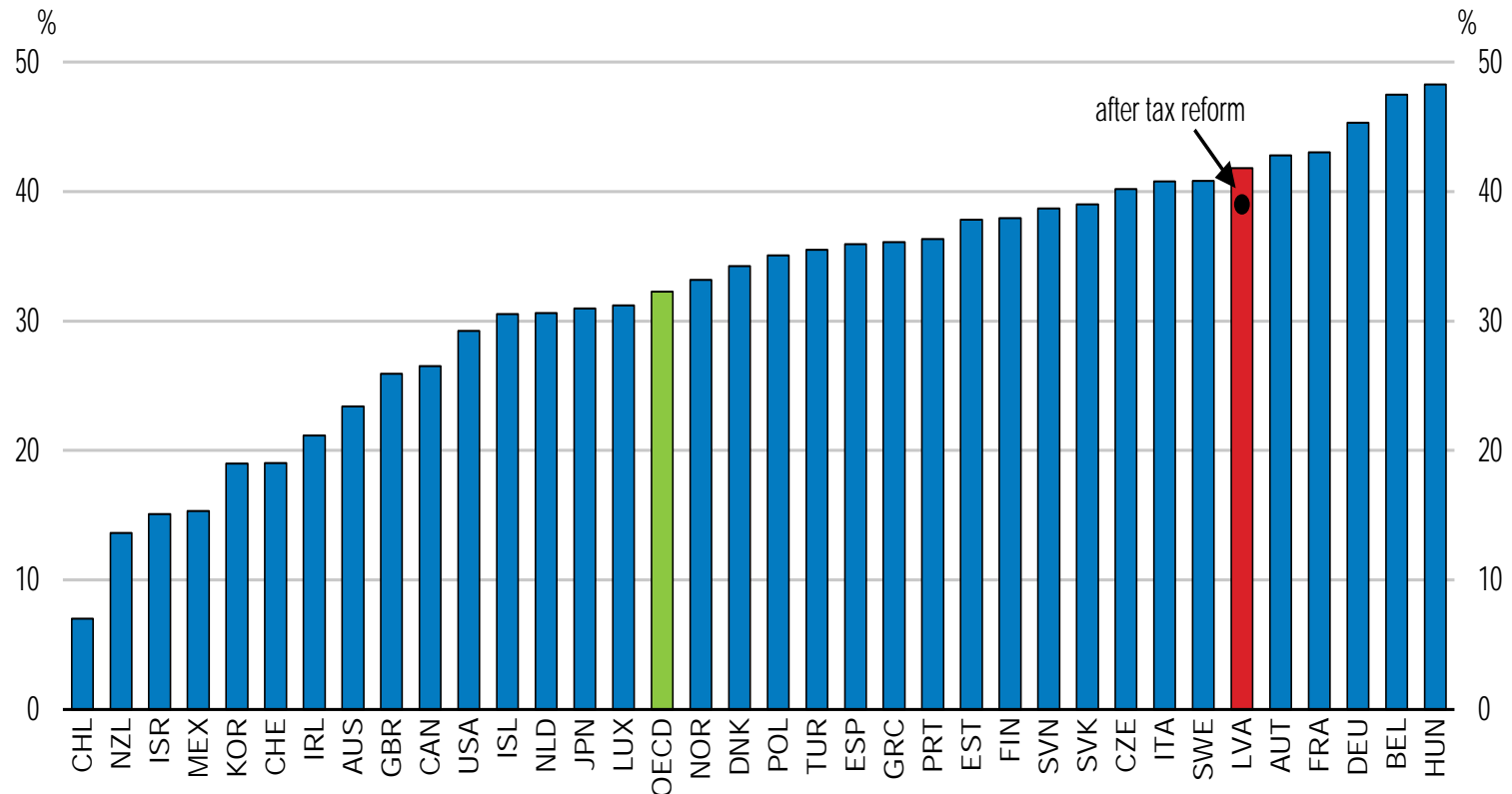
Source: Putniņš, T. and A. Sauka (2017), "Shadow Economy Index for the Baltic Countries", Stockholm School of Economics in Riga.



# Taxes on low wages are high

## Taxation of labour income, 2016

% of total labour compensation, single person at 67% of average earnings without children



➤ **Tax reform approved in 2017 will reduce taxes on profits and wages from 2018.**

Source: OECD (2017), OECD Tax Statistics (database) and OECD estimate of tax reform effect.



# Recommendations for budget and tax policy to support inclusive growth

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- **Raise spending to address pressing structural and social policy priorities.**
- **Make better use of information and communication technology for tax law enforcement.**
- **Strengthen the budgetary independence of the Corruption Prevention and Combating Bureau (KNAB).**
- **Remove political influence in the appointment of judges.**
- **Reduce taxes on low wages further.**
- **Raise more revenues from the taxation of real estate and energy.**
- **Broaden the base of business income taxation by removing tax exemptions.**



# For more information

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