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Brief introduction to Latvia: business perspecitve

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Latvian economy: numbers

GDP Growth Rate (2023)

Latvia experienced an economic contraction of 0.3% in 2023, marking a downturn after previous years of growth (Latvijas Banka). Latvia's GDP is projected to recover slightly with growth rates of 1.8% in 2024 and 3.6% in 2025, indicating a gradual economic recovery bolstered by improving external demand and government investments

Unemployment Rate (2022)

The unemployment rate was recorded at approximately 7.0% in 2022, reflecting the ongoing challenges in the labor market (Latvijas Banka).

Inflation Rate (2023)

Latvia faced a high inflation rate, peaking at around 17.3% in 2023, significantly influenced by external economic pressures and internal market dynamics (Latvijas Banka).

Latvian economy: numbers

Export Figures (2022)

Latvia's exports totaled around EUR 16 billion in 2022, with key products including machinery, electrical equipment, and wood products (Latvijas Banka).

Foreign Direct Investment (2022)

The stock of foreign direct investment in Latvia reached approximately EUR 19 billion, indicating a robust interest in the Latvian market from overseas investors (Latvijas Banka).

Latvian economy: characteristics

Diverse Economic Sectors

Latvia's economy is diverse, with key sectors including services, manufacturing, and agriculture. The service sector, particularly in Riga, dominates the economy, contributing a significant portion of the GDP.

European Union and Eurozone Membership

Latvia is a member of the European Union and adopted the euro as its currency in 2014. This integration into the European economic system facilitates trade and investment with other EU countries.

Strategic Location

Latvia's strategic geographic location serves as a transportation and logistics hub between Western Europe and Russia, enhancing its role in international trade, particularly through its major ports like the Port of Riga.

Latvian economy: characteristics

Growth and Challenges

Latvia has experienced economic growth since recovering from the global financial crisis of 2008-2009, but it faces challenges such as demographic decline and the need for greater investment in innovation and infrastructure to sustain growth.

Foreign Investment and Export-Oriented Economy

The Latvian economy is open to foreign investment and heavily reliant on exports, which include machinery and equipment, wood products, and pharmaceuticals. The government promotes policies to attract investment and improve the business environment.

Energy sector

Renewable Energy Leadership

Latvia has one of the highest shares of renewables in its total energy consumption within the EU. This is largely due to its natural advantages, such as abundant water resources, which facilitate significant hydroelectric power generation. This prominence in renewable energy is aligned with Latvia's broader environmental goals (Macroeconomics LV).

Solar Energy Potential

Despite having a relatively small installed solar capacity of 54 MW by the end of 2023, there is significant potential for growth in this area. The government's renewable energy targets and favorable policies are expected to boost solar power development, making it a potentially major player in Latvia's future energy mix (pv magazine International).

Energy sector

Energy Efficiency and Transition Goals

Latvia is actively working towards reducing its greenhouse gas emissions by 65% from 1990 levels by 2030, aiming for a net-zero status by 2050. This includes enhancing the share of renewable energy in its fuel mix and improving energy efficiency, especially in transport and building sectors which still consume large amounts of energy (IEA).

Decoupling from Russian Energy Infrastructure

Latvia, along with its Baltic neighbors Lithuania and Estonia, has made significant strides toward energy independence from Russia. This includes plans to fully disconnect from the Russian electricity grid (BRELL - Belarus, Russia, Estonia, Latvia, Lithuania) and integrate with the European grid by 2025. This move will reduce vulnerabilities to energy weaponization by Russia, a critical step given the geopolitical tensions in the region.

Taxation

Reducing Labor Taxation

Latvia faces a challenge with high levels of labor taxation, which can deter job creation and economic growth. Reducing the tax burden on labor could incentivize employment and enhance competitiveness in the labor market.

Simplifying Tax Regulations for Small Businesses

There is a crucial need for Latvia to simplify its tax system to support small businesses. Creating an easy-to-use, clear tax model will help small enterprises comply with tax regulations and encourage entrepreneurship.

Broadening the Tax Base

Despite high labor taxes, Latvia needs to broaden its tax base to ensure a steady flow of revenue without overburdening any single sector, including labor. This involves diversifying tax sources and ensuring that all economic activities contribute fairly to the state's revenue.

Taxation

Enhancing Tax Compliance and Administration

Improving the efficiency of tax administration and compliance remains vital. This includes investing in digital solutions to streamline tax collection processes, making it easier for businesses, especially SMEs, to fulfill their tax obligations efficiently.

Aligning Tax Policy with Environmental Goals

As part of its tax reform, Latvia is encouraged to integrate environmental sustainability into its tax framework. This could involve adjusting or introducing new environmental taxes to promote eco-friendly practices and align with global environmental targets.

Labour

Aging Workforce

Employers are concerned about the aging population, which impacts the availability of experienced and skilled labor. This demographic shift poses challenges in maintaining a stable and skilled workforce as older employees retire without sufficient replacements from younger generations (Baltic Course).

Skill Mismatch and Overqualification

There is a significant mismatch between the skills that employers need and the qualifications that job seekers possess. This is particularly acute in sectors requiring technical skills, where there is an excess of candidates with social science backgrounds, leading to underemployment and inefficiencies in labor utilization (Baltic Course).

Competitiveness and Wage Pressures

Employers face the challenge of balancing competitive wages to attract and retain talent while managing cost efficiencies, especially given the global low wage trap. This is crucial for sustaining profitability and growth in an increasingly competitive market (Baltic Course).

Labour

Integration and Utilization of Migrant Labor

Employers see potential in integrating migrant labor to mitigate workforce shortages. However, challenges such as language barriers, recognition of qualifications, and cultural integration remain significant hurdles that need to be addressed for effective utilization of migrant skills (Baltic Course).

Keeping Pace with Technological Change

Employers emphasize the need for a workforce that can adapt to rapid technological changes. This includes continuous upskilling and reskilling of employees to meet the demands of digital transformation and automation, which are reshaping industry landscapes (Economy and Finance).

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