

## Latvia

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**Latvia has continued to narrow the large productivity and income gaps vis-à-vis the OECD average, but more slowly in recent years.** Latvia's economy was strongly hit by the crisis but convergence has resumed, albeit at a slower pace. The large gap in living standards reflects primarily the low productivity. However, the median household income has grown much faster than GDP per capita in the recent years.

### Convergence to the OECD average has resumed but at a slower pace

| LATVIA                                       | Pre-crisis<br>2003-08 | Post-crisis<br>2011-16 |
|--|-----------------------|------------------------|
| <i>Levels</i>                                |                       |                        |
| <b>GDP per capita**</b>                      | 17766 (33712)*        | 21047 (35776)*         |
| <b>GDP per hour worked**</b>                 | 20.4 (41.6)*          | 25.0 (45.6)*           |
| <b>Employment rate, %</b>                    | 64.4 (66.4)*          | 65.3 (66.8)*           |
| <i>Average annual growth rate</i>            |                       |                        |
| <b>GDP per capita</b>                        | 8.4 (2.8)*            | 3.7 (1.4)*             |
| <b>GDP per hour worked</b>                   | 4.5 (2.0)*            | 2.5 (1.1)*             |
| <b>Employment</b>                            | 1.5 (1.6)*            | 0.5 (1.0)*             |
| <b>Median household disposable income***</b> |                       | 8.5 (1.4)*             |

Notes: \* Unweighted OECD average in brackets.

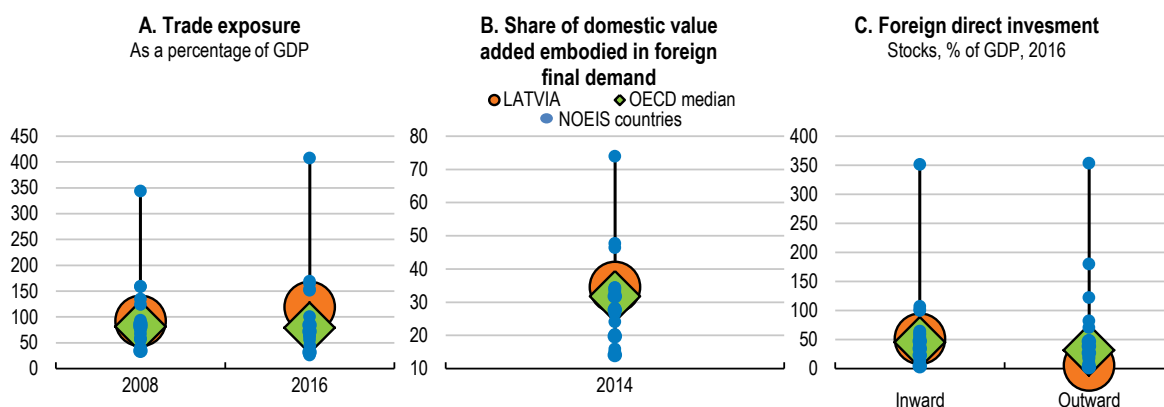
\*\* USD, constant 2010 PPPs and constant prices.

\*\*\* Data refer to 2011-15 and are deflated by the consumer price index.

Source: OECD, National Accounts, Productivity, Labour Force Statistics and Income Distribution Databases.

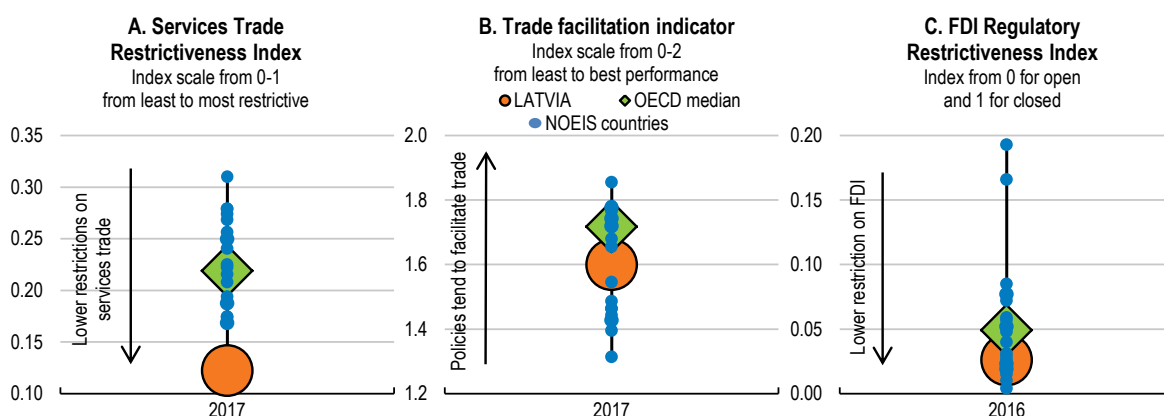
**Latvia is a small open economy.** Latvia is exposed to foreign trade and FDI but less so than some of its small, central European neighbours. Integration in GVCs has increased but is also still lower. Latvia’s participation to GVCs remains concentrated on low value-added activities and is dominated by foreign-owned firms that account for over 40% of Latvia’s gross exports, while few Latvian firms participate in global value chains. Openness is supported by trade and investment policies: EU common customs tariffs applied to goods imported from outside the EU are regarded as low on average. Border procedures, as measured by the OECD’s trade facilitation indicators, are close to the OECD mean, with weaker than average performance on border agency co-operation (internal and external). Restrictions on service trade are generally low. In particular, Latvia is among the countries most open to trade in professional services, distribution and logistics services. Latvia has one of the highest services content in its exports at 65%, and a relatively high share of its inward investment going to the services sector. Regulatory barriers to FDI are among the lowest in the OECD but Latvia receives similar levels of FDI as a share of its GDP than other OECD countries. Inward FDI is concentrated activities with low knowledge intensity.

**Latvia is a small, open economy**



Source: Panel A: OECD, [Economic Outlook Database](#) and World Bank, World Integrated Trade Solution; Panel B: OECD, [TIVA Nowcast estimates Database](#); Panel C: OECD, [Foreign Direct Investment Database](#) and UNCTAD.

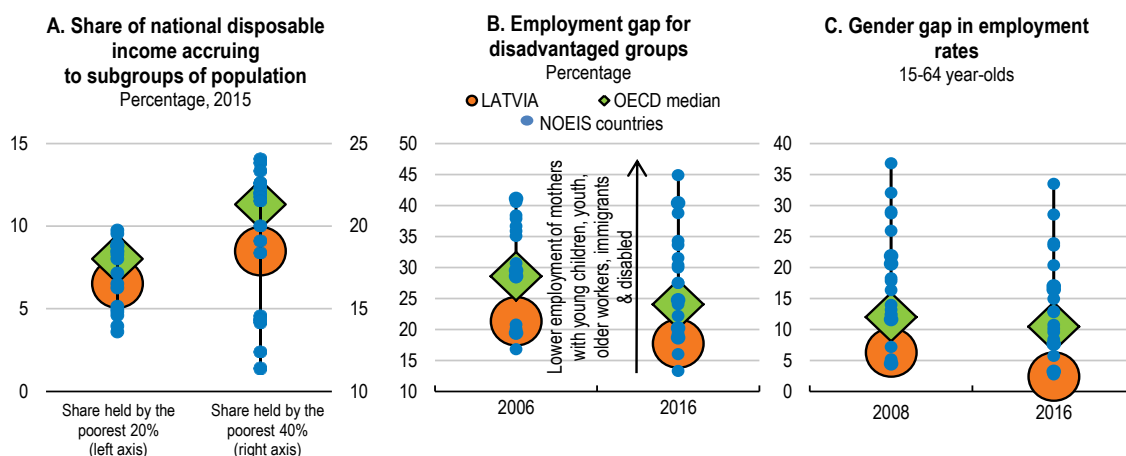
**Services trade and FDI face very little restrictions**



Source: Panel A: [OECD, Services Trade Restrictiveness Index Database](#); Panel B: OECD, [OECD, Trade Facilitation Indicators Database](#); Panel C: [OECD, FDI Regulatory Restrictiveness index database](#).

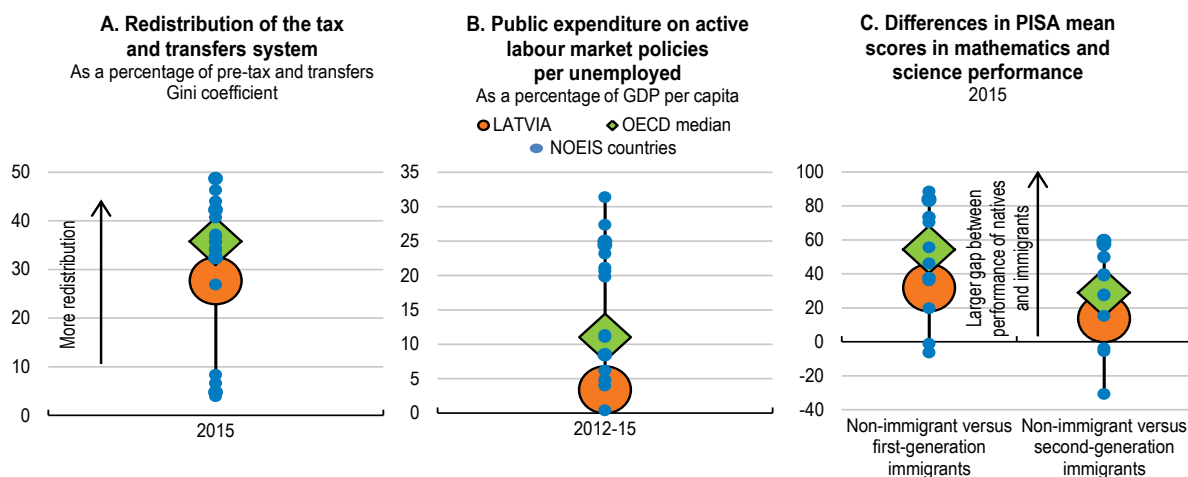
**Income inequality is relatively high.** Income inequality has declined somewhat recently but remains high by OECD standards. The tax and transfer system redistributes less than in most OECD countries, but a tax and social benefit reform has been approved in 2017 to enhance redistribution. The income share of the poorest income groups has risen, albeit from a low level, and is still below the OECD median. Moreover, the share of population with disposable income below the poverty line is about 5 percentage points above the OECD average. Poverty and unemployment are concentrated in remote, rural areas and aggravated by difficulties in affordability of key social services for low-income households. The employment rates of traditionally disadvantaged groups – such as mothers with young children, youth, older workers, immigrants and disabled workers – are closer to those of prime age males than in other countries. Many young Latvians emigrate. The gender employment gap is remarkably low, as is the gender gap in working hours. However, women working full-time earn 20% less than men - a gap that has increased in recent years. The education system delivers relatively weak outcomes, with students’ performance on PISA somewhat below the OECD average, but with less variation across students. Students’ socio-economic background affects their performance much less than the OECD average. While first- and second-generation immigrants tend to have poorer education outcomes than natives, this gap is also notably lower than in many other OECD countries.

**Income inequality is high but employment gaps are relatively low**



Source: Panel A: OECD, [OECD, Income Distribution Database](#) and World Bank, World Development Indicators Database; Panel B: OECD (2018), OECD Jobs Strategy Analytical Volume, forthcoming; Panel C: OECD, Labour Force Statistics Database and ILO, Key Indicators of the Labour Market.

**Redistribution is limited but the education system is more inclusive than the OECD average**



Source: Panel A: OECD, [OECD, Income Distribution Database](#); Panel B: OECD, [OECD, Public expenditure and participants stocks on Labour Market Programmes](#) on Labour Market Programmes and [Economic Outlook Databases](#); Panel C: OECD, [PISA 2015 Results \(Volume I\): Excellence and Equity in Education](#), Annex B1.7 Results (tables): Immigrant background, student performance and students' attitudes towards science.

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 METADATA ANNEX
 

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 Economic openness
 

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- **Trade exposure** is defined as exports and imports over GDP.
- **The share of domestic value added embodied in foreign final demand** is defined as domestic value added, from industry, meeting foreign final demand, as a percentage of industry value added. It can be considered as a measure of an industry's reliance on foreign final demand. Here, the denominator is value added adjusted to be consistent with final demand (both domestic and foreign).
- **Foreign Direct Investment stocks** are defined as the total level of direct investment at a given point in time, usually the end of a quarter or of a year. The outward FDI stock is the value of the resident investors' equity in and net loans to enterprises in foreign economies. The inward FDI stock is the value of foreign investors' equity in and net loans to enterprises resident in the reporting economy. For the Netherlands, FDI stock data exclude positions to and from resident Special Purpose Entities (SPEs); SPEs are entities whose role is to facilitate the internal financing of the MNE but that have little or no physical presence in an economy. Excluding such entities from the FDI statistics provides a better measure of the FDI of the country that is having a real impact on its economy.

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 Trade and FDI
 

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- **The Services Trade Restrictiveness Index (STRI)** identifies which policy measures restrict trade. It provides policy makers information and measurement tools to improve domestic policy environment, negotiate international agreements and open up international trade in services. It can also help governments identify best practice and then focus their domestic reform efforts on priority sectors and measures. The index presented is a geometric average of all sectors and takes value from 0 to 1, where 0 is completely open and 1 is completely closed.  
*Data are missing for Argentina and Peru.*
- **Trade facilitation indicators (TFIs)** identify areas for action and enable the potential impact of reforms to be assessed and help governments to improve their border procedures, reduce trade costs, boost trade flows and reap greater benefits from international trade. The index takes values from 0-2 (least to best performance). The index presented is a simple average over 11 dimensions of the TFI.  
*Data are missing for Iceland.*
- **The FDI regulatory Restrictiveness Index** is gauging the restrictiveness of a country's foreign direct investment rules by looking at four main types of restrictions: foreign equity restrictions, discriminatory screening or approval mechanisms, restrictions on key foreign personnel and operational restrictions. Implementation issues are not addressed and factors such as the degree of transparency or discretion in granting approvals are not taken into account. The index takes values between 0 for open and 1 for closed.

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 Inequality
 

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- **The share of national disposable income held by the poorest 20% and 40%** is defined as the share of income that accrues to subgroups of population indicated by deciles or quintiles.  
*For the poorest 20%, data refer to 2014 for Argentina, Germany, Hungary, Luxembourg; 2012 for Japan.*
- **The employment gap for disadvantaged groups** is expressed as a percentage of the benchmark group (prime-age male workers). Disadvantaged groups include mothers with young children, youth (15-19 years old) excluding those in full-time education or training, older workers (55-64 years old), non-natives and people with disabilities.  
*Data are missing for Colombia and Costa Rica in 2006 and for Peru in 2006 and 2016.*
- **The gender gap in employment rates** is defined as the difference between employment to population ratios of men and women aged 15-64.  
*Data refer to 2010 and 2014 for Argentina.*

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## *Redistribution, activation and inequality of opportunities*

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- **The redistribution of the tax and transfers system** is measured as the difference between pre-tax and transfer and post-tax and transfers Gini coefficients, relative to the pre-tax and transfer Gini coefficient. The Gini coefficient measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. The coefficient takes the value of 0 in the case of perfect equality and 100 for perfect inequality.  
*Data refer to 2014 for Germany, Hungary, Luxembourg and Peru; 2012 for Japan. Data are missing for Argentina and Colombia.*
- **Public expenditure on active labour market policies per unemployed** are measured by all social expenditure (other than education) which is aimed at the improvement of the beneficiaries' prospect of finding gainful employment or to otherwise increase their earnings capacity. It includes spending on public employment services and administration, labour market training, special programmes for youth when in transition from school to work, labour market programmes to provide or promote employment for unemployed and other persons (excluding young and disabled persons) and special programmes for the disabled. Data are expressed as a percentage of GDP per capita. Original data can be accessed under: <http://stats.oecd.org/Index.aspx?DataSetCode=LMPEXP>. *Data are missing for Argentina, Colombia, Costa Rica and Peru. For Canada, data include federal expenditures on programmes implemented by the provinces and territories, but do not generally include the provinces' and territories' additional or complementary funding of these programmes.*
- **Differences in PISA mean scores (average of mathematics and science) between natives and first and second generations of immigrants.** PISA assesses the extent to which 15-year-old students, near the end of their compulsory education, have acquired key knowledge and skills that are essential for full participation in modern societies  
*Data are missing for Japan, Poland and Peru. For Argentina, data refer to the region of the capital city of Buenos Aires.*
- **The variance of educational achievement** is measured as the total variance in PISA scores in reading, mathematics and science, compared to the OECD (OECD=100). The Programme for International Student Assessment (PISA) assesses the extent to which 15-year-old students, near the end of their compulsory education, have acquired key knowledge and skills that are essential for full participation in modern societies. The variance components in mathematics, sciences and reading were estimated for all students in participating countries with data on socio-economic background and study programmes. The variance in student performance is calculated as the square of the standard deviation of PISA scores in reading, mathematics and science for the sample of students used in the analysis.  
*For France, average of PISA scores in mathematics and reading only in 2015. For Argentina, data refer to the region of the capital city of Buenos Aires.*