

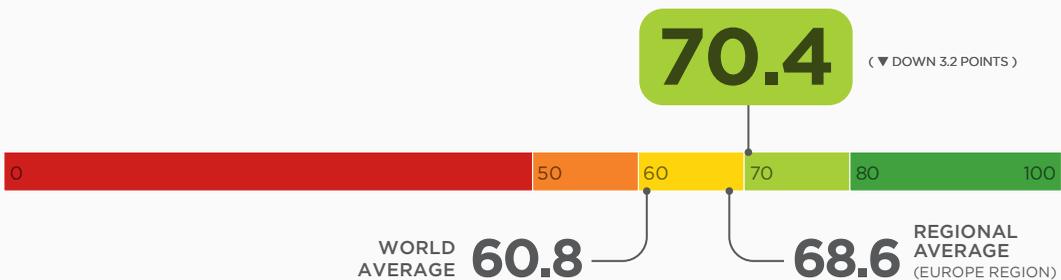
LATVIA

Latvia's economic freedom score is 70.4, making its economy the 35th freest in the 2019 *Index*. Its overall score has decreased by 3.2 points, with declines in scores for **judicial effectiveness**, **government integrity**, and the **tax burden** far outweighing an improvement in **fiscal health**. Latvia is ranked 18th among 44 countries in the Europe region, and its overall score remains above the regional and world averages.

The government's fiscal and monetary policies have ended Latvia's dramatic mid-2000s boom-and-bust cycle, improved competitiveness, and returned the country to economic growth. However, they also spurred emigration and expansion of the informal economy, estimated to equal about 25 percent of GDP. Lack of institutional reforms and the prevalence of state-owned enterprises hinder the emergence of a more profitable private sector. Corruption continues to impede the attraction of foreign direct investment, increase the overall cost of doing business, and undermine the rule of law.



ECONOMIC FREEDOM SCORE

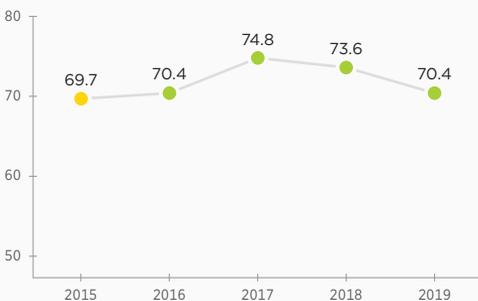


RELATIVE STRENGTHS:
Fiscal Health and Trade Freedom

HISTORICAL INDEX SCORE CHANGE (SINCE 1996):
+15.4

CONCERNS:
Government Integrity and Judicial Effectiveness

FREEDOM TREND



QUICK FACTS

POPULATION:
2.0 million

GDP (PPP):
\$53.9 billion
4.5% growth in 2017
5-year compound annual growth 2.8%
\$27,644 per capita

UNEMPLOYMENT:
8.7%

INFLATION (CPI):
2.9%

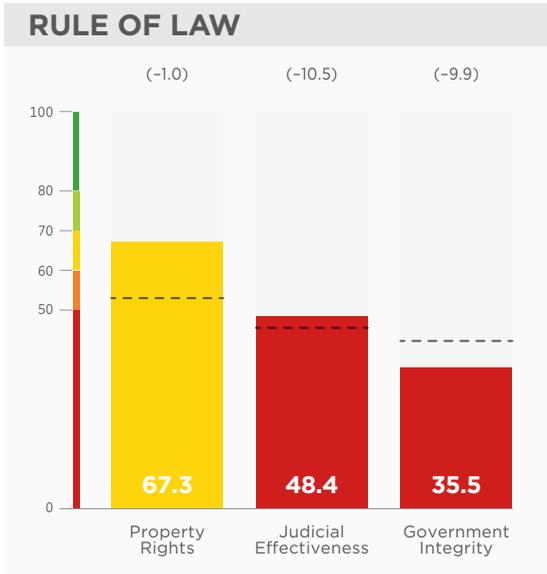
FDI INFLOW:
\$721.2 million

PUBLIC DEBT:
34.8% of GDP

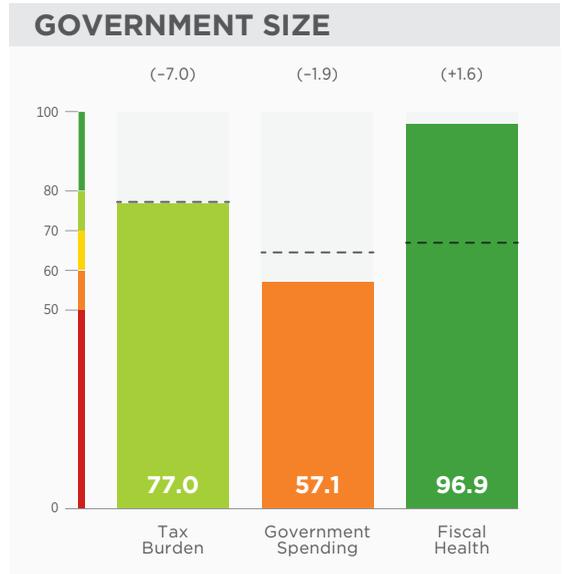
2017 data unless otherwise noted. Data compiled as of September 2018

BACKGROUND: Latvia regained its independence from the Soviet Union in 1991, joined the European Union and NATO in 2004, and joined the eurozone in 2014. The incumbent three-party center-right coalition of Prime Minister Maris Kucinskis lost its majority in October 2018 elections. The two new parties that came in second and third, the populist KPV LV and conservative New Conservative Party, have entered coalition talks. The pro-Russian Harmony party remained the largest party in parliament. Latvia's small, open economy relies heavily on exports. Because of its geographical location, transit services are highly developed, as are timber and wood processing, agriculture and food products, and the machinery manufacturing and electronics industries.

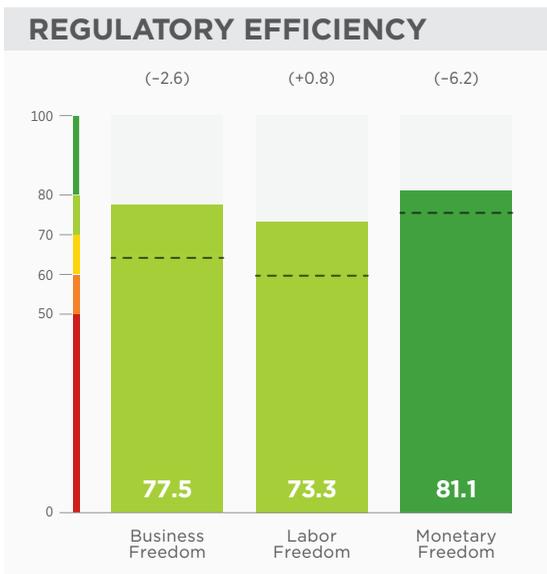
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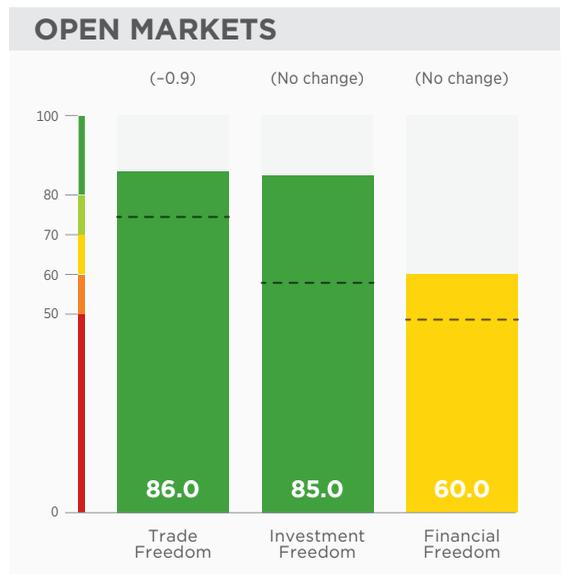
Property rights are recognized, expropriation is rare, and titles are clear. Intellectual property laws have been reformed in line with EU requirements. While judicial independence is generally respected, the public largely distrusts the judicial system, which it views as inefficient, politicized, and corrupt. Despite efforts to improve and enforce anticorruption measures, there are significant concerns regarding public accountability for corruption.



The individual income tax rate has been increased to 31.4 percent, and the corporate tax rate has been raised to 20 percent. The overall tax burden equals 30.2 percent of total domestic income. Over the past three years, government spending has amounted to 37.8 percent of the country's output (GDP), and budget deficits have averaged 0.7 percent of GDP. Public debt is equivalent to 34.8 percent of GDP.



The overall regulatory framework is relatively efficient. In general, rules regarding the formation and operation of private enterprises are not burdensome. The nonsalary cost of employing a worker is relatively high, and dismissing an employee can be difficult. The prime minister has been pressured for greater transparency in the allocation of subsidies, and agricultural subsidy standards have been loosened in response to recent drought.



The combined value of exports and imports is equal to 122.3 percent of GDP. The average applied tariff rate is 2.0 percent. Latvia implements a number of EU-directed nontariff trade barriers including technical and product-specific regulations, subsidies, and quotas. Illicit financial transaction scandals involving Latvia's third-largest bank in 2018 put the banking system under strain. Regulations on money laundering have been strengthened.