

LATVIA

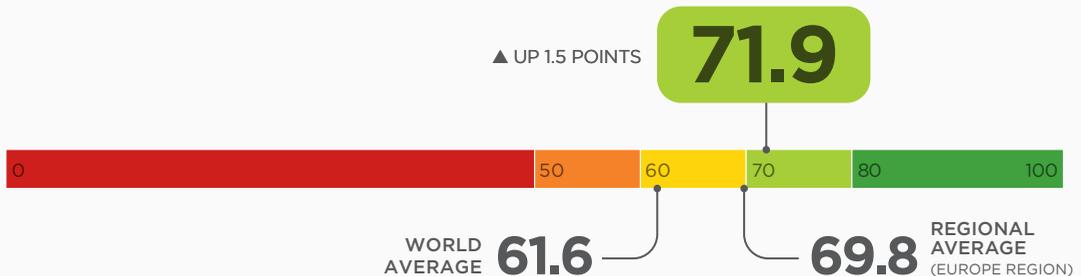
Latvia's economic freedom score is 71.9, making its economy the 32nd freest in the 2020 *Index*. Its overall score has increased by 1.5 points, primarily because of a higher **government integrity** score. Latvia is ranked 17th among 45 countries in the Europe region, and its overall score is well above the regional and world averages.

The Latvian economy retained its mostly free rank for the fifth year in a row in 2020. GDP growth during that period has been solid.

Every government since independence has been center-right, has had a pro-business agenda, and has taken a fiscally conservative stance. To expand economic freedom in Latvia, the government needs to step up its fight against corruption and, in particular, make additional reforms to restore the credibility of the financial sector, which has been turbulent since early 2018 due to several money-laundering scandals. Further efforts to curtail government spending and improve its efficiency could release additional resources for private investment.



ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1996): +16.9

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
1.9 million

GDP (PPP):
\$57.8 billion
4.8% growth in 2018
5-year compound annual growth 3.3%
\$29,901 per capita

UNEMPLOYMENT:
7.9%

INFLATION (CPI):
2.6%

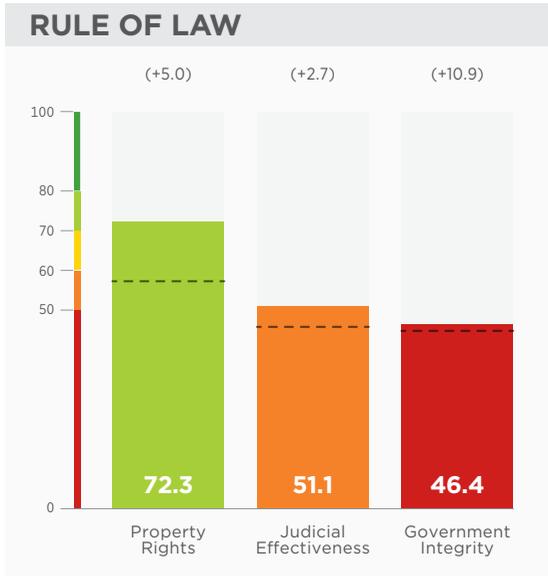
FDI INFLOW:
\$879.4 million

PUBLIC DEBT:
37.6% of GDP

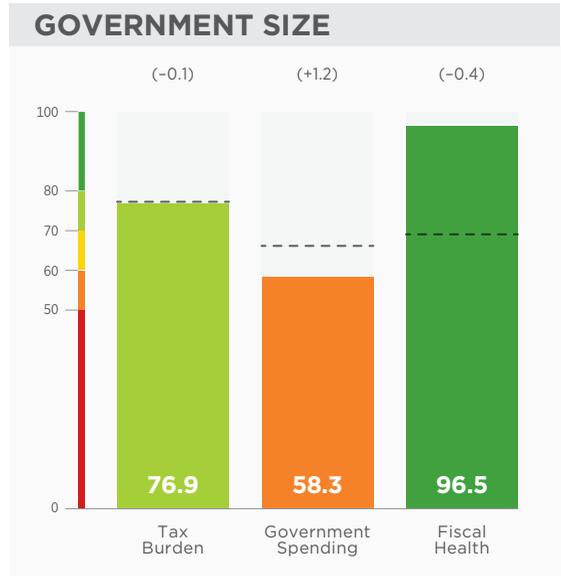
2018 data unless otherwise noted. Data compiled as of September 2019

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. Despite the fact that his center-right New Unity party holds the fewest seats in parliament, Arturs Krišjānis Kariņš became prime minister in January 2019. He heads a five-party coalition that excludes only the Union of Greens and Farmers and the pro-Russian Harmony party, which remains the largest party in parliament. Latvia's small, open economy relies heavily on exports. Because of the country's geographical location, transit services are highly developed, as are timber and wood processing, agriculture and food products, and the machinery manufacturing and electronics industries.

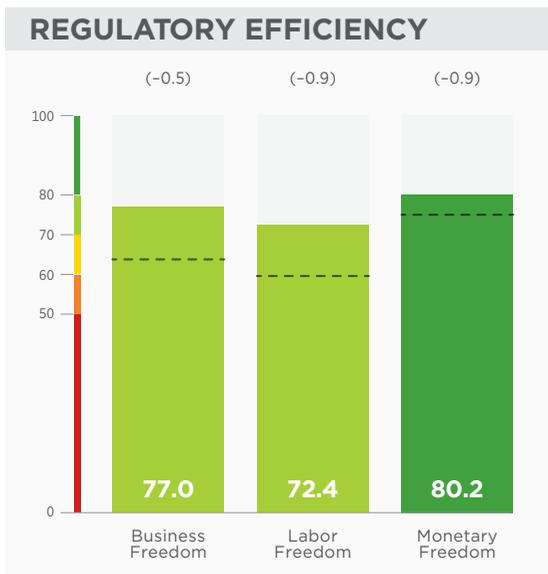
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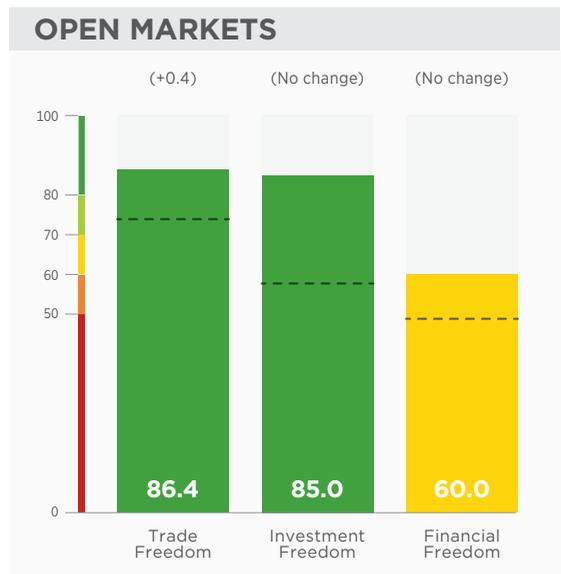
Latvia recognizes real and movable property rights and enforces mortgages and liens. There are no major problems with unclear legal titles. Judicial independence is mostly respected, but inefficiency, politicization, a lack of professionalism, and corruption persist within the judicial system. Corruption is widespread throughout the government, and there is a perceived lack of fairness and transparency in the public procurement process.



The individual income tax rate has been increased to 31.4 percent, and the corporate tax rate is 20 percent. The overall tax burden equals 30.4 percent of total domestic income. Government spending has amounted to 37.3 percent of the country's output (GDP) over the past three years, and budget deficits have averaged 0.7 percent of GDP. Public debt is equivalent to 37.6 percent of GDP.



Rules regarding the formation and operation of private enterprises are not burdensome. Latvia recently implemented Startup Latvia, a law meant to support entrepreneurship. Skilled workers often find better employment abroad, and emigration is a problem. In 2019, the prime minister came under pressure to improve transparency in the allocation of subsidies, and agricultural subsidies were increased because of an ongoing drought.



The total value of exports and imports of goods and services equals 118.4 percent of GDP. The average trade-weighted applied tariff rate (common among EU members) is 1.8 percent, with 637 EU-mandated nontariff measures reportedly in force. Latvia has an additional four country-specific nontariff barriers. Investment regulations are relatively transparent, but the state may discriminate against foreign investors in some key sectors. The small financial sector is open and stable.