Lатвия’s economic freedom score is 72.3, making its economy the 30th freest in the 2021 Index. Its overall score has increased by 0.4 point because of improvements in judicial effectiveness and other factors. Latvia is ranked 17th among 45 countries in the Europe region, and its overall score is above the regional and world averages.

The Latvian economy has retained its mostly free rank for the fifth year in a row. To expand economic freedom further, the government needs to strengthen the judiciary, rededicate itself to curbing corruption, and continue to make reforms in banking oversight as it deals with the effects of several major money-laundering scandals in the financial sector.

IMPACT OF COVID-19: As of December 1, 2020, 210 deaths had been attributed to the pandemic in Latvia, and the economy was forecast to contract by 6.0 percent for the year.

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. Latvia’s small, open economy relies heavily on exports. Transit services are highly developed, as are timber and wood processing, agriculture and food products, and the machinery manufacturing and electronics industries. Corruption remains a serious concern as evidenced by a recent series of high-profile bribery and money-laundering scandals.
Latvia recognizes the full spectrum of property rights, including mortgages and liens. There are few problems with unclear legal titles, and property registration is efficient. The judiciary is independent but widely regarded as subject to political influence. There are reports of corruption and lack of transparency in public procurement. The government is trying to strengthen anticorruption enforcement and improve the functioning of its Anti-Corruption Bureau.

The top individual income tax rate is 31.4 percent, and the top corporate tax rate is 20 percent. The overall tax burden equals 30.7 percent of total domestic income. Government spending has amounted to 37.6 percent of total output (GDP) over the past three years, and budget deficits have averaged 0.6 percent of GDP. Public debt is equivalent to 36.8 percent of GDP.

Latvia's business freedom score, a relative indicator, has declined slightly, not because of changes in Latvia's own business environment but because of improvements in other countries. Labor force participation and the value added per worker relative to the minimum wage have increased, improving labor freedom. The government provides subsidies for electricity, heating, agriculture, transportation, and other sectors.

As a member of the EU, Latvia has 45 preferential trade agreements in force. The trade-weighted average tariff rate (common among EU members) is 3 percent, with 639 EU-mandated nontariff measures in force. Latvia has an additional four country-specific nontariff barriers. The overall investment regulatory framework is relatively efficient. In general, rules regarding foreign investment are not burdensome. The financial sector has regained stability.