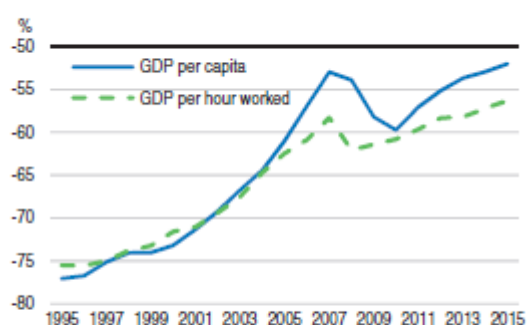


# Latvia: time to reboot inclusive productivity growth

by Andrés Fuentes Hutfilter and Naomitsu Yashiro, Latvia Desk, OECD Economics Department

Latvia's economy is growing strongly. Driven by the recovery of exports and investment as well as strong private consumption, real GDP growth is expected to strengthen from 2% in 2016 to around 4% this year and next. Exporters have gained market shares. More disbursement of EU structural funds is boosting investment. Real wage growth is supporting private consumption. Growth is also underpinned by the government's strong track-record in pursuing pro-growth reforms. Administrative burdens to entrepreneurship have been reduced and the efficiency of the judiciary has been enhanced. The quality of education and training has improved and active labour market policies have been upgraded. Government finances are solid: The government budget was in balance in 2016 and government debt is 40% of GDP, lower than in most OECD countries.

**The gap in GDP per capita remains large**  
Gap vis-à-vis the upper half of OECD countries<sup>1</sup>

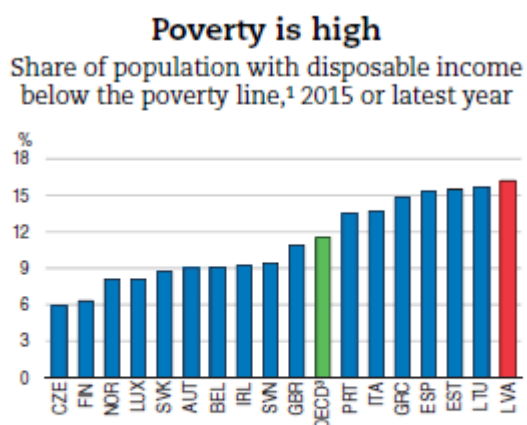


1. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2010 PPPs).  
Source: OECD (2017), OECD National Accounts Statistics and Productivity Statistics (database).

Important challenges remain. Productivity is lower than in other Baltic or central European economies and the gap with leading OECD economies remains large (chart A). Yet, productivity growth has slowed after the financial crisis, as elsewhere. To converge to the living standards of

high income countries, Latvia has to reinvigorate productivity. As the 2017 Economic Survey of Latvia argues,

better integration in global value chains, especially in sectors characterised with rapid technology changes, is key. Latvia has made progress in diversifying its exports. For example, exports of ICT services have increased. But most exports still rely on low-value added activities, such as wood processing or transit transport services.



1. The poverty line is half of median household income. Household income is adjusted to take into account household size.

2. Unweighted average.

Source: OECD (2017), *OECD Social and Welfare Statistics (database)*.

Poverty is among the highest in OECD countries (chart B) and is concentrated in some regions in part reflecting high unemployment. Lack of access to good and affordable housing makes it more difficult for low-income workers to move to well-paying jobs. Access to health services and

higher education are also uneven and limit access to economic opportunities for low income households. Many young Latvians emigrate. These issues and policies to address them are analysed in the 2017 Economic Survey of Latvia.

### Further reading

OECD (2017), *OECD Economic Surveys: Latvia 2017*, OECD Publishing, Paris.