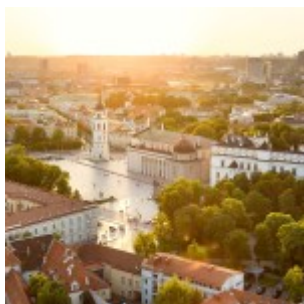


Lithuania: Sailing through rough waters

Category: Lithuania

written by oecdecoscope | October 20, 2022



Lithuania: a strong recovery is undermined by the war in Ukraine.

Lithuania: Ensuring the rising tide lifts all boats

Category: Lithuania,Uncategorized

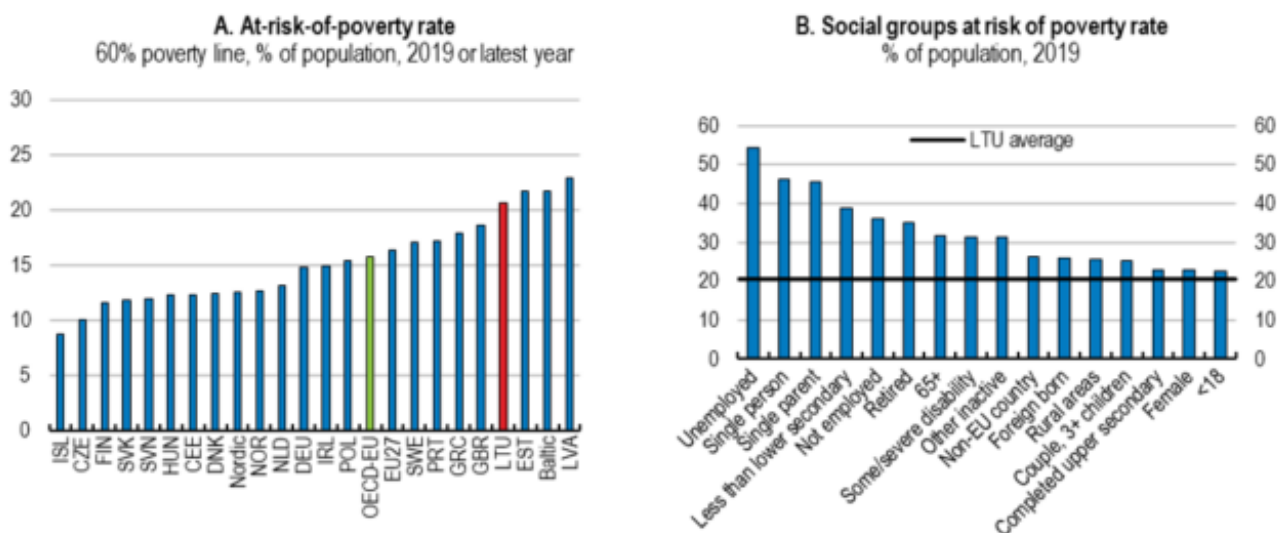
written by oecdecoscope | October 20, 2022

by Vassiliki Koutsogeorgopoulou, Lithuania Desk, OECD Economics Department

As a result of Lithuania's strong economic growth performance since the mid-1990s, incomes are catching up fast towards the average of OECD countries. But relative poverty is high, especially among the unemployed, less educated, single parents, people with disabilities and the elderly. High poverty not only fuels social exclusion but it also dents the productive potential of those affected. The Covid-19 crisis adds to these challenges, not least through a sharp increase in unemployment since the onset of the pandemic. Tackling

poverty calls for a comprehensive strategy that provides sufficient social support and better labour market opportunities for the vulnerable.

Relative poverty is high and affects some social groups more than others



The at-risk-of-poverty rate is the share of persons with an equivalised disposable income below the at-risk-of-poverty threshold, set at 60% of the national median equivalised disposable income (after social transfers) (Eurostat definition). Averages are calculated for the most recent value of all countries with available data (unweighted). Average groups are as follows: EU27: European Union members; OECD-EU: EU countries who are OECD members; Baltic: Estonia, Latvia, and Lithuania; Nordic: Denmark, Finland, Iceland, Norway, and Sweden; CEE (Central European Economies): Czech Republic, Hungary, Poland, Slovak Republic, and Slovenia.

Source: OECD Income Distribution database; Statistics Lithuania; and EU-SILC.

The tax-transfer system could do more to reduce poverty. Social benefits remain low, despite recent increases, and the provision of support is not yet individual-based. Increasing social support that is well-tailored to the needs of the most vulnerable, while keeping work incentives, is essential. The pension system also needs to safeguard more against old-age poverty by ensuring adequate pension levels. More than a third

of seniors have incomes below 60% of the national median. The additional spending can be financed through efforts to utilise under-exploited tax bases, including by tackling tax evasion.

Social services also need to improve. Not all children have access to early childhood education and care, despite its critical role in reducing the impact of social disadvantage. A case can therefore be made to maintain efforts to expand early education services, with a special focus on children from disadvantaged backgrounds and those living in rural areas. Another challenge is to meet the housing needs of the poorer segments of the population. Around 10 000 low-income households are still awaiting social housing, calling for increased investment in this area. Lithuania also needs an integrated approach to homelessness, guided by international best practices.

Fighting poverty in a decisive manner ultimately requires more and better quality jobs. There is scope, in this context, to improve the job opportunities for less-skilled workers through a further reduction in the labour tax wedge, which remains above the OECD average. Equally important are measures to boost the productivity of less-skilled workers, including through well-designed incentives to enhance participation in adult learning programmes, helping re-skilling and upskilling. At the same time, informality needs to be reduced to ensure high-quality jobs. The New Labour Code makes strides in this regard.

Increased spending on activation programmes, upon a close monitoring of outcomes, is essential to better integrate displaced workers in the labour market and to reduce poverty. Ensuring successful labour market and social integration of the vulnerable groups requires close collaboration of all stakeholders, with some encouraging initiatives already underway.

As the economy recovers from the Covid-19 crisis, the

Lithuanian authorities will have the opportunity to make headways in all these areas through continued reforms so that all boats can be lifted as the tide rises anew.

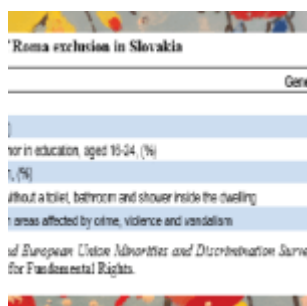
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The social exclusion of Roma in the Slovak Republic calls for immediate policy action

Category: Inequality, Slovakia, Uncategorized
written by oecdecoscope | October 20, 2022



by Gabriel Machlica, Slovak Republic Desk, OECD Economics Department



The Slovak Republic has one of the continent's largest Roma populations. Estimates differ, but it is assumed that they account for about 8% of the population. The Roma communities vary based upon geographic location and the level of integration. Nevertheless, the average level of ethnic segregation is exceptionally high and Roma face social exclusion in almost every aspect of everyday life (Table

1.1.).

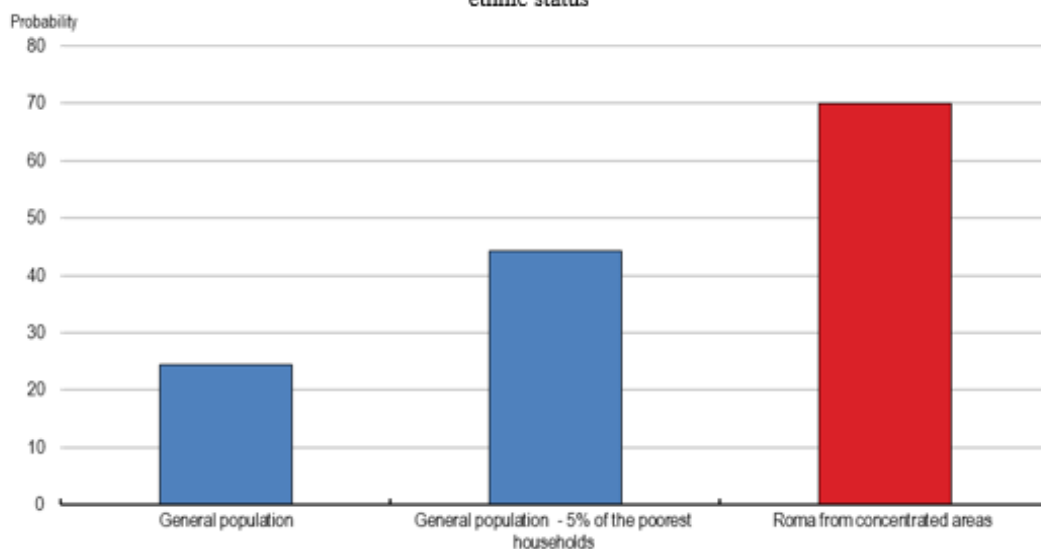
Table 1. Selected indicators of Roma exclusion in Slovakia

	General population	Roma
At-risk-of-poverty rate (%)	13	87
Employment rate, 20-64, (%)	68	25
NEET rate - neither in work nor in education, aged 16-24, (%)	14	65
Drop-out rate from education, (%)	7	58
Share of households living without a toilet, bathroom and shower inside the dwelling	0.6	43
Share of households living in areas affected by crime, violence and vandalism	8.7	30

Source: EU (2016), *Second European Union Minorities and Discrimination Survey, Roma – Selected findings*, European Union, Agency for Fundamental Rights.

The Roma can be trapped in a cycle of poverty for generations. If a child starts her or his life with limited access to education and lives in poor housing conditions, there is a high probability she will end up in poverty too. Indeed, results for Roma show exceptionally weak upward social mobility between generations. The probability that Roma born in concentrated residential area become unemployed or earn less than minimum wage in irregular work is almost 70%.

Figure 1. Intergenerational mobility of Roma living in concentrated residential areas is low
Probability of being unemployed or earning less than a minimum wage according to parents' economic and ethnic status



Source: OECD calculation based on J. Rizman (2018), *"Jablko padá daleko od stromu"*, Institute for Financial Policy, Ministry of Finance of the Slovak Republic, Policy Brief, No. 09.

Investment in Roma integration cannot only help improve the well-being of disadvantaged groups, but also yield positive fiscal returns from improved employment prospects. The Economic Survey of the Slovak Republic shows that increasing the Roma employment rate and their productivity to the level of the general population by the end of 2060 would increase GDP by more than 12% with the economy growing faster on average by 0.3 p.p. per year.

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Some Australians are at a significant risk of poverty, despite the strong economy

Category: Australia, Uncategorized

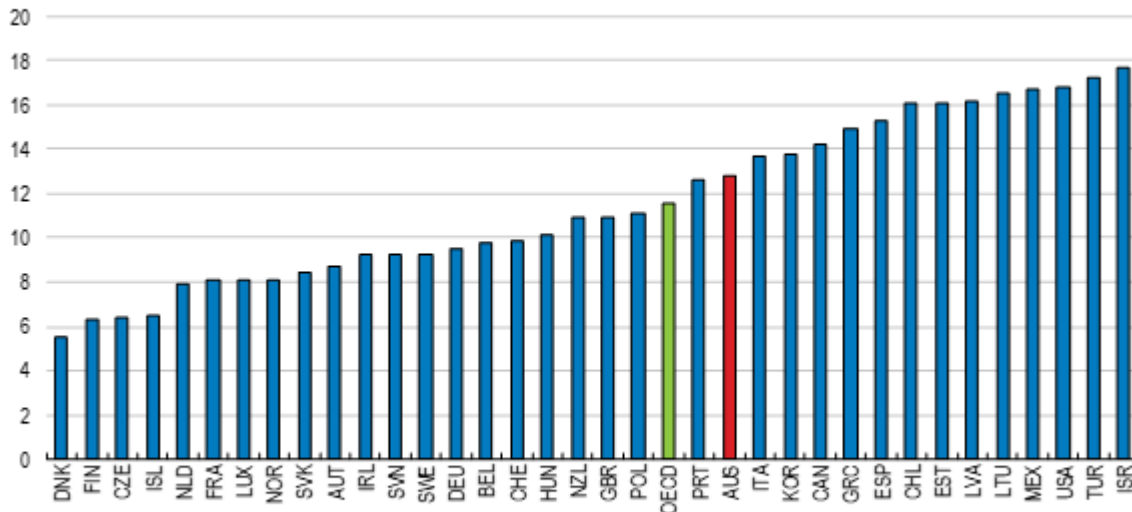
written by oecdecoscope | October 20, 2022

by Urban Sila, Australia Desk, OECD Economics Department

Australia is a successful economy with high living standards. It has recorded 27 years of uninterrupted GDP growth. Incomes have grown strongly across the entire range of the income distribution and the incidence of both absolute and relative poverty have declined. Despite this improvement, quite a significant share of Australians live in relative poverty. About 13% of Australians live in households with incomes below

the poverty line – less than half of the median household income.

Australia's poverty rate in international comparison
Relative poverty rate after taxes and transfers, Poverty line 50% (2015)



Notes: The OECD value is the unweighted average of the displayed countries. 2014 data for Australia, Denmark, Germany, Hungary, Iceland, Ireland, Luxembourg, Mexico, New Zealand and Switzerland. 2016 data for Israel.
Source: OECD, Income Distribution and Poverty database.

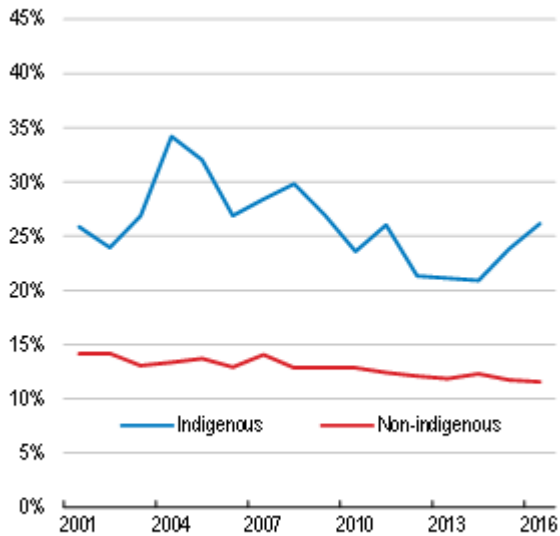
The recent OECD *Economic Survey* of Australia and accompanying paper (Sila and Dugain, 2018) use OECD and Australian data (the HILDA, household panel survey) to establish which groups are vulnerable to poverty. The analysis uses the concept of relative poverty. Specifically, individuals are classified as poor if they live in households that earn below 50% of the median equivalised household income in a given year.

Certain groups are more at risk of poverty than others. People living alone and lone parents are at higher risk of poverty. Although poverty in old age has declined in the last 15 years, it nevertheless remains high. Old people in Australia have more than 30% chance of living in poverty, a high figure in international comparison. However, Australia stands out less in measures of poverty that correct for housing costs, as many older people in Australia are homeowners.

As regards the working-age population, those out of the labour force and the unemployed are at much higher risk of poverty. In addition, casual workers and part-time workers are at risk,

as are people with low education and skills.

Indigenous Australians are still at a much higher risk of poverty than the rest of the population



Source: OECD calculations based on HILDA database.

Indigenous Australians are almost twice as likely to be poor than the rest of Australians, and according to the HILDA data, the gap has not been closing over the past 15 years. Indeed, the gap has risen over last two years. Furthermore, statistical analysis shows that indigenous status remains a strong explanatory factor of poverty even after controlling for education, age, industry, skill and remoteness. This means that high poverty among indigenous people reflects a range of unobserved socio-economic issues, including poor health and discrimination.

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Sustaining growth to benefit all in Spain

Category: Inequality, Spain, Uncategorized

written by oecdecoscope | October 20, 2022

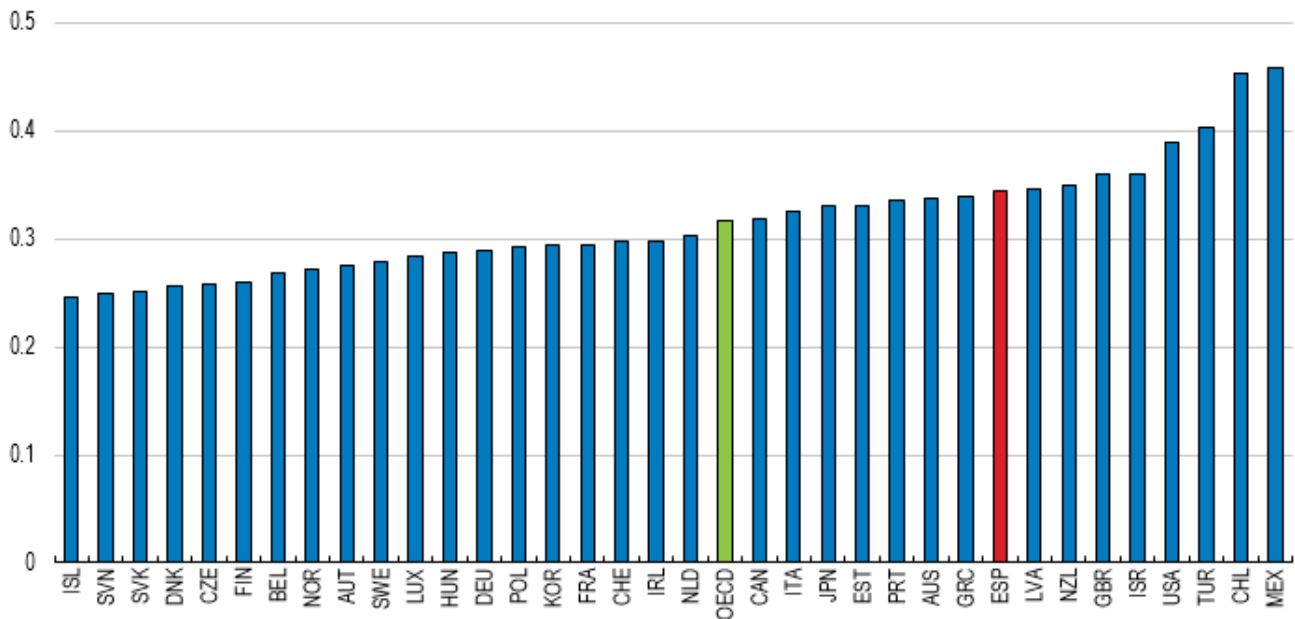
By David Law, Spain desk, OECD Economics Department



Spain continues to recover from the economic crisis with strong growth and falling unemployment, as highlighted in the latest OECD Economic Survey of Spain (OECD, 2018). If the recovery is to be sustained, it is vital that the benefits of economic growth are shared as high rates of income and wealth inequality can harm economic growth and productivity, and limit productive investment opportunities.

Income inequality is relatively high in Spain (Figure 1) and it increased during the crisis, as employment fell significantly and income disparity grew. The risk of being in poverty now varies greatly across regions and the rate of child poverty is particularly high, at 22% in 2015, which is well above the OECD average of 13%. The risk of poverty is especially high for children living in migrant and single parent families. With some positive developments in the labour market since 2015, income inequality and poverty rates are likely to have improved somewhat, however, these issues are expected to remain a concern for some time.

Figure 1: Income inequality is high
Gini coefficient after taxes and transfers, 2015 or latest year available

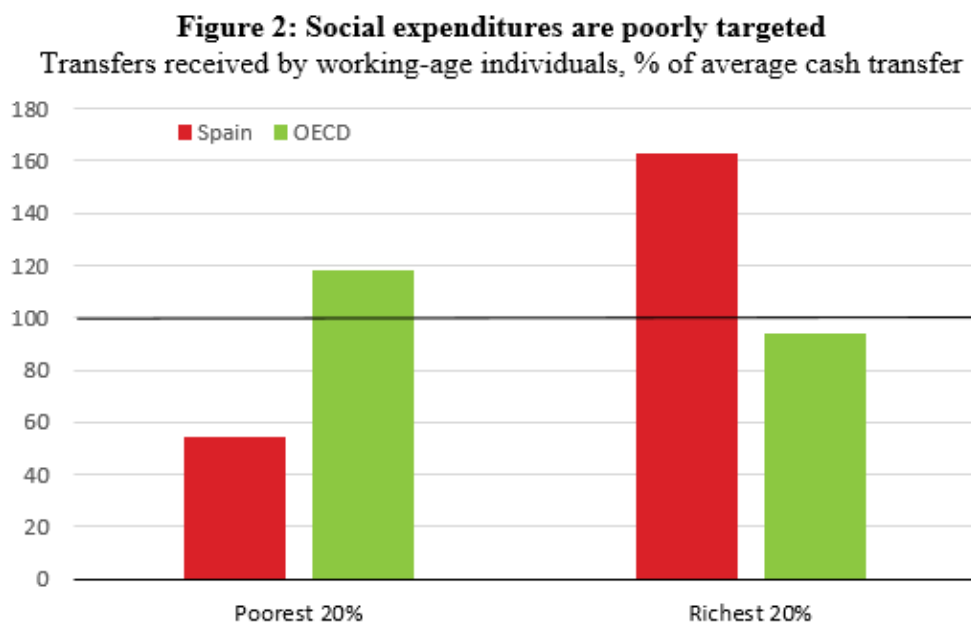


Note: The Gini coefficient has a range from zero (when everybody has identical incomes) to one (when all income goes to only one person). Increasing values of the Gini coefficient thus indicate higher inequality in the distribution of income.
Source: OECD, Income Distribution and Poverty (database).

Wealth inequality in Spain appears relatively low in international perspective, reflecting high rates of home ownership. However, as is the case in other countries, wealth inequality is higher than income inequality with the top 10% of households holding close to half of all wealth, compared to around one fifth for the bottom 60% of households. Wealth inequality seems likely to rise over time, given changes in the distribution of income and recent labour market trends. Indeed, new work undertaken by the OECD using household survey data shows that wealth inequality already increased between 2011 and 2014 in Spain, and that the income and wealth mobility of households exhibit a degree of persistence, which can exacerbate inequalities (Martinez-Toledano et al., forthcoming).

The tax and transfer system in Spain could do more to tackle inequality. Low-income households receive less cash transfers than higher-income ones, with those in the bottom 20% of the income distribution receiving only around 55% of the average payment across all families, compared to the top 20% receiving

over 60% more than the average family (Figure 2). Better targeting of transfers, so more is received by those who need them the most, would reduce inequality. Additionally, the 2018 OECD Economic Survey of Spain notes the burden the tax system places on labour taxation and recommends that regressive reduced value-added tax rates be abolished and that the tax allowances granted for inheritance taxes for the most wealthy are reconsidered.



Note: Public social cash transfers are at the household level, adjusted for household size. Income groups refer to disposable incomes.
Source: OECD, Social Expenditure Database.

Reducing inequality in the long-run will also require sustained improvement in labour market outcomes. For instance, in 2017, unemployment among the young was 38.6%, long term unemployment as a share of the labour force was 7.7% and 27% of workers were on temporary contracts. The 2018 OECD Economic Survey of Spain makes a number of recommendations in this regard. For example, the Survey recommends increasing spending on training and job search assistance, the introduction of a profiling tool to adapt active labour market programmes to the needs of individual workers, and measures to boost the labour market participation of women, such as extending the provision of early childhood education. The Survey also discusses the role that targeted reductions in social security contributions

could play in improving labour market outcomes for low wage workers and the benefits of greater use of firm-level collective agreements, and recommends continuing efforts to fight against the abuse of temporary contracts to reduce labour market duality.

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Achieving an inclusive and sustainable recovery in Greece

Category: Greece, Labour markets, Uncategorized

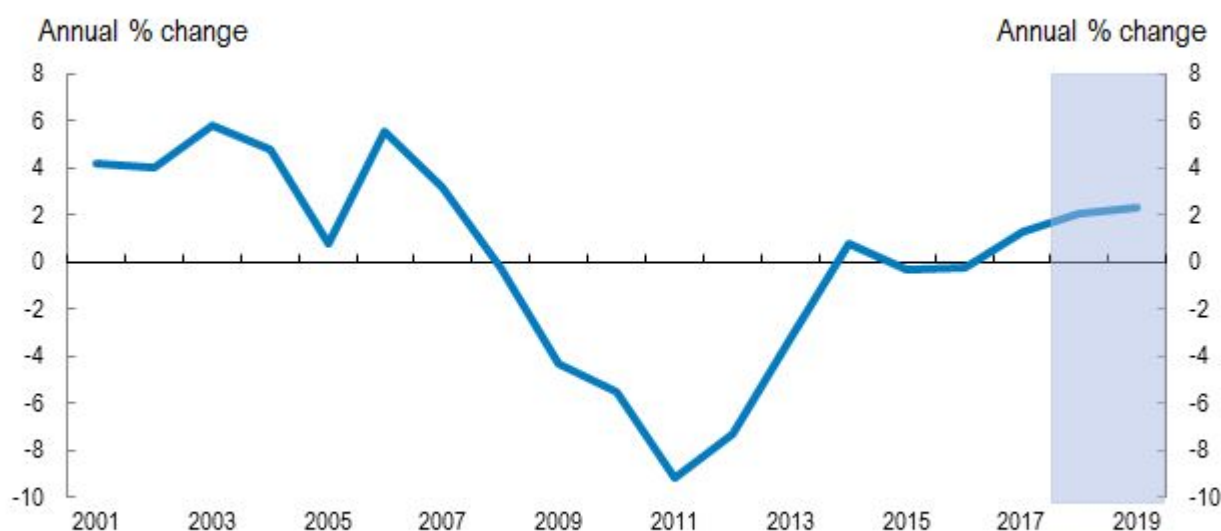
written by oecdecoscope | October 20, 2022

by Mauro Pisu and Tim Bulman, Greece Desk, Economics Department

Greece is finally recovering from a deep depression. In 2017 GDP expanded by 1.3%, according to initial estimates, and is projected to accelerate to 2% in 2018 and 2.3% in 2019 (Figure 1). Labour market reforms have improved competitiveness and exports are leading the expansion. Overall the economy is becoming more open. Exports rose from 24% of GDP in 2008 to

34% in 2017. Employment is rising strongly while the external and fiscal imbalances are being addressed. Public finances are outperforming European Stability Mechanism (ESM) Stability Support programme's targets, helping to restore fiscal credibility. Financial markets are taking notice, with bond spreads falling and agencies upgrading their ratings of Greece's public debt.

Figure 1. The economy is recovering



Source: OECD (2018), OECD Economic Outlook: Statistics and Projections (database).

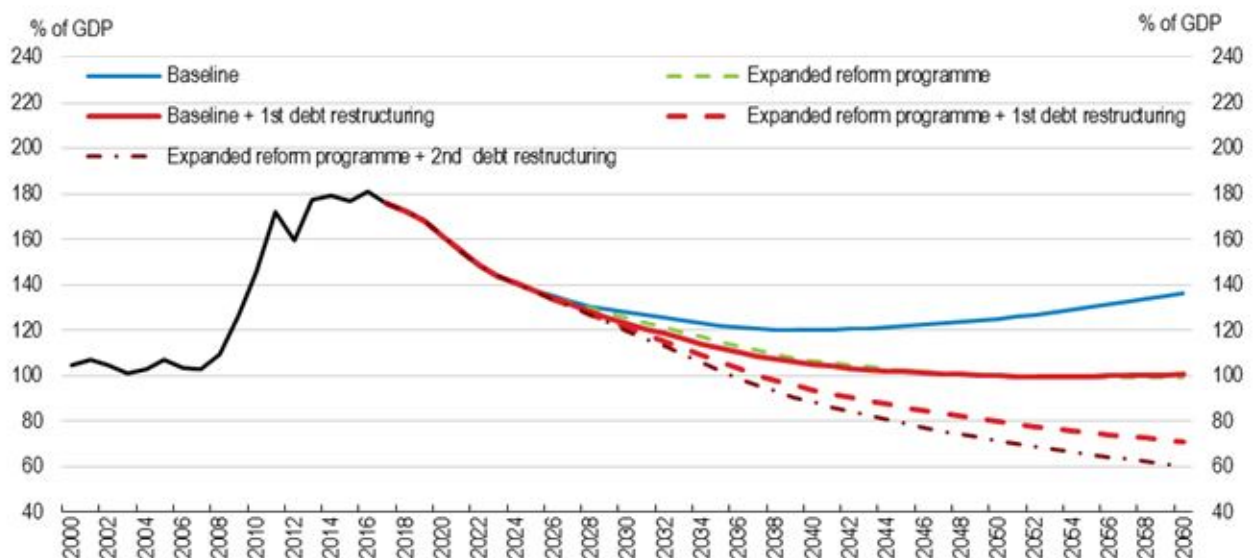
Despite these positive developments, the long crisis has left deep scars in the society that have yet to heal. GDP per capita is still 25% below its pre-crisis level. The public debt is still high. Wages are low. Though poverty has stabilised, it remains near a record high, especially among the young and families.

The OECD's 2018 Economic Survey of Greece suggests that maintaining the reform momentum and strengthening reform ownership will be essential to sustaining the recovery and moving towards a more inclusive and prosperous society. Keeping the reform momentum is crucial to tackle the three key challenges highlighted in the 2018 Survey: Improving debt sustainability, sustaining job growth and reducing poverty, boosting investment.

The public debt has stabilised but at about 175% of GDP is still one of the largest in the world. A three-pronged strategy would place this on a downward path for the long-term (Figure 2). This includes: additional pro-growth reforms; large but realistic primary surpluses; and additional debt restructuring, as needed:

- Pro-growth reforms, focusing on improving the functioning of public administration and product markets as well as boosting labour force participation, will do most to bolster long term GDP growth.
- Maintaining the primary surplus above 2% of GDP into the long-term will be challenging but can be achieved through further broadening the tax base – by improving tax collection and reducing the informal economy – and improving spending effectiveness – by using spending reviews regularly and continuing the ambitious public administration reform.
- As concerns debt restructuring, locking-in the currently low interest rates on concessional loans would reduce public debt below 80% of GDP by the 2050s, under prudent assumptions, if combined with additional pro-growth reforms.

Figure 2. Pro-growth reforms, high but realistic primary surplus and appropriate debt restructuring will reduce the debt ratio



Note: The historical data and projections to 2019 follow the Economic Outlook No. 102 and updates (for the forecast). In all scenarios, the primary budget surplus is projected to be 3.5% of GDP until 2022, then decrease to 2.2% of GDP by 2025 and remain at that level. The GDP deflator growth is expected to gradually rise to 2% by 2023. The effective market interest rate is projected to gradually rise to 5.3% by 2029. The effective interest rate of official creditors' loans (EFSF, ESM and GLF) is projected to rise to 4.2% by 2029. The baseline assumes the near-complete implementation of the current reform programme (Table 6); this raises annual real GDP growth to average 1.7% from 2020 to 2029, slowing to 1.3% over 2030 to 2039, then to 1% over the subsequent period, largely due to demographic factors. The 'Expanded reform programme' assumes implementation of the current and additional reforms (Table 6). This raises average growth rates to 2.2% by 2027, before gradually slowing after 2031 to 1.4% by 2043. In the 1st debt restructuring scenario the effective interest rates of official creditors' loans is fixed at 2% from 2020 onwards. In the 2nd debt restructuring scenario the effective interest rates of official creditors' loans is fixed at 2% from 2020 onwards and the EFSF repayments are postponed until 2031. The projections consider the short-term relief measures described in the May 2016 and June 2017 Eurogroup statements. These include: smoothening the EFSF repayment profile under the current maximum weighted average maturity; waiving the step-up interest rate margin on the EFSF debt-buyback tranche for 2017; diversifying the ESM funding strategy to reduce interest rate risk (the ESM has started implementing this measure through interest rate swaps; these projections assume that this measure will set the interest rate of EUR 50 billion in EFSF loans to 1.6% for 34 years). All scenarios include privatisation receipts of EUR 10 billion in total from 2020 to 2040.

Source: Calculations based on OECD (2017), OECD Economic Outlook: Statistics and Projections (database).

For Greece's recovery to be inclusive, it must be rich in jobs. Greece's recent labour market reforms have improved flexibility and supported job creation. However, over 1 million people are still unemployed, three-quarters for over a year. New jobs often pay the minimum wage, and are part-time or temporary. Reintroducing sectoral collective wage agreements should aim at maintaining the flexibility of the current system, ensuring wages align with productivity and better protecting individuals from labour market risks. They should cover broad working conditions and have no automatic extensions. Since small firms employ most workers, wage agreements need also to be flexible enough to take into account their specific circumstances.

The number of Greeks suffering from poverty doubled between 2010 and 2016, to almost 2.4 million on some measures, harming families with children the most. Recent reforms have already started to address this problem by better targeting social programmes. However, the many small and poorly targeted programmes and cumbersome administrative processes lower the effectiveness of and access to the welfare system. Progress towards better targeting social programmes and simplifying administrative processes should continue so as to create a fairer and more effective welfare system.

Investment has dropped by 60% since the onset of the crisis and has yet to recover, because of a mixture of weak demand, tight financial conditions and structural problems. The productive stock capital is now falling, dragging down GDP growth.

Recent reforms have already improved important areas of the investment climate, but Greece's business environment still lags other countries. Further addressing product market restrictions, improving regulatory quality and transparency through Regulatory Impact Assessments, completing the land registry, and fully implementing the legislated insolvency reforms are priorities the OECD survey highlights.

Greece also needs to continue tackling the challenges facing its banking sector. Governance standards have improved drastically but these still need to become entrenched practices. Addressing the large stock of non-performing loans will require fully implementing out-of-court workout procedures and e-auctions, and strengthening temporary tax incentives to encourage the disposal of banks' non-performing loans. Carefully phasing out capital controls, while preserving financial stability, will also be needed to restore access to finance.

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The key to breaking cycle of poverty in Israel lies in education

Category: Israel,Uncategorized

written by oecdecoscope | October 20, 2022

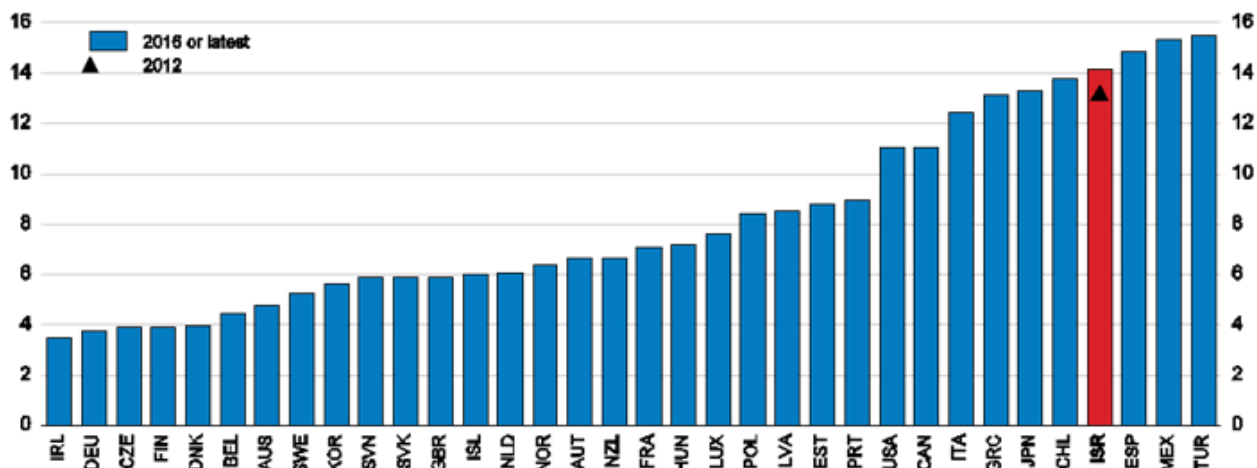
By Gabriel Machlica and Claude Giorno, Israel Desk, Economics Department

Inequality and relative poverty in Israel remain high, particularly among Arab-Israelis and Haredim (Ultra-Orthodox). Israel's social policy follows a "welfare-to-work" approach to tackle poverty in order to avoid measures that may harm work incentives among the Haredi, who value the time dedicated to religious studies, and the Arabs, who have cultural barriers to female employment. The government's strategy of encouraging employment among previously non-working families has met with substantial success. The Israeli labour market has improved markedly, and more and more Haredim and Israeli-Arabs have been able to find jobs. Moreover, the average real income of poor households has risen by almost 3% annually in the last six years, while the average annual real income of wealthier households has increased by only 2.2%.

However, inequalities remain internationally high, and the current strategy without complementary steps has its limits. Many disadvantaged workers have been able to find jobs, but

their families remain poor, since in most cases these jobs are low-paid. Indeed, the share of the working poor has risen in recent years and is comparatively high (**Figure 1**).

Figure 1. The share of working poor is high
A. Share of workers in poverty¹

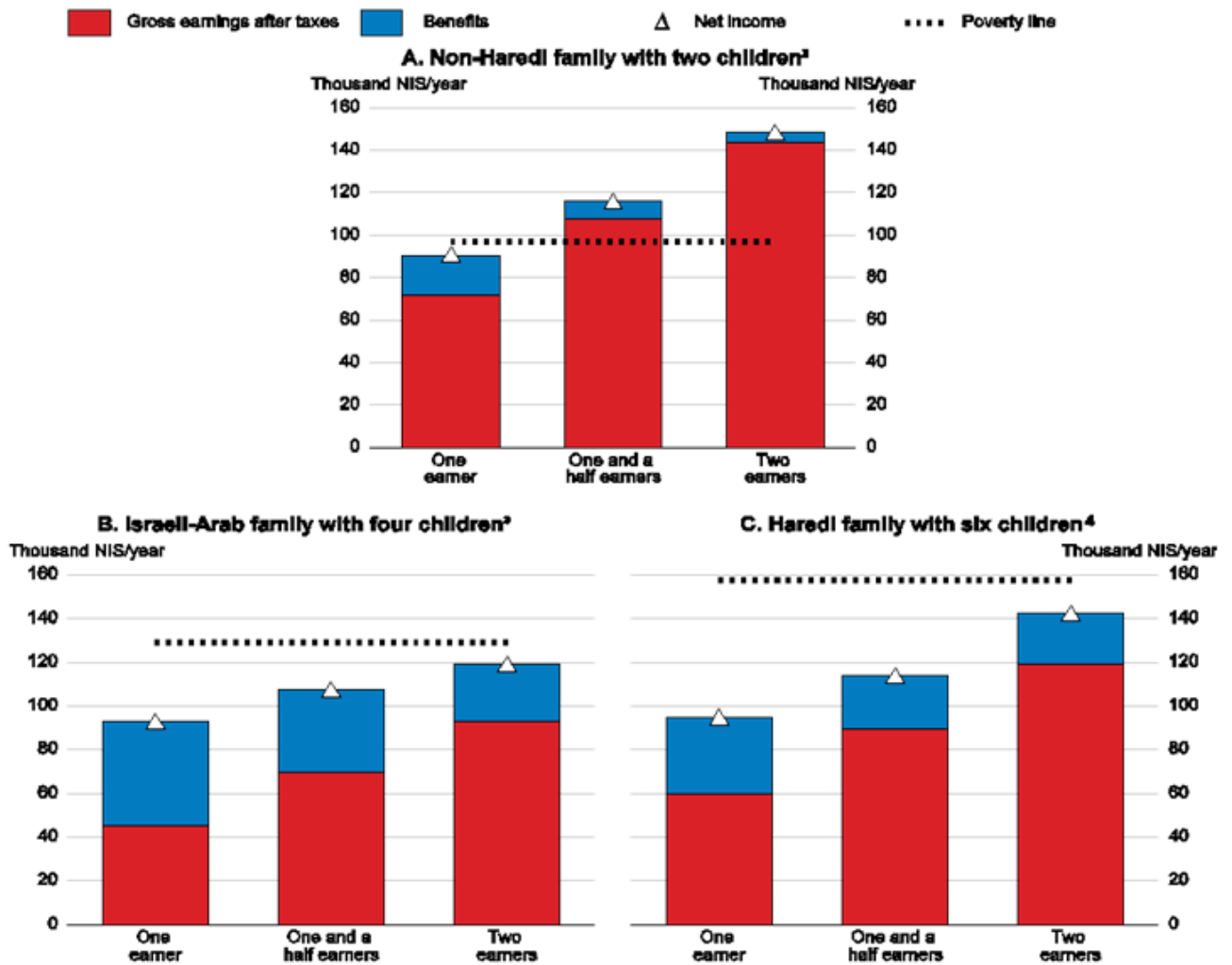


1. Those with income below the poverty line, living in households with a working-age head and at least one worker.
 Source: OECD (2017), *Income Distribution database*; National Insurance Institute

This is particularly true for the Haredim and Israeli-Arabs, who earn on average only 70% and almost 90% of the median hourly wage, respectively, mostly due to the differences in skills and typically have families with only one breadwinner. Given the current tax-transfer system and large number of children in these households, especially in the Haredi community, even two full-time working spouses would not be enough to escape from poverty (**Figure 2**).

Figure 2. Higher employment of Haredim and Israeli-Arabs may not be enough to lift them out of poverty

Estimates of family income according to the numbers of earners and the community group¹



1. One earner corresponds to a family with one earner, one and a half earner corresponds to two-earner family where one works full-time and the second half-time, and two earners corresponds to two-earner family where both work full-time.
2. Workers are assumed to earn 110% of the average wage.
3. Workers are assumed to earn 70% of the average wage.
4. Workers are assumed to earn 90% of the average wage.

Source: OECD calculations using the OECD Tax-Benefit Model. See OECD (2018), OECD Economic Surveys: Israel 2018, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-isr-2018-en for more details.

Therefore the current government strategy should be accompanied by additional measures. Extensive poverty in Israeli society is to a significant extent due to the wide dispersion of skills. The government should improve the education outcomes of the disadvantaged groups to boost their future productivity and wages. As the *2018 OECD Survey on Israel* argues, the education system needs to become more inclusive by giving all children opportunities for good-quality education to improve their skills. The government should also focus on programmes for adults who have already

left initial education without proper skills. In addition, it should further expand in-work benefits to boost take-home pay of the average eligible worker.

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South Africa: it is time to rekindle the economy

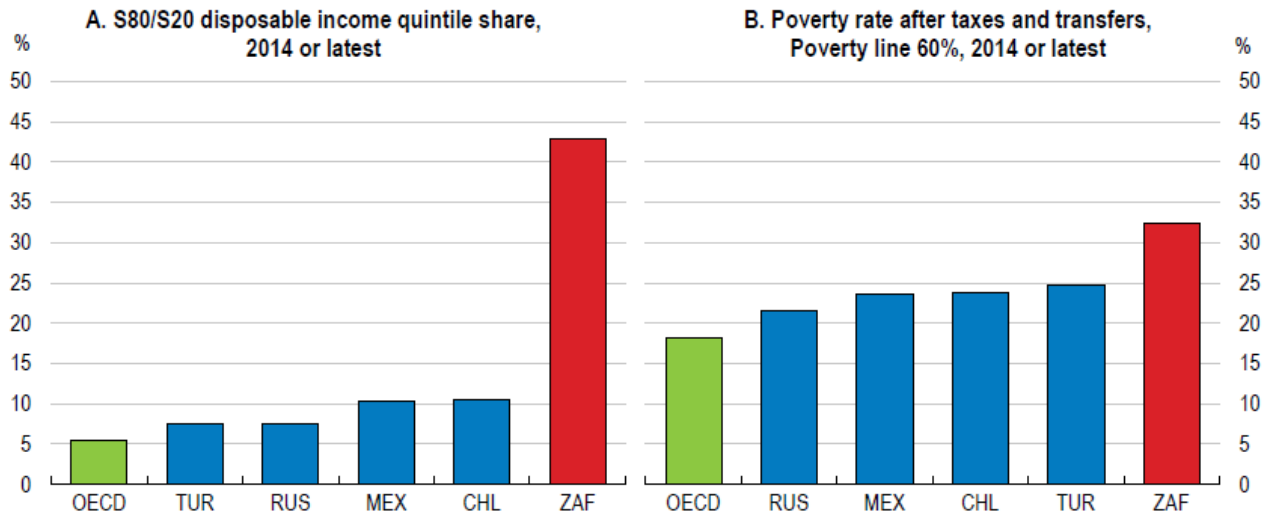
Category: South Africa, Uncategorized

written by oecdecoscope | October 20, 2022

By Falilou Fall, Head of South Africa Desk, OECD Economics Department

Growth is recovering but inequality remains persistent. Growth is projected to reach 1.5% in 2018 after many years below one percent or negative in per capita terms. Low growth and high unemployment have adversely affected the well-being of South Africans. Since 2010, inequality, measured by the Gini coefficient at 0.62, has almost stagnated withering the social contract in a context of policy mistrust (Figure 1).

Figure 1. Poverty and inequality are high

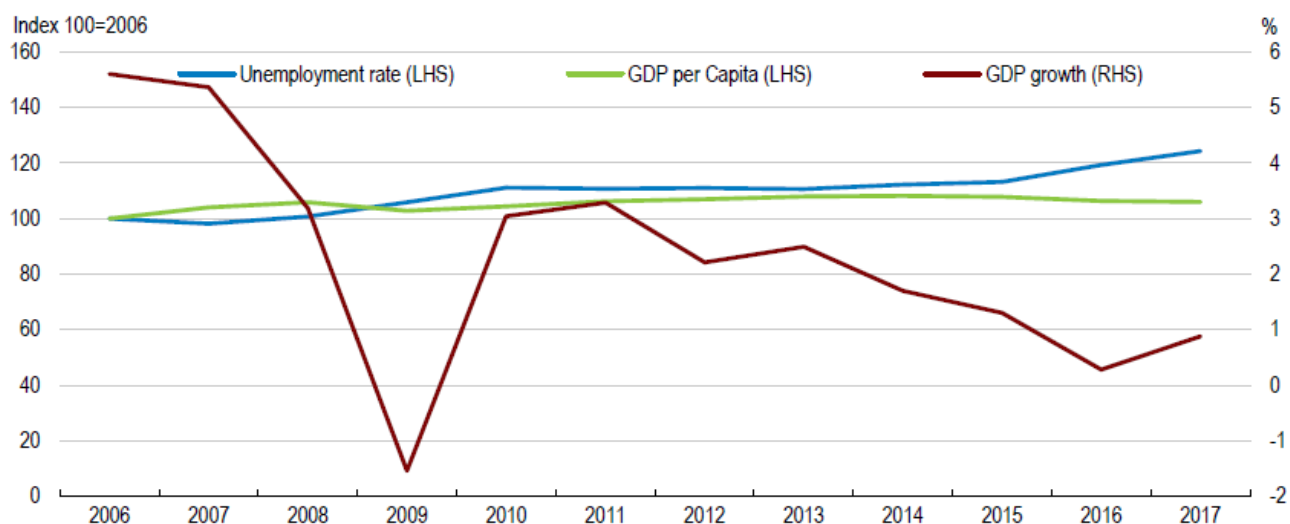


Source: OECD Income distribution and poverty database.

As pointed out by the 2017 OECD Economic Survey of South Africa, the weak growth reflects lacklustre investment and continued low business confidence and the impact of high unemployment, moderate wage increases and persistent indebtedness on sluggish household consumption (Figure 2).

Low growth and weak fiscal discipline contributed to rising public debt burden – from 41% in 2012 to 53% of GDP in 2017. The shortfalls in meeting fiscal objectives, policy uncertainty and corruption concerns in turn led to the downgrading of the government bond ratings to sub-investment level by two major rating agencies in 2017. This makes it harder to meet the large social needs of much of the population.

Figure 2. GDP per capita has been falling



Source: OECD, Economic Outlook Database.

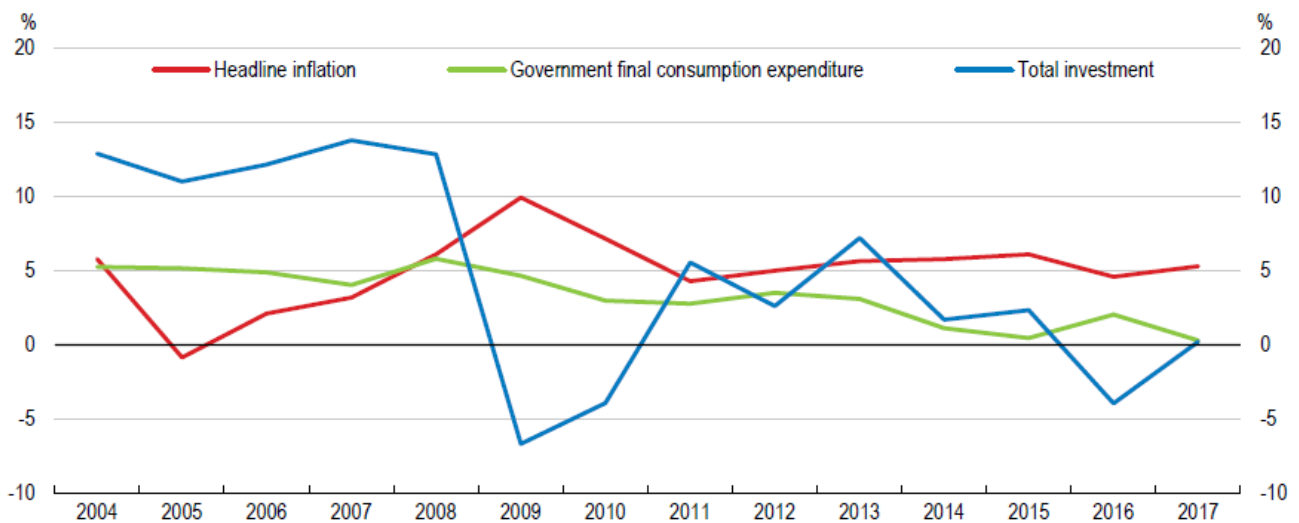
The election of a new political leadership should brighten the outlook. Business and household confidence are up. Indeed, after three years of contraction, private investment is now expected to drive growth. But, growth perspectives remain too low to create enough jobs and generate enough government revenues for spending and debt reduction, while social and infrastructure needs are high.

In the short run, a more accommodative macroeconomic policy mix can boost growth. Inflation has come down throughout 2017 and, at 4.4% in January 2018, it is in the middle of the Reserve Bank's target band. Interest rates can now be further reduced to amplify the investment pick up. Smoothing the pace of fiscal consolidation could further sustain demand and thus contribute to growth acceleration. In a low growth era, fiscal consolidation is detrimental to consumption demand, although reassuring for investors (Blanchard et al., 2013; Sutherland et al., 2012). South Africa made limited progress in fiscal consolidation over the last five years as growth kept falling.

Along with slower consolidation, budget reallocation toward more growth-enhancing investment should continue. Limiting wage growth in the public sector and subsidies and transfers to state-owned enterprises would create fiscal space for

infrastructure and social investment.

Figure 3. More accommodative macroeconomic policy-mix is needed



Source: Statistics South Africa; National Treasury; OECD, Economic Outlook Database.

Bold structural reforms are needed to increase potential growth in a longer perspective. OECD South Africa Economic Surveys (2013, 2015) have pointed to many growth boosting reforms: broadening competition in the economy, limiting the size and grip of state-owned enterprises (SOEs) on the economy, and improving the quality of the education system. Important input and technology sectors such as telecommunications, energy, transport and services in general should be opened up to more competition. In particular, telecoms or the airline company, which are in markets with enough competition could be privatised. Moreover, South Africa lacks a proper urban transport system. Putting in place a national plan to expand public transport and allowing more private operators would reduce the cost of transport on the budget and raise well-being.

Job creation remains a major challenge for the quarter of workforce without jobs. The 2017 OECD South Africa Economic survey found that boosting entrepreneurship and growing small businesses can play an important role in creating jobs. Steps have been taken to ease starting a business, but red tape remains a burden. There is room to reduce harmful product

market regulations and restrictions to entrepreneurship and entry in professional services. The quality of the education system and lack of work experience contribute to gaps in entrepreneurial skills. Policies should provide more financial and non-financial support for entrepreneurs and small businesses. But, a lack of co-ordination and evaluation hampers effective policy-making.

Greater regional integration within the Southern African Development Community (SADC) could provide new opportunities for growth. Despite large growth potential, economic integration in the sub-region has not advanced much. Intra-regional trade in the Community is only 10% of total compared to about 25% in the ASEAN or 40% in the European Union. Better implementation of SADC protocols and agreements would advance integration and create jobs. Reducing non-tariff barriers by improving customs procedures and simplifying rules of origin would reduce trade costs in the region. Weak infrastructure and institutions and barriers to competition limit industrial development. More ambitious and effective infrastructure and investment policies are necessary at the regional level.

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Latvia: time to reboot inclusive productivity growth

Category: Latvia, Uncategorized

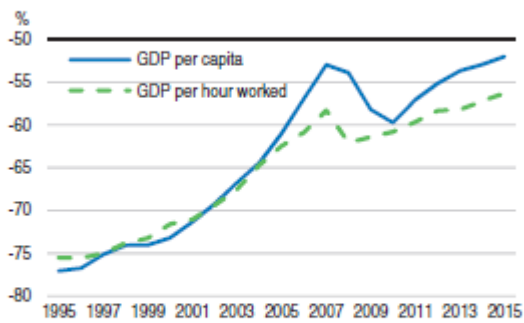
written by oecdecoscope | October 20, 2022

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 countries¹



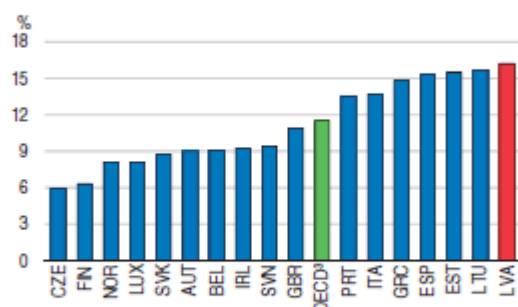
1. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2010 PPPs).

Source: OECD (2017), OECD National Accounts Statistics and Productivity Statistics (database).

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.

Poverty is high

Share of population with disposable income below the poverty line,¹ 2015 or latest year



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.

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.

Further reading

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