

COMMUNIQUE

THE LATVIAN GOVERNMENT'S AND THE FOREIGN INVESTOR'S COUNCIL IN LATVIA'S TWENTIETH HIGH COUNCIL MEETING

27th May 2016

Preamble

1. We, the Government of Latvia and the Foreign Investors' Council in Latvia (FICIL), met for mutual consultation and dialogue to discuss Latvia's economic development and the progress achieved since our last meeting.
2. Today's High Council Meeting was held in the Cabinet of Ministers and was jointly chaired by the Prime Minister of the Republic of Latvia, Māris Kučinskis, Honorary Co-Chairman of this meeting, and Stephen Oldfield, Partner at PricewaterhouseCoopers UK and the Honorary Chairman of Foreign Investors' Council in Latvia.

Progress

3. We congratulate the Latvian government and the state administration regarding the decision made by the Organization for Economic Co-operation and Development (OECD) at its Governing Council meeting on 11th May this year, through which OECD member states invited Latvia to become a full-fledged member state of the organization. The accession process and the OECD's recommendations have been a powerful stimulus for a range of reforms and improvements, which will facilitate Latvia's economic development and competitiveness in the long term.
4. We are delighted to see that the Latvian economy continues to grow in spite of the uncertainty and risks in external markets, and we are pleased to see commitment towards a more rapid economic growth (a balanced increase in the GDP of about 5% each year from 2018) as expressed in the Government's action plan. At the same time, we observe that investment activity in Latvia remains at a comparatively low level for some time, which could be a threat to Latvia's long-term development potential.
5. We appreciate the attempts to improve the legal environment in Latvia and to promote the transparent and predictable operation of the courts system. However, we have established that foreign investors continue to regard the judicial environment in Latvia to be one of the most serious shortcomings in the business environment and at the same time an impediment to the attraction of investment.
6. We are pleased that the size of the shadow economy has been reduced and that the issue of the efficient collection of taxes is on the Government's agenda. We hold the view that the size of the shadow economy within the Latvian economy is continuing to be a serious impediment creating a situation of unequal competition and increasing inequality within society.
7. Recognizing what has already been achieved in improving the education system and the commenced discussions regarding the necessity of reforms, we support and encourage a more resolute approach in the reorganization of the education system that will improve the quality of Latvia's vocational education and higher education.
8. We consider that much has been achieved in the area of governance of state-owned enterprises – a legislative base responding to the needs of contemporary requirements has been developed and adopted. By purposefully and consistently applying it, good governance standards must be put into practice in the work of state-owned and local government-owned enterprises.
9. We repeatedly express our concerns about the situation in the health care sector, and consider that reform that would guarantee access to the health system and efficiency and quality in spending must be urgently undertaken. This issue is important in providing for people's welfare, as well as in the context of limited labour force resources in Latvia.

Goals

10. Having analysed the macroeconomic situation, we agree that one of the most important tasks is improving the pace of Latvia's economic development, so that long term economic growth and convergence with other EU and OECD countries can be achieved in Latvia in the near future. It is important therefore to return to structural reform agenda in Latvia with renewed energy, promoting the attraction of investment and implementing responsible fiscal policy.
11. Taking into account the geopolitical situation in Europe, as well as the fact that Latvia has to adapt to the challenges of EU funding post 2020, policy for attracting long term investment must be duly developed, that is focussed on strengthening Latvia's competitiveness, innovative manufacturing and provision of services, creation of new jobs and diversification of the overall investment structure.
12. We have agreed that predictable tax policy is one of the foundations of a stable business and investment environment, therefore, a clear perspective on short term and long term state tax policy is important, where changes are made as a result of constructive discussion with business organizations. Work on balancing the state's budget's expenditure and revenue must be continued, without taking a step back from fiscal discipline guidelines.
13. We discussed issues that affect the business environment and the security of investment in Latvia and agreed that this is one of the most significant elements in improving the country's competitiveness. Therefore, work should

be continued on improving the efficiency of the courts, ensuring uniform and predictable application of legislation, facilitating the comprehensive and safe utilization of the e-environment and undertaking other measures which will improve the public's trust and confidence in the judicial area and the rule of law in the country.

14. We value the work that has been put into in the development of insolvency legislation, but at the same time we draw attention to the importance of its proper application and supervision, as well as active fight against abuse of insolvency process that prevents establishment of a rescue culture in Latvia. It is important to provide for the improvement of the competence and capacity of the supervisory institutions, as well as the strengthening of the role of the courts.
15. We agree that one of the challenges that Latvia faces is the productivity and availability of the labour force. To address this matter, the concentration of human and financial resources must be continued with the support of the planned administrative reform, including, optimization of the education system, reduction of infrastructure units, improving quality and introducing funding mechanisms that promote innovation and reduce the unemployment trap.
16. We discussed that a real progress must be achieved in reforming the education system, concentrating mainly on: 1) improving the quality of education from good to excellent at all levels; 2) introducing competency based education in all levels; 3) ensuring equal opportunities in the context of optimizing the school network and concentration of resources.
17. We analysed the situation in health care: spending in the health area in Latvia lags significantly behind the average level in the European Union. Furthermore, there are comparatively large private out-of-pocket payments that create unequal opportunities for access by the public and reduce the potential numbers of people fit for work. Comprehensive health care reform that would provide for access, transparency in the use of state finances and comprehensive use of e-services is crucial for ensuring a sustainable economic development.
18. We discussed the progress in fighting the shadow economy, recognizing that the size of the shadow economy in Latvian continues to be a serious obstacle for economic development. This creates distortion of competition, increasing inequality in society and restricting the development of responsible businesses. Therefore, we consider that effective reduction of the shadow economy continues to be an important factor in Latvia's further development. All of the ministries and the services responsible for this should become involved and an understanding about a tax-paying culture developed throughout the society.

Conclusion

19. Taking into account that this is the twentieth meeting between the Latvian government and the Foreign Investors' Council in Latvia, we have agreed that over the coming year we will examine and implement the recommendations which have been expressed in Progress Reports about: (i) Tax policy and Tax Administration; (ii) Investment Protection; (iii) Education System; (iv) Transportation; (v) Labour force; (vi) Competitiveness of State-Owned Enterprises; (vii) Public procurement; (viii) Construction; (ix) Health System.
20. We remain committed to improving the business environment and investment climate in Latvia by discussing specific and broad strategic suggestions and by following up the progress of their implementation.
21. We recognize that further dialogue is necessary and will organise the next meeting between the Government of Latvia and FICIL in the spring of 2017.

Notes

1. On behalf of the Latvian Government, the meeting was attended by the Prime Minister and Ministers for Economics, Finance, Environment and Regional Development, Justice, and Health.
2. The Foreign Investors' Council in Latvia was represented at the meeting by senior management from the following companies: Amber Beverage Group, Cemex, Circle K, Coca-Cola Company, DNB, EY, Eversheds International Limited, Fortum, Food Union, GlaxoSmithKline, Klasmann-Deilmann, Knauf, KPMG, Linstow, Mariner, MTG, Narvesen Baltija, Neste, NCH Advisors, Norvik banka, PricewaterhouseCoopers, Rimi Baltic, Powszechny Zaklad Ubezpieczen, SEB, Stockholm School of Economics, Swedbank, TAV, Telia Sonera, Uralchem, Vastint, Vitol, as well as the chairpersons of thirteen foreign chambers of commerce in Latvia, representing the United Kingdom, the USA, Belgium and Luxembourg, Denmark, Estonia, France, Ireland, the Netherlands, Norway, Finland, Switzerland, Germany and Sweden.