



Ministry of Economics
Republic of Latvia

Macroeconomic development and priorities of the Ministry of Economics

Arvils Ašeradens
Deputy Prime Minister, Minister for Economics



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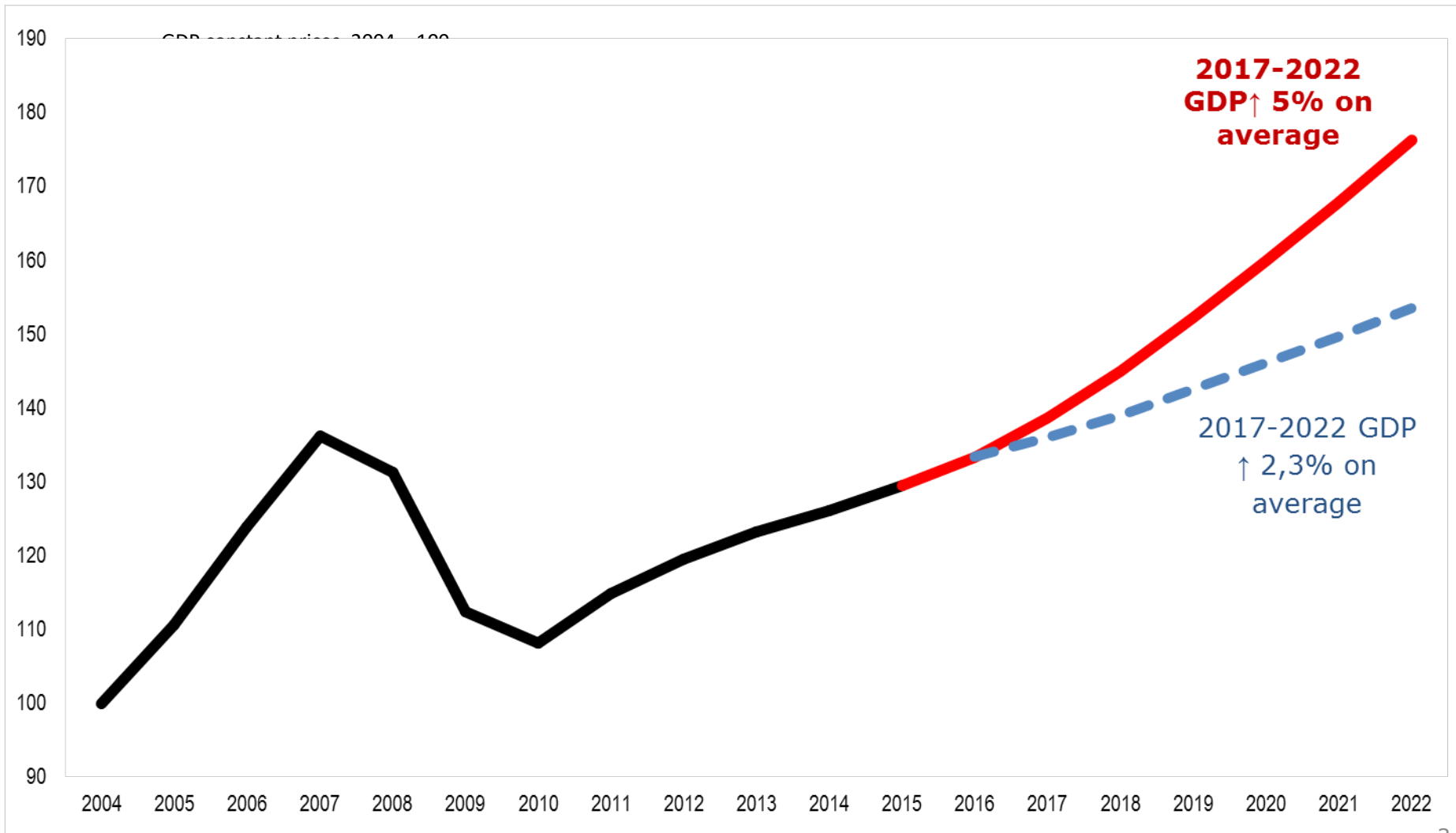
CONTENT

- **MACROECONOMIC OUTLOOK**
- **REFORMS IMPLEMENTED**
- **FURTHER PRIORITIES**



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ECONOMIC GROWTH TARGET – CONVERGENCE TO EU AVERAGE

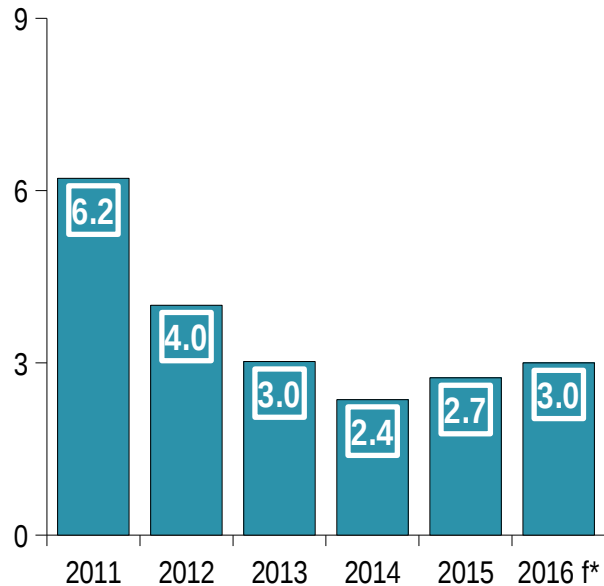




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ECONOMIC GROWTH CONTINUES BUT IT LACKS STIMULUS FOR DEVELOPMENT

GDP dynamics, %



GDP expenditure, value added, %

- Import
- Export
- Savings
- Gross capital formation
- Public consumption
- Private consumption

* Forecast of the Ministry of Economics

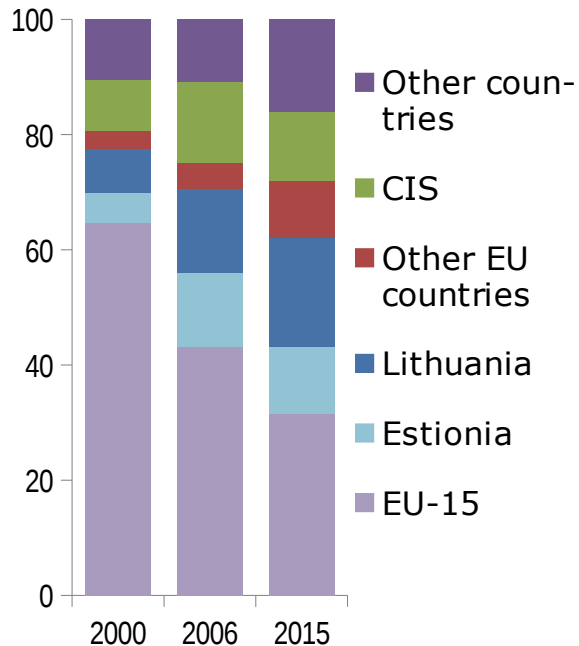


Export and investment opportunities are crucial for further economic development, but uncertainty in the global markets remains

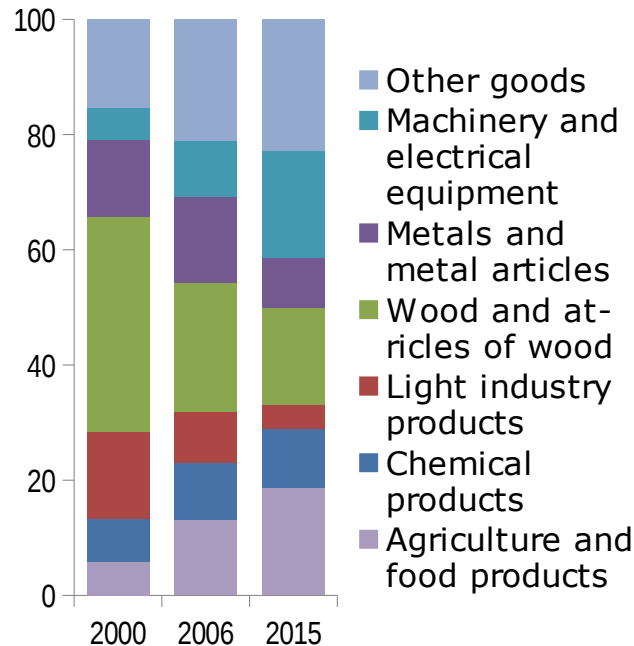


EXPORT MODERATES, BUT BECOMES MORE DIVERSIFIED

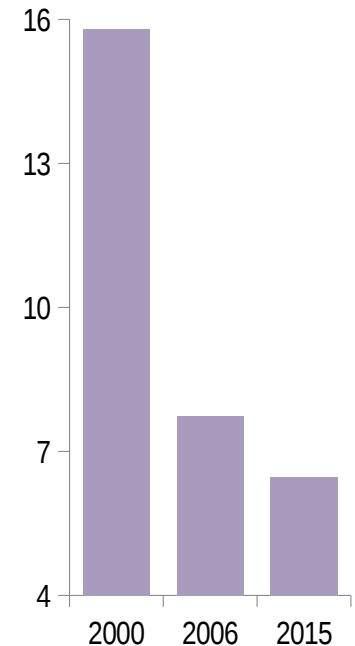
Country structure, %



Commodity structure, %



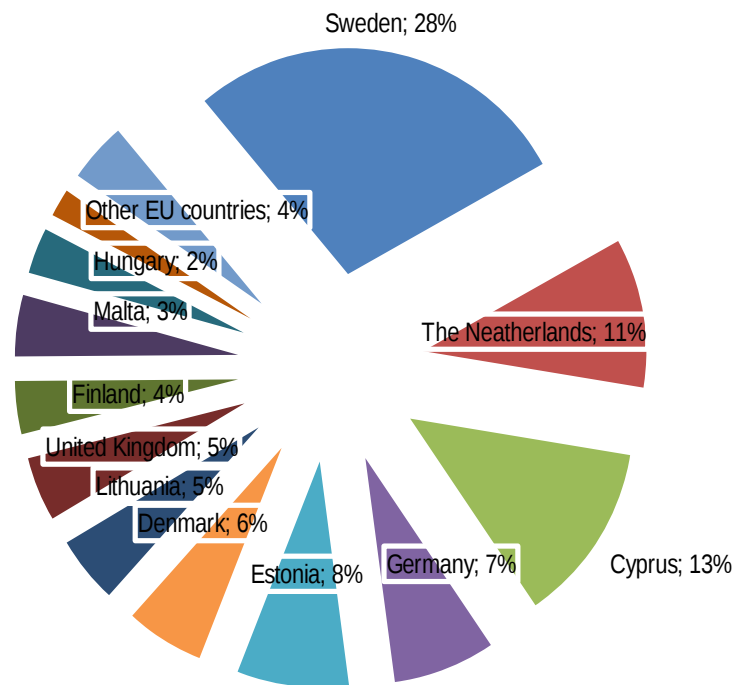
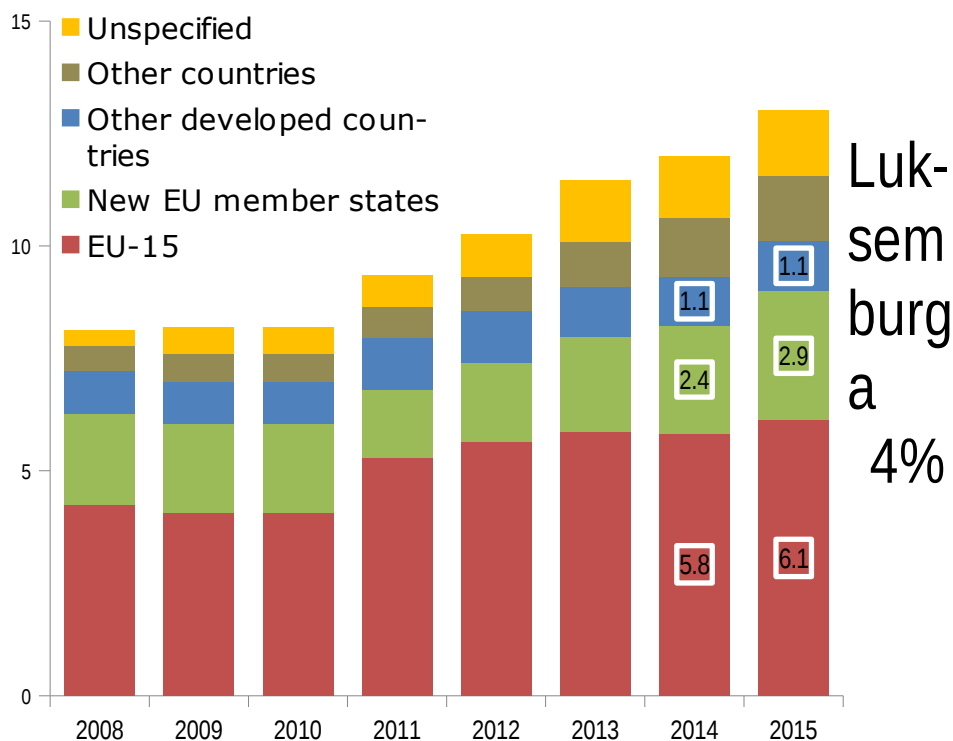
Index of export diversification





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FDI DYNAMICS – MODERATE



FDI stock in 2015 attributed for 55% of GDP and formed 13,4 billion EUR (51% of GDP or 12,1 billion EUR in 2014)



A LOT HAS BEEN DONE: LIBERALIZATION OF MARKETS IN ENERGY SECTORS



Energy policy

- ✓ Liberalization of **electricity market**
- ✓ Liberalization of **natural gas market in progress**
- ✓ Support to energy-intensive manufacturing companies by reduction of mandatory procurement component by 85%
- ✓ Introduction of renewable energy and cogeneration over-subsidizing prevention mechanism
- ✓ Energy-efficiency Law (29.03.2016)





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A LOT HAS BEEN DONE: IMPROVEMENT OF BUSINESS AND STATE INTERACTION



Business environment improvement

- ✓ Latvia continues monitoring within the *Action Plan for Business Environment Improvement* (since 1999)
- ✓ Start-up legislation in progress
- ✓ Mediation process and Arbitrage Law
- ✓ Continuously reduced red-tape activities for starting up a business

Introduction of *Consultation prior punishment* principle



Insolvency and investor protection

- ✓ Amendments to Insolvency Law (2015)
- ✓ Insolvency Administration professional reform in progress
- ✓ Guidelines of Insolvency to be published
- ✓ Set out a clear action plan for Investor protection according to previous FICIL recommendations



Construction Law and the corresponding legislative acts approved in 01.10.2014.

- ✓ Introduction of Construction Information system
- ✓ Single-shop principle in real-estate registration process
- ✓ 20 Cabinet regulations and 21 Construction standards have been accepted for quality improvement



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A LOT HAS BEEN DONE: EU FUND ACTIVITIES IN 2014-2020

In order to tackle the addressed issues 764, 15 million EUR for programs fostering **innovation and competitiveness**



Innovation (193,5 million EUR)

Competitiveness (237,1 million EUR)

- 90% of programs to be introduced by the end of 2016
- Efficient and transparent supervision of implementation of EU funded activities supervised by the **Central Finance and Contracting Agency**



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A LOT HAS BEEN DONE: REDUCTION OF SHADOW ECONOMY IS THE TOP PRIORITY



The share of shadow economy is consistently reducing:

- ✓ Size - 21,3% of GDP, reduced by 2,2% within 2015
- ✓ Target – reaching the EU average level in 2-3 years

Developed **Joint Shadow Economy Reduction Action** plan by the Government

Memorandum on reduction of shadow economy in the **construction sector to be signed**

- ✓ Similar approach in other sectors



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**Actions have been
noticed – Latvia have
been officially asked
to join the OECD**



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THE MAIN CHALLENGES FOR ECONOMIC DEVELOPMENT



Improvement of **business environment**



Demographic situation, addressing **labor** market **disproportions**



Overcoming the **middle income trap**, increase of **productivity**, facilitation of **innovation**

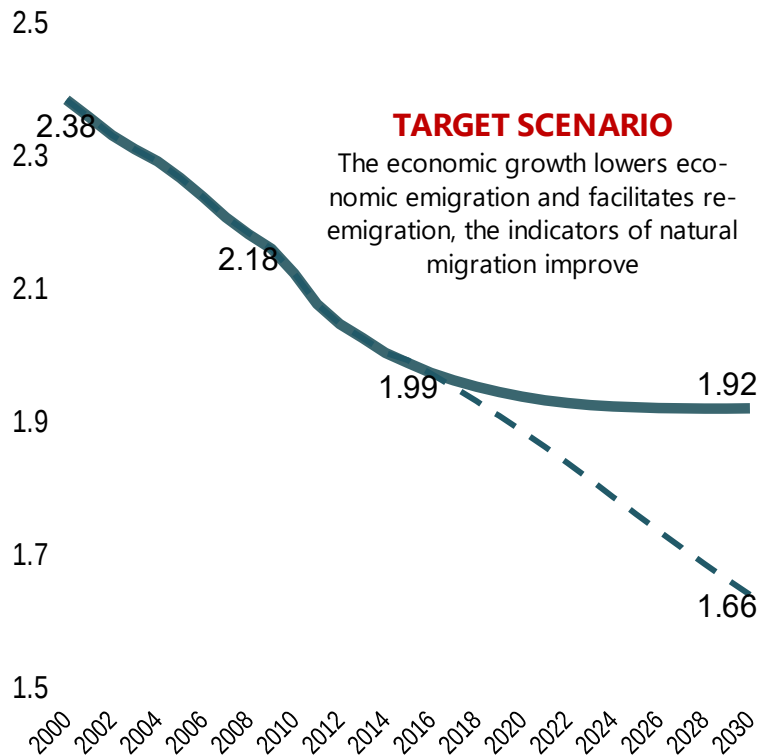


Ekonomikas ministrija

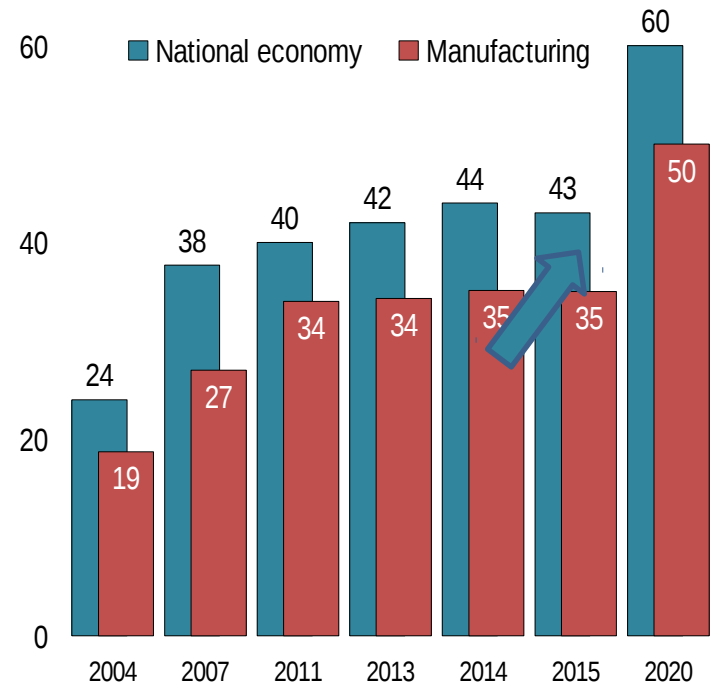
POPULATION AND PRODUCTIVITY TRAP

The competitiveness of the economy of Latvia is based on **productivity growth** - technological factors, efficiency of production and innovation

Population, mln.



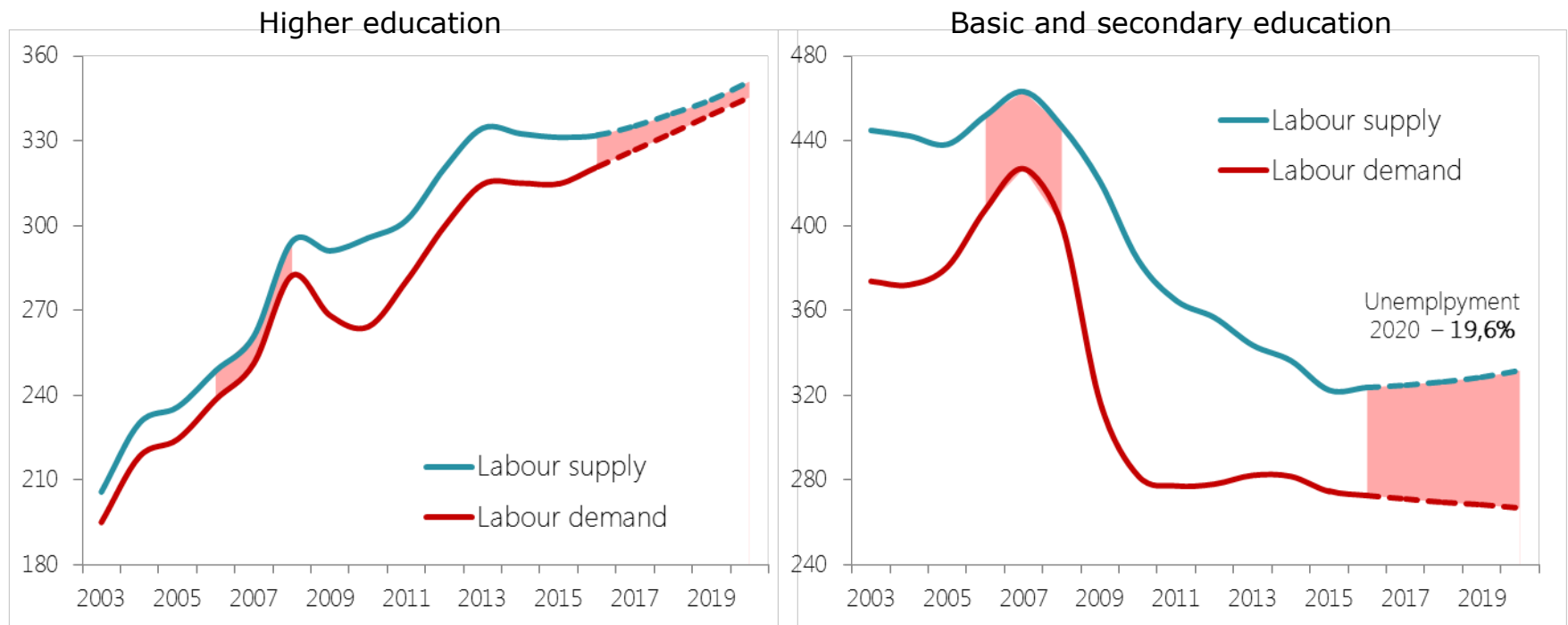
Productivity targets (value added per 1 employed), EU-28=100





DISPARITIES IN THE LABOUR MARKET

Labor supply and labor demand



To address labor market disparities due to the limited labor pool a **complex labor policy** is needed

Mainly by increasing labor productivity and competitiveness



TO BE CONTINUED...

SECTORIAL STRATEGY APPROACH – IMPORTANT FOR GROWTH OF NATIONAL ECONOMY

A

Reduction of business environment bottlenecks

- Improvement of Business environment: shadow economy, insolvency, detection of economic crimes.
- Structural unemployment: labour market disproportions, professional mobility, smart immigration
- Energy prices for final consumers, etc.

B

MACRO LEVEL ANALISYS

Medium and long
term prognosis
(MoE)



Detection of market
and institutional
framework failures

Measures aimed at
improvement of
quality and processes
of existing resources
and redistribution
mechanisms

MICRO LEVEL ANALYSIS

Industry
development
scenarios
(industries)



Industry specific aid instruments:

- **Limiting industry - specific factors** of increased competitiveness and productivity, transformation to production of products and services with higher value added;
- The **requirements** for the **education system** (*content, quality, number, higher, professional, life-long learning, career orientation, etc.*)
- **Requirements** for **research system** (*topics, infrastructure, etc.*)

C

Increasing Efficiency of Public Sector

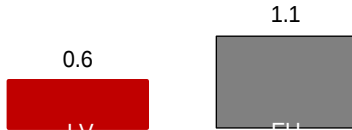
- Dynamic development of E-governance;
- Education system reform, Health care system reform;
- Development of efficient innovation eco-system;
- Up-to-date and service-oriented public administration;
- Increased profit margins of state owned enterprises.



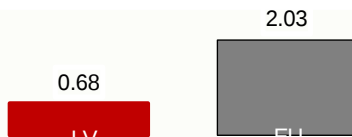
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OVERCOMING THE MIDDLE INCOME TRAP: INNOVATION AS PRECONDITION TO TRANSFORMATION OF ECONOMY

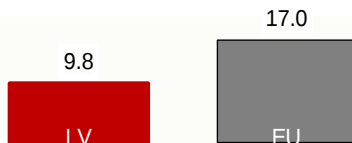
R&D personnel, % of Labour force



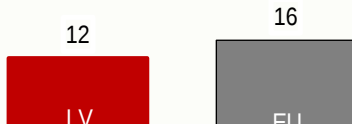
R&D expenditure, % of GDP



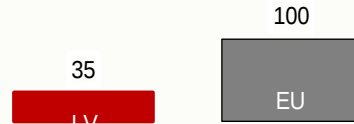
Hi-tech exports, % of total



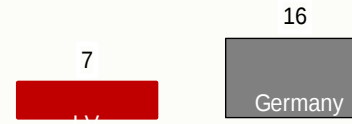
Manufacturing, % of GDP



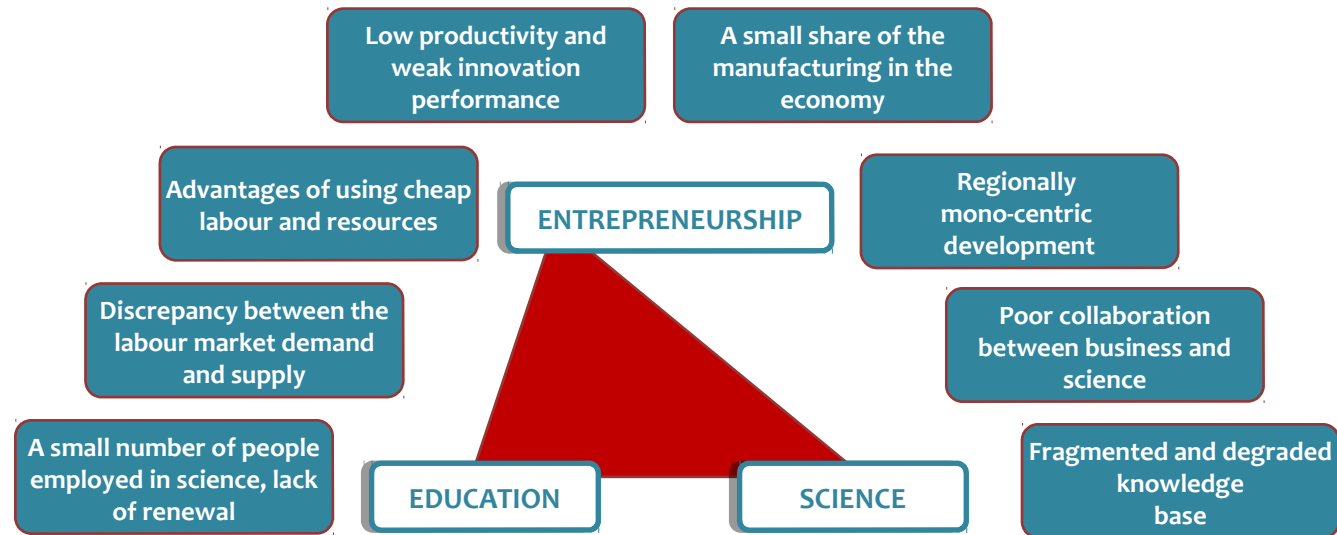
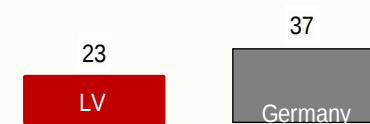
Productivity, EU=100



5-6 level in mathematics, %



Proportion of STEM students, %



Fostering innovation by creating synergy between businesses, education and scientific institutions is the key



MAIN SHORT TERM CHALLENGES

NEED OF COMPLEX POLICY:



Rule of Law

- ✓ Insolvency
- ✓ Application of Law



Complex labour market policy

- ✓ Smart immigration policy
- ✓ A comprehensive reform in education system
- ✓ Life-long learning



Innovation

- ✓ MoE – the responsible ministry for innovation policy
- ✓ Awareness rising of importance of innovation
- ✓ EU Funds



Excellent business environment

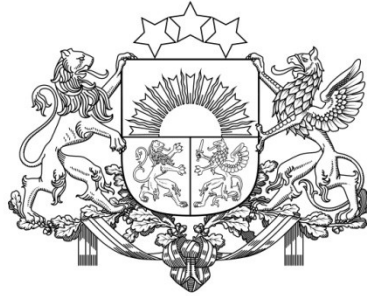
- ✓ Continues work for improvement



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EXAMPLES THAT WE CAN





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Thank you!

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