LATVIA’S LABOUR FORCE CHALLENGES: DÉJÀ VU ALL OVER AGAIN

Uldis Rutkaste
Head of Monetary Policy Department
WIDENING WAGE-PRODUCTIVITY GAP IS A CONCERN FOR COMPETITIVENESS AND GROWTH

Real wages and productivity (Q1 2005 = 100)

Source: Central Statistical Bureau of Latvia; Bank of Latvia staff calculations
LABOUR MARKET TIGHTENING: A SHIFT FROM EMPLOYMENT GAINS TOWARDS WAGE INCREASES

Wage bill y-o-y growth decomposition (pp)

Source: Central Statistical Bureau of Latvia; Bank of Latvia staff calculations
EXPORT MARKET SHARE GOES DOWN – A SIGN OF WEAKENING COMPETITIVENESS

Merchandise export shares in world import (2005=100)

Source: WTO; Bank of Latvia staff calculations
THERE ARE ONLY TWO SOLUTIONS AVAILABLE

- To do something about quantity
- To do something about quality
QUANTITY
HEADLINE and natural rate of unemployment
(% of economically active population; seasonally adjusted)

Source: CSB data; Bank of Latvia staff calculations based on Beveridge curve model. For methodology please see Bank of Latvia Discussion Paper #2/2015
... AND ENDEMIC REGIONAL DISPARITIES

Job seekers rate (% of economically active population) in 2015

Source: Central Statistical Bureau of Latvia data
STRUCTURAL UNEMPLOYMENT IS AMONG THE HIGHEST IN EUROPE

Natural rate of unemployment in 2015 (% of economically active population)

Source: AMECO database
SPEND ALMP FUNDING IN A MORE EFFICIENT WAY

Number of people who started participation in particular program during January-March 2016

- Competitiveness promotion: 17,710
- Temporary public works: 4,438
- Unformal education (excluding Latvian language): 4,103
- Youth guarantee: 3,964
- Professional training and re-training: 2,295
- Entrepreneurship start-up: 98
- Programs for particular pop.groups: 49
- Practice at firms: 40
- For people with dependencies: 27
- Regional mobility promotion: 26

Share of people who found a job in 6 months time after completing a particular program (those who finished participation during Oct 2014 – Sept 2015)

- Professional training and re-training: 38.8%
- Unformal education (excluding Latvian language): 31.7%
- Latvian language courses: 30.3%

2016 March:
- Registered unemployed: 82 thousand
- Receive unemployment benefit: 42 thousand
- Participate in SEA programs: 20 thousand

Source: State Employment Agency data
BOOST PARTICIPATION EVEN FURTHER (AS DEMOGRAPHIC DIVIDEND VANISHES), BUT ...

Source: Eurostat data; BoL staff calculations
... ONE NEEDS TO BE IN A GOOD SHAPE TO WORK PRODUCTIVELY

Healthy life years, 2014

Avots: Eurostat
ACCESS TO HEALTHCARE IS PROBLEMATIC IN LATVIA

People who reported unmet needs for medical examination (% of population; 2013)

Source: Eurostat, EU SILC
ADD MIGRATION POLICY TO THE TOOLBOX

Net emigration: official and flash indicators (thousand per quarter)

Source: CSB data; Bank of Latvia staff calculations
SET TAX INCENTIVES RIGHT

Labour tax revenue in 2014 (% of GDP)

Source: Eurostat
QUALITY
QUALITY OF EDUCATION APPEARS POOR

GCI pillar “Quality of education system”: How well does the education system in your country meet the needs of a competitive economy? [1 = not well at all; 7 = extremely well]. EU countries.

Source: Global Competitiveness Index 2015/2016
LOW PUBLICATION ACTIVITY MAY REFLECT POOR QUALITY OF HIGHER EDUCATION

Source: Thomson Reuters ISI Web of Science; Bank of Latvia staff calculations
DESPITE RECENTLY UPGRADED INFRASTRUCTURE, VOCATIONAL SCHOOLS PROVIDE POOR GENERAL SKILLS

Average results of state exam in physics (2015), %

- admitted to higher education: 53.6
- boarding schools: 56.7
- vocational schools: 30.6
- state gymnasiums: 63.7
- evening (shift) school: 58.7
- secondary schools: 51.8

Average results of state exam in math (2015), %

- admitted in higher education: 57.1
- boarding schools: 46.5
- vocational schools: 27.5
- state gymnasiums: 65.0
- evening (shift) school: 54.9
- secondary schools: 50.0

Source: National Centre for Education
CONCLUSIONS

- Challenges are well known
- Take a systemic perspective
- Shift focus from process towards outcomes
- But need to have ownership in the first place