



FOREIGN INVESTORS' COUNCIL IN LATVIA

POSITION PAPER
on
ECONOMIC
DEVELOPMENT OF
LATVIA FOR ALL

Position Paper No. 1



IFICIL

30.10.2025



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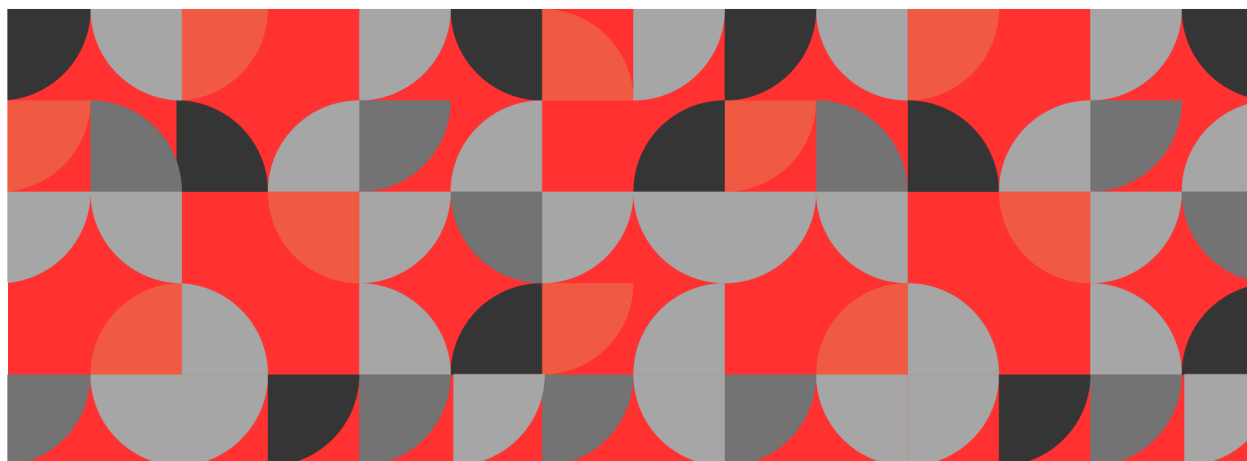
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INTRODUCTION

Latvia enters the autumn of 2025 facing persistent economic and geopolitical headwinds. Mounting fiscal pressures, security risks, demographic decline, labour shortages, a persistent shadow economy, and delays in absorption of EU funds continue to weigh on growth and dampen investor confidence. Geopolitical developments have further tightened the budget: rising defence spending, while essential for national security, has significantly reduced fiscal space. As a result, consolidation and cost-saving measures dominate the government agenda. From the perspective of foreign investors, further tightening is not a sustainable strategy. Fiscal discipline matters, but cost-cutting alone cannot create the conditions for stronger growth and competitiveness. A long-term economic development strategy, along with targeted investments to support its implementation, is essential to boosting economic development and relieving fiscal pressure.

For years, the foreign investors have been calling for **a more effective public administration**. Good governance is fundamental for economic growth, resilience, stability, public trust, efficiency and accountability. Modernisation of public administration could be achieved through accelerating performance-based budgeting, digitalisation, clarifying governance and accountability structures, and centralising functions across institutions. Moreover, improving the effectiveness of public administration is the key to efficient government spending and, as a result, to additional resources for economic development.

A fair and competitive business environment is a precondition for market development. In a recent year, foreign investors have noticed worrying signs of state capitalism. In view of this, strengthening regulatory oversight and governance of state and municipal-owned enterprises (SOEs), while ensuring a level playing field between public and private actors, would improve predictability, reduce distortions, and attract investment. Importantly, higher private investment is one of the most effective ways to ease fiscal pressure over time.

Public procurement, valued at around 14 % of GDP in 2023¹, is a major economic lever. However, investors point to systemic challenges and concerns, including favouritism, which should be addressed. Streamlining public procurement procedures, increasing transparency, and reducing administrative burdens would expand market access, accelerate project delivery, and mobilise private capital — stimulating growth without expanding fiscal commitments.

These reforms create a coherent strategy to enhance efficiency, strengthen governance, and secure Latvia's long-term competitiveness, highlighting a key message to the government: to unlock investments, ensure effective governance, and maintain a level playing field. FICIL's Position Papers set out targeted recommendations to help turn this strategy into action.



¹ Valsts kontrole, Audit Summary: Latvia's Public Procurement Framework, 2024.



HUMAN CAPITAL

Latvia's competitiveness depends on its people. Yet demographic decline, persistent skills mismatches, and outdated labour regulation continue to undermine growth and investment. At the start of 2025, the population stood at just 1.9 million, with the lowest annual births in a century and emigration still exceeding arrivals. Meanwhile, enrolment in STEM and vocational fields is falling even as demand for skilled workers rises. This gap threatens long-term productivity and investor confidence.

FICIL therefore outlines four priority recommendations to strengthen Latvia's human capital strategy:

STRENGTHEN STRATEGIC HUMAN CAPITAL GOVERNANCE

- | Eliminate overlapping institutional functions and assign clear accountability for human capital policy
- | Reassess the Human Capital Development Council's role; empower a single coordinating institution, potentially offering the most effective structure for unified leadership and oversight across relevant domains
- | Secure stable funding and mandate cross-ministerial coordination



- | Develop a Human Capital Development Plan with measurable KPI's to guide implementation

ALIGN EDUCATION WITH LABOUR MARKET NEEDS

- | Systematically involve employers in education design through mandatory mechanisms and measurable targets
- | Expand work-based learning opportunities, including dual education, apprenticeships, and practical training
- | Align public funding with labour market outcomes to ensure relevance and accountability

HARNESS AI FOR SKILLS AND LEARNING

- | Develop a national programme to integrate AI into requalification and upskilling
- | Pilot innovative AI-driven tools in education and training
- | Establish a governance and KPI framework to track outcomes and ensure accountability

LABOUR LAW REFORM TO MATCH MARKET NEEDS

- | Update dismissal, overtime, and idle time rules to reflect modern labour practices (including exclusion of unjustified protection for trade union members in cases of dismissal)
- | Enable flexible work arrangements and introduce diverse contract types (regulation for on-call and stand-by regimes, a more flexible approach to concluding fixed-term employment contracts)

FUTURE PUBLIC ADMINISTRATION

Digitalisation and a fit-for-purpose public administration are essential enablers for business and foreign investment, reducing friction for companies and strengthening Latvia's competitiveness. The ambition set at the 2024 High Council for Latvia to build the world's most efficient public administration was welcomed by investors as a clear signal of reform commitment.

Progress has been made in digital signatures – the core functionality of public digital services – and in the launch of performance-based budgeting (PBB). Yet the pace of transformation remains slow. Bureaucratic inertia risks undermining competitiveness at a time when Latvia faces extraordinary pressures from security risks, shifting global trade, and demographic decline. The need for organisational transformation in the public sector is urgent.

FICIL therefore outlines five priority recommendations to strengthen Latvia's public administration and digitalisation agenda:

I Expand and strengthen the State Shared Service Centre

Broaden the Centre's mandate to include content-related HR functions and a standardised civil servant onboarding platform, driving efficiency, coherence, and cost savings.

I Simplify and digitalise public services

Expand data-driven decision-making, redesign processes for simplification, strengthen IT infrastructure and cybersecurity, and establish clear competencies, goals, and KPIs for digital transformation.

I Turn Data into a Strategic National Resource

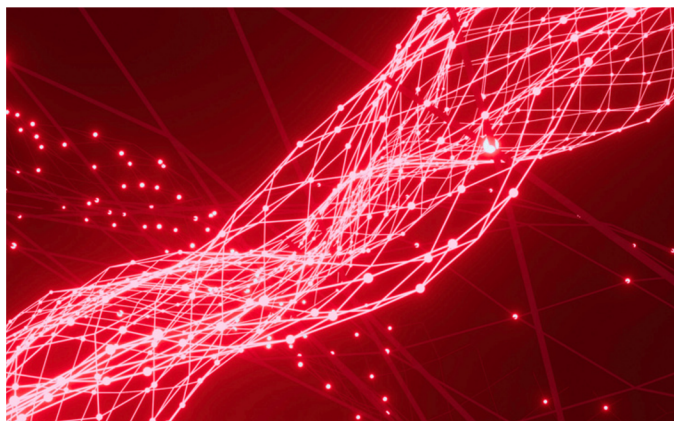
Ensure anonymisation and protection of sensitive datasets, create a centralised public data catalogue, establish fast sandbox access procedures, and develop a sustainable revenue model to attract international innovation and strengthen national competitiveness.

I Accelerate the implementation of performance-based budgeting as Latvia's strategic dialogue tool

From 2026, PBB should evolve beyond a technical framework into the primary forum for budget negotiations, with emphasis on price-performance and price-per-value metrics, guided by a high-level Steering Committee chaired by the Prime Minister, with the State Audit Office and international observers ensuring neutrality. Sector-specific review teams should benchmark and realign goals and expenditures against EU peers to drive efficiency and comparability.

I Introduce a public accountability mechanism for institutional performance

Develop a high-visibility, reputable system to celebrate excellence, highlight risks, and foster a culture of accountability across public institutions.



INVESTMENT PROTECTION

Predictable, transparent, and efficient institutions are essential for investor confidence and sustainable growth. Latvia has advanced judicial reforms, but delays, inconsistent rulings, and high litigation costs still undermine trust. Strengthening court performance and ensuring timely, transparent dispute resolution remain crucial for competitiveness. Fair competition between the public and private sectors is equally important. Many state- and municipality-owned enterprises still operate without clear commercial mandates, distorting markets and straining public finances. Implementing Article 88 of the State Administration Structure Law, empowering the Competition Council, and setting measurable SOE performance targets would signal genuine reform.

Effective investment protection relies on judicial efficiency and competitive neutrality, which together strengthen investor trust, attract long-term capital, and reinforce Latvia's economic resilience.

FICIL therefore outlines five recommendations to improve the overall business environment and ensure businesses can trust that their investments are being protected:

I Strengthen & Broaden Economic Court

Broaden the Court's mandate in commercial and civil law matters, establish an appellate instance, and transfer arbitration support functions to ensure consistent, predictable, and high-quality rulings.

I Judicial Modernisation

Ensure a complete transition to electronic case management, expand access to anonymised judgments, and introduce AI-based tools, while also strengthening judicial competence through specialisation and training via the Judicial Academy.

I Strengthen Arbitration Reform Oversight

Monitor arbitration reform through regular statistical reviews of judgments, publish anonymised data, and guarantee predictable court support in arbitration-related matters to increase trust in the system.

I Ensure Fair Legal Costs

Review reimbursement rules, introduce advance deposits for excessive claims, and ensure compensation for third parties to reduce delays, promote discipline, and improve fairness across the litigation process.

I Strengthen Governance and Unlock the Potential of State-Owned Enterprises

Urgently implement the amended Article 88 framework, empower the Competition Council to safeguard neutrality, embed measurable goals in SOE strategies, and conduct a comprehensive review of both state- and municipality-owned enterprises to convert administrative entities into agencies or institutions, retaining company form only for commercially viable mandates, while pursuing capital market listings to boost transparency and fiscal returns.





COMBATTING SHADOW ECONOMY

The shadow economy remains one of Latvia's most persistent challenges, accounting for 21.4% of GDP in 2024, with envelope wages making up half of the total. Beyond the fiscal losses, widespread non-compliance undermines fair competition, reduces trust in public institutions, and weakens Latvia's investment climate. Tackling these issues requires clear legislation, transparent enforcement, and long-term commitment to change.

FICIL therefore stresses that combating the shadow economy must remain a top priority for Latvia's government. In the current context of rising budgetary pressures and increasing demands on public services, reducing the shadow economy is not only about revenue – it is about building trust, fairness, and resilience in the economy.

FICIL therefore outlines three priority recommendations to combat the shadow economy:

I Improving Tax Compliance through Legislative Clarity and Transparent Guidance

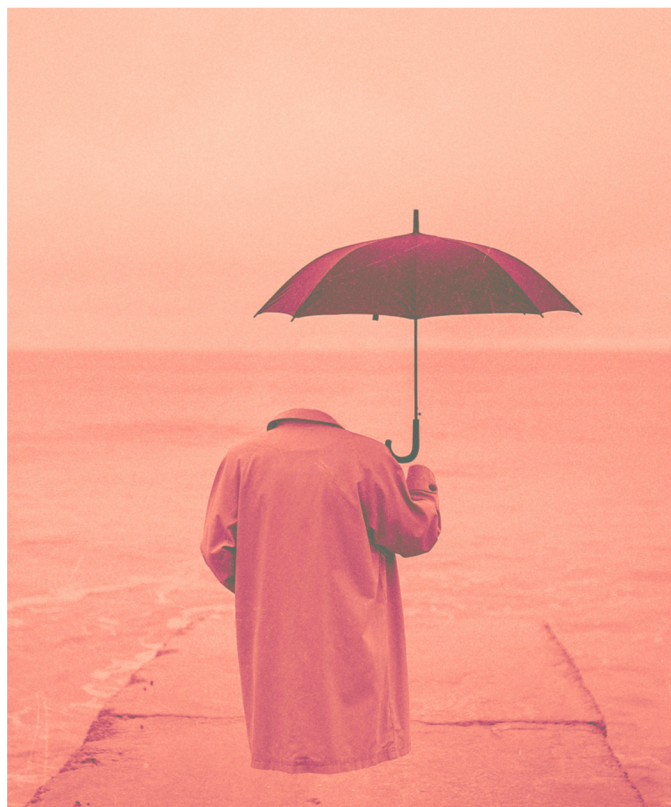
Simplify and modernise complex tax laws, strengthen consistency in SRS communication, and ensure transparent, accessible guidance to reduce misinterpretation, enhance fairness, and build taxpayer trust.

I Reducing the Sense of Invisibility and Impunity Among Tax Evaders

Deploy AI-driven real-time monitoring and expand the use of indirect evidence to improve detection, deliver timely taxpayer feedback, and ensure violations face meaningful and consistent consequences.

I Strengthen Coordination in Implementing the Shadow Economy Plan

Guarantee full implementation of the Plan with priority on horizontal measures, supported by independent evaluation, transparent progress reporting, and sustained public awareness campaigns to secure lasting compliance and trust.





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