

Latvia 2015



Total: 68.8

Political Freedom

Free and Fair Elections : 9.29

According to the ODIHR/OSCE, parliamentary elections in Latvia which took place in October 2014 were both free and fair. The pro-Russian social-democratic alliance Harmony Center won the highest percentage of votes – 23%, but they didn't have a majority to build government. Instead, the ruling conservative coalition consisting of Unity party, Union of Greens and Farmers and National Alliance, created the government. Latvia has unicameral parliament consisting of 100 seats, known as Saeima, whose members are elected to four-year terms. Non-citizens can be members of the political parties as long as they are not the majority of members, but they do not have the right to vote or be elected at the elections. The election law also prohibits independent individuals and persons who were active in the communist or pro-Soviet organizations from holding office.

Absence of Unconstitutional Veto Players : 6.67

There are no unconstitutional veto players in Latvia, however wealthy oligarchs, with their tight connections to politicians, could be seen as a threat to democracy. Corruption remains the big problem of the country, although the Corruption Prevention and Combating Bureau made some progress. Throughout the year, they investigated many cases of corruption, some of them including public officials. Like in the other Baltic countries, national security is one the main topics in Latvia as well, because of the Ukraine crisis and of Russian military buildup along the border. The country constantly lobbies for an increase in presence of NATO troops in Latvia as a response to such buildup.

Freedom of Press : 7.2

The press is generally free in Latvia, but it has got a few restrictions. The law on electronic mass media requires 65% of broadcast airtime to be in Latvian language. Also the radio stations, from 2016 on, will not be able to broadcast mixed language programs. Considering that the main regulatory body for broadcast media, the National Electronic Media Council - NEPLP, is composed of party members appointed by the parliament, politicians have influence on Latvian media. Several Russia's state-owned stations were fined or banned by the government for biased reporting on war in Ukraine. Economic crisis brought merging of a many media outlets and increased concentration of media ownership. Still, Latvia's citizens can enjoy in a diverse spectrum of media outlets.

Rule of Law

Independence of the Judiciary : 4.33

Judicial independence is only partially respected in Latvia. There is occasional exercise of political influence on courts, including in appointment of judges. The parliament anyway has a final say thereon. The situation is worse than in 2013 and far worse than in neighbouring Estonia. The system of evaluating judges, as established in 2013, proved insufficient. Its reform is discussed. Impartiality of courts is disputable. Corruption is also present. In late 2014 and early 2015, investigations were on against a Jurmala City Court judge and a Riga District Court judge, for falsification of documents and taking bribes respectively. Trials are lengthy, which undermines public trust in the judicial system. Conditions in overcrowded prisons are bad, with abuse, violence and poor access to health care. A small acceleration of court procedures is notable since 2013, but a lot more has to be done. Council of Europe's GRECO evaluation as of March 2015 found out that Latvia only partially implemented their 2012 recommendations as regarded prevention of corruption among judges. As Freedom House noted in their report Nations in Transit 2015, independent bodies such as human rights ombudsman keep a high profile in defending human rights and limiting governmental powers.

Corruption : 5.5

Situation has improved between 2013 and 2014 mainly due to diminished petty corruption. The Transparency International's Corruption Perception Index 2014 put Latvia to place 43 (as compared to place 49 in 2013), with its score risen from 53 to 55. The main challenge is still the political corruption - illicit ties between business and politics. Citizens perceive political parties as the most corrupt part of the public life. In the notorious "oligarch case", the investigation and proceedings against a powerful businessman and former mayor Aivars Lembergs for trading in influence and other alleged misdeeds have been dragging on for years, while by mid-2015 their end was not in site. Lengthy court procedure, besides a poor protection of whistle blowers, is anyway among the main limitation factors for combating corruption in Latvia. Anti-corruption agency KNAB did a lot, but its own limitation factors included internal strife within the agency and its unclear position vis-a-vis Cabinet of Ministers. In 2012, the GRECO group of the Council of Europe has urged Latvia to strengthen the independence of KNAB from the executive branch, but at least until spring 2015 that recommendation was not met.

Protection of Human Rights : 7.31

In many fields, human rights in Latvia are well protected and the situation is improving. For instance, freedom of gathering, of speech, or of religion, is kept up to the highest EU standards. Gender gap has generally been smaller than in comparable countries. However, problems remain in the identity politics. The rights of the Russian-speaking minority (one third of the population) are challenged in education system as well as regarding citizenship. Long time mistrust and limitations put to Russian-language media in Latvia have backfired through domination of Kremlin-controlled TV channels among local ethnic Russians. Only recently has Latvia followed a more liberal and proactive approach similar to Estonia's and cooperated with its neighbour in countering Kremlin's propaganda. Occasional honoring of those Latvians who had joined the Waffen-SS during the WW2 also backfired, where after the ethnic-Russian nationalists' propaganda has portrayed the entire Latvian national identity, including even the Western liberal values, as "polluted by fascism". Unlike Estonia, there is still no regulation of same-sex unions, although public manifestations of homophobia are much rarer than of other forms of bigotry.

Economic Freedom

Security of Property Rights : 6.07

Private property in Latvia is overall secure. However, there are areas in which improvements are necessary, most notably regarding judicial independence, which is not upheld in all cases, which undermines integrity of the entire legal system. Courts can also be partial in many cases and legal procedures can be long, in violation of the principle of reasonable time of court proceedings. That is most visible in bankruptcy cases. Furthermore, enforcing legal contracts could be long due to high number of legal procedures that could be complicated. It is also very costly. Police reliability is

not properly guaranteed and is not in line with the rest of legal system. The lack of major restrictions on possession of property – Latvia was among the first ex-USSR nations to let foreign legal entities and natural persons own land – is a Latvia's strength.

Size of Government: Expenditures, Taxes, and Enterprises : 7.18

As in other Baltic countries, government presence is not prevalent in the economy. Total government expenditure stands at 37% of GDP. Government expenses that exploded during the recession, reaching even 43.4% of GDP, were put under containment via successful fiscal consolidation package, including curbing wage bills and retirement benefits. This austerity program supported by the IMF put the government finances again in order lowering high deficit from 7.3% in 2010 to just 1.4% of GDP in 2014. Economy restructuring resulted in a robust economic growth. However, the projected growth was undermined by weak performance in the Eurozone which is Latvia's main trade partner, by geopolitical tensions in Eastern Europe which may have discouraged investments, and by the problems associated with the Liepavasmetalurģs steel mill. The mill that went bankrupt was acquired by the Ukrainian KVV Group company in 2014, which, however, decided to close down the site in May 2015. The guaranteed debt paid by the government for the old mill remains as an unsettled issue, while future developments are uncertain. Transfers and subsidies remain high, although they decreased by cuts in the level of guaranteed minimum income. State owned companies in Latvia are mostly concentrated in the utility and transportation sector, but still comprise a large share of the economy. Efficiency of their managerial practices is under question. Taxes on corporate income are low, at 15%, while VAT levels are 21% and 12% (preferential rate). However, the overall tax wedge is high (44%), due to high social contributions (11% of the gross wage on behalf of the employee and 24% on behalf of the employer) and to - flat - personal income tax of 24%, which was decreased by 1 percent as compared to the previous year.

Regulation of Credit, Labour, and Business : 6.45

Latvian business environment is overall business friendly. Starting a new business is easy and inexpensive, and there is very little licensing as a prerequisite for conducting a business. The tax compliance, on the other hand, could be complicated, although with a low number of annual payments. Administrative requirements can also incur high bureaucracy costs (for example, getting electricity is a relatively quick but at the same time a very expensive process), which is a suitable environment for partial treatment by government officers. Several waves of reforms of the inspectorate were taken to alleviate those problems, but further improvements are necessary. Labour regulations are mostly flexible, but with retraining or reassignment obligation of the employer for the workers prior to redundancy. The years in tenure increase the severance pay, which discriminates older workers in the labour market by making their re-employment more expensive, and fosters shadow economy. The minimum wage is set relatively high, reaching more than 50% of the average wage. It was increased twice, in January 2014 and in 2015, making a substantial total combined increase of more than 20 percentage points since 2013.

Freedom to Trade Internationally : 8.8

As in many other small open economies, Latvia's economic prospects are dependent on production specialization and international trade. Good transportation infrastructure which enables cheap and fast movement of goods complements this situation. There are challenges in this area:

ports and roads are of high quality, but the railway is not well developed, which then negatively impacts the functioning of ports. That leads to losing markets in transportation, due to international competition. Being an EU member state, Latvia imposes tariffs in accordance with the common EU trade policy. The paperwork for import or export of goods is easy to obtain within a short time frame. However, complicated and difficult standardization procedures that importing goods has to follow make for substantial barriers in trade. Procedures in obtaining working permits and residence permits for non-residents (EU citizens have the same rights on the labour market as nationals) are also an issue.