

# Latvia 2016



Total: 69.59

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## Quick facts

Population:	1.986 million
Unemployment rate:	9.9 %
GDP:	25.258 billion EMU
GDP growth rate:	2.7 %
GDP per capita:	12 720 EMU

## Political Freedom

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### Free and Fair Elections : 9.29

Latvia has free and fair elections and political parties enjoy significant freedom and independence in their everyday operating and competing. Some cases of vote buying occurred during the last 2014 parliamentary elections, but according to the court it couldn't seriously influence the final score. In December 2015, prime minister of Latvia Laimdota Straujuma, resigned from office due to disagreement between coalition partners on international policy issues and to lack of support within her own Unity Party. She was replaced at the beginning of 2016 by Maris Kucinskis, representative of the other coalition partner, the Union of Greens and Farmers (ZZS). Previously, at mid-year, a new President Raimonds Vejonis was elected by the Parliament (nominated by ZZS as well). Right to vote or to be elected remains restricted to the non-citizens, and they can organize political parties only with participation of at least equal number of Latvian citizens.

### Absence of Unconstitutional Veto Players : 7.5

Latvia doesn't have unconstitutional veto players who could undermine decision making process by the authorities. Wealthy oligarchs do exist in the country, but their influence continues to weaken over the years. Corruption is still very important issue in the Latvian society. Although KNAB – Corruption Prevention and Combating Bureau, made some efforts and opened many cases in 2015, confrontations between director of KNAB and his deputy badly damaged reputation of Bureau and decreased trust in its effectiveness.

## **Freedom of Press : 7.2**

Freedom of the press is largely upheld in practice in Latvia and media enjoy high degree of independence. Traditional media outlets are still major sources of information for Latvia`s citizens, however the popularity of online outlets increased quickly with access to the Internet by 92% of the population. In the past, National Electronic Mass Media Council (NEMMC) was often accused of being politicized. That has deepened as the head of the NEMMC was fired. Possibilities for further development in the realm of media rest in a still very underdeveloped investigative journalism. Latvia has progressed four places in the Reporters without Borders 2016 World Press Freedom Index and now occupies the 24th position.

## **Rule of Law**

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### **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 by the Parliament. Thus, an apparently under-qualified judge of the Constitutional Court had to be replaced in June 2014. Impartiality of courts is disputable, amid existence of corruption. Trials are lengthy (especially pre-trial detention, as well as entire trials in high level corruption cases), which undermines public trust in the judicial system. A small acceleration of court procedures is notable since 2013, but a lot more is needed. Changing some laws and adding others during 2015 (e.g. on mediation and arbitration) might, on the middle-run, ease the burden put on courts. Conditions in overcrowded prisons are bad.

### **Corruption : 5.5**

Between 2014 and 2015, Latvia stagnated regarding corruption, while its neighbors Lithuania and Estonia advanced. Latvia is now clearly behind them. Situation with petty corruption has improved since 2013. High level corruption and the failure of judicial system to prosecute it even when discovered, is now the main problem. Illicit ties between big businesses and those in power are at the root of it. The biggest corruption scandal in 2015 involved the head of the state-owned railways. In its report BTI 2016, Bertelsmann concluded: "While anti corruption authorities have been largely successful in tackling administrative corruption, they have been largely unsuccessful in tackling high level political corruption". In the Transparency International's Corruption Perception Index 2015, Latvia, with 61 points, shared the place 40 with Cape Verde, Costa Rica and Seychelles.

## **Protection of Human Rights : 7.13**

In many fields, human rights in Latvia are well protected. For instance, freedom 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 right balance between the established European values of anti-communism and anti-fascism, especially needed in case of Baltic countries due to the history of invasions from both east and west, is still not found in Latvia – in March 2016, former Waffen SS veterans again paraded in Riga. Secondly, nationalism and homophobia go hand in hand. In 2014, a government minister admitted he was gay, but generally government did little to ease the tensions in society, as demonstrated though the slogan "The more gays - the less Latvians". Unlike Estonia, there is no regulation of same-sex unions. Parliament has even amended the education law with LGBTI-discriminatory elements. However, LGBT's EuroPride 2015 march was peacefully held in Riga. To their part, the rights of the Russian-speaking minority (ca. 30% of the population) are also challenged, especially in the education system. Skin-color acism and Islamophobia are rare in Latvia, yet recently there has been a rise of anti-immigrant hate-speech in the blogosphere.

## **Economic Freedom**

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### **Security of Property Rights : 6.08**

Private property in Latvia is overall secure. Expropriation of private property is limited only to extraordinary cases of public interest, and even in that case market-value compensation is determined, which can be challenged in court. Bankruptcy procedures are considered prone to corruption and inefficient. Judicial independence is not always held, undermining integrity of the entire legal system. Court partiality further aggravates the situation. Legal procedures are usually long, in violation of the standard of reasonable time for court proceedings. They can vary significantly between different regional courts. They are also very costly, with low recovery rates in bankruptcy procedures. Police reliability is not properly guaranteed and is not in line with the rest of legal system. There are no major restrictions on possession of property for foreign nationals, as Latvia was among the first ex-USSR nations to let foreign legal entities and natural persons own land. The latter can be leased for a 99 years` period. Property registration is quick and inexpensive. It became more expedient by introducing a new application form for transfers. New efforts at restructuring the courts and introducing laws regulating domestic arbitration and voluntary mediation are envisaged to strengthen the legal regulatory framework and improve the

rule of law.

## **Size of Government: Expenditures, Taxes, and Enterprises : 7.16**

Government presence is not prevalent in the economy, same as in other Baltic countries. Total government expenditure stands at 38% of GDP in 2015. The budget is still experiencing deficits, but the fiscal stance is broadly in line with the Euro-zone rules, with the government debt resting stable at 35% of GDP. Weak external position, due to a slowdown among trade partners, as well as prevailing geopolitical tensions, led to a decrease in economic growth, which was recorded at 2,7% of GDP in 2015. Legally, there are six joint companies that cannot be privatized, in sectors of energy and mining, transportation, postal services and forestry. Furthermore, the state still holds possession of two telecom companies and the air carrier. However, 20% of stocks of the Air Baltic were sold to investors, but the introduction of a strategic investor was not successful. Private companies are able to compete with SOEs on the same terms and conditions in the market. The government has reviewed and rejected plan by the Privatization Agency for Liepavasmetalurģs steel plant that has been facing challenges since KVV acquired it in 2014. Possible further government involvement in this case is a pressing issue. Social transfers and government subsidies remain high. Lower government consumption than the EU average allows for lower level of taxation. Corporate income tax is set at 15%, while the standard and preferential rates of VAT are 21% and 12% respectively. However, the overall tax wedge on labour is high (44%), due to high social contributions (10,5% of the gross wage on behalf of the employee, and 23,59% on behalf of the employer) and flat personal income tax of 23%.

## **Regulation of Credit, Labour, and Business : 6.6**

Regulatory environment in Latvia is overall business friendly. Starting a new business is easy and inexpensive. Getting electricity and obtaining a construction permit are also short and efficient procedures, incurring low cost. However, there were also negative developments regarding construction permits: although the process was streamlined by having the permit issued together with the architectural planning conditions, the time frame for these activities was expanded. The tax compliance, on the other hand, is complicated, although with a low number of annual payments. An electronic system for corporate income tax filing is put into place in order to streamline the practice, and tax deduction for bad debt was eliminated. Partisan treatment by government officials and corruption still remain an obstacle to a better business environment. Labour regulations are mostly flexible, but with retraining or reassignment obligation of the employer for the workers prior to redundancy. Severance pay is increased with the years in tenure, making jobs more secure for seasoned workers, but also making them less employable. The minimum wage is set very high (and even recently raised, although by a small fraction), relative to the average wage, and its steep rise since 2013 threatens international competitiveness.

## **Freedom to Trade Internationally : 8.8**

Freedom of international trade is generally respected in Latvia. As an EU member state, it imposes tariffs in accordance with the common EU trade policy. They are overall low, and mainly focused on agriculture. Border and documentary compliance is efficient, posing little burden on trade. Recent introduction of the euro as the national currency also enhances trade by eliminating exchange costs. However, non-tariff trade barriers still remain an obstacle to imports, mostly in the field of certifications and quality standards. Good public transportation infrastructure enhances

international trade, by lowering freight costs. While ports and road network are well developed, railroad is not, and Latvia is connected by rail only with its neighboring ex-Soviet countries. Furthermore, procedures in obtaining working permits and residence permits for non-residents, since the EU citizens have the same rights on the labour market as nationals, is a burdensome bureaucratic procedure.