

# Latvia 2018



**Total: 69.29**

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## Political Freedom

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### **Free and Fair Elections : 9.29**

Elections in Latvia are regarded as highly free and fair. The topic of October 2018 parliamentary elections dominated political life in the country during the year. After local elections, held in June 2017, which had served as a test for many political actors, focus shifted to the elections for state parliament. Previous change of law, allowing political parties to run at the elections only if formed at least a year prior to them, led to establishment of many parties in the second half of 2017. Political parties are operating freely, while political life remains restricted for around 12% of non-citizenship residents, mostly ethnic Russians who are not eligible to run for offices or to vote. Voters in Latvia are divided along ethnic and linguistic lines and this division is expressed in program and narrative of political parties. While Latvians diversified in their support to different political parties, Russian speaking citizens are mostly focused on the pro-Russian party Harmony, which by the end of the observed period remained as the strongest individual party in Latvia. There is an ongoing discussion on a change of the rules for the election of the President of Latvia and on expanding of the powers of this position.

### **Absence of Unconstitutional Veto Players : 7.5**

Democratically elected government has mechanisms in place to govern the country without interference. However, most recent “Oligarchs Talk” scandal brought to light once again the informal power of wealthy individuals over Latvian political system. One Latvian magazine published leaked transcripts of conversations (during the period 2009 - 2011) between the Mayor of the City of Ventspils Aivars Lembergs, former Prime Minister Andris Skele and former deputy PM Ainars Slesers, revealing their intention to abuse power for personal business interests, to restrict freedom of the press and to interfere into democratic processes. This scandal triggered protests in the country, weakening the trust of citizens in Latvia`s state institutions.

### **Freedom of Press : 7.4**

Both traditional and online media outlets in Latvia are in general free to operate, offering diverse spectrum of opinions. Nevertheless, certain problems in media remained throughout the year, casting a shadow on government efforts to improve situation by funding many journalistic projects, supporting investigative journalism and spreading media literacy in the country. Above mentioned “Oligarchs Talk” scandal, published by a Latvian weekly magazine, pointed out at the opaque media ownership structures and practices of putting political pressure on media through state

advertising and preferential hiring of journalists ready to provide favorable coverage, which all led to biased reporting in certain media. Body in charge of media monitoring, the National Electronic Mass Media Council (NEMMC), is perceived as politicized, due to parliamentary appointments and due to alleged political pressure put on media independence. Freedom of the press is also worsened by the spread of fake news and disinformation campaigns in media, coming mainly from neighboring Russia.

\* Press freedom score will be updated after data from primary source have been published. For more information see Methodology section.

## Rule of Law

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### **Independence of the Judiciary : 3.58**

Citizens' confidence in the independence and efficiency of judiciary is still below the EU average, despite the improvements (noted also by the European Commission) such as shorter time until the first instance ruling, or technological advance e.g. extended use of electronic communication. Lack of substantial reforms, corruption cases in the judicial system and poor implementation of court decisions (such as in insolvency cases) all make it that 55% of citizens are skeptical about this branch of power. As Freedom House noted, there has been a small positive shift in public opinion very recently, yet huge problems still exist in the treatment of high level corruption. In spite of the recent reforms and investments, prison and detention system still faces problems, whereby Amnesty International, in its 2017-2018 surveys, complained about inter-prisoner violence in jails, as well as unfair trials regarding past police violence.

### **Corruption : 5.8**

Latvia lags behind comparable EU neighbors regarding corruption, while trying to catch up. It ranked 40/180 in the Transparency International's Corruption Perception Index 2017, just one point and one place behind Lithuania. In June 2017, the main anti-corruption body KNAB has got a new head, an experienced counter-intelligence officer Jekabs Straume, expected to revive the once important role of the Bureau. Meanwhile, a number of mid-level politicians, public officials or judges were investigated or tried. Portal GAN even noted "a number of high-profile cases" dealt with. However, a major shift is still waited for, towards fighting the worst aspects of corruption such as illicit ties between the super-rich and political parties and political deals that include trading of influence or redistribution of the captured public resources.

### **Protection of Human Rights : 7.19**

Human right situation in Latvia has been stagnant for a few years now. In some areas, high standards are reached, such as in freedoms of religion, or association, or academic activity. Gender pay gap is low. On the other hand, Istanbul Convention on prevention of domestic violence is still pending ratification. Education in minority languages (notably of young ethnic Russians) might suffer decrease due to a political decision by the Ministry of Education to reduce the number

of classes. The issue of non-citizens (those born in Latvia to non-citizen yet legally resident parents) is also unresolved. The EU-assigned quotas of refugees are accepted (and 308 of the refugees settled), yet a 90-km wall has been built at the eastern border to prevent new arrivals. Refugees occasionally face threats by the extremist far-right groups. Xenophobia, including Islamophobia is generally in rise. Same goes for homophobia, whereby the same-sex partnership issue is ignored, while various other discriminatory rules or narrative (such as in the - new - school curricula) make Latvia one of the least LGBT-friendly countries in Europe.

## Economic Freedom

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### Security of Property Rights : 5.6

Private property in Latvia is mostly secure. Expropriation of private property is limited to extraordinary cases of public interest, and is followed by determined market-value compensation. Judiciary is considered as mostly independent, but similar cases could face different rulings. Legal procedures are usually long, especially in the cases of lower courts, which often violate the standards of reasonable time for court proceedings, leading to high number of backlog cases. This contributes to the growing popularity of arbitration institutions. On the other hand, property registration (a prerequisite for its security) is quick and inexpensive. Public procurement procedures are not perceived as fair and transparent, but as providing advantages to “preferred” contractors. Another point of concern is the process of resolving insolvencies, which lead to low recovery rates of just 40%, and strong allegations of corruptive practices in the insolvency administration. There are no restrictions on possession of real property for EU nationals, but non-EU nationals cannot legally own land, although the land can be leased for a period of up to 99 years. Since 2014, EU nationals can own agricultural land, but only if they are permanent residents of Latvia and can meet high Latvian language knowledge requirements. There are no significant obstacles to foreign investment, apart from several industries considered as strategic (aviation, defense industry, auditing, media, defense, etc.). Since 2017, government approval is necessary for transfers of significant ownership shares in energy, telecommunications and the media sector, due to political concerns over Russia’s involvement in the national politics. There is a serious problem concerning the banking and financial sector in the country, due to the lack of their full compliance with anti-money laundering procedures, which led to several fines by the local authorities and international attention.

### Size of Government: Expenditures, Taxes, and Enterprises : 7.15

Latvian public sector is frugal as compared to other European welfare states. General government expenditures stood at 37% of GDP in 2017, with a minute deficit. Government debt remained low, and slowly decreasing, standing below 35% of GDP in 2017. Economic growth picked up again, reaching 4.5% in 2017, due to increasing investments, rise in domestic consumption and exports. Legally, there are big six joint companies that cannot be privatized, in sectors of energy and mining, transportation, postal services and forestry. The number of SOEs in the country is not high - the state fully owns 69 companies, but there are many more where it is a minority shareholder. Total employment in SOE sector slightly exceeds 6% of the total employment, which

is broadly in line with the EU average. Some of these companies, such as the national air carrier Air Baltic, continue to pose significant fiscal risks to public finances. However, private companies are mostly able to compete with SOEs on the market under the same terms and conditions. Latvia became a fully fledged OECD member in July 2016, which was expected to increase accountability and management practices of SOEs in the country, through implementation of OECD rules in this area. The year 2018 started with big changes in the taxation regime. The corporate tax rate was increased from 15% to 20%, but the tax was waived for all reinvested profits. There is a special preferential tax treatment of micro enterprises (up to 5 employees and 40 000 euro in revenues). The previous flat income tax of 23% was changed with a new progressive system 3 tax brackets: 20% (up to 20 000 euro), 23% (20 000 - 55 000 euro) and 31.4% above the 55 000 threshold. The “solidarity tax” (social contributions paid above the maximum cap) will be split to cover the increase of the tax rate while the smaller amount will be allocated to the pension fund. VAT rates remain 21% and 12% respectively and tax wedge on labour is above the OECD average.

## **Regulation of Credit, Labour, and Business : 7.09**

Regulatory environment in Latvia is overall business friendly. Starting a new business is easy and inexpensive, with the minimum paid in capital of just 1 euro. Getting electricity is relatively easy but expensive (and prolonged due to public tenders of the utility for independent contractors). Obtaining a construction permit is unnecessarily long process due to the high number of procedures involved, but it is not costly. Getting credit has been made easier by introducing a private credit bureau, which is to eliminate information asymmetries. Tax procedures have been streamlined through improvement in the online filing system for corporate income tax and VAT. Although low number of annual payments, joint online payments and efficient post filing procedures raise the quality of tax regulations, they are still cited as overly burdensome for the businesses. On the other hand, partisan treatment by government officials and corruption in some cases still remain as obstacles to a better business environment. Labour regulations are mostly flexible, without restriction on working hours, and although fixed term contracts are prohibited for regular tasks, their duration is 60 months. However, there are retraining or reassignment obligations of the employer for the workers prior to redundancy and severance pay increases with the years in tenure, making jobs more secure for seasoned workers, but subsequently also making them less employable. The minimum wage is set very high relative to the average wage, which can have negative employment prospects for long term unemployed and those with the lowest qualifications. It was increased by more than 10% in January. The new Start-up Law, producing significant waivers on this business community, is envisaged to attract new investors in this field. The biggest problems in the field of business regulations are inefficient government bureaucracy, level of tax rates and corruption.

## **Freedom to Trade Internationally : 8.69**

Freedom of international trade in Latvia is generally respected. As a member of the EU since 2004, Latvia implements the common European trade policy. MFN average applied tariff rate is 5.1%, but tariffs are much higher for agriculture products, reaching double digits. Due to its geographical position, Latvia is an international trade hub, as are other Baltic states. Border and documentary compliance is efficient, posing little burden on trade, with only 4 documents necessary both for import and for export procedures. Latvia adopted the euro in 2014, eliminating foreign exchange risk costs, which further fostered trade. However, non-tariff trade barriers still

pose hurdles to imports, mostly in the field of certifications and quality standards. Good public transportation infrastructure enhances international trade, by lowering freight costs. While ports are well developed, the quality of the road and railway network is more dubious. Latvia is connected by rail only with its neighboring ex-Soviet countries, which might pose restraints on future development of trade. Main Latvian trade partners are its Baltic neighbors, the UK, Germany and the Russian Federation. Obtaining a residence permit is a burdensome procedure. The startup visa program was initiated in order to attract new startup founders and professionals with specialized knowledge.