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2026 Country Report – Latvia

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Latvia

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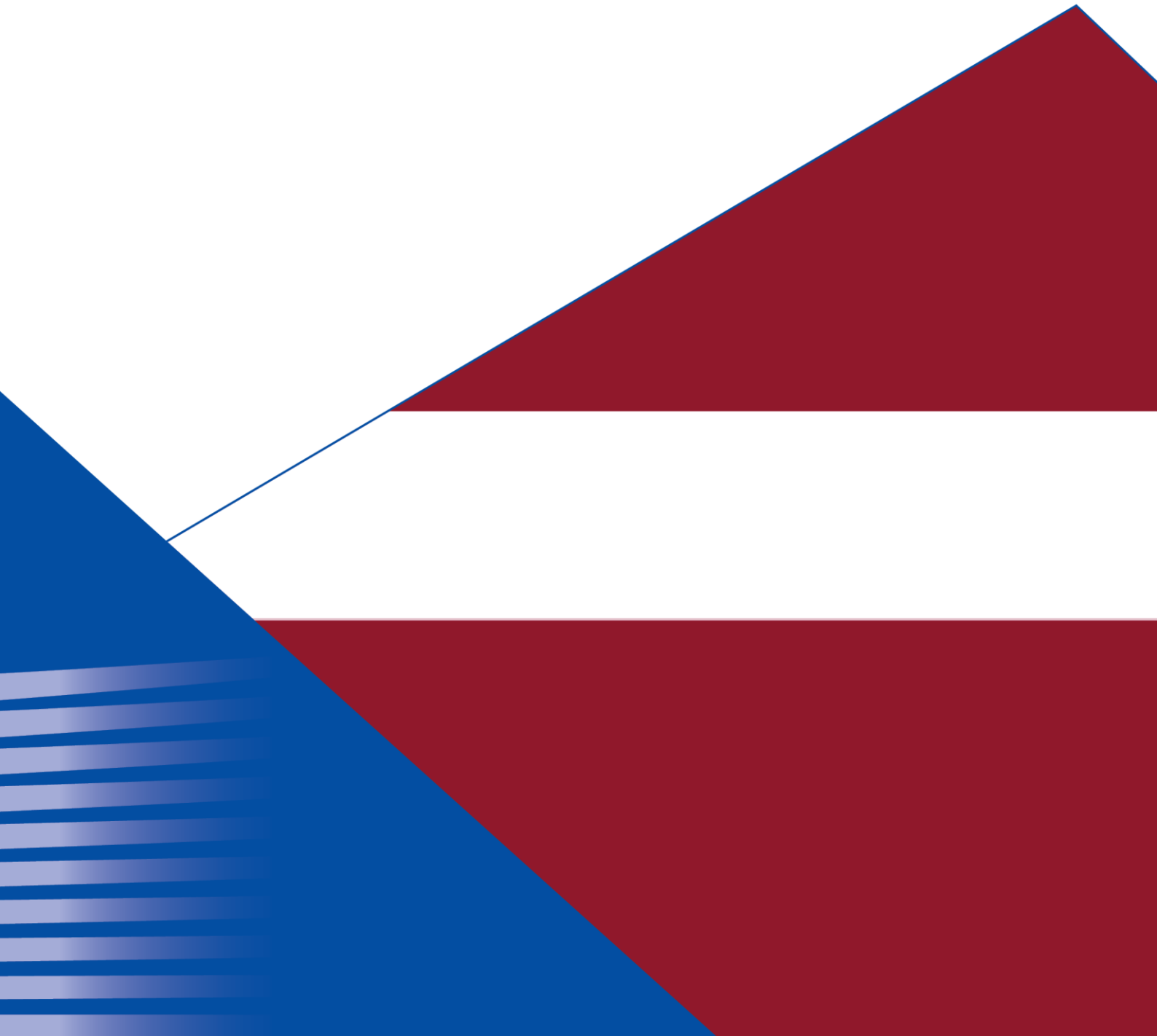
European Commission

Economic and Financial Affairs

Latvia

2026 Country Report



ECONOMIC DEVELOPMENTS AND KEY POLICY CHALLENGES

Latvia's economy is recovering after some challenging years

In 2025, the economy recovered with GDP growth of 2.1% following weak economic performance in 2023-2024. In 2024, the economy stagnated after a brief recession in 2023 that was driven largely by private consumption and exports. In 2025, after several years of weak consumption (despite pronounced wage growth), private consumption showed some signs of recovery (+0.8%). After a sharp decline in 2024, investment growth was very strong in 2025 (+9.8%), fuelled by robust corporate lending and lower borrowing costs, alongside solid public investment (particularly EU-funded projects). Goods and services imports grew faster than exports in 2025, widening the trade balance. In 2025, inflation rebounded to 3.8% as the deflationary impact of energy prices faded, while services and food inflation remained strong.

Due to the conflict in the Middle East, GDP growth is forecast to slow to 1.4% in 2026 and to pick slightly to 1.6% in 2027. Robust wage growth is expected to further boost household purchasing power, aiding private consumption. Investment growth is expected to remain strong at 3% (albeit lower than in 2025) thanks to EU fund inflows and increasing spending on defence. Exports are expected to grow modestly, hindered by an uncertain global outlook. Public consumption is likely to weaken, partly due to public wage restraint and the phasing-out of the Recovery and Resilience Facility (RRF) in 2027. HICP inflation is expected to reach 3.6% in 2026, due to energy inflation, before falling to 2.2% in 2027.

Latvia's labour market is improving. The unemployment rate increased to 7.2% in Q1 2025 but then fell back slightly to 6.8% in Q4 2025. The employment rate (77.4% in 2024) returned to its pre-pandemic level (see Annex 13). As the economy recovers, the unemployment rate is set to decrease in 2026 and this trend is expected to continue in 2027. In 2025, nominal compensation per employee increased by 8.4%. Due to decreasing public-sector wage growth and minimum wage growth, nominal wage growth is predicted to slow to 7.0% in 2026 and 5.8% in 2027.

Ensuring funding for key priorities is challenging

The budget deficit is forecast to increase over the forecast horizon due to increasing defence expenditure and the impact of the labour tax reform. In 2025, Latvia's government deficit increased to 2.5% of GDP and the government debt-to-GDP ratio reached 46.9%. The Commission's Spring 2026 Forecast projects that Latvia's government deficit will increase to 3.3% and 4.3% of GDP in 2026 and 2027, respectively. The lingering effects of the personal income tax reform and lower property income are expected to weigh on tax revenue. On the expenditure side, the forecasted increase in defence expenditure, growing social transfers and interest payments will contribute to the widening deficit.

Ensuring appropriate financing for key priorities while maintaining fiscal sustainability remains a challenge, as highlighted in the 2025 country-specific recommendation (CSR). Under its 2025-2028 medium-term fiscal-structural plan (MTP), Latvia made a commitment to limit

Box 1: **UN Sustainable Development Goals (SDGs)**

Latvia performs well or is improving on SDGs related to quality education (SDG 4), affordable and clean energy (SDG 7) and environmental sustainability (SDGs 6 and 15).

Persisting inequalities, increasing unmet needs for medical care and a wide urban-rural gap for the risk of poverty or social exclusion are hampering economic growth and competitiveness. 11 of the 17 SDGs remain below the EU average. These relate to competitiveness (SDGs 8 and 9), social fairness (SDGs 1, 3, 5, 8 and 10) and sustainability and climate action (SDGs 9, 11, 12 and 13) (see Annex 17). Most of them show improvement, but Latvia's performance is worsening on reduced inequalities (SDG 10) and climate action (SDG 13).

expenditure growth with the aim of keeping the deficit well below 3% of GDP by 2028 and maintaining public debt below the 60% of GDP threshold (see Annex 2). It might be challenging for Latvia to sustain its fiscal commitments while also adequately financing public services, strategic investment and security. The current annual budget and the medium-term budgetary framework include commitments to higher debt-financed defence spending but do not provide sufficient funding for healthcare and social protection. Low public spending on healthcare continues to negatively impact the accessibility of healthcare (see Section 4). Furthermore, while the pension system in Latvia is fiscally sustainable, pension levels are expected to remain very low ([1]). In this regard, Latvia could benefit from exploring alternative financing solutions to foster pension adequacy (e.g. encouraging greater participation in voluntary savings funds and particularly the III-pillar pension funds) (see Annexes 2 and 6).

Latvia's defence expenditure is steadily increasing with additional support from the EU. In order to facilitate an increase in public spending on defence, the Council of the European Union has activated the national escape clause for Latvia ([2]). Total government expenditure on defence amounted to 3.2% GDP in 2025 and is forecasted by the Commission to increase to 4.1% and 5.5% of GDP in 2026 and 2027, respectively (see Annex 2). The EU is also supporting Latvia's investment in defence. As part of the Commission's ReArm Europe Plan, the Council has approved Latvia's request for EUR 3.49 billion in EU loans under Security Action for Europe (SAFE) for defence procurement. In addition, following the mid-term review of cohesion policy, Latvia has allocated EUR 391 million to defence-related priorities.

Redirecting expenditure based on spending reviews could better align the budget with policy priorities (as highlighted in the 2025 CSR). In the preparation of the 2026 budget, most of the savings identified in spending reviews were directed towards financing the government's key priorities – contrary to the practice in previous years (see Annex 2). The 2026 process was a welcome shift in approach, but Latvia could benefit from further institutionalising this practice in future budgets as well as from expanding the scope and ambition of spending reviews. Further steps to implement performance-based budgeting may also help to strengthen the quality and efficiency of public spending.

Shoring up tax revenue from sources that are less detrimental to growth could help finance policy priorities (as highlighted in the 2025 CSR). Latvia's tax revenue was 34.9% of GDP in 2024 and remained below the EU average of 39.4% (see Annex 3). Latvia continues to rely heavily on consumption and labour taxes as its main revenue sources. Taxes on capital (including corporate income tax) and property account for a smaller share

([1]) European Commission (2024), 2024 Ageing Report.

([2]) The activation of the national escape clause gives Member States budgetary flexibility to increase defence expenditure without immediately requiring them to finance this increase with spending cuts or revenue-raising measures. This flexibility gives Member States the time they need to accommodate higher defence expenditure within their national budgets.

of the tax mix than in other EU Member States. Revenue from taxes on capital accounted for only 4.1% of GDP in 2024 (8.5% in the EU). Among these, revenue from corporate income taxes was among the lowest in the EU, standing at 2.0% of GDP (1.1 pps below the EU average) while revenue from property taxes was 1.0% in 2024 and remained 0.8 pps below the EU average. Latvia therefore has scope to raise more revenue from taxes on capital (e.g. immovable property) and on legacies and donations, which are considered the least harmful to growth ([3]).

Tax changes introduced in 2025-2026 have only modestly increased revenue from sources less harmful to growth. The 2025 labour tax reform lowered the tax burden for most low-income and middle-income earners and has slightly boosted capital tax revenue, but it has also created a significant revenue gap (see Annex 3 and the 2025 country report for more details). Revenue-raising measures were also introduced, such as the shifting of 1 percentage point of the social contributions from the second to the first pillar of the pension system for 2025-2028 and the solidarity contribution on banks for 2025-2027 ([4]). Additionally, since 2025, Latvia has been increasing various taxes on consumption that are less harmful to growth and serve policy goals (including excise duties on fuels, tobacco, alcohol and soft drinks; company car tax; and gambling and lottery tax). However, these measures will only partially – and temporarily – offset the reform's fiscal costs.

Latvia's shadow economy remains a challenge, despite policy efforts and some improvement. Latvia received a CSR in 2025 to bring informal or undeclared activities into the formal economy. It is continuing to take measures under the shadow economy restriction plan (2024-2027). These include a phased-in roll-out of mandatory e-invoicing for transactions with public institutions (from 1 January 2025) and business-to-business transactions (from 2028). The State Revenue Service is continuing to develop the taxpayer-rating system (introduced in 2024 as a measure under the RRF) to better detect non-payment or evasion of taxes, and to encourage voluntary compliance. According to 2024 survey data ([5]), the shadow economy remains high at 21.4% of GDP, where undeclared wages constitute its largest component, while significant levels of shadow economy activity are observed in the construction and retail sectors. Further efforts to enhance digital tools, encourage voluntary compliance and strengthen enforcement mechanisms may help to formalise economic activity and thereby broaden the tax revenue base.

More efforts are needed to strengthen competitiveness and revive convergence

Latvia's GDP per capita is significantly below the EU average and the pace of convergence with other EU Member States is slowing. In 2025, Latvia's GDP per capita was 71% of the EU average, significantly below that of its Baltic peers ([6]). The employment rate has remained high in recent years, at 77.4% in 2024 (75.8% in the EU), and wages have grown strongly. However, productivity growth has lagged behind and labour productivity reached 62.2% of the EU average (GDP per hour worked) in 2025, reducing cost competitiveness.

Latvian companies face hurdles such as limited access to finance, labour and

([3]) The supply of land is fixed, so land tax is a tax on economic rents and does not discourage beneficial economic activity. Inheritance and gift taxes are generally seen as economically efficient because they target unearned wealth without penalising productive activity and promote social fairness.

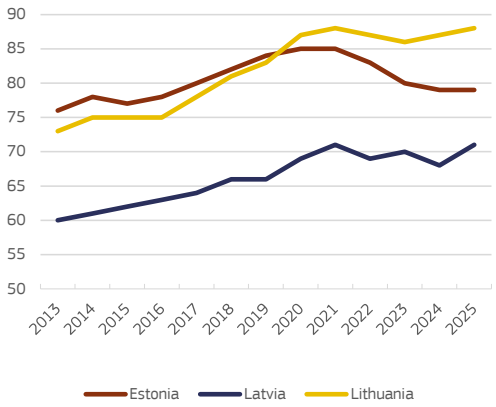
([4]) This payment, set for 2025-2027, finances national defence expenditure. It is calculated by applying a 60% rate to the base, which is the portion of the payer's calendar year net interest income that exceeds average annual net interest income (calculated over 2018-2022) by more than 50%.

([5]) Stockholm School of Economics (2025), Shadow Economy Index for the Baltic Countries 2009-2024.

([6]) GDP per capita for Estonia and Lithuania was, respectively, 79% and 88% of the 2025 EU average.

skills shortages, and low public R&D spending. These weaken their ability to grow and innovate (see Section 2 and Annexes 3, 4, 5 and 6).

Graph 1.1: **GDP per capita purchasing power standard, % of the EU average**



Source: Eurostat

New sources of affordable energy could enhance competitiveness. Faster deployment of wind and solar energy and promoting further electrification would reduce greenhouse gas emissions and bring the benefits of affordable renewable generation to consumers and companies (see Section 3 and Annexes 8, 9 and 10).

Addressing social challenges may support competitiveness. Inadequate social protection and high income-inequality and poverty are limiting opportunities for vulnerable groups. The healthcare system is underfunded, resulting in poor health outcomes and losses of working time (see Section 4 and Annexes 11, 12, 13, 14 and 15).

EU funding instruments provide considerable resources to Latvia. They support investments and structural reforms to increase competitiveness, environmental sustainability, skills, social fairness and security, while helping to address challenges identified in the CSRs. Key instruments include the RRF (see Box 2) and Cohesion policy funds (see Box 3). In addition, the Common Agricultural Policy (CAP) provides Latvia with an EU contribution of EUR 2.4 billion under the CAP strategic plan for 2023-2027 ([7]). A further EUR 281.4 million are available under the Asylum, Migration and Integration Fund (AMIF), together with the Border Management and Visa Instrument (BMVI) and the Internal Security Fund (ISF). Other EU programmes also support competitiveness in Latvia, for instance through open calls under Horizon Europe and the Connecting Europe Facility.

Regional disparities and risks to economic security are holding back growth

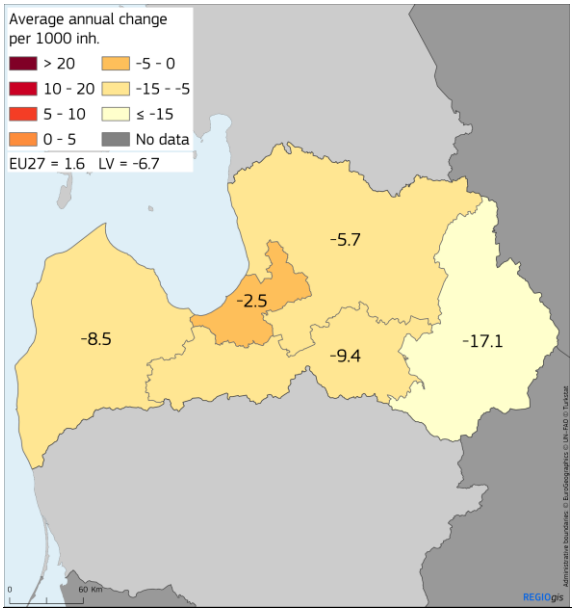
The disparities between Riga and the rest of the country are hampering competitiveness. The Riga region has led Latvia's economic catch-up, with GDP per capita rising from 43% of the EU average in 1995 to 101% in 2024. Other regions have also made some progress but their growth has recently stalled, leaving all non-Riga regions below 50% of the EU average. All Latvian regions had a negative net migration figure, but non-Riga regions were subject to significantly higher depopulation in the last decade (see Annex 18). The economies of non-Riga regions suffer from low productivity growth and innovation activity, with FDI largely concentrated in Riga and some nearby cities. Outside the capital, businesses' access to finance is limited by higher collateral requirements, higher borrowing rates and a weak capital market. Low regional transport connectivity as well as limited access to affordable and quality housing and social services in rural areas are undermining both economic opportunities and residents' ability to stay in non-Riga regions (see Section 4 and Annexes 9, 16 and 18). There is scope for Latvia to improve cooperation and alignment between local, regional and national level planning to better attract investments and to improve the efficiency, quality and accessibility of public services.

([7]) See Latvia – CAP Strategic Plan for an overview of Latvia's formally approved strategy to implement the EU's common agricultural policy nationally.

Latvia is a Member State on the EU's eastern external border and therefore faces additional challenges that are impacting its economic and social development ([8]). Trade disruptions and diversion of investment has particularly affected municipalities bordering Belarus and Russia, thus compounding the preexisting issues described in the paragraph above. Challenges related to the war in Ukraine are exacerbating preexisting socio-economic vulnerabilities. Latgale has long been experiencing the highest rate of depopulation, the lowest economic convergence and stagnating growth (see Annex 18). Security concerns for people and critical infrastructures have increased and require investment in civil protection, preparedness and military mobility. These investments could have the double benefit of addressing security concerns and providing opportunities for the regions' economies. Latvia could also focus on developing tailored local solutions, such as fostering existing manufacturing and defence industry clusters in non-Riga regions.

Latvia is taking steps to strengthen its economic security. In February 2025, Latvia successfully disconnected from the Russian-operated electricity system and synchronised with the Continental European Synchronous Area (CESA). This, in combination with cutting dependence on Russian natural gas and petrol, constitutes significant progress in increasing energy independence. Increasing deployment of renewable energy (especially wind and solar) could further increase energy security (see Annex 8). Industry depends mainly on imports for critical raw materials, but supply diversification is high and the import concentration index is relatively low (see Annex 5). However, despite decreasing export levels, Russia remains one of Latvia's major trading partner ([9]), which is a threat to economic security. Latvia's cybersecurity ecosystem has shown resilience in the light of rising threats ([10]). Latvia has been one of the Member States most affected by Russian cyber threats, such as IT disruptions in critical infrastructure and DDoS attacks ([11]).

Graph 1.2: **Population change in 2014-2023 (average annual change per 1 000 residents), Latvia, NUTS 3 regions.**



Source: Eurostat (see Annex 18)

Upgrading the housing stock is an urgent priority

Overcrowding remains a significant issue (39.3% in 2024 vs 16.9% in the EU). Investment in dwellings has been growing moderately since 2010 but remains lower than in the EU (2.5% of GDP vs 5.3% in the EU in

([8]) The Commission's 2026 Communication on the EU's eastern regions bordering Russia, Belarus and Ukraine defines eastern border regions as NUTS 2-level areas that are geographically proximate to Belarus, Russia or Ukraine. All Latvian regions are classified as eastern border regions, but the challenges differ between subregions, particularly between border-adjacent areas (e.g. Latgale) and other regions, as well as between rural and urban zones. The challenges faced by eastern border regions are multidimensional and include hybrid risks, disruption of cross-border economic activity and declining investment attractiveness.

([9]) Eurostat.

([10]) Potapovs, M. and Kanasta, K., (2025), Cybersecurity in Latvia: Forging Resilience amidst Emerging Threats.

([11]) A DDoS (distributed denial-of-service) attack is a malicious attempt to disrupt the normal functioning of a targeted server, service or network by overwhelming it with a flood of traffic from multiple sources. For more information, see CERT-EU (2023), Russia's War on Ukraine: One Year of Cyber Operations.

Box 2:

Key achievements of the recovery and resilience plan (RRP)

Latvia's RRP has a total envelope of EUR 1.969 billion (corresponding to 5.04% of GDP). It aims to support the green and digital transitions; strengthen economic resilience; and address long-standing structural challenges identified in the European Semester.

As of 8 May 2026, EUR 1.46 billion (around 74% of the total allocation) had been disbursed following the satisfactory fulfilment of 131 milestones and targets. Implementation has progressed steadily. A growing number of reforms and investments has already been completed and is now delivering tangible results on the ground.

Highlights and impact of the plan

- **Digitalising public services** to allow citizens and businesses to access a wider range of public services online, and to reduce administrative burden for public administration and beneficiaries.
- **Promoting clean energy transition** through reforms of the regulatory framework to promote energy-sharing and self-consumption, including the creation of energy communities, accompanied by investments in the electricity grid capacity (70 MW) and storage capacity (60 MW).
- **Strengthening the social safety net** through legislative reforms that link the minimum income threshold to median income and introduce automatic annual indexation, thus ensuring more adequate and stable income support for vulnerable households.
- **Boosting Latvia's innovation capacity** through research collaboration and the internationalisation of businesses, helping companies and research institutions bring new products and technologies to global markets.
- **Improving housing affordability** with a dedicated revolving fund for low-rent housing construction to support municipalities and developers in expanding the supply of affordable rental housing in Latvia outside the capital region.
- **Enhancing the capacity of Latvia's justice system** by setting-up a judicial training centre and delivering 10 specialised training modules to support continuous professional development of judges and judicial staff.

2024). Housing construction and renovation remain constrained by high interest rates and rising construction costs. Though the government has undertaken numerous measures to speed up lengthy permitting processes, it is too early to gauge their effectiveness. Relatively high income and wealth inequality is preventing many households from investing appropriately in renovations unless they receive additional support. Regional disparities are exacerbating the issue: housing markets are thin outside major economic centres and this is limiting access to finance and deterring investment (see Annex 18). The rental market and social housing markets remain underdeveloped. Social housing is primarily provided on the basis of income level and is not well-adapted to the needs of persons with disabilities. Housing units are often very small and not fit for wheelchair use ([12]). Homelessness remains a persistent social challenge and is not being addressed by national policies. The 'housing first' approach is limited to the capital city of Riga. Latvia could benefit from implementing innovative models to support social housing that take into account the relatively high levels of private ownership. This could, for example, involve rent guarantees, financial incentives to landlords and renting out to vulnerable groups. Recently launched renovation and social housing programmes (supported by the EU's ERDF and RRF and the State finance institution ALTUM) will help address existing challenges, but their scale and pace are not sufficient to significantly improve housing availability, quality and energy efficiency (particularly for vulnerable groups).

([12]) 2025 stakeholder consultation.

Box 3:

Contribution of cohesion policy funds

EU cohesion policy funding is supporting Latvia's efforts to boost competitiveness, environmental sustainability, skills and social fairness. In the 2021-2027 programming period, EU cohesion policy funds ([13]) are providing EUR 4.4 billion (amounting to EUR 5.2 billion paired with national co-financing) or 11% of 2024 GDP, to Latvia. This makes cohesion policy one of the main sources of public investment in Latvia. The value of selected projects corresponded to around 75.4% of the total allocation as of March 2026 and there are additional calls for projects in the pipeline.

- **Innovation, business environment and productivity.** Nearly EUR 790 million has been allocated to research and innovation, SME competitiveness and digitalisation. Over 2 000 firms have already had their projects approved.
- **Decarbonisation, energy affordability and sustainability.** EUR 1.1 billion has been allocated to clean transition projects (including over EUR 400 million for sustainable transport – notably railways, electric vehicles and cycling infrastructure). Nine new electric battery trains will replace old Soviet-style diesel trains and improve connectivity with Latvia's eastern border regions. A further EUR 173 million is being invested in energy efficiency projects that are already benefiting 400 multiapartment buildings.
- **Skills, quality jobs and social fairness.** Under the ESF+, EUR 260 million has been allocated to social inclusion (including healthcare measures), EUR 235 million to strengthening education and skills, EUR 131 million to employment-related measures and EUR 60 million to addressing food and material deprivation. These investments focus on supporting the development of community-based social care services, health promotion, tailored adult learning and the provision of active labour market services.

The mid-term review ([14]) has reinforced cohesion policy's contribution to emerging strategic priorities by reallocating EUR 484 million. Over 80% of this reallocation aims to support defence infrastructure and military mobility. This includes a new defence investment fund, reconstruction of a strategic bridge in Latvia's eastern border region Latgale, a dual-use road for a military garrison, an upgrade of port infrastructure to military-mobility standards and boosting Latvia's cybersecurity. Latvia is also increasing investment in civil preparedness by supporting construction of 570 shelters and 10 new disaster risk management centres. The mid-term review will strengthen energy security, securing back-up energy infrastructure such as portable substations. In addition to cohesion policy funding, Latvia will be allocated up to EUR 463 million under the Social Climate Fund over 2026-2032 to support vulnerable households and small businesses by mitigating the social impact of the new emissions trading system (ETS2).

([13]) ERDF, ESF+, CF and JTF.

([14]) The mid-term review was carried out halfway through the 2021-2027 programming period. It is a formal assessment process required under Article 18 of the Common Provisions Regulation to assess the implementation of a programme; and, where necessary, propose adjustments to improve its performance, ensure its continuing relevance in the light of new and emerging needs and maintain consistency with other EU policies.

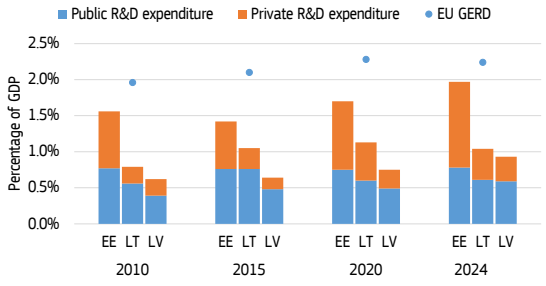
INNOVATION, BUSINESS ENVIRONMENT AND PRODUCTIVITY

More effort is needed to enable Latvia's companies to thrive and innovate. In 2025, Latvia received a country-specific recommendation (CSR) to improve access to finance for small and medium-sized enterprises (SMEs); facilitate private investment in research and innovation (R&I) (including by strengthening cooperation between business and academia); and simplify the regulatory framework for companies. Some policy measures have been carried out, but progress is not yet clearly visible. Latvia's innovation performance remains weak and access to finance for companies remains restricted. Investment challenges are exacerbated by skilled-labour shortages. The take-up of digital technologies by SMEs is lagging. However, Latvia has taken positive steps to decrease administrative burden.

Fostering innovation and investments could help revive productivity growth

Persistently low R&D investment is constraining innovation performance. For Latvia, the 2025 CSRs highlighted the need to facilitate private investment in R&I. While Latvia's R&D spending (0.92% of GDP in 2024) has increased, it remains less than half the EU average (2.24% of GDP in 2024, see Annex 4). Most public support relies heavily on EU funding, such as two research programmes financed through the ERDF. While these led to many approved post-doctoral projects and industry research initiatives in 2025-2026, they remain short-term and dependent on EU co-financing. Latvia could consider introducing structural incentives such as R&D tax credits to increase private-sector engagement, because it has a low level of business private R&D expenditure (0.34% of GDP in 2024 compared to 1.49% of GDP in 2024 at EU level). Low R&D investment translates into fewer innovations, as shown by the number of patent applications per EUR billion of GDP in Latvia (1.31), which was less than half the EU average (2.81) in 2022 (see Annex 4). Strategically designed grants to build capacity and encourage future innovation (for example, by requiring private co-financing or mandating the employment of researchers) could stimulate broader R&I engagement, thereby improving productivity levels. Latvia could take additional policy measures, such as leveraging investments in the defence sector through the Latvian Defence Industry and Innovation Strategy ([15]), which aims to catalyse defence R&I and create a EUR 50 million Defence Innovation Fund.

Graph 2.1: **R&D intensity in the Baltic countries**



Source: Eurostat

Links between business and academia have remained weak, despite policy efforts. In 2025, Latvia received a CSR highlighting the need to strengthen cooperation between business and academia. Such cooperation nevertheless remains scarce, slowing knowledge-transfer. Companies report long and complex procedures when working with research institutions. Researchers lack incentives to engage in applied projects. The situation is exacerbated by the instability of

([15]) Ministry of Defence (2025), Latvian Defence Industry and Innovation Strategy.

public-private research funding (see Annex 4). Latvia has taken some positive steps. For example, as part of its Recovery and Resilience Plan (RRP), it is reforming the higher education system by introducing performance-based university funding to encourage collaboration with industry. In addition, work is ongoing on a new commercialisation regulation to simplify tech transfer.

Labour shortages in the fields of science, technology, engineering and mathematics (STEM) are undermining innovation and long-term investment. Latvia has a growing need to address such labour shortages. 90% of its firms cite skilled-labour shortages as a barrier to long-term investment in 2025 ([16]). The skilled-labour shortage is limiting Latvia's ability to develop new technologies and absorb R&I funding. Latvia has only 3.2 researchers per 1 000 active people in the public sector (EU average: 5.9) and 1.6 per 1 000 in the private sector (EU average: 4.3) (see Annex 4). A new doctoral model has been introduced as part of the RRP, but retention remains low due to uncompetitive salaries and unstable funding. STEM skills gaps persist, with approximately half the EU average of graduates per capita in these fields. Digital skills are also lagging behind: AI adoption, cloud computing and data analytics all trail the EU averages, hindering the digitalisation of businesses. Latvia could benefit from labour policies that respond to market needs (see Annex 11 and Section 4).

Latvia's productivity level remains well below the EU average and its development is stagnating. Weak productivity dynamics can be linked to low capital intensity, limited sectoral reallocation and productivity gaps in manufacturing. In addition, Latvia's economic structure relies on lower-technology activities. In 2025, retail trade, real estate and transport accounted for more than 25% of value added, while higher-technology services (notably information and communication) accounted for 6.9% of value added (see Annex 5). Latvia could benefit from policies encouraging business R&D spending in the long term, including private-sector R&D employment to boost longer-term TFP growth.

More effort is needed to strengthen key business enablers

There is a growing need to improve connectivity infrastructure and to speed up the adoption of advanced digital technologies. Latvia's connectivity infrastructure lags behind EU standards and this poses barriers for businesses, especially in rural areas (see Annex 5). More than half (58.54%) of Latvian SMEs showed at least a basic level on the digital intensity index ([17]) in 2025, but this share was well below the EU average (71.39%) (see Annex 4). To address this, Latvia has introduced a range of measures to improve skills under its Digital Decade roadmap and the RRF, targeting thousands of SME employees and businesses. Latvia's participation in Important Projects of Common European Interest for Cloud Infrastructure and Services (IPCEI-CIS) demonstrates that policy efforts are being made in cloud and data analytics. However, further targeted and scaled-up support for SME digital uptake remains crucial to strengthening Latvia's economic growth potential.

Latvia has taken several steps to reduce administrative burden and simplify the regulatory framework for businesses. Latvia received a CSR in 2025 to simplify regulation and reduce administrative burden. It has taken several policy measures to address the fact that firms continue to report business and labour regulations as obstacles to investment. Reforms include the expansion of priority administrative procedures for businesses (the 'Green Corridor'), sectoral action plans to reduce administrative burden, further digitalisation and data-reuse across public authorities. These measures complement a 21-point action plan to

([16]) European Investment Bank (2025), EIB Investment Survey.

([17]) The Digital Intensity Index is a composite indicator that is, derived from the survey on ICT usage and e-commerce in enterprises.

streamline procedures in areas such as business registration and construction, as well as efforts to simplify EU funds management. Easing administrative requirements in the implementation of posting of workers rules could reduce regulatory fragmentation within the Single Market, facilitate cross-border mobility and foster competitiveness – without undermining worker protection.

Latvia's public procurement framework could be further improved. Several measures have been taken to improve the procurement framework under the RRP, but Latvian public procurement institutions still face challenges (e.g. continuous staff-related constraints that negatively affect the quality and timeliness of public procurement procedures). Latvia is developing a new public procurement law to further improve the framework by simplifying nationally regulated procedures (see Annex 5).

Boosting access to capital is necessary for firms to thrive and scale

High lending rates and stringent collateral requirements continue to constrain corporate lending. In 2025, Latvia received a CSR to improve access to finance for companies, including by stimulating competition in the financial markets. For non-financial corporations, annual credit growth recovered from -1.5% in 2023 to 15.4% in Q3 2025, outpacing nominal GDP growth. However, Latvian firms still use less external financing than EU peers and the outstanding stock of bank loans and other external funding remains low (see Annex 6) ([18]). Borrowing conditions for SMEs have not improved greatly. To promote borrower mobility and competition in the corporate lending market, the Bank of Latvia and the Ministry of Finance have proposed capping early repayment fees ([19]). Additionally, the introduction of a solidarity contribution appears to have spurred lending activity and competition within the financial sector ([20]). To reduce collateral requirements as an obstacle to lending, the provision of an independent assessment of a company's financial health by state institutions could serve as a useful benchmark for lenders and the companies alike.

Latvia has initiated some public support schemes to facilitate strategic investments, but more effort would be beneficial. In 2025, Latvia received a CSR to promote public lending and guarantee schemes to facilitate strategically important investments. Primarily, most State and EU co-financed support mechanisms to facilitate companies have been allocated through ALTUM (the State development financial institution). The latest developments include amending the public guarantee framework by increasing the maximum credit guarantee limit for a single SME from EUR 5 million up to EUR 25 million; launching the next call for a large investment loan programme ([21]); providing new EU-funded support programmes for centralised heating supply and biomethane production ([22]); and some upcoming activities in the fields of innovation, economic resilience, military and dual-use products ([23]).

The Latvian ecosystem for start-ups and scale-ups is lagging behind. Fewer new

([18]) Companies' bank-loan-to-GDP ratio remains very low (14.8% of GDP in Q3-2025, EU: 29.3%). Additionally, in 2024, loans, listed shares, trade credit and bonds constituted just 45.3% of GDP in Latvia (EU: 122.9%).

([19]) LETA (2025), Bank of Latvia: Domestic loan portfolio is likely to continue to grow this year.

([20]) Latvia has temporarily increased payments from the financial sector while simultaneously providing banks with a discount model linked to the growth rate of their lending. According to the Bank of Latvia, the introduction of a solidarity contribution boosted recent lending activity (though the assessed impact remains within a rather wide margin).

([21]) Loans are intended for SMEs that plan to invest at least EUR 10 million in technology, engineering and materials.

([22]) The available funding for both programmes is EUR 77.3 million.

([23]) The Growth and Protection Fund has a planned volume of EUR 100 million to promote development by investing in the equity capital of Latvian companies. The 'ReARM' support programme aims to improve industrial capabilities.

start-ups register annually than in other Baltic countries due to fragmented and low financial support (see Annex 4). Incubators and accelerators provide limited financial support at pre-seed level and banks remain reluctant to lend to SMEs (see Annex 5). The scale-up ecosystem is also limited, because existing programmes for start-ups are often not suitable for scale-ups and provide no or only limited prefinancing. The 2022–2025 start-up ecosystem development strategy is a positive step, because Latvia has provided training and funding for start-ups and created the Start-up House to bring the ecosystem together.

Latvia's capital and venture markets lag behind the EU and its Baltic peers. In Q3 2025, stock market capitalisation was just 0.8% of GDP (69.9% in the EU, 6.2% in Lithuania and 10.7% in Estonia). It has been decreasing since 2020, when it peaked at 3.3% of GDP. In Latvia, the listing of State and municipal enterprises on the stock exchange is still under consideration, but State and local government-controlled companies account for about a third of market capitalisation in Lithuania and Estonia (see Annex 6). The Ministry of Finance's February 2026 report proposed measures to activate capital markets. However, these proposed measures lack an implementation timeline and the potential listing of the shares of a few State-owned companies alone might not be enough to achieve the stock market capitalisation target of 9% of GDP ([24]). Meanwhile, venture capital investment (0.03% of GDP on average annually over the period in 2022–2024) has trailed the EU average (0.06%) due to weak private funding – despite public co-investment. Crowdfunding investment (0.7% of GDP) remains a bright spot, outperforming the EU (0.1%).

Latvia's pension funds are playing a role in developing its capital markets, but domestic investment and returns remain limited. Pension fund assets have been growing rather vigorously in recent years, reaching 25.2% of GDP in Q3 2025 (vs 23.0% in the EU) (see Annex 6). About half of Latvia's pension assets remain invested in relatively low-yielding bills and bonds, indicating a conservative strategy and preference for foreign bonds due to a limited local corporate bond market. Enhanced risk management and governance of the pension funds could lower management fees and increase returns, encouraging households to shift some of their liquid investments into long-term retirement savings. Pension funds could also benefit from more diversified and attractive local investment options (including in real estate, infrastructure and equity). Overall, Latvia could explore ways to follow a coordinated approach that addresses both the regulatory framework and market development ([25]).

([24]) Ministry of Finance (2025), Proposals for the development of the capital market.

([25]) The ALTUM co-financed venture capital fund 'FlyCap' began financing companies in October 2025, including by attracting investments from Latvian pension fund managers. The EUR 42 million fund will be invested in the Baltic countries over the next five years.

DECARBONISATION, ENERGY AFFORDABILITY AND SUSTAINABILITY

Continued efforts are needed to speed up the green transition. In 2025, Latvia received a country-specific recommendation (CSR) to accelerate the deployment of renewable energy; promote clean flexibility solutions; increase energy and resource efficiency; and advance decarbonisation of transport. Some policy areas have seen progress, but more work is needed to fully address the recommendations. Installed solar energy capacity has increased, but grid constraints and lengthy permitting procedures continue to hinder the clean energy transition. New storage capacity has come online, but further deployment of clean flexibility solutions remains key. Attracting private capital to support renovation efforts remains a priority in the buildings sector. Transport decarbonisation is progressing slowly. Little progress has been made on resource efficiency and greater effort is needed to enable the shift to a circular economy. Rewetting peatland could unlock more carbon removal capacity.

Powering an affordable low-carbon future

Expanding solar and wind generation remains a priority, despite Latvia's solid renewable energy base. Latvia received a CSR in 2025 to accelerate the deployment of renewable energy (particularly wind and solar). Hydropower continues to dominate the electricity mix, accounting for 46.8% of domestic generation in 2025. Installed solar capacity has grown strongly from 0.01 GW in 2020 to 0.47 GW in 2024, but wind capacity has increased only marginally and both remain significantly below the other Baltic states' levels (see Annex 9). The potential for additional hydropower capacity is limited, so scaling up wind and solar energy is critical if Latvia is to meet the rise in clean electricity demand associated with necessary electrification and decarbonisation needs.

Grid constraints have partly eased, but permitting procedures for renewable energy projects remain lengthy and spatial planning needs improvement. Amendments to the Electricity Market Law have helped Latvia mitigate recent grid bottlenecks by incentivising developers of 'phantom projects' ([26]) to release booked grid capacity. This Recovery and Resilience Facility (RRF) measure has freed up approximately 2 GW of booked capacity. Several measures were adopted in 2025 to reduce permitting timelines (see Annex 9), but further action is needed (particularly to shorten environmental impact assessment procedures). Repeated reshuffling of competences and administrative structures (illustrated by the Energy and Environment Agency's establishment in February 2025 and its absorption into the State Environmental Service just six months later) is undermining business continuity and making it harder to manage a growing workload. Institutional stability and sustained investment in administrative capacity are essential for a well-functioning permitting framework. Efforts are ongoing to map suitable sites for renewable energy development, but faster identification of priority areas and stronger centralised planning are needed. Rising public opposition to new wind projects could hamper progress ([27]).

([26]) Phantom projects are renewable energy development applications that are submitted without a credible business case or any realistic prospect of reaching financial close. They crowd out viable projects by occupying slots in connection queues.

([27]) LETA (2026), Cudars partially suspends spatial plans of Bauska and Preili municipalities due to restrictions on renewable energy production.

Latvia's continuing exposure to electricity price spikes highlights the importance of clean flexibility solutions. In 2025, Latvia received a CSR to promote energy storage, demand response and market-based flexibility solutions. Latvia lacks sufficient non-fossil flexibility and therefore remains exposed to price spikes during peak-demand hours, when costly fossil-based plants are required to ramp up production (see Annex 9). Significant progress has nevertheless been made. In 2025, two battery energy storage systems (60 MW and 20 MW) were commissioned and began providing key flexibility services. These projects benefited from EU funding through the recovery and resilience plan (RRP) and the Connecting Europe Facility (CEF). In addition, some regulatory improvements have been made to facilitate the deployment of additional storage capacity ([28]). Further efforts could focus on promoting demand-response tools and independent aggregators of small-scale demand, which can provide flexibility and balancing services throughout the day. Latvia could also prioritise clean flexibility over fossil-based flexibility in its upcoming national flexibility needs assessment ([29]). In response to the regional crisis in the Middle East, as of 1 April 2026, the excise duty on diesel fuel has been reduced for both general and agricultural use. The measure should expire on 1 June 2030.

On 9 February 2025, Latvia successfully synchronised its electricity grid with continental Europe's electricity system. This was the culmination of a multiyear, cross-border project that received funding from the CEF. This synchronisation allows the Baltic states to operate their electricity systems in close coordination with the rest of continental Europe, ensuring stable and reliable frequency control and thereby strengthening regional energy security. The Baltic states previously depended on the Russian and Belarusian systems for frequency regulation but are now integrated into the continental European synchronous grid and all electrical connections with Russia and Belarus have been permanently disconnected. The new battery energy storage systems that have been in operation since October 2025 complement synchronisation efforts by guaranteeing fundamental system-balancing services.

Ensuring energy efficiency in buildings

The building sector's energy consumption has decreased in recent years, but it remains a major energy consumer and further efforts are needed to achieve the 2030 energy efficiency targets. In 2025, Latvia received a CSR to reduce energy consumption and carbon intensity by strengthening energy efficiency measures, especially in the buildings sector. Support for energy efficiency measures remains heavily dependent on EU funding. The RRF and cohesion funds currently contribute significantly through energy efficiency schemes that target private and public buildings (as well as industry) and these schemes generally experience high uptake. The pace of renovation nevertheless remains insufficient to meet national energy efficiency and renovation targets (see Annex 9). Attracting more private finance will be essential, particularly through dedicated financial instruments for energy efficiency and by supporting the development of the energy services sector as a key market enabler.

Latvia is taking positive regulatory steps to accelerate the pace of renovation. Regulatory and legislative measures to accelerate renovation rates have been implemented and more are under consideration. These include revisions to voting and decision-making rules in multiapartment buildings (the large share of old Soviet-era apartment blocks in Latvia's building stock makes this particularly relevant). Latvia is also developing standardised construction designs for renovating these buildings, aimed at

([28]) See Amendments to Cabinet Regulation No 821 of 19 December 2023.

([29]) The revised EU Electricity Market Regulation was adopted in 2024 and introduced mandatory national flexibility needs assessments (FNAs). Member States must submit their first national FNAs by July 2026.

reducing the time and cost of preparing technical documentation and enabling economies of scale. Adoption of the Energy Efficiency Law (expected towards the end of the year) will set Latvia on a path to meet more ambitious energy efficiency targets.

Transport decarbonisation and electrification require more work

The transport sector remains one of Latvia's largest sources of greenhouse gas (GHG) emissions – particularly road transport. In 2025, Latvia received a CSR to accelerate the decarbonisation of transport (particularly road transport). In 2024, 44% of Latvia's effort-sharing emissions came from road transport, having decreased by only 6% from 2005 levels (see Annex 8). The Transport Energy Law, which was adopted in 2025 and entered into force on 1 January 2026, is expected to contribute to the decarbonisation of the sector and help reduce transport GHG emissions by at least 16% by 2030 compared with current levels.

Latvia has made visible progress in promoting electric mobility (particularly for private electric vehicles (EVs) and charging infrastructure), but the uptake of electric heavy-duty vehicles remains slow. Registrations of new EVs are rising, thanks in part to support from the RRF, cohesion funds and government subsidies for EV purchasing. However, overall fleet penetration remains low, having increased from 0.8% in 2024 to only 1.05% in 2025, while around 92% of Latvia's road transport fleet consists of fossil fuel-powered vehicles. The amount of charging infrastructure for light-duty vehicles doubled in 2025 (compared with 2024) but remains concentrated mostly around Riga. In this regard, Latvia could benefit from taking measures that build on the 2025 study on developing a network of electric charging stations along the TEN-T road corridor ([30]). Such measures could include recharging infrastructure for buses and coaches, because the number of electric heavy-duty vehicles is still limited.

Latvia's rate of electrification of the rail network is well below the EU average, limiting its potential to cut transport emissions and modernise operations. Latvia is leveraging EU funds for major projects such as Rail Baltica and the national electrification programme to boost decarbonisation, interoperability and connectivity. Its conventional rail network is only 14% electrified (EU average: 57%). Passenger services are about 90% electrified, but freight services are still almost entirely reliant on diesel traction. In this context, introducing BEMU trains and charging infrastructure along Krustpils–Rezekne and Riga–Lugazi–Valga railway lines enables a cheaper and flexible zero-emission alternative to full electrification while improving regional connectivity in eastern and northern Latvia and ensuring cross-border service to Estonia. Advancing Rail Baltica will contribute to strengthening military mobility, security and the resilience of regional transport infrastructure, as well as strategically connecting Latvia with the rest of the EU. This measure and the completion of Riga Central Station's southern section with RRF support would help shift transport mobility from road to electric rail, thus reducing GHG emissions.

Aviation and maritime transport generate about 19% of Latvia's transport emissions. Expanding production and the use of sustainable aviation and maritime fuels could boost industry, innovation and energy security. Two projects for sustainable aviation fuels were announced in the Port of Riga and Līepaja. Additional measures could involve promoting pilot projects, scaling up production facilities and continuing the study with Estonia into the viability of sustainable aviation

([30]) Ministry of Transport (2025), Research on the creation of a network of electric charging stations in the TEN-T road network in Latvia.

fuel ([31]). In ports, onshore power supply is a key decarbonisation solution that allows ships to plug into the grid instead of running on diesel. Investment in ports is needed in order to avoid losing competitiveness. Latvia could also ensure its alignment with the European Maritime Single Window environment in order to improve port efficiency and support decarbonisation as well as the competitiveness of the maritime sector.

Accelerating the shift to a circular economy

Latvia has launched some promising initiatives, but the shift to circular economy remains slow and resource productivity is only about half the EU average. In 2025, Latvia received a CSR to increase its transition to circular economy through eco-innovation. This transition faces significant hurdles, despite progress in waste recycling. Latvia's recycling rates for plastic packaging, construction waste and municipal waste are slightly higher than the EU average (see Annex 8). However, its circular material use rate (6.8%) is half the EU average and has stagnated since 2016.

Landfilling remains a major challenge. The share of municipal waste sent to landfills is twice the EU average, so Latvia risks missing the EU target to reduce municipal landfill use to 10% by 2035. Latvia has taken some recent positive initiatives (e.g. the introduction of separate textile collection in 2025 and the ongoing implementation of an e-cigarette deposit system in 2026) but has not made any systemic changes. The lack of concrete targets in the 2021-2027 circular economy action plan has resulted in slow implementation. Latvia's high landfill tax (EUR 120/tonne in 2025) could be complemented by a new incineration tax to prevent a shift from landfills to incineration. Municipal waste recycling and biowaste collection could be improved by, for example, providing all residents with separate biowaste containers. Public awareness campaigns and expanding green public procurement could bolster these efforts.

Strengthening climate resilience, biodiversity and investing in the bioeconomy

Latvia has reinforced its climate resilience policy framework but further steps in implementation remain to be taken. The Climate Resilience and Economic Sustainability Law was adopted in 2025 and creates a coordinated framework for climate action across public institutions. However, the scale of expected investment needs for climate adaptation (see Annex 10) means that more work is needed to effectively implement these measures across all sectors. Latvia has significant untapped potential to leverage nature-based solutions for climate resilience and biodiversity. One notable opportunity for Latvia is the restoration and rewetting of peatlands, which can effectively mitigate flood and drought risks while storing carbon in the soil and preserving Latvia's unique peatland biodiversity (see Annex 10).

Latvia's land use, land use change and forestry (LULUCF) sector has become a source of additional carbon emissions, instead of contributing to its 2030 carbon removals target. In 2025, Latvia received a CSR to increase resource efficiency. The LULUCF sector has historically delivered significant carbon removals – even achieving net-negative emissions in the early 2000s – but its capacity has declined and it has been a net emitter since 2020. While the energy sector, including transport, is the most significant source of greenhouse gas emissions in the country, it is followed by LULUCF sector. In 2020-2023 the increase of GHG emissions in the LULUCEF sector are the cumulative result of higher harvesting rates and a higher mortality rate in mature forests. In 2025, Latvia advanced its carbon sequestration efforts by implementing

([31]) Technical Support Instrument, 2021 project: Developing technological solutions and production possibilities for sustainable aviation fuel in Estonia and Latvia.

measures from its updated national energy and climate plan (including peatland rewetting, afforestation and sustainable reforestation). However, rewetting of drained peatlands projects could accelerate Latvia's carbon sequestration efforts, especially where it can provide multiple benefits (e.g. defence, biodiversity etc.).

Investing in healthy forests and soils could increase carbon removal capacity. Supporting the bioeconomy by focusing on the development of domestically manufactured wood products with high added value (such as engineered wood products) could foster the development of biobased value chains and increase the competitiveness of Latvia's bioeconomy. Replacing the outdated Forest Development Guidelines 2015-2020 with a new strategic document could help in prioritising sustainability, nature conservation and restoration. Strengthening the monitoring of net carbon removal data is essential for timely and effective climate action in the sector. Public-private financing could be boosted by attracting private investment through transparent value-chain reporting and using the EU Carbon Removal, Carbon Farming Certification Framework and biodiversity credits.

SKILLS, QUALITY JOBS AND SOCIAL FAIRNESS

Latvia can do more to boost social convergence. In 2025, Latvia received a country-specific recommendation (CSR) to address labour and skills shortages, including through improved working conditions, and strengthen social protection and the health system. Latvia has taken some measures to address labour and skills shortages (see Annexes 11 and 13), but further efforts are needed to strengthen workforce skills. Latvia has improved social protection adequacy (see Annex 12), notably by improving social assistance and increasing child benefits. Pension adequacy nevertheless remains low and some benefits (e.g. the care allowance for persons with disabilities) require immediate attention. Despite some policy efforts, access to healthcare is still hampered by insufficient funding and staff shortages.

Addressing these challenges will help Latvia boost upward social convergence. The second-stage analysis in line with the Social Convergence Framework identifies challenges for Latvia that may affect social convergence in relation to its labour market, education and skills as well as its social situation ([32]).

Challenges in general education are hampering basic skills attainment

The steps taken to retain teachers are not sufficient to reduce geographical disparities in education or the skills shortages, particularly in science, technology, engineering and mathematics (STEM). Teacher shortages in general education are acute, both in the capital and in rural areas, especially in STEM and foreign languages. The educational workforce is ageing and more than half of young teachers intend to leave the profession within five years ([33]). Latvia has taken positive measures to increase salaries, attract new entrants and improve teacher induction training. However, teachers' salaries remain lower than those of tertiary-educated workers, weekly teaching working hours have risen, and teaching to non-native speakers has increased (see Annex 13). Latvia could benefit from targeted upskilling and measures to improve teachers' working conditions, as well as continuing actions to increase the number of STEM graduates.

Regional disparities in education continue to hamper skills development. The initial education system performs comparatively well, but ensuring equal quality across the country is crucial, since larger urban schools outperform smaller rural ones in basic skills. The increasing share of early school leavers and the insufficient number of STEM graduates – especially among women – shows marked differences between urban and rural areas (see Annex 13).

Labour and skills shortages are being addressed, but there is still scope for further improvement

Further work is needed to fill skills gaps. In 2025, Latvia received a CSR on addressing labour and skills shortages (particularly in STEM and in other specialisations needed for the green transition, research and digitalisation). Latvia has made some

([32]) European Commission, SWD(2026) 122 final. The analysis relies on all the available quantitative and qualitative evidence and the policy responses that have been undertaken or are planned.

([33]) OECD (2024), Results from TALIS 2024.

progress, primarily through the implementation of support measures for reskilling and upskilling of workers as well as improving the labour market attractiveness of vocational education and training (VET) (see Annex 13), but further efforts are still needed. Latvia's skills mismatch rose to 18.7% in 2024, while growing shortages for specific sectors are still being forecast (see Annexes 11 and 13). This highlights the need for stronger upskilling and reskilling, including in digital skills.

Latvia is continuing to strengthen adult learning, with the support of EU funds, by increasing both individual needs-based and sectoral needs-based training. The national authorities have developed a single access portal for adult learners ([34]) and have launched a promising pilot project on individual learning accounts to increase adults' digital skills. The adult learning system nevertheless remains fragmented and underdeveloped. Latvia could strengthen workforce availability and long-term planning by adopting the national strategy for human capital development (the draft legislative proposal for this was adopted in 2024) ([35]). Latvia's social partners have called for the Public Employment Service (PES) to become more efficient and for active labour market policies (ALMPs) to be more closely aligned with actual labour market needs, in close cooperation with employer organisations and trade unions ([36]). Counterfactual impact evaluations are carried out to assess the effectiveness of ALMPs. Latvia could improve ALMPs by exploring ways to provide more flexible and short-term training offers and expanding the use of micro-credentials. The capacities of sectoral VET expert councils could be strengthened to improve collaboration between businesses and the education institutions, thereby making VET graduates more employable. While Latvia is taking measures to further strengthen apprenticeships in VET, the approach is being implemented within a national VET framework that does not follow a dual learning model, remaining primarily school-led and underdeveloped.

Job-quality challenges remain

Working conditions are improving, but the low and decreasing collective bargaining coverage is slowing further progress. The minimum wage increased from EUR 700 in 2024 to EUR 740 in 2025 and EUR 780 in 2026. This had a positive impact on the labour market in terms of upward social convergence and wage growth (particularly in sectors with a higher share of minimum wage earners, such as social care). However, productivity has not kept pace (see Annex 11) and there is a need for continued efforts to improve the skills of workers, increase the effectiveness of capital and raise returns on investments. The low and decreasing level of collective bargaining (see Annex 11) risks limiting further progress on wages, employee training, employee retention and development, innovation and productivity. Low trade-unionisation (10.3%) and employer coverage (56.4%) remain the key constraints on bargaining coverage (25.8%). A particularly low level of agreements has been concluded at the sectoral level (see Annex 11). The capacity of social partners is low, including as regards their ability to participate in the sectoral expert councils. In addition, the effectiveness of social dialogue shows wide discrepancies and is ineffective in some sectors, such as healthcare. Regarding job quality, Latvia has one of the highest shares of low-wage earners in the EU. It is also one of the worst performers in terms of fatal accidents at work.

Social protection, services and housing remain underdeveloped

Latvia has made some progress in improving social protection adequacy (especially for child benefits), but further efforts are needed. In 2025, Latvia received

([34]) See stars.gov.lv.

([35]) Human Capital Development Action Plan 2026-2027.

([36]) Consultation of Latvian social partners in the context of the 2026 Semester's structured dialogue.

a CSR to strengthen social protection to reduce inequality, including by improving access to quality social services, notably home care. Latvia has since continued to improve the adequacy of social assistance, building on the minimum income reform of 2023 and the 2025 upward revision of the guaranteed minimum income from 20% to 22% of median income (with an annual revision). In 2026, as the State budget prioritises demographic support, several social benefits have been significantly improved, with a focus on child-related benefits ([37]). These included the childcare allowance for children up to the age of 1.5 years, which increased from EUR 171 to EUR 298. However, the share of the population at risk of poverty or social exclusion remained high at 24.7% in 2025. This was due to Latvia's low expenditure on social protection and the low and deteriorating impact of social transfers on poverty reduction (21.5% vs 34.2% in the EU in 2024). Vulnerable groups (including older persons, persons with disabilities, unemployed persons and single-parent households) are particularly exposed to poverty and social exclusion (see Annex 12). According to a EUROMOD simulation ([38]), both the poverty rate and the extent of poverty after social transfers (excluding pensions) increased for several vulnerable household groups (i.e. households with persons with disabilities, with elderly members and members with a migration background – see Annex 12) between 2015 and 2025. Some benefits (e.g. the care allowance for persons with disabilities) remain low and have not been adjusted to keep pace with inflation for several years.

Social services, including long-term care (LTC) services, remain underdeveloped despite some promising developments. Some progress has been made on access to quality social services. Latvia is continuing to implement the minimum services basket and to transition towards community-based LTC services (see Annex 12). In the context of this reform, all municipalities will have to provide a standard set of social services from 2026 onward ([39]). This transition is being supported by EU cohesion policy funds, with over EUR 100 million for their development until 2029. Some progress has been made, but social services and formal LTC remain largely underdeveloped, there are considerable differences between municipalities and there are particular shortages in the eastern border region of Latgale (see Annex 12). Latvia is currently developing a new LTC financing model in order to deal with the growing LTC needs and persistent funding constraints, but a political agreement on this is still pending. Latvia can ensure that the needs of the most vulnerable groups are adequately supported by ensuring appropriate resources for the development and provision of social services (including for addressing material deprivation). There is still scope to further align the provision of community-based services for persons with disabilities with the right to independent living.

Workforce attraction and development as well as appropriate pay are essential for ensuring quality care. Latvia received a CSR in 2025 to address labour and skills shortages, including in the social sector. In 2026, Latvia adopted the 2026-2027 plan for development and improvement of social services ([40]). This contains several measures to attract people to the social care sector. This is particularly important given the growing demand for formal care and existing labour shortages (see Annex 12). Latvia has only 0.9 LTC workers for every 100 persons aged 65 and older (below the EU average of 3.3). This means that the care burden is relatively high for informal carers, negatively affecting labour market participation and productivity. Latvia recognises this and is exploring ways to support informal caretakers. In 2025, a study was concluded that resulted in proposals for

([37]) Ministry of Welfare (2025), Summary of changes to social benefits in 2026.

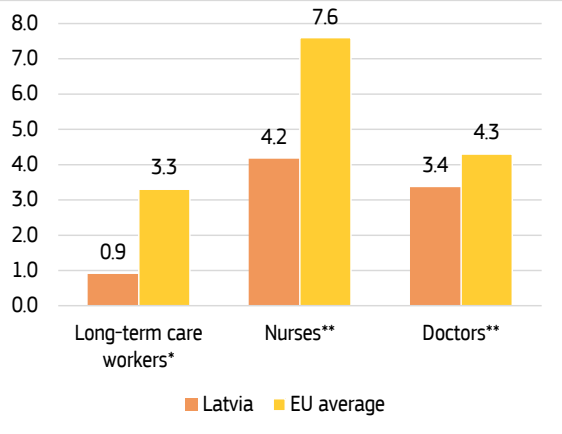
([38]) The simulation was performed by the European Commission, Joint Research Centre, based on the EUROMOD model, J2.0+.

([39]) Day care services for people with severe functional impairments, respite services for children and people with severe disabilities, specialised workshops for persons with mental disability and social rehabilitation services at home for children and young people.

([40]) Plan for the improvement and development of social services for 2026 and 2027.

strengthening the informal carers support system (including through increasing support for skills acquisition). Remuneration in State institutions for long-term social care and social rehabilitation increased in 2026 in line with the growth in the minimum wage. However, wages in the care sector remain below average. A wide gender pay gap and inefficient collective bargaining make it difficult to make the profession more attractive.

Graph 4.1: **Number of healthcare and LTC staff**



* per 100 people aged 65 and over
** per 1 000 population
Source: Eurostat, 2023 data

The pension system needs a long-term solution

The pension system is lacking a sustainable long-term solution to ensure pension adequacy and address old-age poverty. Latvia received a CSR in 2025 to strengthen social protection to reduce inequality, including by improving the adequacy of old-age pensions. Latvia has responded by continuing with the gradual re-introduction of the old-age pension supplement payments and strengthening pension adequacy through annual indexation procedures (see Annex 12). In October 2025, all pension amounts up to EUR 1 488 were indexed, with higher rates of indexation for those with longer insurance periods ([41]). Nevertheless, old-age poverty (for persons aged 65 years and older) was 41.1% – more than double the EU average – and remains a challenge. Pension adequacy remains low. The aggregate replacement ratio decreased from 0.44 in 2024 (EU: 0.60) to 0.43 in 2025. A more comprehensive long-term solution is needed to ensure pension adequacy and address old-age poverty (see Annexes 6 and 12).

Poor healthcare accessibility is taking a toll on health outcomes

The Latvian health system continues to face significant challenges, resulting in poor health outcomes. Latvia received a 2025 CSR to improve its health system, including by providing additional human and financial resources. Some efforts have been made, but progress remains limited. Latvia is among the least well performing EU Member States on indicators such as life expectancy, treatable mortality, unmet medical needs and health inequality (see Annex 15). Poor health outcomes result in a large loss in potential life years, negatively affecting Latvia's workforce and productivity.

The level of healthcare accessibility is low and this especially impacts vulnerable groups. The public share of health spending was 59.6% in 2023, among the lowest in the EU (see Annex 15). According to Ministry of Health data, public health spending remained at only 4.7% of GDP in 2025 and is set to decrease to just 4% in 2027. Out-of-pocket (OOP) expenses are high as a result, accounting for 35.1% of health costs in 2023 (more than double the EU average of 15%). OOP payments disproportionally affect low-income households and vulnerable groups, resulting in high inequalities in access to healthcare. Accessibility is further limited by long waiting

([41]) Ministry of Welfare (2025), Pension indexation will take place again this year on October 1. Indexation amounts depend on insurance periods.

lists for public services. To address this, Latvia introduced an e-referral solution in 2025 to prevent double-booking of appointments. Furthermore, to decrease OOP spending, Latvia has expanded the list of reimbursable medicines and increased medicine reimbursement rates. Latvia has also implemented several one-off investments, such as projects in secondary outpatient healthcare service providers under the RRP. The 2026 budget allocated additional funds to maternal, child and palliative care. Latvia could benefit from additional measures and financing to make the health system more accessible.

Provision of adequate care is being hampered by staff shortages (as highlighted in the 2025 CSR). Healthcare staff shortages are among the highest in the EU (see Graph 4.1) and disproportionally affect rural areas. The situation is likely to worsen due to the age-profile of the workforce (especially nurses and general practitioners). Challenging working conditions (including low remuneration and high workloads) are hindering the recruitment and retention of staff as well as the provision of high-quality care. As part of the RRP, Latvia approved simulation-based medical education and has increased the minimum wages for some healthcare staff categories. A newly introduced remuneration model channels funding increases to staff with lower wages but does not include structural pay increases.

Latvia's rate of preventable mortality was one of the highest in the EU in 2022, while public spending on preventive measures is limited. High preventable mortality rates are linked to behavioural risk factors (including smoking, alcoholic consumption and limited physical activity). Introducing preventive policy measures and strengthening the role of primary care could improve health outcomes and decrease long-term costs through early detection and early-stage treatment. Strengthening the role of primary care could also help prevent unnecessary hospitalisation, thereby reducing pressure on the healthcare workforce and limiting costs.

KEY FINDINGS

In areas **covered by existing CSRs**, Latvia would benefit from:

- **making public finances fit to cope with structural spending needs** by redirecting savings from spending reviews to priority areas, increasing tax revenue from sources less detrimental to growth, and reducing the shadow economy;
- **continuing efforts to improve access to finance for small and medium-sized enterprises**, by increasing competition in the financial market, promoting public lending and guarantee schemes to facilitate investments and increasing the size of the capital market (by considering the listing of shares of state-owned companies and fostering the development of markets in financial instruments);
- **encouraging public and private investment in R&I**, including by strengthening cooperation between business and academia;
- **decreasing labour and skills shortages**, especially in STEM, teaching and research, basic digital skills and the social and healthcare sector, and promoting human capital development, by better aligning VET with labour market needs, strengthening the adult learning system and effectiveness of ALMPs, and improving working conditions;
- **accelerating the deployment of wind and solar capacity** by improving permitting procedures, implementing smart grid queue management solutions, designating renewable acceleration areas and incentivising demand-side flexibility;
- **improving energy efficiency** in the buildings sector, including by strengthening the use of financial instruments for renovations;
- **continuing efforts to decarbonise transport**, by promoting the uptake of low-emissions and zero-emissions vehicles, expanding charging infrastructure and accelerating the completion of Rail Baltica;
- **increasing resource efficiency** by adopting sustainable resource management practices and improving the waste management system;
- **fostering upward social convergence by strengthening social protection, particularly for vulnerable groups**, to decrease poverty and inequalities, including by improving access to high-quality services (particularly long-term care) and ensuring the adequacy of old age pensions;
- **improving the health system** by increasing public funding to reduce out-of-pocket payments, improving working conditions for healthcare staff and strengthening preventive policy measures;
- **increasing the availability and quality of housing** (especially social and affordable housing), including by mobilising private financing for renovations of housing, particularly in the regions.

In **other areas**, Latvia would benefit from:

- **boosting the productivity, cohesion and resilience of Latvia's regions**, particularly those on the Eastern border, including through investment and by strengthening multilevel governance and place-based strategies;
- **accelerating the adoption of advanced digital technologies**, including by improving connectivity infrastructure

(especially in rural areas) and targeting support to SMEs to increase digital intensity;

- **stepping up efforts for sustainable land management and use**, especially by investing in healthy forests and soils to enhance carbon removal, resilience and biodiversity.

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Table A1.1: **CSR implementation and Commission assessment**

Latvia faces challenges in a wide range of policy areas, as identified in the country-specific recommendations (CSRs). Latvia was recommended, among other things, to strengthen defence and fiscal sustainability, boost competitiveness and innovation, accelerate the green transition and energy security, address labour shortages and upskill the workforce, and strengthen social protection and healthcare.

The Commission has assessed the degree of implementation of the 2025 CSRs considering the policy action taken by Latvia to date*. To do so, the Commission has taken into account the information provided by Latvia in its Annual Progress Report as well as other information sources. This annex provides summary information on the policy actions taken or planned by Latvia for each CSR. More detailed information on these actions is included in the relevant chapters and other annexes of the report.

**CSR 2 is not assessed in CeSaR. RRP implementation is monitored through the assessment of RRP payment requests and analysis of the bi-annual reporting on the achievement of the milestones and targets, to be reflected in the country reports. Progress with the cohesion policy is monitored in the context of the Cohesion Policy of the European Union.*

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessment of progress**
1.1 Reinforce overall defence and security spending and readiness while ensuring debt sustainability in line with the European Council conclusions of 6 March 2025.	Total general government defence expenditure in 2026 is projected at 4.1% of GDP, corresponding to an increase of 1.4 pps compared to 2024.	Total general government defence expenditure in 2027 is projected at 5.5% of GDP, corresponding to an increase of 2.8 pps compared to 2024.	Substantial progress
1.2 Adhere to the maximum growth rates of net expenditure recommended by the Council on 21 January 2025, while making use of the allowance under the national escape clause for higher defence expenditure.	Cumulated deviation in 2025 amounted to -1.9% of GDP Cumulated deviation in 2026 projected at -0.6% of GDP		Full Implementation
1.3 Make public finances fit to cope with rising structural spending needs including for defence, healthcare and social protection,	• Approval of the Law on the 2026 State budget and the Budgetary framework 2026, 2027 and 2028 by the Saeima. • Activation of the national escape clause for defence expenditure (NEC). Defence spending projected to reach 4.2% of GDP in 2026 (Commission Autumn 2025 Forecast). • Additional financing of 0.2% of GDP allocated to education and social protection (demography support measures in the 2026 Budget).		Limited Progress
1.4 such as by broadening taxation to sources less detrimental to growth,	• Increase of personal income tax rates on income from capital. • Introduction of temporary solidarity levy on credit institutions. • Increase in gambling tax, company car tax and excise duties on alcohol and tobacco. • Introduction of an additional 3% PIT rate on annual income	• Increase in excise duty rates on soft drinks. • Extension of the new natural resources tax to roundwood	Limited Progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessment of progress**
	exceeding EUR 200,000.		
1.5 moving informal or undeclared activities into the formal economy, and	• Introduction of mandatory e-invoicing in transactions with public institutions and phased rollout for B2B e-invoicing. • Increased publication of data on taxes paid by enterprises by the State Revenue Service.	• Ongoing implementation of the Shadow Economy Restriction plan (2024-2027).	Some Progress
1.6 redirecting expenditure to priority areas based on public spending reviews.	• Redirection of the savings generated in the spending reviews in the 2026 Budget towards government's key priorities.	• The requirement to prepare spending reviews to be expanded to local governments.	Some Progress
3.1 Simplify regulation, improve regulatory tools and reduce administrative burden on companies.	• Introduction of the "request-once" principle for data exchange. • Introduction of risk-based approaches and the "green corridor", providing accelerated administrative procedures. • Enhanced ex-ante and ex-post regulatory impact assessments, application of the proportionality principle, and continuous monitoring of administrative costs.	• Adoption of the public procurement reform strategy by the Parliament. The reform to public procurement is under discussion in the Parliament.	Substantial Progress
3.2 Improve access to finance for small and medium-sized enterprises, including by stimulating competition in the financial markets and promoting public lending and guarantee schemes to facilitate investments of strategic importance, in particular in the areas of the green transition, scaling-up and commercialisation of innovations, and regional development.	• Government initiatives to improve mortgage lending conditions for households. • Introduction of the Baltic Capital Market Acceleration Fund, which provides financing to businesses before and during the listing stage. • State and EU co-financed support mechanisms allocated through the State development financial institution ALTUM, including the public guarantee framework, large investments loan programme, new support for green transitions (centralized heating supply and biomethane production).	• A regulation to limit early repayment fees, aimed at promoting borrower mobility and enhancing competition. • A review of the strategy to activate capital markets. • Upcoming activities in the fields of innovation, economic resilience, military or dual-use products (The Growth and Protection fund to invest in the equity capital of Latvian companies; support programme '"ReARM'" for improving industrial capabilities).	Limited Progress
3.3 Facilitate private investment in research and innovation, including by pursuing further reforms in the higher education system to strengthen cooperation between businesses and academia.	• Introduction of a reform to include representatives of industry in the councils of universities. • Open calls for financing cooperation research projects between business and academia on the Research Innovation Platform.	• A regulation to help commercialization of products from science institutions is in progress.	Limited Progress
4.1 Reduce reliance on fossil fuels and increase	• Entry into force of the Transport Energy Law to achieve the	• Planned completion of several grid upgrade investments.	Some Progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessment of progress**
energy security	Renewable Energy Directive III targets in the transport sector. • Modest growth in solar capacity and production. • Successful synchronisation with Continental Europe electricity network. • Commissioning of two new energy storage systems.		
4.2 by accelerating the deployment of renewable energy, particularly wind and solar. Improve permit-granting procedures and electricity grid queue management,	• Higher uptake of solar energy. • Amendments to Electricity Market Law freed up 2 GW of booked capacity in the electricity grid. • One-stop-shop for permitting established, and overall permitting procedures slightly simplified.	• Ongoing work on mapping areas that could be designated as Renewable Acceleration Areas.	Some Progress
4.3 and promote energy storage, demand response and market-based flexibility solutions.	• Two battery energy storage systems commissioned. • Some regulatory amendments adopted to reduce administrative burden when deploying new storage capacity in hybrid (production-storage) renewable energy projects.		Some Progress
4.4 Reduce primary and final energy consumption, and carbon intensity by strengthening energy efficiency measures, especially in the buildings sector, and by promoting further electrification.	• Support schemes for energy efficiency in multi-apartment buildings, public buildings and in industry. • Regulatory measures to accelerate the renovation rate adopted (including revision of decision-making rules in multi-apartment buildings). • "Regulatory sandboxes" facilitating the use of waste heat and the uptake of heat pumps introduced. • Amendments to the Law on Pollution entered into force, covering transposition of ETS rules and other EU rules, and transposition of ETS2.	• Energy efficiency Law expected to be adopted later this year. • The Ministry of Economics is developing a new financial instrument for improving the energy efficiency measures in multi-apartment buildings and ensure the continuity of support.	Some Progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessment of progress**
4.5 Accelerate the decarbonisation of transport, especially road transport, by promoting the uptake of electric vehicles, the production and distribution of renewable transport fuels and the expansion of recharging infrastructure.	• Registrations of battery electric vehicles and plug-in hybrid electric vehicles increased; recharging points steadily increasing. • A study delivered in 2025 on the development and expansion of the electric charging stations along the TEN-T network. • New biomethane injection point constructed. • Entry into force of the Transport Energy Law as of 1 January 2026 to achieve the Renewable Energy Directive III targets in the transport sector. • Entry into force of the Amendments to the Law on Pollution, covering transposition of ETS rules and other EU rules, and transposition of ETS2. • Completion of the study on the viability of sustainable aviation fuel with Estonia.	• Ongoing works to deliver 100 km of electrified and modernised railways. • 9 Battery Electric Multiple Units (BEMUs) procured and expected to be delivered in 2029 with top-up option of 7 additional units. • Ongoing implementation of project "Modernization of Railway Passenger Infrastructure" covering works in 45 stations and stops. • Eight new mobility points to be completed by Rīga and Ādaži municipalities.	Some Progress
4.6 Increase resource efficiency and the transition to a circular economy through eco-innovation and sustainable resource management practices.	• Adoption of the National Action Plan "Towards a circular economy" in 2020.	• Ongoing discussions to amend existing framework on the Extended Producer Responsibility. However, the evaluation will take until October 2026.	No Progress
5.1 Address labour and skills shortages, in particular in science, technology, engineering and mathematics (STEM) and in other specialisations needed for the green transition, for research and for digitalisation, as well as in the social and healthcare sectors, including through targeted upskilling and reskilling and improved working conditions.	• Several different programmes underway (mainly under the ESF and the RRF) aiming to provide skills trainings. • 12 500 digital skills participants (of different levels) benefitted from the Individual Learning Accounts supported by the RRF. • Updating and upgrading Latvian State Employment Service's digital system for job-seekers profiling and vacancy matching, which has contributed to the reform on support provided to jobseekers, persons at risk of unemployment and employers in Latvia.	• Adoption of the Human Capital Development Action Plan in 2026. • Introduction of a mandatory exam in science for secondary and upper-secondary education cycles. • Swiss-Latvian Cooperation Programme project 'Stronger Work-Based Learning for Improving Vocational Education Training in Latvia' (to be finalised in 2029).	Some Progress
5.2 Strengthen social protection to reduce inequality, including by improving the adequacy of old-age pensions and the access to quality social services, notably home care, while maintaining fiscal sustainability.	• Allocation of 1 pp of mandatory pension contributions from the 2nd pillar to the 1st pillar for a limited period (2025-2028). • Pension indexation and reintroduction of supplements for certain age-groups. • Improvement of material support for families with children and for children in non-	• Revision of the minimum income thresholds used for, among others, determination of the national social security benefit, minimum pensions, and the guaranteed minimum income benefit.	Limited Progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessment of progress**
	family care. • Introduction of the single basket of minimum social services. • Additional funding for several services.		
5.3 Strengthen the adequacy and accessibility of the health system to improve health outcomes, including by providing additional human and financial resources, broadening the statutory benefits package and reducing out-of-pocket payments.	• Expansion of the list of reimbursable medicines and increasing the reimbursement rate of pharmaceuticals. • Additional funds for maternal and child health care, palliative care, and for GPs practising in rural areas. • Introduction of new nurse professions and increase in nurse competencies. • Introduction of the e-referral/single appointment system. • Measures aimed at promoting healthy behaviour, e.g. increase in the excise duty for tobacco.	• Adoption of a hospital network reform, aimed at increasing cross-country efficiency of hospital care.	Limited Progress
5.4 Increase the availability and quality of social and affordable energy-efficient housing, including through renovations.	• Projects on renovation and construction of social housing. • In the regions: low-rent dwelling construction, introduction of public-private partnerships for affordable housing and support for households to take a loan. • A support programme for energy efficiency. • Housing guarantee and subsidies.		Some Progress

Source: Latvia's reporting and Commission assessment

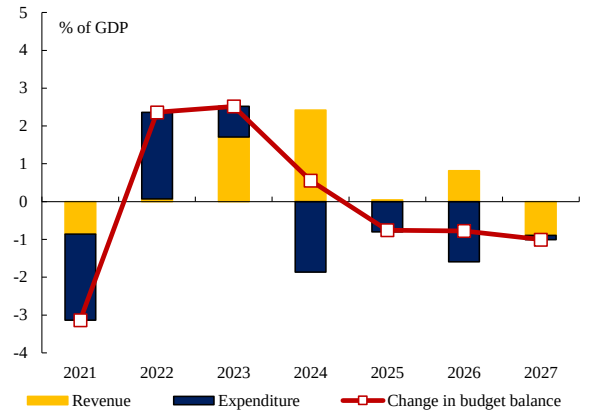
This annex discusses selected topics in public finance and developments in fiscal-structural country-specific recommendations (CSRs) addressed to Latvia in July 2025. These include a call to reinforce defence spending and readiness while implementing a fiscal strategy in line with the Council Recommendation of 21 January 2025. Latvia was also recommended to make public finances fit to cope with rising structural spending needs including for defence, healthcare and social protection. This would be achieved by i) broadening taxation to sources less detrimental to growth, ii) moving informal or undeclared activities into the formal economy and ii) redirecting expenditure to priority areas based on public-spending reviews.

On 21 January 2025, the Council adopted the Recommendation endorsing Latvia's medium-term fiscal-structural plan ([42]). The plan includes a fiscal adjustment over four years. On 8 July 2025, the Council also activated the national escape clause for Latvia in order to facilitate the transition to higher levels of defence spending ([43])([44]).

Developments in government balance, debt and public expenditure ([45])

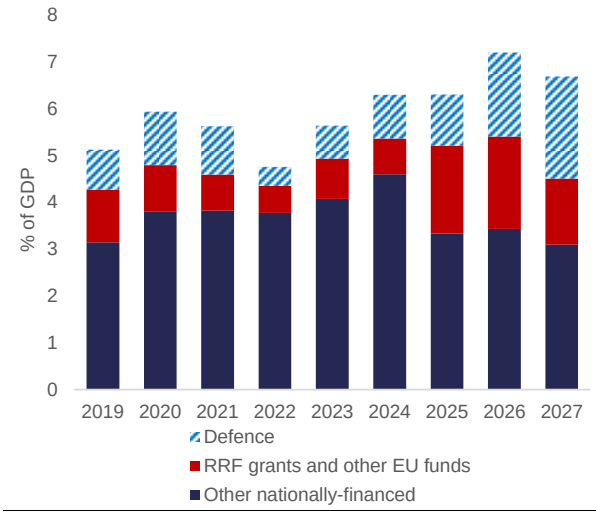
At the end of 2025, Latvia's government deficit amounted to 2.5% of GDP and the government debt-to-GDP ratio stood at 46.9%. Based on the Commission's Spring 2026 Forecast, Latvia's government deficit is projected to increase to 3.3% of GDP in 2026 and 4.3% of GDP in 2027. The forecast increase in deficit is driven by factors relating to revenue and expenditure. On the revenue side, the lingering effects of the personal income-tax reform on income-tax growth and property income; on the expenditure side, increased investment in defence, alongside with higher spending on social transfers and interest.

Graph A2.1: **Contributions to the change in the general government balance (% of GDP)**



Source: European Commission

Graph A2.2: **Public investment evolution and composition (% of GDP)**



Source: European Commission

Rising defence expenditure and EU funds are contributing to public investment growth over the medium term. Public investment is expected to reach 7.2% of GDP in 2026, up from 5.6% in 2021 (see Graph A2.2). Despite the phasing out of the Recovery and Resilience Facility (RRF), it is set to broadly stablise, as a result of national investment in defence increasing from 1.0% of GDP in 2021 to 2.2% in 2027.

([42]) OJ C, C/2025/652, 10.02.2025, ELI: EUR-Lex - 32025H00652 – EN – EUR-Lex.

([43]) OJ C, C/2025/3970, ELI: EUR-Lex - 32025H03970 – EN – EUR-Lex.

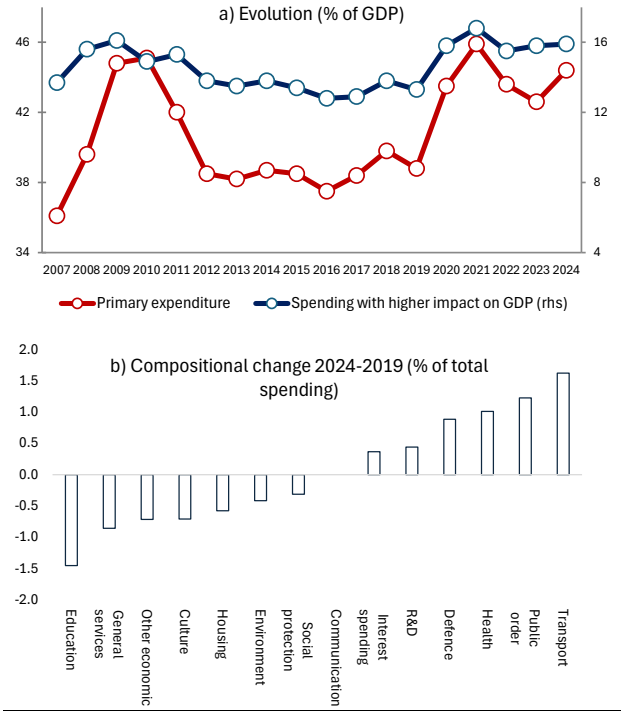
([44]) Compliance by Latvia with the maximum growth rates of net expenditure recommended by the Council is assessed in COM(2026)200.

([45]) Figures underpinning fiscal surveillance (net expenditure growth) are provided in the Fiscal Statistical Tables (SWD(2026)200) providing background data relevant for the assessment of the budgetary policies of the Member States.

Spending on defence is forecast to increase, but policy areas such as healthcare and social protection remain underfinanced. Latvia received a CSR in 2025 to make public finances fit to cope with rising structural spending needs, including for defence, healthcare and social protection. The current budget and the medium-term budgetary plan provide for higher debt-financed spending on defence but fall short of providing sufficient funding to address structural spending needs in healthcare and social protection. Total government expenditure on defence amounted to 3.2% GDP in 2025 and is forecast by the Commission to increase to 4.1% GDP in 2026 and 5.5% in 2027. In 2023, government spending on healthcare and social protection stood at only 5.3% and 13.5% of GDP, respectively - 1.9 percentage points (pps) and 5.7 pps below the EU average.

While expenditure with a higher impact on GDP remained broadly stable over three decades, it has increased slightly since 2019. This may be related to the impact of the RRF, which facilitates a more quality-based fiscal strategy. As regards the composition of spending, social protection accounts for the largest proportion of total expenditure (around 30%), followed by economic affairs ([46]), education, health and general public services, each accounting at least 10% of total spending. Since 2019, public expenditure on defence, transport, public order and health has risen sharply, with the increase in defence spending reflecting recent security developments (See Graph A2.3). Spending on R&D has risen more modestly. By contrast, spending on communication remains broadly stable while education expenditure has declined, a trend that deserves attention, as these categories are generally considered conducive to growth.

Graph A2.3: **Primary spending evolution and compositional change**



Based on economic literature, the categories considered to have the higher growth impact include education, research and development, health, transport and communication (See Barbiero and Cournede (2013), Gemmel et al. (2016), Lupu et al (2018), Cepparulo and Mourre (2020) and OECD (2025)).
Source: Eurostat.

Latvia's tax revenues remain relatively low in relation to its GDP. Despite an increase from 32.5% of GDP in 2023 to 34.6% of GDP in 2024, Latvia's tax revenues dropped to 34.2% of GDP in 2025 and are still below the EU aggregate of 39.9% of GDP in 2025([47]). In terms of sources of revenue, Latvia continues to rely heavily on consumption and labour taxes, whereas taxes on i) capital, including corporate income tax, ii) income from capital and iii) property play a smaller role compared to other Member States. Despite comparatively low revenues from labour taxes, the tax burden on Latvia's low earners was above the EU average in 2025 (see Annex 3).

([46]) This refers to the set of government activities, policies, and expenditures aimed at regulating, supporting, and developing economic activity across major sectors, including general economic and labour policies, agriculture and natural resources, energy, industry, construction, and other economic functions not elsewhere classified. Although transport and communication, as well as research and development activities, are normally considered part of this function, they are treated separately in the graph presented.

([47]) According to the Commission's Spring 2026 Forecast, tax revenue (total tax burden excluding imputed social security contributions) are projected to remain relatively stable at 34.6% of GDP in 2026 and increase to 35.0% of GDP in 2027

Table A2.1: **Supplementary pension schemes – Scope for expansion**

	Assets in 2024 (% GDP)	Gross replacement rate at retirement: (pps change 2025-2040)	Participation in 2024 (% working-age population)	
LV	24.3	*-19.7*	100.0	**LV**
EU	32.4	*-2.8*	55.9	EU

Source: European Commission.

Cost of ageing

Total age-related spending in Latvia is projected to fall by about 0.5 pps of GDP by 2040 and by around 1 pp by 2070 (see Table A2.2). This decline stems mainly from a projected fall in pension expenditure, which more than offsets an expected rise in public healthcare and long-term care spending. Public healthcare expenditure is projected at 5.3% of GDP in 2025 (below the EU average of 6.6%) and is expected to increase by 0.4 pps by 2040 and by a further 0.1 pp by 2070. Public expenditure on long-term care is projected at 0.5% of GDP in 2024 (below the EU average of 1.7%) and is expected to increase by 0.1 pp of GDP by 2040 and by a further 0.2 pps of GDP by 2070.

Public pension spending as a proportion of GDP is projected to decline by 0.5 by 2040 and by 1.5 pps in the long term. By 2070, public pension outlay is projected to account for around 5.5% of GDP, compared to an EU average close to 12%. In 2025, Latvia received a CSR to strengthen social protection with a view to reducing inequality; this includes improving the adequacy of old-age pensions, while maintaining fiscal sustainability. Recent measures to address this CSR include i) a gradual re-introduction of supplement payments (to be finalised by 2029), ii) annual pension indexations; iii) increased minimum pension amounts; (iv) and increased non-taxable minimum for pensioners.

Supplementary pension schemes can help the pension system to become more resilient, by diversifying the sources of retirement income. In Latvia, by the end of 2024, private pension fund assets amounted to around 25% of GDP. The whole of the working-age population participated in the supplementary schemes due to mandatory coverage of pillar II of the pension system ([48])([49]). While the public pension spending is set to decline by 0.5 pps of GDP by 2040, pension adequacy is expected to remain very low with a projected decline in the replacement rate by 20 pps between 2025 and 2040 (See Tables A2.1 and A2.2) ([50]). Pension adequacy may be improved with greater participation in voluntary savings funds, in particular the pillar III pension funds.

([48]) OECD (2025), Pension Market in Focus 2025. The highest participation rate in at least one supplementary pension plan is reported.

([49]) Stems from the current structure of the pension system which entails that participation in the pillar II is mandatory for people born after July 1, 1971.

([50]) Depending on data availability, (gross) replacement rate refers to both public and private pensions. Based on European Commission (2024), 2024 Ageing Report.

Table A2.2: **Projected change in age-related expenditure in 2025-2040 and 2025-2070**

	ageing-related expenditure	change in 2025-2040 (pps GDP) due to:					ageing-related expenditure	
		pensions	*healthcare*	*long-term care*	*education*	*total*		
LV	16.3	*-0.5*	*0.4*	*0.1*	*-0.3*	***##***	16.0	**LV**
EU	24.3	*0.5*	*0.3*	*0.4*	*-0.3*	***0.9***	25.2	EU

	ageing-related expenditure	change in 2025-2070 (pps GDP) due to:					ageing-related expenditure	
		pensions	*healthcare*	*long-term care*	*education*	*total*		
LV	16.3	*-1.5*	*0.5*	*0.3*	*-0.2*	***##***	15.4	**LV**
EU	24.3	*0.2*	*0.6*	*0.8*	*-0.3*	***1.3***	25.6	EU

Source: 2024 Ageing Report (EC/EPC).

National fiscal framework

Latvia's 2025 CSRs include a call to redirect expenditure to priority areas based on spending reviews. In previous budgetary cycles, the authorities have followed an approach whereby sectoral ministries identify savings in their sectors, which are then mostly reallocated to new priorities of the same sectoral ministries. Unlike in previous years, in the preparation of the 2026 budget, most of the savings identified in the spending reviews went towards financing the government's overarching priorities, namely security, financing of schools (i.e. increasing teachers' pay), social benefits for families with children and ensuring that children have the medical services and medicines they need. Latvia could benefit from institutionalising this practice in future budgets. Additionally, it could consider i) setting high-level objectives to improve the visibility and public acceptance of this exercise and ii) carrying out performance audits ([51]) with a view to providing stakeholders with an evaluation of the efficiency, effectiveness and economy of government programmes. The requirement to draw up spending reviews is currently being expanded to local governments.

Latvia is taking steps to implement performance-based budgeting and to 'tag' ([52]) the green budget. The Ministries of Finance, Economics and Transport have conducted pilots with a view to applying managerial accounting in the analysis of their services and developing relevant key performance indicators in areas such as accounting and auditing. In October 2025, a report on the first results of the pilot projects was delivered, primarily identifying potential efficiency gains rather than areas for cost savings and budgetary decision-making. In 2024, the Ministry of Finance conducted a green tagging assessment on its expenditure in the previous year, in accordance with Regulation (EU) 2020/852. In 2025, the scope of tagging was expanded to cover the entire expenditure of the State basic budget. This year the ministry intends to carry out an assessment of the 2025 State basic budget expenditure.

([51]) OECD (2023), Spending reviews: country fact sheets 2023.

([52]) This involves assessing each individual budget measure and giving it a "tag" according to whether it is helpful or harmful to green objectives. See section 6.2.2 of the 2025 Fiscal Risks Declaration.

Table A2.3: **Fiscal Governance Database Indicators and Public Accounting Maturity**

2024	Latvia	EU Average
Country Fiscal Rule Strength Index (C-FRSI)	13.22	14.81
Medium-Term Budgetary Framework Index (MTBFI)	0.78	0.72
2025 Public accounting maturity of general government	91%	65%

The Country Fiscal Rule Strength Index (C-FRSI) shows the strength of national fiscal rules aggregated at the country level based on i) the legal base, ii) how binding the rule is, iii) monitoring bodies, iv) correction mechanisms and v) resilience to shocks. The Medium-Term Budgetary Framework Index (MTBFI) shows the strength of the national MTBF based on i) coverage of the targets/ceilings included in the national medium-term fiscal plans; ii) connectedness between these targets/ceilings and the annual budgets; iii) involvement of the national parliament in the preparation of the plans; iv) involvement of independent fiscal institutions in their preparation; and v) their level of detail. A higher score is associated with higher rule and MTBF strength.
The score for public accounting reflects the degree of maturity in relation to the International Public Sector Accounting Standards (IPSAS). Countries with an accounting maturity of 70% or more in relation to IPSAS are deemed to apply accrual accounting. For more information, see the report on public accounting in the EU (COM(2025)746 and accompanying Staff Working Document SWD(2025)396).
Source: Fiscal Governance Database, European Commission

The Latvian national authorities have strengthened their climate-related risk assessments. In the 2025 Fiscal Risks Declaration ([53]), the Ministry of Finance included an assessment – using the Quantitative Climate Risk Assessment Fiscal Tool developed by the IMF – of the effects of climate change on the macroeconomic and fiscal indicators. The long-term assessment indicates that the impact of the speed of climate change adaptation on economic development, general government debt and the general government budget primary balance is significant and that work needs to be done to prevent more serious economic and fiscal consequences. Additionally, the Latvian fiscal discipline council (FDC) has been part of the multi-national project under the EU Technical Support Instrument launched in 2023 to help the FDC to be in a better position to integrate climate-change-related risks into its modelling framework for debt-sustainability analysis ([54]).

The FDC is a relatively small institution with a rather narrow mandate: **endorsing macroeconomic forecasts and monitoring compliance with fiscal rules.** It is not involved in any budgetary forecast assessments, but it is occasionally involved in long-term fiscal projections. The FDC considers that it has sufficient resources to fulfil its remit. It has a strong presence in traditional media and on social media, based on an explicit communication strategy.

([53]) Ministry of Finance (2025), Declaration of fiscal risks.

([54]) In 2024, the project conducted a literature review and drafted a conceptual framework while the next steps in 2025 included upgrading the debt-sustainability models of independent fiscal institutions to include climate risks and introducing newly developed debt-sustainability models.

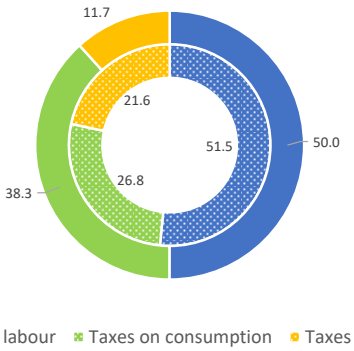
This annex provides an indicator-based overview of Latvia's tax system. It includes information on the tax mix, tax burden, competitiveness of the tax system, as well as fight against shadow economy. In the area of taxation, the 2025 country-specific recommendations recommended Latvia to broaden taxation to sources less detrimental to growth and to move informal or undeclared activities into the formal economy.

Latvia's tax revenues still remain relatively low in relation to its GDP. Despite an increase from 32.5% of GDP in 2023 to 34.9% of GDP in 2024, Latvia's tax revenues are still below the EU aggregate of 39.4% of GDP in 2024. Revenues from labour taxation increased from 16.2% in 2023 to 17.5% of GDP in 2024. Revenues from environmental taxes at 2.5% of GDP in 2024 exceeded the EU average of 2.1% in 2024. Revenues from capital taxation at 4.1% of GDP are less than a half of the EU average of 8.5% in 2024. Revenues from taxation of property at 1.0% of GDP, and from recurrent taxes on immovable property at 0.6% of GDP, are significantly below the EU average but the highest among the Baltic States and one of the highest in Eastern Europe.

Several changes in the field of taxation entered into force in 2026. Regarding labour taxation, the personal income tax non-taxable minimum has increased by EUR 40, reaching EUR 550, accompanying an increase in the minimum wage from EUR 740 to EUR 780. As of 1 July 2026, a reduced VAT rate of 12% will be applied to certain basic food products – bread, milk, poultry and eggs. In 2026, the gambling tax rates have been raised, and excise duty rates have increased for petroleum products, alcoholic beverages, tobacco products and natural gas.

Latvia's corporate tax system remains highly competitive. Effective corporate income tax rate is relatively low in Latvia: 16.5% in 2024, compared to 19.3 on EU average. Since the Latvian corporate income tax system only taxes distributed earnings, companies can reinvest their profits tax-free. This, among other features, contributes to Latvia ranking second overall on the 2025 International Tax Competitiveness Index, the same as in 2024 ([55]). However, Latvia's network of tax treaties includes only 63 countries, a relatively low number to lower tax complexity. While the structure of the tax regulations is very efficient, there might be some room for improvement in areas related to the tax processes carried out by the tax authorities, such as audits ([56]).

Graph A3.1: **Tax revenue by economic function in 2024, LV (outer ring) and EU-27 (inner ring)**



Source: Taxation Trends Data, DG TAXUD

In 2025, Latvia's labour tax burden was higher than the EU average for low earners. The labour tax wedge ([57]) for Latvia in 2025 exceeded the EU average for single people earning the average wage or less. For instance, it was 35% for single workers earning 50% of the average wage, as compared to 31.6% in the EU average. The tax wedge above the average wage was slightly below the EU average (see Graph A3.2). This means that labour taxation in Latvia is somewhat less progressive than in the EU on average. This is also reflected in the high income inequality and the relatively low effect of taxes and social transfers on inequality. In 2024, these programmes reduced the Gini coefficient of income inequality by 5.5 points in Latvia as

([55]) Tax Foundation (2025), International Tax Competitiveness Index 2025.

([56]) European Commission (2025), Mind the Gap.

([57]) The tax wedge is an indicator of the tax burden on labour that can be assessed at various levels of earnings. It is defined as the sum of personal income taxes, employee and employer social-security contributions and other mandatory contributions, expressed as a percentage of total labour costs (the sum of the gross wage and social-security contributions paid by the employer). Tax wedge data in the 2026 country reports are calculated by the Joint Research Centre of the European Commission and based on the EUROMOD model, while in the past country reports they were based on the OECD tax and benefit model. While the underlying methodology is very similar, differences in the assumptions can lead to different results between both models.

Table A3.1: **Taxation Indicators**

		Latvia					EU-27				
		2019	2022	2023	2024	2025	2019	2022	2023	2024	2025
Tax structure	Total taxes (including compulsory actual social contributions) (% of GDP)	32.4	32.8	32.5	34.9		39.9	39.7	39.0	39.4	
By tax base	Taxes on labour (% of GDP)	15.5	15.7	16.2	17.5		20.6	20.1	19.9	20.3	
	of which, social security contributions (SSC, % of GDP)	9.8	10.0	10.2	11.0		13.0	12.7	12.7	13.0	
	Taxes on consumption (% of GDP)	14.0	14.2	13.3	13.4		11.2	10.9	10.5	10.6	
	of which, value added taxes (VAT, % of GDP)	9.0	10.1	9.5	9.5		7.1	7.4	7.1	7.1	
	Taxes on capital (% of GDP)	3.0	2.9	3.0	4.1		8.1	8.7	8.5	8.5	
Some tax types	Personal income taxes (PIT, % of GDP)	6.7	6.3	6.4	7.1		9.6	9.4	9.3	9.6	
	Corporate income taxes (CIT, % of GDP)	0.6	1.1	1.4	2.0		2.6	3.2	3.2	3.1	
	Total property taxes (% of GDP)	1.1	0.9	0.8	1.0		2.2	2.1	1.9	1.8	
	Recurrent taxes on immovable property (% of GDP)	0.8	0.6	0.6	0.6		1.2	1.0	0.9	0.9	
	Environmental taxes (% of GDP)	3.2	2.4	2.4	2.5		2.6	2.1	2.1	2.1	
	Effective carbon rate in EUR per tonne of CO_2 equivalents	na	na	62.2	na		na	na	84.8	na	
Progressivity & fairness	Tax wedge at 50% of average wage (single person) (*)	38.3	36.3	34.6	35.9	35.0	32.4	31.6	31.5	31.5	31.6
	Tax wedge at 100% of average wage (single person) (*)	42.6	41.4	41.4	42.3	40.5	40.1	39.7	39.9	39.9	40.0
	Effective corporate income tax rates (1) (*)	16.5	16.5	16.5	16.5		20.0	19.2	19.0	19.3	
	Difference in Gini coefficient before and after taxes and cash social transfers (pensions excluded from social transfers) (2) (*)	5.5	5.5	5.5	5.5		7.8	8.0	7.9	7.8	
Tax administration & compliance	Outstanding tax arrears: total year-end tax debt (including debt considered not collectable) / total revenue (in %) (*)	8.7	7.0	6.2	na		31.8	32.6	30.7	na	
	VAT gap (% of VAT total tax liability, VTTL) (**)	10.1	2.0	5.4	5.3		10.5	7.3	8.2	na	

(1) Forward-looking effective tax rate (KPMG).
(2) A higher value indicates a stronger redistributive impact of taxation.
(*) EU-27 simple average.
(**) Forecast value for 2024. EU-27 refers to the median value. For more data on tax revenues as well as the methodology applied, see the Data on Taxation Trends webpage.
Source: European Commission, OECD, ISORA.

compared with 7.8 for the EU-27 (see Table A3.1, see also Annex 12).

The tax reform of 2025 decreased the tax burden for most low- and medium-income taxpayers. The reform simplified the tax system by introducing two progressive income-tax rates (25.5% for annual earnings up to EUR 105 300 and 33% for other incomes) and a uniform non-taxable minimum of EUR 510. It resulted in a reduced tax wedge as compared to 2024 at all earnings levels between 50% and 167% of the average wage, with the most significant decrease (of about 1.8 pps) occurring close to the average wage (Table A3.1). The introduction of a non-taxable minimum for pensioners of EUR 1 000 per month substantially decreased the tax burden for this social group. The reform also increased the tax rate on income from capital to match the personal income tax rate. The large fiscal costs of the tax reform were partially compensated by shifting one percentage point of social contributions from the second to the first 'pillar' of the pension system from 2025 until 2028 and introducing temporary solidarity contribution on banks' net interest income.

Tax expenditures are widely used in Latvia with considerable budgetary implications. There are currently more than 300 different tax incentives (credits, allowances, deductions, exemptions, reduced rates and tax deferrals) in Latvia. In 2023, the total estimated government revenue foregone from tax expenditures amounted to EUR 3 113.5 million, representing 8.0% of GDP and 23.2% of total tax revenues analysed ([58]).

Latvia is a good performer among EU Member States regarding the VAT compliance gap. Its VAT compliance gap of 5.4% (EUR 220 million) was well below the EU average of 9.5% in 2023 ([59]). Latvia assesses the gap of personal income tax (PIT) from labour and the gap of Social Security Contributions (SSC). In 2024, the PIT gap was estimated at 15.8%, following a decreasing trend. The PIT gap decreased by 5.5 percentage points against 2020 (the PIT gap was 21.3% in 2020 and 2021, 20.6% in 2022 and 15.8% in 2023). The SSC gap also decreased by 4 percentage points in the same timeframe. It was 17.8% in 2020, 18% in 2021, 17.5% in 2022, 14.6% in 2023 and 13.8% in 2024 ([60]). Latvia

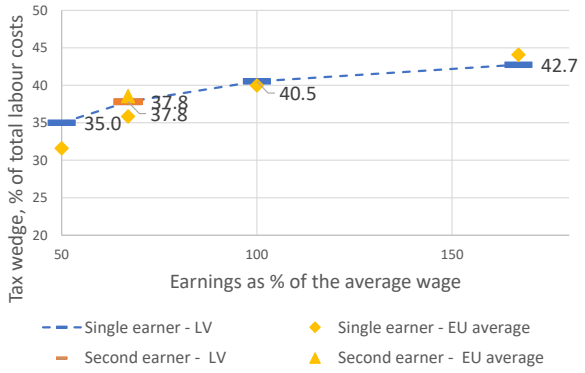
([58]) European Commission (2025), Mind the Gap.

([59]) European Commission (2025), VAT Gap in Europe.

([60]) State Revenue Service (2025), Undeclared wages ("envelope wages") for those working in the general tax regime and the tax gap it creates in 2024.

does not publish any information on other possible compliance tax gaps.

Graph A3.2: **Tax wedge for single and second earners as a percentage of total labour costs, 2025**



The second earner tax wedge assumes a first earner at 100% of the average wage and no children. For the methodology of the tax wedge for second earners, see OECD (2016), Taxing Wages 2014-2015.

Source: European Commission.

The size of Latvia's shadow economy continues to decrease. Surveys of company owners and managers indicate that Latvia's shadow economy was equivalent to 21.4% of its GDP in 2024 (a decrease from 22.9% in 2023). The biggest component of the shadow economy is the underreporting of salaries (estimated to account for 50% of Latvia's shadow economy), with an average of 20.7% of total salaries being paid informally ('envelope wages'). The construction (33.8%) and retail (26.2%) sectors had the highest estimated shares of shadow activity in 2024 ([61]).

Latvia is taking measures to improve tax compliance. These include a phased-in rollout of mandatory e-invoicing in transactions with public institutions (from 1 January 2025) and in business-to-business transactions (from 2028). The Latvian State Revenue Service (SRS) is continuing to develop the taxpayer rating system, introduced in 2024 as a measure under the recovery and resilience plan, to better detect non-payment or evasion of taxes, and to encourage voluntary compliance. The SRS received support from the EU's Technical Support Instrument for the production and implementation of the SRS 2023-2026 medium-term operational strategy to maintain focus on reducing the shadow economy while improving tax compliance. Collection costs have decreased steadily from 2023 to 2025, while revenue collected per employee involved in collection activities was boosted.

E-filing rates of tax returns are high and above the EU average. According to 2023 data, 100% of corporate income tax returns are filed electronically compared to the EU average of 97.1%. 100% of VAT returns are also filed electronically, compared to the EU average of 99.2%. Moreover, 94.9% of personal income tax returns are submitted electronically, above the EU average of 87.1%.

Tax arrears in Latvia are below the EU average and have decreased in recent years. As of 1 January 2025, the general budget payments administered by the SRS amounted to EUR 844.3 million. The closing stock of tax arrears at year-end in Latvia was nearly halved over 2018-2023, with 6.2% of total net revenue in 2023, 24.5% below the EU average, 40.6% of which were deemed collectable. Total tax arrears have decreased by EUR 18.1 million or 2.1% against 1 January 2024. The biggest decrease was by EUR 30.1 million for VAT debts, while tax debts on labour increased by EUR 39.55 million or 8.5% ([62]).

([61]) Stockholm School of Economics (2025), Shadow Economy Index for the Baltic Countries 2009–2024.

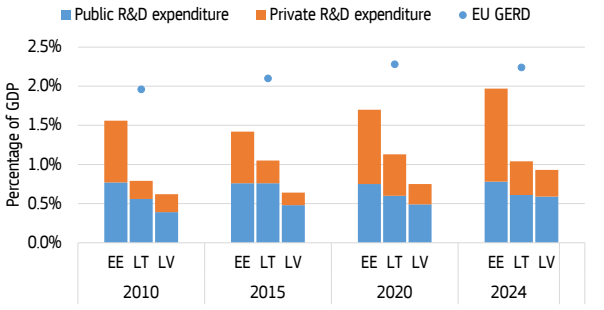
([62]) European Commission (2025), Mind the Gap.

Latvia's innovation performance remains low and is held back by underinvestment. According to the 2025 edition of the European Innovation Scoreboard ([63]), Latvia's innovation performance stands at only 56.7% of the EU average. Due to a very low R&D intensity, its innovation performance has improved at a relatively slow rate and is falling further behind the EU. Although R&D intensity increased to 0.92% of GDP in 2024 (from 0.81% in 2022), this is still only 40% of the EU average (2.24%), below that of the other Baltic countries (see Graph A4.1), and below Latvia's own target of 1.5% ([64]). Latvia has one of the lowest levels of business expenditure on R&D (BERD) in the EU (0.34% of GDP compared with the EU average of 1.49%). This low level of private research and innovation (R&I) investment, combined with weak business–academia cooperation and skills shortages, poses persistent challenges to innovation performance, as indicated in the 2025 country-specific recommendations (CSRs) ([65]). Latvia continues to lag behind the EU in the uptake of advanced digital technologies, despite recent progress in SME digital intensity and the rollout of targeted policy and skills initiatives.

Excellent science

Latvia's public research sector is underdeveloped, despite some reform efforts. The quality of its research outputs lags significantly behind the EU average, as evidenced by the proportion of its scientific publications featured in the top 10% most-cited globally. In 2022, Latvia's share was 4.93%, compared with 9.44% in the EU, and has been further decreasing in recent years. This is partly due to sustained underfunding of the public research system, which has remained below the EU average, despite some increases thanks to contributions from the Recovery and Resilience Facility (RRF) and cohesion policy ([66]). Continued commitment from the national budget is needed to maintain the upward trend in the public R&D investment level beyond the duration of the RRF. The recent university consolidation ([67]), also part of the RRF, has strong potential to tackle fragmentation and improve efficiency. However, its effects are yet to be observed, necessitating ongoing monitoring and evaluation. Additionally, stronger performance-linked funding mechanisms for research institutions, envisaged in the upcoming reform under the RRF (see Annex 13). This could help increase excellence and promote international collaboration ([68]), contributing to addressing the 2025 CSR.

Graph A4.1: **R&D intensity in the Baltic countries**



Source: Eurostat

Government support for research and innovation is fragmented. Historically, Latvia's fragmented R&I governance system has led to unpredictable funding and hindered the full development of research ideas and the creation of a conducive working environment for researchers ([69]). To advance its R&I system and

([63]) European Commission (2025), European Innovation Scoreboard: Latvia. The EIS provides a comparative analysis of innovation performance in EU countries, including the relative strengths and weaknesses of their national innovation systems (also compared to the EU average).

([64]) The target of 1.5% of GDP is set for GERD in Latvia's 2021-2027 national development plan: National Development Plan of Latvia 2021-2027.

([65]) 2025 country specific recommendation: "Facilitate private investment in research and innovation, including by pursuing further reforms in the higher education system to strengthen cooperation between businesses and academia."

([66]) As measured in public R&D expenditure as % of GDP. Latvia's figure stood at 0.59% in 2024, up from 0.52% in 2023 (EU average: 0.72%).

([67]) Latvia consolidated seven higher education institutions into five other institutions and carried out internal reorganisations. This reduced both the number of higher education institutions and the number of departments within them. Moreover, two scientific institutes were merged into two others, also reducing the number of research organisations.

([68]) OECD (2022), Economic Surveys: Latvia.

([69]) European Commission (2018), The Latvian Research Funding System.

improve policy coordination, Latvia introduced a new governance model under the RRF and established the Innovation & Research Council ([70]). While this constitutes significant progress, consolidating the governance model and strengthening links between the levels of governance could make Latvia better able to foster an ecosystem and whole-of-government approach to R&I policymaking. Stronger strategic coordination and planning could facilitate the implementation of initiatives aimed at an innovation lifecycle approach, including follow-on funding and plug-in schemes ([71]).

Business innovation

Latvia's innovation potential remains underdeveloped, characterised by low productivity and a reliance on low-tech industries. Business expenditure on R&D is one of the lowest in the EU, at just 0.34% of GDP in 2024 (see Graph A4.1), well below the EU average of 1.49% in 2024. This is compounded by the limited presence of high-tech sectors, as many multinational firms conduct R&D operations in other EU countries ([72]). Latvia offers limited targeted public R&D support to businesses, mostly in the form of direct funding ([73]). This has, however, remained at a low level ([74]) and is insufficient to promote more innovation activity in the private sector. These factors contribute to weak innovation outcomes, evidenced by only 1.31 patent applications per billion GDP in 2022 (EU average: 2.81) and a scarcity of researchers working in businesses ([75]). This state of affairs underlines the need for higher levels of private R&I investment, in line with the 2025 CSR. To stimulate broader R&D engagement, Latvia could consider expanding funding volumes by introducing indirect incentives, like refundable tax credits and innovation vouchers, and by leveraging innovation procurement, all supported by an enhanced monitoring framework. Additionally, grants could be strategically designed to build capacity and encourage future innovation, such as by requiring private co-financing or mandating the employment of researchers ([76]).

Science-business collaboration is gradually improving, although continued improvement will depend on sustained support for applied and collaborative research. There is limited engagement between the business sector and academia, as evidenced by the relatively low level of contractual research ([77]) and other indicators ([78]). Businesses cite complicated and lengthy procedures for entering into contracts with public research institutions as well as a lack of interest from researchers, reflecting an underdeveloped research base and insufficient incentives for researcher engagement ([79]). Although funding calls for public–private research exist, such as the Innovation Fund research programme ([80]), they have been inconsistent and overly dependent on EU funding. More predictable funding and stronger support is also needed from

([70]) The model consists of the coordination of three levels: operational, strategic management and political. The RIS3 Steering Boards bring together the private sector and policymakers in thematic areas at the operational level. At the strategic level, the Innovation and Research Governance Council coordinates implementation between the relevant ministries and agencies to align funding programmes. The Council also forms the political level. This includes ministers, representatives of entrepreneurs and scientists, and provides policy recommendations.

([71]) OECD (2024), Economic Surveys: Latvia.

([72]) Added value in high-tech and medium-high-tech manufacturing accounts for only 3% (EU average: 6.8%), while low to medium-low tech manufacturing accounts for 87% of the total manufacturing labour force. Source: Eurostat.

([73]) OECD (2024), Economic Surveys: Latvia.

([74]) As indicated by the business enterprise expenditure on R&D (BERD) financed by the public sector (national and abroad). In 2022 this stood at 0.03% of GDP (EU average: 0.1%).

([75]) Researchers employed by businesses make up only 1.4 per thousand active population (EU average: 7.0).

([76]) OECD (2022), Economic Surveys: Latvia.

([77]) Measured by the public expenditure on R&D financed by business. This stands at 0.04% of GDP in Latvia, while the EU average was 0.06% in 2024.

([78]) The Global Innovation Index identifies Innovation linkages as a weakness for Latvia: Global Innovation Index 2025. Innovation at a Crossroads.

([79]) See among others: OECD (2021), Innovation Diffusion in Latvia. Researchers rely heavily on grant funding and often move between projects without focusing on commercialisation.

([80]) The Innovation Fund research programme was launched in 2024 and created a platform in two thematic areas for businesses to express their research needs and connect to researchers. Its budget is uncertain, as it needs a new commitment for each three-year budgeting period. Research Latvia: The long-term research program will develop at least 45 technologies until 2032.

intermediary structures such as technology transfer offices. In line with the 2025 CSR on further reforms in the higher education system to strengthen cooperation between business and academia, Latvia is preparing a research commercialisation regulation, expected in 2026. This will aim to remove some administrative barriers hindering tech transfer. Moreover, the higher education reform included in the recovery and resilience plan (see Annex 13) consists of increasing the performance-based funding of universities. This could include incentives for researchers and institutions to engage in commercial and public–private collaboration, and the increase of private-sector representation in scientific university governance. These reforms in preparation have the potential to boost business–academia linkages and research commercialisation ([81]). Other positive signals could come from the Latvian defence industry and innovation strategy ([82]). The strategy aims to catalyse defence R&I and create a EUR 50 million Defence Innovation Fund, with the potential to strengthen science-business linkages in the sector.

Latvia is falling behind in the adoption of advanced digital technologies. While the share of Latvian SMEs with at least basic digital intensity has increased markedly in recent years (58.54% in 2025), it still lags well behind the EU average of 71.39%. Additionally, AI adoption among Latvian enterprises remains limited at 12.21%, while 37.80% have adopted cloud services and 36.37% use data analytics. All three figures remain below the EU averages, which stand at 19.95% for AI, 46.69% for cloud, and 39.85% for data analytics. To address this, Latvia has introduced a range of education- and skills-focused measures under its Digital Decade roadmap and the RRF, targeting thousands of SME employees and businesses. Policy efforts have been strongest in cloud and data analytics, through participation in the Important Project of Common European Interest on Next Generation Cloud Infrastructure and Services (IPCEI-CIS) and broader SME digitalisation measures. At the same time, AI adoption – despite rapid recent growth and an emerging legal and governance framework – continues to suffer from insufficient investment. Overall, targeted and scaled-up support for SME digital uptake remains crucial to strengthening Latvia's economic growth.

Entrepreneurial dynamism

The Latvian start-up ecosystem is growing slowly despite further needs in financing. Latvia has 512 start-ups, with 50 new ones registering each year on average ([83]), a rate lower than in the other Baltic countries ([84]). This can be attributed to fragmented and low financial support. While incubators and accelerators offer training and mentoring, they provide limited financial support at pre-seed level. This is exacerbated by banks' reluctance to lend to SMEs (see Annex 5). ALTUM ([85]) and the Latvian Investment and Development Agency have a number of programmes investing in start-ups (innovation vouchers, funding for export activities) but these are smaller investments and not suited for scale-ups. Many programmes provide no or limited prefinancing, which is suboptimal for start-ups. Overall, the start-up ecosystem continues to face a significant shortage of venture capital, with current levels at roughly a sixth of the EU average ([86]). Most funding is concentrated in early-stage ventures (31.1% of venture capital vs an EU average of 8.2%), while late-stage capital is scarce (21.1% of venture capital vs 43.4% EU average), hindering the scaling of innovative businesses ([87]) (see Annex 6). A positive development is the gradual shift away from reliance on government funding, as the portion of state-backed capital now aligns more closely with levels in other Baltic countries ([88]).

The regulatory conditions are promising for start-ups. The law on aid for start-up

([81]) OECD (2022), Economic Surveys: Latvia and OECD (2024), Economic Surveys: Latvia.

([82]) Ministry of Defence, Defence Industry and Innovation Strategy 2025-2036.

([83]) Latvian Startup Association, Latvian Startup Report 2024.

([84]) Estonia has approximately 1 551 start-ups and Lithuania more than 1 100. See Startup Estonia and Ministry of the Economy and Innovation of the Republic of Lithuania.

([85]) Financial investment institution owned by the Latvian State.

([86]) Latvia's average was 0.01% of GDP in 2024 (EU average: 0.06%).

([87]) OECD (2021), Innovation Diffusion in Latvia.

([88]) From 2018 to 2023, government funding still accounted for 27% of capital raised; in 2023 the figure was 20%. See: KPMG, LTVC, LVCA, ESTVCA (2023), Venture Capital Market Overview 2023.

companies ([89]) provides favourable income tax options for start-up employees, and employee stock options are taxed as capital gains. While registering new firms and insolvency is becoming faster and easier, the administrative burden for obtaining permits in certain fields remains (see Annex 5). Through the 2022–2025 start-up ecosystem development strategy ([90]), Latvia has reduced some administrative burdens, provided training and funding for start-ups and created the 'Startup House' to bring the ecosystem together. Looking ahead, ambitious commitment and holistic planning would signal continued support and further develop the Latvian start-up ecosystem. Latvia could consider setting targets to implement best practices to signal commitment to start-ups ([91]).

The lack of talent limits Latvia's research and innovation outputs, including the development of innovative companies. Both the public and private sectors employ fewer researchers than the EU average (3.2 and 1.6 per thousand active population respectively in 2024; respective EU averages: 5.9 and 4.3). Latvia also ranks in the bottom third in the OECD Indicators of Talent Attractiveness for highly skilled workers ([92]). This limits Latvia's capacity to absorb R&I funding, restricts innovation output capacity and undermines long-term growth ([93]). While the new doctoral model introduced under the RRP is increasing the number of doctoral students (229 doctoral graduates in 2024 compared with 120 in 2020 ([94]), it would have a greater impact if coupled with improved researcher working conditions, the creation of permanent positions, and stable funding. Attracting researchers from abroad through specific programmes and lowering barriers to skilled migration could also alleviate high-skilled labour shortages ([95]). The number of science and engineering graduates (8.64 per thousand active population) is well below the EU average (16.82), further exacerbating the low availability of skilled staff, cited by companies as one of the main barriers to investment ([96]) (see Annexes 11 and 13). The start-up visa is in line with the start-up and scale-up strategy's recommendation ([97]) to attract founders but is underused. It might be strengthened by promoting it abroad or extending it to start-up employees in fields facing labour shortages.

Latvia has prioritised entrepreneurship education at the national level. The Education Development Guidelines ([98]) represent a national educational strategy that encompasses all forms and levels of education, including vocational education and training (VET). The current guidelines for 2021-2027 highlight the need to increase learners' capacities for innovation, entrepreneurial skills, digital literacy, and creativity. Similarly, the State General Secondary Education Standard ([99]) prioritises the development of entrepreneurship as one of six transversal skills. The newly implemented competence-based curriculum allows for more flexible and innovative teaching methods, emphasising cross-cutting skills. Concurrently, the Digital Transformation Guidelines for 2021-2027 ([100]) advocate for the integration of digital skills into entrepreneurship education, thereby aligning educational outcomes with modern business needs. Despite the positive developments in entrepreneurship education, challenges persist, including cultural barriers linked to fear of failure and resource constraints (see Annex 13).

([89]) Law on Aid for Start-up Companies.

([90]) Ministry of Economics (2020), Strategy for the development of the start-up ecosystem.

([91]) The European Startup Nations Alliance standards can provide good examples for such targets.

([92]) OECD (2023), Talent Attractiveness 2023.

([93]) OECD (2024), Economic Surveys: Latvia.

([94]) 3 223 doctoral students enrolled, 229 doctoral graduates and 800 new entrants in 2024, see Central Statistical Bureau of Latvia.

([95]) OECD (2022), Economic Surveys: Latvia and OECD (2024), Economic Surveys: Latvia.

([96]) Availability of skilled staff is cited as an obstacle to investment by 91% of Latvian companies. This was the second highest figure in the EU and the second highest response for Latvian companies behind uncertainty about the future. See European Investment Bank (2025), Investment Survey 2025.

([97]) European Commission (2025), EU Startup and Scaleup Strategy.

([98]) Education Development Guidelines 2021-2027.

([99]) Regulations Regarding the State General Secondary Education Standard and Samples of General Secondary Education Programmes

([100])Ministry of Smart Administration and Regional Development (2020), Latvian Digital Transformation Guidelines for 2021-2027.

Table A4.1: **Key innovation indicators**

Latvia	2010	2015	2020	2022	2023	2024	2025	EU average (1)	USA
Headline indicator									
R&D intensity (gross domestic expenditure on R&D as % of GDP)	0.62	0.64	0.76	0.81	0.82	0.92	:	2.24	3.44
Science and innovative ecosystems									
Public expenditure on R&D as % of GDP	0.39	0.48	0.49	0.52	0.52	0.59	:	0.72	0.64
Scientific publications of the country within the top 10% most-cited publications worldwide as % of total publications of the country	4.11	8.68	4.85	4.93	:	:	:	9.44	12.31
Researchers (FTEs) employed by public sector (Gov+HEI) per thousand active population	3.1	3.1	3.5	3.3	3.1	3.2	:	4.3	:
International co-publications as % of total number of publications	31.52	36.30	51.26	48.73	48.07	52.52	:	57.24	:
R&D investment & researchers employed in businesses									
Business enterprise expenditure on R&D (BERD) as % of GDP	0.23	0.16	0.26	0.29	0.30	0.33	:	1.49	2.69
Business enterprise expenditure on R&D (BERD) performed by SMEs as % of GDP	0.13	0.13	0.15	0.12	0.11	:	:	0.47	0.30
Researchers employed by business per thousand active population	0.6	0.6	0.9	1.4	1.5	1.6	:	5.9	:
Innovation outputs									
Patent applications filed under the Patent Cooperation Treaty per billion GDP (in PPS €)	0.77	1.27	1.47	1.31	:	:	:	2.81	2.20
Employment share of high-growth enterprises measured in employment (%)	:	:	:	1.44	1.43	:	:	0.87	:
Digitalisation of businesses									
SMEs with at least a basic level of digital intensity % SMEs (EU Digital Decade target by 2030: 90%)	:	:	:	:	48.19	:	58.54	71.39	:
Data analytics adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	36.87	:	36.37	39.85	:
Cloud adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	29.04	:	37.80	46.69	:
Artificial intelligence adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	4.53	8.83	12.21	19.95	:
Academia-business collaboration									
Public-private scientific co-publications as % of total number of publications	5.63	6.62	7.44	8.98	8.41	9.04	:	7.62	:
Public expenditure on R&D financed by business enterprises (national) as % of GDP	0.05	0.05	0.04	0.07	0.04	:	:	0.06	0.02
Public support for business innovation									
Total public-sector support for BERD as % of GDP	:	0.06	:	0.04	:	:	:	0.21	:
R&D tax incentives: foregone revenues as % of GDP	0.00	0.00	0.00	:	:	:	:	0.10	:
BERD financed by the public sector (national and abroad) as % of GDP	:	0.06	:	0.04	:	:	:	0.11	:
Financing innovation									
Venture capital (market statistics) as % of GDP (calculated as a 3-year moving average)	0.016	0.023	0.015	0.023	0.019	0.010	:	0.063	:
Seed stage funding share (% of GDP)	0.000	0.003	0.003	0.005	0.004	0.003	:	0.005	:
Start-up stage funding share (% of GDP)	0.009	0.015	0.012	0.016	0.013	0.005	:	0.030	:
Later stage funding share (as % of GDP)	0.007	0.004	0.000	0.003	0.003	0.002	:	0.027	:
Innovative talent									
New graduates in science & engineering per thousand population aged 25-34	:	9.73	8.44	8.30	8.64	:	:	16.82	:
Graduates in the field of computing per thousand population aged 25-34	:	2.68	2.65	3.17	3.76	:	:	3.84	:

EU average for the last available year or the year with the highest number of country data.
* break in series
Source: Eurostat, OECD, DG JRC, Science-Metrix (Scopus database), Invest Europe, European Innovation Scoreboard

The Latvian economy faces several structural challenges which have hampered convergence in recent years. The 2025 country-specific recommendations (CSRs) called for measures to strengthen Latvia's competitiveness by removing obstacles for small and medium-sized enterprises (SMEs), such as skills mismatches and labour shortages, as well as constraints in access to finance, particularly for SMEs. Moreover, Latvia was called on to simplify regulation and reduce the administrative burden on businesses. Low levels of innovation, accompanied by severe labour shortages and difficulties accessing finance affect all sectors, especially SMEs. Despite significant advances in digitalisation to improve the administrative and regulatory environment, it remains burdensome for many companies. Recent reforms bring a positive outlook. Connectivity infrastructure lags behind EU standards, and creates barriers for businesses, especially in rural areas. Addressing these issues can support the Latvian business sector in transitioning from lower-technology, labour-intensive industries towards higher-value-added ones.

Business dynamics

Business dynamism is high but skewed towards high entry levels, pointing to weak allocative efficiency. With a business birth rate of 12.89% (vs an EU average of 10.46%) and death rate of 6.23% (vs an EU average of 8.61%) the Latvian business sector exhibits a comparatively high churn rate (19.11% vs an EU average of 18.97%). This is driven by particularly high business entry rates, suggesting low formal barriers to entry ([101]). However, the IMF points to low corporate insolvency rates and costly insolvency procedures for small firms, which can slow effective exit and delay the reallocation of resources towards more productive firms. This combination may weaken the productivity effects of firm turnover ([102]).

SMEs play a central role in Latvia's economy, but their recent performance has weakened. In 2024, SMEs accounted for 99.8% of enterprises, employed 76.4% of the workforce and generated 71.7% of value added in the non-financial business sector ([103]). SME employment declined by 1.3% in 2024, following a sharper contraction in 2023, while inflation-adjusted SME value added fell by 3.7%, reversing the modest recovery observed a year earlier. The downturn was most pronounced among micro and small firms, whereas medium-sized enterprises showed greater resilience in employment but recorded a stronger decline in real value added (–8.2%). SME activity is expected to recover gradually in 2025, with employment projected to increase by 0.3% and real value added by 1.5%, driven mainly by information and communication activities, where SME employment and value added are forecast to grow by more than 4% ([104]).

The growing social economy is fostering innovation and creating jobs. Building on the policy and legal framework set-up for social entrepreneurship, the social economy continues to develop well in Latvia. Today, more than 200 enterprises with social enterprise status have been registered, and the social economy's estimated share of employment stands at 2.2% ([105]). Latvia is exploring potential regulatory amendments to further strengthen social entrepreneurship and the ability of social enterprises to grow and expand.

Investment growth in Latvia has been weak since the pandemic, with more recent data pointing to an additional slowdown. With annualised growth rates of 1.1% since 2020, investment levels in Latvia have fallen behind those of Latvia's Baltic peers, standing at 22.4% of GDP ([106]). The Latvian National Productivity Board estimates that investment would need to reach around 25.5% of GDP to support convergence, implying an investment gap of about three percentage points over the past decade, particularly in machinery and equipment ([107]). While most recent data at sectoral level is not available yet, there are indications that investment in key sectors such as manufacturing and the wholesale and retail trade has fallen since 2022.

([101])Eurostat.

([102])IMF (2025), 2025 Article IV Consultation of Latvia, and Eurostat.

([103])European Commission (2025), SME Performance Review.

([104])Ibid.

([105])European Commission (2026), EU Social Economy Gateway.

([106])Ibid.

([107])IMF (2025), 2025 Article IV Consultation of Latvia.

Conversely, investment in the information and communication sector almost doubled from 2020 to 2023. The sluggish investment environment is also reflected in perceptions of the Latvian industrial sector's competitive position inside and outside the EU. Since 2022, these perceptions have continuously deteriorated ([108]).

Investment decisions by firms are strongly shaped by labour shortages and uncertainty. In 2025, 94% of firms cited uncertainty about the future, 90% shortages of skilled staff, and 85% energy costs as barriers to long-term investment ([109]). The National Productivity Board similarly identifies skills shortages and uncertainty as key long-term constraints, although firms reported some easing compared with the previous year ([110]). Labour shortages are particularly pronounced in STEM-related occupations (see Annex 11), which are critical for high-value-added sectors that drive convergence ([111]). Industry and services sectors are similarly affected by strong labour shortages, with more than 15% of firms citing labour shortages as limiting their current production or business activities ([112]).

Latvia's productivity level remains well below the EU average in strategic sectors, and its development is stagnating. In 2024, labour productivity reached 61.3% of the EU average (GDP per hour worked) and 70.2% per person employed ([113]). Over 2021-2024, labour productivity and total factor productivity (TFP) growth were weak on average, before turning positive again in 2024 (0.9% labour productivity; 0.2% TFP) ([114]). Sectoral developments indicate that the wholesale and retail trade and information and communication contributed positively to productivity growth, while structural change supported productivity only to a limited extent ([115]). In both sectors, labour productivity per employed person (index 2015 = 100) has increased significantly since 2015 (wholesale and retail is up 41 pps, while information and communication increased by 11 pps) ([116]). The wholesale and retail trade sector in particular has made increasingly big gains since the pandemic. This development was further enhanced by a strong increase in gross value added (GVA) in both sectors since 2020 (33 pps increase in wholesale and retail and 25 pps in information and communication) ([117]). Nevertheless, the IMF links overall weak productivity dynamics to low capital intensity, limited sectoral reallocation, and productivity gaps in manufacturing ([118]). Additionally, weak innovation inputs, including low business R&D spending and limited private-sector R&D employment, are weighing on longer-term TFP growth (see Annex 4) ([119]).

Business environment

Over recent years, Latvia has laid important foundations for reducing administrative burden through digitalisation and e-government reforms. Several measures have been taken to address the CSR to simplify regulation, improve regulatory tools and reduce administrative burden on companies. Centralised online public services and the widespread use of electronic identification and digital signatures have enabled a shift towards paperless procedures and reduced the need for in-person interactions. These measures have simplified business establishment and everyday administrative interactions and form the backbone of Latvia's efforts to lower administrative friction for firms and individuals.

More recently, policy action has focused on targeted simplification measures and improvements in policy design and evaluation. Concentrated reform packages, including a 21-point action plan to reduce bureaucracy, aim to streamline procedures across areas such as business registration ([120]),

([108])European Commission (2026), Business and Consumer Surveys.

([109])European Investment Bank (2025), EIB Investment Survey.

([110])Ibid.

([111])IMF (2025), 2025 Article IV Consultation of Latvia.

([112])European Commission (2026), Business and Consumer Surveys.

([113])Eurostat.

([114])Ameco.

([115])Ibid.

([116])Ibid.

([117])Ibid.

([118])IMF (2025), 2025 Article IV Consultation of Latvia.

([119])Eurostat.

([120])One of the 'Terrible Ten' in the Single Market Strategy, COM(2025)500

construction, social services and data exchange between institutions. In parallel, simplification initiatives have been advanced in areas such as EU funds management and public procurement to reduce duplication and procedural complexity. These efforts are complemented by strengthened 'better regulation' practices, including improved *ex ante* impact assessments and a growing use of *ex post* evaluations to assess whether regulatory measures deliver their intended effects. The overall impact of these measures on administrative burden and business conditions is expected to be evaluated in 2026.

Despite reform efforts, a large proportion of firms still report business and labour regulations as being major obstacles and dedicate significant staff resources to compliance. Latvian firms are more likely than the EU average to identify business regulation and labour market rules as barriers to investment, with compliance requirements absorbing considerable management and staff time, particularly for smaller firms ([121]). Administrative complexity is reported to be especially burdensome for exporting firms, which face fragmented and overlapping regulatory requirements across markets, adding to fixed costs and uncertainty ([122]). Overall, these findings suggest that while reform initiatives are ongoing, they have not yet resulted in broad-based reductions in regulatory burden felt by firms on the ground ([123]).

Improving the regulatory environment for businesses could further diminish the shadow economy. According to the Stockholm School of Economics (SSE), dissatisfaction with business legislation could be a major factor in the prevalence of activities in the shadow economy. The SSE establishes a direct link between reduction of the shadow economy and improvement of the regulatory and administrative environment for companies. The size of the shadow economy in Latvia has continued to decline, indicating gradual progress in formalisation. According to the latest SSE Riga *Shadow Economy Index*, the shadow economy decreased to 21.4% of GDP in 2024, down by 1.5 pps in 2023 and down by 5.1 pps in 2022. Improvements were also observed in high-risk sectors: in construction, the shadow economy share declined to 33.8% in 2024, while national accounts data show that the non-observed economy in construction fell to 17.4% of GVA in 2023, down 7.3 pps in 2022. Compliance indicators further improved, with the share of undeclared work income declining to 13.8% in 2024, the lowest level since 2020. Latvia also recorded a VAT gap of 5.4% in 2023, well below the EU median of 8.2%, placing it among the better-performing Member States (see Annex 3).

Policy measures have focused on transparency, digitalisation and targeted sectoral interventions to support this trend and implementation of the CSR on reducing the size of the shadow economy. Under the Shadow Economy Restriction Plan for 2024-2027, authorities expanded public access to information on taxes paid and employment reported by firms, strengthened measures in priority sectors such as construction and taxi services, and introduced regulatory changes to reduce risks in the vehicle trade (Ministry of Finance). Digitalisation plays a central role, notably through the mandatory use of electronic invoicing in transactions with public institutions and the phased extension of structured e-invoicing to business-to-business (B2B) transactions, aimed at improving traceability and reducing undeclared activity (Ministry of Finance; Ministry of Economics). Additional measures promote voluntary compliance, limit cash-based transactions and expand digital tools for monitoring goods movements, while recognising the need for proportionality and support for smaller firms during implementation. The combined impact of these measures and recent trends is expected to be assessed as implementation advances in 2026.

Access to finance remains a relevant constraint for SME investment and scaling, and implementation of the CSR has been limited in this regard. The National Productivity Board highlights weak lending, underdeveloped capital markets and uncertainty as factors limiting investment ([124]). The OECD notes that public development finance via ALTUM helps address collateral constraints but also points to practical limitations and the need for effective

([121])European Investment Bank (2025), EIB Investment Survey.

([122])Ibid.

([123])Ibid.

([124])IMF (2025), 2025 Article IV Consultation of Latvia.

implementation of planned investment support of around EUR 423 million (1.1% of GDP) until 2026. In addition, low willingness to borrow continues to constrain SME investment and scale-up ([125]).

More firms report experiencing late payments. In 2024, 60% of Latvian enterprises reported payment issues due to late payments, up from 51% in 2023, continuing an upward trend observed since 2020 ([126]). 49% of companies report delayed payments in B2B transactions but only 13% from the public sector. Despite the higher incidence, reported negative effects have eased compared with the previous year: the share of firms indicating adverse effects on their capacity to pay suppliers declined to 38% in 2024, while the share reporting negative effects on investment and new recruitment fell to 12%, down from 23% in 2023 ([127]). At the same time, the share of firms reporting broader operational impacts, such as effects on production or operations, remained constant at 23%, suggesting that while late payments are widespread, their operational consequences have become more limited overall ([128]).

Latvia's connectivity infrastructure is lagging behind EU averages. Very-high-capacity-network (VHCN) coverage for households stood at 68.13% in 2024, against the EU's 82.49%, and there was a minimal growth rate of 0.2% in 2024. Fibre-to-the-premises (FTTP) coverage is below par, standing at 61.1% in 2024, while the country's progress in 5G coverage shows considerable growth, reaching 71.1% in 2024, though still far below the EU average. While Latvia's broadband take-up indicates mixed results (surpassing the EU average in fixed broadband at speeds of 100 Mbps or higher but lagging in 5G spectrum assignment), Latvia relies heavily on long-standing policies without introducing new measures, and more efforts are needed to reach the 2030 targets.

Single Market

Latvia is highly integrated into the EU Single Market. Trade integration, measured as the average of intra-EU exports and imports relative to GDP, stood at 49.3%, well above the EU average of 40.7%, underlining the importance of the Single Market for Latvia's economy ([129]). This high level of integration has supported growth and resilience by facilitating participation in European value chains. OECD analysis similarly highlights that Latvia's openness and integration into EU markets have helped cushion external shocks and support export-led growth, particularly for tradable goods and services ([130]). At the same time, firm-level evidence shows that exporters continue to face regulatory fragmentation across Member States, which limits the full benefits of Single Market integration and raises compliance costs for firms operating across borders ([131]). **When it comes to goods markets, compliance of products circulating in the Single Market ([132]) is key to ensuring a level-playing field for law-abiding companies and the safety of consumers.** In Latvia, the number of market surveillance investigations has increased compared with 2019. In 2025, national authorities reported in the EU system for market surveillance (ICSMS) a total of 301 investigations per one million inhabitants, which is higher than the EU median of 136.2. The number of notifications remains limited in absolute terms, which may also be the result of insufficient IT national interoperability to the ICSMS system. The upcoming revision of the Market Surveillance Regulation will upgrade ICSMS to a fully interoperable EU digital platform.

The Latvian National Standardisation Body (NSB) Latvian Standard would benefit from additional staff resources. Currently, reporting 18 people staff, an expansion of the NSB's personnel could help to build a broader and more specialised expert base capable of engaging in

([125])OECD (2024), Economic Survey: Latvia.

([126])European Commission, EU Payment Observatory and European Commission (2025), Survey on the Access to Finance of Enterprises (SAFE).

([127])European Commission, EU Payment Observatory.

([128])Ibid.

([129])Eurostat.

([130])OECD (2024), Economic Survey: Latvia.

([131])European Investment Bank (2025), EIB Investment Survey.

([132])Part of the barriers highlighted in the Single Market Strategy and the 2026 Annual Single Market and Competitiveness Report.

increasingly complex standardisation work. Moreover, additional resources are needed to ensure that Latvian Standard undertakes the necessary digital transition to allow for faster, more efficient and more inclusive standardisation process. It is therefore recommended that Latvia enhances its support for its NSB to reduce market fragmentation, improving the competitiveness of Latvian companies, and fully benefiting from the opportunities of the Single Market.

Latvia's performance in implementing Single Market legislation is quite good. As of 2025, 1.2% of all Single Market directives have not been fully transposed into national law, which is above both the EU average of 1.1% and the 1% target set by the EU Council. However, only 0.2% of transposed directives are not transposed correctly (EU average: 1.1%), which puts Latvia in first position among the Member States on this criterion. This is also reflected in a comparably low number of pending infringement proceedings against Latvia (8 vs the EU average of 25). Moreover, the Latvian SOLVIT centre has resolved 100% of cases handled as lead centre in the past year (EU average 84.6%) ([133]).

Latvia's public procurement framework continues to face structural challenges, although reform efforts are ongoing. Public procurement authorities report persistent staff-related constraints, including limited capacity, relatively low pay and gaps in training, which can affect planning quality and the timely execution of procurement procedures (national audit report). Procurement planning is further affected by short contract durations and uneven workload distribution among procurers. While procurement remains largely decentralised, including for standardised goods and services, steps have been taken to strengthen coordination and professionalisation, notably through the establishment of an advisory council and measures under the recovery and resilience plan. In terms of outcomes, 24% of contracts were awarded following a single bid in 2025, below the EU median of 27%, while direct awards accounted for 6% of contracts, compared with an EU median of 6% ([134]).

Latvia is further reforming its public procurement system. In order to make public spending more efficient and reduce bureaucratic complexity, the Latvian authorities are currently working on a public procurement law to simplify nationally regulated procurement procedures that are not subject to the EU procurement directives. The law, to be adopted by the Parliament in summer 2026, will make procurement rules more flexible, improve data-driven oversight and analytics, achieve greater transparency (highlighted by stakeholders) and bring forward further centralisation of procurement. Additionally, although the proportion of green public procurement in total procurement volume declined significantly from 29.9% in 2022 to 9.6% in 2024, it increased to 15.1% in 2025.

Businesses' views on corruption risks in public procurement are above the EU average. In Latvia, 71% of companies (EU average: 58%) consider tailor-made specifications for particular companies in public procurement procedures, and 56% (EU average: 51%) collusive bidding, to be a 'very' or 'fairly widespread' practice. Among companies that have experience of and have participated in a public procurement procedure, 27% think that corruption has prevented them from winning a public tender or a public procurement contract in practice (EU average: 25%) ([135]). 35% of businesses perceive the level of independence of the public procurement review body (Procurement Monitoring Bureau) as 'very' or 'fairly good' when it is reviewing public procurement cases ([136]). Reforms are being undertaken to address challenges related to public procurement, which remains an area at high risk of corruption ([137]). Restricted competition and prohibited agreements among bidders remain a key challenge in public procurement in Latvia.

Latvia has made progress in improving its e-procurement landscape. Latvia's centralised e-procurement service allows economic operators to use a single system to access all national public procurement procedures and has implemented various features within their e-procurement

([133])European Commission (2025), Single Market Scoreboard.

([134])Ibid.

([135])European Commission (2025), Justice Scoreboard and European Commisison (2024), Flash Eurobarometer 557 on Businesses attitudes towards corruption in the EU.

([136])Ibid.

([137])European Commission (2025), Rule of Law Report for Latvia.

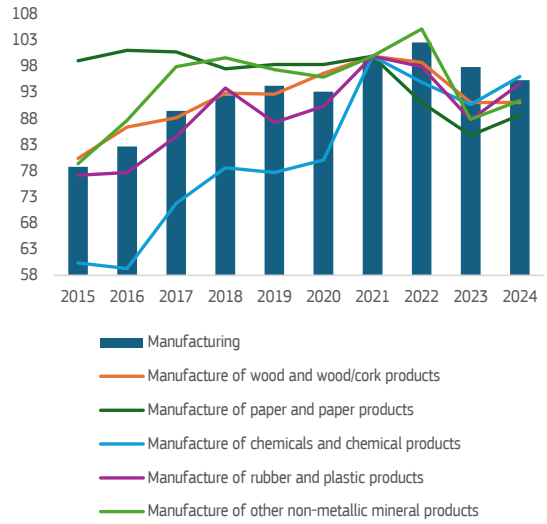
platforms which partially solve the problem of cross-border participation. Nevertheless, Latvia could benefit from further reducing barriers to facilitate the participation of other European companies, contributing to reducing fragmentation on the European public procurement market. Additionally, the once-only principle is only partially implemented (see Annex 7), and buyers across the EU still lack digital access to relevant evidence. Latvia has a dedicated entity in charge of monitoring and assessing the uptake of public procurement at the national level, as such there is a focus on the management of public procurement data and its monitoring, however it does not fully cover the public procurement lifecycle. It would be beneficial if Latvia continues on this path and strengthens the public procurement data collection and analysis service within the government to support data driven oversight of the procurement lifecycle.

Industry and economic security

Latvia's economic structure is relatively diversified, but it remains tilted towards lower-technology activities. The economy is mainly service-oriented, with services accounting for around 71% of total value added, a level broadly in line with Latvia's Baltic peers but below that observed in some larger EU economies. A substantial share of services is concentrated in lower-technology activities, including the wholesale and retail trade, real estate and transport, which together account for 28.6% of total GVA. At the same time, higher-technology services, notably information and communication, have expanded steadily, with their share of value added increasing from 4.9% in 2015 to 6.9% in 2025, largely driven by growth in IT and computer programming activities.

In industry, lower-technology activities continue to play a dominant role. Manufacturing accounts for around 76% of industrial value added, with food processing and timber-related industries remaining particularly important. Low- and medium-low-technology sectors employ around 85% of the manufacturing workforce, reflecting the current structure of Latvia's industrial base ([138]). While more knowledge-intensive activities have gained some ground, their overall weight in manufacturing remains limited, suggesting that structural change in industry has so far progressed only gradually.

Graph A5.1: **Manufacturing industry production: total and selected sectors, index (2021=100), 2015-2024**



Source: Eurostat

Latvia has made progress in implementing the Net-Zero Industry Act (NZIA). It has successfully designated a single point of contact, which is crucial for streamlining communication and coordination among stakeholders. Furthermore, Latvia has established a national contact point to process applications, facilitating the advancement of net-zero strategic projects, despite having no confirmed projects yet.

When it comes to critical raw materials, market operators are dependent on imports, but diversification is high in European comparison. Latvia's industry imports the vast majority of raw materials it needs as production inputs. In 2024, roughly 29% of direct material input in the economy was imported (EU average: 22.4%) ([139]). In particular, coking coal, copper, titanium and borates are imported, mainly from non-EU countries in Europe and Asia. Major trading partners are Türkiye, Kazakhstan as well as Russia. Nevertheless, Latvia's import concentration index has been comparably low in 2025 at 0.17 (EU average: 0.23) ([140]).

([138])Eurostat.

([139])Eurostat.

([140])COMEXT. Data until August 2025.

Table A5.1: **Single Market and Industry**

Latvia								
POLICY AREA	**INDICATOR NAME**		**2021**	**2022**	**2023**	**2024**	**2025**	**EU-27 average**
Business environment and investment								
Productivity and investment	Labour productivity (GDP per hour worked in PPP terms), % of EU27[1]		60.9	59.6	61.4	61.3	62.2	100.0
	Business investment (share of GDP)[1]		14.2	14.9	15.3	13.2	-	12.5
	Public investment (share of GDP)[1]		5.6	4.8	5.6	6.3	-	3.7
Business environment and simplification	Impact of regulation on long-term investment, % of firms reporting business regulation as a major obstacle[2]		50.3	25.9	39.8	41.8	42.0	34.0
SME liquidity	EIF Access to Finance for SMEs index - loans[3]		0.40	0.26	0.18	0.15	-	0.43
	EIF Access to Finance for SMEs index - equity[3]		0.14	0.26	0.20	0.16	-	0.19
Late payments	Payment gap - corporates B2B, difference in days between offered and actual payment[4]		10.8	16.0	16.2	-	-	17.4
	Payment gap - public sector, difference in days between offered and actual payment[4]		8.7	13.3	12.0	-	-	13.6
	Share of SMEs experiencing late payments, %[5]	from private entities in the previous or current quarter	-	-	-	59.35	49.37	47.13
		from public entities in the previous or current quarter	-	-	-	18.22	10.9	15.9
Single Market								
Integration	EU trade integration, average(intra-EU imports + intra EU exports)/GDP, %[1]		48.2	57.7	49.9	48.9	49.3	40.7
	EEA Services Trade Restrictiveness index[6]		0.038	0.038	0.038	0.038	0.038	0.050
Public procurement	Single bids, % of total contractors[7*]		26	37	27	22	24	27
	Direct awards, % of negotiated procedures[7*]		11	8	6	8	6	6
Compliance	Transposition deficit, % of all directives not transposed[8]		2	1.2	0.5	0.8	1.2	1
	Conformity deficit, % of all directives transposed incorrectly[8]		1	0.8	0.4	0	0.2	1.1
	SOLVIT, resolution rate per country, %[8]		100	100	100	100	100	84.6
	Number of pending infringement proceedings[8]		17	12	10	10	8	25
Industry and economic security								
Energy-intensive industries	Electricity prices for non-household consumers[1]		-	-	-	0.1939	-	0.1462
	Electrification (electricity as a share of total energy consumption in industry)[1]		18.7	17.5	16.3	-	-	32.7
	Share of energy from renewable sources (renewable energy generation as a share of overall energy consumption)[1]		42.1	43.8	43.3	45.5	-	25.2
Critical raw materials	Material import dependency, %[1]		31.4	31.1	31.9	29.0	-	22.4
	Circular material use rate[1]		5.0	4.3	6.0	6.8	-	12.2
Operational cleantech manufacturing capacity in 2025[9]	- Solar PV (c: cell, w: wafer, M:module), GW		-		- Electrolyzer, GW		-	
	- Heat pump assembly		-		- Battery, GW		-	

Source: (1) Eurostat, (2) EIB Investment Survey, (3) EIF SME Access to Finance Index, (4) Intrum Payment Report, (5) SAFE survey, (6) OECD, (7) data up to 2024: Single Market and Competitiveness Scoreboard, 2025: Commission calculation based on TED data, accessible at the Public Procurement Data Space (PPDS) (*) the value represented here under EU average is the median, (8) Single Market and Competitiveness Scoreboard, (9) European Commission calculations.

Table A6.1: **Savings and Investments Union summary diagnostic**

Topic	*Main features*	*Relative EU positioning*
Asset-backed pension schemes	Assets at 24.3% of GDP (32.3% in the EU) 10-year real return of -1.1 (1.4% in the EU)	The medium pension assets yield a very low real return
Households' financial assets	EUR 23 287 per capita (EUR 85 098 in the EU) o/w 2.5% in listed shares and bonds (7.6% in the EU) o/w 1.6% in investment funds (11.0% in the EU) o/w 2.9% in life insurance (13.4% in the EU) o/w 21.1% in pension claims (13.6% in the EU)	A very low share of households' financial assets is invested in equity and in capital markets
Venture capital (VC) **Private equity (PE)**	VC at 0.010% of GDP (0.064% in the EU) PE at 0.119% of GDP (0.487% in the EU)	Very low venture capital and very low private equity investments
Capital taxation	Capital gains & income on capital: flat rate of 25.5% is applied to most assets and savings types; exemptions and reductions apply; 0% corporate income tax on reinvestment and 20% on distribution	Moderate taxes on capital
1-3 **4-10** **11-17** **18-24** **25-27**	Colours indicate the country's relative ranking based on five groups, ranging from the three best to the three worst performers. The relative ranking as regards an SIU diagnostic topic derives from a consistent cross-country comparison, the starting point of which is the average of the underlying main features.	

Source: OECD (pensions), Eurostat (households' financial wealth), FISMA CMU dashboard (VC and PE), national sources (capital taxation). End-2024.

Some reforms addressing elements of the 2025 CSR ([141]) have been implemented, but further progress is needed. Companies in Latvia rely less than the EU average on funding from banks or capital markets. To fund their investments, they rely on internal funding more than their EU peers. The ratio of bank loans to GDP in Latvia is among the lowest in the euro area. The country's domestic listed equity market remains small from a European perspective, while debt markets channel savings mostly to the government. The persistently low saving rate of Latvian households reduces the availability of credit for company funding. Latvia's relatively small banking sector remains robust, with most performance indicators among the best in the EU. Lending to both households and companies has been growing strongly in recent years. Non-bank financial intermediaries, which have both the funds and the capacity to drive progress in the development of Latvia's capital markets favour a very conservative asset allocation that allows for only very limited equity investments. Latvia's venture capital ecosystem remains very small and is dominated by public funds channelled primarily by national development institutions.

Business landscape and company funding

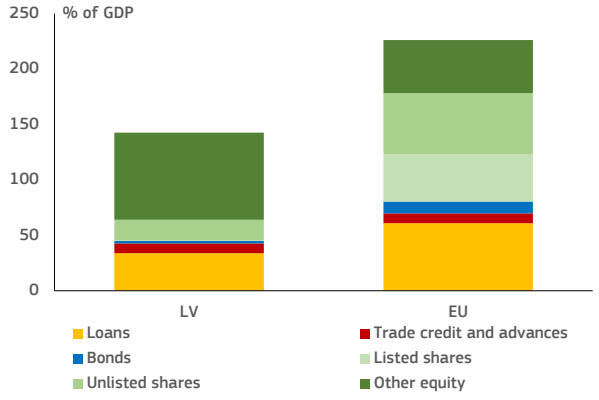
In comparison with the EU average, the Latvian economy, in terms of structure and size, relies more on micro-sized companies. Micro, small and medium-sized companies are the backbone of Latvia's economy, comprising roughly 99% of all businesses and playing a critical role in employment, innovation, and value added creation. Micro-sized companies play a stronger role in the structure of the Latvian economy than they do in the EU on average (see Annex 5 for more details). This has concrete implications for the corporate sector's demand for funding.

For Latvian firms using external finance, bank financing is the dominant source, though less so in terms of GDP than the EU average. According to the 2025 EIB Investment Survey, only 54% of all Latvian firms use bank finance, the third lowest share in the EU, after Lithuania and Sweden (with the EU average at 79%). However, alternative financial service providers have rapidly begun to compete with – and often outcompete – the traditional banks. This is reflected in the 2025 SAFE survey results. According to these results, 37% of Latvian SMEs indicate that bank loans are relevant for them, compared with an EU average of 46%. Despite the decline in the relative significance of bank credit to Latvian businesses in recent years, vigorous credit growth to companies in 2024 resulted in bank credit accounting for a 23.7% share of total corporate funding at the end of 2024 (Graph

([141])2025 country-specific recommendation: "Improve access to finance for small and medium-sized enterprises, including by stimulating competition in the financial markets and promoting public lending and guarantee schemes to facilitate investments of strategic importance, in particular in the areas of the green transition, scaling-up and commercialisation of innovations, and regional development."

A6.1). Listed shares and bonds represented only 0.4% of all funding sources for Latvian non-financial corporations (NFCs) in 2024. The equivalent figures for the EU average are 26.9% and 18.8%. The aggregate level of Latvian NFC funding is also substantially lower as a share of GDP (at 142% of GDP in Latvia but 226% for the EU average, see Graph A6.1). The market funding ratio ([142]) as of end 2024 was 20.6%, compared with an EU average of 49.7%.

Graph A6.1: **Composition of non-financial corporations' funding**



Source: Eurostat. End-2024.

The share of Latvian firms that rely on internal finance increased over 2025, but remains lower than the EU average. Compared with 2024, the share of Latvian firms that are financially constrained fell to 9.2% in 2025 but remains higher than among EU firms (6.1%). This is primarily due to collateral requirements in Latvia, which are among the strictest in the euro area. Rejection rates for loan applications are high. A survey conducted by the European Investment Bank shows that 26% of companies in Latvia that obtained external financing were dissatisfied with the lender's collateral requirements, vs 12% in Lithuania and only 9% in Estonia. As a result, NFCs tend to rely on their own funds as well as other alternatives (other equity). This is reflected in the 2025 SAFE survey results. In that survey, 40% of SMEs indicated that internal funds (retained earnings or sales of assets) are relevant for them, compared with an EU average of 28% ([143]).

([142])I.e., the volume of corporate bonds and listed shares of NFCs relative to the volume of those two and bank loans to NFCs.

([143])European Commission (2025), Survey on the Access to Finance of Enterprises (SAFE).

Anecdotal evidence shows that the most widely available financing sources in Latvia – apart from banking products – are friends, family, venture capital, business angels, and state support programmes, including EU grants and ALTUM, Latvia's state-owned development finance institution. However, ALTUM's loan portfolio is relatively small compared with the total value of outstanding loans.

There may be a financing gap relative to investment demand in Latvia, especially for SMEs. According to the 2025 SAFE survey, 18% of all Latvian firms believed that their investment activities over the last three years were not sufficient. This percentage – together with the percentages from the other two Baltic countries – are some of the highest levels of perceived underinvestment in the EU (EU average of 12%). This suggests that there may be a financing gap relative to investment demand, especially for SMEs.

Size and structure of the financial sector

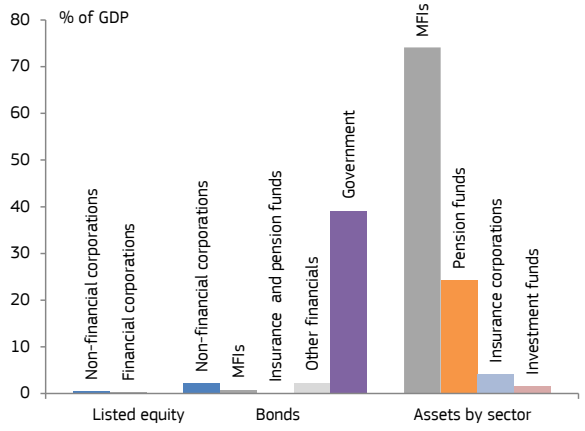
Latvia's banking sector is very small compared with the EU average, and concentration in the sector is high. At the end of Q3-2025, banks' total assets were equivalent to 69.3% of GDP (Graph A6.2), significantly below the EU average of 245.3% and also below the level reached in Latvia as recently as 2017 (108.8%). The sector has been shrinking in recent years, as banks servicing non-residents have significantly downsized their operations following the introduction of stricter anti-money laundering rules. As a result, the business volumes and deposits of Latvian banks have fallen markedly. This has led them to transform their business models. In the meantime, bank domestic assets continued growing, albeit at a slower pace than GDP. The country's banking sector is highly concentrated, and borrowing costs are among the highest in the EU in almost all lending segments. The Latvian banking sector is dominated by subsidiaries and branches of banks from Nordic and Baltic countries. In particular, Swedbank ([144])

([144])In October 2021, the ownership of the subsidiary banks in Estonia, Latvia and Lithuania was placed in the holding company Swedbank Baltics AS, which is wholly owned by

and SEB Banka, which are the two largest banks in Latvia, are Swedish owned.

In terms of capital market development, Latvia lags behind the rest of the EU and neighbouring countries. Despite a similar economic structure, the stock exchanges of Estonia and Lithuania have been able to develop more swiftly. While the market capitalisation of listed stocks in Estonia reached 10.7% of GDP at the end of Q3-2025, and 6.2% in Lithuania, it was only 0.8% of GDP on Nasdaq Riga ([145]). In comparison, the EU average is 69.9% of GDP. While state and local government-controlled companies account for slightly more than a third of market capitalisation in Lithuania and Estonia, in Latvia the topic of listing state and municipal enterprises on the stock exchange is still under consideration. The situation is similar in the debt securities market: the corporate bond market is very thin and activity is very weak, although it has grown in recent years.

Graph A6.2: **Capital markets and financial intermediaries**



Source: ECB, EIOPA, AMECO, OECD. End-2024.

Latvia's capital markets are hampered by their lack of size, despite efforts by authorities from Latvia, Lithuania and Estonia to develop an integrated capital market in the Baltic region. The three Baltic states have been working towards integrating their capital markets' infrastructure and signed a memorandum of understanding in 2017 to 'cooperate in developing a deeper and more efficient regional capital market'. This commitment was followed by efforts to harmonise regulation between them and create pan-Baltic investment products. The three national central securities depositories (CSDs) were also merged in 2017, resulting in the creation of Nasdaq CSD SE, legally based in Latvia. This has facilitated cross-border transactions and improved the visibility of all Baltic markets. However, the number of listed enterprises, investors, transactions and issued securities remains low on all three markets, and the prospects for capital market development are limited. This results in few local investment opportunities, low interest from institutional and retail investors, and thus limited opportunities to raise share capital locally. For the local capital markets to become attractive to international investors, they would first need to reach a sufficient level of capitalisation. This is reflected in the identification of Latvia by the 2025 MSCI market classification review as an advanced frontier market, a new subcategory added by MSCI to identify frontier markets that demonstrate market accessibility characteristics closely aligned with those of developed markets but that remain classified as frontier markets due to their size and liquidity constraints.

Latvia has launched several initiatives to meet the ambitious target of reaching a stock market capitalisation equivalent to 9% of GDP by 2027. These initiatives are part of a broader government strategy to leverage over EUR 10 billion in household savings across Latvia, directing these funds towards vital investments that can spur sustainable economic growth. Government decisions from 2021 and 2023 contained plans for new instruments like green bonds to both: (i) increase the capitalisation of the stock market; and (ii) promote regional integration and the entry of new issuers into the stock exchange. Despite the 2023 decision, tangible progress in this area has been limited so far, and several stumbling blocks remain. Continued efforts would therefore be beneficial. Measures that could help attract investors and raise access to finance include the listing of large state-owned or municipality-owned enterprises on the stock market and facilitating greater exposure of pension funds to domestic securities.

Swedbank AB, and which is under the supervision of the European Central Bank.

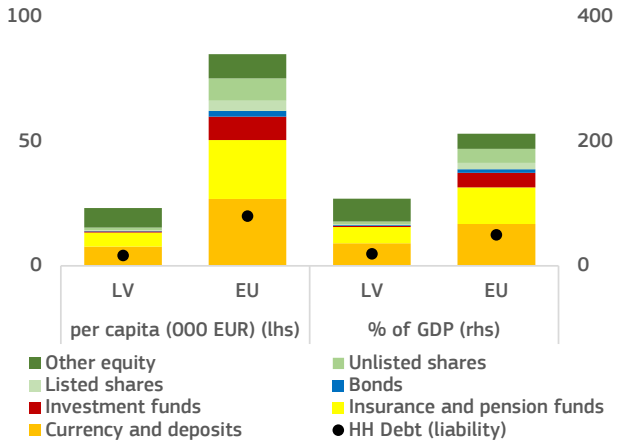
([145])The Nasdaq Riga Stock Exchange belongs to the Nasdaq group, which in the EU operates other trading venues in the two other Baltic states of Estonia and Lithuania, as well as in Sweden, Finland and Denmark.

The Latvian authorities have taken several actions to strengthen capital markets through public-private collaboration, building on cooperation among the Baltic national development banks. SMEs find it difficult to access and take advantage of Latvian capital markets. Once companies reach the stage that they have already proven their business model and start expanding internationally, they require larger long-term equity capital to continue scaling. However, at this stage local equity funding options in Latvia remain limited, and traditional banks are often reluctant to lend to innovation-driven or export-oriented companies without hard collateral. Unfortunately, there are no established SME growth markets in Latvia or the other Baltic states, however, there is Nasdaq First North as a prominent Multilateral Trading Facility which supports both listing of shares and corporate bonds. To address this issue, Latvia's development finance institution ALTUM and Lithuania's development bank Ilte previously set up a fund for initial public offerings to prepare businesses for listing on the stock market. Moreover, in order to both ensure a more robust continuum of financing options and bridge critical financing gaps at the scale-up/growth stage, both ALTUM and Ilte approved the Baltic Capital Market Acceleration Fund in 2023. The fund is worth over EUR 50 million, began its operations in October 2025 and will remain active for the next decade. It will provide financing to businesses before and during the listing stage, investing in newly issued equity or bonds over ten years. This is expected to boost equity and bond listings on Nasdaq Baltic exchanges and increase both market liquidity and access to growth capital across the region.

Households' participation in capital markets

Latvian households have relatively low levels of income and savings. Latvian households' financial assets amount to only half of the EU average of 212.2% of GDP (Graph A6.3). Latvian households' asset portfolios are tilted towards currency and deposits (33.2%), and more than one third of their portfolio is held in 'other equity' ([146]), which is high compared with other EU countries where the average is 11.4%. Latvian households have relatively few financial assets, in particular in investment, insurance and pension funds. The share of households' financial assets held in pension and insurance funds – or directly in financial investment instruments – in their total holdings of financial assets rose to 28.6% in 2024, but still falls short of the EU average of 46.5%. Most investments are in pension funds (mainly due to the larger mandatory contribution to the second pension pillar) and life insurance. Other investment opportunities are used significantly less. Little by little, Latvian households are starting to invest their funds in higher-risk assets. In recent years, deposits in securities and investment funds grew most rapidly. It is also important to note that the outstanding deposits at Latvian banks significantly exceed the outstanding loans from banks, which may point to untapped potential, since those savings could be redirected towards capital markets.

Graph A6.3: **Composition of households' financial assets**



Source: Eurostat. End-2024.

The primary mechanism for active retail investors in Latvia is the investment account. It allows users to defer personal income tax on investment income and capital gains until the funds are withdrawn. Tax is only paid when the total withdrawals from the account exceed the total contributions. Starting in 2025, the tax rate on capital gains and investment income for individuals has been increased to 25.5%, up from

([146])'Other equity' comprises all forms of equity other than those classified in sub-categories listed shares (AF.511) and unlisted shares (AF.512). In Latvia, the largest part of households' financial assets during the last year was made up by funds invested in business activity (e.g. the equity capital of limited liability companies and individual merchants).

20% previously. Key instruments used by retail investors include local and international stocks, ETFs, government bonds, and P2P lending platforms. To encourage savings, the Latvian government allows residents to recover 25.5% of their personal income tax on contributions to third-pillar pension plans and life insurance savings instruments (up to 10% of gross salary capped at EUR 4 000 per year).

Latvia is actively working to improve national financial literacy through the 2021-2027 national strategy for financial literacy. It is led by the Latvian central bank and supported by partners like the Financial and Capital Market Commission and Finance Latvia. Initiatives in this area aim primarily to: (i) develop digital tools; (ii) educate the public on financial security and the second pension pillar; and (iii) reduce fraud. The level of financial literacy in Latvia is somewhat below the EU average. The 2023 Eurobarometer survey showed that 20% of Latvians have a high level of financial literacy, 55% a medium level, and the remaining 25% a low level.

The banking sector: resilience and financing of the economy

Most performance indicators of the Latvian banking sector place it as among the best in the EU, so its lending capacity is not in any way constrained. The sector's resilience is bolstered by strong capitalisation and asset-quality metrics, with a capital adequacy ratio of 24.4% at the end of Q3-2025, well above the EU average of 20.2% (see Table A6.2). The core equity tier 1 capital ratio increased from 20.5% in 2023 to 22.5 % in Q3-2025, significantly above the EU average of 16.8%. The profitability of credit institutions is high. The return-on-equity ratio as of end Q3-2025 stood at 14.9%, vs an EU average of 9.6%. With an aggregate non-performing loan ratio of 1.2% in Q3-2025, below the EU average of 1.9%, credit quality has improved significantly over the past decade. The loan-to-deposit ratio is low (80.4% in Q3-2025 vs 93.2% for the EU) as domestic deposits exceed issued loans. Thanks to the strong and stable domestic customer-deposit base, credit institutions do not need to draw on additional funding from financial markets, nor do they rely heavily on their cross-border parent banking groups. Banks have accumulated large amounts of liquid assets (liquidity coverage ratio amounted to 256% in Q3-2025). This is partly due to moderate lending growth.

The financial cycle in Latvia tightened in 2023 but has picked up vigorously since then. With interest rates decreasing gradually, activity in domestic lending has increased substantially over 2024 and 2025 with lending growth outpacing GDP growth in those two years, across both shorter and longer maturities. For households, the annual credit growth rate for adjusted loans has gradually edged up from 2.9% in December 2023 to 9.7% in November 2025. For NFCs, annual credit growth recovered from -3.4% in November 2023 to reach 17.9% in August 2025. The state guarantee programme for housing purchases and construction continues to provide a significant boost to housing lending. After a decline in previous years, its role in the growth of new loans increased again over 2025, with the share of loans issued under the programme exceeding 40%. Despite rapid growth in the past years, the outstanding amount of overall loans is still low: the bank loan-to-GDP ratio remains at a very low level, at 30.3% of GDP in Q3-2025, while the corresponding ratio for the EU is 72.9%.

Interest rates on loans in Latvia may have decreased recently, but they are still among the highest in the euro area. Interest rate spreads have been decreasing for mortgages, in part as a result of amendments to a number of laws and regulations that came into force in 2024 to simplify mortgage refinancing. These amendments have ensured competition between lenders in favour of homeowners. The interest rate spread for NFC lending has not changed much in recent years. Despite the positive dynamics, lending levels in Latvia still lag behind most euro area countries, underscoring the potential benefit of additional measures to support financial intermediation and improve financing availability across all sectors of the economy. For example, Latvia's central bank, in collaboration with the Ministry of Finance, has drafted a regulatory proposal to limit early repayment fees in order to promote borrower mobility and increase competition in the corporate lending market.

Role of non-bank financial intermediaries

The role of the non-bank financial sector in the Latvian financial sector and the Latvian economy more broadly is still considerably less significant than it is in other euro area countries. This is primarily due to the population's low level of long-term savings and the low level of financial literacy in the country. The total assets of insurance corporations as a percentage of GDP amounted to 4.1% at the end of Q3-2025 (vs 53.9% in the EU on average). Data show that at the end of Q2-2025, Latvia's pension savings in all types of pension products (equivalent to 24.3% of GDP) exceeded Lithuania's (12.2.%) and also – slightly – Estonia's (18%). Latvia's public pension scheme offers low replacement rates (a measure of how much pension income replaces an individual's income when they were working). Participation in the funded second and third pillars is thus key to achieving a comfortable retirement. Participation rates in Latvia's voluntary personal scheme reached 29.7% of the total working population, very close to the EU average ([147]).

Pension funds have contributed to the development of the Latvian capital markets, but their domestic investment and returns remain low. Previously, there were constraints on the amount of assets that a pension fund was permitted to invest in equities. As a result of this, most assets were invested in relatively low-yielding, short-term government bonds and term deposits. Currently, about half of Latvian pension assets are invested in (relatively low-yielding) bills and bonds, pointing at a conservative bias and a preference for foreign bonds, given the shallowness of the local corporate bond market. Moreover, second-pillar pension management companies are not allowed to invest directly in real estate and face concentration limits on single issuer equity and debt instruments ([148]).

The Latvian multi-pillar pension system is a well-designed model that could be further enforced to guarantee adequate pensions and reduce the financial burden on the public pension system in the future. Thanks to mandatory participation in the pillar 2 pension scheme, contributions and pension fund assets have been growing. Increasing payments to the mandatory second pension pillar could further improve pension adequacy. While employers may contribute to their employees' pillar 3 pension schemes, in practice, this option is not widely used. The government could promote greater enrolment in pillar 3 to businesses that offer pillar 3 to their employees.

Strengthening insurance markets could help deepen Latvia's capital markets. According to the Capital Markets Union dashboard, insurance corporations' investment in equity (directly and via investment funds) amounted to 22.4% of total assets (three-year moving average for 2021-2024). However, the pool of premiums collected by insurance companies is very small in Latvia, which limits their contribution as potential buyers of securities in private capital markets. Health insurance coverage is weak, and life insurance funds are also small compared with other EU countries due to low household savings and competition from voluntary contribution (third pillar) pension funds, which are mostly managed by large bank subsidiaries.

The participation of domestic institutional investors in providing funding for Latvian start-ups and venture capital decreased considerably over 2024 compared with prior years. The reason for this is likely that venture capital funds have been focusing on earlier stage investing, where pension fund activity and 'equity tickets' (the amount of money invested by a private equity or venture capital firm in a company) provided are smaller. Recent market overview data for 2024 show that pension funds in Latvia accounted on average for 15.5% of private equity and venture capital funds raised, a figure that is in line with that of the other Baltic states. Providing a wider range of financial market instruments traded on the capital markets could diversify the pension industry's investment portfolio and render its role in the country's funding chain more significant.

([147])OECD (2025), Pensions at a Glance 2025.

([148])OECD (2025), Annual Survey of Investment Regulation of Pension Providers.

Venture capital ecosystem

Latvia's venture capital sector still significantly lags behind the EU average. Over the last decade, the private equity and venture capital sector has played a key role in diversifying corporate financing. In 2024, however, Latvian start-ups raised approximately EUR 39 million, significantly less than in 2023 ([149]). According to the Capital Markets Union dashboard, Latvia significantly lags behind the EU in this area, as its venture capital investments relative to GDP were equivalent to only 0.03% on average annually over the period 2022-2024 (vs an EU average of 0.058%). Equally, the country significantly lags behind in terms of private equity investments (including venture capital) relative to GDP (0.119% of GDP per year on average over 2022-2024 vs an EU average of 0.487%). In addition, most investments are made at the earlier stages while funding at later stages is scarce, which is perceived as a barrier to scaling up innovation ([150]) (see Annex 4). However, Latvia is an outlier in terms of making use of crowdfunding platforms. These platforms have the equivalent of 0.7% of GDP in investment according to the latest data available (EU average 0.1%).

Latvian venture capital funding still depends largely on public co-funding, as it does in the other Baltic countries. This co-funding takes place through co-investments from the state budget, EU funds, the European Bank for Reconstruction and Development, the European Investment Fund, pension funds, and private investment funds. Government agencies remain a key funding source for local fund managers, with the proportion of government-sourced capital around a third, comparable with that of the other Baltic countries ([151]). There is also high level of cross-border activity in the private equity and venture capital industry, where fund managers operate across the Baltic countries.

([149])KPMG, LTVC, LVCA, ESTVCA (2025), Baltic Private Equity and Venture Capital Market Overview 2024.

([150])OECD (2021), Innovation Diffusion in Latvia.

([151])In 2024, government funding still accounted for 31% of capital raised, an increase from 23% in 2019. See KPMG, LTVC, LVCA, ESTVCA (2025), Baltic Private Equity and Venture Capital Market Overview 2024.

Table A6.2: **Financial sector indicators**

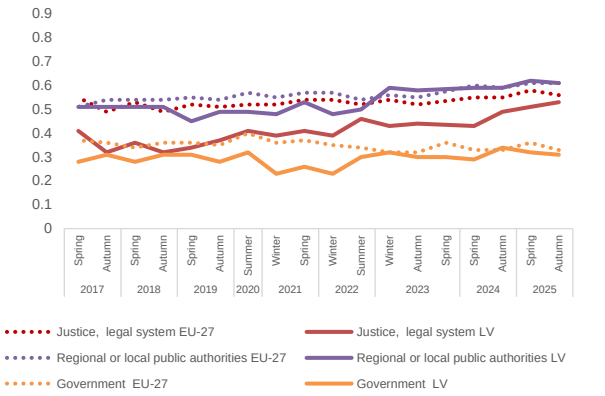
		2018	2019	2020	2021	2022	2023	2024	2025-Q3	EU
Banking sector	Total assets of MFIs, % of GDP	81.0	76.8	82.4	76.8	74.9	70.5	74.1	71.2	246.1
	Common equity Tier 1 ratio	20.3	22.0	25.7	29.2	23.6	20.5	21.9	22.5	16.8
	Total capital adequacy ratio	22.3	23.4	26.8	29.7	24.1	21.6	23.7	24.4	20.2
	Overall NPL ratio, % of all loans	5.3	3.9	4.6	2.1	1.4	1.3	1.3	1.2	1.9
	NPL ratio, loans to NFCs	9.1	7.3	5.9	3.1	2.6	2.0	1.9	1.7	3.5
	NPL ratio, loans to HHs	5.2	4.2	3.7	1.3	0.8	0.9	0.9	0.9	2.1
	Return on equity ratio[1]	9.2	9.6	5.2	4.5	10.2	20.3	17.6	14.9	9.6
	Loans to NFCs, % of GDP	19.8	18.3	17.1	15.4	15.1	13.6	13.9	14.8	29.3
	Loans to HHs, % of GDP	17.6	16.9	17.1	16.7	15.6	14.6	15.2	15.5	43.6
	NFC credit growth rate, %	3.9	-0.8	-1.0	-0.8	10.0	-1.5	5.8	15.4	2.5
	HH credit growth rate, %	0.8	1.3	0.5	6.3	3.8	2.9	6.2	9.4	2.6
Non-banking sector	Stock market capitalisation, % of GDP	2.7	2.8	3.3	3.1	2.1	1.9	0.8	0.8	69.9
	Initial public offerings, % of GDP	0.00	0.00	0.00	0.38	0.12	0.06	0.00	-	0.06
	Market funding ratio	13.7	15.6	16.5	21.1	20.7	21.2	20.6	-	49.7
	Private equity, % of GDP	0.268	0.245	0.050	0.062	0.093	0.095	0.119	-	0.487
	Venture capital, % of GDP	0.016	0.011	0.015	0.022	0.023	0.020	0.010	-	0.064
	Financial literacy, composite index	-	-	-	-	-	36.0	-	-	45.5
	Bonds, % of HHs' financial assets	0.9	0.9	0.8	0.6	0.6	1.0	1.2	-	2.8
	Listed shares, % of HHs' financial assets	0.7	0.7	1.0	1.4	1.1	1.2	1.3	-	4.8
	Investment funds, % of HHs' financial assets	1.1	1.2	1.1	1.4	1.2	1.2	1.6	-	11.0
	Insurance/pension funds, % of HHs' financial assets	18.2	21.8	22.1	22.6	20.1	22.4	24.5	-	27.8
	Total assets of insurers, % of GDP	2.9	4.8	5.1	4.7	3.9	3.9	4.2	4.1	53.9
	Pension assets, bn EUR	-	-	-	6.7	6.4	7.9	9.8	-	5813.8
	Pension assets, % of GDP	-	-	-	20.9	17.6	20.0	24.3	-	32.3
	10y real return average of pension assets, %	-	-	-	-	-	-1.5	-1.1	-	1.4
	Pension funds assets, ECB (% of GDP)	-	17.2	19.5	20.9	17.7	19.9	24.2	25.2	23.0
	1-3 **4-10** **11-17** **18-24** **25-27**	Colours indicate performance ranking among the 27 EU Member States.								

Annualised data. Credit growth and the ECB pension funds EU data refer to the EA average.
Private equity and venture capital, % of GDP is calculated as a three-year moving average.
Source: ECB, ESTAT, OECD, CMU Dashboard, AMECO.

An effective institutional framework is essential for competitiveness. This requires public trust built on integrity, high-quality legislation, regulatory simplification and efficient services for people and businesses. For Latvia, the 2025 country specific recommendations (CSRs) highlighted challenges in simplifying regulation, improving regulatory tools and reducing administrative burden. Accordingly, Latvia has drawn up a bureaucracy-reduction plan.

Public trust

Graph A7.1: **Trust in the justice system, regional / local authorities and in government**



EU-27 since 2019; EU-28 before.
Source: European Commission, Standard Eurobarometer surveys

Public trust in government in Latvia fell slightly, remaining below the EU average (Graph A7.1). Trust in the justice system fluctuates around the EU average, while trust in regional and local authorities rose slightly, reaching the EU average. Although both businesses (75%) and people (69%) retain confidence in the ability of public administration to handle their data securely and responsibly, these figures are slightly below the EU average (79% and 72% respectively) ([152]). Overall perceptions on the quality of public administration have improved since 2023 ([153]) - the proportion of people finding public administration to be complex and burdensome decreased from 30% in 2023 to 24% in 2025 ([154]).

Quality of lawmaking and implementation

Latvia's rules on lawmaking demonstrate partial alignment with selected best practices in reducing the regulatory burden and ensuring effective implementation (Table A7.1). There has been progress in reducing administrative burden ([155]) and costs for businesses, to comply with the 2025 CSR ([156]) (see Annex 5). However, regulatory impact assessments could improve as regards estimating financial and administrative costs. The impact of some primary and secondary legislation is also assessed in the areas of competition, small and medium-sized businesses, certain social groups and regions. The monitoring of legislative implementation is hampered by the absence of a formal requirement to measure progress in achieving the objectives of the legislation and to assess compliance with it. *Ex post* evaluations have a limited scope, but recent reforms have introduced guidance to perform ex-post evaluations that will lead to strengthening evidence-based policymaking ([157]). Nevertheless, oversight is hindered by the lack of an external body to review *ex post* evaluations. The State Chancellery has conducted three pilot *ex post* assessments of legal acts ([158]) to develop national standards and know-how. The assessment of three additional legal acts is expected to be finalized by mid-year while the assessment of two additional legal acts will start this year.

([152])European Commission (2025), Flash Eurobarometer 557 on businesses attitudes towards corruption in the EU.

([153])European Commission (2023), Flash Eurobarometer 526: Understanding Europeans' views on reform needs.

([154])European Commission (2026), Flash Eurobarometer 567 and Flash Eurobarometer 568 on satisfaction with administrative services.

([155])European Commission (2025), Single Market and Competitiveness Scoreboard.

([156])2025 country-specific recommendation: "Simplify regulation, improve regulatory tools and reduce administrative burden on companies."

([157])Technical Support Instrument, 2022 project: Building capacity for evidence-informed policymaking in Latvia.

([158])Residential Tenancy Law (in force since 2021); Law on the Reduction of Consumption of Products Containing Plastic (in force since 2021); Whistleblowing Law (in force since 2022). Pilots conducted by outsourced experts, coordinated by the State Chancellery in cooperation with the responsible ministries.

Table A7.1: **Latvia. Selected indicators on better regulation practices for primary legislation**

Tools for smart legislation:	
Share of possible impacts assessed for all primary laws when developing legislation	●
Regulators are required to identify and quantify the benefits of a new primary law	●
Regulators are required to identify and assess the impacts of alternative non-regulatory options	●
Tools for effective implementation: when developing laws, regulators are required to:	
Assess the level of compliance	●
Identify and assess potential enforcement mechanisms	●
Specify the methodology of measuring progress in achieving the law's goals	●
Oversight of better regulation:	
There is an external body responsible for reviewing the quality of RIAs and of ex post evacuations	●
There are publicly available assessments of the effectiveness of RIA in modifying regulatory proposals	●
There are reports on the level of compliance by government department with the requirements of RIA	●
There are indicators on the percentage of ex post evaluations that comply with guidelines	●
The effectiveness of ex post evaluations in improving the regulatory stock has been assessed in the last five years	●

● High / yes / for all primary laws ● Medium / in part / for major primary laws ● Low / for some primary laws ● Very low / no / never

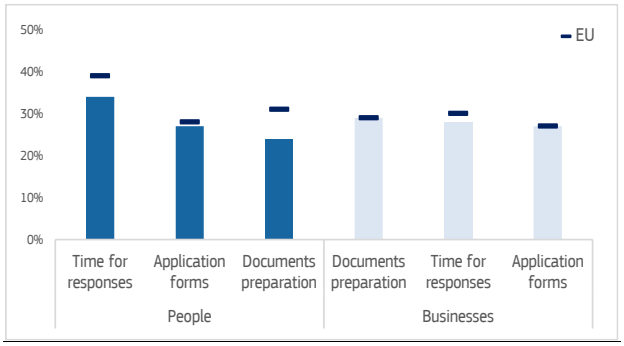
Source: OECD (2025), Regulatory Policy Outlook 2025 [https://doi.org/10.1787/56b60e39-en] and Better Regulation across the European Union 2025

Regulators are required to take account of consultation comments and respond online for new primary and secondary legislation. Such comments are reproduced in the Regulatory Impact Analysis, ensuring transparency on how the consultations were reflected in the legislative proposal.

Public service delivery and digitalisation

For businesses, the biggest challenges are the time it takes to process business operations, wait for responses, and collect and prepare documents and data (Graph A7.2). Latvian companies are more likely to encounter these issues than their counterparts elsewhere in the EU. Challenges in administrative services lead to delays in business operations less frequently than the EU average (Latvia 23%; EU 36%) with only 15% reporting increased operational costs (EU: 30%), which suggests that interaction with administration is positive. People find it easier than businesses to use public-administration services while abroad in the EU. Both people and businesses find it important for public-administration services to be fast and accessible through different channels, and for information to be transparent and clear.

Graph A7.2: **Most time-consuming aspects of service delivery**



Source: European Commission (2026), Flash Eurobarometer 567 / 568 on satisfaction with administrative services.

The availability of digital public services to people surpasses the EU level. The proportion of e-government users went up in 2025, staying above the EU average (Latvia 84%; EU 76%) ([159]). However, when asked about the preferred communication channels people tend to prefer email and telephone, with interest in online services below the EU average. 50% of people find that their interactions with administrative services could improve with clearer information about procedures and services, specifically digital services. There appears to be a lack of simplicity and clarity in digital services, as evidenced by the large proportions of people requesting step-by-step guidance (60%), user-friendly design (50%) and the possibility of obtaining quick help (49%)

([159])European Commission (2025), Digital Decade: eGovernment Benchmark.

Table A7.2: **Digital Decade key performance indicators: availability of digital public services**

	Latvia			EU-27
	2023	2024	2025	2025
Digital public services for citizens (0 to 100)	**87**	**88**	**93**	**82**
Digital public services for businesses (0 to 100)	**86**	**87**	**96**	**86**
Access to electronic health records (0 to 100)	**79**	**85**	**86**	**83**

(1) Digital Decade target by 2030: 100. (2) Publishing year, data was collected in the previous year
Source: European Commission, State of the Digital Decade report 2025

([160]). In terms of the technical deployment of electronic health records, Latvia is slightly above the EU average, at 86% ([161]) (see Annex 15). Latvia could build on its strong e-government foundation to deploy AI-driven tools that support public sector reform and enable broader AI adoption.

Latvia has put in place a comprehensive framework for state electronic identity and qualified electronic signature (eID, *eParaksts* and *eParaksts Mobile*). This enables secure authentication and legally binding electronic transactions across the public administration and the private sector. This infrastructure is a key enabler of the once-only principle and supports the EU Digital Decade objectives on digital public services and digital identity ([162]). In 2024, Latvians used electronic identification tools to verify their eID more than 22.4 million times, 60% more than in 2023, while secure identity tools became available in another 600 portals and information systems ([163]). Latvia also increased access to its services for people and companies from other EU countries: in the case of businesses, it went from 74% to 92% and for people from 86% to 90% (the EU averages are 74% and 71% respectively) ([164]). Latvia could introduce the European Digital Identity Wallet to address fragmented identification and access challenges by providing a secure, unified, and cross border usable digital identity, while at the same time modernising the existing e-identification infrastructure.

Latvia has made great progress in the availability of digital public services for businesses (Table A7.2) ([165]). However, only 68% of Latvian businesses report regular use of digital public administration services, even though a large proportion of businesses (79%) say that digital services save time and effort (EU: 73%). This seems to be consistent with the fact that businesses prefer communicating with government institutions by email (Latvia 79%; EU 71%) and telephone (Latvia 62%; EU 58%) rather than using online services (Latvia 57%; EU 70%).

One of the key online services regarding companies is the Latvian Enterprise Register. This platform enables users to i) register new businesses online, ii) access company data, iii) access annual reports submitted to the State Revenue Service, iv) update company information and v) manage business-related legal processes. It offers a streamlined and efficient set of services that simplify the process of setting up and running a business. As of October 2025, there were 183 191 active companies and merchants registered in Latvia ([166]). In relation to 2025 CSRs, the government set up a fast-track mechanism (the *Green Corridor*) ([167]) for companies investing in priority sectors. A combined electronic-reporting format was introduced for requesting information requests from the Central Statistical Bureau

([160])European Commission (2026), Flash Eurobarometer 567 and Flash Eurobarometer 568 on satisfaction with administrative services.

([161])European Commission (2025), Digital Decade: eGovernment Benchmark.

([162])Information provided during the European Semester mission to Latvia, January 2026.

([163])European Commission (forthcoming), Simplification of key life events.

([164])European Commission (2025), Digital Decade: DESI indicators.

([165])European Commission (2025), Digital Decade: eGovernment Benchmark.

([166])European Commission (forthcoming), Simplification of key life events.

([167])Investment and Development Agency of Latvia, The Green Corridor initiative. Indicative services offered: Permits and licences, construction and environmental procedures, registration, approvals and opinions from state or municipal bodies.

(*Centrālā statistikas pārvalde*) and the State Revenue Service (*Valsts ieņēmumu dienests*), which eliminates duplicate data submissions. This is estimated to have led to a net reduction of approximately 42 384 reporting obligations per year for 3 900 companies ([168]).

Latvia has made progress with the digitalisation of permitting processes. Latvia's building information system is an extensive digital platform for construction permitting. It covers all construction permit processes and mandates exclusively electronic format submissions. The integration with several state information systems such as the land and enterprise register and the automatic data exchange means that the platform can cover applications, permits, inspections and commissioning.

In 2025, building documentation requirements were relaxed for small structures. A unified building registration process, effective from January 2026, creates a streamlined one-stop shop for construction applications. Other processes are available, including i) submissions for Environmental Impact Assessments, ii) permitting for polluting activities, iii) producer-responsibility registrations and iv) waste-management reporting. There are also new e-services for deposit packaging management.

Latvia is technically ready to enable the cross-border exchange of data and documents between authorities through the EU once-only technical system (OOTS) ([169]). When services ([170]) become accessible, the public and businesses will no longer have to search for their data, download and upload documents manually across e-government portals in different Member States. Latvia has yet to identify the types of documents and data to exchange through the system and explore ways to shift from the submission of documents to exchange of structured data.

([168])Information provided during the European Semester mission to Latvia, January 2026.

([169])European Commission, Once-Only Technical System Acceleratormeter.

([170])Procedure types under Annex II of the SDGR (2018/1724/EU) and directives 2005/36/EC, 2006/123/EC, 2014/24/EU and 2014/25/EU.

Civil service

Latvia has one of youngest civil service workforces in the EU. The proportion of civil servants of 25-49 years old to 50-65 years old decreases gradually ([171]). Despite having one of the highest proportions of staff with higher education in the EU, this is also decreasing ([172]). In 2025, the proportion of women in senior civil-service posts decreased to 54% in 2025 but remains above the EU-27 average of 48% ([173]).

In 2025, Latvia continued to implement the 2023-2027 Modernisation Plan ([174]). This plan covers i) the public-administration salary reform, ii) improving pay competitiveness, iii) transparency and alignment between responsibilities and salaries and iv) supporting moves to retain and attract staff in critical functions. This aligns with Latvian employees stating that the main reasons for wanting to leave government institutions are the pay and unmanageable workload ([175]).

The State Chancellery also worked on reinforcing performance- and results-oriented management, including leadership development and internal mobility, building on the progress made in 2024 ([176]). Activities undertaken in 2025 further strengthened digital, analytical and policy-design skills, including targeted training courses for senior and middle management, with a focus on evidence-based policymaking ([177]) and delivery of reforms. The innovation laboratory of the State Chancellery strengthens public representation in decision-making processes: 'design sprints' are held

([171])Eurostat.

([172])Ibid.

([173])European Institute for Gender Equality (2025), Gender Statistics Database.

([174])The Public Administration Modernization Plan 2023-2027.

([175])Technical Support Instrument project: Workforce Insights from Central Governments: Findings of the 2024 OECD/EU Survey of Public Servants.

([176])European Commisison (2024), EU Public Administration Country Knowledge, Latvia Country Brief.

([177])OECD (2024), Building capacity for evidence-informed policymaking in Latvia.

regularly to find collaborative solutions to current problems in society ([178]).

Latvia has developed a Data Dissemination and Governance Platform (DAGR) to foster centralised data governance and to reduce the administrative and IT burden. It offers standardised metadata, record-level access control and integration with EU solutions such as the once-only technical system and eIDAS. It therefore provides flexible, interoperable data exchange that is tailored to institutions of varying ICT maturity. As of December 2025, there were 278 published data sets, 71 data providers (including municipalities) and 46 data users ([179]). The Ministry of Smart Administration and Regional Development (VARAM) has unveiled a Data Management Strategy 2026-2030 ([180]) open for public feedback until 15 March 2026. The initiative is set to make public administration data-centric; cutting red tape, sparking innovation and boosting data access to improve service quality and promote digital skills.

The Council of Europe ([181]) states that local governments face challenges due to insufficient financial resources to cover new responsibilities, complex oversight by various bodies and unclear power distribution between local and state levels, causing overlaps. After the post-2021 consolidation of municipalities, uneven administrative capacity and inconsistent service quality remain important challenges (see Annex 18). Reform priorities include enhancing municipal capacity to boost the efficiency and quality of services, with a view to supporting the successful implementation of the Latvian RRP and the national energy and climate plan. Ongoing efforts to improve the municipal financial equalisation system aim to ensure that municipalities have the resources necessary to better perform their functions.

With Commission support, the VARAM is developing a data tool for Latvian local governments ([182]). It aims to optimise resources and decision-making in education, social security and sustainability featuring 97 indicators to inform Latvia's planning.

Integrity

The perception of corruption when doing business in Latvia is below the EU average and there have been few reports of actual corruption experienced. Although perceptions are broadly in line with the EU, concerns about political influence stand out: 66% of companies view corruption as widespread (EU: 63%) and according to 82% overly close links between business and politics lead to corruption (EU: 76%). Yet only 25% see corruption as a problem when doing business (EU: 35%) ([183]), suggesting that these concerns are largely a matter of perception rather than a day-to-day obstacle for firms. Sectors particularly vulnerable to corruption in Latvia are renewable energy, building and municipal public procurement (see Annex 5) ([184]).

At the same time, reported exposure to bribery requests is very low. Only 2% of companies said they had been asked or expected to offer gifts, favours or extra money for permits, services or procurement (EU: 10%). However, a smaller proportion of companies than the EU average believe that those caught bribing a senior official are punished appropriately (Latvia 21%; EU 33%) ([185]), suggesting concerns on the perceived effectiveness of high-level enforcement.

Latvia has taken steps to improve the prevention and detection of corruption. In 2024, Latvia strengthened its legislation on preventing conflicts of interest among public officials and introduced an automatic system for electronically checking asset declarations. Strides

([178])See inovacija.mk.gov.lv and Latvia's Sixth National Open Government Action Plan 2026-2027 (under preparation).

([179])Ministry of Smart Administration and Regional Development (2025), Department of Public Services and Data Governance, presentation of DAGR.

([180])Ministry of Smart Administration and Regional Development (2026), Data Management Strategy 2026-2030.

([181])Council of Europe (2024), Monitoring of the application of the European Charter of Local Self Government in Latvia.

([182])Technical Support Instrument, 2024 project: Enhancing Regional Development: Tools for Monitoring and Evaluation.

([183])European Commission (2025), Flash Eurobarometer 557 on businesses attitudes towards corruption in the EU.

([184])European Commission (2025), Rule of Law Report.

([185])European Commission (2025), Flash Eurobarometer 557 on businesses attitudes towards corruption in the EU.

have been made in lobbying transparency with a temporary lobby register. However, the launch of a permanent system has been postponed until 1 September 2028.

Latvia carries out the prosecution of corruption efficiently. Corruption cases are efficiently investigated and sent for prosecution. While 10 cases of high-level corruption were prosecuted and at least 2 were concluded in 2024, these procedures seem more challenging and time-consuming than those relating to less complex corruption cases. In 2024, the European Public Prosecutor's Office did not report any corruption-related investigations in Latvia ([186]).

Justice

The justice system remains efficient. The time taken to reach a decision in civil and commercial cases in first-instance courts increased from 204 days in 2023 to 244 in 2024. The estimated time taken to resolve administrative cases in first-instance courts increased slightly from 205 days in 2023 to 210 days in 2024. The quality of the justice system is high. Latvia has one of the most digitally advanced justice systems in the EU, which performs very well in digital solutions to initiate and follow proceedings in civil/commercial and administrative cases. It also provides the public with online access to published judgments, and arrangements are in place for producing machine-readable judicial decisions ([187]).

([186])European Public Prosecutor's Office (2025), Annual Report 2024.

([187])For a more detailed analysis of the performance of the justice system in Latvia, see the upcoming 2026 EU Justice Scoreboard and the 2025 Rule of Law Report, link.

Latvia is advancing with reducing greenhouse gas (GHG) emissions from industry and the effort sharing sectors but continues to face challenges in decarbonising road transport and transitioning to a circular economy. Latvia is actively reducing emissions in its manufacturing sector, including through carbon capture initiatives, which are supported by legislative changes and market-based incentives funded by EU emissions trading system revenues. It is on track to reach its 2030 effort sharing target and has also seen significant GHG emission reductions in the industrial sector. Latvia is taking steps towards decarbonising transport, but further investment is needed in heavy-duty vehicles in particular. Despite the launch of some good initiatives, the transition to a circular economy is slow and Latvia's resource productivity is roughly half the EU average. For Latvia, the 2025 country-specific recommendations highlighted challenges in the decarbonisation of transport and the transition to a circular economy.

Industry decarbonisation

Latvia's manufacturing sector accounts for 10% of the country's total GHG emissions, following significant emission reductions over the past few years ([188]). Latvia has a rather limited emission-intensive industrial sector. Emissions are dominated by a single cement facility that alone accounts for nearly half of industrial GHG emissions. Overall, a significant portion of Latvian manufacturing emissions, namely 57%, come from industry processes and product use, compared with 42% for the EU as a whole ([189]). Looking at the trends between 2019 and 2024, GHG emissions from manufacturing decreased by 18% over the last five years, which is more than the EU average of 16%.

GHG emissions per euro of gross value added (GVA) in Latvia's manufacturing industries stood at 371 g CO_2eq in 2023. This is slightly higher than the EU average of 310 g CO_2eq. However, the energy intensity of the Latvian manufacturing industry is among of the highest in the EU, at more than double the EU average. Largely as a result of the prominent role of biomass in the wood-processing sector, most of this energy comes from renewable sources.

Latvia's pathway to decarbonising industry aims to improve energy efficiency, increase the use of renewable energy sources and reduce emissions from production processes. Its final updated national energy and climate plan ([190]) continues to focus on energy efficiency in the industrial sector. Key energy-saving measures set out in the plan include the further implementation of support programmes for enterprises, changes to the framework for imposing obligations on major energy consumers and energy audits.

Carbon capture, utilisation and storage (CCUS) is needed to decarbonise Latvia's cement production. The country's most emission-intensive cement production facility is testing several carbon capture technologies and assessing their potential for future CCUS applications. In 2025, the government took legislative steps to facilitate CCUS by amending the laws on pollution and subterranean depths to allow for permanent CO_2 storage in geological formations ([191]).

In addition to regulatory measures, Latvia provides market-based incentives for industry decarbonisation. These incentives are mainly provided through programmes as part of

([188]) This Annex discusses the transition of Latvia's manufacturing industry, specifically its energy-intensive industries, to low-carbon and net-zero modes of production, which is key to preserving competitiveness on the path towards climate neutrality as mandated by the European Climate Law. A broader perspective on the current competitiveness challenges facing Latvia's manufacturing industry is provided in Annex 5. For a more detailed description of greenhouse gas emissions from industry, see European Commission (2025), 2025 Country Report: Latvia, Annex A7.

([189]) Data on the manufacturing sector exclude the NACE division C19 – manufacture of coke and refined petroleum products, for better match of the sectoral data from Eurostat (gross value added) with those from the UNFCCC under the Common Reporting Format. See further indicators on industry decarbonisation as well as the annotation for further information in table A8.1 at the end of this Annex.

([190]) European Commission (2024), Latvia: Final updated NECP 2021-2030.

([191]) As suggested in the European Commission's assessment of Latvia's final updated energy and climate plan.

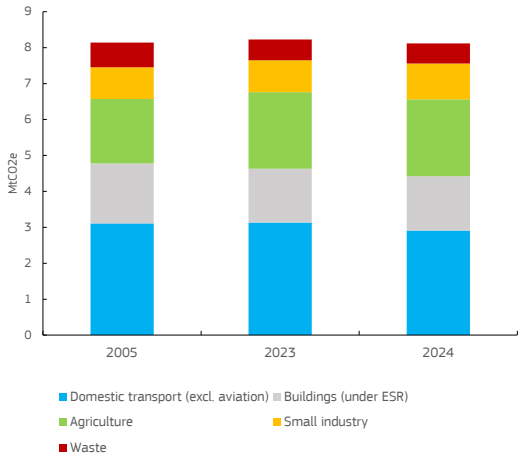
Latvia's emissions allowance auctioning instrument, which is funded by revenue from the EU emissions trading system. Latvia has raised over EUR 0.49 billion in auction revenue since 2013 (EUR 65 million in 2024). Latvia reported that an average of 49% of revenue was used for climate and energy purposes over the same period ([192]).

Reduction of effort sharing emissions

For 2030, Latvia is projected to overachieve its effort sharing target ([193]). In 2024, GHG emissions from Latvia's effort sharing sectors are expected to have been 5.4% below those of 2005. By 2030, with current and planned policies and measures, these emissions are expected to decrease by 18.2%, resulting in a surplus of 1.2 percentage points relative to the 2030 target of −17%. Latvia is projected not to exceed its effort sharing emissions limits in any year in the 2021-2030 period.

In 2024, 44% of Latvia's effort sharing emissions came from road transport, with a reduction of only 6% compared with 2005 levels ([194]). The transport sector is one of the largest contributors of GHG emissions in Latvia, accounting for 34.9% of total national emissions (3.7 Mt CO_2eq) in 2023 ([195]). 83% of that amount came from road transport. Around 92% of Latvia's road transport fleet consists of fossil fuel-powered vehicles, making it the primary driver of transport emissions. Passenger cars and buses account for most passenger-kilometres travelled ([196]). To address the issue, Latvia has adopted the Transport Energy Law (in force since January 2026), which (i) sets a GHG emissions intensity reduction obligation on fuel suppliers, with at least 16% emission intensity reduction from renewable transport energy sources from 2030 onwards; (ii) sets an advanced fuels shares obligation on fuel suppliers, with at least 5.5% in 2030; (iii) commits to expanding cleaner energy infrastructure; and (iv) commits to achieving a cleaner public transport fleet.

Graph A8.1: **Greenhouse gas emissions in the effort sharing sectors, 2005, 2023, and 2024**



Source: European Environment Agency

Latvia is taking steps to accelerate the uptake of electric passenger cars. In 2025, the Latvian government provided financial support for private electric vehicle (EV) purchases, allocating approximately EUR 11 million to subsidy programmes. In addition, the Recovery and Resilience Facility (RRF) is providing support for greening the public transport fleet. As a result, new EV registrations are increasing, although from a relatively low base compared with the EU average. Recent data show that the EV fleet has grown from 0.8% (2024) to 1.05% (2025) of the total fleet. Despite this growth, the share of electric vehicles in newly registered passenger cars in 2025 remains low, at approximately 7.19% for battery EVs and 12.28% for plug-in hybrids ([197]).

([192])European Commission (2025), Climate Action Progress Report.

([193])The national GHG emission reduction target is set out in Regulation (EU) 2018/842 (the Effort Sharing Regulation). It applies jointly to buildings (heating and cooling), road transport, agriculture, waste and small industry (known as the effort sharing sectors). The emissions from effort sharing sectors for 2024 are based on approximated inventory data. The final data will be established in 2027 after a comprehensive review. Projections about the impact of current policies ('with existing measures', WEM) and additional policies ('with additional measures', WAM) as per Latvia's 2025 reporting under Article 17 of Regulation (EU) 2018/1999 (the Governance Regulation). Also see European Commission (2025), Climate Action Progress Report 2025 – Technical Information, Staff Working Document.

([194])See Graph A8.1 and Table A8.1 at the end of this Annex.

([195])European Commission (2025), EU Transport in figures – Statistical pocketbook 2025.

([196])Ibid.

([197])European Commission (2026), European Alternative Fuels Observatory.

Charging infrastructure has expanded rapidly. In 2025, the number of light-duty vehicle charging points doubled in comparison with the previous year, but, at 108 charging points, it remains lower than the EU average in both absolute and per capital terms (EU average: 224 per 100 000 inhabitants ([198])). Charging infrastructure for buses and coaches within the Riga TEN-T urban node remains insufficient, jeopardising compliance with the requirement under the TEN-T Regulation for all urban nodes to be equipped with multimodal passenger hubs with charging infrastructure for buses and coaches by 2030 ([199]). The RRF also includes ongoing investments in charging stations for buses and, more generally, connection points for charging electric vehicles.

The uptake of electric heavy-duty vehicles is crucial to decarbonise freight transport but is proceeding slowly. Road transport accounted for 89% of total land freight volumes in the first nine months of 2025, while railways accounted for the remaining 11%. Rail freight transport comprised 6.7 million tonnes, which is 19.8% less than in the first nine months of 2024. This decrease was driven mainly by a sharp reduction in international rail freight as a result of the closure of Eastern markets. National rail freight also decreased but to a lesser extent ([200]). Progress with the uptake of electric heavy-duty vehicles has been slow. Latvia currently has around 30 electric trucks ([201]), which make up only a very small share of the commercial vehicle fleet. The majority of trucks, including those above 3.5 tonnes, continue to rely on diesel. Furthermore, charging infrastructure – particularly high-power charging infrastructure – for heavy-duty vehicles remains underdeveloped, with only 12 stations dedicated to heavy-duty vehicles in mixed locations ([202]). Insufficient availability of suitable charging infrastructure risks becoming a major bottleneck. The absence of adequate charging infrastructure is discouraging the uptake of electric trucks, constraining fleet renewal by logistics operators and undermining truck manufacturers' ability to meet their legally binding EU sales targets.

Latvia could benefit from speeding up rail electrification and the replacement of diesel trains with battery-electric and electric traction. Compared with most EU Member States, Latvia's conventional rail network remains only minimally electrified. Electrification is currently limited mainly to the Riga area and its commuter routes, which operate on an older 3.3 kV DC system. As a result, electrified lines account for only around 14% of the total rail network, well below the EU average of approximately 57%. To address this gap, the Latvian national railway company (*Latvijas Dzelzceļš*) has launched a national rail electrification programme aimed at modernising existing infrastructure and expanding electrification beyond the Riga region. The programme is to take place in stages and envisages the use of a 25 kV AC system, which is compatible with European standards. In addition, funding from the RRF has been allocated to electrify 100 km of railway lines in the Riga and Pierīga area by 2026. At present, rail electrification in Latvia mainly benefits passenger rail transport, which is already around 90% electrified, while rail freight services continue to rely exclusively on diesel traction. This is a missed opportunity for emission reduction, particularly given the strategic role of rail freight in the modal shift and in decarbonising transport.

Latvia is constructing the Rail Baltica high-speed railway line to connect the Baltic states to the EU standard-gauge railway network. This important project has received considerable EU funding under the Connecting Europe Facility. Moreover, as part of the Rail Baltica project, RRF funding has been granted for the completion of the southern part of Riga Central Station. Once completed, the high-speed railway line will form a key part of the TEN-T core network corridor and multimodal hub, bringing electrified rail capacity through Latvia and directly linking the country to the EU high-speed rail network by 2030. The new line is expected to encourage a modal shift from road and air to rail, particularly for medium-distance passenger travel, thereby contributing to lower GHG emissions. The project is also important for military mobility and

([198])Ibid.

([199])A 2025 strategic node study (Riga Node Operation Optimisation Study) identified Riga Central Station as a pre-identified multimodal transport facility that requires further development to improve multimodal connectivity and services for passengers, including by integrating charging infrastructure for zero-emission buses and coaches.

([200])Central Statistical Bureau of Latvia (2025), In the 9 months of 2025 freight transport by road and air increased.

([201])European Commission (2026), European Alternative Fuels Observatory.

([202])Ibid.

has a security and resilience dimension, strengthening strategic connectivity within the EU and enhancing the overall robustness of regional transport infrastructure ([203]).

Sustainable industry

Despite notable successes in recycling, Latvia faces significant challenges in its overall transition to a circular economy, which remains hindered by a persistently low circular material use rate, now standing at just half the EU average. In 2025, Latvia received a country-specific recommendation to increase resource efficiency and the transition to a circular economy through eco-innovation and sustainable resource management practices. Latvia outperformed the EU average of 42.1% by recycling 59.2% of its plastic packaging in 2023, up from 35.8% in 2018 ([204]). In terms of the recycling rate for construction and demolition waste, Latvia also surpassed the EU average of 80%, achieving nearly 87% in 2022. The municipal waste recycling rate stood at 52.7% in 2024, compared with the EU average of 48.1%. Despite these achievements, Latvia's circular material use rate in 2024 was only half the EU average, standing at 6.8%, compared with 12.2% for the EU as a whole. This rate has been stagnating and on a downward trend since 2016.

Although Latvia has cut its landfill reliance, more than 30% of its municipal waste was still being sent to landfill in 2024, well above the EU average of 21%. While this marks a decrease from a landfill rate of 59% in 2018, Latvia remains at risk of not meeting the EU target to limit landfilling to a maximum of 10% by 2035. On the positive side, the incineration rate was low – only 6.6% for 2024, below the EU average of 26.1%. Latvia has also taken good regulatory measures to reduce landfilling with a high landfill tax for municipal waste which stood at EUR 130 in 2026. To ensure genuine waste reduction and prevent a mere shift from landfill to incineration, one option is to introduce a new tax of up to EUR 15 per tonne on waste designated for incineration, including waste exported for that purpose ([205]).

The outlook for Latvia's circular economy is concerning. In 2024, Latvia generated EUR 1.58 per kg of material consumed, which is just over half the EU average of EUR 3 per kg. Furthermore, Latvia's import material dependency stands at 29%, which is higher than the EU average of 22.4%.

Implementation of the national 2020 action plan for transitioning to a circular economy by 2027 is reaching its final stage, but progress has been limited. The 2021-2027 action plan 'Towards a Circular Economy' adopted in 2020 was rather general and lacked concrete actions and targets. Latvia took a long time to set up a committee to oversee the implementation of the plan. Furthermore, there was a 20% decrease in circular economy jobs between 2014 and 2022 ([206]), with the sector accounting for 3.6% of total employment in 2023, which was still above the EU average of 2%. Nevertheless, there have been some good initiatives, such as separate collection of textile goods since 2025 and the ongoing implementation of an e-cigarette deposit system.

The bioeconomy is growing in the wood products and furniture, food and beverages, and bio-based chemicals and plastics subsectors. In Latvia, the average five-year growth rate of the bioeconomy value added stands at 6.5% since 2018, which is well above the EU-27 average of 5.1% ([207]). The wood products and furniture, food and beverages, and bio-based chemicals and plastics subsectors accounted for 46% of the total bioeconomy value added in 2023 and registered the highest average

([203]) As part of Rail Baltica, Latvia is planning to roll out the European Rail Traffic Management System, which is essential for interoperability, safety, capacity and cost-efficiency. Procurement of the control-command and signalling subsystem was launched in 2024 and the contract is expected to be signed this year. However, the migration of the rest of the national network is still in the planning phase, without detailed timelines.

([204]) Eurostat.

([205]) European Commission (2026), Greening the European Semester – Resource and pollution taxes.

([206]) Eurostat.

([207]) European Commission (2023), Jobs and Wealth in the European Union Bioeconomy.

growth in value added (5.6% between 2018 and 2023) ([208]).

Overall bioeconomy employment has shown limited growth. Of the subsectors, only wood products and furniture registered positive growth in total employment between 2018 and 2023 (1.4% on average) ([209]). When compared with the national average, labour productivity in the bioeconomy – measured as value added per person employed – showed a consistent improvement until 2022 and subsequently fell to 66.2% in 2023, due to a contraction in the value added of the wood products and furniture subsector ([210]).

R&D business expenditure from bioeconomy-relevant subsectors has grown slightly less than the overall R&D business expenditure. It showed a 16.7% average growth rate compared with an average of 16.9% between 2018 and 2023 ([211]). Latvia's Bioeconomy Strategy 2030 adopted in December 2017 highlights innovation trends in several domains, notably in biomedical sciences (genetics, molecular biology, and biotechnology) and wood processing technologies ([212]).

Air quality in Latvia is of concern in some parts of its territory, notably the capital. Some 1 600 deaths can be attributed to air pollution in the form of fine particulate matter (PM2.5) and ozone exposure alone ([213]). The latest available annual estimates for 2023 attribute 8 412 years of life lost (YLL) to fine particulate matter (PM2.5) and 2 300 YLL to ozone exposure ([214]). Environmental risks also weighed heavily on public health. Combined behavioural risks (i.e. smoking, harmful alcohol use, poor diet and low physical activity, as described in Annex 15) and air pollution accounted for 32% of all deaths in Latvia in 2021, which was slightly higher than the EU average of 29%, underscoring the need for stronger and more comprehensive public health measures ([215]).

The solution to air pollution can be found through a combination of measures. These include sustainable transport, energy and agricultural policies to reduce emissions of air pollutants, targeted urban and land-use planning policies, and specific fiscal actions, such as removing environmentally harmful subsidies and increasing targeted environmental taxation ([216]).

Water pollution from industry is low and on a downward trend, except for heavy metal releases. In 2022, Latvia had one of the lowest levels of pollutant releases into water in the EU. They amounted to 0.46 kg/EUR 1 billion GVA, weighted by human toxicity factors (2022 EU average: 0.86). Nevertheless, between 2010 and 2022, there was a 10% increase in industrial heavy metal releases (cadmium, mercury, nickel and lead). All other releases are falling, with a 69% reduction in total nitrogen releases and a 17% reduction in total phosphorus emissions as reported under the Industrial Emissions Directive ([217]). In Latvia, water pollution by industry imposes direct and indirect costs of EUR 28 million annually ([218]). This is not yet sufficiently borne by the polluters. Pollution by perfluoroalkyl and polyfluoroalkyl substances (PFAS) is a growing issue in Latvia. The Forever Pollution Project ([219]) aimed to raise public awareness of PFAS contamination. Latvia took part in the project, which resulted in the development of a map illustrating the extent of PFAS pollution across Europe.

([208])Ibid.

([209])Ibid. Bioeconomy subsectors: food and beverages; bio-based textiles; wood products and furniture; bio-based chemicals and plastics.

([210])European Commission (2023), Jobs and Wealth in the European Union Bioeconomy.

([211])European Commission (2023), Business expenditure on Research and Development (R&D) in the EU bioeconomy.

([212])Latvia's Bioeconomy Strategy 2030

([213])EEA (2025), Harm to human health from air pollution in Europe: burden of disease status.

([214])Ibid.

([215])EC/OECD/European Observatory on Health Systems and Policies (2025), State of Health in the EU: Country Health Profile for Latvia.

([216])European Commission (2026), Greening the European Semester – Resource and pollution taxes.

([217])EEA (2024), Water pollutant releases changes from 2010 to 2022 for the EU Member States.

([218])European Commission (2021), Green taxation and other economic instruments – Internalising environmental costs to make the polluter pay.

([219])The Forever Pollution Project.

Table A8.1: **Key clean industry and climate mitigation indicators: Latvia**

Climate mitigation	Latvia							Trend	EU	
Industry decarbonisation	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2023**
GHG emissions intensity of manufacturing production, g/€ [1]	443	420	393	351	353	371	-	↘	330	-
Share of energy-related emissions in industrial GHG emissions [2]	45.9	43.2	43.2	42.8	41.2	42.6	-	↘	55.5	57.9
Energy-related GHG emissions intensity of manufacturing and construction, g/€ (3)	229.0	202.5	196.2	177.6	170.2	185.9	-	↘	203.9	163.0
Share of electricity and renewables in final energy consumption in manufacturing, % (4)	62.6	65.5	67.4	68.3	71.8	70.8	71.5	↗	42.8	43.9
Energy intensity of manufacturing, GWh/€ [4]	3.03	2.85	2.88	2.69	2.85	2.97	3.04	↗	1.27	1.05
Share of energy-intensive industries in manufacturing production, % in GVA [5]	12.07	12.40	11.76	10.80	10.59	11.07	-	↘	-	-
GHG emissions intensity of production in sector [...], g/€ [6]										
- paper and paper products (NACE C17)	146	129	95	141	143	163	-	↗	722	619
- chemicals and chemical products (NACE C20)	426	356	235	228	201	119	-	↘	-	-
- other non-metallic mineral products (NACE C23)	4,061	3,868	4,032	3,268	3,887	4,467	-	↗	2,495	2,352
- basic metals (NACE C24)	185	84	57	127	83	219	-	↗	2,842	3,099
Reduction of effort sharing emissions	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2023**
GHG emission reductions relative to base year, %				0.7	-2.0	-3.8	-5.4			
- domestic road transport	7.2	6.6	0.0	3.1	0.5	0.8	-6.3	↘	-1.4	-5.6
- buildings	-6.7	-8.3	-7.6	-4.2	-6.0	-10.3	-9.7	↘	-20.3	-33.5
	2005			**2021**	**2022**	**2023**	**2024**	**Target**	**WEM**	**WAM**
Effort sharing: GHG emissions, Mt; target, gap, %	8.6			8.7	8.4	8.3	8.1	-17.0%	-15.2%	-18.2%
Sustainable road transport	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2018**	**2021**
New zero-emission vehicles, electricity motor, % [7]	0.45	0.63	2.56	3.28	6.40	8.83	7.35	↗	1.03	8.96
Number of publicly accessible AC/DC charging points [8]	-	-	266	359	506	534	1157	2051 ↗	446956	n/a
Share of electrified railways, % of total [9]	13.49	13.49	13.50	13.50	13.45	13.70	13.70	↗	55.47	56.49

Sustainable industry	Latvia							Trend	EU-27	
Circular economy transition	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**latest data**
Material footprint, tonnes per person	17.5	17.3	17.6	18.9	19.5	15.8	15.4	↘	14.8	13.7
Circular material use rate, %	4.7	4.8	5.2	5.0	4.3	6.0	6.8	↗	11.6	12.2
Resource productivity, €/kg	1.0	1.1	1.0	1.1	1.1	1.5	1.6	↗	2.1	3.0
Employees in circular economy	4.1	3.9	3.7	3.7	3.5	3.6	-		2.1	2.0
Patents in circular economy	0	1.0	0.5	-					12.3	12.0
Recycling rate	25.2	41.0	39.7	44.1	50.8	50.6	52.7		46.40	48.1
Plastic recyling	36%	35%	36%	42%	47%	59%	-		41%	42%
Construction and demolition waste (CDW) recovery	97	-	99						88	89
Bioeconomy industry	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**CAGR 2018-2023**	**2018**	**2023**
Value added, million EUR	2,270	2,420	2,668	3,329	3,957	3,311	-		6.5%	642,438	863,436
Employment, total number of people employed	122,056	118,456	128,743	132,288	129,556	132,516	-		1.4%	17,649,040	17,085,642
Productivity											
Valued added per worker, thousand EUR	18.6	20.4	20.7	25.2	30.5	25.0	-		5.0%	36.4	50.5
Valued added per worker, % of national average	69.2	73.6	74.8	81.1	87.8	66.2	-		-	62.2	70.7
R&D business expenditure											
Total bioeconomy (biomass producing and converting sectors)	7	8	12	17	19	17			16.7%	15,672	23,335
Total R&D business expenditure	46	51	77	93	106	118	-		16.9%	196,587	259,525
Zero pollution industry	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**			**2018**	**2021**
Damage cost for industrial pollution	0.4	0.4	0.3	0.4	-	-	-			414.9	352.7

Water industrial pollutants releases	Cd, Hg, Ni, Pb		nitrogen		TOC		Phosporus			
	2021	change (2010)	2021	change (2010)	2021	change (2010)	2021	change (2010)		
	355	-18%	388,000	-64%	863,000	no data	40,000	-8%		
Water chemical status		Good	-	Good (%)	-		Poor	780.0	Poor (%)	100%

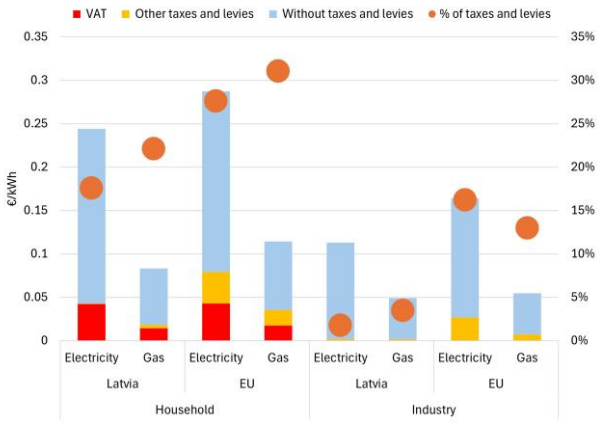
Source: Industry decarbonisation: All data from Eurostat; data following the UNFCCC Common Reporting Format (CRF) are from the European Environment Agency (EEA), republished by Eurostat. (1) Sectors covered: all divisions of section C - Manufacturing - of the NACE Rev. 2 statistical classification of economic activities, except C19 (manufacture of coke and refined petroleum products). (2) GHG emissions as per UNFCCC Common Reporting Framework (CRF) categories 1.A.2 - fuel combustion in manufacturing in industries and construction (that broadly correspond to the broadly correspond to the NACE sections C - Manufacturing and E - Construction, excluding C-19), and CRF2 - industrial processes and product use. The figures shows the emissions in the 1.A.2 category as a share of the sum of CRF1.A.2. and CRF2 emissions. (3) Sectors covered: CRF 1.A.2 as described above. Gross value added (GVA) data in the denominator aligned in sectoral coverage, in 2020 prices. (4) Sectors covered: NACE section C excluding C19. (5) Nominator: NACE divisions C17, 20, 23, 24; denominator: NACE section C excluding C19 (see above). (6) GVA (denominator) in 2020 prices. Reduction of effort sharing emissions: EEA, greenhouse gas data viewer; European Commission, Climate Action Progress Report, 2025. For details, see the footnote in the "Reduction of effort sharing emissions" section. Sustainable road transport: (7) Eurostat; (8) European Alternative Fuels Observatory; (9) Eurostat. For all climate mitigation indicators, the trend arrows compare the latest available data (year t) with the data four years earlier (t-4). Sustainable industry: Bioeconomy value added, employment and productivity: JRC, Developments of Economic Growth and Employment in Bioeconomy Sectors across the EU. Bioeconomy R&D business expenditure: JRC, Business expenditure in Research and Development (R&D) in the EU bioeconomy. Damage cost for industrial pollution: EEA, The costs to health and the environment from industrial air pollution in Europe, 2024. Water industrial pollutants releases: EEA, Industrial releases of pollutants to water and economic activity in the EU-27, 2024. Water chemical status: WISE, Surface water bodies: Chemical status, 2024 and WISE Groundwater bodies: chemical status, 2024. Other indicators: Eurostat. For circular economy indicators, the trend arrows compare the latest available data (year t) with the data two years earlier (t-2).

Latvia has made some progress in enhancing energy affordability while advancing the transition to net zero, but challenges remain. Latvia's 2025 energy-related country-specific recommendations highlighted the need to reduce reliance on fossil fuels and increase energy security by accelerating the deployment of renewable energy, particularly wind and solar, to improve permit-granting procedures and electricity grid queue management, to promote energy storage, demand response and market-based flexibility solutions, and to reduce primary and final energy consumption and carbon intensity by strengthening energy efficiency measures, especially in the buildings sector, and by promoting further electrification. Latvia is making steady progress in clean energy production while building on its already extensively decarbonised electricity mix and is working to achieve its 2030 targets for renewable energy and greenhouse gas reduction in line with the EU's 2030 objectives. The country has seen good progress in terms of uptake of solar power. Moreover, the synchronisation of the Baltic power system with the continental European grid was completed in 2025, thereby strengthening Latvia's security of supply and integration with the EU internal energy market. However, challenges remain, including the slow roll-out of wind energy projects, grid capacity limits constraints that can slowing down the connection of new renewable installations, and persistent lengthy and complex permit-granting procedures for renewables and network investments.

Energy prices and costs

Thanks to persistently low taxes and levies on retail energy bills ([220]), both non-household and household energy prices in Latvia remain below the EU average. In the first half of 2025, household electricity and gas prices in Latvia decreased to EUR 0.2440/kWh and EUR 0.0832/kWh respectively, remaining below the EU average. Retail electricity prices for industrial consumers also decreased and continued to be well below the EU average, while industrial gas prices were stable and in line with the EU average. Nevertheless, final energy prices in Latvia during the first half of 2025 remained imbalanced. For large businesses, electricity was 2.3 times more expensive than gas, with taxes and levies (excluding VAT) accounting for only 2% of electricity bills and 3% of gas bills. Excluding taxes and levies, the electricity-to-gas price ratio would have remained the same, indicating that Latvia's fiscal measures to promote electrification had no balancing effect on large business energy prices. For household consumers, on the other hand, the effect of taxes and levies was slightly more evident: the electricity-to-gas price ratio would have increased from 2.9 to 3.1 if taxes and levies were excluded, bearing in mind that taxes and levies combined account for over 18% of household electricity bills and 19% of gas bills ([221]). Thus, there is room to improve the ratio.

Graph A9.1: **Electricity and gas prices for household and non-household consumers, first half of 2025**



(i) For household consumers, the consumption band is DC for electricity and D2 for gas.
(ii) For non-household consumers, the consumption band is ID for electricity and I4 for gas. VAT and recoverable charges are not displayed for non-household consumers as these are typically recovered by businesses. This also applies to the '% of taxes and levies', which is shown excluding VAT and recoverable charges for non-household consumers.
(iii) 'Without taxes and levies' indicates the retail price excluding all taxes and levies. It always includes the energy/supply and network cost components, which are not disaggregated in Eurostat's six-monthly price dataset.
Source: Eurostat

Average wholesale electricity prices in Latvia were EUR 88/MWh in 2025 ([222]), above the EU average of EUR 85/MWh. Average day-ahead

([220])Eurostat

([221])Latvia maintained a 17% VAT rate on gas and electricity consumption. Analysis based on Eurostat data from first six months of 2025.

([222])Ember

electricity prices in Latvia decreased slightly in 2025 despite higher natural gas prices ([223]). The effect of the latter on electricity prices was partly mitigated by the growing incorporation of low-cost renewables in Latvia's energy mix. Although daytime prices have fallen in recent years, Latvia remains vulnerable to price spikes during peak-demand hours. This is because lower solar power output in the evening and early morning, combined with limited non-fossil flexibility requires thermal plants to ramp up generation to cover supply–demand gaps, which keeps costs elevated. As a result, price spreads ([224]) in Latvia averaged EUR 158/MWh in 2025, up 4% from 2024 while significantly above the EU average of EUR 121/MWh.

Graph A9.2: **Low-carbon electricity generation vs electricity wholesale prices, 2025**

Data unavailable for Cyprus and Malta. The wholesale price is given as the average of day-ahead electricity prices over 2025. The EU-27 average is calculated as consumption-weighted. The EU low-carbon share is calculated from total EU electricity generation. The low-carbon share by country is calculated from total public electricity generation. 'Low-carbon' includes renewables and nuclear.
Source: European Commission calculation based on ENTSO-E, S&P Global Platts

Flexibility and electricity grids

In February 2025, Latvia disconnected from the Russian-operated IPS/UPS electricity system and successfully synchronised with the Continental European Synchronous Area (CESA) via Poland. By synchronising its electricity grid with CESA and modernising its energy infrastructure, Latvia has improved the management of its electricity systems, including by ensuring stable and reliable frequency regulation, which in turn has strengthened its energy independence and increased energy security and resilience throughout the region. The grid synchronisation project and upgrades to Latvia's electricity infrastructure benefitted from crucial EU support, in the form of substantial EU-funded investments under the Connecting Europe Facility (CEF). This was complemented by support under Recovery and Resilience Facility and by investments from the EU Modernisation Fund for network modernisation and grid development.

Latvia's electricity interconnection level stands at 49.9% as of 2026, well above the EU 15% interconnection target for 2030 ([225]). Latvia has completed some major grid reinforcement projects to improve resilience and renewables integration, including the renovation of the 330 kV electricity interconnection between Latvia and Estonia, and upgrades to its interconnections with Lithuania. In early 2026, an additional EUR 113 million in funding under the CEF was allocated specifically to bolster Latvia's and other Baltics' post-synchronisation resilience against cyber and physical threats. New flagship projects under the Modernisation Fund are also in progress with the aim of upgrading and expanding distribution and transmission networks to handle higher capacity and integrate renewables. Latvia is also taking steps to advance its non-fossil flexibility by promoting the deployment of battery energy storage. Large battery storage projects, financed under the RRF and CEF, were brought online in October 2025, notably a 60 MW/120 MWh battery in Rēzekne and a 20 MW/40 MWh battery in Tume, which will help with grid balancing and frequency stability while reducing energy costs.

The Baltic states' synchronisation with the continental grid, alongside ongoing reinforcements of Latvia's national grid, have boosted the country's cross-border trade capacity and system flexibility. Latvia's efforts have ensured a minimum of 70% of

([223])Fossil fuels still accounted for over 28% of electricity generation in Latvia throughout the year, maintaining their role as marginal price-setting technologies.

([224])Spread refers to the difference between the highest and lowest hourly day-ahead electricity prices in a single day.

([225])The EU has set an interconnection target of at least 15% by 2030 under Regulation (EU) 2018/1999 on the Governance of the Energy Union and Climate Action.

technical cross-border capacity is available for trading. Nevertheless, Latvia is part of the Baltic ([226]) capacity calculation region (CCR) which does not yet have a fully coordinated regional process in place for monitoring the margin available for cross-zonal electricity trading ([227]).

Although challenges persist, Latvia has made progress towards achieving the 2025 country-specific recommendation on improving permit-granting procedures and electricity grid queue management by accelerating permitting for energy projects. Latvia has introduced amendments aimed at simplifying permit-granting procedures and reducing administrative burden. Since 1 February 2025, Latvia has set up a dedicated one-stop-shop for energy infrastructure permitting under the former Energy and Environment Agency (now the State Environmental Service). However, the permitting procedures are not subject to any fixed time limits and there can be significant delays caused by environmental impact assessments.

Despite Latvia taking mitigating measures, new large renewable facilities are experiencing grid connection delays due to the virtual overcapacity of the grid. Latvia's transmission system operator (*Augstsprieguma Tīkls*) has issued no new grid connection permits since summer 2023. To address the problem of grid capacity overbooking, amendments were made to the Electricity Market Law ([228]) with effect from 1 April 2025. These amendments introduced a transition period in which developers could relinquish all or part of their reserved capacity and request a refund of the reservation fee. Furthermore, the amendments put in place a new flexible transmission system service, whereby the transmission system operator may curtail system services for up to 876 hours per calendar year. These mitigating measures were included in Latvia's national recovery and resilience plan and have freed up approximately 2 GW of booked capacity. Until 31 December 2026, free system capacity will only be allocated for receiving the flexible transmission system service.

Despite significant regulatory action in relation to self-consumption and energy communities, there is scope to improve the legal framework governing demand-response and energy storage. In Latvia, energy communities are still in the early stages of development. Although a legislative framework is in place, only two energy communities (with electricity generation of 8 MWh and 120 MWh per year) have been registered so far. Aggregation rules would be useful for allowing demand-side response and storage in order to participate in day-ahead and intraday markets, as well as ancillary services. Nevertheless, Latvia took significant regulatory steps in relation to self-consumption and electricity sharing in 2024 by amending the Electricity Market Law and standards on trading and use of electricity. Additional steps were taken with regard to energy communities with the adoption of a Regulation laying down rules on the registration and operation of energy communities. These efforts were part of the 'Transforming the Energy Sector' reform package included in Latvia's recovery and resilience plan. In addition, Latvia has launched its first small-scale energy-community demonstration projects in the municipality of Marupe ([229]).

Although Latvia has made progress in retail-market regulation, further efforts to empower consumers to actively participate in the energy market would be beneficial. In Latvia, while consumers are entitled to dynamic-price contracts, the share of households on a fixed-price electricity contract is still very high, at about 85%. Meanwhile, the share of dynamic contracts rose from 49% in 2023 to 51% in 2024 ([230]). The share of consumers that switched electricity contract increased slightly, from around 4% to 5% for household customers (in the case of non-household customers no data is available). Household roll-out of smart meters has reached 99%, one of the highest rates in the EU ([231]).

([226])A CCR lays down the set of bidding zone borders among which the tasks of capacity calculation are coordinated by transmission system operators. Finland, Sweden, Estonia, Latvia, Lithuania and Poland are part of the Baltic CCR.

([227])ACER (2025), Transmission capacities for cross-zonal trade of electricity and congestion management.

([228])Amendments to the Electricity Market Law.

([229])Interreg Europe (2024), Energy communities in Latvia.

([230])ACER (2025), Market Monitoring report and ACER (2025), Electricity country sheets: monitoring data 2024.

([231])Ibid.

In 2024, electricity accounted for 15.0% of Latvia's final energy consumption (considerably below the EU average of 23.4%), a share which has remained largely unchanged over the last decade ([232]). Electricity accounts for 13.6% and 16.6% of household and industrial final energy consumption respectively (see Annex 8). In the transport sector, the share accounted for by electricity remains negligible at 1.1%. Further progress in electrification across sectors would help to cost-effectively decarbonise the economy and bring the benefits of affordable renewable generation to consumers.

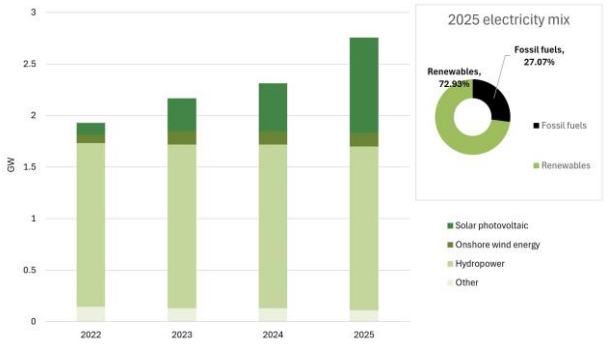
Renewables and long-term contracts

In 2025, renewables accounted for 72.9% of electricity generation in Latvia (vs an EU average of 45%) ([233]), a share which is unchanged compared to the previous year ([234]). Hydropower accounted for most of Latvia's renewable electricity mix, followed by solar, wind and biomass also contributing. Furthermore, Latvia increased its 2030 target for renewables deployment to 61% (as a share of gross final energy consumption) in the final version of its updated national energy and climate plan, in accordance with the EU Regulation on the Governance of the Energy Union and Climate Action.

Latvia has taken steps to address the 2025 country-specific recommendation on reducing reliance on fossil fuels and increasing energy security by accelerating the deployment of renewable energy. Installed capacity for renewables in Latvia represented 2,755 MW in 2025, an increase of 10% compared to 2024 (2,505 MW). Installed capacity for wind energy grew marginally to 133 MW in 2025 (compared to 131 MW in 2024, +1.5%), whilst installed capacity for solar grew strongly (+39.7% compared to 2024), reaching 922 MW. However, installed capacity in both cases remains significantly below that of the two other Baltic countries, Estonia and Lithuania. In terms of heating and cooling, renewables accounted for around 61% in 2025 (mostly biomass). Furthermore, the development of wind energy, in particular onshore wind, is faced with major challenges, including strong public opposition, grid capacity limitations and investment uncertainty.

Following a recent amendment to the Electricity Market Law, all electricity users are now able to conclude power purchase agreements (PPAs) with producers. However, uptake has been hindered by the limited number of large-scale renewable facilities and the lack of major industrial consumers. Latvia is assessing possible support measures that could promote PPAs, including for smaller industrial consumers (i.e. SMEs). According to the Ministry of Climate and Energy, no auctions or tenders are planned for wind or solar power in 2026.

Graph A9.3: **Latvia's installed renewable capacity vs electricity generation mix**



Electricity mix is given as net electricity generation (gross electricity production minus consumption of power stations' auxiliary services). Electricity produced in pumped hydro plants is excluded from total net electricity production, as it was previously counted as electricity produced from another source.
"Other" includes renewable municipal waste, solid biofuels, liquid biofuels, and biogas.
Source: IRENA, Eurostat

Latvia's permit-granting framework still needs to be aligned with the Renewable Energy Directive. Latvia has made efforts to speed up the deployment of renewables by simplifying permitting, applying the overriding public interest principle for strategic projects, and advancing the process of designating renewable acceleration areas. In this regard, maps identifying acceleration areas were developed in late 2025. Nevertheless, it is expected that these areas will

([232])Eurostat: CAGR (compound annual growth rate) of -0.08% between 2015 and 2024 and minimum/maximum share of 14.2% and 15.1%, respectively.

([233])Ember: yearly electricity data.

([234])Energy-charts based on ENTSO-E Transparency Platform.

be challenging to implement due to growing public opposition to onshore wind farms. In addition, there is scope for further improvement, specifically by shortening the permit-granting procedure for renewable energy sources, especially for larger onshore wind and solar installations. This could be achieved, for instance, through more active engagement with local authorities and communities to raise awareness about the benefits of renewables.

Energy efficiency

Latvia has made some progress towards achieving the 2025 country-specific recommendation on reducing primary and final energy consumption and carbon intensity by strengthening energy efficiency measures, especially in the buildings sector. In 2024, final energy consumption (FEC) decreased by 0.8% to 3.87 Mtoe, as compared to 2023, continuing the downward trend observed since 2019. Latvia's FEC in 2024 was in line with the trajectory for meeting its expected contribution by 2030. FEC in industry has increased by 7.9% since 2019, while a consistent downward trend has been observed between 2019 and 2024 in the other three sectors: –12.7% in transport, -5.9% in services and –7.6% in the residential sector. These reductions can be attributed to ongoing programmes to support the renovation of residential and non-residential buildings, including a new programme started in 2025 to promote energy efficiency and the deployment of renewables in public buildings. A decrease in FEC was also observed in the transport sector over the 2019-2024 period.

The decrease in final energy consumption in the residential building sector was mostly driven by building renovations. Nevertheless, this decrease was not in line with the objective set in Latvia's 2020 long-term renovation strategy to reduce energy consumption by 23% by 2030 as compared to the 2018 baseline.

Thanks to substantial EU funding, including through the Recovery and Resilience Facility, Latvia has stepped up support in recent years for large-scale energy efficiency programmes for multi-apartment buildings. Furthermore, in 2025 some improvements were made to the regulatory framework to reduce administrative barriers and simplify the decision-making model for multi-apartment buildings. Given that buildings are responsible for 44% of energy use in Latvia, they play an important role in improving energy efficiency. Latvia is therefore encouraged to submit its draft national building renovation plan pursuant to the recast of the Energy Performance of Buildings Directive in order to ensure a clear and predictable pathway towards an energy efficient and decarbonised building stock.

Heating and cooling account for 83% of Latvia's residential final energy consumption. Renewables supply 61% ([235]) of energy used for heating and cooling, predominantly biomass in the case of heating. Nevertheless, there are approximately 400 000 households which use gas for heating. Currently, no structured data is available on the number of heat pumps sold or installed.

Security of supply and diversification

Latvia has taken important steps to diversify its energy supply, notably by ending imports of Russian natural gas and electricity. The share of renewable energy in Latvia's energy mix has undergone positive shifts. Nevertheless, fossil fuels still account for more than half of the overall energy consumption, particularly in the building and transport sector. Latvia has diversified its natural gas supply through regional LNG access and interconnections with neighbouring countries (including with Lithuania and Finland via Estonia), and through the use of domestic underground storage facility. Demand for natural gas has declined, as renewable alternatives have expanded. Nevertheless, gas remains important as a fuel source for generating power during periods of peak demand and for cogeneration. Oil accounted for 35% and natural gas for 16% of gross inland consumption ([236]), while renewables

([235])Eurostat

([236])Excluding electricity and heat to avoid double-counting, focusing on primary energy sources.

(including biofuels) again accounted for a considerable share (46.9%) ([237]).

In response to the regional crisis in the Middle East, Latvia has introduced some temporary policy measures. It adopted a reduction in the excise duty on diesel fuel (of indicatively 15%) from 1 April to 30 June 2026 and proposed a "fuel retailer solidarity contribution", a 100% levy on excess profits if retail prices exceed the government reference by more than 3%. Latvia is monitoring energy prices and may activate state aid if prices spike sharply.

Fossil fuel subsidies

In 2024, environmentally harmful fossil fuel subsidies ([238]) without a planned phase-out before 2030 represented 0.29% of Latvia's GDP ([239]). However, Latvia's 2023 Effective Carbon Rate ([240]) averaged EUR 62.15 per tonne of CO_2, below the EU weighted mean of EUR 84.80 ([241]).

([237])Eurostat

([238])Explicit fossil fuel subsidies (e.g. direct transfers) and implicit fossil fuel subsidies (i.e. tax expenditures linked to forgone tax revenues that have an identifiable fiscal impact for the central budget) that support fossil fuel energy production, transmission and/or consumption.

([239])European Commission calculation based on underlying data from European Commission (2025), Study on energy subsidies and other government interventions in the EU. 2024 gross domestic product at market prices, Eurostat.

([240])The Effective Carbon Rate is the sum of carbon taxes, ETS permit prices and fuel excise taxes, representing the aggregate effective carbon rate paid on emissions.

([241])OECD (2024), Pricing Greenhouse Gas Emissions.

Latvia faces a significant challenge in increasing its carbon removal capacity, while climate change and nature degradation pose economic risks. Latvia would benefit from substantial cross-sectoral investment and improved insurance coverage as well as from systematically expanding the use of nature-based solutions. It faces challenges such as enhancing sustainable resource management practices in the land and forestry sectors to boost carbon removals, enhancing water resilience, addressing agricultural nutrient pollution, restoring nature, and finalising the designation of protected nature areas. These are all vital for safeguarding economic stability and food security in a context of climate change pressure**.**

Climate adaptation and preparedness

Climate change poses significant risks to Latvia that will require significant cross-sectoral investment. Latvia is a low-lying country in northern Europe. It has an extensive Baltic coastline and is dominated by forests, waterside areas and meadows, with more than half of its territory covered by forests in particular ([242]). Changes in precipitation patterns and more frequent extreme weather events therefore put pressure on ecosystems and on sectors such as fisheries and agriculture. They could also affect hydropower generation, which accounts for almost half of domestic electricity generation. In addition, the growing impacts of climate change also have a broader effect on people's health, safety and businesses ([243]). Available sources estimate that investment needs related to climate adaptation will be significant in the future. A recent study ([244]) estimates that Latvia will need to invest almost EUR 664 million per year up to 2050. This is one of the highest levels in the EU relative to GDP (1.4% of annual GDP, as compared to the EU-27 average of 0.46%). Investment is primarily needed in infrastructure retrofitting and reinforcement (more than 54% of the total), followed by ecosystem restoration (around 35%) and health (around 6%).

Latvia is reinforcing its policy framework on resilience, but steps remain to be taken in implementation. In 2025, Latvia strengthened its national adaptation and climate resilience policy framework through the adoption of the Climate Resilience and Economic Sustainability Law. This establishes a regulatory framework to coordinate climate policy and implementation across public institutions (including a focus on enhancing resilience to the impacts of climate change). The new law includes a requirement to regularly update the national adaptation plan and to update climate risk and vulnerability assessments every 10 years. Under the recovery and resilience plan, Latvia has adopted legislation on a national early warning system to ensure a coordinated, rapid response. In parallel, Latvia has published risk and vulnerability assessments for specific sectors, including agriculture and fisheries ([245]) and transport ([246]). These sector-specific analyses complement the assessment in the updated 2024 national energy and climate plan, which includes a partial analysis of climate vulnerabilities and risks (including power fluctuations, infrastructure vulnerabilities and biodiversity degradation) ([247]). In addition, studies have been launched and are ongoing in the areas of energy infrastructure and construction. At the sub-national level, the share of Latvia's population covered by the EU Covenant of Mayors (the largest coalition of local governments in the EU, dedicated to addressing climate change) has been steadily increasing and stood at 53% in 2024 (EU-27: 34%) ([248]). Furthermore, 78% of signatories have submitted a

([242])EEA (2025), Latvia Country Profile.

([243])European Commission (2025), 2025 Country Report: Latvia.

([244])European Commission, (2026), Assessment of EU and Member States adaptation investment needs, Table 25. The study provides detailed estimates of adaptation investment needs at the level of the EU and individual Member States per type of measure. It relies on a common methodology that makes estimates comparable across the EU. Four accompanying methodological reports provide a detailed description of how the results were estimated to ensure full transparency.

([245])Ministry of Climate and Energy (2025), Risk and vulnerability assessment and identification of adaptation indicators and measures in the field of agriculture and fisheries. The assessment regarding fisheries suggests high climate-related risks due to negative impact on spawning, on the natural reproduction of fish and on certain fish species. These would together negatively impact fisheries in the Gulf of Riga and in the Baltic Sea, as well as freshwater aquaculture production.

([246])Link.

([247])European Commission (2024), Latvia: Final updated NECP 2021-2030.

([248])European Commission, EU Covenant of Mayors.

sustainable energy and action plan (SECAP) on time (i.e. within two years of their initial commitment to the EU Covenant) and 86% of signatories have submitted at least one monitoring report within the recommended timeframe (i.e. at least two years after submission of their SECAP) ([249]).

Climate risks have a direct and significant effect on Latvia's economy, but insurance coverage remains low. Between 1980 and 2024, Latvia recorded EUR 1.3 billion in economic losses ([250]) caused by weather and climate-related extreme events ([251]). According to a recent analysis ([252]), windstorms have had a relatively high impact on Latvia's economy over the past decade. Looking towards 2050, the potential annual damage from coastal flooding could also be particularly high and is predicted to be 0.5% of GDP. However, Latvia's 7% insurance coverage against weather-related and climate-related events is one of the lowest in the EU (EU-27 average: 19%) ([253]). The transport vulnerability index of the TEN-T network in Latvia to climate change has been assessed as one of the highest in the EU. This is mainly driven by lower general adaptation preparedness, the quality of transport infrastructure and limited interoperability on the TEN-T ([254]). Estimates show that a total of EUR 195 billion will need to be invested in adapting the TEN-T network until mid-century.

Climate-proofing has not been systematically applied across sectors and key infrastructure. The Climate Resilience and Economic Sustainability Law explicitly requires the integration of climate change adaptation objectives and measures into sectoral policies. A methodological guidance document has been published to support this integration, but more work is needed in order to effectively implement these measures across all sectors.

There is scope to tap into nature-based solutions more widely and systematically. With its abundant natural capital, nature-based strategies play a key role in enhancing resilience in Latvia, including for addressing flood-related risks and vulnerabilities. A notable opportunity for Latvia is the restoration and rewetting of peatlands, which act as efficient water buffers, offering protection against both flooding and drought. Beyond the benefits for better resilience to climate change, peatland rewetting has the capacity to store substantial carbon in the soil and conserve Latvia's unique peatland biodiversity. Projects funded by Interreg ([255]) and LIFE ([256]) have already supported rewetting efforts in areas like Cenas Tīrelis, while the CAP strategic plan for Latvia (2023-2027) and the Just Transition Fund provide financing to support the establishment of wetlands and restoration of peatlands. Nature-based solutions are equally relevant for urban areas, helping transform regions to be more resilient to extreme weather events in the future, as demonstrated by the LIFE LATEST adapt project. The key challenge moving forward is to scale up these projects towards a more systematic implementation.

Water resilience

Water productivity ([257]) in Latvia stood at EUR 143 per m³ of abstracted water in 2023, below the EU-27 average of EUR 153 per m³. Latvia's water productivity has been improving since 2020. Its 2023 Water Exploitation Index Plus (WEI+) was 0.14, a low value that is consistent with a fluctuation between 0.1 and 0.8 since 2016. Agriculture remains a significant water consumer, accounting for 32% of total consumption despite a 5% decline in abstraction from 2018 to 2023.

([249])European Commission, EU Covenant of Mayors CoM-munity Explorer.

([250])EEA (2024), Economic losses from weather- and climate-related extremes in Europe.

([251])ECB and EIOPA (2024), Towards a European system for natural catastrophe risk management, Chart 2. This figure includes earthquakes in the period 2020-2023.

([252])European Commission (2025), Macro-economic / top-down assessment of climate impacts on the EU economy.

([253])EEA (2024), Economic losses from weather- and climate-related extremes in Europe.

([254])European Commission (2024), Support study on the climate adaptation and cross-border investment needs to realise the TEN-T network.

([255])Interreg Europe (2025), Fighting climate change: Peatland restoration in Latvia.

([256])University of Latvia (2026), LIFE PeatCarbonLink.

([257])Water productivity is a metric that is calculated by dividing GDP (in chain-linked volume) by total water abstraction. It indicates the average economic value (GDP) a Member State creates for each unit of water it takes from nature.

Public water supply is the largest consumer (52% of total abstraction ([258])).

Recent assessments reveal some improvements in the ecological status of surface water bodies but also a decline in the chemical status of surface and groundwater bodies, compared with the previous reporting period. According to the assessment of the third River Basin Management Plan (2022-2027), the ecological status of Latvia's surface water bodies has improved, with 32.5% now achieving good status. This is an increase compared to the previous period's 21%, but 67.5% still fall short. All surface water bodies are assessed as failing to achieve good chemical status, with limited monitoring covering only 12% due to capacity constraints ([259]). Groundwater bodies consistently maintain good quantitative status, but their chemical status has declined (68% do not have good chemical status).

Latvia is facing increasing water leakage and a significant financing gap in pollution protection and water management. In 2023, Latvia's water leakage increased to 5.3 million cubic metres from 4.8 million cubic metres in 2022 ([260]). This highlights substantial investment needs in water protection and management. The financing gap matches the annual investment of EUR 171 million. Improved investment is crucial, especially following the adoption of the amended and strengthened Urban Waste Water Treatment Directive (UWWTD) in 2024 ([261]). Infrastructure development is needed in order to improve water management, reuse and supply. Additional investment is needed to improve monitoring and support nature-based solutions, flood prevention and river restoration.

Latvia has a high compliance rate with the Urban Waste Water Treatment Directive – 97.5% in 2022. In Latvia, households and certain industries generate 1.5 million population equivalents of wastewater (roughly 3 million bathtubs daily) ([262]). Urban wastewater needs to be treated before discharge in order to avoid polluting the environment. In Latvia, urban wastewater is treated in 52 plants. 97.5% is treated according to the requirements of the UWWTD (above the EU average of 75.9%). Latvia does not yet fully use tools for enhancing water resilience practices. Viable strategies include selectively applying water abstraction pricing in stressed catchments (coupled with restructuring current charges to differentiate by usage) and potentially increasing the wastewater tax to EUR 2.14 per kg. Implementing a water abstraction tax could generate EUR 8.4 million annually ([263]).

Nature restoration

Nature degradation is a significant risk for Latvia's economy and competitiveness. Latvia's supply chain relies heavily on ecosystem services, which account for 32% of its gross value added (EU average: 22%). 37% of its economy is dependent on these services (EU average: 44%) ([264]). Sectors like agriculture, forestry, fishery and healthcare are entirely reliant on ecosystem services. Annual ecosystem restoration and maintenance costs are estimated at EUR 54.3 million and benefits at EUR 611 million ([265]).

Action on nature protection and restoration will help Latvia meet the EU goal of 30% by 2030. Latvia legally protects 18.4% of its land (EU average: 26.4%) and about 15.8% of its marine areas (EU average: 12.3%). Latvia still needs to expand the Natura 2000 network on its territory. It also faces significant nature restoration needs: it has to take measures to restore up to 3 141 km^2 of land habitats (equivalent to up to 4.9% of Latvia's territory) ([266]). Only about 10% of habitats

([258])EEA (2025), Water abstraction by source and economic sector in Europe.

([259])European Commission (2025), Staff Working Document(2025) 27 final.

([260])OECD (2025), Latvia Water Losses: Leakage.

([261])Directive (EU) 2024/3019 concerning urban wastewater treatment.

([262])European Commission, Country profiles on urban waste water treatment: Latvia.

([263])European Commission (2026), Greening the European Semester – Resource and pollution taxes, Table 74.

([264])Dataset from Commission/JRC, based on The EU economy's dependency on nature.

([265])Ibid.

([266])European Commission (2022), Impact assessment accompanying the proposal for a Regulation on nature restoration.

and fewer than 40% of species have a good conservation status. The mean forest condition index was 0.63 in 2018 ([267]). Latvia's common farmland bird population is above the EU average but has declined unevenly since 2011.

Invasive alien species (IAS) exacerbate nature degradation in Latvia. 17 species were recorded in 2024 ([268]), causing an estimated EUR 80 million in damage between 1960 and 2020, primarily affecting agriculture ([269]). Latvia is conducting a large scientific study on how to control IAS ([270]). Its results will be used to develop national guidelines for managing IAS throughout Latvia by 2027.

Aligning itself with the EU's biodiversity strategy would help Latvia to play its part in restoring at least 25 000 km of the EU's rivers to free-flowing conditions by 2030. This would support the achievement of the Water Framework Directive's goals of restoring freshwater ecosystems, mitigating flood impacts and delivering socio-economic benefits (e.g. an improved rural landscape, recreation, tourism, job creation, improved water quality and better sediment transport that protects deltas and coastal areas against erosion and rising sea levels). The LIFE River Flow project in Latvia ([271]) aims to enhance river connectivity and ecosystem functions, improving ecological quality across 557 km, while also developing tools and partnerships for sustainable river management. Similar initiatives (e.g. the Beja Watermill removal financed by the Open Rivers grant programme) further support these objectives by opening up approximately 20 km of free-flowing rivers in north-eastern Latvia ([272]). The European Maritime and Fisheries Fund (EMFAF) is supporting the removal of barriers to fish migration ([273]).

Sustainable agriculture and land use

Latvia's is not on track to meet its 2030 carbon removal target for land use, land-use change and forestry (LULUCF). The LULUCF sector has historically delivered substantial carbon removals in Latvia (even resulting in overall net negative emissions in the early 2000s), but removals have declined over time, and the sector has been a net emitter since 2020. In 2023, LULUCF emissions declined for the first time in five years. The sector nevertheless remained the largest source of greenhouse gas emissions, contributing 4.6 $MtCO_2$-eq in 2023 (over 30% of Latvia's total emissions).

Emissions from organic soils and intensified harvesting beyond the ecosystem's regenerative capacity are the main reasons for the increase in CO2 emissions in the LULUCF sector. This increased harvesting is among others driven by the ageing of the forests, historic land use changes and natural disturbances. To meet its 2030 LULUCF target, additional carbon removals of 0.6 $MtCO_2$-eq are needed ([274]). The latest available projections show a gap to target of 7 $MtCO_2$-eq for 2030 ([275]). In 2025, Latvia took some steps to improve its carbon sequestration capacities and thereby improved its sustainable resource management practices ([276]). It also continued implementing the measures included in its final updated national energy and climate plan (such as restoring rewetted peatlands, afforestation projects and sustainable reforestation). Accelerating the implementation of these measures would nevertheless be in order. In addition to increasing LULUCF net removals, further investment in

([267])On a scale from 0 to 1, where 0 represents a degraded ecosystem and 1 represents a reference condition based on primary or protected forests.

([268])European Commission (2025), Environmental Implementation Review, Latvia Country Report.

([269])NeoBiota (2021), Economic Cost of invasive alien species across Europe.

([270])LIFE Integrated project: Optimising the Governance and Management of the Natura 2000 Protected Areas Network in Latvia.

([271])European Commission (2025), Sustaining Latvia's Aquatic Ecosystems.

([272])Open Rivers Programme, Beja Watermill, Latvia.

([273])For more information, see: Rural Support Service.

([274])National LULUCF targets of the Member States in line with Regulation (EU) 2023/839.

([275])European Commission (2025), Climate Action Progress Report.

([276])2025 country-specific recommendation: "Increase resource efficiency and the transition to a circular economy through eco-innovation and sustainable resource management practices."

healthy forests and soils is key to building resilient bio-based product value chains and enabling a growing, competitive EU bioeconomy. Continuing improvements to the monitoring system of net removal data will be particularly crucial in supporting timely and effective action in the sector. Improved monitoring of carbon removals and emissions could also enable result-based financing under the CAP, State aid and other public funds, by making GHG emissions and removals a key CAP result indicator. In addition, public-private financing could be improved by involving private funds of actors in the bioeconomy (through better reporting of emissions and removals in their value chain) and by leveraging the carbon removal and carbon farming certification.

The topsoil organic carbon pool is at significant risk, particularly because Latvian regions are cooler and more humid than in some other parts of the EU. Further carbon loss could severely hinder EU climate change mitigation efforts and jeopardise food security ([277]). In Latvia, the estimated loss of soil organic carbon in mineral soils accounts for about 2% of the national territory ([278]). Data on organic soils remains unquantified. Latvia could address this issue by enhancing efforts to rewet peatlands and safeguard them from draining and conversion (in line with the requirements of the Nature Restoration Regulation), which would also address national defence needs.

In 2023, Latvia's agricultural sector represented around 15% of its total greenhouse gas emissions, including LULUCF. Latvia has a low livestock density of around 0.2-0.3 LU/ha of utilised agricultural area (UAA). This is well below the EU average of 0.7 LU/ha and far below the >2 LU/ha threshold associated with high nutrient pressure ([279]). Latvia's UAA increased from 1 937 900 hectares in 2018 to 1 970 800 hectares in 2024.

Latvia has not met its ammonia emission reduction commitments ([280]), but it is projected to do so from 2030 onwards. In 2023, Latvia's agriculture sector accounted for 95% of its total ammonia emissions. Latvia nevertheless has the lowest rate of ammonia emissions in the EU (6.4 kg/ha in 2023), with a reduction of 9% since 2018.

Intensive agriculture is causing nutrient pollution in the Baltic Sea via rivers, groundwater and the atmosphere (despite some reductions in risk areas since 2005). There has been some progress in the overall nitrogen balance in Latvia. Nitrogen levels decreased from 26.6 kg/ha in 2018 to 23.6 kg/ha in 2023. Eutrophication is a major issue in the Baltic Sea, driven by an excess of nitrogen and phosphorus that causes oxygen-deprived 'dead zones'. These nutrients stem from intensive agriculture in the Baltic Sea countries and enter the sea mainly through rivers, groundwater and the atmosphere. There has been some improvement (risk areas have fallen from 84.5% to 60.1% since 2005), but Latvia continues to struggle with excessive nutrient inputs. The latest HELCOM assessment in 2023 reveals little progress in improving the Baltic Sea's environment and no significant reduction in nitrogen input in the Gulf of Riga since 1997-2003 ([281]). The Baltic Sea's poor environmental status clearly affects, for example, the profitability of fisheries and coastal tourism, and impacts a wide range of ecosystem services. Moreover, pollution and dead zones in Baltic Sea contribute to the collapse of stocks of some fish species (e.g. Baltic cod). It is therefore necessary to continue data collection and control enforcement regarding fish stocks in the Baltic Sea ([282]). Considering the high costs of inaction, investing in a healthy Baltic Sea is also an investment in the region's sustainable economic and societal development. Achieving good environmental status in national marine waters by 2040 has been estimated to be worth EUR 5.6 billion per year to the people around the

([277])European Commission (2025), Soil organic carbon is at risk in a large part of European agricultural land.

([278])European Commission, Staff Working Document(2023) 417 final.

([279])Eurostat

([280])According to the 2024 inventories submitted under Article 10(2) of the National Emission Reduction Commitments Directive.

([281])HELCOM (2021), Eutrophication: thematic assessment.

([282])The European Maritime and Fisheries Fund (EMFAF) is supporting data collection and control enforcement (total public support for data collection and control enforcement in Latvia amounts to EUR 30.6 million).

Baltic Sea ([283]). In 2023, over half of Latvia's rivers, nearly a quarter of lakes, and 45% of groundwater exceeded pesticide safety limits ([284]). Pesticides not only threaten aquatic ecosystems and related socio-economic activities (such as fisheries and coastal tourism) but also pose long-term risks to human health through contaminated drinking water and food chains.

The share of agricultural land covered by non-productive landscape features in Latvia was 4.3% below the EU average of 5.6% in 2022 ([285]). Latvia had the lowest decrease in the EU-27 in the extent of areas providing flood control ecosystem service, despite the dramatic increase of average yearly net land take in cities and commuting zones (202%) between 2018 and 2021 compared to the previous period 2012-2018.

Latvia is in transition to a sustainable food system by implementing policies to reduce the environmental impact of agriculture. Organic farming, which reduces the use of synthetic fertilisers and pesticides, made up 15.6% of Latvia's agricultural land in 2024 (above the EU average). Under its CAP strategic plan, Latvia allocates approximately EUR 216 million to organic farming and aims to increase the area under organic farming to reach 18.8% of UAA by 2027. The government has implemented measures to mitigate the environmental impacts of agriculture, by reducing pollution (e.g. promoting integrated farming systems and improving methods of distributing fertilisers and manure to the soil). Over EUR 740 million of the CAP strategic plan's EU funds is earmarked for measures to support the climate and the environment. To this end, Latvia has designed several agri-environmental interventions and seven voluntary schemes that compensate farmers for the additional costs and income loss resulting from the adoption of more environmental and climate-friendly practices. These include reduced use of fertilisers and pesticides, farming techniques that protect biodiversity and soil conservation practices.

([283])HELCOM (2023), State of the Baltic Sea.

([284])EEA (2023), Pesticides in rivers, lakes and groundwater in Europe.

([285])Eurostat, LUCAS.

Table A10.1:**Key Adaptation Indicators**

Climate adaptation and preparedness:							**EU-27**
	2019	2020	2021	2022	2023	2024	latest data
Drought impact on ecosystems *[area impacted by drought as % of total]*	19.15	1.61	4.83	0.99	10.71	-	2.76
Forest fires burned area [1] *[burned area in ha. per year]*	49	-	251	171	127	-	354 510
Economic losses from extreme events *[EUR million at constant 2022 prices]*	-	-	-	-	18	32	40 452
Insurance protection gap [2] *[composite score between 0 and 4]*	-	-	-	2	2	2	-
Sub-national climate adaptation action *[% of population covered by the EU Covenant of Mayors for Climate & Energy]*	19	26	59	63	63	63	34

Water resilience:							**EU-27**
	2019	2020	2021	2022	2023	2024	latest data
Water Exploitation Index Plus, WEI+ [3] *[total water consumption as % of renewable freshwater resources]*	0.24	0.22	0.21	0.20	0.14	-	4.53
Water productivity *[EUR per m^3]*	131	125	131	143	143	-	151
Water abstraction							
Water abstraction by source (% from surface water)	52.43%	53.57%	53.50%	51.35%	53.10%		-
	Agriculture	Electricity cooling	Manufactu-ring	Public water supply	Mining and Quarrying	Constru-ction	
Water abstraction by sector	31.91%	1.37%	12.06%	51.14%	3.53%	0.00%	
Status of water bodies [4] *[% of water bodies in a good status]*							
Surface water bodies (ecological)	-	-	-	-	-	33%	38%
Groundwater bodies (quantitative)	-	-	-	-	-	100%	93%

Nature restoration:							**EU-27**
	2019	2020	2021	2022	2023	2024	latest data
Ecosystem dependency *[% of direct dependency]*	-	-	-	37%	-	-	44%
Protected area *[% of terrestrial protected areas]*	18.1	18.1	18.1	18.1	18.4		26.4
Invasive alien species (IAS) *[number of IAS of Union concern]*	-	-	-	-	-	17	29.2
Damage cost of IAS *[EUR billion]*	-	-	-	-	0.08		1.69
Eutrophication *[AAE of area at risk of euthrophication]*				141	141		295

Sustainable agriculture and land use:							**EU-27**
			2012-2018		2018-2021		latest data
Yearly net land taken by Member State *[ppm of total urban surface per Member State]*			183		552		670
Land conversion in functional urban area *[% of total land taken from 2018-2021]*							
Arable land					34%		
Complex and mixed cultivation					0%		
Forests					28%		
Herbaceous vegetation associations					7%		
Open spaces with little or no vegetation					0%		
Pastures					28%		
Permanent crops					0%		
Water					1%		
Wetlands					1%		
	2019	2020	2021	2022	2023	2024	latest data
Nitrates in groundwater [5] *[$mgNO_3/l$]*	1.8	1.6	1.6	1.7	1.8		
Livestock density *(number of livestock units per hectare of utilised agricultural area)*		0.24			0.23		0.75
Ammonia emissions *[% of total utilised agricultural area]*	96%	96%	96%	96%	96%	-	94%
Pesticide contamination on rivers and lakes water bodies *[% of monitoring sites with pesticides exceeding thresholds, 2018-2023]*				rivers	53%		27%
				lakes	23%		18%
Pesticide contamination in soil *[% of samples with a concentration over 0.5 mg/Kg^{-1}]*					38%		57%
Net greenhouse gas removals from LULUCF [6] *[$ktCO_2$-eq]*	-2209.3	529.4	1978.2	5701.7	4629.8	-	-198 421

(1) EFFIS (European Forest Fire Information System), Link. (2) The climate protection gap refers to the share of non-insured economic losses caused by climate-related disasters, based on modelling of the risk from floods, wildfires and windstorms, and on the insurance penetration rate. Scale: 0 (no protection gap) – 4 (very high gap). EIOPA, 2025, Dashboard on insurance protection gap for natural catastrophes. (3) This measures total water consumption as a percentage of the renewable freshwater resources available for a given territory and period. Values above 20% are generally considered to be a sign of water scarcity, while values equal to or greater than 40% indicate severe water scarcity. (4) European Commission, 2024, Seventh Implementation Report from the Commission to the Council and the European Parliament on the implementation of the Water Framework Directive (2000/60/EC) and the Floods Directive (2007/60/EC)(Third River Basin Management Plans and Second Flood Risk Management Plans) (5) Indicator refers to concentrations of nitrate (NO3) in groundwater, measured as milligrams per litre (mgNO3/L). Nitrate can persist in groundwater for a long time and accumulate at a high level through inputs from anthropogenic sources(mainly agriculture). The EU drinking water standard is limited to 50 mgNO3/L to avoid threats to human health. (6) Net removals are expressed in negative figures and net emissions are expressed in positive figures. Reported data are from the 2025 greenhouse gas inventory submission. 2030 value of net greenhouse gas removals is taken from Regulation (EU) 2023/839 – Annex IIa.

Source: Eurostat, EEA and JRC.

Latvia has comparatively strong labour market outcomes but continues to face significant labour market challenges. Employment has reached a record high in 2025, while unemployment nevertheless remains above the EU average. Employment challenges remain most acute in the eastern border region of Latgale. Young people and persons with disabilities continue to face barriers to labour market integration, but some positive developments have emerged with regard to supporting employment opportunities for the most vulnerable groups, including through the growing social economy. The employment rate among women is high, but a large gender pay gap persists. Real wages have grown strongly in recent years, but low and declining collective bargaining limits further improvements in some areas, such as working conditions. Weak productivity growth poses risks to long-term competitiveness, and labour and skills shortages need to be addressed ([286]).

Employment growth slowed in 2024 in response to the economic stagnation but has picked up again in line with the economic recovery. The employment rate, having remained unchanged at 77.4% in 2024 (EU: 75.8%) and has increased to 78.2% in 2025 (EU: 76.1%). This mirrors the recent economic developments, as real GDP contracted by 0.9% in 2023, showed no growth in 2024, before recovering to 2.1% growth in 2025. Likewise, the labour force participation rate, which had remained largely unchanged since 2022, grew to 77.6% in 2025 (EU: 75.7%). The unemployment rate has remained stable at 6.9% and above the EU average in 2025 (EU: 6.0%). The economy is projected to continue to grow slightly in the upcoming years, with the unemployment rate projected to decrease to 6.5% by 2027 ([287]). However, with demographic pressures intensifying, the workforce is expected to shrink. Latvia risks falling short of its 2030 national employment target of 80%.

Regional disparities persist, particularly in the eastern border region of Latgale. Riga accounts for 65.6% of national GDP, while economic output is significantly lower in other regions. GDP per capita in Latgale is the lowest in the country and about one third of the level in Riga ([288]). The difference in economic activity also has an impact on labour market outcomes. The activity rate (for 15-64-year-olds) is highest in Riga at 80% and lowest in the eastern border region of Latgale at 71.4% ([289]). Similarly, employment (15-64-year-olds) stands at 74.4% in Riga and 63.5% in Latgale. Latgale also faces higher unemployment, accelerated depopulation and the lowest birth rate in the country at 5.9 per 1000 in 2024 (Latvia: 6.9 per 1 000) ([290]). The average net wage was EUR 904 in Latgale in 2024, compared with EUR 1 332 in Riga and EUR 1 221 nationally. Russia's war of aggression in Ukraine and shifting global geopolitical conditions have disproportionately affected Latgale, which borders Russia and Belarus, through reduced trade and tourism, disrupted supply chains, higher levels of hybrid threats and a weakened investment environment (see Annex 18).

Youth labour market outcomes have deteriorated. The share of young people neither in employment nor in education and training (NEETs) increased from 10.0% in 2023 to 10.7% in 2024 and reached the EU average in 2025 (at 11.0%). The labour force participation rate among 15-24-year-olds rose to 36.1% in 2025 (EU: 40.7%), and the employment rate increased to 30.8% (EU: 34.5%). Youth unemployment increased by 1.2 pps to 14.8% in 2025, converging with the EU average of 15.2%. The share of early school leavers rose for the third year in a row to 8.8% in 2025 but remains below the EU average (9.1%).

Persons with disabilities struggle to integrate into the labour market. The disability employment gap reached 21.3 pps in 2024, its

([286])2025 country-specific recommendation: "Address labour and skills shortages, in particular in science, technology, engineering and mathematics (STEM) and in other specialisations needed for the green transition, for research and for digitalisation, as well as in the social and healthcare sectors, including through targeted upskilling and reskilling and improved working conditions."

([287])European Commission (2025), Economic forecast for Latvia.

([288])Central Statistical Bureau of Latvia (2023), Gross domestic product by region and State city.

([289])Central Statistical Bureau of Latvia (2025), Activity rate, employment rate and unemployment rate by region.

([290])Central Statistical Bureau of Latvia (2024), Number of births per 1000 inhabitants and total fertility rate in regions, State cities and municipalities.

highest level in the past decade (EU: 24 pps), before falling to 19.8 pps in 2025 (EU: 24.2 pps). 58.2% of persons with some or severe disabilities are actively participating in the labour market (EU: 55.5%). The unemployment rate for persons with disabilities however, though improving (down from 12.4% in 2022 to 11.6% in 2024), remains above the EU average (9.5%). These outcomes are primarily due to a mismatch between the employment offer and the skills and capabilities of persons with disabilities, as further evidenced by the labour market slack for persons with disabilities, which stood at 17% in 2024 (EU: 18.8%). Expanding access to quality job opportunities in the open labour market, outside of sheltered workshops, could help improve their labour market outcomes ([291]). There is also a need for individualised support services tailored to the severity of the person's disability and the type of functional impairment. Latvia continues to invest in active labour market policies for persons with disabilities (including training and subsidised employment schemes for a maximum period of two years) as well as in workplace adaptations. However, disability policy remains insufficiently integrated into broader, increasingly important cross-sectoral policy initiatives that aim to boost competitiveness and reduce labour and skills shortages.

Long-term unemployment has increased, but the growing social economy offers solutions. Long-term unemployment surpassed the EU average in 2024, rising to 2.2% (EU: 1.9%), and slightly further increasing in 2025 to 2.3% (EU: 1.9%). This is likely a result of the weaker economic performance in 2023 and 2024, resulting in lower labour demand, as well as insufficient and/or inefficient integrated employment and social services for vulnerable groups. In 2024, only 24.9% of people in long-term unemployment had no disability (EU: 31.1%), indicating that, in these cases, a more tailored approach would benefit activation. On the upside, Latvia is progressing with its social economy. Since the adoption of the Social Enterprise Law in 2017 ([292]), which aims to foster the employment of the most vulnerable groups, more than 380 social enterprises have been established, and 279 were still active in 2025 ([293]).

Female labour market participation is high, but large gender pay disparities persist. Women are more economically active than in most other Member States, at 76.1% in 2025 (EU: 71.1%), and the gender employment gap remains one of the lowest in the EU at 1.9 pps (EU: 9.6 pps). However, Latvia had an above EU average gender pay gap in 2024 at 13.9% (EU: 11.1%). This reflects strong sectoral gender segregation, with higher shares of women working in sectors such as care, retail and education, where average salaries are lower, and higher shares of men working in higher-paying sectors, such as ICT. Of 4.9% of the population working in ICT, 26.8% were women. In higher-paying sectors where women are well represented, such as the health sector, women remain under-represented in top-paying positions ([294]). Cultural stereotypes, educational choices and a relatively higher care burden further contribute to the persisting gender pay gap.

The quality of jobs is improving, but trade unionisation and collective bargaining coverage are low. The minimum wage has increased (by 12.9% in 2024 and 5.7% in 2025, reaching EUR 740), and real wages have grown strongly (by 6.5% in 2023 and 7.4% in 2024). As a result, the adequacy of earnings has improved. The risk of in-work poverty fell from 9.2% in 2023 to 8.2% in 2024 but rose up to 8.7% in 2025 again (EU: 8.3%). Job satisfaction among employees is above the EU average, while the share of employees with long working hours in their main job fell to just 0.9% in 2025 (EU: 6.2%). However, involuntary part-time employment remains high at 26.4% (EU: 17.8%), although it has improved since 2021. Further progress on fair wages and better working conditions is hindered by low and decreasing levels of trade unionisation (10.3% in 2021) ([295]), employer organisation density (56.4% in 2018) ([296]) and collective bargaining coverage

([291])See practical guidance developed together with stakeholders under the *Disability Employment Package*, the common compass to steer Member State's investments for the inclusion of persons with disabilities into employment and to avoid the perpetuation of segregating employment models.

([292])Link to the Social Enterprise Law.

([293])Ministry of Welfare (2025), Social Entrepreneurship Day 2025: There are already 279 social enterprises operating in Latvia.

([294])Bank of Latvia, makroekonomika.lv (2023), Why Latvia cannot afford to live without gender equality?.

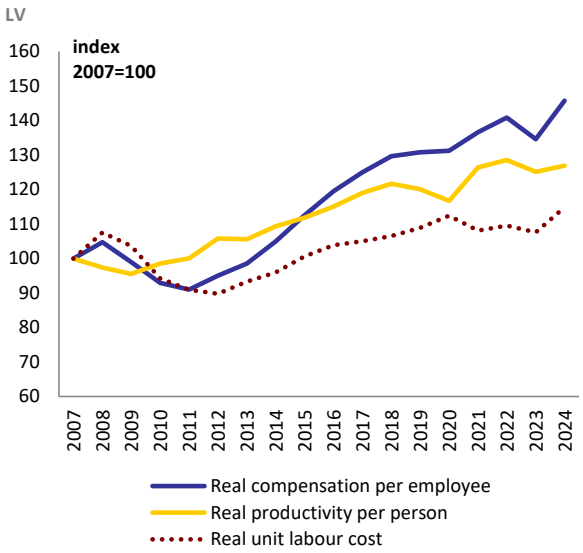
([295])OECD (2021), Trade union density.

([296])OECD/AIAS (2018), ICTWSS v2.0.

(25.8% in 2022) ([297]). Moreover, collective bargaining is mainly at company level, with a lack of sectoral-level agreements. The Action Plan for Promoting Collective Bargaining 2025-2027, adopted in September 2025, may contribute to improving the situation, but its effects are yet to be seen. In 2026, a working group was established with representatives of employers, employees and the Central Statistics Bureau to advance the accounting of data on collective bargaining. This initiative is expected to support evidence-based policy decisions to strengthen collective bargaining. On the broader involvement of social partners in policymaking, employers and trade unions have expressed concerns about the effectiveness of the tripartite dialogue at national level. In particular, consultations are reported to be increasingly conducted at short notice, limiting the time for social partners to carry out in-depth assessments of documents and complex proposals. The quality of social dialogue also appears to vary across sectors, with the healthcare sector cited as being particularly ineffective. There is room for strengthening the capacity of social partners to boost social dialogue across sectors. Lastly, workplace safety remains a concern, with fatal accident rates among the highest in the EU at 3.21 per 100 000 workers in 2023.

Recent wage gains have outpaced labour productivity growth. The gross monthly median wage grew by 10.7% to EUR 1 357 in 2024 ([298]). However, real labour productivity per hour worked only recovered modestly, increasing by 0.9% in 2024 (following declines of 0.3% in 2022 and 1% in 2023). As a result, nominal unit labour costs based on hours worked increased by 8.7%, slightly below the 2022 and 2023 growth of 11.3% and 9.3% respectively, but still significantly above the EU average of 4.8% (Graph A11.1). This divergence indicates that recent productivity gains have not kept pace. The slow pace of digitalisation and workforce upskilling negatively impacts productivity growth, with participation in adult learning still below the EU average (see Annex 13).

Graph A11.1: **Nominal and real unit labour costs and components (compensation of employees and productivity), compared with 2007**



Real unit labour cost, real compensation per employee and real productivity - compared with 2007
Source: Eurostat, National Accounts

Labour shortages and skills mismatches in specific sectors will likely continue to hamper competitiveness ([299]). Labour market slack, a measure of the mismatch between labour supply and demand, stood at 11.1% in 2025, below the EU average (11.7%). In 2024, employment outcomes worsened more for low-skilled workers (Graph A11.2). This resulted in a slight increase in the macroeconomic skills mismatch rate (from 17.5% in 2023 to 18.7% in 2024), although it remains below the EU average of 19.2% ([300]). Labour shortages have recently declined, with the job vacancy rate standing at 2.2% in Q2-2025, close to the EU average of 2.1%. However, shortages remain high in specific sectors, such as energy production (2.3% vs EU: 1.4%) and manufacturing (2.4% vs EU: 1.6%).

The most in-demand occupations in 2025 were sales and marketing professionals,

([297])OECD (2022), Collective bargaining coverage.

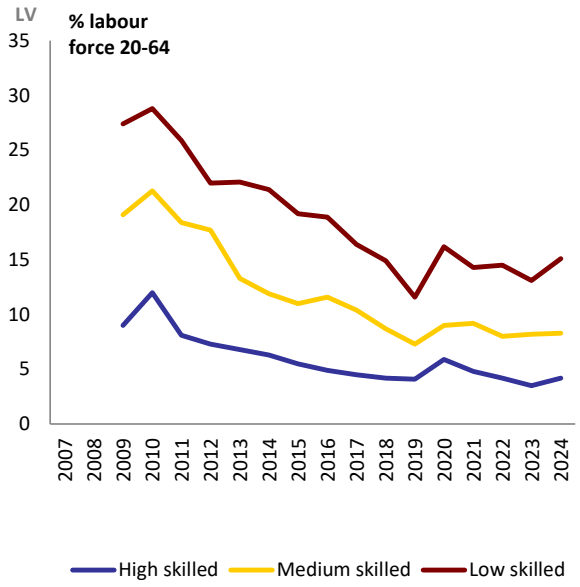
([298])Central Statistical Bureau of Latvia (2025), Average monthly and median wages and salaries.

([299])2025 country-specific recommendation: "Address labour and skills shortages, in particular in science, technology, engineering and mathematics (STEM) and in other specialisations needed for the green transition, for research and for digitalisation, as well as in the social and healthcare sectors."

([300])The macroeconomic skills mismatch indicator measures the discrepancy between employment outcomes for workers with low, medium and high levels of skills (represented by qualification levels, with ISCED 0-2 – low; 3-4 – medium and 5-7 – high).

development managers, public relations professionals, as well as cleaners and helpers ([301]). By 2040, the highest skills shortages are expected to occur in engineering, manufacturing and construction (with the need for 75 000 workers), science (9 600) and agriculture (3 700) ([302]). Looking at qualifications, more than 100 000 additional workers with upper-secondary or post-secondary vocational education and training will be needed to meet the demand, with the most acute shortages projected in manufacturing ([303]). Shortages are also expected to increase in the healthcare and social sector, particularly nurses and caretakers ([304]) (see Annex 13).

Graph A11.2: **Unemployment rate by educational attainment (annual), Latvia**



Unemployment rates ages 20-64 (% of labour force)
Source: Eurostat, LFS

Only 48.43% of the population had at least basic digital skills, one of the lowest results in the EU. By 2035, Latvia is projected to face a particularly strong demand for high-qualification (52%) and medium-qualification (43%) professionals, with the most acute shortages expected among highly skilled workers in the legal, social and cultural sectors ([305]). Technological advancements and the green and digital transitions are likely to further intensify the demand for new skills and exacerbate existing shortages and mismatches.

Considerable challenges in the transition to climate neutrality persist. Emission intensity of output stands at 175% of the EU average, and the greenhouse gas emission intensity of the workforce improved by only 10% between 2018 and 2023 (EU: 20%). Energy-intensive industries account for 1.7% of employment, below the EU average of 3.5%. The amount of solar energy produced between 2021 and 2023, however, increased by more than 18 times, pointing to a high potential for job creation in this area.

The labour force is shrinking, with a limited inflow of talent from abroad. In 2025, the labour force stood at 884 000, down from 887 000 in 2023 and 957 000 a decade earlier. While net migration was positive in 2022, primarily due to the influx of Ukrainian civilians fleeing from Russia's war of aggression against Ukraine, it turned negative again in 2023 and 2024. Latvia's share of EU movers (people aged 20-64 who are nationals of another Member State) is 0.45% and one of the lowest in the EU (EU: 3.85%). The number of non-EU nationals obtaining a long-term residence permit fell by 10.7% in 2024, with India being the main country of origin. In addition, 5 300 were posted to Latvia by employers based in other EU countries in 2023, mostly on short-term contracts ([306]).

([301])CEDEFOP (2025), EURES.

([302])Ministry of Economics forecasting tool, 2025.

([303])Ibid.

([304])Ibid.

([305])CEDEFOP (2025), Latvia: 2025 Skills forecast.

([306])OECD (2025), Latvia: International Migration Outlook 2025.

Latvia continues to face considerable social challenges. Wealth and income inequality remain high, due to limited redistribution and the low and diminishing impact of social transfers on poverty reduction. This pushes a significant proportion of the population into poverty. Poverty is particularly high among unemployed people, people of pensionable age and people with disabilities, and among those with a low level of education and those in non-standard employment, including self-employed workers such as farmers. Despite some progress in recent years, social and long-term care services remain underdeveloped. Latvia is also facing additional socio-economic challenges as a result of Russia's war of aggression against Ukraine, the impact of which is particularly evident in the country's eastern border region of Latgale. The 2025 country-specific recommendations called on Latvia to strengthen social protection to reduce inequality, including by improving the adequacy of old-age pensions and access to quality social services, particularly home care. Addressing these structural challenges will contribute to inclusive growth and competitiveness.

Inequality remains among the highest in Europe, with limited redistribution through the tax-benefit system. The income quintile share ratio (S80/S20) increased from 6.28 in 2024 to 6.68 in 2025, remaining significantly above the EU average of 4.62 ([307]). Inequality increased at both the bottom and the top of income distribution (with S50/S20 and S80/S50 increasing in 2024 and 2025). Persistent income inequality reinforces the already high wealth inequality (see Annex 3). Wealth inequality reached the highest level in the euro area in Q1-2025 ([308]), primarily due to limited redistribution from the tax-benefit system. In recent years, Latvia has broadened its tax revenue, including by reducing the shadow economy. General tax revenue reached 34.9% of GDP in 2024, although it remains below the EU average of 39.4%. In addition, the 2025 labour tax reform reduced the taxation of earnings from labour (the tax wedge) for the lower- to medium-wage earners. However, its impact on income inequality is expected to be limited, as the lowest-income group is more effectively supported through social benefits ([309]).

Progress has been made in reducing poverty and social exclusion, but overall levels are still relatively high ([310]). The at-risk-of-poverty or social exclusion (AROPE) rate stood at 24.7% in 2025, almost 4pps above the EU average of 20.8%. Likewise, the at-risk-of-poverty rate (AROP) remains very high at 22.0% in 2025 (vs EU: 16.3%) ([311]). The proportion of people experiencing severe material or social deprivation fell by 0.5 percentage points to 4.8% in 2025 and is now below the EU average of 6.3%. The latter can be attributed to recent efforts to strengthen the 'last resort' safety net system. In 2023, Latvia adopted a minimum income reform, and in 2025, it raised the guaranteed minimum income threshold from 20% to 22% of the median income In the context of the mid-term review, Latvia provided a top-up of EUR 27.4 million in order to be able to maintain essential features of the valuable in-kind material support and food assistance in the European Social Fund Plus (ESF+) Programme for Addressing Material Deprivation 2021-2027. Nevertheless, homelessness is increasing and remains the highest in the Baltics in terms of the share of homeless persons in the total population ([312]). In 2024, 5 971 persons stayed in municipal shelters ([313]). Since 2019, the number of people at risk of poverty or social exclusion has fallen by 52 000, demonstrating that Latvia is on track to achieve its 2030 poverty reduction target of 95 000 persons but that sustained efforts are needed to reach the goal. To address the multiple dimensions of poverty, the implementation of a comprehensive approach, as set out in the EU Anti-Poverty Strategy, can support progress towards achieving the national anti-poverty target.

([307])Income-based indicators for 2024 refer to income earned in 2023.

([308])ECB (2025), Distributional Wealth Accounts.

([309])Estimates by the European Commission, Joint Research Centre, based on the EUROMOD model, J0.1+

([310])2025 country-specific recommendation: "Strengthen social protection to reduce inequality, including by improving the adequacy of old age pensions and access to quality social services, notably home care, while maintaining fiscal sustainability."

([311])2024 AROP is based on income earned in 2023.

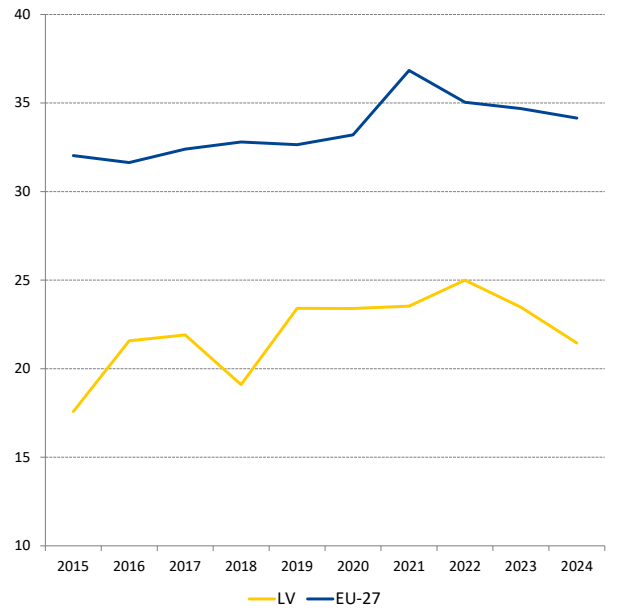
([312])OECD (2024), Affordable Housing Database and Data on homelessness: Latvia

([313])Central Statistical Bureau of Latvia (2024), Recipients of municipal social services in State cities and municipalities.

Minimum income benefit has been increased, but the adequacy and coverage of social protection remain limited. Despite the 2023 reform, the adequacy of Latvia's minimum income benefit scheme is still below the EU average, since the total income of a minimum income beneficiary (single person) stands at 44% of the poverty threshold (smoothed over 3 years) and at 34% of the total income of a minimum wage earner ([314]). Coverage also remains low: in 2025, only 63.1% of people aged 18 to 64 at risk of poverty received benefits other than old-age benefits, compared with 72.4% in the EU. The existing social protection system still does not reach a significant proportion of the population at risk of poverty. Enhancing benefit adequacy and improving active inclusion measures to enable every citizen to work and participate fully in society, in line with the Council Recommendation on minimum income, would support the most vulnerable.

The effectiveness of social transfers in reducing the risk of poverty in Latvia is low and deteriorating. For unemployed people, the risk of poverty decreased from 57.6% in 2024 to 56.5% in 2025, yet remaining significantly above the EU average of 49.3%. The impact of social transfers (other than pensions) on poverty reduction stabilised at 22.0% in 2025 after two consecutive falls in 2023 and 2024 but remains significantly lower than the EU average at 33.2%. According to a simulation by the Commission ([315]), the poverty rate and the depth of poverty increased for most key target groups between 2015 and 2025, including before and after social transfers (excluding pensions). The largest increases were observed for households with persons with disabilities, migrant households and households with older people (aged 65 years and over). This indicates that these groups are most affected by the decreasing effectiveness of social transfers. The poverty gap after social transfers increased by 3.52 pps for households consisting only of older people, 2.62 pps for households with persons with disabilities and 4.28 pps for households where at least one member had a migration background. The relative ineffectiveness and drop in performance of social transfers is related to low social benefits expenditure, which remains significantly below the EU average, at 18.7% of GDP in 2024 (vs EU: 27.3% of GDP) ([316]). Amid rising pressures on the social security system, Latvia is developing a new social security forecasting tool with the support of the Recovery and Resilience Facility. This tool should improve the long-term sustainability of the social security system and potentially contribute to improved effectiveness of social transfers in the long run.

Graph A12.1: **Impact of social benefits on poverty reduction (%)**



Impact of social transfers (other than pensions) on poverty reduction (% reduction of AROP)
Source: Eurostat, EU SILC.

Employees on temporary and part-time contracts are significantly more exposed to poverty. The in-work at-risk-of-poverty rate decreased from 9.5% in 2023 to 8.5% in 2024 but rose back to 9.0% in 2025 (EU: 8.3%). This is primarily due to strong wage growth and a decrease in poverty risk for permanent employees, which fell from 7.1% in 2023 to 6.1% in 2024, but rose to 6.4% in 2025. Conversely, the risk of poverty for employees on temporary contracts increased from 10.7% to 13.0% in 2024 and improved to 12.6% in 2025. Part-time workers also experienced a significantly higher risk (18.8%) than the EU average (13.5% in 2025). For full-

([314])European Commission and Social Protection Committee (2025), 2025 Minimum Income Report.

([315])Estimation by the European Commission, Joint Research Centre, based on the EUROMOD model, J2.0+.

([316])2025 country-specific recommendation: "Make public finances fit to cope with rising structural spending needs including for defence, healthcare and social protection, such as by broadening taxation to sources less detrimental to growth."

time employees, the risk of in-work poverty (7.4%) is now above the EU average (6.8%).

There are strong regional disparities, with the eastern border region of Latgale facing a particularly precarious situation. The risk of poverty in Latgale stands at 32.7%, which is significantly above the national average and more than twice that of the capital city of Riga (14.2%) ([317]). The region, which borders Russia and Belarus to the east and Lithuania to the south, is exposed to deteriorating trade relations with Russia, increasing hybrid warfare threats, negative pressures on investor confidence and more limited access to finance. Latgale's population density, already much lower than that of the capital region ([318]), continues to decrease, exacerbated by ongoing depopulation. Access to social services, employment and healthcare is limited due to underdeveloped infrastructure and insufficient mobility solutions (see Annex 18).

Latvia continues to host a large number of Ukrainian civilians ([319]). While the number of people arriving from Ukraine has decreased, by mid-2025 more than 30 000 Ukrainians were still registered in Latvia, of whom 60% were women and 23% children ([320]). At the start of 2025, around 9 000 Ukrainians with temporary protection status had found employment, primarily in manufacturing ([321]). With municipal support, more than 3 000 people were in temporary accommodation and over 2 500 received the guaranteed minimum income benefit each month. In addition to providing more than EUR 200 million in financial support to assist Ukrainian civilians between 2022 and 2024, Latvia extended support by a further EUR 65 million in 2025. In the first three quarters of 2025, Ukrainians received more than 20 000 food packs and 10 000 hygiene packs through the ESF+ programme for addressing material deprivation.

Child poverty remains relatively low, but single-parent households are still more vulnerable. The AROPE rate for children has continued to improve, falling from 20.3% in 2023 to 17.9% in 2024 and 17.6% in 2025, which is well below the EU average of 24.3%. However, the support schemes and measures under the European Child Guarantee national action plan remain largely universal and untargeted, with social service provision and income assessment carried out at municipal level. While households with dependent children face a lower risk of poverty (13.7%) than those without (30.5%), single-parent households face a significantly higher risk, at 28.7% (EU: 33.8%). Latvia does not recognise a specific legal status for single-parent households, nor does it provide targeted social support for those at risk of poverty. In 2026, increases in the childbirth allowance (from EUR 421.17 to EUR 600) and the childcare allowance (from EUR 171 to EUR 298) are expected to benefit all households with young children. There would be room to further target this allowance or to introduce additional support specifically for single parent households.

Old-age poverty remains significant, despite recent policy efforts ([322]). In recent years, Latvia has taken steps to improve the adequacy of old-age pensions, including the gradual re-introduction of supplement payments (to be completed by 2029), annual indexation, increases in minimum pensions and non-taxable thresholds. In 2023, Latvia amended the rules for life insurance providers offering life annuities from capital accumulated under the second pension pillar, prohibiting the previous practice of providing higher payouts in the initial stages of retirement. Nevertheless, the poverty risk for people aged 65 and over remained more than twice the EU average, at 41.7% in 2025 (EU: 16.3%). The risk of poverty for retired persons increased further, from 48.7% in 2024 to 49.3% in 2025 (EU: 15.0%). The risk of old-age poverty is particularly high among women aged 65 and over, at 45.4% in 2025 (compared with 33.9% for men). The recent equalisation of life annuities is expected to help reduce the low pension adequacy for people aged 75 and over, a group that includes a higher proportion of women. However, given the decrease in the aggregate replacement ratio in 2024 and in

([317]) Central Statistical Bureau of Latvia (2024), At-risk-of-poverty rate in regions.

([318]) Central Statistical Bureau of Latvia (2025), Usually resident population density in regions, cities and towns, municipalities, and rural territories.

([319]) Central Statistical Bureau of Latvia (2024), Long-term international migration by citizenship of migrants.

([320]) Ministry of the Interior (2025), On the current situation in providing support to the civilian population of Ukraine.

([321]) Central Statistical Bureau of Latvia (2025), Around 9 000 citizens of Ukraine work in Latvia.

([322]) 2025 country-specific recommendation: "Strengthen social protection to reduce inequality, including by improving the adequacy of old age pensions."

2025, it is evident that the most recent policy efforts to improve old-age pension adequacy have not yet fully materialised.

Persons with disabilities also face a greater risk of poverty and social exclusion. The AROPE rate among persons with disabilities in Latvia is one of the highest in the EU, at 42.6% in 2025 (EU: 28.8%), with no significant improvement over the past ten years. This figure is 24.5 pps higher than for people without disabilities in Latvia. The situation is even worse for people with severe disabilities (56.5% compared with 36.5% for the EU) and for women with disabilities (46.4% in 2025 compared with 29.5% for the EU). Poverty or social exclusion is much greater among persons with disabilities aged 65 and over (50.2% vs 22.6% in the EU), than among those aged 16-29 (32.4% vs 36.2% in the EU), suggesting that more effective support mechanisms are in place for younger persons with disabilities and that there is a need to strengthen the policy support framework to better address the overlapping inequalities faced by vulnerable groups. The carer's allowance remains unchanged at EUR 213.43 and has not been increased for 15 years. Latvia has the highest share of self-perceived disability in the EU at 35.9% (EU: 24.2%) in 2025. Deinstitutionalisation ([323]) is slow and appears to be stalling, with reports that several municipalities are showing reduced interest in expanding or continuing to provide existing community-based services due to increasing financial constraints.

The availability of long-term care services is insufficient ([324]). Latvia has one of the highest levels of long-term care (LTC) needs in the EU (38.8% compared with 26.6% for the EU) ([325]) and one of the lowest levels of public expenditure on LTC at 0.5% of GDP (EU: 1.7%) ([326]). Public support primarily focuses on people with severe needs, while people with moderate or low needs receive limited or no support and face higher out-of-pocket than the EU average. As a result, the risk of poverty among home care recipients remains above the EU average ([327]). Access to home care services is far below the EU average at 14.6% (EU: 28.6%) ([328]) despite some efforts to increase their provision in recent years. Following the adoption of the minimum services basket reform, all municipalities are obliged to have established a home care service for persons with severe disability as of 2025. As relatively few LTC workers are covered by sectoral collective agreements and participate in education and training, the attractiveness of the sector is reduced, contributing to staff shortages. Latvia has only 0.9 LTC workers for every 100 people aged 65 and over, compared with the EU average of 3.3 workers ([329]).

Energy and transport poverty remain significant issues in Latvia. In 2025, the country continued to face high levels of energy poverty, driven by an old building stock, cold temperatures and a high risk of poverty, particularly in rural areas ([330]). Latvia would benefit from exploring ways to reduce the risk of energy poverty, including through the Social Climate Fund. Transport poverty is also a concern. Due to Latvia's limited public transport network in many rural areas (see Annex 18), access to essential services within a reasonable timeframe is insufficient. The regions of Latgale, Zemgale, Kurzeme and Vidzeme, where approximately 22% of the population is at risk of poverty, have particularly poor public transport links, where it takes at least half of the population more than 45 minutes to reach the nearest healthcare facility by public transport ([331]). Higher-than-the-EU-average car use partially offsets this gap, but affordability remains a concern: in 2024, 9.2% of the population could not afford a car, compared with the EU average of 5.6%. This particularly affects people at risk of poverty, among whom the percentage rises to 18.8% (EU average: 15.9%). Rail use in Latvia, measured in terms of the share of passenger-kilometres in total land transport, stands at 3.8% and is below the EU average of 8.4%.

([323])This refers to the transition from institutional care to independent living and inclusion in the community.

([324])2025 country-specific recommendation: "Strengthen [...] the access to quality social services, notably home care, while maintaining fiscal sustainability."

([325])Eurostat (2019), European Health Interview Survey.

([326])European Commission (2024), 2024 Ageing Report.

([327])OECD (2026), Adequacy of social protection for long-term care.

([328])Eurostat (2019), European Health Interview Survey.

([329])Eurostat (2024), Labour Force Survey.

([330])European Commission, JRC (2025), European rural areas face higher levels of energy poverty.

([331])European Commission (2025), Transport Poverty Hub.

Latvia's education and skills system performs broadly well, but risks deteriorating if structural issues remain unaddressed. Participation in early childhood education and care (ECEC) is high, and basic skills outcomes are good in comparison with the EU average. Nevertheless, regional disparities are pronounced, with lower educational outcomes in the regions outside the capital. The education system is not adapted to demographic trends, including through continued consolidation of the school network. The low attractiveness of the teaching profession, central to developing the skills of the future workforce, represents a risk to the quality of education in the medium term. There is also ample scope to further improve the employability of people who have completed vocational education and the uptake of lifelong learning ([332]).

Participation in ECEC for children both under and over the age of three is high. In 2025, the share stood at 45.1%, having surpassed the EU average of 40.5% and the national Barcelona target of 41% by 2030. All children over the age of 18 months are legally entitled to a place in ECEC; if a municipality cannot provide a public place, it has to contribute to the cost of alternative private services, with families covering the remainder. At age five, children enter mandatory primary education. The share of children aged 3-6 in formal ECEC at 95.6% in 2023, is above the EU average (94.6%), nearing the target of 96% ([333]).

Educational outcomes are relatively strong but remain below EU targets, and at school level, regional disparities are pronounced. Latvia showed relatively good results in basic skills proficiency in the latest (2022) PISA tests. Underachievement in reading, mathematics and science has been below the EU average since 2012. The country is one of the EU's top performers in science in secondary school. However, the share of top performing students across all three domains has remained below the EU average for a decade. Levels of proficiency in basic skills vary significantly by geographical area, with larger urban schools, particularly in Riga, performing much better than smaller rural schools (see Annex 18). The city-rural score gap in 2022 was significantly higher than the EU average, with 56 in mathematics (EU average: 46); 68 in reading (EU average: 52) and 61 in science (EU average: 46). Substantial investments are being made in school infrastructure under the recovery and resilience plan (RRP) and with support from cohesion policy funds, including renovation and digitalisation projects to modernise learning environments and ensure access to quality education.

The transition to Latvian as the sole language of instruction in all general education institutions is being finalised. The transition will be fully implemented by the end of the 2025/2026 school year, with the primary objective of promoting linguistic integration and national cohesion. Minority students retain the right to study their native languages and cultural subjects through extracurricular activities. The reform has increased demand for teacher training and support measures for linguistic minorities to prevent social exclusion and ensure equitable learning opportunities, which remains a challenge. Concerns persist about uneven implementation across municipalities, which risks deepening regional and sociolinguistic disparities.

Reforms are ongoing to consolidate the large school network. They aim to address demographic change and improve resource allocation. Latvia's population fell by 18 000 to 1.86 million in 2025, as births fell to a record low of 12 900 in 2024 ([334]), leading to decreasing pupil numbers. The country is currently consolidating its school network and implementing *Programma skolā*, a new funding model for schools. A streamlined school network is expected to enhance the quality of education across the country. However, school closures – particularly in rural areas – raise concerns about accessibility, including longer commuting distances and reduced local support, which may disproportionately affect vulnerable groups.

Latvia is taking steps to address persistent concerns about teacher retention. Shortages

([332])2025 country-specific recommendation: "Address labour and skills shortages, in particular in science, technology, engineering and mathematics (STEM) and in other specialisations needed for the green transition, for research and for digitalisation, as well as in the social and healthcare sectors, including through targeted upskilling and reskilling and improved working conditions."

([333])Based on ECEC participation data and total population data.

([334])Central Statistical Bureau of Latvia (2024), Population and population change.

are especially acute in rural areas and in subjects such as mathematics, natural sciences and foreign languages. About two thirds of lower secondary teachers are aged 50 or older (58.8% in 2023; EU average: 39.8%). This is particularly concerning, as the 2024 TALIS teacher survey reveals that 52.9% of teachers under the age of 30 intends to leave the profession within five years (EU average: 15.2%). Factors related to working conditions might impact teachers' well-being and their retention. Measures have been taken to further increase salaries, attract new entrants and improve induction. While pay increases since 2018 have boosted satisfaction (from 22% to 38.9%), salaries remain lower than those of tertiary-educated workers (at a ratio of 0.77 in 2023; EU average: 0.85) ([335]). Over the past decade, Latvia has introduced supplementary pathways into the profession ([336]). According to the TALIS survey, the proportion of second-career teachers rose from 7% in 2018 to 11% in 2024. By contrast, weekly working hours have risen (from 35.1 to 42.3), surpassing the EU average (39). Additionally, the share of teachers working in schools where more than 10% of students are non-native speakers has increased (from 23% in 2018 to 38.2% in 2024), surpassing the EU average (24.4%). This coincided with the transition to Latvian-only instruction ([337]).

Early school leaving has increased in recent years but remains below the EU average. The proportion of early leavers from education and training rose from 6.7% in 2022 to 8.8% in 2025, but it remains below the EU average (9.1% in 2025) and the EU target of less than 9% by 2030. Participation may have been affected by the delayed effects of the pandemic between 2020 and 2022, the elevation of exam standards and the growing share of non-native speakers in classrooms. Youth unemployment rose from 12.3% in 2023 to 13.6% in 2024 and 14.8 in 2025 (EU average: 15.2%), and the share of young people not in employment, education or training also increased, from 10.0% in 2023 to 10.7% in 2024 and 11.0% in 2025 (EU average: 11.0%).

Despite ongoing reforms to improve labour market relevance, the employability of vocational education and training (VET) graduates remains a challenge. In recent years, Latvia has taken steps to improve the attractiveness of VET by making the learning offer more flexible, inclusive and aligned with labour market needs. It has developed a graduate tracking tool and has made it publicly available ([338]). Work is ongoing to develop a work-based learning system, with two pilot projects launched in 2024: one testing shorter, apprenticeship type courses for initial VET, post-secondary and adult learners, and another seeking to strengthen the capacity of sectoral expert councils to better identify labour market needs and employers willing to engage in work-based learning. Nevertheless, work-based learning within the vocational education and training system remains underdeveloped: in 2024, 34.9% of people who had completed VET had been involved in work-based learning during their studies (EU average: 65.2%). In addition, the attractiveness of VET still lags behind that of higher education, notably due to weaker labour market outcomes for people who have completed VET: in 2025, the employment rate for people who had recently completed upper-secondary or post-secondary non-tertiary VET was 74.6%, remaining well below the EU average of 80.2%. Continued efforts to strengthen initial and continued VET are thus needed, particularly given rising skills shortages and mismatches.

Educational attainment is generally high, but significant regional and gender differences persist. The highest performing general education institutions are concentrated in the capital region of Riga, where educational attainment is significantly higher than in the rest of the country, with 39.6% of the population having completed tertiary education (ISCED 5-8 levels) and 36.7% having completed general education (ISCED 3 level). Outside Riga, only some 25% of the population have completed tertiary education and 43% have completed general education. Attainment in non-tertiary vocational education (ISCED 4 level) also varies significantly across the country, with the highest share in the eastern border region of Latgale (17.4%) and the lowest in Riga (11.5%) ([339]). While the level of education partly reflects regional economic opportunities, further improving skills to match labour market

([335])OECD (2025), Education at a Glance 2025.

([336])See macitspeks.lu.lv and iespejamamisija.lv.

([337])OECD (2024), Results from TALIS 2024.

([338])CEDEFOP (2026), Improving VET graduate tracking.

([339])Central Statistical Bureau of Latvia (2024), Population aged 15 and over by educational attainment group.

needs is essential for growth. In 2025, 44.7% of 25-34-year-olds had a tertiary educational qualification, close to the EU average of 44.8% and the EU-level target of 45% by 2030. However, while the tertiary educational attainment (TEA) rate of young women (54.7%) is significantly above the EU average of 50.6%, the TEA rate for men is well below the EU average (35.2% vs 39.3%), indicating an opportunity to further engage men in higher education. The employment rate for recent tertiary education graduates (20-34) stood at 92.1% in 2025, higher than in 2024 (89%) and above the EU average of 87.0%.

The number of female STEM graduates lags behind male attainment, adding to gender inequalities and skills shortages. Despite policy efforts to increase participation in STEM ([340]), participation rates remain low, especially among women. The share of students enrolled in STEM courses at tertiary level was 25.1% in 2023, below the EU average of 26.9% and the proposed EU target of 32% by 2030. Moreover, the share of female enrolment in STEM courses was only 26.5% (EU average: 32.2%). Only around 1 in 7 pupils in medium-level VET in STEM fields were female (14.6% in in 2024; EU average: 15.9%), far below the proposed EU target of at least 25% by 2030. Increasing the number of women in STEM jobs, which usually offer better pay and working conditions, could also help address the gender pay gap, one of the largest in the EU. On the upside, 47.2% of students in medium-level VET were enrolled in STEM fields in 2024, significantly above the EU average (36.6%).

Latvia is modernising its higher education system to improve its quality and labour-market relevance. Reforms include improving the licensing and quality assurance of its study programmes. Latvia has launched the 'Digitalisation of the Study Process' project, which will run until 2029 with a EUR 33 million EU-supported investment. The initiative aims to provide flexible study options, integrated digital management systems, e-diplomas and greater cooperation with employers ([341]). A funding model for higher education institutions is being introduced as a pilot running until the end of 2026. The reform seeks to align resources with institutional performance and national economic needs. It also introduces mechanisms to improve enrolments in STEM courses at post-secondary level, including graduate-oriented funding, flexible admissions and performance-based incentives ([342]). Moreover, since 2025, the government has assumed responsibility for determining the procedure for licensing study programmes, with requirements stipulated in cabinet regulations rather than in the Law on Higher Education Institutions. This shift aims to facilitate the maintenance and improvement of higher education quality ([343]).

Latvia is taking gradual steps to make academic careers more attractive. To address the 2025 country-specific recommendation on shortages, upskilling needs and better working conditions for research, Latvia has increased the number of PhD graduates and piloted tenure tracks, benefiting from support under the RRP and the Technical Support Instrument ([344]). In 2022, the share of PhD graduates per 1 000 inhabitants aged 25-34 was 0.3 (EU average: 1.3), down from 0.5 in 2015 ([345]). A new doctoral model was launched in 2024, with completion due by early 2027. The new model ensures adequate pay for doctoral students and provides for a unified PhD process and support across higher education institutions. After seven years of discussions, the Latvian cabinet of ministers adopted the concept for the post-doctoral career reforms, including a unified and more predictable four-step academic career framework. It features a new framework for evaluating the performance of academic staff and flexibility to expand permanent contracts. The related legislative amendments are planned to enter into force by the end of 2026, with updates to cabinet regulations to follow in 2027 ([346]).

The green and digital transitions call for continued efforts to upskill and reskill the

([340])European Commission (2025), Education and Training Monitor: Latvia.

([341])Ministry of Education and Science (2025), Latvia's Universities and Colleges to Implement Study Solution Modernization.

([342])Cabinet of Ministers (2024): Greater autonomy for universities: pilot project to change funding system will be introduced.

([343])Eurydice (2025), National reforms in higher education.

([344])OECD (2026), Academic career reform in Latvia.

([345])Eurostat

([346])Ministry of Education and Science (2024), Support for the introduction of a new academic career framework.

workforce. The level of basic digital skills remained well below the EU average in 2025 (48.4% vs 60.4%), negatively affecting productivity and competitiveness. The 16-29 age group has the highest proportion of individuals with digital skills (67.6%; EU average: 74.7%). This proportion is significantly lower among unemployed people (25-64) at 41.6% (EU average: 53.3%), which is concerning as digital skills are increasingly required in the labour market. Latvia continues to invest considerable resources in the development of digital literacy, also with support from EU funds. Moreover, projected labour and skills shortages (see Annex 11) affect sectors that are particularly relevant to the green transition, such as construction, manufacturing and engineering. A green skills module has been developed and integrated into VET curricula. However, it would be beneficial for Latvia to continue efforts to train specialists at the VET and the post-secondary levels, and to increase investments in upskilling and reskilling the labour force. Latvia has also referenced its National Qualifications Framework to the European Qualifications Framework (EQF), so that newly issued qualifications clearly indicate their EQF level. This facilitates the comparability of qualifications across countries participating in the EQF and promotes labour and skills mobility.

Adult learning remains underdeveloped amid recent policy initiatives, for which it is too early to see the results. Latvia has committed to reforming its adult learning system as part of the RRP. It is piloting an individual learning accounts scheme, which aims to improve the digital skills of at least 3 500 adults by May 2026. Information on upskilling or reskilling opportunities can now be centrally accessed through the online portal 'stars.gov.lv'. Supported by the Just Transition Fund, Latvia will provide training in regions from 2026, including by continuing VET programmes for low-skilled people and young people not in employment, education or training, to adapt to labour market needs arising from the green transition (see Annex 11). However, many projects are at the initial stage, with results still to be seen. Meanwhile, there are persistent difficulties in reaching low-qualified individuals and increasing training provided by employers. According to the adult education survey, participation in adult learning fell from 39% in 2016 to 34.1% in 2022, putting at risk the achievement of the 2030 national target of 60%. More recent data, from the labour force survey, suggest a possible increase in participation rates between 2022 and 2025. Low collective bargaining coverage presents an additional barrier, given that workers' rights to training are also regulated by collective agreements (see Annex 11). In addition, in 2023, Latvia performed below the EU average in adult basic skills for literacy and adaptive problem-solving, as measured by the survey of adult skills by PIAAC, with around 1 in 3 adults recording low proficiency in these domains.

The use of skills intelligence tools and relevant coordination across government departments have improved, with support from EU funds. Since 2023, the Ministry of Economics, the Ministry of Welfare and the Ministry of Education and Science have coordinated – through the Human Capital Development Council – the planning, design, implementation and monitoring of labour market adjustments, promoting human resource development in alignment with future demand and structural economic changes. The ministries now jointly contribute to the skills forecasting system developed with support from the European Social Fund in 2016-2022. The system provides forward-looking information on employment demand and is based on macroeconomic scenarios that take future growth and productivity changes into consideration as well as supply (forecast of labour and skills supply, based on demographic and educational attainment data, data on current students and more). The information is used to identify the occupations that are most in demand. Forecasts are updated once every two years and help design training programmes for both employed and unemployed individuals, complemented by skills intelligence from other stakeholders (e.g. Sectoral Expert Councils). In 2022-2025, in collaboration with the OECD and the European Commission, Latvia developed a Digitalisation Strategy for the State Employment Agency (the public employment service, PES) ([347]). As part of further efforts to digitalise the PES and with support from the Recovery and Resilience Facility, a digital skills profiling tool was developed in 2023 to offer more targeted upskilling and reskilling for unemployed people and those at risk of unemployment.

([347])Technical Support Instrument, 2022 project: Modernizing digital systems of the Latvian Public Employment Service.

Table A14.1:**Social Scoreboard for Latvia**

Equal opportunities and access to the labour market	Adult participation in learning (during the last 12 months, excl. guided on the job training, % of the population aged 25-64, 2022)	34.1
	Early leavers from education and training (% of the population aged 18-24, 2025)	8.8
	Share of individuals who have basic or above basic overall digital skills (% of the population aged 16-74, 2025)	48.4
	Young people not in employment, education or training (% of the population aged 15-29, 2025)	11.0
	Gender employment gap (percentage points, population aged 20-64, 2025)	1.9
	Income quintile ratio (S80/S20, 2025)	6.68
Dynamic labour markets and fair working conditions	Employment rate (% of the population aged 20-64, 2025)	78.2
	Unemployment rate (% of the active population aged 15-74, 2025)	6.9
	Long term unemployment (% of the active population aged 15-74, 2025)	2.3
	Gross disposable household income (GDHI) per capita growth (index, 2008=100, 2024)	122.8
Social protection and inclusion	At risk of poverty or social exclusion (AROPE) rate (% of the total population, 2025)	24.7
	At risk of poverty or social exclusion (AROPE) rate for children (% of the population aged 0-17, 2025)	17.6
	Impact of social transfers (other than pensions) on poverty reduction (% reduction of AROP, 2025)	22.0
	Disability employment gap (percentage points, population aged 20-64, 2025)	19.8
	Housing cost overburden (% of the total population, 2025)	5.7
	Children aged less than 3 years in formal childcare (% of the under 3-years-old population, 2025)	45.1
	Self-reported unmet need for medical care (% of the population aged 16+, 2025)	7.6

Critical situation	To watch	Weak but improving	Good but to monitor	On average	Better than average	Best performers

Update of 4 May 2026. Members States are categorised based on the Social Scoreboard according to a methodology agreed with the EMCO and SPC Committees. Please consult the Annex of the Joint Employment Report 2026 for details on the methodology (https://employment-social-affairs.ec.europa.eu/joint-employment-report-2026_en).

Source: Eurostat

Latvia's health system faces significant challenges that need to be addressed to improve the health of its population and ensure social fairness, while boosting the competitiveness of the economy and productivity. The challenges relate to low life expectancy, severe health workforce shortages, low public spending and high rates of avoidable mortality. The 2025 country-specific recommendations (CSRs) highlighted the need for additional human and financial resources, broadening the statutory benefits package and redirecting expenditure to priority areas based on public spending reviews.

Despite surpassing its pre-COVID-19 level, life expectancy at birth in Latvia was one of the lowest in the EU in 2024. Life expectancy has shown a recovery trajectory from the COVID-19 pandemic, achieving an increase of almost one year in 2024 compared with 2019, to 76.4 years. While the gender gap between men and women has decreased marginally – from 10.1 years in 2023 to 9.9 years in 2024 – it remains a significant concern. Furthermore, data on healthy life expectancy suggests that while women live longer, they experience only a 3.1-year gap in healthy years, indicating that they spend more years in poorer health.

In 2022, Latvia's avoidable mortality was among the highest in the EU, driven by cardiovascular diseases (CVDs) and cancer, despite post-2021 declines. CVDs and cancer continue to be the primary drivers of mortality, accounting for well over two thirds of the country's deaths. To tackle these, Latvia participates in EU4Health joint actions, including JACARDI ([348]), which aims to reduce the burden of CVDs. Moreover, as part of the Latvian recovery and resilience plan (RRP), October 2025 saw the adoption of the healthcare services improvement plan in the field of oncology for 2025-2027, establishing a patient-centred, integrated oncology system that focuses on early diagnosis and data-driven treatment. In the context of a multi-country project supported by the Technical Support Instrument, Latvia benefits from support towards improving cancer screening and treatment ([349]), in an effort to reduce morbidity and mortality and thereby improve health outcomes. Notably, while suicide rates in 2023 remained above the EU average, Latvia reduced suicides by a quarter over the preceding decade.

In 2023, Latvia had one of the highest preventable mortality rates in the EU, and rates decreased only marginally over the preceding decade. The preventable mortality rate in Latvia is more than double the EU average, highlighting a critical need for systemic intervention. However, spending on prevention remains modest; while expenditure in this area has seen a slight increase over the last 10 years, the 2023 level of total health spending remains below the EU average of 3.7% (see Table A15.1). Of particular concern is the share of healthcare spending dedicated to immunisation, which represented a mere 0.07% of total health expenditure in 2023. Despite a EUR 4.6 million reduction in the budget of the Ministry of Health in 2025, Latvia continues to leverage ESF+ ([350]) projects to foster health promotion and implement prevention measures.

Preventable mortality in Latvia is closely linked to behavioural risk factors, such as high alcohol consumption. The behavioural landscape for health is currently a study in contrasts. In a positive trend, Latvia has shown progress in antimicrobial stewardship; consumption of antibacterials for systemic use stood at 15.4 defined daily doses (DDDs) per 1 000 inhabitants in 2024, well below the EU average (20.3) and approaching the Latvian 2030 target of 12.6 DDDs ([351]). Compared with adults, and despite poor diet and vaping habits, adolescents show notable improvements in terms of lower rates of alcohol consumption, improved physical activity and obesity metrics. However, significant behavioural risks persist among the adult population. Latvia remains among the EU countries with the highest alcohol consumption and the highest daily smoking rates. Additionally, adults in Latvia report the lowest consumption of fruit and vegetables and the lowest levels of

([348]) Jacardi.

([349]) Technical Support Instrument, 2025 project: Cost-effectiveness modelling and economically-based recommendations for prioritization in cancer screening and cancer treatment activities.

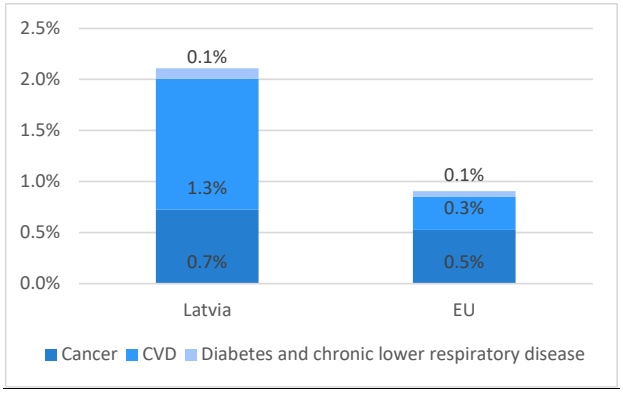
([350]) European Commission, The ESF+ in Latvia.

([351]) National target set by the Council Recommendation on stepping up EU actions to combat antimicrobial resistance in a One Health approach, 2023/C 220/01.

physical activity outside working hours in the EU. In 2022 Latvia ranked among the EU countries with the highest rates of obesity in adults ([352]).

These poor behavioural risks negatively affect Latvia's workforce, productivity and competitiveness. In recent years, Latvia's consistently high share of mortality at working age (21.4% of total mortality in 2024) has ranked among the highest in the EU. Fostering the promotion of a healthy lifestyle and further funding in prevention measures could reduce this impact. It has been shown that a large proportion of non-communicable diseases (NCDs), including over 80% of CVDs, can be prevented ([353]). For example, it is estimated that preventing mortality from all NCDs in Latvia – over half of which are CVDs – could yield a (2.1%) gain of 359 947 life years cumulated over 2022-2040 (vs 0.9% for the EU), representing the second-highest potential gain in the EU (see Graph A15.1). This increase would mitigate the expected 10.7% reduction of the workforce due to ageing of the 2022 population (7% for the EU) ([354]).

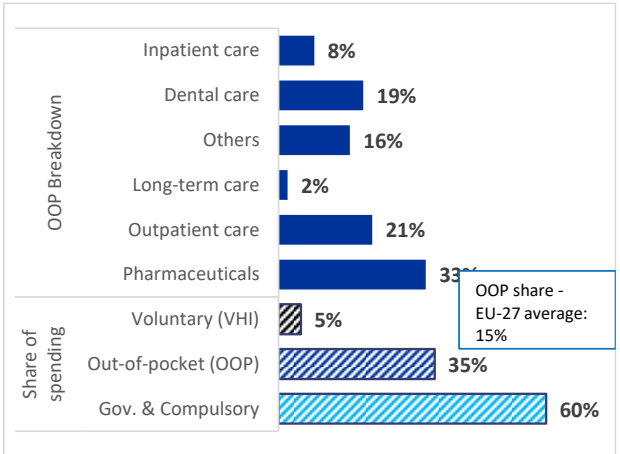
Graph A15.1: **Potential gains in working-life years from prevention, between 2022 and 2040**



Source: EC/OECD/European Observatory on Health System and Policies (2025), State of Health in the EU: 2025 Synthesis Report.

The functioning of the health system is hampered by low public spending and a high reliance on out-of-pocket (OOP) payments. On service delivery, Latvia allocates a higher share of its budget to outpatient care and (to a lesser extent) inpatient care compared with the EU average. To improve service quality and accessibility – addressing the 2025 CSR – and as part of Latvia's RRP, the national health service introduced a unified contract on 1 January 2025, aimed at reducing administrative fragmentation and improving resource efficiency by fostering, for example, the use of remote consultations. A major issue is Latvia's particularly low health spending; its public share of 59.6% (2023) ranks among the lowest in the EU. Over one fifth (21%, 2023) of total health spending is allocated to retail pharmaceuticals (mostly prescribed medicines), partly due to the inelastic nature of medicine pricing across the EU. This translates into a heavy financial burden for households; OOP payments accounted for 35.1% of total health costs in 2023, more than double the EU average of 15%. Among others, OOP payments mainly account for costs in dental care (19%), outpatient care (21%) and pharmaceuticals (33%) (see Graph A15.2). High OOP payments and (lack of) access to pharmaceuticals have been addressed by recent measures, including increased reimbursement rates (from 50% to 75%), expansion of the list of reimbursable medicines, an increase in the individual patient compensation cap (from EUR 14 200 to EUR 30 000 per 12-month period), and an additional EUR 3 million allocated in 2025 to ensure critical medicine availability.

Graph A15.2: **Out-of-pocket payments: share in healthcare spending and categories, 2023**



Household out-of-pocket payment: direct payment for healthcare goods and services from the household primary income or savings, where the payment is made by the user at the time of the purchase of goods or the use of the services (Eurostat). VHI: voluntary health insurance.
Others: eyeglasses, hearing aids, lab tests...
Source: Eurostat and Country Health Profiles

([352])EC/OECD/European Observatory on Health Systems and Policies (2025), State of Health in the EU: Country Health Profile for Latvia.

([353])NCD Alliance (2025), Noncommunicable Diseases (NCDs).

([354])EC/OECD/European Observatory on Health System and Policies (2025), State of Health in the EU: 2025 Synthesis Report.

Table A15.1:**Key health indicators**

	2020	2021	2022	2023	2024	10-year change**	EU average* (latest year)
Cancer mortality per 100 000 population	296.5	283.6	280.0	277.7	n.a.	0.93	233.1 (2023)
Mortality due to circulatory diseases per 100 000 population	783.5	859.5	806.2	726.0	n.a.	0.82	313.0 (2023)
Current expenditure on health, purchasing power standards, per capita	1 563	2 242	2 034	1 971	n.a.	2.09	3834.9 (2023)
Public share of health expenditure, % of current health expenditure	63.6	69.5	64.9	59.6	n.a.	1.00	80.6 (2023)
Spending on prevention, % of current health expenditure	3.1	5.1	2.8	2.6	n.a.	1.29	3.7 (2023)
Available hospital beds per 100 000 population***	416	406	394	391	n.a.	0.86	440 (2023)
Doctors per 1 000 population*	3.3	3.4	3.4	3.4	n.a.	1.01	4.3 (2023)*
Nurses per 1 000 population*	n.a.	4.2	4.2	4.2	n.a.		7.6 (2023)*
Mortality at working age (20-64 years), % of total mortality	21.2	22.1	22.1	22.1	21.4	0.89	14.3 (2023)
Consumption of antibiotics in the community and hospital sectors, defined daily doses per 1 000 inhabitants	11.9	11.6	14.9	14.9	15.4	1.22	20.3 (2024)

*The EU average is weighted for all indicators except for doctors and nurses per 1 000 population, for which the EU simple average is used based on 2023 data (or latest available). Doctors' density data refer to practising doctors in all countries except Greece, Portugal (licensed to practise) and Slovakia (professionally active). Density of nurses: data refer to practising nurses (EU recognised qualification) in most countries except Portugal (licensed to practice) and Slovakia (professionally active). Latest data update on nurses for Belgium and Sweden: 2022; for France: 2021; for Luxembourg: 2017.
** latest available 10-year trend: ratio 2023/2014 or 2024/2013; a factor of 2.00 means that it has doubled in 10 years.
***'Available hospital beds' covers somatic care, not psychiatric care.
Source: Eurostat

The pharmaceutical sector in Latvia has limited economic significance and shows lower levels of innovation than the rest of the EU. Both the employment rate (0.32% in 2021) and the manufacture of pharmaceutical products in 2023 (0.79%) remain below the respective EU averages. The absence of (pharmaceutical) patents granted ([355]) reflects these low levels of innovation. Despite Latvia's participation in relevant EU4Health joint actions such as IncreaseNET ([356]) (medicines regulatory network), the notable downward trend in the number of clinical trials in recent years ([357]) demonstrates a decrease in research activity. As for trade & commercialisation, extra-EU pharmaceutical exports have remained within the 4-5% range over recent years (4.8% in 2025), further cementing Latvia as a 'tail-end' performer and separating it from the consistently increasing EU average (13.8% in 2025).

Financial barriers and long waiting lists result in high levels of unmet medical needs, particularly for vulnerable groups. In 2025, 7.6% of the Latvian population reported unmet needs for medical examination, one of the highest rates in the EU (EU average: 2.4%). The primary drivers are waiting lists (4.8%) and costs (2.5%). Inequality is a major concern: the gap in unmet needs between the lowest and highest income quintiles is 10.2 percentage points. Furthermore, unmet dental needs are a critical issue, with 15.3% of the population reporting lack of care, rising to 37.7% for those below the poverty threshold. In 2023, although 58% of the population lived within a 10-minute drive of a hospital, this level of access drops to one third for those in rural areas – a symptom of ongoing geographic disparities ([358]) (see Annex 18).

The health workforce faces severe shortages and an ageing profile, exacerbated by poor working conditions. Density of both doctors and nurses is among the lowest in the EU. In 2023, there were 3.4 physicians per 1 000 inhabitants and just 4.2 nurses per 1 000 inhabitants (see Table A15.1). The age distribution in both professions is concerning; the share (of over 40%) of staff of 55 years and older is substantially higher than that of staff aged younger than 35 years – under 15% and 25% for nurses and physicians, respectively. In 2022, the remuneration of hospital nurses in Latvia was just 1.19 times the national average wage. The Latvian authorities have identified staff shortages in several specialist professions, which can lead to very long waiting times in some cases (e.g. waiting time of more than one year for children referred to geneticists). Recruitment is hindered by a set of challenges, including career uncertainty (in regions outside Riga), lack of work-life balance, lack of financial support in staff training, and relatively low wages.

([355])European Patent Office: Statistics & Trends Centre.

([356])BfArM - Joint Action IncreaseNET.

([357])U.S. National Library of Medicine, https://clinicaltrials.gov.

([358])Eurostat.

To address this in line with the 2025 CSR and as part of Latvia's RRP, a new remuneration model for healthcare staff was adopted in June 2025, following a significant minimum wage increase in early 2024. A new 'Advanced nurse' programme is being rolled out nationwide, enabling qualified nurses to prescribe certain medicines, thus building the health system's capacity. Furthermore, working conditions have a significant impact on mental health: nearly half of Latvia's healthcare workers report symptoms of depression, the highest rate in the EU, and nearly two thirds report symptoms of anxiety, in stark contrast to the average of one in three healthcare staff across the EU reporting the same symptoms ([359]).

Digital health infrastructure is maturing, but patient uptake and digital skills lag behind. Latvia has a relatively high technical maturity for e-health (see Annex 7), enabling a high share (40.3%) of patients to access their electronic health records (EHRs) online in 2024, which is well above the EU average of 27.7%. To centralise and manage this progress, the Latvian Digital Health Centre became operational on 1 January 2025. Moreover, the transition to a new unified electronic appointment system aimed at improving waiting times could be fully implemented by the end of 2026 (with medical institutions mandated to issue e-referrals as of May 2026). However, the use of the internet to access health services (e.g. via websites or apps instead of hospital visits) remains below the EU average, at 17%, despite a marked improvement since pre-pandemic rates. A key barrier is the level of digital literacy; in 2025 only 48.4% of the population have basic or above-basic overall digital skills, compared with the EU average of 60.4%. Enhancing these skills will be essential to fully leverage the ongoing investments in health digitalisation.

EU funds and ongoing reforms aim to improve Latvia's health system accessibility and sustainability, address structural weaknesses and accelerate digitalisation. Under the 2021-2027 cohesion funds, Latvia has earmarked approximately EUR 174 million for the health sector. Specific allocations have been assigned to health infrastructure, health equipment and digitalisation in healthcare, and the further development of e-health services and applications. Moreover, further efforts in digitalisation are to be carried out by the joint action TEHDAS2 ([360]), funded by EU4Health, which focuses on implementing the European Health Data Space. These investments are complemented by others under the Latvian RRP, which focus on strengthening the resilience of the health system and improving the accessibility and quality of services, and help address the 2025 CSRs on the adequacy of the health system. More broadly, Latvia is focusing on its ongoing hospital reform (aimed at optimising its hospital network), broadening the statutory benefits package and reducing OOP payments. Efforts are also underway to improve the distribution of the health workforce through targeted upskilling and improved working conditions.

([359])WHO (2025), Mental Health of Nurses and Doctors survey in the European Union, Iceland and Norway.

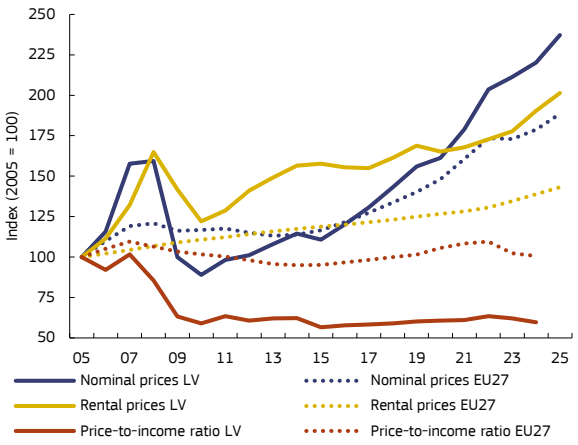
([360])Second Joint Action Towards the European Health Data Space – TEHDAS2.

Despite ongoing investments in affordable housing, the housing stock remains outdated and inadequate. Decades of underinvestment, dating back to the Soviet-era construction of large multi-apartment blocks, combined with post-Soviet privatisation, have left many buildings in need of maintenance, renovation and energy-efficiency upgrades. Despite the high level of property ownership, many households cannot invest appropriately in renovations without additional support, given the relatively high income and wealth inequality (see Annex 12). Regional disparities exacerbate the issue: outside major economic centres housing markets are thin, which limits access to finance and deters investment, as costs cannot be recouped. The overall housing stock remains of comparatively poor quality. Steps have been taken to tackle these challenges through the recent launch of renovation and social housing programmes, supported by EU funds (European Regional Fund, Recovery and Resilience Facility) and the state finance institution ALTUM. However, their scale and pace remain insufficient to significantly improve housing availability, quality and energy efficiency, particularly for vulnerable groups, as highlighted in the 2025 country-specific recommendation on social and affordable housing ([361]) (see Annex 12).

Housing market developments

House prices continue to rise, reflecting a decade-long trend. Following the 2008-09 crisis and the bursting of the real estate bubble, house prices fell significantly, both in nominal and real terms, as well as relative to income (Graph A16.1). Rental prices (including existing and new rental contracts) also fell in that period, though more slowly. As the economy began recovering around 2010, both house and rental prices started to increase, driven by rising incomes and favourable financing conditions. Nominal price growth peaked at 13.8% year-on-year in 2022 but slowed to 3.7% in 2023 amid higher interest rates. In 2024, nominal price growth reached 4.2% and in 2025 it increased to 7.7% year-on-year. Over the last decade, house prices were broadly in line with income growth, while, adjusted for inflation, they increased by 38.8% (EU average: 21.2%). The house-price-to-income ratio was below the long-term average and the EU average in 2025.

Graph A16.1: **House prices, rents and price-to-income evolution in LV and EU27 since 2005**



Source: Eurostat

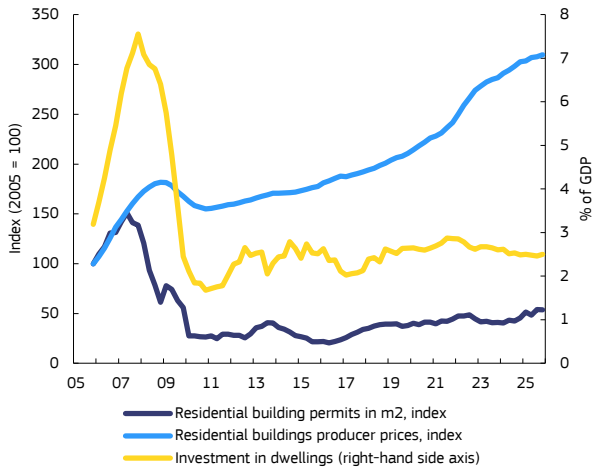
The rental market in Latvia is underdeveloped, and growth of rental prices has been muted. The small private rental market (6.1% in 2024) means that households often face very limited rental options and may have little choice but to buy. However, income is often insufficient or insecure, which can result in suboptimal housing outcomes. The supply of rental housing in the regions is even more limited than in Riga, which pushes prices up and reduces affordability. Rental prices (including existing and new rental contracts) followed the same trend as house prices until around 2015, after which house prices outpaced rent growth. As a result, over the past decade house prices have grown 70 pps faster than rent prices.

Permitting and costs have resulted in only a moderate increase in the construction of new dwellings. After a significant fall in 2008-2010, investment in dwellings has been growing moderately since 2010 (Graph A16.2) but remains lower than the EU average (2.5% of GDP vs average EU investment of 5.3% in 2024). In 2024, 2.2 new dwellings per 1 000 inhabitants were completed, up from 0.9 in 2010, but still below 4.2 in 2007. Construction has been restricted by lengthy permitting processes and rising construction costs, as reflected in an increase of 74.5% in residential building producer prices over the last decade. Although the issuance of residential building permits (Graph A16.2) has slowly increased, it is still low and remains below

([361]) 2025 country-specific recommendation: "Increase the availability and quality of social and affordable energy-efficient housing, including through renovations."

the level of 2005 and the EU average. In addition, 65% of the new dwellings are built in the Riga region.

Graph A16.2: **House supply indicators in LV since 2005**



Source: Eurostat

The housing stock is outdated due to decades of underinvestment. Latvia's housing stock is characterised by a high proportion of multi-apartment buildings built before 1990, with only 4% of all multi-apartment buildings having been built since 1993. These buildings represent a large proportion of the overall housing stock, with 64.4% of the population living in multi-apartment buildings in 2024 vs the EU average of 47.9%. In Riga, this number is around 85%. While property ownership is high (83.7% in 2024 vs 68.4% for the EU), overcrowding remains a significant issue (39.3% of the population was living in overcrowded dwellings in 2024 vs the EU average of 16.9%), and severe housing deprivation is one of the highest in the EU (11.6% in 2023).

The level of mortgage lending is low, reflecting cautious household behaviour. Currently, only 14.4% of households have a mortgage (compared with 24.3% in the EU). Lending growth has been constrained in the last decade, especially outside Riga ([362]), due to historically high interest rates (around 1.2 percentage points above the euro area average). In addition, the high prevalence of variable-rate loans, at 91.6% vs 15.6% in the EU in 2024, has amplified mortgage repayment volatility. In 2022, as financial conditions tightened, mortgage lending growth fell before recovering in early 2024 with falling interest rates. It has been dynamic since then, reaching 9.1% year-on-year in Q3 2025. Average mortgage amounts reached EUR 79 000 in 2024, remaining below those in Lithuania (EUR 104 000) and Estonia (EUR 122 000). The percentage of household income spent on mortgage repayments has remained stable (19.4% of GDP in 2024 vs the EU average of 49.9%).

Structural policies

Housing policy responsibilities in Latvia are shared between national authorities and municipalities, with municipalities playing a central role in delivery. Overall housing and construction policy is set at national level by the Ministry of Economics, which sets legislative frameworks, strategic objectives and incentives. Municipalities are responsible for land-use planning, zoning and local housing programmes, and they manage municipal housing stock and waiting lists. Unlike in several other EU countries, Latvia does not have a developed independent social housing association sector; social housing provision remains predominantly municipal and state-driven, with limited involvement of NGOs or non-profit landlords. Social housing accounts for less than 2% of the total housing stock, one of the lowest proportions in the OECD, underscoring the need for greater policy and investment focus.

Land-use regulation and permitting processes influence the responsiveness of housing supply. In Latvia, municipalities are responsible for zoning and local spatial planning decisions, within a national regulatory framework. OECD analysis ([363]) points to sluggish new construction and insufficient housing investment, particularly outside high-demand areas, suggesting that administrative complexity and slow permitting may be among the factors constraining supply responsiveness and raising development costs.

The rental market remains underdeveloped and concentrated in specific urban areas,

([362])Banks in Latvia remain cautious to lend outside of Riga because of challenges in collateral valuation and lack of liquidity in some local housing markets.

([363])OECD (2020), Policy Actions for Affordable Housing in Latvia.

restricting housing options. This situation stems largely from the large-scale privatization of the housing stock in the 1990s, which led to very high homeownership rates in Latvia, as in Lithuania and Estonia. As a result, the formal private rental sector is relatively small, and informal rental arrangements persist, limiting affordable rental options, particularly for younger and lower-income households.

Taxation and fiscal policy affect housing affordability but currently do not provide strong targeted incentives for the supply of affordable housing. Property taxes and the taxation of rental income apply consistently across Latvia. Municipal property tax rates are set on the basis of cadastral values, and rental income is taxed under general personal or corporate tax regimes. Broader fiscal instruments, such as housing allowances and renovation support, complement taxation. Recent changes to the cadastral valuation framework aim to align cadastral values more closely with current market conditions after a long period during which values were frozen to limit increases in property tax burdens. From 2025, two cadastral values will be recorded — a fiscal value (used for tax calculation) and a universal value (based on broader market data) — as part of a phased reform of property valuation methodology. Because cadastral values are influenced by territory-wide market price trends, sustained price increases — including in high-demand locations or new development — can lead to higher future tax bases for properties in a municipality. This may increase the property tax burden on long-standing owner-occupiers whose incomes have not kept pace with market price growth.

Investment patterns and structural bottlenecks constrain overall housing supply and quality. Latvia has low levels of investment in both building new housing and renovating existing stock compared with European peers, reflecting decades of underinvestment and an ageing housing stock. Many households live in dwellings of poor technical quality, and overcrowding rates remain high in many areas. Investment challenges are compounded by rising construction costs and skills shortages in the construction sector. OECD analysis underscores the need for sustained and well-resourced housing strategies to increase investment and improve housing quality and affordability. While the housing cost overburden rate is lower in the regions outside Riga and rural areas, development of new dwellings and renovations outside of the capital region of Riga is complicated by more limited access to finance. In the first half of 2025, only 29% of mortgages were granted outside of the Riga region, with particularly low lending levels in the Eastern border region of Latgale.

Current government strategies focus on expanding affordable and municipal housing through public investment and EU-supported programmes. The Latvian government, in partnership with municipalities and the EIB, is implementing programmes to develop modern, energy-efficient and affordable rental housing, particularly for public sector professionals and key workers. This includes initiatives such as the "rental housing for Latvian professionals" programme, which targets the construction of up to around 2,260 units through public-sector and co-financed projects. National housing guidelines for 2024-27 set a target of 10 000 new apartments per year, of which at least 6 000 should be low-rent dwellings, and aim to reduce municipal housing assistance waiting lists from 7 215 to 3 200 applicants ([364]). EU funding under the European Regional Development Fund (ERDF) supports both the renovation and construction of additional social housing units. By 2029, this will result in almost 2 000 social housing units, including 1615 units through the renovation of existing apartments.

Latvia's social housing stock remains very low, at 2% of the total housing stock (vs an OECD average of 7%), and largely outdated, highlighting the need for further action. While current initiatives represent important steps, additional efforts are needed, including developing innovative solutions for cost-effective and inclusive social housing (e.g. guarantees or incentives for private landlords to provide inclusive housing, or social housing rental checks). Improved nationwide data collection and streamlined municipal housing assistance registers could further inform policy decisions and support effective implementation.

([364])Housing Accessibility Guidelines 2023-2027.

Graph A16.3: **Housing affordability selected indicators**

		EU27				LV							
	unit	2000-25 avg.	2023	2024	2025	2000-25 avg.	2023	2024	2025	unit	2023	2024	2025
House price to income ratio	*2000-25 avg = 100*	100.0	102.0	100.2		100.0	90.4	87.0		YoY%	-2.1	-3.8	
Rent to income ratio	*2000-25 avg = 100*	100.0	85.1	83.5	84.5	100.0	71.6	70.9	69.9	YoY%	-3.0	-1.0	-1.4
Overburden rate, total	%	9.9	8.8	8.2		8.0	7.2	6.7	5.7	PPS/y	1.8	-0.5	-1.0
Overburden rate, tenant with market rent	%	23.8	20.3	19.2		14.1	19.4	16.0	18.1	PPS/y	8.1	-3.4	2.1
Overvaluation gap	%					1.2	11.6	8.6	10.2				
Deflated construction production price	*2010 = 100*	102.2	112.2	111.8	110.5	106.9	119.8	124.8	123.0	YoY%	-5.0	5.1	-1.8
Building permits	*m^2 per ths persons*	483.5	376.9	362.9	379.9	397.8	372.0	375.4	489.6	YoY%	0.2	0.9	30.4
Residential construction investment	*% GDP*	5.5	5.8	5.1	5.0	2.8	2.6	2.5	2.5	YoY%	0.0	-3.8	0.0
Share of ownership	%	70.0	69.1	68.4		82.7	82.8	83.7	82.2	PPS/y	-0.4	1.1	-1.8
Share of people living in overcrowded homes	%	17.7	16.8	16.9		45.9	40.9	39.3	38.9	PPS/y	-0.8	-1.6	-0.4

Source: Eurostat and European Commission calculations

Vulnerable groups

Strong socio-economic disparities limit housing development and renovations, with particularly low lending levels in the Eastern border region of Latgale. Poor-quality housing is especially prevalent for the lower income groups, lacking the financial resources to invest in renovations. The housing cost overburden rate at 25.7% (EU: 31.1%) is much higher for households below the at-risk-of-poverty (AROP) threshold than for those above the threshold at 1.5% (EU: 3.8%), pointing to the need for targeted housing renovation support for this group.

Specific support programmes for renovations are needed for the most vulnerable groups. Among the 39 500 multi-apartment residential buildings in Latvia, some 35 000 have an energy efficiency rating class of F and at least 26 600 require renovation ([365]). Despite considerable EU investments in recent years, support for energy-efficient renovations is insufficient, also due to increased construction costs and lack of financing.

Latvia is taking steps to address homelessness, but comprehensive support to bring those in shelters back into housing is missing. From 2025 onwards, each municipality is obliged to provide shelters for the homeless, with the number of people in municipal shelters remaining relatively stable so far at 6 000 people per year ([366]). The pilot project to promote Housing First ([367]), which ran from 2022 to 2023 with support from the European Social Funds Plus, has been successfully continued in Riga which has the highest numbers of homeless people. However, it remains to be further developed outside of the capital region. To address limited data, the government launched a study in October 2025 to conduct an in-depth analysis of the legal and substantive framework governing homelessness in Latvia and to propose specific policy recommendations for reducing it. The results of the study, once available could serve as a basis for a national strategy for homelessness.

Housing policy does not consider the needs of people with disabilities. Currently, there is a severe lack of municipal housing for people with disabilities. The regulatory framework for construction does not set accessibility standards for single-family residential houses, and in 2024, only one municipality provided a serviced apartment ([368]). Amendments to the Disability Law in 2022 excluded support for the adaptation of housing at the national level. Support for making private dwellings more accessible is thus currently limited to one Recovery and Resilience Facility-funded project, which will improve accessibility for around 250 people by 2026. Moreover, wheelchair-users usually need larger dwellings, as they need sufficient room to manoeuvre their wheelchairs. The various factors contribute to higher housing expenditures for persons with a disability and the housing cost overburden rate at 8.9% for persons with disability is consequently well above the rate for persons without (5.6%).

([365])State Audit Office of Latvia (2025), Untapped opportunities in retrofitting of housing.

([366])Central Statistical Bureau of Latvia (2024), Recipients of municipal social services in State cities and municipalities.

([367])Housing First Europe

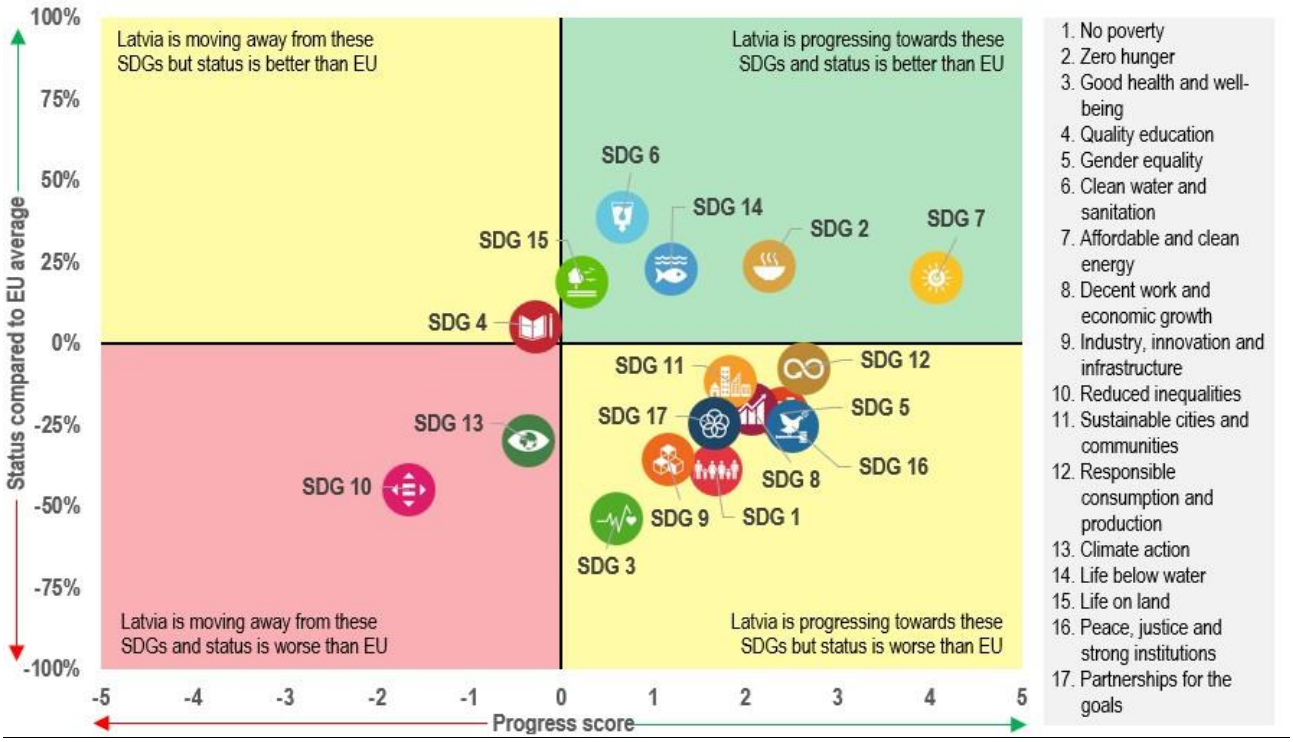
([368])Ministry of Welfare (2025), Annual data.

This annex assesses Latvia's progress on the sustainable development goals (SDGs) along the dimensions of competitiveness, sustainability, social fairness and macroeconomic stability. The 17 SDGs and their related indicators provide a policy framework under the UN's 2030 Agenda for Sustainable Development. The aim is to end all forms of poverty, fight inequalities and tackle climate change and the environmental crisis, while ensuring that no one is left behind. The EU and its Member States are committed to this historic global framework agreement and to playing an active role in maximising progress on the SDGs. The graph below is based on the EU SDG indicator set developed to monitor progress on the SDGs in the EU.

Latvia is improving on SDGs related to *competitiveness* (SDGs 4, 8, 9). Sustainable economic growth indicators (SDG 8) are improving, but still below the EU average. In recent years, Latvia's real GDP per capita increased from EUR 15 820 in 2019 to EUR 17 520 in 2025 (EU average: EUR 34 110). The investment share of GDP is above the EU average (22.4% of GDP vs 21.7% for the EU in 2024). The material footprint decreased from 2019 to 2024, reaching 15.4 tonnes per capita in 2024 (EU average: 13.7 tonnes per capita). While Latvia is performing better than the EU average on general employment indicators, the level of fatal accidents at work stood at 3.21 accidents per 100 000 workers in 2023 (EU average: 1.63) and the long-term unemployment rate was 2.3% of the labour force in 2025 (EU average 1.9%).

However, Latvia still needs to catch up with the EU average on SDGs 8 and 9. When it comes to industry, innovation and infrastructure (SDG 9), Latvia has low, albeit increasing, gross domestic expenditure on R&D. In 2024, this stood at 0.92% of GDP (EU average: 2.24%). The percentage of households with a high-speed internet connection has decreased to 68.1% in

Graph A17.1: **Progress towards the SDGs in Latvia**



For a detailed progress assessment towards the various SDGs, see the annual Eurostat report 'Sustainable development in the European Union'; for extensive data on the short-term SDG progress of EU countries, see Key findings – Sustainable development indicators; for an interactive visualization of SDG progress of EU countries, see SDG country overview. A high status does not mean that a country is close to reaching a specific SDG, but signals that it is doing better than the EU on average. The progress score is an absolute measure based on the indicator trends over the past five or six years. The calculation does not take into account any target values, as most EU policy targets are only valid for the aggregate EU level. Depending on data availability for each goal, not all 17 SDGs are shown for each country.

Source: Eurostat, latest update of 29 April 2026. Data refer mainly to the period 2019-2024 or 2019-2025. Data on SDGs may vary across the report and its annexes due to different cut-off dates.

2024, below the EU average of 82.5%. Latvia performs better than EU average on indicators related to quality education (SDG 4), but is moving away from these targets. However, strengthening digital skills remains a challenge, as only less than half of adults have at least basic digital skills (48.4% in 2025; EU average: 60.4%). Reforms and investment under the recovery and resilience plan (RRP) focus on further developing digital infrastructure and equipment and on improving digital skills at all levels.

Latvia performs well (SDGs 2, 7, 14) or is improving (SDGs 9, 11, 12) on several SDGs related to *sustainability.* For SDG 7 (Affordable and clean energy), the percentage of renewable energy in total energy consumption increased from 40.9% in 2019 to 45.5% in 2024, and was well above the EU average (25.2% in 2024). Latvia's RRP includes measures to address some of the energy-related challenges both in the REPowerEU chapter and under component 1 'Climate change and environmental sustainability'.

Latvia is progressing well on SDGs 6 and 15, but is moving away from its targets for SDG 13. Latvia is performing below the EU average and moving away from its target on SDG 13 (Climate action), in particular on climate change mitigation. Net greenhouse gas emissions from the land use, land-use change and forestry sector (LULUCF) increased to 44.4 tonnes CO_2 eq. per km^2 in 2024 (well up on its 2019 value of -60 tonnes) and well below the EU average of -54.7 tonnes. Average CO_2 emissions from new passenger cars were at 129.4 g CO_2 per km, well above the EU average of 107.9 g in 2024. On SDG 15 (Life on land), Latvia is performing better than the EU average. The percentage of forest area stands at 53.4% in 2023, well above the EU average of 39%. The biochemical oxygen demand in rivers was 1.57 mg O_2 per litre in 2023, well below the EU average of 2.24 mg O_2 per litre.

On the SDGs related to *social fairness*, Latvia performs well. Above the EU average on indicators related to quality education (SDG 4) and affordable and clean energy (SDG 7), it is improving on indicators for no poverty (SDG 1), good health and well-being (SDG 3), gender equality (SDG 5), decent work and economic growth (SDG 8) but still needs to catch up with the EU average. While some indicators related to poverty (SDG 1) are improving, Latvia is still underperforming against the EU average. This applies in particular for the severe housing deprivation rate (11.6% in 2023; EU average: 4.0%) and people at risk of monetary poverty after social transfers (21.6% in 2024; EU average: 16.2%).

Latvia is progressing on good health and well-being (SDG 3), but needs to catch up with the EU average. The percentage of people who perceive their health as good or very good has not considerably improved over the years and stands at 49.1% of the population, compared with the EU average of 68.5% in 2024. Unmet need for medical care has increased over the years and stands at 8.4% of the population, compared to the EU average of 2.5% in 2024.

At the same time, Latvia is moving away from the targets related to SDG 10 (Reduced inequalities), and needs to catch up with the EU average on these. Latvia is underperforming compared with the EU average on SDG 10 (Reduced inequalities) and moving away from its targets: the urban-rural gap for the risk of poverty or social exclusion accounted for 10.1% in 2024, (EU average: 0.0%) while purchasing power adjusted GDP per capita was 29 500 in 2025 (EU average 41 600). Its RRP includes measures to reduce regional disparities, improve the social safety net and encourage social integration and inclusion in Latvia. It also aims to contribute to the accessibility, efficiency and resilience of Latvia's health system.

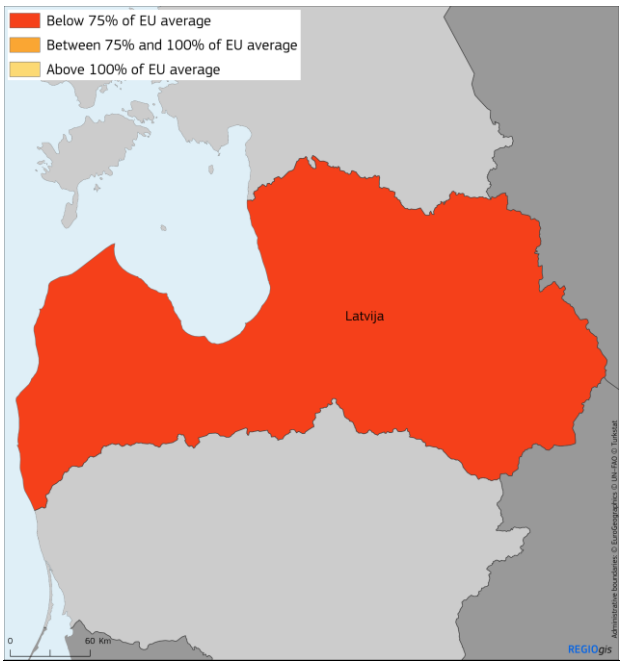
Latvia is improving on the SDGs related to *macroeconomic stability* (SDGs 8, 16, 17), but still needs to catch up with the EU average. Latvia's performance on the quality of its institutions, including trust in institutions, is below the EU average but improving (SDG 16 on Peace, justice and strong institutions). The Corruption Perception Index score in Latvia is 60 in 2025, slightly below the EU average of 62 (score scale from 0 'highly corrupt' to 100 'very clean'). The RRP includes several measures to increase the transparency and integrity of public administration through training on general skills like ethics, integrity and anti-corruption.

As the SDGs form an overarching framework, any links to relevant SDGs are either explained or depicted with icons in the other annexes.

Regional development trends

Over the past two decades, Latvia's GDP per head has risen from 45% of the EU average in 2004 to 70% in 2024. The 2008 financial crisis slowed the convergence process, but it resumed in 2011. Riga showed the sharpest decline in GDP per head (in pps) compared with the EU average, falling from 85 in 2008 to 77 in 2009, before recovering to 86 in 2012. More recently, the COVID-19 pandemic and the impact of Russia's war of aggression against Ukraine have stalled the pace of convergence, although real GDP per head growth remains above the EU average in all regions.

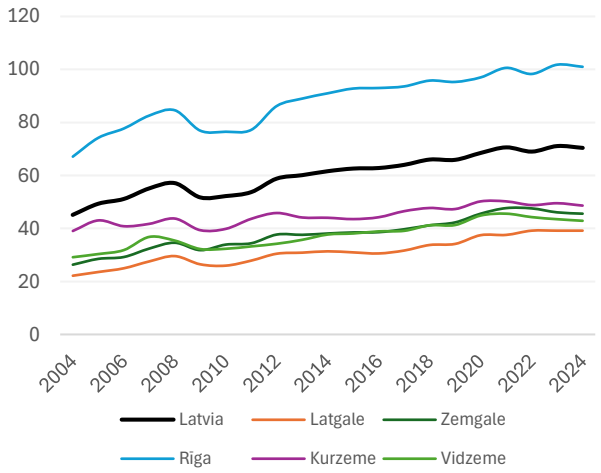
Map A18.1: **GDP per head compared with the EU average**



Source: Commission calculations based on Eurostat on 16 July 2025

The economic development gap between the capital region Riga and the rest of the country is widening and hampers Latvia's internal convergence. Growth in the Riga region has been rising from 67% of the EU average of GDP per head in 2004 to 101% in 2024 (in pps). While other regions were catching up, especially during the period 2014-2020, the gains have stalled in recent years and all regions outside Riga stood at less than 50% of the EU average GDP per head, remaining among the 20% poorest in the EU. The gap between the capital and the poorest region has increased significantly from 45 pps in 2004 to 62 pps in 2024, leading to increased inequality within the country.

Graph A18.1: **GDP per head (PPS, EU = 100) growth, NUTS-3, 2004-2024**



Data for 2024 is based on forecasts.
Source: Eurostat

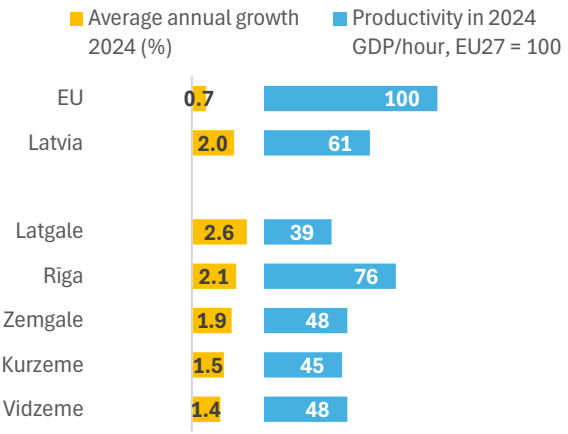
Latvia's growth disparities are primarily driven by regional productivity differences between Riga and the regions outside the capital. Despite a positive trend of 2.3% annual productivity growth in 2012-2022, regional disparities are stark as Riga leads with 73% of the EU average in terms of productivity, while other regions remain at less than 50% of the EU average. In Latgale, it decreased from 36% in 2021 to 33% in 2022. Regional disparities in productivity are mainly due to differences in the sectoral composition of employment: Riga and surrounding municipalities have 29.5% of people employed in trade, transport and accommodation and is the only region where ICT, financial and professional services underpin its growth with almost 23% of total employment. Industry is the main driver of economic activity in other regions, with the highest in Kurzeme (21.4%). The region with the highest employment in agriculture is Vidzeme (11%). A significant portion of the population in the regions (above EU average) are employed in low value-added sectors, compared with high-tech and services dominating employment in Riga.

Table A18.1:**Main development trends and challenges in Latvia**

	Main development trends
Less developed regions (population 1 871 882)	Latvia is a single NUTS 2 region and is expected to remain a less developed region. However, there are significant disparities between the capital region Rīga and the rest of the country. All regions record 50% or below of GDP per capita compared with the capital, despite the small size of the country and the relatively short distances. Economic convergence is driven largely by the capital, leading to a significant wealth gap between the capital and the regions.
Specific territories - eastern border regions (Latgale & Alūksne as per national definition)	Latvia's regions bordering Russia and Belarus have been economically underdeveloped for decades. In particular, the Latgale region remains the poorest region in Latvia, despite significant investments from EU funds. Now it is also disproportionally affected by Russia's war of aggression against Ukraine and the disruptions in trade with Russia and Belarus. It is hit hardest by diversion of investments, poor connectivity, declining demography and stringent financing conditions for both households and private sector due to the closeness of its borders with Russia and Belarus. While there are individual success stories of entrepreneurial activity, these have not resulted in substantial spillovers for the rest of the region. Latgale is also at the centre of Latvia's defence and security priorities. As the country aims to increase its defence spending, major military infrastructure and preparedness assets are placed in Latgale. This creates both new opportunities for the local economy and challenges in terms of perceived security threats.
National cohesion aspects	The flagship TEN-T project in the region is Rail Baltica, supported primarily by the Connecting Europe Facility. Promoting a modal shift away from road transport, further decarbonising transport, and ensuring that the transport network fulfils military mobility needs remain relevant. Improving the uptake and effectiveness of rail services, other public transport and light mobility would help to address a number of regional development bottlenecks.

Source: European Commission, based on Eurostat data; categories of regions based on Map A18.1.

Graph A18.2: **Productivity per hour worked: average annual growth and level, NUTS 3**



Source: European Commission, based on Eurostat and JRC data

The eastern border region of Latgale faces significant challenges in attracting foreign direct investment (FDI), yet opportunities exist for revitalisation through its high-tech and engineering sectors. Securing access to finance is particularly challenging in Latgale, as its proximity to Russia and Belarus has become a major obstacle for FDI following Russia's war of aggression against Ukraine. A targeted instrument to provide concessional finance to the EU's eastern border regions could prove beneficial to Latgale ([369]).

This challenge persists despite renewed policy and investment efforts. These include (i) the national plan for eastern border regions; (ii) the highest per head investment rate from EU funds in 2014-2020; (iii) two special economic zones; (iv) two regional universities; and (v) several high-growth companies in the region. Nevertheless, there is potential to reverse these dynamics. Notably, 4 out of 10 top Latvian engineering companies are located in Latgale, and there is significant untapped potential to revive the region's economy as a manufacturing hub.

Key challenges for regional competitiveness

There is a high potential for innovation, since manufacturing dominates regional economies. As the manufacturing sector has higher R&D expenditure, this could be exploited to further boost R&D intensity in regions outside of Riga ([370]). This suggests a potential to build on existing sectoral strengths and boost R&D

([369])European Commission (2026), Communication on EU's eastern border regions.

([370])European Commission and National Statistics Latvia.

Table A18.2:**Key regional indicators (at NUTS 3 level) for Latvia**

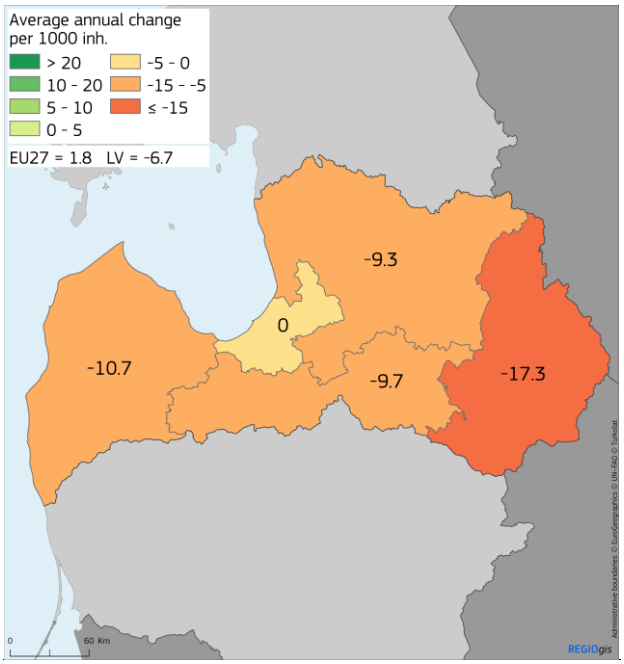
	GDP per head (PPS, index)	Population growth	Growth in natural population	Net migration	Net migration of population aged 15-39	Real GDP growth	Real GDP per head growth	Productivity: GDP (PPS) per hour worked (index)	Real productivity growth (per hour worked)
	EU27=100	Average annual change per 1000 residents	Average annual change per 1000 residents	Average annual change per 1000 residents	Average annual change per 1000 residents aged 15-39	Average annual % change	Average annual % change	EU27=100	Average annual % change
	2023	2015-2024	2015-2024	2015-2024	2014-2023	2013-2023	2013-2023	2024	2014-2024
EU	100	1.8	-1.7	3.5	7.1	1.6	1.4	100	0.7
Latvia	68	-6.7	-5.8	-0.9	-3.9	1.9	2.6	61	2.0
Latgale	38	-17.3	-11.3	-6.0	-17.4	1.7	3.5	39	2.6
Zemgale	45	-9.7	-5.9	-3.8	-12.3	2.1	3.0	48	1.9
Rīga	101	0.0	-3.6	3.6	5.5	2.2	2.5	76	2.1
Kurzeme	48	-10.7	-6.4	-4.2	-12.6	1.4	2.3	45	1.5
Vidzeme	42	-9.3	-6.5	-2.8	-6.7	2.4	3.1	48	1.4

Dark green - the indicator is 120% or more of the EU average.
Light Green - the indicator is 100% or more, but less than 120% of the EU average.
Yellow - the indicator is 90% or more, but less than 100% of the EU average.
Light red – the indicator is 75% or more, but less than 90% of the EU average.
Dark red – the indicator is below 75% of the EU average.
This colour scale applies to 'positive' indicators, where higher values are favourable.
For 'negative' indicators (where higher values are unfavourable), the colours are reversed.
Source: Eurostat and JRC

intensity in regions outside Riga with support from the smart specialisation strategy. Part of the challenge stems from the fragmented business ecosystems in these regions, which lack strong regional hubs to drive innovation and support businesses. The potential of several special economic zones and EU-funded industrial parks across the regions remains underutilised.

Coastal areas represent 5.9% of Latvia. In 2022, the blue economy constituted 1.8% of the national economy and generated 2.8% of national employment. This was mainly due to port-related activities and coastal tourism. While Ventspils and Liepāja host major port infrastructure and higher education institutions, including Liepāja Maritime College, their GDP per head reaches only half of Riga's levels. Ventspils faces high unemployment despite a well-educated population. Improving the existing infrastructure in these two port cities and exploiting it better would allow them to untap the potential of the blue economy and to serve as regional hubs to boost the development of the coastal region, Kurzeme.

Map A18.2: **Population change in 2015-2024 (average annual change per 1000 residents), Latvia, NUTS 3 regions**



Source: Eurostat

Latvia's eastern regions, bordering both mainland Russia and Belarus, are dramatically affected by the impact of Russia's war of aggression against Ukraine. One Latvian region in particular – Latgale - faces compounded structural challenges that require targeted policy action. The region has experienced the highest depopulation, the lowest economic convergence and stagnating growth. It is the poorest region and exhibits the highest share of unemployment (9.7% vs 5.3% national average) ([371]). It also has the lowest gross wage, and despite an increase since 2021, it is still 35% lower than Riga ([372]). Persistent poverty, connectivity gaps and social challenges are compounded by security pressures, including border closures with Russia and Belarus, increased military presence, and hybrid attacks ([373]). In addition, emerging civil preparedness needs are impacting already strained municipal capacities and budgets in these regions ([374]).

Latvia's regions are affected by population decline. However, its intensity varies across the territory - with Latgale experiencing the sharpest losses. Between 2015 and 2024, Latgale's population declined 17.3 per 1000 habitants per year and has experienced the sharpest emigration of young adults between 2014-2023 with a drop of -17.4 per 1000 inhabitants per year. Rural regions are also losing more young and working age people than urban regions ([375]).

Disparities in access to finance undermine both the business environment and the economic prospects of the regions beyond Riga. With a conservative banking sector focusing mainly on the Riga region, companies outside the capital face limited access to finance with higher collateral requirements, borrowing rates and a weak capital market ([376]).

A similar divide is illustrated by business activity. Riga accounts for nearly 50% of all registered businesses in the country. Latvia's second largest city, Daugavpils, had barely 200 new businesses established in 2024, compared with over 4 000 in the Riga region ([377]). As a result, the productivity gap is widening, with Riga and its surrounding municipalities exhibiting higher economic growth than other regions. Productivity spillovers to other regions remain limited and FDI was largely concentrated in the capital region and a few major cities around Riga (see Annex 4). Information asymmetries and lack of business advisory and technical services in the regions, combined with difficult access to finance, are major challenges ([378]). Latvia's aim to increase its national defence spending is an opportunity to boost regional competitiveness by developing defence industry clusters in regions outside of the Riga metropolitan area ([379]). Projects like manufacturing in Valmiera and the military school in Latgale could be scaled up and linked with local economies ([380]).

Table A18.3:**Selected socio-economic indicators by degree of urbanisation for Latvia**

Latvia (2024)	Cities	Towns and suburbs	Rural areas
AROPE (%)	19.3 (EU 21.3)	23.3 (EU 20.3)	29.4 (EU 21.3)
Housing cost overburden rate (%)	7.6 (EU 9.8)	7.2 (EU 7.8)	5.7 (EU 6.3)
Severe housing deprivation % (2023 latest)	12.2 (EU 4.9)	10 (EU 3.2)	12 (EU 3.5)
Unemployment % (15-74)	6.8 (EU 6.7)	6.3 (EU 5.6)	7.5 (EU 5.1)

Source: Eurostat

([371])Ministry of Economy (2025), Annual Economic Outlook.

([372])Central Statistical Bureau of Latvia (2025), Average monthly wages and salaries by region.

([373])European Commission (2025), Country Report: Latvia.

([374])European Commission (2026), Communication on EU's eastern border regions.

([375])Central Statistical Bureau of Latvia (2025), Latvia has a population of almost 1.86 million.

([376])Latvian Central Bank (2025), Finance accessibility overview.

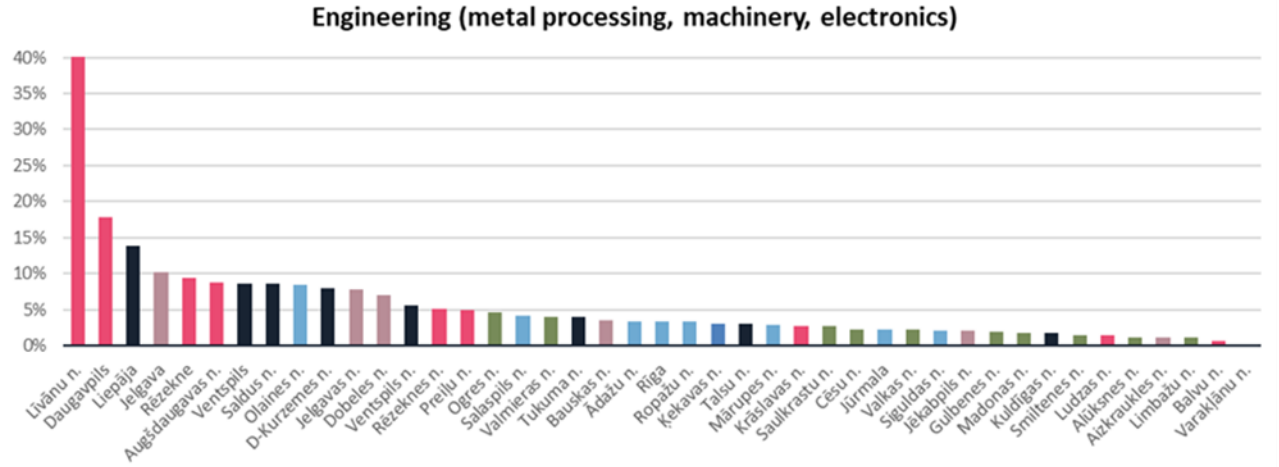
([377])Regional Development Indicator Module, RAIM.

([378])OECD (2025), Strengthening FDI and SME Linkages in the Baltic States.

([379])Draft Budgetary Plan of Latvia for 2026.

([380])Patria (2024), Patria opens a new armoured vehicle production facility in Valmiera, Latvia.

Graph A18.3: **Share of engineering sector in the total value added in municipalities, 2022**



Source: National Statistics Bureau of Latvia

Persistent socio-economic rural-urban disparities remain. Since 2015, the at-risk-of-poverty or social exclusion (AROPE) rate gap between rural areas and cities has not decreased, remaining stable at around 10 pps in 2024. Moreover, the AROPE rate in rural areas of 29.4% remains well above the EU average of 21.3%. This shows that Latvia still has scope to lift its rural population out of poverty. Unemployment shows a similar picture, with an overall decrease since 2015 but rates remain above the EU average especially in towns and rural areas (see Table A18.2 and Annexes 11 and 12).

Access to affordable, social and quality housing presents a major challenge for regional development. In 2024, 14.5% of rural households had no inside toilet, compared with only 1% in cities ([381]). This explains in part why existing housing in Latvia's regions is affordable – because the housing stock is of poor quality. However, due to a lack of quality housing, emerging regional economic centres, such as Valmiera, Liepāja or Līvāni, struggle to attract qualified labour (see Annex 16).

Access to transport beyond Riga is poor, thereby hampering regional development. Railway transport has the potential to improve regional connectivity, including creating opportunities for businesses outside Riga to benefit from free load capacity if located near the rail network. Regions outside Riga are particularly poorly served by public transport, which is compensated by above EU-average private car use ([382]).

Regional disparities in the provision of social services remain significant. In 2024, the number of social services per 10 000 inhabitants varied from 30 in the Saulkrasti municipality to 2.8 in Daugavpils city ([383]). As with healthcare, education (see Annex 13) and other public services, the social sector struggles with accessibility and performance challenges. In this regard, smart shrinking policies could be beneficial, by addressing diverging regional population trends while ensuring the right to stay in the regions.

The highly fragmented water and waste water services in depopulating regions is proving unsustainable. Service quality is deterioriating and many rural households remaining disconnected from central networks. Latvia has 80 water and waste water service providers serving 42 municipalities. There is also the challenge of an ageing water infrastructure, as half of the water supply and water collection networks were last renovated before 2000 ([384]). Latvia has begun a review to reform the sector, but so far, the efforts have fallen short.

([381])Central Statistical Bureau of Latvia (2024), Dwelling supply with different amenities.

([382])European Commission (2025), Transport Poverty Hub.

([383])Ministry of Welfare (2025), Overview of social services and social aid in regions and cities in 2024.

([384])Technical Support Instrument, 2025 project: Strategy for Latvia's drinking water and waste water sector.

Regions outside the capital struggle with administrative capacity and efficiency. While the territorial-administrative reform of 2021 has brought some efficiencies (notably by reducing the number of municipalities), many municipalities in the regions continue to face fiscal pressures and struggle to provide the co-financing required to access EU funds to finance regional investments. According to Latvia's territorial administrative system, there is no regional-level development planning but each of the 42 municipalities has its individual strategy, serving as basis for investment planning. This can undermine efforts to improve the efficiency, quality and accessibility of public services, especially as Latvia seeks to reduce bureaucratic burden while dealing with diverging demographic trends ([385]) (see Annex 7). Improved cooperation at the level of municipalities and regional-level planning for cross-municipal solutions could facilitate investment attraction, creation of local economic clusters, and make the most of limited public funds in strategic regions.

([385])OECD (2025), Economic Outlook

This Transport Annex presents the state of play and the challenges Latvia is facing with the implementation of the trans-European transport network (TEN-T), the European Railway Traffic Management System (ERTMS) and road safety.

Two European transport corridors run through Latvia, the North Sea – Baltic corridor and the Baltic Sea – Black Sea – Adriatic Sea corridor. The TEN-T in Latvia comprises 1 623 km of rail (924 of which are on the core network) and 1 739 km of road (718 of which on the core network). Latvia has no inland waterways on the TEN-T, four airports (including one core airport), three ports (including two core ports) and one urban node ([386]). Latvia's railway network is built on the Russian railway gauge (1 520 mm).

Although the rail network – except for Rail Baltica – is considered isolated and therefore exempt from TEN-T requirements, modernisation efforts should continue, for instance for electrification and the removal of level-crossings. Latvia should also consider replacing its Russian-based signalling system.

Rail Baltica is by far the largest railway project in Latvia and the Baltic states. It is also significant for military mobility. Once completed, this railway line will connect the Baltic states to the European railway network at the European standard gauge. Latvia also plans to work on the second phase of the Rail Baltica project and continue the Rail Baltica line through to Riga. Given the significant investment needs of Rail Baltica, a combination of funding programmes will be required.

The European railway traffic management system (ERTMS) is essential to digitalising the railways and to modernising and harmonising railway operations across Europe. The ERTMS ensures the safety of rail networks by providing a unified signalling system that significantly reduces the risk of accidents. It also provides interoperability between national rail systems, improving cross-border train movements. It is important to advance efforts towards a comprehensive multilateral agreement among the Baltic states, to strengthen coordination and support smooth cross-border railway operations. Finally, the ERTMS enhances network capacity and operational efficiency, increasing the competitiveness of the rail sector. In Latvia, only Rail Baltica will have to be equipped with the ERTMS, and the costs of which are included in the total project cost estimates.

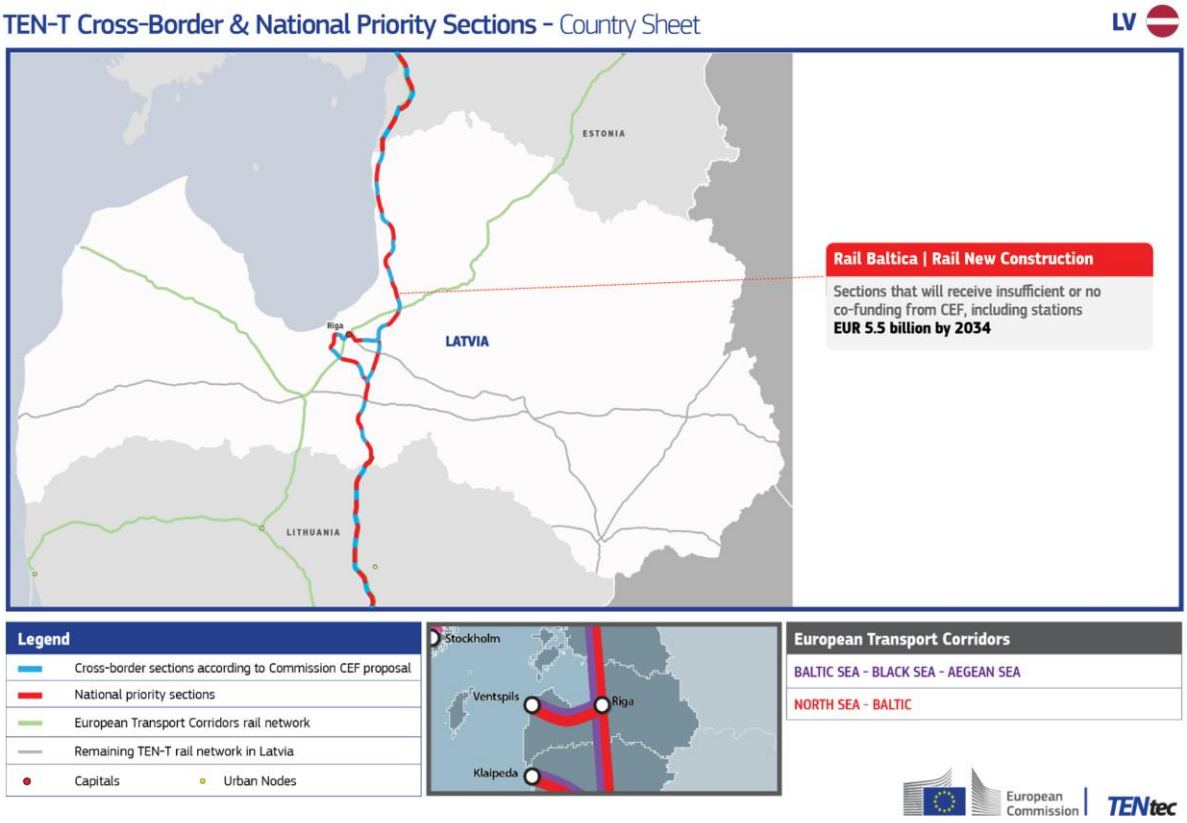
The timely implementation of major infrastructure projects is affected by lengthy permitting and tendering procedures. This also includes the process of land acquisition which is time consuming. The administrative capacity of the implementing bodies and the state administration to manage large infrastructure projects is weak, which leads to delays and associated cost overruns.

The legal framework for Rail Baltica is still complex and administrative procedures are lengthy. The Rail Baltica mainline design has not yet been connected to the Estonian and Lithuanian sections. Latvia lacks a multiannual funding perspective with sufficient and predictable financial resources required for a smooth and cost-efficient implementation of Rail Baltica.

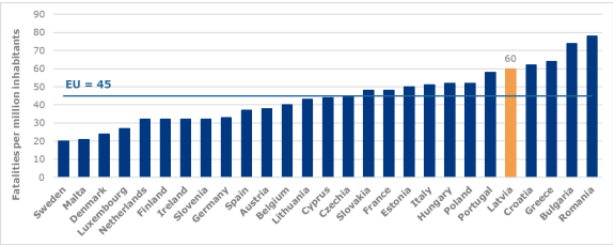
Latvia has little experience with operating trains on the existing railway network to Lithuania and Estonia. Together with Estonia and Lithuania, Latvia lacks a model to operate railway traffic on the Rail Baltica line as a seamless cross-border infrastructure, including traffic management, maintenance, and operations according to the rules of the single European railway area. Harmonising technical and operational rules with the minimisation of national rules in line with the EU directives on rail interoperability and safety remains critical to ensuring a new landmark rail infrastructure such as Rail Baltica does not inherit legacy operational rules.

([386])European Commission (2015), TENtec Information System.

Map A19.1: **TEN-T Cross-Border & National Priority Sections in Latvia**



Graph A19.1: **Latvia's road fatalities per million, 2024**



Source: Report at the Mid-Point - Latvia, SWD(2026) 48 final.

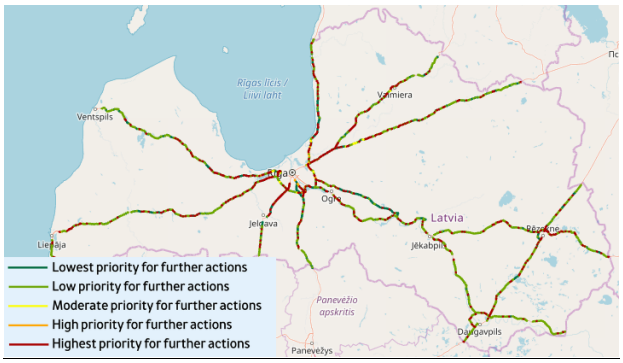
Road crashes impose an enormous social, economic and health burden on the EU economy. The external socio-economic costs of fatal, serious and minor injuries have remained persistently high despite the progress made in reducing crash frequency and severity. These resources could otherwise fuel innovation, education, healthcare and other crucial public investments ([387]).

In 2024, Latvia was substantially above the EU average (45), with 60 road fatalities per million inhabitants. Compared to the EU average, the distribution of fatalities in Latvia showed a high proportion of pedestrians involved, as well as fatalities occurring on roads outside urban areas. Also, the total number of injured cyclists has increased over the last years, while inappropriate speed remains the main cause of fatal crashes. Based on the latest available data, Latvia is making reasonably good progress but is currently not on track to reach the 2030 target of halving the number of fatalities, with a 15% decrease since 2019.

([387]) European Commission (2025), Report on the implementation of the EU Road Safety Policy framework at the Mid-Point.

More would need to be done for Latvia to meet the 2030 target and reduce the gap with other EU countries. Based on the self-reported assessment, funding for road safety has not been adequate to date, and there is a lack of common political will to make unpopular road safety decisions (such as on penalties or stricter regulations). Nevertheless, new measures have been prepared in the Mid-term Impact Assessment of the Road Traffic Safety Plan 2021-2027, to complement the existing plan ([388]). The map below presents the roads where the safety of the infrastructure is poor and thus where urgent action is required.

Map A19.2: **Latvia's road safety map**



Source: TENtec Information System and TEN-T map library – European Commission

([388])For more details, see European Commission (2026), Report on the implementation of the EU Road Safety Policy framework at the Mid-Point – Latvia.