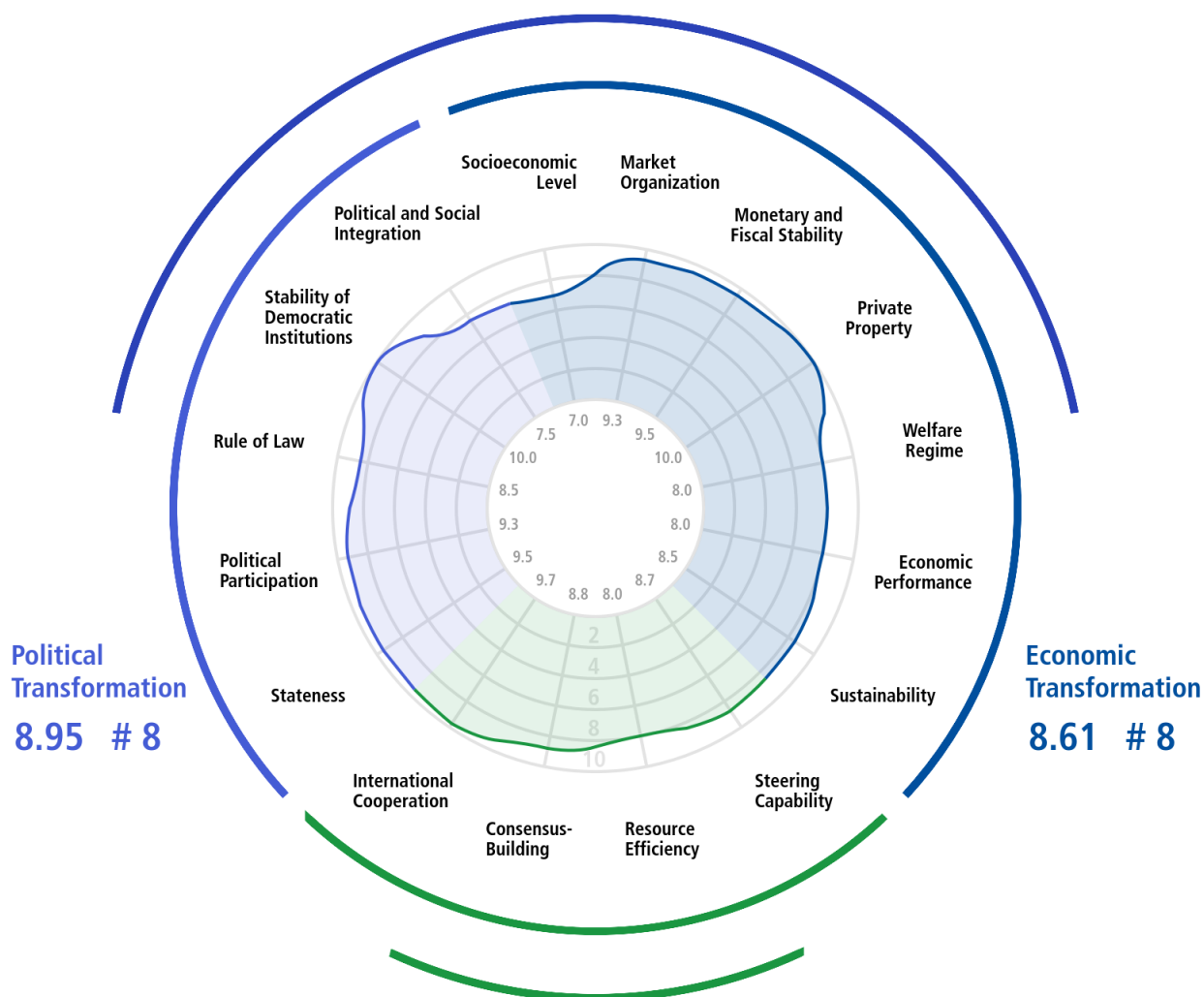


## Latvia

### Status Index

**8.78 # 8**

on 1-10 scale out of 137



**Political Transformation**  
**8.95 # 8**

**Economic Transformation**  
**8.61 # 8**

### Governance Index

**7.22 # 5**

on 1-10 scale out of 137

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2024. It covers the period from February 1, 2021 to January 31, 2023. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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**Key Indicators**

Population	M	<b>1.9</b>	HDI	<b>0.863</b>	GDP p.c., PPP \$	<b>39956</b>
Pop. growth <sup>1</sup>	% p.a.	<b>-0.1</b>	HDI rank of 189	<b>39</b>	Gini Index	<b>35.7</b>
Life expectancy	years	<b>73.3</b>	UN Education Index	<b>0.892</b>	Poverty <sup>3</sup>	% <b>0.8</b>
Urban population	%	<b>68.5</b>	Gender inequality <sup>2</sup>	<b>0.151</b>	Aid per capita \$	-

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

## Executive Summary

In October 2022, Latvia marked a historic moment as Krišjānis Kariņš became the first prime minister to complete a full four-year term in office. Furthermore, following the parliamentary election held on October 1, Kariņš was re-elected by the parliament after two and a half months of political negotiations. He now leads a new coalition government comprising three center-right parties. This marks a continuation of the trend toward more stable and enduring governments in Latvia. Over the past 13 years (2009 – 2022), there have been only four different prime ministers, a significant improvement compared to the previous 13-year period (1996 – 2009), which saw eight different prime ministers.

The conflict in Ukraine had a profound impact on the parliamentary election. Kariņš's New Unity (JV) party, which had been polling in third place in January 2022 before the invasion, experienced a surge in popularity due to Kariņš's resolute response to the crisis. This, coupled with the efforts of long-serving Foreign Minister Edgars Rinkēvičs (also JV), who led diplomatic efforts to impose sanctions on Russia, resonated with the public, resulting in JV winning the largest share of votes in the election and securing 26 out of 100 seats. President Egīls Levits, a former teacher of Kariņš, had little hesitation in nominating him for the prime minister's post.

Three of the five parties that formed Kariņš' previous government were no longer represented in parliament, necessitating the formation of a new coalition. To this end, JV and the National Alliance (NA) welcomed a new conservative party union, the United List, as their third coalition partner. The primary focus of this new government is to bolster both external and internal security, increase defense spending and introduce a conscription system.

Latvia's largest pro-Russian-speaking party, Harmony, initially expressed opposition to Russia's invasion in February 2022. This stance, however, placed the party at odds with much of its electorate. A post-invasion poll revealed that 90% of ethnic Latvians, as opposed to just 22% of Latvia's Russians, supported Ukraine. Approximately half of Latvia's Russian-speaking population declared support for neither side, while 21% expressed support for Russia.

Consequently, Harmony, which had secured the most votes in the three previous parliamentary elections, surprisingly failed to meet the 5% threshold. A new pro-Russian-speaking populist party, For Stability! (S!), which refrained from criticizing Russia's actions and advocated for peace, now represents Russian speakers in Latvia. Another newly emerged populist party, Latvia First (LPV), also gained parliamentary seats.

Russia's war on Ukraine has not only affected Latvia's political landscape but has also left a profound impact on its economy and society. Anticipated foreign direct investment (FDI) projects have been put on hold as investors assess the implications of the war on Latvia's security. Latvian exporters to Russia and Belarus now face challenges in finding markets in the Western world. Additionally, Latvia's decision to halt gas and oil imports from Russia has resulted in soaring energy prices for both consumers and businesses. Simultaneously, Latvia has planned substantial investments in renewable energy, particularly in wind and solar power, with discussions ongoing about constructing an LNG terminal. In the latter half of 2022, inflation soared to over 20%, one of the highest rates in the EU. As a result, there is widespread dissatisfaction with recent sluggish economic growth, with Latvia lagging significantly behind neighboring Estonia and Lithuania in terms of GDP per capita and other key macroeconomic indicators.

## History and Characteristics of Transformation

The modern Latvian nation began to take shape in the mid-19th century, driven by Tsarist peasant emancipation, urban industrialization, and the subsequent rise of an educated Latvian middle class a generation later. Following the collapse of the Tsarist empire at the end of World War I, Latvia seized the opportunity to establish its independence, in line with the emergence of numerous new nation-states across East and Central Europe. The young Latvian state adopted a parliamentary constitution in 1922, but it struggled with political instability, leading to the formation of 13 different government coalitions by 1934. This period of turbulence ultimately gave rise to a peaceful coup in 1934 and the benevolent dictatorship of Karlis Ulmanis. Despite the challenges, these years of dictatorship are often viewed with nostalgia, primarily due to the harsh experiences of Soviet and German occupations during World War II, as well as Latvia's forced incorporation into the Soviet Union.

The Soviet occupation that began after 1945 witnessed the collectivization of agriculture, accelerated industrialization, and significant demographic shifts as Russian speakers from other Soviet Republics migrated to Latvia. By the 1980s, the Soviet regime faced difficulties due to declining energy prices and implemented democratic reforms initiated by Mikhail Gorbachev, allowing Latvian nationalist forces to emerge and participate in free elections. During this time, three main factions surfaced: the radical nationalists of the Latvian National Independence Movement, the more moderate and inclusive Latvian Popular Front (LPF), and Interfront, an anti-reform movement composed mainly of pro-Soviet forces. Interfront comprised ethnic Russian Latvian Communist Party members and retired Soviet officers who had settled in Latvia. This

division continues to influence Latvia's contemporary party system, with radical Latvian nationalist, moderate centrist nationalist, and left-leaning pro-Russian-speaker parties all represented in the Latvian parliament.

De facto independence was attained after the failed anti-Gorbachev coup in Moscow in August 1991. At this juncture, Latvia embarked on a radical political and economic transformation. The political transition toward a multiparty democracy commenced with the reinstatement of the 1922 constitution and the first post-Soviet parliamentary elections in 1993. Latvia's accession to the European Union and NATO in 2004 marked significant milestones. The 2022 parliamentary elections, the tenth since independence, were conducted peacefully and democratically. Reflecting a greater degree of political stability, Krišjānis Kariņš, an American-Latvian, served a full term as Latvia's prime minister in the previous parliament and was subsequently re-elected to the post after the 2022 elections. Three decades following the restoration of independence, Latvia has consolidated its status as a democracy.

Latvia's economic development, while not without challenges, has seen progress since the early days of independence. Nevertheless, it has lagged behind its neighboring countries, Estonia and Lithuania, across key economic indicators. Many of the largest industrial enterprises from the Soviet era, such as VEF (electronics) and RAF (minibuses), went bankrupt in the early 1990s, resulting in high unemployment during the initial post-independence years. Government income plummeted, leading to a decline in public service scope and quality. A series of currency reforms, hyperinflation, and the collapse of several commercial banks in the mid-1990s further exacerbated economic hardships.

The early 2000s witnessed rapid economic growth in Latvia, primarily driven by a construction and consumer-spending boom fueled by easy access to credit, especially following EU and NATO accession in 2004. However, the Latvian economy faced a severe setback in late 2008 when Parex, the largest domestically owned bank, collapsed, prompting the government to seek a financial bailout from an IMF-led international consortium. This crisis was followed by a profound recession, considered the world's most severe, during which Latvia experienced a cumulative GDP decline of 23.9%. The economy eventually stabilized in 2010, leading to modest growth. However, Latvia plunged into recession again in 2020 due to the impact of the COVID-19 pandemic and subsequently faced another recession following Russia's war on Ukraine.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Latvia's state authorities have a monopoly on the use of force throughout the country's entire territory.

Question  
Score

Monopoly on the  
use of force

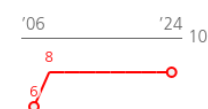
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World War II and the subsequent Soviet occupation had a profound and lasting impact on the structure of Latvian society. Following these events, many ethnic Latvians emigrated to Western countries, and the population further declined due to Soviet deportations. The concerted russification efforts led to the settlement of approximately 700,000 Russian speakers in the former Soviet Socialist Republic of Latvia. According to the 1989 Soviet census, Latvians accounted for only 52% of the Republic's population.

State identity

8



This demographic shift prompted lawmakers in the 1990s to enact legislation that initially denied automatic citizenship to Russian speakers and their descendants who had migrated to Latvia during the Soviet era. However, these laws were later relaxed, and by the late 1990s, individuals who met specific residence and language proficiency criteria became eligible for naturalization. As of 2022, ethnic Latvians constituted 63% of the Latvian population. Considering that the average age of an ethnic Latvian in 2022 was 40.5, in contrast to 48.4 for an ethnic Russian, Latvians are expected to form an increasingly substantial portion of the population in the coming years.

Meanwhile, by the end of 2022, approximately 148,744 individuals had been naturalized since the 1990s, and non-citizens now make up just 10% of the population. In 2019, the parliament passed legislation ensuring that children born to non-citizens in Latvia would not inherit their parents' "non-citizen" status. While

non-citizens are unable to vote in national, local, or European elections and are restricted from holding certain public positions, they do enjoy full economic and social rights and protections.

In recent years, the government has taken steps to transition Russian-language secondary schools to teaching in Latvian, effectively phasing out the Russian-language school system. These efforts gained momentum following Russia's invasion of Ukraine in February 2022, which emboldened the Latvian government to accelerate these reforms. Consequently, all public Russian-speaking schools are set to be phased out by 2025. Furthermore, the use of the Russian language is being marginalized in the public sphere, as government agencies have closed sections of their websites that previously provided information in Russian.

These changes have been met with reluctance by Latvia's Russian-speaking population but are likely to contribute positively to the integration of future generations into Latvian society.

Latvia has three major Christian denominations: Lutheran, Catholic and Orthodox. The nation's 1922 constitution, known as the Satversme, staunchly enforces the separation of church and state. It's worth noting that, until September 2022, the Latvian Orthodox Church had maintained official ties with the Moscow Patriarchate. However, a significant development occurred when parliament amended the Latvian Orthodox Church Law in 2022, completely severing all official connections with the Russian Orthodox Church. This decisive action was prompted by the Russian Orthodox Church's endorsement of Russia's actions in the Ukraine conflict.

Leaders representing these Christian denominations actively participate in public discussions, frequently embracing conservative viewpoints and expressing apprehensions about what they perceive as the growing influence of "Western liberal" ideologies. Their concerns mainly revolve around the increasing societal and legislative acceptance of same-sex relationships and women's rights, with occasional commentary on economic inequality. Notably, church leaders have thrown their support behind an initiative presented by the governing coalition, the National Alliance party. This initiative seeks a constitutional amendment to explicitly define a family as comprising a man and a woman. This endeavor directly responds to a November 2020 Constitutional Court ruling that acknowledged households formed by same-sex partners as families, underscoring the state's responsibility to afford them legal protection and financial assistance.

No interference of religious dogmas



The government provides all essential services, but the quality and accessibility of these services can vary between urban and rural areas. In response to significant demographic declines across Latvia, except for the Riga metropolitan region, a substantial reform of local government was enacted in 2020. This reform aimed to enhance service delivery in small towns, villages, and rural areas by consolidating schools, health care facilities, and other critical services.

The newly elected government, in office since December 2022, remains committed to advancing these reforms. Their official declaration emphasizes the goal of ensuring that everyone, regardless of their location, has access to high-quality and inclusive education. Additionally, the government intends to further digitize public services. Starting in January 1, 2023, all Latvian businesses and legal entities are required to establish an official e-address. This measure facilitates communication with public authorities, offering a more cost-effective and expedient alternative to traditional registered letters.

Thanks to European Union structural and cohesion funds, Latvia has made substantial improvements to its primary road infrastructure. Moreover, the majority of populated areas in the country now have access to broadband and wireless internet services. Future investments are planned in the realm of transportation, particularly in environmentally friendly technologies and railways.

## 2 | Political Participation

Latvia's elections are considered to be free and fair. In the 2022 parliamentary election, the tenth since the country regained independence, 19 parties competed for the 100 seats in the parliament, presenting a total of 1,829 candidates. Similar to the 2019 European Parliament election and the 2021 municipal elections, no irregularities were reported in this election.

Notably, this marked Latvia's first parliamentary election featuring a central electronic voter registration system, a recommendation made by election observers, including the OSCE's ODIHR mission. The system functioned seamlessly, with 1,055 polling stations across Latvia and worldwide, reflecting Latvia's substantial diaspora. Out of 916,368 votes, 25,960 were cast abroad. In addition, for voters unable to reach polling stations on election day, 66 polling stations opened for limited hours during the week before the election, utilized by four percent of the electorate. Postal balloting was also an option. The overall turnout reached 59.4%.

All 19 political parties enjoyed equal access to the public media, although smaller parties voiced concerns about not being invited to debates alongside the leading parties and candidates. The Latvian public media explained that accommodating all 19 party leaders in a debate would be unwieldy. Major private media outlets provided all parties with opportunities to present their platforms and candidates.

Basic administration

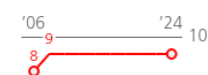
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Free and fair elections

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The Central Election Commission, which is responsible for organizing and overseeing elections in Latvia, operates as an independent organization. It boasts an experienced management team and adequate resources to fulfill its core functions. However, in late 2022, the sitting chairperson of the Central Election Commission, Kristīne Bērziņa, was suspended by parliament. This followed her detention by the Latvian Corruption Prevention and Combating Bureau (KNAB) and her involvement in a criminal investigation related to the procurement of IT equipment and services for the Commission. This incident raised questions about the Commission's funding and capacity to procure IT services. In 2023, parliament elected a new chairperson, Kristīne Saulīte, an independent figure who previously headed the World Federation for Free Latvians, a diaspora organization.

Latvia is governed by democratically elected political representatives.

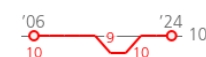
In the early 2000s, Latvia was under the significant influence of three powerful individuals often referred to as “oligarchs.” Their sway over the country was so substantial that a World Bank report raised concerns about Latvia teetering on the edge of “state capture.” Even a U.S. ambassador publicly criticized their illicit influence. However, their political dominance began to wane following a pivotal event in 2011 – a referendum on the recall of the parliament, instigated by then-President Valdis Zatlers. The referendum was fueled by concerns that these oligarchs had amassed an undue level of control over the parliament and government. As a consequence, the September 2011 election witnessed the collapse of support for two political parties associated with the oligarchs, ultimately leading to the dissolution of both parties. Among the three oligarchs, the Green/Farmers' Union, led by Aivars Lembergs, the mayor of Ventspils, managed to survive. It was re-elected in 2011 and, impressively, secured the second-largest share of the vote in the 2022 parliamentary election. Another of the oligarchs, Ainārs Šlesers, entered parliament as part of a new populist political entity called Latvia First (LPV). Nevertheless, both the Green/Farmers' Union and LPV currently find themselves in the political opposition.

Substantial reforms to party financing laws have played a pivotal role in reshaping Latvia's political landscape. These reforms reduced the size of private donations to political parties and, starting in 2020, significantly increased public financing. As a result, the reforms have diminished the political influence of wealthy donors and bolstered party independence. However, they have also given rise to dynamic changes in the political party landscape.

For instance, the populist party “Who Owns the State” secured 16 seats in the 100-seat parliament during the 2018 election, translating to approximately €1.4 million in public funding for the period from 2018 to 2022. Unfortunately, by 2019, most members of parliament had abandoned the party, leading to its dissolution. This situation has sparked concerns about the need for stricter regulations governing public funding in such cases. Consequently, as of November 2022, public funding is reduced in instances where a party's parliamentary faction dissolves or when at least two-thirds of its members of parliament depart from the faction.

Effective power to govern

10



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There are no formal restrictions on association or assembly. In instances where local governments have attempted to exploit the situation for political gain by prohibiting demonstrations and marches, like the Riga municipality's refusal to authorize both gay pride and far-right nationalist marches between 2009 and 2019, when it was under the influence of reactionary forces, the courts have consistently intervened to overturn these bans, allowing the marches to proceed.

However, there was a period of gathering restrictions from 2020 to 2022 due to the Latvian government's efforts to contain the spread of the COVID-19 virus.

The situation took a different turn in February 2022, when Russia invaded Ukraine. In response, the Latvian parliament passed legislation making it illegal to commemorate events or figures associated with atrocities committed by the Nazi or Soviet regimes. Consequently, the traditional May 9 "Victory Day" celebrations in Latvia, which had served as a major annual public event for Latvian Russian speakers, were effectively banned. In 2023, a defiant gathering of several hundred Russian speakers in Riga took place at the Soviet-era "Victory Monument," leading to some disorder. Additionally, the invasion prompted the Minister of the Interior to resign under pressure.

The Latvian constitution firmly upholds freedom of expression, and this right has been actively defended by the Latvian court system, particularly the Constitutional Court. There are no censorship measures in place.

However, recent years have seen a growing polarization between mainstream media outlets and certain politicians and their supporters. These politicians have accused the media of spreading "fake news" and colluding with government officials. This contentious atmosphere has spilled over into incidents of harassment, both on social media and within the offices of the independent investigative journalism organization Re:Baltica. In 2022, an individual was sentenced to two months in jail for persistently harassing a Re:Baltica journalist over a two-year period.

A significant shift in the media landscape occurred in December 2020 when the government decided to increase funding for public media. This decision aimed to reduce reliance on advertising as a source of financial support for public media. It entails additional financing for the creation of high-quality content on public media platforms and also opens up new advertising opportunities for commercial media outlets. Journalists working in public media, particularly public radio, are highly regarded for their objectivity in Latvia. They are known for producing independent coverage of the political system, investigating corruption and incompetence, and acting as a check on political power.

Privately owned print and electronic media have long grappled with financial challenges, primarily due to declining subscriptions and competition from streaming services. Consequently, many media organizations have become increasingly dependent on government funding.

#### Association / assembly rights

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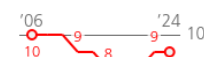



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#### Freedom of expression

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Media oversight is a deeply politicized matter. The National Electronic Mass Media Council (NEPLP), responsible for supervising radio, TV, the printed press, and online media, is composed of representatives elected by parliament and aligned with political parties. This inherently politicized environment often leads to criticism from both parliamentarians and the media. The Latvian Journalists Association also frequently scrutinizes individual board members. In 2021, a separate entity called the Public Electronic Mass Media Council (SEPLP) was established to regulate public TV and radio. SEPLP members are elected by parliament and proposed by the president, parliament, and non-governmental organizations. SEPLP includes a Media Ombudsperson, tasked with overseeing ethical concerns, alleged bias, and other criticisms related to public media content.

In 2022, the work of NEPLP became more complex as approximately 200 Russian journalists from 23 independent Russian media organizations relocated to Latvia following Russia's invasion of Ukraine. Although TV Rain (Doždj) was the only Russian media outlet to officially register in Latvia and adhere to all of Latvia's media laws, it faced issues with NEPLP for failing to translate its programs into the Latvian language and occasionally expressing sympathy and support for Russian forces in Ukraine. Consequently, NEPLP revoked TV Rain's broadcast license in December 2022 after a presenter (who was subsequently fired) made a statement suggesting support for Russian forces. TV Rain then relocated its production to the Netherlands. Additionally, NEPLP blocked access to nearly 100 Russian media sites at the onset of Russia's war on Ukraine.

### 3 | Rule of Law

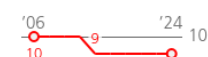
Latvia's central democratic institutions encompass the 100-member parliament known as the Saeima, with the president serving as the head of state, the prime minister, and the cabinet of ministers as the executive branch, along with the Constitutional Court. These institutions collectively play a pivotal role in maintaining the separation and balance of political power within the country.

The Saeima, elected through a proportional representation system every four years, serves as Latvia's primary legislative body. However, it faces a significant challenge in terms of policy planning and evaluation. The Saeima Analytical Service, responsible for research support, was established as recently as 2017. Despite a 50% increase in the parliament's budget from 2017 to 2022, amounting to €10 million, the number of researchers remained stagnant at just four. While parliamentary committees have access to consultants, their primary function is administrative rather than research-oriented. Additionally, parliamentarians have one paid assistant, but their duties are primarily administrative, lacking a research-oriented focus.

The 2019 presidential election marked a significant change as parliament openly voted to elect the state president. In cases where the president is a party member, tradition dictates that they resign upon taking office. Presidents frequently exercise their powers by sending laws back to parliament and initiating legislation. They can

Separation of powers

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also leverage the power and prestige of their office to influence public opinion and political parties, although success in this endeavor varies. Following the 2022 parliamentary election, President Egīls Levits advocated for a four-party government coalition that would include the left-wing Progressives party. However, a three-party coalition excluding the Progressives was formed in December. The president's role includes formally nominating a candidate to assemble a government, which is then subject to a parliamentary vote.

The political executive, represented by the cabinet of ministers, has gained strength as political parties have developed more effective party organizations and enforced stricter internal discipline. This has led to improved cooperation among ministers from the same parties. Consequently, recent prime ministers have enjoyed longer tenures. In October 2022, Krišjānis Kariņš became the first Latvian prime minister to serve a full four-year term. Notably, his party, New Unity (Jaunā Vienotība, JV), secured the largest share of votes in the October 2022 election, resulting in his return to office in December. However, it's important to note that the prime minister's authority is relatively limited compared to counterparts in other European democracies. Their control typically extends to ministerial portfolios within their own party, while other coalition parties retain authority over their respective ministerial domains. The Cooperation Council, previously known as the Coalition Council, convenes on Mondays, bringing together prominent political figures from coalition parties for regular political coordination.

The Constitutional Court remains an important check on both the executive and the legislature, regularly returning laws when it adjudges them to be unconstitutional. In November 2020, the court ruled that the state has an obligation to protect the family of same-sex partners in issues pertaining to labor law. However, parliament has repeatedly refused to comply with the Constitutional Court's judgment, despite being urged to do so by both the prime minister and president. Indeed, the National Alliance, a radical right-wing party that has been part of every governing coalition since 2011, has proposed a revision to the constitution explicitly stating that a family in Latvia is composed of a man and a woman.

There are concerns about the politicization of the highest courts in Latvia. In February 2022, the Latvian parliament rejected the appointment of Sanita Osipova, who had been the president of the Constitutional Court when the judgment on same-sex families was taken in November 2020, to Latvia's Supreme Court. In parliamentary debates, she had been criticized for the Constitutional Court judgment and described as too liberal. The president, himself a former judge at the Court of Justice of the European Union, criticized the parliamentary vote, arguing that judicial appointments should not be politicized.

Latvia has an independent judiciary, and judges are part of a distinct and differentiated profession. The appellate channels operate with notable efficiency, and senior judges are appointed by parliament. However, in 2022, parliament rejected the appointment of the former president of the Constitutional Court to the Supreme Court. This decision sparked controversy, as conservative parliamentarians contended that she held liberal views, raising concerns about the potential politicization of judicial appointments.

In June 2020, parliament passed legislation that established a specialized economic affairs court, primarily dedicated to handling commercial cases and financial crimes. The court commenced its operations in 2021, and in 2022, the Foreign Investors Council in Latvia (FICIL) lauded the court's swift and transparent judgments.

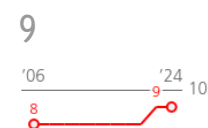
Despite the overall autonomy of the judiciary, the persistent challenge of judicial corruption remains a significant concern. Prominent political and business figures frequently find themselves entangled in prolonged legal proceedings that can extend over several years. A prominent example is the case of Ilmārs Rimšēvičs, the former Governor of the Bank of Latvia, who was suspended from his position in February 2018 following his detention by the Corruption Prevention and Combating Bureau (KNAB) and subsequent bribery charges related to the shareholders of the now-defunct Trasta komercbanka. Rimšēvičs is currently undergoing trial in a district court.

Latvia's anti-corruption agency, the Corruption Prevention and Combating Bureau (KNAB), celebrated its twentieth anniversary in 2022. Over this period, KNAB has initiated 376 criminal proceedings involving 904 individuals. Notably, the average size of a bribe offered to a public officeholder has increased from €20,000 to €30,000, with the largest recorded single bribe amounting to €2.1 million. This substantial bribe was extended to Mārtiņš Kossovičs, a member of the Rīga City Council elected from the Progressives party list in 2021. It was offered by a businessman with the objective of securing a tender win and gaining control over the management of a municipal property.

A February 2022 public survey revealed that 85% of the population would not consider bribing an official, while 61% expressed willingness to report instances of corruption to the authorities. In 2021, KNAB received a total of 1,833 corruption reports from the public.

However, it's worth noting that trials involving high-profile political figures can be protracted. For instance, it took 12 years for a first-instance court to render a verdict on the influential former mayor of Ventspils, Aivars Lembergs. He was found guilty of charges including money laundering, influence peddling, and bribery, resulting in a five-year prison sentence in 2021. However, he was released after serving one year and subsequently nominated as the prime ministerial candidate for the Green/Farmers Union party in the October 2022 election, where the party secured the second-place

#### Independent judiciary



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#### Prosecution of office abuse



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position but remained in political opposition. Similarly, the trial of the former central bank governor, Ilmārs Rimšēvičs, who faced initial arrest on charges of influence peddling and bribery in February 2018, continues after five years without a resolution.

Latvia consistently upholds core human rights, including the right to life and security, while also unequivocally prohibiting torture and cruel or inhumane treatment or punishment. Notably, there is no discernible evidence of discrimination within the legal system. Latvia boasts a robust Ombudsman's Office, functioning independently and advocating for human rights, and its citizens also have access to the European Ombudsperson's office.

The Latvian Ombudsman's Office is a pivotal figure in the realm of human rights. In recent years, the Ombudsman has been instrumental in urging the government to reevaluate minimum income levels and national social security benefits, particularly for the most economically disadvantaged residents of Latvia. Additionally, they have called upon the parliament to ratify the Istanbul Convention, an international treaty designed to combat violence against women and domestic violence.

The Ombudsman's Office has been particularly proactive in supporting unmarried cohabiting partners, including same-sex couples (who currently lack the option of marriage or registered partnerships in Latvia). These couples often face disadvantages in terms of accessing health care, inheritance rights, and other similar issues. In a significant development, in November 2020, the Latvian Constitutional Court, responsible for ensuring that laws and administrative practices align with the constitution, ruled that same-sex couples have the right to paid paternal leave. The court directed the parliament to amend the relevant law by June 1, 2022. However, there has been limited political will to enact this legislative change. Notably, the National Alliance (NA), a party that has been part of every government coalition since 2011, has proposed a constitutional revision defining a family as a union between a male and a female to ensure that same-sex relationships are not accorded equal status with male-female relationships.

While evidence of discrimination based on gender, race, ethnicity, religion, and political preference remains scarce, a 2022 report by the esteemed Latvian Centre for Human Rights highlighted the prevalence of hate speech in Latvia. This hate speech predominantly targets visible minorities, whose numbers have swelled due to an influx of international students in the capital city of Riga. However, it also extends to both the substantial Russian-speaking minority and even the Latvian majority. Latvia, as an EU member state, has legislation in place that safeguards personal privacy, including robust protections for personal data.

Civil rights

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#### 4 | Stability of Democratic Institutions

Latvia is a consolidated democracy that has joined every major Western international political institution, including the OECD and the European Union, during its three decades of renewed independence.

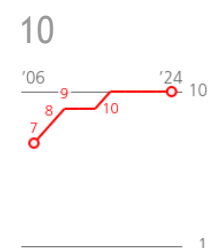
Within this democratic framework, the constitution and other legal foundations empower various entities, such as parliament, the executive branch, national and municipal bureaucracies, and judicial institutions, to make and execute decisions. A system of checks and balances is diligently maintained, with both the state president and the Constitutional Court frequently returning laws to parliament and the executive for further review.

However, it's worth noting that the ability to independently formulate and analyze policies remains a notable weakness within the political system. While there have been efforts by parliament and individual ministries to establish analytical units, and the University of Latvia has established a think tank dedicated to productivity, a crucial development has been the creation of a fiscal discipline council featuring international expertise. This council plays a pivotal role in reviewing budgetary procedures and providing valuable guidance to the government. These institutions have certainly contributed to enhancing the policymaking process.

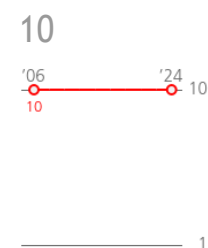
Nevertheless, in the wake of the October 2022 parliamentary election, President Egīls Levits identified Latvia's limited analytical capacity as a potential vulnerability, cautioning that it could hinder the country's ability to escape the middle-income trap. In response, President Levits called upon the new government to prioritize increased investment in research and development (R&D) and bolster its analytical capabilities.

Political parties, NGOs and citizens accept the legitimacy of Latvia's democratic institutions.

Performance of democratic institutions



Commitment to democratic institutions



## 5 | Political and Social Integration

In Latvia's parliamentary election of October 2022, featuring 19 political parties, a notable degree of electoral volatility persisted, with four out of the seven parties or electoral coalitions that secured seats in the 100-member parliament gaining representation for the first time. This contrasted with the 2018 election, during which three out of seven parties achieved this feat.

Perhaps the most striking outcome of the election was the Harmony party's failure to surpass the 5% threshold, marking a significant shift in Latvian politics. Harmony, known for its support among Russian-speaking constituents, had consistently secured the highest number of seats in the past four elections and wielded considerable influence over the Russian-speaking vote. However, the party's swift condemnation of Russia's invasion of Ukraine diverged from the sentiments of its voter base, which held mixed views on the conflict. Consequently, Harmony was replaced by the For Stability! party as the representative of Russian speakers in parliament. For Stability! refrained from criticizing Russia's actions and instead advocated for "peace," emphasizing that "war has no winners."

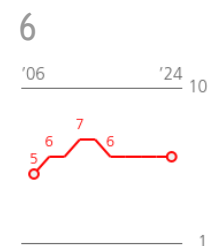
The polarization between Russian-speaking and ethnic Latvian parties and voters has been a recurring theme, preventing For Stability! or similar parties from being considered potential coalition partners.

Historically, Latvian government coalitions have comprised parties falling within the "Latvian" political spectrum. This spectrum has consisted of three primary ideological groupings: (i) radical right-wing nationalists; (ii) technocratic nationalists, encompassing both rural and urban-based factions; and (iii) centrist liberals, including both economically liberal and value-based liberals. The three-party government coalition formed in December 2022 reflects the representation of these three groups. Additionally, a fourth group comprising pure anti-government populist parties has emerged in recent years, although they exhibit greater organizational fragility compared to the other groupings.

Notably, Latvian political parties have been characterized by organizational weakness, boasting some of the lowest party memberships in Europe relative to the electorate. Their financial stability has relied heavily on generous donations from corporate entities and wealthy individuals. In 2019, this financial dependency was addressed when parliament passed a law, supported by the president, to substantially increase party financing and cap the maximum value of corporate contributions. Over time, this measure is intended to bolster the autonomy of party central offices and mitigate the high degree of volatility within the Latvian party system.

In the 2022 election, six parties successfully surpassed the 2% vote threshold required to qualify for state subsidies over the next four years. This included the For Development/For! party union and the Conservatives, both of which had previously been part of the governing coalition. In previous elections, these parties might have faced dissolution, but with access to state funding, they are likely to reorganize and participate in future electoral campaigns.

### Party system





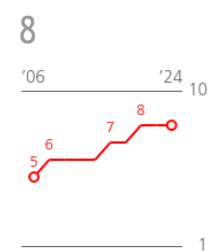
Latvia boasts a broad range of organized interest groups, but it is the business associations, with considerable resources at their disposal, that wield the most substantial influence. Trade unions, while present, exert comparatively less power. Notable organizations like the Latvian Employers' Confederation, the Latvian Chamber of Commerce and Industry, and Finance Latvia, representing the financial sector, are particularly well-endowed and influential. In contrast, interest groups advocating for environmental and social causes, while possessing significant public support and legitimacy, often rely on the dedication of a small cadre of members rather than enjoying extensive and stable financial resources. Similar to political parties, these interest groups tend to count only a limited number of paid-up members among their ranks. For example, Delna, the Latvian branch of Transparency International and the most active anti-corruption group in Latvia, has just a few dozen fee-paying members. The principal barriers to achieving even greater influence in policymaking for these interest groups are not legal or political in nature but rather stem from a lack of grassroots membership, stable funding sources, and a tradition of volunteerism. To address this challenge, the state has taken steps to provide additional funding to non-governmental organizations (NGOs) through the Society Integration Foundation (SIF), which allocated a budget of €1.8 million in 2022.

One encouraging trend in recent years is the burgeoning growth and grassroots activities of citizens' groups within the city of Riga. Following the election of a new municipal government in August 2020, these groups have discovered increased opportunities for cooperation and influence. One notable example is the competitive online voting system for various grassroots municipal projects funded by the municipality, which has allowed citizens' groups to have a more significant say in local decision-making.

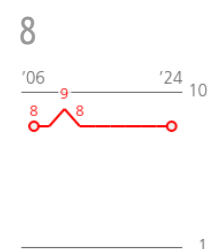
Furthermore, sectoral interest groups, whether they represent business and employers or environmental causes, frequently collaborate in the pursuit of common objectives. This collaborative spirit is especially pronounced during elections, when these groups coordinate joint debates and discussions with candidates. However, such cooperation can also extend beyond electoral periods, demonstrating the ongoing efforts to pool resources and exert influence collectively.

Public sentiment toward democracy in Latvia is generally positive, with a significant majority expressing the importance of living in a democratically governed country, as indicated by the 2021 World Values Survey, in which 91% of Latvians held this belief. However, when it comes to satisfaction with democracy within the country, opinions are more divided. According to a June 2022 survey conducted by Latvian pollsters SKDS, 36% of Latvians reported being satisfied with democracy, while 53% expressed dissatisfaction. These figures are consistent with data from 2021 (37% satisfied and 51% dissatisfied) and 2020 (39% satisfied and 49% dissatisfied).

#### Interest groups



#### Approval of democracy



The prevailing dissatisfaction appears to be directed at Latvia's domestic political institutions. The summer 2022 Eurobarometer survey revealed that only 22% of Latvians expressed trust in their parliament, compared to the EU average of 34%. Similarly, 30% expressed trust in the national government, again aligning closely with the EU average of 34%.

In 2021, President Egīls Levits faced historically low levels of trust, marking the lowest rating for any Latvian president since polling began in 1996. Of those surveyed, 60% expressed dissatisfaction with President Levits, while only 25% were satisfied with his performance. It is worth noting that recent presidents have also experienced low approval ratings. This pattern seems to reflect public discontent with the overall political system rather than personal animosity toward individual presidents.

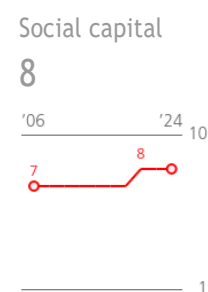
Regarding the government's response to the COVID-19 pandemic, 40% of Latvians expressed satisfaction with the measures taken by the national government, while 56% of respondents in the EU-27 reported satisfaction with their respective national governments' pandemic responses.

Social capital remains low in Latvia. A survey conducted by the Providus think tank in 2020 revealed that only one-third (32%) of the population expressed trust in their fellow citizens. This figure represents only a slight improvement from the 24% reported in an identical question in the 1998 World Values Survey.

Latvia does have a strong tradition of public engagement in various cultural and recreational activities, such as choirs, folk-dance groups, and sports clubs. These pursuits are typically subsidized by national and local government resources. For instance, Latvia boasts approximately 370 amateur choirs, with the majority of choir conductors receiving salaries funded by local governments rather than relying on choir-generated income.

However, participation in policy-oriented interest groups remains notably lower. This may be attributed to restricted access to public resources or stem from the legacy of the Soviet era, during which the practice of contributing either financially or through volunteer work to social causes was suppressed. Additionally, the pressures resulting from the political and economic reforms of the 1990s have left individuals with minimal mutual trust and limited time to dedicate to political and social endeavors.

Membership and active involvement in non-governmental organizations (NGOs) continue to be relatively low, although there are signs of progress. The "Lampa" annual democracy festival, explicitly focused on enhancing Latvia's social capital, has witnessed growing participation since its inception in the small city of Cesis in 2015. Even during the COVID-19 pandemic, the event evolved into a virtual democracy festival. In 2022, the festival spanned two days, hosting 250 events across 33 stages and attracting approximately 19,000 participants.



An innovative online platform called “Mana Balss” or “My Voice” empowers individuals to formulate and circulate citizens’ initiatives digitally. The platform consistently submits initiatives to the parliament. In 2022, it presented 23 initiatives to parliament and 14 to local governments. Eight of these initiatives were incorporated into law, addressing issues like animal protection and recycling policy. Additionally, three initiatives garnered support from local governments.

Russia’s invasion of Ukraine has spurred a wide range of civic activities in Latvia aimed at supporting Ukraine and Ukrainian refugees. These activities encompass solidarity events, protests against Russia’s aggression, fundraising efforts, and donations of essential supplies to the Ukrainian military, civilians, and refugees residing in Latvia.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

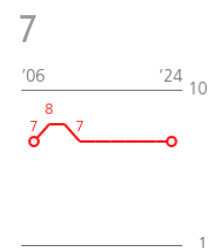
Latvia has consistently achieved a very high level of human development, as reflected by its rankings in the United Nations Human Development Index for over a decade. However, the country faces persistent challenges related to inequality. In 2019, the Gini index, which measures income inequality, stood at 34.5. Moreover, according to Eurostat’s “at risk of poverty” indicator, a quarter (26.1% in 2021) of Latvia’s population is at risk of poverty, making it the fifth-highest rate among the European Union’s 27 member states. Those most vulnerable to poverty include the elderly, particularly pensioners, and residents of rural areas, notably in the eastern Latgale region bordering Russia. The situation worsened during the COVID-19 pandemic, as many low-wage workers in sectors like hospitality and the informal economy received minimal financial support. The Latvian Fiscal Discipline Council, known for its consistent criticism of governments for failing to achieve budget surpluses, also faulted the government for not allocating sufficient funds to support those in need during the pandemic.

Despite Latvia’s favorable performance on the Gender Inequality Index (0.151 in 2021), women in the country face a higher risk of poverty, despite achieving higher levels of education. Between 2010 and 2020, the risk of poverty for women in Latvia increased to 25%, while it remained at 20% for men. In the European Gender Equality Index, Latvia ranks 16th among the 27 EU member states.

In recent years, the Latvian government has taken steps to address these challenges. It has committed to raising the minimum wage, which increased from €500 to €620 per month on January 1, 2023, with further planned increases to €700 per month in 2024. Additionally, in the autumn of 2022, the government allocated over €425 million to compensate for rising energy prices, which had a disproportionately adverse impact on low-income individuals and households.

Question  
Score

Socioeconomic  
barriers



Economic indicators		2019	2020	2021	2022
GDP	\$ M	34344.0	34601.7	39725.4	<b>41153.9</b>
GDP growth	%	2.6	-2.2	4.1	<b>2.0</b>
Inflation (CPI)	%	2.8	0.2	3.3	<b>17.3</b>
Unemployment	%	6.3	8.1	7.5	<b>6.4</b>
Foreign direct investment	% of GDP	3.2	2.7	9.4	<b>3.0</b>
Export growth	%	2.1	-0.3	5.9	<b>9.1</b>
Import growth	%	3.1	-0.3	15.3	<b>11.7</b>
Current account balance	\$ M	-200.2	918.7	-1699.6	<b>-2642.2</b>
Public debt	% of GDP	36.5	42.0	43.7	<b>40.8</b>
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-1.7	-6.0	-9.4	-
Tax revenue	% of GDP	21.3	21.9	21.8	-
Government consumption	% of GDP	19.4	20.4	20.6	<b>19.4</b>
Public education spending	% of GDP	4.4	4.8	5.7	-
Public health spending	% of GDP	4.0	4.7	-	-
R&D expenditure	% of GDP	0.6	0.7	-	-
Military expenditure	% of GDP	2.0	2.1	2.1	<b>2.0</b>

Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

Latvia is a member of several international organizations, including the European Union, the eurozone, the World Trade Organization, and the OECD. The country generally adheres to international laws and norms governing market competition. However, it faces significant challenges related to corruption and allegations of judicial bribery, which distort competition in areas like state procurement, contract enforcement, and bankruptcy administration. In 2022, the shadow economy in Latvia was estimated to be 26.6% of GDP, marking a consistent upward trend since 2016, according to the Riga Shadow Economy Index published by the Stockholm School of Economics. Notably, approximately 46% of the shadow economy in Latvia is attributed to “envelope salaries,” which are unreported cash payments.

Latvia’s Foreign Investors Council (FICIL) conducts an annual study known as the Sentiment Index, which assesses the investment climate in the country. In its most recent report, FICIL criticized the government on several fronts. They expressed concerns about workforce availability, the inefficiency of the public sector, the absence of impactful decisions by policymakers, and the lack of a comprehensive strategy to achieve the goals of the European Union’s (EU) Green Deal, in contrast to the framework of promoting market competition.

Latvia complies with European anti-monopoly legislation and maintains its own national-level laws and authorities dedicated to competition regulation. The Latvian Competition Council is widely regarded as one of the more independent public bodies in Latvia. This perception of independence is partly attributed to its close working relationship with competition authorities in Brussels.

In 2021, the Latvian Competition Council imposed fines amounting to nearly €18 million, a significant increase compared to the €3 million fines imposed two years earlier. Furthermore, the council reported that its activities in 2021 contributed to a benefit of €52 million to the Latvian economy, marking a substantial increase compared to the average annual benefit of €26 million during the period from 2019 to 2021.

As a member of the European Union, Latvia’s foreign trade relationships are regulated and overseen by the European Commission. Being a small, open, liberal state, Latvia’s governments have traditionally been strongly pro-trade. Nonetheless, Latvia has been a strong advocate of economic sanctions, including trade sanctions, on Russia since its invasion of Ukraine.

Market organization

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Competition policy

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Liberalization of foreign trade

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Latvia developed the largest banking sector in the Baltic states after the collapse of the Soviet Union. A prolonged public debate centered around whether Riga should evolve into a regional financial hub. However, this discourse ceased in 2018 after the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN) accused ABLV, Latvia's largest domestically owned bank, of money-laundering. Consequently, ABLV was compelled into liquidation, and the government promptly enacted legislation prohibiting banks from engaging with shell companies.

In 2019, additional pressure was exerted on Latvia's banking sector when MONEYVAL, a Council of Europe body tasked with assessing compliance with international anti-money laundering and terrorism financing standards, issued an unfavorable report on the country's financial sector. Consequently, Latvia had one year to implement substantial sectoral reforms. In response, a wave of legislative changes was enacted, and the head of the financial regulator was effectively removed from office. Subsequently, a follow-up report in 2020 provided a positive assessment of the Latvian financial sector.

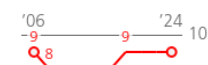
Since 2018, several small banks that previously served non-resident clients have either closed or declared bankruptcy, resulting in a significant downsizing of Latvia's banking sector. However, complaints have arisen from businesses, investors, and even NGOs, contending that the reforms have been overly stringent. They argue that opening new bank accounts, collaborating with partners from countries flagged as suspicious by Latvian banks, and securing business loans have all become excessively challenging.

This perspective is supported by a notable decrease in the number of non-performing loans in Latvia, which decreased to a ratio of 2.5% in 2021 from 5% in 2019. Meanwhile, the bank-capital-to-assets ratio has remained relatively stable in recent years, hovering around 9% (8.6% in 2021).

Starting in January 2023, Latvia's bank regulator, the Financial and Capital Market Commission (FKTK), underwent full integration into the central bank. Consequently, the Bank of Latvia now oversees banks, the financial and capital market, and the domestic resolution authority. The chairperson of FKTK assumed the role of Deputy Governor of the Bank. The primary anticipated benefits include more effective mitigation of systemic risks and better-coordinated development of the financial sector following the shocks and reforms of recent years.

Banking system

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## 8 | Monetary and fiscal stability

Latvia became a member of the eurozone in 2014, and since then, monetary stability has been overseen by the European Central Bank (ECB). Initially, ECB policies had a minimal impact on the Latvian economy because domestic policies closely aligned with the ECB in the years leading up to eurozone accession.

However, in recent times, there has been a noticeable shift. While inflation had previously hovered around the 2% mark, a series of factors led to an increase in inflation. This upward trend began in August 2021, as Latvia emerged from COVID-19 pandemic-related restrictions, resulting in heightened demand. Furthermore, the high energy prices, driven by Russia's invasion of Ukraine in February 2022, further exacerbated inflation. It's worth noting that the ECB's ultra-low interest rates, which were not raised until July 2022 (a year after Latvia's inflation began to accelerate), also played a role in this development. According to Eurostat, inflation peaked at a high of 22.0% in September 2022.

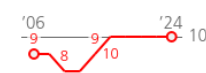
Membership in the eurozone places constraints on Latvian budgets under the framework of the European Semester. Before the outbreak of the COVID-19 pandemic in 2020, Latvia typically maintained small budget deficits of under 1% of GDP. Despite their aspirations to achieve a fiscal surplus, this goal remained unfulfilled. In January 2014, a non-partisan Fiscal Discipline Council, comprised of experts from both local and international backgrounds and elected by parliament, was established to actively assess government policies. The council frequently offered critical commentary on these policies while also overseeing government budget discipline.

The COVID-19 pandemic had a profound impact on public finances, causing Latvia's budget deficit to surge to 7.4% of GDP. Gross public debt also increased significantly, rising from 36.9% of GDP in 2019 to 47.5% of GDP in 2020. Although the government had initially planned for a more balanced budget in 2022, various factors, including the costs associated with supporting Ukraine in its conflict with Russia, increased national defense expenditures, compensation for high energy costs incurred by households and businesses, and assistance provided to over 30,000 Ukrainian refugees who settled in Latvia, resulted in a 5% deficit in the 2022 budget.

However, government debt levels have decreased over the past two years, and they are once again at a comparatively low and sustainable level. The government debt-to-GDP ratio stands at 40%, making it the seventh lowest among the EU-27 countries.

### Monetary stability

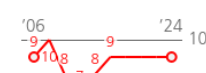
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### Fiscal stability

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## 9 | Private Property

Private and intellectual property rights are well regulated and protected. Following widespread media and investor criticism of insolvency procedures, the role of insolvency administrators has undergone significant reform and is now subject to new, tighter regulations. In 2021, a new specialized economic affairs court focusing on financial crimes involving private companies commenced operations.

As a member of the European Union and the OECD, Latvia's economy is clearly dominated by private enterprise, with the state maintaining stakes in the major mobile and fixed-line telecommunications operators and the electricity monopoly Latvenergo. The war in Ukraine has emphasized the need for the state to maintain some control over this critical infrastructure, and there are no plans to privatize the remaining public stakes in these enterprises.

The state has also provided extensive financial support to airBaltic, the national carrier, during the COVID-19 pandemic, receiving a total of €290 million in aid between 2020 and 2022. The state intends to recover the investment by 2025 to 2027.

The private sector has two powerful lobby associations – the Latvian Employers' Confederation and the Latvian Chamber of Commerce and Industry – defending their interests. In addition, several specialized sectoral groups represent key sectors such as wood processing, financial services and pharmaceuticals.

## 10 | Welfare Regime

Latvia has a comprehensive range of cash and noncash welfare benefits.

As of 2023, the retirement age to claim a state pension in Latvia is 64 and a half years, provided individuals have made social insurance payments for at least 15 years. This retirement age will increase to 65 years in 2025. Latvia operates under a three-tier pension system that includes mandatory first and second tiers. In the second tier, contributions are invested in the financial market by an intermediary bank. The third tier comprises voluntary contributions made by both employers and employees into a private pension fund. Despite these measures, over 25% of individuals aged 65 and older have income levels below the relative poverty line. The OECD has urged Latvia to enhance pension benefits, particularly the minimum pension. In 2021, the minimum pension was set at just €136 per month, a figure that remains unchanged in 2023. Women, in particular, are vulnerable, with over one-third of females aged 75 and above living in poverty.

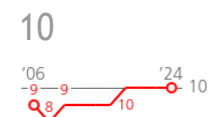
Property rights

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Private enterprise

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Social safety nets

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Unemployment benefits are available to individuals who have paid social insurance contributions for at least 12 of the last 16 months. These benefits are granted for a maximum duration of nine months and are calculated based on previous earnings, gradually reducing in increments every three months.

Latvia offers an array of family benefits as part of government efforts, especially by the National Alliance party, to combat the country's demographic decline by encouraging larger families. Families can access maternity and paternity benefits, childbirth benefits, childcare allowances, and additional perks. Cash benefits vary depending on family size: families with one child receive €25 per month until the child reaches 20 years of age, while those with two children receive €100, and families with three children receive €225. Families with four or more children receive €100 per child.

Universal health care is funded by general tax revenues and includes relatively high out-of-pocket payments. It is available to all citizens and permanent residents. However, Latvia's health care funding, at 4.0% of GDP in 2019, is among the lowest in the EU. There has been a gradual increase in funding since 2013. Additionally, Latvia has one of the lowest life expectancy rates in the EU, with only 75.4 years in 2019. Although successive governments had planned to increase health care spending, it was only during the pandemic in 2020 that significant increases were implemented.

The provision of free school lunches for children is co-funded by the state and local governments. However, due to a substantial rise in food prices in 2022, some local governments chose not to participate in the program.

All citizens and permanent residents in Latvia, regardless of gender or ethnic origin, have equal access to state and local government benefits, public education, and other services, as well as the labor market.

Latvia was ranked 26th in the 2022 Global Gender Gap Index, a drop of 15 places compared to 2020. However, in the EU's 2022 Gender Equality Index, Latvia ranks 16th out of 27 states, which is 7.2 points lower than the EU average score. Latvia's score has been on the decline since 2019. Women in Latvia face discrimination in the labor market, where they constitute 50% of the workforce but receive lower average wages and are under-represented in management positions. This is despite the fact that the female-to-male ratio for enrollment in tertiary education is 1.3. Women also remain under-represented in parliament, with only 29 out of the 100 deputies elected in 2022 being women. This represents a decline from the record-high 31 women elected in 2018. However, six out of the 14 sectoral ministers in the government formed after the 2022 election were women.

Russian speakers in Latvia's education system face disadvantages. Russian-speaking public schools typically achieve lower average grades than Latvian schools, primarily due to the challenge of finding fluent Latvian-speaking teachers willing to teach in minority schools. This issue may become more acute as Latvia moves to close

Equal opportunity

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Russian-language public education programs by the start of the 2025 school year. Historically, Russian-speaking schools have struggled to find qualified Latvian-speaking teachers.

Around two-thirds of higher education students are privately funded, and many of them are Russian speakers who opt to study in their native language since free public higher education is only available in Latvian. In 2018, the Latvian parliament decided to eliminate this option by approving amendments to the higher education law that would mandate teaching only in Latvian in both public and private higher education institutions. However, in 2020, the Constitutional Court ruled that private universities should be free to decide their language of instruction.

State-funded university places are allocated based on merit rather than means, and students have access to affordable student loans to finance their education. The higher education system allows students to work part-time or, in some cases, even full-time while enrolled in tertiary programs.

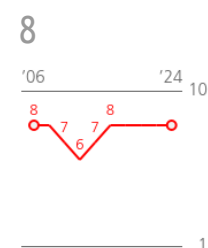
Non-citizens are prohibited from working in the civil service or holding positions directly related to national security. A wide range of professions require Latvian language skills, including some in the private sector, which may affect the employment prospects of Russian-speaking individuals. Employers, however, are not allowed to inquire about employees' proficiency in certain foreign languages unless such language skills are necessary for job-related tasks. These regulations, introduced in 2018, followed complaints about the employment barriers faced by young people who lacked knowledge of Russian. Additional restrictions were implemented in 2022 as a result of Russia's invasion of Ukraine, prompting the Latvian government to adopt "de-russification" policies. For example, driving exams can now only be taken in Latvian, and Russian is also being phased out of the advertising market.

## 11 | Economic Performance

Latvia made a swift recovery from the severe economic recession of 2008–2009, during which it experienced a 23.9% drop in GDP over seven quarters. Prior to the COVID-19 pandemic, its economy had been one of the best-performing in the EU. Key macroeconomic indicators were positive, including balanced budgets, low inflation, and declining unemployment. However, public dissatisfaction remained high as neighboring countries Estonia and Lithuania significantly outperformed Latvia. According to Eurostat, by 2021, Estonia and Lithuania had achieved 89% of the average GDP per capita in the EU, while Latvia lagged behind at 72%, placing it between Romania (74%) and Croatia (70%).

In 2021, the unemployment rate was 7.6%. Despite this relatively high rate, which is largely attributed to structural unemployment in Latvia's rural regions and small towns (the unemployment rate in the capital, Riga, tends to be several percentage points below the national average), Latvian employers face challenges due to a shortage of skilled workers. There is a particularly acute shortage of information, communication, and telecommunications (ICT) professionals.

Output strength



Latvia's GDP grew by 5.4% in 2021, rebounding from a pandemic-induced contraction of 3.1% in 2020. However, the conflict in Ukraine involving Russia is expected to have a negative impact on Latvia's GDP. High inflation and energy prices are anticipated to lead to reduced consumption and foreign direct investment. According to the European Commission's economic forecast, Latvia is projected to be one of only three EU countries to enter a recession in 2023. Despite a rapid increase during the pandemic, Latvia's public debt remains among the lowest in the EU, standing at 45.7% in 2021. Long-term prospects remain generally positive, and the current account balance has typically been favorable, although it slipped into the negative in 2021.

## 12 | Sustainability

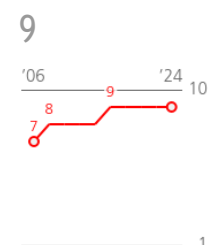
The European Union's Green Deal proposals, with the aim of reducing net greenhouse gas emissions by at least 55% by 2030 (compared to 1990 levels), are the main driver of environmental policy in Latvia. Over the last 30 years, Latvia's politicians (and public) have been concerned with economic growth and "catching up" with western Europe, with environmental concerns as a secondary concern. For example, a bottle deposit system was only introduced in 2022, and in 2021, Latvia's circular material use rate (referred to as the circularity rate) was 6%, well below the EU average of 11.7% (although this was a significant improvement on Latvia's 2020 rate of 4.2%).

Latvia fares rather better when it comes to revenue from environmental taxes. In terms of environmental tax revenue as a percentage of GDP, Latvia ranked second only to Sweden, at just under 5%. The country also performed well in terms of the percentage of government revenue from taxes and social contributions (TSC), with a rate of 10%, double the EU average. Latvia's favorable performance in various environmental indicators can be attributed to a combination of factors, including a low and declining population, low population density, and dense forest cover.

However, in June 2022, environmental groups heavily criticized the government for granting permission to cut younger trees for commercial purposes. This permission was allegedly influenced by the forestry industry's lobbying efforts, aiming to increase the amount of wood chips used for heating as a means to enhance energy independence from Russia. As a result, in January 2023, the Constitutional Court initiated a case regarding this government decision.

The share of renewables in Latvia's economy is likely to grow swiftly over the next few years following Latvia's decision to stop importing Russian oil and gas in 2022. Renewable energy sources already account for 40% of the energy supply and generate more than half of the electricity consumed.

### Environmental policy



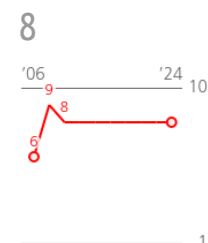
At the same time in 2022, the governments have been discussing the need to build an LNG terminal in Latvia to increase energy dependence. This decision is questioned by some economists due to the existing LNG terminals in the region, as well as by environmentalists concerned about a continued focus on non-renewable energy.

In recent years, the education and research sectors have been a focal point of political attention and reform in Latvia. One significant reform, known as School 2030, introduced a competency-based education model that emphasizes skills over traditional subjects. Additionally, efforts have been made to consolidate the school system, particularly in rural areas. Small rural schools have been merged to pool resources, with a specific focus on improving the quality of education, especially in STEM subjects. Small-town and village schools have generally performed inadequately in standardized testing, and these reforms aim to address these shortcomings.

The university system has also undergone reforms, despite facing staunch opposition from university leadership. These reforms involve changes to governance, including the establishment of new university councils. These councils comprise representatives from university staff, individuals selected through an open competition, and one nominee from the state president. They are responsible for appointing rectors and setting development objectives for universities. The councils became operational in early 2022. However, funding for education remains a concern. In 2018, education spending amounted to only 4.2% of GDP, significantly lower than the 7% rate recorded in 2013. Similarly, research and development spending in 2020 amounted to just 0.7% of GDP, although this marked the highest rate in the past decade.

Assessments of educational performance reveal mixed results. According to the 2018 OECD PISA testing, Latvian students scored below the OECD average in reading, above the average in mathematics, and roughly at the OECD average in science. In terms of higher education rankings, Latvian institutions still do not feature in the top 500 of major global rankings. However, Latvia has made some progress in the U.N. Education Index, with a score of 0.892 in 2021, up from 0.852 in 2011.

Education policy /  
R&D



## Governance

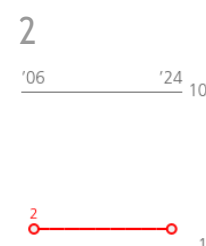
### I. Level of Difficulty

There are few structural constraints to governing Latvia. The country ranks among the European Union's poorest members, with only Bulgaria and Croatia having a lower GDP per capita. Recently, Romania has surpassed Latvia in this regard. However, Latvia, being a Baltic Sea nation, is forging stronger economic, cultural, and political ties with the prosperous Nordic countries. It boasts a well-developed transit infrastructure, including the Baltic region's largest airport and a prominent national airline carrier. Regrettably, sanctions against Russia have temporarily disrupted transit opportunities to Latvia's eastern regions, resulting in job cuts in the railway and port sectors. On a brighter note, the construction of the Rail Baltica line, a project backed by the European Union and slated for completion in 2026, will significantly enhance Latvia's connections to central and western Europe. Nonetheless, the ongoing underinvestment in education and health care remains a concern. As a result, the Latvian workforce continues to lag behind its Western counterparts in terms of health, education, and productivity.

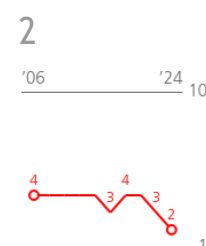
Civil society has enjoyed increased financial support from the government in recent years, and civil society organizations are actively involved in government and parliamentary committees, playing a crucial role in the democratic process. Despite these positive developments, civil society still faces enduring financial challenges due to limited income from membership fees and donations. Many civic associations struggle with both low membership numbers and financial difficulties. While addressing the membership issue falls beyond the government's control, it has established systematic avenues for public funding for NGOs through the Society Integration Foundation. This foundation's mandate includes providing financial support for societal integration, backing the implementation of development programs, and supporting projects by both the public and non-governmental sectors.

Certain political parties, like the left-wing Progressives (Pro) and the liberal For Development/For!, have made efforts to build connections with civil society. Additionally, an increasing number of NGO activists have secured seats in municipal councils and the parliament. Nevertheless, groups representing economic interests, which possess greater financial resources, still wield more influence than civic groups.

Structural constraints



Civil society traditions



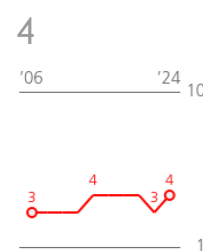
Latvia continues to grapple with relatively low levels of social trust, with just 19.8% of respondents in the 2020 European Social Survey expressing trust in other people. Despite this, the Russia-Ukraine war may have had a positive impact on the engagement of ethnic Latvians in society. During the conflict, thousands of Latvians demonstrated their support through protests, and volunteers opened their homes and donated their time and resources to assist incoming refugees from Ukraine. By the end of 2022, a group of volunteers, known as the “twitter convoy,” had delivered one thousand 4x4 jeeps to Ukraine’s military, which were publicly donated. Latvia’s post office also reported sending 5,100 kilos of various knitted items (equivalent to 51,000 pairs of socks) to Ukraine between September and the end of December as part of the “Knit for Ukraine” campaign.

In Latvia, two major divides shape the political landscape: (1) the ethnic cleavage between Latvians and Russian speakers, and (2) a political schism between nationalist conservatives and liberal pro-Europeans.

The conflict between Latvians and Russian speakers has deep historical roots. Both communities briefly united in the late 1980s to oppose the Soviet regime, although a significant number of Russian speakers supported pro-Soviet movements. However, this fragile coalition disintegrated after Latvia gained independence. Former Soviet citizens were not automatically granted citizenship, leading to political battles in the 1990s and 2000s over citizenship, education, and language rights. The situation escalated further following Russia’s war in Ukraine in 2022. Consequently, the Latvian government decided to enact de-Russification reforms that had been previously avoided for fear of provoking Russia. These reforms included transitioning the minority Russian language school system to teach primarily in Latvian, pushing the Russian language out of the public sphere. For example, driving exams can now only be taken in Latvian, and significant symbols of Russian and Soviet occupation have been removed. Some minor incidents of disorder occurred around May 9 (when Russians commemorate the Soviet victory in World War II) near Riga’s Soviet-era Victory Monument. This led to the resignation of the Minister of Interior, although a strong police presence prevented further unrest when the Victory Monument was toppled in August 2022. By November 15, 2022, a total of 69 Soviet-era monuments had been dismantled.

Another source of tension in Latvia revolves around the struggle to prevent the spread of liberal, often labeled as “European,” values. Liberals and conservatives have clashed over the ratification of the Istanbul Convention (2017) and the U.N. Migration Pact (2018), both of which were ultimately rejected by the parliament. More recently, a 2020 Constitutional Court ruling called for the revision of legislation to acknowledge same-sex relationships, sparking further controversy. The parliamentary majority has consistently refused to comply, leading to disagreements with the Constitutional Court, the prime minister, and the president, who has urged the parliament to acknowledge the court’s ruling.

Conflict intensity



## II. Governance Performance

### 14 | Steering Capability

Latvia has been effective in achieving externally set priorities, which include its accession to the European Union and NATO in 2004, cooperation with the IMF for a loan deal in 2009, entry into the eurozone in 2014, and joining the OECD in 2016. Furthermore, the 2019 financial sector reforms, as outlined by MONEYVAL – the Council of Europe’s Committee of Experts on the Evaluation of Anti-Money Laundering and the Financing of Terrorism – aimed at preventing Latvia from being placed on the organization’s “gray list” of non-compliant countries, highlight its commitment to meeting international standards. This success can be attributed to several key factors: the clarity of steps required to achieve these goals, a broad political consensus within Latvia regarding the importance of integration into key Western institutions for security, and a significant degree of stability in leadership at the Ministry of Foreign Affairs (the current minister has held office since 2011).

On the domestic front, Latvia’s priorities are outlined in government declarations, which are signed by coalition partners before taking office. These declarations are highly detailed, with the 2022 declaration spanning 49 pages and encompassing 34 chapters organized into five sections: security and foreign policy, education, energy, climate and the environment, competitiveness, and quality of life. They establish both short- and medium-term policy objectives. Oversight of these priorities is handled by a Cooperation Council, which meets on Monday mornings to set the agenda for each ministry.

In 2011, the Cross-Sectoral Coordination Center was established within the State Chancellery to enhance the government’s strategic capabilities in prioritizing and coordinating policy measures. However, this institution has faced challenges due to its operational limitations, including a small team of around 20 civil servants and insufficient influence and control over ministries, which hampers effective collaboration and cohesive work on policy priorities.

Procedures governing the development of policy documents and legislative proposals formally ensure that the government can consult external experts. The National Tripartite Council, which involves representatives of trade unions, employers, and the government, provides another avenue for gathering expertise. Nevertheless, evidence-based policymaking, regular impact assessments, and strategic planning remain underdeveloped. Additionally, a persistent issue is that Latvian political culture tolerates the introduction of last-minute amendments in the final reading of legislation.

Question  
Score

Prioritization

9



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Latvian governments have demonstrated their capacity to execute challenging and sometimes contentious reforms. This ability was evident during the intricate transition to democracy and capitalism in the 1990s, following the collapse of communism. Another notable example occurred during the peak of the economic crisis in 2009, when Prime Minister Valdis Dombrovskis successfully managed a substantial fiscal adjustment equivalent to 9.5% of GDP. More recently, in 2019, significant financial sector reforms were undertaken in response to a critical report issued in 2018 by MONEYVAL, a permanent monitoring body of the Council of Europe, which warned of the possibility of Latvia being placed on the “gray list” of countries associated with money laundering.

Among other noteworthy reforms, there was a comprehensive overhaul of the tax system in 2018, which introduced a more progressive income tax structure and tax exemptions for reinvested profits. Additionally, a regional reform came into effect in 2021, consolidating the number of local governments from 119 to 43. Education reforms were also implemented, introducing a new school curriculum called School 2030 and revising the governance structure of public universities, including merging some to reduce fragmentation.

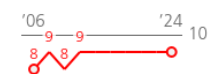
Looking forward, future reforms will encompass the establishment of a national conscription system and the exploration of alternative energy sources. These energy sources may involve the construction of wind farms, solar energy facilities, and potentially even a new LNG terminal.

However, it is important to note that these reforms tend to be somewhat vertically oriented in their implementation. Broader and more intricate horizontal reforms, such as digitalization, prove to be more challenging due to their cross-ministerial nature. Ministries often function as private fiefdoms controlled by coalition parties, and cooperation across ministries governed by different political parties tends to be more complicated to achieve.

Latvian governments have typically relied on external advice, primarily seeking guidance from institutions like the World Bank and the IMF in the 1990s and more recently turning to the European Union and OECD during the 2000s. This approach has taken precedence over the development of domestic research and analytical capabilities. The European Union serves as the overarching framework for facilitating knowledge exchange. Recent examples of major reforms, primarily led by external entities, include the 2017 tax system reform, which was informed by a World Bank report, and the comprehensive restructuring of Latvia’s banking regulations in 2019. The latter was initiated in response to recommendations from MONEYVAL, the Council of Europe’s Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, following their report on Latvia. These external-led reforms encountered far less opposition compared to the 2020 administrative territorial reform, which was domestically driven and considerably more contentious.

#### Implementation

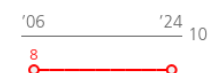
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#### Policy learning

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While the Latvian parliament maintains a modest analytical unit, several ministries have also established their own analytical departments. Additionally, there's a Productivity Council and a Fiscal Discipline Council in place. Nevertheless, as the president repeatedly emphasized in late 2022 during negotiations on a new government coalition, Latvia still lacks significant policy-oriented think tanks, whether governmental or non-governmental, to assist in shaping policy formulation and to offer effective monitoring and evaluation. The president expressed hope that the new government would agree to establish a new analytical institution, although this proposal is absent from the government declaration. Furthermore, the president has advocated for the creation of a State Council institution that would assess the quality of draft laws. However, this idea has received minimal domestic political support.

## 15 | Resource Efficiency

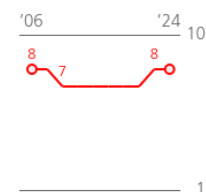
Latvia has a relatively small yet efficient public sector. From 2017 to 2020, the number of public sector employees saw a reduction of 7.2%, surpassing the planned decrease of 2% per year over a three-year span. In 2021, an agreement on salary reform for state-sector employees was reached and subsequently implemented. By late 2022, the Ministry of Defense reported a 25% increase in salaries since the reform, while the Ministry of Education and Science noted a 15% wage growth. Salaries for members of parliament, ministers, the president and other officials also saw significant increases. For instance, the president's salary rose from €5,960 per month to €7,600 as of 2023.

The Cross-Sectoral Coordination Center, established in 2011 with a staff of approximately 20 civil servants, plays a pivotal role in overseeing various aspects of the public sector. Its key responsibilities encompass developing a long-term strategic approach to public policymaking, monitoring decision-making to ensure the effectiveness of public policies, overseeing ministries' progress in achieving government declaration goals, and coordinating the management of state-owned enterprises. Financial transparency is a notable feature of the public sector, with public salaries disclosed on ministerial and agency websites and all public officials submitting annual financial declarations, which are subsequently made publicly available. While there is no centralized recruitment process, independent recruitment firms are typically engaged for senior appointments, while public institutions manage competitive recruiting procedures for junior positions. Notably, there has been a decline in senior public officials displaying political affiliations, although prominent bureaucrats still tend to transition into national politics.

In terms of macroeconomics, Latvia has maintained a balanced budget with minor deficits over the last decade. However, the unique circumstances of the pandemic led to a sharp increase in Latvia's budget deficit in 2020 and 2021, primarily due to the economic disruptions caused by the pandemic. It once again grew in 2022 as Latvia

Efficient use of assets

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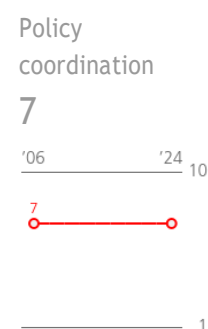
allocated more funds toward defense, compensation for high energy prices for households and businesses, and support for Ukrainian refugees amid Russia's war on Ukraine. Within the Latvian government, there may be a lack of cohesion between ministries, as ministries governed by different parties compete for government resources to fund their respective priorities. To ensure accountability, budget spending in Latvia is audited by the State Audit Office. In 2021, this office conducted 14 performance audits, 13 compliance audits, and 34 combined audits. Additionally, it audited 117 local and regional governments.

Following an administrative territorial reform in 2020, the number of local governments in Latvia was reduced from 119 to 43. This reduction aimed to ensure that local administrative units have the capacity to deliver the 23 delegated functions, which include the provision of public utilities, education, cultural services, housing, transport, and social services, for which local governments are responsible.

Coordination among ministries and other state institutions in Latvia often follows an ad hoc approach, primarily due to the decentralized distribution of ministers based on party affiliations within coalition agreements. Government coalitions frequently consist of political parties that engage in internal conflicts, competition, and a somewhat zero-sum approach to governance. Consequently, the prime minister often has limited control over ministries governed by other coalition parties.

Although the coalition agreement establishes government priorities and an agenda, the decentralized nature of government ministries can lead to challenges in effectively pursuing and achieving these objectives. To address some of these issues, the Cross-Sectoral Coordination Center was established, which has indeed improved information exchange between the prime minister's office and ministries. However, ministries staunchly resist further centralization or relinquishment of their powers. For example, in recent years, the Education Ministry has declined collaboration with the Economy Ministry on matters related to exporting the higher education sector. Similarly, the Ministry for Environmental Protection and Regional Development retains exclusive responsibility for the digitalization and information technology sectors, despite discussions about creating a new ministry for digital affairs or transferring digitalization responsibilities to the prime minister's office to enhance cross-ministry coordination.

At the bureaucratic level, weekly meetings occur among state secretaries and their deputies to coordinate policy efforts. On the political front, the weekly Coordination Council comprises representatives from governing parties and serves as a platform for conflict resolution and coalition building. In 2021, the TAP portal (public portal for draft legislation) was established as a tool to encourage greater public involvement in the policy process, enhance transparency, and improve the development and alignment of draft legal acts.



In 2022, Latvia's Corruption Prevention and Combating Bureau (KNAB) celebrated its twentieth anniversary. Its initial years were marred by political interference and frequent leadership changes, partly because the director's appointment involves parliamentary elections, making it susceptible to political bargaining. However, over the past five years, KNAB has experienced greater stability and demonstrated more robust efforts in prosecuting high-level corruption cases, thanks to the leadership of Jēkabs Straume, a former military intelligence professional, who assumed control of KNAB in 2017 and was re-elected for a second five-year term in 2022. The Group of States Against Corruption recognizes KNAB as an effective institution. Latvia has also emerged as a leader in European whistleblower regulation, with a comprehensive whistleblower law in effect since 2019 (with revisions in 2022) and the establishment of a whistleblower's contact point within the state chancellery. Delna, the Latvian branch of Transparency International, actively contributed to the drafting of this legislation and commended Latvia for its progressive approach.

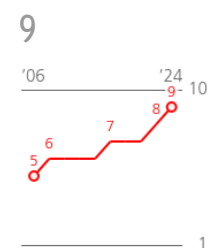
Furthermore, KNAB is tasked with regulating party financing in Latvia, a role that has expanded since the enactment of a more generous party financing law in 2019. In 2023, political parties will receive nearly €6 million in state subventions. KNAB ensures transparency by swiftly disclosing all private contributions on a publicly accessible website, typically within days of receiving the donation.

Public officeholders in Latvia are required to submit annual financial declarations, which are thoroughly reviewed and made publicly accessible by the country's tax authority.

The State Audit Office in Latvia functions as an independent and influential institution that regularly publishes critical reports on state and local government bodies, as well as public servants, including politicians who must submit annual income and asset declarations. The office often highlights issues related to problematic public procurement, which remains a source of corruption at both local and national levels, including within EU projects.

For instance, in October 2022, the Riga District Court convicted four individuals for their involvement in a fraudulent tendering procedure, leading to the misappropriation of €780,000 in EU funds. This investigation was conducted by the European Public Prosecutor's Office.

## Anti-corruption policy



## 16 | Consensus-Building

There is a broad consensus among major political actors regarding the centrality of democracy within the political system. There are no significant political parties advocating for authoritarian rule or seeking to undermine the democratic framework of the state. However, it is worth noting that populist parties and politicians do pose challenges to certain fundamental aspects of a liberal democracy. These challenges manifest in threats to press freedom, the impartiality of civil servants, and a lack of civility in dealing with political opponents. In the 2022 parliamentary elections, two populist parties – Latvia First (LPV) and For Stability! (S!) – secured seats in parliament. Nevertheless, they currently remain in the parliamentary opposition with limited prospects of being invited into a governing coalition.

All major political parties in Latvia share a consensus on advocating for an open, liberal, and pro-trade economic system. An exception is the Progressives (Pro), a new opposition party that promotes a more redistributive agenda but does not fundamentally oppose the core elements of a market economy system.

The Latvian military, which is comprised of 6,500 professionals, 8,200 members of the national guard and 2,000 reservists, is firmly under civilian control and makes no effort to influence politics beyond lobbying on behalf of its needs. There are no significant organized extremist groups threatening Latvian democracy.

The deepest division in Latvia remains between ethnic Latvians, who comprise about two-thirds of the population, and Russian speakers, who make up about one-third. Prominent issues have included language and education policies, citizenship regulations, labor market dynamics and historical interpretations. The conflict has been further exacerbated by Russia's war in Ukraine, with Latvians largely supporting Ukraine, while less than a quarter of Russian speakers expressed support for Ukraine in the immediate aftermath of Russia's invasion. In early March 2022, a pro-Ukraine march, primarily attended by Latvians and Ukrainians, drew approximately 30,000 participants, marking the largest demonstration since the anti-Soviet movement of the late 1980s. In contrast, a "Russian Voices for Ukraine" rally organized by Russian speakers a few weeks later garnered only a few hundred participants.

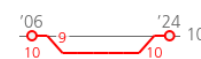
However, these conflicts are managed at a political level, with parties representing both Russian-speaking and nationalist Latvians (as well as mainstream Latvians) in the parliament. Cities with significant Russian-speaking majorities, such as Daugavpils and Rezekne, have mayors from Russian-speaking parties.

Consensus on goals  
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Anti-democratic actors  
10



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Cleavage / conflict management  
8



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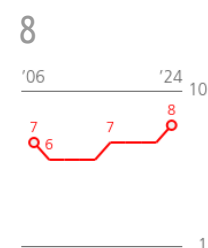
Additionally, over the past decade, a division has emerged between liberals and national conservatives. Liberal voices advocate for refugee support, LGBTQ+ rights, and deeper European integration, while national conservatives, whether Latvian or Russian-speaking, oppose refugees and immigration and advocate for “traditional” family policies. Similar to the ethnic divide, these ideological differences are represented in parliament and are subject to political debate and resolution without leading to social upheaval.

Latvia’s accession to the European Union in 2004 has had a notable impact on the increased involvement of interest groups in the policymaking process. At the highest executive level, the government’s tripartite council consistently engages with business and trade union interests. Furthermore, it conducts an annual bilateral meeting between the cabinet of ministers and the foreign investors council.

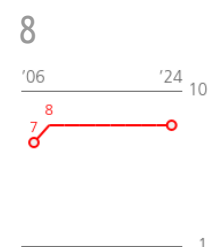
Various non-governmental organizations (NGOs) representing a diverse range of civil society interests actively participate in parliamentary committees, ministerial working groups, and other forums. These engagements include meetings with the state president, fostering a strong connection between civil society and the government. An interesting development is the recruitment of NGO activists as candidates by political parties for local, national, and European elections, thereby strengthening the ties between these parties and civil society organizations. In the summer of 2022, two political parties – United List and the Progressives – established public discussion forums involving civil society activists to assist in crafting their party programs ahead of the October parliamentary election. Certain organizations, such as Delna, the Latvian branch of Transparency International, play a role in monitoring processes. Nonetheless, it’s worth noting that business interest groups tend to possess greater resources and wield more influence in this context.

There is little political enthusiasm and support for a reconciliation between the ethnic Latvian and Russian-speaking communities. This absence of enthusiasm is reflected in the absence of a significant multiethnic party in the country, and no government coalition has managed to bridge the ethnic divide. This divide has been further exacerbated by the repercussions of Russia’s war in Ukraine. Latvian lawmakers have taken steps to address this divide by passing legislation to rename streets that were previously named after Russians and by dismantling 69 monuments from the Soviet era. These monuments were perceived as glorifying the period of occupation; however, it’s important to note that they hold significant meaning for Russian speakers in Latvia. Currently, there is minimal likelihood of a short-term reconciliation between Latvians and Russian speakers. Nevertheless, there is a glimmer of hope for future generations as Russian-language schools are gradually phased out by 2024. This phase-out effectively eliminates the parallel school system that has existed since the Soviet era. It is anticipated that, through a shared understanding of that era, future generations may have the opportunity to reconcile and bridge the gap between Latvians and Russian speakers.

#### Public consultation



#### Reconciliation



## 17 | International Cooperation

Latvia's primary planning documents are the National Development Plan for 2021 to 2027 (NAP 2027), which aligns with the European Union's seven-year multiannual budget, and the longer-term Sustainable Development Strategy (Latvia 2030).

NAP 2027 outlines four strategic objectives: (i) equal rights, which entails maintaining fundamental rights and ensuring equal access to government services; (ii) quality of life, which entails enhancing well-being and creating opportunities for all; (iii) fostering a knowledge society in the domains of education and science, civic awareness, the media landscape, and the economy; and (iv) a responsible Latvia, which entails addressing sustainability challenges, primarily those arising from climate change and demographic trends. These objectives are aligned with the strategy for allocating EU cohesion and structural funds throughout the EU multiannual budget (2021 – 2027).

Latvia 2030 elaborates seven long-term development priorities: the development of cultural space, investment in human capital, a change in the paradigm in education, an innovative and environmentally efficient economy, nature as future capital, perspectives of spatial development, innovative government and civil society participation.

Investments are generally financed by EU funds. Latvia has received substantial EU funding in previous financial periods, including over €4.5 billion in structural and cohesion funds during the period from 2007 to 2013, €4.2 billion in the period from 2014 to 2020, and an additional €4.2 billion earmarked for the period from 2021 to 2027. Additionally, Latvia has access to €1.8 billion in grants through the EU Resilience and Recovery Mechanism. Latvia's priority spending for the period from 2021 to 2027 revolves around modernizing the economy, investing in digitalization, research and innovation, nurturing human capital, and advancing Green Deal initiatives.

Latvia has utilized EU funds in a decentralized manner, with a focus on supporting small towns and rural regions. This approach has brought about a visible transformation in Latvia's regions, with newly refurbished libraries, museums, cultural centers, and the construction of four large regional concert halls. However, it's worth mentioning that no new concert hall has been built in Riga, which remains Latvia's cultural hub. Other improvements encompass the development of bicycle paths, parks, schools, and enhancements to livability infrastructure. Despite these efforts, with the exception of Valmiera, these towns and cities continue to grapple with demographic decline and exhibit slower rates of growth compared to the urban region of Riga.

Effective use of support

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Latvia is generally a credible international partner. This is evidenced by its A+ credit rating from Standard & Poor's, highlighting its steadfast commitment to meeting international financial obligations. Furthermore, Latvia stands out among EU members for effectively incorporating European legislation into its national legal framework. There is widespread support for EU and NATO membership in Latvia, with Eurobarometer data indicating that Latvians place greater trust in EU institutions than in their own national institutions.

The Russian invasion of Ukraine has underscored the critical importance of Latvia's international security alliances, particularly with NATO and the United States. Additionally, Latvia's EU membership grants it a greater platform on the global stage despite its relatively small size. Collaborating closely with Estonia, Lithuania, and Poland, Latvia has taken a leading role in advocating for increased EU assistance to Ukraine and for more robust economic and diplomatic sanctions against Russia.

Prior to Russia's invasion of Ukraine, Latvia had actively contributed troops to NATO missions in regions such as Afghanistan and the Balkans. Latvia also participated in the "coalition of the willing" during the U.S.-led war in Iraq. Currently, Latvia hosts a NATO Enhanced Forward Presence Battle Group of 1,840 soldiers at the Ādaži military base, which is led by Canada and includes troops from 10 other NATO member countries.

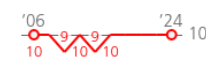
Nonetheless, Latvia's conservative societal tendencies and skepticism toward certain "liberal" European policies have led to a somewhat less compliant stance in recent years. This is particularly evident in its reluctance to participate in the European Union's refugee relocation program, its failure to ratify the Council of Europe's Istanbul Convention aimed at preventing and combating violence against women and domestic violence, and its rejection of the United Nations Migration Pact. Notably, the presence of the National Alliance, an influential radical right party, in the government coalition since 2011 has contributed to these policy stances.

Latvia actively participates in key regional organizations focused on the Baltic Sea, including the Council of Baltic Sea States and the informal Nordic-Baltic 6 (NB6) group within the EU. Latvia is also involved in various regional initiatives, including the establishment of the Baltic Sea macro-region. The Baltic Sea Strategy (BSS) is an integral part of this regional landscape, aimed at fostering governmental and regional cooperation among EU member states that border the Baltic Sea.

The conflict in Ukraine has led to closer collaboration with neighboring Lithuania and Estonia. The Baltic states already had existing regional institutions, such as the Baltic Council of Ministers and the Baltic Assembly, which facilitated parliamentary cooperation. Additionally, they jointly operated the Baltic Defense Academy in Tartu, Estonia, and a Baltic battalion. However, the Baltic countries intensified their cooperation during the COVID-19 pandemic, aligning their policies and creating a Baltic travel arrangement in the summer of 2020, enabling unrestricted travel

#### Credibility

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#### Regional cooperation

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between the three nations when most other EU borders remained closed. This collaboration gained further momentum with Russia's invasion of Ukraine and expanded to include Poland, which shared a similarly assertive stance toward Russia. The presidents of these four nations made joint visits to Kyiv, Ukraine, during the conflict, and ministerial-level meetings became a regular occurrence.

This cooperation with Poland may likely continue in the future because Baltic-Poland interests align more closely, particularly regarding the uninterrupted flow of EU funds, promoting democratization and marketization in the post-Soviet region through the EU's Eastern Neighborhood Policy, and maintaining a robust stance on Russia.

As a result of these developments, Latvia's relations with its eastern neighbor, Russia, have reached an unprecedented low following Russia's invasion of Ukraine in 2022. Economic sanctions have effectively halted most trade with Russia, and Latvia has committed to ceasing energy imports from Russia. Notably, in January 2023, Latvia severed diplomatic ties with Russia, reducing them to the *chargés d'affaires* level.



## Strategic Outlook

Latvia's two key long-term existential challenges have been demographic decline and faltering economic convergence with western Europe. However, in 2022, these challenges were further compounded by new security concerns linked to Russia's war on Ukraine.

Over the past three decades, Latvia's population has declined from 2.6 million in 1991 to 1.8 million. The population pyramid in Latvia is characterized by a larger elderly population and a smaller number of young individuals, coupled with an annual birthrate of less than 20,000 and ongoing negative migration. These trends indicate that the population will continue to shrink. According to a United Nations projection, Latvia's population could decrease to 1.2 million by the end of the century.

Domestic demographic shifts in Latvia have primarily resulted from urbanization, as ambitious young people have gravitated toward the capital city, Riga, while rural areas experience depopulation. The combination of longer life expectancy and low birth rates has led to an increase in Latvia's old-age dependency ratio, which poses challenges for both public and private sector service provision and exerts pressure on the labor market.

Despite these demographic challenges, there is limited public and political support for raising immigration rates in Latvia, with the exception of business groups. Instead, the government aims to encourage members of the Latvian diaspora, estimated at 300,000, to return. Initiatives include funding for diaspora language training, Sunday schools, cultural organizations, and events that maintain connections with Latvians living abroad.

The successful return of diaspora Latvians hinges on economic development and achieving economic convergence with established EU member states. Sustainable long-term productivity gains will require increased investment in higher education, innovation, research, and digital skills across the workforce. Notably, Latvian universities currently do not rank among the top 500 globally, and many talented Latvian students enroll in European universities outside Latvia. Latvian research centers also perform poorly in EU-funded research competitions, and Latvia's innovation spending falls below the EU average. While recent higher education reforms have introduced stricter evaluation procedures and institutional restructuring, they have not resulted in increased sector financing. There has been a trend of prioritizing construction projects over investments in human capital.

Russia's war in Ukraine has prompted Latvia to enhance both external and internal security measures. The government is committed to increasing defense spending to 2.5% of GDP by 2025 and has proposed implementing a new national conscription system for both men and women. Additional funds have been allocated for military equipment, including the acquisition of six HIMARS rocket artillery systems. Concurrently, Latvia is fortifying its borders with Russia and Belarus through the construction of new fences and increased patrols. De-Russification policies aim for long-term social integration by phasing out Russian-language education, removing Soviet symbols, and promoting the use of Latvian in the public sphere. However, there is a potential risk of alienating Russian speakers if these measures are implemented too harshly.