



Latvia's productivity challenges

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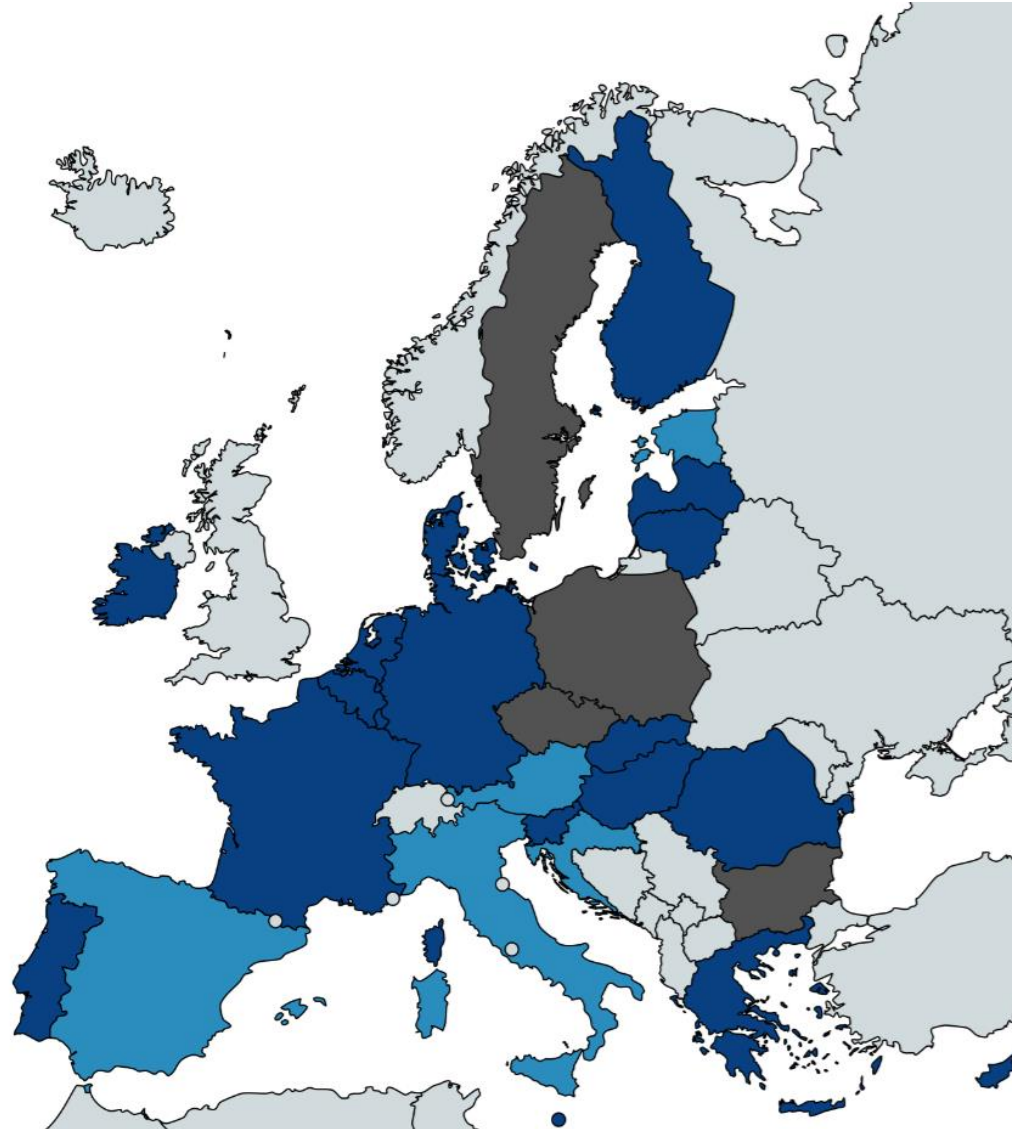
25 November 2020



The role of productivity boards

Productivity boards in the EU

- Have appointed a National Productivity Board
- Will appoint a National Productivity Board
- Will not appoint a National Productivity Board



Role of productivity boards

- The Boards **promote policies that enhance productivity and competitiveness** of the EU member states, informing the national debate via their analysis and contributions
- The Boards help to **identify productivity's long-term drivers** – anything from real exchange rates to education and innovation, to preparing for a greener and more digital future
- From an **institutional set-up** point of view, Boards should:
 - enjoy functional autonomy
 - be objective, neutral and independent in their analysis
 - be able to actively participate in the public debate
 - enjoy stable funding to undertake their activity on a continuous basis
 - have appropriate access to information



The current economic context and policy response

EUROPEAN ECONOMIC FORECAST

AUTUMN 2020



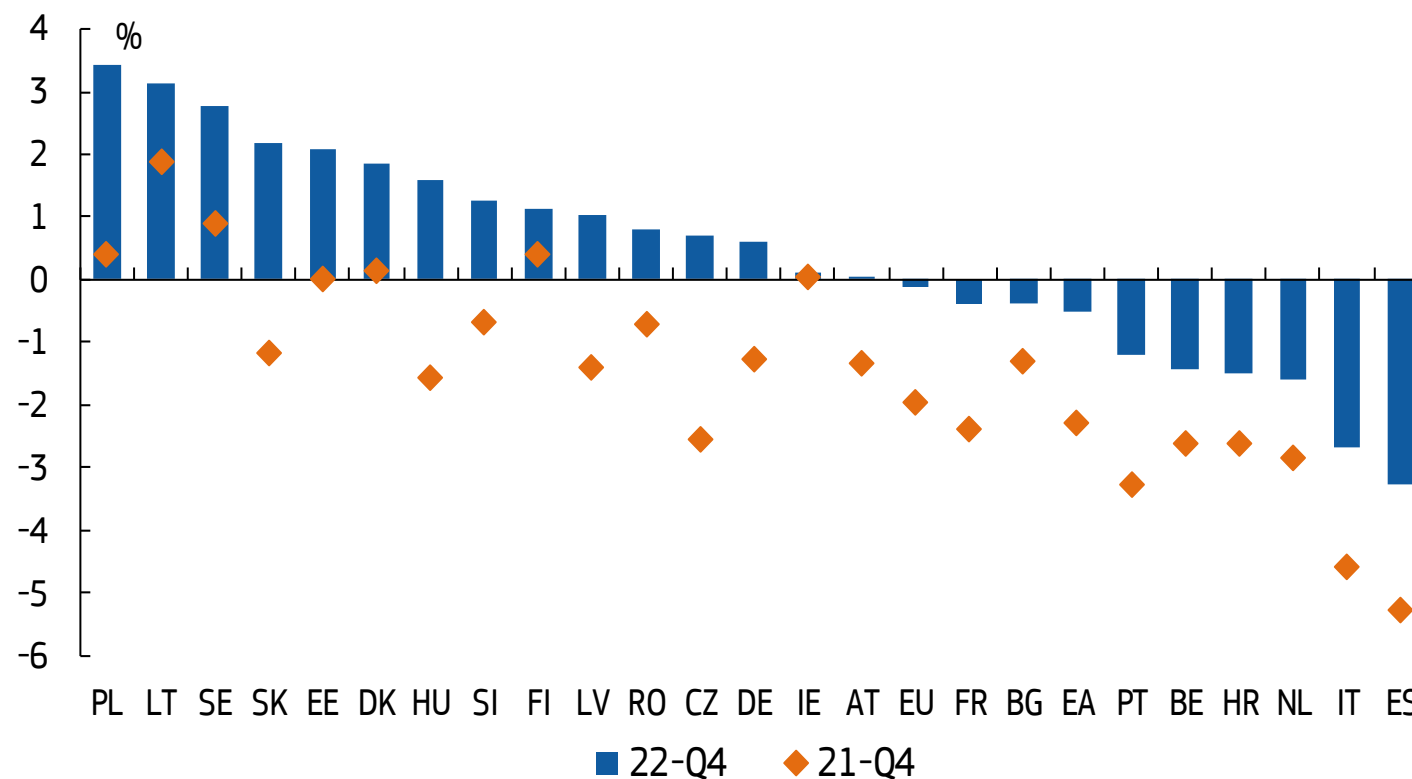
GROWTH

		2019	2020	2021	2022
GROSS DOMESTIC PRODUCT	EURO AREA	1.3%	-7.8%	4.2%	3.0%
	EU	1.5%	-7.4%	4.1%	3.0%

#ECForecast

Uneven contraction and speed of recovery across countries

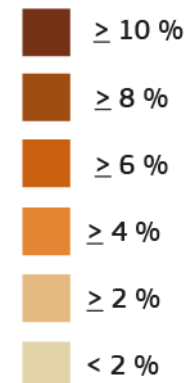
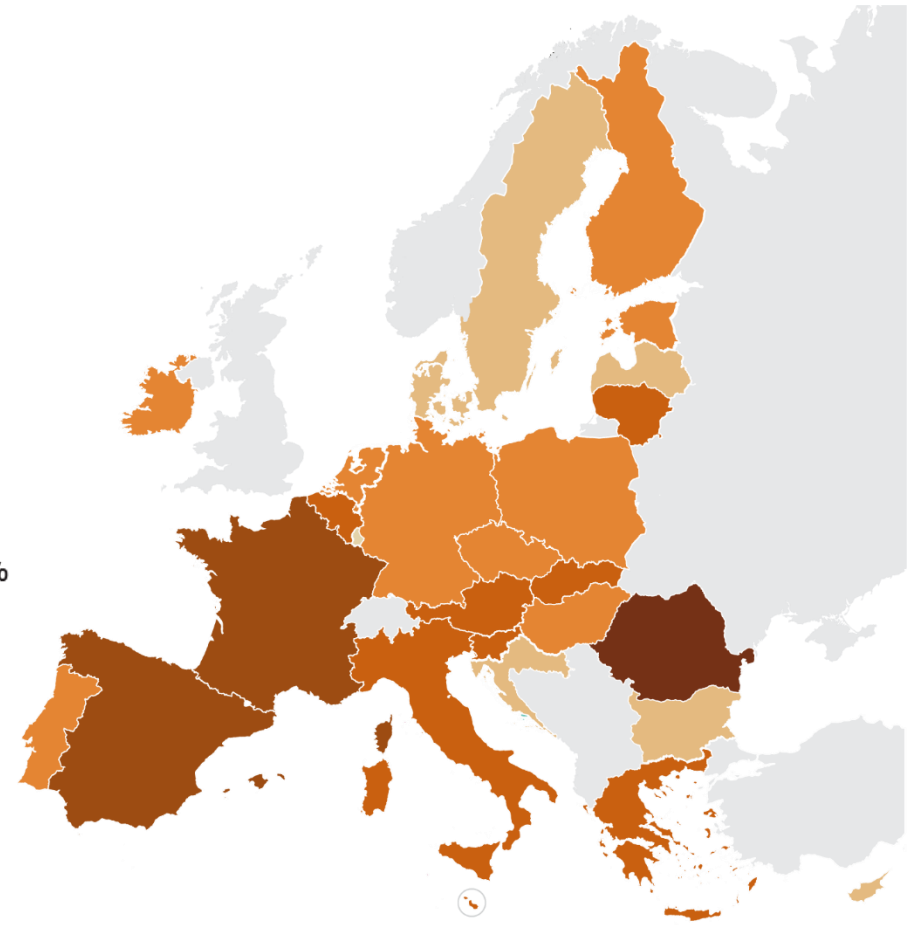
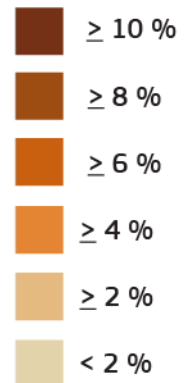
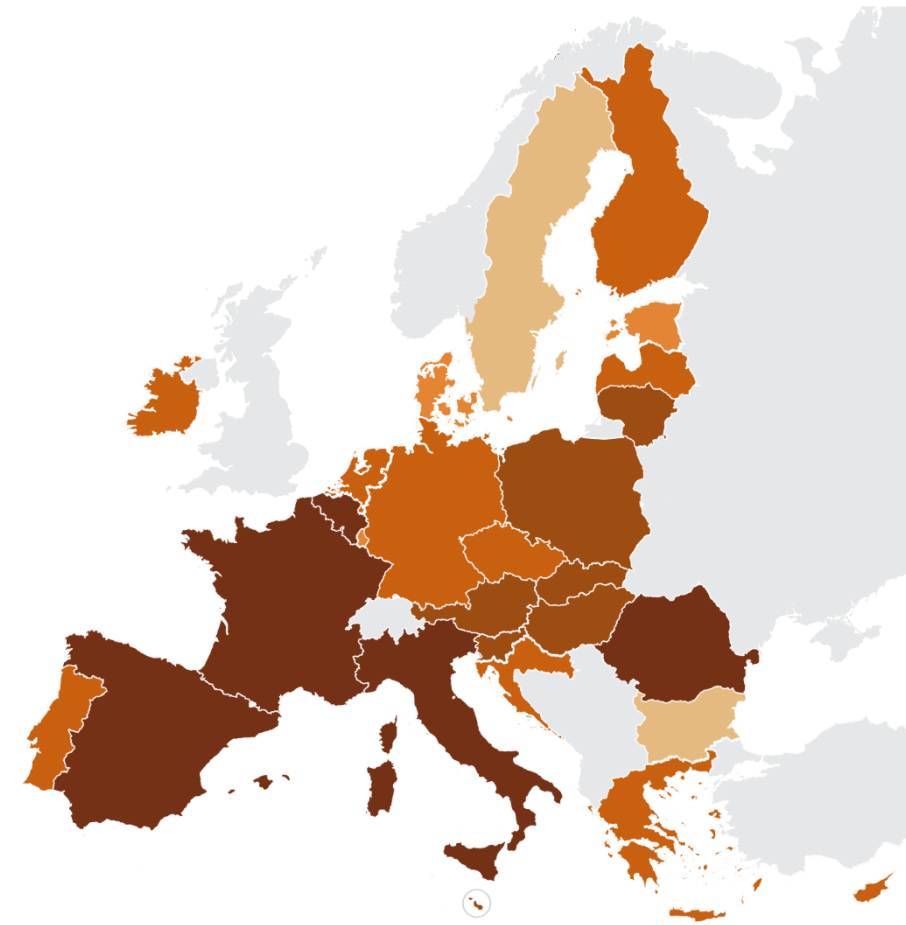
GDP levels compared to 2019-Q4, Member States



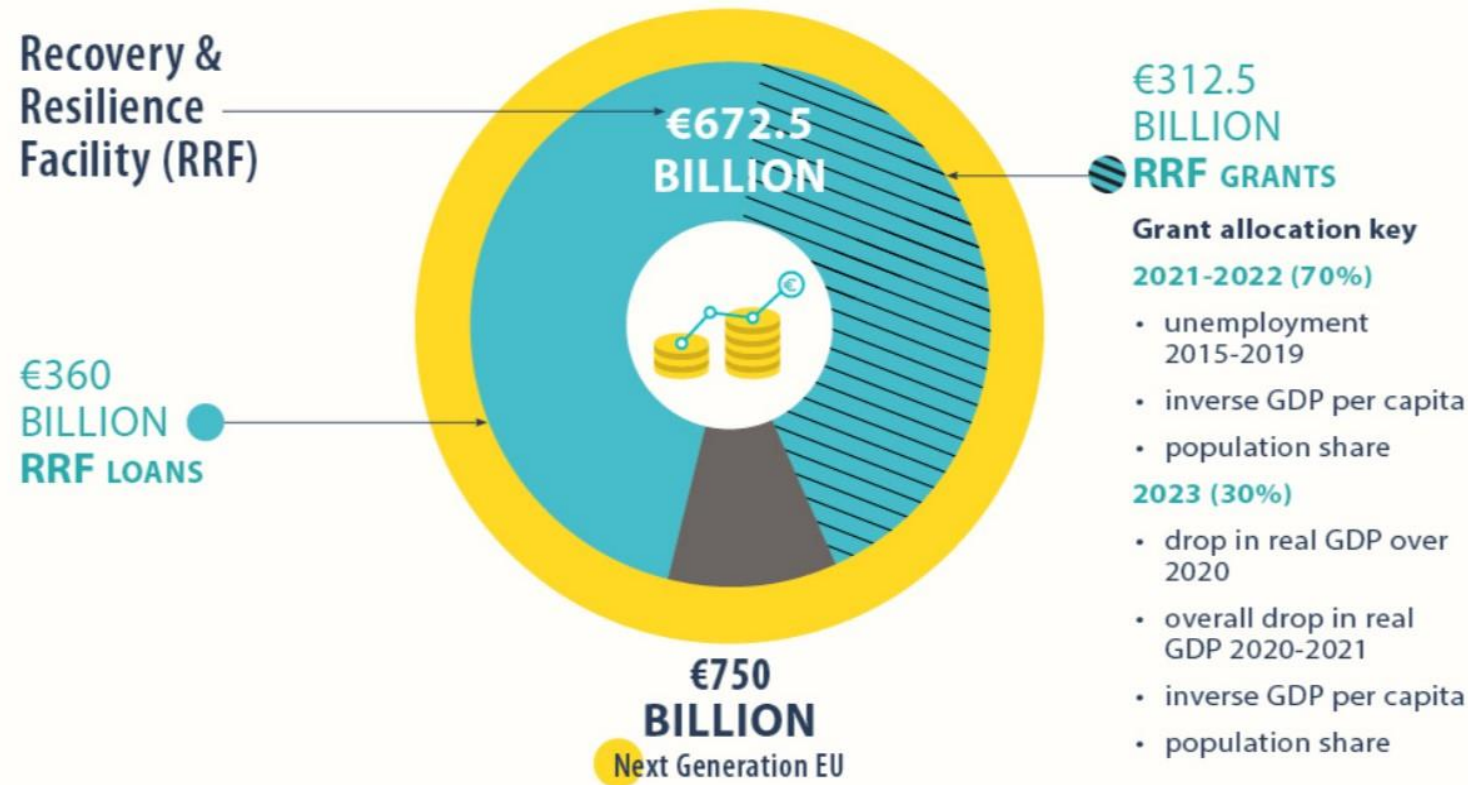
Note: No GDP quarterly forecasts are reported for CY, EL, MT and LU.

Budgetary outlook 2020 & 2021

Public deficits as % of GDP



Next Generation EU – Recovery and Resilience Facility



*Figures expressed in 2018 prices. In current prices, the Next Generation EU envelope amounts to €807.1 bn, including €724 bn for the Recovery and Resilience Facility (€338 bn grants, €386 bn loans).

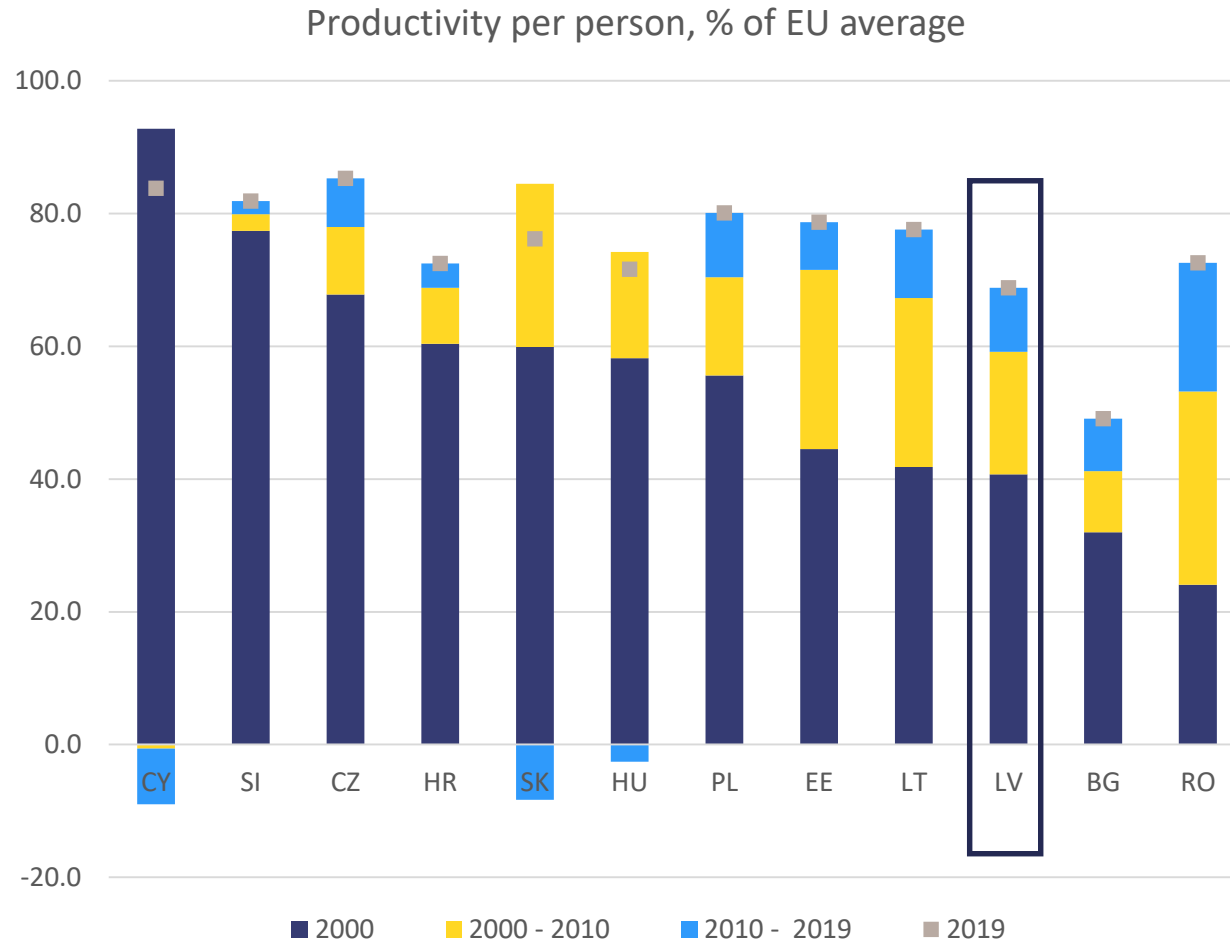
National Recovery and Resilience Plans

- Investments and reforms included in the RRP should:
 - ✓ address challenges identified in the **relevant country-specific recommendations**;
 - ✓ contribute to the **green and to the digital transitions**;
 - ✓ strengthen the **growth potential, job creation, economic & social resilience**
- A minimum of **37% of funds** related to **climate** (July European Council on the climate mainstreaming target of 30%);
- A minimum of **20% of funds** related to **digital transition** (agreement at the European Council of October)
- All measures must respect the “**do no significant harm**” principle (Article 17 of the Taxonomy Regulation, Regulation (EU) No 2020/852).



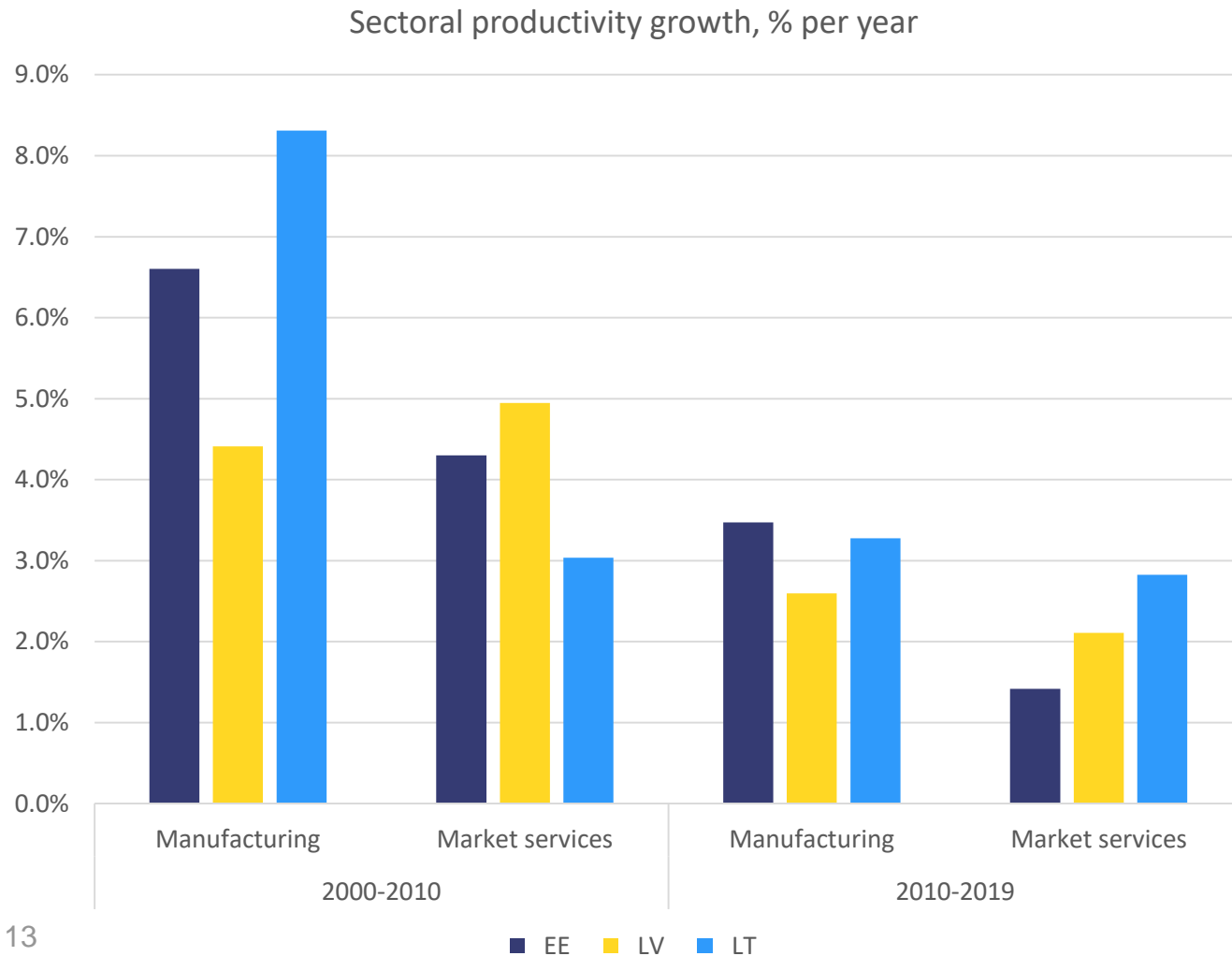
Productivity challenges in Latvia

Strong average productivity over 2 decades



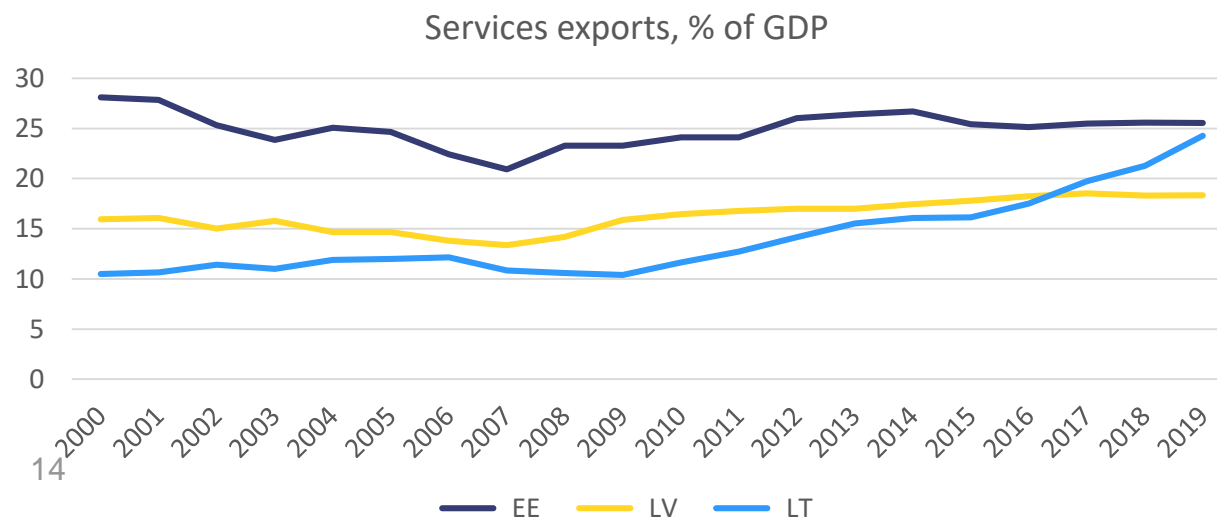
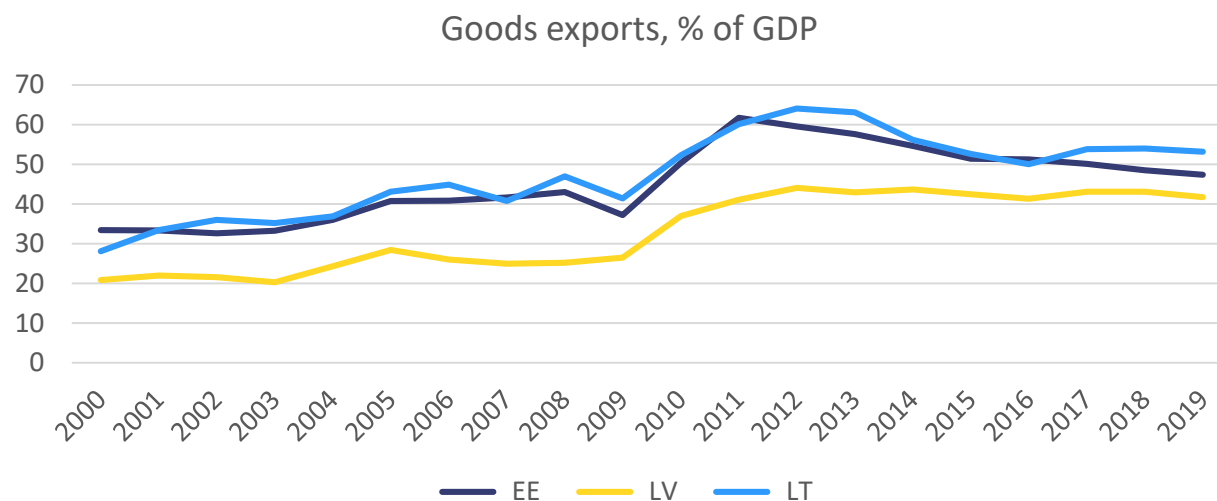
- Latvia's productivity growth averaged 4% annually over 2000 - 2019
- It has slowed over time, yet remains solidly above EU average (2.4% vs 0.9% annually over past 5 years)
- Poorer countries tend to grow faster but not all in the same way:
 - Rapidly catching-up – PL, EE, LV, LT, RO
 - More slowly catching-up – BG
 - Started richer and still converging – CZ, SI, HR
 - Started richer but falling behind – CY, SK, HU

Strong growth in services, less in manufacturing



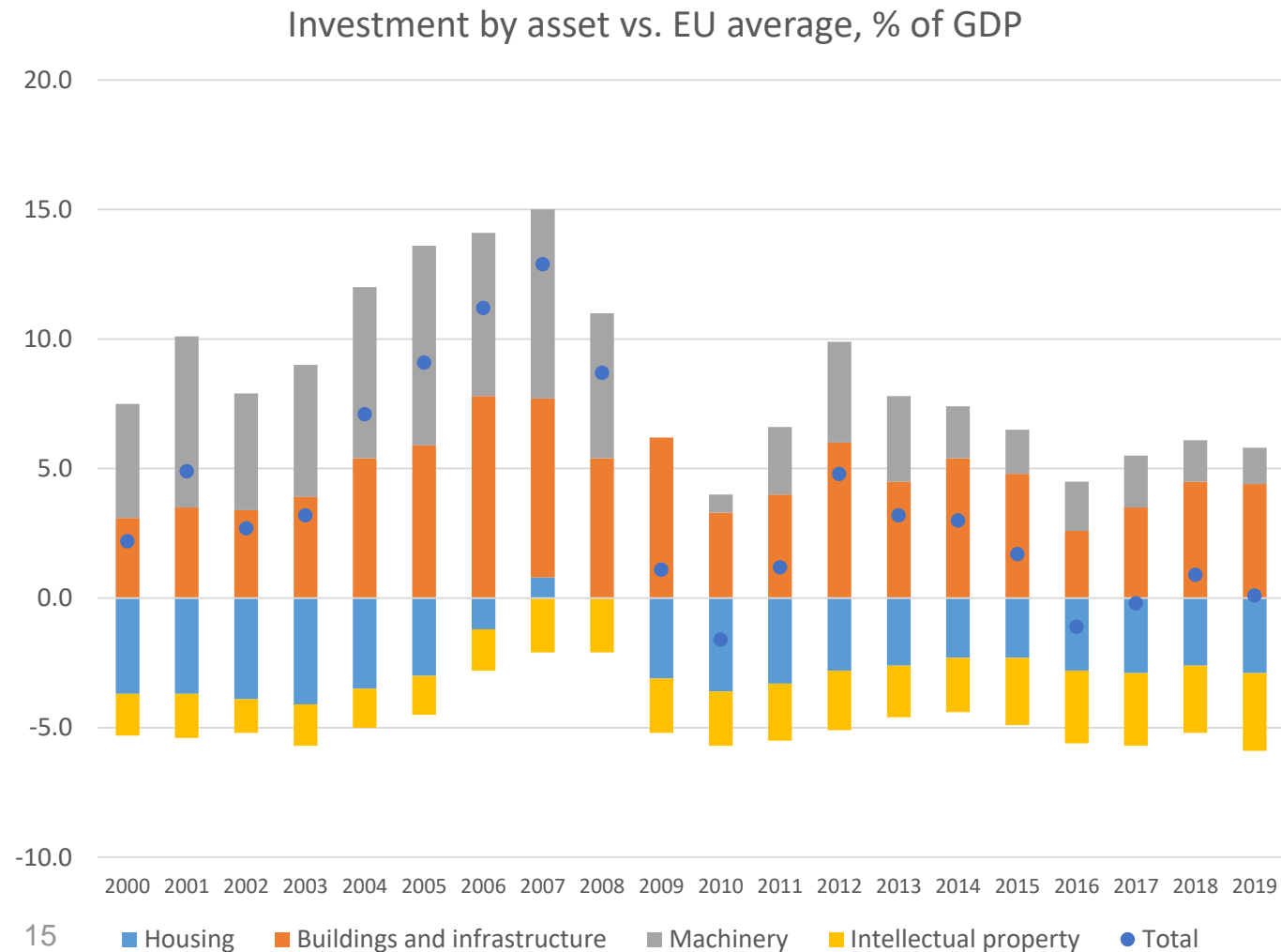
- In the early phase, productivity growth in Latvia's services was stronger than in manufacturing
- Estonia and Lithuania ran ahead with much stronger productivity growth in manufacturing
- In the later phase, productivity growth in manufacturing has proved more resilient

Exports weaker than in the other Baltics



- A lower export share of GDP may partly explain why Latvia's productivity is lower than its Baltic peers
- Latvia specialised in transit and financial services, which proved to have lower growth potential than manufacturing
- Recent specialization in IT services is proving to be more promising

Investment levels are nearing the EU average



- Investment level approaching the EU average
- Supported by EU-funded investment in infrastructure
- Investment in machinery is converging to the EU average
- Housing and intellectual property are falling further behind

Productivity strengths and challenges

- Challenges

- Large shadow economy, affecting tax compliance
- Low investment in Research & Development
- Perceived lack of fair competition in public procurement
- Growing regional inequality and affordable housing in peripheral regions
- Population decline: ageing of the working-age population, shortage of digital and STEM skills, higher per capita cost of infrastructure

- Strengths and opportunities

- Low public debt and deficit, balanced current account and low private indebtedness
- Flexible labour markets and favourable business environment
- Dynamic IT sector well developed public IT services
- High share of renewables



Conclusion

A role for productivity boards in the recovery and resilience plans

- The plans should address challenges identified by the analysis and recommendations in the European Semester and build on a long-term sustainable growth strategy
- Securing continued productivity growth is one of Latvia's key challenges. Achieving this would help to address demographic challenges and ensure that growth is more inclusive
- Enhancing productivity growth requires enabling reforms and targeted investment, addressing the weakness and opening new opportunities building on a country's strengths
- Productivity boards are well-placed to provide valuable expertise and facilitate an exchange of ideas amongst relevant actors. This will help policy-makers in setting priorities and designing effective policy interventions



Thank you!