

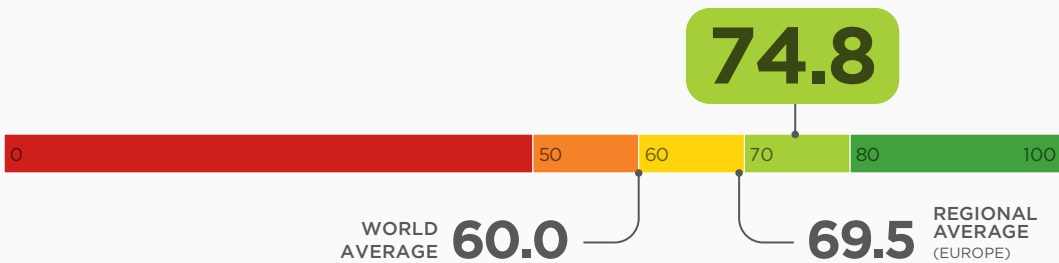
LATVIA

Latvia's economic freedom score is 74.8, making its economy the 18th freest in the 2022 *Index*. Latvia is ranked 13th among 45 countries in the Europe region, and its overall score is above the regional and world averages.

Latvia's economic growth has waxed and waned in the past half decade, ending up negative in 2020 before reviving in 2021. However, a five-year record of solid economic freedom has held relatively steady. With gains in scores for rule of law matched by losses in scores for **tax burden** and **government spending**, Latvia's overall level of economic freedom is unchanged from 2017, and the country remains near the middle of the "Mostly Free" category. Monetary freedom, **trade freedom**, and **investment freedom** are relatively strong, but **labor freedom** and **financial freedom** exhibit weaknesses.

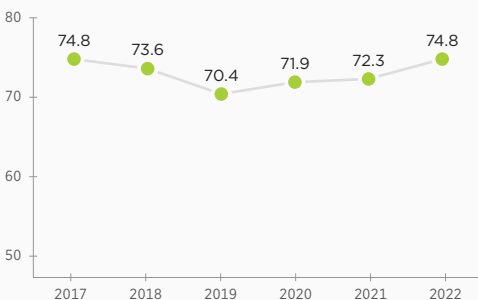
IMPACT OF COVID-19: As of December 1, 2021, 4,213 deaths had been attributed to the pandemic in Latvia, and the government's response to the crisis ranked 69th among the countries included in this *Index* in terms of its stringency. The economy contracted by 3.6 percent in 2020.

ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1996): +19.8

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
1.9 million

GDP (PPP):
\$60.1 billion
-3.6% growth
in 2020
5-year compound
annual growth 1.6%
\$31,509 per capita

UNEMPLOYMENT:
8.2%

INFLATION (CPI):
0.1%

FDI INFLOW:
\$873.0 million

PUBLIC DEBT:
45.5% of GDP

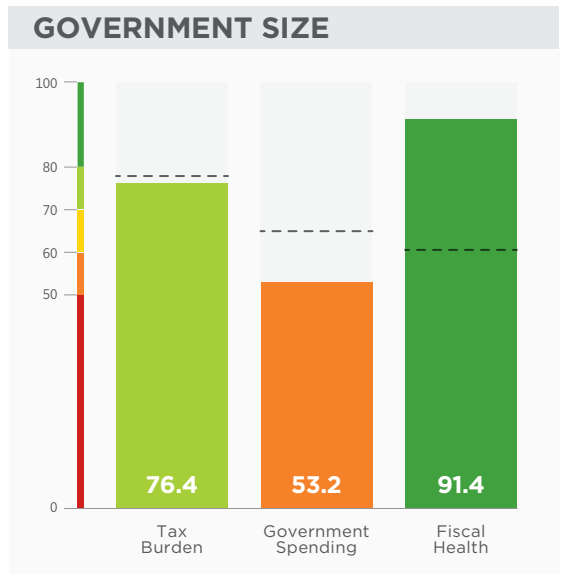
2020 data unless otherwise noted. Data compiled as of September 2021

BACKGROUND: Latvia regained its independence from the Soviet Union in 1991, joined the European Union and NATO in 2004, and joined the eurozone in 2014. Despite the fact that his center-right New Unity party holds the fewest seats in parliament, Arturs Krišjanis Kariņš became prime minister in 2019. He heads a four-party coalition that includes the New Conservative Party (JKP), For Development/For!, and the National Alliance. Latvia's small, open economy relies heavily on exports. Transit services are highly developed, as are timber and wood processing, agriculture and food products, and the machinery manufacturing and electronics industries. Corruption remains a serious concern as evidenced by a recent series of high-profile bribery and money-laundering scandals.

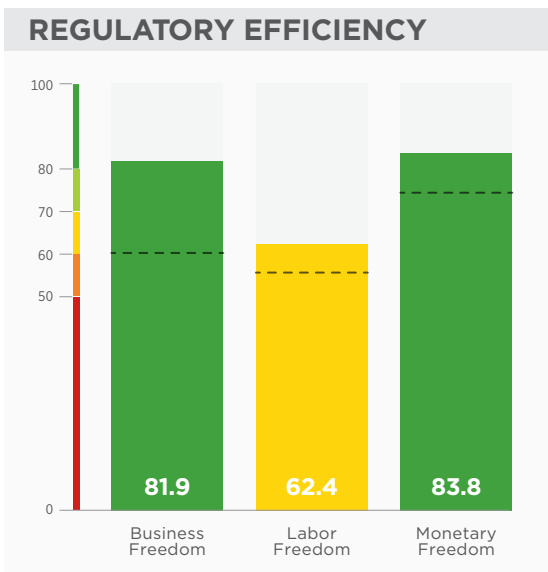
12 ECONOMIC FREEDOMS | LATVIA



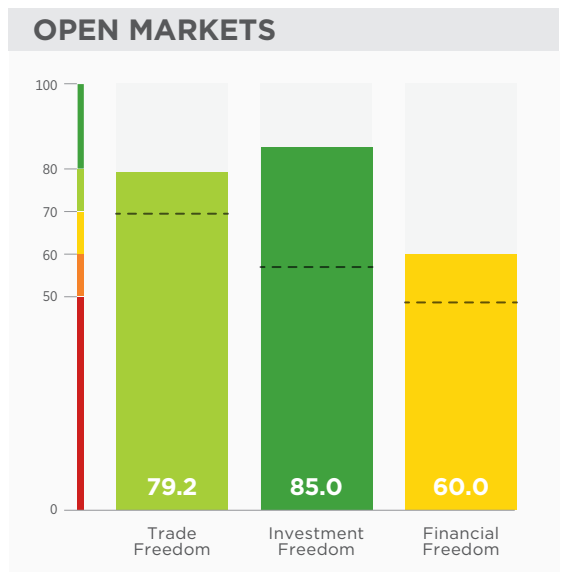
The full spectrum of property rights is recognized. Expropriations are extremely rare. Improvements in the judicial system are still needed to accelerate the adjudication of cases, strengthen the enforcement of court decisions, and upgrade professional standards. There are reports of corruption and lack of transparency in public procurement. Relatively few government officials have been prosecuted and convicted for corruption.



The top individual income tax rate is 31.4 percent, and the top corporate tax rate is 20 percent. The overall tax burden equals 31.2 percent of total domestic income. Government spending has amounted to 39.5 percent of total output (GDP) over the past three years, and budget deficits have averaged 1.7 percent of GDP. Public debt is equivalent to 45.5 percent of GDP.



The Latvian economy is known for innovation and for being a regional transportation hub, but there is also a significant shadow economy. Labor costs are relatively low by European Union standards. There is a shortage of available workers. The government provides subsidies for electricity, heating, agriculture, transportation, and other sectors.



As a member of the EU, Latvia has 46 preferential trade agreements in force. The trade-weighted average tariff rate (common among EU members) is 2.9 percent with 640 EU-mandated nontariff measures in force. In general, rules regarding foreign investment are not burdensome. Investment regulations are relatively transparent. The small financial sector is open and stable.