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ECONOMIC DEVELOPMENT OF LATVIA

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Comments, questions or suggestions are welcome:

To the Ministry of Economics
Brīvības iela 55, Rīga, LV-1519

Phone +371-67013100

Fax +371-67280882

E-mail: macro@em.gov.lv

Website: <https://www.em.gov.lv>

Report prepared by O. Barānovs (editor, 1., 6.5.), S. Skribāns (2., 5.), I. Šnīdere (3.1., 3.2., 4.1., 4.3., 4.4., 4.6., 4.7., 4.8., 4.9., 6.1.), J. Ušpelis (3.2., 4.5., 6.4., 6.6.), I. Skribāne (3.3., 6.2., 6.3., 6.7.), E. Gergelevičs (3.4., 4.2.), L. Kurpniece (4.2., 7.1., 7.2.), N. Ozols (5., 7.), L. Neiders (6.8., 6.9.), S. Briķe (8.1.), L. Paukste-Uzula, L. Anspoka (8.2.), A. Stokmanis (9.1.), A. Rozentālberga, J. Naidjonoka (9.2.), D. Brūklītis, L. Stauvere, M. Meirāne, E. Cielava (9.2., 16.), B. Hermansone (10.), S. Zakse (10., 11., 12.4.), A. Bekasova (10., 11.), V. Leicane (10., 11., 12.3., 12.5.), E. A. Liepiņa, E. Strazdiņa, L. Kuzika, E. Karahristu (11.), Raivis Supe (11., 12.3., 12.5., 12.7.), F. Bikaunieks (11., 12.4.), D. Butāne (11., 15.), D. Cīrule (12.1.), I. Irbe, A. Šastakoviča (12.1., 12.5.), A. Veršūne (12.1., 12.5., 12.7.), L. Diure (12.1., 12.7.), E. Cilinskis, S. Ābelniece, L. Mičule (12.2.), E. Pētersone, I. Strupkāja, Z. Muižniece (12.3.), J. Ozoliņš (12.3., 12.4.), L. Vitkausa, I. Širava (12.3., 15.), E. Lielpēters, D. Vanaga (12.4.), M. Podvinska, M. Jansons, J. Nalivaiko (12.6.), G. Sproģis, I. Biukšāne (13.), N. Balinskis (14.), I. Eglītis, A. Viņjazeva (17.).

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Not all of the issues addressed in the Report have been assessed by the Cabinet of Ministers, therefore, some of the conclusions regarding Latvia's economic development and the proposals for further action reflect solely the opinion of the specialists of the Ministry of Economics.



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OPENING STATEMENT

We would like to deliver for your consideration the *Report on the Economic Development of Latvia 2025* prepared by the experts of the Ministry of Economics. The Report assesses the economic situation and also provides forecasts for future economic development.

Latvia's socio-economic development in recent years has been challenging, but it has also demonstrated the country's resilience. Global developments, including economic volatility, rising inflation and geopolitical shocks, have affected the pace of growth.

Despite the difficult geopolitical situation and uncertainty, statistics show that **Latvia's economy is gradually returning to growth**. In Q1-Q3 2025, the gross domestic product (GDP) was 1.7% higher than a year earlier. Latvia is benefiting from increased inflows of EU funds, improving conditions in external markets, and the government's economic stimulus measures, particularly in the areas of lending and investment. The introduction of the bank solidarity tax has encouraged credit institutions to engage more actively in financing the economy's needs. The Ministry of Economics forecasts that, over the next two years, the economy will grow by at least 2–3%, despite the unfavourable geopolitical situation, and that thereafter, as economic reforms begin to bear fruit, growth will reach 4–5% per year, thus achieving the planned level of economic growth.

To pursue the government's economic objective, i.e. to double Latvia's economy by 2035, **the Ministry of Economics is implementing several measures to accelerate Latvia's economic development and improve the population's welfare**. Access to finance for businesses is significantly improved and investment is actively attracted to the economy. The key elements for achieving the objectives are strengthening Latvia's security, developing green industry, promoting regional specialisation and the development of Riga's potential, reducing bureaucracy, increasing business productivity and export capacity, implementing major reforms in human capital development, introducing innovation, advanced technologies, digitalisation and artificial intelligence, as well as ensuring modern infrastructure.

To strengthen Latvia's security, **the Ministry of Economics has already allocated more than 270 million euro to its programmes to support the defence industry**, ranging from business incubation and research and development to the introduction of products into manufacturing and major investment projects. A new support programme for the development of industrial capacity is currently being prepared to provide loans with a capital rebate and guarantees with a capital rebate for projects in the military or civil defence sectors, as well as for dual-use product projects in order to implement scalable solutions. The programme will be financed with 40 million euro, and support will be provided by the development finance institution Altum. Businesses will be able to apply for support starting from 2026.

To promote high-value-added and export-oriented investment in Latvia, **the fast-track initiative "Green Channel" is being further improved**: more flexible eligibility criteria for businesses have been introduced, and the range of public services available on a priority basis and within shortened time limits has been expanded. Additional priority has been granted to defence industry companies. This enables defence investment projects (subject to the approval of the Ministry of Defence) to obtain certain public sector services (such as construction permits, spatial planning service and residence permits) under an accelerated procedure.

In July 2025, the Cabinet of Ministers approved the *Action Plan for the Development of the Capital Market and Access to Finance in the Economy*, which sets the **target to increase the balance of loans to non-financial corporations** to 17% of GDP and the accumulated foreign direct investment in equity capital of Latvian companies to 32 billion euro **by 2029**. To achieve the objectives set out in the plan, 15 tasks have been identified, both to raise investment and to facilitate access to finance. These tasks are currently being actively implemented. The most important works include the preparation of proposals for the establishment of an international partnership fund, which would enable foreign investors to provide reliable and competent intermediation services for the development of projects in various sectors in Latvia, as well as the establishment of an equity fund by Altum, attracting investments from private pension fund managers.

The Ministry of Economics oversees the Recovery and Resilience Facility, the EU Funds (2021-2027) and the national budget for supporting entrepreneurs for promoting productivity, digitisation, energy efficiency, export capacity and competitiveness. **In the last two years, over 6118 companies have received support from the support programmes of the Ministry of Economics in the form of grants and financial instruments**. 469 million euro from the EU funds and 258 million euro from the EU private funding have been invested during this period. Support programmes will continue to be available in the coming years. In addition to ensuring access to finance, the collateral requirements for projects of small and medium-sized enterprises up to 100 thousand euro have been significantly eased, raising Altum funding (for start-up and growth loans) for their development.

From February 2024 to September 2025, **907 small and medium-sized enterprises have received support** under the EU Funds Programme Support for Innovative SME Business Development, **promoting their innovation and export capacity** through 119 export promotion activities abroad. The programme aims to ensure access to finance for the implementation of business ideas, promoting the development of medium and high-tech, as well as creative industries and export growth, thus driving Latvian entrepreneurship towards the goals of the Smart Specialisation Strategy. In addition, a programme “Support regulations for market participation activities” has been developed, which will help increase the share of large export-oriented companies and raise foreign investment starting from 2026.

The Investment Fund continues to operate to provide investments in large and export-oriented projects that are important for the economy. So far, 28 projects for almost 737 million euro have been approved, aiming to provide more than 1300 well-paid jobs and at least 430 million euro in exports annually, as well as investment in research and development of 18 million euro.

To promote the transformation of the Latvian economy towards smart specialisation areas and to develop the competitive advantages related to technology and innovation, **the Ministry of Economics has developed five support programmes for research activities** with a total allocation of 166.9 million euro. The support is intended for the development of new or significantly improved innovative products, including dual-use products. In addition, Latvia is involved in the implementation of IPCEI, Important Projects of Common European Interest, which not only contribute significantly to the development of innovation at the national level, but also promote the visibility of Latvian companies and research organisations in Europe and the world. To date, 420 research projects have been approved under the research support programmes, including 8 IPCEI projects and 25 dual-use research projects, of which more than 39 have been completed.

Startups are major contributors to innovation and investment in Latvia and are the driver of growth in today’s economy. At least 513 start-ups are currently operating in Latvia, which have created more than 4200 jobs and raised 71 million euro in investment, especially in information technology, manufacturing and professional services. **The Ministry of Economics, in close cooperation with representatives and organisations of this ecosystem, is implementing a unified start-up development strategy**, which includes activities to raise investment and attract talent, such as database development, training, investment sessions, and international conferences. Amendments to the aid law entered into force in 2025, providing for more flexible and targeted state support for the development of start-ups.

22 Latvia’s external economic representations abroad continue to work to support Latvian companies in increasing exports. Businesses are also offered services of the Enterprise Europe Network: assistance in searching for international partners, preparation of market information, consultations regarding laws and regulations, and business aspects, access to finance, etc. It should be noted that the Investment and Development Agency of Latvia has developed a national platform for business development *business.gov.lv*, where information is available on starting a business, development and possibilities of raising funding in Latvia, and the possibility to apply for services provided by the agency and various state aid programmes. Moreover, the platform is also expanded with services provided to entrepreneurs by other state institutions.

The work of the Coordination Council for Large and Strategically Important Investment Projects has been resumed, ensuring coordinated inter-departmental cooperation for the successful implementation of investment projects in Latvia’s national interest. **LIAA has been reorganised** to focus more on raising investment and promoting exports. In 2024, LIAA raised investments of 655 million euro. There have been 13 success stories in the first nine months of 2025 – investment projects, where specific foreign investors have already decided to invest in Latvia 181 million euro.

Recognising the crucial role of human capital in the development of a sustainable Latvian economy, **work on the implementation of a coordinated and data-driven human capital policy is being consistently continued**. It focuses on two horizontal components: data- and evidence-based decision-making and analytics, and the improvement of the human capital management model to promote employment. In parallel, the methodology for identifying adult learning needs is being developed to better match skills needed in the labour market with available supply. **Employer support programmes for upskilling, reskilling and skills improvement continue**. By the end of 2025, more than 1500 companies have already been involved in training and by mid-2026, at least 2800 companies are expected to be supported.

Investments of state-owned enterprises, investments in research and development, as well as strengthening export capacity, contribute to the sustainable growth and competitiveness of the Latvian national economy. In recent years, state-owned enterprises have been increasingly active in modernising and innovating, adding value and contributing to industry growth. To strengthen Latvia’s presence in export markets and its involvement in global supply chains, it is important to improve the regulatory framework, creating competitive conditions, facilitating the raising of capital and the implementation of development projects. This will enable public corporations to be an important driver of the country’s sustainable development.

The energy sector has grown rapidly in recent years, accounting for almost a third of global investment, and this is an indication of the huge potential of the energy sector. The “wave of investment” in this industry is a unique opportunity for Latvia to establish itself as a leading player in the global energy landscape. Hydrogen is a good example of how technologies that are in the process of growth can provide an opportunity for Latvia. The Latvian Investment and Development Agency’s development of the *ELWIND* offshore wind project in cooperation with Estonia demonstrates the joint work and commitment of two European Union countries to renewable energy sources, in particular offshore wind energy.

The provision of a fair competitive environment is considered to be an essential element in promoting competitiveness in the country. A pressing topic in the competition policy is to keep supervising that companies do not breach the law and act fairly, as well as fostering equal and non-discriminating competition between public persons (for example, state or local government capital companies) and the private sector. To target the prevention of the most serious competition law infringements in public procurement, prohibited agreements, more actively and purposefully, and to achieve a sufficient level of general and specific prevention, on 23 September 2025, the Cabinet of Ministers supported amendments to the Competition Law, which envisage imposing liability on the officials of market players. Such liability would increase the motivation of officials to take active steps to prevent violations or to cooperate with the Competition Council in discovering violations of competition law or in discovering the violations that have already been committed. The draft law has been submitted to the Saeima for consideration, and its adoption will be an important step towards strengthening the effectiveness and preventive effect of competition law.

The **refinancing regulation** developed and implemented by the Ministry of Economics **has proven to be particularly effective.** This has significantly increased people’s ability to reduce the cost of mortgages, while increasing competition in the lending market. Consumer activity has increased rapidly since the new regulation entered into force, with the terms of almost 10 thousand mortgages (with a total value of around 690 million euro or 14% of the total mortgage loan portfolio in Latvia) improving in January-August 2025. Existing lenders reduced interest rates on 8717 loans, while 639 borrowers opted to refinance with another lender, thus obtaining even better terms – on average 0.8 percentage points lower. These achievements show that the regulation developed by the Ministry of Economics has not only revived the long-awaited competition between banks but also provided real and tangible financial support to Latvian households.

The Ministry of Economics develops and implements measures to slow down the increase in the cost of living. A memorandum of understanding has been signed with several sectors and institutions to promote food accessibility, strengthen the position of local producers and ensure fair competition in the food supply chain, with a particular focus on lower-income households. The Consumer Rights Protection Centre monitors the enforcement of the memorandum, and amendments to the law have been developed for a more transparent pricing policy requiring that, from December 2025, large retailers regularly provide data on food prices and transactions to the Central Statistical Office to facilitate price monitoring and make it easier for consumers to choose the best deals.

To raise investment and improve the business environment, **the Ministry of Economics is implementing measures to reduce the administrative burden in real estate development** by strengthening the predictability of processes and the protection of developers’ rights. In 2025, the construction sector has seen major improvements: amendments to legislation promote energy certification of buildings, reuse of construction materials and introduce a uniform building registration process, reducing the administrative burden. The supervision of the competence of construction specialists and independent experts has been strengthened, the deadlines for addressing infringements have been clarified, and standard designs have been developed for the renovation and energy efficiency improvement of multi-apartment buildings. A sector strategy for 2025-2030 has been adopted for sustainable development and increased competitiveness.

The substantial revision of the construction process from 1 July 2025 reduced requirements in the Building Information System, simplified circulation of documents, enabled acceptance of covered works with a single act unless otherwise agreed. The amendments to the law provide for clearer technical regulations, improved author supervision and the possibility to start engineering works before the construction design is fully approved. These changes reduce costs, speed up processes and make the construction environment more attractive for investors. From 2025, building registration has been fully digitalised. It is a one-stop-shop process that will significantly reduce the registration time to 10-15 days. From 2025, building information modelling has become mandatory for major projects funded by public customers, which will contribute to digitisation, better planning, efficiency and innovation in the sector.

Measures are being implemented to promote housing affordability – by the end of 2029, local governments will renovate and construct at least 1952 social houses using state aid, significantly shortening queues for vulnerable population groups. Additional funding is also available for the development of low-rent housing that helps middle-income households. Changes to Altum’s guarantee programme have made mortgage loans more accessible to young professionals and families with children, while from October 2025 a special programme has been introduced in the regions to facilitate home purchases outside Riga and Pierīga.

A total of 367 million euro is planned to be invested in support programmes supervised by the Ministry of Economics for energy efficiency support. Support is earmarked for the renovation of multi-apartment buildings, energy efficiency measures in public buildings, including cultural buildings, and also for sustainable business development, the use of renewable energy sources and energy efficiency improvements. There are about 40 thousand multi-apartment buildings, half of which were built during the Soviet period, but only about 26 thousand of such buildings would be worth renovating. 1403 buildings were renovated from 2009 to 2025, investing more than 500 million euro. Around 450 other buildings are currently under renovation, bringing the total to around 1900. According to the European Commission's Renovation Wave and Fit for 55 strategies, to approach climate neutrality by 2050, Latvia needs to renovate at least 2000 multi-apartment buildings by 2030.

To achieve the objectives set, **the Ministry of Economics is actively creating a dialogue with entrepreneurs, non-governmental organisations, and other members of the community.**

In this Report you will find information on the most important economic and social indicators of Latvia, the development of industries and the external economic environment, the government's economic policy, and the main instruments of its implementation.

I would like to express my gratitude to the authors of the Report!

Viktors Valainis,
Minister of Economics

December 2025

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ABBREVIATIONS, MEASUREMENT UNITS, AND SYMBOLS

| | | | |
|----------|--|--------|---|
| Altum | Joint Stock Company “Development Finance Institution Altum” | MoES | Ministry of Education and Science |
| RRF | Recovery and Resilience Facility | CF | Cohesion Fund |
| UN | United Nations | CC | Competition Council |
| JSC | Joint Stock Company | kWh | Kilowatt-Hour |
| USA | United States of America | LIAA | Investment and Development Agency of Latvia |
| FICIL | Foreign Investors Council in Latvia | MoW | Ministry of Welfare |
| FDI | foreign direct investment | CM | Cabinet of Ministers |
| BIM | Building Information Modelling | MIP | Macroeconomic Imbalances Procedure |
| BIS | Building Information System | Mtoe | megaton oil equivalent |
| AMR | Alert Mechanism Report | SME | small and medium-sized enterprises |
| SCCB | State Construction Control Bureau | MWh | Megawatt-Hour |
| CSB | Central Statistical Bureau | NDP | National Development Plan of Latvia |
| DESI | Digital Economy and Society Index | NATO | North Atlantic Treaty Organization |
| ECB | European Central Bank | SEA | State Employment Agency |
| EDIH | European Digital Innovation Hub | CIS | Commonwealth of Independent States |
| EEA | European Economic Area | OECD | Organisation for Economic Co-operation and Development |
| EC | European Commission | OPEC | Organization of the Petroleum Exporting Countries |
| MoE | Ministry of Economics | OPEC+ | Countries of the Organization of the Petroleum Exporting Countries (OPEC) and 10 more oil-producing countries |
| ERDF | European Regional Development Fund | R&D | research and development |
| EU | European Union | CPI | Consumer Price Index |
| EU-14 | European Union Member States before the enlargement in 2004 | PJ | petajoule |
| EU-27 | European Union Member States after the withdrawal of the United Kingdom on 1 February 2020 | PPS | Purchasing Power Standard |
| EU-28 | European Union Member States and United Kingdom | CRPC | Consumer Rights Protection Centre |
| ESF | European Social Fund | RIS3 | National/regional research and innovation strategies for smart specialisation |
| EUR | euro | LLC | Limited Liability Company |
| Eurostat | Statistical Office of the European Union | SOLVIT | EU Internal Market Problem Solving System |
| MoF | Ministry of Finance | STEM | science, technology, engineering, and mathematics |
| FSP | Fiscal Structural Plan | IMF | International Monetary Fund |
| GCI | Global Competitiveness Index | MoJ | Ministry of Justice |
| GWh | Gigawatt-Hour | TRIS | Technical Regulations Information System |
| GDP | gross domestic product | CIT | Corporate Income Tax |
| ICT | information and communication technologies | ULC | unit labour costs of products |
| IMI | Internal Market Information System | MoEPRD | Ministry of Environmental Protection and Regional Development |
| | | MoA | Ministry of Agriculture |

PART I. ECONOMIC DEVELOPMENT TRENDS

1. ECONOMIC DEVELOPMENT TRENDS – SUMMARY

Stable economic growth in Latvia with rates exceeding the EU average was observed in Latvia before the COVID-19 pandemic. From 2013 to 2019, GDP was growing by an average of 2.7% per year. However, the COVID-19 pandemic had a significant impact on economic development at both global and Latvian levels – Latvia’s GDP decreased by 3.5% in 2020. Latvia’s economy recovered in 2021, and GDP grew by 6.9% thanks to the extensive government and EU funds support measures, as well as the improvement of the epidemiological situation.

Russia’s invasion of Ukraine has created significant challenges for economic development. Economic growth slowed significantly to just 1.9% in 2022, driven by a slowdown in global demand, supply chain disruptions, and rising energy and food prices. In 2023, geopolitical uncertainty, high prices and rising bank interest rates continued to dampen growth, resulting in a 0.9% reduction of GDP. Although inflation rates stabilised, the unfavourable external environment caused the economy to continue to contract in the first half of 2024, but GDP has started to grow again from the second half of the year. Overall, GDP remained at the previous year’s level in 2024.

The revival of the economic activity shows that the Latvian economy has managed to overcome the turbulence of recent years. GDP increased by 1.7% in Q1-Q3 2025 compared to the corresponding period of the previous year. This growth was largely driven by an increase in investment. In addition, a slight acceleration in growth in Latvia’s main trading partners, as well as government stimulation measures, especially in the areas of lending and investment, have also helped to boost economic activity.

Table 1.1

| Latvia: Key Figures of Economic Development | | | | | | | | |
|--|------|------|------|------|------|------|-------|-------|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025f | 2026f |
| Gross domestic product (at current prices, billion euro) | 29.6 | 29.2 | 32.3 | 36.1 | 39.6 | 40.4 | 42.4 | 44.4 |
| <i>changes as per cent</i> | | | | | | | | |
| Gross domestic product | 0.7 | -3.5 | 6.9 | 1.9 | -0.9 | 0.0 | 1.8 | 2.2 |
| Private consumption | -0.1 | -4.8 | 8.1 | 5.1 | -0.9 | 0.1 | 0.4 | 2.1 |
| Public consumption | 5.6 | 3.9 | 3.7 | 0.4 | 2.5 | -0.4 | 2.5 | 2.3 |
| Gross fixed capital formation | 1.3 | -2.4 | 6.8 | 0.3 | 5.0 | -7.0 | 8.7 | 4.8 |
| Export | -0.6 | -0.3 | 9.1 | 11.4 | -7.0 | 0.1 | 0.9 | 3.5 |
| Import | 2.0 | -1.1 | 15.1 | 9.9 | -5.0 | -1.8 | 5.1 | 4.4 |
| Consumer prices | 2.8 | 0.2 | 3.3 | 17.3 | 8.9 | 1.3 | 3.7 | 2.5 |
| <i>as a percentage in relation to the GDP, unless indicated otherwise</i> | | | | | | | | |
| General government sector balance | -0.2 | -4.1 | -7.2 | -4.9 | -2.4 | -1.8 | -2.9* | -3.3* |
| General government debt | 37.9 | 44.0 | 45.9 | 44.4 | 44.4 | 46.6 | 49.7* | 52.5* |
| Export-import balance | -0.2 | 1.4 | -3.2 | -4.9 | -3.7 | -1.6 | -4.0 | -4.7 |
| Changes in the number of the employed (15-74 years of age, % compared to the previous year) | 0.1 | -1.9 | -3.2 | 2.6 | -0.2 | -0.8 | 0.5 | 0.2 |
| Employment rate | 65.0 | 64.2 | 62.5 | 63.9 | 64.2 | 64.0 | 64.4 | 64.7 |
| Unemployment rate (unemployed, % of the economically active population, 15-74 years of age) | 6.3 | 8.1 | 7.6 | 6.9 | 6.5 | 6.9 | 6.8 | 6.5 |
| Average gross wage changes (% compared to the previous period) | 7.2 | 6.2 | 11.8 | 7.5 | 11.9 | 9.9 | 7.9 | 7.3 |
| f – forecast, *MoF evaluation | | | | | | | | |

The Ministry of Economics predicts that the euro area economy is expected to grow 1.8% in 2025, while growth rates will reach 2.2% in 2026. According to the forecasts for 2026, a number of factors are expected to contribute to the improvement of the economic situation in Latvia. First, exports are expected to increase as external demand is expected to recover and stabilise in Latvia's main export markets. Second, investment flows will remain high, thanks to both more efficient absorption of EU funds and private sector activity. Third, lending will continue to expand stimulating business expansion and the creation of new jobs. Structural improvements and support measures by governments in the areas of innovation, digitisation and the green economy will also play a key role in promoting sustainable growth.

Private consumption growth in Latvia remains sluggish, despite the rise in real wages. High price levels, inflation expectations and geopolitical uncertainty have a bearing on consumer caution. With inflation stabilising and the population's real incomes rising, private consumption increased slightly (by 0.1%) in 2024 and increased by 0.4% in Q1-Q3 2025 compared to the corresponding period of the previous year.

Public consumption is volatile. In 2024, it declined by 0.4%, while in Q1-Q3 2025 it increased by 3%.

Investment activities in the Latvian economy are significantly affected by changes in the geopolitical situation, availability of financing and production resources, as well as other external and internal factors. Investment fell by 7% in 2024, affected significantly by a decline in private investment. Thanks to both faster absorption of EU funds and the activation of private sector lending, investment increased by 9% in Q1-Q3 2025 compared to the same period last year. Investment in housing, other buildings and structures increased by 8.6% and in machinery and equipment, including transport equipment, – by 10.6%. Investment in intellectual property products (research, computer software, databases, copyright, etc.) increased by 1%.

At the end of September 2025, foreign direct investment accrued in the Latvian economy reached 26.5 billion euro, i.e. 63% of GDP. It grew by 1.1% compared to the end of 2024, mainly underpinned by the increase in investment in energy, as well as trade and financial services sectors. The geopolitical structure of FDI accrued is relatively stable. Investments of businesses from the EU countries dominate, amounting to 85.5% of the total FDI accrued in the Latvian economy at the end of September 2025.

The situation in the external environment adversely affects exports. The increase in exports of goods and services grew by only 0.1% in 2024. Exports increased by 0.8% in Q1-Q3 2025 compared to the corresponding period of the previous year. Exports of services rose by 3%, while exports of goods fell by 0.1%.

In January-September 2025, exports of goods increased to Latvia's main export market – the EU and other countries, but decreased to CIS countries, including Russia. The main export goods to the EU countries are wood and wood products, electrical appliances and equipment, vehicles, and mineral products. Most of exports to the CIS countries are beverages and pharmaceuticals, while exports to other countries are wood and wood products, mineral products, electrical appliances, machinery and cereals.

Exports of services by country group are increasingly concentrated on the EU countries. They accounted for 61% of all services exports in 2019 and for 65% in the first half of 2025. Brokering services, road transport, travel, ICT and air transport account for a large share of services exports to EU countries. Exports of services to CIS countries, mostly transit services, account for an increasingly smaller share. It should be noted that the share of services exports to the CIS countries has fallen from 12% in 2019 to 5.1% in the first half of 2025.

Imports are growing rapidly in 2025. Imports grew by 5.6% y-o-y in Q3 2025, including imports of goods grew by 4.3% and imports of services grew by 10.7%. Latvia's main import partners are Lithuania, Germany, Poland, Estonia, Finland, the Netherlands and China. Imports from these countries accounted for more than 2/3 of Latvia's total imports of goods in January-September 2025. Latvia's main import partners for services are Ireland, Germany, Lithuania, Estonia, Poland, the United States and the United Kingdom. Imports of services account for around 2/3 of imports from EU countries. It should be noted that imports of services from Russia are gradually declining – from 173 million euro (4.8% of total services imports) in 2021 to 5 million euro (0.2%) in the first half of 2025.

The current account deficit has been on a declining trend in recent years – it reached 1.6% of GDP in 2024. However, in January-September 2025, the current account deficit increased again to 3.6% of GDP. Current account dynamics are currently affected by external challenges – instability in export markets and rising imports linked to increased investment and domestic consumption. However, in the medium term, as exports grow and imports slow, the deficit will gradually narrow and stabilise at a sustainable level of around 2% of GDP.

Development trends across sectors vary considerably. In 2024, manufacturing sectors declined by 1.5%, largely due to weak export opportunities, while services sectors grew by 0.4%. In terms of industries, the largest positive contribution came from agriculture and forestry, trade, financial and insurance activities, human health and social work activities, public administration and defence activities. Manufacturing, transportation and storage, as well as ICT, education and real estate activities declined.

Total value added increased by 1.7% in Q1-Q3 2025 compared to the corresponding period of the previous year. Manufacturing sectors showed an increase by 2.1%, while services sectors – by 1.5%. The largest contributors to value added growth were construction, manufacturing, trade, information and communication, as well as accommodation and food service activities. The most significant decline with the most impact was in agriculture and forestry, as well as arts, entertainment and recreation, and health.

In 2025, construction is one of the most important drivers of growth in Latvia, showing a significant growth of 8.5% in Q1-Q3 2025 compared to the same period last year. The main driver of the sector's growth is the rapid activity in infrastructure projects, including the construction of roads, bridges and power supply. Manufacturing has shown positive trends, growing by 4.1% over the period. Manufacturing volumes in almost all manufacturing sub-sectors have risen in Q1-Q3 of the year. The fastest growth is in manufacture of other non-metallic mineral products, manufacture of vehicles and the two largest subsectors – wood processing and food industry.

The information and communication sector showed growth of 3.5% in Q1-Q3 2025. Similarly, positive trends can be observed in the accommodation and food services activities, which grew by 4.4%, and in trade – with an increase of 2.8%. Several other service sectors have also shown growth. Mining and quarrying, where value added fell by 13.8%, and agriculture and forestry, which recorded a fall of 2.6%, were negatively affected by adverse weather and other factors. Transportation and storage contracted by 0.4%, reflecting a slowdown in activity in the logistics sector.

After a sharp increase during the COVID-19 pandemic, the government deficit is gradually returning to more moderate levels. In 2024, the budget deficit reached 700 million euro or 1.8% of GDP. The Saeima approved the budget for 2025 with a deficit of 2.9% of GDP. The Saeima has approved a budget for 2026 with a deficit of 3.3% of GDP. Over the medium term, it is expected to be around 3.6% of GDP. The increase in the deficit is mainly due to additional funding for strengthening national defence and security.

The general government debt in Latvia is among the EU's lowest. The outbreak of COVID-19 caused the need to provide considerable amounts of funding to mitigate the impact caused by the COVID-19 crisis. Government debt increased to 45.9% of GDP or 14.8 billion euro in 2021. Since the nominal GDP increase under high inflation conditions was rapid, its ratio to GDP reduced in the following years – to 44.4% in 2023. The general government debt in 2024 amounted to 18.8 billion euro or 46.6% of GDP. The debt provision of 60% of GDP defined in the *Fiscal Discipline Law* is expected to be observed in the medium term.

Inflation is mostly affected by rising global energy and food prices. In December 2024, compared to December of the previous year, consumer prices rose by 3.3%. The increase in total prices of services during the year came from the increase in the prices of services by 6.3% and the increase in prices of food and non-alcoholic beverages by 5.5%. By contrast, annual average inflation in 2024 was significantly lower than in 2023 and was 1.3%.

In 2025, the annual average inflation is generally higher than in 2024, reaching 3.7% in November. In January-November 2025, the main drivers of price increases were rising prices of services (especially housing and medical, as well as food service activities, recreation and telecommunication), higher prices of food and non-alcoholic beverages, and higher prices of housing-related energy. Prices of fuel and transport services fell slightly. Changes in food prices in Latvia reflected global trends, with meat and vegetable oil prices rising and sugar and cereal prices falling. In the energy market, electricity prices increased mainly due to rate changes, gas and heat prices increased slightly, while prices of solid fuels declined. Global oil prices declined during the year, contributing to the overall stability of fuel prices.

Given the unfavourable situation in external markets, labour market activities slightly decreased in 2024. The number of employees decreased by 0.8% or 6.8 thousand, while the unemployment rate increased by 0.4 percentage points – to 6.9%. The decrease in employment was largely influenced both by the economic situation and the factors of the labour market supply side – the decrease of the working-age population, as well as the decrease of the total labour supply.

Along with the increase in economic activities, the situation in the labour market improved in 2025. In Q3 2025, the number of employees increased by 1.4% or 12 thousand compared to Q3 2024, which was the fastest annual growth since the end of 2022. The unemployment rate of the population in Q3 2025 increased to 6.9%, up 0.2 percentage points from Q3 2024. The total number of the unemployed reached 66.2 thousand persons aged 15-74, which was 2.5 thousand higher than in the previous quarter. The slight increase in unemployment in Q3 2025 is mainly due to an increase in the economic activity of the population and an increase in the total labour supply in the labour market.

Despite the still heightened economic uncertainty, the labour market in Latvia remained on a stabilising trend in Q3 2025. After significant improvements in Q2 and Q3, both the employment rate and economic activity of the population continued to increase, pointing to an overall resilience of the labour market. Although unemployment rose slightly in Q3, this was largely due to supply-side factors and the increase in economic activity. The number of long-term unemployed has increased, partly reflecting a rise in structural unemployment in the labour market, so labour shortage risks remained topical despite the increase in overall labour supply.

The overall labour market situation is expected to remain positive also at the end of the year, but a significant increase in labour demand is no longer expected in the last quarter of the year.

The average monthly gross wage continues to increase. The net average wage in 2024 was 1221 euro or 72.4% of gross wage, and it increased by 9% during the year, outpacing the rise in consumption prices. The increase in real net wage, taking account of inflation, was 7.6%.

In Q3 2025, the average gross wage in the country was 1835 euro. Compared to Q3 2024, the average monthly wage increased by 132 euro or 7.8%. Wage growth has been slightly faster in the private sector. The increase in real net wage, taking account of inflation, was 6.3%.

Positive impact on wages will continue to be maintained both by the process of wage convergence closer to the wage level of the economically developed countries of the EU, and by the growing shortage of qualified labour – the narrowing of the labour market, which makes it necessary for entrepreneurs to think more actively not only about how to attract new specialists, but also how to keep the existing ones, including through a review of wage rates.

Further economic development in the medium term depends on the situation in the external environment and progress in reforms. The highest risk to the growth of Latvia is related to global economic development, particularly the geopolitical situation. Further development of the EU's total economic space is similarly important. In the medium term, Latvia's growth rates may potentially reach a 4-5% increase per year. If the war in Ukraine endures, the pace of economic recovery might be slower.

2. GLOBAL ECONOMIC DEVELOPMENT

The rules of the **global** economy¹ and the trade environment are undergoing major changes. The US administration’s unilateral import tariffs on almost all of its trading partners mark a significant departure from its core trade commitments. Tariff barriers can affect the EU economy both directly by reducing the volume of goods exported to the United States, and indirectly through the transmission of the effects of US tariffs against third countries.

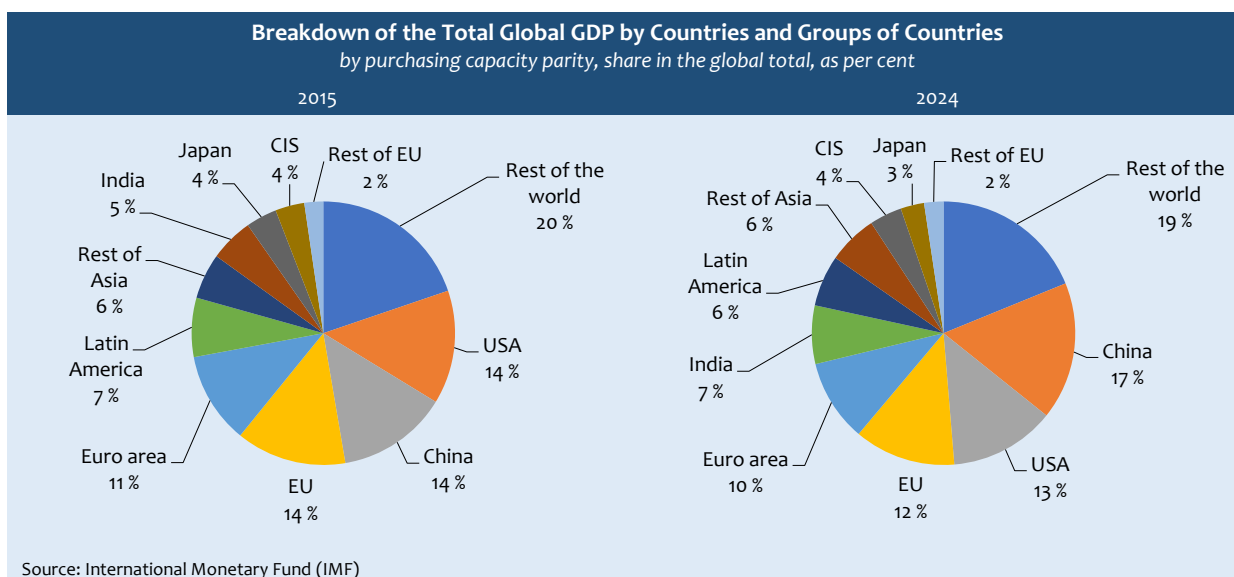
Table 2.1

| GDP Growth Rate year-on-year changes, as per cent | | | | | |
|--|------------|------------|------------|------------|------------|
| | 2022 | 2023 | 2024 | 2025f | 2026f |
| World, including: | 3.6 | 3.4 | 3.3 | 3.1 | 3.1 |
| USA | 2.5 | 2.9 | 2.8 | 1.8 | 1.9 |
| United Kingdom | 5.1 | 0.3 | 1.1 | 1.4 | 1.2 |
| EU, including: | 3.5 | 0.4 | 1.1 | 1.4 | 1.4 |
| Euro area | 3.6 | 0.4 | 0.9 | 1.3 | 1.2 |
| Japan | 1.0 | 1.2 | 0.1 | 1.1 | 0.7 |
| China | 3.1 | 5.4 | 5.0 | 4.8 | 4.6 |

Source: EC European Economic Forecast, Autumn 2025
f – forecast

The global manufacturing sector faces significant supply chain risks from non-tariff restrictions, in particular from China. Rare earths and other critical minerals are mostly mined in China, which accounted for around 60% of global mining in 2024. China’s dominance is even more pronounced, with over 90% of global production in the separation and refining of rare earths, as well as in the production of rare earth permanent magnets, which are widely used in industries such as automotive and defence. These factors, as well as the uncertain geopolitical situation in the context of the Russia-Ukraine war, are posing increasing challenges to EU’s economic growth. The EC forecasts global growth of 3.1% in 2025 and 2026.

Figure 2.1



¹ Unless other source is specified, the data in this chapter is taken from the EC edition European Economic Forecast. Autumn 2025: https://economy-finance.ec.europa.eu/publications/european-economic-forecast-autumn-2025_en

The US economy is projected to expand at a rate of just below 2% per year in 2025 and 2026. While higher imports tariffs, immigration curbs and policy uncertainty are expected to negatively impact growth, these factors are counterbalanced by an accommodative fiscal and monetary policy, a strong AI-related investment momentum, and a narrower trade deficit (in 2026). For 2027, the fading drag from tariffs and a supportive policy could boost real GDP growth to 2.1%.

Table 2.2

| Main Macroeconomic Indicators of the EU Member States | | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|-------------------|------------|------------|
| as per cent | | | | | | | | | |
| | Real GDP | | | Inflation | | | Unemployment rate | | |
| | 2025 | 2026f | 2027f | 2025 | 2026f | 2027f | 2025 | 2026f | 2027f |
| ES | 1.4 | 1.4 | 1.5 | 2.5 | 2.1 | 2.2 | 5.9 | 5.9 | 5.8 |
| Euro area | 1.3 | 1.2 | 1.4 | 2.1 | 1.9 | 2.0 | 6.3 | 6.2 | 6.1 |
| Austria | 0.3 | 0.9 | 1.2 | 3.5 | 2.4 | 2.2 | 5.6 | 5.5 | 5.3 |
| Belgium | 1.0 | 1.1 | 1.3 | 2.8 | 1.8 | 2.0 | 6.0 | 6.2 | 6.1 |
| Bulgaria | 3.0 | 2.7 | 2.1 | 3.5 | 2.9 | 3.7 | 3.5 | 3.7 | 3.3 |
| Czech Republic | 2.4 | 1.9 | 2.4 | 2.3 | 2.1 | 2.4 | 2.7 | 3.0 | 3.1 |
| Denmark | 2.0 | 2.1 | 1.7 | 1.9 | 1.0 | 1.8 | 6.1 | 6.1 | 6.0 |
| France | 0.7 | 0.9 | 1.1 | 1.0 | 1.3 | 1.8 | 7.6 | 8.0 | 8.2 |
| Greece | 2.1 | 2.2 | 1.7 | 2.8 | 2.3 | 2.4 | 9.3 | 8.6 | 8.2 |
| Croatia | 3.2 | 2.9 | 2.5 | 4.3 | 2.8 | 2.2 | 4.7 | 4.5 | 4.6 |
| Estonia | 0.6 | 2.1 | 2.0 | 4.8 | 2.8 | 2.2 | 7.6 | 7.2 | 7.1 |
| Italy | 0.4 | 0.8 | 0.8 | 1.7 | 1.3 | 2.0 | 6.2 | 6.1 | 6.1 |
| Ireland | 10.7 | 0.2 | 2.9 | 1.9 | 1.9 | 1.7 | 4.6 | 4.7 | 4.7 |
| Cyprus | 3.4 | 2.6 | 2.4 | 0.9 | 1.5 | 1.9 | 4.7 | 4.5 | 4.3 |
| Latvia | 1.0 | 1.7 | 1.9 | 3.6 | 2.2 | 2.4 | 6.8 | 6.6 | 6.5 |
| Lithuania | 2.4 | 3.0 | 2.2 | 3.4 | 2.8 | 2.7 | 7.1 | 6.8 | 6.8 |
| Luxembourg | 0.9 | 1.9 | 2.2 | 2.3 | 1.7 | 1.9 | 6.6 | 6.7 | 6.5 |
| Malta | 4.0 | 3.8 | 3.5 | 2.4 | 2.1 | 2.0 | 3.0 | 2.9 | 2.9 |
| Netherlands | 1.7 | 1.3 | 1.7 | 3.0 | 2.5 | 2.1 | 3.9 | 4.1 | 4.3 |
| Poland | 3.2 | 3.5 | 2.8 | 3.4 | 2.9 | 3.7 | 3.1 | 3.1 | 3.0 |
| Portugal | 1.9 | 2.2 | 2.1 | 2.2 | 2.0 | 2.0 | 6.3 | 6.2 | 6.1 |
| Romania | 0.7 | 1.1 | 2.1 | 6.7 | 5.9 | 3.8 | 6.1 | 5.8 | 5.6 |
| Slovakia | 0.8 | 1.0 | 1.4 | 4.2 | 4.1 | 3.1 | 5.4 | 5.6 | 5.6 |
| Slovenia | 1.0 | 2.4 | 2.6 | 2.5 | 2.3 | 2.1 | 3.4 | 3.5 | 3.5 |
| Finland | 0.1 | 0.9 | 1.2 | 1.9 | 1.6 | 2.0 | 9.5 | 9.3 | 9.0 |
| Spain | 2.9 | 2.3 | 2.0 | 2.6 | 2.0 | 2.0 | 10.4 | 9.8 | 9.6 |
| Hungary | 0.4 | 2.3 | 2.1 | 4.5 | 3.6 | 3.5 | 4.5 | 4.4 | 4.3 |
| Germany | 0.2 | 1.2 | 1.2 | 2.3 | 2.2 | 1.9 | 3.6 | 3.5 | 3.3 |
| Sweden | 1.5 | 2.6 | 2.3 | 2.5 | 0.6 | 1.6 | 9.0 | 8.4 | 7.9 |

Source: EC – European Economic Forecast. Autumn 2024
f – forecast

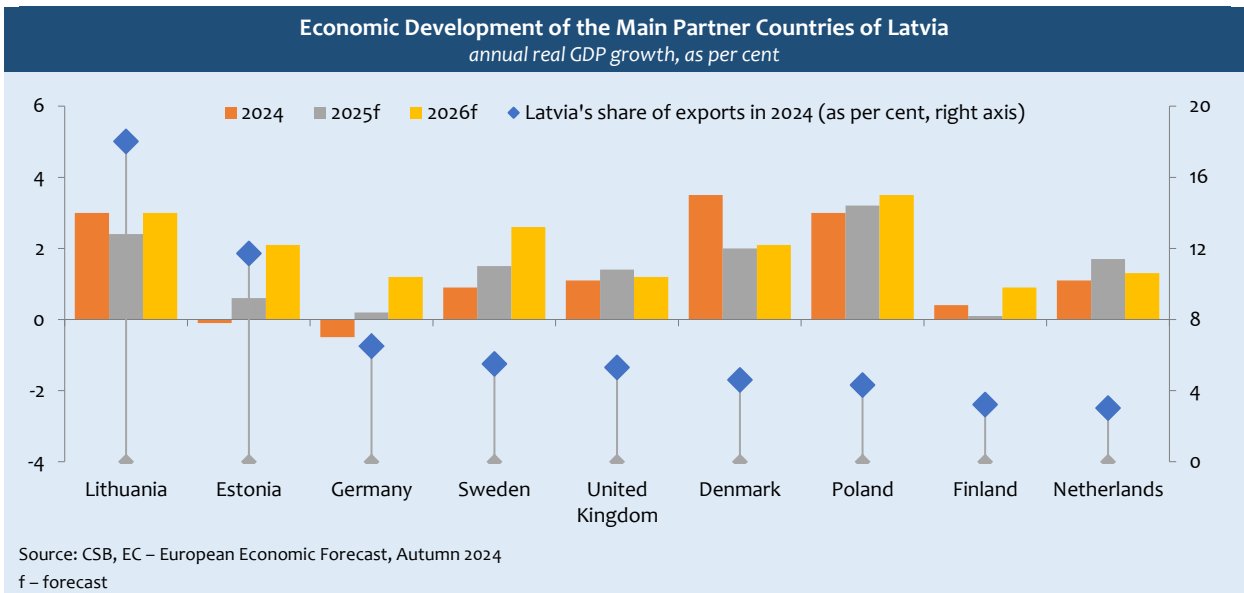
China's economy is expected to remain resilient but dependent on policy support and external demand. Growth is projected to moderate as the property downturn, weak confidence, and entrenched deflation continue to constrain domestic demand. While policy efforts are set to focus on infrastructure and credit expansion, these measures offer diminishing returns amid rising debt and structural inefficiencies. Without stronger household income growth or private sector recovery, momentum is expected to remain fragile.

Over the medium term, adverse demographics, high leverage, and trade tensions present growing risks to China's economic outlook and highlight the limits of its policy-driven growth model. Growth is projected to ease further in Q4 2025, bringing full-year growth to a projected 4.8%. This gradual slowdown is expected to continue, though less markedly than previously anticipated, with growth now projected to moderate to 4.6% in 2026 and 4.4% in 2027.

Japan's economy rebounded in early 2025 after stagnating in 2024, supported by resilient household spending, investment, and stronger car exports. Growth is expected to moderate to 0.7% in both 2026 and 2027. Domestic demand will remain the main driver of growth, supported by private consumption underpinned by real wage gains in a tight labour market. Investment is expected to continue expanding, driven by spending on labour-saving technologies, decarbonisation and digital transformation, aided by government subsidies. However, US trade restrictions are expected to restrain export growth as exporters' shrinking profit margins limit their ability to absorb the tariff shock. With import growth easing alongside moderating consumption, net exports are set to be broadly neutral for growth in 2026-2027, while the current account surplus is projected to fall below 4% of GDP.

The **euro area** economy is expected to grow 1.2% in 2026, while growth rates will increase to 1.4% in 2027.

Figure 2.2



After two years of contraction, the **German** economy is set to broadly stagnate in 2025 and rebound with 1.2% GDP growth in 2026 and 2027. The positive effects of a ramp-up in public spending are partly counterbalanced by the negative impact of trade tensions, which are expected to impact exports. Expansionary fiscal policy and real wage growth will boost private consumption. Meanwhile, investment is projected to contract in 2025 due to weak economic sentiment and high uncertainty, with a gradual recovery expected over time as consumption and public investment accelerate.

Economic activity in **Sweden** is projected to pick up from the second half of 2025, primarily driven by a rebound in private consumption. Real GDP growth is set to increase from 1.5% in 2025 to 2.6% in 2026 and reach 2.3% in 2027. With previous inflationary pressures having fallen away, HICP inflation will fall markedly in 2026 on the back of lower VAT on food and remain below 2% in 2027. The labour market is expected to strengthen, in line with the economic recovery. In view of tax reductions and a marked increase in expenditure, notably on defence, the general government deficit is projected to reach 2.4% of GDP in 2026, before moderating somewhat in 2027.

UK real GDP expanded above expectations in the first half of 2025 and is now expected to grow by 1.4% for the year as a whole. However, growth rates remain weak and growth in private consumption is subdued. Fiscal policy continues to tighten, while monetary policy is loosening only gradually due to high inflation. The annual growth rate is projected to soften a little to 1.2% in 2026, before edging back up to 1.4% in 2027.

Ukraine 's economy continued to demonstrate resilience also this year, considering the duration and intensity of Russia's war of aggression. Domestic demand remained dynamic, with private consumption, wages and investment all growing in real terms. However, growth weakened in the first half of 2025 as intensified attacks on critical infrastructure disrupted energy supply, while agricultural output fell, resulting in a GDP growth forecast of 1.6% for 2025. The prolonged war is set to weigh on domestic productive capacity throughout 2026 with growth projected at 1.5%, before rebounding to 4.7% in 2027 when reconstruction efforts are expected to start in earnest. Inflation is projected to rise to 13% in 2025, driven by surging food prices and energy and labour costs, but is expected to gradually ease from 2026 onwards. Persistent spending needs are expected to keep the public deficit elevated throughout the forecast horizon.

In 2025, the **Baltic countries** have among the highest food and services inflation rates. Over the next 2 years, it is expected to reach an average of 2.5% in the Baltic countries.

Lithuania's economy is expected to continue growing over the forecast horizon, supported by private consumption, which will be driven by increasing real wages and the release of the second pillar pensions. Despite geopolitical uncertainty, investment is also expected to grow by 5.1% in 2025, and 4% in 2026 and 2027. Real GDP is projected to grow by 2.4% in 2025, 3.0% in 2026 and 2.2% in 2027. Inflation is expected to rise to 3.4% in 2025 driven by services and food prices but ease to 2.8% in 2026, due to lower energy prices. In 2027, energy prices are expected to rise due to introduction of ETS2 (the new, extended version of the European Union's Carbon Emissions Trading Scheme (ETS)), with the overall inflation reaching 2.7%. The general government deficit is projected to increase from 2.2% in 2025, to 2.5% in 2026, and to 2.7% in 2027, mainly due to the projected increase in expenditure related to national investments (in particular, in national defence).

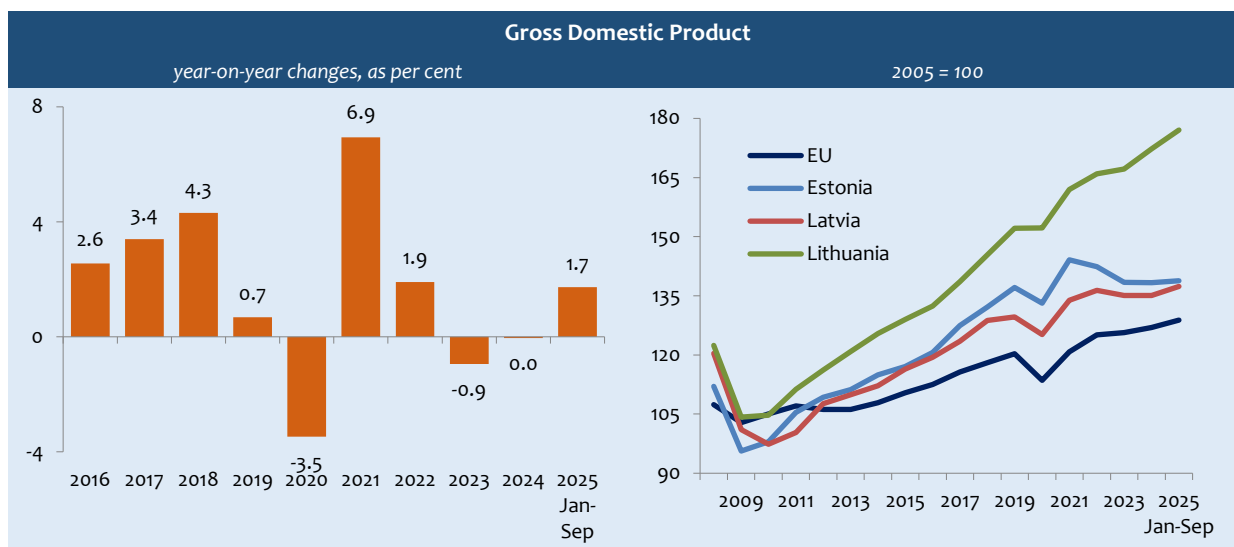
After three difficult years, the **Estonian** economy is showing signs of recovery, and inflation is set to calm down. Public consumption expanded, while private consumption is expected to gradually increase. Investment is benefitting from lower borrowing costs, but high geopolitical uncertainty weighs down growth. In 2026 and 2027, investment will rise due to higher defence spending, while higher real disposable incomes are set to push consumption. Export performance should improve with the recovery of the Nordic economies. Real GDP is projected to increase by 2.1% in 2026 and 2.0% in 2027. HICP inflation is projected at 4.8% in 2025, driven by services and food inflation and tax hikes, but is forecast to ease to 2.2% in 2027. The government deficit is projected to increase over the forecast horizon, driven by a personal income tax reform and increased defence spending.

3. GROSS DOMESTIC PRODUCT AND AGGREGATE DEMAND

3.1. DYNAMICS AND STRUCTURE

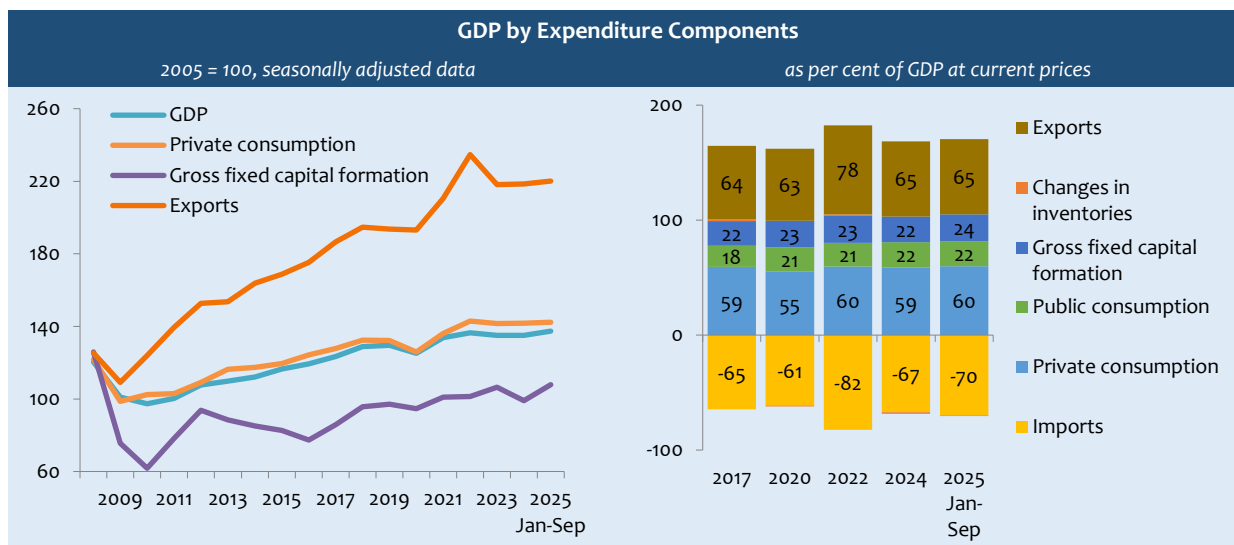
From 2016 to 2019, GDP grew by 2.7% per year on average. Growth was weaker in 2016 due to the drop in investments and delayed implementation of the EU’s new structural funds programme. Growth became more rapid in 2017-2018 fostered by the improvement of the situation in the EU, the commencement of a new structural funds programme, increase in wages and employment. In this period, exports, investments, private and public consumption were growing stably.

Figure 3.1



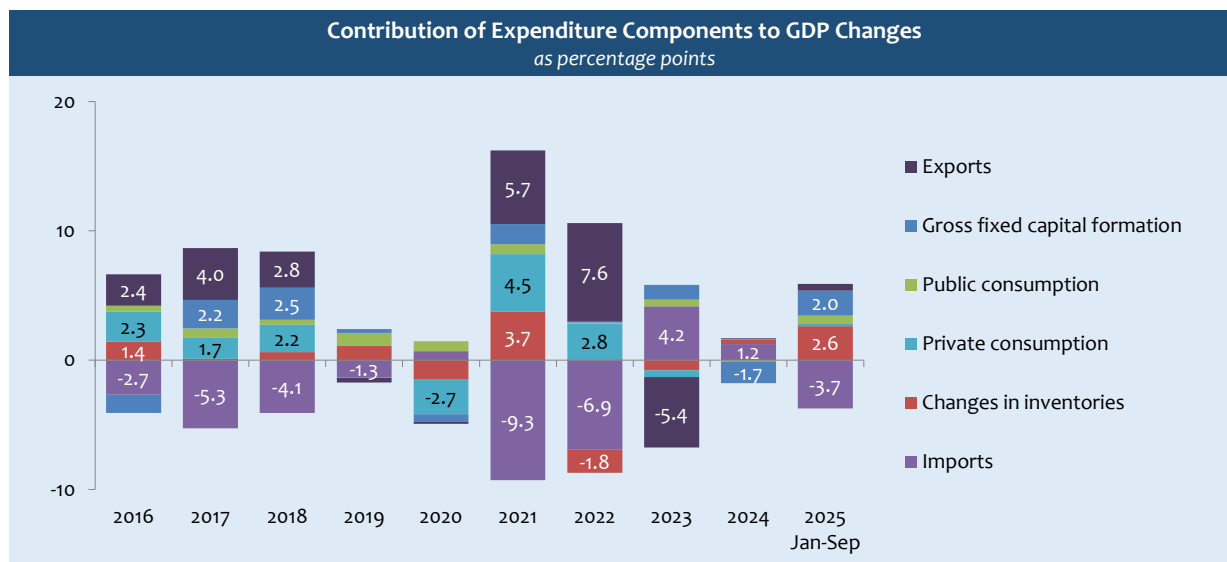
The deceleration of economic development in 2019 was underpinned by both internal factors (the investments from EU funds have reached their maximum, developments in the financial sector, changes in port management), and external factors (revision of global trade relations, Brexit, slower growth in the EU countries). Economic development in 2020 was mainly dependent on the negative effects of the COVID-19 crisis, which was the first time when GDP dropped since the financial crisis.

Figure 3.2



Economic development in 2021 was still affected by the COVID-19 pandemic and its containment measures; however, the economy was growing very rapidly in the middle of the year, largely due to the base effect. Growth was boosted by strong export growth due to a favourable environment in Latvian export markets, as well as a recovery in private consumption. After a strong recovery in 2021, growth slowed in 2022, as the economy was hit hard by disruptions in supply chains caused by the Russian invasion of Ukraine, rising energy and food prices and a drop in global demand. In 2023, the development was still hampered by the geopolitical uncertainty, high prices and growing bank interest rates.

Figure 3.3



Although inflation rates stabilised in 2024, the unfavourable external environment still hampered the economy in the first half of the year, and GDP started to grow only in the second half of the year. Overall, the volume of the economy in 2024 remained at the level of the previous year. Private consumption and exports grew slightly, while government consumption and investment contracted. Export growth continued to be constrained by weak demand in Latvia's main export markets, while investment declined due to high uncertainty, weak lending and low corporate demand for new investment. Although prices stabilised, they were still high, especially for food and services, and that held back private consumption growth.

In 2025, the economy started to recover. In Q1-Q3 2025, GDP was 1.7% higher than a year before, which is considered positive in a tense geopolitical situation. Economic growth was boosted by slightly more rapid developments in major trading countries and by government measures to stimulate the economy, especially in the areas of lending and investment. The main contribution to growth came from an increase in investment, driven by both faster absorption of EU funds and the activation of private sector lending. The increase in investment was particularly pronounced in investment in machinery and equipment, as well as structures and buildings. Export dynamics were uneven, with exports of goods remaining almost unchanged and exports of services rising. Although the external environment has somewhat improved, it remains weak due to geopolitical uncertainty. At the same time, private consumption growth was constrained by high price levels, inflation expectations and the uncertain geopolitical situation.

The fastest economic growth in the Baltic countries in 2015-2024 was in Lithuania, where GDP grew at an average annual rate of 3.2%, while Latvia and Estonia grew at similar rates of around 1.9% per year.

Table 3.1

| GDP by Expenditure Components | | | | | | | | | | |
|-----------------------------------|------|------|------|------|------|------|------|------|------|--------------|
| year-on-year changes, as per cent | | | | | | | | | | |
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 Jan-Sep |
| GDP | 2.6 | 3.4 | 4.3 | 0.7 | -3.5 | 6.9 | 1.9 | -0.9 | 0.0 | 1.7 |
| Private consumption | 3.9 | 2.8 | 3.6 | -0.1 | -4.8 | 8.1 | 5.1 | -0.9 | 0.1 | 0.4 |
| Public consumption | 2.5 | 3.8 | 1.9 | 5.6 | 3.9 | 3.7 | 0.4 | 2.5 | -0.4 | 3.0 |
| Gross fixed capital formation | -6.3 | 11.0 | 11.5 | 1.3 | -2.4 | 6.8 | 0.3 | 5.0 | -7.0 | 9.0 |
| Exports | 3.9 | 6.5 | 4.4 | -0.6 | -0.3 | 9.1 | 11.4 | -7.0 | 0.1 | 0.8 |
| Imports | 4.2 | 8.6 | 6.3 | 2.0 | -1.1 | 15.1 | 9.9 | -5.0 | -1.8 | 5.6 |

3.2. CONSUMPTION

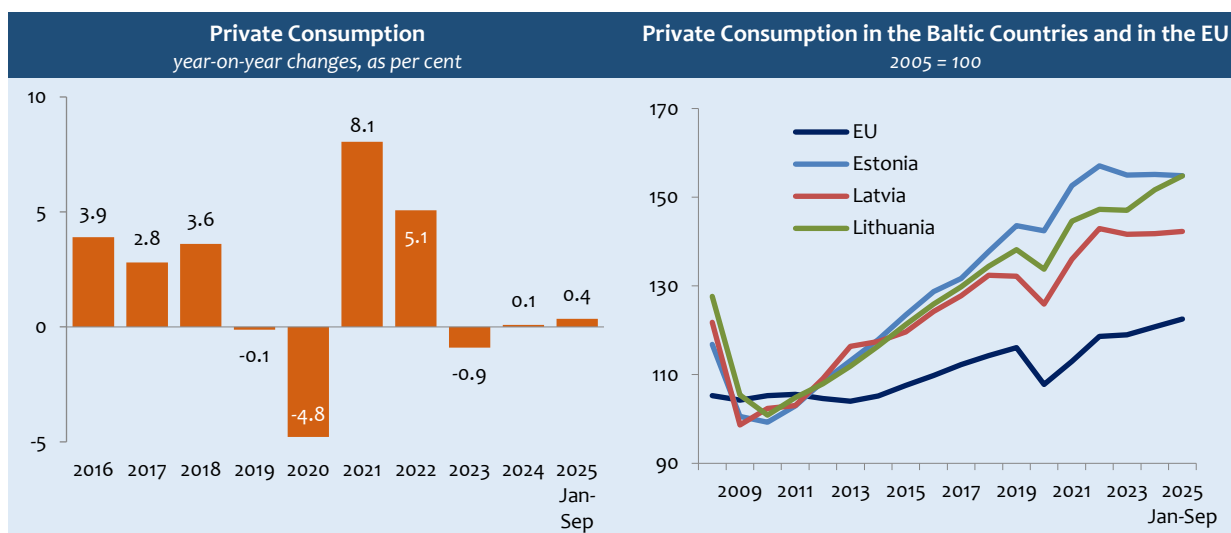
After an increase in **private consumption** volumes in 2016-2018, fostered by rapid wage growth and high consumer sentiment, it stalled in 2019 due to slower real income growth, pessimistic consumer sentiment, stagnant lending, falling export outlets and a slowdown in investment. In 2020, private consumption declined sharply due to the restrictions caused by the COVID-19 pandemic. As economics recovered, a rapid increase in private consumption was observed in 2021 and 2022 fostered by both the gradual lifting of COVID-19 restrictions and the increase in average wages, decrease in unemployment, and government support measures. In 2023, household consumption was held back by high price levels and rising interest rates, which decreased real incomes and purchasing power; however, the faster fall in consumption was mitigated by government support for energy costs, annual pension indexation of 2022 and savings during COVID-19.

Despite improving purchasing power and stabilising prices, they remained high, especially for food and services, and that held back faster private consumption growth also in 2024. The population has adapted to cheaper and smaller purchases and the sentiment to spend more remains cautious.

Private consumption in 2025 remains at a low level, although it shows a slight overall increase. The purchasing power of the population is gradually improving, but consumer price inflation remains persistent, especially in the food and services segments, which continues to restrain spending growth, while consumer sentiment is affected by cautious economic sentiment, high borrowing costs and uncertainty in the labour market. In Q1 2025, private consumption shrank by 0.9% year-on-year, remained almost unchanged in Q2 (up 0.1%), and in Q3 it grew faster (by 1.8%). Overall, private consumption increased by 0.4% in the three quarters of 2025 compared to the corresponding period of 2024.

Since 2015, Latvia has been having the slowest increase in private consumption in comparison with other Baltic countries.

Figure 3.4



In the structure of household consumption, most of the expenditure is on food, expenditure on housing is the second largest consumption group, while transport expenditure is the third priority. Within 10 years, the share of expenditure related to food, alcoholic beverages and tobacco, clothing and footwear, housing, health, transport, communication and education has decreased in the structure of household consumption expenditure, while the share of expenditure related to housing equipment (furniture, household appliances and maintenance), recreation, sport and culture, restaurants and accommodation services, as well as insurance and financial services has increased.

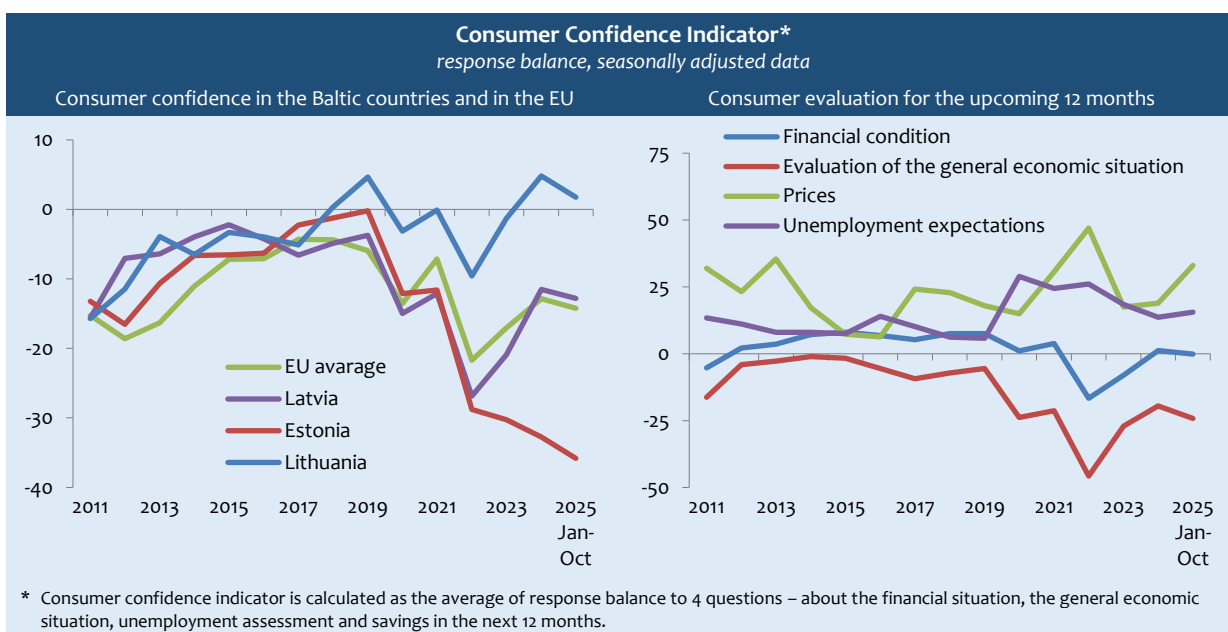
High food prices encouraged households to continue saving in 2024, reducing the amount of food consumed by 1.2%, which also had the largest diminishing effect. Spending on alcoholic beverages and tobacco also fell significantly – by 2.6%. Expenditure on home furnishings decreased more moderately. As energy prices stabilised, housing-related expenditure (rent, maintenance and repair of housing, water supply, electricity, gas and solid fuel) practically remained unchanged (drop of 0.1%). Household spending on transport, health and education increased. The biggest boost came from household expenditure on transport, which increased by 3.6%. The increase in expenditure on clothing and footwear (by 4.4%), health (by 2.8%) and recreation, sport and culture (by 1%) also had a significant impact. Expenditure on insurance and financial services, education, information and communication, restaurants and hotel services had a small impact on price increases.

In 2024, compared to 2014, household consumption expenditure increased in almost all main groups of expenditure, with the exception of education, where expenditure reduced. The increase in expenditure on transport, recreation, sport and culture, clothing and footwear, and food was the main contributor to the increase in total expenditure.

Consumer sentiment generally improved between 2010 and 2019, despite being negative. Such an improvement in the sentiment has been largely fostered by rapid economic growth. Latvian consumers were generally more optimistic, and consumer confidence has been higher than the EU average since mid-2011. The confidence level was more pessimistic in 2017-2018 when Latvia's indicator slipped below the EU average. After a slight improvement between 2020 and 2022, consumer sentiment turned increasingly gloomy.

As a result of the COVID-19 pandemic, the consumer confidence indicator experienced a sharp decrease in the spring of 2020. As the epidemiological situation improved and restrictions eased, in 2021, consumer sentiment broadly improved, but in the second half of the year, optimism was tempered by growing uncertainty and concerns about the development of the spread of COVID-19, as well as price growth trends. It should be noted that the most optimistic sentiment level over the past five years was reached in June 2021, when the rate was -2.5 points.

Figure 3.5



Russia's invasion of Ukraine has severely impacted consumer confidence in 2022, and this trend was exacerbated by inflation. The confidence indicator fell to its lowest level since 2010. Consumer sentiment started to improve quite substantially in 2023, as the inflation pressure eased and wages rose. This positive trend of improving consumer confidence continued in 2024. Unfortunately, the improvement has stalled in 2025, and consumers are a bit more pessimistic about the future. In January-October of this year, this trend has been observed in almost all consumer confidence items, with only inflation expectations experiencing a sharper rise.

Consumers' assessment of the financial situation of the family in the future has largely stabilised since 2012 and was generally positive during the year. Optimism has been growing on average since mid-2017, continuing until April 2020. While overall the financial prospects of families were viewed positively in 2020 and 2021, this indicator deteriorated in those years. However, in 2022, following Russia's invasion of Ukraine, a sharp decline followed. The rate improved quite rapidly in the following years. In 2025, the positive trend stopped and remained negative for 10 months.

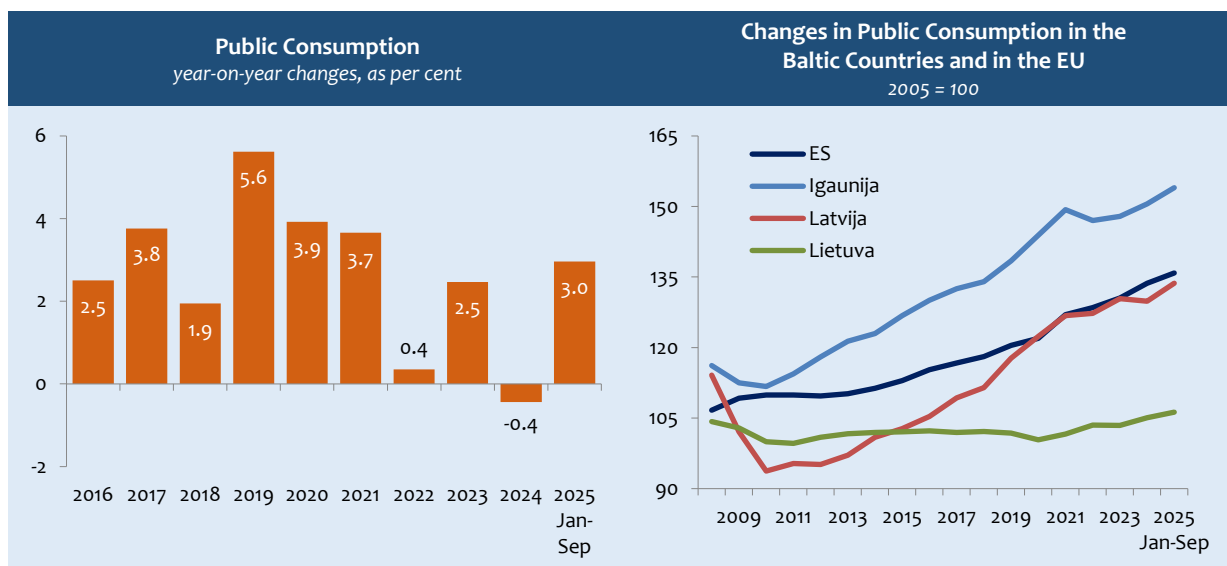
The assessment of the overall situation in the country, which has tended to improve since 2010, is essentially similar to the assessment of the financial situation of the family. A rapid increase has been observed until 2012, and in 2012 consumer confidence stabilised at the same time sticking to the ascending trend. The emergency announced in early 2020 drastically reduced consumer optimism. It continued to ease throughout the year and into 2021 as well. A particularly sharp decline was experienced in 2022. Similar to the assessment of the family's financial situation, this indicator experienced an upward trend over the next two years, followed by a deterioration in January-October 2025. It should be noted that the prospects of the country's economic situation are evaluated much more critically than the future of the financial condition of the family.

Unemployment expectations of consumers have been generally falling since 2010, although fluctuations were observed and stuck to the descending trend. However, since 2016, these expectations have resumed growth. Since the middle of 2017, unemployment expectations have been generally declining, which is largely related also to the overall decline in the unemployment rate and an increase in employment. Unfortunately, in 2020, unemployment expectations of consumers grew rapidly, reaching 63.1 points, the highest level since 2010. Consumers then regained confidence in their job prospects in 2021, but the Russian invasion of Ukraine in 2022 worsened this. The favourable labour situation and rising wages have enabled consumers to lower their unemployment expectations over the next two years, but this item has also deteriorated slightly in January-October 2025.

Inflation expectations were rising sharply until April 2011. Since the middle of 2011, inflation expectations have been cyclical and this was the consumers’ way of responding to different changes, however, they have been generally declining. Since the middle of 2013 the drop has been very rapid reaching the level of -2.3 points in September 2016, the lowest since 2011. At the end of 2016, inflation expectations started to pick up again, a trend that persisted until mid-2017. Since the end of 2017, inflation expectations have moderately reduced, largely under the influence of a slower rise in prices and high inflation in the previous years. The COVID-19 pandemic did not significantly influence inflation expectations in 2020. Consumer concerns about price increases rose significantly in 2021, further boosted by Russia’s invasion of Ukraine in 2022, and the highest rate of inflation expectations was reached in May and June. In 2023, as price growth reduced, the inflation expectations indicator also shrank, except for June, affected by the planned increase in electricity distribution tariffs. The rise in inflation expectations resumed in 2024 and remained stronger in January-October 2025. In fairly low inflation conditions, this can be explained by rising service prices and still high food prices, as well as by the pick-up in price inflation since the end of 2024.

The volume of **public consumption** or public services grew rapidly from 2015 to 2021 as budget revenues increased. Overall, from 2015 to 2024, public consumption was growing by an average of 2.5% per year.

Figure 3.6



The government support measures to mitigate the negative effects of the COVID-19 crisis maintained a positive increase in public consumption in 2020 and 2021. In 2023, support measures implemented by the state to compensate for the rapid increase in energy prices for households and enterprises contributed to the increase in public consumption.

In 2024, public consumption expenditure declined, mainly due to the termination of support measures and a slowdown in investment activity. However, expenditure increased again in Q1-Q3 2025, largely due to increased spending on national defence, public order and infrastructure development, partly financed at the expense of higher budget deficits to implement the government’s priority tasks. Budgetary expenditure on strengthening national defence capabilities has substantially increased to reach 5% of GDP in defence spending in the near future – the planned level could reach about 3.8% of GDP in 2025 and 4.9% in 2026.

Since 2015, Latvia has been having the most rapid increase in public consumption in comparison with other Baltic countries.

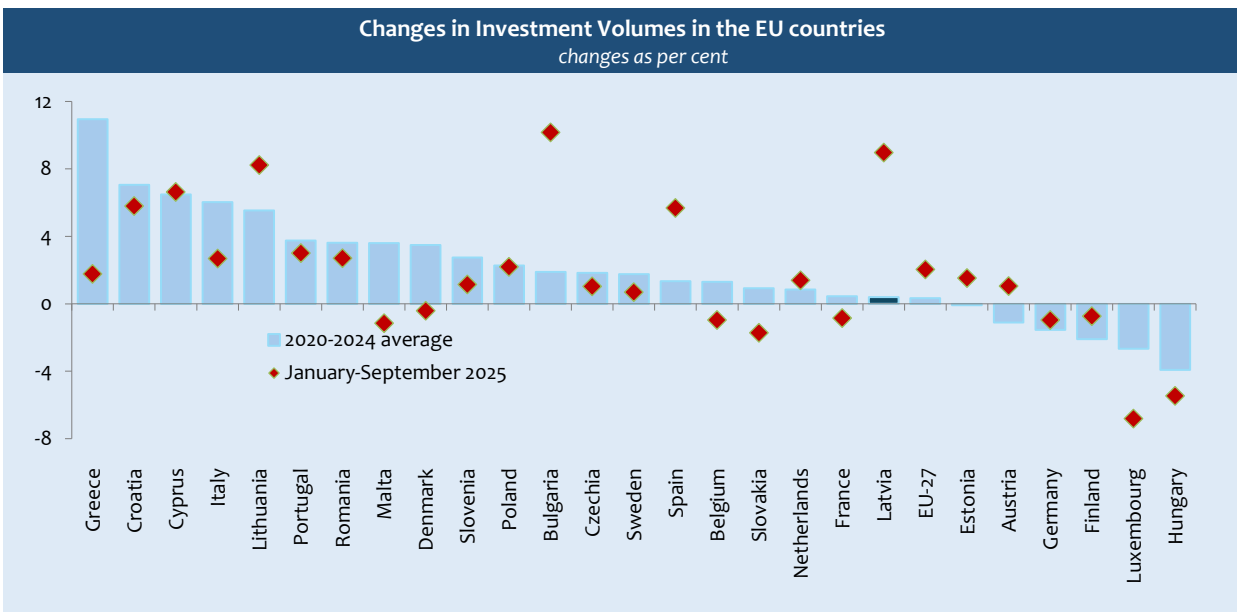
3.3. INVESTMENT

Investment activities in the Latvian economy are still very volatile, significantly affected by changes in the geopolitical situation, availability of financing and production resources, as well as other external and internal factors.

In the last five years (2020-2024), expenditure on total fixed capital formation increased by an annual average of 0.4%, more moderate than before the COVID-19 pandemic in 2015-2019, when growth averaged 2.7% per year.

In 2020, investment activities declined significantly due to the COVID-19 pandemic. Sensing the uncertainty about the possibility of combatting the pandemic soon, in 2020, expenditure on fixed capital formation fell by 2.4%, and this was the worst indicator in the Baltic States. However, as the economy stabilised after the shock caused by the COVID-19 pandemic, investment volumes increased by 6.8% in 2021.

Figure 3.7



The war in Ukraine has increased uncertainty, but its impact on investment dynamics has been rather limited; in 2022, investment remained at the level of the previous year. Investment activity was limited by the increase in construction prices and delays in the absorption of EU-funded programmes. Moreover, investment dynamics were rather volatile in the following two years. In 2023, investment in fixed capital formation increased by 5.0% compared to the previous year, while in 2024 it was 7.0% lower than a year ago.

Overall, from 2020 to 2024, investment in the national economy of Latvia amounted to 23.1% of GDP, slightly higher than the average indicator of the five years before the pandemic.

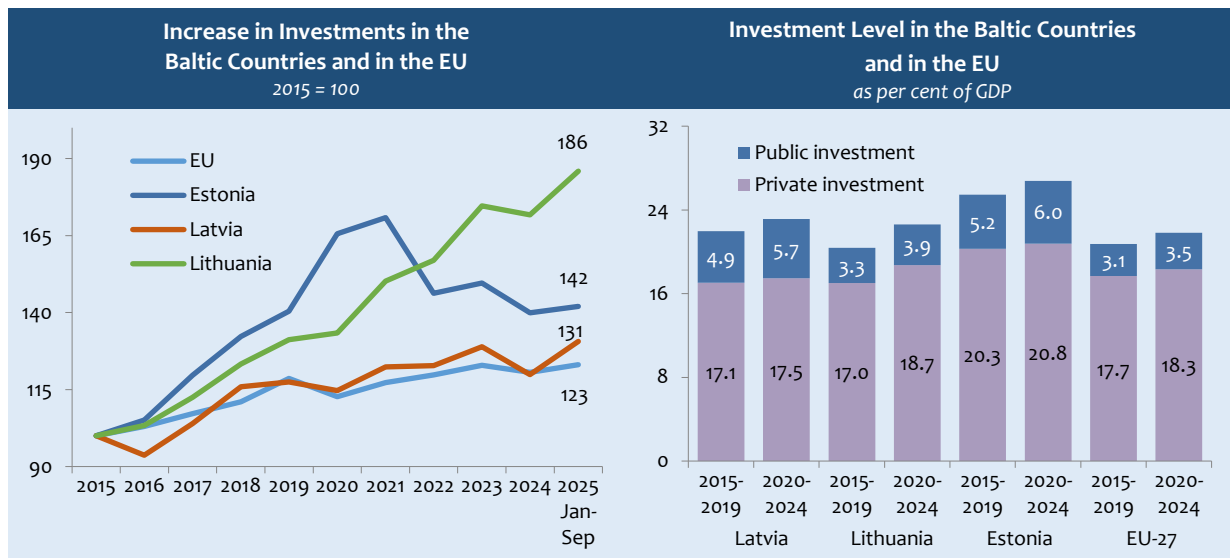
In 2025, investment dynamics are on an upward trend. In January-September of the year, expenditure on total fixed capital formation increased by 9% year-on-year, significantly affected by rising private investment.

The high uncertainty associated with the geopolitical situation and the further development of the global economy, uncertainty about the course of the Russian war in Ukraine, weak lending and strict financing conditions restrict the incentive of the private sector to invest.

Private investment was fluctuating significantly in the last five years (2020-2024), reflecting the sensitivity of investors to internal and external shocks. It declined significantly in 2020 and 2023, when economic activity was negatively affected by the COVID-19 pandemic and rising energy prices. However, it recovered rapidly as the economy stabilised after the experienced shocks. Measures to combat the COVID-19 pandemic limited overall economic activity and discouraged previously planned investments. In 2020, the private sector investment volume fell by 6.5%, compared to the previous year. In 2021 and 2022, the private sector investment dynamics were quite rapid – it grew by an average of 7.2% every year. However, investment activity weakened significantly in the following two years (2023-2024), and in 2024 it was 12% lower than a year ago and only 1% above the level of 2020. Overall, over the past five years, private investment has grown at a negative annual average rate (-1.1%). Private sector investment activity in 2025 is relatively high. In January-

September of this year, investment (at constant prices) was 9.4% higher than a year ago, partly due to the low base effect.

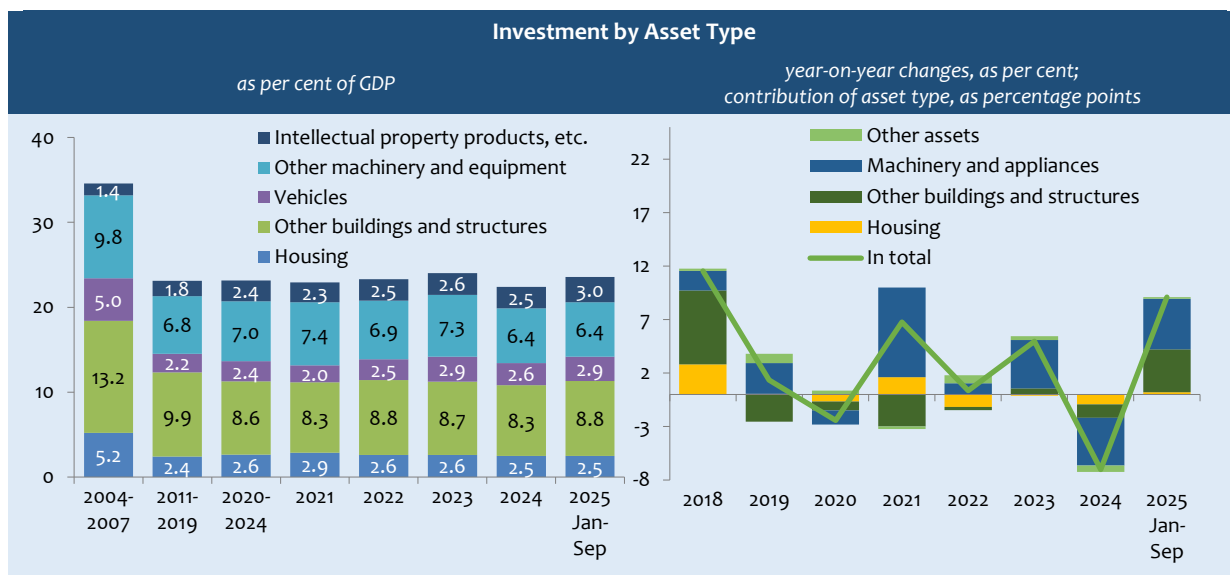
Figure 3.8



The dynamics of private investment have been generally on a moderately upward trend, and their level was lower than in most EU countries, including Lithuania and Estonia. This is largely affected by weak lending, which has been very low for a long time.

According to the data of the Bank of Latvia, the balance of loans to non-financial corporations and households in 2024 accounted for 29.2% of GDP, which is well below the level before the global financial crisis and one of the lowest in the EU. Compared to 2023, it increased by 1.0 percentage point. It should be noted that lending grew in 2024 as interest rates gradually fell and overall sentiment improved. The positive dynamics of lending continued in 2025, with the balance of loans to non-financial corporations rising by 19.7% and to households by 10.5% in January-October. The domestic credit portfolio reached 32.2% of GDP in October 2025. However, the loan portfolio remains small despite the increase.

Figure 3.9



Public investment in Latvia accounts for almost 1/4 of total investment in the Latvian economy or almost an average of 5.7% of GDP, which is one of the highest indicators in the EU. The dynamics of public investment are largely linked to the cyclicity of EU Structural Funds absorption. Over the last five years, public investment has grown at almost twice the

average annual rate of private investment. Although we had to experience the COVID-19 crisis, public investment increased by 11.4% in 2020 and 1.7% in 2021. Public investment shrank in 2022 and was 21.5% lower than a year ago; however, investment volume grew rapidly in 2023 and 2024 and exceeded the level of the previous year by 26.4% and 12.2%, respectively. Overall, public investment dynamics have been positive over the last five years (2020-2024), growing at an average annual rate of almost 5.1%, slightly more rapidly than in the years before the COVID-19 pandemic. However, in January-September 2025, compared to the corresponding period of the year before, state budget expenditure on total fixed capital formation (at constant prices) was about 3% higher.

Investments in construction assets constitute the largest part of the total investment. These mainly are investments in buildings and structures, which accounted for almost half (48.9%) of the expenditure on gross fixed capital formation in the last five years (2020-2025). Investment in construction assets showed negative dynamics between 2019 and 2022, declining by an average of 3.3% per year and, in 2022, they were 12.5% lower than in 2018. The decline in investment is due to both the end of absorption of the EU Structural Funds in 2019 and the crisis caused by the COVID-19 pandemic in 2020. In 2022, investments in construction assets were significantly constrained by rising construction costs and delays in the absorption of EU-funded programmes. In 2023, investments in construction assets rose slightly and were 1.0% higher than the year before, including investments in civil engineering structures and buildings, which increased by 1.7%. However, the positive momentum was not sustained, and investment in construction assets was 5% lower in 2024 than a year before. Investment activities in construction assets increased by 8.6% in January-September 2025, including by 10.8% in civil engineering structures and buildings and by 1.2% in dwellings.

Investments into machinery and appliances react sensibly to shocks, their recovery after the crisis is slower than in other assets. This is mainly due to the low level of lending, relatively high private debt, unfavourable market conditions, as well as low capacity utilisation. In 2020-2024, investments into machinery and appliances accounted for 40.5% of total investments. Moreover, it should be noted that their dynamics were more rapid than in other assets. The impact of the crisis caused by the COVID-19 pandemic on investment in manufacturing machinery and equipment was relatively small. In 2020, investment in these assets fell by 3.4% driven mainly by the lower than a year ago investment in vehicles (by 31.6%). In the following years, the dynamics of investment in these assets were generally positive (except in 2024), growing at an average annual rate of 6.2%, largely driven by extensive investments in vehicles. In January-September 2025, investments in machinery and appliances continued to grow and were almost 12% lower than a year ago.

Investments in intellectual property assets have accounted for around 10% of total investment in the last five years (2020-2024). They are characterised by stability in the years of economic recession, and moderately growing dynamics are generally observed. Since 2020 (when evaluating at constant prices), investments in these assets increased by 2.5%, and their levels are higher than before the COVID-19 pandemic. In January-September 2025, 1% more than a year ago was invested in intellectual property products and it accounted for 2.8% of GDP.

Table 3.2

| | Gross Capital Formation | | | | | | |
|---------------------------------|-------------------------|-------------|------------|------------|-------------|--------------|-----------------|
| | annual average | | | | | | |
| | 1995–2007 | 2008–2010 | 2011–2019 | 2020–2022 | 2023 | 2024 | 2025 Jan-Sep |
| | real growth | | | | | | |
| GDP | 7.7 | -7.9 | 3.2 | 1.7 | -0.9 | -0.05 | 1.7 |
| Gross capital formation | 17.9 | -25.2 | 6.5 | 1.9 | 5.0 | 11.7 | 19.6 |
| – Gross fixed capital formation | 17.7 | -24.3 | 5.1 | 1.5 | 1.5 | 9.9 | 9.0 |
| | as per cent of GDP | | | | | | |
| Gross capital formation | 33.0 | 27.9 | 24.4 | 24.3 | 24.7 | 20.9 | 23.0 |
| – gross fixed capital formation | 29.0 | 26.0 | 23.1 | 23.1 | 24.0 | 22.4 | 23.6 |
| – changes in inventories | 4.0 | 1.9 | 1.3 | 1.2 | 0.7 | -1.5 | -0.6 |

Investments in Latvia's economic sectors are unsustainable, and their volatility is affected by both the cyclicity of the absorption of EU structural funds and the adjustment of private sector investment plans in line with changes in market conditions.

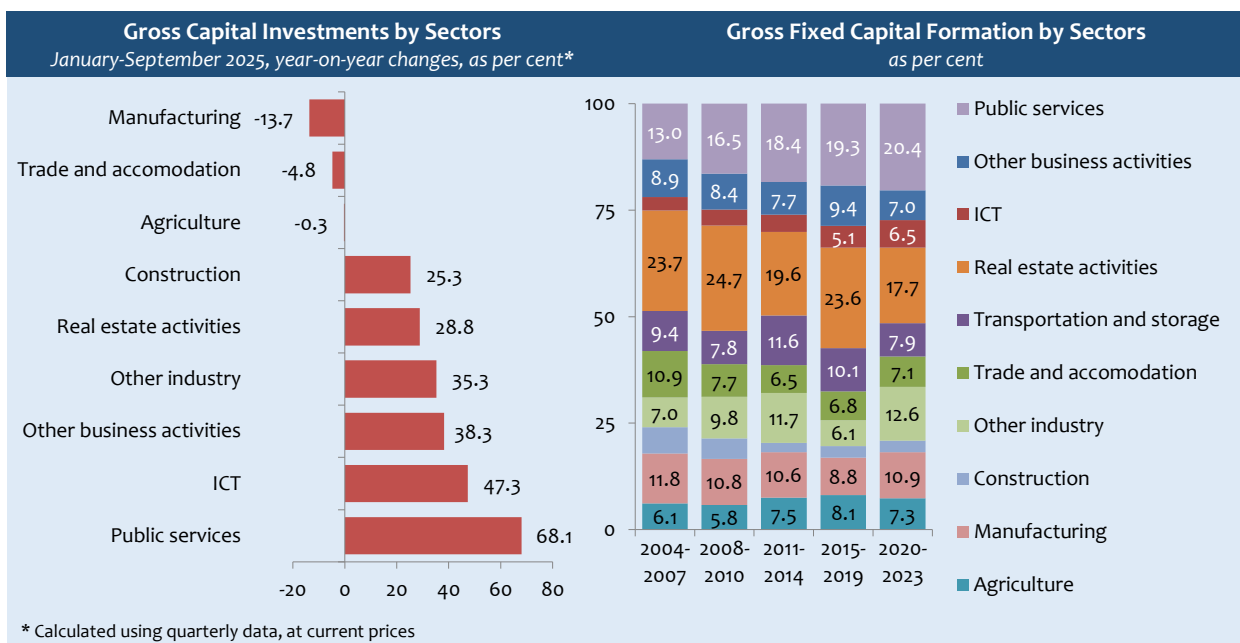
Investment (expenditure on total fixed capital formation) over the past five years has been growing faster in the commodity producing sectors than in the services sectors.

The crisis caused by the Covid-19 pandemic has affected the services sectors the most. In 2020, expenditure on fixed capital formation in the services sectors was 9.1% lower than a year ago. 17% more than in 2019 was invested in the commodity producing sectors, mainly due to the large volume of capital investment in the energy and communal services

sectors. In 2021, investments in commodity producing and services sectors increased and were 8.5% and 6% higher, respectively. Investments in commodity producing sectors continued to grow (by an annual average of 9.3%) also in 2022 and 2023, while investments in the services sectors in those years were volatile. In 2022, compared to 2023, they were 5.9% lower than a year before, while in 2023 the total investment in services was 6.3% higher than a year before. In 2024, investment activity in both the services and commodity producing sectors declined significantly. Compared to 2023, expenditure on total fixed capital formation generally declined by 13.7% in the commodity producing sectors and by 2.5% in the services sectors, largely driven by declines in investment in manufacturing and real estate activities. It should be noted that in 2024 large investments were made in the public services sectors, which accounted for almost 23% of total investment in the Latvian economy.

According to provisional data, in January-September 2025, overall capital investment in tangible assets (at current prices) in sectors of the Latvian economy increased by almost 18.2%, including by 6.8% in the commodity producing sectors and by 24.1% in the services sectors, thus the services sectors were growing at a faster rate. The public services sector, as well as energy and real estate activities were the largest contributors to the increase in capital formation. Extensive capital investments were also made in information and communication services. Investment in manufacturing in January-September of this year was 13.7% lower than a year before.

Figure 3.10



Surveys carried out by the European Investment Bank (EIB) show that in the field of investment Latvian entrepreneurs mark as the most significant long-term barriers to investment the shortage of skilled personnel and uncertainty regarding the future. Investment activity is also hampered by energy costs, low demand and weaknesses in business regulation. Banks are the main source of external finance, but Latvian companies use them less than the EU average, and most investment is still financed internally. Moreover, the share of financially constrained companies in Latvia is higher than the EU average. The share of Latvian companies receiving state support for investment is broadly in line with the EU average, but they benefit significantly less from bank finance on favourable terms.

The dynamics of investment will also be further affected by the uncertainty in the international environment. EU funding, which is an important incentive for increasing investment levels, will have a positive impact. Several projects to be funded under the RRF will make a significant contribution to increasing investment activities. Increasing the loan portfolio, which has been low for a long time, also plays an important role. However, it should be noted that in the coming years, investment will be severely constrained by geopolitical uncertainty due to the war in Ukraine, limited availability of labour, and high energy and lending costs. During the COVID-19 pandemic and the energy crisis, strong public support helped sustain private investment, but maintaining this support is becoming more difficult as the country faces pressure to reduce debt and returns to tighter EU fiscal rules. It is therefore important to ensure that public funding delivers maximum return.

3.4. EXPORTS AND IMPORTS

Export usually is one of the main factors of economic growth, and its dynamics are closely related to the competitiveness of Latvian companies in foreign markets, as well as external demand and rates of development of economies of trade partner countries.

In 2014-2018, the development of exports was fostered by economic growth in EU countries and stable demand in other partner countries. In 2019, as the economic growth rates of partner countries declined, the development of exports was more moderate.

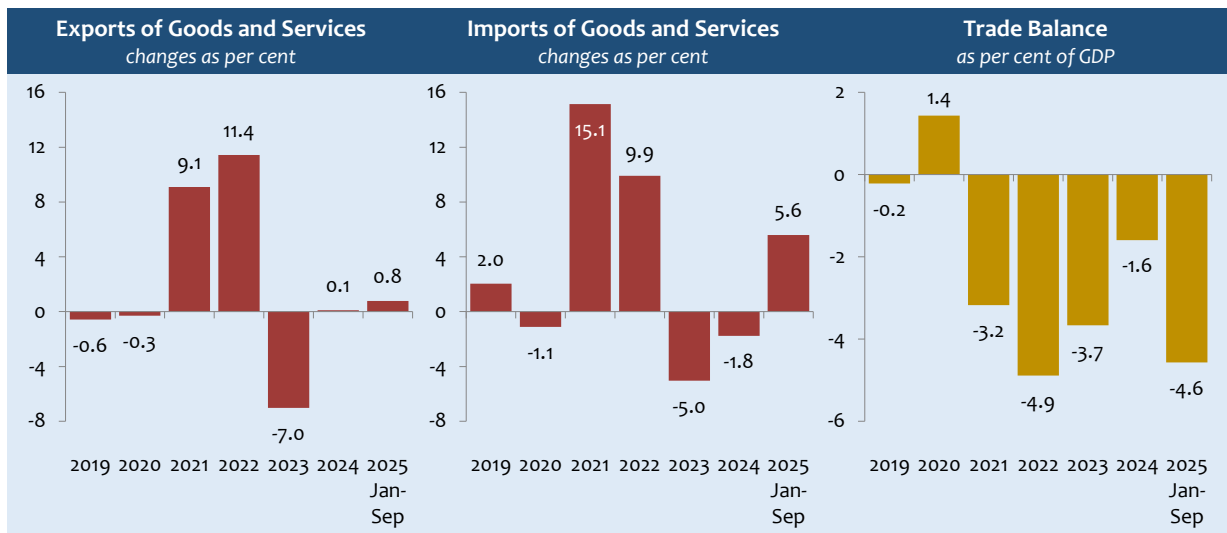
2020 and 2021 will be marked in history as the time of crisis caused by COVID-19, which affected all economic indicators in all countries around the world, also in Latvia. As exports are directly dependent on external demand, this crisis had a significant impact on export volumes. In early 2020, export volumes increased, while in March a sharp decline in rates following the beginning of the pandemic was observed. In Q2 2020, export volumes were already significantly lower than a year before. In the second half of 2020, as external demand increased, exports started to grow moderately. In Q1 2021, export volumes were like a year ago, while in Q2 2021, as the external demand had grown rapidly and partially due to the base effect, export volumes increased significantly. Rapid growth continued also in the second half of the year.

In 2022, despite active hostilities taking place near the country’s eastern border, the rapid growth of exports continued. Like in the previous year, it was largely driven by strong external demand. It should be noted that export prices increased significantly in 2022, especially to EU countries – the main trading partner countries of Latvia.

The opposite was observed in 2023, with exports declining as partner countries’ economic growth rates and external demand weakened, partly due to the base effect. Export prices also fell significantly.

Export growth in 2024 was volatile, negative in the first half and positive in the second half of the year. Like in 2023, export prices were lower than a year ago.

Figure 3.11



Export growth is picking up slowly in 2025, with exports of goods and services slightly below the levels of the previous year in the first half of the year and amounting to 3% in Q3. Overall, exports of services grew faster in Q1-Q3 of the year, while exports of goods were slightly lower than a year before. In contrast to 2024, the export unit value index is also positive.

As usual, the most important export markets for Latvia are EU countries, including its neighbours – Lithuania and Estonia.

Exports to CIS countries, including Russia, keep getting smaller. It should be noted that Russian military aggression in Ukraine keeps having a negative impact on the volume of trade deals with Russia, Belarus and other CIS countries. In this region, the trade value increased slightly only with Uzbekistan and Kyrgyzstan in January-October 2025.

Exports to other countries, to which the United Kingdom belongs since the first half of 2020, make up an increasingly higher share in the total export structure. In January-October 2025, exports to countries outside the EU and the CIS accounted for 23% of total exports.

The main factors of the development of imports of Latvian goods and services are increases in production volumes in manufacturing and income available to households. Import volumes are growing, as internal demand is growing. In 2020, as internal demand dropped considerably, import volumes slightly reduced. Disparate trends were observed in 2021 – in particular, a moderate increase in imports was observed at the beginning of the year. However, starting from Q2 2021, because of the significant increase in demand and the base effect, imports of goods and services were significantly higher than a year ago. Similar trends still existed in 2022.

The development of imports in 2023 followed a pattern similar to that of exports – both import volumes and prices fell, partly due to the base effect. The first half of 2024 was also negative for imports, but in the second half of the year there was already some growth in imports.

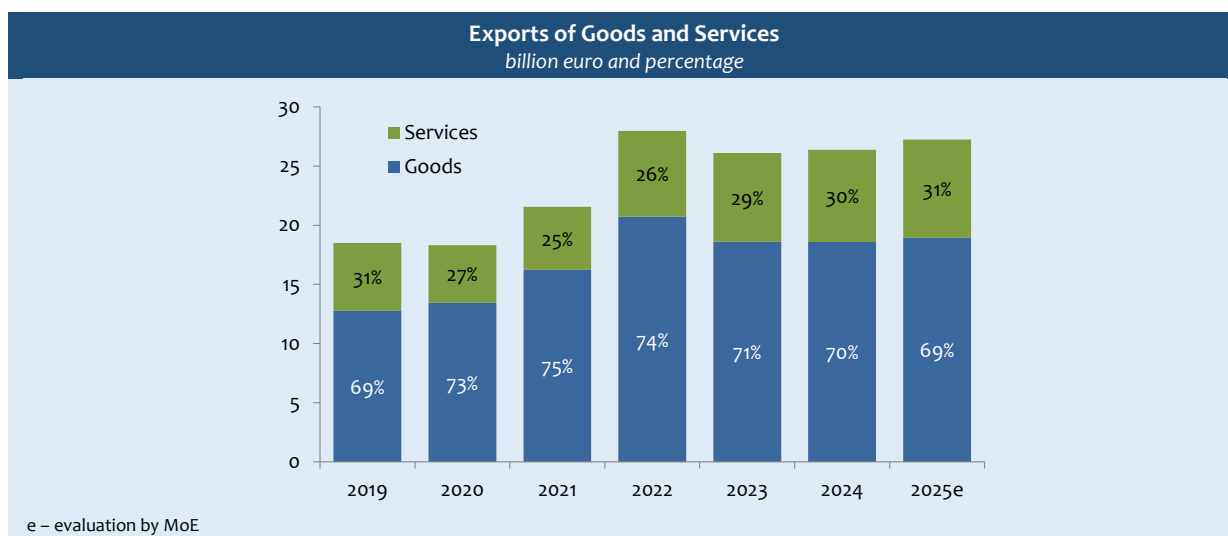
Import growth in 2025 was stable, with both imports of goods and services rising in Q1-Q3 of the year. In contrast to 2024, the import price index is also positive.

In 2020, when import volumes were declining more rapidly than export volumes under the influence of COVID-19, the export-import balance indicator reached historically the highest positive level. As the rapid increase in trade volumes resumed in 2021-2022, the export-import balance deteriorated considerably. In 2023-2024, it declined slightly but remained at a negative level. Therefore, as growth in foreign trade volumes strengthens, the balance is well below zero in 2025.

EXPORTS

More than two-thirds of Latvian exports are composed of exports of goods. Until 2019, this proportion has not significantly changed. It should be noted that from 2020 to early 2022, when the possibilities of exporting services were considerably restricted due to the COVID-19 crisis, the export structure changed in favour of exports of goods.

Figure 3.12

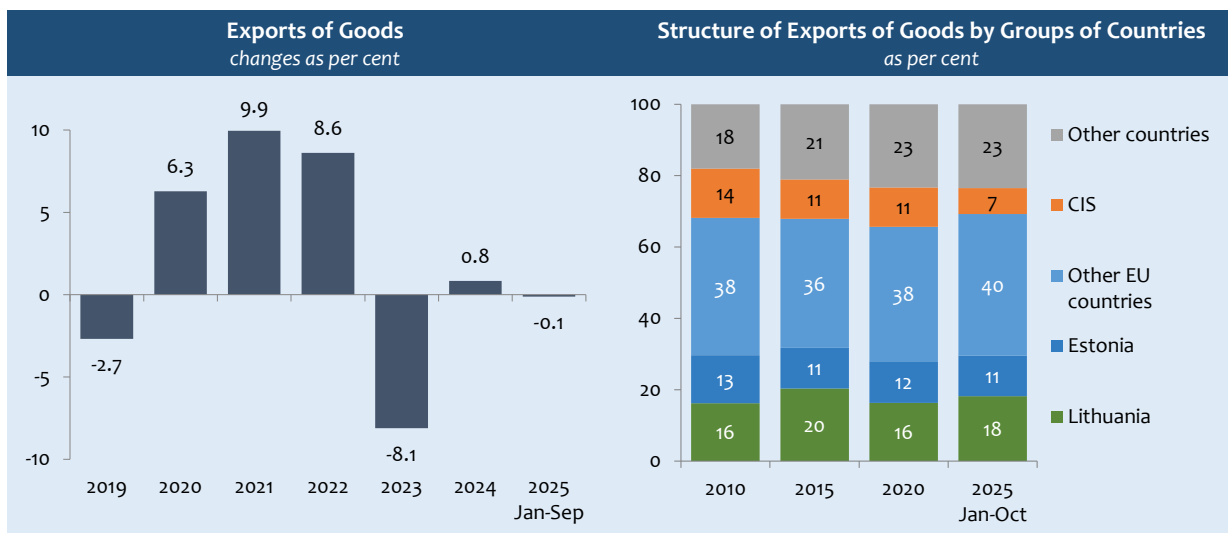


Latvia's **exports of goods** in 2017-2018 developed dynamically. In 2019, exports of goods increased more moderately due to falling external demand.

The first half of 2020 was not favourable to exports of goods or the overall economic development. Export volumes during the crisis were lower than a year ago under the influence of COVID-19. However, rapid growth in exports of goods in the second half of the year, particularly in the last quarter of the year, allowed the year to be concluded with very good growth. In 2021 and 2022, exports of goods continued to develop dynamically, while in 2023, due to limited external demand, exports of goods contracted significantly. By contrast, export growth was moderate in the first half of 2024, strengthening in the second half of the year amid rising external demand.

With intensifying geopolitical uncertainty, including trade tariffs imposed by the US, as well as weak growth in key demand markets, in particular the euro area, Latvia's goods export growth was negative in the first half of 2025. In turn, a significant pick-up in external demand in Q3 is a sign of a rebound in export growth, which also points to positive developments in goods exports for the year as a whole.

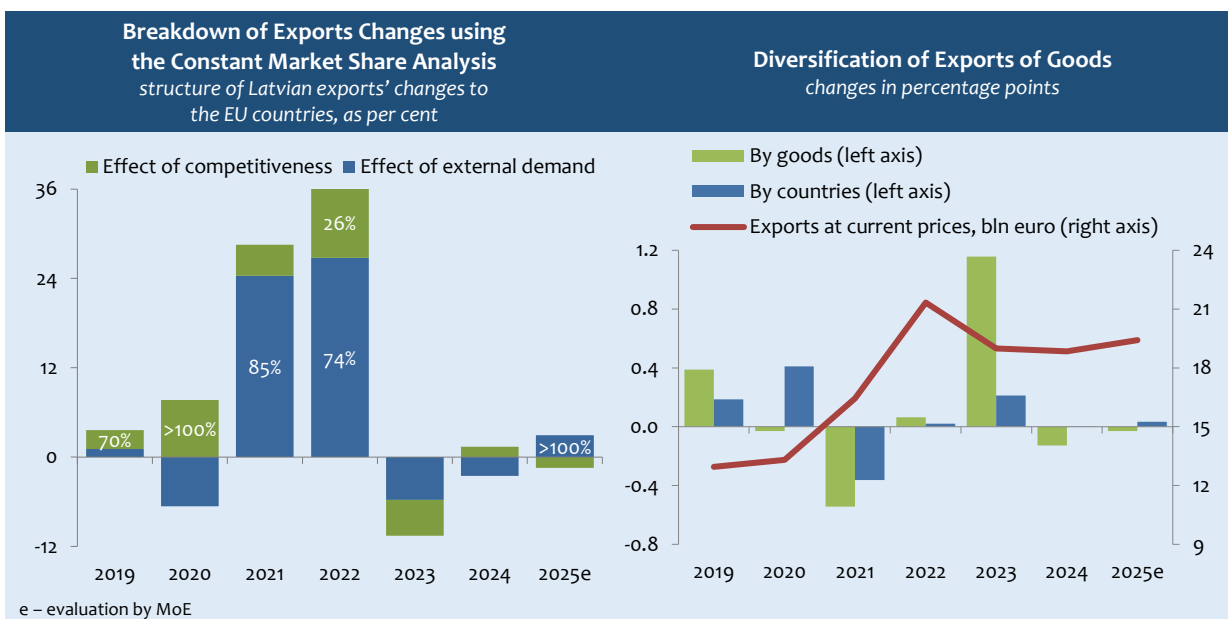
Figure 3.13



In 2017-2018, the development of exports of goods was positively influenced by changes in export prices. At current prices, exports increased on average by around 10% annually. Export prices declined slightly in 2019 as external demand declined. Similar trends were also observed in 2020. Starting from Q2 2021, the export unit value has been showing rapid growth. An opposite picture was observed in 2023 and 2024, when export prices fell by 4.9% and 0.9% respectively. By contrast, 2025 was marked by a 1.2% increase in export prices, driven by rising prices for wood and wood products, food industry products, and agricultural products.

In 2019, Latvia’s exports to EU countries were driven by a more rapid increase in the competitiveness of Latvian companies. With external demand shrinking rapidly in 2020, the negative export development was partly compensated by the ability of entrepreneurs to compete in external markets. 2021-2022 were marked by a considerable increase in external demand, which largely drove the increase in exports. Negative export growth in 2023 and partially in 2024 was more influenced by limited external demand. With external demand growing significantly in the second half of 2025, this gives reason to expect export growth in 2025 as a whole.

Figure 3.14



As major groups of goods such as wood and wood products and agricultural and food products are growing more rapidly, the diversification rate of export goods is deteriorating, while faster development of relatively smaller export groups

improves this indicator. The diversification indicator has been volatile in the last years. For example, in 2023, the fall in prices of wood and wood products led to a significant decline in exports, which also had a positive impact on the commodity diversification indicator. In 2024 and 2025, however, the export diversification ratio has not changed significantly.

A similar process is observed in the diversification of exports of goods by country. This indicator increases when new export markets are entered, and the indicator deteriorates when exports to major partner countries increase more rapidly. The diversification of goods by country has not changed significantly in the last two years.

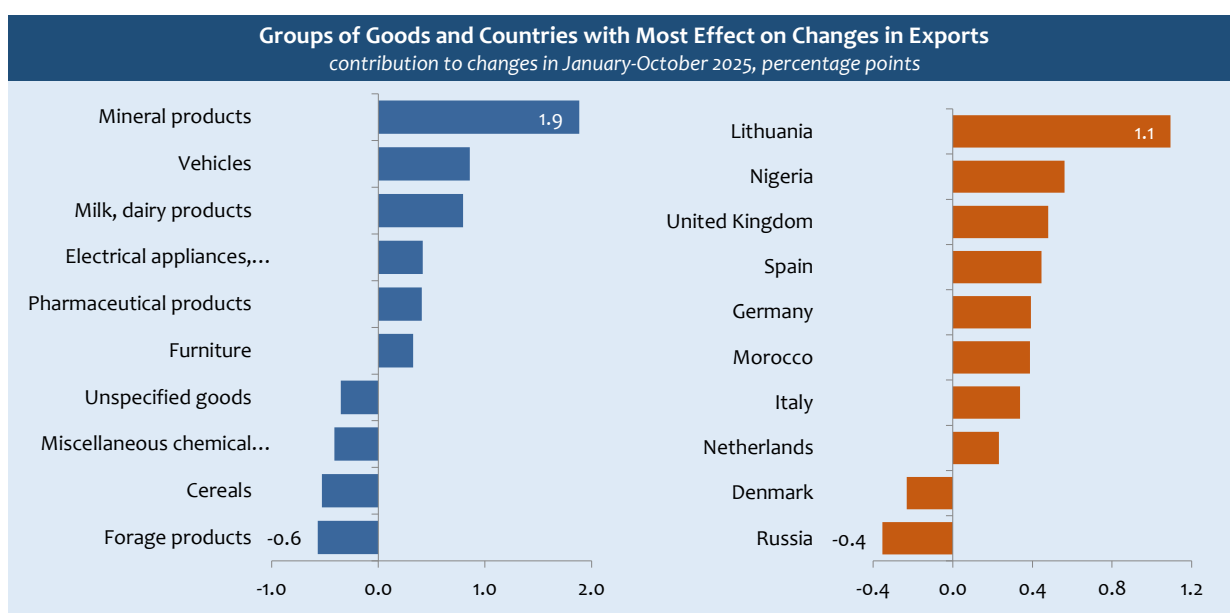
Table 3.3

| Exports of Goods as per cent, at current prices | | | | | | |
|--|------------|-------------|-----------------------------|--------------|------------|-----------------------------|
| | 2024 | | | 2025 Jan-Oct | | |
| | structure | changes | contribution to the changes | structure | changes | contribution to the changes |
| Total | 100 | -0.8 | -0.8 | 100 | 4.3 | 4.3 |
| Agricultural and food products | 23.1 | 0.8 | 0.2 | 22.4 | 1.8 | 0.4 |
| Mineral products | 7.6 | -3.5 | -0.3 | 9.2 | 27.1 | 2.0 |
| Chemical industry products | 12.3 | 4.1 | 0.5 | 11.7 | 0.0 | 0.0 |
| Light industry products | 4.0 | 10.2 | 0.4 | 4.2 | 7.0 | 0.3 |
| Wood and articles of wood | 16.1 | 5.9 | 0.9 | 15.5 | 0.8 | 0.1 |
| Metal and articles of metal | 6.1 | -6.3 | -0.4 | 6.0 | -0.7 | -0.0 |
| Machinery, mechanical and electrical appliances | 15.2 | -6.8 | -1.1 | 15.2 | 3.0 | 0.5 |
| Transport vehicles | 5.6 | -2.3 | -0.1 | 6.0 | 16.3 | 0.9 |
| Other goods | 10.0 | -7.6 | -0.8 | 9.8 | 1.7 | 0.2 |

In 2023, exports of goods to Latvia’s largest export market – **EU countries** – (at current prices) declined by 11.8%. This was largely due to a fall in the value of exports of mineral products, partly offset by an increase in exports of electrical appliances and equipment, as well as vehicles to EU countries. A fall in the value of exports of mineral products mainly underpinned the decline in exports to EU countries (by 0.8%) also in 2024.

Exports to EU countries have returned to growth in 2025 (up 4.6%), including strong growth in January-October of the year for groups of dairy and dairy products, vehicles. By country, the largest increases are in Lithuania, Spain, Germany and Italy.

Figure 3.15



In recent years, exports of goods to the **CIS countries** have been declining. They contracted by 0.9% at current prices in 2023 and by 10% in 2024. This decline in exports in 2024 was significantly affected by a drop in the value of exports of machinery and appliances, pharmaceutical products, and also electrical appliances and equipment.

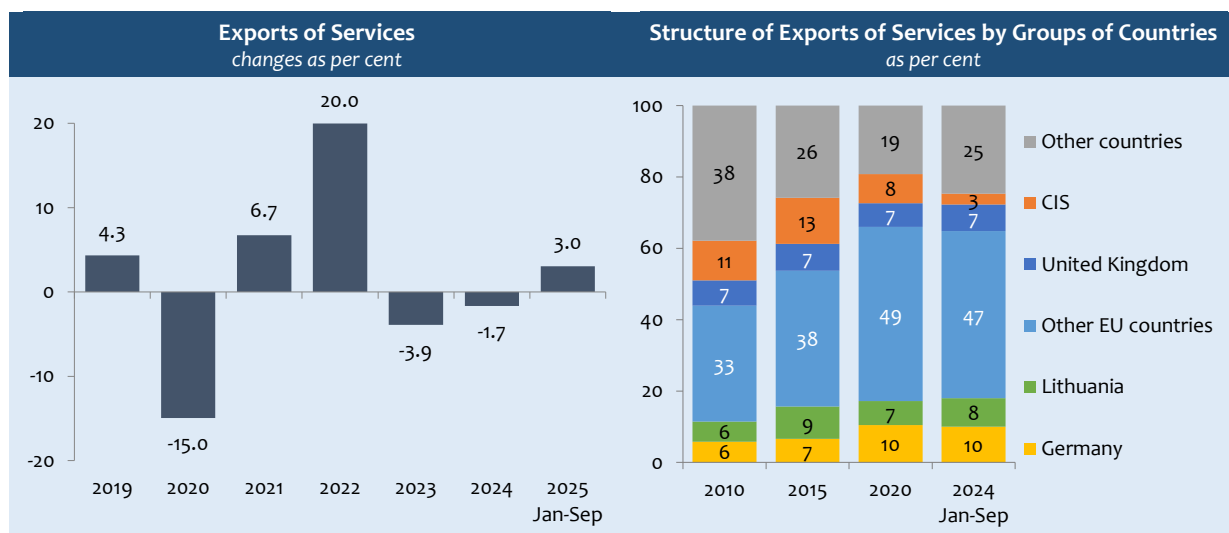
Similar trends in exports of goods to CIS countries persisted also in 2025 – a decrease by 6.8%, including by 6.3% to Russia, in January-October. The biggest decrease in this group of countries was in exports of beverages. Exports to Russia still account for slightly more than two-thirds of all exports to the CIS countries.

Like total exports, exports of goods to other countries, excluding EU and CIS countries, declined by 11.9% at current prices in 2023 and by 2.5% in 2024. This increase was significantly driven by growth in exports of wood and wood products, and mineral products.

Export growth outside the EU and CIS will continue in 2025. In January-October, exports to CIS countries increased by 7.4%. Exports of mineral products increased significantly, but exports of cereals declined. By country, the largest increases are in Nigeria, Morocco and the United Kingdom.

In 2020, the growth of **exports of services** was greatly impacted by restrictions imposed on travelling, food service activities, and other service activities due to the COVID-19 pandemic. In 2020, overall exports of services decreased considerably. The most rapid drop was observed from the middle of 2020 to the beginning of 2021. Since Q2 2021, exports of services have resumed growth at a comparatively rapid pace due to the base effect. Rapid growth rates of exports of services were also preserved in 2022, where the increase in the value of exports of services exceeded 20% in Q1-Q3, being the most rapid growth in exports of services since 1996.

Figure 3.16



The growth of exports of services was positive in the first half of 2023 and strongly negative in the second half of the year, which also contributed to the overall decline in exports of services. It should be noted that exports of services at current prices were higher than a year ago, due to the sharp increase in export prices. In 2024, growth in exports of services remains negative, but volume declines every quarter are reducing from -6.1% at the beginning of the year to +8% in Q3. Exports of services at current prices grew by 3.6% in 2024.

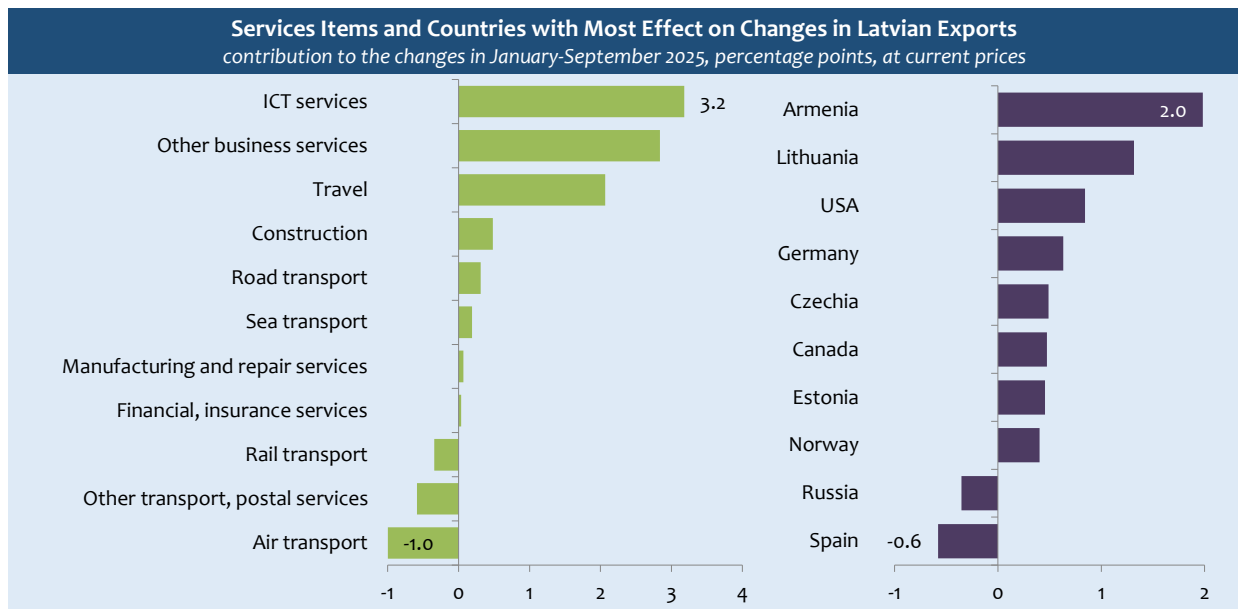
Until 2019, about 40% of the exports of services usually consisted of income from transport services. The next few years have not been successful for the export of transport services. In 2019, the exports of services were similar to the previous year. In 2020, exports of services provided by all modes of transport declined significantly under the influence of COVID-19. The value of road transport export services declined moderately. In 2021, the development of exports of transport services was similar to the general trends in exports of services. In 2022, exports of services by all modes of transport increased. Transport by air and road transport grew most significantly, while transport by sea and rail was growing more moderately.

Table 3.4

| Exports of Services as per cent, at current prices | | | | | | |
|---|------------|------------|-----------------------------|--------------|------------|-----------------------------|
| | 2024 | | | 2025 Jan-Sep | | |
| | structure | changes | contribution to the changes | structure | changes | contribution to the changes |
| Total | 100 | 3.6 | 3.6 | 100 | 7.9 | 7.9 |
| Transport services, including: | 31.8 | 3.7 | 1.2 | 28.6 | -4.5 | -1.5 |
| – sea transport | 1.9 | -11.7 | -0.3 | 1.9 | 10.3 | 0.2 |
| – air transport | 12.1 | 7.4 | 0.9 | 10.6 | -8.2 | -1.0 |
| – rail transport | 1.1 | -33.1 | -0.6 | 0.8 | -29.0 | -0.4 |
| – road transport | 15.1 | 7.2 | 1.1 | 14.4 | 2.1 | 0.3 |
| – other transport services | 1.6 | 9.9 | 0.1 | 1.0 | -36.2 | -0.6 |
| Travel | 16.3 | 7.5 | 1.2 | 17.6 | 12.5 | 2.1 |
| Other services, including: | 51.9 | 2.3 | 1.2 | 53.8 | 14.3 | 7.2 |
| – construction services | 5.0 | 7.5 | 0.4 | 4.9 | 10.3 | 0.5 |
| – financial and insurance services | 2.3 | 1.7 | 0.0 | 1.9 | 1.8 | 0.0 |
| – ICT services | 17.5 | 6.7 | 1.1 | 19.0 | 18.8 | 3.2 |
| – other business services | 25.9 | -1.6 | -0.4 | 26.5 | 11.9 | 3.0 |
| – other services | 1.2 | 11.6 | 0.1 | 1.5 | 35.7 | 0.4 |

In 2023, the increase in exports of transport services was underpinned by a significant increase in the value of export of air transport, while exports of other types of transport services declined. In 2024, growth in exports of transport services was also driven by growth in exports of air transport and road transport services. By contrast, exports of transport services declined in Q1-Q3 2025, mainly due to shrinking exports of air and rail transport, as well as transport services.

Figure 3.17



In 2021, income from foreign tourists fell slightly due to the COVID-19 crisis, while in 2022 it increased rapidly. In 2023, income from foreign tourists continued to increase forming a big contribution to the total development of exports of services. Travel exports continued to grow steadily in 2024 as well as in Q1-Q3 2025. Exports of ICT and construction services are also growing steadily.

Until 2018, slightly less than 60% of total exports of Latvian services were related to EU countries; in 2020, this share rose significantly – by 66%. A similar share of services exports to EU countries has persisted also in the past years.

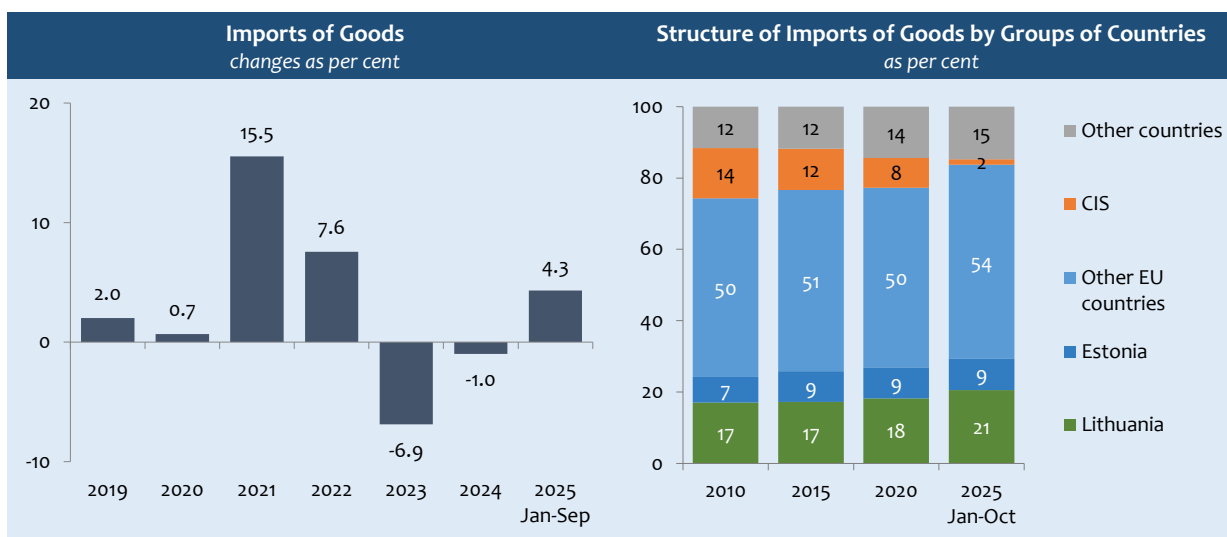
Exports to EU countries grew at a slightly more moderate pace in Q1-Q3 2025 than total exports (by 6.5%). During this period, the value of exports of travel, other business services and ICT services grew faster, while exports of air transport declined.

IMPORTS

In 2017-2020, the growth of imports of Latvian goods and services followed a downward trend. Weak import growth in 2019-2020 was due to low domestic demand due to the COVID-19 pandemic. However, demand began to grow rapidly in 2021, with import growth rates at their fastest pace in recent years. Import volumes exceeded the level of the previous year considerably also in 2022. Imports of both goods and services increased. Although imports of services continued to grow stably (by 4.3%) in 2023, imports of goods reduced by 6.9% driving the total reduction in imports by 3.9%. In 2024, imports of goods fell slightly, while imports of services fell faster. By contrast, 2025 is favourable for imports of goods and services, with domestic demand rising and imports of both goods and services increasing.

The decrease in **imports of goods** in 2024 was mainly driven by a decrease in the import value of mineral products, machinery and equipment, electrical appliances and equipment, and vehicles. This was partly due to a decline in import prices for this product group. This was somewhat offset by an increase in imports of chemical products. January-October 2025 also saw a stable decline in the value of imports. Imports of the commodity groups that saw the biggest declines a year ago – electrical machinery and equipment, mineral products, vehicles, machinery and equipment – grew significantly.

Figure 3.18



In 2024, imports from EU countries at current prices reduced in the same way as total imports of goods. The decrease in imports from the EU was driven by the same import groups that drove the overall decrease in imports. In January-October 2025, like total imports, imports of goods from EU countries continued to increase rapidly (by 8.6%). Growth was driven by the same commodity groups as in total imports, as well as pharmaceutical products.

Imports from Russia and Belarus traditionally accounted for about 98% of imports from CIS countries, they reached even 99% in 2021. On the other hand, as extensive Russia’s hostilities in Ukraine began, due to the various restrictive measures introduced by the EU and Latvia, imports from Russia accounted for only 32% and imports from Belarus – 21% of all imports from CIS in January-October 2025. Imports from Kazakhstan accounted for 31% of all imports from CIS countries during this period.

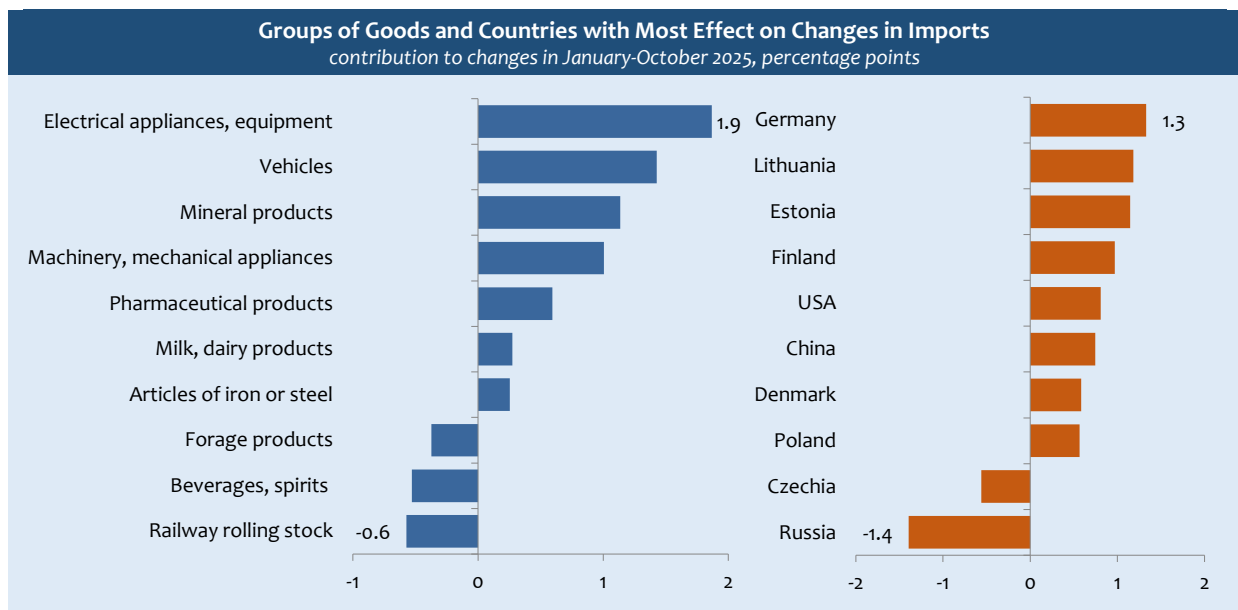
As sanctions intensified, imports from CIS countries at current prices decreased by 25% in 2024. This was mainly due to a fall in the value of imports of mineral and cereal products. Imports from the CIS countries continue to fall sharply in 2025, when in January-October they amounted to only half the value of the same period last year.

Table 3.5

| Imports of Goods as per cent, at current prices | | | | | | |
|--|------------|-------------|-----------------------------|--------------|------------|-----------------------------|
| | 2024 | | | 2025 Jan-Oct | | |
| | structure | changes | contribution to the changes | structure | changes | contribution to the changes |
| Total | 100 | -4.4 | -4.4 | 100 | 7.3 | 7.3 |
| Agricultural and food products | 20.2 | -1.4 | -0.3 | 18.9 | -0.5 | -0.1 |
| Mineral products | 11.5 | -11.6 | -1.4 | 11.4 | 10.6 | 1.2 |
| Chemical industry products | 16.5 | 2.7 | 0.4 | 16.6 | 6.3 | 1.1 |
| Light industry products | 5.2 | 1.9 | 0.1 | 5.3 | 8.8 | 0.5 |
| Wood and articles of wood | 2.5 | -3.3 | -0.1 | 2.6 | 9.31 | 0.2 |
| Metal and articles of metal | 6.6 | -3.8 | -0.2 | 6.5 | 2.4 | 0.2 |
| Machinery, mechanical and electrical appliances | 18.8 | -9.0 | -1.8 | 20.0 | 15.5 | 2.9 |
| Transport vehicles | 9.9 | -10.1 | -1.1 | 9.9 | 9.1 | 0.9 |
| Other goods | 8.9 | -1.0 | -0.1 | 8.8 | 5.8 | 0.5 |

In the group of other countries, except the EU and the CIS countries, imports fell slightly by 1.5% in 2024, significantly affected by a fall in the value of imports of electrical appliances and equipment such as aircraft and its parts, while imports of mineral products increased. In January-October 2025, imports of goods from other countries were growing rapidly (by 16%). This was positively influenced by a significant increase in imports of electrical equipment, as well as machinery and appliances.

Figure 3.19

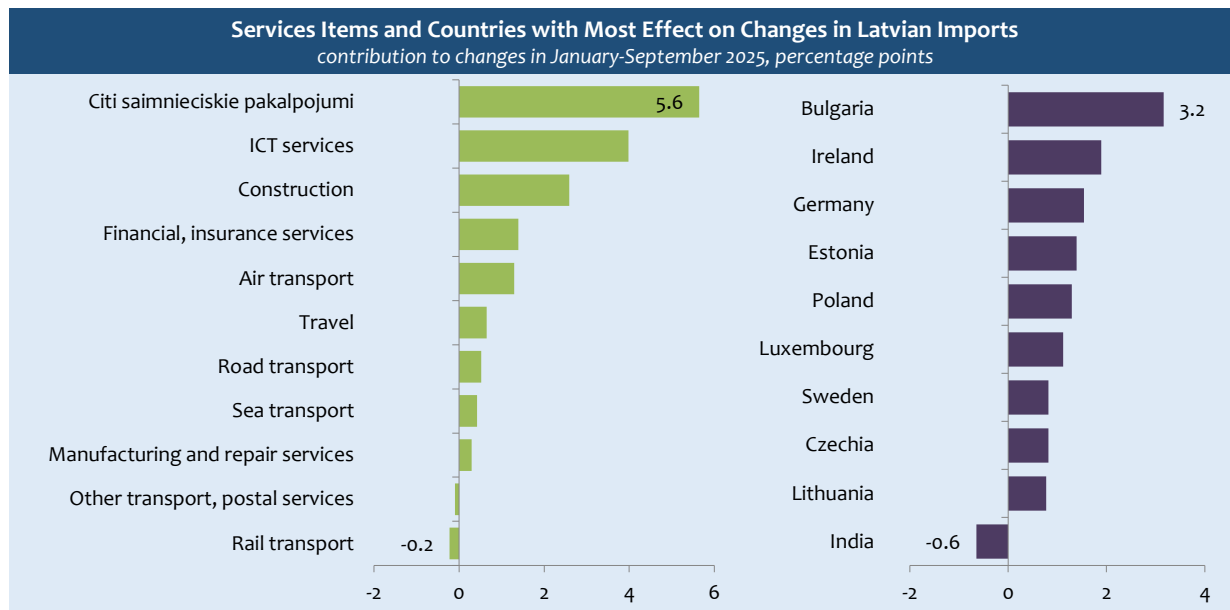


The share of imports of capital goods in the structure of imports of goods by end-use has been gradually declining in recent years. As the share of intermediate goods does not change significantly, imports of consumer goods, as well as passenger cars and other non-classified goods are rising slightly.

Imports of services grew rapidly in 2021-2022, partly due to the base effect. Imports of services related to brokering and travel services increased significantly in 2022. Imports of transport services, in particular air transport, were growing rapidly. In 2023, imports of services still continued to increase, albeit at a slower pace. This was driven by growth in imports of travel and air transport. Services imports grew by 1.4% in 2024. Imports of ICT, construction and travel services increased significantly. Imports of services grew by 17.1% in Q1-Q3 2025. Imports of brokering services, ICT and construction services grew faster.

About two-thirds of all services are provided to Latvia by EU countries. The share of imports of services from the EU countries was 57% in 2019 and 69% in Q1-Q3 2025. The value of services imported from Russia has fallen to almost zero.

Figure 3.20



4. CONTRIBUTION OF SECTORS

4.1. DYNAMICS AND STRUCTURE

In 2009-2010, as labour costs reduced, the competitiveness of Latvian producers improved, which served as a basis for an increase in export volumes and, consequently, for the development of tradable sectors (agriculture, forestry and fishing, industry, as well as transport services). The structure of the economy has changed. In 2010, the share of these sectors reached 33.9% of total value added, but in 2024 – 25.7%. In 2024, compared to 2010, the share of construction, business services and public services increased, while the share of agriculture, forestry and fishing, manufacturing, other industry, transport, trade and accommodation reduced. The analysis of the economic structure from another perspective shows that in 2024 producing sectors (agriculture, forestry and fishing, industry, and construction) accounted for 25.9%, while service sectors – for 74.1% of total value added. Compared to 2010, the share of producing sectors has decreased, driven by a decline in the share of industry.

Since 2011, GDP has been growing by an average of 2.4% per year.

Table 4.1

| Structure of the Economy by value added, as per cent | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|-----------------|
| | 2000 | 2008 | 2010 | 2016 | 2020 | 2024 | 2025 Jan-Sep |
| Agriculture, forestry and fishing | 5.1 | 3.5 | 4.6 | 3.8 | 4.7 | 4.6 | 5.3 |
| Manufacturing | 15.6 | 11.3 | 13.7 | 12.1 | 13.2 | 11.4 | 10.5 |
| Other industry | 4.3 | 3.5 | 4.9 | 4.4 | 3.6 | 3.8 | 3.4 |
| Construction | 7.2 | 10.7 | 4.9 | 5.5 | 6.6 | 6.0 | 6.3 |
| Trade, accommodation and food service activities | 16.0 | 16.8 | 18.1 | 17.3 | 16.9 | 15.9 | 15.7 |
| Transportation and storage | 12.2 | 9.8 | 10.7 | 9.5 | 7.1 | 5.8 | 5.7 |
| Other business services | 23.1 | 27.3 | 26.8 | 30.9 | 29.5 | 31.9 | 32.4 |
| Public services | 16.5 | 17.1 | 16.3 | 16.5 | 18.4 | 20.6 | 20.7 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Economic growth was rapid in 2016-2018, boosted by rising private consumption and exports, as well as more active absorption of EU funds. In 2019, growth became very moderate due to the slowdown in the EU economy and, consequently, weaker export growth. Growth was mainly supported by agriculture, forestry and fishing, while services contracted, particularly in the financial sector.

In 2020, the COVID-19 crisis negatively affected almost all sectors, and the most significant impact came from the drop in volumes in most service sectors and construction. As the economy recovered, growth in 2021 was observed in all sectors except construction, accommodation and education. The strongest contribution came from the increase in volumes in trade and manufacturing.

In 2022, the Latvian economy continued to recover, yet economic development was significantly affected by the disruptions in supply chains caused by Russia's invasion of Ukraine, rising inflation driven by increases in energy and food prices, as well as the decline in global demand. Volumes fell in all producing sectors except mining, but rose in all service sectors except education.

In 2023, economic development continued to be influenced by the geopolitical situation and uncertainty, high prices and rising bank interest rates. Volumes declined in agriculture, forestry and fishing, as well as across all industrial sectors, largely due to deteriorating export conditions. Volumes also decreased in most service sectors, with the biggest impact coming from the decline in transport. Construction saw rapid growth, supported by an increase in client activity, as well as the low base effect following the sector's three-year recession.

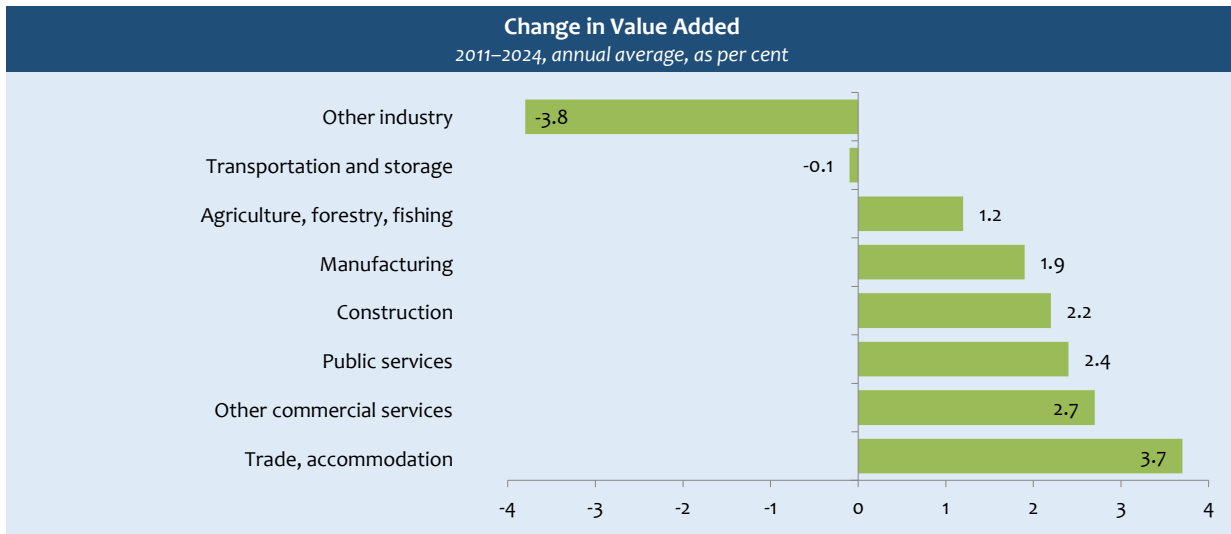
Although inflation stabilised in 2024, external pressures, especially in the export-oriented and investment-related sectors, kept economic activity subdued, and GDP growth resumed only in the second half of the year. Producing sectors continued to decline due to weaker export, while services remained broadly unchanged. The largest negative effect came from shrinking volumes in transport, manufacturing and construction, whereas the strongest growth was observed in public administration and defence, administrative services, agriculture, and trade.

In 2025, as the economy recovered amid stronger external demand and increased investment, volumes rose in most service sectors, as well as in manufacturing and construction, with the largest contributions coming from growth in manufacturing, trade and construction. Overall, GDP in the first three quarters of 2025 was 1.7% higher than a year earlier.

Table 4.2

| Development Trends of Sectors | | | | | | |
|---|-------|-------|-------|-------|-------|-----------------|
| <i>year-on-year changes, as per cent</i> | | | | | | |
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 Jan-Sep |
| Gross domestic product | -3.5 | 6.9 | 1.9 | -0.9 | 0.0 | 1.7 |
| Agriculture, forestry and fishing | -0.2 | 0.4 | -13.3 | -4.0 | 5.1 | -2.6 |
| Mining and quarrying | 6.2 | -5.0 | 4.9 | -19.1 | 15.9 | -13.8 |
| Manufacturing | 0.8 | 10.2 | -4.2 | -2.3 | -3.3 | 4.1 |
| Food industry | -1.7 | 1.3 | 1.3 | 2.8 | -0.5 | 6.8 |
| Light industry | -9.5 | 11.8 | 5.1 | -7.2 | 1.6 | -5.1 |
| Wood processing | 4.5 | 3.7 | -1.0 | -8.4 | 0.0 | 6.4 |
| Paper industry and publishing | 4.7 | 14.0 | -2.7 | -23.0 | 7.0 | 6.3 |
| Chemical industry | -1.8 | 14.8 | 4.1 | -7.7 | -8.6 | 2.3 |
| Manufacture of other non-metallic mineral products | -1.4 | 4.4 | 5.4 | -16.8 | 4.1 | 13.3 |
| Metalworking | -5.6 | 5.8 | 16.1 | -6.1 | -4.6 | 2.7 |
| Manufacture of electrical and optical equipment | 12.1 | 5.7 | 3.5 | 13.6 | -9.8 | 1.3 |
| Manufacture of machinery and equipment | -2.7 | 24.1 | -12.3 | 4.2 | -14.0 | -1.6 |
| Manufacture of transport vehicles | -15.3 | 17.7 | 19.5 | -15.5 | -13.6 | 11.8 |
| Other industries | -14.2 | 11.8 | 3.8 | -4.1 | 2.1 | 0.4 |
| Electricity, gas, steam and air conditioning supply | 30.3 | 29.2 | -40.4 | -15.0 | 1.9 | -2.7 |
| Construction | -5.8 | -13.7 | -4.4 | 6.9 | -5.8 | 8.5 |
| Construction of buildings | -7.9 | -16.2 | -0.1 | 4.8 | -19.4 | 0.3 |
| Civil structures | -7.3 | -15.3 | -17.3 | 21.9 | 8.5 | 28.8 |
| Trade | -4.2 | 19.7 | 5.6 | 2.3 | 0.8 | 2.8 |
| Retail trade | 1.5 | -3.5 | 3.1 | -2.2 | 0.9 | 0.8 |
| Transportation and storage | -15.9 | 4.9 | 3.5 | -10.6 | -9.3 | -0.4 |
| Transport of freight by railway | -42.0 | -9.5 | -2.1 | -27.5 | -28.2 | -19.8 |
| Freights transhipped in ports | -27.9 | -7.2 | 15.2 | -19.6 | -6.8 | -1.9 |
| Transport of freight by road | 2.6 | 7.8 | -0.8 | -0.3 | -3.1 | 2.0 |
| Accommodation and food service activities | -31.4 | -4.2 | 35.5 | 8.4 | 1.2 | 4.4 |
| Information and communication | 0.8 | 12.0 | 8.7 | -1.0 | -1.0 | 3.5 |
| Financial and insurance activities | -13.3 | 18.9 | 1.4 | -2.4 | 4.8 | 0.6 |
| Real estate activities | -0.5 | 9.0 | 5.2 | 8.1 | -2.6 | 1.4 |
| Other business services | -1.8 | 4.9 | 5.5 | -3.2 | 0.8 | 2.0 |
| Public administration and defence; compulsory social security | 3.4 | 0.9 | 3.9 | 6.5 | 7.2 | 1.0 |
| Education | 1.2 | -0.6 | -1.4 | -1.3 | -1.0 | -0.3 |
| Human health and social work activities | -3.4 | 6.4 | 8.1 | -2.1 | 1.5 | -0.7 |
| Arts, entertainment and recreation | -33.8 | 2.8 | 35.6 | -1.2 | 5.6 | -0.9 |

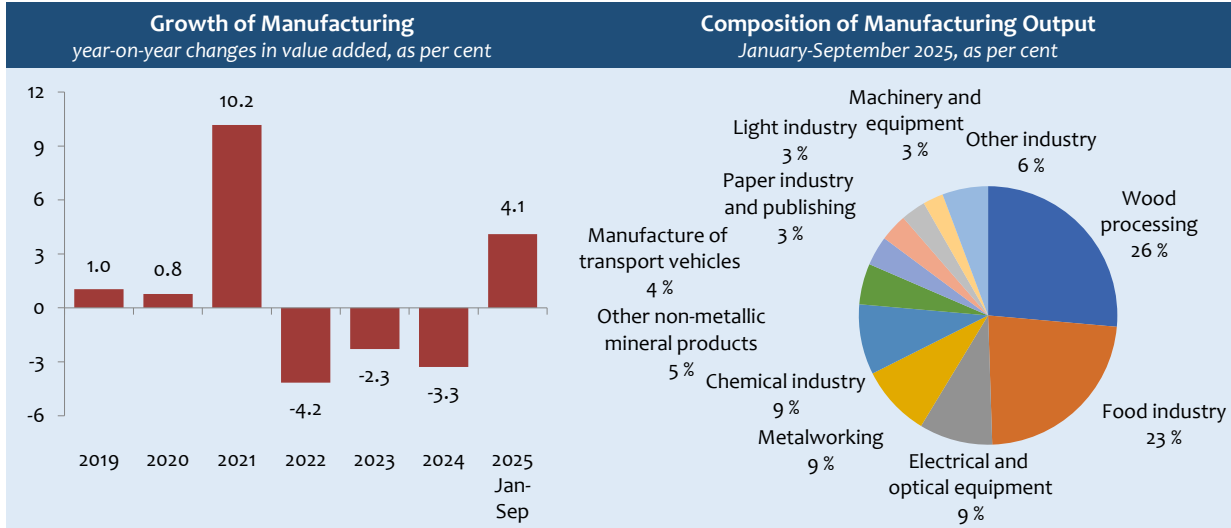
Figure 4.2



4.2. MANUFACTURING

Manufacturing contributes significantly to total economic growth. Over the six-year period from 2019 to, manufacturing was growing by an average of 0.3% per year.

Figure 4.3



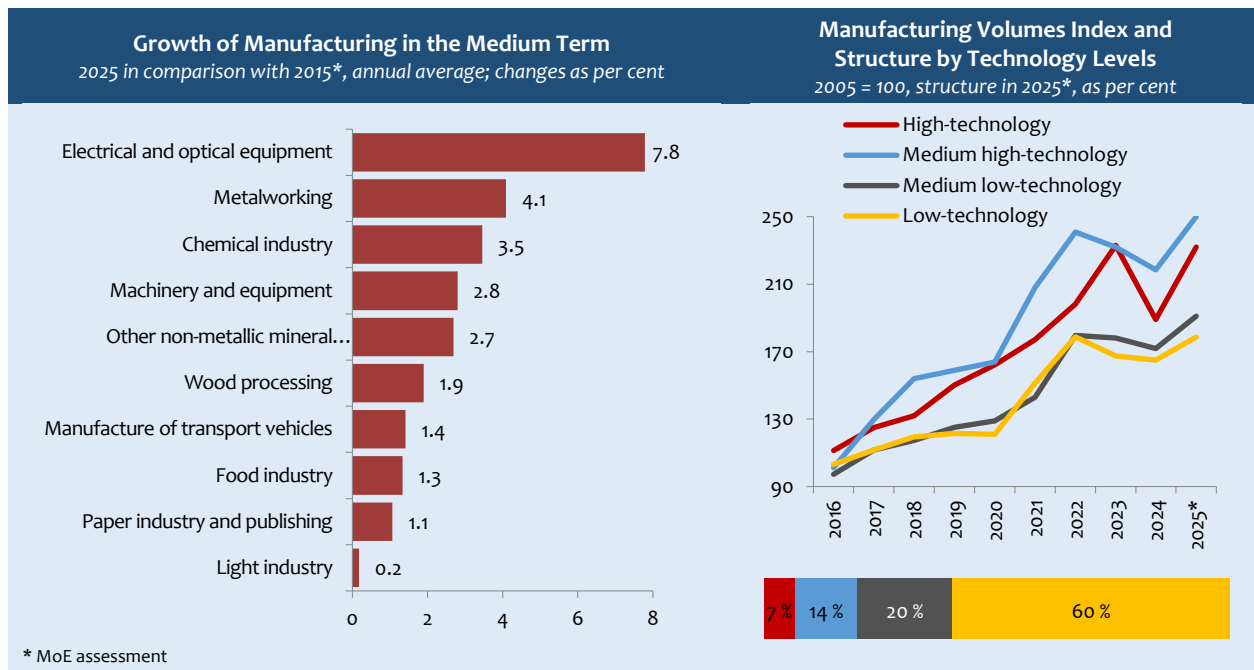
2020 was full of challenges for manufacturing as it was for the economy as a whole. In April-May, as the COVID-19 crisis hit, manufacturing volumes declined by 10.4%, while in the second half of the year increasingly more sub-sectors showed positive growth, and output volumes in 2020 were only 0.9% lower than a year before.

The year 2020 was full of challenges for manufacturing, as it was for the economy as a whole. With the onset of the COVID-19 crisis, manufacturing output declined by 10.4% in April-May. However, in the second half of the year, an increasing number of subsectors showed positive growth, and overall output in 2020 was only 0.9% lower than in the previous year.

In 2021, manufacturing developed dynamically. It can partially be attributed to the base effect. In Q1, manufacturing volumes increased more moderately, while in Q2 volumes accelerated significantly, resulting in an overall annual increase of 7.5%. During this period, increases in production volumes were observed across all manufacturing sub-sectors. The

largest contribution to the sector’s growth came from wood processing. Production volumes also increased significantly in the chemical industry, as well as in the manufacture of electrical and optical equipment and other sub-sectors.

Figure 4.4



In early 2022, growth of manufacturing continued. This was driven by an increase in manufacturing volumes of metalworking and chemical industry. However, a decline in manufacturing volumes became evident starting from Q2 of the year. Overall, manufacturing volumes grew by 2.7% in 2022. In 2023, manufacturing output was volatile, contracting more sharply at the beginning of the year and more moderately in Q2 and Q3. The decline in the sector’s output was significantly influenced by a drop in wood processing output.

Table 4.3

Structure of Manufacturing and Development Trends of Sectors in January-October 2025
as per cent

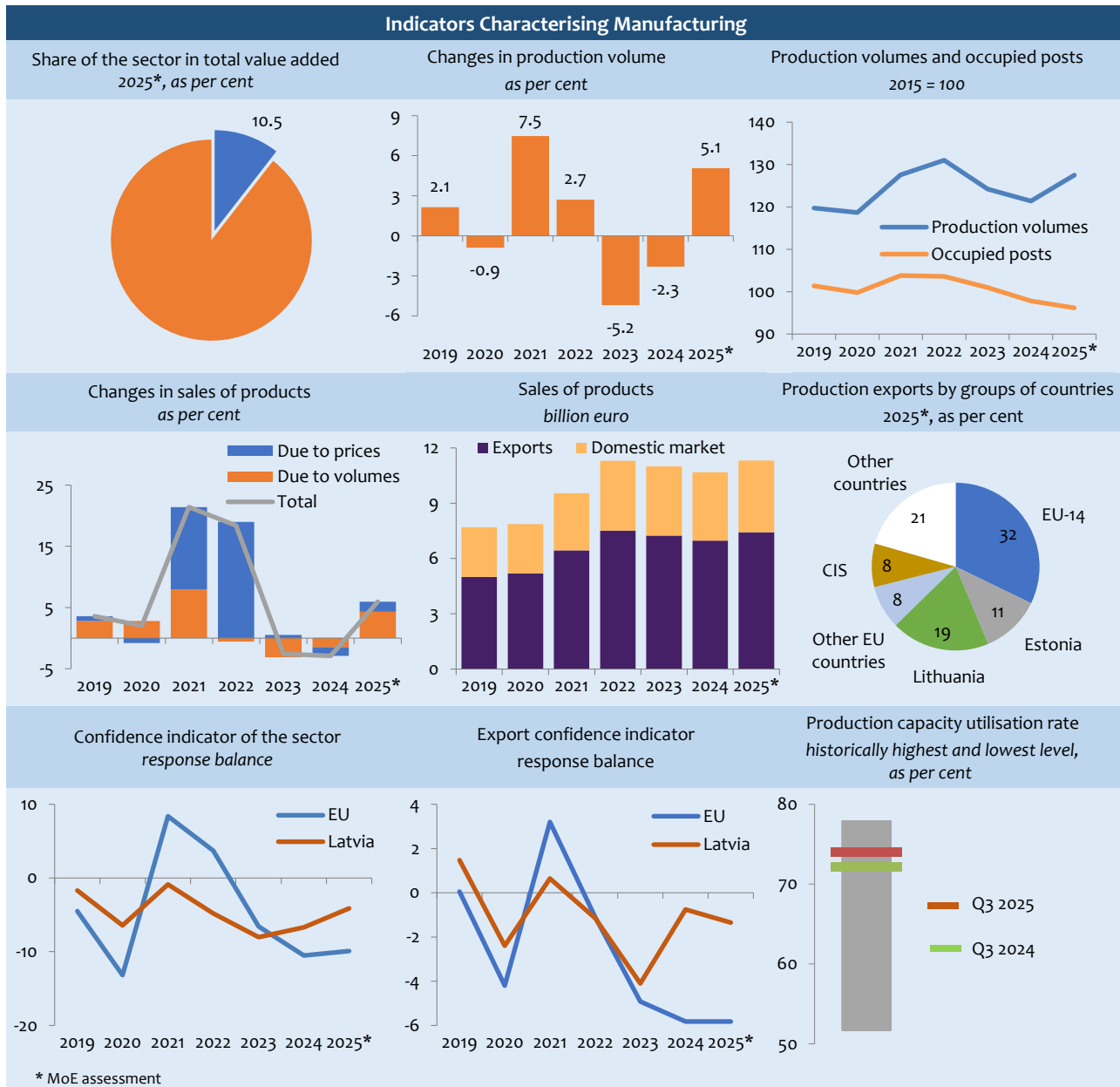
| Sector | Changes in production volumes | Share of exports in the sales of the sector | Structure of occupied posts* |
|--|-------------------------------|---|------------------------------|
| Manufacturing – total | 5.1 | 65.6 | 100 |
| Manufacture of food and beverages | 7.2 | 46.1 | 20.3 |
| Light industry | -4.4 | 82.6 | 7.1 |
| Wood processing | 6.4 | 64.7 | 19.6 |
| Paper industry and publishing | 5.5 | 62.3 | 4.5 |
| Chemical industry and related industries | 3.6 | 74.8 | 7.7 |
| Manufacture of other non-metallic mineral products | 12.9 | 52.4 | 4.6 |
| Manufacture of metals and metal articles | 3.7 | 69.0 | 11.0 |
| Manufacture of electrical and optical equipment | 3.6 | 86.2 | 6.1 |
| Manufacture of machinery and equipment | 0.4 | 87.9 | 3.0 |
| Manufacture of transport vehicles | 11.9 | 92.4 | 3.7 |
| Other manufacturing industries | 0.2 | 73.6 | 12.1 |

* – data for January–September 2025

A similar pattern was observed in 2024, with manufacturing output fluctuating from month to month. Its volumes contracted more sharply at the beginning of the year and more moderately in Q2 and Q3. The contraction in output was mainly driven by declines in the electrical and optical equipment and chemical industry sub-sectors.

In 2025, however, growth was observed in almost all manufacturing sub-sectors. During the first ten months of the year, the two largest sub-sectors—wood processing and the food industry—recorded the fastest growth. Strong growth was also seen in the manufacture of non-metallic mineral products, transport equipment, and other manufacturing sub-sectors. Meanwhile, output in the light industry declined.

Figure 4.5



In 2021–2022, manufacturing turnover at current prices increased rapidly. In 2021, export sales of production grew faster, while domestic sales grew more moderately, whereas in 2022 the opposite trend was observed – faster growth in the domestic market and more moderate growth in exports. In 2023–2024, as the sector’s output declined, sales also decreased in both export and domestic markets.

By contrast, in January–October 2025, domestic sales increased by 5.1% and export sales by 6.4%. This was mainly driven by increased sales in the two largest manufacturing sub-sectors – wood processing and food industry.

In recent years, as usual, approximately 2/3 of total production has been exported. The sub-sectors with a share of exports in total sales above 85% are manufacture of transport vehicles, manufacture of machinery and equipment, and manufacture of electrical and optical equipment. Traditionally, most of the food industry’s production is sold in the domestic market.

About 70% of manufacturing production is sold in EU markets. The share of sales to CIS markets has been declining in recent years and accounts for less than 1/10 of total volumes. Following the United Kingdom’s withdrawal from the EU in 2020, the share of sales to other markets has increased to over 20%.

In 2021, the number of occupied posts in manufacturing increased by 4.5%, representing the largest increase since 2013. This was mainly driven by the rise in the number of jobs in wood processing, chemical industry, and manufacture of transport vehicles. In contrast, a decline in occupied posts was observed in the food industry. Since 2022, however, the number of occupied posts in manufacturing has been falling every year. Over three years, up to 2024, the number fell by 6.6%, or 2.2% per year. Similar trends continued in 2025. In Q1–Q3 of the year, the number of occupied posts declined by 1854, or 1.7%, compared to the previous year. During this period, number of jobs declined most significantly in the sub-sectors of light industry, metalworking and manufacture of other non-metallic mineral products.

In recent years, the confidence indicator of manufacturing has been volatile. In 2022–2023, confidence in manufacturing had a highly negative trend, with the lowest levels recorded in the manufacture of non-metallic mineral products, wood processing, and machinery and equipment manufacturing. Although Latvian business sentiment remained negative in 2024 and 2025, it showed signs of improvement and was significantly higher than the EU average.

The export confidence indicator in 2020, during the COVID-19 crisis, was strongly negative. In 2021, as COVID-19 restrictions reduced, business assessments of export prospects improved to a positive level. After particularly negative assessments in 2022–2023, export prospects have improved significantly since 2024 and now considerably exceed the EU average.

Until 2019, production capacity utilisation in manufacturing showed an upward trend, exceeding the level of 76%. The COVID-19 crisis led to a significant decline in 2020. In 2021–2022, capacity utilisation rate resumed growing, but in 2023–2024 it fell back to the level observed in 2016.

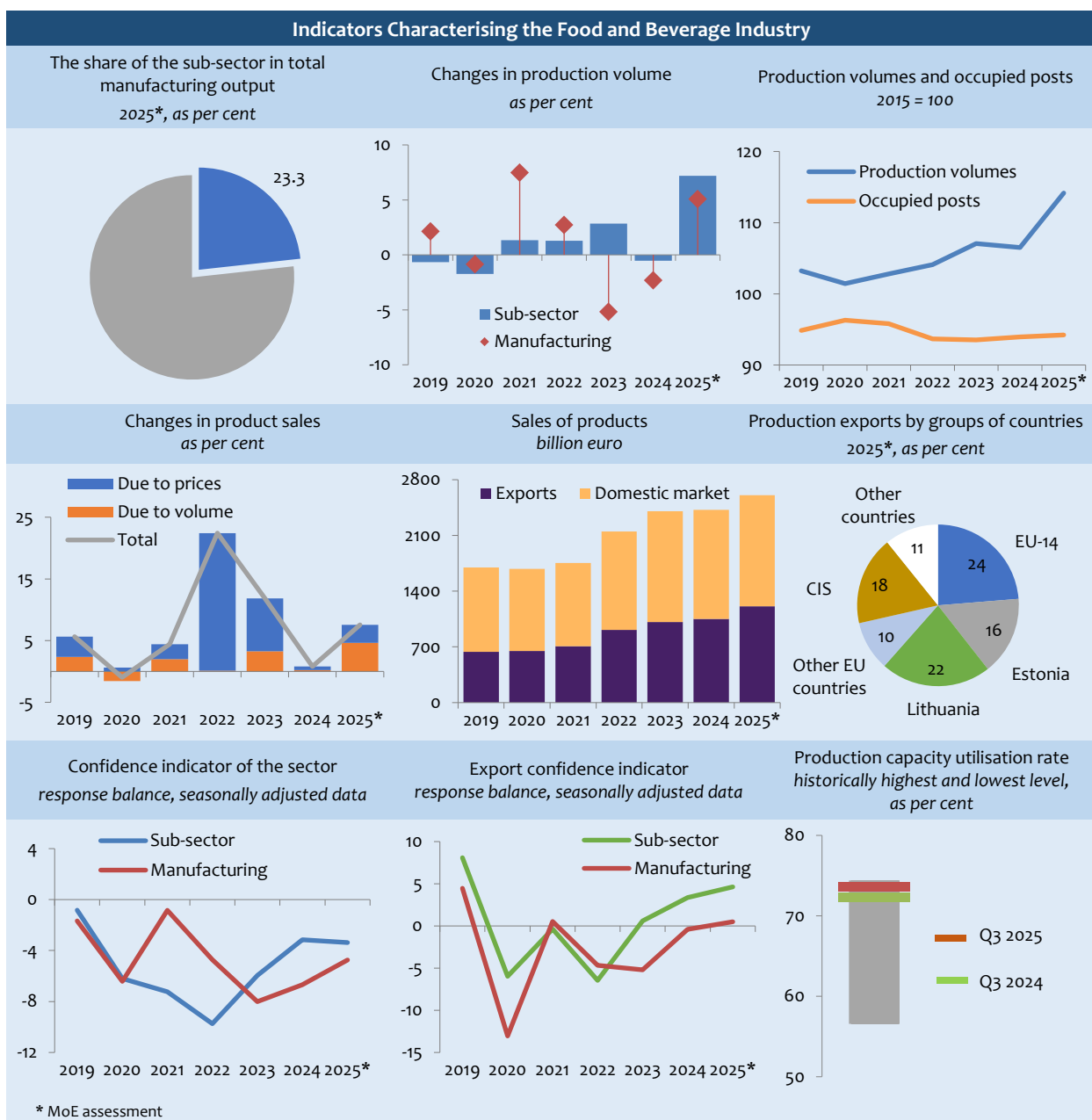
The **manufacture of food and beverages** is the second largest manufacturing sub-sector in Latvia, both in terms of output and number of occupied posts. Although most of its production is sold in the domestic market, the share of exports has been gradually increasing in recent years. It should be noted that more and more producers are reorienting towards safer export markets. Compared to previous years, when the main market for the sector’s products were CIS countries, including Russia, the situation has changed, and exports have shifted towards EU countries. However, it should be noted that a large share of produced beverages is still exported to CIS countries.

The year 2023 was partially successful for the sector, with food production increasing while beverage production declined. A similar trend was observed in 2024. In January-October 2025, beverage production continued to decrease, while food production recorded the strongest growth in recent years.

In January-October 2025, the sector’s turnover increased in both the domestic market and exports.

After an increase in 2020, the number of occupied posts in the food industry slightly declined in the following two years. However, since 2023, it has been gradually increasing. The industry confidence indicator was strongly negative until 2022, but has significantly improved since 2023. In the last two years, export confidence has also been assessed positively.

Figure 4.6

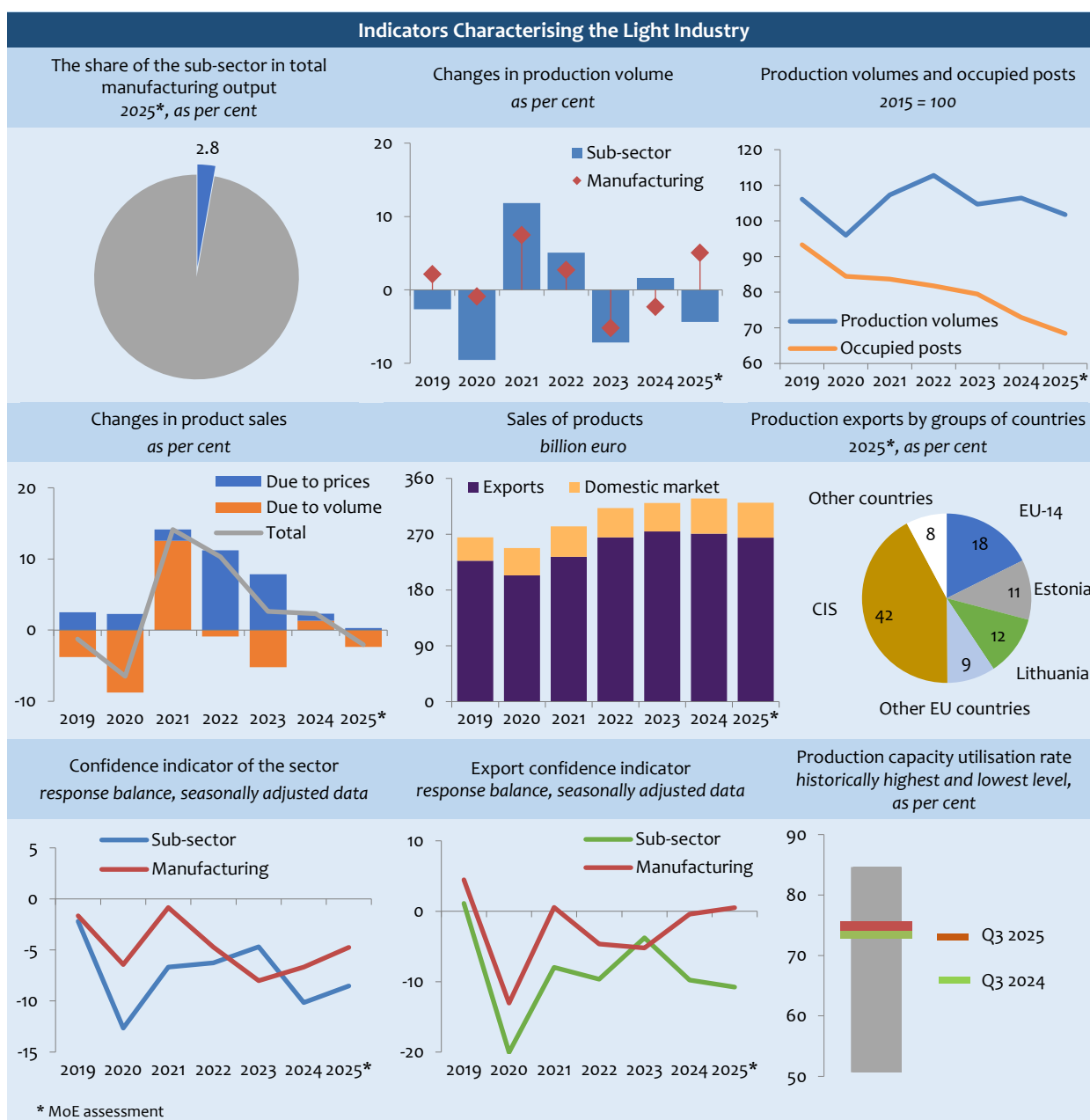


The **light industry** is considerably affected by global trends, and under the conditions of an open EU labour market, the sector cannot rely on the advantages of cheap labour, as is the case in East Asia. As with other sub-sectors, production volumes in light industry increased significantly in 2021-2022, but, in 2023, output declined. After a slight increase in output in 2024, when both textile and wearing apparel production expanded, the sub-sector's output in January–October 2025 was 4.4% lower than a year earlier.

In 2022 and 2023, sales of products of the sub-sector were also growing steadily. Contrary to production volumes, sales of products continued to grow in 2023, rising by 2.6%. This growth was driven by an increase in exports, while sales in the domestic market declined slightly. Similar trends still existed in 2024. In January–October 2025, sales volumes in the sub-sector were 2% lower than a year earlier.

The number of occupied posts in the sub-sector has fluctuated in recent years. It slightly increased in 2021 but has been declining each year since 2022. The confidence indicator has remained negative over the last four years. Considering the large share of exports in the sector's sales, its development is closely linked to changes in demand and competitiveness in external markets. Over the past four years, the sector's capacity utilisation rate has steadily increased, and, in 2023, it was the highest in manufacturing, exceeding the 80%. In Q3 2025, the capacity utilisation rate declined to around 75%.

Figure 4.7

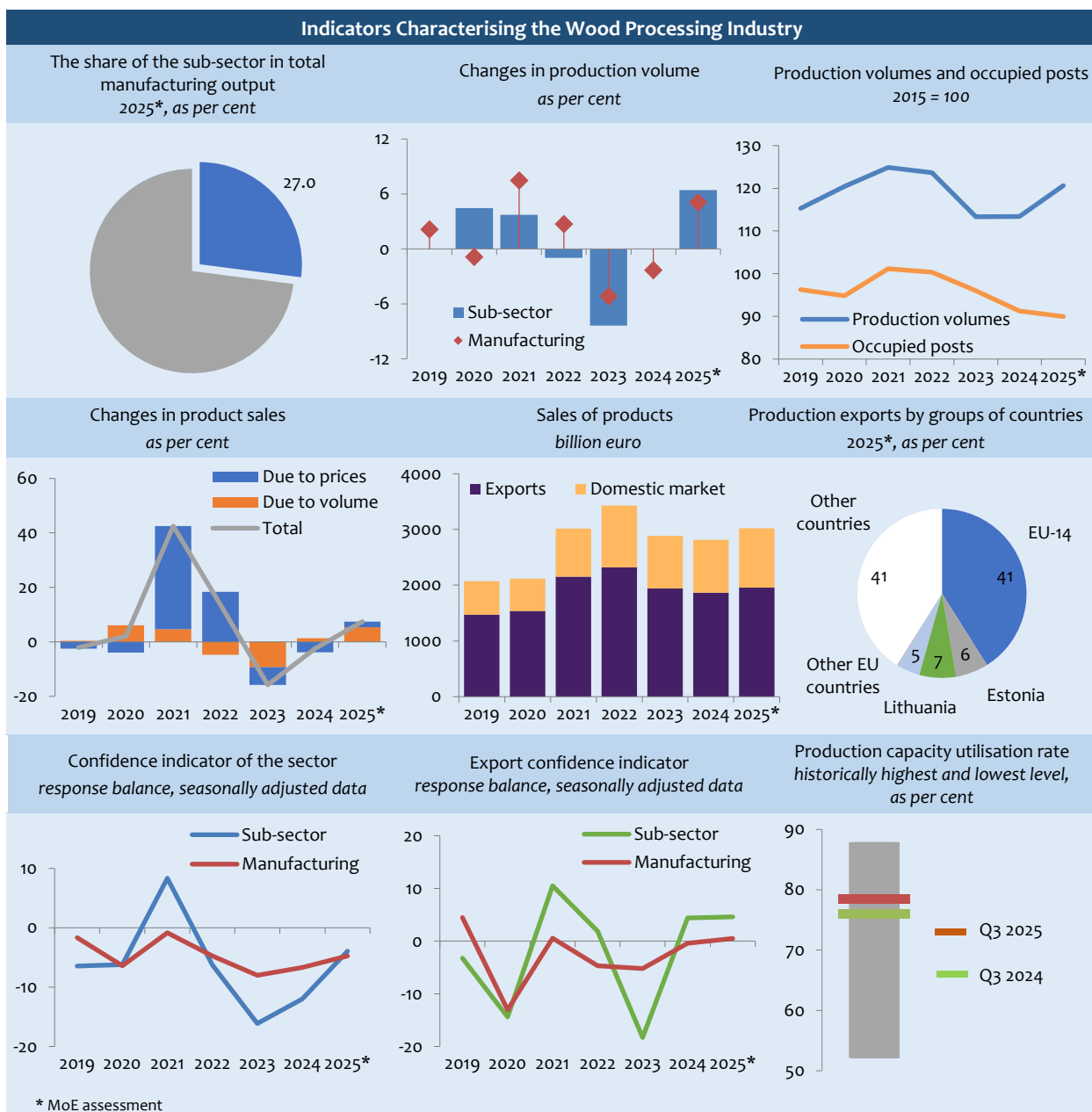


Wood processing has traditionally been the largest manufacturing sub-sector in Latvia, accounting for more than 1/4 of the total manufacturing output. The sector recorded steady growth in 2020–2021. However, production volumes declined significantly in 2022 and 2023. In 2024, they remained at the previous year’s level, while in January–October 2025 the sector showed solid growth.

Wood processing is also mainly export-oriented – in January–October 2025, about 2/3 of the sector’s production was exported. In 2021–2022, strong demand and rising timber prices led to record growth in sales of the sub-sector’s production. In 2023, however, sales declined considerably in both the domestic and export markets. In 2024, the sector’s exports continued to decline, but in January–October 2025, sales increased steadily, both in exports and in the domestic market.

As in other sub-sectors, the number of occupied posts in wood processing has fluctuated from year to year. After a more rapid increase in 2021, the number has been slightly declining every year. The sub-sector confidence indicator was strongly negative in 2022–2023, but has been improving since 2024. The subsector’s export prospects have been assessed positively over the past two years. Capacity utilisation rate in this sub-sector is the highest in manufacturing.

Figure 4.8

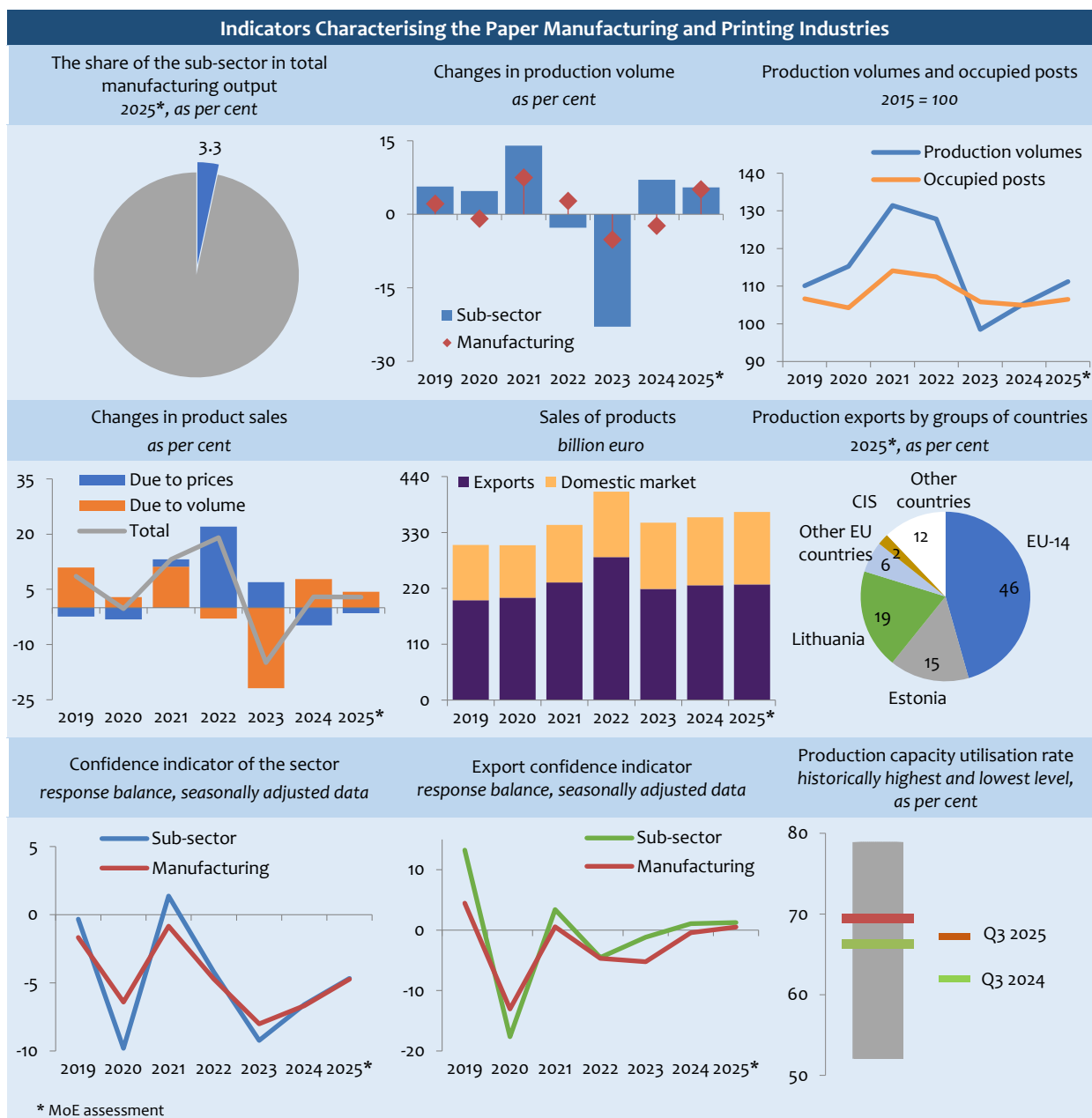


The **paper manufacturing and printing** sub-sector is gradually shifting from the domestic market towards exports. In 2020-2022, the share of products exported increased slowly each year, while in 2023 it declined significantly. Since 2023, it has remained relatively stable, at above 62%. In January-October 2025, the volumes of both exported products and products sold on the domestic market increased. The EU countries are the main market for the sector’s production.

2023 was an unfavourable year for the sub-sector, as production volumes declined significantly over the year, mainly due to weak external demand. Output in the manufacture of paper products declined more moderately, while printing output fell more sharply. In contrast, production volumes increased in 2024–2025.

Similarly to other manufacturing sub-sectors, the number of occupied posts in the paper manufacturing and printing has fluctuated in recent years. After a more rapid increase in 2021, the number of jobs declined in 2022-2024, but slightly increased in Q1-Q3 2025. The confidence of the sub-sector remains negative, although positive trends have been observed over the past two years. Despite this, future export opportunities are assessed as cautiously good. The capacity utilisation rate in the paper manufacturing and printing sub-sector increased in Q3 2025 compared with the corresponding period of the previous year.

Figure 4.9

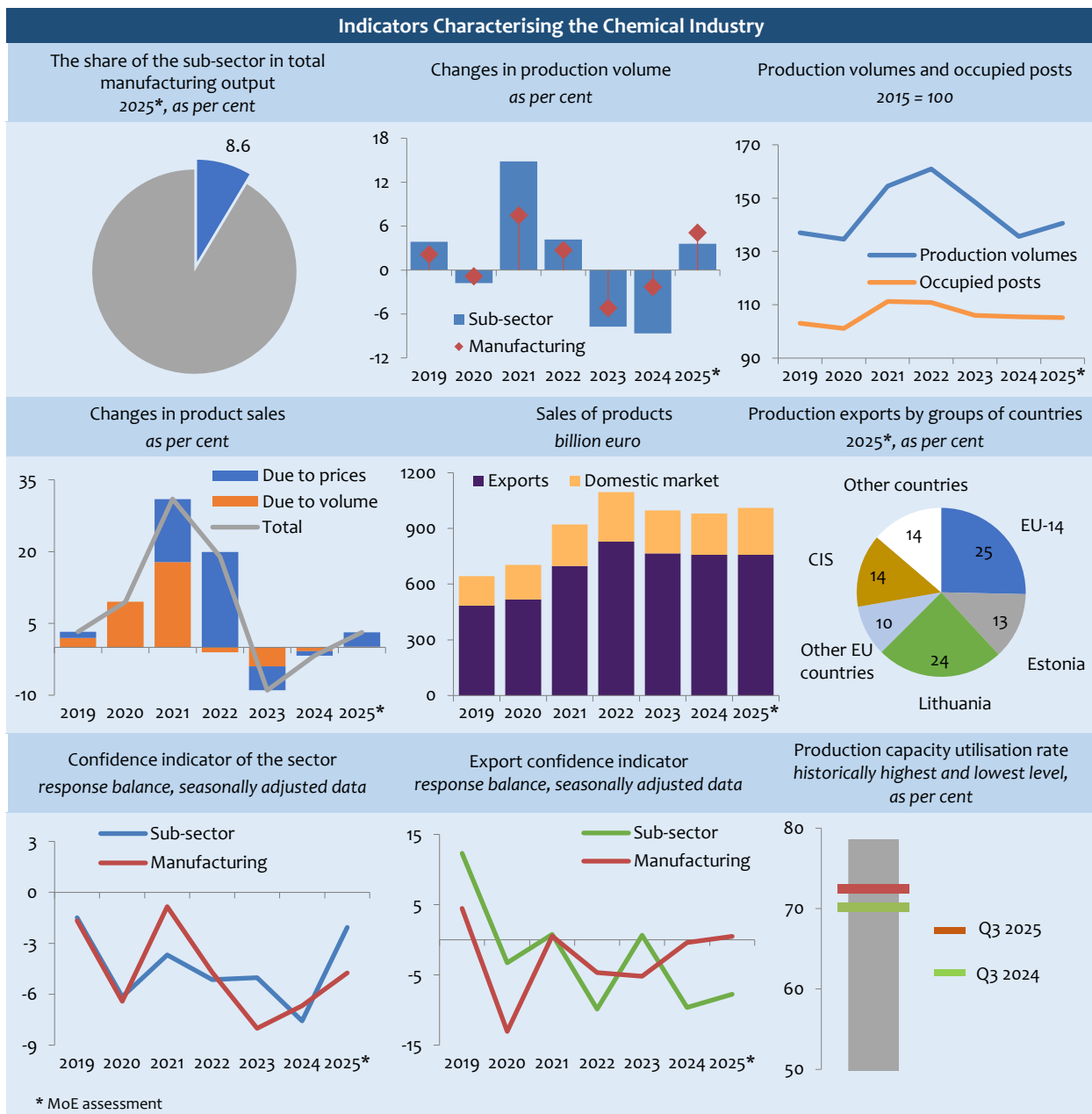


The **chemical industry** recorded rapid growth in 2021. Positive trends were also observed in 2022, particularly in the first half of the year. However, output volumes of the sub-sector declined in 2023-2024. Production volumes of pharmaceutical products declined, while those of chemicals, rubber and plastics increased. In January-October 2025, the sub-sector has resumed growth.

Sales volumes of chemical industry products increased significantly in both the domestic and export markets in 2021-2022, before declining in 2023-2024. It should be noted that 3/4 of the sector's production is exported. The sub-sector continues to reorient its market focus, with an increasing share of production being directed towards EU markets.

The number of occupied posts in the chemical industry increased significantly in 2021 but declined gradually over the following three years. In Q1-Q3 2025 the number of jobs remained at the previous year's level. Both the sub-sector confidence indicator and the assessment of export prospects remain negative. The capacity utilisation rate has shown an upward trend in 2025.

Figure 4.10

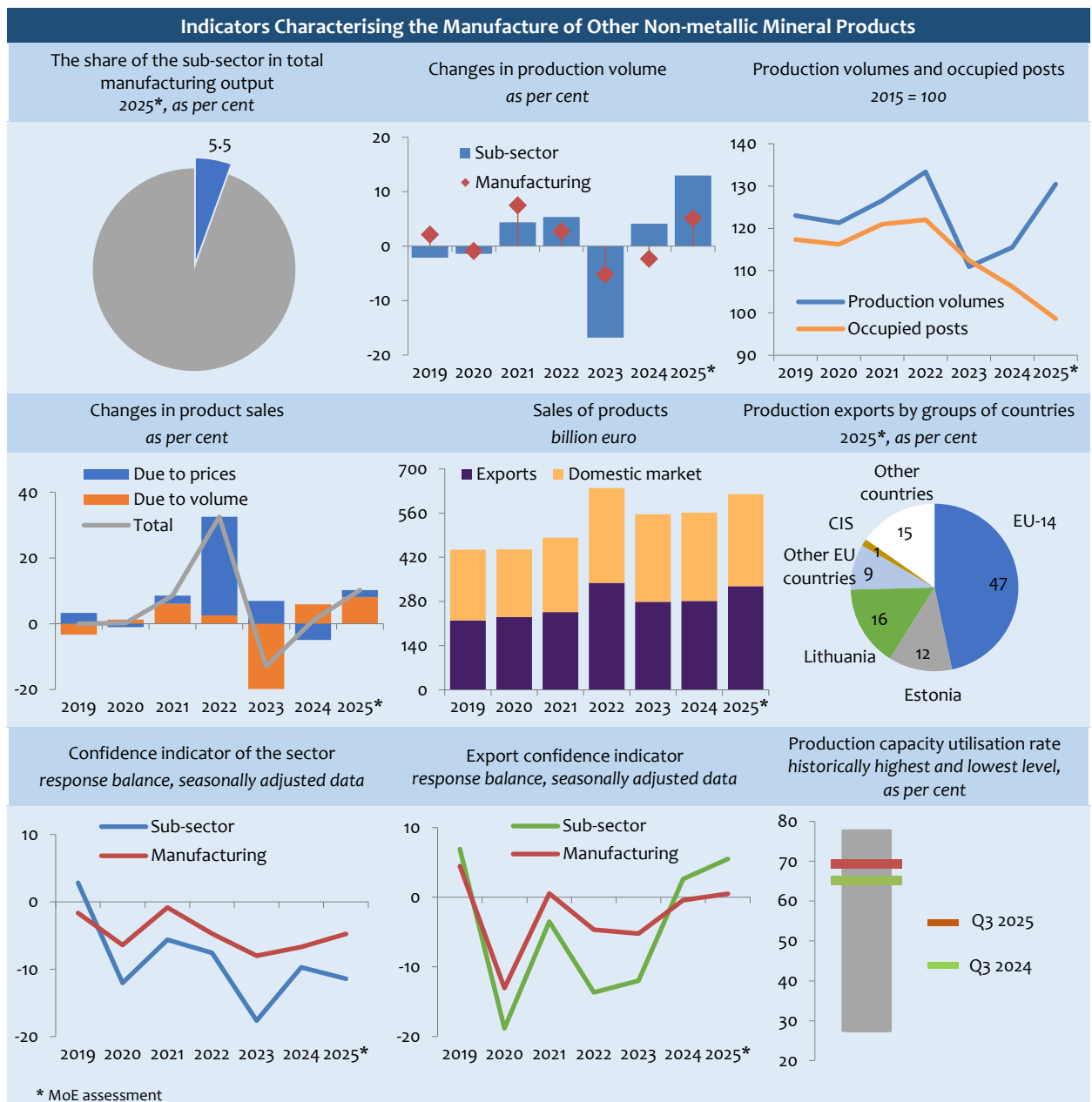


The **manufacture of other non-metallic mineral products** is closely linked to the demand in the construction sector. As the demand for these products grew, the sub-sector experienced steady growth in 2021–2022, but an opposite trend was observed in 2023, when the sub-sector output reduced significantly. Growth of the sub-sector resumed in 2024. It continues to increase significantly also in 2025.

As product prices increased, a record-high increase was observed in sales of other non-metallic mineral products in 2022. In 2023, however, sales declined moderately in the domestic market and more sharply in exports. In 2024 and in January–October 2025, both domestic and export sales increased. Traditionally, most of the products are sold in EU markets.

The number of occupied posts in the sub-sector increased in 2021–2022, but declined each year thereafter. In 2022 and 2023, the confidence indicator of the sub-sector was strongly negative. The assessment of export prospects has improved in recent years from a strongly negative indicator in 2022–2023 to a positive indicator in the last two years. The capacity utilisation rate in the sub-sector is one of the lowest in manufacturing.

Figure 4.11



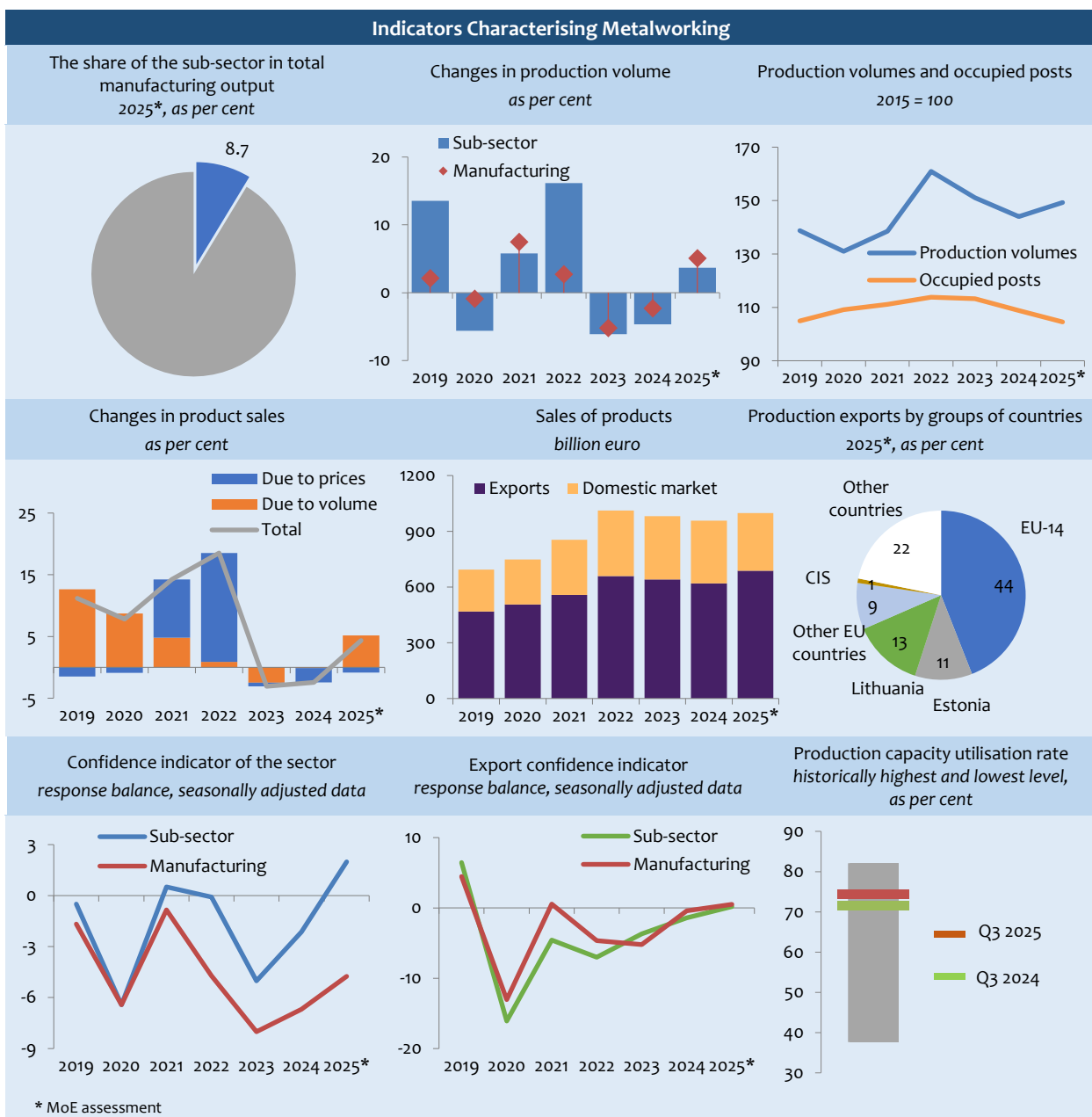
In recent years, the growth of **metalworking** has been significant in the total growth of manufacturing. Stable growth was observed there in 2021-2022. By contrast, in 2023-2024, the reduction in metalworking volumes was similar to the average indicator in manufacturing, but, in 2025, the output of the sub-sector started to grow again.

Most of the products produced by metalworking are exported, which means that manufacture of basic metals and articles thereof is significantly affected also by the competitiveness of the EU steel manufacturing sector on the global market, which has been limited in recent years. The EU is the main market for the products, but other countries also account for a significant market share. The sub-sector's sales had been growing significantly until 2022, but decreased in 2023-2024. In January-October 2025, the increase in product sales was entirely driven by the domestic market, while exports declined.

The number of posts in metalworking increased until 2022, but reduced in the following years. The number of jobs declined more sharply in 2024.

In recent years, the confidence indicator of metalworking has been volatile, like in other sub-sectors of manufacturing. It should be considered that in recent years confidence of this sub-sector has been assessed more positively than other sub-sectors, and it has exceeded the average in manufacturing in recent years. Future export opportunities are evaluated cautiously. Capacity utilisation in metalworking remains at the average level in manufacturing.

Figure 4.12



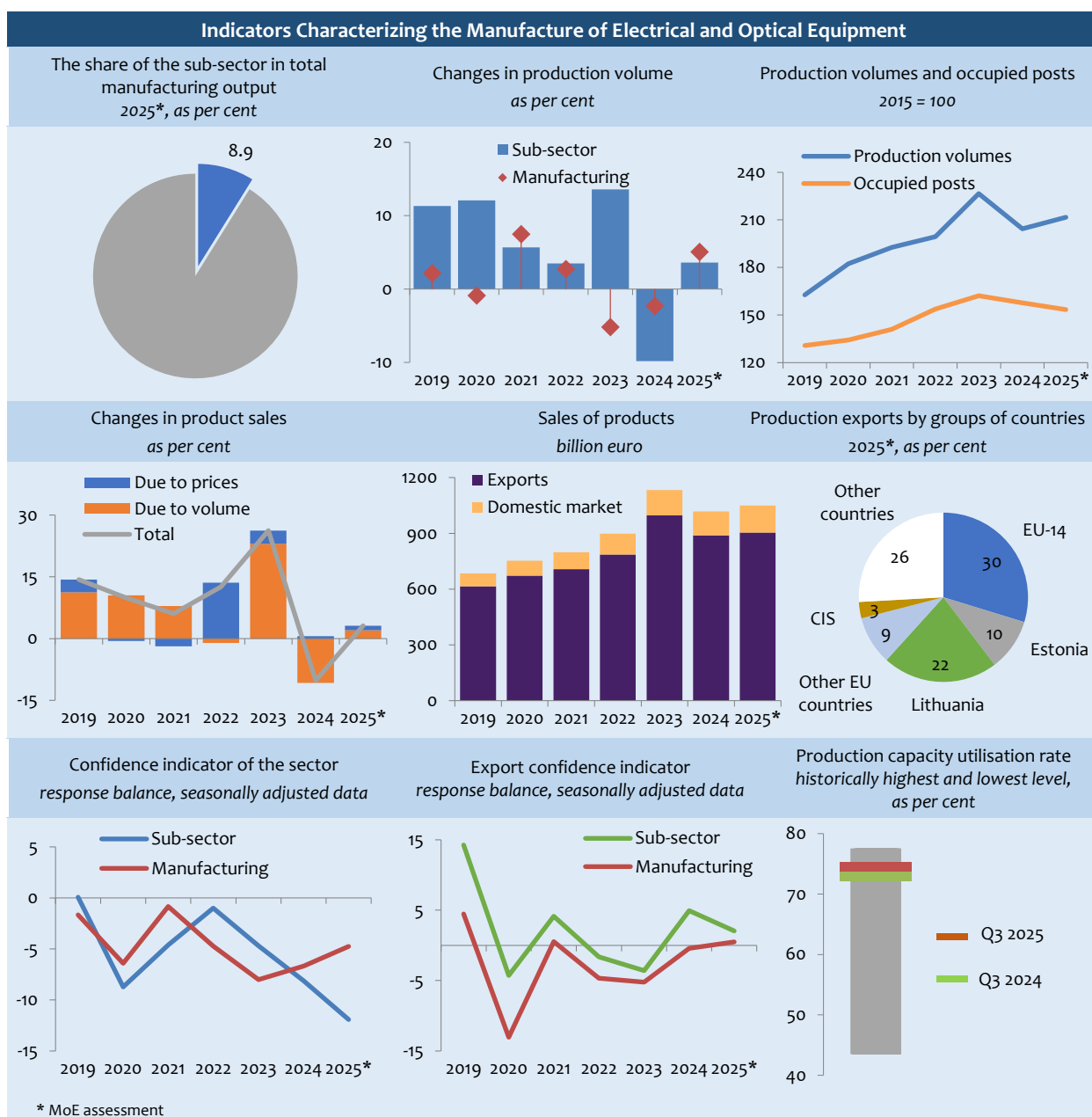
Until 2023, **manufacture of electrical and optical equipment** had been the most rapidly growing manufacturing sub-sector. In 2024, sub-sector's output declined significantly due to limited external demand. The recovery in external demand, partly due to the base effect, has led to an increase in output of electrical and optical equipment in January-October 2025.

Although producer prices fluctuate, until 2023, sales volumes in the sector have been growing stably and at a fast pace. The development of the sector is closely related to external demand, almost 90% of the production is exported. Until 2023, product sales volumes have been growing equally rapidly in the domestic and export markets. Meanwhile, opposite trends were observed in 2024. In January-October 2025, product sales were significantly fostered by domestic demand.

Most of the sector's growth in recent years has been driven by increases in both productivity and the number of occupied posts. However, in 2024, both sales and the number of occupied posts declined. The number of jobs continues to decline also in 2025.

The confidence indicator for the manufacture of electrical and optical equipment has been strongly negative over the last three years, while export opportunities are viewed positively. In Q3 2025, the capacity utilisation rate in the manufacture of electrical and optical equipment increased slightly compared to the same quarter of the previous year.

Figure 4.13



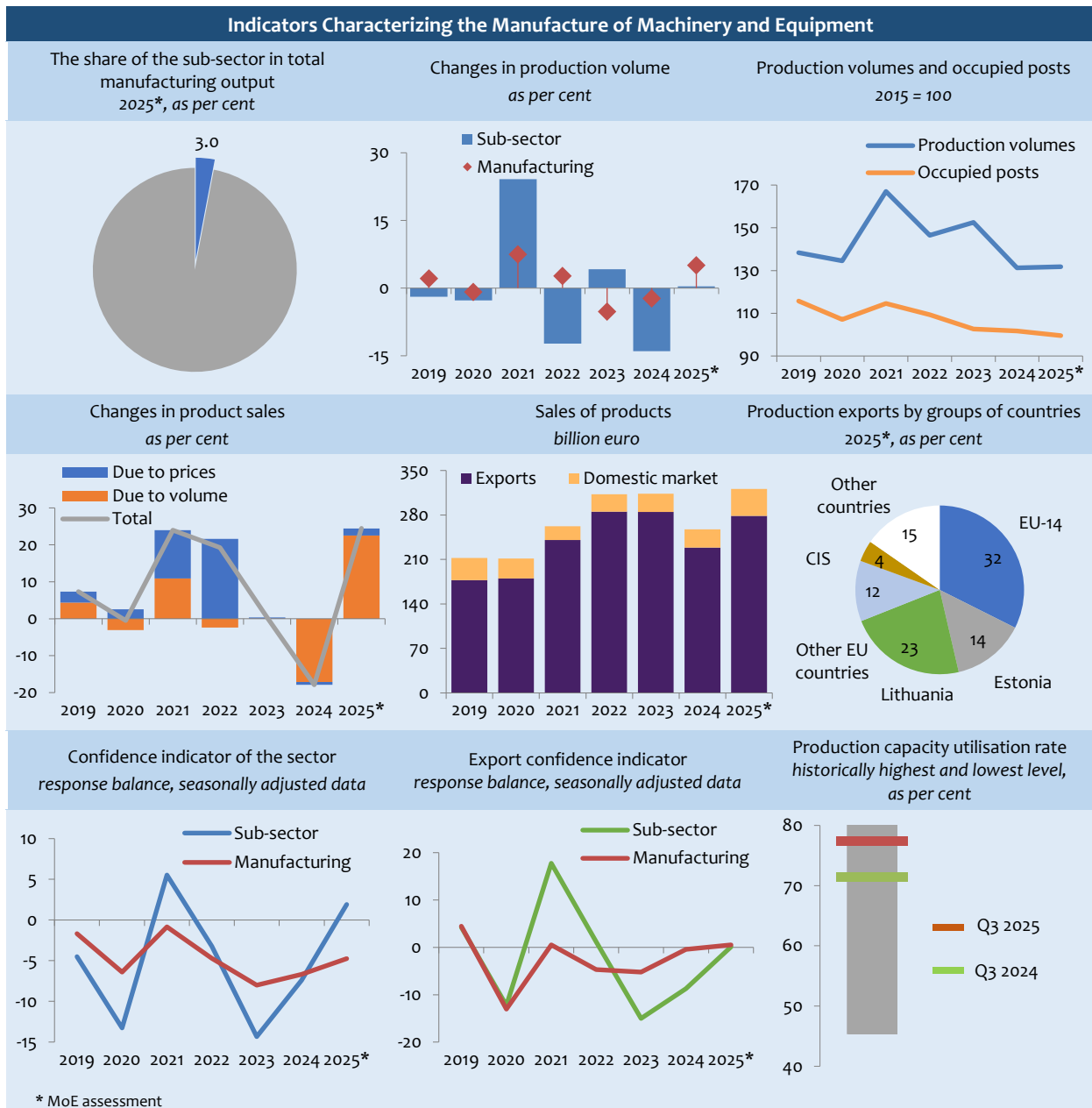
Growth in **manufacture of machinery and equipment** has been volatile in recent years. It was markedly rapid after the COVID-19 crisis in 2021 and negative in 2022, as the external demand reduced. In 2023, the manufacture of machinery and equipment grew, while in 2024 it saw a decline. In January-October 2025, volumes of the sub-sector have slowly resumed growth.

Similarly to other manufacturing sub-sectors, sales volumes of machinery and equipment have been growing until 2023. However, after a significant drop in sales in 2024, they have resumed their rapid growth in January-October 2025. It should be noted that the sub-sector is significantly affected by the fluctuations in external demand, because more than 90% of the production of the sector is exported.

In recent years, the number of occupied posts in the sector has been volatile, like in other sub-sectors of manufacturing. After an increase in 2021, their number has continued to decline over the last years.

The sector's confidence was negative in 2022-2024 and positive in 2025. The assessment of export opportunities also keeps growing. The capacity utilisation rate has increased significantly in Q3 2025.

Figure 4.14



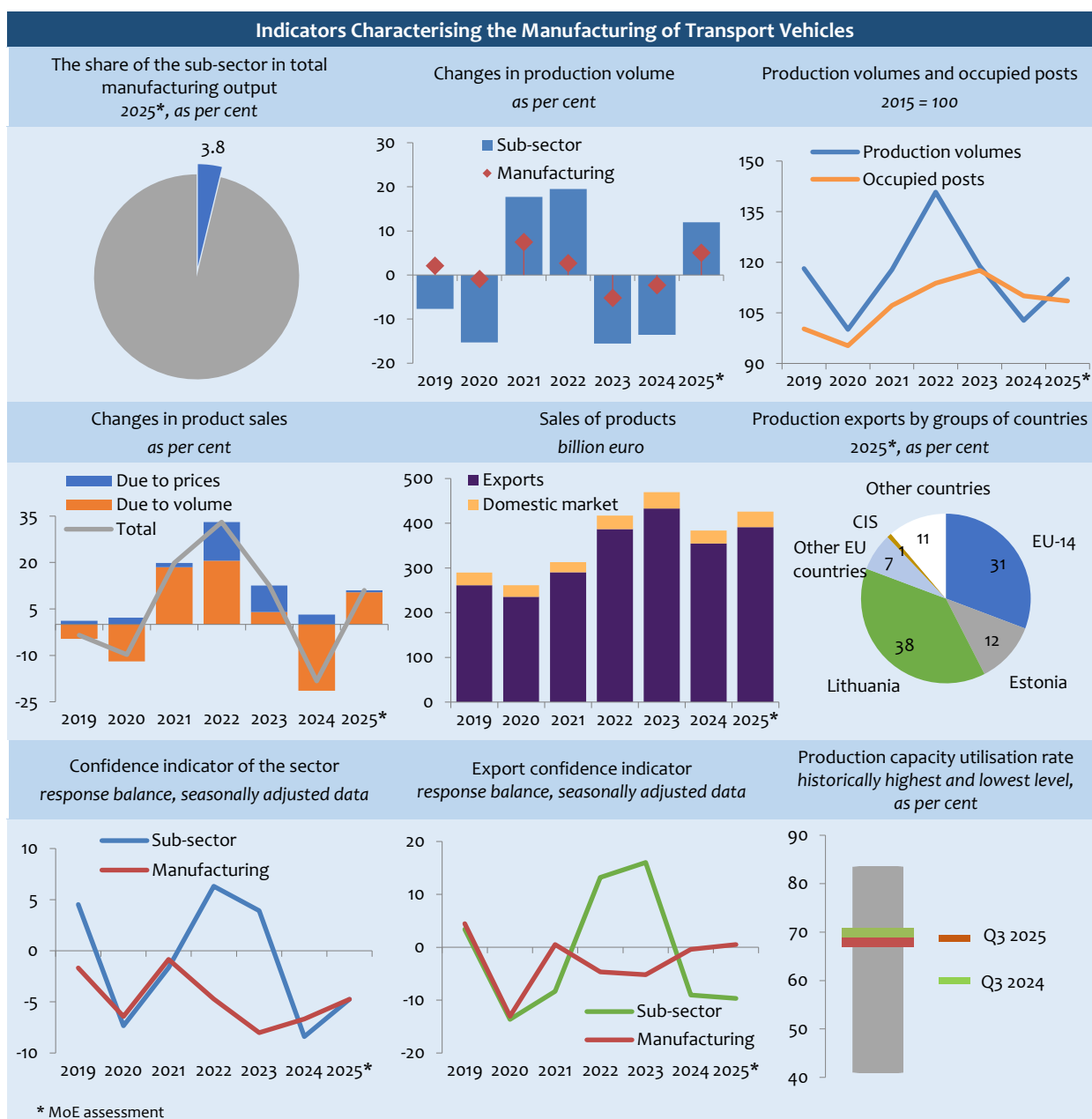
Manufacturing of transport vehicles is evidently focused on external markets – more than 90% of products of the sector are exported. Since the sub-sector largely depends on new orders, and also heavily depends on external demand and external shocks, it is characterised by considerable fluctuations in production volumes.

Following the decrease in manufacturing volumes in 2019-2020, rapid growth was observed in the sub-sector in 2021-2022, when external demand increased as prices of raw materials increased. Limited external demand, as well as partially the base effect, led to a significant decline in the subsector’s output in 2023-2024. By contrast, in January-October 2025, the output of the sub-sector has grown significantly.

Sales volumes of vehicles are developing dynamically. Sales volumes slightly increased thanks to stable producer prices in 2023, but declined in 2024. The contraction was observed both in the export and domestic markets. Similar to production volumes, sales in the sub-sector have grown significantly in January-October 2025.

The number of occupied posts in manufacturing of transport vehicles in recent years has not significantly changed. After increases in 2021-2023, they have decreased annually for the next two years. The confidence indicator was the highest in manufacturing in 2022-2023, but declined sharply in 2024-2025. Export opportunities are also assessed in the same way during this period. The capacity utilisation rate in the manufacture of transport vehicles is the lowest in manufacturing.

Figure 4.15



4.3. OTHER INDUSTRY

Electricity and gas supply dominate in the structure of **other industry** (mining and quarrying; electricity, gas, steam and air conditioning supply; water supply, sewerage, waste management and remediation activities). After a drop in 2017-2019, the share of other industry in total value added has resumed growth since 2020, but fell again in 2024. The dynamics of manufacture of electricity and gas are largely determined by weather conditions, which affect both electricity and heat production volumes.

After the increase in manufacturing volumes in 2016, volumes of other industry declined in 2017-2019, caused by weather and consumed amounts of electricity and heat. However, in 2020-2021, other industry experienced a rapid increase in production volumes again, driven by an increase in electricity and natural gas supply, as their consumption increased under the conditions of the COVID-19 pandemic and due to weather.

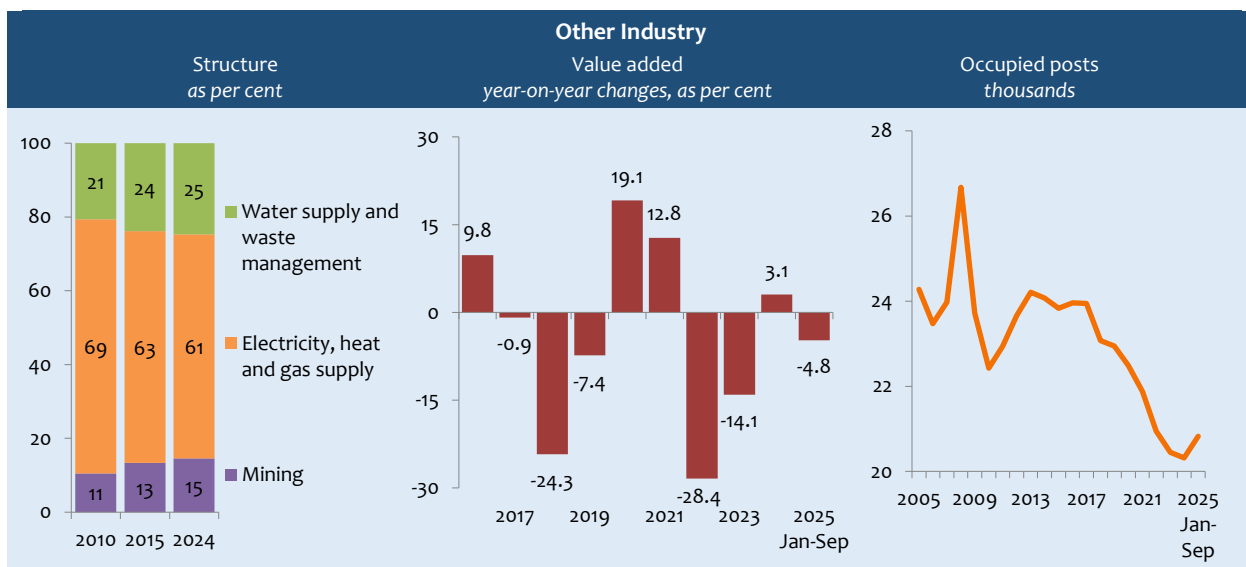
In 2022-2023, other industries contracted significantly, mainly due to a sharp decline in electricity, gas, steam and air conditioning supply. This was due to the interruption of natural gas supplies from Russia, the sharp rise in energy prices, falling consumption and warmer weather. Mining also declined in 2023, driven by lower activity in the extraction of peat, gravel and sand.

In 2024, volumes in other industries grew. The biggest impact came from the increase in volumes in electricity, gas, steam and air conditioning supply as the amounts of electricity produced by combined heat and power and solar plants increased and their consumption increased due to the decrease in the price of energy sources. Volumes increased rapidly in mining and quarrying caused by the increase in volumes in quarrying of gravel and sand, and extraction and processing of peat.

In Q1-Q3 2025, compared to the corresponding period of the previous year, the total activity of other industry decreased. The sharpest decline was in mining due to adverse weather, lower demand and shrinking extraction of resources. Electricity, gas, steam and air conditioning supply also declined slightly, affected by fluctuating production volumes and energy consumption. In the water supply, wastewater and waste management sector, however, volumes declined moderately across all the services segment.

The number of occupied posts has declined in all sub-sectors in recent years, but increased in electricity, gas, steam and air conditioning supply, as well as water supply and waste management in Q1-Q3 2025.

Figure 4.16

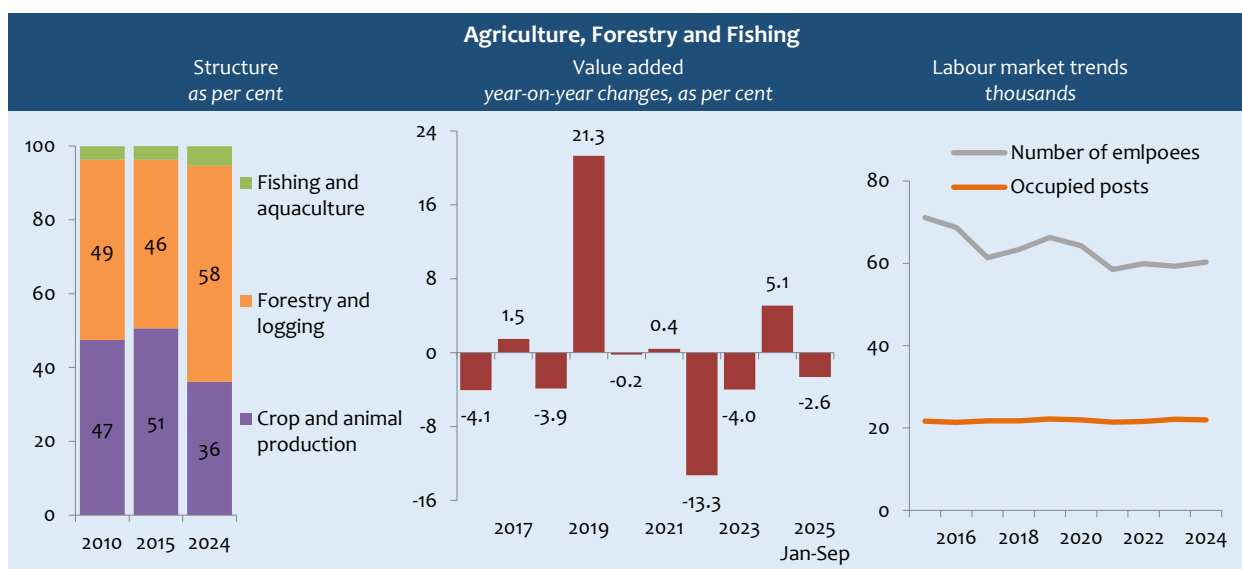


4.4. AGRICULTURE, FORESTRY AND FISHING

Agriculture and forestry dominate in the structure of the **agriculture, forestry and fishing**, and the performance of the sector is largely determined by weather conditions; therefore, its growth is volatile. The sector's share of total value added increased until 2022, but declined significantly in 2023 and rose slightly again in 2024.

In 2016 and 2018, the sector was affected by a decline in crop production volumes, while in 2017 a slight growth was observed due to a rise in forestry volumes. In 2019, the sector experienced strong overall growth, which can be explained by the rise in crop production volumes —the largest cereal harvest in Latvia's history was obtained that year. In 2020, the sector's volume decreased slightly, as the decline in crop production was not fully offset by the increase in forestry production. In 2021, the sector returned to moderate growth, supported by increases in the forestry and fishing.

Figure 4.17



In 2022, volumes declined significantly due to a sharp drop in agriculture and forestry. In agriculture, this was driven by high energy and fertilizer prices, a period of heat and drought, and lower productivity indicators. In forestry, the decline was caused by reduced resource availability and lower logging volumes. Meanwhile, fishing continued to grow. In 2023, the sector's volumes decreased again, as agricultural production continued to be negatively affected by unfavourable weather conditions and the lowest cereal yields recorded in recent years.

In 2024, sector volumes increased significantly in both agriculture and forestry, while fishing experienced a slight decline. In agriculture, production increased by 3.5%, driven by a 7.5% rise in crop production, with a significant increase in the total harvest of winter and spring cereals. At the same time, potato and vegetable harvests decreased. Livestock production volumes decreased by 1.2%, due to a decline in the number of cattle, sheep, and goats, although the number of pigs and poultry increased. Exports of live cattle rose slightly, while exports of live pigs and sheep declined. There was also a small decrease in meat and raw milk production, but egg output and the production of dairy products in milk processing companies increased.

Agricultural product prices increased in 2024, reflecting the rise in global prices for unprocessed food. The overall agricultural price index grew by 3.1%, driven by an 8.4% increase in livestock production prices. The poultry price index rose the fastest – by 27.9%, as well as the average procurement price of raw milk, which increased by 14%, reaching 406.26 euro per tonne. Prices also increased for beef and lamb, while the prices of eggs and pork declined, where pork experienced the most notable decrease, falling by 7.2%. Meanwhile, the crop production price index decreased by 0.6%. Within crop production, the decrease was largely influenced by a 6.2% reduction in cereal procurement prices, whereas prices for vegetables and potatoes increased.

In 2024, despite lower average roundwood procurement prices and rising reforestation and forest maintenance costs, both the volume of felled timber and reforestation indicators increased (+9.8%). This contributed to growth in the forestry and logging sectors. The growth was driven by increased logging activity, greater resource availability, and stable demand in external markets, which compensated for the decrease in demand in the domestic construction sector.

In the first three quarters of 2025, total production volumes declined again, reflecting decreases in forestry and fishing, while crop production volumes increased. Growth in crop production was supported by improved winter cereal yields and larger sown areas, which partly offset adverse weather conditions in spring and summer.

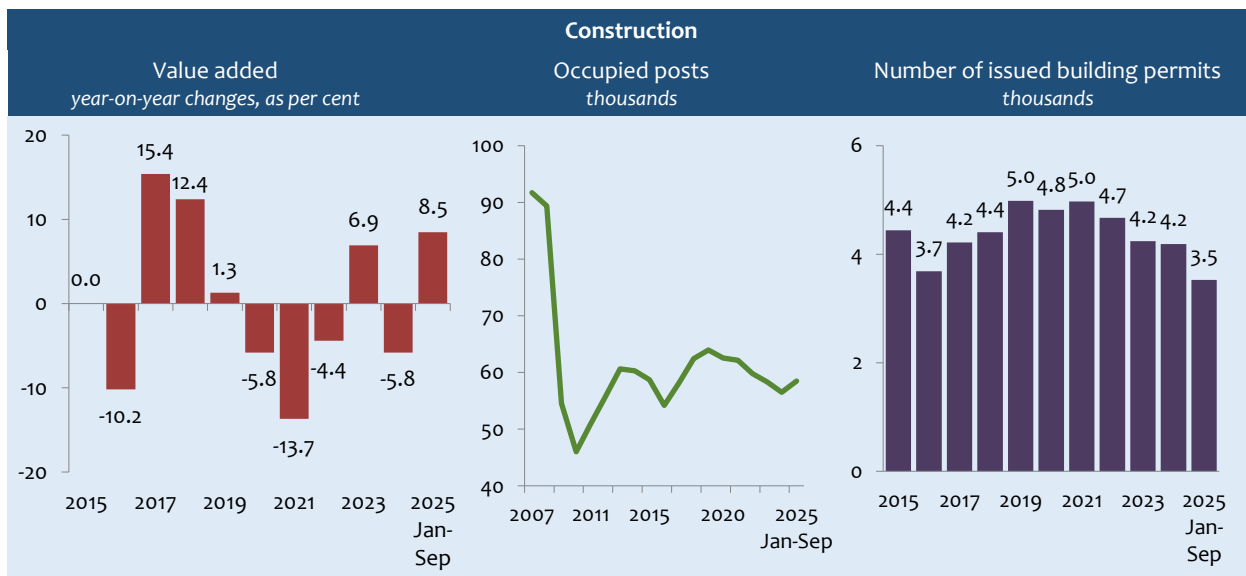
It should be noted that the number of occupied posts does not capture all persons employed in agriculture, forestry and fishing sector, as the sector is characterised by a high share of individual farms and self-employed workers who are not fully reflected in these statistics. As a result, the dynamics of occupied posts reflect only part of total employment and may differ from trends in the number of employed persons. Until the pandemic, both indicators increased gradually. In 2020–2021, however, they declined due to the impact of the COVID-19 pandemic. In 2022, both indicators increased again in line with the recovery of sectoral activity. In 2023, the number of employed persons decreased, while the number of occupied posts increased due to higher forestry activity. In contrast, in 2024 the number of employed persons increased, whereas the number of occupied posts declined, reflecting lower demand for hired labour in agriculture.

4.5. CONSTRUCTION

The growth of **construction** is largely subject to cyclical fluctuations. During the period from 2000 to 2007 the sector developed rather rapidly. During the last years of the period, there were signs of overheating. The annual average output increased by 14.2% and the average increase from 2006 to 2007 was 25.2%. The construction was actively attracting employees in the period before the crisis. From 2005 to 2007, the number of occupied posts increased by almost 30 thousand reaching 91.7 thousand. Construction costs increased gradually until 2005. From 2006 to 2008, construction costs virtually exploded, labour costs increased 2.6 times, but costs of maintenance and operation of machinery and mechanisms almost doubled.

Production volumes dramatically declined during the crisis; industry output shrank more than twice in the period from 2008 to 2010. During the economic recession, the number of persons employed in the sector was significantly adjusted and reduced almost twice. The reduction also affected construction costs (mostly – labour costs). It should be noted that they remained at a higher level than before the overheating.

Figure 4.18

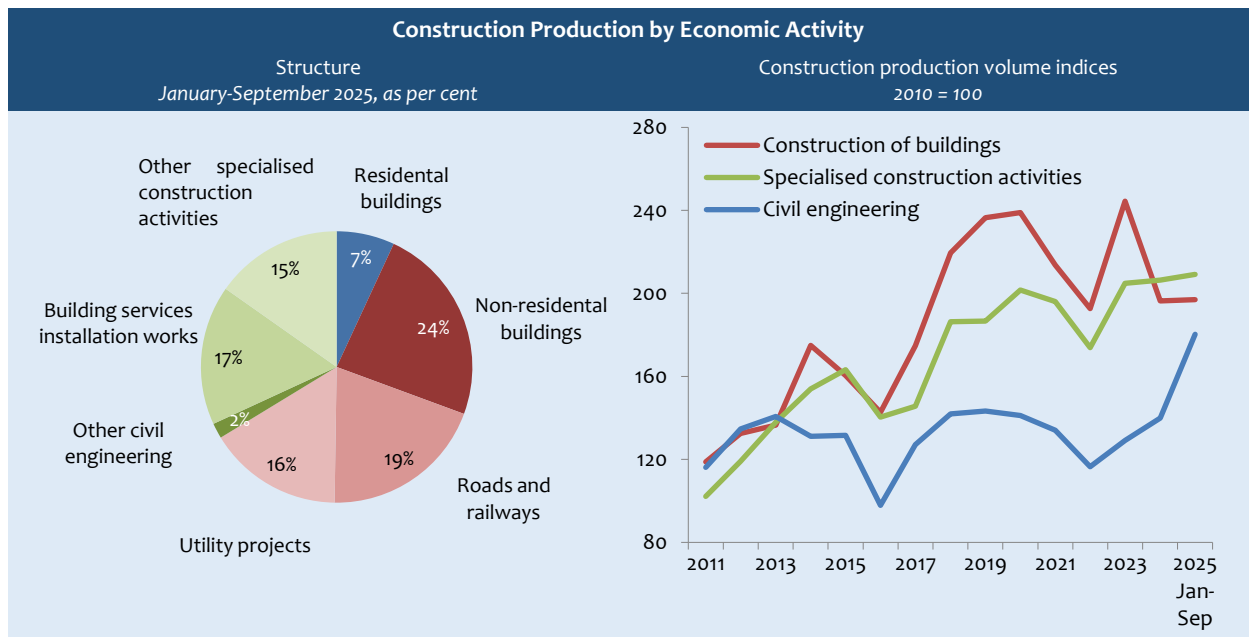


The demand for services of the sector resumed growth in 2011. During the period until 2019, the construction development rates were steeper than economic development rates. Average growth was 6.4% annually. The recovery of the construction sector was largely driven by public procurement and more active absorption of EU structural funds. Along with the increase in internal demand, the development of the sector was positively affected by the ability to reorient to external markets during the crisis. For example, in 2011, the volume of construction products outside Latvia exceeded the indicator of 2008 more than five times. The increase in construction activities was also seen in the increase in the number of granted building permits.

It should be noted that during the transitional period of the EU Structural Funds, construction output decreased by 5.2% annually in 2015-2016 as a result of a reduction in investment in construction. Construction activities shrank in all groups, most rapidly in the group of civil engineering. Negative trends also contributed to the reduction in the number of granted building permits in this period. In the next years, starting from 2017, the sector's development driver was the increase in the intensity of implementation of projects of EU structural funds after a transition period, as well as the inflow of private investments for the construction of large construction objects.

As economic activity picked up, the number of employees started to increase steadily in 2011. A more pronounced reduction was observed in 2015 and 2016, when outputs of construction products reduced. In 2018, the number of employees exceeded 60 thousand and was higher than in 2010; however, the increase rates were considerably slower than the increase in outputs. This means that the sector was largely developing at the account of the increase in productivity. Construction costs increased uniformly during this period, with a more rapid increase between 2017 and 2019. Labour costs and costs of maintenance and operation of machinery and mechanisms have been making the biggest pressure since 2011, while the costs of materials remained almost unchanged.

Figure 4.19

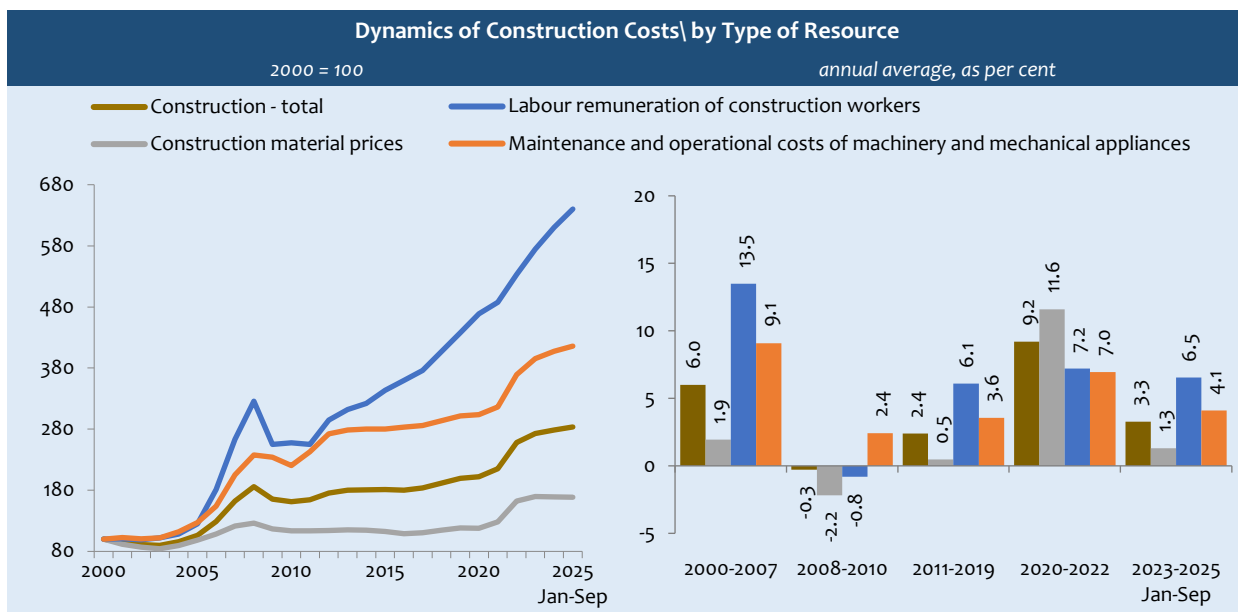


From 2020 to 2022, the impact of a number of external factors was particularly pronounced. Both the COVID-19 pandemic and the war in Ukraine caused by Russia had an overall negative impact on the sector, with an average annual output decrease of 8.1% during this period. The most rapid drop was observed in 2021, when the sector experienced a bigger drop in demand due to the global rise in construction costs, in particular prices of timber and metal. The increase in construction costs had a strongly negative influence on the dynamics of activities of the sector. In 2022, pressure on construction costs was stepped up by Russia's invasion of Ukraine, which considerably reduced the availability of individual construction materials, as well as considerably increased the costs of energy sources. The decline also affected labour demand, the number of construction jobs declined in 2020 – 2022.

In 2023, construction output growth was on the rise following the easing of external shocks. The industry and customers overcame the challenges of previous years and the increase in customer activity had a positive impact on industry performance. The low base effect of the previous years' recession in the sector is also an influencing factor. In 2024, however, construction output contracted. This was due to a significant decrease in activity in the construction of buildings, where relatively high lending rates continue to have an influence.

The increase in construction costs started to moderate in 2023 and returned to its pre-recession level in 2024. The increase in construction material prices caused by external factors has subsided, and labour costs have resumed the role of cost growth driver. The trend of gradually rising costs continues in 2025. During these years, the number of people employed in the sector continued to decline slowly, with labour demand only recovering in 2025.

Figure 4.20

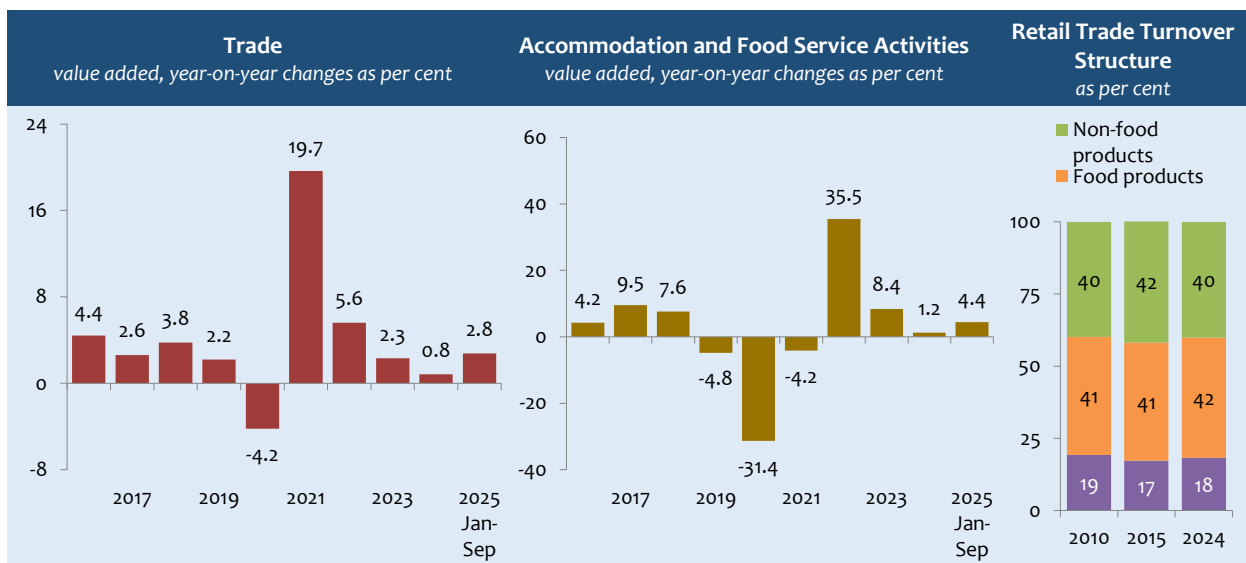


Growth has returned in 2025, as shown by an 8.5% increase in construction output. Civil engineering is the main driver of growth in Q1-Q3 of this year, with more active infrastructure construction. The largest contributor to growth was construction of roads and railways.

4.6. TRADE, ACCOMMODATION AND FOOD SERVICE ACTIVITIES

Trade dominates in **trade, accommodation and food service activities** – about 87%. Trade development is determined by the dynamics of private consumption, the purchasing power of the population and trends in retail turnover. Accommodation and food service activities are influenced by domestic demand and spending habits of the population, as well as by tourism flows and the activity of foreign guests.

Figure 4.21

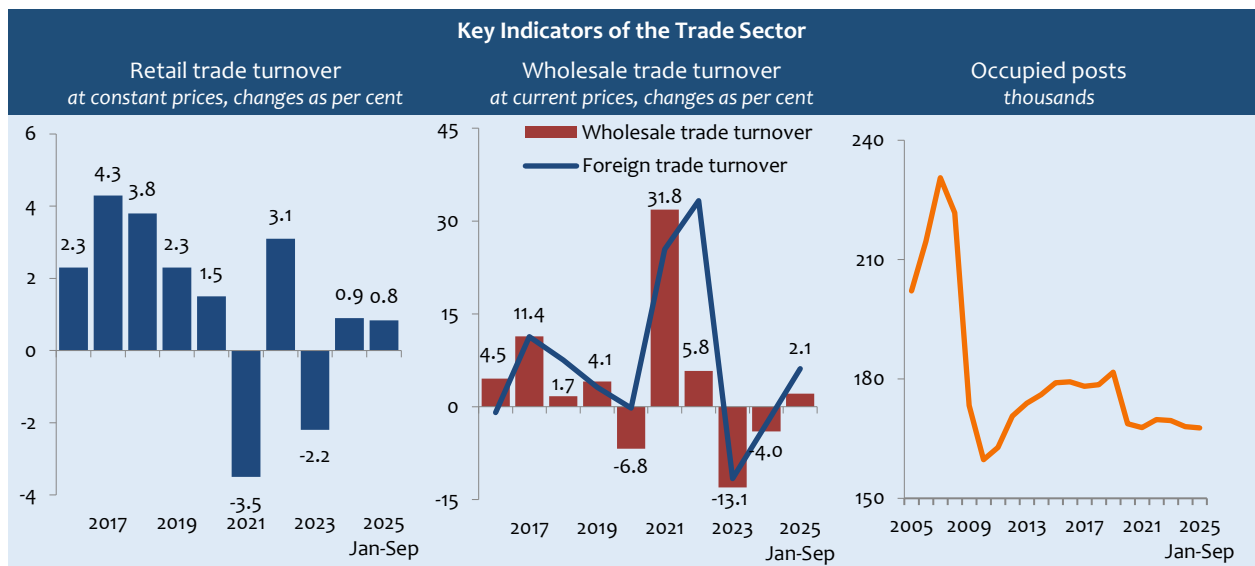


In 2016-2019, services in the trade sector grew annually and generally developed rapidly. Accommodation and food service activities followed a similar trend, although they showed a decline in volumes towards the end of the period. Retail sales growth was boosted by rising wages and favourable labour market conditions, with non-food sales contributing the most. Wholesale trade growth was driven by foreign trade activity.

In 2020, the volume of services provided in trade, accommodation and food services activities generally reduced. The trade sector was negatively affected by the decline in private consumption, rising unemployment and falling incomes caused by the COVID-19 crisis. Retail turnover increased very moderately, wholesale turnover shrank rapidly, but the strict virus containment measures had a particularly negative effect on accommodation and food service activities.

In 2021-2022, the volume of services provided in trade, accommodation and food service activities grew rapidly again. The trade sector was positively influenced by the easement and lifting of the restrictions introduced due to the COVID-19 pandemic. Accommodation and food service activities have been growing strongly from the second half of 2021, recovering from the decline in previous years.

Figure 4.22



In 2023, sector’s total volumes grew more moderately than in the previous two years. Trade was negatively affected by both the unfavourable external environment and by households’ declining purchasing power, as price increases outpaced income growth at the beginning of the year. Consequently, retail turnover fell, most sharply in the food segment due to high prices, while non-food turnover declined more moderately. Meanwhile, fuel sales grew, recovering from a drop in 2022 due to high fuel prices.

In 2024, trade, accommodation and food service activities developed very moderately. Wholesale trade continued to be held back by the unfavourable external environment and lower activity in international trade, while trade of motor vehicles and motorcycles recovered more rapidly as supply problems eased and demand stabilised. The retail turnover grew by only 0.9%, underpinned by caution and limited readiness to make larger purchases. Non-food and fuel trade increased slightly, while food trade continued to decline due to high price levels and structural changes in consumption. In accommodation and food service activities, moderate growth was mainly driven by demand for accommodation services, which was affected by more stable tourism flows.

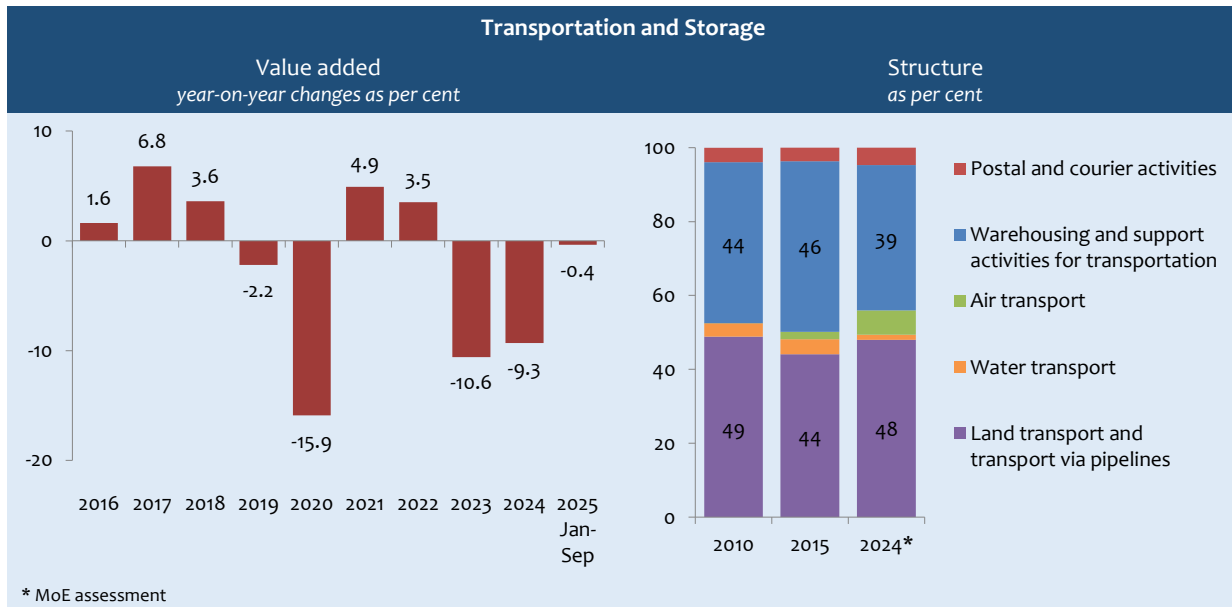
As the situation improves and wholesale and case sales pick up, the trade sector has grown by 2.8% in Q1-Q3 2025, largely driven by a recovery in foreign trade activity. Retail sales grew moderately (by 0.8%), driven by a pick-up in non-food trade due to improved purchasing power, while food trade continued to be held back by high prices and cautious spending, and fuel trade contracted slightly due to lower demand and frugal habits. Accommodation and food service activities grew at a faster pace of 4.4% over the period, driven by a recovery in domestic demand, more active tourism and higher event and leisure activity, with similar growth in both accommodation and food service activities.

The largest share of occupied posts is in trade, but it has been shrinking in recent years with jobs growing faster in accommodation and food services activities.

4.7. TRANSPORTATION AND STORAGE

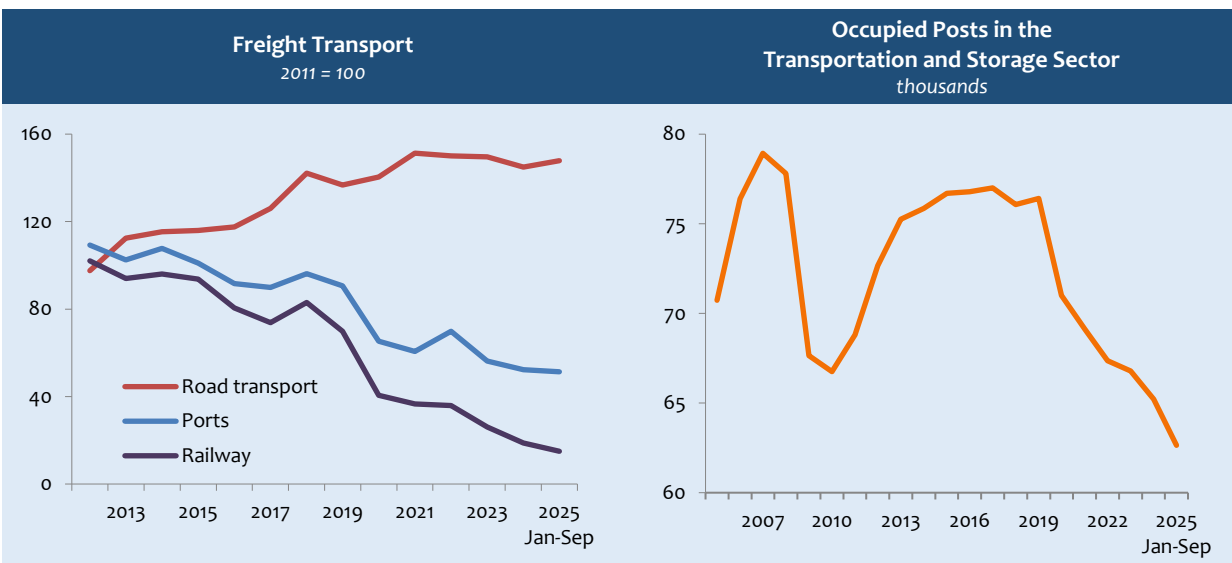
Transportation and storage are closely related to international transportation, including volumes of freight transported by railway, as well as through ports.

Figure 4.23



After a slight increase in 2016, the volumes of the sector grew faster in 2017-2018. Although the volume of transit freights by railway and in ports declined, the growth of the sector was fostered by the increase in freight transport by road, and the increase in the number of passengers in the airport and seaports. In 2019, the increase in volumes in land transport was unable to compensate for the decline in other transportation sub-sectors. However, in 2020, volumes of the sector reduced sharply due to the movement restrictions caused by the COVID-19 crisis, having a significant impact on aviation, land transport and railway operations.

Figure 4.24



In 2021, as the epidemiological situation improved and the restrictions introduced were removed, the sector's volumes increased rapidly again. In 2022, production volumes in the sector also continued to increase. Ports saw a sharp increase

in freight volumes, while rail and road freight volumes declined slightly. In 2022, passenger transport increased rapidly as the flow restored after the COVID-19 restrictions were lifted, particularly rapidly in air transport, where passenger numbers more than doubled compared to 2021.

After growth in previous years, the transport sector experienced a significant decline in 2023 and 2024, driven by declining volumes in almost all sub-sectors. Land transport, transport via pipeline and warehousing services, as well as freight transport by all modes of transport, contracted more sharply, mainly due to a drop in international freight transport. The only stable positive contribution in both years was in air transport, where passenger transport continued to grow, while the trend in other segments was weak or negative.

In Q1-Q3 2025, overall, the sector's volumes dropped slightly, the drop in freight volumes was seen in railways and ports, while road freight volumes increased rapidly, largely driven by an increase in inland freight volumes. In Q1-Q3 2025, passenger transport by sea grew the fastest (by 9.5%), driven by a sharp increase in passengers who arrived by cruise ships at the Port of Riga. The number of passengers grew by only 0.5% in air transport and by 1.1% in land transport. It should be noted that passenger rail transport saw a sharp increase in the number of passengers.

The biggest share of occupied posts in transportation and storage is in land transport, transport via pipeline, and warehousing and support activities for transportation. Since 2021, the number of occupied posts has continued to decline in all sectors, except air transport, and has already fallen below the level of the transportation and storage sector at the time of the financial crisis in 2010.

4.8. BUSINESS SERVICES

Real estate activities dominated in the structure of **business services** (information and communication, financial and insurance activities, real estate activities, professional, scientific and technical activities and administrative and support service activities, arts, entertainment and recreation).

In 2016-2019, growth in the business services sectors was volatile, but was 1.5% per year on average, with increases in almost all main sectors, except for financial and insurance activities, where volumes declined due to a contraction in non-resident business as well as bank mergers and liquidations. In 2020, the COVID-19 crisis led to a widespread decline in business services, with the exception of information and communication, which saw a slight increase, while the arts, entertainment and recreation were hit the hardest by the pandemic restrictions.

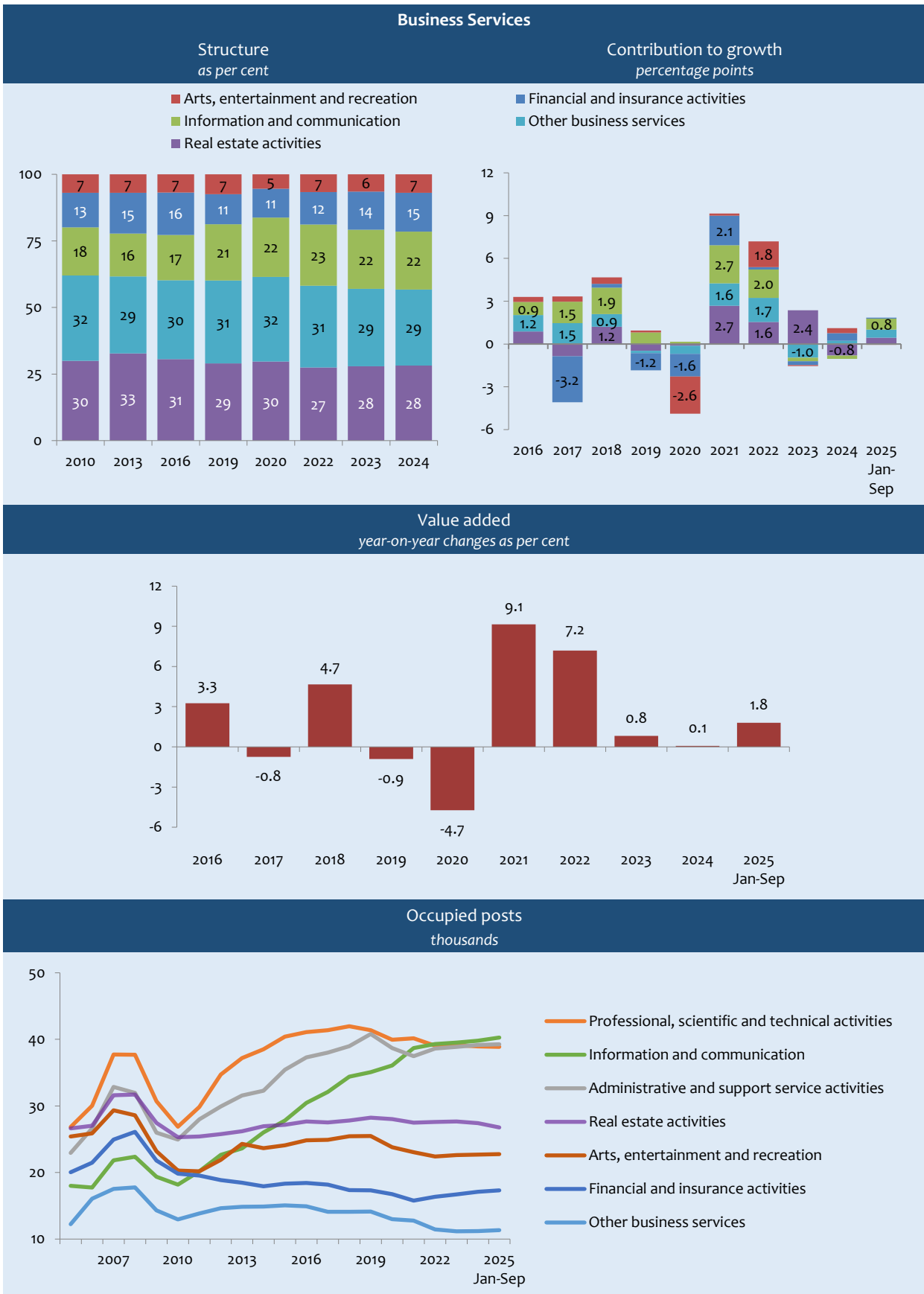
In 2021 and 2022, volumes of business services in all sectors rose rapidly as they recovered from the COVID-19 crisis. The increase in volumes in information and communication services and real estate activities had the biggest impact. In 2022, most rapid increase rates were also observed in arts, entertainment and recreation, one of the sectors hit the hardest by the COVID-19 restrictions.

The overall growth of business services sectors has moderated considerably since 2023. In 2023, volumes contracted in almost all groups of sectors, driven by weak external demand, high interest rates and more cautious spending by businesses and households. Real estate activities were an exception. In 2024, declines in real estate activities, information and communication, and professional, scientific and technical activities were offset by increases in financial and insurance activities and administrative and support service activities, as well as arts, entertainment and recreation, where activity recovered as inflationary pressures eased and demand improved.

In Q1-Q3 2025, business services grew in all sectors except arts, entertainment and recreation, where weak demand and cautious spending underpinned a decline. Growth was mainly driven by a rise in information and communication, underpinned by demand for software, information technology maintenance and digitisation solutions. Growth in professional, scientific, technical and administrative activities was also strong, supported by a recovery in business activity and higher demand for logistics, construction support and business services.

The largest share of occupied posts in business services is in information and communication, professional, scientific and technical activities, and administrative and support service activities. In 2024, job growth was recorded in most sectors, except professional, scientific and technical activities and real estate activities, while in Q1-Q3 2025 it fell only in real estate activities.

Figure 4.25



4.9. PUBLIC SERVICES

Public administration and defence activities dominate in the structure of **public services** (public administration and defence activities, education, health and social work activities). With the government expenditure increasing, steady growth was observed in the public services sectors in 2016-2018. It was slower in 2016 when only public administration and defence activities had a stable rise in volumes. Overall, in 2016-2018, volumes of public services increased by 3.4% per year on average. The most rapid increase was observed in health and the slowest – in public administration and defence activities. In 2019, volumes of public services almost did not change, with the increase in health compensating for the decline in education.

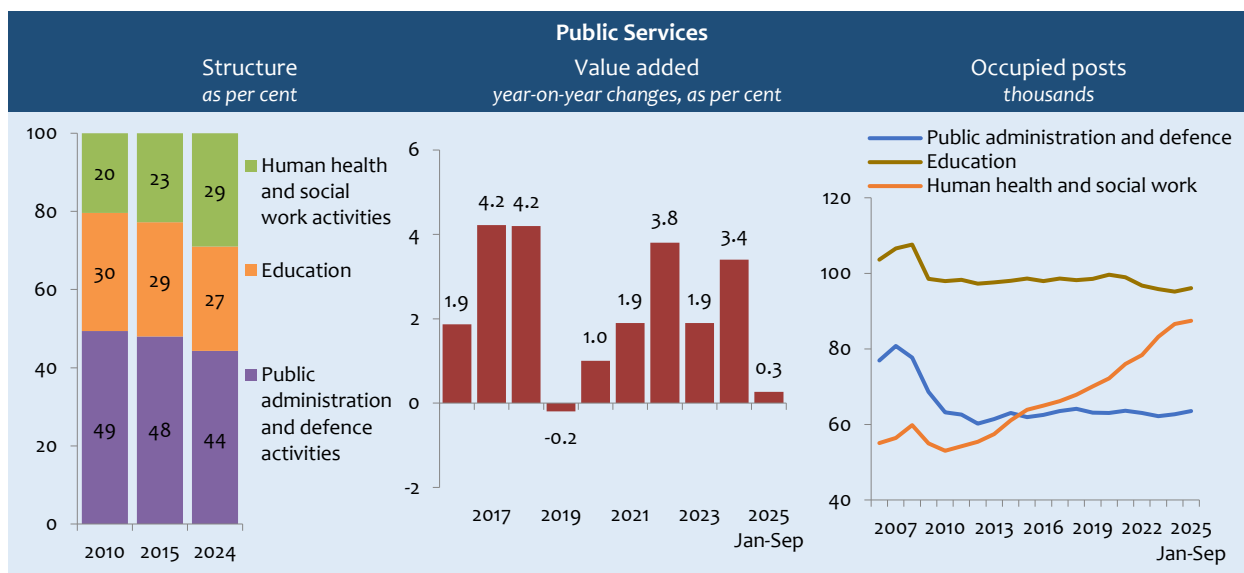
In 2020-2021, the total volume of service sectors grew moderately. In 2020, growth slowed down due to the decline in human health and social work activities, while in 2021 it picked up sharply as access to services resumed after the restrictions of the COVID-19 pandemic. In 2020, public administration, defence activities and education increased most rapidly, while, in 2021, public administration and defence activities showed very moderate growth, but volumes of education declined.

In 2022, volumes of public services grew strongly, especially in human health and social work activities, boosted by additional funding for mitigation of the consequences of COVID-19 and the recovery of medical services, while public administration and defence activities grew more moderately and education continued to contract due to distance learning and demographic factors.

In 2023, growth in the public services sectors moderated, with public administration and defence activities growing faster than in previous years, reflecting expanded government funding for security and defence, while human health and social work activities contracted as COVID-19-related services declined, and education continued to decline due to the falling number of students and structural changes in the education network.

In 2024, total services grew faster again, driven by a significant increase in public administration and defence activities (by 7.2%). Human health and social work activities grew by 1.5%, while education continued to decline (by 1.0%). In recent years, government spending on strengthening national defence capabilities and financing security priorities has been growing particularly rapidly.

Figure 4.26



In Q1-Q3 2025, total volumes of public services grew very moderately. They continued to grow in public administration and defence activities by 1.0%, while they fell by 0.3% in education and by 0.7% in human health and social work activities.

The highest share of occupied posts is in education. A rapid increase in jobs in recent years has been observed in health, while the number of jobs in education reduced. In 2024, the number of jobs decreased only in education, while in Q1-Q3 2025, job growth is observed in all public services sectors.

5. ECONOMIC DEVELOPMENT FORECASTS

ECONOMIC DEVELOPMENT IN 2026¹

After a decline in economic activity in 2023 and stagnation in 2024, GDP is projected to pick up in 2025, with the Ministry of Economics estimating that GDP could be 1.8% higher than in 2024. Economic activity in the economy is expected to continue growing in 2026, and annual growth could reach 2.2%.

As inflation stabilises and people's real incomes rise, private consumption is gradually increasing. Overall, private consumption is expected to grow by 0.4% in 2025. Consumer sentiment continues to be affected by high price levels and geopolitical uncertainty. With inflationary pressures easing and household incomes continuing to rise, private consumption growth is expected to reach 2.1% in 2026.

In 2025, investment is set to increase significantly, thanks to faster absorption of EU funds and a recovery in private sector lending. In Q1-Q3 of the year, investment grew by 9% year-on-year, while investment is expected to grow by 8.7% for the year as a whole. The reduction in interest rates, the wider availability of credit and the implementation of EU funding programmes will also have a positive impact on investment dynamics in 2026. It is expected that the gross fixed capital formation could increase by 4.8% in 2026. At the same time, investment activity continues to be affected by geopolitical uncertainty and the availability of manufacturing resources, so investment activity may remain limited if the situation remains unchanged.

Despite complicated external environment conditions, Latvia's export volumes continue to recover. In Q1-Q3 2025, exports increased by 0.8% year-on-year and could grow by 0.9% throughout the year. As domestic demand grows, so do imports. Imports in Q1-Q3 2025 were 5.6% higher year-on-year, while they are expected to grow by 5.1% throughout the year compared to 2024. Forecasts of international organisations show that economic growth in Latvia's major export markets in 2026 (more rapid than in 2025), which will positively impact also Latvia's export opportunities. Exports are expected to grow by 3.5%, while imports are expected to grow by 4.4% in 2026.

Development trends of sectors vary. Total value added increased by 1.6% in Q1-Q3 2025 compared to the corresponding period of the previous year. Producing sectors grew by 2% and services sectors by 1.5%. The main contributors to value added growth were manufacturing, trade, construction, and information and communication. The most significant declines, with the largest negative effects, were in agriculture and forestry, other industry and health. In 2026, growth is projected in all main sectors, with the strongest growth expected in manufacturing and construction.

DEVELOPMENT PROSPECTS FOR 2027-2030

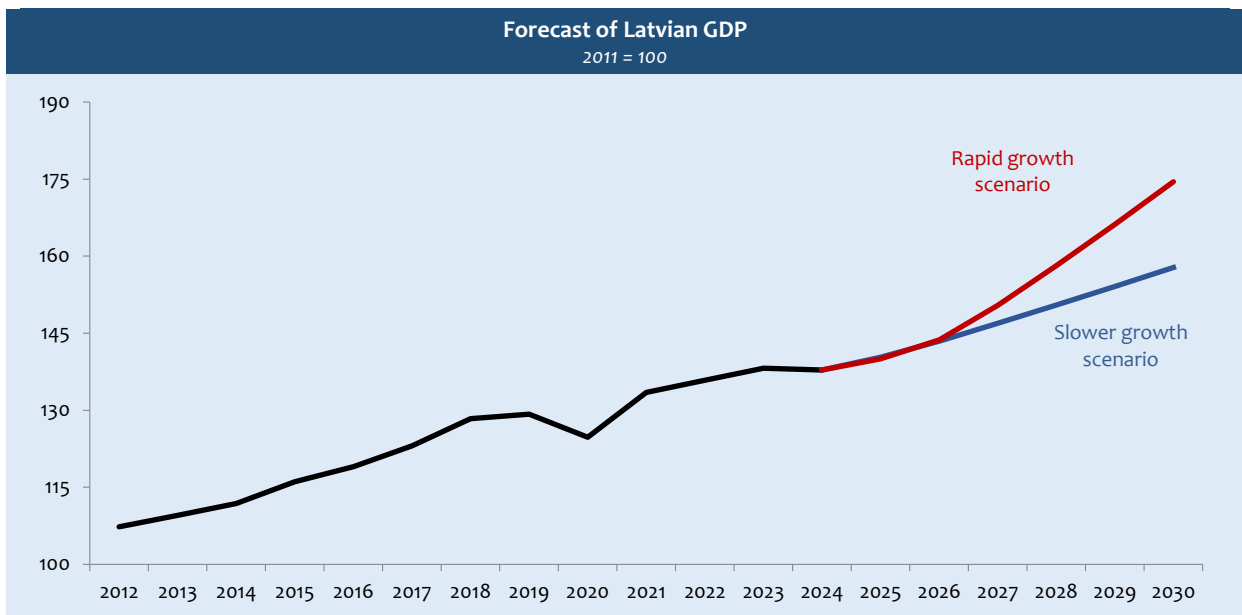
Development prospects until 2030 are assessed in two scenarios – baseline and more rapid growth. In the baseline growth scenario, the economic transformation is gradual and average GDP growth is expected to be around 2.6% per year. In a more rapid growth scenario, where structural reforms are successfully implemented and investment increases, GDP growth could reach even 4.8% per year.

Economic growth during this period will be determined by a number of key factors. Investment activity, technological development, digitisation and innovation will be the main drivers of productivity growth and improved competitiveness. In particular, it will be important to promote the reorientation of the labour force towards higher productivity sectors and to ensure access to quality education. Efficient use of EU funds and access to credit will also play a key role in stimulating both public and private investment. In addition, developments in the external environment and growth in Latvia's main trading partners will have a positive impact on exports and the overall performance of the economy.

After several years of challenges, the Latvian economy is gradually recovering, and growth is projected to remain robust in the medium term. According to current data, GDP is expected to grow by 2.2% in 2026, while GDP growth could range from 1.9% to 5.1% per year in 2027-2030, depending on the chosen development scenario. Growth in both private and public consumption, investment and exports will play an important role during this period.

¹ The latest forecasts of the IMF and EC were used by the MoE to analyse external markets and evaluate the global economic development trends when making forecasts about economic development (see Chapter 2).

Figure 5.1



Global trends in technology development, the implementation of the EU Green Deal and the development of important industries in a changing geopolitical environment create new opportunities to strengthen Latvia’s export potential and increase productivity. Investment in innovation, digitalisation and modern technologies is becoming a key to improving competitiveness. To achieve maximum impact, it is important to make coordinated and targeted use of the public financial resources available in both in the short and medium term. The more rapid growth scenario foresees that a significant increase in investments will promote the introduction of the latest technologies, the development of new products and services, as well as the wider use of digital solutions, thus improving the efficiency of processes.

Table 5.1

| Forecast of Latvian GDP by Expenditure Items | | | | | | |
|--|------------|-------------|------------|------------|------------|--------------------------|
| changes as per cent | | | | | | |
| | Fact | | | Forecast | | 2027–2030 annual average |
| | 2022 | 2023 | 2024 | 2025 | 2026 | |
| Gross domestic product | 1.9 | -0.9 | 0.0 | 1.8 | 2.2 | 1.9 .. 5.1 |
| Private consumption | 5.1 | -0.9 | 0.1 | 0.4 | 2.1 | 1.9 .. 3.7 |
| Public consumption | 0.4 | 2.5 | -0.4 | 2.5 | 2.3 | 1.9 .. 2.0 |
| Gross fixed capital formation | 0.3 | 5.0 | -7.0 | 8.7 | 4.8 | 2.1 .. 4.7 |
| Export | 11.4 | -7.0 | 0.1 | 0.9 | 3.5 | 4.2 .. 5.7 |
| Import | 9.9 | -5.0 | -1.8 | 5.1 | 4.4 | 3.8 .. 5.0 |

Increasing competitiveness of Latvian producers and growing external demand will boost medium-term growth rates of exports and manufacturing. In this scenario, the 3-year average growth rate will be around 4.8%, while the manufacturing growth rate will be 5.6% on average.

Table 5.2

| Forecast of Latvian GDP by Sectors changes as per cent | | | | | | |
|---|------------|-------------|------------|------------|------------|-----------------------------|
| | Fact | | | Forecast | | 2027–2030 annual average |
| | 2022 | 2023 | 2024 | 2025 | 2026 | |
| Gross domestic product | 1.9 | -0.9 | 0.0 | 1.8 | 2.2 | 1.9 .. 5.1 |
| Agriculture, forestry | -13.3 | -4.0 | 5.1 | -2.5 | 0.8 | 0.6 .. 1.6 |
| Manufacturing | -4.2 | -2.3 | -3.3 | 3.6 | 3.5 | 3.4 .. 7.5 |
| Other industry | -28.1 | -14.0 | 2.5 | -3.0 | 1.1 | 1.0 .. 2.7 |
| Construction | -4.4 | 6.9 | -5.8 | 7.9 | 3.2 | 3.0 .. 7.1 |
| Trade, accommodation | 7.6 | 2.8 | 0.9 | 2.2 | 1.7 | 1.6 .. 4.1 |
| Transportation and storage | 3.5 | -10.6 | -9.3 | -0.3 | 1.0 | 2.5 .. 5.0 |
| Other business services | 7.2 | 0.8 | 0.1 | 1.2 | 2.3 | 2.2 .. 4.8 |
| Public services | 3.6 | 2.0 | 3.6 | -0.2 | 1.9 | 1.9 .. 4.6 |

Agriculture and forestry is expected to stabilise with growth of 0.6-1.6% per year after declines in previous years. Manufacturing is expected to develop dynamically, with growth rates potentially reaching 3.4-7.5% per year, driven by the introduction of technology and the rise in external demand. The estimated construction growth of 3-7.1% per year will be promoted by public investment and major infrastructure projects. Trade and accommodation are expected to grow at an annual rate of 1.6-4.1%, driven by both domestic and external demand growth. Transportation and storage will grow at a steady pace of 2.5-5% per year, while other business services could grow by 2.2-4.8% per year. The public services segment is expected to grow at an annual rate of 1.9-4.6%.

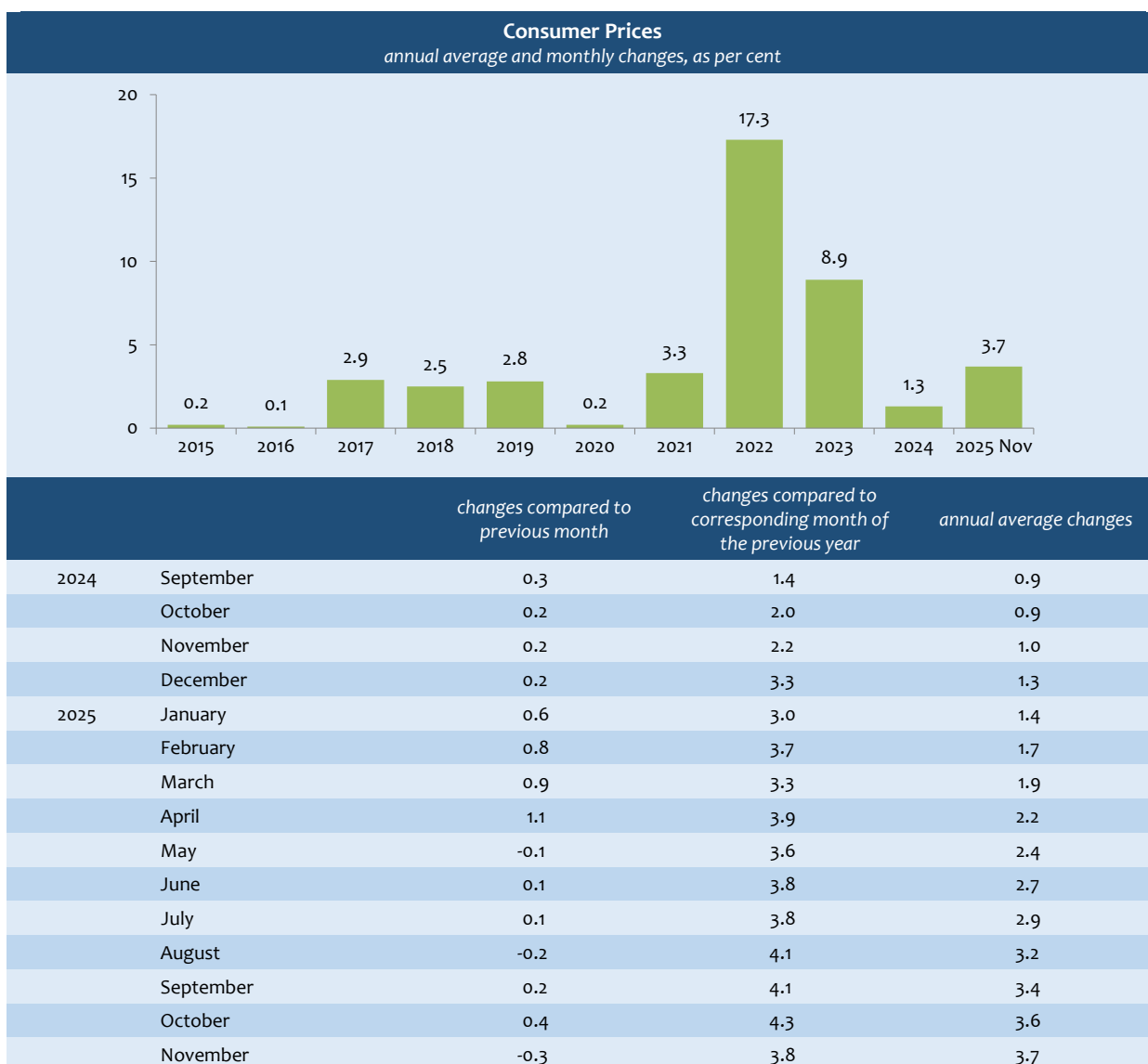
6. ECONOMIC STABILITY AND COMPETITIVENESS

6.1. PRICES

CONSUMER PRICES

After the deflation caused by the financial crisis, consumer prices started to grow again in 2011. External factors and global price fluctuations for crude oil and food started to affect the total price level increasingly more seriously. Price increases were also driven by internal factors, such as increased excise taxes on fuel, alcoholic beverages and tobacco products, fluctuations in administrative prices, as well as population income and increased private consumption. In 2013-2016, consumer price growth was very moderate, but it was more rapid in 2017-2019. The reduction in demand caused by the restrictions introduced to combat the COVID-19 pandemic had a significant influence on the drop in consumer prices in 2020. In 2021 and 2022, consumer prices increased rapidly again, driven both by the economic recovery after the COVID-19 crisis and by global rises in energy and food levels, exacerbated by the Russian invasion of Ukraine. In 2023, consumer prices stabilised.

Figure 6.1



In 2024, consumer prices grew more rapidly than in 2023. In December 2024, compared to December of the previous year, consumer prices rose by 3.3%. This continued to be influenced by global prices and the unstable geopolitical situation. Considering the base effect of inflation dynamics, the annual average inflation remained low (1.3%) in 2024. The main impact came from price increases in services – with significant appreciation of outpatient, recreational and cultural, telecommunication and housing-related services, the rise in prices of food and non-alcoholic beverages, with prices increasing in all major food groups, with the most significant impact from the rise in prices in the group of dairy products and in the group of non-alcoholic beverages, the rise in prices of alcoholic beverages and tobacco, as well as the decline in prices of energy – for all home-related energy sources and transport fuels.

In January-November 2025, the rise of prices was faster than in the corresponding period of the year before. In November 2025, compared to December 2024, consumer prices rose by 3.6%. Compared with November of the previous year, consumer prices rose by 3.8%. The average annual inflation in November was 3.7%.

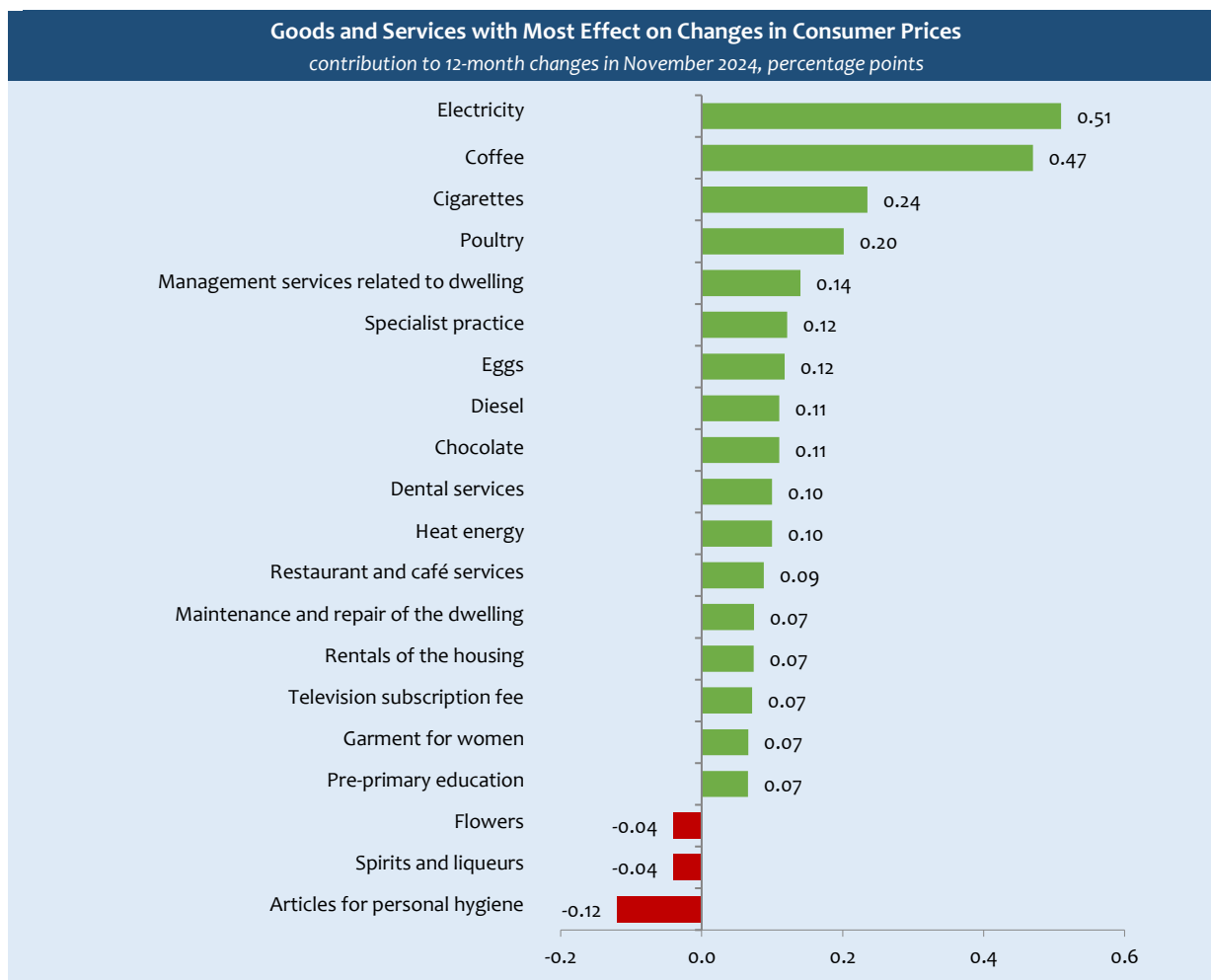
The main factors affecting prices in Latvia in 2025 are mentioned below.

- The increase in prices of services had the most significant impact on the total increase in prices in January-November 2025. Prices of services generally rose by 4.7%, which increased the overall level of consumer prices by 1.2 percentage points. In the services sector, the main inflation-enhancing factor was price increases for housing-related services, with all major groups of these services becoming more expensive, in particular housing management, rental, maintenance and repair services, and water supply and sewerage services. The increase in prices for outpatient services, driven by higher prices for dental and specialist services, also had a significant impact. There were also significant increases in the prices of food service activities, recreation and cultural services, including television subscriptions, recreation and sporting events, and telecommunications services. Meanwhile, the prices of transport services fell, mainly for passenger air transport, accommodation services and car insurance.
- In 2025, food prices kept growing. Overall, in January-November, prices of food and non-alcoholic beverages have increased by 4.1% increasing the total level of consumer prices by 1.1 percentage points. Prices increased in all the main food groups. The most significant increase in average prices was seen in meat and meat products, especially poultry meat, and in non-alcoholic beverages, with the most significant increase in coffee. Local changes in food prices are largely determined by global price fluctuations. According to the UN Food and Agriculture Organisation (FAO), global food prices began to decline after reaching historic highs in March 2022, driven by increased demand and supply disruptions during the COVID-19 pandemic, rising transport and energy costs, as well as uncertainty over food supplies following Russia's invasion of Ukraine. However, they have risen again since March 2024, continuing at a more moderate pace in 2025, before falling again in September-November. Overall, in November 2025, compared to December of the year before, global food prices were 1.8% lower. The sharpest price increase was recorded for meat and vegetable oils. Prices of sugar and cereals fell sharply, while dairy prices declined more moderately. The meat price index reached an all-time high in September and fell in October and November after eight months of increases. The vegetable oil price index in October was at its highest since July 2022, but also showed a decrease in November, while dairy prices continued to fall for the fifth month in a row (previously, a reduction was recorded only in April 2024). The sugar price index fell to its lowest level since December 2020, while in October for cereals it was the lowest since August 2020, rebounding slightly in November. In January-November 2025, meat price increases were driven by strong global demand, especially for beef and mutton, as well as periodic supply constraints in some regions, the impact of seasonal holidays and export volatility in Brazil. The increase in vegetable oil prices was driven by a surge in palm, soybean, sunflower and rapeseed oil prices in the second half of the year due to strong import demand, increased biofuel production and limited stocks. For dairy products, the price increases in spring and summer were driven by low stocks, falling production in Oceania and strong demand in Asian markets, followed by a seasonal decline. For cereals, the fall was driven by abundant harvests in Russia, Europe and the US and weaker import demand on world markets, while for sugar, record-high production in Brazil, good harvest forecasts in India and Thailand and lower oil prices dampened demand for bioethanol. It should be noted that in November 2025, compared to December 2019, global food prices increased by 24.1%. The increase in prices of food and non-alcoholic beverages in Latvia during this period was 57.5%.
- In January-November 2025, price increases were recorded for housing-related energy sources – electricity, gas and other fuels, which increased the overall price level by 0.7 percentage points. The largest impact in January-November was a 15.7% increase in electricity prices, largely due to an increase in the actual charge for maintaining capacity for households with a Basic tariff plan and a connection capacity of up to 25 amperes from 1 January 2025, as the amount of state aid under the rules on the maximum allowable increase in tariffs for households decreased. It should be noted that the average Nord Pool electricity price for the Baltic region in January-November 2025 did not significantly change year-on-year, decreasing by 0.7%, mainly due to significantly lower prices during the summer months due to increased renewable energy (wind and solar) production and cheaper imports from the renewal of the interconnector with Finland. However, a more rapid price decline was limited by the fact that electricity prices rose again in recent months and were above the level of the previous year – mainly due to transmission capacity restrictions, which limited import opportunities and consequently reduced the price reduction potential. Overall,

heating prices increased by 2.5% in January-November, mainly due to tariff increases in Riga and several other municipalities from 1 October, as prices fluctuated in other months of the year, decreasing by 1.4% in January-September and by 0.4% in November. Natural gas prices increased by 2.2%, mainly due to the increase in the excise duty rate on natural gas as from 1 January and the review of the universal tariff as from 1 May, setting a higher price for households for the next trading period. However, faster growth was limited by a downward tariff adjustment in November, which reduced prices for the following period. In contrast, prices for solid fuels decreased by 1.3%, driven by lower demand due to the warm winter, stable supply and lower prices for timber raw materials and energy sources.

- While fuel prices traditionally have a significant impact on inflation, their impact in 2025 was minimal. Fuel prices in Latvia in January-November 2025 declined by 0.3% and did not significantly affect the overall level of prices. The increase in fuel prices at the beginning of the year, in April, June-July and in October-November was offset by steeper price falls in March, May and August-September. Prices fell for petrol but rose for diesel fuel. It should be noted that global oil prices in November 2025 declined by approximately 13% compared to December 2024. Global oil prices rose sharply during January-November 2025 only in January, when they were temporarily boosted by new US sanctions against the Russian energy sector and dwindling US oil reserves, and in June, when geopolitical tensions in the Middle East and concerns about possible supply disruptions increased. Overall, the decline in oil prices in the remaining months was mainly driven by lower global demand, rising supply and OPEC+ plans to increase extraction, as well as signals of a market surplus. During this period, *Brent* oil prices ranged from around 82 US dollars per barrel in January to around 60 US dollars in October, stabilising at 60-70 US dollars per barrel in recent months.

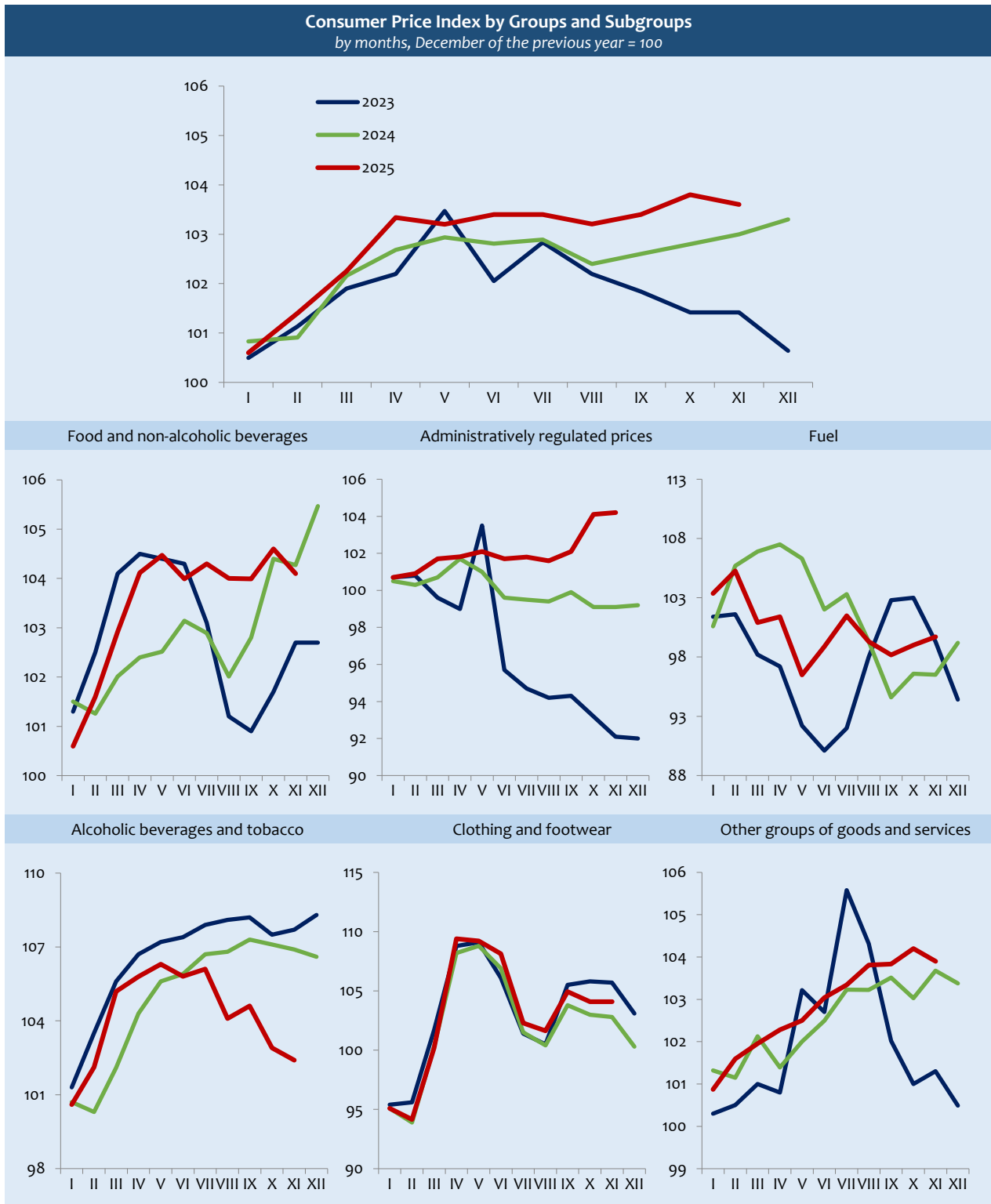
Figure 6.2



In 2025, annual average inflation is estimated to be 3.7%. In 2026, price changes will continue to be driven by fluctuations in energy and food prices on global markets, as well as by geopolitical developments and the pace of global economic growth. The inflation rate in Latvia will be additionally affected by supply-side factors, such as the review of taxes and

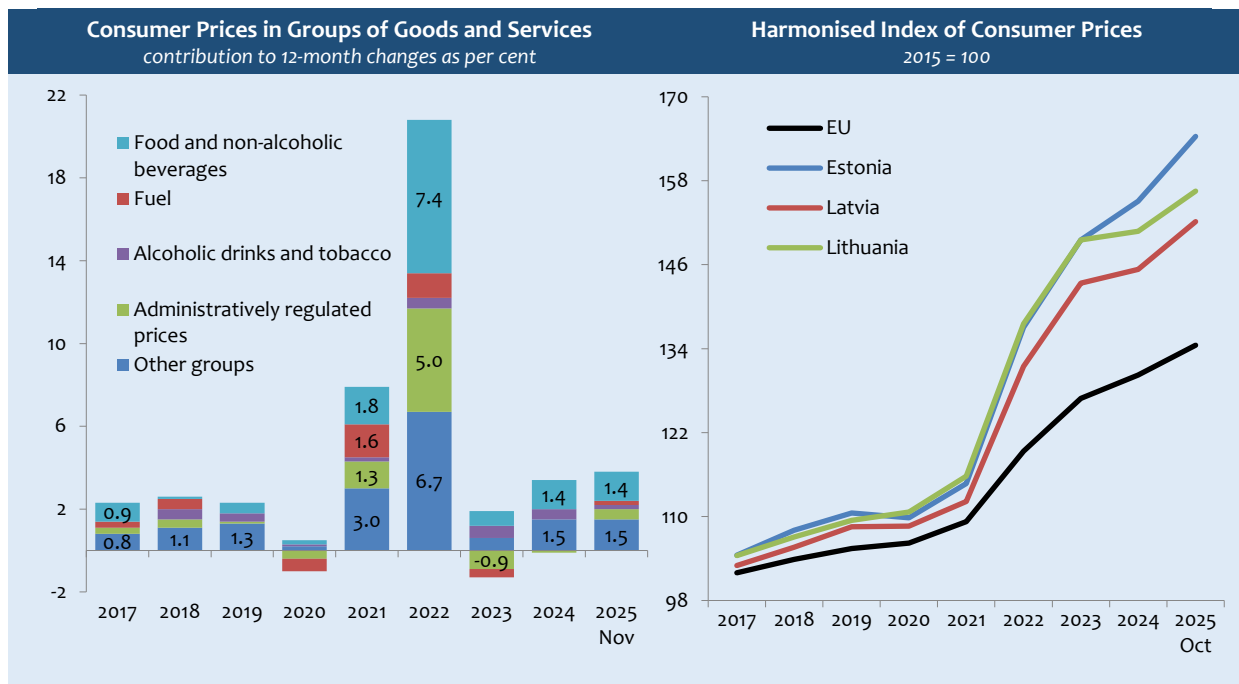
regulated tariffs, as well as demand-side factors, which will be boosted by wage growth, increasing purchasing power of the population. Average inflation is expected to stabilise around 2.5% in 2026, remaining at 2-2.5% in the following years.

Figure 6.3



In the **European Union**, after very moderate price increases in 2015-2016, driven by weaker economic growth and falling global food and energy prices, inflation accelerated in 2017-2019 amid rising economic activity. In 2020, however, consumer prices fell, and average annual inflation was low due to the COVID-19 pandemic. As restrictions were lifted and economies recovered, consumer prices rose sharply in 2021 and 2022 in almost all groups of goods and services. The Russian invasion of Ukraine and the sanctions that followed, which led to shortages of energy and many raw materials, also contributed to a significant increase in prices. Although in 2023 global energy and food prices had returned close to the level of 2021, inflation in the EU remained high, driven by geopolitical uncertainty and the base effect of previous price increases.

Figure 6.4



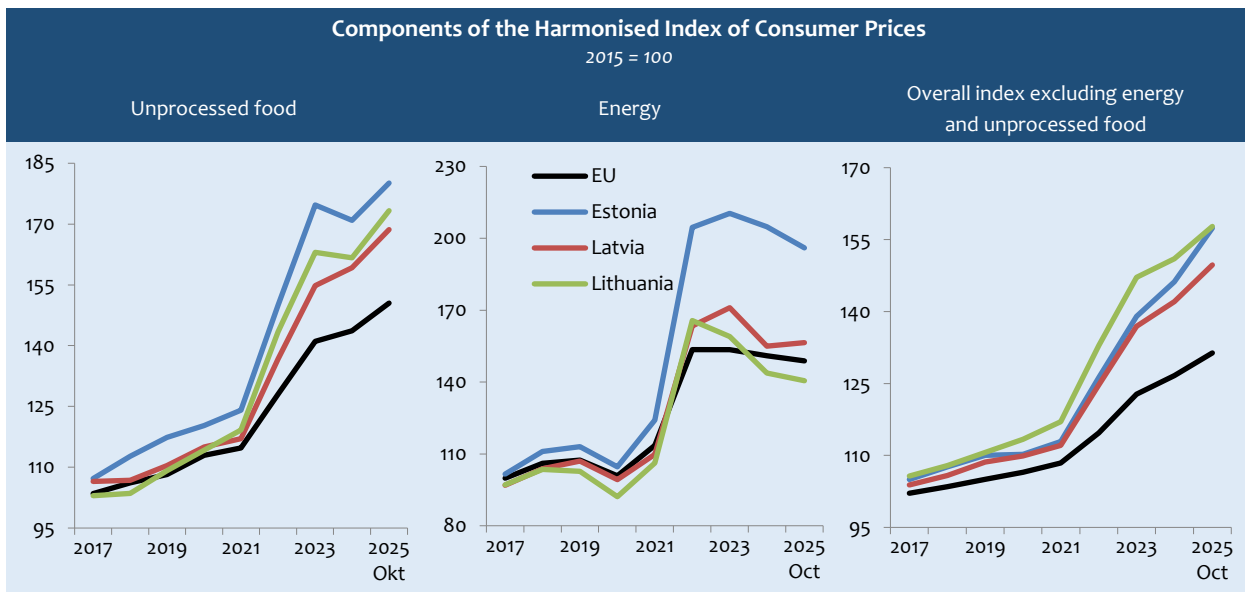
As global energy and food prices stabilised, average annual inflation declined in the EU in 2024 and reached 2.6%. Prices rose in most consumer groups, except for goods related to housing equipment and communications, where prices remained unchanged. The main contributors to total inflation were increases in the prices of services, especially food service activities and accommodation, insurance and rent. Food price increases also had a significant increasing effect, although global prices of unprocessed food fell. For energy, prices fell, with the drop in prices of fuel, electricity, natural gas and solid fuels exceeding the increase in prices of heating. In 2025, inflation continued to stabilise, and in October 2025, annual average inflation in the EU was 2.5%.

When comparing the **Baltic countries**, in 2024, the highest annual average inflation was in Estonia, it was more moderate in Latvia and lower in Lithuania. In all three countries, inflation was mainly driven by increases in services prices, while in Estonia and Latvia the increase in food prices was also significant. Energy prices fell in all the Baltic countries, and the impact of this decline was more pronounced in Latvia than in Estonia and Lithuania.

Latvia has had the lowest core inflation in the Baltics since 2015, driven by a slower increase in private consumption and therefore more moderate increases in prices of services. Prices of alcoholic beverages and tobacco also increased more slowly in Latvia, as excise duty rates in Estonia and Lithuania increased more rapidly. In Latvia, however, prices of communication services have risen significantly faster over the past decade than in the other two Baltic countries.

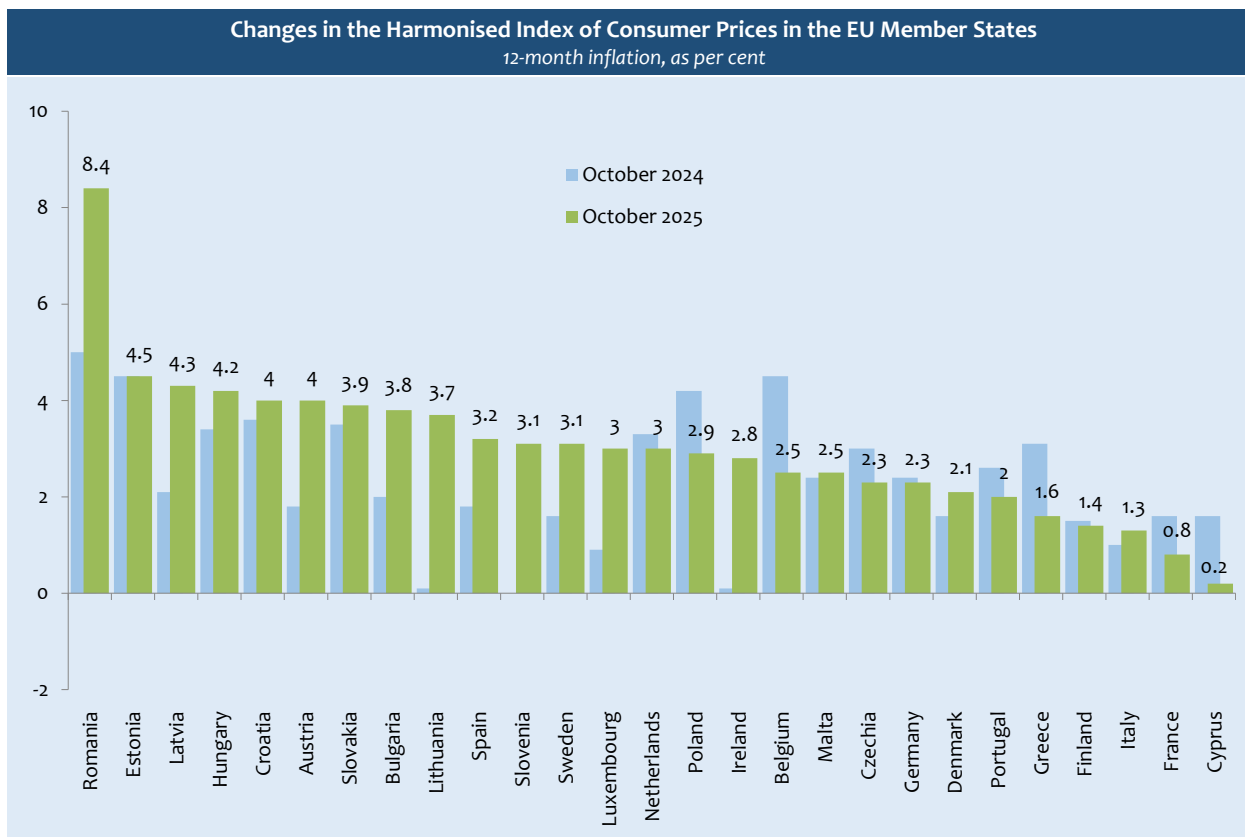
In October 2025, the average annual increase in the Harmonised Index of Consumer Prices (HICP) in all three Baltic countries was higher than the EU average. It was 4.7% in Estonia, 3.7% in Latvia and 3.1% in Lithuania. In Estonia and Lithuania, inflation was mainly driven by increases in services prices, while in Latvia, increases in both food and services prices had a similar impact. Food price increases in Latvia had the largest impact in the Baltics, were moderate in Estonia, and were the smallest in Lithuania. Energy prices continued to fall in Estonia and Latvia, but remained unchanged in Lithuania, and Estonia experienced the largest impact of the drop in energy prices.

Figure 6.5



In October 2025, compared to October 2024, the price level grew by 2.5% in the EU countries, and by 2.1% in the Euro Area. The highest inflation rates in October 2025 were in Romania, Estonia, Latvia and Hungary.

Figure 6.6



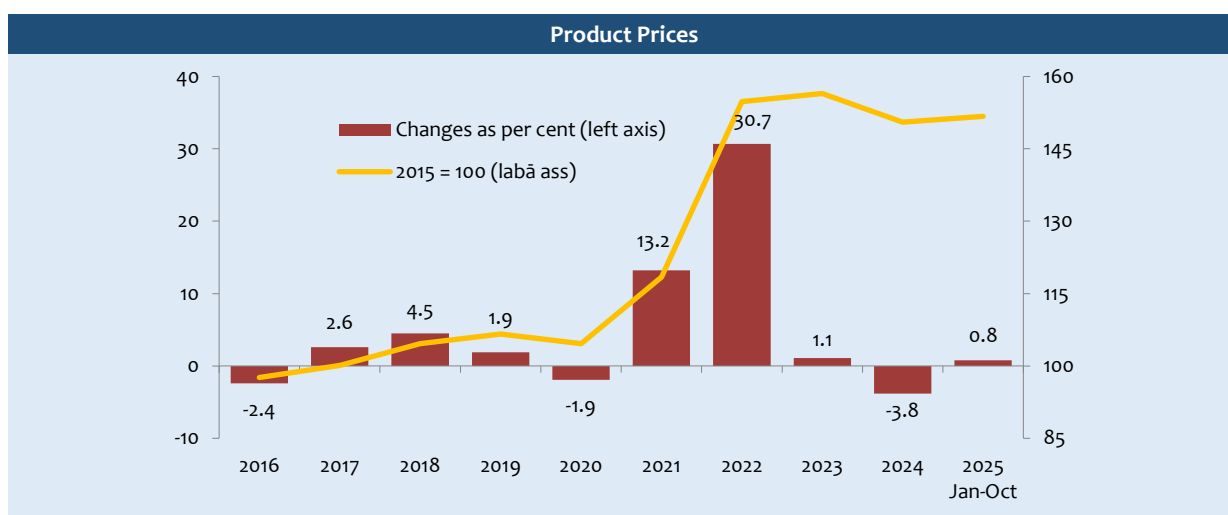
PRODUCER PRICES

After the increase in 2017-2019, producer prices declined in all major industries in 2020 due to COVID-19. In 2021 and 2022, however, the energy crisis led to a very sharp increase in this price group, reinforced by the Russian invasion of Ukraine. In 2023, the increase in producer prices moderated significantly as global energy prices fell and stabilised.

In 2024, producer prices declined mainly due to weak global economic development and intense geopolitical uncertainty. Prices of energy and raw materials continued their moderate decline, easing cost pressures in industry. Overall, producer prices in the industry fell by 3.8%. Prices of production for the domestic market reduced by 6.7%, while prices of production for exports reduced by 1%. Price falls were recorded in all major industrial sectors except water supply, sewerage, waste management and remediation activities.

Producer prices increase moderately in 2025, mainly driven by a gradual recovery of demand in export markets and price increases in a number of industrial sectors, notably manufacturing and mining. At the same time, global prices of energy and raw materials remain lower than in the past two years, thus limiting a faster rise in production costs. In January–October 2025, producer prices in the industry increased by 0.8% compared to the relevant period of the previous year. Prices of products sold on the domestic market fell by 0.2%, while prices of exported products increased by 1.7%. Producer prices rose significantly in manufacturing, and there were also significant increases in water supply, sewerage, waste management and remediation activities, as well as in mining and quarrying. Producer prices in electricity, gas, steam and air conditioning supply fell significantly.

Figure 6.7



A similar trend has been observed in producer prices in manufacturing since 2016. Following the rapid increase in 2017-2018, in 2019, manufacturing experienced a moderate increase, driven by slower growth in the EU and a slight drop in prices of energy sources and raw materials. Although 2020 was marked by the COVID-19 pandemic and a drop in energy prices, producer prices in manufacturing reduced just slightly during this period. However, they increased very sharply in 2021-2022 due to the energy crisis, but the increase became very moderate in 2023, and there was a decline in 2024. Producer prices in manufacturing rebounded in 2025, mainly due to a gradual recovery in external demand, stabilising manufacturing costs and price increases in several manufacturing sub-sectors, while prices of energy and raw materials remained lower than in previous years. In 2024, producer prices in manufacturing reduced by 2.4% for the products sold on the domestic market and by 0.9% for the exported products. Furthermore, in January-October 2025, compared to the corresponding period of the previous year, the increase in producer prices in manufacturing was more rapid for exported products – by 1.8%, but increased by 1.2% for the products sold in the domestic market.

Slightly more than 60% of the manufacturing production is exported; therefore the overall producer price dynamics of the industry are largely affected by the fluctuations in the prices of production for exports. The prices of production for exports are closely linked to the development of prices of the Latvian key export goods, including timber, metal products, and food, in global markets. In 2024, global prices of energy and raw materials declined, while in 2025 energy prices remained relatively stable, easing cost pressures on energy-intensive industries. In contrast, the dynamics of prices of food raw materials were uneven, with rising prices in the dairy, meat and vegetable oils segments, putting additional cost pressures on the food industry. Timber markets continued to fluctuate significantly, both due to tariff policy and demand, but the overall trend was that the prices increased. Uncertainty in the supplies of raw materials in the context of the tense geopolitical situation continues to have a significant impact on producer prices. Prices are also rising for the products sold

in the domestic market, driven by both global price dynamics and domestic factors such as changes in the prices of wood and unprocessed food. At the same time, prices of the products sold in the domestic market are also influenced by economic growth rates, which could accelerate in 2025.

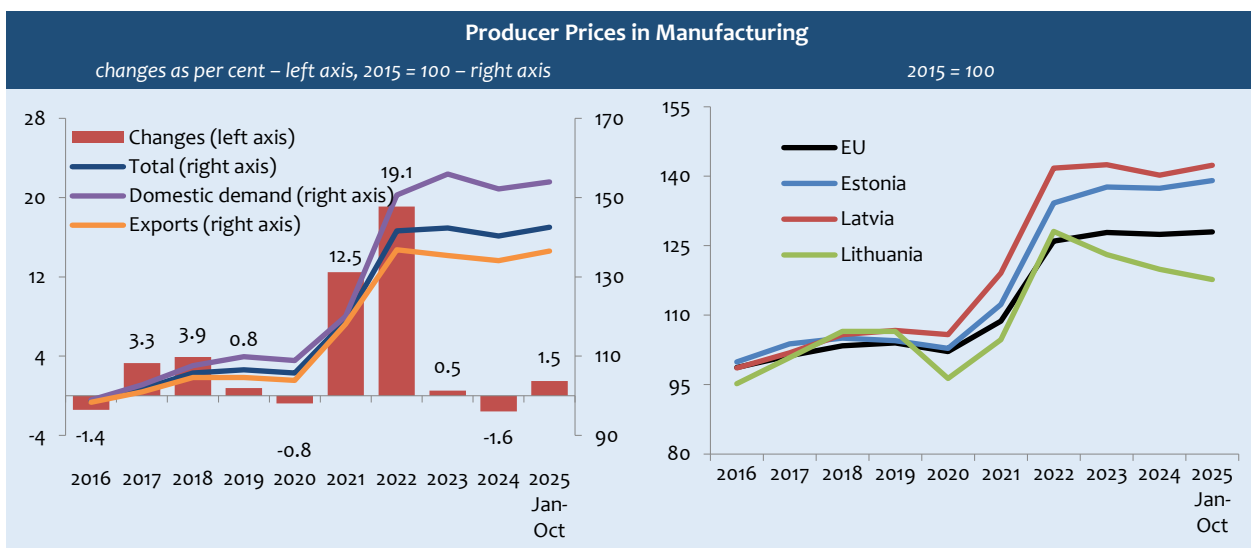
By sectors, the most impressive decline in producer prices in 2024 was in wood processing, driven mainly by a decline in prices for the products sold in the domestic market. On the domestic market, the fall in prices was driven by a contraction in construction volumes and weaker demand for sawn timber. On the European markets, producers faced increased competition from China, whose products became more competitive also due to the use of lower-priced Russian timber by Chinese manufacturing industries, which indirectly affected the price levels in Europe and reduced demand for domestic products. Price declines in the manufacture of other non-metallic mineral products, finished metal products and chemicals also had a significant impact in 2024. In manufacturing, producer price inflation was strongest in manufacture of other transport equipment and electrical equipment.

In January-October 2025, the most impressive increase in producer prices in manufacturing was in the manufacture of food, which was almost equally affected by price increases for both products sold in the domestic market and exported products. The increase was mainly due to the uneven dynamics of prices of food raw materials on global markets, in particular increases in prices of meat, vegetable oils and dairy products, as well as higher farm-gate prices for raw milk and several categories of meat on the domestic market, which outweighed price declines for cereals and several agricultural production products. Producer price increases in wood processing were also significant, driven mainly by an increase in prices of exported products supported by rising demand in European and Asian markets, a gradual recovery in construction activity, as well as increases in wood procurement prices in certain segments. Price increases in the manufacture of chemicals, electrical equipment and other non-metallic mineral products also had a major impact in January-October 2025, while the most influential producer price increases in manufacturing were in printing and the manufacture of computer, electronic and optical products.

Following a faster increase in producer prices in the EU in 2017-2018, the rise slowed down in 2019 mainly due to the drop in world energy prices and the slowdown of global economic growth. The fluctuations in supply and demand of energy sources and raw materials due to the COVID-19 pandemic affected the fall in producer prices in 2020. Producer prices in the EU increased very rapidly in 2021, with the economy recovering and significantly growing demand for raw materials and energy sources. This continued also in 2022, when the crisis of energy prices and supplies was enhanced by the Russian invasion of Ukraine. As prices of energy sources and other raw materials declined, the increase in producer prices in manufacturing reduced in 2023, and they were already dropping in 2024. Producer prices in manufacturing increased very moderately in 2025, mainly driven by a gradual recovery in demand in export markets as global supply chains stabilised and moderate price increases in selected manufacturing sectors, while prices of energy and raw materials remained at lower and more stable levels than in previous years. In January-October 2025, compared to the corresponding period of the previous year, they increased by 0.4% in the EU, most rapidly in Bulgaria, Denmark, Luxembourg and Hungary, but declined most rapidly in Greece and Portugal.

When comparing the Baltic countries, producer prices in manufacturing in January-October 2025, compared to the respective period of the previous year, increased most rapidly in Latvia – by 1.5%, they increased by 1.2% in Estonia, but reduced by 1.8% in Lithuania.

Figure 6.8



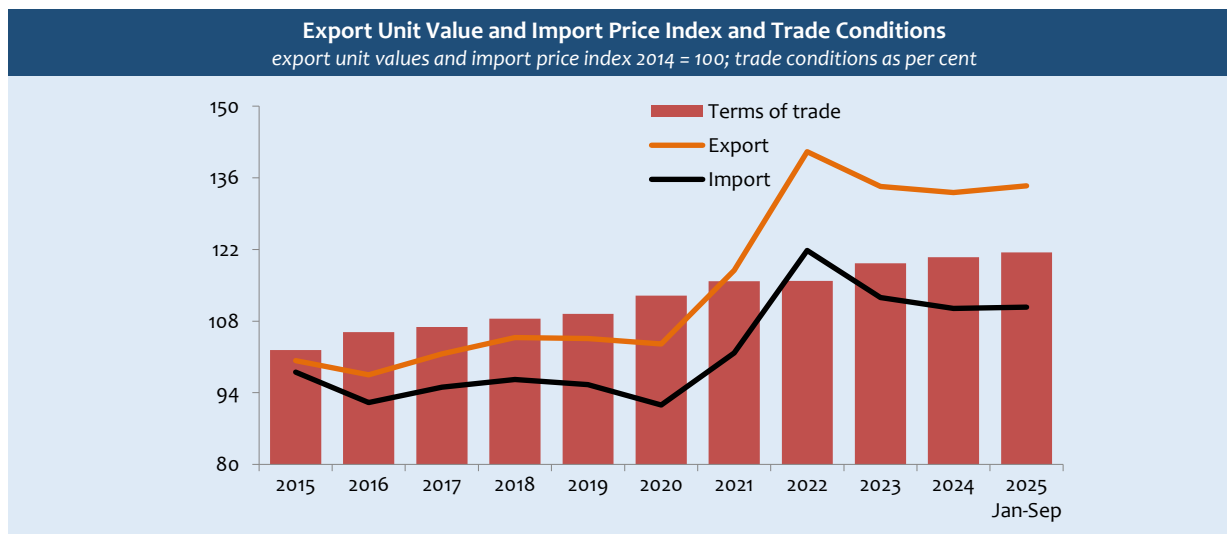
FOREIGN TRADE UNIT VALUE INDICES

Trade conditions have been improving since 2016. In 2016-2019, the biggest impact on the export unit value and import price came from the fluctuations in prices of wood and its products, as well as coke and refined petroleum products. In 2020-2021, trade conditions rapidly improved, but in 2022 they remained almost unchanged. In 2023, they improved significantly again as the import price index declined much faster than the export unit value index, mainly due to the normalisation of prices of energy and raw materials.

In 2024, trade conditions continued to improve with the import price index declining more rapidly than the export unit value index – by 1.8% and 0.9% respectively. Overall, over the last decade, the increase in the export unit value index exceeded the increase in the import price index by 22.5 percentage points. In 2024, the overall export unit value index was most affected by the drop in the unit value of agricultural products, wood and wood products, computers, electronic and optical equipment, chemicals and chemical products, and the increase in the unit value of food products. The overall import price index was mostly affected by price falls for coke and refined petroleum products, mining, chemicals and chemical products, computers, electronic and optical equipment, base metals, food products, as well as price increases for basic pharmaceutical products and pharmaceutical preparations, machinery and equipment not elsewhere classified, rubber and plastic products.

In April 2025, trade conditions continued to improve, with the unit value of exported goods rising faster than the prices of imported goods. In January-September 2025, the unit value of exported goods increased by 1.2% compared to the relevant period of the year before, while the prices of imported goods – by 0.3%. The export unit value index was most affected by the increase in the unit value of food products, wood and wood products, chemical substances and chemical products, computers, electronic and optical equipment, as well as the decrease in the unit value of motor vehicles, trailers and semi-trailers. The total import price index was most affected by the increase in prices of food products, mining, agricultural products, as well as decreases in prices of coke and refined petroleum products, motor vehicles, trailers and semi-trailers, computers, electronic and optical equipment.

Figure 6.9



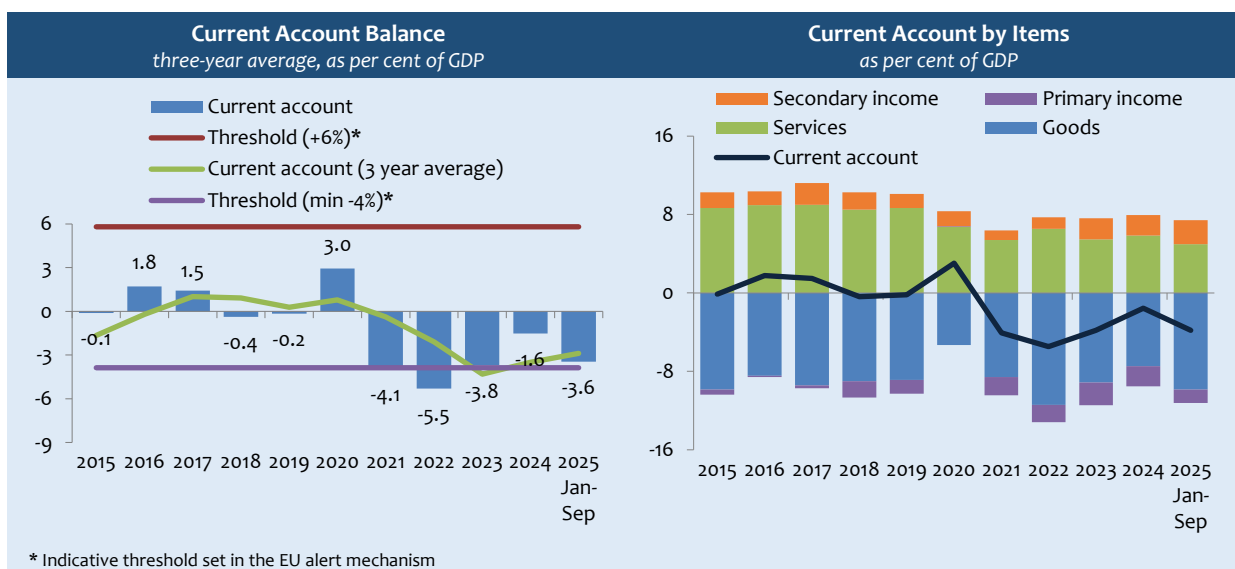
6.2. BALANCE OF PAYMENTS

CURRENT ACCOUNT

Latvia's current account has been in deficit in recent years and is more volatile than in the years before the COVID-19 pandemic.

The current account balance on average has been positive until 2019 (0.5% of GDP), with marginal fluctuations and a moderate downward trend, from a surplus of 1.8% of GDP in 2016 to a deficit of 0.2% in 2019. Since 2020, external shocks have led to significant adjustments to the current account. In 2021 and 2022, it grew rapidly, achieving 4.1% and 5.5% of GDP, respectively, driven significantly by a recovery in activity after the easing of restrictions of the COVID-19 pandemic, as well as by energy price increases linked to Russia's war in Ukraine.

Figure 6.10



The current account improved slightly over the following two years. In 2023, the negative balance of the current account reached 3.9% of GDP, mainly due to a contraction in imports. In 2024, the deficit fell to 1.6% of GDP. However, the current account deficit widens again to 3.6% of GDP in January-September 2025 (2.5% of GDP in January-September 2024), mainly driven by an increase in imports.

With downward trends in the current account preserved, external imbalance risks increased as well. In 2023, the indicative threshold for the three-year average current account deficit set by the EU Alert Mechanism was surpassed.

The state of the current account is mainly determined by changes in the balance of goods and services and, to a lesser degree, by net flows of primary income and secondary income.

Weakening of external trade flows has been observed in recent years. Economic shock was its main reason. It was initially caused by the COVID-19 pandemic, then the Russian invasion of Ukraine, which enhanced the uncertainty of the external environment.

In 2020, imports of goods shrank due to low demand. The drop in imports along with stable goods export dynamics reduced the deficit of the external trade balance to 5.3% of GDP. In the following two years, the export value of goods grew slightly faster than the import value, which also determined the increase in the foreign trade balance deficit to 8.6% of GDP in 2021.

High prices of energy sources and the need to change their sources of supply due to the war significantly increased the import value. Moreover, with exports growing more slowly than imports, the trade deficit widened to 11.4% of GDP in 2022. In 2023 and 2024, the value of both exports and imports declined. However, the external trade balance improved slightly as the value of imports declined more rapidly – to 9.1% and 7.5% of GDP respectively. However, the trend towards reducing the external trade deficit is not stable, and the deficit increases to 9.2% of GDP in 2025, almost 1.5 percentage points more than in January-September of the previous year. It should be noted that geopolitical developments have

contributed to Latvia's foreign trade shifting away from Russia, where EU countries have an increasingly bigger share in imports.

Table 6.1

| Balance of Payments of Latvia as per cent of GDP | | | | | | |
|---|------------|-------------|-------------|-------------|-------------|-----------------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 Jan–Sep |
| Current account | 3.0 | -4.1 | -5.5 | -3.8 | -1.6 | -3.6 |
| Trade balance | -5.3 | -8.6 | -11.4 | -9.1 | -7.5 | -9.2 |
| Export | 46.0 | 50.2 | 57.4 | 47.0 | 46.1 | 45.3 |
| Import | 51.4 | 58.8 | 68.8 | 56.1 | 53.5 | 54.5 |
| Balance of services | 6.8 | 5.4 | 6.5 | 5.5 | 5.9 | 4.7 |
| Primary income | 0.0 | -1.9 | -1.8 | -2.3 | -2.1 | -1.3 |
| Secondary income | 1.6 | 1.0 | 1.2 | 2.2 | 2.1 | 2.3 |
| Capital account | 1.8 | 1.4 | 0.7 | 1.9 | 1.3 | 1.5 |
| Financial account | 6.3 | -0.7 | -1.6 | 0.3 | 1.9 | 0.0 |
| Direct investment | -2.2 | -2.7 | -3.6 | -1.5 | -2.9 | 2.2 |
| Assets | 0.6 | 7.2 | -0.3 | 2.4 | 0.6 | 1.3 |
| Liabilities | 2.8 | 9.9 | 3.3 | 3.9 | 3.5 | -0.9 |
| Portfolio investment* | 13.5 | -0.8 | 3.8 | -4.3 | -4.2 | -0.1 |
| Assets | 10.7 | 0.7 | 4.0 | -0.1 | -0.3 | 3.0 |
| Liabilities | -2.8 | 1.5 | 0.2 | 4.2 | 3.9 | 3.1 |
| Other investment | -6.5 | 2.3 | -0.7 | 5.4 | 8.9 | -3.1 |
| Assets | -0.3 | 1.1 | 8.2 | 0.7 | 3.5 | 6.4 |
| Liabilities | 6.2 | -1.2 | 8.9 | -4.7 | -5.4 | 9.5 |
| Reserve assets | 1.5 | 0.5 | -1.1 | 0.7 | 0.1 | 1.0 |
| Deviation | 1.5 | 1.9 | 3.1 | 2.2 | 2.2 | 2.0 |
| * Portfolio investment and financial derivatives | | | | | | |

The trade surplus in services has been maintained yet at a lower level than before the COVID-19 crisis.

The surplus of the balance of services decreased from 8.7% of GDP in 2019 to 6.8% of GDP in 2020. Although the partial cancellation of the pandemic restrictions contributed to an increase in exports and imports of services, in 2021 the surplus of the services balance continued to shrink, reaching 5.4% of GDP, and increased to 6.5% of GDP in 2022.

In 2023, growth rates of services imports and exports were much slower than in 2022. Imports grew by 9.1% at current prices, while exports grew more moderately (3.5%), and the surplus of the balance of services reached 5.5% of GDP – 1.0 percentage points lower than in 2022. In 2024, the surplus of the balance of services increased to 5.9% of GDP and its average value in the **last three years** (2022 – 2024) was 6% of GDP, which is less than in the years before the COVID-19 pandemic (an average of 8.7% of GDP).

In January–September 2025, imports of services grew twice as fast as exports, resulting in a surplus of services of 4.7% of GDP, 1.1 percentage points lower than a year ago.

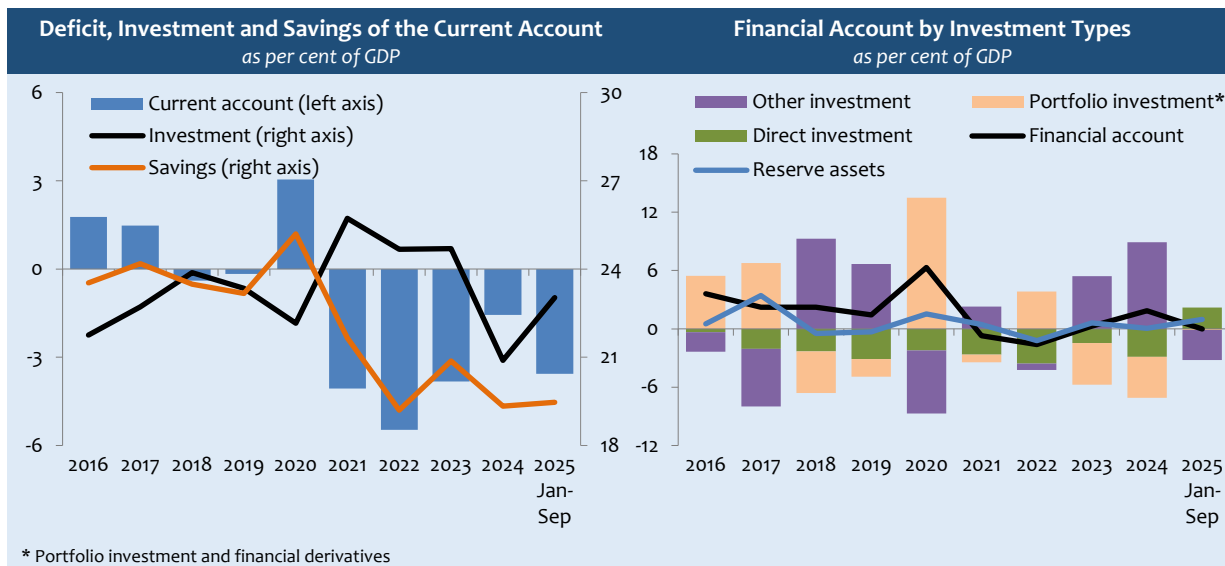
The primary income balance in the last three years (2021–2024) has been negative – 2% of GDP per year on average, which is the lowest level in the last decade. The fluctuations in primary income balance were relatively small and were mainly driven by changes in non-residents' deposit income. As the income earned by foreign investors in Latvia declined under the influence of the crisis; in 2020, the primary income balance was in balance. By contrast, in 2021 and 2022, it was already in deficit, 1.9% and 1.8% of GDP, respectively. The primary income balance continued to deteriorate in 2023 and 2024, with the deficit increasing to 2.3% and 2.1% of GDP respectively, mainly driven by the increase in FDI earnings.

The condition of the secondary income and capital account is mainly affected by flows of EU funds, as well as Latvia's contributions to the EU budget. External shocks have not significantly affected the condition of the secondary income

account. In the last three years (2022-2024), it had a surplus of 1.8% of GDP per year on average, which is equivalent to the historically observed level. The secondary income account balance was positive (2.3% of GDP) also in January-September 2025.

The inflow of EU structural funds dominates in the capital account. Since 2021, the average capital account surplus has been 1.4% on average, including 1.3% of GDP in 2024. In January-September 2025, the capital account surplus increased reaching 1.5% of GDP. Changes in capital account surplus are mainly related to changes in EU funds uptake activities.

Figure 6.11



The condition of the current account balance until 2019 proved that savings and domestic investments were balanced. In 2020, the current account surplus was determined by an increase in “forced” savings and a decrease in investments. In the next two years, the increase in the current account deficit has been mainly affected by the increase in investment activities, while savings decreased. However, the level of investment and savings has been declining since 2023.

CROSS-BORDER FINANCIAL FLOWS

The dynamics of the financial account balance in recent years have been significantly affected by the geopolitical instability in the region, the public sector debt restructuring processes, and the monetary policy pursued by the European Central Bank to contain rising inflation.

From 2017 to 2019, external assets generally increased more than liabilities, and the financial account balance (assets less liabilities) was positive – 2% of GDP on average. Since 2020, the dynamics of the financial account have been characterised by significant volatility. In 2020, the positive financial account balance increased to 6.3% of GDP, which was significantly affected by the increase in assets of the Bank of Latvia and credit institutions in the form of portfolio investments. In the following two years (2021-2022), a sharp increase in liabilities prevailed, suggesting the attraction of foreign capital. In 2023, the financial account gradually improved, supported by more moderate inflows of external funding and more stable growth in external assets. In 2024, the positive balance becomes more pronounced, with liabilities decreasing significantly. In January-September 2025, the financial account was in balance. The status of the balance of payment accounts in the near future will be determined by changes in the geopolitical situation and their impact on global supply chains, cross-border flows and the Latvian economy in general.

The **foreign gross debt of Latvia has slightly increased**. This was mainly due to an increase in long-term debt liabilities of the government. Moreover, foreign liabilities of non-financial corporations and households are declining. According to Latvia’s international investment balance data, at the end of September 2025, gross external debt was almost 104% of GDP, including the government’s gross external debt amounted to 14,397 million euro (34.3% of GDP). The balance of international investment at the end of September 2025 was -20% of GDP and did not exceed the indicative threshold defined in the EU Alert Mechanism (-35% of GDP). The balance of international investment is considered to be stable, as Latvia’s liabilities are mainly comprised of government bonds and foreign direct investment.

6.3. FOREIGN DIRECT INVESTMENT

Global foreign direct investment intensity has been subdued in recent years, reflecting both the economic disruptions caused by the pandemic and global economic volatility. The war in Ukraine further exacerbated geopolitical tensions, which had a negative impact on cross-border capital flows.

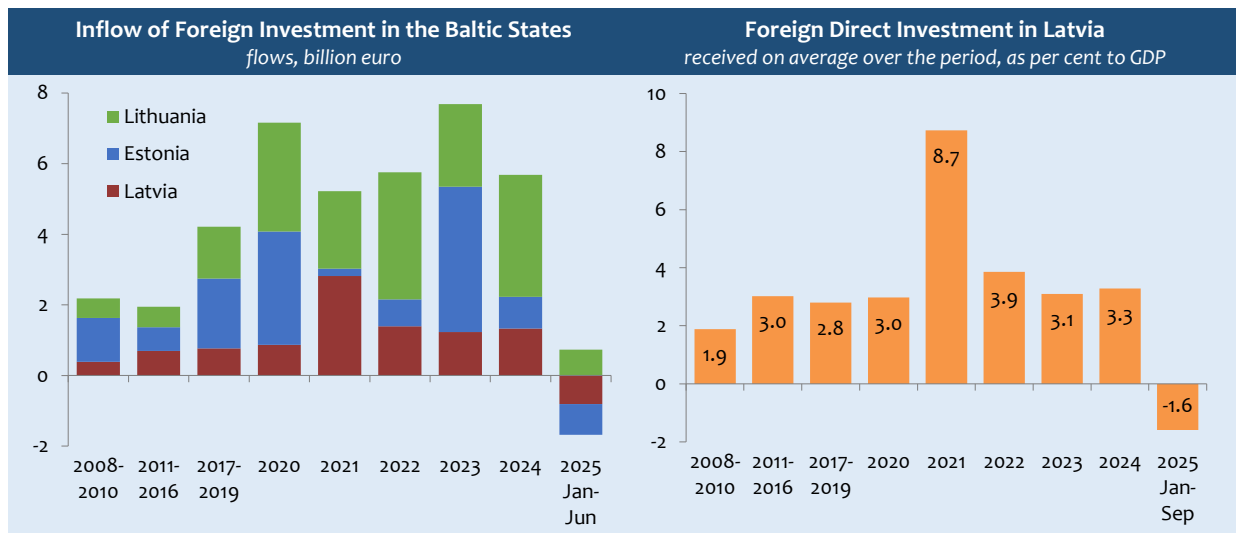
Global foreign direct investment continued to weaken in 2024, despite a slight nominal increase, mainly driven by volatile financial flows through some European intermediate economies. Excluding these one-off effects, investment actually fell by 11%, marking the second consecutive year of significant decline and reflecting the changeability of international investment. The downturn was exacerbated by a sharp 26% drop in international project financing, which had a particularly negative impact on capital-intensive infrastructure projects in developing countries. The uncertain investment environment makes international investors cautious. However, the gradual improvement in financing conditions, as well as the high level of profit of international investors, may have a positive impact on global FDI flows.

The intensity of foreign direct investment flows in EU countries is generally lower than in the years before the pandemic. Moreover, in 2022, FDI flows in the EU countries were generally negative evidencing an outflow of capital. Although FDI flows slowed in 2023, they are still lower than in 2019.

Cross-border flows of direct investment in the Baltic States in the last three years were 1.6 times higher than before the COVID-19 pandemic in 2017-2019. However, in the first half of 2025, they were negative and reached almost -0.95 billion euro (-1.3% of GDP), mainly due to FDI outflows from the Estonian and Latvian economies. Lithuania's net FDI flows in the first half of the year remained positive.

FDI flows into the Latvian economy from 2021 to 2024 have fluctuated between 3.3% and 8.7% of GDP on average per year, and were overall 2 times higher than in the pre-recession years (2017-2019). In 2021, net FDI flows attracted to Latvia reached 2,820 million euro, i.e., 1,992 million euro more than in 2019. This was due to the extensive investments of the Swedish company *Swedbank AB* in the equity capital of companies registered in Latvia. FDI flows attracted to the Latvian economy as a result of this transaction reached 8.7% of GDP. In 2022, the attracted net FDI flows were half of those a year before, which is partially explained by the high base effect. Moreover, these trends were also driven by negative flows of investment in companies' equity in response to EU sanctions against Russia. In 2023 and 2024, FDI inflows into the Latvian economy averaged 3.3% of GDP.

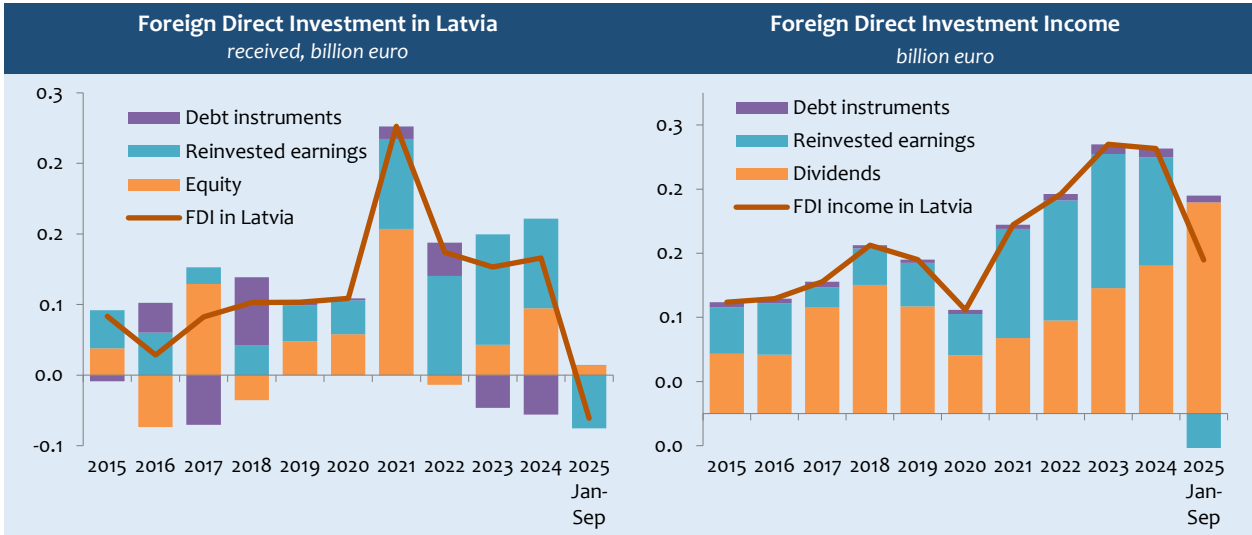
Figure 6.12



By contrast, FDI transactions in Latvia were negative in January-September 2025, indicating a foreign capital outflow of 1.6% of GDP. The decrease was mainly due to dividends from long-accumulated retained earnings paid in Q1 in the professional services and financial intermediation that were not distributed in previous years. Investments in companies' equity, on the other hand, remain positive, but in January-September of this year, they were almost four times lower than a year ago. Foreign direct investment inflows were higher in the energy and trade sectors.

The long-term income of foreign direct investors has a positive dynamic, reflecting the high profitability of FDI in Latvia. From 2010 to 2018, direct investment income in Latvia was growing by an average of 35% per year. After peaking in 2018 (5.4% of GDP), FDI income in Latvia decreased in 2019 and 2021, as economic growth slowed down. However, in the next four years, they almost doubled compared to 2020 and reached 6.1% of GDP in 2024. In January-September 2025, compared to the corresponding period of the previous year, the income of foreign direct investors was 18% lower than a year before and amounted to 4.7% of GDP (6% in January-September 2024). Most of it was paid in dividends.

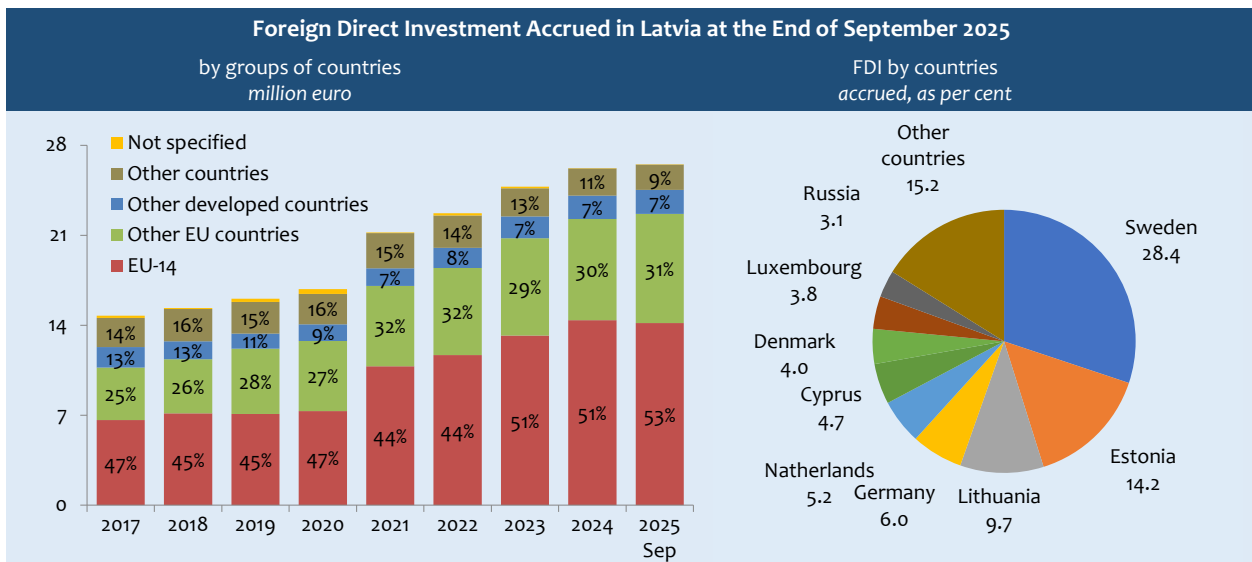
Figure 6.13



The amount of FDI accumulated in the Latvian economy is growing year on year. The amount of FDI accrued at the end of September 2025 reached 26.5 billion euro (63% of GDP). It grew by 1.1% compared to the end of 2024, mainly underpinned by the increase in investment in energy, as well as trade and financial services sectors.

The geopolitical structure of FDI accrued is relatively stable. Investments of businesses from the EU countries dominate, amounting to 85.5% of the total FDI accrued in the Latvian economy at the end of September 2025.

Figure 6.14



Sweden is the largest investor in the economy of Latvia. Its business investment stock has grown 2.8-fold since 2020 and accounted for 28.4% of all FDI stock at the end of September 2025. There are also significant investments from entrepreneurs from Estonia (14.2%), Lithuania (9.7%), Germany (6.0%), the Netherlands (5.2%), Cyprus (4.7%), Denmark (4.0%) and Luxembourg (3.8%).

The introduction of sanctions against Russia affected investments of its businesses in the Latvian economy. At the end of September 2025, direct accrued investments of Russia were almost 55% lower than at the end of 2021. However, it should be noted that Russia is the ninth largest investing country in the economy of Latvia by accrued FDI.

Investments by Lithuanian and Estonian businesses make up almost one-fifth of accrued FDI in Latvia. Activities of Latvian businessmen in the Baltic neighbouring countries are, on the contrary, much more moderate.

6.2. tabula

| | FDI by Sectors | | | | | |
|----------------------------|-----------------------------------|---------------|---------------|--------------|------------|------------|
| | balances at the end of the period | | | million euro | | |
| | million euro | | | million euro | | |
| | 2019 | 2024 | 2025 Sep | 2019 | 2024 | 2025 Sep |
| Agriculture | 669 | 1 076 | 1 188 | 4.2 | 4.1 | 4.5 |
| Manufacturing | 1 906 | 3 439 | 3 384 | 11.9 | 13.1 | 12.8 |
| Other industry | 681 | 934 | 1 191 | 4.2 | 3.6 | 4.5 |
| Construction | 452 | 406 | 405 | 2.8 | 1.5 | 1.5 |
| Trade and accommodation | 2 734 | 3 641 | 3 878 | 17.0 | 13.9 | 14.6 |
| Transportation and storage | 789 | 778 | 790 | 4.9 | 3.0 | 3.0 |
| Financial intermediation | 3 902 | 3 848 | 4 089 | 24.3 | 14.7 | 15.4 |
| Real estate activities | 2 683 | 3 328 | 3 231 | 16.7 | 12.7 | 12.2 |
| Other services | 1 187 | 7 921 | 7 520 | 7.4 | 30.2 | 28.4 |
| Unclassified activity | 1 066 | 836 | 824 | 6.6 | 3.2 | 3.1 |
| Total | 16 069 | 26 207 | 26 500 | 100 | 100 | 100 |

Most of FDI is attracted in service sectors. At the end of September 2025, the accrued FDI in the services activities constituted 76.7% of the accrued FDI in the economy of Latvia. It rose by 64.5%, compared to the end of 2019. At the same time, the structure of sectors of accrued FDI changed. At the end of 2021, the direct investment of Sweden in credit institutions of Baltic Countries was reoriented through a Latvia-registered undertaking because of the *Swedbank* group reorganisation strategy. Thus, foreign direct investment of Sweden in Latvia increased in the field of professional services. At the end of September 2025, the share of this sector in the total amount of accrued FDI increased to 22.3% (1.7% at the end of 2019).

Almost 83% of accrued FDI in service sectors are investments in financial intermediation, real estate and trade activities, as well as professional activities. Investment dynamics in these sectors are generally positive (except financial intermediation). The stock of foreign investment fell by 10.5% between 2019 and 2022. The attractiveness of the sector for foreign investors increased in the following years and the level of direct investment stocks at the end of September 2025 was at the level of 2019.

At the end of September 2025, the accrued FDI in commodity producing sectors amounted to 23.3%. Almost 12.8% of total accrued FDI was invested in manufacturing and mainly in conventional sectors. Only one-fifth of accrued FDI in manufacturing was invested in high-technology and medium-high-technology sectors evidencing of low attractiveness of these activities for foreign capital. Since the end of 2019, the amount of accrued FDI in manufacturing has increased 1.8 times. Although the FDI attraction dynamics are positive, the volume of FDI accrued in manufacturing in Latvia is smaller than in Lithuania and Estonia.

In the nearest years, FDI flow intensity will most probably be moderate. This will largely be driven by the geopolitical tension maintaining uncertainty in the investment environment. An active FDI attraction policy will be particularly important under the conditions of high uncertainty.

The Investment and Development Agency of Latvia (LIAA) plays a major role in the attraction of foreign investment in Latvia. The strategy of the LIAA for attraction of investment is oriented towards qualitative servicing of incoming investment projects and active operation in attracting investment projects by addressing potential investors.

The process of improvement of the FDI attraction policy is ongoing in close cooperation with the Foreign Investors' Council in Latvia (FICIL). The surveys of foreign investors in Latvia conducted by FICIL make it an important contribution to the improvement of the investment environment. (For details about FDI attraction policy see Chapter 12.4.)

6.4. MONETARY INDICATORS

The banking sector is resilient and has remained stable amid the global shocks of recent years. This year, lending has been developing positively for the Latvian economy, both in business and household lending. The introduction of the bank solidarity tax is one of the reasons why banks are more actively involved in lending to the economy. Deposit volumes continue to rise.

In accordance with the information from the Bank of Latvia, bank profitability has considerably improved in recent years. The bank sector’s profit performance has increased due to the increase in credit rates caused by the ECB’s policy to combat inflation. Its level was particularly high in 2023 and 2024. In Q1-Q3 2025, the banking sector’s profits amounted to 329 million euro, and showed a decrease by 27.0% compared to Q1-Q3 2024, but still exceeded the windfall profit indicators of the previous period.

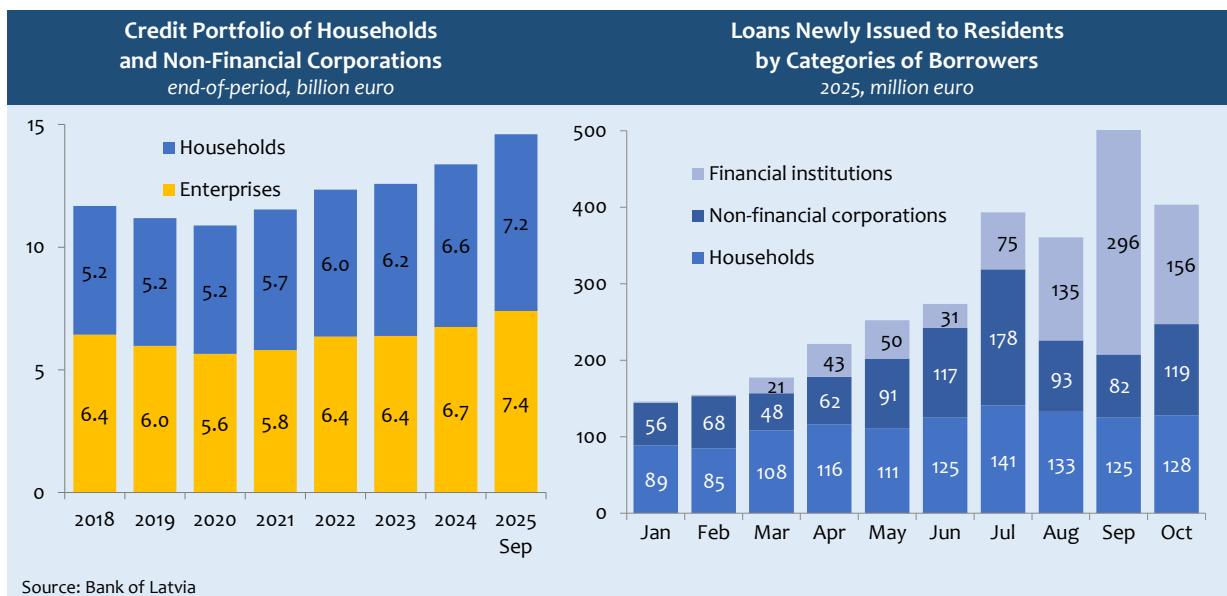
The banks’ windfall profits suggested a broader discussion about their taxation. Several EU Member States have introduced additional taxes. Amendments to the Corporate Income Tax Law were adopted in Latvia and entered into force in 2024, which provide for introducing a mandatory advance payment for banks. In addition, a partial refund of interest payments on fixed-term mortgages has been introduced and was effective in 2024.

In Latvia, fixed-term bank solidarity contributions were introduced to be in effect from 2025 to 2027. They are levied on the share of banks’ net interest income that exceeds average annual net interest income by more than 50% from 2018 to 2022. When lending activates, contribution levels are reduced.

Overall, 10 banks and 4 branches of EU banks are operating in Latvia. Competition in the banking sector increased in 2024, with *Indexo banka* starting operations in August. It is the first new bank in Latvia to be licensed after joining the euro area. The capitalisation level of the banking sector remains high. In Q3 2025, the average capital adequacy ratio of the banking sector was 21.85% (20.77% – a year ago). The return on assets (ROA)¹ and the return on equity (ROE)² of the banking sector continued to reduce after the rapid drop in 2023 and were 1.43% and 12.24%, respectively (2.10% and 17.38% – a year ago).

A constant increase in the assets of Latvian banks has been seen since Q2 2020. This trend continued in 2025 and at the end of Q3 banks’ assets were 31.1 billion euro, 6.9% higher than a year before. The share of non-bank credits in total assets slightly increased, amounting to 57.3%. The share of debt securities was 9.6% or 1.8 percentage points up compared to the previous year.

Figure 6.15



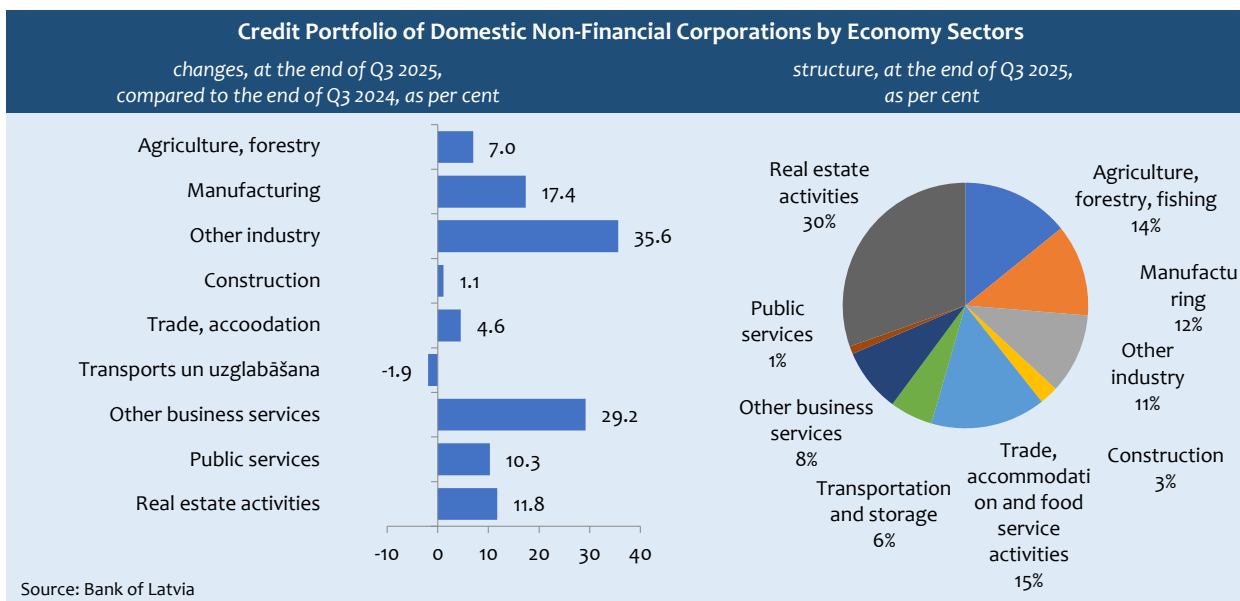
¹ ROA – profit/loss to assets ratio

² ROE – profit/loss to capital and reserves ratio

Although the increase in banking activity is noticeable, it should be noted that at least in the last 10 years lending, especially corporate lending, has been weak in comparison with other Baltic countries. According to the data of the Bank of Latvia, **outstanding amounts of loans to non-banks** in Q3 2025 exceeded the indicator of the same period of 2024 by 8.5%. The domestic lending portfolio increased by 8.1% during this year. The credit portfolio of non-financial corporations increased by 12.7%, but lending to small and medium-sized enterprises developed clearly more rapidly – 15.9%. Lending to households grew at a slightly slower annual rate of 10.5%.

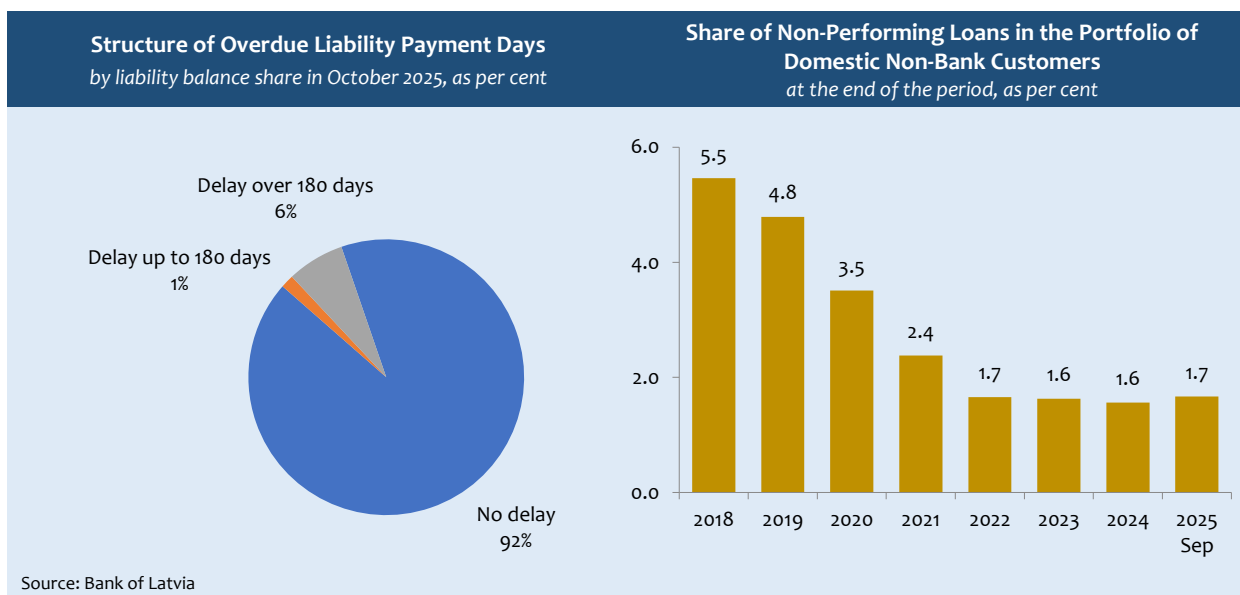
Most of the loans granted to households are loans for house purchase, reconstruction and repair. In lending to businesses, the majority of business loans, or just over 3/5, have been issued to microenterprises and medium-sized enterprises.

Figure 6.16



When analysing the credit portfolio of sectors, real estate activities, trade and agriculture remained leaders at the end of Q3 2025. The sector with the strongest growth over the year is other industry.

Figure 6.17



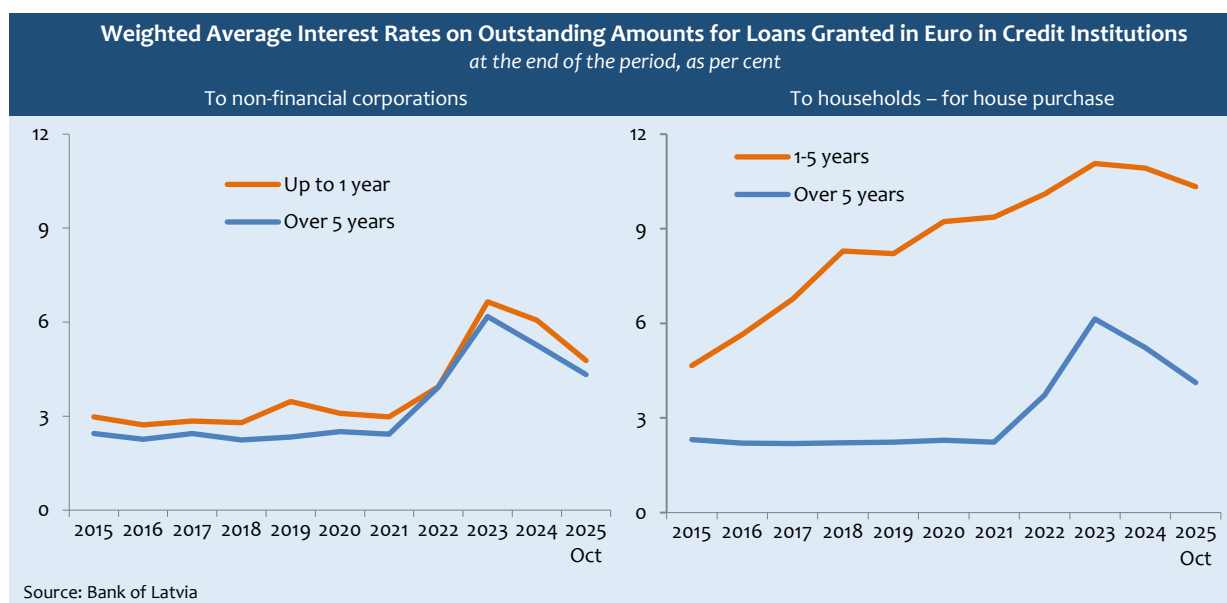
Before the pandemic, the **quality of the credit portfolio** had been gradually improving since 2011, mainly due to the improvement of the economic situation and writing off bad debts. The quality of the credit portfolio remained high also

during the pandemic. The situation was improved by the credit moratorium and other solutions offered by banks implemented for the support of borrowers and therefore they helped entrepreneurs and households to overcome short-term liquidity problems. The quality of the credit portfolio is stable, as evidenced by the share of non-performing loans in recent years. At the end of September 2025, 1.7% of loans to domestic non-bank corporations were non-performing.

New lending is growing more dynamically in 2025 than in previous years. Loans amounting to 410 million euro were newly issued this October. The amount of loans issued to households was 128 million euro. Most of them or 72.7% were mortgage loans for purchasing housing, and the share of loans issued for purchasing consumer goods was 21.6%.

Business lending is also becoming more active. Loans amounting to 119 million euro were newly issued to non-financial corporations in October 2025. Most or almost 85% of them were issued to small and micro enterprises. Besides financial intermediation, the sectors with the largest share of new loans are: real estate activities and electricity, gas, steam and air conditioning supply.

Figure 6.18



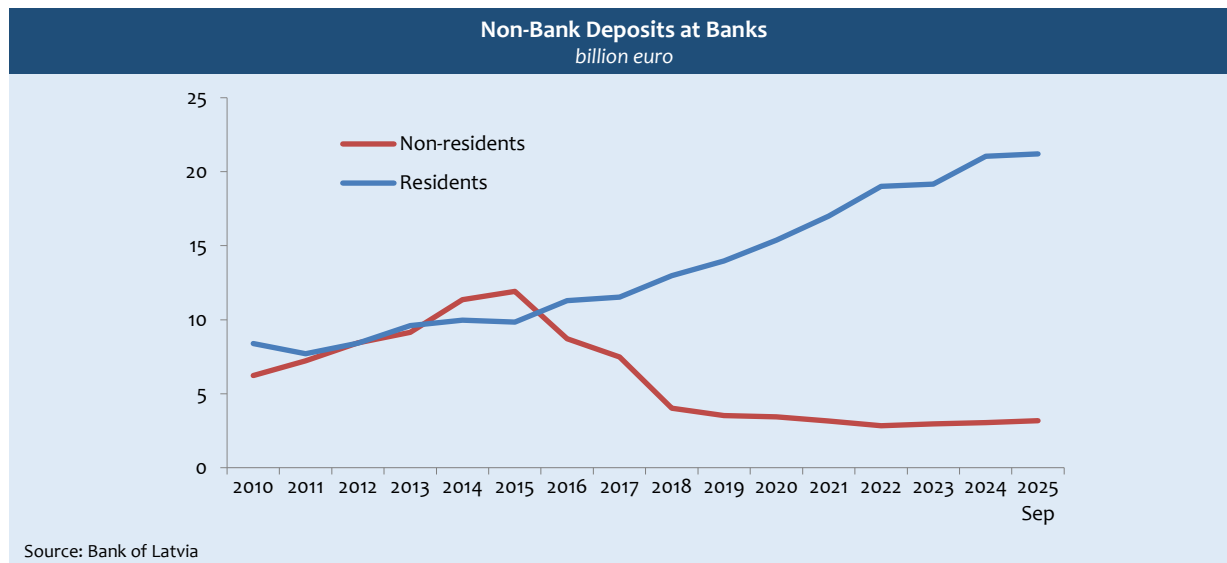
During the last decade, **interest rates** (on outstanding amounts) for credits granted to non-financial corporations – long-term and short-term – were very stable until 2022, when their rapid increase started. The peak in lending interest rates was reached in the final months of 2023 and in the first half of 2024. Long-term interest rates increased from 2.4% at the end of 2021 to 6.2% at the end of 2023; the dynamics of short-term rates during this time were from 3.0% to 6.7%. Similar trends were observed in the dynamics of long-term interest rates of credits granted to households for purchasing housing. The increase was from 2.2% at the end of 2021 to 6.1% at the end of 2023. On the other hand, short-term (1-5 years) credit rates have been showing a stable upward trend in the last decade. The significant increase in credit rates at this time was triggered by the ECB's decisions to raise base interest rates to curb inflation. In 2024, a gradual reduction in interest rates started, the ECB is also contributing to this by returning to lowering its base interest rate since June. The steeper decline started in the second half of the year and continued until autumn 2025, and its pace now is very moderate. The ECB's decision in October to leave the base rate unchanged may also contribute to a slowdown in the decline in interest rates.

A more rapid increase in non-bank **deposit volumes** started in the second half of 2020, which coincided with the onset of the COVID-19 crisis, when the population was more cautious in its spending and was more inclined to make savings because of the uncertainty of future economic developments. The formation of savings was also boosted by the limited opportunities to spend due to the restrictions on trade in the country. The growth of savings stopped in 2023 along with the increase in personal spending. The overall growth trend resumed in the next year. At the end of Q3 2025, non-bank deposits amounted to 24.4 billion euro.

The structure of non-bank deposits by customer nationality has experienced significant changes. The share of deposits of non-residents has shrunk from 56.0% at the end of Q1 2015 to 13.1% at the end of Q3 2025. This trend is more pronounced for deposits of non-EU residents. The balance of non-bank deposits of non-residents in Q3 2025 amounted to 3.2 billion euro, which is 5.8% more than a year before.

The data on resident deposits show that positive dynamics continue during the year. At the end of Q3 2025, banks attracted 21.2 billion euro in deposits of residents. The growth rate was 7.4% compared to the end of Q3 last year.

Figure 6.19



Overall, in the financial sector, as in other sectors, further development of the situation will largely depend on the stabilisation of the economic and geopolitical situation in the region and the world, and on local and ECB decisions affecting this sector.

6.5. FISCAL POLICY AND PUBLIC DEBT

The COVID-19 pandemic has caused significant changes in the way fiscal policy was implemented. In 2020, the general escape clause of the Stability and Growth Pact (SGP) was activated in the EU, enabling EU countries to increase their general government deficits from 2020 to 2022 to the extent necessary to mitigate the economic harm caused by the pandemic. Given the consequences of the Russia-Ukraine war and related challenges, the general exception clause of the SGP was also in force in 2023.

In 2024, the application of EU fiscal rules resumed, ending the effect of the general escape clause. The EU’s economic governance framework reform package, or the new EU fiscal rules, have been in force since 30 April 2024. Under these rules, Member States are required to produce a medium-term Fiscal-Structural Plan (FSP) every four or five years in April, replacing the annual Stability Programme and National Reform Programme (see Chapter 9.1). The FSP should set the fiscal trajectory so that, throughout its duration and over the next ten years, the projected general government deficit and debt do not exceed 3% and 60% of GDP, respectively.

The COVID-19 pandemic increased Latvia’s budget deficit to 7.2% of GDP in 2021 or 2.3 billion euro. In 2022 and 2023, the deficit reduced reaching 4.9% and 2.4% of GDP, respectively. In 2024, the budget deficit was 731.9 million euro or 1.8% of GDP (see Table 6.3). The Saeima approved the budget for 2025 with a deficit of 2.9% of GDP.

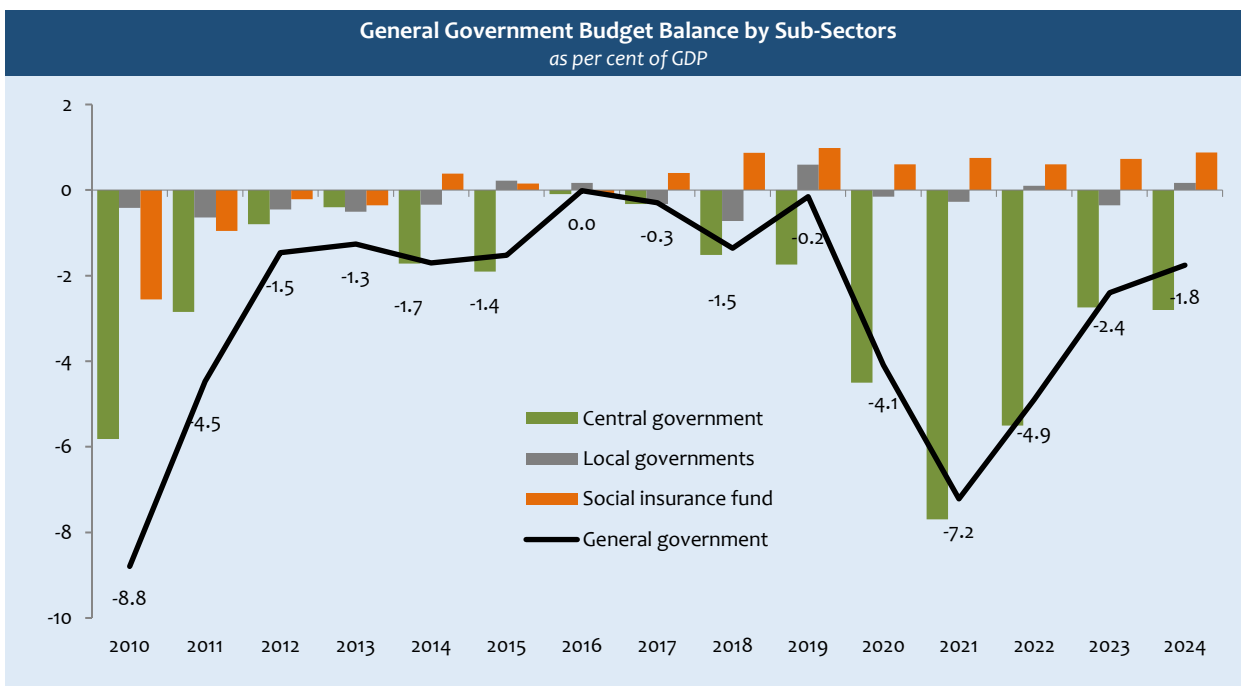
Table 6.3

| | General Government Budget | | | | | as a per cent of GDP | | | | |
|-------------|---------------------------|------|------|------|------|----------------------|------|------|------|------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2020 | 2021 | 2022 | 2023 | 2024 |
| Revenue | 11.7 | 12.7 | 14.2 | 16.3 | 17.7 | 40.2 | 39.3 | 39.4 | 41.1 | 43.8 |
| Expenditure | 12.9 | 15.0 | 16.0 | 17.2 | 18.4 | 44.3 | 46.5 | 44.2 | 43.4 | 45.6 |
| Balance | -1.2 | -2.3 | -1.8 | -0.9 | -0.7 | -4.1 | -7.2 | -4.9 | -2.4 | -1.8 |

In October 2025, the government approved the budget for 2026 with a deficit of 3.3% of GDP, expecting that the deficit level would remain around 3.6% in the medium term. The increase in the deficit is mainly underpinned by additional funding for strengthening national defence and security, stemming from the current geopolitical challenges in the region and the need to strengthen the country’s resilience to external threats.

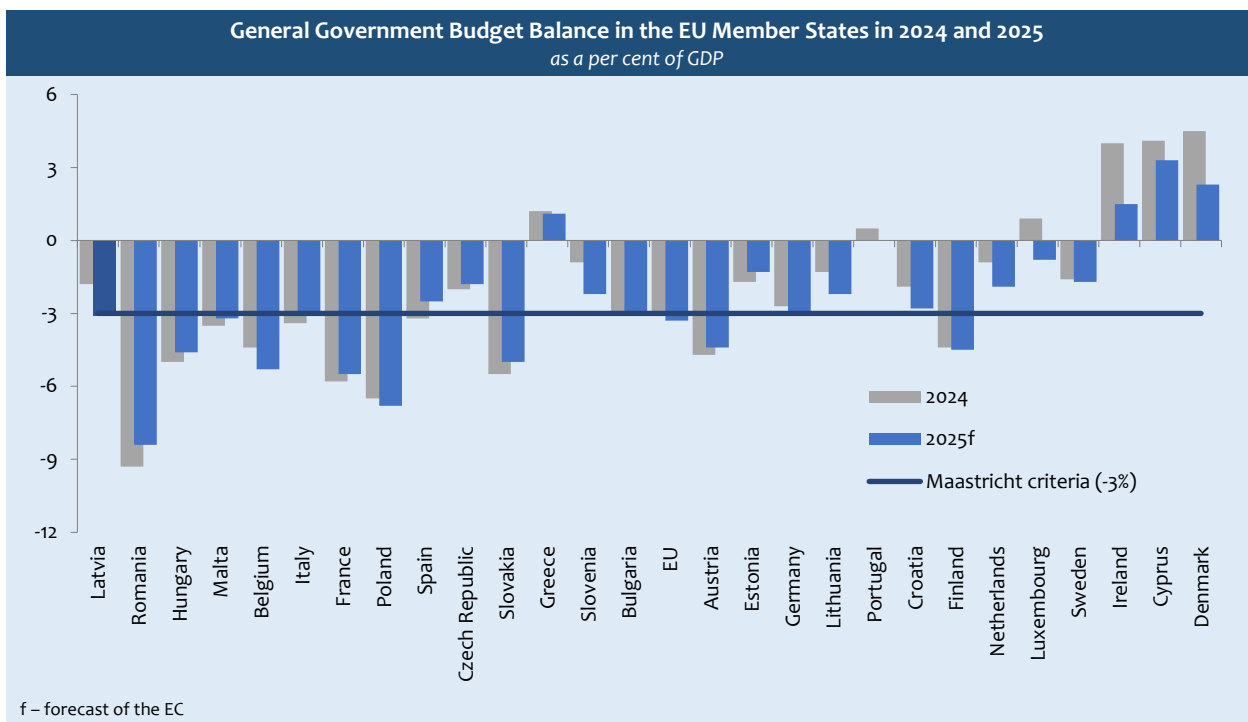
For several years, including in 2024, the budget deficit has been in the central government budget, but in 2021 and 2023 in the local government budget. There was a surplus in the Social Insurance Fund (see Figure 6.20).

Figure 6.20



According to Figure 6.21, in 2024, the Latvian budget balance to GDP showed a lower deficit than the average in the euro area and EU countries. In 2024, the average budget deficit for both the euro area and the EU was 3.1% of GDP. In the euro area, the government deficit-to-GDP ratio declined from 3.5% in 2023 to 3.1% in 2024, while in EU countries it increased from 3.4% to 3.1%. The highest government budget deficits were in Romania (-9.3%), Poland (-6.5%), France (-5.8%) and Slovakia (-5.5%). In 12 EU countries, the deficit was equal to or above 3% of GDP. The budget had a surplus in 6 EU Member States.

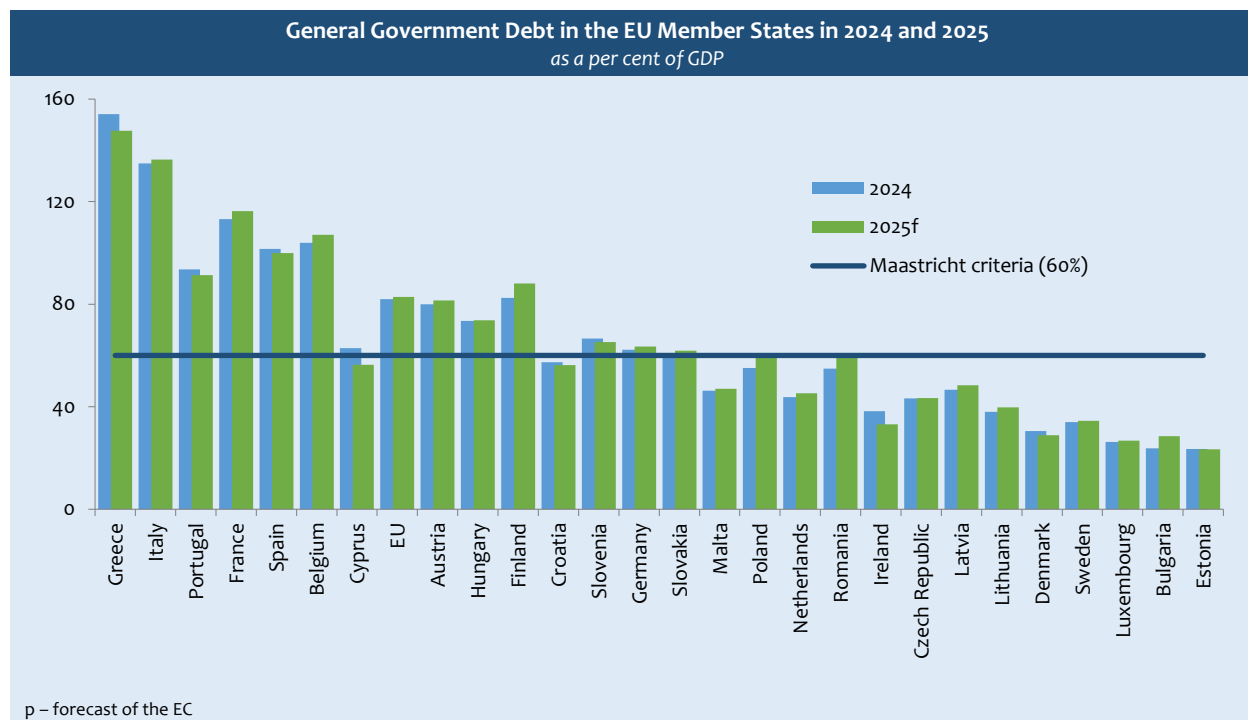
Figure 6.21



In accordance with the EC’s forecasts made in autumn 2025, the average budget deficit is expected to be 3.2% of GDP in the countries of the euro area and 3.3% in the EU countries in 2025 and 3.3% and 3.4%, respectively, in 2026. The highest budget deficit in 2025, which may exceed 5.0% of GDP, is expected in Romania, France, Slovakia, Poland, and Belgium.

The **general government** debt in Latvia is still among the EU’s lowest (see Figure 6.22).

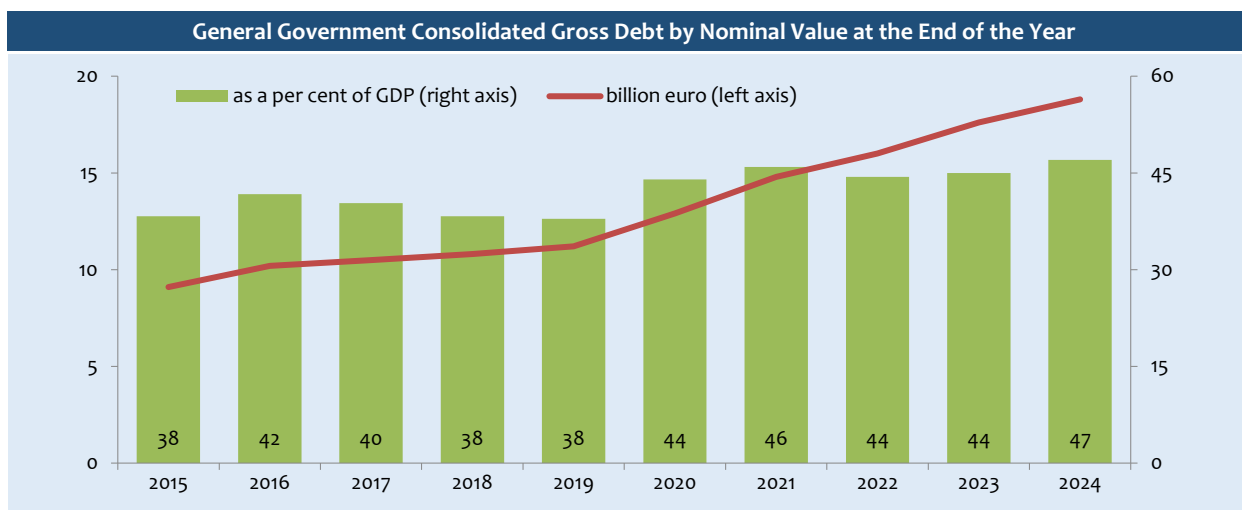
Figure 6.22



The average level of public debt in the euro area in 2024 was 87.1% of GDP and 80.7% of GDP in the EU. In the euro area, the government debt-to-GDP ratio increased slightly from 87.0% at the end of 2023 to 87.1% at the end of 2024, while in the EU countries it increased from 80.5% to 80.7%.

In 2024, the public debt exceeded the Maastricht criterion (60% of GDP) in 12 EU Member States. The highest public debt to GDP in 2024 was in Greece, Italy, France, Belgium and Spain, where it exceeded 100% of GDP. The lowest general government debt to GDP was registered in Estonia, Bulgaria, and Luxembourg. As indicated by the EC forecasts made in autumn 2025, in 2025, the average level of public debt in the euro area will slightly increase to 88.8% of GDP and to 82.8% in the EU.

Figure 6.23



The outbreak of COVID-19 caused the need to provide considerable amounts of funding to mitigate the impact caused by the COVID-19 crisis. Government debt in Latvia increased to 45.9% of GDP or 14.8 billion euro in 2021. Since the nominal GDP increase under high inflation conditions was rapid, its ratio to GDP reduced in the following years – to 44.4% in 2023. The general government debt in 2024 amounted to 18.8 billion euro or 46.6% of GDP.

The debt provision of 60% of GDP defined in the *Fiscal Discipline Law* is expected to be observed in the medium term. According to the MoF projections, general government debt is projected at 49.7% of GDP in 2025, 52.5% of GDP in 2026, 57.2% of GDP in 2027, 58.3% of GDP in 2028 and 59.9% of GDP in 2029.

6.6. BUDGET REVENUE AND EXPENDITURE

BUDGET REVENUE¹

After the economic crisis was tackled, the budget revenue has been increasing since 2011. From 2010 to 2024, the **consolidated general budget revenue** growth rate was 2.6 times. In 2024, budget revenue amounted to 17.1 billion euro or 1.5 billion euro more than in the previous year. The upward trend continues in 2025, with budget revenue in January-October exceeding 1.4% compared to January-October 2024.

Tax revenue is the main revenue item and constitutes approximately 4/5 of all budget revenue. A stable increase in this revenue was observed in 2011-2019. In 2020, there was a small reduction in tax revenue due to the COVID-19 pandemic, and the growth trend has resumed since 2021.

¹ The official data of monthly reports of the Treasury was used in this chapter

6.24. attēls

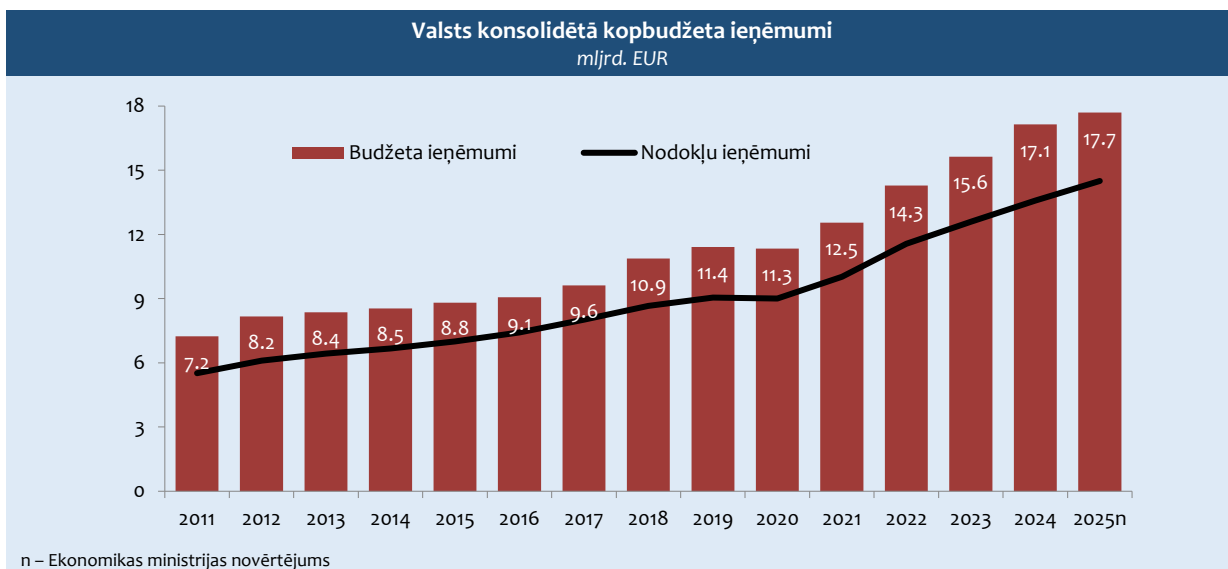
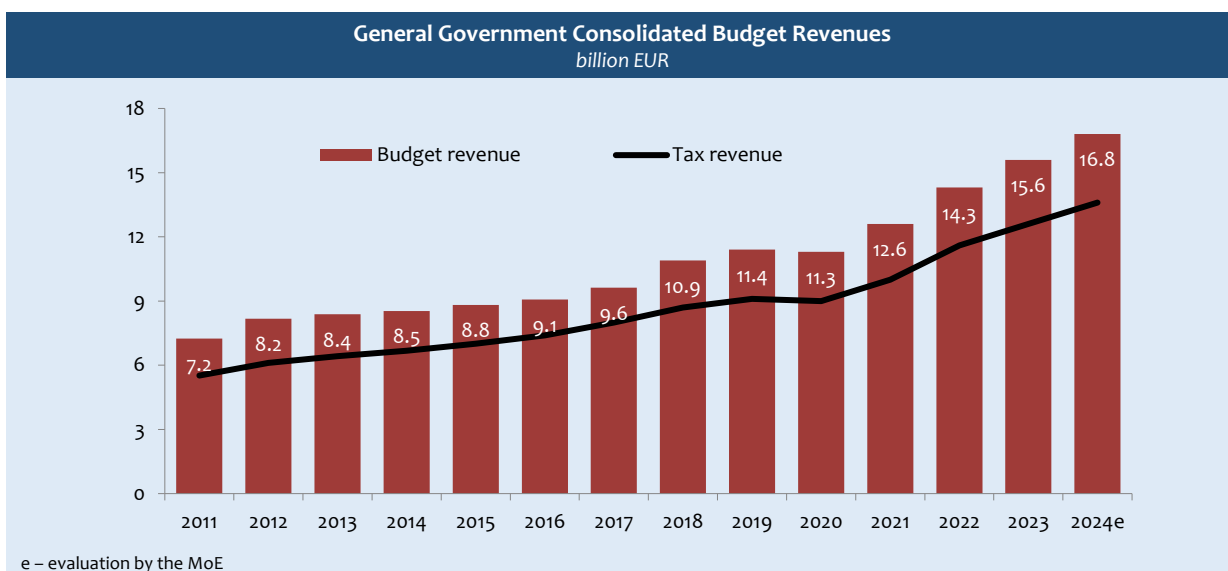


Figure 6.24



In recent years **employment taxes** have accounted for approximately half of all tax revenue. After the fall caused by the COVID-19 pandemic in 2020, employment tax revenue has been growing in the following years.

In 2012-2019, personal income tax revenue increased, primarily affected by improvements of the situation in the labour market. After the fall in 2020, positive dynamics resumed in 2021. The favourable labour market situation and wage growth affect the dynamics of employment taxes, although the growth rate has increased. In January-October 2025, the revenue from mandatory state social insurance contributions increased by 9.1% compared to January-October 2024. Personal income tax revenue in January-October 2025 remained at the level of the corresponding period of 2024. In 2025, the tax relief increased, for example, a fixed non-taxable minimum has been set, the non-taxable minimum for pensioners has been doubled.

Table 6.4

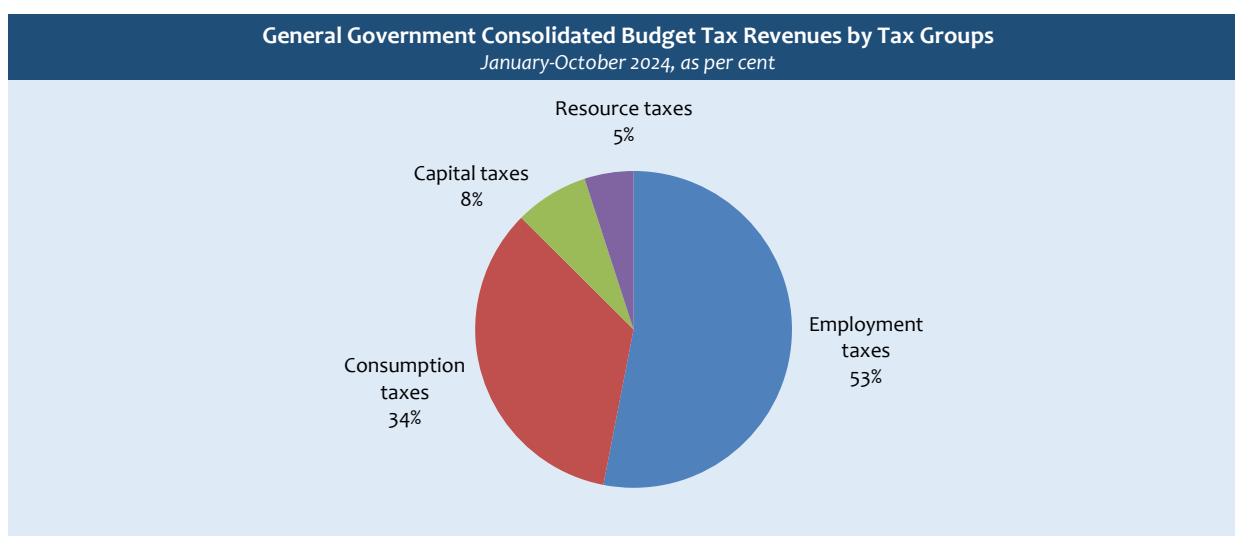
| | Budget Revenue as per cent of GDP | | | | | | |
|--|--------------------------------------|-------------|-------------|-------------|-------------|-------------|-----------------|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 Jan-Sep |
| General government consolidated budget revenues | 38.6 | 38.6 | 38.8 | 38.9 | 39.6 | 40.0 | 45.3 |
| I Tax revenues | 30.8 | 30.6 | 30.8 | 31.1 | 32.0 | 32.2 | 34.5 |
| 1. Indirect taxes | 12.6 | 12.7 | 12.5 | 12.2 | 13.2 | 13.0 | 13.0 |
| – value-added tax | 8.7 | 9.0 | 8.7 | 8.6 | 9.9 | 9.9 | 9.8 |
| – excise tax | 3.7 | 3.6 | 3.6 | 3.4 | 3.1 | 3.0 | 3.1 |
| – customs duty | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.2 |
| 2. Income taxes and property taxes | 8.0 | 7.4 | 7.7 | 7.5 | 8.0 | 8.4 | 9.8 |
| – corporate income tax | 1.1 | 0.2 | 0.7 | 0.9 | 1.0 | 1.4 | 2.1 |
| – personal income tax | 6.1 | 6.5 | 6.2 | 6.0 | 6.3 | 6.4 | 7.0 |
| – real estate tax | 0.8 | 0.8 | 0.8 | 0.7 | 0.6 | 0.6 | 0.7 |
| 3. Social insurance contributions | 9.5 | 9.8 | 10.0 | 9.7 | 10.2 | 10.3 | 11.4 |
| 4. Other taxes | 0.7 | 0.7 | 0.7 | 1.7 | 0.7 | 0.5 | 0.3 |
| II Other revenues | 7.9 | 7.9 | 8.0 | 7.8 | 7.6 | 7.7 | 10.8 |

Consumption tax revenue constitutes slightly more than 1/3 of all tax revenue. In recent years, consumption tax revenue has increased due to the rise in private consumption and, consequently, the increase in retail turnover. The consumption tax revenue growth trend slowed in 2024 due to wage growth, indicating an increasing trend for saving. In January-October 2025, the propensity of consumers to spend has returned, and revenues increased by 5.4% compared to the corresponding period of 2024.

From 2025, the reduced rate of value added tax of 12% on fruit, berries and vegetables has changed from a fixed to a permanent status. This year, the increase of excise duty on alcoholic beverages, non-alcoholic sweetened beverages, tobacco products, liquids used for electronic smoking devices and tobacco replacement products continues, and the excise tax on fuel and natural gas is increased.

From 2010 to 2019, value added tax revenue increased. After the fall in 2020, the increase resumed the following year. After growth stopped in 2024, the revenue from this tax increased by 5.4% in January-October 2025 compared to January-October 2024. The increase is almost similar for consumption part revenue of excise tax.

Figure 6.25



Capital tax revenue increased until 2017. The reduction in 2018 and 2019 was underpinned by the changes made within the tax reform in the field of corporate income tax. In 2020, capital tax revenue resumed growth. In January-October 2025, revenue from corporate income tax was 11.5% higher and from real estate tax 2.1% higher than in the same period of the previous year.

Capital taxes in Latvia are complemented by fixed-term bank solidarity contributions to be in effect from 2025 to 2027. They are levied on the share of banks' net interest income that exceeds average annual net interest income by more than 50% from 2018 to 2022. When lending activates, contribution levels are reduced.

Since 2010, **resource tax** revenue has been growing. Growth trends are observed in revenue from natural resource tax and excise tax on petroleum products and natural gas. Resource tax revenue in January-October 2025 continued to gradually increase and was 3.0% higher than in the respective period of 2024.

BUDGET EXPENDITURE

Since 2011, after an extensive cutting down of expenditure during the economic crisis, the **general government consolidated budget expenditure** has gradually increased (except in 2016, when general government budget expenditure slightly declined). In 2024, they amounted to 17.9 billion euro or 0.9 billion euro more than in the previous year. In January-October 2025, the growth trend in national general government consolidated expenditure continued, increasing by 9.4%. The main impact during this period was due to the intensified implementation of EU fund projects and an increase in defence spending.

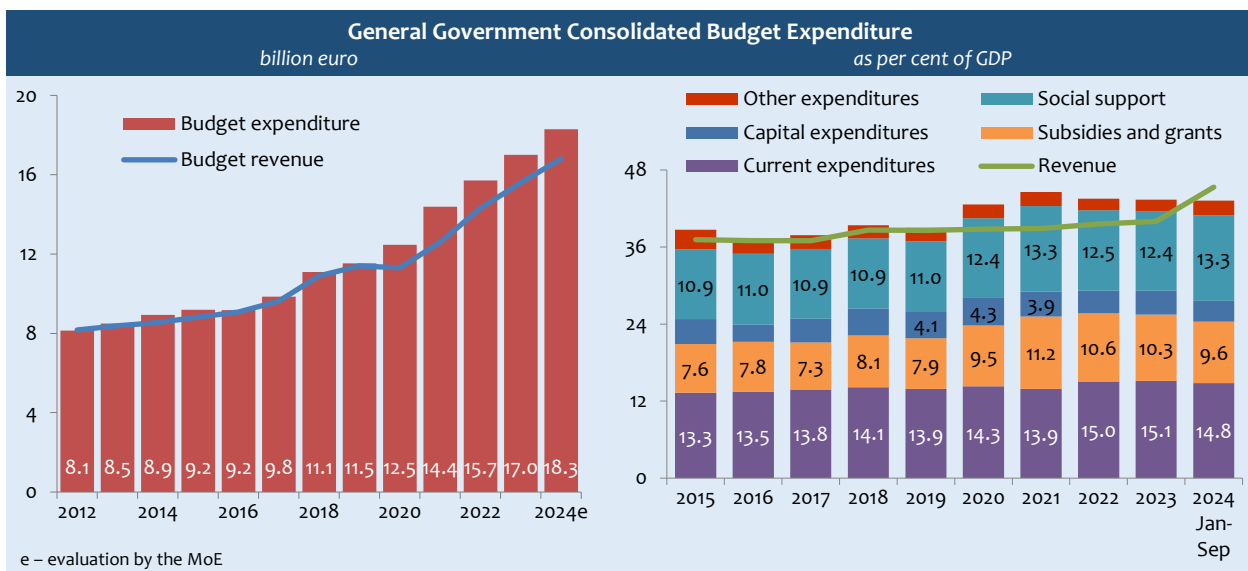
Since 2011, **current expenditure** has been growing. In January-October 2025, the growth trend has continued with a growth rate of 8.7% compared to January-October of 2024.

Since 2016, **expenditure on subsidies and grants** has been growing. In January-October 2025, this expenditure group exceeded the expenditure of the same period of the previous year by 8.1%.

Expenditure on **social type payments** has been increasing since 2013. In January-October 2025, the growth rate was 6.9% compared to the corresponding period of 2024.

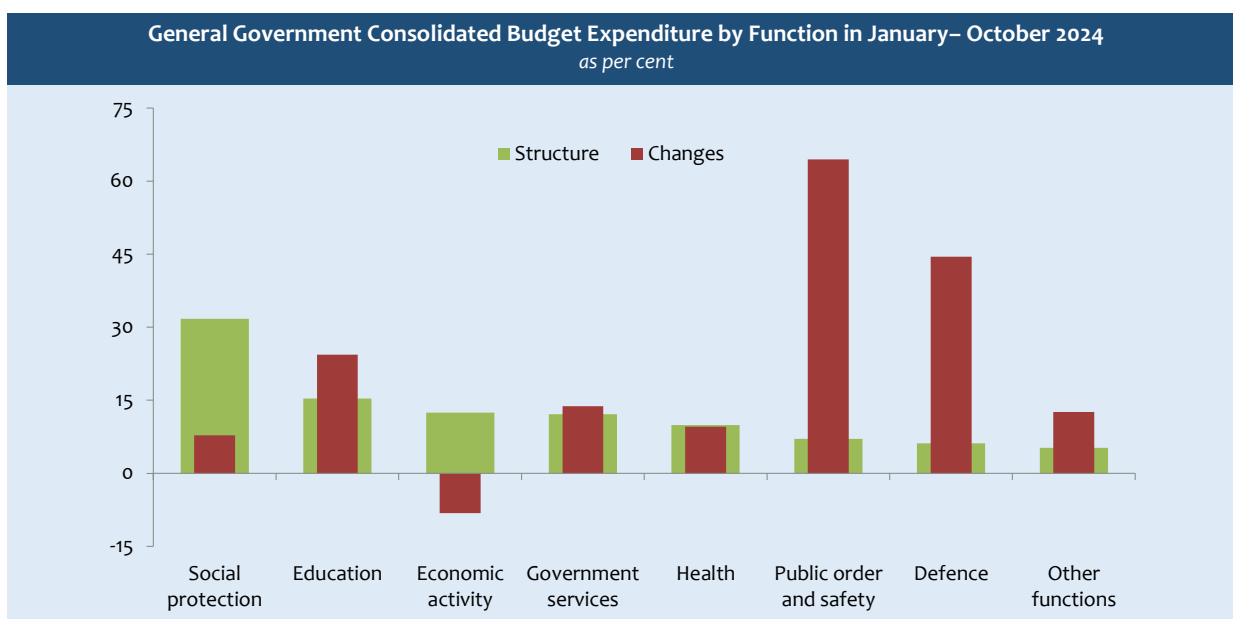
Capital expenditure growth has been observed since 2017. In the context of budget expenditure dynamics, it is positive that this expenditure group is the one with the fastest growth of 24.6% in January-October 2025.

Figure 6.26



The data on budget expenditure by functional category show that, in January-October 2025, a more rapid increase was observed in areas like general government services, defence, and education. In structural terms, social protection expenditure accounts for the largest share of the budget, accounting for almost 1/3 of consolidated budget expenditure.

Figure 6.27



6.7. PRODUCTIVITY AND COMPETITIVENESS

PRODUCTIVITY

Latvian economic growth is supported by the increase in productivity. However, productivity growth is on a long-term decelerating trend, while labour costs continue to rise sharply.

Productivity growth had been particularly strong until 2008, boosted by the accession to the EU and inflows of foreign investment. Convergence has also accelerated, with the productivity gap with the EU-15 narrowing by almost 26 percentage points between 1996 and 2007.

The global financial crisis has had a significant impact on the Latvian economy, reducing both activity and productivity levels. Between 2008 and 2010, productivity contracted by almost 3%, but this decline was much more moderate than the drop in GDP (17.4%). The diverging dynamics were largely due to the labour market's ability to adjust quickly to the sharp fall in demand.

Since 2020, the Latvian' productivity dynamics have been volatile. Productivity declined by 2.8% in 2020, but already in 2021, as economic activity picked up, productivity growth accelerated and was 8.3% higher than a year ago, partly due to the low base effect. Economic growth and productivity had moderated in the following three years. Productivity remained at the level of 2022, growing at an average annual rate of only 0.1%.

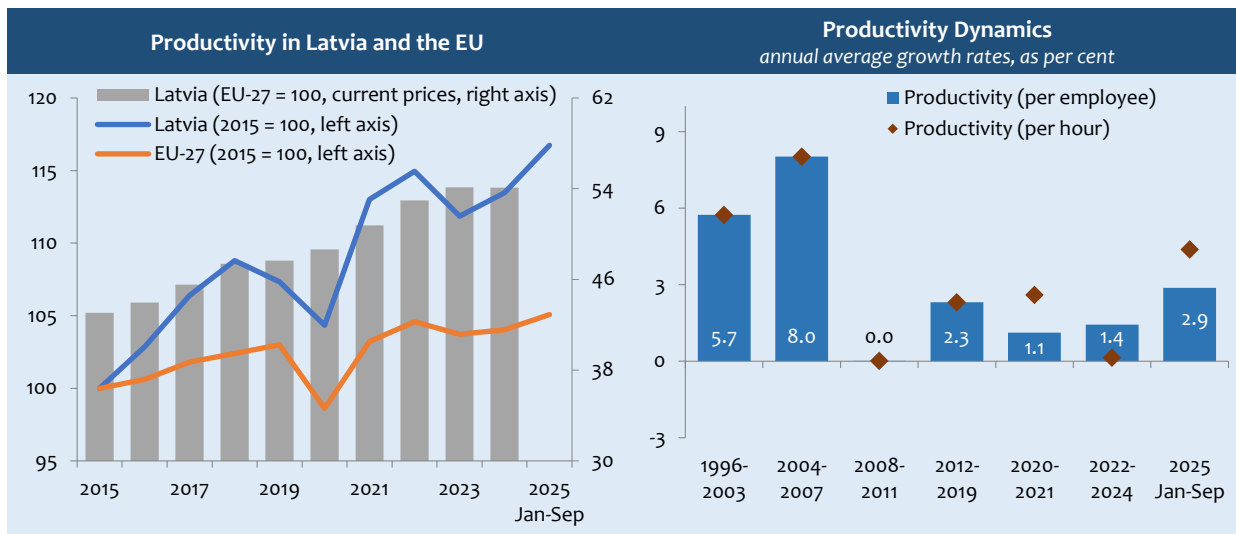
In 2025, the productivity dynamics were more rapid. In January–September of this year, compared to the corresponding period of the previous year, productivity increased by 2.9% (productivity per hour – by 4.4%).

Despite significant productivity fluctuations and more moderate dynamics than in previous years, the convergence of Latvia to the EU-average productivity level continues. Overall, in 2024, GDP per employee in the Latvian national economy reached almost 54.1% (72.8% according to PPS) of the EU average. Since 2019, the productivity gap with the EU average (according to PPS) narrowed by almost 4 percentage points.

In the short term, productivity fluctuations lead to changes in product, labour and capital markets as businesses respond to external and internal shocks (such as COVID-19 pandemic, energy crisis, etc.) and to measures to prevent them and stabilise the economy. The impact of these measures on long-term productivity trends will largely determine change in business models and consumer behaviour. In recent years, there have been significant changes in labour and product markets and the level of digitisation increases (e-services, remote work, etc.). However, great uncertainty regarding the stability of these changes and their impact on long-term productivity trends remains. Structural changes in the Latvian

economy towards higher value-added activities and knowledge-intensive industries will also greatly determine the positive dynamics of productivity.

Figure 6.28

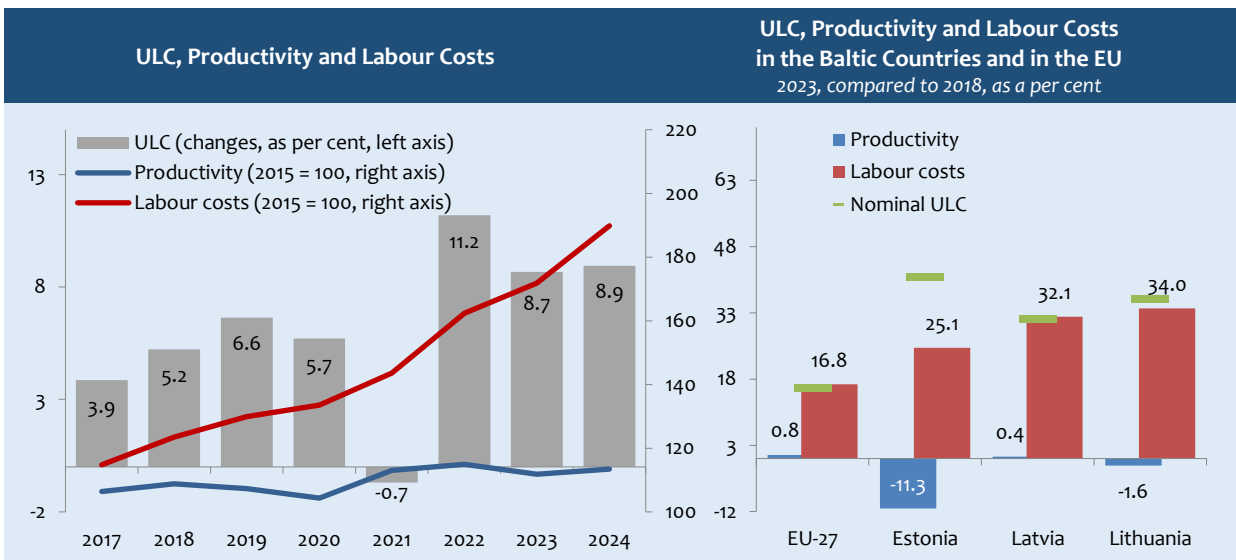


COST AND PRICE COMPETITIVENESS

Latvia is in one of the leading positions by productivity growth rates among the EU Member States, yet wages have been growing faster than productivity, thus weakening the competitiveness of Latvian entrepreneurs in the field of costs. The increase in nominal unit labour costs (ULC)¹ also evidences of the growing risks of losses in cost competitiveness.

Latvia has long been showing that the gap between productivity and labour costs was widening in years of high economic growth, while it was getting smaller during recession. However, trends have reversed since 2021: labour costs have continued to increase even with low economic activity and moderate productivity dynamics. This is a sign of the growing mismatch between labour demand and supply.

Figure 6.29



The dynamics of the nominal ULC were already high before the COVID-19 pandemic. In 2019, compared to 2015, ULC rose by 21.1%, driven by a nearly fourfold faster increase in labour costs (in nominal terms) compared to productivity growth.

¹ ULC is a relationship between labour costs and productivity. If productivity is growing faster than the wages, then ULC is decreasing, which is an indication that competitiveness of state costs increases, and the other way around.

The increase in labour costs was affected both by wage convergence processes in the EU labour market and the tenses situation in the Latvian labour market due to the increase in labour shortage.

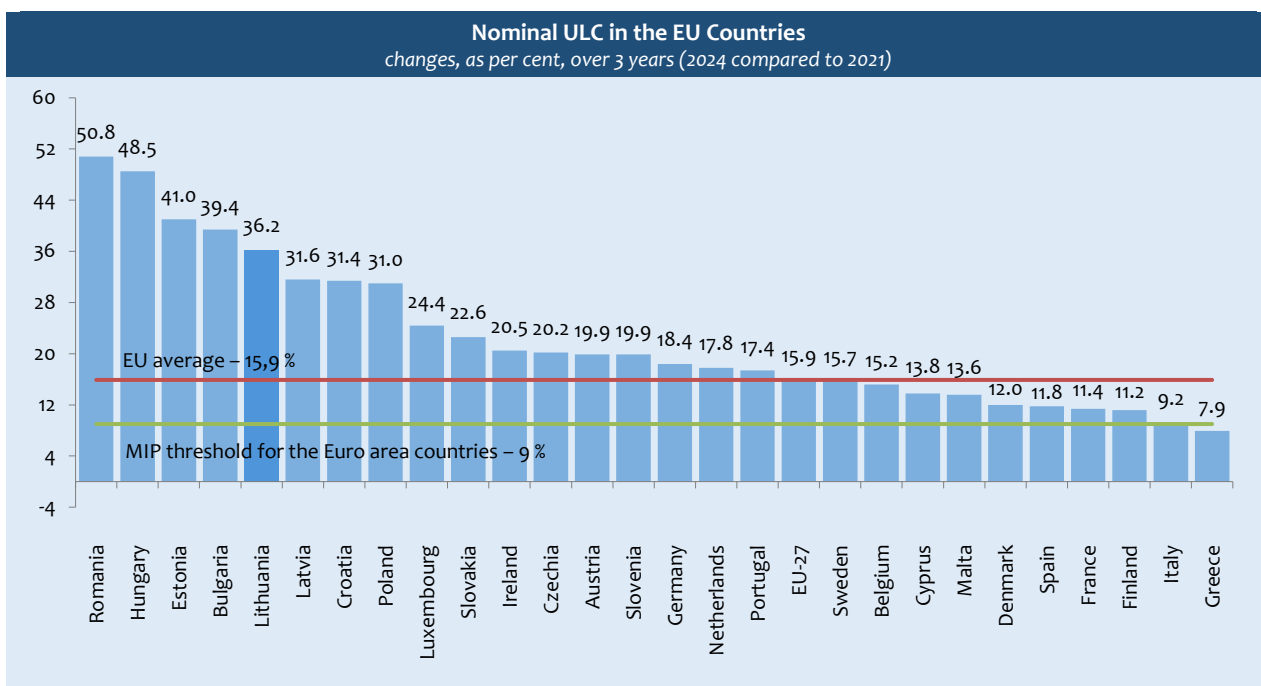
The adjustment due to external shocks has not significantly altered long-term trends in labour cost dynamics. Between 2021 and 2024, labour costs in Latvia increased by 32.2%, almost twice as fast as before the COVID-19 pandemic. Productivity dynamics were much more moderate during the period, increasing by only 0.4%. The gap between labour costs and productivity growth rates has significantly worsened cost competitiveness.

The nominal unit labour cost (ULC) index increased by 31.6% in 2024 compared to 2021, including by 8.9% in 2024. This was faster than in Lithuania (7.3%) and Estonia (5.6%). It should be noted that in all Baltic countries, ULC growth has exceeded both the EU average and the EU macroeconomic imbalance procedure (MIP) warning threshold of 9% over three years.

Labour costs are growing also in 2025. In January-September of this year, labour costs increased by 8.5% and ULC increased by 5.4% compared to the corresponding period of 2024.

Nominal ULC in the neighbouring Baltic States in recent years has been growing at a faster pace than in Latvia. In 2024, compared to 2021, nominal ULC increased by 31.6% in Latvia, by 41% in Estonia and by 36.2% in Lithuania. Overall, ULC growth in the Baltic States is much faster than the EU average (15.9%) and this indicator is significantly above the threshold set by the EU Alert Mechanism (MIP) (9%) (see Chapter 6.8 for details).

Figure 6.30



Cost competitiveness reduction risks are observed in both manufacturing and market services sectors. The dynamics of labour costs in the last five years (2015-2019) before the COVID-19 pandemic in both mentioned groups of sectors were very similar – they increased by almost 4.3% and 5.7% on average every year, respectively. However, productivity in producing sectors increased more rapidly than in services sectors – by 3.6% and 0.5%, respectively. Therefore, also the nominal ULC increase in producing sectors was more moderate.

The shock related to the COVID-19 pandemic and Russia’s war in Ukraine has a stronger impact on the products market than the labour market. In five years (2020-2024), labour costs (at current prices) in producing sectors increased by 35%, but in services sectors – by 46.5%. Productivity dynamics in the manufacturing sector were rather weak and could not compensate for the increase in labour costs. In 2024, nominal unit labour costs increased by 45.4% compared to 2019. In market services sectors, the lagging of productivity growth rates behind the dynamics of labour costs was more moderate than in producing sectors, and ULC also grew slower (by 29.4%). The largest increase in nominal ULC in the five years was in construction, agriculture and manufacturing.

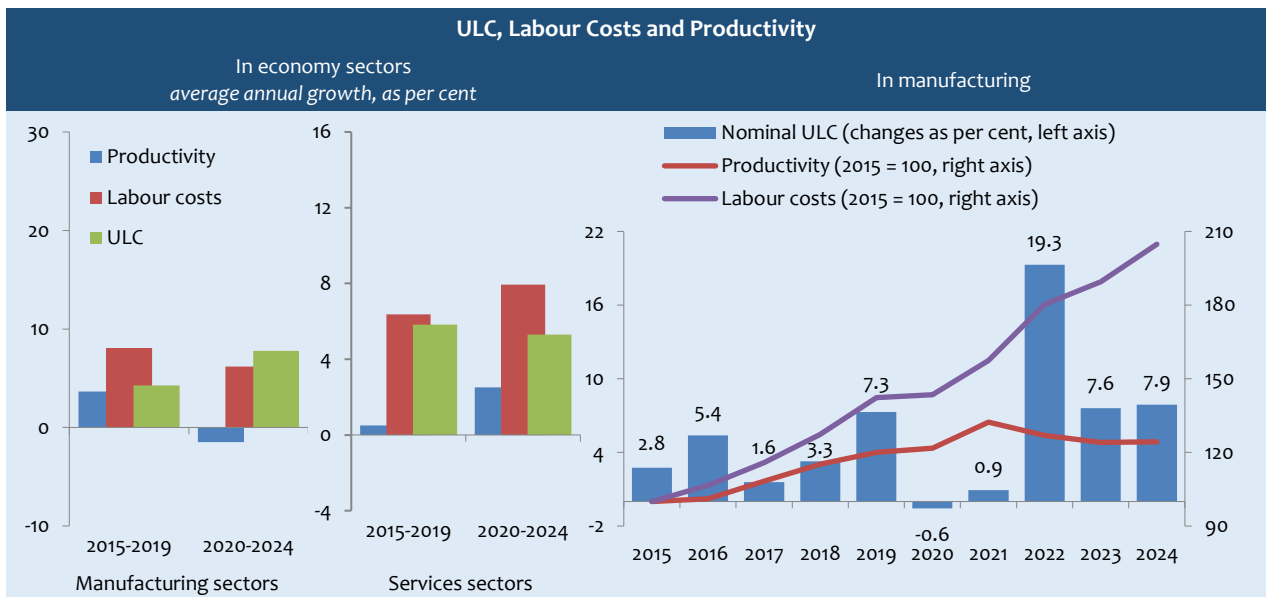
In manufacturing the gap between the rise in productivity and labour costs is slightly more moderate than in the economy. However, annual changes in nominal ULC are rather volatile; they are largely affected by factors in the goods market, while labour costs show stable upward dynamics.

In the last four years (2021-2024), productivity in manufacturing grew at a slower pace than labour costs – by an average of 0.7% and 7.5% per year, respectively, thus increasing nominal unit labour costs of products every year by almost 6.8%.

The labour costs dynamics in Latvian manufacturing significantly exceed EU average labour costs and nominal ULC growth rates. Considering that the EU countries are Latvia’s main trade partners, such trends reduce the competitiveness of Latvian producers in the field of costs.

The real effective exchange rate (REER) is growing. The consumer price index (CPI) based REER to 42 trade partner countries has increased by 9.6% in the last three years (2022-2024), which significantly exceeded the threshold set by MIP for the euro area countries (3%).

Figure 6.31

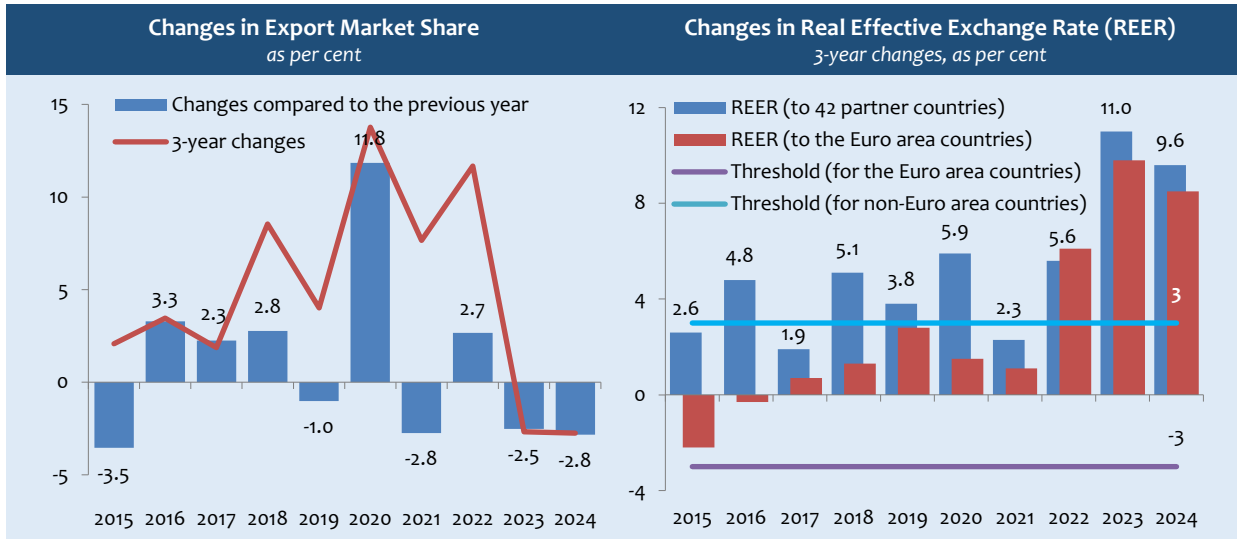


The long-term dynamics of Latvia’s export market share in world markets are slowing down. Latvia’s export market share declined by 2.8% over the three-year period (2022-2024), including by 2.9% in developed markets. The negative trends were largely driven by a decline in the export share in 2023 and 2024.

So far, Latvia’s export performance against advanced economies, expressed as a three-year percentage change, has never exceeded the threshold. However, the MIP threshold (3% change over 3 years) may be exceeded if the trends of the last two years continue.

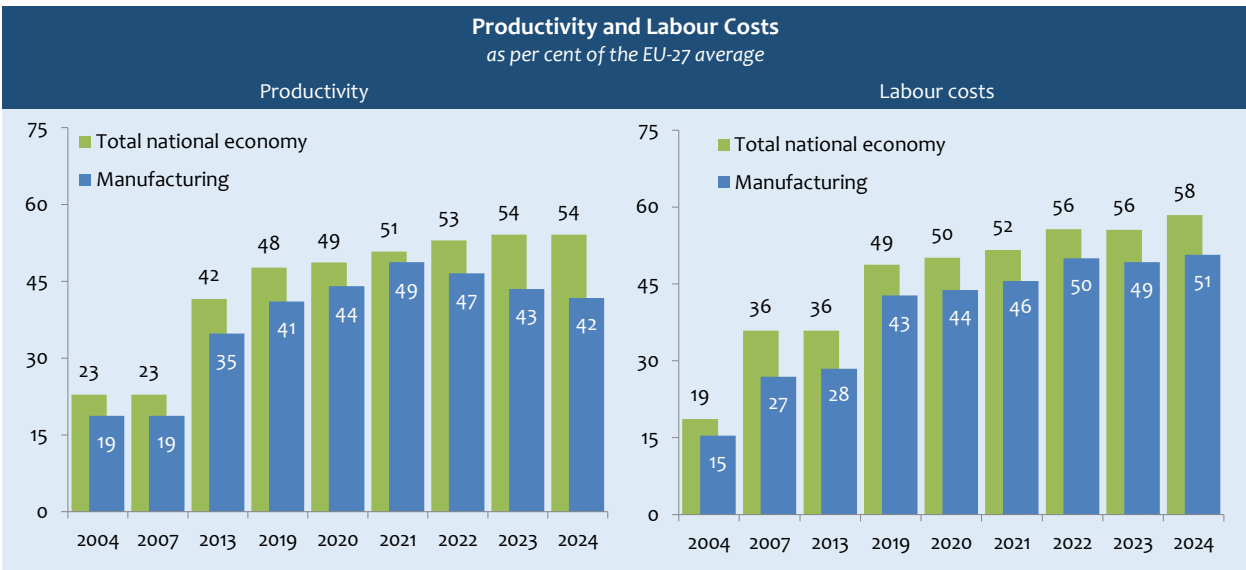
Trends in Latvia’s export share in world markets show that the risks of a decline in competitiveness are growing. In the long term, the increase in labour costs, which is not compensated by a corresponding rise in productivity, may have a negative impact on competitiveness and reduce the share of company profits, which entrepreneurs will be forced to adjust to keep price competitiveness in external markets.

Figure 6.32



Labour costs in Latvia are among the lowest in the EU Member States. In 2024, labour costs per employee in the Latvian economy were almost 59% of the EU average, whereas in the manufacturing industry – 51%. Compared to 2019, in 2024, the labour cost gap decreased by 9.7 percentage points (in manufacturing – by 8 percentage points), while in terms of productivity in the economy it fell by a total of 6.4 percentage points (by 0.7 percentage points in manufacturing). This means that the wage convergence process is faster than the productivity convergence process in the economy as a whole and in manufacturing.

Figure 6.33



In the context of slow productivity dynamics, the increase in labour costs puts significant pressure on the cost competitiveness of Latvian entrepreneurs. The weakening of economic activity has had little impact on the labour market situation. This shows that the problem of labour shortages is acute for entrepreneurs and, despite the slowdown in economic activity, jobs are preserved. Wages, on the other hand, continue to rise influenced by inflation. These trends keep widening the gap between productivity and labour costs. The increase in productivity is the main factor determining competitiveness, and structural changes in the Latvian economy towards higher value-added activities and knowledge-intensive industries will also greatly determine the positive dynamics of productivity.

6.8. ALERT MECHANISM

According to the economic and fiscal policy surveillance rules adopted in 2011, a **macroeconomic imbalance procedure** (MIP) was created in the EU in addition to the existing excessive budget deficit procedure. The procedure aims to identify imbalances that hinder the uniform development of Member State economies and to spur the right policy responses. The implementation of the MIP is embedded in the European Semester of economic policy coordination to ensure consistency with the analyses and recommendations made under other economic surveillance tools.

On 25 November 2025, the EC published the **Alert Mechanism Report**¹ (AMR) for 2026, which identified the countries with macroeconomic imbalances or excessive macroeconomic imbalances – Greece, Italy, Hungary, the Netherlands, Romania, Slovakia and Sweden. For the remaining Member States, an in-depth assessment of imbalances is not necessary at this stage, but the analysis of economic indicators suggests that a number of them, including Latvia, are developing in a direction that requires increased attention. In Bulgaria, the main risks are the rapid increase house prices and borrowing, as well as high labour costs. In Estonia, competitiveness losses, rising inflation and dynamic growth in house prices and lending continue. In Croatia, the challenges relate to price pressures, competitiveness and a sharp increase in house prices and mortgage lending. In Latvia, the situation is characterised by very high cumulative price inflation and continued rapid labour cost increases, which have undermined competitiveness and may have contributed to a decline in exports.

The list of MIP indicators and indicator thresholds was revised in 2024. The scoreboard for Latvia shows that two indicators were beyond their thresholds in 2024, namely the real effective exchange rate and the nominal unit labour cost index (see Table 6.5).

The AMR states that economic activity in Latvia stagnated in 2024, while GDP growth is forecast at 1% in 2025, accelerating to 1.7% in 2026. Inflation fell to 1.3% in 2024 but is projected to rise to 3.6% in 2025, while core inflation remains above the euro area average. The unemployment rate was 6.9% in 2024 and is expected to fall slightly to 6.8% in 2025.

The EC notes that cost competitiveness is deteriorating due to high wage growth and stagnating productivity. Unit labour costs rose by almost 9% in 2024, but growth is expected to slow to 5% in 2025. The real effective exchange rate increased by almost 10% over the three-year period, although it declined slightly in 2024. The decline in export market share points to competitiveness problems.

The external sector situation improved slightly, with the current account deficit narrowing from 3.8% of GDP in 2023 to 1.6% in 2024, although it is projected to widen in 2025. The net international investment position improved to around -20% of GDP, mainly due to direct investment.

Debt of non-financial corporations stood at 36% of GDP in 2024 and is expected to rise slightly in the coming years. Lending has become more dynamic, but profit and activity indicators remain weak. Investment declined in 2024, but picked up sharply in the first half of 2025 as financial conditions improved.

Household debt increased to 19% of GDP in 2024, yet it is still low. Lending is growing, but high interest rates have increased the burden of interest payments. The level of savings is gradually recovering as real incomes improve.

House prices rose by 4.2% in 2024 and continued to rise moderately in 2025, driven by rising incomes and improved availability of lending. The price-to-income ratio shows a moderate overvaluation (around 10%), indicating that prices are slightly above the economically reasonable level, while the low number of construction permits points to potential supply constraints in the future.

Government debt reached 46.6% of GDP in 2024 and is expected to rise further. The budget deficit narrowed to 1.8% of GDP, but is projected to rise above 3% in the coming years, increasing risks to fiscal sustainability.

The banking sector is well capitalised and financially sound, profitability remains high and the share of non-performing loans is low. However, banks' significant exposure to real estate poses potential risks to financial stability.

Indicators of the macroeconomic imbalance procedure (both on the primary list and on the auxiliary list) have been selected to better and faster warn about each potential macroeconomic imbalance, as well as help to characterise the processes ongoing in the economy.

¹ The report is available at: https://commission.europa.eu/publications/alert-mechanism-report_en

Table 6.5

| List of Indicators of the Macroeconomic Imbalance Procedure for Latvia | | | | | | | | |
|---|------------------------|-------|-------|-------|-------|-------|-------|-------|
| | Thresholds | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| External imbalances and competitiveness | | | | | | | | |
| Current account balance (% of GDP, 3-year average) | -4 % / 6 % | 1.0 | 0.3 | 0.8 | -0.4 | -2.2 | -4.5 | -3.6 |
| Net international investment position (% of GDP) | -35 % | -47.0 | -41.4 | -35.0 | -27.9 | -28.2 | -25.5 | -19.7 |
| Real effective exchange rate – 42 trading partners, HICP deflator (3-year % change) | ±3 %* / ±10 % | 5.1 | 3.8 | 5.9 | 2.3 | 5.6 | 11.0 | 9.6 |
| Export performance against advanced economies (3-year % change) | -3 % | 8.8 | 5.1 | 14.3 | 10.1 | 15.6 | -1.9 | -2.9 |
| Nominal unit labour cost index (per hour worked) (3-year % change) | 9 %* / 12 % | 13.1 | 16.0 | 17.4 | 11.3 | 16.1 | 20.7 | 32.2 |
| Internal imbalances | | | | | | | | |
| General government gross debt (as % of GDP) | 60 % | 38.3 | 37.9 | 44.0 | 45.9 | 44.4 | 44.4 | 46.6 |
| Household (including non-profit institutions serving households) debt – consolidated (as % of GDP) | 55% | 21.2 | 20.5 | 20.7 | 20.3 | 19.2 | 18.2 | 19.4 |
| Non-Financial Corporations debt, consolidated (as % of GDP) | 85% | 49.4 | 47.3 | 45.3 | 39.9 | 37.2 | 35.3 | 36.0 |
| Household (including non-profit institutions serving households) credit flow, consolidated (% debt stock (t-1)) | 14% | 1.6 | 2.4 | 0.3 | 8.8 | 6.0 | 4.3 | 8.3 |
| Non-Financial Corporations (excluding Foreign Direct Investment) credit flow, consolidated (% debt stock (t-1)) | 13% | -2.7 | 1.5 | -4.3 | -1.2 | 7.3 | 1.4 | 5.7 |
| House price index, nominal (1-year % change) | 9 % | 9.6 | 9.0 | 3.5 | 10.9 | 13.8 | 3.7 | 4.2 |
| Employment indicators | | | | | | | | |
| Unemployment rate (% of labour force aged 15-74) | 10 % | 7.4 | 6.3 | 8.1 | 7.6 | 6.9 | 6.5 | 6.9 |
| Labour force participation rate (3-year change in percentage points (% of population aged 15-64)) | -0.2 percentage points | 1.9 | 1.1 | 1.1 | -1.8 | -0.5 | -1.4 | 0.9 |
| * for countries of the Euro area Note: highlighted number exceed the limits of thresholds set in the alert mechanism Source: MIP Scoreboard, Eurostat | | | | | | | | |

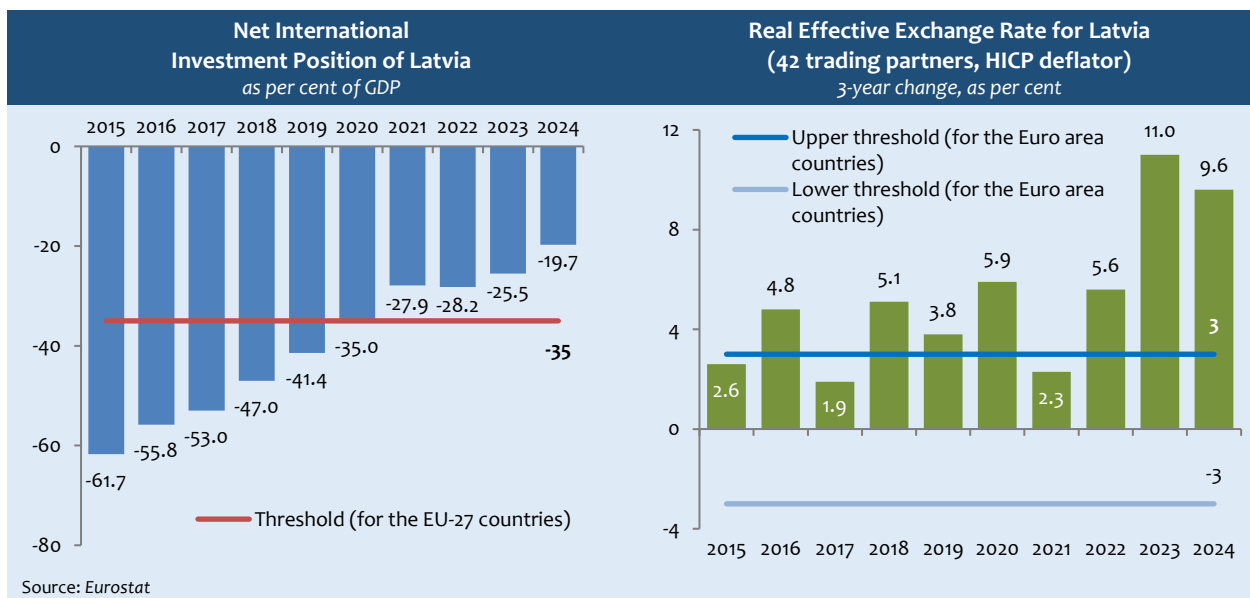
External imbalances and competitiveness are characterised by current account balance, net international investment position, real effective exchange rate, export performance against advanced economies and nominal unit labour cost index.

The only time the 3-year average current account balance of Latvia surpassed the threshold since the implementation of the MIP was in 2023. The countries, where the 3 year average current account balance in 2024 surpassed the upper threshold, were Denmark, Ireland and the Netherlands, and the lower threshold was surpassed in Cyprus, Greece, Romania and Slovakia.

Since 2021, the net international investment position (NIIP) of Latvia no longer surpasses the threshold (see Figure 6.34). Meanwhile, in 2024, NIIP exceeded the threshold in Spain, Romania, Slovakia, Portugal, Ireland, Cyprus and Greece. FDI is considered the safest means of raising foreign capital included in NIIP. In 2024, FDI constituted 43.6% of the total attracted foreign capital in Latvia.

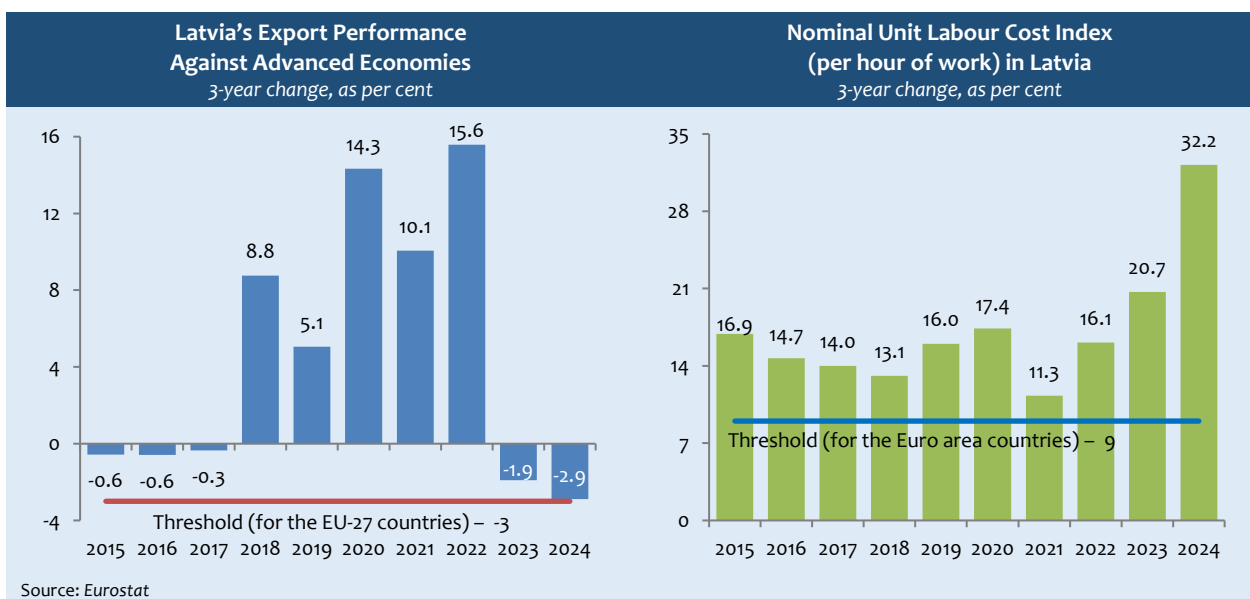
Since 2018, Latvia did not surpass the real effective exchange rate 3-year change threshold (revised in 2024) only in 2021 (see Figure 6.34). Out of the EU-27 countries, euro area countries such as Estonia, Lithuania, Slovakia, Croatia, the Netherlands and non-euro area countries such as Czechia and Poland surpassed the real effective exchange rate three-year changes thresholds in 2024.

Figure 6.34



So far, Latvia has never exceeded the threshold in export performance against advanced economies, expressed as a three-year percentage change (see Figure 6.35). Out of the EU-27 countries, Austria, Estonia, Slovakia, the Netherlands, Sweden, Finland, Germany, Belgium and Luxembourg were above this indicator’s threshold in 2024.

Figure 6.35

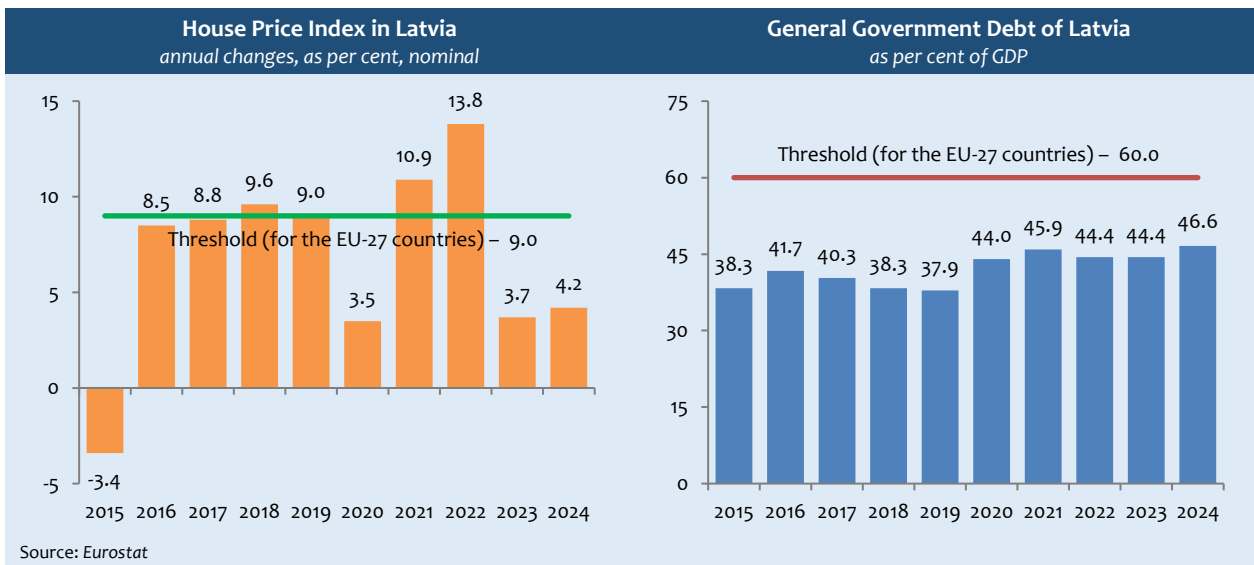


Since the accession of Latvia to the euro area in 2014, the nominal unit labour cost index exceeds the threshold set for euro area countries (see Figure 6.35). In 2024, out of EU-27 countries, only euro area countries such as Italy and Greece and non-euro area country Denmark were below the thresholds for this indicator.

Internal imbalances are measured by general government debt, household debt, non-financial corporation debt, household credit flows, non-financial corporation credit flows and the house price index.

The general government debt of Latvia reached its highest level (48.6% of GDP) in 2010, however, it did not exceed the threshold. Then government debt reduced to 37.9% of GDP with small variations in 2019, but later government debt increased slightly (see Figure 6.36). In 2024, this indicator was above the threshold for EU-27 countries such as Germany, Cyprus, Slovenia, Hungary, Austria, Finland, Portugal, Spain, Belgium, France, Italy and Greece.

Figure 6.36



In 2024, the debt and financial flows indicators were replaced in the list of MIP indicators to analyse directly households and non-financial corporations. The level of consolidated household debt (including non-profit organisations serving households) has never exceeded the threshold for Latvia. In 2024, this indicator was above the threshold for EU-27 countries such as the Netherlands, Denmark, Sweden, Luxembourg, Finland, France, Cyprus and Belgium.

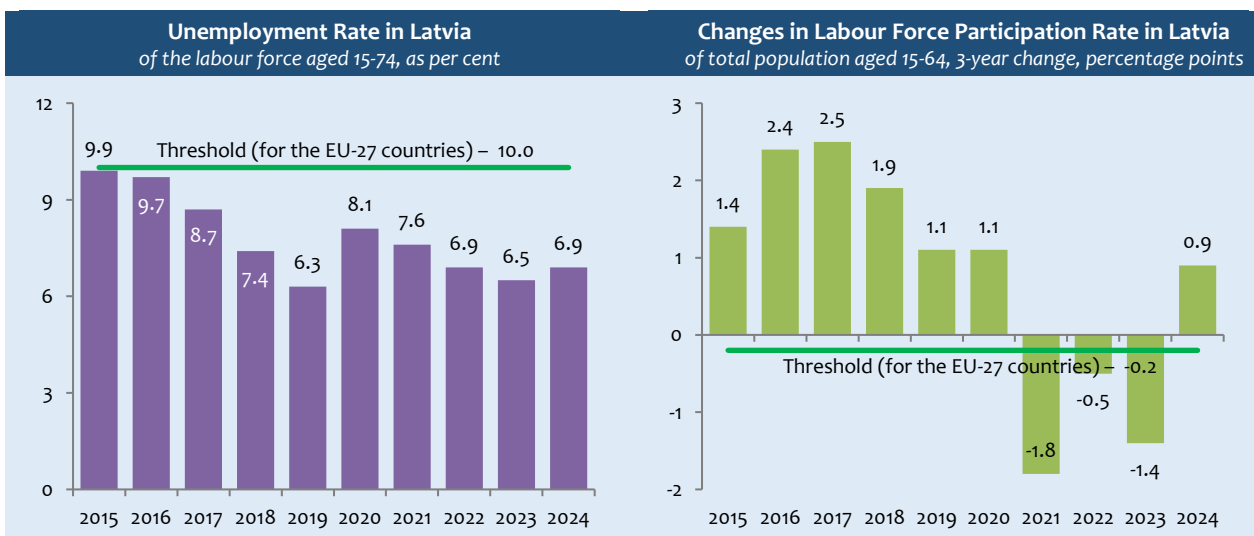
The consolidated household (including non-profit organisations serving households) credit flow has never exceeded the threshold for Latvia. In 2024, this indicator exceeded the threshold only in Bulgaria.

The consolidated non-financial corporation debt has never exceeded the threshold for Latvia. In 2024, this indicator was above the threshold for EU-27 countries such as Luxembourg, Sweden, Cyprus, Denmark, the Netherlands, Belgium, Ireland and France.

The consolidated non-financial corporation (excluding foreign direct investment) credit flow level only exceeded the threshold for Latvia in 2014. In 2024, this indicator did not exceed the threshold in any of the EU-27 countries.

Since 2024, the nominal price index has been used instead of the deflated house price index, but the threshold has been raised from 6% to 9%. Latvia has exceeded this threshold quite often in the past, but it was not exceeded in 2024. In 2024, this indicator was above the threshold for EU-27 countries such as Greece, Portugal, Croatia, Poland and Bulgaria.

Figure 6.37



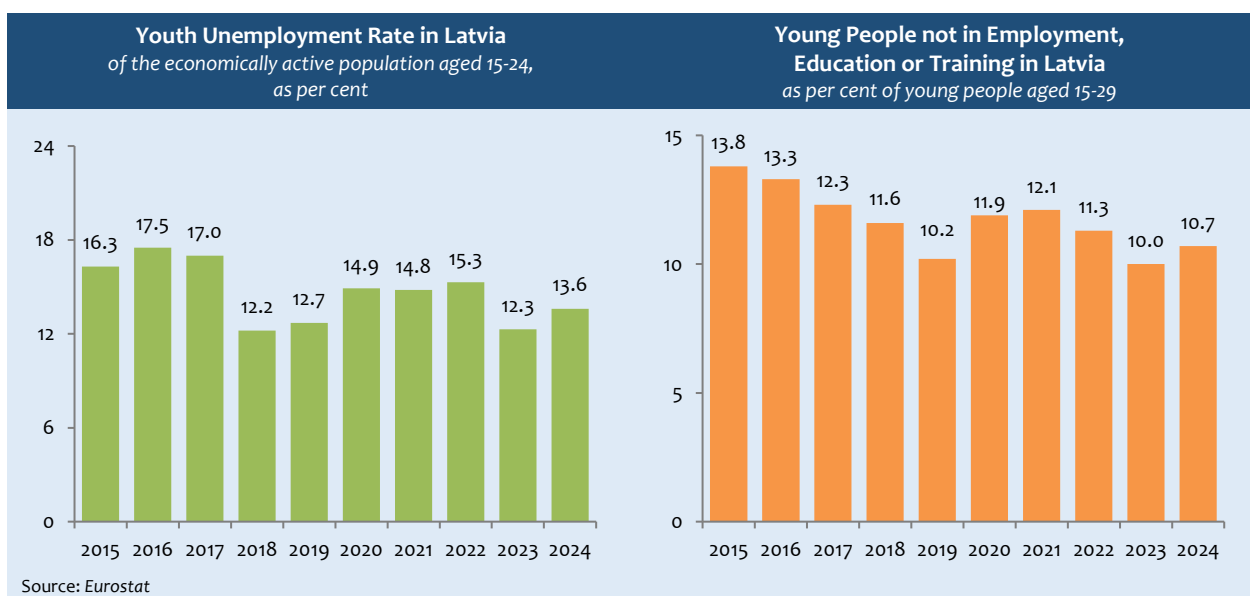
To avoid duplication with the list of Social Indicators, only the unemployment rate and labour force participation rate are included in the list of key MIP indicators as indicators characterising **employment**. However, the list of additional MIP indicators also includes several youth and other unemployment indicators.

The unemployment rate in Latvia last exceeded the 10% threshold in 2014 (see Figure 6.37). In 2024, this indicator was above the threshold for EU-27 countries such as Greece and Spain.

The three year changes in percentage points of the labour force participation rate for Latvia exceeded the threshold from 2021 to 2023 inclusive due to the COVID-19 crisis and then also due to the Russian aggression against Ukraine (see Figure 6.37). In 2024, this indicator did not exceed this threshold in any EU-27 countries.

The indicators on the list of additional MIP indicators characterise youth unemployment. Youth unemployment among 15-24 year-olds in Latvia slightly increased to 13.6% in 2024 (see Figure 6.38). The share of young people aged 15-29 who were not in employment, education or training in Latvia reached 10.7% in 2024, 0.4 percentage points below the EU-27 average.

Figure 6.38



6.9. LATVIA IN INTERNATIONAL RATINGS

INDICES

The indices created by different international organisations characterise Latvia as a country, which carries out many reforms to improve its competitiveness improving the business environment, human resources, ICT infrastructure and other areas, at the same time ensuring also free press and not endangering other countries of the world in a military way.

The indices below have been arranged starting from the highest place reached (see Figure 6.39), but their descriptions are broken down into main thematic groups. The most recent year of publication is indicated for each index, and the description indicates by how many places Latvia has improved or worsened its position compared to the index's previous publication.

Comprehensive indices

In the *World Competitiveness Ranking* published in 2025 by the International Institute for Management Development (IMD), Latvia was ranked 38th (Estonia – 33rd, Lithuania – 21st) among 69 countries of the world moving 7 positions up compared to 2024. Latvia has shown significant improvements in a number of key indicators. The improvement in price stability reflects easing inflationary pressures and a more favourable environment for business and the population. At the

same time, productivity and efficiency, labour market performance and management practices have improved, pointing to a more professional management and a more flexible employment environment. There are also positive changes in attitudes and values, reflecting a greater openness to development, innovation and long-term growth.

In the *Human Development Index* created by the UN Development Programme in 2025, which summarises the data of 2023 and includes life expectancy, literacy, education level, GDP per capita and other indicators, Latvia was ranked 41st (Estonia – 36th, Lithuania – 39th) among 193 countries, where its place moved four positions down compared to the Human Development Index 2023/2024.

Indices characterising institutional environment

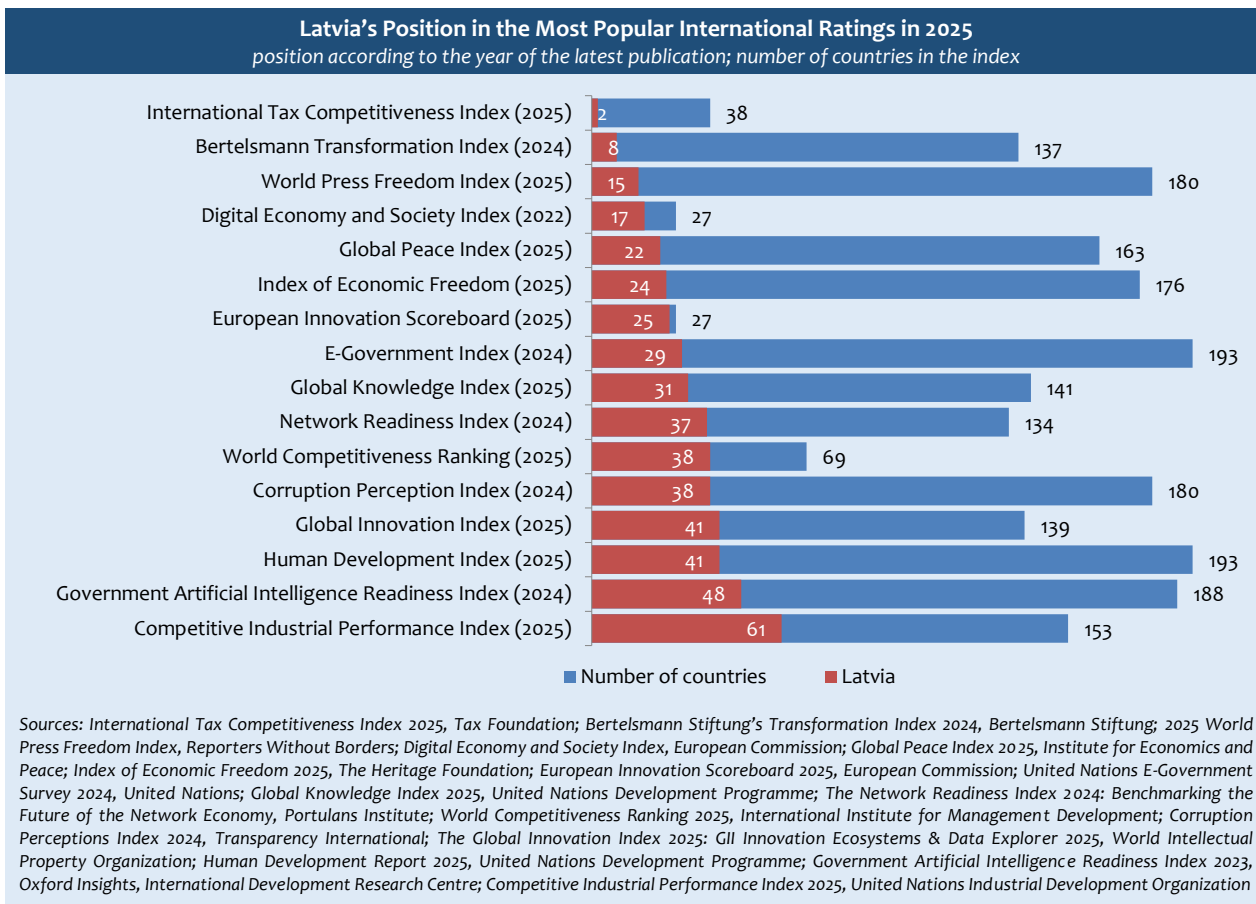
In the *Transformation Index 2024* created by Bertelsmann Stiftung, which evaluates the quality of democracy, market economy and political governance, Latvia is placed 8th among 137 countries of the world (Estonia – 1st, Lithuania – 3rd) having worsened its performance by one position compared to 2022.

In the *Corruption Perceptions Index 2024* created by the international anti-corruption organisation Transparency International, Latvia was ranked 38th (Estonia – 13th, Lithuania – 32nd) among 180 countries of the world moving two positions down compared to 2023.

In the *2025 World Press Freedom Index* created by the international press and freedom of expression organisation Reporters Without Borders, Latvia was ranked 15th (Estonia – 2nd, Lithuania – 14th) among 180 countries of the world having worsened its rank by three positions compared to 2024.

In the *Global Peace Index 2025* created by the Institute for Economics and Peace, Latvia in the shared 22nd position (Estonia – 24th, Lithuania – 22nd) among 163 countries of the world having moved 8 positions up compared to 2024, as it improved its internal and external security.

Figure 6.39



Indices characterising ICT development

In the *E-Government Survey 2024* created by the UN Department of Economic and Social Affairs, which analyses the progress of using e-government, Latvia was ranked 29th (Estonia – 2nd, Lithuania – 21st) among 193 countries of the world keeping its position compared to 2022.

In the *Government Artificial Intelligence Readiness Index 2024* by *Oxford Insights* and the International Development Research Centre, which analyses government's artificial intelligence implementation strategies, technological opportunities and data quality, Latvia was ranked 48th (Estonia – 21st, Lithuania – 33rd) among 188 countries keeping the same place as in 2023.

In the *Network Readiness Index 2024* created by the *Portulans Institute*, which analyses digital transformation by four pillars (technology development, human capital, governance, economic and social effects), Latvia was ranked 37th (Estonia – 18th, Lithuania – 31st) among 133 countries moving 2 positions up compared to 2023.

In the *Digital Economy and Society Index (DESI) 2022* created by the EC, Latvia is 17th (Estonia – 9th, Lithuania – 14th) among EU-27 countries. Since 2021, the DESI index has been structured into four key areas: human capital, connectivity, integration of digital technology and digital public services. Since 2023, countries' overall results are no longer aggregated in a single index, so it is no longer possible to determine countries' positions. In 2025, Latvia's performance in the DESI index was above the EU-27 average in indicators such as share of individuals who use the internet at least once a week, share of households with access to the Internet at home, share of fixed broadband subscriptions \geq 100 Mbps and at least 1 Gbps, 5G SIM cards share of population, e-government users, accessibility of digital public services for citizens and businesses, transparency of service delivery, design and personal data, online user support, and mobile friendliness of digital services.

Indices characterising business environment

In the *International Tax Competitiveness Index 2025* published annually by the US Think Tank *Tax Foundation*, Latvia was ranked 2nd (Estonia – 1st, Lithuania – 5th) among 38 OECD countries of the world, retaining the second position since 2020. The International Tax Competitiveness Index includes more than 40 tax policy variables measuring not only the size of tax rates, but also how taxes are structured. The index looks at national corporate taxes, personal income taxes, consumer taxes, property taxes and attitudes toward foreign profits. Latvia is noted in the index report as the country that has adopted the highest-ranked corporate income tax system and has a relatively efficient system for taxing labour income. A version (*2024 European Tax Policy Scorecard*) was created for this index, including 32 European countries (27 EU countries, and Switzerland, Iceland, the United Kingdom, Norway and Türkiye). Latvia is placed 4th among the European countries (Estonia – 1st, Lithuania – 7th) showing the best performance in the corporate income tax system.

In the *2025 Index of Economic Freedom* created by the *Heritage Foundation*, which consists of four pillars characterising rule of law, government size, regulatory efficiency and open market, Latvia was ranked 24th as mostly free economy (Estonia – 8th as mostly free economy, Lithuania – 16th as mostly free economy) among 176 countries moving 4 positions down compared to 2024.

In the *Competitive Industrial Performance Index 2025* created by the UN Industrial Development Organization, which is based on the data of 2023 and analyses the ability of industrial enterprises of countries to produce and export competitively by adapting to change, Latvia was placed 61st (Estonia – 50th place, Lithuania – 38th) among 153 countries of the world, worsening its place by two positions compared to the updated index of 2024.

Indices characterising innovation environment

In the *Global Innovation Index 2025* created by the World Intellectual Property Organisation, Latvia was ranked 41st (Estonia – 16th, Lithuania – 33rd) among 139 countries of the world moving one position up compared to 2024. Latvia's strengths are highlighted as: number of national feature films, cultural and creative services exports, number of mobile apps created, share of females employed with advanced degrees, ICT use, tertiary enrolment, creative industry goods exports, high-tech imports, ISO 14001 certificates, business environment stability.

In the *European Innovation Scoreboard 2025* created by the EC, Latvia, like a year ago, is placed 25th among EU-27 (Estonia – 11th place, Lithuania – 18th place) and is included in the group of moderate innovators. The report notes that Latvia's relative strengths are trademark applications, production-based CO₂ productivity, and public-private co-publications.

In the *Global Knowledge Index 2025* created by the UN Development Programme, which assesses the performance of countries in the development of the knowledge economy, technology, education and innovation, Latvia was placed 31st (Estonia – 14th, Lithuania – 33rd) among 141 countries of the world worsening its performance by three positions compared to 2023. Latvia scores highly on the following indicators: mobile broadband internet traffic per connection, ratio

of teachers to pupils in basic education, the share of the population with a Master's degree or equivalent, share of the workforce that has completed a shortened university education, and funding available for small and medium-sized enterprises.

CREDIT RATINGS

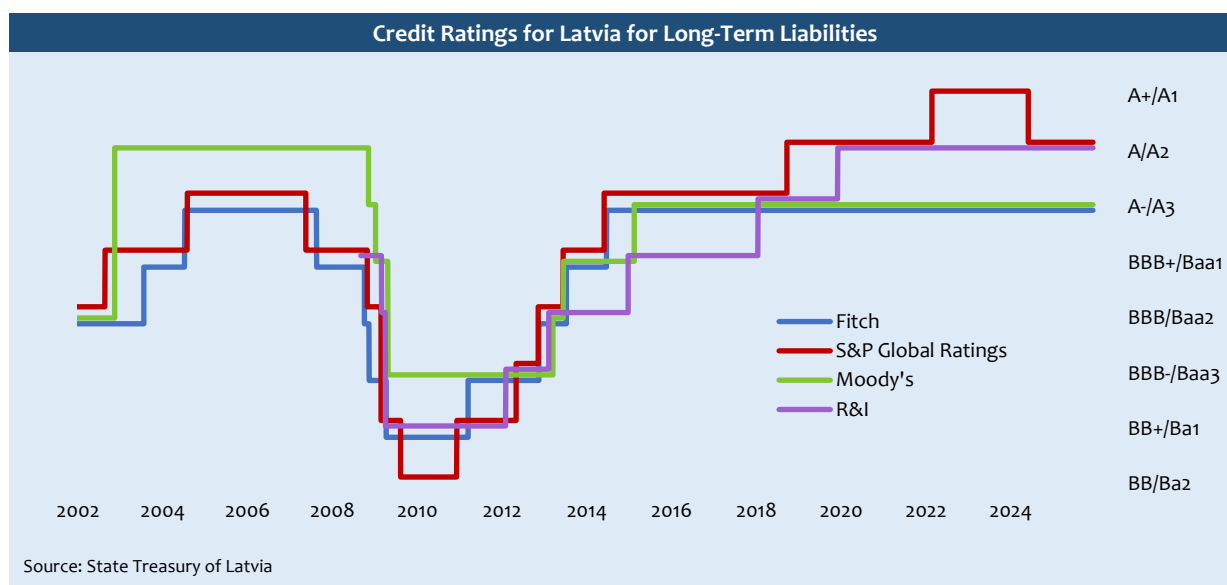
The credit rating of a country is the evaluation of its creditworthiness, which is an essential indicator for potential creditors and investors. The higher it is, the more beneficial the terms of borrowing financial resources are making it possible to reduce service costs of the public debt. The credit rating reflects the condition of the economy and governance of a country.

The credit rating of Latvia is determined by the following international rating agencies: *Moody's Investors Service*, *Fitch Ratings* and *S&P Global Ratings*, as well as the Japanese rating agency *R&I*.

According to the assessment of credit rating agencies, Latvia holds a stable position in group A of the credit rating, which is evaluated as low risk class.

The international rating agency *S&P Global Ratings* has maintained Latvia's credit rating in the high A category for a long time. Between February 2020 and June 2024, Latvia's credit rating was A+, but it is currently set at the slightly lower A level with a positive outlook (see Figure 6.40). The agency underlines that the Latvian government is united on its key medium-term policy objectives, prioritising the strengthening of national security and defence, while pursuing structural reforms to increase the economy's growth potential. The agency notes the resilience of the Latvian economy, as evidenced by the substantial growth in gross domestic product per capita since 2021, as well as the projections for accelerating growth in the coming years. The rating is also supported by membership of the euro area and moderate public debt levels. At the same time, the agency points out that the protracted Russia-Ukraine war poses long-term security and growth risks.

Figure 6.40



Other international credit rating agencies, *Moody's Investors Service* and *Fitch Ratings*, have kept Latvia's credit rating unchanged, with a stable outlook, in 2025. The sustainability of the ratings is underpinned by the relative resilience of the Latvian economy to external shocks, membership of the euro area, as well as balanced fiscal policy and moderate levels of general government debt. The agencies also commend Latvia's ability to diversify its energy supplies and significantly reduce its dependence on Russian imports, and stress the importance of the country's institutional stability and policy continuity. At the same time, the geopolitical situation and the increase in security spending remain risks to fiscal performance, but the credit rating agencies believe that the public financial management to date provides sufficient conditions to maintain the creditworthiness in the A group.

The credit rating of Baltic countries is determined by the following international rating agencies: *Moody's Investors Service*, *Fitch Ratings* and *S&P Global Ratings*. Estonia has the highest credit rating among the Baltic countries, but credit ratings of Latvia and Lithuania are similar.

Table 6.7

| Credit Ratings of the Baltic Countries for Long-Term Liabilities in 2025 | | | |
|--|----------------------------------|-------------------------------|----------------------|
| | <i>Moody's Investors Service</i> | <i>S&P Global Ratings</i> | <i>Fitch Ratings</i> |
| Estonia | A1/Stable | A+/Stable | A+/Stable |
| Lithuania | A2/Stable | A/Stable | A/Stable |
| Latvia | A3/Stable | A/Stable | A-/Stable |
| Sources: <i>Moody's Investors Service</i> , <i>S&P Global Ratings</i> , <i>Fitch Ratings</i> | | | |

The credit rating of Estonia in 2025 remained one to two levels higher than the credit rating of Latvia and Lithuania. *S&P Global Ratings* rated Estonia at A+ with a stable outlook, while *Moody's Investors Service* maintained the rating at A1 and *Fitch Ratings* at A+, in all cases with a stable outlook. The sustainability of the ratings is underpinned by prudent fiscal policies, a relatively low level of general government debt and controlled budget deficits, which together strengthen the country's ability to meet its long-term financial obligations.

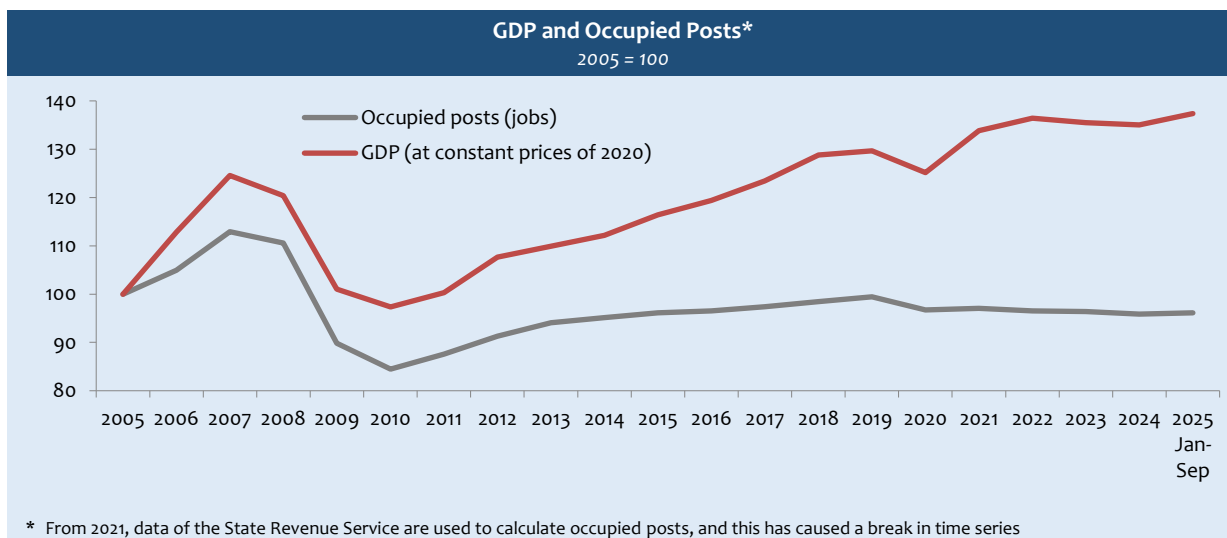
Lithuania's credit ratings in 2025 were lower than Estonia's, but remain at a similar level to Latvia. Lithuania is rated A with a stable outlook by *S&P Global Ratings*, *Moody's Investors Service* and *Fitch Ratings*. The rating is supported by the economy's growth potential, a sound banking system and relatively prudent fiscal policy. At the same time, geopolitical risks and uncertainty in the external environment continue to constrain investment flows and the recovery of growth.

7. LABOUR MARKET

7.1. EMPLOYMENT AND UNEMPLOYMENT

As economic growth recovers, labour market activity has picked up since Q2 2025, with employment and economic activity rising and wages continuing to grow steadily. At the same time, the labour market continues to be affected by structural challenges stemming from structural changes in labour demand, demographic trends and the uneven regional distribution of available labour resources. These factors increase the risks of labour shortages and restrict balanced labour market growth.

Figure 7.1



In Q1-Q3 2025, the number of employees generally increased by 2.3 thousand or 0.3%, compared to the corresponding period of 2024, while, in Q3, the increase in the number of employees reached 1.4% or 12 thousand, compared to the corresponding period in the previous year. In Q3 2025, total employment increased to 892.1 thousand people in age group 15-74, representing 65.2% of the total population aged 15-74 in private households. The employment rate of the population increased by 1 percentage point over the year. At the same time, the employment rate in Latvia remains lower than in neighbouring countries– 4.5 percentage points lower than in Estonia (69.7% in Q3 2025) and 1.7 percentage points lower than in Lithuania (66.9% in Q3 2025).

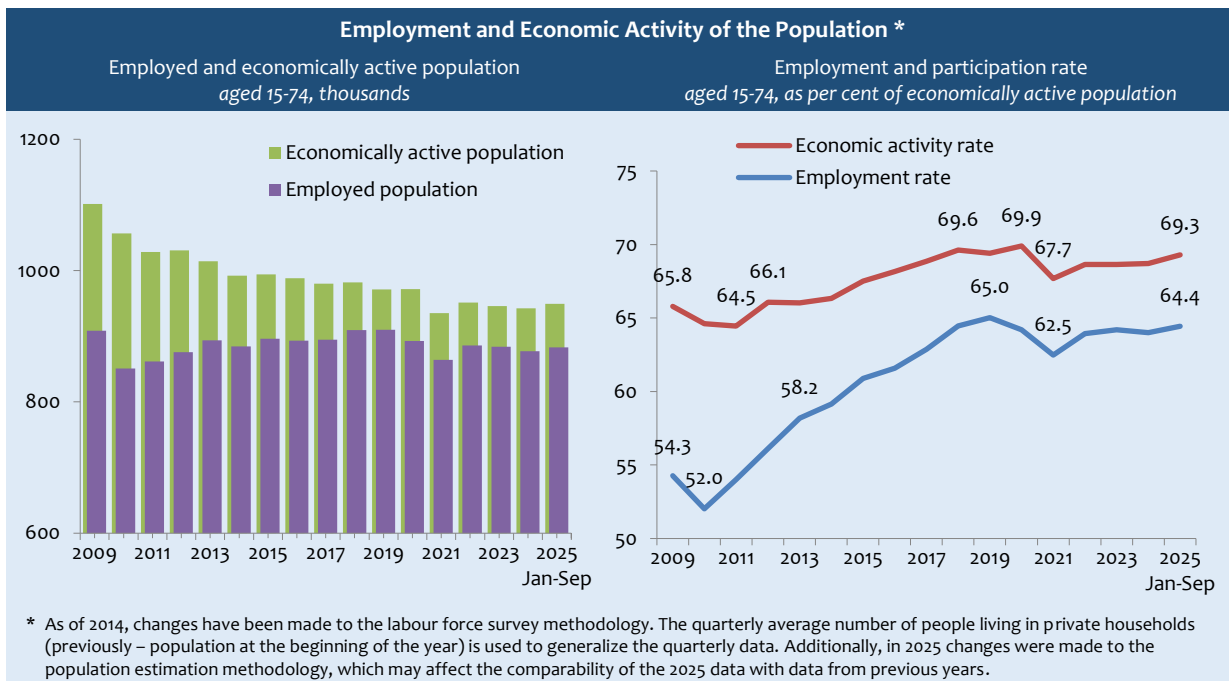
Unemployment has risen slightly in line with the increase in the economically active population. At the same time, the unemployment rate remained close to its level of the last three years, indicating a stable persistence of a low unemployment rate. The unemployment rate in Q3 2025 was 6.9%, up 0.2 percentage points from Q3 2024 (6.7%). At the same time, the average unemployment rate in Q1-Q3 increased to 7%, up 0.1 percentage points from the corresponding period of 2024. Overall, in Q3 2025, the unemployment rate in Latvia was slightly lower than in Estonia (7.1%) and 0.4 percentage points higher than in Lithuania (6.6%).

Positive trends are also observed in the dynamics of the long-term unemployed. Both the number of long-term unemployed and their share in the total number of job seekers is gradually decreasing. Between the end of October 2024 and the end of October 2025, the number of registered long-term unemployed decreased by 3.9%, or by around 0.3 thousand. At the end of September 2025, approximately 6.7 thousand registered job seekers were unemployed for more than one year, which is the lowest indicator in the last 10 years. In October 2025, the number of long-term job seekers amounted to 16.6% of the total registered unemployed.

Despite the comparatively low level of unemployment, there is still a risk that some of the unemployed may have problems finding jobs that match their skills, since the complete recovery in the sectors that lost the most jobs in the previous years might be prolonged, but in sectors where job opportunities are created, skills previously acquired will not necessarily be required. It should also be considered that long-term unemployment can cause structural unemployment risks, namely, the

longer a person is unemployed, the greater the risk of losing job skills and abilities, and the more difficult it is to adapt to new labour market requirements.

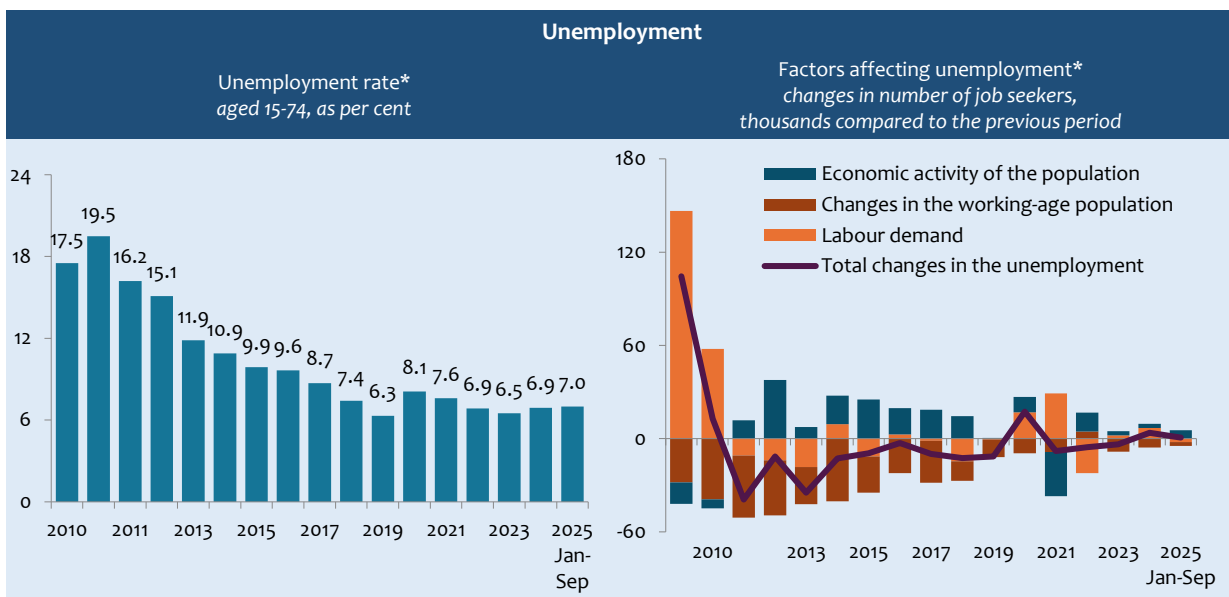
Figure 7.2

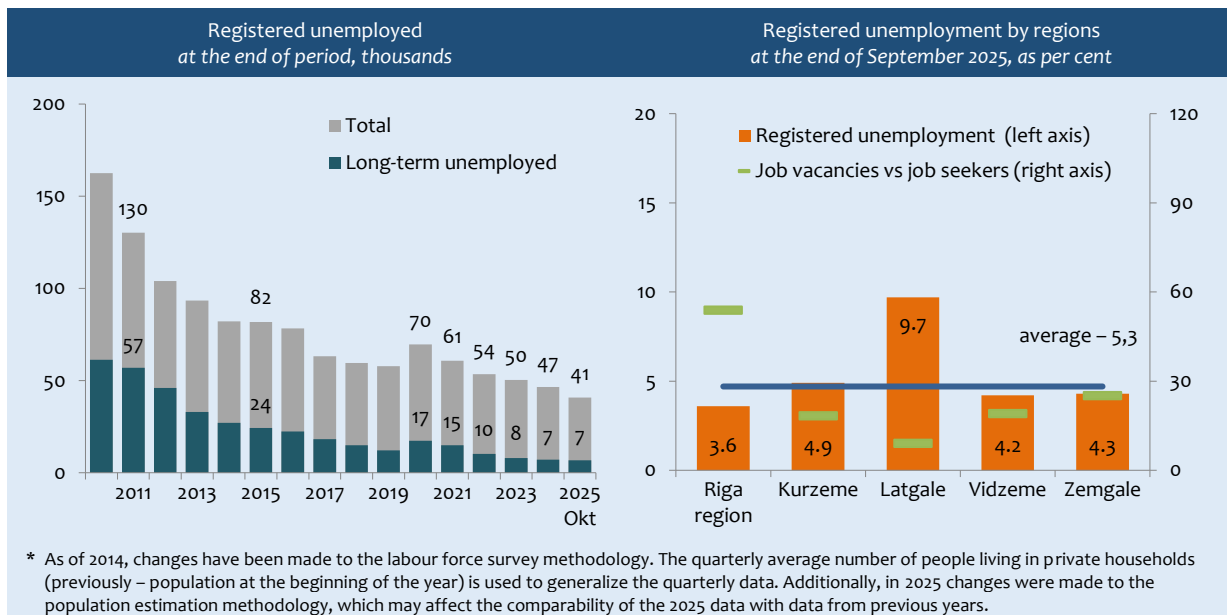


Overall, structural changes in the labour market have accelerated, fostering automation of workplaces in labour-intensive industries and thus reducing the demand for low and medium qualification workforce without professional experience and occupationally relevant skills. At the same time, the share of higher qualification jobs is rising, especially in information and communication.

Regional differences in the labour market also remain a barrier to reaching its full potential. Although regional disproportions are gradually converging, the process is still slow. Distinct problems have long been observed in the Latgale region, where the unemployment rate is almost twice as high as the average rate in the country and nearly three times higher compared to the Riga Region, which, amid the low geographic mobility of the labour force, amplifies the risks of structural unemployment.

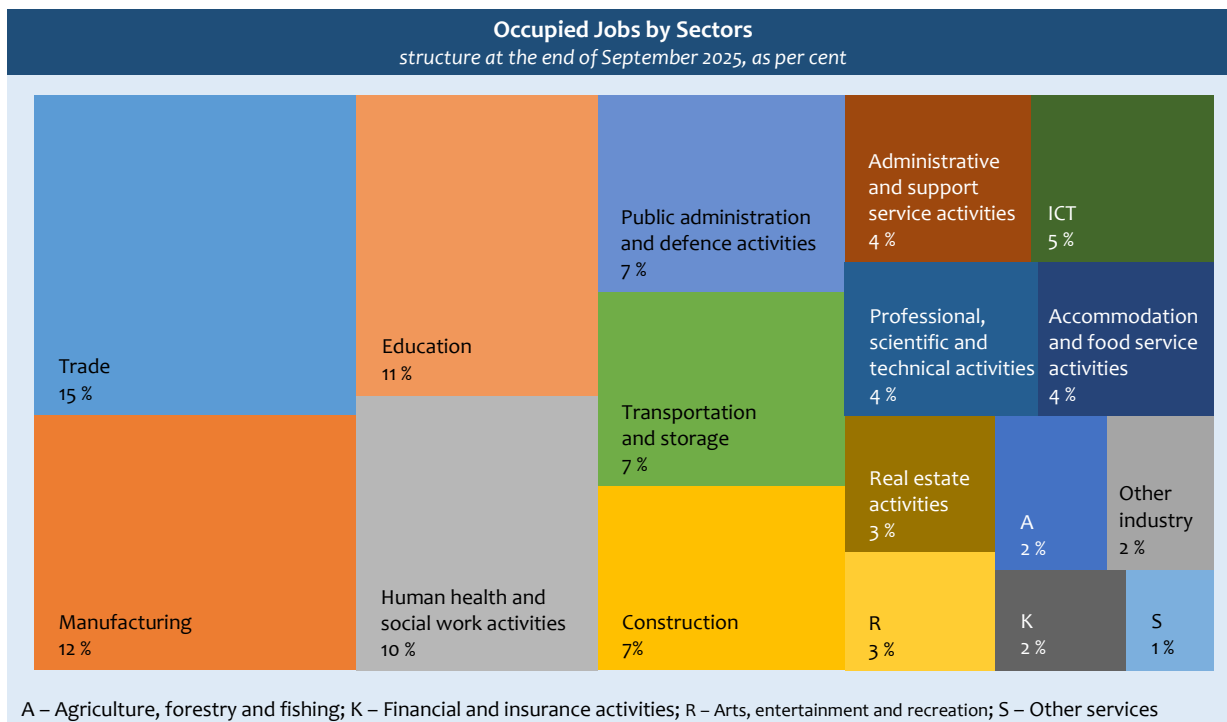
Figure 7.3





As labour needs in different sectors of the economy have grown, the risks of labour shortages due to demographic trends have become more pronounced, influenced by both the shrinking working-age population and the ageing of the labour force. In Q3 2025, compared with the corresponding period of the previous year, the population in private households aged 15-74 decreased by about 2.1 thousand.

Figure 7.4



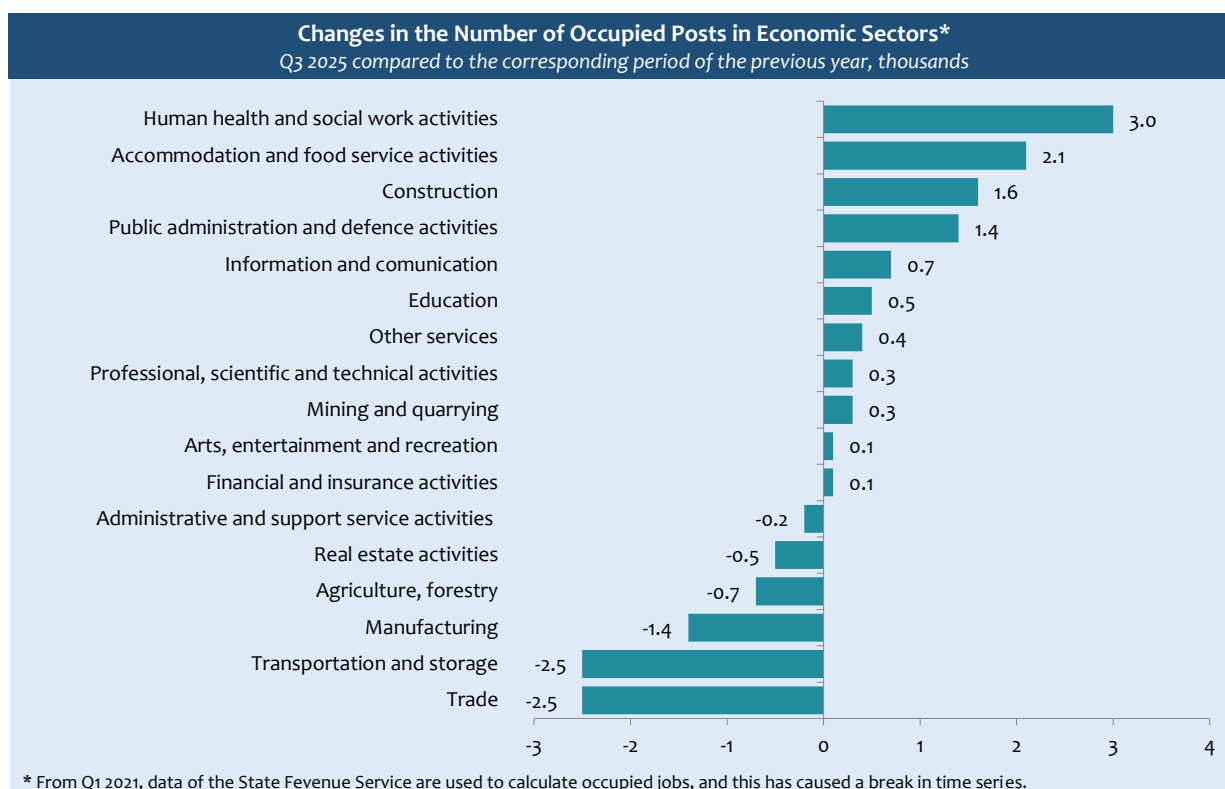
At the same time, the negative impact of demographic trends on labour supply continues to be offset by the rising economic activity of the population. The economic activity rate of the population increased by 1.2 percentage points to 70% in Q3 2025, compared Q3 2024. Considering the increase in the economically active population, in Q3 2025, compared to Q3 2024, the number of economically active population aged 15-74 increased by 15.2 thousand – to 958.3 thousand. Overall, the most significant increase in economic activity during the year was observed among young people. The growth in the economically active population has been driven by both an increase in labour demand and stable wage growth.

As labour demand rises, so does the number of occupied posts. At the end of Q3 2025, the number of occupied posts rose to 888.5 thousand, which was an increase of 2.7 thousand or 0.3% compared to the corresponding period in 2024.

The most significant growth of occupied posts in Q3 2025 was in human health and social work activities, accommodation and food service activities, construction and public administration. Compared to the same quarter in 2024, the number of occupied posts increased by 3 thousand or 3.4% in human health and social work activities, by 2.1 thousand or 6.4% in accommodation and food service activities, by 1.6 thousand or 2.7% in construction and by 1.4 thousand or 2.2% in public administration. At the same time, the most significant decrease in the number of occupied posts was observed in transportation and storage, and trade, by 2.5 thousand or 3.8% in transportation and storage and by 2.5 thousand or 1.9% in trade.

Despite the gradual recovery across sectors, it should be noted that the number of occupied posts remains lower than it was before the COVID-19 crisis in 2019.

Figure 7.5



7.2. WAGES

The average wages in the economy continue to grow at a rapid pace, considering the increase in labour demand. In Q3 2025, the average annual increase in wages over the year reached 7.8%, while the average gross wage increased to 1835 euro. It should be noted that over the past three years, the economy has experienced stable growth in average gross wages, with gross wages rising by almost a third. The average annual growth rate over the period was 9.7%.

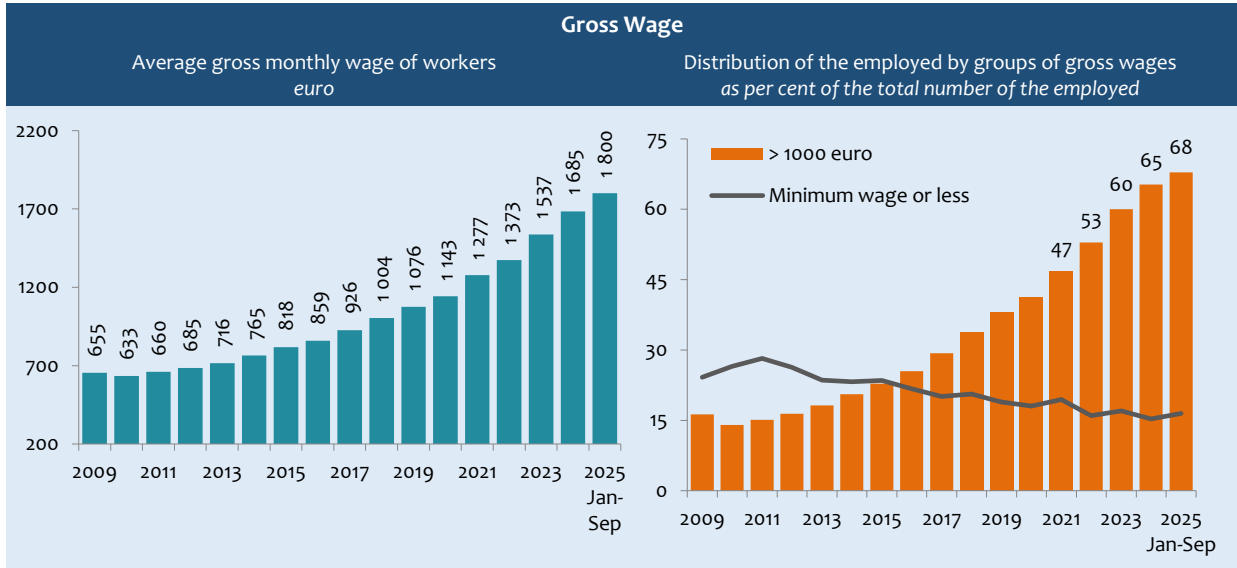
Wage growth continues to be driven by both the acute shortage of workers and the inclusion of the inflationary pressures (price increases) of previous periods into wages. An increase in real wages is observed in Latvia. In Q1-Q3 2025, real wages increased by an average of 6.6% compared to the corresponding period of 2024, while in Q3 real wages increased by 6.3%.

It should be noted that stable wage growth has persisted in Latvia since the end of 2010, moreover, in the last five years the average annual growth rate of gross wages has been around 8%. A positive pressure on wages keeps coming from the wage convergence process closer to the wage levels of the EU's economically developed countries as well as from the growing shortage of skilled labour – shrinking of the labour market, which makes it necessary for entrepreneurs not only to think

more actively about how to attract new professionals but also how to keep existing ones, including through a review of wage rates.

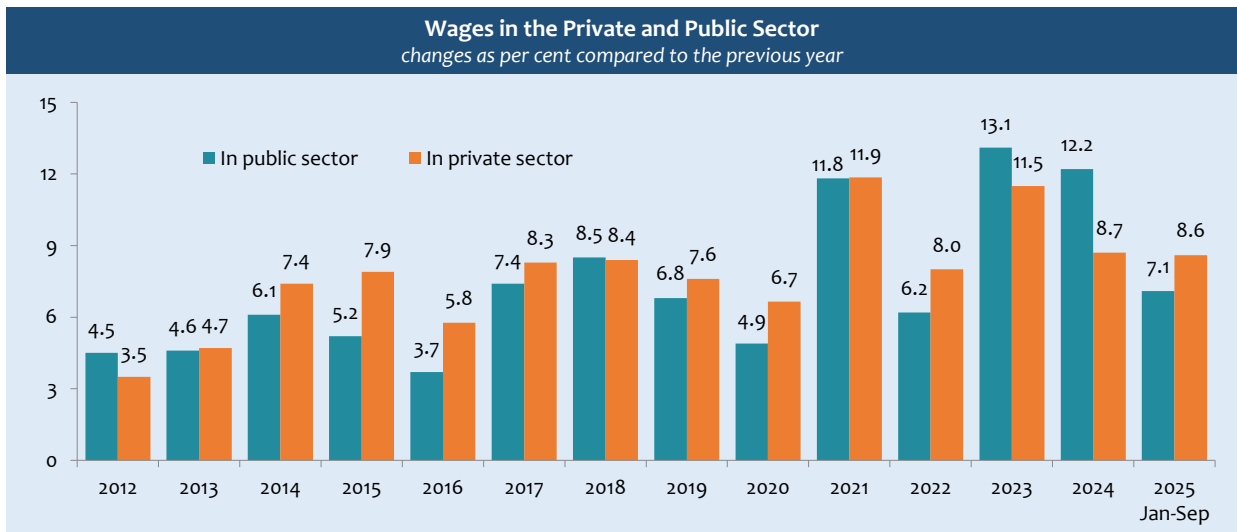
Wage growth in previous years partly ensured labour productivity growth – real labour productivity per employee in 2024 was approximately 28.1% higher than in 2010. At the same time, the average wage growth in previous years has significantly exceeded the increase in labour productivity, thus negatively impacting the competitiveness of Latvian enterprises. Between 2010 and 2024, real wages have grown by an average of 4% per year, while real labour productivity has increased only by an average of 1.8% per year.

Figure 7.6



In the three quarters of 2025, wages have increased in both the private and public sectors. Compared to the corresponding period of 2024, the average gross wage in the public sector increased by 7.1% (to an average of 1841 euro) and by 8.6% in the private sector (to an average of 1821 euro). If we compare Q3 and Q2, the average wage in the public sector declined slightly, by around 0.2%, while in the private sector – increased by 2.2%.

Figure 7.7



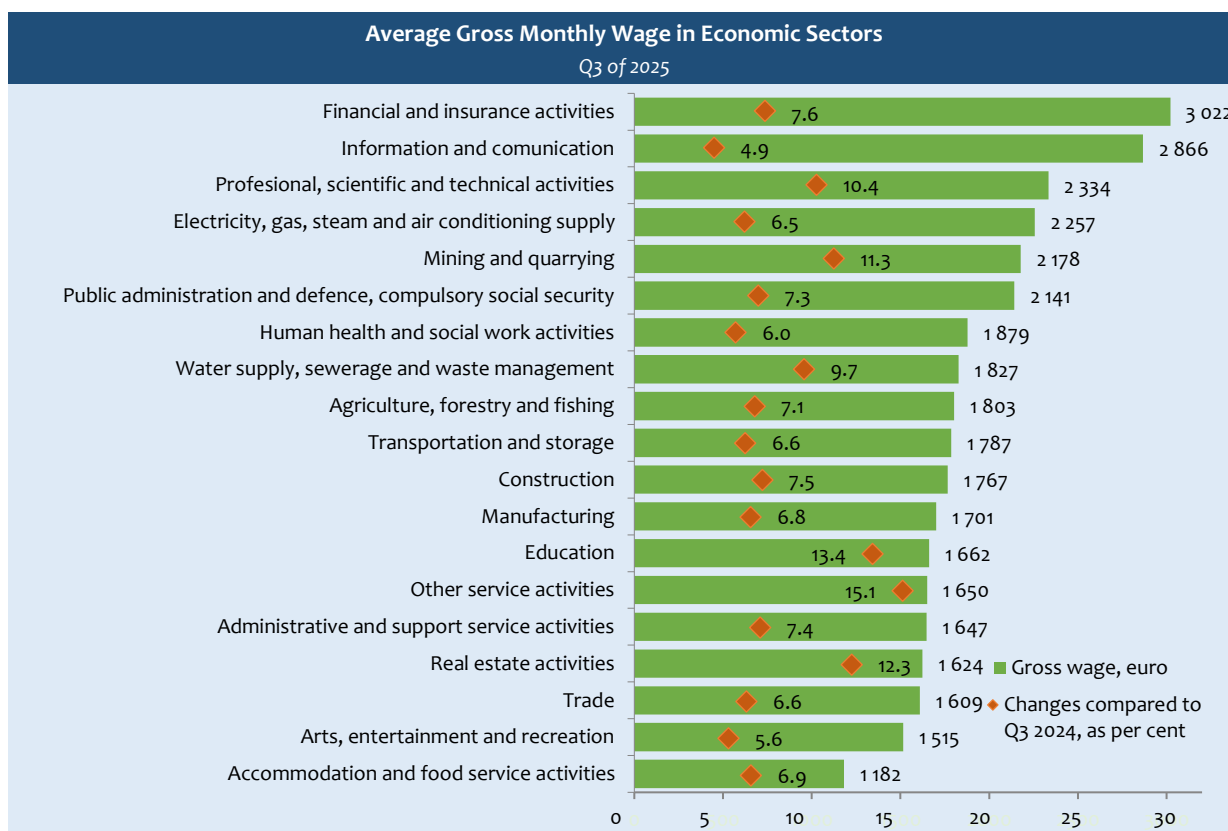
Along with the average wage increase, positive trends are also observed in the remuneration structure – the share of minimum wage earners continues to remain low, with an overall decline in the number of low wage earners, and the share of employees who receive a wage above 1000 euro per month increases. In the three quarters of 2025, more than half (about 68%) of all employees had gross remuneration exceeding 1,000 euro, while the share of employees receiving a minimal wage or less amounted to 16.5%.

Between 2010 and September 2025, the share of employed receiving a minimal wage or less has reduced by approximately 10 percentage points, while the share of employed receiving more than 1000 euro has increased by almost 54 percentage points during this period.

In Q3 2025, an increase in wages was observed in all sectors of the economy. The most significant annual wage increase during the year (in Q3 2025 compared to Q3 2024) was in public administration and defence – by 15.1%. Wage increased also in education (13.4%), real estate activities (12.3%), mining (11.3%) and professional, scientific and technical activities (10.4%).

The highest wage level in Q3 2025 remained in financial and insurance activities (monthly average gross wage 3022 euro), information and communication (2866 euro), professional, scientific and technical activities (2334 euro), energy (2257 euro), mining and quarrying (2178 euro), public administration (2141 euro), human health and social work activities (1879 euro) and water supply and waste management (1827 euro). The lowest wages for full-time work were in the accommodation and food service activities – 1182 euro before tax.

Figure 7.8



7.3. LABOUR MARKET FORECASTS

The labour market forecasts until 2030 are prepared in accordance with the base scenario for medium-term economic growth forecasts (see Chapter 5).

As the economy recovers, labour market activity is also picking up – labour demand and employment are rising, as are economic activity and labour supply. According to the MoE estimates, the number of people in employment in 2025 is expected to increase by 0.5% or 4.7 thousand compared to 2024, while the unemployment rate is expected to decrease to 6.8%. The number of employees in 2025 is expected to increase to 882.1 thousand on average or 64.4% of the population aged 15-74.

Despite the fact that the working age population continues to shrink, a slight increase in labour supply is expected in 2025, in line with the increase in economic activity.

Demographic trends continued to affect the supply side of the labour market in 2025, with the population aged 15-74 falling by 2.2 thousand or 0.2%. However, overall growth in labour demand and wages has contributed to an increase in economic activity and labour market participation, especially in the lower-wage segments. The number of economically active population is expected to increase by about 3.5 thousand in 2025 compared to 2024 (to 946.2 thousand). It should be noted that labour supply continues to be largely underpinned by rising labour market participation rates. In 2025, the participation rate could increase to 69.1%, which is 0.4 percentage points higher than in 2024.

By sector, the most significant increase in the number of employees in 2025 is expected in business services – by 5.1 thousand, in public services – by 4.8 thousand, in manufacturing – by 3.2 thousand, and in accommodation and food service activities – by 4 thousand. At the same time, the most significant decline in employment is expected in transportation and storage, where the number of employees could decrease by 6.7 thousand over the year, driven by the reorientation of logistics corridors and the impact of sanctions on eastbound transit. Employment is also expected to decline in trade, while agriculture and forestry are also expected to see a slight decline.

LABOUR MARKET DEVELOPMENTS IN 2026

The growth in economic activity in 2026 will have a positive impact on labour market developments, but employment growth will remain moderate, further constrained by structural factors in labour supply. The number of employed persons in 2026 could increase by 0.2% or 1.8 thousand compared to 2025 – to 883.9 thousand or 64.7% of the population aged 15-74. With labour demand remaining stable, the **unemployment rate will continue to decline and could reach 6.5%**.

The economically active population in 2026 is projected at 945.5 thousand, while the participation rate could rise to 69.2%. Wage growth and the expansion of employment opportunities in certain sectors will continue to boost participation, partly offsetting the impact of adverse demographic trends on labour supply.

Employment dynamics across sectors will be uneven in 2026. Construction is expected to see the largest increase in employment (by 3.9 thousand), which will continue to be affected by the implementation of large infrastructure projects, including Rail Baltica, and the construction of housing. These projects will increase labour demand in both core construction activities and related support industries.

In 2026, labour demand will continue to grow in business services – by 1.7 thousand, driven by an increase in demand for services, a gradual recovery in business activity and the wider adoption of digital solutions.

In manufacturing as a whole, employment is also expected to grow modestly, with some structural adjustment, reflecting the sector's adjustment to external demand dynamics and changes in the cost environment.

The increase in tourism activity in 2026 will continue to boost labour demand in accommodation and food service activities, which could lead to an average increase of 1.9 thousand employees in the sector.

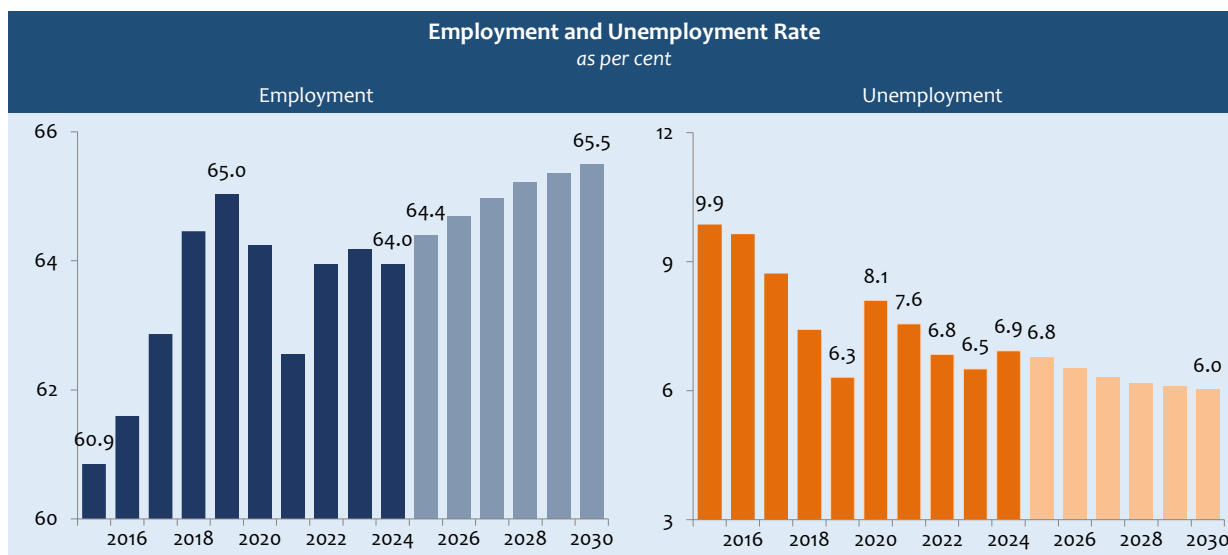
At the same time, the most significant decline in employment in 2026 is expected in trade – by 2.1 thousand, mainly due to productivity growth, the introduction of automation solutions and the increased use of self-service technologies.

Employment in transportation and storage will continue to decline – by 1.1 thousand, reflecting both the logistics sector's adjustment to new trade routes and the decline in domestic transport, as supply-side factors increasingly affect the sector.

LABOUR MARKET FORECASTS FOR 2027-2030

From 2027 to 2030, economic growth will further be based on the increase in labour productivity, therefore the total labour demand and increase in the number of employed persons will be slower than economic growth. Until 2030, **the number of employed persons is expected to grow by an average of 0.1% per year and the total labour demand in 2030 could be close to 887 thousand.**

Figure 7.9



Although employment could grow slowly, the population employment rate (the share of the employed in the total population of the relevant age) will continue to grow steadily. From 2027 to 2030, the employment rate in age cohort 15-74 could grow by an average of 0.2 percentage points per year and could reach an average of 65.5% in 2030.

The decline in the population will become slower in the medium term, but the ageing of society will continue and working age population will reduce, which will also affect the overall labour supply. At the same time, the negative impact of demographic trends on labour supply will be compensated by the increase in the participation of the population in the labour market.

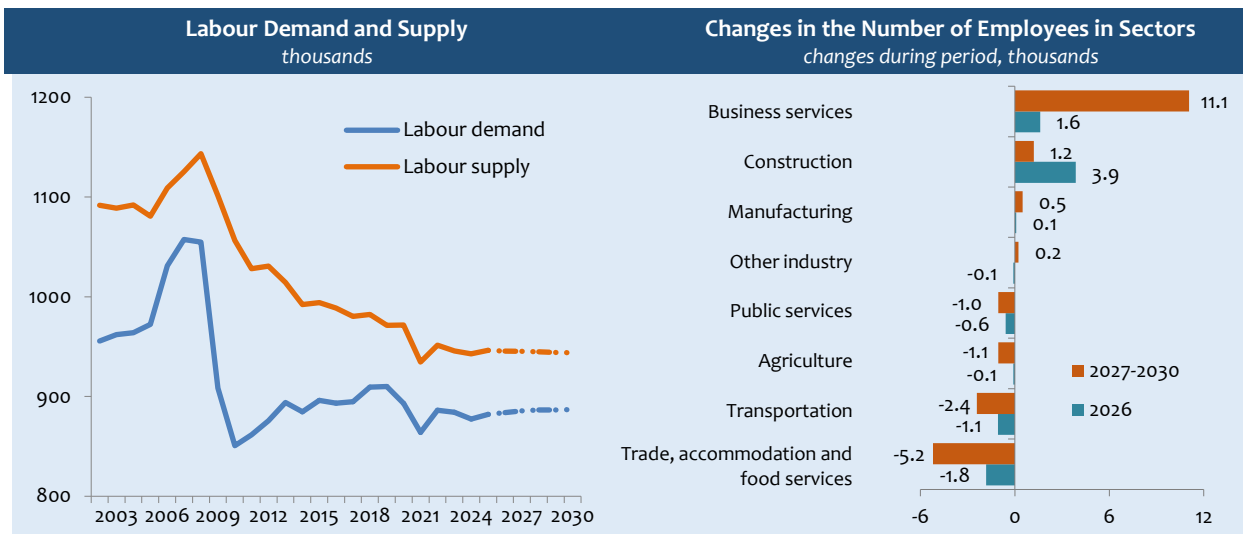
According to the base scenario of demographic forecasts of the MoE, the Latvian population might decrease to 1.79 million or by approximately 71 thousand by 2030, compared to the beginning of 2025. The most significant reduction will be observed among people of working age. The population aged 15-64 is expected to fall by approximately 63 thousand or 5.7% by 2030, which will have a negative impact on the overall labour supply.

In the medium term, economic growth as well as increasing labour shortages will contribute to increasing participation of the population in the labour market, thus opening wider possibilities to many groups of inactive population (housekeepers, students, retirement-age people, etc.). An increase in wages will also play an essential role in the promotion of participation of the population. Considering this, by 2030, the participation rate for the 15-74 age group could increase to 69.7%. At the same time, demographic trends will continue to affect the supply side of the labour market, and the labour supply could generally decrease to 944 thousand by 2030 (2.4 thousand or 0.3% lower than in 2025).

Given the trend towards an ageing workforce, the main job opportunities in the coming years will come from replacement demand. According to the MoE forecasts, about 56% of all vacancies between 2025 and 2030 could be due to replacement demand.

Considering the demographic trends, unemployment will generally keep shrinking until 2030 and will be close to the natural level. The unemployment rate is expected to reduce to 6% by 2030. The highest unemployment risks are expected among the population with a low level of education and without professional skills/professional qualifications.

Figure 7.10



From 2027 to 2030, labour demand is expected to further restructure in favour of business services. The number of people employed in business services is expected to increase by 11.1 thousand during the corresponding period. The most significant increase in labour demand is expected in information and communication and professional, scientific and technical activities.

Considering the implementation of Rail Baltica and other large infrastructure projects, labour demand will continue to grow in the construction sector in the medium term. In construction, the highest level of labour demand is expected to be reached around 2027, with the most active construction phase of Rail Baltica. Overall, the number of employed in construction might increase by about 5.1 thousand by 2030, compared to 2025.

Moderate growth in labour demand is also expected in manufacturing. However, the employment increase in manufacturing and other traditional tradable sectors will remain sluggish, as the growth of those sectors will mainly depend on the productivity increase, which plays a decisive role in ensuring competitiveness. Overall, employment in manufacturing might increase by approximately 0.6 thousand employees by 2030, compared to 2025.

A small increase in labour demand in the medium-term is expected also in other industrial sectors – mining and quarrying; electricity, gas, steam and air conditioning supply; water supply, sewerage, waste management and remediation activities. It is related to the increase in demand for construction raw materials, the transformation of energy sectors and the implementation of the EU Green Deal. Overall, employment in other industrial sectors could increase by almost 200 thousand employees from 2027 to 2030.

The reduction in employment could be seen also in agriculture and logging largely due to the continued effectivization of the sectors. In the period from 2026 to 2030, employment in agriculture and logging could decline by 1.1 thousand employees.

Given the geopolitical situation and the reorientation of logistics routes, employment in transport services is likely to continue to decline in the medium term. Between 2027 and 2030, the number of people employed in transport services is expected to decrease by 2.4 thousand.

Along with job automation trends, employment could continue to decline in the retail segment in the coming years along with the broader entry of self-service cash register systems as well as other automated trading solutions in the sector. At the same time, the increase in tourism will continue to support demand for accommodation and food service activities, thus limiting a faster decline in employment in these sectors. Overall, the number of employees in trade, accommodation and food service activities is expected to decrease by 5,2 thousand from 2027 to 2030, while the number of employees in trade is expected to decrease by more than 7 thousand.

Available labour resources will continue to shrink in the coming years, and the labour shortages might become more pronounced. The decline in labour stocks will be largely determined by the reduction in the number of the population capable of working, as well as the ageing of the existing labour force and the leaving of the labour market.

PART II. ECONOMIC POLICY PRIORITIES

8. HUMAN CAPITAL DEVELOPMENT

8.1. MANAGEMENT OF HUMAN CAPITAL DEVELOPMENT MATTERS

The Latvian labour market continues to face structural challenges due to the demographic situation, the ageing of the working-age population, the prevalence of jobs in medium- and low-productivity sectors, as well as insufficient skills of human capital to match labour market demand. Regional disparities and low labour mobility continue to constrain labour market convergence and balanced growth (see Chapter 7.3).

Given the importance of human capital for sustainable economic growth in Latvia, work is continuing on the implementation of a coordinated and data-driven human capital policy. The Human Capital Development Action Plan 2025-2027 has been updated with new actions, strengthening solutions for human capital development in line with future labour market demand. The implementation of the Action Plan in 2025 will continue to focus on two horizontal components: data- and evidence-based decision-making and analytics, and the development of a human capital management model to promote employment.

The work of the Human Capital Development Council (HCDC) continued to address labour market challenges and ensure a closer link with the objectives set out in the Government Declaration. The HCDC is made up of the ministers of economics, education and science, and welfare, as well as social and industrial partners. The HCDC aims to strengthen coordinated inter-departmental cooperation, ensuring that human capital development issues are managed in a systematic and coherent way at the national level. In 2025, the HCDC focused mainly on strategic issues that have a major impact on labour availability and skills development, including the development of a human capital management model to promote employment, amendments to the *Labour Law* to develop a flexible working environment, the effectiveness of immigration policy and proposals to improve it. The HCDC's agenda also included improving the budget place allocation and admission procedures for university and vocational education institutions, ensuring that the preparation of future specialists better meets the needs of the labour market.

In 2025, the Joint Adult Education Coordination Commission (JAECC), established by order of the Minister of Economics on 17 July 2024, continued its work on improving the identification of training needs by developing a coherent approach to the planning and implementation of adult education programmes. The JAECC approved publicly funded adult learning supply, identifying priority target groups, training directions and programmes in line with the needs of the labour market and the economy. On 14 April 2025, the JAECC approved a single offer of adult education for the target group of the State Employment Agency within measure 3.1.2.5.i. *Labour market participation of unemployed, jobseekers and people at risk of unemployment* and for employees within measure 4.2.4.2 *Support for adult learning based on the individual needs of adults*. They offer a wide range of continuing education, professional improvement and non-formal education programmes relevant to the labour market.¹ Education supply is revised regularly, taking into account variable labour market needs for required skills.

At the same time, work is continuing on improving the methodology for identifying adult learning needs to ensure an increasingly accurate matching of skills demand and supply. This allows the content and scope of training to be adapted to current economic and labour market trends.

The MoE has started work on the Human Capital Development Strategy 2028-2035, which is being developed as a coordinated and comprehensive policy framework, considering the goals and objectives set by the country, including the orientations and indicators of the National Development Plan. Human capital development is a highly inter-institutional issue, so close cooperation with all line ministries and social partners is essential in shaping the strategy to ensure a shared vision on workforce development, skills availability and the long-term needs of the economy. The strategy will not only define the indicators to be achieved, but will also strengthen the mechanisms for monitoring their implementation and regular progress monitoring. Equally important is ensuring that decisions and planned actions are based on good

¹ Information on available adult education programmes for the unemployed, jobseekers and persons at risk of unemployment is available on the website of the State Employment Agency: <https://www.nva.gov.lv/macibu-pasakumi>, and for the employed – on the platform of the State Education Development Agency: <https://stars.gov.lv/>.

quality data, which is why work will continue on developing advanced data models and analytical tools. This will allow timely identification of mismatches between the supply of human capital and economic demand, and informed, data-driven decisions on necessary policy improvements. The Strategy aims to ensure coordinated, future-oriented and sustainable human capital development that contributes to the growth of the Latvian economy and the well-being of society.

8.2. SUPPORT FOR BUSINESSES IN HUMAN CAPITAL DEVELOPMENT

DEVELOPMENT OF SKILLS

In order to provide support for obtaining qualifications, reskilling or skills acquisition or improvement by employees of employers to contribute to increasing the productivity of the workforce, on 25 June 2024 the Cabinet of Ministers approved Regulations No. 413 laying down the rules for the implementation of the first round of measure 4.2.4.1 *Support for sectoral needs based adult education*. 12.1 million euro are available within the support programme. In the first half of 2025, 13 sectoral associations were selected (Latvian Association of Computer Technologies, Green Houses, Association of Light Industry Companies, Latvian Hotels and Restaurants Association, Latvian Association of Printing Companies, Latvian Association of Window and Door Manufacturers, ABSL Latvia, Association of the Latvian Chemical and Pharmaceutical Industry, Association of Mechanical Engineering and Metalworking Industries, Latvian Electrical Engineering and Electronics Industry Association, Latvian Information and Communications Technology Association, Latvian Federation of Food Companies, Association of Electric Energy and Energy Construction Specialists), to which it is possible to apply for training. According to the plan, at least 1000 employed persons will be involved in training by the end of 2029. Support is available in the form of grants and non-financial support, with support intensity up to 70%.

To improve digital, robotisation and automation skills of micro, small, medium and large Latvian enterprises, including skills that would facilitate export promotion, high-level basic digital management skills at the level of business management and skills for the use of digital technologies in various business processes, on 12 September 2023, the CM approved Regulations No. 529 *Implementing Regulations of Investment 2.3.1.2.i. Development of Digital Skills of Enterprises of Reform and Investment Direction 2.3 Digital Skills of Component 2 Digital Transformation of the Recovery and Resilience Facility Plan of the European Union*, which provides support for the development of digital skills of employees of companies; the programmes started in 2024. Training for the improvement of digital skills development for company employees is available through European Digital Innovation Hubs, selected through a competitive selection process by organisations representing companies or industry associations and universities (University of Latvia, Daugavpils University). The RRF funding available for the investment is 16.3 million euro. Support is available in the form of grants and non-financial support, with support intensity up to 100%. By the end of 2025, more than 1500 undertakings have participated in the training and absorbed funding of 4.5 million euro. It is planned that by mid-2026 at least 1800 undertakings are expected to receive support for the improvement of the digital skills of employees within the framework of the investment.

SMART MIGRATION AND RE-EMIGRATION

The MoE continues to work actively to promote the development of efficient but strictly controlled labour immigration processes. Several regulatory enactments have been drafted or amended in recent years to avoid long-term labour shortages, including CM Regulations No. 277 *Procedure for the Provision of Priority Public Services to Merchants* were approved in 2025, which aim to create a business environment friendly for export promotion and investment attraction, including ensure the attraction of foreign labour for the needs of the Latvian economy and securing labour needs by reducing the administrative burden and speeding up administrative approval processes for merchants important to the Latvian economy.

The MoE has initiated discussions with other line ministries on mechanisms to attract missing skilled foreign workers to boost productivity growth, especially in high-value-added sectors, while at the same time tightening the focus on unscrupulous labour flows. The discussion resulted in targeted solutions to make the attraction of skilled foreign workers more effective, including a review of the residence permit process, support for seasonal employment in agriculture and proactive integration of graduates into the labour market.

The Plan for Work with the Diaspora 2024-2026, which was approved by a CM Decision in 2024, is in place to promote re-emigration in Latvia. One of the most co-responsible ministries in the implementation of the Plan is the Ministry of Economics and its subordinate institution LIAA, which continues to implement targeted diaspora engagement in the economy by organising trade missions with representatives of Latvian companies, thematic events with diaspora

involvement to promote export growth, investment attraction, business development and promotion of Latvia's international visibility.

INTERNAL LABOUR MOBILITY

To promote internal labour mobility and ensure the availability of skilled professionals in Latvia's regions, the MoE has developed a support programme for the construction of low-rent housing.

One of the objectives of the programme is to create new housing stock in the regional economic development centres of Latvia, thus facilitating the relocation of the labour force to areas where there is a high demand for specialists and the opportunity for specialists to work in sectors with high added value. This initiative is essential in strengthening regional development, reducing labour shortages and ensuring sustainable economic growth.

For more information on the support programme, see Chapter 14.

9. INTEGRATION OF LATVIA IN THE EU ECONOMIC AND STRUCTURAL POLICIES

9.1. EUROPEAN SEMESTER

On 12 January 2010, the EC published its *Annual Growth Survey* offering to launch a new economic policy surveillance and coordination mechanism in the EU – the European Semester. Since 2011, the European Semester starts every year in November, when the EC publishes the key documents (the so-called *European Semester Autumn Package*), the evaluation of which starts the European Semester of the next year, and those are: the *Annual Sustainable Growth Survey*, the *Alert Mechanism Report*, the *Draft Joint Employment Report*, the *Proposal for EU Council's Recommendations to the Euro Area* and other documents. In these documents the EC evaluates the economic situation across the EU and offers economic policy priorities for the next year. These documents are the basis for further discussions between EU Member States and the EC at different meetings of the EU Council.

The regulatory enactments adopted as part of the reform of the EU *Stability and Growth Pact* (the new EU fiscal rules) entered into force on 30 April 2024. With the entry into force of the regulation, each EU Member State¹ must draft a new document – a *Fiscal-Structural Plan* (replacing the previous *Stability Programme* and *National Reform Programme*, which were prepared and submitted to the EC each year until 2024 as part of the European Semester process). The Fiscal-Structural Plan (FSP) covers the country's fiscal policy, investment and reform plans for the next four years.

In accordance with CM Order No. 235 of 28 March 2024 *On the Timetable for the Preparation of the Draft Law On the State Budget for 2025 and the Budgetary Framework for 2025, 2026 and 2027*, Latvia prepared the FSP 2025-2028², which was approved by the CM on 14 October 2024 and submitted to the EC and the EU Council. On 21 January 2025, the Council of the EU approved Latvia's FSP on the basis of the EC's assessment and recommendations.

Each year, between the development of the current and the next FSP, EU Member States produce an FSP Progress Report. It aims to provide information on the implementation of the fiscal targets and structural measures set by the FSP, while also providing a framework for medium-term fiscal policy decisions and national budgetary priorities. The first Latvian FSP Progress Report³ was approved by the CM on 15 April 2025.

In accordance with Article 13 of Regulation (EU) 2024/1263 of the European Parliament and of the Council, EU Member States are required to explain in the FSP how they will ensure the delivery of reforms and investments responding to the main problems and challenges identified in the context of the European Semester, in particular in the EU Council recommendations, and how that EU Member State will address the following common priorities of the EU:

- a fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119;
- social and economic resilience, including the European Pillar of Social Rights;
- energy security;
- the build-up of defence capabilities.

The main documents in the Spring Semester package are the EC's country reports, the EC's proposals for the EU Council's Country-Specific Recommendations, the Employment Guidelines, and other documents depending on the economic situation of the EU and its Member States. The EC reports on each EU Member State by assessing the FSPs submitted by EU Member States and their implementation. In these reports, the EC offers a detailed analysis of each EU Member State, its economic situation, main challenges and ongoing reforms.

¹ In accordance with the requirements of Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on effective coordination of economic policies and multilateral surveillance of budgetary developments and repealing Council Regulation (EC) No. 1466/97.

² Fiscal Structural Plan of Latvia 2025 – 2028: https://tapportals.mk.gov.lv/attachments/legal_acts/document_versions/aafdc2f9-caof-406c-8fd1-dcd9e19f4d9e/download.

³ Progress Report 2025 of the Fiscal Structural Plan 2025 – 2028 of Latvia: https://tapportals.mk.gov.lv/attachments/legal_acts/document_versions/8458228f-bofs-44b9-a2de-c365d0591efb/download.

Fiscal Structural Plan of Latvia 2025 – 2028– short summary

The FSP of Latvia consists of a fiscal policy part (prepared by the MoF) and a structural part (prepared by the MoE in cooperation with other ministries and public administrations). The MoF is responsible for the implementation and monitoring of the FSP of Latvia.

Fiscal policy part

Under the new EU economic governance model EU Member States should ensure that, in the long term (until 2038), public debt is below 60% of GDP (or credibly declining from current high levels) and deficits are below 3% of GDP. Thus, during the period between 2025 and 2028, the state will have to be gradually put on the new “fiscal trajectory” from the 2024 situation – through consolidation, expansion, or through just a slight adjustment of the direction. It should be noted that Latvia is already close to its necessary trajectory, so there is no need for consolidation, but there is also not much positive fiscal space for expansion. The fiscal policy planned under the FSP of Latvia involves “a slight adjustment of direction”.

The new EU economic governance model makes the condition of expenditure growth the main fiscal indicator (the structural balance was the main fiscal indicator in the previous model). The annual increase in expenditure is set for the entire period 2025-2028 once in this FSP and is not changed thereafter. This means that, unlike the old model, where the permissible level of expenditure was adjusted according to changes in revenue (and the economy), in the new model, better or worse developments in revenue (and the economy) do not allow for increase in expenditure or do not require reduction in expenditure. These changes ensure the stability of fiscal policy over the medium term.

Latvia commits to the following maximum increase in annual net nationally financed primary expenditure: 5.9 % in 2025, 3.6 % in 2026, 3.4% in 2027 and 3.3 % in 2028.

At the same time, Russia’s aggression against Ukraine has created new defence challenges for EU Member States. Latvia is one of the EU Member States for which an exception clause has been triggered to allow a deviation from the 1.5% of GDP spending limit due to defence spending increases between 2025 and 2028.

The package of measures contained in the FSP of Latvia ensures that increase in the general government budget deficit stops and deficit gradually decreases during the period of 2025 – 2028.

The FSP of Latvia also includes policy measures, which ensure putting the state on an appropriate “fiscal trajectory”. These measures have a stronger role in the new EU fiscal governance framework than in the Stability Programme developed so far, as no new measures will be possible before 2028 unless tax policy changes are made or an existing measure is abandoned.

So the plan includes not only fiscal indicators, but also a set of policies (structural policies of the plan) that are implemented with the public finances specified in the plan and are in line with the EU Council’s Country-Specific Recommendations.

Structural part

Chapter 9 of the Latvian FSP contains information on measures, reforms and investments that are being implemented to meet the country-specific recommendations of Member States of the EU Council for Latvia and common EU priorities. It shows details of all measures, reforms and investments, as well as how they relate, where relevant, to the EU’s multiannual budget for 2021 -2027, Latvia’s RRF plan, the European Pillar of Social Rights and the UN Sustainable Development Goals.

In view of country-specific recommendations of the Member States of the EU Council for Latvia and common EU priorities, the implementation of measures, reforms and investments in the structural part of Latvia's FSP is taking place in the following policy areas:

- tax policy (shifting the tax burden towards capital and indirect taxes, improving tax payment and compliance);
- social protection and security (adequacy of social protection, improving minimum income);
- healthcare (increased funding, efficiency, quality and access);
- education and skills (quality of education, green skills development, digital skills development, vocational and adult education);
- employment policy (active employment policy);
- business environment (reducing administrative and regulatory burdens, promoting competition in the financial sector);
- promotion of investments (access to finance for SMEs, investment in green and digital transition);
- energy and energy efficiency (interconnectors, renewable energy, reducing dependence on fossil fuels, energy efficiency);
- affordable housing (construction of low-rent housing, accessibility of social housing, accessibility of the housing environment for persons with disabilities);
- transport sustainability (improving rail infrastructure, zero-emission transport, development of a unified public transport ticket system);
- digital infrastructure (modernising government processes and services, efficiency and interoperability of the use of public ICT resources, development of the economy’s data and digital services economy, developing “last mile” infrastructure for broadband or very high performance networks, etc.);
- transition to a circular economy;
- public administration efficiency (efficiency of public administration, efficiency of governance of state and municipal capital companies, improvement of the regulation for preventing conflicts of interest);
- other reforms and investments aimed at the implementation of common EU priorities (just green and digital transition; social and economic resilience, incl. European Pillar of Social Rights; Energy Security; Defence Capacity Building).

The assessment made in this EC's report gives rise to the proposals for the EU Council's Country-Specific Recommendations, which are discussed at different EU Council meetings and approved at the European Council meeting in June.

2025 Country Report – Latvia

2025 Country Report – Latvia provides analysis of the development of Latvian economy, characterises EU funding priorities and use, incl. in the context of the Cohesion Policy and Latvia's RRF Plan, reflects the EC vision of Latvian economic policy priorities requiring government's attention, and reflects the main conclusions of the EC.

2025 Country Report – Latvia notes that Latvia's economy faced a recession (-0.4%) in 2024, which was mostly due to the geopolitical context and perceived uncertainties by both households and companies. Despite pronounced wage growth, private consumption was low, with precautionary savings. In addition, foreign investors are holding back investments in Latvia due to perceived geopolitical risks. Private investment was also hampered by high interest rates, while some public investments were delayed, in particular investments under EU co-financed programmes. The Latvian labour market is performing well, but shows structural challenges, such as growing labour and skills shortages. In 2024, energy prices declined quickly, which rapidly pushed down headline inflation. Despite Latvia's relatively low level of public debt, there are challenges to the implementation of Latvia's fiscal policy in the coming years. These fiscal policy challenges are linked to the need to ensure budgetary spending on internal and external security, improving public services and co-financing large-scale EU-funded projects. Latvia's economic development challenges are also linked to its low productivity levels compared to the EU average and the need to promote productivity and income convergence, unexploited innovation potential, reduce the persistent dominance of low-tech sectors, income inequality and poverty, ensure social protection and social inclusion, and reduce regional disparities.

To foster competitiveness, sustainability and social fairness, the EC offers to focus on:

- making faster use of the opportunities offered by RRF and cohesion policy;
- broadening taxation in ways that are less detrimental to economic growth;
- reviewing public spending, redirecting savings to priority areas – defence, healthcare and welfare;
- boosting private investment in research and innovation;
- improving access to finance for small and medium-sized enterprises;
- promoting investment in the real estate sector;
- tackling the grey economy by shifting informal or undeclared activity to the formal economy;
- strengthening the social and economic resilience of regions;
- accelerating the use of wind and solar energy;
- upgrading the electricity grid;
- further decarbonisation of the road transport sector;
- a transition to more sustainable practices in the agricultural, forestry and peat extraction sectors;
- contributing to the circular economy;
- addressing labour and skills shortages;
- improving social outcomes;
- addressing the housing shortage;
- improving health outcomes.

2025 Country Report – Latvia also provides the EC's assessment of progress in the fulfilment of the EU Council's Country-Specific Recommendations for Latvia in 2019 – 2024. The EC sees some progress in most of the recommendations – 84% and small progress in 12% of recommendations. Several older recommendations have become obsolete, some have been fully implemented, but for two recommendations the EC did not monitor progress in implementation.

Until 2024, the follow-up of EU Council recommendations took place over several years until they were implemented or became obsolete. But from 2025 onwards, progress in the implementation of EU Council's Recommendations will be assessed in the following European Semester, in spring 2026. Recommendations that are not fully or partially implemented and are still relevant will be carried over and incorporated into next year's EU Council's Recommendations. This will make tracking the implementation of EU Council's recommendations in EU countries more transparent.

The EU Council's Country-Specific Recommendations for Latvia 2025

The following recommendations are made for Latvia for 2025--2026:

- 1) Reinforce overall defence spending and readiness in line with the European Council conclusions of 6 March 2025. Adhere to the maximum growth rates of net expenditure recommended by the Council on 21 January 2025, while making use of the allowance under the national escape clause for higher defence expenditure. Make public finances fit to cope with rising structural spending needs including for defence, healthcare and social protection, such as by broadening taxation to sources less detrimental to growth, moving informal or undeclared activities into the formal economy, and redirecting expenditure to priority areas based on public spending reviews;
- 2) In view of the applicable deadlines for the timely completion of reforms and investments under Regulation (EU) 2021/241, accelerate the implementation of the recovery and resilience plan, including the REPowerEU chapter. Accelerate the implementation of cohesion policy programmes (ERDF, JTF, ESF+, CF), building, where appropriate, on the opportunities offered by the mid-term review. Make optimal use of EU instruments, including the scope provided by the InvestEU and the Strategic Technologies for Europe Platform, to improve competitiveness;
- 3) Simplify regulation, improve regulatory tools and reduce administrative burden on companies. Improve access to finance for small and medium-sized enterprises, including by stimulating competition in the financial markets and promoting public lending and guarantee schemes to facilitate investments of strategic importance, in particular in the areas of the green transition, scaling-up and commercialisation of innovations, and regional development. Facilitate private investment in research and innovation, including by pursuing further reforms in the higher education system to strengthen cooperation between businesses and academia;
- 4) Reduce reliance on fossil fuels and increase energy security by accelerating the deployment of renewable energy, particularly wind and solar. Improve permit-granting procedures and electricity grid queue management, and promote energy storage, demand response and market-based flexibility solutions. Reduce primary and final energy consumption, and carbon intensity by strengthening energy efficiency measures, especially in the buildings sector, and by promoting further electrification. Accelerate the decarbonisation of transport, especially road transport, by promoting the uptake of electric vehicles, the production and distribution of renewable transport fuels and the expansion of recharging infrastructure. Increase resource efficiency and the transition to a circular economy through eco-innovation and sustainable resource management practices;
- 5) Address labour and skills shortages, in particular in science, technology, engineering and mathematics (STEM) and in other specialisations needed for the green transition, for research and for digitalisation, as well as in the social and healthcare sectors, including through targeted upskilling and reskilling and improved working conditions. Strengthen social protection to reduce inequality, including by improving the adequacy of old-age pensions and the access to quality social services, notably home care, while maintaining fiscal sustainability. Strengthen the adequacy and accessibility of the health system to improve health outcomes, including by providing additional human and financial resources, broadening the statutory benefits package and reducing out-of-pocket payments. Increase the availability and quality of social and affordable energy-efficient housing, including through renovations.

In addition, with the establishment of the EU *Recovery and Resilience Facility* (hereinafter referred to as the RRF)¹, which was integrated into the European Semester process, EU Member States should report twice a year to the EC on the implementation of the *Recovery and Resilience Plans* of EU Member States, the achievement of their milestones and targets, etc. In the reports on each EU Member State, the EC assesses progress in the implementation of recovery and resilience plans.

Taking all this into account, Figure 9.1 shows the interlinked implementation of the European Semester and the RRF over the year.

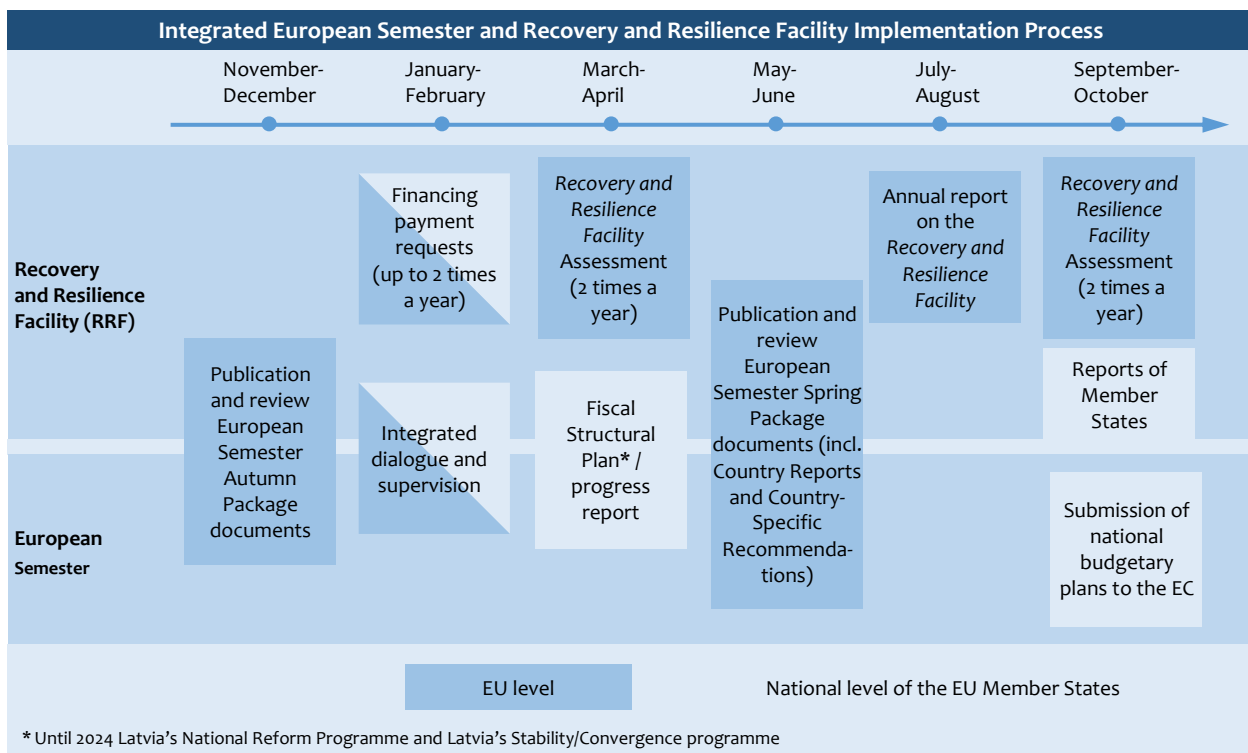
The measures planned by the government for the fulfilment of EU Council's Country-Specific Recommendations are included in the government's action plan. EU Council's country-specific recommendations for Latvia are considered to be a significant element when setting economic policy priorities, formulating necessary reforms and policy activities, as well as successfully implementing the FSP and Latvia's RRF plan. The RRF and the related availability of funding have also contributed significantly to the implementation of the EU Council recommendations in EU Member States.

Implementation of the EU Council recommendations may take longer than one year, given the need to ensure quality discussions on implementation with all stakeholders, including social partners. They can also be expected to have an impact in the medium to long term, rather than immediately after the implementation.

It should be noted that Latvia's FSP and Latvia's RRF Plan are being implemented in close cooperation with the EC. The progress on the implementation of these plans is being regularly discussed in the bilateral meetings between Latvia and the EC.

¹ See Chapter 9.2 of the Report on the Economic Development of Latvia for 2023: <https://www.em.gov.lv/lv/media/t8864/download?attachment>

Figure 9.1



9.2. EU SINGLE MARKET

The EU Single Market unites 30 countries (27 EU Member States and 3 EEA countries, i.e. Norway, Iceland and Liechtenstein) with over 470 million consumers. The EU Single Market as we see it today is the result of continued work. By coordinating decisions gradually, step-by-step the requirements have been harmonised and closer integration has been achieved – unified principles and rules for economic operators have been developed, border control has been cancelled, consumers have been provided with a wider range of goods and services, freedom for citizens to live, work and study in other Member States has been provided, a possibility was found to introduce a single currency, and those are not the only benefits. Nevertheless, the Single Market is still being improved.

While the EU Single Market has been a success, recent analyses, including those carried out in 2024 by Enrico Letta, President of the Jacques Delors Institute and former Italian Prime Minister, and Mario Draghi, former European Central Bank President and also former Italian Prime Minister, clearly show that it remains highly fragmented, limiting the ability of EU businesses to expand and compete internationally and preventing EU citizens and businesses from getting all the benefits that the Single Market could bring.

On 21 May 2025, the EC published a *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on The Single Market: our European home market in an uncertain world. A Strategy for making the Single Market simple, seamless and strong*, which aims to strengthen the EU Single Market. The Communication highlighted the need to remove barriers in the EU Single Market, facilitate the cross-border provision of services, reduce administrative burdens for businesses and ensure effective enforcement of EU Single Market rules. In total, the strategy includes 55 different initiatives that will be implemented over the coming years to ensure an efficient EU Single Market.

In parallel, in 2025, the EC published an Ecodesign for Sustainable Products and Energy Labelling Working Plan 2025-2030, which aims to promote the circulation of sustainable, energy-efficient and environmentally friendly products across the

EU. The work plan foresees that, as a consequence of the Ecodesign Regulation¹ secondary legislation, requirements for priority product groups – textiles, furniture, tyres, mattresses – and intermediate product groups – steel, iron, aluminium – will be defined, and requirements for product groups on which work has already started, such as space heaters, refrigeration equipment, displays and others, will be reviewed. Overall, the work plan was supported as its implementation is an important step towards meeting climate targets and using resources more efficiently, but the focus should be on products and requirements that will affect Latvian manufacturing companies. Particular attention will be paid to the revised requirements for solid fuel space heaters, which could potentially have a negative impact on Latvian manufacturers and create an excessive administrative burden. At the same time, the introduction of ecodesign requirements for electrical switchgears, which is currently not included in the work plan, is supported.

The Single Market Enforcement Taskforce, which aims to remove identified barriers to the EU Single Market, continued its work in 2025 on 3 previously launched projects: facilitating the opening of bank accounts, improving the authorisation of biosolutions and streamlining administrative requirements for cross-border service providers (posting of workers). During the reporting period, work on the project on territorial supply constraints was completed.

The freedom of provision of goods and services and the right to do business provided for in Articles 34 to 36 and 49 to 62 of the Treaty on the Functioning of the European Union (TFEU) in Latvia are supervised and coordinated by the MoE. Within the scope of its competence is also the identification of legal provisions which may hinder the use of freedoms of the Single Market, including the evaluation of draft laws and regulations. The technical regulations notification is a preventive, unified and transparent monitoring tool to evaluate and prevent the inclusion of requirements into laws and regulations, which might create barriers to the free circulation of goods, as well as information society services. Not only responsible authorities of EU Member States, but any economic operator can participate in the process and provide comments and objections regarding draft laws prepared by any Member State, which might potentially affect product export or cross-border information society services. Draft technical regulations notified by the Member States can be found in the database of the Technical Regulations Information System (TRIS)² in the field of goods and in the Internal Market Information System (IMI) notification summary³ in the field of services. If an economic operator has any objections to draft technical regulations of other countries which might potentially or actually affect sales of its product or provision of its services in the market of a specific EU country, the economic operator has the right to submit its objections to the responsible ministry which is competent to coordinate the respective policy area in Latvia.

When providing support and public services to businesses and residents, authorities of Member States have to verify the information indicated in applications of legal entities and individuals, the authenticity of documents issued in other Member States and clarify other issues according to respective EU laws and regulations. The Internal Market Information System (IMI) is a tool for faster and more effective communication and document exchange among the public authorities of EU/EEA countries. Hence, the applicant is free from bureaucratic barriers in the resolution of different cross-border issues in the Single Market. MoE is the National IMI coordinator (NIMIC) in Latvia. In 2025, the IMI system covered 102 administrative cooperation procedures in 21 policy areas. In 2025, Latvia processed 226 information requests in the IMI system: 119 in the area of professional qualifications, 100 in the area of posting of workers, 4 in the services area and 3 in the area of patients' rights.

SOLVIT Centre is an alternative Single Market problem solving network, created by the EC and the Member States, operating in Latvia since 2004. Its task is to find a fast and practical solution to the Single Market's problems caused by administrative decisions of public authorities in case of misapplication of EU law. In situations, when a resident or a businessman is harmed by incorrect decisions taken by responsible authorities of Member States, the SOLVIT Centre operates as a free of charge pre-trial problem-solving tool. There are SOLVIT Centres in each EEA Member State. In 2025, the Latvian SOLVIT Centre received and resolved 32 complaints on problems of Latvian citizens in other EU countries and 23 complaints on problems of EU citizens in Latvia. To submit a complaint to the SOLVIT Centre, the case must meet the following criteria: 1) the decision has been taken by a public authority; 2) the public authority is located in another Member State (cross-border element); 3) norms arising from the EU law (regulations, directives, etc.) have been violated. Most frequently, the Latvian SOLVIT Centre receives complaints from individuals related to social benefits and issues of residence permits, while complaints of businesses are related to restrictions on the freedom of provision of goods and services, repayment of value added tax and recognition of professional qualifications.

¹ See Regulation (EU) 2024/1781 of the European Parliament and of the Council of 13 June 2024 establishing a framework for the setting of ecodesign requirements for sustainable products, amending Directive (EU) 2020/1828 and Regulation (EU) 2023/1542 and repealing Directive 2009/125/EC <https://eur-lex.europa.eu/eli/reg/2024/1781/oj/?locale=LV>

² <https://technical-regulation-information-system.ec.europa.eu/en/search>

³ https://ec.europa.eu/internal_market/imi-net/repositories/services-directive-notifications/index_en.htm

10. IMPROVEMENT OF THE BUSINESS ENVIRONMENT

A favourable business environment is one of the most important elements for increasing the competitiveness of the national economy. The better business conditions a state is able to create, the higher investments flow into the national economy, subsequently leading to new jobs and better welfare of people. There are several obstacles to business identified by entrepreneurs as disruptive in long-term planning of activities and development, such as frequent and unpredictable changes in the regulatory framework, tax system, sectoral supervision and control measures, deficiencies in tax administration, as well as slow decision-making process of the state administration. The business environment should be accessible and understandable to entrepreneurs reducing the bureaucratic and administrative burden as much as possible, simplifying the regulatory environment and strengthening cooperation with sectoral associations.

ACTION PLAN FOR IMPROVEMENT OF THE BUSINESS ENVIRONMENT

Different measures for the improvement of the business environment in Latvia have been implemented since 1999. The MoE, with the participation of a wide range of sectoral ministries and organizations representing entrepreneurs, is implementing business environment improvement measures to create for entrepreneurs an attractive business environment with accessible and understandable services. In 2025, the MoE continued active cooperation with social and other partners to build a business environment focused on sustainable development and economic transformation.

In 2025, the MoE continued the study of bureaucratic obstacles identified in 2024 and 2023 and discussions with stakeholders (Latvian Chamber of Commerce and Industry, Employers' Confederation of Latvia and FICIL and RIS3 management groups) to find solutions to reduce administrative and fiscal burdens.

To improve the regulatory enactments regulating entrepreneurship and the services provided by the state administration to promote the competitiveness of the Latvian business environment, the MoE, together with cooperation partners, defined the following areas requiring an evaluation process as a priority, so that a decision in the public administration is taken much faster:

- Decision-making process for the services of the Register of Enterprises (RE) to reduce the registration time for companies as much as possible (from 10 to 3 days). In 2025, active cooperation was implemented with the involved cooperation partners – MoE, MoF, MoJ, RE, and SRS. The need has been examined to amend the *Law on the Register of Enterprises of the Republic of Latvia* with regard to the regulation on sending information to the SRS for verification. It has been found that the RE already registers companies within 3 days. Information exchange processes with the SRS have been further streamlined. At present, no amendments to the *Law on the Register of Enterprises of the Republic of Latvia* are required and the matter is considered to be resolved considering the agreements reached with the SRS;
- customs procedures for importing goods (release of goods into circulation). In cooperation with the MoF, the SRS and market surveillance authorities, it has been concluded that it is necessary to raise the level of knowledge of entrepreneurs on the requirements applicable to goods that are to be released for free circulation in the EU. The possibility for the SRS to organise information events for entrepreneurs was considered. The SRS has taken a number of measures – the up-to-dateness of the information provided on the website has been reviewed in a targeted manner. The information on the SRS website in the field of customs is updated regularly as necessary, by amending the publications in accordance with changes in regulatory enactments or taking into account topical issues. For example, changes have been made to the section of the SRS website entitled “Actions with the customs declaration after release of goods for free circulation or post-clearance”;
- issuing permits in the energy sector. Discussions have been held with the SCCB on possible improvements to the process and recommendations have been received from the SCCB which will be used to continue discussions with other authorities and bodies involved in the process, for example, on how to ensure the exchange of information between authorities, preventing the current situation where company representatives have to resubmit information already held by another public authority. Discussion on possible process improvements has been initiated with SCCB – regarding automatic notification on registration in the register of electricity producers and automatic refund of the security deposit via the Open Data Portal of Latvia. The SCCB's proposals to reduce the volume of documents to be submitted and the time limit for registration have also been considered. After discussion with the Public Utilities Commission, it was found that the registration phase in the register of electricity producers does not actually exceed 5 days at the moment if the operator has submitted everything necessary – no further improvements are needed at this stage;
- simplification of the requirements for cash register and cash system conformity checks for bona fide businesses. In July 2024, a meeting was held with MoF, MoE, SR, Latvian Chamber of Commerce and Industry, where problems were identified and the need for amendments to the regulatory framework to significantly reduce the administrative burden on

honest businesses was stated. The draft amendments to the CM Regulations No. 96 of 11 February 2014 *Procedures for Using Electronic Devices and Equipment for the Registration of Taxes and Other Payments* (24-TA-2285) have been submitted to the CM and discussions on the adoption of the regulation continued in 2025;

- Elimination of duplication of notifications from the SRS Electronic Declaration System (EDS) to the user's official electronic address (e-address) and e-mail. On 1 May 2025, amendments to the *Law on Taxes and Fees* entered into force, clarifying the procedure for notifying documents and information in relation to the e-address. EDS users have the choice to receive documents and information from EDS only at the e-address or also by e-mail.

In addition, the MoE participates in the implementation of the measures put forward by the bureaucracy reduction action group of the State Chancellery. As regards the bureaucracy reduction measure "E-Services for business. Electronic services for entrepreneurs should not be duplicated in paper format", it was found in 2025 that the submission of documents in the support programmes of Altum and LIAA is carried out electronically. LIAA has provided entrepreneurs with an e-service – project application submission on the national platform for business development <https://business.gov.lv/>, where entrepreneurs can track the status of their application and receive all documents related to the project application in one place.

National Platform for Business Development

To improve the awareness of potential and existing economic operators of business developments, customer service processes, and facilitate obtaining information and communication with state institutions, LIAA has developed a national platform for business development – <https://business.gov.lv/>. It is a place where traders can create their own profile, specifying their sectors of interest, topics and other criteria to receive personalised information. The platform provides information on sectoral and international news, events for businesses, types of support programmes and how to apply for support, as well as business news all in one place. The content of the portal was created by the sectoral ministries, the CSB, Altum, the Latvian Chamber of Commerce and Industry, the Bank of Latvia and other commercial banks and institutions. The platform significantly reduces administrative burden, making it easier to find government regulatory requirements and services, and contributes to the digitisation of services and the development of e-services.

For the development of the platform, on 10 May 2023, the CM approved Order No. 265, which provides for the implementation of the investment project Digital Services Platform for Business Development. Under this order, it is planned to invest 1.68 million euro in the development of the platform by 31 December 2025 under the RRF plan, ensuring its development as a single business platform and digital gateway for cooperation with the state, gradually taking over and developing the services available in the business section of the portal of Government Services portal www.latvija.lv. In 2025, the platform has acquired a new visual identity, and by the end of the year it will offer e-services for entrepreneurs not only from LIAA, but also from other public institutions.

The platform <https://business.gov.lv/> is expected to become a central place for entrepreneurs seeking public support and development opportunities. It is a next-generation platform that is building step by step a digital Latvia for business, which is convenient, open and smart.

DIGITALISATION OF THE BUSINESS ENVIRONMENT (see also Chapter 12.5)

One of the priorities is the formation of a favourable and modern business environment based on innovation, the full use of modern technologies, the availability of proactive and life-oriented business-related services, developing business productivity and boosting competitiveness at local, European and global levels.

Modern digital technologies (broadband, big data, data centres, cloud services, artificial intelligence, connectivity, etc.) create unprecedented opportunities for the improvement of existing processes, procedures, the development of new products and services, and process analysis and optimisation. Although Latvian companies are still lagging behind in the use of digital technologies, entrepreneurs lack digital skills and the necessary knowledge, skills and proper tools for transformation (such as productivity tools for digital trade, online cross-border trade, etc.) compared with OECD member states, in 2025, Latvia has moved up to 31st place in the MD World Digital Competitiveness Ranking 2025, marking a significant breakthrough compared to previous years. Latvia ranked 40th in 2023 and 38th in 2024.

To further improve the situation, activities are being carried out in cooperation with industry, institutions, associations and scientific organisations. Industry associations recognise that ICT solutions and services are too expensive. Many entrepreneurs lack skills and experience, as well as information on the benefits of digitisation in business. Given that most of the companies in Latvia are SMEs, it is necessary to stimulate SMEs to use advanced technologies and new innovative business methods, thus implementing digital transformation in enterprises and promoting their competitiveness.

Ambitious European digital targets provide that 90% of businesses reach at least the basic level of digital intensity by 2030. According to the DESI assessment, there are 38% of such businesses in Latvia, an average of 55% in Europe, which means that the progress of businesses must be very important in the coming years. Almost half of Latvian enterprises have digitised at least 50% of all processes taking place in the company, most enterprises have introduced some basic ICT solutions, but the acquisition of state-of-the-art technologies is hampered by the lack of finances and knowledge, which explains generally low digital skills in Latvia.

Improving citizens' digital skills is a prerequisite for creating inclusive labour markets, and for increasing the productivity of the companies that currently enjoy very little digital benefits.

Ongoing dialogue with entrepreneurs on the latest technologies and trends in the digital economy is an important tool in the digital age. Public investment in digital transformation must have clearly defined benefits for entrepreneurs. High activity in the support programme *Support for digitisation of processes in commercial activities* developed by the MoE and administered by LIAA shows the interest of entrepreneurs in the digitisation of business processes and implementation of artificial intelligence.

The call for project applications was launched on 21 July 2025 and the acceptance of proposals closed on 7 November 2025. 1101 project applications were received in total. The support programme offers funding for various activities: up to 10 thousand euro for the purchase, installation and adaptation of off-the-shelf solutions, hardware, sensors, equipment, software and information technology infrastructure, the development of new solutions, the purchase or subscription of licences, certification and digital maturity assessments, and up to 200 thousand euro for the development and deployment of artificial intelligence solutions. The total planned support funding is 23.2 million euro, which provides companies with a wide range of opportunities to develop innovation and promote digital transformation in business.

11. INNOVATION AND NEW TECHNOLOGIES

The transition to a knowledge-based economy requires a targeted development of Latvia's innovation system. Addressing existing gaps in innovation policy and strengthening cooperation between all stakeholders – business, academia, education and the public sector – is key to fostering sustainable growth and competitiveness. Innovation is a key driver for productivity gains and for companies' ability to integrate into international supply chains with high value-added products. They provide the opportunity to create competitive solutions that strengthen Latvia's position in the global market.

According to the data of the *European Innovation Scoreboard* prepared by the EC, Latvia ranked 25th among all EU Member States in 2025 and is included in the group of moderate innovators (group score between 30 and 80, while the EU-27 average is 110).

Latvia's comparative strengths with a positive trend from 2025 onwards in the *Summary Innovation Index* include the use of cloud computing solutions, indicating a wider integration of digital technologies in business, as well as employee mobility between knowledge-intensive occupations, facilitating knowledge flows and competence development, and access to high-speed internet has increased significantly, which has contributed to the development of the digital economy.

Latvia's comparative weaknesses include the digital skills of the population, which have deteriorated and may limit the potential for innovation development; the share of foreign PhD students has also declined, which may indicate that Latvia is less attractive in the academic environment; and venture capital spending has decreased, which may hinder the development of innovative start-ups.

Comparing the performance in the Innovation Index 2025 with 2018, Latvia's innovation performance has improved by 4.9% to 63.9%, but the rate of increase is slower than the EU average, where it has reached 12.6%. However, since 2018, the most significant deteriorations have been in indicators such as venture capital spending (as % of GDP), innovation spending outside R&D and the deterioration of people's digital skills.

Proportion of innovative businesses in Latvia

Between 2020 and 2022, Latvia had a total of 1,480 innovative companies, 33.1% of the total number of companies, but is still below the EU average (51% in EU-27 in 2022). Compared to the previous three-year period (2018-2020), the number of innovative companies has increased by 1.1 percentage points. Additional support and regulation improvement measures, as well as encouragement and incentive programmes for companies, were implemented to reach the target of 40% innovative companies by 2024 set in the *National Industrial Policy Guidelines 2021-2027 (NIP2027)*. The latest data on this indicator will be available in 2026 when the results of the Central Statistical Bureau survey for 2022-2024 will be published.

INVESTMENT IN RESEARCH AND DEVELOPMENT

Total expenses of Latvia on research and development lag behind the target (1.5% of GDP). In 2023, they amounted to 324.27 million euro and accounted for 0.82% of GDP. The increase was underpinned by an increase in funding from the European Structural and Investment Funds. Almost half of the investment in research and development is in the higher education sector – 45% or 144.2 million euro, which is mainly related to fundamental research. Investment in the business sector accounted for 36% of total investment in research and development (118.11 million euro), but the public sector – for 19% (61.96 million euro).

The dynamics of investment in research and development are generally positive. Since 2019, total funding of research and development has increased (at current prices) 1.66 times (an average of 14.5% per year). This was mainly driven by a substantial increase in business funding of research and development. Financial investment in research and development made by companies in 2023 was 2.4 times higher than in 2019, with the largest contribution coming from investment in manufacturing sectors.

All sectors contribute to overall investment in research and development, but large state-owned enterprises (SOE) play a key role in boosting research and development. The total assets of SOEs reached 13.42 billion euro in 2023, an increase of one billion euro compared to 2022. The total turnover of the SOEs increased by 0.62 billion euro and the total profit reached 720.2 million euro, a twofold increase compared to the previous period. However, there is still a discrepancy between the national targets in promoting research and development in SOEs and the existing regulation, the shortcomings of which create obstacles to holders of capital shares or boards of directors in setting research and development targets in SOEs, thus delaying the achievement of the research and development target value set by the state. Differences in the regulatory framework in Latvia from trends in other countries show that SOEs play a key role in achieving the country's research and development targets. Work is needed to revise the regulatory framework to improve

the competitiveness of SOEs, for example, by removing restrictions on SOEs to enter export markets, invest in research and development and innovation, and by facilitating resource attraction through capital market instruments.

INNOVATION GOVERNANCE

In 2025, the implementation of the innovation institutional governance and *Smart Specialisation Strategy* (RIS3) governance model continued. The governance model is being improved in cooperation with LIAA and RIS3 management groups to ensure efficient and effective work on industrial policy implementation and innovation development in Latvia. The management groups aim to act as an active platform for cooperation between business, research institutions and public administration. In parallel, the link between innovation and research policy, including the monitoring of RIS3, is being strengthened through cooperation with the Innovation and Research Governance Council (IRGC), which brings together the Minister of Economics and the Minister of Education and Science, who are co-chairs of the IRGC, as well as officials from LIAA and the Latvian Council of Science, to ensure the monitoring of R&D policy and the implementation and governance of RIS3.

In 2025, the RIS3 monitoring report *Monitoring the Smart Specialisation Strategy. Report for 2025* was drafted to assess the progress of RIS3 implementation and the results of the supporting instruments for the period from 1 January 2024 to 31 July 2025. RIS3 monitoring aims to identify Latvia's competitive advantages and technology niches, as well as to assess progress in economic transformation. The monitoring process assesses the effectiveness of support measures and their contribution to achieving the RIS3 objectives.

CREATING INNOVATION DEMAND IN THE PUBLIC SECTOR

The public sector may play a crucial role in fostering innovation and research activities forming demand for innovation. Europe is increasingly using innovation public procurement for this purpose. The need to develop innovation procurement is mentioned in the NIP guidelines and other policy planning documents. The MoE, in cooperation with the Procurement Monitoring Bureau and other stakeholders, has developed guidelines for the implementation of innovation procurement to raise awareness of innovation procurement and its implementation in Latvia, as well as to provide methodological support to public procurers. The Procurement Monitoring Bureau in cooperation with the MoE has prepared a self-study course "Strategic Procurement", which includes a section on innovation procurement to raise awareness about it.

Interreg Baltic Sea Region Project PPI4Cities

In 2023, the MoE joined the PPI4Cities project of the Interreg Baltic Sea Region (BJR) programme to promote innovation procurement. The project brings together partners from Lithuania, Finland, Estonia, Germany, Denmark and Latvia. The project aims to support municipalities of the Baltic Sea Region in the use of public procurement for innovation for the development of smart city solutions. To achieve this goal, both physical and digital tools that provide knowledge-based support to the BJR municipalities have been developed within the project. The platform developed within the project promotes knowledge-based cooperation and innovation development in the cities of the Baltic Sea Region by providing practical support for innovation in procurement, offering a BJR-wide database of good practices with examples from cities in the region, facilitating knowledge exchange and quality procurement planning, a public sector section, where cities can post challenges and find partners to implement innovative solutions, a private sector section that promotes cooperation between businesses and municipalities and joint innovation development, and capacity building tools – interactive training materials and personalised support for implementing innovation procurement.

Various activities to raise awareness of Latvian municipalities about the opportunities offered by the project have been implemented, various workshops and focus group discussions were organised within the project. To ensure that the project has a practical, positive impact on the implementation of innovation public procurement not only in Latvia, but throughout the BJR, recommendations were developed to improve the current situation in the context of innovation public procurement in the BJR. The recommendations provide information on the current situation, identifying the existing challenges or constraints to innovation in public procurement, as well as potential solutions to overcome these challenges. Recommendations will be published by the end of the project at the end of 2025.

In November 2023, the CM approved support for improving the technology transfer system (activity 1.2.1.4 *Support for improving the technology transfer system*), providing that support will be available to undertakings for new products to be developed and commercialised under the innovation procurement, stipulating that state support will be available to undertakings which have been awarded a contract as a result of an innovation partnership procedure with a public purchaser. The scope of available support has been extended by the amendments to the CM Regulation, which entered into force on 13 May 2025. Currently, support is provided for experimental development, certification and testing services, for adapting the results of an innovation already created to the needs of the customer when the customer purchases an innovative product or technology on the market, for setting up and validating pilot projects. The regulations also provide that the support may be granted if the innovation procurement in which the undertaking participated was organised in accordance with the Public Procurement Law using one of the procurement procedures, so that there is no longer a

restriction that support is granted only for procurement organised within the framework of an innovation partnership procedure.

On 27 June 2023, CM Regulations No. 350 governing the implementation of activity 5.1.1.4 *Smart Municipalities* were approved. The activity aims to promote the development of smart municipalities by introducing smart solutions for ensuring the fulfilment of autonomous functions of local governments and the administrative tasks arising therefrom. Local governments and other applicants for support may choose to organise public procurement for innovation for smart solutions. The primary beneficiaries of the support and the parties involved in the activity are local governments, local government institutions, capital companies, planning regions, scientific institutions, digital innovation hubs and other stakeholders.

LONG-TERM NATIONAL RESEARCH PROGRAMME INNOVATION FUND – LONG-TERM RESEARCH PROGRAMME

In 2024, the MoE launched Latvia's first long-term national research programme *Innovation Fund – Long-Term Research Programme*.

The overarching objective of the long-term programme is to develop new knowledge, products and technology solutions approved in Latvian *Smart Specialisation Strategy* areas *Biomedicine, Medical Technologies and Pharmaceuticals* and *Photonics and Smart Materials, Technologies and Engineering Systems* in the long-term, but the objective is to develop academic research and applied science competences for the development of innovative and commercialisable products and technologies in close cooperation with the Latvian biomedical, medical technology, pharmaceutical, photonics, smart materials, electronics, electrical engineering, technology and engineering systems sectors.

The programme helped to create a platform of research organisations in these two fields, which will work closely with the Latvian industry, representing their respective fields to create a joint state and industry order for research work and, together with foreign experts, select promising research projects, while applying flexibility in project monitoring.

The long-term national research programme created by the MoE is implemented in cooperation with the Latvian Council of Science in several phases until 2032. The following phases are planned: 2024-2026, 2027-2029, 2030-2032; for the first phase (2024-2026), the MoE has 18 million euro with the possibility to increase financing for the next three phases by 8 million euro annually (a total of 24 million euro for the next three-year cycles) for each triennial cycle).

The first operating cycle of the platform will have three calls for research and innovation projects (RIPs) by 30 November 2026. The first call received 122 applications by 8 May 2025, of which 117 were progressed after administrative evaluation and expert assessment. 75 applications were submitted to the National Information System of Research Activity (NISRA), of which 74 were administratively eligible. Based on the decision of the platform's project management group, on 17 September 2025, the Latvian Council of Science approved the funding of 40 RIP projects (maximum funding – up to 200 thousand euro) per project). On 6 October 2025, the second call for RIPs for the Biomedical and Photonics Research Platform for Innovative Products (BioPhoT) will be launched.

SUPPORT FOR INNOVATIVE ENTREPRENEURSHIP AND PRIORITY PROJECTS

On 6 May 2025, CM Regulations No. 277 *Procedure for Ensuring the Provision of Priority Public Services to Commercial Entities* or the improved "fast-track" regulation came into force to attract investments, promote exports, as well as facilitate the development of the defence industry. The regulation significantly expands the range of businesses that can receive public services on an expedited basis, supporting not only the implementers of priority projects but also those businesses that have already made significant investments in Latvia. The range of services available under the fast-track procedure has also been expanded, promoting the attraction of foreign labour, reducing the administrative burden, and speeding up coordination processes for businesses that are important to Latvia's economy. Priority is also given to traders planning military production projects.

Various shortcomings have been observed after the entry into force of CM Regulations No. 277 and their application in practice. This has led to the need to address these shortcomings and to make new additions to ensure that the obligations laid down in Regulations (EU) 2024/1252 and (EU) 2024/1735 of the European Parliament are met. Thus, work started on the drafting of amendments to CM Regulations No. 277 (TAP 25-TA-2347) in 2025.

In order to facilitate the development of innovations and their introduction to the market, CM Regulations have been drafted to establish procedures for the submission and evaluation of initiatives within a special regulatory environment. A special regulatory environment, or "regulatory sandbox," is an environment in which companies can test new technologies or innovative solutions with the permission of supervisory authorities, under less stringent requirements than usual. Once the CM Regulations are adopted, companies will be able to apply to participate in the special regulatory environment to

test new ideas in real market conditions, accelerate their commercialisation without conflicting with existing regulations, and make improvements before the solution is fully implemented.

ESTABLISHMENT OF A KNOWLEDGE TRANSFER SYSTEM SUPPORTING INNOVATION

The LIAA develops the awareness and development of technology transfer in public research organisations, improves their industrial property management policy, promotes the takeover of international knowledge and skills for the organisation of technology transfer processes and ensures the introduction of innovation vouchers support instruments. To implement these activities, LIAA organises trainings, seminars and mentoring programmes to strengthen knowledge on technology transfer and commercialisation of innovations. It also promotes the transfer of international knowledge by fostering cooperation with foreign experts and innovation networks.

To support innovation in the knowledge transfer system during the EU funds programming period 2021-2027, in spring 2024 LIAA started to implement activity 1.2.1.4 *Support for the Improvement of Technology Transfer System of specific objective 1.2.1 Strengthening Research and Innovation Capacity and Introducing Progressive Technologies in Businesses*. The programme aims to ensure the availability of funding for entrepreneurs to develop and commercialise new products, services or research projects in order to increase the share of innovative entrepreneurs in the economy by creating a link between the final beneficiaries and research organisations that would facilitate the direct transfer of knowledge and become a catalyst for long-term deeper cooperation between the two parties, thus contributing to the achievement of Latvia's RIS3 objectives. Under this programme, LIAA runs an innovation voucher programme that provides financial support to companies in cooperation with research organisations. The innovation voucher instrument provides support for feasibility studies, industrial research, experimental development, product design and the recruitment of highly qualified staff to eligible businesses.

On 13 May 2025, the CMs approved amendments to CM Regulations No. 644 of 7 November 2023 *Implementing Regulations for Activity 1.2.1.4 Support for the improvement of Technology Transfer System of Specific Objective 1.2.1 Strengthening Research and Innovation Capacity and Introducing Progressive Technologies in Businesses of the EU Cohesion Policy Programme for 2021-2027*, in order to provide support for the commercialisation of technology transfer for larger scale projects and to ensure that scientific institutions and entrepreneurs are supported in the development of new, commercialisable products or technologies. In addition, in order to implement the objectives of the programme more effectively, the definition of a science-intensive start-up has been broadened to include cooperation of Latvian start-ups not only with Latvian scientific institutions, but also with scientific institutions registered in the research organisation registry of an EU Member State, the European Economic Area or the Swiss Confederation. This support makes it possible to expand the range of beneficiaries to include companies that promote the transfer of international scientific solutions to the Latvian business environment, positively influencing the development of the Latvian innovation ecosystem and attracting high added value technological solutions.

The total available funding of the programme is 23.3 million EUR. Support for scientific institutions and businesses for the development of innovative commercialisable products or technologies is up to 300 thousand euro, where the support intensity is 50% per business, support for science-intensive start-ups is 150 thousand euro with a support intensity of 50% per business and innovation voucher support of up to 25 thousand euro. At least 200 businesses are planned to be supported by 31 December 2029. At least 38 of them will cooperate with research organisations.

Within activity 1.2.1.4 *Support for the Improvement of Technology Transfer System*, LIAA received 205 applications from entrepreneurs by 31 October 2025, 128 of them were approved for the total amount of 2.60 million euro, of which 19 entrepreneurs cooperate with research organisations.

On 1 January 2025, amendments to the *Law on Scientific Activity* on commercialisation conditions for state scientific institutions entered into force. Taking into account the delegation provided for by law, the CM has prepared and submitted for approval the *Regulations on the Commercialisation of Science, Technology, Inventions and Plant Varieties of State Scientific Institutions, Evaluation of Investments, Risk Tolerance and Determination of Remuneration* (25-TA-879) (hereinafter referred to as the Commercialisation Regulations). The Commercialisation Regulations regulate the conditions and procedures for commercialisation of rights to know-how, technology, inventions or plant varieties created as a result of scientific research by state, local government, EU funds or other publicly funded state scientific institutions (SSIs) on the basis of commercialisation (publicly funded research and with assessment of commercialisation potential and feasibility); forms of commercialisation – granting rights of use (incl. licensing), transfer of rights (sale, ownership), joint use (joint venture, investment in equity). The Regulations define the criteria, based on which SSIs assess the commercialisation potential and exercise the right to know-how, technology, invention or plant variety, or decide to waive it. The framework of the regulations provides for the procedure for determining the remuneration for the commercialisation of a right to know-how, technology, invention or plant variety (against remuneration, without remuneration, types of remuneration). The process of coordinating the draft commercialisation regulations is ongoing.

PROMOTING COOPERATION BETWEEN BUSINESSES AND RESEARCH ORGANISATIONS

To promote cooperation and internationalisation of businesses and research organisations, as well as scaling of products and technologies, on 24 October 2023, the CM approved Regulations No. 609 *Implementing Regulations of the 3rd Round of Investment 5.1.1.2.i Instrument to Support Research and Internationalisation of Reform 5.1.1.r Innovation System Governance and Private Research & Development Investment Motivation of Reform and Investment Direction 5.1 Increasing Productivity by Increasing Investment in R&D of Latvia's Recovery and Resilience Facility Plan*. The support programme focuses on knowledge transfer, product scaling, promoting visibility and popularising the sector; up to 50,000 euro in non-financial support is available for companies and research organisations. Support is given to industry associations and their members, thus contributing to the achievement of common objectives and the development of external markets. So far, 11 industry associations and 337 companies and research organisations have been supported.

Regulations No. 775 *Implementing Regulations of Round 2 of Activity 1.2.1.1 Support for the Development and Internationalisation of New Products of Specific Objective 1.2.1 Strengthening Research and Innovation Capacity and Introducing Progressive Technologies in Businesses of the European Union Cohesion Policy Programme 2021-2027* were approved on 3 December 2024 to ensure continuity of access to support and to strengthen the innovation ecosystem. The objective of the support programme is to provide funding for the internationalisation of cooperation network members and the promotion of cooperation between the private, public and research sectors. Agreements with 10 industry associations have been concluded by 30 October 2025 to implement the projects.

CREATION OF START-UPS

The objectives set out in the *National Industrial Policy Guidelines 2021-2027* provide for building a new economic model based on knowledge and innovation, focusing on strengthening innovation capacity, improving the quality of the institutional environment and increasing business dynamism. Start-ups play an important role in the overall innovation "ecosystem" providing an inflow of innovative business ideas and contributing to a faster shift in the economic paradigm towards the knowledge economy.

The Latvian start-up "ecosystem" consists of at least 513 start-ups, which are registered in the database of the Latvian Start-up Association. More than half of them are active in information and communication, and more than 20% in manufacturing and professional, scientific and technical activities. By the second half of 2025, Latvian start-ups have raised 71 million euro in investment and provided more than 4200 jobs, contributing to the influx of innovative business ideas into the start-up "ecosystem", the development of high value added products and services, the attraction of investment and the transition of the economy to a modern and innovative economy.

One of the priority tasks of the MoE is not only to strengthen cooperation with representatives of the start-up environment and their representative organisations but also to create an environment supporting entrepreneurship through a joint strategy in which start-ups can form and develop their innovation thereby creating preconditions for the growth of the Latvian economy. On 7 September 2022, the MoE, LIAA, Altum, *TechChill* Foundation, Latvian Private and Venture Capital Association, Latvian Startup Association, Riga Technical University, *Startup House Riga* Foundation (until 19 September 2024 *TechHub* Foundation) and *Business Angel Network* Association signed a Memorandum of Cooperation *On the Latvian Start-up "Ecosystem" Development Strategy 2022-2025*, which sets out several activities aimed at promoting strong and unified development of the start-up "ecosystem" and attracting talent to start-ups. It should be noted that these non-governmental organisations representing Latvian start-ups bring together more than 250 members. The Latvian Start-up "Ecosystem" Development Strategy 2022-2025 envisages not only planned activities but also the results to be achieved by 2025, and they are:

- to promote the attraction of investment of 300 million euro to start-ups;
- to increase the number of employees in start-ups by 1500.

In order to implement the directions and activities specified in the Strategy, in 2025, the MoE continued cooperation with the Latvian Startup Association, Latvian *Business Angel Network*, *TechChill*, *Startup House Riga*, Riga Technical University and Latvian Private and Venture Capital Association for funding of 400 thousand euro from the state budget. The organisations carry out activities to foster the start-up "ecosystem" within the framework of the agreements. Activities such as the development of the *startin.lv* database, the organisation of investment sessions, consultations, and masterclasses and trainings for start-ups and investors, the organisation of an international conference *TechChill 2025* and so on were implemented.

On 11 July 2025, the amendments to the *Law on Aid for the Activities of Start-up Companies*, drafted by the Ministry of the Economics, entered into force, providing for a permanent delegation from the legislator to promote the activities of the start-up "ecosystem" and attract investments. The amendments to the Law provide that the CM shall determine the

measures to be supported for the improvement of the business environment for start-ups, the conditions and procedures for their implementation, the qualification conditions for the conclusion of agreements by organisations representing start-ups, the conditions for granting business support applicable to organisations representing start-ups and the amount of state funding available for the implementation of the measures to be supported to continue promoting activities supporting start-ups and attracting investment.

In support of the abovementioned organisations representing the Latvian start-up environment, which have developed a common approach or strategy to promote the development of the Latvian start-up “ecosystem”, the state reinforced its clear position regarding the role of the start-up “ecosystem” in the development of the national economy and continued working on both local and international level to promote the image of Latvia as a country favourable to start-ups and attracting investment.

SME INNOVATION SUPPORT AND BUSINESS INCUBATION

In continuing the activities motivating to start business and business incubation across Latvia and enter foreign markets, on 13 July 2023, the CM approved *Implementing Regulations of Activity 1.2.3.1 Support for Innovative SME Business Development of Specific Objective 1.2.3 To Promote Sustainable Growth, Competitiveness and Job Creation for SMEs, Including Through Productive Investments of the EU Cohesion Policy Programme for 2021-2027* proposed by the MoE, which provides for channelling 87.2 million euro by the end of 2029. One of the support activities within the SME aid programme is support for business incubation, which includes grants for services for business development, rental of premises and workplaces, prototyping and development of technologies, purchase of production equipment, purchase of raw materials, as well as one minimum monthly wage and mandatory state social insurance contributions for two employees in a 12-month period only for an innovative business. A total of 22 LIAA representations are functioning throughout the territory of Latvia, which also provide advisory support to Latvian entrepreneurs regarding aid possibilities. Support for business development and promotion measures, such as seminars, consultations, mentoring, as well as grant support to promote international competitiveness (participation in exhibitions, marketing activities for arranging conferences and other activities), will also be provided within the SME aid programme. Within the framework of the SME aid programme, LIAA must establish close cooperation with local governments to ensure the effective implementation of the programme.

Within activity 1.2.3.1 *Support for Innovative SME Business Development*, 318 businesses have been supported in the business incubation activity by 31 October 2025, 113 of them with grants, while 572 businesses have been supported in the export promotion activity, 493 of them with grants and 233 with non-financial support. The innovation motivation activity has supported 80 companies.

GREEN INNOVATION

On 9 January 2024, the CM approved implementing regulations for activity 2 of investment 1.2.1.2.i *Development of innovative products and technologies* promoted by the MoE, which aims at ensuring access to finance for the development of new products, technologies and services that contribute to a low-carbon economy, resilience to climate change or adaptation by attracting private co-financing for innovation implementation. So far, 63 research projects have been supported with private co-funding of more than 16 million euro.

On 9 October 2025, a Memorandum of Understanding on the implementation of the Norwegian Financial Mechanisms until 31 April 2031 has been signed, with a total available funding of 32.3 million euro (incl. Norwegian Financial Mechanism co-financing of 85% or 27.5 million euro and co-financing from the Latvian state budget of 15% or 4.8 million euro), to support actions such as:

- entrepreneurship and innovation for the development and deployment of green technologies and new solutions (products and/or services); development and deployment of new green innovation and ICT products and processes in manufacturing;
- remediation of a contaminated site to ensure that the site is developed for economic activity after remediation.

The programme aims to boost green innovation, including information and communication technologies and new products, and strengthen the competitiveness of Latvian companies. The programme focuses on projects where companies develop and implement new or significantly improved green products, services or processes that contribute to both environmental sustainability and their own competitiveness.

The programme is expected to create a total of 29 new green and digital innovations. The programme will encourage the growth of green market opportunities to gain a competitive advantage, and successful companies will benefit from a net zero economy. The support is expected to be available from the second half of 2026.

COMPETENCE CENTRE PROGRAMME

To promote innovation-related competitive advantages in Latvia, thereby fostering productivity growth of enterprises, and to increase private R&D expenditure through targeted public investments that promote the development of new products and technologies, as well as the transfer of knowledge into the economy and the research activity of advanced enterprises for the development of commercialisable projects, the MoE has developed 5 support programmes for research activities, providing grant support with a support intensity of 25% to 80%, channelling 159.8 million euro:

- On 5 July 2022, the CM approved the implementing regulations for the first round of the Recovery and Resilience Facility, investment 5.1.1.2.i. *Support instrument for research and internationalisation*. So far, 129 research projects have been supported, raising private co-funding of more than 19 million euro;
- On 9 January 2024, the CM approved three more support measures for research activities promoted by the MoE:
 - Implementing Regulations of the second round of Investment 5.1.1.2.i *Instrument to support research and internationalisation* of the Recovery and Resilience Facility, which were developed as a continuation of the support provided within the first round of investment 5.1.1.2.i of the Recovery and Resilience Facility. Until 8 November 2025, 111 research projects have been supported under this programme, which is expected to raise more than 27.8 million euro;
 - Implementing regulations for activity 2 of investment 1.2.1.2.i *Development of innovative products and technologies*, which aim at providing access to finance for the development of new products, technologies and services that contribute to a low-carbon economy, resilience to climate change or adaptation by attracting private co-financing for innovation implementation. By 8 November 2025, 77 research projects have been supported with private co-funding of more than 22 million euro;
 - Implementing Regulations of investment 2.2.1.3.i *Support for the introduction of new products and services into business* of the Recovery and Resilience Facility investment, aimed at ensuring access to finance for the digital transformation of businesses, including the introduction of modern automation, robotics and labour control tools in manufacturing facilities, by attracting private co-financing for innovation. 72 research projects have been supported with private co-funding of more than 12 million euro have been supported within the support programme by 27 October 2025;

A total of 389 research projects have been supported in 9 competence centres for a total of 108 million euro by Q4 2025.

SPACE INDUSTRY

Latvia is competitive in the international space sector. The country has a valuable heritage of large-scale infrastructure (e.g. Ventspils International Radio Astronomy Centre, Baldone Observatory, laboratories and cleanrooms), and Latvian scientific institutions and companies are developing and producing unique niche technologies that are already in use in international space missions and are high value-added export products. Latvia has well-developed satellite data processing expertise, which is being strengthened in a targeted way to promote digitisation and innovation.

Currently, the Latvian space ecosystem is maintained by the status of an Associate Member of the European Space Agency (since 2020), the EU Space Programme, EC innovation support programmes, as well as bilateral international cooperation projects and national support instruments. The potential of the Latvian space industry is, however, not fully exploited. The hindering factors include insufficient human resources, limited access to funding opportunities for infrastructure maintenance and modernisation, as well as the unavailability of the state budget to meet international obligations under Latvia's Association Agreement with the European Space Agency, which have a significant negative impact on the continued development of the sector and the retention of Latvian space industry companies and experts in Latvia.

The Latvian space industry (like that of other countries) needs to ensure development to the stage of commercialisation of technology to make a full contribution to the global space industry and benefit from the opportunities provided by the global space industry. MoE, in close cooperation with other institutions, is actively raising awareness of the Latvian space industry, related industries and the general public about national, European and global level space industry opportunities and promoting active participation in them. Particular attention is paid to internationalisation and the involvement of non-

space businesses, as the space industry offers versatile opportunities for commercialisation, export and technological development.

The MoE and LIAA in cooperation with the MoES have organised several space-themed events to position Latvia as an active player in the global space industry and provide valuable networking opportunities, and they also provide the necessary support for the Latvian space industry to be represented at major industry conferences and exhibitions across the world (e.g. the International Astronautical Congress), as well as in committees of international organisations such as the European Space Agency, the European Union Agency for the Space Programme, the United Nations, etc., thus facilitating both the launch of new bilateral cooperation projects and the visibility of Latvia within and outside the EU. The MoE, in cooperation with the MoES, ensured the establishment of the European Space Agency Business Incubation Centre (ESA BIC) in Latvia, which started operating in 2024 with the aim of fostering space business development capabilities. Latvia's ESA BIC support conditions are considered the most competitive in the ESA BIC network and five space start-ups have already been supported since 2025.

FOSTERING INTERNATIONAL COOPERATION

Lat.Tech, Latvian Innovation and Technology Representation established in Brussels in April 2021, continues its activities aiming to strengthen the position of Latvian enterprises and research institutes in cooperation projects of international organisations. The representation acts as a bridge between Latvian enterprises and research organisations to facilitate their participation in *Horizon Europe*, for example, to engage in international consortia of projects and initiatives. A significant task of the representation is to belong to a family of similar offices of other countries, as well as to highlight Latvia's excellence in smart specialisation in the lobbying and decision-making environment of Brussels.

In October 2023, the LIAA Innovation and Technology Representation started functioning in Geneva. Its task is to support Latvia's progress towards the status of a fully-fledged Member State of the European Organization for Nuclear Research (CERN) and to work in one of the most important science laboratories in the world to increase the R&D capacity of Latvian enterprises through industry procurement in CERN and closer involvement in the organisation's technology transfer projects. Latvia has been an Associate Member State of CERN since 2021 and Latvia intends to become a full member of this organisation in the next few years. CERN can potentially provide Latvia with new opportunities for the development of both science and business.

Latvia continues successful cooperation with the European Space Agency as an Associate Member. For Latvia, this cooperation means direct access to large-scale international missions and export markets, as well as the development of science-intensive innovation and STEM human capital. In the last two years, several success stories have been created that will mark Latvia's name in international space missions. In order to continue the growth of the Latvian space sector and Latvia's future participation in the European Space Agency, it is necessary to ensure the fulfilment of the contractual obligations by paying the membership contributions to the extent stipulated in Latvia's Association Agreement. Latvia's contributions to the European Space Agency are guaranteed to be returned to Latvia through the participation of Latvian organisations in European Space Agency projects and international consortia, as well as administrative and expert services under an agreement.

To promote international cooperation in semiconductor development, a Memorandum of Understanding on cooperation in the field of microchips between the Baltic States was signed in 2025; the Latvian National Microchip Competence Centre, representing Riga Technical University (RTU) and the University of Latvia (UL), and the other Baltic partners, the Centre for Physical Sciences and Technology in Lithuania and Metrosert Applied Research Centre in Estonia. The Memorandum aims to harmonise national semiconductor strategies, pool competences, expand research capacity, develop joint training programmes and support start-ups and small and medium-sized enterprises, while strengthening the role of the Baltic and Nordic countries in microchip research in Europe, contributing to the region's competitiveness in the global semiconductor market and strengthening Latvia's position in the European technology ecosystem.

12. PROMOTING PRODUCTIVE INVESTMENTS AND EXPORTS

12.1. PROMOTION OF ACCESS TO FINANCE

The purpose of the implementation of financial instruments is to reduce market failures and to promote the creation of new economic operators and the growth of existing ones, ensuring access to funding to make possible the implementation of prospective and viable business projects for those economic operators, who due to insufficient security, history of economic activity, credit history, net income flow or the amount of current credit obligations were unable to attract funding from participants of the financial market (commercial banks, private investors) for the implementation of business projects in the necessary amount.

Taking care of the continuity of availability of funding to SMEs also in the 2021-2027 EU funds programming period, state support programmes continue to be implemented in the form of financial instruments, providing loans for starters of business and entrepreneurs extending their activities. Guarantees, loans with a capital rebate and venture capital instruments are also provided to entrepreneurs. By 31 October 2025, a total of 1020 entrepreneurs have received support in the form of financial instruments within the support programmes.

START LOANS

Since June 2016 start loans can also be received for investments and working capital. The loans are issued to economic operators, which have been registered in the Commercial Register no longer than five years (of their establishment). To ensure the continuity of support, the support programme is also being implemented in the EU programming period 2021-2027 in accordance with CM Regulations No. 328 of 31 May 2016 *Regulations on Microloans, Start and Growth Loans* (hereinafter referred to as Activity 1.2.3.3). The maximum amount of the loan is 250 thousand euro with a loan maturity of up to 15 years. The funding available for issuing loans is 28.5 million euro. By Q4 2025, 515 businesses have been supported under activity 1.2.3.3 for 24.7 million euro, of which 299 were new companies.

Start loans play a pivotal role for business starters, granting them access to the necessary funding for prospective and viable projects. This is particularly beneficial for economic operators who, due to factors such as insufficient security, a limited history of economic activity, credit history, net income flow, or existing credit obligations, face challenges securing funding from traditional financial market participants like commercial banks or private investors.

LOANS FOR PRODUCTIVITY

From 2021, entrepreneurs can receive support in the form of a loan to implement their project and promote the sustainability of their business. To ensure the continuity of support, the support programme is also implemented in the 2021-2027 EU programming period. On 9 January 2024, the CM approved amendments to Cabinet Regulations No. 1065 of 15 September 2009 *Regulations Regarding Loans for Promoting the Development of Micro, Small and Medium Sized Undertakings and Agricultural and Forestry Service Co-operative Societies*, which provides for support for micro, small and medium-sized enterprises.

The funding available for support is 28 million euro. The support is granted in the form of loans for investments and working capital, with a maximum loan amount of up to 5 million euro. In 2025, support was provided to 50 businesses with contracts totalling 22.2 million euro and attracting a total of 6.8 million euro in private investment.

PORTFOLIO GUARANTEES

Since 2017, Altum has been implementing the state support programme – *Portfolio Guarantees*, which are implemented in cooperation with funders selected in an open selection process (credit institutions and alternative financing service providers), who can grant loans to entrepreneurs with an Altum guarantee, without Altum's direct involvement, within a certain amount of financing.

The guarantees provide entrepreneurs with the opportunity to receive investment and working capital loans and financial leasing with a term ranging from 1 to 10 years up to a volume of 250 thousand euro. 14.2 million euro of repaid public

funding are available for issuing of the guarantees. In 2025, the programme has supported 125 companies for a total loan amount of 1.37 million euro.

VENTURE CAPITAL SUPPORT

To continue the support to start-ups, providing for venture capital investments, on 15 August 2023, CM approved at its meeting a new EU Structural Funds support programme for venture capital investments in business with total financing of 80.6 million euro.

In 2025, 3 start-up venture capital fund managers and one growth fund manager were selected:

- agreements were concluded with the managers of the start-up venture funds – associations of persons BUILDIT, BADideas.fund and VNTRS Consulting AB. Over the next five years, these funds will invest in promising and viable pre-seed and seed-stage companies. The total public funding is 55.8 million euro from ERDF funds. Each will amount to 20.67 million euro, of which 10% will be capital of private investors;
- an agreement was signed with the manager of the growth-stage venture capital fund – LLC FlyCap AIFP. Over the next five years, the fund will invest a total of 24.8 million euro of public funding from ERDF resources, with additional private investment of at least 40% of the total capital of the fund. This will bring the total amount of the fund to 41.3 million euro. Investments will be channelled to promising, viable, export-oriented growth-stage companies, contributing to job creation, tax revenue growth and the overall development of the Latvian economy.

15 companies were supported in 2025, incl. 8 new companies, by 4.46 million euro and 8.9 million euro were raised in private investment. Around 50 million euro are planned to be invested and at least 27.5 million euro are planned to be raised in private investment within the activity. 400 companies (of which at least 300 are start-ups) are planned to be supported and 300 new jobs are planned to be created during the implementation of the activity. The support of the companies in exports will result in at least 20 million euro every year.

LOAN GUARANTEES

Loan guarantee support activities for starting business and development in situations, when own funds of the company are not sufficient to attract the necessary funding from commercial banks or the company is classified as too risky. Altum's loan guarantee programme has been running since June 2016.

The funding of the guarantee programme consists of a planned participation fund funding of 34.5 million euro, which includes ERDF and state budget funds for the programme's operational activities. In addition, a reimbursement of 26.3 million euro has been earmarked, which is intended for the credit guarantee programme and the large companies guarantee programme. In addition, according to the amendments to the CM Regulations No. 383, an additional amount of 12.7 million euro has been allocated for the implementation of the programme, totalling 12.7 million euro funding for guarantee programmes. Guarantees are available up to 25 million euro.

In 2025, Latvia developed a uniform guarantee methodology, which has been submitted to the EC for approval. It is aimed at large companies, including small and medium-sized enterprises, and allows for the extension of the guarantee instrument to these groups of companies.

From 2024 to 31 October 2025, 440 guarantees have been issued for 24.7 million euro. competence centres.

EXPORT CREDIT GUARANTEES

The MoE continues the export support measures initiated in the previous years. An important export support are Altum's short-term export credit guarantees, which are implemented in accordance with the CM Regulations No. 866 of 20 December 2023 *Regulations for Issuance of Short-Term Export Credit Guarantees to Merchants and Corresponding Cooperative Companies Providing Agricultural Services*.

Exporting economic operators are offered the possibility to receive export credit guarantees, thus securing themselves against the insolvency or long-term non-payment of foreign purchasers when selling goods or providing services with a deferred payment term not exceeding 730 days, except for export transactions for agricultural products, the term of deferred payments of which cannot exceed 547 days, and the amount of the transaction with one debtor is not more than 2 million euro. For export credit transactions where the debtor (buyer) is registered outside the EU and developed OECD

countries, guarantees are provided without restrictions. However, for transactions where the debtor is registered in the EU or a developed OECD country,¹ until 31 December 2028 the export credit guarantee is provided only to an economic operator that is an SME and its total annual export turnover does not exceed 5 million euro, if the period of deferred payment for export transactions is not less than 121 days.

From 1 August 2022, when the programme operates under the conditions currently in force, by 31 October 2025, export credit guarantees have been issued for 9.2 million euro (declared exports of approx. 45.2 million EUR) and 30 businesses have been supported.

CAPITAL MARKET DEVELOPMENT SUPPORT

To move towards greater access to finance for entrepreneurs and also to promote the development of the capital market, on 17 October 2023 the CM approved the support programme for the 2021-2027 EU Funds programming period *Support for Participation of Enterprises in Capital Markets*, which is implemented by CM Regulations No. 597 of 17 October 2023 *Implementing Regulations of Activity 1.2.1.3 Support for Participation of Enterprises in Capital Markets of Specific Objective 1.2.1 Strengthening Research and Innovation Capacity and Introducing Progressive Technologies in Businesses of the European Union Cohesion Policy Programme 2021-2027*. The programme provides support to entrepreneurs for the inclusion of stocks and debt securities in a trading place, costs of attracting consultants and services, not exceeding 50% of the eligible costs of the project. SMEs and small midcaps will be supported. 10 businesses are planned to be supported and private financing of 2 million is planned to be raised. Project applications can be submitted until 31 December 2026. Support continues in 2025 and by 31 October 2025, 2 agreements have been concluded and 307.5 million euro of support were disbursed.

On 13 June 2023, the CM supported the creation of an initial public offering fund for SMEs in the Baltics (IPOs), thus providing financing for the initial listing and inclusion of SMEs in the Baltic stock market (both on the regulated market and the alternative market of the multilateral trading facility (MTF) on the *Nasdaq* Baltic stock exchange). The fund will act as a specialised financial intermediary and will focus on profitable SMEs. An average of 2-3 million euro is expected to be invested in one company. Altum and Lithuanian Development Finance Institution INVEGA are expected to participate in the creation of the fund. The total planned amount of the IPO Fund is 48.8 million euro, of which 20 million euro will be Altum's contribution, 18.8 million euro – INVEGA investments, while 10 million euro will have to be raised by the fund manager from private investors. In 2024, the fund is being created and the manager is selected, and the fund will continue to operate in 2026.

The Baltic Innovation Fund (BIF) is a joint initiative that promotes access to private equity and venture capital in the Baltic region, with a particular focus on fostering the development and growth of Latvian companies. BIF1, created in 2013, secured investments in seven funds, including BaltCap Growth Fund, INVL Baltic Sea Growth Fund, Karma Ventures I and other. A total of 83 companies were supported, of which 27 have already been successfully implemented. 73.6 million euro were invested in Latvian companies from BIF1 funds, supporting a total of 13 Latvian companies.

BIF2, created in 2019, continued the work started by BIF1 and secured investment in 8 funds, including BaltCap Private Equity Fund III, Karma Ventures Fund II and Livonia Partners Fund II. 61 companies have been supported in this round, five of which are Latvian companies with a total investment of 38 million euro. The Funds' investments will continue until 2029.

The BIF3 round initiative, scheduled to start in 2026, is expected to generate and deliver between 10-25 million euro of investment in around eight to eleven sub-funds, with a particular focus on private capital, including mezzanine investments. BIF3 aims to support new and existing locally established teams, as well as teams outside the Baltic region with a strategic investment in the Baltics. Investments will be channelled into micro, small, medium and midcap companies (up to 3000 employees) in various sectors, both in the form of equity and quasi-capital. As in previous rounds, BIF3 will promote the creation of new venture capital funds and management teams, the transfer of knowledge from the European Investment Fund (EIF) to the Latvian venture capital ecosystem, and the availability of funding for Latvian companies. The implementation of this round is expected to contribute around 800 million euro increase in investment in the Baltic region, increase the attractiveness and competitiveness of the Baltic market among international investors, and will have a positive impact on the Latvian economy, increasing the turnover of companies, in which investments were made, by around 30% and employment by around 100%.

¹ That is, the United States, the United Kingdom, Australia, Austria, Belgium, Bulgaria, Czechia, Denmark, France, Greece, Croatia, Estonia, Iceland, Italy, Ireland, Japan, New Zealand, Canada, Cyprus, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Switzerland, Hungary, Germany or Sweden.

ACTION PLAN TO RAISE INVESTMENT AND ACCESS FINANCE FOR THE ECONOMY

On 15 July 2025, the CM adopted the Action Plan to Raise Investments and Access Finance for the Economy prepared by the MoE. The Action Plan aims to bring Latvia's capital attraction level closer to that of Lithuania and Estonia by 2029, i.e. to increase the balance of loans to Latvian non-financial corporations from 14% of GDP to 17% of GDP, and to increase the stock of FDI in the equity of Latvian companies to 32 billion euro.

The Action Plan includes a total of 15 tasks, covering both attracting investment and accessing finance. The most important tasks include the establishment of Altum's equity fund to attract investments from private pension fund managers, the preparation of a proposal for the establishment of a fund focused on the development of international partnerships, as well as the development of a support platform, within which Altum will invest up to 20 million euro in Latvian SMEs by co-financing transactions with collective financing platforms licensed by the Bank of Latvia.

INVESTMENT FUND

To ensure access to finance for large investment projects and to facilitate the inflow of new investments for business expansion, stimulating entrepreneurs to make new investments and thereby creating a value-added chain throughout the economy, on 11 November 2025 the CM approved Regulations No. 667 *Regulations Regarding Loans with Capital Rebate to Support Large Investment Projects*. These regulations provide for the organisation of future selections for loans with a capital rebate of the Investment Fund or Altum for the implementation of scalable projects (from 10 million euro), aimed at introducing new equipment and technological processes. 67 million euro are currently available for projects of future rounds. When achieving the objectives of the project and fulfilling certain criteria, a company can qualify for a loan with a capital rebate of 30% or repayment of the portion of the loan granted by Altum. The new selection round will also cover a wider range of beneficiaries – support will also be available for military investment projects and investments related to primary agricultural production.

Overall, 282.56 million euro are available in the Investment Fund. In the first three selection rounds, which were organised in accordance with CM Regulations No. 503 of 6 July 2021 *Regulations regarding Loans with Capital Rebate for Investment Projects for Undertakings for Promotion of Competitiveness*, Altum has so far approved 28 investment projects with total eligible costs of 736.7 million euro and the capital rebate applied for 186.5 million euro (including agreements with 16 undertakings). These projects are expected to increase exports by at least 430 million euro, create more than 1,300 new well-paid jobs and invest more than 18 million euro in R&D.

12.2. PROMOTING SUSTAINABLE ENERGY AND ENERGY EFFICIENCY

LATVIA-ESTONIA JOINT OFFSHORE WIND PROJECT ELWIND

According to the *National Energy and Climate Plan 2021-2030* (hereinafter referred to as NECP) approved by the CM on 12 July 2024 by Order No. 573 *Updated National Energy and Climate Plan 2021-2030*, Latvia is committed to achieve 100% renewable energy sources (RES) in electricity final consumption by 2030.

To achieve this, the NECP includes a policy measure to implement the Latvia-Estonia offshore wind farm project ELWIND with a capacity of up to 1 GW by 2035 (inclusive). The implementation of such a project will contribute not only to the overall RES target, but also to other related energy and climate policy targets, including energy efficiency, energy security and reduction of greenhouse gases, as well as to promote investment, new product development and job creation.

In 2020, the MoE signed with Estonia a Memorandum of Understanding on the joint project of the Latvian and Estonian offshore wind park for energy generation from renewable energy sources. Within the framework of the Memorandum, the MoE, in cooperation with Estonia, LIAA, Estonian Environment Investment Centre, Latvian transmission system operator JSC Augstsprieguma tīkls and Estonian transmission system operator JSC Elering, started working on the joint Latvian-Estonian offshore wind energy project ELWIND in 2020.

In 2023, a cooperation agreement was signed between LIAA, responsible on the Latvian side, and Estonian Environment Investment Centre, responsible on the Estonian side, for the feasibility study for the ELWIND project. To launch the ELWIND project, information reports *On the implementation of the Estonia-Latvia joint offshore wind joint project ELWIND*, *On the further development of the Latvia-Estonia joint offshore wind project* were drafted in 2022 and *On the further development of the Latvia-Estonia joint offshore wind project* – in 2023.

In April 2025, the CM reviewed the information report *On the progress of implementation of the joint Latvian-Estonian offshore wind project ELWIND* prepared by the MoE, which foresees further survey of the ELWIND offshore wind park territory to obtain information on the suitability of the field for the establishment of an offshore wind park. The results of the studies will show the potential capacity of the offshore wind farm territory, taking into account the depth of the survey area, actual bed conditions, geological and meteorological data and the environmental impact assessment.

In the second half of 2025, the MoE developed a draft *Latvian Sustainable Energy Technology Development Plan until 2035*, to identify the necessary action lines and priority measures for the use and development of sustainable energy technologies, the decarbonisation of existing Latvian industry, and the potential of Latvian industry to use net-zero emission technologies to achieve productivity and climate goals, as well as to promote the country's economic development. The plan is expected to be submitted to the CM by the end of 2025.

The plan has three parts, each with objectives, detailed action lines and performance indicators:

- 1) development of sustainable energy technologies – by promoting the production of and investment in sustainable energy technologies, Latvia can contribute to economic growth and international commitments in the medium and long term, as well as to Europe's climate-neutral re-industrialisation. By developing the production of these technologies, Latvia can strengthen its position in the EU and international markets, increase exports, as well as raise the level of innovation and create new jobs in high added value sectors;
- 2) greening the industrial sector, which is an essential prerequisite for moving towards a climate-neutral economy, by reducing greenhouse gas (GHG) emissions as far as possible and improving energy efficiency by promoting the use of zero-emission alternative fuels. This process involves both the gradual replacement of fossil fuels by RES and the introduction of advanced technologies into production processes, improving resource efficiency;
- 3) use of climate-neutral technologies in the Latvian industry, creation of a green hydrogen ecosystem – to promote the achievement of Latvian and EU energy and climate targets by producing green hydrogen and products made from it for domestic consumption, for the EU market or for export, to accelerate investment by creating clusters of interconnected companies and to promote the development of ports and industrial zones.

ENERGY EFFICIENCY TARGETS

By approving *Latvia's National Energy and Climate Plan 2021–2030* (National Energy and Climate Plan 2030) by CM Order No. 46 of 4 February 2020, the Latvian government has set energy efficiency targets to be reached by 2030:

- total indicative national energy efficiency – total primary energy consumption not more than 165 – 170 PJ and final energy consumption not more than 145 – 149 PJ;
- annual final energy consumption saving of 0.8% – final energy saving of 1.76 Mtoe (20,472.02 GWh) accumulated in 2021 – 2030;
- annual renovation of 3% of the state-owned building area (maximum estimates – 500 thousand m²).

The main task of introducing energy efficiency improvement measures is to limit the increase in consumption of primary energy sources and final energy consumption and to reduce overall energy consumption. Energy savings for end consumers are obtained through financial support programmes for undertakings (economic operators), households (residential houses) and the public sector. The measures taken by the parties responsible for the energy efficiency obligation scheme and the measures stated in mandatory energy audits and introduced by companies have also contributed to progress towards state energy efficiency targets.

Several programmes supervised by the MoE are currently being implemented to support energy efficiency projects.

RRF SUPPORT PROGRAMMES

Improving the energy performance of multi-apartment houses

The available RRF funding is 57.282 million euro (incl. 53.845 million euro for the implementation of the projects) and 10 million euro as a loan of the State Treasury (ST). 136 agreements have been concluded for the full RRF amount (53.845 million euro), capital rebate reserved – 36,846 million euro (including the ST loan), of which by the end of October 2025:

- 32 projects for RRF amount of 12.868 million euro and capital rebate of 8.477 million euro have been completed;
- 104 projects for 43.892 million euro and capital rebate of 28.210 million euro are being implemented.

By 31 August 2026, the planned total primary energy reduction in multi-apartment houses with improved energy efficiency – 14,423 MWh/year.

Improving the energy performance of buildings in the public sector, including in historical buildings

The available funding is 29.888 million euro (incl. RRF funding of 24.909 million euro and state budget funding of 4.979 euro).

As at 31 October 2025, all 11 agreements or their amendments have been concluded with 6 beneficiaries of funding for 29.047 million euro (incl. RRF funding of 24.218 million euro and state budget funding of 4.829 million euro). 3 projects have been terminated and 1 project has been completed.

By 30 June 2026, the planned reduction in total primary energy consumption in public buildings with improved energy performance has been at least 3875 MWh/year. Performance – 146.99 MWh/year.

Improving energy efficiency in business

The funding available is 72.166 million euro (incl. 67.836 million euro for the implementation of the projects), a total of 12 project selection rounds are planned, with round 11 closing on 15 September 2025 and the final round 12 scheduled to be declared in November 2025.

By the end of October 2025, 480 agreements have been concluded for the RF amount of 52.729 million euro, reserved capital rebate of 32.221 million euro, of these 241 projects for the RRF amount of 21.734 million euro have been completed, with capital rebate applied of 15.304 million euro. 118 projects for a total RF amount of 30.052 million euro, capital rebate – 12,662 million euro, are under evaluation.

By 31 August 2026, the planned GHG emission savings are projected at 11,498 tonnes of CO₂ equivalent per year. Performance – 14,553.41 (127%) tonnes of CO₂ equivalent per year.

PROGRAMMES IMPLEMENTED DURING THE 2021-2027 EU FUNDS PROGRAMMING PERIOD

Implementation of energy performance improvement measures in multi-apartment houses

The objective of the programme is to invest in improving energy performance and switching to renewable energy sources in houses, achieving total primary energy savings of at least 30%. The acceptance of project applications within the activity started on 3 April 2025. Following record-high interest, the acceptance of project applications for general restoration measures was terminated on 13 May 2025, as all available funding had been reserved, with 355 project applications received. Most projects were submitted from the Riga Region – 52%, followed by Vidzeme Region – 24%, Kurzeme – 10%, Zemgale – 9% and Latgale – 5%. Riga is the most active capital in the country, with 110 project applications submitted. The total funding of the support programme is 174.5 million euro, incl. 1.5 million euro for the implementation of pilot projects for manufactured wooden carcasses, financed from the state budget.

Support is granted for the renovation of multi-apartment houses (the building must have at least 3 apartments), whether or not divided into apartment properties, regardless of the number of apartment owners, thus ensuring a wide range of potential beneficiaries, for example, a person who is the sole owner of an apartment can also qualify for support.

The support is provided in the form of a combined financial instrument. It consists of a loan or guarantee, a capital rebate for partial repayment of the loan principal. If the project results in at least 30% total primary energy savings, projects will be granted a capital rebate of 40%.

The amount of the capital rebate may be increased, i.e., if the project provides for the installation of a ventilated facade, which gives the facade a longer and more economical lifetime, as opposed to a plastered facade, a capital rebate of 45% will be granted.

At the same time, if the project uses prefabricated wood insulation panels or is part of a “neighbourhood approach”, where at least 3 houses will be renovated, the maximum possible capital rebate of 50% is available. These methods will significantly improve the rate of renovation of buildings. More than 60 beneficiaries have welcomed this point in the new funds programme, applying for a total of 18 neighbourhood projects. 15 projects have been accepted, of which 5 are in the reserve queue, to implement at least 10 pilot projects for the renovation of wood-frame buildings.

The amount of support provided so far shows low activity of project applicants in the Latgale planning region – only 87 multi-apartment housing projects have been implemented between 2007 and the end of November 2025, which is 6.36% of the total number of buildings applied for. To provide additional support to the inhabitants of the Latgale region and to

promote the renovation of apartment houses in the Latgale planning region, it will be possible to submit projects for financing individual energy efficiency measures that will result in at least 10% primary energy savings. Such projects will be eligible for a capital rebate of 40%, up to a maximum of 80 thousand euro. The Latgale planning region is expected to receive up to 10 million euro for projects of this kind.

The project may support the preparation of technical documentation, construction work on the building envelope and common areas, the renovation, reconstruction or creation of engineering systems, the purchase and installation of micro-generation equipment (solar panels, collectors, etc.), construction supervision, project management and other measures related to the implementation of the project. An additional improvement of this programme is that the replacement of elevators is also eligible, but the overall energy efficiency targets must be met. This programme also includes one application to renovate an elevator as part of an overall building renovation project.

By the end of October 2025, a total of 29 agreements for 29.052 million euro ERDF funding have been concluded, and the capital rebate of 220.483 million euro has been reserved for a total of 323 projects.

Indicators to be achieved:

- households with improved energy efficiency – 10 653 households;
- households with improved energy efficiency where people at risk of energy poverty live – 1597 households;
- 10 pilot projects for the renovation of manufactured wooden carcass buildings;
- annual primary energy consumption – 21,162 MWh/year.

Regulations of the support programme for business greening, use of renewable energy and improving energy efficiency

The objective of the programme is to promote investments in the improvement of energy efficiency, smart energy management and renewable energy resources in industry and economic operators, as well as ensuring transition to a climate-neutral economy for economic operators in the most affected regions, and the target group are performers of economic activity in the most affected regions. The funding available is 49.3 million euro. The funding under the support programme is combined from the ERDF (7.8 million euro) and the Just Transition Fund (41.5 million euro).

Indicators to be achieved:

- annual primary energy consumption – 18,543 MWh/year;
- total renewable energy produced – 7047 MWh/year;
- estimated GHG emissions savings – 3,480 CO₂;
- companies supported by financial instruments – 102 companies;
- private investment complementing public support – 41.726 million euro.

Measures promoting energy efficiency in cultural infrastructure

The objective of the programme is to invest in improving energy efficiency and transition to renewable energy sources in buildings owned or used by the state for cultural or educational purposes, achieving primary energy savings of buildings of 30% and contributing to the move towards zero-energy buildings. The funding available is 29.311 million EUR, incl. ERDF funding of 24.914 million EUR. The selection of project applications closed on 25 September 2025. 6 projects have been submitted for the full funding available for the programme and are being evaluated.

Indicators to be achieved:

- area of supported public buildings – at least 27,134 m²;
- annual reduction in primary energy consumption – at least 1432 MWh/year.

Improving energy performance of public buildings

The programme aims to improve the energy performance of public buildings through energy certification and construction works to improve energy performance, including the introduction of smart management solutions and energy efficiency improvements in infrastructure and technological processes (including through renewable energy), to achieve 30% primary energy savings in buildings and contribute to the move towards zero-energy buildings. The funding available is 101.696 million euro, incl. ERDF funding of 86.441 million euro (incl. flexibility funding). The first round of selection of

project applications closed on 31 October 2025 and 36 project applications for a total funding of 87.651 million euro, including ERDF funding of 74.486 million euro, have been received.

Indicators to be achieved:

- area of supported public buildings – at least 186,836 m²;
- annual reduction in primary energy consumption – at least 26,260 MWh/year.

Optimising infrastructure of public institutions

The programme aims to improve energy efficiency, smart energy management and the use of renewable energy in university-owned buildings, contributing to the move towards zero-energy buildings. The funding available is 13.050 million euro, incl. ERDF funding of 11.092 million euro (incl. flexibility funding). The beneficiary of the funding is determined by the department of the beneficiary of funding – the Ministry of Education and Science, and, for this programme, it is the University of Latvia. The submission of project applications closed on 14 November 2025.

Indicators to be achieved:

- area of supported public buildings – at least 85,136 m²;
- annual reduction in primary energy consumption – at least 1620 MWh/year.

SUPPORT PROGRAMMES IMPLEMENTED FROM FUNDS THAT ARE NOT EU SUPPORT

Energy performance programme for private houses (the programme was closed on 02.08.2024)

1218 projects requesting funding of 5.3 million euro were approved by Altum. The implementation of the projects will increase the energy performance class of the private house at least to class C and reduce heating consumption at least by 20%. After the installation of the electricity generation equipment, a reduction in primary energy consumption of at least 20% (applicable to residential houses connected to the common electricity supply network) is achieved and at least 80% of the electricity generated per year is used for the self-consumption needs of the occupants of the residential house.

Repair fund

Altum has granted 389 loans amounting to 30.45 million euro for repair and improvement of multi-apartment residential houses. Riga and Kurzeme are the regions with the highest activity – 143 loans were granted in Riga (incl. 110 in Riga City), and 118 in Kurzeme. In Vidzeme and Zemgale, the programme is also actively used – 65 and 34 loans, respectively, while the lowest interest was recorded in Latgale, where only 9 loans were approved. It is most often used for roofing replacement, facade renovation, restoration of engineering systems, preparation of technical documentation, and strengthening of building structures. Regional specificities have also been observed, with facade renovation works being popular in Riga, while roof repairs and pavement replacements dominate outside Riga.

The average loan amounts to 78 thousand euro, but the total value varies from 8 thousand euro up to 509 thousand euro – depending on the size of the house and the scope of work planned.

SUPPORT PROGRAMMES FOR THE EMISSION ALLOWANCES AUCTIONING INSTRUMENT

Reducing greenhouse gas emissions in architectural monuments of national importance (second round)

The aim of the competition is to reduce carbon dioxide (CO₂) emissions and improve energy efficiency through the reconstruction, renovation, restoration or facade restoration of architectural monuments of national importance. The funding available under the second round of the tender is 35 million euro. The acceptance of project applications within the tender has closed. Implementation of the projects approved under the tender continues. 5 projects are under implementation with a total requested funding of the Emission Allowances Auctioning Instrument of 21.899 million euro (total eligible costs of projects – 26.716 million euro). The estimated reduction of CO₂ as a result of the implementation of the projects approved under the tender is 180 tonnes of CO₂ per year.

Reducing greenhouse gas emissions through smart urban technologies (second round)

The tender aims to introduce and demonstrate smart urban technologies that reduce greenhouse gas emissions, including energy-efficient smart urban technologies. The funding available for the second round of the tender for the installation of smart urban technologies using renewable energy sources is 2 million euro, for the installation of smart urban technologies to promote energy efficiency – 4 million euro. The acceptance of project applications within the tender has closed. Implementation of the projects approved under the tender continues. 29 projects are under implementation with a total requested funding of the Emission Allowances Auctioning Instrument of 3.878 million euro (total eligible costs of projects – 5.589 million euro). The estimated reduction of CO₂ as a result of the implementation of the projects approved under the tender is 476 tonnes of CO₂ per year.

Reducing greenhouse gas emissions in the household – support for the use of renewable energy

The aim of the open project tender is to reduce greenhouse gas emissions and improve energy efficiency in households by supporting the purchase of heat or electricity generation equipment to ensure the production and supply of heat or electricity for household needs, or the establishment of connections to the district heating system. The funding available under the tender is 85 million euro. The acceptance of project applications within the tender continues. The deadline for the submission of project applications is 31 December 2029 or the date on which the funding available under the tender ends. By the end of October 2025, 13,824 projects (one project may include several activities to be supported under the tender) have been approved within the tender, with a total requested funding of the Emission Allowances Auctioning Instrument of 50.637 million euro (total eligible costs of projects – 89.758 million euro). The estimated reduction of CO₂ as a result of the implementation of the projects approved under the tender is 20,574 tonnes of CO₂ per year.

Reducing greenhouse gas emissions from municipal public area lighting infrastructure

The aim of the open project tender is to reduce greenhouse gas emissions and improve the energy efficiency of municipal public area lighting infrastructure by using technologies and environmentally friendly practices that help reduce existing electricity consumption. The funding available under the tender is 10 million euro. 25 projects with a total requested funding of the Emission Allowances Auctioning Instrument of 4.998 million euro (total eligible costs of projects – 7.995 million euro) have been implemented within the tender. The implementation of all projects approved within the tender ended in 2025. The estimated reduction of CO₂ as a result of the implementation of the projects approved under the tender is 1034 tonnes of CO₂ per year.

Reducing greenhouse gas emissions in the buildings of the Ministry of the Interior system institutions and municipal police institutions

The aim of the open project tender is to reduce greenhouse gas emissions and improve energy efficiency by carrying out the reconstruction or renovation of buildings owned, held or used by the system institutions of the Ministry of the Interior and local government police institutions. The funding available under the tender is 20 million euro. The acceptance of project applications within the tender has closed, and a second round is planned. Agreements for the implementation of projects approved under the first round of the tender will be signed in October 2025. 7 projects are under implementation with a total requested funding of the Emission Allowances Auctioning Instrument of 4.532 million euro (total eligible costs of projects – 5.776 million euro). The estimated reduction of CO₂ as a result of the implementation of the projects approved under the tender is 54 tonnes of CO₂ per year.

Reducing greenhouse gas emissions in the transport sector – support for the purchase of zero- and low-emission vehicles

The aim of the open project tender is to promote the reduction of greenhouse gas emissions by supporting the introduction of electric vehicles and plug-in hybrid electric vehicles for natural persons. The funding available under the tender is 30 million euro. The tender has now closed and 6,432 vehicles have been purchased, including 2,326 new electric cars, 2,392 used electric cars and 1,714 plug-in hybrids. The tender involved the retirement of 853 vehicles equipped with internal combustion engines. The estimated reduction of CO₂ as a result of the implementation of the projects approved under the tender is 7805 tonnes of CO₂ per year.

MODERNISATION FUND SUPPORT PROGRAMMES

Increasing energy efficiency in the transport sector – supporting the deployment of electric vehicles and their charging infrastructure

The aim of open project tender is to promote the reduction of greenhouse gas emissions by supporting the purchase of electric vehicles and the introduction of corresponding charging infrastructure for state direct administration institutions, municipalities and companies. The funding available under the tender is 5 million euro. The acceptance of project applications within the first two rounds of the tender has closed. Implementation of the projects approved under rounds one and two of the tender continues. 8 projects are under implementation with a total requested funding the Modernisation Fund of 613.8 thousand euro (total eligible costs of projects – 3.271 million euro). The estimated reduction of CO₂ as a result of the implementation of the projects approved under the tender is 228 tonnes of CO₂ per year.

12.3. SUPPORTING ACCESS TO FOREIGN MARKETS

Intergovernmental treaties and agreements, hereinafter – agreements, on economic cooperation are concluded with the aim to strengthen and extend economic, industrial, scientific, and technical cooperation, while fostering favourable conditions for cooperation among economic operators. At present, Latvia has concluded and maintains intergovernmental agreements on economic cooperation with the United Arab Emirates, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Kuwait, China, Moldova, Saudi Arabia, Tajikistan, Turkey, Turkmenistan, Ukraine, and Uzbekistan.

In 2022, based on a CM decision, the previously concluded agreements on economic cooperation with Russia and Belarus were suspended in response to hostilities in Ukraine conducted by Russia and backed by Belarus and in view of sanctions imposed against Russia and Belarus.

Latvia's bilateral economic cooperation agreements provide for the establishment of an Intergovernmental Commission or Joint Committee to, which ensure the regular monitoring of the implementation of these agreements and the analysis of ways to enhance economic cooperation between the contracting parties. Their agenda includes issues related to bilateral economic cooperation that are relevant to the contracting parties at both governmental and business levels, in areas such as trade and investment attraction, industry, transport and logistics, pharmaceuticals, agriculture and forestry, information technology, financial services and start-ups, clean technologies, innovation, tourism, etc.

Meetings of the Intergovernmental Commission (IGC) and Joint Committee (JC) in 2025

The 4th meeting of the Latvia-Moldova IGC on economic, industrial, scientific and technical cooperation was held in Riga on 29 January 2025. The meeting was co-chaired by the State Secretary of the MoE Mr E. Valantis from Latvia and the Deputy Prime Minister of the Republic of Moldova, Minister of Economic Development and Digitalisation Mr Dumitru Alaiba from Moldova. During the meeting, cooperation was discussed in areas such as energy efficiency and renewable energy, digitalisation and technologies (including clean technologies), start-ups, transport, agriculture and forestry, education and science, tourism development, regional development, as well as EU integration. On 28 January, the Latvia-Moldova Business Forum took place within the framework of the IGC, attended by more than 80 participants, with particular emphasis on cooperation in the field of information technology. Within the framework of the Moldovan delegation's visit to Latvia, on 28 January, the Latvian Chamber of Commerce and Industry and the Moldovan Chamber of Commerce signed a Memorandum of Cooperation, providing closer cooperation in the fields of economy and education in order to promote business opportunities between Latvia and Moldova.

The 11th meeting of the Latvia-Ukraine IGC on economic, industrial, scientific and technical cooperation was held in Riga on 26 March 2025. The meeting was co-chaired by the Minister of Economics Mr V. Valainis from Latvia and the Minister of the Cabinet of Ministers of Ukraine Mr Oleh Nemchinov from Ukraine. During the meeting, the parties discussed cooperation in trade and investment, Latvia's involvement in Ukraine's reconstruction, energy, transport, agriculture, digitisation and ICT, conformity assessment, innovation, space, health, forestry, tourism, etc. Following the meeting, an agreement on cooperation in the fields of standardisation, metrology and conformity assessment was signed between the Ministries of Economics of both countries, as well as a Memorandum of Understanding on Cooperation in the field of exploration and use of outer space between the State Space Agency of Ukraine, the Ministry of Education and Science of the Republic of Latvia and the Ministry of the Economics of the Republic of Latvia. The 11th meeting of the Latvia-Ukraine IGC was held in parallel with the Latvia-Ukraine Business Forum, which brought together more than 100 representatives of companies and policymakers from both countries interested in the development of bilateral cooperation.

On 24 November 2025, **the meeting of the Joint Economic Committee between Latvia and the United Arab Emirates (UAE) was held in Dubai for the third time**, chaired on the Latvian side by the Minister of Economics Mr V. Valainis and on the UAE side by the UAE Minister for Foreign Trade Mr Thani bin Ahmed Al Zeyoudi. During the meeting cooperation was discussed in the field of trade and investment, innovation, transport and logistics, agriculture, energy, tourism, education and science, as well as other areas. In parallel with the meeting, a series of meetings were held with UAE officials and business representatives. Latvian and UAE entrepreneurs also exchanged contacts and discussed cooperation opportunities during the Latvia-UAE Business Forums held in Dubai and Abu Dhabi.

In 2025, three Intergovernmental Commission and Joint Committee meetings were held – with Moldova, Ukraine and the United Arab Emirates.

To continue intergovernmental dialogue, a series of meetings and visits, together with business representatives, were also held in 2025 to explore opportunities to strengthen and diversify Latvia's cooperation with Germany, Israel, the United States, Japan, the United Arab Emirates, France, Italy, Denmark, Poland, Lithuania, Estonia, Sweden, Ukraine, Moldova, etc.

State visits in 2025

On 1-4 March 2025, the Minister of Economics Mr V. Valainis visited Israel together with a delegation of more than 20 companies to strengthen economic cooperation and promote export capacity of Latvian companies, investment attraction and technology transfer. During the visit, meetings were held with Israeli officials, including the Speaker of the Knesset Mr Amir Ohana and the Minister of Energy Mr Eli Cohen. In addition, a Memorandum of Cooperation was signed between the Latvian Chamber of Commerce and Industry and the Federation of Israeli Chambers of Commerce. The talks focused on innovation, green energy, cybersecurity and high-tech solutions. Discussion on further expanding cooperation continued during the Latvian-Israeli Business Forum, which took place in Riga on 5 August 2025 within the framework of the official visit of the H.E. Isaac Herzog, President of Israel. The Forum, opened by the H.E. I. Herzog, President of Israel, and Mr V. Valainis, the Minister of Economics of Latvia, highlighted the cooperation potential between the two countries in the fields of innovation, manufacturing and research. Memoranda of Cooperation between business organisations were also signed to foster joint projects and strengthen economic ties.

On 17-21 May 2025, a visit to Japan (Tokyo and Osaka) by the Minister of Economics Mr V. Valainis, together with a delegation of entrepreneurs, took place within the visit of the President of the Republic of Latvia Mr E. Rinkēvičs. The purpose of the visit was to promote the deepening of the political and security dialogue, to develop bilateral economic cooperation, as well as to strengthen international visibility of Latvia in Japan and the wider Asian region. The business delegation included 57 representatives from 36 Latvian companies, institutions and organisations, representing sectors such as ICT, pharmaceuticals, wood processing, energy, engineering, tourism and others. During the visit, the Latvian delegation participated in the Latvian National Day events of Expo 2025 Osaka, and high-level meetings were held with Japanese officials, business organisations (Keidanren, Japan Chamber of Commerce and Industry, Osaka Chamber of Commerce and Industry, JATA), as well as with Japanese entrepreneurs, discussing cooperation opportunities in energy, infrastructure, start-ups, innovation and other areas. The visit also included two business forums (in Tokyo and Osaka), as well as a separate programme of bilateral meetings for Latvian entrepreneurs. During the visit, four cooperation agreements were concluded: 1) Letter of Intent between the Latvian Chamber of Commerce and Industry and the Japan Chamber of Commerce and Industry; 2) Memorandum of Understanding between the Latvian Chamber of Commerce and Industry and the Osaka Chamber of Commerce and Industry; 3) Cooperation Agreement between the Latvian Blockchain Association and Finolab, Japan's leading financial technology centre; 4) Cooperation Agreement between Latvian company Fortes and Japanese company Ichigo ECO Energy on future cooperation projects in the field of renewable energy.

On 23-26 September 2025, a working visit to Germany (Hamburg and Rostock) by the Minister of Economics Mr V. Valainis took place within the framework of the visit of the Prime Minister Ms E. Siliņa. The visit was accompanied by a delegation of more than 180 participants, including representatives of universities and local governments, as well as entrepreneurs from the fields of construction, defence and dual-use technologies, life sciences, financial technologies (fintech), ICT, logistics, and energy. During the visit, activities were organised for entrepreneurs in seven different sectoral programmes. The Minister held meetings with German officials and investors, as well as several business meetings with German companies, participated in round table discussions on the development of cooperation between Latvia and Germany in the fields of financial technologies (fintech) and renewable energy, and presentations on PPP and investment projects. A Latvian-German Business Day with panel discussions was held in Rostock. During the visit, 3 Memoranda of Cooperation were signed: 1) between Riga Technical University and HafenCity University on cooperation in education and research; 2) between LLC Ecengo and Diehl Stiftung & Co. KG on cooperation in the field of energy; 3) between LLC Valsts aizsardzības korporācija and Rheinmetall AG, the leading German defence industry company, on the establishment of an artillery munition production facility. The project is expected to attract more than 200 million euro in investments, and exports could exceed 3 billion euro within ten years.

LATVIA'S FOREIGN ECONOMIC REPRESENTATIONS

The primary tasks of LIAA representative offices are to attract foreign direct investment, promote exports of Latvian companies and strengthen Latvia's international recognition as an investment and tourism destination. Some representations work in close cooperation with Latvian embassies, providing information exchange and joint activities, including economic diplomacy activities, networking with investors and organising business missions.

LIAA's network of foreign representations covers a wide geographical area, including more than twenty representations (United States, Denmark, France, Japan, Canada, United Kingdom, Netherlands, Norway, Ukraine, Germany, Sweden, Australia, Israel, Uzbekistan, Finland, Spain).

LIAA also offers the services of the Enterprise Europe Network (EEN) in Latvia and provides comprehensive support to companies, especially small and medium-sized enterprises, wishing to expand their activities in international markets. The network advises on EU and national legislation, the application of regulatory requirements and the business environment in different sectors, helping businesses navigate regulatory changes and market conditions. EEN also offers detailed information on foreign market demand, competition, export requirements and available support instruments, enabling companies to make informed and strategic decisions.

The network also supports fundraising by providing information on EU programmes, opportunities to attract investors and tools to finance innovation. A key function of the EEN is to help find international partners, both for commercial cooperation and for research and innovation projects. To boost the competitiveness of companies, EEN provides technology and innovation audits, which assess a company's technological potential, identify development opportunities and seek suitable innovation transfer opportunities from the international ecosystem. In this way, EEN acts as an integrated partner for the internationalisation, innovation and growth of companies.

EXPORT MARKETING ACTIVITIES

The CM approved the reallocation of the budget appropriation of 6 million euro in 2024 to provide the funding the MoE and LIAA need for the implementation of export promotion and investment attraction activities in 2024, 2025 and 2026. These funds are earmarked for the implementation of export promotion and investment attraction activities (trade missions, meetings between Latvian and foreign companies, matchmaking events, etc.).

Performance indicators to be achieved:

- the amount of export contracts concluded 30 million euro in 2025;
- the number of foreign tourists in Latvia increased, generating additional tourism and event export revenues of at least 50 million euro in 2025;
- success stories of proactively attracting investment projects in 2025 and 2026 – 80 million euro (it should be noted that the proactive investment attraction activities implemented in 2024 will become new success stories in 2025-2027).

In the information report *On the base of the general state budget and the special state budget and the results of the expenditure review for 2026, 2027, 2028 and 2029* adopted by the CM on 26 August 2025 (prot. No. 33, §53) includes a proposal to reduce the expenditure of the MoE on measures to promote Latvia's international competitiveness, as well as measures to attract investments, and accordingly the funding is reduced by 1.6 million euro. Therefore, the total funding intended for 2026 is 4.4 million euro.

Achievements of Expo 2025

The fair took place in Osaka, Japan, from 13 April to 13 October 2025. The fair was attended by 160 countries, 9 international organisations and more than 28 million visitors from all over the world.

For Expo 2025 Osaka, a unified Baltic Pavilion was created, both to promote the region and to highlight the uniqueness of each country. Latvia and Lithuania represented the Baltic States at the fair, and Latvia was nominated as the lead country for the Baltic Pavilion. The Baltic Pavilion welcomed a record 900 thousand visitors, who saw and positively appreciated its design and overall atmosphere, as well as the innovative way in which Latvian and Baltic values are presented.

More than 75 events, conferences and trade fairs presenting Latvian traditions, culture and business were organised in Japan as part of EXPO 2025 Osaka and the accompanying business programme. Highlights include the celebration of Latvia's National Day with a cultural programme and an Echo performance, as well as the business forum Transforming Cities and Mobility through Innovation & Technology. Humans Powered by Technologies, which was also attended by the President of Latvia Edgars Rinkēvičs and the largest ever delegation of entrepreneurs in Japan. Equally important and fruitful were the investment attraction forum in Tokyo, the Baltic Day celebrations highlighting the Song and Dance Festival movement, and the business conference How innovations in aerospace manufacturing can contribute to sustainability and environmental preservation, which highlighted Latvia's competences and innovation potential in space and smart technologies.

More than 200 Latvian companies participated or were represented in all business activities at EXPO 2025 Osaka and in the specially developed business programme in Japan. The business programme activities in Japan are still ongoing, and the real results will be measurable by 2028, but the business activities have already resulted in 1798 contacts and 34 cooperation agreements.

In terms of attracting investments in the sectors of the Smart Specialisation Strategy (RIS3) in Latvia, LIAA has addressed 135 potential investors from Japan, 72 of whom have already shown in-depth activity on potential investments in Latvia, and 2 visits of investors from Japan to Latvia have taken place. The aim of the investment attraction activities within the framework of Expo 2025 OSAKA is to attract investments of at least 30 million euro to Latvia.

In January-September 2025, LIAA organised 17 national stands with participation of 167 undertakings. 43 trade missions were organised, involving 373 companies. 11 marketing campaigns and bilateral meetings with 159 companies were organised. The following business forums were organised in Latvia: business fair Made in Liepāja, crypto and blockchain conference UN:BLOCK Europe 2025, international conference "WindWorks 2025. Powering Economy, the high-level conference Beyond Borders: Investment & Security in the Baltics, Defency Industry Days, European Hydrogen Valleys Investment Forum 2025 and Ambition Forum, Latvian Fintech forum 2025, international conference Big Data from Space (BIDS 2025).

In 2025, Latvian businesses continued to strengthen their export capacity by implementing marketing campaigns organised around the country's image, such as the communication campaign for the US Academy Award-winning Latvian animated feature film *Flow*, which reached an audience of 200 million. Latvia Days and their publicity campaigns were implemented in Osaka in May and in Rostock in September. From 23 to 26 September, Latvia was promoted in a trade mission in Germany, reaching an audience of at least 2 million in the German media. A unified website of Latvia's national image was maintained <https://www.latvia.eu/>. The website has been updated with Japanese.

SUPPORT FOR THE DEVELOPMENT AND EXPORT OF INNOVATIVE BUSINESS OF SMES

To expand export opportunities, the ability of enterprises to enter international product value chains and develop higher value-added products and services, LIAA is implementing the project SME Innovative Business Development, which was launched on 29 November 2023 and is planned to run until 30 June 2027. Total planned funding is 66 million euro, including ERDF co-funding of 56 million euro.

One of the areas of support under this programme is export promotion support, which promotes the export capacity of Latvian SMEs through various activities, especially those operating in the medium-high, high-tech and knowledge-intensive services sectors. The project funding for export support activities is 31.4 million euro. The export support funding for grants amounts to 15.43 million euro, and 7.25 million euro is earmarked for export support activities organised by LIAA over 3.5 years, including for the organisation of national stands.

The purpose of the project is to ensure the availability of financing for the implementation of a business idea and the development of business, promoting activities aimed at increasing the proportion of innovative entrepreneurs in the economy and promoting business aimed at creating high added value in the field of medium-high and high-tech and creative industries, and promoting export growth in supported companies, thus contributing to the achievement of the goals of the Latvia's Smart Specialisation Strategy.

In the project, the LIAA implements activities covering the full support of the business development cycle – from an idea creates a new technologically intensive company to a stable, competitive, growth-oriented business with high added value. Within the framework of the project, financial and non-financial support is provided to the target group for innovation and motivation, business incubation and export promotion activities.

Within the framework of the project, the LIAA carries out activities such as consultations of foreign economic representations of Latvia, implementation of educational and training programmes directed towards the development of business and innovations, organisation of measures for promotion of innovation and business export, including providing support in the form of grants, awarding of prizes and money prizes to the winners of business idea competitions, cooperation with organisations and institutions, etc.

1500 companies developing their business projects are planned to be supported within the project, of which at least 300 will be authors of new ideas. The increase in turnover of LIAA-supported companies is expected to increase by 12%, exports are forecast to increase by 20% or 0.6 billion euro annually (from 2024 to 2029).

700 exporting companies will be supported, 1,000 new jobs will be created within the project, and supported businesses will pay 150 million euro in taxes annually.

318 businesses have been supported in the business incubation activity by 31 October 2025, 113 of them with grants, while 572 businesses have been supported in the export promotion activity, 493 of them with grants and 233 with non-financial support. The innovation motivation activity has supported 80 companies. A total of 970 businesses have been supported.

SUPPORT TO THE PRODUCTION OF FOREIGN FILMS IN LATVIA

On 11 February 2025, the CM approved CM Regulations No. 99 *Procedures for Granting State Budget Co-financing for Large Significant Public Events and Production of Foreign Films in Latvia*, which aims to provide state budget co-financing for the organisation of large events and production of foreign films in Latvia, creating a positive economic impact and promoting the international image of Latvia as a country.

In accordance with the above-mentioned CM Regulations, LIAA organised two selection rounds in 2025, during which a decision was taken to provide support to 20 projects for a total amount of 5.6 million euro for projects selected in the 1st selection round (12 projects) and 4.7 million euro for the projects selected in the 2nd selection round (8 projects).

12.4. POLICY FOR ATTRACTION OF FOREIGN INVESTMENT

The export promotion and foreign investment attraction policy is enshrined in the *National Industrial Policy Guidelines for 2021-2027*. FDI attraction policy is aimed at enhancing Latvia's competitiveness as an attractive investment destination. At the same time, technological innovation, pandemics, the Russia-Ukraine war and the geopolitical situation in the world have significantly influenced and changed the decision-making environment and rationale for investment. Markets are now protectionist, fragmented and subject to security needs and priorities. When choosing a location and making decisions on future investments, investors are increasingly prioritising locations where talent is available, where their closest competitors are located, where the investor has previous investment experience, reliable infrastructure and flexible business models.

It is important to attract foreign investment in sectors which ensure changes in the economy structure in favour of external demand oriented sectors, especially those that are defined as medium-high and high technology sectors. The priority in the FDI attraction process must be geographically closest neighbouring countries where Latvia is recognised and no extensive additional resources have to be invested for informative activities; also it has to be oriented towards economically stable and developed countries where the development potential and needs of economic sectors are appropriate for Latvian perspective cooperation opportunities.

The LIAA plays a significant role in the attraction of FDI in Latvia. LIAA's investment attraction strategy is designed to ensure a unified, mutually coordinated approach to proactively attracting foreign direct investment by defining target sectors for investment and markets, while remaining flexible and responsive to changes in the global economy. The FDI attraction strategy is purposefully designed to provide a structured and targeted framework for attracting FDI (through the introduction of project management tools), to ensure proactive action to attract FDI (campaigns, visits) and to increase the number of qualified contacts and investment projects (activities based on measurable results (KPIs) and their evaluation). In 2025, LIAA continued active attraction of investment in RIS3 areas, purposefully promoting the growth of FDI in knowledge-intensive sectors with high added value, paying particular attention to dual use and defence industry projects. In 2025, LIAA aims to raise investments of 1 billion euro.

In 2025, the amount of foreign direct investment increased (see Chapter 6.3). Foreign investors' interest in investing in Latvia has increased, which is reflected in the growth of the portfolio of potential investment projects; particularly strong interest remains in investments in bio-economy, smart energy and ICT. As the war in Ukraine, launched by the Russian Federation, continues, foreign companies are increasingly interested in investing in dual-use or military products that contribute to both Latvia's national security and Ukraine's ability to resist aggression from the Russian Federation.

Latvia is purposefully moving towards investment projects that provide high value-added products and services. The relevant areas are defined in Latvia's Smart Specialisation Strategy (RIS3):

- knowledge-based bio-economy;
- biomedicine, medical technology, pharmaceuticals;
- photonics and smart materials, technology and engineering systems;
- smart energy and mobility;
- information and communication technologies.

In 2025, a strategic investment attraction model was developed to integrate Latvia into defence supply chains (see Chapter 12.7). LIAA was designated as the main point of attraction of public investment and a strategic partner for the Ministry of Defence, undertaking the following tasks:

- to provide local partners for military procurement in Latvia and to work with local industry to ensure localisation requirements are met;
- to ensure attraction of capital investment from foreign producers of military goods, including:
 - introducing foreign companies to industry associations, key companies, potential partners and companies that could enter supply chains;
 - help in finding suitable locations for investment projects;
 - informing companies about the financial support programmes available in Latvia;
 - establishing contacts with universities and research institutions to provide the necessary scientific capacity.

LIAA reform

In early 2025, the MoE completed the reform of LIAA to strengthen its investment attraction and export promotion capacity. As a result, LIAA's capacity to work with entrepreneurs and provide support has been significantly increased, with a threefold increase in the number of staff working on investment projects and an increase in the number of staff working on export support issues.

From 2025, LIAA will provide each major project and enterprise with an individual senior project manager to help identify and access available support opportunities more quickly, including taking advantage of the fast-track status for public sector services of the LIAA-coordinated "fast-track" priority projects.

The reorganisation of LIAA has also strengthened support for investment in the regions and for the growth of companies – from the beginning of 2025, Latvia will have a total of 22 regional LIAA offices, 20 of them in the regions and 2 specialised offices for technology and creative industries. They provide support to entrepreneurs for business incubation activities and act as a first point of contact between LIAA, municipalities and entrepreneurs to launch investment projects, receive support for export promotion or identify necessary improvements to the business environment, including by referring necessary issues to the Coordination Council for Large and Strategically Important Investment Projects for consideration.

COOPERATION WITH THE FOREIGN INVESTORS' COUNCIL IN LATVIA

The process of improvement of the FDI attraction policy is ongoing in close cooperation with the Foreign Investors' Council in Latvia (FICIL). High-level meetings between the Latvian government and the FICIL have been held since 1999. These meetings aim to provide a structured exchange of information and views between investors and local policy makers to improve the business environment and facilitate the inflow of foreign investment into Latvia. Annual meetings of the Latvian government and the FICIL are attended by ministers, high-level civil servants and executives from FICIL member companies.

On 30-31 October 2025, the 29th regular high level meeting between the Latvian government and the FICIL was held. Government representatives and investors discussed strengthening the principles of good governance in public administration, efficient and effective use of resources, ensuring a fair and sustainable competitive environment, and improving transparency and systemic efficiency in public procurement.

During the meeting, both sides agreed that good governance is closely linked to public sector efficiency, which involves the responsible use of public funds and the provision of quality services to the public. By centralising the support functions of public administration, strengthening shared services and eliminating duplication of functions, governance can be improved and resources freed up, which are particularly important for the Latvian defence sector today. These measures would strengthen investors' confidence in the predictability and policy consistency of government institutions, thus increasing their willingness to invest in the Latvian economy.

The meeting also underlined the importance of fair and sustainable competition as a prerequisite for innovation, growth and investor confidence. The government and foreign investors agreed on the need to ensure a level playing field by clearly defining the limits of state participation in the market and strengthening governance transparency in state and local government enterprises. Strengthening the capacity and independence of supervisory and regulatory institutions, in particular the Competition Council, to ensure market neutrality and promote a predictable business environment was also emphasised.

Public procurement was seen as a strategic instrument, affecting both the country's competitiveness and the investment climate. To become a pillar of sustainable growth, the government and foreign investors highlighted the need to strengthen oversight, professional capacity and digital solutions, and to use procurement to deliver on national priorities from defence to energy security.

The FICIL submitted five position papers to the CM outlining strategic proposals in the areas of Latvia's economic development, human capital strengthening, investment protection, public administration modernisation and the fight against the shadow economy, outlining the main priorities for the government-investor dialogue.

At the end of the meeting, the government and foreign investors agreed on the next year's action lines, which will serve as a framework for further cooperation in strengthening Latvia's competitiveness.

COORDINATION COUNCIL FOR LARGE AND STRATEGICALLY IMPORTANT INVESTMENT PROJECTS

In 2024, the work of the Coordination Council for Large and Strategically Important Investment Projects was resumed, approving amendments to the Council's By-laws, improving the organisation of the Council's work and introducing a more efficient decision-making process. The purpose of the Council is to ensure coordinated inter-departmental cooperation for the successful implementation of investment projects in the national interest of Latvia, including the consideration and

resolution of issues of bureaucratic burden and administrative obstacles related to the implementation of investment projects.

The Council is chaired by the Prime Minister, and the Deputy Chairperson is the Minister of Economics. Other participants of the Council are the Minister of Finance, the Minister of Smart Administration and Regional Development, the Minister of Transport and the Minister of Foreign Affairs. The secretariat's functions are provided for the Council by the LIAA. The Secretariat organises the Council meetings and provides the support procedures necessary for the Operational Working Group on Major and Strategically Important Investment Projects established by the MoE. The Operational Working Group agrees on the topics to be discussed at the Council meeting, studies them in depth and develops proposals.

The Council continued its work with 4 meetings in 2025. They addressed issues such as reducing the tax burden on foreign investors, the use of the state road right-of-way for cable burying, restrictions on spatial regulation for investment projects, the use and commercialisation of autonomous vehicles in Latvia, and the availability of timber resources for the production of high value-added products in Latvia.

For a company to propose a review of the complications or challenges of its investment project by the Council, a representative of the company should contact the Council's secretariat, providing as specific information as possible on the identified problems that make the implementation of the investment project in Latvia difficult and, if possible, what inter-institutional solutions should be provided to solve these problems or mitigate their impact. More information about the Council, including the approved minutes of the meetings, is available on the MoE website, in the section on advisory councils.

SUPPORT FOR INVESTMENT PROJECTS

An important initiative to attract foreign investment is the "fast-track" to speed up bureaucracy and administrative processes for high value-added investment projects. The "fast track" is designed for investment projects in priority industries covering RIS3, international business services centres, as well as construction, transportation and logistics if the implementation of these ideas is linked to priority industries. It is an opportunity for the companies registered in Latvia, which are planning to implement investment projects and meet the set criteria (size of investments, number of jobs created, volume of exports and investments in R&D), to receive public administration services provided in the field of construction, spatial planning or migration using an accelerated procedure, i.e. reducing the time for receiving specific public services by half. In 2025, 18 projects with a total planned investment of 1.8 million euro have been granted this status.

On 6 May 2025, CM Regulations No. 277 *Procedure for Ensuring the Provision of Priority Public Services to Commercial Entities* (hereinafter referred to as CM Regulations No. 277) or the improved "fast-track" regulation came into force intending to attract investments, promote exports, as well as facilitate the development of the defence industry. The regulation significantly extends the range of businesses, which can receive public service at an accelerated rate, and provides that not only implementers of a priority project but also traders who have secured a significant volume of investment and export of goods or services in the previous reporting year may apply for the "fast-track" or priority status for 36 months.

Various shortcomings have been observed after the entry into force of CM Regulations No. 277 and their application in practice. It was concluded that the newly created service burden was too high and that all services to be provided to "fast-track" traders could not be delivered within two times shorter time using the existing resources. By 2025, a total of more than 580 Latvian companies have already qualified for "fast-track" services.

This has led to the need to address these shortcomings and to make new additions to ensure that the obligations laid down in Regulation (EU) 2024/1252 and Regulation (EU) 2024/1735 of the European Parliament are met. Thus, work started on the drafting of amendments to CM Regulations No. 277 (TAP 25-TA-2347) in 2025.

In addition to the above initiatives, support is available to entrepreneurs to facilitate access to finance in the form of financial instruments (see Chapter 12.1), and investment marketing activities are carried out, including visits of senior officials abroad, such as the visit of the President and the Minister of Economics to Japan, the visit of the Prime Minister and the Minister of Economics to Germany, the visit of the Minister of Economics and the Minister of Climate and Energy to the United States. All these events were attended by a large number of Latvian companies and included foreign investment attraction activities. In 2025, special attention and proactive actions to attract investment are focused on the Japanese market to take advantage of the highly popular joint Latvian-Lithuanian stand at EXPO 2025 (see Chapter 12.3).

12.5. DIGITAL TRANSFORMATION

Investment in the development of the digital transformation of businesses is one of the priorities for promoting productive business. To achieve these objectives, until 2029 companies have access to support for digitisation of business processes, improvement of digital skills, development of new products and services, as well as testing and purchasing of technological equipment. In total, 183.5 million euro will be invested in MoE's digital transformation support programmes under the EU Cohesion Fund 2021-2027 and the Latvia's RRF Plan.

SUPPORT OF EUROPEAN DIGITAL INNOVATION HUB

On 13 September 2022, by Regulations No. 577 *Implementing Regulations of Investment 2.2.1.1.i. Support for Creation of Digital Innovation Hubs and Regional Contact Points of 2.2.1.r. Establishment of Full Cycle Support for Digital Transformation of Entrepreneurship with Regional Scope of Reform and Investment Direction 2.2 Digital Transformation and Innovations of Enterprises of Component 2 Digital Transformation of Latvia's Recovery and Resilience Facility Plan*, the CM approved the support programme forwarded by the MoE, which aims to promote the competitiveness of businesses through the introduction of digital technologies, as well as digital and innovative public administration, which uses technologies as advanced as in the private sector, to promote the introduction of solutions in conjunction with the Smart Specialisation Strategy, to raise the awareness of businesses regarding the advantages provided by digital technologies, as well as to ensure access to support for digital transformation processes throughout the territory of Latvia and to ensure full involvement of Latvia in the joint European Digital Innovation Hubs (EDIH) network.

Target groups or final beneficiaries of the programme are the micro, small, medium-sized enterprises and large enterprises, associations and foundations, which unite several businesses or represent their interests, public persons or institutions, capital companies of public persons, research and knowledge distribution organisations, agricultural farms, cooperative society doing business. As part of the support, any interested person can receive advice on the degree of digitisation of their company or institution, a road map for identifying priority investments and mentoring on how to digitise the processes of the company or institution. The total investment funding is 10 million euro. In 2025, 5,077 digital roadmaps were issued to businesses. European Digital Innovation Hubs provide technology services for up to 20 thousand euro for experimentation, piloting and testing activities.

Two European Digital Innovation Hubs (EDIHs) were set up and successfully launched in 2023. They provide advice, mentoring, technological service support, as well as first-time and recurrent digital maturity tests, digital roadmaps and opinions on digital transformation pathways to businesses through regional contact points and one-stop shops.

GRANTS FOR DIGITALISATION OF SERVICES AND PRODUCTION PROCESSES OF COMPANIES

On 10 January 2023, the CM approved by Regulations No. 10 the support programme *Support for digitisation of processes in commercial activities* developed by the MoE. The programme is designed to promote the digital transformation of businesses by providing grants for the development or deployment of digital products, services and solutions, thereby improving business processes and increasing business productivity. The support is available to all entrepreneurs registered in Latvia – micro, small, medium and large entrepreneurs (including foreign branches, farms, co-operative societies), as well as associations and foundations, research and knowledge dissemination organisations, publicly owned companies.

High activity in the support programme *Support for Digitisation of Processes in Commercial Activities* (SO 1.2.2.1) developed by the MoE and administered by LIAA shows the interest of entrepreneurs in the digitisation of commercial activity processes and implementation of artificial intelligence. The call for project applications was launched on 21 July 2025 and the acceptance of proposals closed on 7 November 2025. 1101 project applications were received in total.

The support programme offers funding for various activities: up to 10 thousand euro for the purchase, installation and adaptation of off-the-shelf solutions, hardware, sensors, equipment, software and IT infrastructure, the development of new solutions, the purchase or subscription of licences, certification and digital maturity assessments, and up to 200 thousand euro for the development and deployment of artificial intelligence solutions. The total planned support funding is 23.2 million euro, which provide companies with a wide range of opportunities to develop innovation and promote digital transformation in business.

LOANS FOR DIGITISING BUSINESSES

On 5 July 2022, by Regulations No. 421 *Implementing Regulations of Investment 2.2.1.4.i Financial Instruments for Promotion of Digital Transformation of Businesses of Reform and Investment Direction 2.2 Digital Transformation and Innovations of Enterprises of the European Union Recovery and Resilience Facility Plan*, the CM approved the support programme proposed by the MoE in the form of a financial instrument. The objective of the investment is to promote the digital transformation of businesses, development of businesses and increase turnover by supporting investments in tools for digital transformation of business aimed at productivity growth. Within the framework of the RRF investment, support can be received as a loan with a capital rebate of up to 35% of the total amount of the investment project, but not more than 200 thousand euro.

Beneficiaries are micro, small, medium-sized and large enterprises. To apply for the Altum loan capital rebate, an EDIH report will have to be submitted, which is an assessment of digital and innovation maturity after the second test and of the compliance of the investments made with the Digital Development Roadmap, as a confirmation that the Digital Development Roadmap has been fulfilled and that the specific investment has contributed to the digitisation of the processes. The funding available for the investment is 48.6 million euro. By 31 October 2025, support amounting to 60.5 million euro has been provided to 146 businesses and 65.1 million euro private investments have been raised.

IMPROVEMENT OF DIGITAL SKILLS

To provide Latvian micro, small, medium-sized and large enterprises with digital skills, including skills that contribute to export promotion, basic high-level digital management skills at the level of enterprise management and skills for the use of digital technologies in different business processes, support in the form of grants and non-financial support is planned within the RRF.

The RRF financing available for investment 2.3.1.2.i is 16.5 million euro, and support is provided by EDIH or industry organisations representing entrepreneurs. The investment is expected to support at least 1800 merchants to improve their employees' digital skills by mid-2026. By the end of 2025, more than 1500 undertakings have participated in the training and absorbed funding of 4.5 million euro. The support is available until Q1 2026.

DEVELOPMENT OF NEW DIGITAL PRODUCTS

Under the terms of RRF investment 2.2.1.3.i. *Support for the introduction of new products and services into business*, support is available for the creation of new digital products and services. The support is available in the form of grants up to 1 million euro with 25%-80% intensity depending on the type of research project (industrial research; experimental development; feasibility study) and the size of its implementer.

The RRF funding available for the investment is 24.3 million euro. The programme has so far supported 80 businesses and research organisations, leveraging private co-financing of more than 12 million euro.

12.6. MANAGEMENT OF STATE CAPITAL SHARES AND CAPITAL COMPANIES

Companies with state capital shares and capital companies are companies in which the state owns part or all of the capital shares and whose activities are managed by the state or its authorised institutions. These capital companies operate in strategic sectors such as energy, transport, telecommunications, forestry and other areas where their decisions and development have a direct impact on the country's economic security, social welfare and long-term development.

State-owned enterprises not only provide critical services and infrastructure, they also promote investment, innovation and export capacity. They can mobilise significant financial resources, support modernisation and facilitate the integration of Latvian companies into global supply chains. The role of these companies is particularly important as they not only form the basis of the economy, but also act as a catalyst for new development opportunities, strengthening the country's position at the international level.

According to information compiled by the State Chancellery, the total investments of state-owned enterprises amounted to 1.21 billion euro in 2023 and 1,40 billion euro in 2024, which is an increase by 0.19 billion euro or 15.4% year-on-year. Compared to 2020, when the investment volume was 0.64 billion euro, in four years total investment has increased by 0.76 billion euro, which is assessed as a very sharp increase of more than 119%. These dynamics show that state-owned

enterprises have substantially stepped up investments in a variety of high-maturity development projects and strengthened their capacity to implement increasingly capital-intensive projects, thereby strengthening strategic sectors of the economy and improving long-term growth potential.

The State Chancellery's summary of investments in research and development by public corporations from 2020 to 2024 shows that research and development continues to grow at a consistent pace, reflecting the focus of state-owned enterprises on innovation and strengthening competitiveness.

In 2024, total investment of state-owned enterprises in research and development reached 35.09 million euro, which is 5.01 million euro more than in 2023 (an increase by 16.6%). Compared to 2020, when investments in research and development amounted to 22.13 million euro, the total increase over four years is 12.96 million euro or 58.6%. The increasing investment in research and development reflects a structural change in the investment portfolio of state-owned enterprises, including for the achievement of strategic objectives – a gradual shift towards new products, technologies and solutions that add value and improve the position of state-owned enterprises also in export markets.

The MoE's assessment of the share of exports by state-owned enterprises shows that in 2024, 14 out of 64 state-owned enterprises exported goods and/or services, mainly in the energy, transport, communications and forestry sectors.

The total turnover of large state-owned enterprises ranged from 3.3 billion euro in 2019 to 5.7 billion euro in 2023. It was 5.5 billion euro in 2024. The strongest growth was recorded in 2022, when turnover more than doubled compared to the previous year, demonstrating significant growth and diversification potential.

Of the 14 export capable state-owned enterprises, 8 exported goods and services worth more than 10 million euro. The total exports of large capital companies have increased in recent years from 0.74 billion euro in 2019 to 0.79 billion euro in 2024. The growth in exports reflects the ability of state-owned enterprises to adapt to market changes and gradually expand their international presence, while the share of exports in turnover has remained relatively stable.

Considering that in 2024 the total value of exports of exporting state-owned enterprises amounted to around 0.79 billion euro, equivalent to 3% of the country's total exports and 2% of GDP. These indicators show that state-owned enterprises have significant, but not yet fully exploited, export potential.

To increase the export performance of state-owned enterprises, further work is needed to improve the regulatory framework to enable large commercial capital companies already operating in export markets or planning to enter them in the near future to operate according to the general business principles that apply to the private sector. This would create more favourable conditions for attracting capital, expand export opportunities and boost the competitiveness of the business environment as a whole.

Several targeted measures can also be implemented to strengthen the export performance of state-owned enterprises, including integrating export ambitions into overall strategic objectives, letters of intent and medium-term strategies, setting specific export performance indicators. In addition, export competences can be strengthened within the capital companies themselves by organising exchanges of experience on working in foreign markets, e.g. through cooperation with LIAA and other institutions providing support to exporters and innovation developers.

12.7. SUPPORT FOR THE SECURITY INDUSTRY

On 18 March 2025, the CM approved the information report *Defence Industry and Innovation Support Strategy 2025-2036* promoted by the Ministry of Defence. The strategy defines a concrete vision for improving the capabilities of the Latvian defence industry and promoting cooperation, including setting achievable indicators, with the aim of tripling the national armed forces' purchases from local industry to 30% of total purchases by 2036. The strategy includes key development directions for the Latvian defence industry, investment support instruments, a "fast-track" for the industry, closer cooperation between the state, research institutions and companies, as well as the development of advanced technologies and a defence sector contribution of up to 5% of GDP.

In 2024, the MoE actively initiated and in 2025 continued not only strategic discussions with stakeholders, but also targeted investments in the development of the defence industry – currently more than 232 million euro have been earmarked. Support is provided for business incubation, research activities, product launches and large investment projects. To reduce the bureaucratic burden and facilitate faster development of defence projects, Latvia has established and implemented the "fast track", which enables defence investment projects (subject to the approval of the Ministry of Defence) to obtain certain public sector services (such as construction permits, spatial planning and residence permits) using an accelerated procedure.

SUPPORT FOR THE DEVELOPMENT OF DUAL-USE PRODUCTS

On 22 October 2024, the CM approved *Implementing Regulations for Round 3 of ERDF Activity 1.2.1.1 Support for the Development and Internationalisation of New Products*, which provides support for the development of new dual-use products and technologies. Support in the form of a grant up to 1 million euro is intended for industrial research, experimental development and feasibility studies to develop products and technologies that are adaptable to both defence and civilian needs, enhance Latvia's strategic resilience and have a wider economic impact.

The 1st selection of project applications, which closed in April 2025, supported 25 research projects and attracted private co-funding of 8.7 million euro. The 2nd selection of project applications will run from 14 November 2025 to 19 January 2026. The total available funding for the 2nd selection of project applications is 15.5 million euro. In total, 410 businesses are planned to be supported and private funding of 95 million euro is planned to be raised in competence hubs.

PRODUCTIVITY LOANS FOR BUSINESS INNOVATION

To support the development of innovative products, including dual-use products, by stimulating private sector investment in research, on 7 January 2025, the CM approved Regulations No. 24 *Regulations on Productivity Loans for Business Innovation*, and from 14 May 2025 a combined financial instrument – Altum loan with a capital rebate or parallel loan with a capital rebate – is available for entrepreneurs.

The loan is available for the development of innovative products – investments in tangible/intangible assets. Loans available per business amount from 300 thousand euro to 5 million euro with a capital rebate of up to 30 % of the loan amount, up to a maximum of 1.5 million euro. Support for research and development is available for experimental development, industrial research, feasibility studies. Loans available per business amount from 300 thousand euro to 1 million euro. In total, it is planned to support at least 33 businesses, attract private investment of at least 42.4 million euro and create at least 240 new jobs. By Q4 2025, the Ministry of Defence and the Latvian Council of Science have issued a total of 15 positive opinions on the participation of businesses in the support programme.

SUPPORT FOR PROJECTS TO IMPROVE INDUSTRIAL CAPACITY

To provide support for large, scalable military or dual-use product projects, the MoE has proposed a new support measure 1.5.1 *Improving industrial capacity, giving priority to the development of dual-use or military products* under amendment 3 of the EU Cohesion Policy Programme 2021-2027. Support is for military or dual-use product projects. The support is provided in the form of a loan with a capital rebate of up to 30% of the eligible project costs or a guarantee with a capital rebate of up to 60 million euro, a capital rebate of up to 20% of the amount of the guarantee issued.

To apply for support, one must obtain an opinion of the Ministry of Defence, which is a document certifying that the project is a military product that meets vital security interests or dual-use product specificity. The support is intended for micro, small, medium-sized and large enterprises registered in Latvia, or for small, medium-sized or medium-capitalisation enterprises. The funding available for support is 40 million euro. The support is planned to start in 2026.

GUARANTEES FOR MILITARY PROJECTS

On 16 June 2025, amendments to the CM Regulations No. 383 of 16 June 2020 *Regulations on Guarantees for Economic Operators to Improve Their Competitiveness* were approved, providing for support in the form of guarantees also for military projects. Guarantees are available up to 25 million euro, subject to an opinion from the Ministry of Defence that the project is military.

13. CONSTRUCTION POLICY

The MoE continues to streamline the construction process, offering solutions to simplify and improve administrative procedures. Work is underway to reduce the bureaucratic burden and promote the digitalisation of construction, while ensuring a high level of protection of the public interest and construction safety.

Several laws and regulations were amended in 2025 to reduce administrative burdens:

- amendments have been made to the *Construction Law* and CM Regulations No. 500 of 19 August 2014 *General Construction Regulations*. They provide for a more efficient procedure for the approval of technical regulations and construction design, ensuring faster and simpler progress in the construction process, which in the long term will create a more attractive environment for investment and promote the development of real estate in Latvia. It is also made clear that public involvement in the construction process is only necessary to better integrate the building into its surroundings and to avoid potential adverse impacts on society. Issues to be addressed in spatial planning or environmental impact assessment processes are not discussed at this stage. In addition, in the case of road and external engineering works, the approval of changes to the construction design can be postponed until the construction site is commissioned, and engineering works can be started during the fulfilment of the design conditions, provided that the planned works do not affect the rights of third parties or have been approved by them;
- amendments have been made to CM Regulations No. 529 of 2 September 2014 *Construction Regulations for Buildings*. The regulation reduces the administrative burden for new construction (including small buildings, outbuildings), renovation or reconstruction of one or two apartment residential buildings of the second group, new construction of single-apartment residential buildings of the second group, as well as reconstruction of outbuildings or agricultural non-residential buildings of the second group. The regulation also stipulates that a builder may construct a single-apartment residential building of the second group on its own, without involving a building undertaking. It also obliges the construction initiator (natural person) to provide BIS with information on the origin of the financing planned for the construction works when fulfilling the conditions for the start of the construction works. The amendments stipulate that prefabricated buildings will be offered on the market with a level of documentation equivalent to the construction design. This will enable the buyer of the building to verify at the time of purchase that the prefabricated building complies with the requirements of the construction regulations;
- Amendments to the CM Regulations No. 693 of 19 October 2021 *Construction Standard LBN 200-21 for General Requirements for Structures* have been drafted to reduce the administrative burden for the installation of an electronic communications network in municipal street construction projects. The amendments provide for the provision of a back-up duct (a place for the installation of an electronic communications network) for external electronic communications engineering networks.

In 2025, the MoE worked on the development of CM Regulations No. 451 of 22 July 2025 *Construction Standard for Shelters LBN 210-25*, which sets out the minimum technical requirements for the design of shelters. The construction standard groups these requirements according to the objective to be achieved, namely general requirements, requirements for protection against blast and fragmentation, and requirements for protection against chemical warfare agents, ionising radiation and radioactive dust. According to the *Civil Protection and Disaster Management Law*, the requirement to build shelters will apply only to the construction of new buildings specified in the law from 1 January 2027. Construction intents submitted to the Construction Board by 31 December 2026 will not require the construction shelters. The legislation does not prevent a person from voluntarily constructing a shelter in accordance with the requirements of the construction standard.

Amendments have also been prepared to the CM Regulations No. 384 of 15 June 2021 *Construction Standard LBN 405-21 for Technical Inspection of Buildings*, which stipulates that, if the building does not have a valid energy certificate, during the periodic technical inspection it is mandatory to perform also energy certification of the building. The construction standard also provides for cases where periodic technical inspections are not required, for example, where a public or multi-storey residential building of the second or third group is not in use, or where the building is in use only in a part not exceeding 10% of the total area of the building, or where the building has been renovated or rebuilt in the last 10 years and the construction work has been commissioned. The amendments will ensure that energy certification of buildings is carried out on a regular basis and will improve the quality and quantity of data available on the energy performance of buildings.

Amendments have been made to the CM Regulations No. 156 of 25 March 2014 *Market Surveillance of Construction Products* to facilitate the circulation of reusable construction products in the construction sector. The regulations have been updated to include requirements for the reuse of such materials, thus simplifying their use in buildings. The amendments give the contractor the right to decide independently on the further use of materials from the construction site in repeated construction works, promoting resource efficiency and sustainable construction practices. The possibility for a construction contractor (construction undertaking) to use construction products from demolition or other construction works, both on- and off-site. The range of permitted construction products covers both load-bearing structural elements and finishing materials, as well as products such as windows and doors, water supply and drainage elements, telecommunication and electricity cabling and reclaimed grounds and soils. The acquisition and use of reusable construction products shall be demonstrated by the contractor by means of a declaration of conformity of the construction products. The declaration of conformity is a binding document for used but still usable products and recycled materials, equivalent to a contract or accompanying document for the purchase of new construction products.

The introduction of the unified building registration process¹ was aimed at reducing the administrative burden – a person no longer has to submit separate proposals to the State Land Service for registration of the building data in the Cadastre and then to the Land Register for registration of the building. From now on, both processes will be carried out with one common proposal, which will be processed in BIS.

The introduction of the process will also reduce deadlines and optimise costs. Data registration in the Cadastre is being completely transformed – data registration will now be both automatic and based on the processing of documents. As part of the unified process, the State Land Service will no longer be required to inspect and survey the structure, and a cadastral survey file will no longer be required for the commissioning of the structure.

The introduction of the single building registration process partially automates the registration of data in the Cadastre and Land Register. The main data of the structure are registered in BIS, which will be automatically (at system level) transferred to the Cadastre for registration once the structure is commissioned. As the floor plans and executive surveys will have to be submitted to BIS as a vector file, the State Land Service will be able to prepare floor plans and mark the outline of the building on the Cadastre map much faster. The introduction of the unified building registration process also means that the registration of a building in the Cadastre and its subsequent entry in the Land Register will become mandatory and can no longer be avoided.

To ensure the protection of public interests, on 17 June 2025 amendments to CM Regulations No. 294 of 9 June 2015 *Regulations on Latvian Construction Standard LBN 261-15 Internal Wiring of Buildings* were adopted. The amendments require that the design of wiring be carried out in such a way as to ensure the right of each electricity user to choose a supplier and to reduce the risk of domestic electric injuries by providing for the installation of an earth leakage circuit-breaker in the user's wiring.

In 2025, the MoE continued to implement measures to improve the supervision of the competence of construction professionals by delegating the assessment of the competence of construction professionals and the supervision of independent practice to the relevant institutions representing the construction industry. The new delegation agreements entered into force and will remain in force for the next 10 years. In view of the decreasing number of construction specialists and very limited availability of specialists in certain areas, the MoE, together with the competence testing bodies and representatives of the construction industry, worked on merging certain fields of activity and expanding the scope of specialists. The competence of construction specialists in the field of bridges has been extended to include similar structures from the fields of port and offshore hydraulic structures and hydraulic engineering structures. To eliminate uncertainty as to the time limit within which the competence examination body must examine administrative cases concerning alleged breaches of professional conduct of construction professionals, and to ensure uniform and understandable practice, the *Construction Law* provides that the case must be examined and a decision taken within one year from the date of its initiation. This period may be extended for objective reasons only, but not beyond three years.

The regulatory framework for assessing the competence of independent experts and monitoring their professional activities in the field of energy performance of buildings was improved. The regulation establishes a procedure for the supervision of independent experts equivalent to that of construction professionals and stipulates that construction professionals will not be able to act as independent experts without an independent expert certificate. These changes will enter into force on 1 January 2026.

¹ The following regulatory enactments have been developed for the implementation of the unified building registration process: amendments to the *Construction Law*, amendments to the CM Regulations No. 529 of 2 September 2014 *Construction Regulations for Buildings*, amendments to the CM Regulations No. 545 of 28 August 2018 *Regulations on the Latvian Construction Standard LBN 202-18 Presentation of Construction Concept Documentation*, amendments to CM Regulations No. 253 of 9 May 2017 *Construction Regulations for Individual Engineering Structures*, amendments to CM Regulations No. 633 of 14 October 2014 *Construction Regulations on Roads and Streets*; amendments to CM Regulations No. 550 of 16 September 2014 *Construction Regulations for Hydro-Technical and Amelioration Structures*; CM Regulations No. 501 of 19 August 2014 *Construction Regulations for Electronic Communications Engineering Structures*; amendments to CM Regulations No. 661 of 24 November 2015 *Construction Regulations for Radiation Safety-Related Structures*, amendments to CM Regulations No. 631 of 14 October 2014 *Construction Regulations for Structures in Inland Sea Waters, Territorial Sea and Exclusive Economic Zone of the Republic of Latvia*.

To promote the availability of low-cost, including operating costs, ergonomic, user-friendly and energy-efficient housing, a standard construction design for a multi-apartment residential building as well as a building based on modular timber structures was developed at the order of the MoE. Standard designs for series 103, series 316 and series 602 apartment buildings have been published in BIS, offering solutions for building insulation, engineering systems reconstruction, ventilation system construction, as well as elevator replacement in series 602 buildings. In addition to series 316 and 602 building, solutions were also developed for facade insulation with prefabricated insulation panels. The standard design solutions can be used for the preparation of construction concept documents for the energy performance improvement and renovation of buildings. Standard design documentation and BIM models are available free of charge from BIS.

On 13 February 2025, the Latvian Construction Council approved the Latvian Construction Sector Strategy 2025-2030 developed by the Ministry of Economics, which is a medium-term planning document that sets strategic goals for the sector's competitiveness and sustainable development. The strategy defines a vision and priority objectives based on a detailed analysis of data on construction sub-sectors and company size groups. The vision of the strategy for 2030 is a competitive and sustainable development oriented construction sector that provides high-quality, safe and efficient construction services to society, creating a long-term modern living environment for current and future generations. To achieve the objectives set out in the strategy, a work plan is drawn up each year, with specific work tasks to be carried out and performance indicators to be achieved. The MoE is responsible for updating, implementing, and evaluating the strategy together with the Latvian Construction Council, involving other public administration institutions, non-governmental organisations and experts. Evaluation of the results of the objectives and actions of the Construction Sector Strategy will be carried out when needed, but at least annually.

14. HOUSING POLICY

The affordability and quality of housing is one of the prerequisites for sustainable economic development. Providing energy-efficient and affordable housing contributes to the mobility of people, the attraction and resilience of the workforce in regions, and investment and business activity. Modernising the housing stock to meet today's energy efficiency and quality of life requirements is an important element in strengthening a competitive and balanced economy.

RESTORATION OF SOCIAL HOUSING AND CONSTRUCTION OF NEW SOCIAL HOUSING

Both the EC and the OECD have stated in their evaluation that social housing in Latvia is insufficient and the existing social housing stock does not meet modern energy efficiency and equality requirements. At the same time, due to lack of funding, the local governments do not supplement the social residential fund or improve its technical condition. As a result, the most vulnerable households, even if they qualify for limited housing assistance, may have to wait in line for years until local governments rent them an apartment.

On 19 September 2023, a new EU Structural Funds support programme for the renewal of social housing and the construction of new social housing was approved, which brings significant improvements to the social housing stock of municipalities and a reduction of lines in municipalities for rental and social apartments. The support is intended in the form of grants for local governments, their institutions or capital companies to renovate or rebuild separate groups of premises (apartments) or buildings owned by local governments and not rented out, as well as for the completion of buildings not previously commissioned and the construction of new residential houses. The homes constructed and renovated within the programme will have to be rented out to persons in accordance with the regulation of the *Law on Assistance in Solving Apartment Matters*, moreover, to the most vulnerable categories of persons specified in this law, such as low-income persons who are evicted from apartments, children left without parental care after the age of majority, special categories of low-income persons (persons with disabilities, persons reaching retirement age), etc., as well as to the categories of persons specified in the binding regulations of local governments.

The total funding planned for the support programme is 82.65 million euro, incl. ERDF funding of 70.2 million euro and local government budget co-funding of at least 12.4 million euro. In Q1 2024, round 1 of the selection and evaluation of project applications of the support measure was completed, with more than 900 local government housing renovations approved and started. With the support of the programme, it is planned that, by 31 December 2029, local governments will be able to provide a place of residence in at least 1952 newly built or upgraded social homes.

For the remaining funding available until 10 September 2025, an application for the support was launched under the 2nd selection round of the activity, which selects projects for the construction of new social housing, as well as another call for proposals under the first round of the activity, within which it was possible to apply for the renovation of individual apartments. In these selections, projects for the construction of 8 new residential houses in eight Latvian municipalities, providing for the construction of more than 400 new apartments that can be rented to the target group of the activity, as well as 19 projects for the renovation of more than 600 existing apartments in 19 Latvian municipalities, have been received and are currently under evaluation.

SUPPORT FOR THE CONSTRUCTION OF LOW-RENT HOUSING AND ESTABLISHMENT OF A LONG-TERM HOUSING AFFORDABILITY FUND

In view of the existing housing affordability problems, particularly in regions, and the OECD recommendations, support programmes for the construction of low-cost rental housing are among the priorities of MoE. Since 22 November 2022, real estate developers may apply for a new Altum state support programme for the construction of low-cost rental houses in the regions of Latvia.

The total funding of the programme is EUR 84.39 million and it is financed from the EU Recovery Fund. In 2025, the programme has seen strong demand, even exceeding the programme's available funding, with 9 loan agreements already signed for the construction of 536 apartments in different Latvian municipalities. Construction of residential houses in some projects has already been completed and renting has started.

HOUSING SUPPORT PROGRAMME

The housing support programme has been highly appreciated by the population so far simplifying for families with children payment of the first instalment for the loan for acquisition or construction of housing. During the years of functioning of the programme, since 2015, it has helped more than 33 thousand families to get housing of appropriate size. Since 2018, when the programme was extended providing that also persons under the age of 35 and having higher or vocational education can get a guarantee for the first instalment for the loan for acquisition or construction of housing.

In 2020, an additional support programme named “Balsts” was created, which provides large families with the possibility of obtaining a non-repayable state subsidy for the acquisition or construction of housing. The amount of the subsidy, according to the number of children in the family, is between EUR 8 and 12 thousand. The subsidy was increased by EUR 2 thousand if the housing met the energy efficiency requirements for nearly zero-energy buildings. Since the programme started, more than 2200 large families have received subsidies. The subsidy was extended at the end of 2022 to families with a disabled child, regardless of the total number of children in the family. In order to promote the population’s ability to buy housing in the regions, in 2024, the MoE has improved the housing guarantee programme by providing that households with children will be able to receive a significantly higher level of guarantee when buying housing in the regions (up to 50%). These changes were necessary to address the difficulties for households with children in receiving home loans in the regions.

LOANS FOR HOUSE PURCHASE IN THE REGIONS

A new state support programme *Home purchase loans in the regions* was launched on 29 October 2025 to boost mortgage lending in Latvia’s regions. Loans under the programme will only be available for the purchase of a home outside Riga and the Pierīga Region.

The programme has been set up by the MoE and Altum to reduce geographical barriers to homeownership in regions where mortgage lending has so far been limited. The programme will run until 31 December 2029 and will amount to up to 105 million euro. Residents can submit loan applications from 29 October 2025 via Altum’s customer service portal *mans.altum.lv*. The programme *Home purchase loans in the regions* will offer loans up to 74 thousand euro with a maturity of up to 30 years. The first instalment will be up to 5% of the transaction amount and can also be covered by Altum’s subsidy named “Balsts”, which is available for large families and families with disabled children. The loan can be secured by the real estate property purchased, and the amount of financing can be up to 100% of the property value.

Altum will also provide a number of practical reliefs – loans will be issued commission-free in the first year of the programme and loans will be subject to a 0% + 6-month EURIBOR added rate for the first 12 months. Fees and rate reductions will apply to applications submitted by 30 October 2026, while one real estate appraisal will be free of charge when applying for an Altum loan for the duration of the programme.

ASSOCIATION OF APARTMENT OWNERS

To facilitate the ability of the association of apartment owners as a legal entity recognised by law to operate in the civil legal area, including opening its own accounts and taking loans from credit institutions, amendments to the *Law on Residential Properties* were made and approved by the Saeima in the 3rd reading on 13 November 2025.

In its business relations with the credit institution, the association of apartment owners will be treated as a legal entity. This will allow the association to open its own current account and conclude contracts with credit institutions on loans, for example, for renovating houses. The possibility of obtaining a loan for the association itself is expected to reduce the administrative burden, as until now a society had to be set up to apply for, for example, support for renovating a house and obtaining funding.

Each association of apartment owners will be given a name and an identifier to enable credit institutions and other potential counterparties to identify the association of apartment owners. This information about associations of apartment owners will be publicly available in BIS, and a register of these associations of apartment owners will be maintained by the State Construction Control Bureau as the BIS manager. The register of associations will also contain details of the representative of the association. The representative will be a house manager who is registered in the register of house managers kept by the State Construction Control Bureau.

15. TOURISM POLICY

The geopolitical situation negatively affects the neighbouring countries of those involved in the war, including the Baltic states, and undermines the perception of the Baltics as a safe tourist destination. Before the full-scale war in Ukraine began, approximately 30% of tourists visiting Latvia came from Russia, Belarus, and Ukraine. To return to the 2019 level of inbound tourism, this shortfall has to be offset by attracting tourists from other countries such as Germany, Finland, Sweden, Norway, and the United Kingdom.

Tourism development trends in Latvia in 2025

Latvia is successfully adapting to the global changes in the tourism industry. Through targeted efforts to promote Latvia as a safe and attractive tourism destination in Western European markets, Latvia has increased the number of Western European tourists, partially compensating for the decline in tourists from Russia. In January-June 2025, Latvian tourist accommodation establishments hosted 1.2 million foreign and domestic guests, 0.7 million and 0.5 million respectively, representing a 6.5% increase compared to January-June 2024.

In the summer months of 2025, which are typically the busiest months of the tourist season in Latvia, 1.1 million guests stayed in tourist accommodations - 0.6 million foreign tourists and 0.5 million domestic tourists. The number of both domestic and foreign guests has increased compared to June-August 2024.

In January-June 2025, the number of nights spent by foreign guests was 1.3 million. The average length of stay in tourist accommodations in January-June 2025 was 1.8 nights.

In January-June 2025, the most popular places of stay for foreign guests were Riga (538 thousand), Jurmala (46 thousand), Marupe Municipality (29 thousand) and Liepaja (17 thousand). In January-June 2025, the largest number of foreign visitors came from Lithuania (108 thousand), Estonia (83 thousand), Germany (68 thousand), the United Kingdom (54 thousand) and Finland (50 thousand).

In January-June 2025, Riga Airport served 3.31 million passengers, which is 5% more than in the corresponding period in 2024. As Riga Airport has the widest route network in the Baltics, meeting the diverse travel needs and wishes of tourists, in June this year, Riga Airport was used by 656 thousand passengers.

In January-June 2025, the number of nights spent by foreign guests in Latvian hotels was 804 thousand nights, representing an increase of 2.4% compared to the corresponding period in 2024. The most popular places to stay for local guests were Riga, Jurmala, Liepaja and Cesis.

In accordance with the informative report *On the Export Promotion Strategy for Latvia's Tourism and Events Sector until 2027*, the main priorities of the MoE are to promote the sustainable development of the sector, the introduction of new digital technologies, and the improvement of the regulatory framework.

On 11 February 2025, the CM Regulation No. 99 was adopted, establishing the procedures for granting state budget co-financing to large and significant public events in Latvia, facilitating the attraction of large-scale events, thus promoting Latvia internationally and contributing to the national economy and regional development.

Amendments are being made to the *Tourism Law* to reduce the bureaucratic burden (particularly regarding the designation of territories as resorts) and to include the definition of "short-term rental accommodation", which would allow this type of accommodation to be regulated as tourist accommodation. Work is also underway on amendments to *CM Regulations on the Procedure for the Preparation and Provision of Package Travel and Linked Travel Arrangements and on Travellers' Rights*. These amendments aim, among other things, to improve the business environment by reducing the administrative burden associated with the scope and frequency of reporting and to strengthen the powers of the Consumer Rights Protection Centre.

In 2025, several significant events took place in the tourism sector:

- from 27 August to 14 September, Riga became one of Europe's basketball capitals by hosting part of the continent's premier basketball event – the European Basketball Championship *EuroBasket 2025*. During this period, thousands of fans from across Europe visited the Latvian capital, while the overall economic impact is still being assessed;
- in the *2026 Michelin Guide*, 34 restaurants were included: 27 in Riga and 7 outside the capital. Two restaurants retained their Michelin stars, five received Bib Gourmand recognition for excellent value for money, and three new restaurants joined the list, demonstrating the growth and international competitiveness of Latvia's gastronomy sector.

LIAA TOURISM PROMOTION AND SUPPORT MEASURES

In 2025, the LIAA continued to actively promote Latvia's tourism offer in Latvia and abroad. Within the framework of export promotion and investment attraction measures, LIAA provides the activities envisaged in the *Latvian Tourism Marketing Strategy 2021-2027* in the target markets. Activities are planned for the professional and final consumer audiences, promoting priority tourism types – cultural, nature, health and business tourism. Tourism sector organisations and businesses are involved in the marketing activity planning, and the work is organised in the Marketing and Product Development Sub-Group of the Latvian Tourism Advisory Council. LIAA implements cooperation among the countries of the Baltic Sea region in the fields of tourism product development and marketing, ensuring regular communication with the tourism organisations of the Baltic countries within the framework of the Joint Tourism Committee of Baltic States. LIAA is involved in the European Travel Commission ensuring the efficient use of resources from international organisations.

Tourism marketing activities and local and regional tourism development activities implemented by LIAA in 3 quarters of 2025

In Q1-Q3 2025, marketing activities for Latvian tourism in foreign markets were implemented:

- five stands and participation of 34 Latvian tourism companies in international tourism exhibitions, gaining around 800 business contacts;
- participation in 19 Latvian tourism promotion events abroad was organised;
- 17 Latvian tourism publicity events were organised;
- visits of 21 foreign media representatives and social media content creators to Latvia have been ensured;
- participation in 19 specialised tourism promotion events abroad was ensured;
- 11 business networking events for Latvian and foreign tourism companies (matchmaking events) were organised;
- 5 industry events were organised in Latvia, including the International Tourism Forum Baltic Connecting 2025;
- visits to Latvia by 27 foreign tour operators, international event organisers, doctors, representatives of professional organisations and associations, during which 300 industry professionals visited Latvia;
- digital tourism marketing campaigns were implemented to promote Latvia's tourism offer in the Lithuanian, Estonian, Finnish, Swedish markets;
- the content of the Latvian tourism portal *Latvia Travel* is updated and the portal is regularly maintained and improved, attracting more than 2 million visitors;
- tourism promotion on *Latvia Travel* social network platforms was implemented, printed information materials were provided;
- cooperation with the *Michelin Guide*, international restaurant guide, continued, tourism campaign activities in priority tourism markets and a health tourism promotion campaign were launched.

In 2025, LIAA continues to implement domestic and regional tourism development measures, as well as sector development activities:

- the local marketing campaign *Home Cafe Days 2025* took place from 27 June to 14 September for the fifth time. 584 cafes in 40 destinations took part in the campaign. The number of visitors to the cafes exceeded 81 thousand. The campaign received extensive media coverage throughout Latvia, with a total potential audience of more than 7 million contacts, indicating the visibility of the event in the Latvian media space;
- to promote domestic tourism, Latvian Television Channel 1 broadcasted episodes of the sixth season of the programme “It Happened Here” about lesser-known places in Latvia and their historical events. The shows have been watched with replays by more than 529 thousand viewers and are available on *Replay* without a time limit;
- 4 regional tourism conferences were organised for tourism entrepreneurs in Latvian regions for the development of regional tourism;
- tourism workshops and matchmaking events were organised in Latgale, Kurzeme and Jūrmala to introduce new products to Latvian tour operators and promote cooperation with regional service providers;
- the Latvian Tourism Forum was organised, attracting 400 tourism entrepreneurs and professionals;
- the *Most Exportable New Tourism Product* competition was organised within the framework of the *Export and Innovation Award*, with a special focus on newly created tourism offers with potential in foreign markets.

LIAA participates in the implementation of the Activity 1.2.3.6 *Support for innovative SME business development* of specific objective 1.2.3 *To promote sustainable growth, competitiveness and job creation for SMEs, including through productive investments* of the EU Cohesion Policy Programme for 2021-2027, where 8 tourism cooperation networks receive support:

- thematic cooperation networks: Health Cluster (society Latvian Health Tourism Cluster), Business and Event Tourism Cooperation Network (society Latvian Congress Bureau), Culture and Creative Industries Tourism Cooperation Network (Latvian Restaurant Association) and Nature and Active Tourism Network (Latvian Nature Tourism Association);
- geographical cooperation networks: Vidzeme Tourism Cooperation Network (Vidzeme Tourism Association), Pierīga Tourism Cooperation Network (Pierīga Tourism Association), Gauja National Park Tourism Cooperation

Network (Gauja National Park Tourism society) and Zemgale Tourism Cooperation Network (Latvian Hotels and Restaurants Association).

The aim of the project is to provide support to micro, small and medium-sized Latvian entrepreneurs to develop new tourism products or services with higher added value, thus increasing the export capacity of the tourism sector and enhancing their international competitiveness.

LIAA is implementing the project *Exploring the New Nordic Tourism possibilities* of the Interreg Central Baltic Sea Region Programme 2021-2027 from 1 May 2025. The aim of the project is to develop and promote innovative, high added value cross-border tourism products in the Baltic Sea Region (Latvia, Estonia and Finland) by promoting the export capacity of small and medium-sized enterprises, cooperating with tour operators and attracting high paying capacity tourists from the United States, UK and/or Japan. The project addresses a common problem – the loss of tourist flows from the Russian market and the reduced tourist flows to border areas due to the geopolitical situation – and aims to develop new tourism opportunities outside the EU. The duration of the project is 3 years – from 1 May 2025 to 30 April 2028.

16. CONSUMER RIGHTS PROTECTION AND MARKET SURVEILLANCE

Consumers are the largest driver of the economy. Today the range of fundamental rights of consumers is rather extensive: the right to secure own needs, the right to safe goods and services, the right to be informed, the right to choose, the right to resolution of disputes, etc. To ensure compliance with them and to protect consumers' economic interests, it is necessary to implement consumer protection policies in different directions. Moreover, consumer rights protection requirements should be considered, also when developing and implementing other policies.

The modern consumer policy includes protection of rights by law, help in quick and effective resolution of disputes with traders, guarantee of safety of any goods purchased in the single market, alignment of consumer rights with economic and social changes, in particular in the area of digital technologies, energy, financial services, as well as provide consumers with the possibility to choose the goods and services they need and want on the basis of clear, accurate and consistent information. Considering the dynamics due to the rapid development of globalisation, digitalisation and technologies, also the consumer rights protection policy is made as flexible as possible to respond to the changes operatively.

Currently, the issue of cost increases in goods and services has been particularly pressing and service providers and traders must act in accordance with the principles of fair commercial practices. The consumer rights protection system in Latvia is constantly being developed to ensure effective market surveillance and consumer rights protection. The MoE is working to improve the existing framework and ensure a high level of consumer rights protection. There is active participation in shaping the international consumer protection policy, research and adoption of good practices of other countries.

In the field of consumer protection, the MoE is working closely with the Consumer Rights Protection Centre (CRPC). The CRPC is the main coordinating authority in the surveillance of compliance with the laws and regulations on consumer protection, and the goal of its operations is the efficient protection of consumer rights and interests. To perform the entrusted functions, the CRPC implements different activities related to the monitoring of consumer rights protection, examines consumer complaints, informs and advises consumers and entrepreneurs, implements monitoring activities to prevent unfair commercial practices, controls e-commerce and advertising, licences non-bank credit providers and extrajudicial debt recovery service providers, takes measures on the safety and compliance of goods and services, carries out the national metrological supervision, supervision of dangerous equipment and investigations of dangerous equipment accidents.

Activities of the Consumer Rights Protection Centre (CRPC) in 2025

Continuing the **digitisation of CRPC processes**, in 2025 the internal information system *Uzraugs*, which provides for targeted risk identification and trend analysis based on actual monitoring data, and the new information system for the registration of hazardous equipment, which will ensure more efficient data exchange between inspection authorities, hazardous equipment operators and supervisory authorities, were improved, thus further improving public safety. As a next step, the institution has launched the development of an online platform for consumers to provide residents with an easy, fast and digitally accessible way to submit applications and get help.

It is essential for CRPC to provide **information and support to consumers**, both by responding to consumer applications and enquiries and by providing legal assistance in disputes with traders, including cross-border disputes. In January-September 2025, a total of 21,625 consultations has been provided and 4324 complaints have been examined, an increase of 10% compared to 2024. The areas, in which consumers turned to CRPC and the European Consumer Centre in Latvia (ECC Latvia) for help were non-conformity of goods with contract terms, air passenger rights and undelivered goods. The most frequent complaints were about the purchase of furniture, shoes and electrical goods. The increase in the number of complaints shows that consumers are becoming more aware and more active in exercising their rights.

Recognising that educated and knowledgeable businesses are just as important as well-informed consumers, one of CRPC's key methods of cooperation with traders is the use of the **consult first** principle, which encourages traders to address violations and improve the market voluntarily. *½ day for business. Beneficial for business – safe for consumers, an information event for entrepreneurs* was held in May 2025 to provide all the latest information for entrepreneurs. Topics discussed included product safety, responsibility in e-commerce, pricing practices and accessibility requirements for people with functional disabilities. The event attracted a wide range of participants from different sectors, demonstrating the great interest and the need to organize the event as an annual cooperation format.

In January-September 2025, CRPC carried out 1087 surveillance activities in the **field of supervision of safety of goods and services**. Priority was given to e-commerce checks, with large online platforms being checked. 280 goods were checked in 205 inspections. Toys, electrical goods, smart goods, children's goods, personal protective equipment and jewellery were assessed for compliance with administrative and safety requirements. The inspections were carried out within the framework of CRPC's online platform monitoring project (see description below) and the first Sweep joint project initiated by the EC under the General Product Safety Regulation (2023/988) on the information to be provided in product offers on online platforms (identification, safety warnings, etc.). Both projects had a high rate of non-compliance, i.e. 75-80% of the goods checked.

Box continued

241 inspections were carried out in cooperation with the customs authorities, incl. 81 inspections were carried out in the first half of 2025 as part of a joint EU market surveillance and customs authorities project to control individual shipments from online platforms (within PCA2025). In total, 106 products (9 radio devices, 44 electrical goods and 53 toys, as well as 3 vehicle components) were assessed, of which 73 were found to be non-compliant with regulatory requirements, representing 69% of all products tested.

CRPC regularly inspects unsafe and non-compliant goods included in the EU's single notification system for unsafe goods *Safety Gate* and the EU's single market surveillance system ICSMS, carrying out 84 inspections in January-September 2025.

In the field of construction product supervision, 54 inspections were carried out, the evaluation of 112 construction product models revealed 24 (21%) non-compliant construction product models, and in the field of ecodesign and energy labelling, CRPC conducted 47 inspections, a total of 306 models were inspected, of which 330 (93%) did not comply with the requirements, mainly related to the failure to display the energy label in online shops.

In January-September 2025, CRPC seized 182 samples for expert examination (mostly under the online platform supervision project), including 20 construction products, 33 electrical appliances, 22 toys, 17 imitation jewellery, 11 children's goods, 23 radio devices, 16 appliances for ecodesign requirements, 14 flags, 5 vehicle components, 5 liquefied petroleum gas cylinders, 10 measuring instruments, 4 gas appliances, 2 personal protective equipment.

In spring 2025, CRPC also participated in the EC-coordinated project for supervision of the **most popular online trading platforms**. The project has led to significant improvements in the platforms' offers – clearer price indications, easier access to contract terms in Latvian and the removal of unsafe products from the market, thus improving the safety of online shopping and consumer protection. CRPC intends to continue its supervision in this area by following the practices of the most popular online shops and online platforms for Latvian consumers, with a particular focus on Temu, Shein and AliExpress.

In 2025, given the importance of the problem for the EU, as part of the implementation of the *Digital Services Act*, the EC identified as one of its priorities measures aimed at ensuring effective **age verification measures for individuals in the digital services environment**. CRPC is currently exploring the possibility of introducing the EC's developed Mini Wallet in Latvia. Although its implementation is voluntary in the Member States, it would ensure that minors are only given access to age-appropriate content in the digital environment. This age verification tool may also be used in the future in physical environment such as automated trading systems, micro-mobility rental services or the sale of goods with age restrictions. The implementation of the solution is also relevant in Latvia, as evidenced by the fine of 10,000 euro imposed by CRPC in autumn 2025 on LLC RIDE, for failing to comply with CRPC's decision to cease providing unsafe self-propelled bicycle rental services to children. At the same time, the operator was forced to introduce an age verification mechanism and to offer the service only to adults in the future, thus contributing to a safer environment for micro-mobility services.

On 27 May 2025, the **Memorandum to Reduce Food Prices** was signed at the initiative of the Minister of Economics. The aim of the Memorandum is to ensure the availability of everyday food products at reasonable prices and to promote the presence of locally produced products on the market. CRPC was entrusted with supervision of enforcement of the Memorandum. Thus, CRPC supervises the implementation of the so-called "low price baskets" (158 price checks), collecting weekly data on the availability of products at points of sale and on price trends. Since the introduction of low-price baskets, the share of local products in baskets has reached 35-59%, while food prices in these categories have become more stable.

Low prices are an important factor in consumers' choice to buy goods and services, and are often unfairly used in pricing offers. Thus, in 2025, CRPC also implemented an **electronic trade supervision project**, which included checks to verify how 18 of Latvia's most popular online shops comply with the requirements for displaying price discounts. The project analysed tens of thousands of price and discount offers and evaluated 1159 different types of products. It was found that in 46% of cases (around 24,900 cases), a discount was applied to the price of the product and in 96% of those cases (around 23,896 cases) misleading discount claims were identified. Price manipulation was also detected, with 2% of the cases (around 1251 prices) showing signs of prices being increased or changed to give the impression of a significant discount before the discount.

In 2025, CRPC also adopted a number of important decisions imposing fines and legal obligations on traders to remedy violations. In the case of LLC FISOM, a fine of 8048.80 euro was imposed for improper commercial practice in organising a travel camp in August 2024 when the trader failed to fulfil its obligations, CRPC had to repatriate the travellers from Spain and France and to ensure reimbursement of the advance payments to the travellers.

In 2025, CRPC also identified significant violations in the supervision of consumer credit service providers and adopted two decisions against AS 4finance and LLC ViziaFinance. Both traders engaged in inappropriate commercial practices in assessing consumers' ability to pay, adversely affecting consumers' economic behaviour. Their fines were 285,000 euro and 295,000 euro, respectively.

UPDATING THE REGULATORY FRAMEWORK

Taking into account the tense geopolitical situation in neighbouring countries, as well as the rapid pace of innovation and digitalisation, not only the adaptation of supervisory work to new market conditions is taking place, but also the regulatory framework is being updated and EU regulation is being transposed into national legal acts.

In March 2024, the Directive on empowering consumers for the green transition entered into force, requiring commercial practitioners to provide clear, relevant and reliable information on goods and services, including through the EC's harmonised labelling and the harmonised statement on the guarantee of legal conformity and the commercial guarantee of durability. In this context, the MoE has drafted amendments to the *Consumer Rights Protection Law*, which are currently reviewed at the Saeima. The requirements should enter into force in March 2026.

In July 2024, the Directive on common rules promoting the repair of goods also entered into force, and should start to be applied from 31 July 2026. The Directive aims to increase the possibility of repairing defective goods both during and after the legal warranty period. The Directive requires repairers to provide consumers with a paper-based European Repair Information Form, standardised at the EU level, containing information on the repairer and the repair process. In

addition, Member States are required to use the online platform developed by the EC where one can find repairers and information on repair services in one place. The MoE has prepared relevant amendments to the *Consumer Rights Protection Law*, which are planned to be submitted to the CM for consideration by the end of this year.

On 21 June 2024, amendments to the *Law on Information Society Services* entered into force, implementing the requirements of Regulation (EU) 2022/2065 of the European Parliament and of the Council of 19 October 2022 on a Single Market For Digital Services and amending Directive 2000/31/EC (Digital Services Act). The amendments to the *Law on Information Society Services* designate CRPC as the competent authority and coordinator for digital services, which will monitor compliance with the requirements of the Digital Services Act and is responsible for the implementation in the country of all tasks set out in the Digital Services Act. In 2025, the MoE developed rules setting out a uniform procedure for authorities to restrict online content and inform the digital service coordinator of restrictive measures taken online.

In April 2025, an agreement was reached with the European Parliament about its proposals and the previous agreement reached among EU Member States on their preferred wording for a toy safety regulation published by the EC on 28 July 2023, revising the current rules on protecting children from the risks of non-compliant toys. The proposal for the Regulation was approved by the EU Council on 13 October 2025 and will shortly be endorsed by the European Parliament. Toys placed on the EU market are among the safest in the world, but the proposed Regulation will further strengthen this protection, in particular against harmful chemicals. The proposal for the regulation aims to reduce the large number of unsafe toys still sold in the EU, especially online, which will contribute to a more level playing field for EU-made toys and toys imported, while ensuring the free movement of toys within the single market.

Following the storm at the end of July 2024, which caused significant damage, a number of insurance claims processes took place which showed the weaknesses of the system, which led the MoE to draft amendments to the *Insurance Contract Law* and the *Insurance and Reinsurance Distribution Law* aimed at improving the provision of insurance services, thereby enhancing policyholders' understanding of the set of documents constituting an insurance contract, the content of the terms of the insurance contract, including insured and uninsured risks providing information in a simplified language, as well as establishing the insurance distributor's burden of proof in the event of a dispute regarding the provision of an insurance product information document. These draft laws are being reviewed at the Saeima and are expected to be adopted by the end of 2025.

Regulation (EU) 2023/988 of the European Parliament and of the Council of 10 May 2023 on general product safety, amending Regulation (EU) No 1025/2012 of the European Parliament and of the Council and Directive (EU) 2020/1828 of the European Parliament and the Council, and repealing Directive 2001/95/EC of the European Parliament and of the Council and Council Directive 87/357/EEC started to be in force from 13 December 2024. As this Regulation supersedes Directive 2001/95/EC of the European Parliament and of the Council on general product safety, the MoE has drafted, the CM has supported and submitted for review to Saeima amendments to the Latvian legislation transposing it, as well as related draft laws, to ensure that the Regulation is applied accordingly. As a result, the *Law on the Safety of Goods and Services* will be repealed and replaced by a new *Law on the Safety of Services*, as well as amendments to the *Law on Conformity Assessment*. The Regulation aims to update and modernise the general framework for the safety of non-food consumer products while maintaining the function of the consumer safety net currently carried out by the General Safety Directive. This regulation incorporates solutions to the various market surveillance challenges posed by new technologies and online sales. The introduction of uniform requirements for non-food consumer products ensures a level playing field for businesses. The regulation lays down the general requirement that consumer goods should be safe, defines certain obligations for businesses and includes the conditions for the development of standards necessary to implement the general safety requirement.

REVIEW OF CONSUMER LENDING REGULATION

In 2025, work was carried out on the revision of the existing consumer lending framework and the transposition into national law of Directive (EU) 2023/2225 of the European Parliament and of the Council of 18 October 2023 on credit agreements for consumers and repealing Directive 2008/48/EC. Following consultations and discussions with industry representatives, draft proposals have been developed that will improve consumer protection and adapt existing regulation to the evolution and trends of today's lending market.

As of 1 January 2025, consumers started to make active use of the possibilities offered by the new regulatory framework for consumer mortgage remortgaging. In January-September of the year, the mortgage added rate was reduced for 10,018 loans, representing 15% of the total mortgage portfolio in Latvia. Most rates are reduced by re-crediting with the current lender. For those who improved their terms with their current lender, the average reduction in the added interest rate was 0.5 percentage points. Those who switched to another lender saw an average rate cut of 0.8 percentage points. Overall, this reduction in the added rates allows the borrower to pay on average 370 and 500 euro less in interest payments over the year.

ASSESSMENT OF THE LATVIAN MARKET SYSTEM

The European Commission Structural Report Project *Building a more effective and efficient market surveillance and intellectual property system for Latvia* started in October 2023 and ended on 8 November 2025.

As part of this project, OECD experts conducted an assessment of Latvia's market surveillance system and trained Latvian market surveillance experts on the use of business intelligence tools and on the development of a results-oriented, data-driven and risk-based market surveillance framework.

The project assessed the functioning of the current Latvian market surveillance system and developed proposals for its future improvement. OECD experts concluded that Latvia's market surveillance system needs to tackle fragmentation, improve coordination and increase efficiency. OECD experts believe that key improvements to the market surveillance system should be made in three areas: institutional structure, risk management and inter-institutional cooperation. In 2026, the MoE will start work on implementing the developed proposals.

FOSTERING A REDUCTION IN FOOD PRICES

To address the long-standing situation in food retail in the country – the persistently high prices of food products on store shelves – the Minister of Economics defined a priority task to ensure that everyday food products are available to the whole society at an affordable price in line with the purchasing power level of the Latvian population. To achieve this goal, a Memorandum on Food Trade was signed on 27 May 2025 between the MoE, the Ministry of Agriculture, the Consumer Rights Protection Centre, the Latvian Chamber of Commerce and Industry, the Latvian Association of Food Traders, the Latvian Federation of Food Companies, the Central Union of Latvian Dairy Farmers, the Agricultural Organisation Cooperation Council and the Farmers' Parliament Association. The stakeholders agreed that cooperation, not regulation, was the best way to improve interaction and achieve the objectives. Since the Memorandum was signed, LLC Maxima Latvija, the Society Association of Latvian Agricultural Cooperatives and the Cēsis City Farm DOKTUS have also joined the Memorandum. The Memorandum covers matters like the low-price basket, the price comparison tool, the promotion of local products, regulatory improvements and enforcement monitoring. The first evaluation of the Memorandum will be carried out at the end of 2025.

To promote transparency and openness of food prices in retail and to make it easier for consumers to choose and buy the cheapest goods according to their purchasing power, the MoE created a solution for the permanent exchange of food price data for price monitoring purposes – amendments to the *Consumer Rights Protection Law* ([982/Lp14](#)) were adopted in the Saeima on 19 June), which set out the criteria for traders who will be obliged to provide the Central Statistical Bureau with daily updates on certain goods from 1 December 2025. The Central Statistical Bureau will in turn pass this data on to existing private price comparison tool developers. The procedure of transfer of these data, specification and other matters are regulated by CM Regulations No. 508 of 12 August 2025 *Rules for the Submission of Food Prices for price Tracking and Monitoring*.

17. COMPETITION POLICY

The provision of a fair competitive environment is considered to be an essential element in promoting competitiveness in the country. A pressing topic in the competition policy is to keep supervising that companies do not breach the law and act fairly, as well as fostering equal and non-discriminating competition between public persons (for example, state or local government capital companies) and the private sector.

Free and fair competition stimulates the development of businesses and allows consumers to get diverse goods of higher quality for competitive prices. Competition has become the foundation for the general economic competitiveness increase, promotion of efficiency of operations and innovation of businesses, as well as public welfare.

The goal of the competition policy is to protect free and fair competition, promote its development in all national economy areas among market players, create new and innovative products, and prevent different anti-competitive actions of market players or regulatory restrictions, incl. unjustified involvement of public administrative bodies in business.

The Competition Council (CC) is responsible for the implementation of the competition policy in the country. The CC investigates and prevents infringements of the competition law, controls market concentration, monitors that state and municipal regulatory enactments do not create unjustified obstacles for free and fair competition among companies, and educates society, thereby promoting understanding of the competition law and contributing to intolerance towards distortion of competition. To strengthen the application of the competition law, the CC cooperates not only with other national level law enforcement institutions but also with international level organisations and foreign competition supervisors.

For market surveillance to be effective, the CC has the right to set priorities in its activities to prevent above all severe violations of the competition law. When a smaller potential violation is identified, the CC uses alternative methods, incl. the *Consult First* public administration principle, allowing to preventively improve the competition environment in national economy sectors.

In 2025, the CC is pursuing a targeted and results-oriented approach to its tasks, focusing on key aspects of respecting and promoting competition law. Its priority tasks range from monitoring and control functions in preventing competition law infringements and market research, to preventing and tackling restrictions to competition in the regulatory framework and improving it, as well as strengthening the competition culture. This year, the CC has set not only priority objectives but also specific deliverables. Priority tasks are formed in cooperation with the CC's Advisory Council.

In 2025, the CC set several priorities:

- strong and fair competition in public procurement;
- more effective competition of market players in markets that are significant for society;
- improving the regulatory framework to strengthen fair competition and introduce new functions;
- improving the efficiency and quality of institution's work by modernising processes in the institution;
- an effective competition culture in the interests of the Latvian economy.

According to the CC's long-term observations and the results of the last opinion poll conducted in 2024, Latvia has two important issues in the field of competition: bid rigging and distortions of competition caused by state and local governments or public administrative bodies, which often take the form of creating uneven conditions of competition, discrimination of entrepreneurs or pushing them out of the market.

The CC continues its work to create public benefit from the implementation of a fair competition policy. The authority's priority objective is not to penalise companies, but to raise awareness of fair competition among market participants and to prevent potential infringements. It is the public benefit from competitive markets that is one of the indicators of the effectiveness of the CC (the average public benefit over a three-year period (2022-2024) from the CC's activities – 35.1 million euro or each euro granted to the institution has created public benefit of about 10.01 euro), to which the CC draws attention by performing investigative, monitoring and educational activities. In January-September 2025, companies have already paid more than 1.2 million euro into the state budget for violations of competition law.

Activities of the Competition Council (CC) in 2025

Seven high-priority cases of enforcement of violation and merger binding commitments were completed in January-October 2025 to ensure the **identification and elimination of significant competition violations and market distortions**, with fines totalling more than 2.5 million euro. The CC has adopted decisions on various violations of competition law. A decision has been adopted on abuse of dominant position establishing an infringement in the exclusionary and exploitative conduct of LLC Mārupes komunālie pakalpojumi and a decision stating a cartel in the procurement of utility construction works, where five undertakings coordinated their participation in tenders, for which a total fine of 513,508 euro was imposed (most of the offenders have reached an amicable settlement, admitting liability for the infringement and agreeing on the modalities of payment of the fine).

For the first time, the CC has adopted a decision on a breach of the *Unfair Trade Practices Prohibition Law*, stating a breach in the conduct of LLC MAXIMA Latvija (MAXIMA) in its cooperation with suppliers. The CC stated that MAXIMA had used its market power in bad faith by infringing the prohibition on unilateral changes in the purchase prices of goods. Moreover, the benefit of the reduction in purchase prices was not passed on to the final consumers, i.e. retail prices were not reduced in proportion to the reduction in suppliers' purchase prices, and the benefit of the reduced purchase prices remained with MAXIMA without being passed on to consumers. The company received a fine of more than 1.8 million euro for the violation.

The CC also adopted two decisions on procedural violations – for non-cooperation of LLC Sēme with the authority during procedural actions, including refusal to provide explanations and denial and obstruction of access to the computer of a Board member, for which the company received a fine of more than 46 thousand euro, as well as the CC adopted a decision on non-cooperation of LLC SILTUMTEHSERVISS during procedural actions by deleting information relevant to the investigation of the case, for which the company received a fine of more than 26 thousand euro to prevent similar violations from recurring in the future.

The CC also adopted a decision to close the investigation into the procurement of JSC Rīgas siltums, finding no violation. At the same time, it has been stated that since the opening of the CC's investigation, the company's new Board has taken active steps to improve the market situation – the number of bidders has increased and the procurement environment has become more open, thus promoting competition and bringing benefits to the company and its customers.

The CC also concluded the monitoring of the implementation of binding regulations in the merger case between JSC AB City and JSC Olainfarm, stating that the disposal of shares of LLC Latvijas aptieka prevented concentration of pharmacies and ensured effective competition in the retail market for pharmaceutical products.

For the first time, the CC initiated an investigation case using the data (price) monitoring tool developed by the institution. The investigation concerns the market for the distribution of coffee machines and possible violations in the field of cartel agreements. This case marked the first time in the history of the authority that simultaneous inspections were carried out in all three Baltic States, with the participation of colleagues from the Lithuanian and Estonian competition authorities.

Using the Consult at First principle, 14 warning and preventive activities were implemented in January-September 2025 in cases of small market participants and minor potential violations, with a total of almost 70 legal persons warned about possible violations of the *Competition Law*.

In January-October, the CC was able to ensure an **evaluation of merger** in 15 cases and provided 34 pre-merger consultations prior to the submission of the merger notification. In four merger cases, the CC has assessed the merger transaction in depth (phase 2 mergers), authorising the merger of insurers Ergo and Gjensidige, authorising the acquisition of a decisive influence over LLC TRANZĪTS L by environmental services provider LLC Vizīi Urban, authorising the acquisition of petrol stations of LLC ASTARTE-NAFTA by LLC Circle K Latvia, by applying binding regulations, as well as by authorising Nextwood Two GmbH to acquire sole decisive influence over LLC Kurekss by way of merger in the market for the production and sale of sawn timber, the purchase of softwood sawlogs and the production and wholesale of wood pellets. In-depth merger due diligence continues in the areas of beer and non-alcoholic beverages and tourism services.

In 2025, significant resources were devoted to the **representation of the CC in courts**. In January-September 2025, applications for 21 decisions and processes of the CC were examined in different instances, in total representing the CC at 10 court hearings. In January-October this year, the court has ruled in favour or partly in favour of the CC in six cases. For example, the court upheld the decision of the CC in a case concerning unfair contractual penalties for food suppliers – LLC BALTSTOR and LLC LENOKA. The court also found that the CC had established a prohibited agreement violation in the activities of several undertakings as they exchanged commercially sensitive information on the conditions of participation in the tenders of JSC Latvijas valsts meži for the provision of energy wood supply, chipping, storage and transportation services. During the reporting period, two opinions were also submitted to the Constitutional Court – on the allegedly unfair treatment in the application of CIT in the financial sector and on the allegedly unfair treatment in the allocation of state forest land for the development of wind farms, which is currently pending before the Court of Justice of the European Union for preliminary rulings. The preliminary ruling of the Court of Justice of the European Union also concerns a decision adopted by the CC, which stated an abuse of dominant position by the Jelgava State City Local Government. The case is scheduled to be heard at the CJEU in December.

The CC implemented several measures to integrate the principle of **competitive neutrality** among public administrative bodies. The CC has received 104 complaints on actions of public persons, accounting for about 25% of all the applications received in the institution, and 21 opinions for the assessment of public persons has been provided for the preservation of shareholding in capital companies. During the reporting period, in four cases the CC conducted negotiations with Jūrmala State City Local Government, in one case with the Valmiera Municipality Local Government and with the Jelgava Municipality Local Government to remedy the identified breaches of competition neutrality. In its negotiations with the Jūrmala City Municipality, the CC found in one case that the municipality had placed barriers to the entry of mobile catering service providers into the market (through the municipality's binding regulations), and in another case, in relation to its residential management agreements, which were not concluded as a result of a procurement procedure. The CC found the municipality's conclusion that, in the case being investigated, it would not be feasible for the municipality to announce a public procurement procedure for the provision of specific services. Negotiations with the Valmiera Municipality Local Government were held in connection with its procurement of public transportation services in Valmiera.

Box continued

Negotiations with the Jelgava State City Local Government were carried out since the municipality had set the procurement object requirements for the car rental procurement in such a way that only a certain brand of cars could qualify for the procurement. In all cases, the public persons prevented and undertook to prevent future breaches of competitive neutrality.

The CC needs to implement extensive communication activities both at national level and internationally to make entrepreneurs understand the benefits of fair and free competition and to act in good faith. The CC has defined building an effective competition culture as one of its key priorities. To **promote awareness of fair competition among market participants and the public**, in 2025, the CC held 3 major press conferences with online coverage and representatives of the CC gave more than 28 interviews and provided around 40 responses to media enquiries, ensuring public awareness of the work of the institution. The CC continued its active educational work, participating in 27 events and implementing the Competition School initiative, which included 10 webinars with more than 1800 participants, covering topical competition law issues. The institution has organised seminars to promote cooperation with other institutions and participated in events organised by local authorities and industry organisations, holding a total of 86 inter-institutional meetings and 63 meetings with businesses and NGO representatives. This year, the CC also organises Competition Law Week, a week-long series of public events on topical competition law issues (e.g. Lawyers' Forum, Competition Neutrality Conference), as well as informing the public about the CC's performance and indicators (opening event of the Competition Law Week). To educate the public, the CC has participated in the Shadow Day, the youth event MAD Liepāja and has given five guest lectures at universities, as well as prepared seven information materials, such as a methodological material on cooperation between the CC and public contracting authorities in recovering damages for competition law violations, guidelines on trade at public events organised and supported by municipalities, an information material on criteria for recognising fresh fruit, vegetables and potatoes as perishable agricultural and food products. The CC has published 13 in-depth expert articles on the application of competition law, focusing on economic explanations of topical issues.

In 2025, the CC also worked on **innovative solutions**. To identify mergers that may not have been notified to the CC, proactive merger monitoring has been carried out since mid-April, which includes tracking changes in the ownership of companies (as well as their turnover), which are registered in the national registers. Work is also underway to develop a merger e-report filing solution that will make it easier and more convenient for market players to file merger reports. In cooperation with partners (KNAB, RTU, LU), work is ongoing on the development of a prototype cartel screening tool, and the first Sectoral Competition Report was presented this year, which will help identify sectors where competition problems exist. To strengthen the economic and IT capacity of the institution, an internal reorganisation has created the position of chief economist and recruited an IT specialist – investigator without increasing the number of positions in the CC.

To organise closer and more efficient cooperation with partners in matters of development and application of competition policy, for example, by providing the competition supervisory authority with recommendations regarding the operational strategy, competition supervision directions and possibilities for improvement of work, as well as opinions regarding the guidelines prepared by it and expected amendments to the laws and regulations regulating competition, CC's operational priorities and performance review, the CC's **Advisory Council** held 5 meetings in 2025.

To target the prevention of the most serious competition law infringements in public procurement, prohibited agreements, more actively and purposefully, and to achieve a sufficient level of general and specific prevention, on 23 September 2025, the CM supported amendments to the Competition Law, which envisage imposing liability on the officials of market players. Such liability would increase the motivation of officials to take active steps to prevent violations or to cooperate with the CC in the prevention of violations of competition law or in the discovery of violations that have already been committed. The draft law has been submitted to the Saeima for consideration, and its adoption will be an important step towards strengthening the effectiveness and preventive effect of competition law.

In 2024, the CC completed market surveillance for eggs, fish, milk, meat, cereals and bread, which concluded that for 50% of the products covered by the market surveillance, on average over a 17-month period, about one-third of the retailers covered by the market surveillance applied on average higher mark-ups to products manufactured in Latvia compared to equivalent products manufactured in other countries, as well as significant differences in mark-ups between private label products and manufacturer branded products were observed. Accordingly, taking into account the findings of the market surveillance, to prevent different treatment in pricing between food products produced in Latvia and those produced in other countries, to balance relations between producers and traders and to promote fair trade practices in general, the Minister of Economics proposed the necessary legislative changes, and on 14 January 2025 the CM approved proposals for amendments to the Unfair Commercial Practice Prohibition Law and submitted them to the Saeima for further consideration.

On 27 May 2025, a Memorandum of Understanding on Food Trade was signed, whereby the parties involved, including food manufacturers and retailers, agreed to address issues in the food supply chain through non-regulatory instruments aimed at strengthening mutual cooperation. In light of the foregoing, the MoE agreed with the National Economy, Agriculture, Environment and Regional Policy Commission of Saeima (Commission) that an alternative draft law aimed at strengthening cooperation between buyers and suppliers would be developed in cooperation with stakeholders and submitted to the Commission for consideration in first reading. Accordingly, on 31 October 2025, an alternative draft law was submitted to the Commission to address observed unfair trading practices between buyers and suppliers of agricultural and food products, which were previously not covered by the Unfair Trade Practices Prohibition Law.