

The education offer has become more responsive to the needs of the labour market, while demographic trends and regional differences create challenges

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According to the Ministry of Economics' medium and long-term forecasts for labour market, the employment opportunities in general will increase over the coming decade, while demographic trends and regional differences in the labour market will lead to an even greater shortage of labour force.

“For a sustainable growth of Latvia's economy, the productivity of business, education system and every single person must be raised. The business should become more productive, thereby allowing for reduction of business costs and raising wages for workers. The education system must create the labour force needed by the labour market, in particular by developing a comprehensive adult education system and competency-based approach. Every day, we need to learn new skills needed in today's rapidly changing economy, thereby raising our competence and competitiveness in the labour market,” emphasizes Arvils Ašeradens, Deputy Prime Minister and Minister of Economy.

In the medium term, the shortage of the average skilled workforce will become more pronounced, and manufacturing and construction will be most affected by it. The structure of education offer has become more balanced with the needs of the labour market, but the number of young professionals entering the labour market is still lower than required to fully address the labour shortages.

“The development of a comprehensive adult education system is essential in order to reduce disproportion in the labour market in a relatively short period of time and to be able to adapt quickly to the changes in the 21st century — in the era of rapidly evolving science, technology and high-tech, when previous knowledge and skills are becoming obsolete much faster. By the year 2021, almost EUR 150 million in support from EU funds will be available to promote adult education. It is essential that these funds be used efficiently and achieve their goal, i.e., reducing the share of low-skilled workers in the labour market,” continues the minister.

Workforce demand will grow slower, while employment opportunities will widen

In the future, growth in the economy will be based on increase in productivity; therefore, the workforce demand is expected to grow slowly in the medium term. Until 2025 the number of the employed might increase only by a bit more than 11 thousand in comparison with 2017, and four sectors will mainly contribute to this – business services, construction, trade and manufacturing. Meanwhile, after 2025, the number of jobs in the labour market could even slightly shrink. Taking into account automation trends of different jobs, the largest drop in jobs is expected in occupations with big share of manual and repetitive jobs. At the same time, it can be predicted that workforce demand in elementary occupations might reduce by about 36% or more than 40 thousand jobs before 2035.

The main job opportunities will be created by replacement demand - due to workforce ageing and exit from the labour market, the number of job vacancies in the medium term will exceed 150 thousand. Therefore, by 2025 the employment rate of the population aged 15 to 74 might exceed 67% (~63% in 2017), but in the long term this might gradually get close to 70%. In the long term, job opportunities will grow in the sectors, which create and serve new technologies, as well as taking into account society ageing trends, the demand will grow in different services related to health support, rehabilitation and other tourism related services.

Labour shortage will be aggravated by the demographic trends

Taking into account the negative demographic trends, the lack of adequate labour force can become a significant barrier to economic growth in the future. It is expected that by 2035 the population of Latvia may decrease by over 132 thousand, moreover, with the number of working age population falling more rapidly than the total population. The main reason for the decreasing number of population in both medium and long-term will be ageing, as a result of which the gap between the birth and death rates will increase.

Already in the next 5 years the unemployment rate will approach 6%, thus the number of vacancies will decrease rapidly. Already now economic activity of the population and employment rate have reached the highest historical marks, therefore, the participation of population in the labour market in the future will only partially compensate for the reduction in labour supply due to demographic trends.

In the medium and long term, ageing of the labour force will have most effect on the availability of medium-skilled labour force. By 2025, the economically active population with vocational secondary education might reduce by about 18% or almost 52 thousand, but shortage of labour force with relevant qualification might increase up to 31 thousand. Sectors like construction and food processing, where the share of medium qualification jobs is about 60% and high share of employees of pre-retirement age will experience shortage of medium qualification labour force the most.

An essential prerequisite for stabilizing the labour supply is a change in demographic trend: in the long run, the gap between the newborn and the number of the deceased should be reduced, while in the medium term, the labour market gap can be offset by a well-considered migration policy. Ensuring stable economic growth, creation of jobs and wage growth are the key precondition for reducing emigration flow and promoting re-emigration. The Ministry of Economics does not support the proposals on immigration for low-skilled jobs. It is short-term thinking that will, in the long run, create major challenges for immigrants' social security, healthcare, education, and social inclusion.

The harmonization of labour supply and demand in the future may be hindered by the regional differences in the labour market

Regional differences in the labour market become increasingly more distinct- new jobs mainly appear in more economically active regions and larger cities, while less developed regions have the biggest number of job seekers. Registered unemployment rate in the Latgale Region is still almost four times higher than in the Riga Region, which has more than 4/5 of all vacancies. In the coming years, the regional disparities can significantly impede a balanced development of the labour market. Meanwhile, the regional equalization of the labour market is hampered by the low regional mobility of labour force, i.e., the ability to rapidly change their place of work and residence.

The planned support program of the Ministry of Economics for the construction of tenancy housing in the regions will facilitate the availability of labour force in areas with increased employment, as the availability of high-quality housing for the population with average income will increase and thus, returning of Latvians home from abroad will be encouraged. Within the scope of the programme it is planned to provide financial support to local governments, except Riga and local governments bordering Riga City.

The education offer has become more relevant to the needs of the labour market

In recent years, the education offer has become more balanced and closer to the future labour demand. A great deal of the

previously predicted labour supply and demand imbalance has diminished. Although a significant shortage of specialists with higher education in STEM directions (science, technology, engineering, and mathematics) is still projected to be ~ 17 thousand in 2025, however, compared with the forecast, it has decreased by almost 1/4 (previously it was predicted, that in 2025 the lack of these specialists will be ~ 23 thousand). A much smaller surplus of labour is predicted compared to previous for specialists with education in the humanities and social sciences. By large, these changes have been fostered by a far more balanced higher education offer structure - the number of students enrolled in STEM disciplines has grown by approximately 7 % since 2008, while the share of students enrolled to social sciences programmes has reduced by 15 percentage points.

More and more young people choose vocational education. Also in the academic year 2016/2017, the number of youths who continue studies in vocational education after they obtain basic or general secondary education has also increased. This trend tends to reduce the shortage of medium-skilled workforce in the future, but the number of new professionals entering the labour market having vocational training is still insufficient to fully cover the demand.

Although there are significant improvements in the education offer, the impact of the changes is offset by the insufficient number of students. On one hand, it is influenced by demographic trends, on the other hand — by the relatively high proportion of young people who do not complete education at different stages of education. 2/5 of youths still enter the labour market with general secondary or education and basic education, while the demand for such labour force in the labour market will decrease sharply over the next years. It is expected that surplus of labour force with the general secondary or basic education can reach 91 thousand by 2025.

Adult education is very important in the reduction of this labour market imbalance. Although the involvement of the population in adult education is gradually increasing, it is still twice as low as the set target- to reach that 15% of the population aged 25 to 64 are involved in adult education measures by 2020. Also, current supply of adult education does not resolve the large surplus of poorly qualified labour force – the involvement of the population in adult education measures is the lowest among all population groups and slightly exceeds 3%.

Labour market forecasts have been prepared by the Ministry of Economics since 2008 and are based on national economy development and demography scenarios prepared by the Ministry of Economics. Labour market forecasts allow for anticipating future labour market imbalances. They show possible trends in the labour market development and possible risks if the current education system and education supply structure are retained. By identifying problems, solutions for materialization of labour market reforms in the medium term have been prepared for submission for government approval aimed at promoting a stable and balanced economic growth in the country.

<https://www.em.gov.lv/en/article/education-offer-has-become-more-responsive-needs-labour-market-while-demographic-trends-and-regional-differences-create-challenges>