LATVIJAS UNIVERSITATE
ANNO 1919
UNIVERSITY OF LATVIA

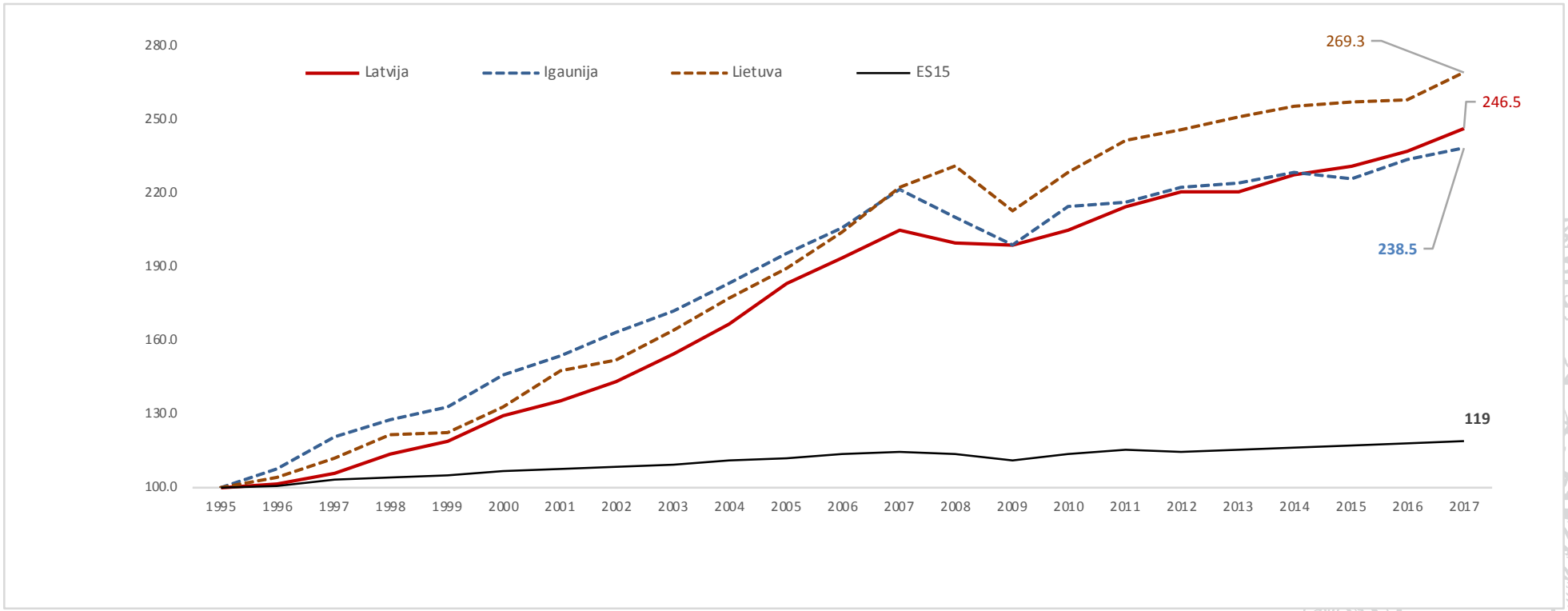
# Productivity in Latvia

Workshop “Productivity and Competitiveness in the Baltic and Nordic countries”

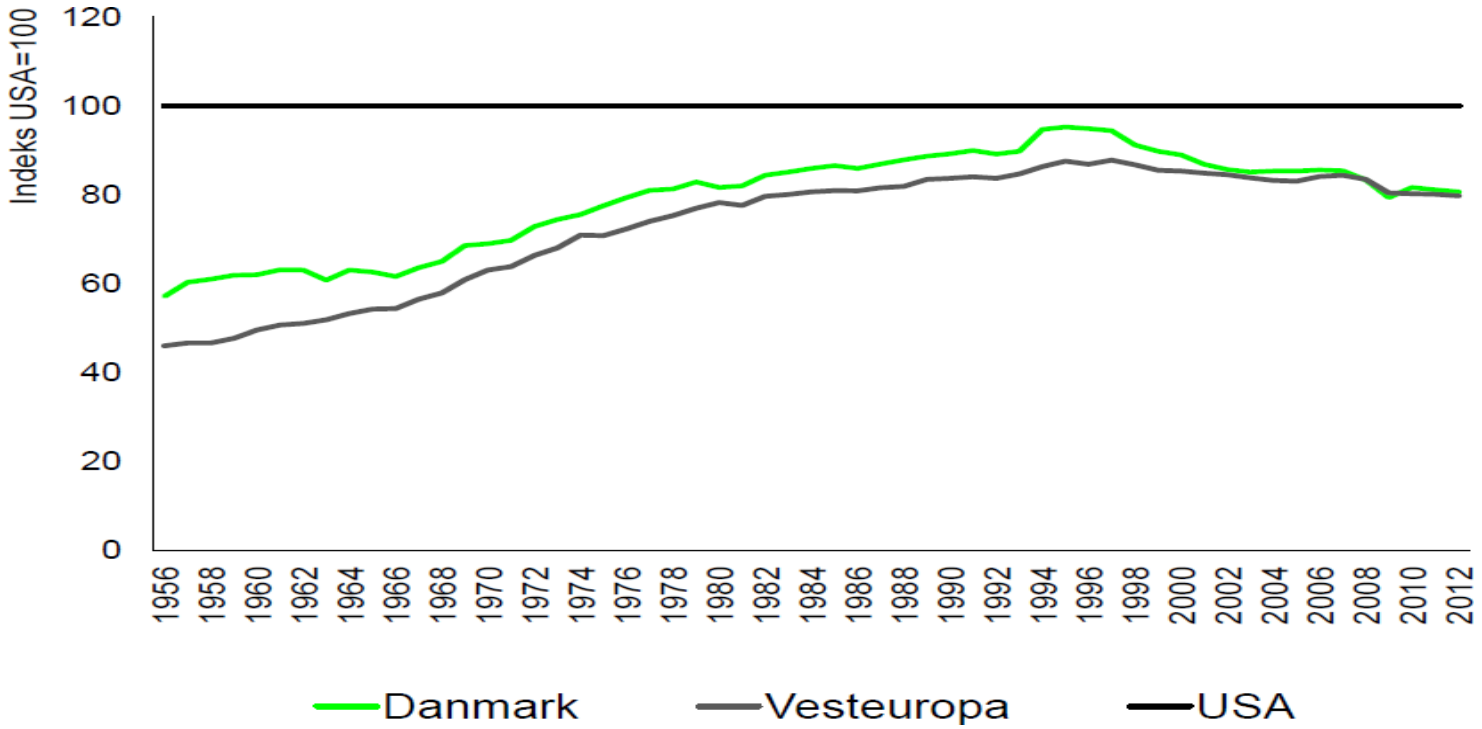
**Gundars Berzins**

# Productivity growth in the Baltic countries and in the EU15

1995=100

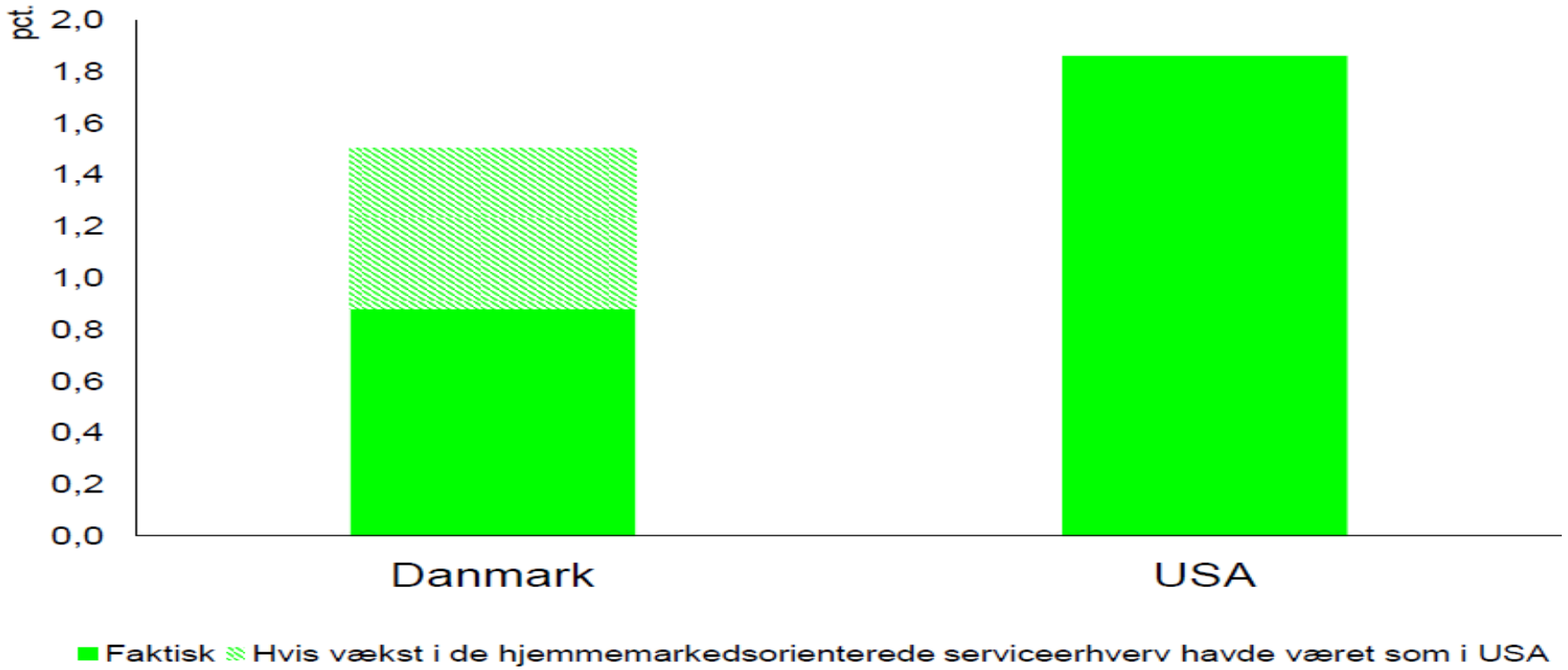


# What's the problem?




- Divergence i hourly productivity between DNK and US. Not only a Danish issue.
- Transatlantic divergence in productivity (possibly comming to  a halt?)

## What's the problem?




- Most of the growth shortfall in domestically oriented services. ("triangulation" to check if this could be a main culprit)
- Big part of shortfall can be accounted for by differences in skill intensity (higher in US).

# What to do about it?

- No silver bullet - a range of initiatives (>100).
- Two important broad areas:
- Strengthen domestic competition, market efficiency and interationalization
  - Mobility of services (EU and preferably beyond)
  - DNK regulation and legislation
  - Job clauses; planning regulation; ownership regulation; tax structure; environmental taxes (e.g. road pricing) etc
- Strengthen the quality of education and its value to the labor market
  - Information for students; remuneration of institutions etc

# Labour productivity growth has been the dominant source of GDP growth across the Baltic & Nordic economies since 2000

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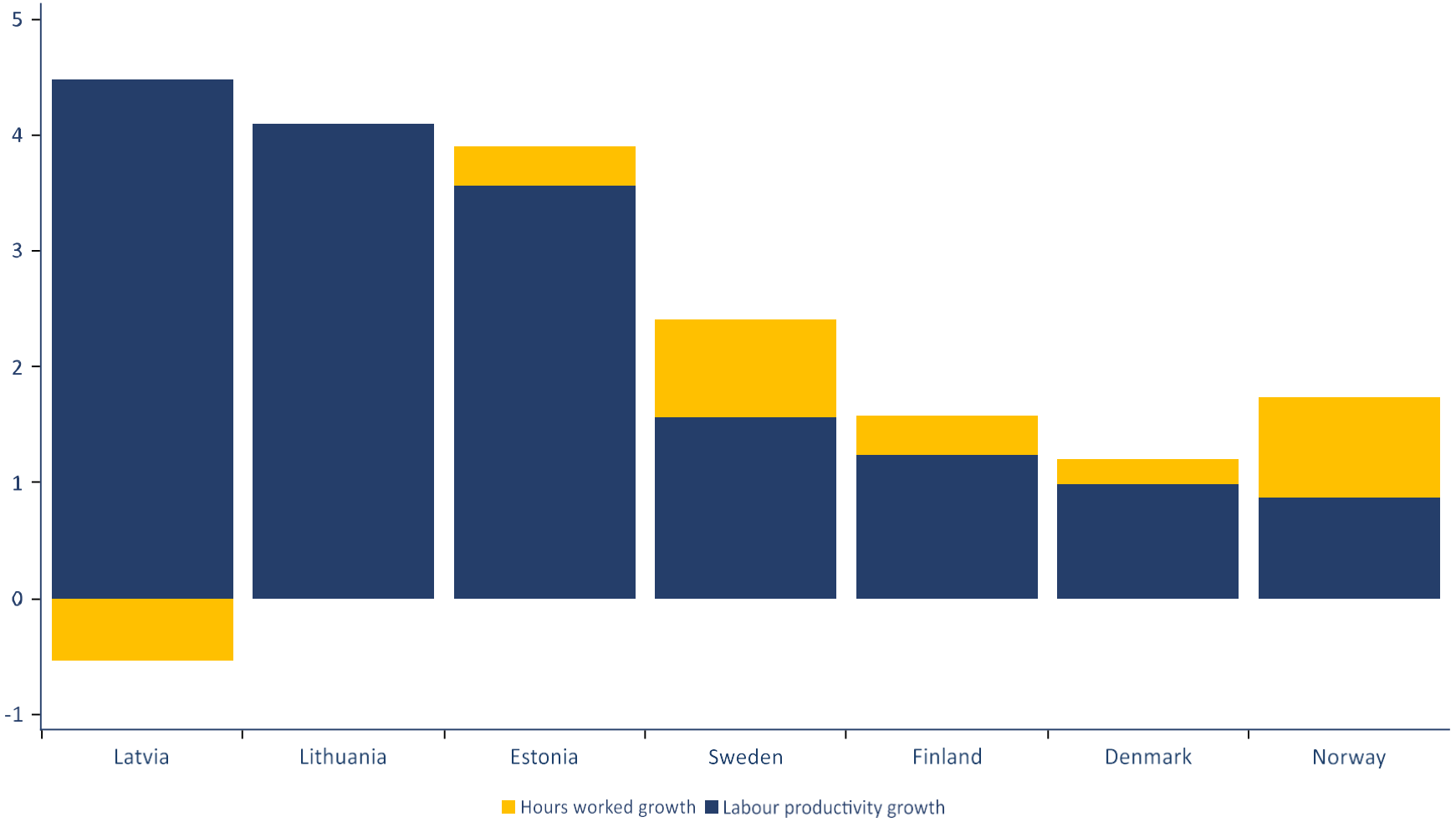
**GDP growth decomposition: growth in hours worked v labour productivity growth, 2000-2018**




*Source: Macrobond; The Conference Board Total Economy Database, May 2018; Landfall Strategy Group calculations*

# The small advanced economies group has a higher average per capita income than larger economies

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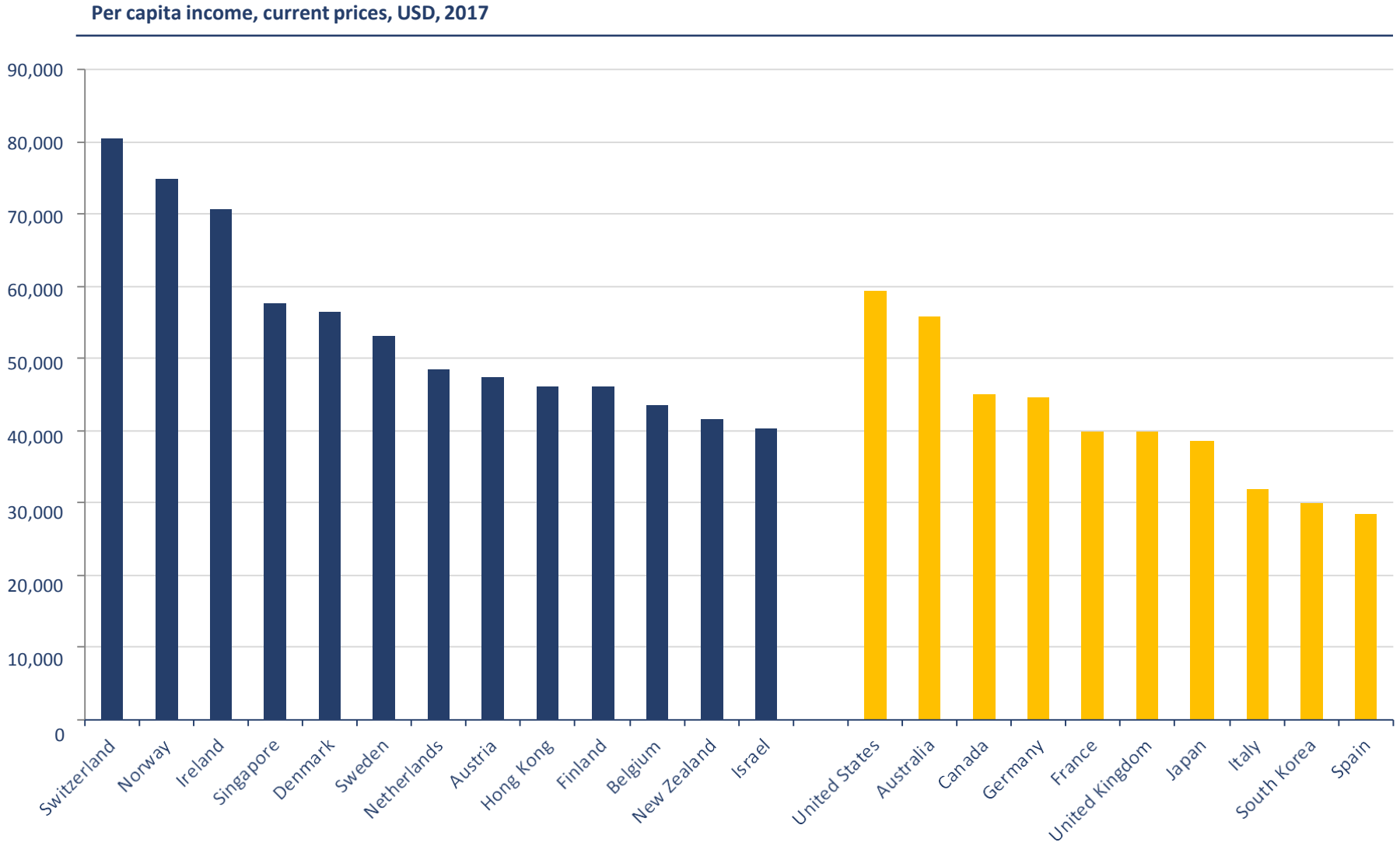


*Source: Macrobond; IMF World Economic Outlook*

# Small advanced economy growth have consistently out-paced GDP growth in larger advanced economies

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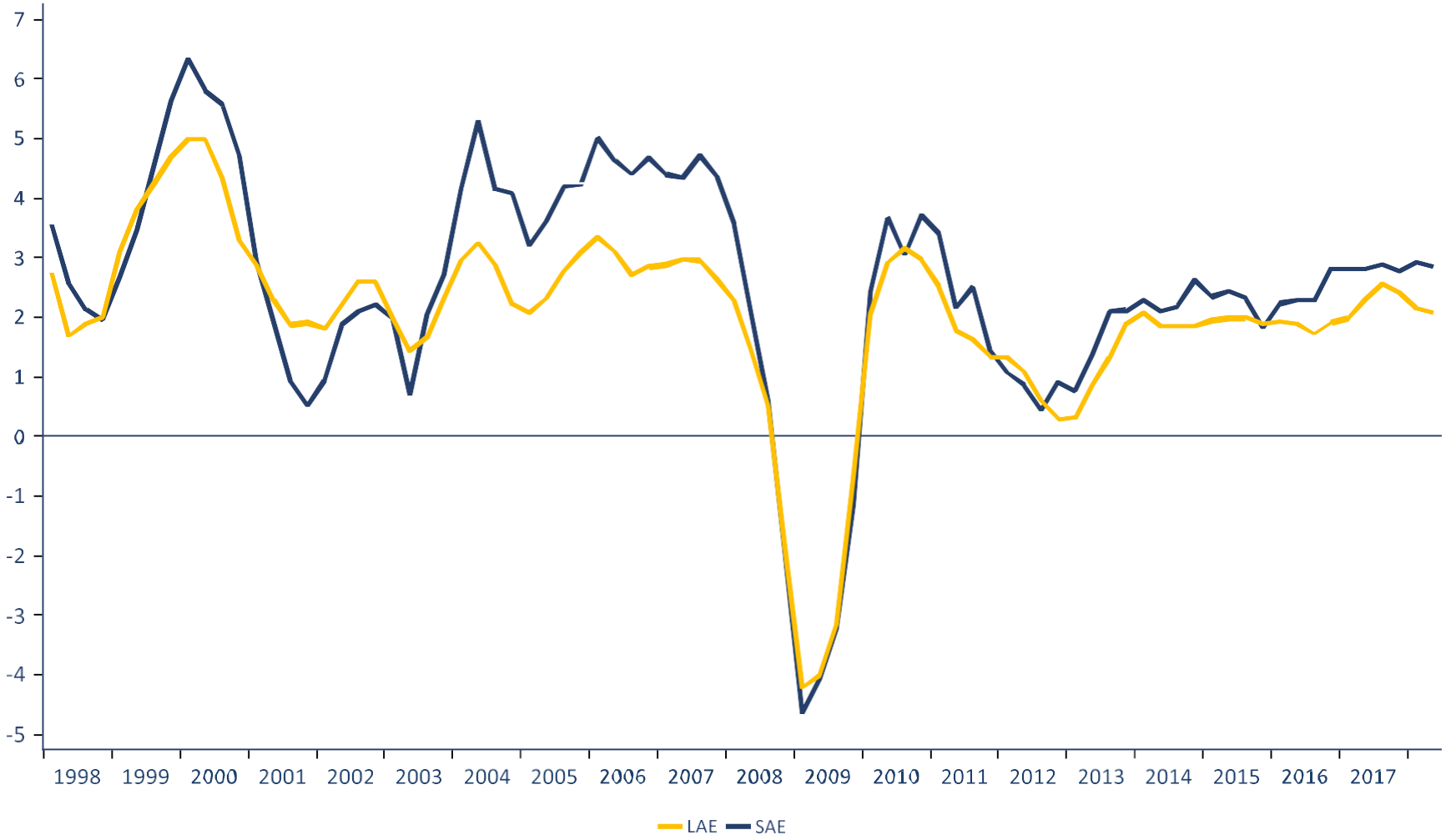
**Real GDP growth (sa), %, compared to quarter of previous year, SAE and LAE group averages, Q1 1998 – Q2 2018**




*Source: Macrobond; National sources; Landfall Strategy Group calculations.*

# The Baltic economies perform well on the enabling environment and human capital; less well on markets and the innovation ecosystem

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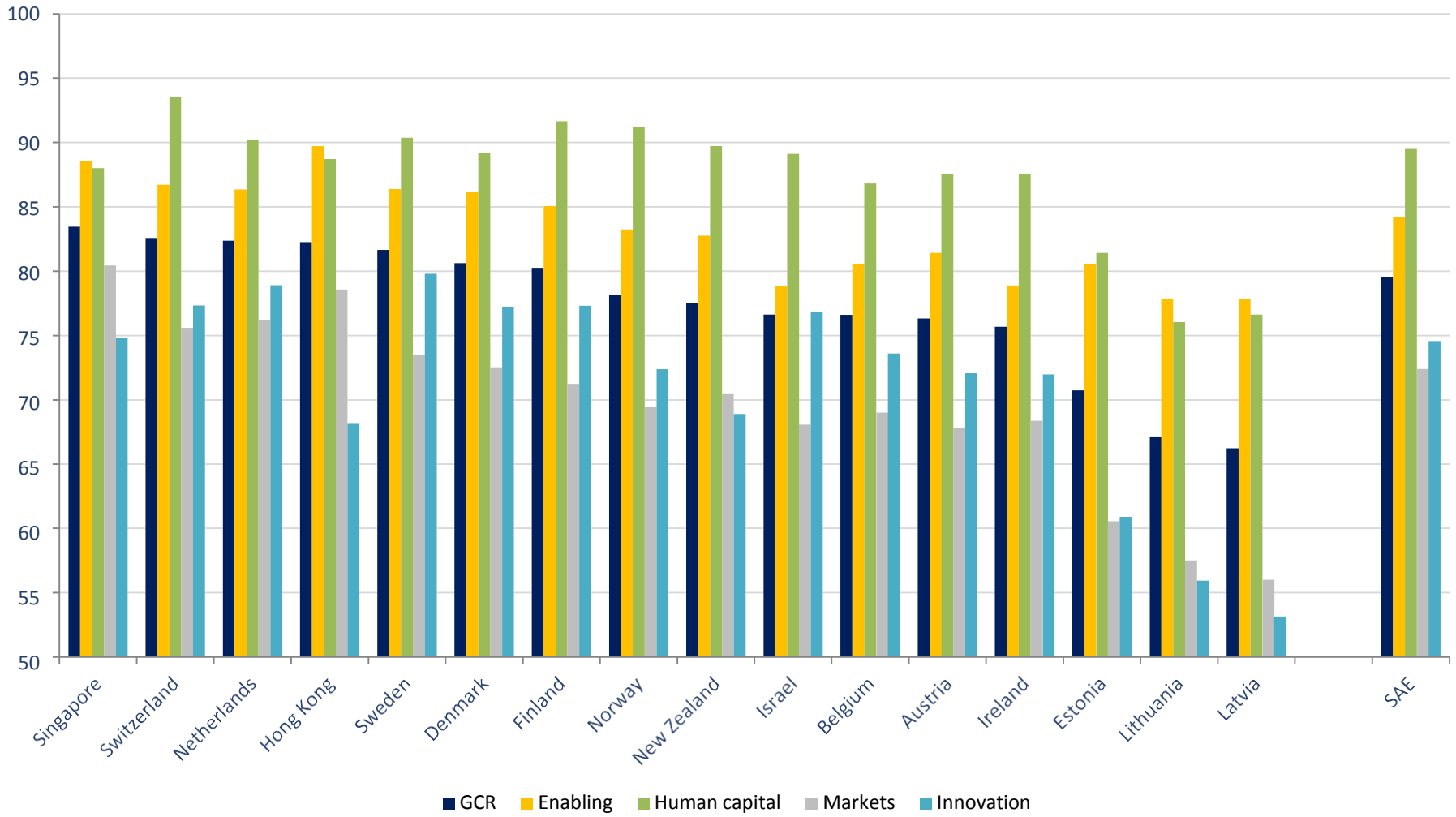
**Global Competitiveness Index, 2018**




*Source: Global Competitiveness Report 2018, World Economic Forum; Landfall Strategy Group calculations*

# Four small advanced economies invest over 3% of GDP on R&D; most invest above 2% of GDP

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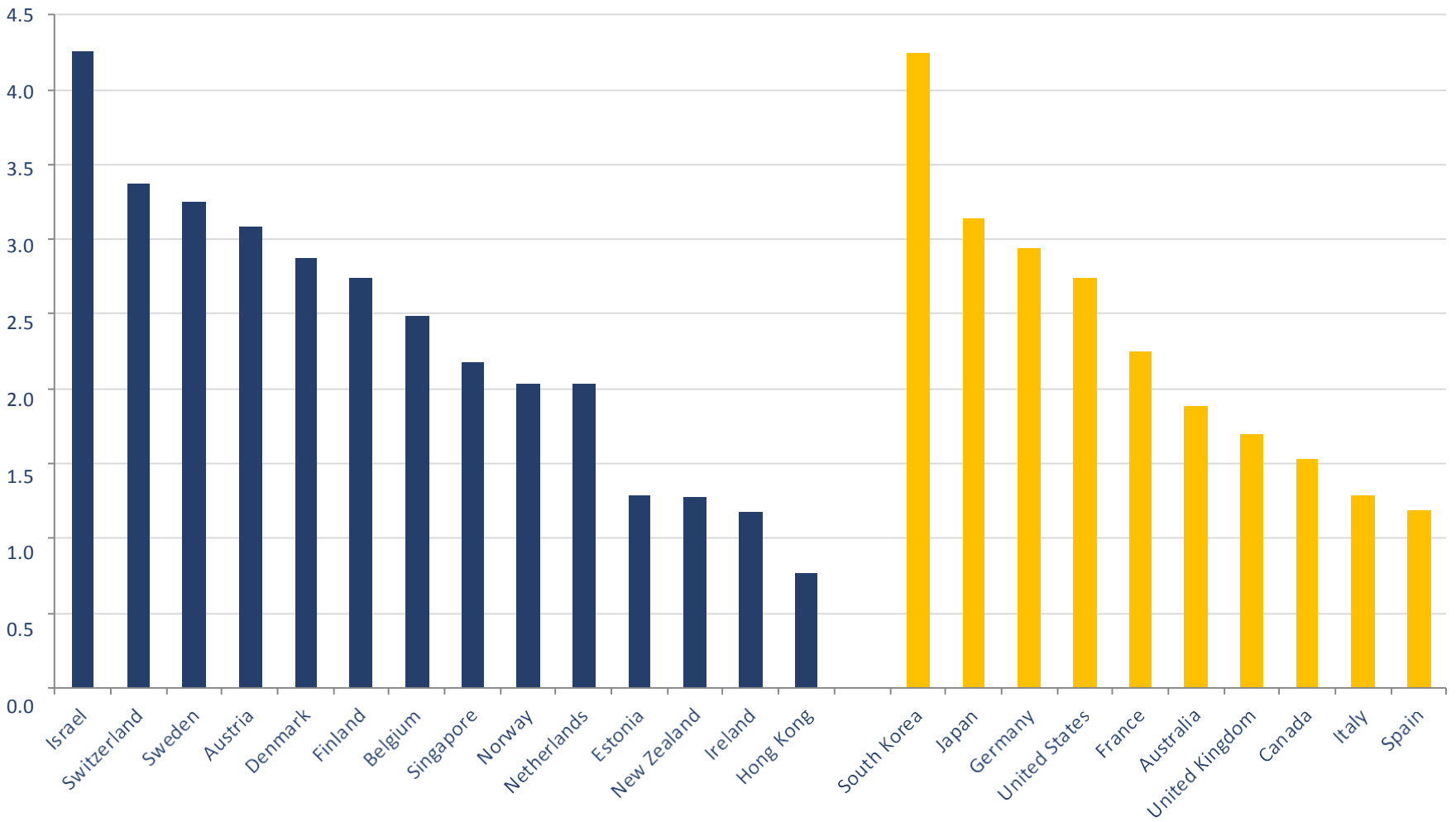
R&D as a % of GDP, 2016 (or most recent available)




*Source: Macrobond; OECD (no data provided for Latvia and Lithuania)*

# Small advanced economies also invest heavily in R&D spending; this has been central to small economy success

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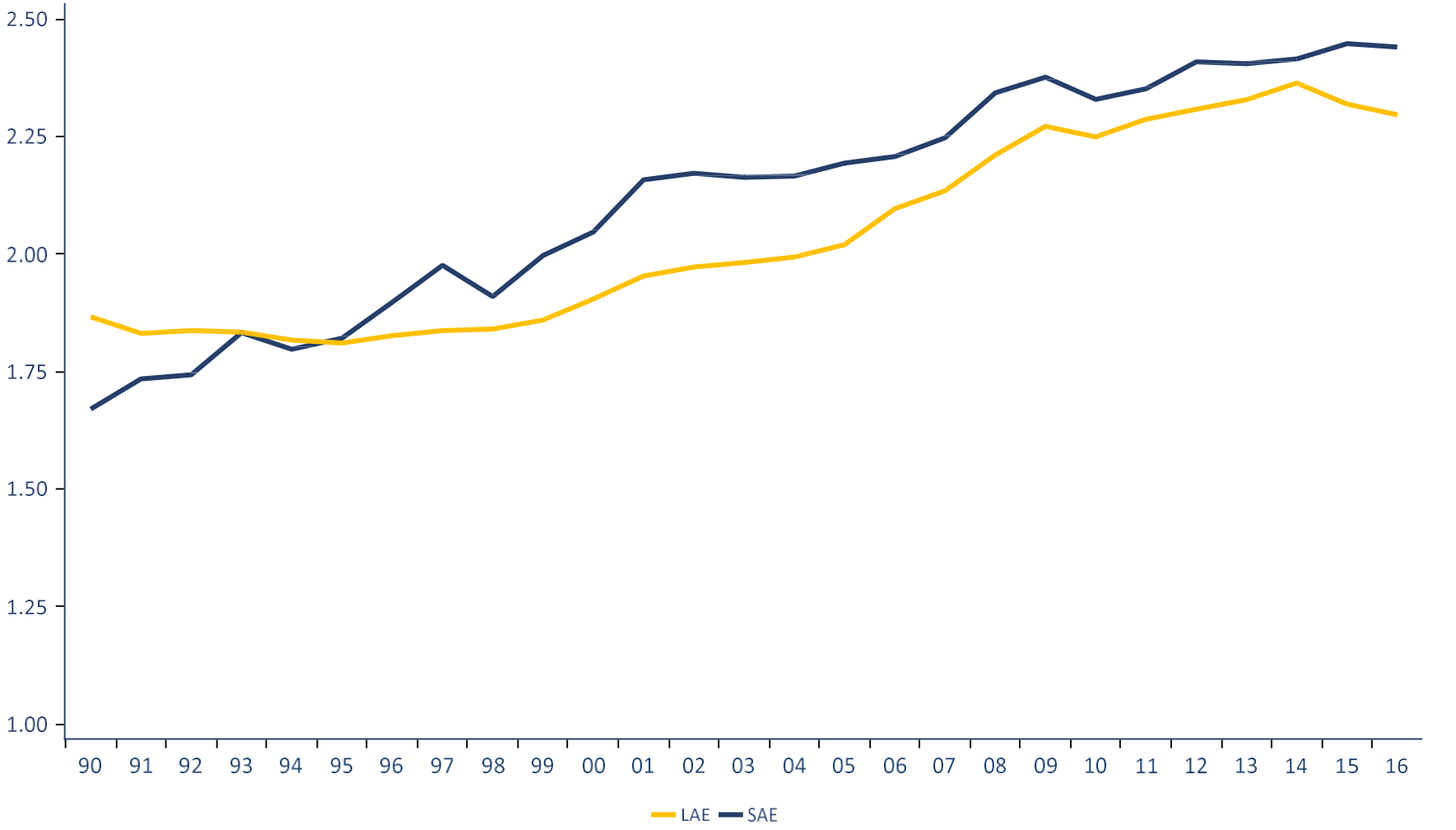
GERD as a % of GDP, 1991 - 2016




*Source: Macrobond; OECD; Landfall Strategy Group calculations*

# There are some common themes across successful small economies: they are deeply internationally engaged

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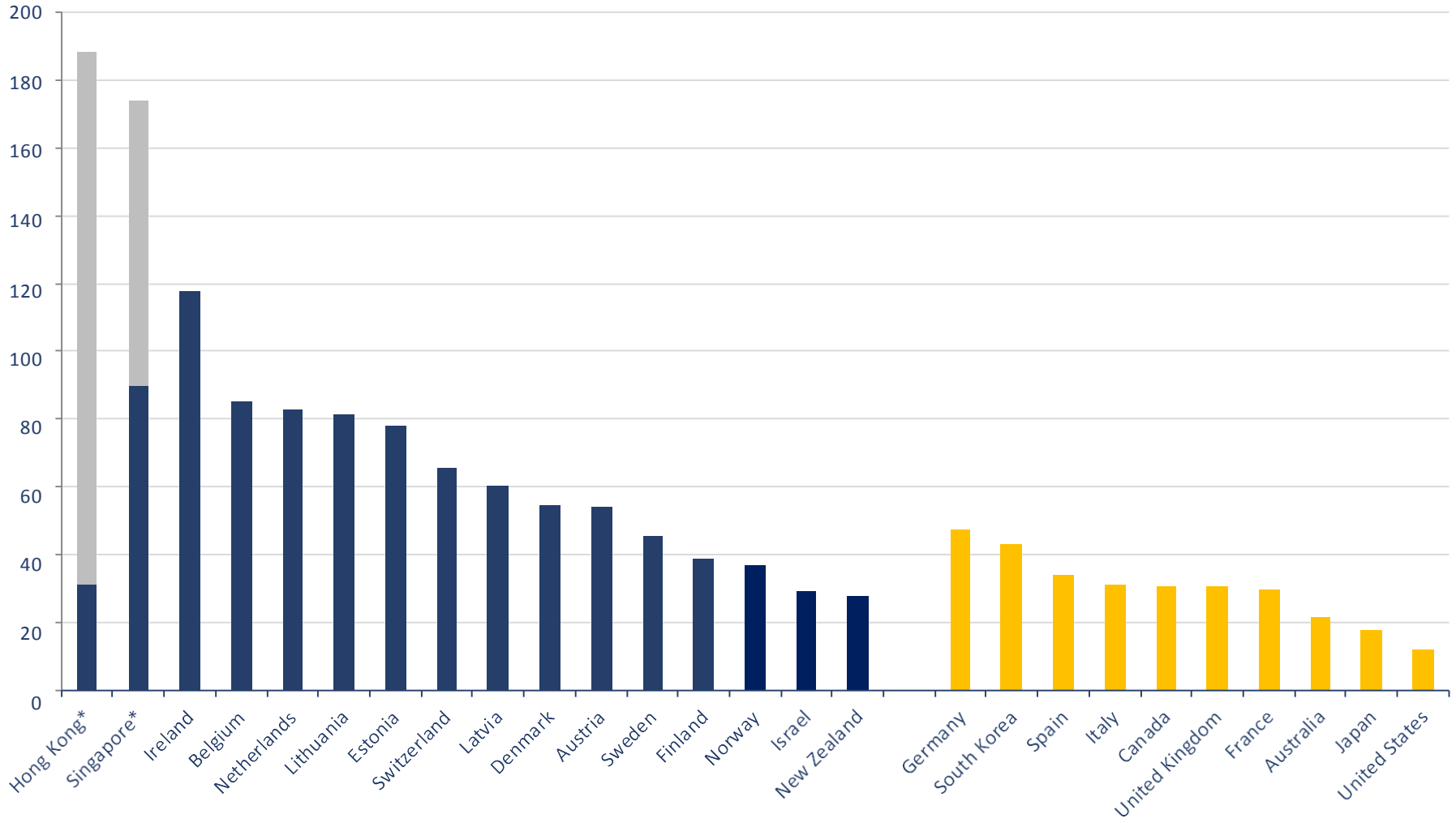
**Exports of goods & services, % of GDP, year to Q2 2018**




*Source: Macrobond; National sources; World Bank (for Baltics); Landfall Strategy Group calculations. Note: Singapore (blue) = NODX + exports of services; Hong Kong (blue) = exports of services.*

# Strong macro policy also matters: small advanced economies have remained in fiscal surplus over much of the past 20 years

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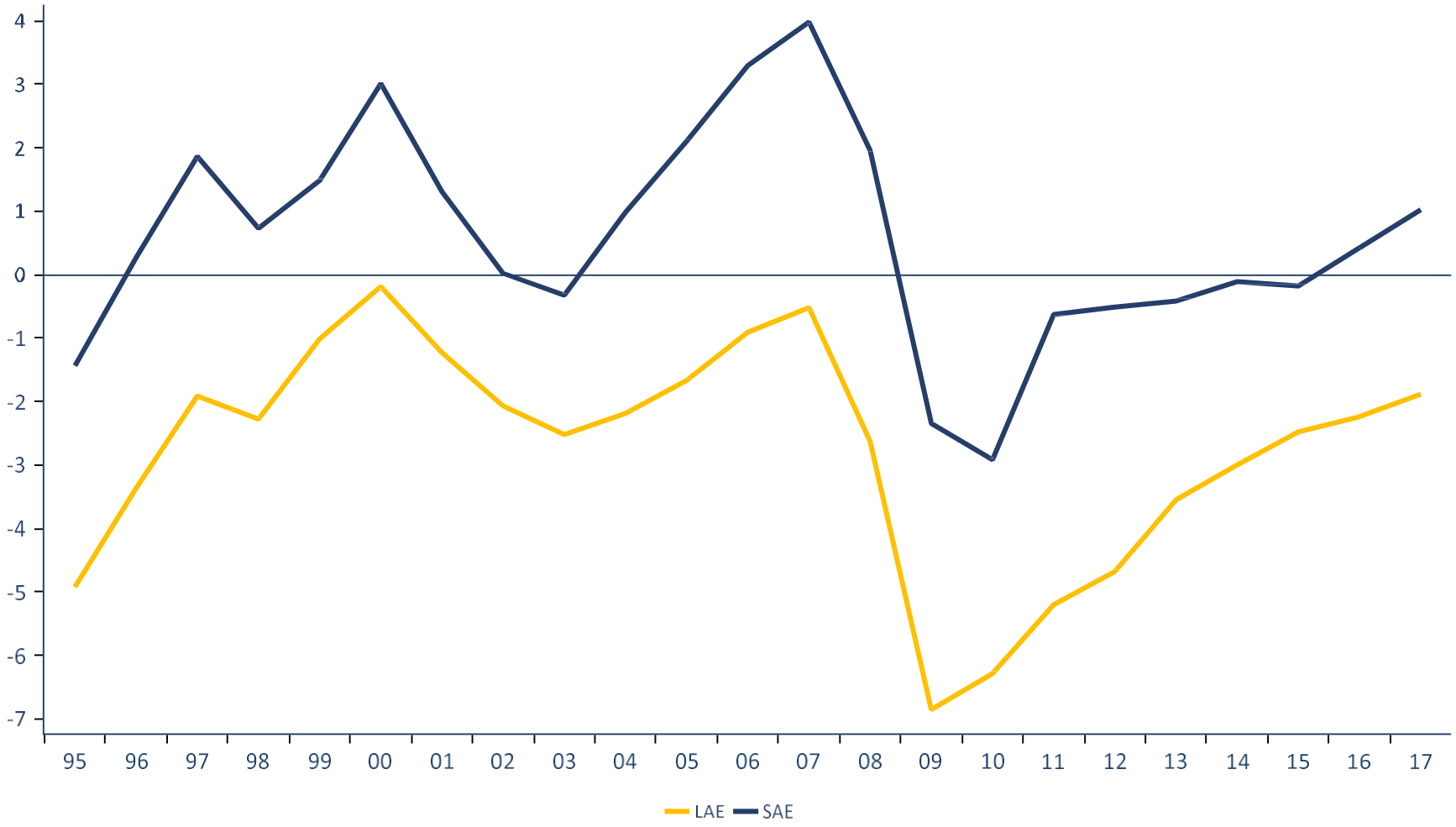
**General government net lending/borrowing, % of GDP, 1995 - 2017**




*Source: Macrobond; IMF; Landfall Strategy Group calculations*

# Several small advanced economies perform strongly on the PISA tests, notably Singapore, Hong Kong and Finland

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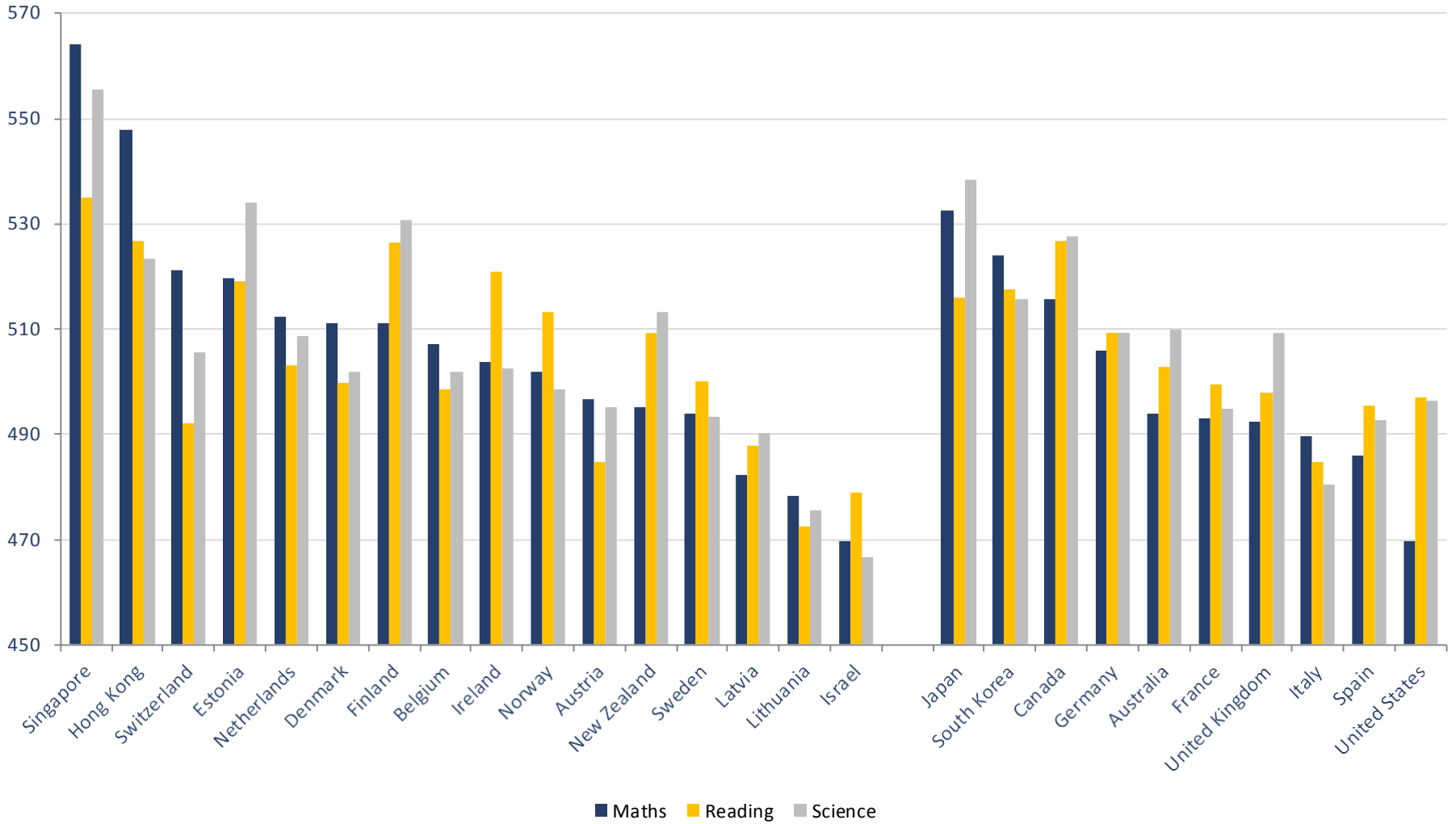
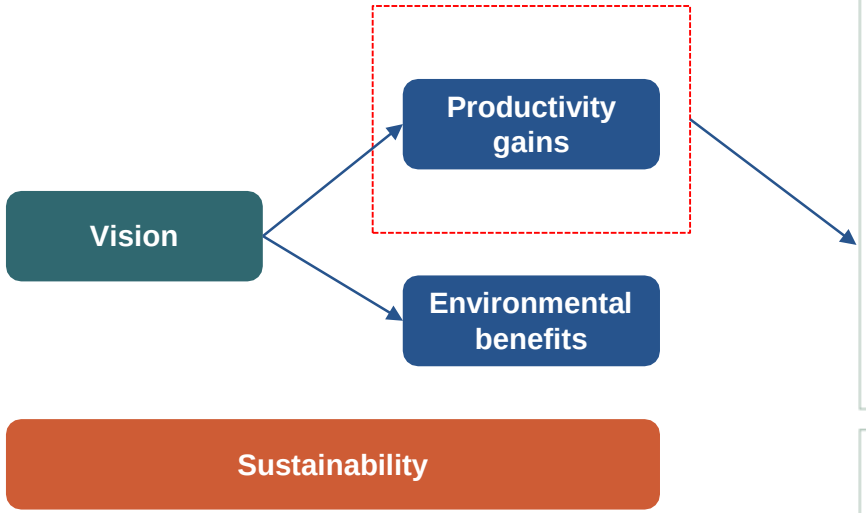
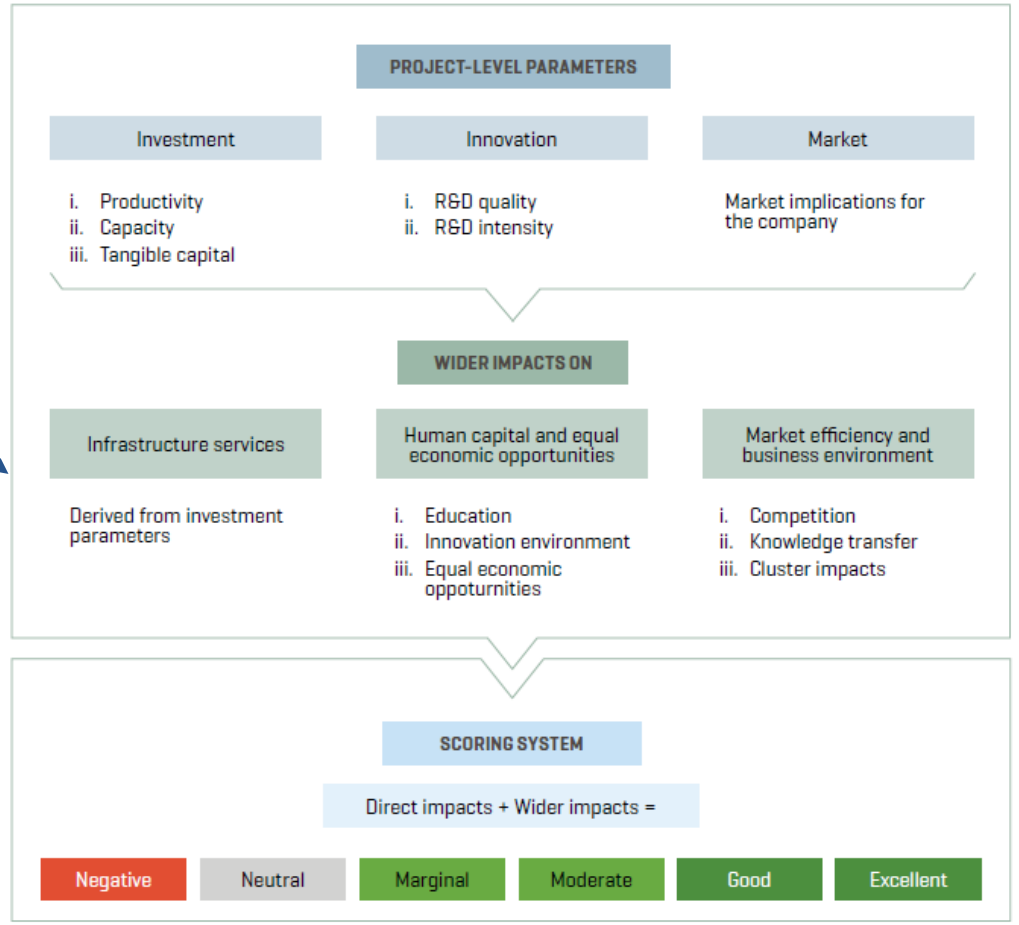
**PISA scores; maths, reading, science, 2015**



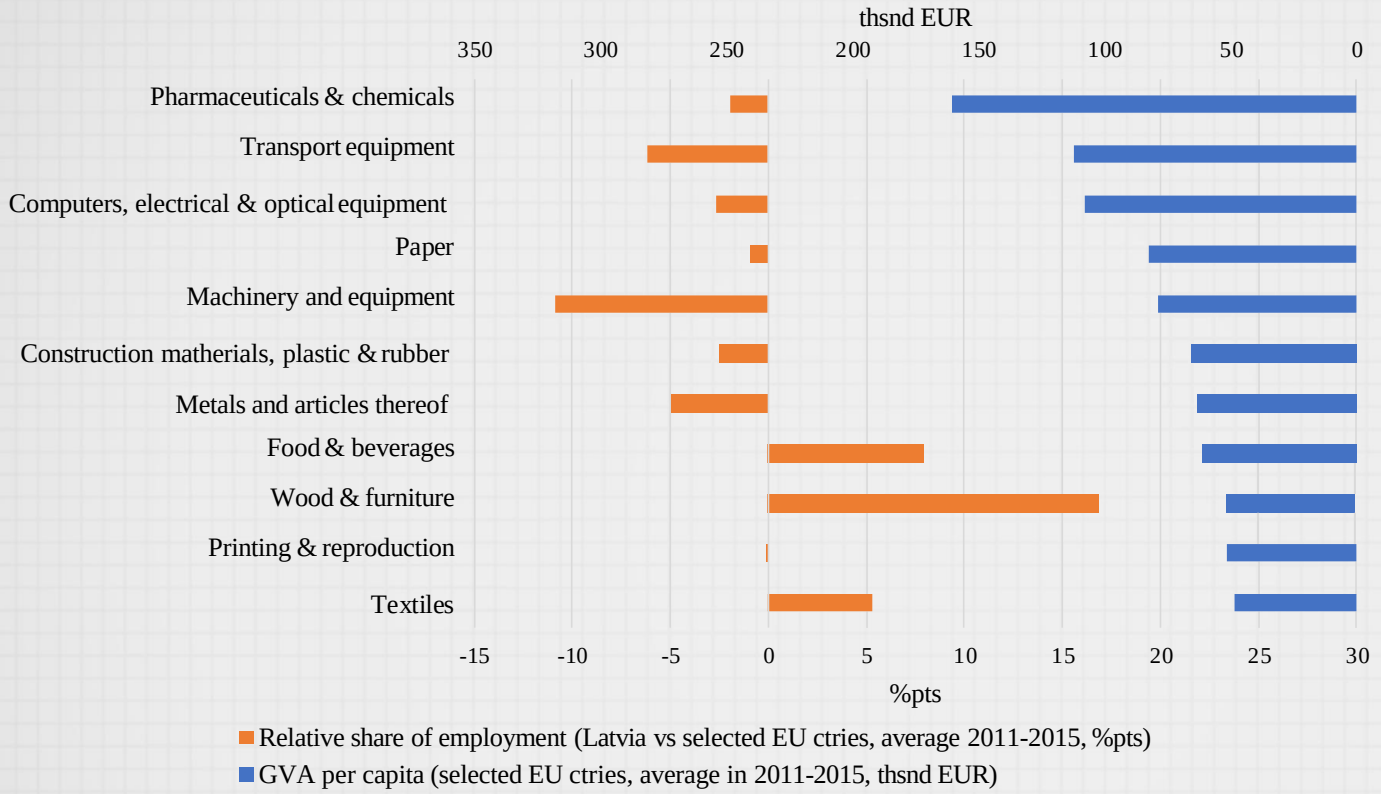

*Source: Macrobond, OECD*

# Picking the "*cherries*"



# Latvia vs selected* EU countries: labour allocation and productivity

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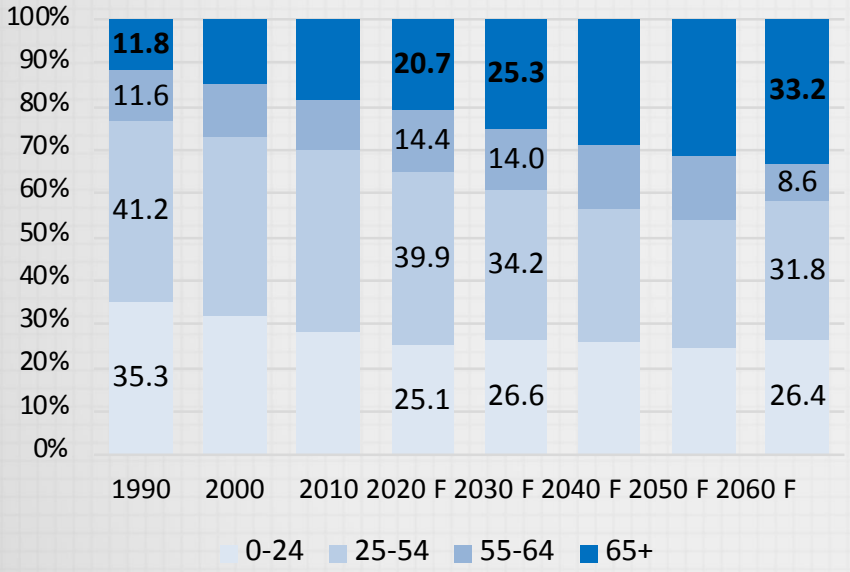
*Source: Eurostat*

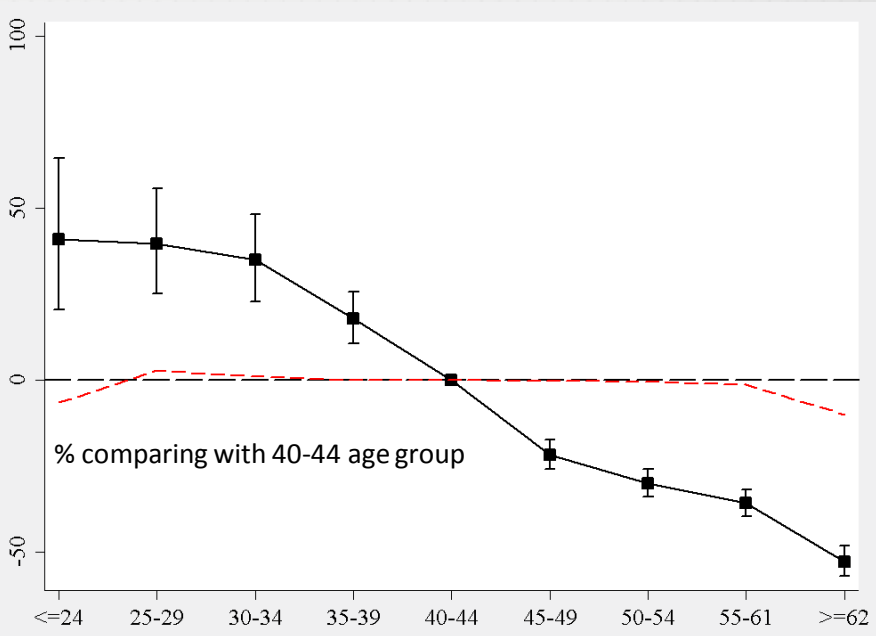
* - FI, UK, IT, NL, BE, FR, AT, DE, SE, DK

# Ageing and labour productivity

## Further aging is expected

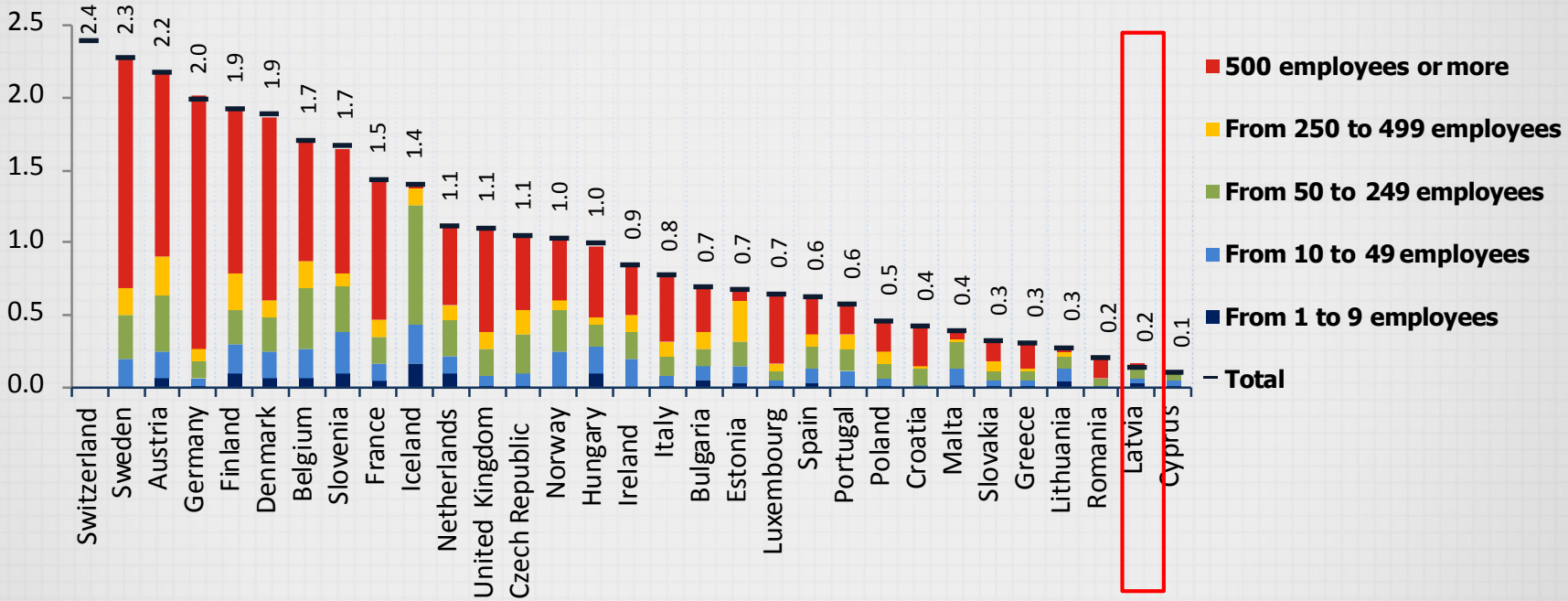



## Older people tend to be less productive




Source: Eurostat, Beņkovskis, Tkačevs (2019), *Ageing population in Latvia.* forthcoming

# Business expenditure on R&D by size class (2015, % of GDP)

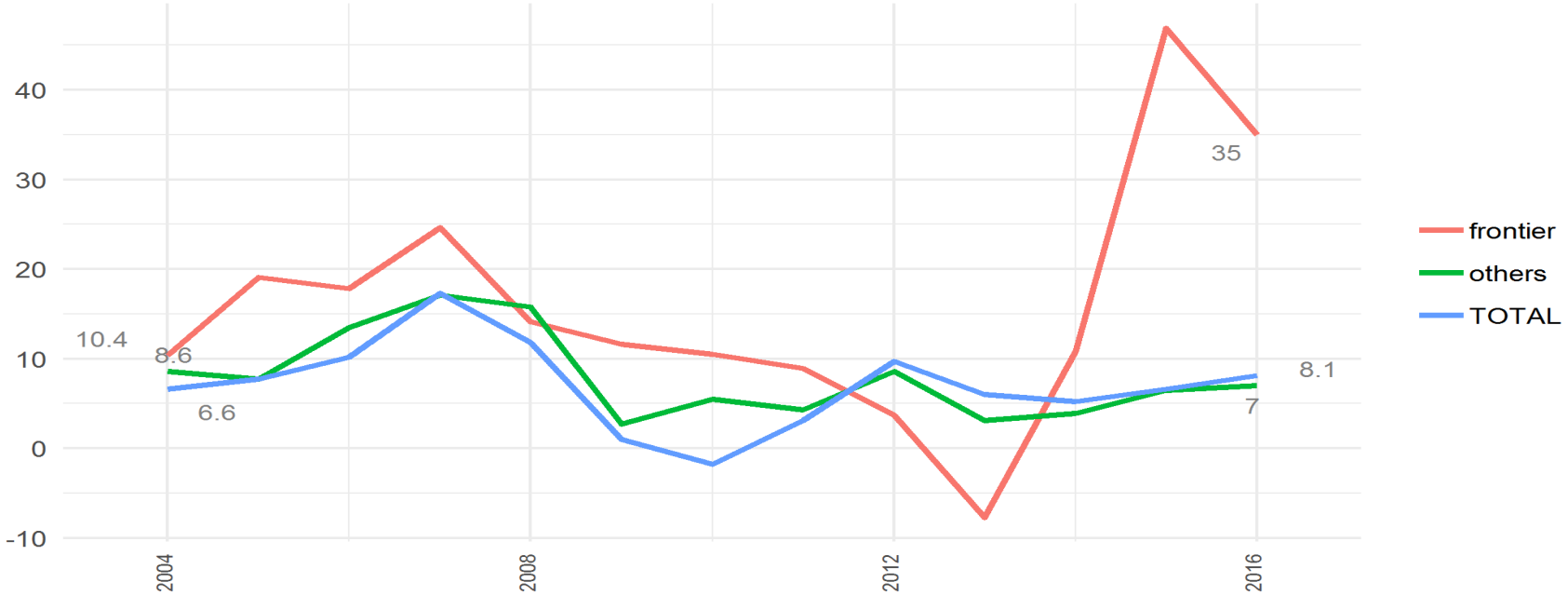



*Source: Eurostat*

# Stronger productivity growth for frontiers

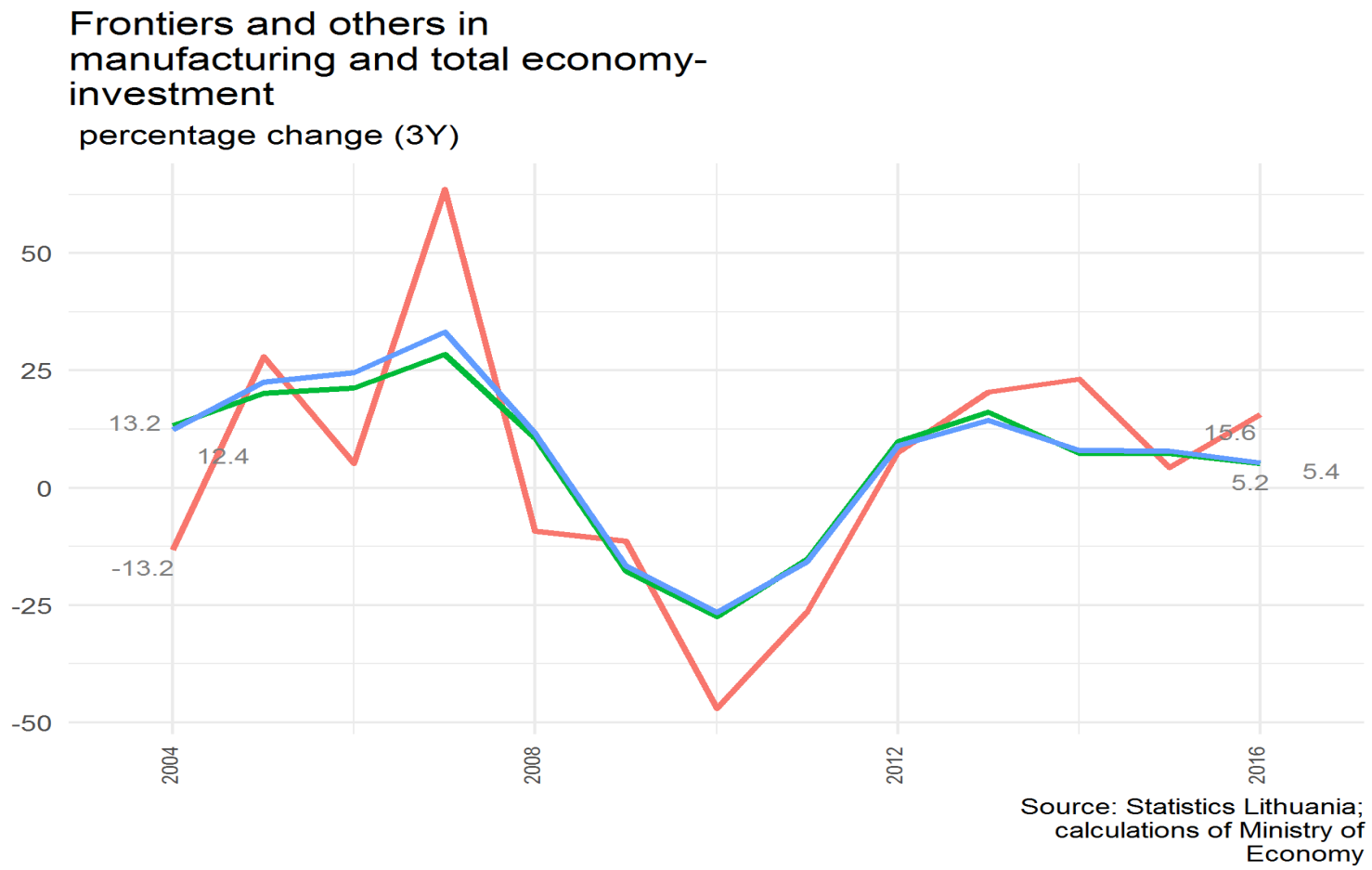
Frontiers and others in manufacturing and total economy- labour productivity per hour worked

percentage change (3Y)




Source: Statistics Lithuania; calculations of Ministry of Economy

# Stronger investment growth for frontiers




- The “productivity” frontiers are from important export sectors
- The “productivity” frontiers have had the higher level of wages compared to the others in manufacturing or total economy since 2000 but
- The difference between „productivity“ frontiers and others has increased since 2008;

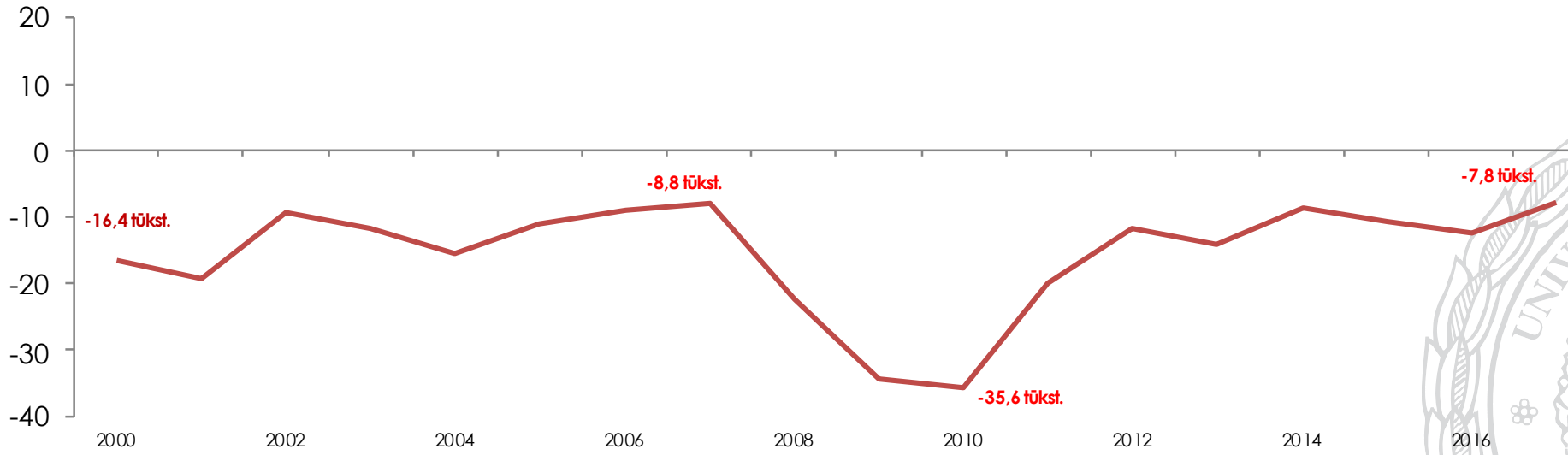
# Enhancing productivity: main directions in Latvia

- Ensuring a stable macroeconomic environment
- Improving the quality of the business environment
- Improving the availability and quality of the workforce
- Promotion of higher added value production
- Ensuring sustainable development
- Strengthening the competitiveness of the regions of Latvia and Riga

# Improving the availability and quality of the workforce

## Citizens' fertility, re-immigration and smart immigration should be encouraged

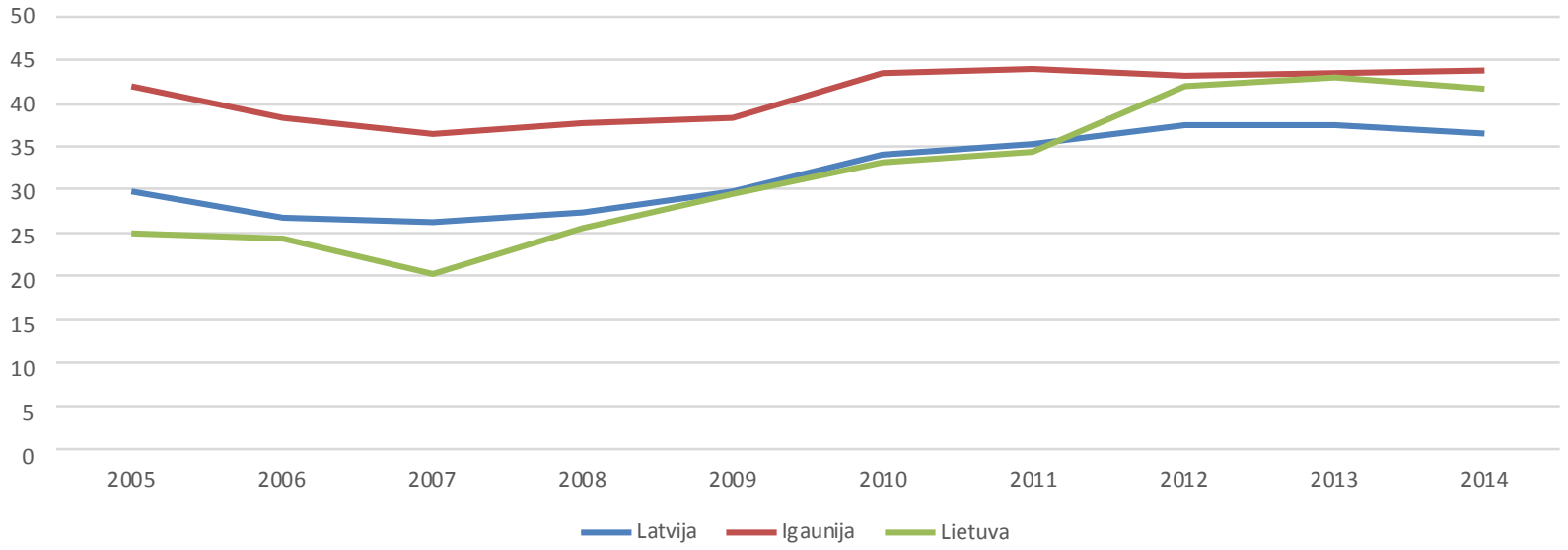
Long-term migration of the population
(migration balance, thousands)



# Promotion of higher added value production

**Participation in global value chains enables companies to "climb" along the production chain upwards. Latvia's participation in the GVC lags behind many developed economies, as well as Estonia and Lithuania**

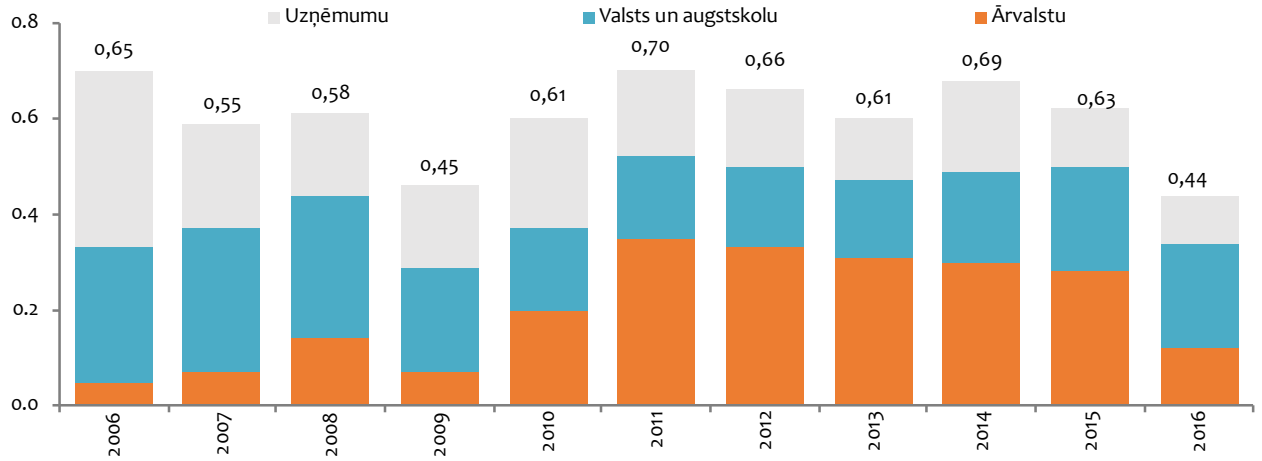
Participation value in the external in GVC in the Baltic countries
(share of domestic added value in external end demand)



# Promotion of higher added value production

## Innovation should be encouraged

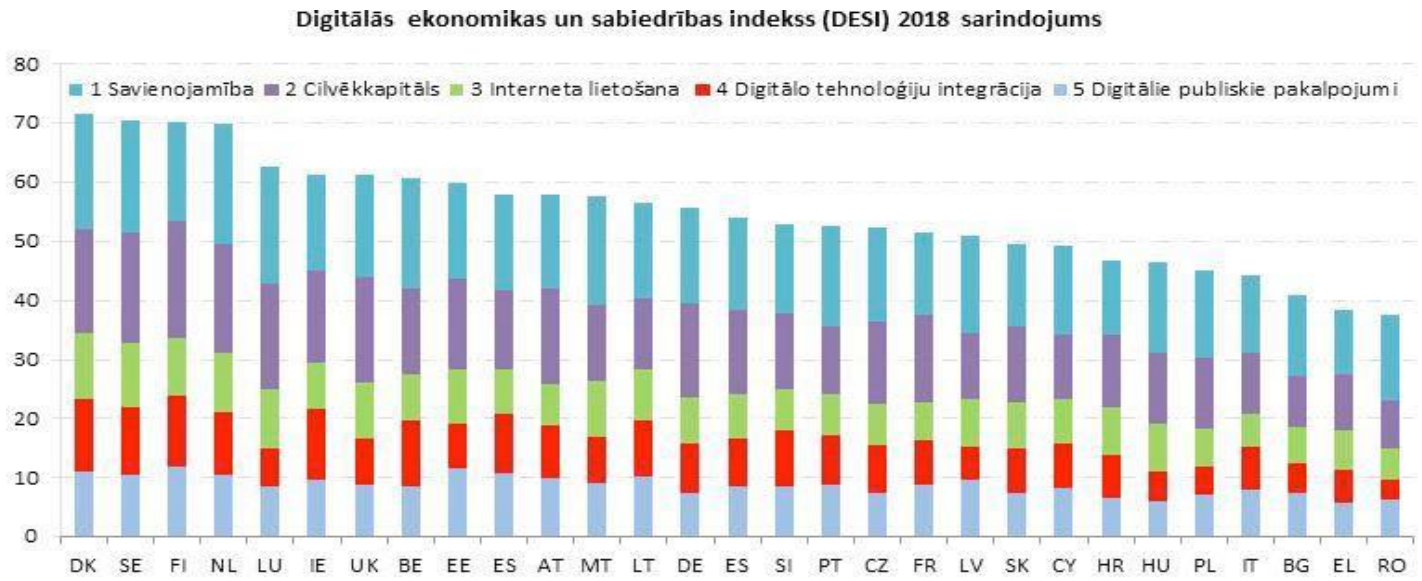
Funding for research and development in Latvia
(% of GDP)



# Promotion of higher added value production

## Digitization should be encouraged

Digital Economy and Society Index (DESI) in 2018



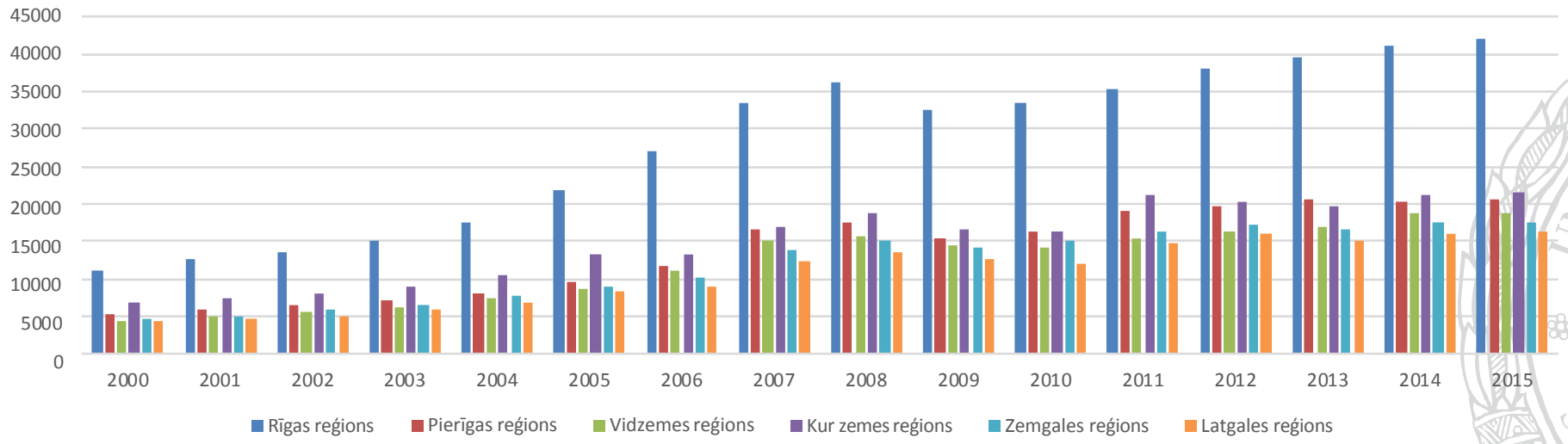
# Promotion of higher added value production (1)

- Increasing productivity in Latvia is closely linked to the transformation of the economy into a product with the highest added value production
- Participation in GVC enables companies to "climb" along the production chain upwards
- Four main factors emerges to promote participation of enterprises in GVC:
  - State support for SME to participate in GVC
  - Innovation
    - Public perceptions of innovation (innovation is not a hobby but a condition for welfare growth) and incentives to innovate
    - Low R & D investment
    - The full use of digitalization is essential for maintaining productivity and improving living standards.
  - The integration of digital technologies (well below the EU average). Latvia has not developed a comprehensive strategy for the digitization of enterprises
  - Reduction utility costs and trade costs

# Strengthening the competitiveness of the regions of Latvia and Riga

## There are significant differences between the productivity levels in the regions of Latvia, which have not diminished over the past decade

Productivity in the regions of Latvia
(at current prices, euro per employee)



# Final conclusions

- Institutions that would not only help governments identify the effectiveness of the right policy, but also serve the role of public educators on productivity are important.
- In Latvia the study of productivity-related aspects is fragmented and lacks systemic approaches.
- Studies have mostly been performed at macro levels, very few studies based on company-level data, lacks cross-sectoral (meso) aspects have not been analyzed in practice.
- Lack of statistical data limits the possibility of developing research-based and scientifically based recommendations for structural policies.
- Future studies must be focused on following aspects of productivity:
  - Meso – cross sectorial
  - Micro
  - Institutional framework
  - Legal framework

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# Thank you for attention

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