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ECONOMIC AND POLITICAL OVERVIEW

ECONOMIC OVERVIEW

Since its independence, Latvia has implemented market-oriented reforms. The country's economy has performed well due to steady growth in domestic consumption and the contribution of foreign investment. As a member of the EU since 2004 (and of the Eurozone since 2014), it has benefited from substantial European funding. According to data compiled by the Central Statistical Bureau (CSB), Latvia experienced a 0.3% decrease in its GDP in 2023. At current prices, the GDP for 2023 amounted to EUR 40.3 billion. A significant slowdown in private consumption and exports was observed, while investment and public consumption expenditure exhibited robust growth. Overall, the EU Commission predicts that economic activity will rebound in 2024 with a growth rate of 1.7%. In 2025, growth is expected to accelerate further to 2.7%, primarily propelled by domestic demand. Investments are anticipated to remain robust, buoyed by inflows from EU funds and improved financial conditions. Moreover, export growth is forecasted to increase, aligning with the general improvement in demand from key trading partners.

Latvia's macroeconomic indicators are generally positive, as the country pursues tax and labor reforms in accordance with its stability program. The IMF estimated the fiscal deficit at below 3% of GDP in 2023, down from 4.6% in 2022, driven by stronger-than-expected tax revenues and reduced spending on support initiatives. Although energy support measures are expected to be nearly fully phased out in 2024, increased spending on education and healthcare wages, along with higher defense and interest expenses, will likely maintain expenditure/GDP at a relatively stable level. The projections indicate that the general government deficit will hover below 2% of GDP throughout 2024-2025, representing a departure toward wider deficits compared to pre-pandemic levels (with an average deficit of 0.5% between 2015-2019), primarily due to the escalation of medium-term expenditure constraints. The government debt-to-GDP ratio decreased marginally to 40.6% in 2023 and is expected to follow a downward trend over the forecast horizon, reaching 38.7% by 2025 (IMF). Fitch Ratings projects that the government's interest payments will rise to 2.4% of revenues in 2024 and further to 3.0% in 2025, up from an anticipated 1.9% in 2023. In the latter half of 2023, HICP inflation experienced a swift deceleration, primarily due to the decrease in energy prices. Nonetheless, the transmission of elevated energy costs to other sectors, notably services, accelerated throughout the year. Despite this, headline inflation maintained an elevated average level of 9.9% throughout 2023. The IMF expects the rate to decline to 4.2% this year and 3.3% in 2025.

The labor market remained resilient, marked by wage growth surpassing inflation rates and thereby supporting real disposable incomes. The unemployment rate was estimated at 6.7% in 2023, with a marginal decrease expected over the forecast horizon (IMF). Latvia has to face a strong emigration of skilled youth and the country has one of the lowest population growth rates in the EU (-0.3% in 2022 - World Bank, latest data available), with birth numbers declining continuously. The latest data published by the Central Statistical Bureau (CSB) show that 22.5% of the country's population is at risk of poverty. The GDP per capita (PPP) was estimated at USD 39,956 in 2022 by the World Bank.

Main Indicators	2022	2023 (E)	2024 (E)	2025 (E)	2026 (E)
GDP (billions USD)	41.17	46.67	50.35	54.09	57.46

Main Indicators	2022	2023 (E)	2024 (E)	2025 (E)	2026 (E)
<b>GDP</b> <i>(Constant Prices, Annual % Change)</i>	2.8	0.5	2.6	3.2	3.2
<b>GDP per Capita</b> <i>(USD)</i>	21,947	24,929	26,952	29,010	30,877
<b>General Government Balance</b> <i>(in % of GDP)</i>	-4.3	-2.8	-1.8	-1.5	-1.8
<b>General Government Gross Debt</b> <i>(in % of GDP)</i>	40.8	40.6	39.5	38.7	38.3
<b>Inflation Rate</b> <i>(%)</i>	n/a	9.9	4.2	3.3	2.4
<b>Unemployment Rate</b> <i>(% of the Labour Force)</i>	6.9	6.7	6.6	6.5	6.4
<b>Current Account</b> <i>(billions USD)</i>	-1.93	-1.39	-1.19	-1.19	-1.24
<b>Current Account</b> <i>(in % of GDP)</i>	-4.7	-3.0	-2.4	-2.2	-2.2

Source: IMF – World Economic Outlook Database , October 2021

## Country Risk

See the country [risk analysis](#) provided by [La Coface](#).

## MAIN SECTORS OF INDUSTRY

The agricultural sector contributes 5% of GDP and employs 7% of the active population (World Bank, latest data available). It is dominated by cattle breeding and dairy farming, in addition to the production of grain cereals (barley, wheat, rye, and oats), sugar beets, potatoes, and vegetables. Fishing and forestry are also important components of the primary sector. Apart from timber, which is largely exported, Latvia has almost no natural resources. Almost 30% of Latvia's territory is destined for agricultural use. Since the early 90s, the structure of land management changed significantly, with the liquidation of collective farms in favor of household farms and – to a greater extent - of private farms, which currently dominate the country's rural sector. According to provisional data from the Central Statistical Bureau, in 2023, an 8.1% decrease was noted in the volume of agriculture, forestry, and fishing, primarily due to a 7.8% drop in crop and livestock production and a 9.2% decline in forestry and logging. Conversely, there was a 2.2% increase observed in the fishery sector.

The industrial sector contributes 21.6% of GDP and employs almost one-fourth of the active workforce (24%). The construction, metallurgy, industrial food-processing, and mechanical engineering sectors are booming. Latvia is well-known as an important producer of railway equipment, radios, refrigerators, medicines, timber, and steel by-products. The manufacturing sector is estimated to account for 13% of the total GDP. Data published by the Central Statistical Bureau of Latvia (CSB) show that industrial production output decreased by 4.5% year-on-year in 2023. Output in manufacturing decreased by 4.5%, in electricity and gas supply by 0.8%, and in mining by 19% over a year. The country has to import all its energy products, mainly from Russia, and has been trying to diversify its sources following the Russian invasion of Ukraine and the resulting sanctions imposed by the EU.

The Latvian economy is driven by the services sector which contributes 61.7% of GDP and employs 70% of the active population. Thanks to its attractive fiscal regulation, Latvia has developed a large financial services sector. Transportation and ICT are also important activities for the country's economy (with more than 6,900 companies operating in the latter sector and a 6% contribution to GDP). Transportation, in particular, contributes nearly 7% of GDP and employs more than 8% of the workforce (official governmental figures). The banking sector comprises 16 banks, including 12 credit institutions registered in Latvia, and four branches of European institutions (European Banking Federation). In 2023, the value added of services increased by 0.8% y-o-y (CSB). The information and communication sector experienced a 3% increase. The largest sub-sectors, computer programming and consultancy, grew by 9.7%, and the provision of information services saw a 7% rise. However, telecommunication services witnessed a decline of 9.9%.

Breakdown of Economic Activity By Sector	Agriculture	Industry	Services
<b>Employment By Sector</b> <i>(in % of Total Employment)</i>	6.8	23.5	69.6
<b>Value Added</b> <i>(in % of GDP)</i>	5.1	20.9	62.1
<b>Value Added</b> <i>(Annual % Change)</i>	7.0	-2.7	4.2

Source: World Bank - Latest available data.

Monetary Indicators	2016	2017	2018	2019	2020
<b>Euro (EUR) - Average Annual Exchange Rate For 1 USD</b>	0.94	0.89	0.85	0.89	0.88

Source: World Bank - Latest available data.

## FOREIGN TRADE

The Latvian market is open and competitive, with foreign trade representing 149% of GDP (World Bank, latest data available). According to the Central Statistical Bureau, in 2023, Latvian exports were dominated by machinery and mechanical appliances, electrical equipment, wood articles, and prepared foodstuffs, which accounted for 16.2%, 15.1%, and 9.8% of the total respectively, followed by chemical products, mineral products, and vegetable products. Among Latvian imports, the most significant commodities included machinery, mechanical appliances, electrical equipment, transport vehicles, mineral products, and chemical products, constituting 19.3%, 13.2%, 11.4%, and 10.2% of the total import value respectively.

With its 530 km-long Baltic coastlines on the west, Latvia is bordered by Belarus and Russia to the east, Estonia to the north and Lithuania to the south. This geographical position allows the country to function as a bridge between the two major economic areas of the EU and the CIS. At the same time, it also makes the country vulnerable to the external context, as shown during the Russia-Ukraine crisis and the following sanctions towards the Russian Federation. In 2023, Latvia's biggest trading partners were Lithuania (19.8% of Latvia's total trade turnover), Estonia (9.9%), Germany (9.3%), Poland (7.6%), and Sweden (4.4%). Lithuania accounted for the largest share of exports (18.2%), followed by Estonia (11.5%), Germany (6.9%), Sweden and Russia (5.9% each). As per imports, Lithuania (21.1%), Germany (11.2%), Poland (10.6%), Estonia (8.5%), and the Netherlands (4.4%) led the list (data CSB).

The country has a structural trade deficit (notably due to its energy imports), which stood at 3.4% of GDP in 2022 (World Bank, latest data available). According to the provisional data provided by the Central Statistical Bureau of Latvia, in 2023, Latvia exported goods valued at EUR 18.9 billion, reflecting an 11.2% decrease compared to 2022. Imports totaled EUR 23.2 billion, marking a decrease by 12.5% compared to the previous year. In 2023, exports to EU countries made up 69.1% of the total volume of Latvian exports and decreased by EUR 1.7 billion or 11.4% compared to 2022.

Foreign Trade Values	2018	2019	2020	2021	2022
<b>Imports of Goods</b> <i>(million USD)</i>	19,681	18,959	18,441	24,446	29,497
<b>Exports of Goods</b> <i>(million USD)</i>	16,166	15,705	16,337	20,833	24,121
<b>Imports of Services</b> <i>(million USD)</i>	3,570	3,529	3,268	4,226	5,050
<b>Exports of Services</b> <i>(million USD)</i>	6,294	6,257	5,375	6,142	7,371

Source: World Trade Organisation (WTO) ; Latest available data

Foreign Trade Indicators	2018	2019	2020	2021	2022
<b>Foreign Trade</b> <i>(in % of GDP)</i>	123.6	120.3	118.8	130.8	146.5
<b>Trade Balance</b> <i>(million USD)</i>	-2,944	-2,952	-1,758	-3,267	-4,282
<b>Trade Balance (Including Service)</b> <i>(million USD)</i>	-230	-230	453	-1,253	-1,838
<b>Imports of Goods and Services</b> <i>(Annual % Change)</i>	6.3	3.1	-0.3	15.3	11.7
<b>Exports of Goods and Services</b> <i>(Annual % Change)</i>	4.4	2.1	-0.3	5.9	9.1
<b>Imports of Goods and Services</b> <i>(in % of GDP)</i>	62.1	60.5	58.9	67.1	76.2
<b>Exports of Goods and Services</b> <i>(in % of GDP)</i>	61.5	59.8	59.9	63.7	70.3

Source: World Bank ; Latest available data

Foreign Trade Forecasts	2023	2024 (e)	2025 (e)	2026 (e)	2027 (e)
<b>Volume of exports of goods and services (Annual % change)</b>	-0.2	3.0	2.6	2.6	2.6
<b>Volume of imports of goods and services (Annual % change)</b>	-0.5	3.0	2.5	2.5	2.5

Source: IMF, World Economic Outlook ; Latest available data

Note: (e) Estimated Data

## International Economic Cooperation

Latvia is a member of the United Nations, the Council of Europe, the Organization for Security and Cooperation in Europe, the World Trade Organization, the Council of the Baltic Sea States and the European Bank for Reconstruction and Development. It has contributed to NATO peacekeeping missions and is taking part at the present time in the international missions to Afghanistan and Irak.

## Main Partner Countries

Main Customers <i>(% of Exports)</i>	2022
<b>Lithuania</b>	18.2%
<b>Estonia</b>	11.7%
<b>Germany</b>	6.7%

Main Customers <i>(% of Exports)</i>	2022
<b>Sweden</b>	5.6%
<b>United Kingdom</b>	5.3%
<b>See More Countries</b>	52.5%

Main Suppliers <i>(% of Imports)</i>	2022
<b>Lithuania</b>	24.3%
<b>Estonia</b>	10.1%
<b>Germany</b>	9.6%
<b>Poland</b>	9.4%
<b>Netherlands</b>	4.0%
<b>See More Countries</b>	42.6%

Source: Comtrade, Latest Available Data

## POLITICAL OUTLINE

### Current Political Leaders

President: Edgars RINKEVICS (since 8 July 2023)

Prime Minister: Evika SILINA (since 15 September 2023)

### Next Election Dates

Presidential: 2027

Parliamentary: October 2026

### Main Political Parties

Latvia has a multi-party system, where no one party has a chance of gaining power alone, and parties must work with each other to form coalition governments. The major parties/alliances in the country are:

- **New Unity** (JV): centre-right political alliance formed by Unity, the Latgale Party and four other regional parties
- **United List** (AS): centrist and regionalist alliance formed by the Latvian Green Party, the Latvian Association of Regions, and the Liepāja Party
- **National Alliance** (NA): national-conservative and right-wing populist political party
- **Union of Greens and Farmers** (ZZS): agrarian political alliance made up of the Latvian Farmers' Union, Latvian Social Democratic Workers' Party, and For Latvia and Ventspils
- **"Harmony"** (SDPS): centre-left, promotes closer ties with Russia
- **The Progressives** (P): social-democratic
- **Latvia First** (LPV): right-wing, populist
- **For Stability** (S!): centre, Eurosceptic
- **Humane Latvia** (PCL): centre to right-wing, populism
- **New Conservative Party** (JKP): conservatism
- **Development/For!** (AP!): centre, social liberalism
- **Unity** (V): centre-right, liberal conservatism, pro-Europe
- **Union of Farmers and Greens** (ZZS): centre
- **Latvian Russian Union** (LKS): left-wing, Russian minority politics.

## Executive Power

The [President](#) is the head of state and is elected by the parliament in a separate election for a four-year term. The President is the commander-in-chief of the armed forces. He appoints the Prime Minister as head of the government who, in turn, has to receive a vote of confidence from the parliament and serves a four-year term. The Prime Minister enjoys executive powers which include implementation of the law in the country and running the day-to-day affairs. The [Council of Ministers](#) is nominated by the Prime Minister and appointed by the parliament.

## Legislative Power

The legislature in Latvia is unicameral. The Parliament consists of 100 seats; its members are elected by direct popular vote to serve four-year terms. The parliament is called [Saeima](#).

The executive branch of the government is directly or indirectly dependent on the support of the parliament, often expressed through a vote of confidence. Legislative power is vested in both the government and the parliament. The government does not have the power to dissolve the parliament. The people of Latvia enjoy considerable political rights.

## COVID-19 COUNTRY RESPONSE

### Travel restrictions

Regularly updated travel information for all countries with regards to Covid-19 related entry regulations, flight bans, test and vaccines requirements is available on [TravelDoc Infopage](#).

To find information about the current travel regulations, including health requirements, it is also advised to consult Travel Regulations Map provided and updated on a daily basis by [IATA](#).

### Import & export restrictions

A general overview of trade restrictions which were adopted by different countries during the COVID-19 pandemic is available on the [International Trade Centre's COVID-19 Temporary Trade Measures](#) webpage.

### Economic recovery plan

The summary of the EU's economic response to the COVID-19 pandemic is available on the website of the [European Council](#).

For the general overview of the key economic policy responses to the COVID-19 outbreak (fiscal, monetary and macroeconomic) in Latvia, please consult the country's dedicated section in the [IMF's Policy Tracker platform](#).

### Support plan for businesses

For an evaluation of impact of the Covid pandemic on SMEs and an inventory of country responses to foster SME resilience, refer to the OECD's [SME Covid-19 Policy Responses](#) document.

You can also consult the World Bank's [Map of SME-Support Measures in Response to COVID-19](#).