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INVEST

FOREIGN DIRECT INVESTMENT

FDI flows to Latvia increased continuously upon its accession to the EU to peak at USD 2.32 billion in 2007, and have been generally on the decline since that date. Nevertheless, according to UNCTAD's [World Investment Report 2023](#), foreign investment flows reached a record-high level of USD 3.32 billion in 2021 and stood at 1.5 billion in 2022. At the end of the same year, the total stock of FDI was estimated at USD 24.09 billion, around 57.1% of the country's GDP. Prior to Latvia's transition to a full market economy, privatization was the main source of FDI for the country. Today, a significant portion of FDI comes from re-investments and classic merger/acquisition operations. The main foreign investors in Latvia are Sweden (28.5%), Estonia (12.9%), Lithuania (7.8%), Russia (6.4%), Germany (6.1%), and Cyprus (5.8% - source: Bank of Latvia). FDI split by sectors shows that most investment is attracted in professional, scientific and technical services (21%). Other significant foreign investments have been accumulated in financial operations (15%), real estate operations (15%), trade (13%), and manufacturing (12%). The latest figures from the OECD show that in the first half of 2023 FDI inflows reached USD 650 million, compared with USD 685 billion recorded in the corresponding period one year earlier.

Latvia can also count on a skilled and relatively inexpensive workforce and a strategic geographical location, between the EU and CIS countries. It also has a competitive tax system (ranked second in the [2023 International Tax Competitiveness Index Ranking](#)) and the government has abolished taxes on reinvested profits. The country counts five special economic zones (SEZs): Riga Free Port, Ventspils Free Port, Liepaja Special Economic Zone, Rezekne Special Economic Zone, and Latgale Special Economic Zone. The law does not discriminate between local and foreign investors, except for some sectors considered of national importance, which require governmental approval prior to transfers of significant ownership interests (these include the energy, telecommunications, and media sectors). The government recently approved the “[Green Channel](#)” initiative, which aims at reducing administrative burdens for high value-added investments in priority industries such as ICT, bio-economics, smart materials, photonics, biomedicine and smart energy, and global business services, as well as construction, transport and logistics if required to carry out projects in the above-mentioned industries. On the downside, the country has a small-sized market, and it has room for improvement in the protection of minority shareholders and in resolving insolvency. Furthermore, its proximity to Russia may hinder the expansion of FDIs in the short term in light of the Russian invasion of Ukraine. Overall, Latvia is considered a business-friendly jurisdiction, and the country ranks 37th among the 132 economies on the [Global Innovation Index 2023](#) and 20th out of 184 countries on the latest [Index of Economic Freedom](#).

Foreign Direct Investment	2020	2021	2022
FDI Inward Flow <i>(million USD)</i>	1,005	3,322	1,508
FDI Stock <i>(million USD)</i>	20,628	24,043	24,094
Number of Greenfield Investments*	30	18	20
Value of Greenfield Investments (million USD)	976	641	709

Source: UNCTAD - Latest available data.

Note: * Greenfield Investments are a form of Foreign Direct Investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up.

Country Comparison For the Protection of Investors	Latvia	Eastern Europe & Central Asia	United States	Germany
Index of Transaction Transparency*	5.0	7.5	7.0	5.0
Index of Manager's Responsibility**	4.0	5.0	9.0	5.0
Index of Shareholders' Power***	9.0	6.8	9.0	5.0

Source: Doing Business - Latest available data.

Note: *The Greater the Index, the More Transparent the Conditions of Transactions. **The Greater the Index, the More the Manager is Personally Responsible. *** The Greater the Index, the Easier it Will Be For Shareholders to Take Legal Action.

WHAT TO CONSIDER IF YOU INVEST IN LATVIA

Strong Points

The main assets of the country are:

- Political stability
- Healthy public accounts
- Skilled and inexpensive labour and overall high productivity
- A competitive business environment with a simple and attractive tax system and a low level of taxation (Latvia's tax system ranked 2nd most competitive in the world - International Tax Competitiveness Index 2020). Legislation harmonised with that of the European Union is also favourable for investment
- A strategic geographical location making the country a transit point between the European Union and Russia and the former Soviet republics
- Historically strong international relations, reinforced by the country's accession to the European Union in 2004, giving it good access to international markets
- The Latvian government is particularly interested and willing to promote the development of its start-up sector.

Weak Points

Some of the obstacles to FDI in Latvia include:

- The small size of its domestic market, which is dominated by Scandinavian companies
- A weak industrial base
- Export activities highly dependent on the Russian economy and bordering countries
- Low investments in research and development (just 0.64% of GDP in 2019 - OECD, latest data available) generating technological delays
- A fragile banking sector dependent on bank deposits of non-residents
- High risk of corruption
- Insufficient land connections with the rest of the European Union

Government Measures to Motivate or Restrict FDI

Following its independence, Latvia decided to launch itself into the market economy and acquire the capital it was lacking. It progressively opened itself up to direct foreign investments. In order to attract foreign companies, the Latvian government offers financial assistance. Its strategy is especially to promote the high technology industrial sector. A loan and a semi-loan plan have also been launched to promote SMEs.

Foreign investors have the same rights and responsibilities as local investors. Any company can be established with 100% foreign capital and all business sectors are open to foreign investors. Foreign entrepreneurs are also eligible to receive funds from the EU and the Latvian government. Foreign investors in Latvia are represented by a special council, the [Foreign Investors Council in Latvia \(FICIL\)](#), which holds regular meetings with the government to improve the business climate.

Five special economic zones (SEZ) have been established in Latvia (in Liepaja, Rezekne and Latgale). Each SEZ has its own specific rules (such as exemptions from indirect taxes, customs duties or VAT). These SEZs are planned to be in operation until 2035.

INVESTMENT OPPORTUNITIES

Tenders, Projects and Public Procurement

[Tenders Info](#), Tenders in Latvia

[Globaltenders](#), Tenders & Projects from Latvia

[Ted - Tenders Electronic daily](#), Business opportunities in EU 27

Finding Assistance For Further Information

Investment Aid Agency

[Investment Agency of Latvia](#)

[Development Agency of Latvia](#)

Other Useful Resources

[Foreign Investor Council in Latvia](#)

Doing Business Guides

[Country Commercial Guide for Latvia - ITA](#)

[Latvia Tax Guide, Deloitte](#)

[Doing Business Report - World Bank](#)