



Weekly Briefing

Latvia economy briefing:
Information and communication sector in Latvia – jump of the
decade
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Information and communication sector in Latvia – jump of the decade

The information and communication technology sector has seen a significant upturn and development over the past 10 years. This is confirmed not only by the increase of companies in the field but also by the produced amount of a variety of innovations in the information and communication technology sector. In recent years, the information and communication sector has seen around 10% growth annually.¹ Over the last decade, the share of information and technology in total exports has increased, thus changing Latvia's economic course.

In 2019 around 6950 companies have identified their core activities in telecommunications, computer programming, counselling, and related activities, as well as in the information services sector. About one in five of them there have been made foreign investments.²

Electronics and electrotechnics are commonly viewed together as related high-tech industries focused mainly on exports since both of the segments mostly export their production.

The data show that export in the information and communications technology sector has been seen as increasing in the last couple of years.

The fact that the information and communication technology sector is expanding for several years also shows the industry's profits and total turnover. The total annual turnover of the information and communication technology industry is growing on average by 10%.³ If the sector turned over €1.27 billion in 2014, then it was already €1.74 billion in 2017, while in 2018 the information and communication sector formed 4% of the total turnover in Latvia.

Continuing this even growth path for the sector is expected to lead to an increasing share of exports. Although the information and communication sector is growing, according to export figures, it still remains well away from the leading export sectors of Latvia, ranking at only 10th place last year.

Although information and communication technologies' services are not yet at the top of Latvian export products, experts point out that with such development rates, the sector could become the main export product in a few years' time. Some experts also reveal that the biggest challenge in the field could possibly be expected in terms of employment.

¹Lursoft Data Bases: <https://www.lursoft.lv/?l=en>

²Lursoft Data Bases: <https://www.lursoft.lv/?l=en>

³Lursoft Data Bases: <https://www.lursoft.lv/?l=en>

In terms of the challenges for the future of the sectors, it is worth looking into what the business-limiting factors are indicated by entrepreneurs and what capacity pressures there potentially are. It is no secret that the manufacturing industry is currently characterized by two supply-side under-capacity factors: lack of employees and historically high capacity workload.

For computer and electronics manufacturers, capacity loads reached 74% in Q4 2018, a few percentage points below the historic peak (77%). In the production of electrical equipment, capacity was only 65% (the maximum historical capacity was 76%).⁴ Thus, unlike many other sub-sectors of the manufacturing industry, where capacity pressures are very high (up to 90%), electronics and electrical engineering producers could still increase production without the need for new investments. This proves that electronics and electrical engineering producers still have an opportunity to expand even more. On the other hand, in the matter of restrictive factors, the responses of the representatives of the electronics and electrotechnology industry show that these sectors are similar to the overall situation in the manufacturing industry: more and more producers indicate that they do not see any restrictions on development, the overall demand is annually increasing. However, since mid-2017 there has been an increasing number of labour shortages. Moreover, this is a problem that is much more difficult to solve since the necessary skills and level of education cannot be learned and achieved in a few months' training courses. Many years of investment in human capital or attracting skilled labour from abroad are needed.

The information and communication technology sector is constantly entering the leading position between sectors with the highest average wage outperforming both the financial and insurance industry and as well as the energetics sector.

Data published by the Central Statistical Bureau showed that while the average gross national salary were EUR 1004 in 2018, the average earnings in the information and communication industry was EUR 58.57% higher meaning around EUR 1592 in gross monthly.

The level of salaries is also reflected in the data on the amount of personal income tax paid per worker. In the field of information and communication technology, the average amount of personal income tax paid per employee reached EUR 3.07 thousand in 2018, while per employee the amount of personal income tax paid to all companies registered in Latvia was almost as half lower.⁵

⁴Data from the European Commission

⁵CSB data: <https://www.csb.gov.lv/en/sakums>

This industry's growth success story was made to a large extent thanks to a Latvian company "MicroTik", which overall produces and focuses on computer network equipment, mainly wireless equipment and routers.

One of the most successful information and communication technology leaders in Latvia is the company "MicroTik", which has seen a major breakthrough in its sector in recent years. The production of "MicroTik" computers, electronic and optical equipment has developed relatively gradually since 2000. However, since the year 2014, the company has experienced rapid growth, increasing production several times and in the last ten years. In the year 2008 "MicroTik" formed around 1.5% of the total share of the manufacturing industry. However, in 2018 it was already made up approximately 4.5% of the total share in manufacturing industry

In 2017, the company's gross profit per employee of "MicroTik" reached to 365 thousand. Over the last five years, the company's productivity increased by EUR 105 thousand per employee. In addition, such a result has been achieved despite a drop in profits in 2017 due to fluctuations in exchange rates. Comparing to competitors, the average salary in the company is also high - €2.6 thousand per month, which is about 2.6 more than the average in Latvia.⁶ It marks the path of the development of the economy in Latvia: knowledge-intensive and well-rewarded jobs that are sustained by productivity growth. The company employs more than 200 employees and that number has nearly doubled in the past five years.⁷

Over the past 10 years, Latvia has witnessed the replacement of 2 generations of wireless mobile telecommunications technology. In 2019, a 5G network was introduced in Latvia. As a result, Latvia became one of the first countries in Europe⁸, with 5G network coverage being introduced, thereby outperforming some European countries in the field of the Internet coverage sector. The deployment of 5G is currently developing an information and communication technology environment in Latvia, which will contribute to a higher level of exports, thereby allowing Latvia to compete on a global scale. The development and use of 5G have been one of the priorities at both Latvian and European Union level. Implementation of the 5th generation wireless technology for digital cellular networks has not only made improvements in speeds and coverage but also created a series of new additional functions in the information and communication technology industry. 5G was introduced in Latvia in 2019 by the experienced information technology company "Latvijas Mobilais Telefons".

⁶CSB data: <https://www.csb.gov.lv/en/sakums>

⁷Lursoft Data Bases: <https://www.lursoft.lv/?l=en>

⁸ <https://www.speedtest.net/ookla-5g-map>

Education and information and communication technologies have a common future in Latvia. With the introduction of the new education reform in Latvia, emphasis will be placed on the acquisition of information technologies, promoting computer skills for pupils. The number of students in the information and communication technology sector has also increased in recent years.⁹ It is therefore important that future professionals in this sector are being provided with an environment that is competitive with the global market, an environment for improving their knowledge in the field of information and technology. Developing 5G specifically in Latvia will allow students to operate with “big” data, create innovation in the information and communication technology sector.

Currently, the company Printful, which was originally based and founded in Latvia, has become one of the fastest-growing companies in the United States of America. In 2019, “Printful”, a subsidiary company of “Draugiem Group”, entered the “Inc.com” list of 5000 US fastest-growing companies, ranking at the 564th place.

The company offers services of integration with e-commerce platforms, automating product creation and order receipt and execution, as well their partners have the option to set delivery costs online. Printful provides integration with a variety of e-commerce platforms and services for companies such as “Shopify”, “eBay”, “Amazon”, “WooCommerce”, “Etsy”, “Weebly”.

“Printful Inc.” and corporation “Printful Latvia” had a total turnover of \$77 million (67.66 million EUR) in 2018, while in 2017 they were \$46 million (40.42 million EUR).

“Printful Inc.” works for the North American market with departments in the U.S. (Los Angeles, California, and Charlotte, North Carolina) and Mexico (Tijuana). European orders are provided by the subsidiary company “Printful Latvia” in Latvia. In order to expand more rapidly in Spanish-speaking countries, the “Printful” office in Barcelona has been opened this summer.

The Printful central office and the European production unit, employing more than 250 people, is located in Latvia. During the year 2019, at least 100 new, talented specialists have joined the Printful Latvian team and the number continues to grow rapidly. Together, Printful employs over 600 people worldwide.

⁹www.izm.gov.lv.