



Weekly Briefing

**Latvia social briefing:
Social development trends in 2020**
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Social development trends in 2020

Some experts say that the following years will be crucial for the sustainability of Latvia. The main reason for that is the decrement in the number of population. In the last 30 years, 450 thousand people have emigrated from Latvia, which forms a significant part of the total population of Latvia.¹ At the same period of time the overall amount of permanent residents has fallen down for 700 thousand, which is approximately 28%.² In order for Latvia to experience the decrement of emigrated citizens, it is essential to make wise political decisions and ensure the growth of the level of welfare in Latvia. The year 2020 will bring changes in social field to Latvia, mainly in the medical industry, and will improve the support of people who are under social vulnerability.

In 2019 the public health care sector was in the epicenter of discussion. The doctors went on marches and expressed their frustration with the current medical system in various ways of protests. Mainly the medical staff was unsatisfied with the planned amount of funding for the healthcare sector in the forthcoming years. Although the Health Care Financing Law, which came in force in the Year 2018, determined that the income of medical personnel should be raised by 20% annually, practically the raise was not that high. Undoubtedly, it is in the best interests of politicians to keep the overall climate peaceful. Therefore, it is forecasted that the medical staff could experience increment of salaries by around 20% in the Year 2020 as it was initially planned considering the Health Care Financing Law. The Minister of Health Ilze Vinķele stressed that it is possible to find additional funding for healthcare if the government would raise taxes that affect wealthier citizens. However, this question is still surrounded by discussion, and the outcome may result in several ways.

The second change in health industry is expected in the pharmacy sector. Currently Latvia has the biggest Value Added Tax for medication in Baltics and the fifth largest in the European Union– 12 % .³ In addition reviewing the data of the Competition Council of the Republic of Latvia it has been concluded that the added pricing of wholesalers is the biggest in the Baltics. However, the representatives of wholesalers have previously stressed that the prices of medication will fall as the Value Added Tax will decrease. It is most likely that the

¹ <https://www.csb.gov.lv/lv/statistika/statistikas-temas/iedzivotaji/migracija/galvenie-raditaji/imigracija-emigracija-un-saldo>

² Central Statistical Bureau of Latvia

³ <https://www.statista.com/statistics/458957/vat-rate-on-prescription-only-drugs-in-europe/>

medication is going to get cheaper in the Year 2020. Therefore ensuring benefits in particular for people who suffer from chronic diseases. It is worth noting that the second initiative from the medication wholesalers was to increase the total amount of government's funding to compensatable medication products. However, there is a long process of debates ahead between the government and medication wholesalers.

Currently, there are two possible options for lowering the prices of medication. It is clear to say that the costs of medicine will not be raised in the Year 2020 in Latvia. And in the best-case scenario, medication will get cheaper, thus making health care more accessible to people who are under the risk of social exclusion.

The year 2020 is going to bring changes in the field of the education sector. For several years the Latvian government has been preparing the new educational reform, which is going to be implemented starting from September 1st, 2020. The new educational reform is going to be applied in all schools in Latvia, thus affecting teachers, students, and their parents as well. The reform is focused on developing a new approach to educating pupils from the age of preschool until the age of highschool. As a result, the students will obtain skills and knowledge that is necessary nowadays. One of the main priorities of the new educational reform is for students to acquire skillsets as critical thinking, problem-solving, innovation, self-learning, cooperation, civil activism, and digital skills. With the implementation of the reform, the new education system will follow more after the Western countries' model. It is worth noting that in recent years some schools had already successfully adapted the teaching process to the new standards. However, in most of the cases currently nor the parents, nor the students have not received a sufficient amount the information about the upcoming changes. Thus it may cause some misunderstandings and misinterpretation at the beginning of the following school year.

As previously mentioned, within the years' demographics has become one of the most pressing issues for Latvia. Reviewing the data from the Central Statistical Bureau of Latvia, it can be concluded that since the Renewal of Independence of the Republic of Latvia, the amount of residents in Latvia has been falling annually. The Strategic Goal of Latvia, which was accepted by the Latvian Parliament in 2010, suggested that in the Year 2030, the total amount of citizens should be bigger than 2.02 million. Afterward, in the Year 2015, it was noted by the Government of Latvia that if the total amount of residents in Latvia in 2020 is going to be 1.93 million, then the goal for 2030 will be reachable. However, the data from the Year 2019 show that the total amount of citizens in Latvia at that time were 1,909 million, which was already less than the goal for 2020.⁴ For the upcoming years, the Government of Latvia has to focus on

⁴ Central Statistical Bureau of Latvia

at least sustaining the current population. The rate of births and deaths per year is also unpleasant for the sustainability of Latvia. For the last years, it has remained negative, and it is doubted that it would experience a change in 2020.

As long as the natural population growth remains negative, it can cause chains of problems for the future generations of Latvia. Because of the population aging trend, which is already currently observed in Latvia, it can lead to a lack of workforce, thus reinforcing problems like shortage of tax income and increasing social budget expenditure. Although the Latvian government has provided the families with children with various kinds of facilitation, the data shows that more action is needed. Therefore it is forecasted that demography is going to be one of the main priorities for the Latvian government in the Year 2020.

The social challenges caused by the decrement of population and urbanization can directly impact the rural areas in the near future. Some experts say that the countryside regions may be in a particularly difficult situation. Because of the urbanization trend in Latvia, it is observed that people are increasingly moving to cities. As a result, rural areas could be experiencing a long-term shortage of taxpayers – a lack of working hands and consumers – and the consequences of the aging population.

The State Budget of 2020 has made some contributions to the social development of Latvia. Following the European Commission's recommendations to decrease the social inequality between the European Union countries there have been made modifications to the monthly maximum differentiated non-taxable minimum thus experiencing a raise from 230 Euros to 300 Euros. In addition, changes were made for the upper limit to which the maximum differentiated non-taxable minimum is applied – from 440 Euros to 500 Euros. The Government of Latvia is also planning to work on solutions for increasing the differentiated non-taxable minimum to 500 Euros per month. In order to ensure social security for the most socially vulnerable groups

of society, it was accepted by the Parliament of Latvia to raise the minimum income level for both disabled people and seniors in 2020.

One of the social development trends that have already come in force in 2020 is the adjustments to the Law on Government-Funded Pensions, therefore providing that the second level pension is going to be able to inherit. The new Law determines that people will have the option to choose what is going to happen with their pension capital savings accumulated in the second pillar of the pension system in the event of their death. In case of a resident's death

before reaching the age of retirement, the resident now will have the right to choose whether their savings in the second level of the pension system will be inherited by their spouses or added to the pension savings of another person. However, if the person will not have indicated their willingness regarding the second pension level heritage, the pension capital will be transferred in the Special Budget. The new amendment will socially protect families, especially those in which the spouse is the only one receiving income. Second, it could motivate others to make responsible decisions regarding their pension funds. By that, the new law enforcement could serve as an additional inducement of the decrement of Shadow Economy.

Conclusion

In the Year 2020 demography, the aging and decrement of the population will remain as one of the most pressing issues in Latvia. It is forecasted that natural growth of the population of Latvia will remain negative as previously. The upcoming Educational reform is going to change the process of education and focus more on developing skills that are necessary to obtain nowadays. The new social development trends of Latvia in 2020 are going to be beneficial for people who are the risk of social vulnerability. People who are at the risk of social exclusion will have a larger amount of income, thus decreasing social inequality. In addition, the prices of medication could experience fall in 2020. Due to the protests against financing plans in the field of medicine, the medical staff could experience a more significant income raise.