



Weekly Briefing

Latvia social briefing:

The trends and forecasts for Latvian main social indicators in 2021

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Introduction

During the first half of 2021, the government will continue the fight against Covid-19 pandemic. Immunization of the population is the main priority for this period. However, there are several obstacles for the citizens' vaccination, one of them is the absence of an appropriate, realistic, and efficient plan of vaccination.

Demographic situation in Latvia is worsen yearly, the population is decreasing and ageing, the government need to introduce long-term measures.

The unemployment rate can increase this year up to 10% due to the tax reform, leaving a lot of entrepreneurs and their employees without work. Latvians believe that this year will not bring significant positive changes in the financial situation, most people think that it will remain unchanged.

National minimum monthly wage (gross) has been increased in Latvia from EUR 430 to EUR 500 in 2021. However, it is still less than this indicator in the neighbour Baltic countries and EU average minimum wage rate.

Demographic situation

In Latvia, one of the most significant issue for the future years is the population decrease due to natural reasons and migration. The forecast of the Institute of Economics of the Latvian Academy of Sciences for 2021 is the following:

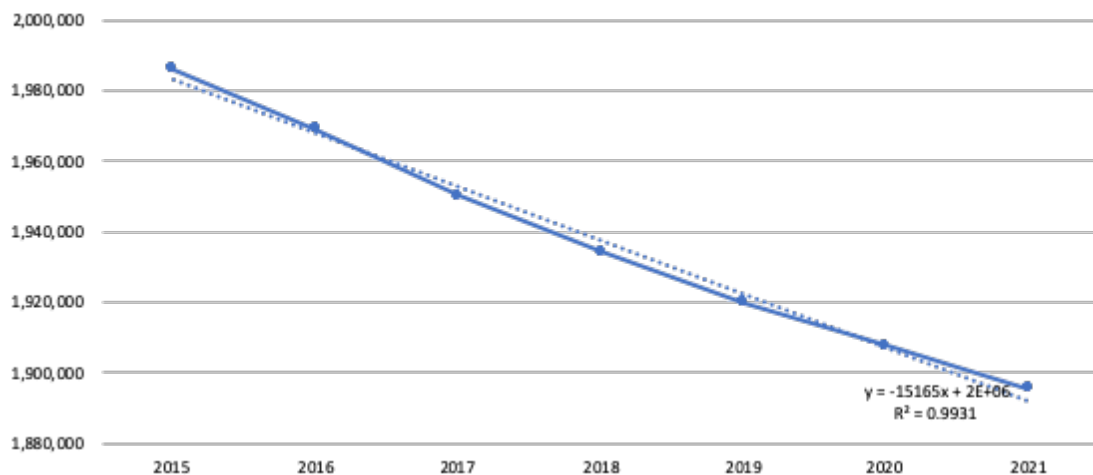


Figure 1

Population of Latvia, 2015-2021

Source: Table developed by the author using Central Statistical Bureau of Latvia data and calculation results

According to the forecast for this year the Latvian population is going to decrease again. At the same time, the problem of ageing population is rising more and more sharply every year. The long-term measures should be introduced by the government to improve the situation and attract people from abroad. This issue cannot be solved in one or two years, therefore, short-term measures will be inefficient in this situation.

Covid-19 current situation and perspectives

The start of 2021 remains slow due to continuing restrictions and unfavourable trade conditions. However, consumer sentiment is steadily improving, job losses are limited and relatively soft containment measures in 2020 in comparison with other EU countries will support the V-shaped consumption pattern. One of the main reasons for it is the stable mood in the society, conscious behaviour of Latvian citizens, and restrictive measures that allow to maintain and improve the Latvian social economic situation.

The situation with Covid-19 is ambiguous in Latvia. On the one hand, the first Covid-19 vaccines are already in the country. The first ones to receive the vaccines are medics working with Covid-19 patients and employees of the Emergency Medical Service. On the other side, the number of positive tests is still growing. The forecast for the first half of 2021 is not so

optimistic as most probably it will have a similar social economic situation as the second half of 2020. However, the second half of 2021 should improve the social economic position of Latvia as the vaccination have to be completed and restrictive measures will be lifted.

Regarding the vaccination tender, Latvia should receive 424,000 vaccine doses from AstraZeneca, 98,000 vaccine doses from BionTech/Pfizer, 63,000 vaccine doses from CureVac and 42,000 vaccine doses from Moderna. The problem is that two of the vaccines are already approved by EMAⁱ but the vaccine from AstraZeneca, which was purchased in larger quantities, is yet to be approved. One more issue arose is the unclear vaccination plan provided by the Ministry of Health.ⁱ These issues negatively influence the vaccination rate and are the significant barriers for a successful fight with Covid-19. Due to the reasons mentioned above, Prime Minister of Latvia expresses no confidence in the Minister of Health. As a result, Prime Minister signed an order dismissing the Minister of Health Ilze Vinkele.ⁱⁱ One day later, the new Minister of Health Daniel Pavluts was confirmed for this position.

Unemployment rate forecast 2021

During the spread of Covid-19 in 2020, the unemployment rate increased very rapidly by 2% and about 20,000 new unemployed were registered. Currently, the unemployment rate in Latvia is 7,7%. According to the Ministry of Welfare forecast, this year unemployment rate can rise but should not exceed 10%.ⁱⁱⁱ This increase in the number of unemployed has several major reasons. First of all, the introduction of mandatory minimal insurance payments of not less than EUR 170 per month, will force a lot of micro and small enterprises to start the insolvency procedure as this amount is large for young enterprises, which are working without profit. Secondly, deferred tax payments should be paid by companies this year. However, for a big part of enterprises, it is still impossible, so some of them could make their business in the shadow economy, while others again will be forced to go bankrupt.

In December 2020 a survey regarding the financial forecast for 2021 among the population of Latvia was conducted^{iv}. It was attended by 1,003 respondents aged 18 to 74 years. In Latvia, only 19% of the population expect the financial situation to improve next year. At the same time, the survey concludes that 42% of Latvians expect their financial situation to remain unchanged next year, and 39% think that the situation will get worse. So, only one-fifth of Latvians believe in the improvement of the situation in 2021, while almost half of the

ⁱ European Medicines Agency

respondents claim that there will be no significant changes or improvements this year or it will get worse. The results are not unexpected as Latvia is still on the peak of the Covid-19 second wave with a set of restrictive measures and a poorly developed vaccination plan.

Minimum monthly wage and salary increase

From the 1st January 2021 the national minimum monthly wage (gross) has been increased by 70 euros. In 2021 the national minimum salary is EUR 500 per month.^v At the same time, the minimum wage for one hour of work will change. It is important to note that the national minimum wage has not been revised for three years (since 2018, it is 430 euros per month). According to the data of the Central Statistical Bureau², 138.1 thousand employees (15,5% of the employed population), including 112.7 thousand in the private sector and 22.6 thousand in the public sector, had a monthly income in the amount of the minimum monthly wage (430 euros) or less. The basis for determining the minimum wage is normal working hours, which are 40 hours per week / 8 hours per day.

However, this amount is still less than minimum wage in the neighbour countries (Estonia – EUR 584^{vi}, Lithuania – EUR 607^{vii}), and less than European average minimum wage (EUR 1227^{viii}) more than twice.

At the same time, the rate of mandatory state social insurance contributions has been decreased by 1%. To be more exact, from the previous 35.09% to 34.09% - by 0.5% for both employers and employees. Thus, the contribution rate will be 23.59% for the employer and 10.50% for the employee, which will make average household income slightly higher and reduce tax burden of employer.

Summary

Population decrease is the problem that need to be addressed firstly and the result of the measures that can be introduced by the government will be seen only in the long-term perspective.

The Latvian government is trying to provide the most efficient tools for Covid-19 pandemic, among others there are not only restrictive measures for citizens but also ensuring

² CSP [Central Statistical Bureau of Latvia], June 2020. Available: <https://www.csb.gov.lv>

of the proper functioning of the related institutions, the building of the accurate immunization plan, and constant readiness for the changes. Even though society is getting more and more tired, people continue to listen to the state and show highly conscious behaviour.

The increase in the unemployment rate can take place in 2021. Tax reform may cause a rise in the number of unemployed people in Latvia from 7,7% to 10%. This is a significant burden for the state budget, so the question of the efficiency of the reform may be raised if the forecast comes true.

The national minimum monthly wage has been increased in Latvia by EUR 70 and now is EUR 500. This rate has not grown for the last three years, so this is an important step for the improvement of quality of life among Latvians. However, the minimum wage in Latvia is still lower than it is in two other Baltic countries (Estonia – EUR 584, Lithuania – EUR 607) and significantly lower than EU average minimum wage rate, which is EUR 1227. At the same time, the rate of mandatory state social insurance contributions has been reduced by 1% (0,5% for employee and 0,5% for an employer), which may slightly help to improve the economic situation in the country after Covid-19 crisis.

i LETA. (05.01.2021). Latvia's Covid-19 immunization plan based primarily on AstraZeneca vaccines. Available at: <https://www.leta.lv/eng/home/important/C0A001BA-4642-4F76-AEB4-92C5B755CEC0/>

ii Apollo. (07.01.2020). Pabriks iecelts par veselības ministra pienākumu izpildītāju. Available at: <https://www.apollo.lv/7149940/pabriks-iecelts-par-veselibas-ministra-pienakumu-izpilditaju>

iii Latvijas Vēstnesis (17.12.2020). 2021. gadā minimālā alga – 500 eiro. Kāda būs stundas likme? Available at: <https://lvportals.lv/skaidrojumi/323008-2021-gada-minimala-alga-500-eiro-kada-bus-stundas-likme-2020>

iv Latvijas Zinas. (24.12.2020). Latvijā 19% iedzīvotāju nākamajā gadā sagaida finansiālās situācijas uzlabošanu. Available at: <https://lz.lv/p/latvija-19-iedzivotaju-nakamaja-gada-sagaida-finansialas-situacijas-uzlabosanos-50704>

v LSM.lv (08.01.2021). NVA vadītāja: Kolektīvo atļaušanu skaits pērn četrkārtšojies; bezdarba līmenis šogad pieaugs. Available at: <https://www.lsm.lv/raksts/zinas/ekonomika/nva-vaditaja-kolektivo-atlaisanu-skaits-pern-cetrkarsojies-bezdarba-limenis-sogad-pieaug.a388149/>

vi Republic of Estonia Tax and Customs Board. (28.12.2020) National minimum wage rates. Available at: <https://www.emta.ee/eng/business-client/income-expenses-supply-profit/income-tax-withheld/national-minimum-wage-rates>

vii Countryeconomy.com (2020). Lithuania National Minimum Wage. Available at: <https://countryeconomy.com/national-minimum-wage/lithuania>

viii Eurostat. (07.2020). Minimum wage statistics. Available at: https://ec.europa.eu/eurostat/statistics-explained/index.php/Minimum_wage_statistics#Variations_in_national_minimum_wages