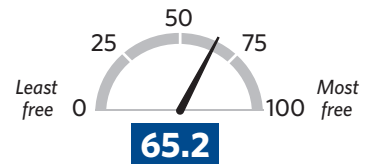


LATVIA

Economic Freedom Score



World Rank: **56**

Regional Rank: **25**

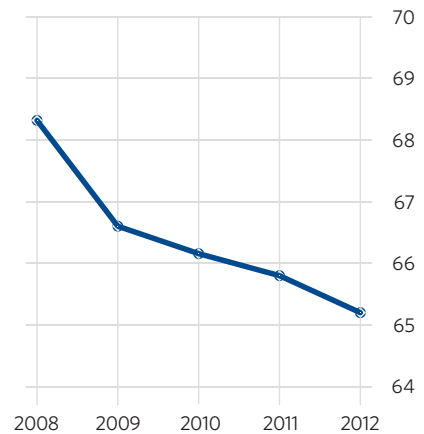
Latvia's economic freedom score is 65.2, making its economy the 56th freest in the 2012 *Index*. Its score is 0.6 point worse than last year as a result of worsened management of public finance and corruption. Latvia is ranked 25th out of 43 countries in the Europe region, and its overall score is above the world average.

Latvia's ongoing transition to a more vibrant and market-oriented economy has been facilitated by openness to foreign trade and the efficiency of business regulations that promote entrepreneurial dynamism. Nonetheless, perceived corruption, exacerbated by a relatively inefficient judicial system, undermines the foundations of economic freedom and threatens long-term competitiveness.

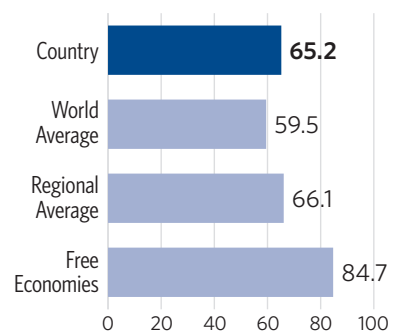
The global financial and economic turmoil took a heavy toll on Latvia, but the economy has gradually been recovering from the severe shock of the crisis, particularly since mid-2010. The country had to take an International Monetary Fund-led bailout requiring strict budget management and other economic reforms but has followed through on budget-cutting measures. With signs of economic stabilization emerging and committed political leadership in place, Latvia is better positioned than some other countries in the region to regain robust levels of growth.

BACKGROUND: Latvia regained its independence when the Soviet Union collapsed in 1991. It joined the European Union and NATO in 2004, and its political system has been generally stable. The center-right coalition government led by Valdis Dombrovskis won a small parliamentary majority in October 2010, but the dissolution of parliament as a result of a corruption scandal was confirmed by a referendum in July 2011. Elections in September showed major gains for the pro-Russian party, but Dombrovskis formed a coalition to retain power. The economy, which had been developing strongly, particularly in financial and transportation services, banking, electronics manufacturing, and dairy, was hit hard by the global financial crisis. GDP contracted by around 18 percent in 2009, stabilized in 2010, and began to recover in 2011.

Freedom Trend



Country Comparisons



Quick Facts

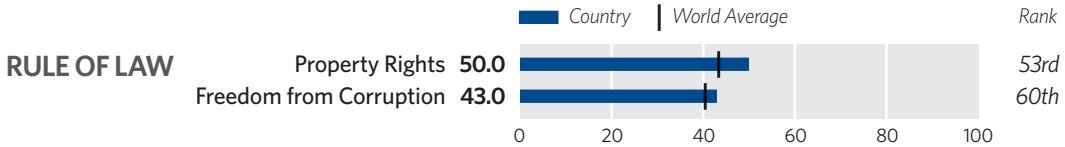
Population: 2.2 million
GDP (PPP): \$32.5 billion
 -0.3% growth in 2010
 5-year compound annual growth -0.7%
 \$14,460 per capita
Unemployment: 14.3%
Inflation (CPI): -1.2%
FDI Inflow: \$349.5 million
Public Debt: 39.9% of GDP

How Do We Measure Economic Freedom?

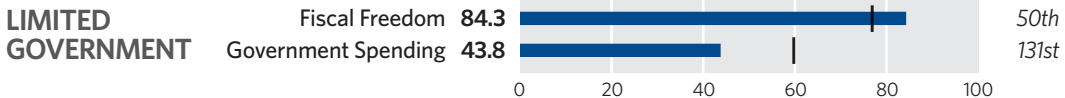
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
 Data compiled as of September 2011.

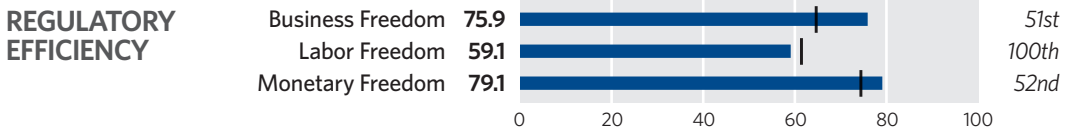
THE TEN ECONOMIC FREEDOMS



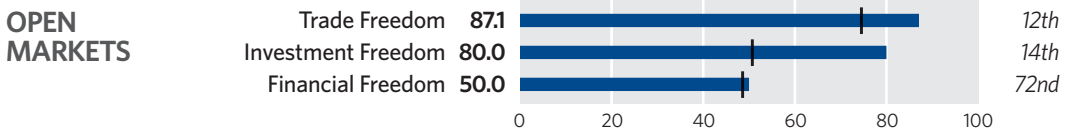
Latvia’s constitution guarantees the right to private ownership. The judiciary is constitutionally independent, but the court system remains inefficient and subject to long delays. A legal framework for the protection of intellectual property is in place, but enforcement is weak. Money laundering has been linked to tax evasion and the proceeds from Russian organized crime. Lingering corruption is a cause for concern.



The income tax rate is a flat 25 percent, and the flat corporate tax rate is 15 percent. Other taxes include a value-added tax (VAT) and excise taxes, with the overall tax burden amounting to 26.9 percent of total domestic income. Government spending is equivalent to 43.3 percent of total domestic output. The budget deficit has been chronically high in recent years, and public debt has increased to around 40 percent of GDP.



The overall regulatory framework is relatively efficient. Despite bureaucratic bottlenecks, rules regarding the formation and operation of private enterprises are relatively simple to observe. The labor market lacks flexibility, with high non-salary costs of employing workers and rigid restrictions on work hours. Inflation has been declining. The government continues to influence prices through state-owned enterprises.



The trade weighted average tariff rate is low as with other members of the European Union, but cumbersome non-tariff barriers raise the cost of trade. Investment regulations are relatively transparent but slow in execution. The financial sector has undergone significant regulatory adjustments since early 2009, and the government has provided capital injections. New legislation has accelerated the process of liquidating ailing banks.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.8	Business Freedom	+3.1	Trade Freedom	-0.5
Freedom from Corruption	-2.0	Government Spending	-11.7	Labor Freedom	-2.2	Investment Freedom	0
				Monetary Freedom	+5.6	Financial Freedom	0