

SOCIO-ECONOMIC FACTORS IMPACT EVALUATION ON LATVIA ECONOMY DEVELOPMENT

Anita Kokarēviča Mg. Eoc.
Rīga Stradiņš University/ Daugavpils University
anita.kokarevica@inbox.lv

Abstract: The world financial crisis influenced the national economy of Latvia as well. The gross domestic product decreases approximately by 25% during the crisis, the unemployment level rapidly increased and the investments decreased considerably. Nevertheless, by stabilization of the economical situation, starting with the 4th quarter of 2009, the gross domestic product and investments began to increase, but the external environment risks still remain in connection with the future situation development in the Eurozone and by slowdown of the growth tempo in our main trade partner countries. The growth of Latvia's export is stable, however, goods import is growing slightly more, increasing negative trade balance. Latvia's economy has experienced considerable macroeconomic corrections during the recent years. Together with the change of the total economic paradigm it is required to change the sector policies as well so that they would match the modern, up-to-date and actual scientific methods developed by economy theoreticians and approbated in practice for many times. In Latvia, both the society's ageing and depopulation takes place simultaneously. The society's ageing causes changes in the labor force structure and decreases the labor productivity that is why successful achievement of targets set in Latvia's political documents is connected with definite structural changes in arrangement of national economy's resources for benefit of production of goods and services with higher added value, sectors directed to export, bigger investments into innovative technologies and innovation, improvements in education system and science support. Aim of the study: To evaluate the impact of socio-economic factors on the long-term development of the Latvian economy.

Keywords: socio-economic factors, sustainable development.

Introduction

One of the main goals of the European Union is the sustainable development which provides for continuous improvement of quality of life and well-being of present and future generations through the integration of economic development with environmental protection and social justice. (Sustainable development..., 2009)

In order to reach this goal, the effective management and use of all types of resources are necessary. Changes in the global economic structure call for the requirement to learn new skills and competencies. In order to adapt to the changing labor market, one should be involved in lifelong learning programs. To take the full advantage of the human capital being at one's disposal, it is becoming particularly important for the countries to eliminate the structural causes of poverty and inequality by creating equal opportunities for all members of society to participate in social and economic processes.

The economical model has ceased to exist in Latvia, in which the domestic demand that used to be the main driving force of growth has rapidly increased due to the inflow of external capital. Such a model was not sustainable, because it led the economy to deep crisis due to expressed macroeconomical disproportions. Right now, Latvia's economy is transforming into sustainable development model, where the main development driving force is the export, ability to compete in internal and external product markets, as well as to be competitive in capital attraction in order to raise Latvia's productive potential (Ziņojums par Latvijas..., 2012).

The Ministry of Economy has developed the Latvia's National industrial policy, which is based in the latest world practice and approaches, is aimed at the change of economy's structure for benefit of production of goods and services of higher complexity and added value. Within the frames of the Latvian National industrial policy, the modern industrial policy theories by D.Rodrick, M.Porter and R.Hausmann, as well as those by other economy theoreticians, and the frame of nation

competitiveness and regional innovation model were adapted; likewise the EU priorities were taken into account (Nacionālā industriālā..., 2012). Latvia's National industrial policy means activity, which is directed to elimination of market disadvantages and competitiveness improvement, satisfaction of individual sector-specific needs and activation of regional privileges.

By the assignment of the Ministry of Regional Development and Local Governments Affairs, a group of experts guided by the Associate Professor Roberts Kīlis has developed Latvia's sustainable development strategy until 2030, marking the targets and main activity directions of Latvia's sustainable development (Latvijas ilgtspējīgas..., 2010). Sustainable development facilitates the general welfare of the society and gives people a possibility to live in healthy environment by implementing its potential and skills.

Aim of the study: To evaluate the impact of socio-economic factors on the long-term development of the Latvian economy.

Materials and methods

The study summarizes and analyzes the statistical data of the Latvian Central Statistical Bureau (CSP), the Ministry of Health (VM), the Ministry of Education and Science (IZM), the Ministry of Finance (FM), the Ministry of Economics (EM), the Ministry of Environmental Protection and Regional Development (VARAM), the Cabinet of Ministers (MK), the Employers' Confederation of Latvia (LDDK), the Investment and Development Agency of Latvia (LIAA). Descriptive method was used in the study.

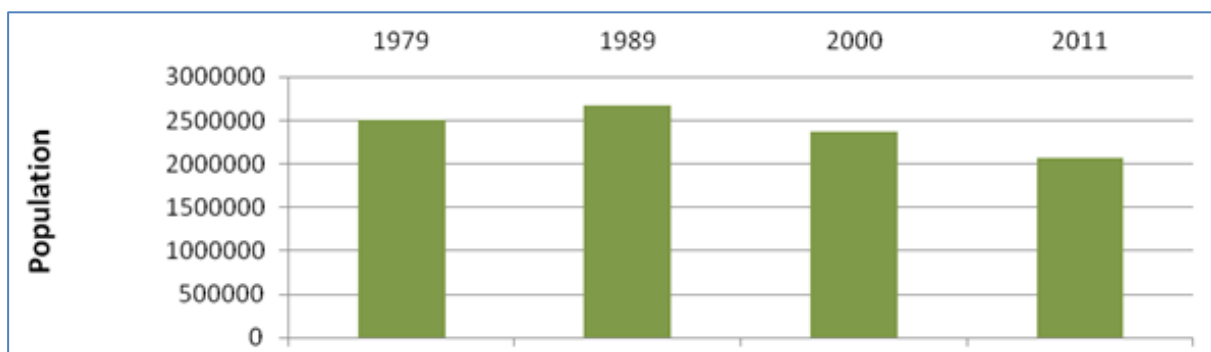


Figure 1. Latvian population to LCSB data (2011.gada tautas skaitīšana..., 2012).

The statistical data show that starting with 1990 the population number in Latvia has gradually decreased (Figure 1). Data of population census of 2011 show that the total number of Latvia's population - 2 070 371 people. It is by 13% or 307 thousand less than in previous population census in 2000.

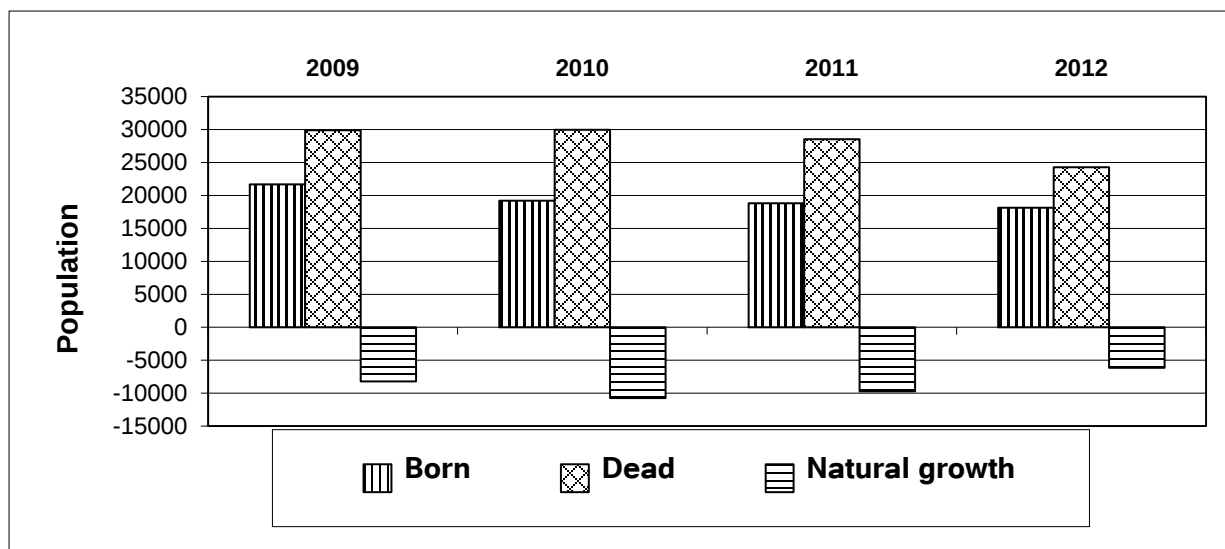


Figure 2. Indicators of natural movement of population number in Latvia according to LCSB data (2011.gada tautas skaitīšana..., 2012).

According to the LCSP data (Figure 2), rates of natural movement of population number in Latvia are:

- Born: in 2009 – 21677, in 2010 – 19220, in 2011 – 18825, In 11 months of 2012 - 18140 people;
- Died: in 2009 – 29897, in 2010 – 29970, in 2011 – 28540, In 11 months of 2012 - 24290 people;
- The natural growth of population is negative: in 2009 - (– 8220), in 2010 - (– 10750), in 2011 - (– 9715), in 11 months of 2012 - (– 6150) people.

Table 1

The main macro economical rates and forecast by the data of the FM

	2008	2009	2010	2011	2012	2013	2014
forecast							
Gross domestic product (GDP), million LVL	16085	13070	12784	14275	15378	16269	17252
-growth in actual prices, %	9.3	-18.7	-2.2	11.7	7.7	5.8	6.0
-growth in comparable prices, %	-3.3	-17.7	-0.9	5.5	5.0	3.7	4.0
GDP deflator (year to year), %	13.0	-1.2	-1.3	5.9	2.6	2.0	2.0
CPI, year to year, %	15.4	3.5	-1.1	4.4	2.3	2.0	2.0
Average monthly gross pay of those employed in national economy, LVL	479	461	445	464	481	498	518
- growth in actual prices, %	20.5	-3.8	-3.5	4.3	3.6	3.5	4.1
- growth in comparable prices, %	4.4	-7.0	-2.4	-0.1	1.3	1.5	2.1
Employment, thousand people (according to the labor force survey)	1124.1	986.7	940.9	861.6	884.3	895.0	906.7
-growth, %	0.5	-12.2	-4.6	-8.4	2.6	1.2	1.3
Unemployment rate (average annual), % of economically active population	7.5	16.9	18.7	16.2	15.1	13.4	11.9

(Galvenie makroekonomiskie..., 2012)

The statistical data of the FM (Table 1) show that starting with 2011 the gross domestic product has increased, on the average, by 9% in a year. The average monthly gross pay of those employed in national economy has increased on the average by 5%. The unemployment rate has a tendency to decrease, but employment in 2012 has increased by 2,6%. The consumer price index is used as an inflation rate, but the GDP deflator allows evaluating the impact of inflation on the state economy in general. The forecast for the next 2 years is positive.

Results and discussion

The way how successfully Latvia's economy will sustainably develop, depends on the capacity of the national economy's internal growth – government's ability to ensure transition from labor intensive economy to science intensive economy and from global development. We can speak of globalization as the modern world's general development tendency and necessity. Still, it has its own benefits and disadvantages. It gives to many countries unique possibilities of rapid development, however, other get threats of economical development and even recession (Boļšakovs, 2008). Taking into account the relatively small economy and internal market of Latvia on international scale, as well as limited resource provision, sustainable development of Latvia's national economy needs economical cooperation with other countries. Already since the beginning of 1990's, implementing gradual reforms and developing cooperation with foreign partners, external economical relations and country's integration in the international economy were facilitated. Still, the world's financial crisis has stimulated the economical crisis in Latvia as well, by negatively affecting the labor market, real estate property market and financial market. As a result of the crisis emigration of Latvia's population to other countries has grown, decreasing the number of economically active population, worsening the demographic situation in Latvia, as well as increasing risk of birth decrease, because mostly young people are leaving the country. According to the population census data, 2067887 people lived in Latvia as of March 1, 2011. It is by 13% less than in 2000. The biggest decrease of population number is in the 23-31 year age group (more than 14%), which is explained by the difficulties of finding a job in Latvia after receiving education, thus making young people leave the country to look for a job outside the country. It is certified also by the statistical rates of the employment, because the unemployment rate (specific weight of job seekers) at the age of 20-29 years is over the average one in the country. In its turn, the specific weight of population at the age of 50-64 years in 2010 constituted 18,5% of the country's population as opposed to children, which were 13,8%. (2011.gada tautas skaitīšana..., 2012. Society's ageing is connected with labor productivity loss and changes in the labor force structure. Herewith it is planned that most part of population will leave the labor market than it will enter it. Ageing considerably impacts the service sector, especially the healthcare, as well as the education sector, because the number of school-age children and young people of student-age decreases. Qualitative employment is ensured by receiving the respective education that is why it is important to implement such life-long education system, which would give a possibility for people to be productive to themselves and to the society for a long period of time, as well as sure that, if conditions change, they would have a possibility to supplement knowledge and skills and be competitive and demanded in the labor market.

If until the middle of the nineties of the twentieth century changes of Latvia's population number were mostly affected by migration, then starting with 1991, as a result of rapid birth decrease and death growth, the population number's natural growth in Latvia was negative. One of the most considerable reasons of low life duration of population is death rate of infants. The Minister of Health Ingrīda Circene has announced the year of 2012 – the year of Mother and Child Health. By the Instruction No. 269 of the Cabinet of Ministers, dated June 19, 2012, the Plan for improvement of mother and child health was approved for 2012-2014. The aim of the plan is to improve health of mother and child, ensuring planned and coordinated event implementation in three directions: improvement of health of mother and child, treatment of infertility and inter-branch cooperation (Mātes un bērns..., 2012). Rates of life length are influenced by the death cases due to external causes.

In the Republic of Latvia, since restoration of independence much has been done –democratic state structure has been stabilized, really functions liberal and open market economy. Latvia has been successfully integrated into the international structures, but it is necessary to establish united policy as

uninterrupted and consequent state long-term development, which would ensure growth of level of society's welfare. The basic factors describing the growth of national economy are – capital volumes, employment rate, productivity level, education level, export and import flow and quality, development of science and technologies, as well as development of innovative entrepreneurship.

From 2005 to 2007, voluminous external capital inflow facilitated substantial growth of private consumption and investments in Latvia. Average annual growth tempo of GDP was 10,3%, which was one of the most rapid in the EU. In 2008 and 2009, under the impact of the financial crisis, when the external capital inflow stopped, recession commenced. During the crisis, the GDP decreased by 25%, unemployment rates in the end of 2009 it reached 19%, number of employed decreased by 16%, real pay of employed people – by 12%. By considerable decrease of budget income, the general government budget deficit in 2009 reached 9%, the external debt almost doubled (Ziņojums par Latvijas..., 2012). Overcoming of economical crises is a global issue. Both the European Union, the USA and other countries fight against it. In the circumstances of economical recession the most important tasks are economy stimulation and ensuring of population's social protection (Stiglics, 2010). In Latvia as the country with rather low income level, poverty is a problem and also one of the reasons of being pushed aside. According to EUROSTAT data, Latvia has the forth lowest specific weight of general government costs for social protection of the gross domestic product (14%), whereas at the average in the European Union it is considerably higher (20,1%).

Since the end of 2009 the economical recession in Latvia has been stopped and the growth has been recovering. The growing risks in the external markets, especially in the Eurozone, in the second half of 2011 and in the beginning of 2012, have not affected the Latvia's economy in a considerable way. The year of 2012 is marked with positive tendencies in Latvia's national economy; however, risks of external environment remain in connection with the further situation development in Eurozone. By slowdown of growth tempo in our main trade partner countries, growth of Latvia's export may become more moderate, and its positive effect on the national economy in general can decrease.

Although many issues connected with the current economical situation are solved in the capital of Latvia, socially economical development of country's regions, to large extent, is in the hands of local governments, economically active businessmen and population. Taking into account that every region has slightly different situation, the Employers' Confederation of Latvia (LDDK) by the support of the Europe's Social Fund, in 2009 has started special project for social dialogue's facilitation on the regional level. Its aim is to raise competitiveness and employment rates of every region in Latvia (Sociālais dialogs..., 2009). Latvia as the member state of the European Union has availability to the financial support of the EU structural funds (SF) and Cohesion Fund (KF), which are the instruments of the EU's regional leveling policy implementation. For the years of 2007-2013 planning period, support of the SF is primarily provided for population education, companies' technological excellence and flexibility, as well as development of science and research, in order to facilitate establishment of knowledge intensive economy in the country and strengthen other preconditions required for sustainable development of economy and improvement of life quality for people in Latvia in general. (Ziņojums par Latvijas..., 2012).

The main aim of development policy of science and technologies is to establish science and technologies as the basis of long-term development of civil society, economy and culture, by ensuring implementation of knowledge economy and its sustainable growth. Latvia's science, research and innovation are an integral and harmonious part of the world science and the European Research space. Although, comparing to other EU member states, in Latvia the state budget financing for scientific activity has been low – in 2010 only 0,6% of GDP, still, until 2015 it is planned to increase it up to 1%. IZM plans to increase the employed number in science and research, establish competitive scientific institutions with modern material and technical provision, to establish the frames for more effective cooperation of scientists and businessmen, perfecting scientific infrastructure, supporting performance of common studies and facilitating technology transfer. The public financing meant for support in 2011–2013 is 69,6 million LVL, including the EU funds' financing 68,1 million LVL (Bāliņa, 2011).

In order to facilitate the economical growth, society's welfare and country's prosperity in general, competitive products with high added value must be created in the world market; it can be achieved by developing the innovation process. The basic principles, aims and results to be achieved of the export facilitation and foreign investment attraction policy are defined by the Guidelines of facilitation of Latvia's goods and services export and foreign investment attraction for 2010-2016. (Latvijas preču..., 2009). The guidelines define three basic activity directions: increase of export competitiveness, availability of support instruments, contractual legal security. Still, Latvia's small and average companies have insufficient financing for development of innovation process, that is why state support is necessary for development of new products and technologies and their introduction into production, as well as facilitation of cooperation between the sectors of research and entrepreneurship. On September 09, 2012 the Investment and Development Agency of Latvia (LIAA) signed 11 contracts with heads of different clusters of national economy sectors, providing for that during the next three years more than 350 united companies, research institutions, high schools, non-governmental organizations and local governments, by their own means, will develop new products, master export market and create the basis for increase of their sector investment in Latvia's economy in the future. The total cluster program financing within the frames of the European Regional Development Fund program until 2015 is 3,4 million LVL (Ar 11 klasteru..., 2012).

Conclusions

- Demographic situation in Latvia is closely connected with the impact of the main resource of Latvia – human capital – on the development of national economy. In Latvia, both depopulation and society's ageing take place simultaneously. Unemployment and low income facilitate emigration, decreasing the number of economically active population and even more worsening the demographic situation in Latvia. Society's ageing causes changes in the labor force structure. By decrease of the number of population able to work in order to ensure economy's growth the productivity must be raised. It means efficient use of resources, increase of output of goods and services with high added value and ensuring of export growth.
- Education quality, availability and content are significant challenges for development of Latvia's human capital. In a long-term prospective, Latvia's competitiveness will depend on the link of education system with the labor market changes and ability to prepare people for life-long work in changeable conditions, that is why solutions should be provided for – how to motivate everyone to get involved in development of one's own human capital and competitiveness.
- For increase of competitiveness efficient cooperation of public and private sector is required, defining the main activity directions and establishing favorable economical activity environment for both the local exporters and the foreign investors.
- Innovation, science and technology development facilitates the productivity growth and these are important factors for Latvia's sustainable economy development, ensuring of society's welfare, perseverance of environment and nature resources, that is why it is necessary to fully master the existing resources and look for possibilities of attracting additional financing.
- Social inequality in a long term considerably decreases the economical growth, that is why the poverty risk analysis should be regularly performed and the social programs should be applied to the needs of specific poverty risk groups.

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