

## UNEMPLOYMENT PROBLEMS IN THE REGIONS OF LATVIA

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**Abstract.** In the regions of Latvia, there are vacancies, but at the same time there is unemployment and employers have problems in finding employees for their companies.

The main aim of this research is to evaluate unemployment situation in the regions of Latvia. In the research, there will be characterised unemployment specifics in the regions of Latvia, inhabitant economic activity level and distribution by economic activity, as well as education level of unemployed people. During research there will be drawn conclusions and developed proposals for objective evaluation of unemployment situation and for improvement of remuneration in the regions of Latvia.

**Keywords:** regions, unemployment, inhabitants, job seekers, labour market.

**JEL code:** E24

### Introduction

The decrease in population and society ageing, regarding the fact that inhabitants retire later, is a substantial problem in the field of employment and unemployment not only in the European Union, but also in Latvia. The number of inhabitants of Latvia continues to decrease – from 2044813 on January 1, 2012, to 1986096 on January 1, 2015, which means a decrease by 58717 people or approximately 2.87% in four years. Meanwhile, the number of unemployed people in Latvia was 155.1 thousand on January 1, 2012 and 107.6 thousand on January 1, 2014, which constituted a decrease of 30.63%. It significantly impacted labour market. The minimum salary in Latvia was increased from EUR 320 to EUR 360, but since January 1, 2016 it is EUR 370. This salary increase is felt by only those who have minimum salary. Therefore, for Latvian companies, it becomes more and more problematic to retain qualified labour force if their salary is not increased and when their requirements keep increasing. Larger salaries are paid to middle and higher level managers. In general, the state lacks qualified specialists.

Labour costs in Latvia are among the lowest in the EU Member States. In 2014, the labour costs per one employed in Latvian economy in total were 38% of the EU average, incl. manufacturing industry – 31.4% of the EU average. Nevertheless, there were some small improvements – in the period from 2011 to 2014, the labour costs decreased by nearly 6

percentage points. By the productivity indicator, the overall retardation of Latvia from the EU average decreased by 4 percentage points, while the manufacturing retardation decreased by 3 percentage points.

There were also larger improvements. Since the end of 2010, the remuneration increase renewed, though the unemployment level maintained at a relatively high level. With the increase in demand for labour force, the average gross remuneration has steadily been rising. In 2012 and 2013, it rose by 3.8% and 4.5% correspondingly, but in 2014 – by 6.8%, reaching EUR 765. A sharp remuneration increase took place also in 2015 – during the second quarter the average gross salary increased by 6.9%, compared to the corresponding period in 2014, reaching EUR 815. The highest remuneration remained in Riga region (EUR 921), while the lowest was in Latgale region (EUR 560). In the second quarter, 2015, the remuneration in the private sector increased by 7.8% and in the public sector – by 5.3%. Meanwhile, it should be noted that, in the second quarter of 2015, the average gross salary in the public sector was only by 6.2% higher than in 2008, while in the private sector it exceeded the level of 2008 by nearly 28%. The most significant remuneration increase has been in the real estate sector, trade and state administration. The most significant remuneration increase, if compared with the second quarter of 2014, was in the information and communication service sector (by 9.7%),

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real estate sector (by 9.4%) and hospitality and catering sector (by 9%). With the increase in the nominal remuneration, the real wages also kept gradually increasing. In the period 2011–2012, with the growth in consumer prices, the real wage increase was moderate – 0.1% and 1.6%, correspondingly. More dynamic increase in real wages was observed from 2013 to 2014. In 2013, the real wages increased by 5.6% and in 2014 – by 8%. In the second quarter of 2015, the real wage level was by 6.6% higher than a year before. The real wage growth during the recent years was mostly due to the sharp increase in nominal salary, and to less extent – the changes in consumer prices. (Informatīvais ziņojums par makroekonomisko situāciju valstī, 2015). The Ministry of Finance forecasted that the average gross salary in Latvia could be EUR 840.8 in 2016.

The remuneration levelling-out is an objective process to be taken into account in future. With the increase in minimum salary, there may be a sharper rise in wages. Therefore the entrepreneurs may have an increasing wish to retain highly-qualified employees, which would lead to decrease in unemployment. The increase in remuneration can serve as a stimulus for innovation and investment, acquisition of new technologies to increase productivity of production resources, to raise work productivity and to cut expenses. It may also create negative impact on competitiveness.

Based on the labour market-related research carried out at the end of 2014, there can be distinguished the main challenges regarding the lack of qualified specialists and labour force in general in the country. The research data show that currently the main labour force-related challenges are the lack of qualified specialists (37%) and the lack of labour force in general due to the impact of the EU free market and emigration for labour purposes (10%), which correlates with the previously described economic and demographic situation in the country.

Further, according to the times mentioned, follows the lack of employee motivation (6%) and the increase in employee requirements, e.g. remuneration, additional benefits (5%). Analysing data in smaller socio-demographic groups, it can be seen that the lack of qualified specialists as the main challenge has most often been mentioned by managers of manufacturing companies, as well as those of medium and large companies (50+ employees). The general lack of employees has been mentioned as the main challenge by managers of manufacturing companies. The managers of manufacturing companies state also the specifics of the sector (hard, stressful and hardly predictable work) as a significant challenge (Kanejeva, 2014).

According to the report of the Ministry of Economics on the macroeconomic situation in the country it can be concluded that, with the improvement of economic situation in the country, there may be observed positive trends in the labour market – decrease in unemployment and increase in employment. At the same time, the dynamics of improvement become slower, influenced by the decrease in economic growth rate which is linked to the trends in the external environment. In 2014, the situation in the labour market continued to improve, though slower than before. The unemployment level decreased to 10.8%, which was by 1.1% less than in 2013, but the employment level increased by 9% - to 59.1%. In 2014, there were employed 884.6 th. people, while the number of jobseekers was 107.6 thousand, which was by 12.7 thousand less than in 2013. In 2014, the number of economically active inhabitants also continued to decrease – by nearly 22 thousand people or 2.2% if compared with 2013. It should be mentioned that the trend of decrease in the number of economically active inhabitants has maintained since the beginning of 2013. Nevertheless, the level of economic activity of the inhabitants increased in 2014 by 0.3% and reached 66.3% in

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the age group from 15 to 74. In the second quarter of 2015 the employment level increased by 1% if compared with the corresponding period of the previous year. Though the employment increase has been the sharpest within the recent year and a half, it still significantly lags behind the employment increase dynamics of 2012 and 2013. In total in second quarter of 2015, there were employed 898.2 thousand people or 60.9% of the inhabitants in the age group from 15 to 74. If compared with the second quarter of 2014, the employment level increased by 1.5%. The unemployment level in the second quarter of 2015, if compared with the corresponding period in 2014, decreased by 0.9% - to 9.8%. At the same time, if compared with the previous period, the unemployment level decreased by 0.5%. The level of registered unemployment also continues to decrease. At the end of August, 2015, it decreased to 8.5%. There were registered 79.8 thousand unemployed people, which was by 1.1 thousand less than in August, 2014. The highest registered unemployment level maintained in Latgale region (18.4%) and the lowest – in Riga (5.1%). Nearly one third of the total number of registered unemployed were long-term unemployed (jobless for more than a year). Comparatively high unemployment level is mainly connected to other cyclical factors, though the structural unemployment risk also maintains high. Part of current unemployed people may have lengthy problems in finding a job as the new workplaces are not the same as lost during the economic crisis. At the same time a substantial problem is regional disproportionality of the labour market – jobs and labour resources are not distributed evenly among the regions.

The number of employed continues to grow slowly. The number of employed people in 2012 was 875.6 thousand, in 2013 – 883.9 thousand and in 2014 – 884.6 thousand.

The situation in the labour market is improving. According to the research carried out by the Ministry of Economics, the employment

was forecasted to increase to 889 thousand in 2015. In 2016, the number of employed people could increase to about 894 thousand or by 0.6%, if compared to 2015. The employment level could surpass 61%, while the unemployment level would decrease to 8.7%.

In general, both in 2015 and 2016, the largest growth in employment was expected in the sectors targeted at the domestic demand – commercial services sector, construction and trade. The increase in the demand for labour force would also maintain in manufacturing, but it would be slower than previously.

According to the forecast of the State Employment Agency, the unemployment level was expected to be 10.1% in 2015 and 9.5% in 2016.

According the research of the Central Bureau of Statistics, the data evidence the decrease in unemployment level, yet there is a misbalance in labour force supply and demand – companies lack employees, but the unemployed people lack the necessary qualifications. On the labour market, currently, there is demand in those professions where employees need a higher education level than the secondary education. At the same time, most of the unemployed people previously were employed in the basic jobs (handymen, sellers, cleaners, street-sweepers, etc.), where the education level does not have constitutive significance. Therefore, qualification development promotion is needed, as well as acquisition of new skills, within these unemployment groups. Additionally, it should be noted that there are new requirements even for basic jobs, determined by the development of technological processes.

The research includes the period 2012-2014 and also looks at the highlights of 2015.

The **aim** of the paper is to evaluate the unemployment situation in the regions of Latvia. Therefore, the **tasks** are:

- 1) to characterise unemployment specifics in the regions of Latvia;

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- 2) to research economic activity level of inhabitants and their distribution by economic activity;
- 3) to evaluate the changes in the number of unemployed people by the level of education in the regions of Latvia.

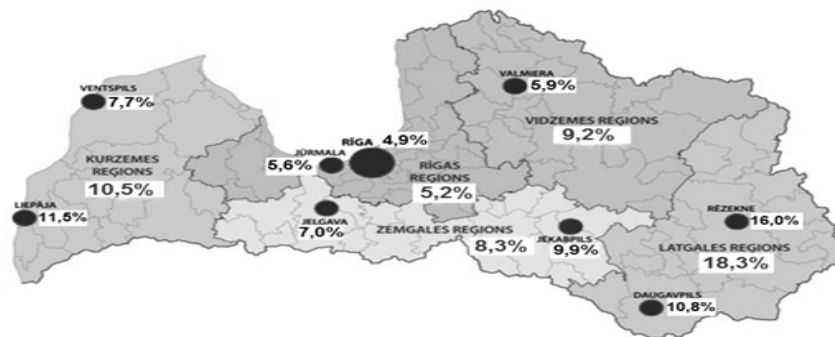
The study is based on the national statistical data and the State Employment Agency (SEA) data analysis. The following research methods were used monographic and statistical analysis research methods. The study focusses on the evaluation of the levels of unemployment and economic activity, distribution of inhabitants by

economic activity, and distribution of unemployed people by education level in Latvian regions.

**Keywords:** regions, unemployment, inhabitants, jobseekers, labour market.

### Discussion and results

In the National Development Plan of Latvia for 2014-2020, one of the action plan tasks is connected with promotion of unemployed people competitiveness and access to labour market, by providing access to motivation competence increase, skill improvement, education and social support services.



**Source: authors' construction based on SEA data**

Fig. 1. Registered unemployment level in Latvia in November, 2015

The higher registered unemployment level in November, 2015, was still in Latgale region – 18.3%, which was by 10% lower than in all regions on average; by 9% lower than in Zemgale region, by 9.1% lower than in Vidzeme region, by 7.8% lower than in Kurzeme region and by 13.1% lower than in Riga region (see Fig. 1).

On November 1, 2015, SEA had registered 78052 unemployed people, the number of which had decreased by 505 people if compared with the beginning of the same month. In October, 2015, the unemployment rate was the lowest since 2008. If compared with the corresponding period of the previous year, the unemployment rate had decreased by 1131 people or by 1.4%.

The majority of the SEA registered unemployed people were in the following

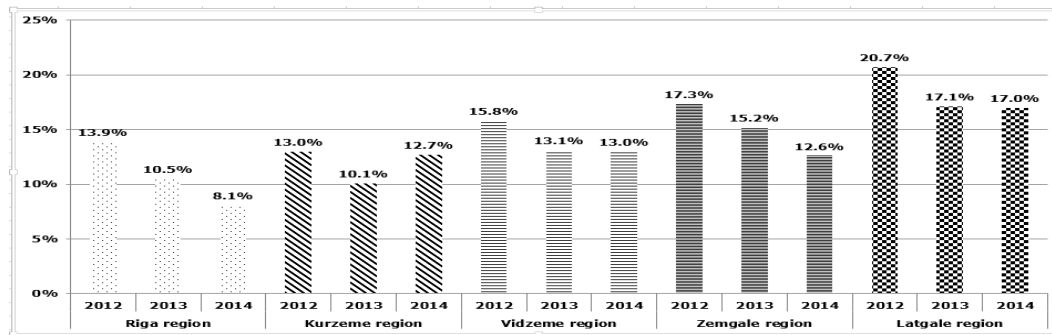
professions – shop assistants and their handymen, hotel and other premise cleaners as well as unclassified workers. In October, 2015, the largest demand for workforce was in wholesale and retail, manufacturing, state administration and social security sectors.

According to the SEA data for the 10 months of 2015, the number of unemployed people who had participated in any of active measures was 19,304 people or 32.5%, and the number of people who had found job by October, 2015, was 59,429 people.

Evaluating the unemployment level in Latvian regions in the period 2012-2014, the largest yearly unemployment was in Latgale region – 20.7% in 2012, decreasing by 3.6% in 2013, and falling to 17% in 2014.

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Source: authors' construction based on CBS data

Fig. 2. Unemployment level in the regions of Latvia (2012-2014)

In Riga region, comparing 2014 to 2012, the unemployment had a decrease trend, as within this period it decreased by 5.8%. In Kurzeme region, the unemployment decreased by 2.9% between 2012 and 2013, while it rose again by 2.6% in 2014. In Vidzeme region, the unemployment decreased by 2.7% from 2012 to 2013, and further by 0.1% in 2014. In Zemgale region, the unemployment was by 2.1% lower in 2013 than in 2012. In 2014, the decrease was by 2.6%, which was the largest decrease in Latvia in the period from 2013 to 2014. In Latgale region, there was a significant decrease by 3.6% from 2012 to 2013, and it decreased further by 0.1% in 2014.

Regarding the income per capita, the lowest income - up to EUR 284 was in Zemgale and Latgale regions, up to EUR 426 in Vidzeme region, up to EUR 568 in Latgale region to EUR 710 in Riga, up to EUR 1136 in Kurzeme region, from EUR 1420 to EUR 1704 in Riga.

In Latgale, more than 50% of inhabitants work in agriculture, forestry or fishery sectors, 10% in wholesale and retail; 10% in car service, 8% in transportation and storage, approximately 6% in construction, about 6% in catering services, and the rest 10% in other sectors.

According to SEA survey results, the employers in Kurzeme region most often (in about 27% of cases) had not concluded written labour contracts with their employees, while the corresponding figures were 3.9% in Riga, 10.1% in Zemgale, and 10.6% in Latgale region. In

Latvia, about 26.2% of labour force were employed only part-time.

The largest lack of unqualified employees was seen in Kurzeme region – 28.6% and in Latgale region – 27.3%, while the smallest in Riga – 8.7%. At the same time, low-qualified workers were the most needed in Vidzeme region (33.3%), and highly-qualified workers (87%) – in Riga region.

In Latgale region, unemployed people do not want to work for the minimum salary for private entrepreneurs, though jobs are available near their residences. Such approach is the most common in Latgale region – 24.2%, as well there was the largest number of people living alone – approximately 17.1%.

The employers most often search to fill vacancies with the help of relative, friend or acquaintance recommendations – 70.2% for unqualified employees, 76.8% for low-qualified employees, 67.7% for highly-qualified employees.

The next most popular way of searching for employees is advertising on the Internet – 41.2% for highly-qualified employees, followed by SEA services – 25%, advertising in radio, TV and press – 33.3%. In 43.7% of cases specialists were invited from other enterprises. Regarding cooperation with traineeship companies, the vacancies were filled by offering traineeships to people without qualification - 12.2%, 15.7% - low qualified employees and 19.3% - highly qualified employees. In Latgale region, internal migration is quite common.

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In Latgale region, people become jobless most often due to incompliance with discipline, because of inability to work in team and on their own, unwillingness to undertake responsibility and initiative, insufficient skills to adapt to new conditions and make independent decisions.

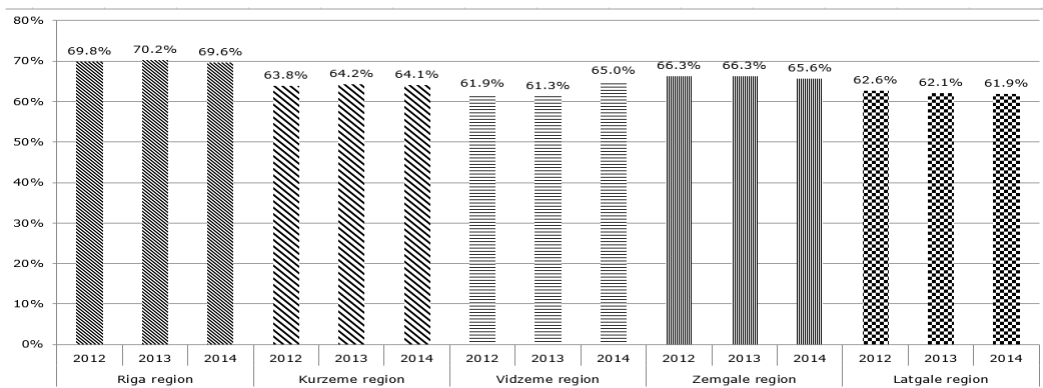
Economically active inhabitants – people of both genders who within the period of review offer their labour for production of material goods and for provision of services. Economically active inhabitants contain employed people and job-seekers (both registered and unregistered by SEA), who are seeking for jobs. (CBS, 2015)

The inhabitants are divided into economically active, which is the majority in Latvia with the trend to decrease – in 2012 the number was 1030.70 thousand people, in 2013 – 1014.20

thousand, in 2014 – 992.30 thousand or about 3.7% less than in 2012.

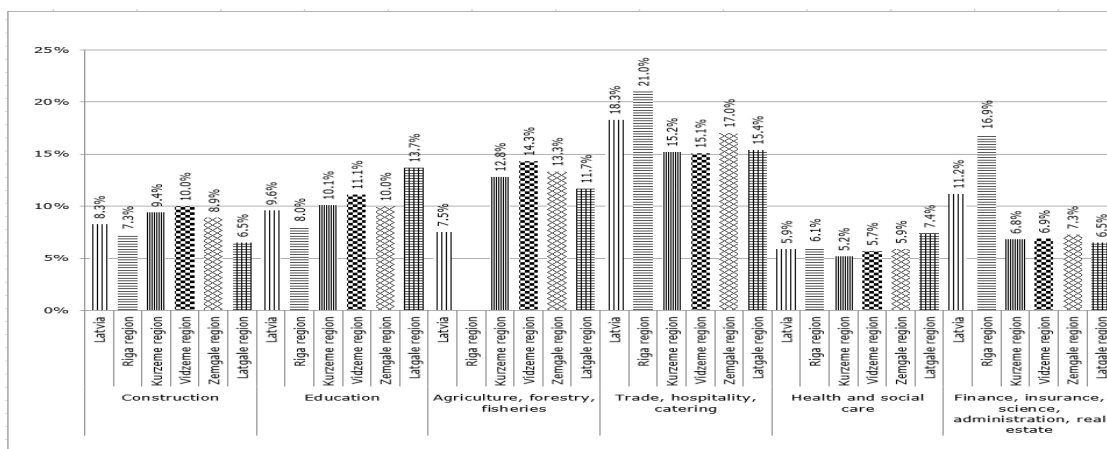
The number of employed people is changeable – in 2012 the number was 875.6 thousand, in 2013 – 893.9 thousand and in 2014 – 884.6 thousand people, meaning an increase of 1.3% in comparison with 2012, and a decrease of 1.04% in comparison with 2013.

The number of unemployed people in 2012 was 155.1 thousand people, in 2013 – 120.4 thousand people, in 2014 – 107.6 thousand people, with a decrease trend if compared with 2012. Starting with 2014, there is a decrease by 30.63%. Regarding economically inactive inhabitants, the number of which was 529.3 thousand people in 2012 and 503.5 thousand people in 2014, there was a decrease by 4.88%.



Source: authors' construction based on CBS data

Fig. 3. Levels of economic activity in the regions of Latvia (2012-2014)



Source: authors' construction based on CBS data

Fig. 4. Distribution of inhabitants by economic activity in the regions of Latvia

At the same time, referring to Fig. 3, the change trend by economic activity in regions was similar. Comparing 2012 to 2014, there was a

small decrease in Riga, Latgale and Zemgale regions, while there was a small increase in Kurzeme and Vidzeme regions.

Regarding research on the distribution of inhabitants by economic activity in regions (see Fig. 4), it can be seen that in Vidzeme region the largest number of employed was in construction, while this sector had the least employment in Latgale region. The least employment in education was in Riga region. In the sectors of agriculture, forestry and fisheries, the largest number of employed was in Vidzeme region, the least – in Latgale region, while the sectors had no employed in Riga region. In the sectors of trade, hospitality and catering services, the largest number of employed was in Riga region, the least – in Vidzeme region. In the sectors of health and social care, the largest number of employed was in Latgale region, the least – in Kurzeme region. In the sectors of finance, insurance, science,

administration and real estate, the largest number of employed was in Riga region, the least – in Latgale region. With respect to Latvia as whole, the largest number of employed was in trade, hospitality and catering services – 18.3%, while the smallest number is in health and social care – 5.9% of all employed in 2014. Analyzing the data depicted in Table 1, it can be seen that the number of vacancies in the period from 2012 to 2014 on average increased in Riga, Kurzeme and Vidzeme regions, while decreased in Latgale and Zemgale regions.

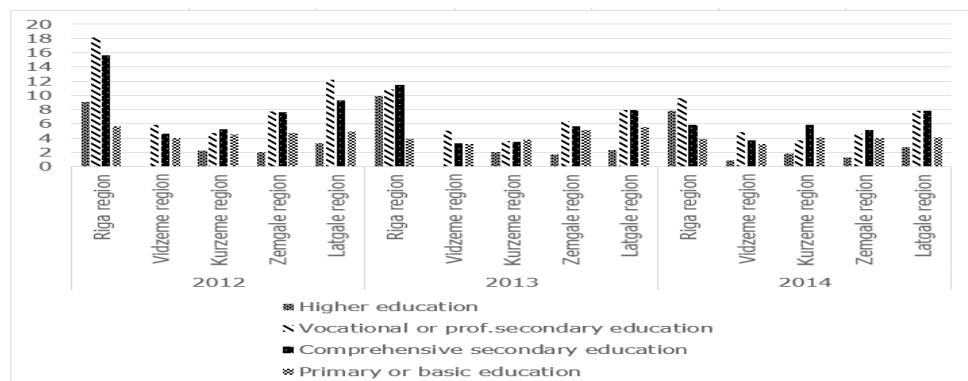
There was also carried out a research on distribution of unemployment by education level in Latvian regions (see Fig. 5).

Table 1

**Number of vacancies in the regions of Latvia – yearly average**

Region	2012	2013	2014
<b>Riga region</b>	2467	3592	3978
<b>Kurzeme region</b>	302	361	468
<b>Latgale region</b>	336	562	456
<b>Vidzeme region</b>	332	349	411
<b>Zemgale region</b>	374	366	337
<b>Total in Latvia</b>	3811	5230	5650

Source: authors' construction based on SEA data



Source: authors' construction based on CSB data

**Fig. 5. Distribution of unemployed in the regions of Latvia, th. of people**

Regarding the unemployed people education levels in the period from 2012 to 2014, the data are variable. The largest number of unemployed with the higher education was in Riga region, while in Vidzeme region there were no registered unemployed with the higher education. Regarding

comprehensive secondary education, the largest number of unemployed in 2012 and 2013 was in Riga region, but in 2014 - in Latgale region. Regarding the basic or primary education, the most of unemployed in 2012 was in Riga region, but in 2013 and 2014 – in Latgale region, The

number of unemployed with the higher education decreased by 13.18% in Riga region in 2014, compared to 2012, it increased by 0.9% in Vidzeme region, decreased by 18.18% in Kurzeme region, decreased by 35% in Zemgale region, decreased by 15.15% in Latgale region. The number of unemployed with vocational or secondary professional education decreased by 46.96% in Riga region, decreased by 18.64% in Vidzeme region, decreased by 21.28% in Kurzeme region, decreased by 40.26% in Zemgale region, decreased by 35.25% in Latgale region. The number of unemployed with the comprehensive secondary education decreased by 62.18% in Riga region, by 19.57% in Vidzeme region, by 32.89% in Zemgale region, by 16.12% in Latgale region, but increased by 11.32% in Kurzeme region. The number of unemployed with the primary or basic education decreased by 31.58% in Riga region, by 8.89% in Kurzeme region, by 14.89% in Zemgale region, by 16.33% in Latgale region.

### Conclusions and recommendations

- 1) The number of unemployed people decreased significantly in the period from 2012 to 2014.

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- 2) The increase in the minimum salary affects only those who receive the minimum salary.
- 3) There exists a misbalance in labour force supply and demand.
- 4) Employers have problems in finding disciplined, qualified and creative permanent employees despite the unemployment rate in Latvia.
- 5) Within the period from 2012 to 2014, the number of economically active people decreased by 38.4 thousand.
- 6) The number of vacancies in the regions of Latvia in the period from 2012 to 2014 increased on average by 1839 vacant jobs.
- 7) The largest employment in Latvia is in trade, hospitality and catering sectors – 18.3%, the smallest in healthcare and social care – 5.9%.
- 8) The regional municipalities should carry out research on the reasons for unemployment decrease – whether it is due to increasing number of jobs or the emigration of inhabitants.
- 9) Job remuneration should be linked with the minimum salary on the basis of coefficient.