

THE 2008 LEGATUM PROSPERITY INDEX™

COUNTRY PROFILE



Latvia

GLOBAL RANK: 41st= of 104



Latvia occupies 41st position overall on the Index, level with Hungary, with a good Economic Competitiveness rank (27th) and a lower Comparative Liveability rank (60th). High marks for openness to trade are counteracted by the detrimental effects of a fragmented family life and low satisfaction with health.

● BACKGROUND

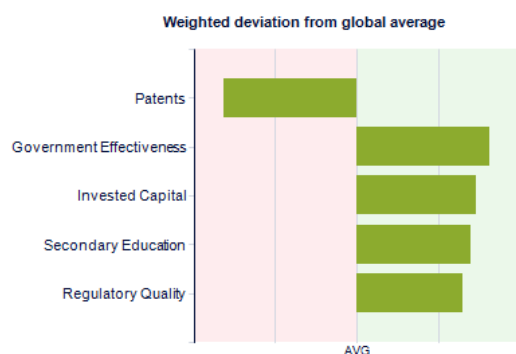
In common with the other 'Baltic Tigers', Latvia achieved strong growth in the three years following EU entry in 2004, aided by a flat-tax rate and investor-friendly reforms. The capital city, Riga, has become an important regional centre for financial services. However, growth has slowed sharply in 2008, inflation has risen to double digits, and Latvia's already large current account deficit has widened further. Nearly a third of Latvian residents are Russian-speaking former members of the USSR; over 400,000 of these have failed to acquire Latvian citizenship and are effectively stateless. The unresolved status of this minority is a continual source of tension with Russia.

FAST FACTS

Population:	2.2 million (2008 est.)	FDI (net inflow):	3.72% (2006 est.)
Life Today	4.7 (2007 est.)	Exports	29.33% (2006 est.)
GDP (PPP)	\$39.73 billion (2007 est.)	Imports	56.87% (2006 est.)
GDP (Growth)	10.2% (2007 est.)	Unemployment:	5.7% (2007 est.)
GDP (per Capita)	\$17,400 (2007 est.)	Life Expectancy	71.88 years (2008 est.)
Political System:	Parliamentary Democracy		
Foreign Aid:	1.17% (2004 est.)		

● KEY SCORE DRIVERS

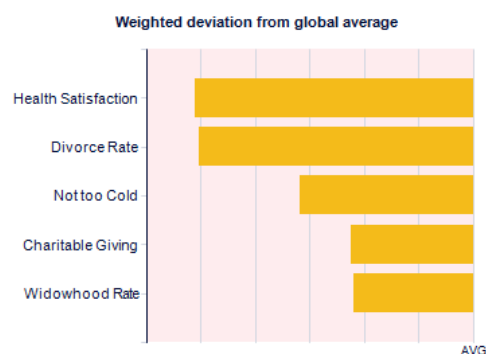
ECONOMIC COMPETITIVENESS



Latvia's openness, high levels of mass education and good governance have attracted foreign direct investment and successfully promoted international trade throughout the past decade. Capital investment is strong and the average worker has more than three years of secondary education. In 2008, Latvia had a foreign direct investment stock of almost \$8 billion, a figure that is four times higher than it was in 2000. Export volume grew accordingly, exceeding \$6 billion annually, resulting in a strong openness score.

Government effectiveness and regulatory quality are outstanding when compared with Latvia's peer countries. This favourable

COMPARATIVE LIVEABILITY



There is a sizeable gap between Economic Competitiveness and Comparative Liveability in Latvia, despite the fact that the country is among the top scorers in the region in terms of Economic Competitiveness and average incomes are high. Good governance, a strong positive influence on competitiveness, plays a role in liveability as well, likely by increasing the quality of public services such as public safety and infrastructure.

Family life is the biggest concern. Divorce rates are a regional record at almost 13%⁹, and widowhood is a similarly high 10%⁹. Latvia's health indicators are also significantly below the regional average. A mere 63%⁹ of the population is satisfied with health

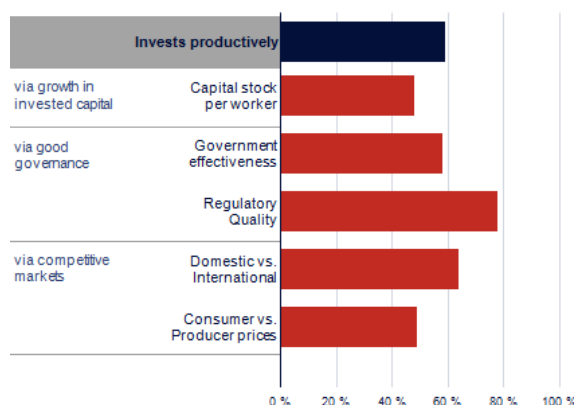
regulatory environment is further expressed in the low costs of starting a business, which fosters entrepreneurship. The top income and corporate tax rates are low, business regulation is relatively light, and starting an enterprise takes a mere 20 days. However, innovation is lacking, particularly as measured by the number of patents granted, and this may act as a barrier to growth in the future.

The country faces some serious challenges in terms of economic growth and stability. The inflation rate is soaring (at over 11% annually) and the current account deficit exceeds a fifth of GDP, which allows speculative pressures on the pegged exchange rate. These concerns pose a threat to medium-term growth and may impede Latvia's target of introducing the euro in the coming years.

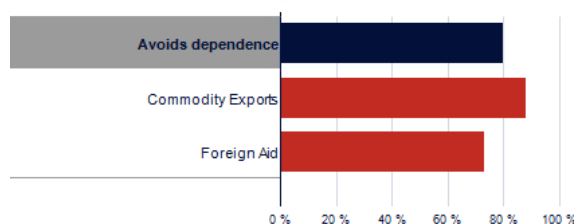
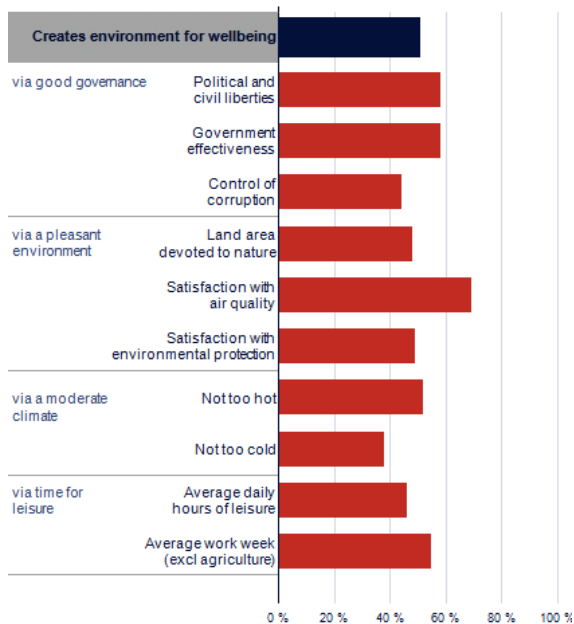
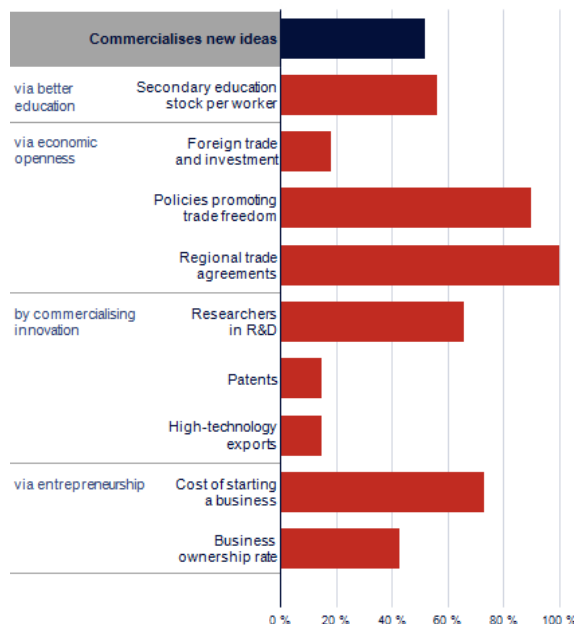
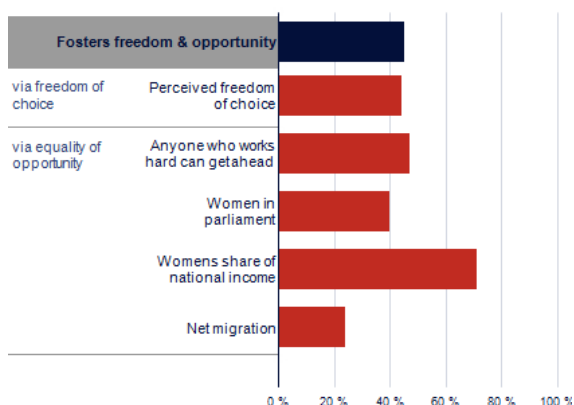
conditions, according to the Gallup World Poll, and health-adjusted life expectancy is below 63 years. Adding to these negative conditions is the cold climate, which can pose a burden in heating and housing expenses at Latvia's level of income.

The population is shrinking by 0.5% annually, a trend amplified by the fact that many workers leave the country in hope of a better living in Western Europe, while others belonging to the Russian minority depart for Russia. Like Estonia, Latvia did not grant citizenship automatically to the Russian-speaking Soviet citizens who moved to the country after 1950, and insists that they pass a test to become Latvian citizens. The ethnic tensions this fosters may contribute to low community life scores.

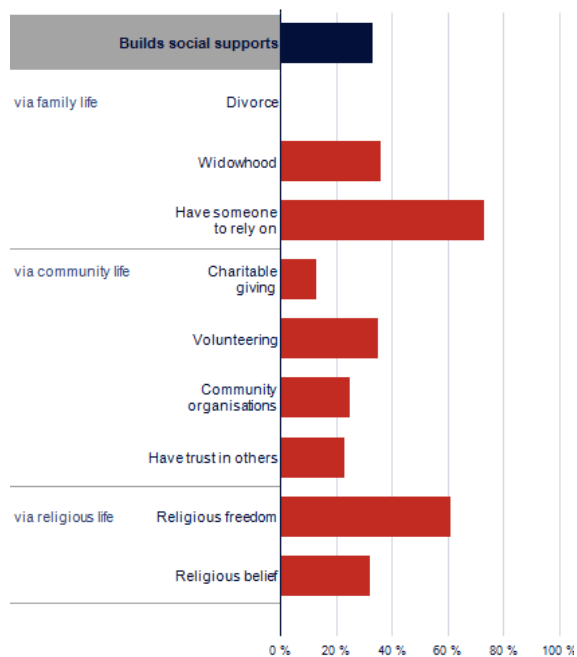
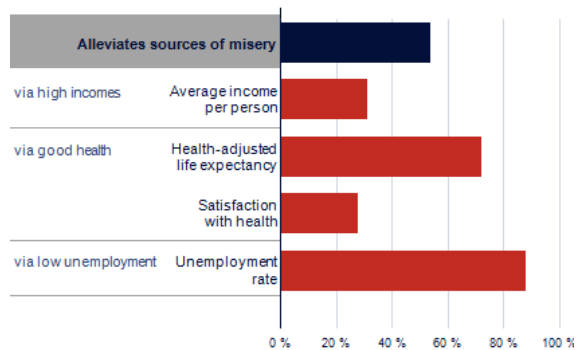
ECONOMIC COMPETITIVENESS: SCORECARD



COMPARATIVE LIVEABILITY: SCORECARD



All subindicator scores in the Index are shown unweighted, expressed as a percentage of the score for the best-performing country in the Index. Indicator scores (in dark blue) are derived from the weighted average of relevant subindicators. For more information on how the subindicator scores are weighted to produce indicator scores and an overall Index score and ranking, see Chapter Two of this report.



References:

^{9, w} See www.prosperity.com/references.aspx for further details including date of survey, sample size, and margin of error.