



Building a better
working world

The Baltics Attractiveness Survey

Latvia

August 2024



Contents

Foreword	4
Executive summary	6
<hr/>	
1 Key Factors for FDI Potential in Latvia	8
<hr/>	
2 Challenges and Risks	10
<hr/>	
3 Roadmap for securing future investments	12
<hr/>	
Methodology	21

Foreword



Linas Dicpetris
EY Baltics
Consulting Leader



Olesia Abramova
EY Estonia
Assurance Partner



Guntars Krois
EY Baltics Strategy
and Transactions
Leader

“
It is not the strongest or the most intelligent who will survive, but those who can best manage change.
In the evolving landscape of global investment, Latvia is at an important turning point, and this wisdom by Charles Darwin resonates profoundly as we explore the findings of the Latvian Foreign Direct Investment (FDI) Sentiment Report.

The Baltic region, including Latvia, has historically been a magnet for foreign investors, drawn by its strategic location, educated workforce,
Balancing challenges and opportunities
Latvia is navigating a complex landscape marked by political instability and economic risks. Yet, the country’s commitment to enhancing its digital infrastructure and encouraging innovation provides promising outlook. Approximately 66% of companies plan to establish or expand operations in Latvia over the next year, underscoring a resilient investment sentiment despite the challenges.
As we move forward, it is imperative for Latvia to leverage its strengths and address its challenges proactively. By enhancing political stability, reducing economic risks, and fostering a favorable investment climate, Latvia can not only attract but also retain valuable foreign investment.

The journey ahead requires adaptability, collaboration, and a steadfast commitment to innovation and sustainability.
This report offers a comprehensive overview of the current FDI sentiment in Latvia, providing valuable insights for stakeholders. As we navigate these transformative times, the collective efforts of businesses and government will be crucial in shaping a prosperous future for Latvia.



Executive summary

In 2023, Latvia saw a decline in new FDI projects, dropping from 32 in 2022 to 22 in 2023, with job creation falling from 2662 to 1265. Despite this, Latvia remains competitive within the Baltic region in jobs created per capita. Key sectors include business services, logistics, and R&D, reflecting a strategic shift towards diversification and innovation.

Challenges such as political instability, high financing costs, and geopolitical tensions have contributed to an 11% decline in investment sentiment. However, the outlook is positive, with 66% of companies planning to establish or expand operations in Latvia over the next year, driven by opportunities in digital transformation and sustainability.

“

Latvia's commitment to digital transformation and sustainability is a beacon of hope amidst global economic uncertainties. By leveraging our strengths in high-tech industries and a skilled workforce, we can navigate these challenges and secure a prosperous future for Latvia.



Guntars Krols
EY Baltics Strategy and Transactions Leader

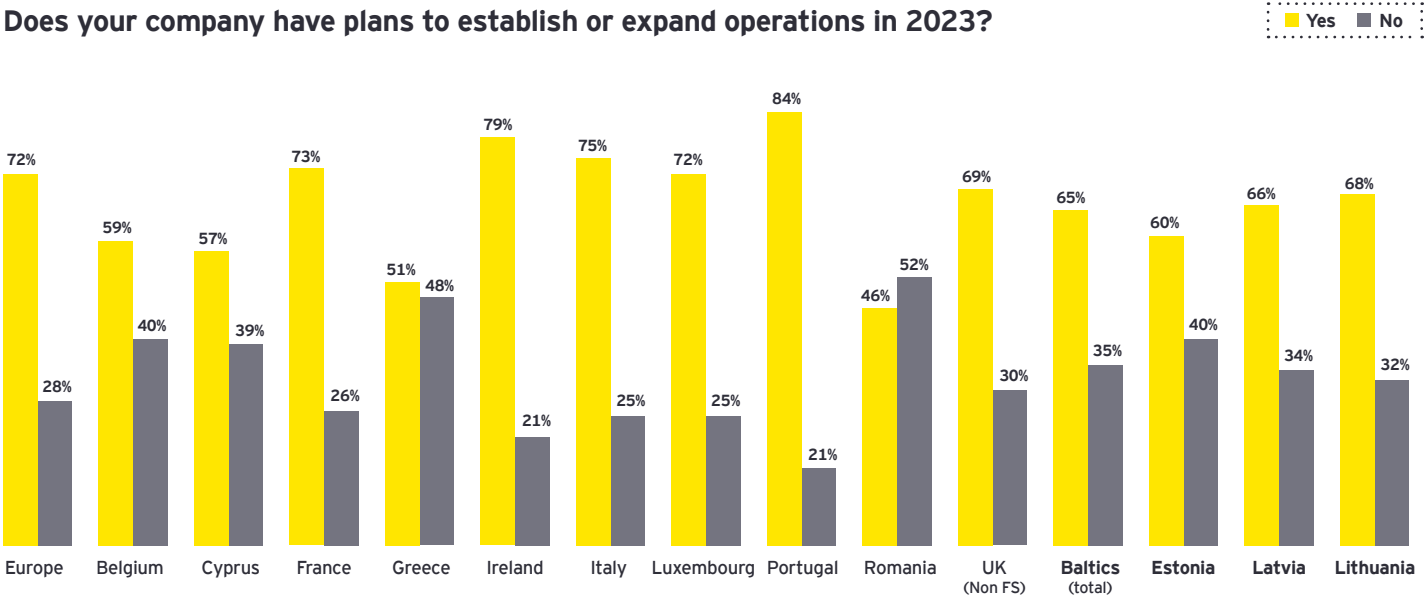


Investment could rebound, but a recovery is not guaranteed

Latvia has experienced notable fluctuations in its investment attractiveness over the past few years. According to the EY Baltic Attractiveness Survey, the percentage of executives who considered Latvia an attractive investment destination was 66% in 2022, peaked at 75% in 2023, and then returned to 66% in 2024. Looking forward, only 44% of investors believe that Latvia's attractiveness will improve over the next three years, reflecting a significant level of uncertainty.

Compared to its Baltic neighbors, Latvia's performance is mixed. Estonia has shown more stable, albeit moderate improvements. Half of the investors still have a positive outlook on Estonia's future attractiveness. Meanwhile, Lithuania has displayed a steady upward trajectory, with attractiveness increasing year by year. Notably, 72% of investors expect Lithuania's attractiveness to continue improving, indicating strong confidence in its economic management and investor relations.

Does your company have plans to establish or expand operations in 2023?



In comparison, Europe as a whole has seen a more pronounced positive trend. In 2022, 53% of surveyed executives planned to establish or expand projects in Europe. This figure increased to 67% in 2023 and further to 72% in 2024. Additionally, 75% of executives expect

Europe's attractiveness to improve in the next three years. This optimism is attributed to pent-up demand for project execution following years of low investment, coupled with expectations of stabilizing economic conditions.



Key Factors

1

Pent-up demand

Similar to the broader European trend, Latvia could see a rebound in investment due to pent-up demand. Investors who deferred projects amid political instability and economic uncertainties may be poised to resume their plans as conditions stabilize.

2

Economic stabilization

Latvia's economic environment, marked by fluctuating inflation rates and geopolitical tensions, needs stabilization. Efforts to reduce economic risks and promote a stable political climate can significantly restore investor confidence and attract renewed investments.

3

Digital Transformation and Sustainability

Latvia's emphasis on digital infrastructure and sustainability aligns with global investment trends. It is crucial to address sustainability issues by promoting sustainable practices. The country's strong performance in CleanTech and sustainability, recognized by 62% of investors, positions it well to attract investments in these forward-looking sectors.

4

Sectoral Diversification

Latvia's strategic focus on sectors such as business services, logistics, and R&D reflects a commitment to economic diversification. This approach can create a more resilient economy and provide varied opportunities for foreign investors.

5

Government initiatives

Proactive government policies to enhance the business environment, the benefits from tax conditions, acknowledged investors as an important factor, further enhance Latvia's attractiveness. Latvia needs to ensure that its regulatory frameworks support business growth while balancing compliance and innovation. This coupled with investments in infrastructure and education, will further solidify Latvia's position as a favorable destination for FDI.



Challenges *and* Risks

TOP Risks ranking

While Latvia has significant potential for attracting foreign direct investment (FDI), several challenges must be addressed to fully realize this potential:

48% Political instability in the Baltics

Political instability poses the greatest risk to investment attractiveness. According to the survey, 48% of respondents identified political instability, including upcoming elections, populism, and polarization, as a primary concern. This instability creates an uncertain investment environment, potentially deterring new investments and affecting long-term economic planning.

30% High interest rates & tightening financial conditions

High interest rates and tightening financial conditions are highlighted by 30% of investors as significant risks. These factors increase the cost of financing for new projects, making it more challenging for businesses to secure the necessary capital for investment. The impact of high interest rates can be particularly severe in periods of economic uncertainty, further complicating efforts to attract FDI.

30% High levels of public debt

High levels of public debt and their impact on taxes are also a major concern, noted by 30% of respondents. Investors worry that high public debt could lead to increased taxes or changes in tax policy, which could affect the profitability of their investments. Managing public debt effectively and ensuring a stable tax environment are crucial for maintaining investor confidence.

Other highly ranked challenges and risks



28% Geopolitical tension

28% Climate & environmental disasters

28% Volatile energy prices

By addressing challenges highlighted by investors – particularly political instability, financial conditions, and regulatory burdens–Latvia can improve its investment climate and attract more foreign direct investments. In

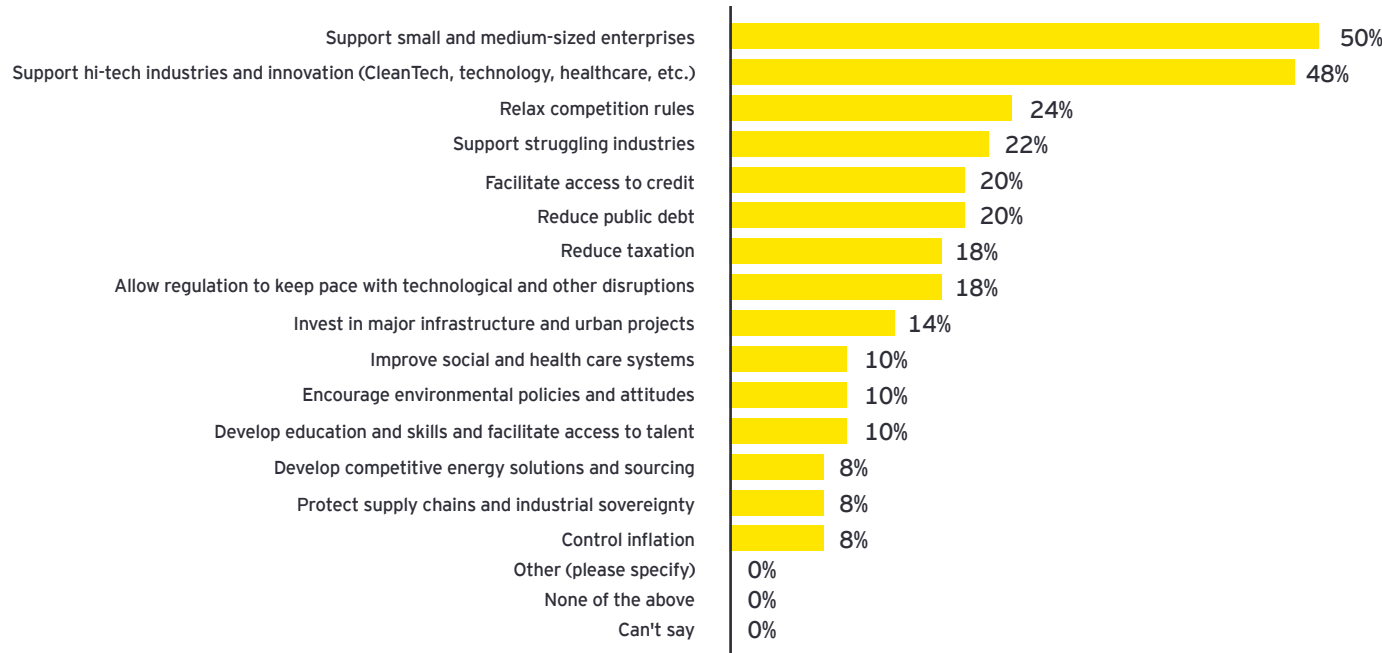
addition, leveraging its strengths will be key to enhancing Latvia's position as a competitive destination for global investors.



Roadmap for securing future investments

Roadmap for securing future investments

Latvia Where should Latvia concentrate its efforts in order to maintain its competitive position in the global economy?



#1

Support small and medium-sized enterprises

SMEs are the backbone of Latvia's economy, driving innovation and employment. Supporting these enterprises is essential for creating a robust and sustainable economic environment. According to the survey, 50% of investors believe that focusing on SMEs should be a priority. This can be achieved by reducing bureaucracy, improving access to capital, and facilitating digital transformation. Ensuring the growth and sustainability of SMEs will bolster economic resilience and attract further investments.

#2

Support hi-tech industries and innovation

Promoting high-tech industries and innovation is pivotal for long-term economic growth and competitiveness. Latvia's strengths in CleanTech, technology, and healthcare provide a solid foundation for attracting investments in these areas. With 48% of investors emphasizing the importance of high-tech sectors, Latvia should enhance support for these industries through favorable policies, tax incentives, and investment in digital infrastructure.

#3

Relax competition rules

Relaxing competition rules can create a more dynamic business environment, encouraging innovation and growth. About 24% of investors identified this as a key area for improvement. By simplifying regulations and reducing barriers to entry, Latvia can foster a more competitive market that attracts diverse investments.

To maintain and enhance its competitive position in the global economy, Latvia must concentrate on several key areas identified by investors as crucial for attracting and securing foreign direct investments. These areas include

supporting small and medium-sized enterprises (SMEs), promoting high-tech industries and innovation, and addressing financial and regulatory challenges.

Strengths to leverage

Investors have identified several strengths that make Latvia an attractive investment destination:

22%

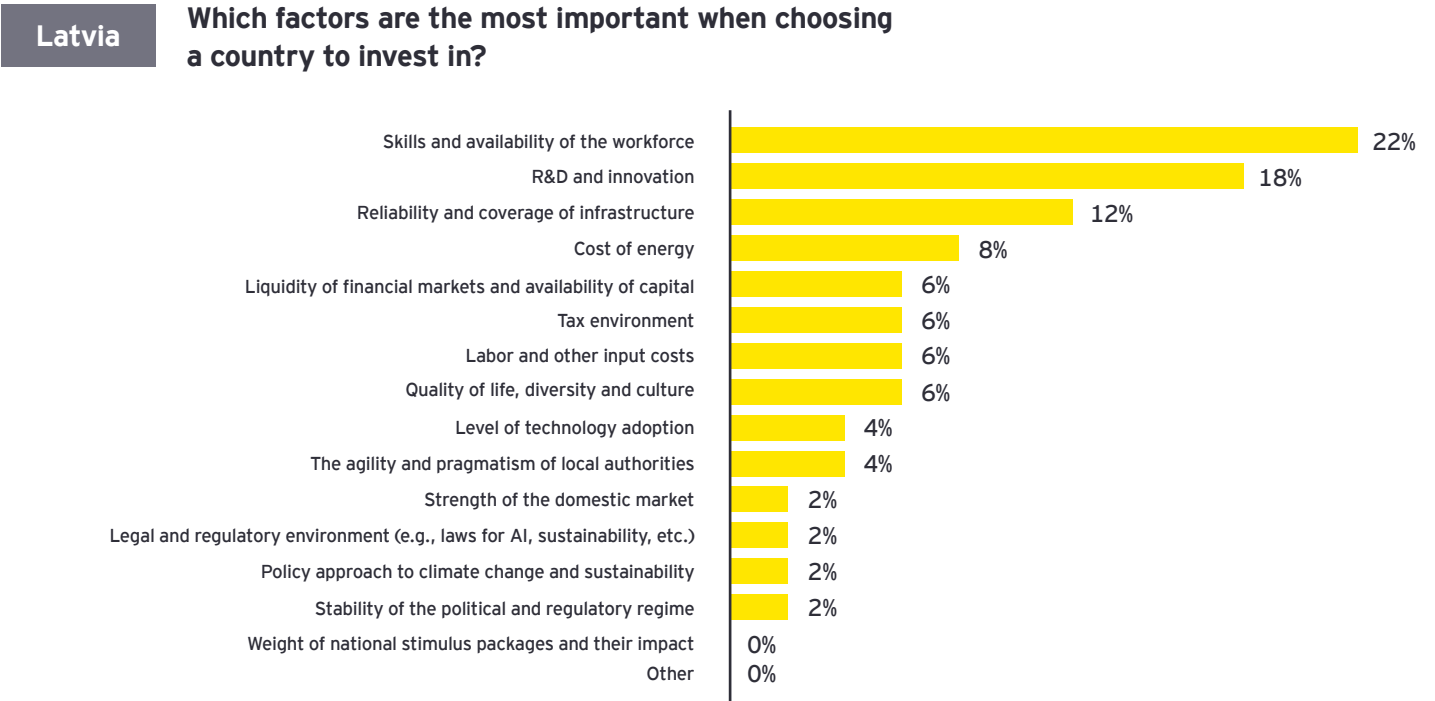
Skills and availability of workforce
Latvia's highly skilled workforce is a major draw for investors. The availability of a talented labor pool, particularly in digital and technological fields, is crucial for attracting high-tech and innovative investments. Ensuring continued development and accessibility of skilled workers will be key to maintaining Latvia's competitive edge.

18%

R&D and innovation
Latvia's commitment to research and development and fostering innovation stands out as a significant strength. With 18% of investors highlighting this factor, Latvia's focus on R&D capabilities positions it as an attractive destination for cutting-edge industries. Continued investment in innovation infrastructure will further enhance its appeal.

12%

Reliability and coverage of infrastructure
The reliability and extensive coverage of Latvia's infrastructure, including transport, telecommunications, and energy, are highly valued by investors. Effective infrastructure supports smooth business operations and logistics, making Latvia a favorable location for investment.



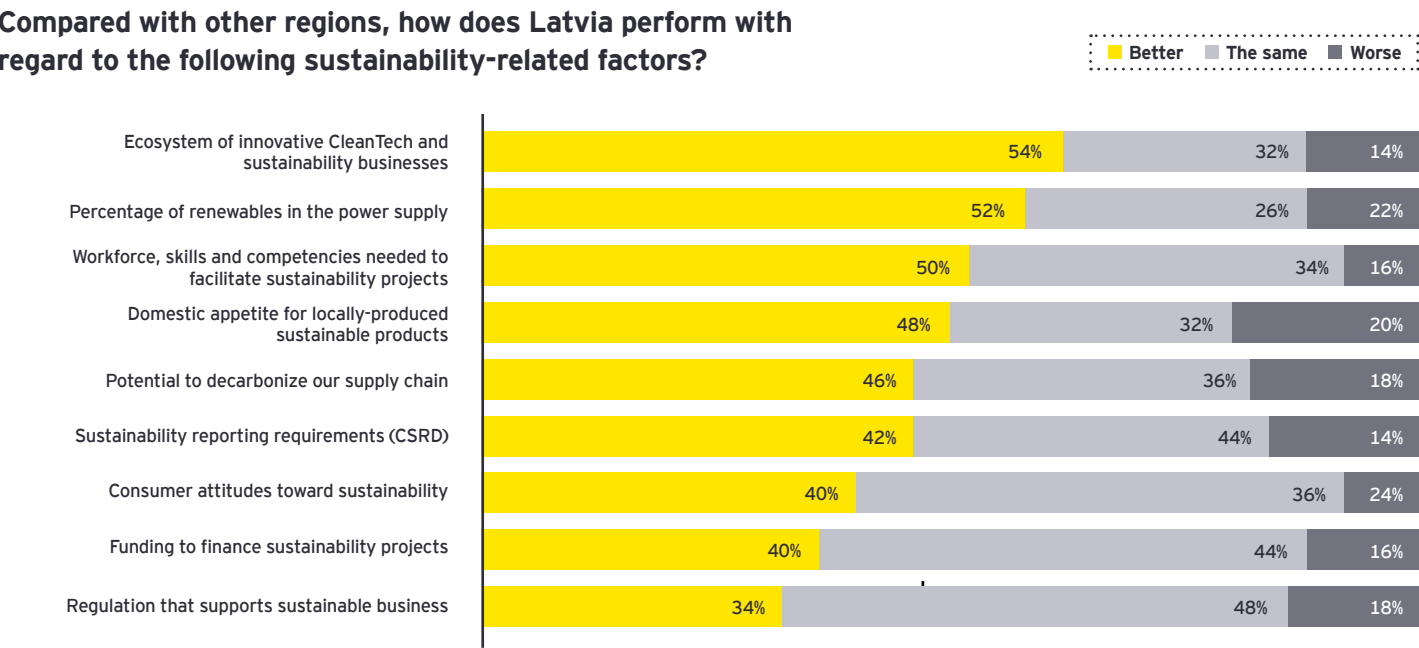
By focusing on these strategic areas, Latvia can enhance its attractiveness as an investment destination. Leveraging its strengths in workforce skills, R&D, and infrastructure will further bolster its competitive position. Strategic initiatives aimed at improving the

business environment, simplifying regulations, and promoting high-tech industries and innovation will create a conducive environment for sustained economic growth and investment.

Leveraging sustainability

Latvia stands out as an attractive destination for sustainability-focused investments, particularly due to its strong ecosystem of innovative CleanTech and sustainability businesses, which 62% of investors consider better than other regions. The country's commitment to

renewable energy is also notable, with 58% of investors recognizing Latvia's superior percentage of renewables in the power supply. Additionally, Latvia excels in workforce skills and competencies needed for sustainability projects, further enhancing its appeal.



However, challenges remain, especially in securing funding for sustainability initiatives and improving consumer attitudes towards sustainability.

Latvia should focus on further enhancing its FDI attractiveness through sustainability by addressing and

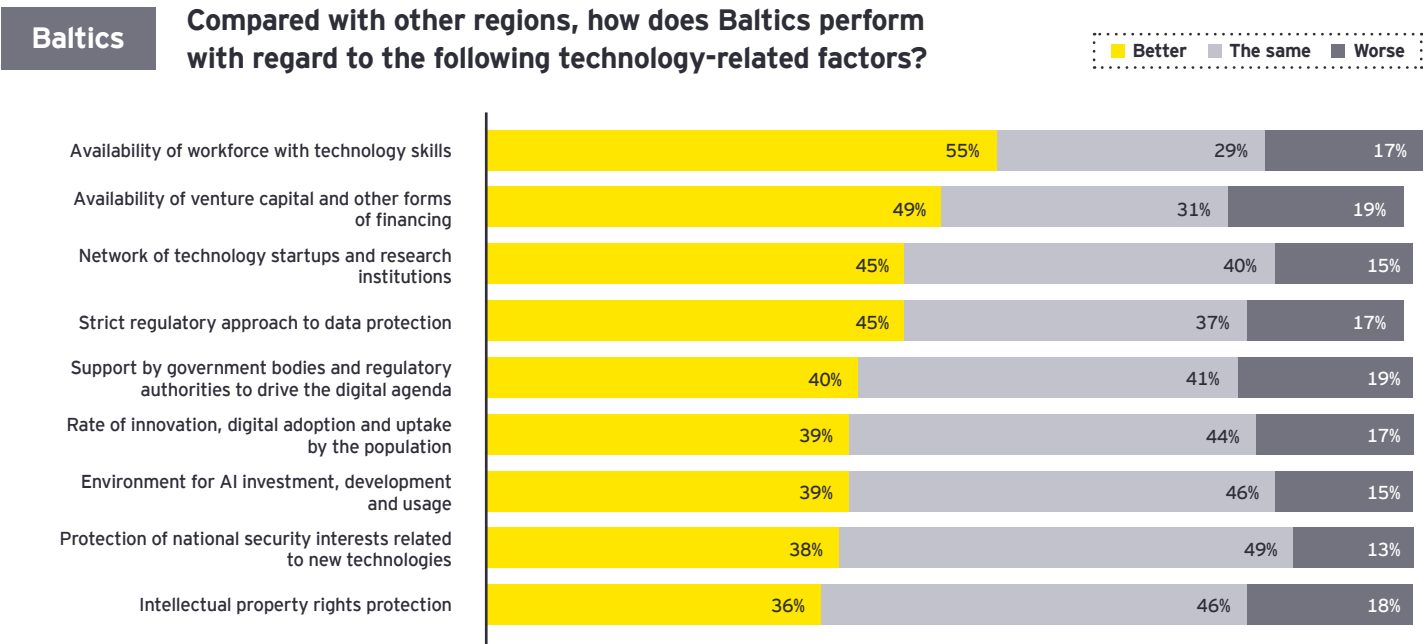
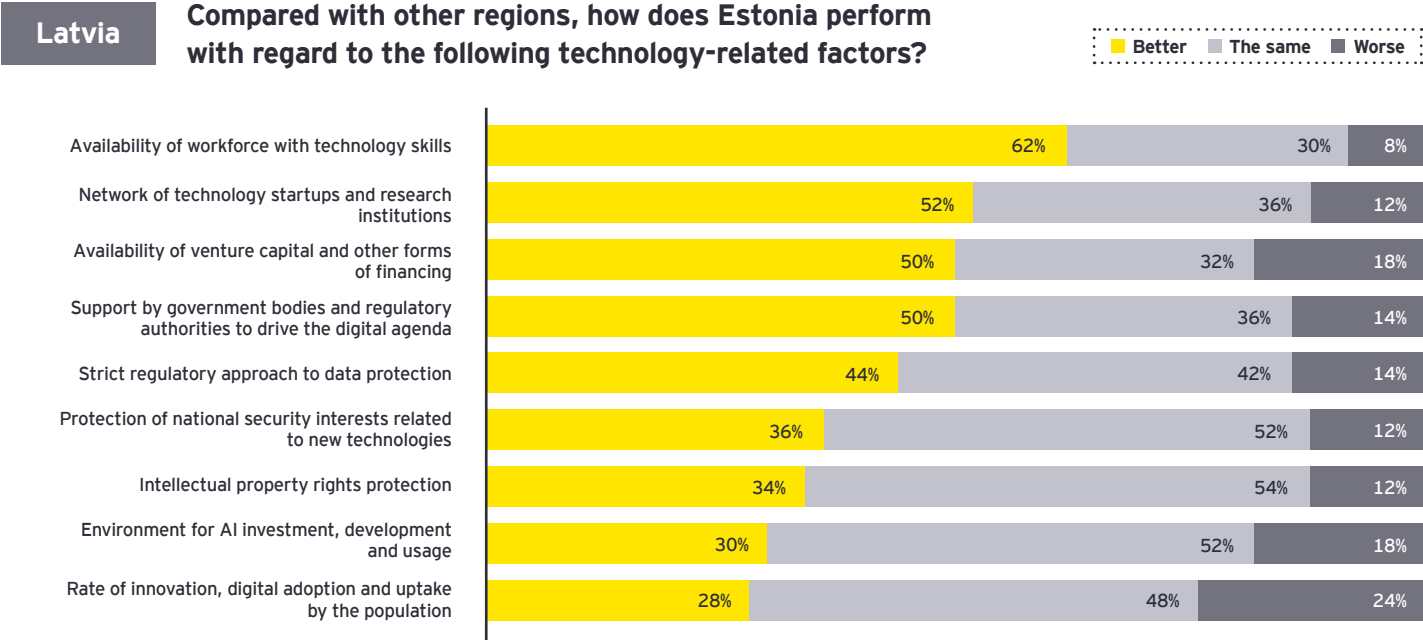
maintaining a balance between environmental regulations and business needs, Latvia can solidify its position as a leading destination for sustainable investments, driving both economic growth and environmental sustainability.

Latvia poised for tech investment surge with skilled workforce and strong startup ecosystem

Latvia is becoming a significant player in the technology sector, making it an attractive destination for foreign direct investment. The country boasts a highly skilled workforce, with 62% of investors acknowledging Latvia's superior availability of technological skills, including scientists, engineers, and data analysts. Additionally, Latvia has a vibrant network of technology startups and research institutions, which 52% of investors view

favorably. This strong ecosystem is supported by a robust availability of venture capital and other financing options, making Latvia an appealing destination for tech-focused investments.

Government support for the digital agenda is another key strength for Latvia, with 50% of investors recognizing the proactive role of government bodies and regulatory authorities in facilitating digital transformation.



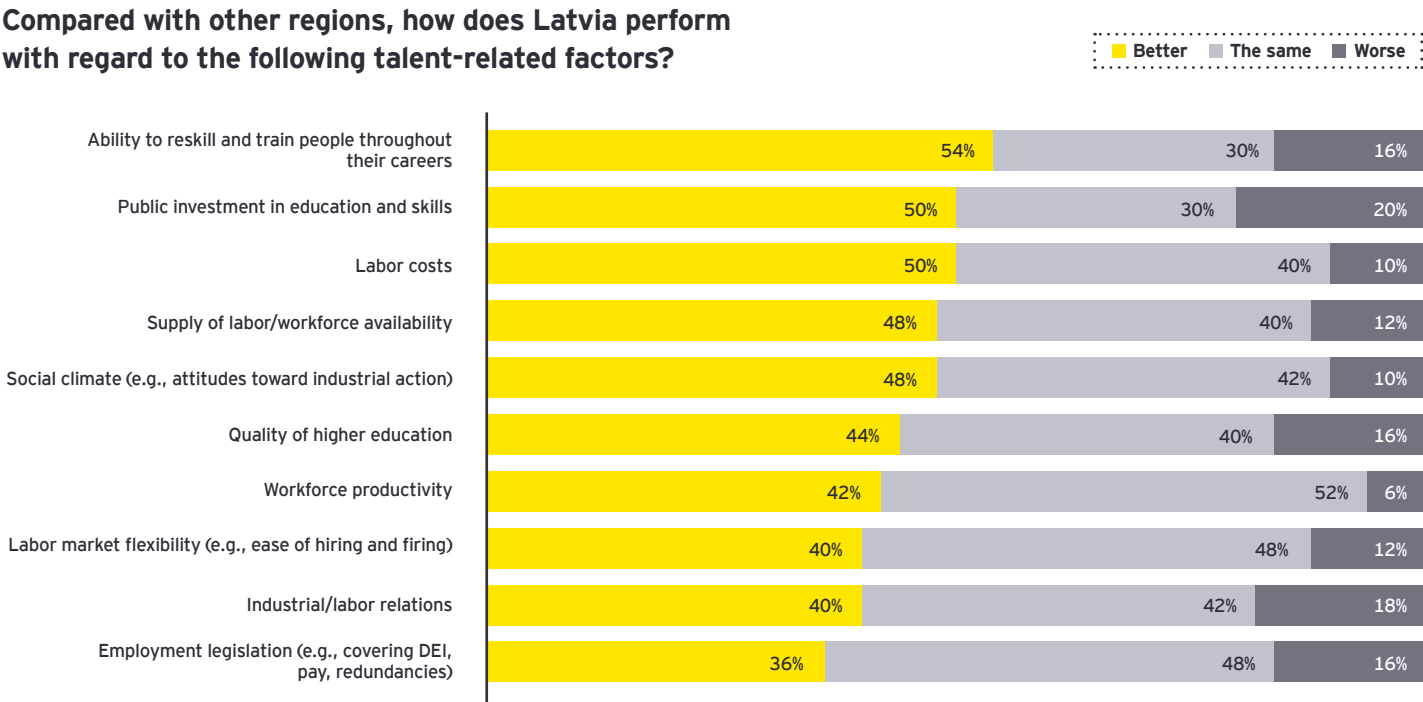
To enhance its competitive position further, Latvia should focus on developing and maintaining a skilled workforce through education and training, strengthening its startup ecosystem with more funding opportunities, and enhancing support for AI and other emerging tech-

nologies. Improving digital literacy and adoption among the population and balancing data protection regulations with innovation-friendly policies are also crucial. By addressing these areas, Latvia can attract more high-tech investments and drive sustained economic growth.

Strengths in workforce training and labor force cost efficiency

Latvia's attractiveness for foreign direct investment (FDI) is significantly enhanced by its strengths in talent-related factors such as lifelong learning, competitive labor costs, and workforce availability. The country excels in reskilling and training its workforce, with 54% of investors recognizing this as a major advantage. Public investment in education and skills, acknowledged by 50%

of investors, ensures a continuous supply of qualified professionals. Additionally, competitive labor costs and robust workforce availability, each noted by 50% and 48% of investors respectively, make Latvia an appealing destination for businesses looking to optimize operational expenses and secure the talent needed for growth.



However, Latvia faces areas for improvement, particularly in employment legislation related to diversity, equity, inclusion (DEI), pay, and redundancies, which only 36% of investors see as better than other regions. To further enhance its FDI attractiveness, Latvia should focus on increasing investments in education,

maintaining competitive labor costs, enhancing labor market flexibility, and improving employment legislation. By addressing these areas and leveraging its strengths, Latvia can create a more inclusive, productive, and attractive environment for foreign investors, driving sustainable economic growth.



Competitive tax environment

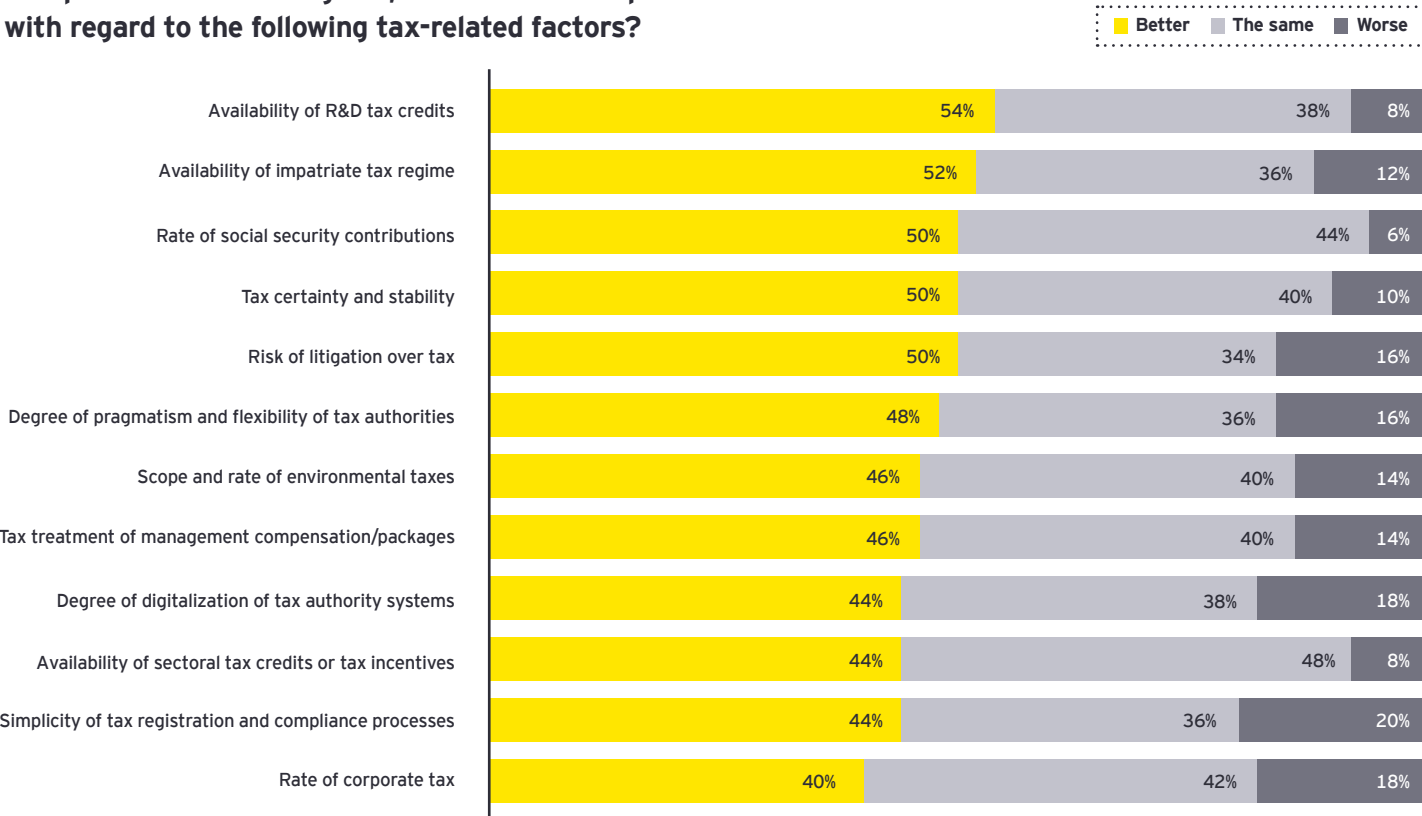
The tax environment in Latvia is currently viewed favorably by investors, with significant strengths in areas such as the availability of R&D tax credits and the impatriate tax regime. According to the survey, 54% of investors believe that Latvia offers better R&D tax credits compared to other regions, and 52% appreciate the impatriate tax regime, which is beneficial

for attracting high-tech industries and skilled foreign workers. Additionally, Latvia's competitive rate of social security contributions and tax certainty and stability, each noted by 50% of investors, underscore the country's commitment to creating a predictable and business-friendly tax environment.

Recent changes and discussions around Latvia's tax policies indicate a focus on maintaining and enhancing this investor-friendly environment emphasizing security, sustainability, and significant investments in education and healthcare, which indirectly support the business ecosystem by ensuring a skilled and healthy workforce.

Additionally, Latvia's efforts to balance fiscal discipline with strategic investments are expected to strengthen its economic resilience and attractiveness to foreign investors.

Compared with other regions, how does Latvia perform with regard to the following tax-related factors?



Conclusion

The Baltic Attractiveness survey report reveals a nuanced picture of Latvia's investment climate. While recent years have seen fluctuations in investment attractiveness, driven by challenges such as political instability, high financing costs, and geopolitical tensions, the outlook remains optimistic. Latvia's strengths in sectors like high-tech industries, sustainability, and a robust digital infrastructure provide a solid foundation for future growth. Approximately 66% of companies plan to establish or expand operations in Latvia in the coming year, indicating a resilient investment sentiment despite existing challenges.

To secure a bright future and enhance its competitive position in the global economy, Latvia must address its political and economic risks proactively. By leveraging its strengths in workforce skills, R&D, and infrastructure, and implementing strategic initiatives to support SMEs, high-tech industries, and sustainability, Latvia can create a more favorable investment climate. Government policies that balance fiscal discipline with strategic investments in education, healthcare, and infrastructure will further strengthen Latvia's economic resilience and attractiveness to foreign investors. The collective efforts of businesses, government, and educational institutions will be crucial in navigating these transformative times and shaping a prosperous future for Latvia.

Guntars Krols
EY Baltics Strategy
and Transactions
Leader



“To attract and retain valuable foreign investment, Latvia must proactively address political and economic risks while continuing to support SMEs and foster innovation. Our strategic focus on education, healthcare, and infrastructure will not only enhance our competitiveness but also drive sustainable economic growth.”

Methodology

The “real” attractiveness of Europe for foreign investors

The evaluation of the reality of FDI in Europe is based on the EY European Investment Monitor (EIM), the EY proprietary database produced in collaboration with OCO. This database tracks the FDI projects that have resulted in the creation of new facilities and new jobs. By excluding portfolio investments and M&A, it shows the reality of investment in manufacturing and services by foreign companies across the continent.

An investment in a company is normally included in FDI data if the foreign investor acquires more than 10% of the company's equity and takes a role in its management. FDI includes equity capital, reinvested earnings and intracompany loans.

The perceived attractiveness of Europe and its competitors by foreign investors

We define the attractiveness of a location as a combination of image, investor confidence, and the perception of a country's or area's ability to provide the most competitive benefits for FDI.

Field research was conducted by FT-Longitude in March and March-April 2024 via online interviews, with **550 international decision-makers** participating.

The Baltic field research was conducted by FT-Longitude in March and April 2024 via online interviews, with **150 international decision-makers** participating.



EY contacts

Linas Dicpetris

Leader | Consulting

EY Baltics

linas.dicpetris@lt.ey.com

Olesia Abramova

Partner | Assurance

EY Estonia

olesia.abramova@ee.ey.com

Guntars Krols

Leader | Strategy and Transactions

EY Latvia

guntars.krols@lv.ey.com

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

© 2024 EYGM Limited.
All Rights Reserved.

EYG no. xxxxxxxxxxxxx
BMC Agency GA 1018685
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com