

## ANALYTICAL HIGHLIGHT


 PROSPECTS FOR  
**Latvia**

- The employment rate in Latvia was 69.7%<sup>1</sup> in 2013 – lower than both the national 2020 target of 73% and the EU–28 2020 target of 75%.
- According to the national forecasts, around 50,000 more jobs will be created in Latvia until 2020 and a total of 75,000 until 2030, mostly in commercial services, trade and manufacturing sectors.
- It is anticipated that demand for labour will increase in occupations requiring high level qualifications, such as senior professionals and managers – and for skilled workers and craftsmen with medium level qualifications both in the medium and longer term (i.e. by 2020 and 2030).
- In the medium term it is anticipated that there will be supply shortages in the segment of workers with medium and higher level vocational education and an oversupply of specialists who have higher education in humanities and social sciences.
- In the longer term an oversupply of plant and machine operators, senior specialists in legal, social, cultural and education areas as well as commercial and management specialists is expected. At the same time labour shortages are anticipated among senior specialists in science and engineering, information and communication technologies as well as skilled agricultural, forestry and fishery workers.

**Recovering employment mostly in occupations requiring medium to higher level qualifications**

The employment rate in Latvia was steadily increasing in the period 2000 to 2008 (from 63.5% to 75.4%). It then plummeted to 64.3% in 2010 as a consequence of the 2008 financial crisis and has been recovering since. In 2013, the employment rate in Latvia (69.7%) was slightly above the EU average (68.4%), but somewhat below the national 2020 target (73%)<sup>2</sup>.

The recent growth in employment is in large part due to increasing economic activity in the country as it is recovering from the crisis. However,

the improvements in the employment situation are less evident among people with lower qualifications, older people and youth. The size of the population active on the labour market has been decreasing due to emigration, which also somewhat contributes to the reduction of unemployment. According to the Ministry of Economics<sup>3</sup> current higher rates of unemployment in the country are mostly related to the reduction of production and services due to the crisis<sup>4</sup>. As sectors recover from crisis at different rates, this may lead to mismatches between the skills

<sup>1</sup> Eurostat (2014), Employment rate (20 to 64 years) – annual averages (lfsi\_emp\_a)

<sup>2</sup> In 2013 Latvia had the 10th highest rate of unemployment in the EU.

<sup>3</sup> Unless otherwise specified, data in this report draws from the Ministry of Economics (2014), Informative report on the medium and long-term labour market forecasts [https://em.gov.lv/files/tautsaimniecibas\\_attistiba/EMZino\\_150814.pdf](https://em.gov.lv/files/tautsaimniecibas_attistiba/EMZino_150814.pdf)

<sup>4</sup> More recently also due to decrease of exports to the East (Russia). Source: Cedefop, 2015, VET in Latvia: short description <http://www.cedefop.europa.eu/en/publications-and-resources/publications/4134>

of the labour force and employer demands.<sup>5</sup> Further challenges in terms of unemployment are due to the five Latvian regions exiting the crisis at different speeds.<sup>6</sup>

Youth unemployment continues to be a considerable problem in Latvia. Young people<sup>7</sup> represent around 18% of all the job seekers in the country. The majority of these (around 65%) have no or low qualification levels. Around three fourths of all the young people looking for a job have no previous work experience or have been previously employed in simple professions.

Since 2010 the number of employed has increased in all basic sectors, apart from agriculture, other industries, trade and accommodation. Almost one third of all the jobs created between 2010 and 2013 were in the construction sector (which also experienced the biggest fall in employment due to the crisis). Important increases in the number of employed were also noted in manufacturing, transport and storage as well as other commercial services sectors.<sup>8</sup>

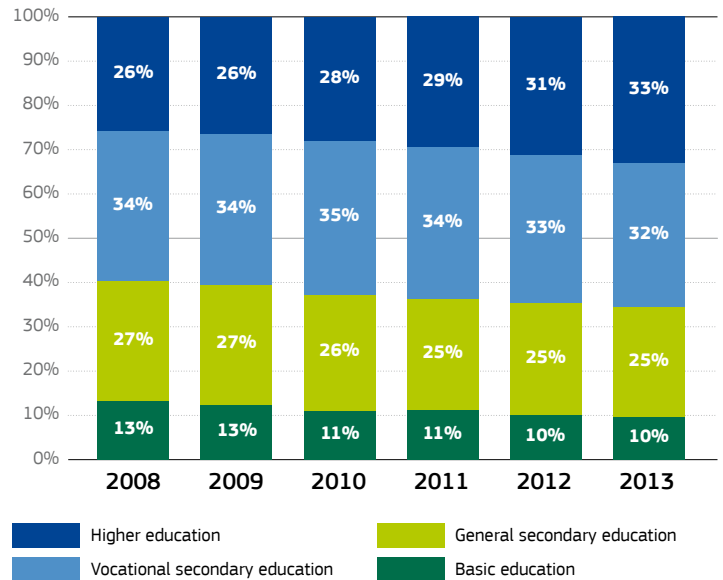
In 2013 almost half of the Latvian workforce (47%) was employed in occupations requiring medium level qualifications, 40% in occupations requiring high qualifications and 13% low qualifications' professions. The share of persons with higher education among the economically active population in Latvia was steadily increasing during the period 2008 to 2013 (from 26% to 33%), while those with secondary education and basic education has been decreasing (27% to 25% and 13% to 10% respectively). The share of the labour force with secondary vocational education has also decreased slightly (34% in 2008 to 32% in 2013).

### Growth driven by commercial services, trade and manufacturing

It is anticipated that the size of the working age population in Latvia will continue to decrease up until 2030 due to the ageing of the country's population and emigration. While the current migration trends are expected to reverse, with more people entering than leaving the country after 2016, these migration trends will not be sufficient to compensate for critical labour shortages anticipated after 2015.

Latvia anticipates creating a sustainable economic development based on exports as the main driver. This means focusing economic resources on the production of goods and services with high added value, sectors promoting exports and increased investment in new technologies, innovation and education. However, currently Latvia's competitive economic advantages are mostly associated with low labour cost and low technology sectors. In the mid-term (until 2020) and longer-term (until 2030) national forecasts it is anticipated that more than two thirds of all the additional demand for labour will originate in three sectors – manufacturing, trade and commercial services.

▼ Figure 1 – Distribution of economically active population by education level (aged 15–74, %)



Source: Ministry of Economics, Informative report on the medium and long-term labour market forecasts (2014)

In manufacturing, it is anticipated that the demand for labour will go hand in hand with increasing production volumes and the transition to medium and high technology sectors<sup>9</sup>. It is anticipated that an additional 18,000 jobs will be created in manufacturing by 2030, accounting for 15% of all employment in the country (14% in 2013). Increasing investment is anticipated in the manufacturing of appliances, machinery, electrical and optical equipment. On the contrary, the investment in traditional sectors such as woodworking and food production will be relatively smaller.

The share of those employed in trade will remain constant (around 18% of all employed) between 2013 and 2030, according to the national forecasts. Due to the projected increase in the total size of the employed population from 894,000 in 2013 to 969,000 in 2030, the net employment in this sector is projected to increase by 18,000 additional jobs by 2030.

Commercial services is the only sector where the numbers of employed in 2013 (167,400) were actually greater than before the financial crisis in 2008 (156,700). This sector is also anticipated to provide a relatively large increase in a number of employed in the medium and longer term. It is anticipated that by 2020 employment in this sector will increase by 17,000 and until 2030 by a total of 25,000. In 2030 this sector will represent around one fifth of all the employment in the country (it represented 19% of all the employment in 2013). As mentioned, construction is the sector where employment fell most drastically due to the crisis. In the medium to longer term it is anticipated that employment in construction will increase steadily, especially in segments such as infrastructure, industrial and commercial buildings, and public and residential buildings.

<sup>5</sup> As illustrated in the document 'Skills mismatches and labour mobility' [http://ec.europa.eu/europe2020/pdf/themes/27\\_skills\\_gaps\\_and\\_labour\\_mobility](http://ec.europa.eu/europe2020/pdf/themes/27_skills_gaps_and_labour_mobility)  
<sup>6</sup> Unemployment rate in Riga region was 6% in 2013, as opposed to 10% in Zemgale, 11% in Vidzeme, 12% in Kurzeme and 19% in Latgale regions.  
<sup>7</sup> 15 to 24 years old  
<sup>8</sup> European Commission (2013), EU Employment and social situation. Special supplement on demographic trends. Quarterly Review, March 2013 <http://ec.europa.eu/social/BlobServlet?docId=9924&langId=en>

<sup>9</sup> A. Liepiņš (Deputy State Secretary) (2013), The future of labour market in Latvia, Presentation [http://www.nccl.lv/data/images/NCCL\\_A.Liepins\\_27022013.pdf](http://www.nccl.lv/data/images/NCCL_A.Liepins_27022013.pdf)

▼ Table 2 – Changes in the labour demand in key sectors (thousands)

	2013	2015	2020	2030	Difference (2020–2013)	Difference (2030–2013)
Agriculture	72	72	70	68	-2	-4
Manufacturing	126	130	138	144	12	18
Other industry	21	21	23	25	2	4
Construction	67	71	74	76	7	9
Trade	160	166	172	178	12	18
Transport	77	78	81	86	3	9
Commercial services	167	177	184	192	18	26
Public services	204	206	201	200	-3	-4
Total	894	919	943	969	49	75

Source: Ministry of Economics, Informative report on the medium and long-term labour market forecasts (2014)

According to the national medium to longer term forecasts employment will decrease in the woodworking and agriculture sectors. In 2013 these sectors accounted for around 8% of the total employment, but only 4% of GDP. To maintain the competitiveness the growth of these sectors in the next year will be mainly based on productivity increase. It needs to be mentioned that the public services sector was the biggest employer in 2013 with over 200,000 employed across the country. Employment in this sector is expected to decrease by around 4,000 until 2030. However, the share of the employed in this sector as compared to all employees in the country is expected to decrease from 23% in 2013 to 21% in 2030.

### Continued increase in demand for highly qualified but also skilled workers

Turning to the occupational forecasts, according to the national forecasts the demand for highly qualified professionals will increase together with the envisaged restructuring of the economy in the medium and longer term. This demand is expected to be driven by the manufacturing and services sectors, and especially by commercial services. In the medium term, demand will also increase for science and engineering graduates as well as IT specialists.

Increasing demand is also anticipated for business and management specialists, as well as professionals in the legal, social and cultural fields. However, considering the number of young people pursuing studies in these fields, not all of these specialists will be able to find employment in their respective areas. This will lead to skills mismatches described later in this document. In the medium term demand will also increase for professionals with medium level qualifications, especially in manufacturing. This will include electrical and electronic equipment workers, mechanical engineers as well as food processing and wood workers. On the contrary the demand will decrease for agriculture workers. Overall, however, due to the demographic trends, there may be a shortage of workers with medium level vocational qualifications, signalling the need to promote this type of education in medium term.

The demand for workers with low qualifications is expected to continue to decrease. Up until 2020 it is anticipated that this demand will fall by around 8% and until 2030 – by more than one fourth (-26%) from its level in 2013. According to the national forecasts the demand for employees will grow in the following main occupational groups:

In high qualification professions,

- senior professionals (additional 19,000 by 2020 and 42,000 by 2030);
- managers (additional 7,700 by 2020 and 13,000 by 2030).

In occupations requiring medium level qualifications,

- skilled workers (additional 14,000 by 2020 and 24,000 by 2030);
- service workers (additional 6,000 by 2030).

### Skills supply threatened by demographics, mismatches and regional disparities

While the recovery from the crisis means that the demand for labour in Latvia is gradually increasing, it however remains considerably below the pre-crisis levels. The relatively high unemployment (around 12% in 2013, with some 120,000 job seekers) suggests that labour supply outweighs the demand. Currently skills shortages have only been identified in a few sectors, while overall the lack of employees with the right skills is not considered to be a major obstacle in economic development.<sup>10</sup>

By the end of 2013 according to the vacancies registered by the Public Employment Service (PES) in Latvia the highest employers' demand was for qualified workers and craftsmen (1,531 vacancies), followed by services and commerce workers (696 vacancies) as well as plant and machine operators and assemblers (654 vacancies). According to a 2014 (PES) study<sup>11</sup> employers reported Latvian language, interpersonal and communication skills as well as IT skills as the main additional skills that their employees require.<sup>12</sup>

Overall, national forecasts do not expect labour demand to exceed labour supply in the medium-term. While it is anticipated that until 2017 the

<sup>10</sup> According to a 2014 survey results presented in the Ministry of Economics "Informative report on the medium and long-term labour market forecasts" (2014) 13% of employers in the construction sector, 10% of in manufacturing sector, 7% in retail sector and 5% in services sector reported labour supply shortages as a factor that hinders the development of their undertaking.

<sup>11</sup> Projektu un kvalitātes vadība, Darba tirgus īstermiņa prognozes 2014. gada 1. Pusgadā, ESF funded study for the Public Employment Agency.

<sup>12</sup> A study by Zumente and Putriņš "Skills Mismatch in Latvian Manufacturing Sector" (2011) found that only 24% of workers in the manufacturing sector in Latvia have adequate skills, often lacking responsibility, technical knowledge and problem solving abilities that their jobs require [http://www.sseriga.edu/files/content/zumente\\_putrins\\_paper.pdf](http://www.sseriga.edu/files/content/zumente_putrins_paper.pdf)

number of jobseekers will continue to shrink,<sup>13</sup> mostly due to emigration and the aging of the population in the country, the expected reverse in migration trends from 2017 onwards<sup>14</sup> and gradual increases in participation rates<sup>15</sup> may let labour supply start to increase in 2019. National forecasts predict that the labour supply will reach 1,025 000 in 2030, with the labour market demand around 969,000.

While the situation with the labour supply is expected to improve in the medium term, skills mismatches are foreseen to increase, further exacerbated by regional imbalances in labour supply and demand. Shortages of professionals with relevant qualifications are already recorded in such sectors as IT and programming. Simultaneously, the labour supply noticeably exceeds the demand for managers in various services sectors, HR specialists, sales agents and others. These specialists are forced to work in jobs requiring lower qualifications. The skills mismatches are expected to become more pronounced in the next two to three years with balancing achieved only in four to five years.

As mentioned, considerable disparities in labour supply and demand continue to be a problem in Latvia's regions. During the last 10 years the Latgale region has had the highest unemployment in the country. Most new jobs, however, were created in the capital city and Riga region. Considering the time required tackling these regional differences, the disparities between regions are likely to be a long term problem in Latvia.<sup>16</sup>

### Strong demand on high level skills while skills imbalances are likely to grow

It is anticipated that the population of Latvia will continue to decrease in the medium and longer term, especially in the working age. The current national forecasts anticipate that immigration, higher labour market participation and later exit from the labour market will reduce the negative impact of the current demographic trends. However, Latvia is expected to face important labour force and skills challenges in the medium term, especially in science and technology sectors.

In the medium term the national forecasts predict that the demand and supply for the medium and high qualification workforce will come into balance. However, supply is anticipated to be insufficient in a segment of workers with medium and higher vocational education. It is anticipated that by 2030 the demand will turn towards specialists with higher education, but this demand is likely to be met in advance on the supply side. According to the national forecasts, people with low or no qualifications will find it increasingly hard to find a job in the medium and longer term. This group is expected to represent a half of all the jobseekers in the future.

If the current education trends continue, it is anticipated that there will be an oversupply in the labour market of specialists in the higher education group who have studied humanities and services. While the demand for labour qualified in these areas is expected to increase, it is unlikely to be sufficient to provide jobs even for half of all the specialists with these qualifications. It is projected that in 2020 this oversupply could amount to 20%. If the education offer is not reshaped, these mismatches are expected to increase by 2030.

Similarly to higher education, oversupply of labour is also expected for specialists with medium level qualifications in humanities, but also arts, social, commercial and legal sciences. Specialists in this education group will also have to face increasing competition with specialists with higher education in these areas.

On the contrary, medium-term forecasts show that a shortage of specialists in natural sciences, mathematics and information technologies<sup>17</sup> may arise if the current education output in these fields is not increased. It is anticipated that by 2020 there will be a shortage of specialists with higher education in engineering, manufacturing and construction, agriculture, health care and social welfare. According to the national longer term forecasts by 2030 there will also be a shortage of labour supply in natural sciences, mathematics and information technology, as well as accommodation, food, transport and security services.

It is anticipated that in the medium term the labour supply will exceed the demand in higher and lower qualifications groups, while there will be a shortage of labour with medium qualifications. According to the national forecasts specialists with medium level qualifications will be required in the following basic occupational groups: agriculture, fisheries and forestry, plant and machine operators and assemblers as well as skilled workers and craftsmen.

In the longer term, if the current education trends are continued, the mismatch between the supply and demand for the above mentioned medium level qualifications will only increase. There will be an oversupply of plant and machine operators and skilled workers and craftsmen. The demand will exceed the supply of skilled agricultural, forestry and fishery workers as this occupational group has a high share of elderly workers and relatively few newcomers. ■

<sup>13</sup> According to the Ministry of Economics' forecasts the number of economically active citizens in Latvia will decrease by almost 10 000 up until 2018.

<sup>14</sup> Ministry of Welfare (2014), Informative report on labour market short term forecasts for 2014 and priorities in training directions of unemployed and job seekers [http://www.lm.gov.lv/upload/darba\\_tirgus/darba\\_tirgus/lmzino\\_31032014.pdf](http://www.lm.gov.lv/upload/darba_tirgus/darba_tirgus/lmzino_31032014.pdf)

<sup>15</sup> Participation in the labour market for 15 to 74 year olds – 66% in 2013 and anticipated 71% in 2030 (Ministry of Economics, 2014)

<sup>16</sup> Ibid.<sup>14</sup>

<sup>17</sup> According to the "e-skills in Europe" country report for Latvia (2014), the demand for ICT practitioners in 2020 will exceed supply by 21% <http://ec.europa.eu/DocsRoom/documents/4576/attachments/1/translations/en/renditions/pdf>



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