



UNIVERSITY OF LATVIA  
**FACULTY OF BUSINESS,  
MANAGEMENT  
AND ECONOMICS**

**LV PEAK**  
LATVIJAS UNIVERSITĀTES DOMNĪCA

# Latvian Productivity Board Think Tank LV PEAK

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WP2 Workshop/training seminar  
"Sustainable economic growth and third mission implementation in HEIs"  
Riga, University of Latvia, 25th – 28th March 2024



26.03.2024

## Why Think Tank LV PEAK was Established?

- Think Tank LV PEAK is a **Productivity research institute** at the Faculty of Business, Management and Economics of the University of Latvia established in 2019.
- The origin is the **Latvian Forum for Productivity, Efficiency, Development, and Competitiveness** (Forum LV PEAK), established in 2018 following recommendation issued by the EU Council on 20 September 2016. The Forum LV PEAK worked as a "think tank" in order to conduct independent research-based analysis on productivity issues and elaborate recommendations for policy-makers.
- Forum LV PEAK key actions: co-operation agreement with the Ministry of Economics, **international workshop "Productivity and Competitiveness in the Baltic and Nordic countries"** (November 2018); reviewed monograph **"Raising Productivity: Trends and Future Challenges"** (May 2019); **first productivity report and productivity-related policy recommendations** (September 2019).
- In October 2019 the **Cabinet of the Ministers of the Republic of Latvia to nominate The University of Latvia think tank LV PEAK as a National Productivity Board of Latvia** and thus to delegate it to represent Latvia in the Productivity Network of the EU Member States.

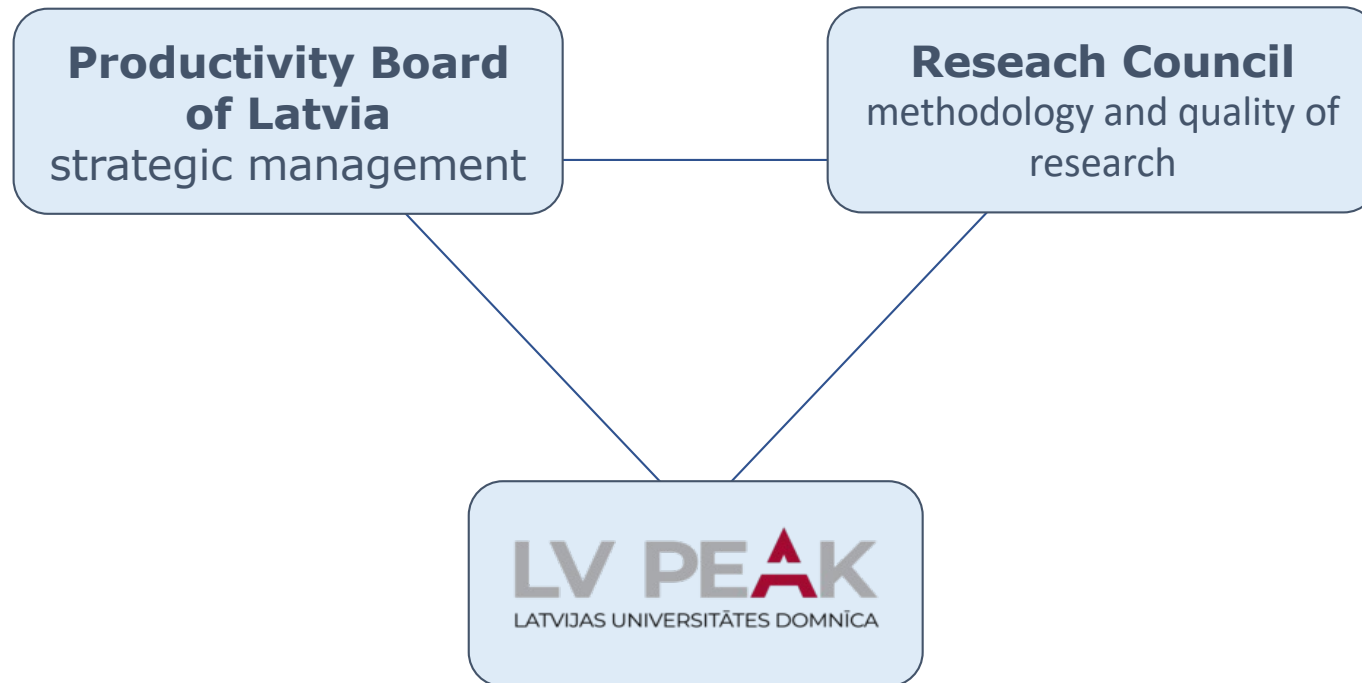


## Latvian Productivity Board and Think Tank LV PEAK

- The **core mission** of the LV PEAK is to carry out an **independent, evidence-based and scientifically sound analysis of productivity and competitiveness** at the national level and to **develop policy recommendations for the Latvian government**.
- The **strategic management** of the work of the LV PEAK **is ensured by the Productivity Board of Latvia**, which consists of 7 highly competent members, including academics, former politicians and distinguished experts.
- The **Research Council** of the LV PEAK is responsible for the **methodology and quality** of research.
- The LV PEAK has **cooperation agreements with the Latvian Academy of Sciences, Latvian Chamber of Commerce and Industry and the Employers' Confederation of Latvia**.



# Governance Structure





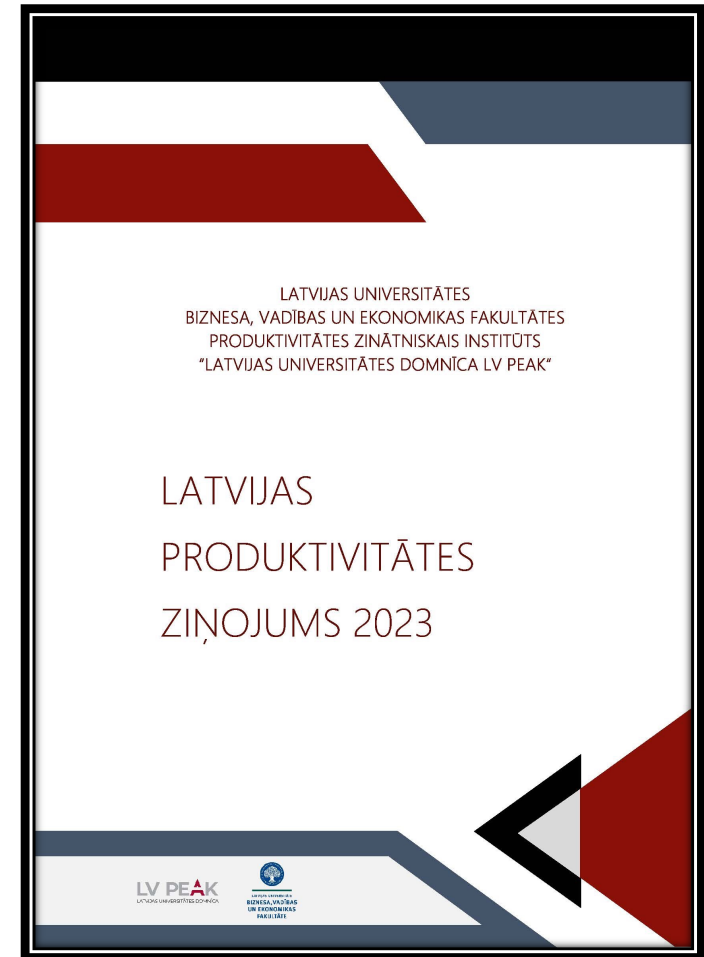
## Why the EU National Productivity Boards (NPB) are Important?

- Economic growth in the EU as a whole has slowed considerably since the turn of the century (following 2008 financial crisis, COVID-19 crisis and the war in Ukraine).
- Low growth reasons: decline in total factor productivity growth, in recent years - low investment.
- Economic growth depends on increasing productivity. This requires well-balanced policies aimed at supporting **innovation, increasing skills, reducing rigidities in labour and product markets** and allowing a **better allocation of resources**.
- NPB are established in 19 EU MS. In euro zone only 3 MS (Italy, Spain and Estonia) have not established NPB.



# Latvia's Productivity Report

- EU recommendations: **NPBs should publish an annual productivity report.**
- **LV PEAK has published 4 annual Productivity Reports** since its founding in 2019, which are publicly available on LV PEAK website: <https://www.lvpeak.lu.lv/en/> and on Europe Commission National Productivity Boards platform: [https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/national-productivity-boards\\_en](https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/national-productivity-boards_en).
- **Special focus:** 2020 - Developing productivity-related criteria for enterprises to receive state support; 2021 - impact of teleworking on productivity; 2022 - investment and return on capital; 2023 - the views of young people on the economic situation and how their skills and labour demand match each other



# Productivity Dialogue

- NPB are encouraged to organise **annual domestic discussion on productivity** in a form of National Productivity Dialogue, which provides a platform for an exchange of views between policy makers, NGO and researchers on productivity-related challenges and appropriate policies
- In Latvia Productivity Dialogue is an annual event/conference with the goal to **discuss national productivity issues**, to address **the main challenges in the field of productivity** and to **present Latvia's annual Productivity Report**.



# Productivity Dialogue



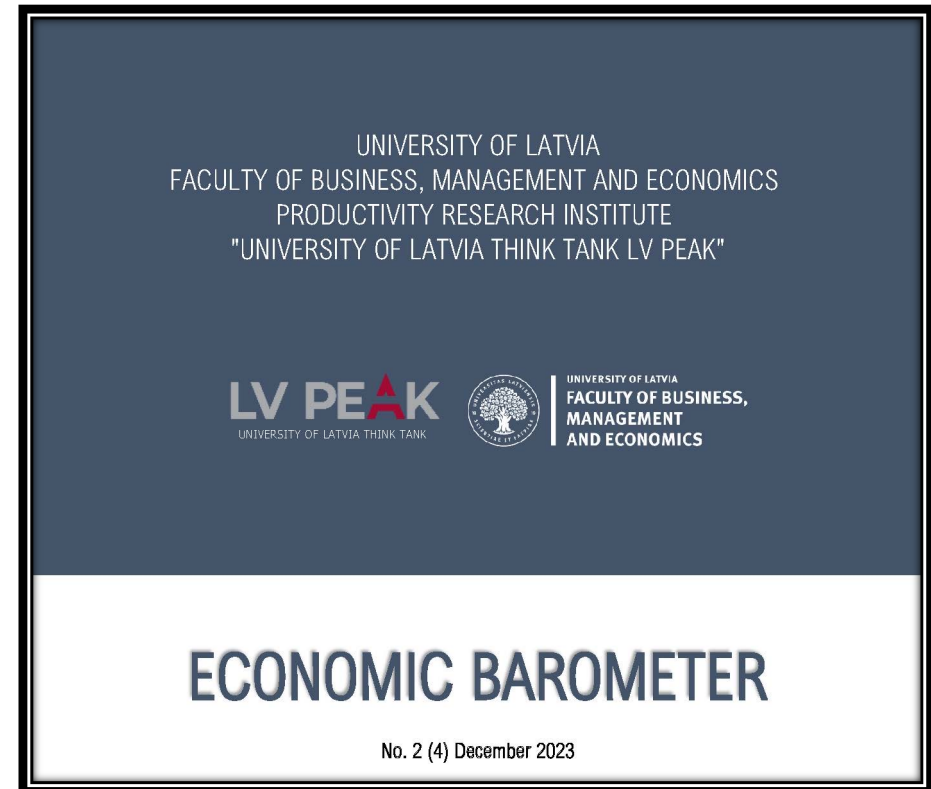
- LV PEAK Productivity Dialogue **brings together a wide range of stakeholders**, such as academia, economic community, public administration, policy makers, representatives of non-governmental organizations, entrepreneurs, wider public and media.
- Since the founding of LV PEAK, **4 Productivity Dialogues have been held**.





# LV PEAK Economic Barometer

- LV PEAK Economic Barometer is published twice a year since June 2022.
- The **aim is to submit a concentrated review of economic development trends, emphasising competitiveness and productivity issues**, based on the macroeconomic analysis, special expert survey and the research findings of the LV PEAK.



# LV PEAK Economic Barometer

- **PERIODICITY – 2x a year (June, December).**
- **CONTENT** – analysis and forecasts of the main indicators of economic development (GDP, labor market, inflation, productivity, labor costs, etc.), recommendations for improving the situation, analysis of leading indicators, review of forecasts of other institutions, youth sentiment survey.
- **THE LV PEAK EXPERT PANEL** - the Productivity Board of Latvia, research community, the Fiscal Discipline Council, NGOs, etc.
- **Youth Sentiment Survey** – annual, respondents - Latvian residents aged 16 to 29,
- **FORECASTS OF OTHER INSTITUTIONS** – EC, OECD, IMF, EBRD, EM, FM, LB, Latvian commercial banks

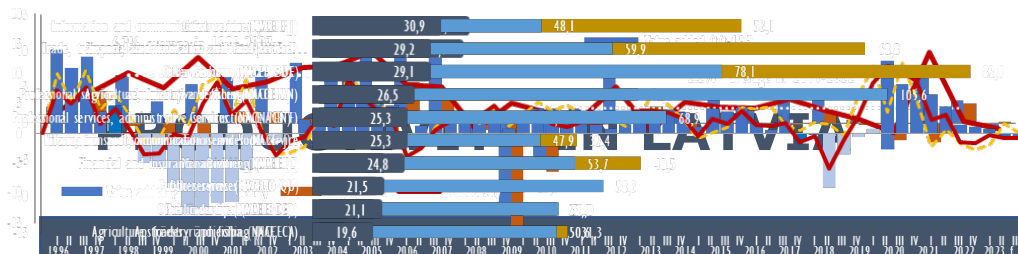


## THE ECONOMIC RECOVERY IS AFFECTED BY GEOPOLITICAL TENSIONS

	2020	2021	2022	2023f	2024f
<b>GDP</b> (% change on previous year)	-3.5	6.7	3.4	-0.1	1.8
<b>Unemployment</b> (Unemployed persons % of economically active population, 15-74 years)	8.1	7.6	6.9	6.4	6.4
<b>Gross Wages</b> (Average gross wages, % change to previous year)	6.2	11.8	7.5	12.0	9.0
<b>Inflation</b> (Average annual inflation, %)	0.2	3.3	17.3	9.9	2.6

Source: Central Statistical Bureau (CSB), f - LV PEAK expert consensus forecast.





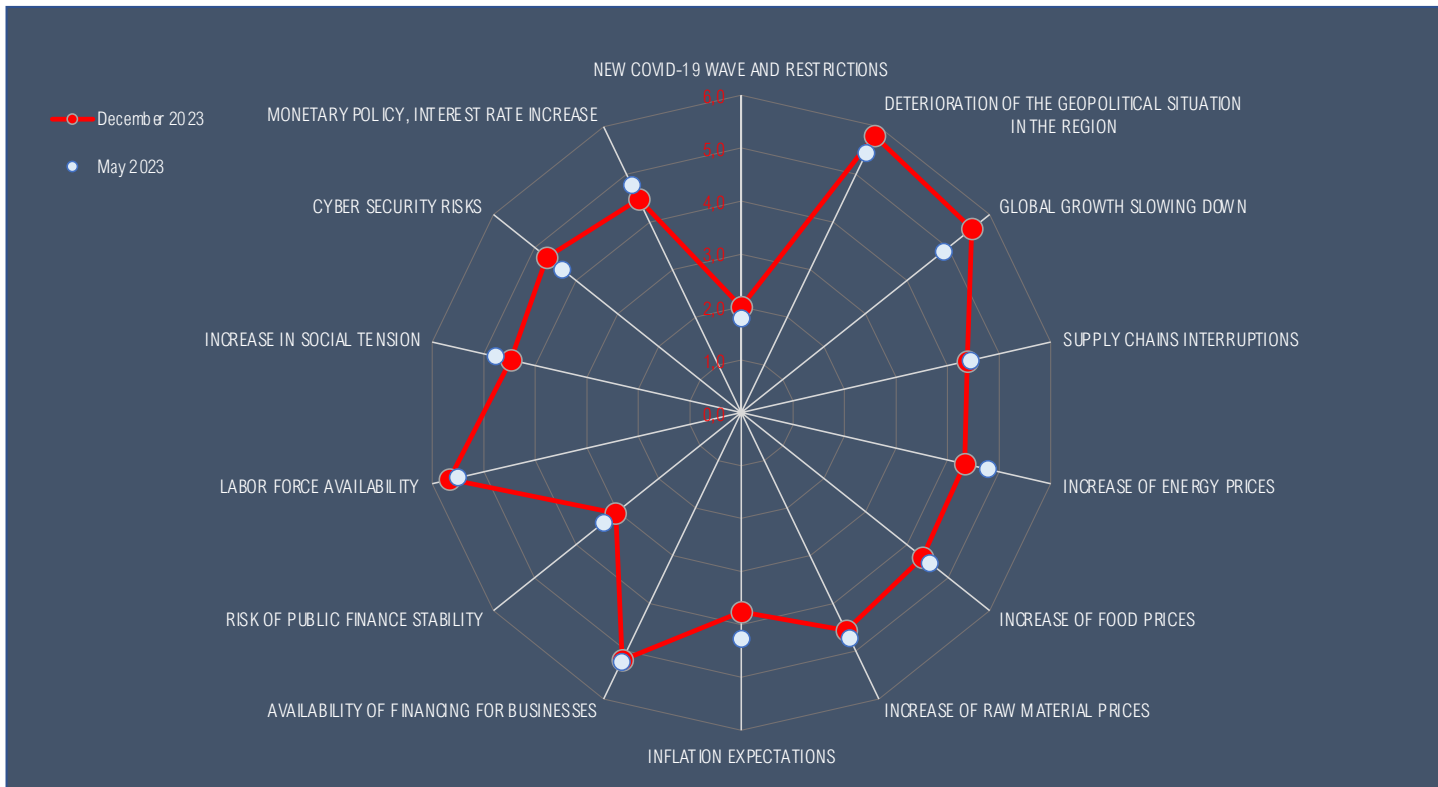
## PRODUCTIVITY OF LATVIA'S INDUSTRIES AGAINST THE EU AVERAGE LEVEL IN INDUSTRY 2000-2022

current prices, EU=100

Construction (NACE F)	30,9	48,1
Trade, transport, accommodation and food service (NACE G)	29,2	59,9
Other services (NACE R-U)	29,1	78,1
Agriculture, forestry and fishing (NACE A)	26,5	105,6
Professional services, administrative services (NACE M-N)	25,3	68,9
Information and communication services (NACE J)	25,3	47,9
Financial and insurance activities (NACE K)	24,8	53,7
Public services (NACE O-Q)	21,5	58,3
Other industry (NACE BDE)	21,1	51,0
Apstrādes rūpniecība (NACE C)	19,6	50,6



# MAIN **RISKS** TO ECONOMIC GROWTH IN THE SHORT TERM – EXTERNAL ENVIRONMENT, LABOR AVAILABILITY AND FINANCIAL RESOURCES FOR INVESTMENTS



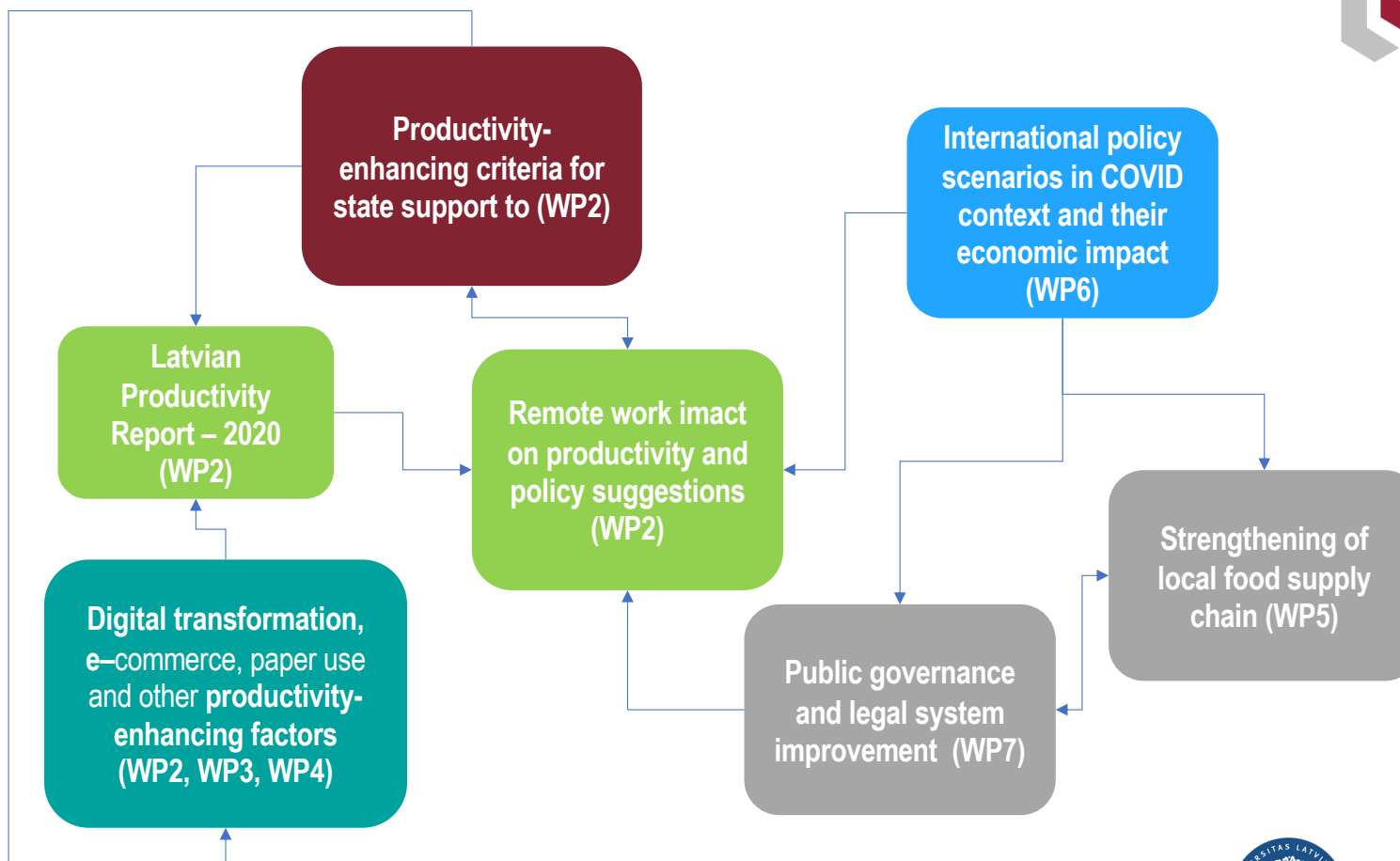
# LV PEAK Research Project in 2020: Towards the Post-pandemic Recovery: Economic, Political and Legal Framework for Preservation of Latvia's Growth Potential and Increasing Competitiveness (“reCOVery-LV”)

## Aim

- To develop a comprehensive and multidisciplinary assessment of the impact of Covid-19 on the Latvian economy
  - Practical suggestion for policy makers
- Leader: Prof. Inna Šteinbuka
- Research team: 78



# Interconnections and key outcome



# Productivity Challenges Identified in 2020



- Average annual productivity rate in 2000-2019 4%
- Strong productivity growth in services
- Dynamic IT sector and IT services export
- Investment level approaching the EU average



- Productivity per person is on the lower end after RO and BG. In 2019, the productivity level in Latvia = ½ of the EU average.
- Slow productivity growth in manufacturing, in 2019 about 40% of the EU average, lagging well behind LT and EST
- Low export share in GDP, low share of high-tech products in exports
- Low investment in R&D



# Key Messages in 2020

- Productivity renaissance is a key factor of competitiveness and growth over long term.
- Enhancing productivity growth requires enabling reforms and targeted investment:
  - in economic stabilization in the short term
  - in economic transformation in the medium and long term.
- For engaging in knowledge-intensive global value chains, the Latvian companies need **strong skills, high innovation capacity and efficient use of resources**.
- Future scenarios envisages competitive advantages of technological factors, production efficiency, innovation, digital transformation. **In accelerated growth scenario economic growth may reach 5.3% annually in 2021 – 2024.**
- Proactive role of the Latvian Productivity Board in the preparation of the Recovery and Resilience Plans. Currently under discussion with EM.



# Developing criteria for companies to receive a state support

## Ideas behind criteria:

- If Covid-19 disease will appear persistent:
  - ✓ increasing tension towards **targeting support measures to companies** (since broad support measures for too long would alter fiscal sustainability).
- State support measures should also enhance long-term productivity:
  - ✓ should not be received by zombie companies which cannot function without a permanent state intervention.

## So, which companies should receive a state support?

- Find groups of companies (by sectors of the economy, size, age, location) with the highest productivity and give them state support? No.

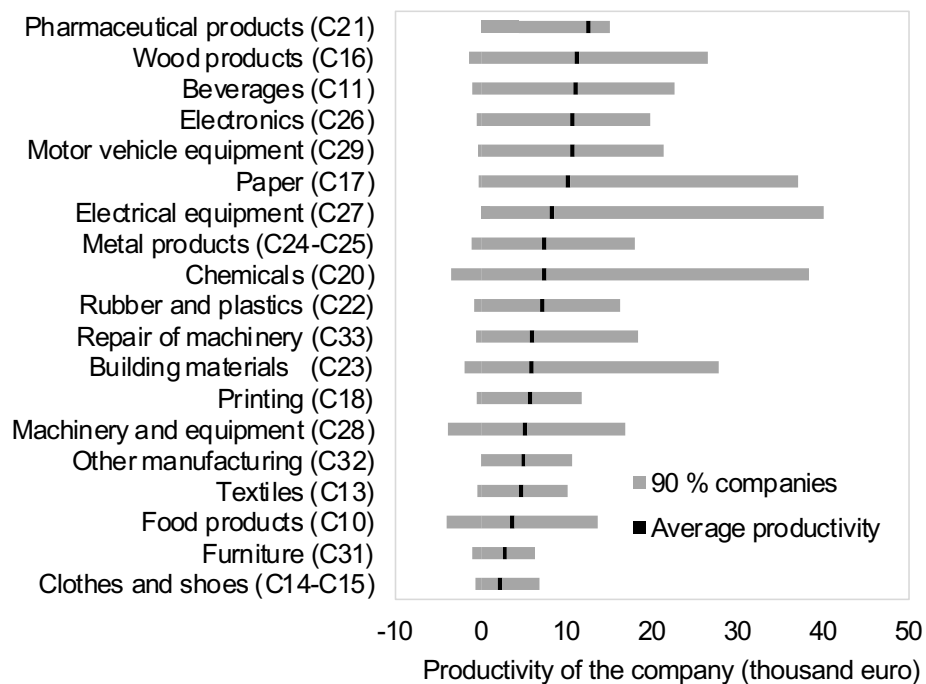
## Main data source

- ORBIS micro data:
  - ✓ 167 thousand Latvian companies (economically active at least one year over 2011 - 2018).



# Huge productivity variation within company groups => belonging to a certain group does not guarantee high productivity in a company

**Productivity variation of manufacturing companies by sub-sectors (Latvia; 2015-2018 average)**



- Productivity of the company is positively related with its size, age and location closer to big cities; related also to sector;
- But: huge productivity variation within each group of companies. All these factors explain only 19% of productivity differences;
- Productivity of the companies is highly persisted over time: e.g., 15 most productive manufacturing companies in 2018 were also very productive over 2013-2017;
- => Productivity criteria should not be targeted to company groups, but to **productivity of a particular company in the recent past.**

Companies with abnormally high or low productivity were excluded.

Source: author's calculations using ORBIS database.



# Three criteria for companies to receive a state support

1. In the medium term the company has been able to achieve higher productivity than other similar companies\*:

- ✓ state support is not spent on preserving unproductive companies;
- ✓ considers objective reasons for low productivity: does not discriminate small companies in rural areas.

\*in the same size and age group, industry and location (distance from big cities).

2. The company belongs to a group of companies with a high probability of survival:

- ✓ state support is not spent on companies likely to shut down shortly;
- ✓ historically, the highest survival probability is evident in manufacturing, and along older companies with more than 10 employees.

3. Significant part of the company's economic activity is carried out in areas with a high unemployment rate:

- ✓ considers significant labour market differences between municipalities;
- ✓ allows policy makers to prioritize job retention in areas with the highest unemployment.

Further research needed: additional criteria related to export capacity, innovation activities etc.



## Examples of LV PEAK Research Projects aimed at Policy Recommendations

- 2021/2022/2023/2024. Project **Modelling and Analysis of the Economic Impact of Climate Goals** (funded by the Ministry of Economics)
- 2022/2023. Project **Creation of a quantitative assessment model for the evaluation of the impact of European Union funding programmes on the Latvian economy** (funded by the Ministry of Finance)
- 2022. **Inflation impact on investment** and recommendations for fostering investment (funded by the Ministry of Economics)
- 2021. At the request of the Ministry of Finance LV PEAK in cooperation with the Fiscal Discipline Council established an expert panel to **evaluate the Recovery and Resilience Mechanism (RRM)** plan for Latvia. The purpose of the expert panel was to identify the macroeconomic and fiscal impact of the RRM plan and to assess the compliance of the included reforms and projects with the tasks and priorities defined in the RRM (funded by the Ministry of Finance).





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**Thank you for your attention!**



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