



Review of Latvia's Main Human Development Indicators

Human development is determined by the prosperity, education, health, physical and mental development of each individual. The effectiveness of development depends on several factors, such as a country's social infrastructure and its availability, the prosperity of society, the level of economic development and the qualitative and quantitative indicators of human resources. The main indicators of human development in Latvia are described in this Appendix.

Gross Domestic Product

According to data of the Central Statistical Bureau of Latvia (CSB), Latvia's Gross Domestic Product (GDP) increased by only 1.1% in 1999. The negative impact of the Russian economic crisis was felt during the first half of that year, during which some Latvian companies were forced to suspend or reduce production. This resulted in a temporarily reduction of Latvian exports.

Latvia's 1999 GDP volume in actual prices was 3,897 million lats, or 1603 lats per capita. By 2000 the effects of the Russian crisis had subsided and Latvia's GDP increased by 6.6% to 4333 million lats in actual prices – (see Figure A.1).

The growth in construction and several other service sectors contributed to Latvia's marginal

GDP increase in 1999. Operations with real estate, rentals and other commercial activity rose by 17.8%. Wholesale and retail trade, as well as automobile, motorcycle and household item repair rose by 10.4%. Construction went up by 8.1% and public utilities, social and individual services increased by 7.9%.

Latvia's processing industry volume decreased by 9.8% in 1999 (for example, food and beverage production decreased by 17%, and textiles by 13%). A significant decrease was also seen in agriculture, where total production dropped by 12.6%.

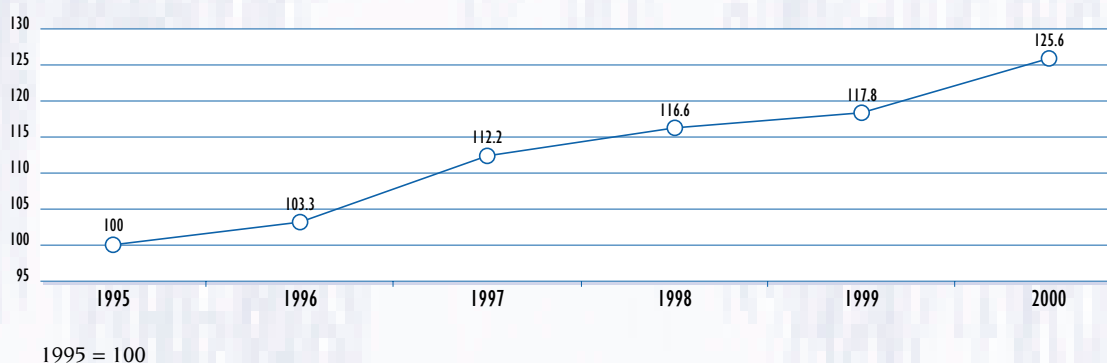
Such trends in the volume of sector production indicate an increasing orientation of Latvia's national economy toward the service sector, which already makes up two-thirds of the GDP.

Latvia's large GDP increase in 2000 was caused by a growth in trade (9.6%), transport, storage and warehouse services and communications (by 7.2%), the processing industry (by 5.7%) and commercial services (by 13.6%). Construction showed stable development, with the volume of this sector increasing by 8.4%. Agricultural production increased by 3.3% (see Table A.1).

Latvia's GDP per capita is still one of the lowest in Central and Eastern Europe. In 1999 Latvia's GDP per capita, calculated in parity units of purchasing power, was only 28% of the European Union (EU) average (see Table A.2).

Figure A.1

GDP dynamics



1995 = 100

Table A.1

GDP dynamics by sector (increase from the previous year, in %)

	1997	1998	1999	2000
GDP	8.6	3.9	1.1	6.6
Agriculture, hunting and forestry	3.7	-5.3	-8.3	9.2
Industry	13.7	3.7	-5.7	4.3
Construction	8.2	17.0	8.1	8.4
Services	7.5	4.7	5.1	7.1

While Latvia's GDP per capita in 1999 had increased by 25% compared to 1993, there are significant regional differences in the GDP per capita. For example, in the Riga region it is twice as high as in the Latgale region (see Table A.3).

Distribution of income

Human development is largely determined by level of income, but especially by actual individual income and participation in the total consumption of the domestic product. As indicated earlier, the GDP per capita in Latvia was relatively low at only 1603 lats in 1999. It should be noted that GDP per capita is a general indicator that does not reflect the actual income distribution throughout the coun-

try. From the viewpoint of human development it is important to examine the portion of GDP expenditures allocated to health, education and science.

Latvia's total expenditures on health represent only 2.8% – 4.4% of its GDP, which is insufficient for the improvement and development of medical services. In some years Latvia's expenditures on education have amounted to 6.1% – 7.2% of the GDP, and in other years even less. In 1996 and 1997, expenditures on education amounted to 5.7% and 5.6% of the GDP, respectively. For purposes of comparison, in Sweden this figure is 8.3% and in Finland it is 7.5%. Although the proportion of expenditures on education and health is increasing annually in Latvia, its actual volume is very small and does not resolve pressing problems related to the financing of these sectors. The GDP proportion of total expenditures on science has remained constant for several years (0.51 – 0.49%).

Studies of household budgets by the Central Statistical Bureau show that since 1996, the monthly income per household member has increased steadily. In 1999 it reached 64.73 lats, exceeding the 1998 figure by 2.40 lats. Household disposable income has increased in urban areas by 5.5% but decreased in rural areas by 0.9%. Similarly, the income of farmers has decreased by 9.9% and the income of rural self-employed people and entrepreneurs has dropped by 5.1%.

The level of household income is determined not only by the socio-economic group to which a household belongs, but also by other factors, such as the demographic nature of the household. Married couples with no children have the highest income (81.67 lats per household member), while single-parent families with children under 16 have the lowest income (53.36 lats per household member).

Table A.2

Parity standards of purchasing power (actual prices, in Euro)

	1999
Latvia	5,800
Bulgaria	5,000
Czech Republic	12,400
Estonia	7,700
Lithuania	6,200
Poland	8,200
Romania	5,700
Slovakia	10,300
Slovenia	14,900
Hungary	10,700

In 1999 the inequality of income distribution among the population increased. The Gini coefficient in Latvia has increased steadily over the past few years. In 1997 it was 0.31, in 1998 – 0.32, and in 1999 – 0.33. The Gini coefficient shows how equally the total wealth of a country is distributed, and varies from 0 to 1. It indicates 0 if the distribution of income is absolutely equal, and 1 if absolute inequality exists. The Gini coefficient is calculated according to consumer expenditures per consumer unit (using the first, unmodified OECD scale). A study of household budgets shows that stratification has accelerated in rural areas. About 20% of Latvia's poorer households have 10.3% of the total income of all households at their disposal, while 20% of the wealthier households hold 37% of total household income.

Price changes and purchasing power of the population

At the outset of its economic reforms in the early 1990s, Latvia experienced a very high increase in consumer prices and hyperinflation. The highest inflation rate was experienced in 1992, when consumer prices increased almost 20 times. But since then the inflation rate has decreased rapidly to less than 3% per annum. The increase in consumer prices has not been uniform. It has been slower for food items, and highest for services (see Table A.4).

The increase in food prices has been slowed down by the low purchasing power of the population, high competition and the possibility to choose goods according to one's level of income. The scene in the service sector is different. Transport,

Table A.3

Distribution of GDP by regions 1997

	GDP per capita, lats
Total	1,327
Riga region	1,810
including Riga	1,975
Vidzeme region	842
Kurzeme region	1,499
Zemgale region	840
Latgale region	820

energy and the communal sectors have had the most impact on price rises.

In 2000 the consumer price index increased by 2.6% compared to 1999, or by 1.8% for goods and by 5.4% for services. Prices and tariffs for housing maintenance increased significantly. The cost of water utility services increased by 6.3%, while heating rose by 4.4%. Public transport prices went up by 8.7%, medical services by 4%, and alcoholic beverages and tobacco products by 4.1%. The cost of food increased in 2000 by 0.2%, but was most pronounced for meat (by 6.8%) and vegetables (by 14.6%).

The price factor has a significant impact on the family budget. As prices rise, the purchasing power of households usually diminishes. By 1999, compared to 1990, the actual overall income of the population had decreased more than twofold. Between 1996 – when the purchasing power of the population was at its lowest ebb – and 1999 it increased by just under 0.4%. Thus, Latvia's economic growth during the late 1990s had done little to improve the living

Table A.4

Annual rate of inflation (Increase from the previous year, in %)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Changes in consumer prices	172.2	951.2	109.2	35.9	25.0	17.6	8.4	4.7	2.4	2.6
Including:										
all goods	180.0	695.7	89.5	33.5	20.9	15.2	6.4	2.8	1.5	1.8
Services	121.1	2723.6	240.2	41.1	36.9	23.5	16.2	11.5	5.1	5.4

conditions of the country's inhabitants. For most of the population, living conditions remain poor. Society is becoming increasingly stratified and divided between the very rich, who are few in number, and those eking out a living or languishing in poverty. The gap between urban and rural areas and between regions has widened.

According to studies of household budgets, in 1999 the average monthly income per household member, compared to the previous year, had increased by 3.9%. Since the increase in the consumer price index over the same period was less (2.4%), the purchasing power of the population had increased by an average of 1.5%. However, the overall income of rural residents over the same period had decreased.

A great deal of household expenses go to food (39%), housing and housing maintenance (18%). The third priority is transport (7.6%). Expenditures for clothing and shoes decreased by 2.2% and for education by 1.7% in 1999.

Employment and unemployment

The transformation of the national economy at the beginning of the 1990s caused a serious drop in the number of employed inhabitants. Altogether between 1990 and 1999 the number of employed decreased by 370,900. During the latter part of the 1990s the number of employed remained fairly stable.

The average number of people employed in the national economy in both 1999 and 2000 was 1,038,000. The number of people working in the private sector is constantly growing, representing 71.4% of all those employed in 2000 (compared to 69.7% in 1999. See Figure A.2).

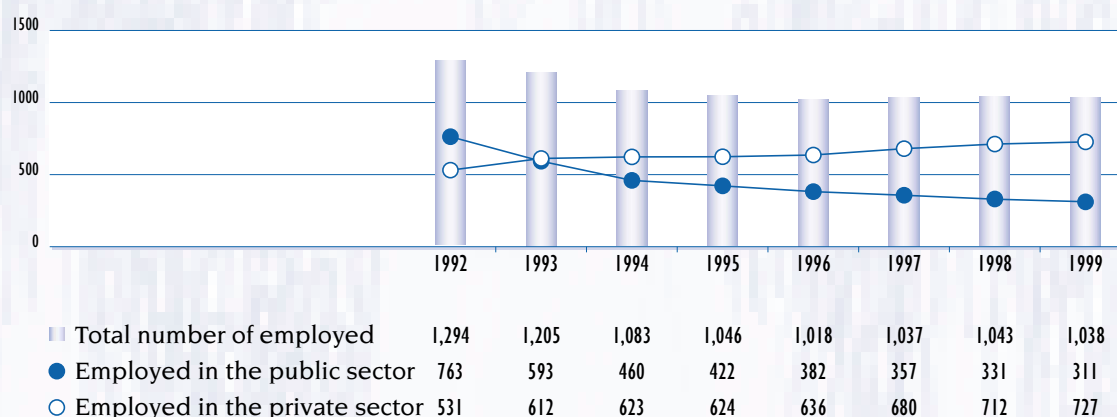
The proportion of people employed in the service sector is continuing to grow (from 45% in 1990 to 59% in 1999). Meanwhile, the number of people employed in agriculture and the processing industries has decreased by 10%, while the number employed in construction has increased by 22%. In Latvia the proportion of working women among the employed is relatively high: 48% in 1999. This has not changed significantly during recent years. There are great differences between the genders in the type of employment. Women are more apt to work in the service sector (69%) than men (49%), but men are more often employed in industry and construction (34%, compared to 18% of women), agriculture and fishing (17%, compared to 13% of women).

One indicator of a country's stability is a low rate of unemployment. Under normal market conditions some unemployment is justified, because there will always be people looking for work that is better suited to their qualifications and desires. Unemployment in Latvia is better described as structural unemployment, caused by the significant changes in the structure of the national economy, resulting in the closure of a large number of enterprises and a reduction of demand in the labour force.

In Latvia unemployment has been officially registered since 1992. According to the data of the National Employment Service, the highest unemployment

Figure A.2

Average number of employed persons in the national economy (in thousands)



rate of 9.2% (111,400 people) was registered at the end of 1998. There are still significant differences in the unemployment rate between Latvia's regions. Unemployment is highest in the eastern region of Latgale and its districts of Rēzekne (26.9%), Balvi (22.6%), Krāslava (22.3%) and Preiļi (21.7%).

These figures show only the number of people registered with the National Employment Service. Many other job seekers are not registered as being unemployed. In November 1999, according to data obtained in a study of the labour force, as many as 14.5% of employable people were actually looking for work, or 0.7% more than in November 1998. One of the main causes of unemployment is a lack of experience and skills presently demanded by employers. According to this study, the highest number of unemployed is among young people aged 15 – 19 (36.6% in November 1999).

Chronic unemployment is still a problem. By November 1999 the number of chronically unemployed among those registered with the National Employment Service had increased in one year's time by 4708 people, representing 31.3% of all unemployed. According to the data of this labour force study, the average term of unemployment was 28 months.

The demographic situation

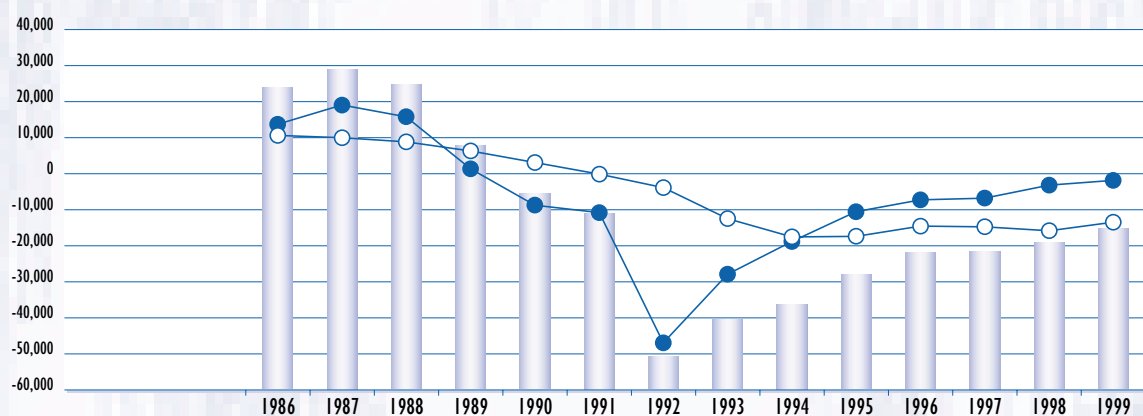
The demographic processes in Latvia have been influenced by changes in the political and economic situation. The sweeping changes in the labour market and the deterioration of living conditions in the early 1990s gave rise to a re-assessment of values that has affected family life. According to information obtained in a study on living conditions, families with one or two children represent 89% of all families with children. The birth rate declined in the early 1990s and emigration exceeded immigration. As a result, the population of the country decreased between 1990 and 1999 by more than 200,000 (See Figure A.3).

The demographic situation in Latvia during recent years can be described as unfavourable. Since 1991 the natural growth of the population has been negative. In other words, the number of deaths has exceeded the number of births. The most negative increase was recorded in 1994, when the number of deaths exceeded the number of births by 17,500.

In 1999 the total population of Latvia decreased by 15,200 (1800 of whom left the country). At the

Figure A.3

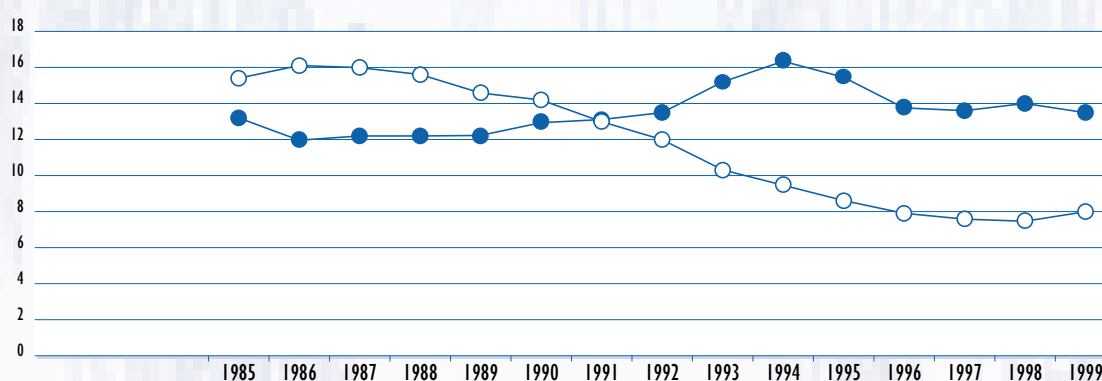
Changes in the number of inhabitants and their causes, 1986 – 1999



■ Changes in the number of inhabitants	24,000	29,029	24,673	7,700	-5,600	-10,912	-50,782	-40,322	-36,311	-27,883	-21,790	-21,467	-18,958	-15,295
○ Natural growth	10,632	9,985	8,854	6,338	3,106	-116	-3,851	-12,438	-17,501	-17,336	-14,538	-14,703	-15,790	-13,448
● Migration balance	13,720	19,044	15,819	1,362	-8,706	-10,796	-46,931	-27,884	-18,810	-10,547	-7,252	-6,764	-3,168	-1,847

Figure A.4

Birth rate, death rate and natural growth of the population, 1985 – 1999 (per thousand inhabitants)



○ Birth rate	15.4	16.1	16	15.6	14.6	14.2	13	12	10.3	9.5	8.6	7.9	7.6	7.5	8
● Death rate	13.2	12	12.2	12.2	12.2	13	13.1	13.1	15.2	16.4	15.5	13.8	13.6	14	13.5

end of the year the population of Latvia was 2,424,000 (more accurate data will be available after the 2000 census). However, some positive trends can be observed during recent years (see Figure A.4). The negative indicators of natural growth are decreasing. In 1999, the birth rate increased by 5% compared to 1998. 19,400 children were born during the year, or 990 more than during the previous year, and the death rate decreased by 4% (32,800 deaths, or 1400 less than in 1998).

Latvia's birth rate has been affected by the fact that the number of fertile women between the ages of 15 – 49 has decreased over recent years, including those aged 20 – 29, whose number has decreased over the past ten years by 25,900. The proportion of children born to unmarried mothers has increased. In 1999, 39.1% of all children born were born to unmarried mothers, compared to only 16.9% in 1990. During recent years significant changes have taken place in the establishment of families and divorces. The absolute and relative indicators of marriages have decreased. In 1999, 9399 marriages were recorded, or 14,200 less than in 1990. The total marriage coefficient (number of marriages per 1000 inhabitants) has decreased from 8.8 marriages in 1990 to 3.9 marriages in 1999, or more than twofold.

The divorce rate in Latvia is among the highest in Europe and exceeds 60% of marriages. Over two-thirds (67%) of divorces occur among couples with minor children.

The low birth rate, the increase in the death rate and the negative balance in migration have also led to the overall ageing of the population. The proportion of children and teenagers (aged 0 – 14) has decreased from 22.8% of the total population in 1990 to 17.8% at the beginning of 2000. Since 1996 the number of people aged 60 and over has exceeded the number of children and teenagers. The proportion of employable inhabitants has also been decreasing over recent years. At the beginning of 1991 there were 780 employable residents per 1,000 people, but this figure has now dropped to 685.

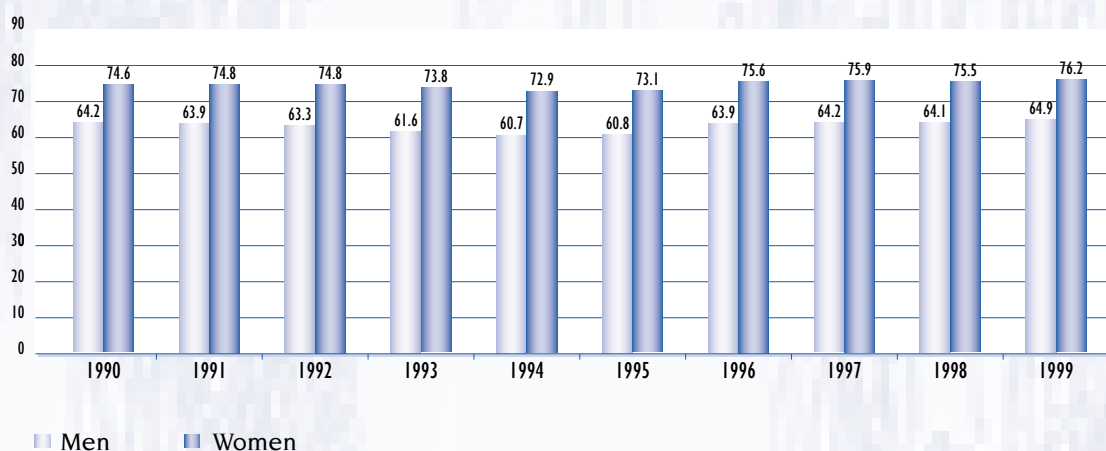
Health

The average life expectancy of a group of inhabitants is a significant indicator of its overall health and human development levels. During the early 1990s the life expectancy for men dropped from 64 years to 61, while for women it fell from 75 years to 73. These indicators have increased again over recent years, rising in 1999 to 64.9 years for men and to 76.2 years for women (see Figure A.5).

The death rate of the population is also showing a downtrend. The highest death rate coefficient since 1947 occurred between 1993 and 1995 (15 – 16 deaths per 1000 residents). It has since decreased to 13.5 deaths per 1000 residents in 1999, compared to 14 in 1998. The death rate for

Figure A.5

Average life expectancy



men in practically all age groups is higher than that of women. Circulatory diseases are the most frequent cause of death among both genders (55.2% of all deaths in 1999), followed by cancer and malignant tumours (17.6% of all deaths), and external causes (accidents, poisoning, traumas, etc. – 12%).

The 1990s have experienced new approaches to health care and its funding, as well as structural changes in health care resources. Insurance funds and family doctors have become very active. Paid medical services were gradually introduced at the end of the 1990s, and since the beginning of 2000 dental services have been mostly at the expense of the patient. As a result, people are spending more of their personal funds on health care. Since 1997 priority has been placed on primary health care, but the implementation of health care reforms has been made difficult by a lack of funding. The national budget provides slightly more than 4% of the GDP for these purposes, compared to 6 – 9% in most European countries.

According to the data of a Central Statistical Bureau study of living conditions, one-fifth of the population considers its health to be bad or very bad. This negative assessment is related to several factors, including income and living conditions. The aforementioned study also found that during the last year many people did not undergo badly needed medical services such as dental treatment (30% of cases), dentures (21%), and visits to reputable physicians (23%) due to a lack of money or insurance.

Education

The processes of change during Latvia's transition period have significantly affected the mental potential of the nation. Privatization has brought great changes to the educational system, especially in the area of higher education. In 1991 the first nationally accredited private general educational facilities began operating in Latvia. In 1999 there were 48 such facilities in the country, or 4% of all schools, which were attended by 0.8% of the total number of students.

At present there are 33 State and 14 private higher education facilities. During the past school year every eighth university student attended a private facility. Due to the commercialization trend in education, it is becoming increasingly difficult for children from disadvantaged families to obtain a higher education. Since Latvia recovered its independence, the curriculum of general educational facilities has changed significantly. The number of foreign languages taught is increasing. In 1997 the computerization of schools was begun under a national investment programme. By 2000 all high schools had computer classes and a gradual connection of Latvia's schools to the Internet is taking place. The school infrastructure is also being aligned accordingly.

Although funding for education has increased each year (from 4.5% of the GDP in 1990 to 7.2% in 1999), it is still insufficient to properly remunerate teachers and maintain the school infrastructure. One of the main problems to surface during the

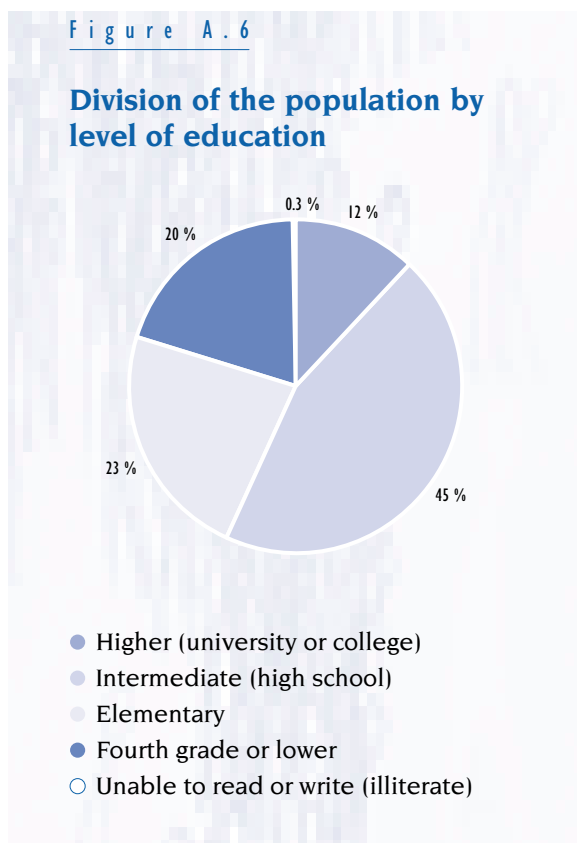
transition period has been an increasing rate of non-attendance at general education schools. Unfortunately, the lack of a credible and co-ordinated register of school-age children prevents the precise determination of the number of such children and the reasons for their failure to attend school. The preparation of a comprehensive register of school-age children was begun in 1999.

The role of education in Latvia has grown significantly. The number of students at educational

facilities has been gradually increasing since 1993/1994 and has reached 500,000. This increase is mainly due to the increased number of university students. During the past school year, 89,500 students attended university, or nearly two times more than in 1990/1991. However, the number of students at intermediate professional schools and trade schools has decreased by 29% since 1990.

One indicator of professional education is the degree of employment among graduates. The unemployment rate among graduates in 1997 – 1999 represented 1.2 – 0.5% of all registered unemployed. The further development of the national economy and Latvia's upcoming integration into the European Union has hastened the need to broaden and improve professional education.

According to data of the 2000 census, 12% of the population aged 7 and over had a higher (university level of college) education, while 45% had a high school education (see Figure A.6).



Conclusions

During the past four years Latvia has achieved macroeconomic stabilization and the preconditions for continued growth have been established. For several years inflation has been among the lowest of the EU candidate countries. The business environment is gradually improving and progress has been achieved in privatization. However, these positive development trends in the national economy have failed to significantly improve the prosperity and living conditions of the population.