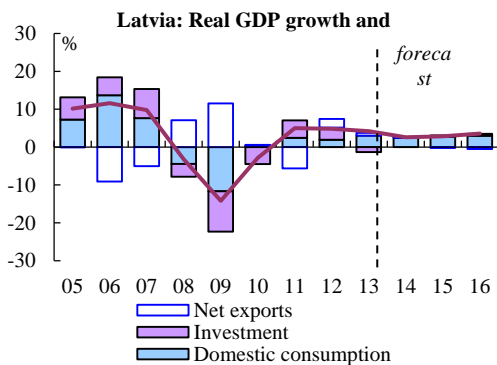


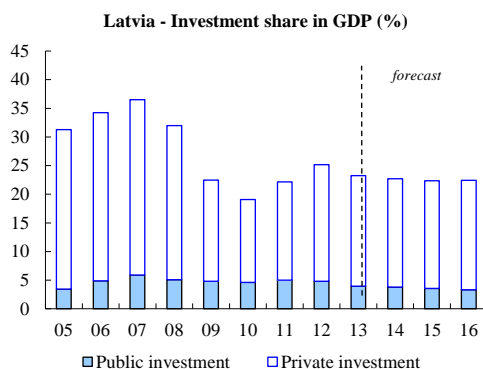
INVESTMENT IN LATVIA

What is the situation in Latvia?



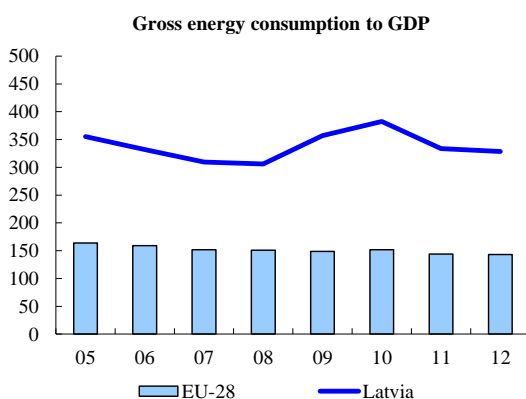
Investment in Latvia has been quite volatile in recent years, declining considerably during the crisis in 2008-2009, and then rebounding sharply in 2011-2012. Investment dropped again in 2013 and is forecast to recover marginally by 0.5% in 2014 as business sentiment is affected by geopolitical tensions. A more substantial recovery is expected in 2015-2016 but there are still significant risks due to the country's exposure to current geopolitical tensions. Investment (excluding inventory) accounted for 23.3% of GDP in 2013 as compared to 19.3% in the EU.

What is the main challenge?



The main challenge relates to low public investment in sectors where there are insufficient private incentives. On the one hand, the government is committed to maintaining a low-tax environment to support private investment and, on the other hand, significant needs for spending on social protection, healthcare and education restrain government resources from investing in infrastructure and R&D, which lag behind EU standards. Facing external security risks, the government recently committed to increase its defence budget, further limiting its capacity to boost investment in other sectors.

Opportunities for investment



Sectors dominated by private investors (eg. manufacturing, tourism, housing construction) have been recent major drivers for growth. Yet transport and energy infrastructure needs to be further improved to increase the country's competitiveness. In the energy sector, investment in electricity and gas networks is needed to improve security of supply and connections between EU markets. In the transport sector, investments are needed for better cross-border connectivity, including implementing the Rail Baltic project, and ensuring high quality and safe infrastructure. Investment in energy efficiency is equally important, as the country's energy intensity is amongst the highest in the EU with potential for significant efficiency gains in residential buildings, district heating, and transport.

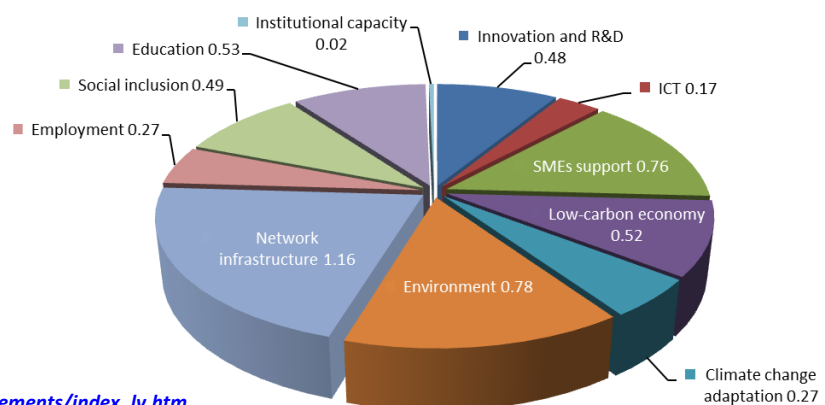
Reforms for investment

In the Country Specific Recommendations for Latvia, the European Union recommended

- | | |
|--|--|
| <ul style="list-style-type: none"> Preserve a sound fiscal position and strengthen the budgetary strategy | <ul style="list-style-type: none"> Reform social assistance |
| <ul style="list-style-type: none"> Step up implementation of the higher education reform | <ul style="list-style-type: none"> Accelerate the development of gas and electricity interconnections to neighbouring Member States to diversify energy sources and promote competition through improved integration of the Baltic energy markets |
| <ul style="list-style-type: none"> Take steps for a more integrated and comprehensive research system also by concentrating financing towards internationally competitive research institutions | <ul style="list-style-type: none"> Complete judicial and public administration reforms |

EU funding for investment

2014 - 2020
in billion EUR



Source: Partnership Agreement:
http://ec.europa.eu/contracts_grants/agreements/index_lv.htm

Past or ongoing projects for investment

Energy infrastructure

Synchronous interconnection with the Continental European networks
(Estonia, Latvia, Lithuania)

Estonia-Latvia 3rd electricity interconnection and internal reinforcements in Latvia (Nordbalt2 and Kurzeme ring 3rd stage)



Transport interconnections

Freight corridor "North Sea – Baltic"
(Germany, Netherlands, Belgium, Poland, Lithuania, Latvia, Estonia)

Connecting Europe Facility: "North Sea - Baltic" core network corridor
(Estonia, Latvia, Lithuania, Poland, Germany, Netherlands, Belgium)

