

# **Economical Crisis in Latvia: Reasons, Specifics, Perspectives and Ways out**

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One of the specifics of the current economical crisis in Latvia is not only disproportion in the frames of economy, but also in the frames of political and social relations development in the World. The first signs of crisis in Latvia appeared in the beginning of year 2007, mostly because of anti-inflation measures of Latvian government. In 2007, the crisis was on national level, the worldwide financial crisis in August 2008 made the situation even worst and the latest events in January 2009 demonstrated that economical, social and political processes in Latvian society are becoming uncontrollable.

Some of the features of the crisis are: decrease in export; increase in external debts; devaluation of national currency Lat; exhaustion of gold reserves etc. One can mention as well absence of internal resources for development, low level of local production, and absence of conceptions, institutions and mechanisms to provide sustainable development of the economy.

For the analysis, a reference year 1989 was chosen; all data we refer to are taken from official statistics sources:

[www.csb.gov.lv](http://www.csb.gov.lv)  
Statistical Yearbooks of Latvia (1989 - 2008)  
Monthly Bulletins Of Latvian Statistics (1993 – 2008)

It is obvious that the population of Latvia is decreasing. On the other hand, one can observe increase in number of students, but unfortunately, the level of education decreased dramatically.

In year 1991, 31 thousand of researches worked in Latvia. Nowadays, this number is around 4 thousands with an average age of 60 years. Latvian science is still based on old human resources. Due to low level of investment in science, the number of research centers and labs has been decreasing since 1989. Latvian private business doesn't have enough potential to donate money, as well as fundraising is not developed in state owned universities.

During past years Latvia experienced liquidation of all large scale enterprises, which had export orientation. The level of investment into real sector of economy: in 1989 – 24% of GDP; in 1994 – 17%; in 2004 – 19.1%, and 2007 – 19%. The investments were mostly in sectors of trade, hotels, transportation, telecommunications and real estate.

The total debts of the state have reached level of 5238.5 million LVL in January 2009<sup>1</sup>. Please, see the presentation slides for more specific information regarding budget of Latvia, and financial business.

The conclusions are the state doesn't have enough labor resources and strategic basis for scientific development. The course on service providing economy failed. This course headed to the invisible improvements in the industry and goods production. Country might face in the near future total loose of economical independence. The measures, currently undertaken by the government do not go along with the demands of economy. These measures are mainly used to keep the bureaucratic control. The unsolved economical problems will increase number of social conflicts and instability in the political system. These will definitely make the current situation even worse. The process of social separation in the income level is expected in the society. Some parts of the society are losing income and social support from state and local governments is reduced.

Speaking about potential "ways out" one can mention the lack of political – social – economical model of the state. From the year 1990 government believes only in one solution to economical problems – money borrowing from abroad.

The Plan of the government is to consolidate society (problem of citizens and non-citizens); tax amnesty; development of internal production; state guaranties of credits; changes in the professional preparation of human resources etc.

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<sup>1</sup> Including the WMF credit and deal with PAREX bank