European Investment Bank

Latvia

Overview

EIB INVESTMENT SURVEY

2022

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Latvia

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EIB Investment Survey Country Overview 2022: Latvia

About the EIB Investment Survey (EIBIS)

The EIB Group Survey on Investment, which has been administered since 2016, is a unique, annual survey of some 13 000 firms. It covers firms in all European Union Member States and also includes a sample of firms in the United States.

The survey collects data on firm characteristics and performance, past investment activities and future plans, sources of finance, financing issues and other challenges that businesses face, such as climate change and digital transformation. The EIBIS, which uses a stratified sampling methodology, is representative across all 27 EU Members States and the United States, as well as across four classes of firm size (micro to large) and four main economic sectors (manufacturing, construction, services and infrastructure). The survey is designed to build a panel of observations, supporting the analysis of time-series data. Observations can also be linked back to data on firm balance sheets and profit and loss statements. The EIBIS was developed by the EIB Economics Department. It is managed by the department with the support of Ipsos MORI.

About this publication

These reports provide an overview of data collected for the 27 EU Member States and the United States. They are intended to provide a snapshot of the data. For the purpose of these publications, data are weighted by value-added to better reflect the contribution of different firms to economic output. Contact: eibis@eib.org.

Download the findings of the EIB Investment Survey for each EU country or explore the data portal at www.eib.org/eibis.

About the Economics Department of the EIB

The mission of the EIB Economics Department is to provide economic analyses and studies to support the Bank in its operations and in the definition of its positioning, strategy and policy. The department and its team of 40 economists is headed by Debora Revoltella, director of economics.

Main contributors to this publication

Kevin Koerner, Julie Delanote, Francisca de Novais e Silva.

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The views expressed in this publication are those of the authors and do not necessarily reflect the position of the EIB.
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Ipsos Public Affairs works closely with national governments, local public services and the not-for-profit sector, as well as international and supranational organisations. Its around 200 research staff in London and Brussels focus on public service and policy issues. Its research makes a difference for decision makers and communities.

For further information on the EIB's activities, please consult our website, www.eib.org. You can also contact our InfoDesk, info@eib.org.

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EIBIS 2022 – Latvia Overview

KEY RESULTS

Investment Dynamics and Focus
EIBIS 2022 shows that on average, at the time of interviews (April-July 2022), Latvian firms were remaining cautious as they exited from COVID-19, albeit with, on balance, a broadly positive outlook, particularly among medium and large firms. Slightly fewer Latvian firms were investing than in the three previous EIB surveys. While the net balance of firms expecting to increase rather than decrease investment in EIBIS 2022 has remained unchanged from EIBIS 2021 (11% both), it has not returned to pre-pandemic levels (23%).

Investment Needs and Priorities
Whilst two thirds of Latvian firms believed their investment activities over the last three years to have been the right amount, 30% felt they had invested too little. This was particularly true for micro and small firms. Looking ahead to the next three years, investment in replacement is the main investment priority for Latvian firms (38%).

Covid-19 Impact
Latvian firms are coming out of the pandemic with lower optimism than across the EU as a whole. Nevertheless, 80% of Latvian firms expected their turnover in 2022 to be the same or higher than in 2019, while only 20% expected turnover to be lower than pre-pandemic. 29% of firms never saw a drop in sales in 2020-2021 due to COVID-19 while expecting higher sales in 2022 and just 12% report that sales remained subdued.

Latvian firms were less likely to receive any form of financial support in response to COVID-19 (43%), compared to 60% across the EU as a whole. Latvian firms found subsidized or guaranteed credit particularly hard to come by, with just 3% being able to access this form of support. Just 3% of firms report that they are still receiving any form of support, lower than the EU average (10%).

Firms' Transformation, Innovation and Digitalisation
Firms in Latvia reacted to the shock of COVID-19, with 58% taking action, most commonly to become more digital (44%).

The overall level of innovation among Latvian firms (33%) is similar to across the EU as a whole (34%). A fifth (20%) of Latvian firms are classified as "leading active innovators", far higher than the EU average of 7%.

65% of Latvian firms used at least one advanced digital technology, close to what is reported by firms across the EU (69%).

International Trade
89% of Latvian firms have faced international trade-related disruptions since 2021, with nearly as many seeing the Russia-Ukraine conflict and/or COVID-19 as creating obstacles to international trade (85%). Overall, among firms facing disruptions due to international trade, 63% report to have taken action to mitigate the impact of these disruptions.

EIBIS 2022 – Latvia Overview

Drivers and Constraints
EIBIS 2022 shows that firms' optimism for the short-term outlook has decreased markedly in the previous year across all five drivers covered by the survey, most notably regarding their outlook for the economic climate. Expectations are in line with, or even below, the levels seen at the height of the pandemic. Latvian firms were more pessimistic than firms in the EU as a whole on all short-term drivers, except for the political/regulatory climate where they were broadly aligned.

Looking at long term impediments to investment, uncertainty and lack of skills continue to play an essential role, with 96% and 89% of firms respectively mentioning those as constraints. In addition to this, compared to EIBIS 2021 there has been a surge in the share of firms reporting energy costs as a constraint to investment (92%), especially those viewing it as a major barrier (70%).

Investment Finance
The share of Latvian firms considered financially constrained (15.6%) is far higher than the EU average (6.2%). The main constraint reported by Latvian firms is rejection of external finance (11.5%), compared to 4.3% across the EU as a whole.

Climate Change and Energy Efficiency
Firms in Latvia are less likely than in the EU as a whole to report an impact from physical climate change risks on their company (41% vs. 57%). Similar to the EU average, around a third (35%) of Latvian firms have already developed or invested in measures to build resilience to physical climate change risks.

Whilst both around a third of Latvian and EU firms as a whole view the transition to stricter climate standards and regulations as a risk, only 13% of Latvian firms see it as an opportunity, less than half the share seen across the EU (29%). Latvian firms were as likely as those in the EU as whole to be taking action to reduce their Greenhouse Gas emissions (82% versus 88%).

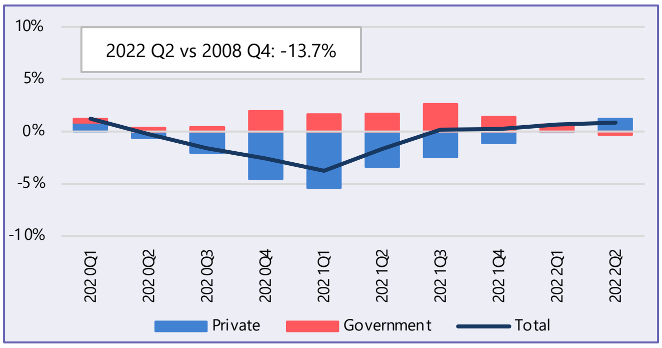
Looking at investment in tackling the impact of climate change more broadly, about 43% of Latvian firms already invested and 35% have plans to invest in the next three years. This puts them slightly behind the EU overall, where 51% are planning on investing.

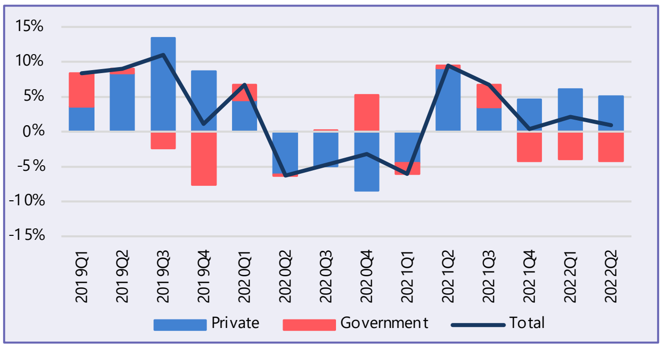
Firm Management, Gender Balance and Employment
Around half (51%) of Latvian firms used a strategic monitoring system, in line with the EU as a whole. However, when it comes to striving for gender balance, Latvian firms lag behind the EU average (39% vs 58%).

Investment dynamics and focus

INVESTMENT DYNAMICS BY INSTITUTIONAL SECTOR

- During the first year of the pandemic, aggregate investment fell moderately relative to the pre-pandemic level, as a contraction in private sector investment was only partially compensated by government investment.
- Private sector investment began to recover in Q2 2021, pushing up aggregate investment back to the pre-pandemic level by Q3 2021.
- Nevertheless, between Q3 2021 and Q2 2022, growth in aggregate investment lost momentum. While private investment growth (y-o-y %) turned positive in Q2 2021, the contribution of government investment, to the overall investment level declined in Q4 2021 and the first half of 2022.

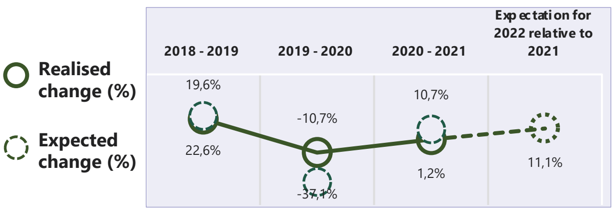




The LHS chart shows the evolution of total gross fixed capital formation (GFCF) by institutional sector, in real terms and non seasonally nor calendar adjusted. The nominal GFCF source data was transformed into four-quarter sums and deflated using the implicit deflator for total GFCF (2015=100 euro). The four-quarter sum of total GFCF in 2019Q4 is normalised to 0.
The RHS chart shows the y-o-y % change in total real GFCF by institutional sector. The implicit deflator for total GFCF (2015=100 euro) was used for deflating the nominal GFCF source data.
Source: Eurostat, authors' own calculations.

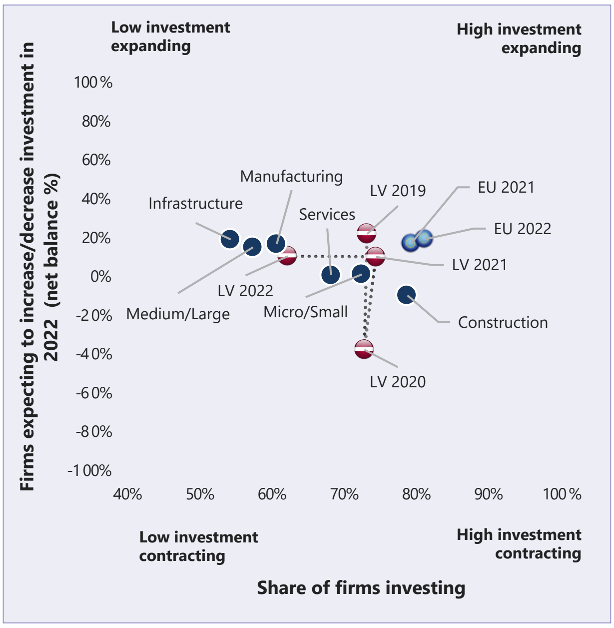
INVESTMENT CYCLE AND EVOLUTION OF INVESTMENT EXPECTATIONS

- The share of Latvian firms that were investing (62%) is lower than in the three previous EIB surveys. The general investment outlook has remained static (the net balance of firms planning to increase rather than decrease investment is around 11% both in EIBS 2021 and EIBIS 2022), and it has not returned to pre-pandemic levels (23%).
- Both the share of firms investing and the investment outlook among Latvian firms is lower than the EU average.
- Micro and small firms are more likely to have invested than medium/large; however medium/large firms have a more positive outlook for 2022.



'Realised change' is the share of firms who invested more minus those who invested less; 'Expected change' is the share of firms who expect(ed) to invest more minus those who expect(ed) to invest less.

Base for expected and realised change: All firms



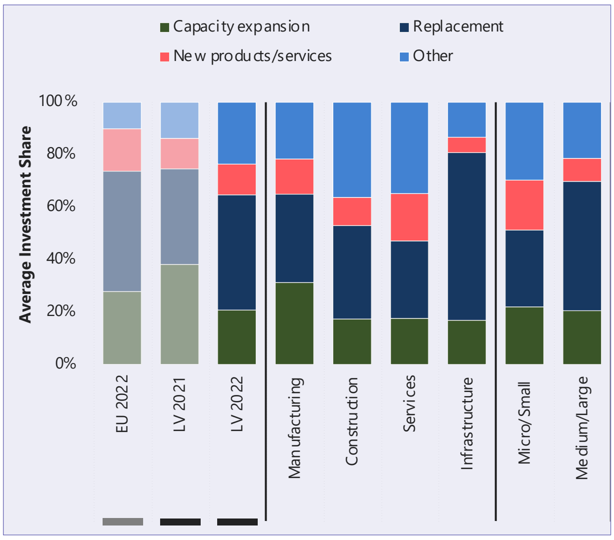
Share of firms investing shows the percentage of firms with investment per employee greater than EUR 500.

Base for share of firms investing: All firms (excluding don't know/refused responses)

Investment dynamics and focus

PURPOSE OF INVESTMENT IN LAST FINANCIAL YEAR (% of firms' investment)

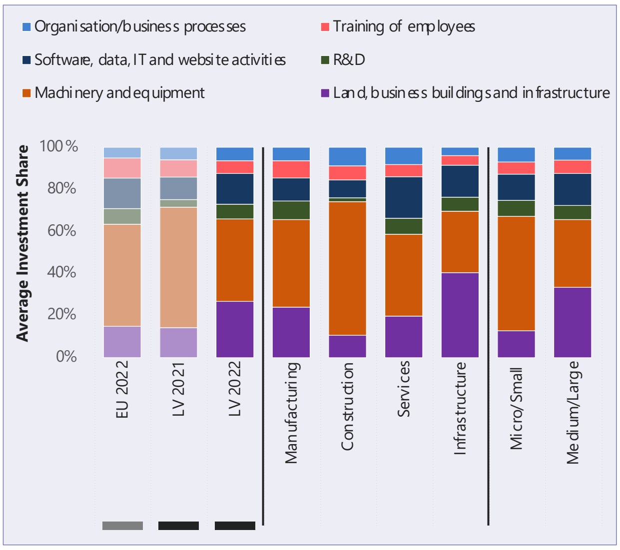
- EIBIS 2022 shows that on average firms in Latvia spent 44% of their investment on replacement. This is higher than was reported in EIBIS 2021 (36%), but in line with the current EU average (46%).
- Capacity expansion accounted for 21% of all investment, which was lower than in the previous year (38%).
- Investment in new products and services accounted for just 12% of all investment; its share was higher among micro/small businesses (19%) than medium/large (9%).



Q. What proportion of total investment was for (a) replacing capacity (including existing buildings, machinery, equipment, IT) (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

Base: All firms who have invested in the last financial year (excluding don't know/ refused responses)

INVESTMENT AREAS



- Machinery and equipment was the biggest area of investment for businesses in EIBIS 2022 (39%), followed by land, buildings and infrastructure (27%).
- The remaining third (33%) of investment on average was on intangible assets such as R&D, training, software and processes.
- Land, business building and infrastructure costs as a percentage of total investment (27%) have increased substantially from EIBIS 2021, when they accounted for just 14% of total investment. This category made up a larger proportion of investment spending for medium and large businesses (33%) than it did for micro/small (13%).

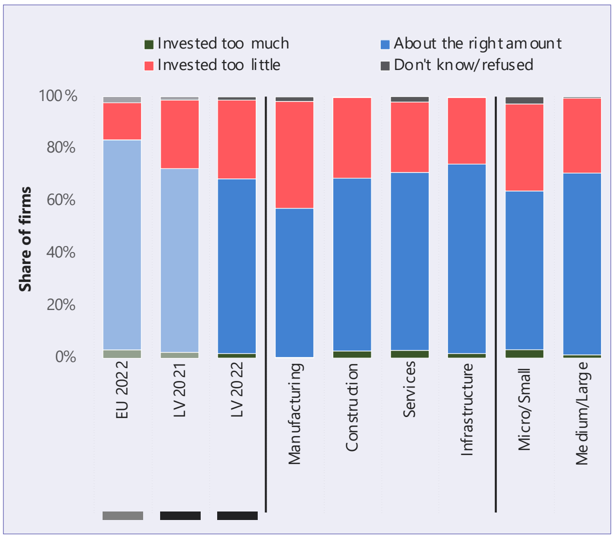
Q. In the last financial year, how much did your business invest in each of the following with the intention of maintaining or increasing your company's future earnings?

Base: All firms who have invested in the last financial year (excluding don't know/refused responses)

Investment needs and priorities

PERCEIVED INVESTMENT GAP

- Whilst two thirds (67%) of firms in Latvia believe their investment over the last three years was about the right amount, 30% believe they invested too little. This is virtually the same as in EIBIS 2021 (26%) but it is higher than the EU average (14%).
- Manufacturing (41%) and micro/small firms (33%) have the largest share of firms who think that they invested too little.
- A minority (2%) of firms believe that they invested too much.

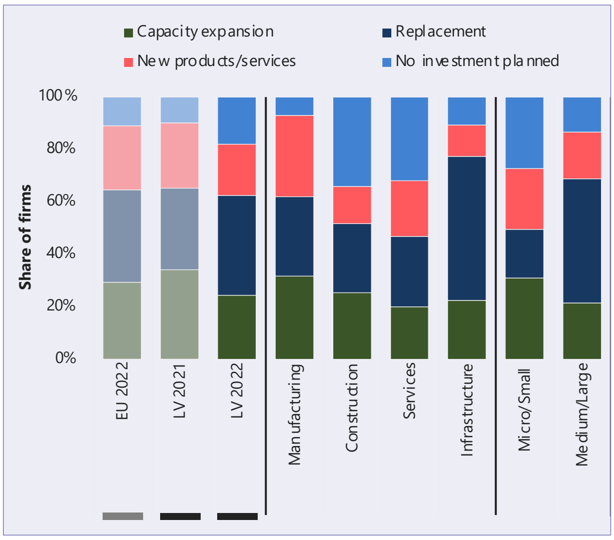


Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount?

Base: All firms (excluding 'Company didn't exist three years ago' responses)

FUTURE INVESTMENT PRIORITIES

- Replacement (38%) and capacity expansion for existing products/services (24%) will be the biggest investment priorities for Latvian firms over the next three years. 18% of firms have no investment planned.
- The emphasis among Latvian firms has shifted since EIBIS 2021, when new capacity was a priority for more firms than replacement.
- A relatively high share of construction (34%) and services (32%) firms have no investment planned, while manufacturers have the largest share of firms planning new products/services (31%).
- Micro/small firms are twice as likely as large firms to have no investment planned for the next three years (27% versus 13%).

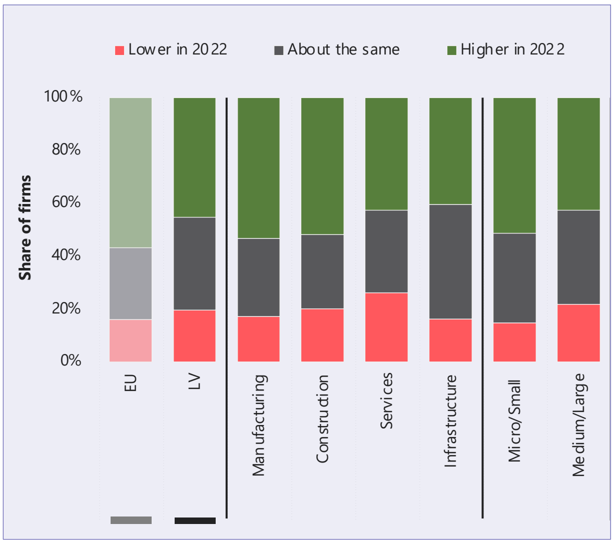


Q. Looking ahead to the next three years, which is your investment priority (a) replacing capacity (including existing buildings, machinery, equipment, IT) (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

Base: All firms (excluding don't know/refused responses)

Impact of COVID-19

IMPACT OF COVID-19 ON SALES OR TURNOVER BY END OF 2022 COMPARED TO 2019



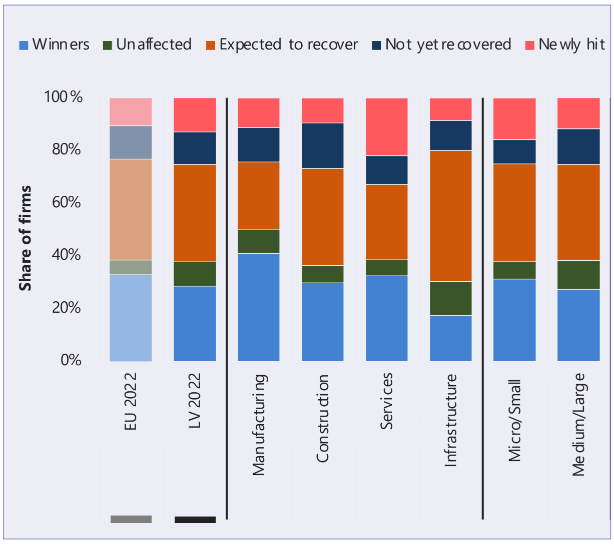
- The majority (80%) of firms in Latvia expected their turnover in 2022 to either be the same or higher than in 2019 (before the Covid-19 pandemic): 45% believed it would be higher, while 35% thought that it would remain the same.
- The remaining 20% of firms expected turnover to be lower than pre-pandemic.
- Latvian businesses were less optimistic (45%) than the EU average, where 58% expected to see a higher turnover than in 2019.
- The services and infrastructure sectors have the lowest share of firms expecting their turnover to be higher than in 2019.

Q. Compared to 2019, do you expect your sales or turnover in 2022 to be higher, lower or about the same?

Base: All firms (excluding don't know/refused responses)

IMPACT ON FIRMS' SALES OR TURNOVER AND EXPECTED RECOVERY

- Overall, 49% of Latvian firms have been negatively impacted by COVID-19. Nevertheless 37% expected to recover in 2022, by coming back to at least their 2019 sales levels.
- 29% of Latvian firms can be considered COVID-19 'winners' – that is, they never experienced a loss of turnover in 2020-2021 and expected higher sales in 2022 compared to 2019. The infrastructure sector has the lowest share of firms in this category (18%).
- The service sector has the largest share of firms that were 'newly hit' (22%), these firms had not experienced any year on year sales decline during the COVID-19 crisis but expected losses in terms of sales in 2022.



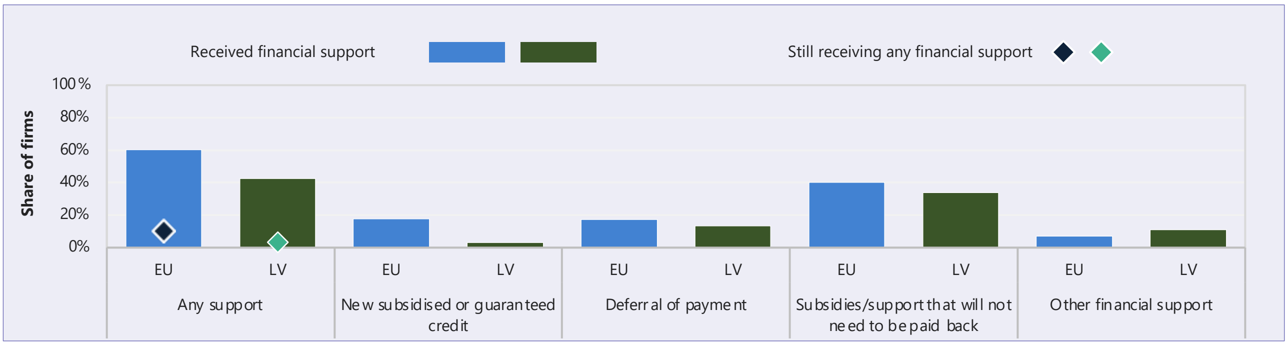
Q. Compared to 2019, before the pandemic started, did your companies sales and turnover in 2020 decline, increase or stay the same?
Q. Compared to 2020, did your companies sales and turnover in 2021 decline, increase or stay the same?
Q. Compared to 2019, do you expect your sales or turnover in 2022 to be higher, lower or about the same?

Base: All firms (excluding don't know/refused responses)

Impact of COVID-19

FINANCIAL SUPPORT RECEIVED IN RESPONSE TO COVID-19

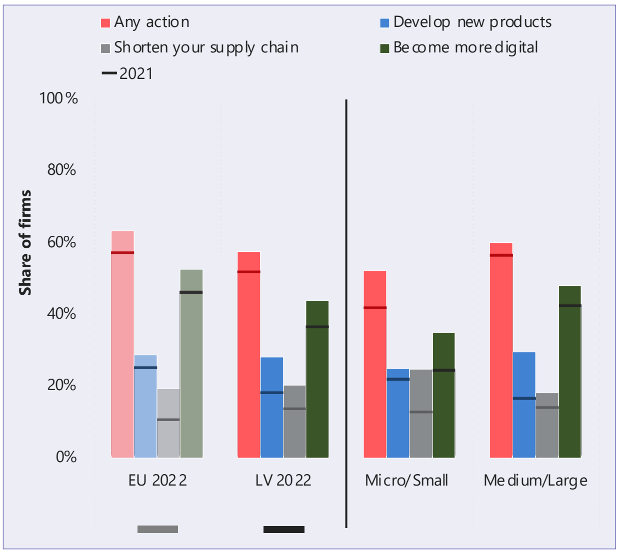
- 43% of firms in Latvia have received some form of financial support in response to COVID-19, lower than the EU average (60%).
- The support received by Latvian firms was most commonly in the form of subsidies that will not need to be paid back (34%).
- Fewer Latvian firms received credit as a form of support (3%) than the EU average (18%).
- Just 3% of Latvian firms are still receiving financial support, lower than the EU average (10%).



Q. Since the start of the pandemic, have you received any financial support?
Q. Are you still receiving (any of) this financial support?

Base: All firms (excluding don't know/refused responses)

ACTIONS AS A RESULT OF COVID-19



- In Latvia, 58% of firms have taken at least one short-term action or made investments in one of the categories they were asked about, fewer than the EU average (63%).
- The most common area of action or investment of Latvian firms is to become more digital, as reported by 44%.

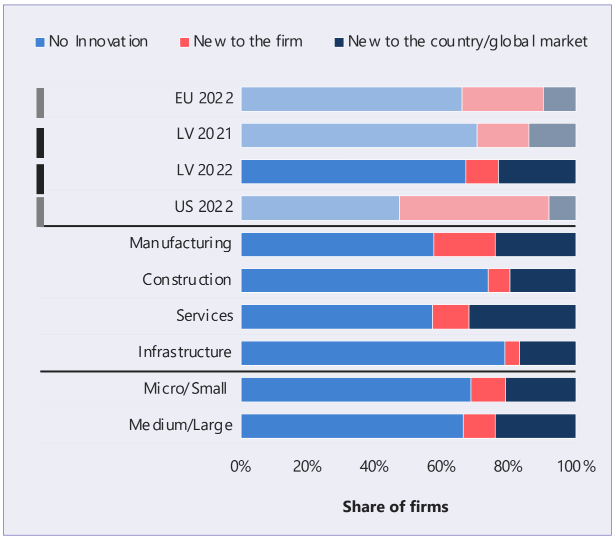
Q. As a response to the COVID-19 pandemic, have you taken any actions or made investments to...?

Base: All firms (excluding don't know/refused responses)

Innovation activities

INNOVATION ACTIVITY

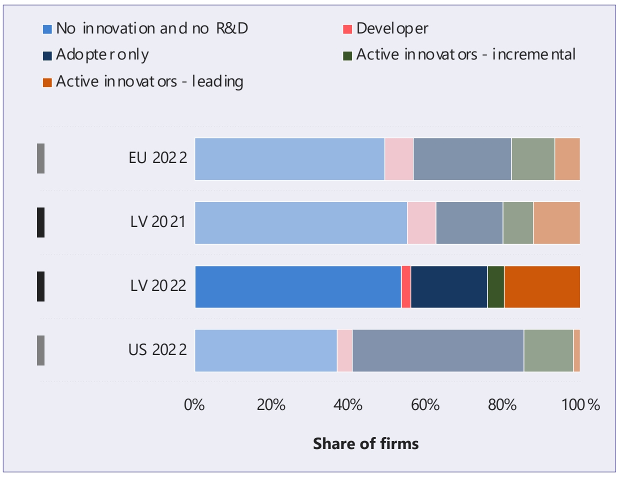
- Around a third (33%) of Latvian firms developed or introduced new products, processes or services. This is similar to EIBIS 2021 (30%).
- The overall level of innovation is similar to the EU average (34% of firms), even though the focus of innovation differs: in Latvia, 23% of firms had invested in innovation that was new to the country/global market, compared to 10% of EU firms as a whole.
- Around two in five firms in the manufacturing (42%) and services (43%) sectors had developed or introduced new products, processes or services.



Q. What proportion of total investment was for developing or introducing new products, processes, services?
Q. Were the products, processes or services new to the company, new to the country, new to the global market?

Base: All firms (excluding don't know/refused responses)

INNOVATION PROFILE



- A quarter (24%) of Latvian firms can be classified as "active innovators" – that is, firms that invested significantly in research and development and introduced a new product, process or service.
- Most of these (20% of firms overall) can be classified as "active innovators – leading"). This is far higher than the EU average of 7% falling into this category.
- Around half (54%) of Latvian firms, however, did not invest in any innovation at all. This is in line with the EU average (49%) and the results reported for Latvia in EIBIS 2021 (55%).

Q. What proportion of total investment was for developing or introducing new products, processes, services?
Q. Were the products, processes or services new to the company, new to the country, new to the global market?
Q. In the last financial year, how much did your business invest in Research and Development (including the acquisition of intellectual property) with the intention of maintaining or increasing your company's future earnings?

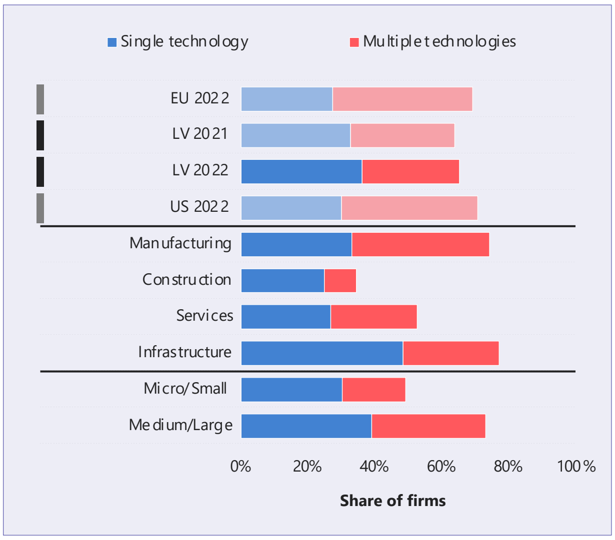
Base: All firms (excluding don't know/refused responses)

The 'No innovation and no R&D' group comprises firms that did not introduce any new products, processes or services in the last financial year. The 'Adopter only' introduced new products, processes or services but without undertaking any of their own research and development effort. 'Developers' are firms that did not introduce new products, processes or services but allocated a significant part of their investment activities to research and development. 'Incremental' and 'Leading innovators' have introduced new products, processes and services and also invested in research and development activities. The two profiles differ in terms of the novelty of the new products, processes or services. For incremental innovators these are 'new to the firm'; for leading innovators' these are new to the country/world'.

Innovation activities

USE OF ADVANCED DIGITAL TECHNOLOGIES

- Overall, 65% of Latvian firms are using at least one advanced digital technology, in line with the EU average (69%).
- Fewer firms in Latvia are using multiple technologies than the EU average (29% versus 42%).
- Medium and large firms are more likely than micro and small firms to implement multiple technologies (34% versus 19%).
- Compared to the EU average, Latvian firms are less advanced in their implementation of 3D printing (5% versus. 23%) or Platforms (29% versus 49%).



EIBIS 2022
Q. To what extent, if at all, are each of the following digital technologies used within your business? Please say if you do not use the technology within your business?

EIBIS 2021
Q. Can you tell me for each of the following digital technologies if you have heard about them, not heard about them, implemented them in parts of your business, or whether your entire business is organised around them?

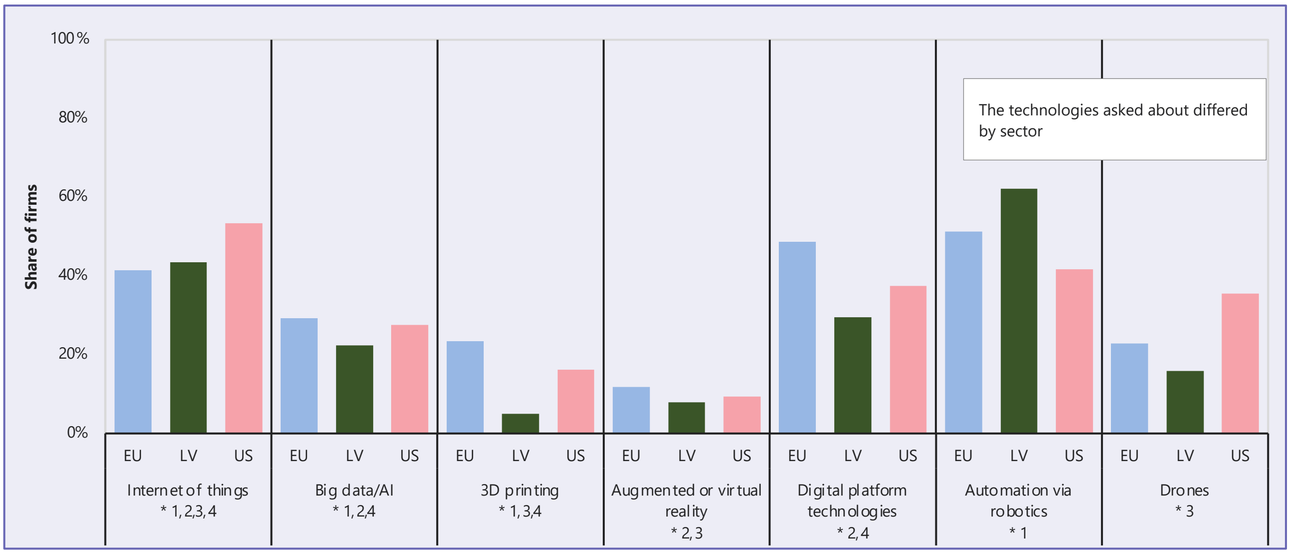
Base: All firms (excluding don't know/refused responses)

Please note: question and definition wording changed between 2021 and 2022, comparisons between the two waves should not be made.

Reported shares combine used the technology 'in parts of business' and 'entire business organised around it'

Single technology is where firms have used one of the technologies asked about. Multiple technologies is where firms have used more than one of the technologies asked about

ADVANCED DIGITAL TECHNOLOGIES



*** Sector: 1 = Asked of Manufacturing firms, 2 = Asked of Services firms, 3 = Asked of Construction firms, 4 = Asked of Infrastructure firms**

Reported shares combine used the technology 'in parts of business' and 'entire business organised around it'

Q. To what extent, if at all, are each of the following digital technologies used within your business? Please say if you do not use the technology within your business?

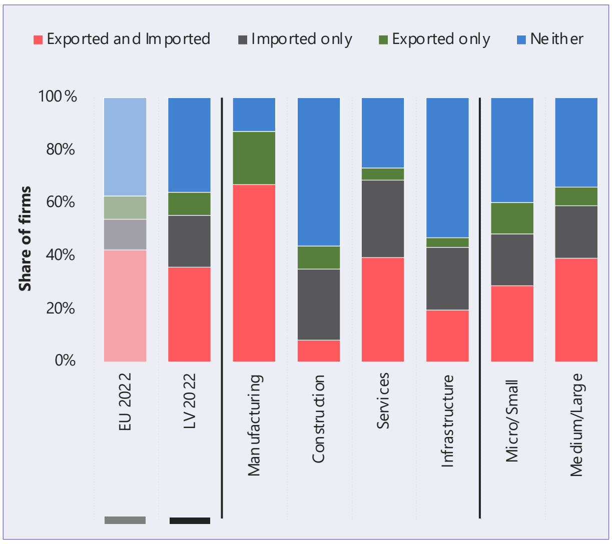
Please note: question wording changed between 2021 and 2022, comparisons between the two waves should not be made.

Base: All firms (excluding don't know/refused responses);
Sample size LV: Manufacturing (108); Construction (85); Services (127); Infrastructure (79).

International trade

ENGAGEMENT IN INTERNATIONAL TRADE

- Almost two thirds (64%) of Latvian firms are engaged in international trade: 9% in export only, 20% in import only and 36% in both.
- Firms in Latvia are less likely to export goods (44%) than in the EU as a whole (51%).
- Firms in the construction sector are less likely than in other sectors to be involved in international trade (44%). This is primarily due to lower export activity in this sector (just 17% of construction firms report to export, compared to 44% of Latvian firms overall).

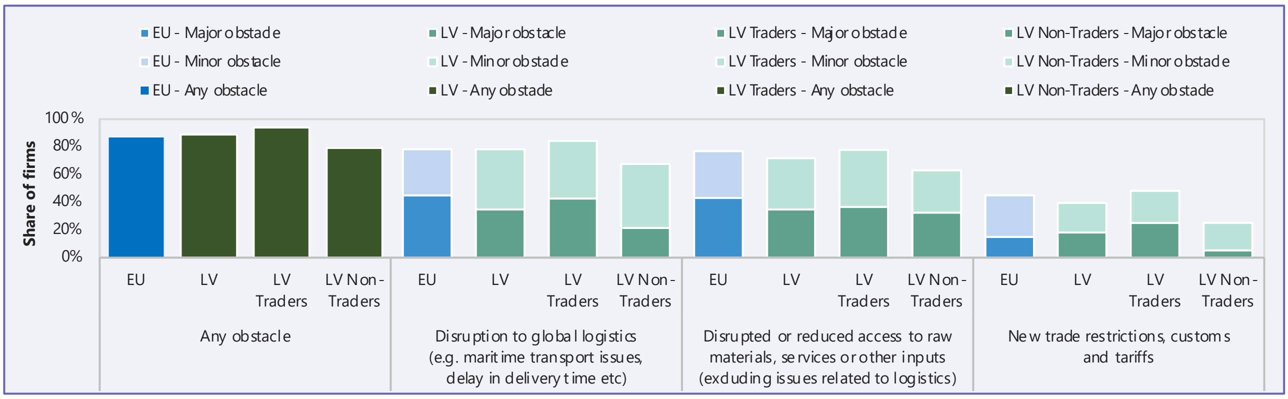


Q. In 2021, did your company export or import goods and/or services?

Base: All firms (excluding don't know/refused responses)

DISRUPTIONS RELATED TO INTERNATIONAL TRADE

- In line with the EU average, 89% of firms in Latvia face disruptions due to international trade. This is higher among Latvia's traders (94%).
- Overall, disruptions to global logistics (78%) and reduced access to raw materials, services or other inputs (72%) are the main trade-related obstacle to firms in Latvia.
- 40% of firms are impacted by new trade restrictions, customs or tariffs, while among traders the share rises to 48%.



Any obstacle combines 'minor' and 'major' obstacles into one category

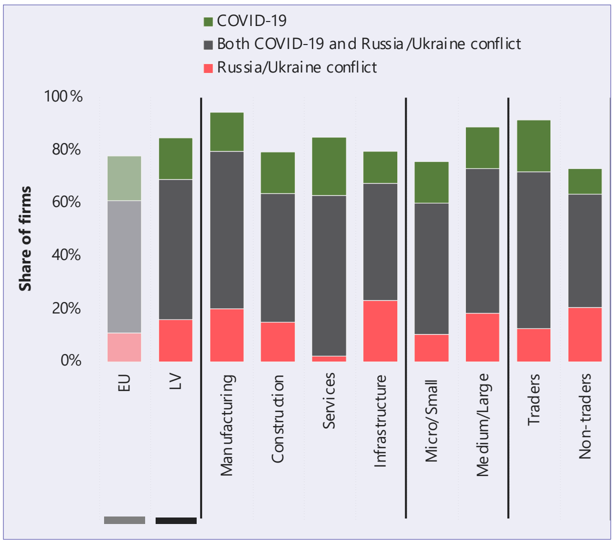
Q. Since 2021, did any of the following present an obstacle to your business's activities?

Base: "Any obstacle" - All firms (excluding those who said don't know/refused/not applicable responses to all three international trade obstacles)
Base: Individual obstacles - All firms (excluding those who said don't know/refused/not applicable)

International trade

EXTERNAL FACTORS IMPACTING INTERNATIONAL TRADE

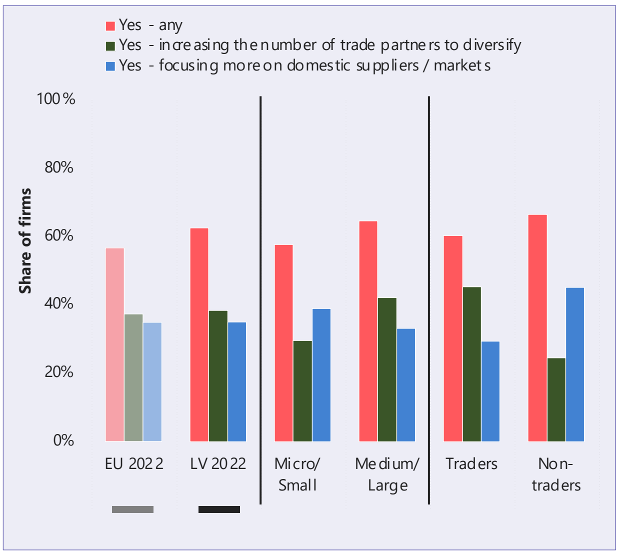
- 85% of Latvian firms report being impacted by at least one of the external factors affecting international trade, in line with the EU average.
- 53% say they have been impacted by both COVID-19 and the Russia/Ukraine conflict, 16% by COVID-19 alone and a further 16% by the Russia/Ukraine conflict alone.
- Manufacturing firms (95%), medium and large firms (89%) and traders (92%) have the highest share of firms impacted by at least one of these external factors.



Q. You have just said that you experienced {an obstacle/obstacles} to your business activities since 2021. Did Covid-19 and/or the Russia-Ukraine conflict, including the sanctions imposed by the International community, contribute to this in anyway?

Base: All firms (excluding don't know/refused responses)

ACTIONS TO MITIGATE INTERNATIONAL TRADE DISRUPTIONS



- 63% of firms in Latvia have taken action to mitigate the impact of international trade disruption, in line with the EU average.
- 38% have increased their number of trade partners in order to diversify, and a similar proportion turned their focus more on domestic suppliers/markets (35%).
- Medium/large firms and traders (42% and 45%) are more inclined to increase the number of trade partners to diversify than to focus on the domestic market (33% and 29%).

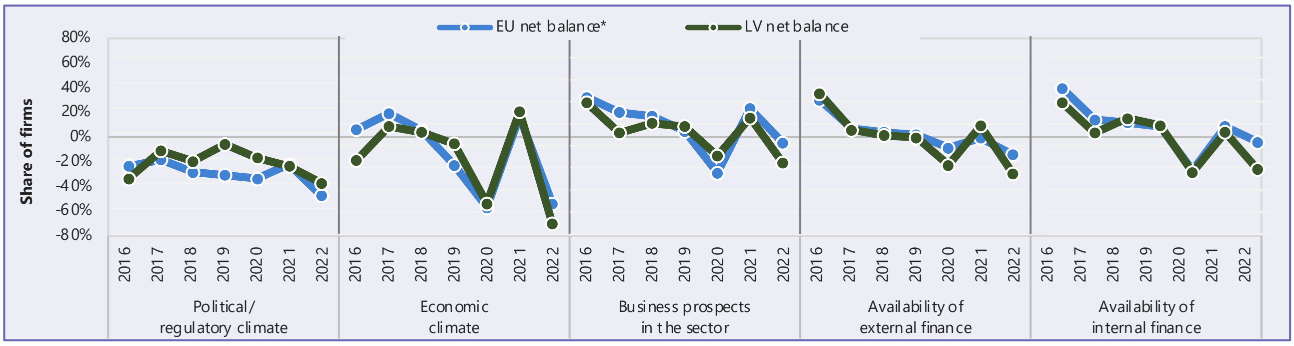
Q. Is your company taking any actions to mitigate the impact of these disruptions?

Base: All firms facing trade disruption (excluding don't know/refused responses)

Drivers and constraints

SHORT-TERM FIRM OUTLOOK

- Reversing the upward trend in the outlook last year, firms have again become more pessimistic about the investment conditions for the next year.
- Economic climate expectations turned again negative in net terms (declining from +31% to -71%). Firms' view on their business prospects has also reversed its trend (declining from a net balance of +25% to -15%). Firm's outlook on the availability of external finance (down from +18% to -25%), and internal finance (down from +12% to -21%) also turned negative.
- Latvian firms were more pessimistic than firms in the EU as a whole on all short-term drivers, except for the political/regulatory climate where they were broadly aligned.



Q, Do you think that each of the following will improve, stay the same, or get worse over the next 12 months?

**Net balance is the share of firms seeing improvement minus the share of firms seeing a deterioration*

Base: All firms

SHORT-TERM FIRM OUTLOOK BY SECTOR AND SIZE (net balance %)

	Political / regulatory climate	Economic climate	Business prospects	External finance	Internal finance
Latvia	30%	71%	15%	25%	21%
Manufacturing	61%	74%	22%	36%	14%
Construction	32%	61%	11%	24%	12%
Services	35%	74%	13%	25%	6%
Infrastructure	3%	68%	15%	19%	49%
Micro/Small	26%	62%	16%	17%	1%
Medium/Large	31%	75%	15%	29%	31%

Please note: green figures are positive, red figures are negative

- The short-term outlook of firms was negative across the board in Latvia, affecting all sectors and size of business.
- The only net positive score was for the availability of internal finance among service firms (+6%).
- Medium/large firms on average expressed a more negative view than micro/small firms.

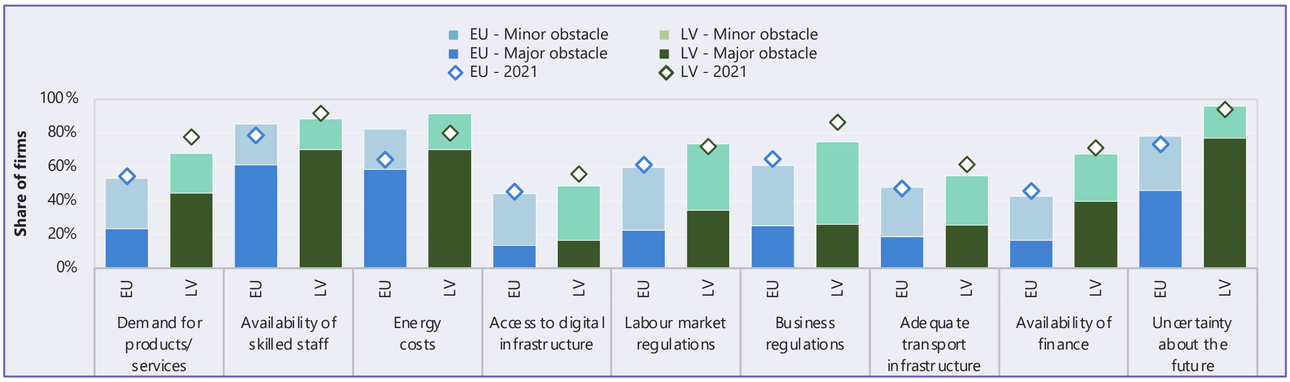
Q. Do you think that each of the following will improve, stay the same, or get worse over the next twelve months?

Base: All firms

Drivers and constraints

LONG-TERM BARRIERS TO INVESTMENT

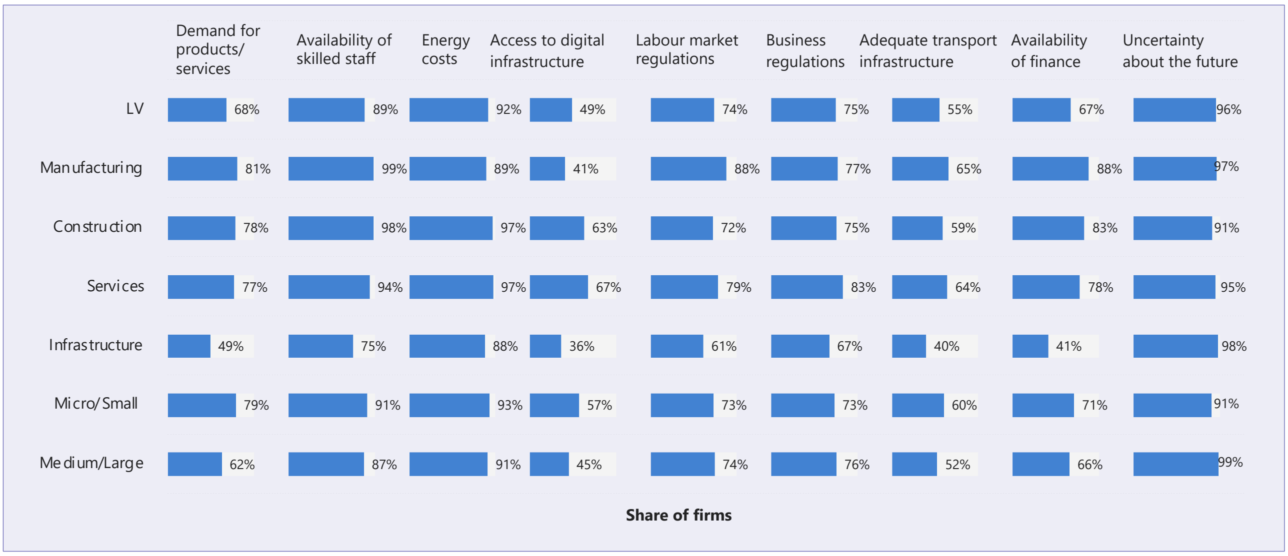
- The most frequently mentioned long-term barriers to investment in Latvia are uncertainty about the future (96%), energy costs (92%), and the availability of skilled staff (89%).
- Energy costs have become a barrier for an increasing number of firms over the past year (92% vs. 80% in EIBIS 2021).
- Firms in Latvia are more likely to perceive each factor as an obstacle than firms in the EU as a whole – with the exception of availability of skilled staff, digital and transport infrastructure, which are broadly in line with EU averages.
- Micro/small firms are more affected by demand for products/services than medium/large, who are in turn more impacted by uncertainty about the future.



Q. Thinking about your investment activities, to what extent is each of the following an obstacle? Is it a major obstacle, a minor obstacle or not an obstacle at all?

Base: All firms (data not shown for those who said not an obstacle at all/don't know/refused)

LONG-TERM BARRIERS BY SECTOR AND SIZE



Reported shares combine 'minor' and 'major' obstacles into one category

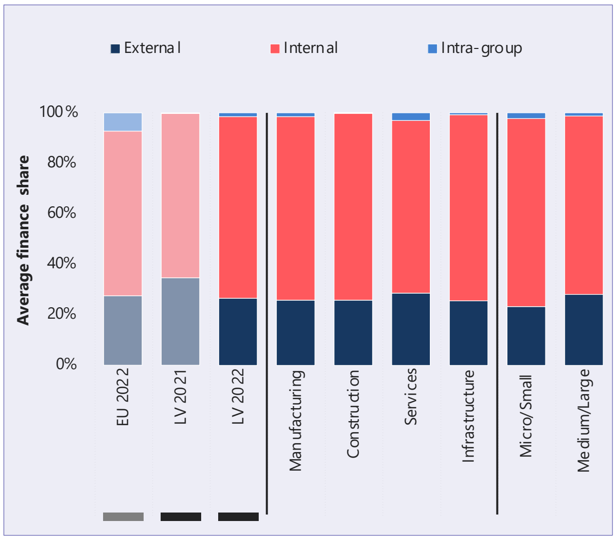
Q. Thinking about your investment activities, to what extent is each of the following an obstacle? Is it a major obstacle, a minor obstacle or not an obstacle at all?

Base: All firms (data not shown for those who said not an obstacle at all/don't know/refused)

Access to finance

SOURCE OF INVESTMENT FINANCE

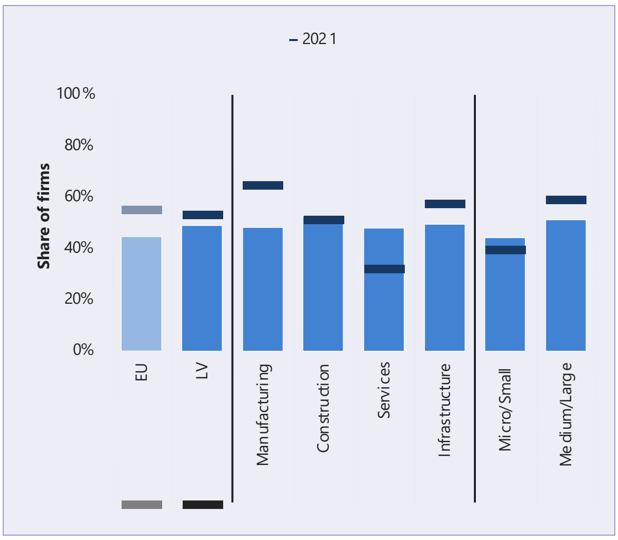
- Internal funding accounted for the largest share of investment for firms in Latvia (72%), followed by external finance (27%). This was in line with figures seen in EIBIS 2021.
- Intra-group finance (e.g. loans from parent company) accounted for just 1% of funding. Firms in Latvia were less likely than the EU average to have received any funding from this source (just 1%, compared to 7% in the EU as a whole).



Q. What proportion of your investment was financed by each of the following?

Base: All firms who invested in the last financial year (excluding don't know/ refused responses)

USE OF EXTERNAL FINANCE



- Around half (49%) of firms in Latvia who had invested in the last financial year had financed some of that investment through external finance.
- This was in line with levels seen in EIBIS 2021 (53%) and the EU average (45%).
- Among manufacturing firms, there has been a decline in the number of firms using external finance since EIBIS 2021 (48% versus 65%).

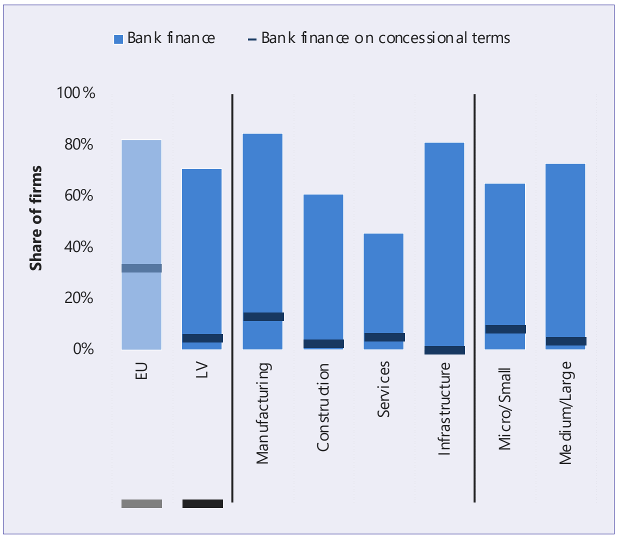
Q. Approximately what proportion of your investment in the last financial year was financed by each of the following

Base: All firms who invested in the last financial year (excluding don't know/ refused responses)

Access to finance

ACCESS TO BANK FINANCE AND CONDITIONS

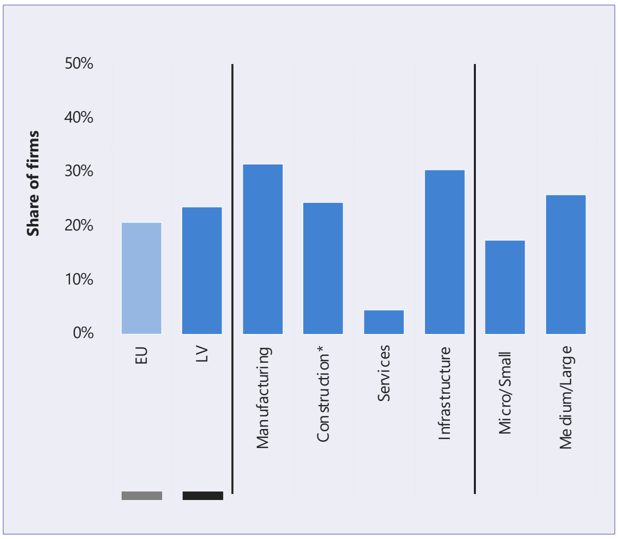
- Overall, 71% of firms in Latvia who used external finance had received bank finance, slightly below the EU average (82%).
- Around 5% of firms using external finance had received bank finance on concessional terms, far lower than the EU average of 32%.
- Although there appears to be some variation between different sectors of the economy, these differences are not statistically significant.



Q. Which of the following types of external finance did you use for your investment activities in the last financial year?
Q. Was any of the bank finance you received on concessional terms (e.g. subsidised interest rates, longer grace period to make debt payments)?

Base: All firms who used external finance (excluding don't know/refused responses)

SHARE OF FIRMS WITH FINANCE FROM GRANTS



- About 22% of firms in Latvia using external finance received funding from grants, similar to the EU average (21%).
- Differences between sectors and size of organisation are not statistically significant.

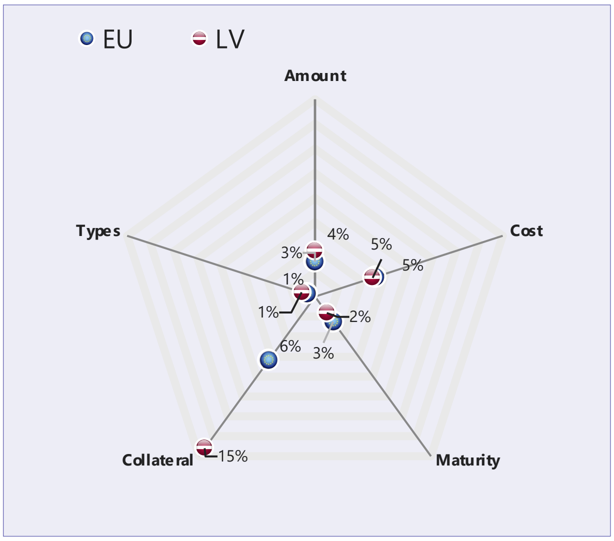
Q. What proportion of your total investment in your last financial year was financed by grants?

Base: All firms using external finance (excluding don't know/refused responses)

Access to finance

DISSATISFACTION WITH EXTERNAL FINANCE RECEIVED (% of firms)

- Only a very small number of Latvian firms, who used external finance in the last financial year, are dissatisfied with the attached finance conditions.
- Dissatisfaction is most common regarding the collateral required. 15% of Latvian recipients of external finance were dissatisfied with these terms, more than the EU average (6%).
- Dissatisfaction with the cost of finance was the second most important factor, reported by 5% of Latvian recipients of external finance (in line with the EU average).



Q. How satisfied or dissatisfied are you with ...?

Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)

DISSATISFACTION BY SECTOR AND SIZE (% of firms)

	Amount	Cost	Maturity	Collateral	Type
LV	4%	5%	2%	15%	1%
Manufacturing	8%	10%	2%	34%	0%
Construction*	4%	4%	1%	11%	0%
Services*	0%	4%	2%	5%	2%
Infrastructure*	4%	2%	1%	10%	1%
Micro/Small	7%	12%	6%	17%	4%
Medium/Large*	2%	2%	0%	14%	0%

- Dissatisfaction levels are generally low across all sectors and size classes.
- Across sectors and firm sizes, the highest levels of dissatisfaction were reported for collateral requirements; it was highest among manufacturing firms with a share of 34%.

Q. How satisfied or dissatisfied are you with ...?

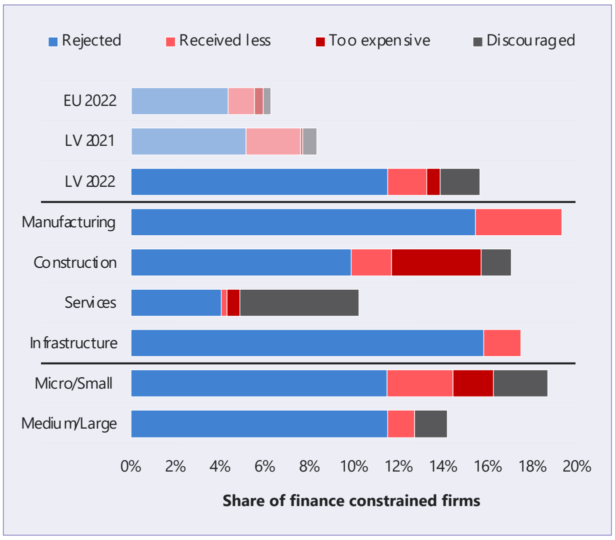
Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)

**Caution very small base size less than 30*

Access to finance

SHARE OF FINANCE CONSTRAINED FIRMS

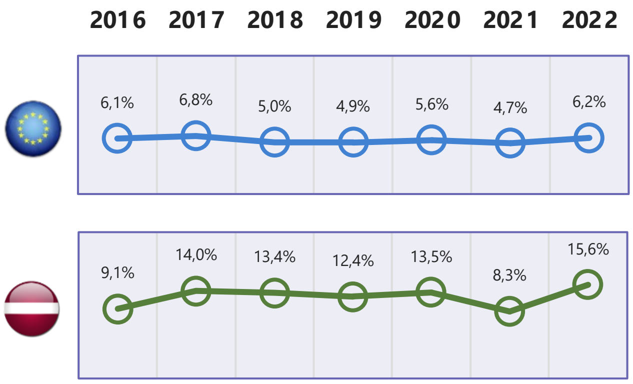
- The share of financially constrained firms in Latvia has doubled since EIBIS 2021 (15.6% versus 8.3% respectively) and is also far higher than in the EU as a whole (6.2%).
- The main finance constraint reported by Latvian firms is rejection of external finance (11.5%), more than twice that seen in EIBIS 2021 (5.1%) and the EU as a whole (4.3%).
- The services sector had the lowest share of firms who were financially constrained (10.2% versus 17-18.7% for other sectors).



Finance constrained firms include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive) or they would be turned down (discouraged)

Base: All firms (excluding don't know/refused responses)

FINANCING CONSTRAINTS OVER TIME



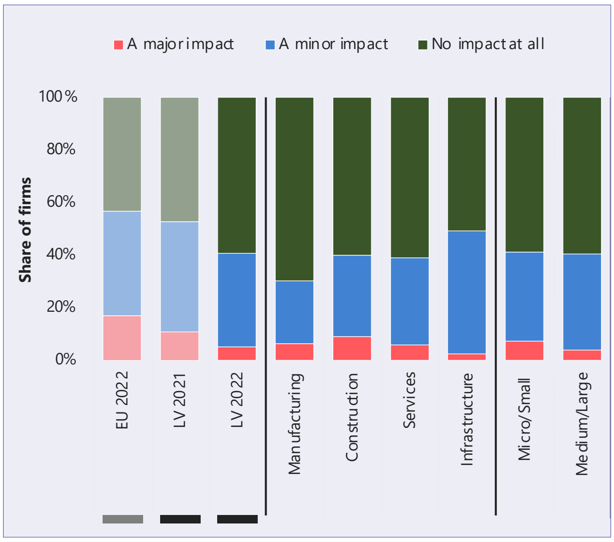
- Financial constraints continue to be a problem that affects Latvia disproportionately stronger, when compared to the EU as a whole. The figure of 15.6% reported for 2022 is the highest it has been since EIBIS was initiated in 2016.
- The share of Latvian firms that are finance constrained has consistently been around twice the EU average.

Base: All firms (excluding don't know/refused responses)

Climate change and energy efficiency

IMPACT OF CLIMATE CHANGE – PHYSICAL RISK

- Overall, 41% of firms in Latvia report that physical climate change risks such as losses due to extreme climate events have an impact on their business, fewer than in EIBIS 2021 (53%) and the EU average (57%).
- Firms in the infrastructure sector are the most likely to report that weather events impact their business (49%). Firms in the manufacturing sector were the most likely to say that weather events had no impact on their business (70%).

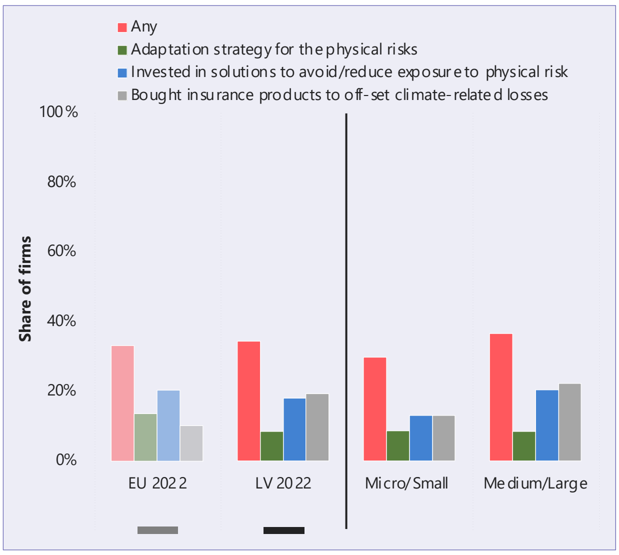


Q. Thinking about the impact of climate change on your company, such as losses due to extreme climate events, including droughts, flooding, wildfires or storms or changes in weather patterns due to progressively increasing temperature and rainfall. What is the impact, also called physical risk, of this on your company?

Please note: question wording changed between 2021 and 2022. Comparisons should be treated with caution.

Base: All firms (excluding don't know/refused responses)

BUILDING RESILIENCE TO PHYSICAL RISK



- Similar to the EU average, around a third (35%) of Latvian firms have already developed or invested in measures to build resilience to the physical risks to their company caused by climate change.
- The most common measure is purchasing insurance to offset climate-related losses (19%), closely followed by investing in solutions to avoid or reduce exposure to physical climate-related risks (18%).
- Overall, firms in Latvia were more likely than the EU average to have bought insurance products to off-set climate-related loses (19% versus 10%).

Q. Has your company developed or invested in any of the following measures to build resilience to the physical risks to your company caused by climate change?

Base: All firms (excluding don't know/refused responses)

Climate change and energy efficiency

IMPACT OF CLIMATE CHANGE – RISKS ASSOCIATED WITH THE TRANSITION TO A NET ZERO EMISSION ECONOMY OVER THE NEXT FIVE YEARS

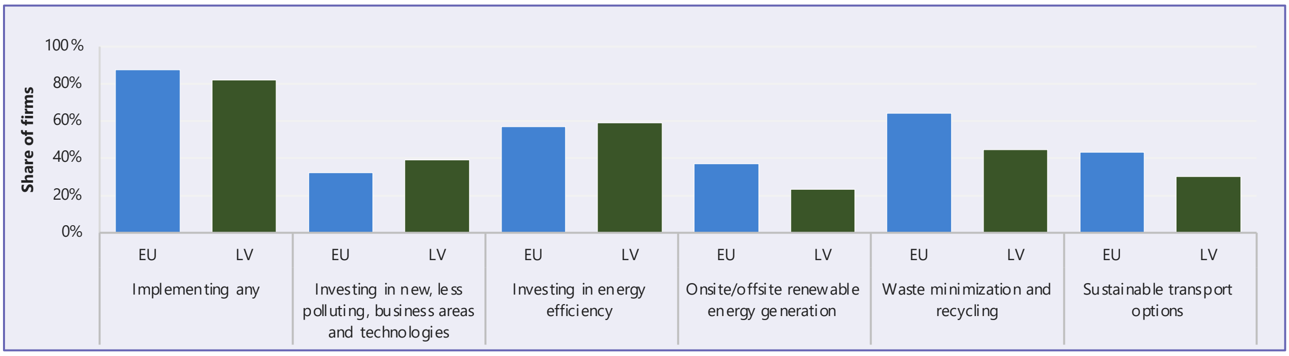
- A third of businesses in Latvia (35%) see the transition to stricter climate standards as a risk to the company; this is in line with the EU average (32%).
- However fewer businesses in Latvia see the transition as an opportunity for the company, with just 13% expressing this view compared with 29% across the EU as a whole.
- Firms in the construction sector are more likely to see an opportunity in the transition to stricter climate standards (23%).

Q. Thinking about your company, what impact do you expect this transition to stricter climate standards and regulations will have on your company over the next five years?

Base: All firms (excluding don't know/refused responses)

ACTIONS TO REDUCE GHG EMISSIONS

- 82% of Latvian firms are taking action to reduce Greenhouse Gas (GHG) emissions, in line with the EU average.
- The main actions in Latvia are investments in energy efficiency (59%) and waste minimization and recycling (45%).
- Latvian firms are less likely than firms across the EU as a whole to be investing in renewable energy generation (23% versus 37%), waste minimisation (44% versus 64%) or sustainable transport options (30% versus 43%).



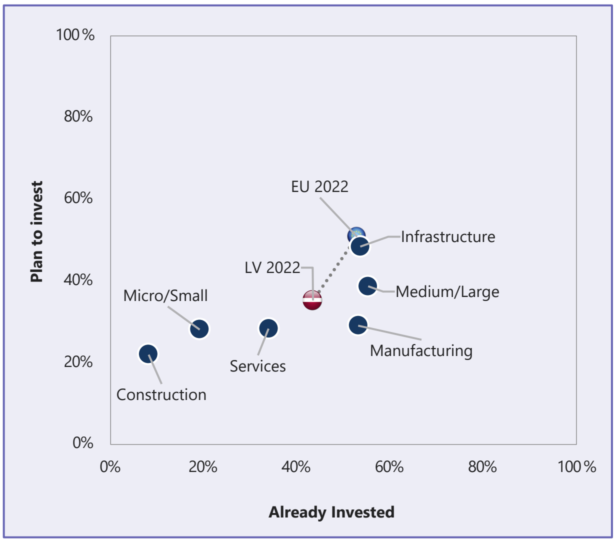
Q. Is your company investing or implementing any of the following, to reduce Greenhouse Gas (GHG) emissions?

Base: All firms (excluding don't know/refused responses)

Climate change and energy efficiency

INVESTMENT PLANS TO TACKLE CLIMATE CHANGE IMPACT

- Overall, 43% of Latvian firms have already invested in tackling the impacts of weather events and dealing with the process of reducing carbon emissions, with around a third (35%) planning to invest in the next three years, lower than the EU average (51%).
- Future investment is more likely to be seen among manufacturing firms (48%).
- Medium and large firms are the most likely to have already invested (55%) and to plan to invest over the next three years (39%) in tackling the impacts of weather events and in reducing carbon emissions. Micro and small firms lag far behind on these measures (19% already invested and 28% plan to invest).



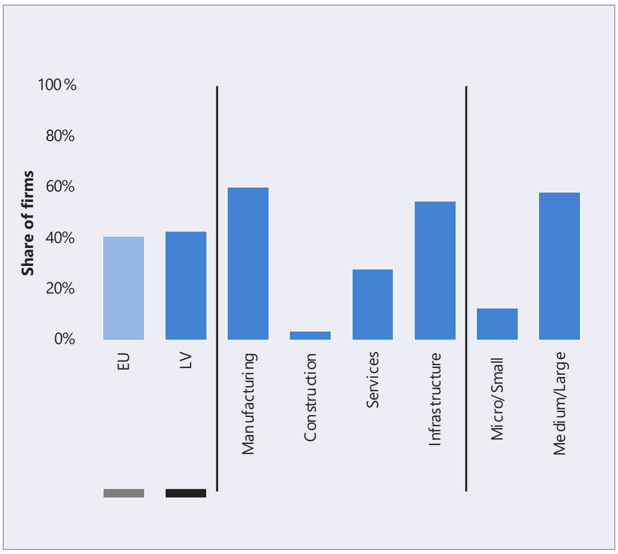
EIBIS 2022
Q. Which of the following applies to your company regarding investments to tackle the impacts of weather events and to help reduce carbon emissions?

EIBIS 2021
Q. Now thinking about investments to tackle the impacts of weather events and to deal with the process of reduction in carbon emissions, which of the following applies?

Base: All firms (excluding don't know/refused responses)

Please note: question change and an additional answer option was included in 2022, this may have influenced the data. Treat comparison to previous waves with caution.

CLIMATE CHANGE TARGETS FOR OWN GREENHOUSE GAS (GHG) EMISSIONS



- Similar to the EU average, 43% of Latvian firms report that they set and monitor targets for their own Greenhouse Gas (GHG) emissions.
- This is, however, not uniform across the economy. Firms in the construction and services sector are less likely than average to do so (4% and 28% respectively).
- The practice is also more common among medium/large firms (58%) than micro/small firms (13%).

Q. Does your company... set and monitor targets for its own Greenhouse Gas (GHG) emissions

Base: All firms (excluding don't know/refused responses)

Climate change and energy efficiency

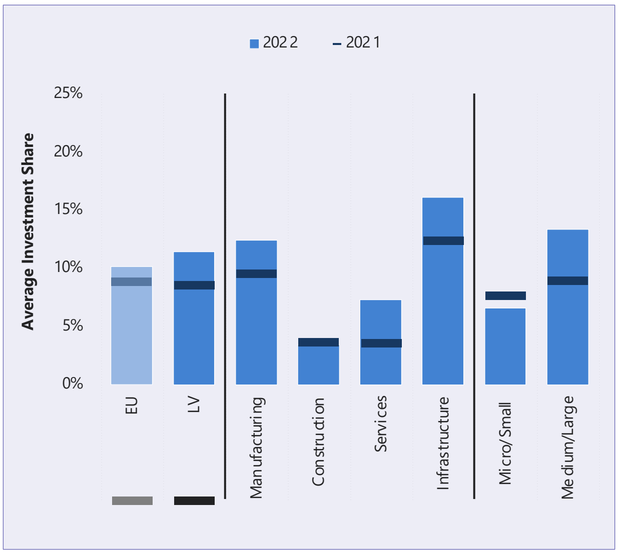
SHARE OF FIRMS INVESTING IN MEASURES TO IMPROVE ENERGY EFFICIENCY

- The share of Latvian firms investing in measures to improve energy efficiency (42%), is higher than in EIBIS 2021 (30%) and reached the EU average (40%).
- Firms in Latvia's manufacturing (51%) and infrastructure (49%) sectors as well as medium and large firms (51%) were the most likely to be investing in energy efficiency.
- Overall, there has been a marked increase in the share of manufacturing firms (up from 41% to 51%), infrastructure firms (up from 28% to 49%) and medium and large firms (up from 33% to 51%) investing in energy efficiency.

Q. What proportion of the total investment in the last financial year was primarily for measures to improve energy efficiency in your organisation?

Base: All firms

AVERAGE SHARE OF INVESTMENT IN MEASURES TO IMPROVE ENERGY EFFICIENCY



- Among Latvian firms, the average share of investment in measures to improve energy efficiency was 11% in EIBIS 2022, in line with the EU average (10%).
- The share of investment directed towards energy efficiency is much lower among firms in the construction sector than those in other sectors (3% versus 7-16%).
- The share of investment into energy efficiency allocated by medium and large firms is nearly twice that allocated by micro and small firms (13% versus 7%).

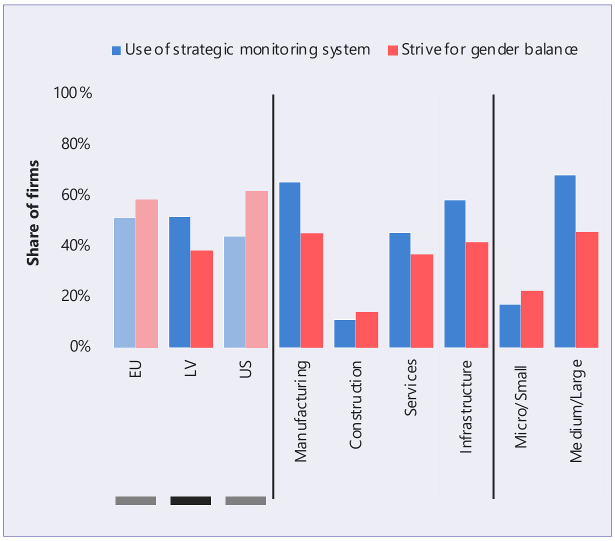
Q. What proportion of the total investment in the last financial year was primarily for measures to improve energy efficiency in your organisation?

Base: All firms who have invested in the last financial year (excluding don't know/refused responses)

Firm management, gender balance and employment

FIRM MANAGEMENT AND GENDER BALANCE

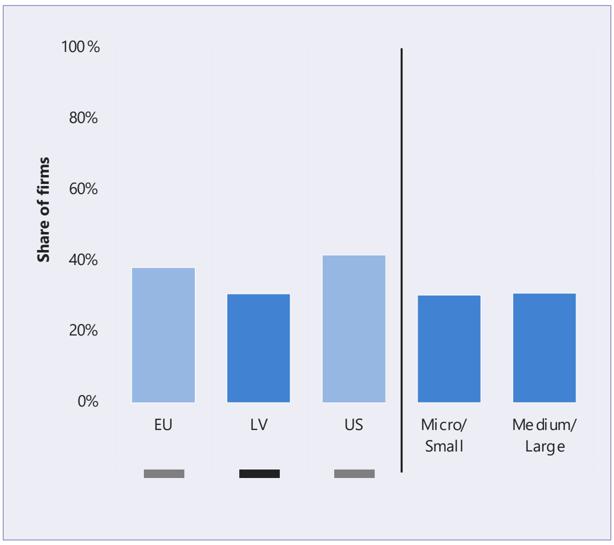
- Around half of Latvian firms use a strategic monitoring system (52%), in line with the EU average (51%).
- However, the proportion of Latvian firms who strive for gender balance (39%) is lower than in the EU as a whole (58%).
- In Latvia, fewer firms in the construction sector use strategic monitoring systems (11%) or strive for gender balance (14%), compared to other sectors.
- These practices were also less common in micro/small firms than medium/large firms.



Q Does your company...?

Base: All firms (excluding don't know/refused responses)

FIRMS WHO HAVE INCREASED EMPLOYEE NUMBERS SINCE 2019



- About 31% of Latvian firms have increased their employment since 2019, prior to the COVID-19 pandemic.
- The same proportion of medium and large firms as micro and small firms have increased employee numbers since 2019.

Q. How many people does your company employ either full or part time at all its locations, including yourself?

Q. How many people did your company employ either full or part time at all its locations at the beginning of 2019, before the COVID-19 pandemic?

Base: All firms (excluding don't know/refused/did not exist in 2019 responses)

EIBIS 2022 – Country technical details

SAMPLING TOLERANCES APPLICABLE TO PERCENTAGES AT OR NEAR THESE LEVELS

The final data are based on a sample, rather than the entire population of firms in Latvia, so the percentage results are subject to sampling tolerances. These vary with the size of the sample and the percentage figure concerned.

	EU	US	LV	Manufacturing	Services	Construction/ Infrastructure	Micro/ Small	Medium/ Large	EU vs LV	Manufacturing vs Construction/ Infrastructure	Micro/Small vs Medium/Large
	(12021)	(802)	(400)	(108)	(127)	(164)	(329)	(71)	(12021 vs 400)	(108 vs 164)	(329 vs 71)
10% or 90%	1.1%	3.5%	5.6%	10.7%	8.7%	9.2%	3.1%	8.3%	5.7%	14.1%	8.8%
30% or 70%	1.7%	5.3%	8.6%	16.4%	13.3%	14.0%	4.8%	12.6%	8.8%	21.5%	13.5%
50%	1.8%	5.8%	9.4%	17.9%	14.6%	15.3%	5.2%	13.8%	9.6%	23.5%	14.7%

GLOSSARY

Investment	A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities with the intention of maintaining or increasing the company's future earnings.
Investment cycle	Based on the expected investment in current financial year compared to last one, and the proportion of firms with a share of investment greater than EUR 500 per employee.
Manufacturing sector	Based on the NACE classification of economic activities: firms in group C (Manufacturing).
Construction sector	Based on the NACE classification of economic activities: firms in group F (Construction).
Services sector	Based on the NACE classification of economic activities: firms in group G (wholesale and retail trade) and group I (accommodation and food Services activities).
Infrastructure sector	Based on the NACE classification of economic activities: firms in groups D and E (utilities), group H (transportation and storage) and group J (information and communication).
Micro/Small	Firms with between 5 and 49 employees.
Medium/Large	Firms with at least 50 or more employees.

Note: the EIBIS 2022 country overview refers interchangeably to 'the past/last financial year' or to '2021'. Both refer to results collected in EIBIS 2022, where the question is referring to the past financial year, with the majority of the financial year in 2021 in case the financial year is not overlapping with the calendar year 2021.

EIBIS 2022 – Country technical details

The country overview presents selected findings based on telephone interviews with 400 firms in Latvia (carried out between April and July 2022).

BASE SIZES *(*Charts with more than one base; due to limited space, only the lowest base is shown)*

Base definition and page reference	EU 2022/2021	US 2022	LV 2022/2021	Manufacturing	Construction	Services	Infrastructure	Micro/Small	Medium/ Large
All firms, p. 3, p.12, p.13, p. 21 (top)	12021/11920	800	400/366	108	85	127	79	329	71
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 4 (top)	9704/9670	668	271/245	77	62	73	58	209	62
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 4 (bottom)	9501/9523	668	304/260	87	71	85	60	244	60
All firms (excluding 'Company didn't exist three years ago' responses), p. 5 (top)	11735/11648	778	390/362	106	82	123	78	320	70
All firms (excluding don't know/refused responses), p. 5 (bottom)	11814/11765	780	388/360	106	81	123	77	318	70
All firms (excluding don't know/refused responses), p. 6 (top)	11810/NA	795	389/NA	106	83	122	77	318	71
All firms (excluding don't know/refused responses), p. 6 (bottom)	11725/NA	784	384/NA	104	82	121	76	314	70
All firms (excluding don't know/refused responses), p. 7 (top)	11945/11857	762	398/364	107	85	127	78	327	71
All firms (excluding don't know/refused responses), p. 7 (bottom)	11989/11891	796	400/366	108	85	127	79	329	71
All firms (excluding don't know/refused responses), p. 8 (top)	11735/11648	778	390/362	106	82	123	78	320	70
All firms (excluding not applicable/don't know/refused responses to all 3 questions), p. 8 (bottom)	8728/8780	615	248/226	71	56	67	53	193	55
All firms (excluding don't know/refused responses), p. 9	11980/NA	800	400/NA	108	85	127	79	329	71
All firms (excluding don't know/refused responses), p. 10 (top)	11975/NA	798	397/NA	107	85	126	78	327	70
All firms (excluding those who said don't know/refused/not applicable responses to all three international trade obstacles) p. 10 (bottom)	11382/NA	790	368/NA	100	78	115	74	301	67
All firms (excluding don't know/refused responses), p. 11 (top)	9339/NA	680	307/NA	89	67	99	51	249	58
All firms facing trade disruptions (excluding don't know/refused responses), p. 11 (bottom)	9265/NA	707	303/NA	88	65	98	51	246	57
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 14	10051/8675	665	295/259	77	66	89	62	234	61
All firms who used external finance (excluding don't know/ refused responses), p. 15 (top)	4107/4059	275	126/104	37	28	33	27	96	30
All firms who used external finance (excluding don't know and refused) p. 15 (bottom)	4155/4100	280	132/107	37	29	35	30	100	32
All firms who used external finance in the last financial year (excluding don't know/refused responses) , p. 16	3988/3964	270	112/99	33	24	27	27	85	27
All firms (excluding don't know/refused responses), p. 17	11504/11518	715	344/351	88	73	116	66	282	62
All firms (excluding don't know/refused responses), p. 18 (top)	11911/11849	790	393/363	107	84	124	77	322	71
All firms (excluding don't know/refused responses), p. 18 (bottom)	11909/NA	784	397/NA	107	85	126	78	326	71
All firms (excluding don't know/refused responses), p. 19 (top)	11172/11384	759	361/339	100	75	115	70	295	66
All firms (excluding don't know/refused responses), p. 19 (bottom)	11964/NA	794	399/NA	108	85	127	78	328	71
All firms (excluding don't know/refused responses), p. 20 (top)	11685/NA	763	385/NA	105	81	125	73	318	67
All firms (excluding don't know/refused responses), p. 20 (bottom)	11712/NA	783	384/NA	104	81	125	73	315	69
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 21 (bottom)*	9752/9617	677	284/263	75	65	82	61	224	60
All firms (excluding don't know/refused responses) p. 22 (top)	11696/11616	785	370/340	100	77	120	72	301	69
All firms (excluding don't know/refused/did not exist in 2019 responses) p. 22 (bottom)	11662/11718	783	374/345	100	78	120	75	311	63

European Investment Bank

Economics Department
economics@eib.org
www.eib.org/economics

Information Desk
+352 4379-22000
info@eib.org

European Investment Bank
98-100, boulevard Konrad Adenauer
L-2950 Luxembourg
+352 4379-1
www.eib.org

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