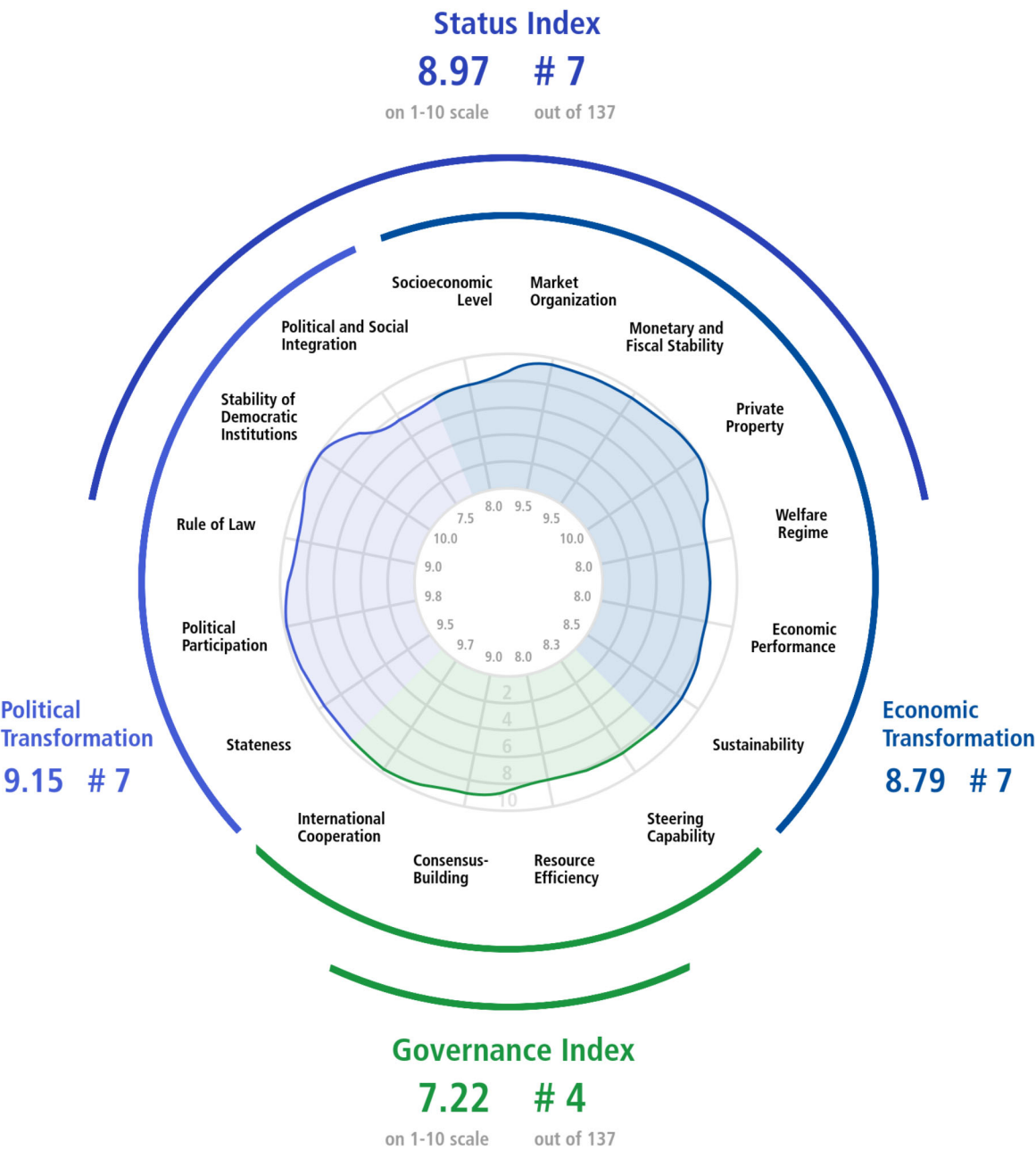


Latvia



This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2026. It covers the period from February 1, 2023 to January 31, 2025. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	1.9	HDI	0.889	GDP p.c., PPP \$	43867
Pop. growth ¹	% p.a.	-0.8	HDI rank of 193	41	Gini Index	34.0
Life expectancy	years	75.7	UN Education Index	0.905	Poverty ³	% 0.7
Urban population	%	68.8	Gender inequality ²	0.117	Aid per capita	\$ -

Sources (as of December 2025): The World Bank, World Development Indicators | UNDP, Human Development Report 2025. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

The past two years have seen both continuity – with the center-right party of New Unity maintaining its grip on the prime minister’s office – and change, as Prime Minister Krišjānis Kariņš’ political career collapsed in ignominy and his successor, Evika Siliņa, was overwhelmed by a series of domestic crises involving construction of the Rail Baltica train line, the privatization of the national carrier airBaltic and growing security concerns over Russia’s intentions toward Latvia and the wider Baltic region.

Kariņš became the first Latvian prime minister to complete a full term in office, and his New Unity party won the largest share of the vote in the October 2022 parliamentary election. After leaving the prime minister’s office to become foreign minister in September 2023, Kariņš positioned himself to run in the 2024 European Parliament election and then seek Latvia’s nomination for European commissioner. Instead, his political career collapsed after a scandal over his excessive and costly use of private jets while prime minister prompted him to resign and leave politics. The scandal also led to the resignation of Latvia’s top civil servant, the state chancellor, who had apparently approved the expenses.

Kariņš was succeeded by Siliņa, his former parliamentary secretary (essentially a deputy minister). She heads a three-party coalition of New Unity (JV, a center-right party), the Progressives (PRO, a social democratic party aligned with the Greens in the European Parliament) and the Green and Farmers Union (ZZS, quite different from European-style Green parties). Over the course of 2024, the coalition was shaken by financial instability, faltering prospects for completing the Rail Baltica project and mounting financial troubles at the national carrier Air Baltic, in which the government holds a 97.97% stake.

Rail Baltica is a new 870-kilometer north-south European standard-gauge rail line running through the Baltic states. In 2017, its total estimated cost was €5.8 billion, with Latvia's phase estimated at €1.97 billion. However, by early 2024, the estimated cost of the Latvian phase alone had risen to €9.5 billion, according to the Boston Consulting Group. Moreover, the rail line, initially scheduled to be operational by 2026, was delayed first to 2030 and then to 2032. How the government will finance Latvia's share of the project remains unclear.

The money-losing national carrier Air Baltic, which the government bailed out during the COVID-19 pandemic, received further government support as several hundred million euros in public debt were written off in preparation for an IPO in 2025.

At the end of 2024, the government coalition failed to agree on a candidate to head the Bank of Latvia. The incumbent governor, U.K.-trained economist Mārtiņš Kazāks, had been an outspoken critic of Latvia's politicians, which may explain why only two coalition parties – the social democratic PRO and centrist JV – nominated him for re-election. The third party, ZZS, criticized Kazāks for not pushing commercial banks to increase lending and backed another candidate. The four opposition parties saw an opportunity to weaken the prime minister and also refused to support Kazāks. In a last-minute meeting, coalition leaders agreed to delay the decision until January, when they would search for a common candidate. In the end, the coalition was unable to find an alternative and returned to Kazāks as the official candidate.

These developments occurred amid rising security risks from Russia's war in Ukraine and rapidly increasing defense spending. In January 2025, the president urged the government to raise defense spending relative to GDP. However, Latvia's economy has stagnated as foreign direct investment projects have been delayed or canceled and exports have slowed. The decision to halt gas and oil imports from Russia led to higher energy prices for both consumers and businesses, though inflation was brought under control by 2024. Latvia continues to lag well behind Estonia and Lithuania in GDP per capita and other key macroeconomic indicators, and both the public and politicians appear pessimistic about Latvia's short-term prospects.

History and Characteristics of Transformation

The modern Latvian nation began to take shape in the mid-19th century, driven by Tsarist peasant emancipation, urban industrialization and, a generation later, the rise of an educated Latvian middle class. Following the collapse of the Tsarist empire and Germany's defeat in World War I, Latvia seized the opportunity to establish independence, in line with the emergence of new nation-states across Eastern and Central Europe. The young Latvian state adopted a parliamentary constitution in 1922 but struggled with political instability, forming 13 government coalitions by 1934. This turbulence culminated in a peaceful coup that year and the establishment of Kārlis Ulmanis' authoritarian but relatively benign rule. Despite its shortcomings, this period is often viewed with nostalgia, largely because of the harsher experiences that followed under Soviet and German occupations during World War II and Latvia's forced incorporation into the Soviet Union.

Latvia, along with the other two Baltic states, was occupied and illegally annexed by the USSR in the summer of 1940. After an initial wave of Sovietization and repression, Nazi Germany invaded and occupied the country. The occupying forces, aided by local collaborators, exterminated nearly all of Latvia's Jewish population. Despite failed attempts to restore independence and sustain partisan resistance, Latvia was again taken over by Soviet forces at the end of World War II.

After 1945, Soviet occupation brought mass deportations, repression, agricultural collectivization, rapid industrialization and major demographic shifts as Russian speakers from other Soviet republics migrated to Latvia. By the 1980s, the Soviet regime was weakened by falling energy prices and Mikhail Gorbachev's democratic reforms, which enabled the reemergence of Latvian national movements and the first free elections in decades. Three main political factions took shape: the radical nationalists of the Latvian National Independence Movement, the more moderate and inclusive Latvian Popular Front (LPF) and Interfront, an anti-reform movement composed mainly of ethnic Russian Communist Party members and retired Soviet officers who had settled in Latvia. This three-way division continues to influence Latvia's political landscape, with nationalist, centrist and pro-Russian-speaking parties all represented in parliament.

De facto independence was achieved after the failed anti-Gorbachev coup in Moscow in August 1991. Latvia then embarked on a sweeping political and economic transformation. The transition to multiparty democracy began with the reinstatement of the 1922 constitution and the first post-Soviet parliamentary elections in 1993. Latvia's accession to the European Union and NATO in 2004 marked two major milestones. The 2022 parliamentary elections – the 10th since independence – were held peacefully and democratically. Three decades after restoring independence, Latvia has consolidated its status as a democracy.

Latvia's economic development, though marked by setbacks, has generally progressed since independence. Still, it has lagged behind its Baltic neighbors, Estonia and Lithuania, on key indicators. Many of the largest Soviet-era industrial enterprises, such as VEF (electronics) and RAF (minibuses), went bankrupt in the early 1990s, driving up unemployment in the initial post-independence years. Government revenues fell sharply, leading to a decline in the quality and availability of public services. Currency reforms, hyperinflation and the collapse of several commercial banks in the mid-1990s further deepened the crisis.

In the early 2000s, Latvia experienced rapid growth, driven by a construction boom and consumer spending fueled by easy credit, particularly after EU and NATO accession in 2004. However, in late 2008, the economy suffered a severe shock when Parex, the largest domestically owned bank, collapsed, forcing the government to seek an IMF-led bailout. The ensuing recession – among the world's deepest – saw GDP contract by a cumulative 23.9%. The economy stabilized in 2010 and returned to modest growth, but Latvia again fell into recession in 2020 during the COVID-19 pandemic, and once more after Russia's full-scale invasion of Ukraine, which triggered a sharp rise in energy prices.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The Latvian state's monopoly on the use of force throughout the country is uncontested.

Russia's war of aggression against Ukraine and belligerent stance toward NATO and the European Union have heightened concerns about military action along Latvia's eastern border. Latvia has responded by rapidly increasing defense and domestic spending and deepening military cooperation with its Baltic and Nordic neighbors.

The ethnic structure of contemporary Latvia was largely shaped by World War II, the Nazi occupation and two Soviet occupations (1940 – 1941 and 1944 – 1991). The local population suffered significant losses because of Soviet deportations of ethnic Latvians and other Latvian citizens in 1941 and 1949. During the Nazi occupation, 95% of Latvian Jews were exterminated. In the war's final years, many ethnic Latvians emigrated to Western countries. Concerted Russification efforts led to the settlement of about 700,000 Russian speakers in the former Soviet Socialist Republic of Latvia over the following decades, and by the time of the final Soviet census in 1989, Latvians accounted for just 52% of the republic's population.

After independence was renewed in August 1991, Latvian elites were concerned that Russian speakers – with a deep and understandable affinity for the Russian-speaking countries to the east of Latvia – might derail elite efforts to reorient Latvia toward the West and to integrate with the European Union and NATO. As a result, new laws in the 1990s initially denied automatic citizenship to Russian speakers and their descendants who had migrated to Latvia during the Soviet era. A special status of “non-citizens” was created in 1995. It granted permanent residency, social protection and certain legal rights but did not allow voting, running in elections or civil service employment. Non-citizens could naturalize by passing Latvian language, history and constitution exams, along with fulfilling residency and loyalty requirements.

Question Score

Monopoly on the
use of force

10



State identity

8



In the late 1990s, Latvia reformed its citizenship laws to align with EU and NATO requirements. In 1998, the naturalization quotas were abolished, allowing non-citizens to apply for citizenship without annual limits. After a national referendum, non-citizen parents were allowed to choose between non-citizen status and Latvian citizenship for their newborns. In 2020, Latvia eliminated the “non-citizen option” for newborn children of non-citizens, granting them Latvian citizenship automatically.

As of 2024, ethnic Latvians made up 63% of the Latvian population and ethnic Russians 23% (with ethnic Ukrainians and ethnic Belarusians each making up another 3%). In 2024, non-citizens made up 9% of the population (compared with 30% in 1995).

After independence, students could still receive nearly all their instruction in Russian in special Russian-language schools. This meant that a large portion of the Russian-speaking population graduated with limited proficiency in Latvian, the only official language in Latvia. A bilingual education model was introduced in minority schools in 2004, and subsequent reforms in 2018 increased the share of instruction in Latvian.

The most significant reform came in 2022 after Russia’s full-scale invasion of Ukraine, when it was decided that by 2025 all public schools would transition to full Latvian-language instruction, eliminating bilingual education entirely.

The use of the Russian language was increasingly marginalized in the public sphere as government agencies closed sections of their websites that previously provided information in Russian and even changed street names, such as Moscow Street in Riga. The celebration of May 9 “Victory Day,” Russian speakers’ biggest public celebration in Latvia, was also banned. These changes have been met with reluctance – though with little public protest – by Latvia’s Russian-speaking population, but they are likely to contribute positively to the integration of future generations into Latvian society.

Latvia’s 1922 constitution enforces the separation of church and state. Latvia has long had three major Christian denominations: Lutheran, Catholic and Orthodox. The Orthodox denomination severed all official ties with the Russian Orthodox Church after Russia’s 2022 invasion of Ukraine.

Religious leaders participate in public debates, typically embracing conservative views on the growing influence of “liberal Western” ideologies. Their concerns revolve mainly around the increasing societal and legislative acceptance of same-sex relationships, and they opposed a law recognizing same-sex civil unions that took effect July 1, 2024.

No interference of religious dogmas

10

'06 '26
10 10

National and local governments provide all essential services, supported by an extensive road network and broad, low-cost broadband access. A reform of local government that consolidated local governments into larger units was enacted in 2020, largely to provide better public services for those living in small towns and rural areas whose tax base had been eroded by demographic decline over the previous three decades. In recent years, the government has moved to digitize public services. Starting January 1, 2023, all Latvian businesses and legal entities were required to establish an official e-address to facilitate communication with public authorities. Citizens were encouraged to register for e-addresses in 2024. However, by the end of the year, the Ministry of Smart Administration and Regional Development had to compensate residents affected by a flaw in the e-address system, which prevented them from receiving official notifications and resulted in unpaid fines and other legal issues.

Basic administration

10



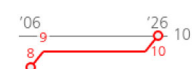
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2 | Political Participation

Latvia holds local, national and European elections, all of which are considered free and fair by international and local observers. The June 2024 European Parliament election, Latvia's fifth since joining the European Union in 2004, saw 16 parties or party alliances competing for Latvia's nine member of the European Parliament seats. No irregularities were reported in this election, and seven parties or party alliances – representing a broad political spectrum – were elected to the European Parliament. There were 945 polling stations across Latvia, as well as polling stations worldwide serving Latvia's large diaspora.

Free and fair elections

10



1

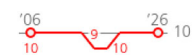
National parliamentary elections are held every four years (as with municipal elections). The Central Election Commission, an independent body, is responsible for organizing and overseeing elections in Latvia. In 2022, a procurement scandal led to the detention of the Central Election Commission chair, Kristīne Bērziņa, by Latvia's Corruption Prevention and Combating Bureau (KNAB) and to her subsequent removal from office over illegalities in the commission's procurements. A new nonpartisan chair was appointed in early 2023, and the new leadership has moved to modernize ballots to improve machine reading speed and accuracy.

Political parties participating in elections have equal access to public media, although for many years smaller parties have voiced concerns about not being invited to debates alongside leading parties and candidates. According to both public and private media, the high number of parties and party alliances competing in the elections would make an all-party debate unwieldy. As a result, parties are typically divided into two debating groups based on independent polling data.

Latvia is governed by democratically elected representatives from a broad ideological spectrum of political parties. As of early 2025, the three-party governing coalition consisted of the social democratic Progressives (PRO), the centrist New Unity (JV) and the conservative Green and Farmers Union (ZZS). ZZS, long dominated by one of Latvia's leading oligarchs – former Ventspils mayor Aivars Lembergs – has largely shed its oligarchic ties. Meanwhile, another oligarch, Ainārs Šlesers, has returned to frontline politics with a new party, Latvia First (LPV), which remains marginalized by the mainstream and sits firmly in the opposition. This marks a sharp contrast with the early 2000s, when Latvia was widely viewed as being under significant oligarchic influence. At the time, a World Bank report warned that Latvia was on the verge of “state capture,” and a U.S. ambassador publicly condemned the oligarchs’ undue sway over politics.

Effective power to govern

10



1

Substantial reforms to party financing laws have played a pivotal role in reshaping Latvia's political landscape. Reforms driven by former President Egīls Levits reduced the size of private donations to political parties and sharply increased public financing, diminishing the political influence of wealthy donors and bolstering party independence. However, Latvia's Corruption Prevention and Combating Bureau (KNAB), which oversees party finances, has criticized parties for failing to invest these windfall party funds in strengthening policy development or organizational strength and for instead raising spending on advertising and central office salaries. Nevertheless, these reforms have certainly strengthened the independence of political parties and allowed them to institutionalize and develop more permanent structures, as evidenced by the greater persistence of parties, which now tend to continue operating rather than simply folding even after finishing below the 5% threshold in national elections.

The constitution guarantees the right of assembly. There were no formal restrictions on association or assembly (barring temporary restrictions during the global COVID-19 pandemic in 2020 – 2022) until Russia's invasion of Ukraine in February 2022. Courts consistently intervened to overturn politically motivated bans on assembly by local authorities that targeted sexual minorities or radical nationalist organizations.

Association / assembly rights

10



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However, Russia's war of aggression in Ukraine prompted the Latvian parliament to pass legislation making it illegal to commemorate events or figures associated with atrocities committed by the Nazi or Soviet regimes. The government was concerned that Russian authorities could use hybrid war tactics to foment public disorder in Latvia through these events. Consequently, the traditional May 9 “Victory Day” celebration in Latvia, long the only major annual public event for Latvian Russian speakers, was effectively banned. Indeed, the Victory Monument in Riga, which served as the gathering place for May 9 celebrations, was toppled in August 2022, and the area has since been reconstructed into a public park.

In 2024, there have been attempts to organize rallies in support of Palestinians. In early 2024, the city of Riga initially banned a planned demonstration, then allowed it after legal adjustments. In April 2024, the vice mayor of Riga argued to prohibit a pro-Palestinian rally. After discussions between security officials and event organizers, the rally proceeded without major incident.

Freedom of expression is guaranteed in the Latvian constitution and has been actively defended by the Constitutional Court. There are no censorship measures in place, and Latvia has a broad ideological range of media organizations. However, few print newspapers and news magazines remain, with digital media dominating the news landscape. As income has declined, media organizations have become increasingly dependent on government funding. This has contributed to a more contentious media landscape. At the same time, Russia's full-scale invasion of Ukraine has fueled politicized efforts to restrict media activity through a securitization discourse framed as essential for safeguarding national identity and countering Russian hybrid warfare. Consequently, media oversight has become deeply politicized.

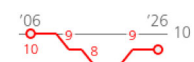
The editorial board of Latvian Radio, in an open letter dated April 5, 2024, expressed deep concern about growing threats to freedom of expression and media independence in Latvia. The board highlighted the growing tendency to exert public and political pressure on journalists that has led to self-censorship and reluctance to cover controversial topics. It also criticized recent legal proceedings, such as the decision by the Riga Regional Court to fine the Tvnet news portal €3,000 for alleged inaccuracies, as a dangerous precedent that could undermine journalistic autonomy. In addition, the board pointed to legislative measures, including restrictions on content in minority languages and increased regulatory oversight, which the board believes could further undermine media freedom and diversity of opinion in the country.

The National Electronic Mass Media Council (NEPLP), which oversees radio, TV, print media and online media, is composed of representatives elected by parliament and aligned with political parties. In 2021, a separate entity, the Public Electronic Mass Media Council (SEPLP), was established to regulate public TV and radio. Its members are also elected by parliament and proposed by the president, parliament and nongovernmental organizations. SEPLP includes a media ombudsperson who oversees ethical concerns, alleged bias and other criticisms related to public media content.

On June 11, 2024, the Society Integration Fund (SIF) demanded that the investigative journalism organization, Re:Baltica, repay €36,500 in funding for a documentary on Latvia's Russian minority – arguing that the funding was intended for Latvian-language content – even though much of the series was in Russian with Latvian subtitles. The demand came amid political pressure, as the Latvia First (LPV) party was attacking Re:Baltica for its investigations, and journalists were reporting on

Freedom of expression

9



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another party, Latvijas Attīstībai, and its questionable financing. Concerns grew over politicized retaliation, especially as SIF leadership had family ties to Latvijas Attīstībai.

Re:Baltica defended its editorial choices and insisted that Russian was essential for authentic representation. After legal review and public scrutiny, SIF reversed its decision on Dec. 4, 2024, dropping the repayment demand.

On January 2, 2025, Latvian Public Media (LSM) was established, combining public radio, television and the LSM news portal under a single management structure. The process of choosing the new LSM leadership in fall 2024 was closely scrutinized amid fears that concentrating all public media in a single, centralized structure could lead to greater political control.

3 | Rule of Law

Latvia's central democratic institutions include the 100-member parliament, known as the Saeima; the president as head of state; the prime minister and the cabinet of ministers as the executive branch; and the Constitutional Court. These institutions play a pivotal role in maintaining the separation and balance of political power in the country.

The Saeima, elected every four years through proportional representation, serves as Latvia's primary legislative body. However, it faces significant challenges in policy planning and evaluation. The Saeima Analytical Service, responsible for research support, was established only in 2017 and has a staff of four researchers serving 100 parliamentarians. While parliamentary committees have access to consultants, the consultants' primary function is administrative rather than research-oriented. Each parliamentarian has one paid assistant, whose duties are primarily administrative and lack a research-oriented focus.

The 2019 presidential election marked a significant change, as parliament openly voted to elect the state president. The 2023 presidential election followed the same practice. When the president is a party member, tradition dictates that the president resign upon taking office. Presidents exercise their powers by returning laws to parliament and initiating legislation. They can also leverage the power and prestige of the office to influence public opinion and political parties. Another key presidential function is to nominate a candidate to form a government; that nominee is then subject to a parliamentary vote. The president has considerable discretion in choosing a candidate for prime minister.

The political executive, represented by the cabinet of ministers and headed by a prime minister (known as the minister president in Latvia), has gained strength as political parties have developed more effective party organizations and enforced stricter

Separation of
powers

9



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internal discipline. This has led to improved cooperation among ministers from the same parties. Consequently, recent prime ministers have enjoyed longer tenures. In October 2022, Krišjānis Kariņš became the first Latvian prime minister to serve a full four-year term, and the New Unity (JV) party alliance also secured the largest share of votes in the October 2022 election, resulting in his return to office in December. Kariņš then resigned in summer 2023. He leveraged his protégé Evika Siliņa (also JV) into office and took up the foreign minister post in expectation of being nominated as Latvia's European commissioner after the 2024 European Parliament elections. However, he was forced to resign in spring 2024 following media reports on his extensive use of private flights while prime minister.

The prime minister's authority is relatively limited compared with that of counterparts in other European democracies. The prime minister's control typically extends to ministerial portfolios within the prime minister's own party, while other coalition parties retain authority over their ministerial domains.

The Constitutional Court remains an important check on both the executive branch and the legislature, regularly returning laws it finds unconstitutional. In November 2020, the court ruled that the state has an obligation to protect the family of same-sex partners in labor law matters. Parliament repeatedly refused to comply with the Constitutional Court's judgment, despite being urged to do so by both the prime minister and the president, and only voted in favor of the amendment as part of a broad coalition deal following the election of new Prime Minister Evika Siliņa in fall 2023.

Latvia has an independent judiciary, and judges are part of a distinct and differentiated profession. The appellate system functions efficiently. Judges of the District Court, Regional Court, Supreme Court and Constitutional Court are appointed by parliament. There were concerns about the politicization of judicial appointments after parliament rejected the appointment of Sanita Osipova, former president of the Constitutional Court, to the Supreme Court in 2022. Conservatives opposed the appointment because, during Osipova's presidency, the Constitutional Court had ruled in favor of legal protection for same-sex couples. Osipova, however, was appointed by the next parliament in 2023.

Significant improvements have been made in case-processing speed. The European Commission's 2024 EU Justice Scoreboard ranked Latvia behind only Estonia and Denmark in the time it takes to hear a case in the first instance. It also lauded technological updates to the Latvian court system through the e-justice system, which has led to the introduction of machine-readable court decisions, electronic filing of applications and digital updates to court proceedings. Through an e-Case portal, a fee calculator, an online court calendar and information on the progress of proceedings are available digitally.

Independent
judiciary

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Latvia's anti-corruption agency, the Corruption Prevention and Combating Bureau (KNAB), was founded in 2002 ahead of Latvia's accession to the European Union and NATO in 2004. It has handled a number of high-profile cases of political corruption, including the influential former mayor of Ventspils, Aivars Lembergs (where it took 12 years for a first-instance court to render a verdict) and, more recently, the former governor of Latvia's central bank, Ilmārs Rimšēvičs (where it took six years for a first-instance court to render a verdict). In 2023, KNAB launched 36 criminal processes, and criminal investigations sped up to an average of four months.

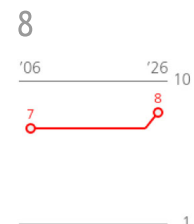
Procurement cases make up a growing share of cases. A particularly controversial case in 2024 involved a €220 million military procurement for food supply and logistics for the armed forces, awarded to a small firm with little experience in the field. A subsequent KNAB investigation and report found that the procurement committee's inexperience was largely to blame and concluded that the case reflected incompetence rather than corruption.

Latvia consistently upholds core human rights, including the right to life and security, and prohibits torture and cruel or inhumane treatment or punishment. There is no evidence of discrimination in the legal system. Latvia maintains a robust Ombudsman's Office that functions independently and advocates for human rights. Its citizens also have access to the European Ombudsperson's Office.

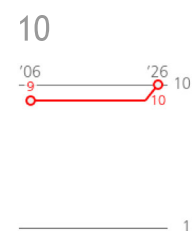
The Latvian Ombudsman's Office is a key institution in the field of human rights. In recent years, the Ombudsman has been instrumental in urging parliament to adopt the Council of Europe Convention on Preventing and Combating Violence Against Women and Domestic Violence – known as the Istanbul Convention – which parliament ratified on November 30, 2023, as well as a law on same-sex civil unions, which parliament ratified on November 9, 2023, and which took effect on July 1, 2024.

According to the Ombudsman Office's 2023 annual report, public submissions for assistance primarily concerned good governance principles (16% of the 1,718 submissions in 2023), the right to a fair trial (9%), the right to property (7%) and access to health care (6%).

Prosecution of office abuse



Civil rights



4 | Stability of Democratic Institutions

Latvia is a consolidated democracy. Since 1991, every government has adopted a foreign policy focused on consolidating democracy and building economic competitiveness through integration with key global and Western world institutions, particularly the European Union and NATO.

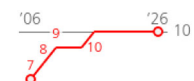
The re-adopted 1922 constitution is at the heart of Latvia's democratic framework. It empowers parliament, the executive branch, national and municipal bureaucracies and judicial institutions to make and execute decisions. A system of checks and balances is diligently maintained, with both the state president and the Constitutional Court returning laws to parliament and the executive branch for further review.

Nevertheless, policy formulation remains a notable weakness in the political system. Although parliament and individual ministries have worked to establish analytical units (and some institutions, such as the Ministry of the Economy, the parliament and the State Chancellery, have done so), and the University of Latvia has established a think tank dedicated to productivity, the Latvian political system still has a deficit of political ideas and – as a result – innovative policies. Latvia's new president, Edgars Rinkēvičs, recognized this in fall 2023 when he created a new National Competitiveness Council charged with developing proposals to strengthen competitiveness in education, science and entrepreneurship.

Political parties, nongovernmental organizations and citizens accept the legitimacy of Latvia's democratic institutions.

Performance of democratic institutions

10



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Commitment to democratic institutions

10



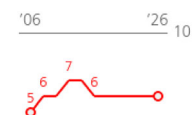
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5 | Political and Social Integration

The 30-plus years since Latvia's first post-Soviet democratic parliamentary elections in 1993 have seen political parties gradually stabilize, and the party system has come to revolve around an ethnic Latvian versus Russian-speaking cleavage. Latvia's most recent parliamentary elections in October 2022 featured 19 political parties competing for seats. Electoral volatility has persisted, with four of the seven parties or electoral coalitions that won seats in the 100-member parliament gaining representation for the first time, although only two of these four could be described as genuinely new.

Party system

6



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One of the new parties was For Stability! (S!), which replaced the long-established Harmony Social Democracy (SSD) as the pro-Russian-speaking party in parliament. S! refused to denounce Russia's February 2022 invasion of Ukraine, whereas SSD's swift condemnation of the invasion diverged from the sentiments of its voter base, which held mixed views on the conflict.

As with SSD and older pro-Russian-speaking parties in the 1990s, S! was excluded from government coalition negotiations after the 2022 election and again in fall 2023, when a new government coalition was formed following the resignation of long-serving Prime Minister Krišjānis Kariņš (New Unity, JV).

In addition to Russian-speaking parties, the ethnic Latvian segment of Latvia's party spectrum is made up of three ideological groupings: (i) radical right-wing nationalists; (ii) technocratic nationalists, often organized around narrow economic interests, encompassing both rural- and urban-based factions; and (iii) centrist liberals, including both economically liberal and value-based liberals. The three-party government coalition formed in December 2022 reflected these three groups, although the government formed in fall 2023 excluded the radical nationalists from the government for the first time since 2011. Additionally, a fourth group comprising pure anti-government populist parties has emerged in recent years, although this group exhibits greater organizational fragility compared to the other groupings and, similar to Russian-speaking parties, has been excluded from government coalition negotiations. These populist parties tend to transcend the traditional ethnic lines in Latvian politics, attracting a significant number of votes from Russian speakers.

Latvian political parties have long been characterized by organizational weakness, with some of the lowest membership rates in Europe relative to the electorate (about 1% of voters are party members). Their financial stability depended heavily on generous donations from corporations and wealthy individuals until this dependence was addressed in 2019, when parliament passed a law – supported and indeed drafted by the president – to increase public financing substantially and cap the value of corporate contributions.

In the 2022 election, in addition to the seven parties elected to parliament, six more parties surpassed the 2% vote threshold required to qualify for state subsidies over the next four years. In previous elections, these parties might have faced dissolution, but with access to state subsidies, they are likely to reorganize and participate in future electoral campaigns.

Societal interests are well integrated into Latvia's political system. The National Tripartite Cooperation Council (NTCC) fosters a structured social dialogue between the national government, the Latvian Employers' Confederation (LDDK) and the Free Trade Union (LBAS) on key socioeconomic issues, including taxes, social security and employment law. Interest groups are regularly invited to provide expertise on draft legislation in ministries, government agencies and parliament.

Parallel to the NTCC is a broad range of other organized interests, particularly business associations such as the Latvian Chamber of Commerce and Industry and Finance Latvia, that interact with national and local governments, the civil service and the legislature and occasionally use the court system to challenge laws and policies. However, nonbusiness interest groups advocating for causes such as the environment typically rely on the dedication of a small cadre of members rather than enjoy the extensive and stable financial resources of the business groups. For example, Delna, the Latvian branch of Transparency International and the most active anti-corruption group in Latvia, has long had just a few dozen fee-paying members. The principal barriers to achieving even greater influence in policymaking for these interest groups are not legal or political in nature but stem from the lack of a tradition of volunteerism, low grassroots membership and a lack of stable funding sources. To address this challenge, the state has taken steps to provide additional funding to nongovernmental organizations (NGOs) through the Society Integration Foundation (SIF), which allocated €4.5 million for NGO development in 2024.

A 2023 Eurobarometer report found that 42% of Latvians were “very satisfied” or “somewhat satisfied” with the way democracy works in Latvia (slightly below the EU average, which was 47%) and that 57% agreed that Latvians can express their political opinions without fearing negative consequences (again, below the EU average, which was 68%).

According to the 2023 Standard Eurobarometer, 27% of Latvians trusted the parliament, compared with the EU average of 39%. Meanwhile, 30% expressed trust in the Latvian government, below the EU average of 36%. The survey also confirmed a long-term trend: Latvians tend to trust European institutions more than their national ones, with 54% expressing trust in the European Union, which is above the EU average of 47%.

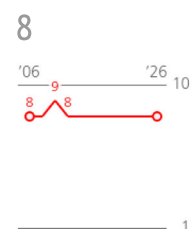
Social capital remains low in Latvia. A 2020 survey commissioned by the Providus think tank found that only one-third (32%) of the population expressed trust in their fellow citizens, representing only a slight improvement from the 24% reported for an identical question in the 1998 World Values Survey.

Latvia has a strong tradition of public engagement in various cultural and recreational activities, such as choirs, folk dance groups and sports clubs. However, these pursuits are typically subsidized by national and local government resources rather than autonomously financed by member donations. There are few NGOs with fee-paying

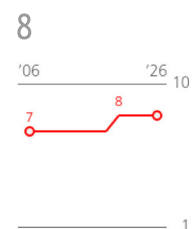
Interest groups



Approval of democracy



Social capital



members. While there are several innovative and lauded NGO institutions – such as the Lampa annual democracy festival in the provincial Latvian town of Cēsis, which gathered 25,000 participants in July 2025, or the Mana Balss (“My Voice”) digital citizens’ initiative platform – social engagement is sporadic, ad hoc, event-driven and rather poorly institutionalized. Thus, while Russia’s invasion of Ukraine spurred a wide range of civic activities in Latvia aimed at supporting Ukraine and Ukrainian refugees, this increased public engagement has not spilled over to other sectors.

II. Economic Transformation

6 | Level of Socioeconomic Development

Latvia’s Gini index, a measure of income inequality, was 34.3 in 2021, below the European average. The figure has been falling as successive governments have worked to reduce socioeconomic inequality and introduce greater progressiveness into the income tax system. In 2025, income up to €105,300 a year is taxed at 25.5%, while income above that level is taxed at 33%. The capital gains tax rate was also increased to 25.5%, with an additional 3% applied to capital gains income above €200,000 a year.

Nevertheless, those most vulnerable to poverty include the elderly, particularly pensioners with low social tax contributions, and residents of rural areas, notably in the eastern Latgale region bordering Russia.

Economic indicators		2021	2022	2023	2024
GDP	\$ M	38183.3	38014.7	42572.2	43520.8
GDP growth	%	6.9	1.8	2.9	-0.4
Inflation (CPI)	%	3.3	17.3	8.9	1.3
Unemployment	%	7.5	6.8	6.5	6.7
Foreign direct investment	% of GDP	9.8	3.2	4.0	3.5
Export growth	%	9.1	11.4	-4.7	-1.6
Import growth	%	15.1	9.9	-2.0	-2.3
Current account balance	\$ M	-1579.4	-2082.3	-1662.9	-687.9

Question
Score

Socioeconomic
barriers

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Economic indicators		2021	2022	2023	2024
Public debt	% of GDP	45.9	44.4	44.6	46.8
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-6.9	-4.9	-2.0	-
Tax revenue	% of GDP	16.5	17.1	16.7	-
Government consumption	% of GDP	21.7	20.5	20.2	-
Public education spending	% of GDP	4.8	4.3	-	-
Public health spending	% of GDP	6.3	4.9	-	-
R&D expenditure	% of GDP	0.7	0.8	-	-
Military expenditure	% of GDP	2.1	2.1	2.3	-

Sources (as of December 2025): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Latvia is a member of all key international organizations, including the European Union, the eurozone, the World Trade Organization and the OECD. The country generally adheres to international laws and norms governing market competition, and there has been a long-term decline in the prevalence of corruption, although it still exists in areas such as procurement. In 2023, the shadow economy in Latvia was estimated to have decreased to 22.9% of GDP, a reduction of 3.6 percentage points compared with 2022, according to the Riga Shadow Economy Index published by the Stockholm School of Economics. Almost half of the shadow economy is attributed to “envelope salaries” (unreported cash payments).

Latvia’s Foreign Investors Council (FICIL) conducts an annual study known as the Sentiment Index, which assesses the investment climate in Latvia. In its 2024 report, FICIL criticized the high level of bureaucracy, the quality of the education system, the regulatory framework and poor investment incentives. The investment climate was ranked 1.9 out of 5, the lowest score since the survey was launched in 2015.

Market
organization

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Latvia complies with European antimonopoly legislation and maintains national laws and authorities responsible for regulating competition. The Latvian Competition Council is widely regarded as one of the most independent public bodies in Latvia. The highest-profile cases in 2023 involved a €5.8 million fine against construction materials producers and retailers for long-term price-fixing agreements and a nearly €2 million fine against three public transport companies for rigging state tenders to service regional bus routes.

As a member of the European Union, Latvia's foreign trade relations are regulated and overseen by the European Commission. As a small, open economy, Latvia has traditionally had strongly pro-free trade governments. Nonetheless, Latvia has been a strong advocate of economic sanctions, including trade sanctions, against Russia since Russia's invasion of Ukraine.

The first three decades after renewed independence saw Latvia develop the largest banking sector in the Baltic states. This growth was heavily contested, as the sector expanded by serving nonresident clients from post-Soviet states. Advocates argued that Latvia's financial sector was emerging regionally. Opponents pointed out reputational risks connected to money-laundering. Debates ended in 2018 after the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN) accused ABLV, Latvia's largest domestically owned bank, of money-laundering. The bank went into liquidation, and the government promptly enacted legislation prohibiting banks from engaging with shell companies. Under external pressure, the government implemented substantial sectoral reforms, and banks that served nonresident clients were either closed or reoriented to serve domestic clients. Latvia's bank regulator, the Financial and Capital Market Commission (FKTK), was seamlessly integrated into the central bank in 2023.

However, complaints have arisen from businesses, investors and even NGOs, contending that the reforms have been overly stringent. Opening new bank accounts, collaborating with partners from countries flagged as suspicious by Latvian banks and securing business loans have all become excessively challenging. In 2024, the U.S. ambassador to Latvia complained that overregulation had prevented him from opening a bank account in Latvia.

The retail banking sector is dominated by two Swedish banks – Swedbank and SEB – which have been accused of being too conservative in issuing loans to households and businesses, especially outside the capital, Riga, and of earning excessive profits. A super-profit tax on banks was introduced in 2025. Non-performing loans in Latvia were 2.3% in 2022, and the bank capital-to-assets ratio has remained relatively stable in recent years, hovering around 9%.

Competition policy

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Liberalization of foreign trade

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Banking system

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8 | Monetary and fiscal stability

Latvia adopted the euro and joined the European Union's eurozone in 2014. Monetary stability is overseen by the European Central Bank (ECB), with the governor of the Bank of Latvia serving on the ECB's Governing Council – its main decision-making body – and contributing to monetary policymaking. Mārtiņš Kazāks, a well-regarded economist and political independent with a Ph.D. from the University of London, was elected governor of the Bank of Latvia by Latvia's parliament in December 2019. However, the three-party governing coalition split over his reappointment – indicating politicization of the position – and pulled the parliamentary vote on the governor less than 24 hours before it was to be held in late December 2024. As a result, Latvia had no vote in Governing Council meetings in January 2025.

ECB policies initially had a minimal impact on the Latvian economy because domestic policies closely aligned with the ECB in the years leading up to eurozone accession. However, Latvia's economy experienced high inflation as prices rose during the COVID-19 pandemic and the war in Ukraine, and the ECB was slow to raise interest rates. Inflation in Latvia peaked in 2022 at 17.3%, fell to 8.9% in 2023 and then to just over 1% in 2024. However, the ECB's interest rates have been slower to fall.

Eurozone membership constrains Latvian budgets within the European Semester framework. A nonpartisan Fiscal Discipline Council, composed of experts from local and international backgrounds and elected by parliament, was established to assess government fiscal policies. The council frequently offers critical commentary on government policies and urges budget discipline.

The COVID-19 pandemic had a profound impact on public finances, causing Latvia's budget deficit to surge to 7.4% of GDP in 2020 and raising gross public debt from 36.9% of GDP in 2019 to 47% in 2024. Latvia regularly runs a budget deficit, with the 2025 deficit forecast at 2.9% of GDP. Rapidly rising national defense expenditure, a rising number of pensioners and needed investments in health care and education mean that gross public debt will continue to grow in the medium term.

9 | Private Property

Private property and intellectual property rights are regulated and protected in Latvia. A new specialized economic affairs court – focusing on financial crimes involving private companies as well as corruption and complex commercial disputes – commenced operations in 2021, and insolvency procedures are more tightly regulated following criticism from foreign investors.

Monetary stability

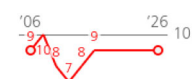
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Fiscal stability

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Property rights

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Latvia's economy is dominated by the private sector. However, there are a number of significant state-owned enterprises (SOEs), including the national air carrier airBaltic; the major mobile and fixed-line telecommunications operators; and the electricity monopoly, Latvenergo. The war in Ukraine has retrenched the political consensus on the need for the state to maintain some control over critical infrastructure. In late 2024, the government made an offer to Sweden's Telia to buy out its minority stakes in LMT, Latvia's largest mobile operator, and TET, the fixed-line telecommunications operator. Telia rejected the initial offer. The government provided extensive financial support to airBaltic, the national carrier, during the COVID-19 pandemic, which saw a significant downturn in the aviation sector. airBaltic plans an initial public offering (IPO) in 2025, which would significantly cut the current 97.97% state ownership share of the airline.

The private sector has two powerful lobbying associations – the Latvian Employers' Confederation and the Latvian Chamber of Commerce and Industry – that have far greater influence than do union representatives. In addition, there are several specialized sectoral groups that represent key sectors such as wood processing, financial services and pharmaceuticals.

10 | Welfare Regime

Latvia has adopted a comprehensive range of cash and in-kind welfare benefits. However, cash and in-kind social transfers remain among the lowest in the European Union, behind only Malta and Ireland.

For those who have paid into social security for at least 20 years, the retirement age rose to age 65 in 2025, and the nontaxable minimum was raised from €500 to €1,000 a month. Early retirement at age 63 is available to those with at least 30 years of social security contributions. There are no immediate plans to raise the pension age, although Latvia's unfavorable population pyramid – an increasing number of older people and fewer young people (there were fewer than 10,000 live births in the first nine months of 2024, a record low in Latvian history) – makes further increases very likely. Latvia operates a three-tier pension system that includes mandatory first and second tiers. In the second tier, contributions are invested in the financial market by an intermediary bank. In the 2025 budget, the government cut contributions to the second tier from 6% to 5% of earned income for the next four years. This 1% of earned income will be transferred temporarily to the first tier. The third tier comprises voluntary contributions made by both employers and employees to a private pension fund. Despite these measures, more than 25% of people ages 65 and older have incomes below the relative poverty line. The OECD has urged Latvia to enhance pension benefits, particularly the minimum pension. In 2025, the minimum pension was increased to €189 a month (from €171). Women, in particular, are vulnerable, with more than one-third of women ages 75 and older living in poverty.

Private enterprise

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Social safety nets

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The minimum monthly wage is €740. Unemployment benefits are available to individuals who have paid social insurance contributions for at least 12 of the last 16 months. These benefits are provided for up to nine months and are based on previous earnings, with reductions every three months.

Latvia offers an array of family benefits as part of government efforts – especially by the National Alliance party – to combat the country’s demographic decline by encouraging larger families. Families can receive maternity and paternity benefits, childbirth benefits, childcare allowances and additional benefits. Cash benefits vary by family size: families with one child receive €25 per month; those with two children receive €100; and families with three children receive €225. Families with four or more children receive €100 per child. These cash benefits have remained unchanged for four years.

Universal health care is funded by general tax revenues, includes relatively high out-of-pocket payments and is available to all citizens and permanent residents. In 2025, politicians began discussing limiting access to free health care to those citizens (and permanent residents) residing in Latvia.

All citizens and permanent residents in Latvia, regardless of gender or ethnic origin, have equal access to state and local government benefits, public education and other services, and the labor market.

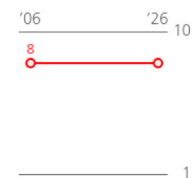
Latvia ranked 30th in the 2024 Global Gender Gap Index, continuing a recent decline (a drop of 19 places compared with 2020). Latvia also fell in the European Union’s 2024 Gender Equality Index, ranking 19th of 27 states (16th in 2022), continuing a decline that began in 2019. However, while women make up 50% of the workforce, they receive lower average wages and are under-represented in management and in parliament. Eurostat data show that in 2023, women held 42.9% of managerial positions in Latvia, second only to Sweden in the European Union. In parliament, only 29 of the 100 deputies elected in 2022 are women.

Russian-speaking public school programs will be phased out beginning with the 2025/26 school year, a change that in the long term should lead students from Russian-speaking families to achieve grades more similar to those of Latvian students on centralized school examinations. In the short term, however, some schools could struggle to recruit teachers with the required Latvian language skills. This will also eventually allow Russian speakers to compete more effectively with Latvian students for state-funded places in Latvia’s public universities, which are allocated based on merit rather than means.

Non-citizens are prohibited from working in the civil service or holding positions directly related to national security. A wide range of professions require proficiency in Latvian, including some in the private sector. This may affect employment prospects for Russian-speaking individuals. Employers, however, may not inquire

Equal opportunity

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about employees' proficiency in certain foreign languages unless those skills are necessary for job-related tasks. These regulations, introduced in 2018, followed complaints about employment barriers faced by young people who lacked Russian-language skills. Additional restrictions were implemented in 2022 as a result of Russia's invasion of Ukraine, prompting the Latvian government to further restrict the use of the Russian language. For example, driving exams can now be taken only in Latvian, and Russian is also being phased out of the advertising market.

11 | Economic Performance

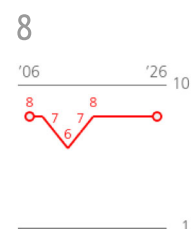
The Latvian economy has experienced several major shocks over the last three decades, including a 23.9% drop in GDP during the global financial crisis of 2008/09 and the short, sharp COVID-19 pandemic-induced contraction of 2.8% in 2020. As a small, open, export-based economy, Latvia is particularly exposed to external shocks. High energy prices, surging inflation (reaching 17.3% in 2022) and suppressed demand in key export markets led to a 0.4% contraction in GDP in 2023, similarly sluggish growth in 2024 and a negative current account balance. Russia's war in Ukraine and concerns about Latvia's medium-term security have also led to a decline in foreign direct investors' confidence in investing in Latvia.

Nevertheless, the Latvian economy has performed comparatively well since the global financial crisis, with key macroeconomic indicators positive, including balanced budgets, low public debt, low inflation and falling unemployment (6.5% in 2023). This has led Latvian enterprises, particularly in the ICT sector, to complain about a shortage of skilled workers. Public dissatisfaction with the economy has remained high largely because Latvia's closest neighbors, Estonia and Lithuania, have significantly outperformed Latvia over the last 30 years. According to Eurostat, by 2023 Lithuania had achieved 87% and Estonia 80% of the EU average GDP per capita, while Latvia lagged at 70%.

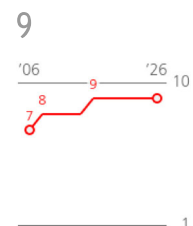
12 | Sustainability

The European Union's Green Deal proposals, with the aim of reducing net greenhouse gas emissions by at least 55% by 2030 (compared to 1990 levels), are the main driver of environmental policy in Latvia. Latvia is performing well in energy efficiency and decarbonization. Over the past 30 years, Latvia's politicians (and public) have focused on economic growth and "catching up" with Western Europe, treating environmental concerns as secondary. Indeed, both public and political cynicism about the Green Deal has grown in recent years. In January 2025, a parliamentary first reading of a new Climate Law, needed if Latvia is to enact the Green Deal, was withdrawn after only 48 (of 100) parliamentarians participated in the vote, thus failing to ensure a parliamentary quorum. Latvia also lags in core

Output strength



Environmental policy



environmental indicators, such as the circular material use rate (referred to as the circularity rate), which was just 5.4% in 2022, less than half the EU average of 11.5%. At the same time, Latvia's revenue from environmental taxes, as a share of total government revenue from taxes and social contributions, was over 7% in 2022, well above the EU average of 5%.

In July 2022, the Latvian parliament adopted new forestry legislation that authorized the felling of younger trees without a comprehensive environmental impact assessment. Latvian Fund for Nature and the World Wide Fund for Nature challenged the law in the Constitutional Court in 2023. On April 18, 2024, the court declared the legislation unconstitutional because it failed to ensure proper environmental protection.

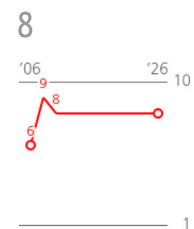
Both the secondary and tertiary education systems have undergone reforms in recent years.

Between 2019 and 2023, the School 2030 program gradually introduced a competency-based education model that emphasizes skills over traditional subjects. At the same time, the regional school network system has been consolidated, with small rural schools – which have seen sharp declines in enrollment over the last three decades and poor exam results in centralized testing – merging to pool resources, with a specific focus on improving the quality of education, especially in STEM subjects (which suffer from a severe shortage of qualified teachers, particularly in rural regions).

The university system has also undergone governance and funding reforms, including the establishment of new university councils responsible for appointing rectors and setting development objectives for universities, as well as new “institutional funding” models that give universities greater autonomy in budget allocation. Public spending on education was 5.3% of GDP in 2022, above the EU average of 4.7%. However, funding for higher education, which stands at €193 million in 2025, remains below the 2008 level, and research and development spending in 2022 amounted to only 0.7% of GDP – a third of the 2% average in developed nations.

Recent assessments of secondary educational performance are generally positive. According to the 2022 OECD PISA tests, Latvian students scored just below the OECD average in reading (475 points compared with the average of 476) and above average in mathematics and science. In higher education rankings, Latvian institutions still do not appear in the top 500 of major global rankings. However, Latvia continues to make progress in the U.N. Education Index, with a score of 0.904 in 2022, up from 0.857 a decade earlier.

Education policy /
R&D



Governance

I. Level of Difficulty

An unfavorable geography – specifically, having Russia and Belarus as eastern neighbors – is the only major structural constraint on governing Latvia. Russia's war of aggression in Ukraine has led to security concerns in the Baltic region. As a result, foreign direct investment rates, tourism numbers (already heavily hit by the COVID-19 pandemic) and domestic investment have all contracted since 2022. Sanctions against Russia have temporarily disrupted transit opportunities in Latvia's eastern regions, resulting in job cuts in the railway and port sectors. At the same time, government spending on defense has tripled over the last decade and will rise to 5% of GDP over the next few years. This will inevitably hurt already sluggish economic growth at a time when Latvia is among the three poorest EU-27 countries in terms of GDP per capita. Meanwhile, Latvia continues to forge ever-stronger economic, cultural, political and, since 2022, security ties with the prosperous Nordic countries. In terms of domestic infrastructure, Latvia has a well-developed transit network, including the Baltic region's largest airport and a national airline. The construction of the Rail Baltica line, a largely EU-financed project connecting the three Baltic states with Central Europe, has been crippled by delays and cost increases and is now optimistically slated for completion by 2032. Long-term underinvestment in education and health care means that the already-shrinking Latvian workforce continues to lag behind its Western counterparts in terms of health, education and productivity.

The civil society traditions in Latvia are relatively new, dating from the 1980s, when large parts of society mobilized for national independence during the Soviet Union's reform period.

In recent years, civil society has enjoyed increased financial support from the government through the Society Integration Fund (SIF – whose mandate includes providing financial support for societal integration, backing the implementation of development programs and supporting projects by both public and nongovernmental sectors). Civil society organizations are actively engaged in national and local government, as well as parliamentary committees, playing a crucial role in the democratic process. They do, however, complain that their concerns are ignored by policymakers. Political parties increasingly seek to reach out to civil society to attract rank-and-file members as well as candidates for office. Well-resourced groups representing business interests wield more influence than civic groups.

Structural
constraints

2

'06 '26 10



Civil society
traditions

3

'06 '26 10



At the same time, civil society continues to face persistent financial challenges because of low self-generated income from membership fees and donations. Many civic associations struggle with low membership and financial difficulties.

Latvia continues to grapple with relatively low levels of social trust, with just 19.8% of respondents in the 2020 European Social Survey expressing trust in other people. The Russia-Ukraine war mobilized Latvians to demonstrate their support for Ukraine through protests, volunteering and even opening their homes to incoming refugees from Ukraine. The leader of a group of volunteers known as the “Twitter convoy” that has delivered thousands of 4x4 jeeps to Ukraine’s military was elected to the Latvian parliament in late 2022 and then to the European Parliament in 2024.

Two major divides – one new and one well-established – shape Latvia’s political landscape: (1) the ethnic cleavage between Latvians and Russian speakers and (2) a political schism between nationalist conservatives and liberal pro-Europeans.

The conflict between Latvians and Russian speakers has deep historical roots. During the Soviet period, Russian-speaking migrants from other republics benefited from the privileged status that the Russian language and nationality enjoyed in Soviet ethnic hierarchies. Meanwhile, Latvians, reduced to 52% of the republic’s population, feared becoming a minority in their country.

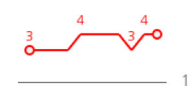
Both communities briefly united in the late 1980s to oppose the Soviet regime, although a significant number of Russian speakers supported pro-Soviet movements. However, this fragile coalition disintegrated after Latvia gained independence. Former Soviet citizens were not automatically granted citizenship, leading to political battles in the 1990s and 2000s over citizenship, education and language rights. The situation escalated further following Russia’s full-scale invasion of Ukraine in 2022. Consequently, the Latvian government decided to enact reforms aimed at reducing the use of the Russian language and distancing Latvian society from Russian culture. Although part of Latvian society had long demanded such reforms, they had previously been avoided for fear of provoking Russia. These reforms included transitioning the Russian-language minority school system to teach primarily in Latvian, pushing the Russian language out of the public sphere. For example, driving exams can now be taken only in Latvian; significant symbols of Russian and Soviet occupation have been removed; and several street names across Latvia have been changed (e.g., Moscow Street in Riga being renamed Latgale Street).

Another source of tension in Latvia is the struggle to prevent the spread of liberal values, often labeled “European.” Liberals and conservatives have clashed over the ratification of the Istanbul Convention (2017) and the U.N. Migration Pact (2018). A 2020 Constitutional Court ruling called for revising legislation to acknowledge same-sex relationships, sparking further controversy. The Istanbul Convention and the law on same-sex relationships were adopted only in late 2023 as part of a political deal for a new government coalition. In recent years, debates on “values” have increasingly focused on migration as a growing number of visible minorities, largely from Central Asia and Southeast Asia, have settled in Latvia for work or study.

Conflict intensity

4

'06 '26 10



II. Governance Performance

14 | Steering Capability

Latvia's governments have repeatedly shown themselves effective in achieving externally set priorities, both in realigning the domestic polity for accession to the European Union and NATO in 2004 and in adopting major reforms such as those to the financial sector in 2019. Latvia's government and civil service have proved adept at executing externally framed policies.

Government priorities are outlined in declarations signed by coalition partners before taking office. These declarations can be detailed, with the 2022 declaration spanning 49 pages and encompassing 34 chapters. They establish both short- and medium-term policy objectives. However, the cabinet formed in September 2023 had a much shorter 40-point, five-page program. Oversight of these priorities is handled by a Cooperation Council that sets the agenda for each ministry.

Latvian governments have demonstrated their capacity to implement challenging, sometimes contentious externally driven reforms. At the peak of the economic crisis in 2009, Prime Minister Valdis Dombrovskis oversaw a substantial fiscal adjustment equivalent to 9.5% of GDP. More recently, in 2019, significant financial sector reforms were undertaken in response to a critical 2018 report by MONEYVAL, a permanent monitoring body of the Council of Europe, that warned Latvia could be placed on the "gray list" of countries associated with money-laundering. In 2018, a comprehensive overhaul of the tax system introduced a more progressive income tax structure and tax exemptions for reinvested profits. However, this was largely based on external advice from World Bank and OECD experts.

Rarer examples of major domestically driven reforms include a regional reform that took effect in 2021, reducing the number of local governments from 119 to 43. Education reforms were also implemented, introducing a new school curriculum called School 2030, revising the governance structure of public universities – including merging some to reduce fragmentation – and changing the public financing model for higher education. However, fundamental reforms to the health care system, as well as the adoption of alternative domestic energy sources following the war in Ukraine, have proved harder to achieve.

Indeed, horizontal reforms, such as digitalization, have also proved more challenging because of their cross-ministerial nature. Ministries often function as private fiefdoms controlled by coalition parties, and cooperation across ministries governed by different political parties is more difficult to achieve.

Question
Score

Prioritization

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Implementation

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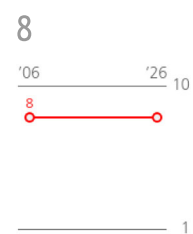
A recent priority that has appeared in all recent government declarations has been “cutting red tape” and debureaucratization. However, in January 2025, looking back on the previous year, both the prime minister and the president said little to nothing had been achieved in this sector. At the same time, over the course of 2024, it became clear that the costs of the Rail Baltica project had greatly overrun, and a parliamentary investigative committee uncovered evidence of widespread mismanagement at the project, civil-service and government levels. The committee concluded that Latvia lacked the experience and knowledge to undertake such large-scale projects and that international experts should be involved at all stages of the project.

Latvian governments have typically relied on external advice, seeking guidance from institutions such as the World Bank and the IMF in the 1990s and more recently from the European Union and the OECD in the 2000s. This approach has taken precedence over the development of domestic research and analytical capabilities. The EU serves as the overarching framework for knowledge exchange. Recent examples of major reforms – primarily led by external entities – include the 2017 tax system reform, informed by a World Bank report and OECD recommendations, and the comprehensive restructuring of Latvia’s banking regulations in 2019. These externally led reforms faced far less opposition than the 2020 administrative territorial reform, which was domestically driven and considerably more contentious.

In 2011, a Cross-Sectoral Coordination Center was established within the State Chancellery to enhance the government’s strategic capabilities in prioritizing and coordinating policy measures. However, this institution had only a small team of around 20 civil servants and insufficient influence and control over ministries, which hampered effective collaboration and cohesive work on policy priorities. It was absorbed into the State Chancellery in March 2023, strengthening the State Chancellery’s position at the heart of government. An innovation laboratory, based in the State Chancellery, aims to improve the “culture of innovation” in the public sector and help public institutions create solutions to complex problems.

While the Latvian parliament maintains a modest analytical unit, several ministries have also established their own analytical departments. In addition, there is a Productivity Council and a Fiscal Discipline Council. Nevertheless, Latvia still lacks significant policy-oriented think tanks, whether governmental or nongovernmental, to assist with policy formulation and to provide effective monitoring and evaluation. Effective monitoring and ex post evaluation of policies are still in their infancy.

Policy learning



15 | Resource Efficiency

Latvia has a relatively small public sector. In 2024, around 3,400 people were employed in ministries and central government institutions. The size of this central government sector has remained relatively constant, at about 40 civil servants per 1,000 residents, even as Latvia's population declined sharply following the severe 2008 recession. Salaries in the public sector have risen over this period, although they remain, on average, at about 80% of the equivalent in the private sector (which was the aim of a salary reform introduced in July 2022). Financial transparency is a notable feature of the public sector, with public salaries disclosed on ministerial and agency websites and all public officials submitting annual financial declarations, which are subsequently made publicly available.

The State Chancellery oversees the public sector and is the center of government in Latvia. It ensures and oversees compliance with policy documents and cabinet draft legal acts, develops and implements policy action plans, and presents opinions on policy documents and legal acts. Since 2023, it also develops a long-term strategic approach to public policymaking, monitors decision-making to ensure the effectiveness of public policies, oversees ministries' progress in achieving government declaration goals and coordinates the management of state-owned enterprises.

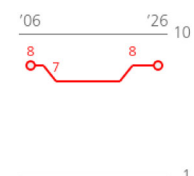
Although there is no centralized recruitment process, independent recruitment firms typically handle senior appointments, and public institutions manage competitive recruitment for junior positions. Fewer senior public officials display political affiliations, although prominent bureaucrats still tend to enter national politics.

Latvia has maintained a balanced budget with only minor deficits over the past decade. However, the deficit has crept up over the last half-decade. The pandemic's unique circumstances led to a sharp increase in Latvia's budget deficit in 2020 and 2021, primarily due to pandemic-related economic disruptions. It rose again in 2022 as Latvia allocated more funds toward defense, compensation for high energy prices for households and businesses, and support for Ukrainian refugees amid Russia's war on Ukraine. The 2025 government budget has a deficit of 3% of GDP, at the limit allowed by the EU Stability and Growth Pact.

In the Latvian government, there may be a lack of cohesion among ministries as those led by different parties compete for government resources to fund their priorities. The State Audit Office audits Latvia's budget spending to ensure accountability. In 2024, the office conducted 42 audits.

Efficient use of assets

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Policy coordination begins with the coalition agreement, which establishes government priorities. However, policies that cut across multiple sectors and ministries and require a high level of policy coordination can be marginalized by the zero-sum approach of Latvia's fragmented cabinet of ministers, where parties guard their ministries from interference by other ministers. As a result, coordination among ministries and other state institutions in Latvia often follows an ad hoc approach, and the prime minister has limited control over ministries governed by other coalition parties.

Procedures for developing policy documents and legislative proposals formally ensure that the government can consult external experts. The National Tripartite Council, which includes representatives of trade unions, employers and the government, provides another avenue for obtaining expertise.

The State Chancellery has been tasked with coordinating policy since 2023, although ministries staunchly resist further centralization or the relinquishment of their powers. In early summer 2024, Latvia's president pushed for the creation of an artificial intelligence center to foster strategic cross-sectoral cooperation in the fast-developing technology sector. While a draft law was eventually debated by parliament in December that year, the debate came only after the prime minister was forced to arbitrate a dispute over control of the center between the Economics Ministry and the Local Government Ministry (whose ministers came from different parties).

At the civil service level, weekly meetings are held among state secretaries and their deputies to coordinate policy efforts, and social partners are often invited to sit in on the meetings. On the political front, the weekly Coordination Council comprises representatives of governing parties and serves as a platform for conflict resolution and coalition building. A TAP portal (public portal for draft legislation) encourages greater public involvement in the policy process, enhances transparency and improves the development and alignment of draft legal acts.

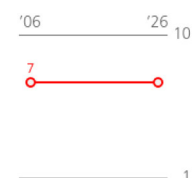
Latvia's Corruption Prevention and Combating Bureau (KNAB), founded in 2002 in the run-up to EU and NATO accession, has, after a rocky start, evolved into an effective and internationally well-regarded institution. While its initial years were marred by political interference and frequent, politically contested leadership changes, since 2017, KNAB has experienced greater stability and demonstrated more robust efforts to prosecute high-level corruption cases, thanks to the leadership of Jēkabs Straume, a former military intelligence professional, who was re-elected by parliament to a second five-year term in 2022.

The OECD's "Anti-Corruption and Integrity Perspectives 2024" report praised KNAB's strategic planning capacity and the system that requires public office holders in Latvia to submit annual financial declarations, which are thoroughly reviewed (including by KNAB's conflict-of-interest prevention framework) and

Policy

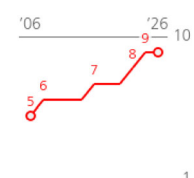
coordination

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Anti-corruption policy

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made publicly accessible by the country's tax authority. The report also found that Latvia is one of the few OECD countries with a “cooling-off period” prohibiting public officials (or their spouses or partners) from holding positions in organizations over which they had made decisions for two years after leaving their public positions. KNAB also regulates party financing and makes public all donations to political parties. Latvia also introduced a comprehensive whistleblower law in 2019 (with revisions in 2022) and established a whistleblower contact point in the State Chancellery.

In addition, Latvia's State Audit Office is an independent and influential institution that regularly publishes critical reports on state and local government bodies – especially on procurement issues – as well as on public servants, including politicians, who also must submit annual income and asset declarations.

16 | Consensus-Building

All major political parties and politicians support Latvia's democratic order, and there are no significant political parties or actors advocating authoritarian rule or seeking to undermine democracy. However, parties and politicians that adopt anti-elite, populist rhetoric undermine the independence of the media (by claiming that public media are controlled by government parties) and the impartiality of civil servants and promote a lack of civility in dealing with political opponents, leading to aggressive denunciations of political rivals on social media.

All major political parties and politicians in Latvia support an open, liberal and pro-trade economic system.

The Latvian military, which in January 2025 comprised 7,870 professionals, 10,000 members of the National Guard and 38,000 reservists, is under firm civilian control and does not seek to influence politics beyond lobbying for its needs. No significant organized extremist groups threaten Latvian democracy.

A deep political and cultural divide between ethnic Latvians, who make up about two-thirds of the population, and Russian speakers, who make up about one-quarter, remains Latvia's major cleavage. Key points of division in recent years have revolved around the place of the Russian language in public space; school reforms that will phase out minority Russian-language schools by the start of the 2025/26 school year; and whether monuments and street names celebrating Russian and Soviet events and characters should be maintained. Citizenship issues have largely been resolved. Russia's war in Ukraine has heightened the divide, with Latvians largely supporting Ukraine and a majority of Russian speakers claiming they are for “peace” (which is interpreted as illicit support for Russia).

Consensus on goals

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Anti-democratic actors

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Cleavage / conflict management

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These conflicts are managed at the political level, with parties representing Russian-speaking and nationalist Latvians – as well as mainstream Latvians – in parliament. Cities with significant Russian-speaking majorities, such as Daugavpils and Rezekne, have mayors from Russian-speaking parties.

Over the past decade, a division has emerged between liberals and national conservatives. Liberal voices advocate for refugee support, LGBTQ+ rights and deeper European integration, while national conservatives, whether Latvian or Russian-speaking, oppose refugees and immigration and advocate for “traditional” family policies. Similar to the ethnic divide, these ideological differences are represented in parliament and subject to political debate and resolution without leading to social upheaval.

The tripartite council structures engagement with business and trade union interests. An annual bilateral meeting between the cabinet of ministers and the foreign investors council is held in the cabinet room. Business groups and trade unions also participate in ministerial and parliamentary working groups and are always involved in the lawmaking process at the parliamentary committee level. The president regularly hosts conferences and forums with NGOs. Organizations such as Delna, the Latvian branch of Transparency International, play a role in monitoring processes, while others, such as the LaSER think tank, work with the Central Statistical Office to develop access to new public data sets. Nonetheless, it is worth noting that business interest groups tend to possess greater resources and wield more influence in this context.

Latvia’s long 20th century was marked by a number of conflicts – between ethnic Latvians and Baltic Germans after World War I; the three occupations of World War II (Soviet, Nazi and Soviet again), including the Holocaust of Latvia’s Jewish population; and the demographic shift of the postwar years as Russian-speaking migrants settled in Latvia.

The latter casts the longest shadow over contemporary Latvia, and there is little political enthusiasm or support for reconciliation between the ethnic Latvian and Russian-speaking communities. There is – for example – no significant multiethnic party in the country, and no government coalition has managed to bridge the ethnic divide by including a Russian-speaking party in the executive. This divide has been exacerbated further by the repercussions of Russia’s war in Ukraine, with streets named after prominent Russians renamed and Soviet-era monuments dismantled. There is little possibility of a short-term reconciliation between Latvians and Russian speakers. Nevertheless, there is a glimmer of hope for future generations as Russian-language schools are gradually phased out by 2025. This phaseout effectively eliminates the parallel school system that has existed since the Soviet era. It is anticipated that, through a shared understanding of that era, future generations may have the opportunity to reconcile and bridge the gap between Latvians and Russian speakers.

Public consultation

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Reconciliation

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17 | International Cooperation

Latvia's primary planning documents are the long-term Sustainable Development Strategy (Latvia 2030), which sits at the top of the planning hierarchy, and the National Development Plan (2021 – 2027, NAP 2027), which aligns with the European Union's seven-year multiannual budget.

Latvia 2030, approved by parliamentary vote in 2010, sets out seven long-term development priorities: the development of cultural space, investment in human capital, a change in the paradigm of education, an innovative and environmentally efficient economy, nature as future capital, perspectives on spatial development, and innovative government and civil society participation. In the fall of 2024, a team led by scholars from the University of Latvia began planning the Latvia 2050 Strategy document, which will eventually succeed Latvia 2030.

NAP 2027 outlines four strategic objectives: (i) equal rights, which entails maintaining fundamental rights and ensuring equal access to government services; (ii) quality of life, which entails enhancing well-being and creating opportunities for all; (iii) fostering a knowledge society in the domains of education and science, civic awareness, the media landscape and the economy; and (iv) a responsible Latvia, which entails addressing sustainability challenges, primarily those arising from climate change and demographic trends. These objectives are aligned with the strategy for allocating EU cohesion and structural funds throughout the 2021 to 2027 EU multiannual budget. Work on the next development plan (for the 2028 – 2035 EU multiannual framework period) begins in the second half of 2025.

Major investments are generally financed by EU funds. €4.2 billion in EU funds have been earmarked for the period from 2021 to 2027, as well as €1.8 billion in grants through the EU Resilience and Recovery Mechanism. Latvia's investments for the period from 2021 to 2027 revolve around modernizing the economy, investing in digitalization, research and innovation, nurturing human capital, and advancing Green Deal initiatives. Rail Baltica, a new north-south 870-kilometer-long European standard-gauge rail line that will eventually have high-speed trains running from Tallinn to Warsaw, is one of the European Union's major infrastructure projects in the 2020s. The initial total cost of Rail Baltica in 2017 was estimated at €5.8 billion, but a 2024 analysis by Boston Consulting Group estimated the total cost at €23.8 billion. The Latvian government has struggled to provide additional financing to complete the project, with the costs of the Latvian phase alone estimated at €9.5 billion in 2024.

Latvia has used EU funds in a decentralized way, focusing on supporting small towns and rural regions. This approach has visibly transformed Latvia's regions, with newly refurbished libraries, museums and cultural centers, along with four large regional concert halls. However, no new concert hall has been built in Riga, which remains

Effective use of
support

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Latvia's cultural hub. Other improvements include developing bicycle paths, parks and schools, and enhancing livability infrastructure. Despite these efforts, except for Valmiera, these towns and cities continue to grapple with demographic decline and show slower growth compared with Riga's urban region.

In early 2025, Latvia, along with Estonia and Lithuania, was making final preparations to disconnect from the Russian electricity grid, finalizing a 15-year process. The European Union has demonstrated strong support by covering around 75% of the total project costs.

Latvia is a credible international partner. The downgrade of its Standard & Poor's credit rating from A+ to A- was largely caused by external factors such as strains on the budget from increased defense spending as a result of Russia's war on Ukraine, and sluggish economic growth in key export markets in Western Europe, including Germany. Latvia stands out among EU members for swiftly incorporating European legislation into its national legal framework, and there is widespread support for EU and NATO membership in Latvia, with Eurobarometer data indicating that Latvians place far greater trust in EU institutions than in their own national institutions.

The Russian invasion of Ukraine has underscored the critical importance of Latvia's international security alliances, particularly with NATO and the United States. Additionally, Latvia's EU membership grants it a greater platform on the global stage despite its relatively small size. Collaborating closely with Estonia, Lithuania and Poland, Latvia has taken a leading role in advocating increased EU assistance to Ukraine and more robust economic and diplomatic sanctions against Russia.

Before Russia's invasion of Ukraine, Latvia contributed troops to NATO missions in Afghanistan and the Balkans. Latvia also participated in the "coalition of the willing" during the U.S.-led war in Iraq. Currently, Latvia hosts a NATO Enhanced Forward Presence Battle Group at the Ādaži military base. The group is led by Canada and includes troops from 10 other NATO members. It has doubled in size over the past two years to 4,000 troops.

Latvia participates in a number of regional groupings. Latvia's closest partners are its Baltic neighbors Estonia and Lithuania through regional institutions such as the Baltic Council of Ministers and the Baltic Assembly, which facilitate parliamentary cooperation. Other key initiatives include the Baltic Defense Academy, plans to procure arms jointly and the Baltic Defense Line, which will be constructed along the Baltic states' eastern borders with Russia and Belarus. Cooperation has also expanded to include Poland, which shares a similarly assertive stance toward Russia. The presidents of these four nations have made joint visits to Kyiv, Ukraine, during the conflict, and ministerial-level meetings have become a regular occurrence. Baltic and Polish interests align more closely, particularly regarding the uninterrupted flow of EU funds, promoting democratization and marketization in the post-Soviet region through the European Union's Eastern Neighborhood Policy and maintaining a robust stance on Russia.

Credibility

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Regional cooperation

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Latvia and the other two Baltic states cooperate with the Nordic countries through the Council of Baltic Sea States and the informal Nordic-Baltic 6 (NB6) group within the European Union. Latvia is also involved in various regional initiatives, including the establishment of the Baltic Sea macro-region and the Baltic Sea Strategy. Military cooperation in the region will swiftly deepen following Swedish and Finnish accession to NATO.

Latvia's relations with its eastern neighbor, Russia, have reached an unprecedented low after Russia's 2022 invasion of Ukraine. Economic sanctions have effectively halted most trade with Russia, and Latvia has ceased importing Russian energy. In January 2023, Latvia reduced diplomatic relations with Russia to the *chargés d'affaires* level.

Strategic Outlook

Latvia's most important long-term and interrelated existential challenges are demographic decline, faltering economic convergence with Western Europe and worsening security concerns stemming from Russia's war of aggression against Ukraine.

Latvia's population has fallen from 2.6 million in 1991 to 1.8 million in 2024, with the population pyramid marked by an aging population and a shrinking youth base. Only 14,321 children were born in 2023, 11.5% fewer than in 2022. At the same time, 27,724 deaths were registered – nearly twice the number of births. The outflow of young people to wealthier EU member states has continued, with Latvia's population shrinking by about 18,500 people in 2023, roughly 1% of the total. According to United Nations projections, Latvia's population could decline to 1.2 million by the end of the century. The combination of longer life expectancy and low birth rates has led to an increase in Latvia's old-age dependency ratio, which poses challenges for service provision in the public and private sectors and exerts pressure on the labor market. Urbanization has led to severe depopulation in Latvia's rural areas and small towns, with only the suburbs of the capital city, Riga, seeing sharp population growth over the last three decades. The whole country is increasingly economically reliant on Riga and the Riga Metropolitan Area. Latvia's future economic competitiveness will rely on seizing the comparative advantages of Riga, which include the largest airport in the region, a major port and a youthful and well-educated population (10% of Riga's population are university students).

Despite these demographic pressures, public and political support for increased immigration remains limited, except among business groups. Social tensions have grown as visible minorities have become more numerous in Riga, with some political parties and media outlets complaining about Southeast and Central Asian food couriers "taking over" the city center. Rather than third-country immigration, the government has hoped to encourage members of the Latvian diaspora, estimated at more than 300,000 people, to return to Latvia. Initiatives include funding for diaspora language training, Sunday schools, cultural organizations and events that maintain connections with Latvians living abroad. However, there is little evidence of the success of this approach, and migration from third countries will continue apace, perhaps through an ever-increasing number of international students attracted to Riga as an international university city.

The successful return of the Latvian diaspora likely depends on economic growth and convergence with Western Europe. Achieving sustainable productivity gains will require higher investment in education, research, innovation and digital skills. Although reforms in these areas are common, they are rarely accompanied by increased government funding. Notably, no Latvian university currently ranks among the top 500 worldwide, and many talented Latvian students enroll in other European universities. Latvian research centers also perform poorly in EU-funded research competitions, and Latvia's innovation spending falls below the EU average. Recent higher education reforms introduced stricter evaluation standards and institutional restructuring but failed to boost funding. The government continues to prioritize construction projects over investment in human capital. However, investing in research and education will be challenging as the government seeks to sharply increase military funding in light of the Russian threat in the east.

Russia's war in Ukraine has prompted Latvia to strengthen both external and internal security measures. The government is committed to increasing defense spending to 3.5% of GDP by 2026, but it is likely to push for even higher spending – 5% of GDP – following the inauguration of U.S. President Donald Trump in January 2025. A new national conscription system was introduced in 2023. Latvia is fortifying its borders with Russia and Belarus and cooperating with neighbors, Estonia and Lithuania, in the construction of a new Baltic Defense Line. De-Russification policies – aimed at reducing Russian language and cultural influence in Latvia – will phase out Russian-language education by summer 2025, and Soviet-era symbols have been removed from public spaces. As a result, a more assertively “Latvian Latvia” has begun to take shape.