Current and upcoming mismatches in the labour market

Latvia Fiscal Discipline Council

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Contents of Presentation

- Recent developments in the Latvian labour market
- Labour market forecasting outcomes
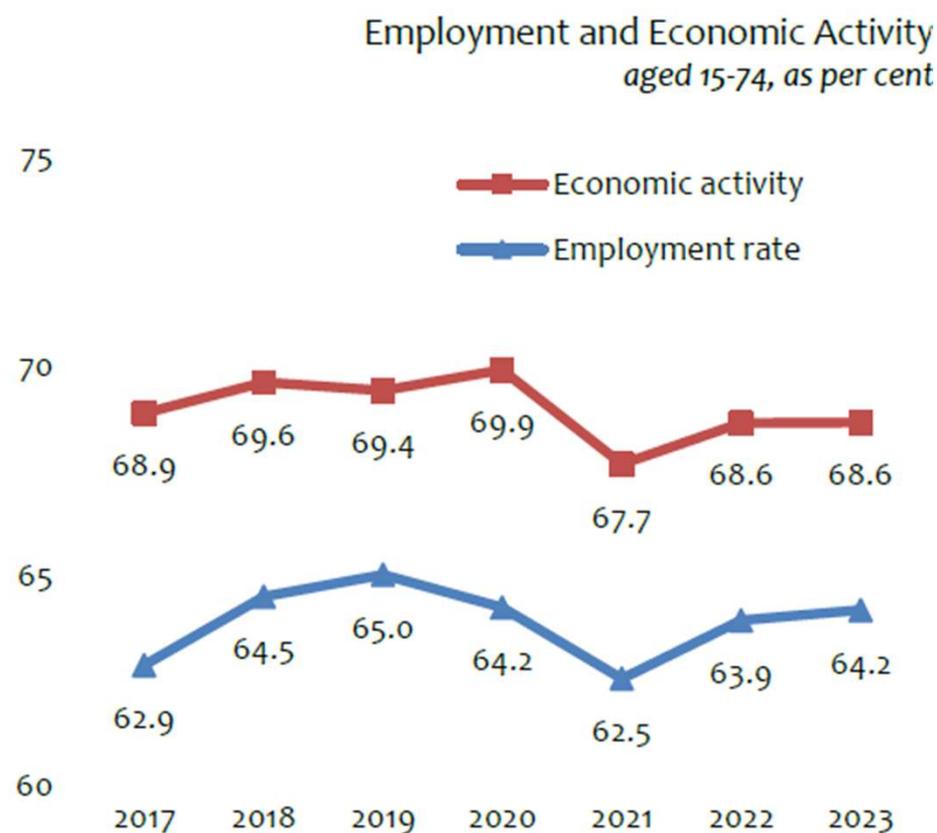- Some suggestions/issues

Recent developments in the Latvian labour market

- Stabilization in terms of number of economically active population

- Adjustments between sectors becoming a more important driver

Employed and Economically Active
aged 15-74, in thousands

■ Economically active ■ Employed

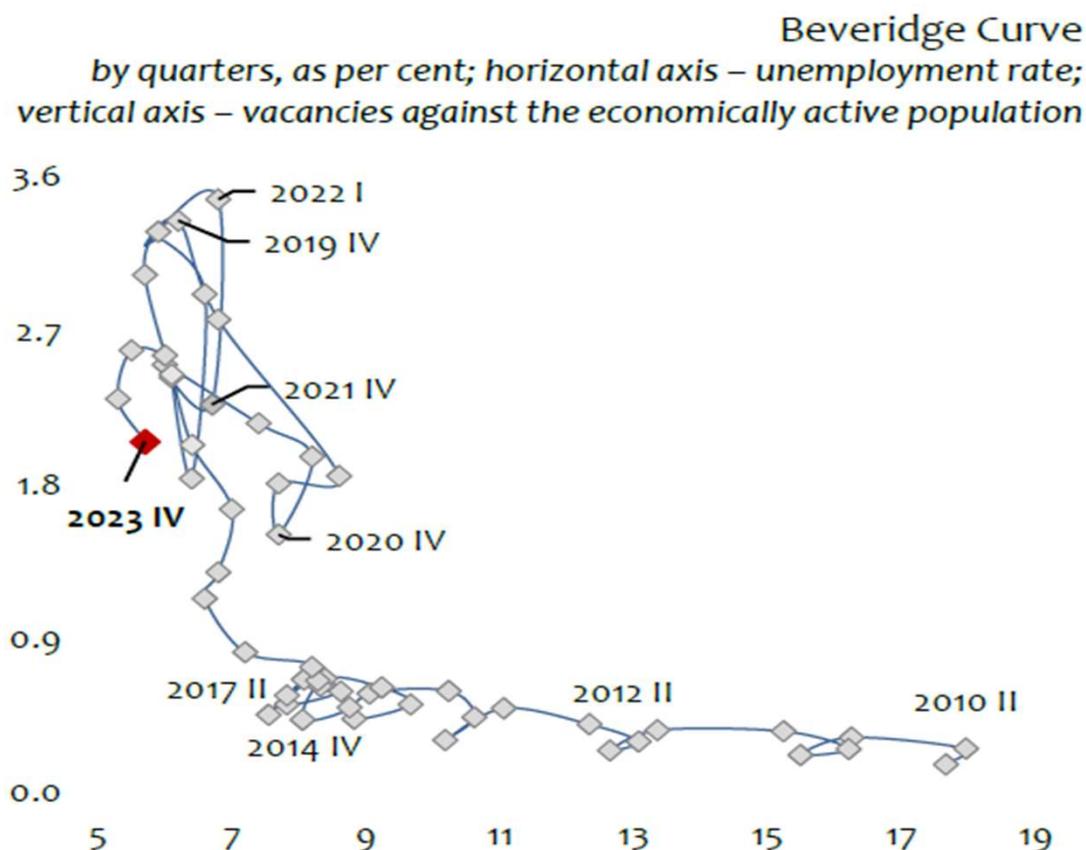| Year	Economically active	Employed
2017	980	895
2018	982	909
2019	971	910
2020	972	893
2021	935	864
2022	951	886
2023	946	884

Recent developments in the Latvian labour market

- Key broader indicators have stabilized in 2023

- Demand side slightly subdued due to external events

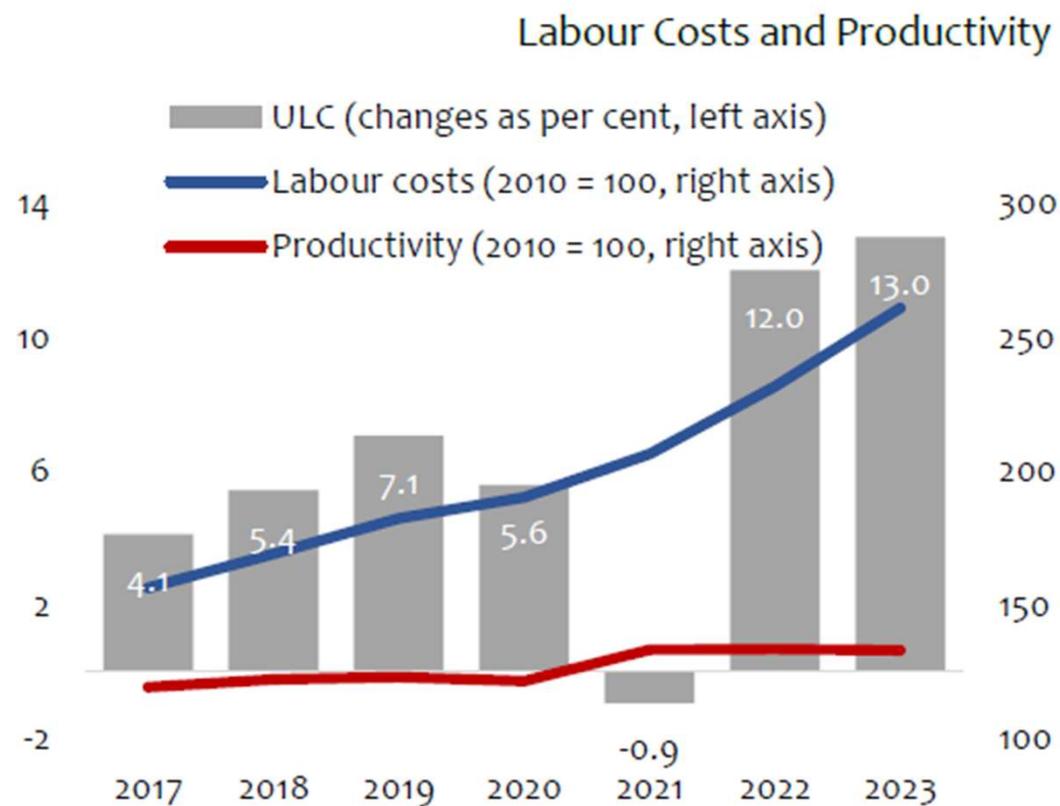**Employment and Economic Activity**
aged 15-74, as per cent

Recent developments in the Latvian labour market

- Labour market conditions have become less tight comparing to the previous year, but for how long?

- Unit labour costs signal some possible competitiveness issues, but sector-level comparisons needed

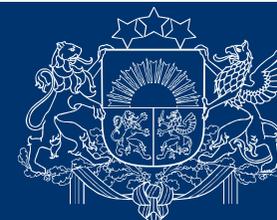- Lower producitivity may also arise from filling the low-skills vacancies – Ukrainian refugees

Beveridge Curve

by quarters, as per cent; horizontal axis – unemployment rate; vertical axis – vacancies against the economically active population

Recent developments in the Latvian labour market

- Productivity becoming a major issue, unit labour costs (ULC) still rising

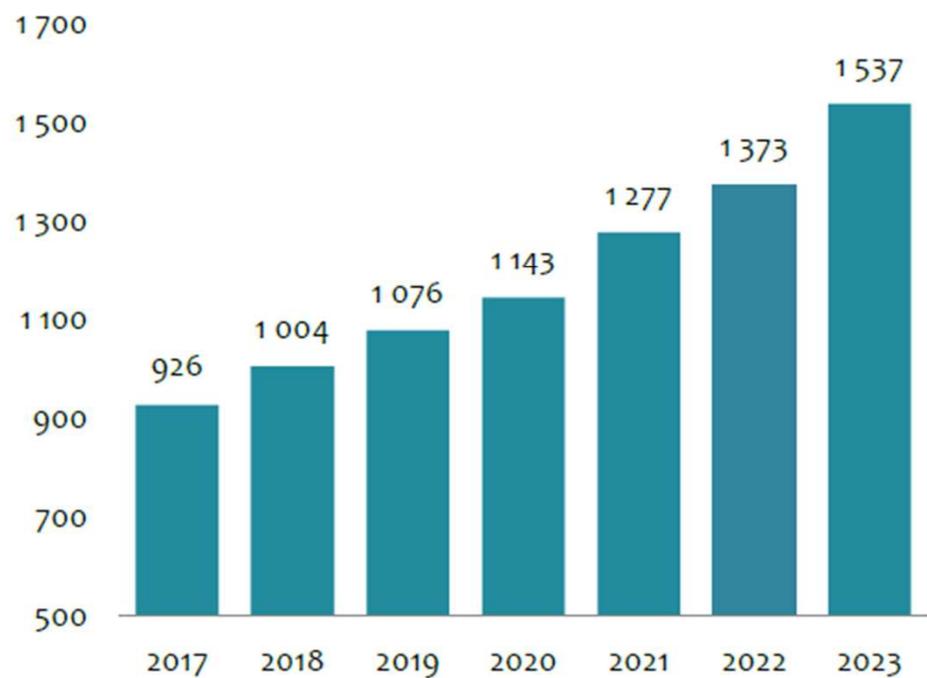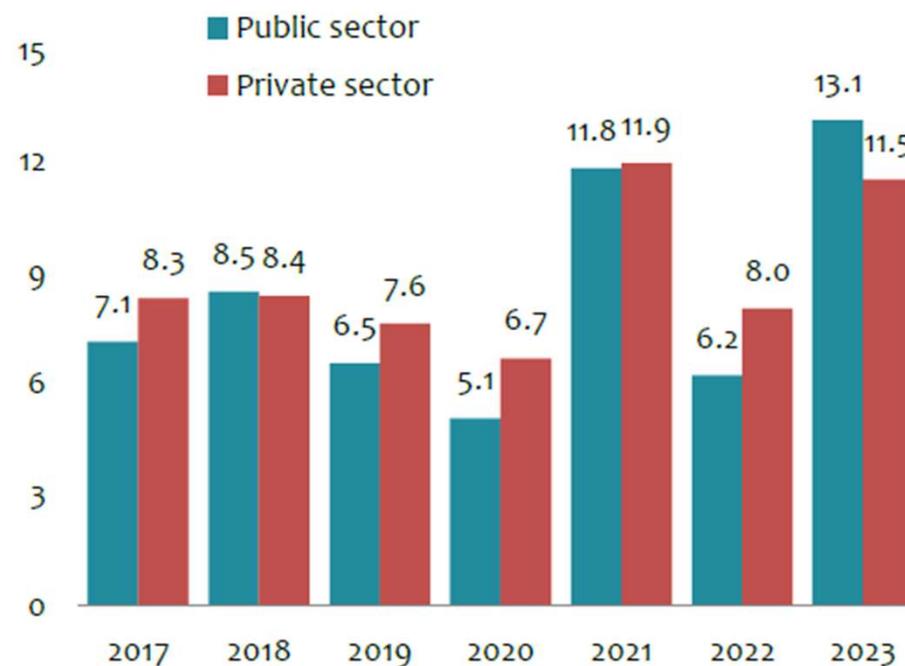**Labour Costs and Productivity**

Legend:
- ULC (changes as per cent, left axis)
- Labour costs (2010 = 100, right axis)
- Productivity (2010 = 100, right axis)

ULC values: 2017: 4.1, 2018: 5.4, 2019: 7.1, 2020: 5.6, 2021: -0.9, 2022: 12.0, 2023: 13.0

Wage Trends

Average Monthly Gross Wage
euro

2017: 926
2018: 1 004
2019: 1 076
2020: 1 143
2021: 1 277
2022: 1 373
2023: 1 537

Average Monthly Gross Wage
changes compared to the previous year, as per cent

■ Public sector
■ Private sector

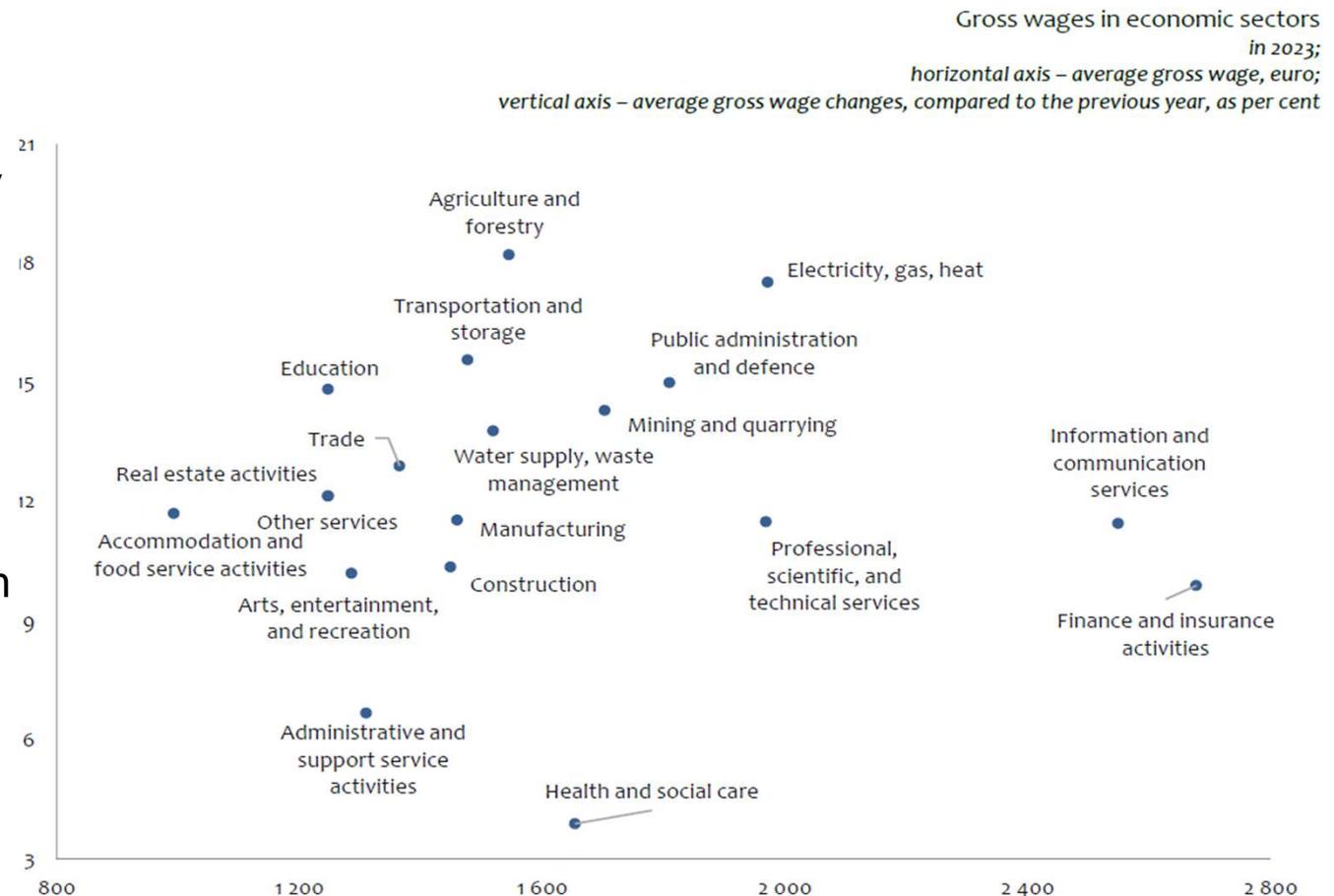| Year	Public sector	Private sector
2017	7.1	8.3
2018	8.5	8.4
2019	6.5	7.6
2020	5.1	6.7
2021	11.8	11.9
2022	6.2	8.0
2023	13.1	11.5

Sectoral Landscape

- Some sectors highly dependent on budget financing; trade unions play a more significant role

- Wage pressures arising during high inflation

- Also – some political promises remain unfulfilled creating future pressures on expenditures

Gross wages in economic sectors in 2023; horizontal axis – average gross wage, euro; vertical axis – average gross wage changes, compared to the previous year, as per cent

Forecasts

- What is a good macroeconomic or fiscal forecast?

- Unbiased
- Has reasonable time horizon
- Precise
- Understandable
- ...

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What is a good labour market forecast?

Accurate and reliable
Understandable
Balanced
Responsive to changes

BUT – sometimes the best labour market forecast is the one that does not ever become reality.

Key aspect – shoud lead to discussions and policy action. And, ideally, should alter the undesirable trends.

Countries have learned to create labour forecasts, however, approaches differ a lot

We have learned to present the forecasts nicely
https://prognozes.em.gov.lv/en

BUT – it is becoming more and more difficult to agree on common assumptions understand the megatrends:
- what is happening with AIs impact on the labour market
- what about the Green Deal and related impact on the labour market
- what about all those ambitious construction projects Latvia has committed to (Rail Baltica, housing renovation etc.)

Some Specific Risk Groups/Mismatches

According to the forecasts of Latvian Ministry of Economy, the key issues are as follows:

- **Previous forecasts highlighted the need to reorient towards STEM in higher education**

Partial success, but most recent data actually show a reversal of this trends with a movement back into social sciences.

- **High risk of shortage of medium qualification labour force with vocational education**

Very low prestige of vocational education in Latvia. High risk of emigration after acquiring the skills.

- **Low very of participation levels in adult education.**
Key problem – this part of labour force has a mobility issue that is difficult to address. The current supply of adult education does not fully address the surplus of the low qualification labour force. The participation of people with primary education in adult education activities is still the lowest among all population groups – only 3.4%.

- **Surplus of labour force with general secondary education, primary education and lower education level.**
These low are the most vulnerable to technological change, therefore, high risk of low demand for low skilled employees.

Labour market forecasts - impact

How to make an impact using the labour market forecasts - some examples from Latvia

- Latvia's vocational education discussions – tripartite approach
- Latvia higher education – discussions are happening, but problems with consensus

Thank You!

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