RĪGAS TEHNISKĀ UNIVERSITĀTE

WP 1. Active Employment and Training Policies

Report of Riga Technical University (LATVIA)

Employability and Skills Anticipation Policies: a Social ROI Approach

LIFELONG LEARNING PROGRAMME

TRANSFER OF INNOVATION, MULTILATERAL PROJECTS, LEONARDO DA VINCI

Project number n° 2011-1-PT1-LEO05-08605

16.11.2012

Table of Contents

1.1 A General Description of Employment and Unemployment

1.2 Costs and Productivity of the Labour Force

1.3 Changes and Structure of the Labour Force Demand

1.4 Demography and Labour Force Resources

1.5 Vacancies

1.6 Use of Labour Market Forecasts Prepared by the Ministry of Economics

1.7 Methodology of Preparation of Labour Market Forecasts of the Ministry of Economics

1.8 Forecasts and Sufficiency of Labour Market Supply

1.9 The System of Anticipating Change of the Labour Market

1.10 Employment Policy of the Republic of Latvia

Bibliography

1.1 A General Description of Employment and Unemployment

The gradual increase in the economic activities is positively affecting the labour market situation – the employment rate is rising and the high unemployment caused by the crisis is decreasing. Simultaneously, certain groups of inhabitants, in particular people having low educational level and qualification, elderly people, as well as youth, do not feel the improvement as strongly.

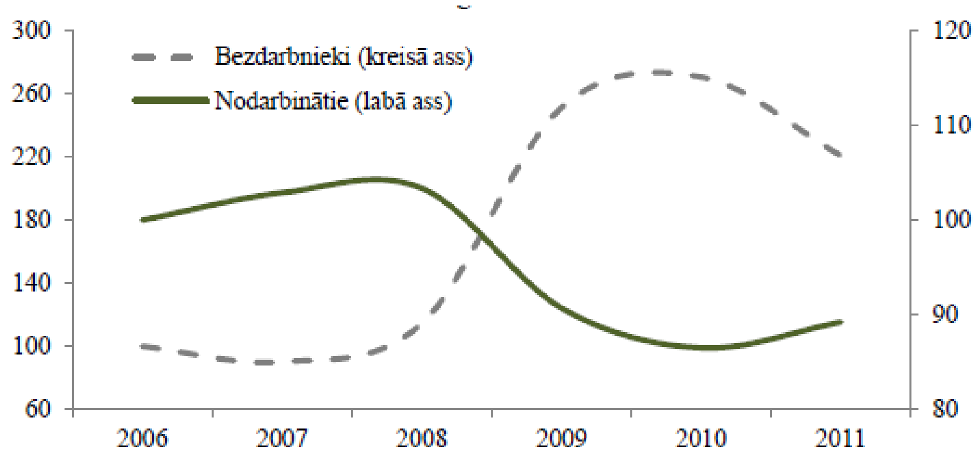

Figure 1.1 Changes in the number of the employed and unemployed people (y. 2006 = 100)

Source: Central Statistical Bureau (CSB), evaluation of the Ministry of Economics (EM)

Unemployed Employees

Overall in 2011, if compared to 2010, the number of the employed increased by 2.5 %, while the unemployment level reached 16.2 %, which was by 3 percentage points lower than a year ago. The number of economically active inhabitants for the relevant period increased by 0.6 %. A more rapid increase was restricted by the negative demographic tendencies – a decrease in the number of inhabitants of working age.

The current unemployment level, which by about 10 percentage points exceeds the pre-crisis level, is mainly linked to the cyclical unemployment, i.e. with the significant reduction in production volumes and rendered services during the crisis. Therefore, all those measures related to fostering economic activity and entrepreneurship stimulate an increase in the demand for labour force and enhance employment. Meanwhile, there is a risk that a part of the current unemployed people will not be able to find a job for extended periods of time and unemployment might become a markedly structural phenomenon, because the sectors, which recover from the crisis more rapidly are not the same sectors, which had vacancies before the crisis and in which people lost job during the crisis. In other words, a change in the structure of the economy is taking place and discrepancy might form between the labour force supply and demand – the job seekers' skills do not correspond to what the entrepreneurs are looking for.

During the crisis, along with the overall increase of unemployment, the number of the long-term unemployed increased as well. In late 2011, 56.9 thousand long-term unemployed were registered in the State Employment Agency and it corresponded to 43.7 % of the total registered unemployment. The extensive long-term unemployment can lead to a structural unemployment increase, namely, the longer these people are without a job, the higher is the risk of losing labour skills and abilities.

At the same time, it must be taken into account that the correspondence between the labour force supply and demand is affected not only by the education and skills of the labour force, but also by remuneration, which is why there are vacancies even though the unemployment level is high.

The description of the current situation in the labour market and the developed labour market forecasts are based on the 2011 census, which have introduced certain adjustments in the employment and unemployment parameters.

Table 1.1

Key employment and unemployment parameters

	2011 (without adjusting)	**2011*** (recalculation according to 2011 census outcome)
Population in thousands	2229.6	2074.6
Economically active population in the age group of 15-74 y.o., in thousands	1147.0	1028.2
The number of the employed in the age group of 15-74 y.o., in thousands	970.5	861.6
Employment level against the total population in the age group of 15-74 y.o., %	55.3	53.4
The economic activity level the total economically active population against the total population in the age group of 15-74 y.o., %	65.4	63.7

Job seekers in the age group of 15-74 y.o., in thousands	176.4	166.6
Unemployment level The proportion of job seekers in the number of economically active population in the age group of 15-74 y.o., %	15.4	16.2

1.2 Costs and Productivity of the Labour Force

During the economic downturn, significant adjustments occurred in the labour market resulting in reduction of not only the number of the employed but also in remuneration of the employed. As the economic situation stabilised, an increase in remuneration has restarted since the late 2010.

The average gross monthly salary of the employed in 2010 was 445 lats, i.e. by 3.5 % lower than in 2009 and by 7 % lower than in 2008. Upon assessing the salary dynamics during the crisis, it must be pointed out that taking into account the severity of economic downturn, the salary adjustment was relatively moderate.

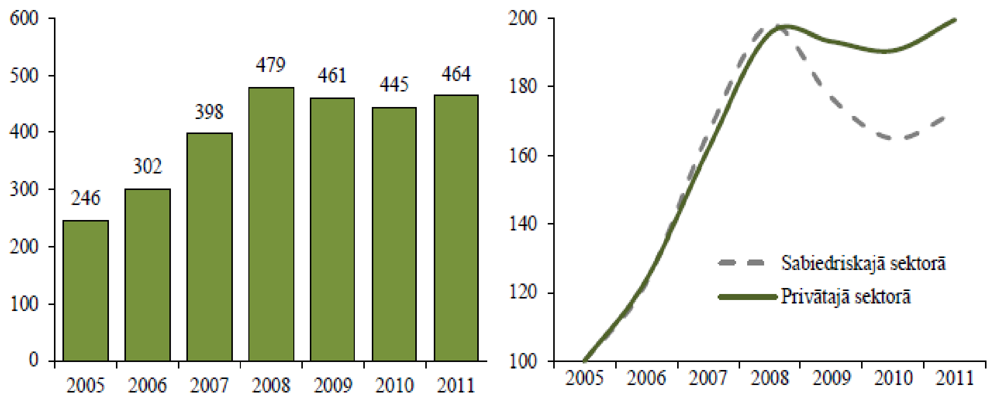

Figure 1.2

Average gross monthly salary of the employed (LVL)

The average gross monthly salary of the employed in the public and private sector (y. 2005=100)

public sector private sector

The average gross salary of the employed in 2011 was 464 lats. If compared to the previous year, the salary of the employed both in the public and private sector increased practically evenly – by 4.7 % and 4.6 % respectively.

It must be noted that the adjustment of salaries of those working in the public sector during the crisis was much higher than in the private sector, which was determined by the need to restrict the state budget expenditure. Therefore, the average gross monthly salary in 2011 in the public sector was almost by 13 % lower than in 2008.

Meanwhile, the average gross monthly salary in the private sector in 2011 already by 2.5 % exceeded the level of 2008. It proves that the labour market adjustments in the private sector mainly took placed at the expense of reducing the number of the employed.

The significant adjustments in the labour market in 2009 affected the dynamics of productivity and labour force costs alike. If compared to 2008, productivity reduced by 5.3 %, as the GDP decreased more rapidly than the number of the employed. The labour force costs in 2009, if compared to 2008, decreased by 12.7 %, because the decrease in the number of the employed was more rapid than the reduction in the fund of salaries.

The ULC (the unit labour cost of production) dynamics in 2010 was mainly determined by the relative changes in salaries and in the number of the employed. The high unemployment and budget consolidation measures still put a significant pressure on the salaries. However, taking into account the low level of competitiveness of Latvia in the overall EU labour market, the changes were already rather moderate. Therefore the reduction of labour unit cost and the increase of productivity were, to a great extent, determined by the changes in the number of the employed. The real ULC in 2010, if compared to the preceding year, was by 7.7 % lower.

In 2011, as the economic growth recovered, an increase was observed in the number of the employed and in the salary fund alike. As the salary fund grew more rapidly than the number of the employed, the labour force costs increased by 4.2 %. Meanwhile, the productivity in 2011 increased by 2 %, i.e. slower than the labour force costs. However, as the real salaries grew slower than productivity, the real ULC in 2011 reduced by 3.1 %, bearing evidence of the fact that the increase in the labour force costs did not have an adverse impact on the Latvian competitiveness.

At the same time, it must be noted that the labour unit cost and productivity dynamics over the last two years show that as economic activities expand, the labour force costs will continue growing. Therefore, to ensure competitiveness also in future, the ability to increase productivity will play a decisive role.

1.3 Changes and Structure of the Labour Force Demand

The economic downturn in 2009 and 2010 and the related reduction in employment affected all sectors. The biggest reduction in jobs was seen in construction (a reduction by nearly a half), in trade (by 27 %), and in processing industry (by more than 20 %).

In 2011, as the economic growth resumed, the number of filled jobs in all sectors is increasing, however it still lags behind the pre-crisis level. The highest increase in jobs in 2011, if compared to 2010, was in construction (by nearly 11 %), in agriculture (by 8.5 %) and in the processing industry (by 7 %), while the lowest increase – in the public service sector (by 0.4 %) and trade (by nearly 2 %).

Table 1.2

Filled jobs in types of operations on average per year

	Amount (thousands)			**Changes (%)**	
	2009	**2010**	**2011**	**2011/2008**	**2011/2010**
Total	**826.1**	**776.7**	**805.5**	**-20.8**	**3.7**
including:					
Agriculture	17.9	17.5	19.0	-8.7	8.5
Processing industry	104.1	101.8	109.1	-21.5	7.1
Other industry	23.7	22.4	22.9	-14.0	2.3
Construction	54.6	46.0	50.9	-43.0	10.7
Trade, accommodation	173.3	159.7	162.8	-26.6	1.9
Transport and storage	67.6	66.8	68.8	-11.6	3.1
Other commercial services	162.8	148.4	157.0	-20.0	5.8
Public services	222.1	214.2	215.0	-12.3	0.4

According to the 2011 census data, the highest number of the employed was in the public services sector – 200 thousand, which is nearly ¼ part of all the employed, in trade and commercial services, nearly 20 % in each, and in the processing industry – 13 % of all the employed.

In 2011, 340 thousand or 40 % of all the employed worked in high qualification professions. Nearly one half of the total number of those employed in the high qualification group was employed in the public services sector. The medium qualification professions employed 398 thousand, which is almost one half of all the employed people; in this profession group ⅓ was employed in trade and nearly 17 % in the processing industry. However, in 2011, there were 124 thousand people working in the low qualification profession group; the majority (¼) was employed in the commercial services sector, but agriculture, processing industry, and the public services sectors accounted for 17 per cent of the total number of the employed.

Table 1.3

Number of the employed in economy in 2011, divided in profession groups (thousands)

	Agriculture	Processing industry	Other industry	Construction	Trade, accommodation	Transport and storage	Other commercial services-pakalpojumi	Public services	Total
High qualification professions	10.9	26.5	6.5	17.8	46.1	17.3	78.8	136.1	340.0
including:									
Managers	5.0	10.2	1.5	9.9	19.5	7.2	17.3	17.7	88.4
Senior specialists	2.8	8.4	1.9	4.1	9.5	2.4	36.3	80.6	146.0
Specialists	3.1	7.9	3.1	3.8	17.1	7.7	25.2	37.7	105.7
Medium qualification professions	45.0	65.8	13.0	34.9	102.7	48.8	44.2	43.0	397.5
Including:									
Office workers	0.7	4.3	1.8	0.8	13.3	8.0	12.4	9.2	50.4
Service workers	0.8	2.5	0.1	0.3	73.5	3.6	21.7	26.9	129.4
Qualified agricultural workers	30.9	0.4	0.0	0.0	0.0	0.0	0.7	0.4	32.4
Qualified workers	2.8	41.2	5.9	28.4	12.3	6.5	5.3	2.6	105.0
Equipment and machinery operators	9.9	17.4	5.3	5.4	3.6	30.7	4.1	4.0	80.4
Low qualification professions	20.7	22.2	2.6	8.1	12.6	7.0	29.9	20.9	124.0
Total	76.6	114.4	22.1	60.9	161.5	73.2	152.9	200.0	861.6

1.4 Demography and Labour Force Resources

The description of the demographic situation is based on the preliminary results of the 2011 census, as well as on the dynamic row assessment performed by the Ministry of Economics. The census results have led to adjustments in the population data, mainly due to the changes in the number of émigrés. The population count kept falling in 2011, and the main causes for that were aging population, low birth rate for extended periods of time, and emigration. Only in the age group over

74 years of age, a minor increase was observed. At the beginning of 2012, Latvia had 2052 thousand inhabitants, which was by 23.5 thousand less than at the beginning of 2011. The birth rate in the country for a continued period has been low and insufficient to reproduce the current number of inhabitants. As the inhabitants' income increased, the birth rates increased since 2005 – the number of babies born, as well as the birth rate increased. However, since 2009, the birth rate has gone down. In 2011, the number of births was by 3.3 % lower than in the preceding year.

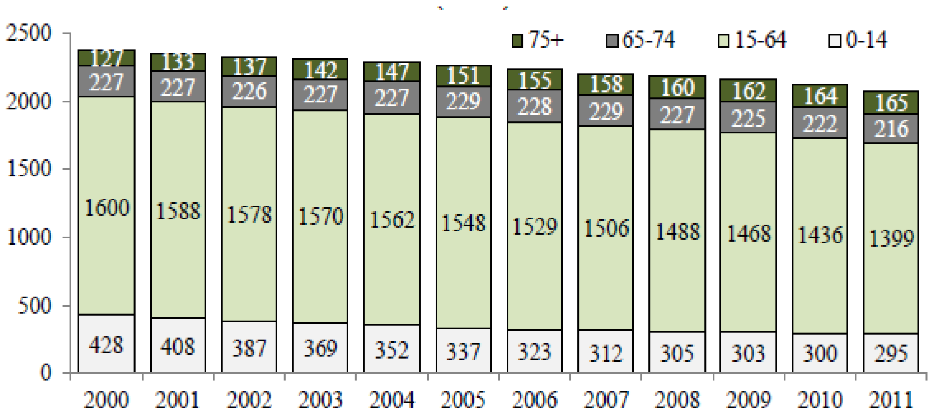

Figure 1.3 Population age structure at the beginning of the year (thousands)

The number of inhabitants of working age (15–74 y.o.) at the beginning of 2011 was 1622.9 thousand, which is by 40.2 thousand less than at the beginning of 2010. The highest impact was observed for the population count in the age group of 15–19 years (by 12.6 thousand or 9.3 %) and in the age group of 45–49 years (by 7.7 thousand or 4.9 %).

The census data contribute significantly in specifying the emigration extent. During the time frame from 2000 until 2011, the number of émigrés is about 230 thousand. The main reason for leaving is job search abroad. Mainly inhabitants of the working age are emigrating.

Already since 2004, the negative migration balance exceeds the negative natural population growth. It was determined by taking the advantage of the opened labour markets of the EU member states. In the upcoming years, the number of inhabitants using this opportunity kept increasing. If in 2004, the negative migration balance exceeded the negative natural growth of population 1.3 times, then in 2010, it was exceeded 3.1 times. According to preliminary estimates, the number of migrant inhabitants increased rapidly in 2009 and 2010, nearly doubling the ratios of the preceding years. Meanwhile, in 2011, the migration ratios returned to the level of the former years.

The Latvian labour force resources are supplemented by the guest labourers working in the country, as well. Currently, they account for a minor part of the labour force supply: in 2011, 2.4 thousand working permits were issued to foreign nationals. At the beginning of 2012, 44.3 thousand foreign nationals with permanent residence permits and 16 thousand foreign nationals with temporary residence permits were registered in Latvia.

1.5 Vacancies

In 2011, a gradual increase in vacancies is observed in nearly all sectors. In transport and processing industry, it has been preserved at the level of the preceding year, but it has fallen in the other sectors of the industry. It must be noted that a very rapid increase of vacancies is observed in trade, accommodation, and catering services sector, as the number of vacancies increased more than 3 times.

Unemployment description

According to the CSB data, the number of job seekers in 2011 was 166.6 thousand and the unemployment level was 16.2 % of the economically active inhabitants.

The unemployment level among inhabitants with a university degree in 2011 was 7.1 %.

The average unemployment level among inhabitants having secondary education is considerably higher than among those with a university degree – 18.2 %. The lowest unemployment rate on this education level was in the health care and social welfare group and in the natural sciences, maths, and information technologies group. However, the highest level of unemployment is observed among the inhabitants having general secondary education. The latter group is also the biggest in absolute numbers – nearly one half of the unemployed of the people having this education level.

1.6 Use of Labour Market Forecasts Prepared by the Ministry of Economics

Information ***from the Ministry of Education and Science*** *about the use of the labour market forecasts prepared by the Ministry of Economics in the implementation of the education policy:*

in the higher education field, the labour market forecasts are used mainly: – in determining the distribution of the state budget scholarships; – in evaluating the study programmes.

In the professional education field, the labour market forecasts are used mainly: – in the development of admission plans for the upcoming academic year, by determining the professional education programme types and the number of students to be admitted; – when performing optimisation of professional education establishments, as well as when commencing their differentiation to increase the availability of professional education, as well as its quality and correspondence to the labour market requirements, and to foster a more effective use of the available resources, in continuing the modernisation of study equipment and improvement of infrastructure at professional education establishments, thereby accordingly improving the possibilities to obtain professional education for people having functional disturbances.

The information of the ***Ministry of Welfare*** *about the use of the labour market forecasts prepared by the Ministry of Economics in determining the priority fields of training of the unemployed:*

on a regular basis, the Ministry of Welfare is updating the training list containing the fields of training, education programmes, professions and social and professional basic skills, etc., in which according to the labour market demand and the development forecasts of the economy sectors, it is necessary to carry out training of the unemployed and of job seekers. The preparation of the training lists is carried out as follows: – upon analysing the SEA (State Employment Agency) data, the number of the unemployed, and their profile in each of the professions, the jobs applied for, the placement indicators, the offer of education establishments, and other information; – upon analysing the sectoral development trends and taking into account the forecasts of the Ministry of Economics as to the medium term labour market demands. In addition to the medium term forecasts prepared by the Ministry of Economics, when preparing lists of training, representatives and other experts are invited on an annual basis to participate in discussions in order to specify particular professions, in which the unemployed should be trained.

1.7 Methodology of Preparation of Labour Market Forecasts of the Ministry of Economics

The model of forecasting the labour market

The basis of the labour market forecasting instrument is the logical structure of the dynamic optimisation model (DOM) for labour market forecasting developed within the framework of the 2007 ESF project "Study and an Analysis of Improvement Opportunities of the Long-Term Forecasting System for the Labour Market Demand".

Even though the labour market forecasting methodology has preserved certain initial DOM elements, over the time, EM has considerably enhanced the model.

The system dynamics approach is used in the labour market modelling. Unlike the initial version of DOM, the current methodology of labour market forecasting takes into account such significant factors as labour force ageing and professional mobility determined by the similarity of skills and competences in a cross-section of professions.

The labour market forecasting model consists of three fundamental blocks: the demand block, the supply block, and the labour market block. All of the blocks are mutually related and complement each other. The fundamental principles and logic of the model functioning are based on the labour market balance concept, i.e. the demand and supply balances out over a longer time period in differing labour market segments.

The labour force demand in a section of sectors is determined by the economic development scenarios – the growth of economic sectors and changes in the expected productivity. The profession demand derives from the labour market demand and the expected changes in the structure of professions. However, the demand for education is determined by the skills/education necessary for performing the duties in the demanded professions.

The labour market supply forecasts derive from: elaborate demography forecasts; participatory level forecasts in various age groups of the population; the division of the existing labour force according to the age, professional experience (the current or past profession), the obtained education; the current education system and education offer (the number of the students, the distribution of the total and budget spots in education levels and fields).

Simultaneously, the labour force supply forecasts are determined by a general striving of the labour market to balance and a gradual adaptation of the supply to the demand. The educational preferences mainly derive from the labour market supply and demand relation, i.e. the future education choice of aspiring students will be aimed at those fields, which at the time of adopting a decision will be the most perspective fields – offering relatively better job opportunities and higher expected return from individual investments in education. Likewise, it is presumed in the forecasts that the education system and the education offer (the distribution of budget and study positions) within the period covered by the forecasts do not change significantly. It implies that the labour market forecasts depict a neutral situation of the changes in the education policy in the labour market up until 2030.

It must be pointed out that the forecasts are based on an example of an ideal labour market model, i.e. the demand for professions of a certain level and in specific fields determines the demand of education of a specific level and field. It means that the broadening and replacing labour force demand in future in particular professions can be satisfied only with a labour force supply of qualification (education) relevant for the profession.

Forecast aggregation

Starting with 2012, the Latvian statistics system has fully transferred to the new framework of classification of economic operations and professions (NACE ver. 2, ISCO08). In this regard, the EM has revised the aggregation of labour market forecasts done up to now and has started the development of economic sector and professions in line with the new classifications.

The system of labour market forecast aggregation shows the labour market trends in the section of economic sectors, groups of professions, and education. The labour market forecasts are based on international classification systems adapted in Latvia and can be internationally comparable.

In the informative report, the labour market forecasts are depicted as follows:

- in a section of 8 economic sectors (NACE ver. 2. 3);
- in a section of 40 profession groups (the Latvian profession classifier, based on ISCO-084, profession code 2 sign level);
- in a section of 23 thematic spheres of education of 3 education levels (in line with the Latvian education classification 5 structure).

Scenarios of demographics and labour force supply

According to the EM demographics forecasts, the population in the medium and long term in Latvia will continue decreasing, moreover, the population in the working age will be reducing more rapidly than the overall number of inhabitants. At the same time, the population dynamics under various growth scenarios can differ, and it will be mainly determined by the differing international migration flows in the target and weak growth scenarios. However, the main reason for the falling number of inhabitants in the medium and long term will be aging population, which will result in a continued increase between the birth and death ratios.

Even though the number of population of working age will continue decreasing, the number of economically active inhabitants in a medium term will be decreasing at a slower pace. However, in a long-term outlook, as the situation in the labour market improves, the number of economically active inhabitants might even start increasing, and it will be mainly determined by the gradual increase in the economic activity of the inhabitants, in particular in the youth and pre-retirement age cohorts.

Participation of the inhabitants in the labour market

Based on the economic growth and demography scenarios, the EM has integrated two projections of the labour force supply (or economically active population) up until 2030. It is expected that the number of economically active inhabitants in a medium term will decrease – depending on the growth and demography scenario, the number of economically active inhabitants by 2018 will decrease by 50–70 thousand. The decrease will be mainly determined by the negative demographic trends. The relatively slow improvement of situation in the labour market in the upcoming few years will not foster a sufficiently rapid increase in the economic activity of inhabitants, in order for it to be able to compensate for the decrease in the number of inhabitants of working age. However, starting with 2019, as the situation in the labour market increases and as the pace of decrease in the number of inhabitants of working age slows down, the labour force supply will start to increase.

Economic growth, improvement of the labour market situation, as well as the increasing insufficiency of labour force in a long term will foster an increase of participation of the inhabitants in the labour market. The increase in the labour force demand in circumstances of limited availability of labour resources will open up work opportunities for a range of inactive inhabitants' groups (housewives, students, retirees, etc.), and at the same time, the increase in salary will have a great importance in fostering participation of the inhabitants.

It is expected that up until 2030, the level of participation of inhabitants might increase by about 5 percentage points, in comparison with 2011, and might reach 68–69 % of the total number of inhabitants aged 15–74 years. At the same time, the highest economic activity of the population will be preserved in the age group of 25–54 years. However, the most notable increase in participation is expected in the age groups of 15–24 and 65–74, which in the first case will be linked to a faster entry of the inhabitants into the labour market, but in the other – with a slower withdrawal from it.

Up until 2020, the most important reduction in the labour force is expected in the age group of 15–24 years. It can be mainly linked to the fact that the demographic fall caused due to the low birth rates of the 90-ties has entered the respective cohort. However, the demographic tendencies mentioned in the subsequent decade will leave a perceptible impact on the labour force supply in the age group of 35–44 years.

Table 1.4

Changes in the economically active population in age groups (target scenario)

Age	2011	2020				2030			
		Economically active population count, thous.	Changes total, against 2011, thous.	Impact of changes of the level of participation, thous.	Impact of demographic changes, thous.	Economically active population count, thous.	Changes total, against 2011, thous.	Impact of changes of the level of participation, thous.	Impact of demographic changes, thous.
Total	**1028.2**	**985.0**	**-43.2**	**30.3**	**-73.6**	**1021.4**	**-6.8**	**82.9**	**-89.7**
15-24	102.6	65.0	-37.5	4.2	-41.8	92.4	-10.2	16.1	-26.3
25-34	244.1	248.5	4.4	6.3	-1.9	189.2	-54.9	9.7	
35-44	250.4	243.7	-6.6	5.9	-12.6	275.7	25.4	12.8	12.5
45-54	261.6	238.9	-22.8	5.6	-28.4	254.7	-6.9	10.8	-17.8
55-64	148.1	165.2	17.1	5.4	11.7	166.1	18.1	14.1	4.0
65-74	21.5	23.6	2.2	2.9	-0.7	43.3	21.8	19.3	2.5

Overall the key driving forces of the labour force supply in a medium term will be demographic processes, however starting with 2019 – the increase in economic activity of inhabitants will bear an ever greater importance.

<u>Forecasts of labour force demand</u>

Currently, the economy of Latvia is reforming to move on to a sustainable development model, in which the key development driving force is export, the ability to compete in domestic and foreign markets, as well as being competitive in attracting the capital.

At this time, the Latvian competitiveness to a great extent is based on a relatively cheap labour force and low overall costs. However, under the conditions of free movement of labour force, it will not be possible to maintain law salaries for an extended time period in the Latvian economy, therefore, a relevant increase in productivity and growing complexity of export products enabling more successful competition in international markets will be of decisive importance.

In the target development scenario, the GDP until 2020 could grow by 50 %, in comparison with 2011. The biggest contribution to growth will be made by the tradable sectors, mainly the processing industry, in which more rapid growth pace is expected than the average in the rest of the economy. The target development scenario envisages that the economic structure will be changing in favour of exportable sectors. The increase in income in tradable sectors will be giving positive stimuli also to the development of sectors targeted at internal consumption.

Even though the pace of increase is expected to be relatively rapid, nevertheless, the demand for labour force in a medium term will be growing at an average pace, because the growth will be mainly ensured by a rise in productivity. It is particularly referable to the tradable sectors and mainly to the processing industry operating in open markets of goods and services, where competitiveness is of key importance.

In the target development scenario, it is expected that the demand for labour force in 2020 will exceed the level of 2011 by 7.4 %. However, in the weaker development scenario, the demand for labour force will be very moderate – overall by 0.4 % per year.

Nearly 2/3 of the increase in the labour force demand by 2020 will be determined by three sectors – the processing industry, trade, and commercial services.

Table 1.5

Changes in the labour force demand in sectors (target scenario, thous.)

	2011	**2015**	**2020**	**2030**	**Difference (2020-2011)**	**Differenc e (2030-2011)**
Agriculture	77	77	75	73	-1	-4
Processing industry	114	125	132	141	17	26
Other industry	22	23	23	24	1	1
Construction	61	66	69	72	8	11

Trade	161	168	172	179	11	18
Transport	73	77	79	82	6	9
Commercial services	153	160	166	176	13	23
Public services	200	203	208	220	9	20
Total	**862**	**899**	**925**	**965**	**64**	**104**

In the processing industry, as the manufacturing volumes are rapidly increasing, the demand for labour force is increasing, too. In the upcoming 2–3 years, the increase will be relative rapid, as well. However, in order for the sector to be competitive in a medium and long term, more than 80 % of the total sector increase must be ensured by increased productivity, technology transfer in production, and research development and innovation.

In future, the demand for labour force will be gradually increasing in the construction sector as well. It is expected that a relative high increase in the number of employees in the future will be seen in the commercial services sectors. In 2030, the demand for labour force will exceed the level of 2011 by 15 %, constituting overall 1/5 of the total number of people employed in the economy.

According to the restructuring of economy envisaged in the target scenario, changes are expected also in the labour force demand in profession groups. The demand for high qualification specialists will be increasing ever more rapidly. It will be mainly determined by an increase in the processing industry and services (especially commercial services). Simultaneously, the demand for specialists of medium qualification professions will also be increasing, mainly in processing the industry. Nevertheless, the demand for medium qualification agricultural workers will be falling.

Practically all sectors, especially after 2020, will see a decrease in the demand for a low qualification labour force.

Table 1.6

Changes in the labour force demand in profession groups (target scenario, %)

	Changes compared to 2011		**Structure**	
	2020	**2030**	**2020**	**2030**
High qualification professions	**13.8**	**27.2**	**41.9**	**44.9**
including:				
Managers	10.3	17.7	10.4	10.7
Senior specialists	15.2	31.2	18.3	19.9
Specialists	14.8	29.6	13.2	14.3
Medium qualification professions:	**6.1**	**8.5**	**45.5**	**44.6**
including:				

Office workers	1.2	-1.7	5.3	4.9
Service workers	6.3	10.5	14.9	14.9
Qualified agricultural workers	-15.0	-32.4	3.0	2.3
Qualified workers	14.2	23.1	13.0	13.5
Equipment and machine operators	6.7	8.5	9.3	9.1
Low qualification professions	**-6.3**	**-18.5**	**12.5**	**10.4**
Total	**7.4**	**12.0**	**100**	**100**

1.8 Forecasts and Sufficiency of Labour Market Supply

In the upcoming years, the labour market situation will continue improving gradually; however, in a medium term, perceptible disproportions will remain between the labour force supply and demand. On the one part, it will be due to lack of correspondence between the skills demanded and supplied on the labour market, but for the other part – regional disproportions of the labour force supply and demand.

Even given the relatively high remuneration level, some professions are already now experiencing difficulties in satisfying the growing demand for the relevant qualification labour force (for instance – in the IT sector, programmers). At the same time, there are fields, in which a considerable surplus of the labour force exists (various service spheres, management/administration workers, human resources specialists, trade agents, etc.), thus, people with the respective education and experience are forced to work at jobs of a lower level.

Taking into account the relatively slow adaptability of the supply side (incl., the system of formal education and professional training) to the changing conditions, the disproportions of the demand and supply of skills in the upcoming 2–3 years will most likely increase. Perceptible balancing of the labour market may be expected only within 4–5 years.

There are also marked differences in the regional distribution between the labour resources and jobs. Over the last decade, the highest unemployment level in the country has been preserved in the Latgale region, however the highest concentration of new jobs has formed mostly in the Riga region and city. Taking into account the time and resources necessary for general regional balancing to occur, in the regional polarisation of the labour market will most likely remain as a long-term problem.

Overall, the labour force supply in 2020 will exceed the demand by about 7 %, while the difference by 2030 might decrease by approximately 1 percentage point – to 6 %. Even though the respective labour force surplus might be sufficient to ensure regular functioning of the labour market and economy as a whole, nevertheless, in lower labour market segments (in regions, specific professions) the disproportions might be sufficiently significant to prevent the development of specific economic sectors.

It is expected that the number of the employed by 2020 in the case of target scenario might increase by 7–8 % or about 64 thousand, thus absorbing a part of the current job seekers. Nevertheless, a range of inhabitants, who will not be able to adapt to the new conditions, will most likely leave the labour market (mainly, retirement, including, early retirement).

It is expected that the unemployment indicators even up until 2015–2016 will be maintained at a relatively high level (the unemployment level could drop below 10 % in 2014). Overall, it will not contribute to a higher increase of the inhabitants' participation in the labour market. Therefore, influenced by the negative demographic trends, the labour force supply in a medium term will continue decreasing.

However, in a long term outlook, as the labour market appeal increases, the labour market supply will restart increasing. It will balance out the situation in the labour market and the unemployment indicators in the upcoming decade will remain close to a natural unemployment level (within 5–6 %).

1.9 The System of Anticipating Change of the Labour Market

In the upcoming decades, the Latvian economy will face considerable structural changes. In order to get ready for and adapt to these changes, it is necessary to carry out anticipating changes in the labour market.

As pointed out by the European Commission, "similar to other new EU member states, also in the case of Latvia it is difficult to identify anticipation measures for the labour market, they are most frequently "ad hoc" measures, instead of structured changes. Unfortunately, they are not systemic and devoid of a clear structure; and as a result, various components thereof serve differing goals, they overlap, and may even be mutually contradicting. In other words, measures anticipating changes in the Latvian labour market are still incomplete and insufficiently focused."[1]

The same European Commission report states that "Commentators and critics generally stress that foresight and anticipation are of relatively little use when

---

[1] Synthesis Report. Social Partnership for Anticipating Change and Restructuring. Mutual learning: Finland and the Baltic countries. November 2011 . http://arenas.itcilo.org/anticipating-restructuring/synthesis-reports

estimating, for example, employment and training needs in 2020. Nevertheless, the main utility of foresight, just as for anticipation, is less connected to results than the process by which the future is jointly considered. Dialogue is required to anticipate and social dialogue has to be turned to anticipation.

When focusing on anticipation, two points should be highlighted:

– The process of setting up arrangements to detect coming risks, cope with unexpected events and ensure that the necessary arrangements are in place to deal with restructuring consequences should be carried out in a coordinated manner.

– Actors learn by experience and sharing experience. Their ability to act efficiently in restructuring situations depends on the extent to which experience obtained – whether of failure or success – is capitalised upon, including across borders."

Thus, it can be concluded from the abovementioned, an important element in implementing anticipation is discussions among policy-makers and with the social partners. Such an approach – specific information and discussions – must be developed into a system in policy-making.

The labour market forecasts developed by the Ministry of Economics are only one of the stages in the process of adapting the labour force supply. It is the quantitative basis for further discussions between employment, education, and structural policy makers, social partners, scientists, etc., to elucidate the directions of specific activity (see Figure 1.4.).

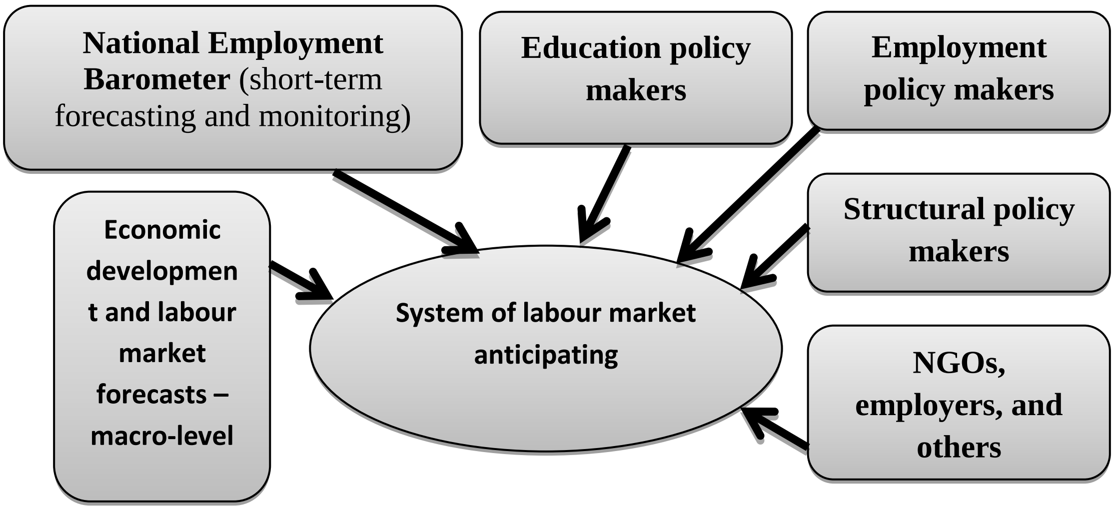

Figure 1.4 Key elements of the labour market anticipating system in Latvia

Thus, in order for Latvia to be able to timely adapt to the structural changes established in the Latvian sustainable development strategy "Latvia 2030" and the

Latvian National Reform Program for the implementation of the “EU 2020” strategy, it is necessary to significantly improve the collaboration between various institutions in anticipating the labour market.

1.10 Employment Policy of the Republic of Latvia

The quantitative goal set forth by Latvia within the context of implementing the *EU 2020 strategy* is to achieve an employment level of 73 % in the age group of 20–64 by the year 2020. To achieve the goal, policy directions are planned both on the part of the labour force supply and of the labour force demand.

The key elements of the Latvian employment policy:

- fostering the labour force demand part – stimulating economic activities and entrepreneurship, including, lowering employee taxes, fighting undeclared employment, indirect and direct state support measures to entrepreneurs, measures for reducing administrative obstacles, implementing microenterprise support measures, business incubators, etc.;
- strengthening the labour force supply part – increasing competitiveness of the unemployed and of those subject to the risk of unemployment in the labour market, incl., improving skills;
- fostering the process of adaptation of the labour force supply and demand, including, improvement of the education system, involvement of employer organisations in improving the education quality, forecasting the labour market supply and demand relevance, labour market forecasting, educating the labour market participants, including pupils and students, in the labour market matters and career.

To solve problems topical in the employment policy, the Cross-sectoral Action Plan for Implementing Employment Policy for collaboration between all the interested ministries, by involving employers in the process more actively, will be developed by the end of 2012.

The State Employment Agency (SEA) is the state policy implementer in the field of reducing unemployment and supporting the unemployed and job seekers. In performing its functions, SEA affects the labour market with active employment measures and preventive measures to reduce unemployment.

Overall, 48.2 million lats were used for the labour market policy measures in 2011. The biggest funding was granted to salaried temporary jobs or the measure Work practice with a scholarship and measures for improving skills, which includes professional training, requalification, and improving qualification, measures for improving competitiveness and career consulting. ¾ of the financing in this field were granted to these measures.

The rest of the financing was granted to the subsidised employment and the measure to foster lifelong learning Training programmes for attracting adults to lifelong learning, as well as measures for starting entrepreneurship or self-employment.

Currently, SEA is implementing the following active employment measures:

- professional training, requalification and improvement of qualification;
- measures for specific groups of persons;
- measures for improving competitiveness;
- salaried temporary jobs (in 2010 and 2011, this measure was fully replaced with the measure Work practice with a scholarship);
- measures for commencing commercial operations or self-employment;
- complex support measures.

During the years of economic growth, the demand for active employment measures had decreased, but in 2009, due to the significant increase of unemployment, it grew considerably. The demand remained at a high level also in 2010 and 2011. In the active employment measures, overall 64.6 thousand unemployed people were involved in 2007, 84.8 thousand – in 2008, 237.9 thousand – in 2009, but in 2010 – 269.2 thousand, in 2011 – 287.5 thousand, during the 1st quarter of 2012 – 57.6 thousand unemployed people (one unemployed person can be involved in more than one activities).

The measures for improving competitiveness (incl., information days) drew the largest part of the unemployed, namely, in 2011 – 124.3 thousand (excluding informal education). Other measures during this time period were implemented to the following extent: professional training, requalification, and improvement of qualification of the unemployed – 8.6 thousand unemployed; persons having started training with an employer – 1 thousand, in measures for specific groups of persons – 1.5 thousand, the measure Work practice with a scholarship – 50.6 thousand, complex support measures – 11.6 thousand, informal education – 26.1 thousand, measures for starting commercial activity or self-employment – 272 unemployed persons.

Improvement of measures of the active labour market policy continued in 2011:

- the principle "money follows the unemployed" was improved in the training coupon principle, namely, the unemployed person chooses the study institution, and the SEA pays a specific amount for the studies;
- new measures targeted at the unemployed youth have been developed and implemented – Jobs for youth and Support to youth voluntary work with an aim to develop the practical working skills of the youth, thereby enhancing their competitiveness on the labour market;
- the implementation of the measure introduced during the crisis Work practice with a scholarship has been concluded in local governments; as of 1 January 2012, this measure has been replaced with salaried temporary social service.

SEA is implementing preventive measures to reduce unemployment:

- career consulting;
- training programmes to involve adults in lifelong learning.

Career consulting for clients better helps understanding their professional disposition. By means of the number of clients served, it is the most significant preventive measure to reduce unemployment.

In order to gradually change the emphasis from operative short-term measures reducing the social impact of crisis to traditional employment policy measures, implementation of the following measures was commenced in 2010:

- training programmes for involving adults in lifelong learning;
- acquisition of the first and second level professional higher education programmes.

In the measure *Training programmes for involving adults in lifelong learning*, the training coupon system is used, with the aim to foster accessibility to lifelong learning. The target group: employed and self-employed persons (except state civil service employees) having reached the age of 25 years and younger than the age necessary for receiving the state old-age pensions. In 2010, 5155 employed persons started studies, thus using 0.9 mill. lats, but in 2011 – 15 418 persons, using financing in the amount of 2.6 million lats.

Meanwhile, after starting the measure *Acquisition of the first and second level professional higher education programmes* due to administrative complications and high costs it was no longer continued in 2010.

Due to the increasing economic globalisation, rapid development of technologies, and negative demographic processes in the European employment strategy, ever more attention is paid to the matters of the **labour market flexibility and employment security or flexicurity**.

An important aspect of labour relations is **safety at work**, promoting conditions for safe and harmless working environment. In the field of labour protection, a goal has been set forth to improve the working conditions and companies and to reduce the number of casualties due to work accidents (per 100 thousand employed persons) until 2013 by 30 % in comparison with 2007.

To ensure that the number of lethal accidents at work gradually decreases, by promoting safe and harmless environment at work place, extended work life, and the overall improvement of social welfare, on 20 April 2011 the Cabinet of Ministers accepted "*The development plan in the sphere of labour protection, 2011–2013".* It sets forth a number of goals – improvement of labour protection policy planning, increasing the capacity and effectiveness of the state control and monitoring mechanism, embodying "preventive culture" in the society and companies, ensuring economic stimuli and state support to the employers.

In some sectors in Latvia, the level of **undeclared employment** is relatively high, and this problem has become even more pronounced during the economic downturn, thereby contributing to unfair competition and restricting social security of the employees.

Within the labour market development context, the education system has an important role, in particular emphasising the importance of lifelong learning. Introduction of the lifelong learning principle is stressed also in the Latvian National Reform Programme for implementing the EU 2020 strategy.

Latvia has undertaken to foster continuous improvement and development of the inhabitants' knowledge, skills, and competences by ensuring accessibility to lifelong learning, so that in 2020, 15 % of the population (aged 25–64) were continuously engaged in a learning process. This proportion in 2011 was 5.1 %, while in 2013, it is planned to reach 12.5 per cent.

Introduction of the lifelong learning principle is implemented in a number of ways:

- development of a framework structure of national qualifications and equating their level to the European qualifications structure, thus encouraging a transition to such education supply that is based on learning outcome;
- ensuring evaluation of knowledge, skills, and professional competence gained outside formal education;
- a second chance education offer as a compensation mechanism for reducing the number of those having ended education prematurely;
- support to improving qualification of employees according to the employers' requirements necessary within the sectors for the employee training.

Bibliography

1. Central Statistical Bureau of Latvia website (http://www.csb.gov.lv/en)

2. Informatīvais ziņojums par darba tirgus vidēja un ilgtermiņa prognozēm (EMZino_260612.docx) (http://www.em.gov.lv/em/2nd/?cat=30353)

3. Ministry of Economics of Republic of Latvia website (www.em.gov.lv)

4. Ministry of Welfare of Republic of Latvia website (www.lm.gov.lv)

5. National Employment Agency website (www.nva.gov.lv)

6. Report on the Economic Development of Latvia / June 2012. (http://www.em.gov.lv/em/2nd/?lng=en&cat=30353)