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COMPET 860
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JAI 896
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JEUN 176
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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Latvia

Delegations will find attached the above-mentioned draft Council Recommendation, as revised and agreed by various Council committees and finalised by the Economic and Financial Committee, based on the Commission Proposal COM(2026) 214 final.

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Latvia

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and Article 148(4) thereof,

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

[1] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj).

Whereas:

(1) Regulation (EU) 2024/1263 specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, as well as preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the Treaty on the Functioning of the European Union (TFEU). The European Semester includes, in particular, the formulation and the surveillance of the implementation, of country-specific recommendations.

(2) On 25 November 2025, the Commission adopted an opinion on the 2026 draft budgetary plan of Latvia. On the same date, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2026 Alert Mechanism Report, in which it did not identify Latvia as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, a recommendation for a Council recommendation on human capital in the European Union, and a proposal for the 2026 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[2] on 21 April 2026 and the Joint Employment Report, and the recommendation on human capital on 9 March 2026.

(3) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the Union's global competitiveness over the next five years. It identifies the three transformational imperatives of innovation, decarbonisation and competitiveness, and security as critical pillars for sustainable economic growth. Since its publication, the Competitiveness Compass has informed the work of the European Semester, ensuring that Member States' economic policies are consistent with the EU's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

[2] OJ C, C/2026/2434, 28.4.2026, ELI: http://data.europa.eu/eli/C/2026/2434/oj.

(4) In 2026, the European Semester for economic policy coordination continues to develop alongside the final stage of Recovery and Resilience Facility (RRF) implementation[3]. Recovery and resilience plans (RRPs), along with cohesion policy funding, have been essential for delivering on the policy priorities under the European Semester, as the plans were required to effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent cycles, and programmes funded by the European cohesion policy were required to take country-specific recommendations into account. As the RRF approaches the end of its lifetime, it remains essential to sustain and build on the reforms and investments supported and implemented under the RRF, in particular those that contribute to addressing challenges identified in the country-specific recommendations.

(5) On 3 June 2026, the Commission published the 2026 country report for Latvia. It assessed Latvia's progress in addressing the 2025 country-specific recommendations and took stock of Latvia's implementation of the RRP. On the basis of that analysis, the country report identified the most pressing challenges Latvia is facing. It also assessed Latvia's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty and social exclusion reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

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[3] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

(6) On 21 January 2025, the Council, upon the assessment and recommendation of the Commission, adopted a Recommendation endorsing the national medium-term fiscal-structural plan of Latvia[4]. The plan covers the period from 2025 until 2028 and presents a fiscal adjustment spread over four years. The Council recommended the following maximum growth rates of net expenditure: 5.9% in 2025, 3.6% in 2026, 3.4% in 2027 and 3.3% in 2028, which correspond to the maximum cumulative growth rates calculated by reference to the base year of 2023 of 15.5% in 2025, 19.7% in 2026, 23.8% in 2027 and 27.9% in 2028.

(7) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission has invited Member States to request the activation of the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending[5] and this proposal was welcomed by the European Council of 6 March 2025. Following the request of Latvia, on 8 July 2025 the Council, upon a recommendation from the Commission, adopted a Recommendation allowing Latvia to deviate from the recommended maximum growth rates of net expenditure[6]. The period when the national escape clause is activated (2025-2028) allows Latvia to reprioritise government expenditure or increase government revenue so that lastingly higher defence expenditure would not endanger fiscal sustainability in the medium term.

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[4] Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Latvia (OJ C, C/2025/652, 10.2.2025, ELI: http://data.europa.eu/eli/C/2025/652/oj).

[5] Communication from the Commission, 'Accommodating increased defence expenditure within the Stability and Growth Pact', Brussels, 19.3.2025, C(2025) 2000 final.

[6] Council Recommendation of 8 July 2025 allowing Latvia to deviate from the maximum growth rate of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), (OJ C, C/2025/3970, 20.8.2025, ELI: http://data.europa.eu/eli/C/2025/3970/oj).

(8) On 30 April 2026, Latvia submitted its 2026 Annual Progress Report[7] on adherence to the recommended maximum growth rates of net expenditure and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects Latvia's biannual reporting on the progress made in implementing its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

(9) Real GDP growth in 2025 was 2.1% and HICP inflation stood at 3.8%. The Commission Spring 2026 Forecast projects real GDP to grow by 1.4% in 2026 and 1.6% in 2027, and HICP inflation to stand at 3.6% in 2026 and 2.2% in 2027.

(10) Based on data provided by Eurostat[8], Latvia's general government deficit increased from 1.8% of GDP in 2024 to 2.5% of GDP in 2025. The increase in the deficit in 2025 mainly reflects the adverse fiscal impact of the personal income tax reform and a reduction in property income, affected by lower dividend payments from state-owned enterprises and lower interest revenue. Based on policy measures known by the cut-off date of the forecast, the Commission Spring 2026 Forecast projects a deficit of 3.3% of GDP in 2026 and of 4.3% of GDP in 2027. The increase in 2026 mainly reflects higher investment (including in defence), increasing interest costs, and continued growth in social transfers, largely due to pension and benefit indexation outpacing economic growth, and a rising number of pension recipients. The further increase in the deficit in 2027 mainly reflects the further effects of the personal income tax reform and diminishing property income, as well as a sharp increase in defence expenditure, alongside continued high growth of social transfers.

[7] The 2026 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en.

[8] Eurostat-Euro Indicators, 22.4.2026.

(11) Based on the Commission's estimates, the fiscal stance[9], which includes both nationally and EU financed expenditure, was expansionary, by 1.1% of GDP, in 2025. It is projected to be expansionary, by 1.5% of GDP, in 2026, and broadly neutral in 2027.

(12) Based on data provided by Eurostat[10], Latvia's general government debt increased from 46.2% of GDP at the end of 2024 to 46.9% of GDP at the end of 2025. The increase in the debt ratio in 2025 mainly reflects the budget deficit and a positive stock-flow adjustment. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2026 Forecast projects the debt-to-GDP ratio to increase to 48.8% by the end of 2026 and further to 53.8% by the end of 2027. The increases in 2026 and 2027 mainly reflect high primary deficits and upward stock-flow adjustments impacted by upcoming Eurobond redemptions.

(13) Based on Eurostat data[11], total general government defence expenditure in Latvia amounted to 3.2% of GDP in 2025, corresponding to an increase of 0.7 percentage points of GDP compared to the reference year 2021. According to the Commission Spring 2026 Forecast, it is projected at 4.1% of GDP in 2026, corresponding to an increase of 1.7 percentage points of GDP compared to 2021[12].

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9 The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

10 Eurostat-Euro Indicators, 22.4.2026.

11 Eurostat, government expenditure by classification of functions of government (COFOG).

12 The NATO defence spending definition differs from the COFOG defence definition. Furthermore, there could be differences due to the time of recording of expenditure, in particular military equipment, as the NATO reporting does not follow national accounts rules for the time of recording.

(14) The Union continues to face risks of energy supply disruptions and elevated price volatility, exacerbated by geopolitical tensions which affect global oil and gas markets. Experience from the 2022–2023 energy crisis has shown that broad and untargeted measures entail large fiscal costs and are socially and economically inefficient. Since the outbreak of the war in the Middle East in February 2026, Latvia adopted fiscal policy measures to mitigate the impact of high energy prices on households and firms[13]. These include an untargeted reduction in the excise tax on diesel and a targeted reduction in the excise tax on agriculture diesel, both from 1 April to 30 June 2026. According to the Commission Spring 2026 Forecast, the fiscal cost of these measures is projected to amount to less than 0.1% of GDP in 2026. According to Commission estimates, if these measures were to remain in force until end-2026, their fiscal cost would amount to 0.1% of GDP in 2026.

(15) Based on the Commission's calculations, net expenditure in Latvia grew by 5.0% in 2025 and 10.2% cumulatively over 2024 and 2025. The net expenditure growth in 2025 is below the recommended maximum growth rate. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is also below the recommended maximum growth rate.

(16) Based on the Commission's calculations, net expenditure in Latvia is projected to grow by 6.7% in 2026, and 17.5% cumulatively over 2024, 2025 and 2026. The projected net expenditure growth in 2026 is above the recommended maximum growth rate, corresponding to a deviation of 1.2% of GDP in annual terms. When considering 2024, 2025 and 2026 together, the projected cumulative growth rate of net expenditure is below the recommended maximum growth rate[14].

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[13] This reflects the situation at the cut-off date of the Commission's Spring 2026 Forecast (4 May 2026).

[14] As Latvia benefits from flexibility under the National Escape Clause, the assessment of compliance focusses on the latter comparison.

(17) On 3 June 2026, the Commission adopted a report under Article 126(3) TFEU[15]. That report assessed the situation of Latvia *vis-à-vis* the deficit criterion, as its planned general government deficit in 2026 exceeds the reference value of 3% of GDP. The report concluded that, taking into account all the relevant factors as appropriate, the deficit criterion is fulfilled by Latvia. In light of this and after considering the opinion of the Economic and Financial Committee as established under Article 126(4) TFEU, the Commission has not proposed to open an excessive deficit procedure.

(18) Public finances are under pressure to cope with structural spending needs. The current annual budget and the medium-term budgetary framework include commitments to higher debt-financed defence spending but do not provide sufficient funding for healthcare and social protection. Low public spending on healthcare continues to negatively impact its accessibility, while pension adequacy is projected to remain very low over the medium to long-term. Ensuring appropriate financing for key priorities while maintaining fiscal sustainability requires a comprehensive approach that includes raising additional tax revenue, reducing shadow economy, and increasing spending efficiency.

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15 Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 3.6.2026, COM(2026)302 final.

(19) Furthermore, as a Member State on the EU's eastern external border, Latvia faces spending pressures related to defence and resilience against hybrid threats, such as IT disruptions in critical infrastructure and drone incursions, and specific challenges that are impacting economic and social development dynamics. Russia's war of aggression against Ukraine not only exacerbates some of the existing structural challenges, but also increases security pressures, disrupts cross-border economic activities and decreases investment attractiveness. While Latvia has already significantly increased defence spending, security challenges require further investments in civil protection and preparedness as well as military mobility. Such investments could have the double benefit of addressing security challenges and providing opportunities for the regions' economies.

(20) Latvia's tax revenue was 34.9% of GDP in 2024 and remained below the EU average of 39.4%. Latvia continues to rely heavily on consumption and labour taxes as its main revenue sources. Taxes on capital (including corporate income tax) and property account for a smaller share of the tax mix than in other EU Member States. In 2025 and 2026, Latvia has modestly increased taxes on capital and various taxes on consumption that are less harmful to growth and serve policy goals (including excise duties on fuels, tobacco, alcohol and soft drinks; company car tax; and gambling and lottery tax). However, the additional revenue from these taxes has been more than offset by the revenue-decreasing impact of the 2025 labour tax reform.

(21) According to 2024 survey data, the shadow economy remains high at 21.4% of GDP, largely due to the high proportion of undeclared salaries ('envelope wages'). While Latvia is implementing measures to better detect non-payment or evasion of taxes, such as mandatory e-invoicing for transactions and the taxpayer-rating system, further efforts are needed to enhance digital tools, encourage voluntary compliance and strengthen enforcement mechanisms.

(22) Contrary to previous years' practice, in the preparation of the 2026 Budget most of the savings identified in spending reviews were directed towards financing of the government's key priorities. While the 2026 process marked a welcome shift in approach, Latvia could benefit from further institutionalising this practice in future budgets as well as expanding the scope and ambition of spending reviews. Further steps to implement performance-based budgeting may also help to strengthen the quality and efficiency of public spending.

(23) The systematic, meaningful and timely involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the Union's funding instruments, as well as in the context of the European Semester.

(24) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF), the European Social Fund Plus (ESF+) and the Cohesion Fund (CF) in Latvia, is above the average pace at EU level, both in terms of project selection and payments. It is important to keep current momentum, while maximising the impact of investments on the ground. Latvia is already taking action under its cohesion policy programmes to boost competitiveness and growth. Nevertheless, some areas may require further strengthening in implementation, including those relating to large-scale infrastructure, transport, as well as scaling up SME support in regions outside the capital. It is essential to ensure that the new investments identified by Latvia in its mid-term review of the cohesion policy funds, notably those linked to the five priorities identified in the Mid-Term Review Regulation[16], are deployed rapidly and effectively.

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[16] Regulation (EU) 2025/1914 of the European Parliament and of the Council of 18 September 2025 amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review.

(25) Latvia faces challenges related to access to finance, research and innovation, energy efficiency, sustainable transport, resource management, labour and skills shortages, social protection, access to healthcare and housing.

(26) Although lending activity has increased since 2024 due to eased monetary policy, there have been no significant structural changes in bank lending to companies. While government initiatives have improved lending conditions for households, in particular by simplifying mortgage refinancing conditions, company borrowing terms remain largely unchanged. Latvia has implemented some public support schemes, primarily through the state development financial institution ALTUM, including a public guarantee framework, large investments programme, support for investments in the area of the green transition (such as centralized heating supply and biomethane production), as well as initiatives in the fields of innovation, economic resilience, and military or dual-use products. More efforts are needed to support companies' investments in digital transition, including increasing basic digital intensity. Strict collateral requirements and high interest rates persist, especially outside of Riga, despite the strong financial health of banks. Latvia's capital market remains underdeveloped. There continue to be challenges in expanding funding options beyond traditional sources, evidenced by low stock market capitalisation and limited reliance on listed shares and bonds for funding. Venture capital investment trails the EU average, hindered by weak private funding while Latvian pension funds are characterized by limited domestic investment and low returns. Promoting borrower mobility and competition in the corporate lending market, continued efforts to enhancing public lending and guarantee schemes as well as activating capital markets could improve the access to finance.

(27) Latvia's low levels of R&D expenditure, and particularly private, continue to limit innovation, as evidenced by the number of patent applications per billion GDP, which remains lower than half of the EU average. Cooperation between businesses and academia remains limited, slowing knowledge transfer. Companies report long, complex procedures when engaging with research institutions, while researchers lack incentives for engaging in applied projects. These challenges have led to weak productivity growth, particularly outside of the capital region, which is aggravated by low capital intensity and limited sectoral reallocation. Startup activity also lags behind Estonia and Lithuania with fewer new registrations per year. Despite the favourable regulatory environment, the start-up and scale-up ecosystems remain underdeveloped, due to fragmented and low financial support. To address these issues, strategically designed financial support, such as those requiring private co-financing or mandating the employment of researchers, and progress on a higher education reform to encourage industry collaboration, could help build capacity and foster innovation, thereby broadening R&I engagement and improving productivity levels. Long term policies to help startups growing in Latvia and incentivise business R&D investment, including support for private-sector R&D employment, would also strengthen longer-term TFP growth over time.

(28) In 2025, Latvia generated 73% of its net electricity from renewables – one of the highest shares in the EU – with hydropower accounting for most of this output. While installed solar capacity has grown in recent years, wind capacity has increased only marginally. With limited scope to expand hydropower further, scaling up wind and solar energy is critical to reduce exposure to the volatility of fossil fuel prices and dependencies. While recent legislative and regulatory initiatives have alleviated some grid congestion, grid queue management could be improved, for example by moving away from the 'first come, first served' approach towards one that prioritises shovel-ready, financially viable projects. Furthermore, action is required to reduce permitting times for renewable energy projects. Finally, despite ongoing efforts, the process of designating renewables acceleration areas could be sped up.

(29) Latvia's electricity consumers remain exposed to volatile price spikes, particularly during periods of low renewable output when the system relies more heavily on costly fossil-fuel generation and imports, highlighting the continued importance of promoting non-fossil flexibility solutions, such as energy storage and demand-response. In 2025, two battery energy storage systems supported by EU funding were commissioned and began providing key flexibility services. Recent regulatory updates simplified permitting for co-located storage-renewable projects. More could be done to enable consumers and operators to provide flexibility to Latvia's electricity system, for example by promoting independent aggregators of small-scale demand, a shift to dynamic-price electricity contracts, and by testing pilot flexibility projects with larger players.

(30) Although the final energy consumption attributable to the buildings sector has been decreasing in the recent years, this sector remains a major energy consumer in the country and further action is needed to meet the 2030 renovation and energy efficiency targets. In 2025, regulatory and legislative initiatives were implemented to accelerate renovation rates, including revisions to voting and decision-making rules in multi-apartment buildings. This is particularly relevant given the large stock of multiapartment buildings built before 1990. Support schemes for energy efficiency remain reliant on public funding, primarily from the EU. Latvia could benefit from attracting additional private funding, for example by offering more financial instruments and de-risking options, while targeting grant-based support at more vulnerable households. Particular efforts are needed to promote electrification and the adoption of energy-efficient, low-carbon technologies for heating and cooling, which account for the majority of residential final energy consumption.

(31) While Latvia took steps to decarbonise its transport sector, it remains one of the largest sources of greenhouse gas (GHG) emissions in the country. Road transport is 92% fossil-fuel-dependent and responsible for 83% of transport emissions. The Transport Energy Law, adopted in late 2025 and effective as of 1 January 2026, provides the framework to meet REDIII targets in the transport sector. The uptake of private electric vehicles rose slightly from 0.8% in 2024 to 1.05% in 2025, while charging infrastructure for light-duty vehicles doubled in 2025, though starting from a low base and remaining limited for heavy-duty vehicles. Latvia could therefore benefit from further promoting the uptake of low- and zero-emission vehicles, including for its commercial fleet, and expanding its recharging infrastructure, particularly for heavy-duty vehicles. On rail transport, while 90% of passenger rail is electrified, freight services still rely on diesel, with Latvia's overall rail electrification at just 14% compared to the average 57% EU coverage. The completion of Rail Baltica is expected to strategically integrate Latvia into the EU's rail network, significantly improve rail coverage, while facilitating the switch from road to rail and therefore supporting to further reduce GHG emissions from transport.

(32) Latvia is facing challenges in its transition to a circular economy, and its resource productivity is currently standing at around half the EU average. Latvia has significantly reduced its GHG emissions in the manufacturing sector but the energy intensity of the Latvian manufacturing industry remains among the highest in the EU. Although Latvia has improved its waste management system, introducing separate collection of textile goods in 2025 and launching an e-cigarette deposit system in 2026, and has a good recycling rate for specific waste streams (plastic packaging, construction and demolition waste), its circular material use rate in 2024 was only half the EU average (6.8% compared to 12.2% for the EU) and could therefore benefit from further improvement. Almost half of Latvia's municipal waste is still sent to landfills. Latvia is not on track to reach its carbon removal target. In 2020-2023 the increase of GHG emissions in LULUCF sector are cumulative result of higher harvesting rates and higher mortality rate in mature forests.

(33) In light of the crucial role of human capital in enhancing the Union's competitiveness and strategic autonomy, in 2026 the Council recommended that Member States take action to urgently address human capital related structural challenges in the areas of skills,education and training, which hamper competitiveness. The 2026 country-specific recommendations addressed to Latvia can contribute to the implementation of the Council Recommendation on human capital in the Union.

(34) Labour and skills shortages, including in STEM sectors, teaching, research and digitalisation, as well as in the social and healthcare sectors, continue to hamper competitiveness. Labour shortages in sectors such as energy production and manufacturing remain high and are set to intensify in the coming decades. Improving working conditions could help attract and retain skilled workers, including in sectors such as teaching, healthcare and social care. Furthermore, the low number of graduates in science, technology, engineering and mathematics (STEM) and labour shortages in research undermine Latvia's innovation capacity and competitiveness. Latvia is performing low on digital skills, particularly basic digital skills, where it ranks as the fourth-worst in the EU, which also impacts the digitalisation of SMEs. Despite recent efforts, Latvia's adult learning system remains fragmented and not fully adapted to labour market needs. Latvia could benefit from strengthening its long-term planning in adult education by adopting a national strategy in human capital development. Active labour market policies (ALMPs) and vocational education training (VET) could be better linked with labour market needs through close cooperation with employer organisations and trade unions.

(35) Latvia continues to face high levels of inequality, with the income quintile share ratio increasing from 6.28 in 2024 to 6.68 in 2025, significantly above the EU average of 4.62. Furthermore, while the rate of people at risk of poverty and social exclusion decreased in 2024 to 24.3%, it remains above the EU average of 21%. The risk of poverty rate is especially high for vulnerable groups, such as the elderly, people with disabilities and single parent households. This reflects the relatively low coverage and the low adequacy of social protection, particularly with regards to the non-contributory benefits. The impact of social transfers other than pensions, which was already one of the lowest in the EU, has decreased for a second consecutive year. For persons with disabilities, the coverage of the special care allowances is low and existing allowances have not been increased to keep pace with inflation. Despite some recent measures, old-age pension adequacy remains among the lowest in the EU, with the aggregate replacement ratio expected to deteriorate further in the coming years without a policy response. Social services and long-term care, particularly home care, remain underdeveloped. Furthermore, territorial differences in economic and social development persist. Regions bordering Russia and Belarus, especially Latgale, and rural areas are particularly affected by depopulation, lower educational attainment, limited access to healthcare and social services, which exacerbates social exclusion and poverty risks. Addressing these challenges would also contribute to supporting upward social convergence, in line with the Commission services' second-stage country analysis of the Social Convergence Framework[17].

[17] SWD(2026)122 – Second-stage country analysis on social convergence in line with the Social Convergence Framework (SCF), 2026.

(36) Health outcomes in Latvia show little improvement, with the country recording one of the lowest rates of life expectancy in the EU, and high rates of avoidable mortality. Despite some additional funding, low public spending on healthcare impacts the resilience of the system and continues to hamper access to quality care, as evidenced by long waiting times and high out-of-pocket (OOP) payments due to a limited statutory benefits package. While the government has taken some measures to address high OOP spending, including an expansion of the list of reimbursable medicines and increasing the reimbursement rate, high OOP payments continue to place a disproportionate financial burden on low-income households, thereby exacerbating inequalities in health outcomes and resulting in high levels of unmet medical needs across the entire population. Additionally, medical institutions face a severe shortage of healthcare workers, where recruitment and retention are deterred by poor working conditions. Addressing high workloads, structurally increasing remuneration in the public healthcare sector, and improving career outcomes could help attract staff to the sector. Behavioural risk factors - such as excessive alcohol consumption, smoking, and low physical activity - remain key drivers of poor health outcomes. This could be mitigated by strengthening preventive health policies, including screening and public health campaigns.

(37) Latvia's housing stock remains outdated and inadequate, in particular in terms of energy efficiency, due to years of underinvestment and high stock of multiapartment buildings built before 1990. This puts financial pressure on households, especially in light of rising energy costs. Strong regional and socio-economic disparities limit housing development and renovations, in particular outside Riga. In addition, the rental market and social housing market remain underdeveloped. Access to social housing is primarily provided based on income level and is not well-adapted to the needs of persons with disabilities. The housing first approach is underdeveloped and is limited to the capital region of Riga. Overall, homelessness remains a persistent social challenge and is not being sufficiently addressed by national policies. The shortage of quality and affordable housing undermines labour mobility and social well-being. Latvia has implemented some schemes to support the construction of affordable housing in the regions, primarily through the state development financial institution ALTUM, but more efforts are needed to expand social housing stock and improve quality and adequacy of housing including through renovations and energy improvements, in particular outside the capital region.

(38) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, in 2026 the Council recommended that the euro-area Member States take action, including through their RRPs, to implement the 2026 Recommendation on the economic policy of the euro area. For Latvia, the recommendation (1) helps implement the first, the second and the third recommendations on the euro area, recommendation (2) helps implement the fourth recommendation on the euro area, recommendation (3) helps implement the seventh, ninth and tenth recommendations on the euro area, recommendation (4) helps implement the seventh recommendation on the euro area and the recommendation (5) helps implement the fifth recommendation on the euro area.

HEREBY RECOMMENDS that Latvia take action in 2026 and 2027 to:

1. Continue adhering to the maximum growth rates of net expenditure recommended by the Council on 21 January 2025, while making use of the flexibility under the national escape clause activated by the Council. Reinforce defence readiness while ensuring debt sustainability and spending efficiency, as well as gradually adapting the budget to sustain structurally higher defence spending. Ensure that measures taken to mitigate the impact of the hike in energy prices are temporary, targeted at protecting vulnerable households or at addressing the needs of energy-intensive firms, preserve incentives for energy savings and that their fiscal cost is compatible with the commitments under the EU fiscal framework. Make public finances fit to cope with structural spending needs including for defence and resilience against hybrid threats, healthcare and social protection, such as by broadening taxation to sources less detrimental to growth, promoting measures to move informal or undeclared activities into the formal economy, and embedding the practice of redirecting expenditure to priority areas based on public spending reviews, while expanding their scope and ambition.

2. Ensure continuity of reforms and investments implemented under the Recovery and Resilience Facility. Sustain implementation momentum under cohesion policy programmes, building, where appropriate, on the reallocation to strategic priorities and flexibilities agreed in the context of the mid-term review of the cohesion policy framework. Address the unique socio-economic, security and civil preparedness challenges particularly affecting regions on the EU's external eastern border, including the need to invest in dual-use infrastructure.

3. Improve access to finance for small and medium-sized enterprises, also outside of the capital region, including by stimulating competition in the financial sector and by developing the capital market. Facilitate the digitalisation of businesses, in particular small and medium-sized enterprises. Encourage private investment in research and innovation, including by strengthening cooperation between businesses and academia, reducing administrative burden in public-private partnerships, and supporting commercialisation of research and scaling up innovation.

4. Continue the deployment of renewable energy, including by improving permitting, designating renewable acceleration areas, and promoting non-fossil flexibility solutions. Scale up energy efficiency and decarbonisation in buildings. Accelerate the decarbonisation of transport, including by accelerating the completion of Rail Baltica. Increase resource efficiency and the transition to a circular economy through eco-innovation and sustainable resource management practices.

5. Address labour and skills shortages, including through targeted upskilling and reskilling of adults to meet labour market needs and improved working conditions. Strengthen social protection to reduce poverty and inequality, including by improving the adequacy of old-age pensions and the access to quality social services. Strengthen the adequacy and accessibility of the health system to improve health outcomes, including by providing adequate human and financial resources, broadening the statutory benefits package, reducing out-of-pocket payments, and strengthening preventive health measures. Increase the availability and quality of affordable and social housing, in particular outside the capital region.

Done at Brussels,

For the Council
The president