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TARGETED ANALYSIS //

CHANEBO Challenges at EU's North-East External Borders

Regional Profile for Latgale, Latvia

Intermediary Deliverable // April 2025

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Disclaimer

This document is a deliverable on a regional profile and recommendations.

The information contained herein is subject to change and does not commit the ESPON EGTC and the countries participating in the ESPON 2030 Cooperation Programme.

The final version of the report will be published as soon as approved.

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Abbreviations

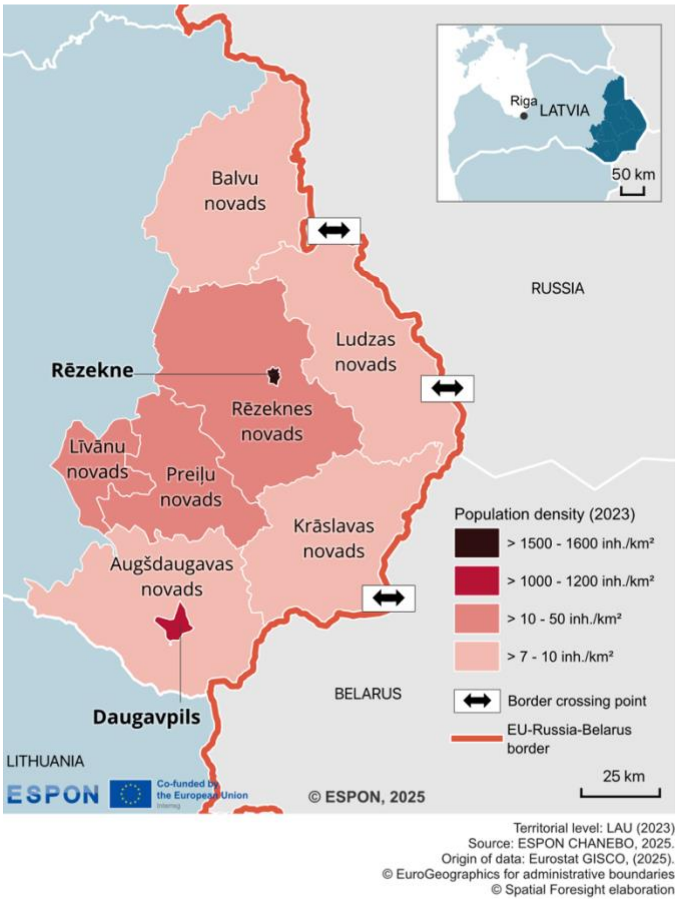
CHP	Combined Heat and Power plant
DU	University of Daugavpils
FDI	Foreign direct investments
GVA	Gross value added
ISCED	International Standard Classification of Education
LPR	Latgale Planning Region
LTA	Latgale Tourism Association
NACE	Statistical classification of economic activities
NVA	State Employment Agency
OECD	Organisation for Economic Co-operation and Development
OSP	Official Statistics Portal of Latvia
PIAAC	Programme for the International Assessment of Adult Competencies
PPS	Purchasing power standard
RAIM	Regional development indicators module
RES	Renewable Energy Sources
RIT	Residents income tax
RTA	Rēzekne Technology Academy
RTU	Riga Technical University
SMARD	Ministry of Smart Administration and Regional Development
SPA	Sparsely populated areas
SR	Statistical region
STEP	Strategic Technologies for Europe Platform
VDD	Latvian State Security Service
VET	Vocation education and training

Introduction

This report presents the findings of the regional profiling of the Latgale region in Latvia, one of the four stakeholder regions in the ESPON Targeted Analysis 'Challenges at EU's North-East External Borders [CHANEBO]'. The report aims to capture the socio-economic impacts of Russia's war in Ukraine on Latgale, one of the 27 NUTS 3 level EU regions bordering both Russia and Belarus.

Latgale is the easternmost region of Latvia. It is one of four rural regions in Latvia having its own characteristics including a backwardness determined by its peripheral location and historic background. The region covers 14 547 km², which accounts for 22.5% of the country's total land area. It shares a 387 km-long external border, including 214 km with Russia and 173 km with Belarus, making it a strategically significant area for national security. In contrast, its internal EU border with Lithuania extends only 91.5 km, further underscoring its historical role as Latvia's gateway to the east - a role that has significantly changed since 2022.

Map 1 Latgale region



Source: Service Provider

In Latvia there is one tier of local government and no elected regional government in the stakeholder territory. Partly based on historical division of the country, five planning regions of Latvia have been established in 2002. Latgale Planning Region (LPR) is 'a derived public person established in accordance with the Regional Development Law and financed from the state principal budget' (LPR, 2025). It acts under supervision of the Ministry of Smart Administration and Regional Development (SMARD) and provides planning and coordination of regional development issues as well as co-operation between local governments and other state administrative institutions. The LPR Development Council is the decision-making body of the region. It is composed of representatives from the nine elected local authorities – municipalities of the region.

Planning regions in Latvia function as territorial units for regional development and coordination, aimed at promoting balanced economic growth, infrastructure development, and social planning. Unlike municipalities, planning regions do not have direct governing authority, but they play a key role in strategic development, regional cooperation, and the distribution of EU funding.

Daugavpils is the largest city in the region and the second largest in Latvia, it is located 226 km southeast of Riga and 30 km from the Belarusian border. Rēzekne is the region's key cultural and administrative hub and lies 238 km east of Riga and approximately 50 km from the Russian border. Among the rural municipalities, Rēzekne county (Rēzeknes novads), which surrounds Rēzekne city, is the largest by area (3 088.9 km²), followed by Augšdaugava county (2 523.6 km²), Ludza county (2 411.4 km²), Balvi county (2 386.3 km²), and Krāslava county (2 288.9 km²). Smaller municipalities include Preiļi county (1 419.4 km²) and Līvāni county (624.6 km²).

In 2024 Latgale had a population of 241 067 which was slightly less than 13% of the almost 1.9 million people in the country. 43% of the regional population resides in two state cities[1] of Daugavpils and Rēzekne. When combined with the populations of their respective surrounding counties, Augšdaugava and Rēzekne, this figure increases to 65%. This means that approximately two-thirds of the region's population lives in the vicinity of these two key urban centres, which can also be considered the functional areas of the region. The other counties in the region are predominantly rural. While in Latvia on average 80% population lives in urban territories, in Latgale the urban population is 68%.

Latgale is also Latvia's most ethnically diverse region, with Latvians comprising only 46% of the population - the lowest percentage nationwide. This contrasts sharply with regions like Vidzeme, where Latvians make up 86% of the population. In Latgale, nearly half of the residents are non-Latvian, primarily Russians, Belarusians, and Poles. This diversity stems from the region's unique historical, cultural, and geopolitical context.

Latgale has often been characterized as a 'periphery' region, meaning it is physically and economically distant from more central and developed parts of the country. This isolation has had profound impacts on both the economic development of the region and its social dynamics, contributing to the continuing disparity between Latgale and other regions.

Across all municipalities population decline, economic struggles, and infrastructure limitations remain key factors influencing the region's development. Latgale's geographical position, demographic trends, and socio-economic conditions underscore its strategic importance and persistent challenges. In the past decade the Latgale region is characterised by the following distinct development trends:

- The regions depopulates at a much faster rate than the whole country in general - average in Latvia between 2014 and 2024 is -6% while in Latgale -17%. Since 2000 Latgale has lost 38% of its population.
- Lower GDP per capita in Latgale when compared to the national and EU average. Latgale GDP per capita in 2022 was EUR 9 731 which makes 35% of EU average in purchasing power standards (PPS) and 27% at current prices.
- The share of exports in the total GDP of Latgale at current prices makes 27%.
- Only 1.3% of the total foreign direct investment (FDI) accumulated in Latvia between 2014 and 2023 has made its way to Latgale. The region has accumulated two times less FDI than the regions of Vidzeme and Zemgale, and 3.4 times less than Kurzeme.
- Lower productivity and consequently lower income levels. Gross value added (GVA) per employed was at EUR 18 554 in 2022, being 62% of the national average. The mean disposable income level per household per month average in Latvia EUR 1 649; in Latgale EUR 1 154 in 2022.
- Higher registered unemployment rate - average in Latvia 4%; in Latgale 11 % in first quarter of 2025. Share of persons under minimum income level by regions is also 11%.
- Since the COVID-19 pandemic in 2020 around 1000+ remigrants annually return to Latgale.

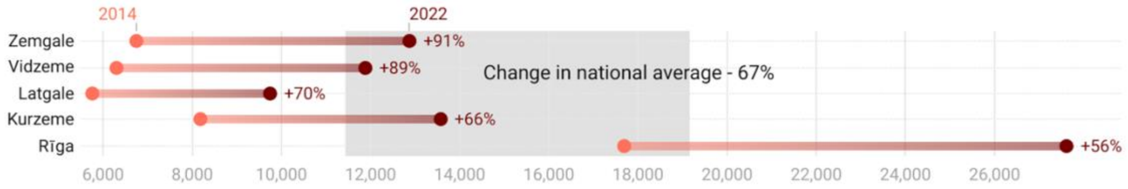
[1] By Latvian law, cities (*valstspilsētas* or "state cities") must typically count at least 25 000 residents, have a well-developed commercial district, transport, public utilities, social infrastructure, and be a significant centre of culture. There are ten state cities in Latvia.

Table 1 Regional share in the total national GDP

	2014	2022	Change %
Rīga	66.0	65.6	-0.4
Vidzeme	8.4	9.1	0.7
Kurzeme	11.0	10.4	-0.6
Zemgale	7.3	8.0	0.7
Latgale	7.2	6.7	-0.5

Source: Service Provider based on the data of the Official Statistics Portal of Latvia (IKR060)

Figure 1 GDP per capita (at current prices) changes in the regions of Latvia, EUR, 2014-2022



Source: Service Provider based on the data of the Official Statistics Portal of Latvia (IKR060)

Historically, Latgale has been a significant industrial region, with a legacy that continues to shape its economy today. Although the post-Soviet transition brought substantial economic challenges, efforts are underway to revitalize key industries, attract investment, and foster new economic opportunities. Despite these initiatives, Latgale still trails the rest of Latvia in economic growth, employment, and industrial output, making its future development a critical focus of national economic policy.

According to SMARD in the programming period 2014-2020 Latgale has received a total of EUR 496.6 million - EUR 389.9 million EU funding along with EUR 106.8 national co-funding, which makes it the highest EU funding per capita – EUR 1 590 among the regions in Latvia. Notwithstanding, in terms of job creation and attraction of private investments the region failed to excel. 454 new jobs have been created within three specific support programmes under SMARD while in the other regions the result varies from 1 393 in Kurzeme and 551 in Zemgale. As for private investments being one of the programmes' goals, only EUR 7.9 million has been attracted as opposed to EUR 95.2 million in Vidzeme highest and EUR 69.3 milion in Zemgale (Riga not included).

The Centre for Eastern Studies concludes: 'Latvia's economic situation is gradually deteriorating due to its uneven development. One of the main reasons for this is that the metropolis of Riga accounts for as much as two-thirds of the country's economic growth. Economic and social indicators for Latvia's regions are sometimes several times lower than those for its capital. The non-metropolitan areas are struggling with numerous problems: high unemployment, an aging population, deteriorating living standards, insufficient medical care, or a shrinking network of educational institutions. Another important fact is that local governments often function like 'appanage principalities'. If the current trends continue, the state will continue to fall behind its neighbours Estonia and Lithuania' (Chmielewski, 2023).

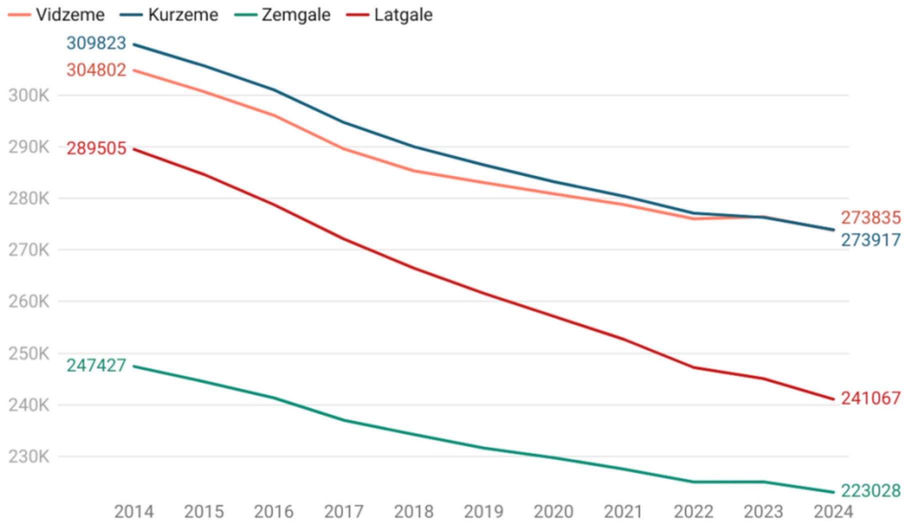
This targeted analysis wished to scrutinise the effects of the war on the economies of the stakeholder regions. Overall, this is a challenging task, mainly because data for certain relevant specific indicators are not always collected at regional level, and because indicators such as GDP are published with a considerable delay. This means that GDP data at NUTS3 level for 2022 only appeared in January 2025. They will probably give some idea of the impact of the Russian war of aggression in Ukraine, which began in early 2022, but will not yet show a credible trend.

The analysis is based on many indicators and much data. Unless mentioned otherwise data from the Official Statistics Portal (OSP) of Latvia has been used.

1 Demography

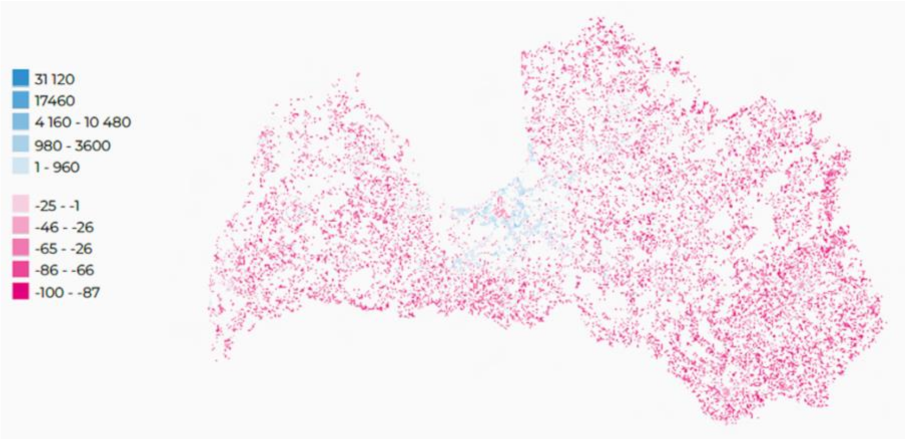
In the beginning of 2024, the Latgale region had a population of 241 067 which was 13% of the 1.87 million people in the country. In Latvia 46% of the population resides in the capital city of Rīga. During the first 24 years of the 21st century, Latgale has experienced a population decline of 38%, down from 388 207 in 2000. Over the specific period in focus of this targeted analysis, starting from 2014, the population decrease in the region has been 17% as opposed to 6% overall in the country. While all regions of Latvia have seen some level of population decline, Latgale has faced by far the steepest drop among the four regions outside the capital area as seen in Figure 2. Only a few local administrative areas around Riga have experienced slight increase in population which is well seen in the below Map 2.

Figure 2 Population changes in the regions of Latvia 2014 – 2024



Source, OSP Latvia (IR031)

Map 2 Population changes in Latvia within 1 sq. km grids between 2000 and 2024



Source, Think-tank LASER

Table 2 Population changes in Latgale between 2014 and 2024 and density in 2024

LAU	2014	2024	%	Density
Daugavpils state city	87 184	77 799	-11	1228
Rēzekne state city	29 470	26 131	-11	1526
Augšdaugava county	31 759	24 361	-23	10
Balvi county	22 657	17 910	-21	8
Krāslava county	26 606	19 833	-25	9
Līvāni county	12 122	10 215	-16	17
Ludza county	25 703	20 745	-19	9
Preiļi county	19364	157688	-19	12
Rēzekne county	34 640	28 305	-18	11
TOTAL	**289 505**	**241 067**	**-17**	**17**

Source: OSP Latvia (IR031 for population, IRD062 for density)

Although few so far, there are cases of once-departed inhabitants returning to Latgale to enjoy a quality living environment and the opportunity to live in harmony with nature. COVID-19 has also resulted in some remigration. However, it is too early to judge the overall impact of remigration on the labour market in the region.

Table 3 Number of remigrants in Latgale between 2020 and 2023

2020	2021	2022	2023
664	1021	1277	1177

Source: OSP Latvia (IBR031)

The population projections of EUROSTAT suggest the following further decline in number of population in Latgale. Any future development scenarios, visions and relevant policy recommendations need to factor in that most likely in the next decade Latgale will lose another 50 000 inhabitants. The population will be on average even older then today which means less people in the working age group.

Table 4 Actual population on Latgale and Latvia and the population projections

2020	Latgale	LATVIA
2024*	241 067	1 871 882
2035	189 450	1 660 761
2045	158 509	1 586 936
2060	125 125	1 304 642

Source: *Actual OSP Latvia (IR031), EUROSTAT projections[2]

1.1 Population by age groups

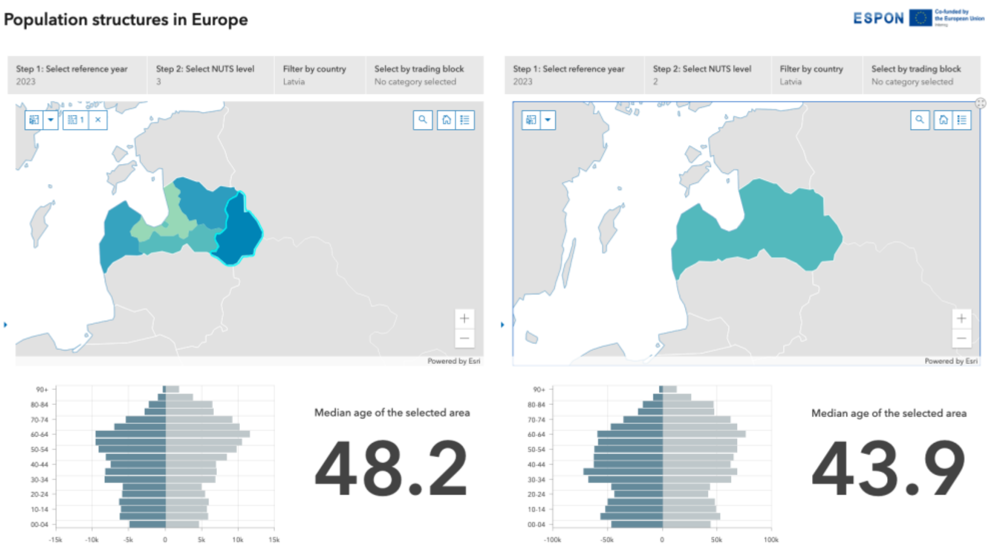
The old age dependency rate in Latgale in 2024 was 40.9. It is the highest among the regions of Latvia. The dependency ratio is steadily increasing in the country as well as in Latgale. Since 2014, the dependency rate in Latvia has increased from 30.9 to 37, while in Latgale it has increased from 31.9 to 40.9.

The median age in the region of Latgale has been 48 for already three years in a row (2022 to 2024), while the mean age steadily increases being 45.5 in 2024. The Population structure dashboard[3] set up by a joint effort of ESPON and JRC harmonises demographic indicators across the EU Member states. The below figure showcases the median age in Latgale (to the left) and Latvia as a whole in 2023 (ESPON, 2023).

[2] https://ec.europa.eu/eurostat/databrowser/view/proj_19rp3/default/table?lang=en

[3] https://gis-portal.espon.eu/arcgis/apps/dashboards/9ff67f0b91b24a919731e1f5e73b15e0

Figure 3 Median age in Latgale (left) and Latvia in 2023



Source: Population structures dashboard, ESPON

1.2 Population density

The region is known for its relatively low population density compared to other parts of Latvia. Under Soviet rule (1940–1991), Latgale experienced an influx of industrial workers, particularly in Daugavpils and Rēzekne, leading to an increase in urban population density. However, this period also saw forced collectivization of agriculture, which weakened traditional rural livelihoods and contributed to a gradual rural exodus.

As of the latest estimates, Latvia has a population density of approximately 29.5 people per km². It is one of the least densely populated countries in Europe, with a total population of 1.9 million and a land area of 64 589 km². The population is mainly concentrated in the capital city, Riga, which has a much higher density compared to the rural regions. Riga itself has over 2 000 people per km², and the surrounding metropolitan area continues to grow. In comparison the average density in Latgale is ~17 people per km² significantly lower than Latvia's national average of ~30 people per km². See also Table 2.

Around 60% of Latgale's population lives in urban areas. The remaining 40% lives in villages and sparsely populated rural zones. Many small villages are declining due to migration to urban areas or abroad. In Daugavpils, Latvia's second-largest city, population density is 1 228 people per km². Meanwhile, **Latgale's rural areas remain sparsely populated, with densities sometimes falling below 10 people per km²**. The local authorities with the lowest population density - falling below 12.5 inhabitants per km² - are primarily located next to the borders with Russia and Belarus. This classifies them as sparsely populated areas (SPA), i.e., territories with a population density of less than 12.5 inhabitants per km², or areas that have suffered from an average annual population decrease of at least 1 % of inhabitants over the 2007-2017 period (Council of the European Union, European Parliament, 2021).

The low population density and increasing sparsity have significant socio-economic and spatial implications. With one of the lowest population densities in the country, vast areas of Latgale consist of sparsely inhabited villages and isolated homesteads, where access to essential services such as healthcare, education, and public transportation is increasingly limited. A key issue stemming from sparsity is the rising cost of service provision. With fewer residents spread over a vast area, the cost per capita of maintaining schools, medical facilities, and public transport escalates, often leading to service closures or reductions.

This spatial dispersion complicates regional development efforts, as maintaining infrastructure and public services for a dwindling population becomes economically unviable. The uneven distribution of inhabitants further reinforces social fragmentation, reducing opportunities for economic collaboration and community resilience. The economic consequences extend beyond public services; businesses struggle to find a sufficient workforce, discouraging entrepreneurship and industrial development. Agriculture remains a dominant sector, but its modernization has reduced labour demand, leaving fewer opportunities for residents to sustain livelihoods.

Moreover, the sparsity of Latgale's population has geopolitical and security implications, particularly given its location along Latvia's eastern border with Russia and Belarus. The key question remains whether Latgale will be actively revitalized or continue to be managed as a sparsely populated border zone with limited long-term prospects.

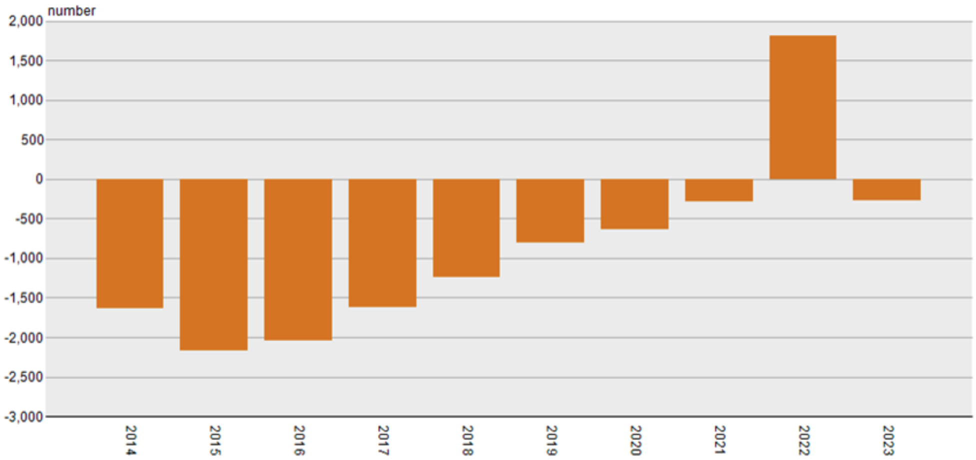
1.3 Net migration

Since 1989, Latgale has consistently experienced negative net migration, with more people leaving the region than moving into it. After the collapse of the Soviet Union in 1991, Latgale experienced significant changes in migration patterns. Following the dissolution of the Soviet Union, many ethnic Russians and Russian-speaking Latvians in Latgale moved to Russia. As Latvia transitioned to a market economy in the 1990s and 2000s, there was a strong trend of internal migration from rural areas of Latgale to the capital, Riga, and other more economically developed regions in the western part of the country. This rural-to-urban migration further contributed to Latgale's negative net migration. Young people left for better educational opportunities and job prospects, leading to a population decline in the region. Latvia's accession to the European Union in 2004 opened new doors for migration across the EU. Many Latvians, including those from Latgale, moved to countries like the UK, Ireland, and other EU nations seeking better employment opportunities. However, some of these emigrants returned to Latvia after periods abroad. **In recent years, the negative net migration in Latgale has persisted, although the rate of population decline has slowed slightly.**

From 2014 to 2019, Latgale experienced significant outmigration each year, but there was a gradual decline in negative net migration values, moving from -1 630 in 2014 to -797 in 2019. This indicates a reduction in the number of people leaving or a slight increase in remigration. In 2022, Latgale recorded positive net migration, suggesting more people moved into the region than left. This is mainly attributed to the influx of Ukrainians due to Russia's invasion. At the NUTS 3 level, positive international long-term migration rates were observed in both Latgale and Vidzeme in 2022, primarily due to Russian aggression war in Ukraine refugees settling across Latvia, although mainly in Riga. By 2023, net migration in Latgale returned to negative at -275. Over the observed period, Latgale consistently had one of the highest negative net migration rates among Latvian regions. Vidzeme and Kurzeme showed similar negative trends in net migration, though with less volatility compared to Latgale.

At the beginning of 2024, in general education institutions at pre-primary, primary and secondary level there were around 3.7 thousand Ukraine citizens having the status of temporary protection in Latvia, in vocational education institutions around 140, and in tertiary education institutions just over 100. OSP Latvia quote the State Revenue Service data that show 8.7 thousand Ukraine citizens registered as employees at the beginning of 2024.

Figure 4 International long-term migration of population in Latgale, total and net migration



Source: OSP Latvia (IBE081)

Summary

The Latgale region has experienced significant population decline over the past two decades, losing 38% of its population since 2000. Between 2014 and 2024 alone, the region's population fell by 17%, compared to a 6% decline nationally. In early 2024, Latgale had 241,067 residents just 13% of Latvia's total population. The trend is particularly severe in rural municipalities bordering Russia and Belarus, where population densities have dropped below 12.5 inhabitants per km^2, classifying them as sparsely populated areas. Urban centres like Daugavpils and Rēzekne have also seen notable reductions, although they still concentrate much of the region's population. Despite a few cases of remigration, including returns linked to COVID-19, the overall demographic outlook remains negative, with EUROSTAT projecting a further loss of 50 000 inhabitants by 2035.

Demographic ageing adds to the challenge, with Latgale having the highest old-age dependency ratio in Latvia rising from 31.9 in 2014 to 40.9 in 2024. The median age in the region has stabilised at 48, while the mean age continues to rise. These trends point to a shrinking and ageing working-age population, raising concerns about labour availability, productivity, and long-term socio-economic sustainability. As younger people migrate to urban centres or abroad for better opportunities, the region struggles to retain talent and revitalise its economy.

Low population density and increasing sparsity have serious implications for public service provision and regional development. Maintaining healthcare, education, and transportation infrastructure becomes increasingly costly and inefficient as the population disperses. This spatial imbalance hampers economic development and social cohesion, limiting entrepreneurship and industrial activity due to a dwindling workforce. While agriculture remains important, modernisation has reduced labour demand, offering limited employment options. The geographical and demographic situation also has geopolitical implications, especially given Latgale's proximity to Russia and Belarus, raising questions about the region's long-term strategic role.

Migration patterns further compound Latgale's demographic issues. Since 1989, the region has consistently experienced negative net migration, with residents leaving for Riga, western Latvia, or other EU countries. Although net migration figures improved slightly between 2014 and 2019, and even turned positive in 2022 due to the influx of Ukrainian refugees, the trend returned to negative in 2023. Refugees, primarily settling in urban areas like Riga, contributed briefly to population stabilisation. However, the underlying factors driving outmigration - limited job opportunities, weak economic diversification, and demographic decline persist, making Latgale one of the most demographically and economically challenged regions in Latvia.

2 Education and labour market

2.1 Education

The residents of the Latgale region have access to a full spectrum of educational opportunities, from preschool to higher education, without needing to leave the region. This continuity in education reflects intentional policy efforts to address the challenges of depopulation and mitigate the 'brain drain' by keeping students, especially those at the university level, within Latgale.

2.1.1 General education

In recent years, Latvia has been actively enhancing its general education ecosystem and reorganizing its network of educational institutions. This process has led municipalities to evaluate and restructure their school networks based on demographic trends, accessibility, and regional needs. Latgale has been disproportionately affected by school closures and mergers due to demographic decline and migration patterns. Unlike the Riga metropolitan area, where student populations are stable or growing, Latgale has seen a steady decrease in students at all education levels. This has resulted in a shrinking school network and reduced educational access in some areas.

Table 5 General schools by region and city at the beginning of the school year

Type of school	2021	2022	2023
Full-time schools	110	101	99
Primary schools (1st - 4th grades)	3	3	3
Basic schools (1st-9th grades)	43	45	43
Secondary schools (1st -12th grades)	58	47	47
Special schools	6	6	6

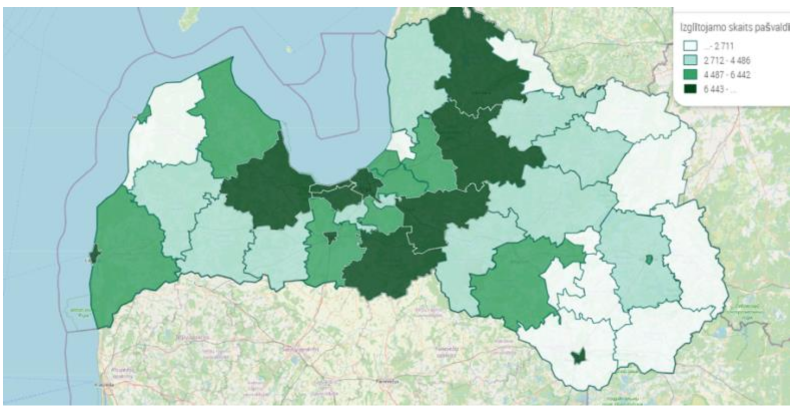
Source: OSP Latvia (IZG201)

From 2021 to 2023, the total number of general schools in Latgale decreased from 110 to 99, a 10% reduction. Primary schools (grades 1-4) remained stable at three, while basic schools (grades 1-9) fluctuated between 43 and 45. Secondary schools (grades 1-12) saw the most significant change, dropping from 58 to 47 in 2022 and staying at that level in 2023, a 19% decrease. Special schools remained consistent at six.

This data indicates educational consolidation in Latgale, particularly affecting secondary education. Despite efforts to maintain educational accessibility, the reduction in institutions suggests a centralization of resources, potentially increasing travel distances for students in remote areas.

The number of students in general education programs in Latgale highlights significant demographic disparities compared to other regions in Latvia. The below map of Latvia shows that Latgale has a lower concentration of students, indicated by lighter shading. Each municipality in this region has a student population consistently below 2 711.

Map 3 Number of students in general education programs and vocational education programs in special education institutions for the 2024/2025 academic year



Source: (State education information system (VIIS), n.d.)

This low student count is primarily due to ongoing depopulation and migration trends, as many residents, especially younger individuals, leave Latgale for more urbanized and economically prosperous areas of Latvia. This migration has led to a significant decrease in local student populations, affecting the viability of existing educational institutions.

2.1.2 Vocational education

The number of vocational education institutions (VET) has decreased from 12 in 2020 to 10 in 2024. When combined with the previously discussed reduction in general schools (particularly secondary schools), this data points to a broader pattern of educational consolidation throughout the Latgale region.

In the 2024/2025 academic year there were five VET schools in Daugavpils, two in Rēzekne and one in each the following counties: Augšdaugava, Balvi and Ludza. Of these, three schools are for music and arts – two located in Daugavpils and the third one in Rēzekne. Two of these music and arts VET establishments are functioning under the Ministry of Culture and one under the supervision of the Daugavpils municipality.

Two VET establishments are run by the local authorities are vocational schools in Bebrene (Augšdaugava) and Balvi. Four VET schools are run by the Ministry of Education and Science:

- Daugavpils Technology and Tourism College;
- Medicine College at Daugavpils University;
- Daugavpils Industrial College; and
- Rēzekne College.

Malnava College in Ludza municipality provides vocational education training in agricultural and entrepreneurial skills and is run by Ministry of Agriculture. The State Border Guard College in Rēzekne is run by the Ministry of Interior. There is also an affiliate of the P. Stradins Medical College of the University of Latvia in Rēzekne.

Altogether there are 4 187 students in the academic year 2024/25. For comparison in the 2018/2019 academic year there were 13 vocational education schools in the stakeholder territory with 4 463 students

Several of the remaining vocational institutions function as ‘competence centers’. This designation indicates institutions with higher standards and resources, specialized expertise in particular vocational fields, more comprehensive facilities and equipment, stronger industry partnerships and potential for higher quality educational outcomes.

2.1.3 Tertiary education

The key players in the higher education in the region are University of Daugavpils (DU) and Rēzekne Academy of Technology (RTA). Thanks to the previous ESIF investments, the establishments are well equipped and provide high-quality education and scientific work options for students as well as enterprises and other cooperation partners. There is also a comparatively small affiliate of the Art Academy of Latvia in Rēzekne.

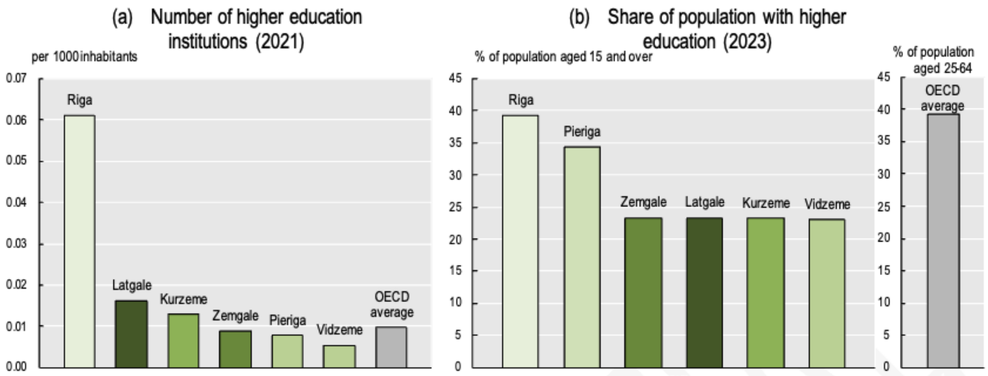
Daugavpils University was founded in 1921 and presently has two faculties – (1) Natural Sciences and Healthcare and (2) Humanities and Social Sciences. DU has 50 study programmes. Over 2 500 students from different countries are currently enrolled at the university.

Rēzekne Technology Academy is a comparatively small public university founded in 1993. As of 1 April 2025, RTA is integrated into the Riga Technical University (RTU) and will be known as RTU Rēzekne. RTU already has Daugavpils Study and Science centre offering studies in five fields: mechanical engineering, power engineering, civil engineering, economics and computer science. There are 33 study programmes at RTA. The number of students has been declining in the recent years. There are more than 1 700 students in RTA.

RTA also makes effort to respond flexibly to the demands of the regional labour market, offering 1st level educational study programmes (2-years of studies, not yet bachelor). For example, the ‘Mechanical Engineering’ study programme has been established in Līvāni in close cooperation by RTA, Līvāni local authority and the region's fibre optics companies in order to provide a skilled labour force for the two important fibre optics companies in the area.

The OECD concludes that although Latgale has a strong higher education[4] offer that has not translated into greater tertiary attainment for its population (OECD, 2024b). 'Latgale has more higher education institutions per capita than the OECD average and that other non-capital Latvian regions. Its higher education institutions also have a high share of international students: 54% in 2023, far outperforming the roughly 10% averaged across the EU. Access to lower-level education is weaker, with only 25% of the population within a 15-minute walk to a primary school in 2018, compared to an average of 31% for Latvia and 64% across the EU. Despite the presence of universities, higher educational attainment in the region remains low. In 2023, only 23% of residents over the age of 15 had attained higher education (ISCED level 5-8) in Latgale, considerably lower than the national average of 31% (Figure 5, panel b). This suggests there is further scope for the region to leverage its higher education institutions to upskill local talent and meet the demands of businesses' (OECD, 2024b).

Figure 5 Access to higher education and educational attainment



Note: Higher education refers to education levels ISCED 5-8. The OECD average of the % of the population aged 25-64 with higher education is an average of 26 countries with available data.

Source: OECD based on OSP Latvia data

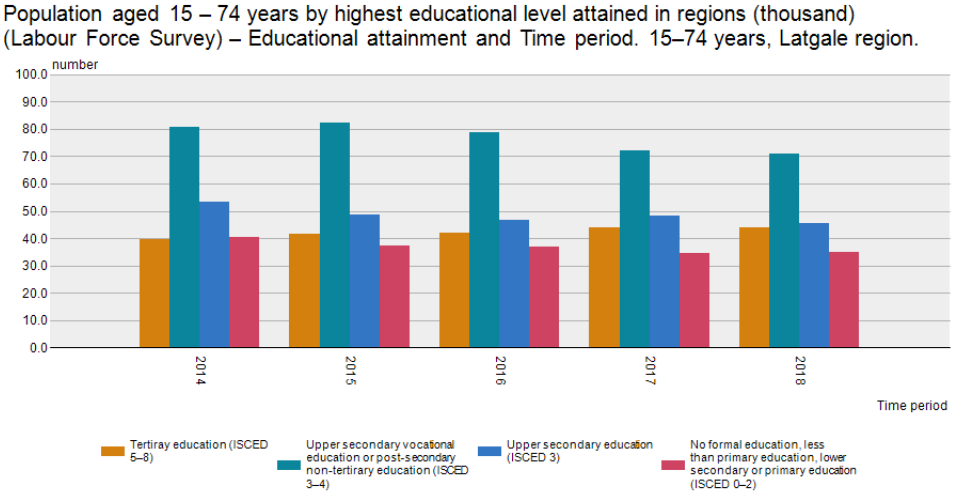
2.1.4 Education attainment

Data on educational attainment trends in Latgale Region over the period 2014–2024 has been analysed in two separate segments. This division is necessary because data prior to 2019 may not be directly comparable with more recent figures due to changes in survey methodology and updates in regional classifications. Figures on educational attainment in the Latgale region span back to at least 2014, based on data from the Labour Force Survey.

Between 2014 and 2018, the Latgale region exhibited notable shifts in the educational composition of its population aged 15–74 years. The number of individuals with tertiary education (ISCED 5–8) steadily increased from 39.5 thousand in 2014 to 43.8 thousand in 2018, indicating a positive trend toward higher education attainment. Conversely, those with upper secondary vocational or post-secondary non-tertiary education (ISCED 3–4) saw a decline from 80.8 thousand to 70.8 thousand over the same period. The group with upper secondary education only (ISCED 3) fluctuated but generally decreased from 53.3 thousand in 2014 to 45.4 thousand in 2018. Meanwhile, the population with no formal education or only lower secondary education (ISCED 0–2) showed a modest decline from 40.4 thousand to 35.1 thousand, suggesting gradual improvements in basic education levels.

[4] Internationally comparable data is missing for all Latvian regions for the access (distance) to kindergarten and primary education institutions indicator and 'the share of international students in the student population in higher education' used to calculate the Education dimension score on the TL3 compass.

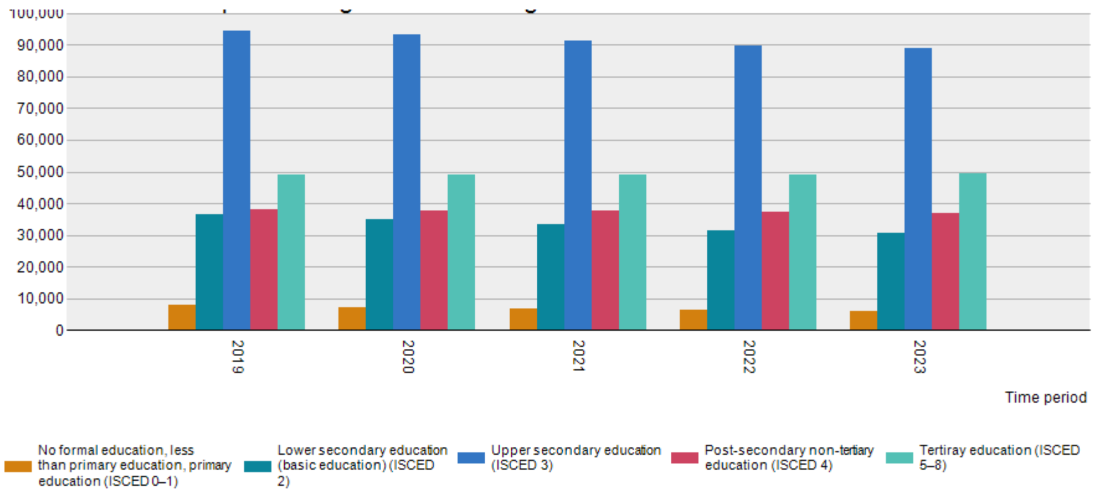
Figure 6 Population aged 15-74 years by education groups at the beginning of years 2014 to 2018, Latgale



Source: OSP Latvia (IZI020)

Education levels in the Latgale region have undergone gradual changes from 2019 to 2023. The number of individuals with lower education levels (ISCED 0–2) has consistently declined, indicating a potential improvement in educational attainment or demographic shifts. Those with no formal, primary, or less than primary education (ISCED 0–1) dropped from 7 898 in 2019 to 5 909 in 2023. Individuals with lower secondary education (ISCED 2) decreased from 36 553 in 2019 to 30 703 in 2023. Conversely, the number of individuals with higher education levels (ISCED 3–8) remained relatively stable or showed slight increases. Those with upper secondary education (ISCED 3) declined moderately from 94 493 in 2019 to 88 901 in 2023. The number of individuals with post-secondary non-tertiary education (ISCED 4) remained relatively stable, slightly decreasing from 38 022 in 2019 to 37 041 in 2023. The number of individuals with tertiary education (ISCED 5–8) remained stable, even slightly increasing from 48 920 in 2019 to 49 287 in 2023.

Figure 7 Population aged 15 and over by education groups at the beginning of years 2019 to 2023, Latgale



Source: OSP Latvia (IZT041)

In 2023, the educational attainment distribution in the Latgale region highlights a strong concentration in upper secondary education (ISCED 3), which accounts for 41.97% of the total population. This suggests that upper secondary education remains the most common level of qualification. Additionally, 23.27% of the population has attained tertiary education (ISCED 5–8), indicating a relatively stable and well-educated segment. Post-secondary non-tertiary education (ISCED 4) constitutes 17.49%, showing that a notable proportion continues education beyond upper secondary but does not reach tertiary levels. At the lower end of the spectrum, 14.49%

of the population has only lower secondary education (ISCED 2), while those with no formal, primary, or less than primary education (ISCED 0–1) make up just 2.79% of the population.

To conclude on education and particularly on vocational and tertiary presently there are approximately 12 200 students and VET and higher educational institutions of Latgale. They are the potential future labour force of Latgale.

2.2 Labour market

Latgale differs from other regions of Latvia in its demographic profile, with a notably older workforce. This has significant implications for both labour force participation and productivity.

The OECD Economic Survey for Latvia 2024 points at the need to improve investment in human capital and raising migration to address skilled labour shortages: 'Large emigration and a falling working age population have weighed on potential growth and have exacerbated skilled labour shortages' (OECD, 2024a). It also acknowledges that 'regional heterogeneity in labour market tightness is large with most vacancies concentrated in the metropolitan area of Riga, where unemployment rates are low. In regions further away from Riga, unemployment rates are much higher and vacancy rates lower. Thus, raising regional labour mobility and expanding remote work opportunities is one key policy lever to reduce mismatch in the labour market. Improving transport infrastructure and digital connectivity in remote areas and providing mobility subsidies and affordable housing are key and have been discussed in earlier Economic Surveys of Latvia (OECD, 2024a).

2.2.1 Unemployment rate

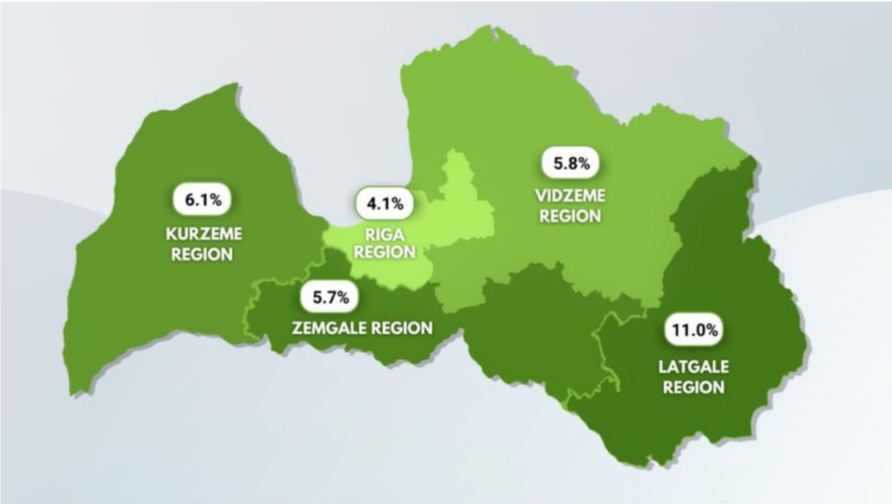
Unemployment trends in Latvia have fluctuated over the past decade, with Latgale exhibiting distinct patterns. Between 2010 and 2013, Latvia's unemployment rate remained above 8%, reflecting the lingering effects of the global financial crisis. From 2014 to 2019, the national rate gradually decreased, reaching 6.2% by 2019, driven by economic recovery and structural reforms. The COVID-19 pandemic briefly caused a spike to 7.7% in 2020, but by 2023, the national rate had decreased to 5.7%, signalling recovery.

In contrast, Latgale's unemployment rate has remained significantly higher than the national average and it is still twice as high as elsewhere. From 2010 to 2014, it decreased from 22.3% to 17.8%, reflecting slow economic recovery in a region historically reliant on agriculture and low-value industries. Between 2015 and 2023, the rate continued to decline, reaching 11% in 2023. Despite this progress, Latgale continues to experience the highest unemployment rate in Latvia, highlighting its ongoing economic challenges. Despite these challenges, the decline in unemployment in Latgale over the past decade is indicative of progress in regional development, albeit at a slower pace than other areas of the country.

The unemployment rate in Latgale has historically been the highest in Latvia, underscoring the region's persistent economic challenges, including high levels of underemployment, significant outmigration, and a reliance on low-wage industries. In 2024, Latgale's unemployment rate fluctuated between 10.2% and 11.8%, peaking at 11.8% in March. Although there was a slight decline throughout the year, the region's unemployment rate remained substantially higher than the national average and compared to other regions in Latvia. As of January 2025, the unemployment rate in Latgale stood at 10.7%, in contrast, the Riga region had the lowest registered unemployment rate at 4%. These figures reflect the ongoing regional disparities in Latvia's labour market, with Latgale continuing to face significant structural and socio-economic obstacles that hinder more rapid recovery and growth. Despite some improvements in recent years, the high unemployment rate in Latgale highlights the need for continued investment and targeted development strategies to address these long-standing issues.

In February 2025, the unemployment rate in Latgale stood at 11%, in contrast, the Riga region had the lowest registered unemployment rate at 4%. In Latvia, regional disparities in unemployment rates are moderate compared to other OECD countries. Latgale is significantly behind in almost all statistical measurements, e.g. the number of long-term unemployed in Latgale is even six times higher than in the rest of Latvia. There is also more pre-retirement unemployed and unemployed with disabilities in Latgale than elsewhere.

Map 4 Registered unemployment rate in Latvia on 28 February 2025



Source: (State Employment Agency, Latvia, 2025)

Considerable unemployment in Latgale does not necessarily reflect an adequate labour force. Local authorities and business representatives highlight that a significant portion of the unemployed, particularly the long-term unemployed, do not align with current labour market demands and often lack the motivation to reintegrate. On January 31, 2025, the State Employment Agency (NVA) reported a total of 11 341 registered unemployed individuals in the Latgale region. This figure represents an increase of 338 individuals compared to December 31, 2024, when the registered unemployed count was 11 003. In terms of unemployment duration, the distribution as of January 31, 2025, is as follows: up to 6 months: 5 156 individuals, 6 to 12 months: 1 988 individuals, 1 to 3 years: 2 423 individuals, over 3 years: 1 774 individuals. This distribution is consistent with the trends observed in December 2024. Many of these individuals are of pre-retirement age, and it is unlikely they could be retrained for positions requiring new skills.

Opinions among business representatives regarding the suitability of the local labour force are mixed. Some business owners argue that the shortage of available labour is a hindrance to their operations and growth. However, other businesses acknowledge that labour can be sourced if the compensation is sufficient, and they are open to training new employees through educational institutions. Despite this, businesses consistently express frustration with their inability to attract a qualified workforce.

2.2.2 Employment by NACE sectors

In 2023 there were 152 001 people of working age (15-64) in Latgale or 63% of the region's population. Also, in 2023 there were 116 889 economically active inhabitants in the region, of which 102 227 employed. Compared to 2011 (for which the Census data exists) the number of economically active population in Latgale has declined by 17% while the number of employed only by 3.6% suggesting that the labour market shrinks proportionally less than the actual depopulation (between 2011 and 2023 the population of Latgale has decreased by 20%).

Figure 8 Employment Latgale versus Latvia in 2022

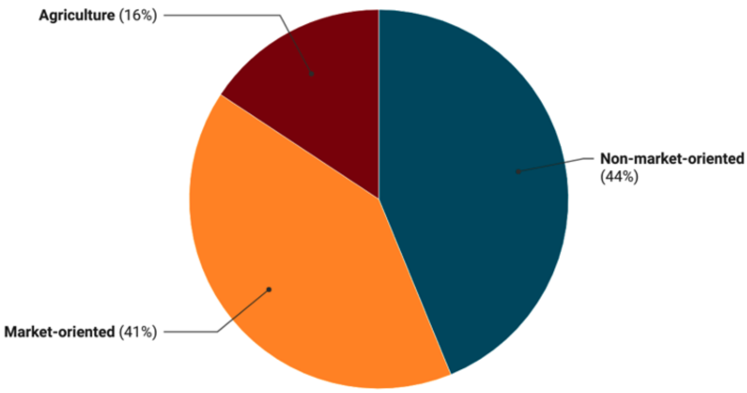
	Latgale	Latvia	Share of Latgale
Total population	244 120	1 883 008	12.8%
Aged 15-64	152 001	1 187 613	12.8%
Economically active	116 889	927 405	12.6%
Employed	**102 227**	866 445	11.8%
Employed % of econ. active	87.46%	93.43%	n/a

Source: OSP Latvia (RIG010, EKA011)

In 2022, there was an equal proportion of employed in the total manufacturing (NACE sectors B-E) and agriculture (A) – 15% of the total employed. Looking specifically at the market-oriented non-financial business economy (NACE sectors B-S (except O and S94)) the total number of employed has reduced from 45 842 in 2014 to 40 261 in 2022. This has reflected also on the main industries in the following way:

- while manufacturing (C) stands out employing 29% of the total in 2022 it has seen a reduction of 13% (OSP Latvia UFR050);
- the next biggest 'employer' wholesale and retail trade (G) has 20% of total employed and has seen a decrease by 32% (OSP Latvia UFR050) and
- transportation and storage (H) that employed 11% in 2022 has also declined by 14% (OSP Latvia UFR050).

Figure 9 Employment in Latgale by three main sectors in 2022



Source: OSP Latvia (EKA011, IKR020)

Over the period from 2014 to 2022 there was the following shift in the number of employed in the below NACE sectors. NB! Two different data tables of OSP have been used to reflect the situation at the best.

Figure 10 Change in employment in selected NACE sectors between 2014 and 2022

Code	Sector	%	↑↓	CSO source table
(A)	Agriculture, forestry and fishing	+33%	↑	IKR020
(B)	Mining and quarrying	+17%	↑	*UFR050*
(C)	Manufacturing	-2%	↓	IKR020 *(UFR050 -13%)*
(F)	Construction	-13%	↓	IKR020
(G)	Wholesale and retail trade, repair of motor vehicles and motorcycles	-32%	↓	*UFR050*
(H)	Transportation and storage	-14%	↓	*UFR050*
(I)	Accommodation and food service activities	-3%	↓	*UFR050*
(J)	Information and communication	+5%	↑	IKR020 *(UFR050 +16%)*
(K)	Financial and insurance activities	-16%	↓	IKR020
(L)	Real estate activities	+110%	↑	IKR020 *(UFR050 -19%)*
(M_N)	Professional, scientific and technical activities, Administrative and support service activities	-28%	↓	IKR020
(O_T)	Public administration and defense, compulsory social security, education, human health and social work activities, arts, entertainment and recreation, other service activities, activities of households as employers	+8.53	↑	IKR020
(R)	Arts, entertainment and recreation, other service activities, Activities of households as employers	+44.73	↑	IKR020

Source: OSP Latvia (IKR020, UFR050)

From 2014 to 2022 increase in the market-oriented non-financial business economy sectors the number of employed have augmented in (A) Agriculture, forestry and fishing, (B) Mining and quarrying, (J) Information and communication and (L) Real estate activities.

2.2.3 Disposable income per capita

Latgale region has persistently exhibited the lowest levels of mean equivalised disposable income in Latvia. Over the period from 2014 to 2023, Latgale's disposable income increased from EUR 389.14 to EUR 908.54 per month, marking a 133% growth. However, despite this notable rise, the region remains significantly below the national average of EUR 1 249.22 in 2023, with an income gap exceeding EUR 340 per month. Moreover, when compared to the Riga (EUR 1 432.70) and Pierīga (EUR 1 466.47) regions, Latgale's income remains substantially lower, trailing Riga by EUR 574.16, highlighting structural economic weaknesses.

Despite its economic disadvantages, Latgale recorded the highest relative growth in disposable income among Latvian regions between 2019 and 2023 - rising by 50.7%, above the national average of 44%. While this reflects positive impacts from wage increases, social policies, and government support, questions remain about the sustainability of this growth, given the region's continued reliance on low-wage employment and a relatively weak private sector, which may limit long-term income convergence.

Figure 11 Mean equivalised disposable income per month, EUR per month

Territorial unit	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Latvia	...	...	...	...	...	867.78	936.64	1002.79	1095.67	1249.22
Riga (from 01.01.2024.)	...	...	...	...	...	...	...	...	1293.01	1482.89
Riga (Riga) (before 01.01.2024.)	705.24	756.26	778.12	865.52	962.12	999.96	1096.76	1138.67	1241.31	1432.70
Pierīga (before 01.01.2024.)	644.51	687.49	728.92	823.56	926.95	1018.88	1101.53	1165.86	1306.91	1466.47
Vidzeme (from 01.01.2024.)	...	...	...	...	...	...	...	...	927.87	1021.47
Vidzeme (before 01.01.2024.)	479.98	510.65	538.97	586.84	638.37	708.29	767.63	764.36	888.99	1007.19
Kurzeme (from 01.01.2024.)	...	...	...	...	...	...	...	...	976.36	1086.75
Kurzeme (before 01.01.2024.)	540.75	586.60	593.40	647.90	700.73	733.10	778.83	896.09	933.23	1045.24
Zemgale	502.96	566.15	590.10	672.56	770.27	819.16	847.21	956.04	1002.25	1179.07
Latgale	389.14	421.21	440.31	486.71	548.14	602.94	643.15	726.41	774.50	908.54

Source: OSP Latvia (MIS030)

Between 2019 and 2023, Latvia's average monthly household disposable income increased from EUR 1 330.92 to EUR 1 871.87 - a growth of 40.7% - driven by rising wages, social transfers, and inflation-related adjustments. Latgale recorded the highest relative growth among all regions, with disposable income rising by 46.2% (from EUR 912.63 to EUR 1 333.78), indicating a positive trajectory. However, Latgale continues to have the lowest household disposable income in the country, still EUR 538.09 below the national average and EUR 979.89 behind Pierīga. This illustrates persistent economic disparities despite government support measures and targeted social policies. While the income growth in Latgale is encouraging, questions remain about its structural sustainability, particularly given the region's continued dependence on low-wage industries.

Figure 12 Mean disposable income per household per month EUR per month

Territorial unit	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Latvia	...	...	...	...	...	1330.92	1430.11	1523.57	1648.98	1871.87
Riga (from 01.01.2024.)	...	...	...	...	...	...	...	...	1944.36	2205.91
Riga (Riga) (before 01.01.2024.)	1080.84	1155.60	1176.78	1270.39	1387.53	1452.72	1601.00	1667.00	1793.69	2058.71
Pierīga (before 01.01.2024.)	1082.70	1156.75	1202.70	1330.75	1503.77	1657.18	1800.23	1889.46	2095.18	2313.67
Vidzeme (from 01.01.2024.)	...	...	...	...	...	...	...	...	1380.60	1573.71
Vidzeme (before 01.01.2024.)	783.29	831.30	833.96	920.78	955.41	1136.68	1187.85	1174.43	1356.46	1587.28
Kurzeme (from 01.01.2024.)	...	...	...	...	...	...	...	...	1455.69	1614.01
Kurzeme (before 01.01.2024.)	877.58	955.07	939.68	1025.11	1074.86	1134.04	1181.70	1343.63	1372.96	1537.60
Zemgale	828.53	907.32	928.52	1075.66	1218.12	1313.81	1328.25	1514.29	1590.42	1842.03
Latgale	621.33	654.98	678.55	726.16	823.38	912.63	977.85	1080.69	1154.09	1333.78
Riga	1080.84	1155.60	1176.78	1270.39	1387.53	1452.72	1601.00	1667.00	1793.69	2058.71

Source: OSP Latvia (MIS030)

Latgale has historically had the highest share of persons living under the minimum income level among all Latvian regions, reflecting the region's persistent socio-economic disadvantages. In 2014, 18.6% of Latgale's population was below the minimum income threshold, significantly higher than the national average of 9.0%. Over the next decade, Latgale experienced a gradual but uneven decline in poverty levels, reaching 11.2% in 2023 - a notable reduction of 7.4 percentage points. However, despite this improvement, Latgale still remains the region with the highest percentage of low-income individuals, surpassing Vidzeme (12.7%) and Zemgale (10.2%). The fluctuations in Latgale's poverty rates, particularly the spike to 22.3% in 2017, indicate underlying economic vulnerabilities, likely linked to regional employment instability, lower wage levels, and limited economic diversification. Moreover, the slow pace of economic growth in the region suggests that while poverty rates are decreasing, they are not converging with wealthier regions such as Riga (4.3%) and Pierīga (5.2%), where poverty levels have remained consistently low.

Figure 13 Share of persons under minimum income level by regions, %

Territorial unit	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Latvia	9.0	7.4	7.8	8.9	7.9	7.8	7.7	7.9	7.8	7.6
Riga (from 01.01.2024.)	...	...	...	...	...	...	...	...	4.3	4.4
Riga (Riga) (before 01.01.2024.)	3.6	3.4	3.7	4.1	4.4	4.1	4.9	4.4	4.3	4.3
Pierīga (before 01.01.2024.)	7.3	5.7	5.9	5.2	3.7	5.6	6.1	6.5	5.8	5.2
Vidzeme (from 01.01.2024.)	...	...	...	...	...	...	...	...	12.6	11.9
Vidzeme (before 01.01.2024.)	13.1	9.5	10.9	12.5	11.6	10.9	10.3	13.0	12.3	12.7
Kurzeme (from 01.01.2024.)	...	...	...	...	...	...	...	...	8.2	8.5
Kurzeme (before 01.01.2024.)	8.0	7.4	8.0	8.5	9.8	9.3	8.6	8.1	9.3	9.9
Zemgale	12.7	7.8	9.7	10.0	8.1	8.4	8.3	8.7	8.7	10.2
Latgale	18.6	17.1	16.1	22.3	17.8	15.6	14.0	14.2	14.4	11.2

Source: OSP Latvia (NNM020)

The recent decline in Latgale's poverty rate between 2020 and 2023 could be attributed to targeted social policies, minimum wage increases, and government welfare programs. However, structural challenges remain, including high unemployment rates, a declining and aging population, and weaker business activity. The region's geopolitical position as a border area with Russia and Belarus further complicates economic prospects due to defence-related restrictions and reduced investor confidence.

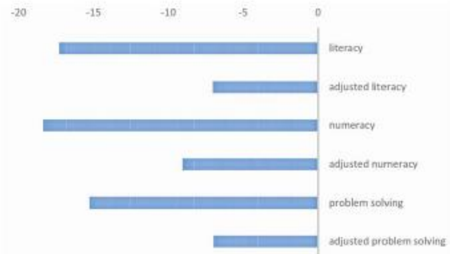
While the 11.2% poverty rate in 2023 represents a significant improvement, it remains unsustainable unless accompanied by long-term economic reforms, such as stimulating high-value industries, improving infrastructure, and fostering regional entrepreneurship. Without such interventions, Latgale risks falling into a cycle of economic stagnation, where temporary improvements in income fail to translate into sustained poverty reduction and overall economic resilience.

Due to depopulation also number of people paying the residents income tax (RIT) is declining in the region. From 2014 to 2023 it has reduced by 8%. It is, however, almost two times less than the speed of depopulation in the same period (15%). The sharpest decline is in Krāslava county – 15%, followed by Augšdaugava (11%) and Preiļi (10%). The reduction of RIT payers means lower income and less potential budget for the local authorities. Daugavpils (3%) and Rēzekne county (5%) have experienced comparatively lower 'loss' of tax-payers which is most likely due to internal migration.

The wage differential in Latgale compared to the rest of Latvia contributes to making the region less attractive to talent. Residents in Latgale's two state cities, Rezekne and Daugavpils, earn 15% and 19% less on average than the Latvian median monthly wage. Within the region, the highest median wages are paid in Līvāni municipality at approximately EUR 1,000 per month, compared to just EUR 800 per month in the lowest paid Krāslava municipality' (OECD, 2024b).

The 2023 Survey of Adult skills (PIAAC) disclosed that overall Latvia is closer to the bottom in the list of the countries participating in the first round of this assessment (31 OECD countries). PIAAC assesses key cognitive skills in adults aged 16–65 across participating countries. It focuses on literacy, numeracy and problem-solving in technology-rich environments. The data retrieved specifically for the region of Latgale shows that the region is lagging behind the national average by the above-mentioned disciplines (OECD, 2023).

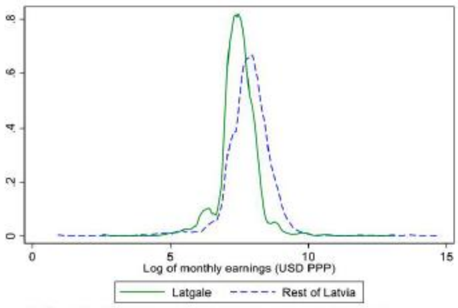
Figure 14 Skills in Latgale compared to the rest of the country, 2023



Source: OECD PIAAC

The lower overall skill levels in Latgale are reflected in the average income of its residents, which lags behind the rest of Latvia. This is evident in the analytics prepared by the OECD based on PIAAC data.

Figure 15 Monthly earnings in Latgale and Latvia including bonuses for wage and salary earners and self-employed



Source: OECD PIAAC 2023

Summary

The Latgale region provides access to all levels of education, from preschool to tertiary, within its territory. However, the region is undergoing a process of educational consolidation due to demographic decline and outmigration. Between 2021 and 2023, the number of general education institutions fell by 10%, with secondary schools most affected. Student populations in Latgale are significantly lower than in other regions, reflecting wider socio-economic challenges and migration to urban centres. Vocational education institutions have also declined in number, with 10 remaining schools in 2024 compared to 13 in 2018. While some serve as competence centres with strong ties to industry, the overall capacity remains under pressure due to demographic trends.

Tertiary education in Latgale is centred around Daugavpils University and the Rēzekne Academy of Technology (now integrated into Riga Technical University). These institutions are relatively well-equipped and host a high proportion of international students, yet local tertiary attainment remains low. In 2023, only 23% of Latgale residents over age 15 held a higher education qualification - well below the national average of 31%. Regional institutions have made efforts to align programmes with labour market needs, such as the mechanical engineering programme in Līvāni. However, the OECD notes that despite the presence of universities, access to basic education is weaker, and the region has not leveraged its higher education capacity to fully upskill its population.

Latgale's labour market continues to face structural challenges. Although the unemployment rate decreased from 22% in 2010 to around 11% in 2024, it remains the highest in Latvia. High long-term unemployment, a mismatch between skills and job market needs, and an ageing workforce further hinder recovery. Business representatives are divided on the labour supply - some cite shortages, while others note that wages and training could improve recruitment. In 2023, 63% of Latgale's population was of working age, but employment rates lagged behind the national average. Employment in manufacturing, agriculture, and trade has declined, while only a few sectors such as information and communication, real estate, and arts have grown.

Despite low wages and high unemployment, Latgale has seen notable growth in disposable income - 133% from 2014 to 2023 - although levels remain significantly below the national average. In 2023, the average monthly disposable income in Latgale was EUR 908.54, trailing Riga by over EUR 500. Poverty remains a critical issue; although the share of people below the minimum income level dropped from 18.6% in 2014 to 11.2% in 2023, the region still records the highest poverty rate in Latvia. Structural economic issues - low wage sectors, limited private sector activity, and depopulation - remain key barriers to sustained improvement.

Finally, skills shortages and lower educational outcomes are reflected in earnings data and cognitive assessment scores. Latgale lags behind the national average in literacy, numeracy, and problem-solving, as highlighted in the 2023 OECD PIAAC survey. These deficiencies are directly linked to lower income levels and reduced economic competitiveness. Unless more targeted efforts are made to invest in human capital, align education with local industry needs, and expand regional labour mobility, Latgale may struggle to reverse long-standing socio-economic disparities.

3 Economy and trade

3.1 GDP per capita

Latgale region is the least developed region in Latvia and among the most backward in the EU, due to structurally lagging economic output and productivity. According to the EUROSTAT in 2022, in Latgale the GDP per capita at current prices was EUR 9 700 which amounted 50% of the national average and 27% of the EU average. It was the lowest among the regions of Latvia and markedly below the capital region of Rīga, which in 2022 recorded a GDP per capita in purchasing power standard (i.e. adjusted to the price levels) of 100% of the EU average, while Latgale only 35%. Hence, the following finding by OECD remains true: 'Differences between Latvian regions in terms of GDP per capita have remained relatively stable over the past nine years, with the richest 20% of regions reporting a GDP per capita 3 times higher than the poorest 20% of regions.' (OECD, 2022). In the EU only Hungary surpasses Latvia on this indicator.

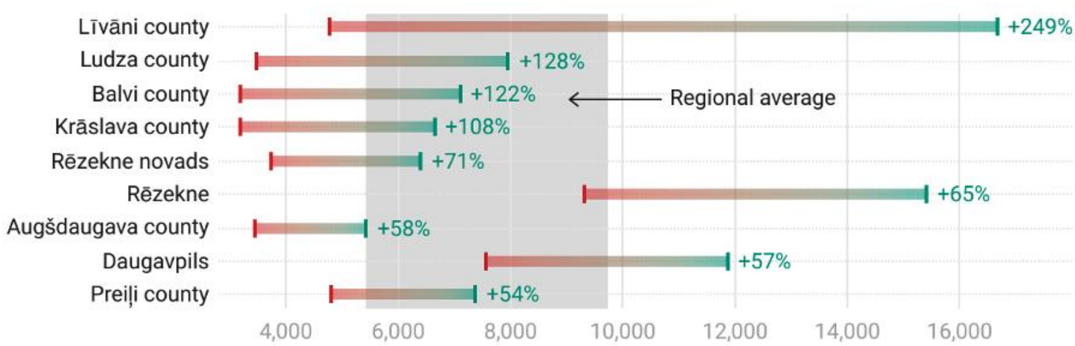
The share of Latgale in the total national GDP in 2022 was 6.6%, while the population is just little below 13%. Since 2014 the regional share of Latgale in the national GDP has dropped by 0.5 percentage points. Neither of the four rural regions of Latvia has managed to surpass the national average (please, see Table 1 and Source: Service Provider based on the data of the Official Statistics Portal of Latvia (IKR060)

Figure 1 in the introduction), in which the region around the capital city of Rīga traditionally has the highest 'weight' even, if it grows comparatively slower. In 2022 the share of the Rīga region in the total GDP of Latvia was 65.5%. It has; however, also dropped by 0.4% percentage points since 2014 with regions of Vidzeme and Zemgale being the only ones gaining the 'weight' by 0.7 percentage points each.

In theory for the income gap between strong and weak regions to narrow over time, the pace of economic growth in weak regions needs to accelerate for several consecutive years. In reality: 'The convergence process in Latgale is exceedingly slow or next to non-existent. The region's economic growth rate lags significantly behind the national average. Over the past decade, Latvia's economy has grown at an average rate of approximately 3% per year, which is robust and double the EU average, yet still falls short of what could be considered an economic breakthrough. In contrast, Latgale's economy has grown at a mere 1% annually, effectively stagnating. Furthermore, no cities within Latgale exhibit accelerated growth, with major urban centres like Daugavpils and Rēzekne growing at rates below the national average. Consequently, the economic disparity between Latgale and the rest of Latvia has widened over the last decade (Krasnopjorovs, 2024).

The two major urban (functional) areas of the Latgale region are Daugavpils and Rēzekne. For example, while the GDP per capita in both the towns is considerably higher than the regional average, when comparing the two urban centres in 2022 the GDP per capita was 30% higher in Rēzekne (EUR 15 411) than in Daugavpils (EUR 11 863). Moreover, in nine years between 2013 and 2022 the GDP per capita in Rēzekne grew by 65%, while Daugavpils by 57%. It is only the county of Līvāni that shows accelerated growth but being comparatively smaller in population and respective number of companies this does not compensate for the overall stagnation.

Figure 16 The GDP per capita and its growth between 2013 and 2022 in the counties and towns of Latgale



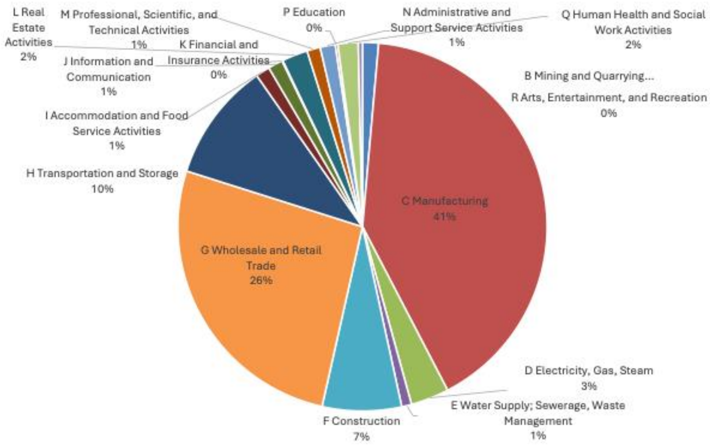
Source: OSP Latvia IKR060

3.2 Total net turnover

The available data suggests the total net turnover[5] of the enterprises of Latgale in market sectors B-N_P-R in 2022 was 2.6 billion EUR making it only 3.04% of the country's total. At the same time, it was a relatively steep increase compared to 2021 – 24% that can be partly attribute to the inflation due to the rising costs of energy and raw material.

A major share in the total net turnover of the enterprises of Latgale is made by the following sectors: (C) Manufacturing – 41%, followed by (G) Wholesale and Retail Trade – 26%, (H) Transportation and Storage – 10% and (F) Construction – 7%. The share of the rest of the industries ranges from 0.08% in (K) Financial and Insurance Activities to 3.35% (D) Electricity, Gas, Steam.

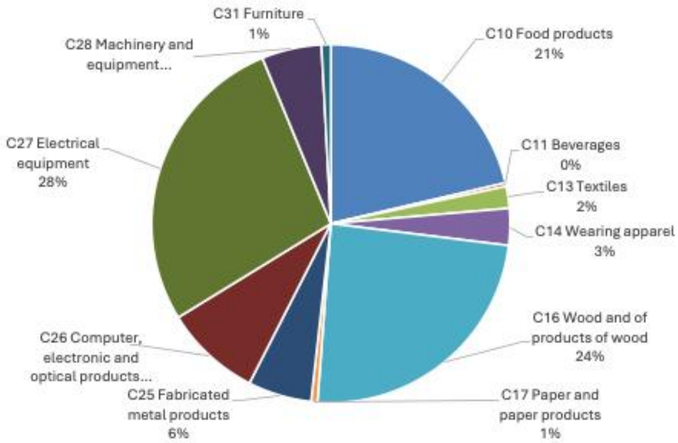
Figure 17 Share of the industries in the total net turnover of the enterprises of Latgale in market sectors B-N_P-R in 2022



Source: OSP Latvia UFR050

According to the Enterprise Register data 1000 biggest enterprises of the region make up 97% of the above total net turnover or 2.54 billion EUR in 2022. The 2023 data show a slight decline in the turnover of these enterprises – 2.48 billion EUR or by 2.36%. This might reflect both the depopulation as well as some first effects of the war.

Figure 18 Share of the manufacturing industries in the total added value of Latgale in 2022



Source: OSP Latvia UFR050

[5] Income from sale of goods and provision of services, from which trade discounts as well as value added tax and other taxes directly related to sales are deducted. Net turnover also includes payment amount for the dispatched goods, the payment for which is not yet received despite the fact that payment documents have already been delivered to the customer or bank.

Please, see the fastest growing manufacturing industries are listed in Table 6 also showing how the C11 Beverages is declining. These industries are highlighted as the ones having the highest growth potential in the region. Please see more in sub-chapter 3.7 below.

Table 6 Fastest growing manufacturing industries in Latgale in terms of total added value, 2014-2022, %

C10 Food products	70.58
C13 Textiles	69.61
C14 Wearing apparel	44.19
C16 Wood and of products of wood	70.67
C17 Paper and paper products	97.10
C25 Fabricated metal products	45.61
C26 Computer, electronic and optical products*	
C27 Electrical equipment	345.16
C28 Machinery and equipment	90.43
C31 Furniture	129.61

Source: OSP Latvia UFR050; *nascent industry

The economic data of Latgale at a such granular level must be interpreted with caution for several reasons:

1. In certain industries, the number of companies is small, and Latvia's OSP does not disclose data due to confidentiality restrictions.
2. A significant number of companies operating in Latgale are legally registered in Riga, meaning their contributions do not appear in the region's total economic data.
3. Some companies with Belarusian capital have been observed circumventing EU sanctions, leading to unusually high profits. One notable example is SMD Baltija (C26), a rapidly growing manufacturer of surface-mount devices. According to an investigative journalism report, since 2021, the company has tripled its turnover, while its gross profits have surged by 250% (ReBaltica, 2024).

3.3 R&D

In 2023, Latvia's national R&D expenditure remained among the lowest in the EU, at just 0.75% of GDP. While no precise data is available for Latgale's share of national R&D spending, evidence points to limited R&D activity in the region and a continued dependence on external innovation inputs. Nevertheless, targeted initiatives have emerged in recent years to address structural weaknesses in innovation capacity and to promote economic diversification.

A growing emphasis has been placed on smart specialisation fields such as optical technologies, mechatronics, and sustainable resource management. Companies like Light Guide Optics and Pulsar Optics in Latgale have engaged in product development in photonics and optical components, often in partnership with Riga-based research institutes. These firms are part of Latvia's smart specialisation strategy and demonstrate the region's niche potential in high-value-added manufacturing. However, local research infrastructure remains limited, and collaboration between academia and industry is still fragmented.

With support from EU Structural Funds, efforts have been made to enhance the region's innovation ecosystem. Business incubators and technology transfer platforms in Daugavpils and Rēzekne offer support to start-ups and SMEs. Though modest in scale, national innovation vouchers and ERDF-backed grants have enabled some enterprises in Latgale to invest in prototyping, digitalisation, and process improvement.

To address long-term skills gaps, regional vocational and higher education institutions have introduced new curricula in IT, engineering, and environmental science. These programmes aim to align education with evolving labour market demands. However, the need for greater investment in lifelong learning and digital upskilling remains pressing, especially in rural areas with ageing populations.

3.4 Exports

As the official and publicly available statistics usually lag at least two years behind it does not yet show the effects of the Russian aggression war on the regional economics of Latgale. Therefore, an effort was made to obtain the export data at the regional level which is available by the Central Statistics Bureau of Latvia upon a request. The obtained data show a steady increase in exports by the companies of Latgale from almost 393 million EUR in 2014 to 589 million EUR in 2024 which is 50%. The share of exports in the total GDP of Latgale at current prices makes 27%.

In 2014 Latgale's exports was 3.8% of the total 10.4 billion EUR of Latvia's exports while in 2024 it was only 3.2% of the total of 18.7 billion EUR of Latvia's exports. Also, the total Latvia's exports between 2014 and 2024 grew by 80%. No significant decline in figures has been directly observed in Latgale which could be distinctly attributable to the negative effects of Russia's war of aggression against Ukraine. Exports in 2022 and 2023 have shown a slight increase; however, an overall slowdown is evident, as the rise in total export figures may be driven by inflation and higher raw material prices rather than actual growth in trade volume.

The biggest exporting industries in Latgale in 2024 were:

- (C26) Computer, electronic and optical products industry. It has managed to double its volume of exports and almost triple the volume since 2021.
- (C27) Electrical equipment exports increased by 135% in the time period 2014 - 2021. For 2022 and 2023 the data on export was not available due to confidentiality (less than four enterprises), but the Enterprise register data suggest that since 2021 the three companies have increased their turnover and gross profits by 33% and 30% respectively.
- (C16) Manufacture of wood and of products of wood - 106% since 2014;
- (C13) Manufacture of textiles – 94% since 2014.

Table 7 Exports of the Latgale enterprises 2014 versus 2024

	Latgale	Latvia	Share of Latgale
Total exports in 2014 billion EUR	0.4	10.4	3.8%
Total exports in 2024 billion EUR	0.6	18.7	3.2%
Growth of total exports 2024/2014	50%	80%	n/a
Share of exports in the total GDP at current prices in 2014	27.31%	27.02%	n/a
Share of exports in the total GDP at current prices in 2024	52%	58%	n/a

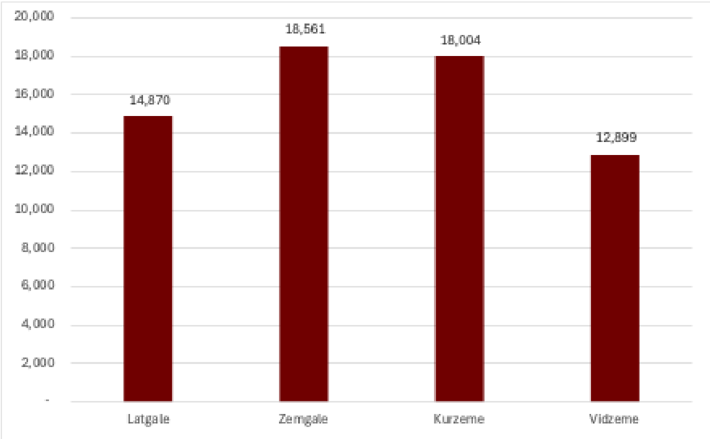
Source: OSP Latvia, Service Provider's calculations

'Services exports to Russia and Belarus have strongly decreased since 2021. Due to their strong trade linkages with eastern neighbours, the border regions have been particularly affected by these disruptions' (OECD, 2024a).

3.5 Investments in tangible fixed assets

Gross capital investment in tangible fixed assets in region of Latgale in the NACE sectors A-S increased from roughly 300 million EUR in 2014 to 700 million EUR in 2024 which is a notable increase of 132%. This allowed Latgale to surpass the region of Vidzeme both in terms of total capital investments and per capita. Hence, Latgale no longer has the lowest gross capital investment in tangible fixed assets in Latvia. The total cumulative of 10 years is 6% of the national investments and almost on par with Zemgale and Vidzeme. Out of the non-capital regions of Latvia only Kurzeme stands out with 8%. The total gross capital investment in tangible fixed assets accumulated in the capital region of Riga between 2014 and 2024 makes 53.5% of the total.

Figure 19 Gross capital investment in tangible fixed assets per capita in the non-capital regions of Latvia over 10 year (2014-2023), EUR



Source: OSP Latvia UFI030

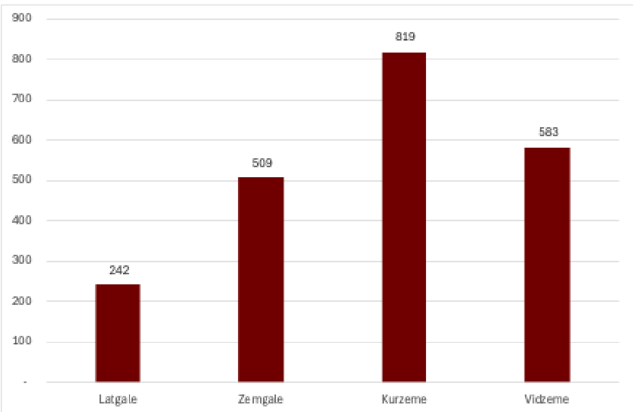
In its 2024 Economic survey of Latvia OECD points that 'weak investment has held back growth' in the country overall (OECD, 2024a). 'This has weighed on potential growth and slowed down the convergence in living standards towards the OECD average. Residential net investment has even been negative, and public investment made only a modest contribution. Raising investment is key to tackle the challenges of the demographic, green and digital transformations, and address a significant infrastructure backlog, particularly in housing and transport.' OECD also continues to emphasize that constrained access to finance is a serious barrier to business investment. While these findings refer to the whole Latvia, in Latgale they are even more pronounced.

3.6 Foreign direct investments

The official foreign direct investments statistics is collected by the Bank of Latvia only at the national level therefore the data of the Regional Development Indicators Module (RAIM) were used to analyse FDI in the region of Latgale as well as in relation to the other regions (RAIM, 2025).

In the past ten years Latgale has accumulated much less FDI compared to the other four regions outside of the capital which has accumulated 88% of all the FDI, while Latgale only 1.8%. Of the other regions the highest accumulation is seen in Kurzeme – 4.5%.

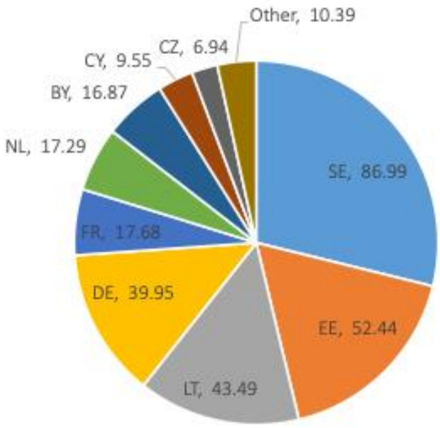
Figure 20 10-year cumulative FDI investment into the regions of Latvia, 2014-2023, MEUR



Source: RAIM

Data from the Enterprise Register show that out of the total EUR 1.3 billion in own capital held by the 1 000 largest enterprises in Latgale, EUR 300 million or 23% is owned by foreign investors. The highest volume of FDI in the region has been accumulated in Rēzekne, amounting to EUR 120 million, followed by nearly EUR 100 million in the functional area comprising Daugavpils town and Augšdaugava county. The comparatively highest volume of FDI has been accumulated in Rēzekne – EUR 120 million, with the another almost EUR 100 million in the (functional) area of Daugavpils town and Augšdaugava county. The least FDI is Preiļi and Ludza counties.

Figure 21 Capital owned by country at the 1000 biggest enterprises of Latgale 2023, MEUR



Source: Enterprise Register

The OECD concludes that 'Although Latvia had already reduced its dependency on eastern neighbours since Russia's annexation of Crimea, the effects of the war and related sanctions on supply chains, trade and foreign direct investment (FDI) were still substantial' stating that 'Before the war, Russia was the third largest country in terms of the stock of FDI, with investments concentrated in trade, financial services, real estate, energy and manufacturing. Since then, the FDI stock from Russia has decreased by 29% or about 1.8% of GDP. However, this FDI outflow was more than compensated by increasing FDI inflows from other countries, mainly from the EU, as the total FDI stock increased by 10% since late 2021 (OECD, 2024a). Apparently, the structure of the countries of FDI origin has also changed in Latgale with most investments coming from the EU member states. The Finnish FDI is comparatively low – EUR 2.6 million and has a growth potential.

3.7 Value added per employed

Productivity is also low in Latgale. In 2022 the gross value added (GVA) [6] per worker[7] was EUR 18 554 or 62% of the national average EUR 29 241. This is again the lowest in the country while the highest was in Rīga - EUR 34 750. This targeted analysis investigated the industries that (1) demonstrated higher than average value added per employed, (2) had considerable growth between 2014 to 2022 as well as (3) significant number of employed.

The Table 8 highlights the industries in Latgale that demonstrated the highest value added per employed in 2022, along with their growth since 2014 and 2018. It also includes employment changes in these sectors, providing insights into how productivity gains have affected job dynamics. This analysis helps identify sectors with growth potential that merit further strategic investment and support.

The below four industries show considerable growth between 2014 and 2022. A relative increase between 2014 and 2022 is enclosed in brackets followed by the number of companies active in the sector in 2024:

1. (C26) Manufacture of computer, electronic and optical products – EUR 64 367[8] (12 companies);
2. (C27) Manufacture of electrical equipment - EUR 47 614 (+105%; 10 companies);

[6] Production value from which the value of goods and services used in production is deducted. Value added shows increase of market value of product, which has arisen in the result of an economic activity. OSP Latvia UFR050

[7] NACE (B-J_L-N_S95)

[8] There is no growth data for (C26).

3. (B) Mining and quarrying – EUR 46 298 (+32%; 33 companies) and
4. (C16) Manufacture of wood and of products of wood and cork, except furniture EUR 32 048 (+187%; 310 companies).

Table 8 Value added per employed in industries demonstrating significant growth 2014-2022

NACE classification	Added value per employed, EUR/year					Number of employees				
	2014	2018	2022	2022/2018	2022/2014	2014	2018	2022	2022/2018	2022/2014
(A) Agriculture and forestry	5,705	6,785	10,373	53%	82%	12,274	13,636	16,349	20%	33%
(B) Mining and quarrying	24,184	35,088	46,298	32%	91%	362	365	422	16%	17%
(C10) Manufacture of food products	10,939	14,850	21,595	45%	97%	3,135	2,880	2,709	-6%	-14%
(C13) Manufacture of textiles	7,498	10,196	13,582	33%	81%	424	438	397	-9%	-6%
(C16) Manufacture of wood and of products of wood	11,156	18,332	32,048	75%	187%	3,489	2,823	2,073	-27%	-41%
(C17) Manufacture of paper and paper products	9,566	12,422	14,358	16%	50%	83	83	109	31%	31%
(C22) Manufacture of rubber and plastic products	2,525	9,514			-100%	181	144	132	-8%	-27%
(C25) Manufacture of fabricated metal products	10,278	12,260	17,629	44%	72%	1,052	922	893	-3%	-15%
(C26) Manufacture of computer, electronic, and optical products	-	-	64,367			81	157	371	136%	358%
(C27) Manufacture of electrical equipment	23,223	28,961	47,614	64%	105%	730	1,041	1,585	52%	117%
(C28) Manufacture of machinery and equipment	10,420	15,511	27,478	77%	164%	745	662	538	-19%	-28%
(C31) Manufacture of furniture	4,077	8,861	9,439	7%	131%	246	280	244	-13%	-1%
(C33) Repair and installation of machinery and equipment	8,428	9,366	15,983	71%	90%	145	205	235	15%	62%
(J63) Information services	7,583	12,578	16,764	33%	121%	156	277	267	-4%	71%

Source: Service Provider's own calculation bases on OSP data

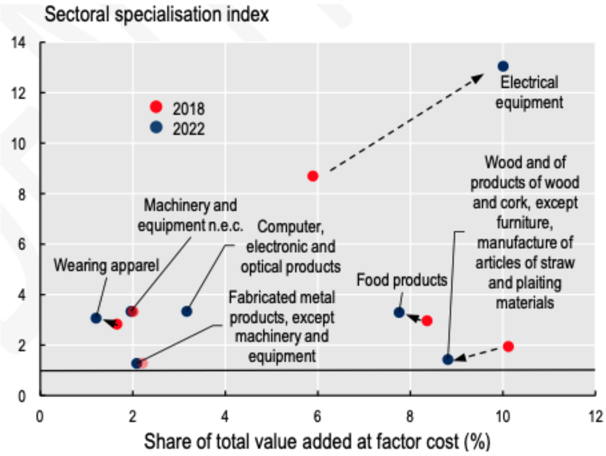
Other industries having notable relative growth in terms of value added per employed while slightly less value added per employed in absolute figures are as follows:

5. (C28) Manufacture of machinery and equipment by 164% to EUR 27 478 (23 companies);
6. (C31) Manufacture of furniture by 131% to EUR 9 439 (91 companies);
7. (J63) Information service activities by 121% to EUR 16 764 (113 companies);
8. (C10) Manufacture of food products by 97% up to EUR 21 595 (116 companies) and
9. (C33) Repair and installation of machinery and equipment by 90% up to EUR 15 983 (89 companies).

In 2022 the almost 800 companies of the nine industries demonstrating the highest growth of 'added value per employed' in Latgale employed 8 444 people which is 21% of the total employment in NACE sectors B-S (except O and S94)) 40 261.

In its last year's Rethinking Regional Attractiveness case study of Latgale, the OECD offers its insight on the sectoral specialisation of the Latgale region. See, Figure 22 which illustrates also the findings of the service provider presented above in Table 8.

Figure 22 Sectoral specialisation in Latgale



Note: The specialisation index is calculated as the share of the sector's value added in Latgale compared to the share of that sector's value added in Latvia. An index greater than 1 indicates that the sector comprises a higher share of value added in Latgale than the country aggregate. Selected industries are those that comprise more than 1% of total value added in Latgale. No data was available for "Computer, electronics and optical products" for 2018.

Source: OECD based on EUROSTAT and OSP Latvia data

An important sector in nowadays economy not to be overlooked also in the Latgale region is the ICT[9]. In 2023 there were 270 ICT companies in the region and their total number has not changed in the past five years since 2018. The total number of employed shows a sharp decline, while the total added value per employed has doubled. It is also highest among the other regions of Latvia except the capital area, which evidence strong potential.

Table 9 Main performance indicators of the ICT sector companies in Latgale

	2018	2023*
Number of enterprises	269	270
Number of employed including self-employment	1036	802
Total added value per employed EUR	16699	33126

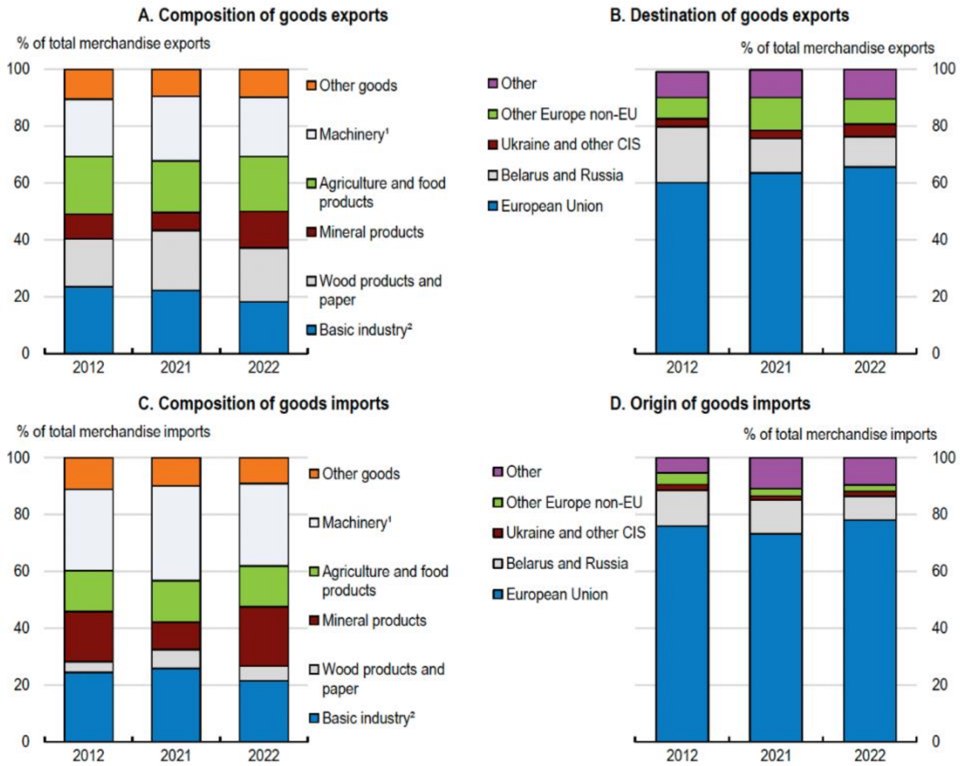
Sourc: OSP Latvia data upon request

The Enterprise register data show somewhat different perspective – an increase of the active business enterprises in ICT from 332 in 2018 to 363 in 2024. Between 2020 and 2023 the ICT companies have more than doubled their total turnover; however largely there is a significant share of just one company - SMD Baltija in this increase. Although OSP reports 802 employed in ICT, many more could be overlooked mainly because their business activity is not be registered in Latgale. Therefore, it is believed that ICT provide important employment opportunities to young people, while it is difficult to capture accurate statistics.

[9] https://ec.europa.eu/eurostat/cache/metadata/en/isoc_se_esms.htm

3.8 Trade

Figure 23 Exports and imports in Latvia



1. Includes mechanical appliances; electrical equipment; transport vehicles; optical instruments and apparatus (inc. medical); clocks and watches; musical instruments.
2. Includes products of the chemical and allied industries; plastics and articles thereof; rubber and articles thereof; and base metals and articles of base metals.

Source: OECD based on OSP Latvia and IMF DOT database

The trade data are available only at the national level. In 2021, 'exports and imports to Russia, Belarus and Ukraine accounted for 10% and 13% of total exports and imports, respectively, which decreased to 9% and 5% in the first half of 2023, respectively (Figure 23). Despite a rapid substitution by imports from other countries and domestic production, prices for some intermediate inputs strongly increased, particularly for wood, metal and mineral products. This has further reduced the competitiveness of manufacturing firms, besides higher energy costs, and led to strongly rising construction prices, weighing on housing investments and complicating the implementation of public infrastructure projects' (OECD, 2024a).

The statistics data of the State Revenue Service available since 2021 show that Russia is still the largest export market for Latvia in 2024 both in terms of total value as well as share in total. The next biggest export partners in 2024 are United Kingdom and the USA. For imports in 2024 China has surpassed Russia and makes 16.95% of the total volume of imported goods. Russia is the second next.

Figure 24 The total of Latvia's imports and exports of goods from and to Russia, total value in EUR and its share in 2021 and 2024

	Export EUR	%	Import EUR	%
2024	2 212 868 814	**24.51**	502 493 665	**10.80**
2021	2 604 606 724	**29.36**	2 739 092 862	**34.85**

Source: statistics data of the State Revenue Service

Regarding the countries of the CHANEBO region and Poland, the changes in exports and imports between Latvia and Finland, Estonia, Lithuania, Poland and Norway have varied. Since 2021, Latvia has increased its exports to

Lithuania, Estonia, and Poland, while imports have also grown, except in the case of Estonia. This trend may indicate an increased utilisation of mutual trade potential following the closure of the Russian market. Given its significance, further facilitation of this development would certainly be beneficial.

Table 10 The total of Latvia's imports and exports of goods from and to Finland, Estonia, Lithuania, Poland and Norway, total value in EUR in 2021 and 2024

	Export EUR		Import EUR	
	2021	2024	2021	2024
Finland	642 568	419 874	379 272	2 573 786
Estonia	n/a	190 660	122 835 908	20 705 420
Lithuania	1 400	134 249	10 748 960	88 869 156
Poland	720	45 367	1 284 826	2 743 834
Norway	352 884 108	103 036 047	314 114 612	324 733 327

Source: statistics data of the State Revenue Service

OECD considers that 'geopolitical tensions have the potential to benefit Latvia due to the near-shoring of manufacturing activities for the EU market' (OECD, 2024a).

Summary

Latgale remains Latvia's least developed region economically, with GDP per capita in 2022 reaching just EUR 9 700 about 50% of the national average and only 27% of the EU average. The gap between Latgale and more developed regions like Riga has widened over the past decade, with Latgale experiencing minimal economic growth (1% annually) compared to the national average of 3%. Urban centres such as Rēzekne and Daugavpils perform better than the regional average, but even these lag behind national benchmarks. Latgale's share of national GDP is disproportionately low at 6.6%, despite representing nearly 13% of Latvia's population.

The region's total enterprise turnover in 2022 reached EUR 2.6 billion, with manufacturing (41%), trade (26%), and transport (10%) dominating. However, this turnover is heavily concentrated in the top 1 000 companies. While turnover increased by 24% compared to 2021 largely due to inflation - figures declined slightly in 2023. R&D activity remains modest, though niche industries such as optics and mechatronics show potential, supported by smart specialisation and EU-funded innovation efforts. Institutions in Daugavpils and Rēzekne offer incubation and digitalisation support, yet structural limitations persist, including weak academia–industry collaboration and limited local research infrastructure.

Exports from Latgale increased by 50% between 2014 and 2024, rising from EUR 393 million to EUR 589 million. However, the region's share of total national exports has declined slightly from 3.8% to 3.2% during this period. The growth is largely driven by specific sectors such as electronic and optical products, electrical equipment, wood products, and textiles. Yet, this expansion may be partially attributed to price increases rather than actual trade volume growth. While trade links with Russia and Belarus have weakened post-2021, Latvia has strengthened trade with EU neighbours such as Lithuania and Poland, suggesting a slow realignment of regional trade flows.

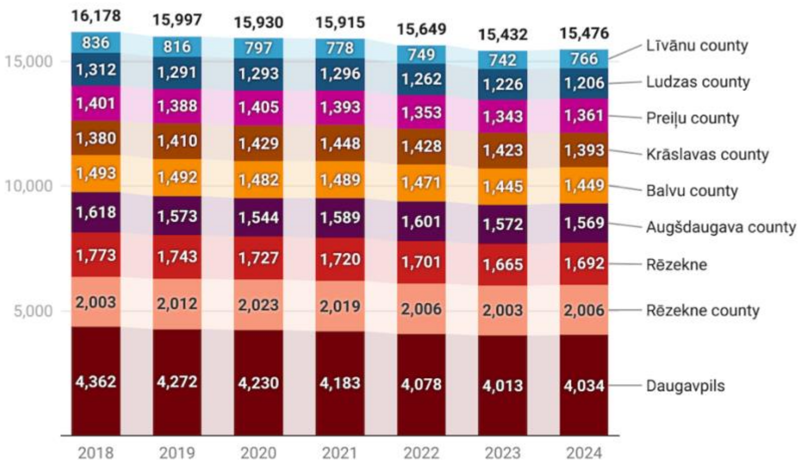
Investment in tangible fixed assets in Latgale has grown significantly, increasing by 132% from 2014 to 2024 and surpassing both Vidzeme and Zemgale. Nevertheless, foreign direct investment (FDI) remains a weak point - Latgale has attracted just 1.8% of Latvia's total FDI over the past decade, the lowest among all regions. Most FDI is concentrated in Rēzekne and Daugavpils, and a notable share comes from EU member states rather than traditional eastern partners. The economic impact of such investments remains uneven, with productivity still lagging nationally. In 2022, Latgale's gross value added per employee stood at EUR 18 554, only 62% of the national average.

Despite challenges, there are bright spots in sectors with growing value added per worker, including the manufacture of electronics, wood products, and information services. The ICT sector, while small, shows potential with strong added value per employee and growing turnover, even though the number of workers has declined.

4 Businesses demography and development

In 2024 in Latgale there were 15 476 active business enterprise, i.e., the ones submitting annual reports. They are distributed among the counties of the region reflecting the population concentration.

Figure 25 Number of active enterprises in Latgale 2018-2022



Source: Enterprise Register

Between 2014 and 2022, an average of approximately 1 550 new enterprises were registered annually in Latgale (UZD010), reflecting ongoing, albeit modest, entrepreneurial activity. The highest number of new business registrations was recorded in 2015 (2 206), followed by a general stabilisation around 1 400–1 500 in later years, with a slight rebound to 1 504 in 2022. Business closures, however, followed a fluctuating trend and occasionally outnumbered new registrations, notably in 2016. This dynamic highlight both the region's entrepreneurial potential and the challenges of sustaining long-term business activity.

4.1 Number of active business units

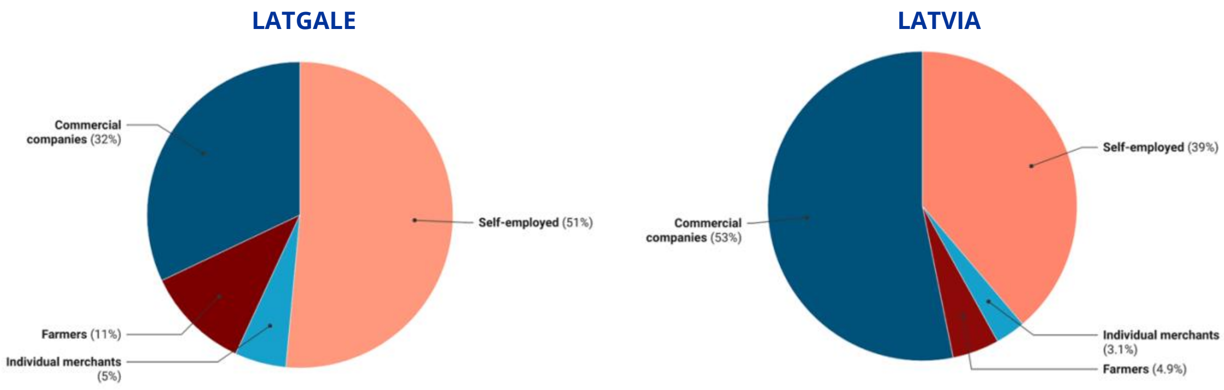
In 2023 there were 17 456 or 9.8% of the 177 726 business entities (units) in Latvia. In Latgale that makes 71 enterprises per 1 000 inhabitants - a slight increase since 2018 when the indicator was 69. At the same time there are 94 business units per 1 000 inhabitants in Latvia, which is 32% more than in Latgale.

These OSP Latvia statistics distinguish between four types of entrepreneurship, i.e., legal forms of business acitivity: (1) self-employed persons, (2) farmers, (3) individual merchants (*individuālie komersanti*) and (4) commercial companies.

Inhabitants of Latgale can be considered as comparatively entrepreneurial, especially for self-employment. From 2014 to 2023 self-employment in Latgale increased from 32 to 35 per 1 000 inhabitants and commercial companies from 17 to 22.

The share of self-employed in Latgale in 2023 was 51% (same as in 2017), while the share of commercial companies was at 32% (a slight increase by 2% since 2017). This is almost the opposite to the national average which is 39% self-employed and 53% commercial companies. Overall, it seems that outside Rīga there are more self-employed than commercial companies. This can point to the considerable entrepreneurial spirit of people in the regions, probably due to a lack of employment opportunities.

Figure 26 Share of different types of economically active market sector enterprises (business units) in Latgale and Latvia, 2023, %



Source: Service Provider's calculations based on OSP Latvia UZS011

In 2023, per 1 000 inhabitants the active business units in Latgale were:

1) 35 self-employed per 1 000 inhabitants, which is slightly exceeding the national average;
2) 22 enterprises per 1 000 inhabitants is the lowest rate in the country being less then ½ of the national average – 48. Both the regional and national indicators have experienced a brief slide down compared to 2018 from 25 and 50 respectively.

4.2 Number of firms by size

In terms of employees in 2023 among the market sector economically active enterprises (UZS031):

- 96% or 16050 had 0-9 employees;
- 2% or 346 had 10-19 employees;
- 1.3 or 225 had 20-49 employees;
- 0.6% or 102 had 50-249 employees and
- 0.08% or 13 had above 250 employees, which is up by 2 since 2018.

Proportionally there are slightly higher ratio of micro (0-9 employees) in the region when compared to the national average, while slightly lower ratio of the rest.

4.3 Number of self-employed persons

Predominantly rural areas have more self-employment compared to more urban areas. In 2023 there were 8 586 self-employed persons in Latgale or 51% of the total business units. In all local authorities of Latgale, but the rural ones in particular the share of self-employed in the total number of business units gradually grows, while the share of commercial companies varies.

According to the interviews done in another ESPON study (ESPON, 2021), a lot of the self-employed are engaged in home-production (*mājražošana*). This preserves traditional crafts including niche products such as traditional clay pots that Latgale is famous for across the whole country, or organic farm goods. However, home-production results in comparatively low added value products that are also difficult to market without additional effort.

As illustrated in Figure 26, residents of Latgale prefer self-employment over establishing a commercial company. This preference can be attributed to potential tax optimization and reduced administrative burdens. For instance, annual reporting for self-employed individuals is generally less complex, as it does not require adherence to standard accounting practices.

4.4 Special Economic Zones

The Latgale region hosts two Special Economic Zones (SEZs), viewed as essential instruments for regional development due to their high nominal-value incentives aimed at attracting investment and stimulating economic activity. Despite this potential, the current impact of SEZs on business growth and employment remains moderate, indicating the need for complementary measures to fully realise their benefits.

The Rēzekne SEZ, established in 1997, is geographically limited to designated industrial areas within Rēzekne city and its surrounding rural municipality. The zone primarily supports low and medium-low technology industries such as food processing, woodwork, and metal manufacturing, although it also includes some medium-high technology enterprises producing electrical and mechanical equipment. Between 2021 and 2023, the number of companies operating in Rēzekne SEZ remained stable at around 24, with slight fluctuations in entries and exits. Over this period, the zone recorded stable turnover of approximately EUR 130 million but saw a decline in employment from 1 400 to 1 300. Three companies accounted for the majority of turnover - 80% - while employing only half of the workforce. Tax exemptions granted to firms in this SEZ totalled EUR 2.1 million in 2023, equivalent to 2.2% of their fixed assets.

In contrast, the Latgale SEZ covers the entire region and has shown more dynamic development. It has a more diverse industrial profile, including a higher share of medium- and high-technology sectors such as electronics and optical equipment manufacturing. Between 2021 and 2024, 12 new companies joined the Latgale SEZ, raising the total to 31. This growth was accompanied by a significant rise in turnover from EUR 170 million in 2021 to EUR 277 million in 2023 and an increase in employment from 1 600 to 2 000. A small number of large companies dominate the zone, contributing 67% of total turnover and 46% of employment. Tax exemptions in this SEZ were EUR 10.2 million in 2023, amounting to 11% of fixed assets.

Overall, SEZs in Latgale tend to attract larger-than-average enterprises. Approximately half of the region's manufacturing firms with turnovers exceeding EUR 20 million operate within SEZs, compared to just 15% of mid-sized firms. This suggests SEZ benefits are more accessible to companies with greater administrative capacity. However, it remains unclear whether SEZ participation translates into superior performance, as firms outside SEZs often outperform their included counterparts.

The SEZs companies demonstrate varied and fluctuating business performance. Also, when ranked by turnover and its annual growth in the past three years since 2021 within the total pool of the 1000 biggest companies of Latgale the SEZs companies do not prove to be distinctly more successful than the other companies. Nevertheless, SEZs are serving as important 'selling points' in attracting further investments. OECD concludes that although 'several studies indicate that the performance of Latvian SEZs in terms of employment and FDI has been much weaker than in other countries, an important function of SEZs is also to provide organisational and administrative support and facilitate cooperation with local firms and suppliers as well as vocational and educational training establishments to equip the local workforce with the skills needed by firms.' (OECD, 2024b).

In its last year's Rethinking Regional Attractiveness case study of Latgale, the OECD notes that '. Both SEZs place a strong emphasis on tax incentives in their promotional material, which could undermine efforts to attract high-value added sectors since low value-added firms tend to be more attracted to tax incentives whereas investors in high value-added sectors place more emphasis on the need for high-skilled talent' (OECD, 2024b).

To conclude Latgale is lagging because the share of non-working people is larger, less physical capital, lower quality education on average and mostly low value-added products (Krasnopjorovs, 2024). The physical capital is the, so called, 'spatially fixed capital', i.e., the facilities and infrastructures that enable production and the flow of capital - technology, equipment, facilities, railway, roads and the like (Harvey, 2003). Oļegs Krasnopjorovs from the Bank of Latvia argues that although there are notable EU investments into the public infrastructure of the region they alone do not create the physical capital in the sense of spatially fixed capital needed for the region to be self-sustainable concluding that 'existing instruments to attract investment and promote entrepreneurship are not sufficiently effective' (Krasnopjorovs, 2024).

Summary

Latgale's entrepreneurial landscape demonstrates a modest yet consistent level of activity, with around 15 500 active enterprises in 2024 and an average of 1 550 new business registrations annually between 2014 and 2022. Although business creation shows resilience, closures have occasionally outpaced openings, pointing to a fragile business environment. The majority of businesses are concentrated in more populous areas, and self-employment remains particularly strong, accounting for over half of all business units in 2023. Latgale's residents exhibit notable entrepreneurial spirit, often driven by limited formal employment opportunities and facilitated by the administrative simplicity of self-employment.

Despite this entrepreneurial activity, the business landscape in Latgale is predominantly micro in scale: 96% of firms employ fewer than 10 people, and only 13 firms have over 250 employees. This concentration of micro-enterprises reflects the structural challenges of a rural, low-density region, where scaling up is limited by both market access and skilled labour. The overall business density is significantly below the national average - 71 versus 94 enterprises per 1 000 inhabitants - highlighting continued economic disparities compared to other regions in Latvia.

Latgale's two Special Economic Zones have attracted 52 firms and created over 2,000 jobs. However, their performance has been mixed. While they have successfully drawn foreign direct investment and introduced some new sectors, such as electronics and optics, most investments remain in low value-added industries. The OECD notes that Latgale's SEZs often rely heavily on tax incentives, which may appeal more to lower value-added firms. Their promotional emphasis on these incentives, rather than on talent availability or innovation ecosystems, may hinder the attraction of high-growth sectors. Nevertheless, SEZs still play an important role in marketing the region and providing organisational and training support.

Ultimately, structural limitations such as a high proportion of non-working residents, limited physical capital, and a dominance of low value-added production continue to constrain Latgale's economic potential. Although EU investment has enhanced public infrastructure, it has not translated into the type of spatially fixed capita - factories, industrial infrastructure, high-tech facilities - needed to anchor sustainable economic growth. According to experts such as Oļegs Krasnopjorovs, current tools to stimulate investment and entrepreneurship remain insufficient to trigger meaningful transformation. A more comprehensive approach is required to develop productive capacity and encourage growth in higher-value industries.

5 Energy

Latvia has consistently maintained a high share of renewable energy in electricity generation, primarily due to its well-developed hydropower sector. The country has made significant strides in increasing the share of renewable energy in its overall energy consumption, particularly in the electricity and heating sectors. However, challenges remain in the transport sector, where the share of renewables has been volatile and recently declined. The share of renewable energy in gross final energy consumption has generally increased over the past decade, rising from 38.63% in 2014 to 43.22% in 2023.

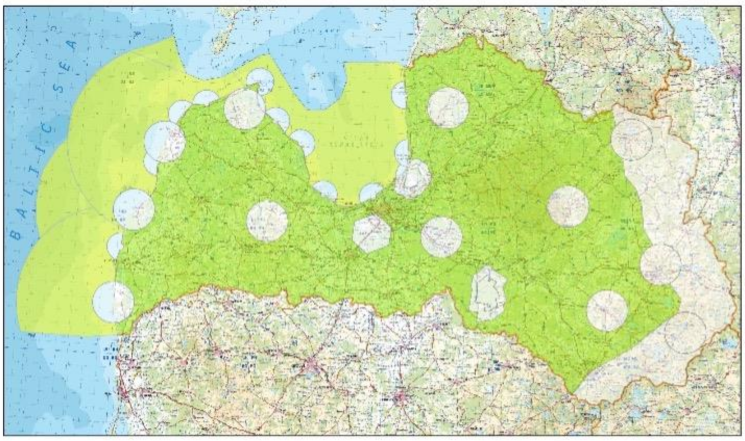
In 2023, the total renewable energy production in Latvia reached 4 846.611 GWh, up from 3 764.778 GWh in 2022. The Riga region continued to lead the country in renewable energy production, contributing 1 140.509 GWh in 2023, a noticeable increase from 884.397 GWh in 2022. The Zemgale region also saw a significant rise in renewable energy production, reaching 2 382.765 GWh in 2023, compared to 1 814.430 GWh in 2022. In contrast, the Latgale region showed the lowest renewable energy production, generating only 51.545 GWh in 2023, down from 68.336 GWh in 2022.

Latgale similarly to other regions in Latvia is transitioning towards a more diverse and sustainable energy mix, with an increasing emphasis on renewable sources such as biomass, hydropower, solar energy, and wind power. At the same time, natural gas and electricity imports continue to play a role in meeting energy demand.

Hydropower continues to be a significant renewable energy source in Latvia. In 2023, Latgale generated 15.622 GWh from hydroelectric plants, a slight increase from 14.530 GWh in 2022 but still much lower than other regions. Riga produced 912.257 GWh, and Vidzeme contributed 745.072 GWh. The limited hydropower potential in Latgale, partly due to the region's geography, underscores the difficulty of scaling this energy source without substantial investment in infrastructure development.

It has to be noted that to a greater extent than in other regions a vast territory of Latgale is restricted for the wind energy production due to the security and defence concerns. The Map 5 below, provided by the Ministry of Defence of Latvia, illustrates designated areas for wind farm development across the country. It is divided into three color-coded zones: the green zone, where wind farm construction is permitted and supported with only Ministry of Defence approval required; the yellow zone, where wind farm projects are possible, but operators must implement compensatory measures, such as radar acquisitions; and the red zone, where construction is prohibited due to significant interference with national defence operations.

Map 5 Areas for the development of wind farms in Latvia



Source: Ministry of Defence of the Republic of Latvia

On February 8, 2025, Latvia, Lithuania, and Estonia successfully disconnected from Russia's BRELL (Baltic Electric Power Grid Ring) electricity grid and transitioned to the European Union's unified energy system. The BRELL ring, which historically linked the Baltic States and Belarus to Russia's energy network, had made the region dependent on Russian resources. This shift was part of a long-planned initiative accelerated by the geopolitical impact of Russia's invasion of Ukraine in 2022. The transition task was carried out by the Baltic States' electricity system operators - Latvia's 'Augstsprieguma tīkls', Lithuania's 'Litgrid', and Estonia's 'Elering'

- resulting in the gradual disconnection of 21 high-voltage lines. After operating as an isolated system for 24 hours and conducting necessary tests, the Baltic States successfully connected to the continental European power grid on February 9, 2025, via the Lithuania-Poland interconnection. This move enhances the region's energy independence, reduces reliance on Russian energy supplies, and fortifies energy security. Furthermore, the integration enhances market competitiveness, strengthens the Baltic States' ties to the European Union, and serves to bolster regional energy security.

5.1 RES for heating

Latvia has made significant progress in utilizing renewable energy for heating and cooling, increasing from 52.15% in 2014 to 61.36% in 2023. The data on heat production from renewable energy sources in Latvia's regions from 2019 to 2023 reveals significant regional variations, with Latgale consistently showing lower production figures compared to other regions. The total heat produced from renewable energy sources in Latvia in 2019 was 4 265.282 GWh, which slightly decreased to 4 148.362 GWh in 2020 but increased to 4 910.734 GWh in 2021. The production peaked at 4 937.328 GWh in 2022, before dropping to 4 582.803 GWh in 2023.

Within Latvia's regions, the Riga region has consistently been the largest producer of renewable heat, contributing with the highest share each year. Despite a substantial increase in renewable heat production between 2019 and 2022, Latgale experienced a drop in 2023, producing only 554.893 GWh, which is less than the 666.658 GWh produced in 2022. Also, all the other regions and the country overall experienced slight drop in 2023.

Table 11 Heat produced from renewable energy, GWh

	2019	2020	2021	2022	2023
Latvia	4 265.282	4 148.362	4 910.734	4 937.328	4 582.803
Riga	1 486.491	1 440.393	1 756.027	1 834.216	1 815.070
Vidzeme	858.747	873.004	955.261	874.036	825.302
Kurzeme	779.180	759.273	855.953	845.056	815.678
Zemgale	707.165	644.135	756.810	717.363	571.861
Latgale	433.698	431.557	586.683	666.658	554.893

Source: OSP Latvia ENA060

While Latvia has seen steady growth in the production of renewable heat, regional disparities persist, with Riga remaining the dominant producer. Latgale, despite improvements in recent years, still lags behind other regions, highlighting the ongoing regional challenges in advancing sustainable energy production and infrastructure development.

Biomass heating is one of the most widely used renewable heating sources in Latvia, particularly in rural areas like Latgale. According to Latvia's National Energy and Climate Plan (2021-2030) (Ministry of Economy, 2020), biomass accounted for approximately 60% of total renewable energy consumption in the country. In Latgale, around 80% of the rural population uses biomass for heating, either through wood chips, pellets, or logs.

Latvia produces about 120 000 tons of biogas annually, with a portion of this coming from agricultural waste. Biogas heating is used primarily in larger farms, industrial applications, and district heating systems. In Latgale, there are three major biogas plants, which contribute to both electricity generation and heating. Several cities in Latgale, such as Daugavpils, have modern district heating systems, with biomass being the primary energy source. Daugavpils' district heating system, for instance, is primarily powered by biomass, and 75% of the city's heating comes from renewable energy sources. Rēzekne Biogas Plant is one of the largest in Latgale and is powered by agricultural waste. The electricity produced here is fed into the national grid, and the heat is used for local heating purposes. The plant produces approximately 5 MW of electricity and supplies heat to several local buildings.

5.2 RES for electricity

From 2019 to 2023, Latvia saw a significant increase in electricity generation from renewable resources, with a notable overall growth from 3 191.4 GWh in 2019 to 4 846.6 GWh in 2023. Overall, Latvia has made impressive strides in increasing its renewable energy output, particularly in the Riga, Vidzeme, Kurzeme, and Zemgale regions. However, the Latgale region has faced a reduction in renewable energy generation. The Latgale region has seen a significant decline in renewable energy production from 2019 to 2023. In 2019, the region generated 98.6 GWh of electricity from renewable sources, but by 2023, this had dropped to just 51.5 GWh. This represents a nearly 48% decrease in renewable energy generation over the five-year period.

Table 12 Electricity generated from renewable energy in the regions of Latvia, GWh

	2019	2020	2021	2022	2023
Latvia	3191.400	3648.660	3716.666	3764.778	4846.611
Riga	716.491	845.906	868.736	884.397	1140.509
Vidzeme	619.281	716.368	709.537	702.123	887.217
Kurzeme	281.304	271.643	243.070	295.492	384.576
Zemgale	1475.682	1710.157	1812.357	1814.430	2382.765
Latgale	98.642	104.585	82.966	68.336	51.545

Source: OSP Latvia (ENA050)

Factors contributing to this decline in Latgale may include a lack of infrastructure investment, fewer renewable energy projects, or regional economic challenges that hinder the development of sustainable energy sources. The decline in renewable energy production in the Latgale may also be influenced by its geographical location as a border region. Latgale shares borders with Russia and Belarus, which lead to defence-related restrictions that limit infrastructure development and the expansion of renewable energy projects. National security concerns and defence policies in border areas often result in tighter regulations, restrictions on land use, and challenges in attracting investment for large-scale energy projects.

The Latgale region, while showing some progress in areas like solar power, continues to lag behind in terms of overall renewable energy production, particularly in hydropower, wind, and biomass energy.

The data on electricity generated from renewable energy by hydroelectric plants in Latvia from 2019 to 2023 reveals that the national total shows a steady increase in hydroelectric generation, with a particularly sharp rise in 2023, increasing by over 1 000 GWh compared to 2022. The Riga, Vidzeme, and Zemgale regions have contributed most to this growth, while Latgale continues to produce a smaller portion of the country's hydroelectric energy. Despite its limited production, Latgale has seen a gradual increase, reflecting the region's potential for further development in renewable energy sources.

Table 13 Hydroelectric plants in the regions of Latvia, GWh

	2019	2020	2021	2022	2023
Latvia	2107.554	2603.041	2707.795	2749.798	3794.208
Riga	496.867	618.742	652.729	664.079	912.257
Vidzeme	429.062	523.455	543.158	556.722	745.072
Kurzeme	7.043	7.202	6.853	7.437	9.852
Zemgale	1165.250	1440.549	1493.920	1507.030	2111.405
Latgale	9.332	13.094	11.136	14.530	15.622

Source: OSP Latvia (ENA050)

Wind power generation in Latgale has been virtually non-existent in recent years. In 2023, the region produced just 0.001 GWh of wind energy, a sharp decline from 4.468 GWh in 2021. By comparison, Kurzeme, which has more favorable conditions for wind energy, generated 268.707 GWh in 2023. Latgale's lack of wind power generation is indicative of both geographical challenges and insufficient investment in wind energy infrastructure.

In the coming years, Latvia plans to develop at least 10 new wind farms, adding to the two currently in operation. This expansion is expected to increase competition and potentially reduce electricity prices for consumers. One of the most ambitious projects is planned in Nīcgale Parish, Augšdaugava Municipality, covering an area of 3 000 hectares. This wind park is expected to be completed within five years and will be developed by a Norwegian company. Local governments and wind park developers view this initiative as an opportunity to enhance Latvia's energy independence, strengthen the financial stability of municipalities, and attract investors. In

Augšdaugava Municipality, the project is estimated to cost €200 million and will feature 26 turbines with an annual production capacity of 727 gigawatt-hours. This would account for about 10% of Latvia's total annual energy consumption. The area has favorable conditions for wind energy, including a high average wind speed. However, implementing a project of this scale requires significant investment in infrastructure development and upgrades.

In Riebiņi Parish, Preiļi Municipality, "Latvenergo" started the public consultation and approval process in January 2025 for a project to install 11 wind turbines. Although the plans are still in the preliminary stages, the local community is gradually being informed about the upcoming project. This is the second wind park planned in Preiļi Municipality, as "Energy Latvia" is already further along in the approval process.

Also, in Rugāji Parish, Balvi Municipality, a local development plan is drafted to facilitate the construction of a wind park. The purpose of this plan is to determine the potential number of wind turbines, set other relevant parameters, and adjust the functional zoning to allow for wind park development in addition to existing land uses.

Despite the potential, the wind energy sector in Latgale faces substantial challenges. There are significant restrictions or even a ban on wind power installations in almost the entire Latgale region, mainly due to defense considerations. The Ministry of Defence has imposed restrictions on wind park construction within a 50 km zone from Latvia's eastern borders with Russia and Belarus, as well as along the western maritime border due to potential interference with air defence radars. These restrictions significantly impact the development of renewable energy projects in the region, posing challenges for local authorities and energy companies. These limitations also affect solar energy projects and have been reported by stakeholders in other regions as well. Such restrictions present obstacles to regional development, particularly at the EU's external border with Russia and Belarus, emphasizing the need for policy adjustments to mitigate these challenges, if possible. These issues highlight the complex geopolitical and security context affecting renewable energy development in Latvia's eastern regions.

Table 14 Wind power stations in the regions of Latvia, GWh

	2019	2020	2021	2022	2023
Latvia	153.999	176.842	141.437	190.183	270.757
Riga	1.428	1.448	1.384	1.037	1.324
Vidzeme	2.076	2.047	1.386	0.964	0.098
Kurzeme	128.068	147.878	133.512	187.568	268.707
Zemgale	0.735	1.068	0.686	0.614	0.628
Latgale	21.692	24.402	4.468	0.000	0.001

Source: OSP Latvia (ENA050)

Solar Energy (Micro-generators and Power Plants) in Latgale has shown some growth in recent years. In 2023, the region produced 12.703 GWh, a significant increase from 1.945 GWh in 2022. While this growth is encouraging, it still lags behind other regions, such as Riga, which generated 33.074 GWh in 2023. The expansion of solar energy in Latgale reflects a growing interest in this energy source, though the region has yet to fully harness its potential. Around 1 200 solar thermal systems were installed across the country by 2023, with a small portion of these in Latgale. The government's support for renewable energy, including subsidies for solar thermal installations, has led to a 10% annual increase in solar thermal installations nationwide. In Latgale, residential use of solar panels, both thermal and photovoltaic, is expected to grow by 5-10% annually.

Latgale is seeing notable progress in solar energy development, supporting Latvia's renewable energy targets. One of the most ambitious projects is the 400 MW Balvi Solar Park, covering 1 200 hectares and strategically located near a high-voltage line formerly linked to Russia—important in light of Latvia's 2025 desynchronisation from the Russian grid. VEREMS Solar Park in Verēmi Parish, opened in 2024, consists of 3 600 bi-facial panels with a 2 000 kW capacity, aimed at offsetting local industrial energy needs. The Zilupe Solar Power Plant, completed in 2023, features 5 000 panels and produces 3 000 MWh annually—enough to power around 1 300 homes. Meanwhile, the 3.3 MW Daugavpils Solar Project also contributes to the region's growing clean energy capacity. These developments reflect Latgale's emerging role in Latvia's green energy transition and its efforts to strengthen energy independence and regional sustainability.

The Latgale Planning Region is advocating for no restrictions on installing solar panels on agricultural lands. LPR has sent a letter to the Parliament's Economic, Agricultural, Environmental, and Regional Policy Committee regarding amendments to the Law "On Land Privatization in Rural Areas". These amendments propose prohibiting the use of agricultural land for solar panel installation if the land's quality rating is above 30 points and if the solar panels would cover an area larger than 0.5 hectares. Local governments in Latgale are dissatisfied because wind power plant installations are already "significantly restricted" in the region, which hinders energy security, energy independence, and the implementation of climate and energy efficiency projects. If restrictions were also applied to solar power plants, it would further worsen the overall situation of the renewable energy sector in the region.

Table 15 Solar micro-generators and power plants in the regions of Latvia, GWh

	2019	2020	2021	2022	2023
Latvia	2.428	3.979	5.641	23.448	122.570
Riga	0.580	0.935	1.992	7.671	33.074
Vidzeme	0.129	0.331	0.534	4.359	12.776
Kurzeme	1.161	1.649	2.055	6.196	31.631
Zemgale	0.083	0.349	0.388	3.277	32.386
Latgale	0.475	0.715	0.671	1.945	12.703

Source: OSP Latvia (ENA050)

Biomass energy production in Latgale has also seen a decline. In 2023, the region generated 11.847 GWh from biomass, a significant decrease from 29.567 GWh in 2022. This decline contrasts with other regions, such as Zemgale, which continued to produce substantial amounts of biomass energy. The drop in Latgale's biomass energy output may be indicative of both diminishing resources and a shift towards other, more sustainable energy sources like solar and wind. Nevertheless, biomass remains an important part of Latgale's energy mix. Below is an overview on the use of biomass in the Combined Heat and Power (CHP) plants.

Table 16 Biomass CHP plants and power plants in the regions of Latvia (GWh)

	2019	2020	2021	2022	2023
Latvia	575.463	520.514	569.910	551.718	477.633
Riga	140.612	146.591	137.289	150.567	144.718
Vidzeme	132.068	132.492	128.641	117.112	102.083
Kurzeme	94.869	70.813	68.775	70.758	62.865
Zemgale	175.779	137.821	199.236	183.714	156.120
Latgale	32.137	32.798	35.970	29.567	11.847

Source: OSP Latvia (ENA050)

Latgale's **biogas energy** production has followed a similar downward trend. In 2023, the region produced just 11.372 GWh, a decrease from 22.294 GWh in 2022. This decline is part of a broader national trend, where biogas energy has decreased from 351.957 GWh in 2019 to 181.443 GWh in 2023. While biogas remains a viable renewable energy source, Latgale's limited production suggests that the region has not fully exploited its potential in this sector, despite some available agricultural and organic waste resources that could support biogas production.

Table 17 Biogas CHP plants in the regions of Latvia (GWh)

	2019	2020	2021	2022	2023
Latvia	351.957	344.284	291.885	249.631	181.443
Riga	77.006	78.190	75.341	61.084	49.136
Vidzeme	55.946	58.044	35.819	22.965	27.189
Kurzeme	50.164	44.102	31.875	23.492	11.521
Zemgale	133.835	130.372	118.128	119.795	82.226
Latgale	35.007	33.576	30.722	22.294	11.372

Source: OSP Latvia (ENA050)

Latgale has significant potential for renewable energy development. However, the region faces several challenges that hinder the expansion of biomass, solar, and wind energy projects. These challenges are primarily linked to regulatory restrictions, infrastructure limitations, and geopolitical considerations. Latgale's location at the EU external border with Russia and Belarus introduces geopolitical risks that impact energy security and investment attractiveness. Political tensions and cross-border security issues influence investor confidence, making it more challenging to secure funding for large-scale renewable energy projects.

Summary

Latvia has made notable progress in increasing the share of renewable energy in its overall energy mix, with renewables accounting for over 43% of final energy consumption in 2023. The growth is primarily driven by strong performance in the electricity and heating sectors, with hydropower and biomass playing central roles. However, the transport sector remains a weak link in the transition to clean energy. Despite Latvia's national achievements, the Latgale region lags behind, contributing just over 1% to the country's total renewable electricity output in 2023 - a steep drop from 2019 levels.

Latgale's renewable energy production has declined across multiple sources, including hydro, biomass, wind, and biogas. Hydroelectric production in the region remains low due to geographical limitations, while biomass and biogas output have seen marked decreases. Wind energy development is especially constrained by national defence regulations, which prohibit wind farm construction across most of the region due to its location near the borders with Russia and Belarus. Although some large-scale wind projects are in early planning stages, implementation is hampered by security-related land use restrictions. These regulatory barriers are a key reason why Latgale has not kept pace with other regions in expanding its renewable energy capacity.

Solar energy is emerging as a promising sector in Latgale, showing a tenfold increase in output from 2022 to 2023. Several significant projects are underway, including large-scale solar parks in Balvi, Daugavpils, and Rēzekne, reflecting growing investor interest. However, proposed national legislation that would restrict solar installations on high-quality agricultural land has triggered concern among local governments. Given the existing restrictions on wind energy, any further limitations on solar development risk undermining Latgale's energy security and broader climate objectives.

Despite the challenges, Latgale has a foundation for advancing its renewable energy agenda. Biomass remains a key resource for heating, especially in rural areas, and solar power continues to expand. Yet, the region's progress is hindered by infrastructure limitations, a lack of investment, and its sensitive geopolitical location. As Latvia transitions away from Russian energy dependence - most recently through full disconnection from the BRELL grid - ensuring that border regions like Latgale are not left behind will require tailored policies, regulatory flexibility, and focused investment to realise their renewable energy potential and enhance regional energy resilience.

6 Tourism and culture

6.1 Offer side

Latgale is a region rich in natural beauty and cultural heritage, offering great potential for tourism. Its picturesque rural landscapes, abundant lakes, vast state forests, and historic sites create a captivating environment for visitors. The region is home to remarkable architectural landmarks, including grand cathedrals, charming churches, traditional rural homesteads, and vibrant cultural landscapes that reflect its deep-rooted identity.

Unlike the predominantly Lutheran rest of Latvia, Latgale is a stronghold of Roman Catholicism, where centuries-old religious traditions thrive. Its beautifully preserved churches, adorned with icons and crucifixes, play a significant role in attracting tourists. Aglona Basilica, Latvia’s most revered Catholic shrine, is a major spiritual and cultural landmark in the Baltics, attracting over 60 000 visitors - mainly pilgrims - each year for its annual festival on 15 August.

Folk pottery-making in Latvia, one of the country's oldest art forms dating back to the Neolithic Age, has developed primarily in the regions of Latgale and Kurzeme. Today, Latgalian pottery is celebrated as a key element of Latvia's cultural heritage, showcasing a variety of styles, from modern decorative glazing with green and brown hues to minimalist black ceramics rooted in ancient techniques and archaeological findings. The visitors of Latgale are invited to experience this ancient craft at a great number of potteries of the region.

Latgale's cultural landscape is further enriched by institutions like the Daugavpils Mark Rothko[10] Art Centre and Rēzekne's acoustic concert hall, both opened in 2013. The region is home to 20 museums. Since 2014 the number of their visitors has more than doubled reaching 235 865 in 2023 (KUM010).

Latgale, often dubbed the Land of the Blue Lakes, is home to over 1 200 lakes with sandy beaches ideal for leisure and recreation. The region features Latvia's largest lake by volume, Rāzna, encircled by Rāzna National Park, along with Ežezers - the country's most island-rich lake with 41 islands - and Lubāns, the largest lake by surface area at 813 km². Additionally, the legendary Daugava River winds through Daugavas loki Nature Park, while the mystical Velnezers lake offers a serene retreat for peaceful contemplation.

In 2024 there were 95 accommodation facilities which is almost the same number as it was in 2019. The data for 2014 were not available. An earlier study evidenced that between 2010-2019 accommodation facilities in Latgale almost doubled from 50 to 94. (ESPON, 2021).

Latgale Tourism Association (LTA) represents 116 companies operating in tourism business and partners up with local authorities and their tourism information centres. A representative of LTA emphasized that a major obstacle to tourism development in Latgale is the lack of a unified incoming tourism agent in the region. As a result, there is no coordinated effort to prepare and offer attractive, affordable tourism deals and packages. The overall tourism offer remains fragmented, failing to fully capitalize on the region's tourism potential. The association is actively supporting the region through its ‘Discover Latgale’ website, while the Latgale Planning Region maintains ‘Visit Latgale’ site; however, these digital initiatives alone appear insufficient to fully untap the area's tourism potential.

6.2 Demand side

OSP Latvia reports that 2024 was a good year for Latvia's tourism sector, with 10% growth recorded in tourist accommodation. According to Eurostat data published 17 January 2025 Latvia recorded the European Union's third-highest year on year growth in the number of tourists stays (Eurostat, 2025).

In 2024, tourist establishments accommodated 1.1 million Latvian visitors, which is 6.4 % more than in 2023 and 22.7 % more than in 2019; however, that did not reflect in the visitors of Latgale which according to the

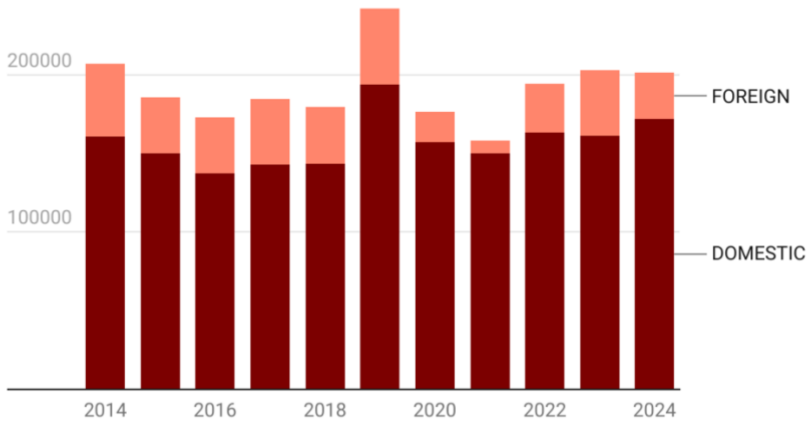
[10] World-renowned artist, born in Daugavpils http://www.markrothko.org

Latgale Tourism Association data experienced a slight decline of 2.7% compared to 2023 and a decline of 20.3% compared to 2019. The decline presumably is due to the new geopolitical realities.

The statistics collected by the Latgale Tourism Association show a total of 201 124 tourists staying at the hotels and guest houses of Latgale, of them 171 905 domestic tourists and 29 219 foreign guests. The number of domestic tourists visiting Latgale is up by 7% from 160 634 in 2014 to 171 905 in 2024, while foreign tourist down by 27% from 46 305 in 2014 to 29 219 in 2024. The decline of foreign tourists only partly seems to be attributable to the Russian war of aggression in Ukraine as the figures have been fluctuating between 2020 to 2024. On average there have been approximately 33 850 foreign tourists staying in the Latgale accommodations annually between 2014 to 2024. The least number of foreign tourists was experienced in 2020 – 8 114 effected by COVID-19, while it was back to 41 763 in 2023 which was the second year of the war.

In 2022, 54.4 % of all guest nights in Latvia were spent in Riga, 20.2 % – in Kurzeme, 16.2 % – in Pierīga, 4.7 % – in Vidzeme, 2.9 % – in Latgale, and 1.5 % – in Zemgale. Resident visitors mostly stayed in Kurzeme (35.2 % of guest nights) and Riga (27.4 % of guest nights). Non-resident visitors mostly stayed in Riga (64.5 % of guest nights), Pierīga (15.5 % of guest nights) and Kurzeme (14.6 % of guest nights).

Figure 27 Tourists staying at the tourist accommodations of Latgale



Source: Latgale Tourism Association

The experimental OSP Latvia statistics show a considerable increase of short-stay accommodation offered via collaborative economy platforms between 2018 and 2023. While on average in the country the increase has been by 50.6%, in Latgale it has been 109.2% - next best after Vidzeme and Kurzeme (TUP020). The increase is mainly attributable to domestic tourists. In Latgale it was 160.6%, while 213% nationally.

For many years until 2018, tourists from Russia were the top visitors to Latgale. However, in 2019, Lithuania took the lead and has maintained this position through 2024. The last record of Russia ranking among the top four countries of origin for tourists was in 2020. Since 2021, the leading countries have been Poland, Germany, Estonia, and Lithuania, with Lithuania consistently at the forefront. The leading top is followed by Nordic countries. There have been no recorded Russian and Belarus visitors since 2023 while the higher than usual number of Ukrainian tourists have been refugees registered as visitors.

Table 18 The countries of origin of the tourists visiting Latgale

	2019	2020	2022	2023	2024
Lithuania/Estonia	7 727	7 143	5 724	14 814	3 032
Russia/Belarus	4 336	714	340	0	0
Ukraine	204	62	4 662	26 515	1 184
Poland	1 247	355	713	2 272	369
Other European	2 716	724	1 085	4 236	936

Source: Latgale Tourism Association

Twice a year LTA surveys its members. Respondents of the surveys in 2024 highlighted several challenges, including operational difficulties like staffing issues, seasonal fluctuations, and logistical constraints, as well as intense market competition that makes it hard to differentiate their offerings. They also expressed concerns over economic and regulatory pressures, such as rising costs, complex regulations, and insufficient support from local authorities. Overall, these challenges reflect a common struggle to adapt to dynamic market conditions while managing escalating operational expenses.

Many respondents have observed changes in client interest, with some noting a growing curiosity and demand - especially among younger travellers seeking unique local experiences - while others report fluctuating demand tied to seasonal or economic factors. This variation highlights that although certain areas are experiencing increased engagement, others continue to face volatility.

The 139 respondents to the 2024 fall survey, representing all nine local authorities, can be characterized as follows:

- the businesses mainly offer accommodation, catering is much less covered;
- 70% of respondents have worked in the tourism sector for over five years, and approximately 25% have been in the industry for 1 to 5 years;
- 62.6% of respondents reported that tourism accounts for less than half of their total income, while 16.5% rely solely on tourism as their primary income source;
- most respondents manage their businesses without employees during both summer and winter seasons. Approximately 20% employ 1 to 2 staff members year-round.

The respondents of the 2024 fall survey elaborated on the following:

- the five most frequently mentioned countries of origin of the tourists in the tourism season of 2024 were: Lithuania (75 responses), Germany (52 responses), UK & Ireland (46 responses), Estonia (43 responses) and Poland (31 responses) confirming the above statistics (see **Error! Reference source not found.**);
- rising operating costs (fuel, electricity, food, etc.) and an insufficient number of visitors are the most pressing issues in the Latgale region;

Another notable factor affecting tourism is the war in Ukraine. 37 respondents reported that tourists' fear of the threat of war has impacted their business. Of these, 31 (22%) confirmed that the war has had a slight or significant impact on overall tourism demand.

Respondents of both 2024 surveys expressed a need for external support, specifically financial assistance through grants or subsidies to manage costs and invest in improvements. They also seek consultation and guidance in areas like marketing, digital transition, and regulatory adaptation, as well as networking opportunities with industry players and government bodies. These responses suggest an expectation for both economic and strategic support to address current challenges and future uncertainties.

Summary

Latgale boasts a rich cultural and natural heritage, positioning it as a region with considerable tourism potential. Its appeal lies in a combination of picturesque rural landscapes, numerous lakes, and a deep-rooted cultural identity. Key attractions include the revered Aglona Basilica, a major pilgrimage site, and the region’s strong Roman Catholic traditions, which distinguish it from the rest of Latvia. Latgalian folk pottery, a unique craft heritage, and institutions like the Daugavpils Mark Rothko Art Centre and Rēzekne’s acoustic concert hall enrich the region’s cultural offer. Natural attractions such as Rāzna National Park and Daugavas loki Nature Park add further value to Latgale’s tourism offer.

Despite this potential, the region’s tourism sector faces significant structural constraints. The number of accommodation facilities has remained stable since 2019, and while domestic tourism has shown modest growth, foreign visitor numbers have declined. In 2024, Latgale welcomed 201 124 tourists, with domestic visitors making up 85% of the total. However, foreign tourists decreased by 27% compared to 2014. Though fluctuations are influenced by multiple factors, geopolitical concerns especially the war in Ukraine are increasingly cited by tourism businesses as a deterrent for foreign travellers.

Latgale's share in Latvia's overall tourism remains modest. In 2022, the region accounted for just 2.9% of all guest nights. Collaborative economy platforms have grown, with a 109% increase in short-stay listings from 2018 to 2023, driven mainly by domestic demand. Visitors from neighbouring Lithuania and Poland, as well as Germany, the UK, and Ireland, dominate the foreign tourist profile. Russian and Belarusian tourists have disappeared from statistics since 2023, with Ukrainian visitors now primarily consisting of registered refugees.

Feedback from tourism entrepreneurs highlights operational and strategic challenges. Rising costs, limited support, and the absence of a coordinated regional tourism offer limit competitiveness. Many businesses are small-scale, with few staff, and tourism often accounts for less than half of their total income. Entrepreneurs report growing interest from younger travellers seeking authentic experiences but stress the need for financial assistance, marketing support, and stronger cooperation across the sector. Without targeted interventions, the region risks underutilising its tourism assets and falling short of its economic potential.

7 Social and security aspects

Latgale as Latvia’s easternmost region, borders Russia and Belarus, positioning it as a strategically important area for national security. This geographic factor makes the region susceptible to border security concerns, smuggling activities, and hybrid threats, including disinformation campaigns. The proximity to Belarus has also raised concerns about potential provocations or attempts to destabilize the region, particularly amid geopolitical tensions in Eastern Europe.

The number of community centres measuring the social cohesion of the Latgale regions is 1.09 per 10 000 inhabitants in 2024, in line with the country average although low compared to an EU average of 0.176. Also, civic engagement is relatively low, as proxied by voter turnout, which was 43% in 2021, lowest among other Latvian regions and among the lowest 5% across all OECD regions (OECD, 2025). Lower levels of social cohesion are also suggested by the small civil society sector, with only eight NGOs per 1,000 inhabitants in Latgale in 2023, compared to a national average of 14 (Stafecka et al., 2023).

7.1 Trust in public government

Public trust in Latvia's governmental institutions has been a subject of concern, with recent data indicating relatively low levels of confidence among citizens. In 2023, only 29% of Latvians reported high or moderately high trust in the national government, which is below the OECD average of 39% (OECD, 2024c).

Trust in institutions across Latvia varies significantly, with Latgale generally exhibiting lower trust levels compared to other regions. Nationally, 60% of Latvians express trust in other people, while confidence in the police stands at 52% and trust in the courts and judicial system at 48%. Local government and the national civil service are trusted by 41% and 39% of the population, respectively, whereas political parties and the national parliament receive the lowest trust levels, with only 13% and 25% of citizens expressing confidence in them. Public satisfaction with services reflects these trends, as 63% of Latvians report being satisfied with administrative services, aligning with the OECD average. However, satisfaction is notably lower in the education sector, where only 38% express positive experiences, compared to the OECD average of 57%.

Latgale records some of the lowest trust levels in both local and national institutions. While only 29% of Latvians overall report moderate to high trust in the national government, surveys suggest this figure is even lower in Latgale. Trust in local government in the region is especially weak, with fewer than one-third of residents expressing confidence in local administrative services. Although national institutions, such as the parliament, receive slightly higher trust levels than local bodies in Latgale, they still lag behind European averages, highlighting a regional trust gap and a more pronounced scepticism toward governance and public services (Berg Research, 2023).

Several factors contribute to the regional disparity in trust observed in Latgale. The region has a higher proportion of Russian-speaking residents and other minority communities, who, according to research, tend to report lower levels of trust in state institutions. Additionally, economic challenges play a significant role in shaping public perceptions. Higher unemployment rates and lower income levels, contribute to residents’ scepticism toward both local and national authorities. Economic hardship is often linked to diminished trust, as citizens may feel that government institutions fail to deliver on economic or social promises. Furthermore, historical and socio-political factors, including language policies, media influence, and regional economic disparities, exacerbate these trust issues. As a result, many residents of Latgale perceive the government as being less responsive to their needs compared to other regions in Latvia, reinforcing the cycle of low institutional trust.

The media landscape plays a crucial role in shaping public opinion and trust in institutions. While Latvian is the dominant language in the press nationwide (89%), Latgale stands out as an exception due to its linguistic diversity and bilingual media consumption habits. In this region, regional newspapers are read almost equally in Latvian (59%) and Russian (56%), reflecting the significant presence of Russian-speaking communities. Among newspapers available in both languages, Latvian-language editions are preferred (69%) over their Russian-language counterparts (43%) (KANTAR, 2022).

Given the higher proportion of Russian speakers in Latgale compared to other regions, many media outlets - both traditional and digital - adopt a bilingual approach to ensure information remains accessible to all segments of the population. However, a significant portion of residents also consume Russian-language media from neighbouring countries, which can shape their perceptions of both local and international issues.

Russian-language television channels and radio stations remain particularly popular, especially among older residents. In border areas near Belarus, television and radio content from the neighbouring country is freely accessible using standard antennas and radio receivers, making it an integral part of many locals' daily media consumption. Additionally, many residents in Latgale rely on Russian-language news sources, where Russian state-controlled channels are often more accessible than Latvian alternatives, particularly in remote or border areas.

Beyond traditional broadcast media, social media platforms such as VKontakte and Telegram, as well as Russian online portals, serve as key information sources for some residents. These platforms frequently disseminate anti-Western and anti-government narratives, reinforcing Russian geopolitical messaging in the region. Despite Latvia's efforts to ban several Russian TV channels, some residents continue to access them through satellite or alternative digital platforms.

Some researchers highlight that a significant challenge in Latgale is the limited presence of Western and Latvian media in the Russian language, which weakens their ability to counter Russian narratives. Although trust in Western media is slightly lower in Latgale compared to other regions, it still surpasses trust in Russian state-controlled media. However, Western media is not the dominant information source for many Latgale residents, diminishing its overall impact on regional perspectives. This imbalance in media accessibility creates a vulnerability that Russian outlets continue to exploit, maintaining a strong foothold in the region's information space.

Responsible institutions acknowledge that they have limited control over this situation, but proposed solutions focus on strengthening local media and developing alternative content to provide reliable, locally relevant information that competes with foreign sources. Recognizing the threat posed by disinformation, both the Latvian government and non-governmental organizations have initiated programs aimed at improving media literacy. These programs are designed to help citizens critically evaluate information sources, distinguish between verified news and propaganda, and understand the broader context of media messages. Latvia, along with other EU countries, has taken steps to monitor and counteract disinformation campaigns. This includes initiatives to identify and limit the reach of state-sponsored propaganda through collaboration with social media companies and regulatory bodies.

7.2 Security

Latgale is a critical point for Latvia's security concerns, particularly since Russia's full-scale invasion of Ukraine in 2022. The region's historical connections to Russia and the almost 39% of ethnic Russians further complicate the security situation, making Latgale a target for Russian influence operations (Saeimas Analītiskais Dienests, 2023).

Latgale's security challenges consist of multiple parts. Hybrid threats, including disinformation campaigns and provocations, are a constant concern. The Latvian State Security Service (VDD) actively monitors these activities, aiming to counter efforts to destabilize the region and undermine public trust in the Latvian state. For example, the VDD's 2023 Public Report highlighted the persistent threat of Russian information operations, which aim to exploit societal divisions and promote pro-Kremlin narratives (VDD, 2023). Espionage and intelligence gathering are also significant risks. Latgale's border location makes it a prime target for Russian and Belarusian intelligence services seeking to recruit informants and gather sensitive information. The VDD reported initiating eight criminal cases related to suspected espionage in 2023 alone, as well as warning people travelling to Russia and Belarus on possible coercion by their security services (VDD, 2024).

The sense of security among Latgale's residents is mixed. 2024 survey by the Latvian Ministry of the Interior revealed increased concern about security threats, particularly among Latvian speakers. However, a sense of security has risen among residents, when comparing year 2022 (58%) and 2023 (62%). When looking at information and media consumption in the Latgale region 49% of those who consume media in Russian and 28% of those who consume information in both Latvian and Russian agree with the statement that 'The West or Ukraine is mainly responsible for the conflict in Ukraine' (Saeimas Analītiskais Dienests, 2023).

The Latvian government is actively working to address these challenges. Efforts to counter disinformation and promote media literacy are ongoing, aiming to build resilience against Russian propaganda. Initiatives to foster social cohesion and integrate the Russian-speaking population are also underway. These include promoting the

Latvian language in education and public life, for example gradually replacing Russian as the second foreign language in primary school education with one of the official languages of the European Union starting 2026.

On the regional level, some of the largest municipalities in Latgale, - Daugavpils and Rēzekne, over the years have historically cooperated with Russia in ways that have normalized Russia's image among residents. This cooperation, which included initiatives related to ‘compatriot politics’, education, and culture, was often uncritical of Russia's underlying political motives (Saeimas Analītiskais Dienests, 2023).

In September 2024, a Russian ‘Shahed’ drone crashed in Latgale, exposing vulnerabilities in Latvia's airspace monitoring. This incident, with the drone believed to have entered from Belarus, underscored the existing security risks in the region bordering Russia and Belarus. Latvia responded by reinforcing air defenses in Latgale with mobile missile groups and drone detection radars. NATO air patrol procedures were also clarified to allow for the destruction of intruding drones. This incident serves as a prime example of how Latvia is reacting to evolving hybrid threats and prioritizing the Latgale region for hybrid threat defense.

One of the most significant threats comes from Belarus. Since August 2021, Latvia has faced a significant increase in migration attempts along its border with Belarus as a form of hybrid warfare orchestrated by the Lukashenko regime. Latvia has accused Belarus of deliberately facilitating the movement of migrants from the Middle East and Africa to pressure the European Union. The Latvian authorities had prevented 5 286 illegal border crossings in 2022 and 4 045 from August to December 2021 (Latvian Public Media, 2023). For this reason Latvia has declared a state of emergency in its border region with Belarus. To counter this threat, Latvia has built a fence and surveillance system along its 173-kilometer border with Belarus, with 145 km completed as of July 2024. Out of the 283 km Latvia-Russia border 222 km has been reinforced with a fence.

The three border crossing points in Latgale - ‘Pāternieki’, ‘Terehova’, ‘Grebņeva’ – remain open solely for mechanic vehicles to halt the migration attempts by bicycles which were observed to increase when the pedestrian crossing was forbidden.

8 Connectivity, mobility and transport

A recent study on the impacts of the war on the EU Eastern border regions commissioned by the Ministry of Smart Administration and Regional Development of the Republic of Latvia found out that the demand for transport services to Russia and Belarus has come to a standstill, affecting railway and maritime transport the most. The rail freight transport in Latvia has declined sharply since March 2022 and the negative trends persist (Earnst&Young, 2024). The total rail freight transport volume in 2024 has decreased by 27.2 % compared to 2023 and by 47.2% compared to 2021 (Ministry of Transport of the Republic of Latvia, 2025). The drop is related to the sanctions and other trade restrictions to Russia and Belarus as well as the Russian policy to direct transit freight flows to their own ports.

Before the Russian aggression war in of Ukraine, Latgale was an important transit hub, benefiting from strong cross-border trade and transport links with Russia and Belarus. However, post-2022 sanctions and geopolitical changes have forced the region to adapt, leading to a decline in freight volumes, reduced mobility, and a reorientation toward EU connections.

Three significant international transport corridors cross the region providing direct links to major urban centres in neighbouring countries – Moscow, St.Petersbourg, Pskov, Vilnius and Warsaw. Key highways facilitated trade and mobility:

- A6 (E22) (Rīga–Daugavpils–Belarus border) – a crucial corridor for freight transport;
- A12 (E262) (Jēkabpils–Rēzekne–Russia border) – a primary route for cross-border movement and
- A13 (Lithuania–Daugavpils–Russia border) – supporting regional trade.

Freight transport was a key economic driver, with significant cargo volumes moving between Russia, Belarus, and the EU. Passenger rail services were well-connected, with regular routes to Rīga and cross-border destinations. Cross-border bus routes to Russia and Belarus were available, allowing for easy travel between cities like Daugavpils, Rēzekne, and Moscow/Minsk. Border crossings were relatively open, facilitating regional trade and workforce mobility.

The EU sanctions on Russia and Belarus resulted in a significant decline in freight transport through Latgale. Border crossings with these countries faced severe restrictions, adversely affecting businesses dependent on cross-border trade. Companies that relied on eastward exports were compelled to seek new markets within the EU. The decrease in truck traffic across the eastern border led to economic losses for logistics and trade firms. Infrastructure projects were redirected to bolster westward connections with the EU, rather than with Russia and Belarus. Freight rail volumes plummeted, necessitating a restructuring of the Latvian railway sector. Additionally, cross-border bus services were either cut or significantly reduced. To ensure Latgale's long-term connectivity and economic resilience, it is crucial to strengthen internal transport links and reduce reliance on eastern transit routes.

Latgale’s inter- and intra-regional transport network is vital for economic activity and regional development. While road and rail infrastructure improvements are underway, challenges related to service availability, connectivity, and geopolitical tensions continue to impact mobility. The Rīga–Daugavpils railway line is one of the busiest inter-city rail routes in Latvia, providing a key transport link between Latgale and the capital. Other rail connections include Rīga–Rēzekne and Rīga–Zilupe, ensuring accessibility to major cities in the region. At the same time train connections are less frequent compared to road transport. Also aging railway infrastructure is an issue.

Intercity buses provide connections between Latgale’s cities and smaller towns, though services in rural areas are less frequent and often unreliable. Bus routes connect Latgale’s major cities (Daugavpils, Rēzekne, Balvi, Krāslava, and Ludza) with Rīga and other Latvian regions. Some remote areas still lack frequent and reliable bus services, leading to mobility issues for rural populations. Many rural communities face limited public transport options, leading to higher car dependency and mobility restrictions for residents without private vehicles.

In 2024, the Latgale Planning Region, in collaboration with the Road Transport Directorate, conducted a comprehensive review of 335 public transport routes, ultimately deciding to close 21 of them. Officials and policymakers justify these closures by citing low passenger demand and financial unprofitability. However, for many residents, particularly those in remote areas, the reduction in public transport options has created significant challenges in daily mobility. Commuters who previously relied on these routes now face difficulties reaching workplaces, educational institutions, and essential services.

Despite the efforts that have been made to improve road, rail, and public transport infrastructure, the region still faces challenges related to accessibility. While main highways are in good condition, many smaller regional and rural roads require modernization due to wear and lack of investment. Poor condition of roads along the eastern border have impact on the connectivity of the peripheral territories of the region. There are still gravel surface roads connecting regional centres, e.g. P49 connecting Krāslava and Ludza.

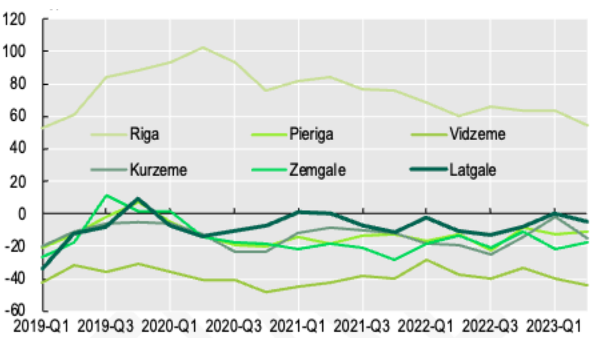
The quality and coverage of the road network play a crucial role in determining accessibility and economic opportunities in Latgale. For farmers, foresters, and those involved in extraction and manufacturing industries, the distance to markets is a major concern, directly impacting transportation costs, logistics efficiency, and overall business competitiveness. Poor road conditions, particularly in rural areas, pose significant challenges for industries reliant on heavy transport, leading to higher fuel consumption, vehicle wear, and delivery delays.

Entrepreneurs operating farther from key transportation hubs and closer to the EU border often emphasize the additional costs associated with distance, which can reduce profitability and hinder investment. Limited infrastructure not only affects businesses but also impacts workforce mobility, as long and inefficient travel times make commuting less viable and discourage economic activity. Upgrading and maintaining Latgale's road network is essential for fostering regional economic growth, improving access to markets, and ensuring that businesses - regardless of their location- can compete on equal footing with those in better-connected regions.

Also, the OECD highlights that 'Latgale faces steep transportation challenges, with limited access to and within the region, significantly hampering attractiveness. Latgale's road density is the second lowest in the country, sitting among the 2% of EU regions with the lowest road density measured by km per km^2. The region is also lacking in terms of overall rail transport performance, offering Latvia's lowest rail accessibility [11], in the bottom 8% of all EU regions' (OECD, 2024b).

Same OECD case study 'Rethinking Regional Attractiveness case study of Latgale' concludes 'digitalisation is a regional strength, as Latgale's internet speeds have caught up with OECD benchmarks, outperforming other non-capital Latvian regions. Optical fibre infrastructure provides the region with better connectivity than many other regions illustrating its strong digital connectivity in line with the OECD' (OECD, 2024b). However, the use of internet and digital skill in Latgale wish to be overall better.

Figure 28 Download speed in Latvian regions, % deviation from the OECD average



Source: OECD calculations based on data form Ookla (2024)

Summary

Latgale plays a pivotal role in national security due to its proximity to Russia and Belarus. This geographic positioning exposes the region to hybrid threats such as disinformation, cross-border provocations, and espionage. The area has a relatively low level of civic engagement, as seen in voter turnout and NGO activity, and lower-than-average trust in national and local institutions. These factors, coupled with economic challenges and

[11] The rail measures captures the % of population within a 120 km radius that can be reached in 90 minutes, as developed by Eurostat.

a high share of minority populations, contribute to a complex social and security landscape. Latgale's residents also consume more Russian-language media, some of it originating directly from Russia or Belarus, which increases vulnerability to foreign influence and propaganda narratives.

Trust in public institutions in Latgale remains below the national average, especially regarding local governments. Economic inequality and historical marginalisation further weaken trust levels, particularly among Russian-speaking communities. Limited access to credible, local-language information in Russian has allowed foreign media, including disinformation sources, to fill the gap. Despite bans on Russian TV channels, alternative access through satellite and digital platforms persists. In response, the Latvian government and NGOs are strengthening media literacy and developing alternative, locally relevant content to counter foreign narratives.

Security threats in Latgale include both physical and informational dimensions. The Latvian State Security Service actively monitors espionage and disinformation activities, noting a rise in cases targeting Latgale. A notable example was the crash of a Russian Shahed drone in the region in September 2024, which triggered increased NATO air defence coordination and national investment in surveillance technologies. Migration weaponisation by Belarus has added further pressure, prompting Latvia to build physical barriers and introduce stricter controls at border crossings. Latgale remains under a state of emergency along the Belarusian border due to these provocations.

Despite the challenges, the Latvian government is taking proactive measures. These include efforts to promote integration, such as replacing Russian with EU foreign languages in schools starting in 2026, and increasing media resilience. Historically, some municipalities in Latgale maintained close ties with Russia, often normalising pro-Kremlin narratives through cultural or educational cooperation. However, with changing geopolitical realities, the region is now at the forefront of Latvia's national defence and information security strategies. The situation underscores the importance of sustained, region-specific policies to bolster societal resilience and national unity at the EU's eastern border.

9 Emerging trends

1. *Depopulation continued to be steep in the past decade*. Latgale has experienced a substantial population decline, with a 38% decrease since 2000 and a 17% drop from 2014 to 2024. This steep demographic contraction, fuelled by persistent outmigration, low birth rates, and natural population decline, far exceeds the national average. Net migration has remained negative for decades, briefly turning positive in 2022 due to the influx of Ukrainian refugees. While post-COVID-19 remigration trends are emerging, they are insufficient to offset the overall population loss. Depopulation is especially pronounced in rural areas near the borders with Russia and Belarus, which have become sparsely populated areas (SPAs). With an average density of 17 people per km^2 far below the national average of ~30.

2. *The demographic challenges have significant socio-economic and spatial implications.* Latgale's demographic profile - marked by low population density, a median age of 48, and an old-age dependency rate of 40.9 in 2024 - poses serious socio-economic challenges. An aging population raises the cost of public services and discourages private investment. The outmigration of younger residents weakens the labour market and tax base, increasing spatial isolation. Maintaining infrastructure in sparsely populated areas becomes economically unsustainable. Uneven population distribution limits business development and economic collaboration, reinforcing regional inequalities. Moreover, Latgale's strategic border location with Russia and Belarus adds a layer of geopolitical sensitivity, making demographic decline not only a development concern but also a matter of national strategic interest.

3. *Latgale offers a full range of educational opportunities from pre-school to higher education*. Latgale's depopulation challenges the viability of its educational institutions, leading to a 10% drop in general schools from 2021 to 2023, particularly affecting secondary education in rural areas. This contraction increases travel times and reduces accessibility, potentially driving further outmigration as families seek better educational opportunities elsewhere. Despite the presence of two strong universities - Daugavpils University and RTU Rēzekne - Latgale struggles to leverage its higher education potential to mitigate brain drain. Only 23% of residents over 15 hold higher education degrees, compared to 31% nationally. To address this, the region should focus on upskilling local talent and aligning educational offerings with business needs, thereby fostering economic growth and innovation.

4. *The high unemployment rate in Latgale does not necessarily reflect an adequate labour force.* The region suffers from Latvia's highest unemployment rate, reaching 11% in early 2025, more than double the national average. This persistent unemployment is driven by structural issues such as a mismatch between worker skills and market demand, long-term unemployment, and an aging workforce. Between 2011 and 2023, the economically active population fell by 17%, while employment declined only 3.6%, indicating a slower labour market contraction. The region's reliance on low-value industries and limited job opportunities, particularly for younger and pre-retirement age groups, contributes to social challenges like poverty and reduced economic activity. While some employers are willing to train new workers, others report difficulty finding motivated or qualified candidates. Young people leaving for better opportunities elsewhere exacerbate the aging demographic, leading to skilled labour shortages and hindering economic growth. This cycle of unemployment and outmigration further stagnates the region's development.

5. *The convergence process in Latgale is exceedingly slow or next to non-existent. Structurally lagging economic output and productivity.* Latgale stands as the least developed region in Latvia and one of the most economically underdeveloped in the EU, with a GDP per capita of EUR 9 700 in 2022, representing just 50% of the national average and 27% of the EU average. This stark economic disparity underscores the region's structural challenges, limited investment, and lack of high-value industries and economic diversification, all of which are crucial for fostering growth and improving living standards. The region's economic growth has been sluggish, averaging only 1% annually over the past decade, significantly below the national average. This stagnation reflects an inability to adapt traditional industries to modern market demands, highlighting the urgent need for substantial structural reform and innovation. Without addressing these issues, Latgale's economic output is unlikely to improve, further deepening the regional divide. The lagging productivity and economic output not only hinder welfare growth but also prevent the region from realizing its full economic potential, perpetuating lower income levels and contributing to a cycle of economic stagnation.

6. *No significant economic decline has yet been observed in Latgale's GDP figures that could be clearly attributed to the negative effects of Russia's war of aggression against Ukraine.* However, this likely reflects the typical lag in how economic impacts materialise in official statistics. At the same time, early signs of contraction are already visible in specific sectors such as tourism and logistics, indicating that more noticeable declines may emerge in the coming years.

7. *Despite some recent relative growth Latgale has lowest incomes in Latvia.* Latgale continues to have the lowest disposable income in Latvia EUR 908.54 per month in 2023, over EUR 340 below the national average. Although the region showed the highest relative income growth between 2019 and 2023, much of this progress stems from targeted government interventions rather than structural economic improvements. High poverty rates (11.2%) and a shrinking base of income taxpayers reduce municipal budgets, limiting public investment capacity. The region remains reliant on low-wage employment and lacks private sector dynamism, undermining long-term income convergence and economic resilience.

8. *Latgale is lagging because the share of non-working people is larger and there is less 'spatially fixed capital'*. Latgale's economic lag stems from a high share of non-working residents, limited fixed capital, and weak private sector investment. Between 2014 and 2023, the region attracted only 1.3% of Latvia's total foreign direct investment, reflecting investor hesitance linked to geographical remoteness, underdeveloped infrastructure, and a shrinking labour force. Despite receiving the highest EU funding per capita, this has not translated into sustained private investment or job creation. Existing tools, such as Special Economic Zones, have had limited impact. Employment is shifting slowly from declining traditional sectors like manufacturing and retail toward agriculture and ICT, but the region remains reliant on low-wage, low-skill jobs. Addressing the investment gap requires bold, targeted strategies to enhance Latgale's competitiveness, improve infrastructure, and actively promote its potential to domestic and international investors.

9. *Several manufacturing industries show notable increase in productivity*. A major share in the total net turnover of the enterprises of Latgale is made by manufacturing – 41%, followed by wholesale and Retail Trade – 26%, transportation– 10% and construction – 7%. While still not being sufficient the gross capital investment in tangible fixed assets in region of Latgale has more than doubled in the past decade. This has allowed Latgale to surpass the region of Vidzeme both in terms of total capital investments and per capita. Hence, Latgale no longer has the lowest gross capital investment in tangible fixed assets in Latvia. The increased capital investment has reflected into augmented productivity in certain sectors, such as, manufacture of woods, furniture, electric equipment, machinery and ICT. Supported with place-based and targeted policy interventions these industries have potential for structural improvements to the region's economy.

10. *A vast territory of Latgale is restricted for the wind energy production due to the security and defence concerns*. Latgale holds significant potential for renewable energy development, particularly in solar, wind, and biomass. However, progress remains limited due to regulatory and infrastructure constraints, as well as geopolitical challenges stemming from its location at the EU's external border with Russia and Belarus. Defence-related restrictions and political tensions reduce investor confidence and hinder large-scale project funding. Overcoming these barriers is essential to unlock Latgale's renewable energy potential, enhance energy security, reduce fossil fuel dependence, and support long-term sustainable development.

11. *The regional potential for tourism remains largely untapped.* Latgale's rich cultural heritage, historic sites, scenic landscapes, lakes, and forests offer strong potential for tourism-driven economic growth. However, the sector remains underdeveloped due to fragmented offerings, weak infrastructure, limited marketing, and seasonal demand. Geopolitical tensions have also reduced foreign visitor numbers.

12. *Socio-economic inequalities have political consequences*. Latgale faces significant disparities in income, wealth, education, and healthcare compared to the rest of Latvia, contributing to feelings of neglect among residents and fuelling protest votes. The region also has lower levels of social cohesion and civic engagement, influenced by economic hardship and a high proportion of Russian-speaking and minority communities who report lower trust in public institutions. This distrust undermines effective policymaking and social resilience. Additionally, the region's media landscape is heavily shaped by Russian-language outlets, affecting public opinion and trust in national institutions.

13. *Latgale encounters transportation difficulties due to its remoteness from the capital region, but robust digital infrastructure helps maintain its connectivity.* Latgale faces significant infrastructure challenges, including limited road and rail connectivity and declining rail freight volumes, which hinder mobility, investment, and economic development—especially in remote rural areas. Its distance from the capital region and ongoing depopulation have led to reduced public transport options, leaving many communities feeling isolated and underserved. These transportation issues directly affect regional competitiveness and business growth. However, Latgale benefits from robust digital infrastructure, which partially compensates for physical connectivity limitations and supports communication and service delivery. To conclude the region's economic underperformance can be attributed to several interrelated factors, including limited industrial diversification, lower investment levels, a weaker labour market, and demographic decline due to outward migration.

Geopolitical challenges, combined with lower levels of business activity and innovation, contribute to Latgale's persistent income gap. To reduce economic disparities and ensure sustained progress, strategic policy interventions are necessary, focusing on industrial diversification, workforce skill development, investment in higher-value-added sectors, and improved connectivity to national and European markets. Without such targeted initiatives, Latgale risks continuing its trajectory as Latvia’s most economically disadvantaged region, further exacerbating regional inequalities and contributing to long-term socio-economic fragmentation.

Latgale location at the border with Russia and Belarus makes the region susceptible to border security concerns. The region faces heightened security risks, including hybrid threats and espionage. The war in Ukraine has further impacted the region, disrupting trade, altering tourism patterns, and prompting increased defence measures. These developments highlight Latgale’s strategic importance and the need for sustained vigilance and investment in security infrastructure. The conflict has forced a shift in economic orientation toward the EU, requiring adaptive strategies. To ensure regional stability and development, coordinated planning, enhanced security capabilities, and international cooperation are essential. Strengthening resilience in both economic and security domains will help protect national interests, support public safety, and foster long-term growth in a region positioned at the frontline of Europe’s geopolitical landscape.

10 Recommendations

The below recommendations are addressing the policy needs identified during the stakeholder consultation process. The recommendations also consider the policy areas which have already been covered by the 'Action Plan for Economic Growth and Security Strengthening of Latvia's Eastern Borderland 2025-2027' adopted in January 2025 (Ministry of Smart Administration and Regional Development, 2025). As such they try to avoid overlapping with the measures described in the Action Plan, but instead the aim is (1) to complement some of them with a more nuanced approach as well as (2) provide additional perspective through the lens of the cross-border cooperation that has been partly suspended in the EU external border regions.

It is evident that the revitalization of the Latgale region necessitates a comprehensive and multifaceted approach. The foundational step in this process should be the establishment of a clear definition of Latgale's position and role within the national political landscape. In 2024, a discourse among social scientists focusing on Latgale underscored the critical importance of defining the region's status in shaping its future trajectory. This definition must address whether Latgale is primarily perceived as a strategic buffer zone between Russia and Europe or as a sustainable, inhabited region with long-term development potential (Satori, 2024).

If Latgale is seen merely as a territory, its depopulation and low population density may be passively accepted, leading to a transformed landscape where forests and large-scale agricultural estates replace villages, with only small towns and seasonal residences remaining. Given the current geopolitical climate, such a scenario could result in the militarization of Latgale, turning it into a training ground for defence exercises. In this dystopian vision, abandoned settlements would serve as ideal locations for urban warfare simulations, reinforcing a reality where the region is maintained for strategic purposes rather than for the well-being of its inhabitants.

In contrast, if Latgale is to be preserved as a thriving, populated region, immediate action is required to invest in physical and economic capital. This would mean prioritizing large-scale infrastructure projects such as high-speed rail and modern highways, developing permanent military and governmental institutions, and establishing high-prestige universities or innovation hubs that attract residents and sustain demographic and economic vitality. Without such investments, Latgale risks further marginalization, becoming an increasingly peripheral and depopulated space rather than an integrated and sustainable part of Latvia and the European Union.

Hence, the main point of exit and an overarching recommendation would be to reach an agreement on the future status of the region. Without such an agreement any future policy recommendations and tools risk to be too deluded without bringing actual gains. Notwithstanding, below are recommendations with the view of the ambiguous situation addressing the policy needs as expressed by the regional stakeholders.

Policy Recommendation 1: Unlocking the Full Potential of Higher and VET Education to Retain and Attract Talent in Latgale

Latgale's educational landscape holds untapped potential to serve as drivers of human capital retention, regional innovation, and long-term development. Strengthening and strategically positioning the region's academic offer especially in alignment with business needs and digital opportunities can help reverse demographic decline and enhance regional competitiveness.

1.1. The integration of Rēzekne Technology Academy into Riga Technical University should be leveraged as a catalyst for elevating the academic and research profile of higher education institutions in the region. This institutional consolidation must be accompanied by targeted investment and a clear regional development mandate.
1.2. Latgale's universities should expand efforts to attract international students and skilled individuals from other Latvian regions by enhancing programme quality, visibility, and niche academic offerings tied to regional strengths.
1.3. The academic curriculum should be closely aligned with the needs of local industries. Strengthening partnerships between educational institutions and businesses will improve labour market outcomes, increase graduate retention, and contribute to a skilled, future-ready workforce.
1.4. Enhance technical VET colleges as regional competence centres by aligning curricula with industry needs, enabling early career readiness, and fostering innovation-driven growth across Latgale's strategic economic sectors.

1.5. The region should fully harness the opportunities of the ICT sector and digitalisation to offer accessible, high-quality education that enables young people to study, innovate, and build careers within Latgale.

Policy Recommendation 2: Strengthening Business Retention, Expansion, and Regional Economic Vitality

Latgale's long-term economic development depends on a resilient and diversified business ecosystem. A strategic focus on business retention, SME support, entrepreneurship, and targeted sectoral investment will be key to reversing demographic trends, stimulating job creation, and strengthening the region's competitiveness.

2.1. Embed entrepreneurship education across the general and vocational school curricula to nurture a business-oriented mindset and empower the next generation of local entrepreneurs.
2.2. Provide fiscal incentives and tailored support for SMEs, start-ups, and innovation-driven industries. Consider tax exemptions for young entrepreneurs during the initial years of business activity and improve access to finance, including through legal amendments enabling credit unions to serve legal entities.
2.3. Prioritise targeted, place-based support for high-potential sectors - such as wood processing, furniture, electrical equipment, machinery, ICT, and green industries - where capital investments have already demonstrated productivity gains.
2.4. Enhance energy resilience and communication infrastructure, including backup systems and signal coverage, and ensure essential reserves - water, food, medicine, fuel - for crises, external threats, and natural disasters.
2.5. Facilitate remigration by supporting returning residents in establishing and expanding businesses, including through advisory services and start-up support.
2.6. Leverage culture and tourism as strategic economic assets. Promote unified tourism coordination, regional branding, and investment in tourism infrastructure to stimulate local businesses, preserve heritage, and enhance the region’s attractiveness.
2.7. Accelerate targeted investments in transport and digital infrastructure to unlock economic potential and improve regional accessibility.

Policy Recommendation 3: Boosting FDI and Private Investment through Strategic Near-Shoring and Infrastructure Readiness

To enhance Latgale’s role in the EU’s economic resilience and competitiveness, foreign direct investment and private capital attraction must align with broader EU objectives such as near-shoring, industrial security, and regional rebalancing. Latgale’s border location and industrial potential position it well to attract manufacturing and service activities serving the EU market.

3.1. Develop regional industrial specialisation strategy and tactics within the national industrial policy framework. Consider inter alia potential for development in the areas of critical technologies under ‘Strategic Technologies for Europe Platform’ (STEP) objectives and defence capabilities as anticipated by the recent European Commission communication on cohesion policy reform, which emphasises security and investment flexibility for EU Eastern Border regions. (European Commission, 2025).
3.2. Reassess the current business support approach by aligning the expansion and distribution of industrial parks with targeted, flexible and place-based ERDF and ESF measures under Latvia’s 2021–2027 Operational Programme. Leverage the momentum provided by the above-mentioned communication and target support measures at exporting companies with growth potential.
3.3. Keep the regional industrial specialisation strategy updated so that it can be timely fed into the programming process of the Cohesion policy beyond 2027. Conduct a systematic review of investments in municipal industrial parks assessing their performance, utilisation, and added value. Use these insights to formulate a coordinated, evidence-based strategy for future business support infrastructure, avoiding fragmentation and ensuring long-term viability.
3.4. Modernise the Special Economic Zones (SEZ) in Latgale into comprehensive, investor-responsive platforms that extend beyond tax incentives. To ensure meaningful impact on regional investment, entrepreneurship, and employment, the SEZ model should be redesigned to include timely and targeted tools such as seed funding, loan guarantees, infrastructure co-investment, and workforce

training and housing support. A flexible, tailored approach is essential to effectively meet the diverse needs of potential investors.

3.5. Expand investment outreach and business cooperation along the North–South axis, including emerging markets such as Ukraine, Moldova, and Georgia. Position Latgale as a gateway for EU-compatible production and logistics serving both internal and neighbourhood markets.

Policy Recommendation 4: Fostering Social Cohesion, Civic Trust, and Democratic Resilience

Strengthening social cohesion and public trust is essential for building a secure, inclusive, and resilient Latgale particularly in the context of its strategic location and diverse demographic composition. A comprehensive approach that promotes EU values, democratic participation, and local empowerment will enhance long-term regional stability and civic engagement.

4.1. Promote trust in institutions through transparent governance, inclusive decision-making processes, and the integration of media literacy initiatives at community and educational levels.

4.2. Empower local communities by enhancing the role of civil society through structured consultation mechanisms and participatory governance.

4.3. Support local development initiatives with tailored policy instruments. Improve access to finance for grassroots actors, especially NGOs, and consider introducing participatory budgeting practices to increase civic ownership of public resources.

4.4. Strengthen civil protection by developing community-based resilience strategies in coordination with civil society organisations, ensuring preparedness for hybrid threats and emergencies.

4.5. Counter disinformation and foreign propaganda by reinforcing independent regional media, supporting media diversity, and safeguarding information integrity to foster informed public dialogue and democratic resilience.

Policy Recommendation 5: Reframing Borderland Development through North–South and Interregional Cooperation

The evolving geopolitical landscape presents a strategic opportunity to redefine development trajectories along the EU's external eastern border. For Latgale, this means looking beyond traditional East–West dynamics and building stronger economic and institutional linkages across the North–South axis and with neighbouring EU regions.

5.1. Unlock the potential for deeper inter-regional cooperation between Latvia and Lithuania to strengthen shared economic corridors and mitigate long-term impacts of disrupted ties with eastern markets.

5.2. Reinforce connections with Vidzeme and Estonia, particularly through enhanced infrastructure and economic integration with urban centres in northern Latvia and southern Estonia, facilitating mobility, labour flows, and regional value chains.

5.3. Broaden cross-border networks and strategic partnerships with other EU external border regions from Norway to Ukraine to foster shared development initiatives, resilience-building, and collaborative positioning within EU policy frameworks.

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