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The Latvian Chamber
of Commerce and
Industry



Ministry of Finance
Republic of Latvia



SSE RIGA

Shadow Economy Index for the Baltic Countries

2009–2019

Shadow economy index (% of GDP)

	2018	2017	2016	2015
Russia	44,7	45,8	-	-
Ukraine	38,2	38,5	-	-
Kyrgyzstan	44,5	46,1	-	-
Latvia	24,2	22,0	20,7	21,3
Lithuania	18,7	18,2	16,5	15,0
Estonia	16,7	18,2	15,4	14,9
Moldova	27,5	29,4	29,7	29,8
Kosovo	39,5	-	-	-
Romania	-	-	33,3	35,6
Poland	-	-	25,0	24,4

Sources: Ukraine: Lysa et al (2019); Kyrgyzstan: SIAR (2019); Moldova and Romania: Putnins, Sauka and Davidescu (2020); Poland: Lechmann and Nikulin (2017); Kosovo: Mustafa et al (2019).

For Russia, Ukraine, Kyrgyzstan data collection supported by a Marie Curie Research and Innovation Staff Exchange scheme within the H2020 Programme (grant acronym: SHADOW, no: 778118).

Since 2009:

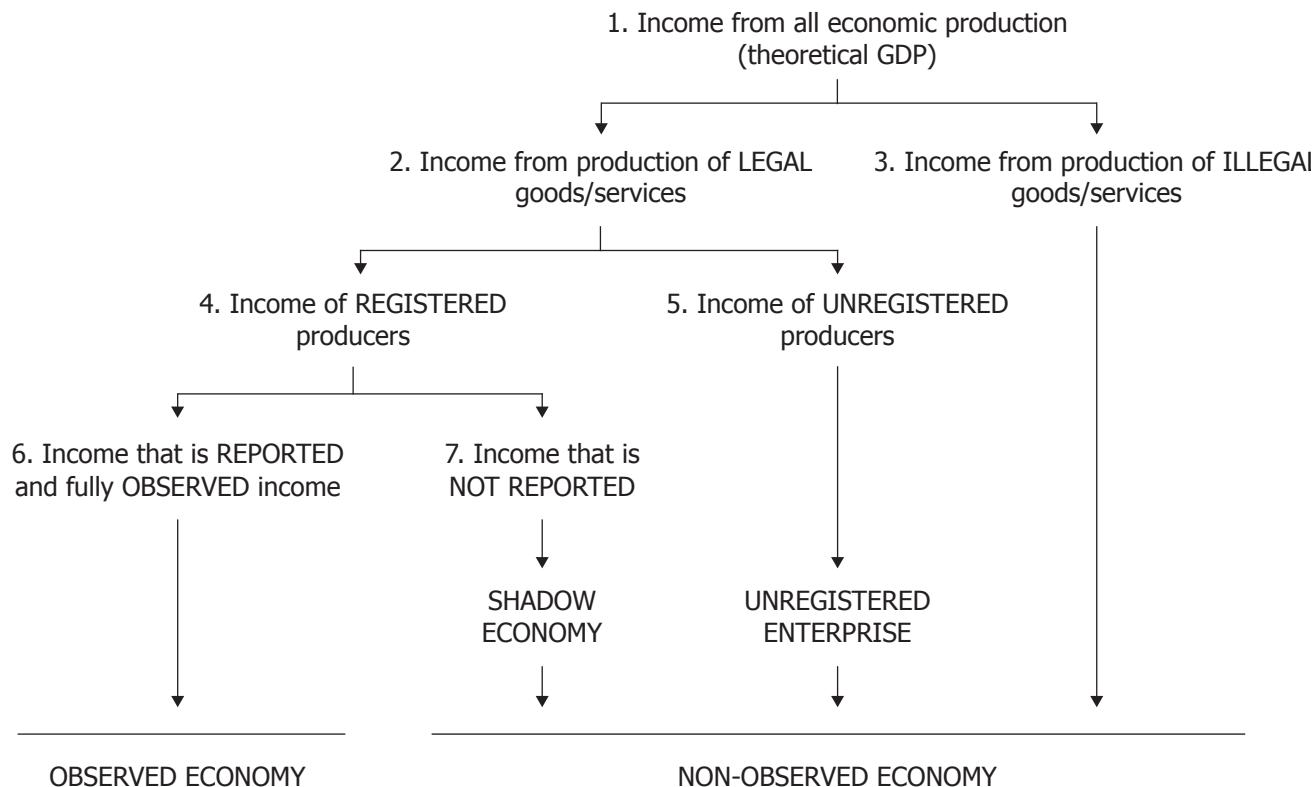
- What is the size of the shadow economy in Latvia, Lithuania, and Estonia?
- What are the main determinants of the shadow economy?
- What can be done to reduce the shadow economy?

Authors of the study

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Observed and non-observed components of GDP



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Measuring the shadow economy using company managers

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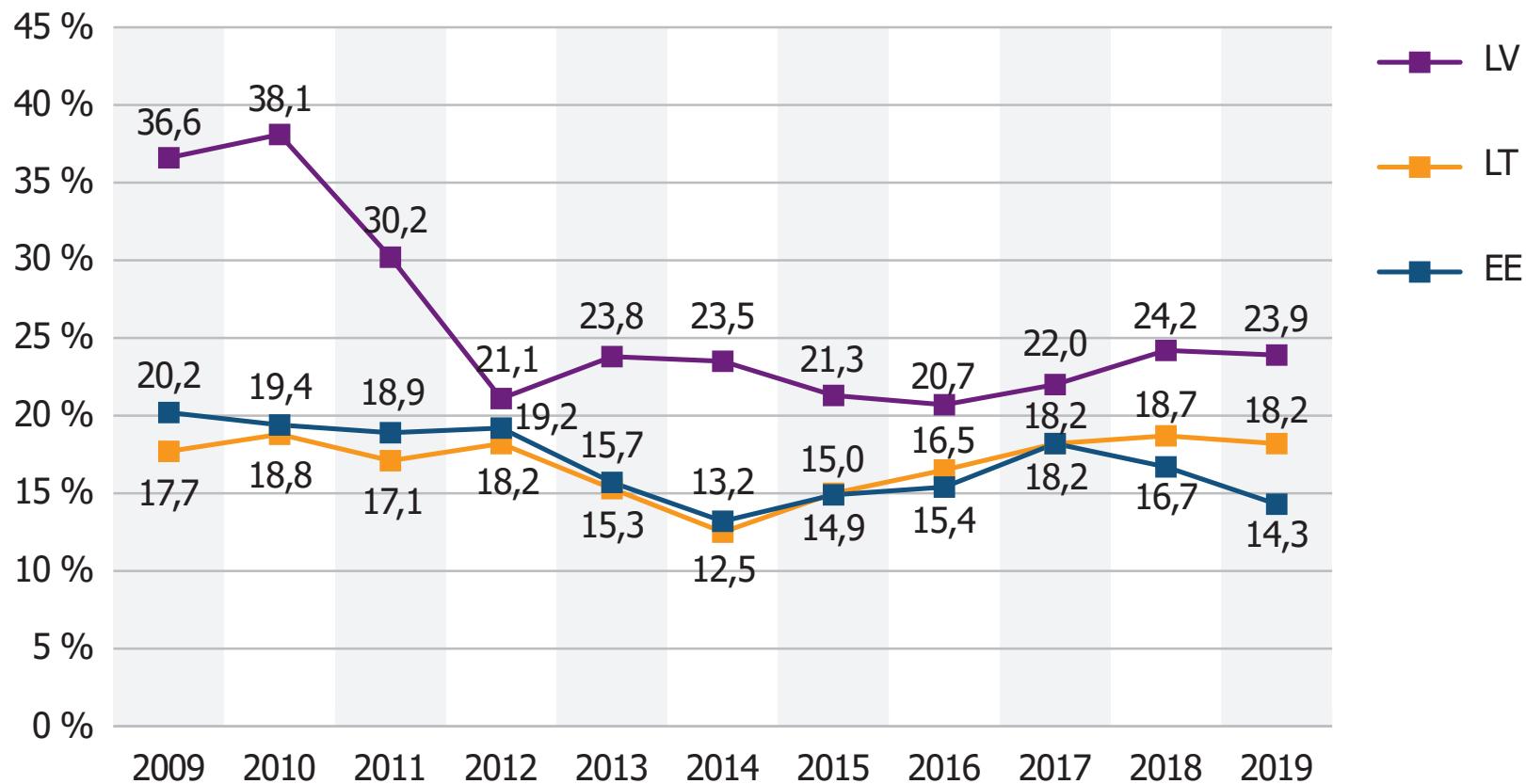
Size of the shadow economy in Latvia, Lithuania, and Estonia 2009–2019

Results

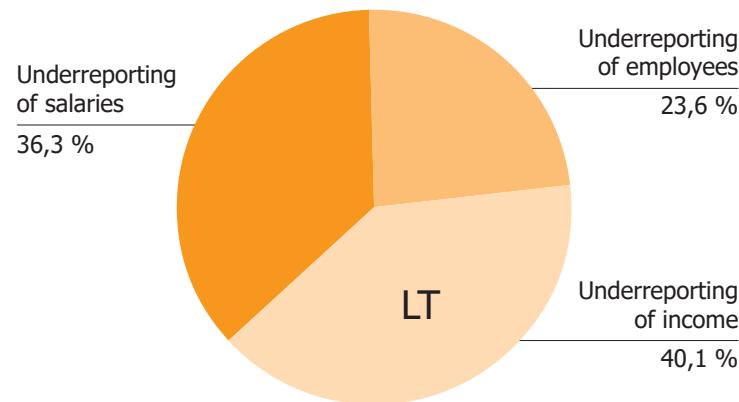
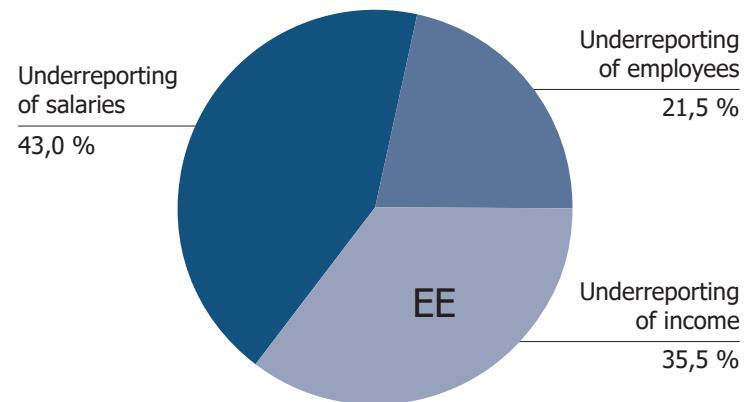
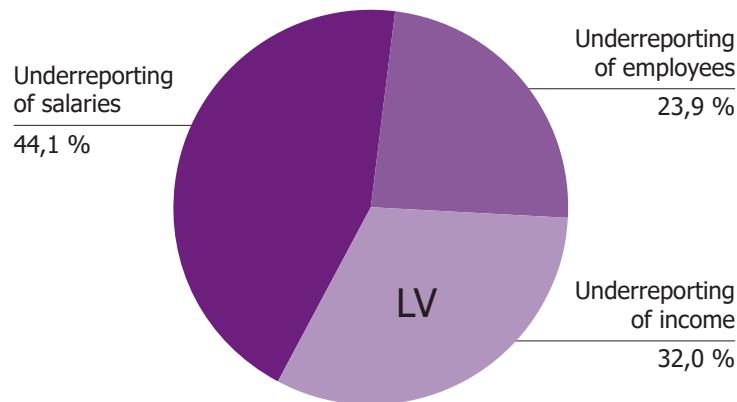
Shadow Economy Index for the Baltic countries (% of GDP), 2009–2019

	Latvia	Lithuania	Estonia
2019–2018	-0,3	-0,5	-2,4
2019	23,9	18,2	14,3
2018	24,2	18,7	16,7
2017	22,0	18,2	18,2
2016	20,7	16,5	15,4
2015	21,3	15,0	14,9
2014	23,5	12,5	13,2
2013	23,8	15,3	15,7
2012	21,1	18,2	19,2
2011	30,2	17,1	18,9
2010	38,1	18,8	19,4
2009	36,6	17,7	20,2

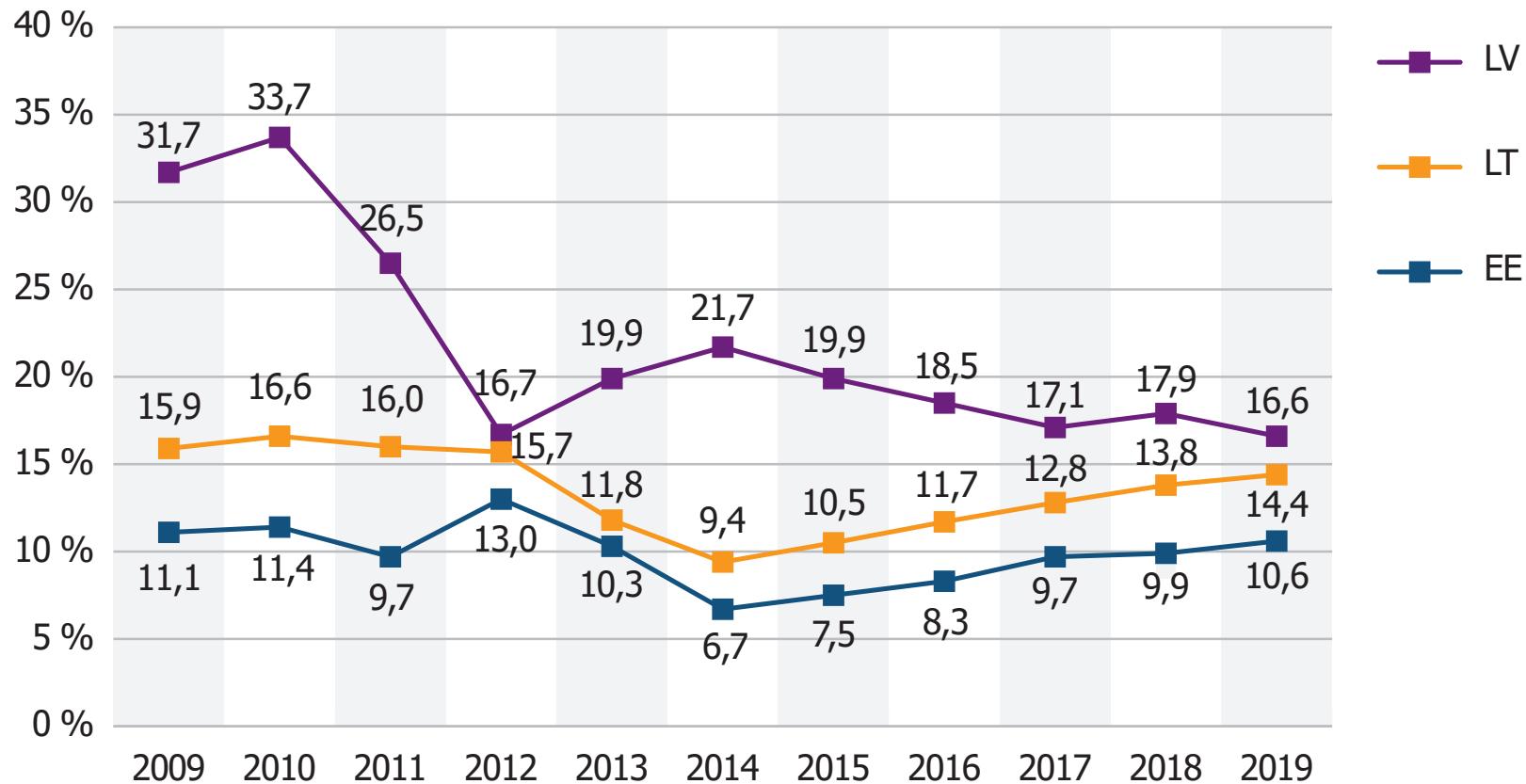
Dynamics of the shadow economy in the Baltic countries, 2009–2019



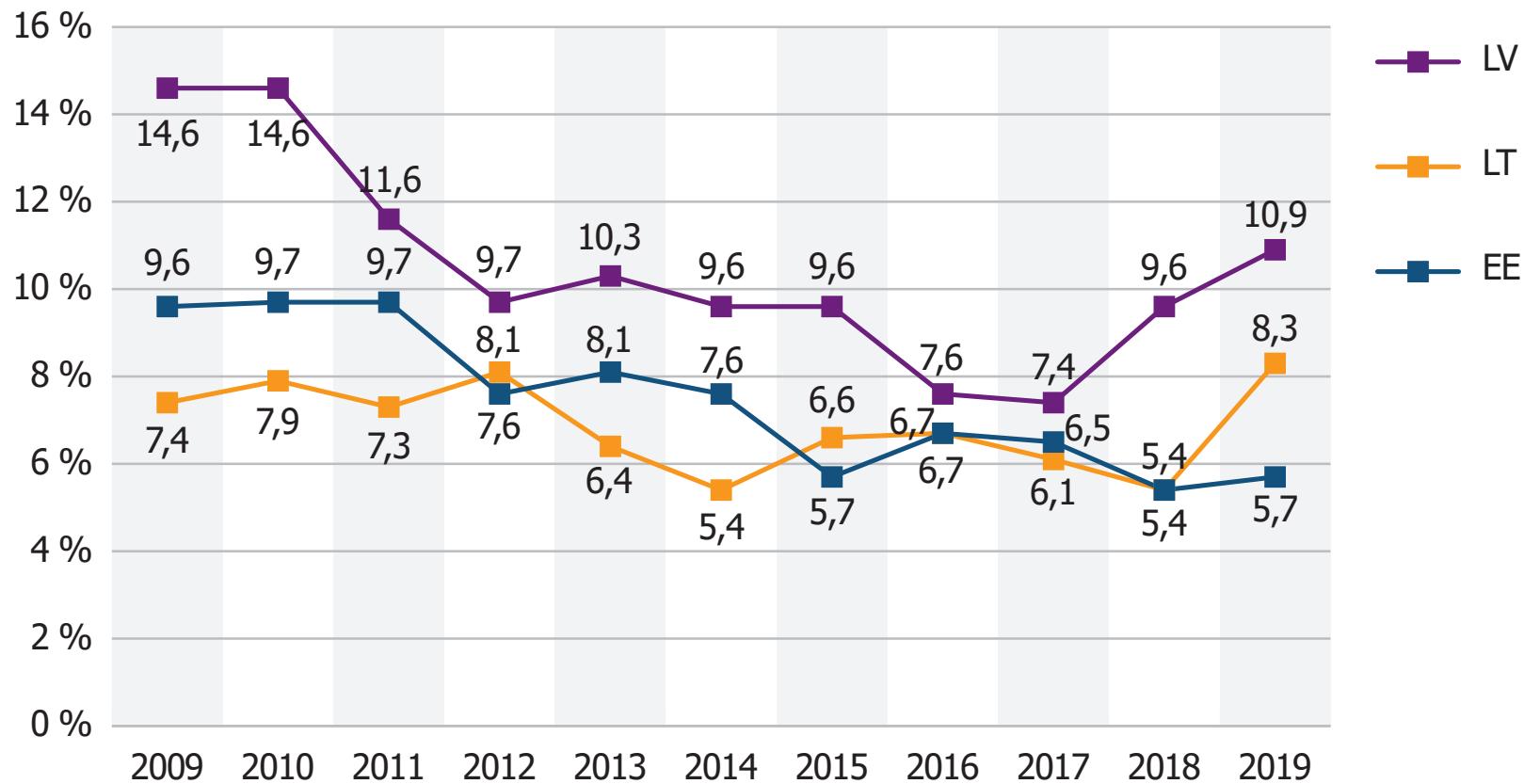
Components of the shadow economy in 2019



Underreporting of business income 2009–2019 (average share of revenue in % that companies conceal from the government)

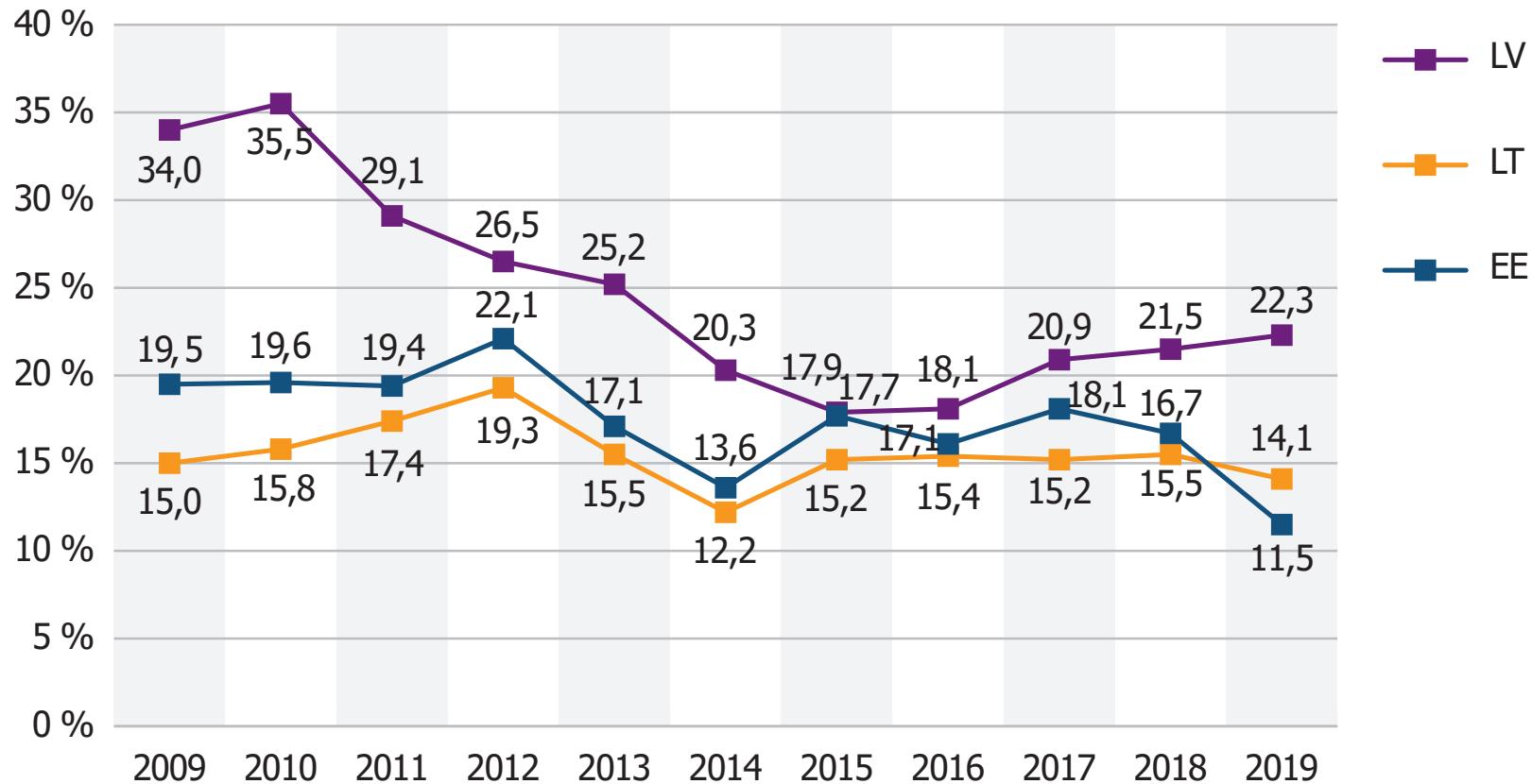


Underreporting of the number of employees, 2009–2019 (average share of the employees in % working without a contract)



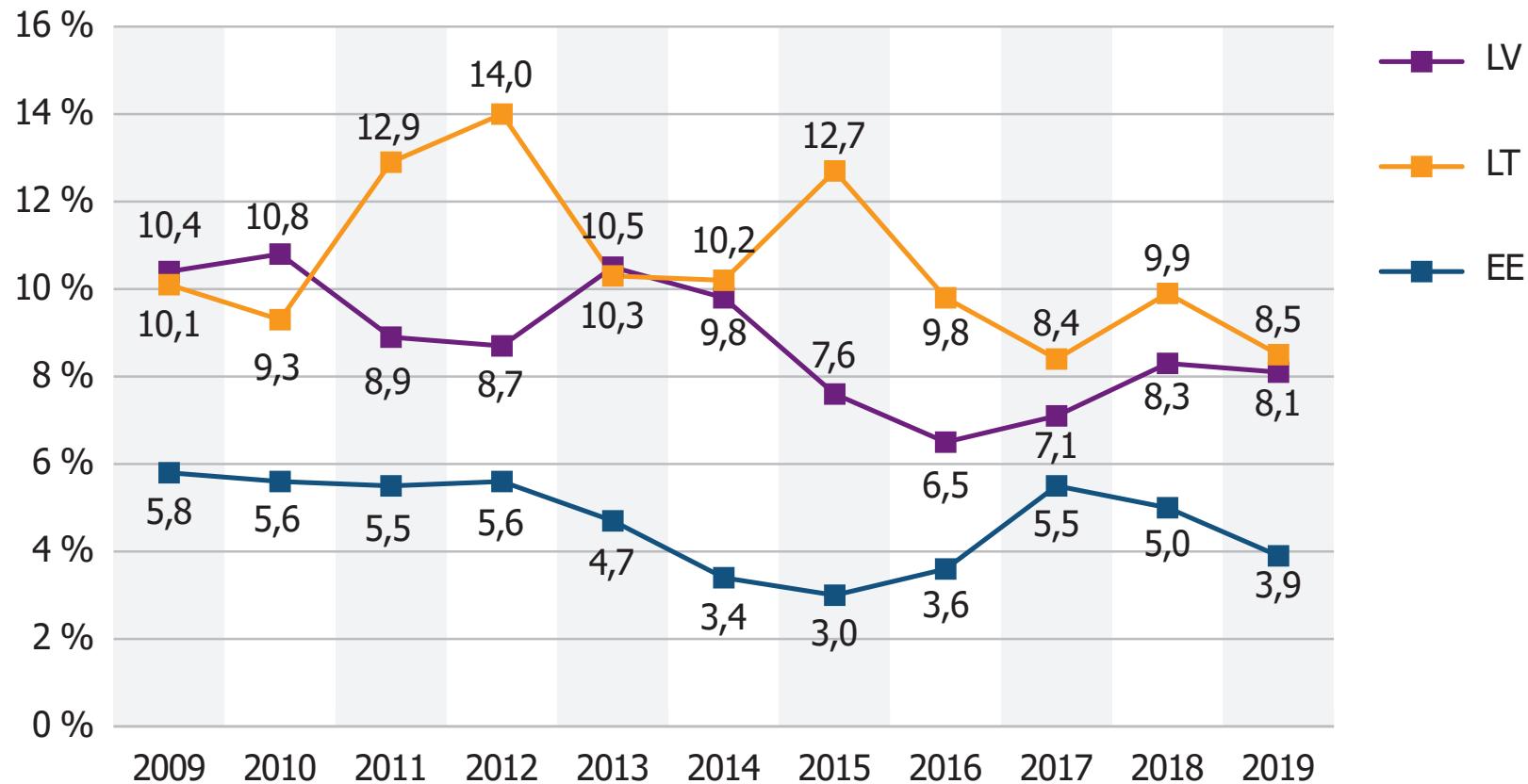
Envelope wages, 2009–2019

(average share of salaries in % which is paid by the employers, but concealed from the government)

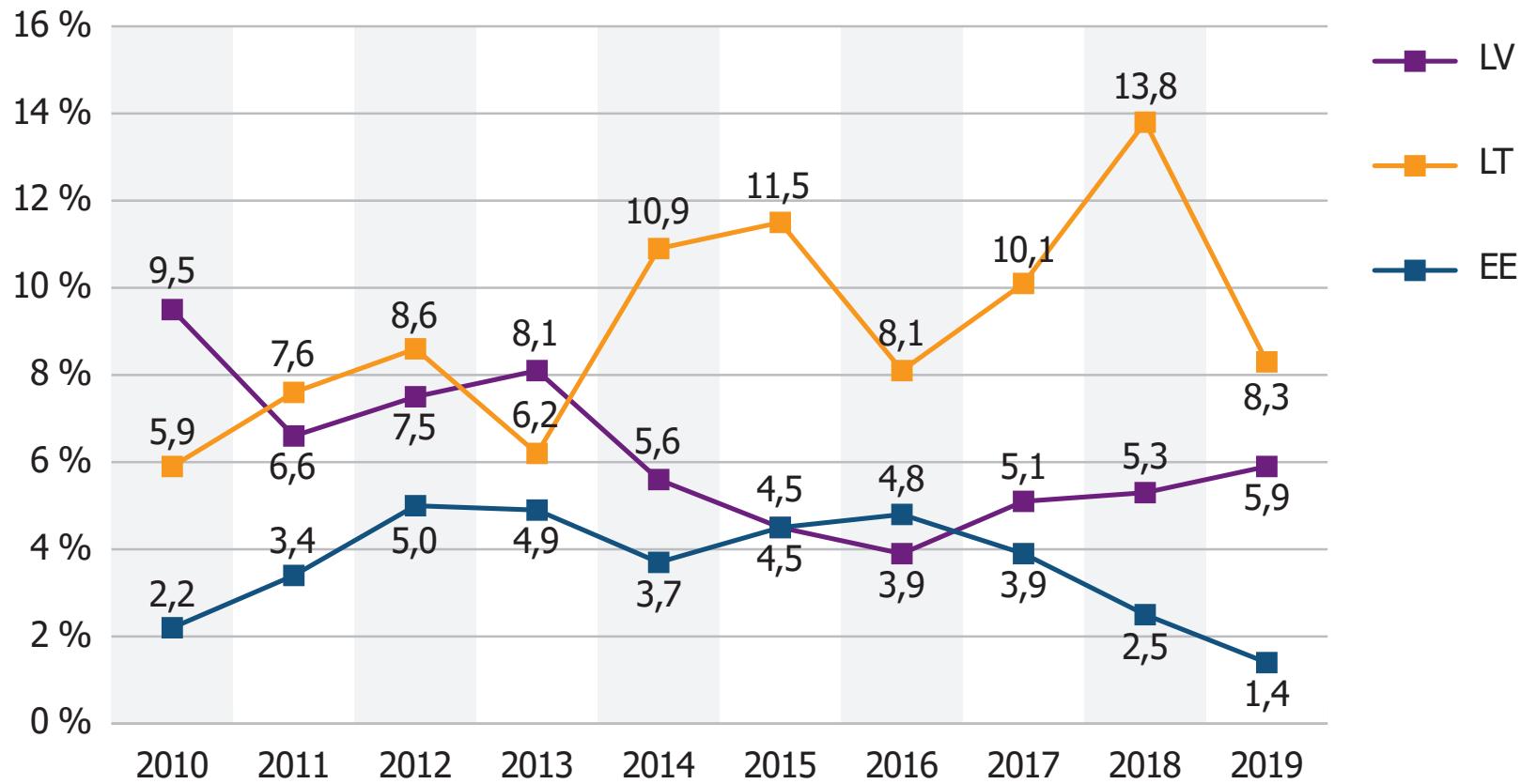


% of payments 'to get things done', 2009–2019

(average percentage of revenue paid as 'bribes')



% of the contract value paid to secure contracts with the government, 2010–2019

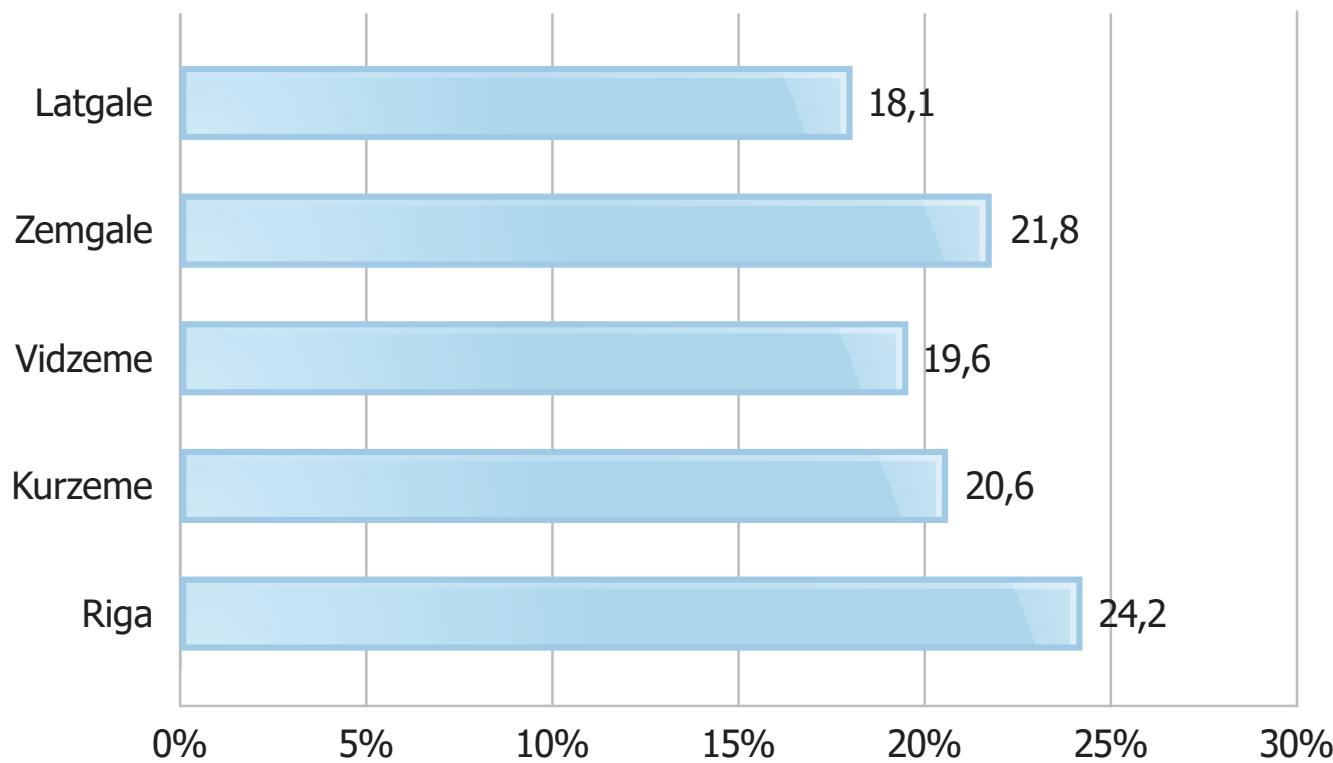


Proportion of unregistered enterprises in the Baltic countries (% of GDP), 2013–2019

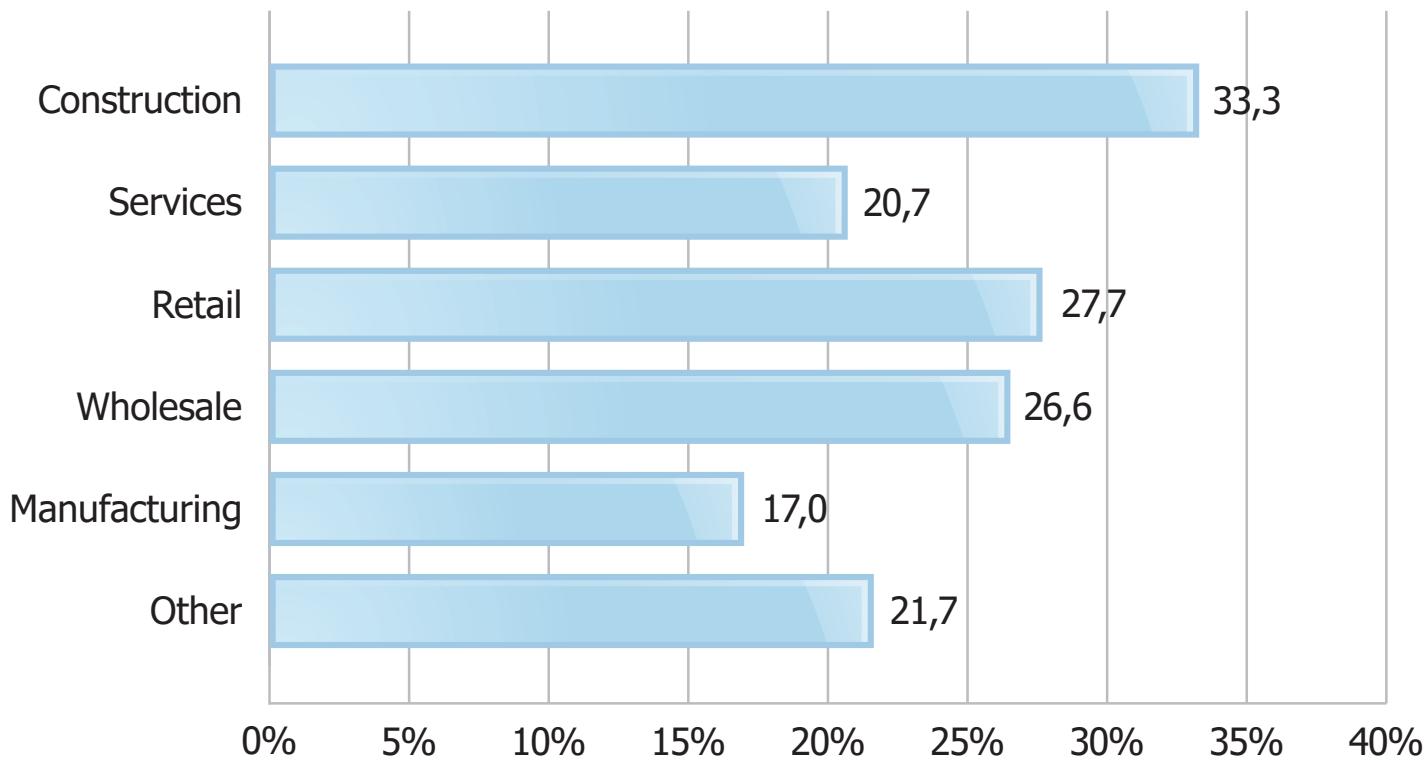
	Latvia	Lithuania	Estonia
2019	8,0	9,2	4,0
2018	8,6	10,0	6,4
2017	6,5	8,6	7,0
2016	5,3	8,4	6,1
2015	5,2	7,3	5,8
2014	5,6	5,2	6,3
2013	5,4	6,2	7,6

Size of the shadow economy in the regions, sectors, companies of different sizes

Size of the shadow economy (% of GDP) by region in Latvia (average, 2015–2019)



Size of the shadow economy (% of GDP) by sector in Latvia (average, 2015–2019)



Smaller firms (e.g., those with fewer employees) engage in more shadow activity than larger firms.

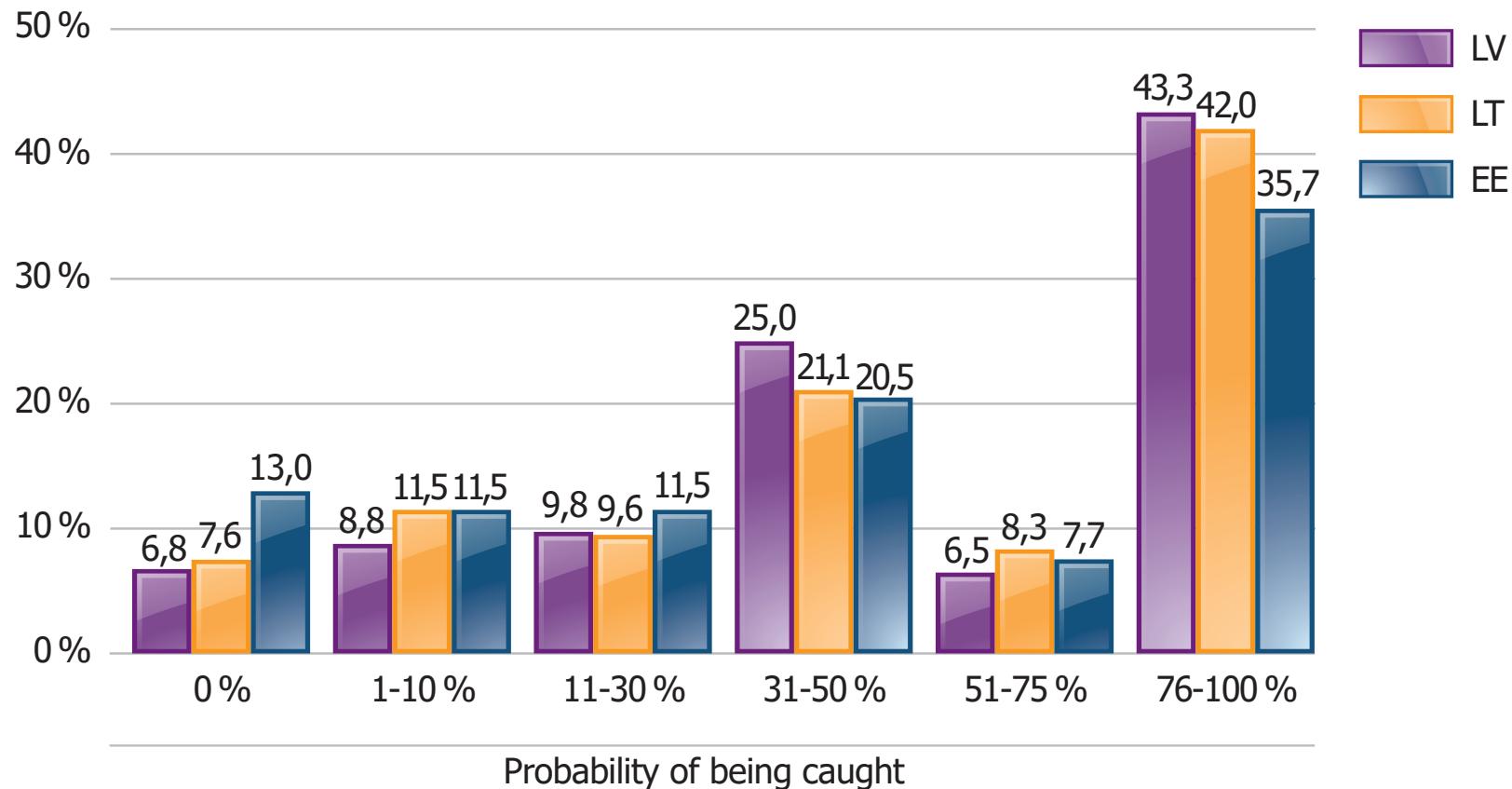
Younger firms engage in more shadow activity than older firms.

Main determinants of the shadow economy

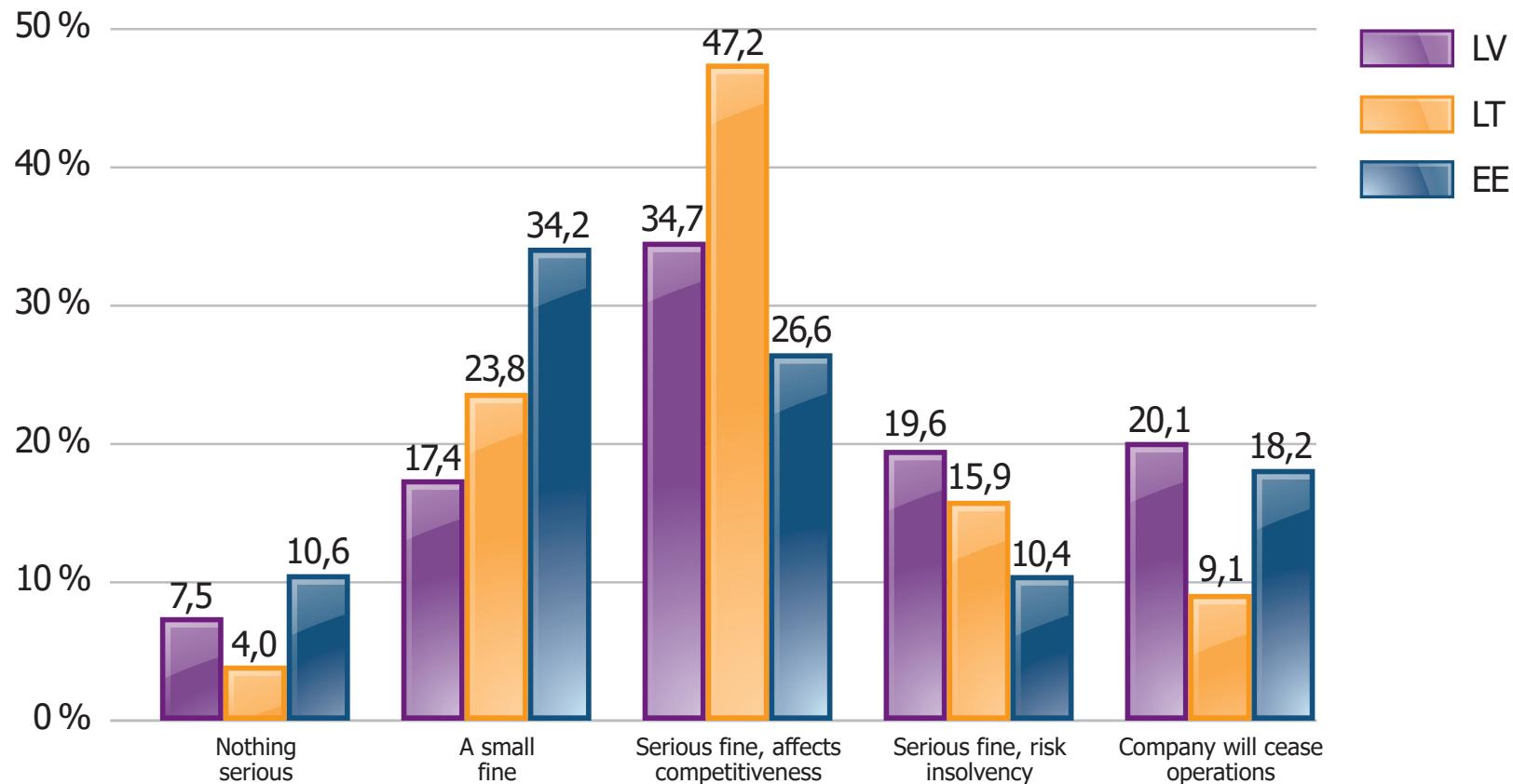
Statistically significant determining factors (using regression analysis)

- Greater probability of being caught not paying taxes and more serious consequences → fewer entrepreneurs getting involved in shadow economy activities

Probability of being caught for underreporting business profits, 2019



Consequences if caught for deliberate misreporting, 2019

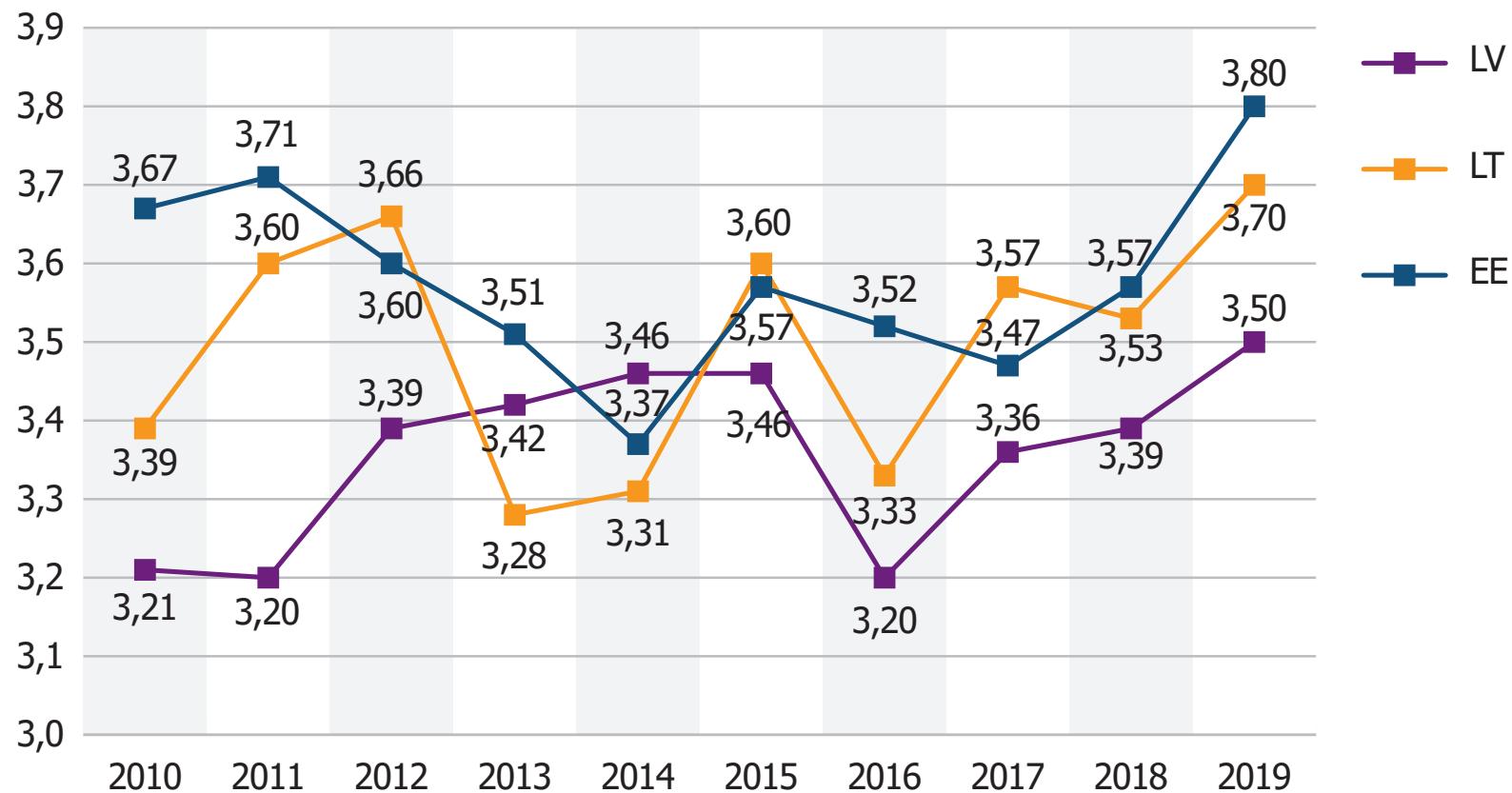


Statistically significant determining factors (using regression analysis)

- Dissatisfaction → more shadow activity
- Involvement in shadow economy is greatly determined by dissatisfaction with:
 - ▶ Business legislation (greatest effect)
 - ▶ Performance of SRS
 - ▶ Tax policy
 - ▶ Government support (least effect)

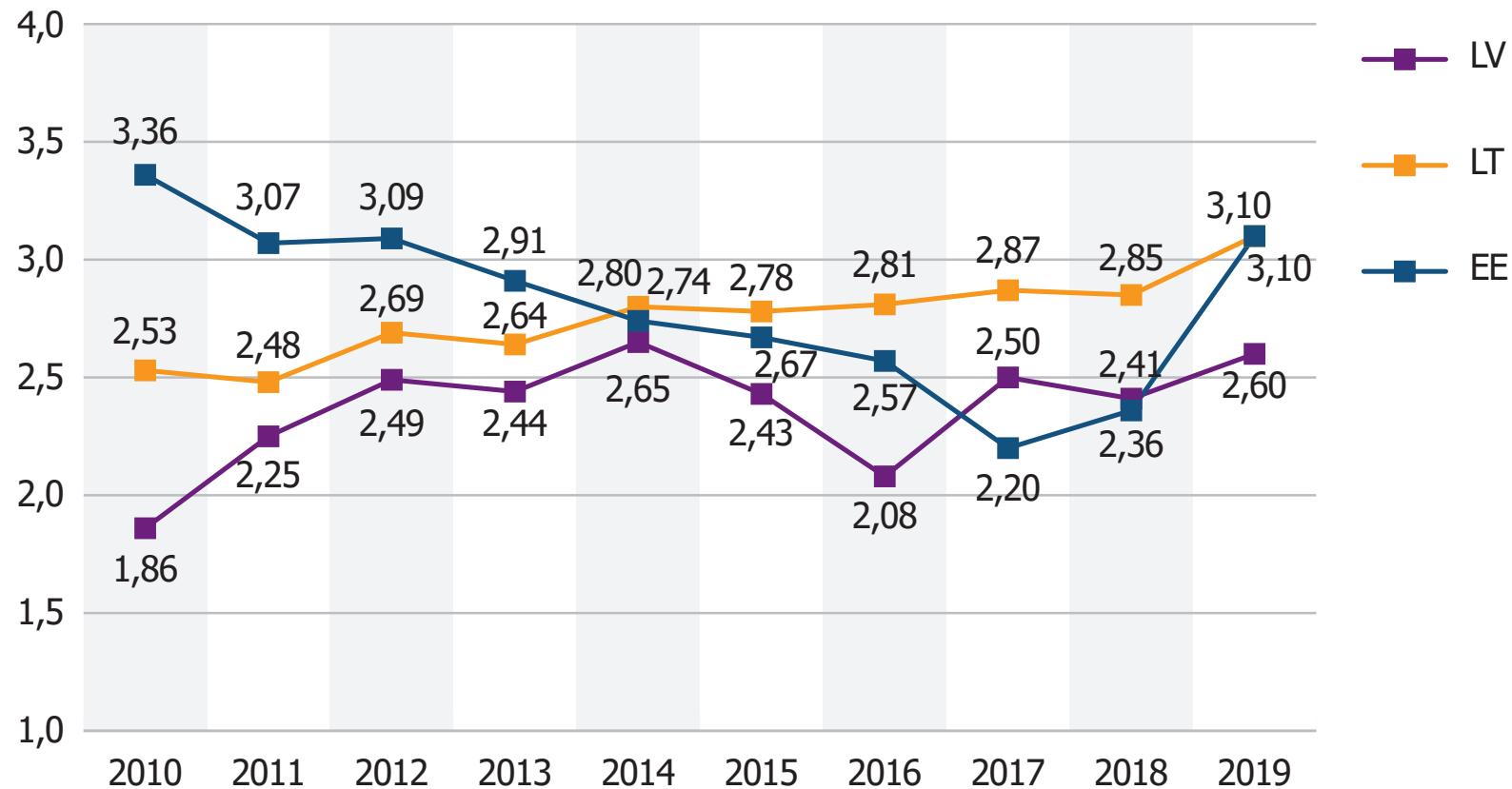
Satisfaction with the performance of the State Revenue Service, 2010–2019

(Average, in scale from 1-5, where '1': very low satisfaction,
but '5'- very high satisfaction)



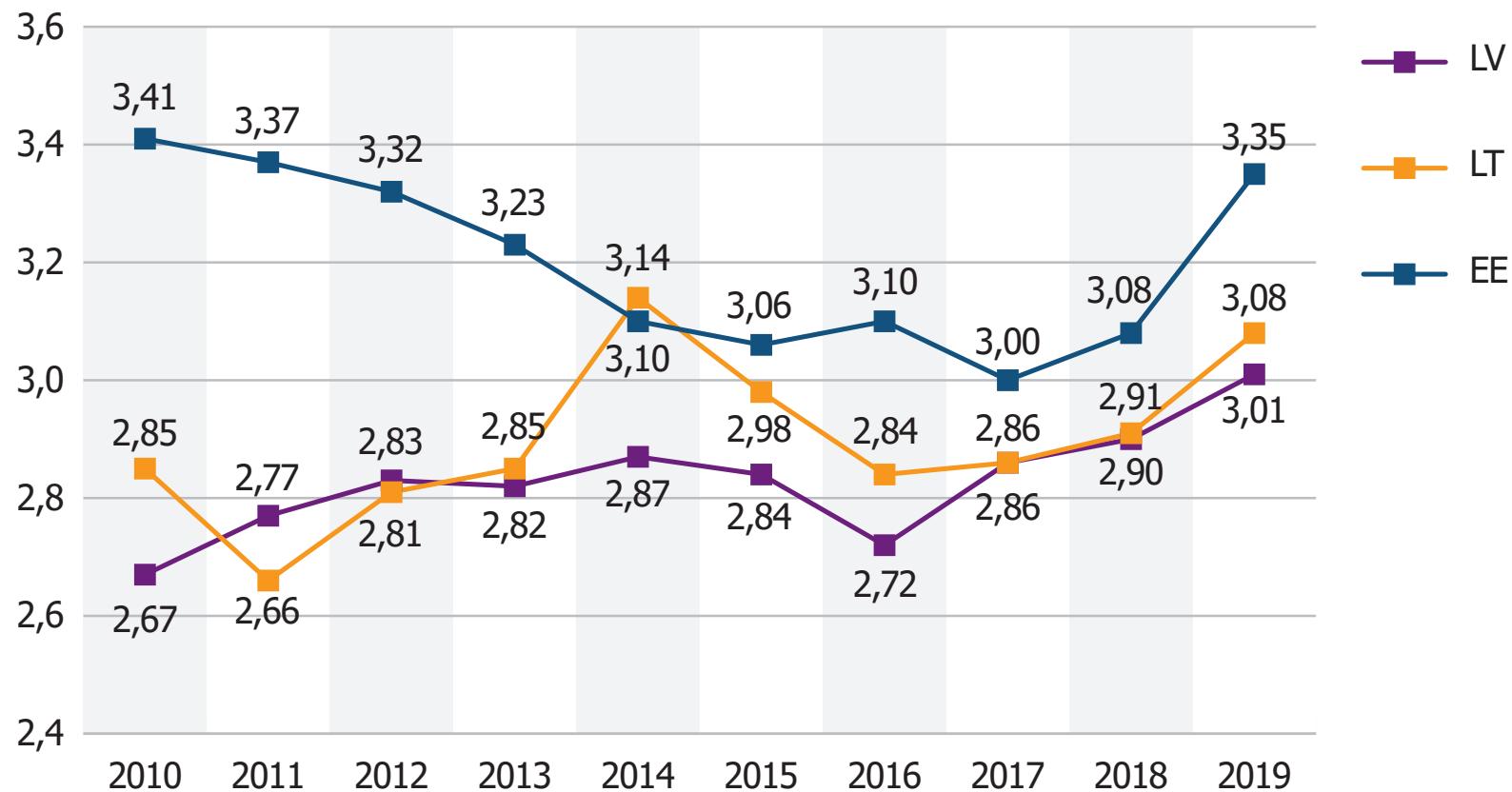
Satisfaction with the tax policy, 2010–2019

(Average, in scale from 1-5, where '1': very low satisfaction,
but '5'- very high satisfaction)



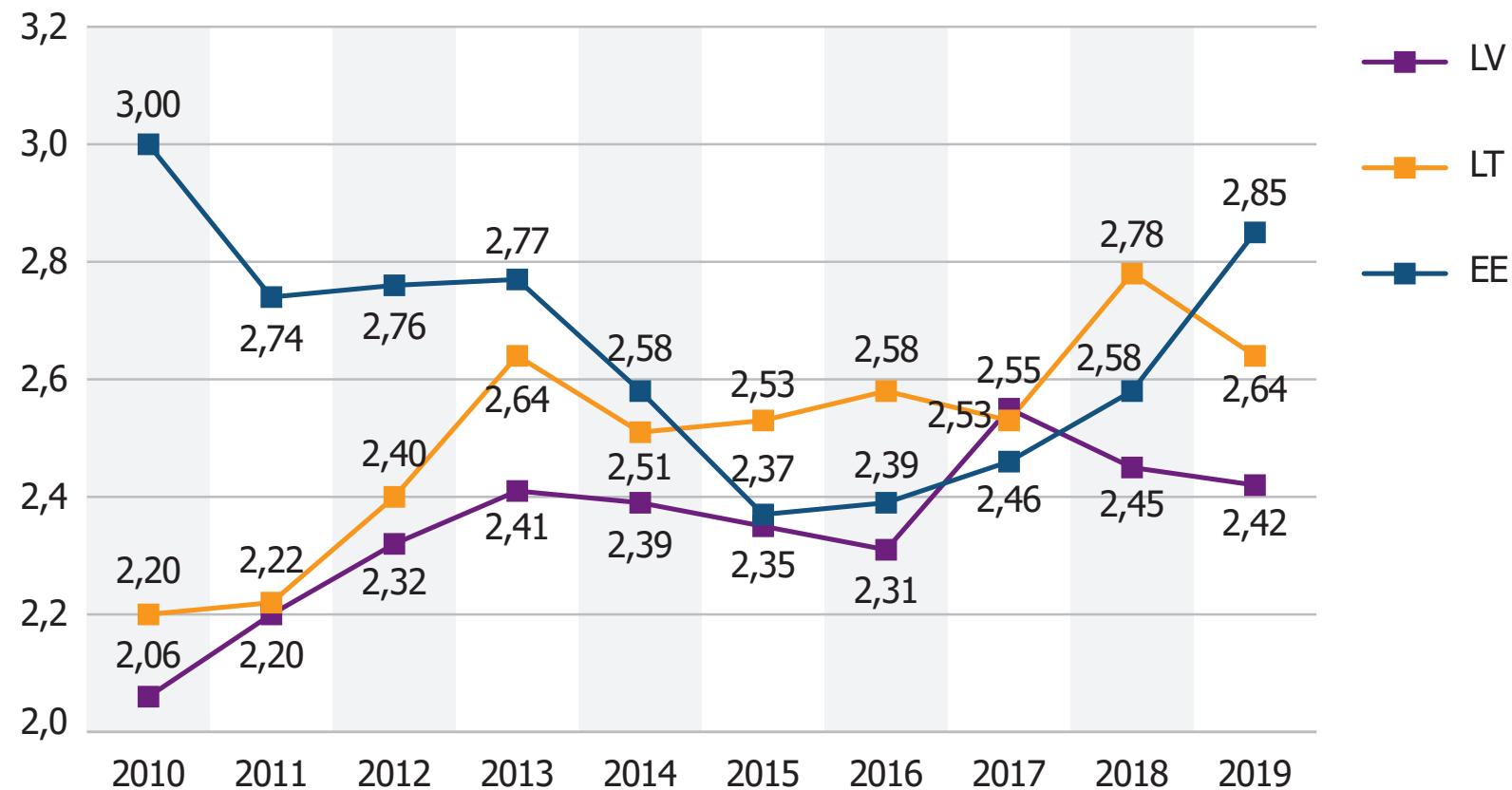
Satisfaction with the quality of business legislation, 2010–2019

(Average, in scale from 1-5, where '1': very low satisfaction,
but '5'- very high satisfaction)



Satisfaction with the government's support to entrepreneurs, 2010–2019

(Average, in scale from 1-5, where '1': very low satisfaction, but '5'- very high satisfaction)

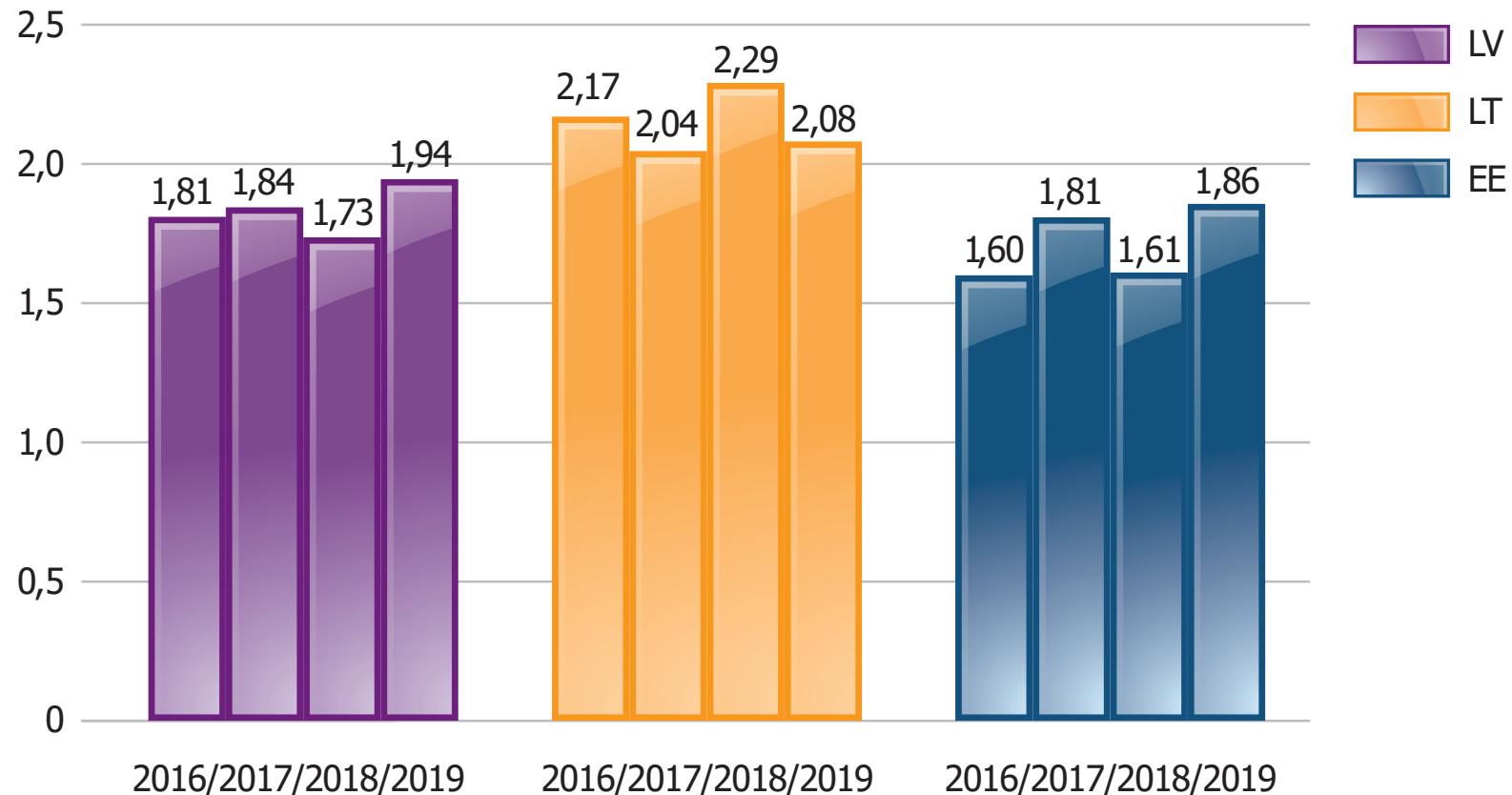


Statistically significant determining factors (using regression analysis)

- Greater tolerance towards involvement in shadow economy → greater involvement in shadow economy

Tax morale: cheating on tax, if there is a chance, can always be justified

(Average, in scale from 1-5, where '1': very low satisfaction, but '5'- very high satisfaction)





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Thank you!

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