

EUROPEAN CONVERGENCE AND ITS IMPACT ON THE SOCIAL STRATEGY OF LATVIA

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The purpose of this study is to introduce evaluation of convergence policy activities in the European Union and to designate social development trends of Latvia in the context of reaching the goals of strategy “Europe 2020. The aim of the research has set the following tasks: to introduce the main EU social convergence theory investigations as the development challenges for improvement socio-economic well-being of the EU states; to evaluate current social situation and eventual social strategy of Latvia on 2014–2020; to estimate European convergence policy impact on the social development of Latvia.

The strategic goals of EU policy are discussed as well as the development challenges for improvement of the national economy well-being in the EU states and to avoid social disparities This study contains analysis of the new concepts of „Europe 2020“ growth strategy and the Europe convergence policy impact appreciate on Latvian social strategy changes and prospects. The main emphasis of this research lies in the complex approach to the social convergence theory and EU cohesion policy implementation on the social development strategy of Latvia.

The research methodology is based on the convergence theory and its main scenario analysis, convergence catch-up rate calculation, on the EU strategy and European Commission legitimate documents application, on the growth theory and socio-economic forecasts analysis and on the national and external factors and variables estimations. The research methods employed in the present study are the monographic method, analysis and synthesis, statistical analysis and the graphic methods. This research investigate major information for social situations estimation in Latvia as well as GDP growth, welfare conditions, inflation and unemployment indicators and its possible development on 2014–2020.

The speed of convergence depends on the initial discrepancy of the development level in the EU states. The efficiency of European convergence policy can also be improved by significant economic growth and by clever choice of the country-specific social activities. The objective of this study is to describe current social policy of Latvia and its consistent including into European convergence process.

The main targets of social development prescribed by the strategy “Europe 2020” influence on the contents of the Latvia’s strategy „Europe 2020” and of the „National Development Plan of Latvia for 2014–2020”. In this medium-term planning strategies documents the main social and economic development priorities and sources of finance for their implementation are mutually coordinated. The eventual situation of the social policy in Latvia continues improving and the long-term calculations and forecasts by medium-growth scenario shows increasing tendency of Latvia’s GDP per capita in (PPS) from 64.0% in 2012 to 75.3% for 2020 and till 87.0% for 2030 of EU-28 average level.

The main results and conclusions of this study reflect the overall social convergence situation estimation in the EU and especially in Latvia, contain different Latvian social indicators calculations, describe the main principle for welfare increasing and information flows preparation for national growth model estimation.

The discussion consist analysis of the strategic choice for socio-economic policy of Latvia in the context of “Europe 2020” strategic goals and include current and future European convergence policy impact significance on social progress in the EU states and Latvia.

Keywords: *convergence, strategy “Europe 2020“, social development, cohesion policy.*

Introduction

European convergence policy is an EU development policy and provides original evidence to reduce socio-economic disparities in the development capacity and contribute social situation of the EU member states. Convergence policy is trying provide recommendations for the future development and it is important for explanation how to achieve reducing of state’s development levels. The strategic goals of EU convergence

policy are discussed as well as the development challenges for improvement of the socio-economic well-being in the EU states. The socio-economic development of Latvia take place within the frame of the EU strategies and regulatory acts, economic strategies and legal acts of Latvia as well as the Eurostat forecasts. This research introduces evaluation of European convergence policy which aims improvement of

the socio-economic situation of EU states and also to avoid social disparities. The main problems in of national economy development have been identified in the strategic and policy planning documents of the Republic of Latvia on period 2014–2020. The development of Latvia's economy are basically in line with the legal acts and policy planning documents of the EU. As social policies are an integral part of the „Europe 2020“ strategy, the Commission also supports EU countries' efforts to address their social challenges through the actions foreseen in the Platform against Poverty and Social Exclusion and Social Investment Package as well as the EU funds, in particular the European Social Fund. Now EU countries are far from reaching the 2020 targets and the worsening social situation caused by the economic crisis is undermining the sustainability of social protection systems.

President of the European Commission José Manuel Barroso determine the main goals of EU politics: “Europe 2020 is the EU's growth strategy for the coming decade. In a changing world, we want the EU to become a smart, sustainable and inclusive economy. These three mutually reinforcing priorities should help the EU and the Member States deliver high levels of employment, productivity and social cohesion. Concretely, the Union has set five ambitious objectives – on employment, innovation, education, social inclusion and climate/energy – to be reached by 2020. Each Member State has adopted its own national targets in each of these areas. Concrete actions at EU and national levels underpin the strategy” (Barroso, J.M., 2013).

The purpose of this study is to evaluate current social situation in Latvia and its possible development into EU. This study introduce convergence policy concept and contain European Union objectives and general outlines on the period 2014–2020 as a whole and this strategy impact analysis on social progress in Latvia. The review of the literature providing an analytical performance of the EU states convergence theory application in the light of its intended purposes. In this context this paper introduced the newest proposals for the EU convergence policy on 2014–2020 and its implementation in Latvia. During the development process of the national economy of Latvia the socio-economic structure undergoes not only quantitative changes but also qualitative changes decreasing disproportions between the economic and social indicators of national economy. Strategic documents of national economy and social situation development in Latvia reflect the main goals and tasks defined by EU programmatic documents.

The research has set the following tasks: to introduce the main EU social convergence theory investigations as the development challenges for EU states; to evaluate current social situation and eventual social strategy of Latvia for 2014–2020; to describe social situation and its possible improvement in Latvia as the social eventual development in the context of the EU strategic targets.

The research methodology is based on the convergence and growth theories analysis, EU strategies and European Commission documents consideration, on the socio-economic convergence scenario and EU and national variables analysis. The research methods employed the monographic method, analysis and synthesis, statistical analysis and the graphic methods. In this paper discussed the different approaches

that have been used in the literature for GDP and income convergence analysis.

The main results and conclusions of this research reflect the overall convergence situation description in the EU states and social convergence progress analysis in Latvia. This research presented information about main convergence socio-economic indicators as well as GNP growth, welfare conditions, inflation and unemployment levels and its possible development for 2014–2020. In order to achieve socio-economic growth and social convergence goals Latvian government must identify main social priorities and decide where the money will deliver the best results whis higt social efficiency. The social development investigations needs to be pragmatic approach into financing in order to create employment and reduce poverty level and social disparitis in the national economy. The Latvian social policy improvement is general connected with investment flows, new technologies and productivity growth. The European budget spending will have to be more effective on 2014–2020 for Latvia's economic and social convergence promotion to the EU average level. The main tasks of Latvian economy for the recent years are taken as the important priorities developing of social legislation, situation in the income's growth, pension's policy improving, education systeme and labour market development. Taking into account the actual socio-economic problems in the EU countries European convergence policy should provide more attention for countries with minimum income level and high income's disparity with target to reduce unequal and improved social convergence between EU countries.

Convergence theory investigations and its influence on the social development in the EU states

European convergence theory is the visible direction which aims at balanced and sustainable development while fostering economic integration throughout the EU as a whole. And it is a place-based policy which gives a role to each European state to optimize economic growth and social activity. The review of the literature providing an analytical performance of the EU states convergence theory application in the light of its intended purposes and EU socio-economic integration targets.

The convergence research methodology is based on the β -convergence and σ -convergence scenario and catch-up rate calculations, on the growth theory and socio-economic forecasts scenario analysis and on the EU strategies and European Commission regulatory documents and integration's requirements consideration, as well as on national and external factors and variables estimations. The research approach in the present study for social situations estimations investigate major information of the GDP growth, welfare conditions and poverty level, inflation and unemployment indicators. This main theories and different approaches for convergence evaluation employed in the monographies and economic literature (Hess, P., Clark, R., 1997; Lipschitz, L., Lane, T., Mourmouras, A., 2005; Pelcmans, J., 2006; Sachs, J.D., Larrain, F.B., 1993).

Convergence is the process that describes the progressive elimination of disparities in output and income levels. The growth economics literature has isolated two types of convergence: the β -convergence and the σ -convergence (Barro, R., .Sala-i-Martin, X., 2004). The former indicates

whether the distribution of income across countries has become less or more uneven over time. Recent economic theory confirms this approach which shows that the EU arrived impressive economic and social convergence since 1988. At the level of the states, relatively strong economic growth of those with a low GDP per capita has meant that EU states have been converging.

The inverse relationship between growth and the level of income is considered β -convergence. If this phenomenon is present, poorer countries become closer to the richer ones. The β -convergence ratio highly depends on the internal economic policy and other country-specific factors and basically indicates how long convergence will last in terms of time frame success of the integration process of the new EU Member States is reflected by their convergence performance. These tendencies are of special importance considering further enlargement of the Eurozone.

New convergence methodology considers the experiences gained in real convergence in the EU states and the convergence catch-up processes and their future prospects. In particular, the convergence theory analysis focuses on the sustainability of the social convergence processes. An analysis of EU convergence policy made an attempt to assess whether the distribution of income across EU-28 has become more equitable in the last years, by analyzing the dispersion of GDP per capita expressed in purchasing power standards (PPS) throughout country members of the European Union. However, economic growth theory provides two types of the convergence: σ -convergence (sigma) and β -convergence (beta) (Barro, R., Sala-i-Martin, X., 2004).

The σ -convergence serves as an indicator to measure whether the distribution of income across regions or countries has become less uneven over time. In contrast the β -convergence, attempts to describe the mobility of income within the same distribution and predominantly serves to find out whether the convergence occurred because poorer regions and countries. (Marzinoto, B., 2012).

Main calculations and trends in catching up in the new EU member states can be analysed methodologically by this means growth accounting through a production function approach and the calculation and interpretation of the catch-up rate.

The relationship between GDP growth and the level of income is considered as β -convergence scenario. Convergence reflects the measure of progress, while catch up measures the distance to be travelled. The pace of catching-up usually relates to β -convergence and is expressed as a ($R_{Catch-up}$) (Halmai P., Vasary V., 2010, p. 244).

Catch-up rate is calculated as follows:

$$R_{Catch-up} = 100 \cdot \frac{\Delta(y_{it} - y_t^*)}{(y_{it-1} - y_{t-1}^*)} \quad (1)$$

In the equation:

y_{it} – reflects the level of GDP per capita as PPS for country i at a time t ;

y_t^* – is the average for the y_t of EU-28;

Δ – indicates the difference between t and $t-1$;

y_t^* – is the weighted average of the EU-28.

It is calculated on the basis of historical actual growth rate and serves as a framework for ex-post analysis of the catching

up dynamism. This, nevertheless, allows making future projections for the potential growth rates.

The success of the integration process of the new EU member states is reflected by their convergence performance. These tendencies are of special importance considering further enlargement of the Eurozone. New convergence methodology considers the experiences gained in real convergence in the EU states and the convergence catch-up processes and their future prospects. In particular, the convergence theory analysis focuses on the sustainability of the social convergence processes. The possible trends of longer term growth and convergence scenario are presented and based on a qualitative analysis representing the supply side approach. (Barro, R., Sala-i-Martin, X., 2004).

Living standards can be compared by measuring the price of a range of goods and services in each country relative to income, using a common national currency called the purchasing power standard (PPS). Comparing GDP per capita in PPS provides an overview of living standards across the EU. The EU strives to improve living standards by protecting the environment, encouraging job creation, reducing regional disparities and connecting formerly isolated areas by developing cross-border infrastructure. This indicates the need for more structural reform to remove rigidities in the allocations of resources, which is essential in order to raise living standards. The real situation in EU states by main convergence indicator as the GDP per capita last years can illustrate in table 1.

The convergence in the EU during the past decades shows a relatively steady pace. The social situation is influenced by the GDP level, economic structure of the national economy, the total consumer's income and demand levels, labour force skills and education. At the same time future projection shall be based on the GDP potential growth rate, but now forecasts of social development based of GDP per capita at purchasing power standard. The European Union is undergoing a process of changes that have significantly altered the socio-economic structure of societies. The main efforts referred on the improvement the quality of life of some society's groups which transition costs increasing for social inequality reduction. The EU should make available better and clearer statistical information on inequality in Europe states and provide more attention for countries with minimum income level and high income's disparity with target to reduce unequal between EU countries and improve social convergence in the EU member states.

Important information for convergence estimation can to receive from World economic climate survey's which has studied by initiative of University of Munich's Centre for Economic Studies and the Ifo Institute. The survey is conducted in co-operation with the International Chamber of Commerce in Paris. Methodology used by CESifo is the survey questionnaire that focuses on qualitative information: assessments of a country's general economic situation and expectation regarding key economic indicators. This paper's author is World Economic Survey (WES) expert from Latvia. The WES results present a rapid, up-to-date assessment of the economic situation prevailing around the world. The results of the Ifo World Economic Survey (WES) showed that economic climate also improved in Europe, primarily thanks to less

negative assessments of the economic situation. Expectations for the next six months remain confident (table 2).

In the EU much attention is currently being paid to the consequences of social policy interventions generally tend to focus a temporary measure for reducing social inequality in the long-term. It requires not only a structure of national social models but also a discussion on the strategic choice of countries concerning the social policy. The possible trends of longer term growth and convergence scenario are presented based on a quantitative analysis of the GDP per capita growth.

The estimation of GDP level (per capita in PPS) on period 2015–2030 in Latvia reliable and based on stable development scenario and the GDP trends by Ministry of Economics of the Republic of Latvia (2010) “Europe 2020” Strategy of Latvia, the Cabinet of Ministers of the Republic

of Latvia (2012) „National Development Plan of Latvia for 2014–2020” and long-term forecasts. According proposals of Latvia’s medium- and long-term strategic scenario, GDP average growth rate can to reach 5% in 2012-2014; 4.5% in 2015-2020 and 3.5% on period 2020-2030 (The Sustainable Development Strategy of Latvia until 2030, 2010). The long-term forecasts of social development for EU cohesion countries and estimated by convergence catch-up rate calculation by formula (1). This calculation for Latvia based on medium-growth scenario for long-term strategy with most probable GDP growth rates in the EU states and Latvia for period till 2030. Taking into account that Latvia’s GDP per capita in PPS on 2012 arrived 15 900 euro per capita and average level in EU-28 to reach 25 500 euro per capita the results of EU cohesion countries development can illustrate in table 3.

Table 1. GDP per capita in the EU countries (GDP in PPS EU-28=100, 2012)

Country	GDP per capita in PPS	Country	GDP per capita in PPS
Bulgaria (BG)	47	Cyprus (CY)	92
Romania (RO)	50	Spain (ES)	96
Croatia (HR)	62	Italy (IT)	101
Latvia (LV)	64	United Kingdom (UK)	106
Poland (PL)	67	France (FR)	109
Hungary (HU)	67	Finland (FI)	115
Estonia (EE)	71	Belgium (BE)	120
Lithuania (LT)	72	Germany (GE)	123
Greece (EL)	75	Sweden (SE)	126
Portugal (PT)	76	Denmark (DK)	126
Slovakia (SK)	76	Netherlands (NL)	128
Czech Republic (CZ)	81	Ireland (IL)	129
Slovenia (SI)	84	Austria (AT)	130
Malta (MT)	86	Luxembourg (LU)	263

Source: calculation based on Eurostat and European Commission data 2013 and European Forecast Autumn 2013, European Economy 7/2013.

Table 2. World Economic Climate

Climate (2005=100)	I/2012	II/2012	III/2012	IV/2012	I/2013	II/2013	III/2013	IV/2013	I/2014
North America	87.9	95.4	81.2	80.3	86.2	87.0	93.7	88.7	102.1
Europe	81.6	96.1	86.4	80.6	90.3	93.2	99.0	109.7	116.5
Asia	74.6	90.4	83.3	81.6	97.4	106.1	89.5	98.2	97.4

Source: IFO World Economic Survey (WES) of the 1st quarter 2014, p. 1-3

Table 3. Development of the level of GDP per capita in the EU cohesion countries in the long-term

GDP in PPS	2015	2020	2030
EU-28	100.0	100.0	100.0
Bulgaria	47.0	50.0	54.8
Romania	52.2	56.5	61.4
Latvia	68.1	75.3	87.0
Lithuania	77.5	84.1	88.4
Estonia	89.0	92.9	99.3
Poland	63.3	66.0	72.6
Czech Republic	92.5	96.2	97.9
Hungary	68.7	71.6	76.5

Source: Author’s calculation for Latvia; Countries’ data collection based on EU Ageing Reports 2012-2013 and Halmi P., Vasary V., 2010., p. 244.

The GDP growth and social development scenario in Latvia is based on the assumption that the situation in the euro area will continue stabilising and growth in the eurozone will gradually recover from 2014 (Dubra E., Soms K., 2014, pp.78–90). Therefore, as growth resumes in the eurozone, external demand for Latvian exports of goods and services is expected to increase, thus promoting further economic and social development. The GDP of Latvia in the medium-term is expected to be equal to the potential growth of Latvia (Regional Policy–Info regio, 2012).

Eurostat data shows that GDP rose by 0.3% in the euro area (EA17) and by 0.4% in the EU-28 during the fourth quarter of 2013, compared with the previous quarter, according to flash estimates published by Eurostat, the statistical office of the European Union. In the third quarter of 2013, GDP grew by 0.1% in the euro area, by 0.3% in the EU-28 and by 4.1% in Latvia (Eurostat, 2014).

The forecasts and opinion of the socio-economic situation in EU states and its development analysis concerning issues of national policy improvement. The main information's flows for forecast for national socio-economic model estimation is outlined in Figure 1. The basic directions of the socio-economic policy for the achievement of the established objectives and convergence are as follows:

- To reach macroeconomic stability;
- To create favourable preconditions for economic activities;
- To stimulate effective growth of national economy;
- To reduce social and economic disparities and ensure sustainable development.

The neo-classical theories of growth generate real convergence. The standard growth model incorporate major factors of production and capital flows which influence on economy as long-term strategic scenario. National growth model's targets and forecasts are formulated using main priorities attainment for economy of Latvia. Trends for the recent years are taken as social-economic situation development strategy of Latvia which can be used for social

estimation as income's and pension's policy improvement, labour market and education system optimization.

Social strategy of Latvia for 2014–2020: changes and prospects

The main goals of social development, prescribed by the EU strategy "Europe 2020", influence the economic strategy of Latvia "EU 2020" and the "National Development Plan of Latvia for 2014–2020". This documents is a medium-term planning strategies, where social and regional development priorities and sources of finance for their implementation are mutually coordinated. The Europe 2020 strategy, adopted by the European Council on 17 June 2010, is the EU's new tenyear strategy for growth and jobs. It puts forward three mutually reinforcing priorities – smart, sustainable and inclusive growth to make Europe more inclusive place to live. The European Union Future programme (2014–2020) has set ambitious objectives to be reached by 2020 in main social areas: employment; innovation; education; poverty (see table 4).

The "National Development Plan of Latvia for 2014–2020" provides for the main development directions of Latvia and tasks for achieving further objectives. The strategic objective of this Plan is education and knowledge for the growth of the national economy and technological excellence. The following priorities have been established for the achievement of the set objective: an educated and creative individual; the technological excellence of companies; the development of science and research. The main economic objective of this Plan is to facilitate a balanced and sustainable development of the country and to ensure an increased the social indicators of Latvia (The Cabinet of Ministers of the Republic of Latvia, 2012. National Development Plan of Latvia for 2014–2020).

The European Commission has issued to Latvia six country specific recommendations (CSRs) to help it improve socio-economic performance in the areas of: Sustainable public finances; Youth and long term unemployment; Poverty reduction; Higher education and research systems; Energy market and efficiency; Judiciary reform. (European

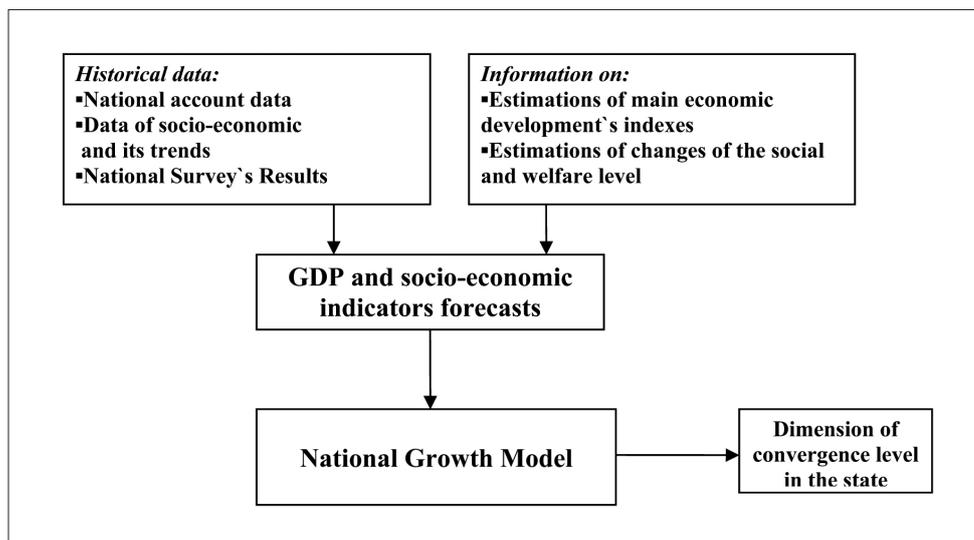


Figure 1. Scheme of information's flows for National Growth Model estimation (Author's construction based on forecasting theory)

Table 4. “Europe 2020” and Latvian social targets

EU member states targets	EU headline targets	Latvian targets
Employment rate	75%	73%
R&D in % of GDP	3%	1.5%
Early school leaving	10%	13.4%
Tertiary education in	40%	34-36%
Reduction of population at risk of poverty or social exclusion in number of persons	20.000. 000	121.000

Source: calculation data based on European Commission Europe 2020 targets, 2013

Commission, 2013, “Country-specific Recommendations). Latvia has prepared the second Progress Report on the Implementation of the National Reform Programme of Latvia within the “Europe 2020” Strategy on April 2013. The second Progress Report on the Implementation of the “Europe 2020” strategy was developed taking into account the „National Development Plan of Latvia for 2014–2020“.

During a socio-economic recession in 2008–2010, the influence of convergence policy on Latvian education system, incomes and labour productivity can be reduced by the negative impact of external and national factors on economy. Development of Latvian economy in 2011–2013 the social structure undergoes not only quantitative changes but also qualitative changes decreasing disproportions between the social indicators of national economy, which generates a range of problems in implementing national social development programmes. Development processes underway in the economy of Latvia comply, to a large extent, with guidelines of strategic documents on the development of national economy and social situation in the country, reflecting goals and tasks defined by EU programmatic documents for the areas of social development in the EU and Latvia. The economy of Latvia continued growing at a rapid pace in 2012 and the gross domestic product increased by 5.2% compared to the previous year. It was the fastest growth among the European Union member states. Data from Latvian statistic office shows GDP increase by 4.1% in 2013. The strong economic growth in 2012 and 2013 was based on both external and domestic demand. The National Reform Programme of Latvia for the Implementation of the “Europe 2020” strategy and the Convergence Programme of Latvia describes the medium-term and long-term macroeconomic scenario and reflects the main macro-structural bottlenecks of Latvia and the key measures as well as national quantitative targets of Latvia for 2020 in the context of the “Europe 2020” strategy.

The situation in the social policy of Latvia continues improving from 2012. At the same time, employment will grow slower than the economic growth, as the output will be mainly based on the rise of productivity. The registered unemployment rate in 2012 reached the lowest point since 2009 constituting 12.1%. The employment rate increasing in Latvia till 68.5% of population aged 20–64. The dynamics of inflation showed a tendency to decline significantly to 0.4% in 2013. The risk of poverty rate or the share of the population below the poverty line increased during the period when the total income of the population was increasing substantially and the unemployment rate was comparatively low. The person at risk of poverty rate in Latvia has increased to 19.4%

and for children aged 0–17 years has the highest risk of poverty – 24.7% in 2012. This risk of poverty largely applied to recipients of small pensions and other individuals with low income, particularly families with children. But now in Latvia economic growth and increasing employment have a positive impact on the poverty risk of employed persons. According to the assessment income of persons living close to the at-risk-of-poverty threshold grew slower than the average income level (Central Statistical Bureau of Latvia, 2013).

The key priorities in reducing poverty and social exclusion in Latvia are the increase in income from paid work, highlighting families with children as a special target group. These measures comply with the priority of the Annual Growth Survey 2013 to tackle unemployment and the social consequences of the crisis, facilitate the achievement of employment, poverty and social exclusion targets of the „Europe 2020“ strategy and the implementation of the flagship initiative European platform against poverty (European Commission, 2010).

Increasing in the private consumption will depend on changes in personal income. The social and personal income taxes in Latvia is planned to be gradually decreased from 2014 and this changes can to increase personal incomes and fostering growth of private consumption. However, the still high unemployment rate does not allow to increase wages and the medium-term changes in wages are unlikely to exceed the increase in productivity.

The main principle for living standard growing and welfare increasing author defined as observance real proportions between indicators of productivity, wages and inflation annual growth rates by formula 2.

$$\Delta(Y / N) > \Delta W > \Delta\pi, \quad (2)$$

In the equation:

$\Delta(Y/N)$ – productivity rate, annual growth, %;

ΔW – wages rate, annual growth, %;

$\Delta\pi$ – inflation rate, annual growth, %.

Latvia has prepared the second Progress Report on the Implementation of the National Reform Programme of Latvia within the “Europe 2020” Strategy on April 2013. This Progress Report was developed taking into account the „National Development Plan of Latvia for 2014–2020“ main trends. In the medium- to long term, Latvia faces a number of challenges, in particular to maintain sound fiscal policy and reduce the size of the incomes disparity. Other challenges relate to the quality of vocational education, social assistance, R&D spending and innovation performance, energy and the efficiency of the judiciary.

European Structural Funds for 2014–2020 will provide an important source of public investment to support Latvia in meeting these challenges. In the programming period 2014–2020 the achievement of the following Europe 2020 strategy targets is being through the Eurorean Social Fund support: improve competitiveness, education systeme and employment level, implement labour market reforms to ensure flexicurity, as well as promoting social inclusion to reduce poverty. EU Funds financing for the achievement of the “Europe 2020” strategy targets essential promode national economy competitiveness and Latvian socio-economic convergation into EU.

The government of Latvia has determined the thematic allocation of the EU Funds policy and financing for the programming period 2014–2020. The allocation of financing is based on the priorities, directions of activities and tasks of the „National Development Plan of Latvia for 2014–2020” and closely linked to main needs of the economy of Latvia, taking into account the GDP growth rate, investments planning in all thematic objectives, activities in the social policy reforms, education systeme improving, labour market formation as the priorities directions. European statistics shows that in 2012 24% of all the EU population are at risk of poverty or social exclusion – this includes 28.1% of all children in Europe, 19.3% of those over 65 and 25.4% of adults. Latvia’s social convergence progress estimations show that the at-risk-of-poverty rate in Latvia has increased from 19.2% in 2005 to 25.7% in 2009 and decreased up to 19.4% in 2012. Economic growth and increasing employment have a positive impact on the poverty risk of employed persons but now in Latvia children aged 0–17 years has the highest risk of poverty – 24.7%. The social conditions and employees in Latvia also become more and more aware of the possibilities offered by the global EU market It requires not only a structure of national social models but also on the strategic choice of countries concerning the social policy.

The new elements of policy on 2014–2020 set out the commitments to concrete actions to deliver “Europe 2020” objectives. Minimum allocations are fixed for a number of priority areas where the EU has set itself goals. The old classification of regions under convergence, and competitiveness and employment, is replaced by a new classification: less developed regions, with GDP per capita of below 75% of the EU-28 average; transition regions, with GDP per capita of between 75% and 90% of the EU-28 average; and more developed regions, with GDP per capita of more than 90% of the EU-28 average.

After several sessions of hard negotiations, Latvia received the European Parliament’s support for the Multiannual budget for 2014–2020 on November 19, 2013. Essentially, the agreement was reached in a timely manner, so as to avoid breaking the long-term budgeting, which would have a negative impact on both the Latvian farmers and the successful implementation of cohesion projects.

Thus, the overall results of the budget 2014–2020 planning negotiations for Latvia can be summed up as following:

- Latvia still will receive much more funding from EU budget, than it contributes to it.
- In the next seven-year time period, more than 7.479 billion euro will be available to the Latvian economy from the EU budget.
- Cohesion funding available for Latvia in the period from 2014 to 2020 will be 4.765 billion euro.
- From 2014 Latvian farmers will receive 109 euro/ha from the EU direct budget payments. In 2019 this amount will reach to 196 euro/ha. 969 million euro will be available to Latvia for the rural development promotion.

The EU funding will make it possible to continue investment in growth-enhancing areas, such as transport system development, research, technology development and innovation in small and medium enterprises competitiveness, energy efficiency, environment, promotion of employment and education (Latvijas Republikas Ārlietu Ministrija Ārpolitika, 2013).

In the medium- to long- term, Latvia faces a number of challenges, in particular to maintain sound fiscal policy and reduce the size of social disparity. Other challenges relate to the quality of vocational education, social assistance, R&D spending and innovation performance. European structural funds for 2014–2020 will provide an important source of public investment to support Latvia in meeting these challenges. In the programming period 2014–2020, the achievement of the following Europe 2020 strategy targets is being through the ESF support: improve competitiveness, education system, foster employment, implement labour market reforms to ensure flexicurity, as well as promoting social inclusion to reduce poverty. The current socio-economic strategy of Latvia in the coming 7 years (2014–2020) included the following themes: the estimations of the socio-economic development and its effectiveness; the economic structural policy improvement; poverty, income disparity; labour market and education system problems solution; forecasts of demography situation and migration processes and European structural funds resources effective utilization

The social situation is influenced by the GDP level, economic structure of the national economy, which is determined by products offered by sectors and the total consumer’s income and demand levels, labour force skills and education, but also a discussion on the strategic choice of countrie’s socio-economic policy. The “Europe 2020” strategy objectives and European structural funds are real support for Latvian social strategy development in order to reach main social goals.

Conclusions

1. European convergence policy is an EU development policy and provides original evidence to reduce socio-economic disparities in the development capacity and contribute social situation improvement in the EU states. Convergence process in EU is tryin providing recommendations for the future development with target to achieve socio-economic well-being in the European states.

2. “Europe 2020” strategy goals and proposals of socio-economic convergence for the EU member states has been considered as one of the most important economic development targets in the EU, concentrating national resources and EU funds on the areas and sectors where they can make the most important progress. The strategic goals of EU convergence policy are discussed as well as the development challenges.

3. Taking into account the actual socio-economic problems in the EU countries European convergence policy

should provide more attention for countries with minimum income level and high income's disparity with target to reduce unequal and improved social convergence between EU states.

4. European convergence the past years showed a relatively steady pace, but the effectiveness of European convergence policy can also be improved by significant economic growth and by clever choice of the country-specific social activities. The inverse relationship between growth and the level of income is considered β -convergence scenario. If this factor is present, poorer countries get closer to the richer ones.

5. European national economies strategies have been related to the influence of several internal and external factors. Socio-economic development of Latvia reflecting goals and tasks defined by EU program's documents and social strategies. Latvian participation in EU convergence process can be sufficiently supports for improvement sustainable economic and competitiveness growth, social development, job creation and quality of life.

6. The socio-economic policy improvement in general connected with investment flows, new technologies and productivity growth. Trends of the recent years 2014–2020 of Latvian economy are taken as the important priorities developing of social legislation, income's growth, pension's policy improving, education system and labour market development.

7. The socio-economic development scenario of Latvia for 2014–2020 is based on the assumption that the situation in the euro area will continue stabilising and growth in the eurozone will gradually recover from the 2014. Therefore, as growth resumes in the eurozone, external demand for Latvian exports of goods and services is expected to increase, thus promoting further economic and social development.

8. The eventual situation of the social policy in Latvia continues improving and the long-term calculations and forecasts by medium-growth scenario shows increasing tendency of Latvia's GDP per capita in (PPS) from 64.0% in 2012 to 75.3% for 2020 and till 87.0% for 2030 of EU-28 average level.

9. The European budget spending will have to be more effective, in particular on 2014–2020 for promotion economic, social and regional cohesion at the national and EU levels. In the next seven-year time period, more than 7.479 billion euro will be available to the Latvian economy from the EU budget.

10. The Latvian social policy improvement in general connected with investment flows, new technologies and productivity growth. Trends of the recent years 2014–2020 of Latvian economy are taken as the important priorities developing of social legislation, situation in the income's growth, pension's policy improving, education system and labour market development.

11. For future's social development investigations and governmental decisions needs to be pragmatic approach into financing in order to create employment and reduce poverty level and social disparities in the national economy. In order to achieve social convergence goals in the national socio-economic policy must identify main social priorities and decide where the money will deliver the best results and high social efficiency.

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