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2024 | 2 ECONOMIC DEVELOPMENT TRENDS

After the rapid recovery of the economy from the Covid-19 pandemic crisis in 2021, growth in Latvia slowed down to 1.8% in 2022. The economic development in 2022 was significantly affected by supply chain disruptions caused by Russia's invasion of Ukraine, the rise in inflation caused by the cost of energy resources and food, as well as the decrease in global demand.

In 2023, the economic development continued to be affected by the geopolitical situation and uncertainty, high prices and rising bank interest rates. GDP grew by 1.7%. In 2023, private consumption, export and import decreased, but state consumption and investments increased.

In the first half of 2024, the situation in the economy, although inflation rates stabilized, was stagnant due to the unfavourable external environment. In the first half of the year, compared to the corresponding period of 2023, GDP increased by only 0.1%. Private and public consumption increased, while exports, imports and investments decreased.

The Ministry of Economy predicts that in 2024 the economy will be close to the level of the previous year, but in 2025 economic activity will increase slightly.

Key Economic Development Indicators

	2019	2020	2021	2022	2023	2024f	2025f
Gross domestic product, at current prices, billion euro	29.6	29.2	32.3	36.1	39.1	39.8	41.3
changes compared to the previous year, as per cent							
Gross domestic product	0.7	-3.5	6.9	1.8	1.7	0.1	2.6
Private consumption	-0.1	-4.8	8.1	5.1	-1.0	-0.1	2.5
Public consumption	5.6	3.9	3.7	2.4	7.0	6.3	2.9
Gross fixed capital formation	1.3	-2.4	6.8	-1.6	9.9	-4.5	2.0
Exports	-0.6	-0.3	9.1	11.4	-4.7	-2.2	0.8
Imports	2.0	-1.1	15.1	9.9	-2.0	-2.8	0.7
Consumer prices	2.8	0.2	3.3	17.3	8.9	1.2	1.8
as per cent							
Changes in the number of employed	0.1	-1.9	-3.2	2.6	-0.2	-0.2	0.3
Employment rate	65.0	64.2	62.5	63.9	64.2	64.3	65.0
Unemployment rate	6.3	8.1	7.6	6.9	6.5	6.9	6.4
as per cent of GDP							
General government balance	-0.5	-4.5	-7.4	-4.9	-2.3	-2.6*	-2.9*
General government debt	37.9	44.0	45.9	44.4	45.0	45.8*	47.0*
Net exports	-0.2	1.4	-3.2	-4.9	-3.7	-3.0	-2.8

f – forecast, assessments of the Ministry of Finance

The dynamics of the population's real income, especially in the second half of the year, negatively affected household consumption in 2023. In contrast to the rapid growth of private consumption in 2022, it decreased by 1% in 2023. In the first half of 2024, compared to the corresponding period of the previous year, as the purchasing power of the population improved, private consumption increased by 0.3%.

State consumption continues to grow largely at the expense of the state budget deficit to finance the government's priority measures. In 2023, state consumption increased by 7%. On the other hand, in the first half of 2024, compared to the corresponding period of the previous year, it increased by 8.4%.

Investment dynamics are volatile. Thanks to the increase in funding from EU funds, in 2023, investments in the gross fixed capital formation were 9.9% higher than a year ago. In the first half of 2024, compared to 2023, investments decreased by 8.6%.

The net inflows of Foreign Direct Investment (FDI) attracted to Latvia continue to increase. In 2023, the net inflows of FDI in Latvia accounted for 2.8% of GDP, while the accumulated FDI at the end of the year reached 23.8 billion euros (59% of GDP). Over the year, it increased by 8.5% or 1.9 billion euros. In the first half of 2024, it continued to grow.

The external environment negatively impacts foreign trade. In 2023, the volume of goods and services exports decreased by 4.7%, and in the first half of 2024, it was 3.2% lower than the previous year. In the first half of this year, the larger decline was in service exports – down by 7.1%. Goods exports decreased by 1.6% in the first half of the year. The main export goods were wood and wood products, mineral products, electrical appliances, and electrical equipment. Import volumes were also lower in the first half of this year than a year earlier, with imports falling by 4.8%.

In 2023, the current account deficit was 3,9% of GDP, primarily due to the negative balance of primary income. In the coming years, the current account is expected to improve.

In terms of sectors, total value added increased by 2.5% in 2023, but in the first half of 2024, it was 0.3% lower than the previous year. The decrease continues mainly in production sectors, largely due to weak export opportunities, while most service sectors are experiencing growth.

In the first half of 2024, compared to the corresponding period of the previous year, manufacturing declined by 5.9%, primarily due to decreases in wood processing, metal products manufacturing, and the production of electronic and optical equipment. Positive trends, however, were observed in food production, chemical products manufacturing, and non-metallic mineral products manufacturing.

The decline in the transport and storage sector (by 9%) was influenced by land transport and storage and transport support activities. The trade sector also saw a drop of 2.1% in the first half of 2024, affected by low household consumption and reduced foreign trade.

In the first half of 2024, compared to the same period the previous year, slight declines were also noted in the ICT sector (1.1%), education (3.6%), and real estate operations (2.1%).

After a sharp increase in 2023, the construction sector saw a year-over-year production volume decrease of 4.5% in the first half of 2024. Conversely, growth was recorded in agriculture and forestry (4%) as well as in other industries (4.4%). Positive growth rates also continued in the health and social care sector (+31.9%) and in public administration and defence (+9.3%).

The Covid-19 pandemic has led to significant changes in fiscal policy. In 2020, the EU activated the "General Escape Clause" of the Stability and Growth Pact (SGP), allowing EU countries to increase general government budget deficits as needed to mitigate the economic damage caused by the pandemic. Considering the Russia-Ukraine war and its associated effects, the SGP General Escape Clause remained in force in 2023.

Due to the impact of the Covid-19 pandemic, Latvia's budget deficit significantly increased from 2020 to 2022, exceeding 4% of GDP. In 2023, the general government budget deficit was 0.9 billion euros, or 2.3% of GDP. According to the Ministry of Finance's forecasts, the budget deficit could reach 2.6% of GDP in 2024. For 2025, the government has submitted a budget to the Saeima with a deficit of 2.9% of GDP.

Despite the increase in the budget deficit in recent years, Latvia's general government debt level remains one of the lowest in the EU. The national debt rose to 45.9% of GDP, or 14.8 billion euros, in 2021. Due to the rapid nominal GDP growth amid high inflation, this ratio fell to 44.4% in 2022, while in nominal terms, it rose to 16 billion euros. In 2023, the national debt was 17.6 billion euros, or 45% of GDP. For 2024, general government debt is projected at 45.8% of GDP, and for 2025, at 47% of GDP. It is expected that the debt ceiling of 60% of GDP set in the Fiscal Discipline Law will be adhered to in the medium term.

The banking sector has remained stable despite the economic disruptions caused by the Covid-19 pandemic and geopolitical tensions. The sector is profitable, though credit growth remains weak, particularly in business lending. Positive trends are evident in household lending, while deposit volumes continue to increase.

In 2023, consumer prices stabilized, with monthly growth slowing compared to the same month in the previous year – from 21.5% at the beginning of 2023 to 0.6% in December. Due to the base effect of inflation dynamics, the average annual inflation rate in 2023 remained high at 8.9%. In the first eight months of 2024, price growth was similar to the corresponding period last year. In August 2024, consumer prices increased by 0.7% compared to August of the previous year, and the average annual inflation rate in August was 1.1%. The main impact on the average consumer price level was the rise in prices for food and services. Price reductions were observed for energy resources related to housing, natural gas, and solid fuels, while electricity prices rose slightly.

Overall, the average annual inflation in 2024 will be significantly lower than that observed in 2023 and is expected to be within 1.2%. In the future, price changes will still be influenced by global fluctuations in energy and food prices, as well as by global developments. Inflation in Latvia will also be affected by supply-side factors such as tax and tariff increases, as well as demand-side factors driven by wage growth.

Despite economic shocks, the labour market remains stable due to high demand for labour. In 2023, the employment rate increased by 0.3 percentage points to 64.2%. The unemployment rate in 2023 was 6.5%, 0.4 percentage points lower than the previous year. However, the number of employed people fell by 0.2%, or 2 000, compared to 2022. This decline was largely influenced by the slowdown in economic growth and supply-side factors in the labour market – such as a decrease in the working-age population and a reduction in the overall labour supply.

Given the continued high uncertainty in external markets and the tense geopolitical situation, labour market activity in the first half of 2024 remained cautious overall. In the second quarter of 2024, the employment rate was 64.3%, 0.1 percentage points lower than in the second quarter of 2023. The unemployment rate in August 2024 was 6.8%, 0.4 percentage points lower than a year ago. Meanwhile, the number of employed persons fell by 0.6%, or 5 200, in the second quarter of 2024 compared to the same period in 2023.

Labour market conditions will continue to be influenced by supply-side factors, given the negative demographic trends and declining labour supply, thus maintaining low unemployment. Overall, the unemployment rate could reach 6.9% in 2024, while the number of employed people will decrease by 0.2%.

The average gross monthly wage continues to rise; however, the growth rate compared to the same period last year was below the rate of inflation from the first quarter of 2022 to the first quarter of 2023, leading to a decline in purchasing power. Since the second quarter of 2023, real wages have begun to increase again. In 2023, the average net wage (calculated using applicable workplace taxes) was 1 119 euros, or 72.9% of the gross wage, with an annual increase of 11.3%, surpassing consumer price growth. The real net wage growth, considering inflation, was 2.2%.

In the second quarter of 2024, the average net wage (calculated with applicable workplace taxes) was 1 213 euros, or 72.6% of the gross wage, with an annual increase of 8.9%. The real net wage growth, accounting for inflation, was 8%.

Both the wage convergence process towards wage levels in more economically developed EU countries and the increasing shortage of qualified labour are expected to continue exerting upward pressure on wages. The tightening labour market compels businesses to focus not only on attracting new specialists but also on retaining current employees, including by reviewing wage rates.

Further economic development in the medium term depends on external factors and the progress of reforms. The main risk to Latvia's growth lies in global economic developments, particularly geopolitical situations. The future of the EU’s overall economic space is also crucial. Latvia's economic advantages in the medium term will largely depend on the achieved macroeconomic stability, resulting in improved credit ratings, as well as the efficiency of planned EU support programs and improvements in the business environment. A prolonged war in Ukraine may slow the pace of economic recovery.

With Latvia's economic competitiveness based primarily on technological factors, improvements in production efficiency, and innovation, rather than cheap labour and low resource prices, Latvia's growth rate in the medium term could potentially reach 4-5% annually.

2024 | 2 WORLD ECONOMIC OUTLOOK

In 2023, global growth remained resilient, with inflation decreasing faster than expected, and global GDP increasing by 3.1%. The decrease in consumer prices has supported household consumption. However, uncertainty remains due to the war in Ukraine and escalating conflicts in the Middle East. Global GDP is projected to grow by 3.1% in 2024 and 3.2% in 2025[1].

Gross Domestic Product
as per cent

	2023	2024f	2025f
World (excl. EU)	3.1	3.1	3.2
Euro Area	0.5	0.7	1.5
USA	2.5	2.6	1.8
China	5.2	4.9	4.5
Germany	-0.1	0.2	1.1

Source: OECD database, f – forecast

China's economy grew by 5.2% in 2023. GDP in China is projected to grow by 4.9% in 2024 and slow to 4.5% in 2025, despite additional policy stimulus, reflecting weak demand and a deep correction in the real estate sector.

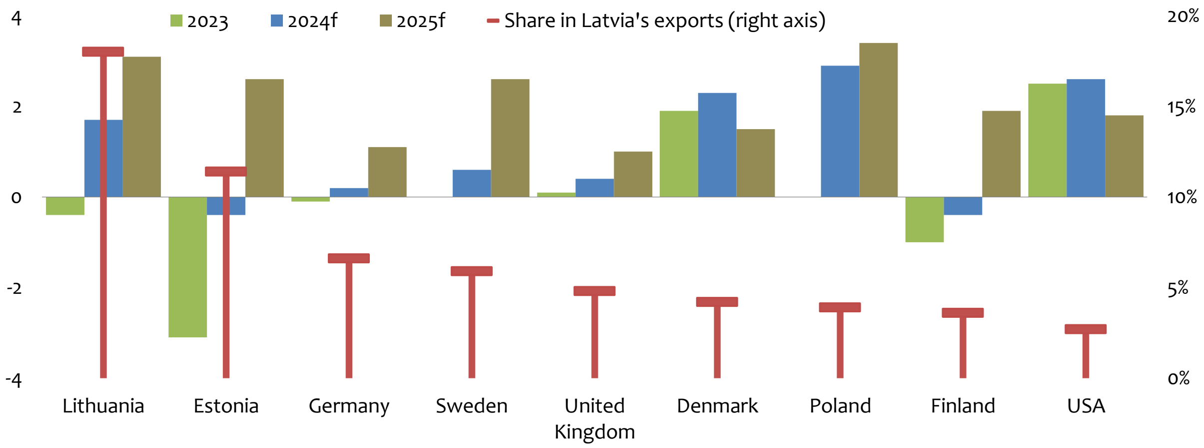
India's economy grew by 7.8% in 2023, and GDP is forecasted to grow by 6.6% in both 2024 and 2025. In the U.S., GDP grew by 2.5% in 2023, driven by private consumption as real wages rose and inflation declined. GDP is expected to grow by 2.6% in 2024 and 1.8% in 2025.

In the Eurozone, GDP growth is projected at 0.7% in 2024, gradually rising to 1.5% in 2025. Private consumption will be supported by wage growth in a tight labour market and rising real incomes as inflation decreases. Fiscal policy in 2024 and 2025 will be constrained, with a gradual phase-out of energy support measures.

In the United Kingdom, GDP grew by 0.1% in 2023. It is expected to grow by 0.4% in 2024 and by 1.0% in 2025. Germany's GDP fell by 0.1% in 2023. Weak consumer sentiment led to high savings levels among households and businesses, with low industrial activity.

Germany's economy is forecasted to grow by 0.2% in 2024 and 1.1% in 2025. In Sweden, GDP remained unchanged in 2023. Gradual easing of credit conditions, lower construction costs, and increased external demand will support private investment. GDP is projected to grow by 0.6% in 2024 and by 2.6% in 2025. Estonia's GDP contracted by 3.1% in 2023. It is expected to decrease by 0.4% in 2024 but to grow by 2.6% in 2025. Lithuania's GDP shrank by 0.3% in 2023. Growth is forecasted at 1.7% in 2024, with a 3.1% increase in 2025. In the Baltic States, significant risks stem from developments in export markets, especially in the Nordic countries, geopolitical tensions, and a faster-than-expected wage growth, which could sustain elevated core inflation.

Growth of Latvia's Largest Trade Partners
GDP changes against the corresponding period last year, as per cent – left axis; share as per cent in 2023 – right axis



Source: CSB, *OECD* (2024); f – forecast

[1] In this chapter, data is taken from OECD database

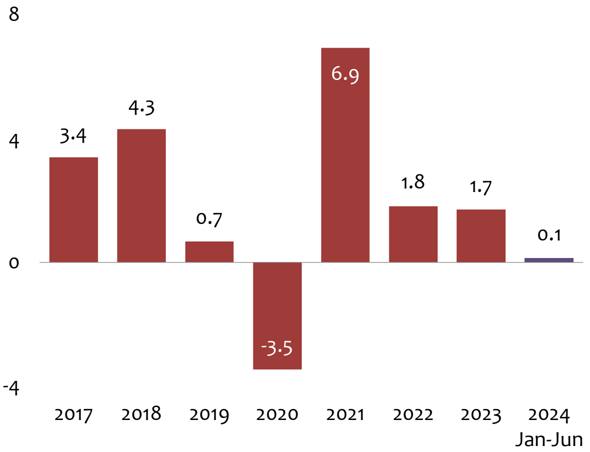
2024 | 2 GROSS DOMESTIC PRODUCT AND AGGREGATE DEMAND

GROSS DOMESTIC PRODUCT

Moderate economic development continued in 2023. In 2023, GDP grew by 1.7%, which was mainly ensured by the increase in investment and government consumption.

Gross domestic product

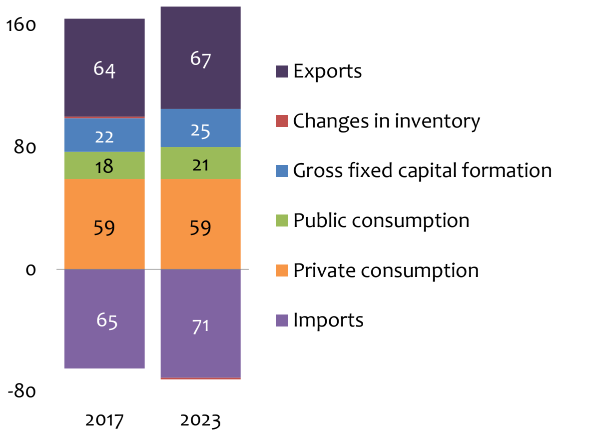
changes compared to the corresponding period last year, per cent



In 2024, economic growth slowed down. In the first half of 2024, GDP remained almost unchanged, rising by 0.1%, which was the slowest growth for the first half of the year since 2010 (the financial crisis), excluding the decline in 2020 due to the Covid-19 pandemic. Economic development in 2024 continued to be affected by the geopolitical situation and uncertainty, high prices, and rising bank interest rates. The main driver of growth was the increase in public consumption, while the biggest drag came from declines in exports and investments.

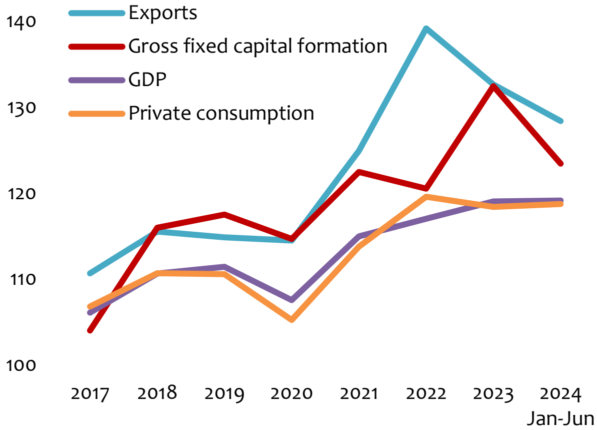
Gross Domestic Product from Expenditure Approach

structure as per cent of GDP



Gross Domestic Product by Expenditure Items

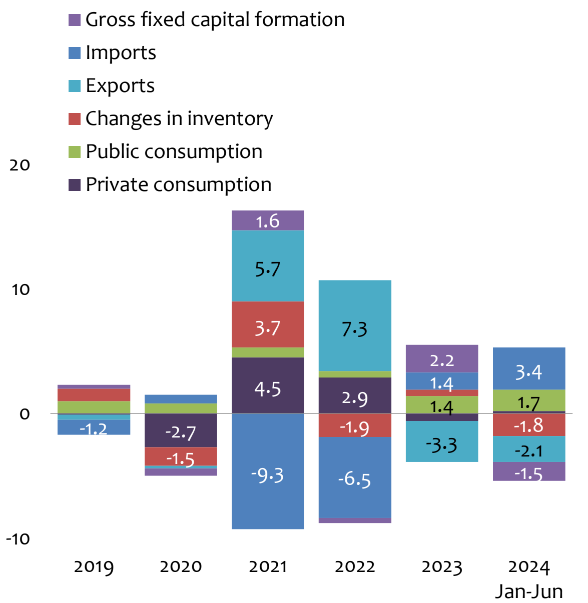
2015 = 100



The unfavourable external environment and weak demand in key target markets impacted Latvia's export performance, with declines in both goods and services exports. High uncertainty, weak lending, and low demand also led to a sharp decrease in investments, particularly in private investment volumes. Despite price stabilization, prices remain high, especially for food and services, which slows down the growth of private consumption.

Gross Domestic Product by Expenditure Items

contribution to growth as percentage points

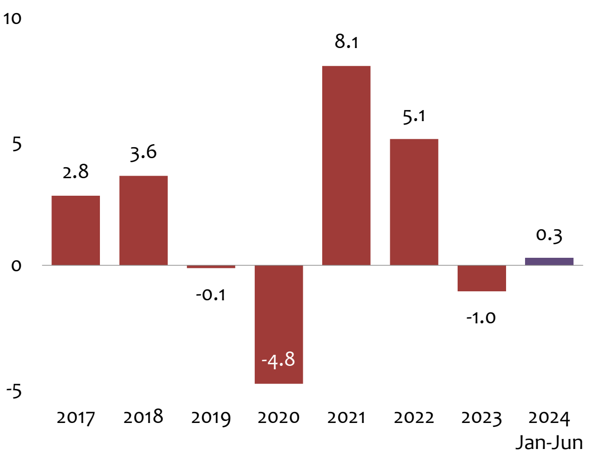


CONSUMPTION

Private consumption in the first half of 2024 remained practically unchanged. Following the economic recovery, there was a sharp increase in private consumption in 2021–2022. However, price growth outpaced wage increases, which negatively affected purchasing power in 2023. Despite price stabilization and some improvement in purchasing power, consumer sentiment remained cautious in the first half of 2024, with people hesitant to increase spending.

Private consumption

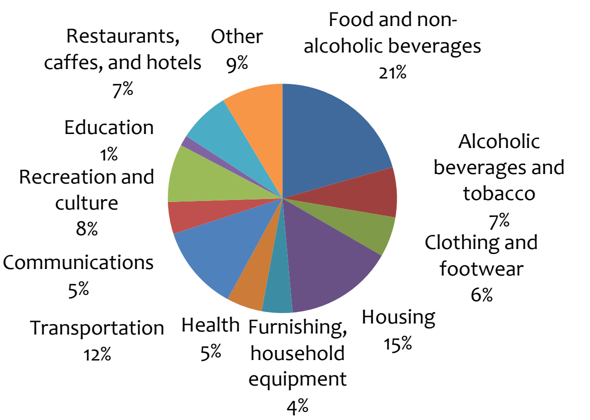
changes compared to the corresponding period last year, per cent



In household consumption structure, the largest share is spent on food. High prices for energy resources and food led households to continue saving in 2023, with sharp reductions in both housing-related expenses and food spending, while transport expenses rose significantly. At the beginning of the year, household spending on recreation and culture, as well as on restaurant and hotel services, increased notably, partially influenced by the low base effect due to Covid-19 restrictions in early 2022.

Structure of Household Expenditures

in 2023, as per cent

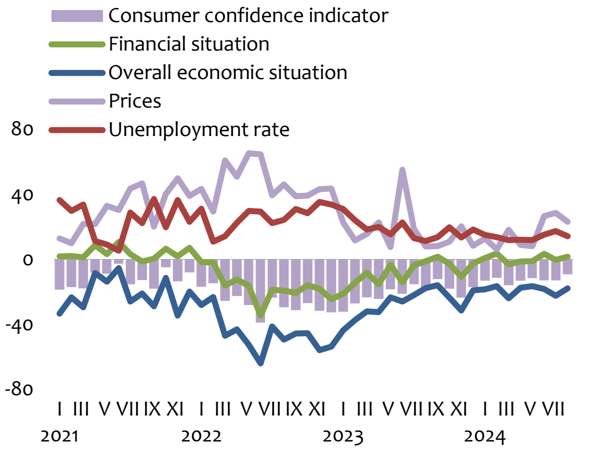


Consumer confidence significantly improved in 2023. In 2022, consumer sentiment had sharply deteriorated following Russia's invasion of Ukraine, further worsened by rising inflation.

In 2024, consumer confidence has not changed significantly, with the main confidence indicators remaining stable. Future assessments of financial conditions and the general economic situation have seen no drastic changes and even improved in August. Unemployment expectations in August have decreased. The only indicator that has seen sharper changes is inflation expectations, which have risen and remained high since June. Despite low inflation overall, this can be attributed to rising service prices and persistently high food prices.

Consumer Confidence Index

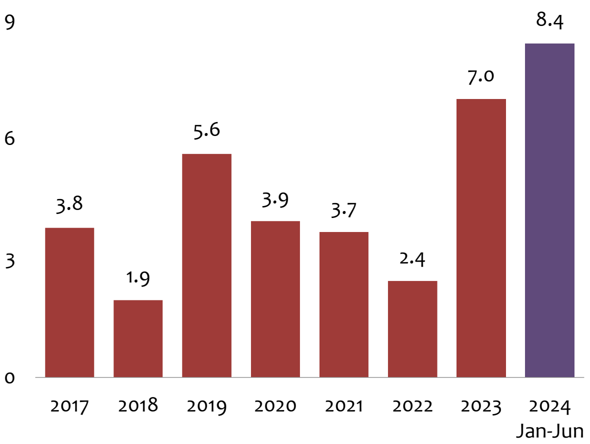
consumer assessment for the next 12 months, response balance, seasonally adjusted data



Public consumption continues to grow. In recent years, the government's support measures to mitigate the impact of the Covid-19 crisis and the rise in energy prices have maintained stable national consumption.

Public Consumption

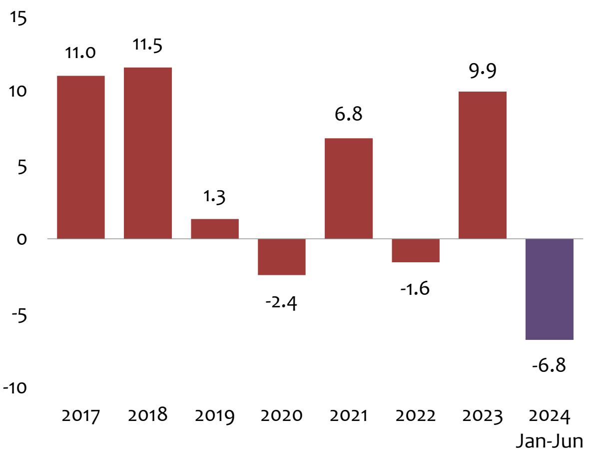
changes compared to the corresponding period last year, per cent



INVESTMENT

Investment activities since 2020 have been very volatile. In the last three years (2021-2023), gross fixed capital formation increased by an average of 4.9% per year, which is more moderate than before the Covid-19 pandemic in 2017-2019, when the increase was by an average of 7.8% per year.

Gross Fixed Capital Formation
changes compared to the corresponding period last year, per cent



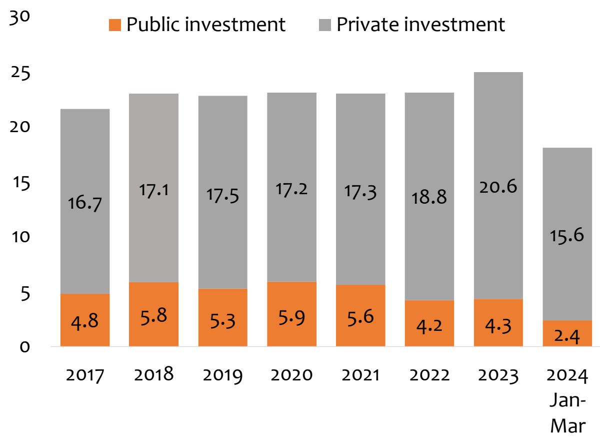
As the economy stabilized following the shock of the Covid-19 pandemic, investment volumes grew by 6.8% in 2021. The war in Ukraine has heightened uncertainty, reflected in investment activity trends. In 2022, investments decreased by 1.6%, while in 2023, they were 9.9% higher than the previous year. Investment activity was also constrained by rising construction costs and delays in utilizing EU-funded programs.

In 2024, investment dynamics show a downward trend. In the first half of the year, total capital formation expenses dropped by 6.8%, significantly influenced by a decline in private investment.

Although private investment dynamics have been positive since 2021, the overall level remains low. In 2022, private sector investments increased by 6.7%, and in 2023, they were nearly 11% higher than in 2022. However, in 2024, private investment dynamics turned negative, with first-quarter levels 9.5% lower than the previous year. High uncertainty, weak lending, and low demand significantly limit private investment.

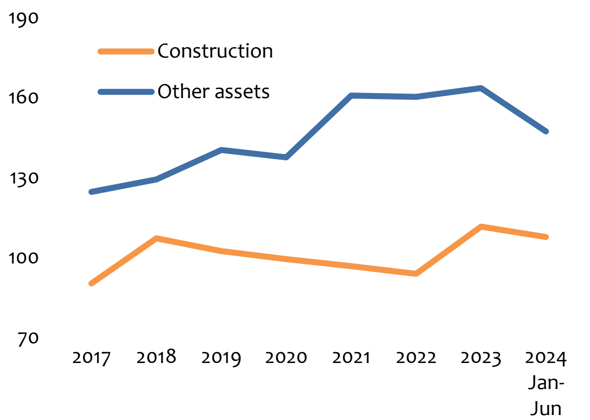
Public investments in Latvia account for nearly one-fifth of total investments in the national economy. Their dynamics are largely tied to the cyclical absorption of EU structural funds. Despite the Covid-19 crisis, public investment trends remained positive, with an average annual increase of 4.9%. However, in 2022 and 2023, annual public investment volumes (in constant prices) were lower than in 2021. In the first quarter of 2024, public investment volume was 3.6% lower than the previous year.

Public and Private Investment
as per cent of GDP



In the total volume of investments, the largest share is comprised of investments in construction assets, mainly in buildings and structures, which accounted for 51.4% of total capital formation expenditures over the past four years (2020–2023). During the period from 2020 to 2022, investments in construction assets (in constant prices) declined on average by nearly 3% annually. However, in 2023, the downward trends of previous years were reversed. Compared to the previous year, investments in construction assets increased by 19%, including a 21.3% rise in engineering structures and buildings and an 11.7% rise in housing. In the first half of 2024, however, investments in construction assets were 3.5% lower than the previous year.

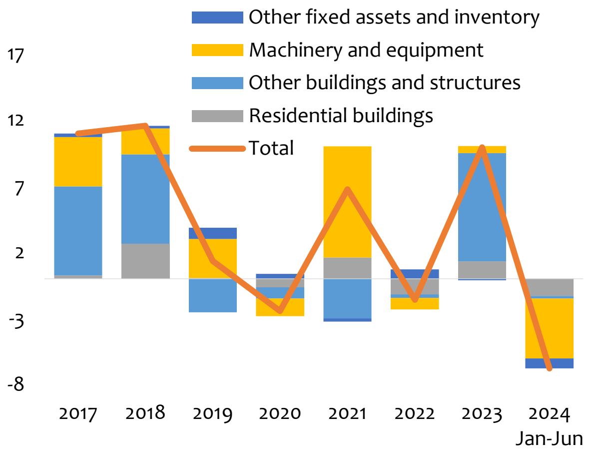
Gross Fixed Capital Formation by Type of Assets
2015 = 100



The dynamics of investments in machinery and technological equipment (excluding vehicles) have been slower compared to other assets. Over the past three years (2021–2023), investments in these assets declined on average by 1.6% annually, with volumes in 2023 being 8.7% lower than in 2022. In the first half of 2024, these investments continued to decrease, reaching a level 14% lower than the previous year.

Gross Fixed Capital Formation by Type of Asset

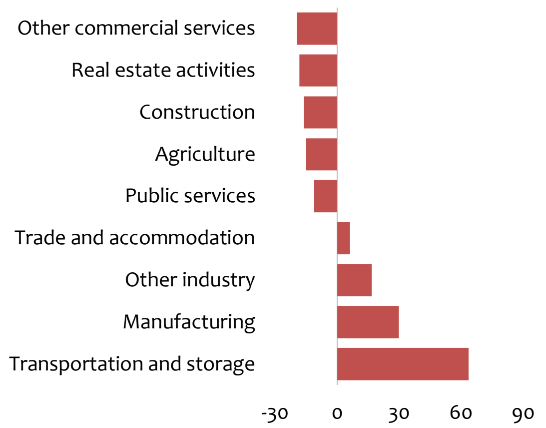
changes compared to the corresponding period last year, per cent asset type investment, as percentage points



The rise in investments in recent years has largely been driven by investments in vehicles and information and communication technology (ICT) equipment, which are essential for enabling remote work.

Non-financial Investment Dynamics

*in January-June 2024, changes compared to the corresponding period last year, as per cent**



* calculated using quarterly data, at current prices

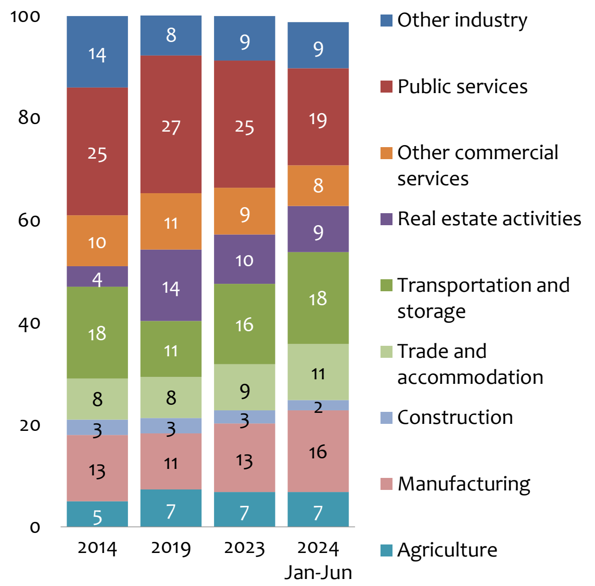
Investments in intellectual property assets make up about 9% of total investments, showing resilience during economic recessions and an overall growth trend. Since 2019, investments in these assets have increased by 6%. However, in the first half of 2024, investments in intellectual property products were 8.8% lower than the previous year, accounting for 2.2% of GDP.

Capital investments in tangible fixed assets in goods-producing sectors grew by nearly 10.9% in the first half of 2024 compared to the same period the previous year (in current prices), while capital investments in service sectors increased by 2.2%. The most significant contributions in the first half of 2024 were from increased investments in the transport and storage sector (up by 63.7%), the manufacturing sector (up by 29.8%), and the energy sector (up by 23.8%). In contrast, capital investments in real estate operations were 18.3% lower than a year ago, and public sector capital investments were down by 11.6% compared to the same period last year.

Surveys conducted by the European Investment Bank (EIB) indicate that Latvian entrepreneurs consider a lack of skilled labour and future uncertainty to be the most significant long-term obstacles to investment. Other constraints on investment include high energy costs, gaps in business regulation, and access to finance. The share of companies in Latvia that view access to finance as a key obstacle to investment is one of the highest in the EU.

Gross capital investment structure

*by sectors, as per cent**



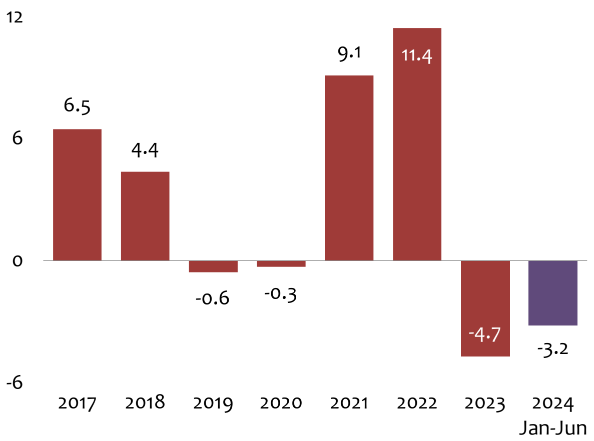
* gross capital investment in tangible assets (calculated using quarterly data)

Investment dynamics will continue to be influenced by uncertainty in the international environment. EU funding will have a positive impact, serving as a significant stimulus for raising investment levels. Several projects planned for funding under the Recovery and Resilience Facility will make substantial contributions to increasing investment activity. Expanding the credit portfolio, which has long been very limited, is also crucial. However, in the coming years, investments will be significantly constrained by geopolitical uncertainty due to the war in Ukraine, limited labour availability, rising costs, and the increased cost of lending as the ECB pursues restrictive monetary policy.

EXPORTS

Export is one of the main drivers of economic development. Export growth is closely related to external demand and economic development rates of key partner countries.

Exports of Goods and Services
changes compared to the corresponding period last year, per cent

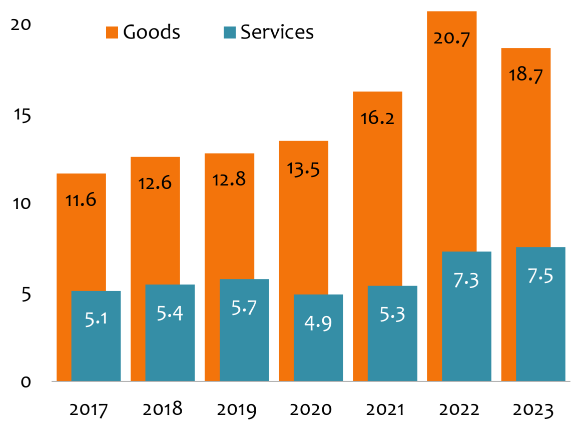


In 2019, with declining external demand, and in 2020, primarily due to the Covid-19 pandemic, growth in goods and services exports was close to zero. In 2021, thanks to a significant increase in external demand and partly due to the base effect, export growth resumed.

In 2022, as external demand continued to grow, export volumes increased significantly. Export growth was equally strong in the first to third quarters, though it slowed slightly in the final quarter of the year.

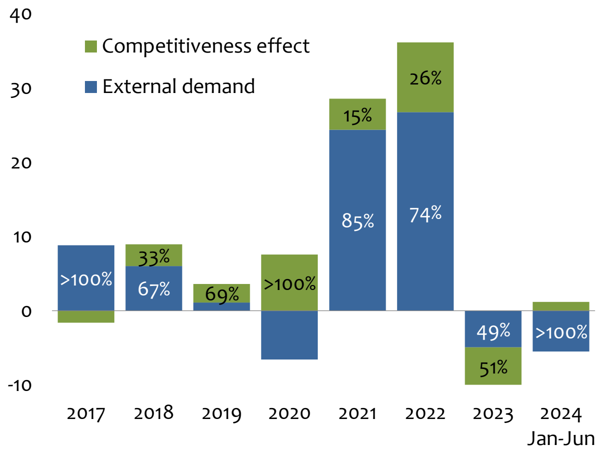
In 2023, due largely to weak external demand, export volumes were lower than the previous year. Similar trends continued in the first half of 2024.

Exports of Goods and Services
at current prices, billion euro



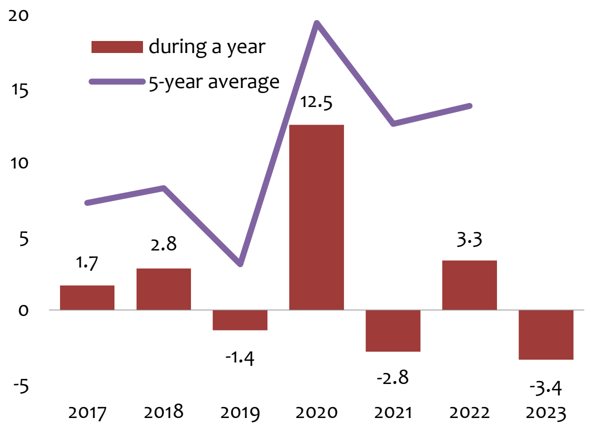
In 2018, export growth was primarily driven by external demand, with price competitiveness playing a smaller role. In 2019, export growth was boosted by the competitiveness effect, linked to the successful entry into new markets. In 2020, the impact of Covid-19 led to a sharp decline in external demand, which was almost fully offset by increased competitiveness in certain sectors. In both 2021 and 2022, export growth was supported by strong external demand and competitiveness. However, the opposite effect was observed in 2023 and the first half of 2024.

Changes of Exports by the Constant Market Share
structure of exports' changes to the EU countries, as per cent



Since 2016, Latvia's share of exports in the global market has tended to increase, except in 2019 and 2021, when Latvia's export growth rates were lower than the global average. This indicates that Latvia maintains competitiveness despite the rapid rise in labour costs.

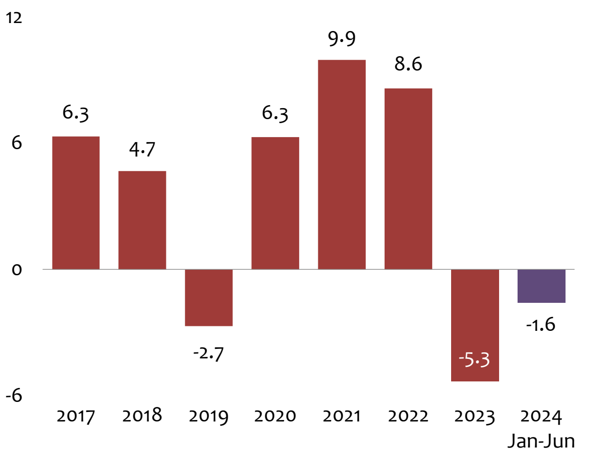
Share of Exports in World Trade
changes as per cent



Exports of goods

The proportion of goods exports has not changed significantly since 2020 and constitute approximately 3/4 of Latvia's total exports.

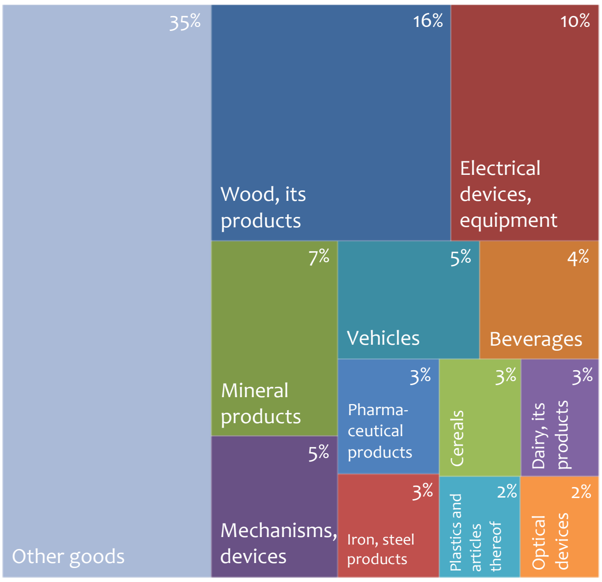
Exports of Goods
at constant prices, changes compared to the corresponding period last year, as per cent



After a decline in 2019, goods export growth was relatively strong from 2020 to 2022. In 2022, exports rose by 8.6% at constant prices, with a significant rise in export prices. The increase in current prices was sharper – by 29.7%.

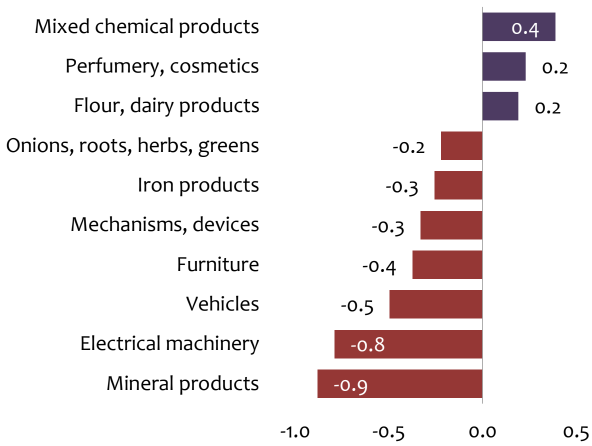
In contrast, 2023 saw the opposite effect, with export volumes declining in both current and constant prices.

Exports of Goods
in January-August 2024, structure as per cent



In 2023, the value of goods exports decreased by 10.7%. This decline was mainly due to a reduction in the export value of mineral products and wood products, although it was partially offset by growth in the exports of beverages and electrical equipment. From January to August 2024, export volumes further declined by 4.0%, significantly impacted by the reduced export value of mineral products.

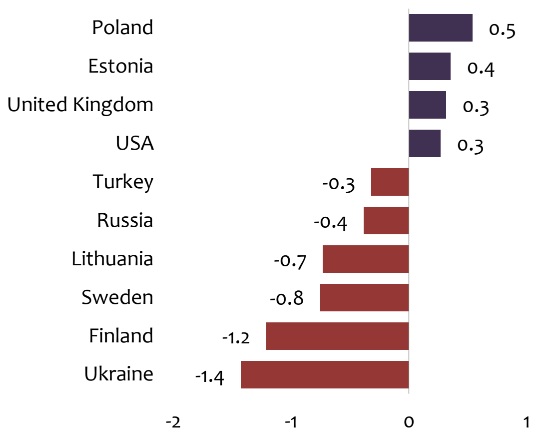
Exports of Goods
contribution to growth in January-August 2024, percentage points



From January to August 2024, goods exports declined sharply to CIS countries, while the decrease was more moderate to the EU and other countries.

In the first eight months of 2024, the main export products to EU countries were wood and wood products, electrical devices and equipment, and mineral products. Exports to CIS countries were dominated by beverages and pharmaceutical products, while exports to other countries mainly included wood and wood products, cereals, as well as electrical devices and equipment.

Exports of Goods by Country
contribution to growth in January-July 2024, changes as per cent



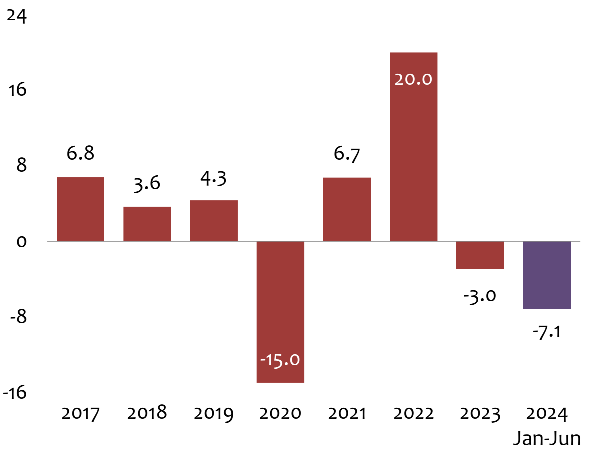
The key partner countries for Latvia's goods exports in the first eight months of 2024 were Lithuania, Estonia, Germany, Russia, Sweden, the United Kingdom, Poland, Denmark, and the Netherlands. Latvia exported two-thirds of all goods to these countries.

Exports of services

From 2017 to 2019, Latvia's service export growth was stable. However, in 2020, due to Covid-related restrictions, service exports declined significantly. In 2021, service exports began to recover, growing especially rapidly in 2022, when service export volumes exceeded pre-Covid levels. In contrast, service exports declined again in 2023 and the first half of 2024.

Exports of Goods

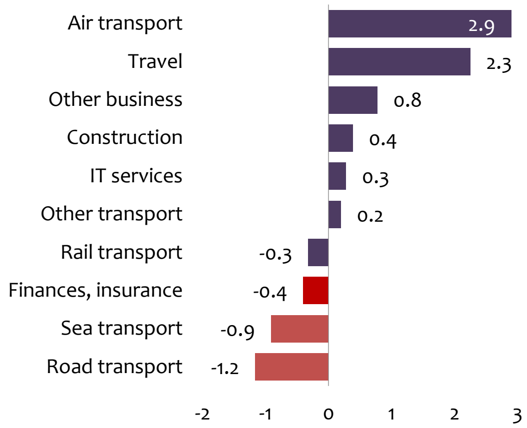
at constant prices, changes compared to the corresponding period last year, as per cent



In current prices, service exports grew by 3.5% in 2023 but slightly declined by 1.6% in the first half of 2024. In the first half of 2024, exports of trade intermediation services decreased significantly, while air transport service volumes grew substantially. Additionally, the export value of computer and information services and road transport services increased.

Exports of Goods

contribution to growth in 2023, compared to the corresponding period last year, percentage points



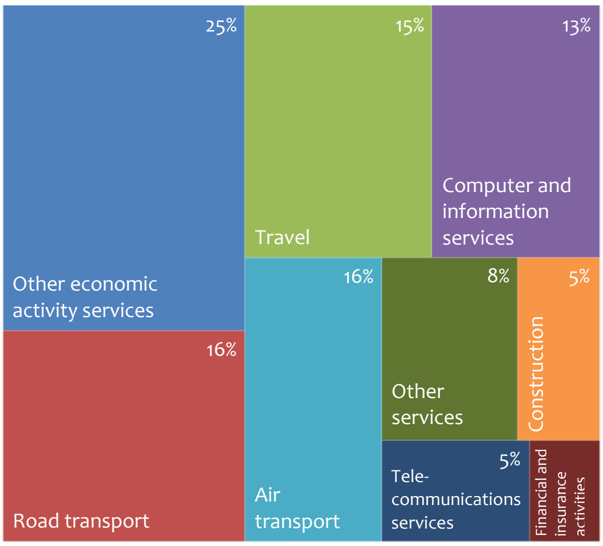
In service exports by country groups, exports to EU countries have been taking an increasingly larger share. In 2019, this share was 61%, rising to 65% in the first half of 2024. A large portion of service exports to EU countries includes trade intermediation, road transport, travel, air transport, and ICT services.

The share of service exports to CIS countries, mostly related to transit services, has been decreasing, with exports to CIS countries dropping from 12% in 2019 to 3.5% in the first half of 2024.

Among other countries outside the EU and CIS, service exports have been growing dynamically. In 2023, service exports grew most rapidly to the United Arab Emirates, Ukraine, the Isle of Man, and Switzerland.

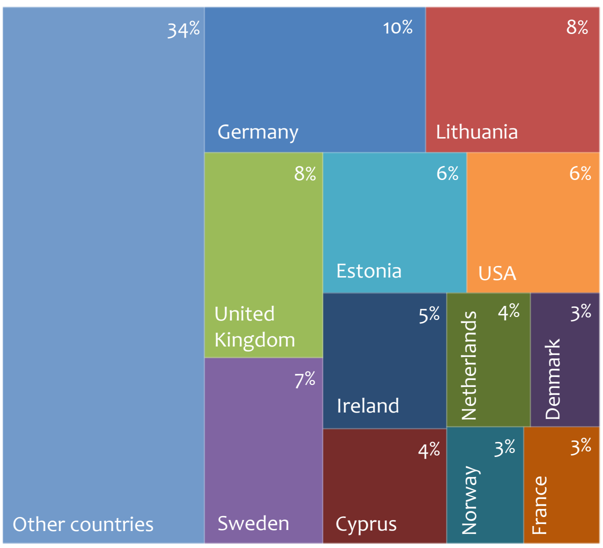
Exports of Goods

in January-June 2024, structure, as per cent



Exports of Goods by Country

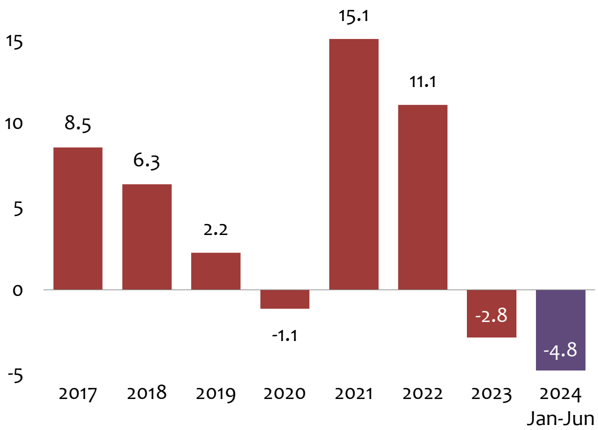
contribution to growth in January-June 2024, compared to the corresponding period last year, changes as per cent



IMPORTS

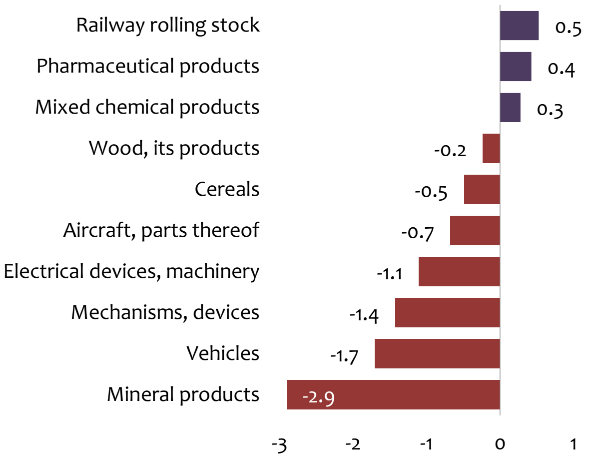
Until 2019, the growth in imports of goods and services was similar to export growth. In 2020, due to Covid-19, service imports declined significantly, while goods imports slightly increased. In 2021, there was a substantial rise in both goods and service imports. Import growth continued in 2022, with a faster increase in service imports and a more moderate rise in goods imports.

Imports of Goods and Services
at constant prices, changes compared to the corresponding period last year, as per cent



In 2023, goods imports were 2.9% lower, while service imports were 2.5% higher than the previous year. In the first half of 2024, service imports declined more sharply than goods imports.

Imports of Goods
contribution to changes in January-August 2024, percentage points

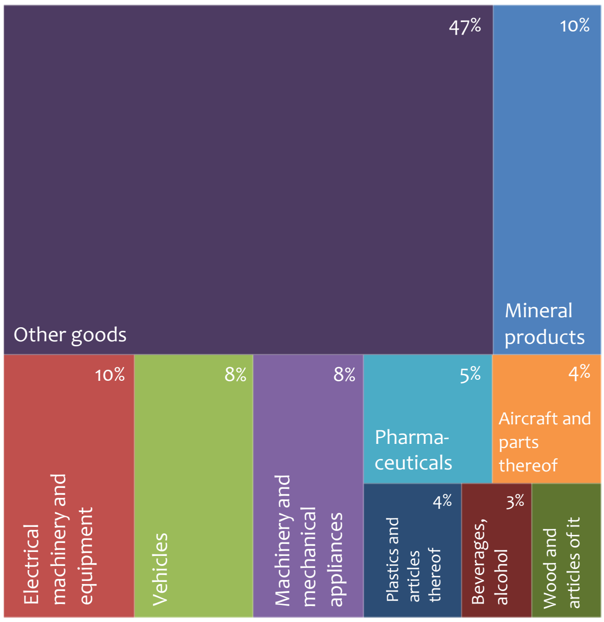


The decline in goods imports from January to August 2024 was influenced by reduced import values of mineral products, as well as land vehicles, machinery, and electrical devices. Conversely, imports of railway transport, pharmaceutical products, organic chemical compounds, and animal and vegetable fats increased during this period.

During this time, goods imports from Lithuania, Germany, Estonia, Russia, Finland, and Canada decreased more sharply, while imports from the Czech Republic, India, Saudi Arabia, and Portugal rose.

Latvia's main goods import partner countries are Lithuania, Germany, Poland, Estonia, the Netherlands, Finland, China, and Italy. Imports from these countries accounted for two-thirds of Latvia's total goods imports in the first eight months of 2024.

Structure of Imports of Goods
in January-August 2024, as per cent



In the first eight months of 2024, the main import groups from EU countries were mineral products, vehicles, machinery, and electrical devices. Imports from CIS countries still largely consist of mineral products, animal feed, animal and vegetable fats, and iron and steel, with imports from Russia accounting for about 60% of all CIS imports.

Latvia's main service import partner countries are Ireland, Lithuania, Germany, Estonia, the U.S., the United Kingdom, and Poland. Approximately two-thirds of service imports come from EU countries. Notably, service imports from Russia have gradually decreased, from 4.8% in 2021 to 0.6% in the first half of 2024.

In recent years, a large portion of service imports has consisted of trade intermediation, transport, and travel services.

2024 | 2

SECTORAL DEVELOPMENT

In 2009–2010, a decrease in labour costs improved the competitiveness of Latvian producers, laying the foundation for export growth and changing the structure of the economy. In 2010, producing sectors (agriculture, forestry and fishing, industry, and construction) accounted for 28.2% of total value added, which rose to 29.8% in 2023. Compared to 2010, the economic structure in 2023 shows an increased share in construction, business services, and public services, while the share decreased in manufacturing, transport, trade, agriculture, forestry, and fishing.

From 2015 to 2019, all sectors saw growth except for other industries, financial activities, and real estate operations, with the largest contributions to growth coming from trade and manufacturing.

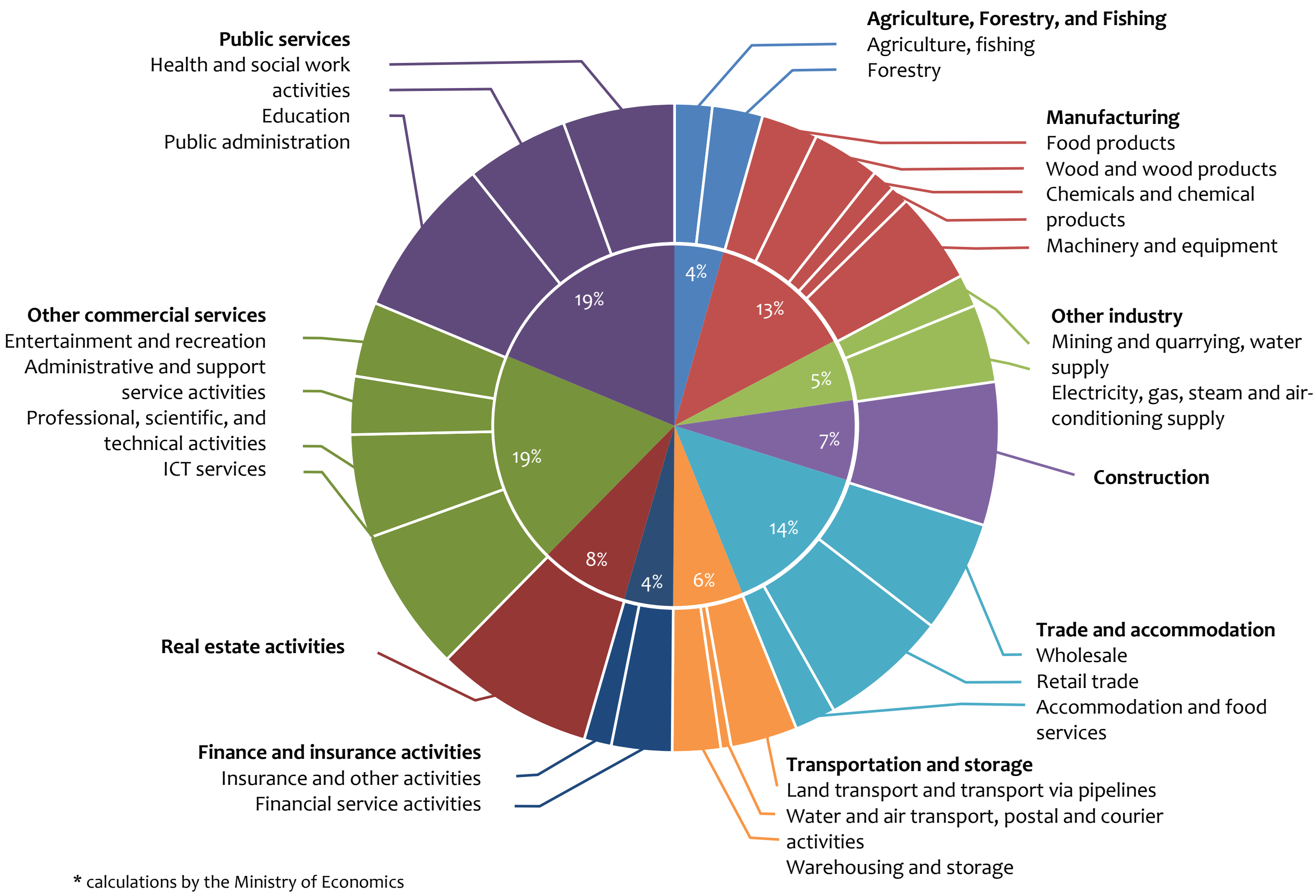
In 2020, the Covid-19 crisis negatively impacted almost all sectors, with the largest declines in service sectors and construction. As the economy recovered, 2021 saw growth in all sectors except construction, accommodation, and education, with trade and manufacturing having the largest impact.

In 2022–2023, growth was moderate due to an unstable geopolitical situation. Volumes declined in all producing sectors except construction, but increased in all service sectors except transport, financial activities, and education. The biggest drivers were growth in trade and healthcare and declines in industry, agriculture, forestry, and fishing.

In the first half of 2024, with the economy slowing, volumes decreased in most service sectors, manufacturing, and construction. The largest impacts came from growth in healthcare and declines in manufacturing and transport.

Structure of Value Added

2023, as per cent*



* calculations by the Ministry of Economics

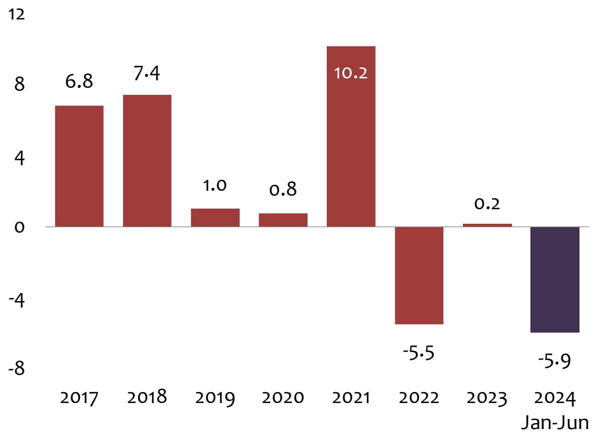
Development of Sectors
changes compared to the corresponding period last year, as per cent

	2017	2018	2019	2020	2021	2022	2023	2024 Jan-Jun
Gross domestic product	**3.4**	**4.3**	**0.7**	**-3.5**	**6.9**	**1.8**	**1.7**	**0.1**
Agriculture, forestry, and fishing	1.5	-3.9	21.3	-0.2	0.4	-14.1	-8.1	4.0
Mining and quarrying	9.2	9.1	-8.6	6.2	-5.0	4.9	-19.9	14.0
Manufacturing	6.8	7.4	1.0	0.8	10.2	-5.5	0.2	-5.9
Manufacture of food products	5.2	-2.9	-0.7	-1.7	1.3	1.3	2.8	1.3
Light industry	7.6	-0.8	-2.6	-9.5	11.8	5.1	-7.2	-6.4
Manufacture of wood and articles of wood	2.1	4.5	0.0	4.5	3.7	-1.0	-8.4	-1.1
Manufacture of paper and paper products	4.5	-3.7	5.7	4.7	14.0	-2.7	-23.0	4.9
Manufacture of chemicals and chemical products	11.4	7.0	3.9	-1.8	14.8	4.1	-7.7	-9.2
Manufacture of non-metallic mineral products	11.1	1.3	-2.1	-1.4	4.4	5.4	-16.8	-2.0
Manufacture of basic metals	12.0	3.6	13.5	-5.6	5.8	16.1	-6.1	-7.3
Manufacture of computer, electronic and optical products	15.8	12.1	11.3	12.1	5.7	3.5	13.6	-7.8
Manufacture of machinery and equipment	21.5	7.0	-1.9	-2.7	24.1	-12.3	4.2	-17.9
Manufacture of motor vehicles	22.8	7.3	-7.7	-15.3	17.7	19.5	-15.5	-4.8
Other manufacturing	4.3	-1.8	2.8	-14.2	11.8	3.8	-4.1	-7.6
Electricity, gas, steam, and air-conditioning supply	-1.8	-38.6	-10.3	30.3	29.2	-32.2	1.3	2.8
Construction	15.4	12.4	1.3	-5.8	-13.7	-4.3	20.9	-4.5
Construction of buildings	13.3	16.1	11.4	-7.9	-16.2	0.0	26.8	-18.1
Civil engineering	26.8	6.5	-11.5	-7.3	-15.3	-17.2	10.8	19.1
Trade	2.6	3.8	2.2	-4.2	19.7	5.6	2.7	1.3
Retail trade	4.3	3.8	2.3	1.5	-3.5	3.1	-1.9	0.6
Transportation and storage	6.8	3.6	-2.2	-15.9	4.9	3.5	-7.2	-9.0
Freight rail transport	-8.4	12.5	-15.8	-42.0	-9.5	-2.1	-27.5	-23.3
Cargo handling	-2.0	6.9	-5.7	-27.9	-7.2	15.2	-19.6	-11.4
Freight transport by road	7.0	12.8	-3.8	2.6	7.8	-0.8	-0.3	2.8
Accommodation and food service activities	9.5	7.6	-4.8	-31.4	-4.2	35.8	7.6	-0.2
Information and communication services	8.6	9.7	4.0	0.8	12.0	8.5	1.8	-1.1
Finance and insurance activities	-19.5	2.0	-9.2	-13.3	18.9	1.4	-3.8	-6.3
Real estate activities	-2.9	4.2	-1.7	-0.5	9.0	4.5	3.6	-2.1
Other service activities	4.9	2.8	-0.5	-1.8	4.9	5.1	4.7	-5.2
Public administration and defense; compulsory social security	3.8	2.3	-0.2	3.4	0.9	3.9	1.9	2.2
Education	4.9	3.4	-4.5	1.2	-0.6	-1.4	-1.6	-3.6
Health and social work activities	4.2	9.3	4.8	-3.4	6.4	8.1	12.5	31.9
Arts, entertainment, and recreation	5.3	6.1	1.9	-33.8	2.8	35.6	13.6	4.3

MANUFACTURING

The development of manufacturing is driven by improved competitiveness of Latvian producers and demand dynamics in major export markets. Production volumes grew particularly rapidly in 2017 and 2018, but more slowly in 2019 and, due to the Covid-19 crisis, also in 2020.

Manufacturing
change in value added compared to the corresponding period last year, as per cent



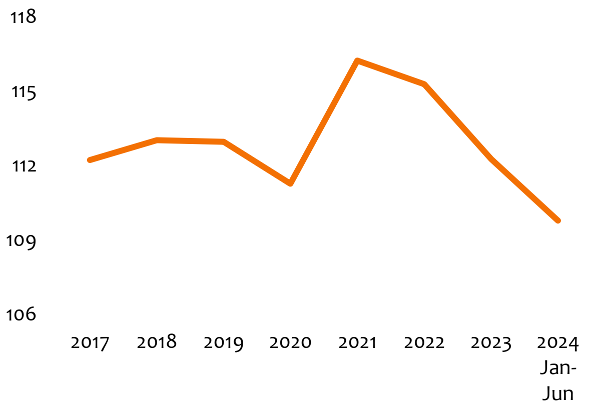
In 2021, growth in the manufacturing industry resumed at a faster pace. Positive growth rates continued in the first half of 2022, but growth turned negative in the second half and overall for the year.

In 2023, manufacturing production volumes were similar to the previous year. Production decreased in wood processing, non-metallic mineral products, and the chemical industry, while it increased in the production of electrical and optical equipment and food products.

From January to August 2024, manufacturing production volumes were 3% lower than the previous year. The decline was driven by lower output in fabricated metal products, computers, electronic and optical equipment, machinery and equipment. However, the production volumes increased in the chemical and food industries.

During the same period, manufacturing turnover in current prices decreased by 3.7%. Sales in the domestic market declined moderately, while export volumes dropped at a slightly faster rate.

Occupied Posts in Manufacturing
in thousand



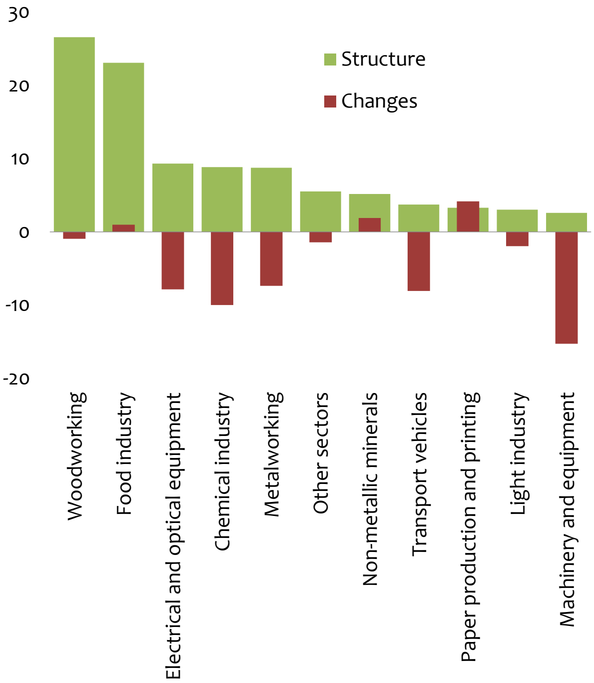
In 2023, the number of occupied posts decreased most rapidly in the wood processing and non-metallic mineral manufacturing sub-sectors, while it rose in the production of computers, electrical, and optical equipment. Similar trends in job reductions continued in the first half of 2024.

Structure of Manufacturing and Development Trends by Field
as per cent

	Structure in 2023			Changes in production volumes				
	Output	Occupied posts	Exports in total sales	2020	2021	2022	2023	2024 Jan-Aug
Manufacturing	**100**	**100**	**65.9**	**-0.9**	**7.5**	**2.7**	**-5.2**	**-3.0**
Food industry	22.0	18.7	42.2	-1.7	1.3	1.3	2.8	1.0
Light industry	2.9	8.0	85.7	-9.5	11.8	5.1	-7.2	-2.0
Manufacture of wood and wood products	26.4	20.4	67.3	4.5	3.7	-1.0	-8.4	-1.0
Manufacture of paper and paper products	3.2	4.4	62.7	4.7	14.0	-2.7	-23.0	4.2
Manufacture of chemicals and chemical products	8.9	7.5	76.7	-1.8	14.8	4.1	-7.7	-10.0
Manufacture of non-metallic mineral products	5.1	5.3	50.1	-1.4	4.4	5.4	-16.8	1.9
Manufacture of basic metals	9.1	11.2	65.3	-5.6	5.8	16.1	-6.1	-7.4
Manufacture of electronic products	9.9	5.7	87.9	12.1	5.7	3.5	13.6	-7.9
Manufacture of machinery and equipment	2.9	3.1	90.8	-2.7	24.1	-12.3	4.2	-15.3
Manufacture of motor vehicles	4.3	3.6	92.3	-15.3	17.7	19.5	-15.5	-8.1
Other manufacturing	5.4	12.1	67.7	-14.2	11.8	3.8	-4.1	-1.4

Growth of Manufacturing

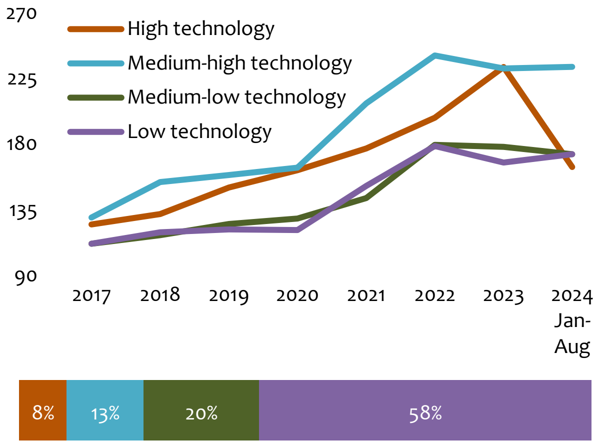
structure and changes in January-August 2024, compared to the corresponding period last year, as per cent



Weak demand in the EU, Latvia's largest market for goods, largely drove the decline in manufacturing growth in 2023. Additionally, the industry was negatively impacted by the war in Ukraine, which disrupted existing raw material supply chains. Although there was a reduction in output in the first half of 2024, positive growth trends emerged in the second half of the year, primarily driven by improved export opportunities.

Manufacturing Volume Index and Structure by Levels of Technology

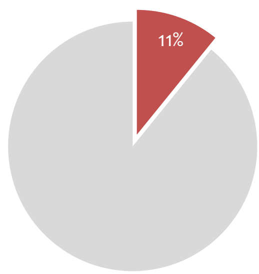
2015 = 100, structure in January-August 2024, as per cent



Main Indicators of Manufacturing [1]

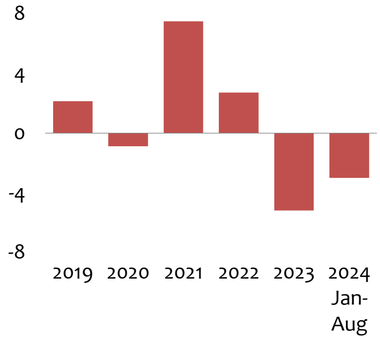
Share in total value added

in January-June 2024, as per cent



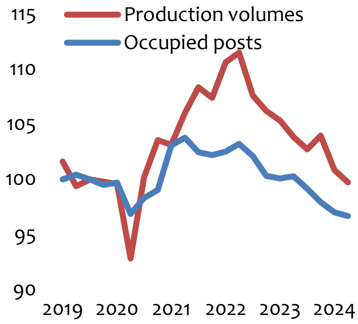
Changes in production volumes

compared to the corresponding period last year, as per cent



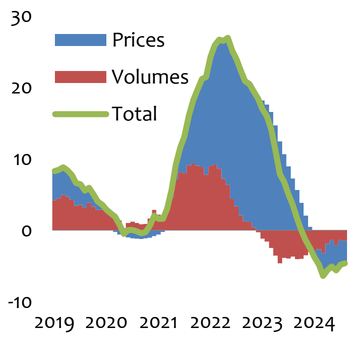
Production volumes and occupied posts

Q4 2018 = 100



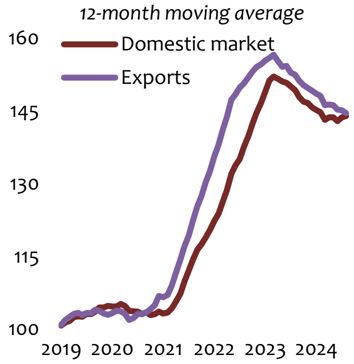
Changes in sales of production

12-month moving average, as per cent



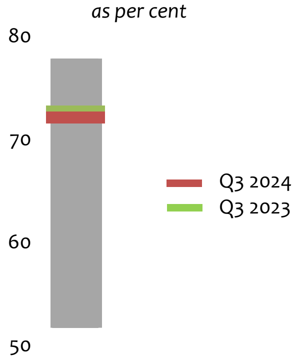
Production sales

December 2018 = 100, 12-month moving average



Capacity utilization rate

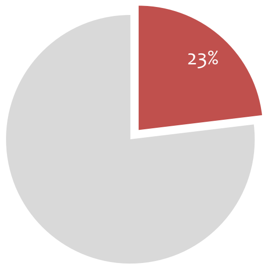
Historically highest/lowest level, as per cent



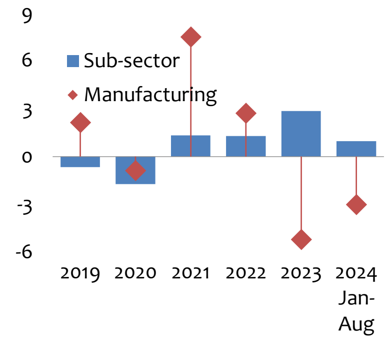
[1] dati par produkcijas realizāciju līdz 2024.gada augustam

Manufacture of food products and beverages

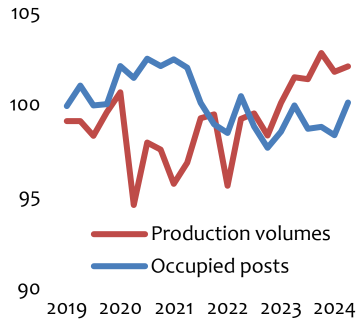
Share in total value added
in January-June 2024, as per cent



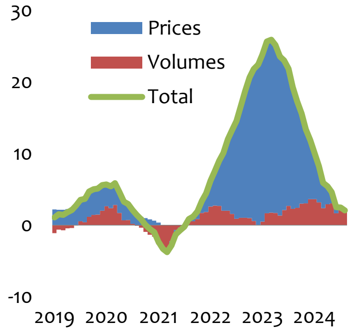
Changes in production volumes
compared to the corresponding period last year, as per cent



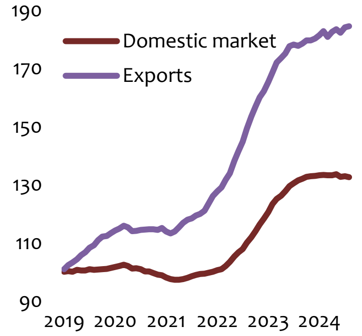
Production volumes and occupied posts
Q4 2018 = 100



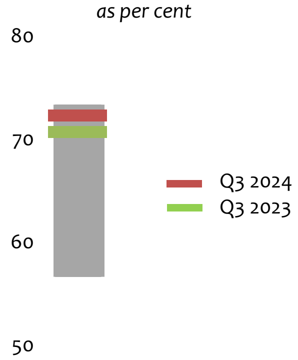
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2018 = 100, 12-month moving average

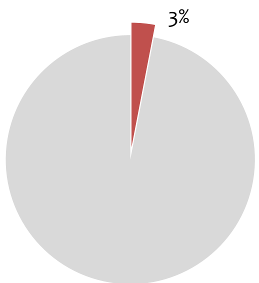


Capacity utilization rate
Historically highest/lowest level, as per cent

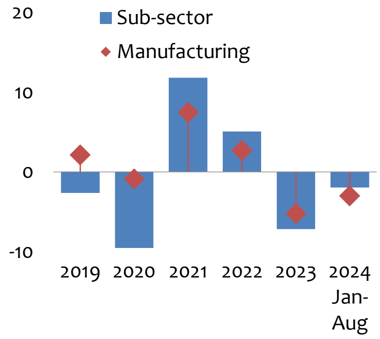


Light Industry

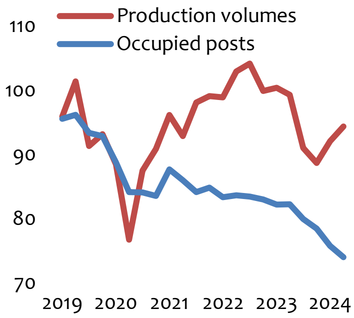
Share in total value added
in January-June 2024, as per cent



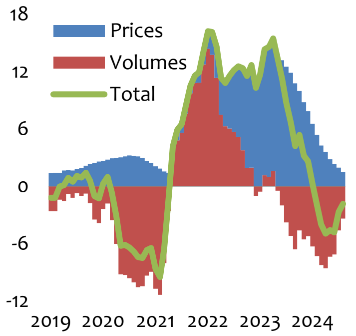
Changes in production volumes
compared to the corresponding period last year, as per cent



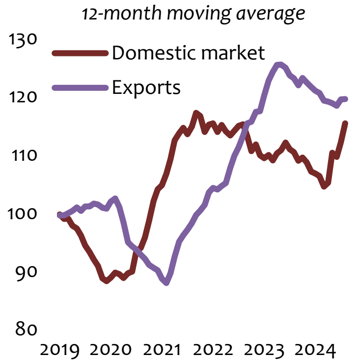
Production volumes and occupied posts
Q4 2018 = 100



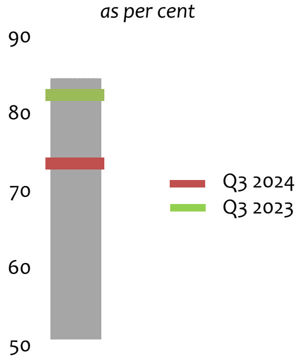
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2018 = 100, 12-month moving average

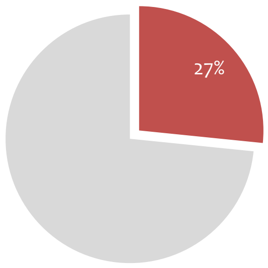


Capacity utilization rate
Historically highest/lowest level, as per cent

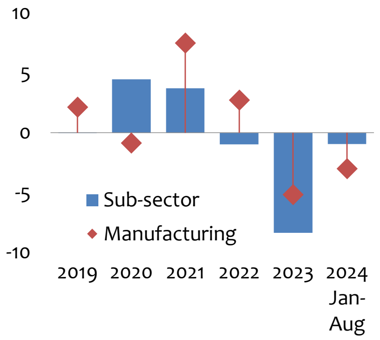


Manufacture of wood and wood products

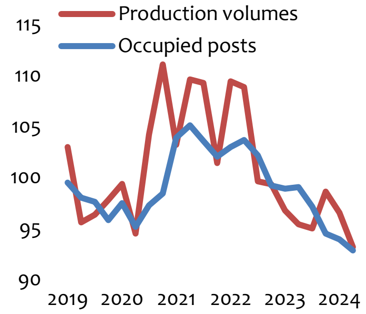
Share in total value added
in January-June 2024, as per cent



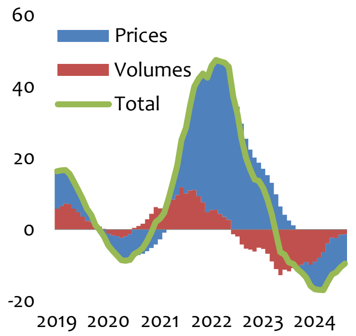
Changes in production volumes
compared to the corresponding period last year, as per cent



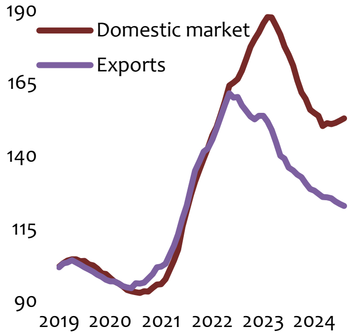
Production volumes and occupied posts
Q4 2018 = 100



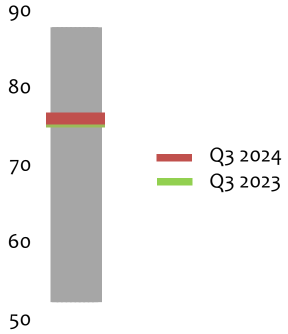
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2018 = 100, 12-month moving average

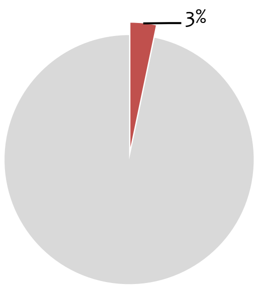


Capacity utilization rate
Historically highest/lowest level, as per cent

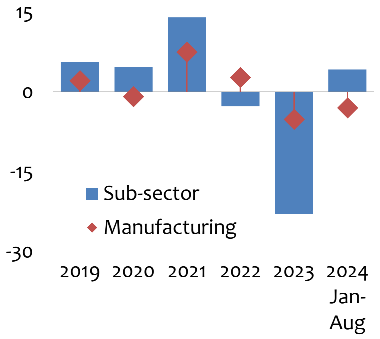


Manufacture of paper and paper products

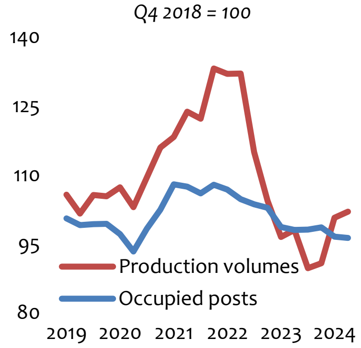
Share in total value added
in January-June 2024, as per cent



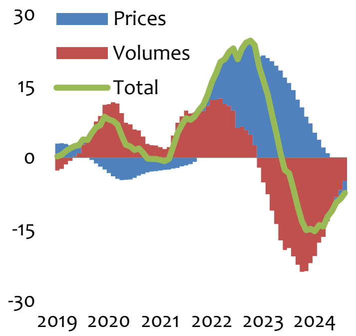
Changes in production volumes
compared to the corresponding period last year, as per cent



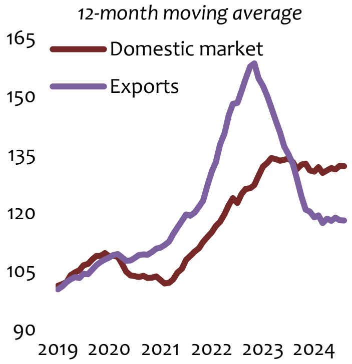
Production volumes and occupied posts
Q4 2018 = 100



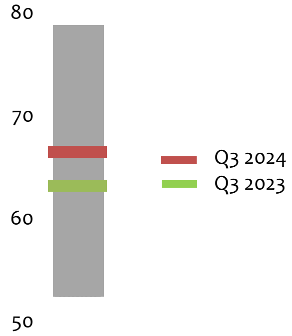
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2018 = 100, 12-month moving average

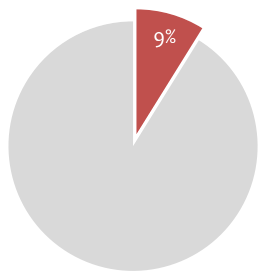


Capacity utilization rate
Historically highest/lowest level, as per cent

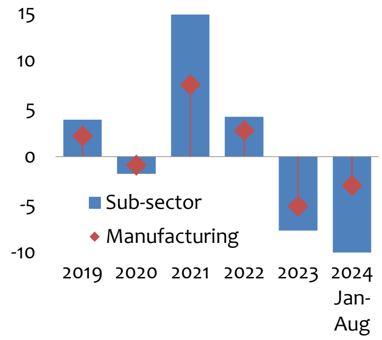


Manufacture of chemicals and chemical products

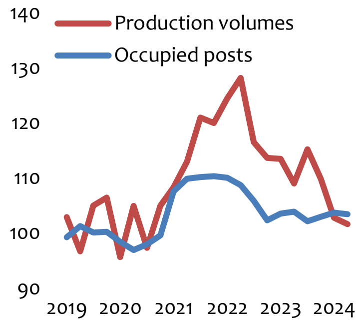
Share in total value added
in January-June 2024, as per cent



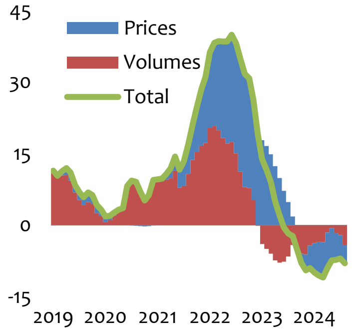
Changes in production volumes
compared to the corresponding period last year, as per cent



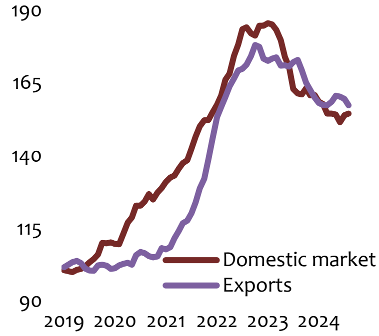
Production volumes and occupied posts
Q4 2018 = 100



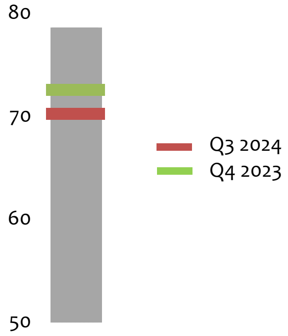
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2018 = 100, 12-month moving average

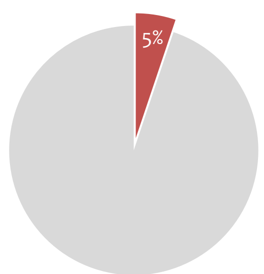


Capacity utilization rate
Historically highest/lowest level, as per cent

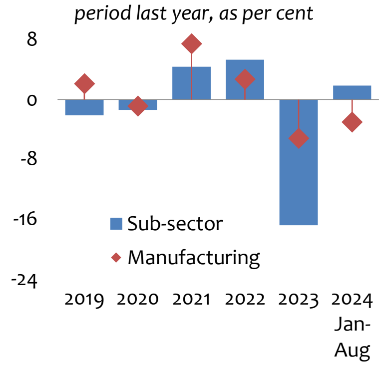


Manufacture of non-metallic mineral products

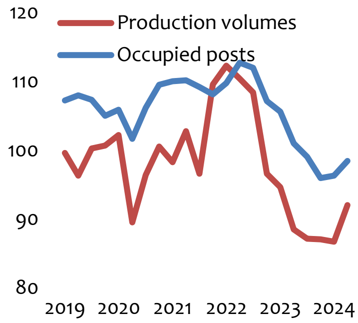
Share in total value added
in January-June 2024, as per cent



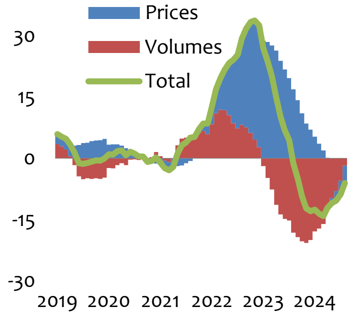
Changes in production volumes
compared to the corresponding period last year, as per cent



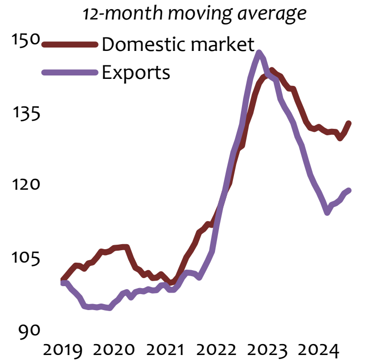
Production volumes and occupied posts
Q4 2018 = 100



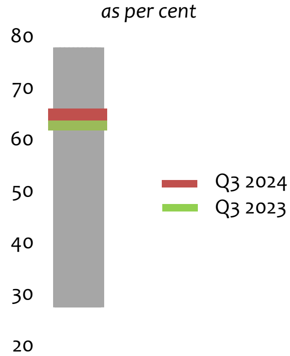
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2018 = 100, 12-month moving average

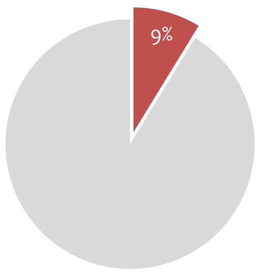


Capacity utilization rate
Historically highest/lowest level, as per cent

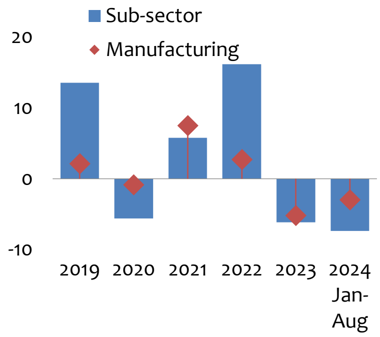


Manufacture of basic metals and fabricated metal products

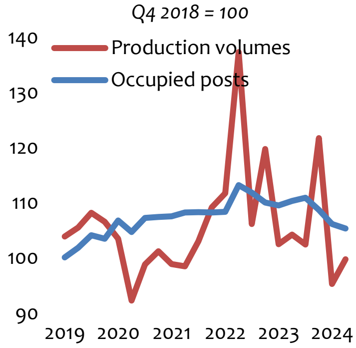
Share in total value added
in January-June 2024, as per cent



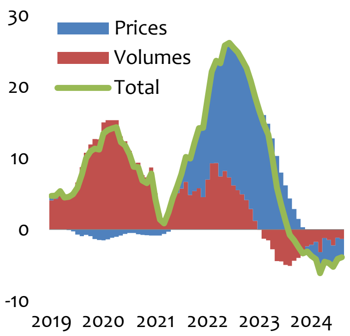
Changes in production volumes
compared to the corresponding period last year, as per cent



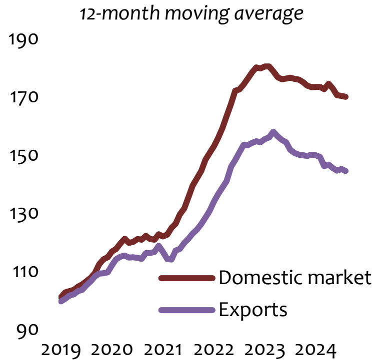
Production volumes and occupied posts
Q4 2018 = 100



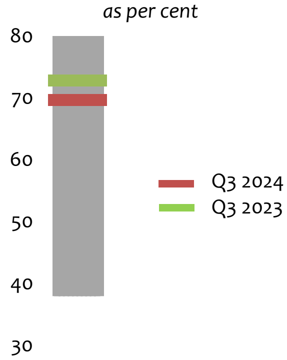
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2018 = 100, 12-month moving average

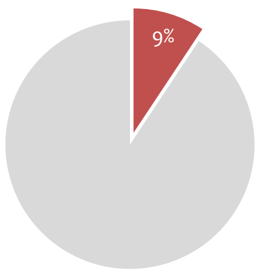


Capacity utilization rate
Historically highest/lowest level, as per cent

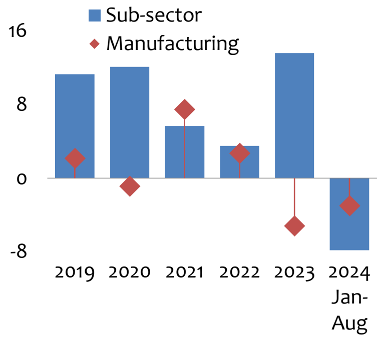


Manufacture of electronic and optical products

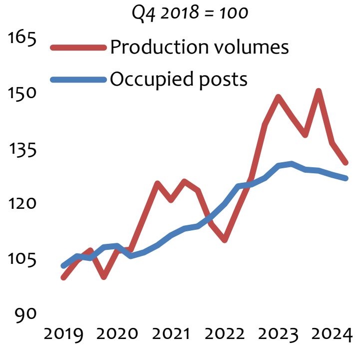
Share in total value added
in January-June 2024, as per cent



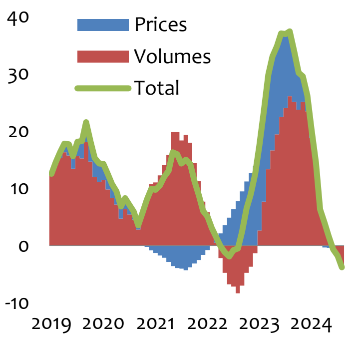
Changes in production volumes
compared to the corresponding period last year, as per cent



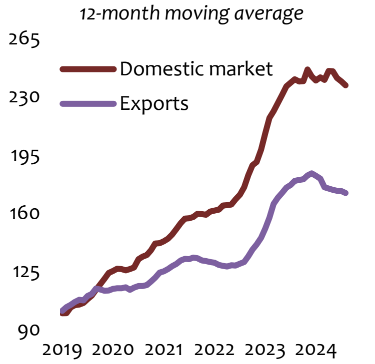
Production volumes and occupied posts
Q4 2018 = 100



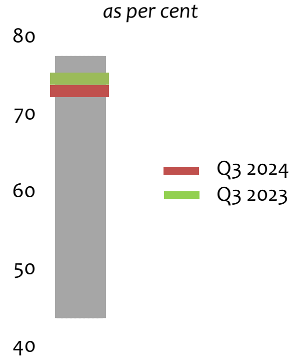
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2018 = 100, 12-month moving average

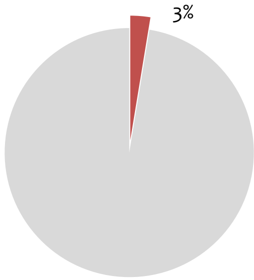


Capacity utilization rate
Historically highest/lowest level, as per cent

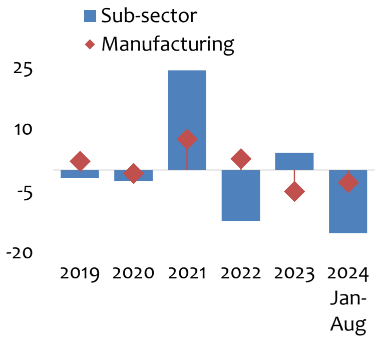


Manufacture of machinery and equipment

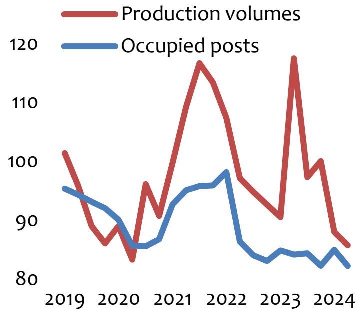
Share in total value added
in January-June 2024, as per cent



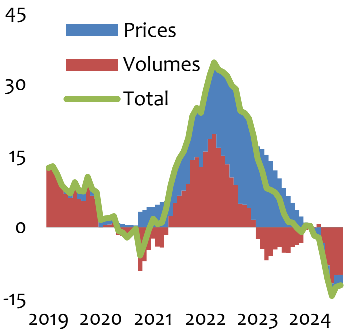
Changes in production volumes
compared to the corresponding period last year, as per cent



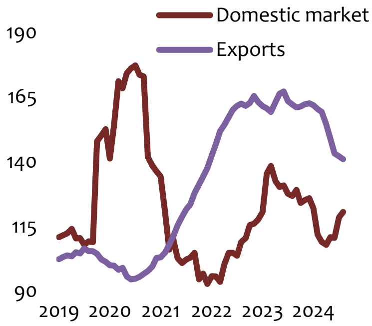
Production volumes and occupied posts
Q4 2018 = 100



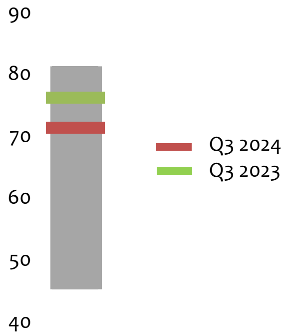
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2018 = 100, 12-month moving average

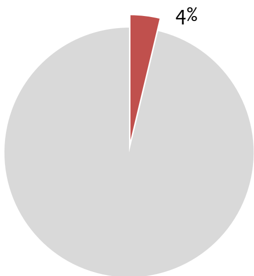


Capacity utilization rate
Historically highest/lowest level, as per cent

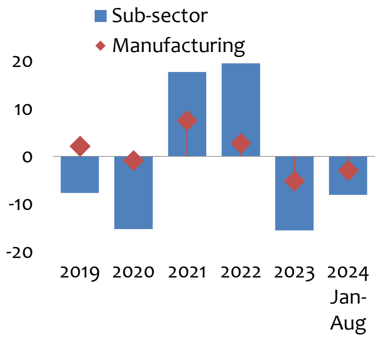


Manufacture of motor vehicles

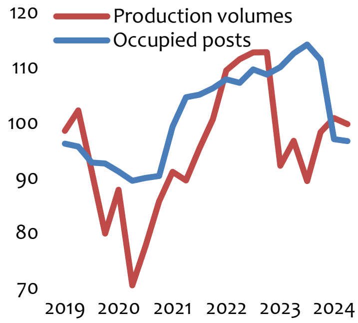
Share in total value added
in January-June 2024, as per cent



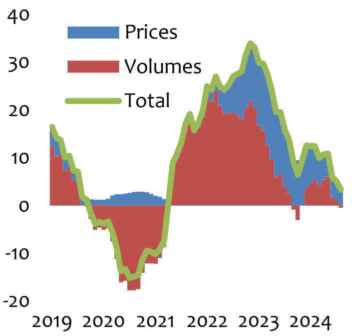
Changes in production volumes
compared to the corresponding period last year, as per cent



Production volumes and occupied posts
Q4 2018 = 100

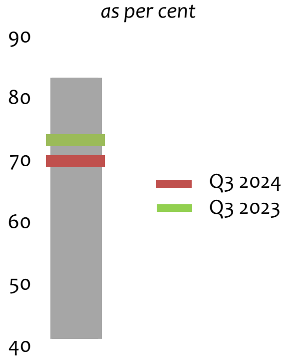


Changes in sales of production
12-month moving average, as per cent



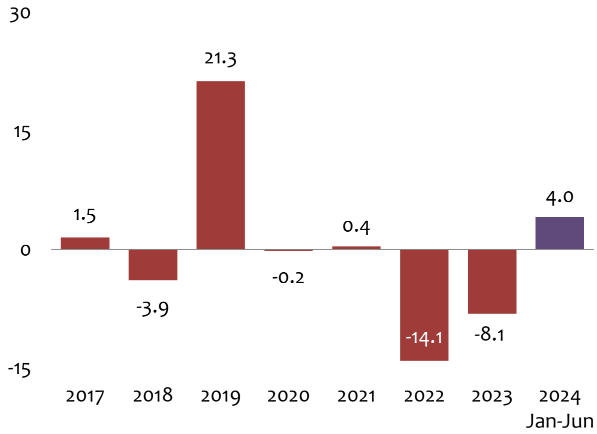
Production sales
December 2018 = 100, 12-month moving average

Capacity utilization rate
Historically highest/lowest level, as per cent



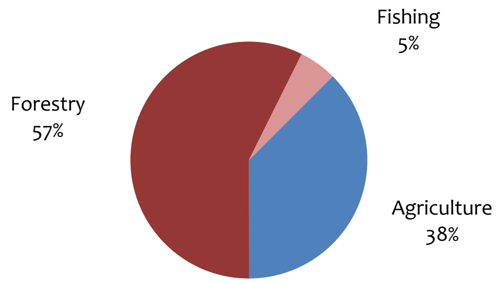
AGRICULTURE, FORESTRY, AND FISHING

Agriculture, Forestry, and Fishing
value added, changes compared to the corresponding period last year, as per cent



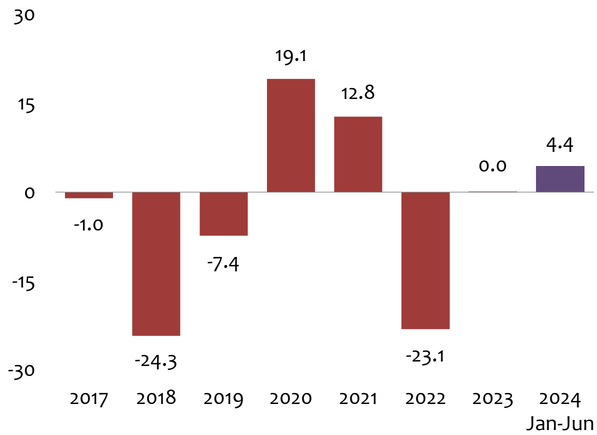
Agriculture and forestry provide the largest contribution to growth within the sector. The sector is closely tied to weather conditions, resulting in fluctuating growth. In 2022–2023, sector volumes declined sharply due to both unfavourable weather and a drop in product prices and demand. In the first half of 2024, production volumes increased, driven by a significant rise in crop production. Overall, the number of jobs in the sector increased in 2022–2023, mainly due to a sharp rise in jobs in forestry. However, in the first half of 2024, the total number of jobs in the sector declined; job numbers continued to rise in forestry, while jobs in agriculture have been decreasing continuously since 2018.

Structure of Agriculture, Forestry, and Fishing
2023, as per cent



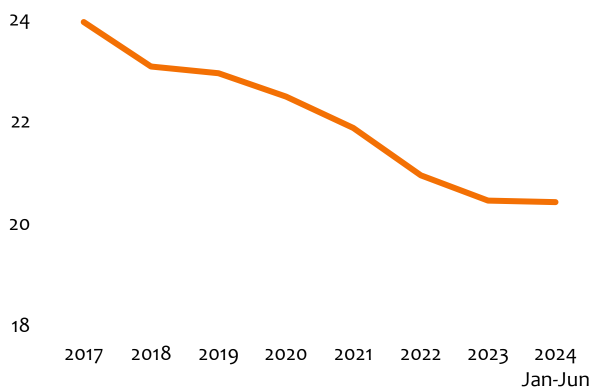
OTHER MANUFACTURING

Other Manufacturing
value added, changes compared to the corresponding period last year, as per cent



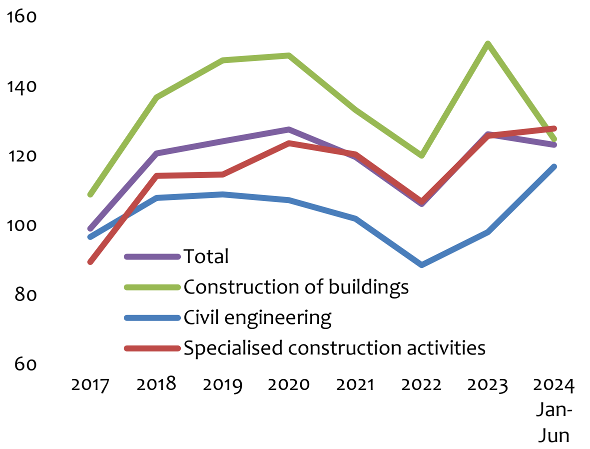
The largest share of added value in other manufacturing (incl. mining and quarrying, electricity, gas, steam, and air-conditioning supply, water supply, and waste management) provide electricity and gas supply sub-sectors. In the first half of 2024, volumes in other industrial sectors increased. The largest impact came from growth in electricity, gas supply, heating, and air conditioning, driven by increased electricity production in cogeneration and solar power plants and higher energy consumption due to lower energy prices. The mining and quarrying sector also saw rapid growth, driven by increased output in sand and gravel quarrying as well as peat extraction and processing. In recent years, the number of filled jobs has risen in mining, but declined sharply in other sectors. In 2023, job numbers fell across all sub-sectors, while in the first half of 2024, they increased only in the water supply and waste management sector.

Occupied Posts in Other Manufacturing
in thousands

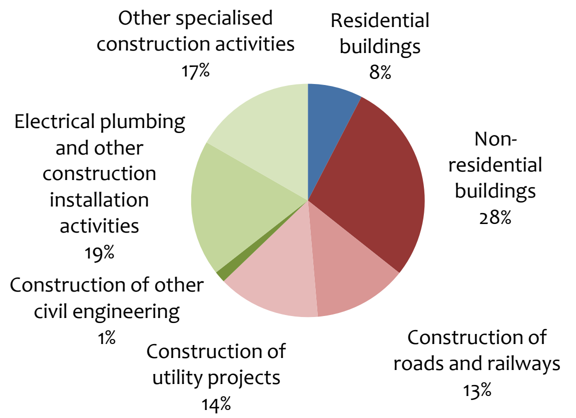


CONSTRUCTION

Development of Construction
2015 = 100



Structure of Construction
in January-June 2024, as per cent

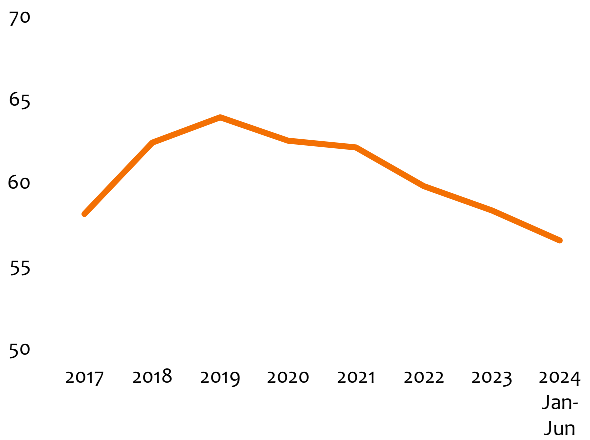


In 2023, the construction sector began to recover, with the volume of construction output increasing by 18.9% compared to 2022. The sector and its clients overcame recent challenges, and the rise in client activity positively influenced industry indicators. Another contributing factor was the low base effect from the sector's two-year recession.

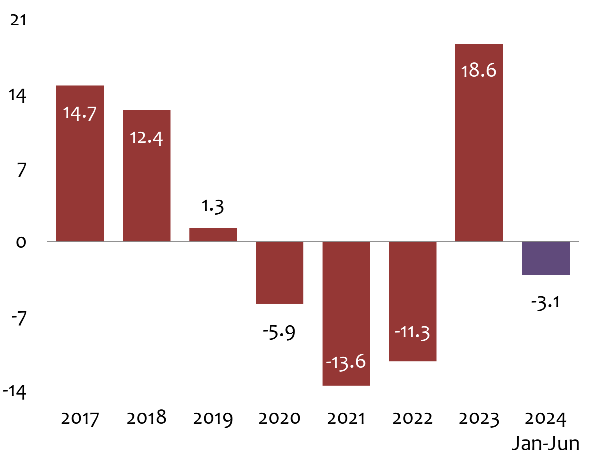
However, in the first half of 2024, a slight decline in construction was observed, with construction output decreasing by 2.4% year-on-year. This was largely due to a significant decline in building construction activity, down by 18.1%. In contrast, there was growth in the main construction segments of civil engineering and specialized construction work, with increases of 19.1% and 1.7%, respectively.

In the first half of 2024, 2 103 building permits were issued, 2.5% fewer than the previous year. However, the projected area increased, with a growth rate of 2.1%.

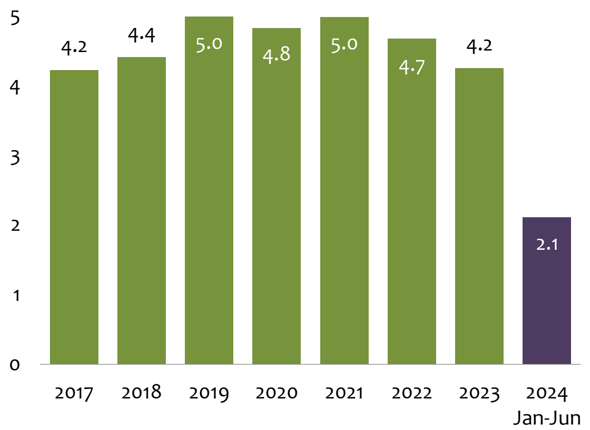
Occupied Posts in Construction
in thousands



Construction
value added, changes compared to the corresponding period last year, as per cent

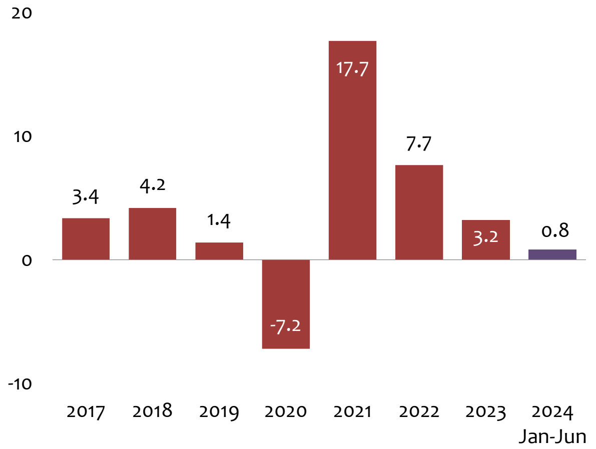


Building Permits Granted
in thousands



TRADE, ACCOMMODATION AND FOOD SERVICES

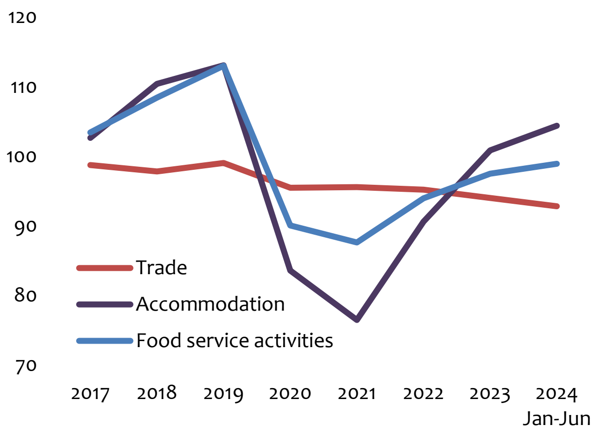
Trade, Accommodation and Food Service Activities
value added, changes compared to the corresponding period last year, as per cent



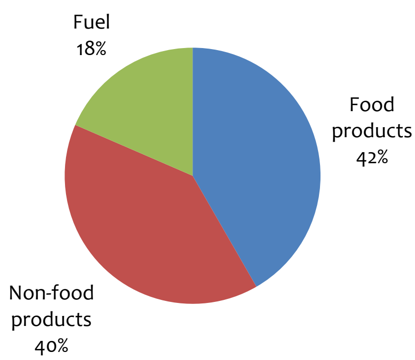
The volume of services provided in the trade, accommodation, and food service sectors continues to grow. However, growth in the trade sector has become more moderate in recent years. In the first half of 2024, it increased by only 1.3%, impacted by the unfavourable external environment, which led to a 3.2% decline in wholesale volumes. Retail turnover rose by just 0.6%, with consumer sentiment still cautious about making larger purchases. Fuel retail turnover saw faster growth, while retail turnover for non-food goods increased moderately, and food sales decreased.

In the accommodation and food service sectors, volumes slightly declined at the beginning of 2024, largely due to a drop in the food service sector. Meanwhile, the number of jobs increased in the accommodation and food service sectors but decreased in trade. The highest proportion of filled jobs is still in the trade sector.

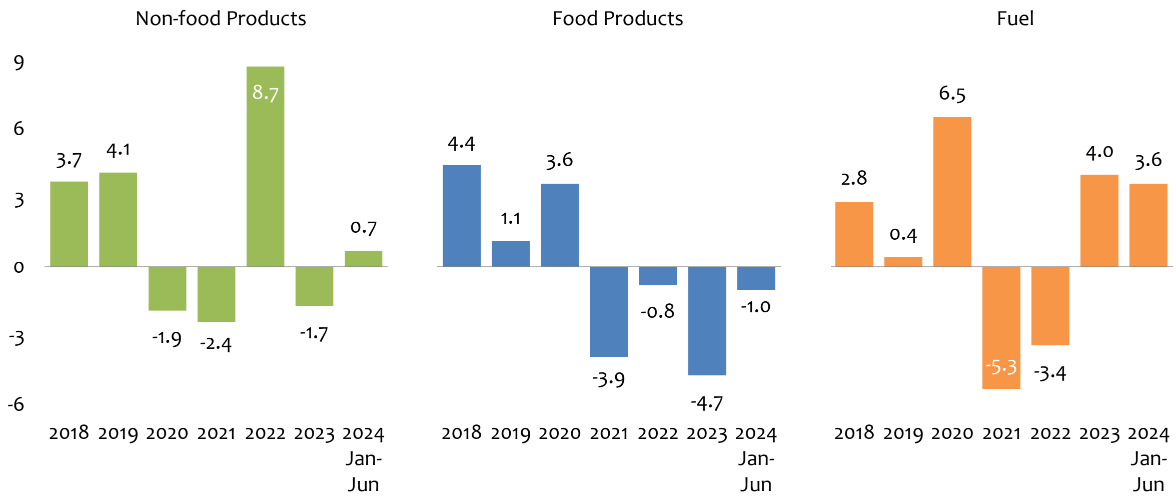
Occupied Posts in Trade, Accommodation, and Food Service Activities
2015 = 100



Structure of Retail Turnover
2023, as per cent

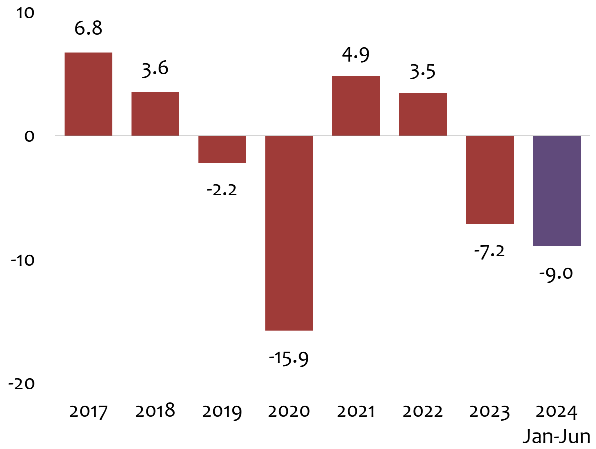


Retail Turnover
changes compared to the corresponding period last year, as per cent



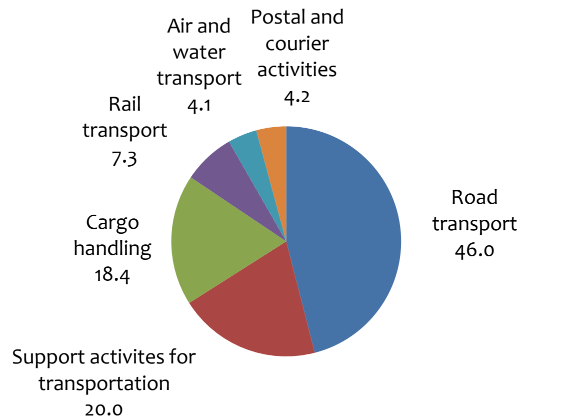
TRANSPORTATION AND STORAGE

Transportation and Storage
value added, changes compared to the corresponding period last year, as per cent



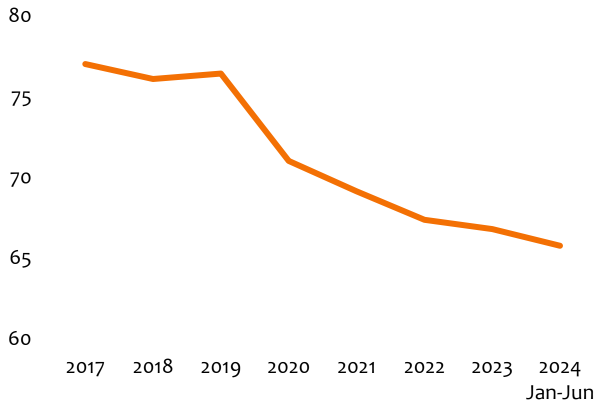
The transportation and storage sector is closely tied to international transportation. In 2023 and the first half of 2024, the transport sector experienced declines across all sub-sectors except air transport. In 2023, the sharpest declines were seen in land and pipeline transport, storage, and transport support activities, while in the first half of 2024, water transport saw the steepest reduction. In the first half of 2024, freight volumes decreased across all modes of transport except for road transport, primarily due to fluctuations in the volume of international shipments. Passenger transport grew most significantly in air travel, increasing by 3.7%, land transport rose by 1.6%, while sea transport declined by 15%.

Structure of Transportation and Storage
2023, as per cent*

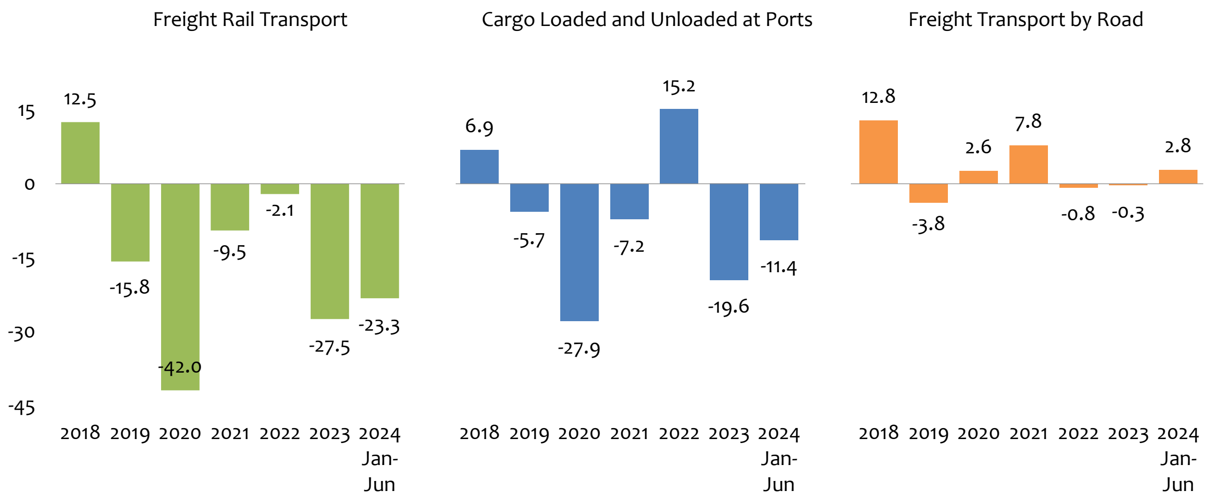


* – forecast by the Ministry of Economics

Occupied Posts in Transportation and Storage
in thousands

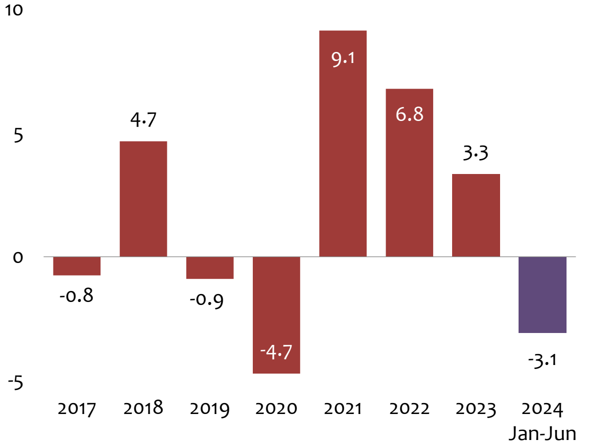


Freight Traffic
changes compared to the corresponding period last year, as per cent



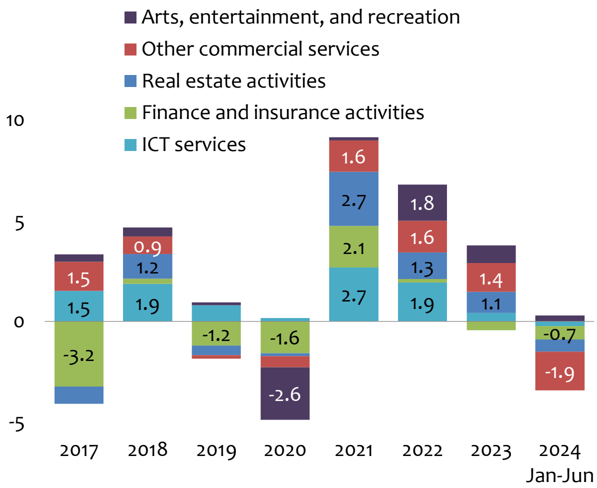
COMMERCIAL SERVICES

Commercial Services
value added, changes compared to the corresponding period last year, as per cent



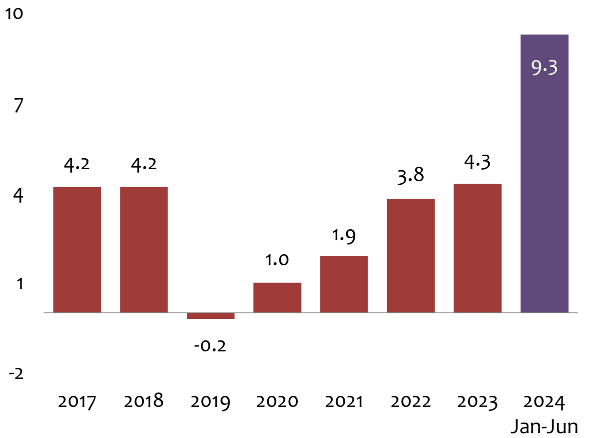
The largest share of added value in commercial services (incl. information and communication services, financial and insurance activities, real estate activities, professional, scientific, and technical services, administrative and support service activities, arts, entertainment, and recreation) provide real estate activities. From 2021 to 2023, commercial service volumes increased as the economy recovered from the Covid-19 crisis. However, in the first half of 2024, a decline in volumes was observed across all commercial service sectors except arts, entertainment, and recreation. The largest impact came from volume reductions in financial activities and real estate operations. The highest share of filled jobs is in ICT services, professional, scientific, and technical services, and administrative and support services. In the first half of 2024, the number of jobs increased only in ICT services and financial activities.

Contribution of Commercial Services
changes in percentage points



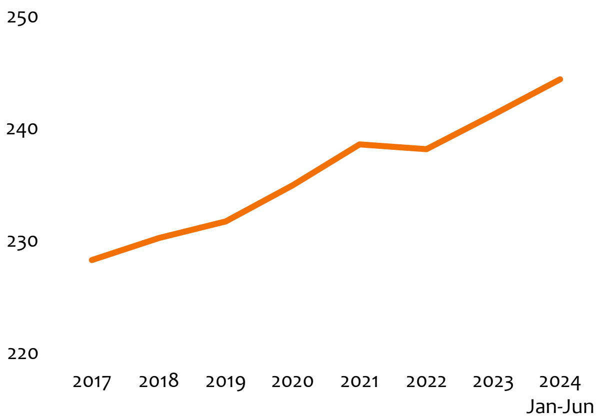
PUBLIC SERVICES

Public Services
value added, changes compared to the corresponding period last year, as per cent



The largest share of value added in public services (incl. public administration and defence, education, health, and social work activities) provide public administration and defence. Since 2022, total public service volumes have been rising rapidly. In the first half of 2024, volumes in the health and social care sector increased by 31.9%. Public administration and defense service volumes rose by 2.2%, while education volumes declined by 3.6%. The highest share of occupied posts remains in education. In the first half of 2024, the number of jobs decreased in education, while health and social care endured strong job growth.

Occupied Posts in Public Services
in thousands



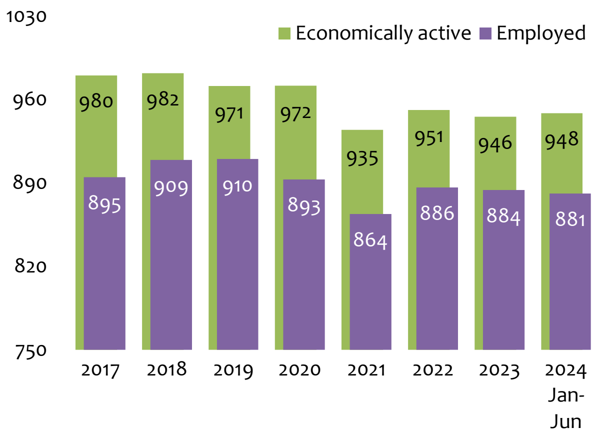
2024 | 2

LABOUR MARKET

EMPLOYMENT AND UNEMPLOYMENT

Given the slowdown in economic growth, overall labour market activity remained limited. Also, labour market pressure is maintained by supply-side factors and the uneven regional distribution; therefore, many sectors face labour shortages. Although the negative impact of supply-side constraints on labour availability has been mitigated by the influx of Ukrainian war refugees into Latvia's labour market, it is important to note that some refugees are returning home, meaning demographic trends continue to significantly impact labour availability in the market.

Employed and Economically Active
aged 15-74, in thousands

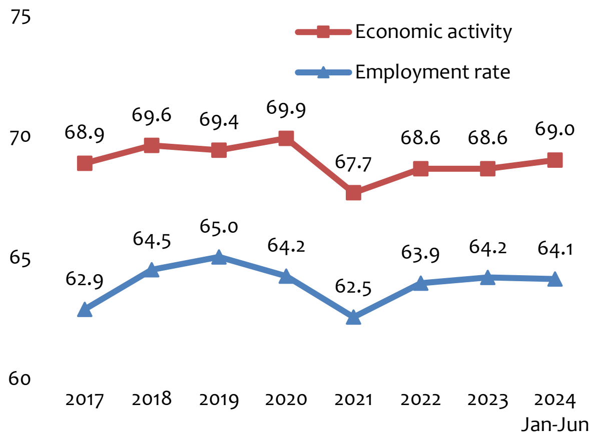


In the first half of 2024, labour demand remained limited, with no major changes in job numbers. Employment levels showed a slight decline, staying close to those in the first half of 2023. On average, 881.2 thousand people were employed, a decrease of 0.3%, or 2.8 thousand, from the previous year. Meanwhile, the employment rate among the working-age population rose slightly by 0.1 percentage points, from 64% in the first half of 2023 to 64.1% in 2024.

However, Latvia's employment rate remains lower than its neighbours – 5.4 percentage points below Estonia (69.7% in the second quarter of 2024) and 2 percentage points below Lithuania (66.3% in the second quarter of 2024).

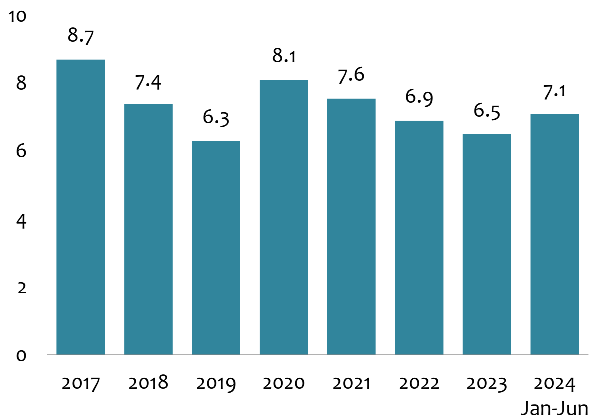
The dynamics of employment in 2024 were influenced by slower economic growth, the lack of new demand stimuli, and supply-side pressures, and a decline in the working-age population. In the first half of 2024, the population aged 15-74 decreased by 0.4%, or 6.1 thousand, compared to the same period in 2023. As the flow of Ukrainian war refugees into the workforce declines, the positive effect on the working-age population and labour supply dynamics will diminish.

Employment and Economic Activity
aged 15-74, as per cent



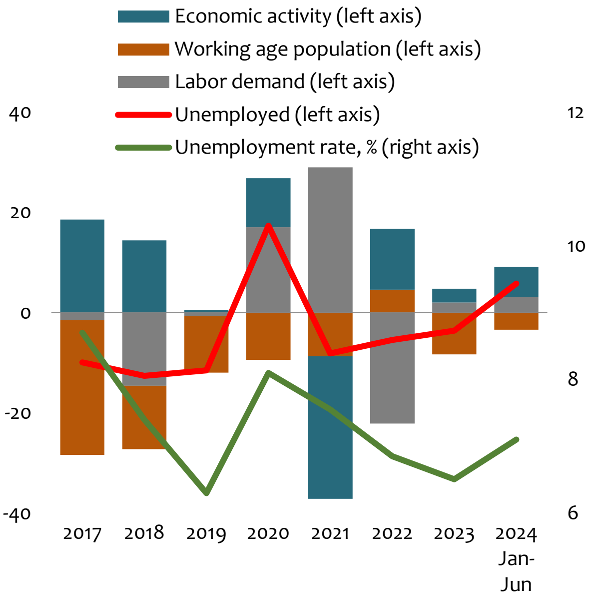
Despite reduced labour market activity, workforce participation continues to rise. In the first half of 2024, the economic activity rate increased to 69%, 0.6 percentage points higher than in the first half of 2023 (68.4%). The economically active population aged 15-74 reached 948.4 thousand, up by 4.2 thousand from the previous year.

Unemployment Rate
aged 15-74, as per cent



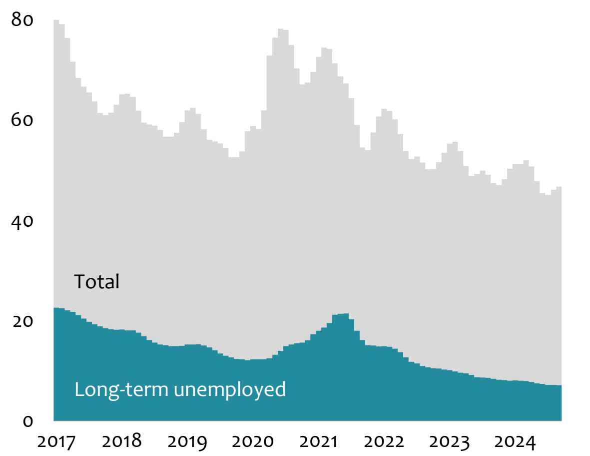
With lower labour demand, the unemployment rate in Q2 2024 rose by 0.5 pp from the same period in 2023, while declining by 0.3 pp from Q1, reaching 6.9%. In Q2 2024, 65.8 thousand people aged 15-74 were actively seeking employment, 5.2 thousand more than in Q2 2023.

Unemployment Rate and Its Determinants
*changes against the corresponding period last year, thousands**



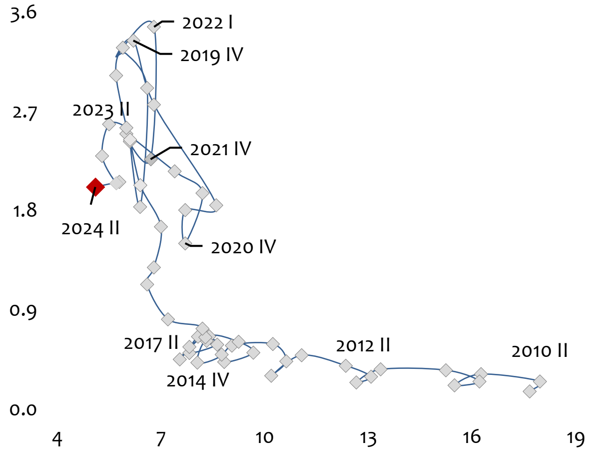
The downward trend in unemployment has stopped. In the first half of 2024, compared to the same period in 2023, the unemployment rate rose by 0.7 percentage points to 7.1%. Overall, 67.3 thousand people aged 15-74 were seeking work, an increase of 11.7%, or 7.1 thousand. Despite the rise in unemployment, the number of registered unemployed and the registered unemployment rate continue to decline, limiting employers' ability to attract specialists. In September 2024, there were 44.5 thousand registered job seekers, 4.6 thousand (10.4%) fewer than a year ago, with the registered unemployment rate at 5.1%, down by 0.2 percentage points.

Registered Unemployed
in thousands



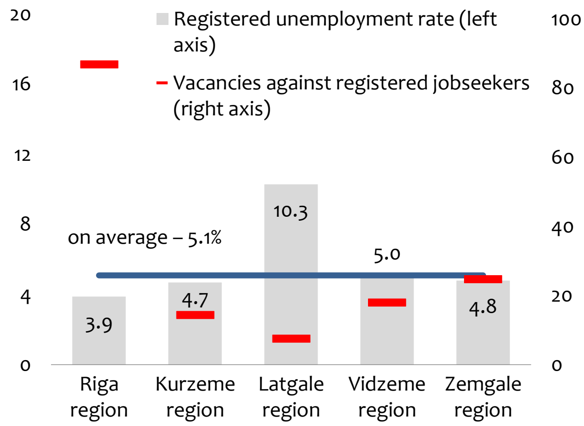
Positive trends are evident in the dynamics of long-term unemployment. Since mid-2021, the number of long-term unemployed and their share have gradually decreased. From September 2023 to September 2024, the number of registered long-term unemployed fell by 15.4%, i.e., 1.3 thousand. In September 2024, about 7.1 thousand registered job seekers had been unemployed for over a year, constituting 15.2% of registered unemployed.

Beveridge Curve
by quarters, as per cent; horizontal axis – unemployment rate; vertical axis – vacancies against the economically active population



Despite the decrease in unemployment, there remains a risk that some current unemployed individuals may struggle to find work that matches their skills. The longer a person remains unemployed, the greater the risk of losing previous skills and having difficulty adapting to new labour market demands. Additionally, prolonged absence from employment creates a risk of structural unemployment.

Registered Unemployment by Region
at the end of September 2024, as per cent



Structural issues continue to impact regional labour market disparities, limiting the effective use of labour resources. While regional imbalances are gradually levelling out, the process is slow. Persistent problems are particularly evident in the Latgale region, where the unemployment rate remains twice as high and nearly three times higher than in Riga. This, along with low geographic labour mobility, increases the risk of structural unemployment.

Despite the increase in unemployment and overall lower employment levels, Latvia recorded the lowest unemployment rate among the Baltic states in Q2 of 2024. The unemployment rate in Latvia during this period was 6.9%, which was 0.7 percentage points lower than in Estonia (7.6%) and 0.1 percentage points lower than in Lithuania (7%).

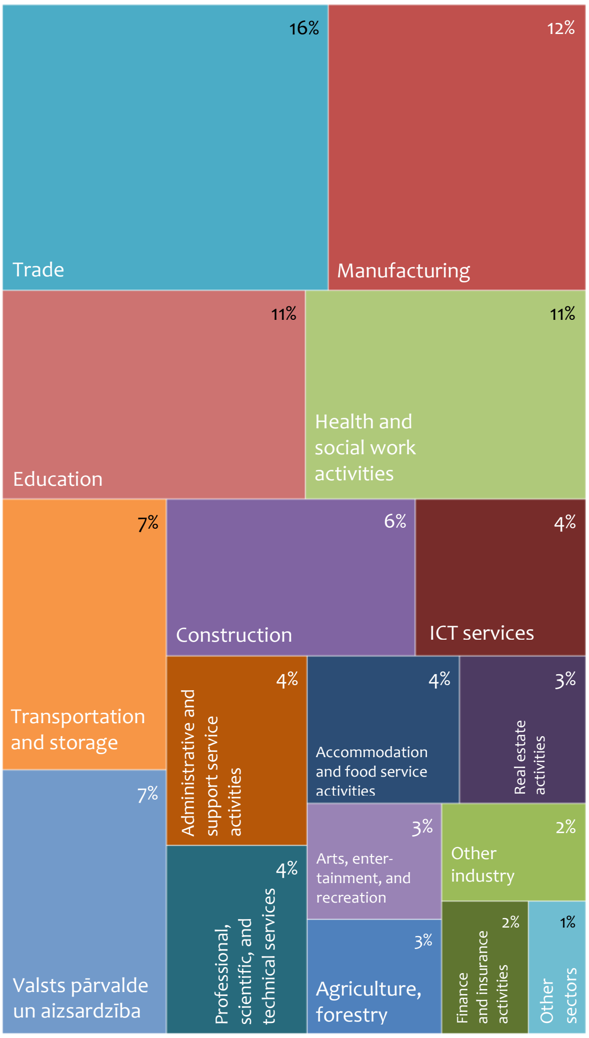
In Q2 of 2024, occupied posts declined by 0.6%, or 5.2 thousand, reaching 889.8 thousand.

The largest increases in jobs were observed in health and social care, public administration and defense, and accommodation, food services, ICT services. The growth in accommodation and food service jobs is affected by the low base effect. Despite the sector's recovery, the number of jobs remains lower than pre-Covid levels in 2019.

The largest job reduction in 2023 was observed in manufacturing, with a decrease of 3 thousand jobs, largely due to reduced industry output amid weak external demand. Significant declines in filled jobs were also seen in trade (down by 1.8 thousand jobs or 1.3%), construction (down by 1.5 thousand jobs or 2.5%), and education (down by 0.9 thousand jobs or 0.9%) compared to 2022.

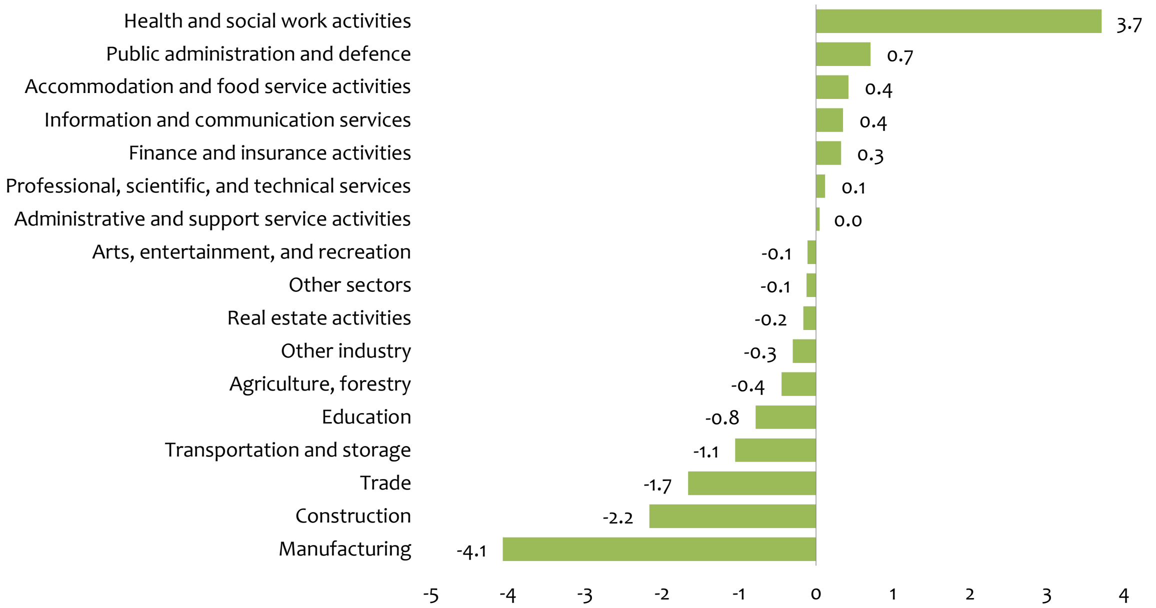
Occupied Posts by Sector

structure in January-June 2024, %



Changes in Occupied Posts

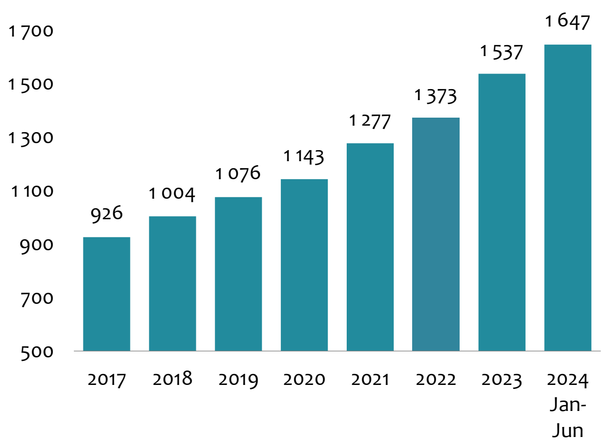
in April-June 2024, compared to the corresponding period last year, in thousands



WAGES AND SALARIES

Considering both the increase in the minimum wage and revised salaries in certain public sector areas, wage growth in the first half of 2024 remained above 10%. The average monthly gross salary in the first half of 2024 increased by 10.3% compared to the same period in 2023, reaching an average of 1 647 euros. In the second quarter of 2024, the average gross salary rose to 1 671 euros. Notably, over the past three years, the average gross wage in the economy has grown by nearly one-third.

Average Monthly Gross Wage
euro



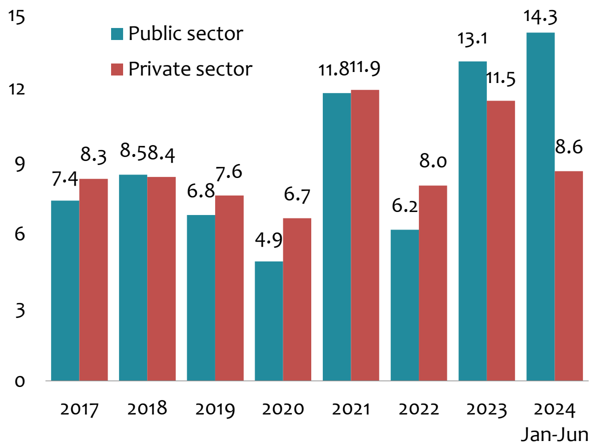
The significant increase in the average wage in 2024 was influenced by a 12.9% rise in the minimum wage – to 700 euros from 620 euros in 2023 – and structural shifts in labour demand favouring higher-paid professions. The number of filled positions for senior specialists and specialists increased by 1.6 thousand (0.9%) and 0.8 thousand (0.7%), respectively, while other professions, except those in the National Armed Forces, saw a decline in job numbers.

Wage growth also continues to be driven by labour shortages and the adjustment of wages to account for prior inflation pressures (price increases). In the first half of 2024, real wages grew by 9.1% compared to the same period in 2023.

In 2024, wages have increased for employees in both the private and public sectors. Compared to the first half of 2023, the average gross wage in the public sector rose by 14.3% (to an average of 1 700 euros) in the first half of 2024, while in the private sector, it grew by 8.6% (to an average of 1 629 euros). The most significant wage increases in the public sector were in other service sectors, including public, political, and other organizational activities (+49%), and in education (+21.5%), driven by wage adjustments and a generally low base effect.

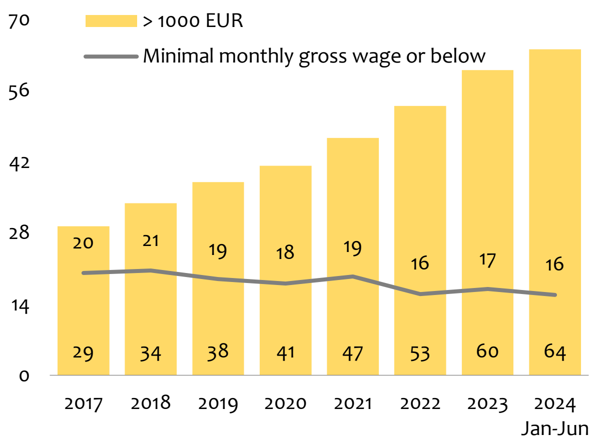
It should be noted that wage growth in the public sector typically follows wage growth in the private sector with a delay. Thus, the current wage increase in the public sector largely reflects the private sector wage dynamics from 2019–2022, when wage growth in the private sector was generally faster than in the public sector.

Average Monthly Gross Wage
changes, as per cent



Overall, the trend of a declining share of low-paid employees has remained steady, as shown by the growing proportion of employees earning over 1 000 euros per month and the reduction in those earning minimum or lower wages. In the first half of 2024, 64.1% of all employees had a gross salary above 1 000 euros, while the share earning minimum wage or less fell to 15.8%.

Employee Gross Wage
as per cent of employed in total

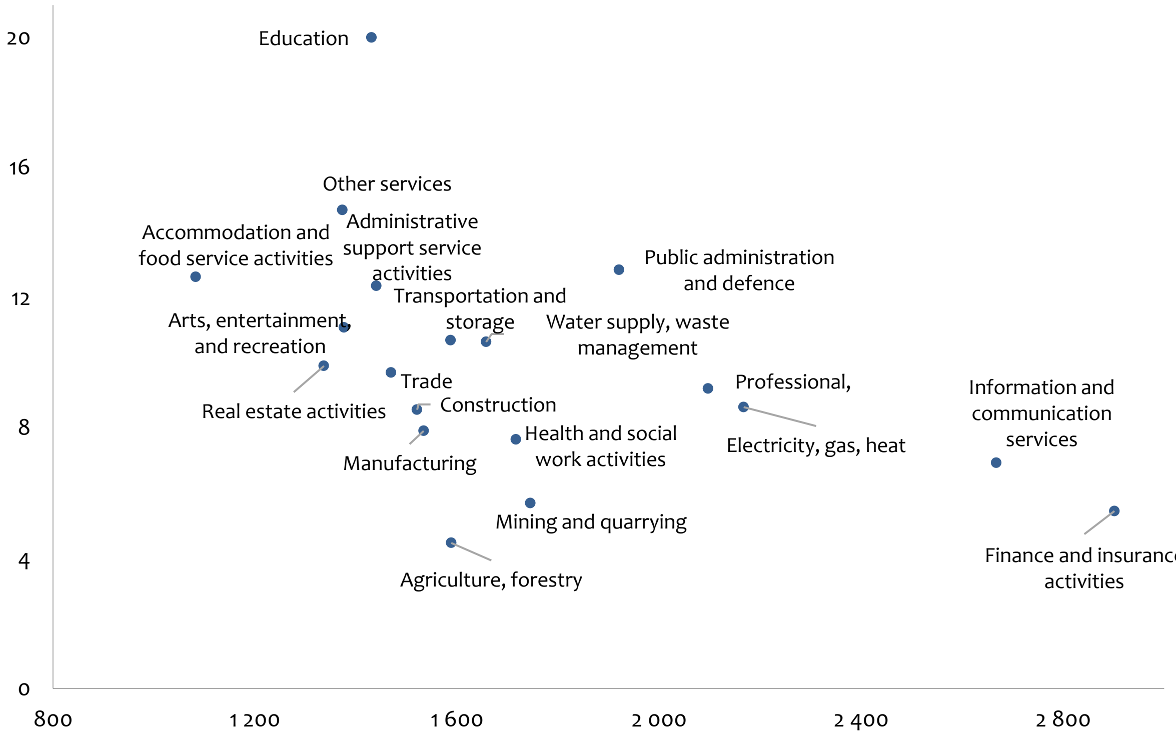


In the first half of 2024, wage growth was observed across all economic sectors. The highest increase, compared to the first half of 2023, was in education, with the average gross wage rising by 20%. Other sectors with notable wage growth included other services (+14.7%), public administration and defence (+12.9%), accommodation and food services (+12.6%), and administrative services (+12.4%). Slower wage growth was seen in agriculture and forestry (+4.5%) and financial services (+5.4%).

In the first half of 2024, the highest wage level remained in the financial services sector, with an average monthly gross salary of 2 901 euros, while the lowest wage was in the accommodation and food service sector, averaging 1 083 euros per month.

Gross wages in economic sectors

in January-June 2024;
horizontal axis – average gross wage, euro;
vertical axis – average gross wage changes, compared to the corresponding period last year, as per cent



2024 | 2

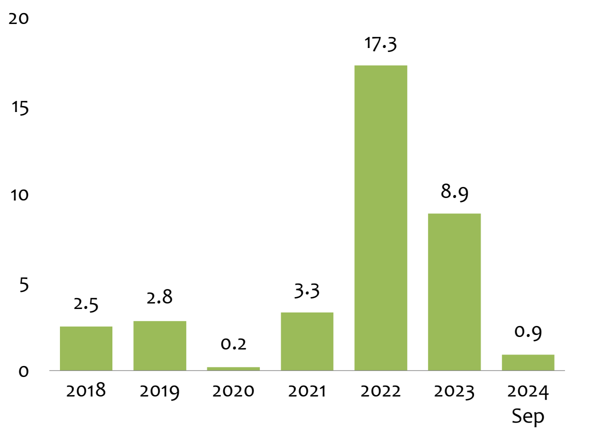
ECONOMIC STABILITY AND COMPETITIVENESS

PRICES

In 2023, consumer prices stabilized, with monthly growth rates declining compared to the same month of the previous year – from 21.5% at the beginning of the year to 0.6% in December. This was influenced by global prices and the unstable geopolitical situation. Due to the base effect in inflation dynamics, the average annual inflation rate remained high at 8.9% in 2023.

In the first nine months of 2024, price growth was slightly faster than in the same period of the previous year. In September 2024, consumer prices had increased by 2.6% compared to December 2023 and by 1.4% compared to September of the previous year. The annual average inflation rate in September was 0.9%.

Consumer Price Changes
annual average, as per cent



The main factors affecting prices in the nine months of 2024:

(1) The greatest impact on the average consumer price level was from rising service costs, notably in housing-related services, outpatient care, telecommunications, and recreation and cultural services;

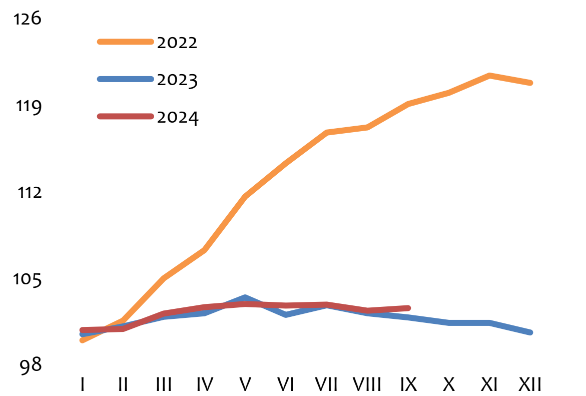
(2) Food prices increased across all main food groups, except vegetables, although the rapid rise in food prices has now slowed;

(3) Price increases in alcoholic beverages and tobacco, with the most significant impact from higher cigarette prices;

(4) A decrease in energy prices related to housing, primarily due to lower heating costs;

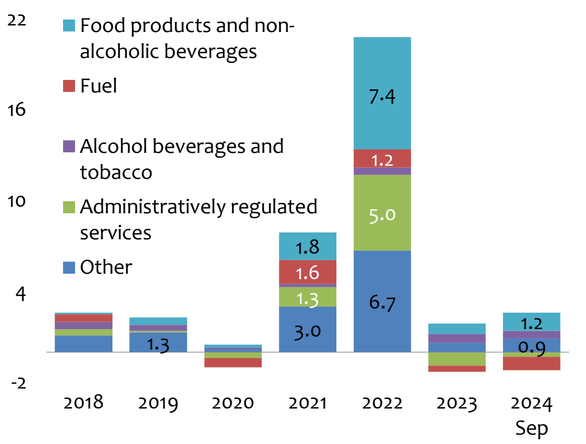
(5) A decline in fuel prices, influenced by a drop in global oil prices driven by concerns over reduced demand due to high interest rates and China's weak economy. However, sharper declines were limited by escalating conflicts in the Middle East.

Consumer Price Index
December of the previous year = 100

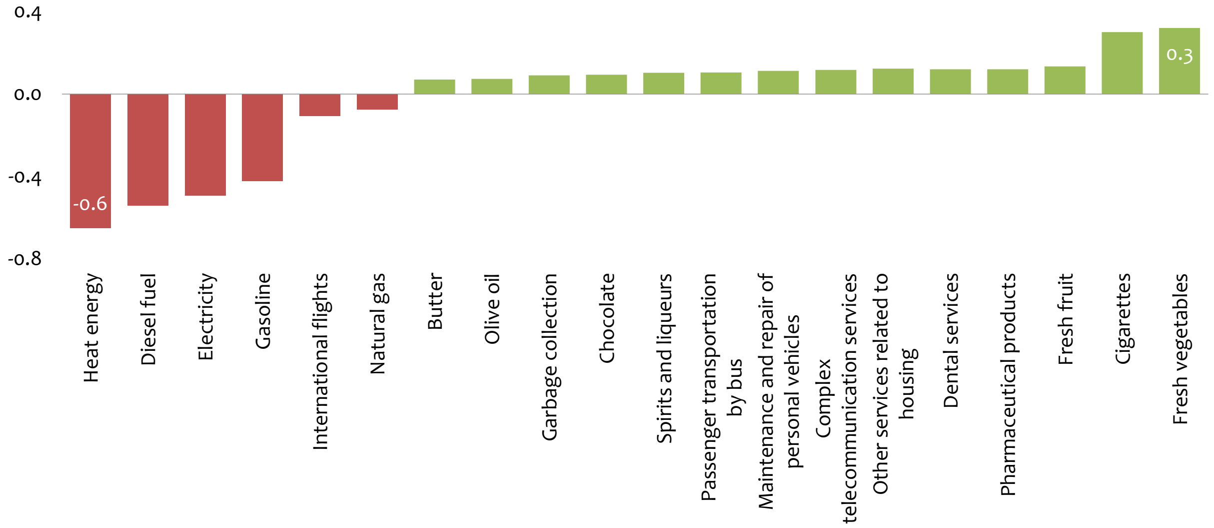


Overall, the average annual inflation rate in 2024 will be significantly lower than in 2023. Moving forward, the main influences on price changes will continue to be global fluctuations in energy and food prices, as well as global developments. At the same time, inflation in Latvia will be affected by various supply-side factors, such as tax and tariff increases, along with demand-side factors driven by rising wages. Overall, the average annual inflation rate in 2024 is expected to be within the range of 1-1.5%.

Consumer Prices by Goods and Services
contribution to 12-month changes, as per cent

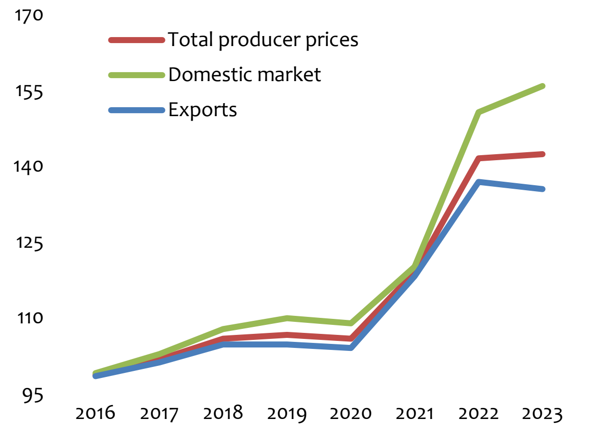


Consumer Price Changes by Goods and Services
September 2024, contribution to 12-month changes, as per cent



In 2023, due to the drop in the prices of energy resources and raw materials, producer prices in the manufacturing industry increased very moderately.

Producer Prices in Manufacturing
2015 = 100

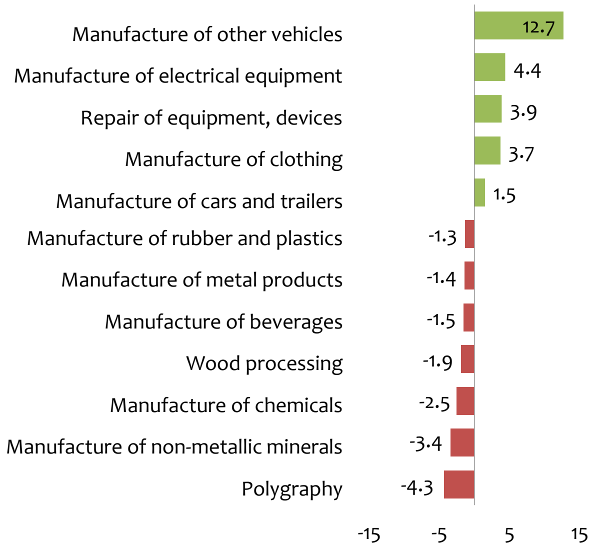


In 2024, the rise in producer prices in the manufacturing sector remains moderate. During the first eight months of 2024, producer prices in manufacturing increased by 0.9%. Prices for products sold domestically rose by 0.5%, while those for exported products grew by 1.1%. The most significant price increases were in wood processing and food production, while the largest decreases were in printing, non-metallic mineral products, and fabricated metal products.

Overall, producer prices in manufacturing will continue to rise moderately throughout 2024. Producer price levels are largely influenced by fluctuations in the prices of exported products, driven mainly by global raw material price dynamics.

Notably, global energy and raw material prices are stabilizing in 2024, which could impact producer price trends. Uncertainty in raw material supplies, linked to the tense geopolitical situation, continues to have a significant impact on producer prices. Prices for domestically sold products will also see slight increases, mainly influenced by global and local dynamics in energy and raw material prices, such as wood and unprocessed food. At the same time, the growth rates in producer prices for products sold domestically are expected to be moderate overall this year.

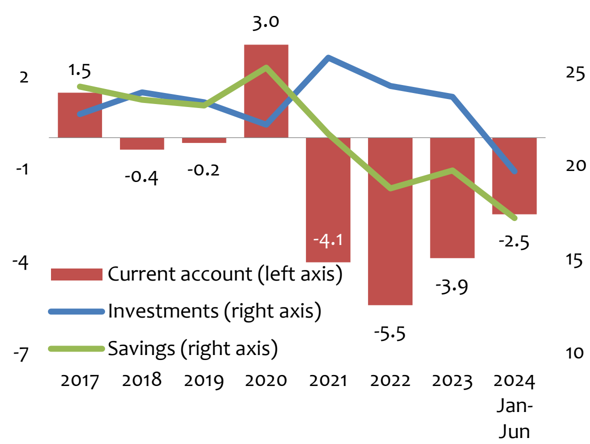
The Most Rapid Producer Price Changes in Manufacturing in August 2024
against the corresponding period last year, as per cent



BALANCE OF PAYMENTS

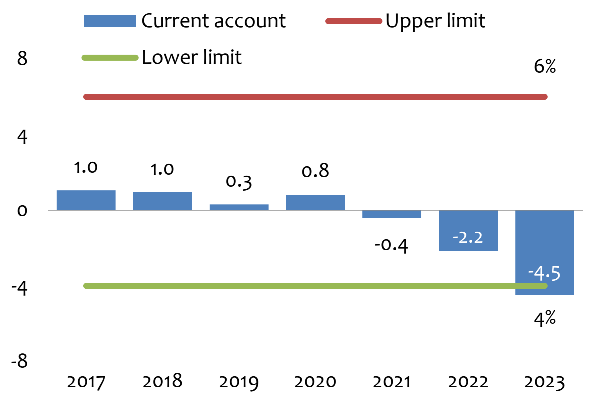
The current account deficit has remained relatively high in recent years due to external shocks. In 2021, the deficit (4.1% of GDP) was significantly affected by rising energy prices as economic activity rebounded following the easing of Covid-19 restrictions, and it surged in 2022 to 5.5% of GDP due to Russia's aggression against Ukraine. In 2023, the deficit decreased to 3.9%, primarily driven by a reduction in imports. The negative current account balance continued to decline in 2024, reaching 2.5% of GDP in the first half of the year.

Current Account, Savings, and Investment
as per cent of GDP



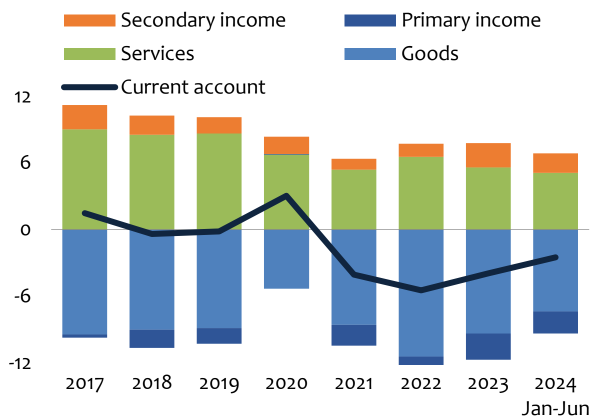
As the downward trends of the current account persisted, the risks of external imbalances also increased. In 2023, the three-year average current account deficit indicative threshold set by the EU warning mechanism was exceeded.

EU Alert System Indicative Threshold and Current Account
three-year average, as per cent of GDP



In recent years, there has been a weakening in external trade flows, primarily due to economic shocks first caused by the Covid-19 pandemic, followed by Russia's invasion of Ukraine, which heightened uncertainty in the external environment. In 2022, export dynamics were more moderate than import growth. Rising energy costs and the need to change supply sources due to the war in Ukraine significantly increased import values. As exports continued to grow more slowly than imports, the trade deficit expanded to 11.4% of GDP (from 8.6% in 2021). In 2023 and the first half of 2024, both export and import values declined. However, with import values falling more sharply, the trade balance improved slightly, reaching 9.3% and 7.4% of GDP, respectively. Geopolitical developments have driven Latvia to reorient its foreign trade away from Russia, with an increasing share of imports now coming from EU countries.

Current Account
as per cent of GDP



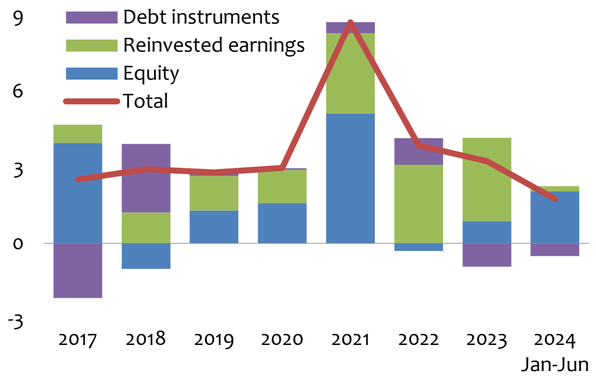
The trade surplus in services has remained but is at a lower level than before the Covid-19 crisis. In the last three years (2021-2023), the positive services balance averaged 5.8% of GDP, compared to an average of 8.7% before the pandemic. In 2023, the growth rates for both service imports and exports were much slower than in 2022, with imports in nominal terms increasing by 8.7%, while exports grew more modestly at 3.5%. The services surplus reached 5.6% of GDP, 0.9 percentage points lower than in 2022. In the first half of 2024, service imports declined more moderately than exports, and the services balance surplus reached 5.1% of GDP.

Changes in the income and capital accounts are primarily related to the use of EU funds. The capital account balance in the first half of 2024 was 1.4% of GDP, slightly below the five-year average (1.5%). The financial account balance in recent years has been influenced by government debt restructuring and the European Central Bank's restrictive monetary policy to combat inflation. In the first half of 2024, financial account assets grew more moderately than liabilities, and the financial account balance (including reserve assets) was -0.1% of GDP. The balance of payment accounts will be determined by changes in the geopolitical situation and their impact on global supply chains, cross-border flows, and Latvia's economy overall.

FOREIGN DIRECT INVESTMENT

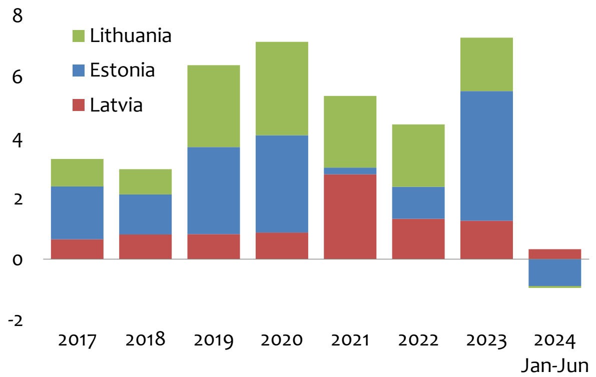
The intensity of foreign direct investment (FDI) flows has been moderate, primarily influenced by Covid-19 restrictions and instability in the global economy. The war in Ukraine has heightened uncertainty from geopolitical events, exerting negative pressure on global FDI flows.

FDI in Latvia
flows, as per cent of GDP



In the Baltic states, cross-border direct investment flows were negative in the first half of 2024, reaching nearly -0.6 billion euros, or -0.8% of GDP. This was significantly affected by the outflow of FDI from Estonia's economy, amounting to -0.9 billion euros in the first half of 2024, with the largest reduction in direct investment occurring in financial and insurance activities. In Lithuania, net FDI flows were close to zero. In contrast, Latvia maintained a positive trend in net FDI flows in the first half of this year.

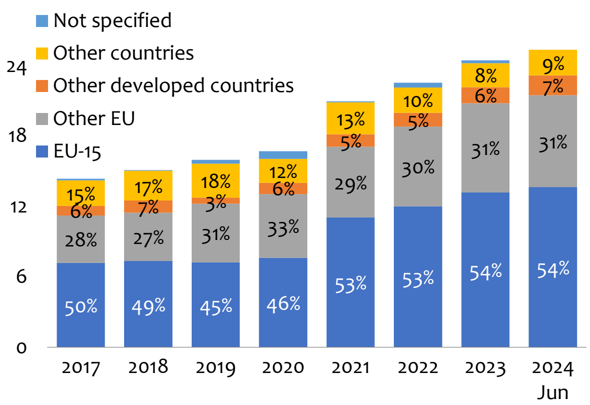
FDI in Latvia
transactions, billion euro



In the first half of 2024, FDI transactions were almost half the volume of the previous year, accounting for 1.8% of GDP. This was largely due to a more moderate increase in reinvested earnings. However, compared to the first half of the previous year, investments in company equity were almost 4.5 times larger.

The weak economic activity was also reflected in FDI income, which was 15% lower than a year earlier in the first half of 2024. Dividends, however, increased by nearly 26%.

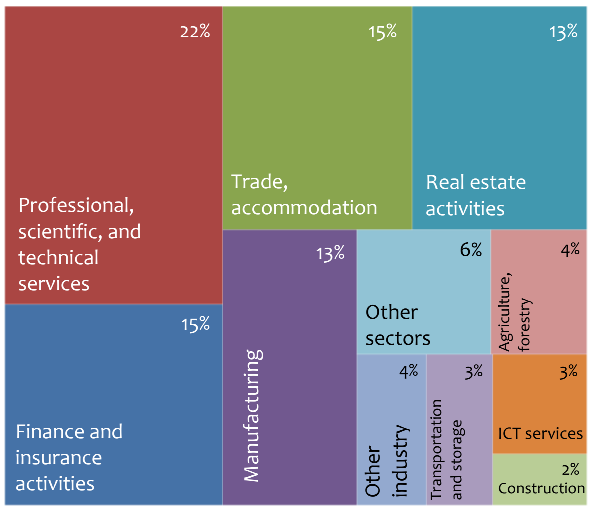
FDI Stock in Latvia by Groups of Countries
closing balance at the end of the year, billion euro and per cent



The accumulated FDI in Latvia's economy reached 25.4 billion euros by the end of June 2024, amounting to 64.7% of GDP. Over the year, it grew by 5.6%, or 1.3 billion euros. The geopolitical structure of FDI remains relatively stable, with EU investments dominating, accounting for 84.4% of total accumulated FDI by the end of June 2024. Sweden is the largest investor in Latvia's economy; since 2020, Swedish investments have increased 2.7 times, reaching 29.7% of all accumulated FDI by June 2024. Substantial investments also come from Estonia, Lithuania, Germany, Cyprus, Russia, the Netherlands, and Denmark.

The sectoral structure of accumulated FDI has shifted. Thanks to significant investments in the professional, scientific, and technical services sector, its share of total accumulated FDI has grown substantially since 2021, reaching 22.4% by June 2024. Notable investments have also been made in financial intermediation (15.1%), trade (13.7%), real estate activities (12.7%) and manufacturing (13.4%).

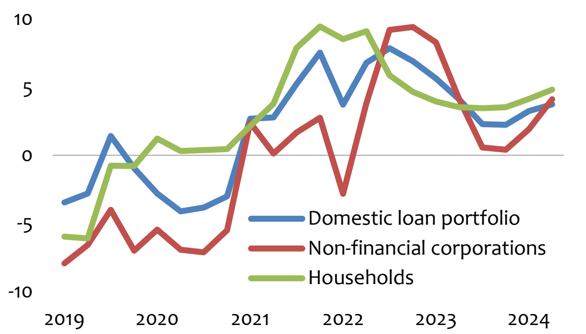
FDI by Sector
closing balance at the end of June 2024



MONETARY INDICATORS

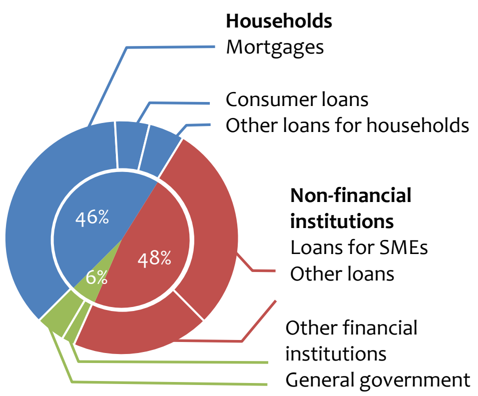
The banking sector remains resilient[1]. Deposits are increasing; however, lending activity remains moderate, with business lending considered weak.

Domestic Credit Balances
changes, compared to the corresponding period last year, per cent



The total bank loan portfolio at the end of June 2024 was 16.3 billion euros. Of this, 13.7 billion euros were issued to domestic non-bank clients, representing an increase of 3.7%. The loan portfolio for non-financial corporations grew by 4.1%, while lending to SMEs developed faster at 8.7%, and household lending increased by 4.8%.

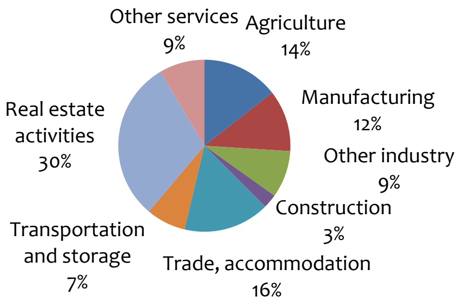
Lending Portfolio of Non-Financial Institutions by Sector
at the end of June 2024, as per cent



The distribution of loans by sector shows that as of the end of June 2024, real estate operations remained the leader, receiving 30% of all loans to domestic businesses. This was followed by the trade and accommodation sector at 16%, and agriculture and forestry at 14%.

Until 2022, interest rates on long-term loans in euros remained relatively stable. In 2023, loan interest rates rose sharply due to the ECB's decisions to raise base rates to curb inflation. In 2024, this increase has halted, and a gradual decrease is beginning. By the end of June, the interest rates for non-financial corporations on long-term and short-term loans were 6.06% and 6.88%, respectively, while for households, mortgage loans carried interest rates of 5.98% and 6.25%.

Lending Portfolio of Non-Financial Institutions by Sector
at the end of June 2024, as per cent



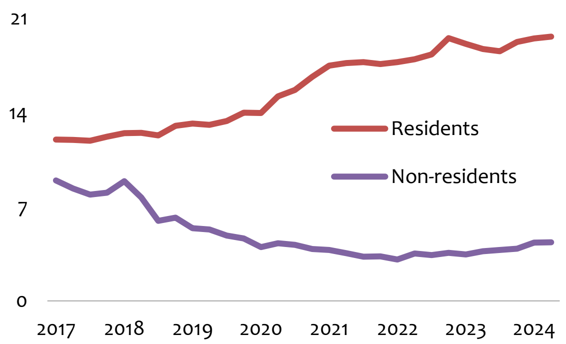
Competition in the banking sector is increasing. In August 2024, Indexo Bank began operations, marking the first new bank in Latvia to be licensed since joining the eurozone.

The ECB's base rate hikes led to higher loan costs and super-profits in the banking sector. To balance this, amendments to the corporate income tax law were enacted in 2024, requiring banks to make mandatory advance payments, along with the introduction of partial compensation for mortgage interest payments.

Latvia plans to implement a solidarity contribution for banks from 2025 to 2027, targeting net interest income that exceeds average annual net interest income from 2018-2022 by more than 50%. Contributions would be reduced if lending activity increases.

By the end of June 2024, bank deposits reached 24 billion euros, growing 7% year-on-year. Domestic deposits increased by 4.9%, making up 82% of total deposits, while foreign deposits grew by 17.7%, accounting for 18%. For comparison, foreign deposits comprised more than half of all deposits in 2015.

Non-Bank Deposits in Banks
billion euro



[1] In this section, data from the Bank of Latvia are used

BUDGET AND GOVERNMENT DEBT

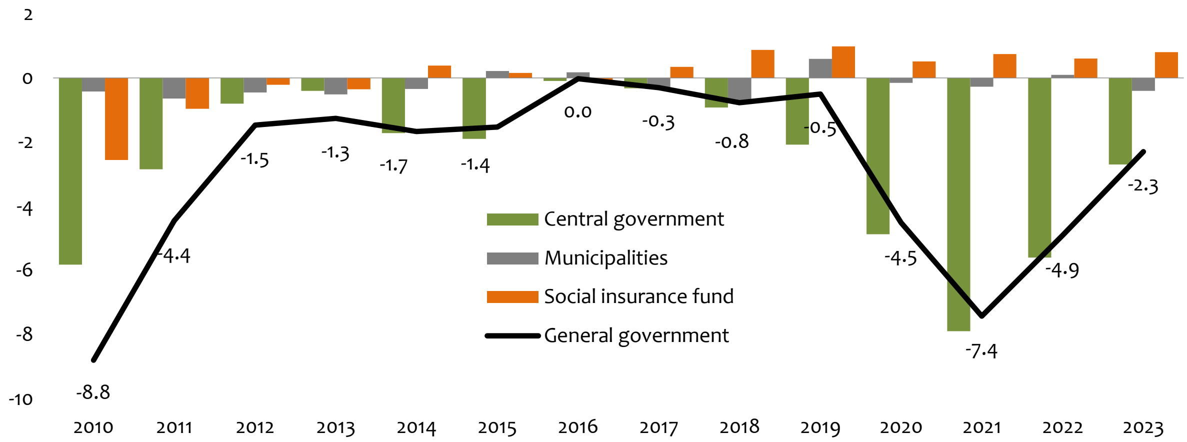
The Covid-19 pandemic has brought significant changes to previously established fiscal policies. In 2020, the EU activated the Stability and Growth Pact's (SGP) general escape clause, allowing EU countries to increase their general government budget deficits as needed to mitigate the economic impact of the pandemic from 2020 to 2022. Given the ongoing Russia-Ukraine war and its associated consequences, the SGP general escape clause also remained in effect in 2023.

In Latvia, the pandemic-driven budget deficit rose to 4.5% of GDP, or 1.3 billion euros, in 2020, and to 7.4% of GDP, or 2.4 billion euros, in 2021. It slightly decreased in 2022 to 4.9% of GDP, or 1.8 billion euros. The general government budget deficit for 2023 was 0.9 billion euros, or 2.3% of GDP. The Saeima has approved a budget deficit of 2.8% of GDP for 2024. According to the Ministry of Finance, the budget deficit for 2024 is projected to be 2.6% of GDP, and a budget with a deficit of 2.9% of GDP has been submitted to the Saeima for 2025.

General Government Budget

	2020	2021	2022	2023
Revenues, bn euro	11.5	12.5	13.9	15.6
% of GDP	39.2	38.7	38.6	40.0
Expenditures, bn euro	12.8	14.9	15.7	16.5
% of GDP	43.7	46.1	43.5	42.3
Net, bn euro	-1.3	-2.4	-1.8	0.9
% of GDP	-4.5	-7.4	-4.9	-2.3

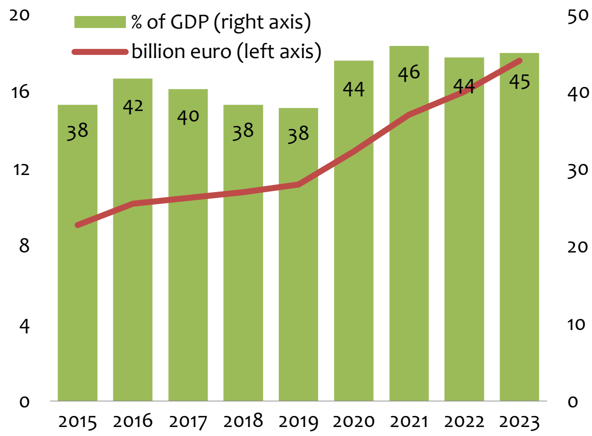
General Government Budget Balance by Sector
as per cent of GDP



Despite the rise in the budget deficit in recent years, Latvia's general government debt level remains one of the lowest in the EU. The Covid-19 outbreak required substantial financing to mitigate the crisis's impact. In 2021, the national debt rose to 45.9% of GDP, or 14.8 billion euros. With high inflation driving a rapid nominal GDP increase, this ratio decreased to 44.4% in 2022, while the nominal debt grew to 16 billion euros. By 2023, the national debt reached 17.6 billion euros, or 45.0% of GDP, influenced by three new Eurobond issuances.

For 2024, the general government debt is projected to reach 45.8% of GDP, and for 2025, 47% of GDP. Over the medium term, the debt threshold set by the Fiscal Discipline Law – 60% of GDP – is expected to be maintained.

General Government Consolidated Gross Debt nominal value at the year end

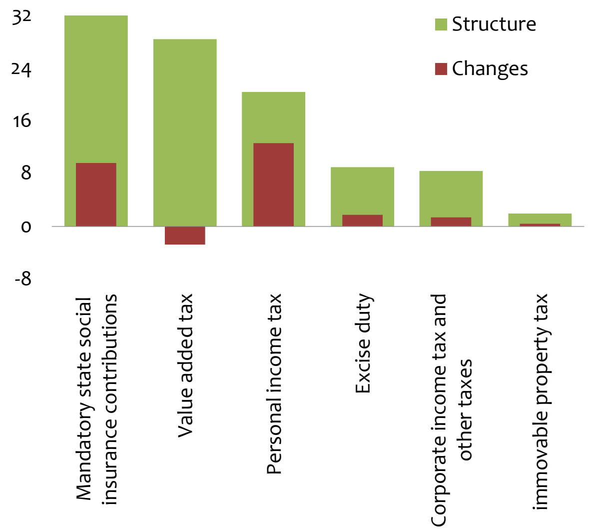


BUDGET REVENUES AND EXPENDITURES

Since 2011, the state's consolidated budget revenues have been increasing. Due to the Covid-19 crisis, revenues only saw a slight decrease in 2020. As economic growth resumed, the upward trend continued. From January to September 2024, budget revenues rose by 13% compared to the same nine-month period in 2023.

Tax Revenues

structure and changes in January-September 2024, compared to the corresponding period last year, as per cent



Revenues in the 9 months of 2024 increased in almost all major tax groups. The favourable labour market situation and wage growth continue to determine the dynamics of employment taxes. In this period, income from personal income tax increased by 12.6% compared to January-September 2023, while income from state social insurance contributions increased by 9.6%.

The dynamics of consumption taxes in 2024 in the context of wage growth indicates a growing tendency to accumulate. Value added tax revenues decreased by 2.7% in 9 months, while excise tax revenues increased by 1.8%. Capital tax revenues continued to increase, rising by 33.2% and immovable property tax – by 0.4%.

State consolidated budget expenditures in the 9 months of 2024 were 8.3% higher than in January-September 2023. In the dynamics of budget expenditure items, the biggest impact was the increase in expenditure on compensation for employees of the defence, security and justice sectors, as well as educators. The growth rate of capital expenditures was 11.8%, current expenditures – 9.6%. Social support expenditure and expenditure on subsidies and grants grew more slowly, by 7.3% and 2.1% respectively.

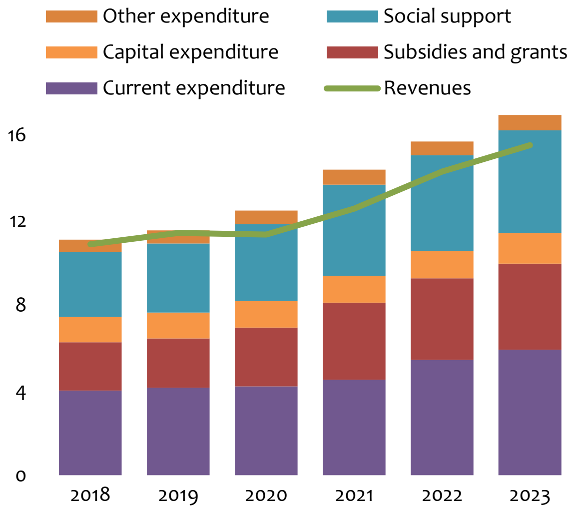
Consolidated General Government Budget

	billion euro			*changes as per cent*
	2022	2023	2024 Jan-Sep	2024 Jan-Sep
Revenues:	14.3	15.6	13.1	13.0
Tax revenues:	11.6	12.6	10.0	7.2
Mandatory State Social Insurance Contributions	3.5	3.8	3.2	9.6
Value added tax	3.6	3.9	2.8	-2.7
Personal Income Tax	2.3	2.5	2.0	12.6
Corporate Income Tax	0.4	0.5	0.6	33.2
Excise Duty	1.1	1.2	0.9	1.8
Immovable Property Tax	0.2	0.2	0.2	0.4
Other taxes	0.4	0.4	0.4	6.9
Other revenues	2.7	3.0	3.1	36.2
Expenditures	15.7	17.0	12.5	8.3

Reviewing budget expenditures by functional categories reveals that in the first nine months of 2024, the areas with the highest growth rates were public order and safety, defence, and education. Structurally, social protection expenditures traditionally hold the largest share, accounting for nearly one-third of consolidated budget expenditures. The next largest spending areas during this period were education and general government services.

Consolidated State Budget by Post

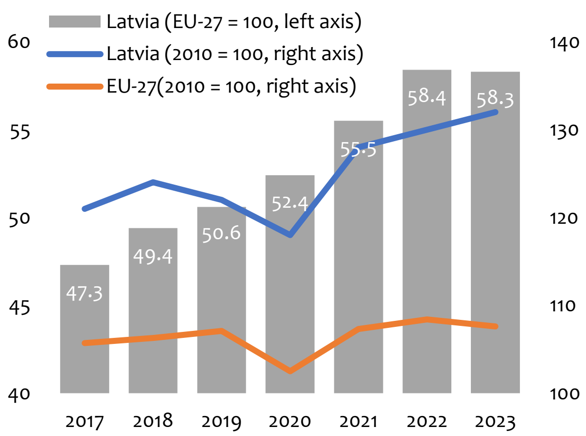
billion euro



PRODUCTIVITY AND COMPETITIVENESS

Productivity dynamics have been fluctuating in recent years. With the resurgence of economic activities, productivity rose by 8.3% in 2021. Although economic growth was more moderate in 2022 and 2023, this was mainly due to a faster increase in productivity than in employment. Over the past two years, productivity has grown by 1.6% annually. In 2024, productivity maintained a moderately positive trend, with the first half of the year showing a 0.9% increase compared to the previous year. In 2023, GDP per employed person in Latvia reached 58.3% (72.8% adjusted for PPS) of the EU average. Since 2019, the productivity gap with the EU average (PPS-adjusted) has narrowed by nearly 4 percentage points.

Productivity Dynamics

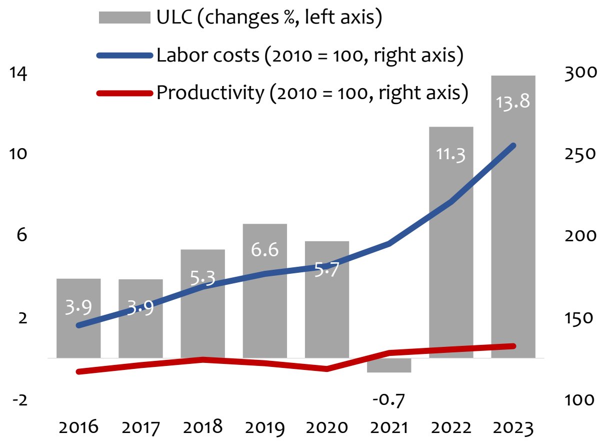


Labour costs continue to rise. Over the past three years, labour costs have increased by an average of 12% annually, nearly twice as fast as before the Covid-19 pandemic. Meanwhile, productivity growth has been more moderate, averaging 3.8% per year. This faster rise in labour costs compared to productivity has significantly weakened cost competitiveness indicators. In 2023, nominal ULC increased by 13.8%, marking the sharpest rise in the past decade. Labour costs are also growing in 2024, with a 10.8% increase in the first half of the year compared to the same period in 2023, and ULC rising by 9.9%.

In the Baltic states, the increase in nominal ULC is higher than the EU average (10.6%) and exceeds the EU's alert mechanism threshold (9%). **The real effective exchange rate (REER) is also rising.** Based on the consumer price index, the REER against 42 trading partners grew by 10.8% from 2020 to 2023, double the MIP threshold.

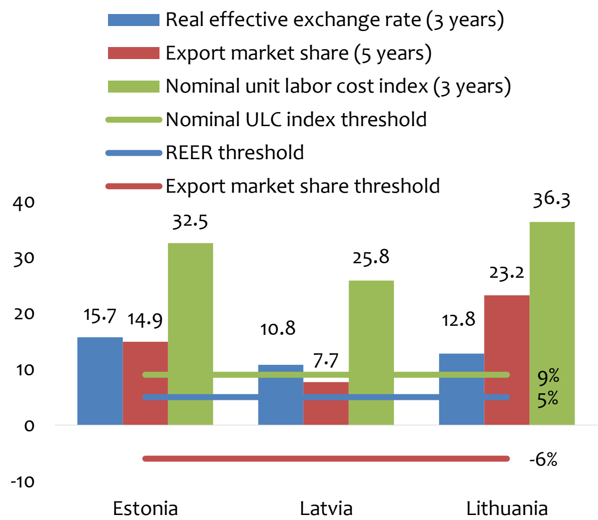
Latvia's export market share in global markets shows a slower long-term growth trend. Over five years (2019-2023), Latvia's global export share grew by 7.7%, largely due to favourable changes in the goods export market in 2020. Since 2019, Latvia's goods export share has increased by 9.9%, while the services share grew by 2%, mainly impacted by declines in services market share in 2019 and 2021, down by 3.4% and 5.4%, due to pandemic-related restrictions.

Labour Costs and Productivity



In the context of slow productivity growth, rising labour costs place significant pressure on the cost competitiveness of Latvian businesses. The slowdown in economic activity has had little impact on the labour market, indicating that labour shortages remain a pressing issue for employers, who are retaining jobs despite the economic deceleration. Meanwhile, inflationary pressures continue to drive wage growth, further widening the gap between productivity and labour costs. Sustained positive productivity dynamics will largely depend on structural changes in the Latvian economy, with a shift towards higher value-added activities and knowledge-intensive sectors.

Competitiveness Indicators
as per cent



EU ALERT MECHANISM

According to the economic and fiscal policy monitoring rules adopted by the European Union in 2011, the Macroeconomic Imbalance Procedure (MIP) was established to timely identify and correct macroeconomic imbalances using an alert mechanism with a set of indicators. In the 2024 Alert Mechanism Report (AMR), Latvia was not among the 11 EU member states identified as having macroeconomic imbalances.

A summary of Latvia's indicators (including statistical adjustments post-AMR publication) shows that four indicators exceeded the indicative thresholds in 2022: the real effective exchange rate, nominal labour cost index, economically active labour force level, and youth unemployment rate. The AMR noted a sharp inflation reduction – from a peak of 22% in September 2022 (compared to the previous year) to 2.4% in October 2023 (year-on-year).

External sustainability is affected by a current account deficit, which remains relatively high but has a decreasing trend, driven by improvements in the goods balance and the capital account. Latvia's net international investment position remained stable at -26.5% of GDP in 2022, with liabilities mainly composed of government bonds and foreign direct investments, outweighing other financial instruments.

Issues with cost competitiveness persist, as nominal labour unit costs have been rising rapidly for several years. A slowdown in unit labour cost growth is projected for 2024. The debt-to-GDP ratio for non-financial corporations and households remains low. The debt ratio of non-financial corporations stayed unchanged in the first half of 2023, while household debt continued to decline.

Housing prices accelerated in the first half of 2022 but subsequently decreased, and it is estimated that housing prices are overvalued by 12% as a result of these changes. The banking sector is stable and well-capitalized, with profitability close to the EU average. The share of non-performing loans is decreasing, and credit dynamics remain moderate.

List of Indicators for the Macroeconomic Imbalances Procedure for Latvia

	Threshold	2018	2019	2020	2021	2022	2023
External imbalances and competitiveness							
Current account (% of GDP, 3-year average)	-4%/6%	0.9	0.3	0.8	-0.4	-2.0	-4.3
Net international investment position (% of GDP)	-35%	-45.4	-40.1	-34.0	-27.0	-26.5	-25.2
Real effective exchange rate – 42 partner countries, HICP deflator (% changes over the last 3 years)	±5%* & ±11%	5.1	3.8	5.8	2.3	5.3	10.8
Export market share – % of world export (% changes over the last 5 years)	-6%	8.0	3.5	14.0	7.7	11.9	-2.1
Nominal unit labour costs index (% changes over the last 3 years)	9%* & 12%	13.2	16.0	17.4	11.2	16.2	25.8
Internal imbalances							
House price index (% annual changes)	6%	6.3	5.5	3.5	7.2	0.4	-4.0
Private sector credit flow (% of GDP, consolidated)	14%	0.1	1.8	-1.4	1.8	3.4	1.2
Private sector debt (% of GDP, consolidated)	133%	70.6	67.8	66.0	60.2	56.3	54.4
General government debt (% of GDP)	60%	38.3	37.9	44.0	45.9	44.4	45.0
Unemployment rate (3-year average)	10%	8.6	7.5	7.3	7.3	7.5	7.0
Financial sector liabilities (% annual changes)	16.5%	-3.7	4.6	10.2	13.5	4.0	4.7
Employment indicators							
Economically active population – % of population aged 15-64 (% over the last 3 years)	-0.2 pp	1.9	1.1	1.1	-1.8	-0.5	-1.4
Long-term unemployment rate – % economically active population (% changes over the last three years)	0.5 pp	-1.5	-1.7	-1.2	-1.1	-0.7	-0.6
Youth unemployment rate – % of economically active population (% over the last 3 years)	2 pp	-4.1	-4.8	-2.1	2.6	2.6	-2.6

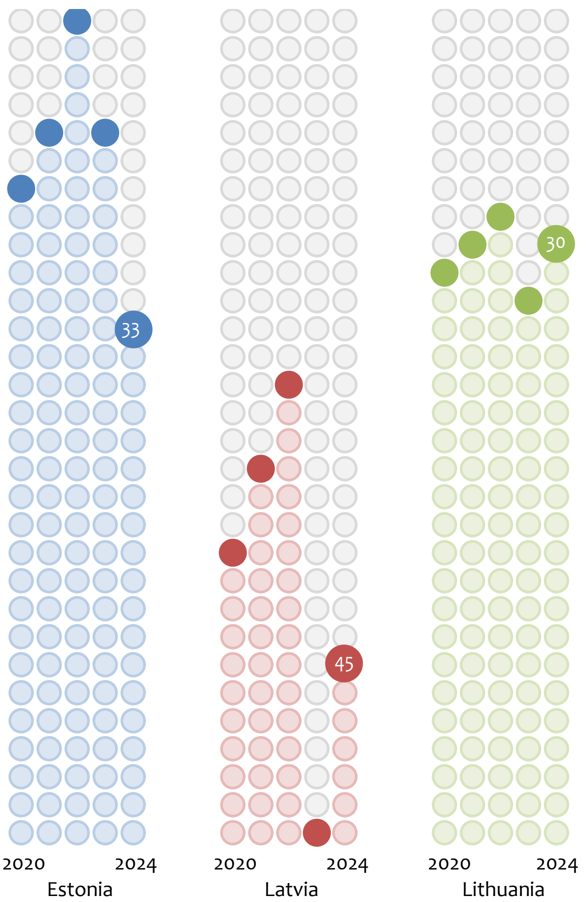
* – Euro area countries.
Note: highlighted numbers exceed the thresholds set out in the Early Alert Mechanism Report
Source: List of Indicators for the Macroeconomic Imbalances Procedure for Latvia, *Eurostat*

2024 | 2 LATVIA IN INTERNATIONAL RANKINGS

The ratings created by the International Institute for Management Development, the World Intellectual Property Organization, the European Commission, and other organizations describe Latvia as a highly developed country that manages various external shocks with varying degrees of success, while maintaining high development potential.

In the World Competitiveness Ranking 2024, published annually by the International Institute for Management Development (IMD), Latvia ranked 45th out of 64 countries, improving its position by 6 places compared to 2023.

Baltic Countries in Global Competitiveness Ranking

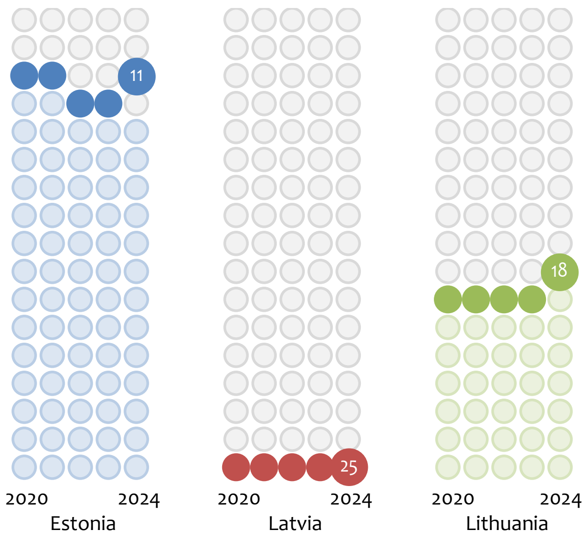


Source: *IMD, World Competitiveness Ranking 2024*

After a significant decline in the 2023 ranking, Latvia has recovered in several areas in 2024, such as international trade, business legislation, business efficiency in management practices, attitudes and values, as well as in basic and technological infrastructure. Meanwhile, economic performance was significantly impacted by price indicators based on the 2023 results when the consumer price index reached its peak. It is also noted that foreign investment levels relative to GDP remain high, and a skilled workforce acts as an attractive factor for the economy.

In the European Innovation Scoreboard 2024, published annually by the European Commission, Latvia ranks 25th out of 27 EU countries and is classified among the modest innovators. The report highlights Latvia's comparative strengths, including the share of the population with higher education, the number of trademark applications, and the number of joint publications between public and private sector authors.

Baltic Countries in Global Innovation Index *

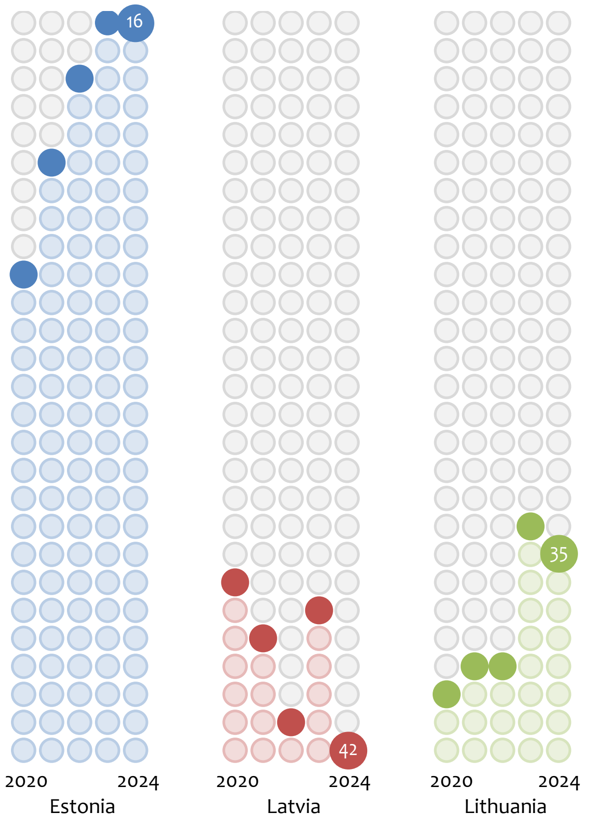


Source: *European Commission, European Innovation Scoreboard 2024*
** Only EU-27*

In the Global Innovation Index 2024, prepared by the World Intellectual Property Organization (WIPO), Latvia ranks 42nd among 133 surveyed countries.

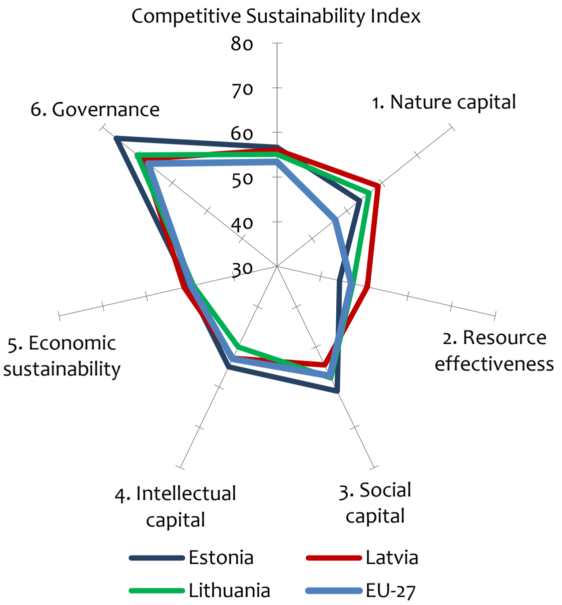
Latvia's strengths are highlighted as follows: the proportion of secondary school graduates enrolled in higher education, the number of foreign students, ICT utilization, the percentage of companies offering formal training, the share of employed women with scientific degrees, the number of ISO 9001 certificates, exports of cultural and creative services, the number of domestic feature films, exports of creative industry goods, and the number of mobile applications created.

Baltic Countries in Global Innovation Index



Source: *Cornell University, INSEAD, WIPO, Global Innovation Index 2024: Unlocking the Promise of Social Entrepreneurship*

Performance of the Baltic States in the Competitive Sustainability Index and its dimensions
(rating scale from 0-100)



Source: *SolAbility, Global Sustainable Competitiveness Index 2023*

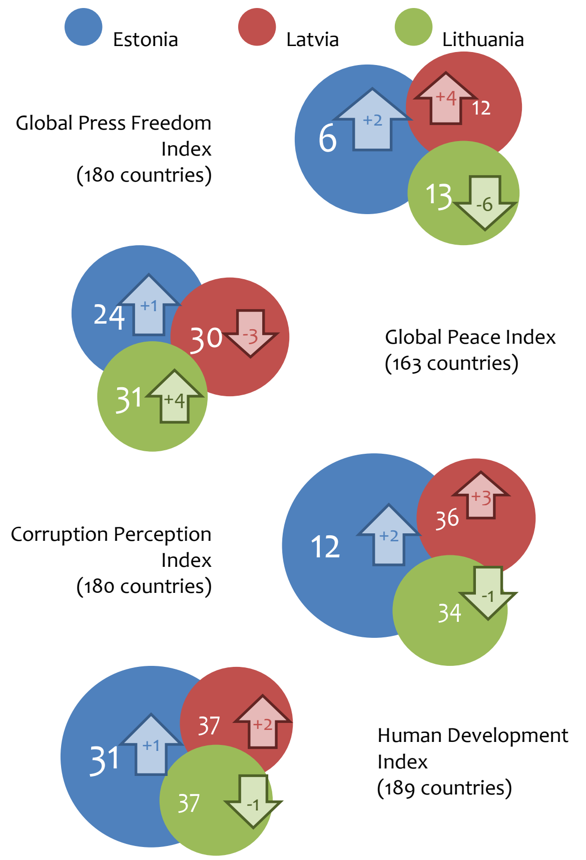
In the 2023 Global Sustainable Competitiveness Index by Swiss company SolAbility, based on six pillars – natural capital, resource efficiency, social capital, intellectual capital, economic sustainability, and governance – Latvia ranked 9th among 180 countries (Estonia ranked 7th, Lithuania 14th).

Latvia achieved a high 7th place in the natural capital pillar, similarly to other Scandinavian and Baltic countries, improving its score over the year, while 60% of surveyed countries saw a decline in natural capital.

Latvia also performed well in the resource efficiency pillar, emphasizing renewable energy and water resource availability, and in the governance pillar, based on infrastructure, business environment appeal, low corruption, and financial stability.

In the 2024 World Press Freedom Index by Reporters Without Borders, Latvia ranked 12th out of 180 countries, an improvement of four places compared to 2023.

Baltic Countries in International Rankings
place and its changes during a year



Source: *Reporters Without Borders, 2024 World Press Freedom Index; The Institute for Economics and Peace, Global Peace Index 2024; Transparency International, Corruption Perceptions Index 2023; United Nations Development Programme, Human Development Report 2023/2024.*

In the 2024 Global Peace Index by the Institute for Economics and Peace, Latvia ranked 30th out of 163 countries, dropping by three positions from 2023 due to increased spending on social security and military needs.

In Transparency International's Corruption Perceptions Index for 2023, Latvia ranked 36th out of 180 countries, improving by three positions compared to 2022.

In the United Nations Development Programme's (UNDP) Human Development Index for 2023/2024, Latvia ranked 37th out of 193 countries, moving up by two positions from its 2021 standing.

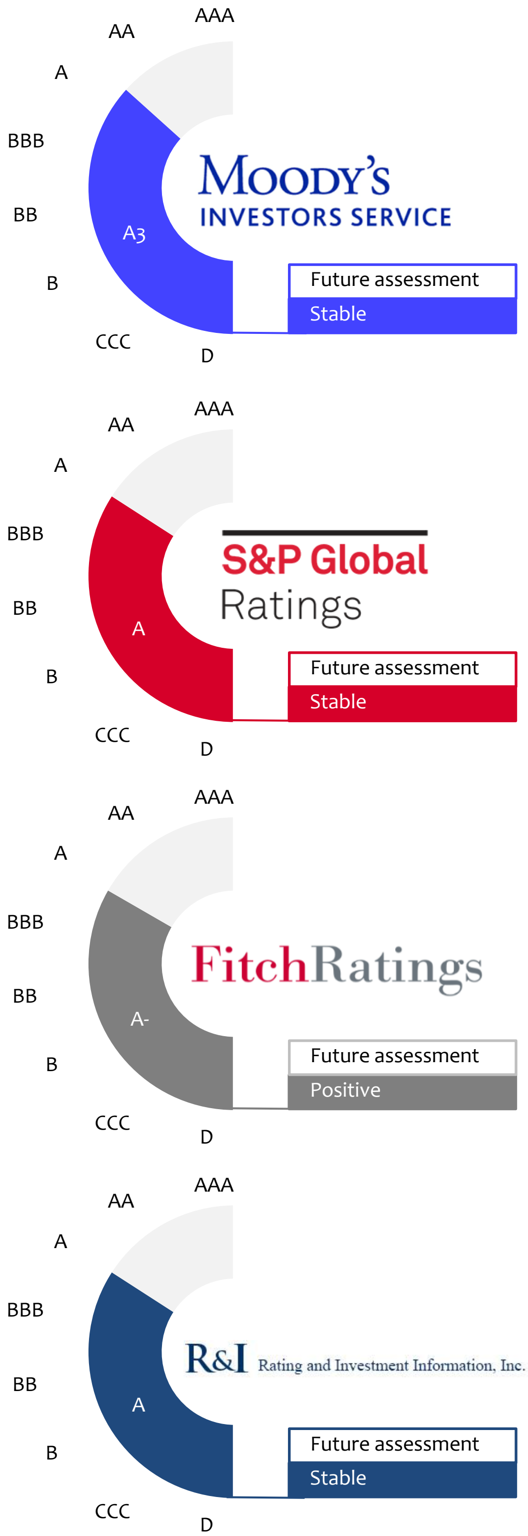
The international rating agency S&P Global Ratings has long maintained Latvia's credit rating in the high "A" group. From February 2020 to June 2024, Latvia's credit rating stood at "A+" but has since been adjusted slightly lower to an "A" level with a positive outlook. The agency justified its decision by citing that Latvia's fiscal indicators, economic growth, and international competitiveness have shown resilience to indirect impacts from Russia's aggression against Ukraine, though further improvements may be delayed by increased spending on priority areas such as internal security and defence. However, a stable political environment, eurozone membership, and a moderate national debt level continue to support Latvia's "A" credit rating.

Other rating agencies have not changed their assessments of Latvia's credit rating since 2020, but Fitch Ratings revised its outlook to positive on July 28, 2023, citing Latvia's resilience to external shocks, exceeding pre-pandemic GDP levels. The agency noted that Latvia has successfully reduced its dependence on energy imports from Russia.

Moody's Investors Service also recognizes Latvia's stable financial position and expects the relatively low general government debt level to remain moderate in the coming years.

Similarly, Japan's R&I credit rating agency concluded that Latvia's economic growth will be stable in the medium term, supported by a favourable business environment and available EU funding for investments.

Credit Rating of Latvia for Long-Term Liabilities in Foreign Currency



Source: State Treasury