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Central Statistical Bureau of Latvia

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ECONOMIC SITUATION: BRIEF OVERVIEW

During the period from 2011 to 2013, the average growth of the Latvian economy amounted to 4.4% annually. In 2014, the GDP increased by 2.1%. The growth was slower due to the weak economic growth within the EU, as well as the worsening of the economic situation in Russia.

Despite the geopolitical tensions within the region, the Latvian economy continued to evolve in 2015 and its growth amounted to 2.7%.

In the 1st quarter of 2016, the GDP rose by 2.1%, while in the 2nd quarter it was 2% higher than a year before. Overall, the growth recorded during the 1st half of the present year is slightly slower than the year before.

The relatively rapid growth in average wages and salaries, as well as the low inflation is facilitating a rise in private consumption. As the expenditures of the government budget increase, public consumption continues to grow. In turn, the investment dynamics are unstable. In 2015, investments grew by 2.8%, however, during the first half of 2016 they were 21.8% lower than a year before, which was mainly due to the slow-down in the implementation of EU structural funds.

In recent years, the low demand in foreign markets has affected the dynamics of exports, and it has

become slower. In 2015, exports grew by 2.6%, however, during the first half of 2016 the volume of exports was 1% higher than a year before.

In breakdown by sector, stable growth may be observed in manufacturing, trade, and commercial services. In the first eight months, the manufacturing output was 3.9% larger than a year before. During the respective period, the volume of retail trade rose by 1.9%. In turn, the volumes of construction are significantly lagging behind the results of the previous year.

The situation in the labour market is continuing to improve in 2016. During the first half of 2016, the unemployment rate decreased by 9.9%, whereas the number of employed persons increased by 0.3%.

The price dynamics continue to be moderate – the inflation is mainly related to the dynamics of oil and food prices in the world. Compared to August 2015, in August 2016 consumer prices remained unchanged. The average level of consumer prices could be close to zero in 2016.

The Ministry of Economics forecasts that the GDP may reach 2.5% in 2016 despite the weak external demand.

Key Indicators of Economic Development

	2011	2012	2013	2014	2015	2016f
<i>increase over the previous year, as per cent</i>						
Gross Domestic Product	6.2	4.0	2.9	2.1	2.7	2.5
Consumer prices	4.4	2.3	0.0	0.6	0.2	0.0
<i>per cent</i>						
Employment rate	54.0	56.1	58.2	59.1	60.8	61.9
Unemployment rate	16.2	15.0	11.9	10.8	9.9	9.5
<i>as per cent over gross domestic product</i>						
General government sector balance	-3.4	-0.8	-0.9	-1.6	-1.3	-1.0
Exports-imports balance	-5.0	-4.5	-3.2	-2.2	-1.4	-0.8

f – forecast

THE EXTERNAL ECONOMIC ENVIRONMENT

The development of the global economy remains unsteady, and it differs from region to region. In 2015, the global economy grew slower than in 2014. Prospects for growth are gradually improving in developed countries, while the situation in developing countries has slightly worsened despite the fact that the growth rates are still relatively high in those countries.

The economic situation within the EU is gradually improving. In the 2nd quarter of 2016, as compared to the 1st quarter, the GDP rose by 0.4% and was 1.8% higher than a year before (0.3% and 1.6% in the euro area, respectively). The latest business tendency surveys show that the volume of economic activities in the EU is gradually increasing. At the same time, the vote on leaving the EU that took place in Britain in June of the present year is having a negative impact on growth in Britain, thus also affecting the economic development of the EU in general.

The US economy grew slower during the 2nd quarter of 2016. As compared to the 1st quarter,

the GDP rose by 0.3% and was 1.1% higher than a year before. The slower economic growth was caused by the low level of investments, as well as a decrease in the volume of reserves, which was recorded for the first time since 2011.

The growth rates of Asian countries have been slowing down lately. China is experiencing the slowest growth since the beginning of the 90s, thus having a negative impact on the growth of the global economy.

At the beginning of 2016, Russia is showing a slower downturn in GDP than in 2015. In the 2nd quarter of 2016, the GDP was 0.6% lower than a year before. Russia is still facing challenges regarding the stabilisation of its economy, however, as compared to April of the previous year, its economy indicates signs of stability. Financial arrangements were eased by replenishing the capital reserves of banks with state resources. With the prices of oil and the value of the rouble becoming more stable, growth could return to the Russian economy at the end of 2016.

Global Economic Growth

GDP, per cent changes

	2012	2013	2014	2015	2016f
World	3.5	3.2	3.3	3.0	3.1
USA	2.2	1.5	2.4	2.4	1.6
Japan	1.7	1.6	0.0	0.5	0.5
China	9.6	8.0	7.3	6.9	6.6
CIS, of which	3.5	2.1	0.9	-2.9	-0.3
Russia	3.4	1.3	0.6	-3.7	-0.8
European Union, of which:	-0.5	0.2	1.4	2.0	1.9
Germany	0.4	0.3	1.6	1.7	1.7
Sweden	-0.3	1.2	2.3	4.1	3.6
United Kingdom	1.2	2.2	2.9	2.3	1.8
Lithuania	3.8	3.5	3.0	1.6	2.6
Estonia	5.2	1.6	2.9	1.1	1.5

Source: International Monetary Fund, f – forecast

GROSS DOMESTIC PRODUCT: EXPENDITURE

After the rapid economic growth lasting for several years, when the average annual GDP growth rates in 2005-2007 almost exceeded 10%, the Latvian economy experienced a recession in 2008 due to the global financial crisis. During the crisis, the GDP declined by 22.5%, falling to its lowest point in mid-2010.

During the period from 2011 to 2013, the average annual growth of the Latvian economy amounted to 4.4%, and it was one of the most rapid growth rates within the EU. In 2014, the GDP growth was slower – 2.1% per cent.

In 2015, the GDP grew by 2.7%, which is regarded as a very good indicator, given the geopolitical situation in the region. Despite the fact that during recent years it has been possible to observe relatively rapid growth within the Latvian economy, the GDP was still lagging behind the pre-crisis level of 2007 by 5.3%.

In the 1st quarter of 2016, the GDP rose by 2.1%, while in the 2nd quarter it was 2% higher than a year before. Overall, the growth recorded during the 1st half of 2016 is slightly slower than a year before.

The relatively rapid growth of average wages and salaries, as well as the low inflation, are still increasing the purchasing power of the population. In the 2nd quarter of 2016, as compared to the 1st quarter, private consumption rose by 1.1% (according to seasonally adjusted data) and was 4.1% higher than a year ago. As compared to the end of 2015, growth rates of private consumption have become more rapid.

In the 2nd quarter of 2016, as compared to the 2nd quarter of 2015, government spending remained unchanged.

The dynamics of investments have been very unsteady during recent years. The sharpest decline in investments was recorded in the 1st and 2nd quarter of 2016 – during the year their volume decreased by 15.7% and 26.2%, respectively, which was mainly influenced by the downward trend in the use structural funds.

Gross Domestic Product

2004 = 100



Expenditure of Gross Domestic Product

changes over the previous year, as per cent

	2010	2011	2012	2013	2014	2015
Gross Domestic Product	-3.8	6.2	4.0	2.9	2.1	2.7
Private consumption	2.8	3.0	3.2	5.0	1.3	3.5
Public consumption	-8.1	3.0	0.3	1.6	2.1	3.1
Gross fixed capital formation	-19.8	24.1	14.4	-6.0	0.1	2.8
Exports	13.4	12.0	9.8	1.1	3.9	2.6
Imports	12.4	22.0	5.4	-0.2	0.5	2.1

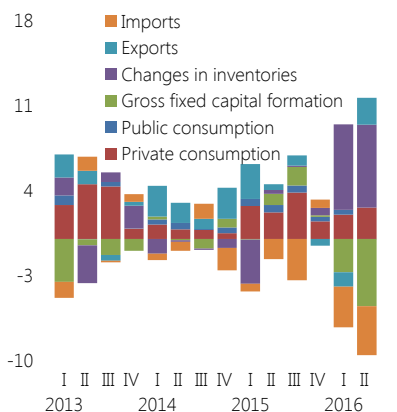
During the period from 2010 to 2012, exports of Latvian goods and services grew very rapidly, serving as the main driving force for the development of the national economy. In 2012, the volume of exports exceeded the pre-crisis level by almost 22%. The dynamics of exports have become more moderate since 2013 due to the low demand in external markets. In 2015, the total volume of exports increased by 1.4 per cent.

After having decreased for two quarters, the volume of exports grew significantly during the 2nd quarter of 2016 – by 3.9%, as compared to the 2nd quarter of 2015. The increase was mainly ensured by the upturn in the exports of goods.

After a considerable drop during the crisis, the volume of imports grew quite rapidly in 2010 and 2011. The import dynamics have become more moderate since mid-2012. In the 2nd quarter of 2016, the volume of imports increased by 7.5% in comparison to the 2nd quarter of 2015. In the 2nd quarter of 2016, the exports-imports balance amounted to -0.6% of the GDP.

Considering the expected increase in the volume of investments and the positive trends in manufacturing, the growth of the national economy could be more rapid during the 2nd half of 2016. Events in the external environment will continue to have an effect on exports, therefore rapid growth of exports is most likely not expected.

Expenditure of Gross Domestic Product
contribution to changes over the corresponding quarter of the previous year, as per cent



Expenditure of Gross Domestic Product
changes over the corresponding quarter of the previous year, as per cent

	2014				2015				2016	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product	2.7	2.1	2.1	1.7	1.8	2.8	3.5	2.7	2.1	2.0
Private consumption	1.8	1.2	1.2	0.8	3.9	3.1	5.1	1.8	3.0	4.1
Public consumption	2.4	2.9	0.4	2.5	3.4	3.3	3.7	2.0	2.2	0.0
Gross fixed capital formation	1.3	-0.5	-3.0	2.7	-0.4	4.3	6.1	0.5	-15.7	-26.3
Exports	4.5	3.6	2.5	5.0	5.0	2.2	3.4	0.1	-0.7	3.9
Imports	0.5	1.0	-2.1	2.8	0.9	2.0	5.5	-0.2	5.2	7.5

GROSS DOMESTIC PRODUCT: DEVELOPMENT OF SECTORS

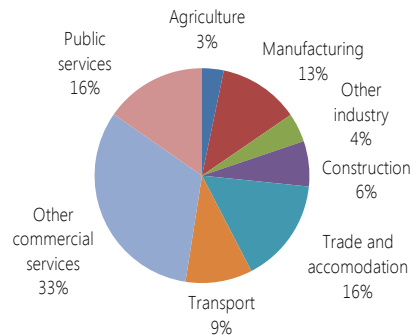
Due to improvements in competitiveness and export opportunities, tradable sectors were the first ones to recover from the crisis. In manufacturing, which is the main export sector, the production volume in 2013 exceeded the level of 2009 by 22%. The growth of tradable sectors and the increase in income from exports promoted the development of domestic market-oriented sectors – commercial services, trade, and construction. The contribution that these sectors provide to overall growth has increased significantly over the past years, but the weak demand in export markets in 2013 and 2014 limited the growth of manufacturing. In 2015, growth continued in almost all sectors, except for construction, and transportation and storage.

In 2016, the development trends within sectors are also different. The manufacturing output increased by 0.5% during the 1st quarter, whereas a rapid increase could be observed during the 2nd quarter – of 7.2 per cent.

Growth was also recorded in other industry sectors – of 10.5% in the 1st quarter and of 2.8% in the 2nd quarter of 2016 in comparison to the respective periods of the previous year. Moreover, output in agriculture and forestry in the 2nd quarter was 1.4% larger than a year before.

Growth in construction has been slowing down since the second half of 2014. In 2015, the construction volumes decreased by 1.1%. They are continuing to decrease in 2016 – there has been a drop of 19% in the 1st half of the year. This was caused by a rapid decline in the construction of engineering structures, which can be mainly explained by the transitional period in the use of structural funds, as well as the fact that the development of the construction sector is closely related to public procurements and projects of EU funds.

GDP Structure
2015, as per cent



Gross Domestic Product by Sectors
volume changes in per cent

	2010	2011	2012	2013	2014	2015
Gross Domestic Product	-3.8	6.2	4.0	3.0	2.4	2.7
Agriculture, forestry	-3.9	-1.7	7.4	1.2	2.6	1.5
Manufacturing	14.2	3.7	4.3	-1.2	-2.8	4.3
Other industry	-2.7	-5.2	-5.7	1.6	-4.6	1.3
Construction	-34.2	29.8	8.7	4.3	4.8	-1.1
Trade and accommodation	-1.6	2.7	0.9	4.1	3.2	4.5
Transport and storage	-4.9	17.9	5.5	0.2	2.4	-0.2
Other commercial services	-4.0	6.1	5.1	3.5	1.1	2.6
Public services	-6.9	3.1	-0.2	2.4	3.5	3.1

In 2015, the volume of services rendered in the transportation and storage sector decreased by 0.2%. This was influenced by a decline in freight turnover at ports and on railways. Freight turnover at ports and on railways is continuing to decrease in 2016. The volume of freights carried by road transport has also slightly decreased. At the same time, significant growth can be observed in storage and support activities for transportation, as a result of which in the 2nd quarter of 2016 the volumes of services rendered in the transportation and storage sector were 3.1% higher than during the previous year.

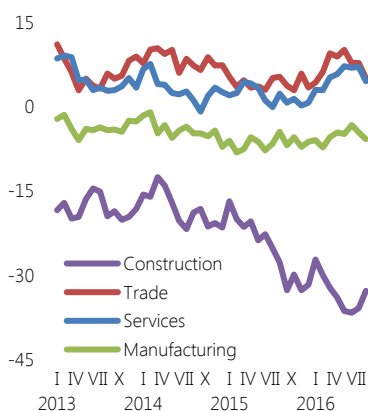
The volume of services provided within trade sector continues to grow. In the 1st quarter of 2016, it was 3.5% higher than a year before, whereas the growth was more rapid during the 2nd quarter – 5.6% higher. The trade sector is positively influenced by the increase in private consumption and growth of the retail trade turnover. As the turnover of foreign trade increased, growth was also recorded in the volume of wholesale trade at constant prices in the 2nd quarter.

Growth in the commercial services sector was moderate in 2014 and in 2015. In the 1st quarter of 2016, the volume of services provided within the sector was 2.4% higher than a year before, while in the 2nd quarter it was 0.2% higher than a year before. The increase was mainly facilitated by growth in information and communication services, as well as in the arts and entertainment sector.

As government expenditures continue to increase, the volume of services provided within the public services sectors also rises – it grew by 1.8% during the 1st quarter of 2016 and by 1.3% during the 2nd quarter.

Confidence Indicators by Sectors

by months, seasonally adjusted data



Gross Domestic Product by Sectors

changes over corresponding quarter of the previous year, as per cent

	2014				2015				2016	
	I	II	III	IV	I	II	III	IV	I	II
Gross Domestic Product	2.7	2.1	2.1	1.7	1.8	2.8	3.5	2.7	2.1	2.0
Agriculture, forestry	8.5	6.3	-4.3	3.4	-5.8	4.6	3.2	1.5	3.0	1.4
Manufacturing	5.5	3.4	2.0	0.6	4.4	5.9	3.7	3.2	0.5	7.2
Other industry	-8.6	-7.1	-3.7	0.7	-5.1	4.8	5.6	2.2	10.6	2.8
Construction	21.2	12.2	-2.6	1.2	-0.1	-3.4	4.9	-6.2	-19.0	-19.0
Trade and accommodation	3.3	3.0	3.6	2.9	1.3	4.9	6.1	4.9	3.9	5.7
Transport and storage	5.0	1.2	2.5	1.0	-1.5	-4.3	1.7	3.5	1.6	3.1
Other commercial services	-1.0	-3.0	0.9	-1.4	1.5	3.7	1.4	3.9	2.7	0.2
Public services	3.6	3.6	3.1	3.2	3.9	3.2	3.7	2.0	1.8	1.3

MANUFACTURING

After rapid growth during the post-crisis years, growth within the sector slowed down in 2013 and 2014. This was mainly caused by the low demand in export markets. In 2015, the manufacturing output increased once again and was 4.3% higher than in 2014. Manufacture of computers, electrical and optical equipment, wood processing, manufacture of basic metals, as well as manufacture of machinery and equipment had the most significant effect on the growth of the manufacturing sector.

Manufacturing continues to grow in 2016. During the first eight months of 2016, the manufacturing output increased by 3.9% in comparison to January-August of the previous year. The development trends within the manufacturing sub-sectors differ.

In wood processing, which is the largest manufacturing sector, production volumes are continuing to grow steadily. During the first eight months of 2016, the production volume was 7.8% higher than a year before.

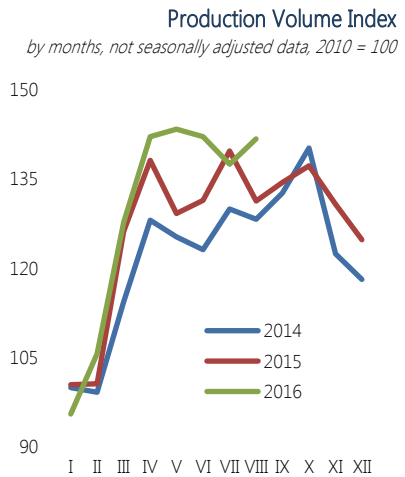
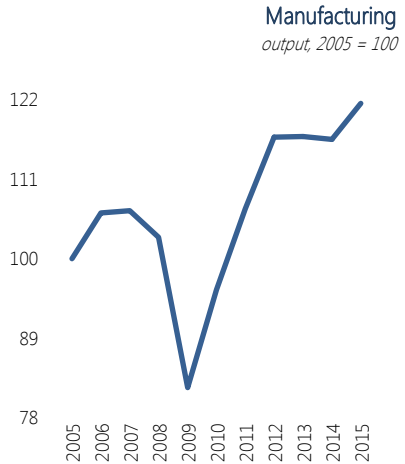
A rapid increase in production volume may also be observed in the manufacture of non-metallic mineral products. Despite the poor growth in construction, exports of the sector are increasing rapidly. During the first eight months of 2016, production volumes in the manufacture of non-metallic minerals were 8.6% higher than a year before.

In 2016, production volumes in the chemical industry were 2.5% higher than a year before.

After a decrease in the production volumes in 2014 and 2015, the output of light industry increased by 1.3% during the first eight months of 2016.

Production volumes are also increasing in the manufacture of machinery and equipment, manufacture of electrical and optical equipment, manufacture of paper and printing, as well as in the manufacture of metals and metal products.

Production volumes in food industry are decreasing slightly in 2016 – in January-August they were 0.1% lower than a year before. The development of the sector is being affected by the sanctions imposed by Russia on the import of specific food products, as well as the weak exchange rate of the rouble, which makes Latvian exports more expensive.



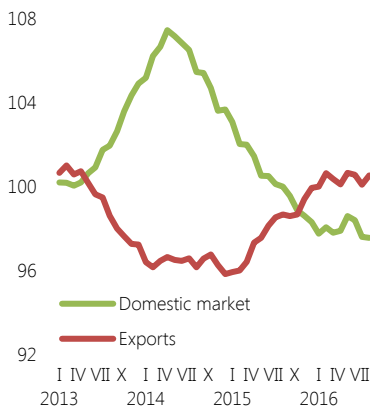
During the first eight months of 2016, as compared to the corresponding period of the previous year, production volumes also decreased in the manufacture of transport equipment.

During January-August 2016, the turnover of the manufacturing sector was 0.2% higher than a year before. The turnover of goods exported during this period of time increased by 0.9%, whereas the turnover of products sold on the domestic market decreased by 1.1%. The most significant positive effect on the growth of the total turnover was provided by wood processing, while the food industry and metalworking sector had the most negative impact on it.

Overall, moderate growth is expected in manufacturing in 2016.

Production Sales

*by months, at current prices,
12-month moving average, 2011 = 100*



Main Indicators of Manufacturing

as per cent

	Structure of output	Structure of occupied jobs	Exports share in sales of sector	Volume changes		
				2014	2015	2016 Jan-Aug
Manufacturing – total	100	100	63.8	-0.3	4.3	3.9
Food industry	23.6	20.6	34.3	0.1	-4.6	-0.1
Light industry	3.9	10.1	86.4	-13.6	-13.2	1.3
Wood processing	27.0	21.0	74.7	6.9	7.1	7.8
Paper industry and publishing	4.4	4.1	61.2	-0.6	0.0	4.8
Chemical industry	7.5	7.0	76.4	-2.6	-4.1	2.5
Other non-metallic mineral products	5.9	4.5	48.0	1.2	-9.8	8.6
Metals and metal articles	9.0	10.2	67.6	-10.5
Electrical and optical equipment	7.3	3.9	90.9	32.3	16.7	9.5
Machinery and equipment	2.3	2.9	83.8	2.4	7.9	8.5
Motor vehicles	3.5	3.3	88.0	-15.2	3.5	-3.5
Other industries	5.6	12.4	58.1	-12.0	3.4	-0.8

... the data is confidential

INVESTMENTS

Investment activities are recovering slowly from the economic crisis, and the volumes of investments have still not reached the pre-crisis level. This is mainly affected by poor crediting, a relatively low demand, as well as the uncertainty of the economic and political situation in the external environment.

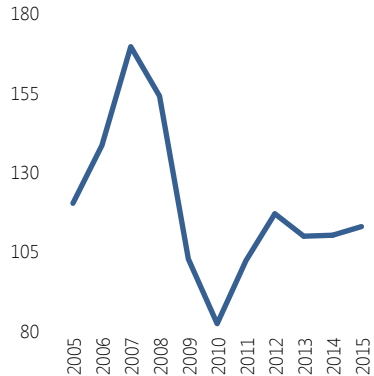
In 2015, investments in the national economy of Latvia amounted to 23% of the GDP and exceeded the level of the previous year by 2.8%. Nevertheless, the total amount of average annual investments in the national economy of Latvia since 2011 is almost 20% lower than during the pre-crisis period.

During the first half of 2016, the investment process was poor. In the 1st and 2nd quarter of 2016, the level of investments was 15.7% and 26.3% lower than a year before, respectively. There was a significant decrease in investments in construction. In the 1st half of 2016, as compared to the corresponding period of the previous year, investments in construction decreased by 28.2%, including investments in housing (by 19%) and in the construction of engineering structures (by 30.4%), which is related to the cyclical nature of EU structural funds.

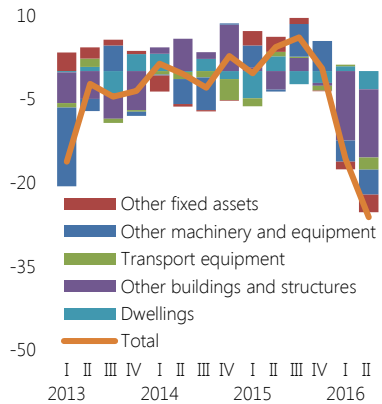
According to provisional data, during the 1st half of 2016 non-financial investments in production sectors lagged behind the level of the previous year by 14.3%. This was mainly due to a drop in investments in the manufacturing sector (of 27.1%), as well as in public utilities (of 58.8%). The level of investments in service sectors was also almost 30% lower than a year before, which was mainly due to a drop in investments in the transportation and storage sector.

In 2015, the intensity of foreign direct investments remained at the level of the previous year. The volume of attracted FDI amounted to 2.5% of the GDP. In turn, during the 1st half of 2016, the FDI flows were negative (-2.4% of the GDP), which was mainly due to a decrease in liabilities to direct investors.

Gross Fixed Capital Formation
2004 = 100



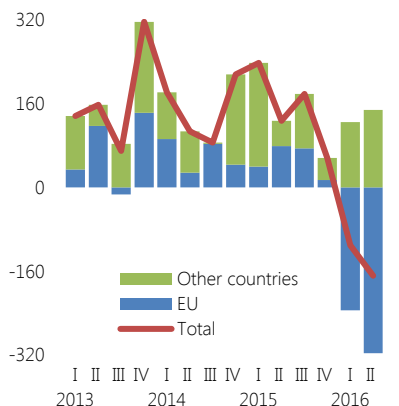
Gross Fixed Capital Formation
changes over corresponding quarter of the previous year, as per cent



According to the international investment balance, at the end of June 2016 FDI accrued in the Latvian economy reached EUR 14.4 bln (58.5% of the GDP). In breakdown by sector, a larger share of accrued FDI was recorded in investments in financial intermediation, real estate activities, and manufacturing. Sweden is the largest investor in the Latvian economy. At the end of June 2016, investments of Swedish entrepreneurs accounted for almost 15.5% of the total FDI accrued. Those are mainly investments in financial intermediation.

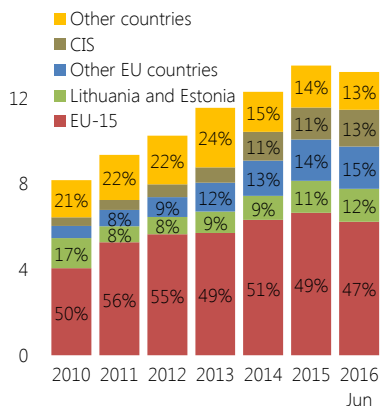
Foreign Direct Investment in Latvia

flows by quarters, mln euro



Foreign Direct Investment in Latvia

by groups of countries
balance at the end of period, bln euro



Foreign Direct Investment in Latvia by Sectors

mln euro

	Structure	Closing position				
		2016 Jun	2012	2013	2014	2015
Agriculture, forestry	4.4	294.6	300.2	521.6	618.5	579.6
Manufacturing	12.7	1'200.3	1'402.5	1'555.4	1'652.5	1'677.0
Other industry	5.1	492.2	589.3	618.3	623.8	673.8
Construction	4.2	467.9	498.5	421.7	548.1	554.3
Trade and accommodation	14.4	1'415.0	1'470.8	1'715.5	1'769.2	1'909.5
Transport and storage	4.0	449.1	407.8	479.8	495.0	526.7
Financial and insurance activities	24.8	2'824.9	2'914.4	3'414.0	3'729.0	3'285.0
Other services	21.9	1'769.1	1'949.0	2'559.6	2'904.9	2'903.9
Not allocated economic activity	8.5	1'344.7	2'037.3	1'025.4	1'204.5	1'128.0
Total	100	10'257.9	11'569.6	12'311.3	13'545.5	13'237.8

FOREIGN TRADE

After the crisis the foreign trade of Latvia developed very rapidly. As compared to 2009, exports of goods at current prices in 2012 had almost doubled, while imports of goods had increased by more than 80%. From 2009 to 2012, exports grew by 25% annually on average, whereas imports grew by 23%. During this period the largest contribution to the growth in exports of goods was ensured by agricultural and food products, as well as by metalworking articles. Significant growth was also recorded in the exports of wood processing products, machinery and mechanical appliances, electrical equipment, as well as mineral products.

In 2013, exports of Latvian goods increased by 1.5% at current prices, whereas in 2014 – by 2.3%. The dynamics of imports of goods slowed down more rapidly – in 2013 there was an increase of 1%, but in 2014 – of 0.2 per cent.

In 2015, exports of goods grew moderately similarly to 2014 – by 1.1%. Exports of machinery and mechanical appliances, electrical equipment had the most significant positive effect on export growth, however, the export value of mineral products decreased significantly. In 2015, imports of goods declined by 1.3%. The respective drop was mainly influenced by a decrease in the import value of mineral products in relation to the low oil prices.

During January-August 2016, the level of exports of Latvian goods at current prices was 1.5% lower than a year before. This was mainly affected by a drop in the exports of machinery and mechanical appliances, as well as in the exports of mineral products. In turn, significant growth was recorded in the exports of agricultural and food products (mainly of cereals) and in the exports of transport equipment.

In January-August 2016, exports of goods to the largest export market of Latvia – the EU countries – was 1.5% lower than a year before (exports of goods to Lithuania decreased by 6.5%, while exports of goods to Estonia grew by 2.7%). The drop in the exports to EU countries was mostly affected by a decline in the exports of mineral products, machinery and mechanical appliances, electrical equipment, as well as goods of light industry. In turn, positive trends could be observed in the exports of agricultural and food products, transport equipment, wood and wood products, as well as of goods of the chemical industry.

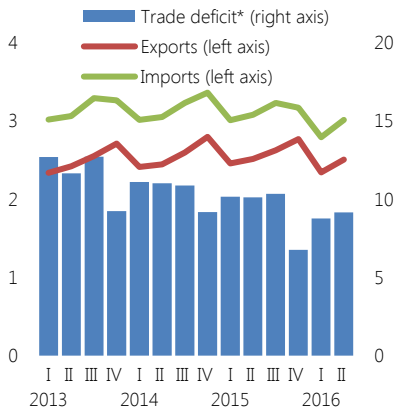
Exports and Imports of Goods

at constant prices, 2004 = 100



Exports and Imports of Goods

by quarters, in bln euro and as per cent



* as per cent of total trade turnover

During the first eight months of 2016, exports to the CIS countries decreased by 12.1% in comparison to the previous year (of which exports to Russia reduced by 14.8%). The drop was mainly affected by a decrease in the exports of machinery and mechanical appliances, electrical equipment, as well as agricultural and food products. A decrease could also be observed in the exports of mineral products, as well as wood and wood products. Whereas a positive impact on the exports to the CIS countries was provided by an increase in the exports of goods of the chemical and light industry.

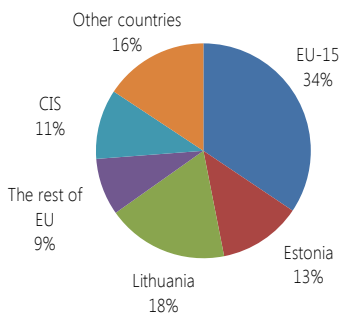
Exports to other countries increased by 7.5% in January-August 2016. The respective increase was ensured by significant growth in the exports of cereals, as well as transport equipment.

In January-August 2016, imports of goods dropped by 4.8%. This was mainly influenced by a decline in the imports of mineral products, machinery and mechanical appliances, electrical equipment, as well as metal and metal products. In turn, an increase was observed in the imports of transport equipment, agricultural and food products, goods of the chemical industry, as well as wood and wood products.

As compared to the corresponding period of the previous year, the trade balance improved during in first eight months of 2016. The export-import deficit amounted to 9.3% of the trade turnover in January-August.

Structure of Exports of Latvian Goods

in January-August 2016, as per cent



Exports and Imports of Latvian Goods

in January-August 2016, as per cent

	Exports			Imports		
	structure	volume changes	contribution to changes	structure	volume changes	contribution to changes
Total, of which:	100	-1.5	-1.5	100	-4.8	-4.8
Agricultural and food products	17.6	14.9	2.2	16.2	4.8	0.7
Mineral products	5.2	-29.0	-2.1	8.9	-31.1	-3.8
Chemical products	11.2	6.9	0.7	17.2	3.9	0.6
Products of light industry	3.7	-19.9	-0.9	5.4	-7.7	-0.4
Wood and articles of wood	17.9	1.8	0.3	3.4	12.5	0.4
Metals and metal articles	8.5	-8.0	-0.7	7.6	-13.5	-1.1
Machinery and electrical equipment	17.7	-10.9	-2.1	21.1	-8.2	-1.8
Transport vehicles	6.6	24.0	1.3	9.9	9.2	0.8
Other goods	11.3	-1.0	-0.1	10.2	-1.2	-0.1

BALANCE OF PAYMENTS

Since 2011, the current account of the balance of payments has been at the level of a slight deficit. On average, during the last three years the negative balance of the current account amounted to 2% of the GDP, which does not exceed the indicative threshold set out in the EU early-warning mechanism and is viewed as sustainable. In 2015, the current account of the balance of payments had a slight deficit – 0.8% of the GDP, whereas during the 1st half of 2016 there was a surplus in the current account – 1% of the GDP.

The state of the current account of Latvia is mainly determined by changes in the foreign trade balance. Latvia has a foreign trade deficit that increased during the years of rapid growth, but dropped in the period of recession. The cyclical corrections of the current account were driven by a significant decline in import volumes. As the economy became more stable, the import volumes also increased. In recent years, the export and import dynamics have been slowing down, which is largely due to the geopolitical instability in the region.

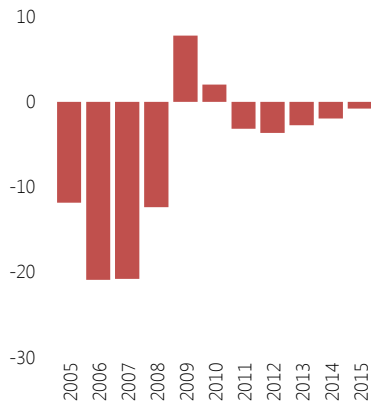
The foreign trade deficit has been decreasing moderately year after year – from 12.4% in 2011 to 8.4% in 2015. In the 1st half of 2016, the foreign trade deficit amounted to 7.8% of the GDP, i.e. almost 1.5 percentage points less than a year before. Improvements in the foreign trade balance were determined by the fact that the imports value decreased more rapidly than the exports value.

The balance of services is positive and covers the foreign trade deficit by almost 90%. In the 1st half of 2016, exports of services (at current prices) increased by 4.1%, whereas imports of services grew by 6.2% in comparison to the previous year, with the balance of services reaching 7.5% of the GDP.

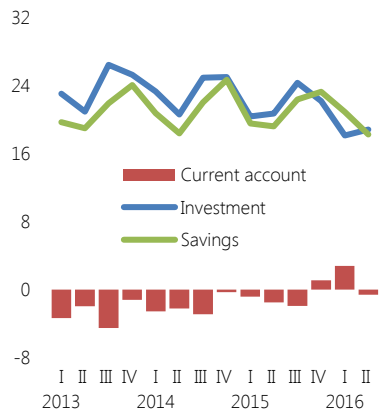
Over the past three years the balance of preliminary income has been negative – an annual average of 0.3% of the GDP with relatively small fluctuations. Driven by the inflow of resources of EU funds during the 1st quarter and the increase in the income of non-residents in the form of dividends, the balance of preliminary income amounted to 0.5% of the GDP in the 1st half of 2016.

The financial account (excluding reserve assets) was positive in the 1st half of 2016 – 2.4% of the GDP (in the 1st half of 2015 a negative financial account – 0.3% of the GDP). The level and fluctuations of the financial account are mainly determined by stabilisation measures of the financial sector.

Current Account Balance
as per cent of GDP



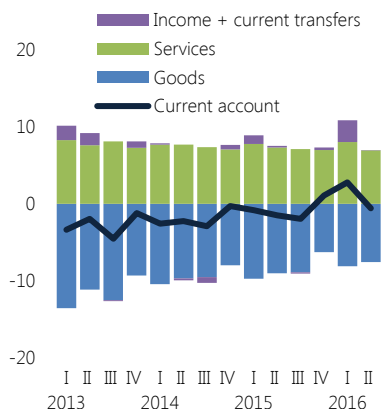
Current Account, Investment and Savings
by quarters, as per cent of GDP



The balance of direct investments has been negative during recent years, thus indicating the inflow of foreign direct investments. In 2015, the volume of incoming FDI flows was almost 2% higher than a year before and amounted to 2.5% of the GDP. In turn, during the 1st half of 2016, the FDI flows were negative (-2.4% of the GDP) due to a decrease in liabilities to direct investors.

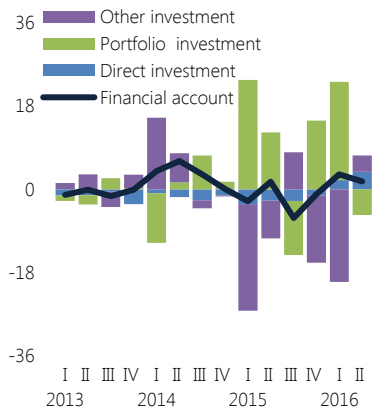
Current Account by Items

by quarters, as per cent of GDP



Financial Account by Items

without reserve assets, by quarters, as per cent of GDP



Latvian Balance of Payments by Items

as per cent of GDP

	2011	2012	2013	2014	2015	2016 Jan-Jun
A. Current account	-3.2	-3.6	-2.7	-2.0	-0.8	1.0
Trade balance	-12.4	-12.1	-11.5	-9.3	-8.4	-7.8
Service balance	7.3	7.4	7.8	7.4	7.3	7.5
Net income	0.0	-0.6	-0.3	-0.1	-0.2	0.5
Net current transfers	1.9	1.6	1.3	0.1	0.6	0.9
B. Capital account	2.1	3.0	2.5	3.2	2.8	1.4
C. Financial account*	4.0	-2.7	-0.7	3.2	-2.1	2.4
Direct investment stock	-4.9	-3.3	-1.6	-1.6	-2.4	2.9
Portfolio investment**	1.7	-4.5	-0.1	0.3	9.2	7.0
Other investment	7.2	5.1	1.0	4.5	-8.9	-7.5
D. Deviation	0.6	1.6	1.2	1.5	-2.8	0.0
E. Reserve assets	-4.5	3.6	1.7	-0.5	1.3	0.0

* without reserve assets; ** portfolio investment and derived financial instruments

PRICES

After the deflation caused by the crisis, when 12-month consumer price inflation dropped to -4.2% in February 2010, prices started to rise again. In 2011, 12-month consumer price inflation amounted to 4%, whereas in 2012 – to 1.6%. In 2013, consumer prices fell by 0.4%, while in 2014 there was a very moderate rise in prices – of 0.2%. During recent years, consumer prices were mainly affected by the drop in the prices of oil and food around the world.

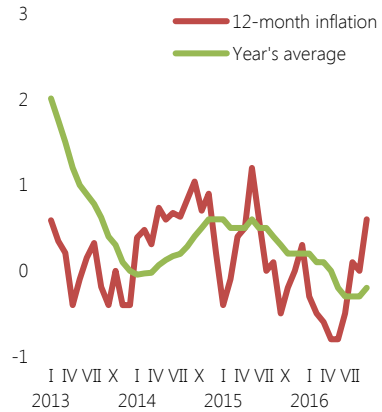
In 2015, prices continued to rise slowly – by 0.3%, while the average annual inflation was 0.2%. The increase in the prices of electricity and alcoholic beverages, as well as the drop in the prices of fuel, heat, food and non-alcoholic beverages had the most notable impact.

Very moderate inflation may be observed in 2016. During the first nine months of 2016, prices increased by 0.6%. In September, compared to September 2015, consumer prices increased by 0.6%. In January-September, price changes were mainly affected by a price rise on various services (total increase of 3.1%) – housing management, recreation and culture, health care, telecommunications, catering and accommodation. There was also an increase in the prices of tobacco products (by 4.3%), pharmaceutical products (by 3.5%), and food (by 1%). In turn, there was a drop in the prices of heat (by 8.2%), gas (by 11%), electricity (by 1.8%), alcoholic beverages (by 2%), and fuel (by 1.7%). It should be noted that in September food prices in the world were 10% higher than a year before. Oil prices in the world dropped by 2.2 per cent during the respective period.

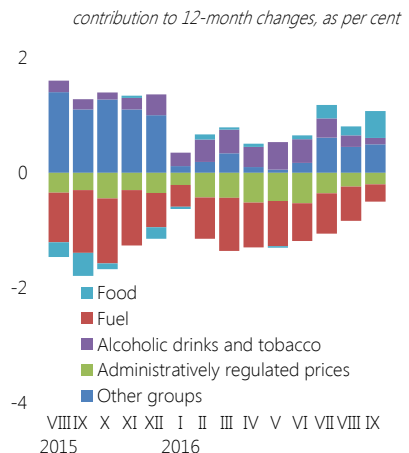
Inflation will continue to be affected by the dynamics of the global oil and food prices. Global prices are currently stable and forecasts do not predict their rapid increase, therefore the average inflation could be close to zero this year.

After the rapid increase in 2010-2012, producer prices rose moderately in 2013-2014. In 2015, they decreased by 1%, mainly due to a drop in producer prices in manufacturing.

Consumer Price Changes
by months, per cent



Impact of Goods and Services Groups on Consumer Price Index
contribution to 12-month changes, as per cent

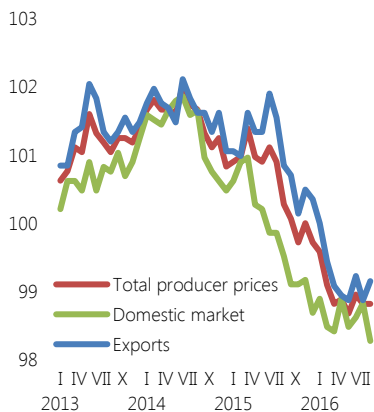


In August 2016, as compared to August 2015, the total level of producer prices in industry decreased by 2% (by 2.4% for products sold on the domestic market and 1.6% for exported products).

As compared to August 2015, producer prices in manufacturing reduced by 1.5% in August 2016. During the year, producer prices of products sold on the domestic market and of exported products decreased by 1.2% and 1.7%, respectively, which may be explained by the sharp drop in energy prices since mid-2014.

Over the year, the most significant price rise was recorded in the manufacture of wearing apparel, whereas a lowering effect could be observed in the manufacture of food products, wood processing, as well as in the manufacture of computers, electrical and optical equipment, and non-metallic mineral products. Producer prices are still being affected by the economic situation in the EU and Russia, as well as by the drop in the global prices of raw materials. It should be noted that during the year a sharp decline could be observed in the global prices of energy, and there was also a drop in the prices of industrial and agricultural raw materials.

Producer Prices in Manufacturing
by months, December 2012 = 100



Consumer Price Changes
by months, as per cent

		Over the previous month	Over corresponding month of the previous year	Over December of the previous year	Annual average
2015	August	-0.5	0.1	0.5	0.4
	September	-0.1	-0.5	0.4	0.3
	October	0.3	-0.2	0.7	0.2
	November	0.0	0.0	0.7	0.2
	December	-0.3	0.3	0.3	0.2
2016	January	-0.6	-0.3	-0.6	0.2
	February	0.1	-0.5	-0.5	0.1
	March	0.7	-0.6	0.2	0.1
	April	0.4	-0.8	0.6	0.0
	May	0.6	-0.8	1.2	-0.2
	June	0.0	-0.5	1.2	-0.3
	July	-0.3	0.1	0.8	-0.3
	August	-0.7	0.0	0.2	-0.3
	September	0.5	0.6	0.6	-0.2

MONETARY INDICATORS

Monetary indicators are gradually improving: crediting is showing positive trends, the quality of the loan portfolio is improving, and the volumes of loans granted are increasing.

After a long decline of the total loan portfolio of the banking sector (since 2009), it grew by 1.2% in the 2nd quarter of 2016, as compared to the corresponding period of 2015. The most rapid increase was recorded in outstanding commercial credits (of 15.6%) and outstanding consumer loans (of 8.1%). Outstanding mortgage loans are continuing to decrease (by 5%).

After a considerable drop in the volume of new credits in 2014, their volumes restarted to increase in 2015, however, they decreased once again in the 1st quarter of 2016. The situation improved notably in the 2nd quarter of 2016, when the volumes of new credits reached the highest rate in recent years. There was also a significant increase in the volume of new loans granted to enterprises – they amounted to EUR 448 mln. The share of loans granted to enterprises amounted to 42% of the total volume of loans.

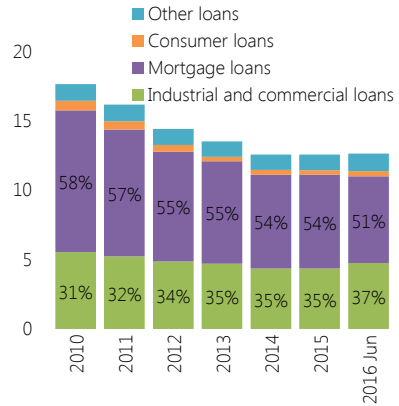
Positive trends are also continuing in household crediting – during the 2nd quarter of 2016 the volume of new loans granted amounted to EUR 146.7 mln or 14% of the total amount of loans granted. The volume of new loans granted for the purchase and reconstruction of dwellings increased by almost 50 per cent.

The quality of the loan portfolio improved significantly during the period from mid-2010 to 2014, and that was mainly related to the improvement of the economic situation, as well as to the writing-off of bad loans. During the past two years the quality of the loan portfolio has not changed significantly. During the 2nd quarter of 2016, 11.1% of loans in the total loan portfolio of the banking sector were with overdue payments, which was 2.1 percentage points less than a year before, however, 0.1% more than during the previous quarter.

Deposit volumes are continuing to decrease, and in the 2nd quarter of 2016 they were 0.5% lower than a year before. The volume of deposits made by non-residents decreased during the 1st half of 2016.

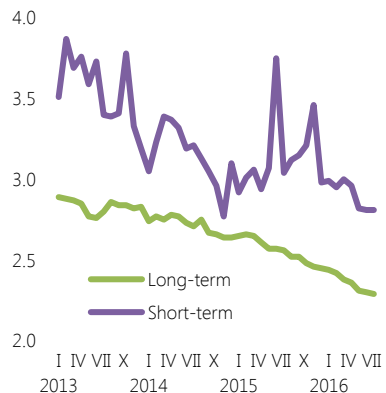
Loans Issued to Residents

at the end of the period, billion euro



Average Weighted Interest Rates (Balance) for loans to non-financial companies

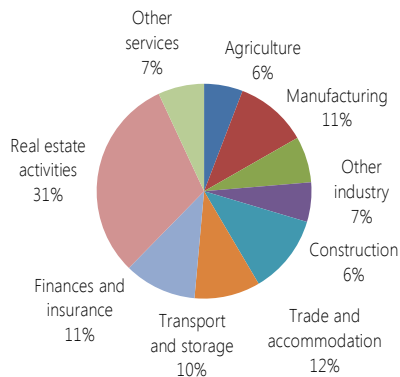
by months, as per cent



Interest rates (outstanding amounts) for long-term loans issued to non-financial corporations are still decreasing and they amounted to 2.3% in July 2016. Short-term interest rates dropped to 2.8 per cent.

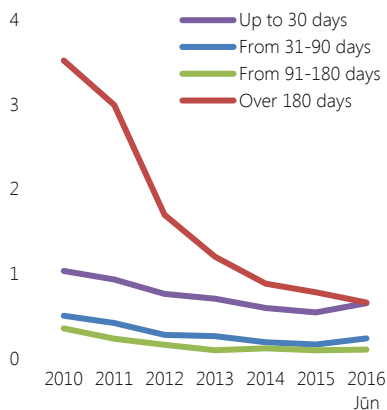
Structure of Loans Issued by Sectors

at the end of June 2016, as per cent



Loans with Overdue Payments

at the end of the period, bln euro



Monetary Indicators of the Banking System of Latvia

	2011	2012	2013	2014	2015	2016 Jul
<i>at the end of period, bln euro</i>						
Net foreign assets	-0.3	0.9	1.2	-1.8	-3.6	-2.6
Net domestic assets	9.5	8.8	8.6	11.3	13.9	13.2
Domestic loans	15.7	13.7	13.5	12.6	13.4	13.4
Other assets (net)	-6.2	-4.9	-4.8	-1.3	0.5	-0.2
Broad money M2X	9.2	9.6	9.8	9.4	10.3	10.6
Cash in turnover (without vault cash balance)	1.5	1.5	0.7	3.7	3.8	3.9
Deposits of individuals and companies	7.7	8.1	9.2	9.5	10.3	10.6
<i>changes as per cent</i>						
Domestic loans	-1.5	-13.1	-1.4	-5.9	6.1	1.5
Broad money M2X	1.5	4.5	2.0	-3.6	9.0	2.1
Cash in turnover (without vault cash balance)	28.8	4.1	-56.6	461.0	2.6	4.3
Deposits of individuals and companies	-2.4	4.5	13.2	-3.6	9.0	9.7
Gross Domestic Product at current prices	13.0	7.7	4.4	3.6	3.4	2.5*

* 1st half of 2016

GOVERNMENT BUDGET

In order to stabilise the fiscal situation in the country during the financial crisis, several budget consolidation measures were implemented in Latvia during the period from 2008 to 2012. The general government budget deficit was reduced from 9.1% of the GDP in 2009 to 0.9% of the GDP in 2013. In 2014, the general government budget deficit amounted to 1.5% of the GDP, which was mainly determined by one-off measures. It dropped to 1.3% of the GDP in 2015. The government aims at maintaining a low budget deficit.

During the first eight months of 2016, revenues of the general government consolidated budget amounted to EUR 6'036 mln, which was 0.6% less than a year before. Total revenues from taxes rose by 5.1% during the respective period of time.

Employment taxes account for almost a half of the total tax revenues. In the first eight months of 2016, revenue from mandatory state social insurance contributions and personal income tax increased by 2.8% and 4.9%, respectively, as compared to previous year. This was influenced by the growing employment rate and the increase in wages and salaries, as well as the increase of the minimum wage from 1 January 2016.

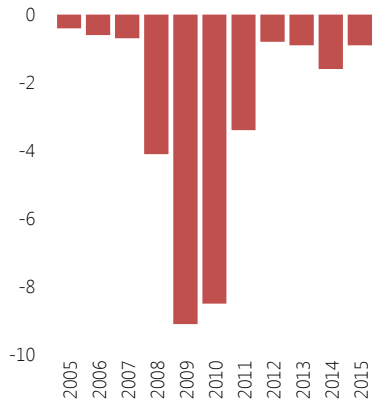
During the first eight months of 2016, as compared to the corresponding period of the previous year, the revenue from taxes on consumption also increased – by 5.1%. The most significant contribution in the group of taxes on consumption was provided by revenues from the value-added tax, which increased by 4.8 per cent.

The revenue from tax on capital is growing rapidly in 2016. Revenue from the real estate tax and enterprise income tax was 11.2% and 13.4% higher than a year before, respectively.

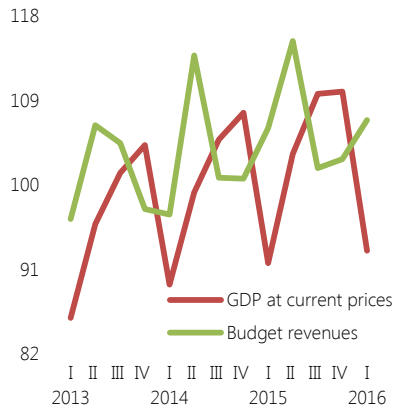
In 2015, government budget expenditures were 2.9% higher than a year before. In January-July 2016, budget expenditures amounted to EUR 5'786.4 mln, which was 0.6% less than during the corresponding period of 2015.

During the first eight months of 2016, the expenditures on subsidies and grants increased most rapidly – by 7.3%. In turn, capital and current expenditures decreased by 32.7% and 2.1%, respectively.

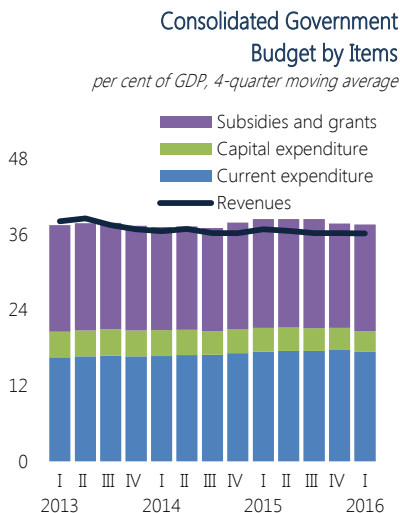
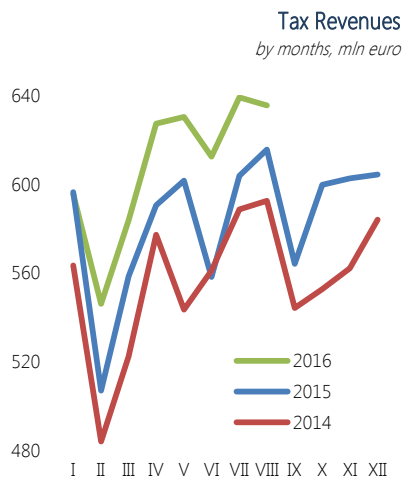
Budget Balance
as per cent of GDP



GDP and Budget Revenues
2012 Q4 = 100



During the first eight months of 2016, as compared to the corresponding period of the previous year, there was an increase in expenditures on defence, public order and security, social care, health and economic activity, whereas a decrease was observed in the expenditures on environmental protection, management of local government territories, general government services, recreation, culture and religion, and education.



General Government Budget

	bln euro			per cent changes		
	2013	2014	2015	2016 Jan-Jul	2015	2016 Jan-Jul
Revenues, of which:	8.4	8.5	8.8	6.0	3.8	-0.6
Indirect taxes, of which:	2.4	2.6	2.7	1.9	5.9	5.7
Value added tax	1.7	1.8	1.9	1.3	5.5	4.8
Income and real estate taxes	1.9	1.9	2.0	1.5	4.5	7.2
Social insurance contributions	2.0	2.0	2.0	1.4	3.7	2.8
Other taxes	0.2	0.2	0.2	0.1	8.9	1.2
Other revenues	2.0	1.9	1.8	1.2	-2.2	-19.1
Expenditure	8.5	8.9	9.2	5.8	2.9	-0.6

LABOUR MARKET

Along with the improvement of the economic situation, positive trends can be also observed in the labour market – unemployment is decreasing and the employment rate is growing. However, improvements are becoming slower.

In 2015, the situation in the labour market continued to improve. The unemployment rate decreased to 9.9%, which was 0.9 percentage points less than in 2014, while the employment rate rose by 1.7 percentage points, reaching 60.8%. In 2015, there were 896.1 thsd employed persons within the country, whereas 98.2 thsd were unemployed, which was 9.5 thsd less than in 2013.

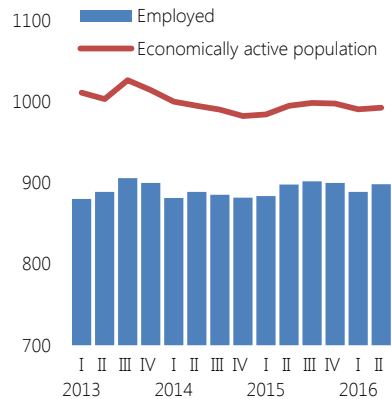
The situation within the labour market is continuing to improve. During the 1st half of 2016, the number of employed persons increased by 0.3% in comparison to the first half of 2015, reaching 893.9 thsd or 61.4% of the total population aged 15-74. In comparison to the 1st half of the previous year, the level of employment increased by 1.1 percentage point.

In the 2nd quarter of 2016, the unemployment rate amounted to 9.5% and there were 94.5 thsd job seekers – 2.7% less than in the 2nd quarter of 2015.

The registered unemployment rate also keeps on decreasing. There were 74.4 thsd unemployed persons registered in the country at the end of September 2016, which was 4.2 thsd less than a year before. The registered unemployment rate was 7.9% at the end of September. The highest level of unemployment remained in the Latgale region (17.4%), but the lowest – in Riga (4.9%).

Employed and Economically Active Population

by quarters, in thousands



Occupied Jobs

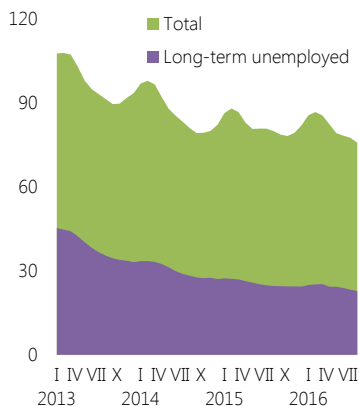
in thousands

	2011	2012	2013	2014	2015	2016 Jan-Jun
Total	805.5	839.1	865.1	874.6	883.8	891.2
Agriculture, forestry	19.0	20.6	21.2	21.5	21.6	22.1
Manufacturing	109.1	114.5	117.3	114.4	111.2	111.4
Other industry	22.9	23.7	24.2	24.1	23.8	24.4
Construction	50.9	55.7	60.6	60.3	58.7	55.4
Trade and accommodation	162.8	170.7	173.9	176.0	179.0	181.9
Transport and storage	68.8	72.7	75.2	75.9	76.7	77.0
Other commercial services	157.0	168.5	176.2	180.3	188.3	194.0
Public services	215.0	212.8	216.5	222.1	224.3	225.0

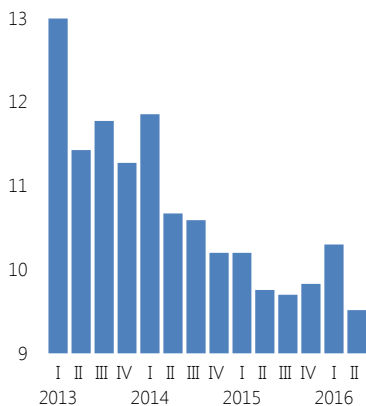
The situation in the labour market is still affected by negative demographic trends – during the previous year the number of working age population (aged 15-74) decreased by 23.2 thsd or 1.5% in comparison to 2014. The number of working age population also continued to decrease during the 2nd quarter of 2016 – it decreased by 22.4 thsd or 1.6% in comparison to the 2nd quarter of 2015.

It is expected that the situation within the labour market will continue to improve, however, the developments will be moderate, as they will be affected by the negative demographic trends to a broader extent.

Registered Unemployed
by months, in thousands



Unemployment
by quarters, per cent



Main Indicators of Labour Market
in age group 15-74 years

	2011	2012	2013	2014	2015	2016 Jan-Jun
in thousands						
Population*	1'595.3	1'560.0	1'536.1	1'495.8	1'472.6	1'455.5
Economically active population	1'028.2	1'030.7	1'014.2	992.3	994.2	992.0
Employed persons	861.6	875.6	893.9	884.6	896.1	893.9
Unemployed persons	166.6	155.1	120.4	107.6	98.2	98.1
as per cent						
Economic activity rate	64.5	66.1	66.0	66.3	67.5	68.2
Employment rate	54.0	56.1	58.2	59.1	60.8	61.4
Unemployment rate	16.2	15.0	11.9	10.8	9.9	9.9

* population in private households

PERSONAL INCOME

During the financial crisis, the adjustment of remuneration was rather moderate. The drop in economic activities was compensated by a decrease in the number of employed persons.

With the economic situation becoming more stable, wages and salaries have been growing again since the end of 2010, although the unemployment rate has remained rather high.

As the demand for labour increases, average gross wages and salaries have also been rising gradually. They increased by 3.7% and 4.6% in 2012 and 2013, respectively, whereas the average gross wages and salaries increased by 6.8% in 2014, as well as in 2015, reaching EUR 818 in 2015.

A considerably rapid increase in the level of remuneration could also be observed during the 1st half of 2016. Average gross wages and salaries increased by 5.9% during the 1st quarter and by 3.3% during the 2nd quarter, as compared to the corresponding period of the previous year. In the 2nd quarter of 2016, the highest wages and salaries were in the Riga region (EUR 952), whereas the lowest – in the Latgale region (EUR 570).

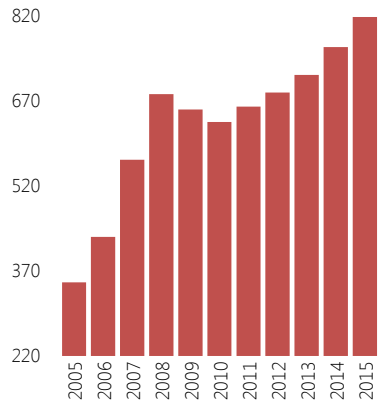
Since 2010, wages and salaries have been growing both in the private and public sector. In 2015, wages and salaries in the private sector rose by 7.9%, whereas in the public sector – by 5%. It should also be noted that in 2015 the average gross wages and salaries in the public sector exceeded the level of 2008 by as little as 6.2%, while in the private sector – by almost 28 per cent.

Since 2010, wages and salaries have increased in all basic sectors of the national economy, with the most notable growth recorded within the real estate sector, trade sector, and the accommodation and food sector.

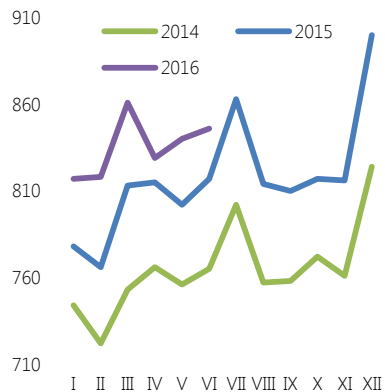
In the 2nd quarter of 2016, as compared to the 2nd quarter of 2015, the most significant increase in wages and salaries was observed in the public utilities sector (of 10%) and in administrative and support service activities (of 7.9%).

Just as before, the highest monthly wages and salaries were recorded in the finance and insurance services sector – EUR 1'869 on average.

Average Monthly Wages and Salaries of Employed
gross, in euro

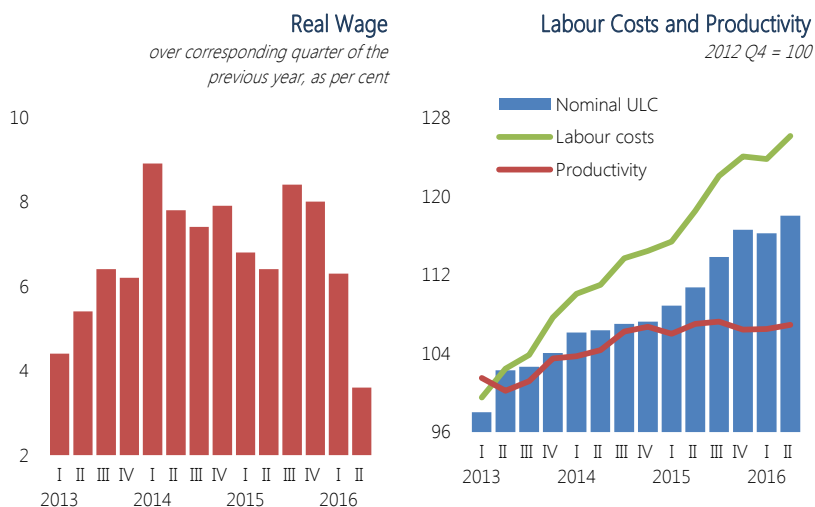


Average Monthly Wages and Salaries of Employed
gross, in euro



As nominal wages and salaries increase, real wages and salaries are also growing gradually. In 2011-2012, along with the increase of consumer prices, the rise of real wages and salaries was moderate. In 2013, real wages and salaries rose by 5.6%, while in 2014 and 2015 – by 8% and 7.4%, respectively. Real wages and salaries continued to increase in 2016, however, at a slower pace. They increased by 6.3% in the 1st quarter and by 3.6% in the 2nd quarter, as compared to the corresponding period of 2015. During the last three years, the increase in real wages and salaries has been mainly determined by the rapid growth of nominal wages and salaries, as well as the moderate changes of consumer prices.

The average old-age pension also keeps on increasing. In 2015, the average monthly old-age pension grew by 2.7%. In the 2nd quarter of 2016, the average monthly old-age pension rose by 2.1%, compared to the 2nd quarter of 2015, and comprised EUR 278.1 per month on average.



Average Wages and Salaries of Employed by Sectors
gross, over the previous year, as per cent

	2011	2012	2013	2014	2015	2016 Jan-Jun
Total	4.4	3.7	4.6	6.8	6.8	3.3
Agriculture, forestry	8.2	0.7	4.8	8.6	5.0	2.4
Manufacturing	5.0	4.6	4.0	7.0	8.5	4.0
Other industry	3.7	3.6	1.8	5.0	5.5	3.4
Construction	4.7	2.0	6.8	7.7	7.9	2.6
Trade and accommodation	5.9	4.5	6.0	7.4	8.9	3.0
Transport and storage	1.0	7.7	0.5	5.9	4.5	-0.6
Other commercial services	3.9	2.4	3.4	6.9	6.1	3.9
Public services	4.5	2.7	6.3	6.5	5.9	3.3

COMPARATIVE INTERNATIONAL STATISTICS

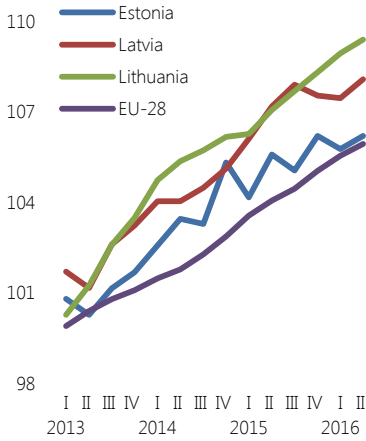
Economic Development in Baltic Countries

	Latvia	Lithuania	Estonia
Territory, thsd km ²	64.6	65.3	45.2
Population, thsd, at the 1 st September 2016	1'957.6	2'862.8	1'315.9*
Gross domestic product, over corresponding period of the previous year, %			
2014	2.1	3.5	2.8
2015	2.7	1.8	1.4
2016 Q1	2.1	2.4	1.5
2016 Q2	2.0	1.9	0.8
Volume of manufacturing production**, over corresponding period of the previous year, %			
2014	-0.1	1.1	5.4
2015	4.2	5.4	-0.7
2016 Q1	2.0	6.4	-1.2
2016 Q2	4.7	-1.0	0.4
Retail trade turnover**, over corresponding period of the previous year, %			
2014	3.1	5.4	7.3
2015	2.3	2.4	3.2
2016 Q1	0.7	5.0	5.5
2016 Q2	0.7	4.2	3.3
Changes of consumer prices, over corresponding period of the previous year, %			
2014	0.7	0.2	0.5
2015	0.2	-0.7	0.1
2016 Q1	-0.5	0.7	0.3
2016 Q2	-0.7	0.4	1.3
Number of employed, over corresponding period of the previous year, %			
2014	-1.0	2.0	0.6
2015	1.3	1.2	2.5
2016 Q1	0.6	2.5	1.0
2016 Q2	0.0	2.4	2.7
Unemployment rate, % of economically active population			
2014	10.8	10.7	7.4
2015	9.9	9.1	6.2
2016 Q1	10.3	8.4	6.5
2016 Q2	9.5	8.0	6.5

* Population at the 1st January 2016; ** data adjusted by working days

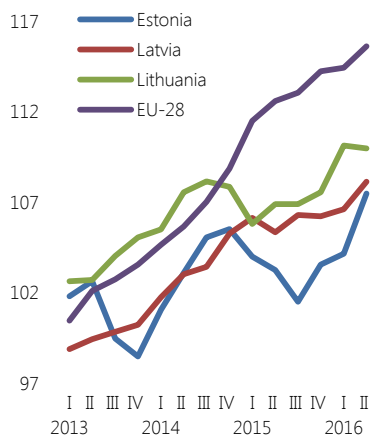
Gross Domestic Product

seasonally adjusted data
2012 Q4 = 100



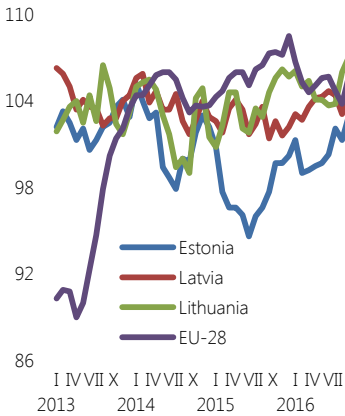
Exports of Goods and Services

seasonally adjusted data
2012 Q4 = 100



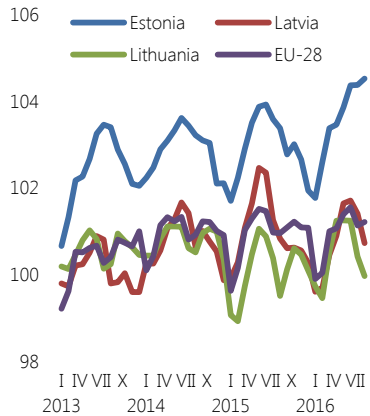
Economic Sentiment Indicator

seasonally adjusted data



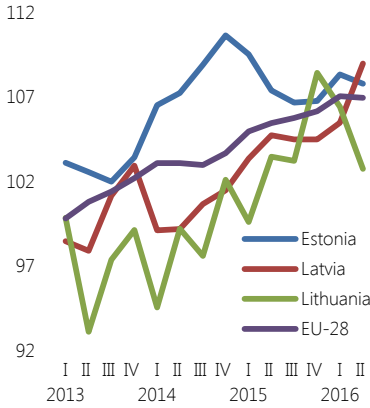
Harmonised Consumer Price Index

December 2012 = 100



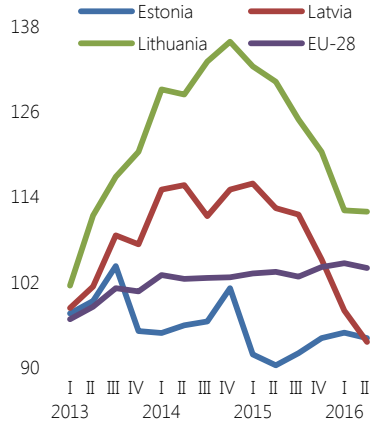
Manufacturing Production Volume

*seasonally adjusted data
2012 Q4 = 100*



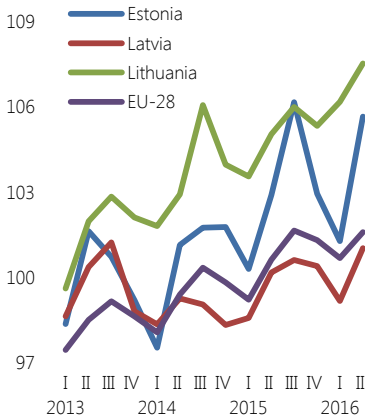
Construction Production Volume

*seasonally adjusted data
2012 Q4 = 100*



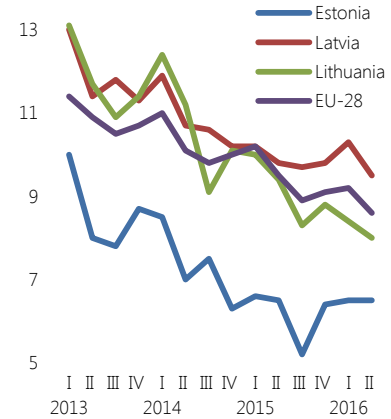
Number of Employed

*not seasonally adjusted data
2012 Q4 = 100*



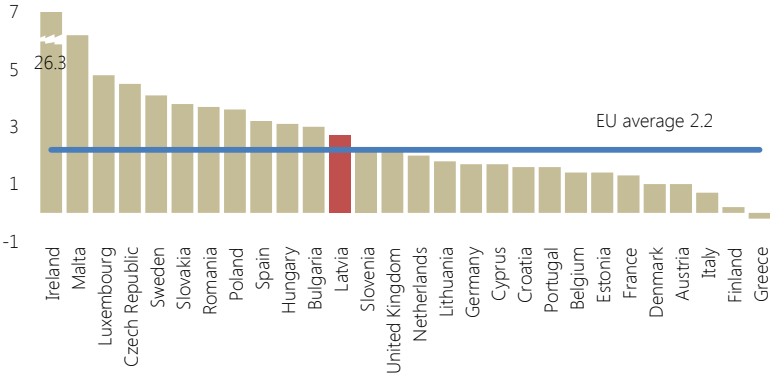
Unemployment Rate

as per cent



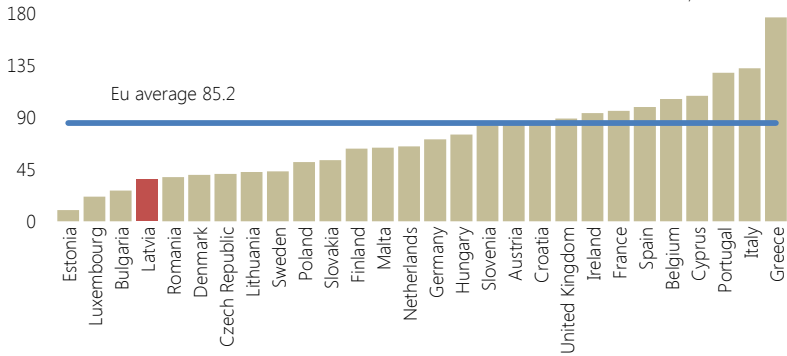
Gross Domestic Product

in 2015, changes of volumes, as per cent



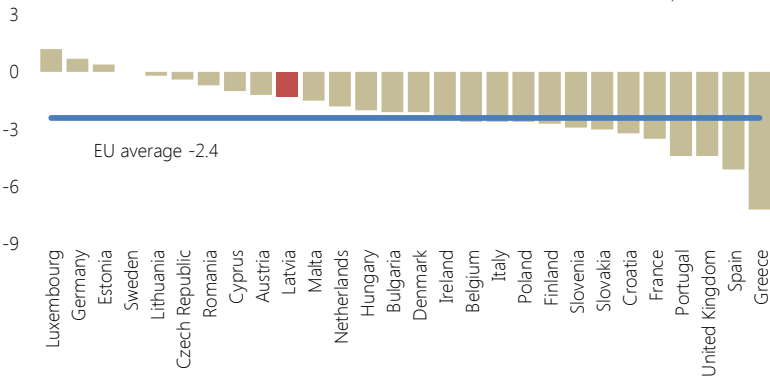
Public Debt

in 2015, as per cent of GDP

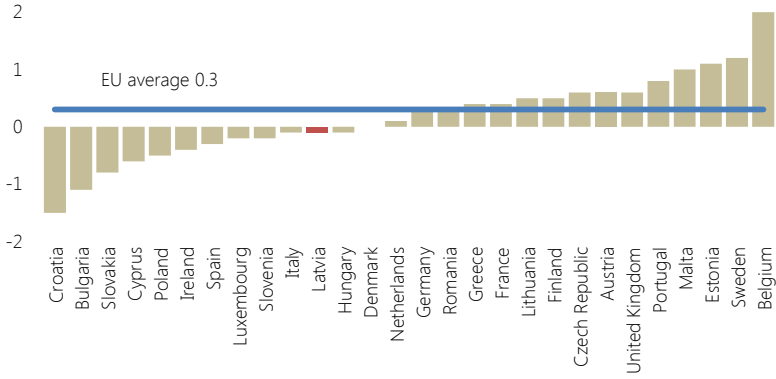


Budget Balance

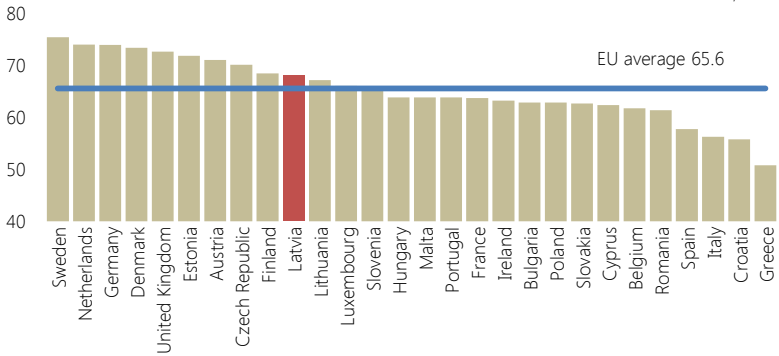
in 2015, as per cent of GDP



Harmonised Consumer Price Index *in August 2016, average annual, as per cent*



Employment Rate *in 2015, as per cent*



Unemployment Rate *in 2015, as per cent*

