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Central Statistical Bureau of Latvia



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Central Statistical Bureau of Latvia

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ECONOMIC SITUATION: BRIEF OVERVIEW

During the period from 2011 to 2014, the growth of the Latvian economy on average reached 3.8% annually. During the recent years, the growth has slowed down. The slowdown was due to the slow economic growth within the EU countries and worsening of the economic situation in Russia.

During the 2016 Q1-Q3, the GDP was by 1.4% higher compared to the corresponding period in a previous year. In general, compared to 2015, during the 2016 Q1-Q3 the growth was slower.

The sharp investment reduction served as the main stumbling factor to the growth. In 2016, mainly due to the slow-down in the implementation of EU structural funds, investment level was almost by ¼ lower than a year before. During the 2016 Q1-Q3, the construction output was by 20% lower than a year before. Expectations that construction activities will increase in the second half of the year also did not come true. Moreover, the new construction works launched mainly were small-scale projects. Private investment dynamics still was very slow as well.

The growth was positively influenced by the increase in private consumption by 3.4% in the Q3. The rise in the private consumption was mainly due to the notable increase in wages and salaries in 2015 as well as low inflation. The number of

employed persons almost did not change, whereas the unemployment rate reduced mainly due to the population decline, not because of the change in employment.

During the recent years, the low demand in foreign markets has affected the dynamics of exports, and it has become slower. During the 2016 Q1-Q3, the exports volume rose by 1.9%. Increase in the exports volume mainly was hindered by the slow growth thereof in the EU, moreover, the changes in the Russian imports had insignificant influence.

Sectoral breakdown shows stable growth in manufacturing, other industries, trade and commercial services. Over the ten months, output in manufacturing was by 4.1% higher than a year before. High growth was observed in almost all manufacturing sub-sectors, however the highest indicators were registered in manufacture of electronic and optical products as well as woodworking. Within the services sector, the most notable growth was observed in accommodation and food service activities (of 10.6%).

The Ministry of Economics projects that the GDP growth has reached 1.5% in 2016. More positive investment dynamics might lead to 3% growth in 2017.

Key Indicators of Economic Development

	2012	2013	2014	2015	2016e	2017f
<i>increase over the previous year, as per cent</i>						
Gross Domestic Product	4.0	2.9	2.1	2.7	1.5	3.0
Consumer prices	2.3	0.0	0.6	0.2	0.0	2.5
<i>per cent</i>						
Employment rate	56.1	58.2	59.1	60.8	61.9	62.0
Unemployment rate	15.0	11.9	10.8	9.9	9.7	9.0
<i>as per cent over gross domestic product</i>						
General government sector balance	-0.8	-0.9	-1.6	-1.3	-1.0	-1.1
Exports-imports balance	-4.5	-3.2	-1.9	-1.1	0.4	-0.5

e – estimation; f – forecast

THE EXTERNAL ECONOMIC ENVIRONMENT

The development of the global economy remains slow, and it differs from region to region. In 2015, the growth of the world economy was slower than in 2014. In developed countries the prospects for growth are improving gradually, while in developing countries the situation has worsened slightly, even despite the fact that the growth rates thereof are relatively high. The economic outlook remains uncertain.

The economic situation within the EU is improving gradually. Compared to the Q2, in the 2016 Q3 the GDP rose by 0.4% and was 1.9% higher than a year before (in the euro area 0.3% and 1.6%, respectively). The latest business tendency surveys show that economic activities in the EU are increasing gradually. Private and public consumption were the key factors behind the growth, whereas the decline in investment and export had negative influence.

In the 2016 Q3, the economy of the United States grew slower. The GDP rose by 0.8%, as compared to the Q2, and by 1.6%, as compared to the year

before. Faster growth was facilitated by the rise in consumption and export, whereas decline in investment was sharper than that projected.

Growth rates in Asian countries have been slowing down. China faced the slowest growth since the beginning of the '90s thus having negative effect on the growth of the global economy. Also in India – the fastest growing developed economy in the world – economic growth decelerated in the 2016 Q3.

In 2016, the Russian GDP kept reducing, nevertheless slower than in 2015. In the 2016 Q3, the GDP was 0.4% lower than a year before – the smallest reduction recorded during the last seven quarters. The reason behind it lies in the smaller reduction observed in construction, public administration, and transport sector, as well as sharper rise registered in mining and quarrying and agriculture. Russia keeps facing challenges regarding the stabilisation of its economy, however, the economy thereof shows signs of stability, as compared to the year before.

Global Economic Growth

GDP, per cent changes

	2012	2013	2014	2015	2016e	2017f
World	3.3	3.2	3.3	3.1	3.0	3.4
USA	2.2	1.7	2.4	2.6	1.6	2.1
Japan	1.7	1.4	0.0	0.5	0.7	0.8
China	7.9	7.8	7.3	6.9	6.6	6.2
CIS, of which	3.4	2.1	0.9	-2.9	-0.6	0.9
Russia	3.4	1.3	0.6	-3.7	-0.1	0.6
European Union, of which:	-0.5	0.2	1.6	2.2	1.8	1.6
Germany	0.5	0.5	1.6	1.7	1.9	1.5
Sweden	-0.3	1.2	2.6	4.1	3.4	2.4
United Kingdom	1.3	1.9	3.1	2.2	1.9	1.0
Lithuania	3.8	3.5	3.5	1.8	2.0	2.7
Estonia	4.3	1.4	2.8	1.4	1.1	2.3

Source: European Commission; e – estimation; f – forecast

GROSS DOMESTIC PRODUCT: EXPENDITURE

During the period from 2011 to 2013, the growth of the Latvian economy reached on average 4.4% annually, which was one of the sharpest increases in the EU. In 2014, the GDP growth was slower – 2.1 per cent.

In 2015, the GDP grew by 2.7%, which may be regarded as a very good indicator, given the geopolitical situation in the region. Despite the fact that during the recent years a relatively rapid increase was observed in the Latvian economy, the GDP still lagged behind the pre-crisis level of 2007 by 5.3 per cent.

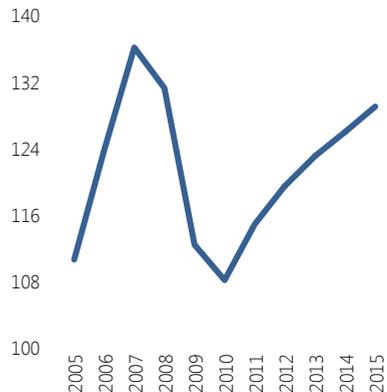
Compared to the year before, in the 2016 Q1 the GDP grew by 2.1%, in the Q2 by 2% and in the Q3 only by 0.3%. Overall, during the 2016 Q1-Q3 the growth was slower than that recorded a year before.

Comparatively rapid growth of the average wages and salaries as well as the low inflation are still contributing to the purchasing power of the population. In the 2016 Q3, the private consumption rose by 0.6%, as compared to the Q2 (according to seasonally adjusted data,) and by 3.2%, as compared to the 2015 Q3. Compared to the end of 2015, the private consumption growth rates have been increasing faster.

During the 2016 Q3, compared to the 2015 Q3, the government expenditure increased by 1.6 per cent.

The dynamics of investment has been very unsteady during the recent years. During the 2016 Q1-Q3, investment growth rate was very low – the volume of investment fell by 23.8% (mainly due to the slowdown in the implementation of EU 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

In 2010-2012, the Latvian exports of goods and services increased rapidly, serving as the main driving force for the development of the national economy. In 2012, the exports volume exceeded the pre-crisis level by almost 22%. Due to the low demand in external markets, exports dynamics has become more moderate since 2013. In 2015, the total volume of exports grew slightly – by 2.6 per cent.

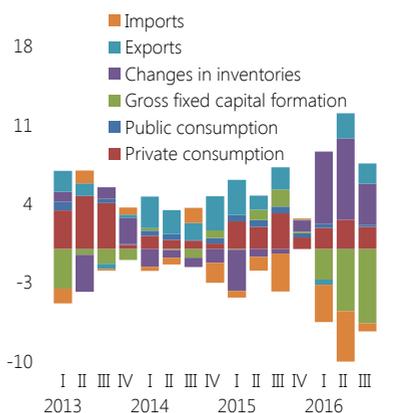
After having decreased in the Q1, the volume of exports grew significantly in the 2016 Q2 and Q3 – by 3.9% and 3.1%, as compared to the corresponding period of 2015. The increase was mainly ensured by the upturn in the exports of goods.

After the considerable drop during the crisis period, in 2010 and 2011 imports grew quite rapidly. Since the mid-2012, the imports dynamics become more moderate. Compared to the 2015 Q3, during the 2016 Q3 the volume of imports increased by 1.2%, and the exports-imports balance amounted to 1.5% of the GDP.

Considering the decline in the volume of investments, the Ministry of Economics projects that the overall growth of the national economy in 2016 reached 1.5 per cent.

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	III
Gross domestic product	2.7	2.1	2.1	1.7	1.8	2.8	3.5	2.7	2.1	2.0	0.3
Private consumption	1.8	1.2	1.2	0.8	3.9	3.1	5.1	1.8	3.0	4.1	3.1
Public consumption	2.4	2.9	0.4	2.5	3.4	3.3	3.7	2.0	2.2	0.0	1.6
Gross fixed capital formation	1.3	-0.5	-3.0	2.7	-0.4	4.3	6.1	0.5	-15.7	-26.3	-26.4
Exports	4.5	3.6	2.5	5.0	5.0	2.2	3.4	0.1	-0.7	3.9	3.1
Imports	0.5	1.0	-2.1	2.8	0.9	2.0	5.5	-0.2	5.2	7.5	1.2

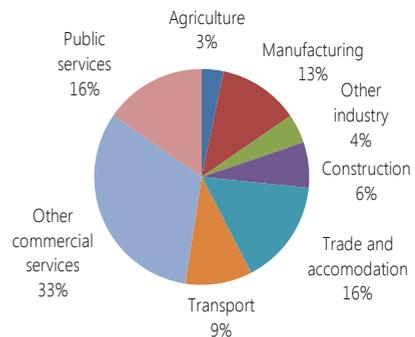
GROSS DOMESTIC PRODUCT: DEVELOPMENT OF SECTORS

Due to the improvements in competitiveness and exports opportunities, the tradable sectors were the first ones to recover from the crisis in 2010. In 2013, the production volume in manufacturing, which is the main export sector, 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 and trade. The contribution that these sectors provide to the overall growth has increased significantly over the past years, but the low demand in exports markets in 2013 and 2014 limited the growth of manufacturing. In 2015, the growth continued in almost all sectors, except for construction, transportation and storage.

The development trends within the sectors differed also in 2016. Compared to the corresponding period a year before, during the 2016 Q1-Q3 the manufacturing output increased by 4%. Within other industry sectors, the output grew by 3.4%, while in agriculture and forestry it was 1.6% higher than a year ago.

Since the second half of 2014, the growth rate in construction was slowing down. In 2016 Q1-Q3 construction output was by 20% smaller than a year before. This was caused by the sharp drop in the construction of civil engineering structures, which may be explained by the transitional period in the use of EU structural funds, as well as the fact that development of the construction sector is closely related to the 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	2.9	2.1	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	-0.3	2.3	3.4	3.1

In 2015, the volume of services rendered within the transportation and storage sector decreased by 0.2%. This was influenced by the decline in freight turnover at ports and on railways. During the 2016 Q1-Q3, the volume of road freights increased slightly. At the same time, significant reduction was observed in the volume of freights by rail and ports. In the Q3, notable drop was observed the volume of rail and maritime freights, as a result of which the volume of services rendered within the transportation and storage sector was by 3.1% smaller than that rendered a year before. Overall, during the Q1-Q3, the sector volume increased by 0.8 per cent.

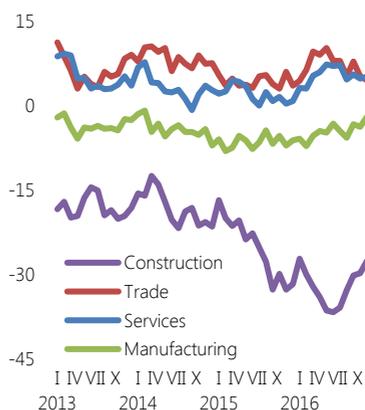
The volume of trade sector continues to rise. In the 2016 Q3, it was by 3.9% higher than a year before, and altogether during the Q1-Q3 the increase constituted 4.3%. The trade sector was positively affected by the increase in private consumption and growth in the retail trade turnover. As the turnover of foreign trade dropped during the Q3, decline was recorded in the volume of wholesale trade also.

Growth in the commercial services sector has been moderate over the recent years. During the 2016 Q1-Q3, the volume of services provided was by 1.6% higher than a year before. The increase was mainly facilitated by the growth in information and communication as well as arts and entertainment sector.

As government expenditure continues to increase, the volume of services provided within the public services sectors rises as well – in the 2016 Q1-Q3 it grew by 1.7 per cent.

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	III
Gross Domestic Product	2.7	2.1	2.1	1.7	1.8	2.8	3.5	2.7	2.1	2.0	0.3
Agriculture, forestry	8.5	6.3	-4.3	3.4	-5.8	4.6	3.2	1.5	3.0	1.4	0.8
Manufacturing	5.5	3.4	2.0	0.6	4.4	5.9	3.7	3.2	0.5	7.2	3.7
Other industry	-8.6	-7.1	-3.7	0.7	-5.1	4.8	5.6	2.2	10.6	2.8	-5.2
Construction	21.2	12.2	-2.6	1.2	-0.1	-3.4	4.9	-6.2	-19.0	-19.0	-22.0
Trade and accommodation	3.3	3.0	3.6	2.9	1.3	4.9	6.1	4.9	3.9	5.7	4.6
Transport and storage	5.0	1.2	2.5	1.0	-1.5	-4.3	1.7	3.5	1.6	3.1	-2.1
Other commercial services	-1.0	-3.0	0.9	-1.4	1.5	3.7	1.4	3.9	2.7	0.2	2.0
Public services	3.7	3.7	3.4	3.2	3.9	3.3	3.5	2.1	1.7	1.3	2.1

MANUFACTURING

After the rapid growth during the post-crisis years, in 2013 and 2014 the sector growth slowed down. This was mainly caused by the low demand in the exports markets. In 2015, the manufacturing output increased once again and was by 4.3% higher than in 2014. The increase largely was influenced by the metalworking sector, which was affected by the resumption of "KVV Liepajas Metalurģs" operation. Manufacture of computers, electrical and optical equipment, wood processing as well as manufacture of machinery and equipment had upward effect on the manufacturing sector.

Manufacturing continued to grow in 2016. During the ten months of 2016, the manufacturing output increased by 4.1%, as compared to January-October 2015.

In wood processing and manufacture of food products, which both are the largest manufacturing sectors, the production volumes were increasing steadily. During the ten months of 2016, the production volume was higher than a year ago – by 7.4% and 1%, respectively.

Notable and continuous increase was observed also in the fast growing manufacture of computers, electrical and optical equipment. During the ten months of 2016, the production volume of the sector was 9.1% higher than a year before.

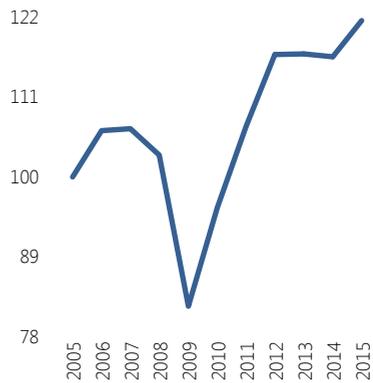
In 2016, the output rise was recorded also in other sectors – chemical industry, manufacture of non-metallic mineral products, manufacture of paper, publishing, light industry, as well as manufacture of machinery and equipment.

Output decline was observed in the manufacture of transport vehicles.

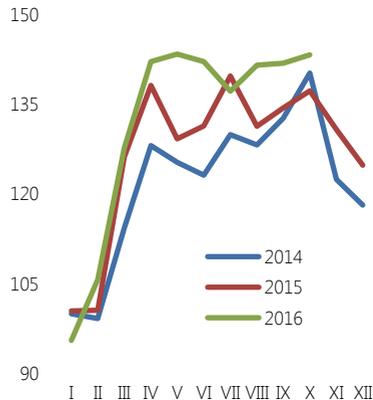
In January-October 2016, manufacturing turnover at current prices exceeded the indicator recorded a year ago by 1.4%. Sales has grown due to the increase in exports of goods (of 2.6%); the sales of goods in the domestic market dropped slightly (by 0.8%).

The proportion of manufacturing products exported annually is increasing slightly. During the ten months of 2016, 64.7% of all manufacturing production were exported. The bulk of the production exported is sold on the EU markets.

Manufacturing
output, 2005 = 100



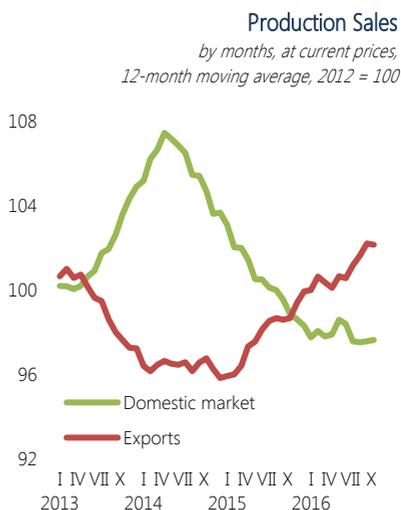
Production Volume Index
by months, not seasonally adjusted data, 2010 = 100



In January–October 2016, the most significant effect on the exports growth was caused by wood processing, manufacture of transport vehicles and manufacture of minerals. The exports of food products reduced.

Turnover in woodworking and manufacture of food products had upward influence on the sales on the domestic market, while manufacture of non-metallic mineral products, metalworking, and chemical industry applied downward pressure.

It may be expected that manufacturing turnover will increase hereafter; the growth rate shall be defined by the external factors – growth of the EU and economic situation in the CIS countries.



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-Oct
Manufacturing – total	100	100	63.8	-0.3	4.3	4.1
Food industry	23.6	20.6	34.3	0.1	-4.6	1.0
Light industry	3.9	10.1	86.4	-13.6	-13.2	1.6
Wood processing	27.0	21.0	74.7	6.9	7.1	7.4
Paper industry and publishing	4.4	4.1	61.2	-0.6	0.0	3.9
Chemical industry	7.5	7.0	76.4	-2.6	-4.1	5.5
Other non-metallic mineral products	5.9	4.5	48.0	1.2	-9.8	9.6
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	9.1
Machinery and equipment	2.3	2.9	83.8	2.4	7.9	7.4
Motor vehicles	3.5	3.3	88.0	-15.2	3.5	-5.4
Other industries	5.6	12.4	58.1	-12.0	3.4	-1.5

... the data is confidential

INVESTMENTS

During the recent years, investment has been moderate. The investment dynamics was negatively affected by poor crediting, relatively low demand, as well as unstable external economic and political situation. In 2016, the decline in investment mainly was due to the temporary interruption of EU structural fund transfers caused by the cyclicality of the European Structural Fund implementation.

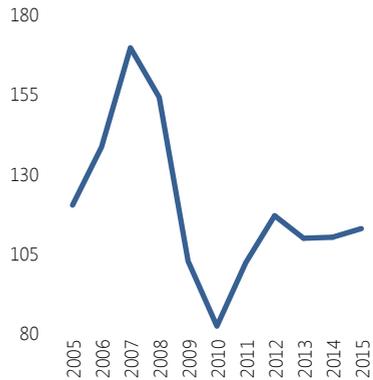
In 2015, the investment amounted to 23% of the GDP and exceeded the level of the previous year by 2.8%. Nevertheless, since 2011 the average annual investment in the national economy of Latvia generally was almost by 16% lower than during the pre-crisis period.

During the nine months of 2016, the investment process was poor. Compared to the corresponding period a year before, in the 2016 Q1 the investment lagged by 15.7% behind, and in the Q2 and Q3 – by 26.3% and 26.4%, respectively. Significant investment decline was recorded in construction. During the nine months of 2016, as compared to the corresponding period of the previous year, investment in construction fell by 32%, including investment in housing (by 7.8%) and investment in construction of civil engineering structures (by 36.9%).

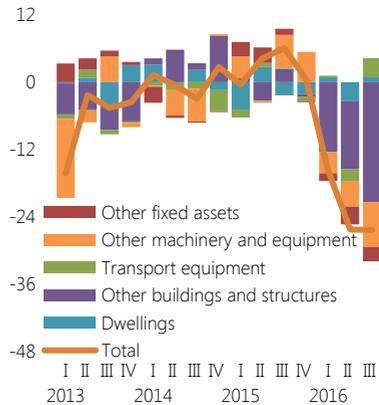
Provisional data show that in the nine months of 2016 non-financial investments in industry lagged behind the level recorded a year before by 20%. This was mainly due to the drop in investment in manufacturing (of 28.8%), as well as public utilities (of 60.3%). Compared to the year before, during the nine months of 2016 the investment drop of almost 30% was observed; the reduction mainly was influenced by the decline in transportation and storage sector.

In 2015, the intensity of foreign direct investments remained at the level of 2014. The volume of attracted FDI amounted to 2.5% of the GDP. During the nine months of 2016, the FDI flows were negative (-0.3% of the GDP), which was mainly due to the decrease in liabilities to direct investors taking place during the first half.

Gross Fixed Capital Formation
2004 = 100



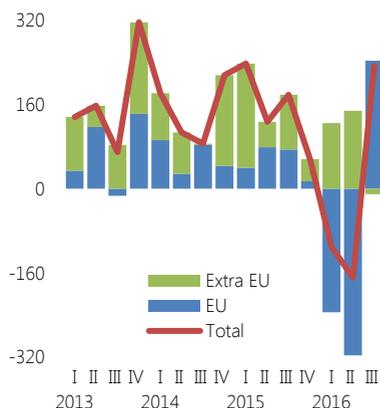
Gross Fixed Capital Formation
changes over corresponding quarter of the previous year, as per cent



According to the international investment balance, at the end of September 2016 FDI accrued in the Latvian economy reached EUR 14.5 billion (at 58.8% level of the GDP). In breakdown by sector, larger share of accrued FDI was recorded in investment in financial intermediation, real estate activities, and manufacturing. Sweden is the largest investor in the Latvian economy. At the end of September 2016, investment of Sweden entrepreneurs comprised almost 15.7% of the total FDI accrued. Those were mainly investments in financial intermediation.

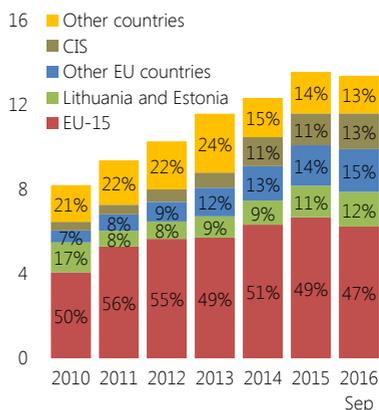
Foreign Direct Investment in Latvia

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 Sep	2012	2013	2014	2015	2016 Sep
Agriculture, forestry	4.4	294.6	300.2	521.6	618.5	587.7
Manufacturing	12.3	1'200.3	1'402.5	1'555.4	1'652.5	1'645.4
Other industry	4.0	492.2	589.3	618.3	623.8	536.9
Construction	4.3	467.9	498.5	421.7	548.1	575.0
Trade and accommodation	14.7	1'415.0	1'470.8	1'715.5	1'769.2	1'961.8
Transport and storage	3.9	449.1	407.8	479.8	495.0	526.8
Financial and insurance activities	25.6	2'824.9	2'914.4	3'414.0	3'729.0	3'416.5
Other services	13.1	1'769.1	1'949.0	2'559.6	2'904.9	1'743.8
Not allocated economic activity	8.7	1'344.7	2'037.3	1'025.4	1'204.5	1'168.0
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. Compared to 2009, in 2012 the exports of goods at current prices almost doubled, while imports of goods increased by more than 80%. During the period from 2009 to 2012, the exports annually grew on average by 25% and imports by 23%. During the period, the largest contribution to the growth in exports of goods was made by agricultural and food products, as well as by metalworking articles. Significant growth was also recorded in the exports of wood processing products, machinery, mechanical appliances, electrical equipment, as well as mineral products.

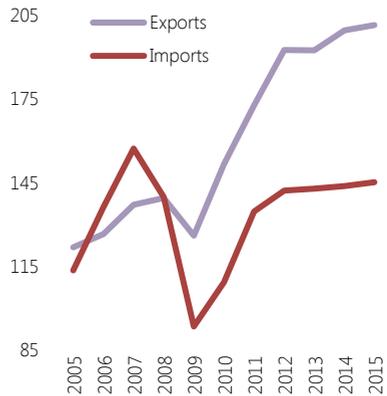
In 2013, the exports of Latvian goods at current prices increased moderately – by 1.5%, while in 2014 – by 2.3%. The dynamics of imports of goods slowed down more rapidly – in 2013 there was a rise of 1%, whereas in 2014 of 0.2 per cent.

Similarly to 2014, in 2015 exports of goods showed moderate growth – of 1.1%. Exports of machinery and mechanical appliances, electrical equipment had the most significant positive effect on the export growth, however, the value of exports of mineral products fell down. In 2015, imports of goods declined by 1.3%. The drop was mainly influenced by the decrease in the value of imports of mineral products in relation to the low oil prices.

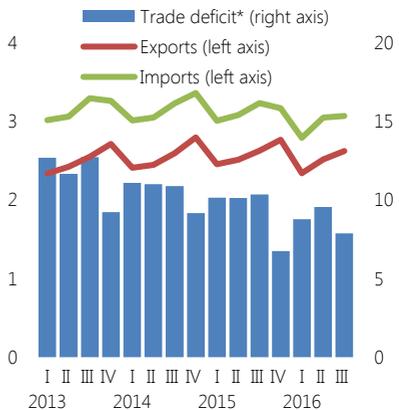
During January–October 2016, the Latvian exports of goods at current prices was 1.7% lower than a year before. This was mainly affected by the drop in the exports of machinery and mechanical appliances, as well as mineral products. In turn, notable rise was recorded in the exports of agricultural and food products, as well as transport equipment.

Exports of goods to the largest exports market of Latvia – the EU countries – in January–October 2016 was by 1% smaller than a year before (of which exports to Lithuania decreased by 7.4%, but exports to Estonia increased by 2.8%). The drop in the exports to EU countries was mostly affected by the decline in the exports of mineral products, machinery and mechanical appliances, electrical equipment, as well as goods of light industry. In turn, positive trends were observed in the exports of agricultural and food products, transport vehicles, 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

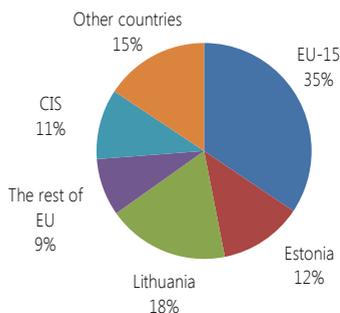
During the ten months of 2016, exports to the CIS countries decreased by 9.9%, as compared to the previous year (of which exports to Russia reduced by 11.2%). The decline was significantly affected by the decrease in the exports of machinery and mechanical appliances, electrical equipment, as well as agricultural and food products. Decrease was also observed in the exports of mineral products, as well as wood and wood products. Positive impact on the exports to the CIS countries was made by the increase in the exports of goods of chemical and light industry and transport vehicles.

Exports to other countries increased by 0.8% in January-October 2016. The increase was due to the significant rise in the exports of cereals as well as transport equipment.

In January-October 2016, imports of goods declined by 3.9%. The drop was mainly influenced by the decline in the imports of mineral products, machinery and mechanical appliances, electrical equipment, as well as metal and metal products. In turn, increase was recorded in the imports of agricultural and food products, transport vehicles, goods of chemical industry, as well as wood and wood products.

Compared to the corresponding period of the year before, during the ten months of 2016 the trade balance improved. The export-import deficit amounted to 8.5% of the trade turnover in January-October (9.6% in the year before).

Structure of Exports of Latvian Goods *in January-October 2016, as per cent*



Exports and Imports of Latvian Goods *in January-October 2016, as per cent*

	Exports			Imports		
	structure	volume changes	contribution to changes	structure	volume changes	contribution to changes
Total, of which:	100	-1.7	-1.7	100	-3.9	-3.9
Agricultural and food products	19.2	7.8	1.4	16.6	6.5	1.0
Mineral products	5.1	-29.2	-2.1	8.9	-29.6	-3.6
Chemical products	11.1	7.7	0.8	16.7	2.9	0.5
Products of light industry	3.8	-14.4	-0.6	5.5	-5.7	-0.3
Wood and articles of wood	17.5	2.5	0.4	3.4	12.1	0.4
Metals and metal articles	8.3	-8.7	-0.8	7.8	-8.5	-0.7
Machinery and electrical equipment	17.3	-10.7	-2.0	21.0	-7.9	-1.7
Transport vehicles	6.3	18.8	1.0	9.9	7.7	0.7
Other goods	11.3	2.0	0.2	10.3	0.0	0.0

BALANCE OF PAYMENTS

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. The current account deficit has been reducing gradually since 2013; in 2015 it reached 0.8% of the GDP, while during the nine months of 2016 there was a surplus in the current account constituting 1% of the GDP.

The state of Latvian current account is mainly affected by changes in the foreign trade balance. Latvia has a foreign trade deficit that during the years of rapid growth increased up to 22.8% of the GDP in 2007 and dropped down during the period of recession due to the cyclical corrections that were facilitated by the significant decline in import volumes. As the economy became more stable, the import volumes also increased. During the recent years, the export and import are becoming less dynamic, which is largely due to the geopolitical instability within the region.

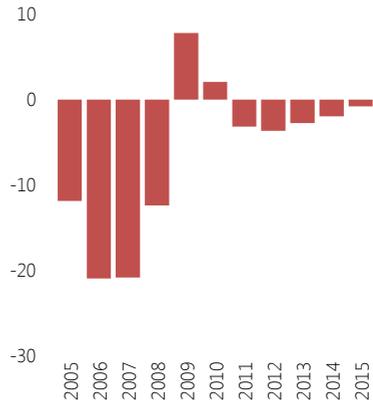
The foreign trade deficit was decreasing moderately year after year – from 12.4% in 2011 to 8.4% of the GDP in 2015. During the nine months of 2016, the foreign trade deficit amounted to 7.2% of the GDP, i.e. almost 2 percentage points less than a year before. The improvements in the foreign trade balance were influenced by the fact that imports value decreased more rapidly than exports value.

The balance of services was positive and covered the foreign trade deficit by almost 90%. During the nine months of 2016, the exports and imports of services (at current prices) exceeded that recorded a year before by 3.7% and 3.9%, respectively. The surplus in the balance of services reached 7.5% of the GDP and was almost 0.3 percentage points higher than foreign trade deficit.

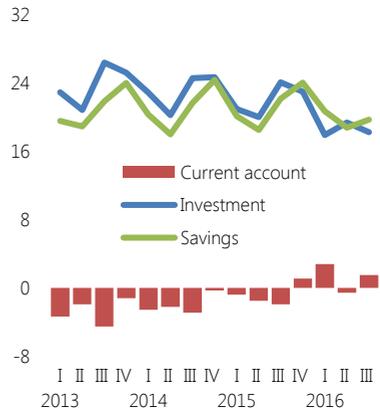
Driven by the inflow of resources of EU funds and drop in the income of non-residents, the surplus of preliminary income recorded in the nine months of 2016 amounted to 0.2% of the GDP.

During the 2016 Q1-Q3, the financial account (excluding reserve assets) was positive – 4.1% of the GDP (in the 2015 Q1-Q3 it was negative – 2.4% of the GDP). The level and fluctuations of the financial account was mainly affected by the measures of financial sector stabilisation.

Current Account Balance
as per cent of GDP



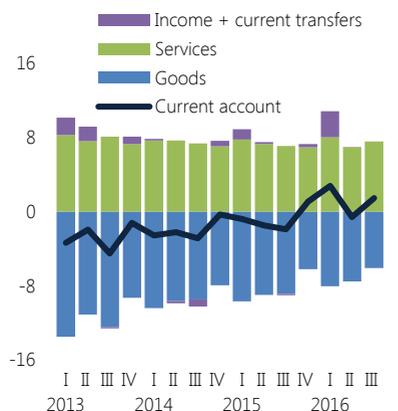
Current Account, Investment and Savings
by quarters, as per cent of GDP



The balance of direct investments has been negative during the recent years, thus indicating the inflow of foreign direct investments. In 2015, the volume of incoming FDI flows was almost by 2% higher than a year before and amounted to 2.5% of the GDP. In turn, during the nine months of 2016 the FDI flows were negative – 0.3% of the GDP, which was due to the decrease in liabilities to direct investors.

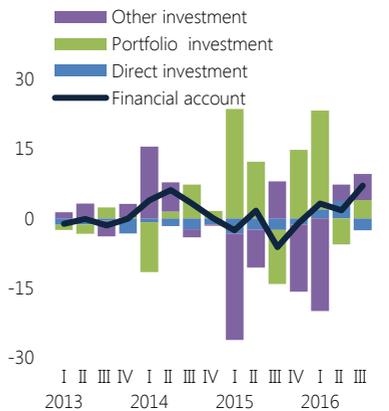
Current Account by Items

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-Sep
A. Current account	-3.2	-3.6	-2.7	-2.0	-0.8	1.1
Trade balance	-12.4	-12.1	-11.5	-9.3	-8.4	-7.2
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	0.2
Net current transfers	1.9	1.6	1.3	0.1	0.6	0.7
B. Capital account	2.1	3.0	2.5	3.2	2.8	0.9
C. Financial account*	4.0	-2.7	-0.7	3.2	-2.1	4.1
Direct investment stock	-4.9	-3.3	-1.6	-1.6	-2.3	1.0
Portfolio investment**	1.7	-4.5	-0.1	0.3	9.2	5.9
Other investment	7.2	5.1	1.0	4.5	-8.9	-2.8
D. Deviation	0.6	1.6	1.2	1.5	-2.8	-0.2
E. Reserve assets	-4.5	3.6	1.7	-0.5	1.3	-2.2

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

PRICES

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

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

Very moderate inflation was recorded in 2016. During the eleven months of 2016, prices increased by 1.6%. In January-November, price changes were mainly affected by the rise in prices of food (of 3.4%) and certain services – maintenance charges in multi-occupied buildings, recreation and culture, health care, telecommunications, and catering. Increase was recorded also in prices of fuels for transport (of 4.3%), clothing and footwear (of 2.8%), tobacco products (of 5%) and pharmaceutical products (of 3.2%). Decline, in turn, was registered in prices of heat energy (of 8.2%), gas (of 10.9%), electricity (of 1.8%), and alcoholic beverages (of 1.7%). It should be noted that in November food prices in the world were 10.4% higher than a year before. Oil prices in the world dropped by 1% during the period.

Global prices are currently stable, and no sharp increase is predicted, therefore the average inflation of 2016 could be close to zero. In 2017, annual average inflation will be higher than in 2016, and it still will be affected by global oil and food prices.

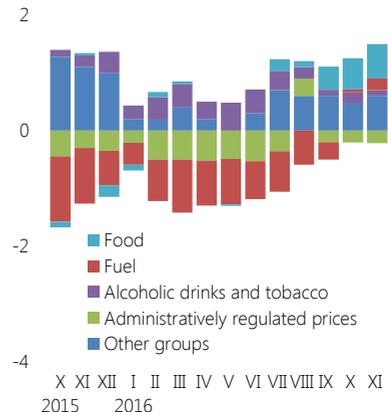
After the sharp increase in 2010-2012, in 2013-2014 producer prices rose more moderately. In 2015, the decrease thereof comprised 1%, mainly due to the producer price drop in manufacturing.

In October 2016, compared to October 2015, the overall level of producer prices decreased by 1.4%; the prices of products sold on the domestic market fell by 2.3%, and prices of exported products by 0.5 per cent.

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

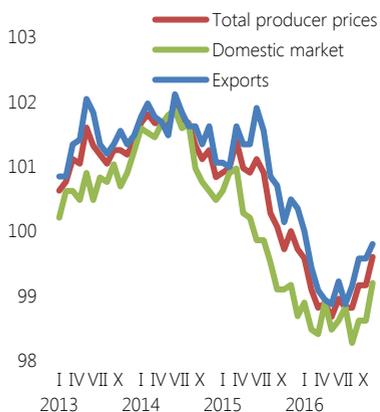


In October 2016, producer prices in manufacturing declined by 0.5%, as compared to the October 2015. Over the year, the producer prices of products sold on the domestic market and that of exported products decreased by 0.4% and 0.6%, respectively, which may be explained by the sharp drop in energy prices since the mid-2014.

During the year, the most significant upward effect was put by the prices in manufacture of wearing apparel, whereas manufacture of computers, electrical and optical equipment, manufacturing of non-metallic mineral products, manufacture of food products and beverages had the greatest lowering impact. Producer prices are still affected by the economic situation in the EU and Russia. It should be noted that during the year sharp decline was observed in the global prices in energy production and prices of industrial and agricultural raw materials that in future will have effect also on the prices in Latvia.

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	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
	October	0.8	1.0	1.4	-0.1
	November	0.2	1.3	1.6	0.0

MONETARY INDICATORS

Monetary indicators are improving gradually: crediting is showing positive trends, the quality of the loan portfolio is improving.

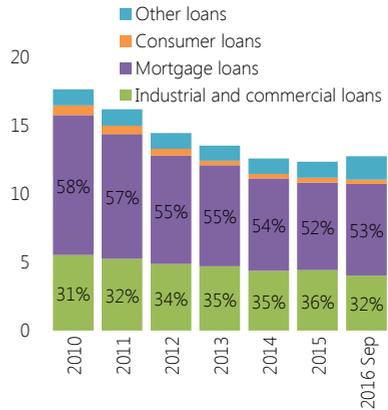
After the long decline in the total loan portfolio of the banking sector (since 2009), it grew by 2.1% in the 2016 Q3, as compared to the corresponding period of 2015. The sharpest increase was recorded in the outstanding commercial credits (of 19.6%). After long-standing drop (since the 2009 Q2), the outstanding mortgage loans have increased by 3.1 per cent.

After the decline in the volume of new credits granted in 2014, the volume thereof resumed increasing in 2015. During the 2016 Q2, the volume of new credits granted exceeded that recorded a year ago by 13.9%. The volume of new loans granted to enterprises increased as well – amounting to EUR 448 million and comprising 42% of the total volume of credits granted.

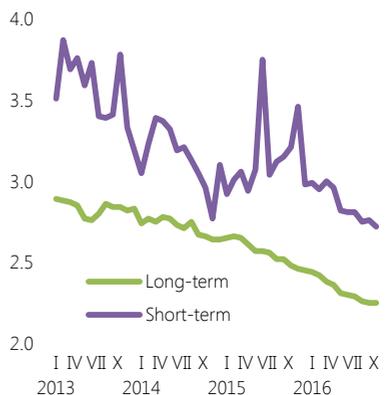
Positive trends were still recorded in household crediting – the volume of new loans granted in the 2016 Q3 amounted to EUR 146.7 million or 14% of the total amount of loans granted. Compared to 2015, the volume of new loans granted for the purchase and reconstruction of dwellings increased by 11 per cent.

During the period from mid-2010 to 2014, the quality of the loan portfolio improved significantly, and that was mainly related to the improvement of the economic situation, as well as to the writing-off of bad loans. The quality of the credit portfolio has not changed significantly during the past two years. In the 2016 Q3, 10.8% of the 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 and 0.2 percentage points less than in the previous quarter.

Loans Issued to Residents
at the end of the period, billion euro



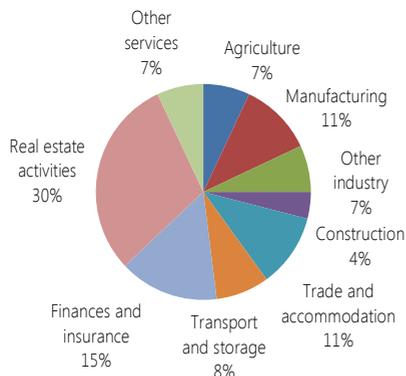
Average Weighted Interest Rates (Balance)
for loans to non-financial companies
by months, as per cent



Interest rates (outstanding amounts) for long-term loans issued to non-financial corporations kept reducing and in October 2016 accounted for 2.25 %. Short-term interest rates dropped down to 2.72 per cent

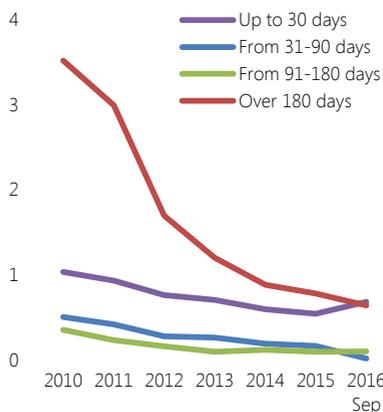
Structure of Loans Issued by Sectors

at the end of September 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 Oct
<i>at the end of period, bln euro</i>						
Net foreign assets	-0.3	0.9	1.2	-1.8	-3.6	-2.5
Net domestic assets	9.5	8.8	8.6	11.3	13.9	13.3
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	0.3
Broad money M2X	9.2	9.6	9.8	9.4	10.3	10.7
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	10.7
<i>changes as per cent</i>						
Domestic loans	-1.5	-13.1	-1.4	-5.9	6.1	1.0
Broad money M2X	1.5	4.5	2.0	-3.6	9.0	1.8
Cash in turnover (without vault cash balance)	28.8	4.1	-56.6	461.0	2.6	4.9
Deposits of individuals and companies	-2.4	4.5	13.2	-3.6	9.0	9.5
Gross Domestic Product at current prices	13.0	7.7	4.4	3.6	3.4	1.8*

* Q1-Q3 of 2016

GOVERNMENT BUDGET

In order to stabilise the fiscal situation in the country during the financial crisis, several budget consolidation measures were introduced 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 1.6% of the GDP, which was mainly due to the one-off measures. However, the indicator dropped down to 1.3% of the GDP in 2015. The government aims at maintaining low budget deficit.

During the eleven months of 2016, revenue of the general government consolidated budget constituted EUR 8'226 million, which was 1.6% more than a year before. The total revenues from taxes rose by 5.2% during this period.

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

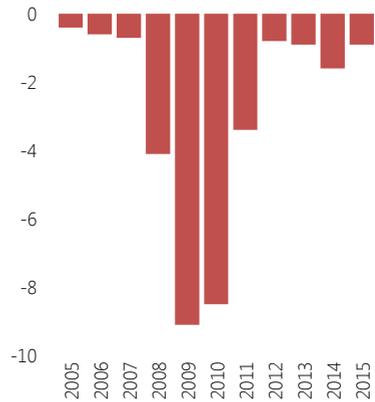
Compared to the corresponding period of 2015, in January-November 2016, the revenue from taxes on consumption increased as well – by 5.2%. Due to the 4.9% increase the revenue from the value-added tax had the most significant influence within the group of taxes on consumption.

The revenue from the taxes on capital were growing rapidly in 2016 – during the eleven months of the year the revenue from the real estate tax and enterprise income tax exceed that recorded in 2015 by 11.8% and 9.8%, respectively.

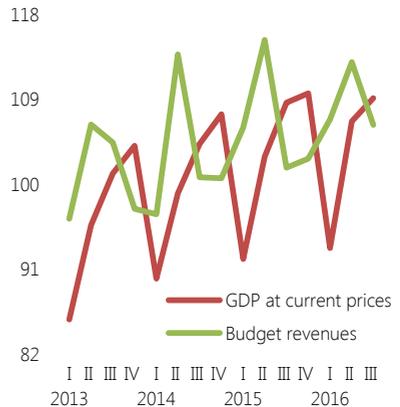
In 2015, the government budget expenditure was by 2.9% higher than a year before. In January-November 2016, the budget expenditure amounted to EUR 8'086.2 million, which was by 1.2% more than in the corresponding period of 2015.

Breakdown of the budget expenditure by the broad economic category in January-November 2016 shows the highest increase – of 6.7% – in the expenditure on subsidies and grants. Slight rise – of 0.9% – was observed in the current expenditure, whereas capital expenditure reduced by 22.4%.

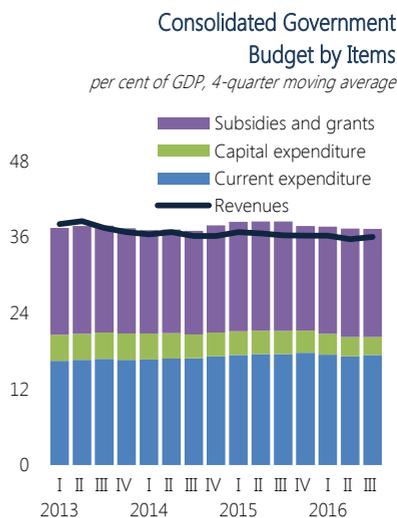
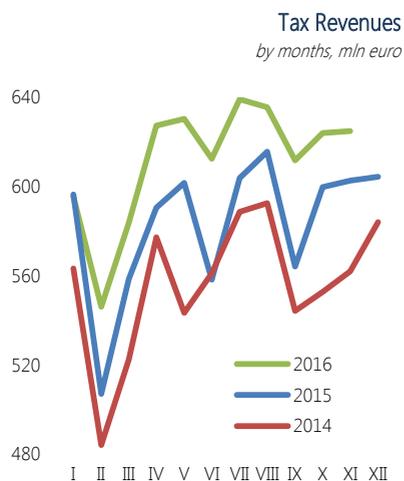
Budget Balance
as per cent of GDP



GDP and Budget Revenues
2012 Q4 = 100



Analysis of the budget expenditure by the function indicates that, compared to the corresponding period of 2015, during the eleven months of 2016 notable increase was observed in the expenditure on social protection, economic affairs and defence, as well as in the expenditure on public order and defence. The expenditure on environmental protection, education, general public services, housing and community amenities, as well as recreation, culture and religion declined significantly.



General Government Budget

	bln euro				per cent changes	
	2013	2014	2015	2016 Jan-Nov	2015	2016 Jan-Nov
Revenues, of which:	8.4	8.5	8.8	8.2	3.4	1.6
Indirect taxes, of which:	2.4	2.6	2.7	2.7	5.9	5.9
Value added tax	1.7	1.8	1.9	1.8	5.5	4.9
Income and real estate taxes	1.9	1.9	2.0	2.0	4.5	8.4
Social insurance contributions	2.0	2.0	2.0	1.9	3.7	2.6
Other taxes	0.2	0.2	0.2	0.2	8.9	0.6
Other revenues	2.0	1.9	1.8	1.5	-2.2	-12.9
Expenditure	8.5	8.9	9.2	8.1	2.9	1.2

LABOUR MARKET

Along with the improvement of the economic situation, positive trends can be also observed in the labour market – decreasing unemployment and growing employment rate. However, the increase has slowed down.

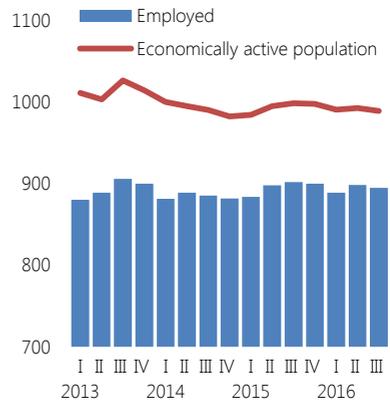
In 2015, situation in the labour market continued to improve. The unemployment rate decreased down to 9.9% – 0.9 percentage points less than in 2014, while the employment rate rose up to 60.8% or by 1.7 percentage points. In 2015, in Latvia there were 896.1 thousand employed persons and 98.2 thousand unemployed persons – 9.5 thousand persons less than a year before.

In 2016, along with the slowdown of the economic growth, improvements in labour market increased were moderate. Compared to the corresponding period of 2015, during the 2016 Q1-Q3 the number of employed persons almost did not change and accounted for 894.2 thousand or 61.6% of the total population aged 15-74. The employment rate went up by 1 percentage point, as compared to the 2015 Q1-Q3.

In the 2016 Q3, the unemployment rate reached 9.5% and the number of unemployed persons (persons seeking job) comprised 94.4 thousand (2.6% less than a year before).

The registered unemployment rate keeps decreasing as well. At the end of November 2016 there were 75.3 thousand unemployed persons registered – 3.8 thousand less than a year before. The registered unemployment rate constituted 8 per cent.

Employed and Economically Active Population
by quarters, in thousands



Occupied Jobs
in thousands

	2011	2012	2013	2014	2015	2016 Jan-Sep
Total	805.5	839.1	865.1	874.6	883.8	887.6
Agriculture, forestry	19.0	20.6	21.2	21.5	21.6	21.6
Manufacturing	109.1	114.5	117.3	114.4	111.2	111.7
Other industry	22.9	23.7	24.2	24.1	23.8	24.0
Construction	50.9	55.7	60.6	60.3	58.7	54.3
Trade and accommodation	162.8	170.7	173.9	176.0	179.0	180.2
Transport and storage	68.8	72.7	75.2	75.9	76.7	76.8
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

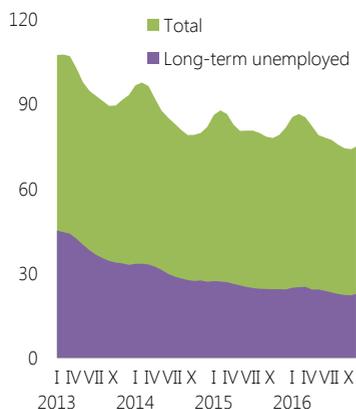
The highest registered unemployment rate still was registered in Latgale region (17.6%), whereas the lowest in Riga (4.8%).

The situation in the labour market is still affected by negative demographic trends – as compared to 2014, in 2015 the population of working age (aged 15-74) dropped by 23.2 thousand or 1.5%. Decline in the population of working age remained also in the 2016 Q3 – decrease of 22.2 thousand or by 1.5%, compared to the 2015 Q3.

It is expected that the situation in the labour market will keep improving, however, due to the increasing effect of the negative demographic trends, the growth will be moderate.

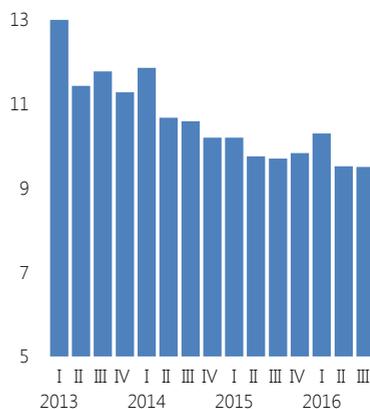
Registered Unemployed

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-Sep
<i>in thousands</i>						
Population*	1'595.3	1'560.0	1'536.1	1'495.8	1'472.6	1'452.8
Economically active population	1'028.2	1'030.7	1'014.2	992.3	994.2	991.1
Employed persons	861.6	875.6	893.9	884.6	896.1	894.2
Unemployed persons	166.6	155.1	120.4	107.6	98.2	96.8
<i>as per cent</i>						
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	61.6
Unemployment rate	16.2	15.0	11.9	10.8	9.9	9.8

* population in private households

PERSONAL INCOME

During the financial crisis, the adjustments to remuneration were rather minor. The drop in economic activities was compensated by the decrease in the number of employed persons.

As economic situation became more stable, wages and salaries started to grow once again since the end of 2010, nevertheless unemployment rate remained rather high.

Moreover, along with the increase in the demand for labour, the average gross wages and salaries were rising gradually. In 2012 and 2013, the increase of the average gross wages and salaries constituted 3.7% and 4.6%, respectively, whereas in 2014 and 2015 the indicator went up by 6.8%, reaching EUR 818 in 2015.

Rather sharp remuneration increase was also observed during the 1st half of 2016, whereas in the Q3 the growth slowed down slightly and constituted 2.2%, as compared to the 2015 Q3. In the 2016 Q3, the highest wages and salaries were still recorded in Riga region (EUR 957), but the lowest in Latgale region (EUR 578).

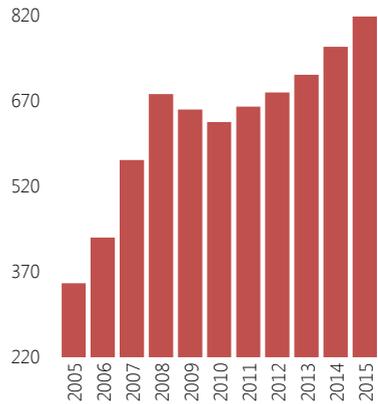
Since 2010, wages and salaries have been growing both in the private and public sector. In 2015, wages and salaries in the private sector rose by 7.9% and in the public sector by 5.2%. It should also be noted that in 2015 the average gross wages and salaries in the public sector exceeded the level of 2008 by slightly more than 6%, while in the private sector by almost 28 per cent.

Since 2010, wages and salaries have increased in all sectors of the national economy; the most notable growth was recorded in real estate activities, trade, as well as accommodation and food service activities.

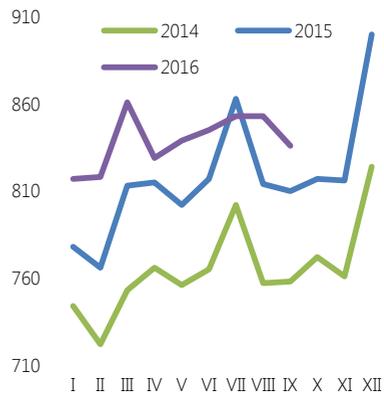
Compared to the 2015 Q3, in the 2016 Q3 the most notable increase of wages and salaries was observed in accommodation and food service activities (of 5.5%) and financial and insurance activities (of 5%).

The highest wages and salaries were still observed in financial and insurance activities – on average EUR 1 773 monthly.

Average Monthly Wages and Salaries of Employed
gross, in euro



Average Monthly Wages and Salaries of Employed
gross, in euro

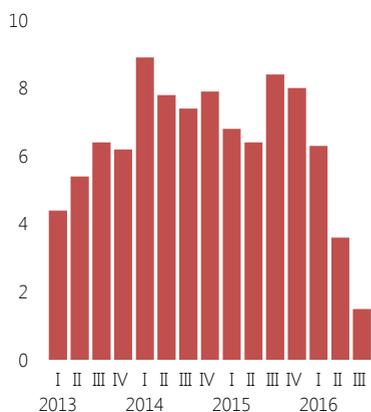


As nominal wages and salaries increased, the real wages and salaries were also rising gradually. In 2014, the real wages and salaries went up 8%, and in 2015 by 7.4%. The real wages and salaries kept increasing in 2016 as well, however, at a slower pace. The increase recorded in the Q1 and Q2 comprised 6.3% and 3.6%, respectively, whereas in the Q3 the annual growth constituted only 1.5%. During the last three years, the increase of real wages and salaries was mainly affected by the rapid growth of nominal wages and salaries as well as by moderate changes of consumer prices. It should be noted that in the 2016 Q3 smaller increase of real wages and salaries was due to the 0.2% rise of the consumer prices.

The average size of the old-age pension keeps growing as well. In 2015, the average monthly old-age pension rose by 2.7%. In the 2016 Q3, the average monthly old-age pension grew by 2.2%, compared to the 2015 Q3, and on average comprised EUR 279 monthly.

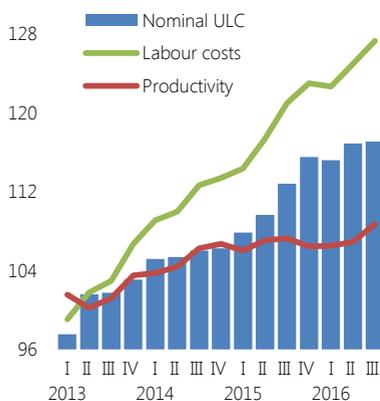
Real Wage

over corresponding quarter of the previous year, as per cent



Labour Costs and Productivity

2012 Q4 = 100



Average Wages and Salaries of Employed by Sectors

gross, over the previous year, as per cent

	2011	2012	2013	2014	2015	2016 Jan-Sep
Total	4.4	3.7	4.6	6.8	6.8	3.8
Agriculture, forestry	8.2	0.7	4.8	8.6	5.0	4.7
Manufacturing	5.0	4.6	4.0	7.0	8.5	4.6
Other industry	3.7	3.6	1.8	5.0	5.5	2.9
Construction	4.7	2.0	6.8	7.7	7.9	3.7
Trade and accommodation	5.9	4.5	6.0	7.4	8.9	4.5
Transport and storage	1.0	7.7	0.5	5.9	4.5	0.8
Other commercial services	3.9	2.4	3.4	6.9	6.1	3.3
Public services	4.5	2.7	6.3	6.5	5.9	3.3

COMPARATIVE INTERNATIONAL STATISTICS

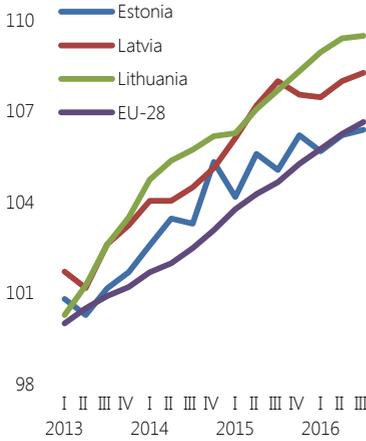
Economic Development in Baltic Countries

	Latvia	Lithuania	Estonia
Territory, thsd km ²	64.6	65.3	45.2
Population, thsd, at the 1 st September 2016	1'954.6	2'853,5	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 Q2	2.0	1.9	0.7
2016 Q3	0.3	1.7	1.3
Volume of manufacturing production**, over corresponding period of the previous year, %			
2014	-0.3	1.1	5.4
2015	4.2	5.4	-0.7
2016 Q2	7.2	-1.0	0.4
2016 Q3	3.7	2.9	1.6
Retail trade turnover**, over corresponding period of the previous year, %			
2014	3.1	5.4	7.2
2015	2.0	2.3	3.2
2016 Q2	0.7	4.2	3.3
2016 Q3	-0.2	5.0	3.3
Changes of consumer prices, over corresponding period of the previous year, %			
2014	0.6	0.1	-0.1
2015	0.2	-0.9	-0.5
2016 Q2	-0.7	0.7	-0.7
2016 Q3	0.2	0.7	0.4
Changes of number of employed, over corresponding period of the previous year, %			
2014	-1.0	2.0	0.6
2015	1.3	1.2	2.6
2016 Q2	0.0	2.3	2.6
2016 Q3	-0.8	1.6	-1.2
Unemployment rate, % of economically active population			
2014	10.8	10.7	7.4
2015	9.9	9.1	6.2
2016 Q2	9.5	8.0	7.5
2016 Q3	9.5	7.5	7.5

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

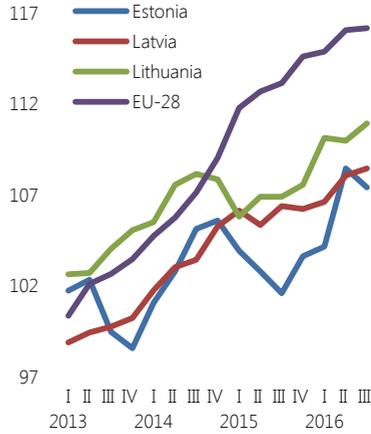
Gross Domestic Product

seasonally adjusted data
2012 Q4 = 100



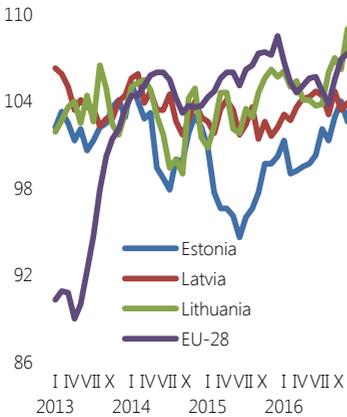
Exports of Goods and Services

seasonally adjusted data
2012 Q4 = 100



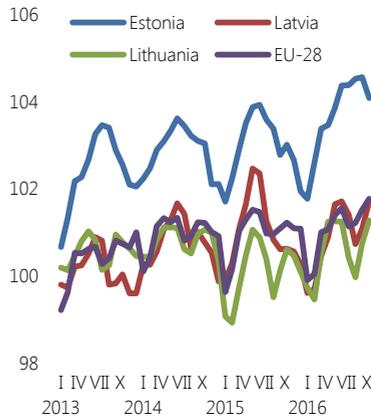
Economic Sentiment Indicator

seasonally adjusted data



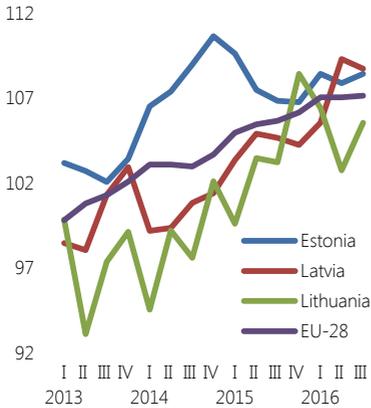
Harmonised Consumer Price Index

December 2012 = 100



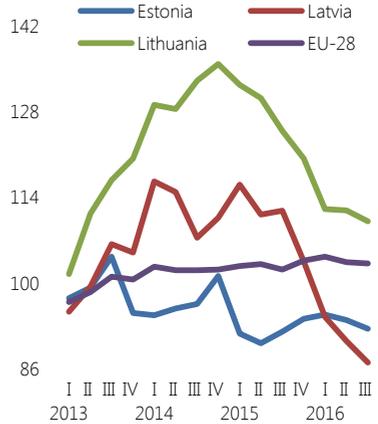
Manufacturing Production Volume

seasonally adjusted data
2012 Q4 = 100



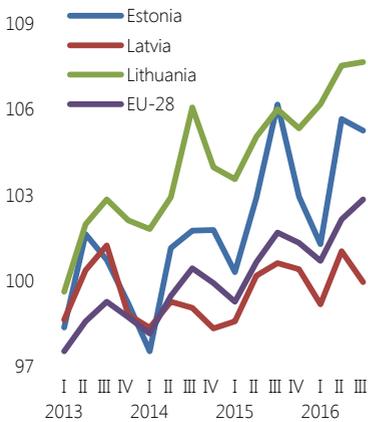
Construction Production Volume

seasonally adjusted data
2012 Q4 = 100



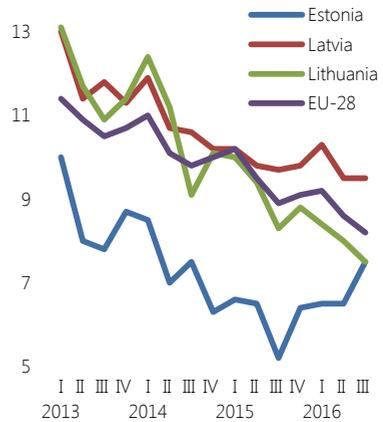
Number of Employed

not seasonally adjusted data
2012 Q4 = 100



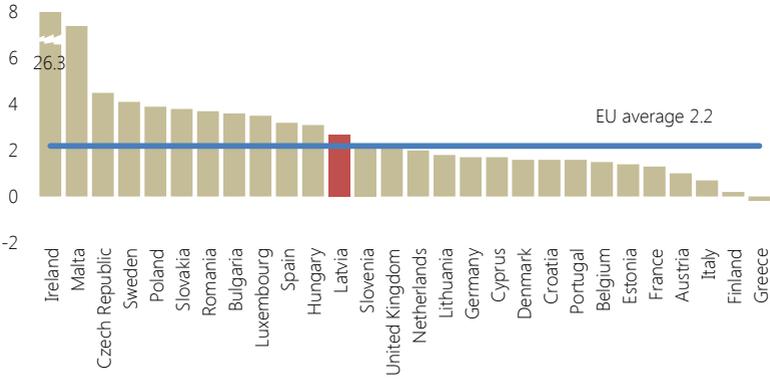
Unemployment Rate

as per cent



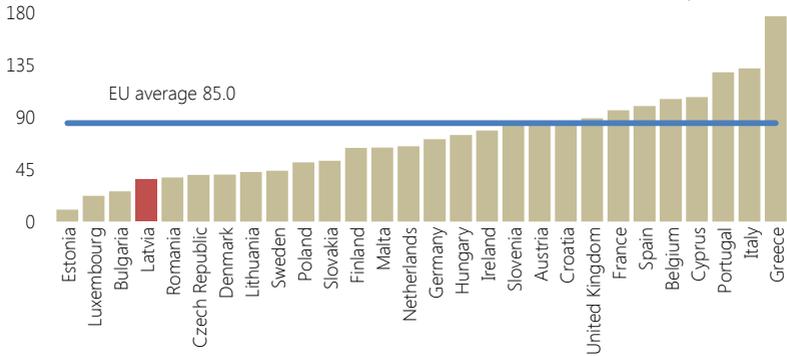
Gross Domestic Product

in 2015, changes of volumes, as per cent



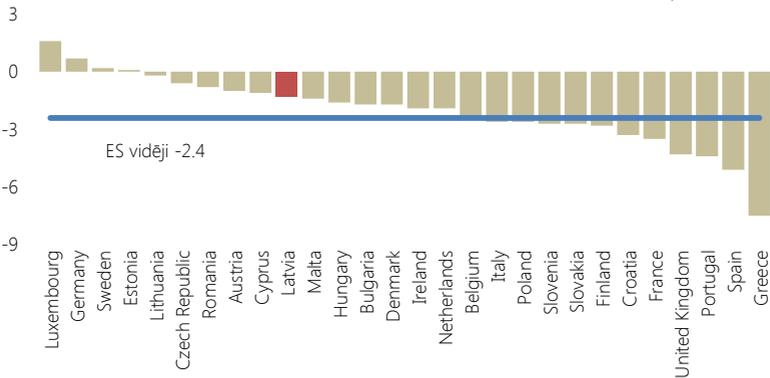
Public Debt

in 2015, as per cent of GDP

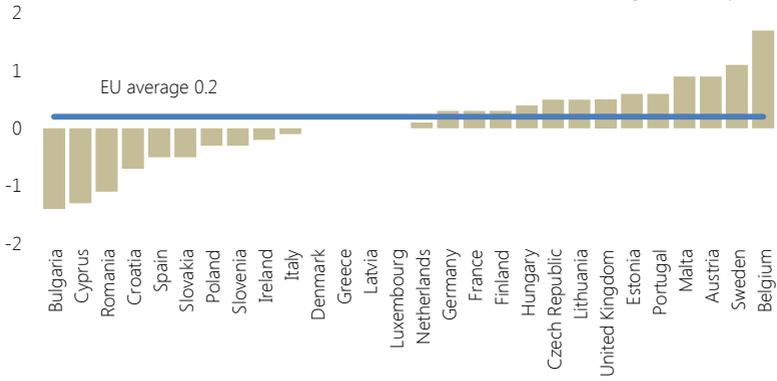


Budget Balance

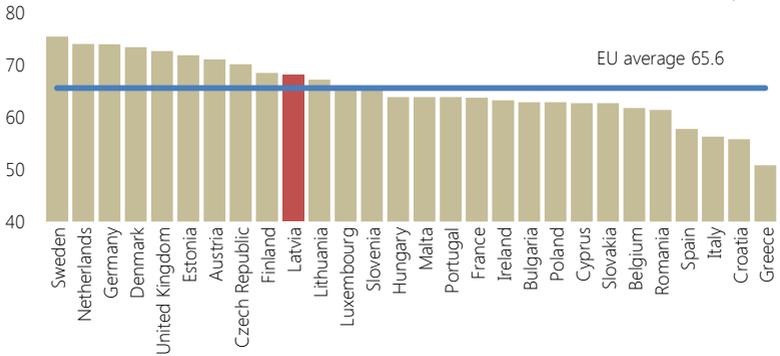
in 2015, as per cent of GDP



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



Employment Rate
in 2015, as per cent



Unemployment Rate
in 2015, as per cent

