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Central Statistical Bureau of Latvia

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ECONOMIC SITUATION: BRIEF OVERVIEW

From 2011 to 2013 growth of the Latvian economy on average amounted to 4.7% annually. In 2014 the economic growth rate slowed down, which was determined by trends in the external environment: slow growth in the EU, as well as the weakening economic situation in Russia. In the 4th quarter of 2014, GDP was by 2.1% higher than a year ago. In general in 2014 GDP increased by 2.4 per cent.

Main provider of economic growth is private consumption which in 2014 rose by 2.3%. However, the same as general economic growth, also private consumption dynamics in 2014 was more moderate than a year ago. Rise of private consumption was promoted by the increase of average wages and salaries. At the same time growth of employment was slow, although unemployment rate decreased to 10.8 per cent.

Situation in external environment affects exports opportunities of Latvian entrepreneurs and during the last years exports dynamics is more moderate. In 2014 exports volume of goods and services rose by 2.2%. Exports volume of goods rose by 4.6%, but exports volume of services – decreased by 3.4 per cent.

Also dynamics of investment is moderate which is affected by the wait-and-see attitude of entrepreneurs in connection with the increasing uncertainty in external environment. In 2014 investment volume increased by 1.3 per cent.

In breakdown by sectors the largest contribution in the GDP growth in 2014 was in construction, trade, as well as in commercial and public services sectors. But weak demand in exports markets slows down growth of manufacturing and production volume in 2014 was close to the level of 2013. Development trends in sub-sectors of manufacturing are very different.

In 2015 moderate price dynamics continues. In February consumer prices were by 0.1% smaller than a year ago. In 2015 average level of consumer prices will increase slightly slower than in previous year. Inflation will be related to external factors – dynamics of oil and food prices in the world.

Further development of economy of Latvia still will be closely related to exports opportunities, therefore the largest risk of development of Latvia is related to global economic development. In 2015 development of economy of Latvia in general might reach 2 per cent.

Key Indicators of Economic Development

	2010	2011	2012	2013	2014	2015f
<i>increase over the previous year, as per cent</i>						
Gross Domestic Product	-2.9	5.0	4.8	4.2	2.4	2.0
Consumer prices	-1.1	4.4	2.3	0.0	0.6	0.5
<i>per cent</i>						
Employment rate	52.0	54.0	56.1	58.2	59.1	60.1
Unemployment rate	19.5	16.2	15.0	11.9	10.8	9.8
<i>as per cent over gross domestic product</i>						
General government sector balance	-8.2	-3.4	-0.8	-0.9	-1.4	-1.0
Exports-imports balance	-1.5	-5.0	-4.4	-2.9	-2.9	-2.7

f – forecast

THE EXTERNAL ECONOMIC ENVIRONMENT

Global economic development still is weak and in separate regions it differs. In developed countries growth perspectives are improving slowly. But in developing countries situation has worsened slightly, even though growth rates there still are rather rapid.

Since 2013 economic situation in the EU is improving gradually and GDP is increasing already for the sixth quarter in row. In the 4th quarter of 2014, compared to the 3rd quarter, GDP rose by 0.4% and in 2014 in general – by 1.3%. Of which in euroarea GDP in the 4th quarter grew by 0.3% and in 2014 in general rose by 0.9%. The latest business surveys witness that economic activities in the EU are increasing gradually, however, fiscal problems still are topical in euroarea, and it is expected that economic growth rates will be moderate.

In the USA economy there was an increase – in the 4th quarter of 2014, compared to the

3rd quarter, GDP rose by 0.5% and in 2014 in general – rose by 2.4%. Slow down of the growth at the end of the year was mainly determined by the increase of imports volume and value of the US dollar.

Asian countries have overcome global crisis more successfully than countries of other regions, however, weak external demand limits development of the region.

Growth rate in Russia in the second half of 2014 continued to slow down and in general economic growth over a year comprised only 0.6%. World oil price drop observed at the end of 2014 has stopped and along with it pressure on Russia's ruble has reduced. However, high inflation still affects private consumption negatively. Uncertainty of geopolitical situation significantly affects investor confidence. In 2015 European Commission forecasts economic recession in Russia of 3.5 per cent.

Global Economic Growth

GDP, per cent changes

	2010	2011	2012	2013	2014	2015f
World	5.6	4.1	3.3	3.3	3.3	3.6
USA	2.5	1.6	2.3	2.2	2.4	3.5
Japan	4.7	-0.5	1.8	1.6	0.4	1.3
China	10.6	9.4	7.8	7.6	7.4	7.1
CIS	5.0	4.8	3.4	2.1	0.5	-2.3
EU-27, of which:	2.1	1.7	-0.4	0.0	1.3	1.7
Germany	4.1	3.6	0.4	0.1	1.5	1.5
Sweden	6.0	2.7	-0.3	1.3	1.8	2.3
United Kingdom	1.9	1.6	0.7	1.7	2.6	2.6
Latvia	-2.9	5.0	4.8	4.2	2.4	2.9
Lithuania	1.6	6.1	3.8	3.3	3.0	3.0
Estonia	2.5	8.3	4.7	1.6	1.9	2.3

Source: European Commission, f – forecast

GROSS DOMESTIC PRODUCT: EXPENDITURE

After rapid economic growth lasting for several years when average annual increase rate of GDP in 2005-2007 almost exceeded 10%, as a result of global financial crisis, in 2008 Latvian economy experienced recession. During the crisis GDP decreased by almost 20%, reaching the lowest value at the end of 2009.

From 2011 to 2013 economic growth of Latvia on average reached 4.7% annually, which was one of the most rapid in the EU. In 2013 GDP was by 4.2% higher than in previous year.

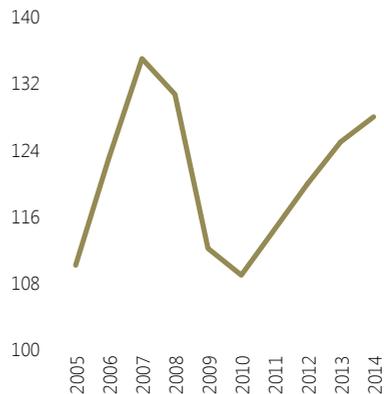
In 2014 growth rate slowed down, which was determined by trends in external environment – slow growth in the EU and weakening economic situation in Russia. In general in 2014 GDP was by 2.4% higher than in previous year. Although during the last few years, rather rapid increase was observed in Latvian economy, however GDP is still less by 5% than it was before the crisis in 2007.

Private consumption provided the greatest contribution in growth both in 2013 and in 2014. However, in 2014 it increased at a slower pace than a year ago. In the 4th quarter of 2014, compared to the 3rd quarter, private consumption rose by 0.6% (according to seasonally adjusted data) and was by 2.2% more than a year ago. In general in 2014 it rose by 2.3%. Increase of private consumption was promoted by the rise of average wages and salaries, at the same time growth of employment was slow.

In 2014 government consumption was rising steadily – in the 4th quarter, compared to the 3rd quarter of 2013, it was higher by 3.8%. In 2014 in general it increased by 3.4 per cent.

Gross Domestic Product

2004 = 100



Expenditure of Gross Domestic Product

changes over the previous year, as per cent

	2009	2010	2011	2012	2013	2014
Gross Domestic Product	-14.2	-2.9	5.0	4.8	4.2	2.4
Private consumption	-16.2	3.1	2.9	3.0	6.2	2.3
Public consumption	-10.7	-8.1	3.1	0.4	2.9	3.4
Gross fixed capital formation	-33.3	-20.0	24.2	14.5	-5.2	1.3
Exports	-12.9	13.4	12.0	9.8	1.4	2.2
Imports	-31.7	12.4	22.0	5.4	-0.2	1.6

Investment dynamics is moderate which is affected by the wait-and-see attitude of entrepreneurs in connection with the increasing uncertainty in external environment. In the 4th quarter of 2014 investment was by 0.6% less than a year ago, but in general investment volume in the previous year rose by 1.3 per cent.

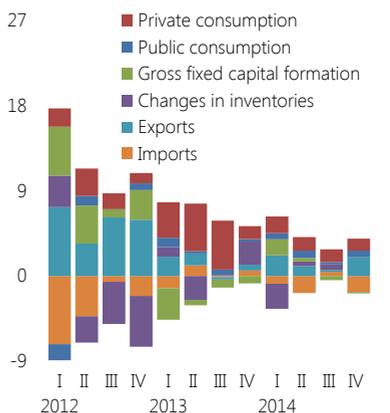
Since 2010, exports of Latvian goods and services increased very rapidly and it was main driving force of the development of national economy. Exports volume in 2012 exceeded pre-crisis level by almost 25%. Since 2013, due to the low demand in external markets, exports dynamics has become more moderate.

In 2014 Latvian exports was affected by slower than expected growth in the EU countries and worsening economic situation in Russia. In the 4th quarter of 2014 exports volume rose by 3.3%. In general in 2014 exports volume of goods and services was by 2.2% higher than in 2013. Growth of exports was ensured by rise of exports volume of goods by 4.6%, however exports volume of services decreased by 3.4%. After considerable drop during the crisis, imports volume grew rather rapid both in 2010 and in 2011. Since the middle of 2012 imports dynamics is more moderate. In the 4th quarter of 2014 imports volume grew by 2.8%, but in general in 2014 imports volume increased by 1.6%. In the 4th quarter of 2014 exports-imports balance was -1.4% of GDP.

In 2015 events in external environment will continue to affect exports, which means that rapid growth of exports is not expected. It is expected that private consumption will continue to increase. Its dynamics will be determined by the increase of wages and salaries, which, however, will be slower than in 2014.

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

	2013				2014			
	I	II	III	IV	I	II	III	IV
Gross domestic product	3.1	4.6	4.6	4.5	2.8	2.3	2.4	2.1
Private consumption	5.9	8.2	8.4	2.3	2.7	2.3	2.1	2.2
Public consumption	6.2	1.2	3.7	1.5	3.7	4.2	1.7	3.8
Gross fixed capital formation	-15.6	-2.5	-2.9	-2.8	9.3	1.8	-1.7	-0.6
Exports	3.4	2.1	-0.4	1.0	3.5	1.8	0.4	3.3
Imports	1.9	-1.8	0.2	-0.9	1.2	3.0	-0.7	2.8

GROSS DOMESTIC PRODUCT: DEVELOPMENT OF SECTORS

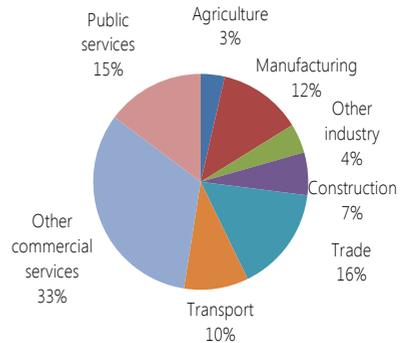
After significant reduction of volume during the crisis, due to the improvement of competitiveness and exports opportunities, tradable sectors recovered first from the crisis. In the main exports sector – manufacturing – production volume in 2013 exceeded level of 2009 by 24%. Growth of tradable sectors and rise of income from exports promoted increase of domestic market oriented sectors – commercial services, trade and construction, whose contribution in growth during the last years has increased.

Similar as in 2013, also in 2014 weak demand in exports market continued to slow down growth of manufacturing. Production volume in the 4th quarter of 2014 was by 1.7% less than a year ago. In general production volume in the sector reduced by 0.3 per cent.

In the 4th quarter of 2014 production volume in other industry sectors rose by 3.4%. However, in general production volume over a year in the sector dropped by 2.5%. Mainly it was related to weather, in the result of which less electricity and heat energy was produced.

In 2014 stable growth remained in transport sector – in the 4th quarter volume of services were by 3.2% higher than a year ago. In general growth in the sector over a year reached 3.2%. The growth was promoted both by increase of volume of freights by rail, at ports and by transport by road.

GDP Structure
2014, as per cent



Gross Domestic Product by Sectors
as per cent

	2011	2012	2013	2014	2011	2012	2013	2014
	volume changes				contribution to changes			
Gross Domestic Product	5.0	4.8	4.2	2.4	5.0	4.8	4.2	2.4
Agriculture	-1.8	7.5	-0.1	1.5	-0.1	0.4	0.0	0.1
Manufacturing	4.0	4.6	0.0	-0.3	0.4	0.7	0.0	0.0
Other industry	-5.2	-5.5	-3.3	-2.5	-0.2	-0.3	-0.2	-0.1
Construction	27.1	14.5	7.5	8.1	1.0	0.9	0.5	0.6
Trade and accommodation	4.1	1.7	4.8	2.3	0.5	0.3	0.9	0.4
Transport and storage	18.5	6.9	1.6	3.2	1.5	0.9	0.2	0.4
Other commercial services	6.2	5.2	6.0	1.3	1.4	1.9	2.2	0.5
Public services	3.1	0.0	3.8	3.3	0.4	0.0	0.7	0.6

Rapid growth was observed in construction sector. Construction volume in the 4th quarter of 2014 was by 4.4% higher than a year ago. In general in 2014 volume of construction increased by 8.1%. If in 2013 growth in construction sector was promoted by increase of volume of building of engineering structures, in 2014 construction of buildings provided larger contribution in the rise of sector.

Due to growth in private consumption, volumes of services provided in trade sector continue to increase, in the 4th quarter of 2014 – by 2.1%, but in general volume of services of the sector over a year rose by 2.3%. In 2014 turnover of retail trade increased by 3.6 per cent.

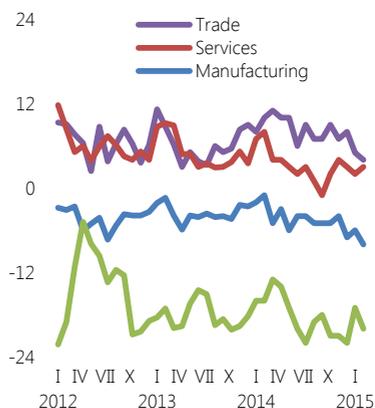
Growth in commercial services sector in 2014 was more moderate than a year ago. In the 4th quarter volume of services provided remained at the level of corresponding period of the previous year. In general in 2014 volume of commercial services rose by 1.3%. Increase was mainly promoted by growth in arts, entertainment and recreation, as well as in financial and insurance activities.

As government expenditure increases, volume of services provided in public services sectors also rises – in the 4th quarter of 2014 growth of 3.4%. In general in 2014, compared to 2013, volumes of sector increased by 3.3 per cent.

In 2015, as private consumption is increasing, stable development of domestic market-oriented sectors will remain. But development of tradable sectors will be affected by dynamics of demand in foreign markets.

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

	2013				2014			
	I	II	III	IV	I	II	III	IV
Gross Domestic Product	3.1	4.6	4.6	4.5	2.8	2.3	2.4	2.1
Agriculture	1.2	-1.7	-2.0	4.3	9.1	4.3	-5.6	2.4
Manufacturing	-4.8	-0.6	2.5	2.6	1.2	0.1	-0.6	-1.7
Other industry	-1.4	1.4	-4.1	-8.3	-7.4	-5.4	0.5	3.4
Construction	9.8	5.3	11.6	3.9	24.6	15.8	0.6	4.4
Trade and accommodation	6.2	5.8	5.2	2.2	2.6	2.2	2.4	2.1
Transport and storage	2.0	0.5	0.8	3.3	5.1	2.2	2.3	3.2
Other commercial services	4.1	6.1	7.2	6.5	1.9	-0.1	2.9	0.7
Public services	1.3	5.0	2.7	5.1	3.3	3.4	3.2	3.4

MANUFACTURING

In last two years weak demand in exports markets slowed down growth of manufacturing. In general in 2013 production volumes in the sector remained at level of 2012, but in 2014, volumes of manufacturing production output decreased by 0.3%. Development trends in sub-sectors of manufacturing were very different.

In two month of 2015, volume of manufacturing output was by 0.5% higher than before the year.

In the largest manufacturing sector – in wood processing production volume in 2014 increased steadily. Output of the sector was by 6.9% higher than a year ago. In January-February 2015 volumes of production manufactured increased – by 8.5%, when compared to the previous year.

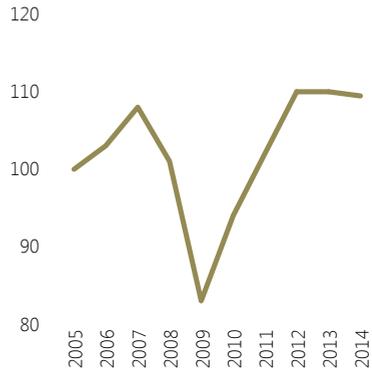
Volumes of production manufactured in food industry in 2014 in general remained at the level of the previous year, but in January-February production volumes was by 7.4% lower than before the year. Sector development is considerably affected by economic relationship between EU and Russia. Most rapid increase in production volume both in 2014 and in first months of 2015 was in manufacture of computers, electrical and optical equipment.

However production volumes decrease in light industry, chemical industry, metal production, paper production, poligraphy and production of transport vehicles.

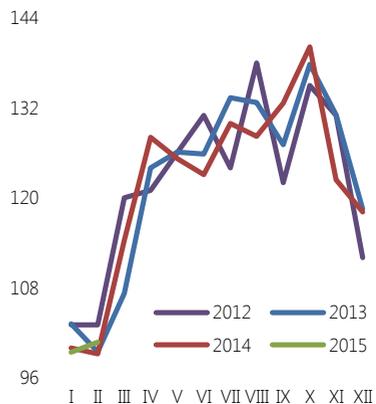
Since the middle of 2012 in general production capacity utilisation rate in manufacturing has not changed significantly. In the 1st quarter of 2015 utilisation rate was 71.3 per cent.

In 2014 total turnover of manufacturing reduced by 1.4%. Turnover on products sold at the domestic market dropped by 1.2%, while turnover of exported goods – by 1.5 per cent.

Manufacturing
output, 2005 = 100

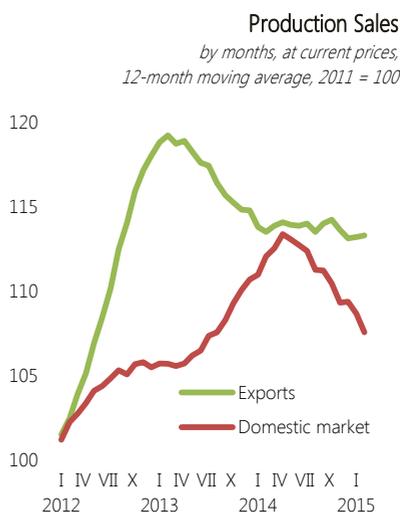


Production Volume Index
by months, seasonally unadjusted data, 2011 = 100



In two months of 2015 turnover of manufacturing reduced by 3.5%, when compared to the year ago. In this period turnover of production sold on domestic market decreased by 10.9%, but on exported production – rose by 1 per cent.

Majority of production produced in manufacturing is exported, therefore, in 2015, growth of the sector will be closely related to trends in external markets – slow economic growth in the EU and economic recession in Russia. At the same time it is expected that in sub-sectors, which experienced rise in 2014, will also experience growth in 2015. In 2015, JSC "KVV Liepājas Metalurģs" will resume its activity, which will positively affect overall indicators of manufacturing.



Main Indicators of Manufacturing

as per cent

	Structure of output	Structure of occupied jobs	Exports share in sales of sector	Volume changes		
				2013	2014	2015 Jan-Feb
Manufacturing – total	100	100	61.6	0.1	-0.3	0.5
Food industry	25.5	21.7	35.5	6.0	0.1	-7.4
Light industry	4.1	10.6	86.0	1.4	-13.6	-20.2
Wood processing	25.7	20.3	72.8	2.7	6.9	8.5
Paper industry and publishing	4.5	4.0	59.8	5.6	-0.6	-5.7
Chemical industry	7.6	6.7	76.7	-8.7	-2.6	-0.4
Other non-metallic mineral products	6.6	4.5	46.7	4.6	1.2	-0.4
Metals and metal articles	9.1	10.0	59.3	-17.6	-10.5	1.4
Electrical and optical equipment	6.0	3.9	90.3	18.4	32.3	33.4
Machinery and equipment	2.2	3.0	81.5	1.4	2.4	-4.7
Motor vehicles	3.4	3.3	86.7	3.0	-15.2	-4.4
Other industries	5.3	12.0	56.9	-7.6	-12.0	-0.8

INVESTMENTS

Since 2008 investments in national economy of Latvia are fluctuating. In the years of rapid decline they decreased fast and investment volume in 2010 was at 63% lower level than before the crises. As economics became more stable, investments rose rapidly, in the result of which investment gap decreased two times. During the last years investment dynamics has become more moderate.

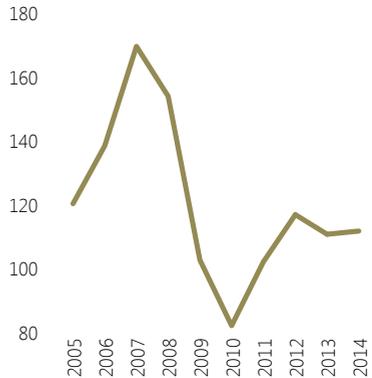
In 2014, investments in the national economy of Latvia increased by 1.3% and comprised 23% of GDP.

Dynamics of investment by sectors was uneven. According to provisional data, in 2014 non-financial investment in sectors of manufacturing of goods reduced by 5.3%, which was mainly determined by lower activity of investments in energy sector, which can be explained with the finalisation of large investment projects started in the previous year. Less by almost 18% than in previous year was invested in agriculture. But investments in manufacturing in 2014 exceeded the level of the previous year by almost 22%. Also in services sectors investment volume in general increased and was at a 5.5% higher level than a year ago. It was highly affected by significant increase of investments in information and telecommunication services – by 36.7% and in trade – by 30.7 per cent.

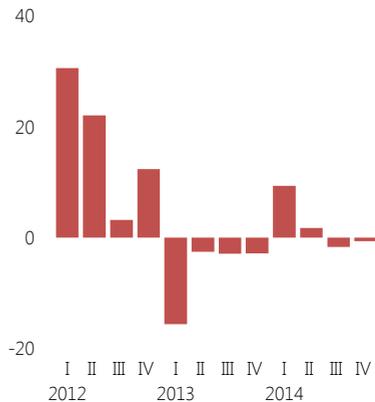
It is expected that in the nearest years investment dynamics will maintain moderate increase and will be at almost 30% lower level than before crisis. Investment level recovery to the pre-crisis levels is largely hampered by the cautious crediting policy of banks, as well as by the geopolitical uncertainty in the region.

Also intensity of FDI flows during the recent years has become more moderate. In 2012, attracted FDI was at 3.9% level of GDP, but in 2013 – 2.9% of GDP. The attracted net FDI flows in 2014 was two times less than a year ago and comprised 1.5% of GDP.

Gross Fixed Capital Formation
2004 = 100



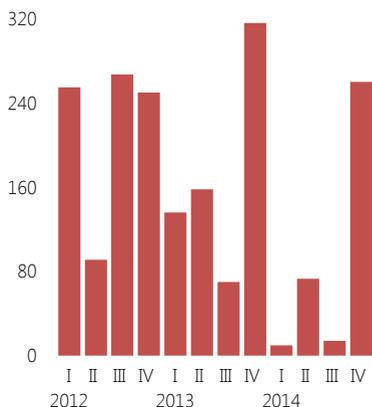
Gross Fixed Capital Formation
changes over corresponding quarter of the previous year, as per cent



According to Latvia's international investment balance at the end of 2014 FDI accrued in economy of Latvia reached 11'998.1 mln euros. Compared to the end of 2013, FDI value accrued increased by 4% and was 50% of GDP. Larger share of FDI by sectors is on investment in bank intermediation, real estate activities and manufacturing.

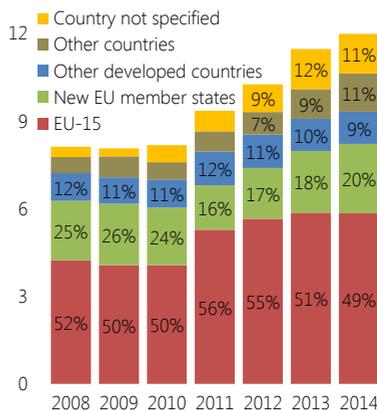
Foreign Direct Investment in Latvia

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			
	2014	2010	2011	2012	2013	2014
Agriculture	2.6	214.6	263.2	294.4	299.9	311.5
Manufacturing	11.8	1'017.0	1'114.4	1'200.3	1'403.5	1'415.0
Other industry	4.6	385.9	385.9	492.2	589.3	549.9
Construction	4.0	540.7	544.4	528.1	559.6	475.6
Trade and accommodation	11.1	1'046.3	1'329.2	1'416.1	1'472.9	1'326.3
Transport and storage	3.4	346.0	399.6	449.0	408.1	407.0
Financial and insurance activities	25.1	2'326.9	2'571.6	2'825.7	2'922.2	3'013.5
Other services	18.5	1'635.0	1'916.9	1'866.6	2'071.8	2'217.8
Not allocated economic activity	19.0	671.4	834.5	1'185.5	1'842.4	2'281.4
Total	100	8'183.8	9'359.8	10'257.9	11'569.6	11'998.1

FOREIGN TRADE

Since 2009 foreign trade of Latvia developed very rapidly. As compared to 2009, exports of goods at current prices in 2012 has almost doubled, while imports of goods at current prices – increased by more than 80%. From 2009 to 2012 on average exports has grown by 25%, but imports – by 23% annually. In this period, the largest contribution to growth in exports of goods was provided by agricultural and food products, as well as by metals and metal articles. Exports volume of wood processing, machinery and electrical equipment and mineral products have risen significantly.

Exports of Latvian goods at current prices in 2013 was developing moderately, it rose by 1.5%, but in 2014 slightly decreased – by 2%. Rate of imports of goods slowed down even more – in 2013 increase comprised 1%, but in 2014 – there was a reduction of 0.4 per cent.

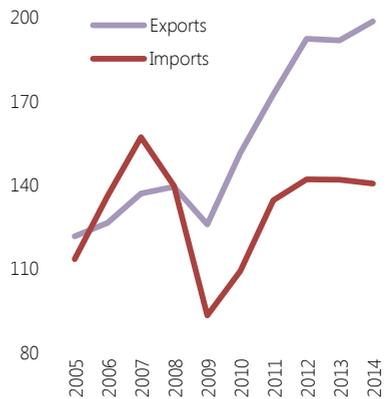
In 2014, development of exports was mainly promoted by the rise in exports volume of wood and wood products and machinery products. Due to termination of economic activity of JSC „Liepājas Metalurgs” exports of metals and metal articles has decreased significantly. In 2014 also exports volume of agriculture and food products group has reduced.

As uncertainty in external environment remained, in January-February 2015, exports of Latvian goods at current prices increased by 0.7%. However imports of goods during this period has reduced by 4.3%. As exports volume of goods grew and imports volume reduced, negative annual trade balance in January-February 2015 has improved.

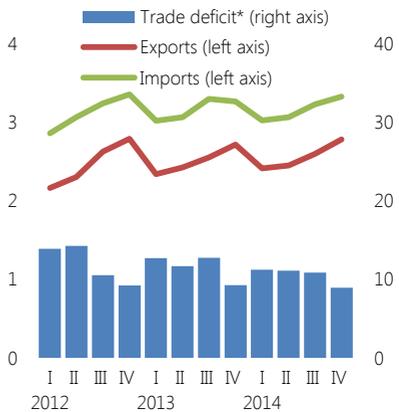
In January-February 2015 exports was positively influenced by rise of exports of machinery and equipment, as well as mineral products. But, compared to January-February of the previous year, exports volume of agriculture and food products and transport vehicles has reduced.

In January-February 2015, reduction of the imports volume was mainly affected by decrease of imports volume of mineral products and agriculture and food products. Imports volume of light industry goods, transport vehicles and of metals and metal articles also decreased.

Exports and Imports of Goods
at constant prices, 2004 = 100



Exports and Imports of Goods
by quarters, in bln lats and as per cent



* as per cent of total trade turnover

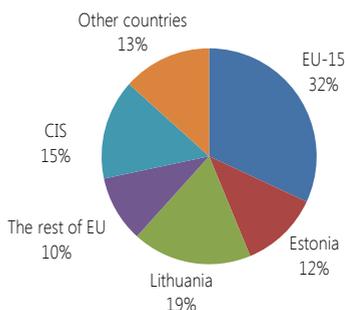
These reductions were partly compensated by growth of imports volume of machinery and equipment, chemical products and wood and wood articles.

Exports volume of goods to the EU countries in 2014 rose more rapidly than total exports, but to CIS countries – reduced by 4.4%. Export to main export partner of Latvia – Lithuania – has increased by 9.8%, but to Estonia – export decreased by 5.7 per cent.

In January-February 2015, growth rate of exports to the EU countries increased by 3.2%, which was more rapid than total export increase. But to CIS countries exports decreased by 19.3%. It was determined by significant reduction of exports to Russia (by 28%). It must be noted that exports to other countries is growing rapidly (by 7%), which means that entrepreneurs partly are able to compensate losses from export reduction to CIS countries by finding new sales markets.

Largest Latvia's trade partners in January-February 2015 were Lithuania – 17% of total foreign trade turnover, Estonia – 10%, Poland and Germany – 9% each, Russia – 8%, Sweden – 4%, Finland, the Netherlands, Denmark, the Great Britain, Belarus and China – 3% each.

Structure of Exports of Latvian Goods
in 2014, as per cent



Exports and Imports of Latvian Goods
in January-February 2015, as per cent

	Exports			Imports		
	structure	volume changes	contribution to changes	structure	volume changes	contribution to changes
Total, of which:	100	0.7	0.7	100	-4.3	-4.3
Agricultural and food products	15.8	-23.8	-5.0	14.6	-14.9	-2.4
Mineral products	8.1	12.4	0.9	12.5	-25.7	-4.2
Chemical products	9.3	5.2	0.5	16.3	8.3	1.2
Products of light industry	4.7	-10.2	-0.5	5.8	-18.2	-1.2
Wood and articles of wood	17.3	0.2	0.0	3.2	22.4	0.6
Metals and metal articles	9.3	0.6	0.1	8.9	-3.5	-0.3
Machinery and electrical equipment	20.7	33.4	5.2	22.3	15.2	2.8
Transport vehicles	4.0	-24.3	-1.3	6.7	-8.4	-0.6
Other goods	10.8	8.5	0.9	9.7	-1.4	-0.1

BALANCE OF PAYMENTS

Since the beginning of crisis external stability of Latvia has improved significantly. During the last years, the current account of balance of payments is at the level of a small deficit. In 2012 it was 3.3% of GDP, in 2013 – 2.3% of GDP and in 2014 – 3.1% of GDP. It must be noted that average annual level of current account balance during the last three years does not exceed threshold determined in the EU early warning mechanism and it is evaluated as sustainable.

Current account fluctuations are mainly determined by changes in foreign trade balance. Foreign trade deficit is characteristic to Latvia. During the years of rapid growth it increased, but during the recession – reduced, mainly, due to the adjustment of imports volume. As the economy stabilised, exports grew more rapidly than imports. However during the last couple of years mainly due to geopolitical instability in the region export and import trend has been slowing down.

Since 2011 foreign trade deficit reduces moderately each year. In 2014 it reached 10.1% of GDP (in 2013 – 10.9% of GDP). Improvement of foreign trade balance was determined by more rapid increase of exports volume.

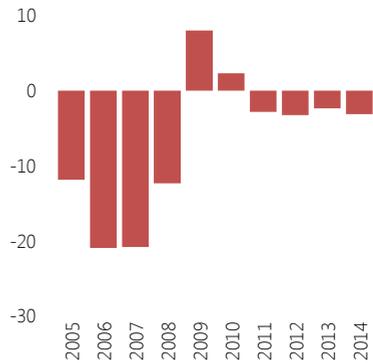
Balance of services is positive and covers foreign trade deficit by almost 70%. In 2014 exports and imports of services has reduced slightly and surplus in the balance of services reached 7.3% of GDP (in 2013 – 7.6%).

Initial balance of incomes since 2011 is negative. In 2013 current account deficit was 0.3% of GDP. In 2014, due to credit flow decline, initial negative balance of incomes increased to 0.8% of GDP.

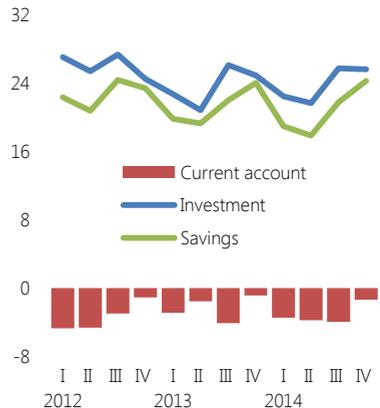
Financial account balance (without reserve assets) was negative in 2014 – 4.5% of GDP. Increase of financial account balance was mainly determined by changes in flows of other investment in banking sectors in the first half of the year.

FDI flows are moderate which witnesses of caution of investors. Although balance of direct investment is positive, it reduces each year and in 2014 it was only at 1% level of GDP.

Current Account Balance
as per cent of GDP



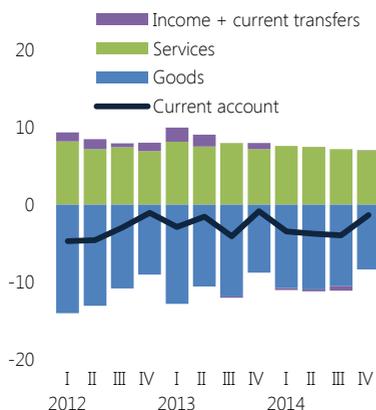
Current Account, Investment and Savings
by quarters, as per cent of GDP



Significant fluctuations are observed in portfolio investment and positions of other investments. In 2014 deficit of balance of other investments reached 5% of GDP. Fluctuations of balance of portfolio investment and other investments are mainly affected by stabilisation activities of financial sector and restructuring of public sector debt.

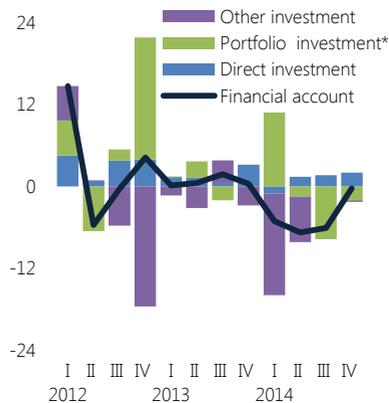
Current Account by Items

by quarters, as per cent of GDP



Financial Account by Items

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



* portfolio investment and derived financial instruments

Latvian Balance of Payments by Items

as per cent of GDP

	2009	2010	2011	2012	2013	2014
A. Current account	8.0	2.3	-2.8	-3.3	-2.3	-3.1
Trade balance	-8.1	-8.2	-12.0	-11.6	-10.9	-10.1
Service balance	7.6	7.2	7.3	7.4	7.6	7.3
Net income	6.1	1.0	0.0	-0.6	-0.3	-0.8
Net current transfers	2.4	2.3	1.9	1.6	1.3	0.5
B. Capital account	2.4	1.9	2.1	3.0	2.5	3.0
C. Financial account*	-6.1	-2.1	-4.0	2.9	0.7	-4.5
Direct investment stock	0.6	1.5	4.9	3.2	1.6	1.0
Portfolio investment**	2.3	-2.8	-1.8	4.7	0.1	-0.5
Other investment	-8.9	-0.7	-7.2	-5.1	-1.0	-5.0
D. Deviation	1.2	1.8	0.3	1.0	0.8	4.1
E. Reserve assets	-5.6	-4.0	4.5	-3.6	-1.7	0.5

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

PRICES

After deflation, caused by the crisis, when 12-month consumer price inflation in February 2010 dropped to -4.2%, prices started to rise again. In 2011, 12-month consumer price inflation was 4%, but in 2012 – 1.6%. In 2013 consumer prices decreased by 0.4%. In 2014 very moderate price increase was observed – by 0.2%, but annual average price level in 2014 rose by 0.6%. Major influence on consumer prices during the last years had global price drop of oil and food.

In 2015 moderate price rise continues. In two months of 2015 prices increased by 0.3%. In February consumer prices were by 0.1% smaller than a year ago. In January-February the largest impact on price changes mainly had price rise on electricity (by 27.6%), on food (by 0.5%) and on services (by 0.6%), as well as price drop on wearing apparel and footwear (by 9%) and on fuel (by 5.1%). It must be noted that global food prices in January-February reduced by 3.4%. In January-February global oil prices rose by 1% on average and in the second half of February became stable at level of 60 USD per barrel.

At the beginning of 2015 deflation was also observed in the EU. In January, compared to January 2014, prices reduced by 0.5% which was mainly determined by drop of prices on energy.

In general average annual inflation this year will be lower than in previous year, which is due to external factors – dynamics of oil and food prices in the world.

After rapid increase in 2010-2012, in 2013 producer prices were rising moderately. In 2014, average level of producer prices rose slightly (by 0.4%), mainly due to price drop in manufacturing.

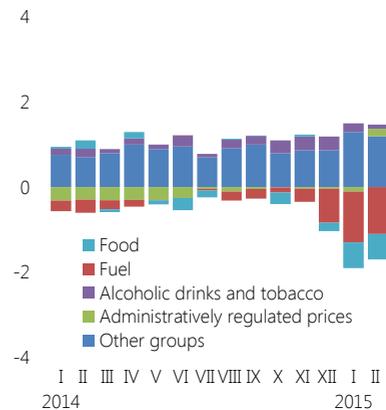
In January 2015, compared to January 2014, general level of producer prices in industry decreased by 0.1%, on products sold in the domestic market – increased by 0.1%, but on exported production – reduced by 0.4 per cent.

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

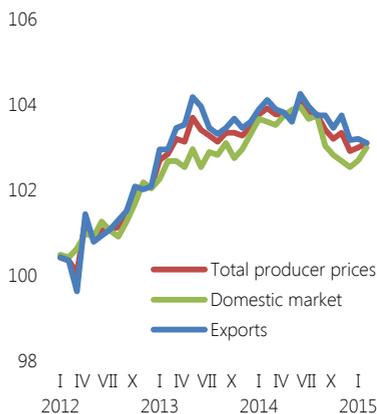


In 2014 producer prices in manufacturing fell by 0.6%. In January 2015 they dropped by 0.8%, compared to January of the previous year. Over a year dynamics of producer prices reduced both on products sold in domestic market and on exported products – by 0.9% and 0.7%, respectively, which mainly can be explained by rapid price drop of energy resources since the middle of 2014.

Most significant price rise was observed in wood processing, but decreasing impact – in manufacture of food and computers, electrical and optical equipment. Russia's embargo on food products, as well as economic situation in the EU and Russia and drop of global prices of raw materials continue to affect producer prices. It must be noted that during a year global prices of energy and industrial raw material reduced rapidly, but prices of agriculture experienced just slight drop.

Producer Prices in Manufacturing

by months, December 2010 = 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
2014	February	0.0	0.5	0.6	0.0
	March	0.3	0.3	0.9	0.0
	April	0.5	0.7	1.4	0.1
	May	-0.1	0.6	1.3	0.1
	June	0.3	0.7	1.6	0.2
	July	-0.4	0.6	1.2	0.2
	August	-0.6	0.8	0.6	0.3
	September	0.5	1.0	1.1	0.4
	October	0.0	0.7	1.1	0.5
	November	-0.3	0.9	0.8	0.6
	December	-0.6	0.2	0.2	0.6
	2015	January	0.1	-0.4	0.1
February		0.3	-0.1	0.3	0.5

MONETARY INDICATORS

In general in 2014 quality of credit portfolio in banking sector continued to improve and volume of deposits rose, however, total credit portfolio of banks continue to reduce and crediting of entrepreneurship is weak.

Volume of new loans granted continues to decrease – in the 4th quarter of 2014 in banking sector new loans in amount of EUR 619.4 mln were granted in total, which is by 37% less than a year ago. Share of new loans issued to non-residents has increased from 32% in the 3rd quarter of 2013 to 51% in the 4th quarter of 2014, however, the share of loans issued to non-residents in the banking sector total credit portfolio account for only 14 per cent.

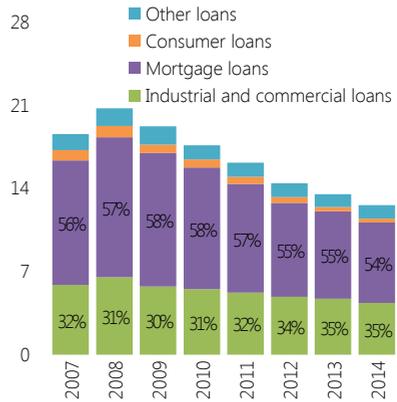
Since the beginning of 2014 volume of new loans granted to enterprises decreases more rapidly. In the 4th quarter of 2014, compared to the corresponding period of the previous year, volume of new loans granted to enterprises reduced by almost 60% and comprised 25% or 154.9 mln euro of total amount of new loans granted. Positive trend is observed in household crediting and volume of new loans granted increased by 18.5% and comprised 16% or 101.3 mln euro of total amount of new loans granted.

The total credit portfolio of banks kept decreasing in 2014. At the end of 2014, compared to the previous year, balance of loans shrank by 7%. In the 4th quarter of 2014 balance of commercial loans fell most rapidly (by 9%) and balance of mortgage loans (by 7.3%). But balance of consumer loans rose slightly. By volume majority of loans were issued for real estate activity and manufacturing.

Quality of loans still continues to improve. In the 4th quarter of 2014, 12.3% of loans in the total credit portfolio of banking sector were with overdue payments, which is the lowest indicator since the end of 2008 (in the 3rd quarter of 2008 – 11.7%). Improvement of quality of credit portfolio of banking sector is mainly related to writing off bad loans.

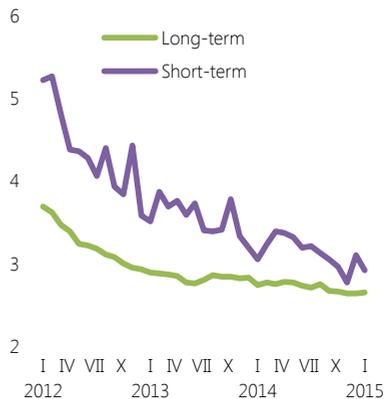
Loans Issued to Residents

at the end of the period, billion euro



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

by months, as per cent

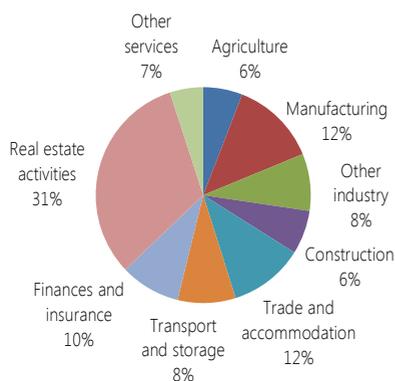


In 2014 volume of deposits grew significantly, which in the 4th quarter was 13.8% larger than in the corresponding period of 2013. Volumes of non-resident deposits rose more rapidly (by 24.3%).

Interest rates for long-term loans issued in euros (outstanding amounts) to non-financial corporations are still decreasing, and in January 2015 accounted for 2.7%. Short-term interest rate fluctuations are more distinct, and in January amounted to 2.9 per cent.

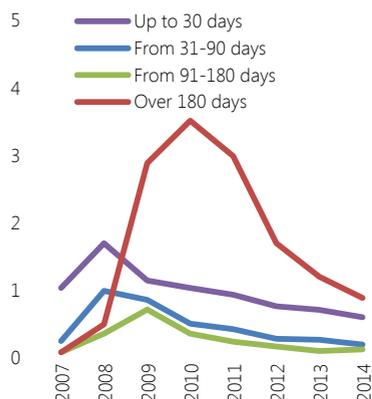
Structure of Loans Issued by Sectors

at the end 2014, as per cent



Loans with Overdue Payments

at the end of the period, bln euro



Monetary Indicators of the Banking System of Latvia

	2010	2011	2012	2013	2014
<i>at the end of period, bln euro</i>					
Net foreign assets	-1.7	-0.3	0.9	1.2	-1.8
Net domestic assets	10.8	9.5	8.8	8.6	11.3
Domestic loans	16.0	15.7	13.7	13.5	12.6
Other assets (net)	-5.1	-6.2	-4.9	-4.8	-1.3
Broad money M2X	9.1	9.2	9.6	9.8	9.4
Cash in turnover (without vault cash balance)	1.1	1.5	1.5	0.7	3.7
Deposits of individuals and companies	7.9	7.7	8.1	9.2	9.5
<i>changes as per cent</i>					
Domestic loans	-8.1	-1.5	-13.1	-1.4	-5.9
Broad money M2X	9.8	1.5	4.5	2.0	-3.6
Cash in turnover (without vault cash balance)	21.0	28.8	4.1	-56.6	461.0
Deposits of individuals and companies	8.3	-2.4	4.5	13.2	-3.6
Gross Domestic Product at current prices	-3.8	11.7	8.6	5.3	3.6

GOVERNMENT BUDGET

To make fiscal situation in the country more stable during the crisis, from 2008 to 2012 Latvia consolidated its budget. Budget deficit was reduced from 8.9% of GDP in 2009 to 0.9% of GDP in 2013.

In 2014, general government budget deficit, according to forecast, was 1.4% of GDP. In 2015 aim of the government is to continue to maintain low budget deficit and it is planned that budget deficit in 2015 will be 1% of GDP.

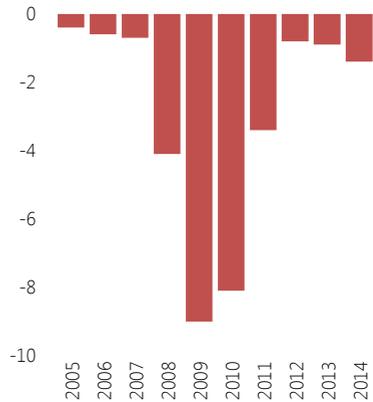
As economic situation improved budget revenues enlarged. In 2014 they comprised 8'536 mln euro, which was by 1.9% more than in 2013. Total revenues from taxes during this period of time rose by 3.9%. In 2015 budget revenues continued to increase – in January-February – by 3 per cent.

In 2014, mandatory state social insurance contributions reduced by 0.2%. But revenues from personal income tax rose by 3.9%. Collection of labour force taxes in 2014 was affected by changes in tax policy – reduction of the social insurance instalment rate, increase of non-taxable minimum and deduction for dependants. In January-February 2015, both mandatory social insurance contributions and revenues from personal income tax rose – by 5.3% and 6.9%, respectively.

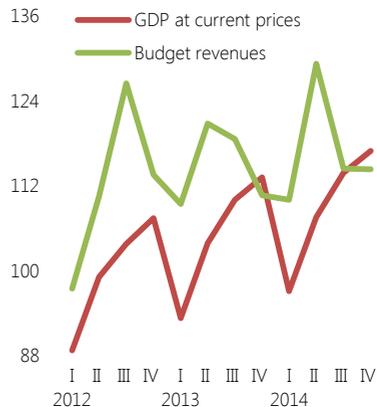
In 2014 VAT collected was by 8.2% more than a year ago and it ensured more than a half of the total increase of taxes collected. In the two months of 2015 income from VAT was 1.6% larger than a year ago.

Since 2011 state budget expenditure is also increasing gradually. In 2014 they comprised 8935 mln euro, which was by 5% more than a year ago. In the two months of 2015 state budget expenditure rose by 7.8 per cent.

Budget Balance
as per cent of GDP

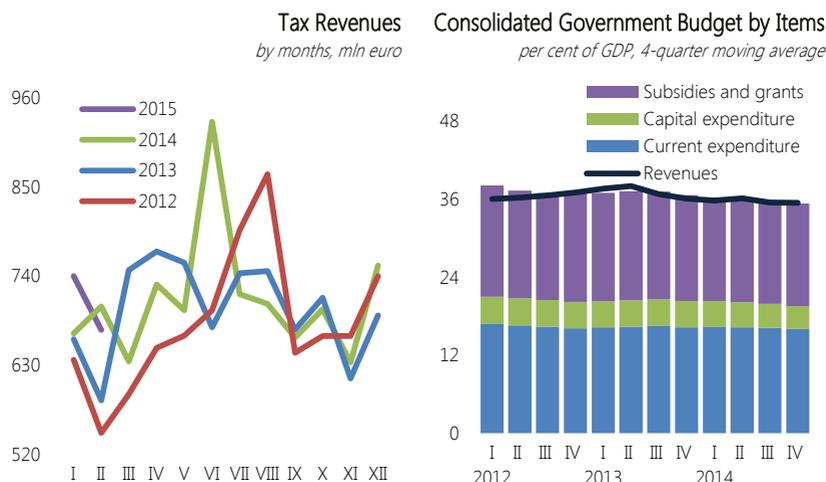


GDP and Budget Revenues
2011 Q4 = 100



In 2014, current expenditure increased more rapidly – by 8.7%. Expenditure on subsidies and grants rose by 7.4%. But capital expenditure was by 4% less than a year ago. In January-February 2015, current expenditure rose by 10.1%, expenditure on subsidies and grants – by 3.8%, but capital expenditure – decreased by 2.4 per cent.

Out of the functional categories in 2014 the largest contribution in expenditure structure was recorded in social protection, economic activity, education and general government services. In turn, decrease was recorded in defence, environment protection and management of local government territories. In the two months of 2015, structure of expenditure practically remained at the level of 2014.



General Government Budget

	bln euro			per cent changes		
	2012	2013	2014	2015 Jan-Feb	2014	2015 Jan-Feb
Revenues, of which:	8.2	8.4	8.5	1.4	1.9	3.0
Indirect taxes, of which:	2.3	2.4	2.6	0.4	6.7	2.8
Value added tax	1.6	1.7	1.8	0.3	8.2	1.6
Income and real estate taxes	1.8	1.9	1.9	0.3	3.4	6.7
Social insurance contributions	1.9	2.0	2.0	0.3	-0.2	5.3
Other taxes	0.1	0.2	0.2	0.0	19.0	31.3
Other revenues	2.1	2.0	1.9	0.3	-4.8	-4.4
Expenditure	8.1	8.5	8.9	1.4	5.0	7.8

LABOUR MARKET

Gradual improvement of economic activity has a positive effect on the situation in labour market – unemployment is decreasing, while employment rate is increasing.

In 2013 the most rapid increase of employment was observed since 2007. The number of employed rose by 2.1% reaching 864 thsd. Employment rate grew to 58.2% and was by 2.1 percentage points higher than a year ago.

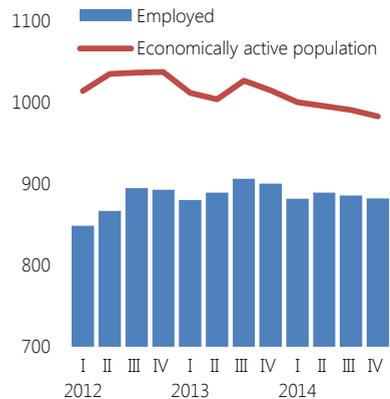
Situation in labour market continues to improve, however, at a slower pace than previously. In 2014 unemployment rate decreased to 10.8% which was by 1.1 percentage point less than in 2013. In total there were 107.6 thsd unemployed persons which was 12.7 thsd less than in 2013.

At the same time employment rate in 2014 reached 59.1% and was by 0.9 percentage points more than in 2013. In total there were 884.6 thsd persons employed in 2014.

In 2014 number of economically active population continued to reduce – over a year by almost 22 thsd or 2.2% as compared to 2013. It must be noted that trend of declining number of economically active population already remained since the beginning of 2013. Despite of that, level of economic activity of population in 2014 rose by 0.3 percentage points and reached 66.3% among population aged 15-74 years.

Also the annual registered unemployment rate continues to decrease. At the end of February 2015 it was 9.1%. There were registered 87.9 thsd unemployed, which is by 9.9 thsd less than a year ago.

Employed and Economically Active Population
by quarters, in thousands



Occupied Jobs
in thousands

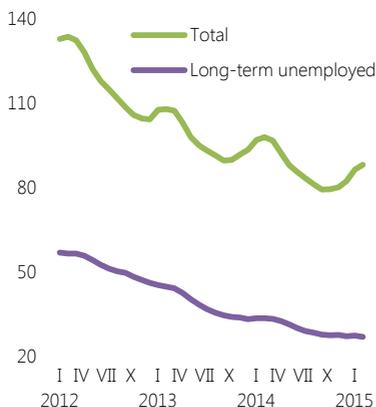
	2009	2010	2011	2012	2013	2014
Total	826.1	776.7	805.5	839.1	865.1	874.6
Agriculture	17.9	17.5	19.0	20.6	21.2	21.5
Manufacturing	104.1	101.8	109.1	114.5	117.3	114.4
Other industry	23.7	22.4	22.9	23.7	24.2	24.1
Construction	54.6	46.0	50.9	55.7	60.6	60.3
Trade and accommodation	173.3	159.7	162.8	170.7	173.9	176.0
Transport and storage	67.6	66.8	68.8	72.7	75.2	75.9
Other commercial services	162.8	148.4	157.0	168.5	176.2	180.3
Public services	222.1	214.2	215.0	212.8	216.5	222.1

The highest level of registered unemployment rate remained in Latgale region (18.8%), but the lowest – in Riga (5.6%). Long-term unemployed (without job for a period of more than a year) constituted almost one third of registered unemployed.

In 2025, situation in labour market will continue to improve, but at a slower pace than in previous years. On the one hand, it will be affected by gradual decrease of low basis effect in labour market, on the other hand – slower growth rates due to trends in external environment. It is expected that in 2015 number of employed will increase by 0.2%, compared to 2014, and on average might grow to 886 thousand per year. Meanwhile unemployment rate in 2015 might reduce to 9.8% on average.

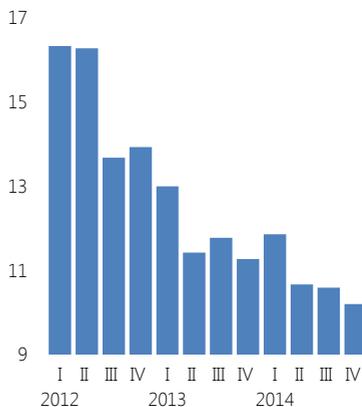
Registered Unemployed

by months, in thousands



Unemployment

by quarters, per cent



Main Indicators of Labour Market

in age group 15-74 years

	2009	2010	2011	2012	2013	2014
<i>in thousands</i>						
Population*	1'674.3	1'635.3	1'595.3	1'560.0	1'536.1	1'495.8
Economically active population	1'101.4	1'056.5	1'028.2	1'030.7	1'014.2	992.3
Employed persons	908.5	850.7	861.6	875.6	893.9	884.6
Unemployed persons	192.9	205.8	166.6	155.1	120.4	107.6
<i>as per cent</i>						
Economic activity rate	65.8	64.6	64.5	66.1	66.0	66.3
Employment rate	54.3	52.0	54.0	56.1	58.2	59.1
Unemployment rate	17.5	19.5	16.2	15.0	11.9	10.8

* population in private households

PERSONAL INCOME

During the crisis adjustment of remuneration has been rather moderate, major part of fall in volume of economy was compensated by the decrease of number of employed.

As economic situation became more stable, since the end of 2010 increase of remuneration has restarted, although unemployment rate remains at a rather high level.

Along with the growth of labour demand, average gross wages is rising gradually. In 2011 and 2012 it increased by 4.4% and 3.7%, respectively, but in 2013 – by 4.6% and reached 716 euro.

Rather fast wages and salaries continued to increase also in 2014 – over a year average gross wages and salaries increased by 6.8%, compared to 2013. The largest wages and salaries remained in Riga region (869 euro), but the smallest – in Latgale region (522 euro).

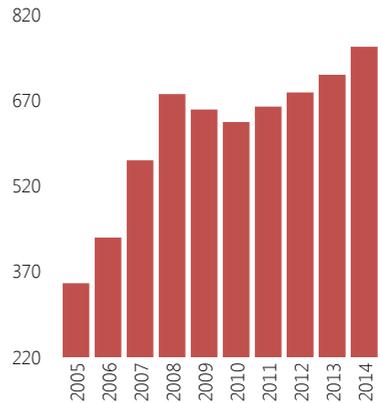
Since 2010, annual wages have risen in both private and public sector. In 2014 remuneration in private sector grew by 7.4%, slightly slower increase in remuneration was observed in public sector (by 6.1%). It must be noted, that in 2014 average gross wage in public sector still was more by 0.8% than in 2008, but in private sector it exceeded level of 2008 by almost 19 per cent.

Since 2010, wages have risen in all sectors of national economy. Most significant increase in salaries was in financial activities, real estate sector and public administration.

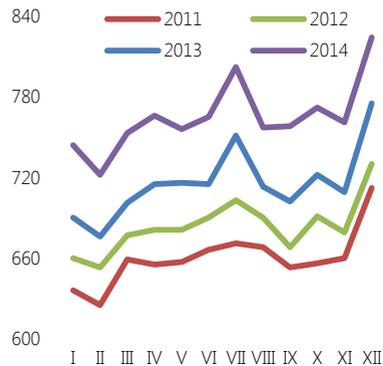
In 2014, compared to 2013, the most rapid increase in wages and salaries was observed in services sectors – in real estate sector average gross wages and salaries rose by 11%, but in finance and insurance services sector - by almost 10 per cent.

Highest remuneration level remained in finance and insurance services sector – on average 1'682 euro per month.

Average Monthly Wages and Salaries of Employed
gross, in euro

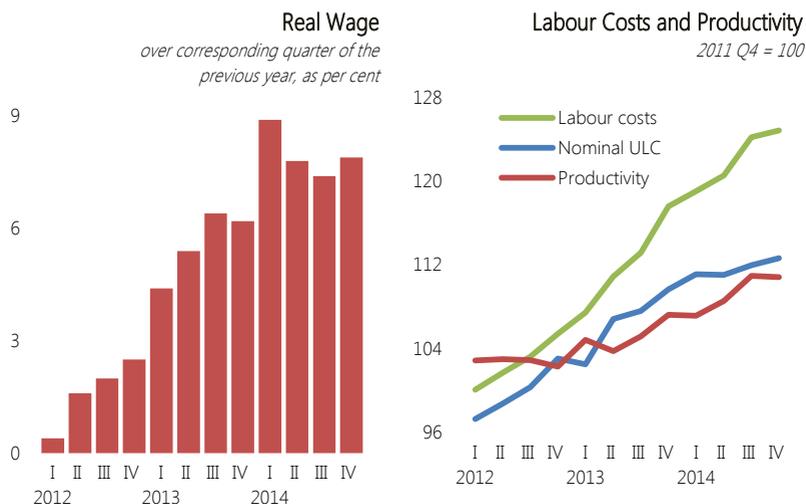


Average Monthly Wages and Salaries of Employed by Months
gross by months, in euro



Along with the increase of nominal wage, real wage is increasing gradually. In time period from 2011 to 2012, as consumer prices grew, increase of real wages was moderate – respectively, by 0.1% and by 1.6% annually. Since 2013, increase of real wages has become more rapid. In 2013, real wages grew by 5.6%, but in 2014 – by 8%. Rise in real wages during the last 2 years was mainly determined by rapid increase of nominal wage, as well as slow growth of consumer prices.

Amount of average old-age pension also continues to increase. In 2013, average old-age pension grew by 1%, as compared to 2012. But in 2014 average monthly old-age pension rose by 2.7%, compared to 2013, and on average comprised 266.26 euro per month.



Average Wages and Salaries of Employed by Sectors

gross, over the previous year, as per cent

	2009	2010	2011	2012	2013	2014
Total	-3.9	-3.5	4.4	3.7	4.6	6.8
Agriculture	-4.7	5.8	8.2	0.7	4.8	8.6
Manufacturing	-2.0	0.1	5.0	4.6	4.0	7.0
Other industry	-4.2	4.1	3.7	3.6	1.8	5.0
Construction	-1.0	-5.3	4.7	2.0	6.8	7.7
Trade and accommodation	-2.8	-3.6	5.9	4.5	6.0	7.4
Transport and storage	0.2	0.2	1.0	7.7	0.5	5.9
Other commercial services	-1.1	-1.4	3.9	2.4	3.4	6.9
Public services	-12.8	-9.0	4.5	2.7	6.3	6.5

COMPARATIVE INTERNATIONAL STATISTICS

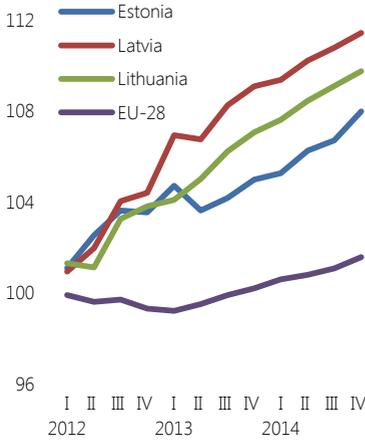
Economic Development in Baltic Countries

	Latvia	Lithuania	Estonia
Territory, thsd km ²	64.6	65.3	45.2
Population, thsd, at the 1 st January 2015	1'988.4	2'921.9	1'312.3
Gross domestic product, over corresponding period of the previous year, %			
2013	4.2	3.3	1.6
2014	2.4	2.9	2.1
2014 Q3	2.4	2.7	2.4
2014 Q4	2.1	2.4	3.0
Volume of manufacturing production, over corresponding period of the previous year, %			
2013	0.0	3.3	-4.1
2014	-0.3	0.0	1.7
2014 Q3	-0.6	0.4	3.3
2014 Q4	-1.7	3.6	4.2
Retail trade turnover*, over corresponding period of the previous year, %			
2013	3.4	5.1	3.1
2014	3.1	5.5	7.3
2014 Q3	3.0	5.2	6.8
2014 Q4	2.9	5.0	6.9
Changes of consumer prices, over corresponding period of the previous year, %			
2013	0.0	1.0	2.8
2014	0.6	0.1	-0.1
2014 Q3	0.8	0.1	-0.6
2014 Q4	0.6	0.0	-0.5
Number of employed, over corresponding period of the previous year, %			
2013	2.1	1.3	1.0
2014	-1.0	2.0	0.6
2014 Q3	-2.3	3.3	1.1
2014 Q4	-2.0	1.9	2.3
Unemployment rate, % of economically active population			
2013	11.9	11.8	8.6
2014	10.8	10.7	7.4
2014 Q3	10.6	9.1	7.5
2014 Q4	10.2	10.1	6.3

* data adjusted by working days, in current prices

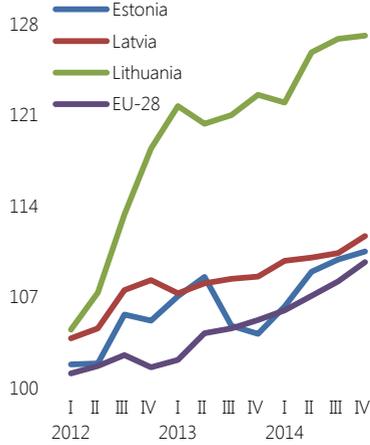
Gross Domestic Product

seasonally adjusted data
2011 Q4 = 100



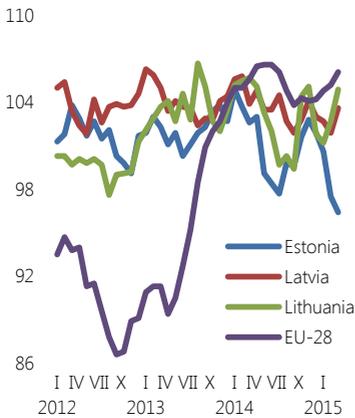
Exports of Goods and Services

seasonally adjusted data
2011 Q4 = 100



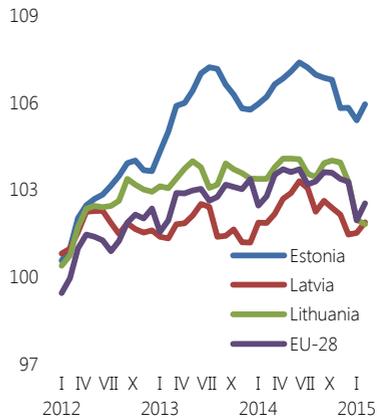
Economic Sentiment Indicator

seasonally adjusted data



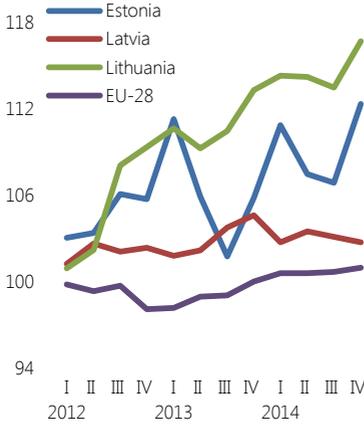
Harmonised Consumer Price Index

December 2011 = 100



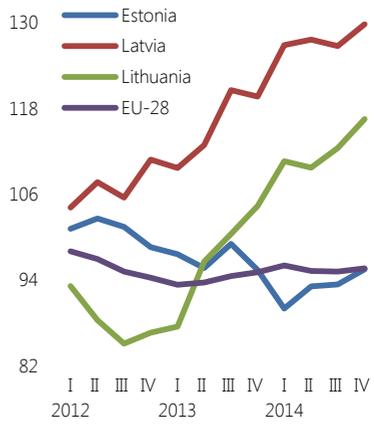
Manufacturing Production Volume

seasonally adjusted data
2011 Q4 = 100



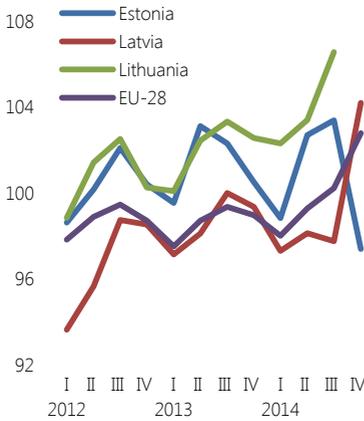
Construction Production Volume

seasonally adjusted data
2011 Q4 = 100



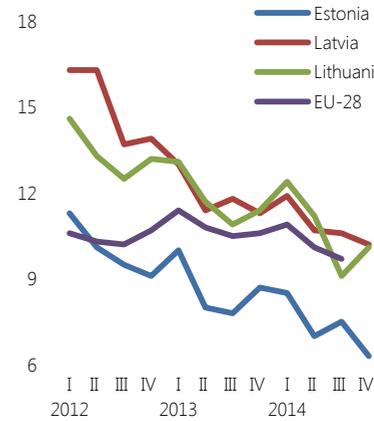
Number of Employed

not seasonally adjusted data
2011 Q4 = 100



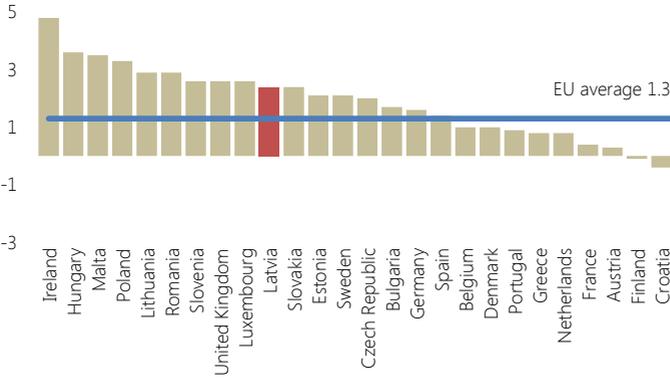
Unemployment Rate

as per cent



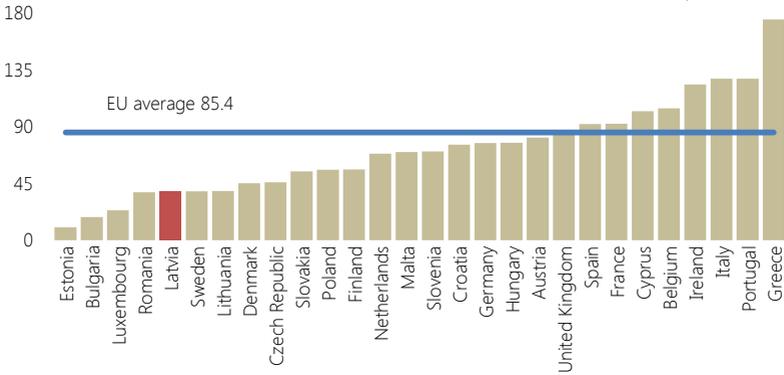
Gross Domestic Product

in 2014, changes of volumes, as per cent



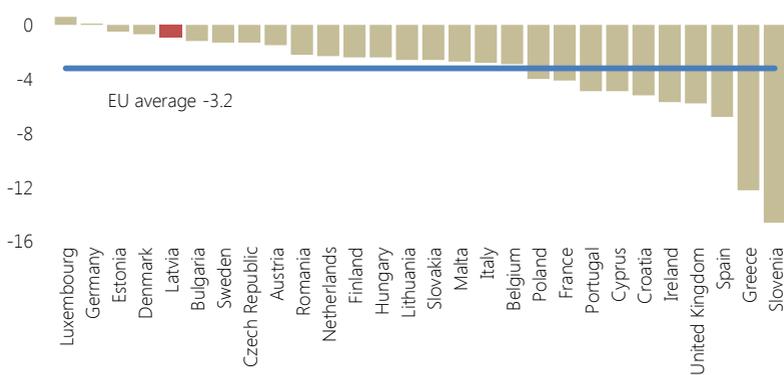
Public Debt

in 2013, as per cent of GDP

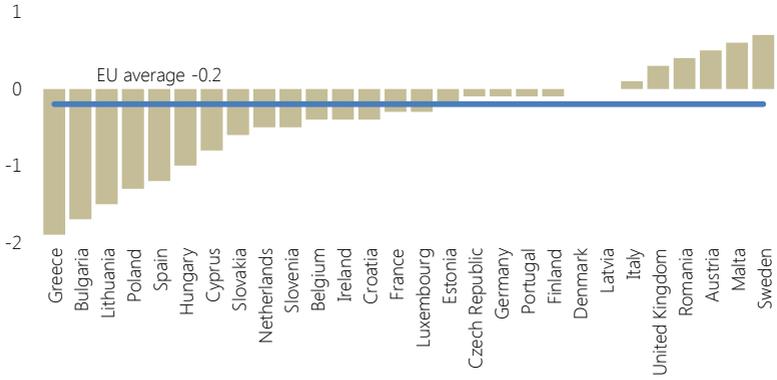


Budget Balance

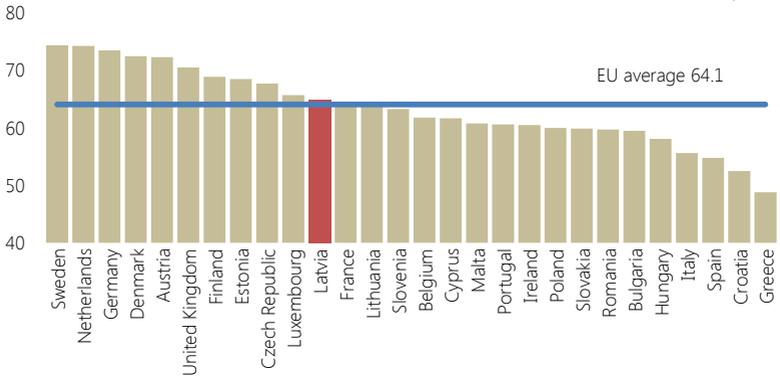
in 2013, as per cent of GDP



Harmonised Consumer Price Index
in February 2015, average annual, as per cent



Employment Rate
in 2013, as per cent



Unemployment Rate
in 2013, as per cent

