



Ministry of Economics of the Republic of Latvia



Central Statistical Bureau of Latvia



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THE NATIONAL ECONOMY OF LATVIA MACROECONOMIC REVIEW

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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 4.4% annually. In 2014 GDP increased by 2.4%. Slower growth was determined by weak increase in the EU and weakening of economic situation in Russia. Since the Q2 of 2015 growth rates are increasing and in the Q3 GDP growth over a year reached 3.3%. In Q1-Q3 of 2015 GDP was by 2.7% higher than a year ago.

In 2015 the largest contribution in growth had domestic demand, which in Q1-Q3 was by 3.5% higher than a year ago. Fast growth of average wages and salaries and low inflation is promoting purchasing power of population. In Q1-Q3 of 2015 private consumption was by 3.6% higher than a year ago. Government final consumption expenditure continues to increase. Also investment volume in Q1-Q3 of 2015 was by 3.2% more than a year ago.

Exports of goods and services in Q1-Q3 was by 2.2% more than a year ago. Exports of goods in Q1-Q3 of 2015 (at current prices) to Russia was by 24.4% less than a year ago. Exports to the EU countries rose by 3.2%, but to third countries (excluding EU and CIS) – by 20.1%, which shows that Latvian manufacturers are able to find new sales markets in such difficult circumstances.

In breakdown by sectors rapid increase in the Q1-Q3 of 2015 occurred in manufacturing (rise of 4.7% over a year), where the largest contribution was in growth of metal processing and wood processing sectors. Stable growth is also observed in retail trade turnover (in nine months increase over a year comprised 5.8%) and volumes of commercial services. But volumes of transport services and construction lag behind indicators of the 2014.

Situation in labour market continues to improve. In the Q3 of 2015 number of employed was by 1.8% larger than a year ago and level of unemployment reduced to 9.7 per cent.

In 2015 moderate price dynamics is observed which is mainly affected by oil and food prices in the world. In November consumer prices over a year remained the same. In general in 2015 average annual inflation is expected at 0.2% level.

Further development of national 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 GDP growth can reach 2.8%, but in 2016 – 3.2 per cent.

Key Indicators of Economic Development

	2011	2012	2013	2014	2015f	2016f
<i>increase over the previous year, as per cent</i>						
Gross Domestic Product	6.2	4.0	3.0	2.7	2.8	3.2
Consumer prices	4.4	2.3	0.0	0.6	0.2	1.2
<i>per cent</i>						
Employment rate	54.0	56.1	58.2	59.1	60.7	62.0
Unemployment rate	16.2	15.0	11.9	10.8	9.7	8.6
<i>as per cent over gross domestic product</i>						
General government sector balance	-3.4	-0.8	-0.9	-1.6	-1.4	-1.0
Exports-imports balance	-5.0	-4.5	-3.2	-2.2	-2.0	-2.2

f – forecast

THE EXTERNAL ECONOMIC ENVIRONMENT

Development of global economy is still weak and differs from region to region. In 2015 world economic growth is forecasted slightly slower than in 2014. In developed countries growth perspectives are gradually improving. Whereas in developing countries situation has worsened slightly, despite the fact the growth rates are relatively high.

Since 2013 economic situation in the EU is improving gradually. In the Q3 of 2015 as compared to the Q2 GDP rose by 0.4% and was by 1.9% higher than a year ago. Of which in euroarea GDP grew by 0.3% and over a year – by 1.6%. The latest Business Tendency Surveys show that economic activities in the EU are increasing gradually. European Commission has improved forecasts of the EU and euroarea, however fiscal problems in euroarea are still topical.

In the USA economy after a drop at the beginning of the year, in the Q3 of 2015 an increase can be observe – as compared to the

Q2, GDP rose by 0.5% and was by 2.2% higher than a year ago. Growth of economy was mostly promoted by rise of investment, domestic expenditure and private consumption.

Asian countries have overcome the global crisis more successfully than countries of other regions; however, lately growth rates are reducing. China experiences the slowest growth since the beginning of 90-ties, negatively affecting growth of overall global economics.

Economic situation in Russia continues to get worst. In the Q3 of 2015 GDP reduced by 4.1% compared to a previous year. Due to the drop of oil prices and value of rouble economic recession of Russia is deepening and it is forecasted that the recession will continue also in the Q4 of 2015. High inflation still affects private consumption negatively. Uncertainty of geopolitical situation significantly affects investor confidence. In 2015 European Commission forecasts economic recession for Russia of 3.7 per cent.

Global Economic Growth

GDP, per cent changes

	2011	2012	2013	2014	2015f	2016f
World	4.1	3.5	3.2	3.3	3.1	3.8
USA	1.6	2.2	1.5	2.4	2.6	2.8
Japan	-0.5	1.7	1.6	-0.1	0.7	1.1
China	10.3	9.6	8.0	7.4	6.8	6.5
CIS, of which	4.8	3.5	2.1	0.9	-3.0	0.4
Russia	4.3	3.4	1.3	0.6	-3.7	-0.5
European Union, of which:	1.8	-0.5	0.2	1.4	1.9	2.0
Germany	3.7	0.4	0.3	1.6	1.7	1.9
Sweden	2.7	-0.3	1.2	2.3	3.0	2.8
United Kingdom	2.0	1.2	2.2	2.9	2.5	2.4
Lithuania	6.0	3.8	3.5	3.0	1.7	2.9
Estonia	7.6	5.2	1.6	2.9	1.9	2.6

Source: European Commission, f – forecast

GROSS DOMESTIC PRODUCT: EXPENDITURE

After rapid economic growth lasting several years when average annual increase rate of GDP in 2005-2007 was almost exceeded 10%, as a result of global financial crisis, in 2008 Latvian economy experienced recession. During the crisis GDP declined by 22.5%, falling to the lowest level in the middle of 2010.

From 2011 to 2013 growth of the economy of Latvia on average reached 4.4% annually, which was one of the most rapid in the EU.

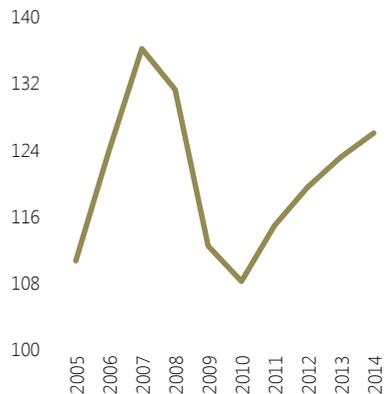
In 2014 GDP increased by 2.4%. Slow-down of growth rates was determined by trends in external environment – slow increase in the EU and weakening of economic situation in Russia. Although during the last few years, rather rapid increase was observed in Latvian economy, however GDP is still less by 7.5% than it was before the crisis in 2007.

In the Q1 of 2015 GDP was by 1.8%, in the Q2 – by 2.7%, but in the Q3 – by 3.3% more than a year ago which is characterized as a very good indicator taking into account geopolitical situation in the region.

Still rather fast growth of average wages and salaries and low inflation is promoting increase of purchasing power of population. Compared to the Q2, in the Q3 of 2015 private consumption rose by 1.7% (according to seasonally adjusted data) and was by 5.2% higher than year ago. Compared to the second half of the previous year, growth rates of private consumption have become more rapid.

In 2015 government consumption continues to increase – in the Q3 it was by 3.7% higher than a year ago.

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	-14.3	-3.8	6.2	4.0	3.0	2.8
Private consumption	-16.1	2.8	3.0	3.2	5.0	2.6
Public consumption	-10.7	-8.1	3.0	0.3	1.6	4.9
Gross fixed capital formation	-33.3	-19.8	24.1	14.4	-6.0	0.3
Exports	-12.9	13.4	12.0	9.8	1.1	3.1
Imports	-31.7	12.4	22.0	5.4	-0.1	0.8

After reduction in the Q1 and moderate increase in the Q2, in the Q3 significant rise was observed in investment – growth over a year of 6%. Rapid rise of investment in the Q3 was promoted by voluminous non-financial investment in transport section.

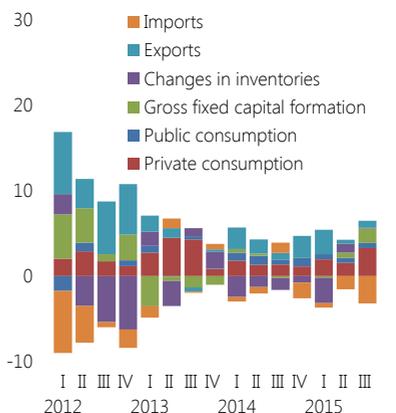
In 2010 -2012 exports of Latvian goods and services increased very rapidly and it was main driving force of the development of national economy. Exports volume in 2012 exceeded pre-crisis level by almost 22%. Since 2013, due to the low demand in external markets, exports dynamics has become more moderate. In 2014 Latvian exports was affected by slower than expected growth in the EU countries and worsening of economic situation in Russia. Exports volume rose by 3.1 per cent.

In the Q3 of 2015, exports volumes increased by 1.4%, compared to the Q3 of 2014. Growth of exports was ensured both by rise of exports volume of goods by 0.9% and of exports volume of services by 3.4 per cent.

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 Q3 of 2015, imports volumes increased by 5.3%, compared to the Q3 of 2014. In the Q3 of 2015 exports-imports balance accounted for -2.5% of the GDP.

Events in external environment will continue to affect exports, which means that rapid growth of exports sooner 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 slightly slower than in the last two years.

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				2015		
	III	IV	I	II	III	IV	I	II	III
Gross domestic product	3.7	2.8	2.7	2.3	2.3	2.1	1.8	2.7	3.3
Private consumption	7.1	1.4	2.9	2.1	2.2	2.0	3.1	2.4	5.2
Public consumption	2.4	0.2	5.3	5.7	3.2	5.4	3.4	3.3	3.7
Gross fixed capital formation	-4.6	-3.6	2.3	1.2	-0.8	0.1	-1.0	2.9	6.0
Exports	-0.7	0.5	4.0	2.8	1.4	4.2	4.6	0.8	1.4
Imports	0.2	-1.0	0.8	1.2	-1.9	3.0	0.8	2.6	5.3

GROSS DOMESTIC PRODUCT: DEVELOPMENT OF SECTORS

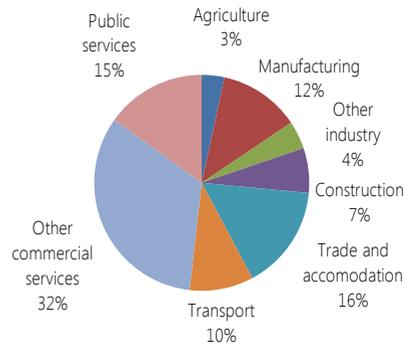
Due to the improvement of competitiveness and exports opportunities, tradable sectors recovered first from the crisis. In the main exports sector – manufacturing – production volume in 2013 exceeded level of 2009 by 22%. Growth of tradable sectors and increase of income from exports have also promoted development of domestic market-oriented sectors – commercial services, trade and construction. Contribution of these sectors in the growth is becoming larger over the last years, but the weak demand in exports markets in 2013 and 2014 slowed down growth of manufacturing.

In 2015 trends of development of main sectors of the national economy are different. Manufacturing has significant contribution to the growth where volumes of manufacturing in the Q3 of 2015 was by 4.8% higher than a year ago.

In other industry sector after reduction of volumes in the beginning of 2015, in Q2 and Q3 they rose significantly. In total in Q1-Q3 of the year growth of the other industry sector reached 1.3%. Similar trends are also observed in agriculture and forestry where in Q1-Q3 of 2015 volumes increased by 1.6 per cent.

Even though growth rates of construction increased rapidly in 2014, already since the 2nd half of 2014 growth rates of the sector slowed down and in the 1st half of 2015 construction volumes even reduced. But in the Q3 of 2015 they were by 4.9% higher than a year ago. In general in Q1-Q3 of 2015 construction volume increase by 1.1%, which was mainly affected by rapid increase of volumes of construction of civil engineering structures.

GDP Structure
2014, as per cent



Gross Domestic Product by Sectors
volume changes in per cent

	2009	2010	2011	2012	2013	2014
Gross Domestic Product	-14.3	-3.8	6.2	4.0	3.0	2.4
Agriculture	12.7	-3.9	-1.7	7.4	1.2	1.6
Manufacturing	-22.1	14.2	3.7	4.3	-1.2	-0.3
Other industry	6.8	-1.5	-5.2	-5.7	1.6	-3.1
Construction	-38.3	-34.4	29.9	8.9	4.4	8.1
Trade and accommodation	-16.3	-1.6	2.9	1.3	4.2	2.3
Transport and storage	-22.4	-4.9	17.9	5.5	0.2	3.2
Other commercial services	-7.0	-4.0	6.1	5.1	3.9	1.6
Public services	-9.9	-6.9	3.0	-0.2	2.4	3.3

In 2015 volumes of services in transport and storage sector are decreasing. The decrease is mainly determined by drop in freight turnover at ports. In total volume of services provided in transport and storage sector in Q1-Q3 of 2015 was by 1.3% lower than a year ago.

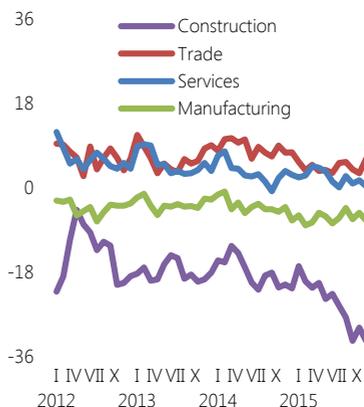
Volume of services provided in trade sector continue to grow in 2015. At the beginning of the year increase of volume was more moderate, but, starting with the Q2, it was rising more rapidly. Trade sector was positively affected by rise of private consumption and increase of retail trade turnover, which in Q1-Q3 of 2015 was by 5.8% higher than a year ago.

Growth in sector of commercial services, similar as in 2014, also in 2015 is moderate. In Q1-Q3 of the year volume of commercial services rose by 1.9%. The increase was mainly determined by growth in arts, entertainment and recreation sector, real estate activities and information and communication services.

As government expenditure continues to increase, volume of services provided in public services sector also rises – in Q1-Q3 of 2015 it grew by 3.5 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		
	I	II	III	IV	I	II	III
Gross Domestic Product	2.7	2.3	2.3	2.1	1.8	2.7	3.3
Agriculture	8.8	5.2	-6.4	3.3	-7.0	4.2	4.9
Manufacturing	1.2	0.1	-0.6	-1.7	4.4	6.2	3.7
Other industry	-7.4	-5.2	-1.6	2.3	-4.1	4.2	5.9
Construction	24.6	15.8	0.6	4.4	-0.1	-3.4	4.9
Trade and accommodation	2.6	2.1	2.5	2.0	0.6	4.3	6.0
Transport and storage	5.1	2.2	2.3	3.1	-1.5	-4.3	1.7
Other commercial services	1.8	-0.1	4.0	0.9	1.6	3.5	0.5
Public services	3.3	3.4	3.3	3.3	3.9	3.2	3.4

MANUFACTURING

In 2013 production volumes in the sector remained at the level of 2012, but in 2014 manufacturing production output volume reduced by 0.3%. It was mainly affected by low demand in exports markets.

In ten months of 2015 manufacturing output was by 3.9% higher than a year ago. The largest positive contribution in the growth of manufacturing was in wood processing, metal processing, manufacture of computers, electrical and optical equipment, as well as in production of machinery and equipment sectors.

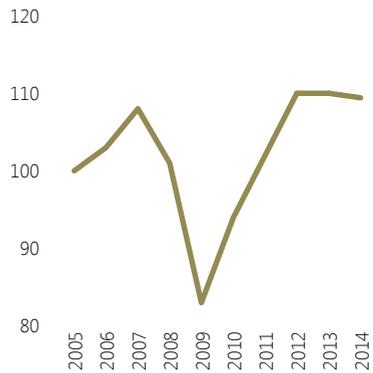
In the largest manufacturing sector – in wood processing production volume increases stably. Production volume in the 10 months of 2015 was by 6% higher than a year ago. Significant contribution in the development of overall indicators of manufacturing in 2015 was ensured by metalprocessing sector, which is affected by resumption of activity of one of major industrial enterprises JSC “KVV Liepājas Metalurģs”.

Rapid increase of volume of manufacturing in 2015 continued in the manufacture of computers, electrical and optical equipment – rise in January-October by 16%, compared to the corresponding period of the previous year. Also over a year production volume in sectors of production of machinery and equipment, as well as of transport vehicles has increased.

Volumes of production in food industry in 2014 in general remained at the level of 2013, but in January-October 2015 production volumes were by 5% lower than a year ago. Development of the sector is significantly affected by sanctions determined by Russia on imports of various food products.

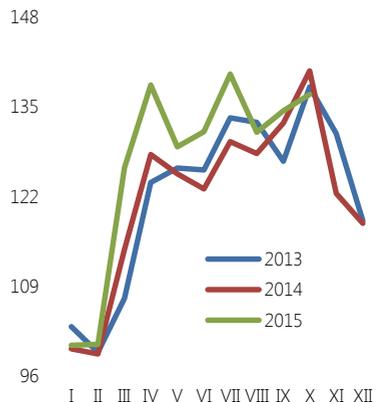
In the ten months of 2015 production volumes are lagging behind the level of the previous year also in light industry, manufacture of non-metallic mineral products, chemical industry and paper industry and publishing.

Manufacturing
output, 2005 = 100



Production Volume Index

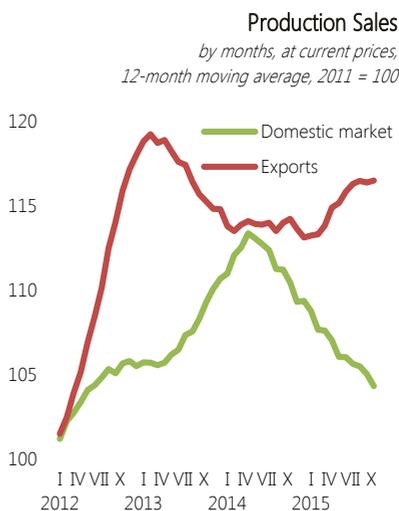
by months, not seasonally adjusted data, 2010 = 100



In 2015, as producer prices remained low, rise of turnover of manufacturing is moderate. In total in ten months of 2015 manufacturing turnover basically remained at the level of the corresponding period of the previous year.

Products sold at the domestic market dropped by 5.5%, while turnover of exported goods – rose by 3.5%. The largest positive contribution in the increase of total turnover was in wood processing and production of optical equipment, as well as on metal processing. The largest negative impact was in production of other non-metallic mineral products, where turnover in ten months was by 7.7% lower than a year ago.

In the ten months of 2015, 64% of total production was exported. Almost ¾ of the total products exported were sold to the EU markets.



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-Oct
Manufacturing – total	100	100	61.6	0.1	-0.3	3.9
Food industry	25.5	20.7	35.5	6.0	0.1	-5.0
Light industry	4.1	10.1	86.0	1.4	-13.6	-15.2
Wood processing	25.7	21.1	72.8	2.7	6.9	6.0
Paper industry and publishing	4.5	4.1	59.8	5.6	-0.6	-0.8
Chemical industry	7.6	7.1	76.7	-8.7	-2.6	-5.8
Other non-metallic mineral products	6.6	4.5	46.7	4.6	1.2	-9.1
Metals and metal articles	9.1	10.2	59.3	-17.6	-10.5	...
Electrical and optical equipment	6.0	3.8	90.3	18.4	32.3	16.0
Machinery and equipment	2.2	2.9	81.5	1.4	2.4	9.8
Motor vehicles	3.4	3.3	86.7	3.0	-15.2	4.4
Other industries	5.3	12.2	56.9	-7.6	-12.0	2.5

... no data available

INVESTMENTS

Over the last years investment dynamics is moderate. Under the influence of crisis, reduction of investment volume in the economy of Latvia was almost four times larger than on average in the EU. In 2010 investments in the national economy of Latvia comprised 42% of the level of 2007. As economy became more stable, investment activities rose, however their annual rates are slower than in the years of rapid growth and pre-crisis level of investment volume still has not been reached. In 2014 investments in the national economy of Latvia comprised 23% of GDP (in 2007 – 36.5%).

Also at the beginning of 2015 investment process was rather moderate, but in the second half of the year investment volume grew more rapidly. In the Q1 of 2015, as compared to the corresponding period of the previous year, investment reduced by 1%, while in the Q2 and Q3 it rose by 2.9% and 6%, respectively. In the result in Q1-Q3 of 2015 investment in the national economy of Latvia were at 3.2% higher level than a year ago. Mainly it was affected by the increase of investments in machinery and equipment, as well as in intellectual property products by compensating reduction in housing sector.

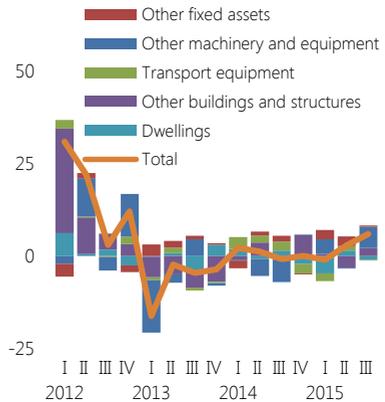
According to provisional data, in Q1-Q3 of 2015 non-financial investment in production sectors were at 7% lower level than a year ago. It was mainly determined by smaller volume of investment in energy sector. But investment in manufacturing remained at the level of the previous year. In services sectors in total in Q1-Q3 of 2015 investment rose by almost 12%, which was mainly affected by investment increase in transport and storage sector, as well as in real estate activities.

Intensity of FDI flows has grown. Attracted FDI net flows in 2014 comprised 1.4% of GDP. But in Q1-Q3 of 2015 they were 2.3 times larger than a year ago and comprised 3% of GDP.

Gross Fixed Capital Formation
2004 = 100



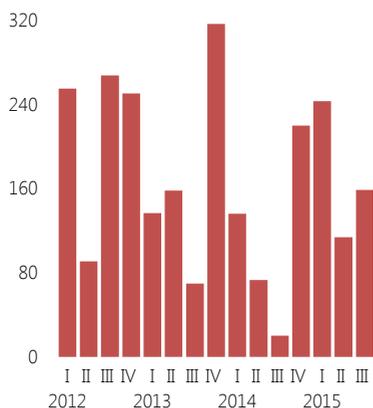
Gross Fixed Capital Formation
changes over corresponding quarter of the previous year, as per cent



According to international investment balance at the end of September 2015 FDI accrued in economy of Latvia reached EUR 13.1 bln (at 54.3% level of GDP). Over a year they rose by almost 10.8%. Larger share of FDI by sectors is on investment in bank intermediation, real estate activities and manufacturing. Sweden is the largest investor in the economy of Latvia. At the end of September 2015 investment of Sweden entrepreneurs comprised almost 20% of total FDI accrued. Mainly they were investments in financial intermediation.

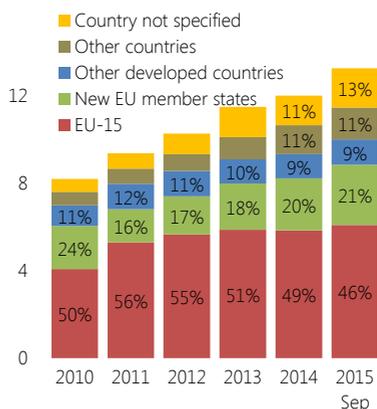
Foreign Direct Investment in Latvia

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				
	2015 Sep	2011	2012	2013	2014	2015 Sep
Agriculture	3.5	263.2	294.4	299.9	441.2	464.7
Manufacturing	11.3	1'114.4	1'200.3	1'403.5	1'455.7	1'486.7
Other industry	3.8	385.9	492.2	589.3	583.2	500.8
Construction	4.0	544.4	528.1	559.6	458.8	519.4
Trade and accommodation	10.9	1'329.2	1'416.1	1'472.9	1'325.5	1'433.9
Transport and storage	3.2	399.6	449.0	408.1	423.2	425.1
Financial and insurance activities	26.4	2'571.6	2'825.7	2'922.2	3'319.0	3'474.1
Other services	19.6	1'916.9	1'866.6	2'071.8	2'296.9	2'580.4
Not allocated economic activity	17.2	834.5	1'185.5	1'842.4	1'777.5	2'258.4
Total	100	9'359.8	10'257.9	11'569.6	12'081.0	13'143.4

FOREIGN TRADE

After the crisis 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 – increased by more than 80%. From 2009-2012 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 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 2.3%. Rate of imports of goods slowed down even more – in 2013 increase comprised 1%, but in 2014 – of 0.2 per cent.

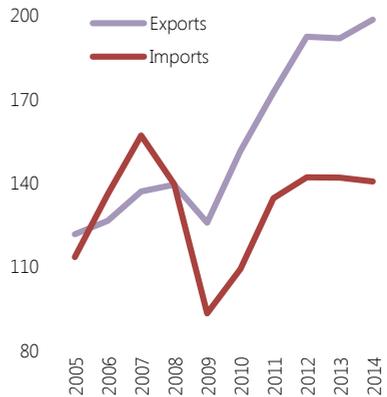
In 2014 development of exports was mainly promoted by the rise in exports of wood and wood products and machinery products. Due to termination of economic activity of JSC „Liepājas Metalurģis” exports of metals and metal articles decreased significantly. In 2014 also exports of agriculture and food products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

In January-October 2015 exports of Latvian goods at current prices increased by 1%. Imports of goods during this period has reduced by 0.4%. As exports of goods increased faster than imports, trade balance is continuing to improve.

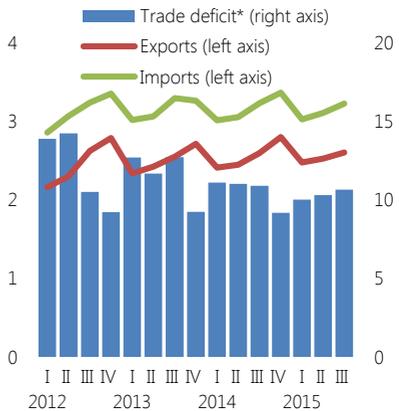
In January-October 2015 exports was positively influenced by rise of exports of machinery and mechanical appliances; electrical equipment, chemical industry, as well as of wood and wood products. But, as prices decreased, exports value of agriculture and food products, as well as of mineral products, reduced. During this period also exports of transport vehicles and light industry decreased.

In January-October 2015, reduction of the imports of goods was promoted by decrease of imports value of mineral products and agriculture and food products. Also imports value of light industry goods and metals and metal articles decreased. But only imports of machinery and mechanical appliances; electrical equipment increased significantly.

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

Exports of goods to the largest exports market of Latvia – the EU countries in the ten months of 2015 rose by 2.8% (of which exports to Lithuania increased by 4.5%, but to Estonia – reduced by 0.3%). The largest contribution in growth of exports to the EU countries was made up by increase of value of agricultural and food products. Also exports of products of chemical industry and of machinery and mechanical appliances; electrical equipment increased.

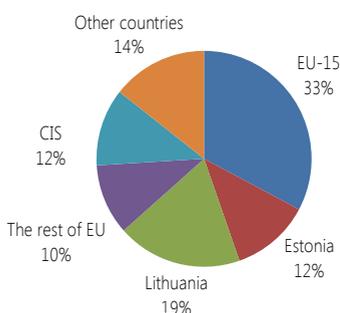
But exports to CIS countries in the ten months of 2015 decreased by 20.3% (of which to Russia – by 25.6%). mainly this reduction was affected by reduction in exports of agricultural and food products. Also exports of chemical industry goods and wood decreased. During this time exports to CIS countries increased only in machinery and mechanical appliances; electrical equipment group.

Exports to other countries in the ten months of 2015 increased by 15%. Mainly this growth was promoted by rapid increase of exports value of machinery and mechanical appliances; electrical equipment.

Largest Latvia's trade partners in ten months of 2015 were Lithuania – 18% of total foreign trade turnover, Estonia – 10%, Poland and Germany – 9% each, Russia – 8%, as well as Sweden and Finland – 4% each.

Structure of Exports of Latvian Goods

in January-October 2015, as per cent



Exports and Imports of Latvian Goods

in January-October 2015, as per cent

	Exports			Imports		
	structure	volume changes	contribution to changes	structure	volume changes	contribution to changes
Total, of which:	100	1.0	1.0	100	-0.4	-0.4
Agricultural and food products	17.6	-5.6	-1.1	15.2	-4.1	-0.6
Mineral products	7.4	-10.8	-0.9	11.9	-18.3	-2.6
Chemical products	10.3	4.9	0.5	16.1	4.1	0.6
Products of light industry	4.3	-6.4	-0.3	5.7	-7.9	-0.5
Wood and articles of wood	17.1	2.5	0.4	3.0	14.9	0.4
Metals and metal articles	9.1	-2.5	-0.2	8.3	-3.2	-0.3
Machinery and electrical equipment	18.5	13.9	2.3	21.9	11.5	2.3
Transport vehicles	4.8	-8.7	-0.5	7.8	2.4	0.2
Other goods	10.8	7.2	0.7	10.0	2.2	0.2

BALANCE OF PAYMENTS

During the last years, the current account of balance of payments has been at the level of a small deficit. In 2012 it was 3.3% of the GDP, in 2013 – 2.4% and in 2014 – 2% of the GDP. On average during the last three years negative balance of the current account was 2.6% of the GDP, which does not exceed the EU indicative threshold set out in the EU alert mechanism. In Q1-Q3 of 2015 deficit of the current account was 2.2% of GDP.

Current account fluctuations are mainly determined by changes in foreign trade balance. Latvia is characterised by foreign trade deficit that increased during the years of rapid growth, but dropped in the period of recession. The current account cyclical correction was largely driven by a decline in imports. As the economy stabilised, exports grew more rapidly than imports. However, in recent years the export and import dynamics has been slowing down, which is largely influenced by the geopolitical instability in the region.

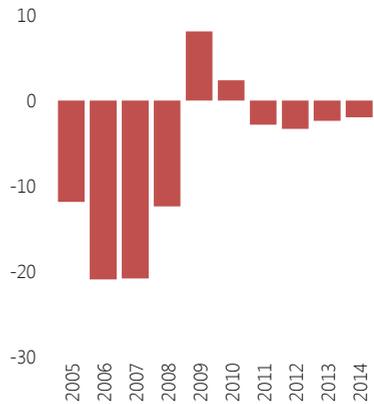
Since 2011, the foreign trade deficit has been moderately decreasing. In 2014 it accounted for 10.1% of the GDP, and in Q1-Q3 of 2015 – 9.7% of the GDP. External trade balance improved, owing to rapid increase in export volumes.

Balance of services is positive and covers foreign trade deficit by almost 80%. In Q1-Q3 of 2015 export of services increased by 5.1%, and import of services grew by 8.5% compared to the previous year, and the balance of services reached 7.3% of the GDP (in 2014 – 7.4%).

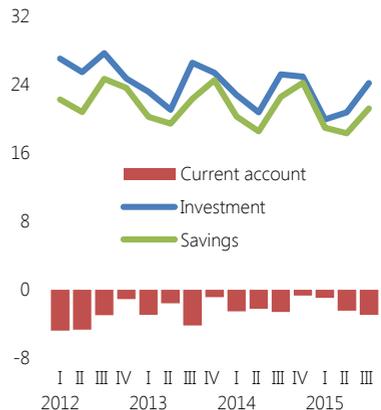
Throughout the last three years the balance of primary income has been negative – an annual average of 0.4% of the GDP. In Q1-Q3 of 2015 balance of primary income was with small deficit (0.2% of GDP).

Balance of financial accounts (excluding reserve assets) was positive in 2014 – 3.8% of the GDP, which was determined by larger increase of assets than of liabilities. In Q1-Q3 of 2015 it was negative (2.7% of GDP). Even though due to the reduction of assets of bank sector in kind of cash, investment negative balance of other investments reached 7.4% of GDP, it was almost entirely covered by surplus of balance of portfolio investments (6.7% of GDP).

Current Account Balance
as per cent of GDP



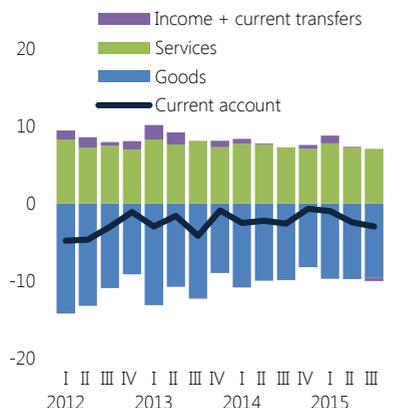
Current Account, Investment and Savings
by quarters, as per cent of GDP



Activity of foreign investors is increasing gradually. In Q1-Q3 of 2015 FDI flows were 2.3 times larger than a year ago and comprised 3% of GDP.

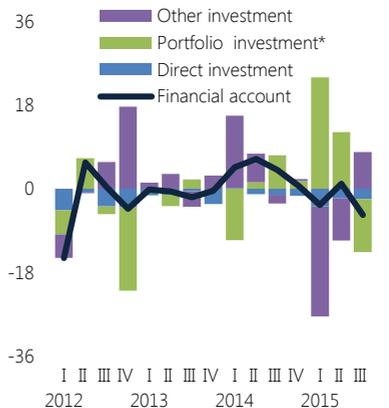
Current Account by Items

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

	2010	2011	2012	2013	2014	2015 Jan-Sep
A. Current account	2.3	-2.8	-3.3	-2.4	-2.0	-2.2
Trade balance	-8.3	-12.1	-11.7	-11.2	-9.6	-9.7
Service balance	7.3	7.3	7.4	7.8	7.4	7.3
Net income	1.1	0.0	-0.6	-0.3	-0.2	-0.2
Net current transfers	2.3	1.9	1.6	1.3	0.4	0.4
B. Capital account	2.0	2.1	3.0	2.5	3.2	3.2
C. Financial account**	2.1	4.0	-2.9	-0.7	3.9	-2.7
Direct investment stock	-1.5	-4.9	-3.3	-1.6	-1.0	-2.6
Portfolio investment*	2.9	1.8	-4.8	-0.1	0.2	7.3
Other investment	0.8	7.2	5.1	1.0	4.6	-7.4
D. Deviation	1.8	0.3	1.0	0.8	2.2	-1.6
E. Reserve assets	4.0	-4.5	3.6	1.7	-0.5	2.2

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

According to requirements of the sixth edition of the *Balance of Payments and International Investment Position Manual*, net items of current and capital accounts are formed by deducting debit from credit. Net items (*Financial account, Direct investment, Portfolio investment, Derived financial instruments and Other investment*) are formed by deducting liabilities from assets.

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 could be observed – by 0.2%, but annual average price level in 2014 rose by 0.6 per cent.

Major influence on consumer prices during the last years had global price drop of oil and food.

In 2015 very moderate price rise continues. In eleven months of 2015 prices increased by 0.7%. In November consumer prices over a year remained the same. Rise in prices of electricity (of 27.6%), of services (1.8%), of alcoholic beverages and tobacco (of 3.2%) and of wearing apparel and footwear (of 2.7%), as well as decline in prices of fuel (of 10%) and of heat (of 12.7%) had the most significant impact on price changes in January-November of 2014. Prices of food remained the same. It has to be noted that in November world prices of food were 18% smaller than a year ago. World prices of crude oil during this period reduced by 40 per cent.

In total this year average annual inflation is expected to be 0.2%. Next year average annual inflation will be higher, which will be affected both by supply factors (growth of taxes) and by demand factors (increase of activities and remuneration). At the same time inflation will still depend on fluctuations of world prices of oil and food.

In total in the EU countries in October 2015, compared to October 2014, prices remained the same.

After rapid increase in 2010-2012, in 2013 producer prices were rising moderately. In 2014 they grew by 0.4%, mainly due to increase in manufacturing (by 0.4%).

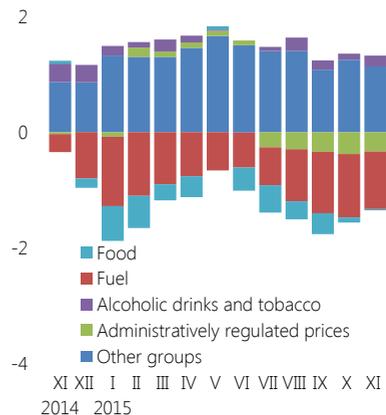
In October 2015, compared to October 2014, general level of producer prices decreased by 2.1%, on products sold in the domestic market – by 3%, but on exported production – by 1.1 per cent.

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

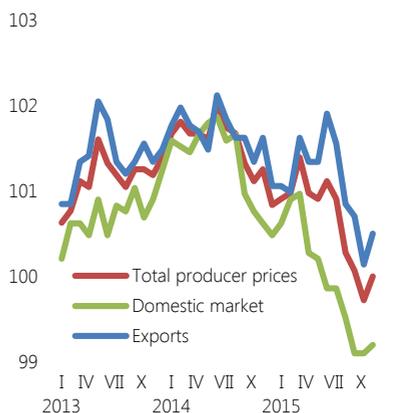


Producer prices in manufacturing in October 2015 reduced by 1.4% as compared to October of the previous year. Over a year dynamics of producer prices reduced both on products sold in domestic market and on exported products – by 1.7% and 1.2%, respectively, which mainly can be explained with rapid price drop of energy resources since the middle of 2014.

Over a year most significant price rise was in the manufacture of chemical products, beverages and wearing apparel, but lowering effect – in the manufacture of food products, wood processing and other non-metallic mineral products. 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 and agricultural raw material reduced rapidly.

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
2014	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	0.6
	February	0.3	-0.1	0.3	0.5
	March	0.8	0.4	1.2	0.5
	April	0.6	0.5	1.7	0.5
	May	0.6	1.2	2.3	0.6
	June	-0.2	0.6	2.1	0.5
	July	-1.0	0.0	1.1	0.5
	August	-0.5	0.1	0.5	0.4
	September	-0.1	-0.5	0.4	0.3
	October	0.3	-0.2	0.7	0.2
	November	0.0	0.0	0.7	0.2

MONETARY INDICATORS

Since 2010 situation in the financial sector is improving gradually. Investment volume continues to increase, of entrepreneur and households crediting is recovering slowly, however, it is still weak.

Total credit portfolio of banks continues to decrease. Compared to the corresponding period of 2014 balance of loans at the end of September 2015 declined by 3.5%. Balance of mortgage loans fell most rapidly (by 5.1%) and balance of commercial loans (by 4.9%). But surplus of consumer loans rose slightly.

After reduction at the end of 2014, at the beginning of 2015 volume of credits issued started to increase again. At the end of the 3rd quarter of 2015, volume of new loans granted were by 16.1% higher than a year ago and comprised EUR 241.7 mln or 28% of the total volume of new loans granted. Household crediting is also improving – in the Q3 volume of new loans granted was by 22% higher than a year ago and comprised EUR 123.5 mln or 14% of total amount of new loans granted.

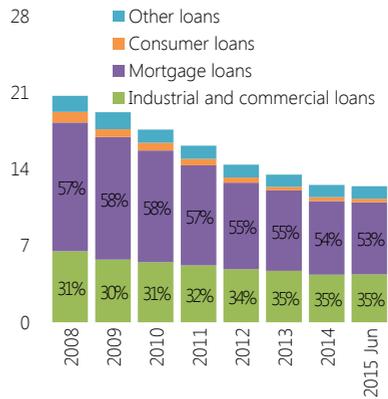
In 2015 share of loans issued to non-residents in the banking sector total credit portfolio has increased significantly.

From 2010 until 2014 quality of credit portfolio improved significantly, which mainly was related to the improvement of economic situation, as well as to writing off bad loans. Over the last two years quality of credit portfolio did not change significantly. At the end of September 2015, 12.9% of loans in the total credit portfolio of banking sector were with overdue payments, which is by 1.4 percentage points higher than in a year ago.

Investment volume continues to increase. Most rapid increase of investment volumes was observed at the beginning of 2015, which slightly reduced in the second half of the year and at the end of September investment volumes were by 8.8% higher than a year ago. Non-resident deposits rose more rapidly and at the end of September 2015 comprised 52% of the total volume of deposits.

Loans Issued to Residents

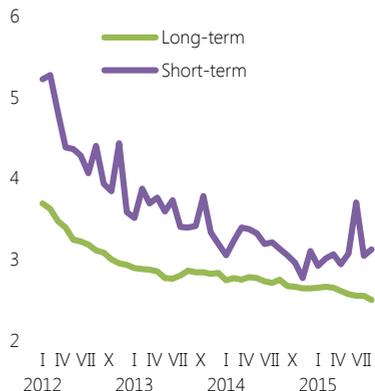
at the end of the period, billion euro



Average Weighted Interest Rates (Balance)

for loans to non-financial companies

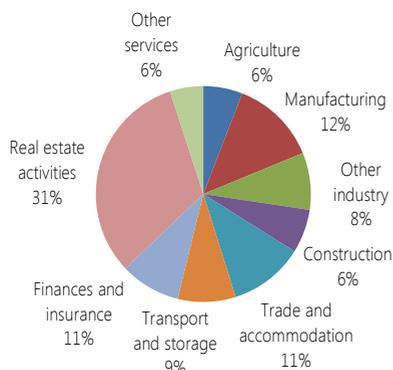
by months, as per cent



Interest rates (outstanding amounts) for long-term loans issued to non-financial corporations are almost the same, and in October 2015 accounted for 2.5%. Short-term interest rates in October slightly increased and comprised 3.2 per cent.

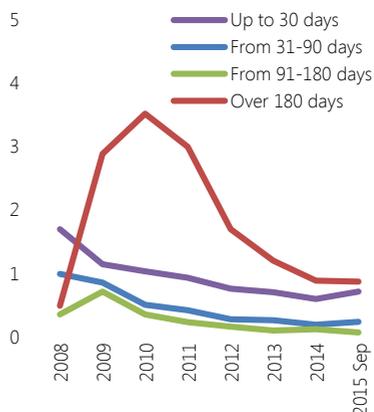
Structure of Loans Issued by Sectors

at the end September 2015, 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 Oct
<i>at the end of period, bln euro</i>					
Net foreign assets	-0.3	0.9	1.2	-1.8	-1.8
Net domestic assets	9.5	8.8	8.6	11.3	11.6
Domestic loans	15.7	13.7	13.5	12.6	12.8
Other assets (net)	-6.2	-4.9	-4.8	-1.3	-1.1
Broad money M2X	9.2	9.6	9.8	9.4	9.8
Cash in turnover (without vault cash balance)	1.5	1.5	0.7	3.7	3.7
Deposits of individuals and companies	7.7	8.1	9.2	9.5	9.8
<i>changes as per cent</i>					
Domestic loans	-1.5	-13.1	-1.4	-5.9	1.6
Broad money M2X	1.5	4.5	2.0	-3.6	9.1
Cash in turnover (without vault cash balance)	28.8	4.1	-56.6	461.0	3.2
Deposits of individuals and companies	-2.4	4.5	13.2	-3.6	9.1
Gross Domestic Product at current prices	13.0	7.7	4.4	3.6	3.8*

* 2015 Q3

GOVERNMENT BUDGET

To make fiscal situation in the country more stable during the crisis, from 2008 to 2012 Latvia consolidated its budget. General government budget deficit was reduced from 9.1% of GDP in 2009 to 0.9% of GDP in 2013. In 2014, general government budget deficit was 1.5% of GDP, which was mainly determined by one-off measures. Aim of the government is to continue to maintain low budget deficit.

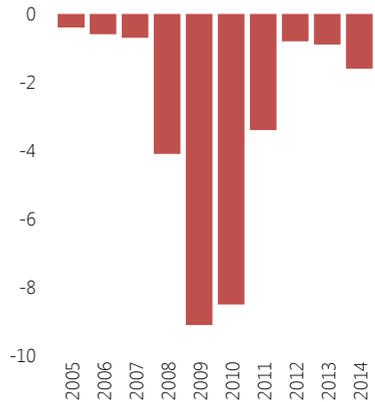
As economic situation improved budget revenues also increased, in 2014 they increased by 1.9%. In the eleven months of 2015, budget revenues comprised EUR 8 093 mln, which is 4% more than in January-November 2014. Total revenues from taxes during this period of time rose by 5 per cent.

Employment taxes comprise almost half of total tax revenues. Mandatory state social insurance contributions in eleven months of 2015 grew by 3.9%. But revenues from personal income tax, compared to January-November 2014, increased by 3.8%. Employment and wages are increasing, and minimum wage has been raised. Revenues from labour force taxes in 2015 are affected by changes in tax policy – reduction of the rate of personal income tax to 23 per cent.

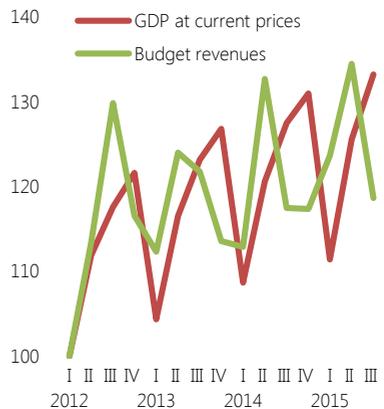
In 2015 also income from taxes on consumption are increasing – in the eleven months by 5.9%. The most significant contribution in group of taxes on consumption had revenues from value added tax. In the eleven months of 2015 revenues from the value added tax rose by 5.7 per cent.

Since 2011 state budget expenditure is also increasing gradually. In 2014 they grew by 5%, but in the eleven months of 2015, budget revenues comprised EUR 7'991.6 mln, which was 3.6% more than in January-November 2014.

Budget Balance
as per cent of GDP

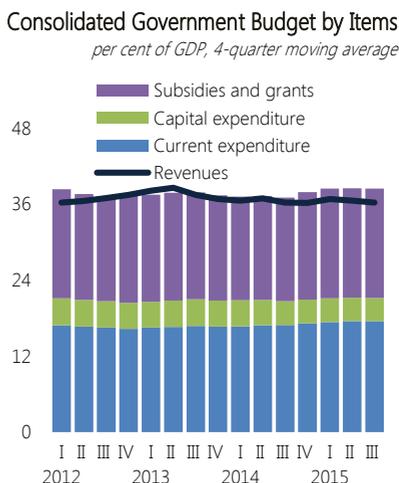
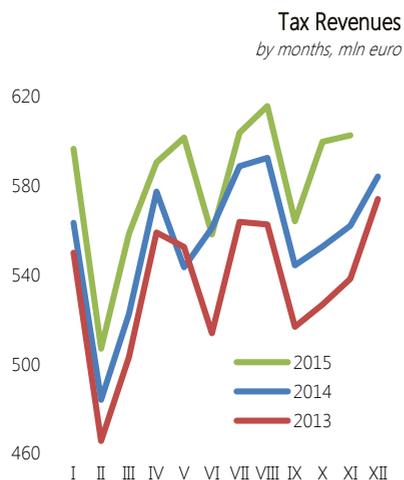


GDP and Budget Revenues
2011 Q4 = 100



From expenditure in 2015 current expenditure increased more rapidly – by 4.8%. Expenditure on subsidies and grants rose more moderate – by 2.6%. But capital investment decreased by 6%, compared to January–November 2014.

In 2015 expenditure is growing in all functional categories. In the eleven months of 2015 the largest contribution in rise of expenditure was in social protection and education.



General Government Budget

	bln euro				per cent changes	
	2012	2013	2014	2015 Jan–Nov	2014	2015 Jan–Nov
Revenues, of which:	8.2	8.4	8.5	8.1	1.9	4.0
Indirect taxes, of which:	2.3	2.4	2.6	2.5	6.7	5.9
Value added tax	1.6	1.7	1.8	1.8	8.2	5.7
Income and real estate taxes	1.8	1.9	1.9	1.8	3.4	4.7
Social insurance contributions	1.9	2.0	2.0	1.9	-0.2	3.9
Other taxes	0.1	0.2	0.2	0.2	19.0	9.0
Other revenues	2.1	2.0	1.9	1.7	-4.8	0.2
Expenditure	8.1	8.5	8.9	8.0	5.0	3.6

LABOUR MARKET

Along with the improvement of economic activity positive trends are also observed in labour market – unemployment is decreasing and employment rate is increasing. Simultaneously improvements are becoming slower.

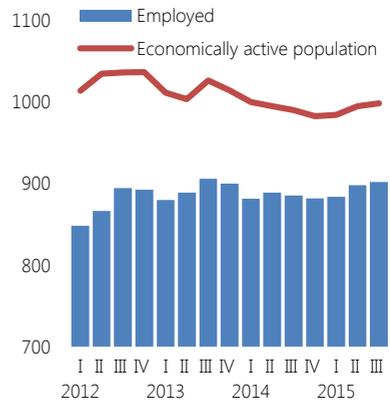
In 2014 situation in labour market continued to improve, however, at a slower rate than previously. Unemployment level reduced to 10.8% which was by 1.1 percentage point lower than in 2013, but employment level rose by 0.9 percentage points – to 59.1%. In 2014 there were 884.6 thousand persons employed and 107.6 thousand unemployed persons which was by 12.7 thousand less than in 2013.

In 2014 number of economically active population continued to reduce (it fell by almost 22 thousand or 2.2% as compared to 2013). 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.

In Q1-Q3 of 2015 the number of employed population rose by 1% as compared to the corresponding period of the previous year. Even though increase of employment has been the most rapid over the last one and a half year, it still lags behind slightly from increase rates in 2012 and 2013.

Employed and Economically Active Population

by quarters, in thousands



Occupied Jobs

in thousands

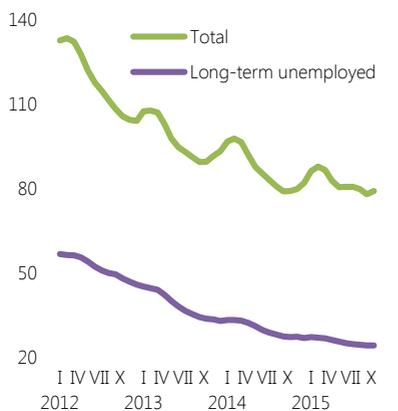
	2009	2010	2011	2012	2013	2014	2015 Jan-Sep
Total	826.1	776.7	805.5	839.1	865.1	874.6	886.5
Agriculture	17.9	17.5	19.0	20.6	21.2	21.5	22.0
Manufacturing	104.1	101.8	109.1	114.5	117.3	114.4	111.9
Other industry	23.7	22.4	22.9	23.7	24.2	24.1	24.0
Construction	54.6	46.0	50.9	55.7	60.6	60.3	60.1
Trade and accommodation	173.3	159.7	162.8	170.7	173.9	176.0	179.8
Transport and storage	67.6	66.8	68.8	72.7	75.2	75.9	77.0
Other commercial services	162.8	148.4	157.0	168.5	176.2	180.3	187.7
Public services	222.1	214.2	215.0	212.8	216.5	222.1	223.9

In the Q3 of 2015 in total there were 902 thsd persons employed or 61.4% of population aged 15-74 years. If compared to Q3 of 2014, employment level has increased by 2 percentage points.

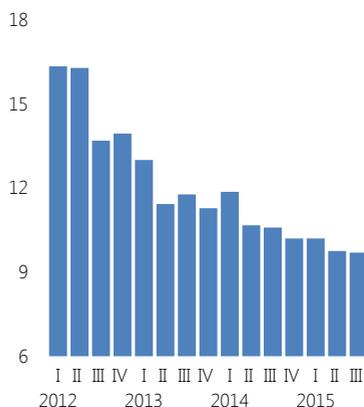
Unemployment level in the Q3 of 2015, compared to the corresponding period of 2014, reduced by 0.9 percentage points – up to 9.7%. But, compared to the previous quarter, unemployment level has practically remained the same.

Registered unemployment at the end of November 2015 reduced to 8.4% – 79.2 thsd unemployed were registered, which is by 700 less than a year ago. The highest level of registered unemployment remained in Latgale region (18.3%), but the lowest – in Riga (4.9%). Long-term unemployed (without job for a period of more than a year) constituted almost one third of total registered unemployed.

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 Jan-Sep
in thousands					
Population*	1'595.3	1'560.0	1'536.1	1'495.8	1'475.3
Economically active population	1'028.2	1'030.7	1'014.2	992.3	992.9
Employed persons	861.6	875.6	893.9	884.6	894.8
Unemployed persons	166.6	155.1	120.4	107.6	98.2
as per cent					
Economic activity rate	64.5	66.1	66.0	66.3	67.3
Employment rate	54.0	56.1	58.2	59.1	60.7
Unemployment rate	16.2	15.0	11.9	10.8	9.9

* population in private households

PERSONAL INCOME

During the crisis adjustment of remuneration has been rather moderate. Reduction of economic activities 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 2012 and 2013 it increased by 3.7% and 4.6%, respectively, but in 2014 – by 6.8% and reached EUR 765.

Rapid increase of wages and salaries was also observed in 2015 – in the Q3 average gross wages and salaries increased by 7.3%, compared to the corresponding period of 2014, and reached EUR 829.

The largest remuneration remained in Riga region (EUR 937), but the smallest – in Latgale region (EUR 575).

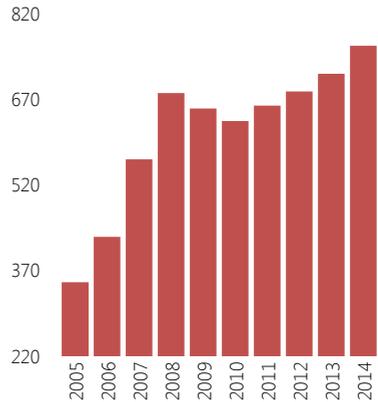
Since 2010, annual wages have risen in both private and public sector. In Q3 of 2015 remuneration in private sector rose by 8.3%, but in public sector – by 5.4%. At the same time it must be noted, that in the Q3 of 2015 average gross wage in public sector still was by 5.9% higher than in 2008, but in private sector it exceeded level of 2008 by almost 28 per cent.

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

In the Q3 of 2015, compared to the Q3 of 2014, most important wage increase was observed in real estate sector (by 10.5%) and accommodation and food services sector (by 10.6%).

Highest remuneration level remained in finance and insurance services sector – on average EUR 1'689 per month.

Average Monthly Wages and Salaries of Employed
gross, in euro

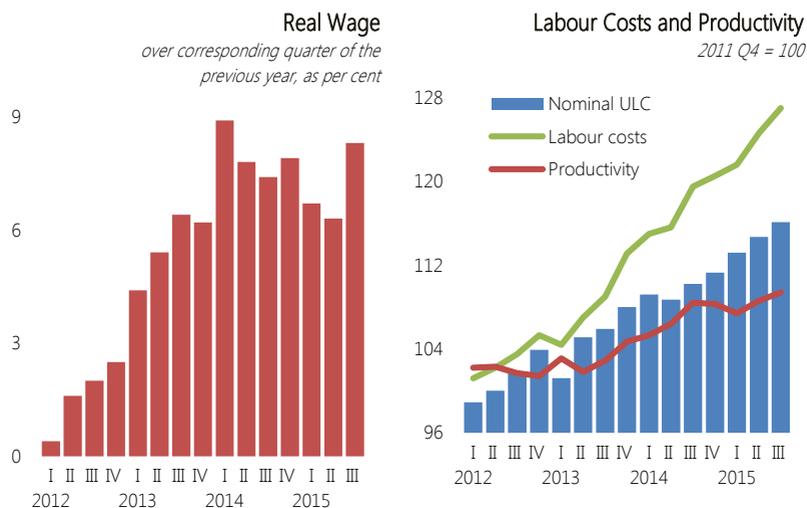


Average Monthly Wages and Salaries of Employed
gross, in euro



Along with the increase of nominal wage, real wage is also increasing gradually. In 2011-2012, along with the increase of consumer prices, rise of real wage was moderate. In 2013, real wage grew by 5.6%, but in 2014 – already by 8%. At the same time, since the middle of 2014 growth rates of real wage are slowly reducing. In the Q3 of 2015, real wage increased by 8.3%. During the last three years increase of real wage was mainly determined by rapid growth of nominal wage, moderate changes of consumer prices.

The average old-age pension also keeps increasing. In 2014, average old-age pension grew by 2.7%, as compared to 2013. But in the Q3 of 2015 average monthly old-age pension rose by 2.9%, compared to the Q3 of 2014, and on average comprised EUR 273 per month.



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

	2009	2010	2011	2012	2013	2014	2015 Jan-Sep
Total	-3.9	-3.5	4.4	3.7	4.6	6.8	6.6
Agriculture	-4.7	5.8	8.2	0.7	4.8	8.6	4.3
Manufacturing	-2.0	0.1	5.0	4.6	4.0	7.0	8.1
Other industry	-4.2	4.1	3.7	3.6	1.8	5.0	5.3
Construction	-1.0	-5.3	4.7	2.0	6.8	7.7	7.2
Trade and accommodation	-2.8	-3.6	5.9	4.5	6.0	7.4	8.8
Transport and storage	0.2	0.2	1.0	7.7	0.5	5.9	3.8
Other commercial services	-1.1	-1.4	3.9	2.4	3.4	6.9	5.7
Public services	-12.8	-9.0	4.5	2.7	6.3	6.5	6.2

COMPARATIVE INTERNATIONAL STATISTICS

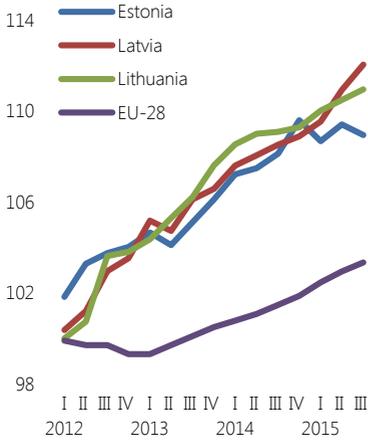
Economic Development in Baltic Countries

	Latvia	Lithuania	Estonia
Territory, thsd km ²	64.6	65.3	45.2
Population, thsd, at the 1 st July 2015	1'978.7	2'921.3	1'313.3*
Gross domestic product, over corresponding period of the previous year, %			
2013	3.0	3.3	1.7
2014	2.4	2.9	2.9
2015 Q1	2.7	1.4	2.2
2015 Q2	3.3	1.7	0.7
Volume of manufacturing production, over corresponding period of the previous year, %			
2013	0.1	3.3	4.1
2014	-0.3	0.0	1.9
2015 Q1	5.9	5.3	-1.7
2015 Q2	3.7	3.9	-4.2
Retail trade turnover**, over corresponding period of the previous year, %			
2013	3.3	5.1	3.1
2014	3.1	5.5	7.3
2015 Q1	2.9	3.4	3.2
2015 Q2	1.4	2.8	4.2
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
2015 Q1	0.8	-0.7	-0.1
2015 Q2	-0.1	-0.9	-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
2015 Q1	1.0	2.0	1.7
2015 Q2	1.8	-0.1	4.3
Unemployment rate, % of economically active population			
2013	11.9	11.8	8.6
2014	10.8	10.7	7.4
2015 Q1	9.8	9.4	6.5
2015 Q2	9.7	8.3	5.2

* Population at the 1st July 2015; ** data adjusted by working days, in current prices

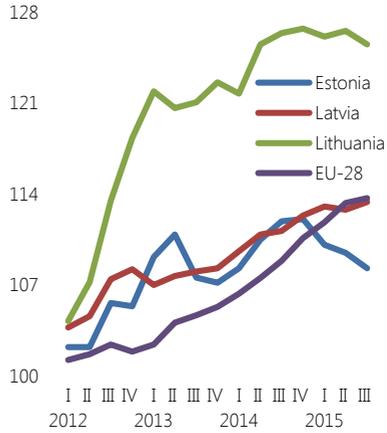
Gross Domestic Product

seasonally adjusted data
2011 Q4 = 100



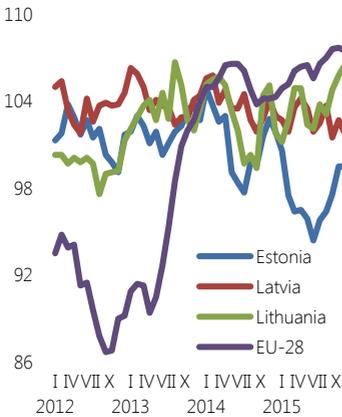
Exports of Goods and Services

seasonally adjusted data
2011 Q4 = 100



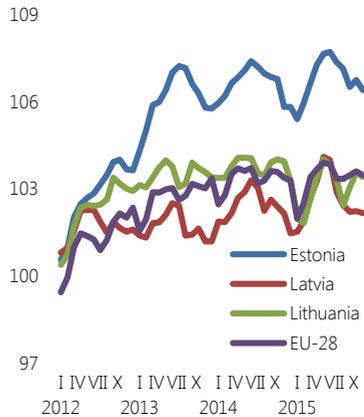
Economic Sentiment Indicator

seasonally adjusted data



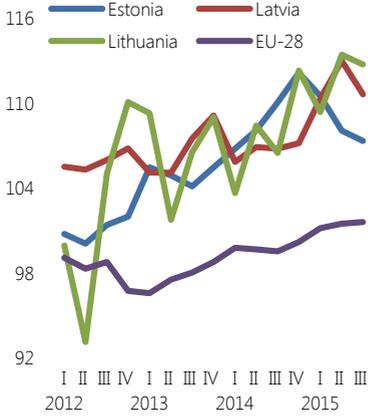
Harmonised Consumer Price Index

December 2011 = 100



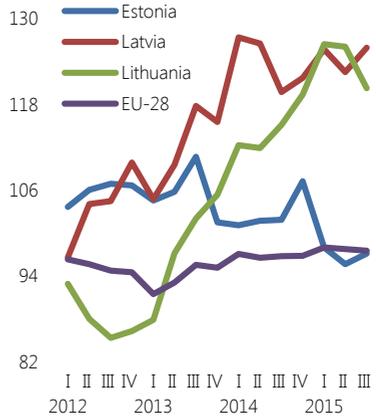
Manufacturing Production Volume

seasonally adjusted data
2011 Q4 = 100



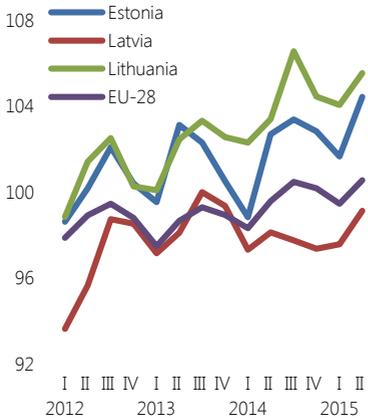
Construction Production Volume

seasonally adjusted data
2011 Q4 = 100



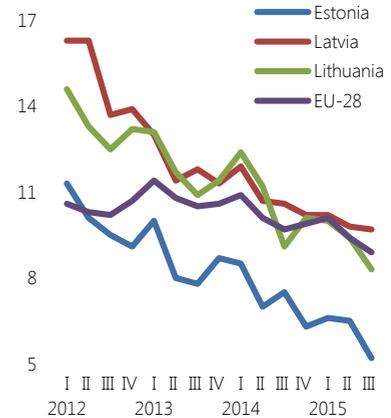
Number of Employed

not seasonally adjusted data
2011 Q4 = 100



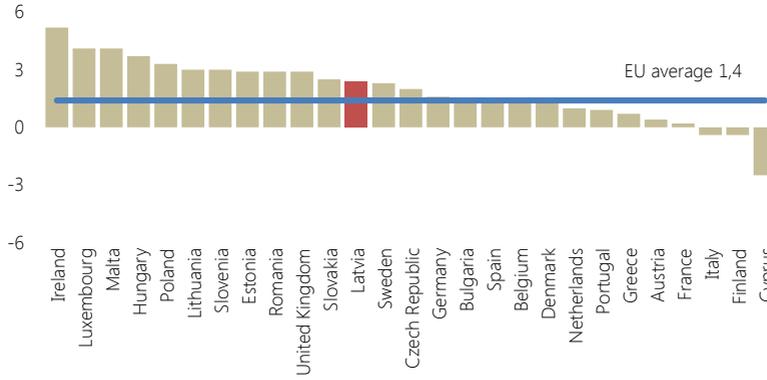
Unemployment Rate

as per cent



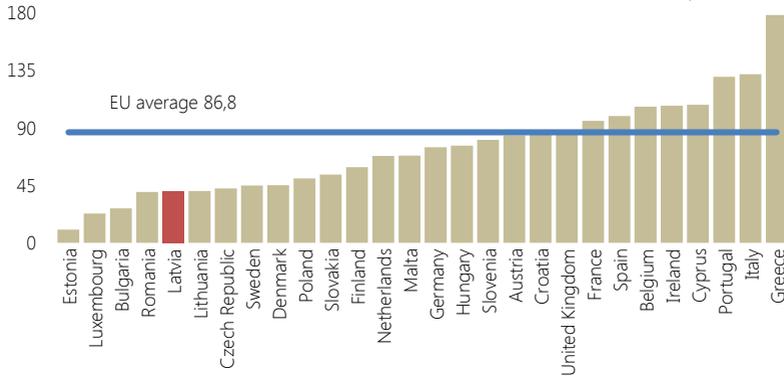
Gross Domestic Product

in 2014, changes of volumes, as per cent



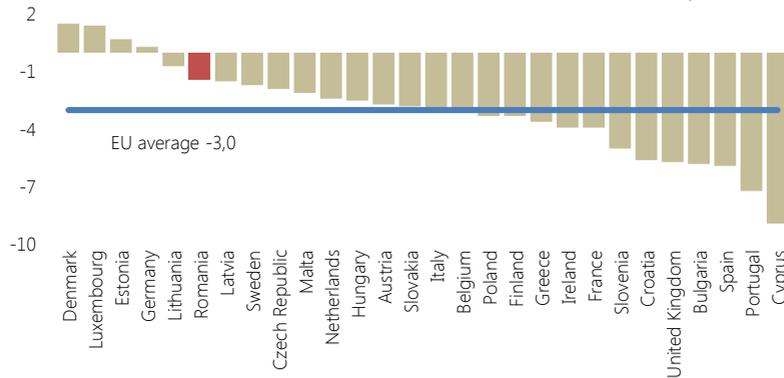
Public Debt

in 2014, as per cent of GDP

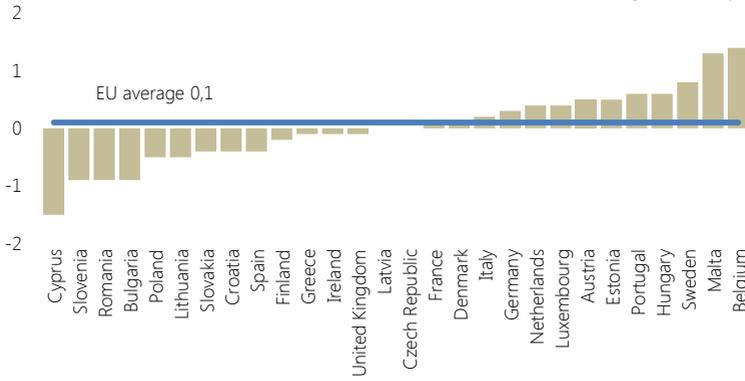


Budget Balance

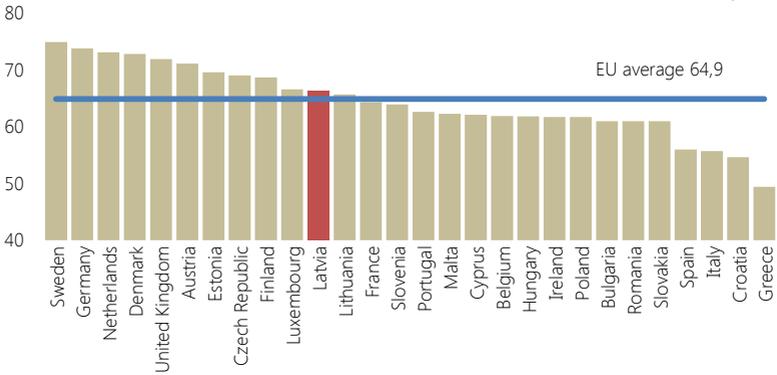
in 2014, as per cent of GDP



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



Employment Rate
in 2014, as per cent



Unemployment Rate
in 2014, as per cent

