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If you have comments, questions or suggestions, please address them to:
Ministry of Economics of the Republic of Latvia
55 Brīvības str.
Riga, LV-1519

Telephone: 371 67 013 293
E-mail: macro@em.gov.lv
Internet site: <http://www.em.gov.lv>

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ECONOMIC SITUATION: BRIEF OVERVIEW

In 2013, economic growth of Latvia has been continuing. GDP was by 4.1% higher than a year ago (in the 4th quarter GDP grew by 3.6%). Although during the last few years, most rapid increase in the EU was observed in Latvian economy, however GDP is still less by 9% than it was before the crisis in 2007.

Since 2010, an export of goods and services has grown rapidly and it has been one of the main drivers of growth in the national economy of Latvia. Exports volume in 2012 exceeded pre-crisis level by more than 20%. In 2013 exports dynamics was moderate – it increased by 1% which was affected by low demand in domestic markets. Weaker export opportunities affected the most significant exports sector – manufacturing. Although in the 4th quarter growth in the sector reached 2.6% compared to the 4th quarter of 2012, nevertheless production volume in manufacturing in 2013 remained at the level of 2012.

In 2013, domestic demand provided the greatest contribution to the economic growth. Private consumption in 2013 was by 5.4% higher than a year ago. Stable growth was observed in such major sectors as trade, commercial services and construction.

Situation in labour market continues to improve – number of job vacancies and salary is increasing, unemployment is decreasing. In 2013 number of employed reached 894 thsd, which is by 18 thsd or 2.1% more than in 2012. Unemployment rate dropped to 11.9 per cent.

In 2013 inflation was moderate and average level of consumer prices remained at the level of 2012. Price tendencies in 2013 largely were influenced by drop of food, fuel and heat prices. In February 2014, consumer prices were by 0.5% higher than a year ago. It is likely that average level of consumer prices in 2014 will remain around 1%, on condition that dynamics of world food and oil product prices will maintain the current trend.

Further development of the national economy of Latvia will still be closely connected to export opportunities. As economic situation in Europe will become more stable, it is expected that export opportunities to Western Europe will improve. As employment and wages will increase, private consumption will continue to grow. The Ministry of Economics forecasts that in 2014 GDP growth will be around 4%. At the same time there is uncertainty regarding impact of crisis in Ukraine on the economy of Latvia.

Key Indicators of Economic Development

	2009	2010	2011	2012	2013	2014f
<i>increase over the previous year, as per cent</i>						
Gross Domestic Product	-17.7	-1.3	5.3	5.2	4.1	4.0
Consumer prices	3.5	-1.1	4.4	2.3	0.0	1.0
Number of employed*	-13.9	-6.4	1.3	1.6	2.1	1.9
<i>per cent</i>						
Unemployment rate	17.5	19.5	16.2	15.0	11.9	9.6
<i>as per cent over gross domestic product</i>						
General government sector balance	-9.7	-8.1	-3.6	-1.4	-1.3	-0.9
Exports-imports balance	-1.5	-1.4	-4.8	-3.9	-1.9	-1.7

f – forecast

THE EXTERNAL ECONOMIC ENVIRONMENT

Development of global economy is still 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 are still rather rapid. At the same time uncertainty regarding impact of crisis in Ukraine on the economic situation in Europe and CIS countries has grown.

After the recession in 2012, in 2013 economic situation in the EU is improving gradually – GDP increased by 0.1%. Also latest Business Tendency Surveys witness that economic activities in the EU are increasing gradually. Even though in general economic situation is becoming stable, development trends in member states still differ. For instance, growth in the new EU member states is more rapid than on average in the region. However, most rapid economic growth rates in the EU were observed in Baltic countries.

USA economy in 2013 was improving – in the 4th quarter GDP increase accounted for 2.4%, but over a year – 1.9 per cent.

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

Growth of CIS countries is not even. In Russia growth rates reduced for the seven quarters in a row (from 4.8% in the 1st quarter of 2012 to 1.2% in the 3rd quarter of 2013). Growth slowdown witnesses of significant problems of competitiveness and large economic dependence on the situation in energy resources markets. In the 4th quarter of 2013, GDP was by 2% higher than a year ago. Moreover crisis in Ukraine caused significant problems in Russia's financial markets in March 2014.

According to forecast of the European Commission, in 2014 global growth in world economy might reach 3.6 per cent.

Global Economic Growth

GDP, per cent changes

	2009	2010	2011	2012	2013	2014f
World	-0.9	5.2	3.8	3.1	2.9	3.6
USA	-2.8	2.5	1.8	2.8	1.9	2.9
Japan	-5.5	4.7	-0.5	1.4	1.6	1.6
China	9.2	11.6	9.4	7.8	7.7	7.4
CIS	-6.7	4.9	4.8	3.4	1.9	2.8
EU-27, of which:	-4.5	2.0	1.7	-0.4	0.1	1.6
Germany	-5.1	4.0	3.3	0.7	0.4	1.8
Sweden	-5.0	6.6	2.9	0.9	0.9	2.5
United Kingdom	-5.2	1.7	1.1	0.3	1.9	2.5
Latvia	-17.7	-1.3	5.3	5.2	4.1	4.2
Lithuania	-14.8	1.6	6.0	3.7	3.2	3.5
Estonia	-14.1	2.6	9.6	3.9	0.7	2.3

Source: European Commission, f – forecast

GROSS DOMESTIC PRODUCT: EXPENDITURE

After rapid economic growth lasting several years when average annual growth rate of GDP in 2005-2007 exceeded 10%, as a result of global financial crisis, in 2008 Latvian economy experienced recession. During the crisis GDP decreased by ¼. Since the end of 2009 economic growth of Latvia has resumed.

Still at the beginning of 2012 perspectives of the national economy of Latvia were evaluated very attentively because there were concerns that worsening of economic situation in the EU will affect growth rates of Latvia. However, Latvian economy was resistant towards crashes of external environment and, in general, in 2012 GDP exceeded the level of 2011 by 5.2%. In 2013 growth continued and GDP was by 4.1% higher than a year ago. Although during the last few years, most rapid increase in the EU was observed in the economy of Latvia, however GDP is still less by 9% than it was before the crisis in 2007. In 4th quarter of 2013 GDP increased by 3.6%, compared to corresponding period of the previous year.

Since 2010, an export of goods and services has grown very rapidly and it was one of the main drivers of growth in the national economy of Latvia. Exports volume in 2012 exceeded pre-crisis level by more than 20%.

In 2013, due to the low demand in foreign markets, exports increase has become more moderate. In 2013, as compared to the previous year, exports volume of goods and services rose by 1%. In the 4th quarter of 2013 exports remained at the level of previous quarter.

Gross Domestic Product
2004 = 100



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

	2009	2010	2011	2012	2013
Gross Domestic Product	-17.7	-1.3	5.3	5.2	4.1
Private consumption	-22.6	2.3	4.8	5.8	5.4
Public consumption	-9.4	-7.9	1.1	-0.2	3.6
Gross fixed capital formation	-37.4	-18.1	27.9	8.7	-4.3
Exports	-13.1	12.5	12.4	9.4	1.0
Imports	-31.7	11.8	22.3	4.5	-1.7

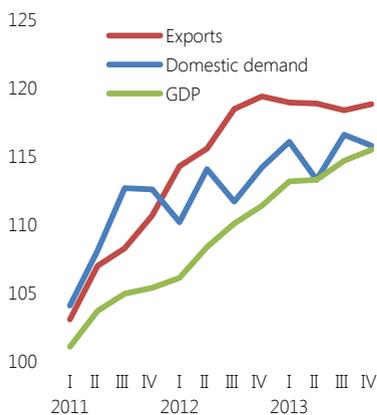
Private consumption has large contribution to the growth. Its increase is still affected by the growth of employment and wages. In 2013, private consumption increased by 5.4%. In the 4th quarter of 2013, compared to the 3rd quarter, private consumption rose by 0.8% (according to seasonally adjusted data) and was by 4.3% higher than a year ago, however, it still lags behind the pre-crisis level significantly.

Investment volume in the 4th quarter reduced significantly and was less by 10.3% than a year ago. In 2013, investment volume was at 4.3% lower level than a year ago. This was related to trends in some manufacturing sectors, like wood processing and metal working, as well as to voluminous investment projects in energy sector carried out in the previous year.

During the crisis, as domestic demand decreased, volume of imports reduced rapidly. As economic activities in domestic market increased over the last years, demand for imports is also rising. In 2013 imports volume decreased (by 1.7%). In the 4th quarter of 2013, compared to the 4th quarter of 2012 imports decreased by 3%. It was mainly affected by the decrease in separate groups of goods, such as mineral products and transport vehicles, as well as by drop of imports volume of services. In 2013 export-import balance was -1.9% of GDP (in the 4th quarter of 2013 it was -0.1%). Government consumption was increasing rapidly – by 3.6% (in the 4th quarter of 2013 – by 5.6%).

In 2013, consumer confidence was slightly lower than a year ago. Also in January 2014, it remained slightly lower than in January 2013. It was mainly determined by concern of consumers regarding possible price rise in the future.

Expenditure of Gross Domestic Product
seasonally adjusted data, 2010 Q4 = 100



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

	2011		2012				2013			
	IV	I	II	III	IV	I	II	III	IV	
Gross domestic product	5.1	7.1	4.9	4.6	4.6	3.8	4.3	4.5	3.6	
Private consumption	4.3	5.7	7.4	5.4	4.5	5.9	6.5	4.9	4.3	
Public consumption	-1.1	0.7	0.5	-1.7	-0.2	1.1	5.8	1.4	5.6	
Gross fixed capital formation	26.0	35.7	16.4	-1.9	1.0	-11.9	1.1	3.0	-10.3	
Exports	10.2	12.4	5.9	9.4	10.1	3.6	2.4	-1.3	0.0	
Imports	18.0	11.2	6.2	-0.4	2.5	2.2	-4.2	-1.4	-3.0	

GROSS DOMESTIC PRODUCT: DEVELOPMENT OF SECTORS

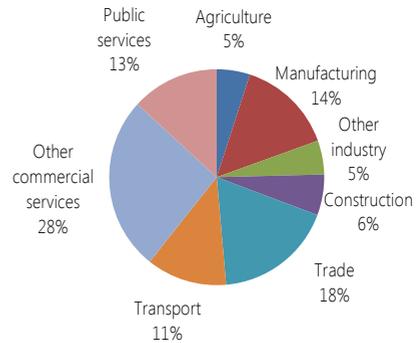
During the crisis, as labour costs reduced, competitiveness of manufacturers improved. This was basis for the increase of exports and, therefore, also for the development of tradable sectors. From 2009 to 2012 production volume grew more rapidly in the main exports sector – manufacturing – than total growth in the national economy, and the sector became main driver of growth in the national economy. Growth of tradable sectors and increase of income from exports have also promoted development of domestic market-oriented sectors.

At the beginning of 2013, weak demand in exports markets slowed down growth of manufacturing, however, in the 2nd half of 2013 situation in the sector improved gradually and in the 4th quarter production volumes were by 2.6% higher than a year ago. In total manufacturing volumes in 2013 remained at the level of 2012.

The production volumes of other industry in 2013 reduced by 3.3% which was mainly related to weather, because, as compared to the previous periods, smaller amounts of electricity and heat were produced.

Volume of services in transport and storage sector in the 4th quarter was by 0.1% higher than a year ago. In general volume of services provided in 2013 grew by 1.3%, which was mainly promoted by the growth in volume of freight transportation by roads.

GDP Structure
2013, as per cent



Gross Domestic Product by Sectors
as per cent

	2010	2011	2012	2013	2010	2011	2012	2013
	volume changes				contribution to changes			
Gross Domestic Product	-1.3	5.3	5.2	4.1	-1.3	5.3	5.2	4.1
Agriculture	2.1	-1.1	-0.9	-0.7	0.1	-0.1	-0.1	0.0
Manufacturing	16.7	11.7	9.3	0.0	1.4	1.5	1.5	0.0
Other industry	1.9	-1.3	-2.6	-3.3	0.1	-0.1	-0.2	-0.2
Construction	-31.1	11.0	14.5	7.4	-2.0	0.6	0.9	0.5
Trade and accommodation	-0.1	9.4	7.4	4.4	0.0	1.6	1.5	0.9
Transport and storage	0.8	8.1	3.6	1.3	0.1	0.9	0.5	0.2
Other commercial services	0.1	2.7	4.3	7.0	0.0	0.7	1.3	2.0
Public services	-8.1	0.6	-0.6	5.3	-1.1	0.1	-0.1	0.8

In the 4th quarter volumes of construction were by 3.9% higher than a year ago, but in 2013 in general volumes of construction grew by 7.4% which is mainly determined by increase in volume of construction of civil engineering structures. Even though construction volume during the last years has grown rather rapidly, it still lags behind the pre-crisis level by 31 per cent.

In the 4th quarter of 2013, volumes of services provided in trade sector was by 1.9% higher than a year ago, but over a year in general volumes of services grew by 4.4%. Rise of private consumption promoted growth in volume of retail trade – in 2013 it increased by 3.7 per cent.

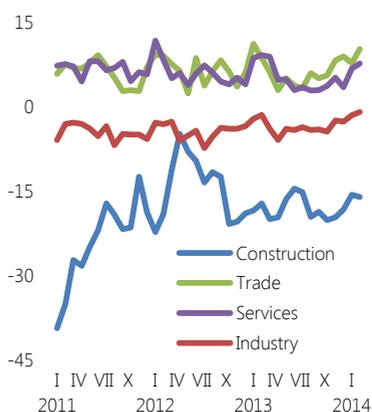
In 2013 stable increase remained in commercial services sectors (by 7%). Increase was mostly promoted by growth in information and communication, arts, entertainment and recreation services, as well as in real estate sector.

As government expenditure enlarged, in 2013 stable increase was also observed in public transport sectors (by 5.3%).

As domestic demand will continue to increase, stable development of domestic market-oriented sectors will remain in 2014. But development of tradable sectors will be promoted by gradual increase 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

	2011		2012		2013				
	IV	I	II	III	IV	I	II	III	IV
Gross Domestic Product	5.1	7.1	4.9	4.6	4.6	3.8	4.4	4.6	3.6
Agriculture	-6.5	0.9	-4.0	2.1	-2.9	0.6	-3.0	-1.6	2.3
Manufacturing	8.8	16.5	9.0	7.2	6.2	-4.8	-0.6	2.5	2.6
Other industry	-8.5	-3.4	-6.3	-2.9	1.5	-1.4	1.4	-3.9	-8.4
Construction	25.9	28.5	26.9	8.3	9.3	9.8	5.3	11.6	3.9
Trade and accommodation	8.9	7.1	5.8	7.1	9.3	4.9	6.0	5.2	1.9
Transport and storage	8.1	3.1	7.6	3.4	0.2	3.2	-1.0	2.8	0.1
Other commercial services	2.6	2.7	2.7	6.9	5.0	8.3	7.4	6.3	6.2
Public services	-0.4	1.5	-0.1	-3.3	-0.5	2.7	6.3	4.4	6.6

MANUFACTURING

During the time period from 2009 to 2012, growth rate of manufacturing was more rapid than total economic growth and manufacturing was main driver of national economy growth. In 2012 stable increase of production volumes in manufacturing remained. Despite the decrease in the growth rate in the major export markets – EU and CIS countries – production volumes increased by 9.3 per cent.

Smaller demand in foreign markets in 2013 has influenced sector contribution, and volume of goods produced in manufacturing sector remained at the level of previous year.

In 2013 manufacturing was greatly affected by discontinuation of economic activity of JSC "Liepājas Metalurģs". Production volumes in manufacture of basic metals shrank twice. At the same time, in the manufacture of fabricated metal products slight increase was observed. In 2013, production volume in metalworking decreased by 17.6%. Also at the beginning of 2014 termination of economic activity of JSC "Liepājas Metalurģs" significantly affected overall growth indicators of manufacturing.

Sector of chemical industry is significantly affected by low demand in CIS markets where 30% of total production manufactured is sold. In 2013 production volumes in sector continued decrease by 8.7%. 2014 was a successful start for the sector – in January production volumes were higher by 15.7% than a year ago.

In 2013 stable growth remained in other significant manufacturing sectors. In largest industrial sectors – manufacture of food products and wood processing – production volumes in 2013 grew by 6% and 2.7%, respectively. Growth in sectors is also observed in the first months of 2014.

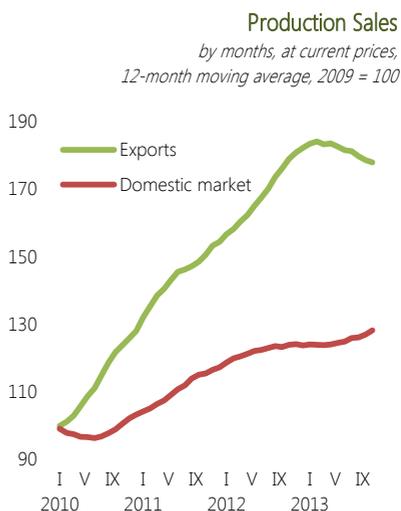
In 2013, production volume in manufacture of electrical and optical equipment increased rapidly (by 18.4%) – stable exports opportunities remained in the sector, also demand in domestic market rose. Production volume also increased in the manufacture of non-metallic mineral products, in manufacture of paper and publishing, light industry, in manufacture of motor vehicles and machinery and equipment.



In 2013, turnover of manufacturing remained at the level of 2012. Over a year turnover on products sold at the domestic market grew by 4.9%, while turnover of exported goods decreased by 2.7 per cent.

Despite different trends in sub-sectors, production capacity utilisation rate in manufacturing during the last year has not changed and at the beginning of 2014 it was 72.1%. Confidence indicators by sectors during the last year have remained practically the same.

Further development of manufacturing will be closely related both to the rise in domestic demand and to the improvement of economic situation in major export partner countries.



Main Indicators of Manufacturing

as per cent

	Structure of output	Structure of occupied jobs	Exports share in sales of sector	Volume changes		
				2012	2013	2014 M1-2
	2013					
Manufacturing – total	100	100	61.7	9.3	0.1	-2.1
Food industry	25.2	21.7	36.1	2.5	6.0	6.4
Light industry	4.3	11.2	84.5	3.0	1.4	-9.1
Wood processing	23.1	19.4	73.3	5.4	2.7	4.7
Paper industry and publishing	4.5	3.9	58.6	10.1	5.6	1.0
Chemical industry	7.5	6.3	74.9	8.3	-8.7	6.2
Other non-metallic mineral products	6.5	4.2	43.9	8.6	4.6	4.4
Metals and metal articles	10.7	11.0	65.3	16.2	-17.6	-37.2
Electrical and optical equipment	6.2	3.7	88.5	20.0	18.4	12.3
Machinery and equipment	2.4	2.9	74.8	8.7	1.4	3.1
Motor vehicles	4.0	3.3	92.0	15.8	3.0	9.7
Other industries	5.7	12.4	50.6	26.1	-7.6	-2.9

INVESTMENTS

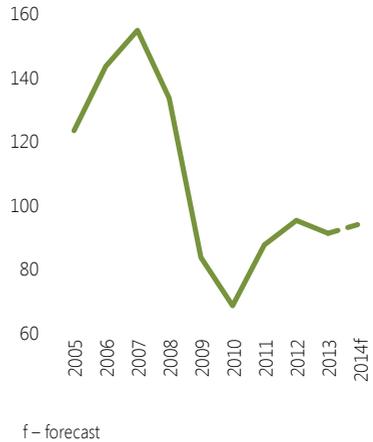
As economic activities resumed, investments in Latvian economy increased rather rapidly. In 2011-2012 investments in national economy of Latvia were 1.2 times more than in 2009-2010. However, it should be noted that during the last two years investment volume is slowing down.

In 2012 investment in services sectors rose by 16%. Voluminous investment was made in trade, transport and storage, as well as in real estate activities. In its turn, investment dynamics in tradable sector was more moderate than in 2011, but in 2012 less by 8.1% was invested in manufacturing than a year ago.

Due to the fact that in 2012 many large investment projects were concluded, investment level in the 1st quarter of 2013 was by 12% lower. Whereas in the 2nd and 3rd quarter of 2013, investments in national economy of Latvia exceed the level of previous year by 1.1% and 3.3%, respectively, but in the 4th quarter they were by 10% lower than a year ago. Stable increase of investment value is mainly delayed by slow renewal of crediting.

Since 2010, incoming foreign direct investment (FDI) flows are increasing gradually. In 2011, net incoming FDI flows in Latvian economy rose almost four times and comprised 5.2% of GDP. However, in 2012 their volume was 3.2% of GDP, but in 2013 – 1.5% of GDP. Attracted net FDI flows affected trends in energy, transport and storage sectors. Also volume of attracted FDI related to financial intermediation was almost by one third smaller than a year ago. It must be noted that, in 2013 volume of FDI in manufacturing remained at the level of the previous year. Rather high intensity of incoming FDI flows in manufacturing shows that sector is very attractive to foreign investors.

Gross Fixed Capital Formation
2004 = 100



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

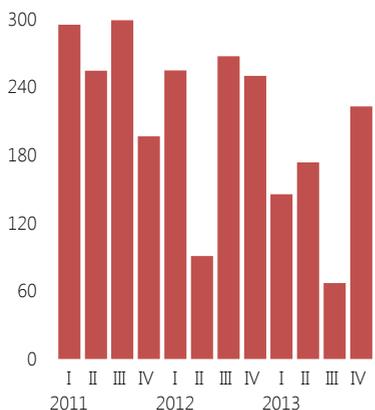


In 2013 volume of attracted FDI in Baltic States accounted for EUR 1,737.5 mln, i.e., almost by one third less than a year ago. Latvia attracted about 35% of all Baltic State FDI.

According to international investment balance of Latvia, at the end of 2013, FDI stock in Latvian economy reached EUR 11,471.9 million) – 12% more than at the end of 2012 (of which – by 17.6% more in manufacturing). Larger share of FDI by sectors is in real estate activities and in bank intermediation.

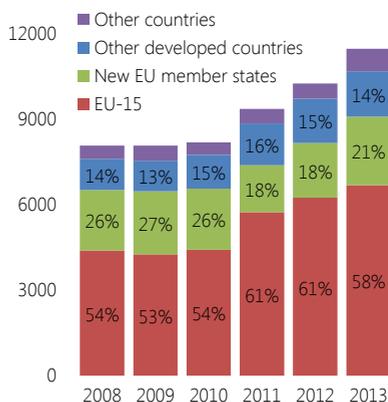
Foreign Direct Investment in Latvia

flows by quarters, mln euro



Foreign Direct Investment in Latvia

*by groups of countries
balance at the end of period, mln euro*



Non-financial Investment by Sectors

as per cent

	structure	changes of volume			
	2013**	2010	2011	2012*	2013**
Agriculture	5.4	19.6	59.2	20.7	-16.7
Manufacturing	10.6	5.5	41.6	2.5	-33.0
Other industry	17.3	-9.3	71.0	10.2	-13.0
Construction	2.5	-33.3	21.3	-36.0	24.4
Trade and accommodation	5.7	-24.2	24.5	18.4	-28.1
Transport and storage	16.5	8.1	48.1	30.3	-14.6
Other commercial services	14.2	-32.2	-3.5	36.4	-1.3
Public services	27.7	-44.3	22.5	-4.1	-3.7

* preliminary data

** estimation accordingly quarterly data

FOREIGN TRADE

Since 2009 foreign trade of Latvia has been developing very rapidly. As compared to 2009, export of goods at current prices in 2012 has almost doubled, while import of goods at current prices – increased by more than 80%. From 2009 to 2012, export has risen on average by 25% yearly, while import – by 23%. 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. Volumes of exports of wood processing, machinery and electrical equipment and mineral products have risen significantly.

As uncertainty in external environment remained, export of Latvian goods in 2013 was developing moderately, it rose by 1.3% at current prices, but slightly decreased – by 0.3% – at constant prices. Also import of goods at current prices rose only by 0.4%, but at constant prices – remained at the level of the previous year.

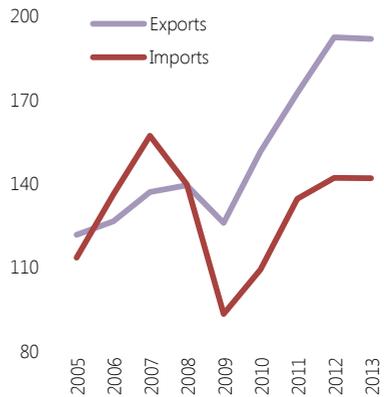
At the beginning of 2014 export of Latvian goods slightly decreased (January over January of the previous year), at current prices – by 2.4%. Imports of goods during this period has reduced slightly faster – by 5.8 per cent.

As volumes of exports and imports of goods grew similarly, also negative trade balance has not changed significantly.

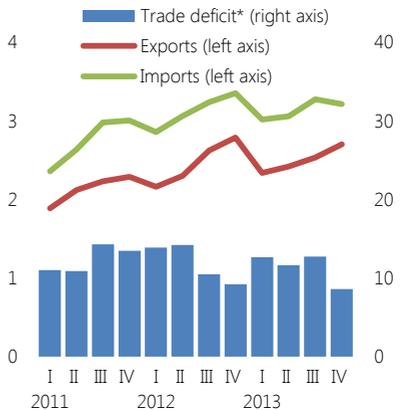
In 2013 development of exports was mainly promoted by the rise in volumes of export of machinery products and wood and wood products. Due to termination of economic activity of JSC „Liepājas Metalurgs” exports of metals and metal articles has decreased significantly. In 2013 also exports volume of transport vehicle group has reduced.

In January 2014, export was positively influenced by growth of wood and wood products, as well as by agricultural and food products. Similar as in 2013, volume of export of metals and metal articles, as well as transport vehicles continue to decrease.

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

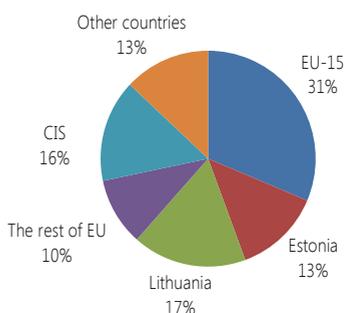
Volume of import of goods in 2013 mainly affected decrease of import of metals and metal articles, as well as of transport vehicles group. This decline, in turn, was compensated by the increase in the import of goods of chemical and light industry, as well as agricultural and food products. Similar development trends of import of goods also remained at the beginning of 2014.

Volume of export of goods to EU and CIS countries in 2013 has grown slightly faster than export to other regions. Export to main export partner of Latvia – Lithuania – has increased more rapidly (+9%). While export to Estonia remained at the level of the previous year. Export to other countries (except EU and CIS countries) has diminished by 12 per cent.

Main Latvia's trade partners in 2013 were Lithuania – 19% of total foreign trade turnover, Estonia, Russia and Germany – 10% each, Poland – 8%, Sweden and Finland – 4% each, as well as Denmark and the Netherlands – 3% each.

Further in 2014 export development opportunities will depend not only upon the foreign demand, but also upon better competitiveness of Latvian producers.

Structure of Exports of Latvian Goods
in 2013, as per cent



Exports and Imports of Latvian Goods
in 2013, as per cent

	Exports			Imports		
	structure	volume changes	contribution to changes	structure	volume changes	contribution to changes
Total, of which:	100	1.3	1.3	100	0.4	0.4
Agricultural and food products	20.3	0.0	0.0	15.8	3.1	0.5
Mineral products	8.8	1.9	0.2	17.1	-2.7	-0.5
Chemical products	9.7	3.5	0.3	15.0	7.2	1.0
Products of light industry	4.9	5.1	0.2	6.1	12.0	0.7
Wood and articles of wood	16.1	9.6	1.4	2.0	25.9	0.4
Metals and metal articles	10.7	-22.6	-3.2	8.8	-15.2	-1.6
Machinery and electrical equipment	15.5	14.6	2.0	18.4	1.3	0.2
Transport vehicles	4.5	-16.6	-0.9	7.5	-13.1	-1.1
Other goods	9.7	14.0	1.2	9.3	9.8	0.8

BALANCE OF PAYMENTS

During the last years, the current account of balance of payments is at the level of a small deficit. In 2011, current account deficit constituted 2.2% of GDP, in 2012 – 2.5% of GDP. In its turn, negative balance of current account in 2013 was 0.8% of GDP.

Fluctuations of the current account are mainly determined by the changes in foreign trade balance. In 2012, foreign trade deficit accounted for 9.8% of GDP, (in comparison – in 2007 deficit comprised 24% of GDP). Improvement of foreign trade balance was mainly determined by the more rapid growth of export volume than import volume. In 2012, both export and import at current prices grew rapidly. While in 2013, volumes of export and import of goods remained at the level of the previous year and foreign trade balance deficit reached 9% of GDP or was almost by 1.4 percentage points lower than in 2012.

Balance of services remains positive and covers foreign trade deficit by 65%. In 2012, services balance surplus constituted 6.8% of GDP, almost twice exceeding level of 2007. In 2013, export of services rose by 4.8%, while imports remained at the level of the previous year and services balance surplus reached 7.1% of GDP.

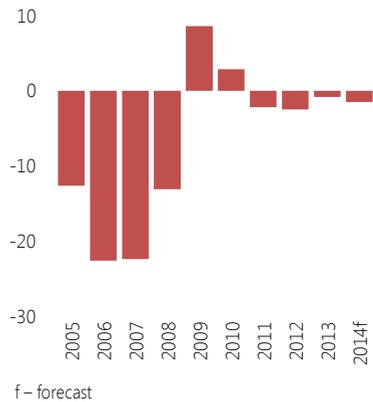
Position of income balance is mainly determined by changes of profitability of non-resident enterprises. Due to losses of foreign investors, during the crisis income balance was positive. As economic situation improved, since 2011 income balance has been negative. In 2013, deficit of income balance was 1.4% of GDP.

Fluctuations of balance of financial account by quarters are reducing gradually. In 2012 positive balance of financial account was 2.9% of GDP. Also in 2013 financial account was positive (1% of GDP).

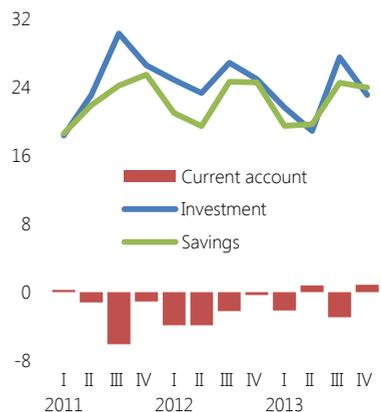
Attracted FDI in 2012 were 3.2%, and in 2013 – 1.5% of GDP.

Share of portfolio investment in incoming financial flow is rather small, and, during the last 3 years, it has not exceeded 10 per cent.

Current Account Balance
as per cent of GDP



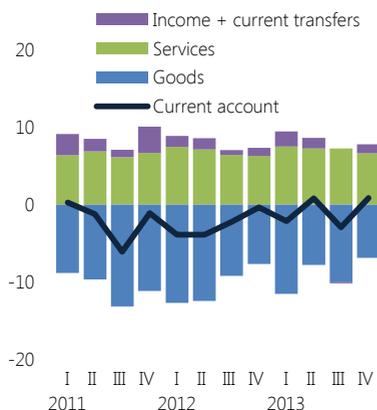
Current Account, Investment and Savings
by quarters, as per cent of GDP



Significant fluctuations are observed in other investment position. In 2012, other investment balance was negative – 5.1% of GDP. In 2013, deficit of other investment balance reached 0.7% of GDP. Fluctuations in balance of portfolio and other investments mainly are related to financial sector stabilisation measures and restructuring of public sector debt.

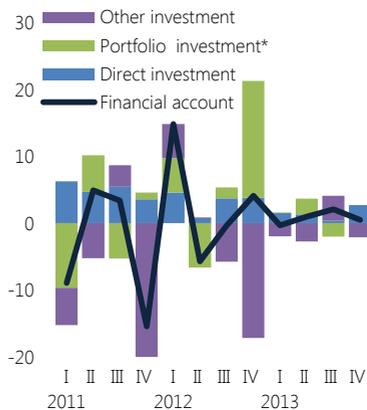
Current Account by Items

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
A. Current account	8.6	2.9	-2.2	-2.5	-0.8
Trade balance	-7.1	-7.0	-10.8	-10.4	-9.0
Service balance	6.0	6.1	6.5	6.8	7.1
Net income	6.3	0.2	-0.9	-1.8	-1.4
Net current transfers	3.4	3.6	3.1	2.9	2.5
B. Capital account	2.4	1.9	2.1	3.0	2.5
C. Financial account*	-6.9	-2.1	-4.0	2.9	1.0
Direct investment stock	0.6	1.5	4.9	3.2	1.5
Portfolio investment**	2.3	-2.8	-1.8	4.7	0.0
Other investment	-9.8	-0.7	-7.2	-5.1	-0.7
D. Deviation	0.8	1.2	-0.4	0.2	-0.8
E. Reserve assets	-5.0	-4.0	4.4	-3.6	-1.7

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

PRICES

After deflation, caused by the crisis, when 12-month inflation in February 2010 dropped to -4.2%, prices started to rise again. In 2011, annual increase in consumer prices constituted 4%, while in 2012 – 1.6%. In 2013, consumer prices decreased by 0.4%. Deflation mainly was caused by the reduction in prices of natural gas, food and fuel. Drop in world’s fuel and food prices had great impact. Average annual price level in 2013 remained the same as 2012.

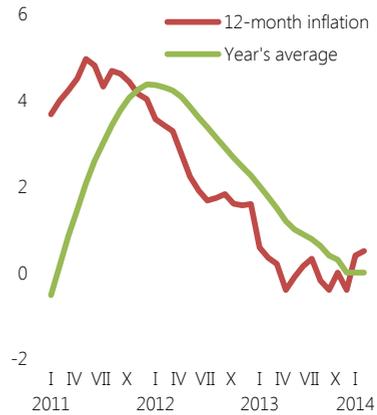
In 2014 moderate price growth continues. In February consumer prices were by 0.5% higher than a year ago. In the two months of 2014, increase in prices of food (by 2.1%), alcoholic beverages (by 2.4%) and services (by 1.5%), as well as price drop on wearing apparel and footwear (by 8.3%) had the greatest impact on the price changes. It should be noted that in February world food prices had the most rapid increase since the middle of 2012 and they were by 2.6% higher than in January. In February, oil prices in world markets were lower than at the end of the last year. In Latvia in January-February fuel prices grew by 0.6 per cent.

Also in the EU price dynamics in 2014 in general was moderate. In January 12-month inflation in the EU countries was 0.9%, which was determined by price rise on food products and services.

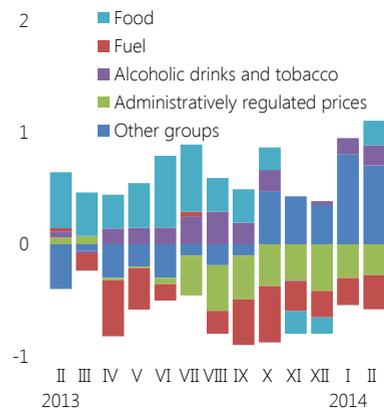
In the future consumer prices will tend to increase. It will be affected both by demand and supply side factors. As situation in labour market will improve, private consumption will increase. Ministry of Economics estimates that in general in 2014 moderate inflation is expected and annual average inflation may be around 1% on condition that food and oil product prices will maintain the current trend and rapid increase is not expected.

After rapid increase in 2010 and in first half of 2011, producer prices are rising moderately. In 2013, producer prices rose slightly (by 0.3%), mainly due to price growth in manufacturing.

Consumer Price Changes
by months, per cent



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

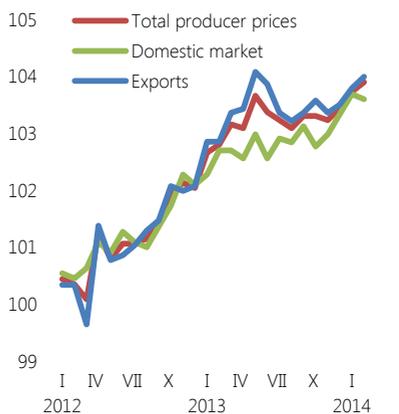


In January 2014, compared to January 2013, overall level of producer prices in industry grew by 0.6%, for products sold at the domestic market – by 0.1% and for exported goods – by 1.2%. Most significant price increases were observed in wood processing (by 0.9 percentage points), but largest price decrease – in manufacture of computer, electronic and optical products (by 0.3 percentage points).

In February 2014, producer prices in manufacturing were by 1% higher than a year ago. In February 2014, producer prices on exported production in manufacturing have increased by 1.1%, whereas prices of products sold at the domestic market – by 0.9% yearly. More notable price rise was observed in wood processing, while significant reduction was recorded in manufacture of computers, electronic and optical equipment as well as chemical products.

Rise of producer prices witnesses that demand for products manufactured in Latvia is increasing not only in domestic market, where economic situation is improving gradually, but it remains high also in external markets, despite of weak economic growth in main partner countries.

Producer Prices in Manufacturing
by months, December 2011 = 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
2013	February	-0.1	0.3	-0.3	1.8
	March	0.5	0.2	0.2	1.5
	April	0.0	-0.4	0.2	1.2
	May	0.1	-0.1	0.3	1.0
	June	0.2	0.2	0.5	0.9
	July	-0.3	0.3	0.2	0.8
	August	-0.8	-0.2	-0.6	0.6
	September	0.3	-0.4	-0.4	0.4
	October	0.3	0.0	0.0	0.3
	November	-0.5	-0.4	-0.5	0.1
	December	0.0	-0.4	-0.4	0.0
2014	January	0.6	0.4	0.6	0.0
	February	0.0	0.5	0.6	0.0

MONETARY INDICATORS

Since 2010 situation in financial sector has been improving gradually – number of new loans issued is increasing, quality of credit portfolio is improving and assets of banking sector are rising.

Amount of new loans continues to increase – in the 4th quarter of 2013 new loans in amount of EUR 981.1 mln were issued, which is by 11.2% more than at the same period of 2012. Amount of new loans issued to residents increased more rapidly (by 15.8%). Amount of new loans issued to non-residents rose by 4.7%. Share of loans issued to non-residents in total credit portfolio of banking sector in the 4th quarter of 2013 reached 39%. Positive trends are observed in household and entrepreneur crediting, amount of new loans issued increased by 26% and by 34.8%, respectively. In sector breakdown of national economy in the 4th quarter of 2013 amount of new loans issued in education, accommodation and food service activities, trade and manufacturing grew significantly.

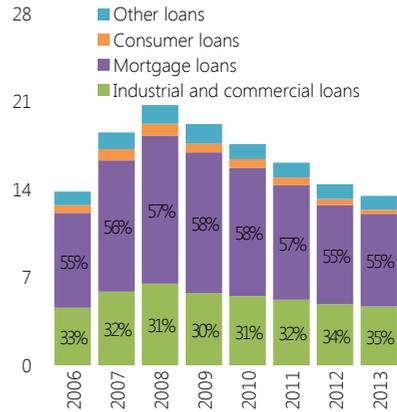
Amount of loans repaid still is larger than new issued loans and total balance of loans continue to decrease. In the 4th quarter of 2013, compared to the same period of the previous year, they shrank by 6.3%. During this period balance of industrial loans decreased by 8.6%, but balance of commercial loans slightly increased. Consumer crediting still continues to shrink rapidly (by 33.1%). Loan balance of mortgages decreased by 6.8 per cent.

Quality of credit portfolio is improving. At the end of 2013, 14.6% of loans were with overdue payments – it is the lowest indicator since 2008 when there were 15% of loans with overdue payments. Loans with overdue payments exceeding 90 days comprise almost 60% of all loans with overdue payments.

Along with introduction of euro in Latvia, the amount of resident deposits attracted has increased significantly – at the end of 4th quarter they comprised EUR 10.3 billion which is by 13.3% more than a year ago. Non-resident deposits rose slightly slower (by 6.3%).

Loans Issued to Residents

at the end of the period, billion euro



Average Weighted Interest Rates in Euro on Credits

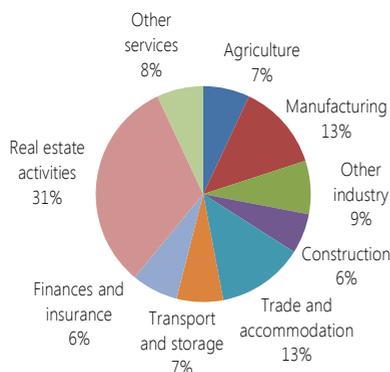
by quarters, as per cent



In the 4th quarter of 2013, interest rates on short-term and long-term loans issued both in euro and in lats increased. More rapid growth was observed on long-term interest rates which reached 9.4% and 9.1%, respectively, but short-term interest rates comprised 3.8% and 5.9%, respectively.

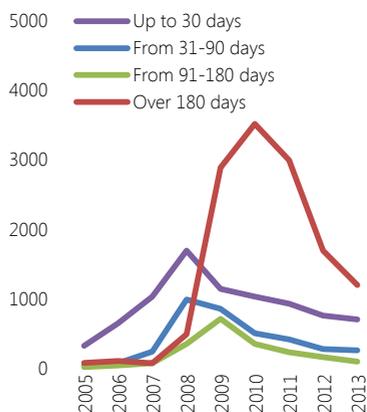
Structure of Loans Issued by Sectors

at the end of 2013, as per cent



Loans with Overdue Payments

at the end of the period, mln euro



Monetary Indicators of the Banking System of Latvia

	2009	2010	2011	2012	2013
<i>at the end of period, mln lats</i>					
Net foreign assets	-4'299.3	-1'735.6	-319.9	873.2	1'201.0
Net domestic assets	12'580.9	10'827.8	9'548.8	8'767.3	8'634.0
Domestic loans	17'365.2	15'957.6	15'716.2	13'650.0	13'452.1
Other assets (net)	-4'784.3	-5'129.9	-6'167.4	-4'882.7	-4'818.1
Broad money M2X	8'281.5	9'092.2	9'228.9	9'640.5	9'835.0
Cash in turnover (without vault cash balance)	949.5	1'148.8	1'479.8	1'540.1	667.8
Deposits of individuals and companies	7'332.1	7'943.5	7'749.1	8'100.4	9'167.4
<i>per cent changes</i>					
Domestic loans	-14.5	-8.1	-1.5	-13.1	-1.4
Broad money M2X	-1.9	9.8	1.5	4.5	2.0
Cash in turnover (without vault cash balance)	-23.0	21.0	28.8	4.1	-56.6
Deposits of individuals and companies	1.7	8.3	-2.4	4.5	13.2
Gross Domestic Product at current prices	-18.7	-2.2	11.7	8.7	5.6

GOVERNMENT BUDGET

Worsening of Latvia's economic situation from 2008 to 2009 has left significant influence on the state fiscal situation. To avoid losing control over situation in financial sector, from 2008 to 2012 Latvia consolidated its budget. From 2008 to 2012 Latvia has carried out fiscal consolidation measures on average in amount of 3.4% of GDP annually. Budget deficit reduced from 9.7% of GDP in 2009 to 1.4% of GDP in 2012. In 2013 budget deficit dropped to 1.3 per cent.

In 2013, general government consolidated budget revenues constituted EUR 8,380.6 mln which was by 2.6% more than a year ago. Total tax revenues rose by 5.3% during this period.

Due to increase of employment and wages, revenues from labour taxes are rising. During 2013, mandatory state social insurance contributions grew by 5.1%, while revenues from personal income tax – by 7.5%. Labour taxes in 2013 comprised more than a half of the total increase in the taxes collected.

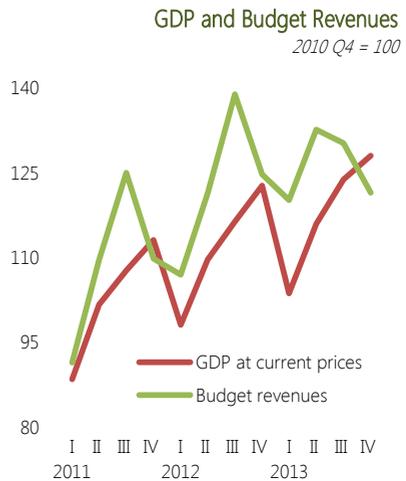
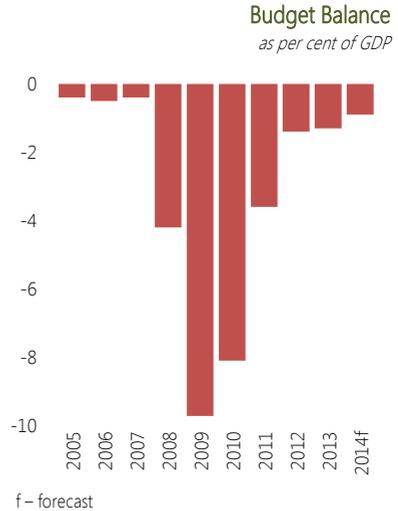
In 2013, compared to the previous year, value added tax contributions rose by 4.9%. As economic activity continues to increase, corporate income tax collected also continues to grow – by 4.5 per cent.

In January-February 2014 general government consolidated budget revenues grew by 9.9 per cent.

Tax revenues during two months were more by 3.1% than a year ago. Significant increase is observed in value added tax contribution – by 19.6%. Employment taxes revenues during this period reduced slightly which was affected both by decrease of tax rates and by voluminous labour force taxes collected in December 2013.

In 2013, general government consolidated budget expenditures constituted EUR 8,508.9 mln – by 4.5% more than in 2012.

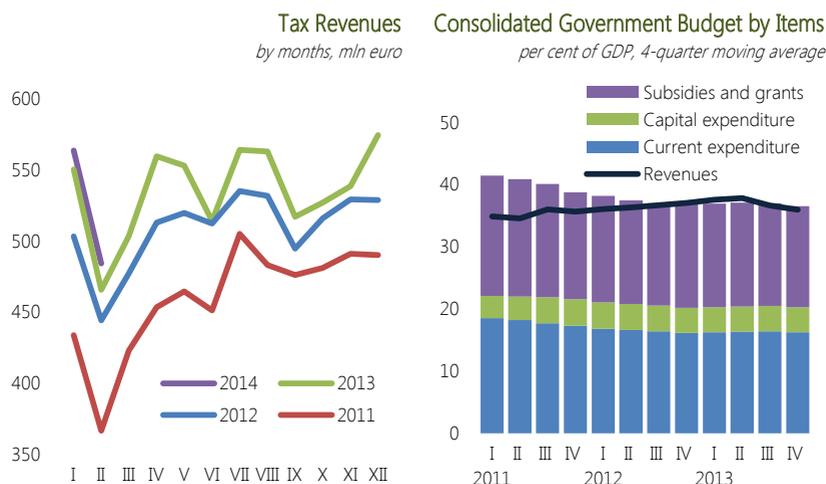
In 2013, current expenditures and capital expenditures have grown rapidly – by 6.3% and 4.8%, respectively. During this period, expenditures on subsidies and grants have risen by 2.3 per cent.



From functional categories in 2013 most rapidly expenditure increased on social protection, economic activity and public order and safety.

In January-February 2014 general government consolidated budget revenues grew by 2.6%. Current expenditures rose by 9.2%, capital expenditures – by 3.6% and expenditures on subsidies and grants – by 0.7%. By functional categories the largest growth was on general government services, health, social protection and economic activity.

Aim of the government is to continue to maintain low budget deficit and it is planned that in 2014 it will reach 0.9% of GDP.



General Government Budget

	bln euro			per cent changes		
	2011	2012	2013	2014 M1-2	2013	2014 M1-2
Revenues, of which:	7.2	8.2	8.4	1.4	2.6	9.9
Indirect taxes, of which:	2.1	2.3	2.4	0.4	4.3	12.9
Value added tax	1.4	1.6	1.7	0.3	4.9	19.6
Income and real estate taxes	1.6	1.8	1.9	0.3	6.5	-0.2
Social insurance contributions	1.7	1.9	2.0	0.3	5.1	-4.9
Other taxes	0.1	0.1	0.2	0.0	8.6	-1.5
Other revenues	1.7	2.1	2.0	0.3	-0.5	39.4
Expenditure	7.9	8.1	8.5	1.3	4.5	2.6

LABOUR MARKET

Gradual improvement of economic activities has positive effect on the situation in labour market – employment increases and high unemployment caused by the crisis decreases.

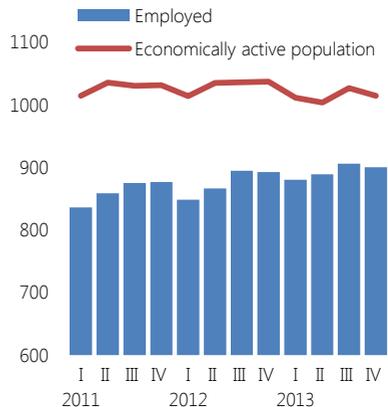
In 2013 number of employed rose by 2.1%, which was the most rapid increase since 2008. Employment rate among population aged 15-74 years rose to 58.2%. In 2013, the number of employed persons comprised 894 thsd.

At the same time in 2013 the number of economically active population has decreased (by 1.6%) which was mainly affected by negative demographic trends. In 2013, the number of economically active population was 1'014.2 thsd or 66% of total population aged 15-74 years.

Decrease of economically active population and rise of employment has facilitated more rapid fall of unemployment. In 2013, unemployment rate decreased by 3.2 percentage points and was 11.9%. The number of unemployed in 2013 comprised 120.4 thsd.

Also registered unemployment rate continues to decrease – at the end of February 2014 it comprised 9.9%. Number of registered unemployed persons comprised 97.7 thsd, which is by 10 thsd less than in February 2013. The highest level of registered unemployment remained in Latgale region (19.5%), but the lowest – in Riga (5.7%). Share of long-term unemployed persons (not working for more than a year) in the total number of unemployed persons comprised approximately one third.

Employed and Economically Active Population
by quarters, in thousands



Occupied Jobs
in thousands

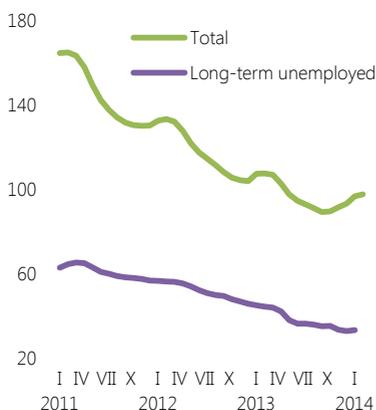
	2008	2009	2010	2011	2012	2013
Total	1'016.6	826.1	776.7	805.5	839.1	865.1
Agriculture	20.8	17.9	17.5	19.0	20.6	21.2
Manufacturing	138.9	104.1	101.8	109.1	114.5	117.3
Other industry	26.7	23.7	22.4	22.9	23.7	24.2
Construction	89.3	54.6	46.0	50.9	55.7	60.6
Trade and accommodation	221.8	173.3	159.7	162.8	170.7	173.9
Transport and storage	77.8	67.6	66.8	68.8	72.7	75.2
Other commercial services	196.2	162.8	148.4	157.0	168.5	176.2
Public services	245.1	222.1	214.2	215.0	212.8	216.5

Since the middle of 2010, number of job vacancies registered by the State Employment Agency is rising gradually. At the end of February 2014, totally 4.8 thsd job vacancies were registered – by 24% more than a year ago.

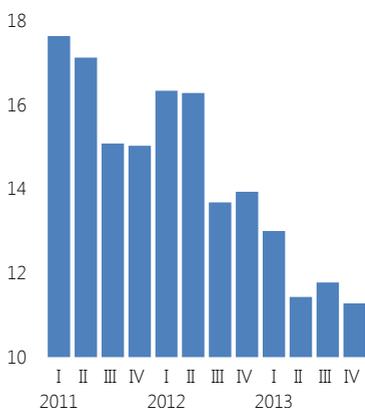
Comparatively high unemployment is mainly related to cyclical factors, features of structural unemployment remain high. Part of current unemployed persons may encounter problem to find job in a longer term, because the new workplaces are not the same they lost during the crisis.

In 2014, situation in labour market will continue to improve. It has been foreseen that in 2014 the number of employed persons may increase by about 2%, but unemployment rate – decrease to 9.6 per cent.

Registered Unemployed
by months, in thousands



Unemployment
by quarters, per cent



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

	2008	2009	2010	2011	2012	2013
in thousands						
Population*	1'702.5	1'674.3	1'635.3	1'595.3	1'560.0	1'536.1
Economically active population	1'143.4	1'101.4	1'056.5	1'028.2	1'030.7	1'014.2
Employed persons	1'054.9	908.5	850.7	861.6	875.6	893.9
Unemployed persons	88.5	192.9	205.8	166.6	155.1	120.4
as per cent						
Economic activity rate	67.2	65.8	64.6	64.5	66.1	66.0
Employment rate	62.0	54.3	52.0	54.0	56.1	58.2
Unemployment rate	7.7	17.5	19.5	16.2	15.0	11.9

* population in private households

PERSONAL INCOME

During the economic crisis, remuneration correction was rather moderate. Most of the economic recession was compensated by the decrease of number of employed.

As economic situation became more stable, since the end of 2010 labour remuneration has been increasing, although unemployment rate is still rather high.

Along with the growth of labour demand, average gross wages is slowly rising. In 2011 and 2012 it increased by 4.4% and 3.7% respectively. Since 2010-2012, annual wages have risen in both private and public sector. Increase in public sector was slightly faster. It may be explained by higher wage drop during the crisis that was caused by necessity to limit government budget expenditures.

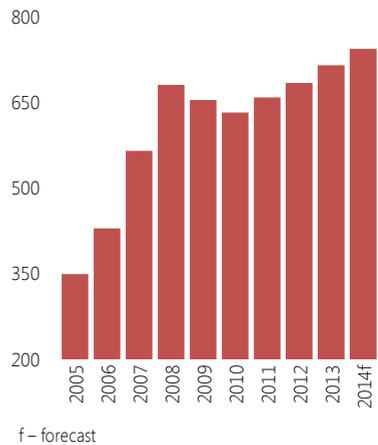
In 2013, as compared to 2012, gross wage grew by 4.6% and comprised EUR 716. The largest wages remained in Riga region (EUR 815), but the lowest level of remuneration was in Latgale region (EUR 490). Wages increased faster in private sector (by 4.7%), compared to public sector (by 4.6%). It must be noted, that in 2013 average gross wage in public sector was still less by 5% than in the same period of 2008, but in private sector it exceeded the level of 2008 by 10.7 per cent.

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

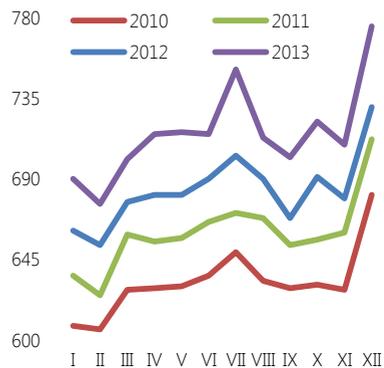
In 2013 most rapid wage increase was observed in mining and quarrying (13.2%), arts, entertainment and recreation (12.7%), public administration (9.9%) and financial and insurance activities (7.1%).

The highest remuneration level remained in finance and insurance services sector – on average EUR 1'531 per month.

Average Monthly Wages and Salaries of Employed
gross, in euro

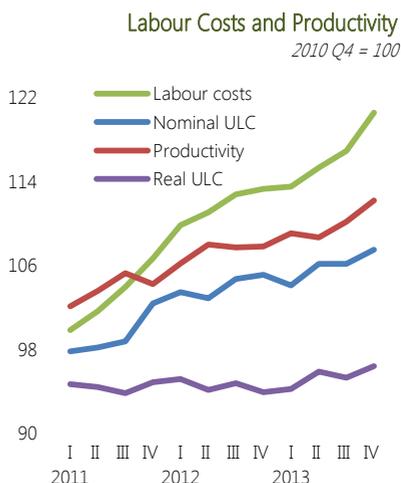
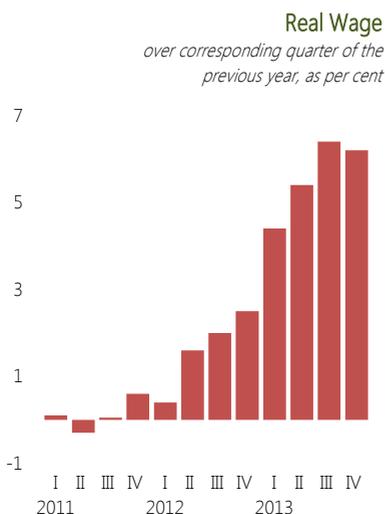


Average Monthly Wages and Salaries of Employed by Months
gross by months, in euro



Along with the increase of nominal wage, gradual increase may be observed also in real wages. As consumer prices are growing, increase of real wages during the last 2 years was rather moderate – in 2011 they increased by 0.1%, while in 2012 – by 1.6%. In 2013, real wages grew by 5.6% which was mainly determined by consumer prices that remained at the current level.

Amount of average old-age pension continues to increase – in 2012, it was by 1.2% higher than a year ago. In 2013, average old-age pension grew by 1%, as compared to the previous year, and comprised EUR 259.2 per month.



Average Wages and Salaries of Employed by Sectors

gross, over the previous year, as per cent

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

COMPARATIVE INTERNATIONAL STATISTICS

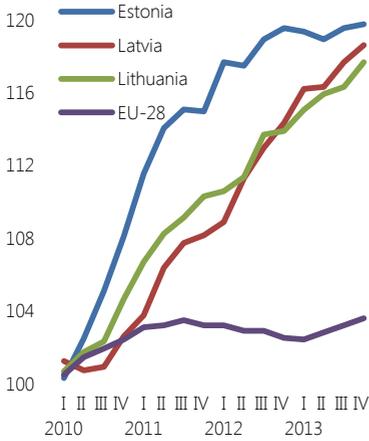
Economic Development in Baltic Countries

	Latvia	Lithuania	Estonia
Territory, thsd km ²	64.6	65.3	45.2
Population, thsd, at the beginning of 2014	2'005.2	2'944.5	1'311.9
Gross domestic product, over corresponding period of the previous year, %			
2012	5.2	3.7	3.9
2013	4.1	3.3	0.8
2013 Q3	4.6	2.2	0.7
2013 Q4	3.6	3.6	0.3
Volume of manufacturing production, over corresponding period of the previous year, %			
2012	9.4	3.7	1.1
2013	0.0	3.3	2.9
2013 Q3	2.5	0.2	3.5
2013 Q4	2.6	-1.7	1.5
Retail trade turnover*, over corresponding period of the previous year, %			
2012	9.1	6.2	9.3
2013	3.3	5.2	3.1
2013 Q3	2.4	5.6	2.7
2013 Q4	3.1	3.7	3.9
Changes of consumer prices, over corresponding period of the previous year, %			
2012	2.3	3.1	3.9
2013	0.0	1.0	2.8
2013 Q3	-0.1	0.4	2.8
2013 Q4	-0.3	0.4	1.5
Number of employed, over corresponding period of the previous year, %			
2012	1.6	1.7	1.9
2013	2.1	1.3	1.0
2013 Q3	1.3	0.7	0.2
2013 Q4	0.8	2.1	0.1
Unemployment rate, % of economically active population			
2012	15.0	13.4	10.0
2013	11.9	11.8	8.6
2013 Q3	11.8	10.9	7.8
2013 Q4	11.3	11.4	8.7

* data adjusted by working days, in current prices

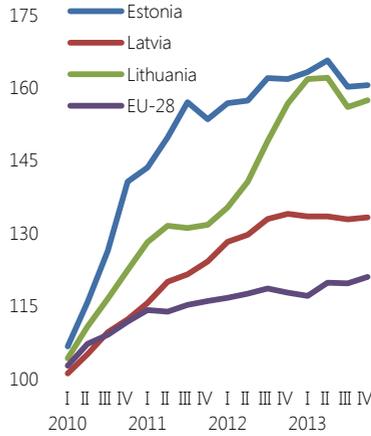
Gross Domestic Product

seasonally adjusted data
2009 Q4 = 100



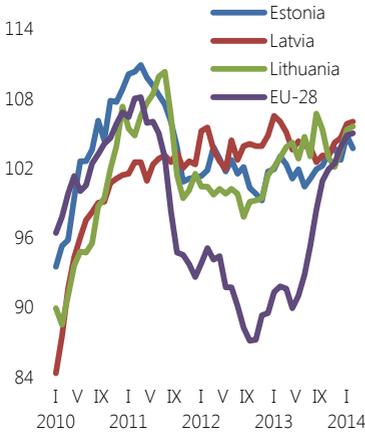
Exports of Goods and Services

seasonally adjusted data
2009 Q4 = 100



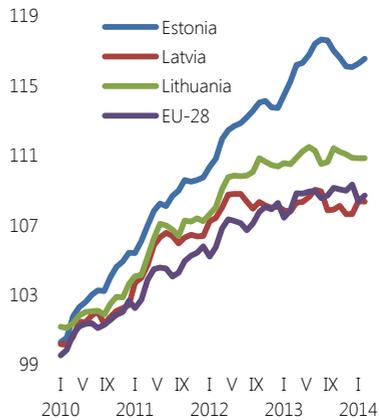
Economic Sentiment Indicator

seasonally adjusted data



Harmonised Consumer Price Index

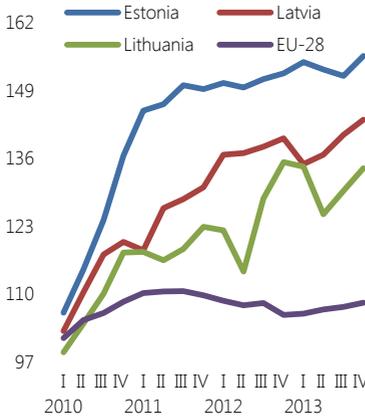
2009 Q4 = 100



Manufacturing Production Volume

seasonally adjusted data

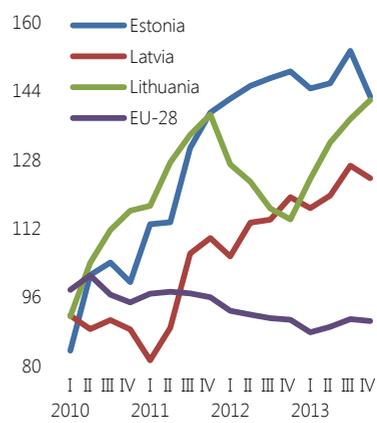
2009 Q4 = 100



Construction Production Volume

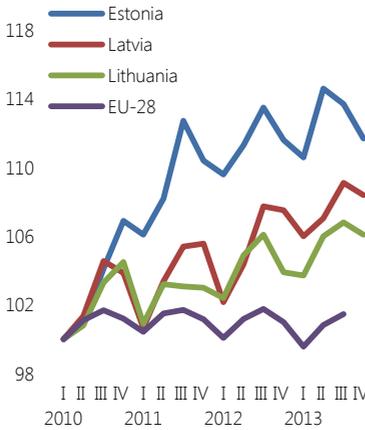
seasonally adjusted data

2009 Q4 = 100



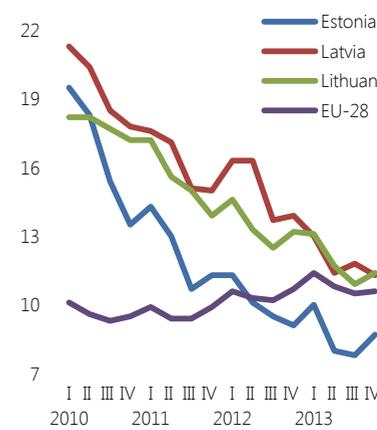
Number of Employed

2010 Q1 = 100



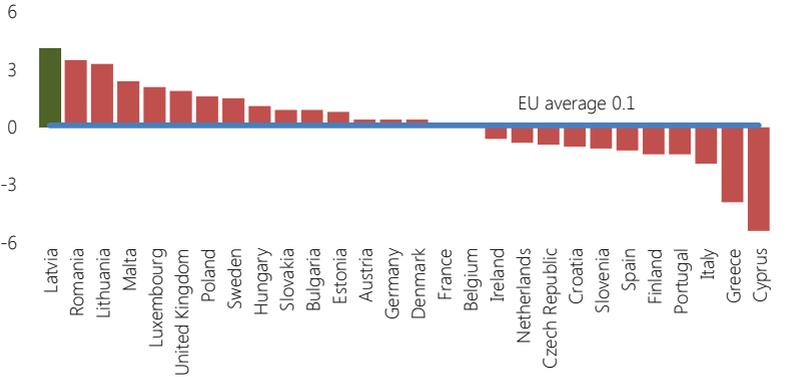
Unemployment Rate

as per cent



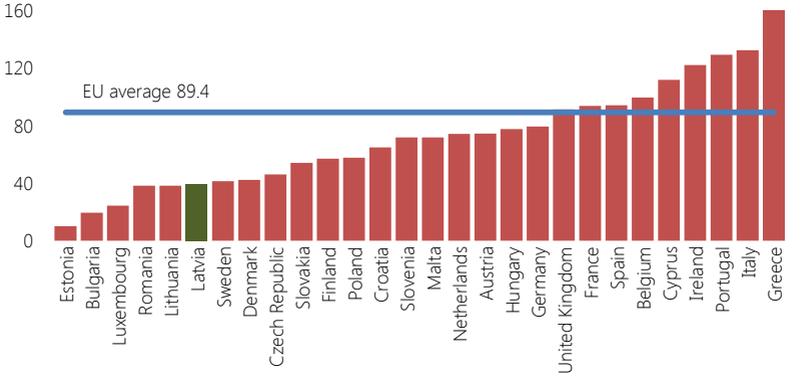
Gross Domestic Product

in 2013, changes of volumes, as per cent



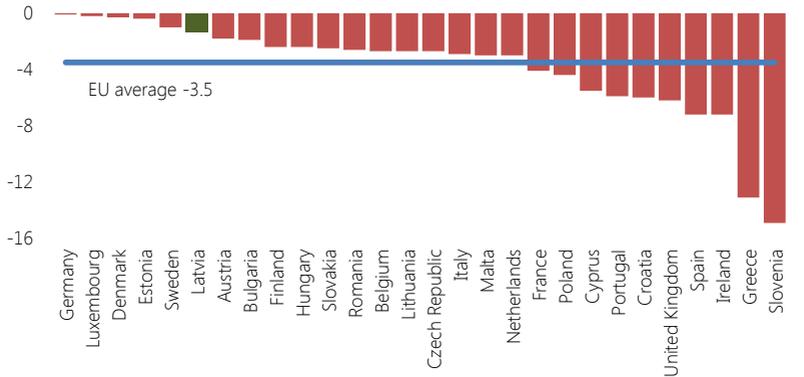
Public Debt

in 2013*, as per cent of GDP



Budget Balance

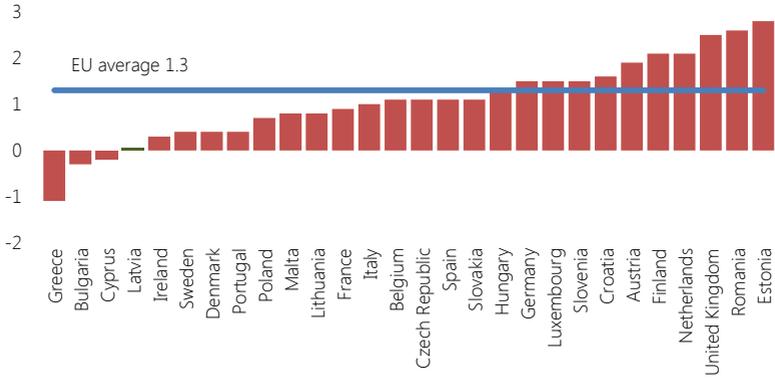
in 2013*, as per cent of GDP



* European Commission estimate

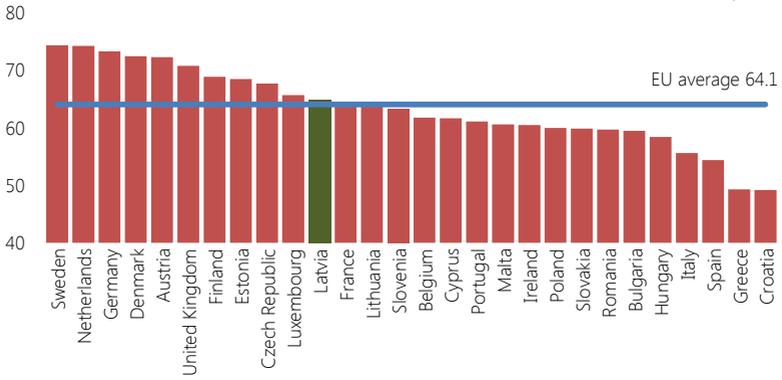
Harmonised Consumer Price Index

in February 2014, average annual, as per cent



Employment Rate

in 2013, as per cent



Unemployment Rate

in 2013, as per cent

