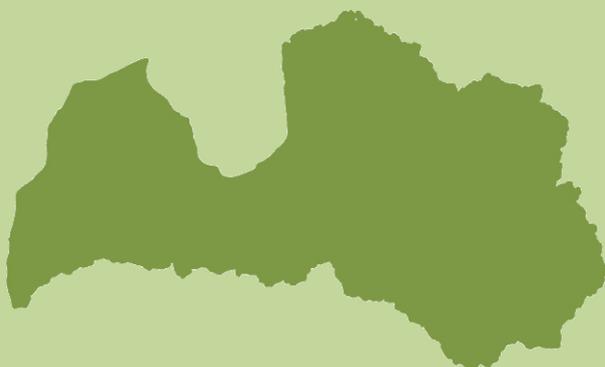




THE NATIONAL ECONOMY OF LATVIA MACROECONOMIC REVIEW



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MINISTRY OF ECONOMICS
REPUBLIC OF LATVIA



CENTRAL STATISTICAL
BUREAU OF LATVIA

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Central Statistical Bureau of Latvia

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ECONOMIC SITUATION: BRIEF OVERVIEW

Since 2011 economic growth of Latvia is one of most rapid in the EU. In 2013 GDP rose by 4.1%, however, over the last few quarters growth rate has slightly decreased – in the 1st quarter of 2014 GDP was by 2.8% higher than a year ago.

Low demand in foreign markets in 2013 affected exports dynamics – exports volume grew by 1%. But exports volume in the 1st quarter of 2014 was by 2.3% higher than a year ago.

Private consumption in 2013 increased by 5.4% and was the main driver of growth. However, in the 1st quarter of 2014, despite rapid wage increase, private consumption was only by 2.1% higher than a year ago. Growth rate of private consumption was affected by transition to euro, and further it will increase more rapidly, which is supported by the latest retail trade data.

In breakdown by sectors, commercial services provided the greatest contribution to the growth of GDP. Stable growth rate also remained in construction and trade. Manufacturing production volume in the first four months of 2014 was by 1.7% higher than a year ago. It must be taken into account that manufacturing continues to increase even despite of termination of economic activity of JSC "Liepājas

Metalurgs". Stable growth is observed in majority of manufacturing sectors.

Situation in labour market continues to improve also in 2014. Compared to the 1st quarter of 2013, the number of employed in the 1st quarter of 2014 rose by 0.2%, but unemployment rate dropped by 1.1 percentage point. In the 1st quarter of 2014 there were 881.7 thsd employed persons or 58.6% of population aged 15-74 years, but unemployment rate comprised 11.9 per cent.

In 2014 moderate price increase was observed. In May consumer prices were by 0.6% higher than a year ago. Price rise of food, wearing apparel and footwear, alcoholic beverages and tobacco, as well as services had the greatest impact on the consumer prices. It is expected that average price level in 2014 will be around 1 per cent.

The Ministry of Economics forecasts that GDP in 2014 will increase by 3.5%. It will be affected both by growth of private consumption and improvement of exports opportunities due to economic recovery of the EU. 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	3.5
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	-9.1	-8.1	-3.5	-1.4	-0.9	-0.9
Exports-imports balance	-1.5	-1.4	-4.8	-3.9	-1.9	-1.2

f – forecast

THE EXTERNAL ECONOMIC ENVIRONMENT

Development of global economy is still weak and differs in separate regions. In developed countries growth perspectives are improving slowly. But in developing countries situation has worsened slightly, even though growth rates there are still rather rapid. At the same time the uncertainty regarding impact of crisis in Ukraine on the development of economic situation in Europe and CIS countries has increased.

After the recession in 2012, in 2013 economic situation in the EU is improving gradually. In the 1st quarter of 2014, GDP rose by 0.3% and was by 1.4% higher than a year ago. Also latest Business Tendency Surveys indicate that economic activities in the EU are increasing gradually. Although economic situation is stabilising, 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. In Baltic countries economic growth rates have become more moderate.

USA economy in the 1st quarter of 2014 decreased by 1% and GDP was only by 2% higher than a year ago. Fall in growth of exports and public expenditure and slow down of enterprise investment rate was the reason for the recession.

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 reduces, which indicates on significant problems in competitiveness. In the 1st quarter of 2014, GDP decreased by 0.5% and was only by 0.9% higher than a year ago. Crisis in Ukraine caused significant problems in Russia's financial markets.

According to the forecast of the European Commission, in 2014 growth of world economy might reach 3.5 per cent.

Global Economic Growth

GDP, per cent changes

	2010	2011	2012	2013	2014f	2015f
World	5.1	3.8	3.2	2.9	3.5	3.8
USA	2.5	1.8	2.8	1.9	2.8	3.2
Japan	4.7	-0.5	1.4	1.5	1.5	1.3
China	10.4	9.3	7.7	7.7	7.2	7.0
CIS	4.9	4.8	3.4	2.0	1.2	2.6
EU-27, of which:	2.0	1.6	-0.4	0.1	1.6	2.0
Germany	4.0	3.3	0.7	0.4	1.8	2.0
Sweden	6.6	2.9	0.9	1.5	2.8	3.0
United Kingdom	1.7	1.1	0.3	1.7	2.7	2.5
Latvia	-1.3	5.3	5.2	4.1	3.8	4.1
Lithuania	1.6	6.0	3.7	3.3	3.3	3.7
Estonia	2.6	9.6	3.9	0.8	1.9	3.0

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 growth has restarted in the economy of Latvia.

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 in the previous year. Although during the last few years, most rapid increase in the EU was observed in Latvian economy, however GDP is still by 9% less than it was before the crisis in 2007. In 1st quarter of 2014, GDP increased by 2.8%, compared to corresponding period of the previous year.

Private consumption in 2013 has the largest contribution to the growth. Its increase is still affected by the growth of employment and increase of wages. In 2013 private consumption rose by 5.4%. However, in the 1st quarter of 2014, compared to the 4th quarter of 2013, private consumption rose slower – only by 0.2% (according to seasonally adjusted data) and was by 2.1% higher than a year ago, even despite the rapid growth of wages during this period (by 7.7%).

In May 2014, consumer confidence had improved slightly – it was higher by 1.1 point, compared to December 2013, however, it still was negative.

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

Investment volume in 2013 was by 4.3% less than a year ago. Investment volume in the 1st quarter of 2014 was by 2.2% higher than a year ago.

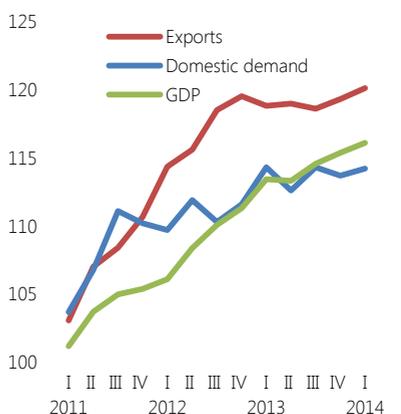
Since 2010 exports of Latvian goods and services increased very rapidly and it was main driving force of the development of national economy. Exports volume in 2012 exceeded pre-crisis level by more than 20 per cent.

In 2013, due to the low demand in foreign markets, exports increase has become more moderate and rose only by 1%. In the 1st quarter of 2014, as compared to the same period of the previous year, exports increased by 2.3 per cent.

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 rose. However, in 2013 imports volume decreased (by 1.7%). In the 1st quarter of 2014, compared to the 1st quarter of 2013, imports decreased by 1.7%. It was mainly affected by the decrease in separate groups of goods, such as mineral products and transport vehicles. In the 1st quarter of 2014 exports-imports balance was -0.1% of GDP.

Government consumption also continued to increase in the 1st quarter of 2014 – by 3.6% compared to the 1st quarter of 2013.

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

	2012				2013				2014
	I	II	III	IV	I	II	III	IV	I
Gross domestic product	7.1	4.9	4.6	4.6	3.8	4.4	4.6	3.6	2.8
Private consumption	5.7	7.4	5.4	4.5	5.9	6.5	4.9	4.3	2.1
Public consumption	0.7	0.5	-1.7	-0.2	1.1	5.8	1.4	5.6	3.6
Gross fixed capital formation	35.7	16.4	-1.9	1.0	-11.9	1.1	3.0	-10.3	2.2
Exports	12.4	5.9	9.4	10.1	3.6	2.4	-1.3	0.0	2.3
Imports	11.2	6.2	-0.4	2.5	2.2	-4.2	-1.4	-3.0	-1.7

GROSS DOMESTIC PRODUCT: DEVELOPMENT OF SECTORS

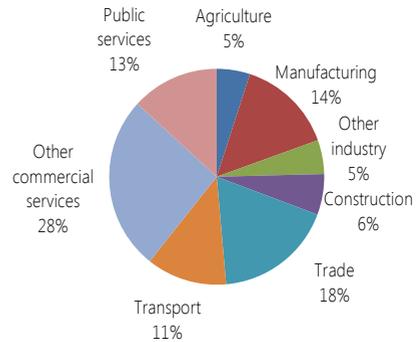
During the crisis, as labour costs reduced, competitiveness of manufacturers improved. It was basis for the increase of exports and, therefore, also for the development of tradable sectors. In the main exports sector – manufacturing – from 2009 to 2012 growth rate was significantly faster than total 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, but in the 2nd half of 2013 as situation improved. In 2013 as a whole production volumes in the sector remained at level of 2012. Manufacturing volume in the 1st quarter of 2014 was by 1.2% higher than a year ago.

The production volumes of other industry (mining, energy, etc.) in 2013 reduced by 3.3% which was mainly related to weather conditions, because, as compared to the previous periods, smaller amounts of electricity and heat were produced. In 2014 production volume in sector reduced and in the 1st quarter it was less by 9.3% than a year ago.

Construction volumes continues to increase. In 2013 construction grew by 7.4% which was mainly determined by increase in volume of construction of civil engineering structures. In the beginning of 2014 volumes of construction rose most rapidly as compared to other sectors – in the 1st quarter – by 24.6 per cent.

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

The rise was mostly determined both by the increase of residential buildings and of civil engineering structures.

In 2013, volume of services in transport and storage sector increased by 1.3%, which was mainly promoted by the growth in volume of freight traffic by roads. In the 1st quarter of 2014, services provided in the sector increased by 1.9%. The growth was mainly promoted by growth in volume of freight traffic by rail and cargoes loaded at ports.

Volume of services provided in trade sector grew by 4.4% in 2013. Also in 2014 they continued to increase – in the 1st quarter – rise of 2.6%, which was mainly determined by the increase of private consumption.

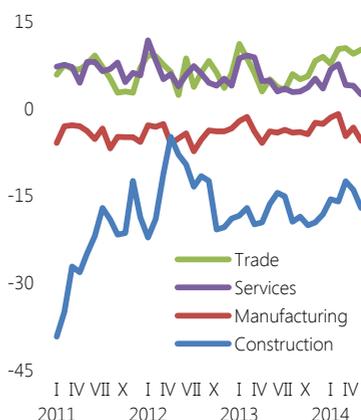
In commercial services sector services volume rose by 7% in 2013. Also in the 1st quarter of 2014, stable growth remained in these sectors – by 3.6%. The increase was mainly promoted by the growth in financial and insurance, as well as information and communication services sectors.

As government expenditure enlarged, in 2013 stable increase was also observed in public services sector by – 5.3%. In the 1st quarter of 2014 services volume in this sector continued to increase – by 3.3 per cent.

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

	2012				2013				2014
	I	II	III	IV	I	II	III	IV	I
Gross Domestic Product	7.1	4.9	4.6	4.6	3.8	4.4	4.6	3.6	2.8
Agriculture	0.9	-4.0	2.1	-2.9	0.6	-3.0	-1.6	2.3	6.5
Manufacturing	16.5	9.0	7.2	6.2	-4.8	-0.6	2.5	2.6	1.2
Other industry	-3.4	-6.3	-2.9	1.5	-1.4	1.4	-3.9	-8.4	-9.3
Construction	28.5	26.9	8.3	9.3	9.8	5.3	11.6	3.9	24.6
Trade and accommodation	7.1	5.8	7.1	9.3	4.9	6.0	5.2	1.9	2.6
Transport and storage	3.1	7.6	3.4	0.2	3.2	-1.0	2.8	0.1	1.9
Other commercial services	2.7	2.7	6.9	5.0	8.3	7.4	6.3	6.2	3.6
Public services	1.5	-0.1	-3.3	-0.5	2.7	6.3	4.4	6.6	3.3

MANUFACTURING

During the time period from 2009 to 2012, growth rate of manufacturing was more rapid than total economic growth and manufacturing was the main driver of national economic growth.

Weak demand in foreign markets in 2013 has influenced sector contribution, and volume of goods produced in manufacturing sector remained at the level of 2012. In 2013, manufacturing was greatly affected by termination of economic activity of JSC "Liepājas Metalurģs", in the result of which manufacture of basic metals shrank significantly.

Volumes of production in manufacturing in the four months of 2014 was by 1.7% higher than a year ago. Development of the sector is mainly promoted by increase of activities in domestic market and improvement of economic situation in major export market – EU. Separate manufacturing enterprises are negatively affected by the conflict in Ukraine and economic recession in Russia.

In the largest industrial sectors – manufacture of food products and wood processing – stable growth continued and production volumes in April in these sectors were higher by 6% and 7%, respectively. Rise in these sectors provides significant contribution in total growth of manufacturing. Most rapid increase in production volume in the four months of 2014 was in manufacture of electrical and optical equipment. Stable exports opportunities remained in the sector, also demand in domestic market is rising. Significant increase of production volumes also was observed in chemical industry, manufacture of non-metallic mineral products, manufacture of machinery and equipment, publishing, manufacture of furniture and manufacture of motor vehicles.

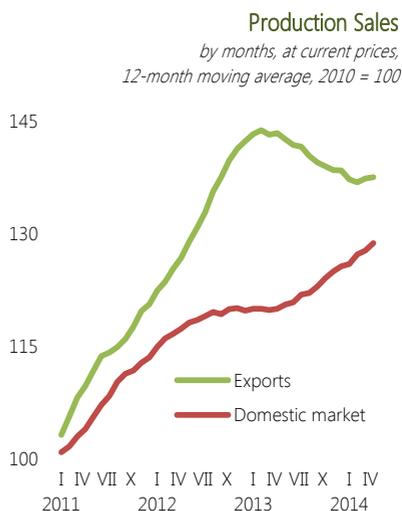
At the same time in some sectors situation is not so positive. Termination of economic activity of JSC "Liepājas Metalurģs" still significantly affected manufacture of basic metals. Production volume in the manufacture of wearing apparel and textiles this year also significantly lag behind the level of previous year.



In four months of 2014 manufacturing turnover was by 1.7% higher than a year ago. Turnover on products sold at the domestic market grew by 8.4%, while turnover of exported goods decreased by 1.9 per cent.

Since the middle of 2012, production capacity utilisation rate in manufacturing practically has not changed. In April 2014 it was 72%. Confidence indicators by sectors during the last year have remained practically the same.

Further development of manufacturing will be promoted by expected rise in demand both in domestic market and exports markets (mainly in EU). However there is uncertainty regarding impact of crisis in Ukraine on the economy of Latvia.



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 M1-4
	2013					
Manufacturing – total	100	100	61.7	9.3	0.1	1.7
Food industry	25.2	21.7	36.1	2.5	6.0	6.0
Light industry	4.3	11.2	84.5	3.0	1.4	-10.8
Wood processing	23.1	19.4	73.3	5.4	2.7	7.0
Paper industry and publishing	4.5	3.9	58.6	10.1	5.6	2.6
Chemical industry	7.5	6.3	74.9	8.3	-8.7	9.5
Other non-metallic mineral products	6.5	4.2	43.9	8.6	4.6	9.1
Metals and metal articles	10.7	11.0	65.3	16.2	-17.6	-29.4
Electrical and optical equipment	6.2	3.7	88.5	20.0	18.4	29.4
Machinery and equipment	2.4	2.9	74.8	8.7	1.4	11.1
Motor vehicles	4.0	3.3	92.0	15.8	3.0	16.3
Other industries	5.7	12.4	50.6	26.1	-7.6	-5.3

INVESTMENTS

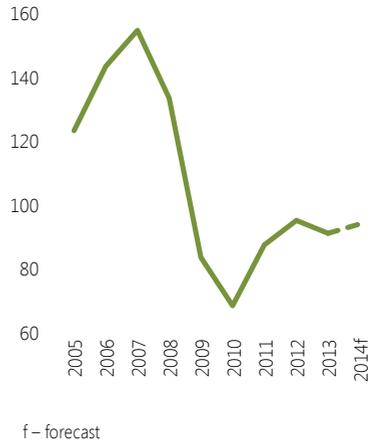
Since the end of 2010 investment in Latvian economy is increasing, but their dynamics is slowing down over the last years. In 2011 investment volumes exceeded level of 2010 by 27.9%, while in 2012 increase was much more moderate – by 8.7%. But in 2013 investment in the national economy of Latvia was 4.3% less than a year ago and comprised 21.1% of GDP. Investment level still is lower than in pre-crisis years.

According to provisional data in 2013 investment volume was smaller than a year ago in almost all sectors. It must be noted that investment dynamics by quarters was rather volatile. In the 1st quarter of 2013 investment volumes was by 12% lower than a year ago, which is explained by the completion of large investment project implemented in the previous year. Whereas in the 2nd and 3rd quarter of 2013, investments exceeded the level of corresponding period of previous year by 1.1% and 3.3%, respectively, but in the 4th quarter they decreased by 10%. At the beginning of 2014 investment dynamics increases moderately. In the 1st quarter of this year investments was by 2.2% higher than a year ago. Stable increase of investments is mainly delayed by the slow renewal of crediting.

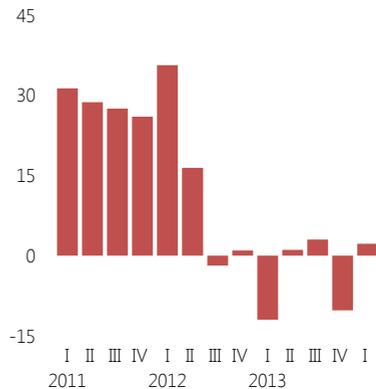
Since 2010, incoming foreign direct investment (FDI) flows are increasing gradually. In 2011, incoming FDI flows in Latvian economy rose almost four times and comprised 5.1% of GDP. However, in 2012 their volume was 3.9% of GDP, but in 2013 – 2.6% of GDP. Attracted net FDI flows in the 1st quarter of 2014 were 15% of flows of corresponding period of the previous year. Also volume of attracted FDI related to manufacturing in 2013 remained at the level of the previous year.

In 2013 incoming FDI value in Baltic countries was EUR 1737.5 mln, i.e., less by almost one third than a year ago. Latvia attracted about 35% of all Baltic State FDI.

Gross Fixed Capital Formation
2004 = 100



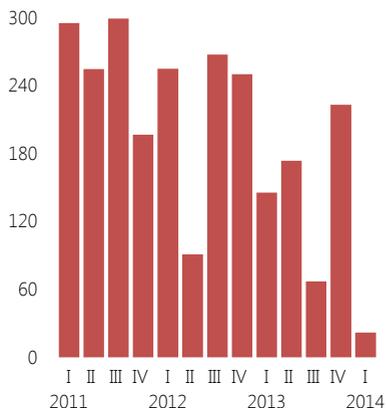
Gross Fixed Capital Formation
changes over corresponding quarter of the previous year, as per cent



According to international investment balance of Latvia, in the 1st quarter of 2014, FDI stock in Latvian economy reached EUR 11'452.2 mln – by 3% more than a year ago. Larger share of FDI by sectors is on investment in bank intermediation, real estate activities and manufacturing.

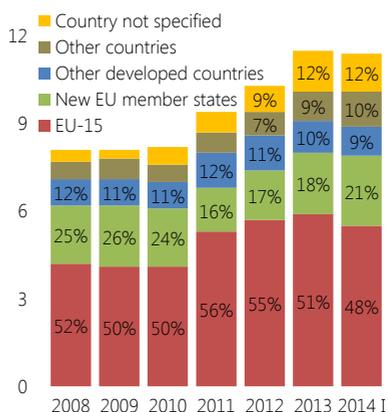
Foreign Direct Investment in Latvia

flows by quarters, mln euro



Foreign Direct Investment in Latvia

by groups of countries
balance at the end of period, 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, exports of goods at current prices in 2012 has almost doubled, while imports of goods at current prices – increased by more than 80%. From 2009 to 2012, export has risen on average by 25% per year, 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.

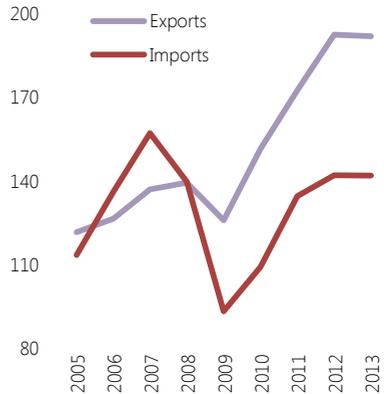
As uncertainty in external environment remained, exports of Latvian goods in 2013 was developing moderately, it rose by 1.6% at current prices, but slightly decreased – by 0.3% – at constant prices. Also imports of goods at current prices rose only by 1%, but at constant prices – remained at the level of the previous year.

In the four months of 2014 exports of Latvian goods increased moderately, at current prices – by 2.1%. Imports of goods during this period has reduced – by 2.5 per cent.

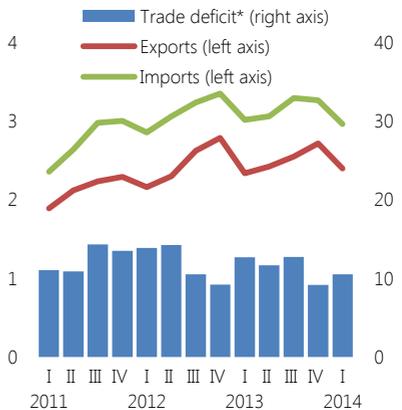
As volumes of exports of goods grew and volumes of imports reduced correspondingly, negative trade balance in the 1st quarter of 2014 improved slightly as compared to the 1st quarter of 2013.

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 Metalurģis” exports of metals and metal articles has decreased significantly. In 2013 also exports volume of transport vehicle group has reduced.

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

In January-April 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.

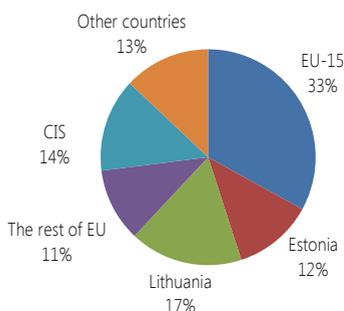
Similar as in 2013, decrease of volume of import of goods in January-April 2014 was mainly affected by decrease of volume of transport vehicles and metals and metal articles. In its turn, this reduction was compensated by the rise in volumes of import of agricultural and food products, wood and wood products, as well as machinery products.

Exports volume of goods to the EU countries in four months of 2014 grew slightly more rapidly than exports to CIS and other regions. Export to main export partner of Latvia – Lithuania – has increased by 6%, but to Estonia – export decreased by 12%. Exports volume to other countries (except EU and CIS countries) has diminished by 4 per cent.

Largest Latvia’s trade partners in January-April 2014 were Lithuania – 17% of total foreign trade turnover, Russia, Estonia and Poland – 10%, Germany – 9%, Sweden and Finland – 4% and Denmark, the Netherlands, Great Britain and Italy – 3 per cent.

Structure of Exports of Latvian Goods

in January-April 2014, as per cent



Exports and Imports of Latvian Goods

in January-April 2014, as per cent

	Exports			Imports		
	structure	volume changes	contribution to changes	structure	volume changes	contribution to changes
Total,	100	2.1	2.1	100	-2.5	-2.5
of which:						
Agricultural and food products	19.6	10.3	1.9	16.6	8.4	1.3
Mineral products	8.2	4.9	0.4	15.3	-20.4	-3.8
Chemical products	9.6	0.3	0.0	15.7	1.3	0.2
Products of light industry	5.1	7.3	0.4	6.6	1.2	0.1
Wood and articles of wood	18.1	14.7	2.4	2.6	28.0	0.6
Metals and metal articles	9.6	-24.0	-3.1	8.5	-9.6	-0.9
Machinery and electrical equipment	15.5	1.6	0.2	18.5	2.9	0.5
Transport vehicles	4.3	-13.2	-0.7	6.2	-20.0	-1.5
Other goods	9.9	7.1	0.7	9.9	13.4	1.1

BALANCE OF PAYMENTS

During the last years, the current account of balance of payments is at the level of a small deficit. In 2012, current account deficit was 2.5% of GDP and in 2013 – 0.8% of GDP. But in the 1st quarter of 2014, current account deficit reached 2.3% of GDP, which is slightly more than a year ago.

Current account fluctuations mainly determine changes in foreign trade balance. Foreign trade deficit that increased during the years of rapid growth is characteristic to Latvia, but during the recession – it shrank significantly, mainly due to reduction in import volumes. As economy became more stable, exports grew more rapidly than imports, however during the last years export and import dynamics is slowing down.

At current prices of 2012 both export and import enlarged rapidly, but in 2013 export and import volume increased moderately and foreign trade deficit reached 9.4% of GDP or by 1.4 percentage points lower than a year ago. Also at the beginning of 2014 export growth rate were rather moderate, but import has even slightly reduced and foreign trade deficit reached 9.9% of GDP.

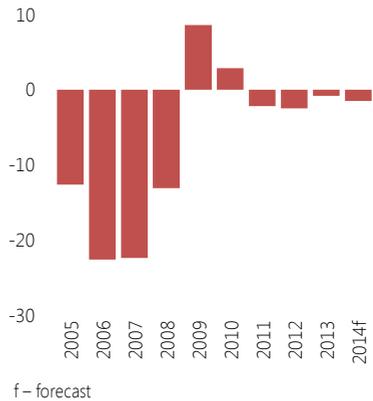
Balance of services still is positive and covers foreign trade deficit by 65%. In 2013 services balance surplus was 7.6% of GDP. In the 1st quarter of 2014, export of services rose by 0.6%, but imports – by 2.2%, thus services balance surplus reached 7.7% of GDP.

Income balance is mainly determined by the changes of profitability of non-resident enterprises. Since 2011 income balance is negative and in 2013 it comprised 0.2% of GDP. In the 1st quarter of 2014 income balance was positive – 0.7% of GDP.

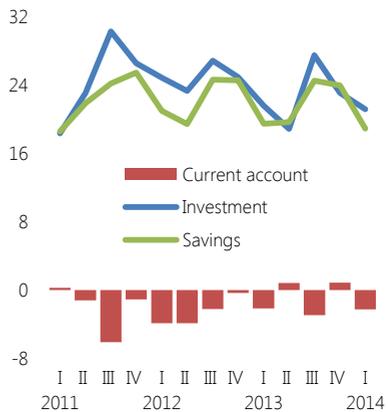
Fluctuations of financial account balance by quarters are reducing gradually. In 2013 positive financial account balance was 0.9% of GDP. But in the 1st quarter of 2014 financial account was in deficit (5% of GDP).

FDI net flows in 2013 comprised 1.5% of GDP, but in the 1st quarter of 2014 FDI balance was negative – 0.9% of GDP.

Current Account Balance
as per cent of GDP



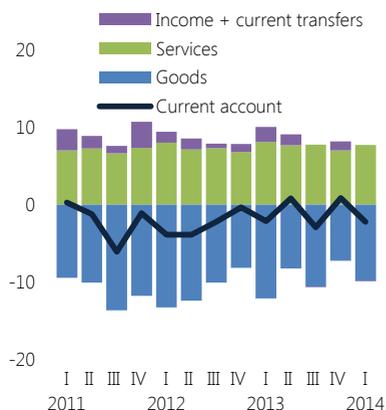
Current Account, Investment and Savings
by quarters, as per cent of GDP



Significant fluctuations are observed in portfolio and other investments. In 2013 balance of other investment was negative – 0.6% of GDP. In the 1st quarter of 2014 deficit of balance of other investments reached 15% of GDP. Fluctuations of balance of portfolio and other investments are mainly related to stabilisation activities of financial sector and restructuring of public sector debt.

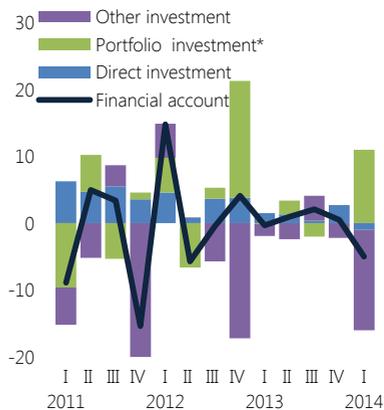
Current Account by Items

by quarters, as per cent of GDP



Financial Account by Items

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



* portfolio investment and derived financial instruments

Latvian Balance of Payments by Items

as per cent of GDP

	2009	2010	2011	2012	2013	2014 I
A. Current account	8.6	2.9	-2.2	-2.5	-0.8	-2.3
Trade balance	-7.7	-7.6	-11.4	-10.8	-9.4	-9.9
Service balance	6.6	6.7	7.0	7.2	7.6	7.7
Net income	7.2	1.5	0.2	-0.5	-0.2	0.7
Net current transfers	2.5	2.3	1.9	1.6	1.3	-0.8
B. Capital account	2.4	1.9	2.1	3.0	2.5	2.4
C. Financial account*	-6.9	-2.1	-4.0	2.9	0.9	-5.0
Direct investment stock	0.6	1.5	4.9	3.2	1.5	-0.9
Portfolio investment**	2.3	-2.8	-1.8	4.7	0.0	10.9
Other investment	-9.8	-0.7	-7.2	-5.1	-0.6	-15.0
D. Deviation	0.8	1.2	-0.4	0.2	-0.8	4.8
E. Reserve assets	-5.0	-4.0	4.4	-3.6	-1.7	0.1

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

PRICES

After deflation, caused by the crisis, when 12-month consumer price inflation in February 2010 dropped to -4.2%, prices started to rise again. In 2011, 12-month consumer price inflation was 4%, but in 2012 – 1.6%. In 2013, consumer prices decreased by 0.4%. Deflation mainly was determined by the reduction in prices of natural gas, fuel and food. Large impact had price drop of oil and food in the world. Average annual prices in 2013 remained the level of 2012.

In 2014, moderate price increase was observed. In May consumer prices were by 0.6% higher than a year ago. In the five months of 2014, increase of prices of food (by 1.5%), wearing apparel and footwear (by 6.7%), alcoholic beverages and tobacco (by 3.1%), as well as services (by 1.8%) had the greatest impact on the price changes. It should be noted that world food prices increased and they were by 1% higher than in December 2013. In May, oil prices in world markets were at the same level as at the end of previous year. Also in Latvia in January-May fuel prices practically remained the same.

Also in the EU price dynamics in 2014 in general was moderate. In April 12-month inflation in the EU countries was 0.8%, which was determined by price rise on food products and services.

If the current price dynamics will remain, in 2014 moderate inflation is expected. Ministry of Economics estimates that average annual inflation may be around 1% on condition that world food and oil product prices will maintain the current trend and rapid increase is not expected.

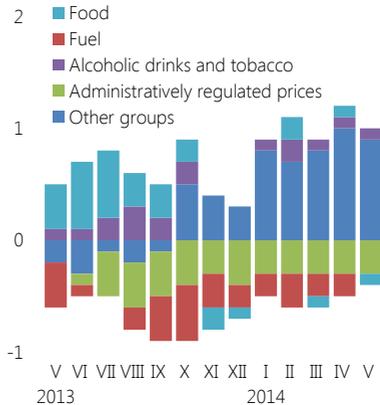
After rapid increase in 2010 and in the first half of 2011, producer prices are rising moderately. In 2013, producer prices rose slightly (by 0.3%), mainly due to price growth in manufacturing.

In April 2014, compared to April 2013, general level of producer prices increased by 0.8%, on products sold in the domestic market – by 0.1%, but on exported production – by 1.5 per cent.

Consumer Price Changes
by months, per cent



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

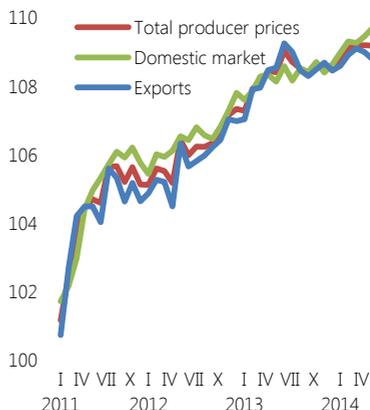


In April 2014, producer prices in manufacturing were higher by 0.6% than a year ago. In April 2014, producer prices on exported production in manufacturing over a year have grown by 0.3%. In April 2014, producer prices in manufacturing were higher by 0.6% than a year ago. In April 2014, producer prices on exported production in manufacturing over a year have grown by 0.3%, but on products sold in the domestic market – by 1.1%. Most significant price increase was observed in wood processing and manufacture of basic metals, but significant reduction was recorded in manufacture of computer, electronic and optical products, as well as in manufacture of 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 2010 = 100



Consumer Price Changes

by months, as per cent

		Over the previous month	Over corresponding month of the previous year	Over December of the previous year	Annual average
2013	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
	March	0.3	0.3	0.9	0.0
	April	0.5	0.7	1.4	0.1
	May	-0.1	0.6	1.3	0.1

MONETARY INDICATORS

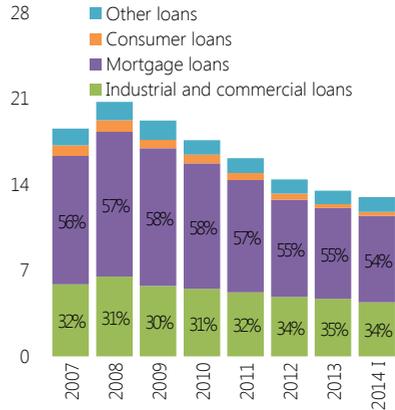
Although situation in financial sector is improving gradually, however, at the beginning of 2014 separate banking sector indicators were negative – volume of new loans issued and volume of attracted deposits reduced.

At the beginning of 2014, amount of new loans decreased significantly – in the 1st quarter of 2014 for a total of EUR 512.8 mln new loans were issued in the banking sector, which is almost by 34% less than a year ago. Half of the new loans was issued to non-residents. Share of new loans issued to non-residents has a tendency to increase. Despite the growth of share of new loans issued to non-residents, in total credit portfolio of banking sector share of loans issued to non-residents comprise only 12.2%. Both household and entrepreneur crediting still is at rather low level. In the 1st quarter of 2014, compared to the corresponding period of the previous year, growth rates of new loans issued to households shrank (+2.5%). Volume of new loans issued to enterprises reduced by 22% and comprised 29% or EUR 147.1 mln of total amount of new loans issued.

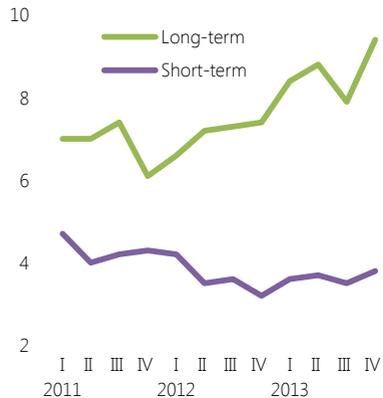
Balance of loans continues to decrease. Amount of loans repaid still is larger than new loans issued. In the 1st quarter of 2014, compared to the same period of the previous year, balance of loans shrank by 8.4%. In the 1st quarter of 2014 balance of industrial loans fell most rapidly (by 13%). But balance of commercial loans decreased (by 10.6%).

Along with renewal of economy growth, quality of loans continues to improve. In the 1st quarter of 2014, 14.9% of loans in the total credit portfolio of banking sector were with overdue payments – it is one of the lowest indicators since the end of 2008. Improvement of quality of credit portfolio of banking sector is mainly related to writing off bad loans.

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



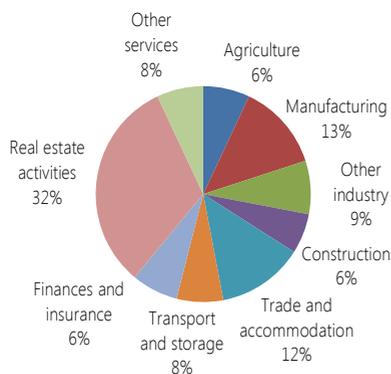
Average Weighted Interest Rates in Euro on Credits
by quarters, as per cent



In the 4th quarter of 2013 interest rates on loans issued in euro grew. More rapid increase was observed on long-term interest rate which reached the highest indicator 9.4%. Fluctuations of interest rates on short-term and long-term deposits were small– 0.3% and 1.4%, respectively.

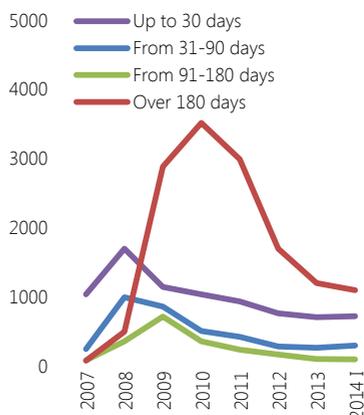
Structure of Loans Issued by Sectors

at the end of March 2014, as per cent



Loans with Overdue Payments

at the end of the period, mln euro



Monetary Indicators of the Banking System of Latvia

	2010	2011	2012	2013	2014 M3
<i>at the end of period, mln lats</i>					
Net foreign assets	-1.7	-0.3	0.9	1.2	-2.7
Net domestic assets	10.8	9.5	8.8	8.6	11.7
Domestic loans	16.0	15.7	13.7	13.5	13.5
Other assets (net)	-5.1	-6.2	-4.9	-4.8	-1.8
Broad money M2X	9.1	9.2	9.6	9.8	8.9
Cash in turnover (without vault cash balance)	1.1	1.5	1.5	0.7	3.5
Deposits of individuals and companies	7.9	7.7	8.1	9.2	8.9
<i>per cent changes</i>					
Domestic loans	-8.1	-1.5	-13.1	-1.4	0.1
Broad money M2X	9.8	1.5	4.5	2.0	-5.6
Cash in turnover (without vault cash balance)	21.0	28.8	4.1	-56.6	141.4
Deposits of individuals and companies	8.3	-2.4	4.5	13.2	11.4
Gross Domestic Product at current prices	-2.2	11.7	8.7	5.6	4.1

GOVERNMENT BUDGET

Worsening of economic situation in Latvia in 2008 - 2009 significantly affected fiscal condition of the country. 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 decreased from 9.1% of GDP in 2009 to 1.4% of GDP in 2012. In 2013, budget deficit dropped to 0.9% of GDP.

In five months of 2014, general government consolidated budget revenues were EUR 2'735.4 mln, which is by 1.1% less than a year ago. Total revenues from taxes during this period of time rose by 3.3 per cent.

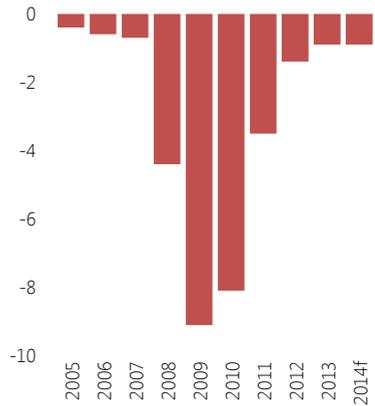
Although in five months of 2014 employment and wages grew, compared to five months of the previous year, mandatory state social insurance contributions decreased by 2%. It was mainly determined by tax policy changes that came into force on 1 January 2014 – reduction of social insurance contribution rate. In its turn, revenues from personal income tax rose by 0.6%, which was affected by the increase of untaxable minimum and relief for dependent persons.

In five months of 2014, compared to the same period of the previous year, VAT contributions rose by 8.9%. As economic activity continues to increase, revenues from corporate income tax also grew – by 8.6%.

In five months of 2014, general government consolidated budget expenditure was EUR 2'746.1 mln, which is by 4.1% more than in January-May 2013.

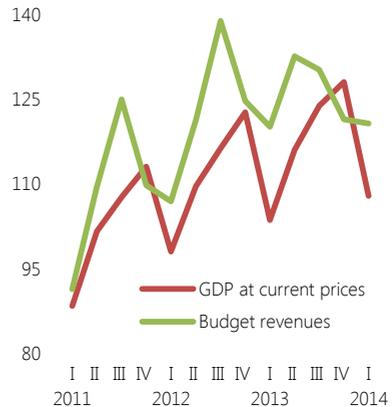
In five months, compared to January-May 2013, current expenditures and capital expenditures have grown rapidly – by 8.8% and 8.6%, respectively. Expenditure on subsidies and grants during this time rose by 3.3 per cent.

Budget Balance
as per cent of GDP



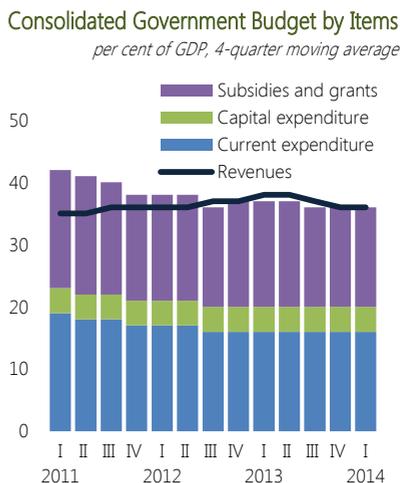
f – forecast

GDP and Budget Revenues
2010 Q4 = 100



From functional categories in five months of 2014 most rapidly expenditure increased on environmental protection. Significantly expenditure rose also on public order and safety, health, social protection, general government services and education. But expenditure reduced on management and economic activity of local government territories.

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 M1-5	2013	2014 M1-5
Revenues, of which:	7.2	8.2	8.4	2.7	2.6	-1.1
Indirect taxes, of which:	2.1	2.3	2.4	0.8	4.3	6.9
Value added tax	1.4	1.6	1.7	0.6	4.9	8.9
Income and real estate taxes	1.6	1.8	1.9	0.6	6.5	3.8
Social insurance contributions	1.7	1.9	2.0	0.6	5.1	-2.0
Other taxes	0.1	0.1	0.2	0.0	8.6	12.1
Other revenues	1.7	2.1	2.0	0.6	-0.5	-14.5
Expenditure	7.9	8.1	8.5	2.7	4.5	4.1

LABOUR MARKET

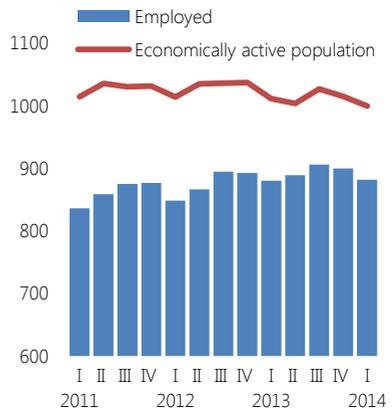
Increase of economic activities positively affects situation in labour market – employment increases and high unemployment caused by the crisis decreases.

In 2013 number of employed rose by 2.1% and it was the most rapid increase since 2008. Employment rate (in age group 15-74) rose to 58.2% in 2013 and the number of employed persons comprised 894 thsd. At the same time the number of economically active population has decreased (by 1.6%) which was mainly affected by demographic trends. Together with increase of employment it promoted more rapid reduction of unemployment. Unemployment rate in 2013 dropped by 3.2 percentage points – to 11.9%. The number of unemployed comprised 120.4 thsd in 2013.

Situation in labour market continued to improve also in 2014. In the 1st quarter number of employed increased by 0.2%, but unemployment rate decreased by 1.1 percentage point, compared to the 1st quarter of 2013. There were 881.7 thsd persons or 58.6% of population aged 15-74 years employed. Unemployment rate was 11.9% and there were 118.7 thsd persons without a job.

Registered unemployment rate also continues to decrease – at the end of May 2014 it was 9.1%. There were registered 92 thsd unemployed, which is by 11 thsd less than in May 2013. The highest level of registered unemployment remained in Latgale region (19%), but the lowest – in Riga (5.5%). Long-term unemployed (without job for a period of more than a year) constituted more than a third of total registered unemployed.

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 in State Employment Agency has been rising gradually. At the end of May 2014, in total 6.3 thsd job vacancies were registered, which was by 2.5% more than a year ago.

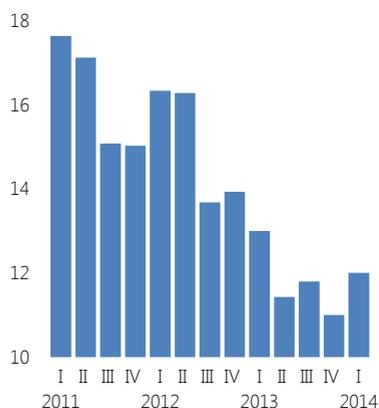
Comparatively high unemployment is mainly related to cyclical factors, however, features of structural unemployment remain high. Part of current unemployed persons may encounter problem to find job in a longer term, because the new workplaces are not the same they lost during the crisis.

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 1.5-2%, but unemployment rate – decrease to 10 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 crisis adjustment of remuneration has been rather moderate, major part of economic downturn 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 wage is rising gradually. In 2011 and 2012 it increased by 4.4% and 3.7%, respectively, but in 2013 – by 4.6% and reached EUR 716.

Since 2010, annual wages have risen in both private and public sector. In 2013 remuneration in private sector grew by 4.7%, similar increase was also observed in public sector (by 4.6%). It must be noted, that in 2013 average gross wage in public sector still was 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.

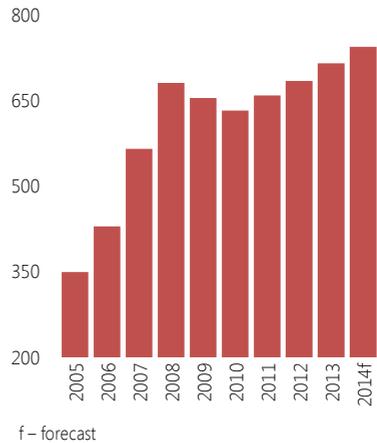
Comparatively high wages continued to increase also at the beginning of 2014. In the 1st quarter average gross wage grew by 7.7%, compared to the 1st quarter of 2013, the largest wages remained in Riga region (EUR 846), but the lowest level of remuneration was in Latgale region (EUR 499).

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

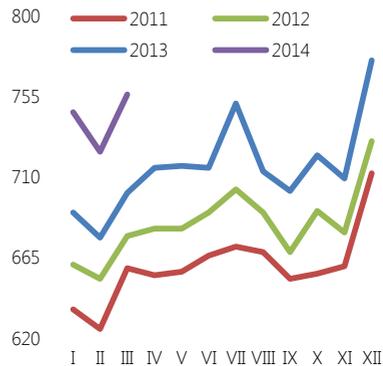
In the 1st quarter of 2014, compared to the 1st quarter of 2013, most rapid wage increase was observed in financial activities (16.6%), real estate activities (11%) and agriculture (10.3%).

Highest remuneration level remained in finance and insurance services sector – on average EUR 1'773 per month.

Average Monthly Wages and Salaries of Employed
gross, in euro

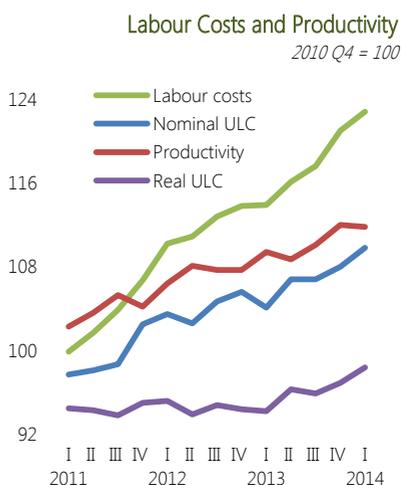
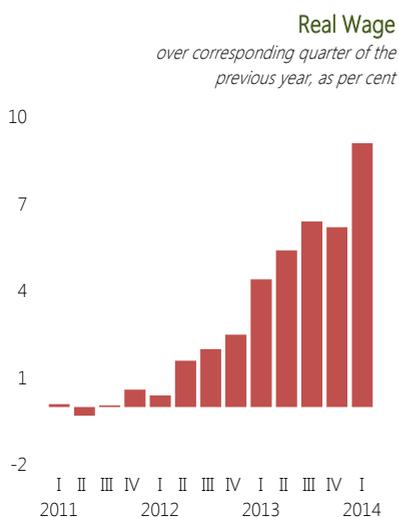


Average Monthly Wages and Salaries of Employed by Months
gross by months, in euro



Along with the increase of nominal wage, real wage is increasing gradually. In time period from 2011 to 2012, as consumer prices grew, increase of real wages was moderate – respectively, 0.1% and 1.6% annually. In 2013, real wages grew by 5.6% which was mainly determined by consumer prices that remained at the current level. At the same time, in the 1st quarter of 2014, real wages rose by 9.1% which is mainly related to rapid increase of nominal wage.

Amount of average old-age pension also continues to increase. In 2013, average old-age pension grew by 1%, as compared to 2012. But in the 1st quarter of 2014 average monthly old-age pension rose by 3.1%, compared to the 1st quarter of 2013, and on average comprised EUR 264.8 a 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

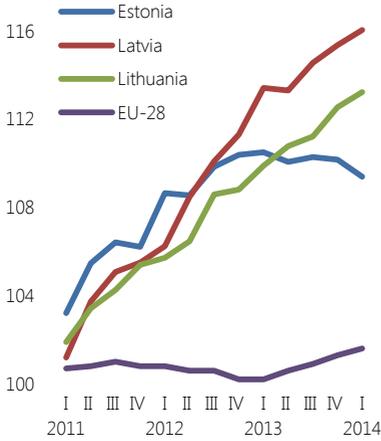
Economic Development in Baltic Countries

	Latvia	Lithuania	Estonia
Territory, thsd km ²	64.6	65.3	45.2
Population, thsd, at the 1 st May 2014	1'997.5	2'933.5	1'315.8
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 Q4	3.6	3.6	0.3
2014 Q1	2.8	3.2	-1.4
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 Q4	2.6	-1.7	1.5
2014 Q1	1.2	-7.7	-1.0
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 Q4	3.1	3.7	4.1
2014 Q1	1.9	5.3	7.9
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 Q4	-0.3	0.4	1.5
2014 Q1	0.4	0.2	0.6
Number of employed, over corresponding period of the previous year, %			
2012	1.6	1.8	1.9
2013	2.1	1.3	1.0
2013 Q4	0.8	2.3	0.1
2014 Q1	0.2	2.2	-0.7
Unemployment rate, % of economically active population			
2012	15.0	13.4	10.0
2013	11.9	11.8	8.6
2013 Q4	11.3	11.4	8.7
2014 Q1	11.9	12.4	8.5

* data adjusted by working days, in current prices

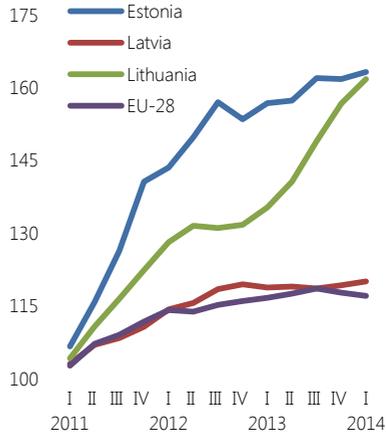
Gross Domestic Product

seasonally adjusted data
2010 Q4 = 100



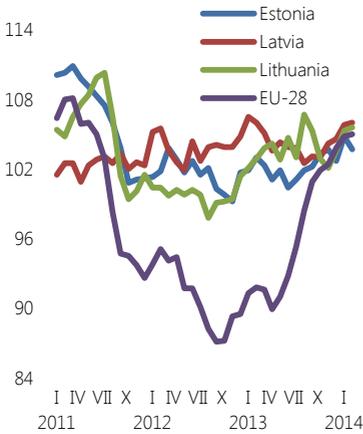
Exports of Goods and Services

seasonally adjusted data
2010 Q4 = 100



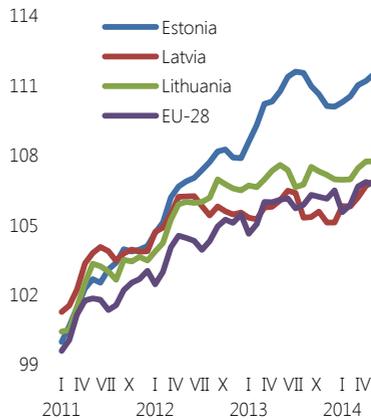
Economic Sentiment Indicator

seasonally adjusted data

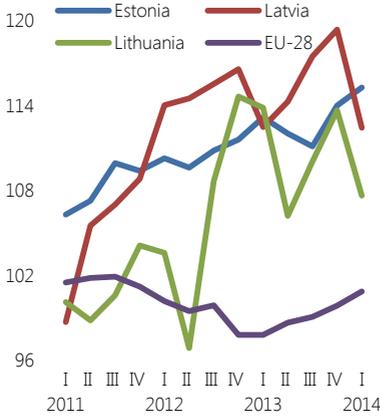


Harmonised Consumer Price Index

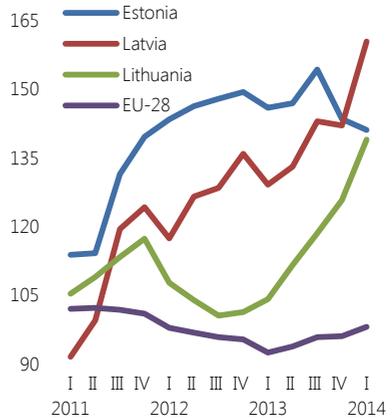
2010 Q4 = 100



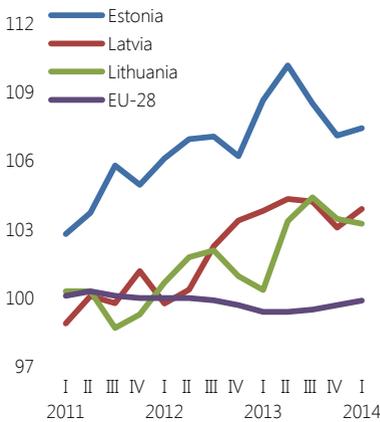
Manufacturing Production Volume
seasonally adjusted data
 2010 Q4 = 100



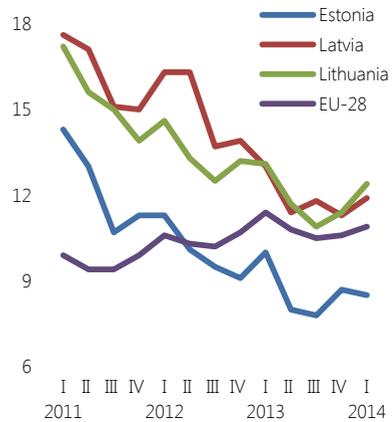
Construction Production Volume
seasonally adjusted data
 2010 Q4 = 100



Number of Employed
seasonally adjusted data
 2010 Q4 = 100

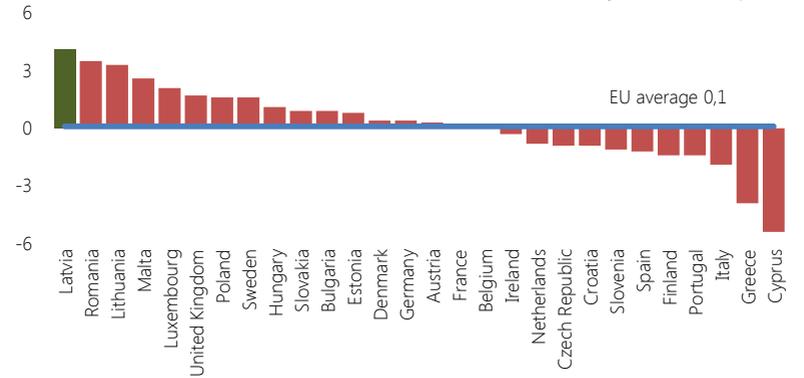


Unemployment Rate
as per cent



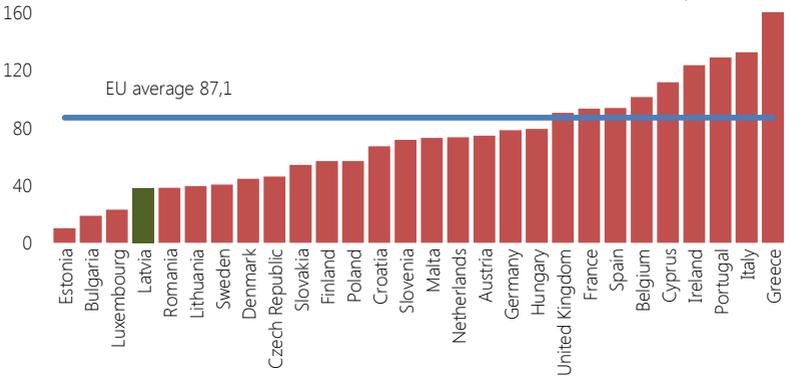
Gross Domestic Product

in 2013, changes of volumes, as per cent



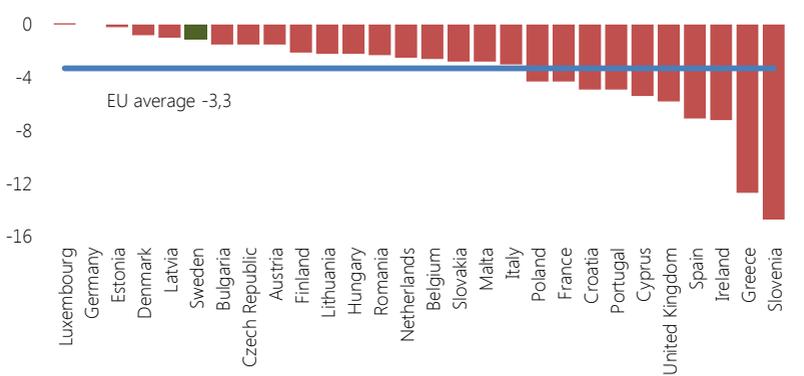
Public Debt

in 2013, as per cent of GDP



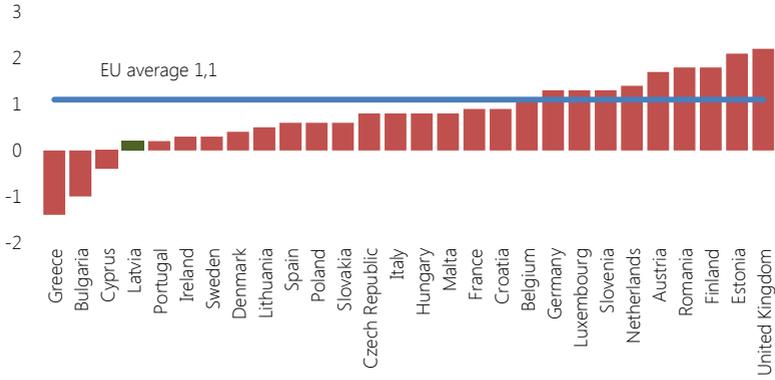
Budget Balance

in 2013, as per cent of GDP



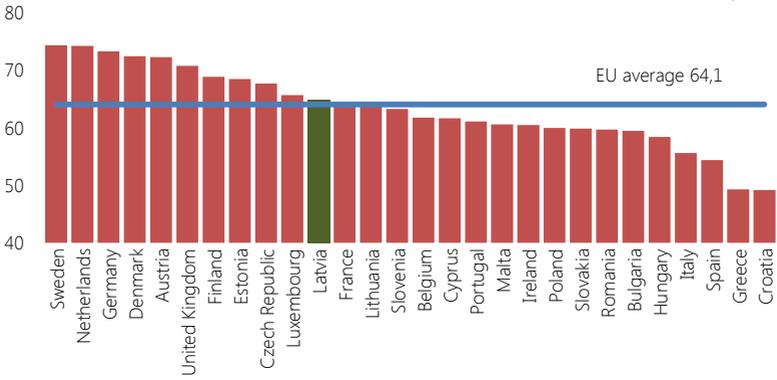
Harmonised Consumer Price Index

in May 2014, average annual, as per cent



Employment Rate

in 2013, as per cent



Unemployment Rate

in 2013, as per cent

