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Central Statistical Bureau of Latvia

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ECONOMIC SITUATION: BRIEF OVERVIEW

From 2011 to 2013 growth of the Latvian economy on average amounted to 4.7% annually, which puts Latvia among the fastest growing economies in the EU. In 2014 the economic growth rate slowed down, which was driven by trends in the external environment: slower than previously expected growth in the EU, as well as the weakening economic situation in Russia. In the 3rd quarter of 2014 GDP increased by 2.4% compared to a year before. Altogether during the first three quarters of 2014 the GDP grew by 2.5% compared to the corresponding period of 2013.

In 2014 private consumption had the most significant impact on the economic development; however, its growth rate was more moderate than in 2013 – in the 3rd quarter of 2014 private consumption increased by 2.1% compared to 2013. Despite the rapid increase in wages and salaries employment growth was slow in 2014. In the 3rd quarter of 2014 unemployment rate fell to 10.6%, while employment rate reached 59.3%, and was only by 0.3 percentage points higher than a year before.

Situation in the external environment affects the Latvian export capabilities – exports in the 3rd quarter increased by as little as 0.3% compared to the previous year.

With an increase in budget revenues public consumption steadily increased in 2014. In turn, investment trend affected by the wait-and-see attitude due the growing uncertainty in the external environment, is moderate. Compared to the previous year investment volume in the 3rd quarter of 2014 decreased by almost 2 per cent.

Construction, commercial services as well as trade and transport sectors had the most significant positive impact on the GDP growth. In 2014 manufacturing production volume was close to the level of 2013, at the same time different manufacturing sub-sectors experience different development trends.

In 2014 moderate price increase could be observed. In December 12-month inflation was 0.2%. Increase in prices of services, as well as drop in prices of fuel and food had the most significant impact on inflation. In 2014 the average annual inflation was 0.6%. Affected by different supply-related factors the average consumer price level in 2015 will remain at the level of 2014. At the same time, inflation will be closely linked to a number of external factors, such as global oil and food prices.

The Ministry of Economics expects GDP growth rate in 2014 to be 2.3%. In 2015 it may reach 2 per cent.

Key Indicators of Economic Development

	2010	2011	2012	2013	2014e	2015f
<i>increase over the previous year, as per cent</i>						
Gross Domestic Product	-2.9	5.0	4.8	4.2	2.5	2.5
Consumer prices	-1.1	4.4	2.3	0.0	0.6	1.0
<i>per cent</i>						
Employment rate	52.0	54.0	56.1	58.2	59.1	60.1
Unemployment rate	19.5	16.2	15.0	11.9	10.9	9.8
<i>as per cent over gross domestic product</i>						
General government sector balance	-8.2	-3.4	-0.8	-0.9	-1.4	-1.0
Exports-imports balance	-1.5	-5.0	-4.4	-3.2	-2.4	-2.3

e – estimation; f – forecast

THE EXTERNAL ECONOMIC ENVIRONMENT

The global economic development is still weak and regionally specific. In the developed countries growth perspectives are gradually improving. In turn, in developing countries despite the relatively high growth rates the economic situation has slightly worsened.

Since 2013 the economic situation in the EU has been slowly improving, and the GDP has been increasing already for the 6th quarter in a row. In the 3rd quarter of 2014 the GDP rose by 0.3%, and compared to the 2013 it increased by 1.3%; of which in Euro area in the 3rd quarter, compared to the 2nd quarter, the GDP increased by 0.2% and compared to the 2013 it grew by 0.8%. The latest business survey data show that economic activity in the EU is increasing; however, Euro area still faces a number of fiscal problems, and it is expected that economic growth rate will be moderate there.

The US economy is growing, and in the 3rd quarter of 2014 the GDP rose by 1%, and compared to the 2013 it increased by 2.4%. This

growth is based on increase in exports, private and public expenditure, and investments.

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

Russian development trend remains negative. Compared to the year before in the 3rd quarter of 2014 the GDP increased by 0.7%. Influenced by the rapidly growing inflation, private consumption growth rate is slowing down and its contribution to the growth is decreasing. The growing uncertainty in relation to the Russian-Ukrainian conflict and the related Western sanctions against Russia have a significant impact on investor and consumer confidence in this region, while the fall in world oil prices puts a significant pressure on the Russian Rouble.

According to forecast of the European Commission, world economy growth might reach 3.3 % in 2014, and 3.8% in 2015.

Global Economic Growth

GDP, per cent changes

	2010	2011	2012	2013	2014f	2015f
World	5.5	3.9	3.3	3.1	3.3	3.8
USA	2.5	1.6	2.3	2.2	2.2	3.1
Japan	4.7	-0.5	1.5	1.5	1.1	1.0
China	10.6	9.4	7.8	7.6	7.3	7.1
CIS	5.0	4.8	3.5	0.9	0.3	0.8
EU-27, of which:	2.1	1.7	-0.4	0.0	1.3	1.5
Germany	4.1	3.6	0.4	0.1	1.3	1.1
Sweden	6.0	2.7	-0.3	1.5	2.0	2.4
United Kingdom	1.9	1.6	0.7	1.7	3.1	2.7
Latvia	-2.9	5.0	4.8	4.2	2.6	2.9
Lithuania	1.6	6.1	3.8	3.3	2.7	3.1
Estonia	2.5	8.3	4.7	1.6	1.9	2.0

Source: European Commission, f – forecast

GROSS DOMESTIC PRODUCT: EXPENDITURE

After rapid economic growth lasting for several years when the average GDP growth rate in 2005-2007 exceeded 10%, in 2008 due to global financial crisis the Latvian economy experienced recession. During the crisis the GDP declined by almost 20%, falling to its lowest level at the end of 2009.

Economic growth of Latvia from 2011 to 2013 reached on average 4.7% yearly, which was one of the fastest growth rates in the EU. In 2013 GDP increased by 4.2% compared to the previous year.

In the first three quarters of 2014 the GDP rose by 2.5% as compared to the corresponding period of 2013. Despite the fact that during the last few years Latvia showed rapid growth, the GDP is still 7% lower than it was in 2007, during the pre-crisis period.

Private consumption gave the greatest contribution to growth both in 2013 and in 2014. However, in 2014 it increased at a slower pace than in 2013. Compared to the 2nd quarter, in the 3rd quarter of 2014 private consumption rose by 0.2% (according to seasonally adjusted data), and compared to the previous year it increased by 2.1%. Despite the fact that in 2014 there was a rapid growth in wages and salaries, employment in 2014 increased much slower than in the previous year.

In 2014 government consumption was rising steadily – in the 3rd quarter it increased by 2.3% compared to the 3rd quarter of 2013

Gross Domestic Product
2004 = 100



e – estimation; f – forecast

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

	2009	2010	2011	2012	2013
Gross Domestic Product	-14.2	-2.9	5.0	4.8	4.2
Private consumption	-16.2	3.1	2.9	3.0	6.2
Public consumption	-10.7	-8.1	3.1	0.4	2.8
Gross fixed capital formation	-33.3	-20.0	24.2	14.5	-5.2
Exports	-12.9	13.4	12.0	9.8	1.5
Imports	-31.7	12.4	22.0	5.4	0.3

Compared to the previous year investment volume in the 3rd quarter of 2014 declined by 1.7%. Investment drop is related to the wait-and-see attitude due to the the increasing uncertainty in the external environment.

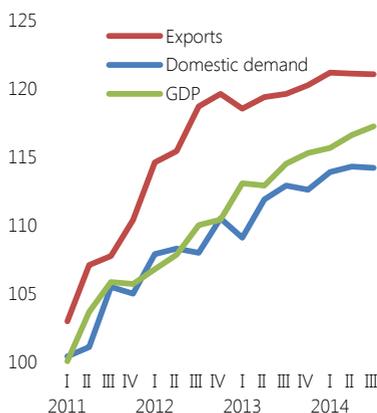
Since 2010 exports of Latvian goods and services increased very rapidly, and it was the main driving force of the development of the national economy. Export volume in 2012 exceeded the pre-crisis level by almost 25%. Since 2013, due to the low demand in external markets, export trend has become more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

Slower than expected growth in the EU countries and the weakening Russian economy significantly affected the Latvian exports in 2014. In the 3rd quarter of 2014, as compared to the corresponding period of the previous year, export volume of goods and services increased by as little as 0.3%. The increase was based on the rise in exports of goods, while the volume of exports of services declined.

After a considerable drop during the years of economic crisis, imports grew quite rapidly in 2010 and 2011. Since the middle of 2012 import trend has become more moderate. In the 3rd quarter of 2014 import volume decreased by 1.2% which was the most rapid annual drop of imports during the last five quarters. In the 3rd quarter of 2014 exports-imports balance accounted for -3.4% of the GDP.

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				
	III	IV	I	II	III	IV	I	II	III	
Gross domestic product	3.7	3.4	3.1	4.6	4.6	4.4	2.8	2.3	2.4	
Private consumption	2.7	1.8	5.9	8.2	8.4	2.3	2.7	2.3	2.1	
Public consumption	0.2	3.7	6.2	1.2	3.7	1.5	4.1	3.9	2.1	
Gross fixed capital formation	3.2	12.4	-15.6	-2.5	-2.9	-2.8	9.3	1.8	-1.9	
Exports	10.6	10.3	3.4	2.2	-0.4	1.0	3.4	1.7	0.3	
Imports	0.9	3.4	2.6	-1.2	0.8	-0.9	0.5	2.4	-1.2	

GROSS DOMESTIC PRODUCT: DEVELOPMENT OF SECTORS

After a significant decline during the period of economic crisis, owing to the increased competitiveness and export opportunities, tradable sectors recovered first. In manufacturing which is the main export sector production volume in 2013 exceeded the level of 2009 by 24%. Growth of tradable sectors and increase of income from exports have also promoted development of domestic market-oriented sectors.

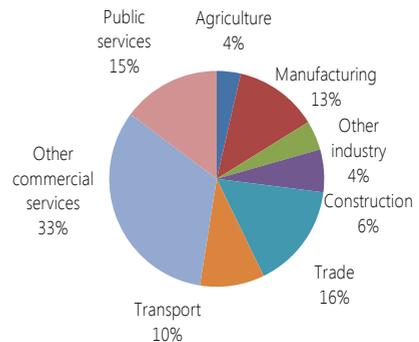
In 2013 the weak demand in export markets slowed down the manufacturing growth. In the second half of the year with the economic activity gradually increasing in the domestic market, the production volume in manufacturing also rose. However, all-in-all in 2013 production volume in the sector remained at the level of 2012. The situation in the external environment had a significant impact on the sector in 2014 – during the first three quarters of the year manufacturing output increased by 0.2%, compared to 2013.

In 2013 production volume in other industry sectors declined by 3.3%. Production volume in the sector during the first three quarters of 2014 declined by 5.3% as compared to the previous year. Mainly it was related to the weather conditions due to which less electricity and heat energy was produced.

Transport sector in 2013 grew by 1.6%, which was promoted by an increase in freights transported by road transport. Compared to the previous year during the first three quarters of 2014, 3.2% more services were provided in the sector. It was influenced by an increase in freights transported by railway, through ports and by road transport.

Construction volumes have been increasing steadily during the last couple of years; however, they are still lagging behind the pre-crisis level.

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	-2.9	5.0	4.8	4.2	-2.9	5.0	4.8	4.2
Agriculture	-3.9	-1.8	7.5	-0.4	-0.1	-0.1	0.4	0.0
Manufacturing	14.0	4.0	4.6	0.0	1.0	0.4	0.7	0.0
Other industry	-1.7	-5.2	-5.5	-3.3	-0.1	-0.2	-0.3	-0.2
Construction	-35.4	27.1	14.5	7.5	-1.6	1.0	1.0	0.5
Trade and accommodation	-1.9	4.1	1.7	4.8	-0.2	0.5	0.3	0.9
Transport and storage	-5.5	18.5	6.9	1.6	-0.4	1.5	0.9	0.2
Other commercial services	-4.2	6.2	5.2	6.0	-0.8	1.4	1.8	2.1
Public services	-6.9	3.1	0.0	3.8	-0.8	0.4	0.0	0.7

In 2013 construction volumes grew by 7.5%, which was mainly promoted by increase in construction of civil engineering structures. Compared to the previous year construction volume during the first three quarters of 2014 increased by 9.8%; it was affected by a rapid growth in construction of buildings in the first half of the year.

Owing to the rise of private consumption, the volume of services provided in trade sector grew by 4.8% in 2013. Also in 2014 this sector kept developing, reaching a rise of 2.4% in the first three quarters of 2014, as compared to the corresponding period of the previous year.

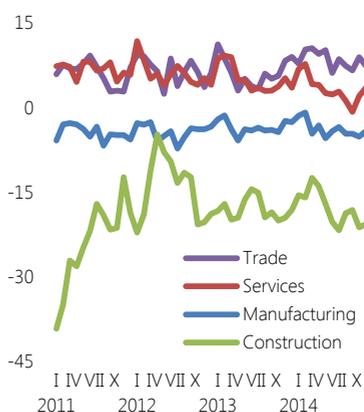
In 2013 volume of commercial services sectors rose by 6%, and taking into account the large share of these sectors, it accounted for almost half of the total national economic growth. The volume of services provided by commercial services sectors grew more moderately in 2014, and during the three quarters – increased by 1.6% as compared to 2013. The growth in 2014 was mainly promoted by increase in real estate operations, in commercial services, as well as in financial and insurance activities.

As government expenditure increased, a stable growth of 3.8% was observed in public services sectors in 2013. The sector kept growing also in 2014 – during the first three quarters it increased by 3.3% compared to the previous year

In 2015, with an increasing domestic demand, domestic market-oriented sectors will show stable development. While development of tradable sectors will be affected by external market demand trends.

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			
	III	IV	I	II	III	IV	I	II	III	
Gross Domestic Product	3.7	3.4	3.1	4.6	4.6	4.4	2.8	2.3	2.4	
Agriculture	15.9	-0.2	1.2	-1.7	-2.0	2.8	8.8	4.0	-5.9	
Manufacturing	2.4	1.5	-4.8	-0.6	2.5	2.6	1.2	0.1	-0.6	
Other industry	-5.4	-1.3	-1.4	1.4	-4.1	-8.3	-9.2	-5.4	0.5	
Construction	7.3	8.3	9.8	5.3	11.6	3.9	24.6	15.8	0.6	
Trade and accommodation	1.3	3.4	6.2	5.8	5.2	2.2	2.6	2.2	2.4	
Transport and storage	6.8	4.0	2.0	0.5	0.8	3.3	5.1	2.2	2.3	
Other commercial services	5.1	3.7	4.1	6.1	7.3	6.6	2.2	-0.1	2.9	
Public services	0.6	-3.0	1.2	5.0	2.8	5.1	3.5	3.5	3.1	

MANUFACTURING

At the beginning of 2013 the weak demand in export markets decelerated manufacturing sector development speed. In the second half of the year, as the situation in the EU, the largest export market of Latvia, gradually improved, and economic activity in domestic market increased, manufacturing sector also witnessed production growth. However, in 2013 production volume in this sector in general remained at the level of 2012. In 2013 manufacturing sector was significantly affected by discontinuation of economic activity of JSC "Liepājas Metalurģis", as a result of which manufacture of basic metals dropped significantly.

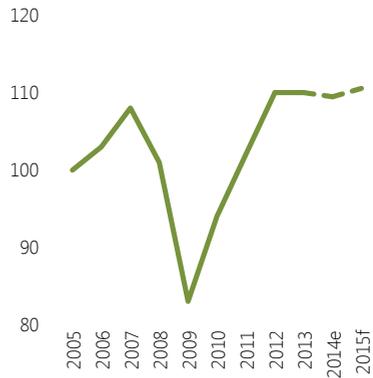
Manufacturing output during the first eleven months of 2014 decreased by 0.3% as compared to 2013. Development of the sector is mainly affected by trends in external markets – slower than expected development in the EU, as well as the weakening of the Russian economy. Development trends differ greatly from one manufacturing sub-sector to another. In wood processing which is one the largest manufacturing sectors – production volume in 2014 was steadily increasing. Compared to 2013 output of this sector during the first eleven months of 2014 grew by 7.3%. Both export volume, and industrial production demand in the domestic market are steadily increasing.

Compared to the previous year, production volume in food industry, the largest manufacturing sector, during the first eleven months of 2014 increased by 0.3 per cent.

The most rapid growth in production volume during the first eleven months of 2014 was recorded in manufacture of computers, electrical and optical equipment. There was also an increase in the chemical industry, in manufacture of furniture, motor vehicles and trailers, in manufacture of electrical equipment, as well as in manufacture of fabricated metal products, non-metallic minerals and in manufacture of machinery and equipment.

Production volume decline during the first eleven months of 2014 was observed in manufacture of wearing apparel and textiles, as well as in manufacture of basic metals.

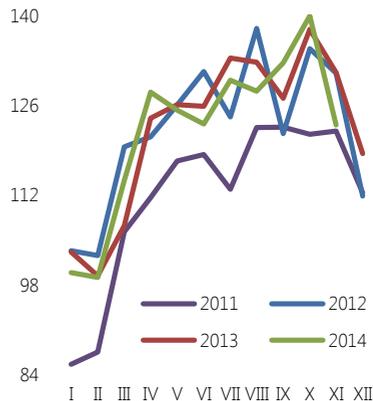
Manufacturing
2004 = 100



e – estimation; f – forecast

Production Volume Index

by months, seasonally unadjusted data, 2010 = 100

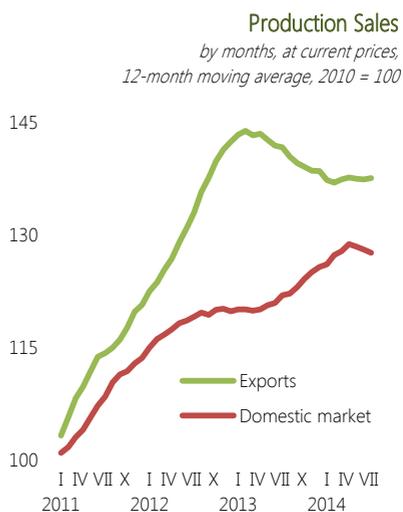


Since the middle of 2012 production capacity utilisation rate in manufacturing practically has not changed. In the 4th quarter of 2014 the utilisation rate slightly increased reaching 73.3 per cent.

Compared to the corresponding period of 2013 the total manufacturing turnover during the first eleven months of 2014 declined by 1.2 per cent.

During this period of time turnover of products sold at the domestic market decreased by 1.4%, while turnover of exported goods decreased by 1.1 per cent.

It is expected that also in the nearest future manufacturing sectors will experience a similar development trend. Sectors already witnessing production growth, promoted by an increasing domestic market demand, as well as by gradual improvement of economic situation in the EU, will continue to grow. In turn in sectors, where production volume this year due to different factors (competitiveness, economic situation in the CIS countries, etc.) was decreasing, significant production growth is not expected.



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 Jan-Nov
	2013					
Manufacturing – total	100	100	61.7	9.3	0.1	-0.3
Food industry	25.2	21.7	36.1	2.5	6.0	0.3
Light industry	4.4	11.2	84.5	3.0	1.4	-12.9
Wood processing	23.0	19.4	73.3	5.4	2.7	7.3
Paper industry and publishing	4.5	3.9	58.6	10.1	5.6	-0.7
Chemical industry	7.4	6.3	74.9	8.3	-8.7	-1.3
Other non-metallic mineral products	6.5	4.2	43.9	8.6	4.6	0.7
Metals and metal articles	10.7	11.0	65.3	16.2	-17.6	-11.3
Electrical and optical equipment	6.2	3.7	88.5	20.0	18.4	30.5
Machinery and equipment	2.4	2.9	74.8	8.7	1.4	0.4
Motor vehicles	4.0	3.3	92.0	15.8	3.0	-14.7
Other industries	5.7	12.4	50.6	26.1	-7.6	-11.5

INVESTMENTS

Investment level in Latvia has been fluctuating during the last couple of years. During the years of economic crisis in 2008-2009 it declined substantially, but in 2011-2012 rose significantly again. In 2013 investment in the national economy of Latvia witnessed a decline of 5.2% compared to the previous year, and accounted for 23.3% of the GDP.

Investment level increased slightly during the three quarters of 2014. Compared to the corresponding period of 2013, investments increased by 2.1%. It is expected that in 2014 the total investment level in the Latvian economy will maintain moderate growth, at the same time being about 30% lower than in the pre-crisis period.

According to provisional data during the three quarters of 2014 non-financial investment in manufacturing increased by 35.2% as compared to 2013, and accounted for almost 15% of the total non-financial investment. Investment level also increased in services sector, which was greatly affected by investment growth of 42.6% in information and telecommunication services, and of 23.6% in trade. In turn, during the three quarters of 2014 investment in energy decreased by 23% compared to 2013, which can be explained with the finalisation of large investment projects started in the previous year. Investment level recovery to the pre-crisis levels is largely hampered by the cautious crediting policy of banks, as well as by the geopolitical uncertainty in the region.

Intensity of FDI flows during the recent years has become more moderate. The attracted FDI flows in 2011 accounted for 5.1% of the GDP, in 2012 – for 3.9% of the GDP, and in 2013 – for 2.6% of the GDP. The attracted net FDI flows in the first nine months of 2014 accounted for 26.3% of flows of the corresponding period of the previous year. Similar trends are also observed in our neighbouring countries.

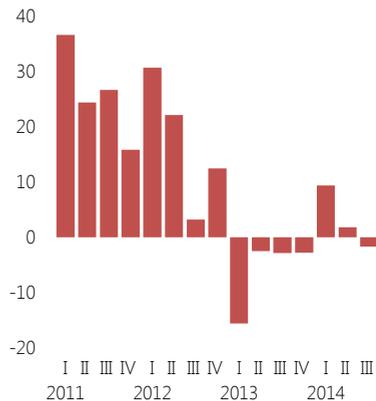
During three quarters of 2014 the attracted FDI value in the Baltic countries accounted for 1'300.9 mln euros, which is 7% less than a year before. Latvia attracted about 7% of all FDI in the Baltic countries.

Gross Fixed Capital Formation
2004 = 100



e – estimation; f – forecast

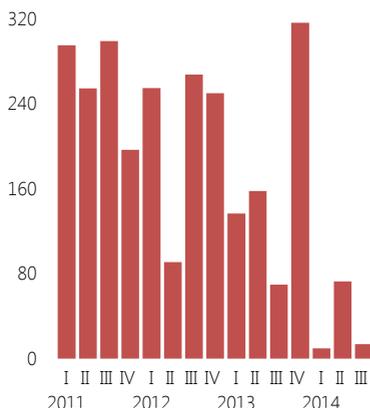
Gross Fixed Capital Formation
changes over corresponding quarter of the previous year, as per cent



In accordance with the international investment balance of Latvia, FDI stock in the Latvian economy at the end of September reached 11 735.6 mln euros, which is by 3% more than a year before. In breakdown by sector, the largest share of FDI was attracted by bank intermediation, real estate activities and manufacturing.

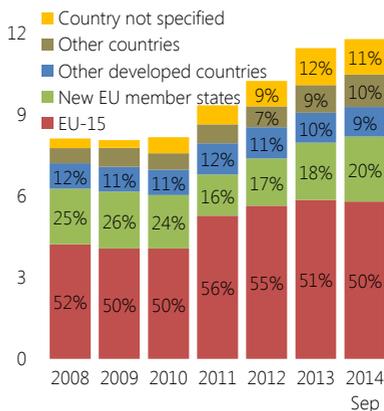
Foreign Direct Investment in Latvia

flows by quarters, mln euro



Foreign Direct Investment in Latvia

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



Foreign Direct Investment in Latvia by Sectors

mln euro

	Structure	Closing position				
	2014 Sep	2010	2011	2012	2013	2014 Sep
Agriculture	2.6	214.6	263.2	294.4	299.9	308.5
Manufacturing	12.2	1'017.0	1'114.4	1'200.3	1'403.5	1'432.1
Other industry	4.3	385.9	385.9	492.2	589.3	508.7
Construction	4.3	540.7	544.4	528.1	559.6	505.1
Trade and accommodation	12.0	1'046.3	1'329.2	1'416.1	1'472.9	1'413.4
Transport and storage	3.3	346.0	399.6	449.0	408.1	386.2
Financial and insurance activities	24.8	2'326.9	2'571.6	2'825.7	2'922.2	2'915.4
Other services	18.3	1'635.0	1'916.9	1'866.6	2'071.8	2'150.5
Not allocated economic activity	18.3	671.4	834.5	1'185.5	1'842.4	2'115.9
Total	100	8'183.8	9'359.8	10'257.9	11'569.6	11'735.6

FOREIGN TRADE

Since 2009 foreign trade of Latvia has been developing very rapidly. As compared to 2009, exports of goods at current prices had almost doubled in 2012, while imports of goods at current prices – increased by more than 80%. From 2009 to 2012 exports annually grew on average by 25%, and imports – by 23%. During this period of time, agricultural and food products, as well as metals and metal articles had the most significant impact on growth in exports of goods. Export of wood processing, machinery and mineral products also rose significantly.

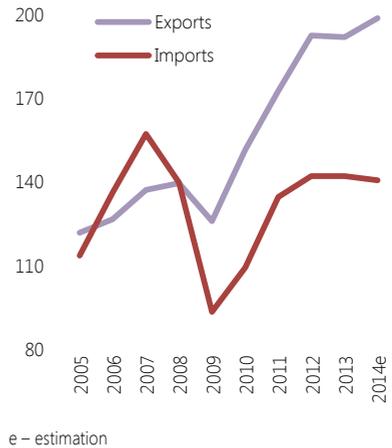
Exports of Latvian goods witnessed a moderate growth in 2013, rising by 1.5% calculated at current prices, but slightly decreased by 0.3% calculated at constant prices. Imports of goods at current prices rose by 1%, but at constant prices – remained at the level of 2012.

With the uncertainty in the external environment exports of Latvian goods during the first eleven months of 2014 increased moderately– by 2.5% (at current prices). In turn, imports of goods during this period of time decreased by 1.4%. As exports of goods grew and imports decreased, the negative trade balance in January-November 2014 improved significantly, as compared to the corresponding period of 2013.

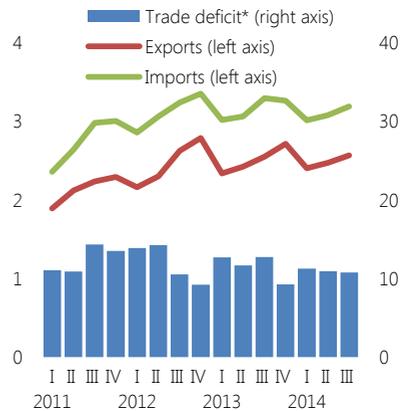
In 2013 export growth was mainly promoted by the rise in export of machinery products, as well as in export of wood and wood products. Due to termination of economic activity of JSC „Liepājas Metalurģis” exports of metals and metal articles decreased significantly. In 2013 export in transport vehicle group also decreased.

In turn, in January-November 2014, export was positively influenced by growth in exports of wood and wood products, machinery and equipment, as well as by increase in exports of chemical products. Compared to the corresponding period of the previous year volume of exports of metals and metal articles, products of light industry, agricultural and food products have decreased.

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



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



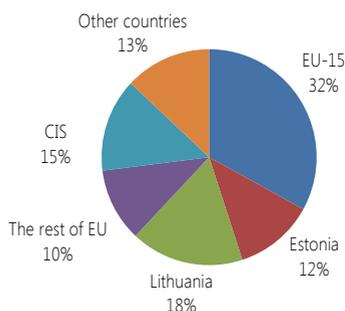
* as per cent of total trade turnover

In January-November 2014 decrease in imports of goods was mainly affected by decrease in imports of mineral products. Like in 2013 imports of transport vehicles and of metals and metal articles also declined. Decrease was recorded also in imports of agricultural and food products. This decline, in turn, was compensated by increase in imports of machinery products, wood and wood products, as well as in imports of chemical products.

Export volume of goods to the EU countries in the first eleven months of 2014 grew slightly more than total exports. In its turn, exports to the CIS countries declined by 3.1%. Exports to Lithuania, which is the main export partner of Latvia, increased by 8.5%, but to Estonia – decreased by 6.6%. Exports to other countries (except the EU and CIS countries) increased by 2.4 per cent.

Latvia's largest trade partners in January - November were Lithuania with 18% of total foreign trade turnover, Estonia, Germany, Poland and Russia with 9% each, Sweden and Finland with 4% and Denmark, Netherlands, Great Britain and Italy with 3% each.

Structure of Exports of Latvian Goods in January-November 2014, as per cent



Exports and Imports of Latvian Goods in January-November 2014, as per cent

	Exports			Imports		
	structure	volume changes	contribution to changes	structure	volume changes	contribution to changes
Total,	100	2.2	2.2	100	-1.3	-1.3
of which:						
Agricultural and food products	19.5	-0.9	-0.2	15.6	-1.7	-0.3
Mineral products	8.6	-1.4	-0.1	14.8	-15.3	-2.7
Chemical products	10.1	7.0	0.7	15.7	3.6	0.5
Products of light industry	4.6	-4.7	-0.2	6.2	-1.3	-0.1
Wood and articles of wood	17.1	9.1	1.5	2.7	33.8	0.7
Metals and metal articles	9.5	-9.0	-1.0	8.5	-3.9	-0.3
Machinery and electrical equipment	16.1	5.6	0.9	19.4	4.5	0.8
Transport vehicles	4.5	1.0	0.0	7.1	-7.6	-0.6
Other goods	10.1	6.3	0.6	10.0	6.6	0.6

BALANCE OF PAYMENTS

Since 2011, the current account of balance of payments has been at the level of a small deficit. In 2012 it was 3.3% of the GDP, and in 2013 – 2.3% of the GDP. During the 3 quarters of 2014 current account deficit reached 3.8% of the GDP, which is almost one percentage point more than 2013.

Current account position was mainly determined by changes in foreign trade balance. Latvian foreign trade still shows a deficit. During the recession years, it decreased, mainly due to decrease in import volumes. As the economy stabilised, exports grew more rapidly than imports; however during the last couple of years mainly due to geopolitical instability in the region export and import trend has been slowing down.

In 2013 exports and imports of goods grew moderately. Foreign trade deficit accounted for 10.9% of the GDP. Also during the first nine months of 2014 export trend was more rapid than import trend, and foreign trade deficit decreased to 10.8% of the GDP.

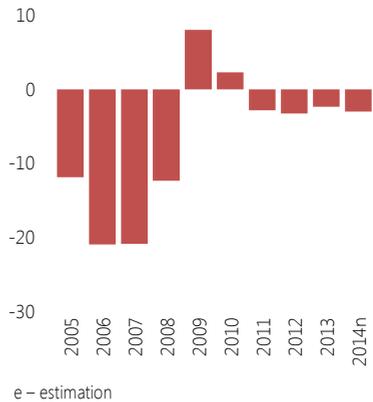
Balance of services is positive and covers foreign trade deficit by almost 70%. During the first nine months of 2014 export of services decreased by 1.6%, and import of services decreased by 1.1% compared to the previous year, and the surplus in the balance of services declined to 7.4% of the GDP (in 2013 - 7.6%).

Initial income balance has been negative since 2011. In 2013 the deficit was 0.3% of the GDP, while in the first nine months of 2014, due to credit flow decline it increased to 0.7% of the GDP.

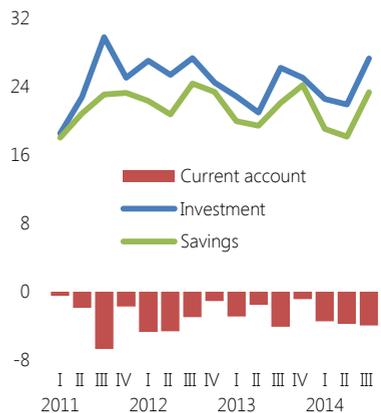
Financial account balance quarterly fluctuations are gradually decreasing, and in the first nine months of 2014 the financial account deficit was 6% of the GDP (in the 1st quarter - 5.1%, in the second quarter - 6.7%, and in the 3rd quarter - 6.1%). Financial account situation was mainly determined by changes in portfolio and other investment flows.

FDI flows have been moderate in the recent years, thus implying that investors still are cautious. Direct investment balance is positive. In 2013 it accounted for 1.6% of the GDP, and in the first nine months of 2014 – 0.7% of the GDP.

Current Account Balance
as per cent of GDP



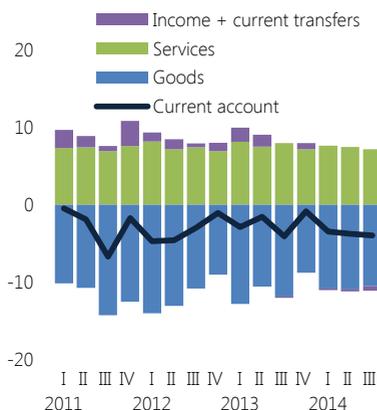
Current Account, Investment and Savings
by quarters, as per cent of GDP



Significant fluctuations can be observed in portfolio investment and positions of other investments. During the first nine months of 2014 deficit of balance of other investments reached 11.8% of the GDP. Fluctuations of balance of portfolio investments and other investments are mainly affected by financial sector stabilisation measures and public sector debt restructuring.

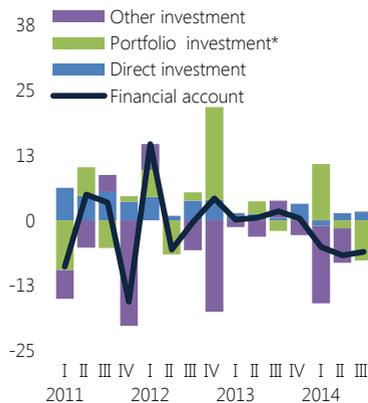
Current Account by Items

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 Jan-Sep
A. Current account	8.0	2.3	-2.8	-3.3	-2.3	-3.8
Trade balance	-8.1	-8.2	-12.0	-11.6	-10.9	-10.8
Service balance	7.6	7.2	7.3	7.4	7.6	7.4
Net income	6.1	1.0	0.0	-0.6	-0.3	-0.7
Net current transfers	2.4	2.3	1.9	1.6	1.3	0.3
B. Capital account	2.4	1.9	2.1	3.0	2.5	3.3
C. Financial account*	-6.1	-2.1	-4.0	2.9	0.7	-6.0
Direct investment stock	0.6	1.5	4.9	3.2	1.6	0.7
Portfolio investment**	2.3	-2.8	-1.8	4.7	0.1	0.0
Other investment	-8.9	-0.7	-7.2	-5.1	-1.0	-6.7
D. Deviation	1.2	1.8	0.3	1.0	0.8	5.8
E. Reserve assets	-5.6	-4.0	4.5	-3.6	-1.7	0.6

* 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%, and in 2012 – 1.6%. In 2013 consumer prices decreased by 0.4%. Deflation was mainly determined by the decline in prices of natural gas, fuel and food. Drop in prices of oil and food was also of great importance. The average annual price level in 2013 did not change.

In 2014 moderate price increase could be observed. In December consumer prices increased by 0.2% as compared to December 2013. Rise in prices of services (of 3.3%), in prices of tobacco (of 8.7%), as well as decline in prices of fuel (of 12.3%) and of food (of 0.8%) had the most significant impact on price changes in 2014. It should be noted that global food prices dropped significantly – by 8.5% as compared to December 2013. At the end of December, oil prices in world markets fell to the lowest level recorded in the last five and a half years.

During 2014, world oil price drop reached 50%. However more rapid price drop for oil is prevented by US dollar appreciation against euro.

Also in the EU price trends in 2014 in general were moderate. In November 12-month inflation in the EU countries was 0.4%, which was affected by rise in prices of alcoholic beverages and tobacco, as well as in prices of services.

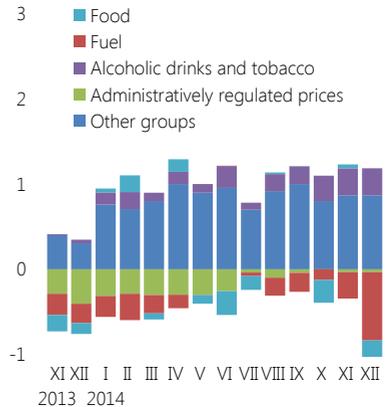
In 2014 the average annual inflation in Latvia was 0.6%. In 2015 the average consumer price level will remain at the level of 2014. It will be affected by a number of supply factors (such as opening of the electricity market). At the same time, inflation will also be related to external factors, such as global oil and food prices.

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.

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

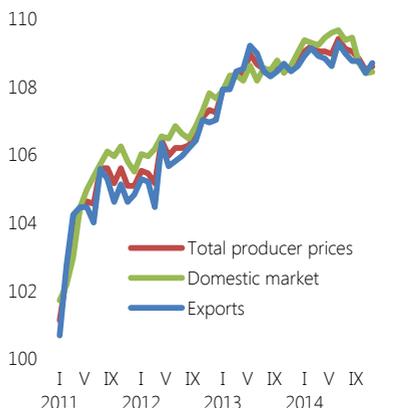


In November 2014, compared to November 2013, general level of producer prices in industry did not change, decreasing by 0.2% for products sold at the domestic market, and increasing by 0.1% for exported products.

In November 2014 producer prices in manufacturing compared to November of the previous year did not change. In November 2014 producer prices of exported manufacturing production over the year grew by 0.3%, but of products sold at the domestic market declined by 0.3%. The most significant price growth was recorded in wood processing, while the most significant price drop was observed in production of food products and computers, as well as in production of electronic and optical products.

Russian embargo on food products as well as economic situation in EU and Russia and price drop for world raw materials continues to affect production prices. It must be noted that during the year prices for world energy and production of raw materials rapidly decreased, but prices for agriculture products slightly dropped.

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	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
	June	0.3	0.7	1.6	0.2
	July	-0.4	0.6	1.2	0.2
	August	-0.6	0.8	0.6	0.3
	September	0.5	1.0	1.1	0.4
	October	0.0	0.7	1.1	0.5
	November	-0.3	0.9	0.8	0.6
	December	-0.6	0.2	0.2	0.6

MONETARY INDICATORS

Despite the fact that borrowers' creditworthiness has been improving, crediting is still weak and in the long run it may hinder further economic development.

The number of new loans granted keeps decreasing: in the 3rd quarter of 2014 banking sector issued new loans for EUR 673 mln, which is by 22% less than a year before. About a half (47%) of the new loans were issued to non-residents; however, the share of loans issued to non-residents in the banking sector total credit portfolio account for only 12.4 per cent.

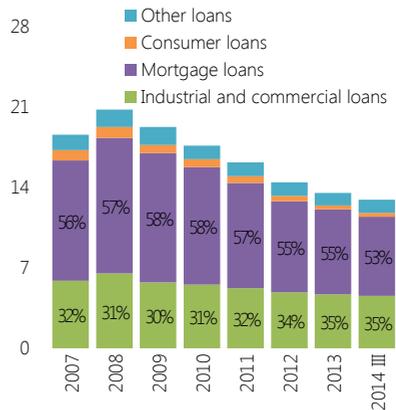
The number of new loans issued to enterprises is also decreasing. In the 3rd quarter of 2014, compared to the corresponding period of the previous year, the volume of new loans issued to enterprises dropped by almost 36% and accounted for 30% or EUR 199.1 mln of the total amount of new loans issued. Volume of new loans issued to households slightly increased (by 2.3%) and amounted to 15% or EUR 100.3 mln of the total number of new loans.

The total credit portfolio of banks kept decreasing in 2014. Amount of loans repaid still exceeds the number of new loans. The overall household credit portfolio trend remained negative. Business crediting was also relatively weak.

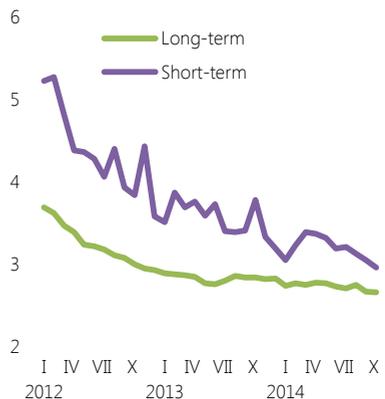
Compared to the corresponding period of the previous year balance of loans at the end of the 3rd quarter of 2014 declined by 5.3%. In the 3rd quarter of 2014 industrial loan balances decreased most rapidly for acquisition of fixed assets and financing of other long-term investment projects (by 8%). Mortgage loan balances declined similarly (8%). In turn, commercial and consumer credit balances slightly increased. Volume-wise the majority of loans were issued in real estate activities and manufacturing sector.

Quality of loans keeps improving. In the 3rd quarter of 2014, loans with overdue payments accounted for 14.2% of the total banking sector credit portfolio, which is one of the lowest indicators since the end of 2008 (in the 3rd quarter of 2008 – 11.7%).

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

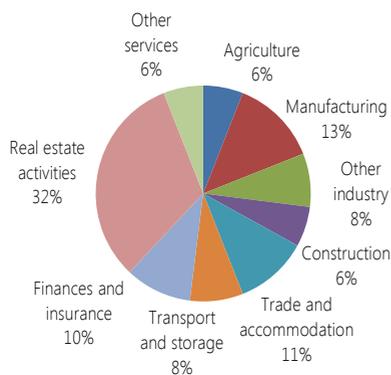


Improvement of banking sector credit portfolio quality is mainly related to writing-off of bad loans.

Interest rates for loans issued in euros (outstanding amounts) to non-financial corporations are still decreasing, and in October 2014 accounted for 2.7%. Short-term interest rate fluctuations are more distinct, and at the end of October amounted to 3 per cent.

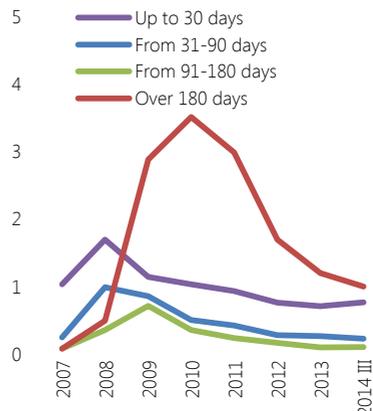
Structure of Loans Issued by Sectors

at the end of September 2014, as per cent



Loans with Overdue Payments

at the end of the period, bln euro



Monetary Indicators of the Banking System of Latvia

	2010	2011	2012	2013	2014 Sep
<i>at the end of period, mln lats</i>					
Net foreign assets	-1.7	-0.3	0.9	1.2	-0.3
Net domestic assets	10.8	9.5	8.8	8.6	9.2
Domestic loans	16.0	15.7	13.7	13.5	12.6
Other assets (net)	-5.1	-6.2	-4.9	-4.8	-3.3
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	3.6
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	-2.2
Broad money M2X	9.8	1.5	4.5	2.0	-3.7
Cash in turnover (without vault cash balance)	21.0	28.8	4.1	-56.6	197.7
Deposits of individuals and companies	8.3	-2.4	4.5	13.2	16.8
Gross Domestic Product at current prices	-3.8	11.7	8.6	5.3	3.7

GOVERNMENT BUDGET

To stabilise fiscal situation in the country during the crisis period from 2008 to 2012 the Latvian budget was significantly consolidated. Budget deficit was reduced from 8.9% of the GDP in 2009 to 0.9% of the GDP in 2013.

In 2014, general government budget deficit is forecasted 1.4% of GDP. It exceeds medium-term goals set by the government, at the same time the biggest contribution to budget deficit increase was made by one-off measures, which do not affect structural deficit. In next years the goal of the government is to maintain low budget deficit and in 2015 it is planned to be 0.9% of GDP.

As the economic situation improved budget revenues also increased, growing by 2.6% in 2013 as compared to 2012.

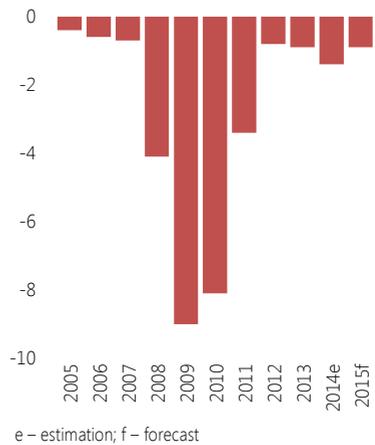
During the first eleven months of 2014, general government consolidated budget revenues amounted to EUR 7783.1 mln, which is 1.2% more than in the corresponding period of 2013. Total revenues from taxes during this period of time rose by 4.1 per cent.

During the 11 months of 2014 mandatory state social insurance contributions increased by 0.2% as compared to 11 months of 2013. Revenues from personal income tax in the 11 months of 2014 increased by 4% as compared to the 2013. Despite the increase in wages and salaries, and improvement of labour market situation, collection of labour force taxes is affected by changes in tax policy that came into force on 1st January 2014, namely, reduction of the social insurance instalment rate, increase of non-taxable minimum and deduction for dependants.

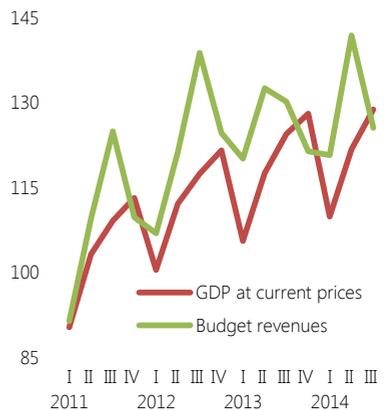
Compared to the previous year the collected VAT during the first eleven months of 2014 increased by 8.2%, and it accounted for more than a half of the total increase of taxes collected during this period of time.

Since 2011 state budget expenditure has also been increasing gradually. In 2013 it exceeded the level of 2012 year by 4.5%. During the 11 months of 2014, consolidated budget expenditure accounted for EUR 7714.9 mln, by 3.5% more than in January-November 2013.

Budget Balance
as per cent of GDP

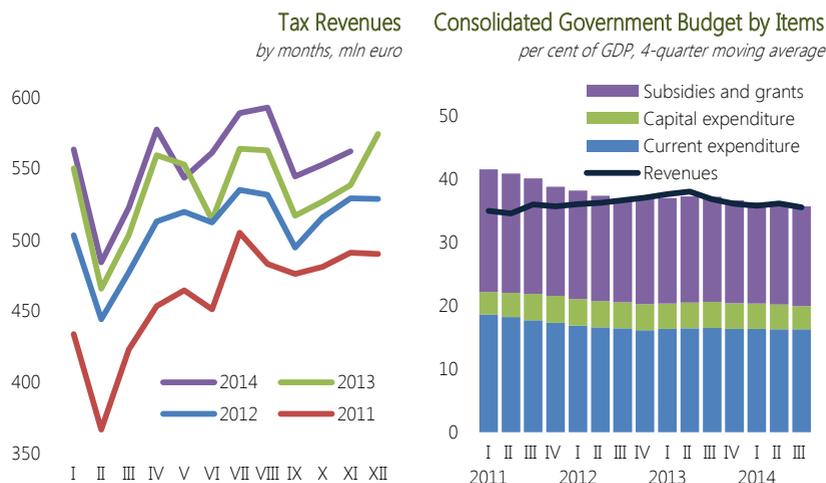


GDP and Budget Revenues
2010 Q4 = 100



Compared to January-November 2013 current expenditure during the first eleven months rose by 8.6% and expenditure on subsidies and grants increased by 4.9%. In turn, capital expenditure decreased by 7.7% compared to the previous year.

Out of the functional categories during the first eleven months of 2014 the most rapid expenditure growth was recorded in social protection. A significant expenditure increase was also observed in education, general government services, public order and safety, as well as in defence sector. In turn, decrease was recorded in expenditure on economic activity, management of local government territories, as well as on recreation, culture and religion.



General Government Budget

	bln euro			per cent changes		
	2011	2012	2013	2014 Jan-Nov	2013	2014 Jan-Nov
Revenues, of which:	7.2	8.2	8.4	7.8	2.6	1.2
Indirect taxes, of which:	2.1	2.3	2.4	2.4	4.3	6.8
Value added tax	1.4	1.6	1.7	1.7	4.9	8.2
Income and real estate taxes	1.6	1.8	1.9	1.8	6.5	3.4
Social insurance contributions	1.7	1.9	2.0	1.8	5.1	0.2
Other taxes	0.1	0.1	0.2	0.2	8.6	18.8
Other revenues	1.7	2.1	2.0	1.7	-0.5	-7.9
Expenditure	7.9	8.1	8.5	7.7	4.5	3.5

LABOUR MARKET

Increase in economic activity has a positive effect on the labour market – employment is increasing, while the high crisis-caused unemployment level is declining.

In 2013 the number of persons employed increased by 2.1%, reaching 894 thsd, while unemployment rate decreased to 11.9 per cent.

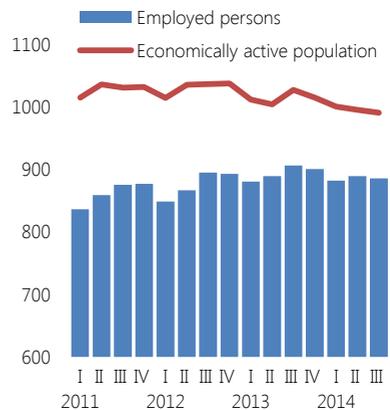
Situation in the labour market kept improving also in 2014; however, at a slower pace than in the previous years. In the 3rd quarter of 2014 unemployment rate decreased to 10.6%, which is 1.2 percentage points less than in the 3rd quarter of 2013. Altogether there were 104.9 thsd job seekers in the country, which is 16 thsd fewer than a year before.

Employment rate in the 3rd quarter of 2014 reached 59.3%, which is 0.3 percentage points more than in the corresponding period of 2013. 885.7 thsd persons were employed in the 3rd quarter of 2014.

The registered unemployment rate also continues to decrease. At the end of December 2014 it was 8.5%. There were 82 thsd unemployed persons registered in Latvia, which is 11.3 thsd less than a year before. The highest level of registered unemployment was once again recorded in Latgale region (17.8%), but the lowest – in Riga (4.9%).

Employed and Economically Active Population

by quarters, in thousands



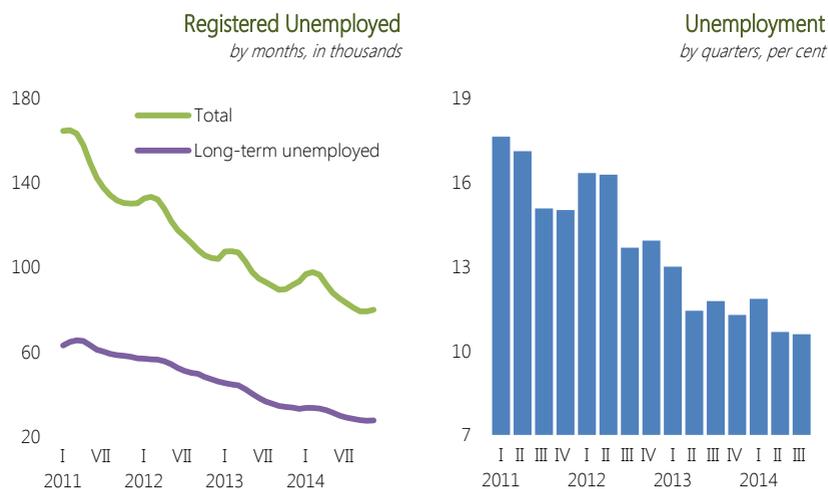
Occupied Jobs

in thousands

	2009	2010	2011	2012	2013	2014 Jan-Sep
Total	826.1	776.7	805.5	839.1	865.1	876.0
Agriculture	17.9	17.5	19.0	20.6	21.2	21.8
Manufacturing	104.1	101.8	109.1	114.5	117.3	115.3
Other industry	23.7	22.4	22.9	23.7	24.2	24.2
Construction	54.6	46.0	50.9	55.7	60.6	61.2
Trade and accommodation	173.3	159.7	162.8	170.7	173.9	175.8
Transport and storage	67.6	66.8	68.8	72.7	75.2	76.1
Other commercial services	162.8	148.4	157.0	168.5	176.2	179.5
Public services	222.1	214.2	215.0	212.8	216.5	222.0

The long-term unemployed (without a job for a period of more than a year) accounted for more than a third of the total registered unemployment.

It is expected that in 2015 situation in the labour market will keep improving; however, improvement will become more moderate. On the one hand, it will be affected by gradual decrease of low basis effect in the labour market, and on the other hand – by slowdown of growth rates.



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

	2009	2010	2011	2012	2013	2014 Jul-Sep
in thousands						
Population*	1'674.3	1'635.3	1'595.3	1'560.0	1'536.1	1'492.6
Economically active population	1'101.4	1'056.5	1'028.2	1'030.7	1'014.2	990.6
Employed persons	908.5	850.7	861.6	875.6	893.9	885.7
Unemployed persons	192.9	205.8	166.6	155.1	120.4	104.9
as per cent						
Economic activity rate	65.8	64.6	64.5	66.1	66.0	66.5
Employment rate	54.3	52.0	54.0	56.1	58.2	59.3
Unemployment rate	17.5	19.5	16.2	15.0	11.9	10.6

* population in private households

PERSONAL INCOME

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

As the economy stabilised, since the end of 2010, despite the comparatively high unemployment rate, remuneration has been steadily increasing.

Along with the growth of labour demand, the level of average gross wages and salaries are rising gradually. In 2011 and 2012 it increased by 4.4% and 3.7%, respectively, and in 2013 it grew by 4.6%, reaching EUR 716.

Since 2010, annual wages and salaries have been rising both in private and public sector. In 2013 remuneration in private sector grew by 4.7%; a similar increase was also observed in public sector (4.6%). It should be noted, that in 2013 average gross wages and salaries in public sector still were 5% lower than in the corresponding period of 2008, while in private sector it exceeded the level of 2008 by 10.7 per cent.

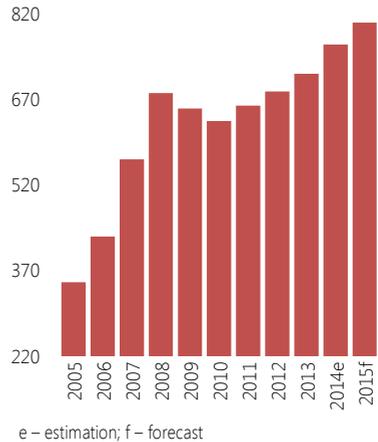
Relatively rapid wages and salaries kept growing also in 2014, when in the 3rd quarter gross wages and salaries increased by 7.4% compared to the 3rd quarter of 2013. The highest level of wages and salaries was recorded in Riga region (EUR 880), but the lowest – in Latgale region (EUR 531).

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

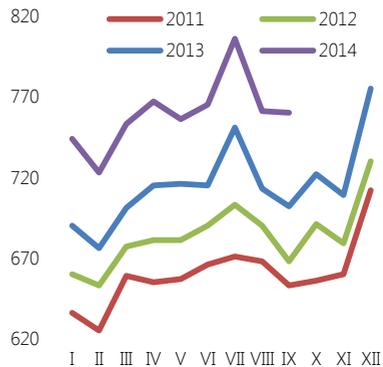
In the 3rd quarter of 2014, compared to the 3rd quarter of 2013, the most rapid increase in wages and salaries was observed in professional, scientific and technical activities (10.9%) and construction (10.7%).

The highest remuneration level was recorded in finance and insurance services sector – on average EUR 1'642 per month.

Average Monthly Wages and Salaries of Employed
gross, in euro

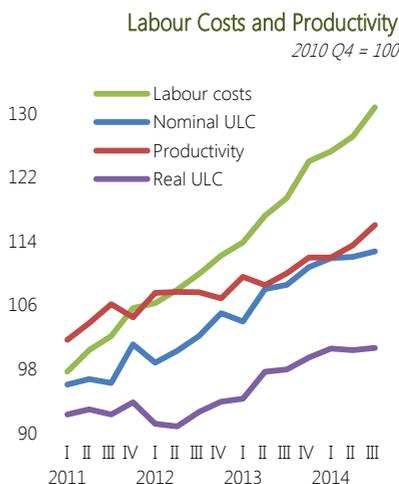
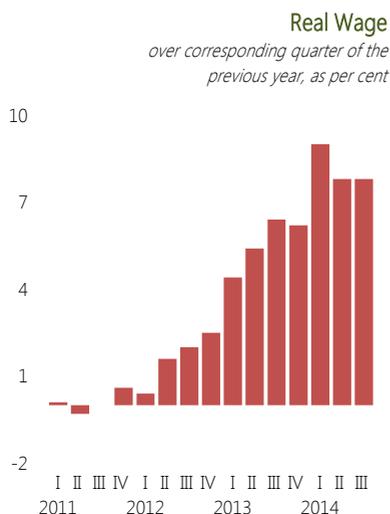


Average Monthly Wages and Salaries of Employed by Months
gross by months, in euro



Along with the increase of nominal wage, real wage is also gradually increasing. During the time period from 2011 to 2012, as consumer prices grew, increase of real wages was moderate – 0.1% and 1.6% annually. In 2013, real wages grew by 5.6% which was mainly affected by consumer prices that remained at the current level. In the 3rd quarter of 2014 real wages rose by 7.8%, as compared to the 3rd quarter of the previous year, which is mainly related to rapid increase of nominal wage.

The average old-age pension also keeps increasing. Compared to 2012, the average old-age pension in 2013 grew by 1%. In turn, in the 3rd quarter of 2014 (compared to the 3rd quarter of 2013) the average monthly old-age pension rose by 2.1%, and on average accounted for EUR 265.25 per month.



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

	2009	2010	2011	2012	2013	2014 Jan-Sep
Total	-3.9	-3.5	4.4	3.7	4.6	7.1
Agriculture	-4.7	5.8	8.2	0.7	4.8	9.3
Manufacturing	-2.0	0.1	5.0	4.6	4.0	7.1
Other industry	-4.2	4.1	3.7	3.6	1.8	5.1
Construction	-1.0	-5.3	4.7	2.0	6.8	8.5
Trade and accommodation	-2.8	-3.6	5.9	4.5	6.0	7.4
Transport and storage	0.2	0.2	1.0	7.7	0.5	5.9
Other commercial services	-1.1	-1.4	3.9	2.4	3.4	7.6
Public services	-12.8	-9.0	4.5	2.7	6.3	6.6

COMPARATIVE INTERNATIONAL STATISTICS

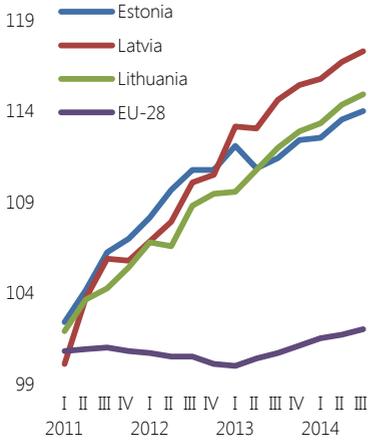
Economic Development in Baltic Countries

	Latvia	Lithuania	Estonia
Territory, thsd km ²	64.6	65.3	45.2
Population, thsd, at the 1 st January 2015	1'988.4	2'921.9	1'312.3
Gross domestic product, over corresponding period of the previous year, %			
2012	4.8	3.8	4.7
2013	4.2	3.3	1.6
2014 Q2	2.3	3.4	2.0
2014 Q3	2.4	2.7	2.2
Volume of manufacturing production, over corresponding period of the previous year, %			
2012	9.3	3.7	1.1
2013	0.1	3.3	2.9
2014 Q2	0.1	3.5	-3.1
2014 Q3	-0.6	0.4	4.2
Retail trade turnover*, over corresponding period of the previous year, %			
2012	9.1	6.2	9.3
2013	3.4	5.2	3.1
2014 Q2	4.7	6.0	7.9
2014 Q3	2.9	5.2	7.0
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
2014 Q2	0.7	0.1	0.0
2014 Q3	0.8	0.1	-0.6
Number of employed, over corresponding period of the previous year, %			
2012	1.6	1.7	1.9
2013	2.1	1.3	1.0
2014 Q2	0.0	0.9	-0.4
2014 Q3	-2.3	3.3	1.1
Unemployment rate, % of economically active population			
2012	15.0	13.4	10.0
2013	11.9	11.8	8.6
2014 Q2	10.7	11.2	7.0
2014 Q3	10.6	9.1	7.5

* data adjusted by working days, in current prices

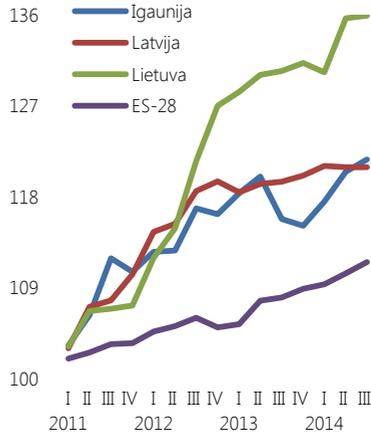
Gross Domestic Product

seasonally adjusted data
2010 Q4 = 100



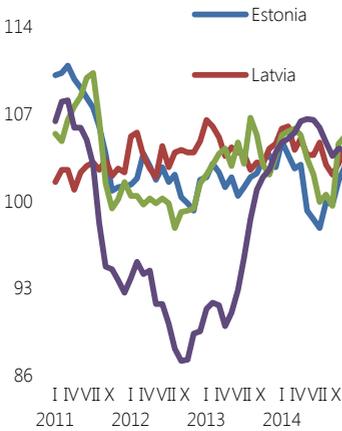
Exports of Goods and Services

seasonally adjusted data
2010 Q4 = 100



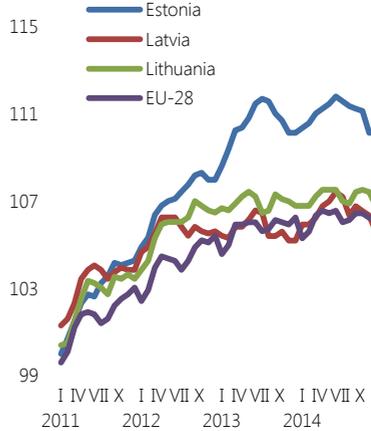
Economic Sentiment Indicator

seasonally adjusted data

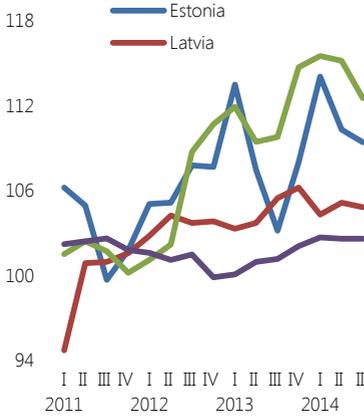


Harmonised Consumer Price Index

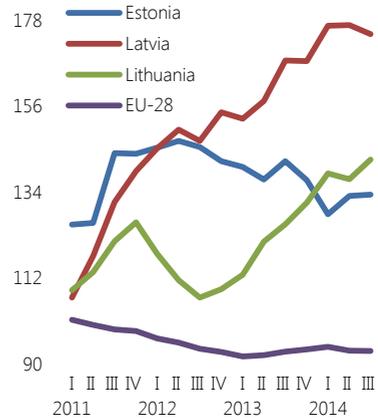
2010 Q4 = 100



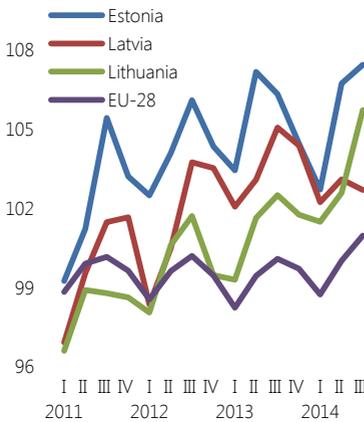
Manufacturing Production Volume
seasonally adjusted data
 2010 Q4 = 100



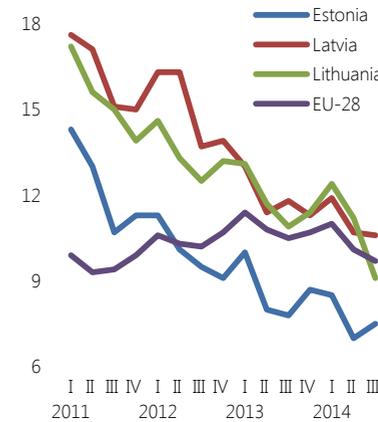
Construction Production Volume
seasonally adjusted data
 2010 Q4 = 100



Number of Employed
not seasonally adjusted data
 2010 Q4 = 100

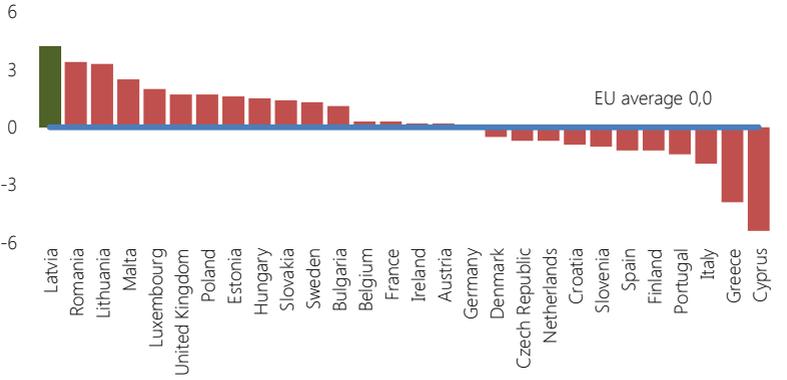


Unemployment Rate
as per cent



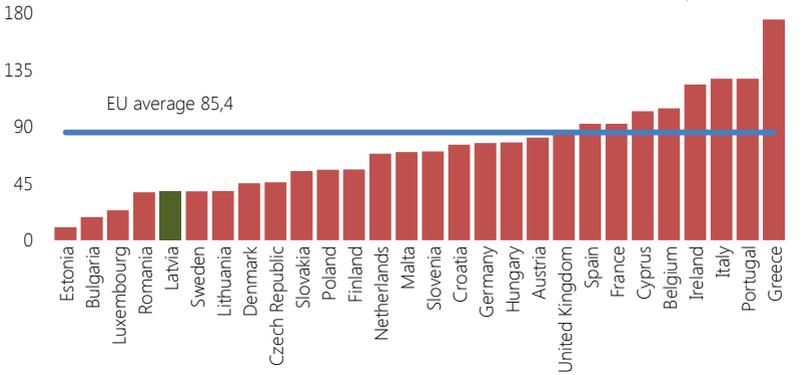
Gross Domestic Product

in 2013, changes of volumes, as per cent



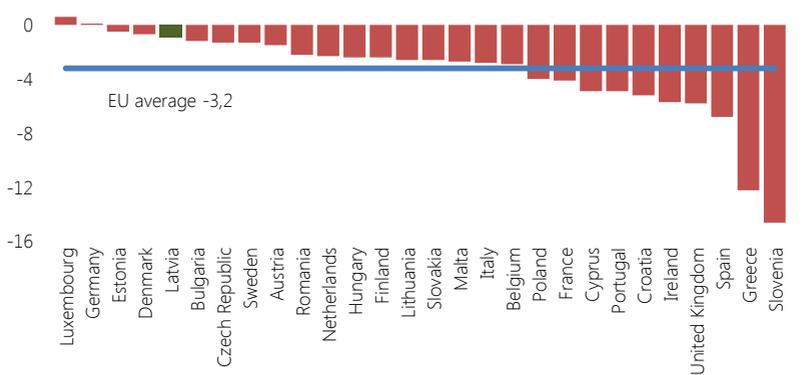
Public Debt

in 2013, as per cent of GDP



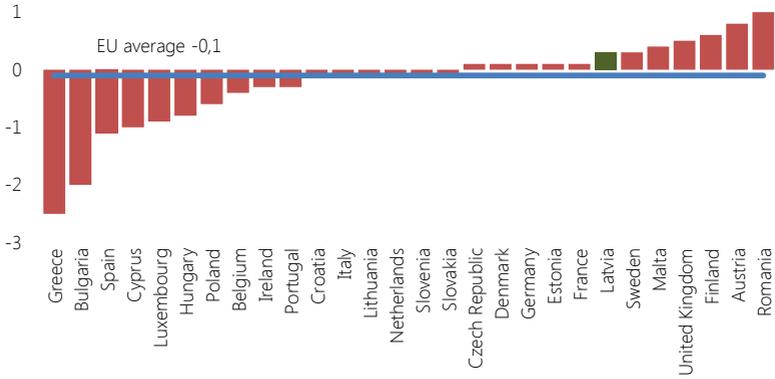
Budget Balance

in 2013, as per cent of GDP



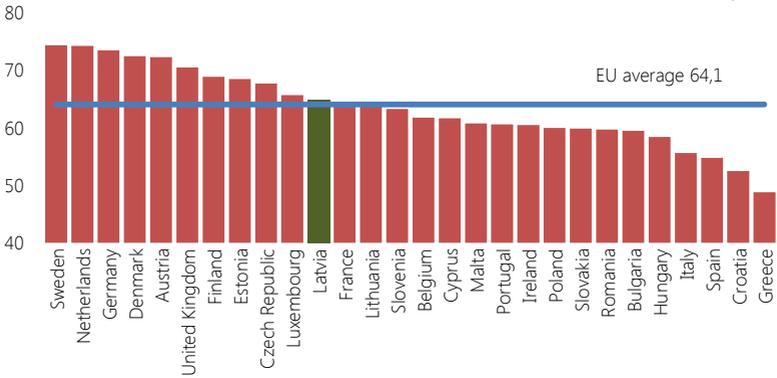
Harmonised Consumer Price Index

in December 2014, average annual, as per cent



Employment Rate

in 2013, as per cent



Unemployment Rate

in 2013, as per cent

