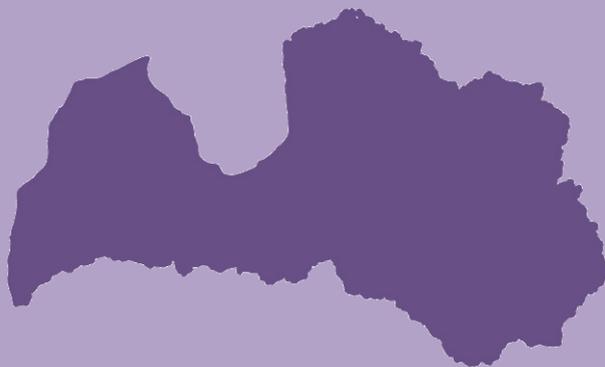




# THE NATIONAL ECONOMY OF LATVIA MACROECONOMIC REVIEW



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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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If you have comments, questions or suggestions, please address them to:

Ministry of Economics of the Republic of Latvia

55 Brīvības str.

Rīga, LV-1519

Telephone: 371 67 013 293

E-mail: [macro@em.gov.lv](mailto:macro@em.gov.lv)

Internet site: <http://www.em.gov.lv>

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## ECONOMIC SITUATION: BRIEF OVERVIEW

Although economic situation in euro area is still tense, rapid growth in national economy of Latvia remains. Private consumption in the 1st quarter of 2013 was higher by 3.6% than in the 1st quarter of the previous year. Over a quarter GDP grew by 1.4% (according to seasonally adjusted data) which was as rapid growth as on average every quarter in 2012. Although during the last few years most rapid increase in the EU was observed in Latvia, GDP is still less by 11% than it was before the crisis in 2007.

In the post crisis years driving force of the economy was export. As low demand remains in some trading partner countries, in 2013 dynamics of Latvian exports has become more moderate – in the 1st quarter volume of exports was by 2.9% more than a year ago. Development of manufacturing is also slowed down by the low demand in foreign markets and at the beginning of 2013 production volume still lagged behind the level of the previous year.

At the same time situation in domestic market continues to improve. Domestic demand is increasing, which is mainly ensured by the rise of private consumption. Sectors oriented to domestic market – trade and commercial services – have the largest contribution to the increase. Construction

sector continues to recover from the impressive fall during the crisis.

As pressure of external factors weakens, dynamics of consumer prices becomes more moderate. In May overall level of prices practically remained at the same level as in May of the previous year. In the future consumer prices changes in Latvia will mostly depend on price trends in the world, and it is expected that average annual inflation in 2013 in general could be within 0.5 per cent.

Situation in labour market continues to improve – number of job vacancies and salary is increasing, as well as high level of unemployment is decreasing. In the 1st quarter of 2013 number of employed was by 4.7% more than a year ago and level of unemployment dropped to 12.8%. Low inflation facilitates rise of real wage.

In external environment very big uncertainty regarding further development perspectives still exists. It is expected that increase of Latvian exports this year will be more moderate than in previous years. At the same time, as the situation in labour market continues to improve, more rapid rise of demand in domestic market is expected. The Ministry of Economics forecasts that growth of Latvian economy in 2013 could be 4.5 per cent.

### Key Indicators of Economic Development

	2008	2009	2010	2011	2012	2013p
	<i>increase over the previous year, as per cent</i>					
Gross Domestic Product	-3.3	-17.7	-0.9	5.5	5.6	4.5
Consumer prices	15.4	3.5	-1.1	4.4	2.3	0.5
Number of employed*	0.5	-12.2	-4.6	2.5**	2.8	2.4
	<i>as per cent over gross domestic product</i>					
General government sector balance	-4.2	-9.7	-8.1	-3.6	-1.2	-1.1
Exports-imports balance	-13.7	-1.5	-1.4	-4.8	-3.3	-3.3
Unemployment rate*	7.5	16.9	18.7	16.2	14.9	12.0

\* started from 2011 data are recalculated accordingly Population census results, before 2011 data are not comparable

\*\* estimation of the Ministry of Economics

## THE EXTERNAL ECONOMIC ENVIRONMENT

Development of global economy still differs. After it got stable in the 2nd half of 2012, at the beginning of 2013 activity in developed countries has worsened. Weak demand in developed countries, in its turn, unfavourably impacts economic growth of the majority of developing countries.

In the 1st quarter of 2013 GDP decreased by 1.2% in the European Union. Economic recession is related to tension in finance sector, worries regarding financial situation of governments, continuation of adjustment of balance items, as well as unfavourable situation in external environment.

In the Baltic countries after deep economic recession since the end of 2009 development has restarted. In 2011 and 2012 most rapid economic growth rates in the EU were in the Baltic countries.

Unlike trends in Europe, in the economy of USA at the beginning of 2013 growth continued. However,

more rapid increase is slowed down by the weak growth in manufacturing due to low external demand, as well as by still weak labour market.

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

Recovery of CIS region in post crisis period is based on high resource prices and renewal of capital flows. The same as in other regions, growth of CIS countries also is not even. In Russia growth rates are reducing, in the basis of which lays reduction in exports to the European Union countries.

According to forecast of International Monetary Fund, in 2013 world economy is expecting to growth by 3.3%, but in 2014 increase of global economy could exceed 4 per cent.

### Global economic growth

*GDP, per cent changes*

	2009	2010	2011	2012	2013 IMF*	2013 EC**
World	-0.6	5.1	4.0	3.2	3.3	3.1
USA	-3.1	2.4	1.8	2.2	1.9	1.9
Japan	-5.5	4.7	-0.6	2.0	1.6	1.4
China	9.2	10.4	9.3	7.8	8.0	8.0
CIS	-6.4	4.8	4.8	3.4	3.4	3.3
EU-27, of which:	-4.2	2.1	1.6	-0.2	0.0	-0.1
Germany	-5.1	4.2	3.1	0.9	0.6	0.4
Sweden	-5.0	5.9	4.0	1.2	1.0	1.5
United Kingdom	-4.0	1.8	0.9	0.2	0.7	0.6
Latvia	-17.7	-0.9	5.5	5.6	4.2	3.8
Lithuania	-14.8	1.4	5.9	3.6	3.0	3.1
Estonia	-14.3	2.3	7.6	3.2	3.0	3.0

Source: International Monetary Fund

\* forecast of International Monetary Fund; \*\* forecast of European Commission

## GROSS DOMESTIC PRODUCT: EXPENDITURE

After rapid economic growth lasting several years when average annual increase rate of GDP in 2005-2007 was almost 11%, as a result of global financial crisis, in 2008 Latvian economy experienced recession. During the crisis GDP reduced by ¼. Since the end of 2009 development has restarted in the economy of Latvia.

In 2011, GDP increased by 5.5%. Even at the beginning of 2012 perspectives of national economy of Latvia were estimated very carefully, because there was concern regarding large uncertainty in foreign markets, especially in euro area. However, Latvian economy was resistant towards crashes of external environment and, in general, in 2012 GDP exceeded the level of 2011 by 5.6%. Also in the 1st quarter of 2013 growth continued and GDP was by 3.6% larger than in 1st quarter of the previous year. Although during the last few years, most rapid increase in the EU was observed in Latvian economy, however GDP is still less by 11% than it was before the crisis in 2007.

At the beginning of 2013, due to the low demand in foreign markets, exports increase becomes more moderate. In the 1st quarter of 2013, compared to the 4th quarter of 2012, volume of exports of goods and services increased by 0.8% (according to seasonally adjusted data), but compared to the 1st quarter of 2012 – by 2.9 per cent.

Domestic demand still has the largest contribution to the growth. Increase of private consumption is still affected by the growth of employment and increase of wages. In the 1st quarter of 2013, compared to the 4th quarter of 2012, private consumption rose by 1.8% (according to seasonally adjusted data) and was by 4.7% higher than in the 1st quarter of the previous year, however, it still lags behind the pre-crisis level significantly.



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

	2009	2010	2011	2012
Gross Domestic Product	-17.7	-0.9	5.5	5.6
Private consumption	-22.6	2.4	4.8	5.4
Public consumption	-9.4	-7.9	1.1	-0.2
Gross fixed capital formation	-37.4	-18.1	27.9	12.3
Exports	-13.3	12.7	12.4	8.3
Imports	-31.6	11.8	22.1	2.9

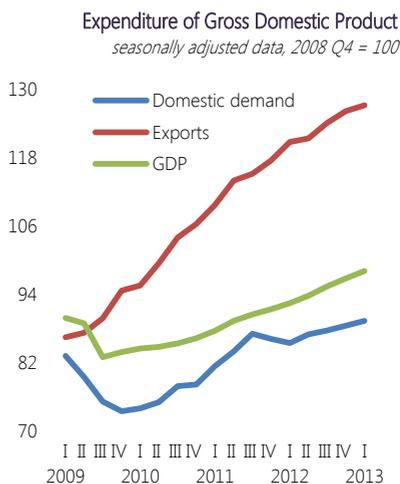
Investment in the 1st quarter of 2013 was by 10.6% less than a year ago. This is related to trends in some manufacturing sectors, like wood processing and metal working, as well as to voluminous investment projects in energy sector carried out in the 1st quarter of the previous year.

During the crisis, as domestic demand decreased, volume of imports reduced rapidly. As economic activities increase gradually in domestic market, demand for imports grows. In the 1st quarter of 2013 imports rose by 1% (at constant prices), but that still was significantly slower than the growth of exports. In the 1st quarter of 2013 exports-imports balance comprised -3.2% of GDP.

In the 1st quarter of 2013 government consumption increased, however, it was insignificant due to aims of fiscal policy established by the government.

In December 2012, consumer confidence was the highest since the middle of 2007. Since August 2009 consumers are getting more and more optimistic. Even though consumer confidence remains negative, it must be taken into account that also in years of rapid growth confidence has always been negative.

At the beginning of 2013, consumer confidence has reduced slightly – in May it was lower by 3.1 points, compared to December 2012. At the beginning of 2013 decrease was mostly determined by concern of consumers regarding possible price rise in the future.



### Expenditure of Gross Domestic Product by quarters

*changes over the corresponding period of previous year, as per cent*

	2011				2012				2013
	I	II	III	IV	I	II	III	IV	I
Gross Domestic Product	3.6	5.7	6.6	5.7	7.0	5.2	5.2	5.1	3.6
Private consumption	3.5	5.2	5.9	4.3	5.4	7.1	5.1	4.2	4.7
Public consumption	1.4	1.7	2.8	-1.1	0.7	0.5	-1.7	-0.2	1.1
Gross fixed capital formation	31.4	28.8	27.6	26.0	39.0	20.5	2.0	4.2	-10.6
Exports	14.5	15.3	10.4	10.2	12.7	4.7	8.1	8.5	2.9
Imports	24.2	26.1	21.5	17.8	9.8	3.5	-1.6	1.3	1.0

## GROSS DOMESTIC PRODUCT: DEVELOPMENT OF SECTORS

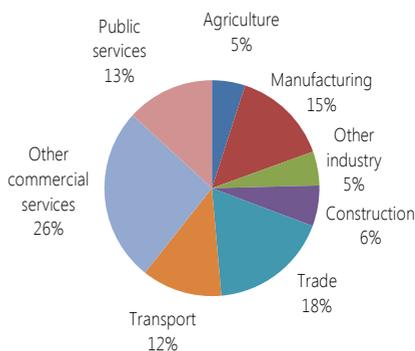
During the crisis competitiveness of Latvian producers improved, which was basis for the increase of exports and, therefore, also for the development of tradable sectors. Since the 2nd half of 2009 production volume in main exports sector – manufacturing – grew rapidly, volume of freight carried increased gradually. Structure of the national economy has changed. In 2008 tradable sectors alone (agriculture, forestry, industry, as well as transport services sectors) comprised 26% of total value added, but in 2012 share of these sectors reached 37%. Increase of total income from exports has also gradually promoted growth of domestic demand and, therefore, also development of domestic market-oriented sectors.

In 2012 stable increase remained in manufacturing – volume of production grew by 9.3%. Taking into account share of sector in national economy, rise of volume of production comprised  $\frac{1}{4}$  of total growth of economy in 2012. At the beginning of 2013, weak demand in foreign markets has impacted sector's contribution and volume of production in manufacturing in the 1st quarter was smaller than in the same period of previous year.

Development of construction sector continues, which is mainly promoted by public investments and projects of the EU funds. In 2012 construction volume increased by 14.6%, but in the 1st quarter of 2013 – by 9.8%. Even though construction volume during the last 18 months has increased rather rapidly, it still lags behind pre-crisis level significantly.

### GDP structure

2012, as per cent



### Gross Domestic Product by sectors

as per cent

	2010	2011	2012	2013 I	2010	2011	2012	2013 I
	volume changes				contribution to changes			
Gross Domestic Product	-0.9	5.5	5.6	3.6	-0.9	5.5	5.6	3.6
Agriculture	-8.9	-0.5	6.9	-1.3	-0.3	0.0	0.3	0.0
Manufacturing	19.1	11.7	9.3	-4.8	1.7	1.5	1.4	-0.8
Other industry	2.8	-0.9	-2.0	-1.6	0.1	0.0	-0.1	-0.1
Construction	-31.1	11.9	14.6	9.8	-2.0	0.7	0.9	0.4
Trade and accommodation	0.2	9.5	7.3	4.9	0.0	1.9	1.6	1.1
Transport and storage	-1.8	8.1	4.0	4.3	-0.2	1.0	0.6	0.6
Other commercial services	2.5	1.2	3.4	7.2	0.5	0.3	1.0	2.2
Public services	-8.2	0.6	-0.6	2.0	-0.8	0.1	-0.1	0.2

In 2012 volume of services provided in transportation and storage sector was 4% larger than in 2011, which was mainly promoted by increase in freight turnover at railway and ports. In the 1st quarter volume in transportation and storage sector rose by 4.3% as compared to the 1st quarter of the previous year. Growth was mainly ensured by the increase of amount in land transport traffic.

Contribution of domestic market-guided sectors increases in total growth of national economy. As private consumption rises, development in trade sector continues. In 2012 amount of services grew by 7.3% and in the 1st quarter of 2013 – by 4.3 per cent.

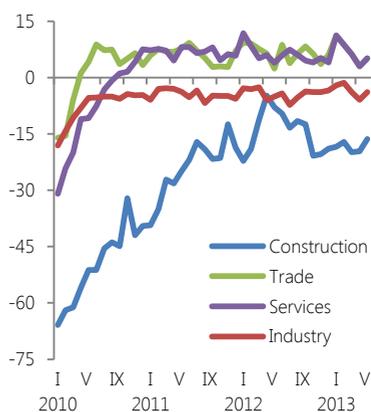
Volume of commercial services rose by 3.4% in 2012. In the 1st quarter of 2013 stable increase remained in the sector, volume of commercial services exceeded level of the 1st quarter of 2012 by 7.2%. Increase was mostly promoted by growth in information and communication, arts, entertainment and recreation services, as well as in real estate sectors.

However, in public services sectors in 2012 volume remained at the level of previous year. Also in the 1st quarter of 2013 increase was moderate. More rapid growth of the sector is limited by aims of fiscal policy established by the government.

In general stable growth is expected in most key sectors of national economy in 2013. It will be mainly promoted by the increase in domestic demand. At the same time it must be taken into account that risks in external environment remain due to the future development of the situation in the EU.

### Confidence indicators by sectors

*seasonally adjusted data*



### Gross Domestic Product by sectors

*changes over corresponding period of the previous year, as per cent*

	2011				2012				2013
	I	II	III	IV	I	II	III	IV	I
Gross Domestic Product	3.6	5.7	6.6	5.7	7.0	5.2	5.2	5.1	3.6
Agriculture	2.1	1.5	-1.9	-3.4	7.0	7.6	9.9	1.1	-1.3
Manufacturing	14.7	14.6	9.3	9.2	16.5	9.0	7.2	6.2	-4.8
Other industry	-0.9	3.1	4.8	-7.8	-2.8	-5.2	-2.2	1.6	-1.6
Construction	-15.1	-0.9	19.6	25.9	28.5	26.9	8.3	9.3	9.8
Trade and accommodation	10.4	8.3	10.1	9.1	7.4	5.7	6.8	9.1	4.9
Transport and storage	8.1	8.6	8.0	7.5	4.2	7.5	3.2	1.1	4.3
Other commercial services	-0.4	3.1	0.6	1.5	3.0	0.8	5.8	4.0	7.2
Public services	0.8	0.9	1.7	-0.6	1.4	0.0	-3.2	-0.5	2.0

## MANUFACTURING

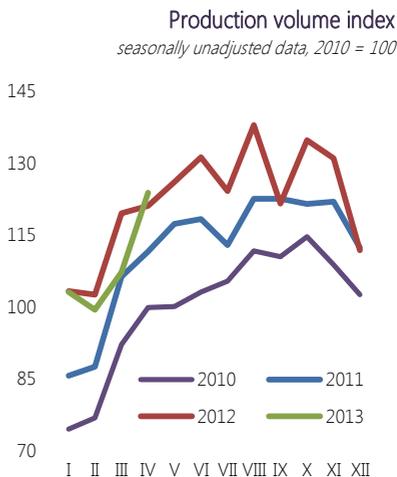
Since the end of 2009 production volume in manufacturing increased rapidly. As development of economy resumed, growth rate of manufacturing was more rapid than total development of national economy. Manufacturing was the main driver of development of national economy in the post-crisis years.

Stable increase of production volume in manufacturing also remained in 2012 when worsening of growth rates was observed in the largest exports markets – the EU countries. Despite of tense economic situation and recession in some EU countries, Latvian manufacturing was resistant towards external shocks. Even though during 2012 production volume by months fluctuated explicitly – after rapid increase within one month slight weakening followed. Production volume in manufacturing rose by 9.3% in 2012. Most rapid growth rate was in production of electronic and optical equipment, metal working, manufacture of transport equipment, as well as production of paper and printing.

At the beginning of 2013 contribution was weak in some sectors and within four months production in manufacturing in total was 2.9% less than a year ago.

Most rapid manufacturing increase was slowed down by low demand in foreign markets, as well as essential decrease of production volume in metal working sector due to A/S "Liepājas metalurģs", which is experiencing financial difficulties at the moment.

In the four months of this year production volume lags behind the level of corresponding period of the previous year also in such manufacturing sub-sectors as chemical industry and manufacture of transport equipment. Growth rates slowed down in wood processing sector where very rapid increase is observed since 2009, and last year volume of the sector exceeded pre-crisis level by 40%.

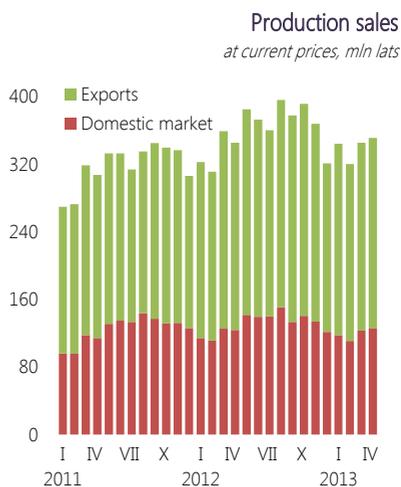


In other manufacturing sectors – manufacture of computer, electronic and optical products, manufacture of electrical equipment, manufacture of furniture, manufacture of wearing apparel and textiles – production volume continues to rise stably. Volume also increases in domestic demand-oriented sectors – in production of food products and production of non-metallic mineral products.

In January-April 2013 manufacturing turnover was by 1.6% more than a year ago. Most rapidly it increased on exports – by 2.3%, but production sold on domestic market – by 0.6 per cent.

Capacity utilisation rate increases – in the 1st quarter of 2013 its level in manufacturing was 72.1% – by 3.8 percentage points higher than a year ago.

Further development of manufacturing will mainly depend on economic situation in Latvia's exports partner countries.



### Main indicators of manufacturing

*as per cent*

	Structure in 2012		2012	2013 I-IV	
	turnover	occupied jobs	exports share in sales of sector	volume changes	volume changes
Manufacturing – total	100	100	63.5	9.3	-2.9
Food industry	22.9	22.2	33.9	2.5	4.6
Light industry	4.1	11.2	84.2	3.0	6.8
Wood processing	22.0	19.5	73.2	5.4	-1.4
Paper industry and publishing	3.9	3.9	58.3	10.1	6.1
Chemical industry and related industries	8.1	6.3	77.8	8.3	-12.4
Other non-metallic mineral products	5.7	4.1	46.3	8.6	3.2
Metals and metal articles	15.5	11.1	76.9	16.3	-11.4
Electrical and optical equipment	5.5	3.6	89.3	20.0	13.1
Machinery and equipment	2.3	2.8	80.3	8.7	-2.2
Motor vehicles	3.8	3.1	92.8	15.8	-20.2
Other industries	6.1	12.2	43.4	26.1	-17.4

## INVESTMENTS

Under the impact of global financial crisis investments in Latvia's economy reduced significantly, but, as economy became stable and economic activities resumed, investment volume since 2010 increases rather rapidly. In 2011, compared to 2010, investment rose by 27.9%. In its turn, in 2012 investment value exceeded level of the previous year by 12.3% and comprised 23.5% of GDP. In general, during the last two years 1.2 times more than in 2009-2010 was invested in national economy of Latvia. However, it must be noted that on average quarterly investment value is almost half less than in 2007.

In 2012 investment in services sectors rose by 16%, which is slightly faster than in tradable sector, what was mainly impacted by voluminous investment in trade, transport and storage, as well as in real estate activities. In its turn, investment dynamics in tradable sector was more moderate than in 2011 (it increased by 12.3%), but in 2012 by 8.1% less was invested in manufacturing than a year ago.

In the 1st quarter of 2013 investment value was at 10.6% lower level than a year ago, which is mainly explained by the completion of large investment project implemented in the previous year. Increase of investment value is mainly delayed by slow renewal of crediting.

Since 2010, incoming foreign direct investment (FDI) flows are increasing gradually. In 2011 FDI value in Latvia's economy exceeded incoming FDI flows of previous year almost 4 times and comprised 5.2% of GDP level. In its turn, value of incoming FDI in 2012 was by 26% less than in previous year. In the 1st quarter of 2013 value of incoming FDI was almost half less than a year ago, which was mainly determined by investment decrease in financial intermediation sector and real estate activities.

In 2012 value of incoming FDI in Baltic countries in general was 2,563 mln euros, i.e., by 12.8% more than in the previous year. Latvia attracted about 30% of all FDI in region of Baltic countries.

Gross fixed capital formation  
2004 = 100

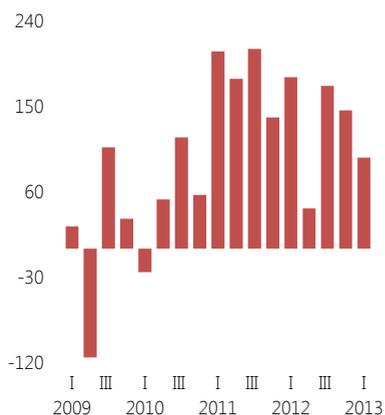


Gross fixed capital formation  
changes over corresponding period of  
the previous year, as per cent

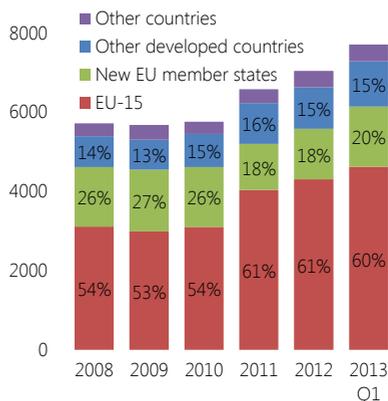


According to International investment position of Latvia, at the end of March of 2013 FDI stock in Latvian economy reached 7,706 mln lats (10,965 mln euros) which was by 16% more than at the end of March of 2012, of which in manufacturing – by 11%. Larger share of FDI by sectors is in real estate activities and in bank intermediation.

Foreign direct investment in Latvia  
*flows, mln lats*



Foreign direct investment in Latvia  
*by groups of countries  
balance at the end of period, mln lats*



Non-financial investment by sectors  
*as per cent*

	structure	changes of volume			
	2012	2009	2010	2011	2012*
Agriculture	7.4	-43.9	19.6	59.2	33.6
Manufacturing	15.7	-53.1	5.5	41.6	-6.8
Other industry	17.0	-34.3	-9.3	71.0	27.5
Construction	1.9	-46.1	-33.3	21.3	24.3
Trade and accommodation	7.5	-50.6	-24.2	24.5	15.4
Transport and storage	20.4	-44.2	8.1	48.1	49.7
Other commercial services	8.5	-30.5	-32.2	-3.5	30.3
Public services	21.6	0.1	-44.3	22.5	1.5

\* calculated using quarterly data

## FOREIGN TRADE

During the last three years foreign trade of Latvia is developing very dynamically. In 2012, compared to 2009, exports of goods at current prices has almost doubled, but imports – has increased by more than 80%. Starting with 2009 on average exports has grown by 24%, but imports – by 23% annually. 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.

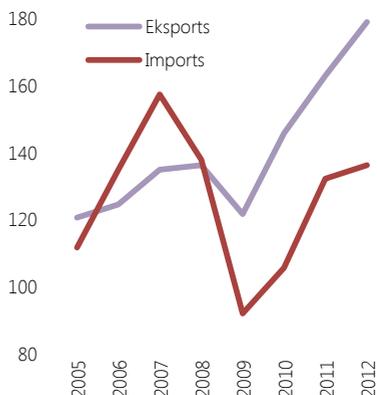
As external economic environment remained unstable in 2012 demand for Latvian exports goods is weak. However, despite that exports of Latvian goods continued to increase rapidly, at current prices – by 15.7%, but at constant prices – by 11.6%. In 2012 imports of goods at current prices increased by 14%, but at constant prices – by 5.6%.

In January-April 2013 exports of Latvian goods continued to rise rather rapidly. At current prices it increased by 10.3%. Taking into account slight increase of export unit value, at constant prices exports volume has grown slightly slower. But imports of goods in January-April 2013, rises more moderately – by 3.1% at current prices. At constant prices imports volume has increased similarly as at current prices.

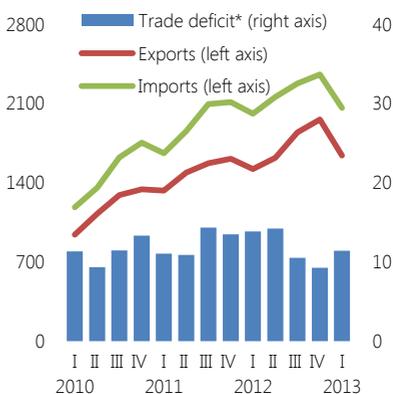
As exports volume rises more rapidly than imports, negative trade balance continues to reduce. In the four months of 2013 it comprises 11% of total trade turnover.

In January-April 2013 total exports development was impacted positively mainly by exports volume increase in mechanical engineering and agricultural and food products. These groups of goods ensured majority of all exports growth. Due to financial difficulties of A/S „Liepājas Metalurģis” exports of metals and metal articles has decreased significantly. In the four months of 2013 exports volume of transport equipment group has also reduced.

Exports and imports of goods  
*at constant prices, 2004 = 100*



Exports and imports of goods by quarters  
*in mln lats and as per cent*



\* as per cent of total trade turnover

In January-April 2013 increase of imports of goods was mainly impacted by the rise of exports of chemical products. Imports volume of agricultural and food products, as well as of machinery and electrical equipment has increased significantly. But imports of metals and metal articles and transport equipment have reduced.

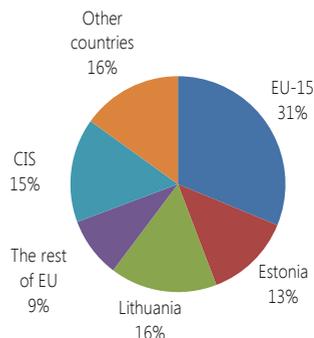
Volume of exports of goods to the EU countries in 2012 and January-April 2013 grew more moderately than total exports. But exports to CIS countries in 2012 rose more rapidly; in January-April 2013 it increased slightly more moderately than total exports of goods. Exports to both largest exports partner countries of Latvia – Lithuania and Estonia – are growing more stable. Also exports to third countries increases rapidly.

Largest Latvia's trade partner countries in the four months of 2013 were Lithuania – 17% of total foreign trade turnover, Russia – 11%, Estonia – 10%, Germany – 9%, Poland – 8%, Sweden and Finland – 4% and Denmark and Netherlands – 3 per cent.

In total in 2013, increase of exports volume will be slightly more moderate as compared to rapid growth indicators in 2012. Exports growth in the future will be closely related to competitiveness of producers and growth in main trade partner countries.

### Structure of exports of Latvian goods

*in 2012, as per cent*



### Exports and imports of Latvian goods

*in January-April 2013, as per cent*

	Exports			Imports		
	structure	volume changes	contribution to changes	structure	volume changes	contribution to changes
Total, of which:	100	10.3	100	100	3.1	100
Agricultural and food products	18.6	23.3	37.8	15.6	6.9	33.3
Mineral products	8.1	-0.1	-0.1	18.9	2.0	12.0
Chemical products	9.6	11.5	10.7	15.5	13.0	58.6
Products of light industry	4.7	8.0	3.7	5.8	11.5	19.8
Wood and articles of wood	16.9	9.1	15.1	2.2	44.2	21.8
Metals and metal articles	13.1	-7.5	-11.5	9.4	-14.7	-53.2
Machinery and electrical equipment	15.9	36.5	45.8	17.7	5.6	30.7
Motor vehicles	3.9	-25.5	-14.3	6.4	-18.7	-48.6
Other goods	9.2	14.8	12.7	8.5	10.1	25.6

## BALANCE OF PAYMENTS

During the last two years current account of the balance of payments is at the level of small deficit. In 2011 current account deficit was 2.2% of GDP, but in 2012 - 1.7% of GDP. Also in the 1st quarter of 2013 balance of the current account was negative – at 1.4% level of GDP.

During the crisis foreign trade deficit has reduced significantly. In 2012 it was 9.8% of GDP, i.e., more than at a half lower level than in 2007 (24% of GDP). Improvement of foreign trade balance was mainly determined by rapid exports volume increase, while imports dynamics was rather moderate. In 2012, compared to the previous year, exports at current prices rose slightly more rapidly than imports. However, in the 1st quarter of 2013 exports volume was by 7.7% larger than a year ago, but imports increased by 5% and foreign trade balance deficit reached 10.8% of GDP.

Positive balance of balance of services is growing without interruption. In 2012 surplus of the balance of services was 6.8% of GDP, which exceeded level of 2007 almost 2 times. Also, at the beginning of 2013 volume of exports of services almost twice exceeded volume of imports of services.

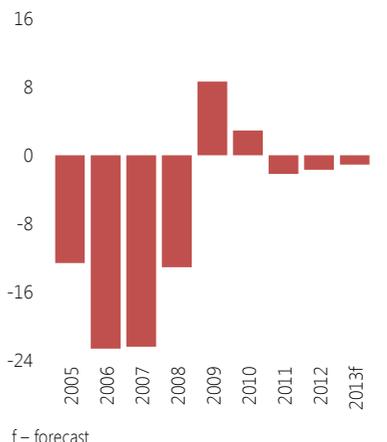
Position of income balance is mainly determined by changes of profitability of non-resident enterprises. Due to losses of foreign investors, during the crisis income balance was positive. In 2012 and 1st quarter of 2013 deficit of income balance was 1.5% and 0.9% of GDP, respectively, which was impacted by increase of income of non-resident investment. Account of current transfers is positive (2.9% of GDP), thus remaining at the level of previous years.

Fluctuations of balance of financial account by quarters still are explicit. In 2012 positive balance of financial account was 2% of GDP. But in the 1st quarter of 2013 financial account was in deficit (2.1% of GDP).

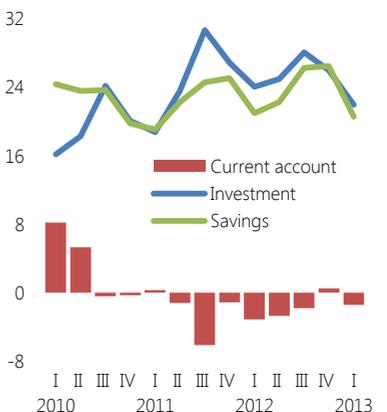
Intensity of incoming FDI remained at a rather high level. Attracted FDI were at 3.5% of GDP level in 2012 and at 2.7% of GDP level in the 1st quarter of 2013.

Part of portfolio investment is rather small in incoming financial flow, and it does not exceed 10% during the last 3 years.

Current account balance  
*as per cent of GDP*



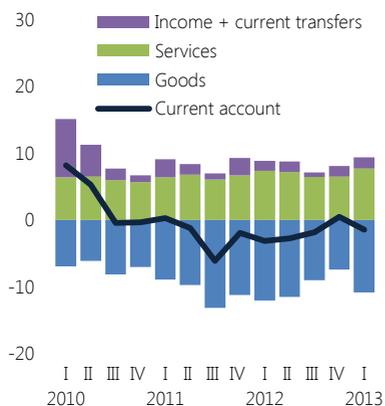
Current account, investment and savings  
*as per cent of GDP*



Significant fluctuations are observed in position of other investments. In 2012 other investment balance was negative – 5.4% of GDP. In the 1st quarter of 2013 deficit of balance of other investments reached 3.6% of GDP. Fluctuations of balance of portfolio investment and other investments are mainly related to stabilisation activities of financial sector and restructuring of public sector debt.

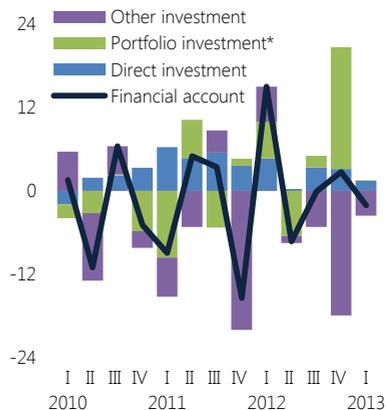
### Current account by items

as per cent of GDP



### Financial account by items

without reserve assets, 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 Q1
A. Current account	8.6	2.9	-2.2	-1.7	-1.4
Trade balance	-7.1	-7.0	-10.8	-9.8	-10.8
Service balance	6.0	6.1	6.5	6.8	7.7
Net income	6.3	0.2	-0.9	-1.5	-0.9
Net current transfers	3.4	3.6	3.1	2.9	2.5
B. Capital account	2.4	1.9	2.1	3.0	2.5
C. Financial account*	-6.9	-2.1	-4.0	2.2	-2.1
Direct investment stock	0.6	1.5	4.9	2.8	1.4
Portfolio investment**	2.3	-2.8	-1.8	4.8	0.1
Other investment	-9.8	-0.7	-7.2	-5.4	-3.6
D. Deviation	0.8	1.2	-0.4	0.1	2.5
E. Reserve assets	-5.0	-4.0	4.4	-3.6	-1.5

\* without reserve assets

\*\* portfolio investment and derived financial instruments

## PRICES

After deflation, caused by the crisis, when 12-month consumer price inflation in February 2010 dropped to -4.2%, prices started to rise again. In 2011, 12-month consumer price inflation grew by 4%, but in 2012 more moderately – only by 1.6%, and this increase was mainly determined by price rise on natural gas, food products and fuel. Large impact had price dynamics of fuel in the world. Taking into account comparatively fast price increase in 2011, average price level in 2012 was higher by 2.3%, when compared with the previous year.

In May 2013, compared to May 2012, level of consumer prices dropped by 0.1%. In the five months of 2013 largest impact on changes of prices mainly had price increase on food products (by 1.4%), on wearing apparel and footwear (by 4.2%) and on alcoholic beverages and tobacco (by 2.3%), as well as price drop on fuel and heating, which is related to price fall of natural gas. It must be mentioned that in the world prices on food products are increasing moderately since March 2013, and in May 2013 they rose by 2% as compared to December of the previous year. In January-February 2013 world oil prices increased, but in March-April oil prices reduced. In general in the first five months of 2013, price fall of fuel in the world comprised 1%, but in Latvia it was more rapid – by 3.7 per cent. It must be mentioned that in May world oil prices started to increase moderately again, which will impact fuel prices in Latvia starting with June.

In April 2013, compared to April 2012, price level in the European Union countries rose more rapidly than in Latvia – by 1.4%. It was determined by increase of prices of food products and services.

Also in the future changes of consumer prices in Latvia will mainly depend on price trends in the world. The Ministry of Economics forecasts that in general in 2013 moderate price dynamics up to 0.5% is expected.

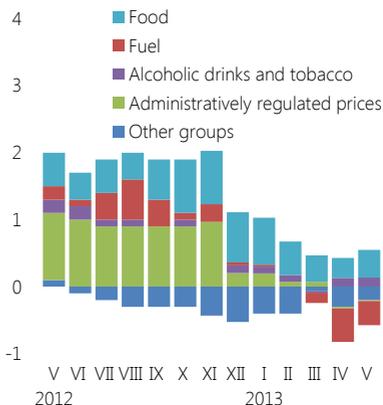
After rapid increase in 2010 and in first half of 2011, producer prices were moderate in the following months in general. In 2012, producer prices indicated small, however, stable increase, mainly due to price increase of energy resources.

Consumer prices



Impact of commodity and services group on consumer price index

contribution to 12-month changes, as per cent

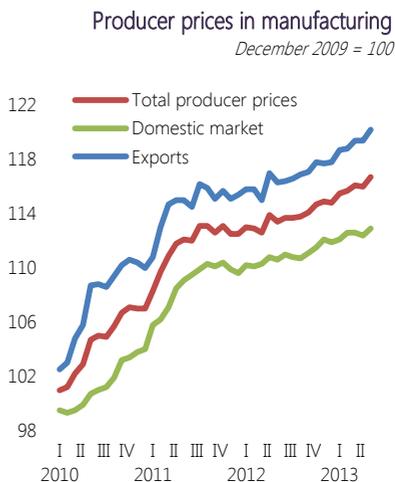


In April 2013, compared to April 2012, general level of producer prices grew by 1.4%, on products sold in the domestic market – by 1.4%, but on exported production – by 1.5%. Most significant price increases were observed in production of food products (by 3.4%) and in wood processing (by 2%), but largest price decrease – in manufacture of metal products (by 7.7%).

In manufacturing, producer prices impact trends in external markets. In April 2013, they were 1.9% larger than a year ago.

In the four months of 2013 producer prices on exported production have grown three times faster (by 1.4%) than on products sold in the domestic market (by 0.5%). Fastest increase of producer prices was in sector of printing (by 6.2%) and in manufacture of electronic and optical products (by 3.2%), in its turn, prices decreased in manufacture of wearing apparel (by 4.2%).

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.



**Changes of consumer prices by months**  
*as per cent*

		Over the previous month	Over corresponding month of the previous year	Over December of the previous year	Annual average
2012	May	-0.2	2.2	2.0	3.8
	June	-0.1	1.9	2.0	3.6
	July	-0.5	1.7	1.5	3.4
	August	-0.3	1.7	1.2	3.1
	September	0.5	1.8	1.6	2.9
	October	0.0	1.6	1.6	2.7
	November	-0.1	1.6	1.6	2.5
	December	0.0	1.6	1.6	2.3
2013	January	-0.2	0.6	-0.2	2.0
	February	-0.1	0.3	-0.3	1.8
	March	0.5	0.2	0.2	1.5
	April	0.0	-0.4	0.2	1.2
	May	0.1	-0.1	0.3	1.0

## MONETARY INDICATORS

From 2008 to 2010 crediting reduced significantly, quality of credit portfolio of banks worsened and debt obligations of population grew. As economic situation improved, quality of credit portfolio of banks is improving slowly.

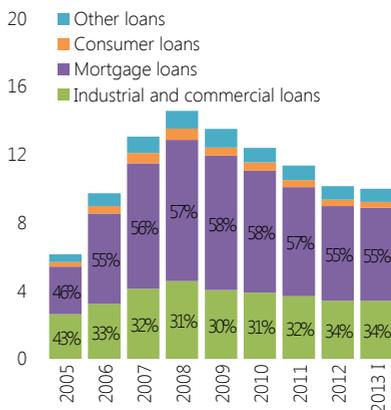
Amount and number of new loans issued continues to increase. In the 1st quarter of 2013 24 thsd new loans in amount of 543.3 mln lats were issued, which (in value) is almost half more than in the 1st quarter of 2012. Most rapid increase (by 66%) was observed in category of new loans issued to residents. In total 45% of all new loans were issued to non-residents. Amount of new loans issued to households also increased, however, household crediting is still weak and population take up new debt obligations carefully. Taking into account still limited solvency of households, in the nearest time amount of new loans issued to households will remain low. Major part of new loans issued is issued for purchase of consumer goods and housing.

24% of new loans were issued to entrepreneurs, which is by 9.3% more than in the 1st quarter of previous year. Half of all loans (in value) issued in the national economy are issued in financial and insurance activities.

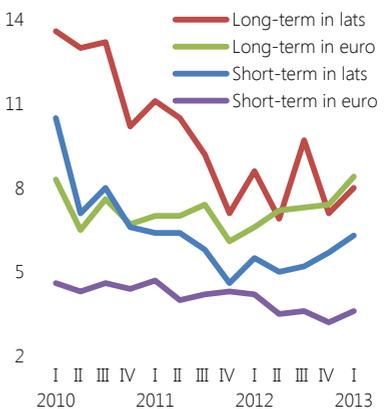
Quality of credit portfolio continues to improve, and in the 1st quarter of 2013 only 17.9% of loans were with overdue payments, which is by 4.2 percentage points less than a year ago. It was mainly determined by the decrease of 26.6% in resident loans with overdue payments over 90 days. These loans comprise almost 60% of all loans with overdue payments.

Decrease of loan balance has slowed down, and at the end of the 1st quarter of 2013, compared to the same period of the previous year, loan balance dropped by 6.6%. Balance on commercial loans is increasing gradually (by 4.5%). Over this period consumer crediting shrank significantly (by 17.1%). Loan balance of mortgages is also reducing, however, not as rapidly as previously (by 9.1%).

**Loans issued to residents**  
*at the end of the period, billion lats*



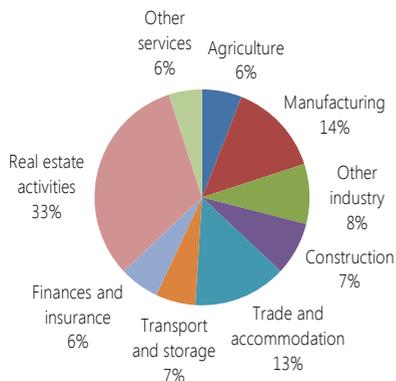
**Interest rates on loans issued**  
*average weighted, as per cent*



In the 1st quarter of 2013 interest rates on short-term and long-term loans issued both in euros and lats increased. Interest rates on long-term loans issued in euros reached their highest point and comprised 8.4%, but interest rates on long-term loans issued in lats comprised 8%. Fluctuations of interest rate on short-term loans issued in lats and euros were minimal.

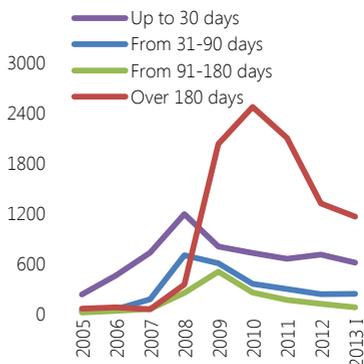
### Structure of loans issued by sectors

at the end of March 2013, as per cent



### Loans with overdue payments

at the end of the period, mln lats



### Monetary indicators of the banking system of Latvia

	2009	2010	2011	2012	2013 Q1
<i>at the end of period, mln lats</i>					
Net foreign assets	-3,022.0	-1,219.8	-224.8	613.7	660.8
Net domestic assets	8,842.3	7,609.8	6,710.9	6,161.7	5,977.0
Domestic loans	12,204.3	11,215.1	11,045.4	9,593.3	9,465.7
Other assets (net)	-3,362.0	-3,605.3	-4,334.5	-3,431.6	-3,488.7
Broad money M2X	5,820.3	6,390.0	6,486.1	6,775.4	6,637.7
Cash in turnover (without vault cash balance)	667.3	807.4	1,040	1,082.4	1,011.8
Deposits of individuals and companies	5,153.0	5,582.7	5,446.1	5,693.0	5,625.9
<i>per cent changes</i>					
Domestic loans	-14.5	-8.1	-1.5	-13.1	-6.0
Broad money M2X	-1.9	9.8	1.5	4.5	3.3
Cash in turnover (without vault cash balance)	-23.0	21.0	28.8	4.1	-0.9
Deposits of individuals and companies	1.7	1.1	-2.5	4.5	4.1
Gross Domestic Product (at current prices)	-18.7	-2.2	11.7	8.7	5.7

## GOVERNMENT BUDGET

Economic situation in Latvia in 2008 -2009 significantly worsened fiscal situation of the country. Not to allow that situation in financial sector becomes uncontrollable, since 2008 budget consolidation was carried out in Latvia in amount of 2.3 billion lats with fiscal impact of 17% of GDP, of which 6.8% of GDP comprise measures in income side, in its turn 10.2% – in expenditure side.

As a result of budget consolidation activities implemented by the government in 2009-2012 budget deficit reduced from 9.7% to 1.2% of GDP.

As economic situation improved, fiscal situation of the country is improving gradually – budget revenues are growing and deficit is decreasing. In general in 2012, general government consolidated budget revenues increased faster than expenditure, respectively, by 12.9% and 3.5 per cent.

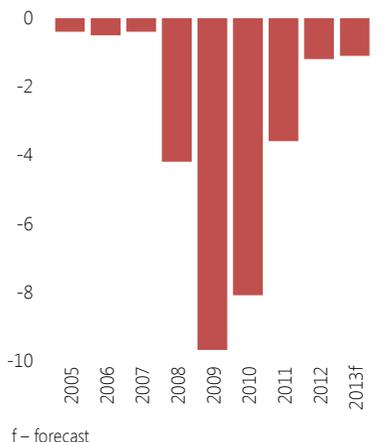
In January-May 2013, general government consolidated budget revenues were 2,476 mln lats, which is by 13.8% more than a year ago. Total revenues from taxes during this period of time rose by 7.1 per cent.

Due to increase of employment, as well as growth of wages, revenues from labour taxes are rising. In five months of 2013, compared to January-May 2012 mandatory state social insurance contributions grew by 7.4%, but personal income tax – by 9.6%. During this period labour taxes comprised almost 60% of total increase of taxes collected.

In five months of 2013, compared to January-May 2012, VAT contributions rose by 3.4%. As economic activity increased, enterprise income tax collected also grew significantly (by more than 20% as compared to five months of the previous year).

Budget expenditure still increases slower than revenues. In January-May 2013, general government consolidated budget expenditure was 2,288 mln lats, which is by 6.8% more than in five months of 2012.

**Budget balance**  
as per cent of GDP

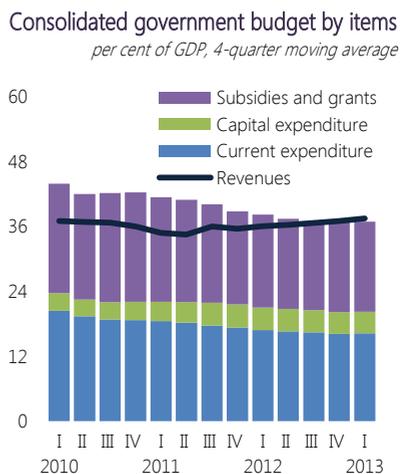


**GDP and budget revenues**  
2009 Q4 = 100



In 2013 current expenditure has grown faster, which in five months was by 7.5% more than a year ago. Expenditure on subsidies and grants during this time rose by 5.3%. Whereas capital expenditure has decreased slightly. From functional categories most rapidly in January-May 2013 expenditure increased in area of economic activity, environmental protection, public order and security, management of local governments' territories, as well as in recreation and culture.

According to the forecasts of the Ministry of Finance, in 2013 general government budget deficit will be 1.1% of GDP, but in 2014 and 2015 – 0.9% of GDP.



### General government budget

	bln lats					per cent changes
	2009	2010	2011	2012	2013 I-V	2013 I-V
Revenues, of which:	4.72	4.61	5.09	5.74	2.48	13.8
Indirect taxes, of which:	1.32	1.30	1.46	1.63	0.67	3.0
Value added tax	0.80	0.83	0.96	1.12	0.46	3.4
Income and real estate taxes	1.00	0.99	1.10	1.23	0.57	11.2
Social insurance contributions	1.17	1.09	1.23	1.32	0.56	7.4
Other taxes	0.03	0.03	0.09	0.10	0.05	16.1
Other revenues	1.22	1.19	1.21	1.45	0.63	39.8
Expenditure	5.61	5.41	5.53	5.72	2.29	6.8

## PERSONAL INCOME

During the recession of economy not only the number of employed reduced, but also amount of wages and salaries of employed. As economic situation became more stable, since the end of 2010 increase of remuneration has restarted, although level of unemployment remains at a rather high level.

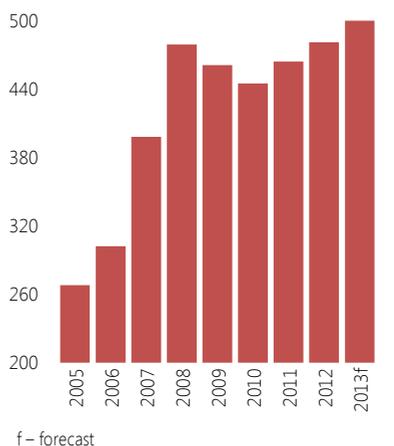
Gross average monthly wages and salaries of employed comprised 445 lats in 2010, i.e., less by 3.5% than in 2009 and by 7.3% than in 2008. Estimating dynamics of wages and salaries during the crisis, it must be mentioned that adjustment of remuneration has been rather moderate, major part of fall in volume of economy was compensated by the decrease of number of employed.

Along with the improvement of economic situation and, as demand for labour force is growing, average remuneration in national economy rises gradually. In 2011, gross average salary increased by 4.4%, but in 2012 – by 3.7%. Since 2010, remuneration has grown both in private and public sectors; at the same time in public sector increase was slightly faster than in private sector, which is mainly explained by much larger decrease in remuneration in public sector during time period from 2008 to 2010, which was determined by the need to limit expenditure of government budget.

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

Along with increase of economic activities in the 1st quarter of 2013, average wage in national economy continued to increase – compared to the 1st quarter of 2012, gross wage rose by 4.2% and comprised 486 lats. The largest wages and salaries remained in Riga region (554 lats), but the smallest – in Latgale region (330 lats). Wages increased equally fast both in private (by 4.3%) and public sector (by 4.4%). At the same time in public sector in the 1st quarter of 2013 average gross wages and salaries still were 1.9% lower than in the same period of 2008, but in private sector in the 1st quarter of 2013 – they already exceeded level of the same period of 2008 by 11.9%.

Average monthly wages and salaries of employed  
*gross, in lats*



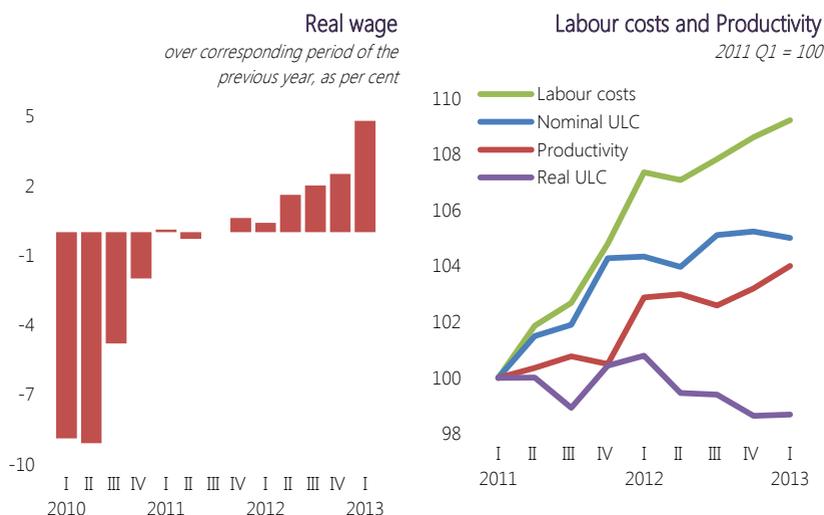
Average monthly wages and salaries of employed by months  
*gross, in lats*



In the 1st quarter of 2013 more rapid wage increase was observed in trade sector (6.4%), information and communication services (6.2%), construction (6.1%) and public administration (8%). Highest remuneration level remained in the finance and insurance – on average LVL 1064 per month.

Along with the increase of nominal wage, real wage is increasing gradually. Along with the increase of consumer prices, over the last 2 years increase of real wage was moderate – in 2011 it increased by 0.1%, but in 2012 – by 1.6%. In the 1st quarter of 2013, real wage increased by 4.8%. Relatively faster increase of real wage was determined by the considerably lower increase rate of consumer prices.

In 2012, volume of average old-age pension continued to grow, which was approximately by 1.2% larger than a year ago. In the 1st quarter of 2013, average old-age pension was LVL 180.5, which is by 0.5% more than in the 1st quarter of 2012.



**Average wages and salaries of employed by sectors**  
gross, over the previous year, as per cent

	2009	2010	2011	2012	2013 Q1
Total	-3.9	-3.5	4.4	3.7	4.2
Agriculture	-4.7	5.8	8.2	0.7	5.8
Manufacturing	-2.0	0.1	5.0	4.6	3.6
Other industry	-4.2	4.1	3.7	3.6	1.8
Construction	-1.0	-5.3	4.7	2.0	6.1
Trade and accommodation	-2.8	-3.6	5.9	4.5	5.8
Transport and storage	0.2	0.2	1.0	7.7	1.0
Other commercial services	-1.1	-1.4	3.9	2.4	2.9
Public services	-12.8	-9.0	4.5	2.7	5.4

## LABOUR MARKET

Gradual increase of economic activities positively impacts situation in labour market – employment increases and high unemployment caused by crisis decreases. At the same time some population groups, especially persons with low level of education and qualification, elderly persons, as well as youth, improvement of the situation feel weaker.

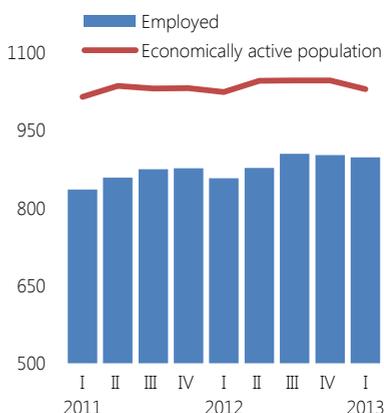
In 2012 number of employed rose by 2.8% and on average comprised 885.6 thsd. Despite increase in employment, relatively high unemployment still remains – on average 14.9% annually.

In the 1st quarter of 2013 in total 898.3 thsd persons were employed, which is by 4.7% or approximately by 41 thsd more than in the 1st quarter of 2012. At the same time number of economically active persons has increased moderately (by 0.6%).

Unemployment level in the 1st quarter of 2013 on average was 12.8%, which is less by 3.5 percentage points than a year ago.

According to the data of State Employment Agency, at the beginning of 2013 registered unemployment level also continued to decrease, and at the end of May it reached the lowest level since February 2009 and comprised 9.9%. 97.8 thsd unemployed were registered, which is by 24.2 thsd less than in May 2012. The highest level of registered unemployment remained in Latgale region (20.2%), but the lowest – in Riga (6.1%). In April 2013, long-term unemployed (without job for a period of more than a year) constituted 41.1% of the total registered unemployed.

Employed and economically active population  
*in thousands*



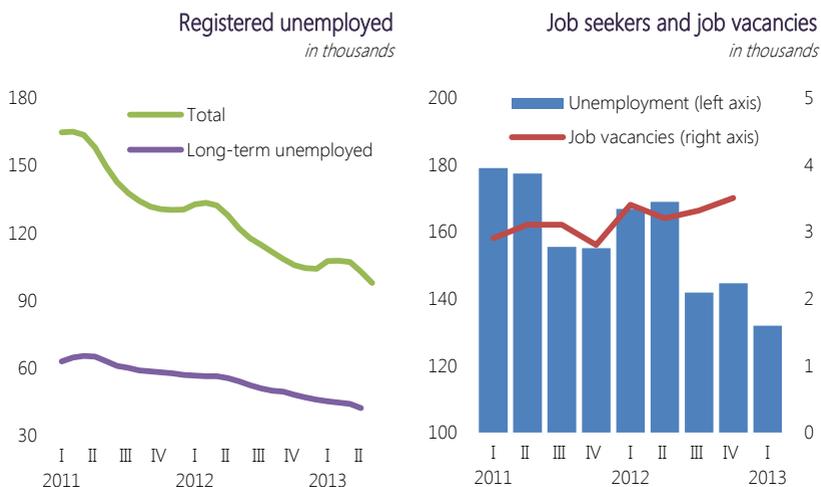
Occupied jobs  
*in thousands*

	2008	2009	2010	2011	2012	2013 Q1
Total	1,016.6	826.1	776.7	805.5	839.1	840.8
Agriculture	20.8	17.9	17.5	19.0	20.6	20.0
Manufacturing	138.9	104.1	101.8	109.1	114.5	115.9
Other industry	26.7	23.7	22.4	22.9	23.7	23.6
Construction	89.3	54.6	46.0	50.9	55.7	52.1
Trade and accommodation	221.8	173.3	159.7	162.8	170.7	170.6
Transport and storage	77.8	67.6	66.8	68.8	72.7	73.4
Other commercial services	196.2	162.8	148.4	157.0	168.5	171.5
Public services	245.1	222.1	214.2	215.0	212.8	213.5

Since the middle of 2010, number of job vacancies registered in State Employment Agency is rising gradually. At the end of May 2013, in total 6,130 job vacancies were registered, which was by 40% more than a year ago, and that was the highest indicator since 2008.

Comparatively high unemployment is still mainly related to cyclical factors however, features of structural unemployment are becoming more typical. Risk that part of current unemployed will not be able to find job in long-term still remains, because sectors, which recover faster from the crisis, are not the same where there was largest loss of jobs during the crisis.

It is expected that situation in labour market will continue to improve. In 2013, number of persons employed could increase by 2.4%, but the level of unemployment – reduce to approximately 12 per cent.



**Main indicators of employment and unemployment**  
*in age group 15-74 years*

	2011	2012	2013 Q1
<i>in thousands</i>			
Population	1,595.3	1,574.1	1,574.1
Economically active population	1,028.2	1,041.1	1,030.2
Employed persons	861.6	885.6	898.3
Unemployed persons	166.6	155.5	131.9
<i>as per cent</i>			
Economic activity rate	64.5	66.1	65.4
Employment rate	54.0	56.3	57.1
Unemployment rate	16.2	14.9	12.8

## COMPARATIVE INTERNATIONAL STATISTICS

## Economic development in Baltic countries

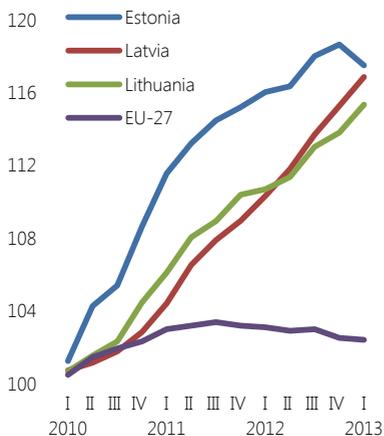
	Latvia	Lithuania	Estonia
Territory, thsd km <sup>2</sup>	64.6	65.3	45.2
Population, thsd, at the 1 <sup>st</sup> May of 2013	2,014.8	2,959.5	1,286.5*
Gross domestic product, over corresponding period of the previous year, %			
2011	5.5	5.9	8.3
2012	5.6	3.7	3.2
2012 Q4	5.1	4.1	3.7
2013 Q1	3.6	3.5	1.1
Volume of manufacturing production, over corresponding period of the previous year, %			
2011	11.7	6.4	19.9
2012	9.3	3.7	-0.1
2012 Q4	6.2	8.7	1.1
2013 Q1	-4.8	6.6	3.5
Retail trade turnover, over corresponding period of the previous year, %			
2011	8.2	6.1	11.0
2012	9.2	3.9	10.0
2012 Q4	7.4	3.0	6.0
2013 Q1	6.3	3.0	1.0
Changes of consumer prices, over corresponding period of the previous year, %			
2011	4.4	4.1	5.1
2012	2.3	3.1	4.2
2012 Q4	1.6	2.9	3.7
2013 Q1	0.4	2.1	3.5
Number of employed, over corresponding period of the previous year, %			
2011	–**	–**	6.7
2012	2.8	1.8	2.5
2012 Q4	2.9	0.8	1.7
2013 Q1	4.7	1.2	1.4
Unemployment rate, % of economically active population			
2011	16.2	15.3	12.5
2012	14.9	13.2	10.2
2012 Q4	13.8	13.0	9.3
2013 Q1	12.8	13.1	10.2

\* data at the beginning of 2013

\* from 2011 data are recalculated accordingly Population census results, before 2011 data are not comparable

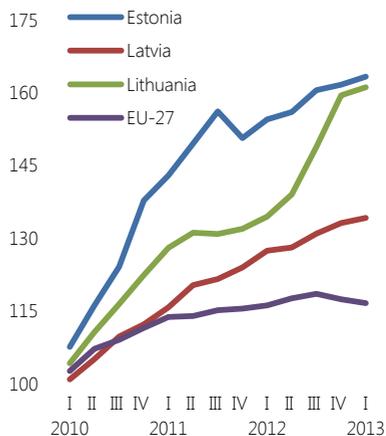
### Gross Domestic Product

seasonally adjusted data  
2009 Q4 = 100



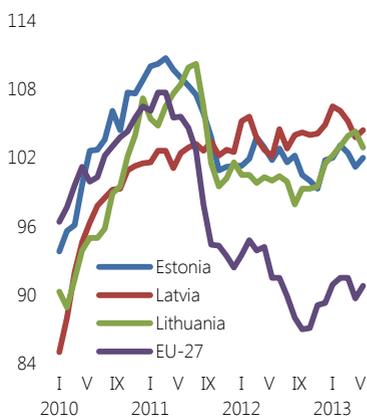
### Exports of goods and services

seasonally adjusted data  
2009 Q4 = 100



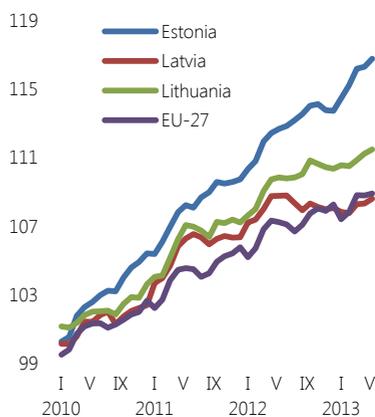
### Economic sentiment indicator

seasonally adjusted data



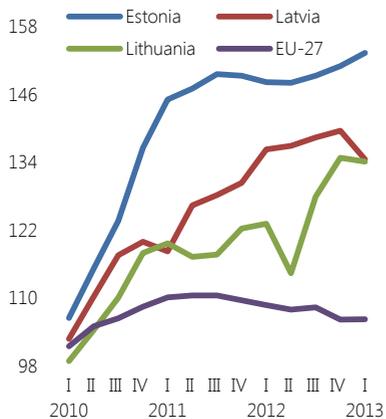
### Harmonised consumer price index

seasonally adjusted data  
2009 Q4 = 100



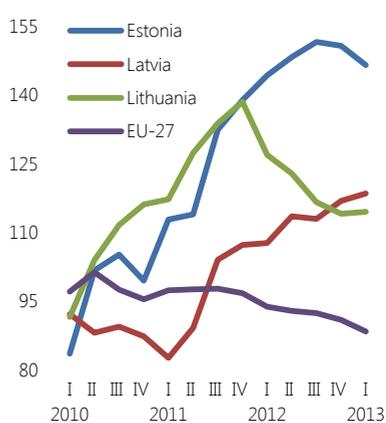
### Manufacturing production volume

seasonally adjusted data  
2009 Q4 = 100



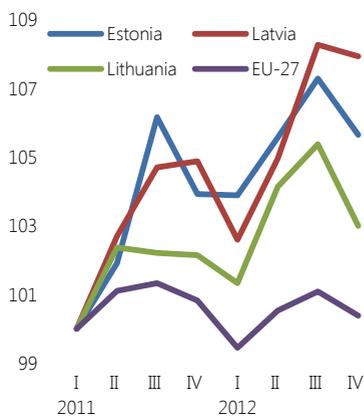
### Construction production volume

seasonally adjusted data  
2009 Q4 = 100



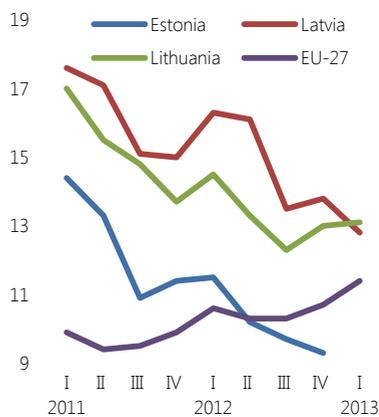
### Number of employed

2011 Q1 = 100



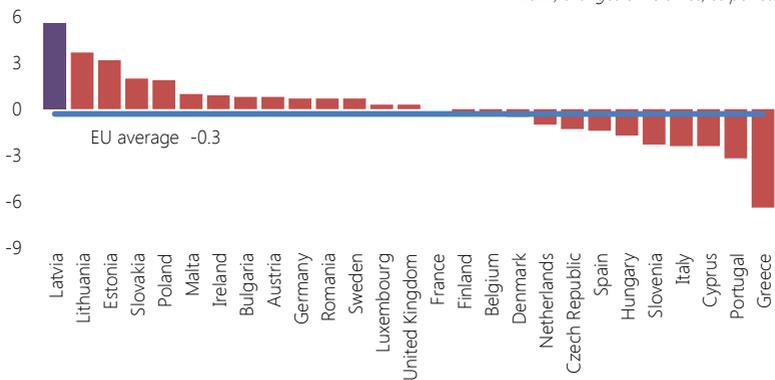
### Unemployment rate

as per cent



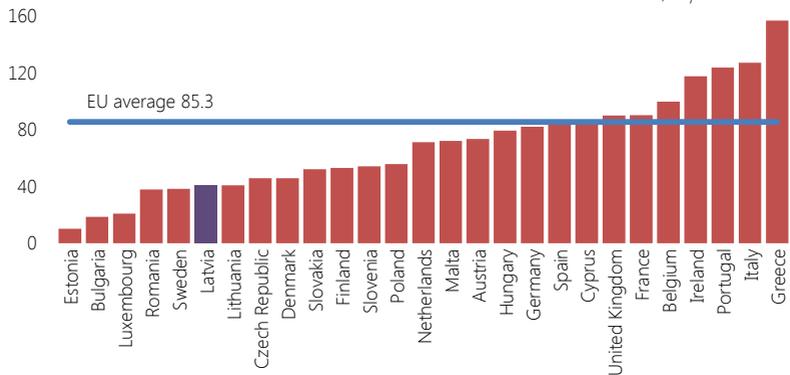
### Gross Domestic Product

in 2012, changes of volumes, as per cent



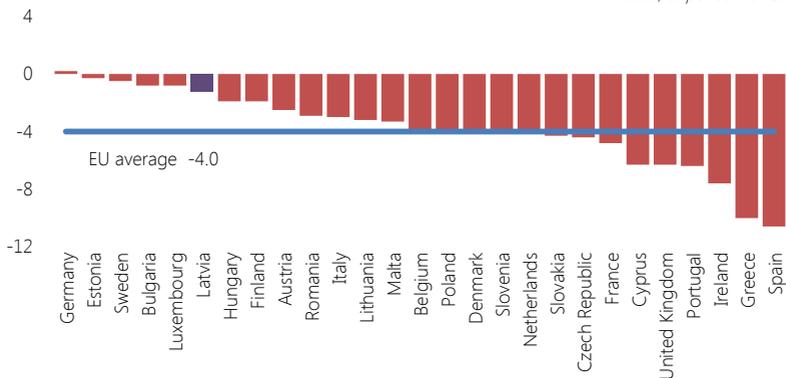
### Public debt

in 2012, as per cent of GDP



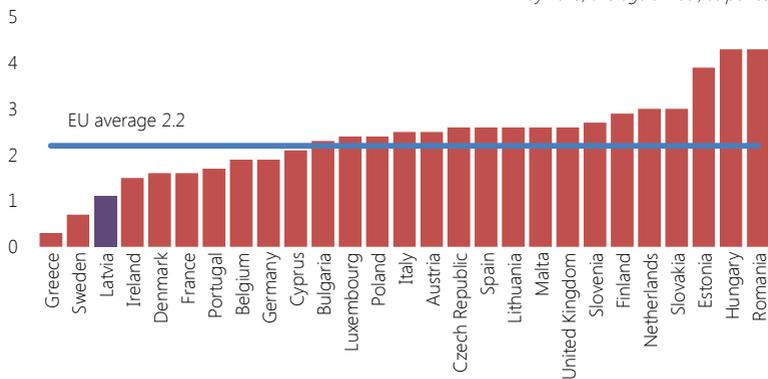
### Budget balance

in 2012, as per cent of GDP



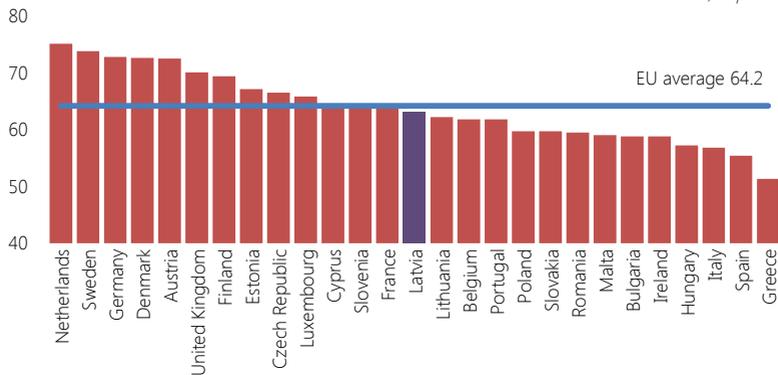
### Harmonised consumer price index

*in May 2013, average annual, as per cent*



### Employment rate

*in 2012, as per cent*



### Unemployment rate

*in 2012, as per cent*

