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ECONOMIC SITUATION: BRIEF OVERVIEW

In the 1st half of 2013 growth in economy of Latvia continued and GDP was 4.1% more than in the 1st half of 2012. This still is one of most rapid growth rates in the EU. 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.

Over the last three years exports has increased very rapidly and it is main driving force of the development of national economy. Exports volume in 2012 exceeded pre-crisis level by almost 20%. As low demand remains in some trading partner countries as forecasted previously, in 2013 dynamics of Latvian exports has become more moderate – in the 1st half volume of exports was only by 2.9% more than a year ago. Narrowing of exports opportunities has affected certain manufacturing sectors.

At the same time domestic demand has the largest contribution to the increase. Private consumption in the 1st half was more by 6.2% than a year ago. Growth was observed in such large national economy sectors as construction, trade and commercial services.

Situation in labour market continues to improve – number of job vacancies and salary is

increasing, as well as unemployment is decreasing. According to forecast, in 2013 the number of employees will rise by 2.4% if compared to 2012. Unemployment also continues to decrease, on average reaching 11.5% level in 2013.

As pressure of external factors weakens, dynamics of consumer prices in 2013 is very moderate. In August, compared to July, affected by seasonal factors consumer prices reduced, but 12-month inflation was -0.2%. Also in the future consumer price changes in Latvia will mostly depend on price trends in the world, and it is expected that average annual inflation in 2013 will be 0.1 per cent.

Also in the 2nd half of this year domestic demand will have a significant impact on the growth, which will be favoured by future improvement of the situation in labour market. It is expected that also exports opportunities in the 2nd half of the year might improve slightly because economic situation in Latvia's trading partner countries is becoming more stable. The Ministry of Economics forecasts that growth of Latvian economy this year could reach 4.5 per cent.

Key Indicators of Economic Development

	2008	2009	2010	2011	2012	2013f
<i>increase over the previous year, as per cent</i>						
Gross Domestic Product	-2.8	-17.7	-1.3	5.3	5.0	4.5
Consumer prices	15.4	3.5	-1.1	4.4	2.3	0.1
Number of employed*	-0.2	-13.9	-6.4	1.3	1.6	2.4
<i>per cent</i>						
Unemployment rate	7.7	17.5	19.5	16.2	15.0	11.5
<i>as per cent over gross domestic product</i>						
General government sector balance	-4.2	-9.7	-8.1	-3.6	-1.5	-1.1
Exports-imports balance	-13.7	-1.5	-1.4	-4.8	-3.9	-3.3

f – forecast

THE EXTERNAL ECONOMIC ENVIRONMENT

Development of global economy is still weak and it differs in separate regions. In developed countries growth perspectives are improving slowly, but in developing countries situation has worsened slightly, even though growth rates there still are rather rapid.

After a recession lasting six quarters, in the 2nd quarter of 2013 in general GDP in the EU-27 rose by 0.4%. Also latest Business Tendency Surveys witness that economic activities in the EU are increasing gradually; still, economic growth will be slow. Development trends in member states still are different. For instance, growth in Germany and Sweden is more rapid than on average in the region. However, most rapid economic growth rates in the EU were observed in Baltic countries.

In the 2nd quarter of 2013 growth continued in the USA economy – over a year GDP increased

by 2.5%. It was affected by rapid growth of private consumption, investment and exports.

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

Recovery of CIS region in post crisis period is mostly based on high resource prices. The same as in other regions, growth of CIS countries also is not even. In Russia growth rates for a year are already reducing for the fifth quarter (from 4.8% in the 1st quarter of 2012 to 1.2% in the 2nd quarter of 2013), in the basis of which lays drop in industry, exports and investment.

According to forecast of International Monetary Fund, in 2013 world economy is expecting growth by 3.1%, but in 2014 increase of global economy could exceed 3.8 per cent.

Global economic growth

GDP, per cent changes

	2009	2010	2011	2012	2013 IMF*	2013 EC**
World	-0.6	5.1	3.9	3.1	3.1	3.1
USA	-3.1	2.4	1.8	2.2	1.7	1.9
Japan	-5.5	4.7	-0.6	1.9	2.0	1.4
China	9.2	10.4	9.3	7.8	7.8	8.0
CIS	-6.4	4.8	4.8	3.4	2.8	3.3
EU-27, of which:	-4.5	2.0	1.7	-0.4	-0.1	-0.1
Germany	-5.1	4.0	3.3	0.7	0.3	0.4
Sweden	-5.0	6.6	3.7	0.7	1.0	1.5
United Kingdom	-5.2	1.7	1.1	0.2	0.9	0.6
Latvia	-17.7	-0.9	5.5	5.5	4.2	3.8
Lithuania	-14.8	1.5	5.9	3.7	3.0	3.1
Estonia	-14.1	2.6	9.6	3.9	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.

Only at the beginning of 2012 perspectives of the national economy of Latvia were evaluated very attentively because there were concerns that worsening of economic situation in the EU will affect growth rates of Latvia. However, Latvian economy was resistant towards crashes of external environment and, in general, in 2012 GDP exceeded the level of 2011 by 5%. Also in the 1st half of 2013 growth continued and GDP was by 4.1% larger than in the same period 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.

In the 1st half of 2013, due to the low demand in foreign markets, exports increase becomes more moderate. In the 2nd quarter of 2013, compared to the 1st quarter, volume of exports of goods and services increased by 0.8% (according to seasonally adjusted data), but compared to the 2nd quarter of 2012 – by 2.4 per cent.

Private consumption still has the largest contribution to the growth. Its increase is still affected by the growth of employment and increase of wages. In the 2nd quarter of 2013, compared to the 1st quarter, private consumption rose by 1.7% (according to seasonally adjusted data) and was by 6.5% higher than a year ago, however, it still lags behind the pre-crisis level significantly.

Gross Domestic Product
2004 = 100



f – forecast

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

	2009	2010	2011	2012	2013 H1
Gross Domestic Product	-17.7	-1.3	5.3	5.0	4.1
Private consumption	-22.6	2.3	4.8	5.8	6.2
Public consumption	-9.4	-7.9	1.1	-0.2	3.5
Gross fixed capital formation	-37.4	-18.1	27.9	8.7	-5.0
Exports	-13.1	12.5	12.4	9.4	2.9
Imports	-31.7	11.8	22.3	4.5	-1.1

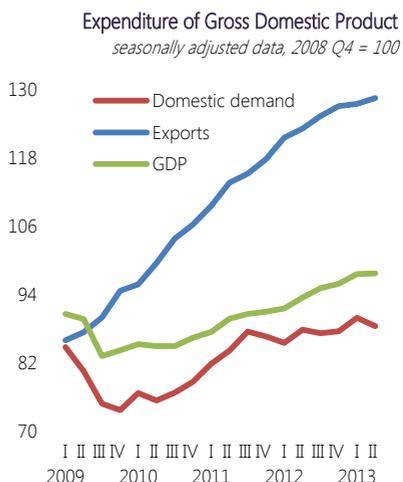
After a drop in the 1st quarter of 2013, in the 2nd quarter investment volumes increased and were by 1.1% higher than a year ago.

During the crisis, as domestic demand decreased, volume of imports reduced rapidly. As economic activities in domestic market increased gradually over the last years, demand for imports is also rising gradually. However, in the 2nd quarter of 2013 imports reduced – by 4.2%, compared to the 2nd quarter of 2012. It was mainly affected by the decrease in separate groups of goods, such as mineral products and transport vehicles, as well as by drop of imports volume of services. In the 2nd quarter of 2013 exports-imports balance was -0.7% of GDP.

In the 2nd quarter of 2013 government consumption had significant increase, which was the most rapid increase of expenditure over a year since the end of 2007.

From August 2009 to the end of 2012 consumer confidence has improved rather rapidly, however, it still was negative (taking into account that also in years of rapid growth confidence was negative).

In the eight months of 2013 improvement of consumer confidence is not so rapid anymore and in some months it even decreases slightly. In August 2013 on average it remained at the level of 2012. It was mainly 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	
	II	III	IV	I	II	III	IV	I	II
Gross Domestic Product	5.8	7.3	5.1	6.8	4.3	4.8	4.5	3.8	4.3
Private consumption	5.3	6.0	4.3	5.7	7.4	5.4	4.5	5.9	6.5
Public consumption	1.7	2.8	-1.1	0.7	0.5	-1.7	-0.2	1.1	5.8
Gross fixed capital formation	28.8	27.6	26.0	35.7	16.4	-1.9	1.0	-12.0	1.1
Exports	15.3	10.3	10.2	12.4	5.9	9.4	10.1	3.6	2.4
Imports	26.4	21.6	18.0	11.2	6.2	-0.4	2.5	2.2	-4.2

GROSS DOMESTIC PRODUCT: DEVELOPMENT OF SECTORS

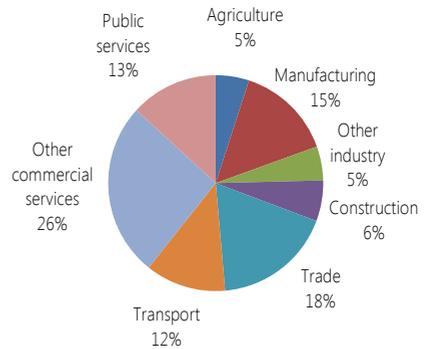
As competitiveness improved, exportable sectors were first which recovered from the crisis. Since the 2nd half of 2009 until the end of 2012 the growth was observed in all tradable sectors (agriculture, forestry, industry, as well as in transport services sectors). Production volume grew rapidly also in the main exports sector – manufacturing. Share of tradable sectors in total structure of national economy increased gradually. Growth of tradable sectors and increase of income from exports have also promoted development of domestic market-oriented sectors.

In 2012 stable increase remained in manufacturing (by 9.4%), even though complicated situation in external environment. But in the first half of 2013, weak demand in exports markets has impeded development of sector. In the 2nd quarter manufacturing volume remained at the level of corresponding period of previous year.

Also transport and storage sector in 2013 is not as successful as in the previous year. Volume of services provided in sector reduced by 5.1% in the 2nd quarter. The decrease was mainly promoted by drop in freight turnover at railway and ports. At the same time volume of transportation by road in the 1st half of 2013 has increased slightly.

In 2013 weaker development of tradable sectors is compensated by development of domestic market oriented sectors.

GDP structure
2012, as per cent



Gross Domestic Product by sectors
as per cent

	2010	2011	2012	2013 H1	2010	2011	2012	2013 H1
	volume changes				contribution to changes			
Gross Domestic Product	-1.3	5.3	5.0	4.1	-1.3	5.3	5.0	4.1
Agriculture	2.1	-1.1	-0.9	-1.6	0.1	-0.1	0.0	-0.1
Manufacturing	16.7	11.7	9.4	-2.6	1.6	1.5	1.4	-0.4
Other industry	1.9	-1.3	-2.6	-0.3	0.1	-0.1	-0.1	0.0
Construction	-31.1	11.0	14.6	6.9	-2.1	0.6	0.9	0.3
Trade and accommodation	-0.1	9.4	7.4	5.5	0.0	1.6	1.4	1.0
Transport and storage	0.8	8.1	3.5	0.7	0.1	0.9	0.4	0.1
Other commercial services	0.1	2.7	3.8	8.8	0.0	0.7	1.1	2.5
Public services	-8.1	0.6	-0.6	4.5	-1.2	0.1	-0.1	0.7

In 2013 construction volume continues to increase, which is mainly promoted by public orders and EU fund projects. Construction volume in the 2nd quarter was by 5.3% more than a year ago. Slightly more than a half of all construction volume is comprised by civil engineering structures (over a year increase of 7.5%). At the same time construction of residential and administrative buildings increased rapidly in the 2nd quarter. Even though construction volume is rising rapidly, it still lags behind the pre-crisis level significantly.

As private consumption rises, development in trade sector continues. In the 2nd quarter of 2013 volume of services increased by 6%, which was mainly promoted by growth of retail trade volume.

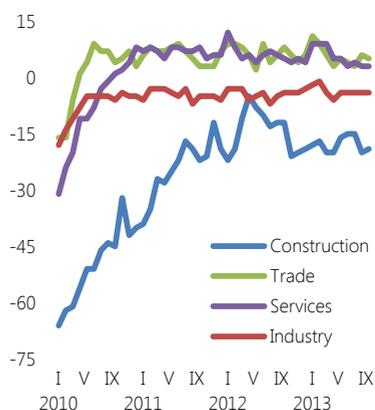
In the 1st half of 2013 stable growth remained in commercial services sector. In the 2nd quarter volume of commercial services rose by 8.4%. The growth was mainly promoted by the increase in real estate sector, information and communication, financial and insurance activities sector, as well as in arts, entertainment and recreation sectors.

In public services sectors in the first half of 2013 volume also is increasing and in the 2nd quarter it was by 6.4% more than a year ago.

As domestic demand continues to increase, stable development of domestic market-oriented sectors will remain this year. However, if economic situation in foreign markets will improve gradually, it is expected that in the second half of 2013 situation in tradable sectors will improve.

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	
	II	III	IV	I	II	III	IV	I	II
Gross Domestic Product	5.8	7.3	5.1	6.8	4.3	4.8	4.5	3.8	4.3
Agriculture	2.4	-0.9	-6.5	0.9	-4.0	2.1	-2.9	1.1	-3.7
Manufacturing	14.9	9.8	8.8	16.4	9.0	7.2	6.2	-4.8	-0.6
Other industry	3.3	4.8	-8.5	-3.4	-6.3	-2.9	1.5	-1.4	1.4
Construction	-0.9	19.6	25.9	38.0	25.9	7.4	8.4	9.8	5.3
Trade and accommodation	8.4	10.1	8.9	7.1	5.8	7.1	9.3	5.0	6.0
Transport and storage	8.3	7.6	8.1	3.1	7.6	3.1	0.2	6.9	-5.1
Other commercial services	4.5	2.7	2.6	1.3	1.2	8.3	4.6	9.2	8.4
Public services	0.9	1.7	-0.5	1.4	-0.1	-3.3	-0.5	1.9	6.4

MANUFACTURING

From 2009 till the end of 2012 production volume in manufacturing increased rapidly and growth rate was more rapid than total development of national economy. Manufacturing was the main driver of development of economy in the post-crisis years.

Stable increase of production volume in manufacturing remained in 2012 and it rose by 9.4% despite of worsening of growth rates in the largest exports markets – the EU countries.

In the first half of 2013 low demand in foreign markets has affected contribution in the sector and within seven months of 2013 production volume in manufacturing has reduced – by 1.2%, compared to the same period of the previous year.

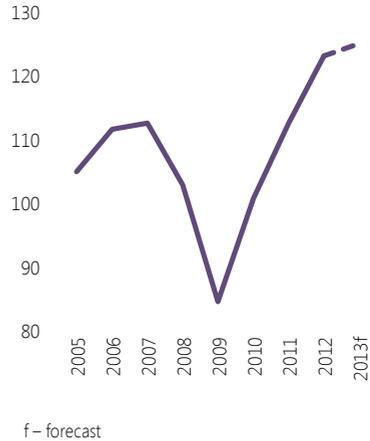
Chemical industry and pharmacy was significantly affected by low demand in foreign markets and within seven months of 2013 production volume was by 10.7% less than a year ago.

What concerns JSC “Liepājas metalurģs”, which is experiencing financial difficulties, in January-July 2013 production volume in manufacture of metal processing sector was by 16.7% less than a year ago.

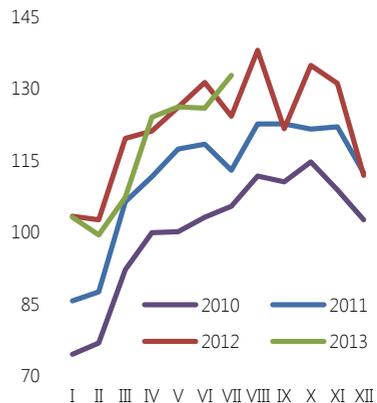
Production volume in wood processing, where very rapid increase was observed since 2009 and last year sector’s volume exceeded pre-crisis level by 40%, has slowed down and in general has remained at the level of corresponding period of the previous year.

At the same time in 2013 stable growth remained in other manufacturing sectors. Most rapid increase rates were in the manufacture of transport equipment and production of electronic and optical equipment. Increase in manufacture of paper and paper products, as well as in light industry is more moderate.

Manufacturing
2004 = 100



Production volume index
seasonally unadjusted data, 2010 = 100

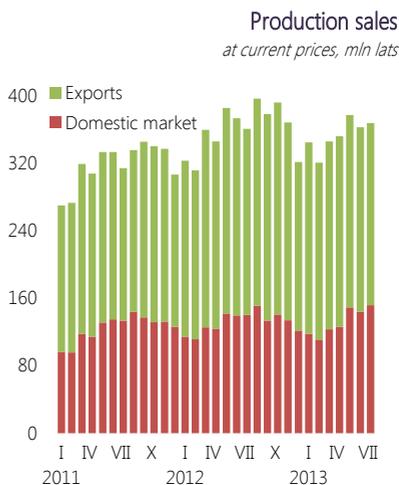


Production volume is also increasing in domestic market oriented sectors. In seven months production volume of manufacture of other non-metallic mineral products was by 6.1% more, but in manufacture of food products – by 4.7% more than a year ago.

In January-July 2013 manufacturing turnover was by 0.5% more than in 7 months of 2012. More rapidly turnover increased on products sold in domestic market – by 2.9%, but on products exported – reduced by 0.9 per cent.

In the 3rd quarter of 2013 capacity utilisation rate in manufacturing was 71.8% which has remained at the level of 3rd quarter of 2012. It must be noted that in the manufacture of machinery and equipment, manufacture of paper and printing and in wood processing production capacity is close to the historically highest level.

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-VII	
	turnover	occupied jobs	exports share in sales of sector	volume changes	volume changes
Manufacturing – total	100	100	63.5	9.3	-1.2
Food industry	22.9	22.2	33.9	2.5	4.7
Light industry	4.2	11.2	84.2	3.0	3.2
Wood processing	22.0	19.5	73.2	5.4	-0.8
Paper industry and publishing	3.9	3.9	58.3	10.1	4.5
Chemical industry and related industries	8.1	6.3	77.8	8.3	-10.7
Other non-metallic mineral products	5.7	4.1	46.3	8.6	6.1
Metals and metal articles	15.5	11.1	76.9	16.2	-16.6
Electrical and optical equipment	5.5	3.6	89.3	20.0	12.5
Machinery and equipment	2.3	2.8	80.3	8.7	0.9
Motor vehicles	3.8	3.1	92.8	15.8	12.9
Other industries	6.1	12.2	43.4	26.1	-10.5

INVESTMENTS

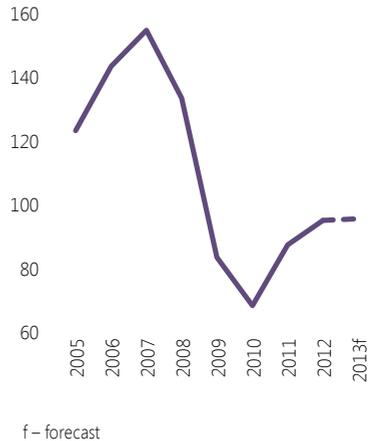
Under the impact of global financial crisis investments in Latvia's economy reduced significantly, but, as economy becomes stable and economic activities are resuming, investment volume since 2010 is increasing rather rapidly. In 2011 investment value rose by 27.9%, but in 2012 – by 8.7% and comprised 22.8% 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%. Voluminous investment was made in trade, transport and storage, as well as in real estate activities. In its turn, investment dynamics in tradable sector was more moderate than in 2011, but in 2012 by 8.1% less was invested in manufacturing than a year ago.

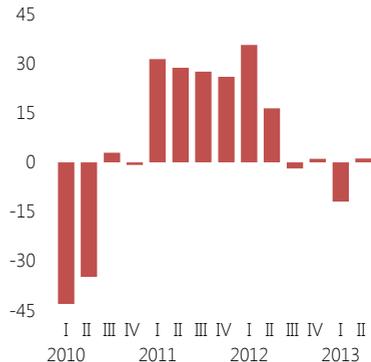
In the 1st quarter of 2013 investment value was at a 12% lower level, but in the 2nd quarter – at a 1.1% higher level than a year ago. Investment in services sectors comprised 63% of total investment. Decrease of investment is explained with completion of large investment project in the previous year. 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 incoming FDI flows in Latvia's economy increased almost 4 times and were 5.2% of GDP. In its turn, incoming FDI value in 2012 was by 26% less than in the previous year. In the 1st half of 2013 incoming FDI value was by 7.8% less than a year ago, which was mainly determined by negative flows in energy sector, as well as in transport and storage sectors. At the same time voluminous non-resident investments were in financial intermediation sector. In the 2nd quarter of 2013, compared to the same period of the previous year, FDI in manufacturing increased by 24.4%, however, in general in the first half of the year it was at a slightly lower level than a year ago.

Gross fixed capital formation
2004 = 100

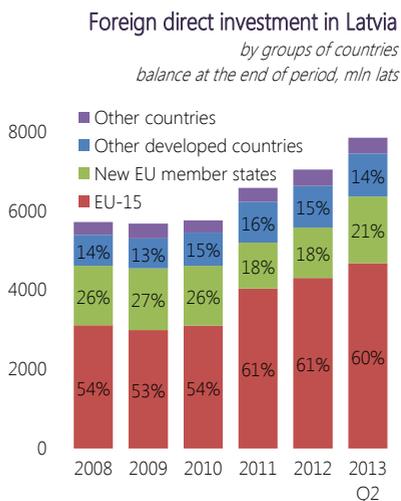
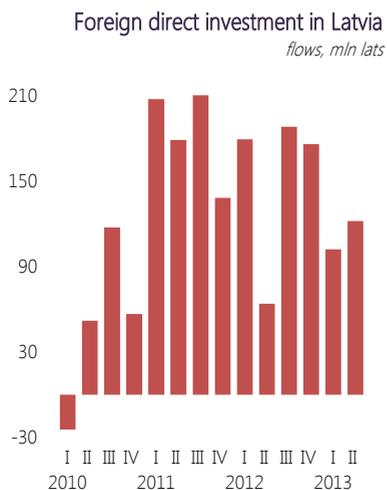


Gross fixed capital formation
changes over corresponding period of
the previous year, as per cent



It must be noted that in the first half of 2013 incoming FDI value in Baltic countries in general was 2,563 mln euros, i.e., by 12.8% more than a year ago. Latvia attracted about 30% of all FDI in Baltic countries.

According to International investment position of Latvia, at the end of June 2013 FDI stock in Latvian economy reached 7,840 mln lats (11,165 mln euros) which was by 15% more than at the end of June 2012, of which in manufacturing – by 12.4%. Larger share of FDI by sectors is in real estate activities and in bank intermediation.



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

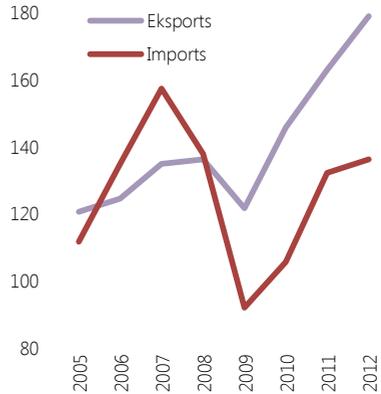
During the last three years foreign trade of Latvia is developing very dynamically. In 2012 compared to 2009, exports of goods at current prices has almost doubled, but imports has increased by more than 80%. Starting with 2009, exports has grown by 25% on average, but imports – by 23% annually. In 2012 the largest contribution to growth in exports of goods was provided by agricultural and food products, as well as by metals and metal articles. Volumes of exports of wood processing, machinery and electrical equipment and mineral products have risen significantly. Even though very big uncertainty remains in external environment, exports of Latvian goods continued to rise rapidly in 2012, at current prices – by 15.7%, but at constant prices – by 11.6%. Imports of goods rose by 14% (at constant prices – by 5.6%).

Also in January-July 2013 exports of Latvian goods continued to increase. At current prices it increased by 6%. Taking into account slight increase of export unit value (by 3.6% over a half-year), exports volume at constant prices has grown slightly slower. But imports of goods in January-July 2013 at current prices has remained almost at the same level of previous year (+0.5%). At constant prices imports volume of goods even decreased slightly.

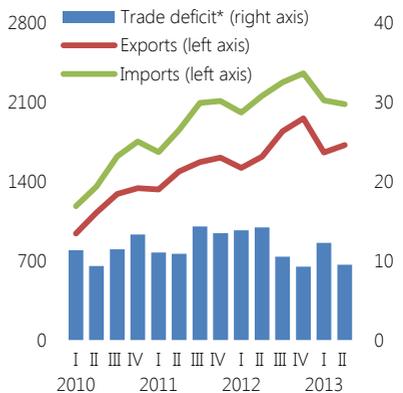
As exports volume rises more rapidly than imports, negative trade balance continues to reduce. In the seven months of 2013 it comprises 11% of total trade turnover.

In January-July 2013 total exports development was affected positively mainly by exports volume increase in mechanical engineering and agricultural and food products. Due to financial difficulties of JSC „Liepājas metalurģis” exports of metals and metal articles has decreased significantly. In seven months of 2013 also exports volume of transport vehicle group has reduced.

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



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



* as per cent of total trade turnover

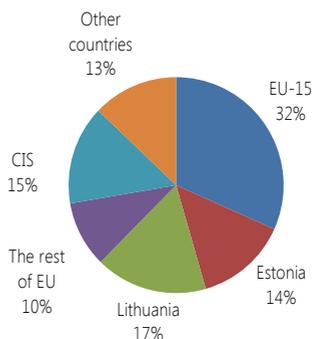
Weak increase of imports of goods in January-July 2013 was mainly determined by the decrease of imports of mineral products, metals and metal articles, as well as transport vehicles group. But imports volume of chemical and light industry, as well as of agricultural and food products group has grown.

Exports volume of goods to the EU and CIS countries in January-July 2013 grew slightly more rapidly than total exports. Exports to the largest exports partner country of Latvia – Lithuania – has increased rapidly (+12.6%). To Estonia exports is growing at a similar rate as total exports of goods. But exports volume to other countries has reduced slightly (decrease of 1.5%).

Largest Latvia's trade partner countries in January-July 2013 were Lithuania – 18% of total foreign trade turnover, Estonia – 11%, Russia – 10%, Germany – 10%, Poland – 8%, Sweden and Finland – 4% and Denmark and Netherlands – 3 per cent.

Taking into account weak economic situation in external environment, in total increase of exports volume in 2013 will be more moderate than in 2012. Exports development in the future will be related not only to the improvement of situation in external environment, but mainly to the improvement of competitiveness of producers.

Structure of exports of Latvian goods
in January-July 2013, as per cent



Exports and imports of Latvian goods
in January-July 2013, as per cent

	Exports			Imports		
	structure	volume changes	contribution to changes	structure	volume changes	contribution to changes
Total, of which:	100	6.0	100	100	0.5	100
Agricultural and food products	18.6	21.0	56.9	15.8	5.1	150.1
Mineral products	8.3	-3.4	-5.1	17.5	-0.9	-29.8
Chemical products	9.6	6.4	10.2	15.4	9.8	269.9
Products of light industry	4.9	8.7	6.9	6.0	15.2	154.8
Wood and articles of wood	16.7	6.8	18.7	2.1	32.0	98.5
Metals and metal articles	11.8	-20.4	-53.5	9.2	-18.4	-406.1
Machinery and electrical equipment	15.9	27.0	59.4	17.9	2.0	69.5
Motor vehicles	4.6	-14.9	-14.2	7.1	-19.7	-341.0
Other goods	9.7	13.7	20.6	9.0	8.2	134.1

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 – 2.5% of GDP. Also in the 1st half of 2013 balance of the current account was negative – at 0.6% level of GDP.

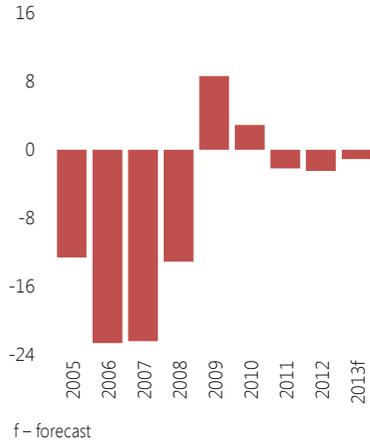
In 2012 foreign trade deficit was 9.8% of GDP, i.e., more than at a half lower level than in 2007 (24% of GDP). Improvement of foreign trade balance was mainly determined by rapid exports volume growth, while imports volume after the crisis is increasing slower. In 2012 exports at current prices grew slightly more rapidly than imports. But in the 1st half of 2013 exports volume of goods was by 7.5% larger than a year ago, but imports increased by 1.5% and foreign trade balance deficit reached 9.6% of GDP, or was at 3 percentage points lower level than a year ago. Balance of services is positive and covers foreign trade deficit by almost 65%. In 2012 surplus of the balance of services was 6.8% of GDP, exceeding level of 2007 almost 2 times. Also, in the first half 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 half of 2013 deficit of income balance was 1.8% and 1.6% of GDP, respectively, which was affected by increase of dividends paid to non-residents. Net current transfers in the 1st half of 2013 is positive (3.2% of GDP), thus remaining at the level of previous years.

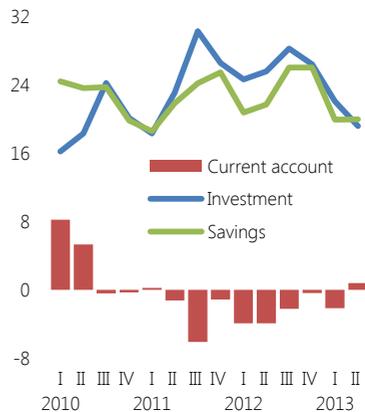
Fluctuations of balance of financial account by quarters are reducing gradually. In 2012 positive balance of financial account was 2.9% of GDP. But in the 1st half of 2013 financial account was positive (0.4% of GDP).

Intensity of incoming FDI remained at a rather high level. In 2012 attracted FDI were at 3.2% of GDP level and at 1.4% of GDP level in the 1st half of 2013.

Current account balance
as per cent of GDP



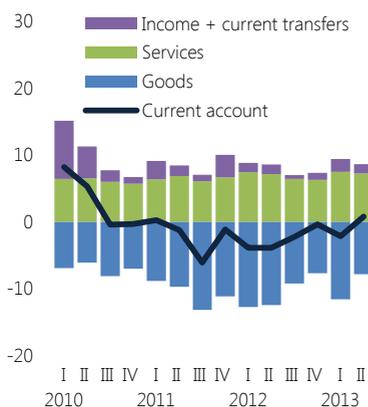
Current account, investment and savings
as per cent of GDP



Part of portfolio investment is rather small in incoming financial flow, and it does not exceed 10% during the last 3 years. Significant fluctuations are observed in position of other investment. In 2012 other investment balance was negative – 5.1% of GDP. In the 1st half of 2013 deficit of balance of other investment reached 2.4% of GDP. Fluctuations of balance of portfolio and other investment are mainly related to stabilisation activities of financial sector and restructuring of public sector debt.

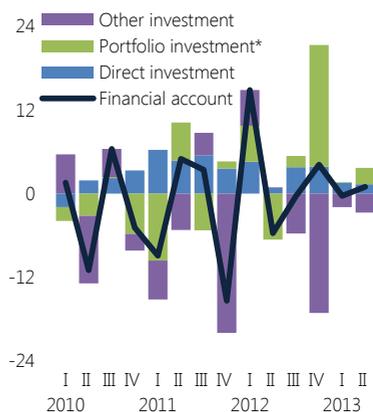
Current account by items

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	2013 Q2
A. Current account	8.6	2.9	-2.2	-2.5	-2.1	0.8
Trade balance	-7.1	-7.0	-10.8	-10.4	-11.6	-7.8
Service balance	6.0	6.1	6.5	6.8	7.5	7.2
Net income	6.3	0.2	-0.9	-1.8	-0.9	-2.2
Net current transfers	3.4	3.6	3.1	2.9	2.8	3.6
B. Capital account	2.4	1.9	2.1	3.0	2.5	2.2
C. Financial account*	-6.9	-2.1	-4.0	2.9	-0.3	1.0
Direct investment stock	0.6	1.5	4.9	3.2	1.5	1.3
Portfolio investment**	2.3	-2.8	-1.8	4.7	0.1	2.4
Other investment	-9.8	-0.7	-7.2	-5.1	-2.0	-2.7
D. Deviation	0.8	1.2	-0.4	0.2	1.5	-1.1
E. Reserve assets	-5.0	-4.0	4.4	-3.6	-1.5	-2.9

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

PRICES

After deflation, caused by the crisis, when 12-month consumer price changes in February 2010 dropped to -4.2%, prices started to rise again. In 2011, 12-month consumer price inflation was 4%, but in 2012 – 1.6%. Inflation was mainly determined by price rise on natural gas, food products and fuel. Large impact had price dynamics of oil in the world. Average annual price level in 2012 was by 2.3% higher than a year ago.

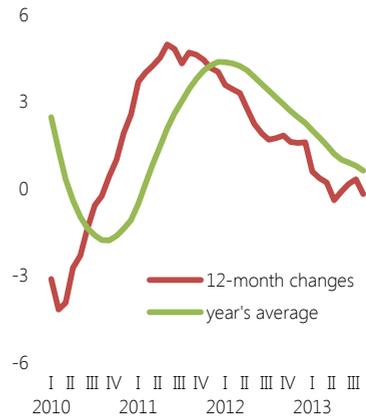
In 2013 consumer price dynamics is very moderate. In August 12-month inflation was -0.2%. In the eight months of 2013 largest impact on changes of prices mainly had price drop on food products (by 1%), on wearing apparel and footwear (by 5.8%) and on heating (by 6.8%), which is related to price fall of natural gas, as well as to price rise on alcoholic beverages and tobacco (by 2%). It must be mentioned that in the world prices on food products are reducing since May 2013 and in August they were less by 4% than in December 2012. At the same time in July 2013 there was significant increase in world oil prices, which yet has not reflected in fuel prices in Latvia – in total fuel prices in Latvia decreased by 1.3 per cent in the eight months of 2013.

In August 2013 12-month inflation in the EU countries was 1.5%, which was determined by price rise on food products and services.

In the future changes of consumer prices in Latvia will depend on the improvement of economic situation and price trends in the world. Consumer inflation expectations due to introduction of euro are increasing gradually; however, its impact on prices will not be more than 0.2-0.3%. The Ministry of Economics forecasts that in general average annual inflation in 2013 will be 0.1 per cent.

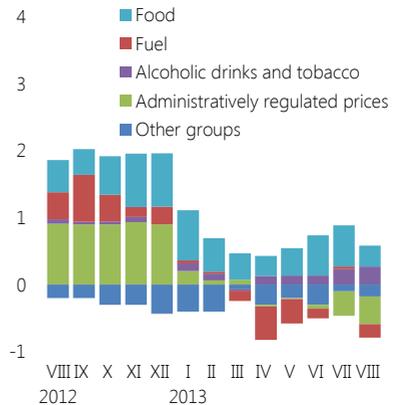
After rapid increase in 2010 and in first half of 2011, producer prices are rising moderately. In 2012, producer prices slightly increased, mainly due to price rise of energy resources.

Consumer prices



Impact of commodity and services group on consumer price index

contribution to 12-month changes, as per cent



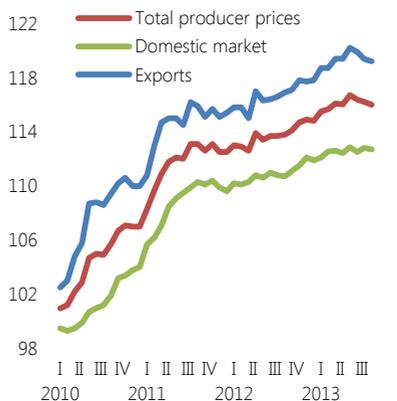
In July 2013, compared to July 2012, general level of producer prices grew by 1.4%, on products sold in the domestic market – by 0.7%, but on exported production – by 2.3%. Most significant price increases were observed in production of food products (by 3.7%), in wood processing (by 2.4%) and in manufacture of metal products (by 5.7%), but largest price decrease – in manufacture of computer, electronic and optical products (by 22.6%).

In July 2013 producer prices in manufacturing were by 2.2% higher than a year ago. In the seven months of 2013 producer prices on exported production in manufacturing have grown by 1.3%, but on products sold in the domestic market – by 0.9%. Fastest price increase was in sector of printing, manufacture of metal products, wood processing, but price decrease – in manufacture of computer, electronic and optical products.

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

Producer prices in manufacturing

December 2009 = 100



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
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
June	0.2	0.2	0.5	0.9
July	-0.3	0.3	0.2	0.8
August	-0.8	-0.2	-0.6	0.6

MONETARY INDICATORS

After economic situation worsened during the crisis, since 2010 situation in financial sector is improving gradually – number of new loans issued is increasing and quality of credit portfolio is improving, however, assets of banking sector continue to reduce. It is determined by still limited crediting.

Amount of new loans issued continues to increase. In the 1st half of 2013 new loans in amount of 523.2 mln lats were issued, which is more by 22.5% than in the 1st half of 2012. 42.3% of new loans (in value) were issued to non-residents, however, share of loans issued to non-residents in total credit portfolio of banking sector has not changed significantly over the last years and has remained within 11-13%. 28.4% of new loans were issued to Latvian enterprises, 19.3% to financial institutions and 10% to households. Amount of new loans issued both to residents and non-residents is increasing (by 25.9% and 18.1%, respectively). Household crediting is still weak. Amount of new loans issued to entrepreneurs is reducing.

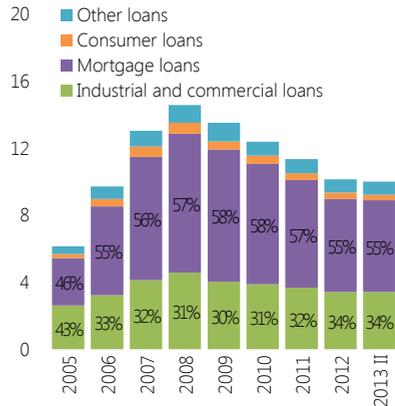
In breakdown by sectors of national economy, the majority of new loans were issued to financial and insurance activities. In the 1st half of 2013 amount of new loans issued to human health and social work activities and to communication area has increased significantly.

In two quarters of 2013 quality of credit portfolio has not changed significantly and in the 2nd quarter of 2013 there were 18.2% of loans with overdue payments, which was less by 1.4 percentage points than a year ago. Loans with overdue payments over 90 days reduced by 22.1 per cent.

At the end of first half of 2013, compared to the same period of the previous year, loan balance decreased by 7.2%. Balance on commercial loans is increasing gradually, but balance on industrial loans is still reducing. Over this period consumer crediting shrank significantly (by 42.4%). Reduction of loan balance of mortgages was at a similar rate as in previous quarters.

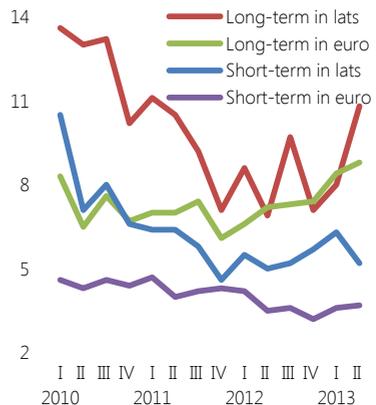
Loans issued to residents

at the end of the period, billion lats



Interest rates on loans issued

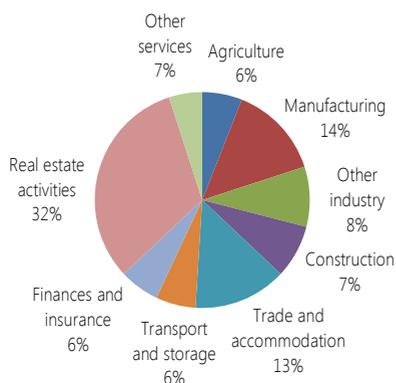
average weighted, as per cent



In the 2nd quarter of 2013 interest rates on long-term loans issued both in euros and lats increased, reaching the highest point over the last years, 8.8% and 10.8% respectively. As introduction of euro is coming closer, interest rates in lats are approaching interest rates in euros. Interest rate on short-term loans issued in lats reduced slightly and were 5.2%, but fluctuations of interest rate on short-term loans issued in euros were minimal.

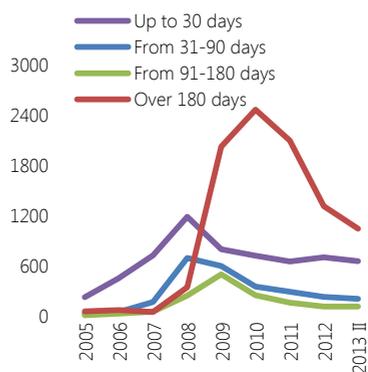
Structure of loans issued by sectors

at the end of June 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 Q2
<i>at the end of period, mln lats</i>					
Net foreign assets	-3,022.0	-1,219.8	-224.8	613.7	820.1
Net domestic assets	8,842.3	7,609.8	6,710.9	6,161.7	5,834.3
Domestic loans	12,204.3	11,215.1	11,045.4	9,593.3	9,231.3
Other assets (net)	-3,362.0	-3,605.3	-4,334.5	-3,431.6	-3,397.0
Broad money M2X	5,820.3	6,390.0	6,486.1	6,775.4	6,654.5
Cash in turnover (without vault cash balance)	667.3	807.4	1,040	1,082.4	976.0
Deposits of individuals and companies	5,153.0	5,582.7	5,446.1	5,693.0	5,678.5
<i>per cent changes</i>					
Domestic loans	-14.5	-8.1	-1.5	-13.1	-5.8
Broad money M2X	-1.9	9.8	1.5	4.5	2.7
Cash in turnover (without vault cash balance)	-23.0	21.0	28.8	4.1	-5.2
Deposits of individuals and companies	1.7	1.1	-2.5	4.5	4.2
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 affected fiscal situation of the country. Not to allow that situation in financial sector becomes uncontrollable, from 2008 to 2012 budget consolidation was carried out in Latvia in amount of 2.3 billion lats with fiscal impact of 16.9% of GDP, of which 6.7% of GDP comprise measures in income side, in its turn 10.2% – in expenditure side.

From 2008 to 2012 Latvia has carried out fiscal consolidation measures on average in amount of 3.4% of GDP annually. As a result of budget consolidation activities implemented by the government from 2009 to 2012 budget deficit reduced from 9.7% to 1.5% of GDP.

In January-August 2013, general government consolidated budget revenues were 3,998 mln lats, which is by 4.3% more than a year ago. Total revenues from taxes during this period of time rose by 5.8 per cent.

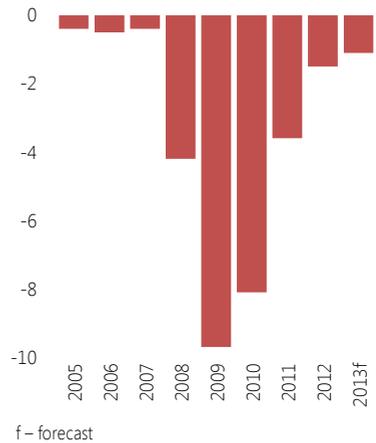
Due to increase of employment, as well as growth of wages, revenues from labour taxes are rising. In eight months of 2013, compared to January-August 2012 mandatory state social insurance contributions grew by 5.6%, but personal income tax – by 6.9%. During this period labour taxes comprised slightly more than a half of total increase of taxes collected.

In eight months of 2013, compared to January-August 2012, VAT contributions rose by 6.4%. As economic activity continues to increase, enterprise income tax collected also continues to grow – by 5.6%, compared to January-August 2012.

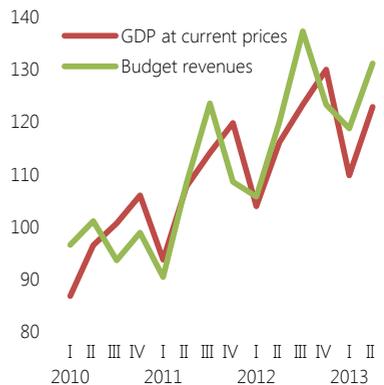
In eight months of 2013 in general financial surplus in government consolidated budget was in amount of 250 mln lats.

In January-August 2013, general government consolidated budget expenditure was 3747.4 mln lats, which is by 7% more than in eight months of 2012.

Budget balance
as per cent of GDP

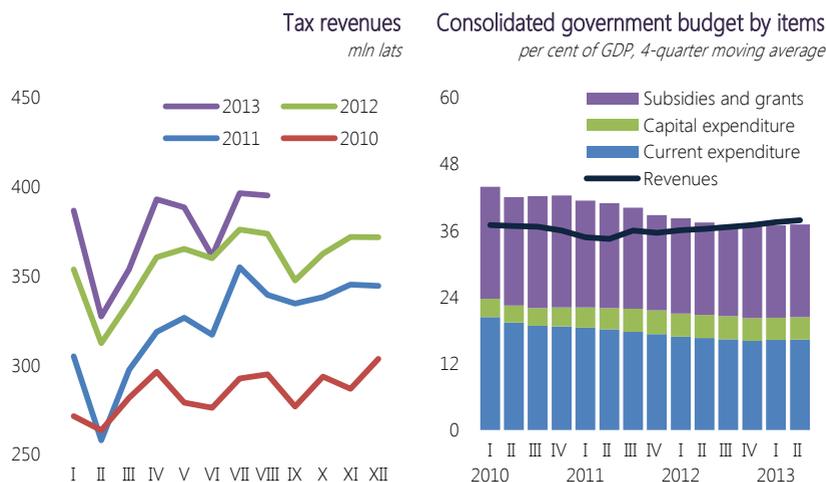


GDP and budget revenues
2009 Q4 = 100



In January-August 2013, compared to eight months of the previous year, capital expenditure has grown more rapidly – by 11.4%, and current expenditure – by 8.1%. Expenditure on subsidies and grants during this time rose by 4.3%. From functional categories most rapidly in January-August 2013 expenditure increased on environmental protection, recreation and culture, economic activity, public order and security, management of local governments’ territories and protection.

Aim of the government is to continue to reduce budget deficit – in 2013 it is planned that it will reach 1.1% of GDP.



General government budget

	bln lats				per cent changes	
	2009	2010	2011	2012	2013 I-VIII	2013 I-VIII
Revenues, of which:	4.72	4.61	5.09	5.74	4.00	4.3
Indirect taxes, of which:	1.32	1.30	1.46	1.63	1.13	5.4
Value added tax	0.80	0.83	0.96	1.12	0.78	6.4
Income and real estate taxes	1.00	0.99	1.10	1.23	0.89	6.3
Social insurance contributions	1.17	1.09	1.23	1.32	0.91	5.6
Other taxes	0.03	0.03	0.09	0.10	0.07	11.3
Other revenues	1.22	1.19	1.21	1.45	1.00	-0.1
Expenditure	5.61	5.41	5.53	5.72	3.75	7.0

LABOUR MARKET

Gradual increase of economic activities positively affects 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, feel improvement of the situation weaker.

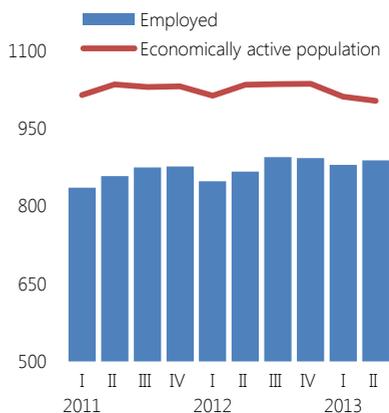
In 2012 number of employed rose by 1.6% and on average comprised 875.6 thsd. Despite increase in employment, relatively high unemployment still remains – on average 15 per cent annually.

In the 2nd quarter of 2013 in total 889 thsd persons were employed, which is by 2.6% or approximately by 22 thsd more than in the 2nd quarter of 2012. At the same time number of economically active population reduced by 3 per cent.

Unemployment level in the 2nd quarter of 2013 on average was 11.4%, which is by 4.8 percentage points less than a year ago.

According to the data of State Employment Agency, in the first half of 2013 registered unemployment level also continued to decrease, and at the end of August it reached the lowest level since December 2008 – 9.3%. 93 thsd unemployed were registered, which is by 18.6 thsd less than in August 2012. The highest level of registered unemployment remained in Latgale region (18.9%), but the lowest – in Riga (5.8%). In July 2013, long-term unemployed (without job for a period of more than a year) constituted 39.3% of total registered unemployed.

Employed and economically active population
in thousands



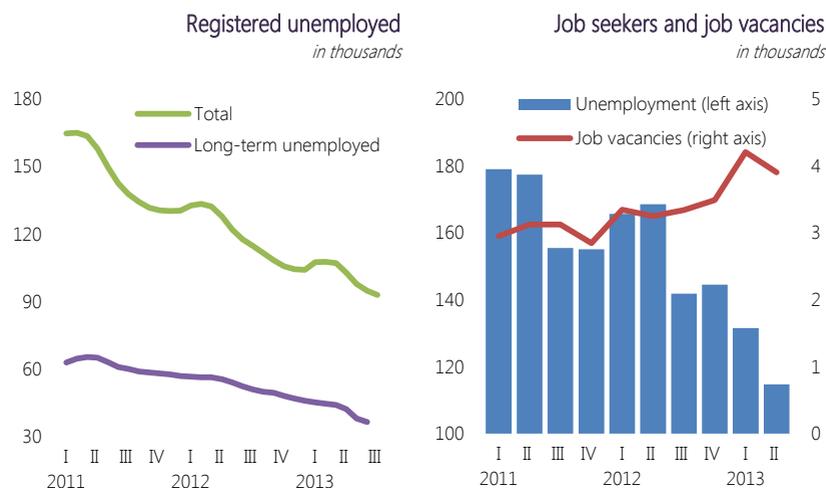
Occupied jobs
in thousands

	2008	2009	2010	2011	2012	2013 Q2
Total	1,016.6	826.1	776.7	805.5	839.1	964.1
Agriculture	20.8	17.9	17.5	19.0	20.6	21.6
Manufacturing	138.9	104.1	101.8	109.1	114.5	117.4
Other industry	26.7	23.7	22.4	22.9	23.7	24.4
Construction	89.3	54.6	46.0	50.9	55.7	60.5
Trade and accommodation	221.8	173.3	159.7	162.8	170.7	174.4
Transport and storage	77.8	67.6	66.8	68.8	72.7	74.4
Other commercial services	196.2	162.8	148.4	157.0	168.5	172.2
Public services	245.1	222.1	214.2	215.0	212.8	219.1

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 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 11.5% approximately.



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

	2008	2009	2010	2011	2012	2013 Q2
<i>in thousands</i>						
Population	1,702.5	1,674.3	1,635.3	1,595.3	1,560.0	1,536.1
Economically active population	1,143.4	1,101.4	1,056.5	1,028.2	1,030.7	1,003.7
Employed persons	1,054.9	908.5	850.7	861.6	875.6	889.0
Unemployed persons	88.5	192.9	205.8	166.6	155.1	114.7
<i>as per cent</i>						
Economic activity rate	67.2	65.8	64.6	64.5	66.1	65.3
Employment rate	62	54.3	52	54.0	56.1	57.9
Unemployment rate	7.7	17.5	19.5	16.2	15.0	11.4

PERSONAL INCOME

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

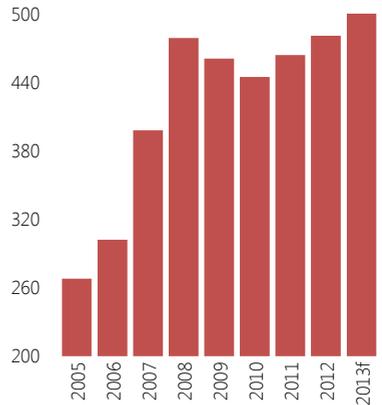
Gross average monthly wages and salaries of employed comprised 445 lats in 2010, i.e., by 3.5% less than in 2009 and by 7.3% – than in 2008. Estimating dynamics of wages and salaries during the crisis, it must be mentioned that adjustment of remuneration has been rather moderate, major part of fall in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

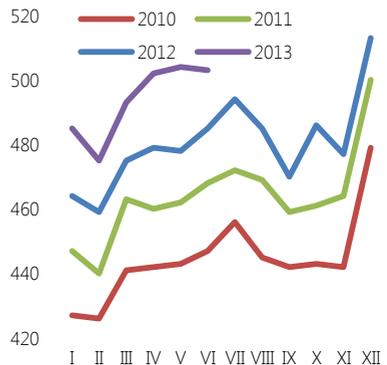
Along with increase of economic activities in the 2nd quarter of 2013, average wage in national economy continued to increase – compared to the 2nd quarter of 2012, gross wage rose by 4.7% and comprised 503 lats. The largest wages and salaries remained in Riga region (572 lats), but the smallest – in Latgale region (343 lats). Wages increased faster in private sector (by 5.3%), compared to public sector (by 3.9%). It must be noted, that in the 2nd quarter of 2013 average gross wage in public sector still was less by 4.8% than in the same period of 2008, but in private sector it exceeded level of corresponding period of 2008 by 10.9 per cent.

Average monthly wages and salaries of employed
gross, in lats



f – forecast

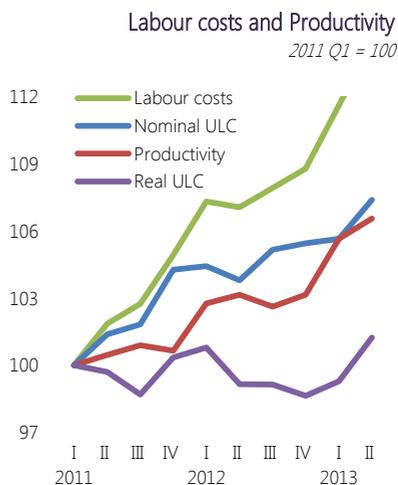
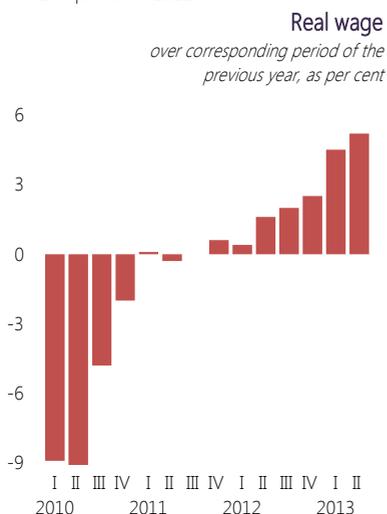
Average monthly wages and salaries of employed by months
gross, in lats



In the 2nd quarter of 2013 most rapid wage increase was observed in mining and quarrying (15.5%), construction (8.6%), public administration (8.8%) and financial and insurance activities (8%). Highest remuneration level remained in the finance and insurance – on average 1,098 lats 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 2nd quarter of 2013, real wage increased by 5.2%. 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 larger by 1.2% than a year ago. In the 2nd quarter of 2013, average old-age pension was LVL 180.8, which is by 0.3% more than in the 2nd quarter of 2012.



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

	2009	2010	2011	2012	2013 Q2
Total	-3.9	-3.5	4.4	3.7	4.7
Agriculture	-4.7	5.8	8.2	0.7	5.7
Manufacturing	-2.0	0.1	5.0	4.6	4.7
Other industry	-4.2	4.1	3.7	3.6	2.7
Construction	-1.0	-5.3	4.7	2.0	8.6
Trade and accommodation	-2.8	-3.6	5.9	4.5	5.6
Transport and storage	0.2	0.2	1.0	7.7	-0.8
Other commercial services	-1.1	-1.4	3.9	2.4	4.9
Public services	-12.8	-9.0	4.5	2.7	5.5

COMPARATIVE INTERNATIONAL STATISTICS

Economic development in Baltic countries

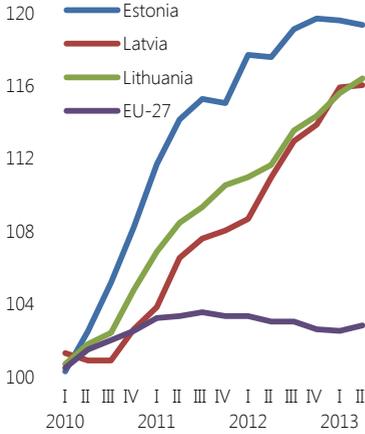
	Latvia	Lithuania	Estonia
Territory, thsd km ²	64.6	65.3	45.2
Population, thsd, at the 1 st July of 2013	2,014.0	2,971.9	1,286.5*
Gross domestic product, over corresponding period of the previous year, %			
2011	5.3	5.9	9.6
2012	5.0	3.7	3.9
2013 Q1	3.8	3.5	1.3
2013 Q2	4.3	3.8	1.0
Volume of manufacturing production, over corresponding period of the previous year, %			
2011	11.7	6.4	19.9
2012	9.3	3.7	-0.1
2013 Q1	-4.8	6.6	3.8
2013 Q2	-0.6	9.3	4.8
Retail trade turnover, over corresponding period of the previous year, %			
2011	8.2	12.5	10.8
2012	9.1	6.5	9.3
2013 Q1	7.2	5.5	1.2
2013 Q2	5.5	6.4	4.3
Changes of consumer prices, over corresponding period of the previous year, %			
2011	4.4	4.1	5.0
2012	2.3	3.1	3.9
2013 Q1	0.4	2.1	3.5
2013 Q2	-0.1	1.3	3.4
Number of employed, over corresponding period of the previous year, %			
2011	1.3	-**	6.7
2012	1.6	1.7	2.5
2013 Q1	3.8	1.3	1.4
2013 Q2	2.6	1.0	3.3
Unemployment rate, % of economically active population			
2011	16.2	15.4	12.5
2012	15.0	13.4	10.2
2013 Q1	13.0	13.1	10.2
2013 Q2	11.4	11.7	8.1

* data at the beginning of 2013

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

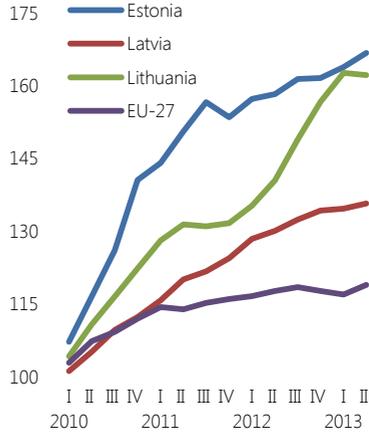
Gross Domestic Product

seasonally adjusted data
2009 Q4 = 100



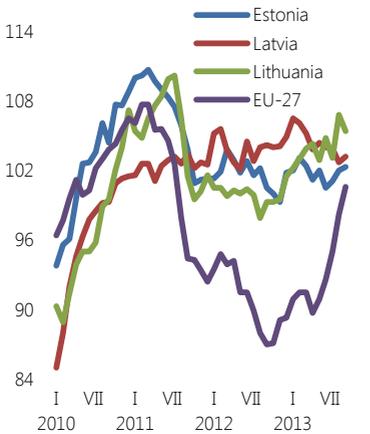
Exports of goods and services

seasonally adjusted data
2009 Q4 = 100



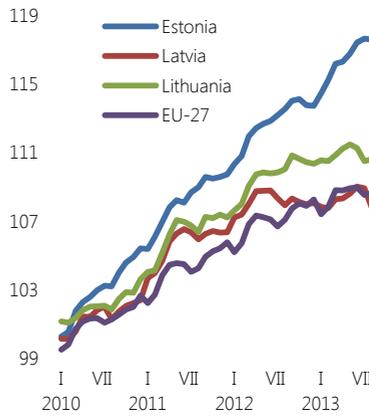
Economic sentiment indicator

seasonally adjusted data

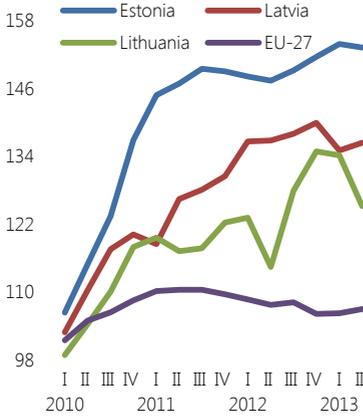


Harmonised consumer price index

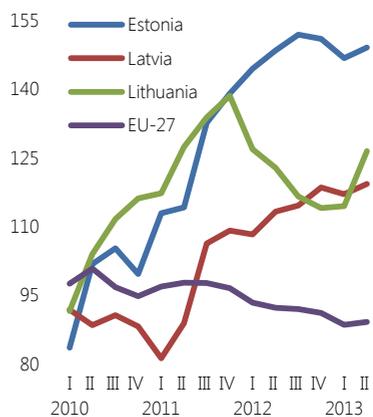
seasonally adjusted data
2009 Q4 = 100



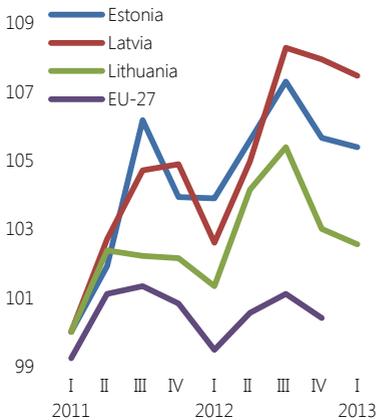
Manufacturing production volume
seasonally adjusted data
 2009 Q4 = 100



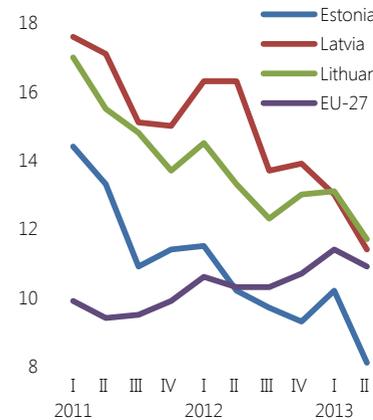
Construction production volume
seasonally adjusted data
 2009 Q4 = 100

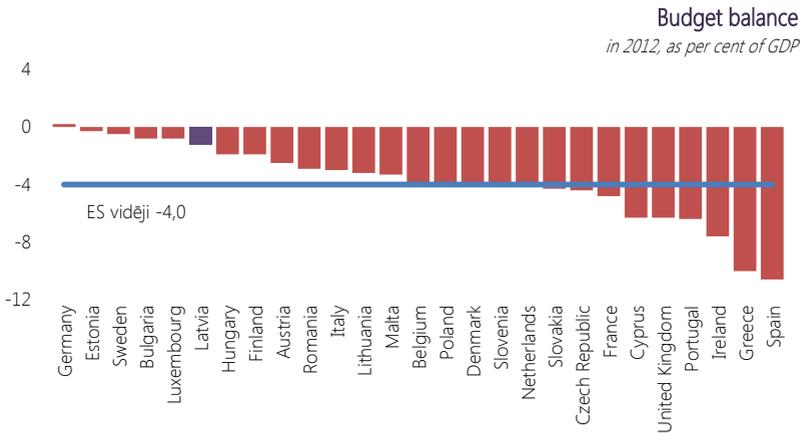
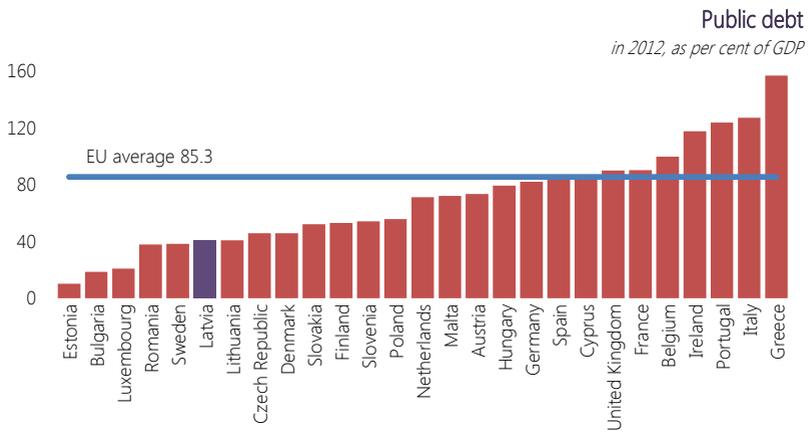
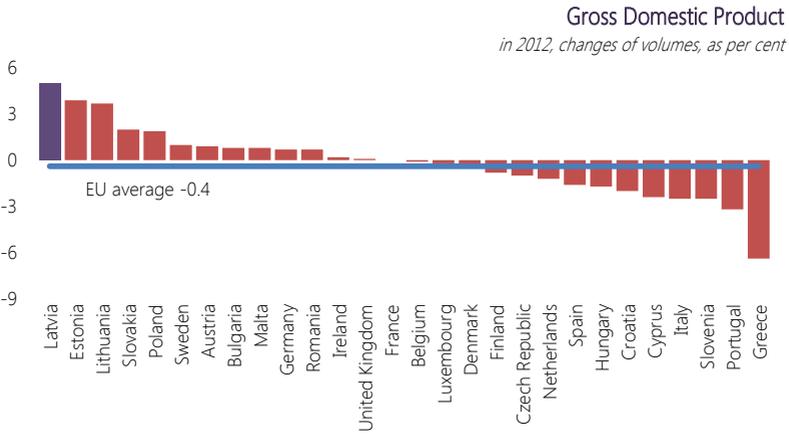


Number of employed
 2011 Q1 = 100

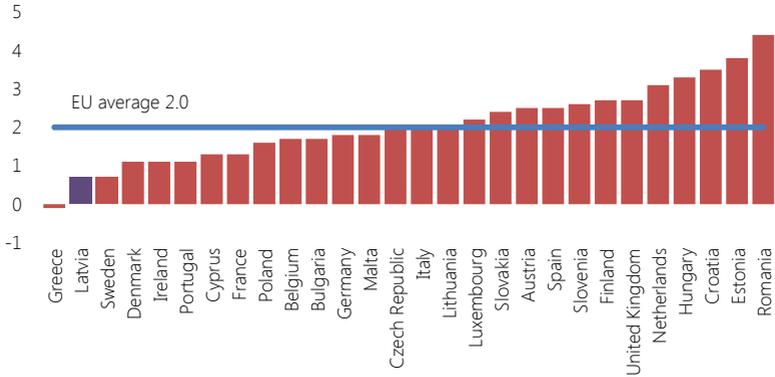


Unemployment rate
 as per cent

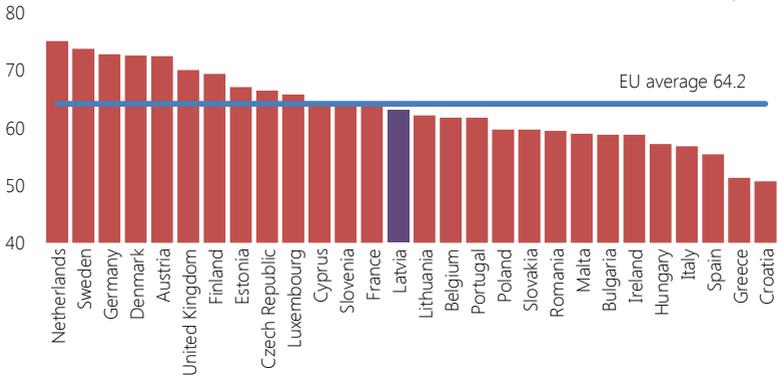




Harmonised consumer price index
in May 2013, average annual, as per cent



Employment rate
in 2012, as per cent



Unemployment rate
in 2012, as per cent

