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(47)

2011

Ministry of Economics  
Republic of LatviaCentral Statistical  
Bureau of Latvia

# THE NATIONAL ECONOMY OF LATVIA:

## A MACROECONOMIC REVIEW

*Key indicators of economic development*

*Economic policy*

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*Personal income*

*Employment and unemployment*

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### **Latvia: 2011**

Territory, thsd km <sup>2</sup>	64.6
Population as of 01.09.2011., thsd	2 211
of which:	
Urban area	1 492
of which Riga, the capital city	695
Rural area	719
National currency: lats (LVL)	

## Key indicators of economic development

	Actual data				Forecast	
	2007	2008	2009	2010	2011	2012
<i>changes over the previous year, %</i>						
Gross domestic product	9.6	-3.3	-17.7	-0.3	4.5	3.0
Consumer prices	10.1	15.4	3.5	-1.1	4.5	2.4
<i>% of GDP</i>						
General government						
budget balance	-0.3	-4.2	-9.7	-8.3	-4.5	-2.5
General government debt	9.0	19.8	36.7	44.7	48.0	48.0
Exports-imports balance	-20.0	-13.7	-1.5	-1.4	-1.8	-4.1
Unemployment rate*	6.0	7.5	16.9	18.7	15.8	14.6

	2009				2010				2011	
	I	II	III	IV	I	II	III	IV	I	II
<i>changes over the corresponding period of the previous year, %</i>										
Gross domestic product	-18.4	-18.6	-18.0	-16.0	-5.5	-3.5	3.5	3.6	3.5	5.6
Consumer prices	9.2	4.7	1.6	-1.1	-3.8	-2.1	-0.1	1.8	4.0	4.8
<i>% of GDP</i>										
General government										
budget balance	-7.5	-6.1	-6.1	-18.7	-8.7	-1.8	-6.5	-15.4	-2.7	1.0
Exports-imports balance	-4.5	-0.6	-1.8	1.0	-0.7	-0.1	-2.6	-2.1	-2.3	-1.3
Unemployment rate*	13.9	16.7	18.4	19.7	20.5	19.4	17.9	16.9	16.6	16.2

\* – share of unemployed in economically active population aged 15-74 years, %

## Economic policy

The government consistently continues implementation of the *Economic Stabilization Programme of Latvia*, which has helped to stabilise the Latvian financial system and prevent state insolvency. The programme aims at securing stability of lats, gradually decrease budget deficit (in 2011 – 4.5% of the GDP, in 2012 – 2.5% of the GDP) and fulfil other preconditions, in order to join the eurozone in 2014.

A range of considerable budget consolidation measures have been taken in Latvia, implementing cumulative fiscal adjustment amounted to 16.6% of the GDP from 2008 to 2011, int.al. both - by reducing expenditures and increasing revenues. In order to establish counter-cyclical and sustainable fiscal policy framework, the *Fiscal Discipline Law* has been submitted to the Saeima. The government has also taken serious actions to combat the informal economy.

In order to reach the general government budget goals, at the same time ensuring conditions for economic growth in medium-term, the Latvian government continues implementing structural reforms, promoting national competitiveness, improving efficiency of public administration and introducing reforms to the education and healthcare systems. A range of reforms to optimise the state institutional structure have been initiated – the Secretariats of Special Assignments Ministers have been closed, the Ministry of Regional development and Local Government has been incorporated in the Ministry of Environment, the number of state agencies has been reduced by 50%, as well as savings have been made in support functions by implementing centralization.

Special attention had been paid to attract investments – the *Coordination Council for Large and Strategically Important Investment Projects* created and the investment strategy *Polaris* implemented. The objective of these actions is to co-ordinate activities of the state and local government institutions, as well as non-governmental organisations in order to simplify

clarification of any emerging issues, facilitate project development, ensure timely prevention of problems and investor satisfaction throughout the project implementation and after the project completion.

In order to promote competitiveness of the Latvian producers, it is planned to allocate the main state support instruments and to facilitate accessibility to the EU funds for the priority sectors being already competitive – wood processing, food industry, metal working, chemical industry and pharmacy, as well as production of electrical and optical equipment, etc.

The State and the EU fund support is available for business start-up and development, training, export promotion, improvement of tourism infrastructure, improvement of energy efficiency of central heating, development of combined heat and power plants, as well as for renovation of social and apartment houses. Several state support programmes have been launched or are being continued by attracting the financing of the EU structural funds, such as *Development and Introduction of New Products and Technologies into Production, Support to Technology Transfer Contact Points, Support to Business Incubators*, which are aimed at promotion of knowledge based economy.

A lot has been achieved with regard to establishing business friendly environment that would be favourable for micro-enterprises and encourage people to start business, thus contributing to unemployment reduction. Now it is possible to establish an enterprise by investing initially only 1 LVL in the equity capital; also the tax system has been simplified for micro-enterprises by introducing a flat-rate. After introducing patent fees, the self-employed persons can work without any bureaucratic barriers.

At the same time the government is implementing a range of activities in order to reduce administrative burden in the areas of tax policy and administration, insolvency process, registration of real estate, tourism, construction, etc.

# Macroeconomic development

From 2005-2007 the average annual GDP growth rate was 10.3%. The main growth stimulus was related to a considerable increase in private consumption and investments, which was based mainly on the substantial inflow of foreign capital.

In 2008 and 2009 due to the global financial crisis when the foreign capital inflow declined, the economy of Latvia went into recession. The GDP decreased by  $\frac{1}{4}$  during the crisis, employment declined and unemployment increased. At the same time internal and external economic imbalances decreased – inflation decreased and current account deficit of the balance of payments turned from distinctly negative to positive.

Gradual increase of the GDP was observed in 2010. However, taking into account the fact that the growth took up from a very low point, in 2010 the GDP decreased by 0.3% compared to the previous year. In 2011 the economy keeps growing and in the 1st half of 2011 the GDP exceeded the level of the 1st half of 2010 by 4.6%.

The main driving force of economy is export. Starting with the 3rd quarter of 2010, export volumes of goods already exceed the pre-crisis level. Also in the first half of 2011 a rapid increase of the export volume can be observed (by 15% as compared to the first half of 2010).

Expansion of export possibilities is the basis for the growth of tradable sectors, particularly manufacturing, which in 2010 grew by 16.5% and in the 1st half of 2011 – by 14.7%. In the 1st half of 2011 the growth recovered almost in all sectors of goods and services.

Since the end of 2010 domestic demand increase can be observed. It has grown by 6.8% in the first half of 2011 compared to the previous year. An essential increase is also registered in investments (in the 1st half of 2011 exceeding the level of the

1st half of 2010 by 20%). It was mainly determined by private investment in production equipment, as well as state investments related to acquisition of the EU structural funds. Increase of employment and wages promoted increase of private consumption. Since the beginning of 2010 situation in the labour market has been gradually improving. In the second quarter of 2011 the number of employed comprised 966 thousands and the unemployment rate decreased to 16.2%.

Since the end of 2009 consumer prices have started to grow again. In 9 months of 2011 consumer prices grew by 3.8% and 12 months inflation in September 2011 was 4.6%. The total consumer price level growth in 2011 was mostly influenced by growth of electricity and natural gas tariffs, as well as by increase of fuel prices. Reasons behind the price growth are tax increase, inflation expectations as well as private consumption growth. It is expected that further price changes will be close to the seasonal fluctuation level, slightly exceeding it. Prices for food products that were one of the main reasons for inflation at the beginning of the year are not expected to increase much anymore. In 2011 consumer prices could increase by 4.5% as compared to 2010.

In the nearest future export will remain the driving force of the Latvian economy, although it will depend on the external demand. Global economy development is at risk due to the economic strain in segments of eurozone and global financial markets and the possibility that this tension could expand in the real sector. The Ministry of Economics forecasts that in 2011 the GDP could exceed the level of 2010 by at least 4.5%. In 2012 taking into account the rising uncertainty in development of the global economy, the Latvian economy could grow by 2.5-3%.

# Gross domestic product

In the 2nd quarter of 2011 as compared to the previous quarter the GDP has increased by 2% (according to seasonally adjusted data). It means that already seven quarters in turn the GDP has been gradually increasing. Since the lowest point at the end of 2009 the GDP has grown by 7.5%. As compared to the 2nd quarter of 2010 the GDP has grown by 5.6%.

Improvement of economic situation is still determined by the export growth (by 15% as compared to the 2nd quarter of 2010 at constant prices). Export volumes continue growing in all commodity export groups, and almost a half of the growth was determined by export of wood and products of wood, metal products and products of chemical industry.

Growing income from export serves as a stimulus for the increase of economic activities in the domestic market. Domestic demand continues increasing also in 2011. In the 2nd quarter of 2011, as compared to the lowest level during the crisis (the 4th quarter of 2009) it has increased by 11.9%. In the 2nd quarter of

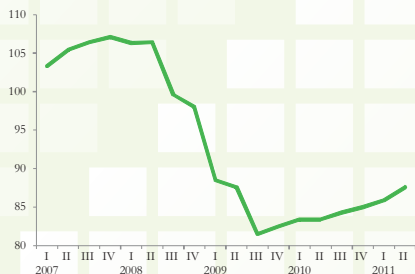
2011 domestic demand exceeded the level of the 2nd quarter of 2010 by 6.9%. It was mainly determined by the increase of private consumption, promoted by improvement in the labour market and the increase of wages and investment volume.

However, the recovery of private consumption is relatively slow and in the 2nd quarter of 2011 private consumption was only 75% of the volume level at the beginning of 2008, when the rapid decrease started. Faster recovery of private consumption is restricted by the debt burden of households, growing prices, especially for food products and fuel, as well as by increase of the tax rate, which reduced purchasing power.

In 2011 a rapid investment increase is observed. In the 2nd quarter of 2011, the volume has increased by 22%, as compared to the 2nd quarter of 2010. Increase was mainly determined by private investment in production equipment, as well as state investments related to acquisition of the EU structural funds.

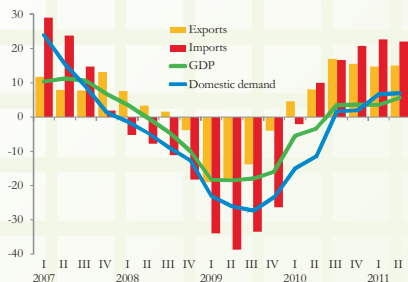
## GDP dynamics by quarters

*seasonally adjusted data, 4th quarter of 2006 = 100*



## GDP by expenditure items

*changes over the corresponding period of the previous year*



## Development of sectors

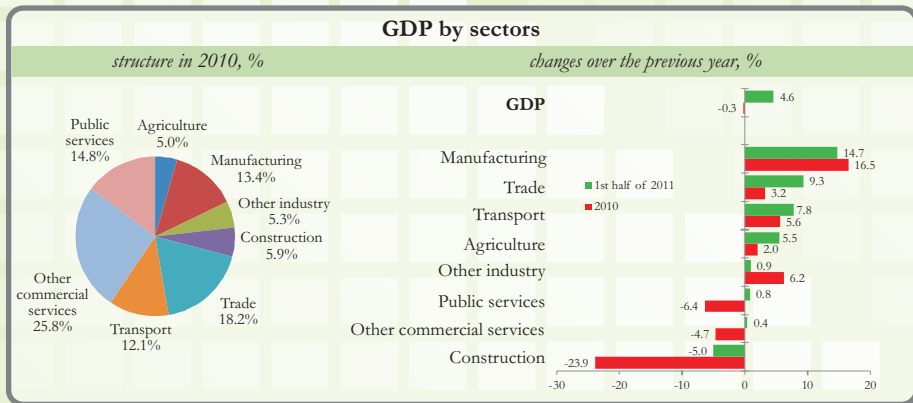
During the economic crisis the output decreased more rapidly in the sectors oriented towards domestic demand – in trade and construction. Along with the situation improvement of the global economy and by increase of external demand, the tradable sectors or in other words the sectors producing freely exportable and importable goods take up a more important role in the national economy.

In the 2nd quarter of 2011 export volumes are still increasing and export options serve as basis for the relatively rapid development of tradable sectors. In the 2nd quarter of 2011, production volumes in manufacturing exceeded the level of the respective period of the previous year by 14.6%. Agriculture, forestry and fishing sector has grown by 4.3%, whereas other industry sectors, such as mining and quarrying, electricity, gas and water supply have grown by 3.8% during the year. Due to the rapid

growth in cargo transportation by rail and in ports, in the 2nd quarter of 2011 transportation and storage sector exceeded the level of the 2nd quarter of 2010 by 8.1%. The growth in tradable sectors in the 2nd quarter altogether provided a 3.3 percentage point contribution to the GDP growth.

Gradual increase of income from export has brought a positive effect on the domestic market. Trade, accommodation and food service sector exceeded the level of the 2nd quarter of 2010 by 8.4%. The rapid increase is mainly related to increase of the wholesale volumes. A slight increase in the 2nd quarter of 2011 as compared to the respective period of the previous year can be observed also in other service sectors. However, construction volume has diminished by 1% during this period.

Due to the positive trend in export and stabilization of domestic demand, growth is expected in all main economic sectors in 2011.



# Manufacturing

In 2009 manufacturing output decreased by 17.8% due to the economic crisis. In the 2nd half of 2009 growth revived in Latvian trading partner countries and increase of external demand gave a positive stimulus for the Latvian manufacturers – output started increasing gradually in the 2nd half of 2009.

Manufacturing output continued increasing also in 2010 (by 16.5% as compared to the previous year). The comparatively rapid revival of the sector is mainly based on the growth of competitiveness, which was reached considerably reducing expenditures during the crisis.

In 2011 manufacturing sector continues developing, and in the first eight months of the year the output volume exceeded the level of the respective period of the previous year by 13%. Metal working made the most considerable contribution to the total increase – the output in January-August 2011 exceeded the level of the corresponding period

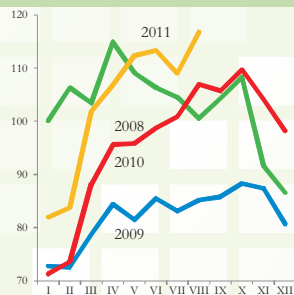
of 2010 by 33%. Since December 2010 production output has grown rapidly in light industry, production of electrical and optical equipment, as well as in production of transport equipment and machinery.

An essential role in manufacturing takes wood processing, where production output in the eight months of this year exceeded the level of January-August 2010 by 12%. However, output growth rate of the sector has slightly decreased. Growth rates of manufacture of paper and printing, chemicals and production of non-metallic mineral products were below the average industrial output index. Production output in food industry in the eight months of 2011 has remained at the level of the previous year.

Manufacturing exports 60% of the output. Main markets of the sector have not considerably changed during the last years – almost  $\frac{3}{4}$  of the production sales are related to the markets of the EU member states.

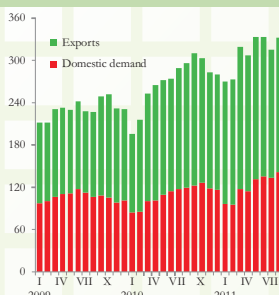
## Production volume index

*not seasonally adjusted data, 2005 = 100*

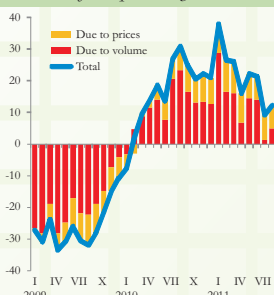


## Production sales

*in current prices, mln lats*



*changes over the corresponding period of the previous year, %*



# Investments

Since the end of 2010 investment activity in Latvia has been increasing gradually. In the 1st half of 2011 investment volumes in the economy of Latvia exceeded the level of the 1st half of 2010 by 25%. To a great extent the increase was determined by investments in such sectors as energy, wood-processing, as well as transportation and storage. Except for the rapid increase of investments in the 1st half of 2011, investments still remain at a very low level (16% of the GDP). More rapid increase of investment volumes is prevented by the low domestic demand, the restricted financial means of enterprises, the low bank crediting level and other factors.

Following considerable decrease in the incoming FDI flows in 2008-2009, in 2010 a growing trend has reappeared. In 2010 the attracted FDI volumes in the economy exceeded the level of 2009 almost 4 times. In 2011 the FDI inflows in the economy continues to grow. In the first half of 2011 the FDI inflows in the economy of Latvia was almost

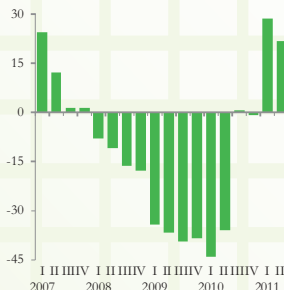
doubled, compared to the FDI inflows in 2010. At the end of June 2011 the FDI stock in the Latvian economy comprised 6386.6 million LVL (9087.4 million EUR), which is an increase of 6.8% as compared to the previous year.

At the end of June 2011 the FDI stock in manufacturing increased by 20% as compared to the end of June 2010, comprising 12.7% of the FDI stock in Latvia. It was mainly determined by the considerable investments in the production of construction materials (increase by 13.5%) and in wood-processing (increase by 30%). Almost 80% of the FDI stock are the EU investments, 1/3 of which are investments from the new EU member states.

The major investors are Estonia (15.3% of the FDI stock at the end of June 2011), Sweden (16.3%), Germany (5.8%), the Netherlands (7.2%) and Russia (4.4%). Investments in the services sectors have a higher share in the foreign direct investment stock.

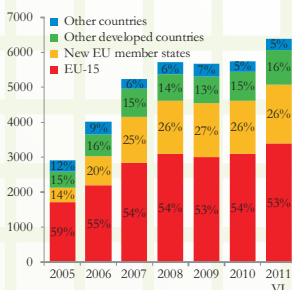
## Gross fixed capital formation

*changes over the corresponding period of the previous year, %*

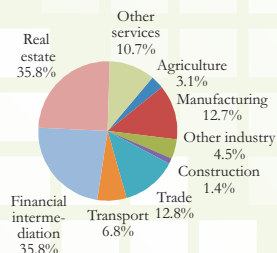


## FDI stock

*by group of countries, at the end of the period, mln lats*



*structure by sectors, at the end of June 2011, %*



# Foreign trade

In 2010 export of goods increased by 30.3% (at current prices), thus exceeding the pre-crisis level. However import of goods in 2010 increased by 25.5% (at current prices).

Export of goods in 2011 continued increasing relatively rapidly – in the eight months of 2011 the export volumes at current prices have increased by 33% as compared to the respective period of 2010.

Import of goods showed similar growth trend as export and in January-August 2011 it exceeded the level of the respective period of 2010 by 33% at current prices. During the crisis, the imports decreased more considerable than exports, and the import level is still slightly below pre-crisis volume (94% of the commodity import volumes of January-August 2008).

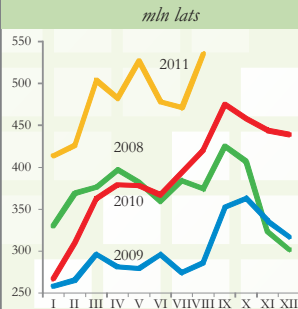
In January-August 2011, commodity export to the EU-15 has increased more moderate than total

export (by 23%). Most important contributors were export growth of wood and its products and metal and its articles. During this period export to the CIS countries increased by 30% and most important contributors were export volume growths in agriculture and food products, as well as in machinery.

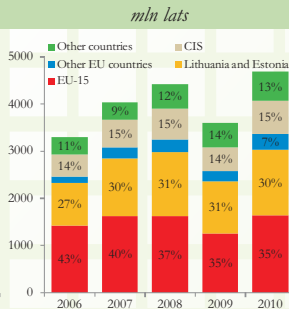
In January-August 2011, export to Lithuania increased by 51%, but to Estonia moderately – by 39%. The major contributors to export growth to these countries were production of chemical industry, as well as agricultural and food products.

Export price increase has a positive effect on the export growth. In the 2nd quarter of 2011 the prices have increased altogether by 13%. A more distinct price increase can be observed for agricultural and food products (by 23%), metals and metal articles (by 23%), as well as wood and its products (by 12%).

## Commodity exports



## Structure of exports by groups of countries



## Commodity imports



# Balance of payments

Rapid decrease of foreign capital inflow during the crisis caused significant adjustments to the current account of balance of payments. Current account balance in a short period became positive, reaching 13.6% of GDP in the 2nd quarter of 2009. Since the 3rd quarter of 2009 current account positive balance has been decreasing gradually and in 2010 it was 3% of the GDP.

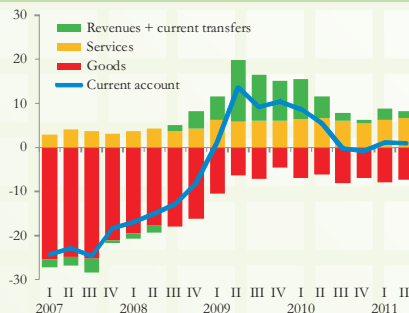
In the 1st half of 2011 the current account balance was positive (in 1st and 2nd quarter, respectively – 1.1% and 0.9% of GDP). In 2010 and at the beginning of 2011 changes in current account are basically related to the changes of the income balance items, less to the changes in foreign trade balance items. Along with the increase of the economic activity in the 1st half of 2011 as compared to the 1st half of 2010, there is a slight increase in the trade deficit (7.6% of GDP), whereas the positive balance of services remains at the level of the previous year (6.5% of GDP). The most significant fluctuations can be observed in the current account income balance. Since the 4th quarter of 2008 it has

been positive seven quarters in turn – in the 2nd quarter of 2009 reaching the most considerable balance surplus (9.1% of the GDP). The income balance surplus during the following periods decreased and since the 3rd quarter of 2010 it has been negative. In the 1st half of 2011 the income balance was -1.5% of the GDP, which was mainly determined by the increase of the income of non-resident investments, int.al., increase of the volume of dividends paid to non-residents.

Since the beginning of 2009 financial account balance of the balance of payments (without reserve assets) has been negative. In 2010 the deficit of financial account was 5.4% of the GDP, whereas in the 1st half of 2011 it decreased to 1.4% of the GDP. The negative effect of private capital outflow on the financial account was reduced by long-term loans of the public sector, which however resulted in the increase of government external debt. At the end of the 2nd quarter of 2011 the government gross external debt comprised 4412.4 million lats (33.2% of GDP).

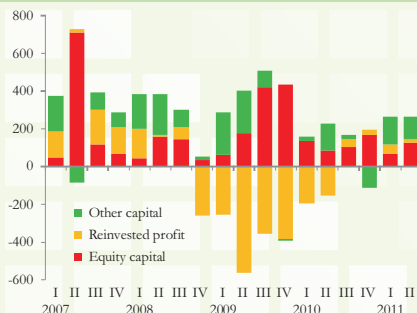
## Current account

% of GDP



## Foreign direct investments in Latvia

received during the quarter, mln euro



# Prices

During 2010 consumer prices increased by 2.5%, int. al., for goods – increased by 4.3%, whereas for services decreased by 2.1%. Taking into consideration deflation in 2009, the average price level in 2010 decreased by 1.1% as compared to the previous year.

In 2011 consumer price growth was more rapid. In the first 9 months prices increased by 3.8%. In September 2011 as compared to the previous year, consumer prices have increased by 4.6%.

The total consumer price increase in the first nine months of 2011 was determined by the increase of fuel and administratively regulated prices, as well as food product prices. Since the end of 2010 fuel prices have increased by 12%.

The growth of administratively regulated prices by 7.2% was mainly influenced by increase of electricity and natural gas prices. Whereas food product prices which in the first half of the year contributed to inflation, have stopped to increase. This year the total price level is affected also by increase of the value

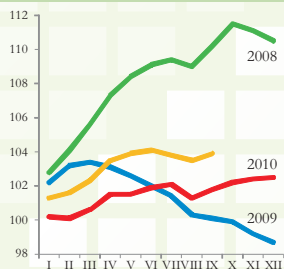
added tax in January 2011 and remaining public expectations of high inflation.

After the decrease in 2009, producer prices started to increase in 2011. Prices continued growing also in 2010, although in the last months of 2010 the increase slowed down. Prices increased both for production sold in the domestic market, which was affected by the stabilization of the domestic demand, and for exported products, which was determined by the price increase in global markets for the main commodities in export, int.al. wood products, metal and food products.

In August 2011 producer prices were by 7.8% higher than in August 2010, int.al. in manufacturing by 7%. Prices increased both for production sold in the domestic market (by 9.1%) and for exported goods (by 6.1%). Prices increased more rapidly in the chemical industry – by 30.5%, in metal production – by 20.9% and food production – by 10.7%.

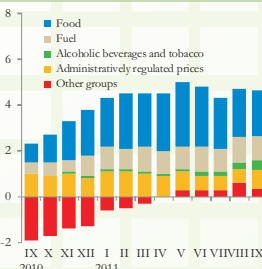
## Consumer price index

*December of the previous year = 100*



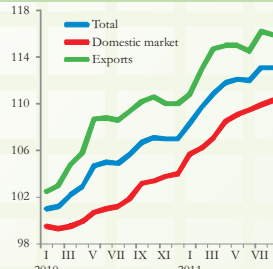
## The impact of commodity and services groups on the total consumer price index

*contribution to 12-month inflation*



## Producer price index

*December of 2009 = 100*



# Monetary indicators

Although the situation in the bank sector is improving, however several monetary indicators are negative. Starting from 4th quarter of 2009, increase of deposits attracted from residents was observed, however at the end of 2010 growth rate decreased and at the end of June 2011 deposits attracted from residents increased just by 1.6% in comparison with the according period of the previous year.

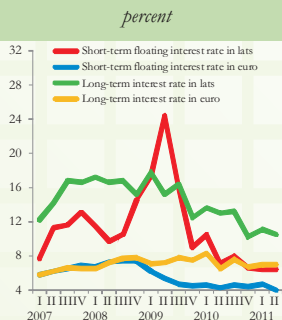
In the 2nd quarter of 2011 the credit balance of loans issued to resident financial institutions, non-finance companies and households continued decreasing and were by 9.3% lower than a year ago. In the 2nd quarter of 2011, there were 20.1 thousand new credits with the total amount of 411.9 million lats issued in the bank sector. By economic sectors, the biggest share of number of issued credits was for agriculture (505 credits) and transport sector (432 credits), whereas compared by the credit volume, 35% of all credits issued were in the energy sector and 22% in financial and insurance activities.

From the 3rd quarter of 2008 till the end of 2009 industrial and commercial loan balance has been decreasing. Along with the gradual increase of the economic activity at the beginning of 2010 the credit balances increased; however, at the end of the year a decrease could be observed and in the 2nd quarter of 2011 as compared to the corresponding period of the previous year industrial and commercial credit balances decreased by 8.8%.

Mortgage loan balance is still decreasing – at the end of the 2nd quarter of 2011 it decreased by 8.6%, as compared to the corresponding period of the previous year.

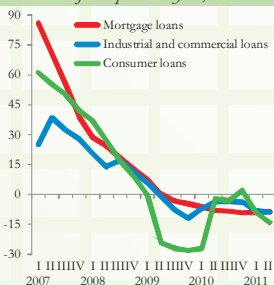
Since the end of 2009 interest rates have been stabilising. The weighted average interest rate for short-term loans issued in lats was 6.4% in the 2nd quarter of 2011 (in the 2nd quarter of 2009 it was - 24.4%). Interest rate for long-term loans issued in lats comprised 10.5% in the 2nd quarter of 2011.

**Average weighted interest rates to households**



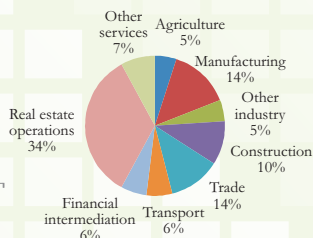
**Dynamics of loans issued to residents**

*changes over the corresponding period of the previous year, %*



**Structure of credit balances**

*at the end of June 2011, %*



# General government consolidated budget

In 2010 general government budget was consolidated by 507.5 million lats. At the end of the year government budget deficit comprised 8.3% of the GDP. It was lower than the target set for the general government deficit – 8.5% of the GDP. For 2011 the budget deficit target is 4.5%.

In the eight months of 2011 the fiscal situation has improved significantly. General government consolidated budget revenues in the eight months of 2011 comprised 3361.5 million lats, which is an increase of 8.8% as compared to the eight months of 2010.

Tax revenues (including instalments to the state funded pension scheme) in the first eight months of 2011, as compared to the corresponding period of the previous year have increased by almost 12%, comprising 2557 million lats, which exceeds the plan by 3.6% or 89.6 million lats. Tax revenue income in the first eight months of 2011 was mostly affected by increase of the revenues from value added tax, social

insurance instalments and increase of the corporate income tax, which exceeded the planned income by 48.9% or 40.4 million lats.

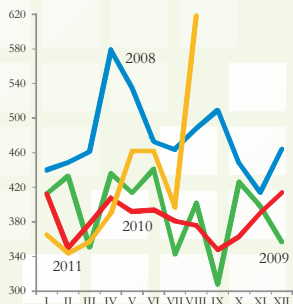
The general government consolidated budget expenditures in the eight months of 2011 constituted 3400.7 million lats, which is an increase of 3.5% as compared to the eight months of 2010. In the eight months of 2011 consolidated general government budget fiscal deficit decreased to 39.2 million lats.

In a medium term, in order to achieve the goal set by the government – to introduce euro in 2014, it is planned to reduce the general government budget deficit to 2.5% of the GDP in 2012 and to 1.9% of the GDP in 2013, according to ESA95 methodology.

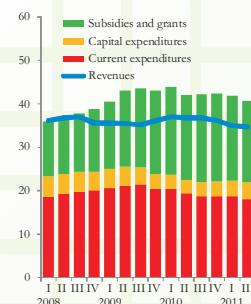
In order to comply with the government agreement with the international partners and in order to reach the budget deficit target for 2011 and 2012 the government will need to continue cutting the budget expenditures.

## General government consolidated budget revenues and expenditures

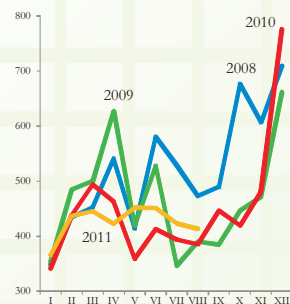
revenues, mln lats



% of GDP, 4-quarter moving average



expenditures, mln lats



# Personal income

Personal income decreased considerably during the period of economic crisis, which was determined by decrease in both – employment and wages. In 2010 compared to 2009 the average gross wage in economy decreased by 3.5% and comprised 445 lats. In 2010 gross wages in the public sector decreased more considerably than in the private sector (by 6.8% and 1.4% respectively).

Since the end of 2010 the average wages have been gradually increasing. In the 2nd quarter of 2011 gross wages increased by 5.5% as compared to the 2nd quarter of 2010. Wages tends to grow both – in the public and in the private sector. Altogether in the 2nd quarter of 2011 the average gross wage comprised 469 lats.

After recovery from the crisis, wages started to grow most rapidly in agriculture and forestry, as well as in energy, gas and heating supply sectors. The fastest growth of wages since the beginning of 2011

is observed in education, which is to a great extent related to optimisation of the educational system. In 2011 relatively rapidly wages increase also in primary sectors, real estate and professional, scientific and technical activities. Whereas the slowest increase of wages was observed in the transportation and storage sector.

In 2010 the real wage decreased by 6.5%, which was mainly determined by decrease of the average wage. Since the beginning of 2011 despite the price increase, the real wage is gradually increasing and in the 2nd quarter it grew by 0.2% as compared to the corresponding period of the previous year.

Also the average level of old-age pensions continues increasing. In the 2nd quarter of 2011 the average old-age pension comprised 178 lats, which is by 1.3% more than in the respective period of the previous year. In 2010 the average old-age pension constituted 176 lats.

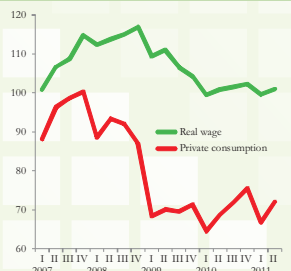
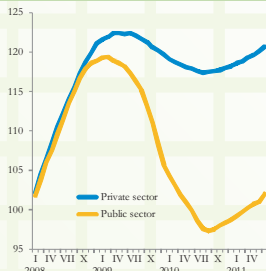
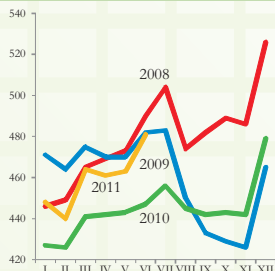
**Average gross wage of employed persons**

*lats*

*12-month moving average index,  
December of 2007 = 100*

**Dynamics of real wage  
and private consumption**

*4<sup>th</sup> quarter of 2006 = 100*



# Employment and unemployment

Along with the economic recession, situation in the labour market deteriorated considerably. From 2008 till 2010 the number of employed aged 15-74 decreased by 16.3% or by 183.3 thousand. In its turn, the unemployment rate grew from 6% in 2007 to 18.7% in 2010.

The lowest point in the labour market was registered in the 1st quarter of 2010, when the number of the employed decreased till 916 thousand and the unemployment rate reached 20.5%. Since then the situation in the labour market has been improving gradually – employment and economic activity has been increasing, unemployment – slowly decreasing.

In the 2nd quarter of 2011 as compared to the corresponding period of the previous year, the number of the employed increased by 3.3% and comprised 966.5 thousand. In its turn, the number of economically active population, regardless of the growth in the participation level, decreased by 0.7% and comprised 1153.4 thousand. In accordance with

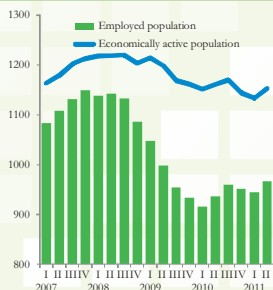
the Labour Force Survey data, the unemployment level in the 2nd quarter of 2011 decreased to 16.2%, which is 3.2 percentage points less than a year ago.

Since March 2010 the number of the registered unemployed persons has been gradually decreasing. Till the end of September 2011 the registered unemployment level decreased to 11.6% or 131.7 thousand, which is the lowest registered unemployment indicator since the middle of 2009. At the end of September 2011 the highest registered unemployment level was in Latgale region (19.7%), but the lowest in Riga (8.6%).

From January 2010 the number of the registered job vacancies has been increasing. At the end of September 2010, 3.6 thousand job vacancies were registered. With the decrease in jobs of seasonal character, the number of job vacancies was decreasing from September 2010 to February 2011. Since March 2011 the number of job vacancies has been increasing and at the end of August it reached 4.5 thousand.

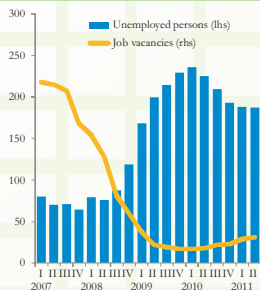
**Employed and economically active population**

*thousands*



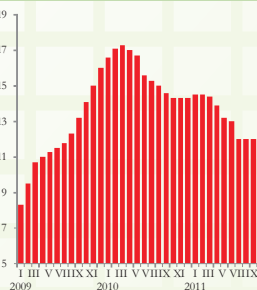
**Unemployed persons and job vacancies**

*thousands and %*



**Registered unemployment rate**

*%*



## Baltic states. Main socio-economic indicators

	Estonia	Latvia	Lithuania
Territory, thsd km <sup>2</sup>	45.2	64.6	65.3
Population as of July 1 2011, thsd	1340.1	2215.8	3229.0
Gross domestic product, changes over the corresponding period of the previous year, %			
2009	-14.3	-17.7	-14.7
2010	2.3	-0.3	1.4
2011 Q1	9.5	3.5	5.9
2011 Q2	8.4	5.6	6.6
Industrial output, changes over the corresponding period of the previous year, %*			
2009	-24.0	-17.8	-14.6
2010	20.8	16.5	6.6
2011 Q1	32.8	14.7	14.6
2011 Q2	26.2	14.6	10.6
Unemployment rate (share of unemployed persons in the economically active population, %)**			
2009	13.8	17.1	13.7
2010	16.9	18.7	17.8
2011 Q1	14.4	16.6	17.2
2011 Q2	13.3	16.2	15.6
Consumer price changes, changes over the corresponding period of the previous year, %			
2009	-0.1	3.5	4.5
2010	3.0	-1.1	1.3
2011 Q1	5.4	4.0	3.3
2011 Q2	5.2	4.8	4.8
Producer price changes in industry, changes over the corresponding period of the previous year, %			
2009	-0.5	-4.7	-13.3
2010	3.3	3.1	10.3
2011 Q1	5.3	8.5	15.3
2011 Q2	5.2	7.9	13.5

\* GDP data at constant prices, NACE Rev.2 ; \*\* Eurostat data: <http://epp.eurostat.ec.europa.eu>