



THE NATIONAL ECONOMY OF LATVIA:

A MACROECONOMIC REVIEW

3
(48)

2011

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Latvia: 2011

Territory, thsd km ²	64.6
Population as of 01.03.2011. (thsd, according to the provisional results of the Population and Housing Census 2011)	2 068
of which:	
Urban area	1 400
of which Riga, the capital city	657
Rural area	668
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	5.5	2.5
Consumer prices	10.1	15.4	3.5	-1.1	4.4	2.5
	<i>% of GDP</i>					
General government						
budget balance	-0.4	-4.2	-9.6	-8.2	-4.0	-2.1
General government debt	9.0	19.8	36.7	44.7	44.3	44.4
Exports-imports balance	-20.1	-13.7	-1.5	-0.8	-1.1	-5.7
Unemployment rate*	6.0	7.5	16.9	18.7	15.4	13.4

	2009		2010				2011			
	III	IV	I	II	III	IV	I	II	III	IV
	<i>changes over the corresponding period of the previous year, %</i>									
Gross domestic product	-18.0	-16.0	-5.5	-3.5	3.5	3.6	3.5	5.6	6.6	5.0**
Consumer prices	1.6	-1.1	-3.8	-2.1	-0.1	1.8	4.0	4.8	4.5	4.2
	<i>% of GDP***</i>									
General government										
budget balance	-5.5	-20.6	-7.0	-0.9	-6.7	-17.5	-2.0	-0.9	-0.8	-11.5
Exports-imports balance	-1.8	1.0	-0.7	-0.1	-2.6	-2.1	-2.3	-1.3	-5.0	-4.5
Unemployment rate*	18.4	19.7	20.5	19.4	17.9	16.9	16.6	16.2	14.4	14.4

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

** – GDP flash estimate

*** – 4th quarter of 2011 – estimation of the Ministry of Economics

Economic policy

At the end of 2011, three-year long international loan program was successfully closed. Planned amount for Latvia was EUR 7.5 billion. Taking into account, that economic and financial situation is improving, it was not necessary for Latvia to receive all available financing. Latvia has used EUR 4.4 billion.

In June, 2011, Latvia successfully returned in international financial markets, by issuing 10-year bonds worth USD 500 million. This emission proves the capacity of Latvia to finance budget needs independently and shows that secure foundation has been set for successful refinancing of loans in the next years in the public financial and capital markets.

Within the framework of international loan program, Latvia has set foundation for the implementation of sustainable fiscal discipline.

In order to meet the budget deficit targets, since 2008 budget consolidation in amount of LVL 2.3 billion with the fiscal effect of 17.5% of GDP has done, int.a.l., both, by reducing expenditures and by increasing revenues.

In order to create counter cyclical and sustainable political frame, *Fiscal Discipline Law* has been submitted to the Saeima.

During the implementation of the international loan program, improvement of expenditure structure of the public administration, considerable decrease of the employed in the public administration and reduction of wages as well as development of activities of social security net have been carried out.

Changes in tax policy was as an important consolidation resource, however tax burden against the GDP did not increase due to the change of economic structure and improvement of export-import balance. Incentives were introduced for businesses and employment – corporate income tax relief, tax of micro-enterprises, faster valued added tax refund, etc. After completion of the program, tax policy is

mainly focused on the reduction of taxes on labour.

State and EU fund support is available for business start-ups and development, training of employees, export promotion, improvement of tourism infrastructure, improvement of energy efficiency of central heating, development of combined heat and power plants, as well as for the renovation of social and apartment houses.

By attracting the financing of EU structural funds, several state support programs have been launched or are being continued, 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.

Attraction of investments has been started in a new quality – the Coordination Council for Large and Strategically Important Investment Projects has been created and investment strategy *Polaris* has been invented. The aim of these activities is active coordination of the activities of state and local government institutions and non-governmental organizations in order to simplify clarification of any emerging issue, facilitate project development, ensure timely prevention of problems and clarify investors' satisfaction throughout the project implementation and after the project completion.

At the same time the government is implementing a range of activities in order to prevent administrative burdens in the areas of tax policy and administration, insolvency process, registration of real estate, tourism, construction and other areas. Active work has done to limit the shadow economy. The reform of the management of state enterprises is being implemented. It will ensure transparent and clear principles for the society as well as potentially bigger income in the state budget.

Macroeconomic development

From 2005-2007 significant foreign capital inflow promoted considerable increase of private consumption and investments. The average annual GDP growth rate was 10.3%, which was one of the most rapid growth rates in the EU. In 2008 and 2009 due to the global financial crisis when the foreign capital inflow declined, the economy of Latvia experienced recession. The GDP decreased by ¼ during the crisis, employment decreased and unemployment increased.

Since the 4th quarter of 2009 economic growth has resumed. Along with the recovery of competitiveness and growth of demand in foreign markets, export has become the main driving force of the economy. Since the 3rd quarter of 2010 commodity export volumes already exceeded pre-crisis level.

Economic growth continued also in 2011. According to the preliminary estimates, GDP in 2011 exceeded the level of 2010 by 5.5%. In 2011, commodity export volumes increased by 28% (in current prices). Expansion of export possibilities promoted the growth of the tradable sectors, particularly manufacturing. In 2011, production volumes in manufacturing increased by 9.6%. Taking into account that situation is improving also in domestic market, in 2011 rapid growth was observed in the sectors of trade and construction.

In 2011 domestic demand continued to increase. In 2011 every quarter investment growth exceeded 20% in comparison with the corresponding quarters of the previous year. It was mainly determined by the enterprises' input in production equipment, as well as investments related to the absorption of the EU structural funds. Increase of employment and wages promotes the rise of private consumption.

Along with the increase of economic activities, also situation in the labour market is improving. In the 3rd quarter of 2011, number of employed persons was 984.7 thousand, which is by 7.5% or 68.8 thousand more than a year before. Unemployment rate has decreased by 3.5 percentage points and in the 3rd quarter of 2011 it was 14.4 percent.

After the deflation caused by the crisis, since the end of 2009, consumer prices have started to grow again. During the 2011, consumer price level increased by 4%. The total consumer price level growth at the beginning of 2011 was determined by the increase of electricity tariffs, as well as price increase for fuel and food, which is related with the global price tendencies. One of the reasons of the price increase was also tax increase and expectations of inflation. In the second part of the year, price increase slightly slowed down. Impact of several factors which determined price increase in 2011, will diminish in 2012, however pressure to the consumer prices will cause price increase of natural gas, as well as rise in the price of thermal energy and uncertainty related to the fuel prices, which can increase the total price level by 2.5% compared to 2011.

In the nearest future export will still be the main driving force of the economy of Latvia however it will depend on external demand. In the global economy the growth risks are increasing, which is mainly due to the economic strain in the segments of euro zone and global financial markets and possibility that this tension could expand in the real sector. In 2012, taking into account the rising uncertainty of the development of the global economy, the economic growth of Latvia could be 2.5 percent.

Gross domestic product

According to the flash estimate, in the 4th quarter of 2011, compared with the previous quarter, GDP increased by 0.8% (according to seasonally adjusted data) and by 5% exceeded the level of 4th quarter of 2010. When compared with the lowest point of crisis at the end of 2009, GDP has increased by 10%. Overall in 2011, GDP could increase by 5.5%, compared to the 2010.

Improvement of the economic situation is still determined by the increase of export. Volumes of commodity and services export in the 3 quarters of 2011 exceeded the level of the according period of 2010 by 13.2% (at constant prices). In comparison with the lowest point of export volumes during the crisis in the 1st quarter of 2009, export volumes of commodities and services have increased by 32.1% and now have reached historically highest point. Export volumes rapidly increase in almost all export groups.

Income increase from export is stimulating the raise of economic activities in domestic market. In the 3 quarters of 2011, domestic demand increased by 8.1%, compared with the 3 quarters of 2010. It was mainly determined by the increase of private consumption, which was promoted by increase of employment and wages as well as increase of investments.

Although private consumption increases gradually, however in the 3rd quarter of 2011, it was only 77% from the level of the 1st quarter of 2008, when it started rapidly decrease due to the crisis.

In the 3 quarters of 2011 investments increased by 20% compared with the according quarters of the previous year and it was mainly determined by the enterprises' investments in production equipment, as well as state investments related to the absorption of the EU structural funds.

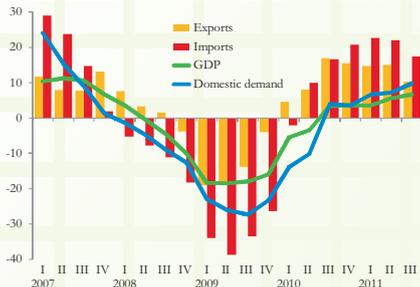
GDP dynamics by quarters

seasonally adjusted data, 4th quarter of 2006 = 100



GDP by expenditure items

changes over the corresponding period of the previous year, %



Development of sectors

Global financial crisis in 2008 and 2009 has considerably affected all sectors of economy. During the crisis, most rapid decrease of output was observed in the sectors oriented towards domestic demand – trade and construction. At the end of 2009, along with the gradual growth revival in the trade partner countries and along with the recovering of competitiveness due to the decrease of expenditures, situation in the tradable sectors started to improve, particularly in the main export sector – manufacturing.

During the crisis economic growth paradigm of Latvia has changed – from the growth based on domestic consumption to the growth based on export. However income growth from the export and development of the tradable sectors promotes the growth of other sectors.

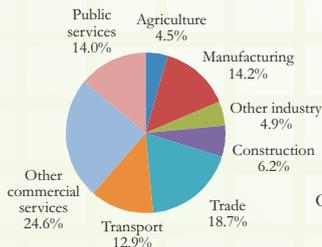
In 2011, production volumes of manufacturing increased by 9.6%. Last year was successful also for transportation sector. In 2011 considerable increase was observed in the railway freight volumes (by

20.8%) and cargo volumes in ports (by 12.5%). In 2011, stable increase was observed also in the sectors of agriculture and forestry. It must be noted that also during the crisis this sector experienced growth. In the rest of the industry during the 3 quarters of 2011, the growth was observed, however in the 4th quarter, due to the bad weather conditions, production volumes in energy reduced.

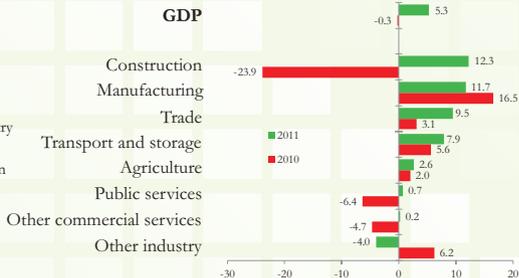
Overall in 2011, growth of the tradable sectors created more than 40% of the total increase of GDP. Taking into consideration that also in the domestic market situation is improving gradually, in 2011 rapid growth was observed in the sectors of trade and construction. Growth of the tradable sectors is still determined by the wholesale volume increase. However after considerable recession during the crisis, in 2011 construction volumes started to increase and overall within a year increased by 12%, compared with the 2010. In 2011, solely in the sectors of public and commercial services volumes remained at a level of 2010.

GDP by sectors

structure in 2011, %



changes over the previous year, %



* 2011 – estimation of the Ministry of Economics

Manufacturing

Along with the crisis, when both domestic and external demand shrank, production volumes of manufacturing decreased rapidly – in the 2nd quarter of 2009, production volumes of the sector was only 70% of the volumes of 1st quarter of 2007. In the 2nd half of 2009, growth revived in the most Latvian trade partner countries and increase of external demand gave a positive stimulus for the Latvian manufacturers – since the 2nd half of 2009, production volumes increases.

Growth of the sector is largely based on the growth of the competitiveness, which was reached by the decrease of expenditures during the crisis. Growth of the manufacturing is relatively rapid. In 2010, growth volumes increased by 16.5% and in 2011 – by 9.6%. Most considerable contribution in manufacturing is from the increase of production volumes in wood processing and metal and metal articles, which ensured almost a half of the total

manufacturing growth. During 2011, also considerable growth is observed in production of electrical and optical equipment, production of vehicles and machinery. At the same time it must be noted that one of the biggest manufacturing subsector – food industry, is recovering from crisis not as fast as other industries. In 2011, production volumes of this sector were even by 0.2% lower than in 2010.

In 2011, manufacturing turnover increased by 17.8%. It was determined not only by the increase of production volumes, but also increase of producer prices both in domestic and export markets.

In 2011, incomes from the exported production exceeded the level of 2010 by 20.6%. The value of production sold in export in 2011 exceeded the pre-crisis level. On average in 2011, Latvian producers were exporting 60% of production, which is by 10 percentage points more than in 2008.

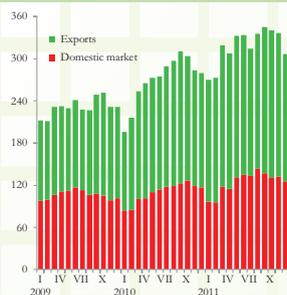
Production volume index

not seasonally adjusted data, 2005 = 100

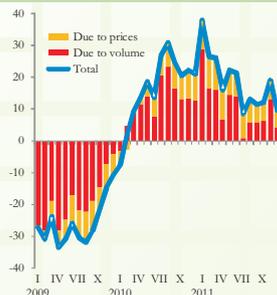


Production sales

in current prices, mln lats



changes over the corresponding period of the previous year, %



Investments

Since the end of 2010, investment activity in Latvia is increasing gradually. In 3 quarters of 2011, investment volumes in the economy of Latvia have increased by 25%, compared with the according period of 2010 and were 21% of GDP. Increase of investment volumes was mainly determined by the investments in such sectors as energy, wood processing as well as production of metal and metal articles. More rapid increase of investment volumes is still diminished by the low demand, limited financial resources of enterprises, low bank crediting and other factors.

After considerable decrease of incoming foreign direct investments (FDI) in 2008 and 2009, since 2010 their growth has resumed. In 2010, the FDI volumes attracted in the economy of Latvia exceeded the level of 2009 almost 4 times. In 2011, FDI inflow into economy of Latvia continued to increase. In 9 months of 2011, direct investment inflow was almost 3 times higher than incoming FDI flows in

the whole year of 2010. At the end of September 2011, FDI stock in the economy of Latvia was LVL 6563.6 million (EUR 9339.2 million), which is by 14.1% more than at the end of 2010.

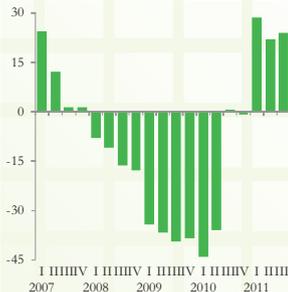
At the end of September 2011, FDI stock level in manufacturing has increased by 13%, compared to the end of September 2010, thus comprising 12.3% of FDI stock in Latvia. To a great extent it was determined by the significant investments in food industry (increase by 49.7%) and wood processing (increase by 30.6%). More than 70% of FDI stock are EU investments, 1/4 of them are investments from new EU Member States.

The major investors are Sweden (23.9% of the FDI stock at the end of September 2011), Estonia (5.9%), Germany (4.7%) and the Netherlands (6.8%). At the end of September 2011, investments from Russia were 4.2% of FDI stock.

Investments in the services sectors have a higher share in the FDI stock.

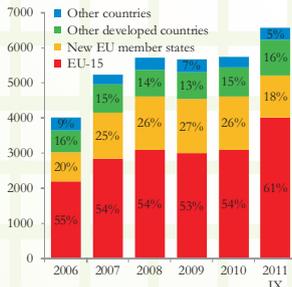
Gross fixed capital formation

changes over the corresponding period of the previous year, %

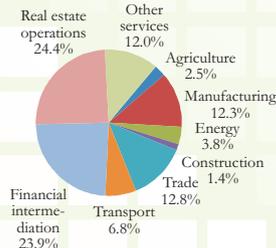


FDI stock

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



structure by sectors, at the end of September 2011, %



Foreign trade

Commodity export in Latvia has exceeded the pre-crisis level. In 2010 it increased by 30% (at current prices), compared with 2009, but compared to the level of pre-crisis period – in 2008 – by 6% (at constant prices, accordingly – by 20% and by 9%). Also in 2011 commodity export continues to increase rapidly (by 28% at current prices).

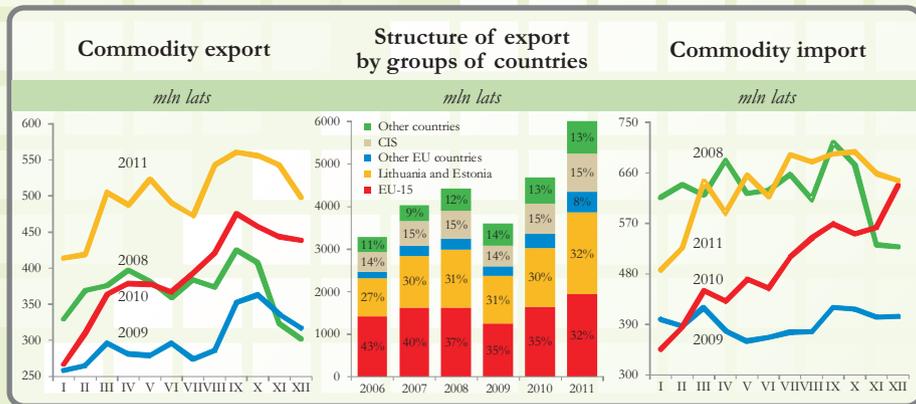
Also commodity import after crisis increased alike export. However, taking into consideration its rapid decrease at the end of 2008 and at the beginning of 2009, which was more considerable than export decrease, its volumes still drops behind pre-crisis level. In 2011, commodity import at current prices increased by 28%, compared to 2010.

It must be noted, that along with global financial crisis, negative export-import balance has reduced considerably. If at the end of 2006 commodity import exceeded export 2 times, then at the end of 2011, import exceeded export by only 26 percent.

In 2011, growth was observed in almost all commodity export groups. Most considerable part of export growth was based on the export growth in such commodity groups as mineral products, metal production and chemical industry.

Export to the EU countries in 2011 increased by 29%. As usually, most considerable contribution in the growth was from the export increase in the group of metal production. Export to the CIS countries has increased by 25%. Most considerable contribution to its growth was from the agriculture and food products and machinery products, thus providing more than a half of all export growth to the CIS countries.

In 2011, export volumes to Estonia and Lithuania increased by 32% and 41% accordingly. Big part of export to these countries consists of agriculture and food products, machinery products, as well as products of chemical industry.



Balance of payments

Global financial crisis has considerably affected current account of balance of payments. Since the 3rd quarter of 2010, current account balance is relatively stable. In the 1st half of 2011, current account balance was with small surplus (in the 1st and 2nd quarter, 1.1% and 0.9% of GDP accordingly), indicating on balanced investments and savings, however in the 3rd quarter of 2011, current account recorded a deficit (3.7% of GDP), which was mainly determined by the increase of foreign trade deficit.

In the 3rd quarter of 2011, economic situation continues to improve, import increased by 11.9% at current prices, compared with the previous quarter. At the same time export increased by 4.7% and foreign trade deficit in the 3rd quarter of 2011 was 10.7% of GDP, which is by 2.1 percentage points more than a year ago. Overall in 9 months of 2011, foreign trade deficit was 8.7% of GDP.

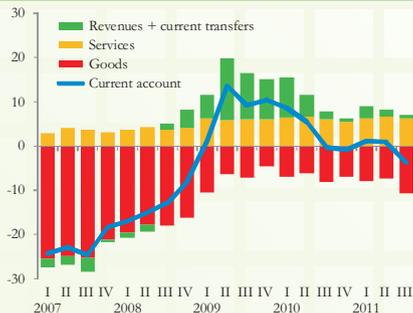
Considerable fluctuations are observed in the income balance of current account. Since the 3rd quarter of 2010 it is negative. In 9 months of 2011, income bal-

ance deficit was 1.5% of GDP (in the 1st quarter – 0.4%, in the 2nd quarter – 2.5% and in the 3rd quarter – 1.6% of GDP). Deterioration of the income balance is related to the income of the non-residents investments, int. al., the increase of dividends paid to non-residents.

Unlike the current account balance, fluctuations of the financial quarter balance are considerable. Since the beginning of 2009, financial account balance (without reserve assets) is negative. In 2010, financial account deficit was 1.5% of GDP however in 9 months of 2011 it decreased to 1% of GDP. Negative impact of the outflow of private capital on financial account was diminished by long-term loans of public sector as a result government external debt is increasing. At the end of the 3rd quarter of 2011, government gross external debt was LVL 4455.4 million (33.5% of GDP), which in comparison with the 3rd quarter of the previous year has increased by 10.6%. At the end of September 2011, total gross external debt of Latvia was 151.3% of GDP, which is by almost 14 percentage points less than a year ago.

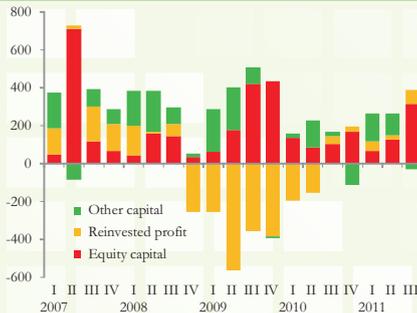
Current account

% of GDP



Foreign direct investments in Latvia

received during the quarter, mln euro



Prices

In December 2010, consumer prices increased by 2.5%, int. al., for goods – by 4.3%, but for services prices decreased by 2.1%. In 2010 price increase was smaller than deflation of 2009, hence the average price level in 2010, was by 1.1% lower than a year ago.

In 2011, increase of consumer prices became faster, in December 12-month inflation was 4%, on average annual price level has increased by 4.4%. Consumer price increase in 2011 was determined by the considerable increase of fuel and administratively regulated prices, as well as price increase for food. Within a year, fuel prices increased by 12.5%. Increase of administratively regulated prices by 6.8% was mainly determined by the tariff increase of electricity and natural gas, as well as VAT and excise tax rate increase for natural gas. At the end of 2011, a rise in food prices in Latvia has stopped and it was largely driven by the trends in global food prices. It must be noted that in the last months of 2011, inflation expectations have decreased considerably, which

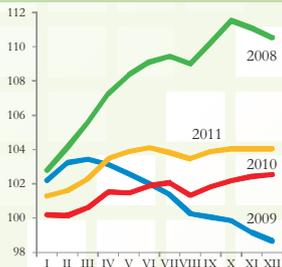
reached its highest point in the summer of 2011 and which increase was mainly based on price increase for food and fuel, as well as changes of consumption taxes.

After decrease of production prices in 2009, prices in 2010 started to increase again. Overall price increase continued also in 2011, although in the last months of the year price increase slowed down.

Producer prices increased both for products sold in domestic market and exported products. In December 2011 producer prices increased by 6.5%, compared to December 2010, int. al., in manufacturing – by 5.1%. In total within a year prices were by 7.7% higher than on average in 2010. Prices for products sold in the domestic market increased by 8.7%, but for the exported products – by 6.2%. The most rapid price increase was observed in the production of chemical substances and chemical products – by 25.7%, metal production – by 20%, printing and reproduction of recorded media – by 15.6 percent.

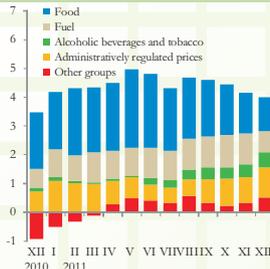
Consumer price index

December of the previous year = 100



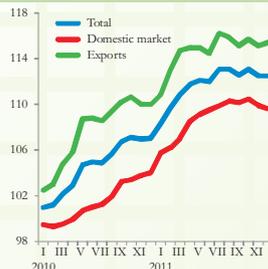
The impact of commodity and services groups on the total consumer price index

contribution to 12-month inflation



Producer price index

December of 2009 = 100



Monetary indicators

Banking sector is gradually recovering from the effects of crisis, however it happens slowly. Recovery is considerably delayed by the tense situation in financial sector in euro area.

Since the beginning of 2010, deposit volumes increasing gradually, however in the 3rd quarter of 2011, compared to the according period of the previous year, deposits of resident financial institutions, non-financial corporations and households almost have not increased.

Crediting is still weak. Credit balance of issued loans continues decreasing – volumes of new loans issued to households are considerably lower for repaid loans and written-off loans of banks.

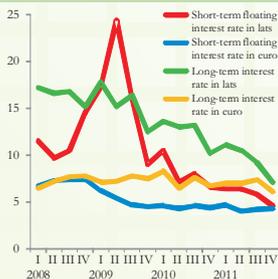
At the end of the September 2011 balance of loans granted to residents has decreased by 8.2%, compared with the previous year. In the 9 months of 2011, 121 thousand new loans were granted for non-banking sector for a total of LVL 1.1 billion. Most of the new loans were granted in such sectors as transportation and storage as well as agriculture and forestry.

Along with the increase of economic activity, since the beginning of 2010, balance of industrial loans and commercial loans are not decreasing so rapidly as before and at the end of the 3rd quarter the balance of these loans has decreased by 5.9%, compared with the previous year. However crediting of consumer loans is uneven – at the end of the 3rd quarter of 2011, compared with the 3rd quarter of 2010, balance of consumer loans decreased by 0.6%. Also balance decrease of mortgage loans is not as rapid as in previous periods.

At the of 2011, the weighted average interest rate for short-term loans issued in lats was 4.6% (at the end of 2nd quarter of 2009 – 24.4%), however weighted average interest rate for long-term loans was 7.1%, which are the lowest indicators during the last years and indicates on the stabilization of the situation. During the last quarters, interest rates for the loans issued in lats have approached interest rates of euro and are almost in the same level, however fluctuations of the interest rates of the loans issued in euro was less typical.

Average weighted interest rates to households

percent



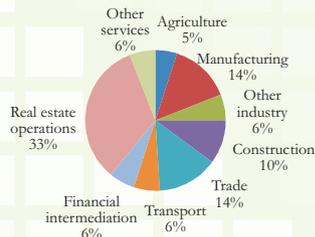
Dynamics of loans issued to residents

changes over the corresponding period of the previous year, %



Structure of credit balances

at the end of September 2011, %



General government consolidated budget

Economic recession has affected financial position of government – general government budget deficit in 2009 reached 9.6% of GDP and in 2010 it experienced small decrease to LVL 1050.6 million or 8.2% of GDP. Along with the implementation of fiscal consolidation activities, state's financial position has stabilized. Overall, during the time period from 2008 to 2011, budgetary consolidation measures have been taken with the fiscal impact of 16.6% of GDP, of which 6.7% of GDP are made of measures taken on the revenues side, but measures on the expenditure side – 9.9% of GDP.

Along with the increase of economic activities, in 2011, fiscal situation continued to improve. In 2011, general government consolidated budget revenues were LVL 5087.3 million, which was by LVL 480.3 million or 10.4% more than in 2010. Approximately ¾ of total revenues were tax revenues. Tax revenues in 2011 increased by almost 13.6% and

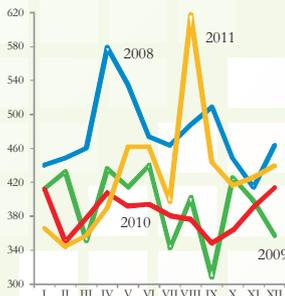
exceeded pre-planned amount. Increase of tax revenues were mainly determined by the increase of mandatory state social insurance contributions and VAT.

General government consolidated budget expenditures in 2011 was LVL 5532.2 million, which in comparison with the previous year, has increased by LVL 122.5 million or 2.3%. Current expenditures, subsidies and grants still make a high share of expenditures. In 2011, general government consolidated budget deficit was LVL 444.9 million or 4% of GDP.

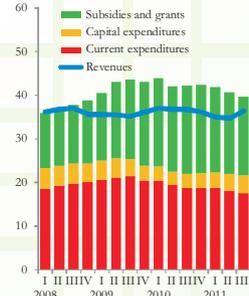
In order to meet the government's agreement with the international partners, also in the approved budget of 2012 cuts of budget expenditures has been applied. In medium term, in order to meet the target set by the government – to introduce euro in 2014, it is planned to reduce the general government budget deficit to 2.5% of the GDP in 2012 and to 1.9% of GDP in 2013.

General government consolidated budget revenues and expenditures

revenues, mln lats



% of GDP, 4-quarter moving average



expenditures, mln lats



Personal income

During the economic crisis, personal income decreased considerably, which was determined both by decrease of employment and wages. In 2010, the average gross wage in the economy was LVL 445, which is by 3.5% less than in 2009. In 2010, personal income decreased more rapid in the public sector than in the private sector (by 6.8% and 1.4% accordingly).

Average wage has increased gradually since the end of 2010. In the 3rd quarter of 2011, gross wage increased by 4.3%, compared with the 3rd quarter of 2010. Wages have a tendency to increase both in public and in private sector. In total gross wage in the 3rd quarter of 2011 was LVL 467.

After crisis most rapid increase of wages was in the sectors of agriculture and forestry and electricity, gas and heat supply. Also in the 3 quarters of 2011 most rapid increase of wage was observed in the sectors of agriculture and forestry. Comparably

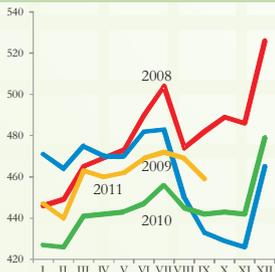
rapid wage increase in 2011 was observed also in the sectors of real estate and related services as well as in the sectors of water supply and waste management. However more slowly wage increase was observed in the sectors of transportation and storage.

In 2010, real wage decreased by 6.5%, compared to the 2009, which was mainly determined by the decrease of average wage. In the 3 quarters of 2011, despite the increase of average wage, real wages kept unchanged. Positive wage increase was neutralized by the increase of consumer prices. In the 3rd quarter of 2011, compared with the according period of 2010, real wages decreased by 0.1 percent.

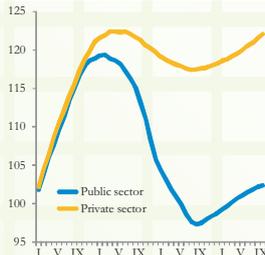
Average old age pensions continue increasing. In the 3rd quarter of 2011, the average monthly old age pension was LVL 179, which increased by 1.3%, compared with the according period of the previous year. In 2010, average monthly old age pension was LVL 176.

Average gross wage of employed persons

lats

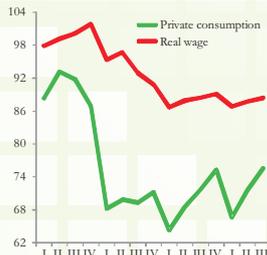


*12-month moving average index,
December of 2007 = 100*



Dynamics of real wage and private consumption

4th quarter of 2007 = 100



Employment and unemployment

Economic recession has considerably deteriorated situation in the labour market. During 2008-2010, number of employed persons (aged 15 to 74) decreased by 16.3% or by 183.1 thousand. However unemployment rate increased from 6% in 2007 to 18.7% in 2010.

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

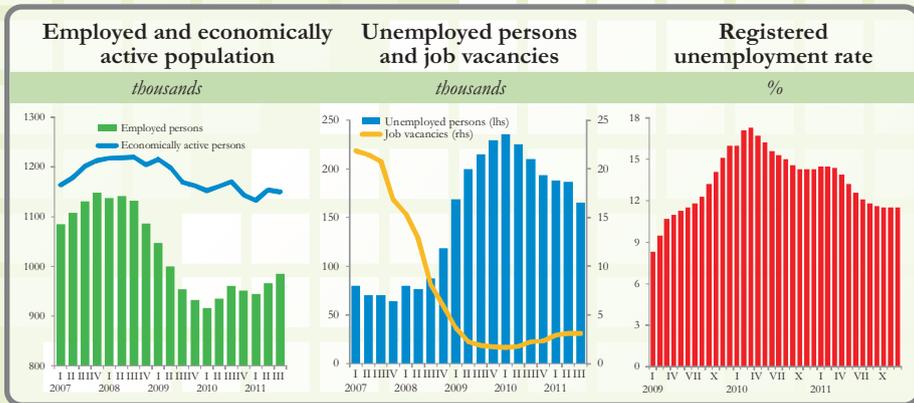
In the 3rd quarter of 2011, compared with the according period of the previous year, number of employed persons increased by 2.5% and was 984.7 thousand. However number of economically active population decreases by 1.7% and was 1150 thousand despite the increase of activity rate.

According to data of Labour Force Survey,

unemployment rate in the 3rd quarter of 2011 decreased by 14.4%, which is by 3.5 percentage points less than a year ago.

Since the March 2010, also registered unemployment rate has decreased gradually. At the end of 2011, registered unemployment rate was 11.6% and overall 130.3 thousand unemployed persons were registered. At the end of 2011, registered unemployment rate reached the lowest level since the middle of 2009. At the end of 2011, highest registered unemployment rate was in Latgale region (19.7%), but the lowest – in Riga (8%).

Since the January 2010, number of registered vacancies is increasing. At the end of August 2011, number of registered vacancies reached 4.5 thousand. Along with the decrease of seasonal works, starting from September 2011, number of job vacancies decrease gradually and at the end of the year, 2.5 thousand vacancies were registered.



Baltic states. Main socio-economic indicators

	Estonia	Latvia	Lithuania
Territory, thsd km ²	45.2	64.6	65.3
Population as of January 1, 2012, thsd	1339.7	2067.9*	3199.3
Gross domestic product, changes over the corresponding period of the previous year, %			
2009	-13.9	-17.7	-14.8
2010	3.1	-0.3	1.4
2011 Q2	8.4	5.6	6.5
2011 Q3	8.5	6.6	6.7
Industrial output, changes over the corresponding period of the previous year, %			
2009	-24.0	-20.2	-14.6
2010	20.9	16.5	6.6
2011 Q2	26.3	14.6	10.6
2011 Q3	18.3	9.3	7.2
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 Q2	13.3	16.2	15.6
2011 Q3	13.3	14.4	14.8
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 Q2	5.2	4.8	4.8
2011 Q3	5.3	4.5	4.5
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 Q2	5.3	7.9	13.5
2011 Q3	5.2	7.5	14.8

* Population as of March 1, 2011 – provisional results of the Population and Housing Census 2011