



THE NATIONAL ECONOMY OF LATVIA:

A MACROECONOMIC REVIEW

4
(49)

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	2.3
Consumer prices	10.1	15.4	3.5	-1.1	4.4	2.5
	<i>% of GDP</i>					
General government budget balance	-0.3	-4.2	-9.7	-8.1	-3.5	-2.1
General government debt	9.0	19.8	36.7	44.7	42.6	44.5
Exports-imports balance	-20.0	-13.7	-1.5	-1.4	-3.9	-5.5
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	5.7
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	-5.7	-16.7	-4.5	-4.3	-6.5	-16.2	-2.3	1.9	-1.7	-11.1
Exports-imports balance	-1.8	1.0	-0.7	-0.1	-2.6	-2.1	-2.7	-3.4	-6.6	-2.5
Unemployment rate*	18.4	19.7	20.5	19.4	17.9	16.9	16.6	16.2	14.4	14.3

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

Economic policy

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

In June 2011 and in February 2012, Latvia successfully returned to international financial markets by issuing respectively 10-year bonds for USD 500 million and 5-year bonds for USD 1 billion. These emissions prove the ability of Latvia to finance budget needs independently and show that secure basis 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 the basis for the implementation of sustainable fiscal discipline. In order to meet the budget deficit targets, in 2008-2012 budget consolidation has been implemented with the fiscal impact of 17% of GDP, including 10.2% on the expenditure side and 6.8% on the revenue side.

In order to establish counter-cyclical and sustainable fiscal policy framework, *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 entrepreneurship and employment – corporate income tax relief, tax on micro-enterprises, faster value added tax refund, etc.

After completion of the program, the opportunity is being evaluated to decrease labour taxes with the aim to increase competitiveness of enterprises.

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 established and investment attraction strategy *Polaris* has been introduced. The aim of these activities is active coordination of the work of public 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 eliminate administrative barriers in the areas of tax policy and administration, insolvency process, registration of real estate, tourism, construction etc. Active work is being continued to limit the informal 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 higher income in the state budget.

Macroeconomic development

From 2005 until 2007 high inflow of foreign capital fostered substantial increase of private consumption and investments. The average GDP growth was 10.3% that was one of the highest in the EU. In 2008 and 2009 due to the global financial crisis, when the foreign capital inflow stopped, the economy of Latvia went into recession. The GDP decreased by $\frac{1}{4}$ during the crisis, employment decreased and unemployment increased.

Although uncertainty in external markets has increased, recovery of economy of Latvia continues. In the 4th quarter of 2011, Latvia's GDP exceeded the level of respective quarter of the previous year by 5.7% and in total in 2011 exceeded the level of 2010 by 5.5%. In the previous year economic growth was one of the most rapid in the EU.

Positive tendencies were observed also in the first months of 2012. Exports of goods continue increasing and still are the main driving-force of the growth. In two months of 2012, volumes of exports of goods have increased by 14.6% compared with the same period of 2011.

Along with the remaining export possibilities and increasing domestic demand, in January-February 2012 production volumes of manufacturing have increased by 18.6% compared to the respective period of 2011. Biggest contribution to growth of the sector is determined by the wood-processing and metal working industries. At the same time production volumes have considerably increased in such sectors as chemical industry and pharmacy, production of electrical and optical equipment, production of non-metallic mineral products.

In the first two months of 2012 considerable increase of freight traffic volumes in railways and ports were observed. Income increase from exports positively affects not only the export oriented sectors, but also sectors oriented mainly towards the

domestic market – increase has been observed in trade and construction.

Retail turnover in January-February 2012 compared to the respective period of the previous year has increased by 13.6%, which proves that at the beginning of the year the private consumption continued increasing. In 2012, private consumption will continue increasing gradually, because the situation in the labour market will continue improving. It is expected that in 2012 compared to 2011 the number of employed could increase by 1.5% and the unemployment rate could decrease by 2 percentage points and on average could be 13.4%.

The further economic growth of Latvia will still depend highly on export possibilities, therefore risks of Latvia's growth are mainly related to the development perspectives in the main trading partner countries. Although in 2011 the economic growth was more rapid than forecasted before and the year 2012 has started with positive economic tendencies, external risks still remain. Latvia's exports will increase slightly slower in 2012 and its positive effect on the economy will become more moderate in comparison with 2011. However in total in 2012 economic growth of Latvia could be at least 3%.

At the beginning of 2012 price increase remained relatively high – in March 2012 compared to March 2011 consumer prices have increased by 3.3%. In the first three months of 2012 inflation was mainly determined by the price increase of energy resources (fuel, natural gas, heating) and food, which was based on external factors – in the first months of 2012 price increase in global stock exchange markets was observed both for food and oil. According to the estimates of the Ministry of Economics, in total in 2012 average consumer price level could exceed the average price level of 2011 by 2.5%.

Gross domestic product

The GDP has continued increasing in 2011. In the 4th quarter of 2011 compared to the 3rd quarter, GDP of Latvia increased by 1.1% (according to the seasonally adjusted data) and by 5.7% exceeded the level of the 4th quarter of 2010. Compared to the lowest point of the crisis at the end of 2009, GDP has increased by 10.4%. In 2011 it exceeded the level of 2010 by 5.5%.

Exports are one of the most important driving forces of the recovery of Latvian economy. In the 4th quarter of 2011 compared to the previous quarter export volumes have increased by 2.2% (at constant prices according to seasonally adjusted data). When compared to the 4th quarter of 2010, export volumes of goods and services at constant prices have increased by 9.1%. In total in 2011, export volumes of goods and services increased by 12.6%.

Domestic demand continues to increase. It increased by 1.7% in the 4th quarter of 2011 (according to seasonally adjusted data). When

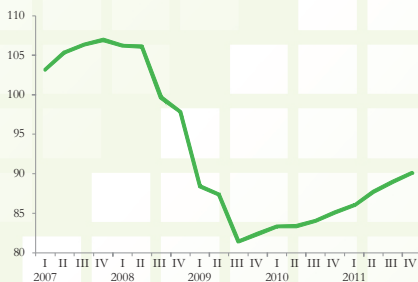
compared to the lowest level of domestic demand during the crisis (4th quarter of 2009), it has increased by 17.4%. Increase of domestic demand in 2011 to great extent is related to the increase of investments and private consumption.

Since the beginning of 2011, private consumption continues increasing, which is determined by the improvement of the situation in the labour market – employment and wages are increasing. In the 4th quarter of 2011 private consumption increased by 0.8% (according to seasonally adjusted data) and was by 4.1% higher than in the 4th quarter of 2010.

Since the end of 2010, investment activities in Latvia have gradually increased. In the 4th quarter of 2011 investment volumes in the economy of Latvia were by 24.7% higher than in the respective period of 2010. In 2011 investment volumes exceeded the level of 2010 by 24.6%, which to the great extent was affected by the investments in such sectors as energy, wood-processing, as well as transport and storage.

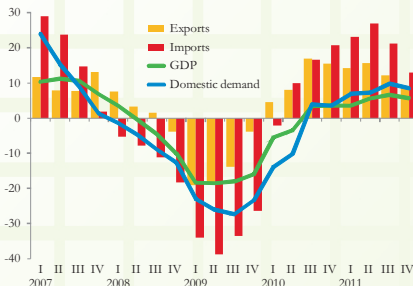
GDP dynamics by quarters

seasonally adjusted data, 4th quarter of 2006 = 100



GDP by expenditure items

changes over the corresponding period of the previous year, %



Development of sectors

The paradigm of the economy of Latvia has changed during the crisis – the economy has transformed from domestic demand based growth to exports based growth. During the post-crisis period growth of income from exports as well as development of tradable sectors fosters growth of other sectors.

Although at the end of 2011 uncertainty in foreign markets has increased, exports of Latvian goods have continued increasing and still are the main driving force of the economy. Along with the remaining export possibilities, growth in manufacturing still continued also in the 4th quarter of 2011 – production volumes exceeded the level of the 4th quarter of 2010 by 9.1%. However in other industry sectors production volumes were by 6.5% lower in the 4th quarter of 2011 than a year ago. Decrease was mainly determined by the energy sector, because the weather at the end of 2011 was much warmer than a year ago, thus the volumes of produced

electric energy and heating were much lower than a year ago.

Along with the considerable increase of freight traffic volumes in railways and ports, at the same time, sector of transport and storage increased by 7.5%.

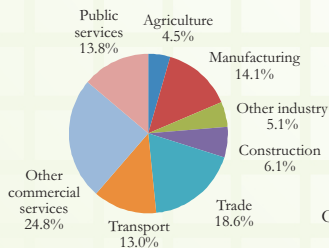
In total in 2011, volumes of manufacturing and transport sector exceeded the level of 2010 by 11.7% and 8% respectively. In 2011 agriculture and forestry sector increased by 2.8%.

Income increase from exports positively affects not only export-oriented sectors, but also sectors oriented mainly towards domestic market. Trade sector increased by 9.6% in 2011.

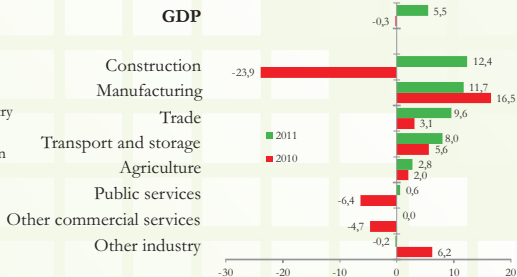
After sharp decrease during the crisis, in 2011 growth resumed in construction and during 2011 construction volumes increased by 12.4%. However, demand for commercial services in 2011 remained on the level of 2010.

GDP by sectors

structure in 2011, %



changes over the previous year, %



Manufacturing

In 2011 the growth of manufacturing was based mainly on the high external demand and gradual increase of demand in the domestic market. As a result, manufacturing increased by 11.7% in 2011 compared to 2010.

Production volumes in 2011 were by 10% higher on average monthly than in 2010, including also at the end of 2011, when the growth in our main export markets of the EU has slowed down. It means, that emerging risks in the eurozone did not have any impact on the growth of manufacturing in Latvia.

In January-February 2012 compared to the respective period of 2011 production volumes in manufacturing increased by 18.6%. Highest contribution to growth of manufacturing comes still from wood-processing and metal working industries. Production volumes of wood processing, which constitutes more than 1/5 of the whole manufacturing, in January-February 2012 exceeded the level of the respective period of the previous year

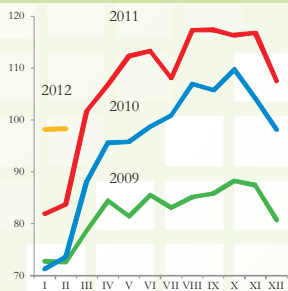
by 14%. At the same time production volumes in metal working increased by 30%.

At the same time production volumes have considerably increased also in such sectors as chemical industry and pharmacy, production of electrical and optical equipment, production of non-metallic mineral products, etc.

Manufacturing turnover in January-February 2012 compared to the respective period of 2011 has increased by 16.1%. Approximately 1/3 of manufacturing turnover increase was determined by the increase of demand in domestic market. In January-February 2012 compared to the respective period of 2011 most rapid increase of production sales in domestic market were observed for production of machinery and equipment, non-metallic mineral products and metal and metal articles. At the same time most rapid turnover increase for the exported production has been observed in the sectors of chemical industry, electrical and optical equipment.

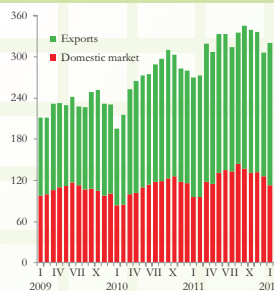
Production volume index

not seasonally adjusted data, 2005 = 100

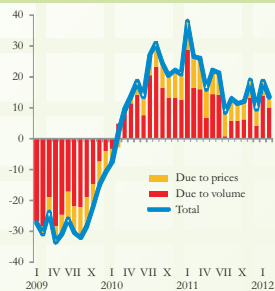


Production sales

in current prices, mln lats



changes over the corresponding period of the previous year, %



Investments

Since the end of 2010, investment activities in Latvia have been increasing gradually. In 2011 investment volumes in the economy of Latvia were almost by 25% higher than in 2010 and comprised 22.4% of GDP. Increase of investment volumes was to a great extent determined by the investments in such sectors as energy, wood-processing and production of metal articles. More rapid increase of investment volumes is still hindered by the low demand, limited financial resources of enterprises, low bank crediting level and other factors.

After considerable decrease of foreign direct investment (FDI) flows in 2008 and 2009, since 2010 growth has resumed. FDI attracted to the economy of Latvia in 2010 almost 4 times exceeded the level of 2009. In 2011, FDI inflow in the economy of Latvia continued increasing. Direct investment volumes in the economy of Latvia were about 3.5% higher than incoming FDI flows in 2010. At the end

of 2011, FDI stock in the economy of Latvia was LVL 6785.3 million (EUR 9372.9 million), which is by 14.5% higher than at the end of 2010.

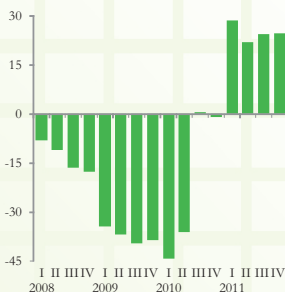
At the end of 2011, FDI stock in manufacturing has increased by 12% compared to the end of 2010, constituting 12.3% of the FDI stock in Latvia. To a great extent it was affected by the considerable investments in food industry (growth by 41.1%) and wood processing (growth by 35.5%). More than 70% of FDI stock are investments from the EU member states, ¼ of them are investments from the new EU member states.

The biggest investors are Sweden (23.3% of FDI stock at the end of 2011), Estonia (5.7%), Germany (4.9%) and the Netherlands (8.1%). At the end of 2011 investments from Russia comprised 4.3% of the FDI stock of Latvia.

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

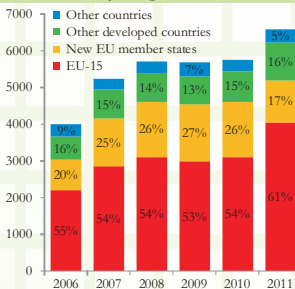
Gross fixed capital formation

changes over the corresponding period of the previous year, %

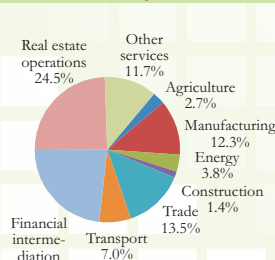


FDI stock

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



structure by sectors, at the end of 2011, %



Foreign trade

Latvian exports of goods at current prices increased by 28% in 2011 compared to 2010, but at constant prices – by 14%. Also at the beginning of 2012 exports of goods rapidly continued increasing (by 15% in January-February at current prices compared to January-February 2011).

Also imports of goods in 2011 increased similarly as exports, however, taking into consideration the rapid decrease during the crisis, its volumes just slightly exceeded the pre-crisis level, i.e. import volumes of 2008. In 2011 imports of goods at current prices increased by 30%, but at constant prices by 22%. In January-February 2012 imports of goods have increased faster than exports (at current prices by 24% compared to January-February 2011).

In 2011, growth has been observed almost in all groups of exports of goods. Biggest part of export growth was provided by the growth of export volumes of mineral products, metal working and machine building production. Also in January-

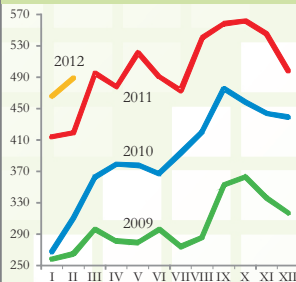
February 2012, exports of goods have increased almost in all groups of goods. Biggest contributors in the total export growth are agricultural products, mineral products, metal working products and wood and its articles.

In January-February 2012, exports to the EU member states have increased by 13% compared to January-February 2011. Biggest contribution was by the export increase of agricultural and food product groups. Exports to the CIS countries increased by 17%. Almost half of the whole export increase to the CIS countries was determined by the group of agricultural and food products.

In January-February 2012 export volumes to Estonia increased by 15%, however to Lithuania decreased by 3% compared to January-February 2011. Big part of the export to these countries consists of agricultural and food products, machinery building products, as well as chemical industry products.

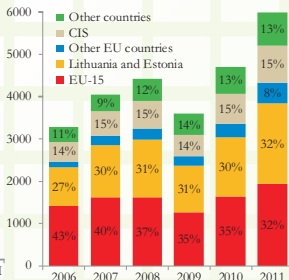
Commodity export

mln lats



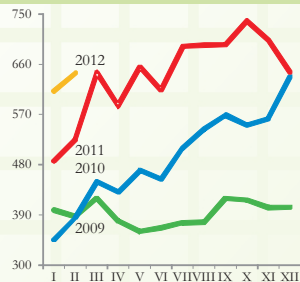
Structure of export by groups of countries

mln lats



Commodity import

mln lats



Balance of payments

Under the impact of the global financial crisis, significant corrections of the current account took place. Since the 3rd quarter of 2010, current account balance is relatively stable. In the first half of 2011, current account balance was close to zero, indicating on balanced investments and savings. In the 3rd quarter of 2011, current account deficit reached 5.3% of GDP that was determined by the increase of foreign trade deficit. Although in the 4th quarter foreign trade balance improved and current account had a surplus (1.2% of GDP), in 2011 current account balance was negative – 1.2% of GDP.

Along with the increase of economic activities in the 3rd quarter of 2011, imports of goods increased faster than exports and foreign trade deficit reached 12.4% of GDP. In the 4th quarter of 2011, along with the slowdown of the import increase, foreign trade deficit decreased to 8.9% of GDP. In total in 2011 foreign trade deficit reached 9.9% that is much lower than in 2007 – 24% of GDP.

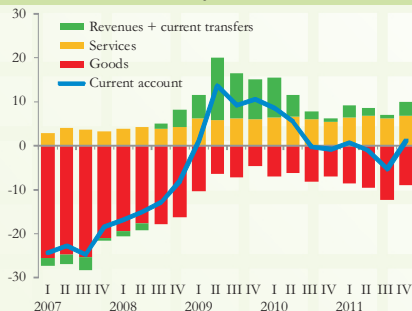
Significant fluctuations are observed in the current

account income balance. Since the 3rd quarter of 2010 it is negative. In 2011 income balance deficit was 0.9% of GDP (in the 1st quarter – 0.3%, in the 2nd quarter – 2.4%, in the 3rd quarter – 1.5% and in the 4th quarter – surplus – 0.4% of GDP). Deterioration of income balance is explained by the increase of non-residents' investment income, including paid dividends.

Fluctuations of the financial account balance by quarters are very considerable. Since the beginning of 2009, financial account balance (excluding reserve assets) is negative. In 2010, financial account deficit was 1.5% of GDP and in 2011 it increased to 4.8% of GDP. Negative effect of the outflow of the private capital on financial account condition was diminished by the long-term loans of the public sector, as a result external debt of the government is also increasing. At the end of 2011, government's gross external debt was LVL 4550 million (32.1% of GDP), which is by 8.3% more than a year ago. Latvia's total gross debt at the end of 2011 was 145.9% of GDP, which is by 20 percentage points less than a year ago.

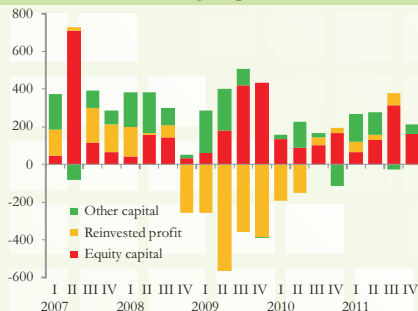
Current account

% of GDP



Foreign direct investments in Latvia

received during the quarter, mln euro



Prices

At the end of 2011, consumer prices were by 4% higher than in December 2010, but during 2011 prices increased on average by 4.4% compared to the average level of 2010. A substantial increase of prices for fuel, administratively regulated prices and food has determined the overall increase of the price level in 2011.

In March 2012 compared to December 2011 consumer price level has increased by 1.6%. When compared to March 2011 consumer prices have increased by 3.3%.

In the first three months of 2012, price increase was mainly determined by the price increase of energy resources (fuel, natural gas and heating) and food. In March 2012 compared to December 2011 food prices have increased by 2.6%. It must be noted that since the end of 2011, moderate price increase has resumed in the world – during three months global food price index has increased by 2.4%. In the first months of 2012, price increase in global stock ex-

change markets has been also observed for oil products, which is mainly affected by the global political processes. In the first three months of 2012 fuel price increase has reached 7.8%. At the beginning of 2012 pressure on consumer prices came also from the tariff increase for natural gas and price increase for heating.

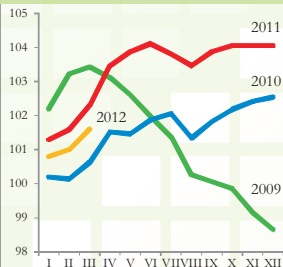
Total producer price level in manufacturing in Latvia in March 2012 compared to March 2011 has increased by 1.5%.

After rapid increase of producer prices in 2010 and the 1st half of 2011, changes in producer prices were moderate in general, however, during the first months of 2012 different tendencies have been observed in producer prices for exported production and production sold at the domestic market.

Along with the gradually increasing demand in domestic market, producer prices are also increasing – in March 2012 compared to March 2011 prices have increased by 3.1%. Producer prices for the exported products have not changed considerably.

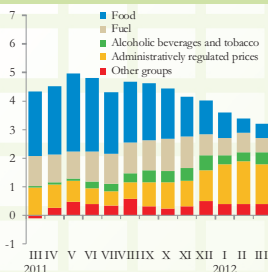
Consumer price index

December of the previous year = 100



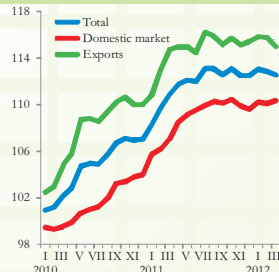
The impact of commodity and services groups on the total consumer price index

contribution to 12-month inflation



Producer price index

December of 2009 = 100



Monetary indicators

Situation in the banking sector is improving gradually. At the end of 2011 compared to the respective period of the previous year deposit balance decreased slightly. It was mainly determined by the resident deposit balance decrease almost by 10% (mainly due to the deposit decrease of central and local governments), at the same time non-resident deposit balance increased by 13%.

Crediting is gradually reviving. In the 4th quarter of 2011, in total 23.8 thousand new loans in the amount of LVL 323.1 million were granted for residents. In the breakdown by sectors, most of the new loans were issued for transport and storage sector (43.8%), as well as agriculture and forestry sector (12.7%).

As the loan repayment is faster, loan balance continues decreasing. At the end of 2011, loan balance decreased by 8.4% compared to the previous year.

At the end of 2011 compared to the respective period of the previous year, most rapid decrease was observed for the balance of consumer loans (by

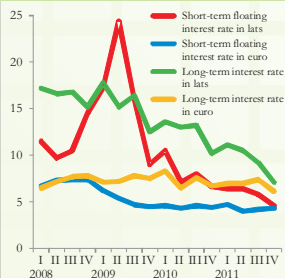
15.1%). Mortgage loans continued to decrease as well. Along with the increase of economic activity, since the beginning of 2010 industrial loans and commercial loans did not decrease so rapidly as before and at the end of 2011 balance of these loans decreased by 5.3% compared to the previous year.

Although at the end of 2011 debt level was still high, in total share of loans for residents with more than 90 days overdue payments decreased by 16.6% compared to the end of 2010.

In the 4th quarter of 2011, the average weighted interest rate for short-term loans issued in lats was 4.6% (in the 2nd quarter of 2009 – 24.4%), however, average weighted interest rate for long-term loans was 7.1%, which are the lowest indicators during last years and indicating on the stabilization of the situation. During the last quarters, interest rates of lats have approached interest rates of euro and are almost at the same level.

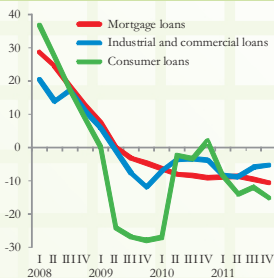
Average weighted interest rates to households

percent



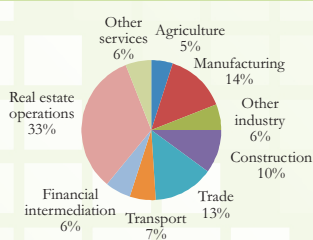
Dynamics of loans issued to residents

changes over the corresponding period of the previous year, %



Structure of credit balances

at the end of 2011, %



General government consolidated budget

State financial conditions have stabilized. It was mainly determined by the improvement of the economic situation and implementation of fiscal consolidation measures. Budget deficit has shrunk from 8.1% of GDP in 2010 to 3.5% of GDP in 2011. In 2008-2012 consolidation measures with fiscal impact of 17% of GDP have been implemented.

General government consolidated budget revenues in 2011 were LVL 5087.3 million, which was by 10.4% more than in 2010. Approximately $\frac{3}{4}$ of total revenues were tax revenues, the increase of which was mainly determined by the mandatory State social insurance contributions and increase of revenues from the Value added tax.

Revenues continue increasing also in 2012. In January-March 2012, general government consolidated budget revenues were LVL 1248.8 million, which is by 17% more than in the respective period of the previous year. Revenue increase was determined by the tax revenues, which increased by

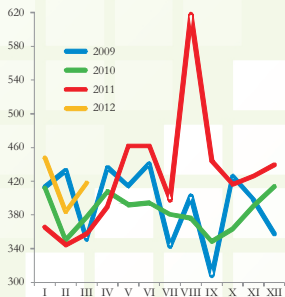
17.7% compared to the respective period of 2011. The increase of tax revenues has been observed in all tax categories.

General government consolidated budget expenditures in 2011 were LVL 5532.2 million, which compared to the previous year, increased by 2.3%. Current expenditures and subsidies and grants still had a highest share in expenditures. In January-March 2012, general government consolidated budget expenditures were LVL 1292.8 million, which in comparison with the previous year, increased by 3.5%.

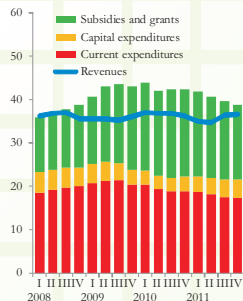
In order to comply with the government agreement with the international partners, also in the approved budget for 2012, the cut of budget expenditures has been implemented. In the medium term, taking into account the goal set by the government – to introduce the euro in 2014, it is planned to reduce budget deficit to 2% of GDP in 2012, 1.4% of GDP in 2013 and 0.8% of GDP in 2014.

General government consolidated budget revenues and expenditures

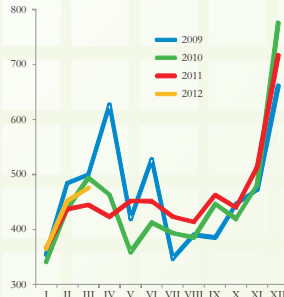
revenues, mln lats



% of GDP, 4-quarter moving average



expenditures, mln lats



Personal income

During the economic crisis personal income decreased considerably. The most rapid decrease of wages had been observed in the public sector, but the decrease of wages in the private sector was more moderate.

Along with the improvement of the economic situation, starting from the end of 2010, average wages increased gradually.

In the 4th quarter of 2011, gross wage increased by 4.5% compared to the 4th quarter of 2010 and was LVL 475. Wages increased both in public sector and private sector. During 2011 gross wage has increased by 4% in public sector and 5.4% in private sector.

After the crisis, most rapid wage increase was observed in agriculture and forestry, electricity, gas and water supply sectors. Also in 2011, one of the

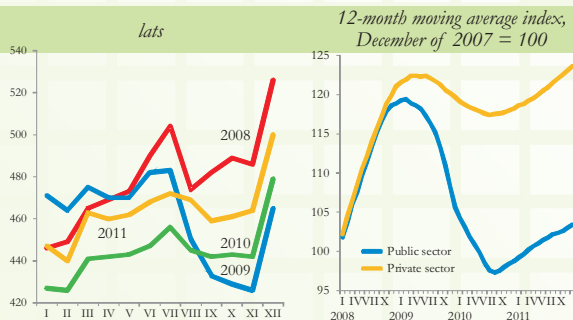
most rapid wage increases was in agriculture and forestry, as well as in real estate and its related services sectors. However, the slowest increase was in the transport and storage sector.

The gross wage in manufacturing has increased by 4.1% in 2011.

Real wage decreased by 6.5% in 2010 compared to 2009, which was mainly determined by the decrease of average wages. In 2011, despite the increase of average wages, positive effect of wage increase was neutralized by the increase of consumer prices. In 2011 real wages remained at the level of 2010.

In 2011, the average old-age pension increased. In 2011 average monthly pension was LVL 178, which was by 1.3% higher than in 2010. In 2010 the average old-age pension was LVL 176.

Average gross wage of employed persons



Dynamics of real wage and private consumption



Employment and unemployment

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

The lowest point in the labour market was in the first 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 is gradually improving – employment increases and unemployment decreases gradually.

In the 4th quarter of 2011 compared to the respective period of the previous year, number of employed increased by 3.7% (or by 35.6 thousand) and was 986.6 thousand.

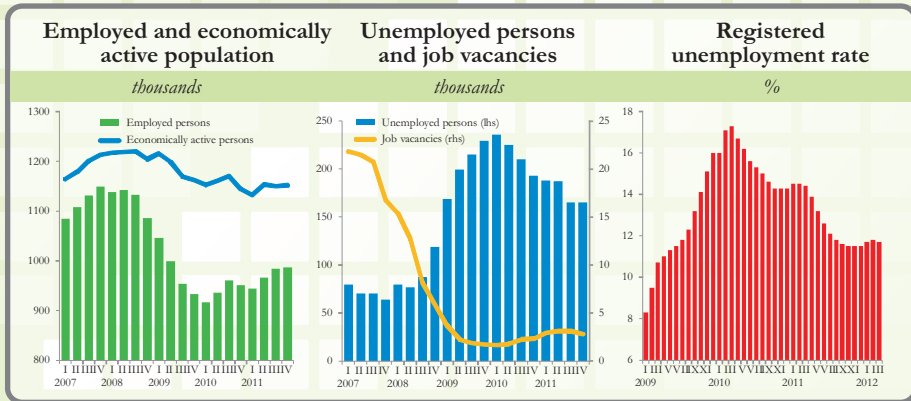
In 2011 compared to 2010, the number of employed increased by 3.1%. At the same time, in the 4th quarter of 2011, the number of economically active population increased by 0.6% and was 1151.8 thousand. More rapid increase was mainly hindered by the negative

demographic tendencies.

According to the data of the Labour Force Survey, the unemployment rate decreased to 14.3% in the 4th quarter of 2011, which was by 2.6 percentage points lower than a year ago. In 2011 compared to 2010, the unemployment rate decreased by 3.3 percentage points and was 15.4% on average.

Since March 2010, also registered unemployment rate is decreasing gradually. At the end of March 2012, registered unemployment rate was 11.7% – in total 132.2 thousand unemployed were registered. At the end of 2011, registered unemployment rate reached the lowest point since the mid-2009. In March 2012, the highest registered unemployment rate was in the Latgale region – 20.4%, but the lowest in Riga – 7.8%.

Since the mid-2010 comparably stable increase of registered vacancies has been observed. At the end of March 2012, in total 2986 vacancies were registered, which is by 16.8% more than in the respective period of the previous year.



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	1318.0	2067.9*	3199.3
Gross domestic product, changes over the corresponding period of the previous year, %			
2009	-14.3	-17.7	-14.8
2010	2.3	-0.3	1.4
2011 Q3	8.5	6.6	6.7
2011 Q4	4.5	5.7	4.4
Industrial output, changes over the corresponding period of the previous year, %			
2009	-24.0	-17.8	-14.6
2010	23.5	16.5	6.6
2011 Q3	17.1	9.3	7.2
2011 Q4	0.8	9.1	0.8
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 Q3	10.9	14.4	14.8
2011 Q4	11.4	14.3	13.9
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 Q3	5.3	4.5	4.5
2011 Q4	4.1	4.2	4.0
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 Q3	4.3	7.5	14.8
2011 Q4	3.1	6.9	11.8

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