

# THE NATIONAL ECONOMY OF LATVIA: A MACROECONOMIC REVIEW

*Key indicators of economic development*

*Economic policy*

*Macroeconomic development*

*Gross domestic product*

*Manufacturing*

*Investments*

*Foreign trade*

*Balance of payments*

*Inflation*

*Monetary indicators*

*Budget and central government debt*

*Personal income*

*Employment and unemployment*

*Main socio-economic indicators  
of the Baltic States*



## Latvia: 2009

Territory, thsd km <sup>2</sup>	64.6
Population as of 1.01.2009 (thsd)	2 261
of which:	
Urban area	1 534
of which Riga, the capital city	713
Rural area	727
National currency: lats (LVL)	

## Key indicators of economic development

	2005	2006	2007	2008	2009 f
(changes over the previous year, %)					
Gross domestic product	10.6	12.2	10.0	-4.6	-12.0
Consumer prices	6.7	6.5	10.1	15.4	3.3
(% of GDP)					
Central government budget balance	-0.4	-0.2	0.1	-2.0	-5.0
Central government debt	12.4	10.7	9.0	11.8	30.0
Current account balance	-12.5	-22.5	-22.5	-12.6	-3.0
Exchange rate LVL per US dollar	0.565	0.560	0.514	0.480	0.520
Exchange rate LVL per euro	0.703	0.703	0.703	0.703	0.703
Unemployment rate (share of job seekers as % of economically active population aged 15-74 years)	8.7	6.8	6.0	7.5	13.9

	2007				2008			
	I	II	III	IV	I	II	III	IV
(changes over the corresponding period of the previous year, %)								
Gross domestic product	9.0	9.3	11.4	10.0	0.9	-1.9	-5.2	-10.3
Consumer prices	7.6	8.6	10.3	13.7	16.4	17.7	15.8	12.0
(% of GDP)								
Central government budget balance	2.8	3.8	2.9	-7.8	0.7	-1.2	-1.3	-15.9*
Current account balance	-24.5	-23.1	-25.0	-18.3	-16.8	-14.2	-6.2	-10.4
Exchange rate LVL per US dollar	0.536	0.522	0.512	0.485	0.470	0.450	0.467	0.533
Exchange rate LVL per euro	0.703	0.703	0.703	0.703	0.703	0.703	0.703	0.703
Unemployment rate (share of job seekers as % of economically active population aged 15-74 years)	6.9	6.0	5.9	5.3	6.5	6.3	7.2	9.9

f – forecast of the Ministry of Economics; \* according to financial flow principle

## Economic policy

Taking into account current economic recession trend in the world and in Latvia, the government is taking actions to prevent the economy from the further slowdown, to stabilize and revive financial system, to improve the efficiency of public administration by reducing its expenditures and to restructure the economy of Latvia by increasing its competitiveness.

The government in cooperation with the European Commission (EC) and International Monetary Fund (IMF) has developed *Economic Stabilization and Growth Revival Programme of Latvia*, which has been adopted by the Saeima on December 12, 2008. The aim of this programme is to ensure structural changes for sustainable development of the economy. Agreement with the EC and IMF also provides corresponding attraction of financial resources of 7.5 bln euro in order to solve possible liquidity problems.

The programme foresees to continue ensuring fixed exchange rate of the lats against euro (1 EUR = LVL 0.702804). The government will implement strict fiscal policy to achieve Maastricht convergence criteria in 2011 in order to receive invitation to join the euro zone. A substantial optimization and reduction of budget expenditures is foreseen in 2008 and 2009. Public administration apparatus will be reduced by at least 15%, education and health sectors will be reformed. The changes in the tax policy provide redistribution of tax burden from direct production-related taxes to indirect consumption-related taxes.

The programme foresees to continue reduction of administrative burden by simplifying processes of tax administration, real estate registration, receipt of construction permits, as well as promotion of broader use of Integrated State Information System in communication between institutions and enterprises. At the same time, public institutions and local governments will implement measures to simplify enterprise registration and licensing procedures. In order to improve enterprise insolvency and liquidation processes, promoting their possible reorganization, determining rights of different creditor groups more clearly, the government prepares amendments to the *Insolvency law*.

In order to stabilize financial sector, the government is ready to provide support to credit institutions, at the same time supervision of credit institutions is being strengthened. The programme foresees number of activities for improvement of the competitiveness of the economy, including measures aimed to ensure financing possibilities for restructurization of the economy, especially for the European Union structural fund programmes under conditions of a ceased credit resources market.

The government has adopted concrete proposals regarding financial support instruments for improvement of the competitiveness of the economy, foreseeing to direct 603 million lats for support of entrepreneurship. Entrepreneurship support measures include loan instruments, guarantees of the Latvian Guarantee Agency, guarantees of the State Treasury, risk capital instruments, advance payments for projects financed from the EU Structural Funds and other priority actions.

By attracting EU structural fund financing in the amount of more than 200 mln lats, several programmes have been initiated or will be started in the coming months, such as: *Introduction of New Products and Technologies into Production, Competence Centre Programmes, Support for Technology Transfer Contact Points, Programmes for Development of Innovation Centres and Business Incubators*. These programmes are directed towards promotion of knowledge-based economy i.e., promotion of transfer of knowledge and technology in order to ensure high value added production. Also financing of EU Structural Funds in the amount of more than 16 mln lats for improvement of energy efficiency of housing is available.

Taking into account current economic development trends, EU Fund programmes and distribution of their financing are reviewed to provide maximal support to entrepreneurship, including entrepreneurship with higher value added, supporting development and production of new products and technologies, fostering cooperation between research and businesses.

## Macroeconomic development

In the period of 2005-2007 rapid growth has been observed in Latvia. During this period GDP on average increased by 11% annually, of which in 2007 – by 10%. High growth rates were ensured mainly by domestic demand, which was based on significant inflow of foreign capital.

In 2008 GDP decreased by 4.6%. The deterioration of economic situation in 2008 was determined both, by internal (decline of domestic demand stimulus) and external (decrease of global growth rate) processes influencing economy. In the 1<sup>st</sup> quarter compared to the same period of the previous year GDP increased slightly (by 0.5%), but in the 2<sup>nd</sup> quarter already it decreased by 1.9%. As the global financial problems intensified, recession in the 2<sup>nd</sup> half of 2008 accelerated. In the next two quarters GDP has been already considerably under the level of corresponding quarters of 2007 (by 5.2% and 10.3% respectively).

In the beginning of 2008 decrease of domestic demand has mostly influenced development of trade, construction and real estate market, but in the 2<sup>nd</sup> half of 2008 negative growth has been observed in almost all sectors of the economy. The overall decline of GDP has been determined in 2008 most significantly by the decrease of trade and financial services and production volumes of manufacturing. Construction volumes have also dropped significantly.

Decline of external demand negatively influences development of manufacturing. Decrease of the growth rate of production volumes in manufacturing started at the end of 2006, however, in the 2<sup>nd</sup> half of 2007 the fall of output volumes had been observed already. In 2008 the output of this sector has dropped by 6.5%.

Due to reduction of domestic demand the external imbalance is shrinking. The current account deficit of the balance of payments has decreased from 25.5% of GDP in 2007 to 12.6% of GDP in 2008. It should be noted that in 2008 exports of Latvian goods and services has decreased by 1.3%, but imports much faster – by 13.6%.

Consumer price inflation in the 1<sup>st</sup> half of 2008 remained at the high level, which was influenced by significant supply-side factors – increase of administratively regulated prices (electricity, natural gas and heating), growth of fuel prices, increase of excise on tobacco and fuel, rise of food prices. Total consumer price increase in May 2008 compared to May 2007 comprised 17.9%, which is two times higher than a year before (8.2%). However, since June 2008, as the impact of supply-side factors has decreased, inflation has started to decline and in December 2008 it was 10.5%, but in February 2009 – 9.6%. It is expected that inflation will continue to fall and in the 2<sup>nd</sup> half of 2009 it can become negative.

In the period of 2005-2007 the number of employed persons increased by 3.2% on average annually, but unemployment level decreased from 8.7% in 2005 to 6% in 2007. The decline of the growth rate in the 1<sup>st</sup> half of 2008 has weakly reflected in the employment indicators. However, in the 2<sup>nd</sup> half of 2008 unemployment rate started to increase faster. In the 4<sup>th</sup> quarter of 2008 the share of job seekers reached 9.9% (in the 2<sup>nd</sup> quarter – 6.3%, in the 3<sup>rd</sup> quarter – 7.2%).

The majority of economists in the world forecast recovery of the global economy only in the 2<sup>nd</sup> half of 2010, therefore in 2009 recession will also continue in Latvia. The Ministry of Economics forecasts that GDP will decrease by 12% in 2009 compared to 2008.

## Gross domestic product

### 2008

#### Volume at current prices,

mln lats	16243
mln US dollars	33840
mln euro	23105

#### Per capita,

lats	7168
US dollars	14933
euro	10196

#### Structure of GDP by sectors, in %:

Agriculture <sup>1</sup>	3.1
Industry	13.8
Construction	8.9
Trade <sup>2</sup>	19.0
Transport and communications	10.8
Public services <sup>3</sup>	15.7
Other services	28.7

In 2008 GDP has decreased by 4.6% compared to the previous year. As the global financial problems deepened, recession rates in the 2<sup>nd</sup> half of 2008 accelerated. In the 1<sup>st</sup> quarter GDP decreased by 1.3% (according to seasonally adjusted data) compared to the previous quarter, but it still slightly exceeded the level of the corresponding quarter of the previous year. In the next quarters GDP has been already significantly under the level of the corresponding quarters of 2007.

As the financial inflow is running out, private consumption and investment is rapidly decreasing, as well as substantial economic corrections are taking place, and it results in more balanced exports and imports of goods and services. The reduction of economic activities and the decline in domestic demand is observed simultaneously. Domestic demand (private consumption + public consumption + gross capital formation) in 2008 was by 10.2% lower than in the previous year.

In 2008 private consumption decreased by 11% compared to 2007. Investment in fixed assets has dropped more rapidly in 2008 (by 13.2%), which is mainly related to significant fall of activities in the real estate market.

The decline of domestic demand directly reflects on economic activities of sectors – retail trade has shrunken, construction growth rates have dropped, activities in the real estate market

have reduced.

Second recession-explaining factor is output decrease of main exports sector – manufacturing, which was determined not only by the lower domestic demand and external demand in the main trading partner countries, but also by gradual drop in competitiveness due to high inflation and rapid increase of labour costs of the previous years.

<sup>1</sup> Including forestry and fishing

<sup>2</sup> Including hotels and restaurants

<sup>3</sup> Public administration including healthcare and education

## Gross domestic product

**GDP by Sectors**  
(changes over the corresponding period of the previous year, %)

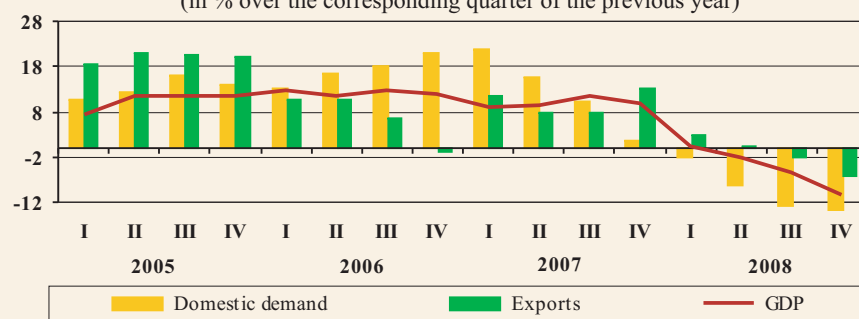
	2007				2008				2006	2007	2008
	I	II	III	IV	I	II	III	IV			
<b>GDP</b>	<b>9.0</b>	<b>9.3</b>	<b>11.4</b>	<b>10.0</b>	<b>0.5</b>	<b>-1.9</b>	<b>-5.2</b>	<b>-10.3</b>	<b>12.2</b>	<b>10.0</b>	<b>-4.6</b>
Agriculture <sup>1</sup>	2.1	11.5	11.5	4.2	-1.4	0.3	1.4	-2.6	-5.2	8.0	-0.3
Industry	3.7	2.8	2.4	-1.3	-1.1	-4.5	-5.5	-10.6	5.7	1.8	-5.5
Construction	17.1	17.0	15.8	13.9	9.1	5.7	-7.4	-10.6	5.7	1.8	-5.5
Trade <sup>2</sup>	17.4	14.6	16.0	9.7	-0.3	-4.9	-8.8	-17.9	19.9	14.2	-8.4
Transport and communications	7.5	7.0	6.2	7.3	8.7	1.3	-1.9	-2.0	5.5	7.0	1.1
Public services <sup>3</sup>	3.8	3.8	2.6	3.3	1.3	1.3	-0.1	0.3	4.7	3.3	0.7
Other services	13.1	8.0	11.0	12.9	4.6	2.5	-2.0	-4.7	18.2	11.2	-0.2

<sup>1</sup> Including forestry and fishing

<sup>2</sup> Including hotels and restaurants

<sup>3</sup> Public administration including healthcare and education

**Quarterly Changes in Real GDP and Major Expenditure Items**  
(in % over the corresponding quarter of the previous year)



## Manufacturing

**2008**

**Growth rate:** -6.5%

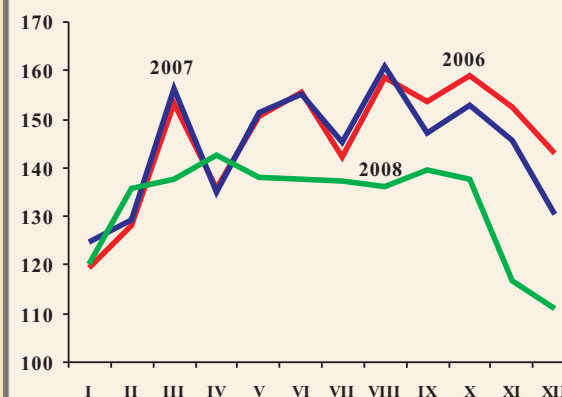
**Share in GDP** 10.6%

Production volumes of manufacturing in 2008 were by 6.5% lower than in 2007. The decrease of output was mainly determined by the decline of domestic demand, but Latvian industrial production export volumes increased slightly. In the breakdown by sectors the most rapid fall of production volumes was in production of machinery and equipment, light industry, production of other non-metallic mineral products and wood processing.

In 2008 sales volumes of manufacturing in domestic market decreased faster – by 9.6%, but volumes of exported production increased by 1.6%. In 2008 production sales volumes in domestic market dropped in almost all manufacturing sectors, especially, in chemical industry and in production of machinery and equipment. Sales volumes in domestic market in 2008 increased only in production of transport vehicles.

Exports increased in almost all manufacturing sectors. Most significantly it increased in chemical industry, in production of electrical and optical equipment and in production of transport vehicles. However, exports dropped in food industry, light industry, wood processing, as well as in production of machinery and equipment.

**Manufacturing Output**  
(average monthly output in 2000 = 100)



## Investments

**2008**

**Foreign direct investment stock per capita, at the end of the 2<sup>nd</sup> quarter: 5616 US dollars**

Decline of economic activities has negatively influenced investment process in Latvia. Decrease of investment growth rate has been already observed in the 2<sup>nd</sup> half of 2007 and average annual growth rate reached 7.5%, which was almost two times slower than a year before.

In 2008 significant adjustment of investment dynamics has been observed – moderate growth has been replaced by the decrease of investment volumes. Such change of investment trend was determined by limited availability of credit resources and worsening of financial situation of enterprises due to the decline of domestic and external demand. In 2008 compared to

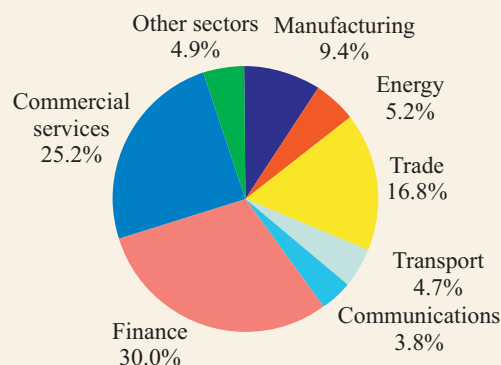
the previous year investments in the Latvian economy were by 13.2% lower.

In 2008 foreign direct investment (FDI) inflow in Latvia was lower by almost 30% than in the previous year.

Investments of the EU member states dominate in the geopolitical structure of the FDI stock of Latvia. At the end of September 2008 it comprised almost 80% of the total FDI stock, one third of them are investments of the new EU member states. The biggest investors are Estonia (16.7% of the total FDI stock at the end of the 3<sup>rd</sup> quarter of 2008), Sweden (14.6%), Denmark (8.3%) and Germany (7.5%). Investments of Russia comprise 5.4%.

Investments in the services sector account for the largest share of the FDI stock. In 9 months of 2008 almost half of attracted FDI were invested in the real estate sector and financial intermediation.

**Foreign Direct Investment Stock by Industry**  
(at the end of the 3<sup>rd</sup> quarter of 2008, %)



## Foreign trade

**2008**

**Structure of exports, %:**

<b>Wood and wood products -</b>	<b>16.7</b>
<b>Metalworking, machine building and transport vehicles -</b>	<b>36.4</b>
<b>Light industry products -</b>	<b>6.2</b>
<b>Chemical products and articles of plastics -</b>	<b>11.3</b>
<b>Agricultural and food products -</b>	<b>16.9</b>
<b>Other goods -</b>	<b>12.6</b>

Typically negative Latvian trade balance started to improve in the 4<sup>th</sup> quarter of 2007, when imports decreased and exports increased. Such trend has been also observed in 2008, however due to significant reduction of imports and more moderate increase of exports.

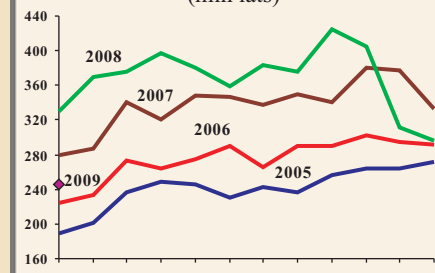
As demand in the main trade markets of Latvian goods is declining, during last months exports of goods are significantly decreasing, although until October small increase has been observed.

In 2008 exports of food products, metals and articles of metals, machine building, as well as chemical products has grown. Exports of wood and wood products have decreased.

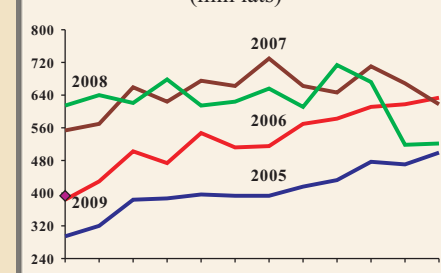
Exports volume during this period has increased to Lithuania, CIS countries, but most significantly it has risen to other third countries.

In general, the share of exports to the EU member states has decreased slightly (from 76.1% to 73.1%), mainly due to the decline in exports of wood and articles of wood. However, exports to Lithuania continue to increase.

**Commodity Exports by Months**  
(mln lats)



**Commodity Imports by Months**  
(mln lats)



## Balance of payments

**2008**

**Current account balance**

**mln LVL:** -2051.5

**mln US dollars:** -4353.4

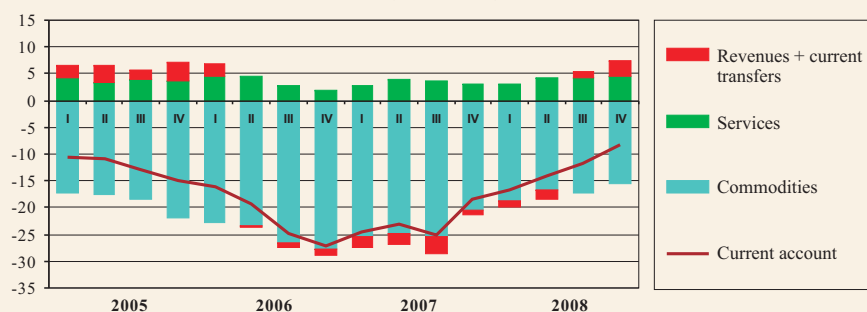
Since the 2<sup>nd</sup> half of 2007 current account deficit uninterruptedly decreased on average by 2 percentage points each quarter. If in the 3<sup>rd</sup> quarter of 2007 current account deficit was 25% of GDP, then in the 3<sup>rd</sup> quarter of 2008 it already reached 11.8% of GDP. In the 4<sup>th</sup> quarter of 2008 current account deficit was 8.3% of GDP.

Decrease of negative balance of current account is a natural consequence of the decline of domestic demand, because imports go down rapidly. Also in the financial account of the balance of payments significant changes have occurred during last three quarters – the amount of foreign financial resources attracted by commercial banks has decreased.

Foreign direct investment inflow in 2008 reduced by 30%, but in general it remained at the high level, taking into account the current crisis: in 2008 – 4% of GDP (in 2007 – 7.8% of GDP).

Significant adjustment in the flow of other investments (mainly in the banking sector) determined that in the 2<sup>nd</sup> half of 2008 capital inflow was lower than current account deficit and balance of payments (according to provisional data) was negative.

**Current Account Balance**  
(% of GDP)



## Inflation

**February 2009**

**(12-month inflation)**

**CPI:** 9.6%

**PPI:** 5.8%

Total level of consumer prices in 2008 increased by 10.5%, which is by 3.6 percentage points lower than in the previous year (in 2007 – by 14.1%, December over December). Prices for services rose more rapidly (by 13.3%) while the increase in the prices of goods was more moderate (by 9.5%). Average annual price changes in 2008 were 15.4% (in 2007 – 10.1%).

Main impact on the increase of consumer prices in 2008 is accounted for the growth of prices related to the maintenance of housing – on average by 31.6% comprising more than 1/3 of total price increase. The rise of prices in this group was mainly determined

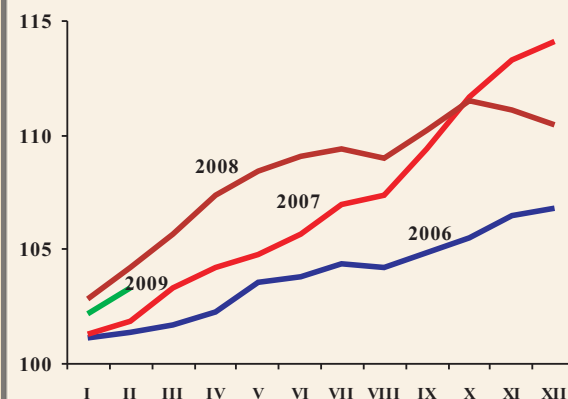
by the increase of administratively regulated prices of heat energy, electricity, gas, water supply, sewerage services, waste collection and housing management services. Second largest group, which determined price increase in 2008 were prices for food products. Due to the increase of the tax rates in 2008, prices for tobacco products have grown by 52.8%. The increase of prices for fuel had also high impact on inflation.

In general, supply-side factors were the main driver of price growth in 2008, as domestic demand started to decrease.

In the first two months of 2009 prices increased slower than in the previous year. Total price increase in January-February was 3.3%, which was by 0.9 percentage points lower than in January-February 2008.

Main reason of the price growth was related to the changes of the value added tax, as well as excise tax, which increased prices for fuel, alcoholic beverages, coffee and tobacco products. Prices increased also for water supply, electricity, heat energy, medicine, outpatient treatment services, newspapers and periodical publications. Prices decreased on rent in the free market, on housing maintenance and repair services, as well as on some food products.

**Consumer Price Index**  
(December of the previous year = 100)





## Monetary indicators

**2008**

### Domestic enterprises and private persons

<b>Loans:</b>	<b>90.2% of GDP</b>
<b>Deposits:</b>	<b>31.2% of GDP</b>

Situation in the global financial markets and in the Latvian economy has influenced dynamics of monetary indicators significantly. The deterioration of monetary indicators has been observed already for several months.

Due to the availability and rise in the price for financial resources, crediting volumes have decreased. The crediting policy of banks has become more cautious, future income of population and revenues of enterprises are unclear, the real estate market is in the waiting position.

In January 2009 total volume of loans issued compared to January 2008 has increased only by 10.5% (in January 2008 loans grew by 31.8%). The slowdown of the loan dynamics was mainly determined by the decrease of the issued mortgage loans. However, the rapid increase of industrial and commercial loans observed in the beginning of 2008 has gone down. During

the last months increase of the loans compared to the corresponding month of the previous year was 12% on average.

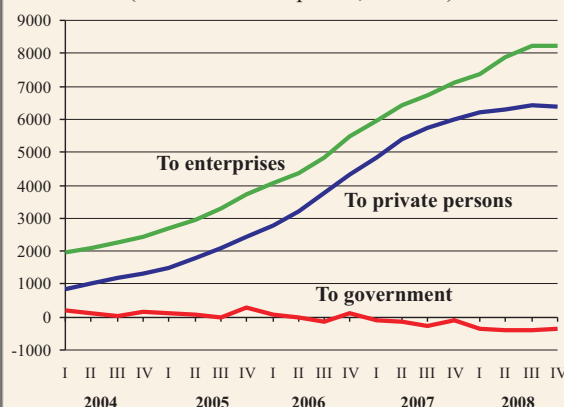
Although the annual increase rate of crediting still remains positive, if compared by months, loans in the national economy are decreasing already since November 2008.

The volume of deposits is also going down. At the end of 2008 compared to the end of 2007 the volume of enterprises' and private persons' deposits decreased by 3.9%. For comparison: at the end of 2007 compared to the end of 2006 the volume of enterprises' and private persons' deposits increased by 16.9%.

Since 2007, interest rates on loans issued to households in lats have increased rapidly, but the growth of interest rate on loans issued in euro was more moderate. At the beginning of 2008 there was a decrease of short-term floating interest rate on loans issued to households in lats. In the 2<sup>nd</sup> half of 2008 the interest rates on loans issued in lats started to grow again.

Weighted average interest rate on short-term loans issued to enterprises and private persons in lats in the 4<sup>th</sup> quarter of 2008 was 14.6%, but for long-term loans – 15.2%, for loans issued in euro – 7.4% and 7.8% respectively.

**Domestic Loans**  
(at the end of the period, mln lats)



## Budget and central government debt

**2008**

### General government budget (% of GDP):

<b>Revenues:</b>	<b>38.3</b>
<b>of which – taxes:</b>	<b>31.3</b>
<b>Expenditures:</b>	<b>37.7</b>
<b>of which – capital investment:</b>	<b>5.4</b>

In 2008 consolidated budget deficit was 531.1 mln lats or 3.3% of GDP. In 2008 total revenues of consolidated budget were 5723 mln lats (according to cash flow principle), which is by 7% more than in 2007 and comprised 90.2% from the planned amount.

The deterioration of economic situation in Latvia has influenced tax revenues significantly. In 2008, tax revenues of the general consolidated budget comprised 4737.2 mln lats, which were by 8.6% more than in 2007. The implementation of the tax revenue plan in 2008 was 95%. It should be noted that growth rates of the tax revenues in 2008 decreased more rapidly than the GDP growth rates, in the result the share of tax revenues of the general consolidated budget in GDP dropped to 29.2%.

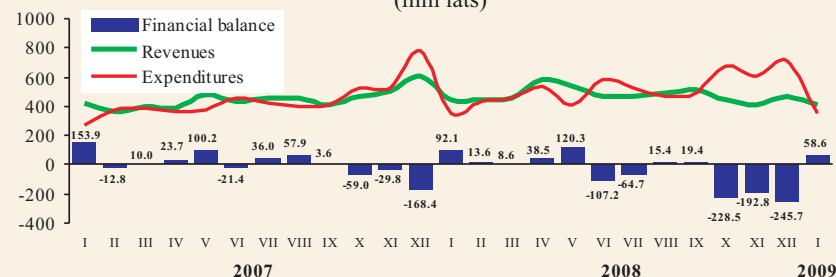
In December 2008, the Saeima adopted budget for 2009 with a deficit of 4.9% of GDP taking into account forecasts that the GDP will decrease by 5%. However, recent forecasts show that decrease will be by

12%. Therefore, the government plans to reduce budget expenditures even more. If budget expenditures are not cut, the budget deficit can reach 10% of GDP in 2009.

In January 2009 tax revenues of the general consolidated budget were by 12.5% lower than in January 2008. Most significant decrease was related to the tax revenues from the value added tax (by 25.5% lower than in January 2008) despite the increase in the value added tax rate, and social insurance contributions (by 11.8% lower). However, the decrease of the personal income tax rate, increase of untaxed minimum and rising unemployment affected reduction of personal income tax revenues (by 5.1% in January 2009 compared to January 2008).

The level of general government debt in Latvia in the 3<sup>rd</sup> quarter of 2008 was 1889.8 mln lats (at the end of 2007 – 1331.3 mln lats or 9% of GDP, at the end of 2006 – 1190.5 mln lats or 10.7% of GDP).

**Financial Indicators of General Consolidated Budget**  
(mln lats)



## Personal income

### 4<sup>th</sup> quarter of 2008

Average monthly net wage:

lats	366
US dollars	687

Average monthly old-age pension (paid):

lats	162
US dollars	303

Dynamics of wages slowed down in 2008, which was mainly determined by the deterioration of situation in the labour market (decrease of employment and increase of unemployment), as well as by the budget deficit restriction policy implemented by the government.

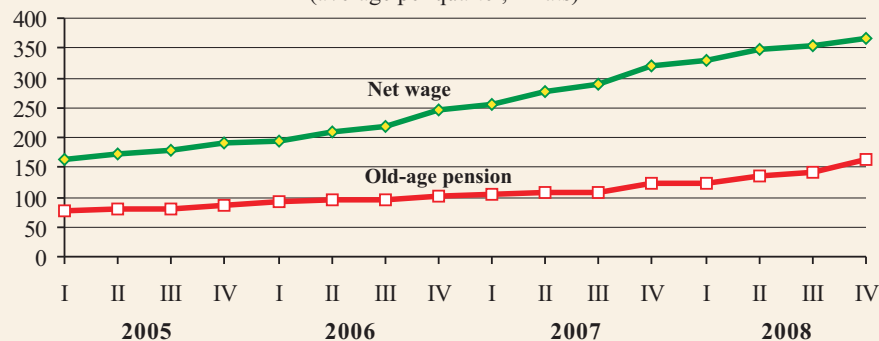
At the beginning of 2008 the dynamics of wages retained rapid growth trends of the previous year. Since March 2008, its increase rate became more moderate compared to the previous year. In the 4<sup>th</sup> quarter of 2008 wages grew by 12% or almost twice as slow as in the 3<sup>rd</sup> quarter. In December 2008, the average monthly gross wage was 526 lats, which was by 46 lats higher than in December 2007.

Since January 1, 2009 the minimum monthly wage was raised from 160 to 180 lats and the monthly untaxed minimum – to 90 lats

(from 80 lats), as well as the monthly allowance for a dependent person – to 63 lats (from 56 lats).

The average pension has increased almost by 1/3 during the year (comparing December 2008 with December 2007). Average size of monthly old-age pensions paid to retired persons registered in social security institutions in December 2008 comprised 161.61 lats.

Monthly Wages and Old-Age Pensions  
(average per quarter, in lats)



## Employment and unemployment<sup>1</sup>

### 2008

Employment rate  
(aged 15-64) 68.6%

Unemployment rate  
(share of job-seekers  
aged 15-74): 7.5%

Decrease of economic activities, which started in 2008, in the first quarters of 2008 still poorly reflected in employment indicators, because changes of employment level always slightly delay (on average by 4-6 months) from changes in economic activities.

In the first two quarters of 2008 employment almost did not decrease and its level even slightly exceeded indicators of the same period of the previous year. It started to fall only in

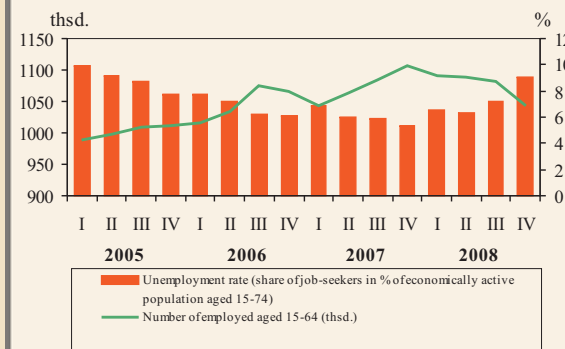
the 4<sup>th</sup> quarter of 2008, when the number of employed persons had already decreased by 5.8% compared to the 4<sup>th</sup> quarter of 2007.

Thus, the average number of employed in 2008 was 1076.3 thsd persons, which is by 0.8 thsd persons or by 0.1% lower than in 2007.

At the same time, unemployment level has increased to 9.9% in the 4<sup>th</sup> quarter of 2008 (it was 5.3% a year ago). In 2008 compared to 2007, the number of job-seekers grew by 25% reaching 90.5 thsd persons (average annual indicator). The highest increase of job-seekers was in the last quarter of 2008, when the number of job-seekers reached 118.7 thsd, which is the highest mark since 2005.

The data of the Central Statistical Bureau shows that in the end of 2008 there were 5.9 thsd job vacancies in the country. Compared to the end of 2007 the number of vacancies decreased by 10.9 thsd.

Number of Employed and Unemployment Rate



<sup>1</sup> In the analysis of employment and labour market, indicators for employment are given for persons aged 15-64, but for unemployment – for persons aged 15-74, which corresponds to the EU practice.



## Baltic States

### Main socio-economic indicators of the Baltic States

	Estonia	Latvia	Lithuania
Territory, thsd km <sup>2</sup>	45.2	64.6	65.3
Population as of January 1, 2009, thsd.	1340.3	2261.3	3350.1
Gross domestic product, % of the corresponding period of the previous year			
2007	6.3	10.0	8.9
2008	-3.6	-4.6	3.1
1 <sup>st</sup> quarter of 2008	0.2	0.5	7.0
2 <sup>nd</sup> quarter of 2008	-1.1	-1.9	5.2
3 <sup>rd</sup> quarter of 2008	-3.5	-5.2	2.9
4 <sup>th</sup> quarter of 2008	-9.7	-10.3	-2.0
Industrial output index, %			
2007 over 2006	6.1	0.5	4.0
2008 over 2007	-6.7	-6.8	2.7
Unemployment rate (share of job-seekers in % of economically active population aged 15-74 years)			
2007	4.7	6.0	4.3
2008	5.5	7.5	5.8
1 <sup>st</sup> quarter of 2008	4.2	6.5	4.9
2 <sup>nd</sup> quarter of 2008	4.0	6.3	4.5
3 <sup>rd</sup> quarter of 2008	6.2	7.2	5.9
4 <sup>th</sup> quarter of 2008	7.6	9.9	7.9
Consumer price changes, in % compared to the previous year			
2007	6.6	10.1	5.7
2008	10.4	15.4	10.9
Producer price changes in industry, in % compared to the previous year (according to Nace 1.1 red.)			
2007	8.3	16.1	7.0
2008	7.1	11.5	18.0