

# 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*

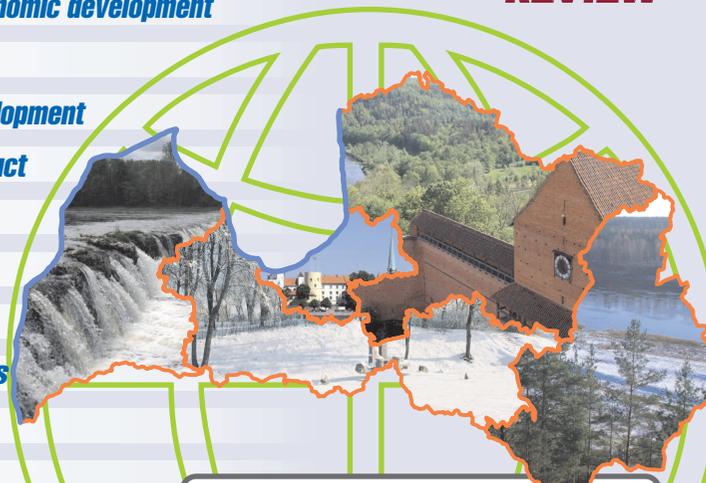
*Monetary indicators*

*Budget and central government debt*

*Personal income*

*Employment and unemployment*

*Main socio-economic indicators  
of the Baltic States*



## **Latvia: 2008**

Territory, thsd km <sup>2</sup>	64.6
Population as of 01.10.2008 (thsd)	2 264
of which:	
Urban area	1 537
of which Riga, the capital city	714
Rural area	727
National currency: lats (LVL)	

## Key indicators of economic development

	2004	2005	2006	2007	2008 f
(change over the previous year, in per cent)					
Gross domestic product	8.7	10.6	12.2	10.3	-2.0
Consumer prices	6.2	6.7	6.5	10.1	15.4
(% of GDP)					
Central government sector deficit or surplus	-1.0	-0.4	-0.2	0.1	-2.0
Central government debt	14.9	12.4	10.7	9.5	11.8
Current account balance	-12.8	-12.5	-22.5	-25.8	-15.0
Exchange rate LVL per US dollar	0.540	0.565	0.560	0.514	0.460
Exchange rate LVL per euro	0.671	0.703	0.703	0.703	0.703
Unemployment rate (share of job seekers as % of economically active population aged 15-74 years)	10.4	8.7	6.8	6.0	6.7

	2007				2008		
	I	II	III	IV	I	II	III
(change over the corresponding period of the previous year, in per cent)							
Gross domestic product	11.7	10.8	10.9	8.2	3.3	0.1	-4.6
Consumer prices	7.6	8.6	10.3	13.7	16.4	17.7	15.8
(% of GDP)							
Central government sector deficit or surplus	3.0	4.1	3.0	-8.2	0.8	-1.3	-2.0
Current account balance	-26.4	-24.9	-25.8	-19.3	-18.3	-15.6	-12.9
Exchange rate LVL per US dollar	0.536	0.522	0.512	0.485	0.470	0.450	0.467
Exchange rate LVL per euro	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

f - forecast of the Ministry of Economics

## 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.

In April 2008 the government approved the plan of actions to stabilize the economy of Latvia for the further two years, where the main emphasis is paid on the increase of budget efficiency and improvement of the tax policy, increase of productive capacity, especially in tradable sectors, as well as implementation of policy targeted towards knowledge-based economy. In October 2008 the plan was supplemented with new measures regarding tax policy, distribution of EU structural funds and reduction of administrative burden. Taking into account the conditions, when the availability of credit resources is decreasing and there is a weak external demand, the aim of the abovementioned measures is to increase enterprises' accessibility to financing, to encourage investment in private sector and to continue reduction of obstacles for entrepreneurship.

In order to introduce reinvestment stimulus, significant amendments have been developed in the "Law on Corporate Income Tax (CIT)", which will come into force on January 1, 2009.

With the support of the EU structural funds holding fund has been established with the total financing of 128 mln lats, which will provide support to small and medium-sized enterprises (SMEs) for the reception of guarantee, export loans, risk capital and other financial instruments. The government has approved the *Support Programme for Improvement of Enterprise Competitiveness* which will ensure availability of financing to SMEs. In the framework of this programme the volume of supported loans for 2008-2009 is provided up to 200 mln lats.

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 knowledge and technology transfer in order to ensure high value added production.

In order to ensure larger stability of Latvian financial system, in November 2008 the government has already taken approved measures by taking over the second largest commercial bank "Parex banka". In the nearest future Latvian government will start negotiations with possible strategic investors on selling of "Parex banka".

In December 2008 the government in cooperation with the European Commission (EC) and International Monetary Fund (IMF) has developed Economic Stabilization and Growth Recovery Programme of Latvia, which will ensure structural changes for sustainable economic development in the future. Agreement with the EC and IMF also provides corresponding attraction of financial resources in order to solve possible liquidity problems.

The programme foresees to continue to ensure fixed exchange rate of the lats to the euro (1 EUR = LVL 0.702804). The government will follow strict fiscal policy with an aim to fulfil Maastricht convergence criteria by 2010 in order to receive invitation to join the euro zone in 2011. Within the next two years essential activities to optimize and cut down state budget expenditures are foreseen. Public administration apparatus will be reduced by at least 15%, education and health sectors will be reformed. In order to stabilize financial sector the government is ready to provide support to credit institutions, at the same time the supervision of credit institutions will be strengthened. The programme foresees a set of measures for improvement of competitiveness of the economy, including the provision of financing opportunities for restructuring of the economy, especially for the EU structural fund programmes, which fell under the condition of „frozen” credit resources market.

## 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, but in 2007 alone – by 10.3%. High growth rates were ensured mainly by domestic demand.

Since the mid-2007 the growth rates started to decline and in the 3<sup>rd</sup> quarter of 2008 they became negative. The deterioration of economic situation is determined both, by internal (decline of domestic demand stimulus) and external (decrease of global growth rate) processes influencing economy. When the global financial problems strengthened, the recession speed in Latvia accelerated in the 2<sup>nd</sup> half of 2008 and negative growth rates are also forecasted for 2009.

In 9 months of 2008, compared to the same period of 2007, GDP has decreased by 0.6%, but in the 3<sup>rd</sup> quarter of 2008 – by 4.6%. The decline of domestic demand in the beginning of 2008 has affected development of trade, construction and real estate sector, but in the 3<sup>rd</sup> quarter of 2008 negative growth has been observed almost in all sectors.

Decrease of external demand negatively influences development of manufacturing. The slowdown of production volume growth rates of manufacturing started at the end of 2006, however, in the 2<sup>nd</sup> half of 2007 decrease of output volume had been already observed. In 9 months of 2008 manufacturing output has decreased by 6.2%.

Due to decline of domestic demand the external imbalance has decreased. The current account deficit of the balance of payments has gone down from 25.8% of GDP in the 3<sup>rd</sup> quarter of 2007 to 12.9% in the 3<sup>rd</sup> quarter of 2008. It should be noted that rather good growth rates of Latvian goods and services exports has been observed, although the overall economic growth rate is decreasing. In 9 months of 2008 exports increased by 3.1% compared to the same period of 2007.

Consumer price inflation in the 1<sup>st</sup> half of 2008 remained at high level, which was influenced by strong supply-side factors – increase of administratively regulated prices (electricity, natural gas and heating), fuel prices, excise on tobacco and fuel, food prices. Total consumer price increase in May 2008 compared to May 2007 comprised 17.9% which was twice as high as the year before (8.2%). However, since June 2008, as the impact of supply-side factors decreased, inflation has started to go down and in November 2008 was 11.8%. It is expected that inflation will continue to decrease.

Economic development, which has been observed in the recent years, has positively influenced situation in the labour market. In the period of 2005-2007 the number of employed on average increased by 3.2% annually, but unemployment rate has decreased from 8.7% in 2005 to 6% in 2007. The decrease of growth rate in the 1<sup>st</sup> half of 2008 weakly reflects in employment indicators. However, in the 2<sup>nd</sup> half of 2008 unemployment rate started to increase more rapidly. In the 3<sup>rd</sup> quarter of 2008 unemployment rate reached 7.2% (in the 2<sup>nd</sup> quarter – 6.3%).

Key growth risks are related with the instability of global financial situation, as well as situation in the main export markets of Latvia. A sharp decrease in availability of credit resources and the necessity of the government to reduce public expenditures fosters decline of investment and domestic demand. Thus, the Ministry of Economics forecasts that GDP will decrease by 2% in 2008, but in 2009 – by 5%.

## Gross domestic product

### 2007

#### Volume at current prices,

<b>mln lats</b>	<b>13957</b>
<b>mln US dollars</b>	<b>27154</b>
<b>mln euro</b>	<b>19854</b>

#### Per capita,

<b>lats</b>	<b>6132</b>
<b>US dollars</b>	<b>11930</b>
<b>euro</b>	<b>8723</b>

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

<b>Agriculture<sup>1</sup></b>	<b>3.2</b>
<b>Industry</b>	<b>14.4</b>
<b>Construction</b>	<b>8.2</b>
<b>Trade<sup>2</sup></b>	<b>23.5</b>
<b>Transport and communications</b>	<b>13.8</b>
<b>Public services<sup>3</sup></b>	<b>11.8</b>
<b>Other services</b>	<b>25.1</b>

In 2007 high economic growth continued (increase by 10.3%), however, in the 4<sup>th</sup> quarter of 2007 it started to slow down. Main stimulus of the growth in the previous years was substantial increase of investment and private consumption.

In 2008 decrease of growth rates continued. In the 1<sup>st</sup> quarter of 2008 compared to the same period of previous year, GDP increased by 3.3%, in the 2<sup>nd</sup> quarter it increased only by 0.1%, however, in the 3<sup>rd</sup> quarter of 2008 compared to the same period of the previous year, GDP decreased by 4.6%.

Significant increase of private consumption and investment in the previous years, which exceeded the overall economic growth, was based mainly on substantial inflow of foreign capital. It also determined formation of high current account deficit of balance of payments and, therefore, fostered increase of vulnerability of Latvian economy. Currently, as the financial inflow has shrunk, private consumption and investment are rapidly decreasing, as well as substantial economic corrections are taking place, and it results in more balanced exports and imports of goods and services. Simultaneously, decrease of economic activities and the decline in domestic demand is observed.

Decrease of domestic demand has directly influenced volume increase of sector production, especially, services sectors. It should be noted that the weakening of external demand, especially, in industry and transport services, is becoming more pronounced. Slowdown of global economic growth which was influenced by instability of the US financial markets and changes in financial flows, has negatively affected our main exports market – the EU.

It means that at the same time the current economic development is negatively influenced by decline of two important factors promoting growth.

<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

(change over the corresponding period of the previous year, %)

	2007				2008			2005	2006	2007
	I	II	III	IV	I	II	III			
<b>GDP</b>	<b>11.7</b>	<b>10.8</b>	<b>10.9</b>	<b>8.2</b>	<b>3.3</b>	<b>0.1</b>	<b>-4.6</b>	<b>10.6</b>	<b>12.2</b>	<b>10.3</b>
Agriculture <sup>1</sup>	6.6	7.5	11.9	5.2	-4.9	0.2	-0.2	9.3	-5.2	8.1
Industry	1.7	1.2	0.8	0.0	-3.2	-4.8	-7.6	5.5	5.7	0.9
Construction	17.2	16.1	13.4	12.6	9.0	5.5	-7.4	15.5	21.5	14.4
Trade <sup>2</sup>	15.8	14.0	14.0	6.5	-0.6	-5.7	-8.8	16.6	17.9	12.3
Transport and communications	7.6	9.3	10.3	11.6	10.4	2.1	-0.9	13.7	5.5	9.8
Public services <sup>3</sup>	3.6	3.3	5.5	5.6	5.2	3.4	-0.1	4.6	4.7	4.6
Other services	13.2	12.8	14.0	13.8	8.4	4.1	-1.3	10.3	18.2	13.5

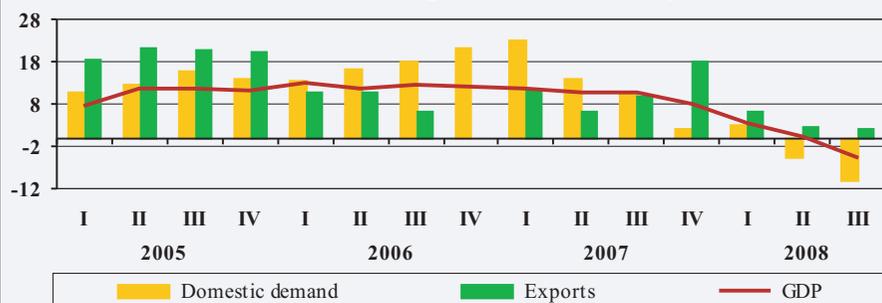
<sup>1</sup> Including forestry and fishing

<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

(% of the corresponding quarter of the previous year)



6

## Manufacturing

### 2007

Growth rate: -0.3%

Share in GDP: 10.8%

In 2007 average production volume in manufacturing was by 1% less than in the previous year. In 2008 sector production volumes continued to decrease gradually. Decrease of the growth of manufacturing is mainly related to reduction of external demand, as well as to the loss of competitiveness of some labour-intensive manufacturing sectors due to the increase of wages. In 2007 wages in manufacturing increased

by 30.1%, however, producer prices – by 16.1% on average.

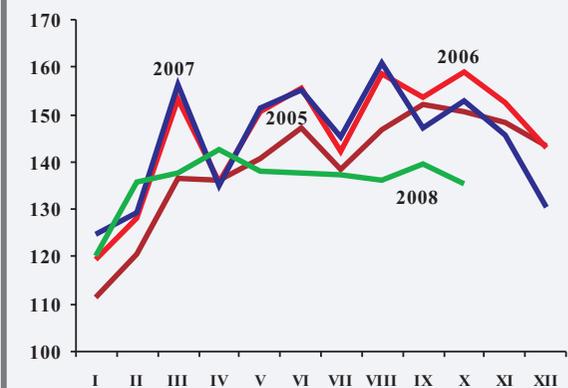
Production volume of manufacturing in January – October 2008 decreased by 6.7% compared with the same period of the previous year. Decrease of output was mainly determined by the decline of domestic demand, however, exports of Latvian industrial production have increased. Exports have increased in almost all manufacturing sectors, excluding food, light industry and wood processing.

Exports of production of electrical and optical equipment have increased substantially (by 13.9%) in 9 months of 2008 compared to the same period of the previous year. Moreover, the increase occurred due to volume growth (by 15.6%) as the sales prices were decreasing. Exports have increased also in non-metallic mineral products (mainly of construction materials), chemical industry products, base metals and articles of base metals as the share of production sold in the local market decreased.

Production sales volume in local market has decreased in almost all manufacturing sectors, except production of transport vehicles.

### Manufacturing Output

(average monthly output in 2000 = 100)



7

## 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 influenced investment process in Latvia negatively. Drop of investment growth rate was already observed in the 2<sup>nd</sup> half of 2007 and average annual growth rate reached 8.4%, which was almost two times slower than a year ago.

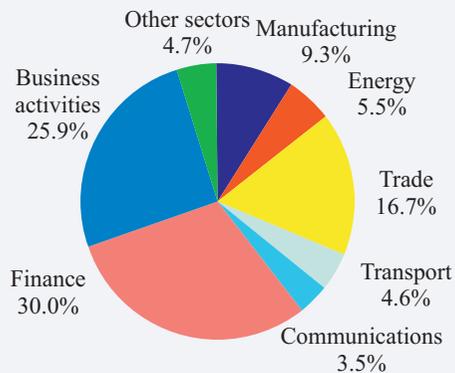
In the 1<sup>st</sup> quarter of 2008 investment increase was rather moderate – by 5.1%, but in the 2<sup>nd</sup> quarter and 3<sup>rd</sup> quarter investments decreased by 6.8% and 12.7% respectively. In general, it was invested by 6.1% less in 9 months of 2008 compared to the same period of 2007 in Latvia.

In the first three quarters of 2008 the inflow of the foreign direct investment (FDI) in Latvia was by 1/4 less in volume than in the same period of the previous year.

Since 2004 geopolitical structure of the FDI stock has not changed significantly. It was mainly related to investments of the EU member states. At the end of the 1<sup>st</sup> half of 2008 almost 80% of FDI were coming from the EU member states. Major investors are enterprises from Estonia (at the end of the 2<sup>nd</sup> quarter of 2008 16.1% of FDI stock), Sweden (14.2%), Denmark (8.5%) and Germany (8.3%). Investments from Russia constitute 5.2%.

Investments in the services sector account for the largest share of the FDI stock. In the 2<sup>nd</sup> quarter of 2008 one third of attracted FDI were invested in the real estate sector.

**Foreign Direct Investment Stocks by Industry**  
(at the end of 2<sup>nd</sup> quarter of 2008, per cent)



## Foreign trade

**January-October 2008**

**Structure of export, %:**

Wood and wood products -	17.1
Metalworking, machine building and transport vehicles -	37.3
Light industry goods -	6.1
Chemical goods and articles of plastics -	11.0
Agricultural and food products -	15.9
Other goods -	12.6

A pronouncedly negative Latvian trade balance started to improve in the 4<sup>th</sup> quarter of 2007, when imports decreased and exports increased. This trend also was observed in 2008, however, due to significant decrease of imports than the increase of exports.

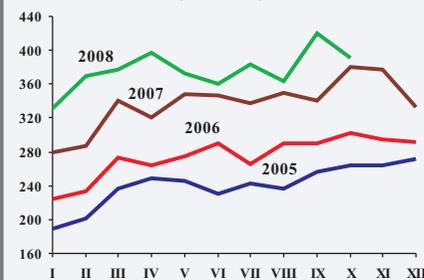
However, it should be noted that despite the decline of demand in main trade markets of Latvian goods, even though slower than in the previous year, exports of goods continue to grow.

In January-October 2008 compared to the same period of 2007, exports of food products, metals and articles of metals, machine-building production, as well as products of the chemical industry have increased. Exports of wood and articles of wood, as well as of textile articles have decreased.

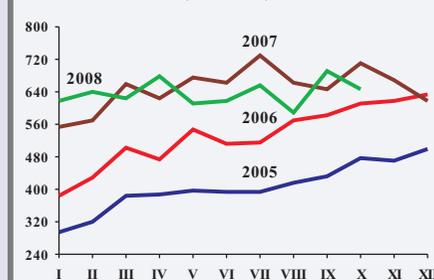
During this period exports have increased to Lithuania, CIS countries, but most significantly it has increased to other third countries.

In general, the share of exports to the EU member states has slightly decreased (from 76.2% to 73.1%), mostly due to the decrease of exports of wood and articles of wood. However, it has significantly increased to Lithuania.

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



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



## Balance of payments

**2007**

**Current account balance**

**mln LVL:** -3200.7

**mln US dollars:** -6231.2

Due to the improvement of the trade balance, current account deficit of Latvian balance of payments has decreased from 26.7% of GDP in the 3<sup>rd</sup> quarter of 2007 to 16.6% in the 2<sup>nd</sup> quarter of 2008. According to provisional data, in the 3<sup>rd</sup> quarter current account deficit was 12.9%.

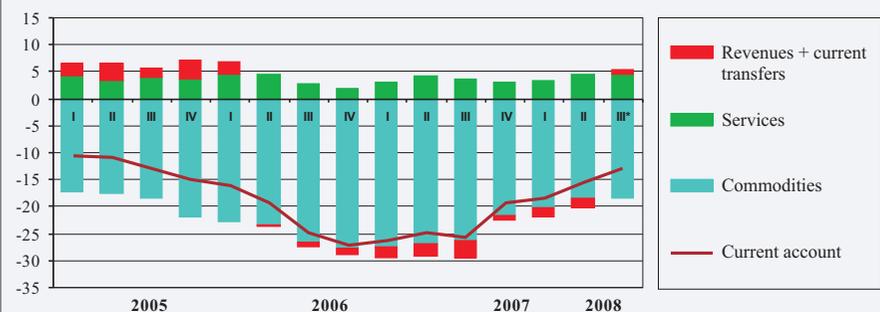
Decrease of current account deficit mainly reflects the slowdown of the Latvian economy. Also in the financial account of the balance of payments significant changes have

occurred during last three quarters – the amount of foreign financial means attracted by commercial banks has decreased. In the 1<sup>st</sup> quarter of 2008 increase of portfolio investments was related to auction of public securities.

In 2008, the inflow of foreign direct investment decreased slightly, but in general they remained at high level. In 9 months of 2008, FDI comprised 5.8% of GDP (in 2007 – 9%).

In general, in 9 months of 2008 Latvian balance of payments was positive with capital inflow exceeding current account deficit.

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



## Inflation

**November 2008**

**(12-month inflation)**

**CPI:** 11.8%

**PPI:** 10.0%

At the beginning of 2008 prices increased more rapidly than in 2007. Supply-side factors were considered as the main impulse of price increase in 2008 – increase of administratively regulated prices (electricity, natural gas and heating), increase of fuel prices, excise increase on tobacco and fuel, increase of food prices. With the continuous reduction of private consumption and decreasing impact of supply-side factors, the increase of consumer prices slowed down in the second half of 2008.

In 11 months of 2008 price level grew by 11.1%, and it is by 2.2 percentage points less than in 11 months of 2007. Price increase was mainly influenced by the rise of administratively regulated prices, which increased the total level of consumer prices by 4 percentage points. Growth of food prices increased the total price level by 2.8 percentage points and of alcoholic beverages and tobacco products by 2 percentage points. However, price changes of fuel and clothing and footwear reduced the level by 0.3 percentage points and 0.1 percentage point respectively.

Also growth of producer prices in manufacturing in 2008 was explicitly more moderate than in the previous year and since September 2008 it is reducing.

Decrease of producer prices started already in the mid-2007, due to gradually declining economic growth rates. Significant increase of producer prices in April 2008 (growth of 3.3% over the previous month) is related mainly to the raise of electricity tariffs. In July 2008 compared to June 2008, the rise of producer prices in manufacturing was only 0.4%. In September, October and November 2008 compared to the previous month, producer prices in manufacturing have reduced by 1.3%, 2.6% and 1.8% respectively.

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



## Monetary indicators

**2007**

### Domestic enterprises and private persons

<b>Loans:</b>	<b>93.5% of GDP</b>
<b>Deposits:</b>	<b>37.8% of GDP</b>

Starting with the 2<sup>nd</sup> half of 2007, decrease of monetary indicators' growth rate has been observed. After the news on crisis in the US real estate market, situation in the global financial markets, as well as in macroeconomic situation of Latvia has significantly slowed down the fast growth of basic monetary indicators observed in previous years.

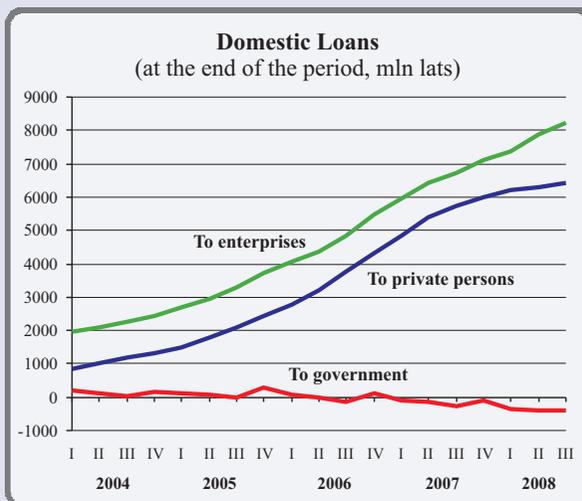
Due to the rise in the price for money resources, the volume of crediting has reduced. In October 2008 compared to the corresponding month of the previous year, the total value of loans has increased only by 15.8% (in December 2007 growth was by 34.2%). Slowdown of crediting is mainly influenced by the decrease of mortgage loans. Due to the increase of interest rates, as households are evaluating their future income more realistic, and as banks are more critical in their assessments

of potential borrowers, significant decrease of mortgage loan growth rates was observed.

Rapid reduction of growth rates of industrial and commercial loans, which was recorded at the beginning of 2008, has decreased. During the last months these loans have grown on average by 15%.

In total, loans issued to private non-financial companies in October 2008 grew more rapidly than to households (by 19.6% and 10.2% respectively). Growth rates of issued loans in both sectors are reducing.

In 2007 interest rates on loans issued in lats increased rapidly, but the increase of interest rates on loans issued in euro was more moderate. Interest rates on loans issued in lats in the first 7 months of 2008 slightly decreased, but since August 2008 increased again. After the decrease at the beginning of 2008, since April 2008 interest rates on loans issued in euro are increasing again. Weighted average interest rate of short-term loans issued to enterprises and private persons in lats in the October 2008 comprised 13.9%, but of the long-term loans – 17.5%, and for loans issued in euro – 7.8% and 7.8% respectively.



## Budget and central government debt

**2007**

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

<b>Revenues:</b>	<b>38.5</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 autumn 2007, the Parliament has adopted budget for 2008 with the surplus of 1% of GDP. However, taking into account macroeconomic situation in the country and assessing forecast of government budget revenues, in summer 2008 amendments regarding government budget for 2008 were adopted, envisaging to ensure budget surplus amounting to 0.05% of GDP or 8 mln lats.

In order to ensure government budget implementation with surplus, ministries and other central governmental institutions have reduced their budget expenses for 2008, by decreasing current expenses.

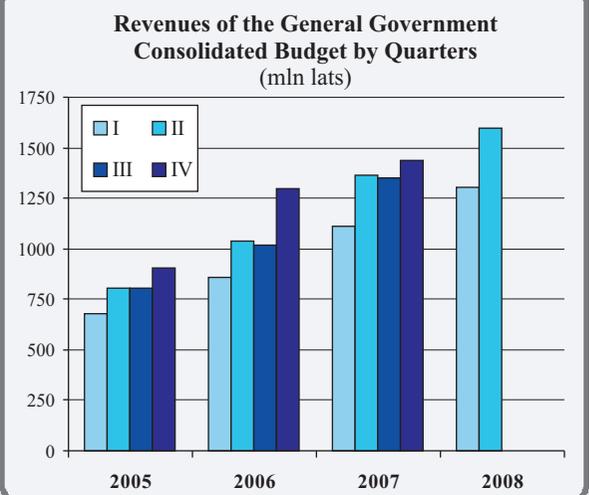
In 9 months of 2008 consolidated budget surplus comprised 135.9 mln lats or 3.5% of GDP, and that is by 5.9 percentage points less than in the first three quarters of 2007. However, in October 2008 budget expenditures substantially exceeded the revenues, which ran out of plan.

In October 2008 it resulted in formation of government consolidated

budget deficit comprising 92.6 mln lats. Similar trend is also expected in the following months. Therefore for 2008 budget deficit amounting to 2% of GDP has been forecasted.

In November 2008 the Parliament approved central government budget for 2009 with deficit of 1.8% of GDP. But at the end of December 2008 due to the deterioration of economic situation in Latvia and all over the world, government reduced growth forecasts and revenues for 2009. Taking it into account, the Parliament approved amendments in the budget for 2009, envisaging budget deficit of 4.9% of GDP, as well as reduction of major part of the government expenditures.

The level of the central government debt in Latvia is one of the lowest in the EU. At the end of 2007 it comprised 1331.3 mln lats or 9.5% of GDP (1190.5 mln lats or 10.7% of GDP at the end of 2006). At the end of June 2008 central government debt reached 1738.3 mln lats.



## Personal income

### 3<sup>rd</sup> quarter of 2008

Average monthly net wage:

lats 355  
US dollars 760

Average monthly old-age pension (paid):

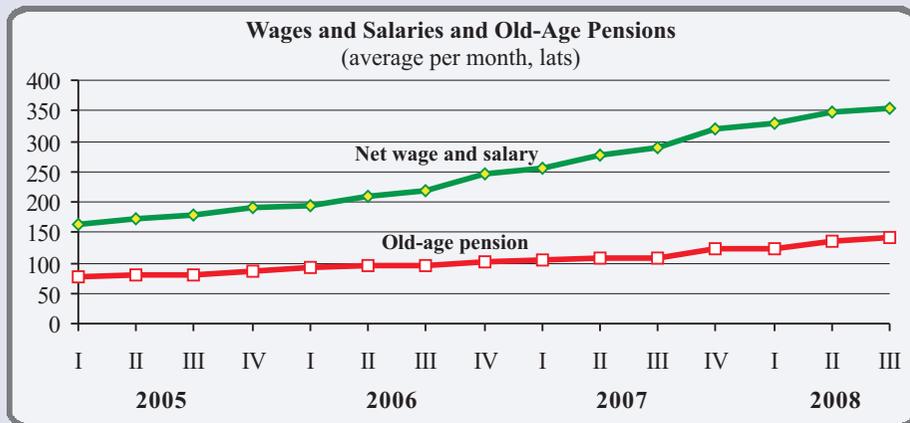
lats 142  
US dollars 305

Dynamics of wages in 9 months of 2008 has maintained the rapid growth trends of the previous year. Wage growth in January and February 2008 was even slightly higher than in the respective months of 2007. However, since March 2008 the growth rate was more moderate than in the previous year. In September 2008 monthly average gross wage was 481 lats, which is by 9 lats lower than in June 2008 and by 81 lats higher than in September 2007.

Starting from January 1, 2008 minimum monthly wage had been increased from 120 to 160 lats and monthly untaxed minimum - from 50 to 80 lats, as well as tax allowance for a dependent person increased from 35 lats to 56 lats.

In 2009 minimum monthly wage will be raised to 180 lats and monthly untaxed minimum - to 90 lats, as well as monthly tax allowance for a dependent person will be increased to 63 lats.

During a year average pensions rose almost by one third (September 2008 compared to September 2007). Average size of monthly old-age pensions paid to retired people registered in social security institutions in September 2008 comprised 142.44 lats.



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

### 2007

Employment rate (aged 15-64) 68.4%

Unemployment rate (share of job-seekers aged 15-74): 6.0%

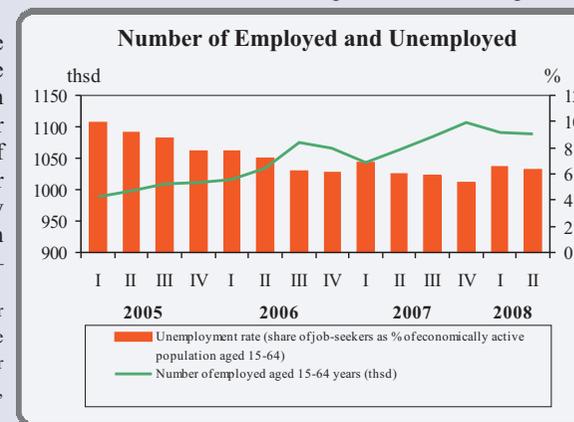
Rapid economic development in recent years in Latvia has positively influenced the situation in the labour market – employment has increased, unemployment has decreased and economically active population has grown. Within the last three years (2005-2007) the number of employed on average increased by 2.9% annually, but unemployment rate has decreased from 10.4% in 2004 to 6% in 2007.

Employment rate has increased respectively. In 2007 it was 68.4% compared to 62.3% in 2004. In 2004 employment rate in Latvia was by 0.7 percentage points lower than average in the EU member states, but already in 2006 it exceeded the EU average by 1.8 percentage points (in 2007 by 2.9%).

Decrease of economic activities in the first two quarters of 2008 did not influence the employment indicators – the number of employed did not reduce, however, in the 3<sup>rd</sup> quarter it started to go down (by 0.8% over the previous quarter). Most rapid decrease of the number of employed was recorded in hotels and restaurants, various commercial services, as well as in construction.

However, the unemployment rate has increased to 7.2% in the 3<sup>rd</sup> quarter of 2008 compared to the same period of 2007 (5.9%).

According to the data of the Central Statistical Bureau, there were 9.6 thousand job vacancies in Latvia at the end of the 3<sup>rd</sup> quarter of 2008. Compared to the end of the 2<sup>nd</sup> quarter of 2008, the number of job vacancies has reduced by 3.1 thsd., but in comparison with the end of the 3<sup>rd</sup> quarter of 2007 –



<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, 2008, thsd	1340.9	2270.9	3366.4
Gross domestic product, % of corresponding period of the previous year			
2007	6.3	10.3	8.9
2008: 1 <sup>st</sup> quarter	0.2	3.3	7.0
2008: 2 <sup>nd</sup> quarter	-1.1	0.1	5.2
2008: 3 <sup>rd</sup> quarter	-3.5	-4.6	3.1
Industrial output index, % of corresponding period of the previous year			
2007	6.7*	0.5*	4.0*
2008: 1 <sup>st</sup> quarter	-0.6*	-2.7*	7.3*
2008: 2 <sup>nd</sup> quarter	-4.5*	-4.5*	7.6*
2008: 3 <sup>rd</sup> quarter	-3.7	-7.2	1.8
Unemployment rate (share of job-seekers as % of economically active population aged from 15 to 74)			
2007	4.7	6.0	4.3
2008: 1 <sup>st</sup> quarter	4.2	6.5	4.9
2008: 2 <sup>nd</sup> quarter	4.0	6.3	4.5
2008: 3 <sup>rd</sup> quarter	6.2	7.2	5.9
Consumer price changes, % of corresponding period of the previous year			
2007	6.6	10.1	5.7
2008: 1 <sup>st</sup> quarter	11.1	16.4	10.6
2008: 2 <sup>nd</sup> quarter	11.4	17.7	12.1
2008: 3 <sup>rd</sup> quarter	10.9	15.8	11.7
Producer price changes in industry, % of corresponding period of the previous year			
2007	8.3	16.1	7.0
2008: 1 <sup>st</sup> quarter	8.2	10.9	21.7
2008: 2 <sup>nd</sup> quarter	7.3	12.3	22.0
2008: 3 <sup>rd</sup> quarter	8.2	12.5	24.9

\* Short-term data.

\*\* Eurostat data: <http://epp.eurostat.ec.europa.eu>