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Central Statistical Bureau of Latvia

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ECONOMIC DEVELOPMENT TRENDS

After the pandemic crisis, when Latvia's GDP grew by 6.9% in 2021, growth slowed to 1.8% in 2022. Economic development that year was significantly affected by Russia's invasion of Ukraine, which caused supply chain disruptions, rising energy and food prices, and a decline in global demand.

Although in 2023 the economy continued to be influenced by the geopolitical situation, ongoing uncertainty, high prices, and rising bank interest rates, GDP grew by 2.9%. During the year, private consumption, exports, and imports declined, while public consumption and investment increased.

In 2024, despite stabilized inflation, the economic situation remained stagnant due to an unfavourable external environment. GDP contracted by 0.4%. Private and government consumption increased, but Latvia's foreign trade flows and investment activity slowed.

The Ministry of Economics forecasts that economic activity will begin to recover in 2025. Growth will be supported by an improving global economic environment, which is expected to revive export activity. Lower interest rates in the eurozone, including Latvia, will also help boost consumption, the real estate market, and construction. Additionally, increased investment from EU funds and reforms aimed at enhancing competitiveness – including reduced labour taxes – will have a significant positive impact on Latvia's economy. However, risks remain, particularly those related to the geopolitical situation and potential increases in U.S. import tariffs.

Key Economic Development Indicators

	2019	2020	2021	2022	2023	2024	2025f
Gross domestic product, at current prices, billion euro	29.6	29.2	32.3	36.1	39.4	40.2	42.3
changes compared to the previous year, as per cent							
Gross domestic product	0.7	-3.5	6.9	1.8	2.9	-0.4	2.1
Private consumption	-0.1	-4.8	8.1	5.1	-1.0	0.6	2.2
Public consumption	5.6	3.9	3.7	2.4	7.0	7.6	2.6
Gross fixed capital formation	1.3	-2.4	6.8	-1.6	9.9	-6.7	2.0
Exports	-0.6	-0.3	9.1	11.4	-4.7	-1.6	2.5
Imports	2.0	-1.1	15.1	9.9	-2.0	-2.3	2.7
Consumer prices	2.8	0.2	3.3	17.3	8.9	1.3	3.0
as per cent							
Changes in the number of employed	0.1	-1.9	-3.2	2.6	-0.2	-0.8	0.2
Employment rate	65.0	64.2	62.5	63.9	64.2	64.0	64.6
Unemployment rate	6.3	8.1	7.6	6.9	6.5	6.9	6.5
as per cent of GDP							
General government balance	-0.5	-4.5	-7.4	-4.9	-2.3	-2.1	-2.9
General government debt	37.9	44.0	45.9	44.4	45.0	45.8	47.0
Net exports	-0.2	1.4	-3.2	-4.9	-3.7	-2.6	-2.7

f – forecast

As the population's purchasing power increases, private consumption has resumed its growth. In 2023, private consumption declined, negatively impacted by high price levels and rising interest rates. In contrast, in 2024, with inflation stabilizing and real household income increasing, private consumption rose by 0.6%.

Public consumption continues to grow, largely driven by the state budget deficit used to finance the government's priority measures. In 2023, public consumption grew by 7%, and in 2024, it increased by 7.6%.

Investment dynamics remain volatile. Investment activity in the Latvian economy is significantly influenced by geopolitical developments, the availability of financing and production resources, and other external and internal factors. Thanks to increased EU fund financing, gross fixed capital formation in 2023 was 9.9% higher than the previous year. However, in 2024, investments declined by 6.7%, mainly due to a weakening of private investment. Net inflows of foreign direct investment (FDI) into Latvia continued to rise. At the end of 2024, accumulated FDI in the Latvian economy reached €26.3 billion, equivalent to 65.4% of GDP – an increase of 5.7% or €1.4 billion compared to the previous year.

The external environment continues to have a negative impact on exports. Export volumes of goods and services decreased by 4.7% in 2023 and by 1.6% in 2024. In 2024, the decline was more pronounced in services exports, which fell by 2.4%, while goods exports declined by 1.3%. The main export goods were agricultural and food products, wood and wood products, machinery, equipment and electrical devices, and goods from the chemical industry. Import volumes also declined in 2024, falling by 2.3% compared to the previous year. In recent years, there has been a trend of a narrowing current account deficit. In 2024, the negative current account balance decreased to 2.1% of GDP, mainly due to the reduction in imports. Further improvement in the current account is expected in the coming years.

Development trends vary significantly across sectors. In 2023, total value added increased by 3.9%, but in 2024, it was 0.6% lower than the previous year. In 2024, a decline continued in the manufacturing sector, down 2.8%, largely due to limited export opportunities, while the services sector grew by 0.4%.

In 2024, the manufacturing industry contracted by 4.6%. The largest sub-sector by share – the manufacture of wood and wood products – remained at the previous year's level. Declines were observed in the manufacture of fabricated metal products (down 9.3%) and in computers, electronic and optical equipment (down 14.6%). On the other hand, growth in the manufacture of non-metallic mineral products (up 1.6%), food products (up 0.6%), and the repair and installation of machinery and equipment (up 7.2%) had a positive impact on the sector's total value added.

The transport and storage sector decreased by 7.9% in 2024. All sub-sectors of transport and storage recorded negative growth, except for air transport, which increased by 14%. A decline was also recorded in the ICT sector (down 1.3%), the education sector (down 2.6%), and real estate activities (down 3.1%).

In contrast, increases in 2024 were seen in the trade sector (up 3.4%) and the accommodation and food service sector (up 1.3%). The financial and insurance sector grew by 3.1%. However, professional, scientific and technical services decreased by 4.6%, and real estate activities fell by 3.1%. In the construction sector, following a strong increase of 20.9% in 2023, production volumes declined by 6.9% in 2024. Meanwhile, the agriculture and forestry sector grew by 3.7%. Positive growth also continued in the health and social care sector (up 5.1%) and in public administration and defense (up 4%).

The Covid-19 pandemic brought about significant changes in fiscal policy. In 2020, the EU activated the *general escape clause* of the Stability and Growth Pact (SGP), allowing member states to increase their general government budget deficits as needed to mitigate the economic impact of the pandemic. Given the continued consequences of the Russia-Ukraine war, the general escape clause remained in effect in 2023.

As a result of the pandemic, Latvia's budget deficit rose significantly between 2020 and 2022, exceeding 4% of GDP. In 2023, the general government budget deficit amounted to €0.9 billion, or 2.3% of GDP. According to forecasts by the Ministry of Finance, the deficit is expected to be 2.1% of GDP in 2024. For 2025, the government has submitted to the Saeima a budget with a projected deficit of 2.9% of GDP.

Despite the increased deficits in recent years, Latvia's general government debt level remains among the lowest in the EU. Public debt rose to 45.9% of GDP, or €14.8 billion, in 2021. Due to rapid nominal GDP growth under high inflation conditions, the debt ratio declined to 44.4% of GDP in 2022, although the nominal value increased to €16 billion. In 2023, public debt reached €17.6 billion, or 45% of GDP. Over the medium term, it is expected that the 60% of GDP debt ceiling set by the Fiscal Discipline Law will be met.

The banking sector has remained stable despite the economic disruptions caused by the Covid-19 pandemic and geopolitical tensions. Banks continue to operate profitably. However, lending activity remains weak, particularly in the business sector. In contrast, positive developments are observed in household lending. Deposit volumes also continue to grow.

Inflation has been primarily driven by rising global prices for energy and food. In December 2022, consumer prices in Latvia were 20.8% higher than the previous year, while average annual inflation reached 17.3%. In 2023, consumer prices began to stabilize, with monthly increases tapering off compared to the same period the year before – from 21.5% in early 2023 to just 0.6% in December. Nonetheless, due to the base effect, average annual inflation in 2023 remained high at 8.9%.

In 2024, the inflation rate picked up slightly compared to the previous year. In December 2024, consumer prices were 3.3% higher than in December 2023. The main drivers of the overall annual price increase were service prices, which rose by 6.3%, and food and non-alcoholic beverage prices, which increased by 5.5%. However, the average annual inflation in 2024 fell significantly compared to 2023, reaching just 1.3%.

Average annual inflation in 2025 is expected to be higher than in 2024, reaching approximately 3%. This increase will be mainly driven by new tax changes, which will affect both the supply side – through higher taxes and tariffs – and the demand side, as after-tax wage increases will boost household purchasing power. Global price fluctuations, influenced by the broader trajectory of the world economy and particularly by the geopolitical situation, will also significantly impact inflation. In March 2025, consumer prices were 3.3% higher than in March of the previous year, while average annual inflation at that point stood at 1.9%.

Given the unfavorable external market conditions, labor market activity declined slightly in 2024. The employment rate dropped by 0.2 percentage points to 64%, while the unemployment rate increased by 0.2 percentage points to 6.9%. The number of employed persons fell by 0.8%, or 6,800 individuals. This decline was largely driven by both economic factors and supply-side constraints in the labor market, including a shrinking working-age population and a reduction in overall labor supply.

As economic activity resumes, the labor market situation is expected to stabilize in 2025. However, labor supply challenges will persist. The unemployment rate is projected to return close to its 2023 level – around 6.5% – which may further intensify the issue of labor shortages. At the same time, the number of employed persons is expected to increase by 0.2%.

The average gross monthly wage continues to rise. In 2024, the average net wage was €1,221, representing 72.4% of the gross wage, and it increased by 9.0% over the year – outpacing consumer price growth. Adjusted for inflation, the real net wage increased by 7.6%.

Wage growth will continue to be supported by wage convergence with more economically developed EU countries and the persistent shortage of qualified labor. The tightening labor market compels employers to not only focus on attracting new talent but also on retaining existing employees, including through wage adjustments.

The medium-term economic outlook depends heavily on external conditions and the implementation of reforms. The most significant risks to Latvia's growth relate to global economic developments – particularly the geopolitical landscape. Continued progress within the EU's common economic space will also be important. Latvia's medium-term economic strengths will lie in its macroeconomic stability, which has led to improved credit ratings, the effective use of EU support programs, and improvements to the business environment. However, if the war in Ukraine continues, the pace of economic recovery may remain subdued.

Latvia's competitive advantages are increasingly rooted in technological development, improved production efficiency, and innovation, rather than in low labor costs or cheap resources. Under favorable conditions, Latvia's medium-term growth potential could reach 4-5% per year.

2025 | 1 WORLD ECONOMIC OUTLOOK

Russia's unprovoked and unjustified war against Ukraine has had a significant impact on the global economy. Although there are some signs of recovery, global growth remains subdued. In 2024, global GDP increased by 3.2%. However, considerable risks persist, including the growing fragmentation of the global economy. Planned tariff increases led by the United States could weigh on growth and further fuel inflation. In Europe, rising defense spending aimed at strengthening security may add additional fiscal pressure. Global GDP is projected to grow by 3.2% in 2025 and 3.3% in 2026.[1]

Gross Domestic Product
as per cent

	2024	2025f	2026f
World (excl. EU)	3.2	3.2	3.3
Euro Area	0.8	1.3	1.6
USA	2.7	2.1	2.2
China	4.9	4.6	4.4
Germany	-0.1	0.7	1.3

Source: European Economic Forecast. Autumn 2024; f – forecast

China's economy grew by 4.9% in 2024. China's economy is struggling, with weak domestic demand, sluggish wage growth, and persistent problems in the real estate market holding back growth. China's GDP is forecast to grow by 4.6% and 4.4% in 2025 and 2026, respectively. India's economy grew by 7.2% in 2024. GDP is forecast to grow by 7.2% and 6.9% in 2025 and 2026, respectively.

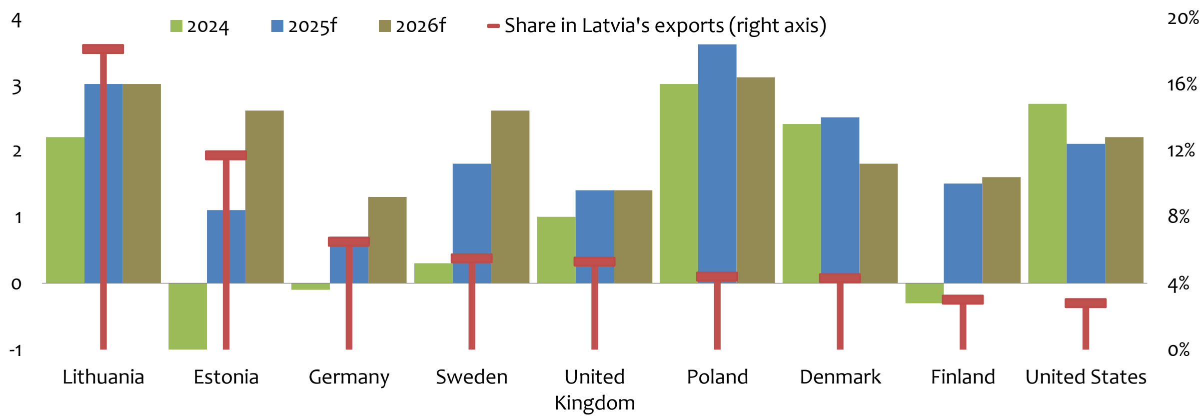
The US GDP grew by 2.7% in 2024. The rapid growth was mainly due to strong domestic demand. However, the pace of growth is likely to slow as the labour market cools and fiscal policy becomes somewhat less accommodative. GDP is expected to grow by 2.1% and 2.2% in 2025 and 2026, respectively.

Eurozone GDP grew by 0.8% in 2024. GDP is forecast to grow by 1.3% in 2025 and 1.6% in 2026, as heightened geopolitical uncertainty continues to weigh on growth. The European economy has been significantly affected by rising energy prices. Global oil and gas supply risks are rising again. The labour market has remained resilient despite the challenges. However, it is questionable whether the European economy can sustain growth amid rising uncertainty.

In the United Kingdom, GDP grew by 1% in 2024. GDP is expected to grow by 1.4% in both 2025 and 2026.

In Germany, GDP fell by 0.1% in 2024. High uncertainty has weighed on consumption and investment, and the trade outlook has deteriorated as global demand for industrial goods has weakened. GDP is forecast to grow by 0.7% and 1.3% in 2025 and 2026. Sweden's economy is recovering, with GDP growing by 0.3% in 2024. Inflation continues to decline and the labour market situation is gradually improving. GDP is forecast to grow by 1.5% and 1.8% in 2025 and 2026, respectively. Estonia's GDP fell by 1% in 2024. GDP is expected to grow by 1.1% and 2.6% in 2025 and 2026. Lithuania's GDP grew by 2.2% in 2024. The Lithuanian economy is projected to grow by 3% in both 2025 and 2026.

Growth of Latvia's Largest Trade Partners
GDP changes against the previous year, as per cent – left axis; share as per cent in 2024 – right axis



Source: CSB, European Commission (2024); f – forecast

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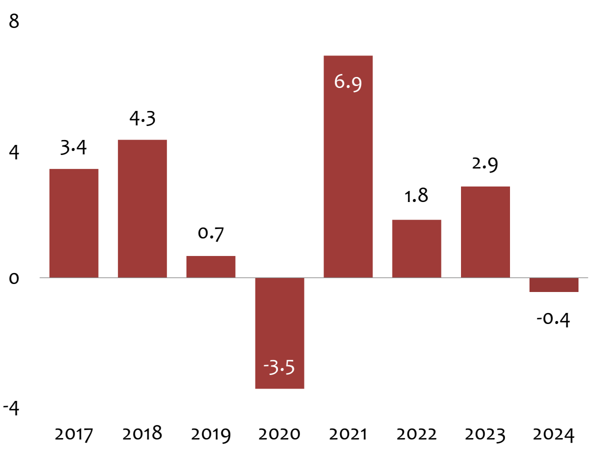
GROSS DOMESTIC PRODUCT AND AGGREGATE DEMAND

GROSS DOMESTIC PRODUCT

In 2023, the economy developed at a faster pace. GDP grew by 2.9%, mainly driven by an increase in investment and government consumption.

Gross domestic product

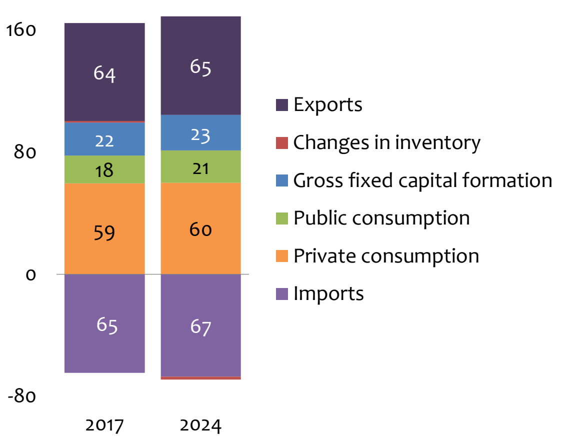
changes compared to the previous year, per cent



Economic growth slowed in 2024. The overall economic environment remained weak, resulting in a GDP decline of 0.4% – the only contraction since 2010 (the financial crisis), apart from the decline in 2020 due to the Covid-19 pandemic. Economic growth in 2024 continued to be affected by the geopolitical situation and uncertainty, high prices, and rising bank interest rates. The main positive contribution to growth came from increased government consumption, while the largest negative impact was caused by a decline in exports and investments.

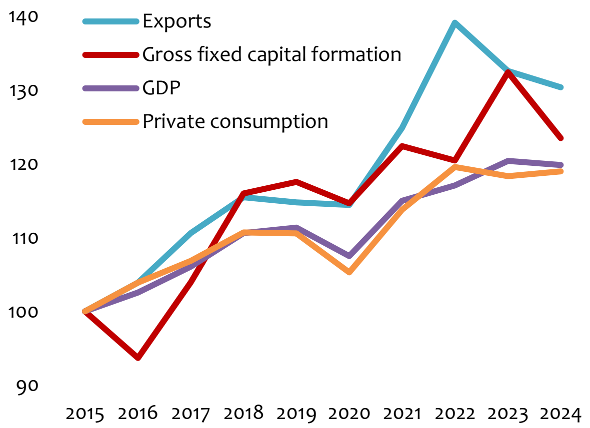
Gross Domestic Product from Expenditure Approach

structure as per cent of GDP



Gross Domestic Product by Expenditure Items

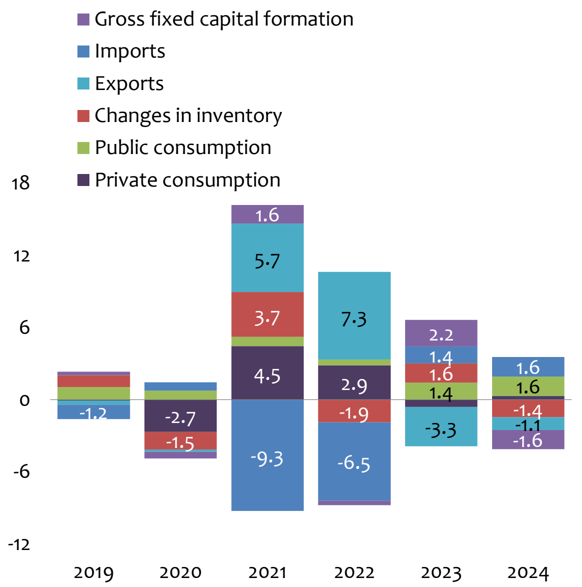
2015 = 100



The unfavorable external environment and weak demand in key target markets affected Latvia's export performance. Exports of both goods and services declined. High uncertainty, weak lending, and low demand also contributed to a sharp drop in investment, particularly private investment. Although prices stabilized, they remained high — especially for food and services — which hindered a stronger recovery in private consumption.

Gross Domestic Product by Expenditure Items

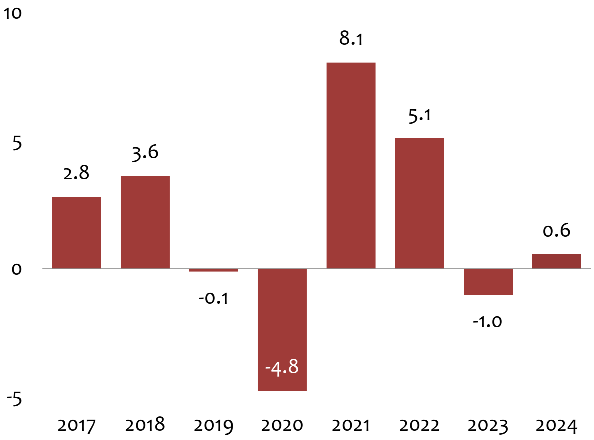
contribution to growth as percentage points



CONSUMPTION

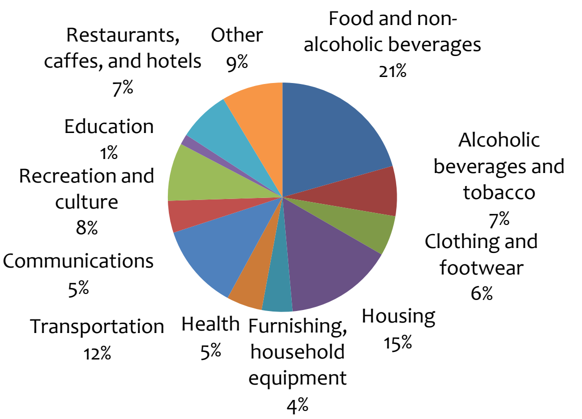
Private consumption grew only moderately in 2024. As the economy recovered, a rapid increase in private consumption was observed in 2021–2022. However, in 2023, the pace of price growth outpaced wage growth, which negatively affected the population's purchasing power. Despite price stabilization and an improvement in purchasing power, consumers remained cautious about increasing their spending in 2024.

Private consumption
changes compared to the previous year, as per cent



The largest share of household consumption consists of food expenditures. High prices for energy resources and food prompted households to continue saving in 2024. Spending on food and housing-related expenses decreased, while household spending on transport and health increased.

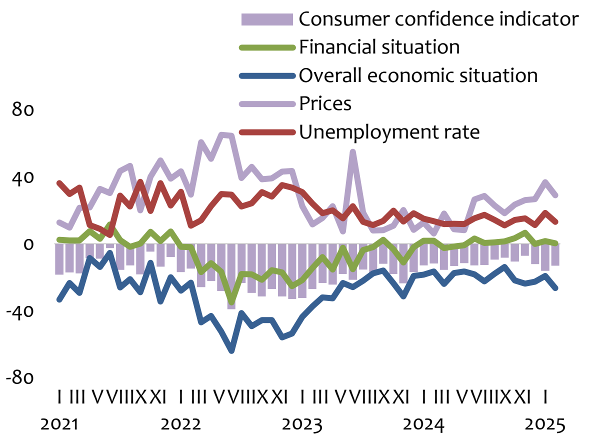
Structure of Household Expenditures
in 2023, as per cent



Consumer confidence improved significantly overall in 2023. In 2022, consumer sentiment had deteriorated sharply after Russia's invasion of Ukraine and was also exacerbated by rising inflation.

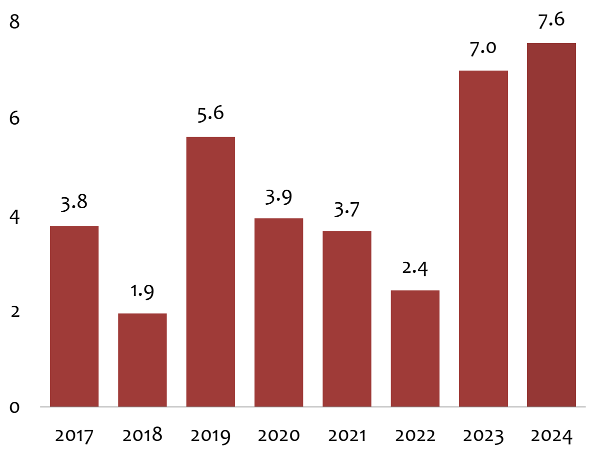
In 2024, consumer confidence remains relatively unchanged. The main items of the confidence indicator are stable. Future assessments of the financial situation and the general economic situation have not experienced significant changes in 2024. Unemployment expectations also showed a similar trend. The only item with more rapid changes was inflation expectations, increasing and remaining at a higher level since June. In conditions of fairly low inflation, this can be explained by rising service prices and still high food prices. In the first two months of 2025, the development trends of the main items have not changed significantly.

Consumer Confidence Index
consumer assessment for the next 12 months, response balance, seasonally adjusted data



Public consumption continues to grow. It has remained stable in recent years due to government support measures aimed at mitigating the impact of the Covid-19 crisis and rising energy prices, increased spending on defense and security, and higher funding from EU funds, among other factors.

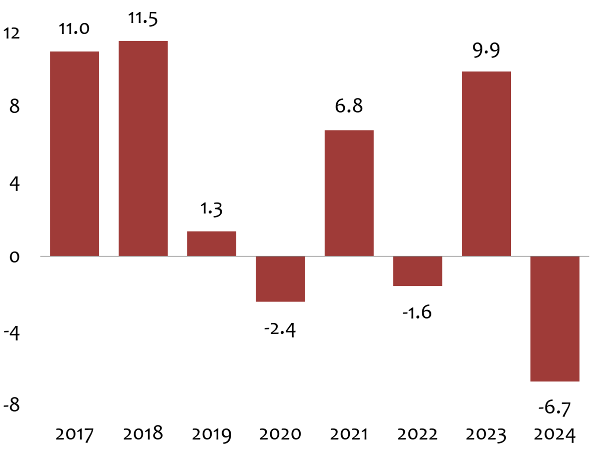
Public Consumption
changes compared to the previous year, as per cent



INVESTMENT

Investment activity has been highly volatile since 2020. Over the past three years (2022–2024), total fixed capital formation expenditure grew by an average of 0.3% per year – significantly more moderate compared to the pre-Covid-19 period of 2015–2019, when investment growth rates averaged 2.7% annually.

Gross Fixed Capital Formation
changes compared to the previous year, as per cent



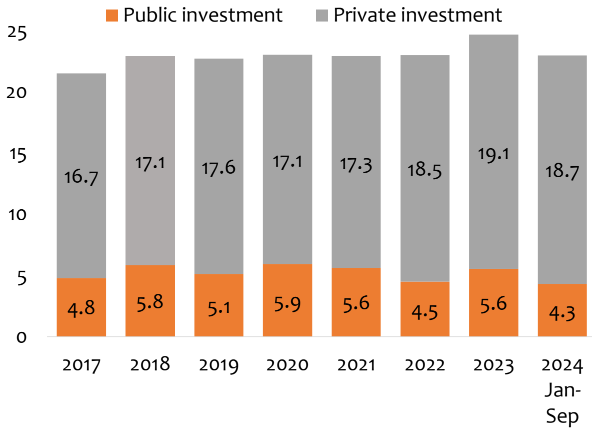
As the economy stabilized after the shock caused by the Covid-19 pandemic, investment volumes increased by 6.8% in 2021. However, the war in Ukraine introduced greater uncertainty, which is reflected in the dynamics of investment activity. In 2022, investments decreased by 1.6%, while in 2023, they were nearly 10% higher than the previous year. Investment activity was also limited by rising construction prices and delays in the absorption of EU-funded programmes.

Investment dynamics in 2024 showed downward trends. Expenditure on total fixed capital formation decreased by 6.7% compared to 2023, primarily due to the weakening of private investment.

Although the volume of private investment has grown moderately in recent years, its overall level remains low. In 2023, compared to 2022, private sector investments in total fixed capital formation reached almost 6 billion euros. In constant prices, they grew by nearly 6.5%. However, in 2024, the volume of private investment decreased and was almost 5% lower than a year earlier. The slower dynamics of private investment are largely constrained by high uncertainty, weak lending, and low demand.

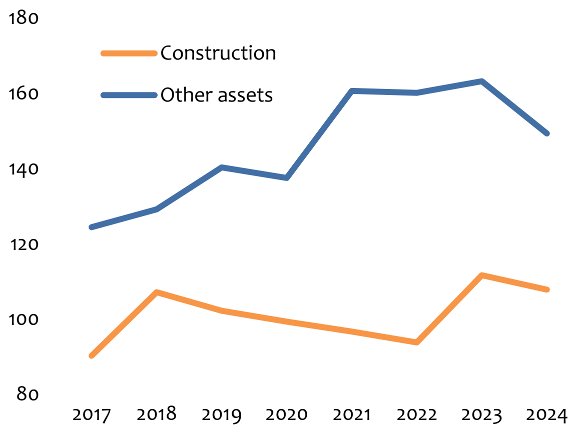
Public investment in Latvia accounts for nearly one-fifth of total investment in the Latvian economy. Its dynamics are largely tied to the cyclical nature of EU structural fund absorption. From 2020 to 2023, public investment generally showed positive dynamics, growing by an average of nearly 3% per year, which is slightly more moderate than in the years before the Covid-19 pandemic. However, in 2024, public expenditure on fixed capital formation was 9% lower than the previous year (in constant prices).

Public and Private Investment
as per cent of GDP



The largest share of total investment is in construction assets, primarily buildings and structures, which accounted for 52.1% of total fixed capital formation from 2020 to 2024. Investments in construction assets decreased by an average of nearly 3% annually from 2020 to 2022. However, in 2023, they increased by 19%. This positive trend is expected to reverse in 2024, with a 5% decline in construction investments, including a 3.9% decrease in engineering structures and buildings, and an 8.7% decrease in housing.

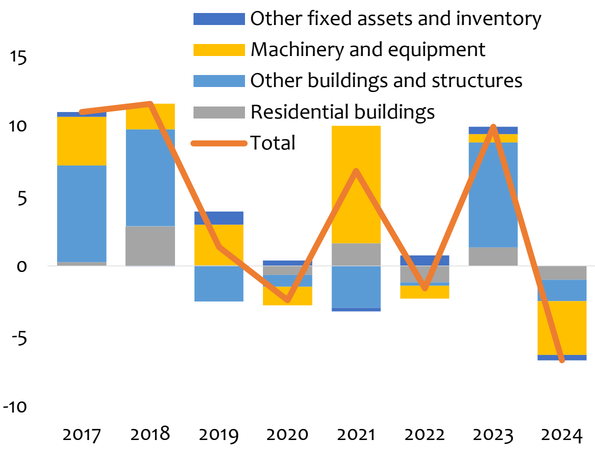
Gross Fixed Capital Formation by Type of Assets
2015 = 100



Investments in machinery and technological equipment accounted for an average of 37.7% of total investments from 2020 to 2024, with their dynamics slightly outpacing those of other assets. Over the past five years, investments in these assets have grown annually by an average of

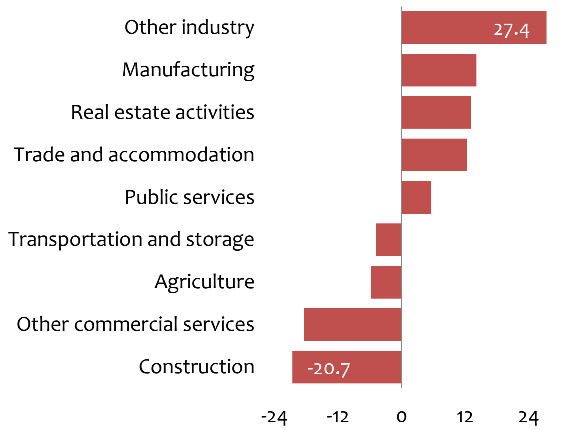
1.6%, largely driven by a significant increase in investments in 2021. However, in 2024, investments in machinery and equipment were 9.6% lower than in 2023, including a nearly 9% decrease in investments in vehicles.

Gross Fixed Capital Formation by Type of Asset
changes compared to the previous year, as per cent asset type investment, as percentage points



In general, it should be noted that the fluctuations in investment volumes in recent years were largely influenced by investments in vehicles, as well as civil engineering structures and buildings. Significant investments were also made in information and communication technology equipment, which is essential for the digitalization of production processes and services.

Non-financial Investment Dynamics
*in 2024, changes compared to the previous year, as per cent**



* calculated using quarterly data, at current prices

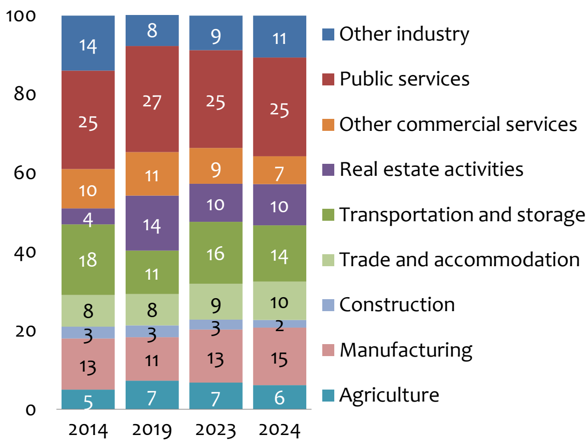
Investments in intellectual property assets in recent years account for approximately 9.5% of total investments. These investments have shown resilience during periods of economic recession and generally exhibit increasing dynamics. Since 2020 (in comparable prices), investments in intellectual property assets have increased by 6%. In 2024, however, investments in intellectual property products decreased by 6.6% compared to the previous year, accounting for 2.2% of GDP, which is almost 0.4 percentage points higher than in the years before the Covid-19 pandemic.

In 2024, investments rose by 42.3% in energy, 14.1% in manufacturing (29.4% in wood processing), and 18.2% in public administration and defense. In contrast, investments in construction fell by 20%, while those in education and health/social care dropped by 22.6% and 28.6%.

In 2024, investments grew by 42.3% in energy, 14.1% in manufacturing (29.4% in wood processing), and 18.2% in public administration and defense. Conversely, investments in construction decreased by 20%, while those in education and health/social care dropped by 22.6% and 28.6%, respectively.

Surveys conducted by the European Investment Bank show that Latvian entrepreneurs consider the lack of qualified personnel and future uncertainty to be the most significant long-term obstacles to investment. Investments are also limited by the cost of energy resources, shortcomings in business regulation, and access to financing. The proportion of companies that consider access to financing as the main obstacle to investment is one of the highest in the EU.

Gross capital investment structure
*by sectors, as per cent**



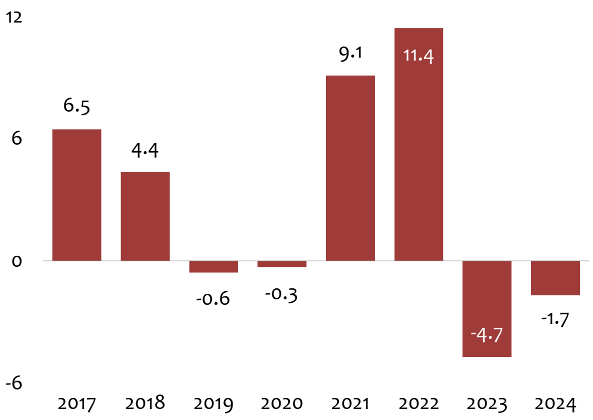
* gross capital investment in tangible assets (based on quarterly data)

Investment dynamics will continue to be affected by the uncertainty of the international environment. EU funding will have a positive impact, which is a significant incentive for increasing the level of investment. A significant contribution to increasing investment activities will be made by several projects that are planned to be financed under the Recovery and Resilience Facility. The increase in the loan portfolio, which has been very small for a long time, is also of great importance. However, it should be noted that in the coming years, investments will be significantly limited by geopolitical uncertainty due to the war in Ukraine, limited availability of labor, as well as high energy and credit costs.

EXPORTS

Exports are one of the main drivers of economic development. Export growth is closely linked to external demand and the economic development rates of key partner countries.

Exports of Goods and Services
changes compared to the previous year, per cent

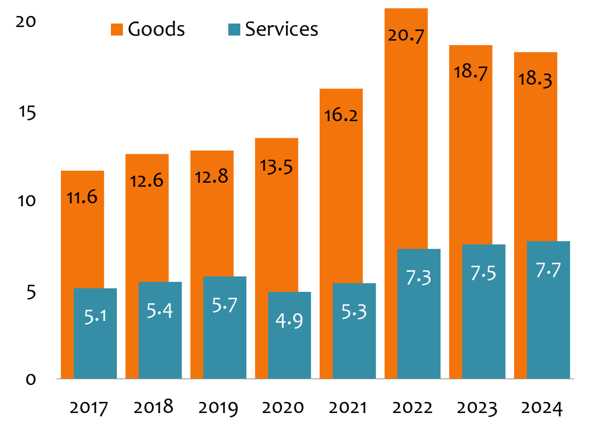


In 2019, with external demand decreasing, and in 2020, mainly due to the Covid-19 pandemic, the growth of goods and services exports was close to zero. In 2021, thanks to significant external demand and partly due to a base effect, export growth began to rise again.

In 2022, with external demand continuing to grow, export volumes increased significantly. The export growth was equally strong in the first to third quarters, while in the last quarter of the year, it slightly slowed down.

Due to limited external demand, in 2023 and 2024, export volumes were lower than in the previous year.

Exports of Goods and Services
at current prices, billion euro

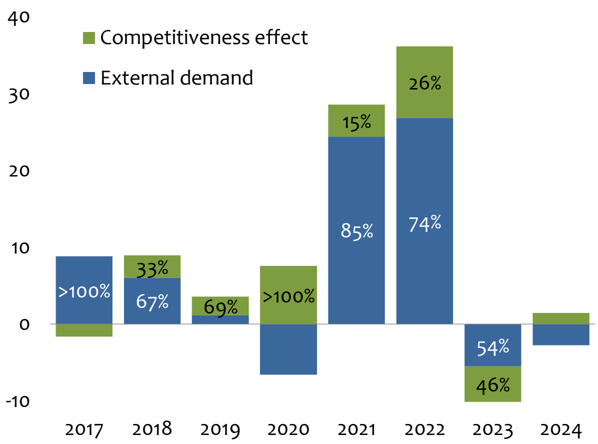


In 2019, export growth was driven by a competitiveness effect related to the successful acquisition of new markets. External demand also played a role in driving export growth.

In 2020, due to the spread of Covid-19, external demand sharply decreased, but this was almost entirely offset by an increase in competitiveness in certain sectors.
In both 2021 and 2022, export growth was supported by both a sharp rise in external demand and improved competitiveness. On the other hand, the opposite effect was observed in 2023.

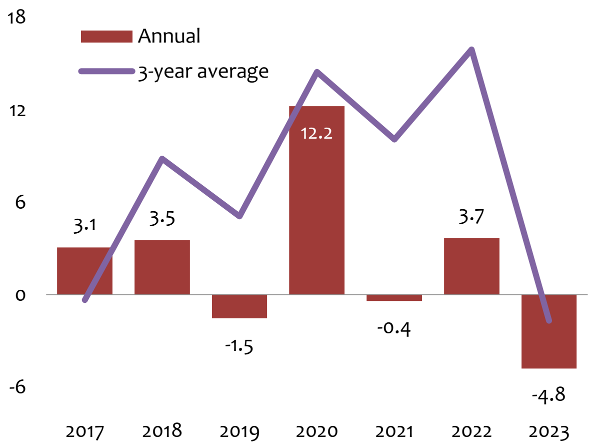
In 2024, with weak external demand continuing, export growth was positively impacted by the competitiveness of businesses.

Changes of Exports by the Constant Market Share
structure of exports' changes to the EU countries, as per cent



Since 2021, Latvia's share of exports in the global markets of developed countries has shown a decreasing trend, except for 2022. This indicates an increasing threat of weakening competitiveness.

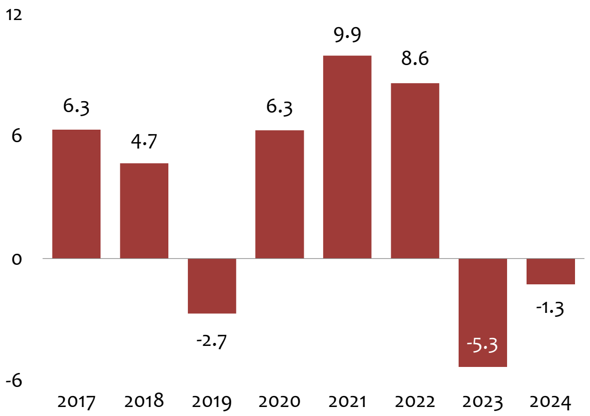
Share of Exports in World Trade
changes as per cent



Exports of goods

The share of goods exports has remained largely unchanged since 2020, accounting for approximately three-quarters of total exports.

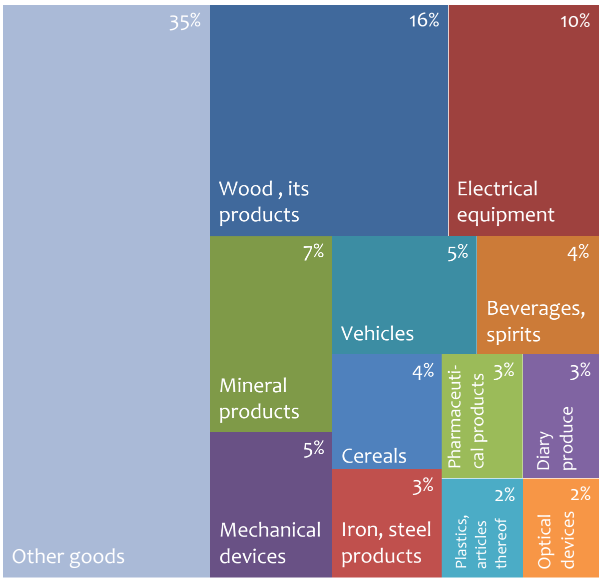
Exports of Goods
at constant prices, changes compared to the previous year, as per cent



After a decline in 2019, the growth of merchandise exports was relatively rapid in 2020-2022. In 2022, exports grew by 8.6% at constant prices, with export prices increasing significantly. The growth in current prices was much faster – by 29.7%.

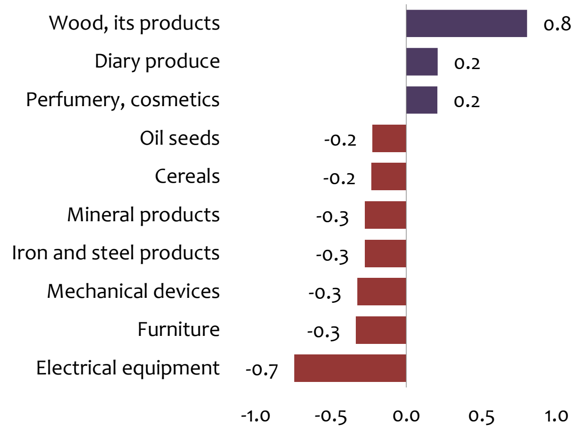
The opposite effect was observed in 2023 and 2024, when export volumes decreased at constant and current prices.

Exports of Goods
in 2024, structure as per cent



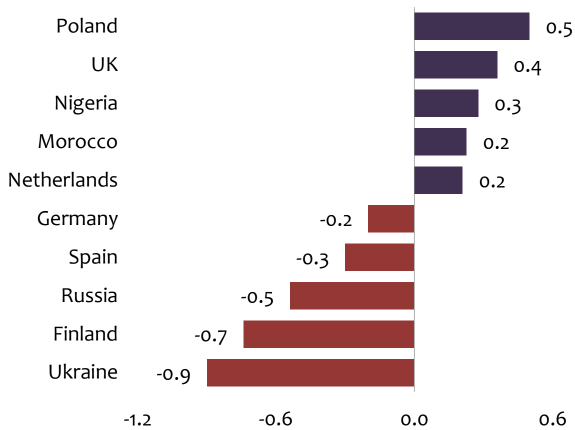
In 2024, the value of goods exports decreased by 1.5%. This decline was driven by reduced exports of machinery, electrical appliances and equipment, as well as plant products, although this was partially offset by growth in exports of wood and wood products and food industry products. In January-February 2025, export volumes also decreased by 1%, significantly impacted by the decline in exports of chemical industry goods and vehicles.

Exports of Goods
contribution to growth in 2024, percentage points



In 2024, exports of goods to the CIS countries, including Russia, declined more sharply, while exports to the EU and other countries fell more moderately. The main export goods to the EU were wood and its products, electrical appliances, and mineral products. Beverages and pharmaceuticals made up a significant share of exports to the CIS, while exports to other countries were led by wood, cereals, and electrical appliances.

Exports of Goods by Country
contribution to growth in 2024, percentage points

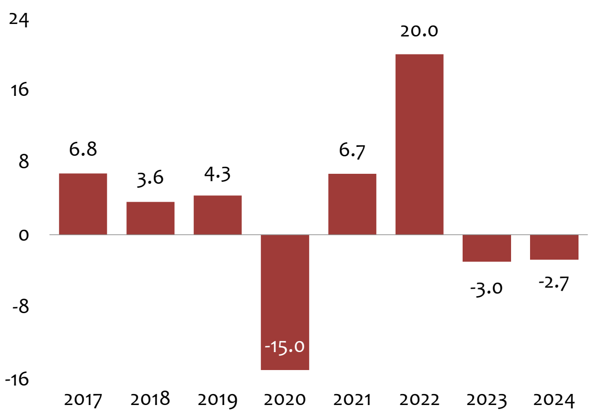


The most important export partners for Latvia's goods in 2024 were Lithuania, Estonia, Germany, Sweden, Russia, the United Kingdom, Poland, Denmark, and the Netherlands. Latvia exported approximately two-thirds of all its goods to these countries.

Exports of services

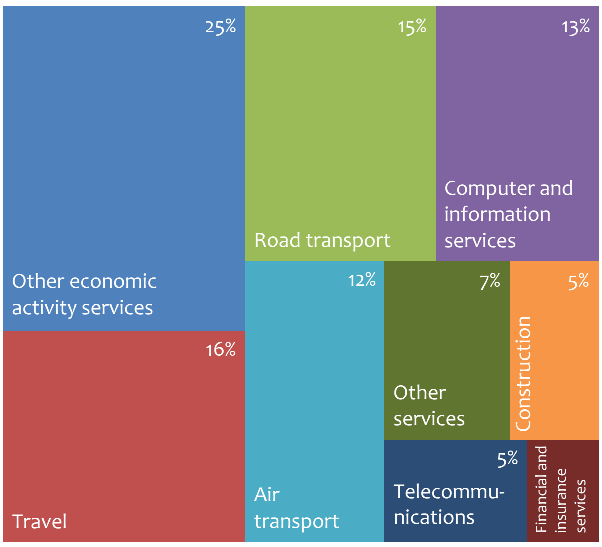
From 2017 to 2019, Latvia's service export growth was stable. However, in 2020, service exports declined significantly due to Covid-related restrictions. Growth resumed in 2021 and accelerated sharply in 2022, when service export volumes surpassed pre-Covid levels. In 2023 and 2024, service exports declined again.

Exports of Services
at constant prices, changes compared to the previous year, as per cent

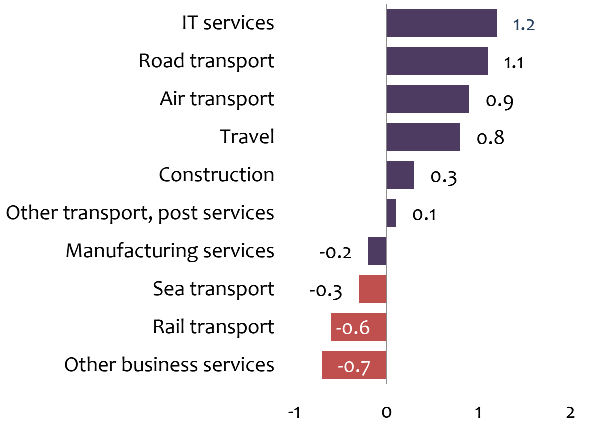


In contrast, at current prices, service exports increased in both 2023 and 2024 – by 3.5% and 2.9%, respectively. In 2024, exports of ICT, road transport, air transport, travel, and construction services grew more rapidly, while exports of trade mediation, rail, and maritime transport services declined.

Exports of Services
in 2024, structure as per cent



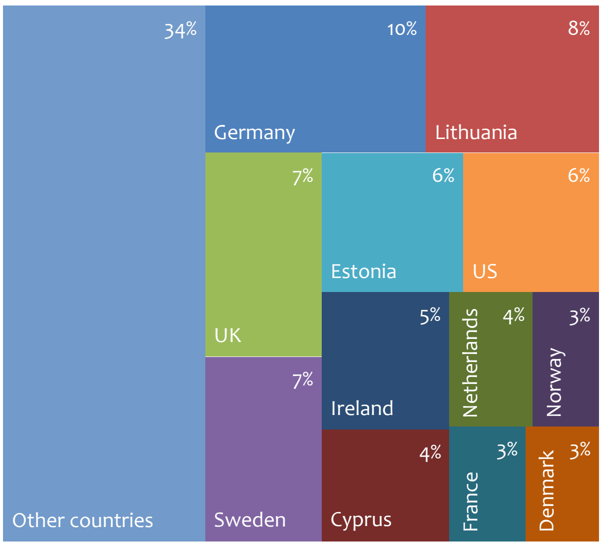
Exports of Services
contribution to growth in 2024, compared to the previous year, percentage points



The share of service exports to EU countries has been steadily increasing. In 2019, it accounted for 61% of total service exports, rising to 65% by 2024. A significant portion of service exports to EU countries consists of trade brokerage, road transport, travel, ICT, and air transport services.

Conversely, the share of service exports to CIS countries – mainly related to transit services – has continued to decline, falling from 12% in 2019 to just 3.1% in 2024. Among other countries outside the EU and CIS, service exports grew moderately in 2024, with faster growth to Canada and more modest growth to the USA and India.

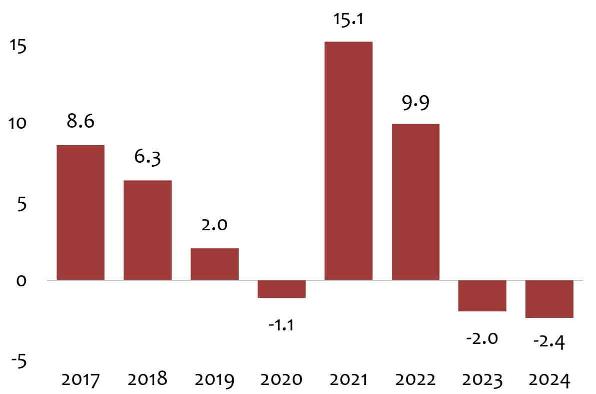
Exports of Services by Countries
in 2024, structure as per cent



IMPORTS

The growth of imports of goods and services up to 2019 was similar to that of exports. In 2020, due to the impact of Covid-19, imports of services declined significantly, while imports of goods increased slightly. In 2021, imports of both goods and services rose sharply. Import growth continued in 2022, with services growing more rapidly and goods imports increasing at a more moderate pace. In contrast, in 2023, goods imports were 2.9% lower, while service imports were 2.5% higher than the previous year.

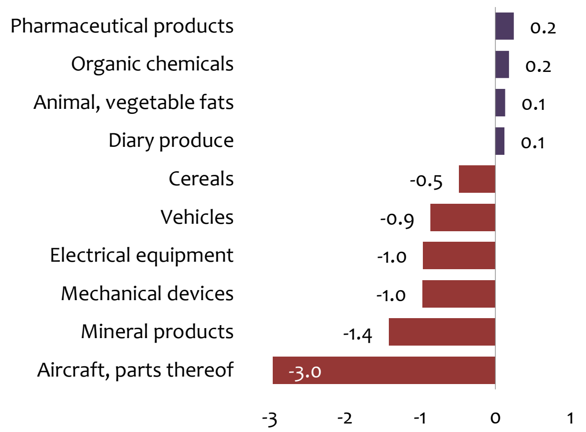
Imports of Goods and Services
at constant prices, changes compared to the previous year, as per cent



In 2024, imports of services declined more sharply, by 5.8%, while imports of goods decreased more moderately, by 1.6%.

The decrease in imports of goods in 2024 was influenced by a decrease in the value of imports of aircraft, their parts and mineral products. In turn, imports of pharmaceutical products and organic chemical compounds increased.

Imports of Goods
contribution to changes in 2024, percentage points

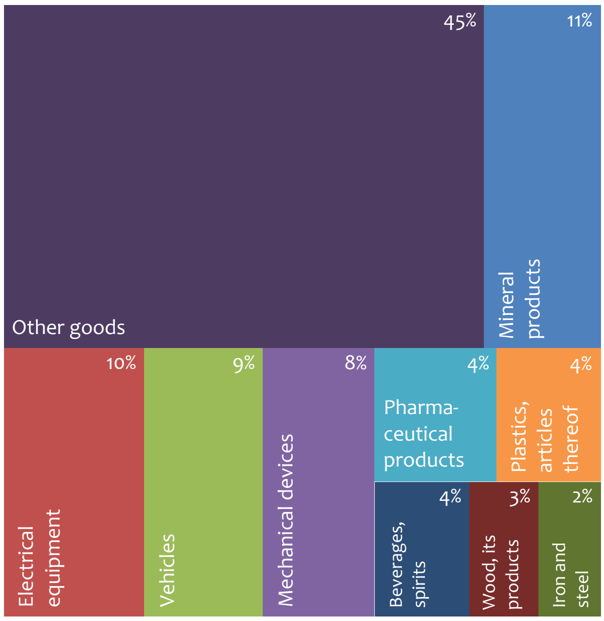


In January–February 2025, import volumes were 9.3% higher than a year earlier, significantly influenced by an increase in the value of mineral product imports.

In 2024, imports of goods from Canada, Lithuania, Russia, Italy, Germany, Estonia, and France declined more sharply, while imports from Finland and India increased.

Latvia's main import partners are Lithuania, Germany, Poland, Estonia, Finland, the Netherlands, and China. Imports from these countries accounted for about two-thirds of Latvia's total goods imports in 2024.

Structure of Imports of Goods
in 2024, as per cent



In 2024, the main import groups from EU countries were mineral products, vehicles, machinery, and electrical equipment. Imports from CIS countries still comprised a significant share of mineral products, animal feed, animal and vegetable fats, and iron and steel. Notably, Russia's share of Latvia's imports from all CIS countries declined from 82% in 2022 to 58% in 2024.

Latvia's main service import partners are Ireland, Germany, Lithuania, Estonia, the USA, the United Kingdom, and Poland. Around two-thirds of service imports come from EU countries. Import of services from Russia has steadily declined – from 4.8% in 2021 to 0.4% in 2024.

In recent years, trade brokerage transactions, transport services, and travel services have made up a large portion of total service imports.

2025 | 1

SECTORAL DEVELOPMENT

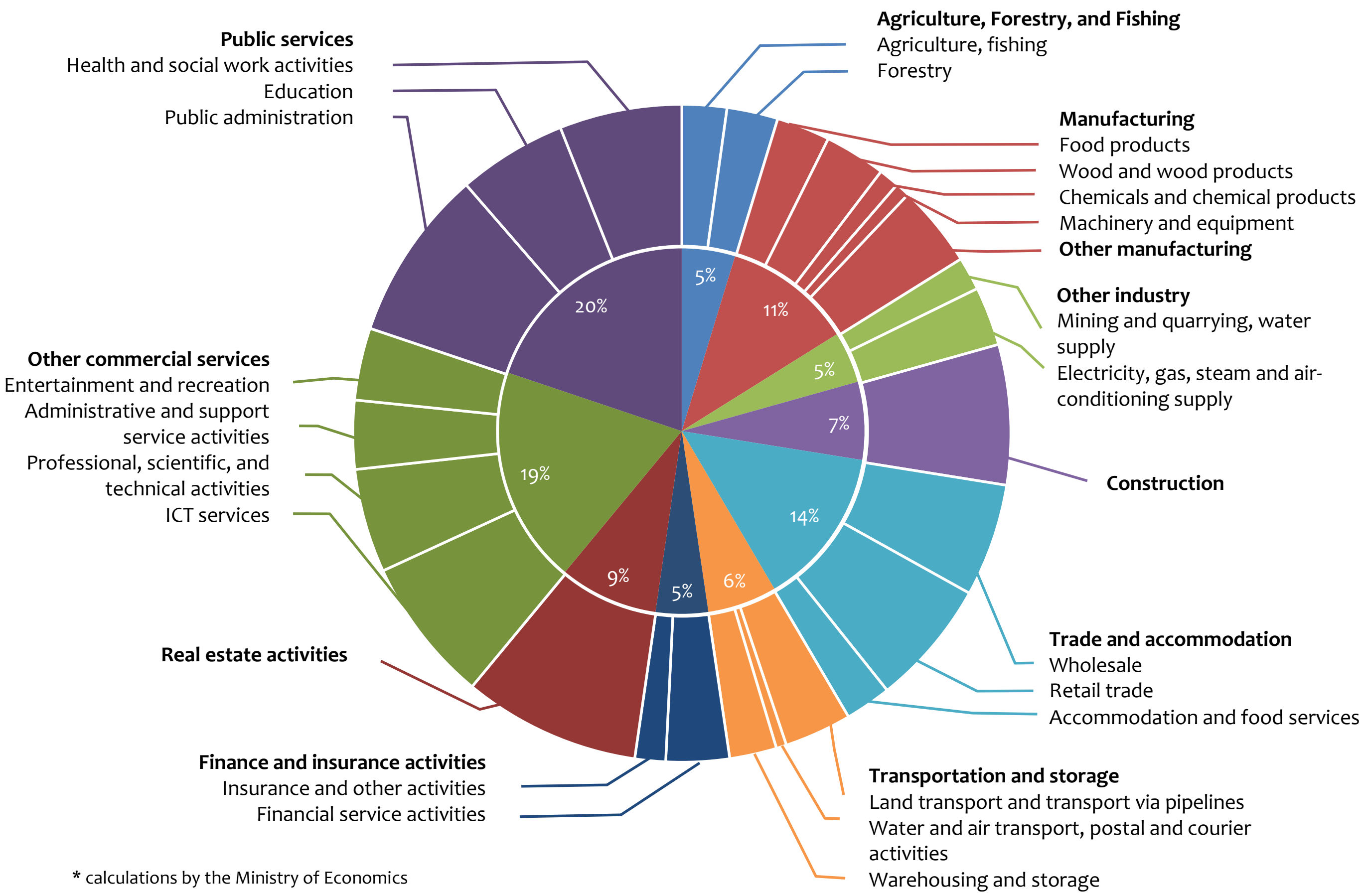
In 2009–2010, as labor costs declined, the competitiveness of Latvian manufacturers improved, laying the foundation for export growth. The structure of the national economy also shifted. In 2010, the manufacturing sectors (agriculture, forestry and fisheries, industry, as well as construction) accounted for 28.2% of total value added, compared to 27.5% in 2024. Between 2010 and 2024, the share of construction, commercial services, and public services in the economy increased, while the share of manufacturing, transport, and trade declined. The share of agriculture, forestry, and fisheries remained unchanged. During 2015–2019, growth was observed across nearly all sectors, except for other industry, financial activities, and real estate operations. Trade and manufacturing contributed most to overall growth.

In 2020, the Covid-19 crisis had a negative impact across nearly all sectors, with the most significant declines occurring in many service sectors and in construction. As the economy began to recover in 2021, growth resumed in all sectors except construction, accommodation, and education. Trade and manufacturing were the main drivers of growth that year.

In 2022, economic growth was moderate, affected by geopolitical instability. Output volumes declined in manufacturing but increased in all service sectors. Despite ongoing instability, uncertainty, high prices, and rising interest rates, growth accelerated in 2023, driven primarily by higher volumes in trade and construction.

In 2024, as the economy slowed, output declined in much of the service sector, as well as in manufacturing and construction. The most significant impacts came from reduced volumes in manufacturing, transport, and construction, while growth in trade, healthcare, and public administration and defence provided some positive contributions.

Structure of Value Added
*2024 *, as per cent*



* calculations by the Ministry of Economics

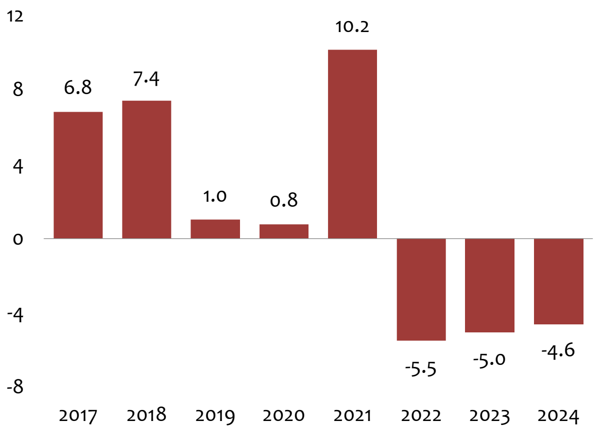
Development of Sectors
changes compared to the previous year, as per cent

	2017	2018	2019	2020	2021	2022	2023	2024
Gross domestic product	**3.4**	**4.3**	**0.7**	**-3.5**	**6.9**	**1.8**	**2.9**	**-0.4**
Agriculture, forestry, and fishing	1.5	-3.9	21.3	-0.2	0.4	-14.1	-8.8	3.7
Mining and quarrying	9.2	9.1	-8.6	6.2	-5.0	4.9	-19.9	17.1
Manufacturing	6.8	7.4	1.0	0.8	10.2	-5.5	-5.0	-4.6
Manufacture of food products	5.2	-2.9	-0.7	-1.7	1.3	1.3	2.8	-0.5
Light industry	7.6	-0.8	-2.6	-9.5	11.8	5.1	-7.2	1.6
Manufacture of wood and articles of wood	2.1	4.5	0.0	4.5	3.7	-1.0	-8.4	0.0
Manufacture of paper and paper products	4.5	-3.7	5.7	4.7	14.0	-2.7	-23.0	7.0
Manufacture of chemicals and chemical products	11.4	7.0	3.9	-1.8	14.8	4.1	-7.7	-8.6
Manufacture of non-metallic mineral products	11.1	1.3	-2.1	-1.4	4.4	5.4	-16.8	4.1
Manufacture of basic metals	12.0	3.6	13.5	-5.6	5.8	16.1	-6.1	-4.6
Manufacture of computer, electronic and optical products	15.8	12.1	11.3	12.1	5.7	3.5	13.6	-9.8
Manufacture of machinery and equipment	21.5	7.0	-1.9	-2.7	24.1	-12.3	4.2	-14.0
Manufacture of motor vehicles	22.8	7.3	-7.7	-15.3	17.7	19.5	-15.5	-13.6
Other manufacturing	4.3	-1.8	2.8	-14.2	11.8	3.8	-4.1	2.1
Electricity, gas, steam, and air-conditioning supply	-1.8	-38.6	-10.3	30.3	29.2	-32.2	22.9	-1.0
Construction	15.4	12.4	1.3	-5.8	-13.7	-4.3	20.9	-6.9
Construction of buildings	13.3	16.1	11.4	-7.9	-16.2	0.0	26.8	-19.7
Civil engineering	26.8	6.5	-11.5	-7.3	-15.3	-17.2	10.8	8.4
Trade	2.6	3.8	2.2	-4.2	19.7	5.6	10.1	3.4
Retail trade	4.3	3.8	2.3	1.5	-3.5	3.1	-2.2	0.9
Transportation and storage	6.8	3.6	-2.2	-15.9	4.9	3.5	-7.2	-7.9
Freight rail transport	-8.4	12.5	-15.8	-42.0	-9.5	-2.1	-27.5	-28.2
Cargo handling	-2.0	6.9	-5.7	-27.9	-7.2	15.2	-19.6	-6.8
Freight transport by road	7.0	12.8	-3.8	2.6	7.8	-0.8	-0.3	-3.1
Accommodation and food service activities	9.5	7.6	-4.8	-31.4	-4.2	35.8	14.3	1.3
Information and communication services	8.6	9.7	4.0	0.8	12.0	8.5	1.8	-1.3
Finance and insurance activities	-19.5	2.0	-9.2	-13.3	18.9	1.4	-3.3	3.1
Real estate activities	-2.9	4.2	-1.7	-0.5	9.0	4.5	10.3	-3.1
Other service activities	4.9	2.8	-0.5	-1.8	4.9	5.1	6.3	-0.8
Public administration and defence; compulsory social security	3.8	2.3	-0.2	3.4	0.9	3.9	1.9	4.0
Education	4.9	3.4	-4.5	1.2	-0.6	-1.4	-1.6	-2.6
Health and social work activities	4.2	9.3	4.8	-3.4	6.4	8.1	7.8	5.1
Arts, entertainment, and recreation	5.3	6.1	1.9	-33.8	2.8	35.6	13.6	5.5

MANUFACTURING

The development of manufacturing is driven by improvements in the competitiveness of Latvian manufacturers, as well as demand dynamics in the largest export markets. Production volumes grew rapidly in 2017 and 2018, at a slower pace in 2019, and more modestly in 2020 due to the impact of the Covid-19 crisis.

Manufacturing
change in value added compared to the previous year, as per cent

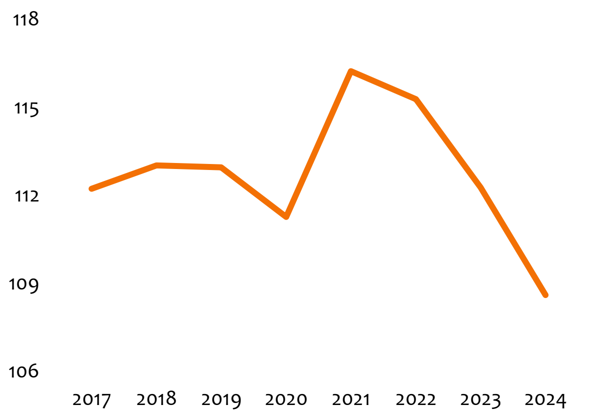


In 2021, manufacturing returned to more rapid growth. Positive growth rates in the sector continued in the first half of 2022, while the second half, as well as the year overall, saw a decline. Similar trends persisted in 2023.

Although the manufacturing industry experienced positive growth in some months of 2024, overall annual performance remained negative, with a 4.6% drop in value added compared to 2023. This was largely due to a decline in the production of electronic and optical equipment, chemical products, and vehicles. Output also fell more moderately in metalworking and in the production of machinery and equipment. Conversely, increases were observed in paper production and printing, as well as in non-metallic mineral products.

In 2024, the manufacturing industry's turnover at current prices fell by 2.9%. The volume of products sold on the domestic market decreased more moderately, while the decline in exported products was slightly steeper.

Occupied Posts in Manufacturing
in thousands

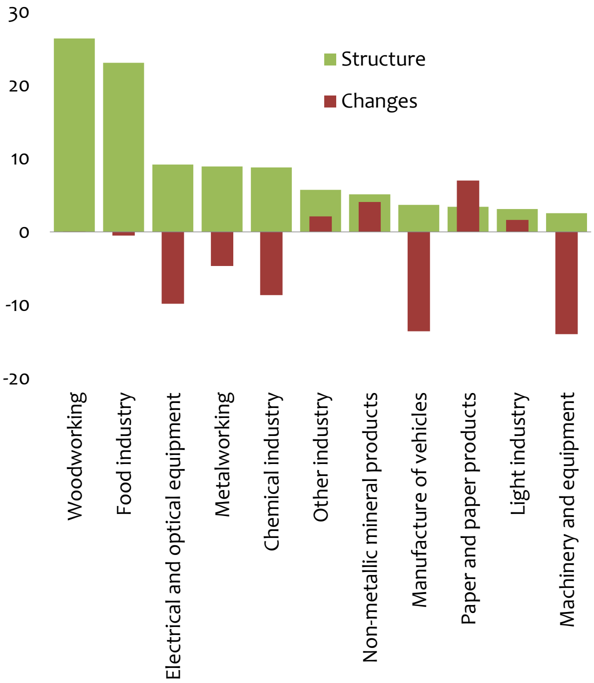


In 2023 and 2024, the number of occupied posts decreased by 3,000 and 4,900, respectively. In 2024, the decline was more pronounced in the woodworking, light industry, and metalworking sub-sectors, while the number of occupied posts increased only in the food industry.

Structure of Manufacturing and Development Trends by Sub-sector
as per cent

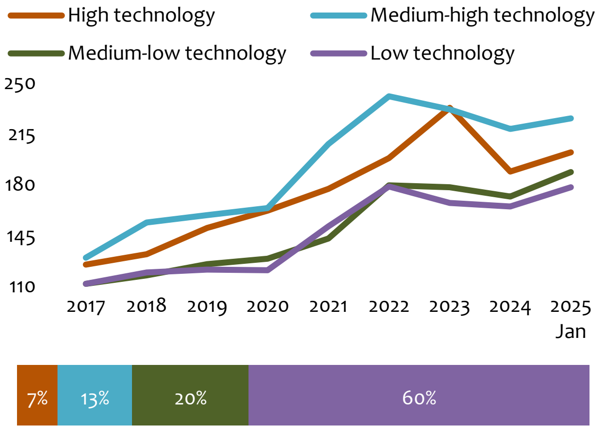
	Structure in 2024			Changes in production volumes				
	Output	Occupied posts	Exports in total sales	2021	2022	2023	2024	2025 Jan-Feb
Manufacturing	**100**	**100**	**65.3**	**7.5**	**2.7**	**-5.2**	**-2.3**	**0.8**
Food industry	23.1	20.0	43.4	1.3	1.3	2.8	-0.5	4.5
Light industry	3.1	7.5	82.7	11.8	5.1	-7.2	1.6	-2.4
Manufacture of wood and wood products	26.4	19.6	66.3	3.7	-1.0	-8.4	0.0	4.4
Manufacture of paper and paper products	3.4	4.4	62.8	14.0	-2.7	-23.0	7.0	1.1
Manufacture of chemicals and chemical products	8.8	4.4	77.3	14.8	4.1	-7.7	-8.6	-1.7
Manufacture of non-metallic mineral products	5.1	4.9	50.1	4.4	5.4	-16.8	4.1	17.6
Manufacture of basic metals	8.9	11.3	64.8	5.8	16.1	-6.1	-4.6	-6.9
Manufacture of electronic products	9.2	6.2	87.4	5.7	3.5	13.6	-9.8	-7.5
Manufacture of machinery and equipment	2.5	3.1	88.8	24.1	-12.3	4.2	-14.0	-2.6
Manufacture of motor vehicles	3.7	3.7	92.4	17.7	19.5	-15.5	-13.6	-2.8
Other manufacturing	5.7	11.8	71.5	11.8	3.8	-4.1	2.1	5.7

Growth of Manufacturing
structure and changes in 2024, compared to the previous year, as per cent



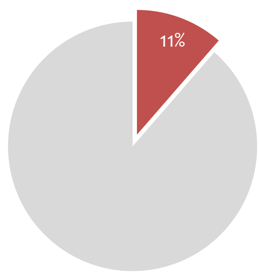
Weak demand in the EU, Latvia's largest goods market, was a key factor behind the decline in manufacturing growth in 2024. The sector was also negatively impacted by the war in Ukraine, which disrupted existing raw material supply chains. However, positive growth trends are emerging at the beginning of 2025, driven by improving export opportunities.

Manufacturing Volume Index and Structure by Levels of Technology
2020 = 100, structure in 2024, as per cent

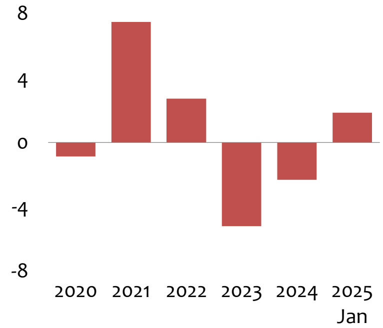


Main Indicators of Manufacturing [1]

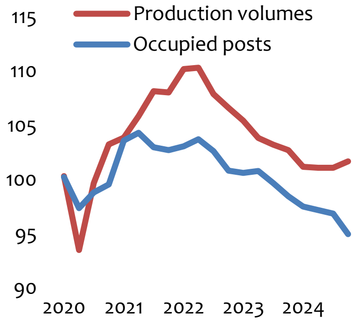
Share in total value added
in 2024, as per cent



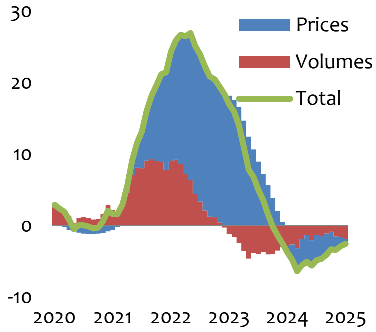
Changes in production volumes
compared to the previous year, as per cent



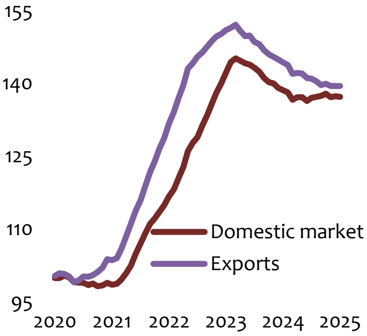
Production volumes and occupied posts
Q4 2019 = 100



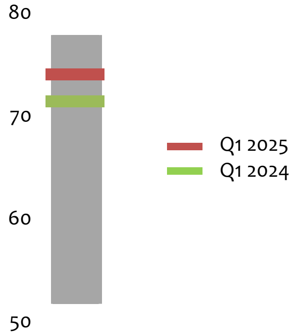
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2019 = 100, 12-month moving average



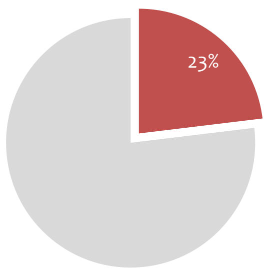
Capacity utilization rate
Historically highest/lowest level, as per cent



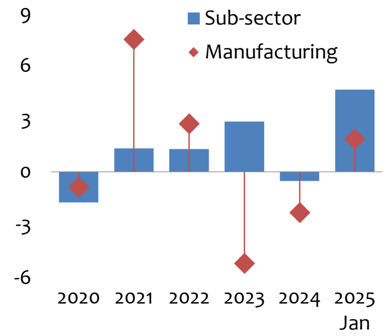
[1] data on sales of products until January 2025

Manufacture of food products and beverages

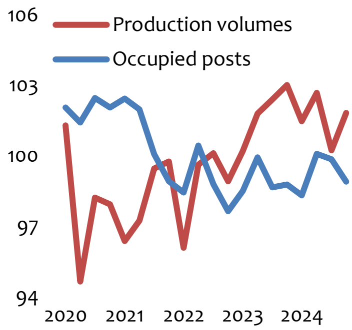
Share in total value added
in 2024, as per cent



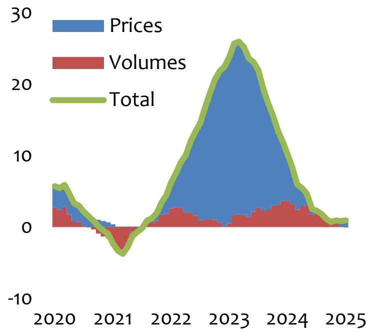
Changes in production volumes
compared to the previous year, as per cent



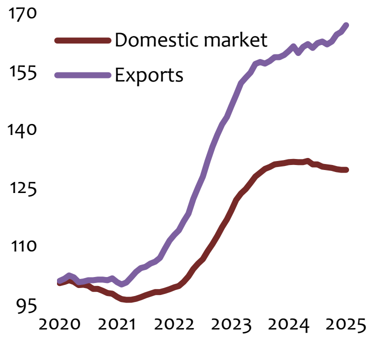
Production volumes and occupied posts
Q4 2019 = 100



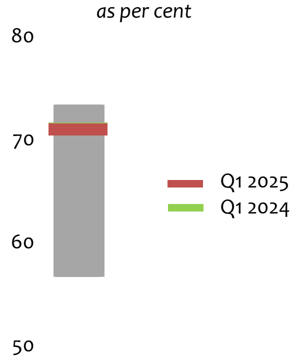
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2019 = 100, 12-month moving average

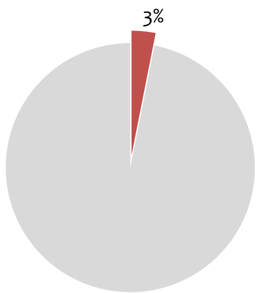


Capacity utilization rate
Historically highest/lowest level, as per cent

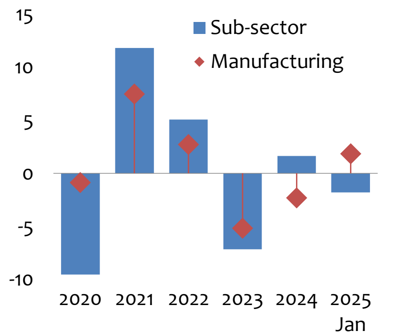


Light industry

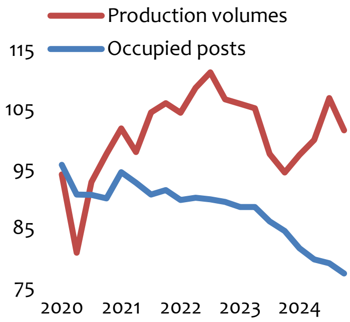
Share in total value added
in 2024, as per cent



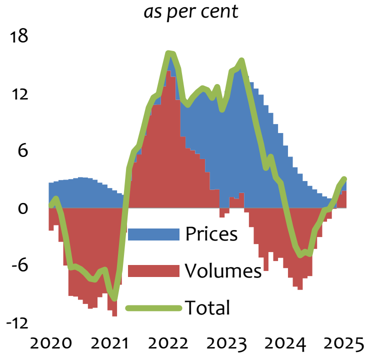
Changes in production volumes
compared to the previous year, as per cent



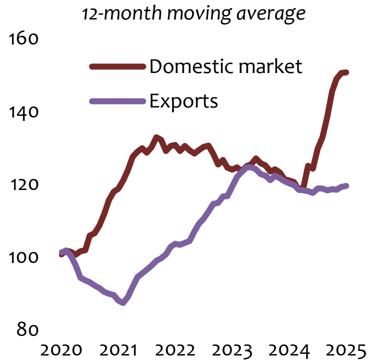
Production volumes and occupied posts
Q4 2019 = 100



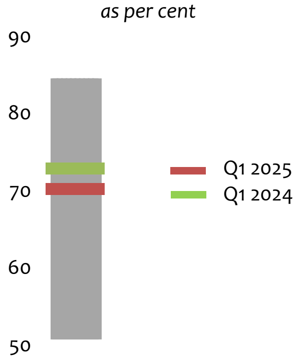
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2019 = 100, 12-month moving average

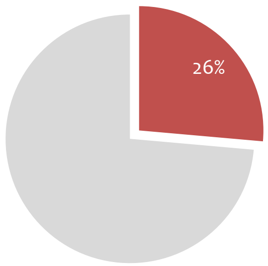


Capacity utilization rate
Historically highest/lowest level, as per cent

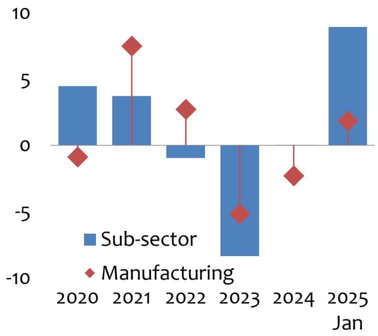


Manufacture of wood and wood products

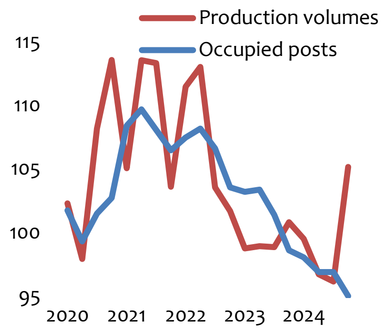
Share in total value added
in 2024, as per cent



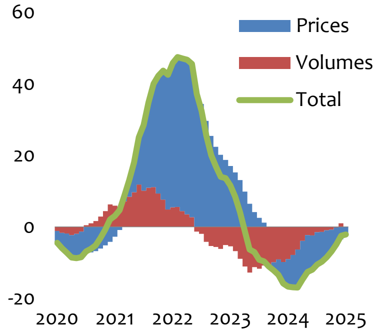
Changes in production volumes
compared to the previous year, as per cent



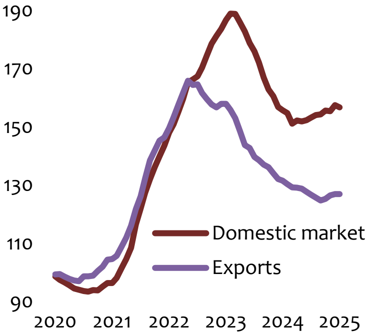
Production volumes and occupied posts
Q4 2019 = 100



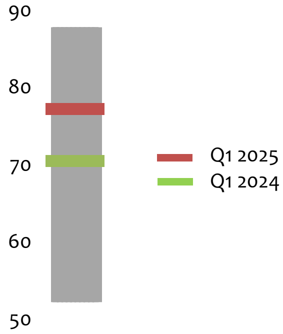
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2019 = 100, 12-month moving average

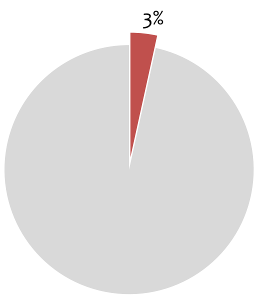


Capacity utilization rate
Historically highest/lowest level, as per cent

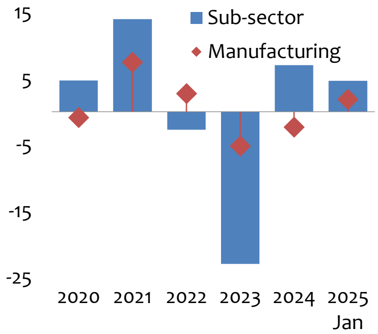


Manufacture of paper and paper products

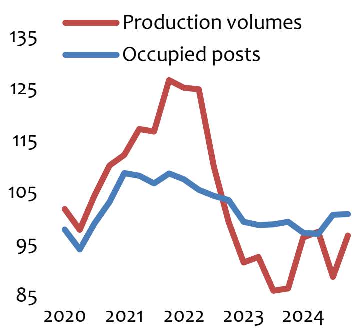
Share in total value added
in 2024, as per cent



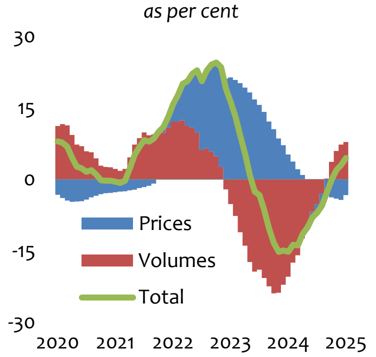
Changes in production volumes
compared to the previous year, as per cent



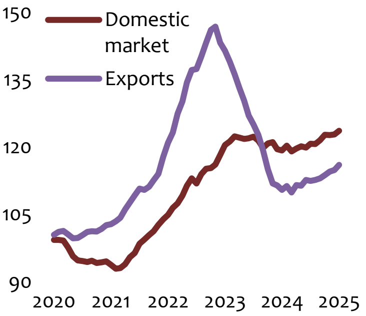
Production volumes and occupied posts
Q4 2019 = 100



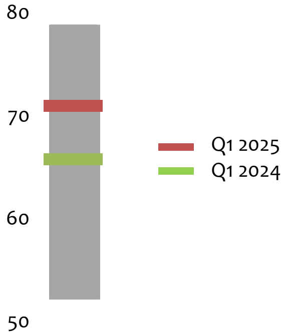
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2019 = 100, 12-month moving average

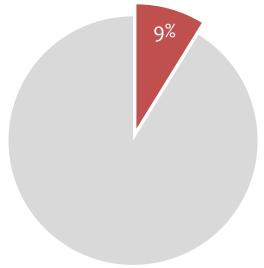


Capacity utilization rate
Historically highest/lowest level, as per cent

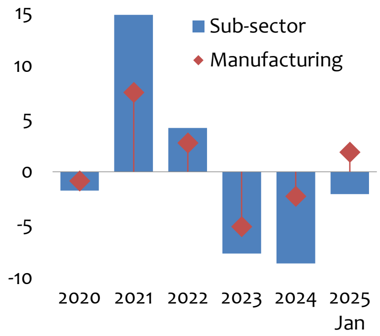


Manufacture of chemicals and chemical products

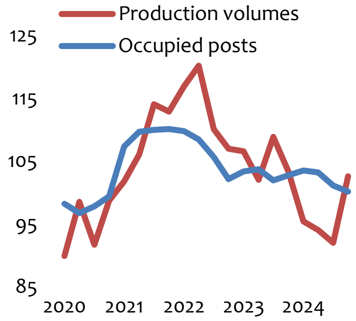
Share in total value added
in 2024, as per cent



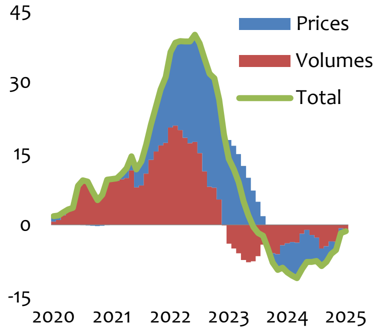
Changes in production volumes
compared to the previous year, as per cent



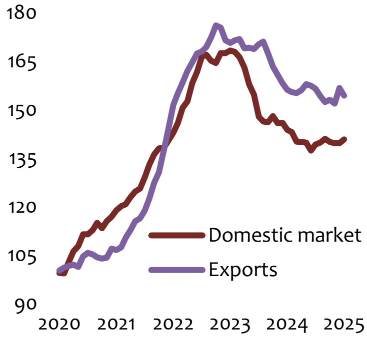
Production volumes and occupied posts
Q4 2019 = 100



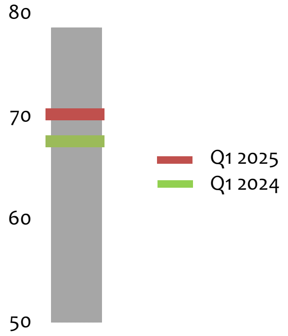
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2019 = 100, 12-month moving average

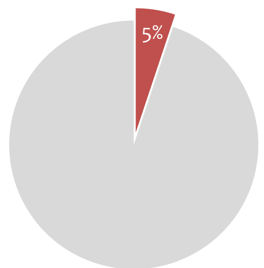


Capacity utilization rate
Historically highest/lowest level, as per cent

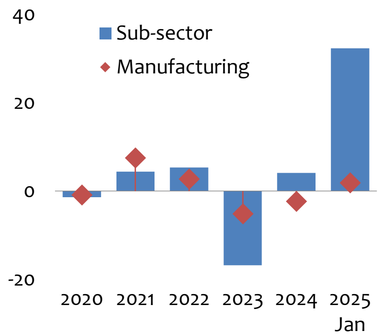


Manufacture of non-metallic mineral products

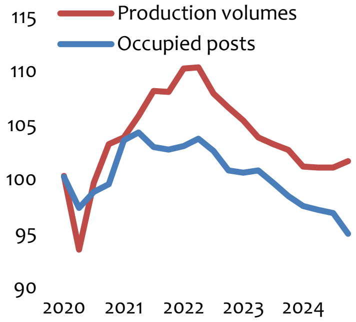
Share in total value added
in 2024, as per cent



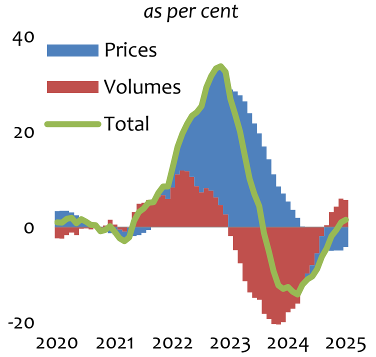
Changes in production volumes
compared to the previous year, as per cent



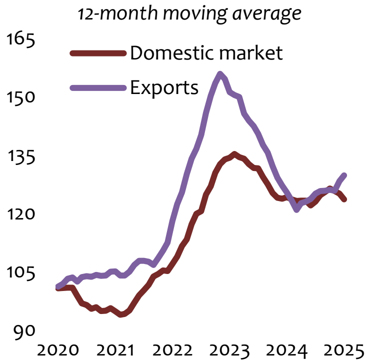
Production volumes and occupied posts
Q4 2019 = 100



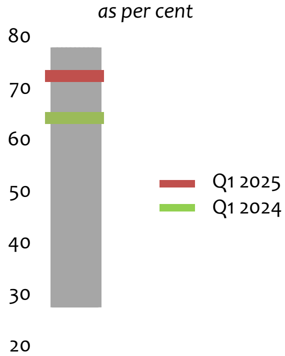
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2019 = 100, 12-month moving average

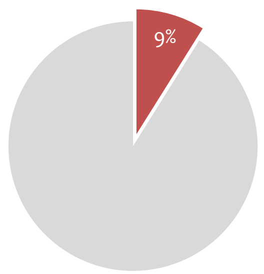


Capacity utilization rate
Historically highest/lowest level, as per cent

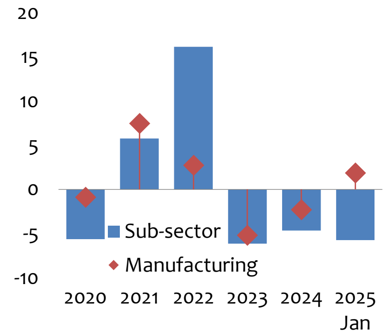


Manufacture of basic metals and fabricated metal products

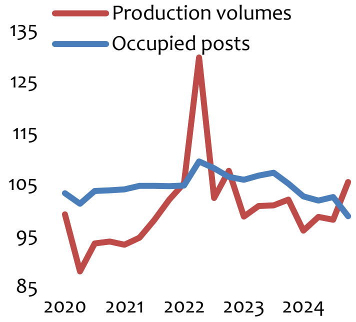
Share in total value added
in 2024, as per cent



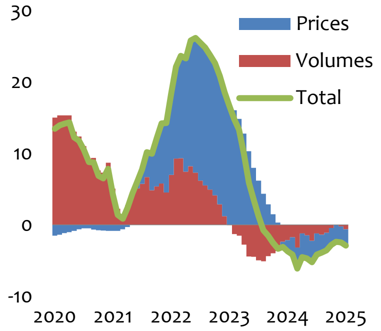
Changes in production volumes
compared to the previous year, as per cent



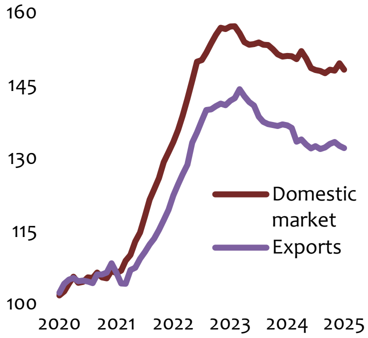
Production volumes and occupied posts
Q4 2019 = 100



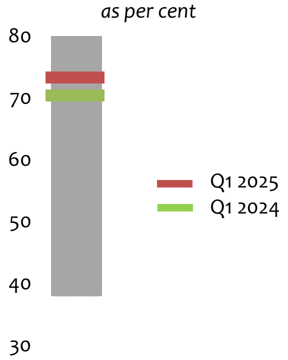
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2019 = 100, 12-month moving average

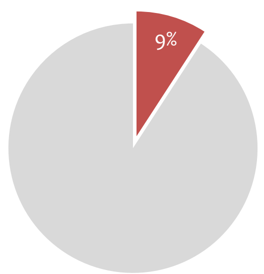


Capacity utilization rate
Historically highest/lowest level, as per cent

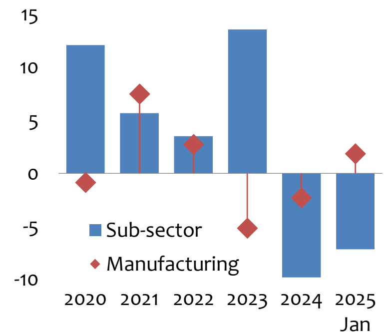


Manufacture of electronic and optical products

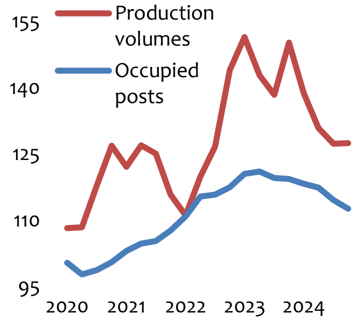
Share in total value added
in 2024, as per cent



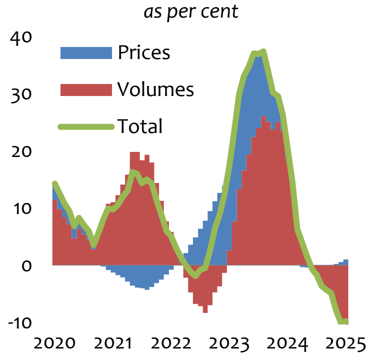
Changes in production volumes
compared to the previous year, as per cent



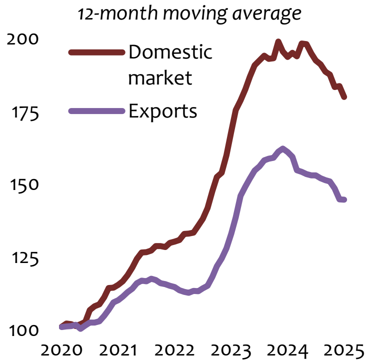
Production volumes and occupied posts
Q4 2019 = 100



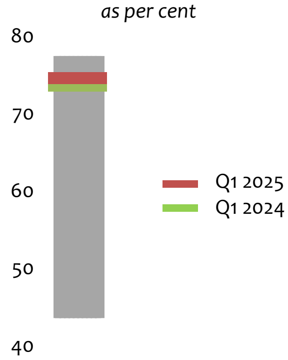
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2019 = 100, 12-month moving average

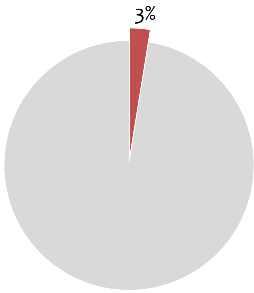


Capacity utilization rate
Historically highest/lowest level, as per cent

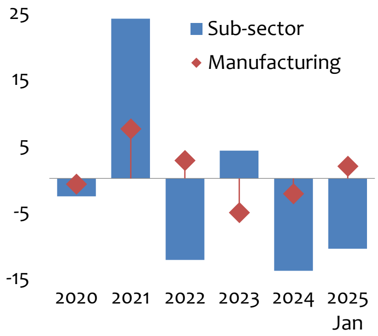


Manufacture of machinery and equipment

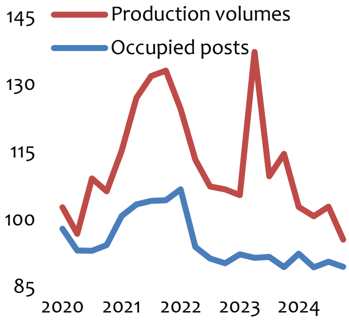
Share in total value added
in 2024, as per cent



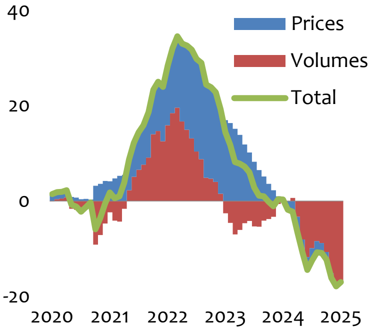
Changes in production volumes
compared to the previous year, as per cent



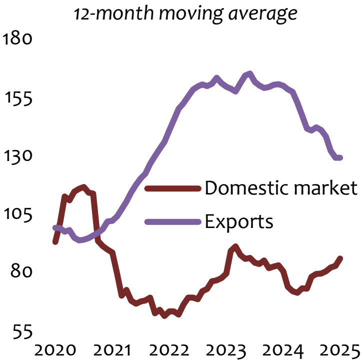
Production volumes and occupied posts
Q4 2019 = 100



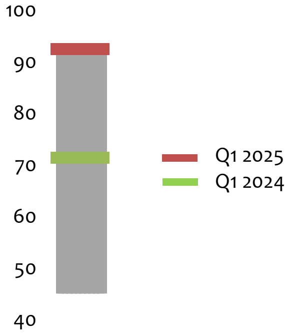
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2019 = 100, 12-month moving average

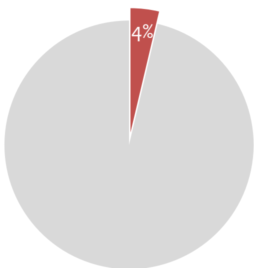


Capacity utilization rate
Historically highest/lowest level, as per cent

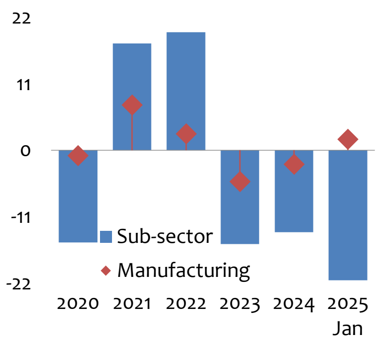


Manufacture of motor vehicles

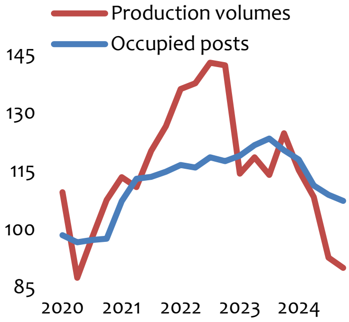
Share in total value added
in 2024, as per cent



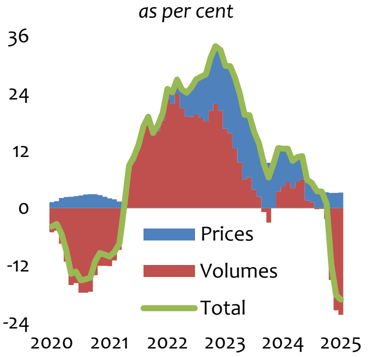
Changes in production volumes
compared to the previous year, as per cent



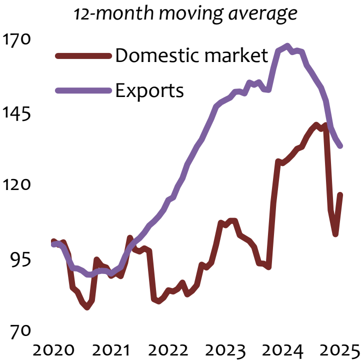
Production volumes and occupied posts
Q4 2019 = 100



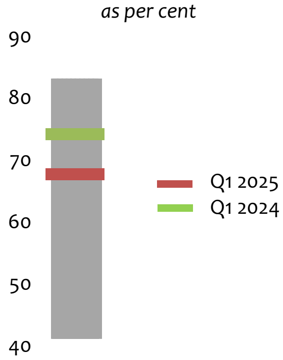
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2019 = 100, 12-month moving average

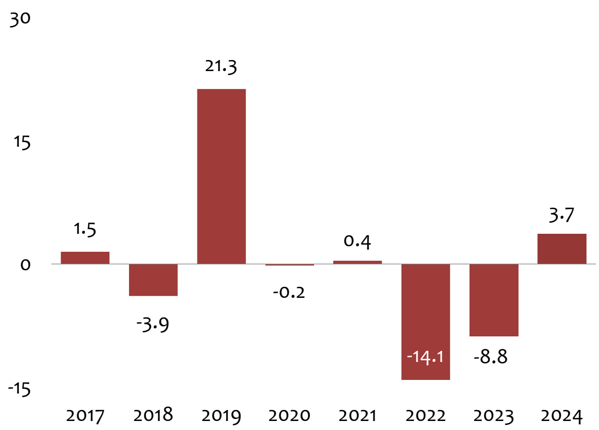


Capacity utilization rate
Historically highest/lowest level, as per cent



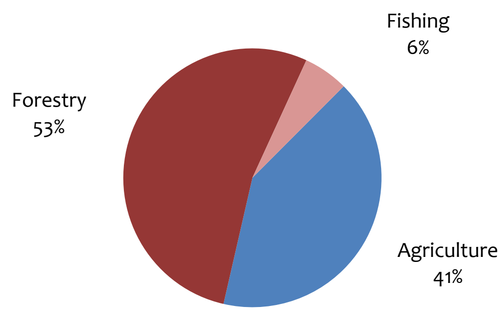
AGRICULTURE, FORESTRY, AND FISHING

Agriculture, Forestry, and Fishing
value added, changes compared to the previous year, as per cent



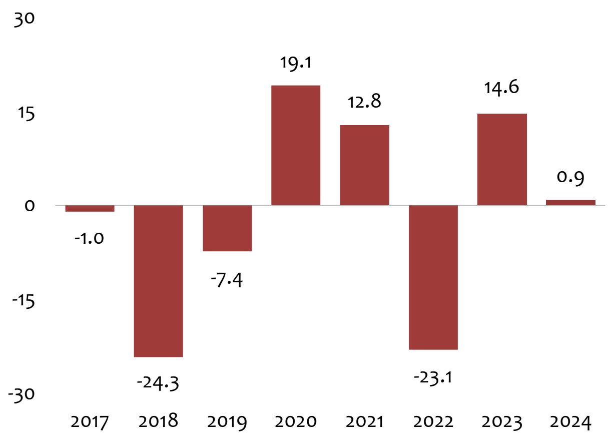
The agriculture, forestry and fisheries sector is predominantly composed of agriculture and forestry. Due to its strong dependence on weather conditions, the sector experiences fluctuating growth. In 2022–2023, output volumes declined sharply, driven by both adverse weather and falling production prices and demand. In 2024, production volumes increased, supported by growth in both agriculture and forestry. Overall, the number of jobs in the sector rose in 2022–2023, primarily due to a sharp increase in forestry employment. However, in 2024, the total number of jobs in the sector declined, with forestry continuing to add jobs, while employment in agriculture has been consistently decreasing since 2018.

Structure of Agriculture, Forestry, and Fishing
2024, as per cent



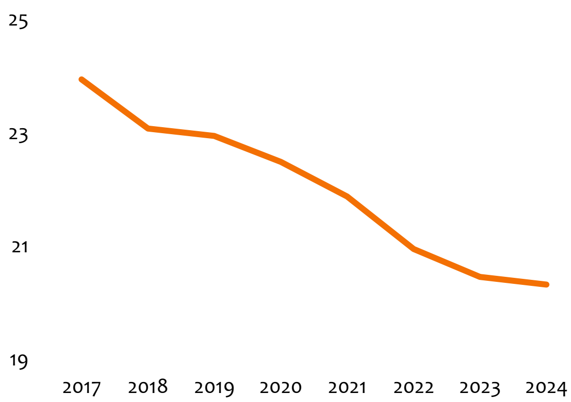
OTHER INDUSTRY

Other Industry
value added, changes compared to the previous year, as per cent



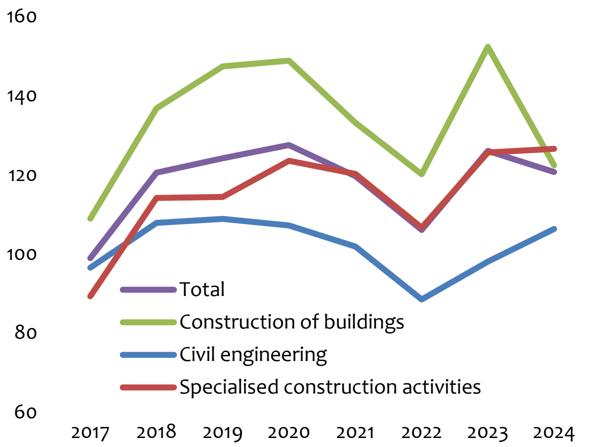
The structure of other manufacturing (mining and quarrying; electricity, gas supply, heat supply and air conditioning; water supply and waste management) is dominated by electricity and gas supply. In 2024, output volumes in these industries grew only moderately. The main impact came from a decline in the electricity, gas supply, heat supply and air conditioning sector, as the reduction in electricity generated by hydroelectric power plants outweighed increases from cogeneration and solar plants. Additionally, falling energy prices led to higher consumption and, consequently, increased imports. In contrast, the mining and quarrying sector experienced rapid growth, driven by increased activity in gravel and sand quarrying as well as peat extraction and processing. The number of occupied jobs declined across all subsectors in both 2023 and 2024.

Occupied Posts in Other Industry
in thousands

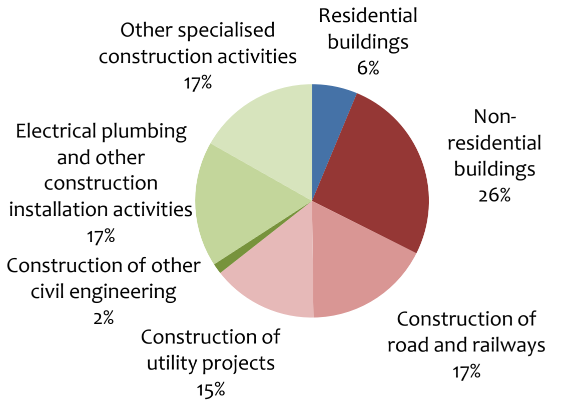


CONSTRUCTION

Development of Construction
2015 = 100



Structure of Construction
in 2024, as per cent

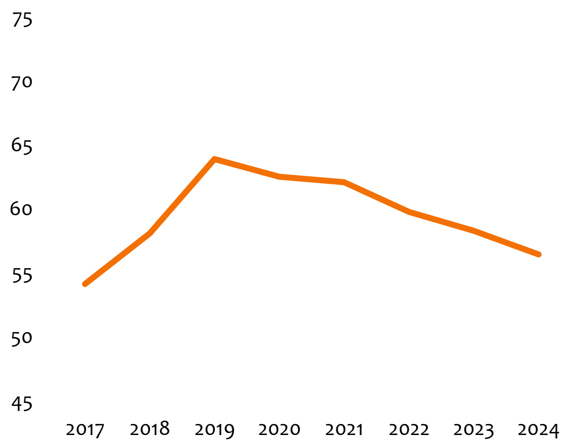


In 2024, the construction industry experienced a decline. Over the year, the volume of construction output fell by 4.3% compared to 2023. At the industry level, this was driven by a significant drop in building construction activity, which continues to be affected by relatively high lending rates.

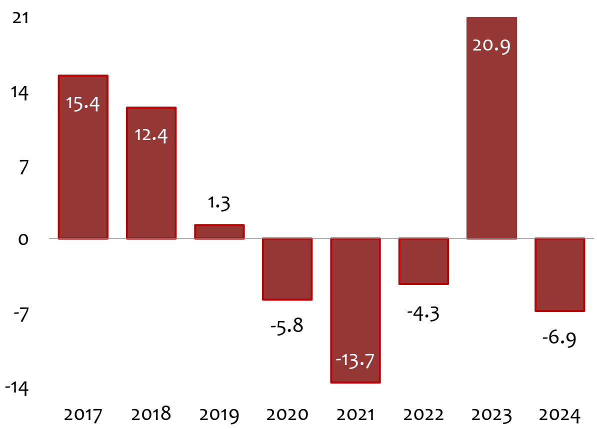
In the main construction categories, differing trends were observed in 2024. Output volumes increased in engineering construction and specialized construction works, while a decline was recorded in building construction.

In 2024, 4,187 building permits were issued, representing a 1.2% decrease compared to 2023. However, the total area covered by building permits increased by 11.7% year-on-year. The largest growth was seen in industrial production buildings and warehouses, as well as multi-apartment buildings.

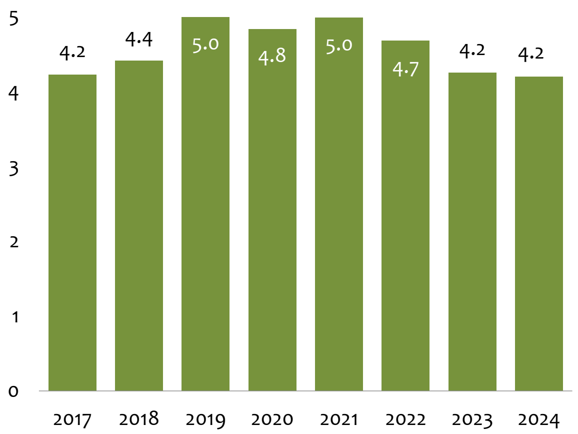
Occupied Posts in Construction
in thousands



Construction
value added, changes compared to the previous year, as per cent

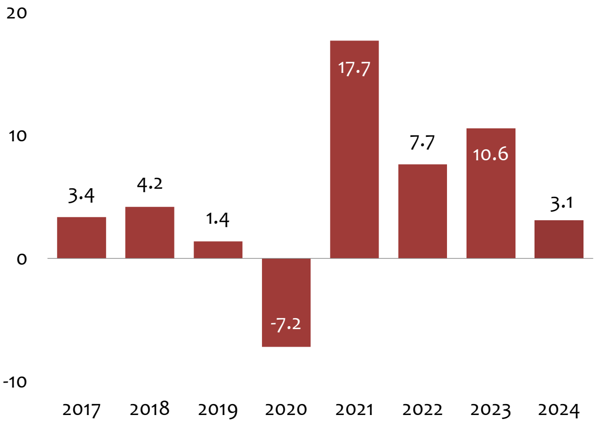


Building Permits Granted
in thousands



TRADE, ACCOMMODATION, AND FOOD SERVICE ACTIVITIES

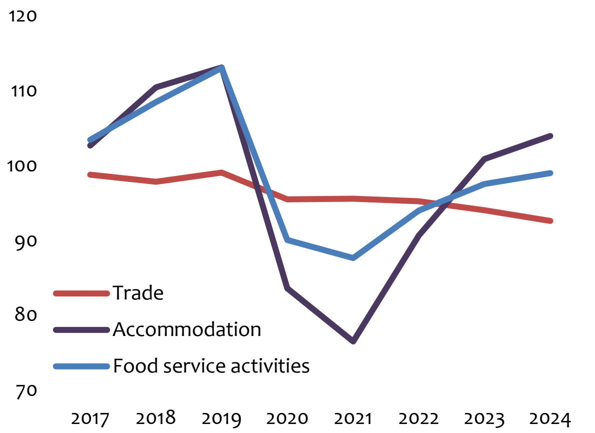
Trade, Accommodation, and Food Service Activities
value added, changes compared to the previous year, as per cent



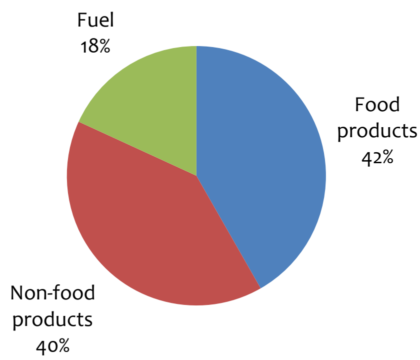
The volume of services provided in the trade, accommodation, and catering sector continues to grow. The trade sector has expanded rapidly in recent years. In 2024, however, growth was more moderate – at 3.4% – due to the unfavorable external environment, which resulted in wholesale volumes remaining virtually unchanged. Meanwhile, retail trade turnover increased by only 0.9%, as the population remained cautious about making larger purchases. Retail trade volumes for non-food goods and fuel increased, while those for food declined.

The volume of services in the accommodation and catering sectors grew only moderately in 2024, largely due to a decline in the catering sector. At the same time, the number of occupied posts increased in the accommodation and catering sector but decreased in trade. The largest proportion of occupied posts is in trade.

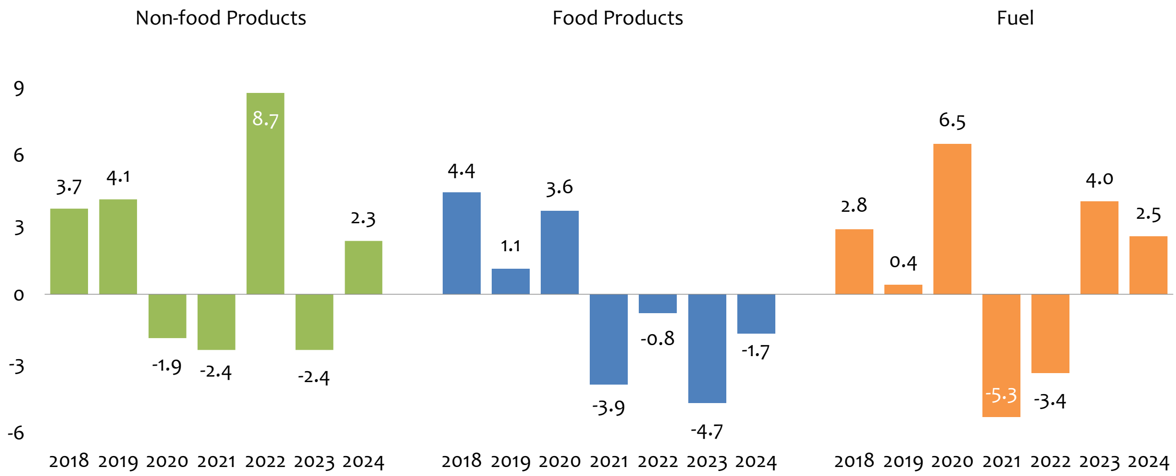
Occupied Posts in Trade, Accommodation, and Food Service Activities
2015 = 100



Structure of Retail Turnover
2024, as per cent



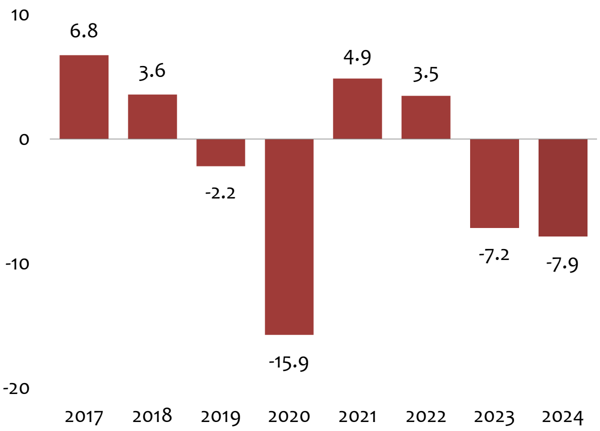
Retail Turnover
changes compared to the previous year, as per cent



TRANSPORTATION AND STORAGE

Transportation and Storage

value added, changes compared to the previous year, as per cent

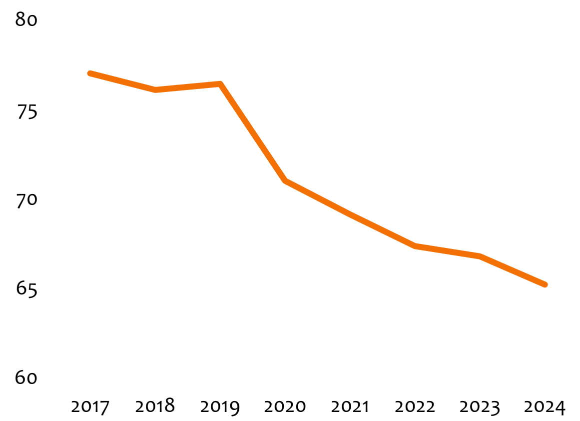


The transportation and storage sector is closely linked to international transportation. In 2023 and 2024, the volumes in the transport sector declined, primarily due to a decrease across all transport sub-sectors, except air transport.

In 2023, the most significant decline in service volumes occurred in land and pipeline transport, as well as in storage and transport auxiliary activities, while in 2024, the largest decline was in water transport. In 2024, the volume of freight transported decreased across all modes of transport. In road transport, the decrease in freight volumes was determined by a decline in domestic freight, while in rail transport, it was driven by a drop in international shipments. Passenger transport in 2024 grew most rapidly in air transport, with an increase of 7.3%, while land transport grew by 2%, and maritime transport saw a decrease of 3.9%.

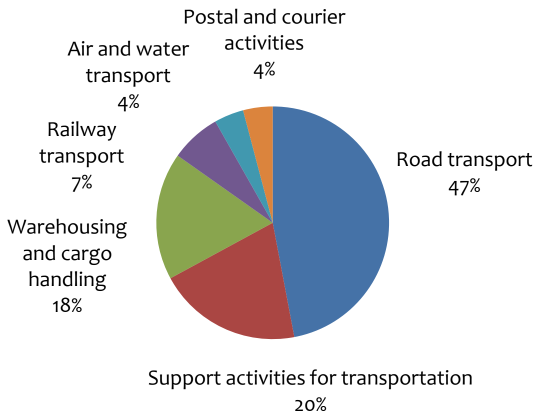
Occupied Posts in Transportation and Storage

in thousands



Structure of Transportation and Storage

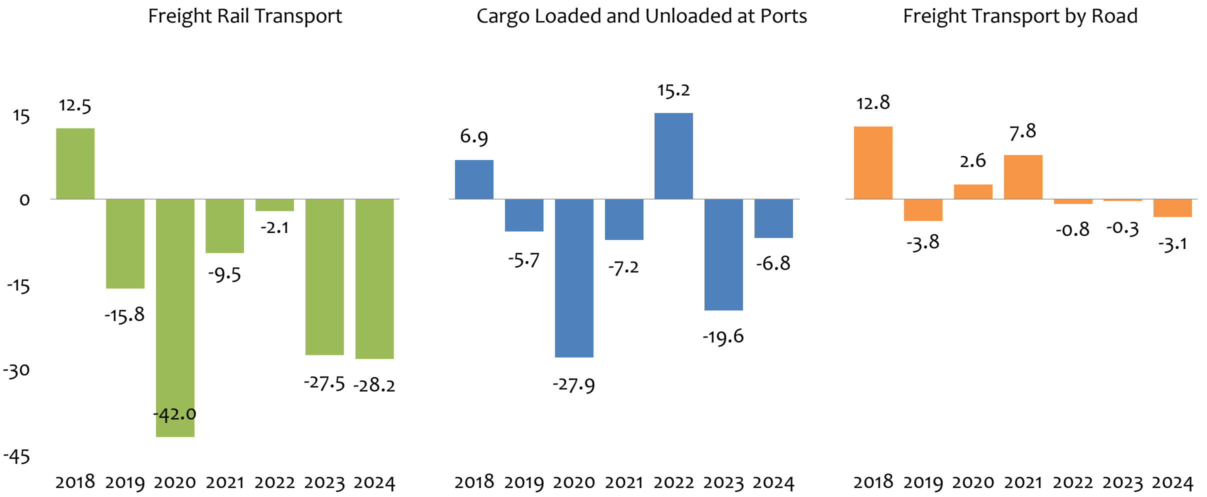
2024, as per cent*



* – EM novērtējums

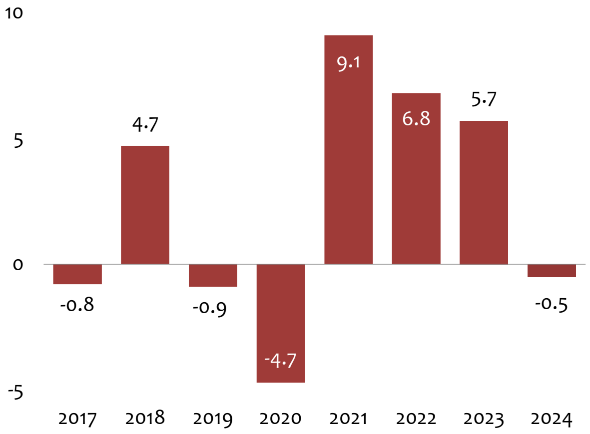
Freight Traffic

changes compared to the previous year, as per cent



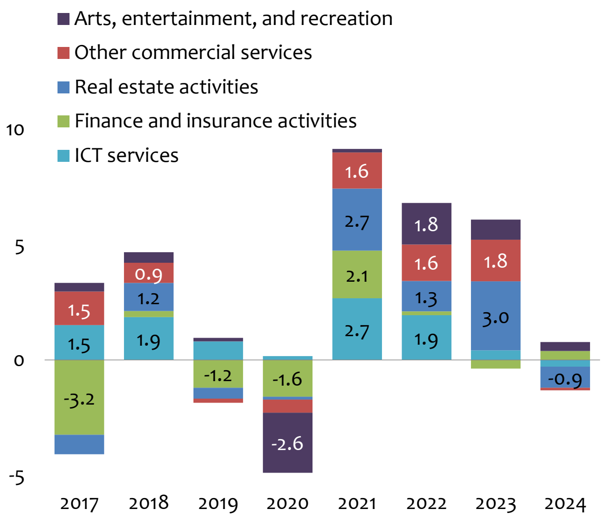
COMMERCIAL SERVICES

Commercial Services
value added, changes compared to the previous year, as per cent



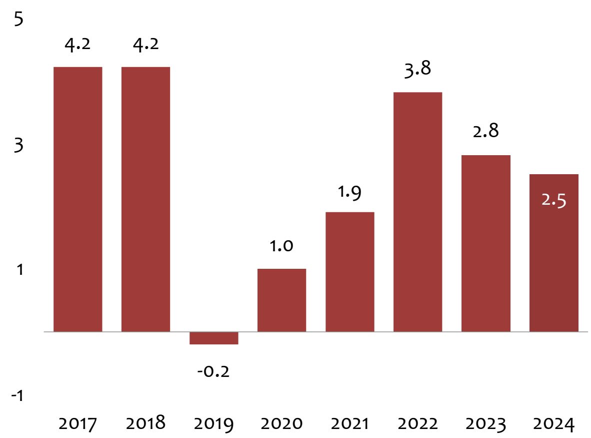
In the sectoral structure of commercial services, real estate operations dominate, followed by information and communication (ICT) services, financial and insurance activities, real estate operations, professional, scientific and technical services, administrative and support service activities, and arts, entertainment, and recreation. Between 2021 and 2023, as the Covid-19 crisis recovered, the volumes of commercial services grew rapidly. However, in 2024, a decline in volumes was observed across all commercial service sectors, except for arts, entertainment and recreation, and financial activities. The most significant decline occurred in real estate operations. The largest share of occupied posts is in ICT services, professional, scientific and technical services, and administrative and support service activities. In 2024, the number of occupied posts increased in all sectors, except for real estate operations and professional, scientific and technical services.

Contribution of Commercial Services
percentage points



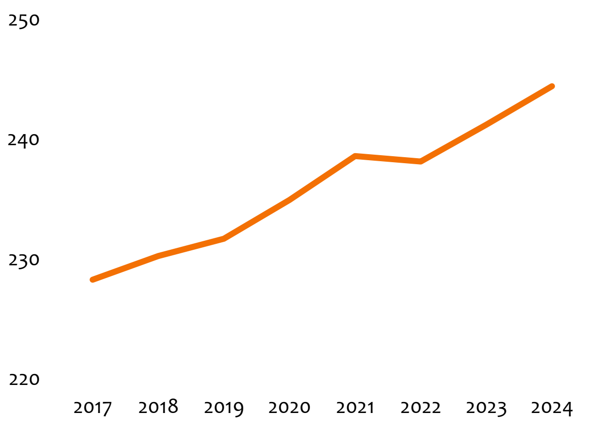
PUBLIC SERVICES

Public Services
value added, changes compared to the previous year, as per cent



In the structure of public services, public administration and defense dominate, followed by education, and health and social care. In 2023–2024, the total volume of public services grew more moderately. In 2024, volumes continued to grow rapidly in the health and social care sector, increasing by 5.1%. Public administration and defense services grew by 4%, while education volumes decreased by 2.6%. The largest proportion of occupied posts is in education. In 2024, the number of occupied posts decreased only in education, while it continued to grow rapidly in health and social care.

Occupied Posts in Public Services
in thousands



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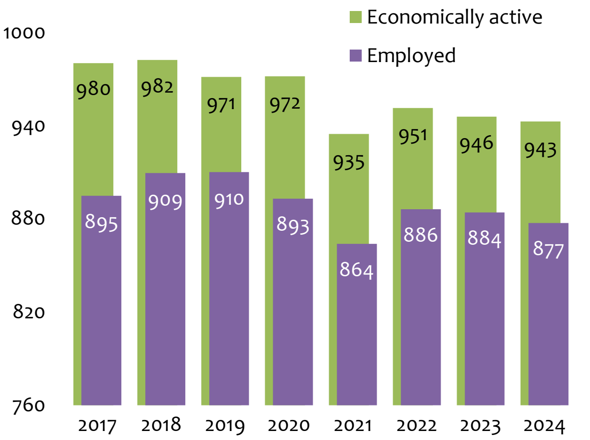
LABOUR MARKET

EMPLOYMENT AND UNEMPLOYMENT

Given the slowdown in economic growth, overall labor demand and employment rates have decreased. At the same time, supply-side factors and the uneven regional distribution of available labor resources continue to put pressure on the labor market, causing many sectors to face ongoing worker shortages. Although the influx of Ukrainian war refugees into the Latvian labor market previously helped mitigate the negative impact of supply-side factors on labor shortages, it is important to note that some refugees are returning home, meaning demographic trends continue to significantly affect labor availability.

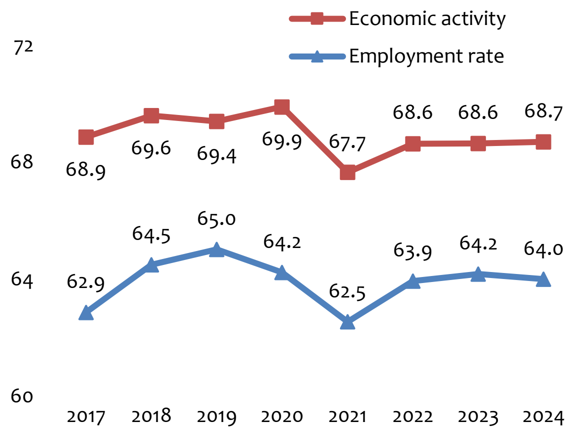
Employed and Economically Active
aged 15-74, in thousands



In 2024, labor demand remained generally limited, and no significant changes in the number of jobs were observed. The number of employed people remained close to the 2023 level, showing a decreasing trend. On average, 877.4 thousand people were employed in 2024, which was 0.2% (6.8 thousand) fewer than the previous year. The proportion of employed individuals in the total working-age population decreased by 0.2 percentage points, reaching 64% in 2024 (down from 64.2% in 2023).

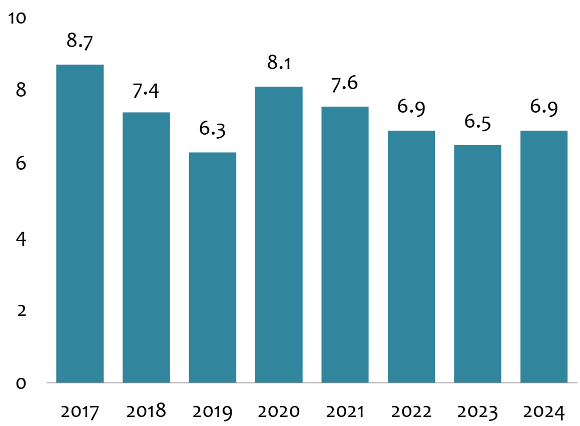
Latvia's employment rate remained lower than its neighboring countries, being 5.1 percentage points lower than Estonia (68.5% in Q4 2024) and 2.7 percentage points lower than Lithuania (66.1% in Q4 2024).

Employment and Economic Activity
aged 15-74, as per cent



The negative trend in employment during the year was influenced by both the slowdown in economic growth and the absence of new demand stimuli. Additionally, supply-side factors, particularly the decreasing working-age population, continued to exert pressure on the labor market. In 2024, the working-age population (aged 15-74) decreased by 0.4% (5.4 thousand) compared to 2023. Furthermore, as the influx of Ukrainian war refugees slowed, the positive effect of this flow on the working-age population and labor supply will gradually diminish.

Unemployment Rate
aged 15-74, as per cent



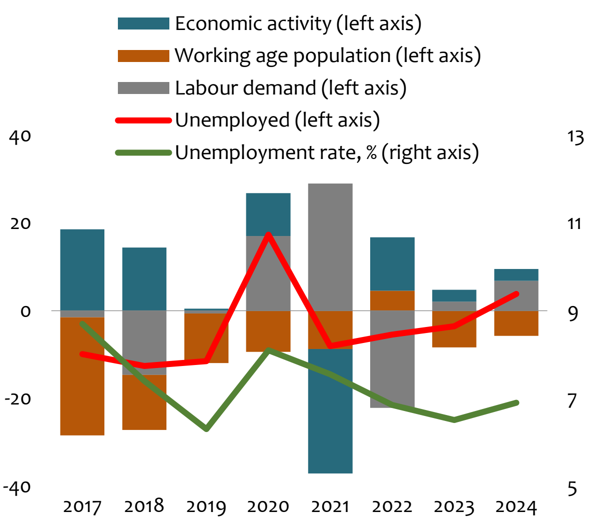
In 2024, there was a slight increase in population activity, although the number of economically active persons continued to decline in absolute terms. The economic activity rate of the population averaged 68.7% in 2024, up by 0.1 percentage points compared to 2023 (68.6%), while the number of economically active persons aged 15–74 decreased by 3 thousand year-on-year, amounting to 942.7 thousand.

Considering the decline in labor demand, the overall unemployment rate in the fourth quarter of 2024 increased by 0.1 percentage points compared to the same period in 2023, but decreased by 0.2 percentage points compared to the third quarter of 2024, reaching 6.9%. In the fourth quarter, 63.8 thousand residents aged 15–74 were unemployed, which is 0.4 thousand fewer than a year earlier. On average in 2024, the unemployment rate rose by 0.4 percentage points to 6.9%, while the number of unemployed persons aged 15–74 increased by 6.2% or 3.8 thousand, reaching a total of 65.3 thousand.

Despite the increase in unemployment, both the number of registered unemployed persons and the registered unemployment rate continued to decline, which generally reduces employers' ability to attract the necessary specialists. At the end of December 2024, the number of registered unemployed persons stood at 46.6 thousand, which is 3.8 thousand or 7.5% fewer than a year earlier. The registered unemployment rate at the end of December 2024 was 5.3%, a decrease of 0.4 percentage points year-on-year.

Unemployment Rate and Its Determinants

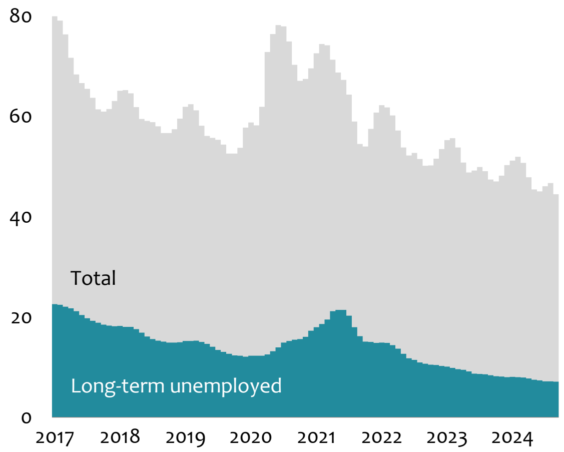
changes against the corresponding period of the previous year, left vertical axis – thousands, right vertical axis – as per cent



Positive trends are also evident in the dynamics of long-term unemployment. Since mid-2021, both the number and the share of long-term unemployed among all registered job seekers have been gradually declining. From the end of December 2023 to the end of 2024, the number of registered long-term unemployed decreased by 11.5%, or approximately 0.9 thousand individuals. By the end of 2024, around 7.1 thousand registered job seekers – approximately 15.3% of all registered unemployed – had been unemployed for more than a year.

Registered Unemployed

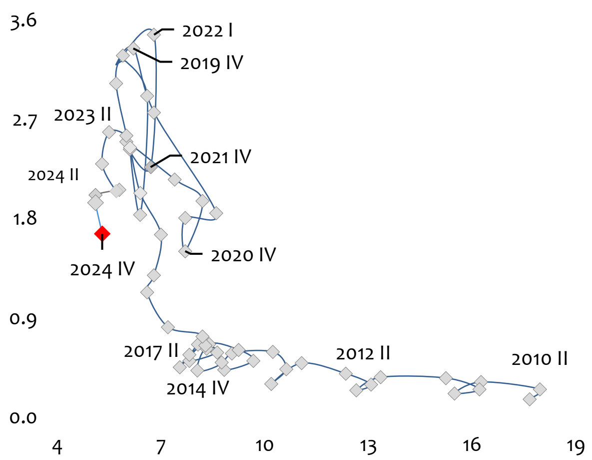
in thousands



Despite the decrease in unemployment, the risk remains that some of the currently unemployed may face difficulties in finding employment that matches their qualifications. Specifically, the longer an individual remains unemployed, the greater the likelihood of skill deterioration and reduced ability to adapt to evolving labor market requirements. Prolonged detachment from employment also increases the risk of structural unemployment.

Beveridge Curve

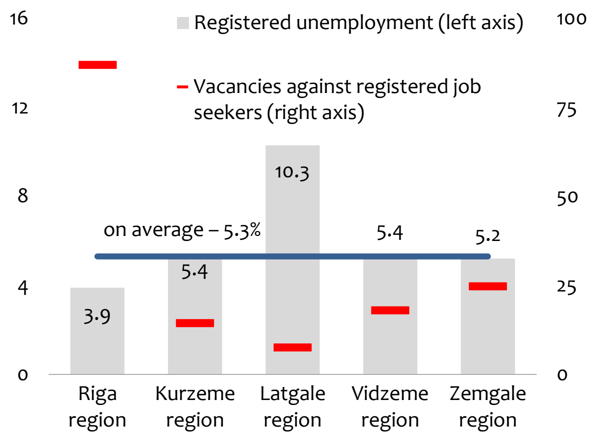
by quarters, as per cent; horizontal axis – unemployment rate; vertical axis – vacancies against the economically active population



Structural issues continue to significantly impact regional disparities in the labor market, limiting the efficient allocation and utilization of labor resources in the economy. Although these regional imbalances are gradually narrowing, the pace of convergence remains slow. Long-standing challenges are particularly evident in the Latgale region, where the unemployment rate remains nearly twice the national average and almost three times higher than in the Riga region. Combined with low geographical mobility of the labor force, this heightens the risk of structural unemployment. Despite the overall rise in unemployment and a lower employment rate, Latvia still recorded a lower unemployment rate than Estonia in the 4th quarter of 2024. During this period, Latvia's unemployment rate stood at 6.9%, which was 0.6 percentage points lower than Estonia's (7.5%), but 0.3 percentage points higher than Lithuania's (6.6%). As in 2023, Latvia continued to record the lowest youth unemployment rate among the Baltic states in 2024.

Registered Unemployment by Region

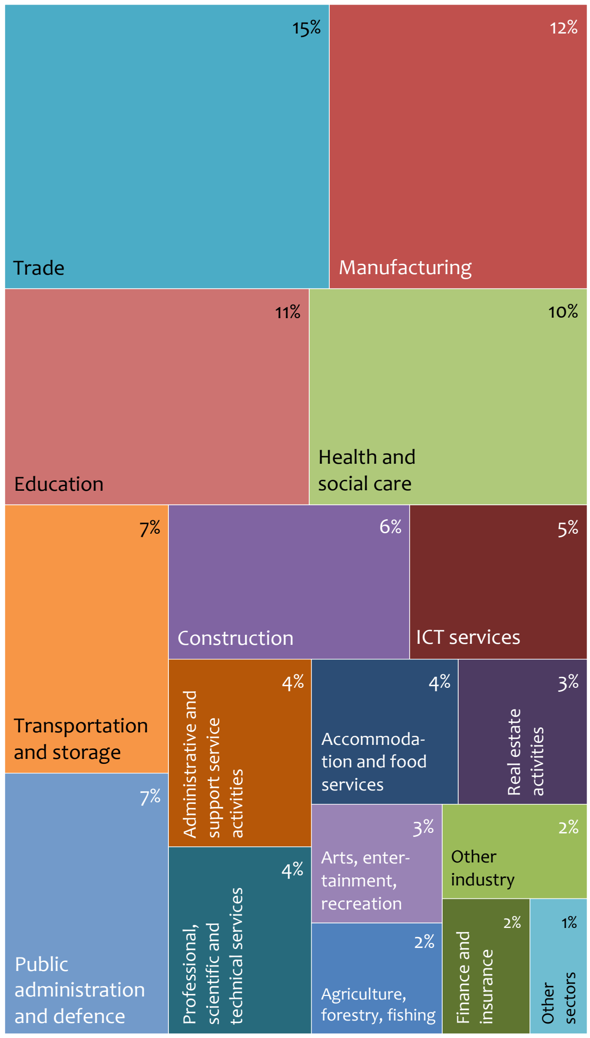
at the end of 2024, as per cent



The average number of occupied posts in the country in 2024, compared to 2023, decreased by 0.6% or approximately 5.1 thousand – to 881.4 thousand. In the 4th quarter of 2024, the most significant increase in occupied posts was observed in the health and social care sector, the financial and insurance sector, and the administrative and support services sector. Although the sectors are gradually recovering, the number of occupied posts still does not reach the pre-Covid-19 crisis level that was observed in 2019.

Changes in Occupied Posts

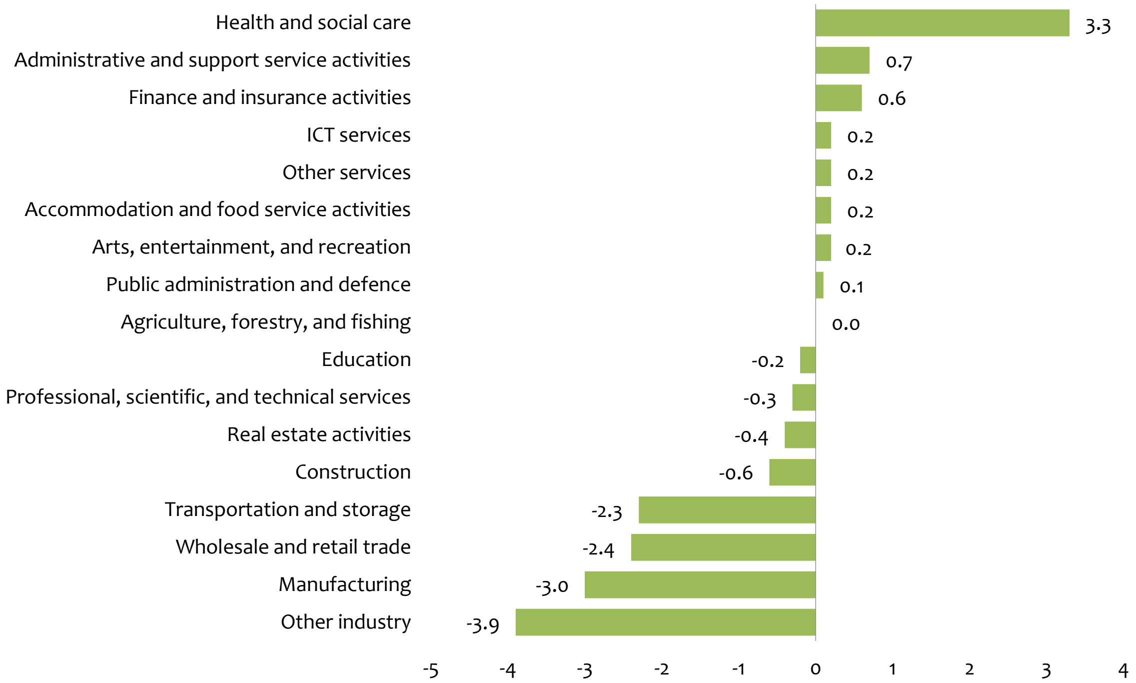
at the end of 2024, changes compared to the corresponding period of the previous year, in thousands



The largest decrease in posts in the 4th quarter of 2024 was observed in manufacturing (by 3.9 thousand posts), which was largely affected by the decrease in the sector's output.

Changes in Occupied Posts

in October-December 2024, changes compared to the corresponding period of the previous year, in thousands

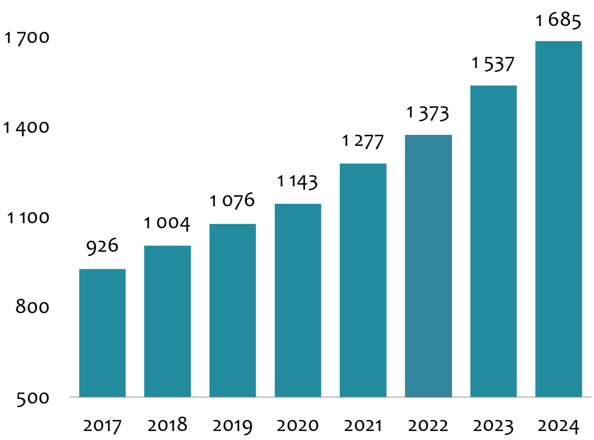


WAGES AND SALARIES

Taking into account both the increase in the minimum wage and the revised remuneration in certain public sector sectors, the average monthly gross wage in 2024 increased by 9.7% compared to 2023, increasing to an average of 1,685 euros. At the same time, in the 4th quarter of 2024, the average gross wage increased to 1,744 euros. It should be noted that over the past 4 years, the average gross wage in the national economy has increased by almost half.

Average Monthly Gross Wage

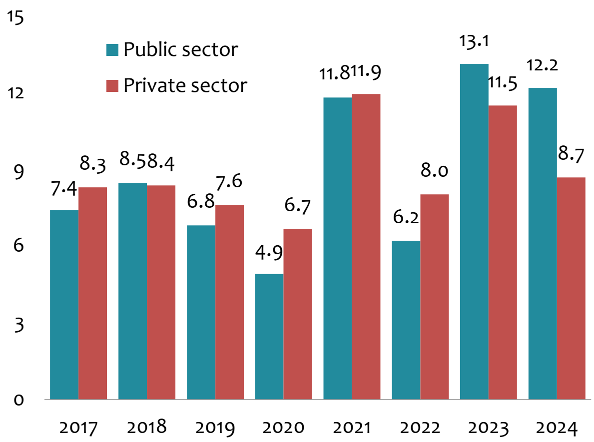
euro



The increase in the average wage in 2024 was significantly influenced by the increase in the minimum wage rate by 12.9% – to 700 euros from 620 euros in 2023, as well as structural changes in labor demand in favor of higher-paid professions – the number of occupied posts in senior specialist and specialist professions has increased by 2.2 thousand (1.2%) and 0.8 thousand (0.6%), respectively, while in other professions, except for NAF professions, a decrease in the number of posts was observed. Similarly, the increase in wages continues to be affected by the shortage of workers, as well as the pricing of inflationary pressure (price increases) of previous periods in wages. Real wages in 2024 increased by 7.6% compared to 2023.

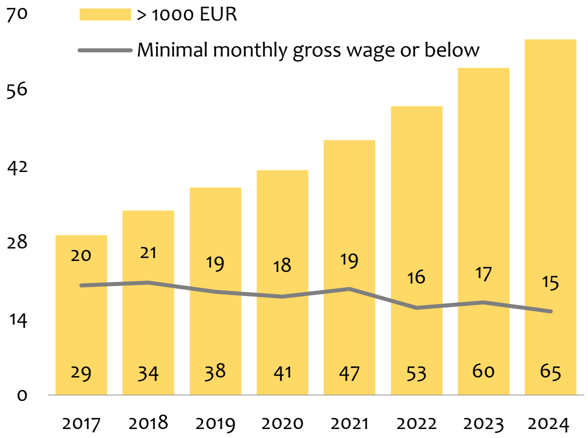
In 2024, wages have increased for workers in both the private and public sectors. Compared to 2023, the average gross salary in the public sector increased by 12.2% in 2024 (to an average of 1,742 euros), while in the private sector – by 8.7% (to an average of 1,666 euros). The most significant increase in wages in the public sector was observed in the education sector – by 18.5%, which was affected by the wage review in the sector, as well as the low base effect of wages in general. It should be noted that wage growth in the public sector is, on average, subordinated to wage growth in the private sector with a time lag, thus the current wage growth in the public sector largely reflects the dynamics of wages in the private sector in the period from 2019 to 2022, when wage growth in the private sector remained on average faster than for employees in the public sector.

Average Monthly Gross Wage
changes compared to the previous year, as per cent



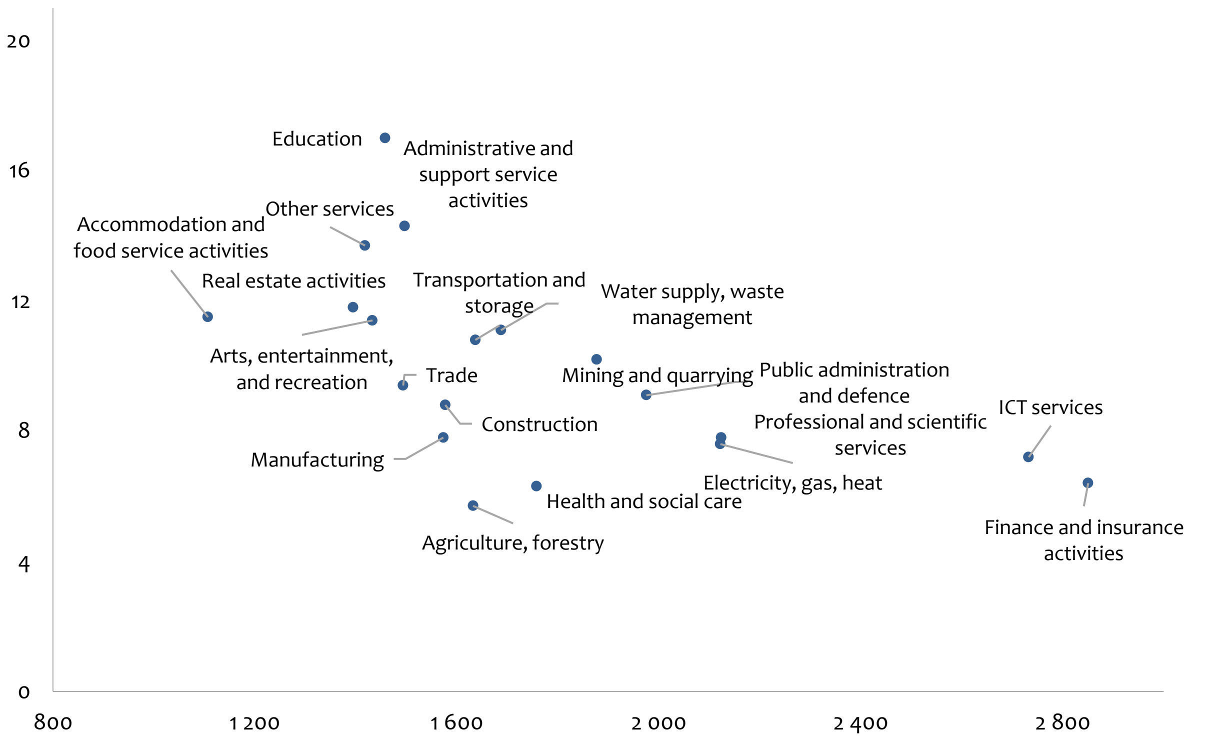
Overall, the trend towards a decrease in the proportion of low-paid employees remained stable, as evidenced by an increasing trend in the proportion of employees receiving a salary above 1,000 euros per month, as well as a decrease in the proportion of those receiving the minimum wage and lower wages. In 2024, 65.2% of all employees had a gross salary exceeding 1,000 euros, while the proportion of employees earning the minimum wage or less decreased to 15.3%. In 2024, wage growth was observed in all sectors of the economy. The fastest growth, compared to 2023, was in the education sector – the average gross wage increased by 17%. Wages also grew in the administrative services sector (+14.3%), other services sector (+13.7%), real estate operations (+11.8%), as well as in the accommodation and catering sector (+11.5%). Wage growth was slower in the agriculture and forestry sector (+5.7%), as well as in the health and social care sector (+6.3%).

Employee Gross Wage
as per cent of employed in total



The highest level of remuneration in 2024 remained in the financial services sector – the average monthly gross salary was 2,851 euros, while the lowest remuneration was in the accommodation and catering services sector – an average of 1,107 euros per month.

Gross wages in economic sectors
in 2024;
horizontal axis – average gross wage, euro;
vertical axis – average gross wage changes, compared to the previous year, as per cent



2025 | 1

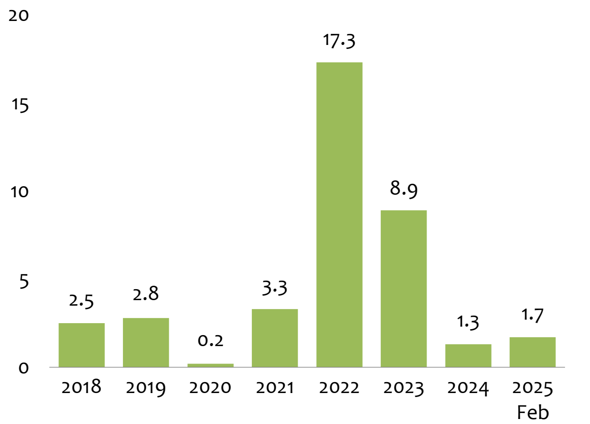
ECONOMIC STABILITY AND COMPETITIVENESS

PRICES

In 2024, consumer prices increased more rapidly than in the previous year. Consumer prices in December 2024 increased by 3.3% compared to December of the previous year. This continued to be affected by global prices and the unstable geopolitical situation. Overall, the average annual inflation in 2024 was 1.3%.

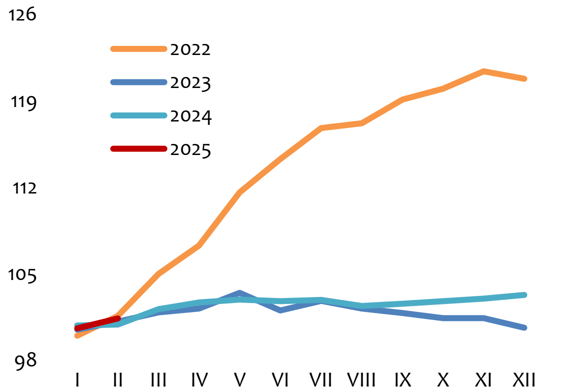
In the first two months of 2025, price growth was faster than in the corresponding period of the previous year. Consumer prices in February 2025 increased by 1.4% compared to December 2024. Compared to February of the previous year, consumer prices increased by 3.7%. The average annual inflation in February was 1.7%.

Consumer Price Changes
annual average, as per cent



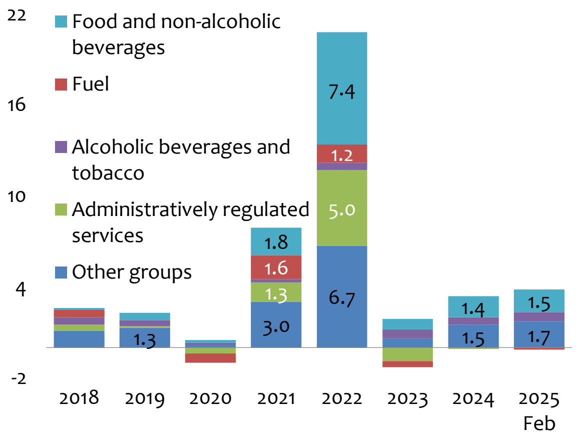
The main factors influencing prices in 2024:
(1) a major impact on the average consumer price level was the increase in prices for services – a significant increase in the cost of outpatient, recreational and cultural, telecommunications and housing-related services;
(2) a rise in prices for food, where prices increased in all main food product groups, where the most significant impact was the increase in prices for dairy products and non-alcoholic beverages;
(3) a rise in prices for alcoholic beverages and tobacco, where the greatest impact was the increase in prices for cigarettes;
(4) a fall in prices for housing-related energy resources with the largest impact due to the fall for thermal energy prices;
(5) a fall in prices for fuel, which was affected by the fall in global oil prices. This was facilitated by concerns about a fall in demand due to the weak Chinese economy, as well as signs of an increase in supply on the market, but a more rapid fall in prices was prevented by the escalation of the conflict in the Middle East.

Consumer Price Index
December of the previous year = 100



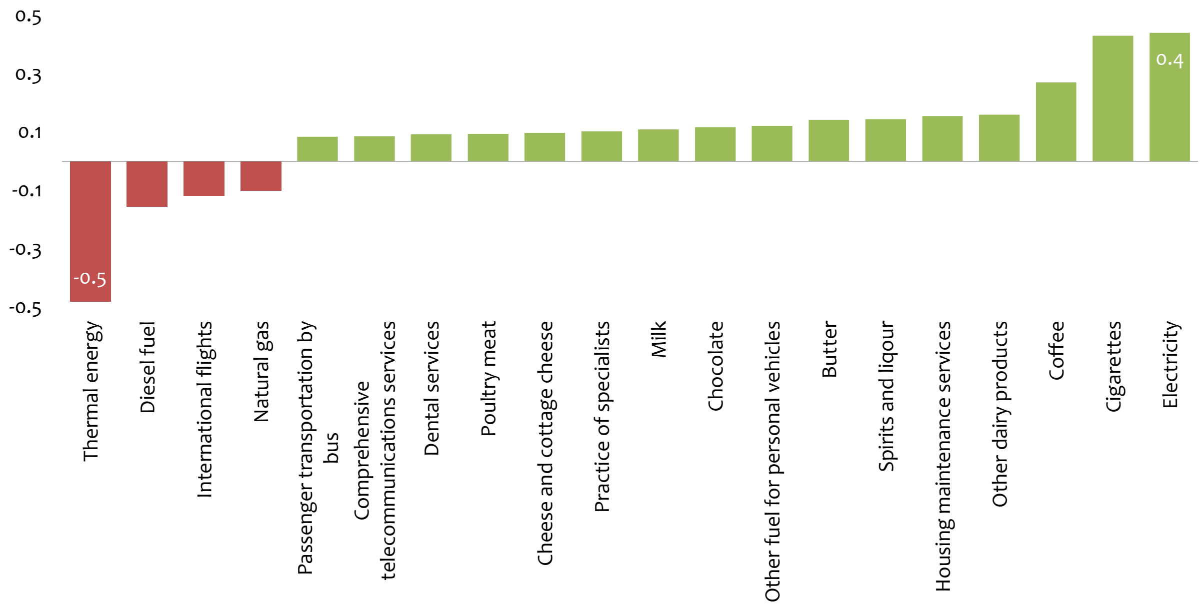
It is expected that the price level will remain stable in 2025. The main factors will be new tax changes: on the supply side, increased taxes and tariffs, and on the demand side, higher after-tax wages, which will boost purchasing power. Inflation in 2025 is expected to be higher than in 2024, around 3%. Price fluctuations globally and geopolitical events will continue to significantly affect price changes.

Consumer Prices by Goods and Services
contribution to 12-month changes, as per cent



Consumer Price Changes by Goods and Services

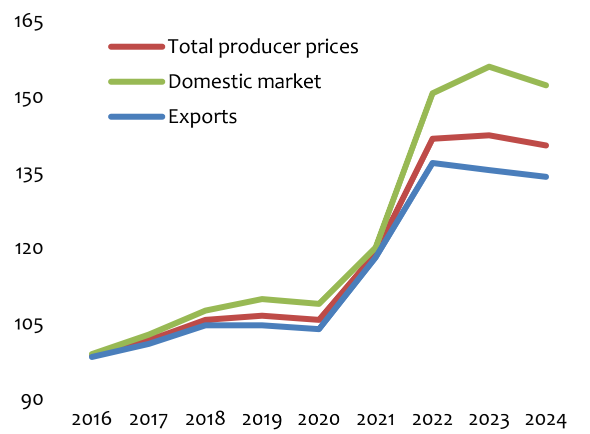
February 2025, contribution to the 12-month changes, as per cent



In 2024, producer prices in manufacturing decreased due to the fall in energy and raw material prices.

Producer Prices in Manufacturing

2015 = 100



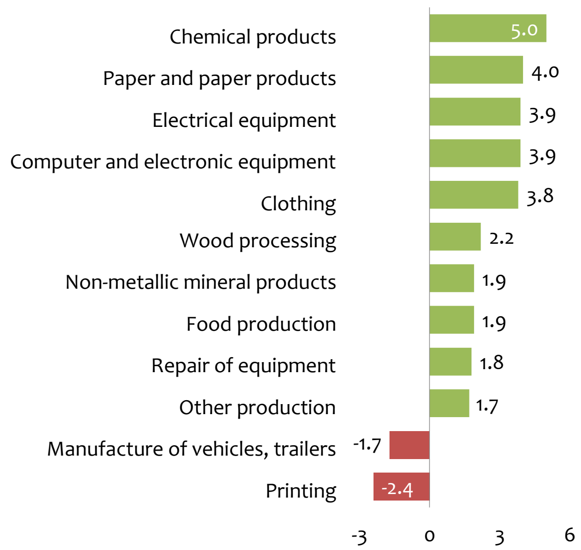
In 2024, producer prices in manufacturing decreased by 1.4%. Prices for domestically sold products dropped by 2.4%, while exported products saw a 0.9% decrease. The largest price declines were in wood processing, non-metallic mineral products, and fabricated metal products, while the biggest price increases were in electrical equipment, other vehicles, and food products.

At the beginning of 2025, producer prices in manufacturing showed a moderate increase of 0.6% in the first two months.

Overall, producer prices are expected to rise in 2025, influenced by fluctuations in the prices of exported products, mainly driven by global raw material prices. The rise in world energy and raw material prices, along with geopolitical uncertainty affecting raw material supplies, will continue to impact producer prices. Prices for domestic market products will also increase slightly due to energy and raw material price trends globally and domestically, such as for wood and unprocessed food. The dynamics of domestic producer prices may show faster growth rates this year.

The Most Rapid Producer Price Changes in Manufacturing in February 2025

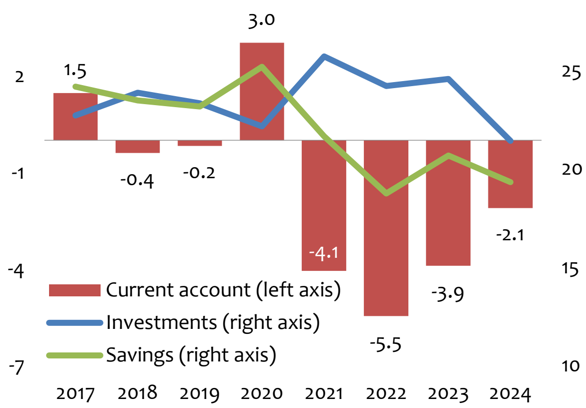
changes compared to the corresponding period of the previous year, as per cent



BALANCE OF PAYMENTS

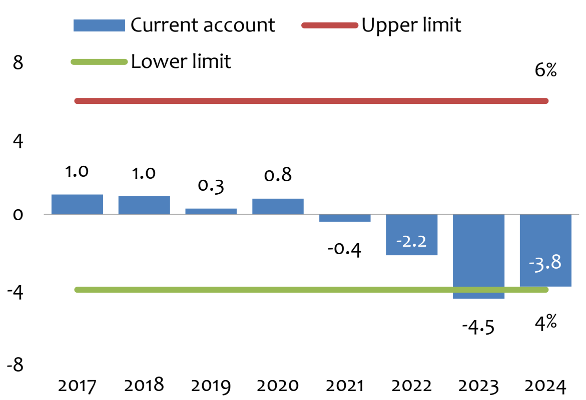
The current account deficit has been gradually decreasing in recent years, though it remains relatively high. Significant adjustments to the current account have taken place since 2020, due to external shocks. In 2021 and 2022, it grew rapidly, reaching 4.1% and 5.5% of GDP, respectively. This was largely impacted by the post-Covid-19 recovery and the rise in energy prices due to Russia's war in Ukraine. In 2023, the deficit gradually improved to 3.9% of GDP. In 2024, the negative current account balance continued to decrease, reaching 2.1% of GDP, primarily due to a decline in imports.

Current Account, Savings, and Investment
as per cent of GDP



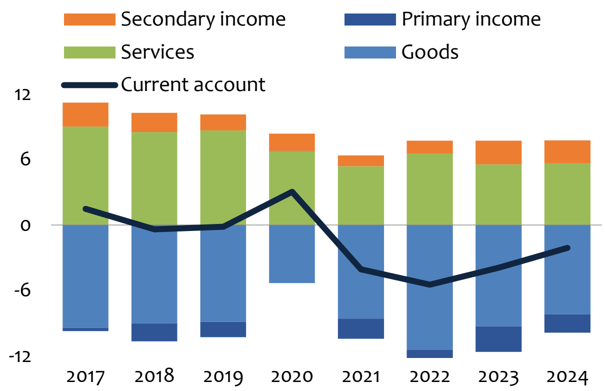
As the current account deficit has remained relatively high over the past four years, the risks of external imbalances have also increased. In 2023, the indicative threshold for the three-year average current account deficit set by the EU alert mechanism was exceeded.

EU Alert Mechanism Indicative Threshold and Current Account
3-year average, as per cent of GDP



In recent years, a weakening of foreign trade flows has been observed. The main reason for this was the economic shock initially caused by the Covid-19 pandemic, and later by Russia's invasion of Ukraine, which increased the uncertainty of the external environment. In 2022, export dynamics were moderate. The increase in the price of energy resources and the need to change their supply sources due to the war significantly increased the value of imports. In addition, as exports grew more slowly than imports, the trade deficit increased to 11.4% of GDP. In 2023 and 2024, both exports and imports decreased, but imports fell more rapidly, improving the foreign trade balance to 9.3% and 8.2% of GDP, respectively. Geopolitical developments led to a shift in Latvia's foreign trade away from Russia, with a growing share of imports coming from EU countries.

Current Account
as per cent of GDP



The services trade surplus remained, but is at a lower level than before the crisis caused by the Covid-19 pandemic. In 2022-2024, the positive balance of services was on average 5.9% of GDP, which is less than in the years before the Covid-19 pandemic (on average 8.7% of GDP).

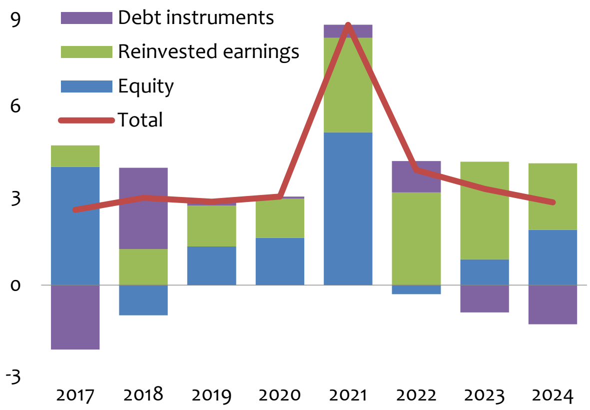
In 2024, the growth rates of imports and exports of services were slower than in 2023. Imports at current prices increased by 2.7% (in 2023 – by 8.7%), while exports increased by 2.9%. The services balance surplus remained at the 2023 level, reaching 5.6% of GDP.
Changes in the income and capital account are mainly related to the absorption of EU funds. The capital account balance in 2024 was at 1.5% of GDP, which is equivalent to the average over the past five years (1.5%).

The financial account balance in recent years was determined by the restructuring of public sector debt, as well as the implementation of the European Central Bank's monetary policy. In 2024, financial account assets grew more moderately than liabilities and the financial account balance (with reserve assets) was at 1.2% of GDP. The balance of payments accounts in the near future will be determined by changes in the geopolitical situation and their impact on global supply chains, cross-border flows, and the Latvian economy as a whole.

FOREIGN DIRECT INVESTMENT

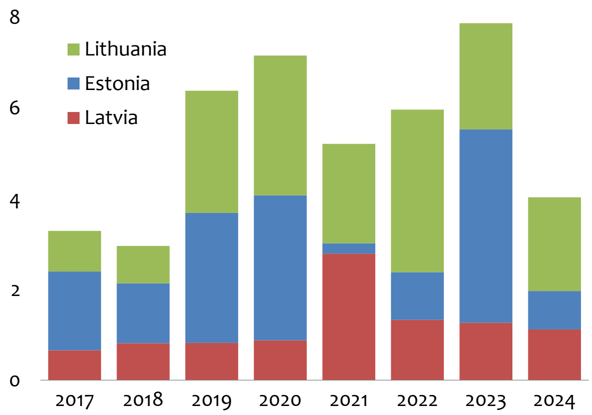
Foreign direct investment (FDI) flows remained moderate, primarily due to global economic instability. The war in Ukraine heightened geopolitical uncertainty, negatively impacting global FDI flows.

FDI in Latvia
flows, as per cent of GDP



In 2024, cross-border direct investment flows in the Baltic States totaled nearly -4 billion euros, or 2.6% of GDP. Compared to the previous year, FDI attracted to the region was nearly halved, mainly due to a decrease in FDI in the Estonian financial sector. In Lithuania and Latvia, net FDI inflows were also almost 12% lower than the year before.

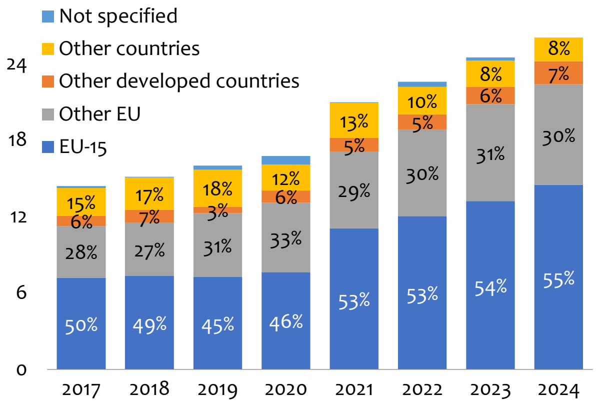
FDI in Latvia
transactions, billion euro



In 2024, FDI transactions decreased by nearly 12% compared to the previous year, accounting for 2.8% of GDP. This was mainly due to a more moderate increase in reinvested earnings. However, investments in companies' equity nearly doubled.

Despite weak economic activity, FDI income rose by 20.4% from the previous year, with reinvested earnings increasing by 32%.

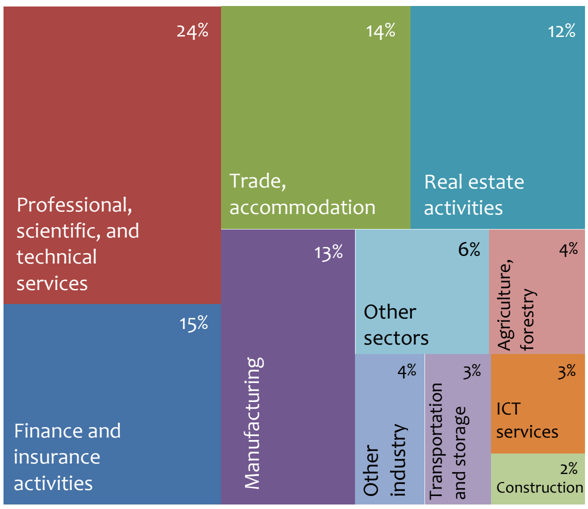
FDI Stock in Latvia by Groups of Countries
closing balance at the end of the year, billion euro and per cent



At the end of 2024, accumulated FDI in the Latvian economy reached 26.3 billion euros, or 65.4% of GDP, increasing by 5.7% (1.4 billion euros) during the year. EU entrepreneurs dominate the FDI structure, holding 85% of the total, with Sweden being the largest investor, accounting for 31.1% of the FDI, three times higher than in 2020. Other significant investors include Estonia, Lithuania, Germany, the Netherlands, and Cyprus, contributing to almost 38% of accumulated FDI.

The sectoral structure of FDI has shifted, with the professional, scientific, and technical services sector seeing substantial growth, now accounting for 24.3% of the total FDI stock. Other key sectors include financial intermediation (14.9%), trade (14.2%), real estate transactions (12.5%), and manufacturing (13%).

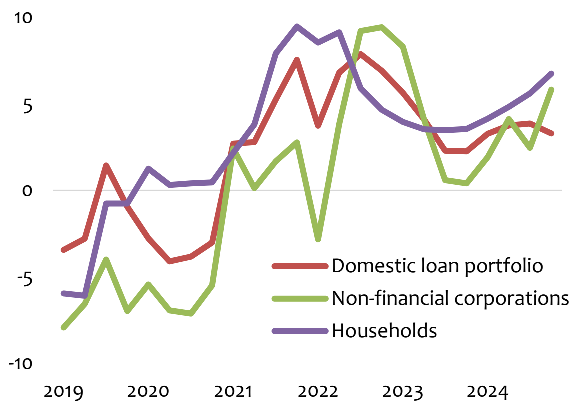
FDI by Sector
closing balance at the end of 2024



MONETARY INDICATORS

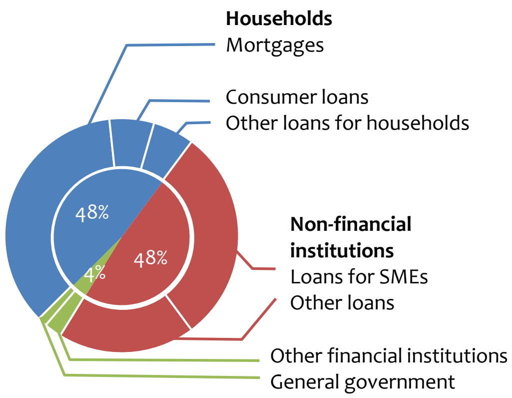
The banking sector is operating sustainably, with increasing deposits[1]. However, over the past 10 years, lending, particularly corporate lending, has been relatively weak compared to other Baltic countries.

Domestic Credit Balances
changes, compared to the corresponding period of the previous year, as per cent



At the end of 2024, the total bank loan portfolio was 16.7 billion euros, with 13.9 billion euros issued to domestic non-bank customers, a 3.3% rise from the last year. Non-financial corporation loans grew by 5.8%, SME lending rose by 12%, and household lending increased by 6.7%.

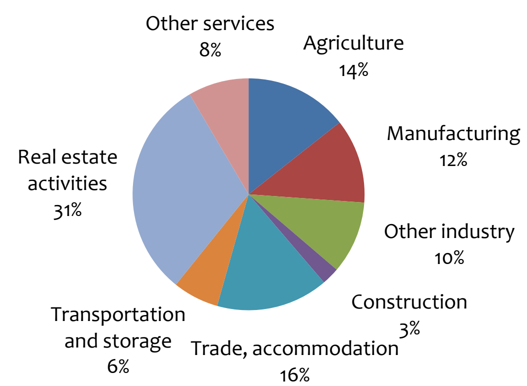
Lending Portfolio of Non-Financial Institutions by Sector
at the end of 2024, as per cent



At the end of 2024, real estate operations continued to lead in the distribution of loans, accounting for 31% of all domestic corporate loans. The next largest sectors were trade and accommodation, and agriculture, with shares of 16% and 14%, respectively.

In 2023, loan interest rates rose sharply due to the ECB's base interest rate hikes aimed at limiting inflation. However, in 2024, the rate of increase stopped, and a gradual decline began. By the end of the year, the interest rate for long-term loans to non-financial corporations was 5.27%, and for short-term loans, it was 6.06%. For households, the interest rates on house purchase loans were 5.23% for long-term and 5.98% for short-term loans. The ECB's decision to lower the base interest rate since June also contributed to this trend.

Lending Portfolio of Non-Financial Institutions by Sector
at the end of 2024, as per cent

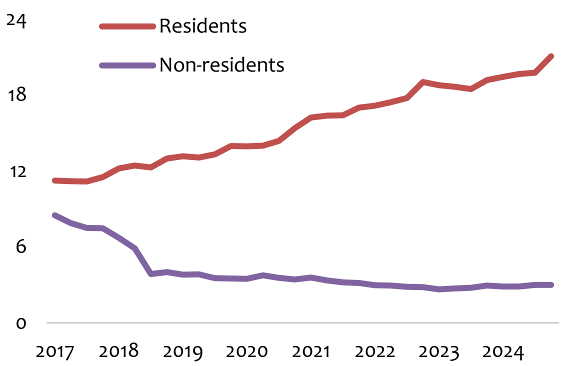


Competition in the banking sector has been increasing, highlighted by the launch of Indexo Banka in August 2024. This is the first new bank in Latvia to receive a license after the country joined the eurozone.

Starting in 2025, Latvia will introduce bank solidarity contributions on net interest income exceeding the 2018-2022 average by more than 50%, with contributions decreasing as lending activity increases.

At the end of 2024, non-bank deposits in banks totaled 24.1 billion euros, up 8.8% from the previous year. Domestic deposits made up 87%, growing by 9.9%, while foreign deposits accounted for 13%, increasing by 1.9%. In comparison, foreign deposits were over half of the total in 2016.

Non-Bank Deposits in Banks
billion euro



[1] Data source – Bank of Latvia

BUDGET AND GOVERNMENT DEBT

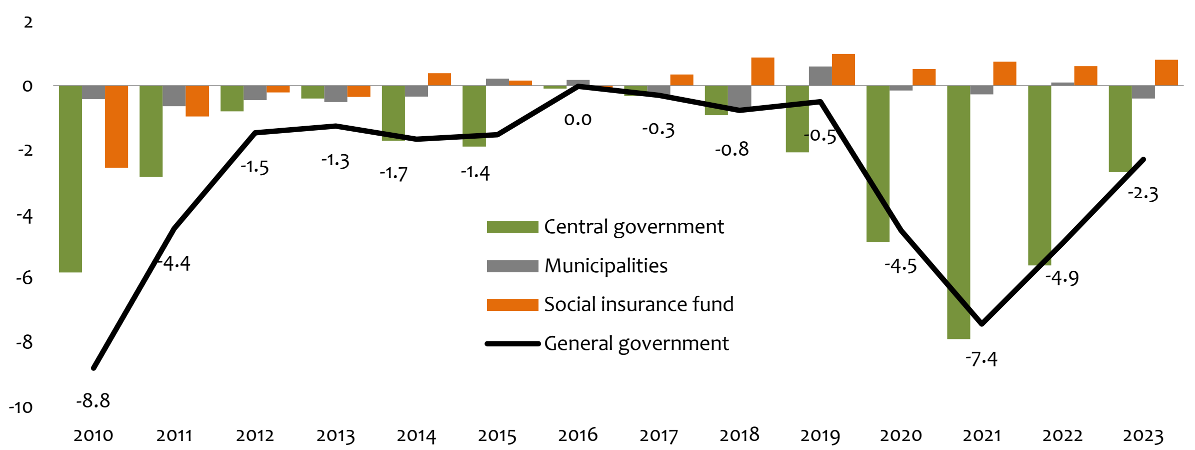
The Covid-19 pandemic brought significant changes to previously implemented fiscal policy. In 2020, the EU activated the *general escape clause* of the Stability and Growth Pact (SGP), allowing Member States to increase their general government budget deficits in 2020–2022 as needed to mitigate the economic impact of the pandemic. Taking into account the Russia–Ukraine war and its consequences, the general escape clause remained in effect in 2023 as well. In 2024, the application of EU fiscal rules was reinstated, suspending the operation of the general escape clause.

Due to the pandemic's impact, Latvia's budget deficit rose to 7.2% of GDP in 2021. It decreased slightly in 2022 to 4.9% of GDP and was 0.9 billion euros or 2.4% of GDP in 2023. According to Ministry of Finance estimates, the 2024 budget deficit was 2.1% of GDP. For 2025, the Saeima has approved a budget with a deficit of 2.9% of GDP, for 2026 – 2.6% of GDP, and for 2027 – 2.4% of GDP.

General government budget

	2020	2021	2022	2023
Revenues, billion euro	11.5	12.5	13.9	15.6
% of GDP	39.2	38.7	38.6	40.0
Expenditures, billion euro	12.8	14.9	15.7	16.5
% of GDP	43.7	46.1	43.5	42.3
Net, billion euro	-1.3	-2.4	-1.8	0.9
% of GDP	-4.5	-7.4	-4.9	-2.3

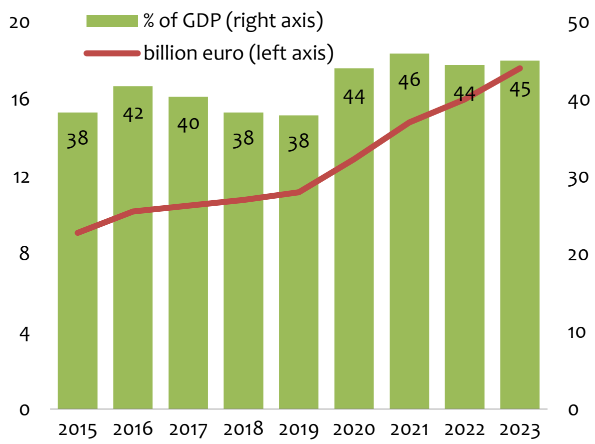
General Government Budget Balance by Sector
as per cent of GDP



Despite the increase in the budget deficit in recent years, Latvia's general government debt level remains one of the lowest in the EU. The Covid-19 outbreak required significant financing to mitigate the effects of the crisis, leading to a rise in public debt to 45.9% of GDP, or 14.8 billion euros, in 2021. As nominal GDP grew rapidly due to high inflation, the debt-to-GDP ratio fell to 44.4% in 2022, although in nominal terms public debt increased to 16 billion euros. In 2023, public debt reached 17.6 billion euros or 45% of GDP. Notably, the rise in general government debt in 2023 was influenced by three new Eurobond issues.

According to Ministry of Finance estimates, the general government debt in 2024 was 45.8% of GDP. In the medium term, it is expected that the 60% of GDP debt limit set by the Fiscal Discipline Law will continue to be met.

General Government Consolidated
Gross Debt nominal value at the end of the year

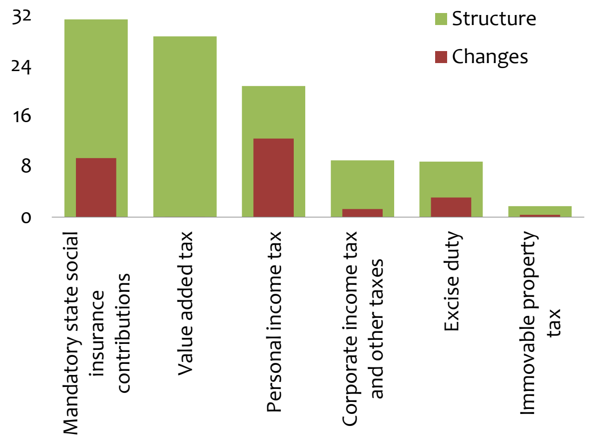


BUDGET REVENUES AND EXPENDITURES

State consolidated budget revenue has been growing steadily since 2011, with a slight decline only in 2020 due to the Covid-19 crisis. As economic growth resumed, the upward trend continued. In 2024, budget revenue was 9.7% higher than in the previous year.

Tax Revenues

structure and changes in 2024, compared to the previous year, as per cent



In 2024, revenues from all major tax categories increased. The favorable labor market conditions and wage growth continued to drive employment tax dynamics. Personal income tax revenues were 12.4% higher than in 2023, while state social insurance contributions rose by 9.3%.

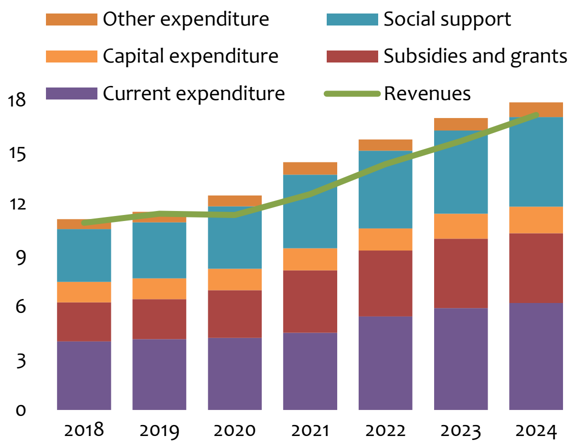
Consolidated General Government Budget

	billion euro 2022	2023	2024	*changes as per cent* 2024
Revenues:	14.3	15.6	17.1	9.7
Tax revenues:	11.6	12.6	13.6	7.8
Mandatory State Social Insurance Contributions	3.5	3.9	4.2	9.3
Value added tax	3.6	3.9	3.9	0.1
Personal Income Tax	2.3	2.5	2.8	12.4
Corporate Income Tax	0.4	0.5	0.7	32.1
Excise Duty	1.1	1.2	1.2	3.1
Immovable Property Tax	0.2	0.2	0.2	0.3
Other taxes	0.4	0.4	0.5	7.3
Other revenues	2.7	3.0	3.6	17.7
Expenditures	15.7	17.0	17.9	5.4

In 2024, the dynamics of consumption taxes, in the context of wage growth, indicated an increasing tendency to save. Value added tax revenue remained at the previous year's level (+0.1%), while excise tax revenue increased by 3.1%. Capital tax revenue also continued to grow, with corporate income tax revenue rising by 32.1% and real estate tax revenue by 0.3%.

Consolidated General Government Budget Expenditures

billion euro

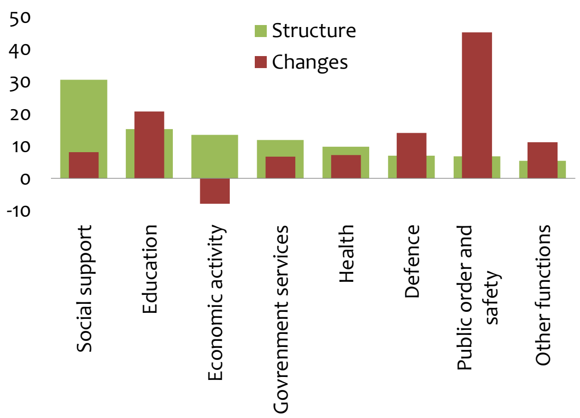


State consolidated budget expenditures increased by 5.4% in 2024. The main contributors to this growth were higher remuneration costs for employees in the defense, security, justice sectors, and for teachers. Social payments from the state special budget were the next most significant factor. Social support expenditures rose by 7.8%, and capital expenditures by 6.3%. Current expenditures and subsidies and grants grew more slowly – by 5.2% and 0.3%, respectively.

By functional classification, the fastest-growing areas in 2024 were public order and security, education, and defense. Structurally, social protection remained the largest expenditure category, comprising nearly one-third of the consolidated budget, followed by education and economic activity.

Consolidated General Government Budget Expenditures by Functions

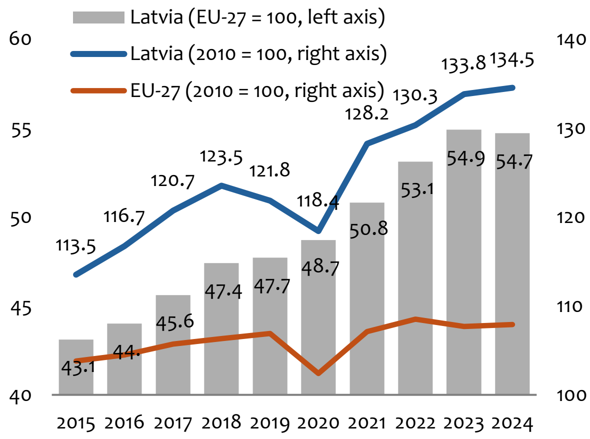
structure and changes in 2024, compared to the previous year, as per cent



PRODUCTIVITY AND COMPETITIVENESS

Productivity dynamics have been volatile, reflecting uneven adjustments in product and labor markets. As economic activity resumed, productivity rose by 8.3% in 2021. Although economic growth was more moderate in 2022 and 2023, it was still driven by a faster increase in productivity than in employment, with average annual growth of 2.2%. In 2024, productivity maintained moderately positive dynamics, increasing by 0.5%. GDP per employee in Latvia reached 54.7% of the EU average, or 72.8% in purchasing power standards (PPS). Since 2019, the productivity gap with the EU average (in PPS) has narrowed by nearly 4 percentage points.

Productivity Dynamics



Labor costs continue to rise. Adjustments caused by external shocks have not significantly altered long-term trends in labor cost dynamics. Since 2021, labor costs have increased by 42.6% – almost twice the pace seen before the Covid-19 pandemic. In contrast, productivity growth has been more moderate: over the past three years (2022–2024), productivity increased by just 4.4%.

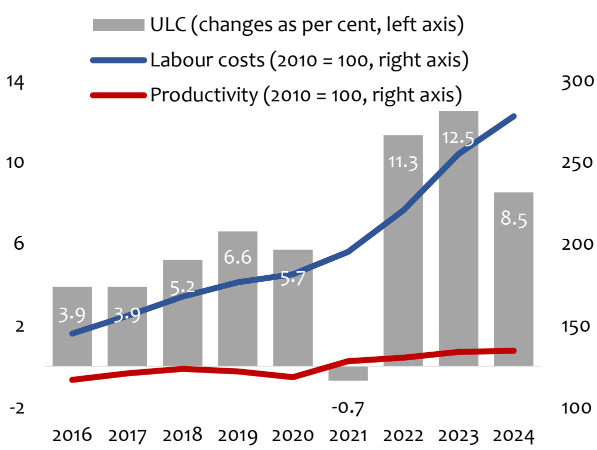
The faster rise in labor costs compared to productivity has significantly worsened cost competitiveness indicators. From 2021 to 2024, nominal unit labor costs (ULC) rose by 35.9%, including an 8.5% increase in 2024 alone – slightly higher than in Lithuania (7.5%) and Estonia (6.1%).

Notably, nominal ULC growth in the Baltic States has been faster than the EU average and has substantially exceeded the threshold set by the EU Alert Mechanism (9% over three years).

The real effective exchange rate (REER) is also on the rise. Based on the consumer price index, the REER against 42 trading partners increased by 9.6% between 2021 and 2024 – three times above the Macroeconomic Imbalance Procedure (MIP) threshold of 3%.

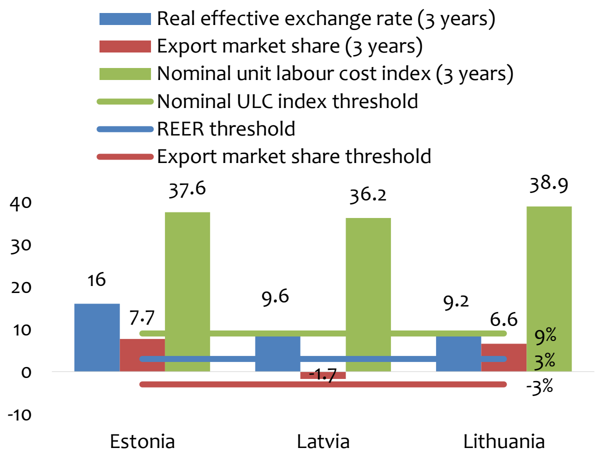
Latvia's long-term export market share dynamics are weakening. Between 2021 and 2023, Latvia's global export market share declined by 1.7%, including a 1.7% drop in goods and services market shares in developed countries. In particular, export shares in goods markets declined by 1.7% in 2021 and 2.8% in 2022, while the market share in global services markets fell sharply by 5.1%.

Labour Costs and Productivity



In the context of slow productivity growth, rising labor costs are putting significant pressure on the cost competitiveness of Latvian entrepreneurs. The weakening of economic activity has had little impact on the situation in the labor market. This shows that the problem of labor shortage is relevant for entrepreneurs, and despite the slowdown in economic activity, jobs are being preserved. In turn, wages continue to grow under inflationary pressure. These trends are increasingly widening the gap between productivity and labor costs. The sustained positive dynamics of productivity will largely be determined by structural changes in the Latvian economy towards higher value-added activities and knowledge-intensive industries.

Competitiveness Indicators
as per cent



EU ALERT MECHANISM

In accordance with the EU's economic and fiscal policy surveillance rules adopted in 2011, a Macroeconomic Imbalance Procedure (MIP) has been established to identify and correct macroeconomic imbalances in a timely manner using the Alert Mechanism Indicator (AMI) set.

In the 2025 Early Warning Mechanism (EWM) Report, Latvia was not among the ten EU Member States identified as having macroeconomic imbalances.

In 2023, four indicators from the revised AMI list for Latvia exceeded indicative thresholds: the current account balance, the real effective exchange rate, the nominal unit labour cost index, and the labour force participation rate.

According to the European Commission's forecast cited in the EWM, Latvia's GDP is expected to grow by 1% in 2025, with overall inflation rising to 2.2% and the unemployment rate remaining at 6.7%.

Latvia's current account balance fell below the lower threshold of -4% in 2023. From a savings-investment perspective, lower government savings – combined with resilient investment levels – have been the main contributors to the current account deficit since 2021.

The net international investment position (NIIP) remained broadly stable in 2023, at -26% of GDP. Latvia's external liabilities are mainly composed of government bonds and foreign direct investment, which together exceed the volume of other financial instruments.

While pressures on cost competitiveness are easing with the decline in inflation, the growth rate of unit labour costs, though slowing, remains elevated.

The debt-to-GDP ratio of non-financial corporations continues to fall, and household debt also remains low.

House price growth slowed significantly to 3.7% in 2023, and overall, the Latvian housing market is assessed to face low risk.

The fiscal deficit is expected to average 3% of GDP in 2024 and 2025, which will lead to a slight increase in public debt.

Latvia's banking sector remains stable and well-capitalized, with profitability above the EU average. The share of non-performing loans is decreasing, though credit dynamics remain subdued.

List of Indicators for the Macroeconomic Imbalances Procedure for Latvia

Ārējā nelīdzsvarotība un konkurētspēja	Threshold	2018	2019	2020	2021	2022	2023	2024
Current account (% of GDP, 3-year average)	-4 % / 6 %	1.0	0.3	0.8	-0.4	-2.2	-4.5	..
Net international investment position (% of GDP)	-35 %	-47.0	-41.4	-35.0	-27.9	-28.2	-26.0	..
Real effective exchange rate – 42 partner countries, HICP deflator (% changes over the last 3 years)	±3 %* / ±10 %	5.1	3.8	5.9	2.3	5.6	11.0	9.6
Export market share – % of world export (% changes over the last 5 years)	-3 %	8.8	5.1	14.5	10.1	15.9	-1.7	..
Nominal unit labour costs index (% changes over the last 3 years)	9 %* / 12 %	13.1	16.0	17.4	11.3	16.2	24.4	36.2
Internal imbalances								
House price index (% annual changes)	60 %	38.3	37.9	44.0	45.9	44.4	45.0	..
Private sector credit flow (% of GDP, consolidated)	55%	21.2	20.5	20.7	20.3	19.2	18.6	..
Private sector debt (% of GDP, consolidated)	85%	49.4	47.3	45.3	39.9	37.2	35.8	..
General government debt (% of GDP)	14%	1.6	2.4	0.3	8.7	6.1	5.2	..
Unemployment rate (3-year average)	13%	-4.4	1.9	-4.3	-4.6	7.7	1.8	..
Financial sector liabilities (% annual changes)	9 %	9.6	9.0	3.5	10.9	13.8	3.7	..
Employment indicators								
Economically active population – % of population aged 15-64 (% over the last 3 years)	10 %	7.4	6.3	8.1	7.6	6.9	6.5	6.9
Long-term unemployment rate – % economically active population (% changes over the last three years)	-0.2 pp	1.9	1.1	1.1	-1.8	-0.5	-1.4	0.9

* – Euro area countries; .. – no data;
Note: highlighted numbers exceed the thresholds set out in the Early Alert Mechanism Report.
Source: List of Indicators for the Macroeconomic Imbalances Procedure for Latvia, *Eurostat*

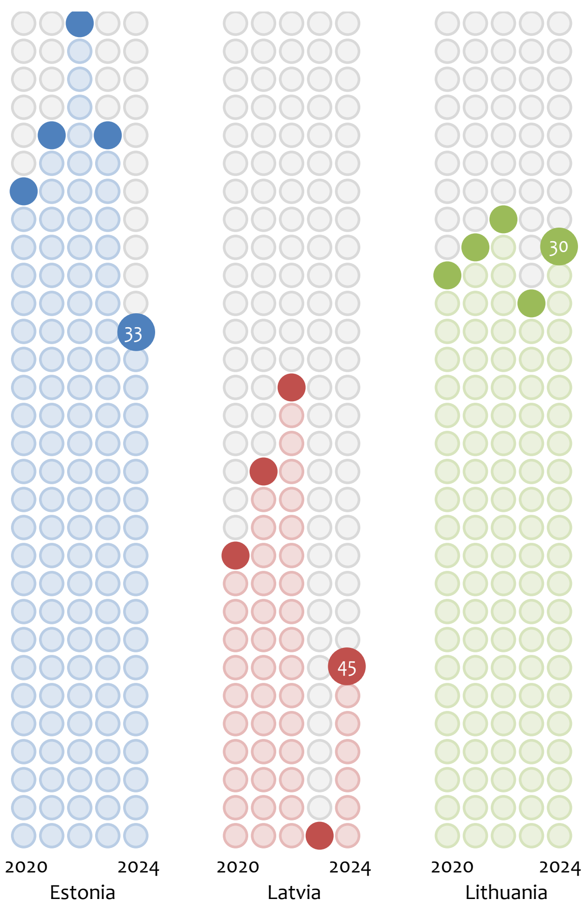
2025 | 1

LATVIA IN INTERNATIONAL RANKINGS

The ratings compiled by the International Institute for Management Development, the World Intellectual Property Organization, the European Commission, and other organizations characterize Latvia as a highly developed country that has overcome various external shocks with varying degrees of success, but at the same time maintains high development potential.

In the World Competitiveness Ranking 2024, published annually by the International Institute for Management Development (IMD), Latvia ranks 45th out of 64 countries, improving its position by 6 positions compared to 2023.

Baltic Countries in Global Competitiveness Ranking



Source: *IMD, World Competitiveness Ranking 2024*

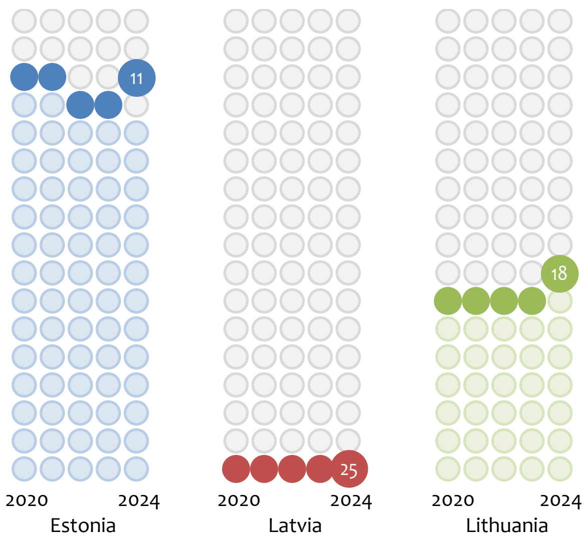
After a significant drop in the 2023 ranking, there has been a recovery in several positions in 2024, such as international trade, business legislation, business efficiency for management practices and attitudes and values, as well as basic infrastructure and technological infrastructure.

Meanwhile, economic performance was significantly worsened by the price indicator, which is based on the 2023 result, when the consumer price index had reached its maximum value. At the same time, it is noted that the level of foreign investment to GDP remains high, as well as a qualified workforce acting as a factor of economic attractiveness.

In the European Innovation Scoreboard 2024, published annually by the European Commission, Latvia is ranked 25th among the 27 EU countries and is in the group of modest innovators.

The report notes that Latvia's comparative strengths are the proportion of residents with higher education, the number of trademark applications, and the number of joint publications by public and private sector authors.

Baltic Countries in European Innovation Scoreboard*

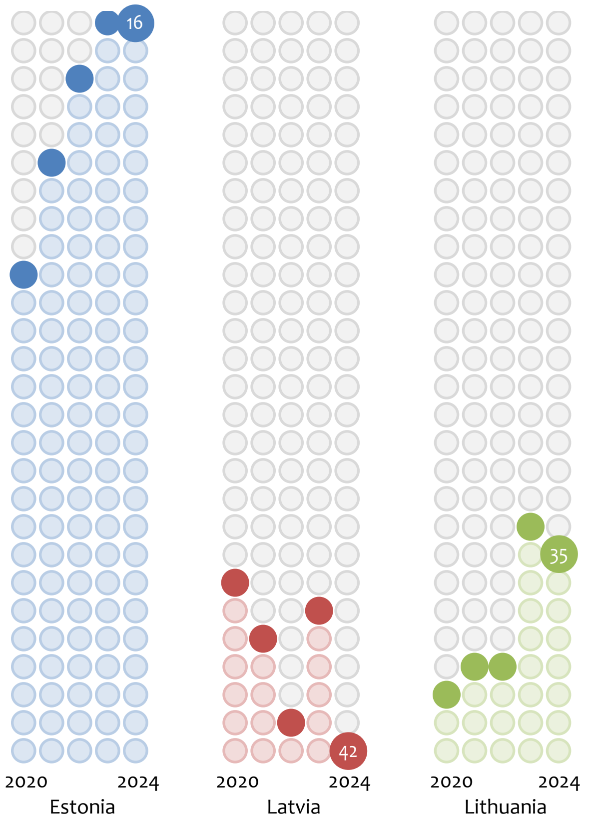


Source: *European Commission, European Innovation Scoreboard 2024*
** only EU-27 countries*

In the Global Innovation Index 2024 prepared by the World Intellectual Property Organization (WIPO), Latvia has ranked 42nd among 133 surveyed countries.

The following strengths of Latvia have been highlighted: the proportion of secondary school graduates enrolled in higher education, the number of foreign students, the use of ICT, the proportion of companies offering formal training, the proportion of employed women with scientific degrees, the number of ISO 9001 certificates, the export of cultural and creative services, the number of national feature films, the export of creative industry goods, and the number of mobile applications created.

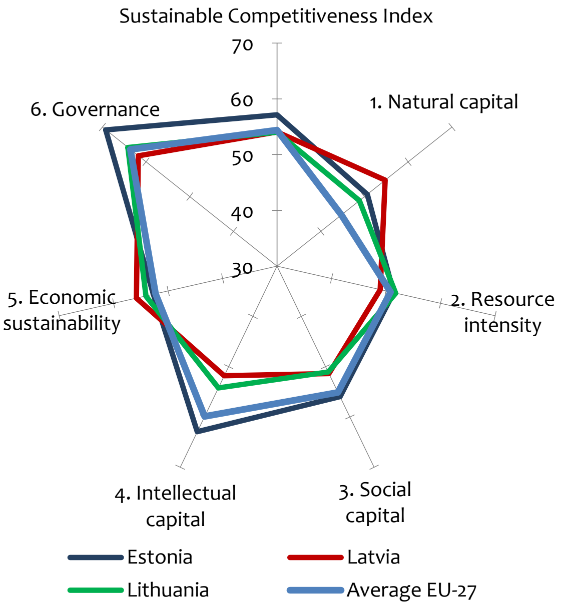
Baltic Countries in Global Innovation Index



Source: *Cornell University, INSEAD, WIPO, Global Innovation Index 2024: Unlocking the Promise of Social Entrepreneurship*

Performance of the Baltic States in the Competitive Sustainability Index and its dimensions

(rating scale from 0 to 100)



Source: *SolAbility, Global Sustainable Competitiveness Index 2024*

In the 2024 Global Sustainable Competitiveness Index, developed by the Swiss company SolAbility, which is based on 6 pillars: natural capital, resource efficiency, social capital, intellectual capital, economic sustainability, and governance, Latvia ranked 22nd out of 191 countries in the world (Estonia – 8th place, Lithuania – 24th place).

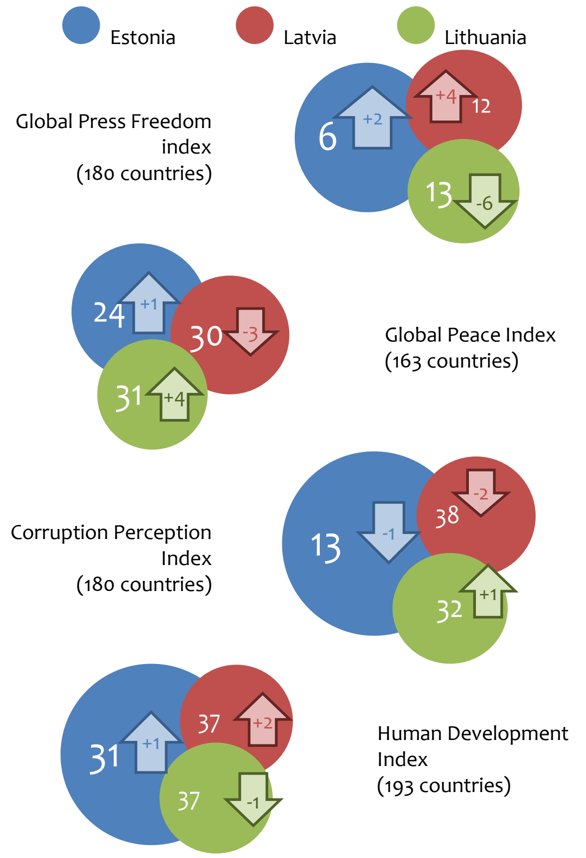
In the economic sustainability pillar, which is characterized by factors such as the regulatory environment, government effectiveness, education level as a basis for innovation, sectoral balance, inclusiveness, and equal opportunities, Latvia is in a high 8th place.

Latvia also has a relatively good performance (16th place) in the natural capital pillar, which is characterized by factors such as agricultural land use, biodiversity potential, availability of water and other resources, and low air and water pollution.

In the World Press Freedom Index compiled by the international press and freedom of expression organization "Reporters Without Borders" in 2024, Latvia ranked 12th (180 countries surveyed), improving its ranking by 4 positions compared to 2023.

Baltic Countries in International Rankings

place and its changes during a year



Source: *Reporters Without Borders, 2024 World Press Freedom Index; The Institute for Economics and Peace, Global Peace Index 2024; Transparency International, Corruption Perceptions Index 2024; United Nations Development Programme, Human Development Report 2023/2024.*

In the 2024 Global Peace Index, compiled by the Institute for Economics and Peace, Latvia ranked 30th out of 163 countries. Compared to 2023, Latvia has worsened its position by 3 places, as it increased spending both for social security and military needs.

In the 2024 Corruption Perceptions Index, compiled by Transparency International, Latvia ranked 38th (out of 180 countries), worsening its position by 2 places compared to 2023.

In the 2023/2024 Human Development Index, compiled by the United Nations Development Programme (UNDP), Latvia ranked 37th (out of 193 countries), improving its position by 2 places compared to the 2021 result.

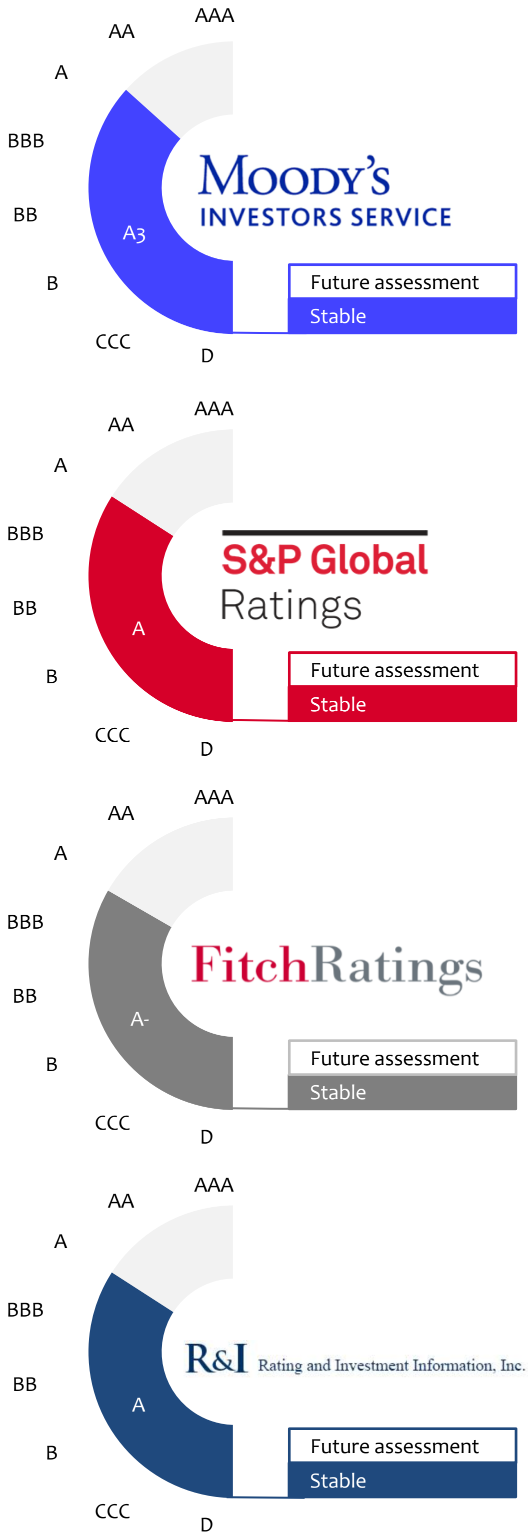
The international credit rating agency S&P Global Ratings has consistently assigned Latvia a high "A" level credit rating. From February 2020 to June 2024, Latvia's credit rating was at the "A+" level, but it has now been downgraded slightly to the "A" level with a stable outlook. The agency justified this decision by stating that Latvia's fiscal indicators, economic growth, and international competitiveness have remained resilient to the indirect impact of Russia's aggression against Ukraine. However, improvements in these indicators may be delayed by rising expenditure in priority areas such as internal security and defense. Meanwhile, the stable political situation, membership in the eurozone, and moderate national debt level support the "A" rating.

Other credit rating agencies have not changed their assessments of Latvia's credit rating since 2020, but only Fitch Ratings has changed its outlook. On July 28, 2023, Fitch Ratings upgraded Latvia's credit rating outlook from stable to positive, citing Latvia's relative resilience to external shocks, surpassing its pre-pandemic GDP level. This credit rating agency noted that Latvia had managed to relatively easily reduce its dependency on energy imports from Russia. However, on November 15, 2024, Fitch Ratings revised the outlook from positive back to stable, stating that Latvia's economic growth would be slower than previously forecast, influenced by the geopolitical situation, which would result in a higher budget deficit and a gradual increase in the general government debt-to-GDP ratio.

The credit rating agency Moody's Investors Service also acknowledges that Latvia's financial position is stable, and the relatively low general government debt level will remain stable at a moderate level in the coming years.

The Japanese credit rating agency R&I has concluded that Latvia's economic growth will remain stable in the medium term, supported by a favorable business environment and EU fund financing available for investments.

Credit Rating of Latvia for Long-Term Liabilities in Foreign Currency



Source: State Treasury