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Central Statistical
Bureau of Latvia

THE NATIONAL ECONOMY OF LATVIA: A MACROECONOMIC REVIEW

Key indicators of economic development

Economic policy

Macroeconomic development

Gross domestic product

Manufacturing

Investments

Foreign trade

Balance of payments

Inflation

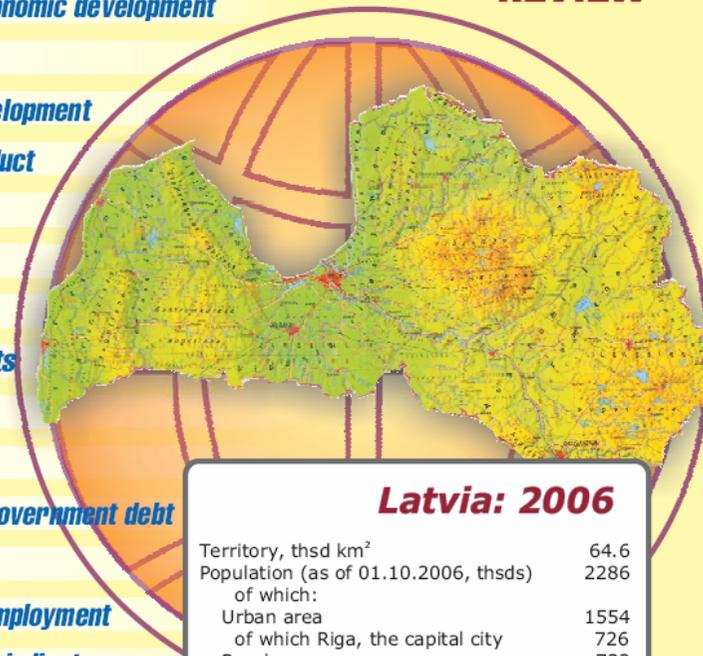
Monetary indicators

Budget and central government debt

Personal income

Employment and unemployment

*Main socio-economic indicators
of the Baltic States*



Latvia: 2006

| | |
|--------------------------------------|------|
| Territory, thsd km ² | 64.6 |
| Population (as of 01.10.2006, thsds) | 2286 |
| of which: | |
| Urban area | 1554 |
| of which Riga, the capital city | 726 |
| Rural area | 732 |
| National currency: lats (LVL) | |

Key indicators of economic development

| | 2002 | 2003 | 2004 | 2005 | 2006 f |
|--|-------|-------|-------|-------|--------|
| (increase over the previous year, in per cent) | | | | | |
| Gross domestic product | 6.5 | 7.2 | 8.6 | 10.2 | 12.0 |
| Consumer prices | 1.9 | 2.9 | 6.2 | 6.7 | 6.5 |
| (% of GDP) | | | | | |
| General government budget fiscal balance | -2.3 | -1.6 | -1.1 | -1.2 | -0.7 |
| Central government debt | 13.5 | 14.4 | 14.0 | 12.1 | 11.0 |
| Current account balance | -6.6 | -8.2 | -13.0 | -12.7 | -18.5 |
| Exchange rate, LVL per US dollar | 0.618 | 0.571 | 0.540 | 0.565 | 0.560 |
| Exchange rate, LVL per euro | 0.583 | 0.645 | 0.671 | 0.703 | 0.703 |
| Unemployment rate (rate of job seekers as % of economically active population, aged 15-74 years) | 12.0 | 10.6 | 10.4 | 8.7 | 7.3 |

| | 2005 | | | | 2006 | | |
|--|-------|-------|-------|-------|-------|-------|-------|
| | I | II | III | IV | I | II | III |
| (increase over the corresponding period of the previous year, in per cent) | | | | | | | |
| Gross domestic product | 7.6 | 11.2 | 11.4 | 10.6 | 13.1 | 11.1 | 11.8 |
| Consumer prices | 6.7 | 6.5 | 6.5 | 7.3 | 7.0 | 6.3 | 6.6 |
| (% of GDP) | | | | | | | |
| General government budget fiscal balance | 3.3 | 3.1 | 3.0 | -11.7 | 6.0 | 3.4 | 3.6 |
| Current account balance | -10.5 | -11.1 | -12.9 | -15.5 | 14.7 | -17.9 | -24.2 |
| Exchange rate, LVL per US dollar | 0.535 | 0.557 | 0.576 | 0.591 | 0.585 | 0.560 | 0.551 |
| Exchange rate, LVL per euro | 0.703 | 0.703 | 0.703 | 0.703 | 0.703 | 0.703 | 0.703 |
| Unemployment rate (rate of job seekers as % of economically active population, aged 15-74 years) | 9.9 | 9.2 | 8.7 | 7.8 | 7.8 | 7.2 | 6.2 |

f - forecast of the Ministry of Economics

Economic policy

The reforms that were carried out in the previous decade have consolidated the private sector and good macroeconomic conditions have been created to foster growth. Private initiative and capital are the main driving forces for development. The law guarantees the protection of foreign investment, non-residents can repatriate profit and capital freely and equal terms are provided to domestic and foreign entrepreneurs.

Accession to the EU provides Latvia with new opportunities for economic growth. By joining the single EU market Latvia can benefit from the advantages provided by a broad and stable market, free movement of goods and services, labour and capital, i.e., the most favourable terms on the EU market.

The aim of the government's economic policy is to ensure sustainable and balanced economic and social development, to implement transition from a labour-intensive economy to a knowledge-based one attaining in this way the EU average GDP per capita level within the next 20-30 years.

The government has identified three main priorities for further economic development of the country in the period from 2007-2013: an educated and creative individual, technological excellence and flexibility of enterprises and advancement of scientific research and development.

The level of general government debt in Latvia is among the lowest in the EU and it is expected that this level in the medium-term will remain considerably lower than the criterion set by the Maastricht Treaty. In the implementation of the fiscal policy a cautious admissible budget deficit is observed as well as rational growth-directed utilisation of budget expenditures.

The Bank of Latvia implements *de facto* the policy of the fixed exchange rate of the national currency. This reduces uncertainty, averts the currency risks and provides a stable ground to entrepreneurs for planning. The aim of Latvia is to become a full-fledged member of the European Economic and Monetary Union (EMU) already in the nearest future.

One of the main challenges to the economic policy of Latvia is to set up an effective, competitive industry structure by implementing structural reforms to boost productivity and to support research and development and innovation, improving the efficiency of the educational and training system, its quality and accessibility.

In recent years the business environment in Latvia has been substantially improved by introducing the requirements of the EU body of legislative acts (*acquis communautaire*) and implementing the *Action Plan for Improvement of Business Environment*. The *Commercial Law* testifying to a fundamental reform of the business environment became effective in 2002. Currently the corporate income tax in Latvia is among the lowest (15%) in the EU. Legislation provides special corporate income tax relief to enterprises operating within the special economic zones. In order to create an optimal local government administrative and organisational structure and to raise its capacity, the administrative territorial reform is under way and it is intended to complete it before the local government election in 2009.

Latvia is consistent in its efforts to open to competition the monopolist markets such as telecommunications, electricity and gas supply, post and railway. The government continues to improve the basic infrastructure paying close attention to the development of the energy sector, developing of the electronic communications and information systems, as well as to the improvement of the quality of transport infrastructure and creation of an effective network. The utilisation of EU structural funds and the Cohesion Fund offers broader opportunities to improve infrastructure.

Successful implementation of the structural reforms in Latvia will ensure the stability of economic growth, promote the convergence process and deeper integration into the European and global economy.

Macroeconomic development

The reforms carried out in the country and integration into the EU had made a positive impact on economic development. In the period 2001-2005 GDP grew on average by 8.1% annually and by 10.2% in 2005. Rapid economic growth also continued in 2006. Compared to the corresponding period of 2005, GDP in the 3 quarters of this year rose by 11.9%. These growth rates are among the highest in the European Union.

Economic activity is accelerating in all main economic sectors. Domestic demand fosters the development of services, especially trade and construction. High growth rates can also be observed in the transport and communications sectors. The dynamics of domestic demand has been stable spurred by the rising incomes, stability of the financial system, expansion of crediting, joining NATO and the EU and predominance of positive future expectations. Output in manufacturing in the period 2001-2005 increased on average by 7.6% per year. The competitiveness of Latvian manufacturers can be explained by the rapid rise in productivity invigorated by the investments that were made in previous years.

The budget deficit in Latvia is low and does not exceed the reference level set by the Maastricht criteria. In 2005, according to the methodology of the European System of Accounts ESA 95, there was a budget surplus in Latvia. Although the current account deficit is comparatively large, it should not be considered today as critical because it is covered by foreign direct investments and long-term loans. Net foreign reserves of the Bank of Latvia fully cover the reserve money. The inflow of foreign direct investments in Latvia is increasing after accession to the EU.

A relatively high inflation level has been observed in recent years. Its rise in 2004 was primarily accounted for by a combination of several one-off effects (an increase in the administratively regulated prices, harmonisation of the indirect tax rates, inflation expectations due to EU accession and the high oil prices on the global markets). Inflation in 2005 and 2006 remained on a high level owing mainly to the rises in the global oil prices and the second phase of inflation (spiral). According to forecasts, due to the diminishing influence of the aforementioned price-raising factors, inflation will gradually decrease. In the ten months of 2006 inflation increased at a more moderate pace than in the corresponding period of the previous two years.

The employment and unemployment indicators are gradually improving. In recent years the number of employed has been rising every year by 1-2% (in the 1st half of 2006 by 4.2%) while the unemployment rate decreased from 14.4% in 2000 to 8.7% in 2005 and 6.2% in the 3rd quarter of 2006.

The economic growth potential is best characterised by investment increase. In comparison with 2000, gross fixed capital formation in 2005 doubled and in 2005 it increased by 19%. The investment growth rate and its share in GDP are among the highest in the EU. Investment continued to accelerate rapidly also in 2006 promoting the modernisation of production and transition to new more productive technologies. This strengthens confidence that growth in the coming years will also be sustainable. If there are no external shocks GDP in the medium-term can be expected to grow by 6-8% annually in the medium term. The Ministry of Economics puts GDP growth in 2006 at 12%.

Gross domestic product

2005

GDP, at current prices

| | |
|----------------|-------|
| mln lats | 8937 |
| mln US dollars | 15818 |
| mln euro | 12713 |

GDP per capita

| | |
|------------|------|
| lats | 3885 |
| US dollars | 6877 |
| euro | 5527 |

GDP by sector, %:

| | |
|------------------------------|------|
| Agriculture ¹ | 4.1 |
| Industry | 15.7 |
| Construction | 6.3 |
| Trade ² | 22.1 |
| Transport and communications | 15.0 |
| Public services ³ | 14.2 |
| Other services | 22.6 |

In recent years Latvia has shown high GDP growth rates. The growth rate in 2005 was even more rapid reaching 10.2%.

The main reason for growth in 2003 and 2004 was the stable domestic demand. Export growth in 2005 played a more important role, with domestic demand continuing at the same time on a considerably high level.

The export of goods as well as that of services accelerated sharply in 2005 and Latvia's trade balance improved. The volume of private consumption increased driven not only by the annual wage increase but also by the availability of consumer loans to private persons at acceptable interest rates as well as loans for dwelling purchase and repair. Private consumption in 2005 exceeded the level of the previous year by 11.4%. The favourable financial situation (low interest rates on loans and expanding mortgage lending) also encouraged investing. Gross fixed capital formation in 2005 was considerably higher (by 18.6%) than in the previous year.

Nearly 80% of GDP growth was on account of the development of the services sector fostered mainly by the development of the trade, transport and communications sectors. Construction is growing fast while industrial growth has been more moderate. Construction output in 2005 was by 15.5% higher than in 2004.

Growth rates in the first three quarters of 2006 (11.9%) were even higher than in the preceding year, with high growth rates

persisting in the majority of service activities and manufacturing and construction output increasing at a more rapid pace than in the previous year. There were high growth rates in nearly all services sectors, especially in the sectors of trade services and in transport and communications.

The high growth rates in the first three quarters allow making a forecast that the average growth rate in 2006 may exceed the level of the previous year and reach 12%.

¹ Including forestry and fishing

² Including hotels and restaurants

³ Public administration including healthcare and education

Gross domestic product

GDP by Sectors

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

| | 2005 | | | | 2006 | | | 2003 | 2004 | 2005 |
|------------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|------------|-------------|
| | I | II | III | IV | I | II | III | | | |
| GDP | 7.6 | 11.2 | 11.4 | 10.6 | 13.1 | 11.1 | 11.8 | 7.2 | 8.6 | 10.2 |
| Agriculture ¹ | 1.2 | 5.7 | 8.4 | 4.7 | 2.7 | -0.5 | -0.7 | -2.4 | 3.4 | 5.5 |
| Industry | 0.2 | 8.0 | 8.0 | 7.7 | 9.3 | 4.0 | 7.4 | 6.0 | 6.4 | 5.9 |
| Construction | 16.2 | 15.8 | 15.6 | 14.4 | 17.5 | 16.1 | 12.2 | 13.7 | 13.3 | 15.5 |
| Trade ² | 15.2 | 18.7 | 17.5 | 17.6 | 17.3 | 18.4 | 18.6 | 10.9 | 12.7 | 17.2 |
| Transport and communications | 11.1 | 18.8 | 18.4 | 15.9 | 6.0 | 10.9 | 12.1 | 8.9 | 10.1 | 16.2 |
| Public services ³ | 2.7 | 4.0 | 1.5 | 2.8 | 2.9 | 4.3 | 1.7 | 3.8 | 3.4 | 2.7 |
| Other services | 5.5 | 8.4 | 10.1 | 8.8 | 17.5 | 14.7 | 16.3 | 5.7 | 9.4 | 8.1 |

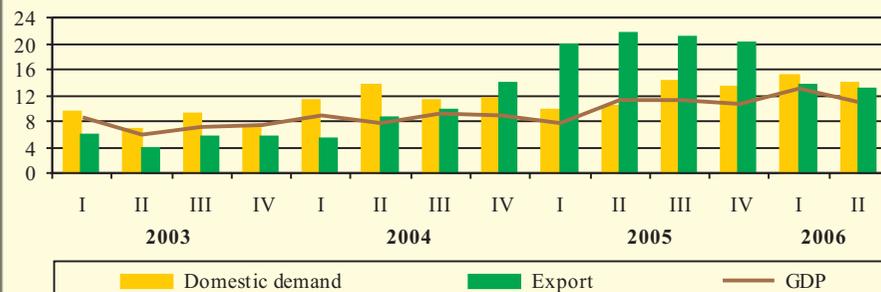
¹ Including forestry and fishing

² Including hotels and restaurants

³ Public administration including healthcare and education

Quarterly Changes in Real GDP and Major Expenditure Items

(% of the corresponding quarter of the previous year)



6

Manufacturing

2005

Growth rate: 6.5%

Share in GDP 12.8%

Recent years (2001-2005) have witnessed steady growth in manufacturing. Manufacturing output has been growing by 7.6% per year so the increase in manufacturing can be put nearly on the same level as the overall economic growth.

The growth trend in manufacturing has been steady, without marked acceleration or decline. The falling growth rates in selected industries have been counterbalanced by accelerated growth rates in other industries. In comparison with 2000, results of almost all

manufacturing sub-sectors (with the exception of the manufacture of transport vehicles) point to an increase in output.

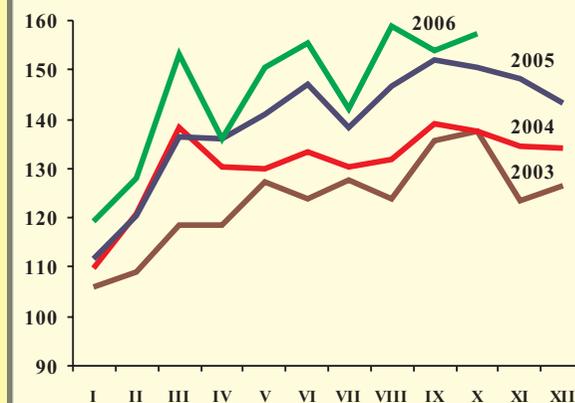
Following EU accession growth rates accelerated in the manufacture of paper and in publishing, the chemical industry, the manufacture of construction materials and in the manufacture of electrical and optical equipment. Previous growth rates or a slight decline could be observed in the remaining sectors.

The fastest export growth in the post-accession period was observed in the direction of Estonia and Lithuania and export increase to these countries occurred on a larger scale than to the other EU countries. There was also a rapid increase in the export of products of the manufacturing industry to CIS countries.

In the nine months of 2006 manufacturing output exceeded the level of the corresponding period last year by 5.5%. High growth rates persisted in the manufacture of textiles, the chemical industry and in the manufacture of electrical machinery and equipment. The rapid growth in these sectors was mainly accounted for by the expanding export opportunities. High growth rates persisted in the food industry although at a more moderate pace than in the above-mentioned sectors, low is the woodworking growth.

Manufacturing Output

(average monthly output in 2000 = 100)



7

Investments

2005

Foreign direct investment stock per capita, at the end of the year: 2074 US dollars

Gross fixed capital formation (% of GDP): 29.8

Investment growth rates in Latvia have been steadily high for several years already. This is due to the influence of several factors, especially such as financial stability, continuous improvement of the business environment, high domestic demand and rather low real interest rates, inflow of foreign capital, etc. At the same time the relatively low tax burden and the increasing product sales due to the rising demand have positively impacted the financial position of enterprises increasing the opportunities of investment.

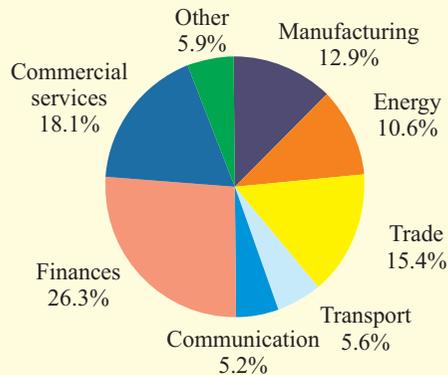
In 2005 fixed investments in Latvia doubled in comparison with 2000. Investments that were made each year within this period have increased by 15.7% and in 2005 represented 29.8% of GDP.

Foreign direct investment stock per capita in Latvia at the end of June 2006 was 1502.2 lats or 2682.5 US dollars.

Investments in the services sector account for the largest share of the foreign direct investment stock (FDI). In 2005 and in the 1st half of 2006 the heaviest investments were made in the banking sector.

Three quarters of FDI came from the EU member states and the major investors were the entrepreneurs from Sweden (17.0% of the FDI stock at the end of June 2006), Estonia (13.1%) and Germany (11.7%). 7.7% of the investments were from Russia.

Foreign Direct Investment Stocks by Industry
(end of June 2006, per cent)



Foreign trade

2005

Structure of export, %:

| | |
|---|-------------|
| Wood and products of wood - | 24.8 |
| Metalworking, machine building and transport equipment - | 26.3 |
| Light industry goods - | 9.3 |
| Chemical goods and articles of plastics - | 8.0 |
| Agricultural and food products - | 12.2 |
| Other goods - | 19.4 |

The value of commodity exports from Latvia in 2005 was much higher (by 34%, at current prices, in lats) than in the previous year. The increase in the value of imports was slightly less conspicuous, by 28%.

The sharp increase in the export unit value in 2005, which in comparison with the previous year exceeded 10%, the increasing exchange rate of the euro and the rising world prices for several commodity groups, in particular for food and mineral products, made a favourable impact on commodity exports.

Exports in 2005 increased substantially on all the markets trading Latvian goods, especially in the direction of the new EU member states.

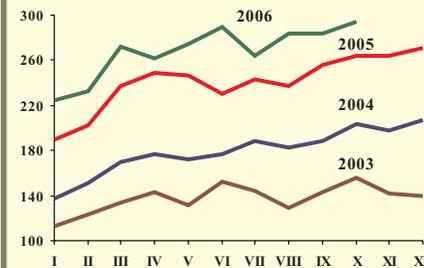
After accession to the EU, Latvia's foreign trade with Lithuania and Estonia as well as with the other new EU member states has increased very rapidly. A comparison with the EU pre-accession period shows that within two years Latvia's foreign trade with the other Baltic countries has more than doubled.

The value of exports in the ten months of 2006 exceeded the level of the corresponding period last year by 14% while that of imports increased at a much faster rate, by 29.6%. This was mainly accounted for by an increase in the imports of investment goods.

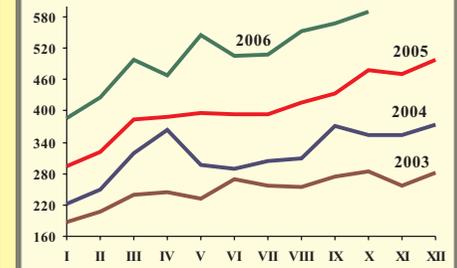
Exports to CIS countries in this period witnessed the most rapid growth and its value was higher by nearly one third in comparison with January-October last year, with substantial increases in the exports of food products, chemical goods and various machinery and equipment.

To the EU countries export increased by 11.4%, where the major share was from the export growth of food products, machinery and equipment.

Commodity Exports by Months
(mln lats)



Commodity Imports by Months
(mln lats)



Balance of payments

2005

Current account balance

mln LVL: -1137.3

mln US dollars: -2001.6

There is a relatively large current account deficit in Latvia. The main source of the deficit is the markedly negative trade balance. The mainly negative current account balance is covered by foreign direct investment and other long-term capital flows. The reserve assets of the Bank of Latvia are increasing.

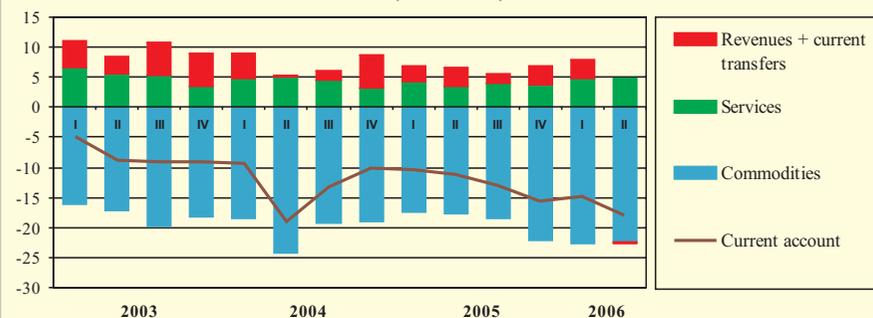
The positive balance on services covers approximately one fifth of the negative trade balance. The balance on services is slightly worsening year by year (with the exception of the first half of 2006) despite the improvement of the traffic balance; this is due to the worsening of balances of other service items. For example, due to the more rapid increase in the expenditures of resident travellers abroad than in the expenditures of foreign tourists in Latvia, the export of such services as communications, construction, financial,

information and computer services likewise increased at a slower pace than imports.

The sharpest fluctuations in the current account balance are nevertheless determined by changes in the trade balance. On the whole, the negative current account balance in 2005 decreased due to the improvement of the trade balance but data for the 1st half of 2006 testify to the worsening of the current account owing to the increasing trade deficit.

Domestic demand in Latvia is higher than the gross domestic product and this is the reason for the emergence of current account deficit. It means that in order to finance domestic investments foreign saving should also be used. In recent years the level of saving in relation to GDP in the economy of Latvia has been actually constant, approximately 20%. The rate of investments in the economy is, in turn, high, especially after EU accession (33% in 2004 and 34% in 2005).

Current Account Balance
(% of GDP)



Inflation

November 2006

(12-month inflation)

CPI: 6.4%

PPI: 12.3%

In 2004 the inflation rate accelerated sharply in Latvia: in December the 12-month inflation reached 7.3% and the annual average inflation in 2004 was 6.2%. Inflation growth in 2004 more than doubled in comparison with 2003. The sharp increase in prices was mostly caused by some factors on the supply side gradually strengthening their influence during the whole year.

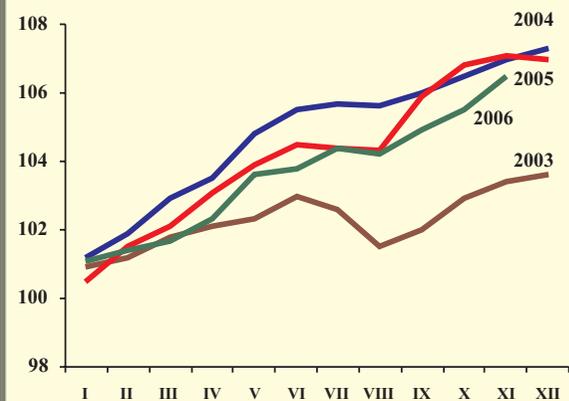
The high domestic demand that was stimulated by a perceptible wage rise in previous years and the brisk growth of crediting intensified the second-phase effect of inflation of the previous year. This is why high inflation persisted also in 2005

affected in addition by the continuously rising fuel prices on the global market. In 2005 the 12-month inflation was 7% and the average for the year was 6.7%.

Although still relatively high, the inflation rate in the eleven months of 2006 was declining gradually. The main reasons behind price growth are the same as in the previous year: inflation expectations caused by the high inflation in the previous two years, intensive mortgage lending, the steep rise in the administratively regulated prices (for electricity, gas and also for heating at the end of the year) and a wage increase in the private sector; this was a consequence of the high inflation in 2005.

Producer prices, in turn, have been rising at a much more rapid pace in 2006 than in previous years, besides the prices of exported goods are increasing more swiftly. Over the year (November 2006 in comparison to November 2005) price rises in the manufacture of wood and of articles of wood as well as increases in the prices of electricity, gas and heating have had the largest impact on the overall level of producer prices.

Consumer Price Index
(December of previous year = 100)



Monetary indicators

2005

Domestic enterprises and private persons

| | |
|------------------|---------------------|
| Loans: | 68.7% of GDP |
| Deposits: | 35.8% of GDP |

The stability of the banking sector, the rising welfare and economic activity of the population are the reasons stimulating steady growth of the basic monetary indicators of the banking system of Latvia.

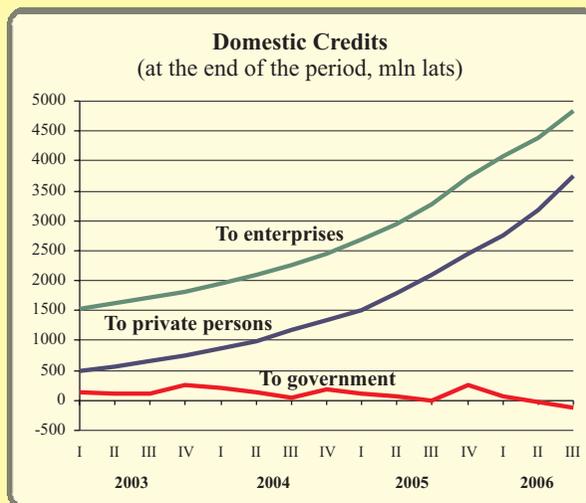
Compared with October 2005, the amount of broad money M2X in October 2006 rose by 41.8%, currency in circulation increased by 22.6% and deposits rose by 46.4%. In the same period credits to enterprises and private persons also continued to increase (by 58.7%). Although the amount of crediting is rising, the quality of loans does not deteriorate. At the end of 2005 the share of loans generating no income in the total number of loans granted by non-banks was only 0.7%.

Reacting to the increasing domestic demand and in order to slacken the growth of crediting, the Bank of Latvia in March and November 2004 raised its re-financing rate by 0.5 percentage points to 4.5% and increased in July 2004 its reserve requirement from 3% to 4%, in August 2005 to 6% and in December 2005 to 8%. Moreover, in August 2006 all government deposits in lats were transferred from the commercial banks to the Bank of Latvia.

However, the effectiveness of these measures in Latvia is limited by the fixed exchange rate regime and several other specific factors, such as the low share of loans granted to resident borrowers in GDP, the relatively easy access by the banks to foreign resources and the relatively large share of loans issued in foreign currency in the total structure of loans.

In October 2006 the average weighted interest rate on short-term credits in lats was 8.3% but on long-term credits 11.3%; for credits in the currencies of foreign countries these rates were 5.6% and 5.9%, respectively.

¹ Short-term and with a changing interest rate.



Budget and central government debt

2005

General government budget (% of GDP):

| | |
|-------------------------------------|-------------|
| Revenues: | 35.8 |
| of which taxes: | 28.5 |
| Expenditures: | 36.9 |
| of which capital investment: | 4.4 |

The budget deficit in 2005 was lower than planned, 105.2 mln lats or 1.2% of GDP (in compliance with the methodology of the European System of Accounts ESA 95 budget surplus in Latvia in 2005 was 0.1% of GDP). The revenues and expenditures of the general government budget in 2005 were by 26.9% higher than in 2004.

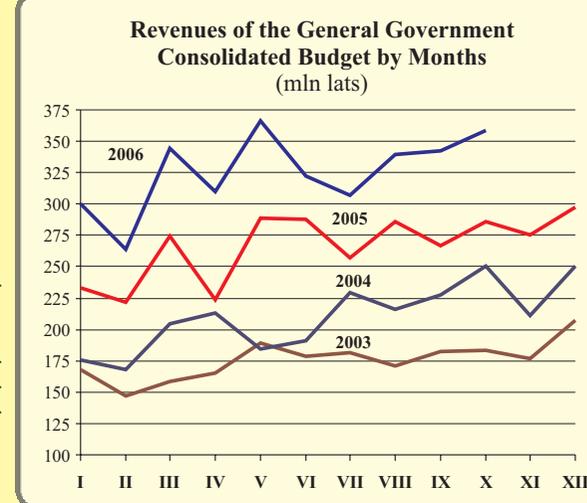
The Parliament has confirmed the general government budget for 2006 with a deficit of 1.5% of GDP. It is worth noting that in the ten months of 2006 there was a fiscal surplus in the budget to the amount of 333.3 mln lats. The revenues of the general government budget in the ten months of 2006 were 23.9% higher than in the corresponding period a year ago but expenditures were 20.5% higher.

The priorities of the budget for 2006 are: raising the welfare level of the population, integration into the EU and NATO, effective and full

absorption of the allotted resources from the EU funds balancing it at the same time with the government's support to the social needs of the society. The major budget priorities include the resources envisaged for the national co-funding in connection with EU funds. By means of rational and effective utilisation of the money coming from the EU funds, strong support will be provided for the encouragement of business activity and development and improvement of the country's infrastructure.

The government has confirmed the budget for 2007 with a deficit of 1.4% of GDP.

The level of the central government debt in Latvia is one of the lowest in the EU. At the end of 2005 it was 1084 mln lats or 12.1% of GDP. At the end of June 2006 it amounted to 1106.2 mln lats.



Personal income

2005

Average monthly net wage:

lats 176
US dollars 311

Average monthly old-age pension (paid):

lats 81
US dollars 143

The average net monthly wage in 2005 was by 26 lats or 17% higher than in the preceding year. However, with inflation taken into account, real wage in 2005 rose by 9.7%.

The overall wage increase was to a great degree influenced by the high inflation in 2004 and 2005, as well as by the wage increase for the employees of several budget-financed institutions, for example, teachers and doctors.

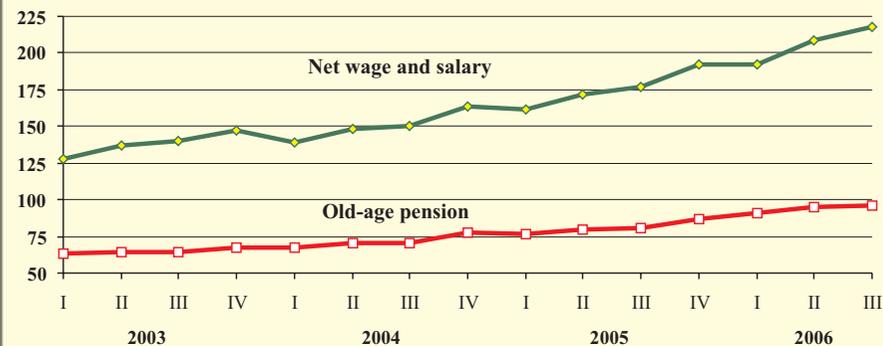
Data for the 3rd quarter of 2006 on the average wage also speak about its fairly rapid increase. In September 2006 the average monthly net wage was by 23.3% higher than in September 2005, with real wage increasing by 16.4%.

By implementing a socially responsible policy, the minimum monthly wage has been raised as of 1 January 2006 from 80 to 90 lats, the minimum monthly untaxable income of the population from

26 lats to 32 lats and the monthly allowance for a dependent person from 18 lats to 22 lats.

The increase in the size of old-age pensions in 2005 was also noteworthy. Pensions in December 2005 were on average almost 12% or 9 lats higher than in December 2004 and in September 2006 (96.04 lats) they even exceeded the average size of pensions in September 2005 by 19.1% or 15.4 lats.

Wages and Salaries and Old-Age Pensions
(average per month, lats)



Employment and unemployment¹

2005

Employment rate (aged 15-64) 63.4%

Unemployment rate (rate of unemployed, aged 15-74): 8.7%

Economic development in recent years in Latvia has positively influenced the situation on the labour market. Although the number of population of working age is decreasing, the number of economically active population is rising and the employment rate is also increasing.

In the last five years (2001-2005) the employment rate has increased by 6.1 percentage points. In comparison with the EU average, the employment rate in Latvia was lower by 4.9 percentage points whereas in 2005 it lagged behind only by 0.5 percentage points.

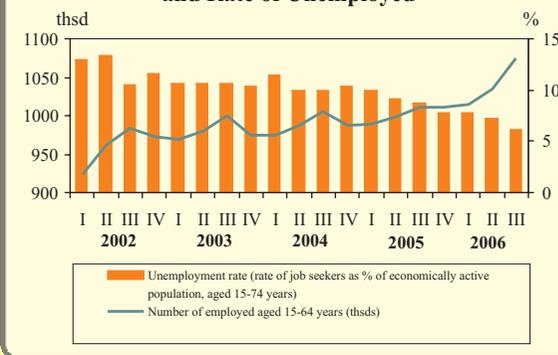
The level of female employment in Latvia is higher than the EU average and this difference tends to increase: the female employment level in 2002 was by 2.1 percentage points higher than in the EU and in 2005 - by 3 percentage points higher.

The male employment level, in turn, although tending to rise year by year, still lags behind the EU average level (by 6.7 percentage points in 2002 and 3.7 percentage points in 2005).

The rapid economic growth in the first three quarters of 2006 stimulated a substantial increase in the number of employed (by 7.2% in the 3rd quarter of 2006 compared to the indicator of the corresponding period of 2005), thus reducing the unemployment level to 6.2% (in the 3rd quarter of 2006).

The number of unemployed is decreasing not only on account of the rising employment rate. In recent years after Latvia's accession to the EU an outflow of workforce has been observed to the old EU member states (Ireland, Great Britain and Sweden) where labour markets are open to the citizens of the new EU member states. The labour market of Latvia begins therefore to show signs of a labour force shortage in several sectors.

Number of Employed Persons and Rate of Unemployed



¹ The analysis of employment and labour market trends deals with people aged 15-64 years, but unemployment trends with 15-74 years, that corresponds to the EU practice.

Baltic States

Main socio-economic indicators of the Baltic States

| | Estonia | Latvia | Lithuania |
|--|---------|--------|-----------|
| Territory, thsd km ² | 45.2 | 64.6 | 65.3 |
| Population as of January 1, 2006, thsd | 1344.7 | 2294.6 | 3403.3 |
| Gross domestic product, % of corresponding period of the previous year | | | |
| 2005 | 109.8 | 110.2 | 107.5 |
| 2005: 1 st quarter | 107.2 | 107.6 | 104.4 |
| 2 nd quarter | 109.9 | 111.2 | 108.4 |
| 3 rd quarter | 110.6 | 111.4 | 108.0 |
| 4 th quarter | 111.1 | 110.6 | 108.8 |
| 2006: 1 st quarter | 111.7 | 113.1 | 108.8 |
| 2 nd quarter | 108.4 | 111.1 | 111.7 |
| 3 rd quarter | ... | 111.8 | ... |
| Industrial output index, % | | | |
| 2005 | 109.1 | 105.6 | 107.3 |
| January-September 2006 against January-September 2005 | 110.6 | 105.9 | 107.2 |
| Unemployment rate (the percentage share of unemployed persons in the total number of economically active population aged from 15 to 74 years) | | | |
| 2005 | 7.9 | 8.7 | 8.3 |
| 2006: 1 st quarter | 6.4 | 7.8 | 6.4 |
| 2 nd quarter | 5.6 | 7.2 | 6.2 |
| 3 rd quarter | ... | 6.2 | ... |
| Consumer price changes, % against previous year | | | |
| 2005 | 4.1 | 6.7 | 2.7 |
| November 2006 against November 2005 | 4.6 | 6.4 | 4.4 |
| Producer price changes in industry, % against previous year | | | |
| 2005 | 2.1 | 7.8 | 11.5 |
| September 2006 against September 2005 | 5.4 | 11.8 | 1.7 |