



Ministry of Economics  
Republic of Latvia

# MACROECONOMIC REVIEW OF LATVIA

April 2026

ISSN 2592-8538

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Central Statistical Bureau of Latvia

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ISSN 2592-852X



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## ECONOMIC DEVELOPMENT TRENDS

Despite geopolitical uncertainty and the associated challenges, Latvia's economy has successfully adapted to operating in a high-risk environment and is gradually returning to growth.

Russia's invasion of Ukraine created significant challenges for economic development. In 2022, economic growth slowed markedly to 1.9%, driven by declining global demand, supply chain disruptions, and rising energy and food prices. In 2023, growth continued to be constrained by geopolitical uncertainty, high prices, and increasing interest rates, resulting in a GDP contraction of 0.9%. Although inflation stabilised, adverse external conditions meant that overall GDP in 2024 remained at the previous year's level. In the first half of the year, the economy continued to decline; however, starting from the second half, GDP began to grow again.

In 2025, GDP increased by 2.1%, confirming that Latvia's economy has been able to overcome recent shocks. This growth was largely driven by a strong increase in investment, as well as government measures to stimulate the economy, particularly in lending and investment. Household consumption dynamics also improved in 2025.

Given the military conflict in the Middle East, the Ministry of Economics forecasts that economic growth in 2026 will be lower than previously projected. Higher energy prices and increased uncertainty are constraining both global and domestic economic activity, significantly raising production costs. The impact of the conflict on growth depends on its duration - if the conflict were resolved within the coming months, Latvia's economic growth could reach 2% in 2026. However, if the conflict lasts longer than half a year, the negative impact on growth could be significantly greater, substantially slowing development and creating additional challenges for businesses.

## Key Economic Development Indicators

	2020	2021	2022	2023	2024	2025	2026f
Gross domestic product, at current prices, billion euro	29.2	32.3	36.1	39.6	40.7	43.0	45.6
<i>changes compared to the previous year, as per cent</i>							
Gross domestic product	-3.5	6.9	1.9	-0.9	0.0	2.1	2.0
Private consumption	-4.8	8.1	5.1	-0.9	0.1	0.8	1.9
Public consumption	3.9	3.7	0.4	2.5	-0.4	3.3	3.5
Gross fixed capital formation	-2.4	6.8	0.3	5.0	-7.0	9.8	9.1
Exports	-0.3	9.1	11.4	-7.0	0.1	0.1	2.2
Imports	-1.1	15.1	9.9	-5.0	-1.8	5.7	4.9
Consumer prices	0.2	3.3	17.3	8.9	1.3	3.7	3.8
<i>as per cent</i>							
Changes in the number of employed	-1.9	-3.2	2.6	-0.2	-0.8	0.6	0.1
Employment rate	64.2	62.5	63.9	64.2	64.0	64.5	65.0
Unemployment rate	8.1	7.6	6.9	6.5	6.9	6.9	6.7
<i>as per cent of GDP</i>							
General government balance	-4.1	-7.2	-4.9	-2.4	-1.8	-2.4e	-3.3
General government debt	44.0	45.9	44.4	44.4	46.6	49.7e	52.5
Net exports	1.4	-3.2	-4.9	-3.7	-2.6	-2.8	-3.3

f – forecast, e – estimate

Private consumption growth remains slow despite increases in real wages. Consumer caution is influenced by the high price level, inflation expectations, and geopolitical uncertainty. As inflation stabilised and real incomes increased, private consumption grew by only 0.1% in 2024 and faster, by 0.8%, in 2025.

Government consumption is volatile. It declined by 0.4% in 2024 but increased by 3.3% in 2025.

Investment activity in Latvia is significantly affected by the geopolitical situation, availability of financing and production resources, as well as other external and internal factors. In 2024, investment declined by 7%, due to reduced private investment. Supported by faster absorption of EU funds and increased private sector lending, investment rose by 9.8% in 2025.

The stock of foreign direct investment in Latvia reached EUR 27.1 billion at the end of 2025, equivalent to 63% of GDP. Over the year, it increased by 3.5% or EUR 0.9 billion.

**The external environment continues to negatively affect external trade.** Exports of goods and services grew by 0.1% in 2024 and by only 0.1% in 2025. Service exports increased by 1%, while goods exports declined by 0.3%. Latvia's main export goods in 2025 were wood and wood products; electrical equipment; mineral products; vehicles and their parts; and machinery and equipment. However, imports decreased by 1.8% in 2024 but increased by 5.7% in 2025.

Following the increase in the current account deficit to 5.5% of GDP during the COVID-19 pandemic, it gradually declined to 1.5% of GDP in 2024. However, in 2025, the deficit widened again to 3.6% of GDP, mainly due to rising imports. The development of the current account in the coming years will be determined by changes in the geopolitical situation.

**Sectoral developments remain uneven.** In 2024, output declined in production sectors by 1.5%, due to weak export demand, while service sectors grew by 0.4%.

**In 2025, total value added increased by 2%.** Production sectors grew by 3.3%, while service sectors increased by 1.6%. The largest contribution to GDP growth came from manufacturing (+4.7%), supported by a gradual improvement in external demand and a recovery in production volumes, as well as the construction sector, which grew by 9% over the year due to increased investment activity and the implementation of infrastructure projects.

The information and communication sector also contributed significantly, growing by 4.9% over the year, highlighting the increasing importance of the digital economy. Professional, scientific and technical services, as well as administrative and support services, grew by 4.2%, reflecting increased total business activity. Wholesale and retail trade rose by 2.7%, supported by strengthening domestic demand. Health and social care grew modestly by 1.3%.

However, adverse weather conditions negatively affected agriculture (-3.2%) and mining and quarrying (-3% year-on-year). Transport and storage declined by 3.5% due to lower cargo volumes and reduced transit flows, particularly in rail and ports.

After the sharp increase during the COVID-19 pandemic, the government budget deficit is gradually returning to more moderate levels. In 2024, it reached EUR 700 million or 1.8% of GDP. In 2025, according to Ministry of Finance estimates, the deficit was 2.4% of GDP or EUR 1.02 billion, lower than the planned 2.9% of GDP. The Saeima approved the 2026 budget with a deficit of 3.3% of GDP, with a medium-term projection of around 3.6%, mainly due to increased spending on defence and security.

**Latvia's government debt remains among the lowest in the EU.** The COVID-19 outbreak created the need to provide substantial funding to mitigate the impact of the crisis caused by COVID-19. Increasing government debt to 45.9% of GDP or 14.8 billion in 2021. As nominal GDP growth was strong under conditions of high inflation, the ratio declined in subsequent years to 44.4% of GDP in 2023. General government debt amounted to EUR 18.8 billion in 2024, or 46.6% of GDP. It is expected that, in the medium term, the debt criterion of 60% of GDP set in the Fiscal Discipline Law will be respected.

**Inflation is primarily driven by increases in global energy and food prices.** In 2025, average annual inflation was higher than in 2024, reaching 3.7% in December. Price dynamics were driven by fluctuations in global energy and food prices, as well as the still unstable geopolitical environment, while changes in domestic tariffs also played a significant role - particularly increases in tariffs for housing-related energy and services over the year.

Before the Middle East conflict, inflation in 2026 was projected at 2.5-3%. However, given the duration and intensity of the conflict, the latest inflation forecasts may vary significantly - from around 3.5-4% if the conflict ends within the coming months, to as much as 5.5-6.5% if it persists. It should be noted that inflation dynamics over the year will be uneven: stronger price increases are expected in the first months of the year, followed by stabilisation or even a correction in the second half, if energy prices return to normal levels or the government implements additional policy measures to reduce price pressures.

**Positive trends are also observed in the labour market.** In 2025, following two years of decline, the number of employed persons increased by 0.6%, or 5,600 individuals. The largest increases in employment were recorded in trade, professional, scientific, and technical services, manufacturing, as well as public services. The dynamics of unemployment in 2025 were influenced by rising economic activity among the population. The unemployment rate remained at the 2024 level, at 6.9%.

Several structural issues persist in the labour market. The share of long-term unemployed remains high - around one third of jobseekers had been unemployed for more than 12 months. Labour supply is simultaneously constrained by skills mismatches and pronounced regional disparities, as well as unfavourable demographic trends - in 2025, the population aged 15-74 declined by 12,500 compared to 2024.

Despite the negative impact of the conflict in the Middle East on growth, the economy is expected to continue expanding in 2026, and accordingly, labour demand will gradually increase.

**Average monthly gross wages continue to rise.** In 2024, the average net wage was EUR 1,221, or 72.4% of the gross wage, increasing by 9% over the year and outpacing consumer price growth. Real net wage growth, adjusted for inflation, was 7.6%.

In 2025, the average gross monthly wage in the country was EUR 1,835. Compared to 2024, the average monthly wage increased by EUR 132, or 7.8%. Wage growth was slightly stronger in the private sector. Real net wage growth, taking inflation into account, was 6.3%.

Wage growth will continue to be supported by the convergence process towards wage levels in more economically developed EU countries, as well as by the increasing shortage of skilled labour - tightening labour market conditions are prompting firms to focus not only on attracting new employees, but also on retaining existing staff, including by revising wage levels.

**Further economic development in the medium term will depend on external conditions and the progress of reforms.** The main risk to Latvia's growth is linked to global economic developments, particularly the geopolitical situation. The future development of the EU economic area is also important. In the medium term, Latvia's growth rate could potentially reach 4-5% annually. However, if the war in Ukraine persists, the pace of economic recovery may be slower.

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## WORLD ECONOMIC OUTLOOK

The global economy continues to face significant challenges, further exacerbated by the consequences of Russia's invasion of Ukraine and rising geopolitical tensions in the Middle East. Tensions in this region, particularly those related to possible conflict escalation and threats to oil supply security, are contributing to volatility in energy prices and creating additional uncertainty in financial markets. This is also reflected in inflation developments, rising business costs and disruptions to global supply chains, including in key transport arteries such as the Suez Canal and the Red Sea region.

Global gross domestic product growth  
as per cent

	2025	2026f	2027f
World (excl. EU)	3.3	2.9	3.0
Euro Area	1.4	0.8	1.2
USA	2.1	2.0	1.7
China	5.0	4.4	4.3
Germany	0.4	0.8	1.5

Source: OECD, March 2026; f – forecast

In 2025, China's GDP increased by 5%, supported by export growth despite tariff pressures and global uncertainty. The resilience of the Chinese economy is likely to continue, although further developments will depend on policy support and external demand. GDP growth is projected at 4.4% in 2026 and 4.3% in 2027. India's economy grew by 7.6% in 2025, while GDP growth is projected at 6.1% and 6.4% in 2026 and 2027, respectively.

US economic growth reached 2.1% in 2025. GDP is projected to grow by 2% in 2026 and 1.7% in 2027. Growth will be constrained by higher import tariffs, immigration restrictions, and political uncertainty, but this

will be partly offset by expansionary fiscal and monetary policy, as well as strong investment growth in artificial intelligence.

Euro area GDP increased by 1.4% in 2025. It is projected to grow by a further 0.8% in 2026 and by 1.2% in 2027. The EU economy continues to be affected by heightened geopolitical and policy uncertainty, as well as security risks related to the war in Ukraine.

In the United Kingdom, GDP grew by 1.3% in 2025. GDP is expected to increase by 0.7% and 1.3% in 2026 and 2027 respectively.

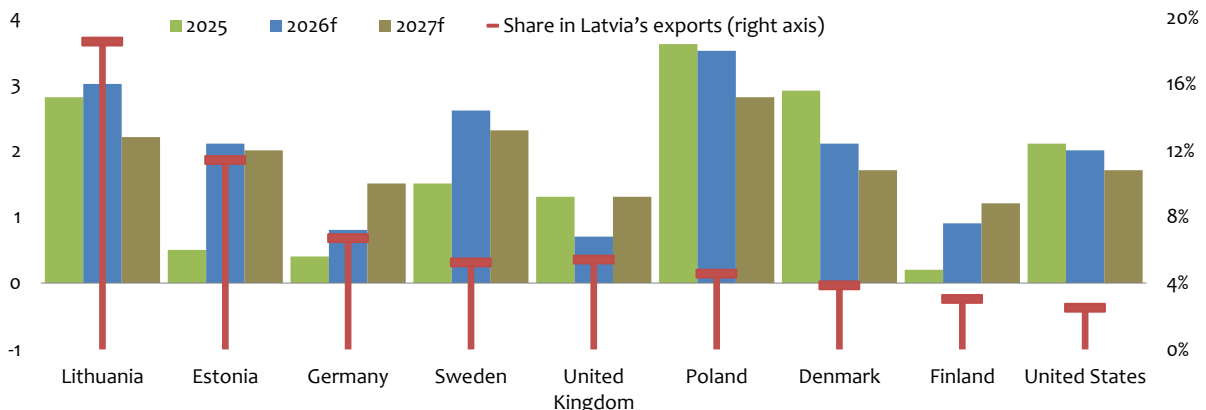
Germany's GDP grew by 0.4% in 2025, marking a return to modest growth after a prolonged period of recession. This was mainly supported by household consumption and government spending, while exports continued to face pressure from trade tensions, US tariffs, and weak external demand. The role of exports in the economy remained limited, significantly constraining the pace of growth. Forecasts indicate that GDP will increase by 0.8% in 2026 and by 1.5% in 2027.

Sweden's economy is gradually recovering after a period of weak growth, with GDP increasing by 1.5% in 2025. The recovery is mainly driven by improving private consumption, although instability in trade and financial markets may limit further growth. Sweden's GDP is estimated to increase by 2.6% in 2026 and by 2.3% in 2027.

Estonia's GDP increased by 0.5% in 2025. GDP growth is expected to reach 2.1% and 2.0% in 2026 and 2027, respectively. In Lithuania, GDP increased by 2.8% in 2025. Forecasts suggest that Lithuania's economic growth will reach 3% in 2026 and 2.2% in 2027.

## Growth of Latvia's Largest Trade Partners

GDP changes against the previous year, as per cent – left axis; share as per cent in 2025 – right axis

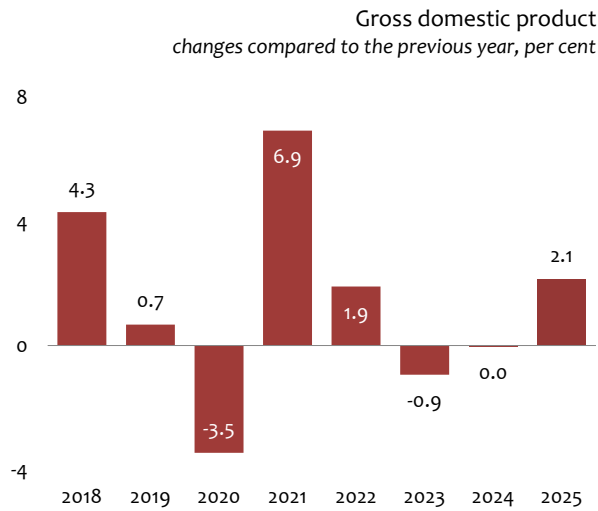


Source: CSB, European Commission (2026); f – forecast

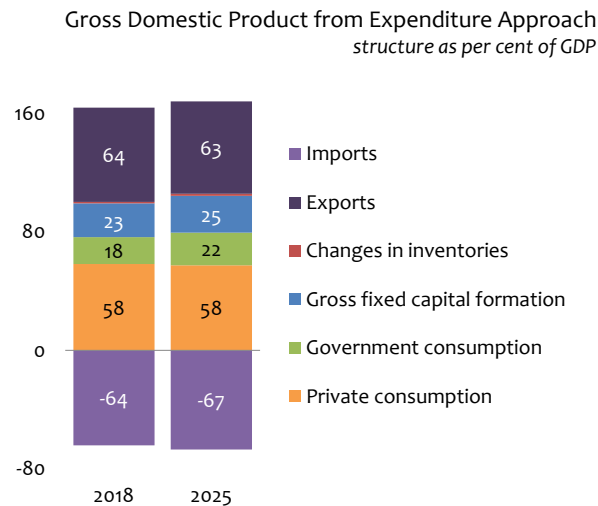
# 2026 | 1 GROSS DOMESTIC PRODUCT AND AGGREGATE DEMAND

## GROSS DOMESTIC PRODUCT

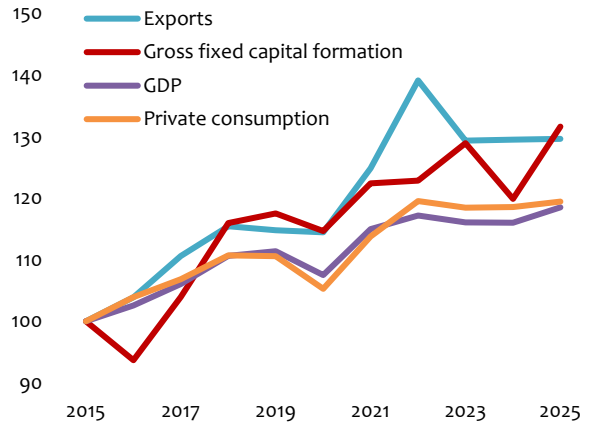
In 2025, Latvia's economy returned to growth, largely driven by investment activity and the recovery of domestic demand.



In 2025, GDP increased by 2.1%, which is a positive development given the tense geopolitical environment. Economic growth in 2025 was driven by several factors. The largest contribution came from strong growth in investment, especially public investment, and the implementation of European Union fund projects, as well as faster private sector lending, which in turn supported the recovery of investment and capital formation in the economy. The recovery of private consumption after stagnation in previous years also had a positive effect on overall demand.

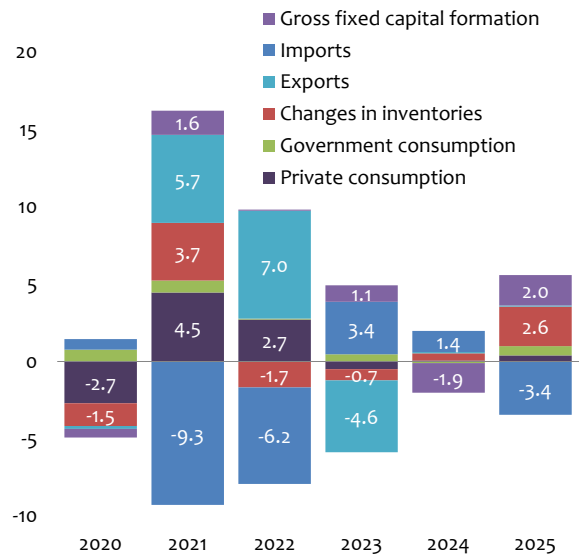


Gross Domestic Product by Expenditure Items 2015 = 100



Investment growth was particularly pronounced in construction works and buildings, as well as in machinery and equipment. Export trends were mixed - goods exports declined by 0.3%, while services exports increased by 1%. Although the external environment has improved, it remains weak due to geopolitical uncertainty. Private consumption increased by 0.8%. Although rising real incomes supported private consumption growth, the pace remained slow due to the high price level, inflation expectations, and the unclear geopolitical situation.

Gross Domestic Product by Expenditure Items as percentage points



CONSUMPTION

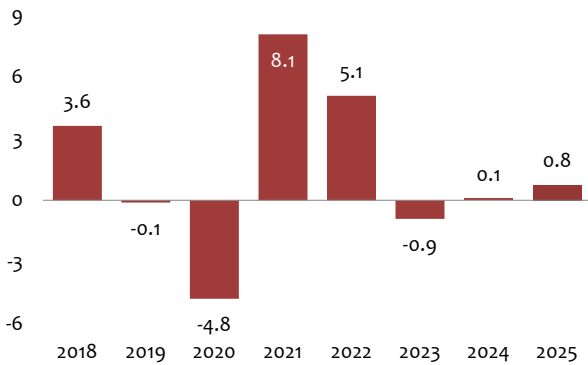
Growth in private consumption in 2025 was supported by the relatively stable labour market situation, wage growth, and the gradual decline in inflation, which improved households' real incomes. Consumption was also supported by a gradual improvement in consumer sentiment during the year.

At the same time, household spending growth continued to be constrained by the relatively high price level and geopolitical uncertainty, which maintained caution in consumption decisions. Overall, private consumption increased by 0.8% in 2025, indicating a gradual stabilisation of household purchasing power.

Overall, consumer sentiment remained volatile and predominantly negative in 2024, reflecting households' cautious view of economic developments. Assessments of the general economic situation over the next 12 months were especially reserved.

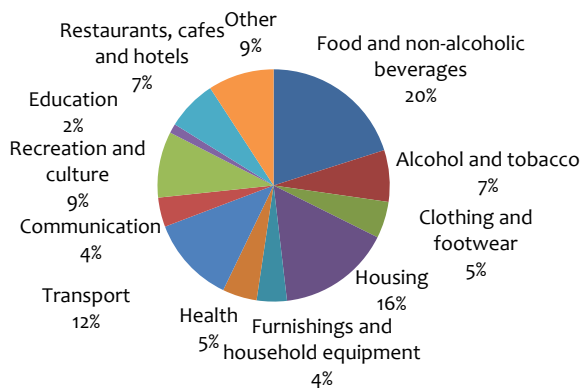
In 2025, the consumer confidence indicator improved slightly overall. Households' financial situation in the future was assessed more positively, while expectations regarding overall economic development remained cautious. At the same time, consumer inflation expectations remained relatively high, largely due to rising service prices and the still high level of food prices.

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

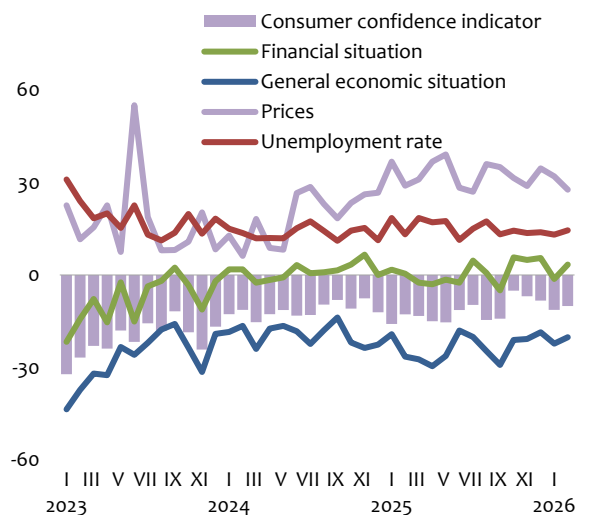


Food accounts for the largest share of household consumption expenditure. High food prices encouraged households to continue saving in 2024 as well, reducing the volume of food consumed. Spending on alcoholic beverages and tobacco also declined significantly. As energy prices stabilised, housing-related expenditure remained broadly unchanged. At the same time, household spending increased on transport, health, and education.

Structure of Household Expenditures in 2024, as per cent

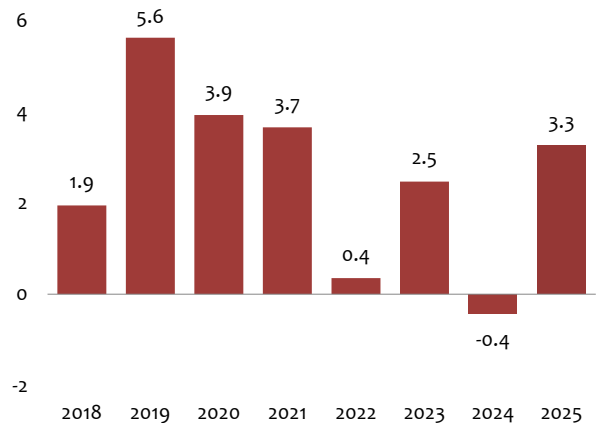


Consumer Confidence Index consumer assessment for the next 12 months, response balance, seasonally adjusted data



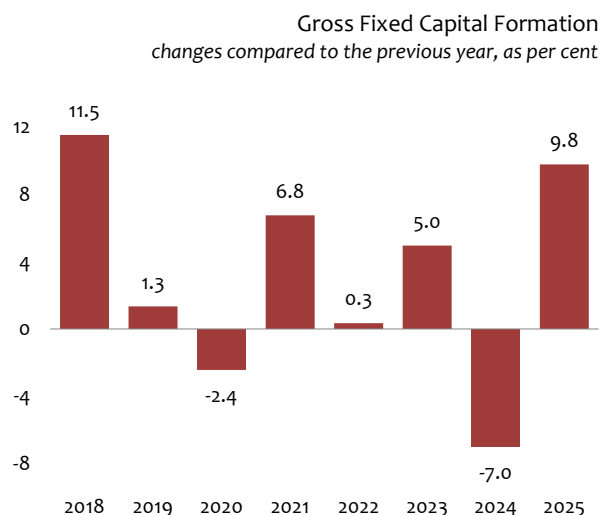
Government consumption increased by 3.3% in 2025, mainly due to higher spending on public services and expenditure in the field of security and defence, which in recent years has become a major budget priority due to the geopolitical situation.

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



INVESTMENT

Investment activity in Latvia's economy remains highly volatile and is significantly affected by changes in the geopolitical situation, the availability of financing and production resources, as well as other external and internal factors. Expenditure on gross fixed capital formation increased by almost 2% per year on average during 2021-2025, which is more moderate than in the pre-COVID-19 period of 2016-2019.



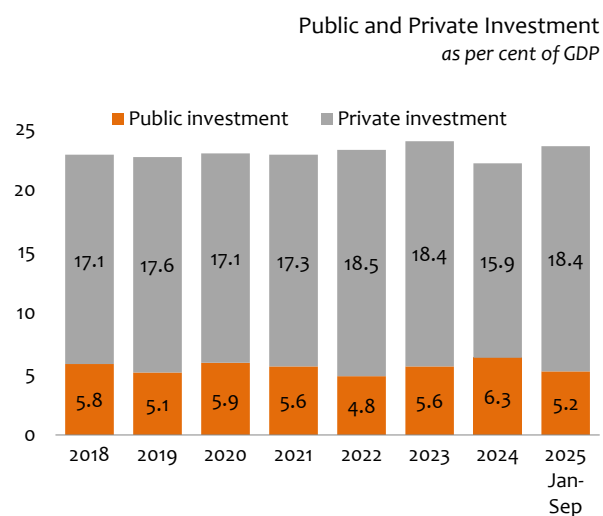
The war in Ukraine has increased uncertainty. In 2022, investment remained at the previous year's level, while in 2023 it increased by 5%. In 2024, however, it was 7% lower than a year earlier. Investment activity was also constrained by higher construction prices and delays in the implementation of EU-funded programmes.

In 2025, investment dynamics returned to an upward trajectory. Compared with 2024, expenditure on gross fixed capital formation increased by 9.8%, significantly influenced by a rise in private investment.

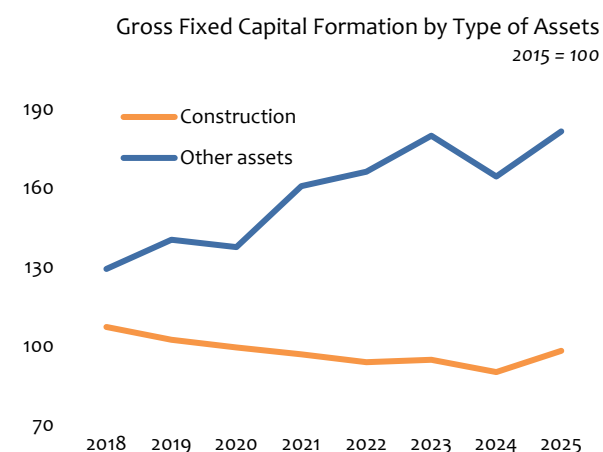
The level of private investment is increasing but remains relatively low. In 2025, private investment dynamics were quite strong. In the first nine months of the year, compared with the same period of the previous year, its volume increased by 9.3% and amounted to 18.4% of GDP. The increase in private investment was supported by growth in lending volumes. However, it should be noted that high uncertainty, as well as the low level of the loan portfolio, significantly constrain more rapid investment growth.

Public investment accounts for almost 1/4 of total investment in the economy, or on average almost 5.7% of GDP, which is one of the highest rates in the EU. Its dynamics are largely linked to the cyclical nature of EU structural fund absorption. Over the last four years, 2022-2025, public investment dynamics were overall positive, rising by almost 3% per year on average. In 2025,

government expenditure on gross fixed capital formation accounted for 5% of GDP.

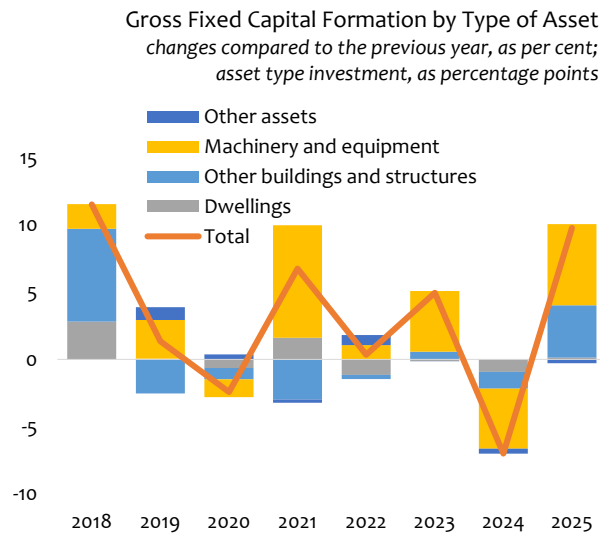


The largest share of total investment consists of investment in construction assets. These are mainly investments in buildings and structures, which over the past five years accounted for 48.9% of expenditure on gross fixed capital formation. After the COVID-19 pandemic, during 2021-2024, investment in construction assets in constant prices declined by almost 2.5% per year on average, including a 2.7% decline in civil engineering works and buildings and a 1.8% decline in housing. In 2025, however, investment in construction assets increased sharply and was 9% higher than a year earlier, including a rise of 11.3% in civil engineering works and buildings and 1.3% in housing.

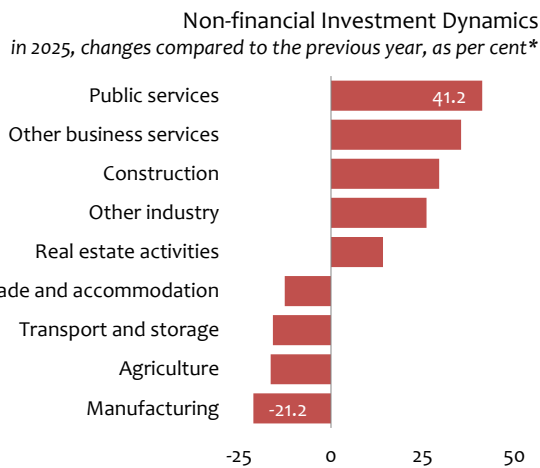


Investment in machinery and technological equipment accounted on average for 41% of total investment during 2021-2025 and its dynamics were slightly faster than for other assets. Over the past five years, investment in these assets increased by an average of 7.1% per year, largely due to rapid growth in investment in 2023 and 2025. In

2025, investment in machinery and equipment was 13.2% higher than a year earlier, including a 7.2% increase in investment in transport equipment.



Overall, it should be noted that fluctuations in investment volumes in recent years have largely been determined by investment in transport equipment, as well as in civil engineering works and buildings. Significant investments were made in information and communication technology equipment, which is necessary for the digitalisation of production processes and services.



\* Calculated using quarterly data, at current prices

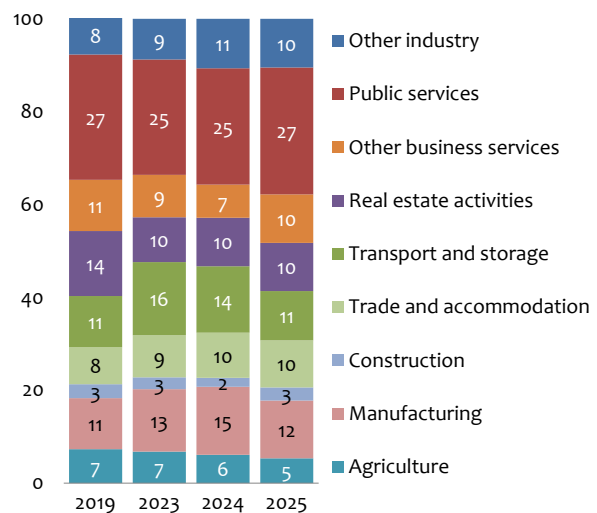
Investment in intellectual property assets has accounted for approximately 10% of total investment in recent years, 2021-2025. It has been characterised by resilience during years of economic recession and has shown an overall upward trend. Since 2020, in constant prices, investment in these assets increased by 3.6%. In 2025, investment in intellectual property products was 8.4% higher than a year earlier and accounted for 2.4% of GDP, almost 0.4 percentage points higher than before the COVID-19 pandemic.

In 2025, capital investment in tangible fixed assets in goods-producing sectors declined by 2.3% compared with the previous year at current prices, whereas in services sectors capital investment was 16.3% higher than a year earlier.

A significant contribution in 2025 came from increased investment in public administration and defence, by 46.7%, in real estate activities, by 14.2%, and in the energy sector, by 28.5%. By contrast, investment in manufacturing was 21.2% lower than a year earlier. Capital investment in transport and storage was also 15.8% lower in 2025 than a year earlier.

Surveys conducted by the European Investment Bank show that Latvian businesses consider the shortage of qualified staff and uncertainty about the future to be the most significant long-term obstacles to investment. Investment activity is also hampered by energy costs, weak demand, shortcomings in business regulation and access to financing. Banks are the main source of external financing, but Latvian companies use them less frequently than the EU average, and most investment continues to be financed from internal resources.

**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 uncertainty in the international environment.** Positive developments in investment will be supported by EU funding, particularly projects implemented under the Recovery and Resilience Facility, as well as by growth in the credit portfolio. However, in the coming years, investment will be constrained by geopolitical uncertainty related to the war in Ukraine, labour shortages, and high energy and borrowing costs. Strong government support during the COVID-19 and energy crises helped sustain private investment, but as fiscal constraints tighten, ensuring the maximum return on public funding is becoming increasingly important.

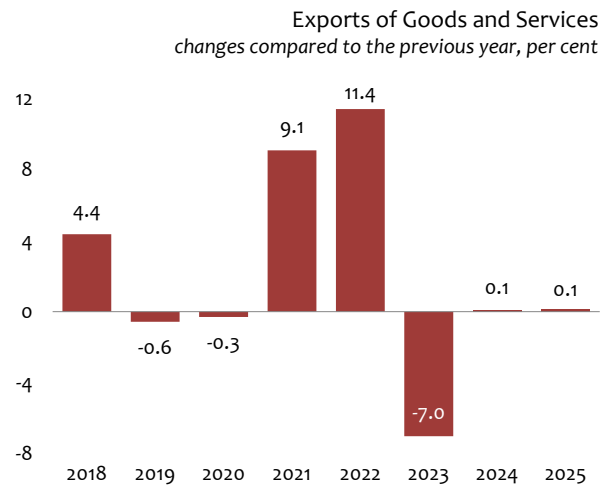
## EXPORTS

Exports are one of the main drivers of economic development, contributing to the full utilisation of production capacity, job creation, and the strengthening of business competitiveness in international markets.

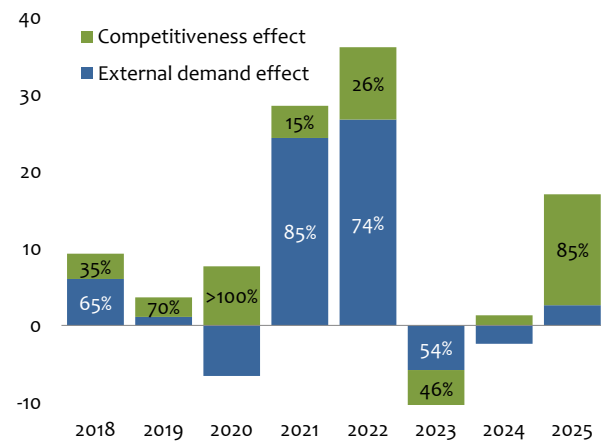
Export growth is closely linked to external demand and the pace of economic growth in Latvia's main partner countries. Therefore, a downturn in major trading partner economies or rising global uncertainty can significantly affect export dynamics and overall economic growth.

In 2024, as weak external demand, geopolitical uncertainty and high interest rates persisted, export volumes remained lower than a year earlier.

In 2025, export growth was constrained by the slow and uneven recovery of external demand in key EU export markets, while tariffs imposed by the US and prolonged geopolitical uncertainty continued to hinder trade activity.

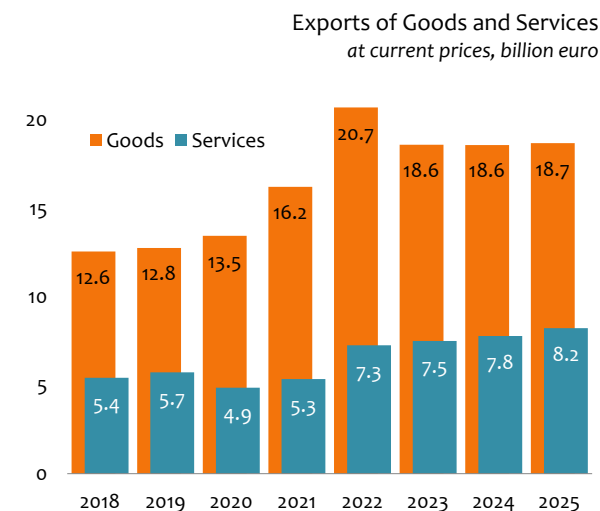


**Changes of Exports by the Constant Market Share**  
structure of exports' changes to the EU countries, as per cent

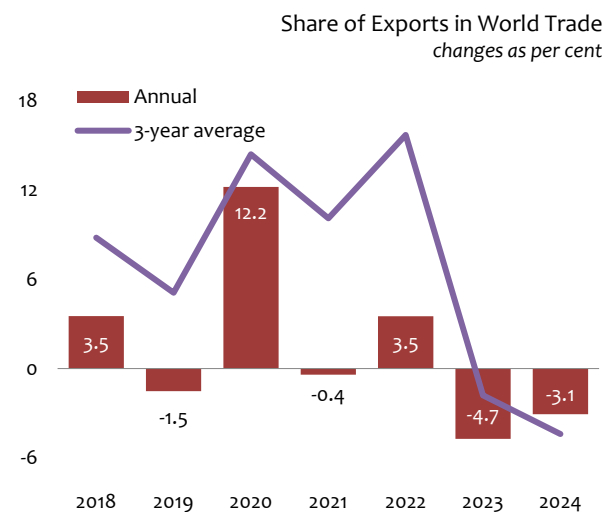


In 2019-2020, as external demand weakened and under the impact of the COVID-19 pandemic, export growth was close to zero, but in 2021-2022 export volumes increased significantly as external demand recovered.

As shown by the analysis of the constant market share of exports to Latvia's largest export market, the EU, in 2020 the decline in external demand caused by COVID-19 was almost fully offset by gains in competitiveness. In 2021-2022, export growth was driven both by strong external demand and by competitiveness, whereas in 2023-2024 weak external demand constrained export growth. In 2025, export growth resumed, significantly supported by the competitiveness effect and by the recovery of external demand.

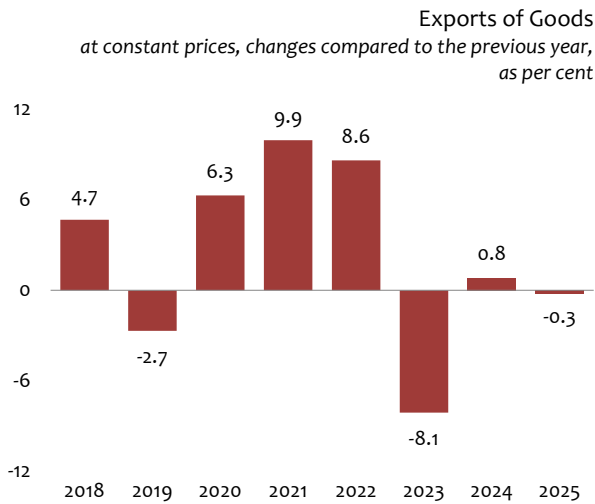


In 2023, the decline in exports was caused by weak economic activity in the EU, aggravated by high inflation and interest rates, as well as by falling global prices for mineral products and wood. The high base effect of 2022 also had an additional negative impact.

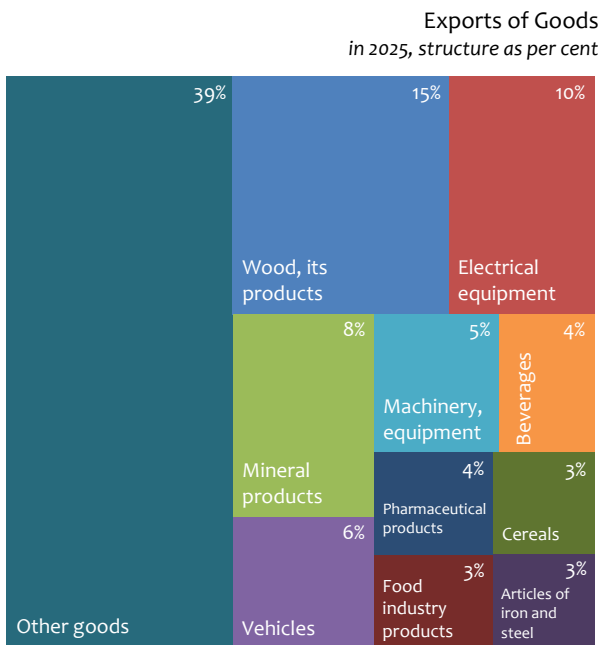


## Exports of goods

The share of goods exports has not changed significantly since 2020 and accounts for around  $\frac{3}{4}$  of Latvia's total exports.

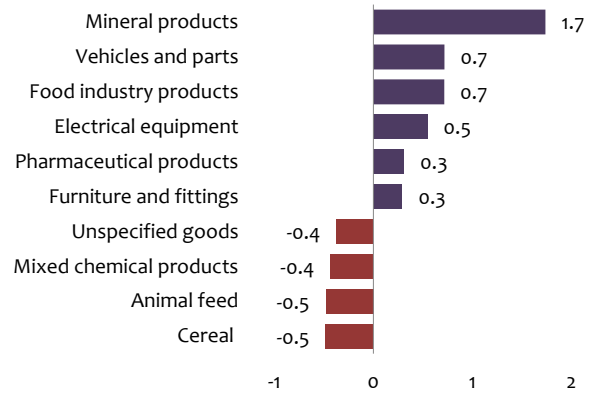


After declining in 2019, goods export growth was relatively strong in 2020-2022. In 2022, as export prices rose significantly, export volumes in constant prices increased by 8.6%, while the opposite trend was observed in 2023.



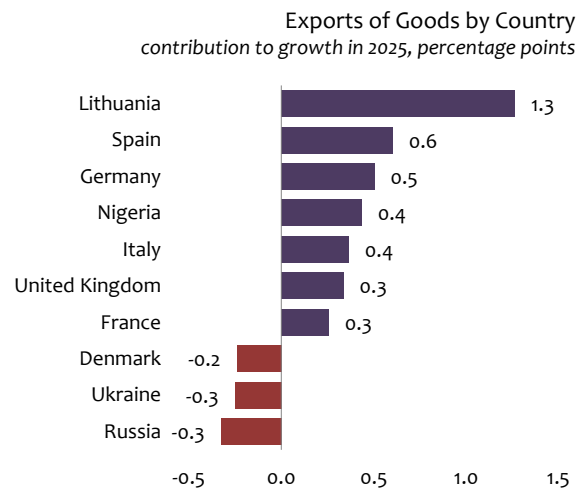
In 2024, as export prices declined, the value of goods exports at current prices fell slightly. In 2025, however, the value of exports at current prices increased by 3.9%, significantly supported by higher export values of mineral products, vehicles and food industry products.

**Product groups with the largest impact on changes in Latvia's exports contribution to growth in 2025, percentage points**



In 2025, goods exports increased more rapidly to Latvia's main export market, the EU, while they declined to CIS countries, including Russia. Export growth was also observed to countries outside the EU and the CIS.

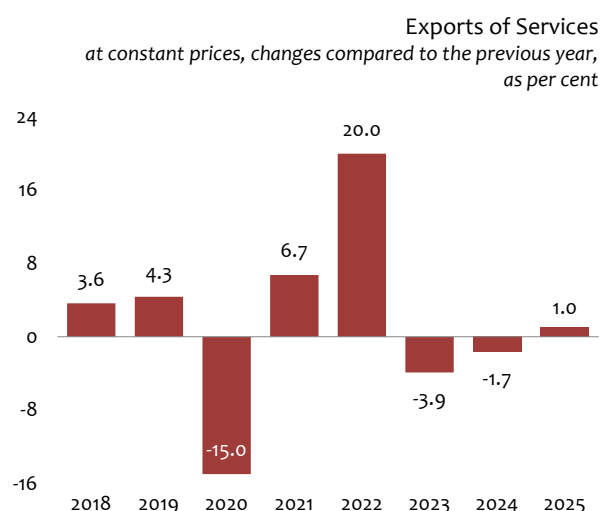
The main export goods to EU countries are wood and wood products, electrical equipment and machinery, vehicles, and mineral products. Exports to CIS countries are largely composed of beverages, clothing and footwear, and pharmaceutical products, while exports to other countries consist mainly of wood and wood products, mineral products, electrical equipment and machinery, and cereals.



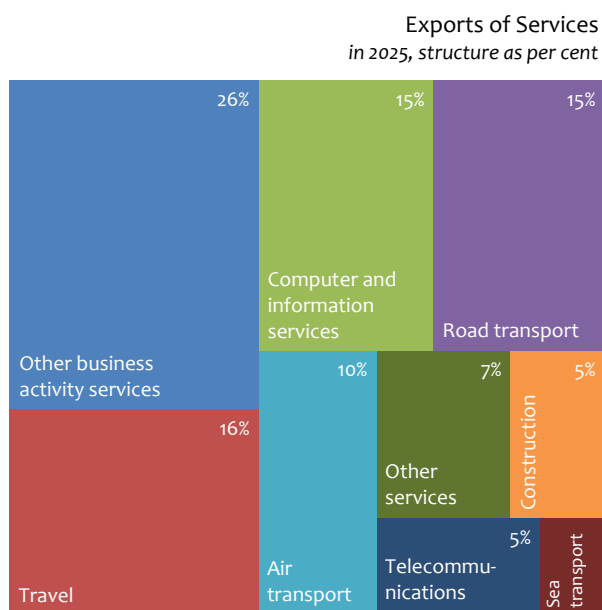
In 2025, Latvia's main goods export partner countries within the EU were Lithuania, Estonia, Germany, Sweden, Poland, Denmark, the Netherlands and Finland, accounting for around 80% of goods exports to the EU. Outside the EU, the largest export markets in 2025 were the United Kingdom, accounting for 5% of total goods exports, Russia, 5%, the United States, 3%, Nigeria, 2%, and Ukraine, 2%.

## Exports of services

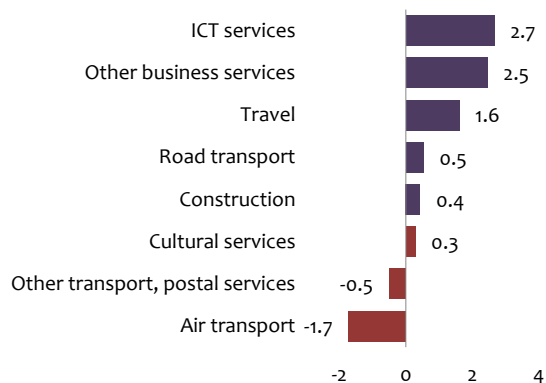
During 2017-2019, Latvia's services exports grew steadily, mainly driven by the development of transport, logistics and ICT services. In 2020, however, due to COVID-19 restrictions, services exports declined significantly, with the largest fall in tourism and transport services. In 2021, services exports resumed growth as tourist flows increased and international trade activity recovered, while particularly rapid growth was observed in 2022. In 2023-2024, services exports declined slightly, affected by weaker external demand and slower growth of the EU economy.



In 2025, services exports returned to growth as external demand increased. Growth was supported by ICT, trade intermediation and travel services, while transport services exports declined.



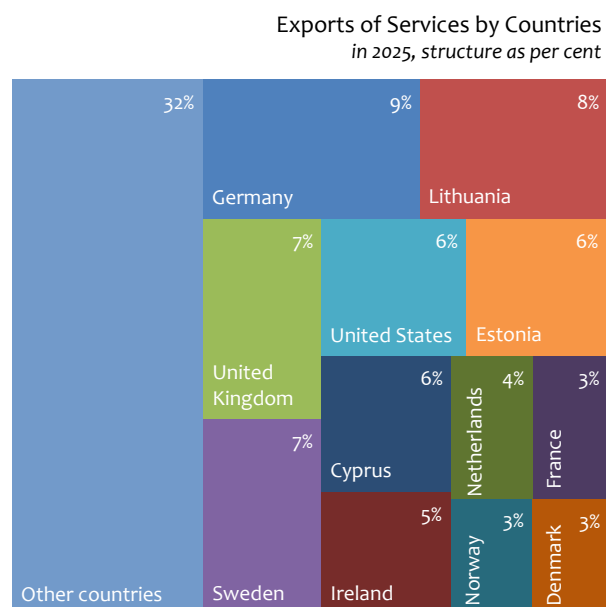
**Exports of Services**  
contribution to growth in 2025, compared to the previous year, percentage points



In services exports by groups of countries, exports to EU countries continue to account for an increasing share. In 2019, this amounted to 61%, but in 2025 it reached 66% of all services exports. A large share of services exports to EU countries consists of trade intermediation, road transport, travel, ICT, and air transport services.

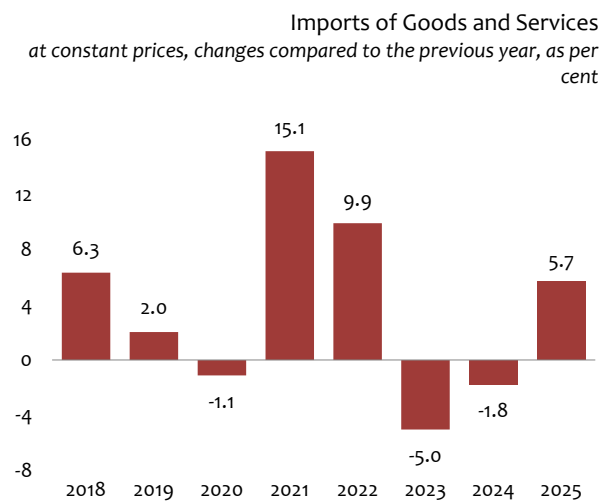
Exports of services to Russia continue to decline, largely in connection with transit services. This trend has intensified since Russia's invasion of Ukraine in 2022, when cargo flows in the eastern direction fell significantly and several transit routes were closed or redirected. It should be noted that in the CIS group of countries, services exports to Armenia increased significantly in 2025.

In the group of other countries outside the EU and the CIS, services exports in 2025 increased more rapidly to the United States, Canada, and Norway, but declined to the United Kingdom, Switzerland and Hong Kong.



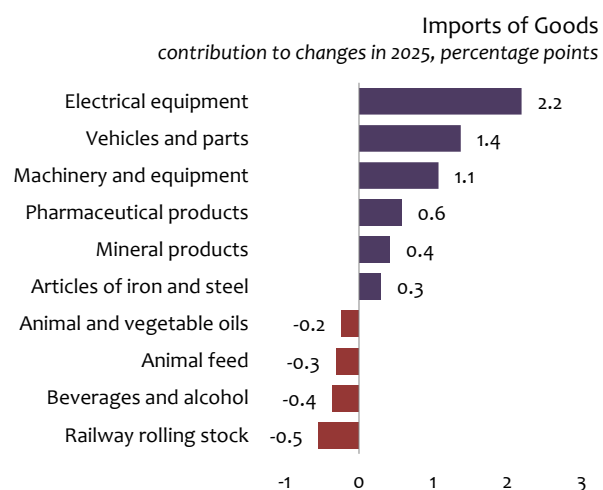
## IMPORTS

Until 2019, the growth of imports of goods and services was similar to export growth, reflecting balanced domestic demand and export activity. In 2020, due to the COVID-19 pandemic, services imports declined significantly, mainly because of a fall in tourism and transport services. In 2021, as the economy recovered and domestic demand revived, both goods and services imports increased significantly. In 2022, import growth remained strong. In contrast, in 2023, as domestic demand weakened and raw material prices fell, goods imports were 6.9% lower than a year earlier, while services imports increased by 4.3%, supported by developments in tourism and ICT services.



In 2024, amid weak domestic demand and low investment activity, both goods and services imports declined. In 2025, however, imports recovered: goods imports increased more moderately, while services imports grew more strongly, indicating a recovery in domestic demand and investment activity.

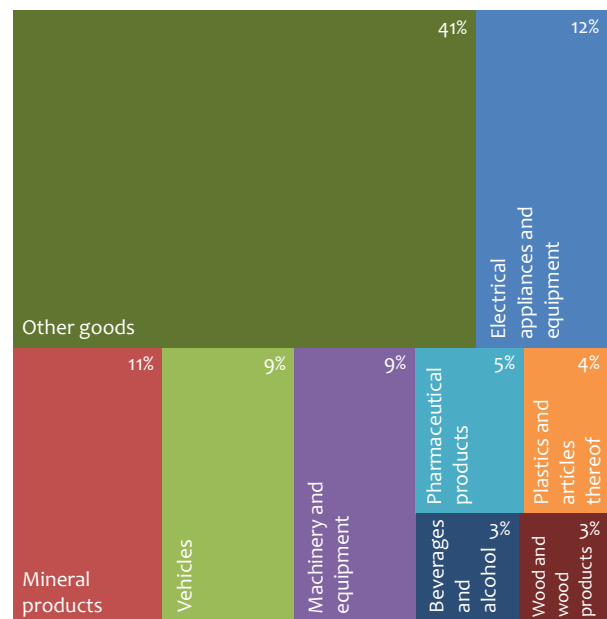
The increase in goods imports in 2025 was supported by growth of imports of machinery and transport equipment.



In 2025, goods imports grew more rapidly from Germany, Lithuania, Estonia, and China, while they declined from Russia.

Latvia's main goods import partner countries are Lithuania, Germany, Poland, Estonia, Finland, the Netherlands, and China. Imports from these countries accounted for more than two thirds of Latvia's total goods imports in 2025.

**Structure of Imports of Goods**  
in 2025, as per cent



In 2025, the main imported goods groups from EU countries were mineral products, vehicles, machinery, and electrical equipment.

Imports from CIS countries consisted largely of iron and steel, oilseeds, fertilisers, and animal and vegetable fats. Russia's share in total imports from the CIS fell from 82% in 2022 to 35% in 2025.

Imports from other countries outside the EU and the CIS are dominated by electrical equipment, machinery, and mechanical appliances.

Latvia's main partner countries for imports of services are Ireland, Lithuania, Germany, Estonia, Poland, the United Kingdom, and the United States. Around 2/3 of services imports come from EU countries. It should be noted that imports of services from Russia are gradually declining, from EUR 173 million, or 4.8% of total services imports, in 2021 to EUR 8 million, or 0.1%, in 2025.

In recent years, a large share of services imports has consisted of trade intermediation transactions, transport services, and travel services.

# 2026 | 1 SECTORAL DEVELOPMENT

In 2009-2010, as labour costs declined, the competitiveness of Latvian producers improved, laying the basis for export growth. The structure of the economy also changed. In 2010, goods-producing sectors, agriculture, forestry and fishing, industry and construction, accounted for 28.2% of total value added, while in 2025 their share was 26.1%. Compared with 2010, the share of construction, commercial services, and public services in the structure of the economy increased by 2025, while the share of industry, transport and trade declined. The share of agriculture, forestry and fishing remained unchanged.

In 2015-2019, growth was recorded in all sectors except other industry, financial activities, and real estate activities. The largest contribution came from growth in trade and manufacturing.

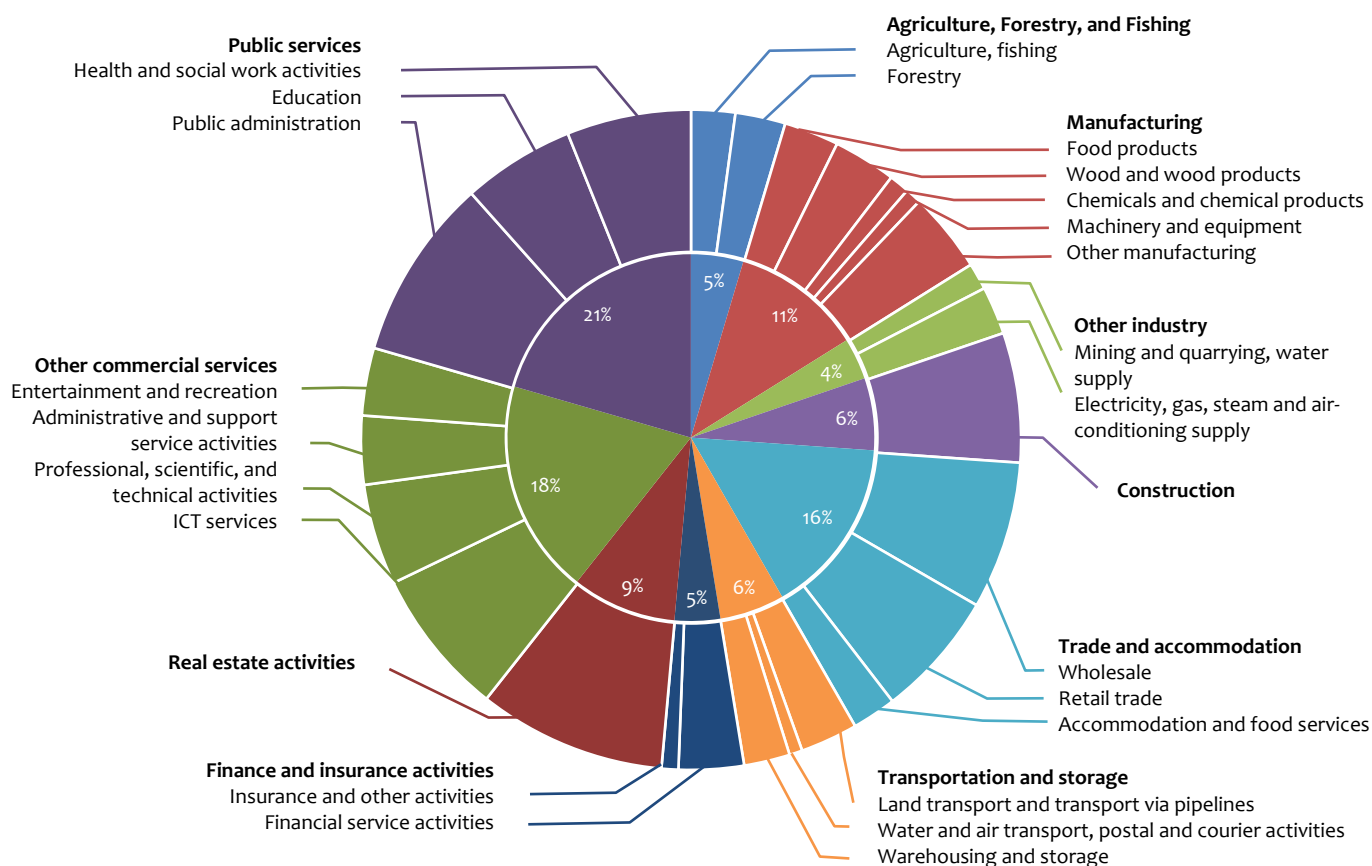
In 2020, the COVID-19 crisis negatively affected almost all sectors, with the largest impact from declines in a large part of service sectors and in construction. As the economy recovered, growth was recorded in 2021 in all

sectors except construction, accommodation, and education. The largest contribution came from growth in trade and manufacturing.

In 2022, economic growth was moderate under the impact of the unstable geopolitical situation: production sectors declined, while services increased. In 2023-2024, however, as inflation, interest rates and uncertainty increased, the economy slowed. Output declined in a large part of service sectors, in transport and in industry. The greatest impact came from a decline in transport and manufacturing and an increase in trade, public administration, and defence.

In 2025, as the economy recovered due to stronger external demand and rising investment, output increased in most service sectors, in construction and in manufacturing, with the largest contributions coming from manufacturing, construction and trade.

Structure of value added in 2025\*, per cent



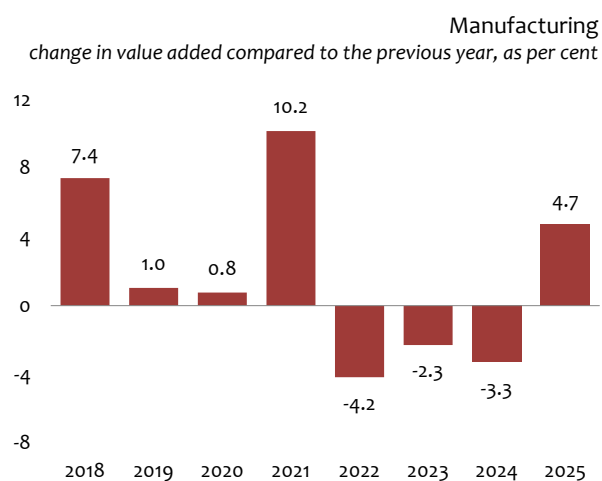
\* Calculations by the Ministry of Economics

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

	2018	2019	2020	2021	2022	2023	2024	2025
<b>Gross domestic product</b>	<b>4.3</b>	<b>0.7</b>	<b>-3.5</b>	<b>6.9</b>	<b>1.9</b>	<b>-0.9</b>	<b>0.0</b>	<b>2.1</b>
Agriculture, forestry, and fishing	-3.9	21.3	-0.2	0.4	-13.3	-4.0	4.0	-3.2
Mining and quarrying	9.1	-8.6	6.2	-5.0	4.9	-19.1	15.9	-15.3
Manufacturing	7.4	1.0	0.8	10.2	-4.2	-2.3	-3.3	4.7
Manufacture of food products	-2.9	-0.7	-1.7	1.3	1.3	2.8	-0.5	7.3
Light industry	-0.8	-2.6	-9.5	11.8	5.1	-7.2	1.6	-2.3
Manufacture of wood and articles of wood	4.5	0.0	4.5	3.7	-1.0	-8.4	0.0	6.0
Manufacture of paper and paper products	-3.7	5.7	4.7	14.0	-2.7	-23.0	7.0	4.8
Manufacture of chemicals and chemical products	7.0	3.9	-1.8	14.8	4.1	-7.7	-8.6	2.1
Manufacture of non-metallic mineral products	1.3	-2.1	-1.4	4.4	5.4	-16.8	4.1	13.4
Manufacture of basic metals	3.6	13.5	-5.6	5.8	16.1	-6.1	-4.6	4.3
Manufacture of computer, electronic and optical products	12.1	11.3	12.1	5.7	3.5	13.6	-9.8	4.9
Manufacture of machinery and equipment	7.0	-1.9	-2.7	24.1	-12.3	4.2	-14.0	6.3
Manufacture of motor vehicles	7.3	-7.7	-15.3	17.7	19.5	-15.5	-13.6	8.0
Other manufacturing	-1.8	2.8	-14.2	11.8	3.8	-4.1	2.1	1.5
Electricity, gas, steam, and air-conditioning supply	-38.6	-10.3	30.3	29.2	-40.4	-15.0	1.9	-1.3
Construction	12.4	1.3	-5.8	-13.7	-4.4	6.9	-5.8	9.0
Construction of buildings	16.1	11.4	-7.9	-16.2	-0.1	4.8	-19.4	1.2
Civil engineering	6.5	-11.5	-7.3	-15.3	-17.3	21.9	8.5	25.7
Trade	3.8	2.2	-4.2	19.7	5.6	2.3	0.8	2.7
Retail trade	3.8	2.3	1.5	-3.5	3.1	-2.2	0.9	1.4
Transportation and storage	3.6	-2.2	-15.9	4.9	3.5	-10.6	-10.8	-3.5
Freight rail transport	12.5	-15.8	-42.0	-9.5	-2.1	-27.5	-28.2	-14.3
Cargo handling	6.9	-5.7	-27.9	-7.2	15.2	-19.6	-6.8	-4.8
Freight transport by road	12.8	-3.8	2.6	7.8	-0.8	-0.3	-3.1	2.7
Accommodation and food service activities	7.6	-4.8	-31.4	-4.2	35.5	8.4	1.2	3.4
Information and communication services	9.7	4.0	0.8	12.0	8.7	-1.0	-1.0	4.9
Finance and insurance activities	2.0	-9.2	-13.3	18.9	1.4	-2.4	4.1	-0.7
Real estate activities	4.2	-1.7	-0.5	9.0	5.2	8.1	-2.6	1.2
Other service activities	2.8	-0.5	-1.8	4.9	5.5	-3.2	0.9	4.2
Public administration and defence; compulsory social security	2.3	-0.2	3.4	0.9	3.9	6.5	7.2	0.9
Education	3.4	-4.5	1.2	-0.6	-1.4	-1.3	-1.0	-0.5
Health and social work activities	9.3	4.8	-3.4	6.4	8.1	-2.1	8.0	1.3
Arts, entertainment, and recreation	6.1	1.9	-33.8	2.8	35.6	-1.2	5.6	0.2

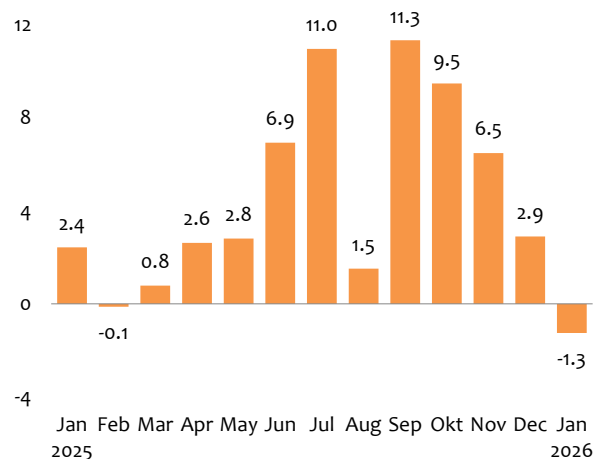
## MANUFACTURING

The development of manufacturing is driven by improvements in the competitiveness of Latvian producers, as well as by demand trends in the main export markets. Production volumes increased particularly rapidly in 2017 and 2018, but the growth rate slowed in 2019, while in 2020 production volumes declined significantly due to the fall in demand and supply chain disruptions caused by the COVID-19 pandemic.



In 2021, stronger growth resumed in manufacturing, supported by the recovery in external demand and the normalisation of supply chains. In 2022, as energy prices increased and external demand weakened, output in the sector declined. These downward trends continued in 2023 and 2024, further aggravated by weak demand in the main EU export markets.

**Manufacturing output**  
changes in production volumes compared to the corresponding period of the previous year, non-seasonally adjusted data, per cent



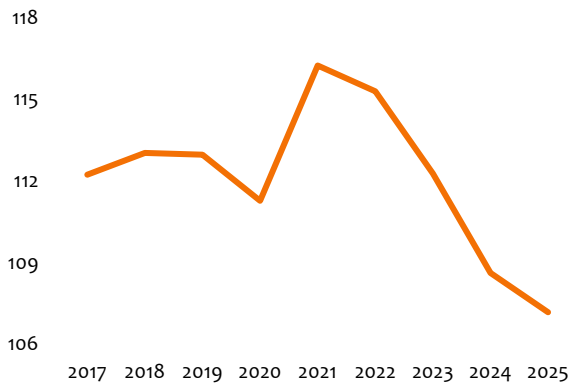
In contrast, stable growth was observed in manufacturing in 2025, especially in the middle of the year, driven by the gradual recovery of external demand in the main EU markets, expansion of production capacity and improved competitiveness of exporters. Output increased in almost all sub-sectors, most notably in the two largest sub-sectors, wood processing, and the food industry.

In 2025, turnover in manufacturing at current prices increased by 5.8%. Growth in sales of manufactured products was observed both on the domestic market and in exports. Sales volumes of food industry and wood processing products increased substantially.

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

	Structure in 2025			Changes in production volumes				
	Output	Occupied posts	Exports in total sales	2022	2023	2024	2025	2026 Jan
<b>Manufacturing</b>	<b>100</b>	<b>100</b>	<b>65.5</b>	<b>2.7</b>	<b>-5.2</b>	<b>-2.3</b>	<b>5.0</b>	<b>-1.3</b>
Food production	23.4	20.3	46.2	1.3	2.8	-0.5	7.3	3.8
Light industry	2.9	7.1	80.7	5.1	-7.2	1.6	-2.3	-12.2
Wood processing	26.8	19.7	64.6	-1.0	-8.4	0.0	6.0	-6.2
Paper production and printing	3.3	4.5	61.4	-2.7	-23.0	7.0	4.8	-12.8
Chemicals and pharmaceuticals	8.6	7.7	75.3	4.1	-7.7	-8.6	2.1	-2.8
Non-metallic minerals	5.4	4.6	52.3	5.4	-16.8	4.1	13.4	8.8
Metalworking	8.7	11.0	68.8	16.1	-6.1	-4.6	4.3	8.6
Electronic equipment	8.8	6.2	86.2	3.5	13.6	-9.8	4.9	3.6
Machinery and equipment production	3.1	3.1	88.4	-12.3	4.2	-14.0	6.3	10.9
Transport equipment production	3.8	3.8	92.5	19.5	-15.5	-13.6	8.0	21.9
Other sectors	5.2	11.9	73.2	3.8	-4.1	2.1	1.5	-18.8

Occupied Posts in Manufacturing  
in thousands

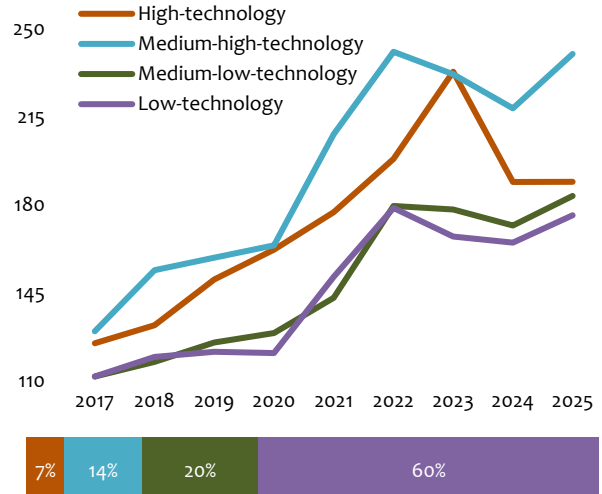


In 2025, the number of occupied jobs in manufacturing declined by 1.9 thousand, most notably in light industry, metal processing, and the production of non-metallic minerals.

Moderate but stable growth is expected in manufacturing in 2026. This will depend on external demand, which may be constrained by possible trade barriers and supply chain disruptions. Business sentiment regarding export orders

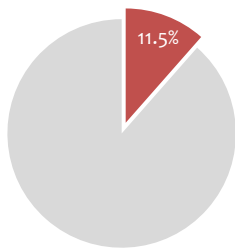
for the coming months has improved, although risks related to the geopolitical situation remain. A further challenge is the rapid rise in labour costs, which constrains the competitiveness of Latvian producers in international markets.

Manufacturing Volume Index and Structure  
by Levels of Technology  
2020 = 100, structure in 2025, as per cent

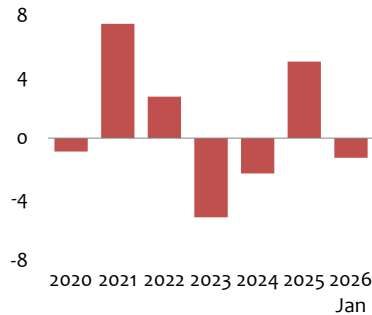


Main Indicators of Manufacturing <sup>1</sup>

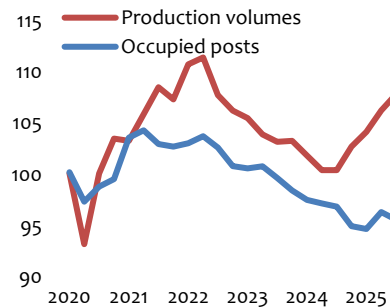
Share in total value added  
in 2025, as per cent



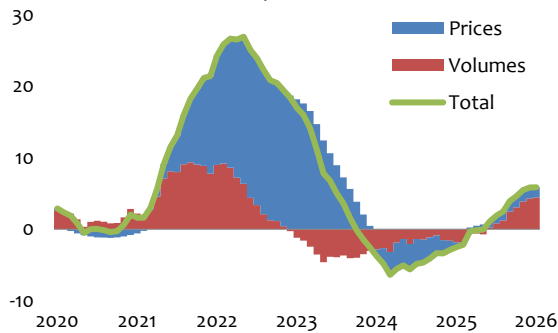
Changes in production volumes  
compared to the previous year, as per cent



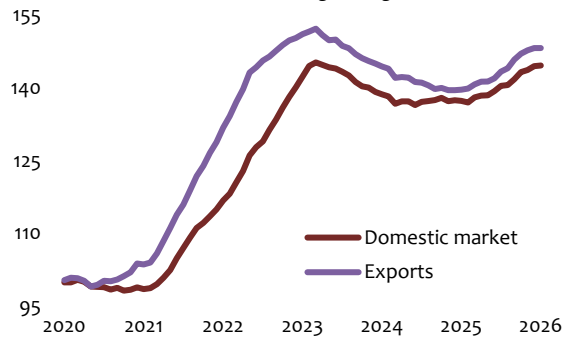
Production volumes  
and occupied posts  
Q4 2019 = 100



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



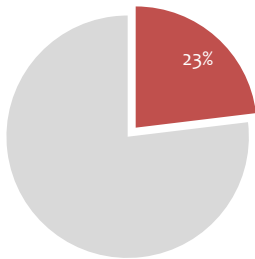
Production sales  
December 2019 = 100,  
12-month moving average



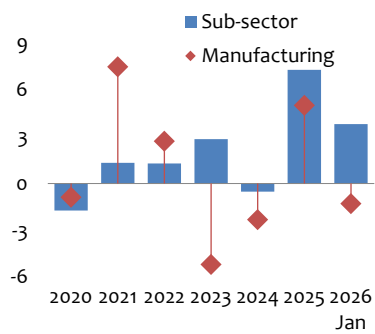
<sup>1</sup> data on sales of products until January 2026

Manufacture of food products and beverages

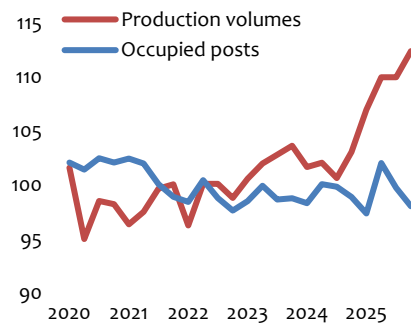
Share in total value added in 2025, as per cent



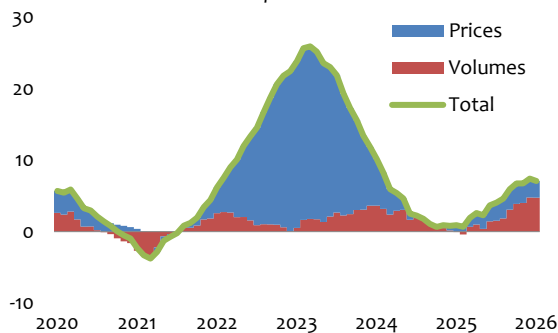
Changes in production volumes compared to the previous year, as per cent



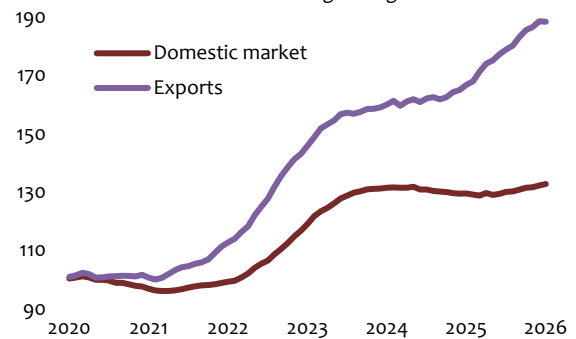
Production volumes and occupied posts Q4 2019 = 100



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

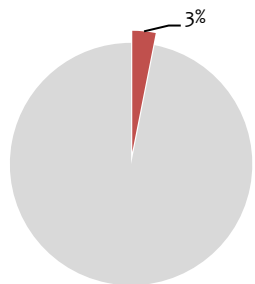


Production sales December 2019 = 100, 12-month moving average

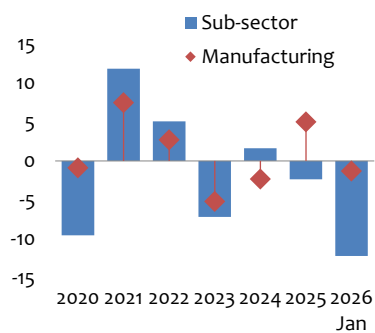


Light industry

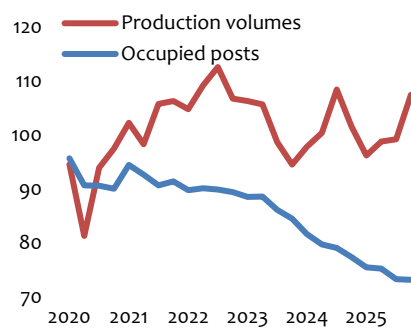
Share in total value added in 2025, as per cent



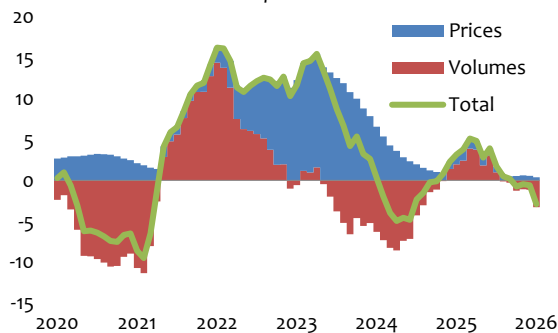
Changes in production volumes compared to the previous year, as per cent



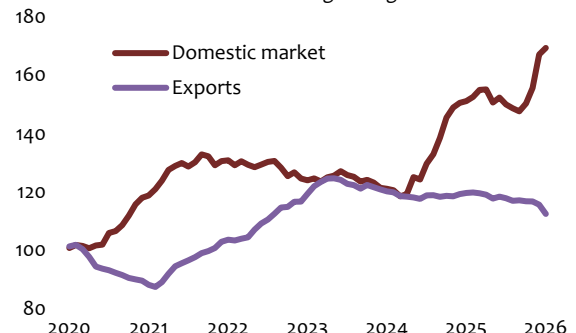
Production volumes and occupied posts Q4 2019 = 100



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

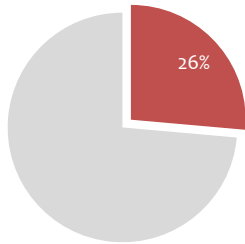


Production sales December 2019 = 100, 12-month moving average

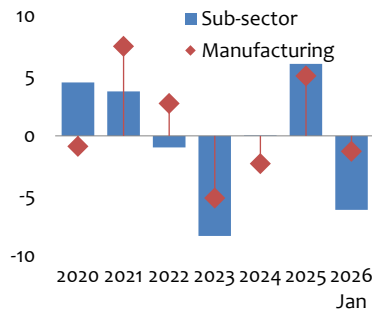


Manufacture of wood and wood products

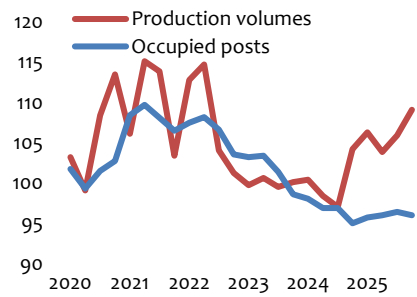
Share in total value added in 2025, as per cent



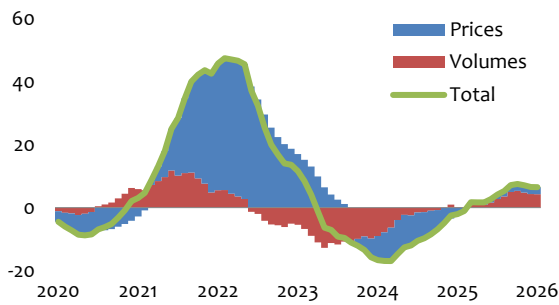
Changes in production volumes compared to the previous year, as per cent



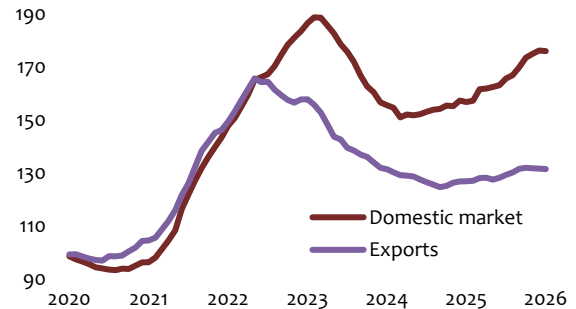
Production volumes and occupied posts Q4 2019 = 100



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

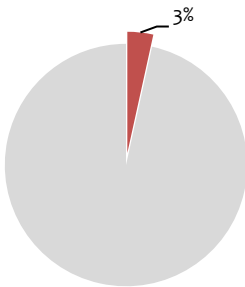


Production sales December 2019 = 100, 12-month moving average

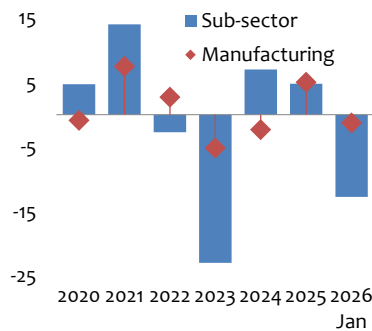


Paper production and printing

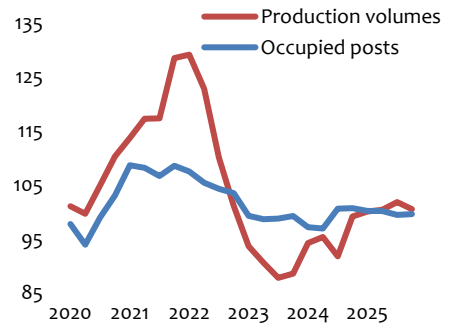
Share in total value added in 2025, as per cent



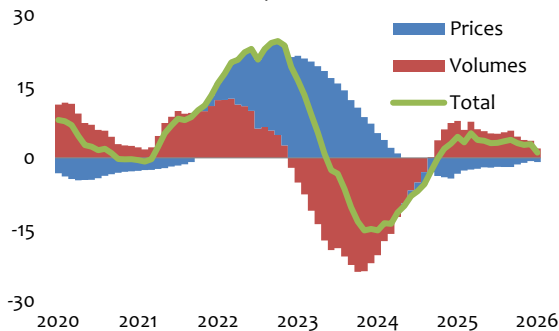
Changes in production volumes compared to the previous year, as per cent



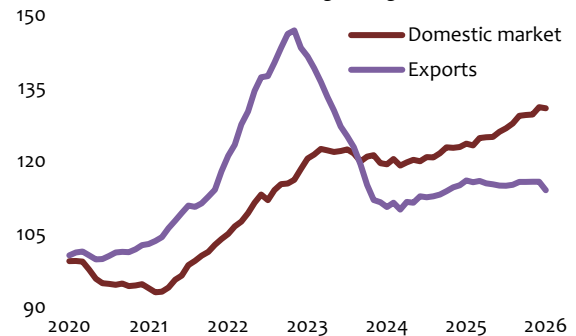
Production volumes and occupied posts Q4 2019 = 100



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

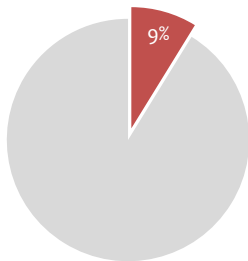


Production sales December 2019 = 100, 12-month moving average

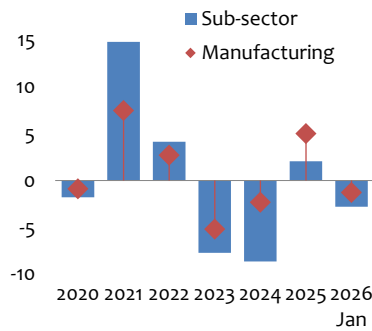


Chemical industry

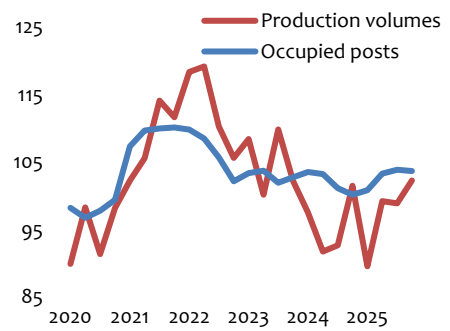
Share in total value added in 2025, as per cent



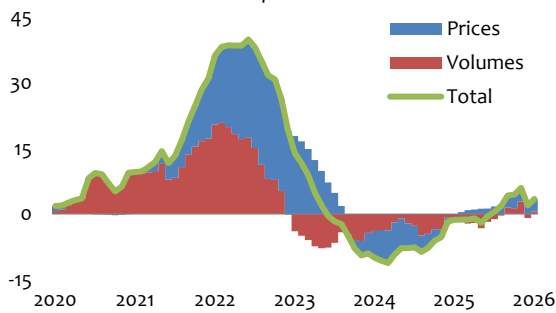
Changes in production volumes compared to the previous year, as per cent



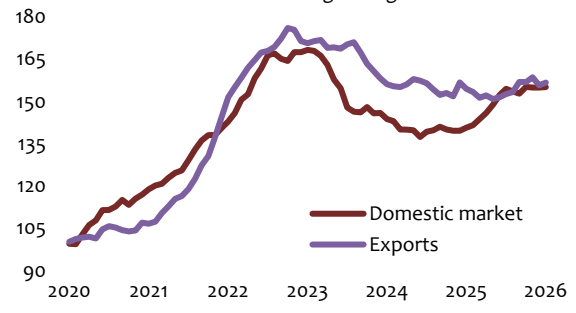
Production volumes and occupied posts Q4 2019 = 100



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

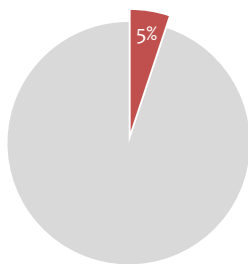


Production sales December 2019 = 100, 12-month moving average

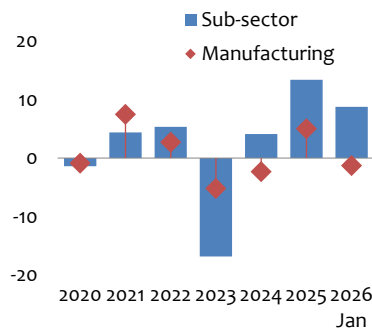


Manufacture of non-metallic mineral products

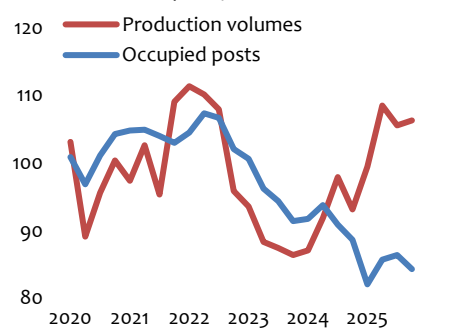
Share in total value added in 2025, as per cent



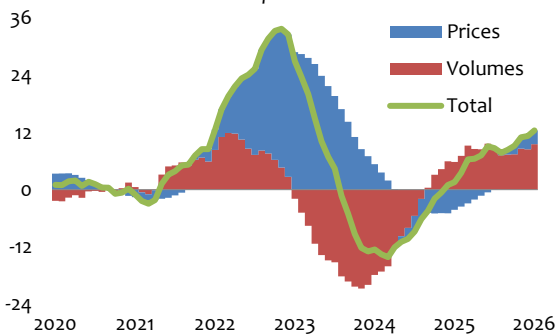
Changes in production volumes compared to the previous year, as per cent



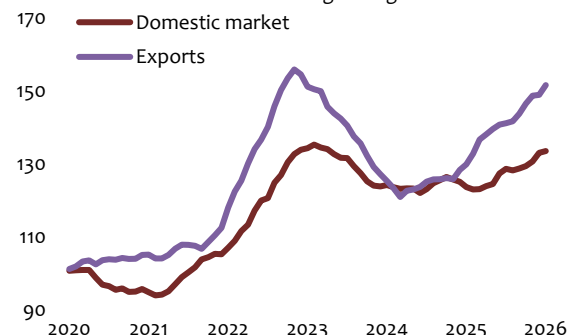
Production volumes and occupied posts Q4 2019 = 100



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

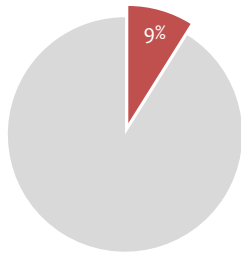


Production sales December 2019 = 100, 12-month moving average

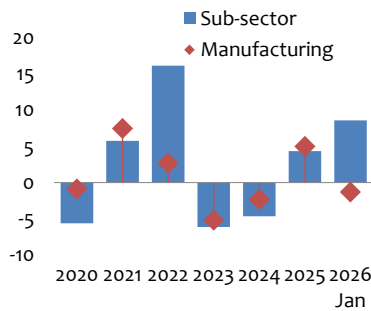


Manufacture of metals and metal products

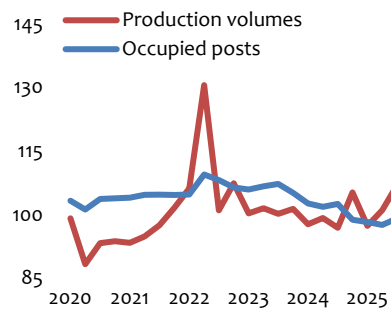
Share in total value added in 2025, as per cent



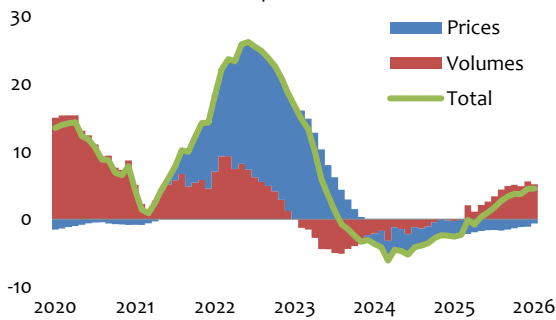
Changes in production volumes compared to the previous year, as per cent



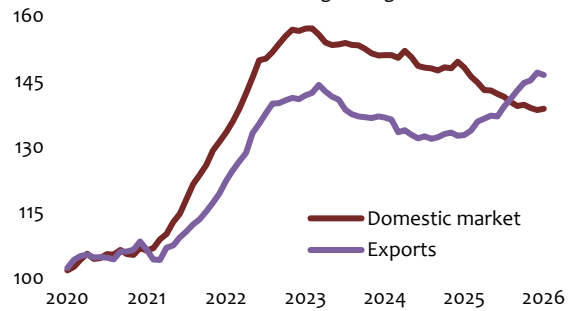
Production volumes and occupied posts Q4 2019 = 100



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

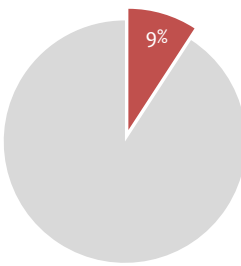


Production sales December 2019 = 100, 12-month moving average

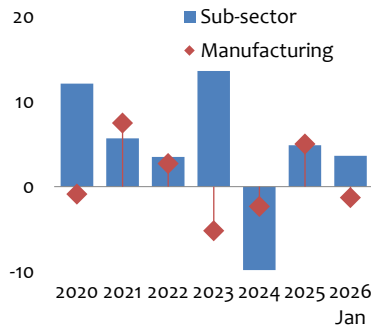


Manufacture of electrical and optical equipment

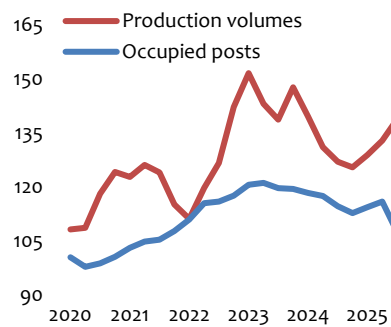
Share in total value added in 2025, as per cent



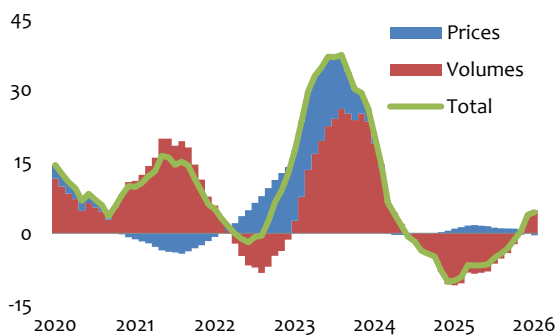
Changes in production volumes compared to the previous year, as per cent



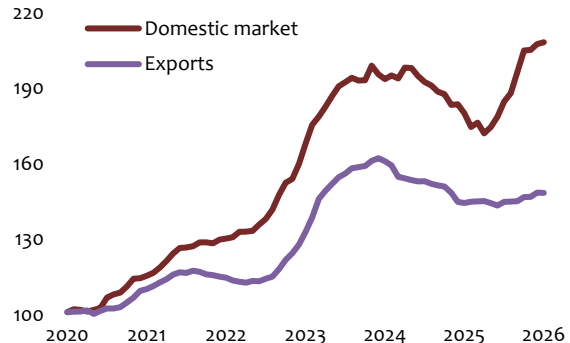
Production volumes and occupied posts Q4 2019 = 100



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

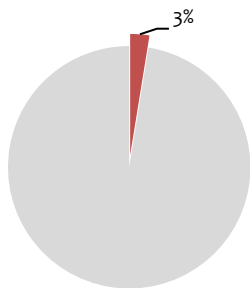


Production sales December 2019 = 100, 12-month moving average

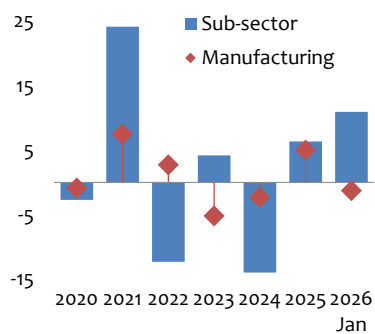


Manufacture of machinery and equipment

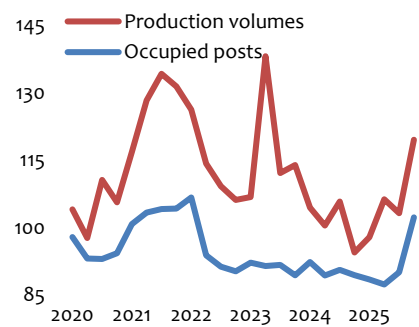
Share in total value added in 2025, as per cent



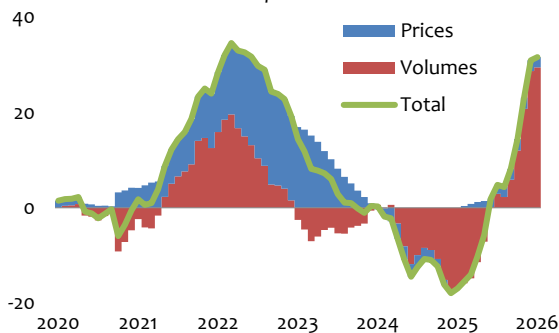
Changes in production volumes compared to the previous year, as per cent



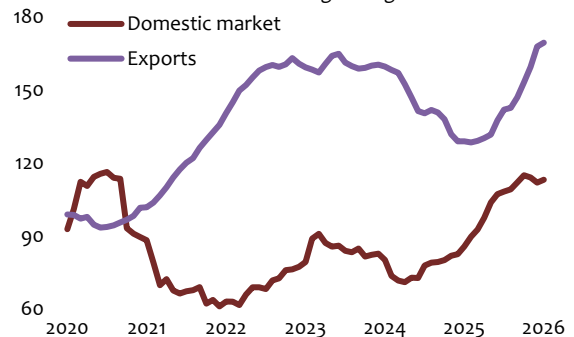
Production volumes and occupied posts Q4 2019 = 100



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

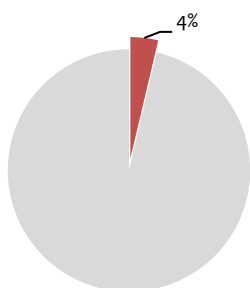


Production sales December 2019 = 100, 12-month moving average

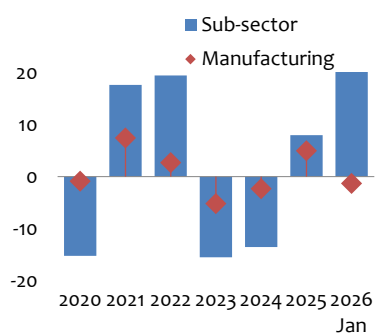


Manufacture of transport equipment

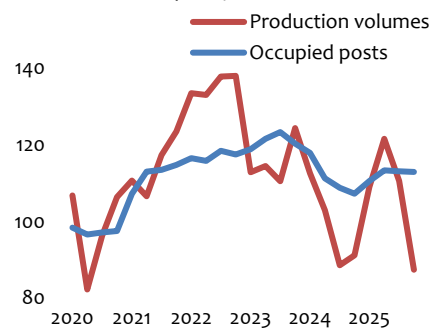
Share in total value added in 2025, as per cent



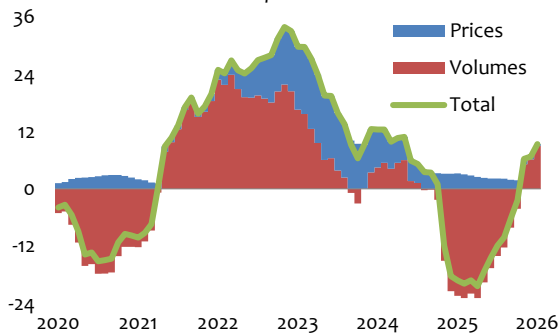
Changes in production volumes compared to the previous year, as per cent



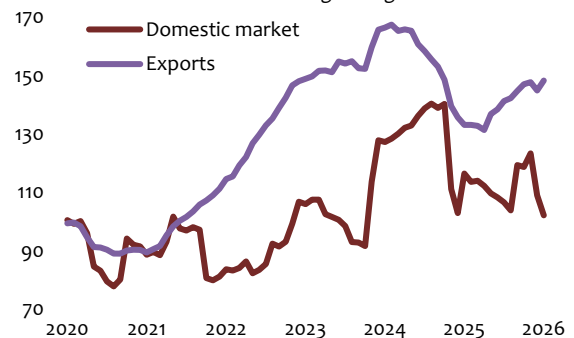
Production volumes and occupied posts Q4 2019 = 100



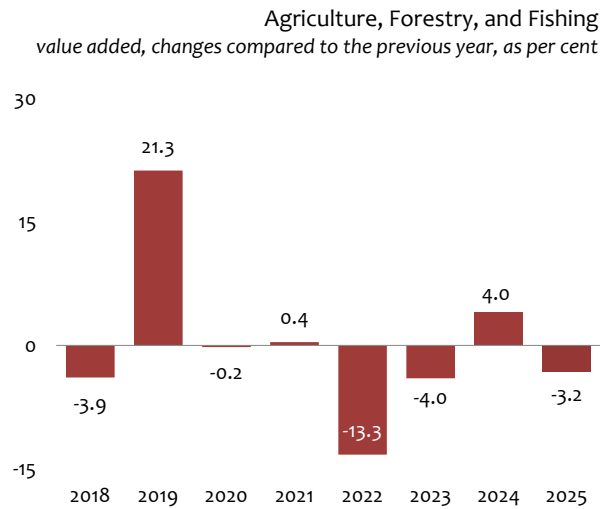
Changes in sales of production 12-month moving average, as per cent



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

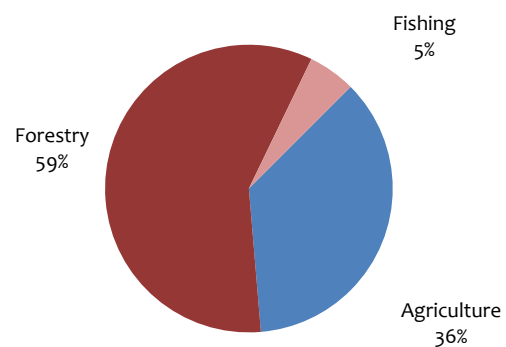


AGRICULTURE, FORESTRY, AND FISHING



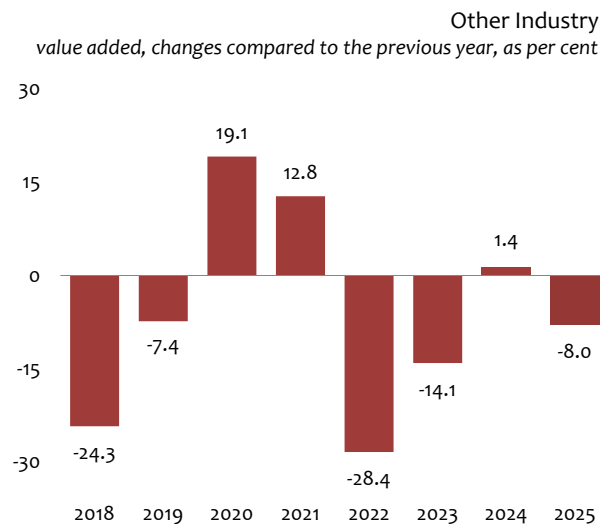
while weaker demand was caused by the slowdown in construction activity in Europe and the normalisation of energy markets after the surge in demand in previous years. At the same time, crop production increased due to the high winter grain harvest. In 2025, the number of jobs declined in forestry after three years of growth, the decline in agriculture continued from 2018, while in fishing it remained unchanged.

**Structure of Agriculture, Forestry, and Fishing**  
2025, as per cent



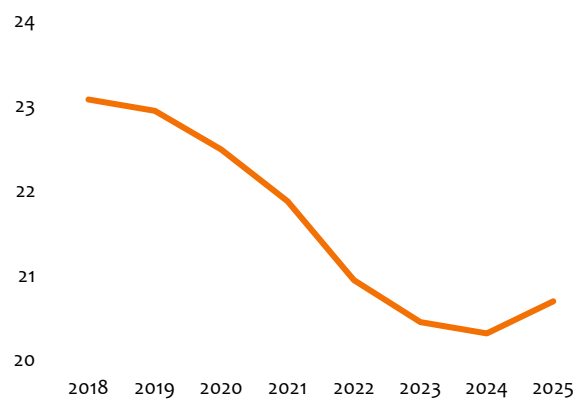
The structure of agriculture, forestry and fishing is dominated by agriculture and forestry. The sector is closely linked to weather conditions, and therefore overall growth in the sector is volatile. In 2024, output increased due to growth in both agriculture and forestry. In 2025, however, the sector recorded a decline, largely driven by lower forestry output. Adverse weather conditions complicated logging operations and timber transportation,

OTHER INDUSTRY



conditioning, due to a significant reduction in electricity generation, especially in hydroelectric power plants. Output also fell sharply in mining and quarrying, driven by lower activity in gravel and sand quarrying, as well as in peat extraction and processing. The number of occupied jobs in 2025 declined only in mining and quarrying.

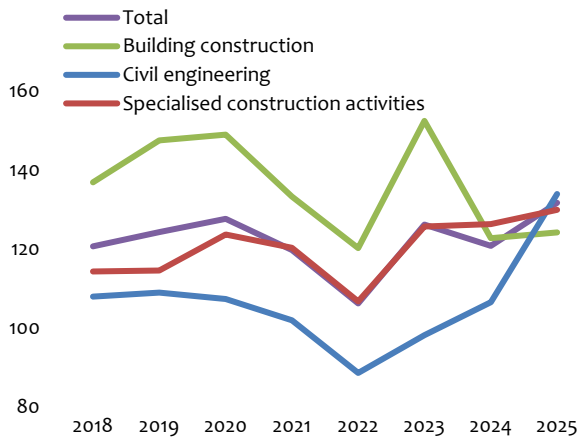
**Occupied Posts in Other Industry**  
in thousands



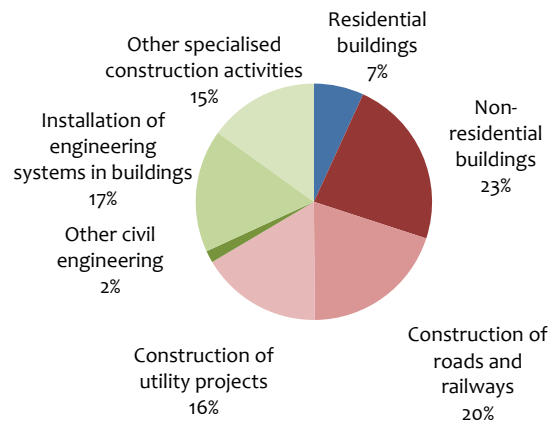
The structure of other industry, mining and quarrying, electricity, gas, heat supply and air conditioning, water supply and waste management, is dominated by electricity and gas supply. In 2025, a sharp decline was observed in other industrial sectors. The largest impact came from lower output in electricity, gas, heat supply, and air

CONSTRUCTION

Development of Construction  
2015 = 100



Structure of Construction  
in 2025, as per cent

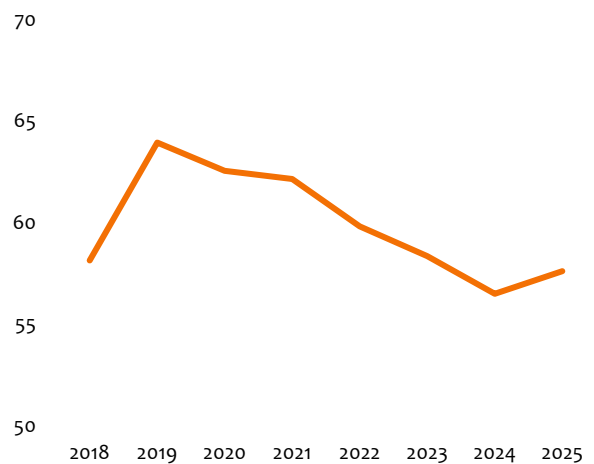


Output in the sector increased in 2025, and growth was driven by more active construction of infrastructure projects. Overall, construction output grew by 9% in 2025.

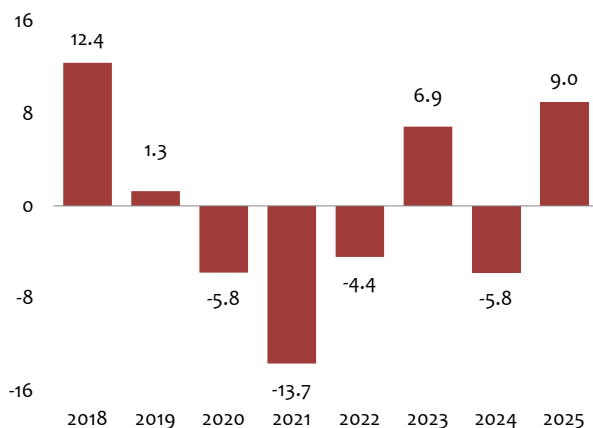
Growth in activity was observed in all main construction groups, although at different rates. The fastest-growing main construction group in 2025 was civil engineering, which was the main driver of sectoral growth.

In 2025, the number of building permits issued reached 4,660, increasing by 11.3% compared with 2024. The floor area planned in building permits increased at an even faster rate, by 30%. The largest contribution came from industrial production buildings and warehouses, as well as buildings with two or more apartments.

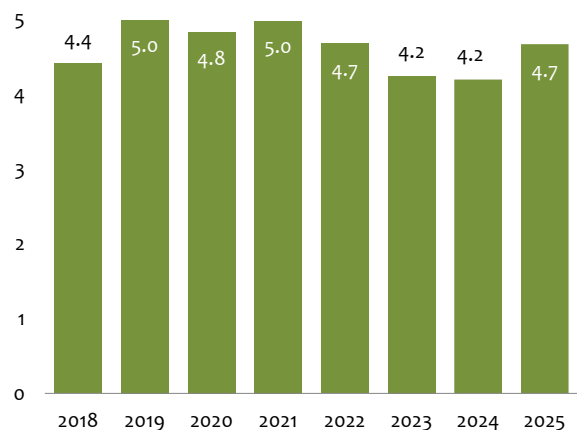
Occupied Posts in Construction  
in thousands



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

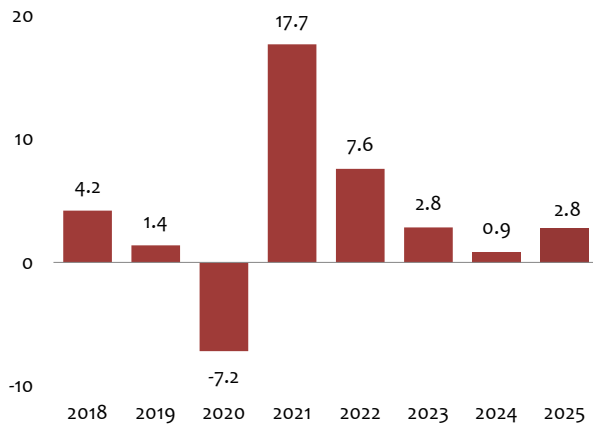


Building Permits Granted  
in thousands



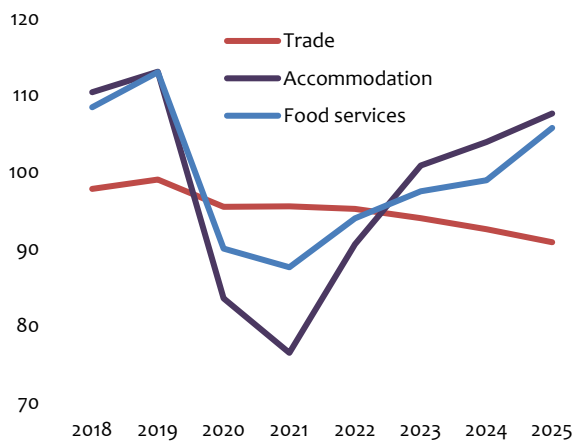
TRADE, ACCOMMODATION, AND FOOD SERVICE ACTIVITIES

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

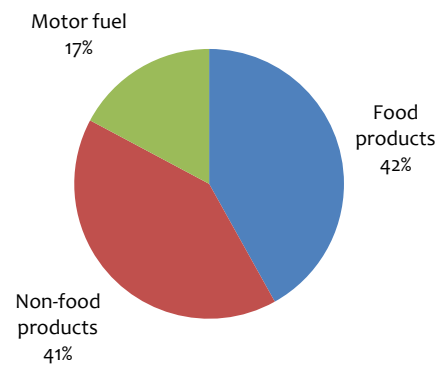


The volume of services provided in trade, accommodation and food services continues to increase. In recent years, the trade sector developed moderately due to an unfavourable external environment, which constrained wholesale trade. As conditions improved and wholesale trade and motor vehicle trade indicators increased, sectoral growth in 2025 was stronger, at 2.7%. Retail turnover rose by 1.4%, mainly due to growth in non-food goods sales. Fuel sales remained broadly unchanged, while food sales declined. Output in accommodation and food services also increased more rapidly in 2025, by 3.4%, largely due to growth in the accommodation sector. At the same time, the number of jobs increased in accommodation and food services but declined in trade. The largest share of occupied jobs is in trade.

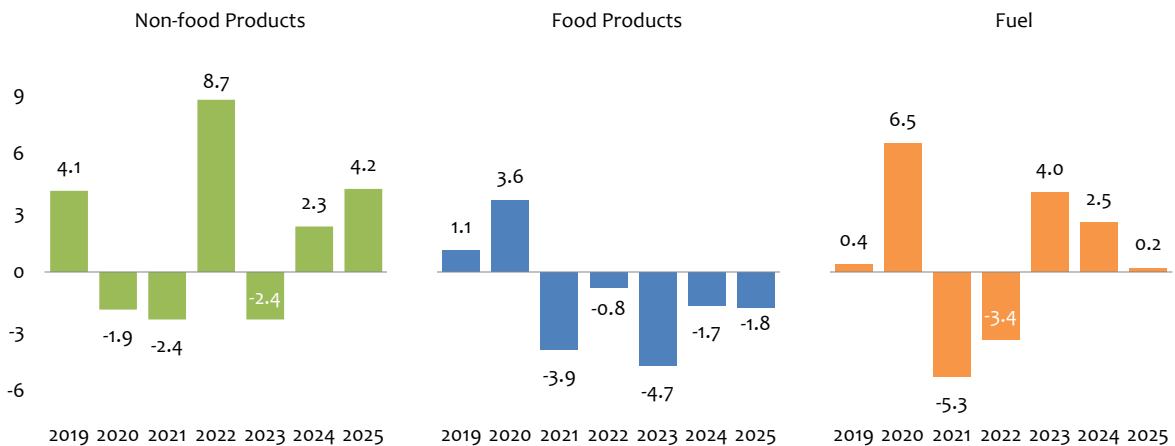
Occupied Posts in Trade, Accommodation, and Food Service Activities 2015 = 100



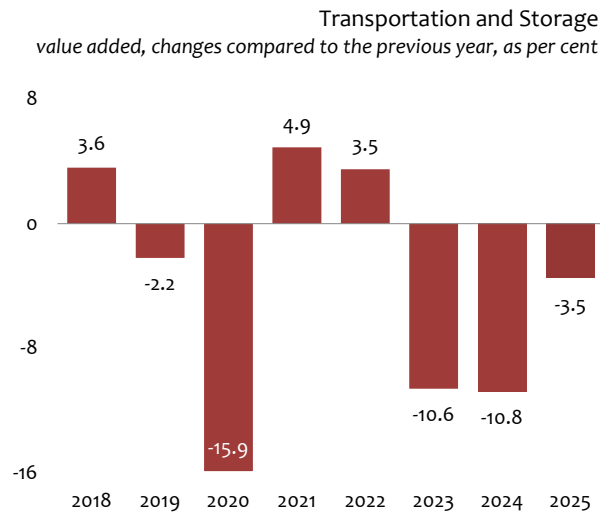
Structure of Retail Turnover 2025, as per cent



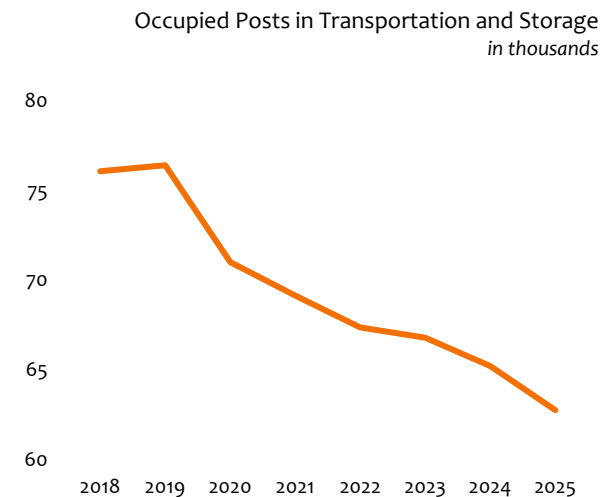
Retail Turnover changes compared to the previous year, as per cent



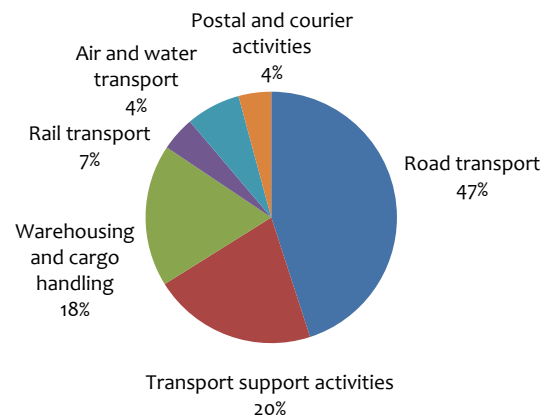
TRANSPORTATION AND STORAGE



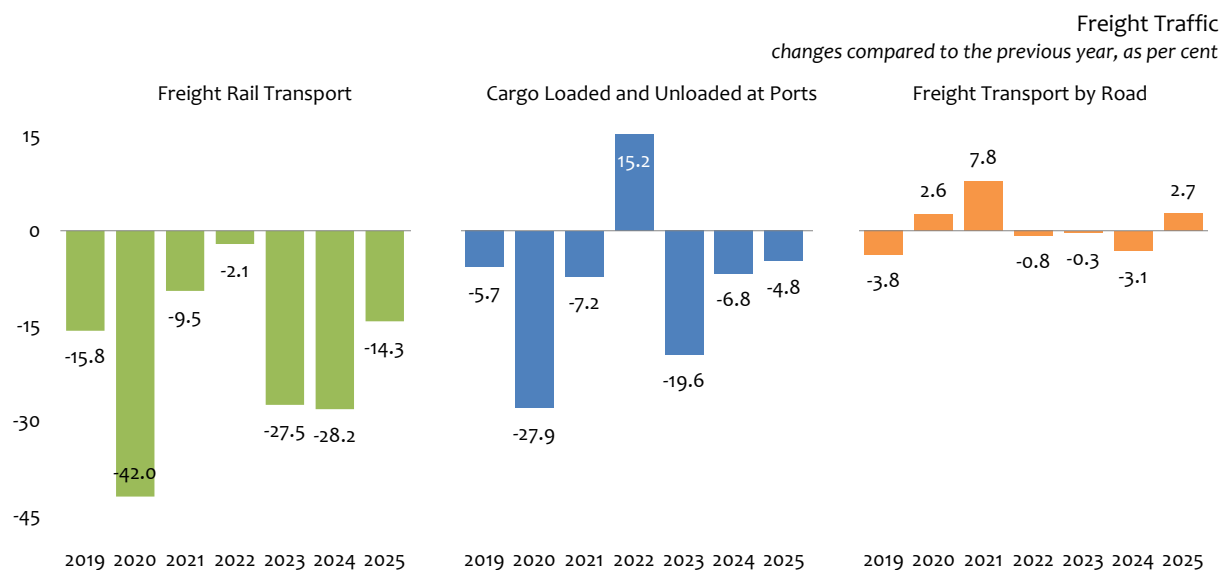
The transport and storage sector is closely linked to international transport operations. In 2023-2024, output in the transport sector declined sharply, driven by contraction in all transport sub-sectors except air transport. In 2025, overall sector output declined slightly. A decrease in freight volumes was observed in rail and ports, while freight volumes carried by road increased due to growth in domestic freight transport. Passenger transport in 2025 increased most rapidly by sea, by 9.8%, supported by a sharp rise in the number of incoming cruise ship passengers in the Port of Riga. In land transport, the number of passengers increased by only 0.6%, while in air transport it fell by 0.1%. It should be noted that a rapid increase in passenger numbers was observed in rail transport.



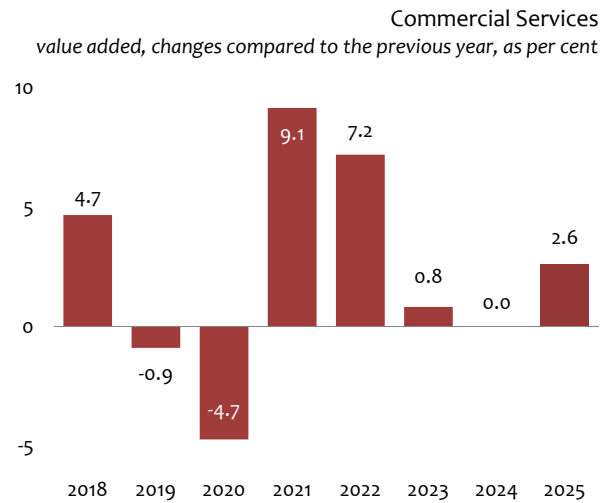
Structure of Transportation and Storage 2025\*, as per cent



\* – Assessment by the Ministry of Economics

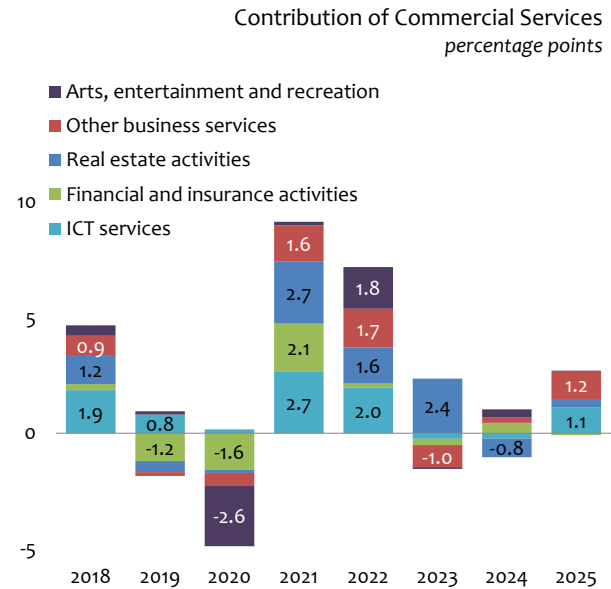


## COMMERCIAL SERVICES

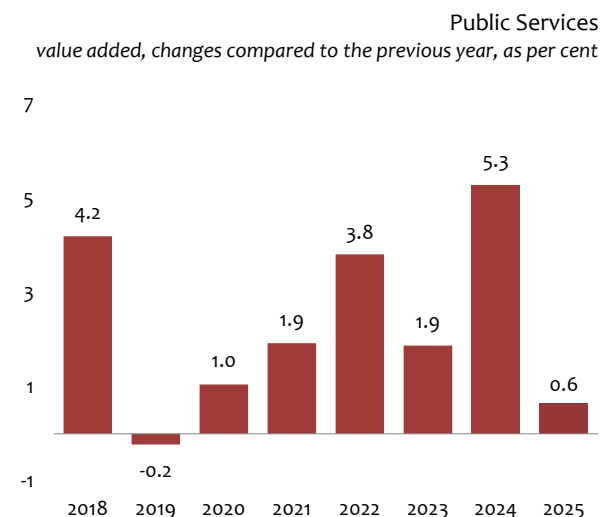


The structure of commercial services, information and communication services, financial and insurance activities, real estate activities, professional, scientific, and technical services, administrative and support service activities, arts, entertainment and recreation, is dominated by real estate activities. After the sharp increase in the volume of commercial services in 2021-2022, following recovery from the COVID-19 crisis, growth has been much more moderate since 2023. In 2025, output increased in all sectors except financial and insurance activities. The main

contribution to growth came from the increase in ICT services. The largest share of occupied jobs is in ICT services, professional, scientific, and technical services, and administrative and support service activities. In 2025, the number of jobs increased in all sectors except real estate activities.

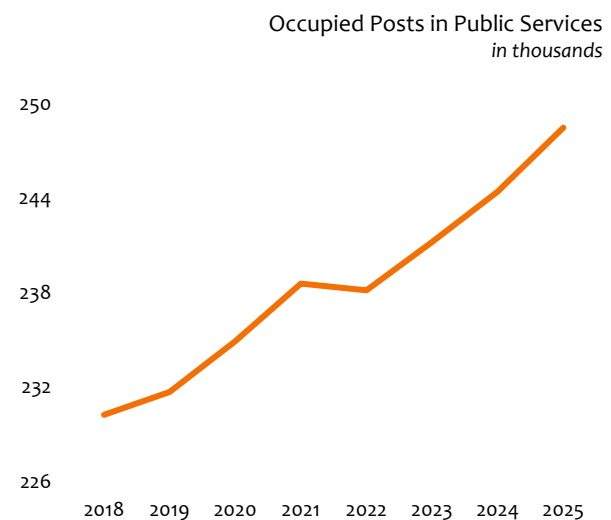


## PUBLIC SERVICES



The structure of public services, public administration and defence, education, health and social care, is dominated by public administration and defence. In 2025, the overall volume of public services increased moderately. It continued to grow in public administration and defence,

by 0.9%, while health and social care services increased by 1.3%, and education declined by 0.5%. The largest share of occupied jobs is in education. In 2025, the number of jobs increased in all public service sectors, including education, for the first time since 2020.



# 2026 | 1 LABOUR MARKET

## EMPLOYMENT AND UNEMPLOYMENT

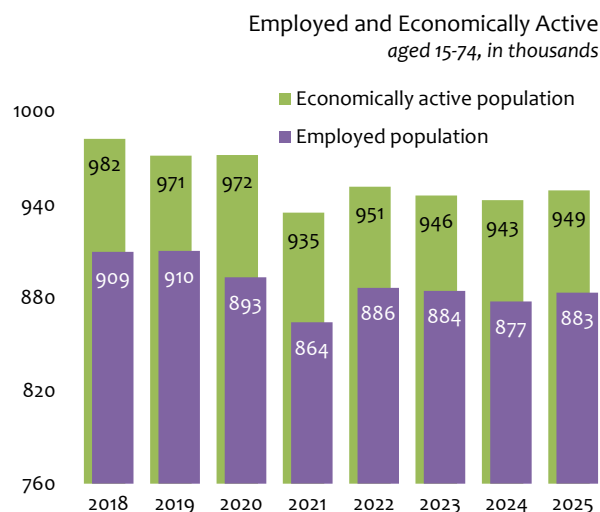
Gradual recovery of activity is visible in the labour market. After three years of decline in the number of employed persons, employment has returned to growth. As economic activity increases, positive labour market trends are strengthening, although the risk of labour shortages is also increasing alongside stronger labour demand. Long-term trends show that the labour market continues to be under pressure from supply-side factors and the uneven regional distribution of available labour resources. As a result, several sectors continue to face labour shortages. The situation is further aggravated by adverse demographic trends, which constrain labour availability and affect the labour market's development potential. Labour market developments are also influenced by geopolitical uncertainty, which creates additional tension in the economic environment.

where it was 68.5% in 2025, and by 1.4 percentage points compared with Lithuania, where it was 65.9% in 2025.

Latvia's lower employment rate compared with neighbouring countries is largely explained by lower economic activity. Compared with Estonia, Latvia lags in employment across all age groups, with more pronounced differences in both women's employment and overall economic activity. Compared with Lithuania, the differences are less pronounced, and in some groups, especially older men, Latvia's indicators are higher.

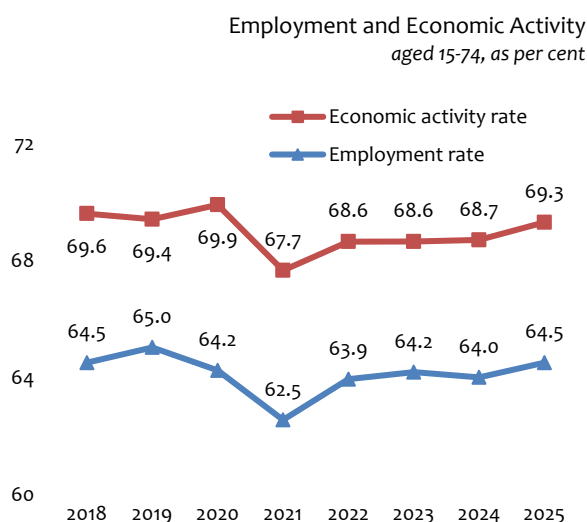
At the same time, Latvia's overall lag is determined by lower employment indicators precisely in the core working-age groups. Specifically, for the population aged 25-49, the employment rate in Latvia, depending on the specific age group, is 2.1-3.7 percentage points lower than in Estonia and 3.6-4.9 percentage points lower than in Lithuania. The 50-54 age group stands out, with a gap of 6.1 percentage points compared with Estonia.

Alongside stronger labour demand, improvements were also visible on the labour supply side. In the fourth quarter of 2025, the number of economically active persons aged 15-74 increased by 1.7%, or 15.6 thousand, compared with the fourth quarter of 2024, while compared with the average for 2024 it increased by 6.2 thousand, or 0.7%, reaching 948.9 thousand.



The increase in economic activity supported labour demand, which was also reflected in employment indicators. In the fourth quarter of 2025, the number of employed persons increased by 1.8%, or 15.6 thousand, compared with the corresponding period of the previous year. Compared to 2024, the number of employed persons increased by 0.6%, or 5.7 thousand, in 2025. Similarly, compared fourth quarter to the corresponding quarter of the previous year, the employment rate increased by 1.4 percentage points, reaching 64.8%.

At the same time, it should be noted that Latvia's employment rate remained lower than in neighbouring countries, by 4 percentage points compared with Estonia,



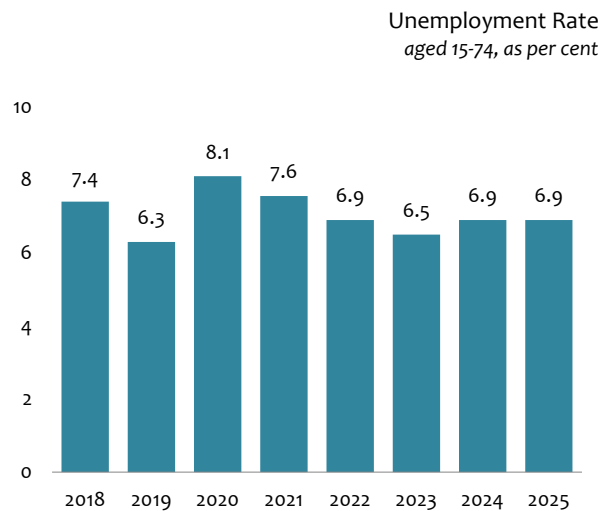
In the fourth quarter of 2025, the economic activity rate increased by 1.4 percentage points compared to the corresponding quarter of the previous year, while,

compared to 2025 with 2024, it increased by 0.6 percentage points. In 2025, approximately 2/3 (69.3%) of the population aged 15–74 were employed or actively seeking employment.

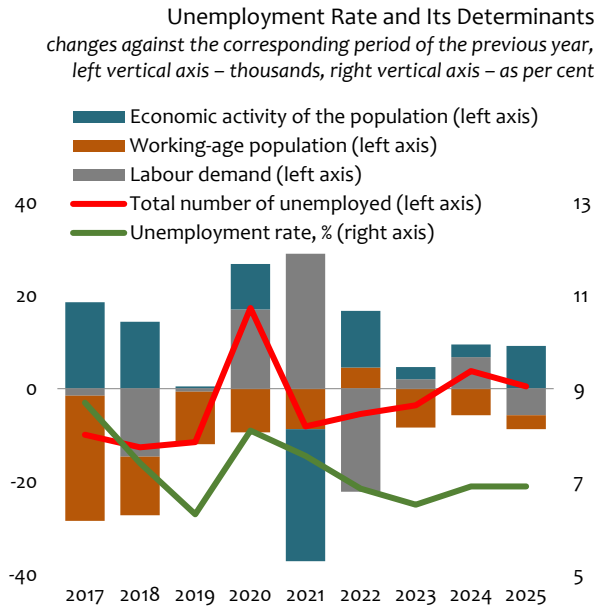
Despite the increase in the economically active population, pressure on the labour market continues to be driven by demographic trends, a numerical decline in the working-age population. At the beginning of 2025, the population aged 15–74 decreased by 18 thousand, or 1%, compared with 2024.

Employment growth helped keep unemployment at a relatively low level. At the same time, as economic activity, and labour supply increased, the decline in unemployment was limited. In the fourth quarter of 2025, the unemployment rate continued to decline slightly. Compared with the corresponding period of the previous year, it fell by 0.2 percentage points, and a similar decline, 0.2 percentage points, was also observed compared with the third quarter of 2025. At the same time, no substantial changes in unemployment dynamics were observed over the year, and in 2025 the average unemployment rate remained at the 2024 level overall.

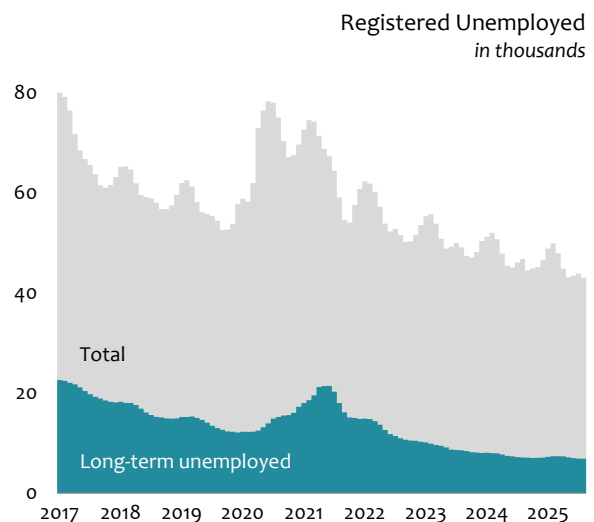
In the fourth quarter of 2025, 63.8 thousand people aged 15–74 were seeking work, the same as in the corresponding period a year earlier. On average in 2025, 65.8 thousand people aged 15–74 were seeking work, which is 0.8%, or 0.5 thousand, more than in the corresponding period of the previous year.



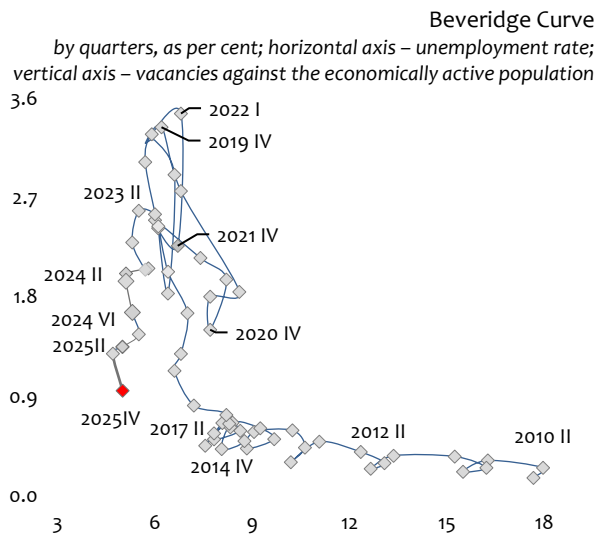
In addition to the decline in unemployment in the fourth quarter of 2025, the number of registered unemployed persons and the registered unemployment rate also continued to decrease, further reducing employers' possibilities to attract the specialists they need. At the end of December 2025, the number of registered jobseekers stood at 43.7 thousand, approximately 3 thousand, or 6.2%, fewer than a year earlier. The registered unemployment rate at the end of 2025 was 5%, which is 0.3 percentage points lower than a year earlier.



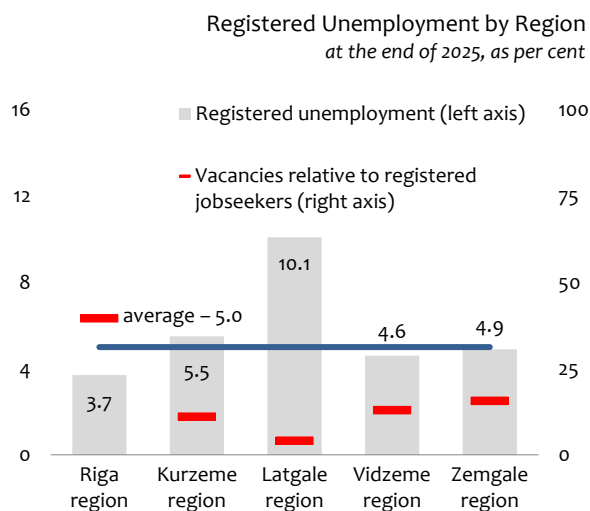
Positive trends are also visible in the dynamics of long-term unemployment. Since mid-2021, both the number of long-term unemployed and their share in the total number of jobseekers have been gradually declining. From the end of December 2024 to the end of December 2025, the number of registered long-term unemployed fell by 6.4%. Overall, at the end of 2025 around 6.7 thousand registered jobseekers had been unemployed for more than a year, representing around 15.2% of all registered unemployed persons.



Despite the moderate downward trend in unemployment in recent years, there remains a risk that some of the existing unemployed may have difficulties finding work that matches their skills. The longer a person remains unemployed, the greater the risk of losing previous work skills and competences, and the harder it becomes to adapt to new labour market requirements. It should be considered that prolonged absence from employment creates risks of structural unemployment.



Structural problems also continue to significantly affect regional differences in the labour market, limiting the efficient use of labour resources in the economy. Regional disparities are narrowing slowly, as low regional mobility persists, along with differences in sectoral structure and wage levels across regions. Persistent problems are evident in the Latgale region, where the unemployment rate remains almost twice as high as the national average and nearly three times higher than in the Riga region. Together with low geographical mobility of labour, this increases the risks of structural unemployment.



In 2025, the unemployment rate in Latvia was lower than in Estonia, while remaining at the level of Lithuania. Latvia’s unemployment rate in this period was 6.9%, which was 0.6 percentage points lower than in Estonia, where it stood at 7.5% in 2025. As in 2024, Latvia also recorded the lowest unemployment among young people in 2025.

The increase in the number of occupied jobs was mainly driven by growth in employment and the gradual recovery of economic activity in several sectors. In 2025, compared with 2024, the number of occupied jobs increased by 0.3%, or 2.2 thousand, reaching 883.6 thousand.

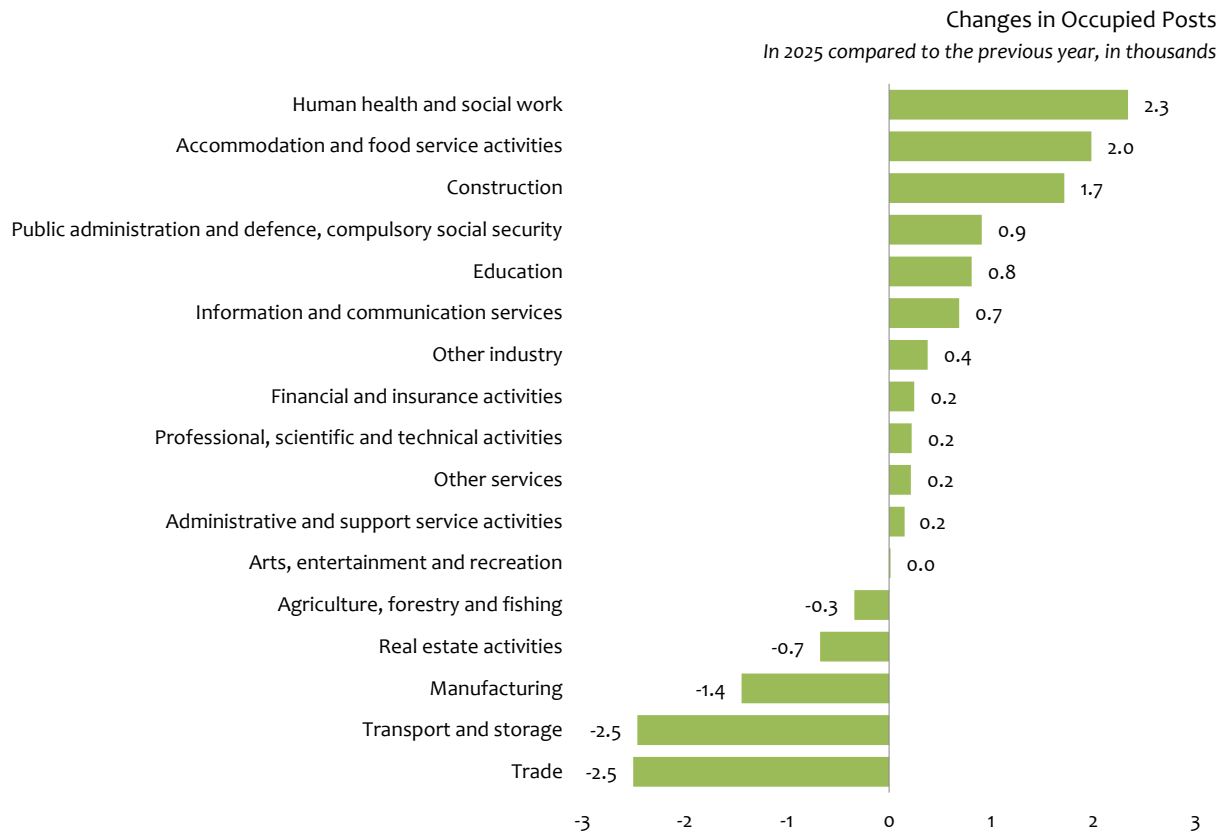
In the fourth quarter of 2025, the largest numerical increases in occupied jobs were recorded in health and social care, construction, and public administration and defence. Growth in occupied jobs was also amplified by seasonal factors in the second quarter, which in 2025 were more pronounced than in the corresponding period a year earlier. Compared with the second quarter of 2024, the number of occupied jobs increased more rapidly, which also affected the subsequent dynamics of occupied jobs in the second half of the year.

**Changes in Occupied Posts**  
at the end of 2025, changes compared to the corresponding period of the previous year, in thousands



The largest decline in jobs in the fourth quarter of 2025 was recorded in trade, by 1.4 thousand jobs, due to weaker demand in certain retail segments.

A notable decline in the number of occupied jobs was also observed in transport and storage, by 1.1 thousand jobs, or 1.7%, due to persistently weaker freight transport. In real estate activities, the decline amounted to 0.6 thousand jobs, or 2.4%, and in manufacturing the decline was 0.2 thousand jobs, or 0.2%, compared with the fourth quarter of 2024.

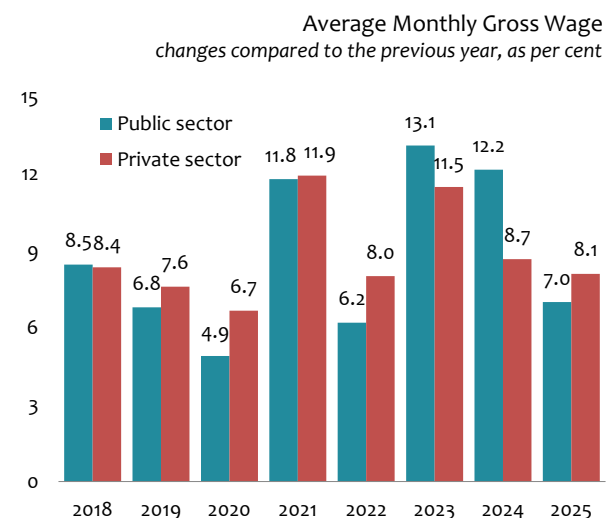
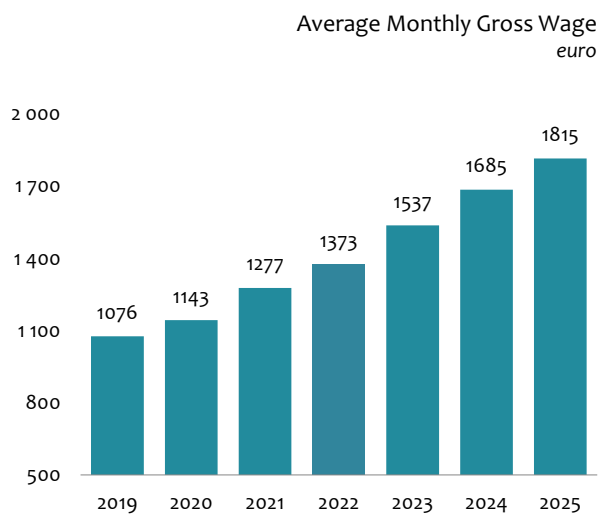


## WAGES AND SALARIES

The main driver of wage growth during the year was increasing activity in the labour market, including the rise in employment and the number of economically active persons. Average monthly gross wages in 2025 increased by 7.7% compared with 2024, rising from EUR 1,685 to EUR 1,815. It should be noted that over the past five years the average gross wage in the economy has increased by almost half.

Average wage growth in 2025 was partly influenced by the increase in the minimum wage by 5.7%, to EUR 740 from EUR 700 in 2024.

Wage growth continues to be influenced by labour shortages, as well as the pass-through of inflationary pressures (price increases) from previous periods into wages. Real wages increased by 6.3% in 2025 compared to 2024.

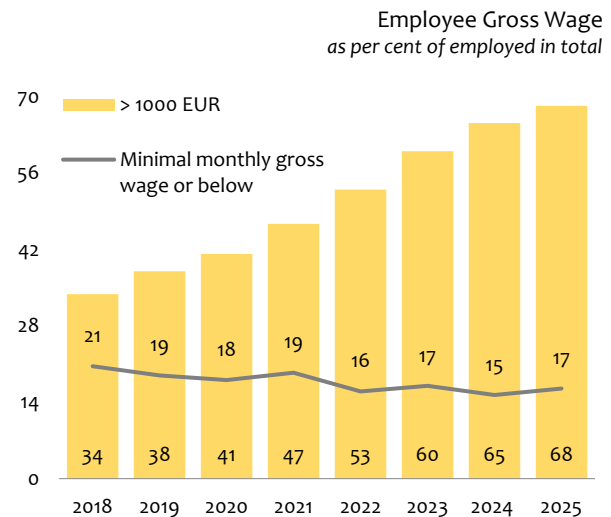


Wage developments in 2025 indicate that wage growth remained robust, although more moderate than in the previous two years. In 2025, wages increased both in the private and the public sector. Compared with 2024, the average gross wage in the public sector increased by 7%, to EUR 1,863, while in the private sector it increased by 8.1%, to EUR 1,800. In the private sector, average wage growth in the second quarter of 2025 was faster than in previous periods and was one of the strongest quarterly increases in recent periods. This is also visible in annual trends, where wage growth in the private sector was faster than in the public sector.

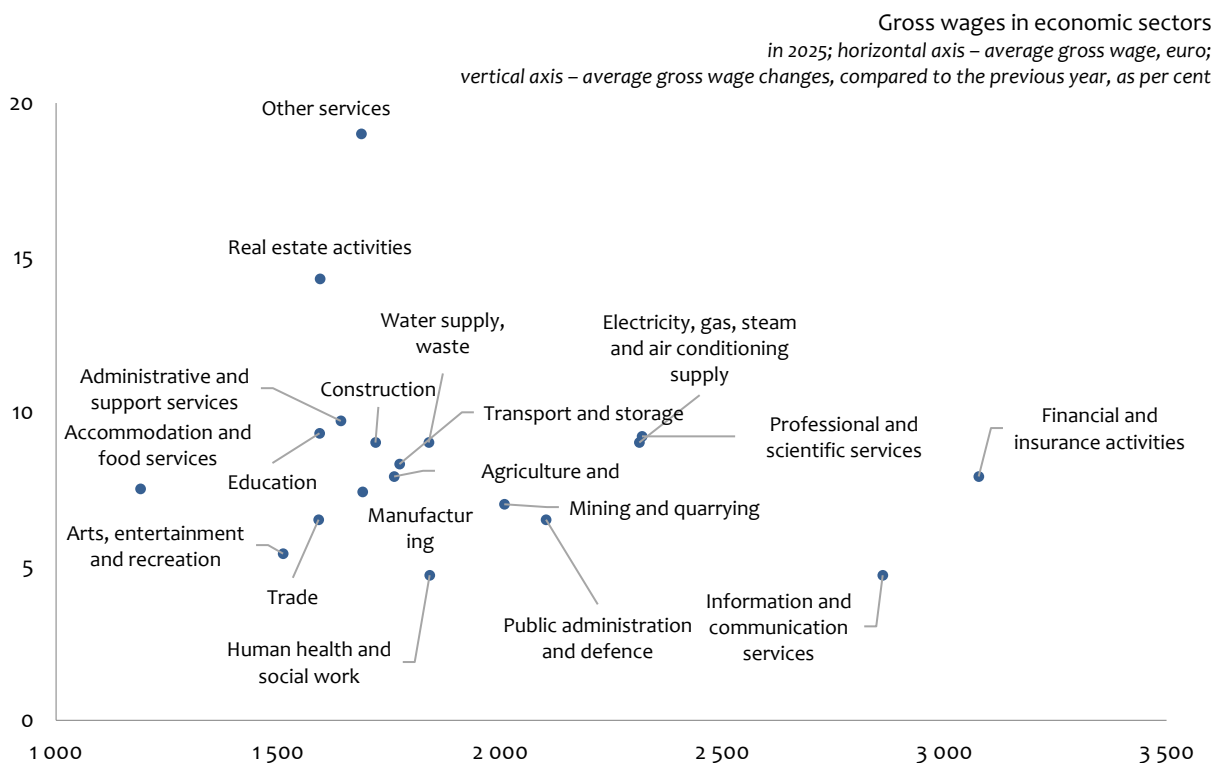
It should be noted that wage growth in the public sector generally follows wage growth in the private sector with a time lag. Therefore, the current wage growth in the public sector largely reflects wage dynamics in the private sector over the previous two to three years, when wage growth in the public sector on average remained stronger than among those employed in the private sector. At the same time, current wage dynamics are also influenced by the measures implemented to limit wage growth in the public sector.

Overall, the general trend of a declining share of low-paid employees remained stable, as shown by the continuing increase in the share of employees receiving more than EUR 1,000 per month, as well as by the decline in the share of employees receiving the minimum wage or lower wages. In 2025, on average 68.3% of all employees earned a gross wage above EUR 1,000, while the share of employees earning the minimum wage or less was 16.5%, indicating a slight increase in the share of employees receiving the minimum wage or less compared with 2024.

In 2025, wage growth was observed in all sectors of the economy. The fastest increase compared with 2024 was in other services, where the average gross wage rose by 19%. Wages also increased in real estate activities, by 14.3%, in administrative services, by 9.6%, and in education, by 9.3%. Wage growth was slower in health and social care, by 4.7%, and in information and communication services, by 4.7%.



The highest level of wages in 2025 remained in financial services, where the average monthly gross wage was EUR 3,077, while the lowest wage level was in accommodation and food services, where the average monthly wage was EUR 1,190.



2026 | 1

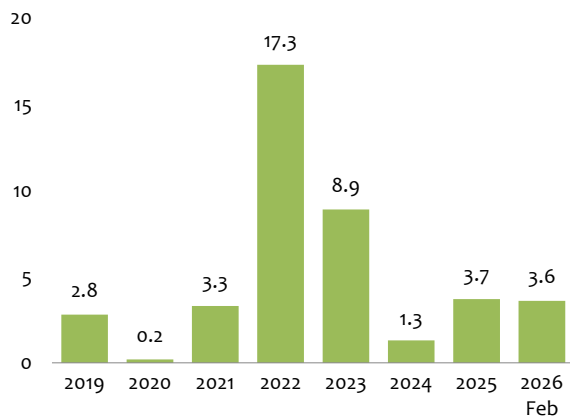
# ECONOMIC STABILITY AND COMPETITIVENESS

## PRICES

In 2025, consumer prices increased more rapidly than in the previous year. In December 2025, compared to December 2024, consumer prices rose by 3.5%. This continued to be influenced by global prices and the unstable geopolitical situation. The average annual inflation rate in 2025 was 3.7%.

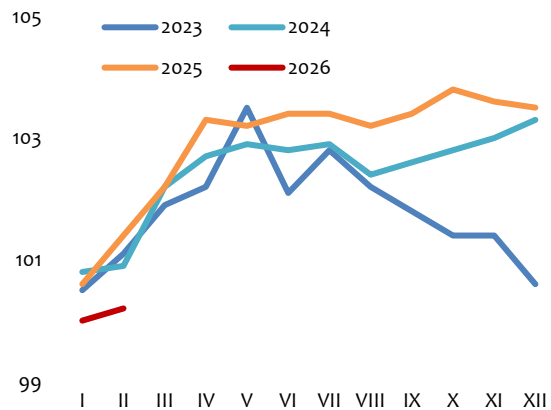
In the first two months of 2026, price growth was significantly slower than in the corresponding period of the previous year. In February 2026, consumer prices increased by 0.2% compared with December 2025. Compared with February of the previous year, consumer prices were 2.3% higher. Average annual inflation in February was 3.6%.

Consumer Price Changes  
annual average, as per cent



although a sharper decline was limited by geopolitical tensions and falling US stock levels.

Consumer Price Index  
December of the previous year = 100

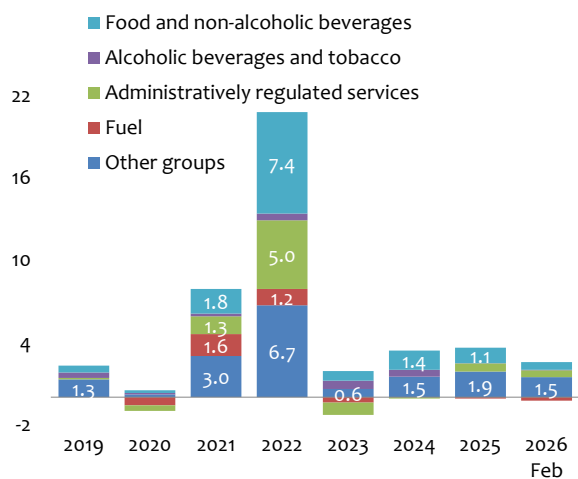


Inflation is expected to increase in 2026. Price dynamics in Latvia will continue to be significantly influenced by fluctuations in global prices and global economic developments, especially the geopolitical situation in the Middle East and Ukraine and its impact on energy and food prices. Considering the latest trends in energy markets, average annual inflation in Latvia in 2026 will be higher than previously projected and will most likely exceed 3%, although the scale of the increase remains uncertain.

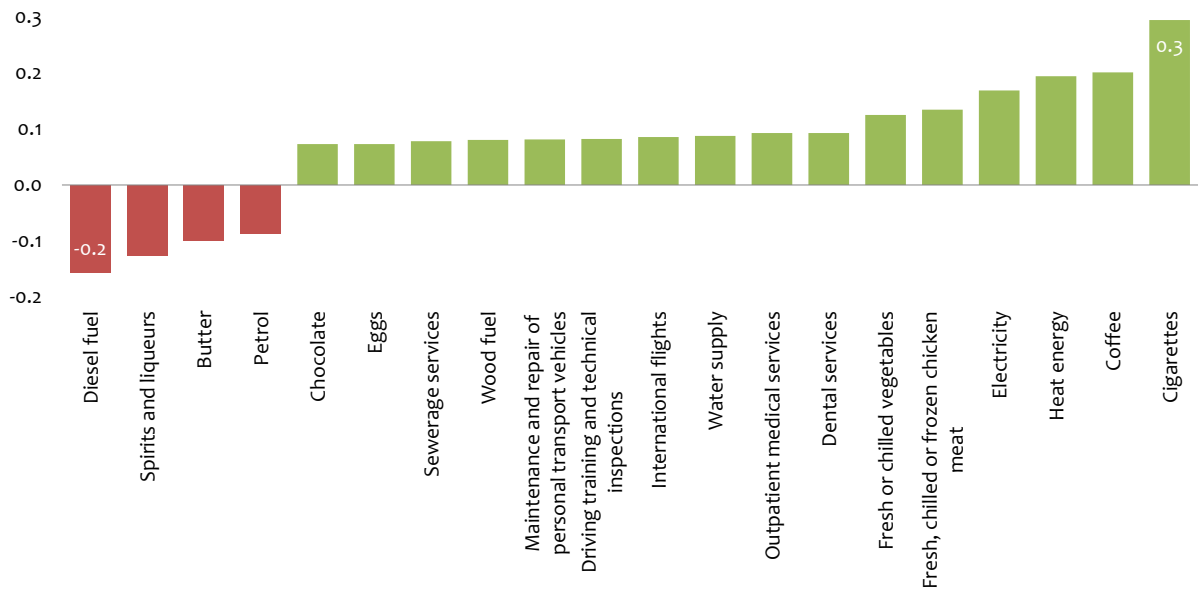
### Main factors affecting prices in 2025:

- (1) a major impact on the average level of consumer prices came from rising service prices, especially housing-related services, outpatient services, catering, recreation and culture, and transport services;
- (2) food prices increased, with prices rising in almost all main food product groups except oils and fats and fruit. The largest impact came from price increases in meat products and non-alcoholic beverages;
- (3) prices increased for housing-related energy resources, with the largest impact coming from electricity prices. Prices also rose for heat energy and natural gas, while prices for solid fuels declined;
- (4) Fuel prices declined, mainly because of lower petrol prices. This was driven by a fall in global oil prices, supported by the OPEC+ decision to increase output and growing concerns about a global oversupply,

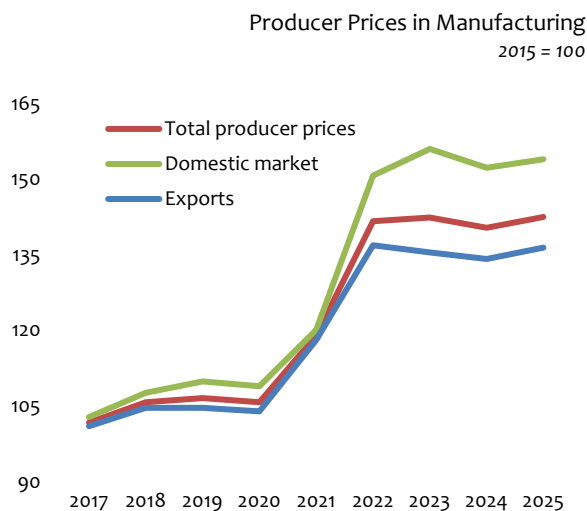
Consumer Prices by Goods and Services  
contribution to 12-month changes, as per cent



Consumer Price Changes by Goods and Services  
February 2026, contribution to the 12-month changes, as per cent



In 2025, producer price growth in manufacturing was moderate.



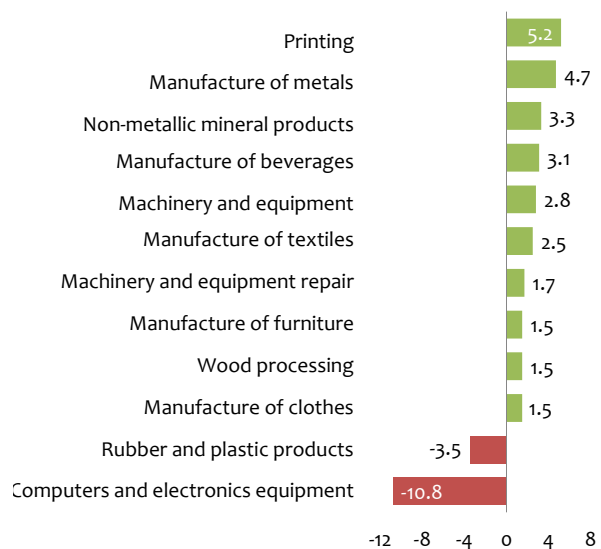
In 2025, producer prices in manufacturing increased by 1.5%. Prices for products sold on the domestic market increased by 1.1%, while prices for exported products increased by 1.7%. The strongest upward impact came from food production and wood processing, while the largest downward impact came from the manufacture of computers, electronic and optical equipment.

At the beginning of 2026, producer price growth in manufacturing remained very moderate. In the first two months of 2026, producer prices in manufacturing increased by 0.1%.

Overall, producer prices in manufacturing are expected to rise in 2026. Producer prices will continue to be largely influenced by fluctuations in export prices, which are

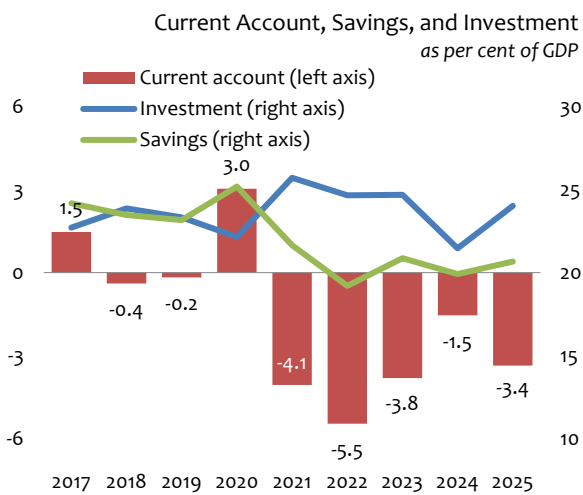
mainly determined by global raw material price dynamics. Considering recent geopolitical developments in the Middle East, uncertainty and price volatility in energy markets have increased, which may create additional cost pressures for energy-intensive sectors. At the same time, global food commodity prices have remained relatively stable overall, although under the impact of the conflict they may rise more rapidly. Volatility continues in timber markets, influenced by changes in demand in construction, as well as by trade policy and tariff measures. Producer prices for products sold on the domestic market may also rise, under the influence of both global price developments and domestic factors, including raw material costs and wage growth, as well as the gradual recovery of economic activity.

The Most Rapid Producer Price Changes in Manufacturing in February 2026; changes compared to the corresponding period of the previous year, as per cent



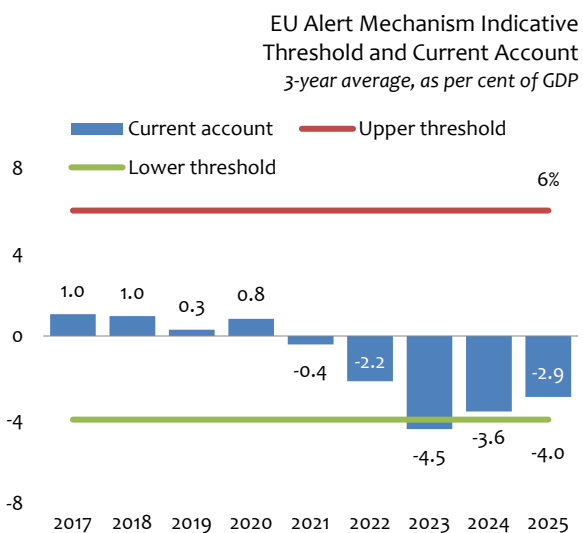
## BALANCE OF PAYMENTS

The current account has been in deficit in recent years and has been characterised by high volatility. Since 2020, significant current account adjustments have taken place. In 2021-2022, the deficit increased to 4.1% and 5.5% of GDP, driven by the post-COVID-19 economic recovery and rising energy prices. In the following two years, 2023-2024, the situation improved, with the deficit narrowing to 3.9% and 1.5% of GDP, respectively. However, in 2025 the current account deficit increased again to 3.6% of GDP, mainly due to the growth in imports.

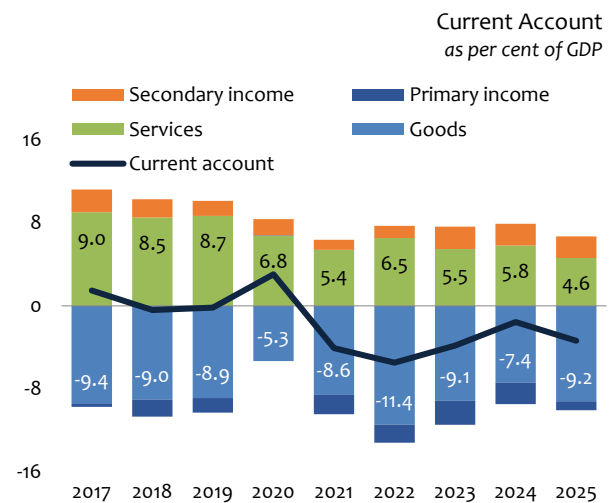


As downward trends intensified, risks of external imbalances also increased, and in 2023 the indicative threshold for the three-year average current account deficit (-4% of GDP) set under the EU alert mechanism was exceeded.

In recent years, a weakening of foreign trade flows has been observed. The main reason was the economic shock initially caused by the COVID-19 pandemic and later by Russia's invasion of Ukraine, which heightened uncertainty in the external environment.



In 2022, moderate export dynamics and a sharp increase in imports due to higher energy prices increased the foreign trade deficit to 11.4% of GDP. In 2023 and 2024, both export and import values declined, and given the sharper fall in imports, the foreign trade balance improved to -9.1% and -7.4% of GDP respectively. However, this trend was not sustained, and in 2025 the deficit increased by almost 1.8 percentage points, reaching 9.2% of GDP. Geopolitical developments have contributed to the reorientation of Latvia's foreign trade away from Russia, with EU countries accounting for an increasing share.



The surplus in services trade remained, but at a lower level than before the COVID-19 crisis. Over the past three years, 2023-2025, the positive balance in services averaged 5.3% of GDP, compared with an average of 8.7% of GDP before the pandemic.

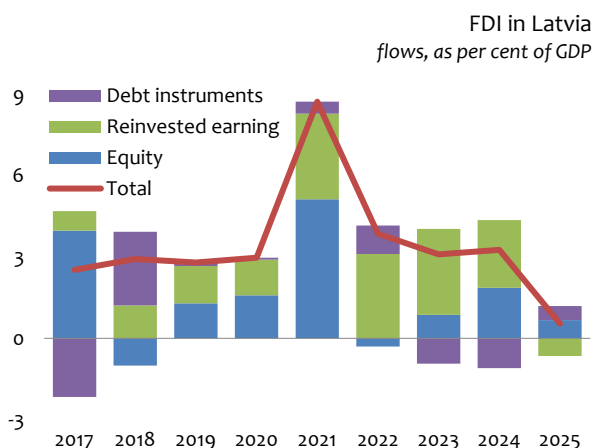
In 2025, the growth rates of imports and exports of services were stronger than in 2024. At current prices, imports increased by 15.3%, while exports increased by 5.8%. The surplus in the services balance was lower than a year earlier, amounting to 4.6% of GDP.

Changes in the income and capital account are mainly related to the absorption of EU funds. The capital account balance in 2025 was 1.5% of GDP, which is in line with the average over the past five years of 1.6%.

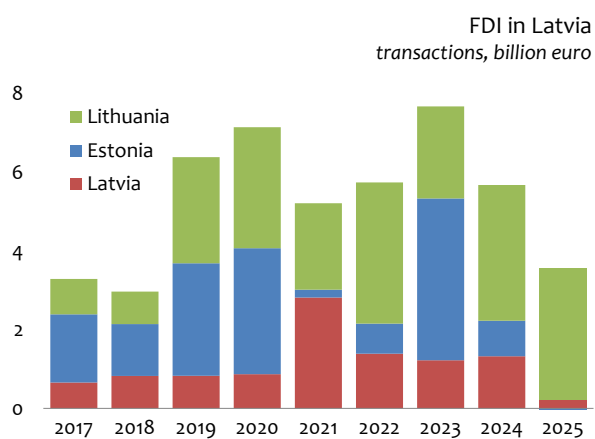
In recent years, the financial account balance has been shaped by the restructuring of government sector debt and by the implementation of the European Central Bank's monetary policy. In 2025, financial account assets increased more moderately than liabilities, and the financial account balance, including reserve assets, stood at -1.1% of GDP. In the near future, the balance of payments accounts will be determined by changes in the geopolitical situation and their impact on global supply chains, cross-border flows, and Latvia's economy as a whole.

## FOREIGN DIRECT INVESTMENT

The intensity of foreign direct investment flows remained moderate. It is mainly affected by instability in the global economy. The war in Ukraine increased uncertainty caused by geopolitical developments and created downward pressure on global FDI flows.



Overall, in the Baltic States cross-border direct investment flows reached almost - 3.5 billion EUR in 2025, or 2.1% of GDP. Compared with the previous year, FDI attracted in the Baltic States was almost one third lower, due to negative FDI flows in Estonia’s financial sector. In Lithuania and Latvia, net FDI inflows were also lower than a year earlier, by 3% and 82% respectively.

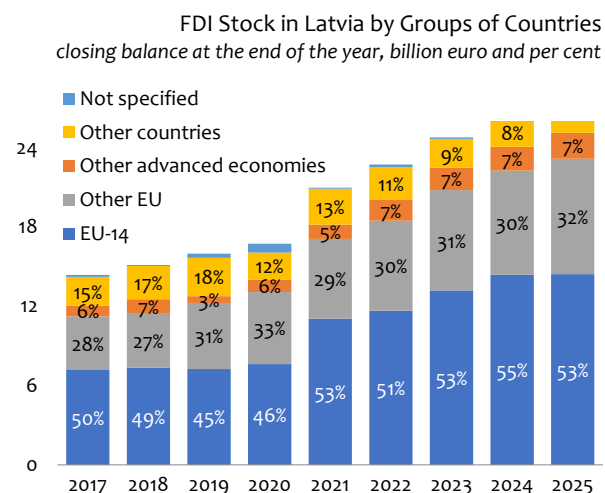


In 2025, FDI transactions were almost 82% lower than a year earlier and accounted for 0.5% of GDP. This was largely determined by dividend payments in the professional services and financial intermediation sectors. Compared with the previous year, investment in companies’ equity capital also declined by almost 62%.

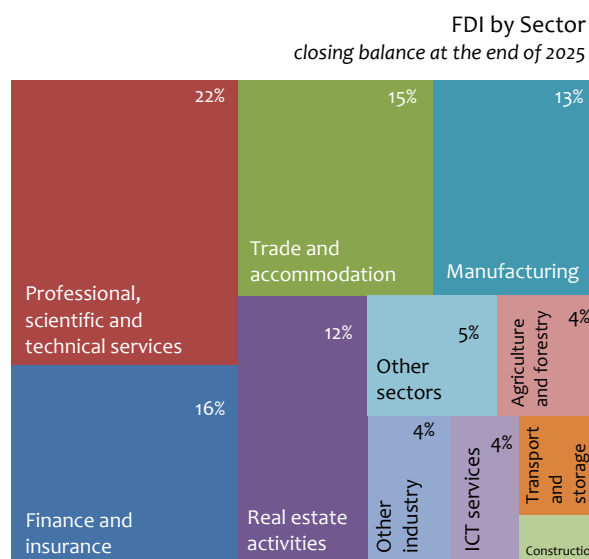
Since 2024, income from direct investment in Latvia has been declining. The decline in FDI income was caused by a sharp fall in reinvested earnings.

The stock of FDI in Latvia’s economy reached EUR 27.1 billion at the end of 2025, equivalent to 63% of GDP. Over

the year, it increased by 3.5%, or EUR 913 million. The geopolitical structure of FDI is relatively stable. It is dominated by investment from EU companies, which at the end of 2025 accounted for 85% of total FDI stocks. The largest investing country in Latvia’s economy is Sweden. Since 2020, Swedish investment has tripled and at the end of 2025 accounted for 28% of total FDI stocks. Significant investment has also come from Estonia, Lithuania, Germany, the Netherlands, and Cyprus. Investment from these countries’ accounts for almost 40% of total FDI stocks in Latvia.



The sectoral structure of FDI stocks has changed. Since 2021, investment in the professional, scientific, and technical services sector has increased significantly. At the end of 2025, its share in the structure of FDI stocks reached 22.4%. Significant investment has also been made in financial intermediation, which accounts for 15.9% of all FDI, trade, 14.6%, real estate activities, 12.2%, and manufacturing, 12.7%.

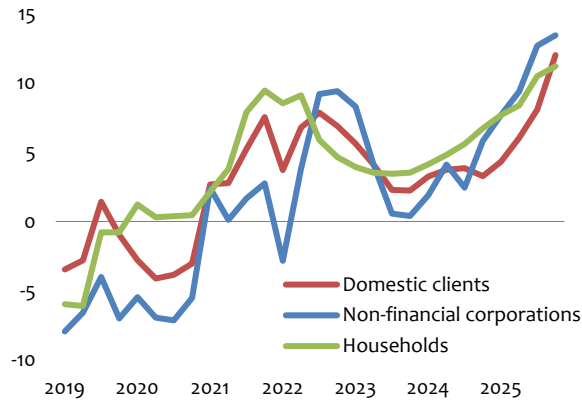


MONETARY INDICATORS

The banking sector is operating resiliently<sup>1</sup>. Positive trends for Latvia's economy were observed in lending developments in 2025. The introduction of the bank solidarity tax is one of the reasons for the more active involvement of banks in lending to the economy. Deposit volumes continue to grow.

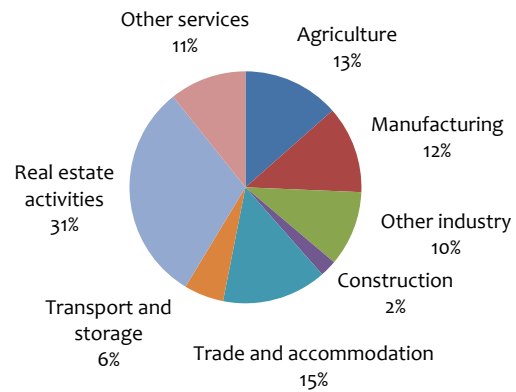
The decline in interest rates on loans continued in 2025, following the decrease that began in the previous year. At the end of 2025, interest rates on long-term and short-term loans to non-financial corporations stood at 4.35% and 4.68% respectively, while to households housing loans - 4.13% and 4.82%, respectively. Since autumn 2025, the pace of decline has become much more moderate. This was also influenced by the ECB's decision not to change key interest rates from June onwards.

**Domestic Credit Balances**  
at the end of the period, compared to the corresponding period of the previous year, as per cent

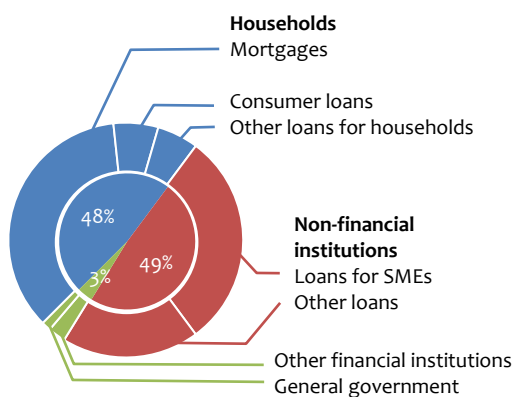


At the end of 2025, the total bank loan portfolio amounted to EUR 18.8 billion. Of this, EUR 15.6 billion had been issued to domestic non-bank clients, which was 12% more than at the end of 2024. Lending growth to non-financial corporations and households was 13.5% and 11.2% respectively. Lending to SMEs grew even faster, by 15.2%.

**Lending Portfolio of Non-Financial Institutions by Sector**  
at the end of 2025, as per cent



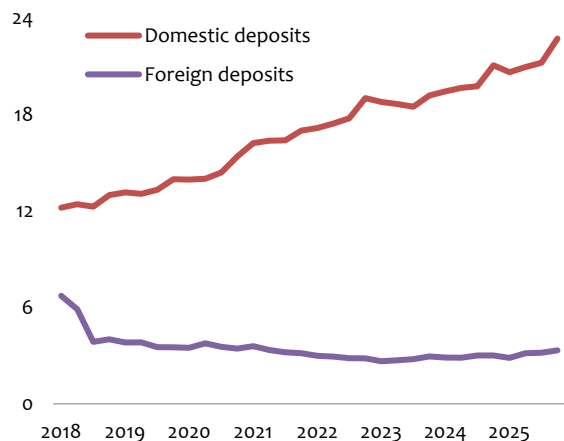
**Lending Portfolio of Non-Financial Institutions by Sector**  
at the end of 2025, as per cent



Non-bank deposits in banks are increasing steadily. At the end of 2025, their volume amounted to EUR 26 billion, 8% more than at the end of 2024. The largest share consisted of domestic deposits, accounting for 87% of total deposits, with annual growth of 7.9%. Foreign deposits accounted for 13% and increased by 9.1%. For comparison, at the beginning of 2016 the share of foreign deposits exceeded one half.

The distribution of loans by sector shows that at the end of 2025 the leading sector, with a 31% share of all domestic corporate loans, was real estate activities. This was followed by trade and accommodation, and agriculture, with shares of 15% and 13%, respectively.

**Domestic and foreign deposits in banks**  
billion euro



<sup>1</sup> Data from Latvijas Banka are used in this section

## BUDGET AND GOVERNMENT DEBT

The COVID-19 pandemic caused significant changes in the fiscal policy implemented up to that point. In 2020, the EU activated the general escape clause of the Stability and Growth Pact, allowing EU Member States to increase general government budget deficits in 2020-2022 to the extent necessary to mitigate the economic damage caused by the pandemic. Given the war between Russia and Ukraine and all its related consequences, the general escape clause also remained in force in 2023. In 2024, the application of EU fiscal rules was restored, ending the operation of the EU general escape clause.

Under the impact of the COVID-19 pandemic, Latvia's budget deficit increased to 7.2% of GDP in 2021. In 2022 and 2023, it decreased to 4.9% and 2.4% of GDP respectively.

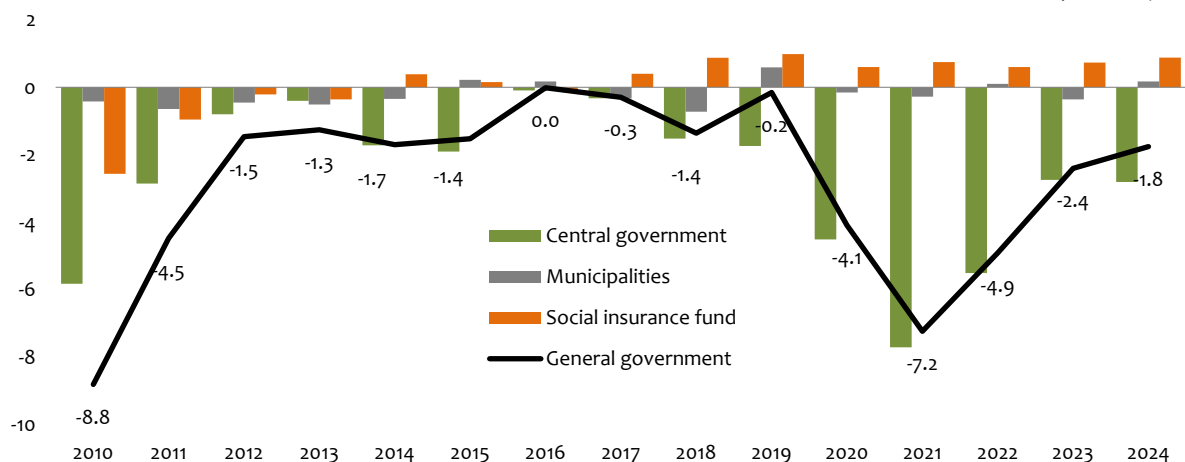
In 2024, the budget deficit was EUR 700 million, or 1.8% of GDP. In 2025, according to estimates by the Ministry of Finance, the deficit was 2.4% of GDP, or EUR 1.02 billion,

which is lower than the planned deficit of 2.9% of GDP. The Saeima approved the 2026 budget with a deficit of 3.3% of GDP. In the medium term, it is projected at around 3.6% of GDP. The increase in the deficit is mainly driven by additional funding allocated to strengthen national defence and security.

General government budget

	2020	2021	2022	2023	2024
Revenues, billion euro	11.7	12.7	14.2	16.3	17.7
% of GDP	40.2	39.3	39.4	41.1	43.8
Expenditures, billion euro	12.9	15.0	16.0	17.2	18.4
% of GDP	44.3	46.5	44.2	43.4	45.6
Net, billion euro	-1.2	-2.3	-1.8	-0.9	-0.7
% of GDP	-4.1	-7.2	-4.9	-2.4	-1.8

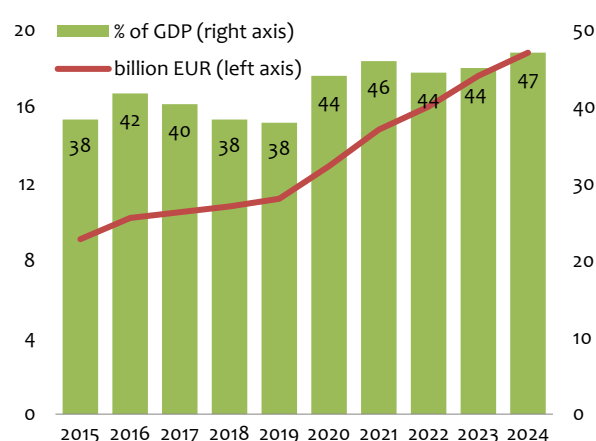
General Government Budget Balance by Sector  
as per cent of GDP



Despite the increase in the budget deficit in recent years, Latvia's general government debt remains among the lowest in the EU. The COVID-19 outbreak created the need to provide substantial financing to mitigate the impact of the crisis. Government debt rose to 45.9% of GDP in 2021, or EUR 14.8 billion. As nominal GDP grew rapidly under high inflation, the debt ratio declined to 44.4% in 2023. In 2024, general government debt amounted to EUR 18.8 billion, or 46.6% of GDP.

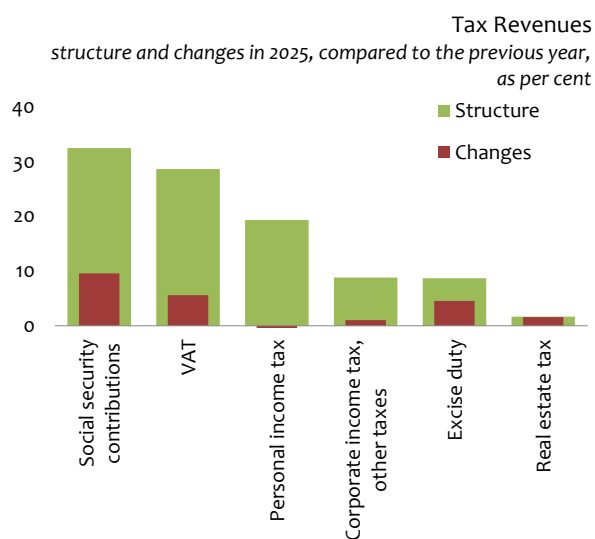
It is expected that the debt ceiling of 60% of GDP laid down in the Fiscal Discipline Law will be observed in the medium term. According to forecasts by the Ministry of Finance, general government debt is projected at 49.7% of GDP in 2025, 52.5% in 2026, 57.2% in 2027, 58.3% in 2028 and 59.9% in 2029.

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



## BUDGET REVENUES AND EXPENDITURES

Since 2011, revenue of the consolidated state budget has been increasing. The only slight decline was in 2020 due to the COVID-19 crisis. In 2025, budget revenue increased by 3.5% compared with 2024.



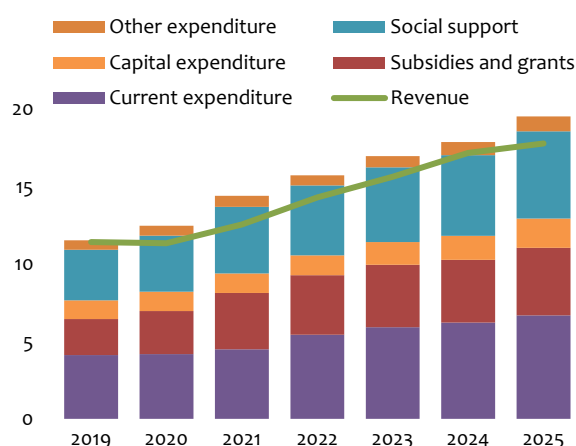
In 2025, revenue increased in almost all major tax groups. In labour taxes, divergent trends were observed. Revenue from personal income tax was 1.5% lower in 2025, while revenue from social security contributions was 9.5% higher than in 2024.

### Consolidated General Government Budget

	Billion euro			Changes as per cent
	2023	2024	2025	2025
<b>Revenues:</b>	15.6	17.2	17.8	3.5
<b>Tax revenues:</b>	12.6	13.6	14.3	5.6
State social insurance contributions	3.9	4.2	4.7	9.5
Value added tax	3.9	3.9	4.1	5.6
Personal income tax	2.5	2.8	2.8	-1.5
Corporate income tax	0.5	0.7	0.8	9.5
Excise Duty	1.2	1.2	1.2	4.5
Real estate tax	0.2	0.2	0.2	1.6
Other taxes	0.4	0.5	0.6	22.6
Other revenues	3.0	3.6	3.4	-4.1
<b>Expenditures</b>	17.0	17.9	19.5	9.2

Consumption tax revenue maintained its upward trend in 2025. Growth in VAT revenue was 5.6%, while excise duty revenue rose by 4.5%. Revenue from capital taxes in 2025 also exceeded the level of the previous year, by 9.5% for corporate income tax and by 1.6% for real estate tax.

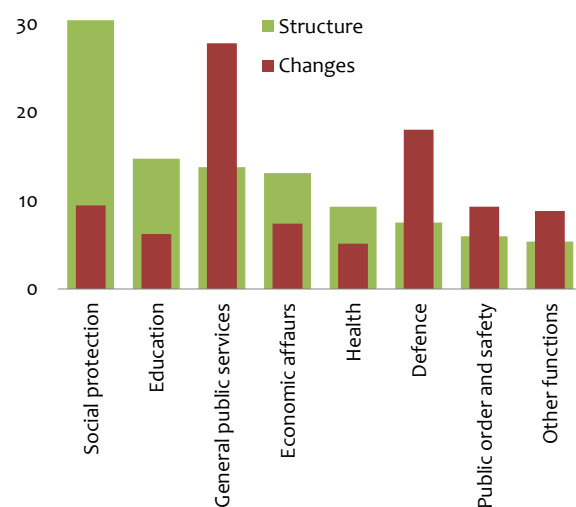
### Consolidated General Government Budget Expenditures billion euro



Expenditure of the consolidated state budget increased by 9.2% in 2025 compared with the previous year. The expenditure groups with the greatest impact were the more active implementation of EU-funded projects and allocation of funds for defence needs. The fastest growth was recorded in capital expenditure, by 22.4%, and in social support expenditure, by 8.2%. Current expenditure and expenditure on subsidies and grants increased more slowly, each by 7.5%.

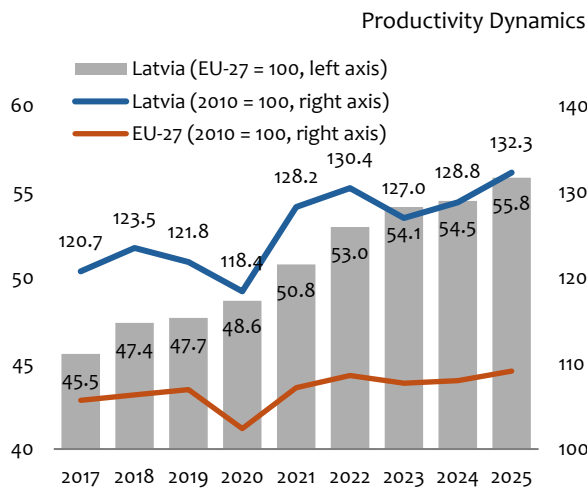
An analysis of budget expenditure by functional category shows that in 2025 the areas with the fastest growth in expenditure were government services, defence, and social protection. Structurally, the area with the largest share in consolidated budget expenditure is social protection.

### Consolidated General Government Budget Expenditure by Functions structure and changes in 2025, compared to the previous year, as per cent



PRODUCTIVITY AND COMPETITIVENESS

Productivity dynamics remain volatile, reflecting uneven adjustments in product and labour markets. In 2020, productivity declined by 2.8%, but already in 2021, as economic activity resumed, productivity growth accelerated and was 8.3% higher than a year earlier, partly due to the low base effect. Over the next three years, economic growth and productivity were more moderate, increasing by only 0.1% per year on average. In 2025, productivity increased by 2.7%, while hourly productivity rose by 4.2%. GDP per employed person in Latvia's economy reached 55.8% of the EU average in 2025, or 70.4% on a PPS basis. Since 2019, the productivity gap with the EU average on a PPS basis has narrowed by almost 5.8 percentage points.



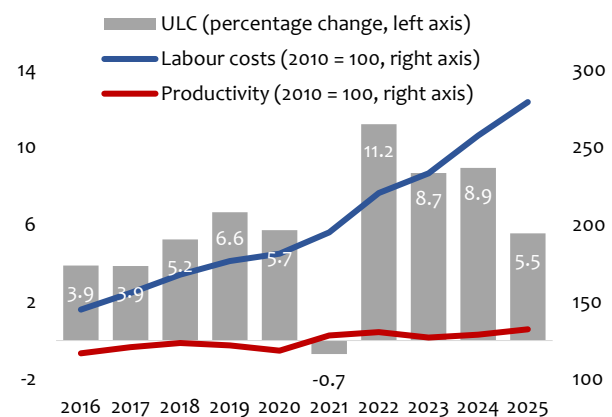
**Labour costs continue to rise.** Adjustments caused by external shocks do not substantially change the long-term trends in labour cost dynamics. Since 2022, labour costs have increased by 26.7%, which is almost one and a half times faster than before the COVID-19 pandemic. At the same time, productivity growth was much more moderate, increasing by only 1.4% over the last three years, 2023-2025. The faster rise in labour costs than in productivity substantially worsened indicators of cost competitiveness. Nominal unit labour costs increased by 24.9% in 2025 compared with 2022, including by 5.5% in 2025 alone, which was faster than in Estonia, 3.3%, but slower than in Lithuania, 6.1%.

It should be noted that nominal ULC growth in the Baltic States is faster than the EU average, and this indicator has significantly exceeded the threshold, 9% over three years, set by the EU Macroeconomic Imbalance Procedure.

**The real effective exchange rate continues to rise.** The CPI-based REER against 42 trading partners increased by 7.3% from 2023 to 2025, which is 2.5 times higher than the threshold of 3% set by the MIP.

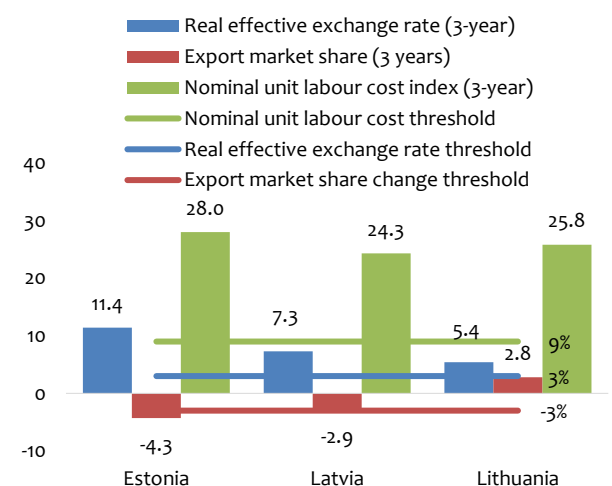
The long-term dynamics of Latvia's export market share in world markets are slowing. In 2022-2024, it declined by 2.7%, including a 2.8% decline in Latvia's export share in developed country goods and services markets. The decline in export market share in world markets was largely driven by negative developments in goods markets in 2023 and 2024, by 3.1% and 2.2% respectively, as well as by a substantial reduction in Latvia's market share in global services markets, by 2.5% and 4.8%.

Labour Costs and Productivity



In conditions of weak productivity growth, rising labour costs negatively affect the cost competitiveness of Latvian businesses. The weakening of economic activity has not significantly affected the labour market, with labour shortages and wage growth persisting under inflationary conditions. This widens the gap between labour costs and productivity. To strengthen competitiveness, it is essential to increase productivity, which will largely depend on structural changes in the economy and a shift towards higher value added and more knowledge-intensive sectors.

Competitiveness Indicators as per cent



## EU ALERT MECHANISM

In accordance with the economic and fiscal policy surveillance rules adopted in the European Union in 2011, a macroeconomic imbalance procedure has been established, with the aim of timely identifying (using the scoreboard of alert mechanism indicators) and correcting macroeconomic imbalances.

In the 2026 Alert Mechanism Report (AMR), Latvia was not listed among the 7 EU Member States in which macroeconomic imbalances were identified.

For Latvia, two indicators exceeded the indicative thresholds in 2024 – the real effective exchange rate and the nominal unit labour cost index.

The AMR indicates that economic activity in Latvia stagnated in 2024, while GDP growth of 1% is forecast in 2025, accelerating to 1.7% in 2026. Inflation declined to 1.3% in 2024, but is expected to increase to 3.6% in 2025, remaining above the euro area average. The unemployment rate was 6.9% in 2024, with a slight decrease in 2025.

The European Commission notes that cost competitiveness is deteriorating due to high wage growth and weak productivity. Growth in unit labour costs was rapid in 2024 but is expected to slow in 2025. The decline

in export market shares points to competitiveness problems.

The situation in the external sector improved – the current account deficit decreased to 1.6% of GDP in 2024 but is expected to increase in 2025. The net international investment position improved to approximately -20% of GDP and is mainly composed of foreign direct investment.

Debt of non-financial corporations remains moderate, and lending is becoming more active. Investment declined in 2024 but is recovering in 2025. Household debt is increasing but remains low, while the burden of interest payments is rising.

Housing prices are increasing moderately, with slight overvaluation and possible supply constraints in the future.

Government debt reached 46.6% of GDP in 2024 and will continue to increase. The budget deficit temporarily decreased but is projected to remain above 3% in the coming years.

The banking sector is stable and well capitalised, with high profitability and a low level of non-performing loans, although there are risks related to high concentration in the real estate sector.

List of Indicators for the Macroeconomic Imbalances Procedure for Latvia

	Threshold	2018	2019	2020	2021	2022	2023	2024
<b>External imbalances and competitiveness</b>								
Current account balance (% of GDP, 3-year average)	-4 % / 6 %	1.0	0.3	0.8	-0.4	-2.2	-4.5	-3.6
Net international investment position (% of GDP)	-35 %	-47.0	-41.4	-35.0	-27.9	-28.2	-25.5	-19.7
Real effective exchange rate – 42 trading partners, HICP deflator (% change over 3 years)	±3 %* / ±10 %	5.1	3.8	5.9	2.3	5.6	11.0	9.6
Export performance compared to advanced economies (% change over 3 years)	-3 %	8.8	5.1	14.3	10.1	15.6	-1.9	-2.9
Nominal unit labour cost index (per hour worked, % change over 3 years)	9 %* / 12 %	13.1	16.0	17.4	11.3	16.1	20.7	32.2
<b>Internal imbalances</b>								
General government debt (% of GDP)	60 %	38.3	37.9	44.0	45.9	44.4	44.4	46.6
Household (including non-profit institutions) debt – consolidated (% of GDP)	55 %	21.2	20.5	20.7	20.3	19.2	18.2	19.4
Non-financial corporations' debt, consolidated (% of GDP)	85 %	49.4	47.3	45.3	39.9	37.2	35.3	36.0
Household (including non-profit institutions) credit flow, consolidated (% of debt stock at t-1)	14 %	1.6	2.4	0.3	8.8	6.0	4.3	8.3
Non-financial corporations (excluding FDI) credit flow, consolidated (% of debt stock, annual change)	13 %	-2.7	1.5	-4.3	-1.2	7.3	1.4	5.7
House price index, nominal (% change)	9 %	9.6	9.0	3.5	10.9	13.8	3.7	4.2
<b>Employment indicators</b>								
Unemployment rate (% of the labour force aged 15–74)	10 %	7.4	6.3	8.1	7.6	6.9	6.5	6.9
Labour force participation rate (change over 3 years, in percentage points (% of the population aged 15–64))	-0,2 pp	1.9	1.1	1.1	-1.8	-0.5	-1.4	0.9

\* – for euro area countries

Note: figures highlighted in orange exceed the thresholds set under the Macroeconomic Imbalance Procedure (MIP) scoreboard

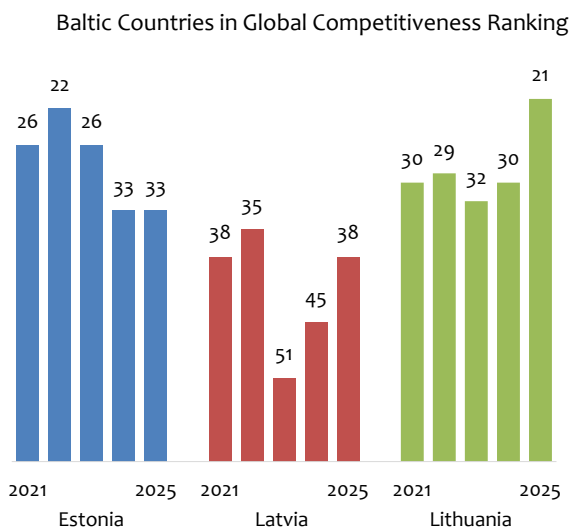
Source: MIP indicators, Eurostat

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# LATVIA IN INTERNATIONAL RANKINGS

Rankings compiled by the International Institute for Management Development, the World Intellectual Property Organization, the European Commission and other organisations characterise Latvia as a highly developed country that, with varying success, overcomes different external shocks while maintaining high development potential.

In the **World Competitiveness Ranking 2025** published annually by the International Institute for Management Development, Latvia ranked 38<sup>th</sup> out of 69 countries, improving its position by 7 places compared with 2024.



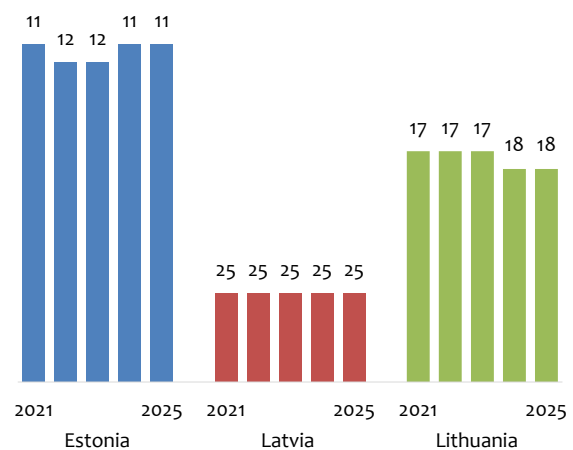
Source: IMD, World Competitiveness Ranking 2025

In 2025, Latvia’s competitiveness was characterised by substantial improvements in several areas: in the economic performance section, increases in employment and stabilisation of inflation were highlighted; in government efficiency, positive changes were observed in the institutional framework and business legislation; business efficiency was supported by more professional corporate management and a more positive business culture; and in infrastructure, progress was achieved both in basic infrastructure and in technological infrastructure, especially ICT.

In the **European Innovation Scoreboard 2025** published annually by the European Commission, Latvia ranked 25<sup>th</sup> among the 27 EU Member States and remained in the group of modest innovators.

The report identifies Latvia’s relative strengths as the share of population with higher education, the number of trademark applications, and the number of joint publications authored by public and private sector researchers.

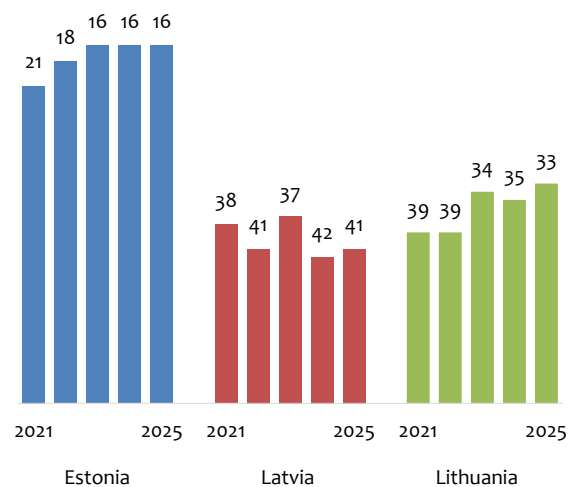
**Baltic Countries in European Innovation Scoreboard\***



Source: European Commission, European Innovation Scoreboard 2025  
\* Only EU-27 countries

In the **Global Innovation Index 2025** prepared by the World Intellectual Property Organization, Latvia ranked 41<sup>st</sup> among 139 surveyed countries.

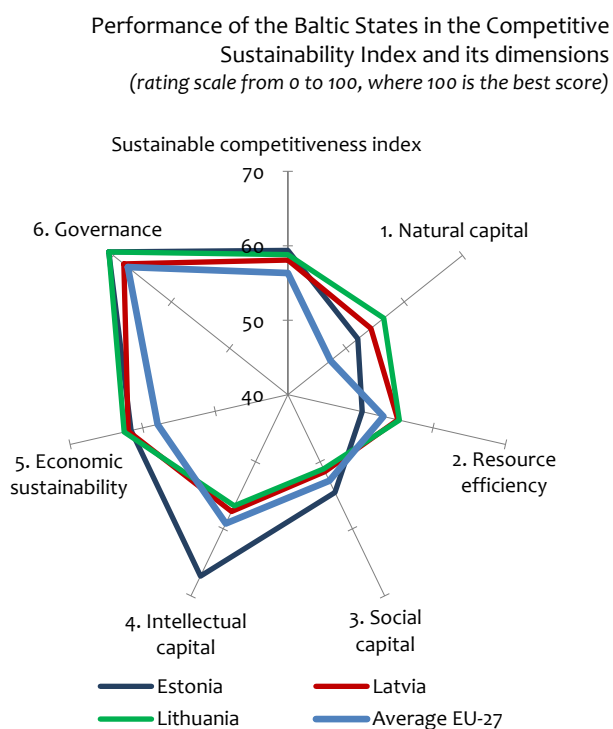
**Baltic Countries in Global Innovation Index**



Source: Cornell University, INSEAD, WIPO, Global Innovation Index 2025: Innovation at a Crossroads

Latvia's strengths highlighted in the index include the stability of business operations, the share of enrolment in higher education institutions, ICT use, the number of ISO 14001 certificates issued, the share of employed women with scientific degrees, the share of high-tech imports in trade, labour productivity growth, exports of cultural and creative services, the number of national feature films, exports of creative industries goods, and the number of mobile applications created.

In the **Global Sustainable Competitiveness Index 2025** compiled by the Swiss company SolAbility and based on six pillars, natural capital, resource efficiency, social capital, intellectual capital, economic sustainability and governance, Latvia ranked 10<sup>th</sup> among 192 countries worldwide, while Estonia ranked 4<sup>th</sup> and Lithuania 7<sup>th</sup>.



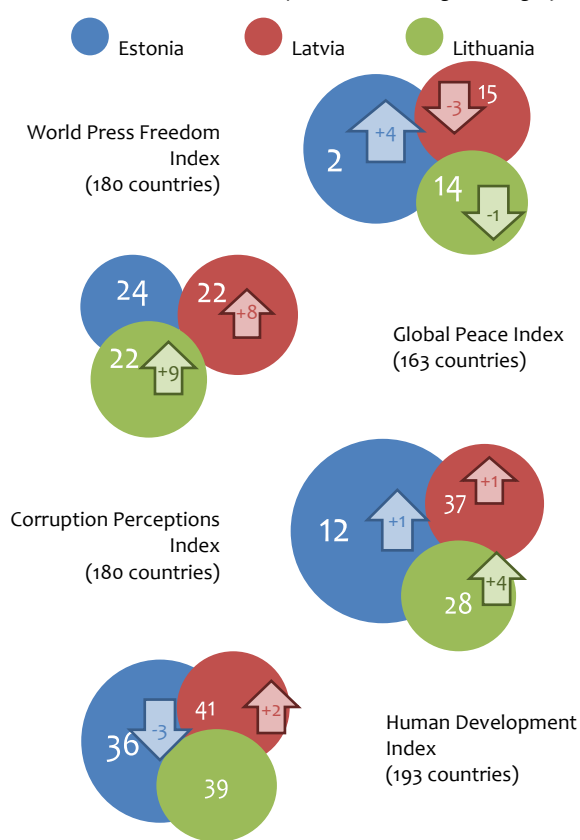
Source: SolAbility, *Global Sustainable Competitiveness Index 2025*

In the pillar of economic sustainability, which is characterised by factors such as the regulatory environment, government efficiency, education level as a basis for innovation, sectoral balance, inclusion and equal opportunities, Latvia ranks highly in 8<sup>th</sup> place.

Latvia also performs comparatively well in the governance pillar, ranking 17<sup>th</sup>. This pillar reflects the quality of institutions, regulatory effectiveness, the rule of law, transparency and the government's ability to develop and implement high-quality policy, thereby promoting the business environment, investment attraction and sustainable development. Latvia also ranks 18<sup>th</sup> in the natural capital pillar, characterised by such factors as the use of agricultural land, biodiversity potential, the availability of water and other resources, and low air and water pollution.

In the **World Press Freedom Index** compiled by Reporters Without Borders, Latvia ranked 15<sup>th</sup> in 2025 (out of 180 countries), declining by 3 positions compared to 2024.

**Baltic Countries in International Rankings place and its changes during a year**



Source: Reporters Without Borders, *2025 World Press Freedom Index*; The Institute for Economics and Peace, *Global Peace Index 2025*; Transparency International, *Corruption Perceptions Index 2025*; United Nations Development Programme, *Human Development Report 2025*.

In the **Global Peace Index** prepared by the Institute for Economics and Peace, Latvia ranked 22<sup>nd</sup> in 2025 out of 163 countries surveyed. Compared with 2024, Latvia improved by 8 positions due to an improvement in internal security.

In the **Corruption Perceptions Index** compiled by Transparency International, Latvia ranked 37<sup>th</sup> in 2025 among 180 surveyed countries, improving by 1 position compared with 2024.

In the **Human Development Index 2025** prepared by the United Nations Development Programme, Latvia ranked 41<sup>st</sup> among 193 surveyed countries, improving by 2 positions compared with the 2024 result, recalculated position.

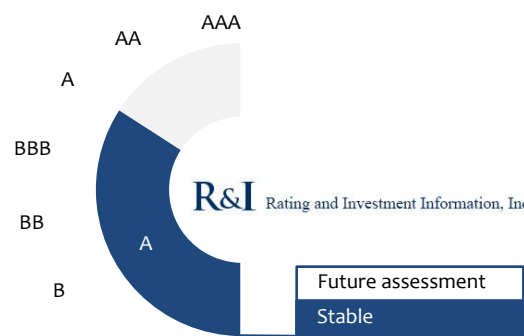
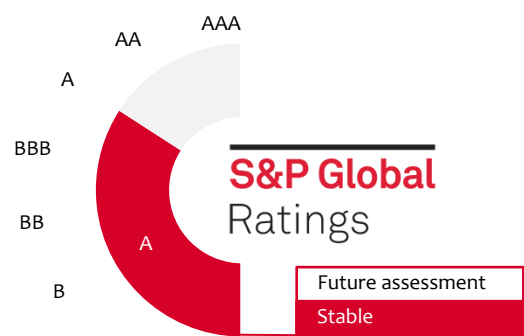
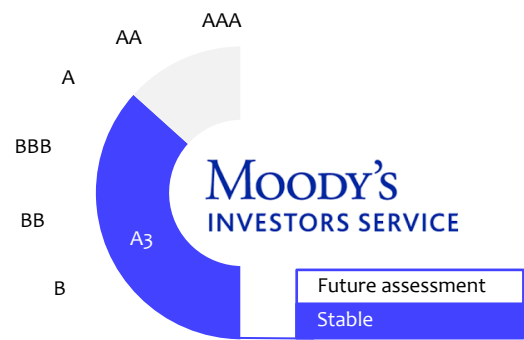
The international rating agency *S&P Global Ratings* has for a long-time assigned **Latvia a sovereign credit rating** in the high A category. From February 2020 until June 2024, Latvia’s rating stood at A+, whereas it is currently set at A with a stable outlook. On 28 November 2025, *S&P Global Ratings* reaffirmed this rating and outlook, citing Latvia’s ability to withstand external challenges, including the impact of the Russia-Ukraine war, while maintaining fiscal discipline, although higher defence spending creates additional pressure on fiscal indicators. Stable political conditions, euro area membership and a moderate level of government debt continue to support the rating.

Before that, on 7 November 2025, *Fitch Ratings* affirmed Latvia’s sovereign credit rating at A- with a stable outlook. The agency indicated that the rating is supported by effective economic policy, a low although rising level of government debt, and EU and euro area membership, while growth prospects are constrained by the small and open nature of the economy. *Fitch Ratings* projected that government debt would rise to around 55% of GDP and that Latvia’s economic growth in 2025 would be around 1.1%, gradually accelerating thereafter.

Earlier, on 31 March 2025, the Japanese credit rating agency *R&I* affirmed Latvia’s sovereign credit rating at A with a stable outlook, pointing to stable growth supported by fiscal discipline, financial system stability and the availability of EU funds, while projecting a moderate increase in government debt.

According to the latest assessment by *Moody’s Investors Service*, published on 16 January 2026, Latvia’s sovereign credit rating of A3 with a stable outlook was affirmed, highlighting a strong institutional framework, prudent fiscal policy and resilient growth fundamentals, while also projecting a moderate rise in government debt due to defence expenditure.

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



Source: State Treasury