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## ECONOMIC DEVELOPMENT TRENDS

The Latvian economy has successfully overcome the shocks of previous years, and the economy is gradually returning to growth.

After the pandemic crisis, when GDP in Latvia increased by 6.9% in 2021, growth slowed to 1.9% in 2022. Economic development in 2022 was significantly affected by Russia's invasion of Ukraine, which caused disruptions in supply chains, increases in energy and food prices, as well as a decline in global demand.

In 2023, economic development continued to be influenced by the geopolitical situation and uncertainty, high prices, and rising bank interest rates. GDP decreased by 0.9%. Private consumption, exports, and imports declined, while government consumption and investments increased.

Although inflation rates stabilized, due to the unfavourable external environment, the economy continued to decline in the first half of 2024; however, GDP increased in the second half of the year. Overall, on an annual basis, GDP remained at the previous year's level. Private consumption and exports increased slightly, while government consumption and investments declined.

**In 2025, a gradual recovery of economic activity is observed.** In the first half of the year, GDP increased by 1.3% compared to the corresponding period of the previous year, largely due to a sharp rise in investments. The increase in activity is supported by somewhat faster growth in Latvia's main trading partner countries, as well as by government economic stimulus measures, particularly in the areas of lending and investment.

## Key Economic Development Indicators

	2019	2020	2021	2022	2023	2024	2025f	2026f
Gross domestic product, at current prices, billion euro	29,6	29,2	32,3	36,1	39,6	40,4	42,4	44,4
<i>changes compared to the previous year, as per cent</i>								
Gross domestic product	0,7	-3,5	6,9	1,9	-0,9	0,0	1,6	2,2
Private consumption	-0,1	-4,8	8,1	5,1	-0,9	0,1	1,4	2,1
Public consumption	5,6	3,9	3,7	0,4	2,5	-0,4	2,5	2,3
Gross fixed capital formation	1,3	-2,4	6,8	0,3	5,0	-7,0	7,6	4,8
Exports	-0,6	-0,3	9,1	11,4	-7,0	0,1	2,0	3,5
Imports	2,0	-1,1	15,1	9,9	-5,0	-1,8	3,4	4,4
Consumer prices	2,8	0,2	3,3	17,3	8,9	1,3	3,7	2,5
<i>as per cent</i>								
Changes in the number of employed	0,1	-1,9	-3,2	2,6	-0,2	-0,8	0,2	0,3
Employment rate	65,0	64,2	62,5	63,9	64,2	64,0	64,3	64,7
Unemployment rate	6,3	8,1	7,6	6,9	6,5	6,9	6,7	6,4
<i>as per cent of GDP</i>								
General government balance	-0,2	-4,1	-7,2	-4,9	-2,4	-1,8	-2,9	-3,3
General government debt	37,9	44,0	45,9	44,4	44,4	46,6	49,7	52,5
Export-import balance (trade balance)	-0,2	1,4	-3,2	-4,9	-3,7	-2,6	-2,8	-3,3

f – forecast

Private consumption is growing slowly despite an increase in real wages. Consumer caution is influenced by high price levels, inflation expectations, and uncertainty about the geopolitical situation. In 2024, as inflation stabilized and residents' real incomes increased, private consumption rose slightly by 0.1%. In the first half of 2025, private consumption decreased by 0.4% compared to the corresponding period of the previous year.

**Government consumption is volatile.** In 2024, it decreased by 0.4%, but in the first half of 2025 it increased by 1.2%.

Investment activity in the Latvian economy is significantly affected by the geopolitical situation, the availability of financing and production resources, as well as other external and internal factors. In 2024, investments decreased by 7%, mainly due to the weakening of private investment. Thanks to both the faster absorption of EU funds and the activation of private sector lending, in the first half of 2025 investments increased by 7.9% compared to the corresponding period of the previous year.

**The external environment is having an adverse effect on exports.** The volume of goods and services exports in 2024 increased by only 0.1%. In the first half of 2025, exports decreased by 0.4% compared to the corresponding period of the previous year. Service exports increased by 2.9%, while the volume of goods exports decreased by 1.6%. Imports grew rapidly - by 5.5%.

**Development trends vary greatly across sectors.** In 2024, output in the producing sectors declined by 1.5%, largely due to weak export opportunities, while the services sectors grew by 0.4%. By sector, the largest positive contributions came from agriculture and forestry, trade, financial and insurance activities, as well as the health and social care sector, public administration, and defence. In contrast, declines were recorded in manufacturing, transport and storage, as well as in ICT, education, and real estate activities.

**In the first half of 2025, compared to the corresponding period of the previous year, total value added increased by 1.1%.** Several sectors made the largest contributions to Latvia's GDP growth in the first half of 2025. A significant driver of growth was construction (up by 8.1%). The information and communication technology sector increased by 3.9%. Manufacturing and trade also grew by 2.5%, along with several other sectors. The largest declines were observed in mining and quarrying, where value added fell by 8.5%. In agriculture, value added decreased by 3.1%, and in the transport and storage sector by 0.8%, reflecting a weakening of activity in the logistics sector.

**The COVID-19 pandemic has caused a significant increase in the budget deficit.** In 2021, it amounted to 7.2% of GDP. As the economy stabilized, the budget deficit decreased to 4.9% of GDP in 2022 and to 2.4% of GDP in 2023. In 2024, the budget deficit was EUR 700 million, or 1.8% of GDP. For 2025, the Saeima has approved a budget with a deficit of 2.9% of GDP. Meanwhile, the government has confirmed that in 2026 the budget deficit will be 3.3% of GDP and, in the medium term, will remain around 3.6%. The increase in the deficit is driven by higher funding for strengthening national defence and security.

**Despite the increase in the budget deficit in recent years, the level of general government debt in Latvia remains one of the lowest in the EU.** The COVID-19 outbreak created a need to secure substantial funding to mitigate the effects of the crisis caused by the pandemic. In 2021, government debt rose to 45.9% of GDP, or EUR 14.8 billion. As nominal GDP growth accelerated under conditions of high inflation, the debt-to-GDP ratio declined in the following years, reaching 44.4% in 2023. In 2024, general government debt amounted to EUR 18.8 billion, or 46.6% of GDP. It is expected that, in the medium term, the debt limit of 60% of GDP set by the Fiscal Discipline Law will be observed.

**Inflation is most significantly affected by rising global prices for energy resources and food.** In December 2024,

consumer prices increased by 3.3% compared to December of the previous year. A significant impact on the overall annual price increase came from a 6.3% rise in service prices and a 5.5% rise in food and non-alcoholic beverage prices. Meanwhile, the average annual inflation rate in 2024 was significantly lower than that observed in 2023, standing at 1.3%.

**In 2025, the overall average annual inflation rate is higher than that observed in 2024 - reaching 3.4% in September.**

**Given the unfavourable situation in external markets, labour market activity slightly declined in 2024.** The number of employed persons decreased by 0.8%, or 6.8 thousand people, while the unemployment rate increased by 0.4 percentage points to 6.9%. The decrease in employment was largely influenced by the overall economic situation as well as supply-side factors in the labour market - a decline in the working-age population and a general reduction in the labour supply.

**With the increase in economic activity, the labour market situation improved in 2025.** In the second quarter of 2025, the number of employed persons increased by 0.8%, or 6.9 thousand, compared to the second quarter of 2024. The unemployment rate in the second quarter of 2025 decreased to 6.7%, which is 0.2 percentage points lower than in the second quarter of 2024.

**The average monthly gross wage continues to increase.** In 2024, the average net wage was EUR 1,221, or 72.4% of the gross wage, and over the year it increased by 9%, outpacing the rise in consumer prices. The real net wage growth, taking inflation into account, was 7.6%.

In the second quarter of 2025, the average gross monthly wage in the country was EUR 1,808. Compared to the second quarter of 2024, the average monthly remuneration increased by EUR 137, or 8.2%. Wage growth was slightly faster in the private sector. The real net wage increase, taking inflation into account, was 6.6%.

A positive impact on wages will continue to be driven by both the wage convergence process toward the levels of economically developed EU countries and the growing shortage of qualified labour - the tightening labour market, which compels employers to think more actively not only about attracting new specialists but also about retaining existing employees, including by reviewing pay rates.

**Further economic development in the medium term depends on the external environment and the pace of reforms.** The main risk to Latvia's growth is related to global economic developments, particularly the geopolitical situation. The future development of the EU's common economic area is also important. In the medium term, Latvia's growth rate could potentially reach 4–5% per year. However, if the war in Ukraine continues for an extended period, the pace of economic recovery may be slower.

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## WORLD ECONOMIC OUTLOOK

The **global economy** is paying a high price for Russia's war of aggression against Ukraine. In the first half of 2025, global growth was more resilient than expected, driven by an increase in industrial production volumes and timely deliveries made before higher tariffs came into effect. However, recent data indicate a slowdown in growth rates. Since May, effective tariff rates on U.S. imports have increased, and it is projected that the full impact of the higher tariffs will further reduce global growth. The main risks remain additional trade restrictions and the resurgence of inflationary pressures.

Gross Domestic Product  
as per cent

	2024	2025f	2026f
World (excl. EU)	3,7	2,0	2,2
Euro Area	0,9	0,9	1,4
USA	2,8	1,6	1,6
China	5,0	4,1	4,0
Germany	-0,2	0,0	1,1

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

In 2024, **China's** GDP grew by 5%, driven by stable domestic demand, government support measures, and a strong recovery in exports. However, economic growth prospects may be limited due to ongoing challenges in the real estate sector and the continued high U.S. tariffs. Forecasts indicate that GDP growth will reach 4.1% in 2025 and 4.0% in 2026. **India's** economy grew by 6.5% in 2024, while GDP growth of around 6.4% is projected for both 2025 and 2026.

**US** economic growth is expected to moderate in 2025 and 2026, with GDP increasing by 1.6%, while inflation will take longer to return to the 2% target. The outlook for the U.S. economy is subject to significant risks, particularly if trade

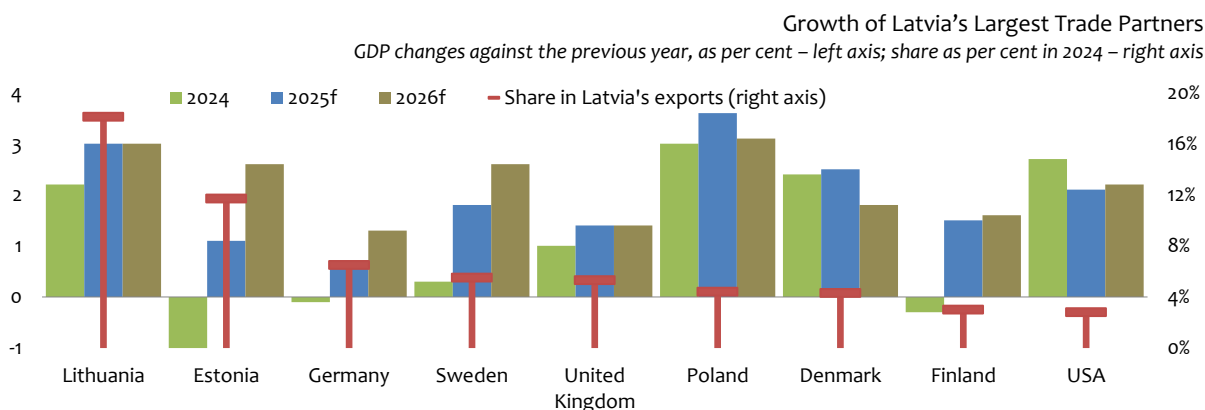
tensions continue to escalate. Additional uncertainty arises from the new administration's fiscal and immigration policies, as well as the Federal Reserve's interest rate policy.

**Eurozone** GDP grew by 0.9% in 2024. It is projected to increase by another 0.9% in 2025 and by 1.4% in 2026. At the beginning of 2025, the European Union's economy was shaken by a significant policy-induced trade and economic uncertainty shock. Security risks have also increased — the war in Ukraine continues with no signs of resolution. Despite the efforts of the U.S., the EU, and its member states, no long-term peace agreement providing sufficient security guarantees for both Ukraine and the EU has yet been achieved.

In the **United Kingdom**, GDP grew by 1.1% in 2024. It is expected that GDP will increase by 1% in 2025 and by 1.3% in 2026.

In **Germany**, GDP decreased by 0.2% in 2024. Trade tensions are likely to significantly limit export opportunities; however, private consumption in 2025 is projected to increase slightly, supported by improved purchasing power and lower interest rates. GDP is expected to remain at the same level in 2025 and to grow by 1.1% in 2026.

**Sweden's** economy is gradually recovering after a period of weak growth — GDP increased by 1% in 2024. However, disruptions in trade and financial markets may delay a full recovery. GDP growth in **Sweden** is projected at 1.1% in 2025 and 1.9% in 2026. In **Estonia**, GDP decreased by 0.3% in 2024. It is expected to grow by 1.1% in 2025 and by 2.3% in 2026. In **Lithuania**, GDP grew by 2.8% in 2024. Economic growth in Lithuania is projected at 2.8% in 2025 and 3.1% in 2026.

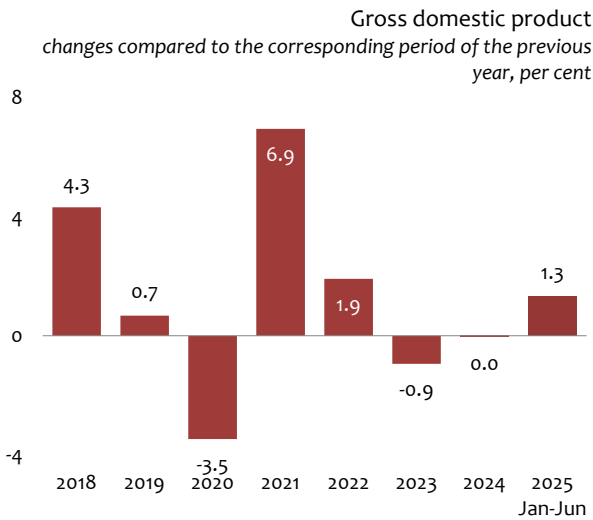


Source: CSB, European Commission (2024); f – forecast

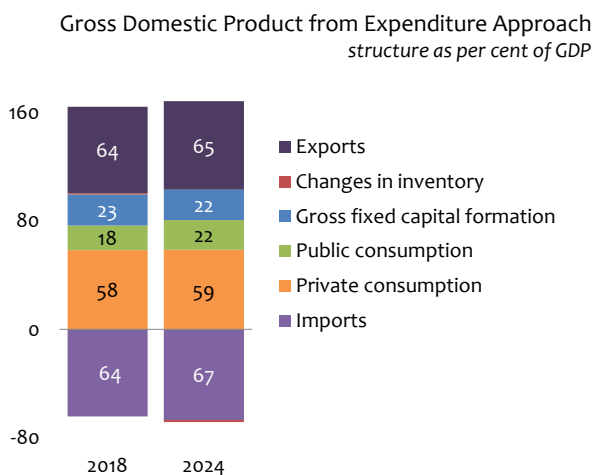
# 2025 | 2 GROSS DOMESTIC PRODUCT AND AGGREGATE DEMAND

## GROSS DOMESTIC PRODUCT

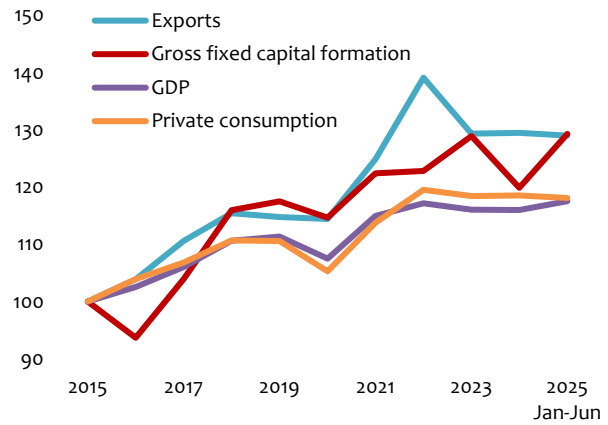
In 2024, the economy did not show growth. In 2024, GDP remained unchanged compared to the previous year, determined by a decrease in investments and imports.



In 2025, the economy began to recover. In the first half of 2025, GDP increased by 1.3%, which is considered positive given the tense geopolitical situation. Economic growth was driven by slightly faster development in the main trading partner countries and by government measures to stimulate the economy, particularly in the areas of lending and investment. The largest contribution to growth came from the increase in investments, supported by the faster absorption of EU funds and the activation of private sector lending.

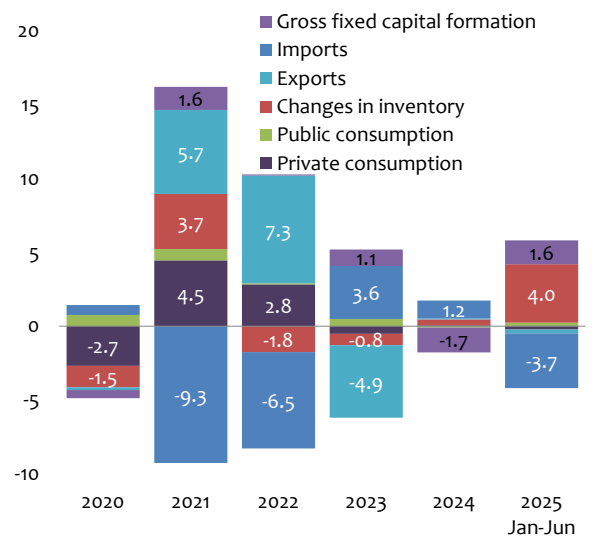


Gross Domestic Product by Expenditure Items 2015 = 100



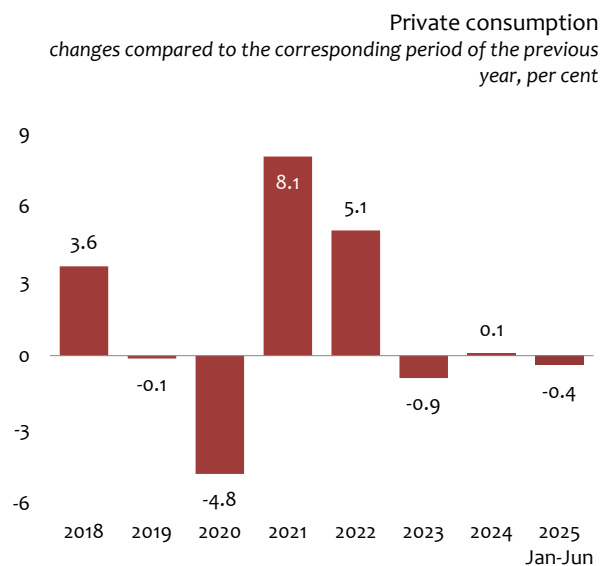
The increase in investments was particularly pronounced in investments in buildings and structures, as well as in machinery and equipment. Different trends were observed in export dynamics - goods exports declined, while services exports increased. Although the external environment has slightly improved, it remains weak due to geopolitical uncertainty. At the same time, the development of private consumption was constrained by the high price level, inflation expectations, and the uncertain geopolitical situation.

Gross Domestic Product by Expenditure Items contribution to growth as percentage points



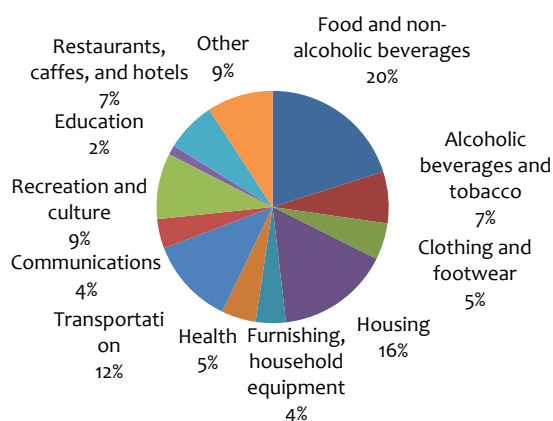
## CONSUMPTION

Private consumption in the first half of 2025 still shows no growth. As the economy recovered, a rapid increase in private consumption was observed in 2021–2022. However, the sharp rise in prices in recent years has negatively affected household purchasing power. Although prices have stabilized and purchasing power is improving, consumer sentiment toward spending more remained cautious in 2025.

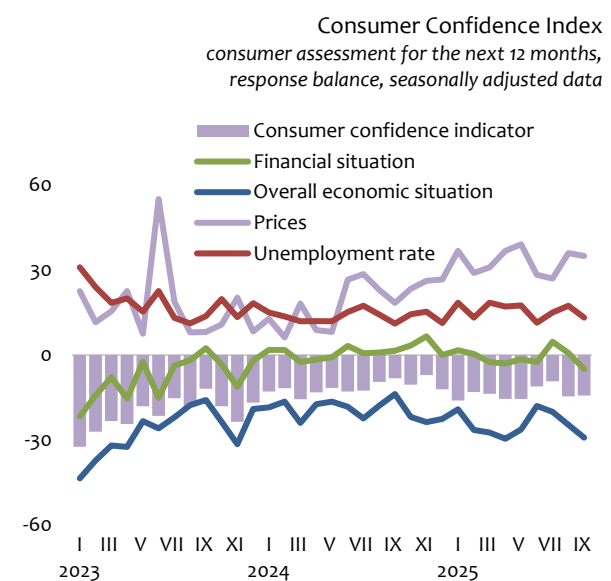


In the structure of household consumption, the largest share is made up of expenditures on food. High food prices encouraged households to continue saving in 2024 by reducing the amount of food consumed. Expenditures on alcoholic beverages and tobacco also decreased significantly. As energy prices stabilized, housing-related expenses remained virtually unchanged. Meanwhile, household spending on transport, health, and education increased.

**Structure of Household Expenditures**  
in 2023, as per cent

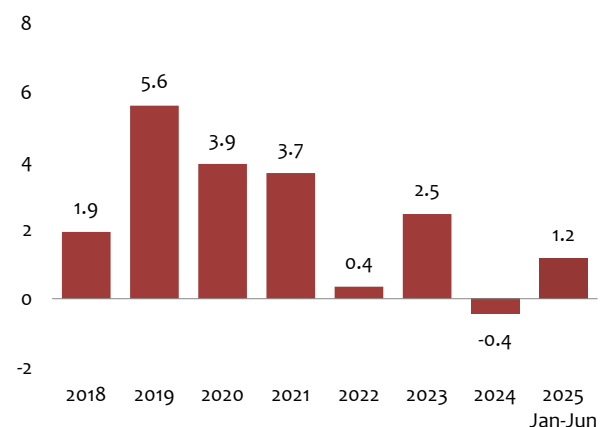


Consumer confidence improved significantly overall in 2023. Optimism among consumers also increased in 2024. Whereas in 2025 consumers are slightly more pessimistic about future. During the first three quarters of this year, this trend has been observed in almost all consumer confidence indicators. Traditionally, consumers tend to assess the overall economic situation in the future somewhat more pessimistically than their own financial situation. Expectations regarding unemployment have also slightly worsened. The only indicator showing more rapid change was inflation expectations, which have increased for the second consecutive year — a development explained by rising service prices and still high food prices.



Government consumption is increasing again. In 2024, government consumption decreased due to the expiry of support measures and weaker investment activity, but in the first half of 2025 it rose again, driven by higher expenditures on defence, public order, and infrastructure.

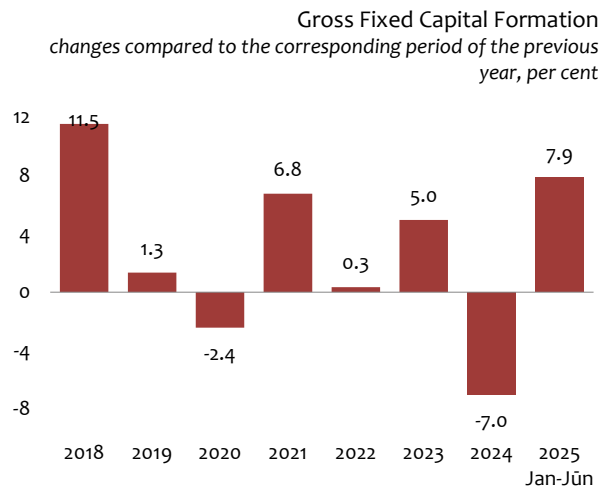
**Public Consumption**  
changes compared to the corresponding period of the previous year, per cent



## INVESTMENT

Investment activity has been highly volatile since 2020.

Over the past three years (2022–2024), expenditures on gross fixed capital formation increased on average by 0.7% per year, which is much more moderate than historically before the COVID-19 pandemic, during 2015–2019, when investment growth averaged 2.7% per year.



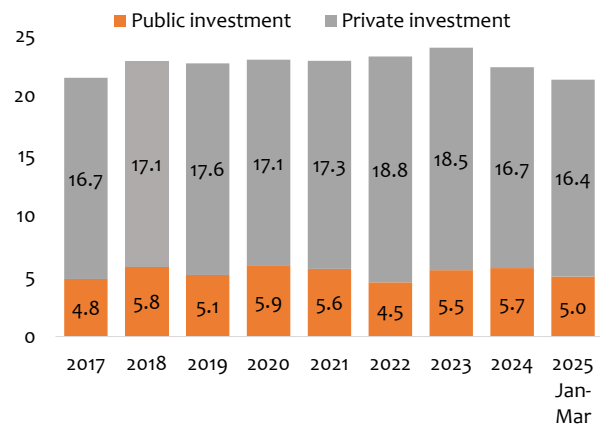
The war in Ukraine has increased uncertainty, and this is reflected in the dynamics of investment activity. In 2022, investments decreased by 0.3%, in 2023 they were almost 5% higher than a year earlier, but in 2024 they again declined by 7%. Investment activity was also constrained by rising construction prices and delays in the implementation of EU-funded programmes.

In 2025, investment dynamics showed an upward trend. In the first half of the year, expenditures on gross fixed capital formation increased by 7.9% compared to the corresponding period of 2024, significantly influenced by the rise in public investments.

In recent years, the level of private investment has been low. In 2024, private sector investments in gross fixed capital formation amounted to almost EUR 6.8 billion. In constant prices, they decreased by almost 10% over the year. In the first quarter of 2025, the volume of private investment was also almost 1% lower than a year earlier. The sharper growth of private investment is significantly limited by high uncertainty, weak lending, and low demand.

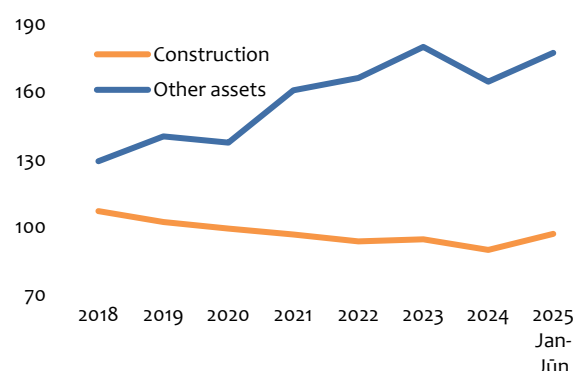
Public investment accounts for almost one-fifth of total investment in the economy. Its dynamics are largely linked to the cyclical nature of EU structural fund absorption. During the period 2022–2024, the overall trend in public investment was positive — on average, it increased by nearly 0.5% per year, which is slightly more moderate than in the years before the COVID-19 pandemic. In the first quarter of 2025, public expenditures on gross fixed capital formation were 40% higher than a year earlier (in constant prices) and amounted to 5% of GDP.

Public and Private Investment  
as per cent of GDP



In the total volume of investments, the largest share is made up of investments in construction assets. These are mainly investments in buildings and structures, which over the past five years (2020–2024) accounted for an average of 48.8% of expenditures on gross fixed capital formation. Since 2018, investments in construction assets (in constant prices) have declined — on average by nearly 3% per year. This includes a decrease in 2024, when investment activity in construction assets fell by 5%, with investments in engineering structures and buildings declining by 3.9% and in dwellings by 8.7%. In contrast, in 2025 investments in construction assets increased sharply, and in the first half of the year were 7.9% higher than a year earlier.

Gross Fixed Capital Formation by Type of Assets  
2015 = 100

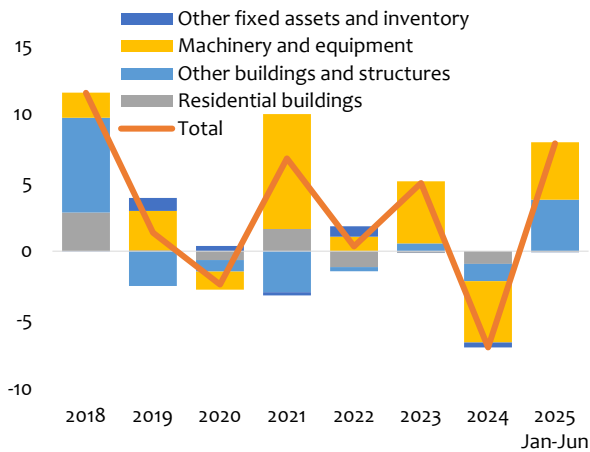


Investments in machinery and technological equipment accounted for an average of 40.7% of total investments in 2020–2024, and their dynamics were slightly stronger than in other asset categories. Over the past five years, investments in these assets increased on average by 3.7% per year, largely driven by a sharp rise in investment in 2023. Furthermore, in 2024, investments in machinery and equipment decreased by 9.5%.

In the first half of 2025, investment in machinery and

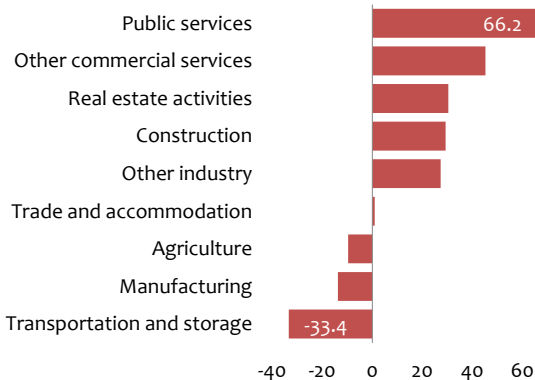
equipment was 9.5% higher than a year earlier, including an increase of almost 5.9% in investments in transport vehicles.

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



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

**Non-financial Investment Dynamics**  
in January-June 2025, changes compared to the corresponding period last year, as per cent\*



\* calculated using quarterly data, at current prices

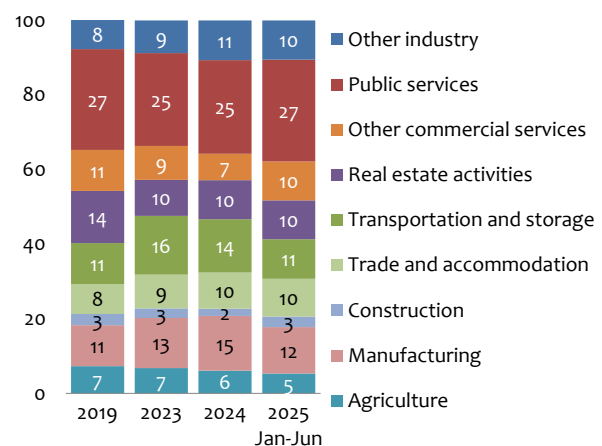
Investments in intellectual property assets have accounted for approximately 9.5% of total investments in recent years. They are characterized by resilience during economic recessions and overall show an upward trend. Since 2020 (in constant prices), investments in these assets have increased by 0.8%. In the first half of 2025, investments in intellectual property products were 0.6% higher than a year earlier and amounted to 2.4% of GDP, which is almost 0.4 percentage points more than in the years before the COVID-19 pandemic.

Capital investments in tangible fixed assets in the goods-producing sectors increased by 1% in the first half of 2025 compared to the corresponding period of the previous year (in nominal terms), while in the services sectors capital investments were 19.7% higher than a year earlier.

A significant contribution in the first half of 2025 came from the increase in investments in public administration and defence (by 79.2%), in real estate activities (by 30.4%), and in the energy sector (by 30.3%). In contrast, investments in manufacturing were 13.8% lower than a year earlier. Capital investments in the transport and storage sectors were also 33.4% lower in the first half of this year than a year earlier.

Surveys conducted by the European Investment Bank indicate that, in the field of investment, Latvian entrepreneurs consider the most significant long-term obstacles to be the shortage of qualified personnel and future uncertainty. Investment is also constrained by high energy costs, shortcomings in business regulation, and access to finance. The share of companies that consider access to finance as the main obstacle to investment is among the highest in the EU.

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

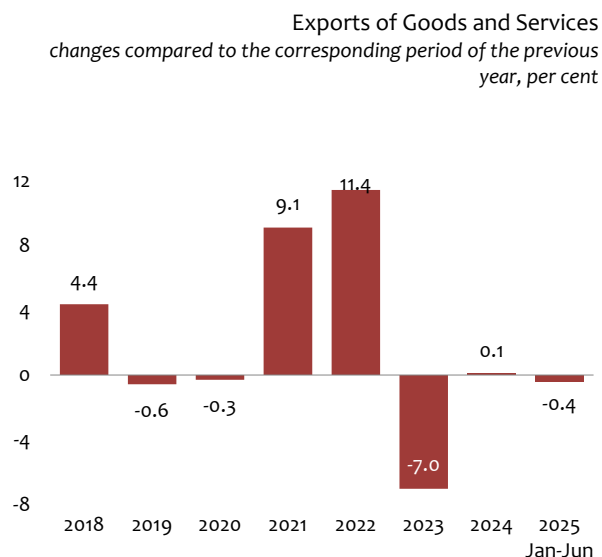


\* Gross capital investment in tangible assets (calculated using quarterly data)

Investment dynamics will continue to be affected by uncertainty in the international environment. EU funding will have a positive impact, as it is an important stimulus for raising the level of investment. A significant contribution to increasing investment activity will come from several projects to be financed under the Recovery and Resilience Facility. Increasing the credit portfolio, which has long been very small, is also of great importance. However, it should be noted that in the coming years investment will be significantly constrained by geopolitical uncertainty related to the war in Ukraine, the limited availability of labour, as well as high energy and lending costs.

## EXPORTS

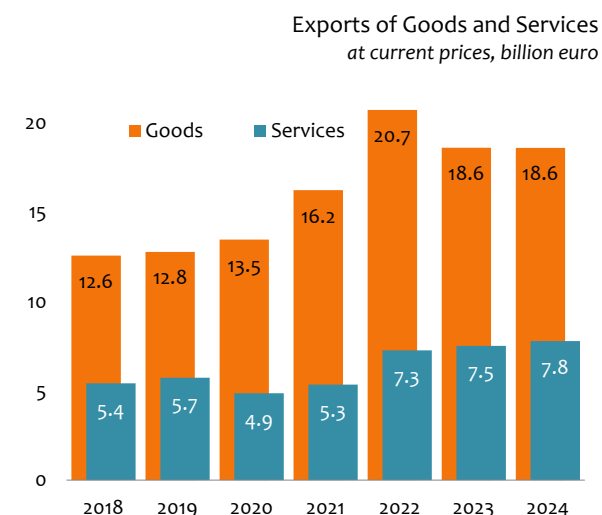
Exports are one of the main drivers of economic development. Export growth is closely linked to external demand and the pace of economic development in key partner countries.



In 2019, as external demand weakened, and in 2020, mainly due to the COVID-19 pandemic, the growth of goods and services exports was close to zero. In 2021, thanks to strong external demand and partly due to the base effect, export growth began to increase again.

In 2022, with external demand continuing to grow, export volumes increased significantly. Export growth was equally strong in the 1st–3rd quarters, while in the last quarter of the year it slowed slightly. Due to weak external demand, export volumes in 2023 were lower than a year earlier.

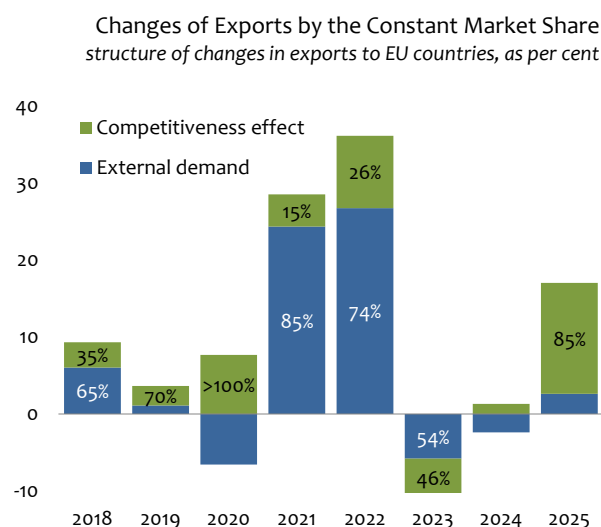
With external demand remaining weak, as well as due to fluctuations in energy prices and other factors, export volumes in 2024 were lower than a year earlier.



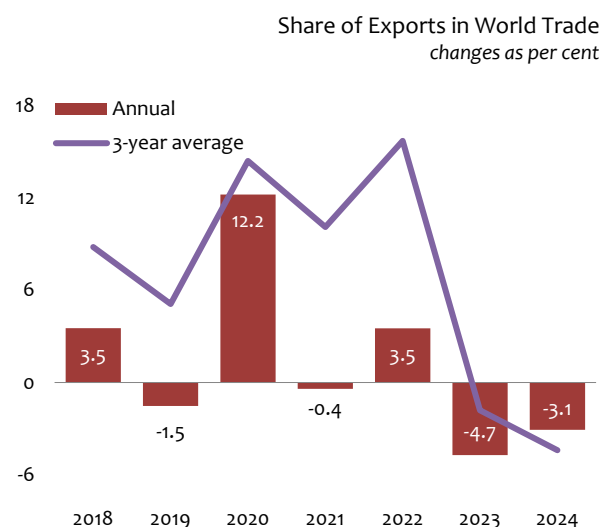
Although export volumes in the first half of 2025 were slightly lower than a year earlier, overall export growth is expected for the year.

In 2020, due to the impact of the COVID-19 pandemic, external demand declined sharply, which was almost fully offset by increased competitiveness in certain sectors. In both 2021 and 2022, export growth was driven by strong increases in external demand as well as competitiveness. The opposite effect was observed in 2023. In 2024, with external demand remaining weak, export growth was limited.

In 2025, with export growth returning, it is supported by both improved competitiveness and external demand.

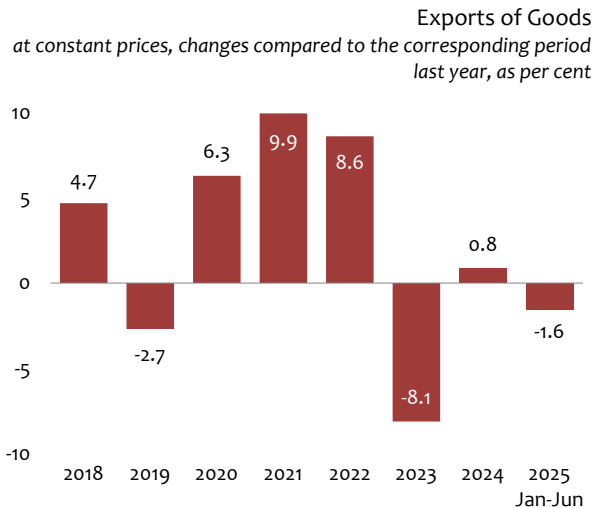


Since 2021, Latvia’s export share in the markets of the world’s developed countries has tended to decline, except in 2022, which indicates rising risks of weakening competitiveness.



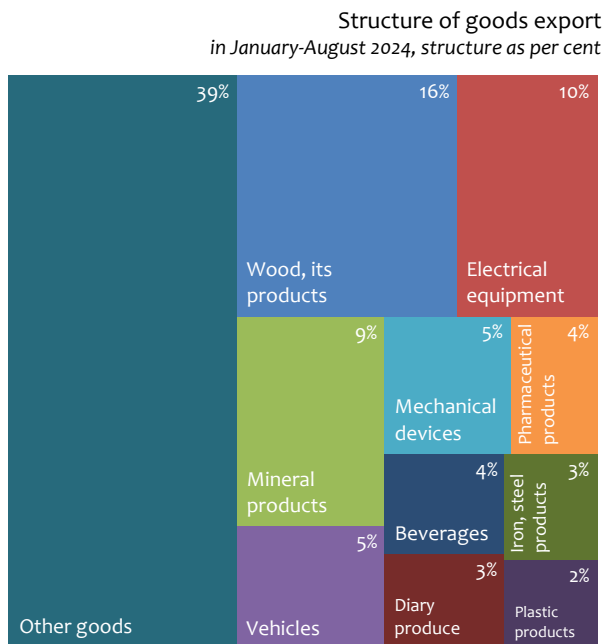
## Exports of goods

The share of goods exports has not changed significantly since 2020 and accounts for approximately three-quarters of Latvia's total exports.



After a decline in 2019, the growth of goods exports was relatively strong in 2020–2022. In 2022, exports increased by 8.6% in constant prices, with export prices also rising significantly. The opposite effect was observed in 2023, when export volumes decreased both in nominal terms and in constant prices.

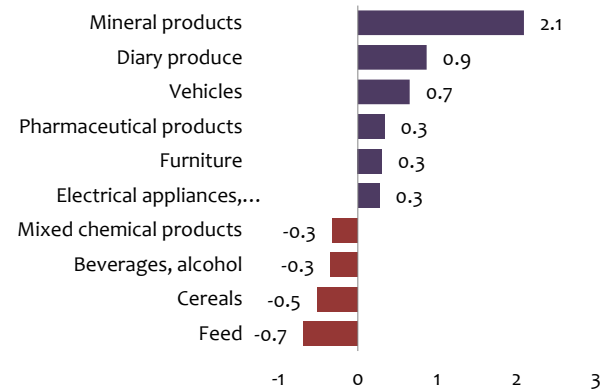
In 2024, the quarterly growth of goods exports was volatile, but overall, it remained positive for the year.



In 2024, as export prices declined, the value of goods exports in nominal terms decreased slightly. In contrast, in January–August 2025, the value of exports in nominal

terms increased by 3.7%, significantly influenced by the rise in the export value of mineral products, milk and dairy products, as well as transport vehicles.

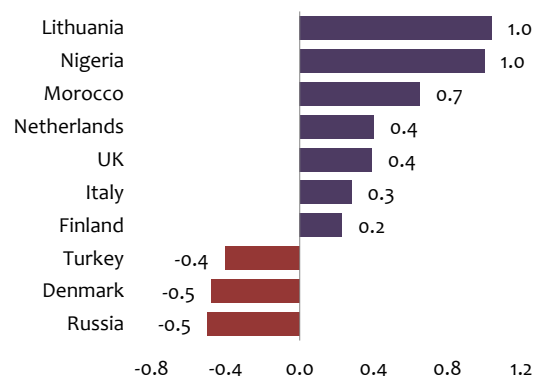
**Product groups with the greatest impact on changes in Latvian exports**  
contribution to growth in January–August 2025, percentage points



In January–August 2025, goods exports increased to Latvia's main export markets — the EU and other countries — but decreased to CIS countries, including Russia. Exports to other countries grew relatively rapidly as well.

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

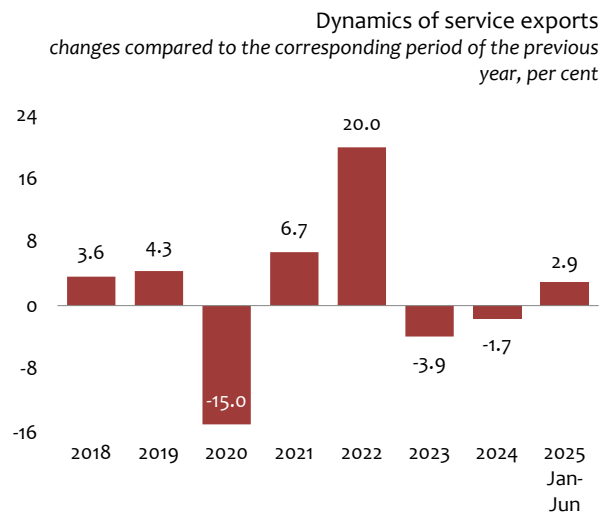
**Countries with the greatest influence on changes in Latvian goods export**  
contribution to growth in January–July 2025, changes as per cent



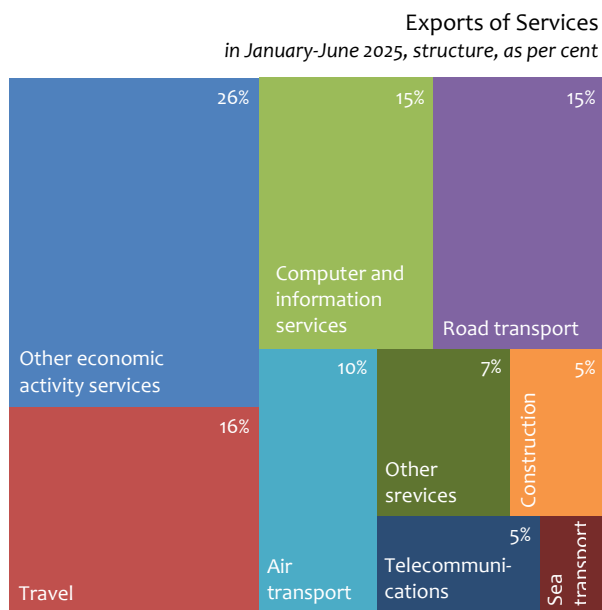
The most important partner countries for Latvia's goods exports in January–August 2025 were Lithuania, Estonia, Germany, Sweden, the United Kingdom, Russia, Poland, Denmark, the Netherlands, and Finland. Approximately two-thirds of all goods were exported to these countries.

## Exports of services

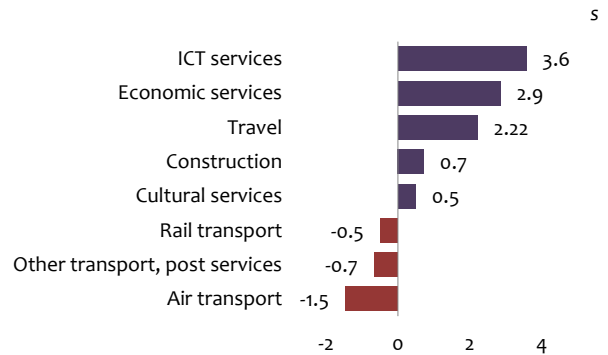
In 2017–2019, Latvia’s service export growth was stable. In 2020, however, due to the COVID-related restrictions, service exports declined significantly. In 2021, service exports began to grow again, and particularly sharply in 2022, when the volume of service exports exceeded the pre-COVID level. After a decline in service exports in 2023 and 2024, in the first half of 2025 it increased by 2.9%.



Meanwhile, in nominal terms, service exports increased in both 2024 and the first half of 2025, by 3.7% and 7.7% respectively. In January–June 2025, ICT services, trade intermediation services, and travel services grew more rapidly, while exports of transport services declined.



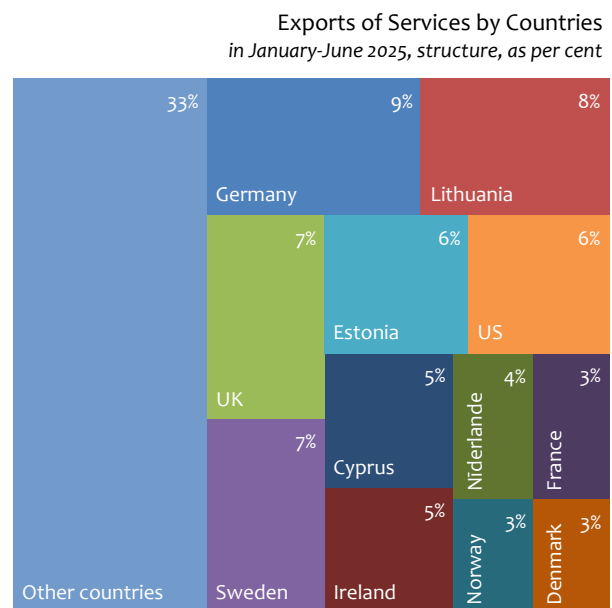
**Development of exports of service items**  
contribution to changes in January-June 2025, percentage points



In service exports by country group, exports to EU countries are accounting for an increasingly larger share. In 2019, they made up 61%, while in the first half of 2025 they already accounted for 65% of all service exports. A large share of service exports to EU countries consists of trade intermediation, road transport, travel, ICT, and air transport services.

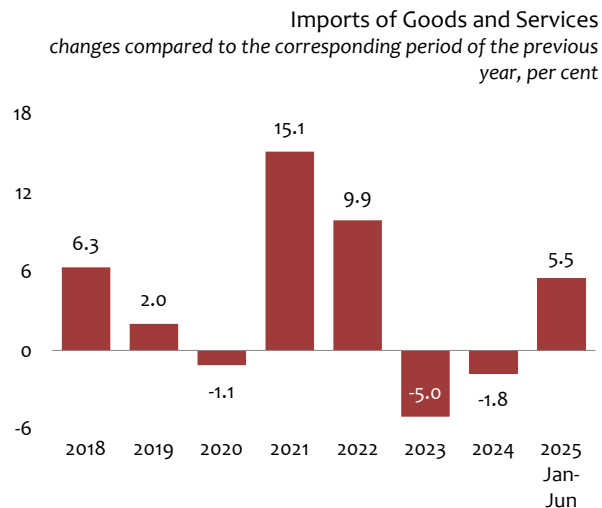
Service exports to CIS countries account for an increasingly smaller share, mainly due to the decline in transit-related services. It should be noted that the share of service exports to CIS countries has decreased from 12% in 2019 to 5.1% in the first half of 2025. Within this country group, service exports to Armenia have grown significantly.

In the group of other countries (excluding the EU and CIS), service exports increased moderately in the first half of 2025. The fastest growth was recorded in exports to the United States, and somewhat more moderately to Norway, Switzerland, Canada, and Ukraine.



## IMPORTS

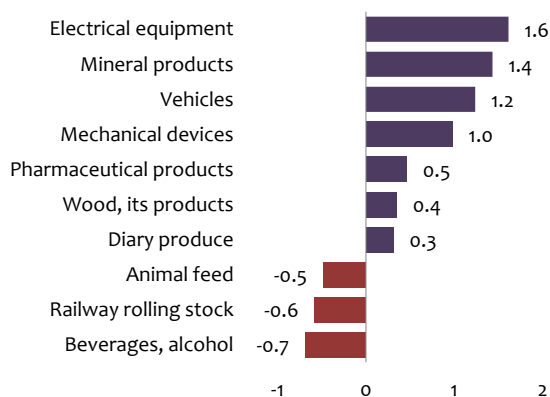
Until 2019, the growth of goods and services imports was similar to that of exports. In 2020, due to the impact of COVID-19, service imports decreased significantly, while goods imports increased slightly. In 2021, both goods and service imports grew substantially. In 2022, import growth continued, with services increasing more rapidly and goods more moderately. In contrast, in 2023, goods imports were 6.9% lower, while service imports were 4.3% higher than a year earlier,



in 2024, both goods and service imports declined. In contrast, in the first half of 2025, imports of both goods and services increased, by 4% and 11.8% respectively.

The increase in the value of goods imports in nominal terms in January–August 2025 was driven by higher import values of mineral products, electrical devices and equipment, as well as transport vehicles. In contrast, imports of beverages decreased.

**Product groups with the greatest impact on changes in Latvian imports contribution to changes in January-August 2025, percentage points**

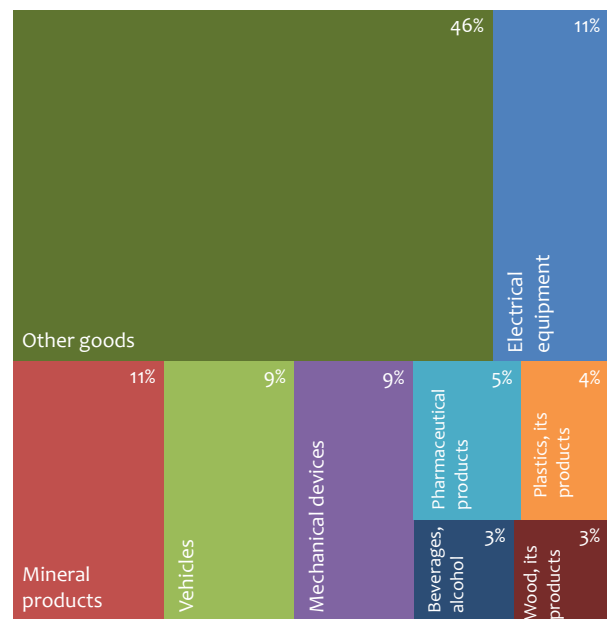


In January–August 2025, the fastest growth in goods imports was recorded from Finland, Germany, Lithuania,

Estonia, and China, while imports from Russia decreased significantly.

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 January–August 2025.

**Structure of Latvian imports of goods**  
In January-August 2025, as per cent



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

Imports from CIS countries largely consisted of iron and steel, animal and vegetable fats and oils, and oilseeds. It should be noted that Russia's share of total CIS imports decreased from 82% in 2022 to 33% in the first eight months of 2025.

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

Latvia's main service import partner countries are Ireland, Germany, Lithuania, Estonia, Poland, the United States, and the United Kingdom. Approximately two-thirds of all service imports come from EU countries. It should be noted that service imports from Russia have been gradually decreasing — from EUR 173 million (4.8% of total service imports) in 2021 to EUR 5 million (0.2%) in the first half of 2025.

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

2025 | 2

## SECTORAL DEVELOPMENT

In 2009–2010, as labour costs decreased, the competitiveness of Latvian producers improved, forming the basis for export growth. The structure of the economy also changed. In 2010, the producing sectors (agriculture, forestry and fishing, industry, and construction) accounted for 28.2% of total value added, whereas in 2024 they accounted for 25.9%. In 2024, compared with 2010, the share of construction, business services, and public services in the economic structure has increased, while the share of industry, transport, and trade has decreased. The share of agriculture, forestry, and fishing has remained unchanged.

In 2015–2019, growth occurred in all sectors except other industry, financial activities, and real estate activities. The largest contribution to growth came from the increase in the volumes of trade and manufacturing.

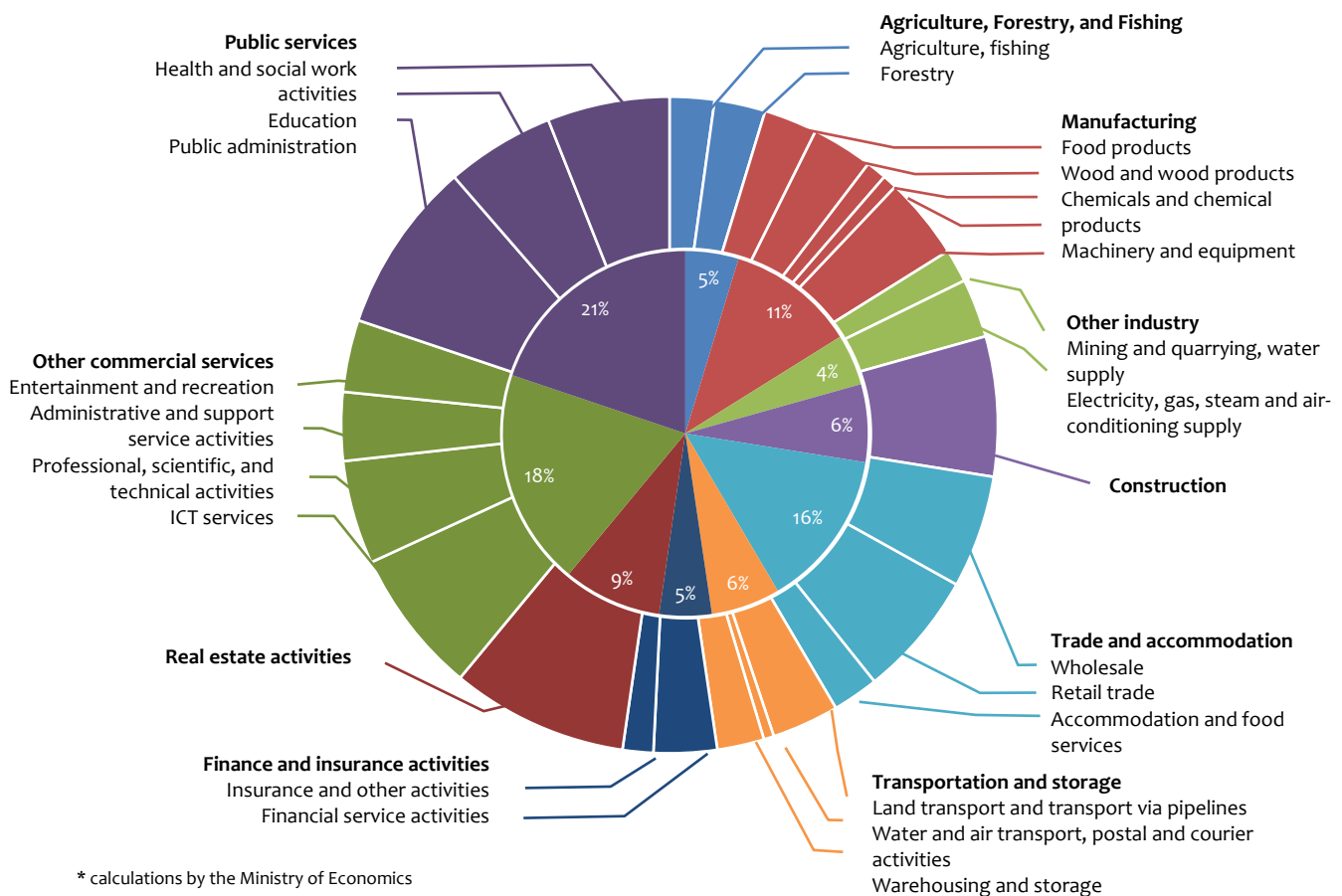
In 2020, the COVID-19 crisis negatively affected virtually all sectors, with the largest impact coming from the decline in volumes in many service sectors and in construction. As

the economy recovered, growth was observed in all sectors in 2021 except construction, accommodation, and education. The largest contribution came from the increase in volumes in trade and manufacturing.

In 2022, economic growth was moderate due to the unstable geopolitical situation — the producing sectors declined, while service volumes increased. In 2023–2024, as inflation, interest rates, and uncertainty rose, the economy slowed down. Volumes decreased in many service sectors, as well as in transport and industry. The largest impact came from the decline in transport and manufacturing, and the increase in trade, public administration, and defence.

In the first half of 2025, as the economy recovered due to stronger external demand and rising investment, volumes increased in most service sectors, in construction, and in manufacturing. The largest contribution came from growth in trade and construction.

Structure of Value Added  
2024 \*, as per cent

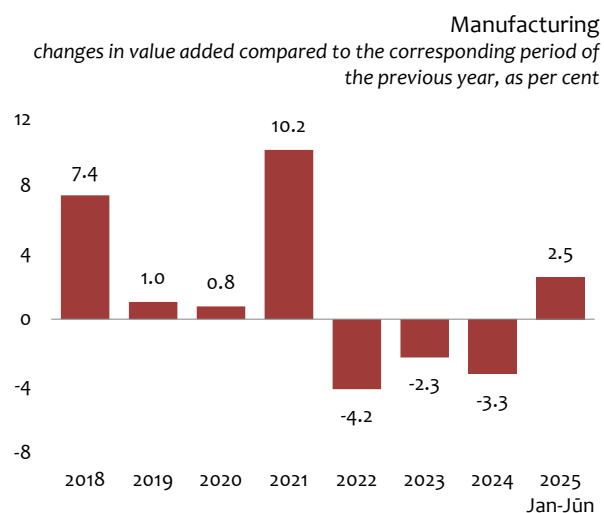


Development of Sectors  
changes compared to the corresponding period of the previous year, as per cent

	2018	2019	2020	2021	2022	2023	2024	2025 Jan-Jun
<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>1,3</b>
Agriculture, forestry, and fishing	-3,9	21,3	-0,2	0,4	-13,3	-4,0	5,1	-3,1
Mining and quarrying	9,1	-8,6	6,2	-5,0	4,9	-19,1	15,9	-8,5
Manufacturing	7,4	1,0	0,8	10,2	-4,2	-2,3	-3,3	2,5
Manufacture of food products	-2,9	-0,7	-1,7	1,3	1,3	2,8	-0,5	5,9
Light industry	-0,8	-2,6	-9,5	11,8	5,1	-7,2	1,6	-3,1
Manufacture of wood and articles of wood	4,5	0,0	4,5	3,7	-1,0	-8,4	0,0	5,0
Manufacture of paper and paper products	-3,7	5,7	4,7	14,0	-2,7	-23,0	7,0	3,9
Manufacture of chemicals and chemical products	7,0	3,9	-1,8	14,8	4,1	-7,7	-8,6	-0,1
Manufacture of non-metallic mineral products	1,3	-2,1	-1,4	4,4	5,4	-16,8	4,1	17,4
Manufacture of basic metals	3,6	13,5	-5,6	5,8	16,1	-6,1	-4,6	-1,4
Manufacture of computer, electronic and optical products	12,1	11,3	12,1	5,7	3,5	13,6	-9,8	-3,6
Manufacture of machinery and equipment	7,0	-1,9	-2,7	24,1	-12,3	4,2	-14,0	-0,3
Manufacture of motor vehicles	7,3	-7,7	-15,3	17,7	19,5	-15,5	-13,6	6,4
Other manufacturing	-1,8	2,8	-14,2	11,8	3,8	-4,1	2,1	1,2
Electricity, gas, steam, and air-conditioning supply	-38,6	-10,3	30,3	29,2	-40,4	-15,0	1,9	-6,3
Construction	12,4	1,3	-5,8	-13,7	-4,4	6,9	-5,8	8,1
Construction of buildings	16,1	11,4	-7,9	-16,2	-0,1	4,8	-19,4	-2,5
Civil engineering	6,5	-11,5	-7,3	-15,3	-17,3	21,9	8,5	33,2
Trade	3,8	2,2	-4,2	19,7	5,6	2,3	0,8	2,5
Retail trade	3,8	2,3	1,5	-3,5	3,1	-2,2	0,9	-0,4
Transportation and storage	3,6	-2,2	-15,9	4,9	3,5	-10,6	-9,3	-0,8
Freight rail transport	12,5	-15,8	-42,0	-9,5	-2,1	-27,5	-28,2	-26,1
Cargo handling	6,9	-5,7	-27,9	-7,2	15,2	-19,6	-6,8	-3,5
Freight transport by road	12,8	-3,8	2,6	7,8	-0,8	-0,3	-3,1	2,0
Accommodation and food service activities	7,6	-4,8	-31,4	-4,2	35,5	8,4	1,2	4,1
Information and communication services	9,7	4,0	0,8	12,0	8,7	-1,0	-1,0	3,9
Finance and insurance activities	2,0	-9,2	-13,3	18,9	1,4	-2,4	4,8	0,6
Real estate activities	4,2	-1,7	-0,5	9,0	5,2	8,1	-2,6	0,6
Other service activities	2,8	-0,5	-1,8	4,9	5,5	-3,2	0,8	1,6
Public administration and defence; compulsory social security	2,3	-0,2	3,4	0,9	3,9	6,5	7,2	1,0
Education	3,4	-4,5	1,2	-0,6	-1,4	-1,3	-1,0	-0,6
Health and social work activities	9,3	4,8	-3,4	6,4	8,1	-2,1	1,5	0,2
Arts, entertainment, and recreation	6,1	1,9	-33,8	2,8	35,6	-1,2	5,6	-2,1

## MANUFACTURING

The development of manufacturing is driven by the improvement of the competitiveness of Latvian producers, as well as by demand dynamics in the largest export markets. Production volumes increased particularly rapidly in 2017 and 2018, more moderately in 2019, and — due to the impact of the COVID-19 crisis — also in 2020.



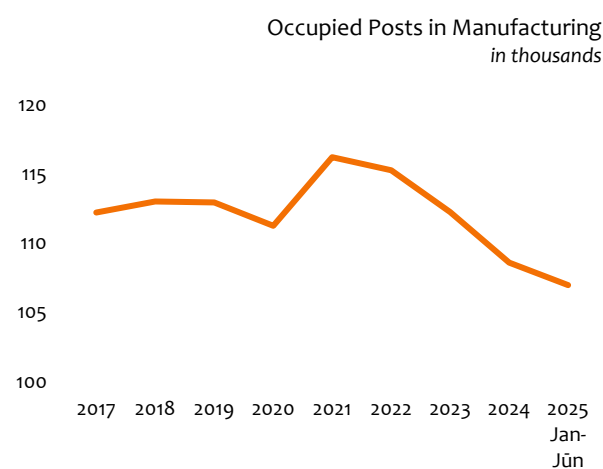
In 2021, manufacturing resumed stronger growth. The sector's growth rates remained positive in the first half of 2022, while in the second half of the year — and for the year as a whole — growth was negative. Similar trends continued in 2023.

Although in some months of 2024 manufacturing growth was positive, overall, it remained negative for the year, largely due to declines in the production of electronic and

optical equipment, the chemical industry, and the manufacture of transport vehicles.

In 2025, manufacturing volumes began to grow again. In the first eight months of the year, volumes increased in almost all subsectors — with the most significant growth in the two largest subsectors: wood processing and the food industry.

In 2024, manufacturing turnover in nominal terms decreased by 6.8%, but in the first eight months of 2025 it increased both in the domestic market and in exports, by 3.7% and 4.7% respectively.

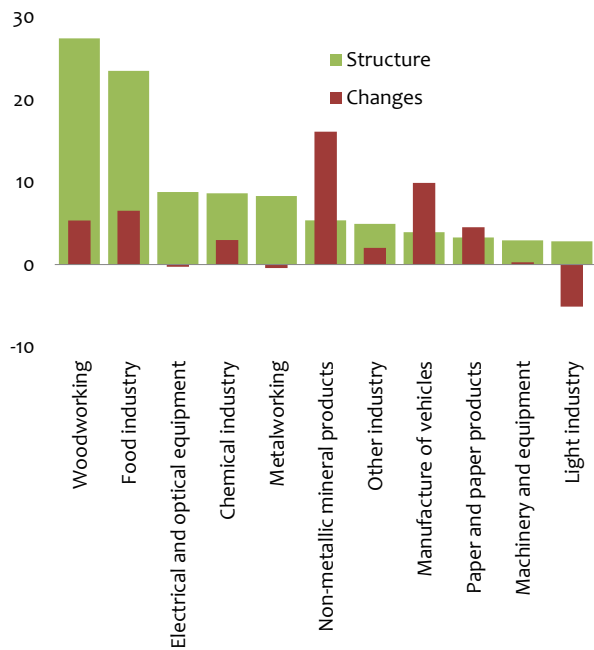


In 2024, the number of occupied jobs in manufacturing decreased by 4.9 thousand, with the sharpest declines in the wood processing, light industry, and metalworking subsectors, while it increased in the food industry. Similar trends continued in the first half of 2025.

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

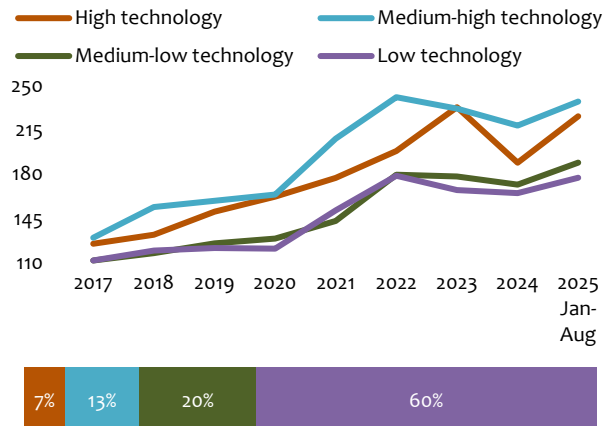
	Structure in 2024			Changes in production volumes				
	Output	Occupied posts	Exports in total sales	2021	2022	2023	2024	2025 Jan-Aug
<b>Manufacturing</b>	<b>100</b>	<b>100</b>	<b>65,3</b>	<b>7,5</b>	<b>2,7</b>	<b>-5,2</b>	<b>-2,3</b>	<b>3,9</b>
Food industry	23,1	20,0	43,4	1,3	1,3	2,8	-0,5	6,5
Light industry	3,1	7,5	82,7	11,8	5,1	-7,2	1,6	-5,1
Wood and wood products	26,4	19,6	66,3	3,7	-1,0	-8,4	0,0	5,3
Paper and paper products	3,4	4,4	62,8	14,0	-2,7	-23,0	7,0	4,5
Chemicals and chemical products	8,8	4,4	77,3	14,8	4,1	-7,7	-8,6	3,0
Non-metallic mineral products	5,1	4,9	50,1	4,4	5,4	-16,8	4,1	16,1
Basic metals	8,9	11,3	64,8	5,8	16,1	-6,1	-4,6	-0,4
Electronic products	9,2	6,2	87,4	5,7	3,5	13,6	-9,8	-0,3
Machinery and equipment	2,5	3,1	88,8	24,1	-12,3	4,2	-14,0	0,3
Manufacture of motor vehicles	3,7	3,7	92,4	17,7	19,5	-15,5	-13,6	9,9
Other manufacturing	5,7	11,8	71,5	11,8	3,8	-4,1	2,1	2,0

**Growth of Manufacturing**  
Structure and changes in output volumes in January-August 2025, as per cent



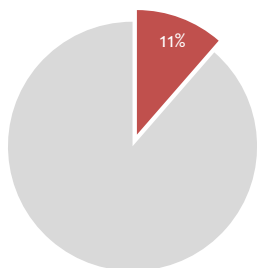
Weak demand in the European Union, Latvia's largest export market, was the main factor behind the decline in manufacturing growth in 2024. The sector's development was also negatively affected by the war in Ukraine, which disrupted existing raw material supply chains. In contrast, in 2025, stable growth trends are emerging, driven by improved export opportunities.

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

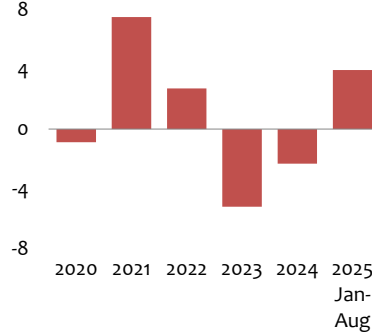


**Main Indicators of Manufacturing<sup>1</sup>**

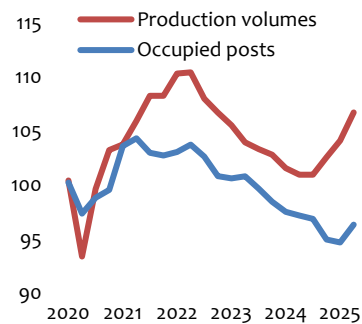
Share in total value added in 2024, as per cent



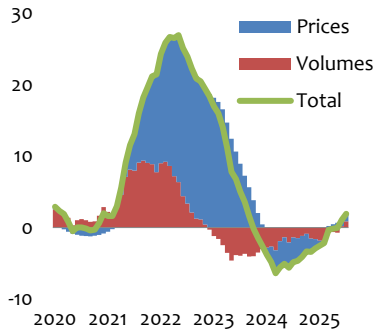
Changes in production volumes compared to the corresponding period of the previous year, as per cent



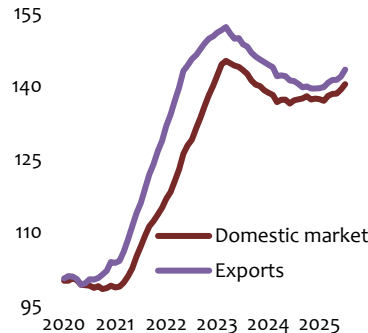
Production volumes and occupied posts Q4 2019 = 100



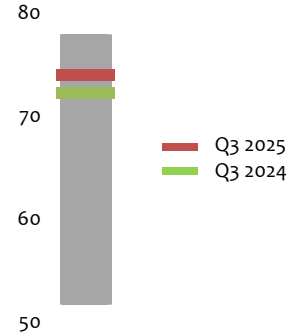
Changes in sales of production 12-month moving average, as per cent



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



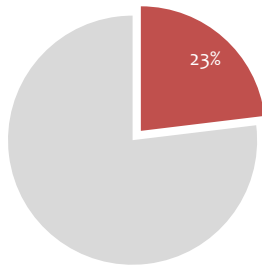
Capacity utilization rate Historically highest/lowest level, as per cent



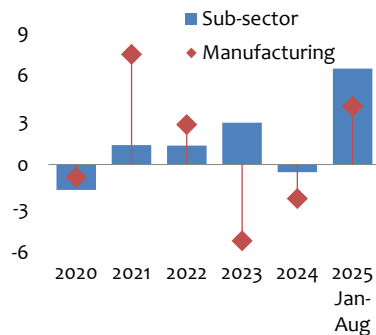
<sup>1</sup> data on sales of products until January 2025

Manufacturing of food products and beverages

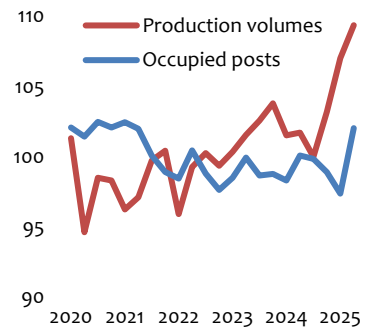
Share in total value added in 2024, as per cent



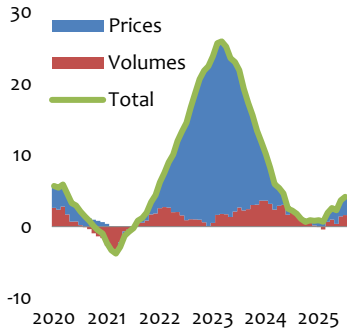
Changes in production volumes compared to the corresponding period of the previous year, as per cent



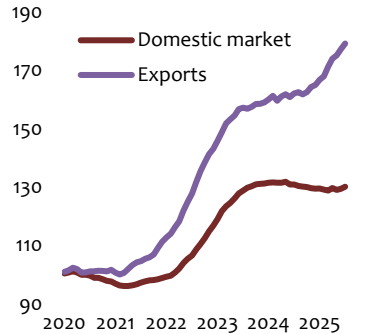
Production volumes and occupied posts Q4 2019 = 100



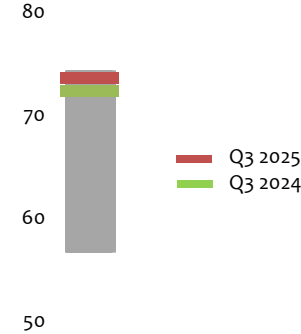
Changes in sales of production 12-month moving average, as per cent



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

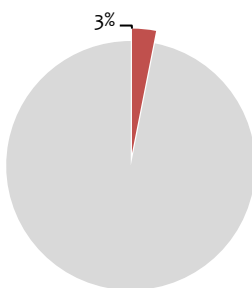


Capacity utilization rate Historically highest/lowest level, as per cent

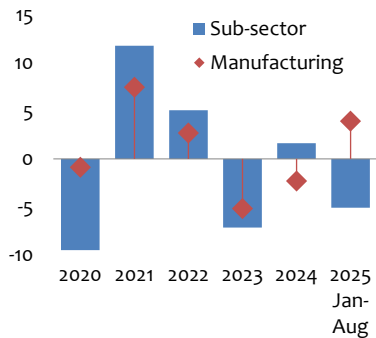


Light industry

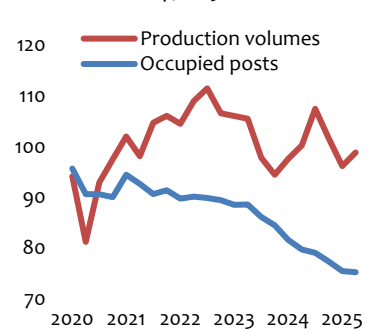
Share in total value added in 2024, as per cent



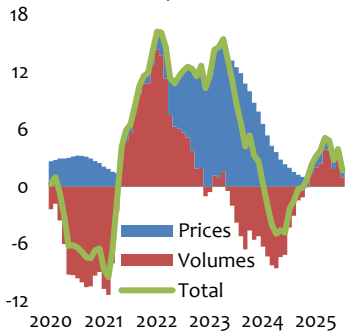
Changes in production volumes compared to the corresponding period of the previous year, as per cent



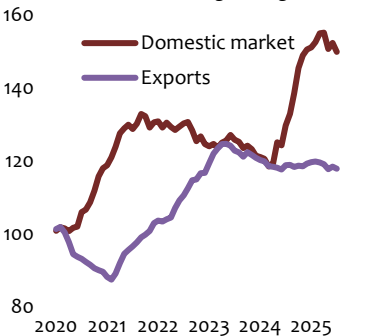
Production volumes and occupied posts Q4 2019 = 100



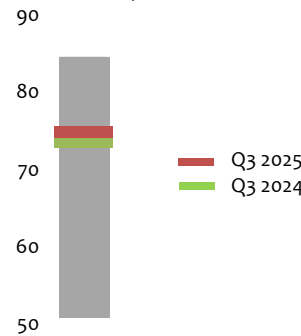
Changes in sales of production 12-month moving average, as per cent



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

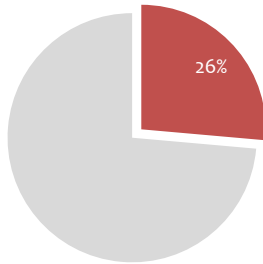


Capacity utilization rate Historically highest/lowest level, as per cent

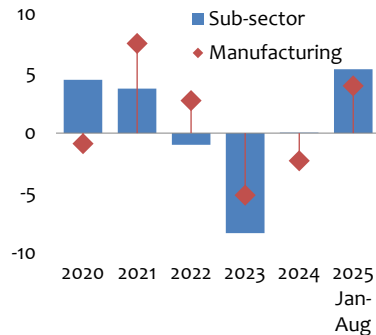


Manufacture of wood and wood products

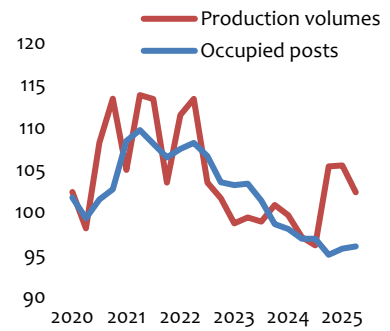
Share in total value added in 2024, as per cent



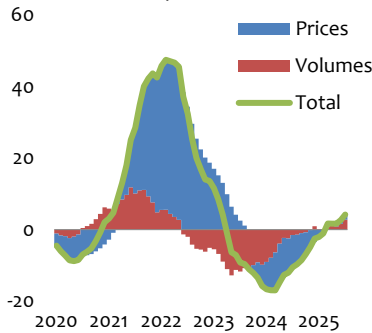
Changes in production volumes compared to the corresponding period of the previous year, as per cent



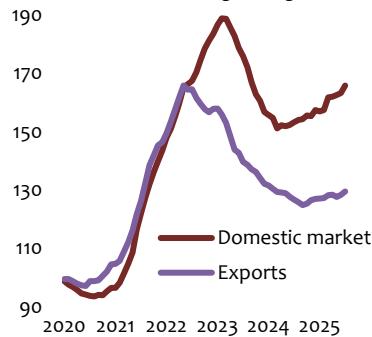
Production volumes and occupied posts Q4 2019 = 100



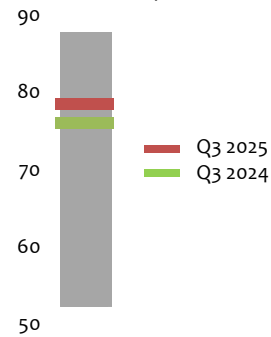
Changes in sales of production 12-month moving average, as per cent



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

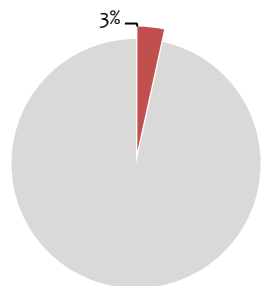


Capacity utilization rate Historically highest/lowest level, as per cent

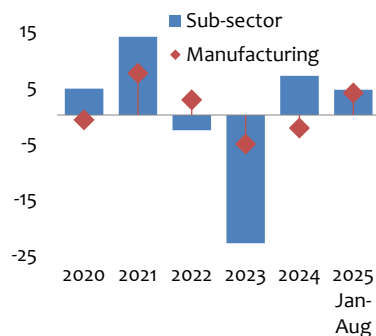


Manufacture of paper and paper products

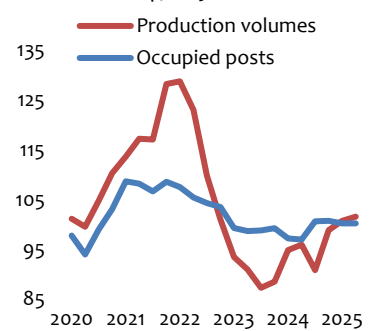
Share in total value added in 2024, as per cent



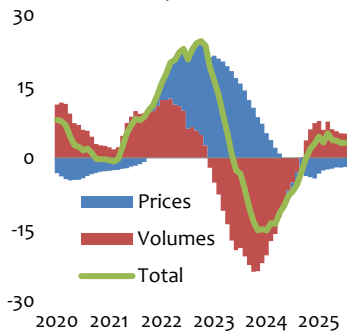
Changes in production volumes compared to the corresponding period of the previous year, as per cent



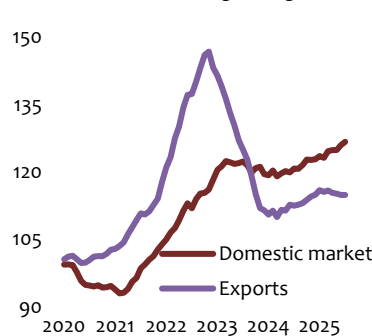
Production volumes and occupied posts Q4 2019 = 100



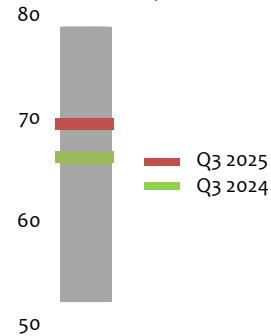
Changes in sales of production 12-month moving average, as per cent



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

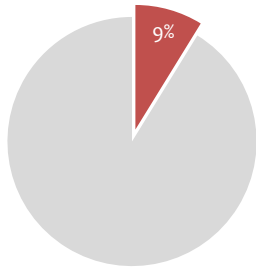


Capacity utilization rate Historically highest/lowest level, as per cent

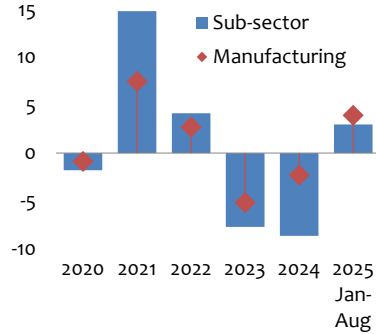


Manufacturing of chemicals and chemical products

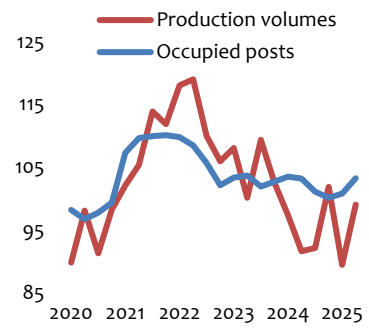
Share in total value added in 2024, as per cent



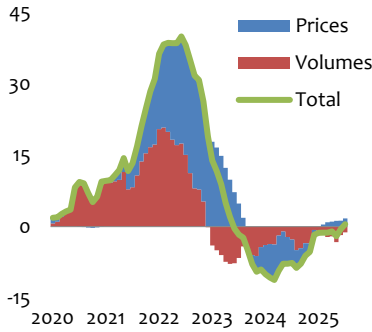
Changes in production volumes compared to the corresponding period of the previous year, as per cent



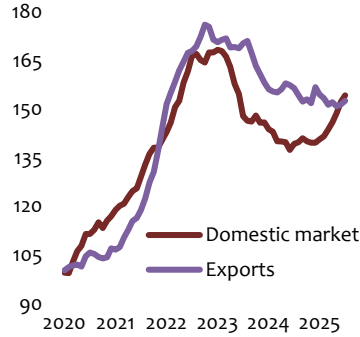
Production volumes and occupied posts Q4 2019 = 100



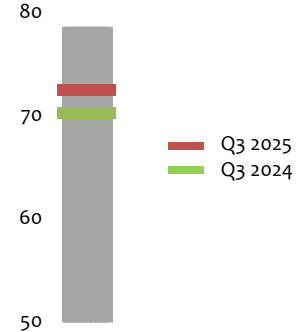
Changes in sales of production 12-month moving average, as per cent



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

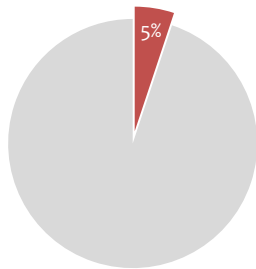


Capacity utilization rate Historically highest/lowest level, as per cent

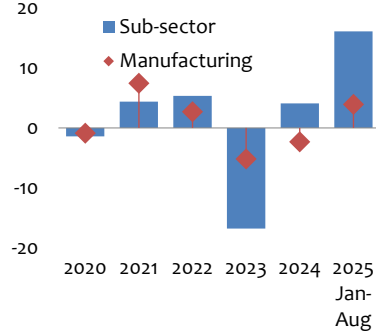


Manufacture of non-metallic mineral products

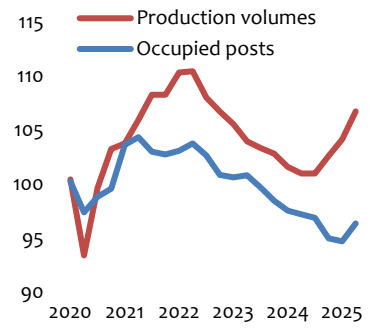
Share in total value added in 2024, as per cent



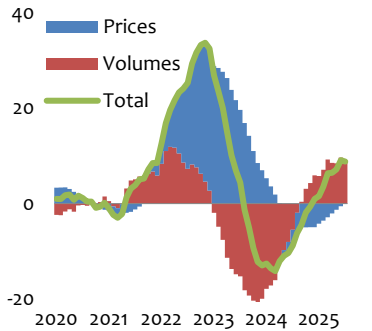
Changes in production volumes compared to the corresponding period of the previous year, as per cent



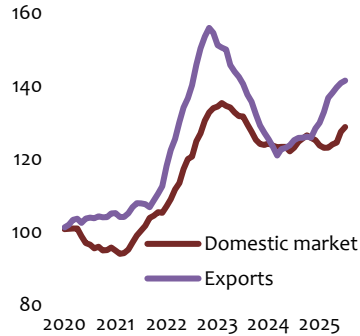
Production volumes and occupied posts Q4 2019 = 100



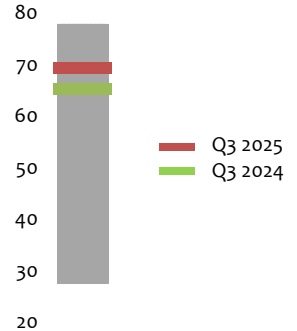
Changes in sales of production 12-month moving average, as per cent



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

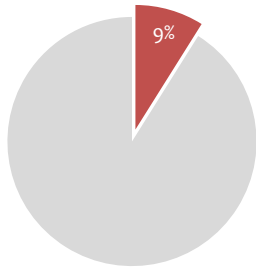


Capacity utilization rate Historically highest/lowest level, as per cent

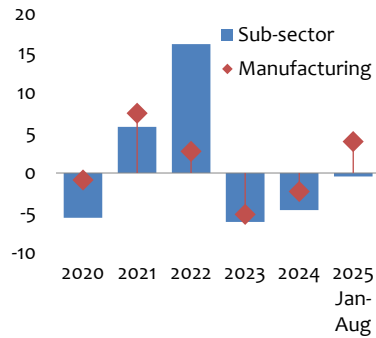


Manufacture of basic metals and fabricated metal products

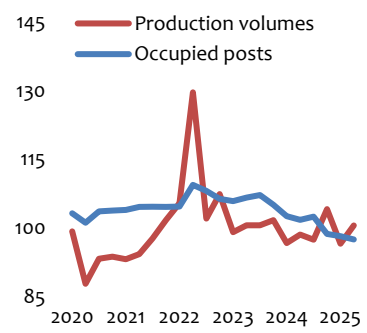
Share in total value added in 2024, as per cent



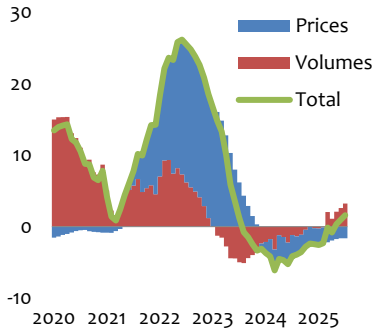
Changes in production volumes compared to the corresponding period of the previous year, as per cent



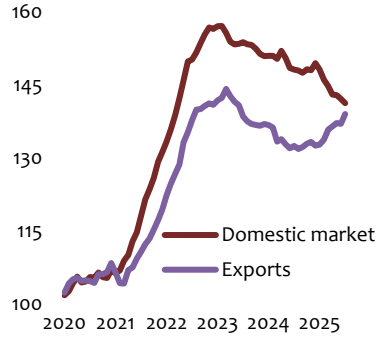
Production volumes and occupied posts Q4 2019 = 100



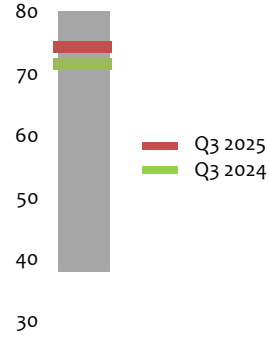
Changes in sales of production 12-month moving average, as per cent



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

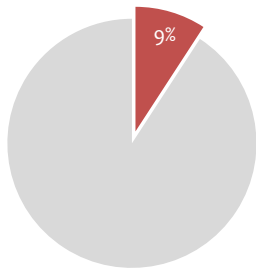


Capacity utilization rate Historically highest/lowest level, as per cent

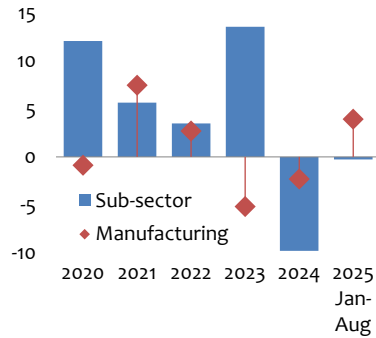


Manufacture of electronic and optical products

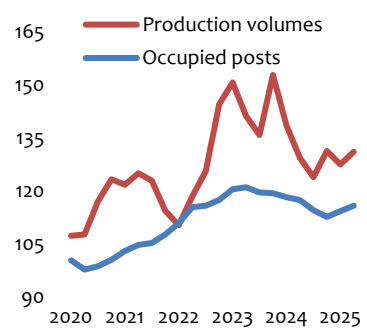
Share in total value added in 2024, as per cent



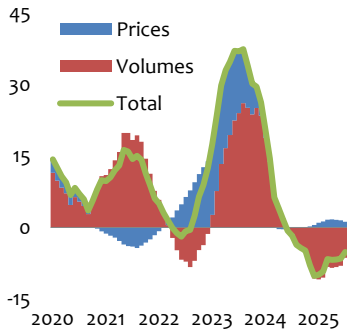
Changes in production volumes compared to the corresponding period of the previous year, as per cent



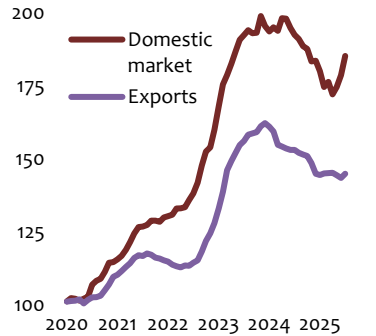
Production volumes and occupied posts Q4 2019 = 100



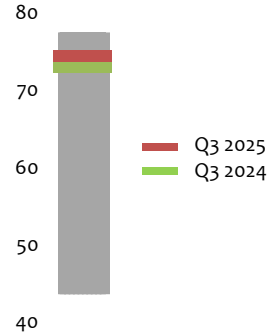
Changes in sales of production 12-month moving average, as per cent



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

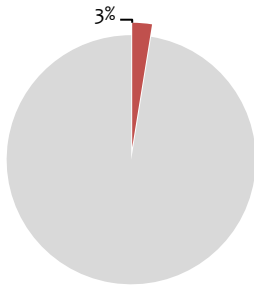


Capacity utilization rate Historically highest/lowest level, as per cent

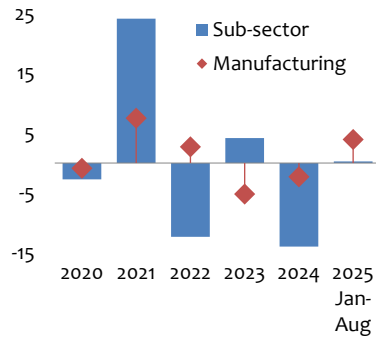


Manufacture of machinery and equipment

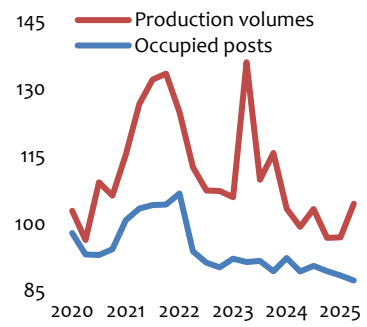
Share in total value added in 2024, as per cent



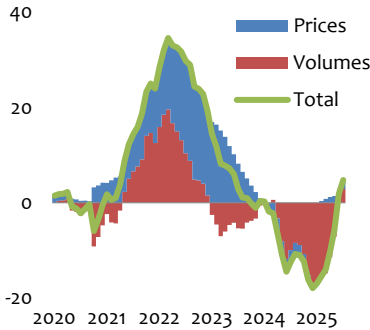
Changes in production volumes compared to the corresponding period of the previous year, as per cent



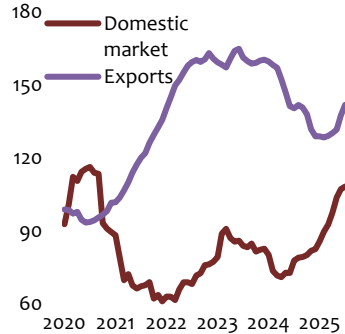
Production volumes and occupied posts Q4 2019 = 100



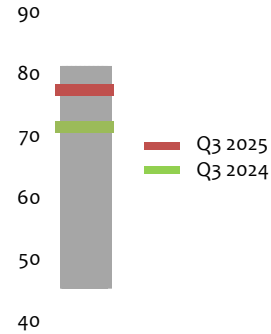
Changes in sales of production 12-month moving average, as per cent



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

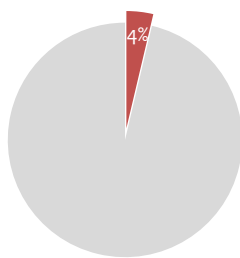


Capacity utilization rate Historically highest/lowest level, as per cent

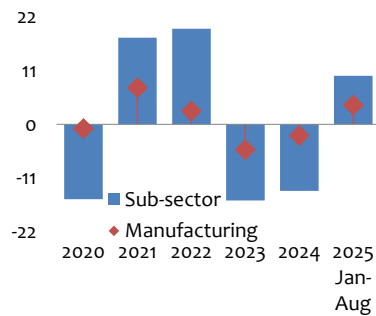


Manufacture of motor vehicles

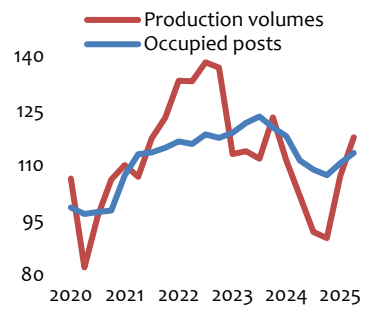
Share in total value added in 2024, as per cent



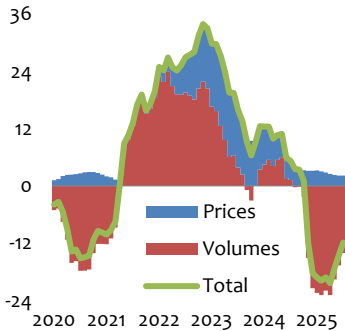
Changes in production volumes compared to the corresponding period of the previous year, as per cent



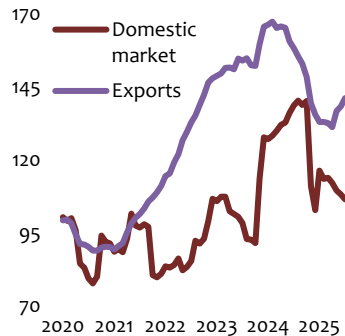
Production volumes and occupied posts Q4 2019 = 100



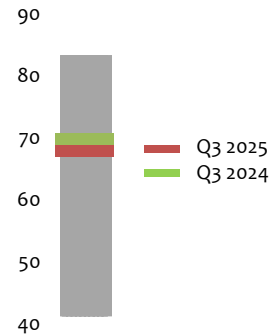
Changes in sales of production 12-month moving average, as per cent



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

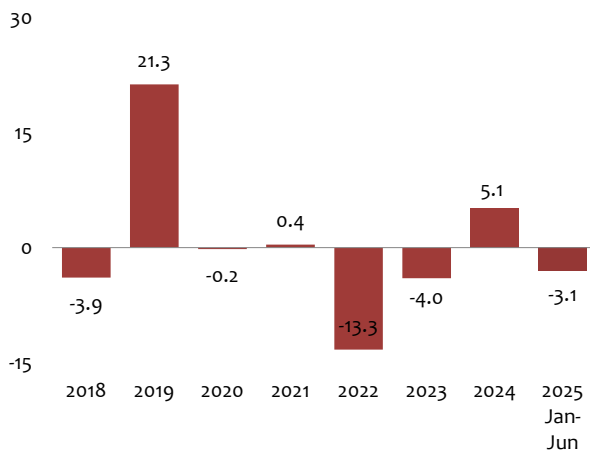


Capacity utilization rate Historically highest/lowest level, as per cent



## AGRICULTURE, FORESTRY, AND FISHING

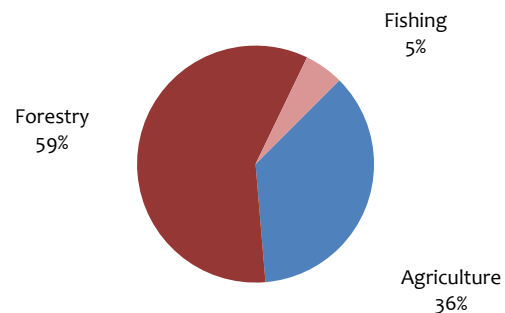
**Agriculture, Forestry, and Fishing**  
value added, changes compared to the corresponding period of the previous year, as per cent



The structure of the agriculture, forestry, and fishing sector is dominated by agriculture and forestry. The sector's performance is closely linked to weather conditions, and therefore overall growth tends to fluctuate. In 2024, output volumes increased, driven by growth in both agriculture and forestry. In contrast, in the first half of 2025 the sector

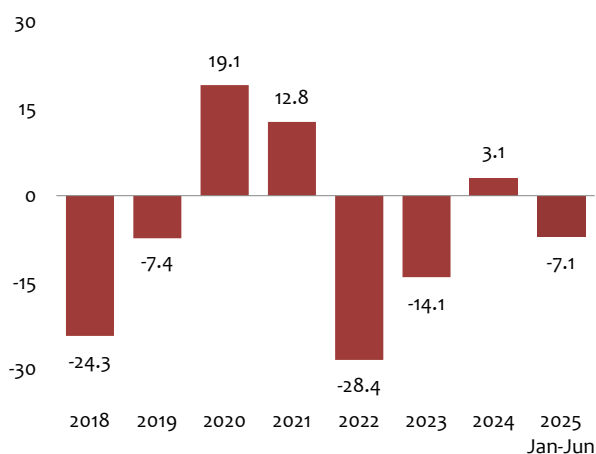
recorded a decline, largely due to a reduction in forestry output - unfavourable weather conditions hindered logging operations and the transportation of timber. Meanwhile, the decrease in demand was influenced by the slowdown in construction activity in Europe and the normalization of the energy market after the demand surge of previous years. In the first half of 2025, the number of jobs decreased in all subsectors — in forestry after three years of growth, and in agriculture where the downward trend has continued since 2018.

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



## OTHER INDUSTRY

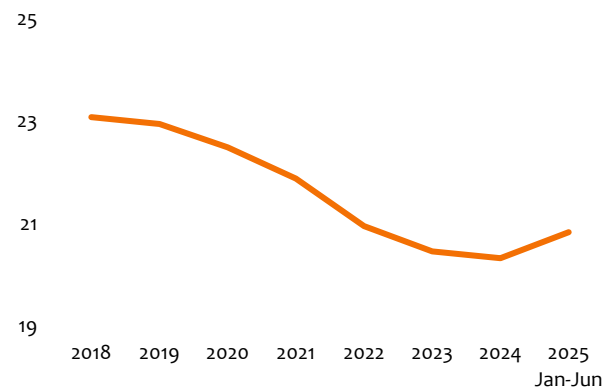
**Other Industry**  
value added, changes compared to the corresponding period of the previous year, as per cent



In the structure of other industry (mining and quarrying, electricity, gas, steam and air conditioning supply, water supply and waste management), electricity and gas supply dominate. In the first half of 2025, a sharp decline was observed across the other industrial sectors. The largest impact came from the drop in volumes in the electricity,

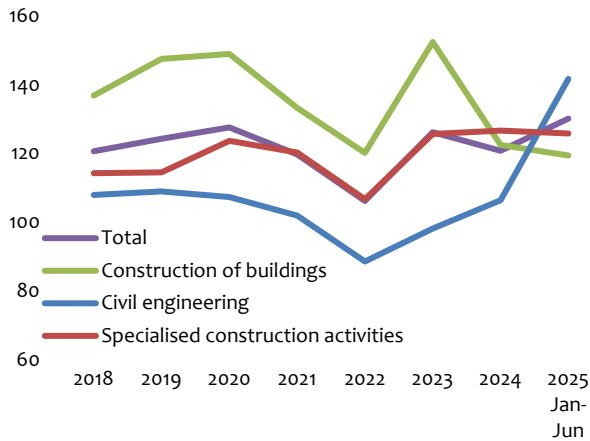
gas, steam, and air conditioning supply sector, as the volume of electricity produced decreased significantly, particularly in hydroelectric power plants. A substantial decline was also recorded in mining and quarrying, driven by reduced output in gravel and sand extraction as well as in peat extraction and processing. The number of occupied jobs in the first half of 2025 decreased only in the mining sector.

**Occupied Posts in Other Industry**  
in thousands

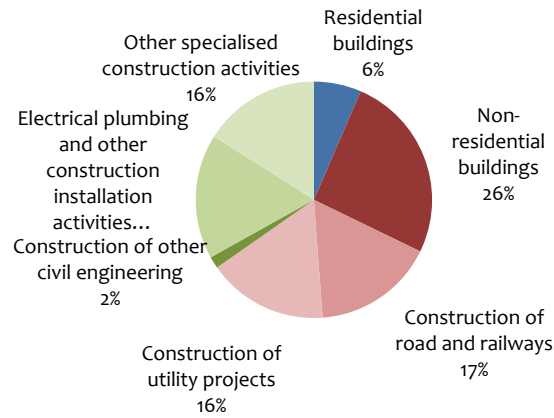


CONSTRUCTION

Development of Construction  
2015 = 100



Structure of Construction  
in 2024, as per cent

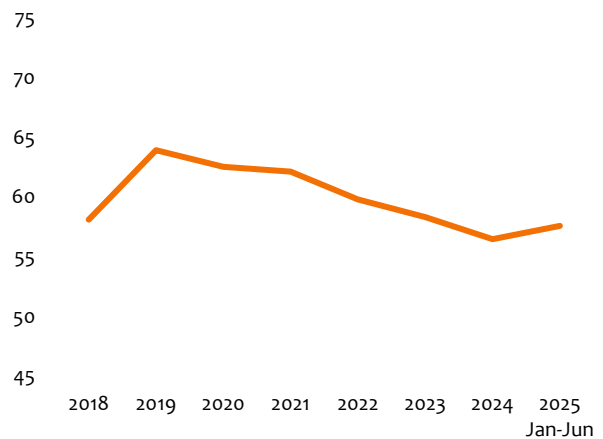


Sector activity is increasing in 2025, and sector growth is driven by more intensive construction of infrastructure projects. In the first half of the year, construction output in constant prices increased by 7.8% compared with the corresponding period of 2024.

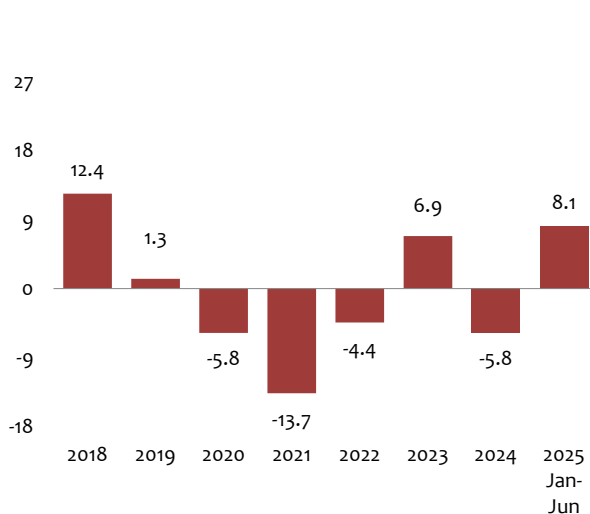
In 2025, civil engineering is the main driver of sector development. The increase in activity is not uniform across all main construction groups. Civil engineering shows strong growth, while the indicators for specialised construction work remain at the previous year's level.

In the first half of 2025, 2,267 building permits were issued, which is 7.8% more than in the first half of 2024. The planned area specified in the building permits increased even more rapidly — by 39.6%. The largest impact came from industrial production buildings and warehouses.

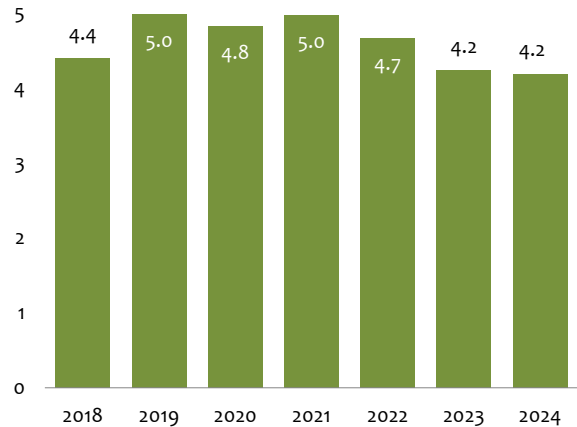
Occupied Posts in Construction  
in thousands



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

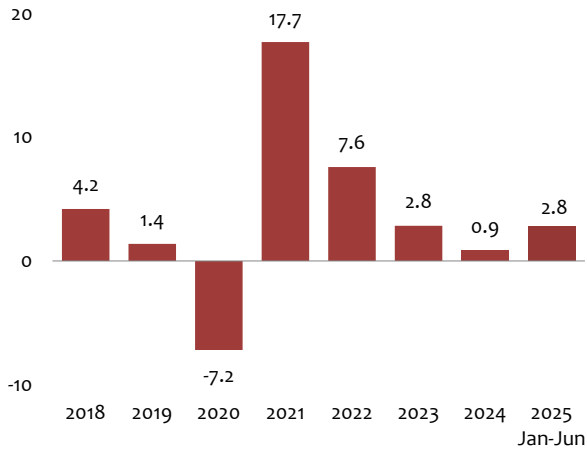


Building Permits Granted  
in thousands



TRADE, ACCOMMODATION, AND FOOD SERVICE ACTIVITIES

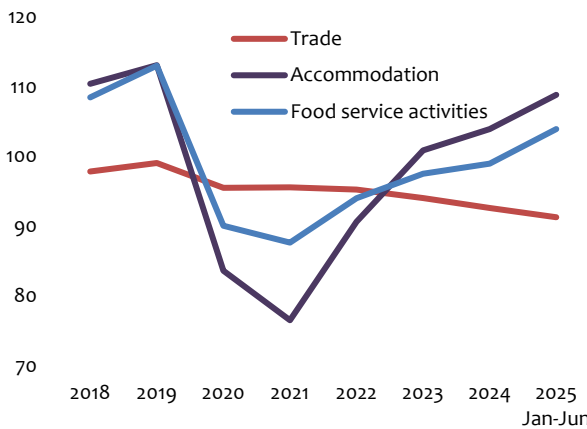
Trade, Accommodation, and Food Service Activities value added, changes compared to the corresponding period of the previous year, as per cent



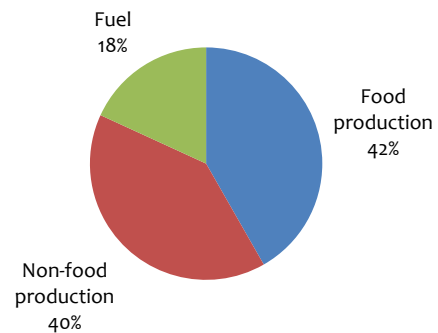
The volumes of services provided in the trade, accommodation, and food service sectors continue to grow. In recent years, the trade sector has developed moderately due to the unfavourable external environment, which slowed wholesale trade. As conditions improved and indicators for wholesale trade and motor vehicle sales increased, the sector's growth accelerated to 2.5% in the first half of 2025.

Meanwhile, retail trade turnover declined by 0.4%, mainly due to a drop in food sales caused by high price levels; fuel sales also decreased, while non-food sales increased. The volumes of accommodation and food service activities also increased more rapidly in the first half of 2025 — by 4.1%, largely due to growth in the accommodation sector. At the same time, the number of jobs increased in accommodation and food services but decreased in trade. The highest share of occupied jobs remains in the trade sector.

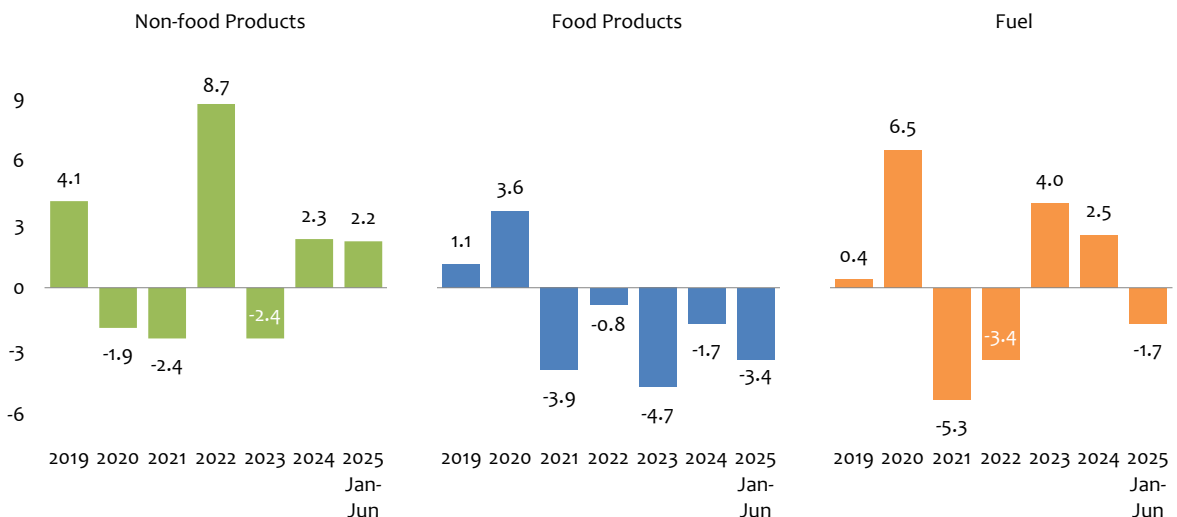
Occupied Posts in Trade, Accommodation, and Food Service Activities 2015 = 100



Structure of Retail Turnover 2024, as per cent

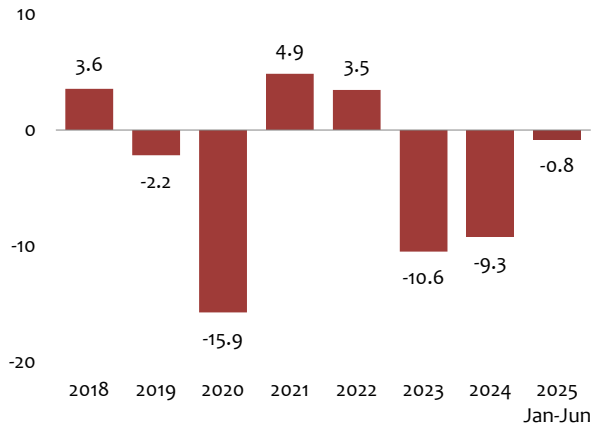


Retail Turnover changes compared to the corresponding period of the previous year, as per cent



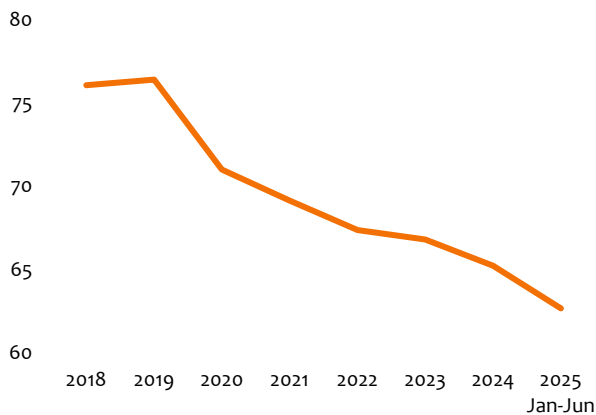
TRANSPORTATION AND STORAGE

Transportation and Storage value added, changes compared to the corresponding period of the previous year, as per cent

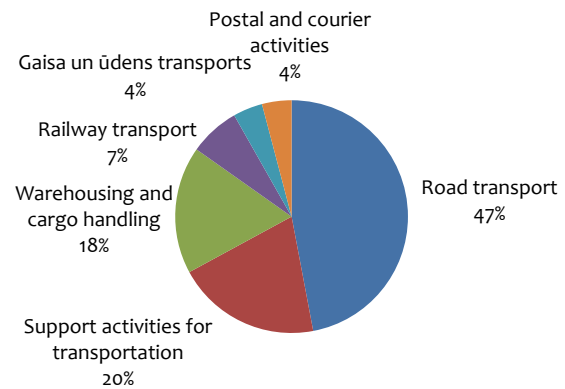


The transport and storage sector is closely linked to international freight movements. In 2023-2024, the sector's volumes declined sharply, driven by reductions across all transport subsectors except air transport. In contrast, in the first half of 2025 the overall decline in the sector was slight: freight volumes decreased in rail transport and ports, while road freight volumes increased, driven by growth in international freight - both export shipments and transport operations carried out abroad. In passenger transport, the fastest growth in the first half of 2025 was recorded in maritime transport - an increase of 9.7%, supported by a sharp rise in the number of cruise ship passengers arriving at the Port of Riga. Passenger numbers in air transport increased by 4.9%, while in land transport the increase was only 0.6%. It should be noted that rail passenger transport recorded particularly strong growth.

Occupied Posts in Transportation and Storage in thousands

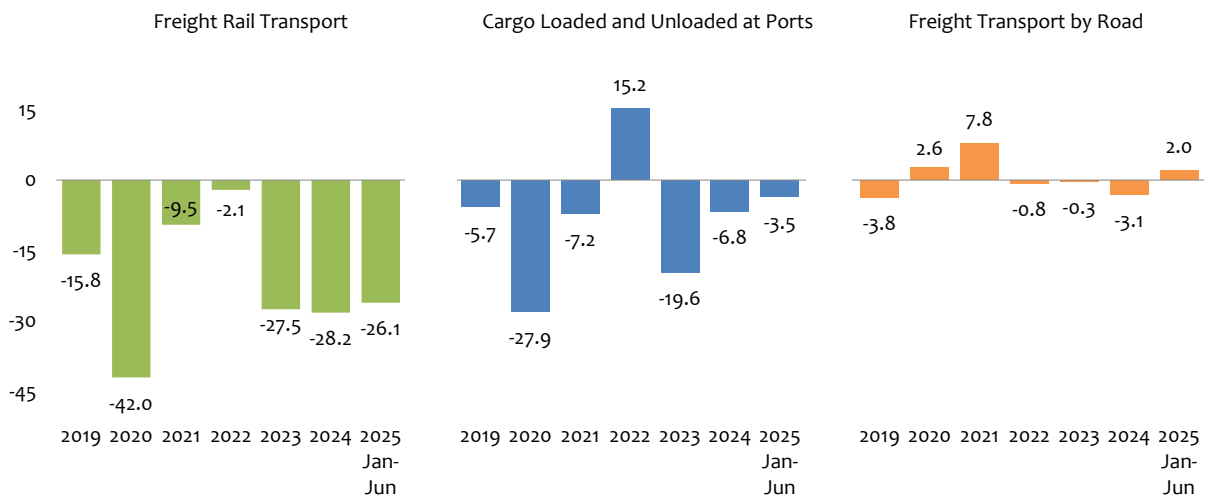


Structure of Transportation and Storage 2024\*, as per cent

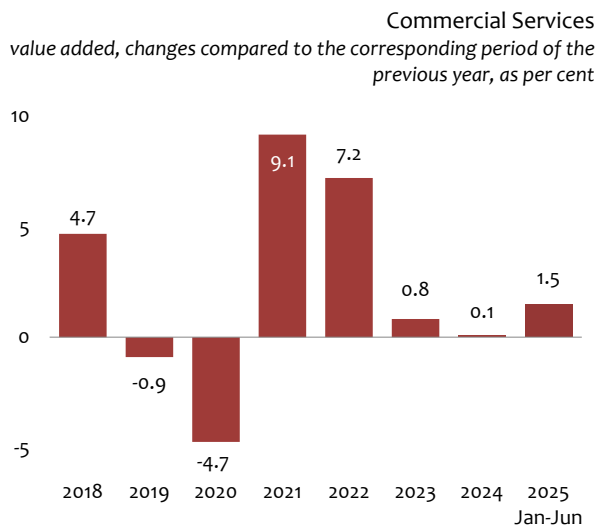


\* - MoE evaluation

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



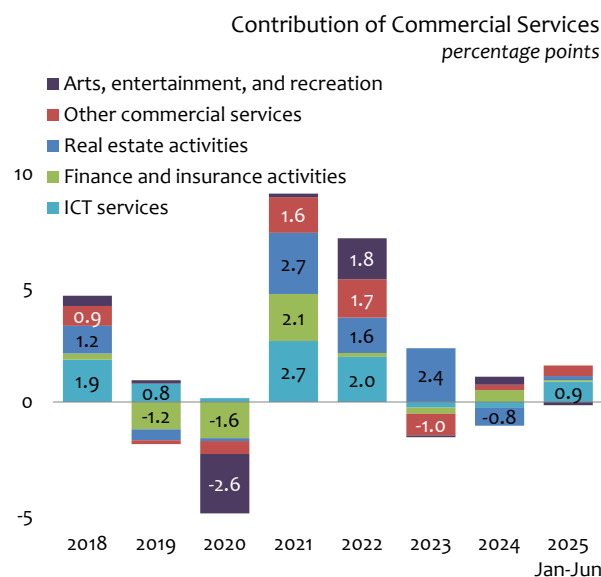
## COMMERCIAL SERVICES



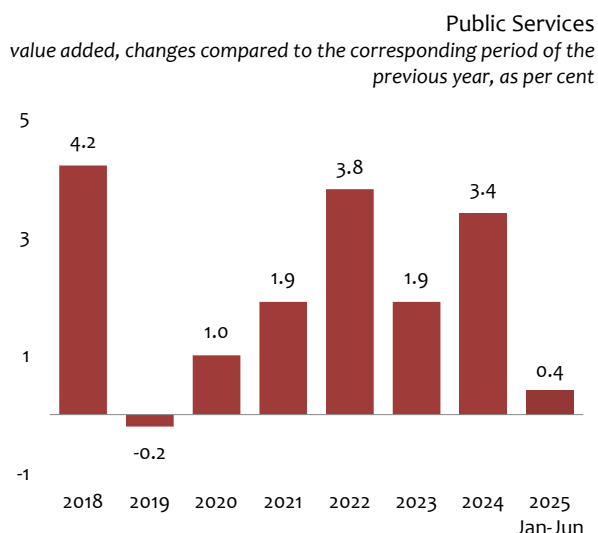
In the sectoral structure of commercial services – information and communication (ICT) services, financial and insurance activities, real estate activities, professional, scientific and technical services, administrative and support service activities, and arts, entertainment and recreation – real estate activities dominate. After strong growth in commercial services in 2021–2022 as the economy recovered from the COVID-19 crisis, growth has been considerably more moderate since 2023.

In the first half of 2025, volumes increased in all subsectors except arts, entertainment and recreation. The main contribution to growth came from the expansion of ICT services.

The largest shares of occupied jobs are in ICT services, professional, scientific and technical services, and administrative and support service activities. In the first half of 2025, the number of occupied jobs increased in all subsectors except real estate activities and professional, scientific and technical services.



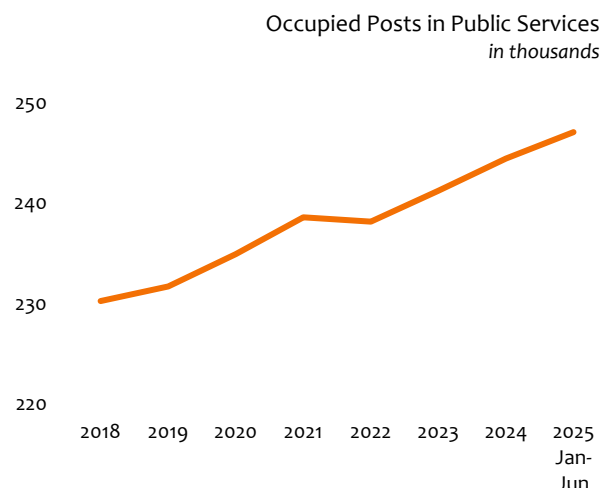
## PUBLIC SERVICES



In the public services sector (public administration and defence, education, health and social care), public administration and defence dominate. In the first half of 2025, the overall volume of public services increased moderately. It continued to grow in public administration

and defence - by 1%. The volume of health and social care services remained practically unchanged, increasing by 0.2%, while in education it decreased by 0.6%.

The largest share of occupied jobs is in education. In the first half of 2025, the number of occupied jobs increased across all public service subsectors.

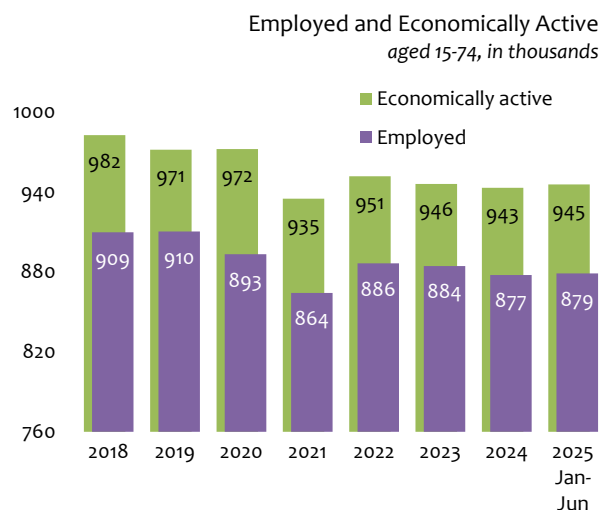


2025 | 2

## LABOUR MARKET

## EMPLOYMENT AND UNEMPLOYMENT

A gradual recovery in labour market activity is observed, driven by increases in employment and the number of occupied jobs. As economic activity rises, positive trends in the labour market continue to strengthen, however the growing demand for labour also heightens the risk of labour shortages. Long-term trends show that labour market pressure is still being maintained by supply-side factors and the uneven regional distribution of available labour resources, which means several sectors continue to face labour shortages. This situation is further exacerbated by unfavourable demographic trends, which limit labour availability and affect the labour market's development potential.



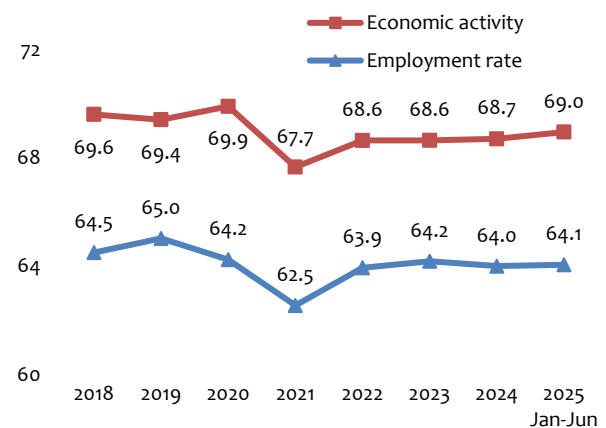
Despite the fact that in the first half of 2025 population employment remained close to the levels observed in the first half of 2024, a gradual recovery of labour market activity was nevertheless evident, and in the second quarter of 2025 the number of employed persons increased by 0.8% or 6.9 thousand compared with the corresponding period of the previous year, while compared with the first quarter of the year the number of employed persons increased by 2.4% or 21.3 thousand. Likewise, in the second quarter, compared with the corresponding quarter of the previous year, the employment rate increased by 0.5 percentage points — to 64.9%, which was the highest level since the end of 2019.

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

(68.9% in Q2 2025) and by 0.9 percentage points lower than in Lithuania (65.8% in Q2 2025).

Along with the growth in labour demand, improvements were also observed on the labour supply side. In the second quarter of 2025, the number of economically active persons aged 15–74 increased by 0.5% or 4.8 thousand compared with the second quarter of 2024, while compared with the previous quarter it increased by 15.5 thousand or 1.6%, reaching 953 thousand.

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



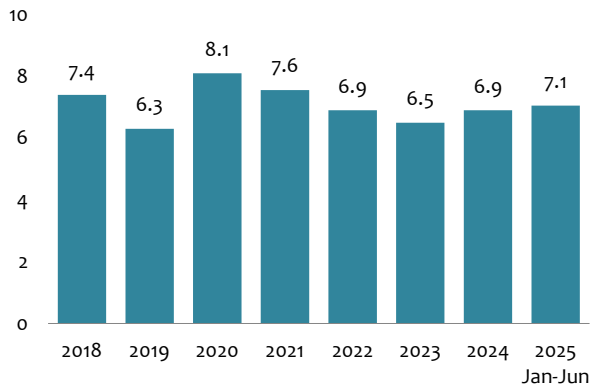
In the second quarter of 2025, the economic activity rate of the population increased by 0.5 percentage points compared with the corresponding quarter of the previous year, and by 1.3 percentage points compared with the previous quarter. In Q2 2025, approximately two-thirds (69.6%) of the population aged 15–74 was employed or actively seeking employment.

Despite the increase in the economically active population, pressure on the labour market continues to be maintained by demographic trends — specifically, the numerical decline of the working-age population. In the second quarter of 2025, the number of people aged 15–74 decreased by 2.7 thousand or 0.2% compared with Q2 2024.

As the number of employed persons increases, unemployment indicators are also gradually decreasing. In Q2 2025, compared with the corresponding period of the previous year, the unemployment rate declined by 0.2 percentage points, and compared with the previous quarter it decreased by 0.7 percentage points — to 6.7%.

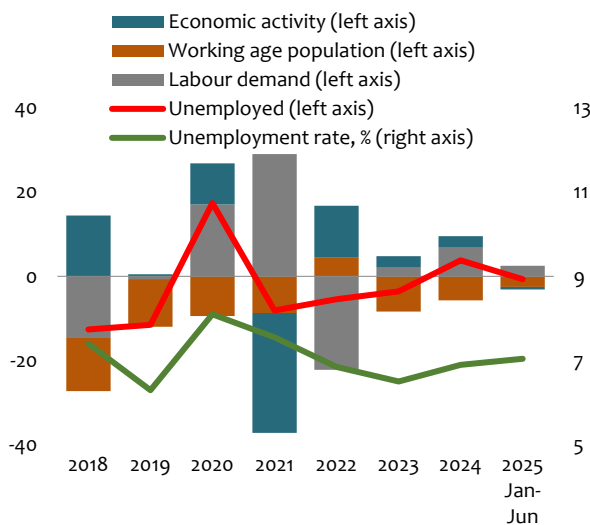
In the second quarter of 2025, there were 63.7 thousand people aged 15–74 seeking employment, which is 2.1 thousand fewer than a year earlier. On average, in the first half of 2025, 66.6 thousand people aged 15–74 were looking for work, which is 1% or 0.6 thousand fewer than in the corresponding period of the previous year, while the unemployment rate in the first half of the year averaged 7.1%.

**Unemployment Rate aged 15-74, as per cent**



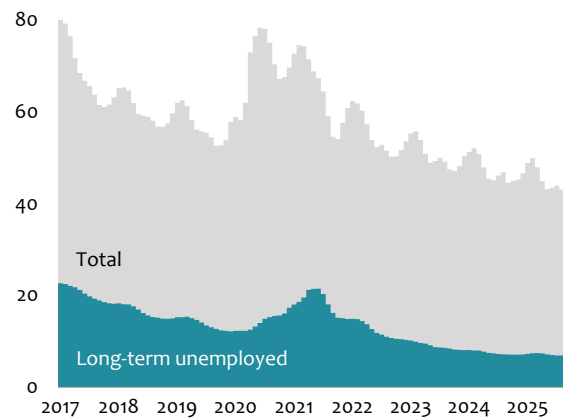
In addition to the decline in unemployment in the second quarter of 2025, the number of registered unemployed persons and the registered unemployment rate also continued to decrease, which overall reduces employers' ability to attract the necessary specialists. At the end of August 2025, the number of registered jobseekers was 43 thousand, which is 3.8 thousand, or 8%, fewer than a year earlier. The registered unemployment rate at the end of August 2025 was 4.9%, which is 0.4 percentage points lower than a year ago.

**Unemployment Rate and Its Determinants**  
changes against the corresponding period of the previous year, left vertical axis – thousands, right vertical axis – as per cent



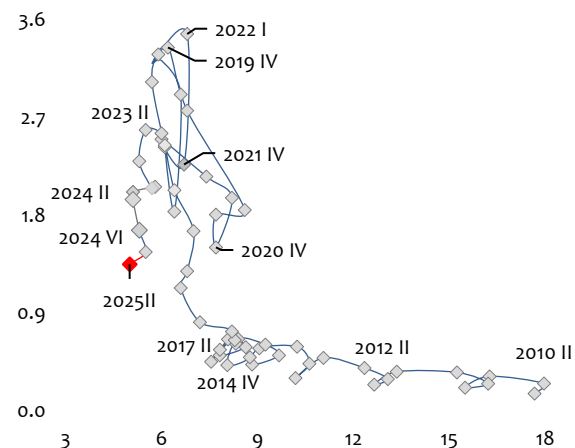
Positive trends are also observed in the dynamics of long-term unemployment. Since mid-2021, both the number of long-term unemployed and their share in the total number of jobseekers have been gradually decreasing. Between the end of August 2024 and the end of August 2025, the number of registered long-term unemployed fell by 3.8%. In total, in August 2025 there were approximately 6.9 thousand registered jobseekers who had been unemployed for more than a year, accounting for about 16% of all registered unemployed persons.

**Registered Unemployed in thousands**



Despite the moderate trend of declining unemployment in recent years, the risk remains that some of the current unemployed may face difficulties finding work that matches their skills. Specifically, the longer a person remains unemployed, the greater the risk of losing previous work skills and competencies, as well as the ability to adapt to new labour market requirements. It must also be taken into account that prolonged absence from employment creates risks of structural unemployment.

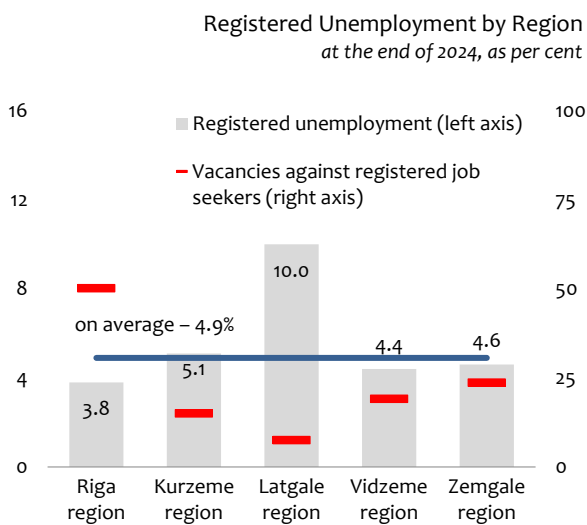
**Beveridge Curve**  
by quarters, as per cent; horizontal axis – unemployment rate; vertical axis – vacancies against the economically active population



Structural issues also continue to significantly affect regional labour market disparities, which limit the efficient use of labour resources in the economy. Regional

imbalances are narrowing slowly due to low regional mobility, as well as differences in sectoral structure and wage levels across regions. Pronounced and long-standing problems persist 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. Combined with low geographical mobility of the labour force, this increases the risks of structural unemployment.

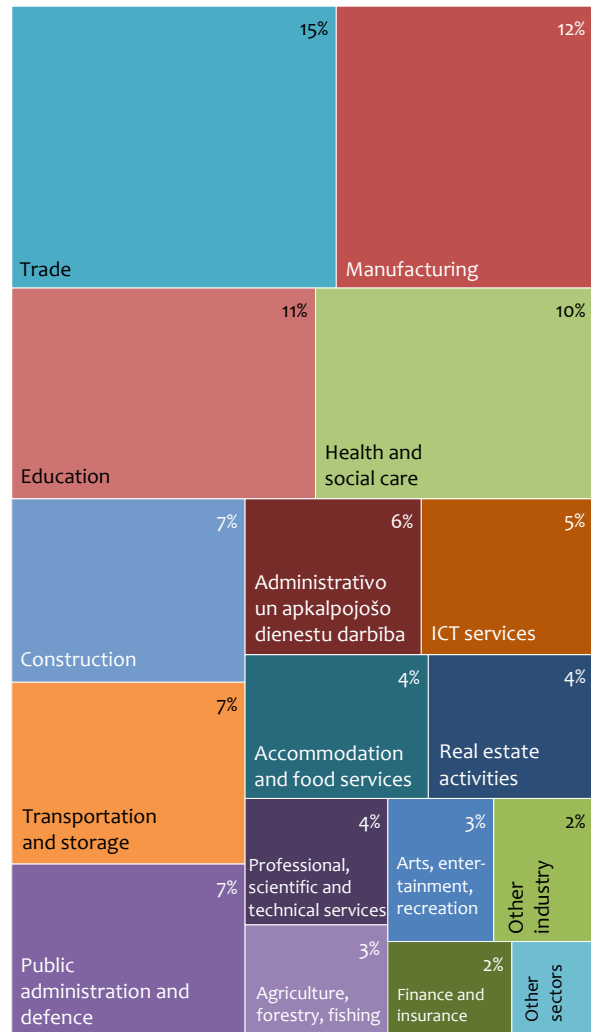
**Latvia has a lower unemployment rate than the other Baltic states.** During this period, the unemployment rate in Latvia was 6.7%, which was 1.1 percentage points lower than in Estonia (7.8% in Q2 2025) and 0.5 percentage points lower than in Lithuania (7.2% in Q2 2025). As in 2024, Latvia also recorded the lowest youth unemployment rate in the first half of 2025.



With labour demand increasing, a moderate rise in the number of occupied jobs is also observed. In the second quarter of 2025, compared with the second quarter of 2024, the number of occupied jobs increased by 0.2% or 1.6 thousand and reached 891.4 thousand.

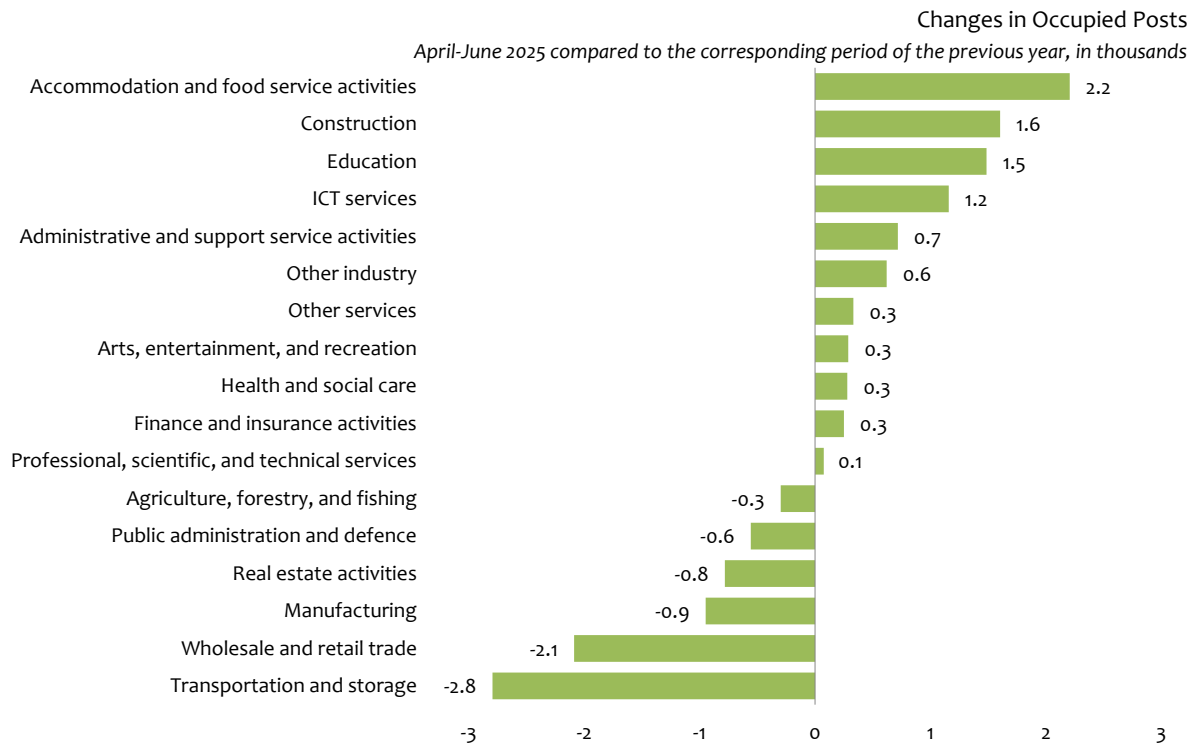
**In the second quarter of 2025, the most significant numerical increase in occupied jobs was observed in the accommodation and food service sector, in construction, and in education.** The rise in occupied jobs was also reinforced by seasonal factors in the second quarter. The start of the summer season and an increase in seasonal work improved employment indicators on a quarterly basis.

**Changes in Occupied Posts Structure in April-June 2025, as per cent**



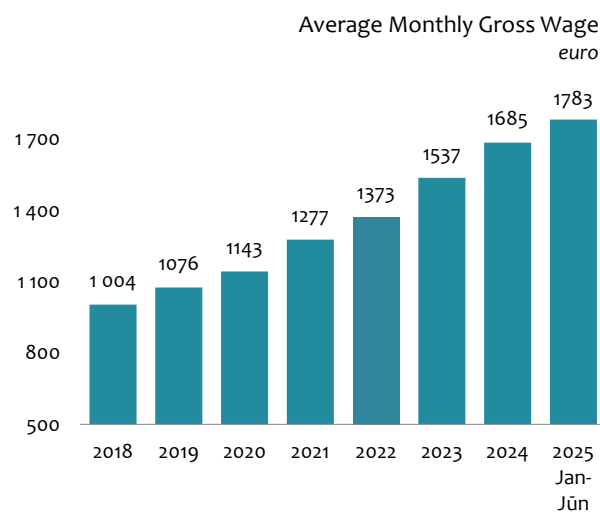
The largest reduction in jobs in the second quarter of 2025 was in the transport and storage sector (by 2.8 thousand jobs), driven by a decline in the sector's output in freight flows. Compared with the first half of 2024, freight transport increased at the airport and by road but decreased on the railway and in ports; therefore, logistics chains with a high share of rail and port operations had less work, which could be reflected in employment.

A significant decrease in the number of occupied jobs was also observed in trade — by 2.1 thousand jobs, or 1.5%; in manufacturing — a decrease of 0.9 thousand jobs, or 0.9%; and in real estate activities — a decrease of 0.8 thousand jobs, or 2.8%, compared with the second quarter of 2024.



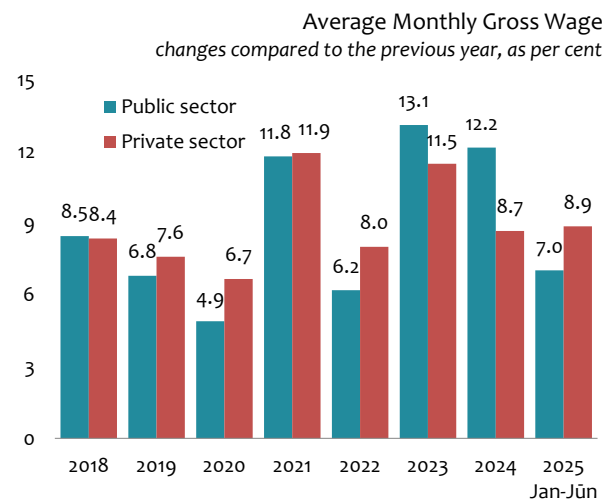
## WAGES AND SALARIES

The main driver of wage growth was the increase in labour market activity, as employment and the number of economically active persons rose. In the second quarter of 2025, the average monthly gross wage increased by 8.2% compared with the second quarter of 2024, rising from 1,671 euros to 1,808 euros. It should be noted that over the past five years the average gross wage in the economy has increased by almost half.



The increase in the average wage in the first half of 2025 was partly influenced by the rise in the minimum wage by 5.7% – to 740 euros from 700 euros in 2024. Wage growth also continues to be driven by labour shortages and the incorporation of previous periods'

inflationary pressure (price increases) into wages. In the second quarter of 2025, real wages increased by 6.6% compared with the second quarter of 2024.



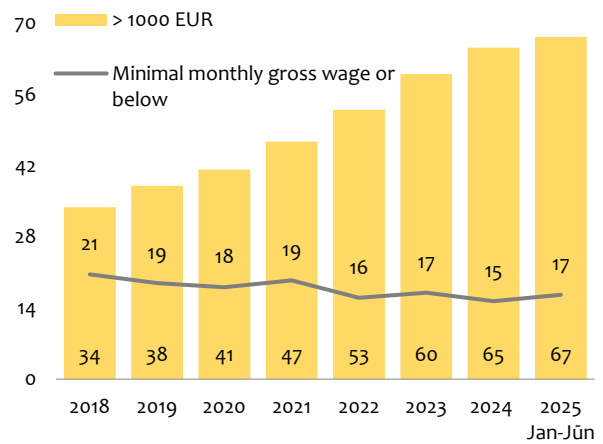
In the second quarter of 2025, wages increased for employees in both the private and public sectors. Compared with the second quarter of 2024, the average gross wage in the public sector rose by 8.2% in the second quarter of 2025 (to 1,886 euros), while in the private sector it increased by 8.3% (to 1,781 euros). In the public sector, the average wage growth in the second quarter of 2025 was faster than in previous periods and was one of the largest quarterly increases in recent years.

It should be noted that wage growth in the public sector, with a time lag, generally follows wage growth in the private sector. Therefore, the current wage increase in the public sector largely reflects the wage dynamics in the private sector over the past 2–3 years, during which wage growth in the public sector remained on average faster than that of private-sector employees.

Overall, the trend of a declining share of low-paid employees continues to hold steadily, as evidenced by the increasing share of employees earning more than 1,000 euros per month, as well as the decreasing share of those receiving minimum or lower wages. In the second quarter of 2025, on average, 68.3% of all employees earned more than 1,000 euros gross, while the share of employees earning the minimum wage or less amounted to 17.1%, indicating a slight increase in the proportion of employees receiving the minimum wage or less compared with the second quarter of 2024.

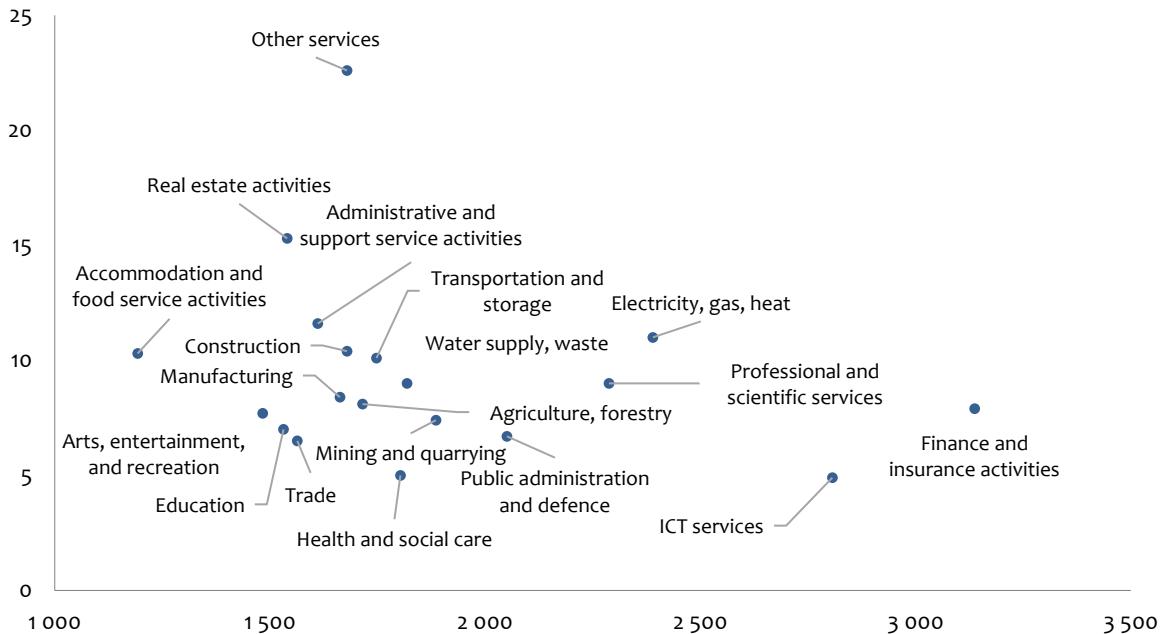
In the second quarter of 2025, wage growth was observed in all economic sectors. The fastest increase, compared with the second quarter of 2024, was in the other services sector, where the average gross wage grew by 18.2%. Wages also increased in the accommodation and food service sector (+11.5%), real estate activities (+10.7%), and administrative service activities (+10.2%). Slower wage growth was recorded in mining and quarrying (+3.4%), as well as in the human health and social work sector (+4.4%).

Employee Gross Wage as per cent of employed in total



The highest wage level in the second quarter of 2025 remained in the financial services sector, where the average monthly gross wage was 3,052 euros, while the lowest wage was in the accommodation and food service sector – 1,219 euros per month. However, the accommodation and food service sector recorded the second fastest wage growth within the year (in the second quarter of 2024, the average monthly gross wage was 1,093 euros).

Gross wages in economic sectors  
January-June 2025, horizontal axis – average gross wage, euros;  
vertical axis – wage changes compared to the corresponding period of the previous year, as per cent



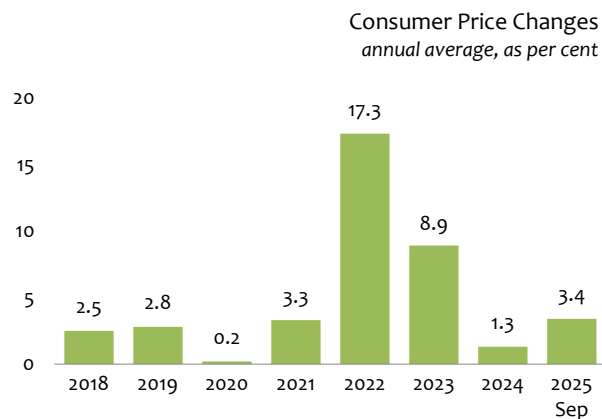
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## ECONOMIC STABILITY AND COMPETITIVENESS

## PRICES

In 2024, consumer prices rose faster than in the previous year. In December 2024, compared with December 2023, consumer prices increased by 3.3%. They continued to be influenced by global prices and the unstable geopolitical situation. The average annual inflation in 2024 was 1.3%.

In the first nine months of 2025, price growth was faster than in the corresponding period of the previous year. In September 2025, consumer prices increased by 3.4% compared with December 2024. Compared with September of the previous year, consumer prices increased by 4.1%. The average annual inflation in September was 3.4%.

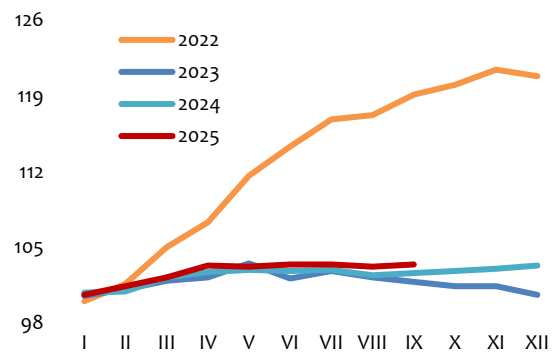


The main price-influencing factors in the first nine months of 2025:

- (1) a significant impact on the average consumer price level came from rising service prices – notably the considerable increase in the cost of housing-related services, outpatient services, catering, recreation and cultural services, and telecommunications services;
- (2) rising food prices, which increased across all major food product groups except vegetables, with the most significant impact coming from higher prices in the meat products group and the non-alcoholic beverages group;
- (3) rising prices of housing-related energy resources, where the largest impact came from the increase in electricity prices; natural gas prices also increased, while prices for heat energy and solid fuels decreased;
- (4) rising prices of alcoholic beverages and tobacco, with the largest impact coming from higher cigarette prices;
- (5) rising prices of clothing and footwear;

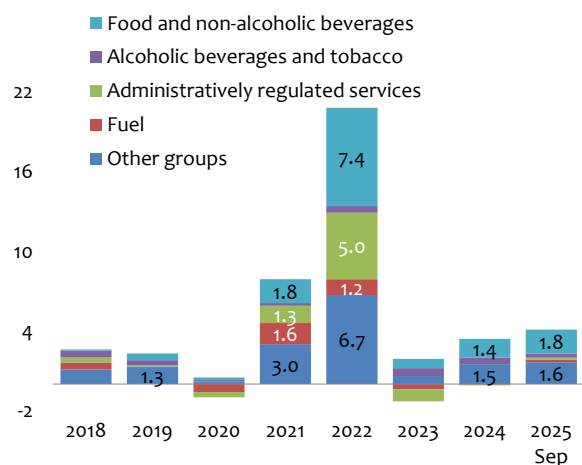
- (6) a decrease in fuel prices, with the largest impact coming from petrol; this was determined by falling global oil prices driven by the OPEC+ decision to increase production and growing concerns about a global supply surplus, while a sharper decline was limited by geopolitical tensions and reductions in U.S. oil inventories.

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

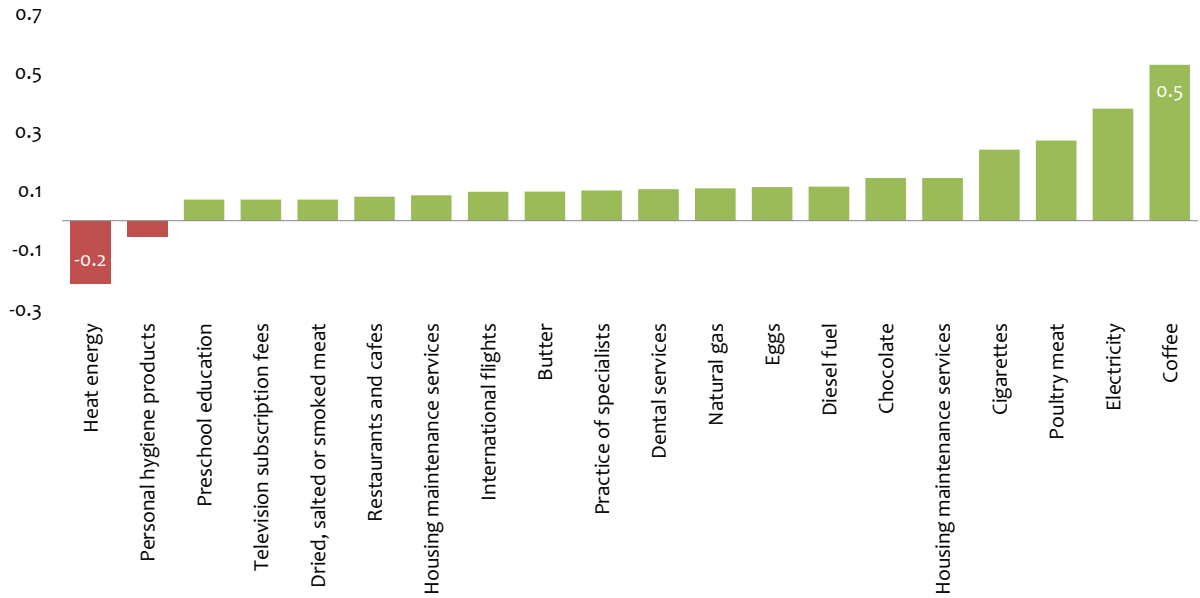


It is expected that the overall price level will remain stable in 2025 as well. Going forward, price developments in Latvia will continue to be significantly influenced by global price fluctuations and the development of the world economy, particularly the geopolitical situation and its impact on energy and food prices. In 2025 overall, the average annual inflation is expected to be in the range of 3.5–4%.

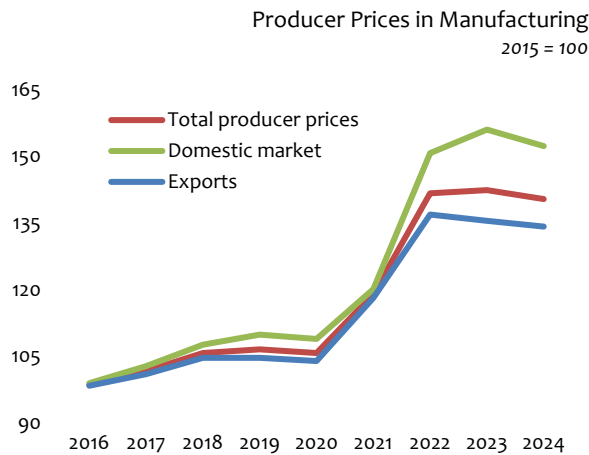
**Consumer Prices by Goods and Services**  
contribution to 12-month changes, as per cent



Consumer Price Changes by Goods and Services  
Contribution to 12-month change in September 2025, in percentage points



In 2024, producer prices in manufacturing declined due to falling energy and raw material prices.

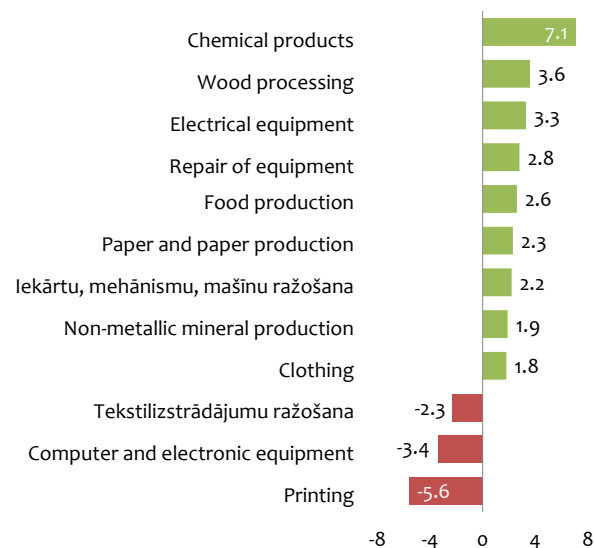


In 2025, the increase in producer prices in manufacturing is moderate. In the first nine months of 2025, producer prices in manufacturing rose by 1.3 %. Prices for products sold on the domestic market increased by 1 %, while prices for exported products rose by 1.4 %. The strongest upward impact came from wood processing and food production, while the largest downward impact was observed in the manufacturing of computers, electronic and optical equipment.

In 2025 overall, producer prices in manufacturing will continue to rise. The level of producer prices is largely influenced by fluctuations in producer prices of exported products, which are mainly determined by global raw material price dynamics. It should be noted that in 2025 global energy prices remain stable, easing cost pressures on energy-intensive industries, while global food raw

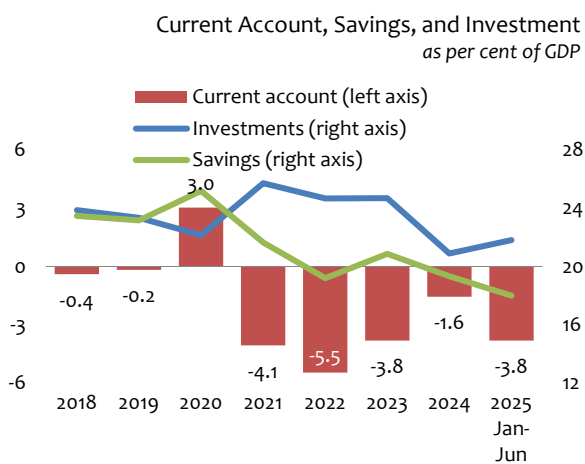
material prices are increasing, with higher prices for dairy products, meat and vegetable oils, creating additional cost pressures in the food industry. Significant volatility persists in timber markets, driven both by tariff policy and by demand, although the overall trend is upward. Producer prices also continue to be affected by uncertainty in raw material supplies related to the tense geopolitical situation. Prices for products sold on the domestic market will also increase slightly, mainly influenced by global and domestic price dynamics, such as for timber, unprocessed food, and others. At the same time, the producer price dynamics of products sold on the domestic market are affected by growth rates, which overall may be faster this year.

The Most Rapid Producer Price Changes in Manufacturing  
in September 2025  
changes compared to the corresponding period of the previous year, as per cent

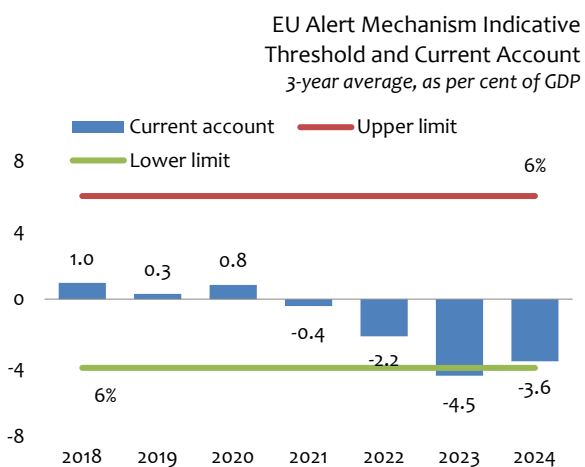


## BALANCE OF PAYMENTS

The current account deficit has been gradually decreasing in recent years, but it remains relatively high. Due to external shocks, significant current account adjustments have taken place since 2020. In 2021 and 2022, it increased rapidly, reaching 4.1% and 5.5% of GDP respectively, which was significantly influenced by the recovery of activity following the easing of Covid-19 restrictions, as well as by the rise in energy prices related to Russia's war in Ukraine. Since 2023, the current account balance has gradually improved, reaching a deficit of 1.6% of GDP in 2024. However, in the first half of 2025 the negative current account balance increased again and amounted to 3.8% of GDP (in the first half of 2024 – 1.8% of GDP), mainly driven by the increase in imports.

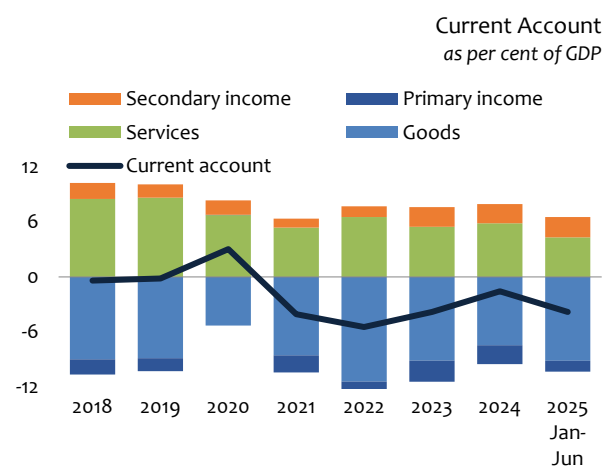


With the current account deficit remaining relatively high over the past four years, external imbalance risks have also increased. In 2023, the indicative threshold for the three-year average current account deficit, as set in the EU's Alert Mechanism, was exceeded.



In recent years, a weakening of external trade flows has been observed. The main cause was the economic shock

initially triggered by the Covid-19 pandemic and later by Russia's invasion of Ukraine, which further intensified external uncertainty. The surge in energy prices and the need to change supply sources due to the war significantly increased the value of imports. Moreover, with exports growing more slowly than imports, the trade deficit rose to 11.4% of GDP in 2022. In 2023 and 2024, both export and import values declined. However, as imports fell more sharply, the external trade balance improved slightly, while in the first half of 2025 the deficit increased again to 9.2% of GDP.



The surplus in trade in services has been maintained but remains below the levels seen before the crisis caused by the Covid-19 pandemic. Over the past three years (2022–2024), the positive services balance averaged 6% of GDP, which is lower than in the years prior to the pandemic (an average of 8.7% of GDP).

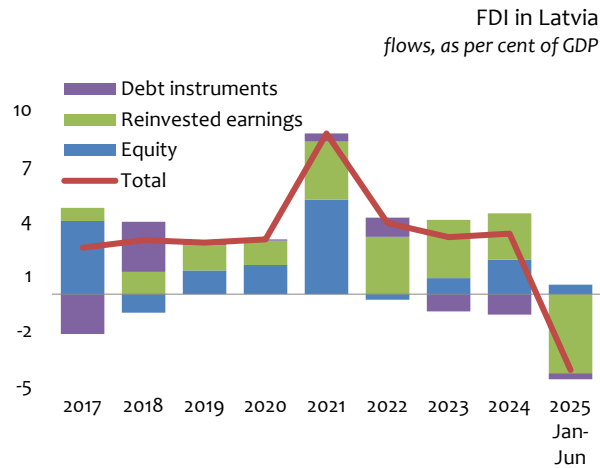
In the first half of 2025, the growth rates of both services imports and exports were negative. Compared to the corresponding period of the previous year, imports in nominal terms fell by 13.2%, while exports declined by 3.6%. The surplus in the services balance amounted to 4.3% of GDP, which is 1.1 percentage points lower than a year earlier.

The capital account balance in the first half of 2025 stood at 1.5% of GDP, which is in line with the five-year average.

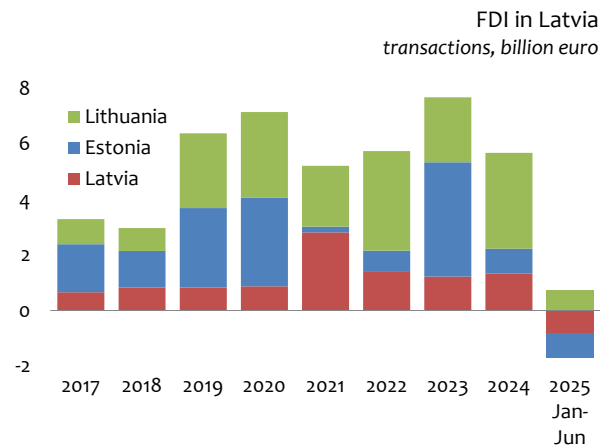
The financial account position was influenced by public-sector debt restructuring and the implementation of the European Central Bank's monetary policy. In the first half of 2025, financial account assets increased more moderately than liabilities, and the financial account balance (including reserve assets) stood at -0.7% of GDP. In the near future, developments in the balance of payments accounts will be shaped by changes in the geopolitical situation and their impact on global supply chains, cross-border flows, and the Latvian economy.

## FOREIGN DIRECT INVESTMENT

The intensity of foreign direct investment (FDI) flows has remained moderate. This has largely been determined by instability in the global economy and investor caution, while the geopolitical tensions caused by the war in Ukraine have heightened uncertainty and weakened foreign investment activity in the region.

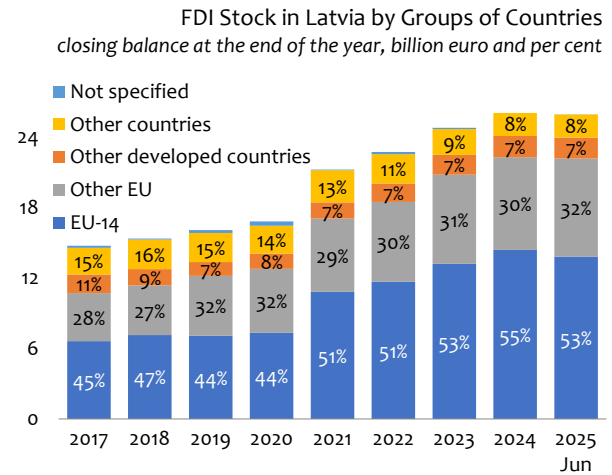


In the Baltic states overall, cross-border direct investment flows were negative in the first half of 2025, reaching almost -0.95 billion euros, or -1.3% of GDP. This was significantly affected by FDI outflows from the Estonian and Latvian economies. In contrast, Lithuania's net FDI flows maintained a positive trend in the first half of the year.



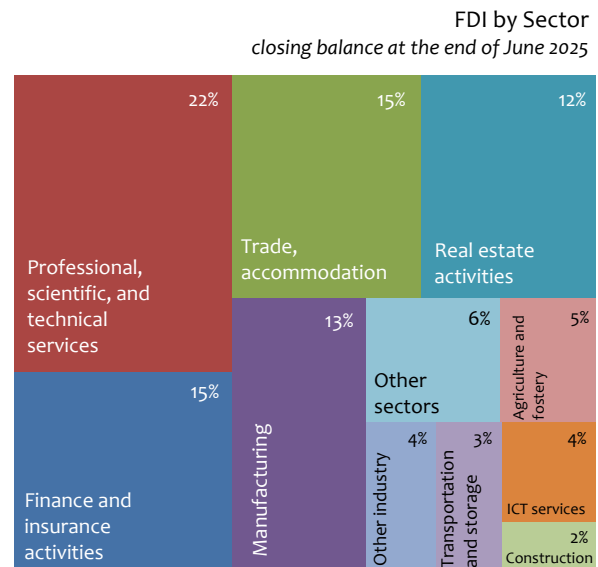
In the first half of 2025, FDI transactions in Latvia were negative, indicating an outflow of foreign capital amounting to 4.1% of GDP. The decline was largely driven by dividends paid out in the first quarter in the professional services and financial intermediation sectors, drawn from long-accumulated retained earnings that had not been distributed in previous years. Meanwhile, investments in companies' equity continued to show a positive trend; however, in the first half of this year their volume was almost three times lower than a year earlier.

FDI income in the first half of 2025 was 14.3% lower than a year earlier, while dividend payouts increased by 77%.



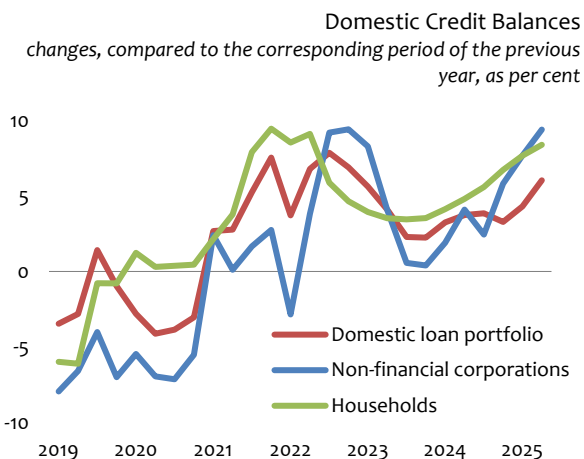
Accumulated FDI in the Latvian economy amounted to 25.9 billion euros at the end of June 2025, or 64.2% of GDP. Over the year, it increased by 2.4%, or 600 million euros. The geopolitical structure of FDI is relatively stable. It is dominated by investments from EU investors, which at the end of June this year accounted for 86% of total accumulated FDI. The largest investing country in the Latvian economy is Sweden, whose investors accumulated investments made up 28% of all FDI. Significant investments also come from Estonia, Lithuania, Germany, Cyprus, the Netherlands and Denmark.

In the sectoral structure of accumulated FDI, the scientific and technical services sector dominates, accounting for 21.8% of total FDI at the end of June 2025. Significant investments are also made in financial intermediation (14.7%), trade (13.9%), real estate activities (12.5%) and manufacturing (12.9%).



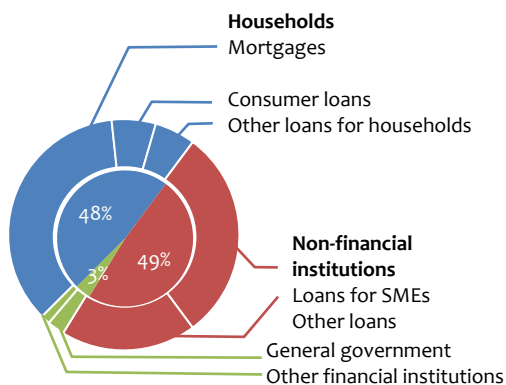
MONETARY INDICATORS

The banking sector is operating resiliently<sup>1</sup>. The banking sector operates resiliently. Deposits are increasing, however, over the last at least 10 years, compared with the Baltic states, lending — especially corporate lending — is to be regarded as weak.



The total bank loan portfolio at the end of the 2nd quarter of 2025 was 17.4 billion euros. Of this amount, 14.5 billion euros had been issued to domestic non-bank customers, an increase of 6% compared to a year earlier. During this period, lending to both non-financial corporations and households increased, by 9.4% and 8.4% respectively. Among them, SME lending grew more rapidly – by 13.9%.

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

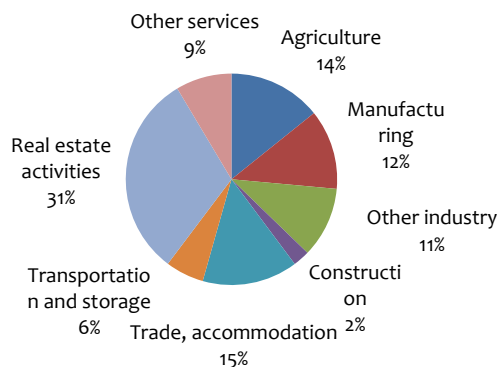


Examining the breakdown of loans by sector shows that at the end of June 2025, 31% of all domestic corporate loans had been issued to the real estate activities sector. The next largest sectors were trade and accommodation, and agriculture, with shares of 15% and 14% respectively.

In 2023, loan interest rates rose sharply, driven by ECB decisions to increase base interest rates in order to curb inflation. In 2024, the increase stopped, and a gradual

decline began. This trend continues in 2025, when at the end of the second quarter the interest rate on long-term and short-term loans to non-financial corporations was 4.5% and 5.03% respectively, while for household loans for house purchase it was 4.34% and 4.81%. This is also supported by the ECB lowering the base interest rate since June 2024.

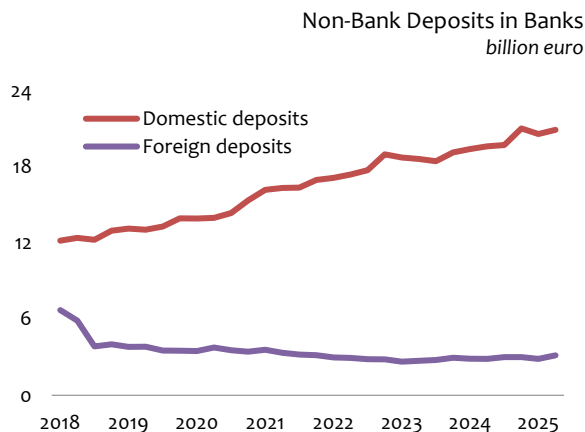
Lending Portfolio of Non-Financial Institutions by Sector At the end of June 2025, as per cent



Bank solidarity contributions have been introduced in Latvia, with a period of application 2025-2027. These contributions apply to the share of banks' net interest income that exceeds by more than 50% the average annual net interest income in the period 2018–2022. By activating lending, the amount of contributions is reduced.

Non-bank deposits in banks continue to increase steadily. Their volume at the end of June 2025 amounted to 24.1

billion euros, increasing by 7.0% over the year. The majority consisted of domestic deposits, which made up 87% of total deposit volume and increased by 6.6% over the year. The share of foreign deposits was 13%, with a growth rate of 9.9%. For comparison, at the beginning of 2016 the share of foreign deposits was more than half.



<sup>1</sup> Data source – Bank of Latvia

## BUDGET AND GOVERNMENT DEBT

The Covid-19 pandemic has caused significant changes in the fiscal policy implemented to date. In 2020, the EU activated the “general escape clause” of the Stability and Growth Pact (SGP), allowing EU countries to increase the general government budget deficit in 2020–2022 to the extent necessary to mitigate the economic damage caused by the pandemic. Considering the Russia–Ukraine war and all its related consequences, the SGP general escape clause also remained in force in 2023. In 2024, the application of EU fiscal rules was reinstated, ending the operation of the EU’s general escape clause.

As a result of the Covid-19 pandemic, the budget deficit in Latvia increased to 7.2% of GDP in 2021. In 2022 and 2023 it decreased to 4.9% and 2.4% of GDP, respectively.

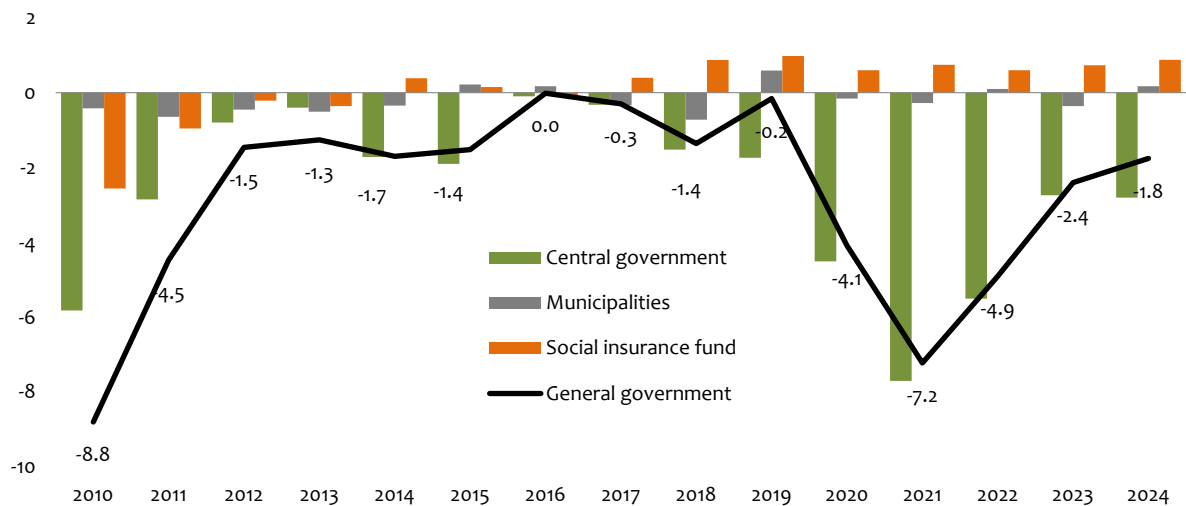
In 2024, the budget deficit amounted to 700 million euros, or 1.8% of GDP. For 2025, the Saeima has approved a

budget with a deficit of 2.9% of GDP. The government has also approved that in 2026 the budget deficit will be 3.3% of GDP, and in the medium term it will remain around 3.6%. The increase in the deficit is determined by higher funding for strengthening 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

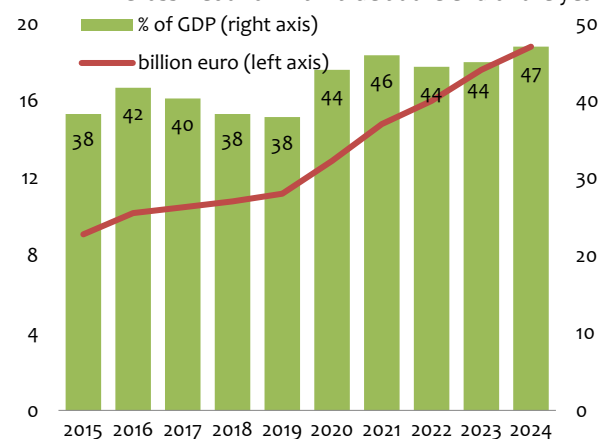
General Government Budget Balance by Subsector  
as per cent of GDP



Despite the increase in the budget deficit in recent years, the level of general government debt in Latvia remains one of 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. In 2021, the amount of government debt increased to 45.9% of GDP, or EUR 14.8 billion. Since nominal GDP growth was rapid in conditions of high inflation, in the following years the debt-to-GDP ratio decreased to 44.4% in 2023. In 2024, general government debt amounted to EUR 18.8 billion, or 46.6% of GDP.

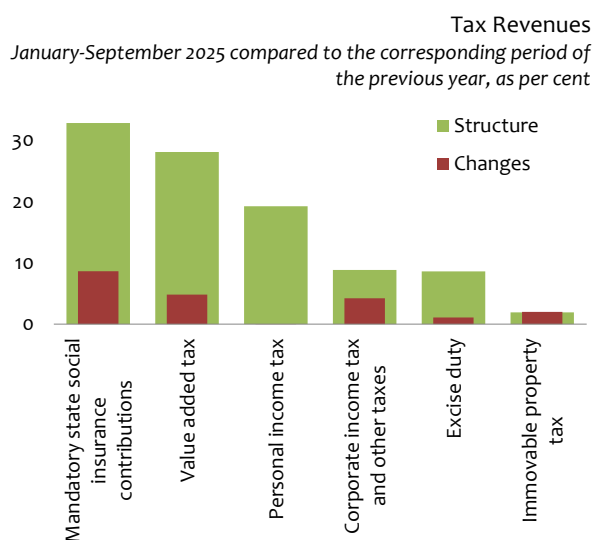
It is expected that in the medium term the debt rule set out in the Fiscal Discipline Law — 60% of GDP — will be observed. According to the Ministry of Finance forecasts, the general government debt level is projected at 49.7% of GDP in 2025, 52.5% of GDP in 2026, 57.2% of GDP in 2027, 58.3% of GDP in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

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



## BUDGET REVENUES AND EXPENDITURES

Since 2011, the revenues of the consolidated state budget have been increasing. A slight decrease was observed only in 2020 due to the Covid-19 crisis. Budget revenues in the first three quarters of 2025 increased by 1% compared to the corresponding period of 2024.



Revenues in the first three quarters of 2025 increased across all major tax categories. The growth trend of labour taxes has slowed. Personal income tax revenues during this period were at the level of the corresponding period in 2024, while revenues from state social insurance contributions increased by 8.6%.

### Consolidated General Government Budget

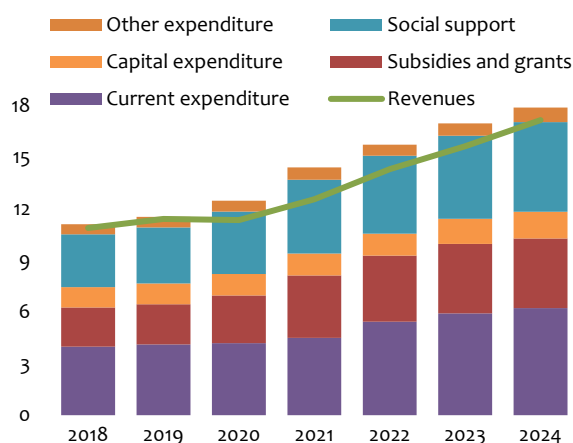
	billion euro			changes as per cent
	2023	2024	2025 Jan-Sep	2025 Jan-Sep
Revenues:	15,6	17,1	13,3	1,0
Tax revenues:	12,6	13,6	10,6	5,8
Mandatory State Social Insurance Contributions	3,9	4,2	3,5	8,6
Value added tax	3,9	3,9	3,0	4,8
Personal Income Tax	2,5	2,8	2,0	0,0
Corporate Income Tax	0,5	0,7	0,7	13,1
Excise Duty	1,2	1,2	0,9	4,2
Immovable Property Tax	0,2	0,2	0,2	2,0
Other taxes	0,4	0,5	0,3	19,7
Other revenues	3,0	3,6	2,7	-14,3
Expenditures	17,0	17,9	13,8	9,9

Consumer tax revenues maintained a growth trend in the first three quarters of 2025. Revenues from value added tax increased by 4.8% during this period, and excise tax revenues grew by 4.2%. The growth rate of capital tax

revenues in this period was as follows: corporate income tax revenues increased by 13.1%, and real estate tax revenues by 2%.

### Consolidated General Government Budget Expenditures

billion euro

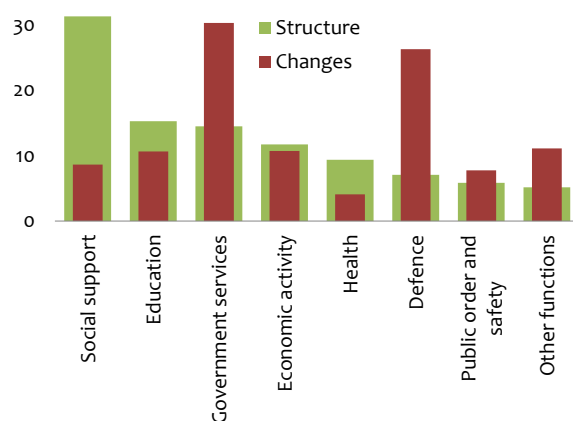


General government consolidated budget expenditures in the first three quarters of 2025 increased by 9.9% compared to the first three quarters of 2024. The main factor behind this increase was the more active implementation of EU-funded projects during this period. The fastest growth was recorded in capital expenditures – by 28.4% – and in current expenditures – by 9.1%. Expenditures on subsidies and grants, as well as social support expenditures, grew more slowly, by 8% and 7.4% respectively.

An analysis of budget expenditures by functional categories shows that in the first three quarters of 2025, expenditures increased more rapidly in areas such as general public services, defence, and economic affairs.

### Consolidated General Government Budget Expenditures by Functions

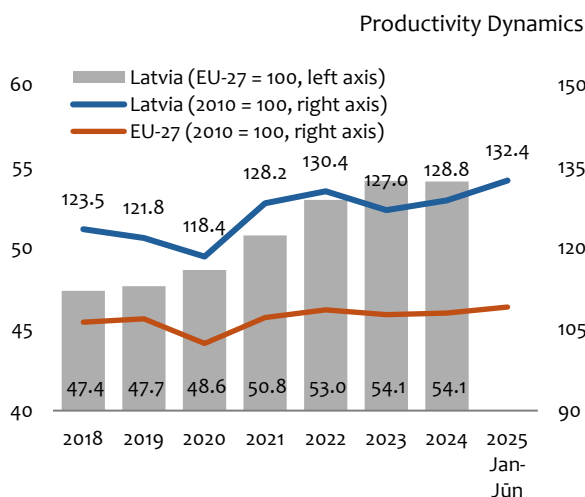
January-September 2025 compared to the corresponding period of the previous year, as per cent



## PRODUCTIVITY AND COMPETITIVENESS

In Latvia, productivity dynamics have been volatile, reflecting uneven adjustment processes in labour and product markets. Before the COVID-19 pandemic, productivity grew on average by 1.4% per year, while over the past three years it has increased by only 0.1% on average. In the first half of 2025, productivity growth has been stronger – an increase of 2.8%.

GDP per employed person in 2024 reached 54.1% (72% in PPS terms) of the EU average. Since 2019, Latvia's productivity gap relative to the European Union average has narrowed by almost four percentage points. However, compared with 2021, the reduction has been only 0.4 percentage points, indicating a slowdown in the pace of convergence.



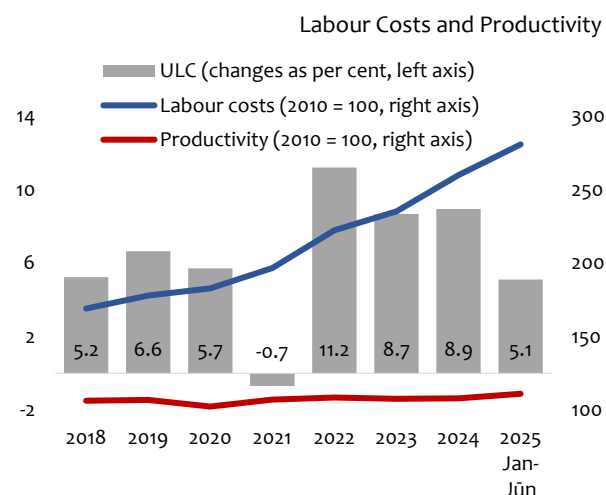
**Labour costs continue to increase.** The adjustments caused by external shocks have not significantly changed the long-term trends in labour cost dynamics. Since 2021, labour costs in Latvia have increased by 32.2%, which is almost one and a half times faster than before the COVID-19 pandemic. Over this period, productivity dynamics have been considerably more moderate – an increase of only 0.4%. The difference between the growth rates of labour costs and productivity has significantly worsened cost-competitiveness indicators.

The nominal unit labour cost (ULC) index in 2024, compared to 2021, increased by 31.6%, including by 8.9% in 2024, which has been slightly faster than in Lithuania (7.3%) and Estonia (5.6%). It should be noted that in all Baltic States the increase in nominal ULC has exceeded both the EU average level and the threshold of the Macroeconomic Imbalance Procedure (MIP) – 9% over a three-year period.

**The real effective exchange rate (REER) is increasing.** The CPI-based REER against 42 trading partner countries from 2021 to 2024 grew by 9.6%, which is three times higher than the MIP threshold (3%).

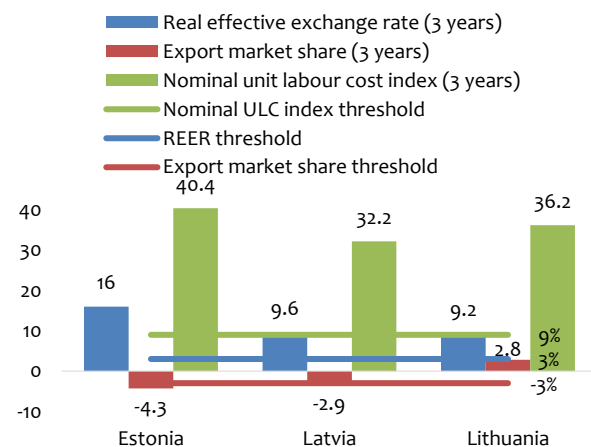
The long-term dynamics of Latvia's export market share are slowing. Between 2022 and 2024, Latvia's export share in world markets decreased by 2.7%, including by 2.9% in developed countries' goods and services markets. This decline was mainly driven by negative developments in goods markets in 2023 and 2024, when the market share of goods exports fell by 3.1% and 2.2%, respectively, as

well as by a significant decline in market share in world services markets – by almost 5% in 2024.



In the conditions of slow productivity dynamics, the increase in labour costs significantly affects the cost competitiveness of Latvian businesses. The weakening of economic activity has not substantially affected the labour market, maintaining labour shortages and wage growth in an inflationary environment. This increases the gap between labour costs and productivity. To strengthen competitiveness, it is essential to boost productivity, which will largely be determined by structural changes in the economy, shifting towards higher value-added and 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, the purpose of which is to identify (with the help of the scoreboard of alert indicators) and correct macroeconomic imbalances in a timely manner. In the 2025 Early Warning Mechanism Report (AMR), Latvia is not listed among the 10 EU Member States for which macroeconomic imbalances were identified.

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

The AMR notes that, according to the EC forecast, Latvia's GDP will grow by 1% in 2025, headline inflation will rise to 2.2%, and the unemployment rate will remain at 6.7%.

The EC notes that Latvia's current account balance in 2023 slipped below the lower threshold of -4%. From the perspective of savings and investment, lower national savings combined with a relatively stable level of investment have been the main reasons that have contributed to a persistent current account deficit since 2021.

The net international investment position (NIIP) in 2023 remained broadly stable and was -26% of GDP. Latvia's liabilities largely consist of government bonds and foreign direct investment, whose volume exceeds that of other financial instruments.

Pressure on cost competitiveness is easing, as inflation has fallen significantly. The growth rate of unit labour costs has become slower, but it remains high.

The debt level of non-financial corporations relative to GDP continues to decline. Household debt also remains low.

House price growth slowed sharply to 3.7% in 2023. The housing market in Latvia is exposed to low risks.

The fiscal deficit in 2024 and 2025 is planned at around 3% of GDP, and therefore government debt will increase slightly.

The banking sector is stable and well capitalised, and its profitability is significantly above the EU average. The share of non-performing loans is decreasing. Credit dynamics remain subdued.

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	-25,6	-19,8
Real effective exchange rate – 42 trading partners, HICP deflator (% changes over the last 3 years)	±3 %* / ±10 %	5,1	3,8	5,9	2,3	5,6	11,0	9,6
Export performance compared with advanced economies – (% changes over the last 5 years)	-3 %	8,8	5,1	14,4	10,1	15,7	-1,8	-4,4
Nominal unit labour costs index (% changes over the last 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 GDPs)	60 %	38,3	37,9	44,0	45,9	44,4	44,6	46,8
Household debt (including NPISH), 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 NPISH) credit flow, consolidated (% of debt level t-1)	14 %	1,6	2,4	0,3	8,8	6,0	4,3	8,3
Non-financial corporations' credit flow (excluding FDI), consolidated (% of debt level, 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 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 year in percentage points; % of population aged 15-64)	-0,2 pp	1,9	1,1	1,1	-1,8	-0,5	-1,4	0,9

\* – Euro area countries; .. – no data;

Note: highlighted numbers exceed the thresholds set out in the Early Alert Mechanism Report.

Source: List of Indicators for the Macroeconomic Imbalances Procedure for Latvia, Eurostat

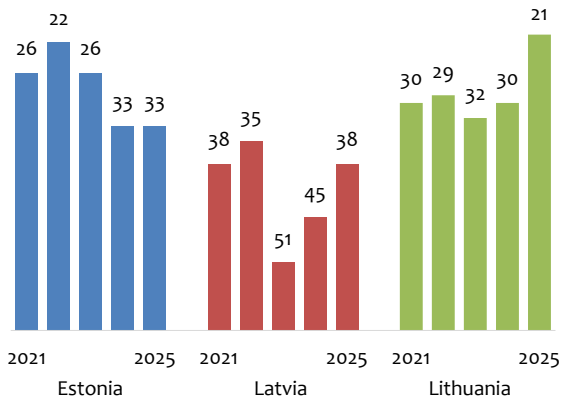
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# LATVIA IN INTERNATIONAL RATINGS

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

In the **World Competitiveness Ranking 2025**, published annually by the International Institute for Management Development (IMD), Latvia ranked 38th among 69 countries, improving its position by 7 places compared to 2024.

Baltic Countries in Global Competitiveness Ranking



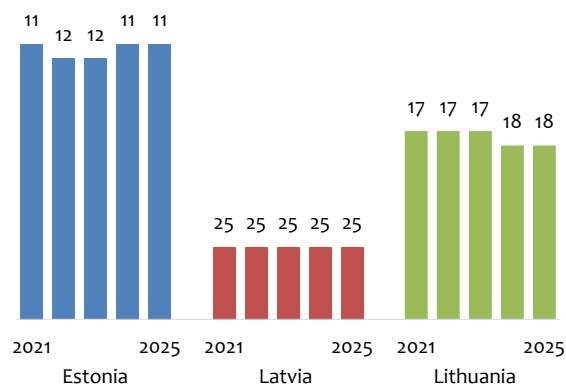
Source: IMD, World Competitiveness Ranking 2025

In 2025, Latvia's competitiveness is characterised by significant improvements in several areas: in the economic category, an increase in employment and the stabilisation of inflation are highlighted; in government efficiency, positive changes are observed in the institutional framework and business legislation; business efficiency has been supported by more professional corporate management and a more positive business culture, while in the area of infrastructure, progress has been achieved in both basic and technological (ICT) provision.

In the **European Innovation Scoreboard 2025**, published annually by the European Commission, Latvia ranks 25th among the 27 EU Member States and is placed in the group of modest innovators.

The report notes that the comparative strengths are the share of the population with higher education, the number of trademark applications, and the number of joint publications by authors from the public and private sectors.

Baltic Countries in European Innovation Scoreboard\*

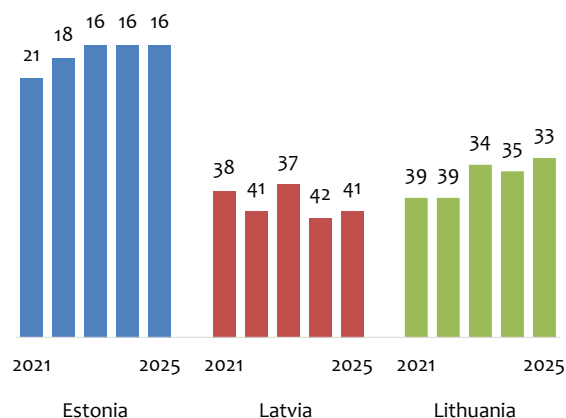


Source: European Commission, European Innovation Scoreboard 2025  
\* only EU-27 countries

In the **Global Innovation Index 2025**, prepared by the World Intellectual Property Organization (WIPO), Latvia ranks 41st among the 139 surveyed countries.

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

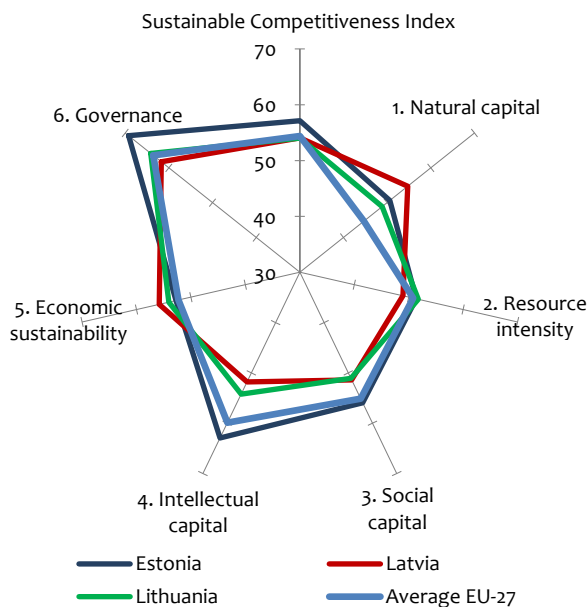
Baltic Countries in Global Innovation Index



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

In the 2024 Global Sustainable Competitiveness Index, developed by the Swiss company SolAbility and based on six pillars — natural capital, resource efficiency, social capital, intellectual capital, economic sustainability, and governance — Latvia ranked 22nd among 191 countries worldwide (Estonia ranked 8th, Lithuania ranked 24th).

Performance of the Baltic States in the Competitive Sustainability Index and its dimensions (rating scale from 0-100, where 100 is the best rating)



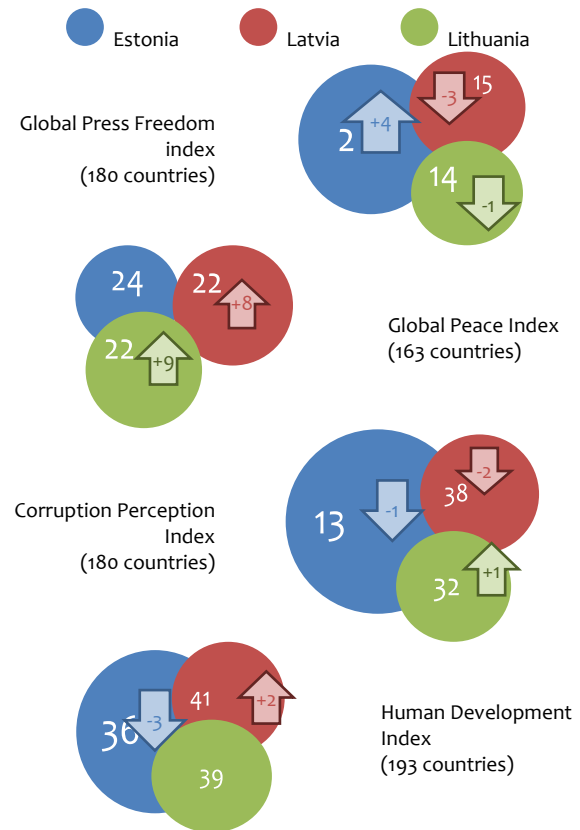
Source: SolAbility, Global Sustainable Competitiveness Index 2024

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

Latvia also has a comparatively good performance (16th place) in the natural capital pillar, which is characterized by factors such 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 the international press and freedom of expression organization "Reporters Without Borders," Latvia ranked 15th in 2025 (out of 180 countries surveyed), worsening its position by 3 places 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 2024; United Nations Development Programme, Human Development Report 2025.

In the **Global Peace Index** compiled by the Institute for Economics and Peace, Latvia ranked 22nd in 2025 (out of 163 countries surveyed). Compared to 2024, Latvia improved its position by 8 places due to improvements in internal security.

In the **Corruption Perceptions Index** compiled by the international anti-corruption organization Transparency International, Latvia ranked 38th in 2024 (out of 180 countries surveyed), worsening its position by 2 places compared to 2023.

In the **Human Development Index 2025** compiled by the United Nations Development Programme (UNDP), Latvia ranked 41st (out of 193 countries surveyed), improving its position by 2 places compared to the recalculated result for 2024).

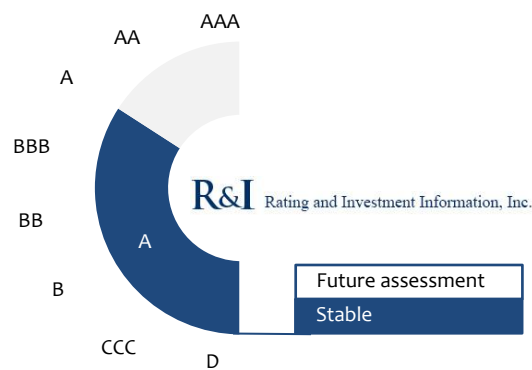
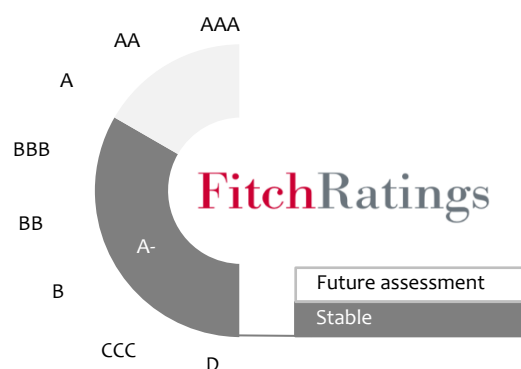
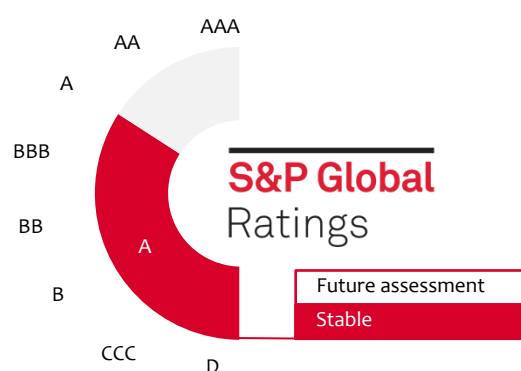
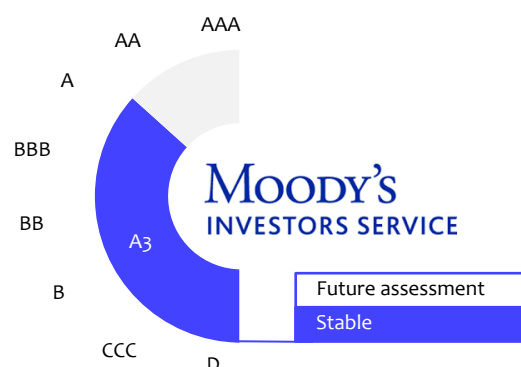
The international rating agency S&P Global Ratings has long assigned **Latvia a credit rating** in the high “A” category. From February 2020 to June 2024, Latvia’s credit rating was at the “A+” level, but it is currently set at the “A” level with a stable outlook. The agency bases its decision on the assessment that, in the medium term, Latvia’s fiscal indicators, economic growth, and international competitiveness remain resilient to the indirect effects of Russia’s aggression against Ukraine; however, improvements in these indicators may be limited by rising defense expenditures. At the same time, a stable political environment, membership in the euro area, and a moderate level of government debt support maintaining the credit rating at the “A” level.

Meanwhile, on 9 May 2025, Fitch Ratings affirmed Latvia’s credit rating at the “A-” level with a stable outlook. The agency notes that Latvia’s rating is supported by sound economic policies, a low level of government debt, and membership in the EU and the euro area, while growth prospects are constrained by the small and open nature of the economy. Fitch Ratings forecasts a moderate increase in government debt to around 52% of GDP by 2027 and expects Latvia’s economic growth to reach around 1.2% in 2025 and 2.4% in 2026.

The Japanese credit rating agency R&I on 31 March 2025 affirmed Latvia’s credit rating at the “A” level with a stable outlook, noting that Latvia’s medium-term economic growth will remain stable owing to the government’s fiscal discipline, the stability of the financial system, and the availability of EU fund financing, and also forecasts a moderate increase in government debt.

Moody’s Investors Service likewise notes that Latvia’s financial position is stable, and that the relatively low level of general government debt will remain moderate in the coming years.

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



Source: State Treasury