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ECONOMIC SITUATION: BRIEF OVERVIEW

In 2013, national economy of Latvia is improving. In nine months of 2013, GDP was 4.2% higher than a year ago. Since 2011, economy of Latvia is one of the fastest-growing within the whole EU. Nevertheless GDP still is almost 10% smaller than before crisis, in 2007.

Since 2010, an export from Latvia has grown rapidly, and thus it may be regarded as one of the main drivers of growth. Export volume in 2012 exceeded the pre-crisis level almost by 20%. As forecasted demand in some trading partners in 2013 stayed low, dynamics of Latvian export has become more moderate. Export volume in nine months exceeded previous year level only by 1.4%. Narrowing of export opportunities, especially in the 1st half of 2013, left negative effect on some fields of manufacturing. Generally, during the three quarters, production volume in manufacturing was by 0.8% lower than a year ago.

In 2013, domestic demand applied the greatest contribution on the economic growth. In three quarters of 2013, private consumption was by 5.7% higher than a year ago. Stable growth was observed in such sectors as trade, commercial services and construction.

Situation in labour market is continuously improving – employment and wages are increasing, while unemployment is reducing. In 2013, number of employed persons may reach 895.8 thousand – 20 thousand or 2.3% more than on average in 2012. While unemployment rate may decline to 12 per cent.

As pressure applied by external factors weakens, dynamics of consumer prices in 2013 was rather moderate. In November consumer prices were by 0.4% smaller than a year ago. Price tendencies in 2013 largely were influenced by drop of food, fuel and heat prices. It is likely that average level of consumer prices of 2013 will remain at the level of previous year.

In the upcoming months domestic demand will have a major role in economic growth that will be facilitated by improvement in the labour market. It is likely that also export opportunities will become better, since economic situation in trade partners of Latvia will gradually improve. The Ministry of Economics estimates that economic growth of Latvia in 2013 may reach 4.5 per cent.

Key Indicators of Economic Development

	2008	2009	2010	2011	2012	2013f
<i>increase over the previous year, as per cent</i>						
Gross Domestic Product	-2.8	-17.7	-1.3	5.3	5.2	4.5
Consumer prices	15.4	3.5	-1.1	4.4	2.3	0.0
Number of employed*	-0.2	-13.9	-6.4	1.3	1.6	2.3
<i>per cent</i>						
Unemployment rate	7.7	17.5	19.5	16.2	15.0	12.0
<i>as per cent over gross domestic product</i>						
General government sector balance	-4.2	-9.7	-8.1	-3.6	-1.4	-1.1
Exports-imports balance	-13.7	-1.5	-1.4	-4.8	-3.9	-2.3

f – forecast

Development of global economy is still weak and differs among the regions. Prospects for economic growth in developed countries are improving very slowly. While situation in developing countries has become slightly worse, nevertheless growth rate thereof still is comparatively fast.

After a recession in EU lasting for six quarters, GDP in 2nd quarter of 2013 increased. It was continuing also in the 3rd quarter, when GDP was by 0.2% higher than a quarter before. Also latest business tendency surveys show that economic activities in EU are gradually increasing. Nevertheless economic situation generally is becoming more stable, development trends in Member States still differ. Growth in new EU countries is faster than on average in region. Whereas Baltic States indicate the most rapid economic growth within the EU as a whole.

USA economy in the 3rd quarter of 2013 was

improving – annual GDP increase accounted for 1.8%. Fiscal policy difficulties did not leave notable influence on economic development.

Asian countries have overcome global crisis more successfully than countries of other regions; however, weak external demand impedes development of the region.

CIS region recovery largely depends on resource prices. Similarly as in other regions, growth of CIS countries is not perform as well. Due to slight drop in industry, export and investments, annual growth of Russia economy is reducing already for the sixth quarter in a row (from 4.8% in the 1st quarter of 2012 to 1.2% in the 3rd quarter of 2013).

According to the estimate of International Monetary Fund, world economy in 2013 may rise by 2.9%, while in 2014 growth of global economy may exceed 3.6 per cent.

Global Economic Growth

GDP, per cent changes

	2009	2010	2011	2012	2013 IMF*	2013 EC**
World	-0.9	5.2	3.9	3.1	2.9	2.8
USA	-2.8	2.5	1.8	2.8	1.6	1.6
Japan	-5.5	4.7	-0.6	1.9	2.0	2.1
China	9.2	11.6	9.4	7.8	7.6	7.5
CIS	-6.7	4.9	4.8	3.3	2.1	2.3
EU-27, of which:	-4.5	2.0	1.6	-0.4	0.0	0.0
Germany	-5.1	4.0	3.3	0.7	0.5	0.5
Sweden	-5.0	6.6	2.9	0.9	0.9	1.1
United Kingdom	-5.2	1.7	1.1	0.1	1.4	1.3
Latvia	-17.7	-1.3	5.3	5.2	4.0	4.0
Lithuania	-14.8	1.6	6.0	3.7	3.4	3.4
Estonia	-14.1	2.6	9.6	3.9	1.5	1.3

Source: International Monetary Fund;

* forecast of International Monetary Fund; ** forecast of European Commission

GROSS DOMESTIC PRODUCT: EXPENDITURE

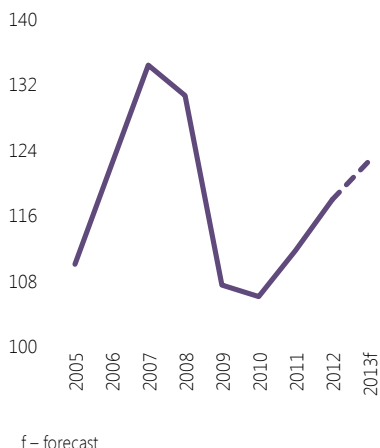
After rapid economic growth lasting for several years when average annual growth rate of GDP in 2005-2007 exceeded 10%, as a result of global financial crisis, in 2008 Latvian economy experienced recession. During the crisis, GDP decreased by 1/4. Since the end of 2009, economic growth of Latvia is resuming.

At the beginning of 2012 due to the concerns that worsening of economic situation in EU may slow down development of Latvian economy, prospects of national economy were assessed with caution even. However, Latvian economy was resistant towards negative external influence, and in 2012 GDP generally exceeded the level of 2011 by 5.2%. Also in the three quarters of 2013 growth continued and GDP was by 4.2% larger than a year ago. Although, during the last few years, Latvian economy indicates the most rapid increase within the whole EU, GDP is still almost 10% smaller than it was before the crisis, at the end of 2007.

Since 2010, Latvian export has grown rapidly, and thus it may be regarded as one of the main drivers of the national economy. Export volume in 2012 exceeded the pre-crisis level almost by 20 per cent.

Due to the low demand in foreign markets, export increase in the three quarters of 2013 has become more moderate. In 3rd quarter of 2013 when compared to the 2nd quarter, export of goods and services has decreased by 0.3% (according to seasonally adjusted data), while, in comparison with the 3rd quarter of 2012 – by 1.3 per cent.

Gross Domestic Product
2004 = 100



Expenditure of Gross Domestic Product
changes over the previous year, as per cent

	2009	2010	2011	2012	2013 Q1-Q3
Gross Domestic Product	-17.7	-1.3	5.3	5.2	4.2
Private consumption	-22.6	2.3	4.8	5.8	5.7
Public consumption	-9.4	-7.9	1.1	-0.2	2.8
Gross fixed capital formation	-37.4	-18.1	27.9	8.7	-1.8
Exports	-13.1	12.5	12.4	9.4	1.4
Imports	-31.7	11.8	22.3	4.5	-1.2

Private consumption gives increasingly higher contribution to the economic growth. Increase thereof is still facilitated by the rise in employment and wages. In comparison with the 2nd quarter, private consumption in the 3rd quarter of 2013 has increased by 0.7% (according to seasonally adjusted data) and was by 4.9% higher than a year ago, however, it still lags behind the pre-crisis level significantly.

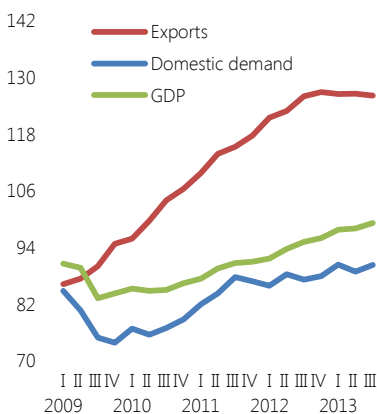
Investments in the 3rd quarter rose, thus exceeding the indicators of the previous year level by 3%. Growth of investments is still limited by weak crediting.

As domestic demand decreased, import volume during the crisis reduced rapidly. As economic activities in domestic market increased gradually over the last years, demand for imports is also rising gradually. However, in 2013 imports dynamics is moderate. In the 3rd quarter of 2013 imports reduced by 1.4%, compared to the 3rd quarter of 2012. It was mainly affected by the decrease in separate groups of goods, such as mineral products and transport vehicles, as well as by drop of imports volume of services. In the 2nd quarter of 2013 export-import balance was -0.7% of GDP. In the 3rd quarter of 2013, export-import balance comprised to -2.8% of GDP. In 2013 government consumption is increasing – in the 3rd quarter it was by 1.4% larger than a year ago.

From the second half of 2009 until the end of 2012 consumer confidence indicator improved rather rapidly, however, it still was negative. In 2013 improvement of consumer confidence is not so rapid anymore. In November 2013 it remained at the level of 2012. It was mostly caused by the consumer concerns regarding possible price rise in future.

Expenditure of Gross Domestic Product

seasonally adjusted data, 2008 Q4 = 100



Expenditure of Gross Domestic Product by quarters

changes over the corresponding period of previous year, as per cent

	2011		2012			2013		
	III	IV	I	II	III	IV	I	II
Gross Domestic Product	7.3	5.1	7.1	4.9	4.6	4.6	3.8	4.3
Private consumption	6.0	4.3	5.7	7.4	5.4	4.5	5.9	6.5
Public consumption	2.8	-1.1	0.7	0.5	-1.7	-0.2	1.1	5.8
Gross fixed capital formation	27.6	26.0	35.7	16.4	-1.9	1.0	-12.0	1.1
Exports	10.3	10.2	12.4	5.9	9.4	10.1	3.6	2.4
Imports	21.6	18.0	11.2	6.2	-0.4	2.5	2.2	-4.2

GROSS DOMESTIC PRODUCT: DEVELOPMENT OF SECTORS

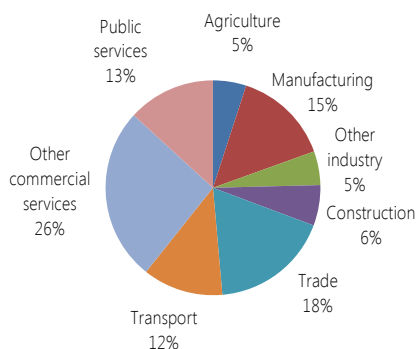
During the crisis, as competitiveness improved, since the 2nd half of 2009 until the end of 2012 the growth was observed in all tradable sectors (agriculture, forestry, industry, as well as in transport services sectors). Production volume grew rapidly also in the main exports sector – manufacturing. Share of tradable sectors in total structure of national economy increased gradually. Growth of tradable sectors and increase of income from exports have also promoted development of domestic market-oriented sectors.

In 2012, despite the difficult situation in the external environment, robust growth remained in manufacturing (by 9.4%). At the beginning of 2013 weak demand in exports markets has impeded development of manufacturing. In the 1st half of 2013, production volumes were by 2.6% lower than a year ago. However, in the 2nd half of the year situation in sector improves gradually. In the 3rd quarter manufacturing volumes grew by 2.5% compared to the 3rd quarter of 2012.

Also transport and storage sector in 2013 is not as successful as in previous year. Volume of services provided in sector increased moderately – by 2.8% in the 3rd quarter. The rise was mainly promoted by growth in volume of transportation by roads; at the same time freight turnover at railway and ports reduced.

However agriculture and other industry sector were the only main sectors of the national economy where volumes in the 3rd quarter of 2013 were smaller than a year ago.

GDP Structure
2012, as per cent



Gross Domestic Product by Sectors
as per cent

	2010	2011	2012	2013 Q1-Q3	2010	2011	2012	2013 Q1-Q3
	volume changes				contribution to changes			
Gross Domestic Product	-1.3	5.3	5.2	4.2	-1.3	5.3	5.2	4.2
Agriculture	2.1	-1.1	-0.9	-2.9	0.1	-0.1	0.0	-0.2
Manufacturing	16.7	11.7	9.4	-0.8	1.6	1.5	1.4	0.4
Other industry	1.9	-1.3	-2.6	-1.3	0.1	-0.1	-0.1	-0.2
Construction	-31.1	11.0	14.6	9.2	-2.1	0.6	0.9	1.0
Trade and accommodation	-0.1	9.4	7.4	5.8	0.0	1.6	1.4	1.1
Transport and storage	0.8	8.1	3.5	1.6	0.1	0.9	0.4	0.4
Other commercial services	0.1	2.7	3.8	6.0	0.0	0.7	1.1	1.7
Public services	-8.1	0.6	-0.6	6.1	-1.2	0.1	-0.1	0.5

Weaker development of tradable sectors is compensated by development of the sectors oriented to domestic market.

Mainly promoted by public procurements and EU fund projects, construction volume in 2013 is continuously growing. Construction volume in the 3rd quarter of 2013 was by 11.6% lower than a year ago. Increase in the sector is mainly determined by the increase in construction of residential buildings and civil engineering structures, as well as in port reconstruction. Even though construction volume is growing rapidly, it still drops behind the pre-crisis level notably.

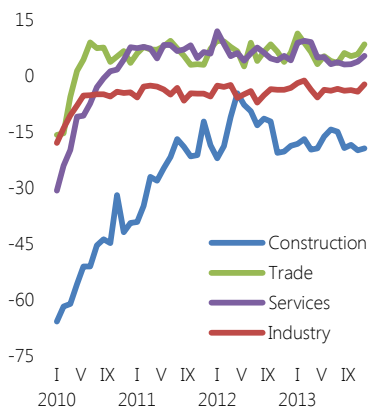
As private consumption rises, development in trade sector continues. In the 3rd quarter of 2013 volume of services increased by 5.2%, which was mainly promoted by growth of retail trade volume.

In 2013, stable growth remained in commercial services. Volume of commercial services in 3rd quarter has risen by 6.3%. The growth was mainly promoted by the increase in arts, entertainment and recreation sectors, real estate sector and financial and insurance activities sector. In 2013 volume also is increasing in public services sector and in the 3rd quarter it was by 4.1% higher than a year ago.

As domestic demand continues to increase, stable development of domestic market-oriented sectors will remain in the next months. However, if economic situation in foreign markets will improve gradually, it is expected that situation in tradable sectors will improve.

Confidence Indicators by Sectors

seasonally adjusted data



Gross Domestic Product by Sectors

changes over corresponding period of the previous year, as per cent

	2011		2012		2013				
	III	IV	I	II	III	IV	I	II	III
Gross Domestic Product	7.3	5.1	7.1	4.9	4.6	4.6	3.8	4.3	4.5
Agriculture	-0.9	-6.5	0.9	-4.0	2.1	-2.9	0.1	-4.6	-3.5
Manufacturing	9.8	8.8	16.4	9.0	7.2	6.2	-4.8	-0.6	2.5
Other industry	4.8	-8.5	-3.4	-6.3	-2.9	1.5	-1.4	1.4	-3.9
Construction	19.6	25.9	28.5	26.9	8.3	9.3	9.8	5.3	11.6
Trade and accommodation	10.1	8.9	7.1	5.8	7.1	9.3	5.0	6.0	5.2
Transport and storage	7.6	8.1	3.1	7.6	3.4	0.2	3.2	-1.0	2.8
Other commercial services	2.7	2.6	2.7	2.7	6.9	5.0	8.3	7.4	6.3
Public services	1.7	-0.5	1.4	-0.1	-3.3	-0.5	2.7	6.4	4.1

MANUFACTURING

During the time period from 2009 to 2012, manufacturing sector increased rapidly, moreover it was faster than overall development of national economy. During the post-crisis period, manufacturing was the main driver of the national economy.

In 2012, production volume in manufacturing was growing steadily. Despite the decrease in the growth rate in the major export markets – EU and CIS countries – production volumes increased by 9.4 per cent.

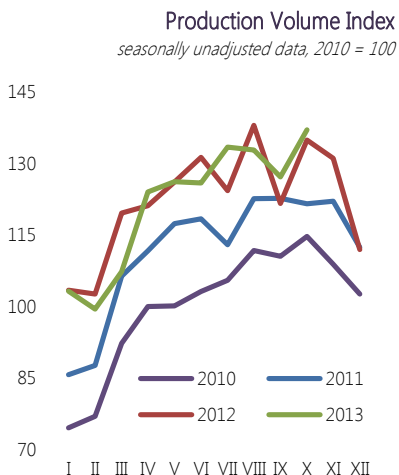
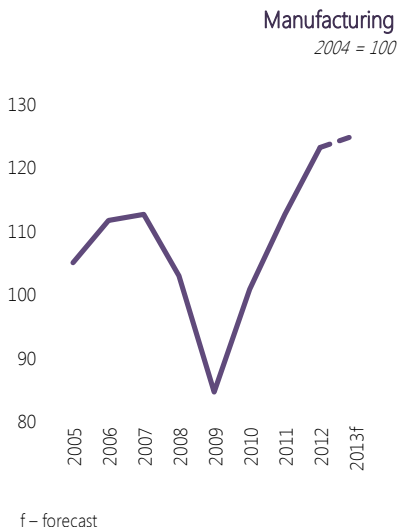
Smaller demand in foreign markets in 2013 has influenced sector contribution, and volume of goods produced in manufacturing sector during the ten months of 2013 has remained at the level of previous year.

Due the fact that economic activities of "Liepājas metalurģs" were discontinued, the most notable production drop in the ten months of 2013 was recorded in metal and metal articles sector – by 17.6 per cent.

While chemical industry in the first half of the year was significantly affected by low demand in external markets; thus, in ten months of 2013, production volume was by 8.3% smaller than a year ago. It should be noted that situation in sector is becoming more stable, and during the last months production volume is growing.

Production volumes of wood processing since 2009 was increasing and in 2012 exceeded the pre-crisis level by 40%, in ten months of 2013 has slowed down slightly and were only by 1.4% higher than a year ago.

At the same time, other manufacturing sectors in 2013 retain stable growth. The fastest growth was observed in manufacture of electrical and optical equipment. More moderate increase continued in manufacture of paper and publishing and light industry.

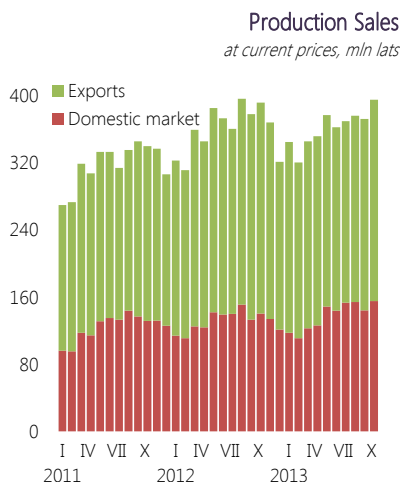


Production volume has slightly risen also in sectors oriented towards domestic market. During the ten months, production volume has grown in manufacture of non-metallic mineral products and manufacture of food products – by 5.3% each.

In comparison with the ten months of 2012, manufacturing turnover in the ten months of 2013 has reduced by 0.2%. More notable turnover increase was recorded for products sold at the domestic market (of 4.3%), while turnover of exported goods decreased by 2.8 per cent.

Production capacity utilisation rate in manufacturing sector in the 4th quarter of 2013 comprised 72.2%, thus almost retaining the level of 4th quarter of 2012. It should be noted that in some sectors, e.g., manufacture of machinery and equipment, production capacities are close to historically highest level.

Further development of manufacturing sector will be influenced by domestic demand and improvement of economic situation in Latvian export partner countries.



Main Indicators of Manufacturing
as per cent

	Structure in 2012		2012		2013 I-X
	turnover	occupied jobs	exports share in sales of sector	volume changes	volume changes
Manufacturing – total	100	100	63.5	9.3	-0.5
Food industry	22.9	22.2	33.9	2.5	5.3
Light industry	4.2	11.2	84.2	3.0	2.5
Wood processing	22.0	19.5	73.2	5.4	1.4
Paper industry and publishing	3.9	3.9	58.3	10.1	4.5
Chemical industry	8.1	6.3	77.8	8.3	-8.3
Other non-metallic mineral products	5.7	4.1	46.3	8.6	5.3
Metals and metal articles	15.5	11.1	76.9	16.2	-17.6
Electrical and optical equipment	5.5	3.6	89.3	20.0	16.5
Machinery and equipment	2.3	2.8	80.3	8.7	1.7
Motor vehicles	3.8	3.1	92.8	15.8	0.7
Other industries	6.1	12.2	43.4	26.1	-8.0

INVESTMENTS

Under the impact of global financial crisis, investments in Latvian economy reduced sharply; whereas, as economy became stable and economic activities resumed, since 2010 investment volume has increased rapidly. In 2011, investments rose by 27.9%, while in 2012 – by 8.7%, thus comprising 22.8% of GDP. In 2011-2012 investments in national economy of Latvia were 1.2 times more than in 2009-2010. However, it should be noted that average quarterly investment volume is almost by half less than in 2007.

In 2012, investments in services sector rose by 16%. Largest investments were made in trade sector, transport and storage as well as real estate activities. In its turn, investment dynamics in industrial sectors was less explicit than in 2011, and investments in manufacturing in 2012 have declined by 8.1%, as compared to 2011.

Mainly because of the fact that in 2012 many large investment projects were concluded, investment level in the 1st quarter of 2013 was by 12% lower than a year ago. Whereas in 2nd and 3rd quarter of the year, investments in national economy of Latvia exceed the level of previous year by 1.1% and 3.3%, respectively. Investments in services accounted for almost 2/3 of the total investments made. Faster increase of investment volume is considerably delayed by slow renewal of crediting.

Since 2010, incoming foreign direct investment (FDI) flows are increasing gradually. In 2011, FDI flows in Latvian economy rose almost four times and comprised 5.2% of GDP. Intensity of incoming FDI retained comparatively high level also in 2012 – they constituted 3.2%, while in nine months of 2013 – 2.3% of GDP. Reduction in FDI flow rates was determined also by negative flows in energy, transport and storage sector. Also volume of FDI related to financial intermediation was by a half smaller than a year ago. Nevertheless volume of incoming FDI in manufacturing in the three quarters of 2013 was at slightly lower level than a year before, intensity thereof still was comparatively high, showing that sector is very attractive to foreign investors.

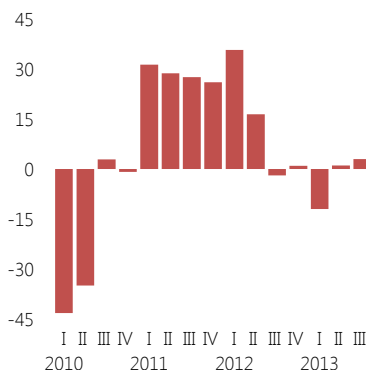
Gross Fixed Capital Formation

2004 = 100



Gross Fixed Capital Formation

changes over corresponding period of the previous year, as per cent

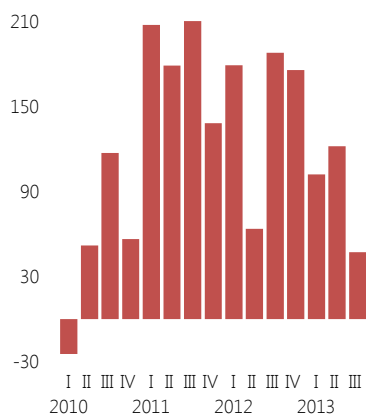


It should be noted that, in the first half of 2013, volume of incoming FDI in Baltic States accounted for EUR 574.8 million, i.e., almost a half less than a year ago. Latvia attracted about 55% of all Baltic State FDI.

According to international investment balance of Latvia, at the end of September 2013, FDI stock in Latvian economy reached LVL 7'940 million (EUR 11'298 million) – 13% more than at the end of September 2012 (of which 12.2% more in manufacturing). Larger share of FDI among all sectors was recorded in real estate activities and bank intermediation.

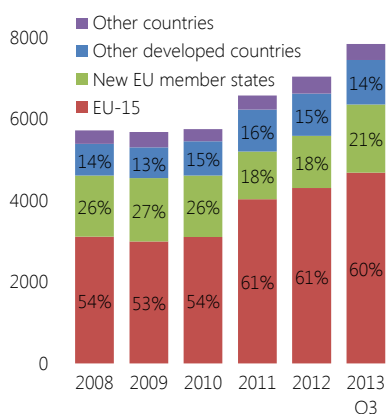
Foreign Direct Investment in Latvia

flows, mln lats



Foreign Direct Investment in Latvia

*by groups of countries
balance at the end of period, mln lats*



Non-financial Investment by Sectors

as per cent

	structure	changes of volume			
	2012	2009	2010	2011	2012*
Agriculture	7.4	-43.9	19.6	59.2	20.7
Manufacturing	15.7	-53.1	5.5	41.6	2.5
Other industry	17.0	-34.3	-9.3	71.0	10.2
Construction	1.9	-46.1	-33.3	21.3	-36.0
Trade and accommodation	7.5	-50.6	-24.2	24.5	18.4
Transport and storage	20.4	-44.2	8.1	48.1	30.3
Other commercial services	8.5	-30.5	-32.2	-3.5	36.4
Public services	21.6	0.1	-44.3	22.5	-4.1

* preliminary data

FOREIGN TRADE

Since 2010 foreign trade of Latvia is developing very rapidly. As compared to 2009, export of goods at current prices in 2012 has almost doubled, while import – increased by more than 80%. Starting from 2009, export has risen by 25% yearly, while import – by 23%. In 2012, the largest contribution to the export growth was provided by agricultural and food products as well as metals and metal articles. Export of wood and wood products and machinery as well as electrical equipment and mineral products has increased significantly.

Regardless the uncertainty in external environment, export in 2012 was continuing to increase rapidly – by 15.6% at current prices and by 11.6% at constant prices. Whereas, import of goods rose by 13.9% (by 5.6% at constant prices).

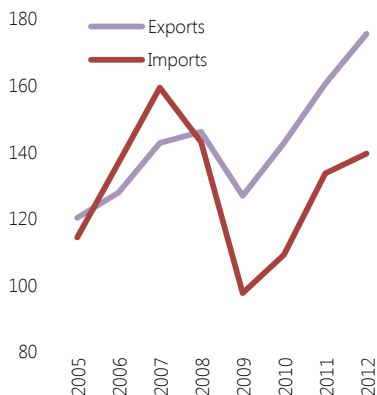
Also in 2013, export of goods from Latvia was growing at slower pace. In January-October, at current prices it has increased by 2.7%. Taking into account slight increase of export unit value, export volume at constant prices has grown slightly slower. While in January-October 2013 import of goods at current prices has remained at the level of previous year. At constant prices the volume thereof has even slightly dropped.

As export volume grows faster than import, negative trade balance continues to reduce. In the ten months of 2013 it comprises 11% of the total trade turnover.

In January-October 2013, total export development was positively influenced mainly by growing export of mechanical engineering products, wood and wood products, as well as agricultural and food products. Due to the fact that A/S "Liepājas Metalurģs" discontinued its economic activities, export of metals and metal articles has decreased significantly. In the ten months of 2013, export of transport equipment has also declined.

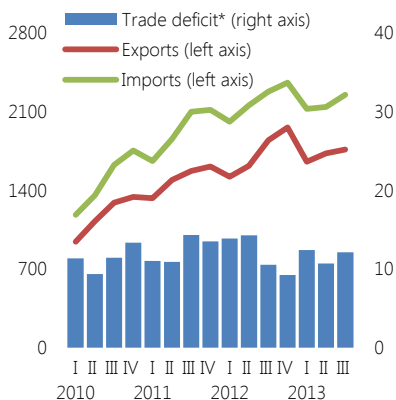
Exports and Imports of Goods

at constant prices, 2004 = 100



Exports and Imports of Goods by Quarters

in mln lats and as per cent



* as per cent of total trade turnover

In January-October 2013, import of goods was mainly influenced by the reduction in import of metals and metal articles as well as import of transport vehicles. This decline, in turn, was compensated by the slight increase in the import of goods of chemical and light industry, as well as agricultural and food products.

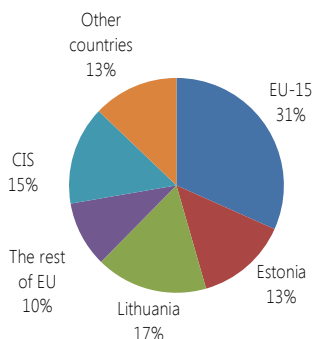
Export to EU and to CIS countries in January-October 2013 has grown faster than total export. Export to main export partner of Latvia – Lithuania – has increased notably (by 11.7%). While export to Estonia has increased less (by 1.8%). Export to other countries (except EU and CIS countries) has diminished by 7.1 per cent.

Main Latvia's trade partners in January-October 2013 were Lithuania – 19% of total foreign trade turnover, Estonia, Germany and Russia – 10% each, Poland – 8%, Sweden and Finland – 4% each as well as Denmark and Netherlands – 3% each.

Considering weak economic situation in external environment, general export increase in 2013 will be more moderate than in 2012; and development thereof in future will depend not only upon the improvement of situation in external environment, but mainly upon better competitiveness of producers.

Structure of Exports of Latvian Goods

in January-October 2013, as per cent



Exports and Imports of Latvian Goods

in January-October 2013, as per cent

	Exports			Imports		
	structure	volume changes	contribution to changes	structure	volume changes	contribution to changes
Total, of which:	100	2.7	2.7	100	0.0	0.0
Agricultural and food products	19.5	6.1	1.1	15.7	3.5	0.5
Mineral products	9.0	2.4	0.2	17.3	-2.6	-0.5
Chemical products	9.6	3.6	0.3	15.1	7.5	1.0
Products of light industry	4.9	5.2	0.2	6.2	10.6	0.6
Wood and articles of wood	16.4	10.0	1.5	2.0	27.7	0.4
Metals and metal articles	11.0	-22.9	-3.4	9.2	-14.3	-1.5
Machinery and electrical equipment	15.3	17.4	2.3	18.1	-0.2	0.0
Transport vehicles	4.4	-17.7	-1.0	7.4	-14.2	-1.2
Other goods	9.8	14.3	1.3	9.1	7.6	0.6

BALANCE OF PAYMENTS

During the last years, the current account of balance of payments is at the level of small deficit. In 2011, current account deficit constituted 2.2% of GDP, while in 2012 – 2.5% of GDP. Also in the nine months of 2013 balance of the current account was negative – 1.4% of GDP.

Fluctuations of the current account are mainly determined by the changes in foreign trade balance. In 2012, foreign trade deficit accounted for 9.8% of GDP, which is more than a half lower than in 2007 (24% of GDP). Improvement of foreign trade balance was mainly determined by the more rapid growth of export volume than import volume. In 2012, export at current prices grew by 15.3%, but import – by 13%. While in nine months of 2013, export of goods was by 3.2% higher than a year ago, but import increased by 0.7% and foreign trade deficit reached 9.8% of GDP or almost by 2 percentage points lower level than a year ago.

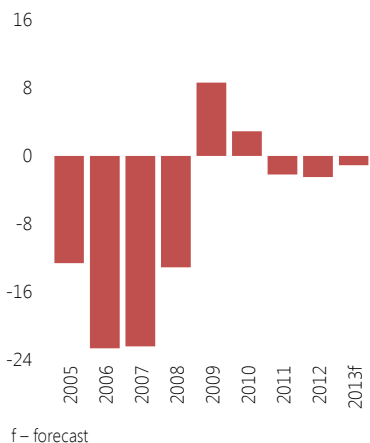
Balance of services is positive and covers foreign trade deficit by 65%. In 2012, services balance surplus constituted 6.8% of GDP, almost twice exceeding level of 2007. In three quarters of 2013, export of services was almost two times higher than import of services.

Income balance mainly is affected by changes in non-resident enterprise profitability. Due to the foreign investor losses during the crisis, income balance was positive. Due to the increase in dividends paid to non-residents, deficit of income balance in 2012 and nine months of 2013 accounted for 1.8% of GDP. Account of current transfers in 2013 was positive (2.8% of GDP), remaining at the level of previous years.

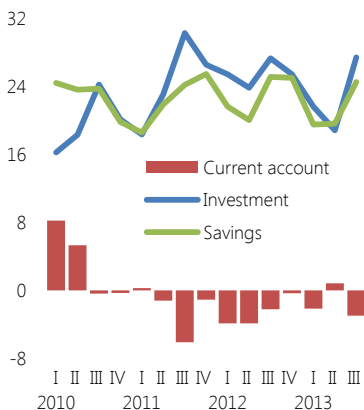
Quarterly fluctuations of financial account balance are gradually decreasing. In 2012, financial account balance surplus was 2.9% of GDP. Also in nine months of 2013, financial account was positive (1% of GDP).

Intensity of incoming FDI remained at a rather high level. Attracted FDI in 2012 were 3.2%, and in nine months of 2013 – 2.3% of GDP.

Current Account Balance
as per cent of GDP



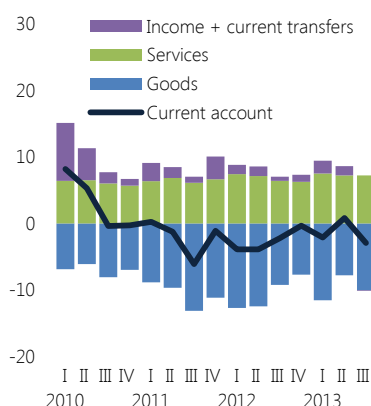
Current Account, Investment and Savings
as per cent of GDP



Share of portfolio investment in incoming financial flow is rather small, and, during the last 3 years, it have not exceeded 10%. Significant fluctuations are observed in other investment position. In 2012, other investment balance was negative – 5.1% of GDP. In the nine months of 2013, deficit of other investment balance reached 0.2% of GDP. Fluctuations in balance of portfolio and other investments mainly are related to financial sector stabilisation measures and restructuring of public sector debt.

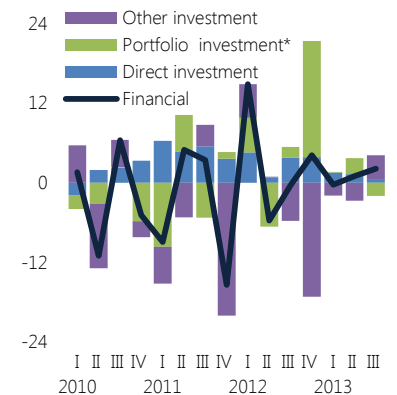
Current Account by Items

as per cent of GDP



Financial Account by Items

without reserve assets, as per cent of GDP



* portfolio investment and derived financial instruments

Latvian Balance of Payments by Items

as per cent of GDP

	2009	2010	2011	2012	2013 Q1-Q3
A. Current account	8.6	2.9	-2.2	-2.5	-1.4
Trade balance	-7.1	-7.0	-10.8	-10.4	-9.8
Service balance	6.0	6.1	6.5	6.8	7.3
Net income	6.3	0.2	-0.9	-1.8	-1.8
Net current transfers	3.4	3.6	3.1	2.9	2.8
B. Capital account	2.4	1.9	2.1	3.0	2.5
C. Financial account*	-6.9	-2.1	-4.0	2.9	1.0
Direct investment stock	0.6	1.5	4.9	3.2	1.1
Portfolio investment**	2.3	-2.8	-1.8	4.7	0.1
Other investment	-9.8	-0.7	-7.2	-5.1	-0.2
D. Deviation	0.8	1.2	-0.4	0.2	-0.4
E. Reserve assets	-5.0	-4.0	4.4	-3.6	-1.7

* without reserve assets; ** portfolio investment and derived financial instruments

PRICES

After deflation, caused by the crisis, when 12-month inflation in February 2010 dropped to -4.2%, prices started to rise again. In 2011, annual increase in consumer prices constituted 4%, while in 2012 – 1.6%. Inflation mainly was caused by the rise in prices of natural gas, food and fuel. World's fuel prices had great impact on inflation in Latvia. Annual average level of consumer prices in 2012 was 2.3% higher than a year ago.

In 2013, changes in consumer price level are very moderate. In November consumer prices were by 0.4% lower than a year ago. In the eleven months of 2013, drop in prices of food (by 1.4%), fuel (by 4.9%) and heat (related to decline in prices of natural gas – by 6.8%) had the greatest downward impact on the consumer price level, while increase in the prices of footwear (by 5.8%) applied the most significant upward effect. It should be mentioned that world food prices are falling, and, as compared to December 2012, in November they were by 3.6% lower. In November, oil prices in world markets were lower than at the beginning of the year. Thus also in Latvia fuel prices in eleven months of 2013 have reduced by 4.9 per cent.

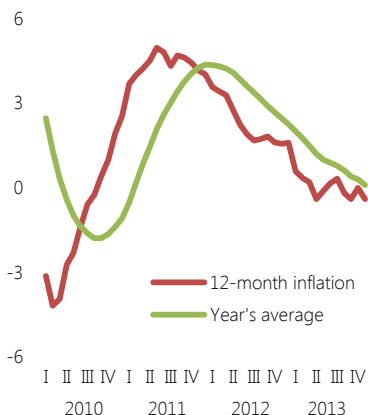
Also in EU price dynamics in 2013 is more moderate. In October, the 12-month inflation in EU countries was 0.9%. It was determined by the price increase for food and services.

Further changes in consumer prices in Latvia will depend upon improvement of economic situation and world price trends. Ministry of Economics estimates that in 2013 generally the average level of consumer prices will remain at the level of previous year. Consumer inflation expectations due to Euro introduction are gradually increasing, however its influence on prices will not exceed 0.2-0.3 percentage points.

After sharp rise in 2010 and first half of 2011, producer prices are growing more steadily. Mainly because of increase in prices of energy resources, in 2012, producer prices rose slightly.

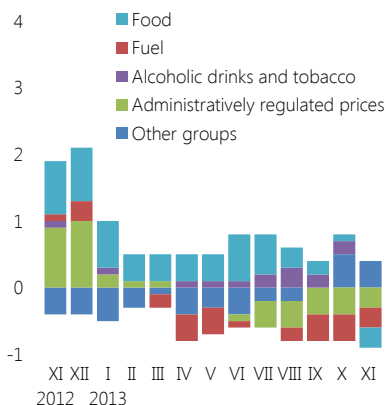
Consumer Prices

per cent



Impact of Goods and Services Groups on Consumer Price Index

contribution to 12-month changes, as per cent



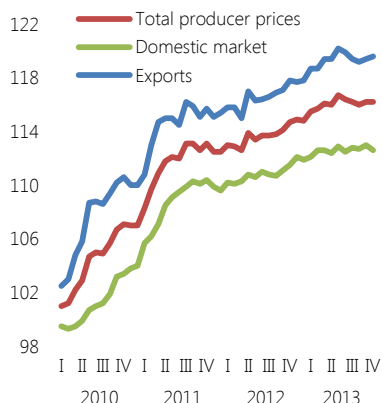
In October 2013 when compared with October 2012, overall level of producer prices in industry grew by 1.2%, for products sold at domestic market – by 0.3% and for exported goods – by 2.2%. The most considered price increase was observed in wood processing (by 4.1%) and food production (by 1.4%), while the most significant price decrease was recorded in manufacture of computer, electronic and optical products (by 17.1%).

In October 2013, producer prices in manufacturing were by 1.4% higher than a year ago. In ten months of 2013, producer prices of exported manufacturing sector goods have grown by 1.6%, whereas prices of products sold at the domestic market – by 0.7%. More notable price rise was observed in wood processing and manufacture of basic metals, while significant reduction was recorded in manufacture of computer, electronic and optical products.

Rise in producer prices shows that demand for goods produced in Latvia is increasing not only at domestic market, where economic situation is improving gradually, but, despite of weak economic growth in the main partner countries, also in external markets.

Producer Prices in Manufacturing

December 2009 = 100



Changes of Consumer Prices by Months

as per cent

		Over the previous month	Over corresponding month of the previous year	Over December of the previous year	Annual average
2012	November	-0.1	1.6	1.6	2.5
	December	0.0	1.6	1.6	2.3
2013	January	-0.2	0.6	-0.2	2.0
	February	-0.1	0.3	-0.3	1.8
	March	0.5	0.2	0.2	1.5
	April	0.0	-0.4	0.2	1.2
	May	0.1	-0.1	0.3	1.0
	June	0.2	0.2	0.5	0.9
	July	-0.3	0.3	0.2	0.8
	August	-0.8	-0.2	-0.6	0.6
	September	0.3	-0.4	-0.4	0.4
	October	0.3	0.0	0.0	0.3
	November	-0.5	-0.4	-0.5	0.1

MONETARY INDICATORS

Since 2010 situation in financial sector is improving gradually – number of new loans issued is increasing, quality of credit portfolio is improving and assets of banking sector are rising.

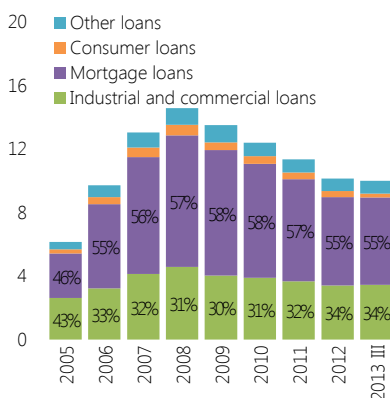
In the 3rd quarter of 2013 new loans in amount of LVL 604.8 mln were issued, which is by 32.5% more than at the same period of 2012. Increase of loans was mainly determined by the rise in amount of new loans issued to residents (by 47%). Amount of new loans issued to non-residents grew by 9.5%. Share of loans issued to non-residents in total credit portfolio of banking sector has dropped from 45% in the 1st quarter of 2013 to 32% in the 3rd quarter. Household and entrepreneur crediting is improving, amount of new loans issued increased by 41.5% and 89.7%, respectively. On loans issued to households most rapidly rose crediting of payment cards and operational accounts. In sectoral breakdown of national economy majority of new loans were issued in financial and insurance activities. In the 3rd quarter of 2013 amount of new loans issued to real estate activities and to manufacturing has increased significantly.

At the same time loan balance still continue to decrease. At the end of 3rd quarter of 2013, compared to the same period of the previous year, it reduced by 7.9%. During this period both balance of commercial loans and industrial loans reduced. Consumer crediting still continues to shrink rapidly (by 39.6%). Loan balance of mortgages was decreasing at a similar pace as in the previous quarters (by 8.1%).

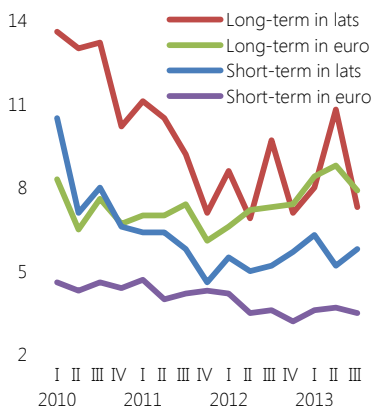
Quality of credit portfolio is continuously improving; thus, in the 3rd quarter of 2013, only 17% of loans were with overdue payments – 2.8 percentage points less than a year ago. This is the lowest level since the end of 2008 when there were 15% of loans with overdue payments. Number of resident loans with overdue payments exceeding 90 days has declined by 27%. These loans comprise more than a half of all loans with overdue payments.

Amount of deposits attracted still continues to increase – at the end of 3rd quarter it comprised LVL 12.9 bln or by 8.7% more than a year ago.

Loans Issued to Residents
at the end of the period, billion lats



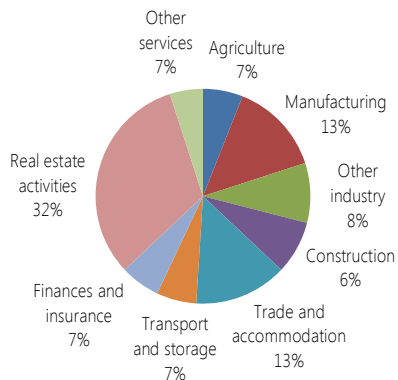
Interest Rates on Loans Issued
average weighted, as per cent



In the 3rd quarter of 2013, interest rates on long-term loans issued both in EUR and LVL reduced and was 7.9% and 7.3% respectively. Since 2012, average weighted interest rates on short-term loans issued in EUR and LVL have decreased slightly reaching 5.8% and 3.5%, respectively.

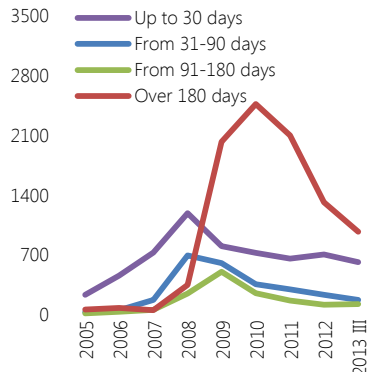
Structure of Loans Issued by Sectors

at the end of September 2013, as per cent



Loans with Overdue Payments

at the end of the period, mln lats



Monetary Indicators of the Banking System of Latvia

	2009	2010	2011	2012	2013 Q2
<i>at the end of period, mln lats</i>					
Net foreign assets	-3'022.0	-1'219.8	-224.8	613.7	967.2
Net domestic assets	8'842.3	7'609.8	6'710.9	6'161.7	5'600.2
Domestic loans	12'204.3	11'215.1	11'045.4	9'593.3	8'991.8
Other assets (net)	-3'362.0	-3'605.3	-4'334.5	-3'431.6	-3'391.6
Broad money M2X	5'820.3	6'390.0	6'486.1	6'775.4	6'567.4
Cash in turnover (without vault cash balance)	667.3	807.4	1'040.0	1'082.4	778.8
Deposits of individuals and companies	5'153.0	5'582.7	5'446.1	5'693.0	5'788.7
<i>per cent changes</i>					
Domestic loans	-14.5	-8.1	-1.5	-13.1	-8.4
Broad money M2X	-1.9	9.8	1.5	4.5	0.1
Cash in turnover (without vault cash balance)	-23.0	21.0	28.8	4.1	-26.1
Deposits of individuals and companies	1.7	1.1	-2.5	4.5	5.1
Gross Domestic Product at current prices	-18.7	-2.2	11.7	8.7	6.0

GOVERNMENT BUDGET

Worsening of Latvia's economic situation from 2008 to 2009 has left significant influence on the state fiscal situation. To avoid losing control over situation in financial sector, from 2008 to 2012 Latvia consolidated its budget by LVL 2.3 billion with the fiscal impact – 16.9% of GDP, out of which around 6.7% were measures on income side and 10.2% on expenditure side.

From 2008 to 2012 Latvia has carried out fiscal consolidation measures on average in amount of 3.4% of GDP annually. As a result of budget consolidation activities implemented by the government in 2009-2012, budget deficit has reduced from 9.7% to 1.4% of GDP.

In January-October 2013, general government consolidated budget revenue constituted LVL 4'972.9 million which is by 4.6% more than a year ago. Total taxes revenues during this period rose by 5.3 per cent.

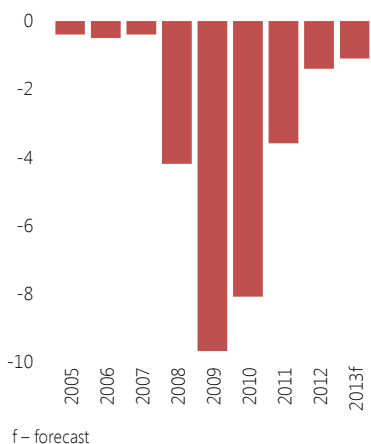
Due to increase of employment, and wages, revenues from labour taxes are rising. During the ten months of 2013, mandatory state social insurance contributions grew by 5%, while revenue from personal income tax – by 6.6%. Labour taxes in this period comprised slightly more than a half of the total increase in the taxes collected.

In ten months of 2013, compared to January-October 2012, value added tax contributions rose by 6%. As economic activity continues to increase, corporate income tax collected also continues to grow – by 4.2 per cent.

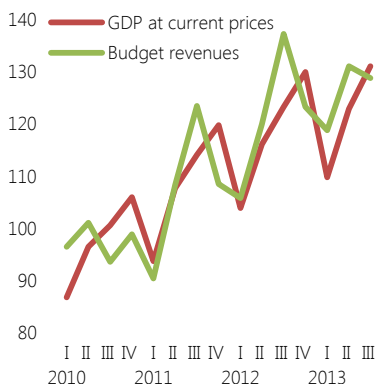
In ten months of 2013 in general financial surplus in government consolidated budget was in amount of LVL 268.3 mln.

In ten months of 2013, general government consolidated budget expenditure constituted LVL 4'704.6 mln – by 5.1% more than in ten months of 2012.

Budget Balance
as per cent of GDP

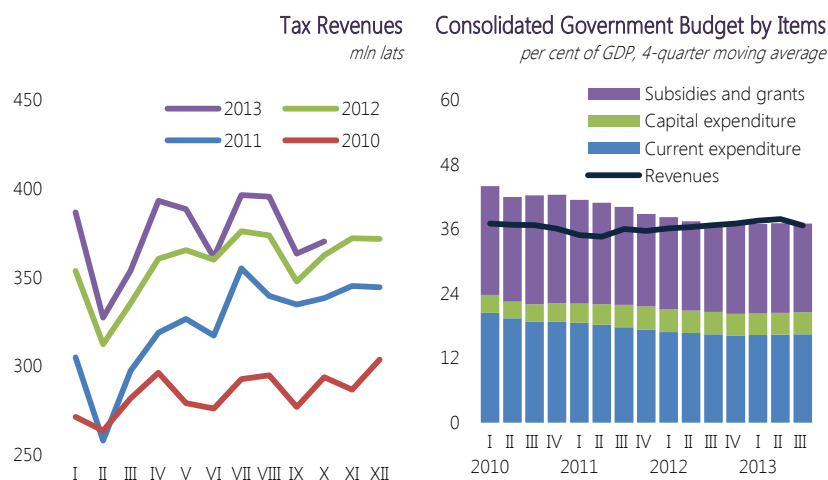


GDP and Budget Revenues
2009 Q4 = 100



In ten months of 2013, compared to ten months of the previous year, current expenditures has grown more rapidly – by 7.8% and capital expenditures – by 7.4%. During this period, expenditures on subsidies and grants have risen by 1.7%. From functional categories most rapidly in ten months of 2013 expenditure increased on social protection, economic activity, education, general government services and health.

Aim of the government is to continue to reduce budget deficit – in 2013 it is planned that it will reach 1.1% of GDP.



General Government Budget

	bln lats					per cent changes
	2009	2010	2011	2012	2013 I-X	2013 I-X
Revenues, of which:	4.72	4.61	5.09	5.74	4.97	4.6
Indirect taxes, of which:	1.32	1.30	1.46	1.63	1.42	4.9
Value added tax	0.80	0.83	0.96	1.12	0.98	6.0
Income and real estate taxes	1.00	0.99	1.10	1.23	1.08	5.9
Social insurance contributions	1.17	1.09	1.23	1.32	1.14	5.0
Other taxes	0.03	0.03	0.09	0.10	0.09	9.6
Other revenues	1.22	1.19	1.21	1.45	1.24	2.4
Expenditure	5.61	5.41	5.53	5.72	4.71	5.1

LABOUR MARKET

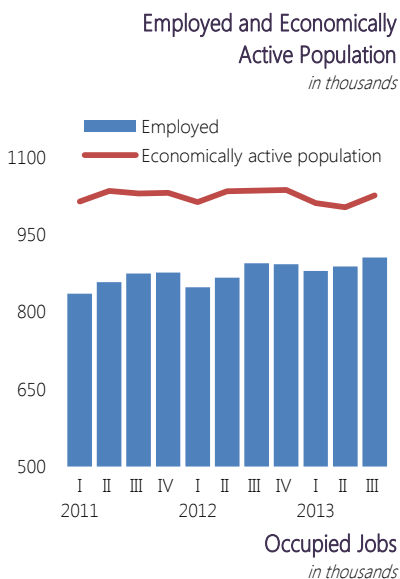
Gradual improvement of economic activities has positive effect on the situation in labour market – employment increases and high unemployment caused by crisis decreases. At the same time, some population groups, especially people with low education, elderly, as well as youth, do not feel such an explicit improvement of situation.

In 2012, number of employed persons grew by 1.6% and comprised 875.6 thousand. Regardless the increase in employment, unemployment still remains relatively high – 15 per cent.

In 2013, situation in labour market continues to improve. In the 3rd quarter of 2013, 906.1 thsd persons were employed – by 1.3% or approximately by 11.4 thsd more than in the 3rd quarter of 2012. At the same time, number of economically active population dropped by 1 percentage point.

In the 3rd quarter of 2013, unemployment rate dropped to 11.8%, and it is 1.9 percentage points less than a year ago.

According to the data of the State Employment Agency, also registered unemployment rate is reducing – at the end of October 2013, it fell to 9.1%. Number of registered unemployed persons comprised 89.6 thsd – a drop of 16.1 thsd, as compared to October 2012. The highest unemployment rate still was registered in Latgale region (18.6%), while the lowest – in Riga (5.7%). In October 2013, share of long-term unemployed persons (not working for more than a year) in the total number of unemployed persons accounted for 37.8 per cent.

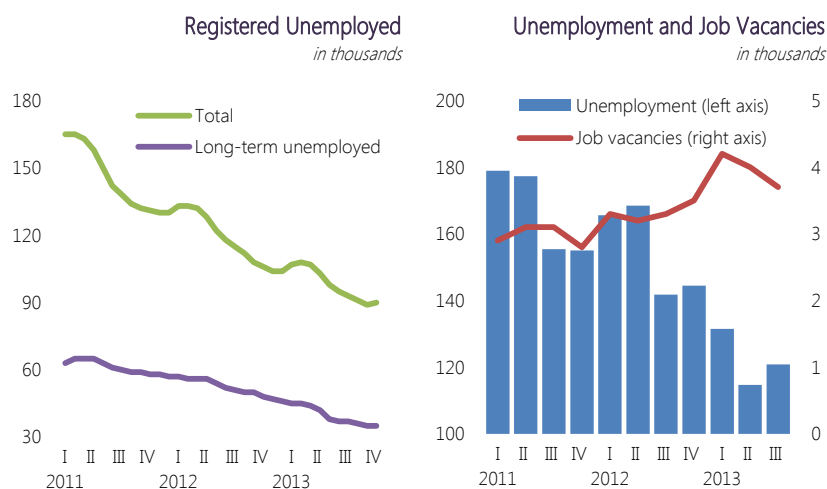


	2008	2009	2010	2011	2012	2013 Q3
Total	1'016.6	826.1	776.7	805.5	839.1	873.3
Agriculture	20.8	17.9	17.5	19.0	20.6	22.1
Manufacturing	138.9	104.1	101.8	109.1	114.5	118.2
Other industry	26.7	23.7	22.4	22.9	23.7	24.3
Construction	89.3	54.6	46.0	50.9	55.7	65.5
Trade and accommodation	221.8	173.3	159.7	162.8	170.7	176.5
Transport and storage	77.8	67.6	66.8	68.8	72.7	75.5
Other commercial services	196.2	162.8	148.4	157.0	168.5	176.4
Public services	245.1	222.1	214.2	215.0	212.8	214.8

Since the middle of 2010, number of job vacancies registered by the State Employment Agency is rising gradually. At the end of October 2013, totally 5'758 job vacancies were registered – by 37.7% more than a year ago.

Comparatively high unemployment is still mainly related to cyclical factors, features of structural unemployment are becoming more typical. Risk that part of current unemployed persons will not be able to find job in a longer term still remains, because sectors, which recover from crisis faster, are not the same as ones having the largest job losses during the crisis.

It has been foreseen that in 2013 the number of employed persons will exceed the indicator of 2012 by 2.3% or by 20 thsd. Whereas unemployment rate may drop to 12 per cent.



Main Indicators of Labour Market
in age group 15-74 years

	2008	2009	2010	2011	2012	2013 Q3
<i>in thousands</i>						
Population	1'702.5	1'674.3	1'635.3	1'595.3	1'560.0	1'536.1
Economically active population	1'143.4	1'101.4	1'056.5	1'028.2	1'030.7	1'026.9
Employed persons	1'054.9	908.5	850.7	861.6	875.6	906.1
Unemployed persons	88.5	192.9	205.8	166.6	155.1	120.9
<i>as per cent</i>						
Economic activity rate	67.2	65.8	64.6	64.5	66.1	59.0
Employment rate	62	54.3	52.0	54.0	56.1	66.9
Unemployment rate	7.7	17.5	19.5	16.2	15.0	11.8

PERSONAL INCOME

During the economic recession, both number of employed persons and wages reduced. As economic situation became more stable, since the end of 2010 labour remuneration is increasing, although unemployment rate still is rather high.

In 2010, gross average monthly wages and salaries comprised LVL 445 – by 3.5% less than in 2009 and by 7.3% less than in 2008. During the crisis, remuneration correction was rather moderate, since most of the economic recession was compensated by smaller number of persons employed.

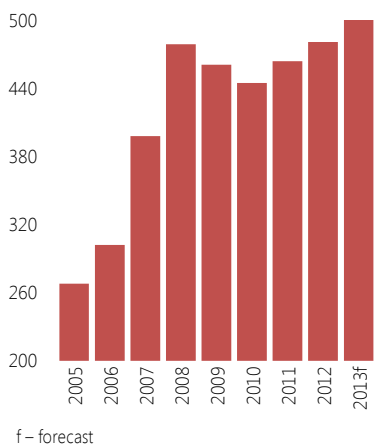
Along with the growth of labour demand, average gross wages is slowly rising. In 2011 and 2012 it increased by 4.4% and 3.7% accordingly. Since 2010, annual wages have risen in both private and public sector. Increase in public sector was slightly faster. It may be explained by higher wage drop in public sector (from 2008 to 2010) that was caused by necessity to limit government budget expenditures.

Since 2010, wages have increased in all sectors of national economy. The most significant increase in wages and salaries was recorded in real estate sector, public administration and trade.

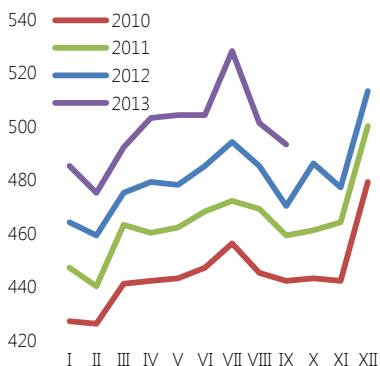
In the 3rd quarter of 2013, average wages continued to grow; as compared to the 3rd quarter of 2012, gross wages have risen by 5.1% and comprised LVL 508. The highest wages and salaries still were recorded in Riga region (LVL 575), while the lowest – in Latgale region (LVL 349). More notable increase was observed in public sector (by 5.3%), as compared to private sector (by 5%). In the 3rd quarter of 2013, average gross wages in public sector was still by 4.8% lower than in the corresponding period of 2008, whereas in private sector it exceeded the level of 2008 by 9.1 per cent.

The sharpest wage growth in the 3rd quarter of 2013 was recorded in mining and quarrying (by 17.2%), arts, entertainment and recreation (by 12.7%), public administration (by 8.7%), and financial and insurance activities (by 7.8%).

Average Monthly Wages and Salaries of Employed
gross, in lats



Average Monthly Wages and Salaries of Employed by Months
gross, in lats



The highest remuneration level remained in finance and insurance sector – on average LVL 1'065 monthly.

Along with the increase of nominal wage, gradual increase may be observed also in real wages. As consumer prices are growing, increase of real wages during the last 2 years was rather moderate – in 2011 they increased by 0.1%, while in 2012 – by 1.6%. In the 3rd quarter of 2013, real wages grew by 6.3%. Faster increase of real wages was caused by the decline of consumer prices.

Average old-age pension continued to increase – in 2012, they were by 1.2% higher than a year ago. In the 3rd quarter of 2013, average old-age pension comprised LVL 182.5, thus exceeding the level of the 3rd quarter of 2012 by 1 per cent.



Average Wages and Salaries of Employed by Sectors
gross, over the previous year, as per cent

	2009	2010	2011	2012	2013 Q3
Total	-3.9	-3.5	4.4	3.7	5.1
Agriculture	-4.7	5.8	8.2	0.7	3.4
Manufacturing	-2.0	0.1	5.0	4.6	3.9
Other industry	-4.2	4.1	3.7	3.6	3.8
Construction	-1.0	-5.3	4.7	2.0	6.2
Trade and accommodation	-2.8	-3.6	5.9	4.5	6.4
Transport and storage	0.2	0.2	1.0	7.7	3.3
Other commercial services	-1.1	-1.4	3.9	2.4	4.0
Public services	-12.8	-9.0	4.5	2.7	6.5

COMPARATIVE INTERNATIONAL STATISTICS

Economic Development in Baltic Countries

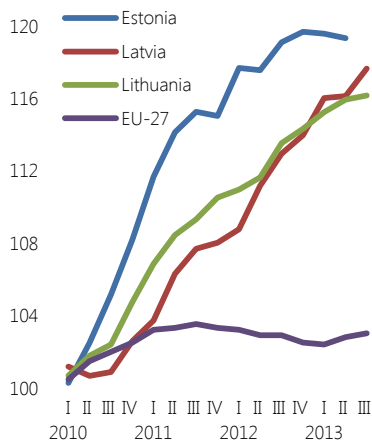
	Latvia	Lithuania	Estonia
Territory, thsd km ²	64.6	65.3	45.2
Population, thsd, at the 1 st September of 2013	2'014.0	2'953.0	1'286.5*
Gross domestic product, over corresponding period of the previous year, %			
2011	5.3	6.0	9.6
2012	5.2	3.7	3.9
2013 Q2	4.3	3.8	1.0
2013 Q3	4.5	2.2	0.7
Volume of manufacturing production, over corresponding period of the previous year, %			
2011	11.7	6.4	19.9
2012	9.3	3.7	-0.1
2013 Q2	-0.6	9.3	4.7
2013 Q3	2.5	0.1	3.3
Retail trade turnover**, over corresponding period of the previous year, %			
2011	2.3	6.3	4.6
2012	7.3	3.8	5.5
2013 Q2	4.0	6.3	2.9
2013 Q3	2.6	5.5	1.1
Changes of consumer prices, over corresponding period of the previous year, %			
2011	4.4	4.1	5.0
2012	2.3	3.1	3.9
2013 Q2	-0.1	1.3	3.4
2013 Q3	-0.1	0.4	2.8
Number of employed, over corresponding period of the previous year, %			
2011	1.3	0.5	6.7
2012	1.6	1.8	2.5
2013 Q2	2.6	1.0	3.4
2013 Q3	1.3	0.8	1.1
Unemployment rate, % of economically active population			
2011	16.2	15.4	12.5
2012	15.0	13.4	10.2
2013 Q2	11.4	11.7	8.1
2013 Q3	11.8	10.9	8.0

* data at the beginning of 2013

** data adjusted by working days

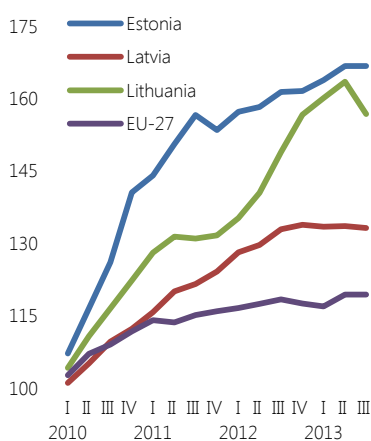
Gross Domestic Product

seasonally adjusted data
2009 Q4 = 100



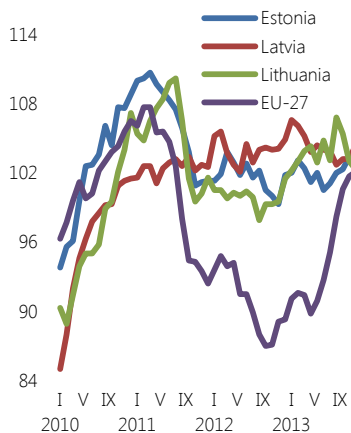
Exports of Goods and Services

seasonally adjusted data
2009 Q4 = 100



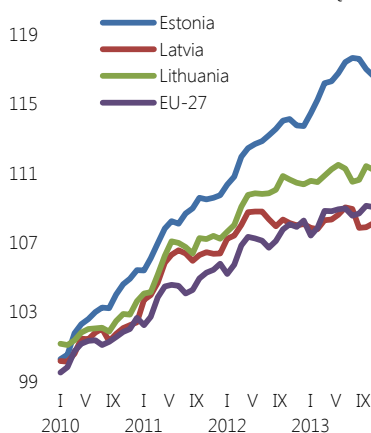
Economic Sentiment Indicator

seasonally adjusted data



Harmonised Consumer Price Index

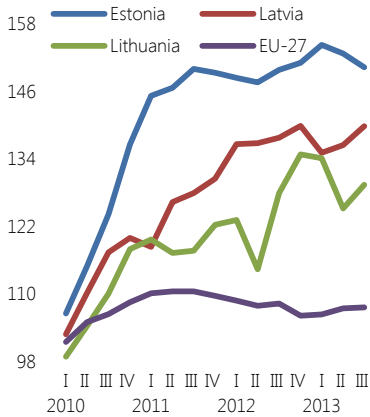
seasonally adjusted data
2009 Q4 = 100



Manufacturing Production Volume

seasonally adjusted data

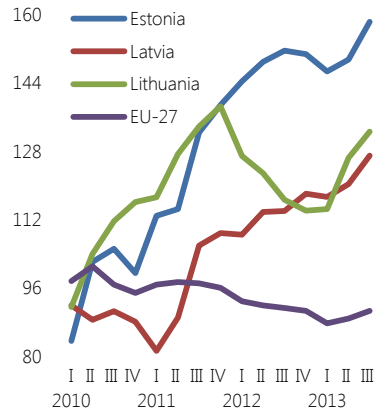
2009 Q4 = 100



Construction Production Volume

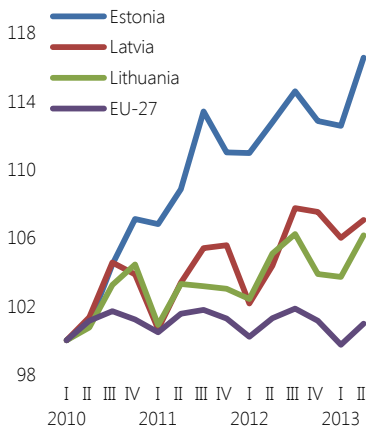
seasonally adjusted data

2009 Q4 = 100



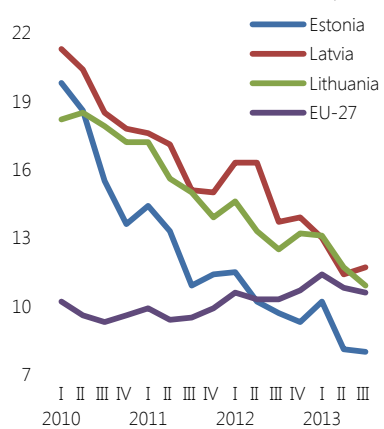
Number of Employed

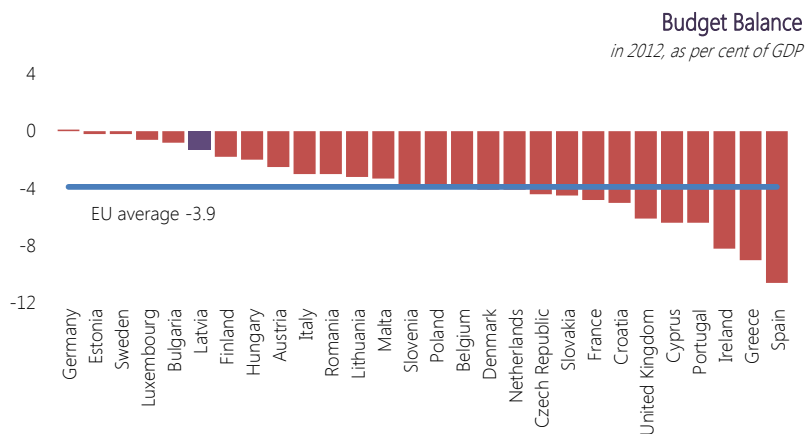
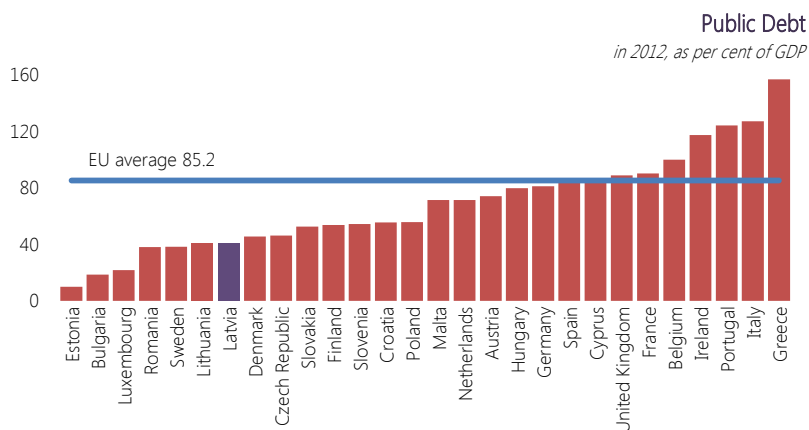
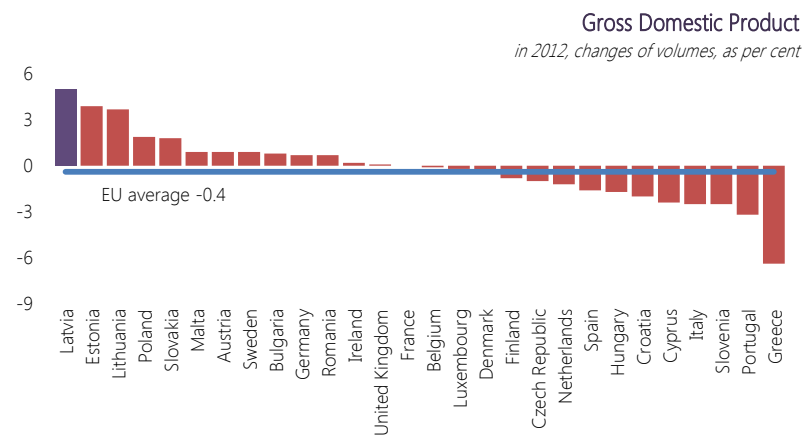
2010 Q1 = 100



Unemployment Rate

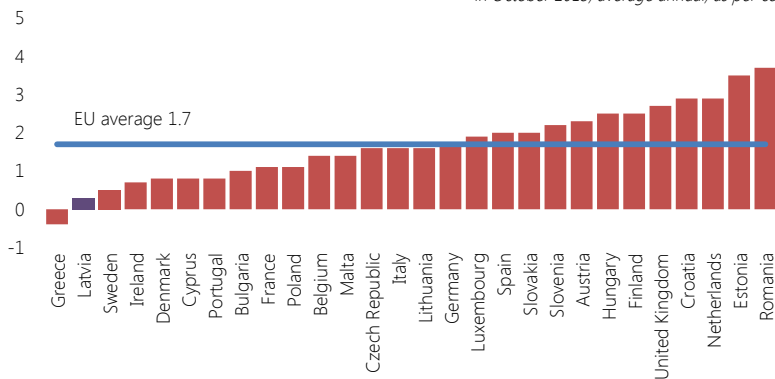
as per cent





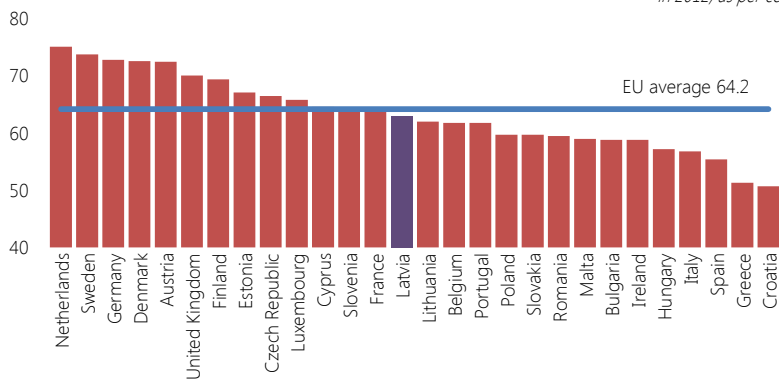
Harmonised Consumer Price Index

in October 2013, average annual, as per cent



Employment Rate

in 2012, as per cent



Unemployment Rate

in 2012, as per cent

