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## ECONOMIC DEVELOPMENT TRENDS

Until the outbreak of Covid-19 pandemic, Latvia's economic growth remained stable, exceeding the EU average. From 2011-2019, GDP on average increased by 3.3% annually. In 2019, economic growth moderated. GDP increased by 2%. The slight economic slowdown was driven by both internal factors (investments from EU funds have peaked, developments in the financial sector, etc.) and external factors (review of global trade tensions, Brexit, slower growth in other EU countries).

The Covid-19 pandemic has a significant impact on the global and Latvian economies. In the 2nd quarter of 2020, GDP in Latvia decreased by 8.9% annually. However, this

appears to be a comparatively mild decline, as the EU-27 GDP contracted by 13.9% over the same period.

In Q3 and Q4 of 2020, the economic decline slightly slowed down. Overall, in 2020, GDP decreased by 3.6%, compared to 2019. With the epidemiological constraints remaining, the economy will decline in the first quarter of 2021 as well. However, with the resumption of seasonal work in the spring and the improvement of the epidemiological situation, which will be facilitated by vaccination, economic activity is expected to increase gradually. The Ministry of Economics forecasts that in 2021 economic growth could exceed 3%. However, the uncertainty remains elevated.

## Key Economic Development Indicators

	2015	2016	2017	2018	2019	2020	2021e
Gross domestic product, at current prices, billion euro	24.6	25.4	27.0	29.1	30.4	29.3	30.7
<i>Changes against the previous year, as per cent</i>							
Gross domestic product	4.0	2.4	3.3	4.0	2.0	-3.6	3.2
Private consumption	2.2	3.3	3.0	2.6	2.2	-10.0	7.5
Public consumption	2.7	2.5	3.4	1.6	2.6	2.6	2.6
Gross fixed capital formation	-2.0	-8.2	11.4	11.8	2.1	0.2	3.3
Exports	3.0	4.0	6.4	4.3	2.1	-2.7	4.9
Imports	1.6	3.6	8.6	6.4	3.0	-3.3	5.0
Consumer prices	0.2	0.1	2.9	2.5	2.8	0.2	1.5
<i>as per cent</i>							
Changes in the number of employed	1.3	-0.3	0.2	1.6	0.1	-1.9	-0.3
Employment rate	60.9	61.6	62.9	64.5	65.0	64.2	64.3
Unemployment rate	9.9	9.6	8.7	7.4	6.3	8.1	7.7
<i>as per cent of GDP</i>							
General government balance	-1.4	0.2	-0.8	-0.8	-0.6	-4.8	-8.0
General government debt	37.1	40.4	39.1	37.1	37.0	43.5	50.0
Net exports	-1.7	0.3	-0.6	-0.8	-0.8	1.2	1.0

e - estimation

The Covid-19 crisis has had a significant impact on consumption. With rising employment and wages, private consumption has grown steadily in recent years. In 2020, the increase in unemployment and the fall in income caused by the Covid-19 crisis have significantly reduced household consumption. In 2020, private consumption was 10% lower than a year ago. The government's support measures to mitigate the negative effects of Covid-19, which have been largely financed at the expense of increasing the general government deficit, have maintained positive growth in government consumption. In the first half of 2020, it was 2.6% higher than a year ago.

The Covid-19 crisis has had a relatively more moderate impact on investment. In previous years, the increase in investment was largely due to the acquisition of EU funds.

In 2019, when the investments of the EU funds reached the maximum within the current planning period, the investment rate declined, increasing only by 2.1% (for comparison in 2018 - by 11.8%). Despite the overall economic decline in 2020, the gross fixed capital formation increased by 0.2%, compared to 2019. In 2020, investment in dwellings, buildings, and structures increased by 1.6%; in intellectual property products - by 2.6%. However, investment in machinery and equipment declined by 2.2%.

The Covid-19 crisis is having a negative impact on exports of goods and services. In recent years, export growth rates have exceeded the overall economic growth. In 2020, due to Covid-19 restrictions in foreign markets, exports decreased by 2.7%. At the same time, trends in exports of goods and services were very different. In 2020, Latvia's

exports of goods were 5.5% higher than in 2019. The largest contribution to the growth of exports of goods provided a 16% increase in exports of machinery and electrical equipment. Also, a significant increase in exports in the group of food and agricultural goods (by 6%) was observed. Plastics and plastic products also contributed to the overall rise in exports (an increase of 7.8%). However, exports of wood products decreased by 2.8%. At the same time, exports of services in 2020 decreased by 21.4%. The decline can primarily be attributed to a fall in exports from the aviation and tourism services sectors, which have been severely affected by the Covid-19 pandemic. In 2020, the export of transit services also decreased significantly. Consequentially, as total import volumes of goods and services decreased at a higher rate than exports (by 3.3%), the total export-import balance remained positive (i.e., 1.2% of GDP).

Since 2011, Latvia has experienced a low current account deficit, thus indicating the external sustainability of the Latvian economy. In 2019, the current account surplus of 3% of GDP was observed. Despite the negative impact of Covid-19 pandemic on economic development, it is anticipated that in the coming years the current account will be with a small deficit, not comprising the external sustainability of Latvia's economy.

**Development trends are highly variant across sectors.** Due to the Covid-19 crisis, the most significant decline in 2020 was observed in the accommodation and food service activities, the arts, entertainment, and recreation sectors, with the annual decrease reaching 38.1% and 26.6%, respectively. The restrictions imposed on Covid-19 also had a significant impact on aviation, land transport, and railway companies. In 2020, the decline in the transport and storage services sector reached 14.9%. Also, a significant decline in financial and insurance activities, information and communication services, and commercial services was observed. A slight decline in 2020 was also recorded in manufacturing (by 0.9%). At the same time, volumes increased in agriculture and forestry, construction, and public services.

Since 2011, when Latvia returned to economic growth, significant improvements in the fiscal position have been achieved. **As a result of the Covid-19 pandemic, in 2020, the budget deficit increased to 4.8% of GDP.** According to the forecasts of the Ministry of Finance, the budget deficit in 2021 is expected to reach 9.3% of GDP, which is significantly higher than forecast when preparing the 2021 budget due to the increase in the approved support for the economy to mitigate the consequences of Covid-19.

Due to the negative impact of the Covid-19 epidemic on economic development, **the average annual inflation in 2020 reached 0.2%, which is significantly lower than in 2019.** As the pandemic recedes, consumer prices will stabilize; overall, in 2021, average annual inflation is expected to be higher than in 2020.

**The introduction of Covid-19 restrictive measures has a significant impact on the labour market.** In previous years, the increase in economic activity has contributed to a decrease in unemployment and an increase in employment. Also, the increase in the number of employees was moderate due to the overall decline in the working age population.

The situation in the labour market has changed dramatically since mid-March 2020, as restrictive measures were introduced. The most negatively affected are labour-intensive sectors: transport services / passenger transport, travel agency and tour operator reservation services, accommodation and food services, arts, cultural sectors, sports centres, and other sectors requiring human interaction. **Overall, in 2020, the number of employees decreased by 1.9% or approximately 17 thousand,** representing the largest decline since 2010.

Along with the decrease in employment, unemployment has also increased significantly. In 2020, the unemployment rate in Latvia reached 8.1%, significantly exceeding the level of 2019 - by 1.8 percentage points.

**Wage growth has remained above 7% per year over the last three years before the Covid-19 pandemic.** Although the average wage continued to grow in 2020, the growth rates have slowed down due to the decline in labour market activity. The average gross monthly wage increased by 6.2% in 2020, rising to EUR 1,143 on average per month, still constituting a significant increase under the current circumstances. However, it represents the lowest wage growth since 2016.

**The further development of the economy in the medium term depends on the situation in the external environment and the pace of reforms.** The further development of the Latvian economy will be closely related to export opportunities; therefore, the largest risk to Latvia's growth is related to the development of the global economy, especially the expansion of the COVID-19 epidemic. Also, the further development of the EU's common economic space is vitally important. Latvia's medium-term economic benefits will be mainly based on the macroeconomic stability (as a result of which Latvia's credit ratings have improved), the efficiency of the planned EU support programs, and improvements in the business environment.

The competitive advantages of the Latvian economy mainly rely on technological factors, improvements in production efficiency and innovations; however, to a lesser extent on low labour and resource prices. In the medium term, Latvia's growth rates may reach 4-5% annually. Economic recovery could slow down if growth in Europe weakens and virus control measures endure.

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## WORLD ECONOMIC OUTLOOK

The outlook for **global economic** growth has improved significantly, driven by the introduction of vaccines, fiscal support, and signs that the economy is coping better with anti-virus measures. However, uncertainty remains elevated. New waves of the pandemic and the spread of the most contagious strains of the virus raise concerns for further development. Global growth is projected to reach 5.6% in 2021 (*OECD Interim Economic Outlook, March 2021*; hereinafter – OECD).

GDP Growth Rate  
as per cent

	2020	2021f	2022f
World	-3.4	5.6	4.0
G20	-3.2	6.2	4.1
Euro Area	-6.8	3.9	3.8
USA	-3.5	6.5	4.0
Russia	-3.6	2.7	2.6
China	2.3	7.8	4.9

Source: OECD Interim Economic Outlook Forecasts, March 2021; f – forecast

The economic impact of the pandemic is being limited in many countries in Asia-Pacific, reflecting effective public health measures as well as the significant stimulus provided by the recovery of industry and China's economy. Fiscal support is also helping the Japanese and Indian economies to recover.

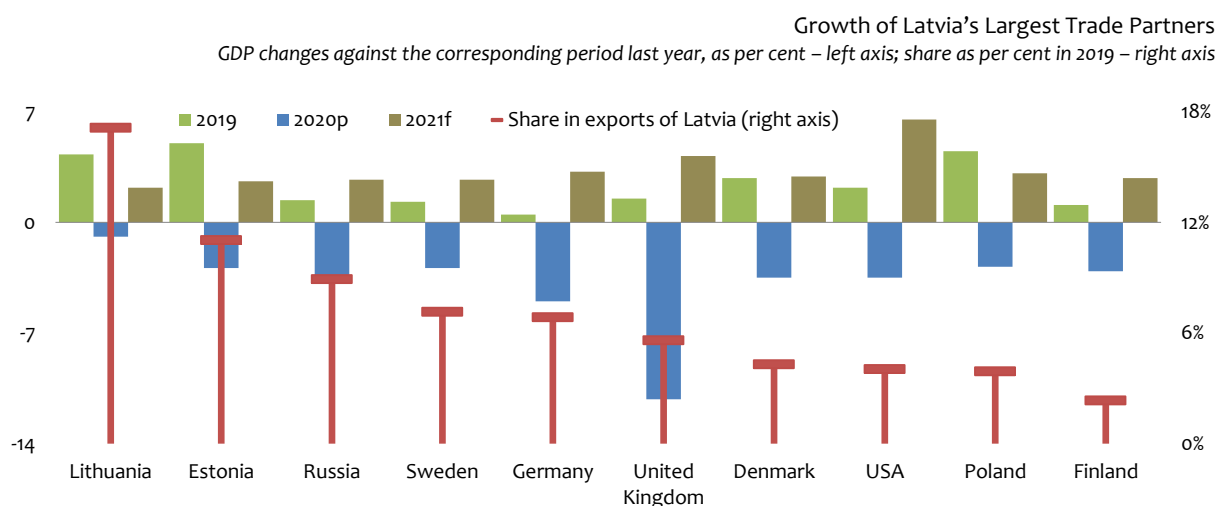
Strong US fiscal support strengthens demand, with positive effects on other economies, in particular Canada and Mexico. US GDP is estimated to grow by 6.5% in 2021; in 2022, GDP growth is expected to reach 4% (*OECD*).

The **eurozone economy** is expected to grow by 3.9% in 2021 and by 3.8% in 2022 (*OECD*). However, the pace of

recovery will vary significantly between Member States due to the structure of their economies. Some countries that are more dependent on sectors such as tourism have suffered more during the pandemic. Not all Member States are expected to return to pre-pandemic levels by the end of 2021 or the beginning of 2022.

The UK's GDP contracted by 11.2% in 2020. In 2021 and 2022, GDP is projected to increase by 4.2% and 4.1%, respectively (*OECD*). Private investment will remain weak due to weak spare capacity and long-term uncertainty.

The **German** economy contracted by 5% in 2020 due to the Covid-19 pandemic and its containment measures (European Commission, European Economic Forecast, Winter 2021, hereinafter - EC). Production decreased by 10.4%. Germany's GDP is expected to grow by 3.2% in 2021. In 2022, it will continue to grow by 3.1%. Fiscal policy has provided a significant stimulus to the **Swedish** economy, in particular through measures to address short-term unemployment. GDP is projected to grow by 2.7% in 2021, and by 4% in 2022 as the pandemic eases and the global economy recovers (EC). In **Estonia**, GDP contracted by 2.9% in 2020, due to a small decline in private consumption and the sustainability of exports. Employment fell mainly in the sectors directly affected by the pandemic, such as tourism and hospitality. In 2021 and 2022, GDP is expected to grow by 2.6% and 3.8%, respectively (EC). In **Lithuania**, in 2020, GDP decreased by 0.9%. In 2021 and 2022, GDP is projected to grow by 2.2% and 3.1% (EC), respectively. Lithuanian exports in 2020 were relatively stable, as the manufacturing was only slightly affected by the restrictions. Growth was also driven by the agricultural sector.



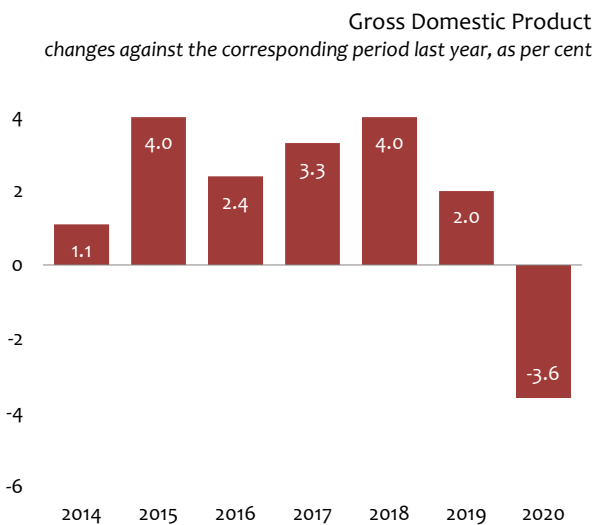
Source: CSB, OECD 2020, EC 2020, f – forecast

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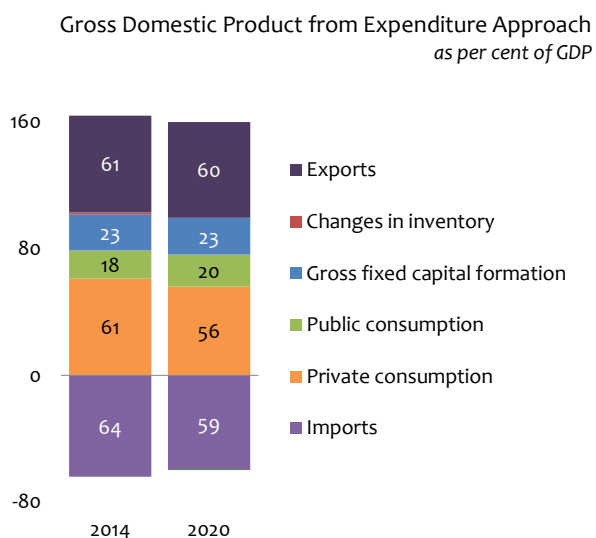
## GROSS DOMESTIC PRODUCT AND AGGREGATE DEMAND

## GROSS DOMESTIC PRODUCT

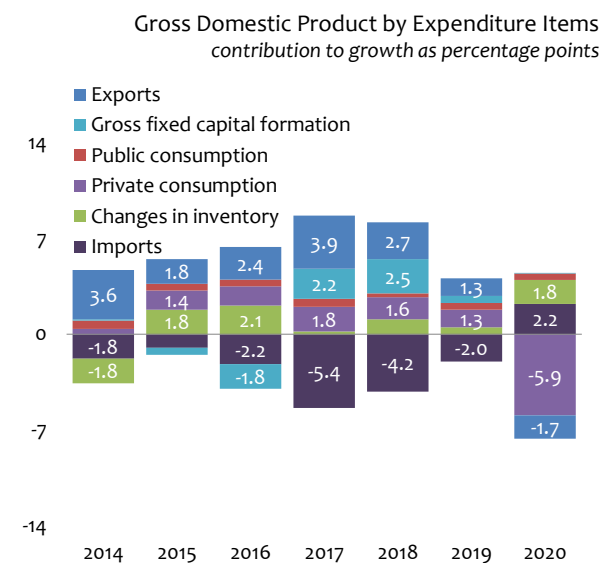
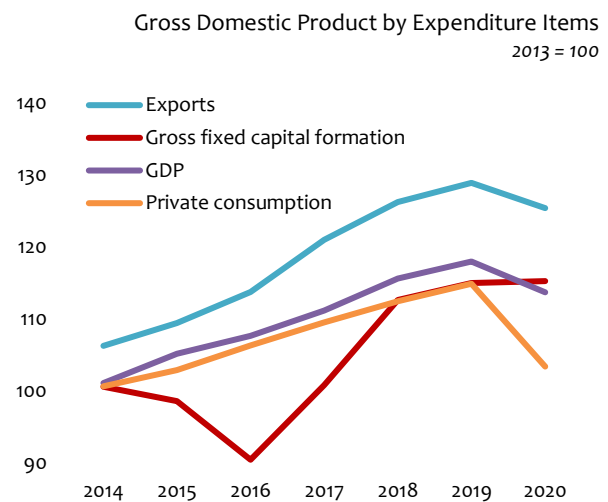
In 2020, the economy contracted sharply. In 2020, GDP decreased by 3.6%, which was the sharpest decline in a decade.



Economic development in 2020 was mainly determined by the negative impact of Covid-19. The decline in private consumption, which was affected by rising unemployment and falling incomes, had the largest impact on the decline in GDP. Covid-19 restrictions in Latvian export markets and delays in raw material supply chains affected exports of goods and services.

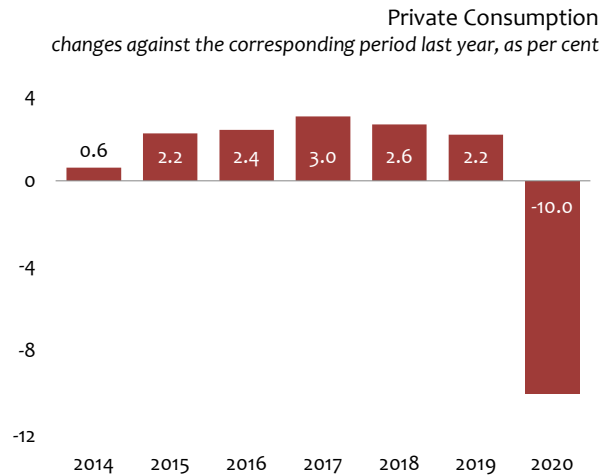


At the same time, trends in exports were highly variant. Whilst exports of goods increased, exports of services declined sharply, mainly due to a significant decline in exports of tourism and transport services. Despite the decline in overall economic activity in 2020, investment has shown a slight increase. Government consumption also continued to increase, driven mainly by government support measures to mitigate the negative effects of Covid-19.



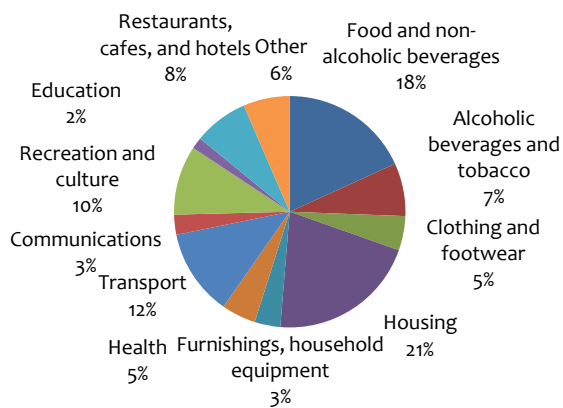
CONSUMPTION

Private consumption has declined significantly due to the Covid-19 crisis. From 2014 to 2019, private consumption increased on average by 2.3% annually, which was mainly facilitated by employment and a significant rise in wages. However, due to Covid-19 constraints, private consumption declined sharply in 2020, driven by declining spending, rising unemployment, and falling incomes.

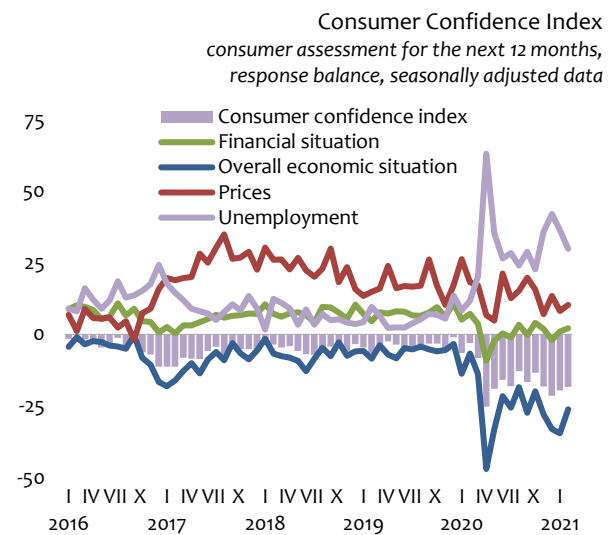


Expenditure on housing accounts for the largest share of household consumption. In 2019, compared to 2018, expenditure increased in all major consumption expenditure groups, except for alcoholic beverages and tobacco and housing equipment. Expenditure on restaurants, cafes and hotels, health and leisure and culture had the largest impact. In 2019, housing expenditure increased by 1.3%. Expenditure on food increased by 2.3%. Expenditure on transport (i.e., the third largest expenditure category) increased by 2.1%. A sharp increase in expenditure for recreation and culture was observed - by 5.2%, which was determined by the increase in expenditure on recreation and culture services.

**Structure of Household Expenditures**  
2019, as per cent

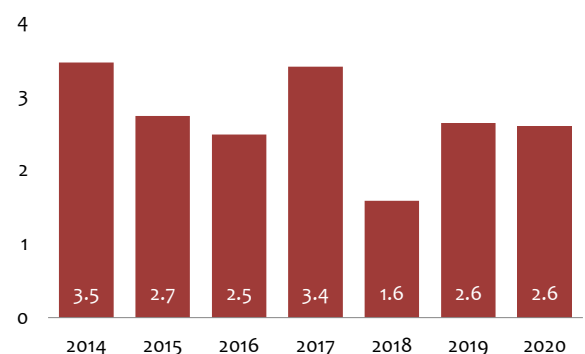


In 2020, consumer sentiment deteriorated; however, in the first months of 2021, it is slowly recovering. If at the beginning of 2020 consumer sentiment continued to improve, then with the declaration of a state of emergency, it started to deteriorate. The most pessimistic consumer sentiment was observed in April 2020, when expectations for the next 12 months regarding the development of the family's financial situation, the general economic situation in the country, and unemployment were assessed the worst. Inflation expectations, on the other hand, in April and May 2020, had reached their lowest level in three years. Consumer sentiment improved gradually in the following months. However, it began to deteriorate at the end of 2020 as Covid-19 restrictions tightened. At the beginning of 2021, consumer confidence has improved in all key positions of the indicator.



**Public consumption continues to increase.** With budget revenues rising, public consumption has grown more rapidly since 2014. From 2014 to 2019, public consumption increased by 2.7% annually. In 2020, public consumption continued to grow, mainly due to government support measures to reduce the negative impact of Covid-19.

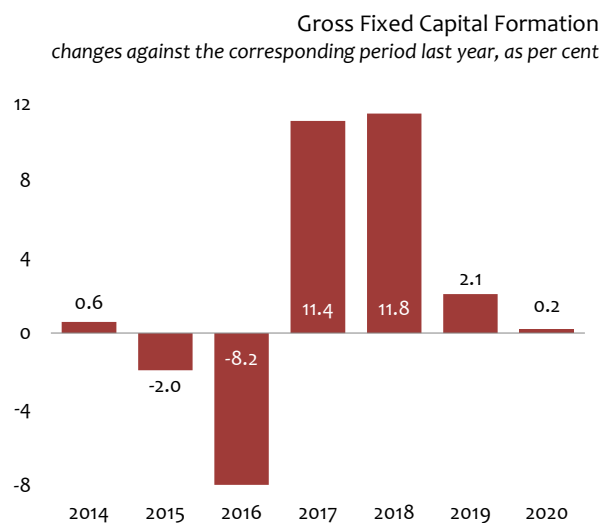
**Public Consumption**  
changes against the corresponding period last year, as per cent





## INVESTMENT

Due to the Covid-19 crisis, investments in the Latvian economy remain low and the trends for the coming years are uncertain. Investment growth is an important pillar of Latvia's economic growth. However, investment dynamics have been very volatile in the last five years before the COVID-19 pandemic. Between 2016 to 2019, investment volumes increased on average by 3.1% annually. EU-funded public investment accounted for a large share of investment. As the absorption of the EU structural funds approached the peak, the growth rate of investment moderated. In 2019, the expenditure on total fixed capital formation exceeded the last year's level by merely 2.1%, accounting for 22.7% of GDP.



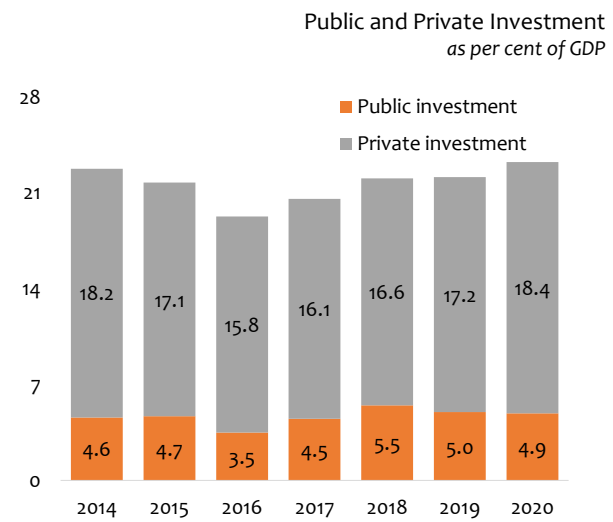
Due to the Covid-19 pandemic, investment activity in 2020 was lacklustre. Compared to 2019, the amount of investments increased by only 0.2%. Nevertheless, it was one of the highest growth rates in the EU countries, as in most EU countries a significant decline in investment has been observed.

**Private investment, albeit slowly, is increasing.** The recovery in private investment following the global financial crisis has been long-lasting. Positive dynamics resumed only since 2017 and was quite rapid. From 2017 to 2019, investment increased on average by 6.5% annually and accounted for almost 17% of GDP, which is lower than in the years of rapid economic growth. Also, in 2020, private sector investment continued to grow - by 2.2%; however, it is almost twice lower than a year ago.

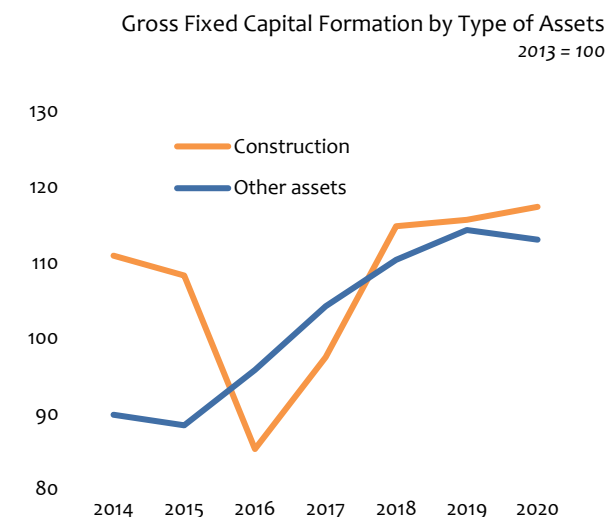
In the long run, low levels of private investment are largely driven by weak credit, low demand, and high uncertainty. The negative impact of these factors on investment was significantly exacerbated by the Covid-19 crisis.

**Public investment in Latvia is relatively high.** Public investment accounts for almost 1/5 of the total investment

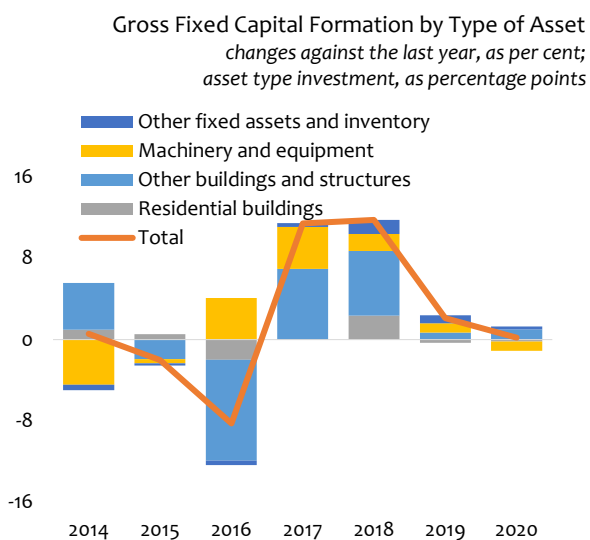
in the Latvian economy and its dynamics are largely related to the cyclical nature of the absorption of EU structural funds. With the renewal of EU structural funds financing, public investment in the period from 2017 to 2018 increased - by an average of 35% per year. As EU structural funding reaches its peak, the dynamics of public investment slows down. In 2019, public investment did not exceed the level of the previous year. However, in 2020 they were nearly 7% lower than a year ago.



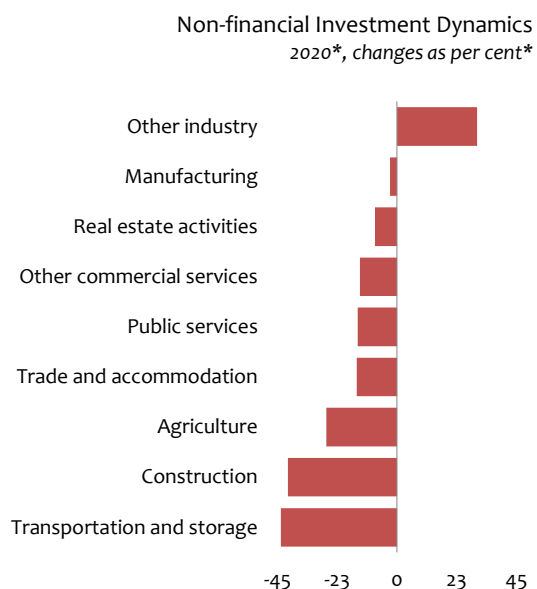
Most of investments has been made in construction assets. These are mainly investments in buildings and structures, which in the last three years accounted for almost 45% of total fixed capital formation expenditure. Investments in machinery and technological equipment (excl. vehicles) did not exceed 40% of total investments and their dynamics were slower than in other assets. Investment in intellectual property products averaged 1.7% of GDP (incl. R&D investment of 0.6% of GDP).



In 2020, a total of 1.6% more was invested in construction assets (at constant prices) than a year ago and their share in the total amount of investments reached almost 56.3%. Investment in housing was 2.3% lower than a year ago, whereas investment in civil engineering and buildings increased by 2.4%. Entrepreneurs invested 2.2% less in machinery and equipment than a year ago; however, the volume of investments in vehicles decreased significantly - by 22.4%. Also, in 2020, investments in intellectual property products were 2.6% higher, compared to 2019.



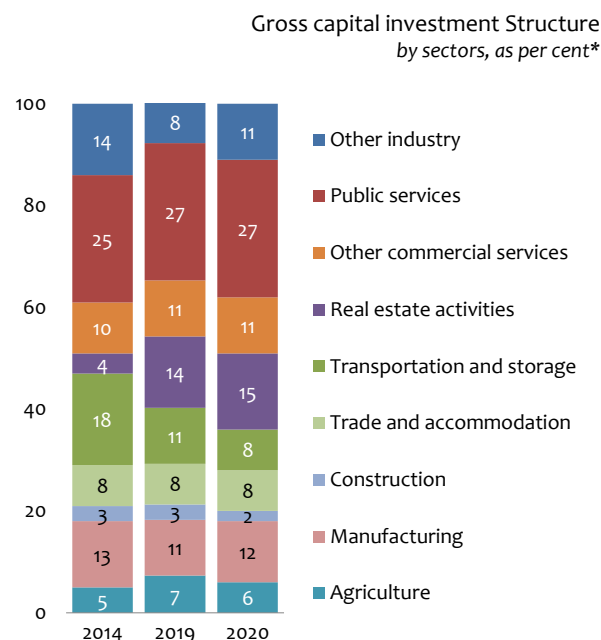
In 2020, capital investment in tangible assets grew faster in the goods manufacturing sectors. Investment in the manufacturing was almost 4.4% lower than a year ago. In the service sectors, on the other hand, capital investment decreased by almost 18 percent.



\* – calculated using quarterly data, at current prices

The largest contribution yielded the increase in investments in the electricity, gas and heat supply sector (an increase of 34.7%) and in the water supply, sewerage, waste management and remediation activities (a rise of 20.3%). Capital investment in tangible assets in the transport and storage and public administration sectors was 44% and 21% lower than a year ago, respectively. Investment in the construction sector has also declined.

Capital investment in manufacturing was only 3% lower than a year ago. The results of the survey of industrial managers show that the most important factor promoting investment is the growth of demand. Access to finance is important in stimulating investment. Also, in 2020, financial conditions are estimated as an important factor supporting investment, which is equivalent to technical factors, such as technological development, availability of qualified labour, etc.

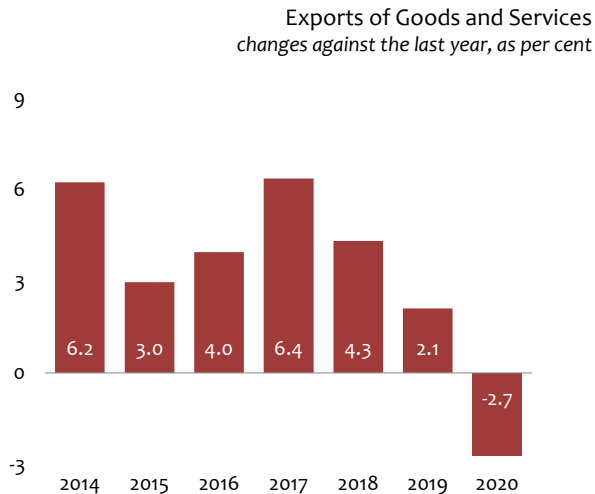


\* Gross capital investment in tangible assets (calculated using quarterly data)

Investment dynamics will be further affected by the uncertainty in the international environment, including the impact of the coronavirus outbreak, as well as a significant reduction in capacity utilization. Investment dynamics are also weakened by low levels of lending. The implementation of state support programs has a positive effect on investment dynamics. It is expected that investment activities will grow faster with the launch of the Rail Baltica project.

## EXPORTS

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

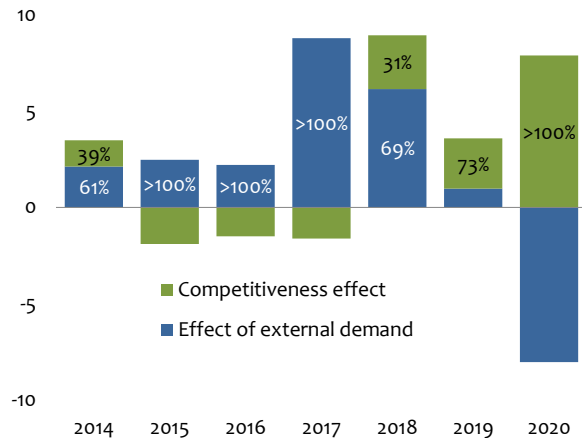


In 2020, exports of goods and services decreased, mainly due to the Covid-19 pandemic. In Q1 and Q4 of 2020, export volumes increased, while in Q2 and Q3 of 2020 they decreased significantly (by 13.1% and 3.6%, respectively), which determined the decrease in exports for the year overall.



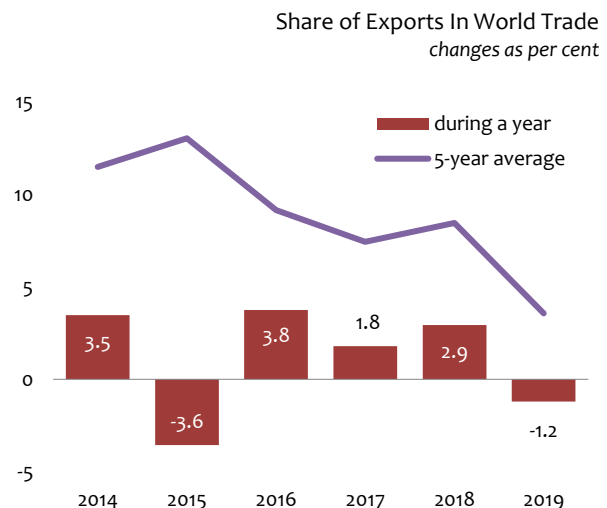
Between 2014-2018, export growth was mainly driven by external demand. The role of price competitiveness was negligible. On the other hand, in 2019, the growth of exports was more influenced by the competitiveness effect, which is related to the successful acquisition of new markets. However, in 2020, due to the spread of Covid-19, external demand is rapidly declining, which is partially offset by the increase in competitiveness in certain sectors.

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



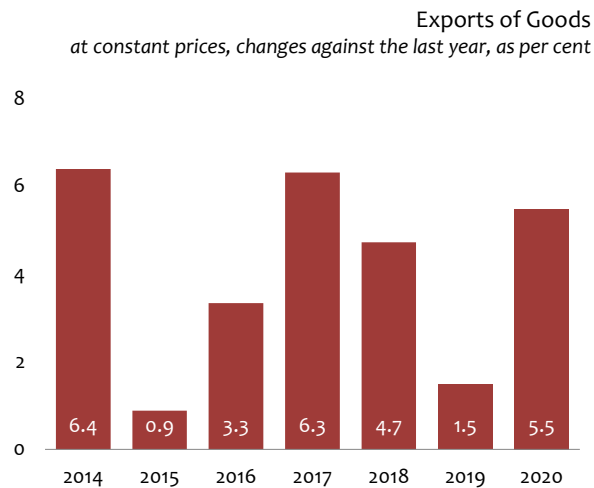
During years of economic expansion, a few large exports of goods categories (e.g. wood and its products, metals) constituted a large share of total exports. Amidst the crisis, export volumes declined across all export classes; however, the most substantial downturn was observed for the largest exports of goods categories. In the aftermath of crisis, as the economic growth resumed, exports of goods growth across product classes has become more similar, implying a higher degree of diversification for exports. In terms of goods, this indicator slightly improved in 2019-2020; however, in terms of countries, it improved in 2018.

Between 2016 and 2018, the share of Latvia's exports in the world market increased, indicating that Latvian entrepreneurs remained competitive despite a sharp rise in labour costs. In 2019, the growth rates of Latvia's exports were lower than the global average. Therefore, the share of Latvia's exports in the world decreased slightly.



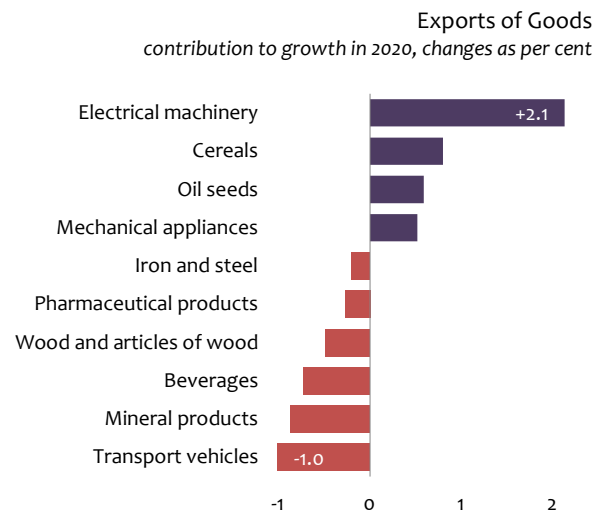
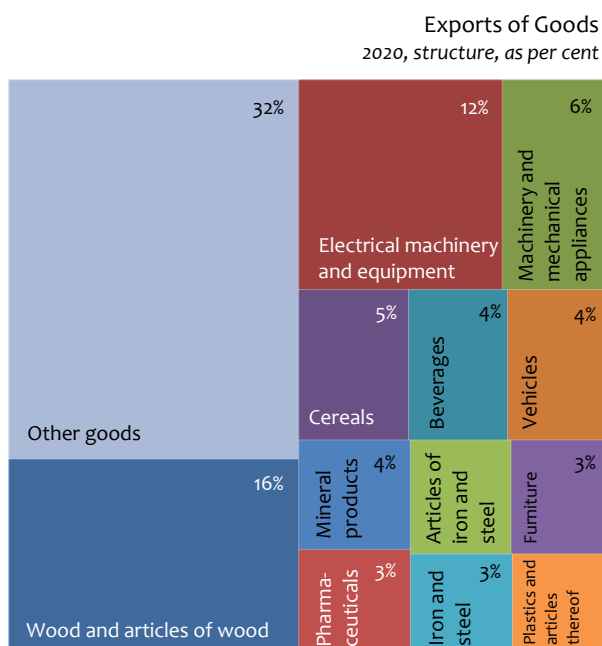
## Exports of Goods

Exports of goods have remained stable, constituting around 70% of total Latvia's exports. Also, its share has not changed significantly in recent years. It should be noted that along with the growth of exports of goods and the decrease of exports of services, the share of goods in total exports in 2020 increased slightly - to 75 percent.

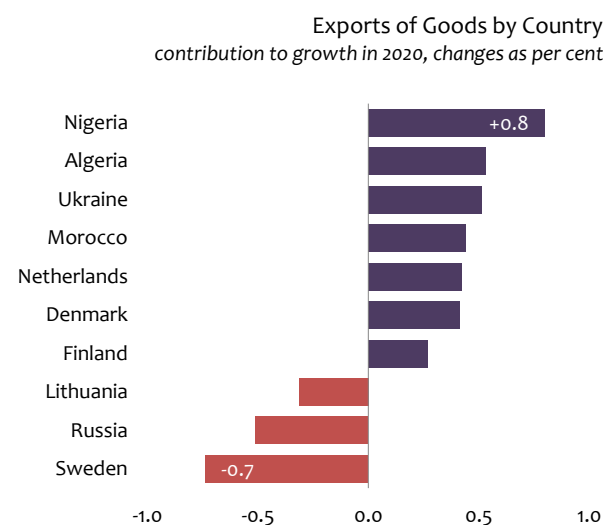


**In 2020, exports of goods grew relatively rapidly - at constant prices - by 5.5%.** On the other hand, with a slight decrease in export prices, it increased by 4.3 percent in real terms.

In 2020, export volumes increased mainly due to the rise in exports of electrical appliances and equipment. In January-February 2021, exports of goods increased by 3.2%, driven by the rise in the value of exports of wood and wood products, mineral and pharmaceutical products.



In 2020, exports of goods to Lithuania decreased slightly; however, an increase to Estonia and other EU countries (EU total – +0.9%) was observed. Exports decreased to the CIS countries (-2%), while increased significantly to other countries (8.3%). In January-February 2021, exports of goods to the EU and the CIS grew more rapidly.



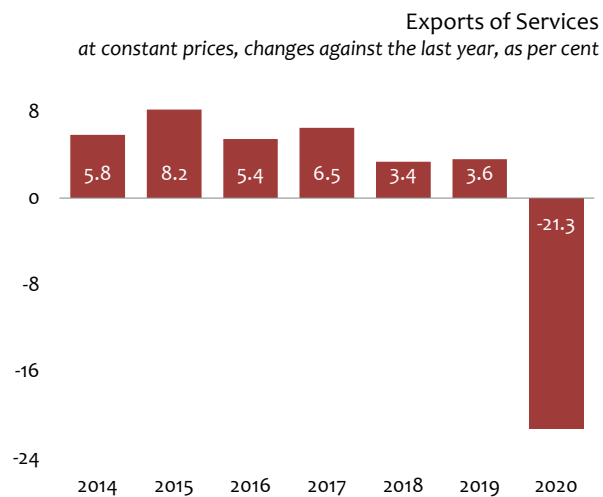
In 2020, the largest Latvia's export partner countries in goods were Lithuania, Estonia, Russia, Germany, Sweden, the United Kingdom, Denmark, Poland, and the Netherlands. Latvia exported 2/3 of all goods to these countries.

In 2020, the main export groups to the EU countries were wood and wood products and electrical appliances. Alcoholic beverages, electrical appliances, machinery and equipment, and pharmaceutical products accounted for a large share of exports to the CIS countries. The largest export groups to other countries were cereals, wood and wood products, and electrical appliances and equipment.

## Exports of Services

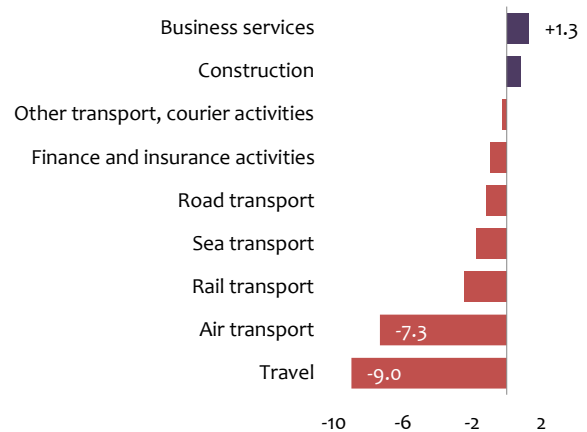
Until 2019, exports of services have increased at a higher rate than exports of goods. Transport services, ICT, trade intermediation, and travel services provide a major contribution to export growth. However, since 2016, the share of finance and insurance activities in exports is declining.

Due to the spread of Covid-19, in 2020, exports of services at current prices, compared to the last year, decreased markedly - by 21.2%.



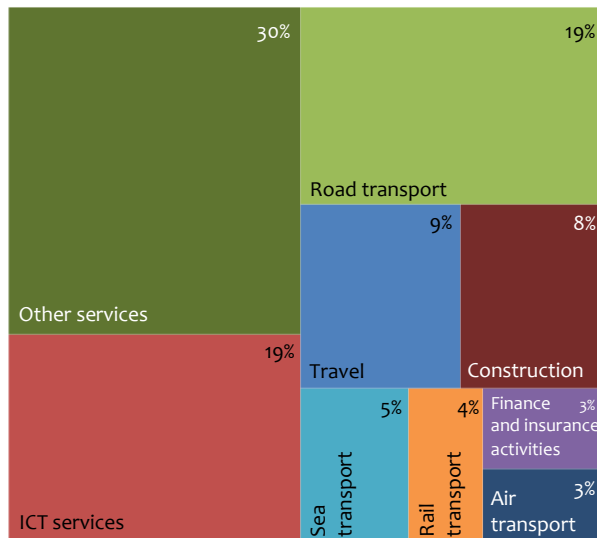
services. The value of financial and insurance and ICT export services declined more moderately. In January 2021, exports of services decreased by 11.9%. Exports of travel services decreased by 82.2%. Also, exports of transport services declined by 12.9%. However, in January 2021, exports of other services increased by 14.5%.

**Exports of Services**  
contribution to growth in 2020, changes as per cent



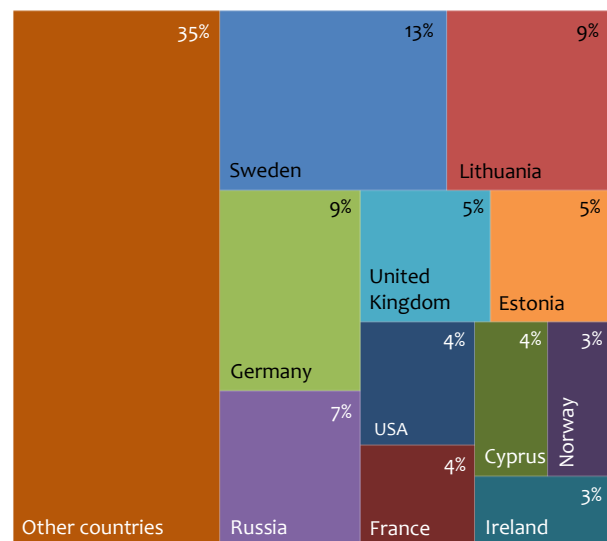
Each year the share of exports of services to EU countries has increased. Exports of services to CIS countries (mainly transit services) still comprise a significant share of total export volume. It should be noted that exports of services to CIS countries in recent years have slightly declined.

**Exports of Services**  
2020, structure as per cent



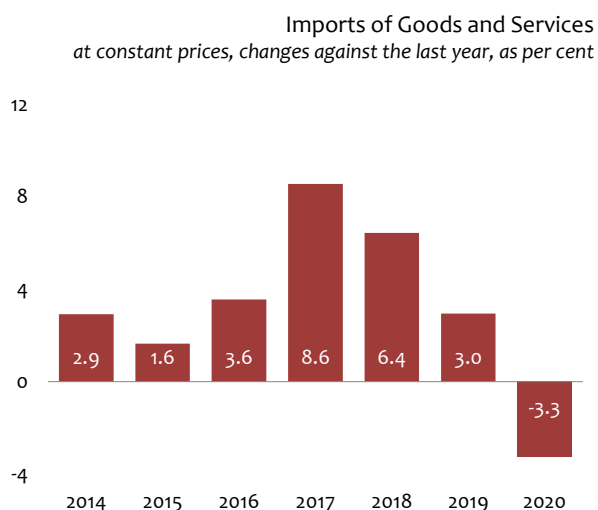
In 2020, only exports of construction and other economic services increased. Exports of transport services in contrast declined significantly, especially in air transport and travel

**Structure of Exports of Services by Country**  
2020, structure as per cent

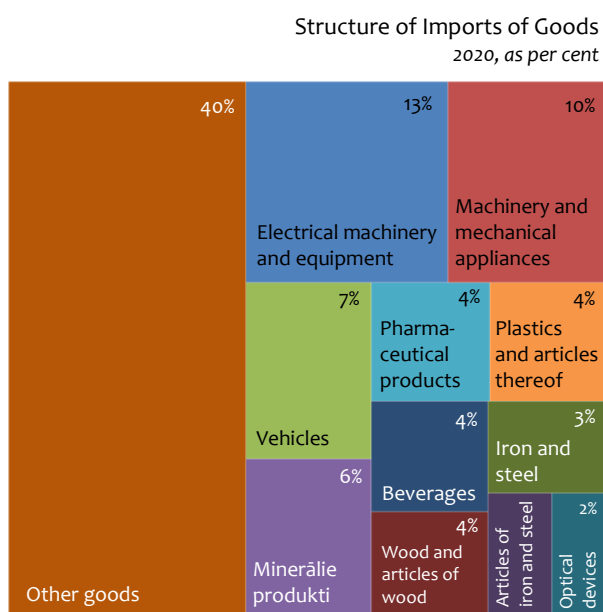


## IMPORTS

In recent years, imports of goods and services experience a similar growth as exports. Since 2017, imports of goods increased at a higher rate than imports of services. However, in 2020, under the influence of Covid-19, imports of services decreased significantly, while imports of goods essentially remained at the previous year's level (at constant prices).



In 2020, imports of goods, mainly due to the decline in prices, decreased by 5.1% at current prices. In Q2 of 2020, similar to exports of goods, imports also decreased significantly. The decrease in imports of goods in 2020 was significantly influenced by the decline in imports of mineral products, aircraft and their parts and land vehicles. However, the value of imports of electrical appliances and equipment, as well as cereals increased markedly.



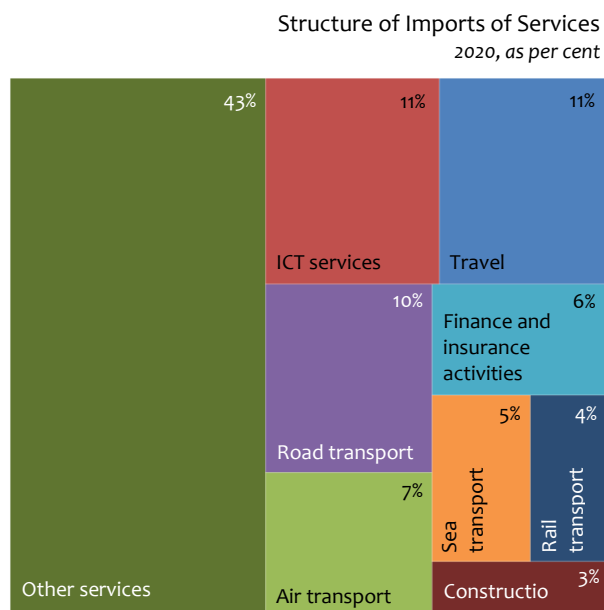
In January-February 2021, imports of goods decreased by 1%. The decline can mainly be attributed to the fall in the value of imports of beverages and mineral products.

Latvia's main imports of goods partner countries are Lithuania, Germany, Poland, Estonia, Russia, the Netherlands, China, and Finland. In 2020, Latvia imported 2/3 of all goods from these countries.

After the end use of goods approach, the structure of imports has not changed significantly since 2012. The share of intermediate goods decreased slightly due to the decrease in the value of fuel imports. The share of fuel in the group of intermediate consumer products has decreased from 34% in 2012 to 21% in 2019 and to 15% in 2020, which can be explained both by a marked drop in world oil price and, especially in 2020, by declining demand. In 2020, imports of capital goods and intermediate goods decreased at a higher rate. However, imports of consumer goods increased, and accordingly its share in total imports of goods.

In 2017-2019, imports of services developed dynamically, similarly to exports of services. During this period, imports of services increased by 8.5% on average per year (at current prices).

However, in 2020, due to the spread of Covid-19, imports of services at current prices decreased by 18.3% (-3.5%, -31.6%, -22.9% and -13.8%). The decrease in imports of services in 2020 was significantly influenced by the decline in imports of travel and transport services, especially air transport. Imports of ICT services also decreased, while the value of imports of other economic activities, construction, and financial and insurance services increased slightly.



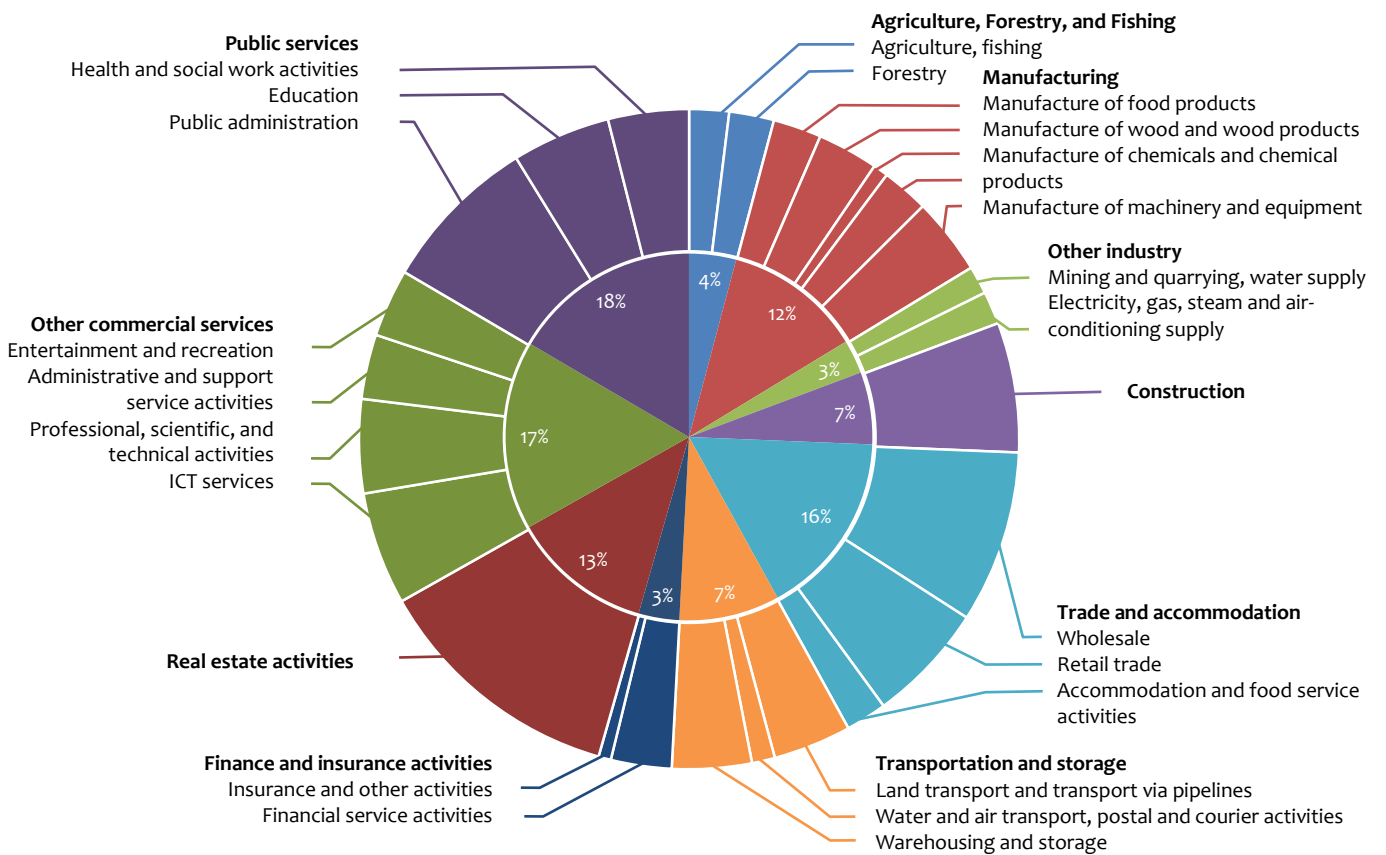
# 2021 | 1

## SECTORAL DEVELOPMENT

In 2009-2010, as labour costs declined, the competitiveness of Latvian producers improved, which significantly stimulated export growth and hence the development of tradable sectors. The structure of the economy changed. In 2008, tradable sectors (i.e., agriculture, forestry, manufacturing, and transportation and storage) constituted 26.7% of the total value added. In 2020, it slightly declined to 26.7%. It should be noted that in 2010 the manufacturing sectors (i.e., agriculture, forestry and fishing, industry, and construction) accounted for 27.6% of total value added. However, in 2020, the share reached 26.3%.

In 2020, compared to 2010, the share has dropped in practically all sectors, except construction, commercial services, and public service sectors. In 2014-2016, the growth continued in all sectors, except construction, mining and quarrying, and transport, while in 2017-2019, the increase in construction volumes had one of the largest effects on growth. In 2017-2019, growth resumed in all sectors, barring electricity, gas, steam and air conditioning supply and financial activities. In 2020, the Covid-19 crisis has negatively affected virtually all sectors of the economy. Growth continued only in agriculture, forestry and fishing, construction, and public services.

Structure of Value Added  
2020\*, as per cents



\* calculations by the Ministry of Economics

Development of Sectors  
changes against the last year, as per cent

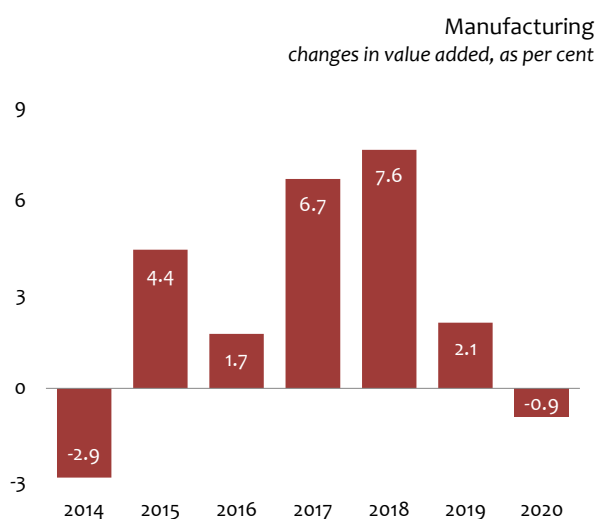
	2014	2015	2016	2017	2018	2019	2020
<b>Gross domestic product</b>	<b>1.1</b>	<b>4.0</b>	<b>2.4</b>	<b>3.3</b>	<b>4.0</b>	<b>2.0</b>	<b>-3.6</b>
Agriculture, forestry, and fishing	8.0	2.7	-4.3	1.8	-3.6	12.3	1.8
Mining and quarrying	-13.1	14.8	-2.8	9.1	9.1	-4.6	8.8
Manufacturing	-2.9	4.4	1.7	6.7	7.6	2.1	-0.9
Manufacture of food products	0.1	-4.6	1.8	5.2	-2.9	-0.7	-1.7
Light industry	-13.6	-13.2	2.1	7.6	-0.8	-2.6	-9.5
Manufacture of wood and articles of wood	6.9	7.1	8.0	2.1	4.5	0.0	4.5
Manufacture of paper and paper products	-0.6	0.0	3.6	4.5	-3.7	5.7	4.7
Manufacture of chemicals and chemical products	-2.6	-4.1	10.7	11.4	7.0	3.9	-1.8
Manufacture of non-metallic mineral products	1.2	-9.8	11.6	11.1	1.3	-2.1	-1.4
Manufacture of basic metals	-10.5	34.8	5.4	12.0	3.6	13.5	-5.6
Manufacture of computer, electronic and optical products	32.3	16.7	12.6	15.8	12.1	11.3	12.1
Manufacture of machinery and equipment	2.4	7.9	8.5	21.5	7.0	-1.9	-2.7
Manufacture of motor vehicles	-15.2	3.5	-2.9	22.8	7.3	-7.7	-15.3
Other manufacturing	-12.0	3.5	0.8	4.3	-1.8	2.8	-14.2
Electricity, gas, steam, and air-conditioning supply	-13.3	22.1	17.5	-2.1	-38.7	-4.4	-6.0
Construction	-2.6	-0.4	-9.6	14.6	12.5	2.2	2.6
Construction of buildings	28.2	-8.2	-11.1	22.4	25.6	7.8	0.9
Civil engineering	-6.8	0.4	-25.7	30.0	11.6	1.0	-1.5
Trade	3.7	7.0	4.5	2.5	4.0	4.2	-2.2
Retail trade	3.5	4.9	2.3	4.3	3.8	2.3	1.5
Transportation and storage	-3.6	1.2	1.7	6.4	4.0	-2.7	-14.9
Freight rail transport	2.2	-2.4	-14.1	-8.4	12.5	-15.8	-42.3
Cargo handling	5.2	-6.2	-9.3	-2.0	6.9	-5.7	-28.0
Freight transport by road	2.7	0.5	1.3	7.0	12.8	-3.8	2.6
Accommodation and food service activities	-2.2	8.9	4.4	9.3	7.6	8.3	-38.1
Information and communication services	-2.7	2.3	5.0	8.6	9.7	1.0	-6.2
Finance and insurance activities	5.5	13.3	-0.2	-17.1	-3.1	-15.7	-5.7
Real estate activities	4.9	-2.4	1.6	-1.6	2.4	1.4	-0.4
Other service activities	-1.2	1.9	3.9	4.5	2.8	6.3	-3.3
Public administration and defence; compulsory social security	2.4	2.4	1.5	3.8	2.8	2.0	1.5
Education	1.9	3.2	1.1	4.3	3.0	2.8	0.8
Health and social work activities	14.5	5.2	1.2	4.3	9.3	9.6	2.4
Arts, entertainment, and recreation	-7.7	8.2	5.0	5.1	6.1	5.7	-26.6



## MANUFACTURING

The development of manufacturing is driven by improvements in the competitiveness of Latvian producers and favourable demand dynamics in export markets. In 2017, a rapid growth in production volumes was observed. In 2018 and 2019, the growth rates have moderated.

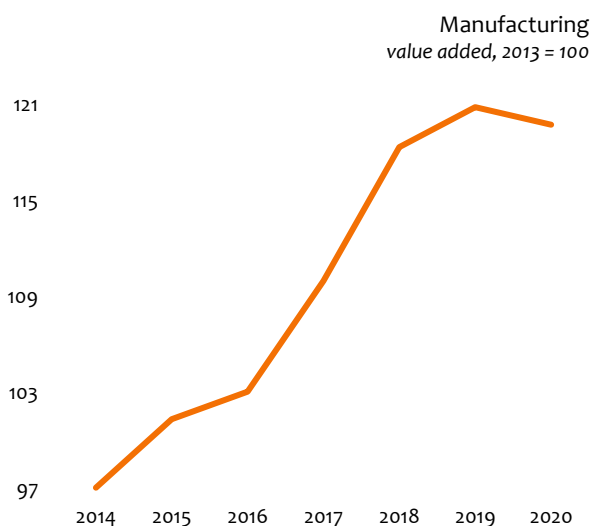
In 2020, manufacturing output was 0.9% lower than a year ago. Manufacture of motor vehicles, basic metals, and food products declined at a higher rate. However, manufacture of wood, electronic and optical products, paper and paper products increased.



Also, in January-February 2021, manufacturing volumes slightly decreased - by 1.9%. The growth of the sector was positively influenced by the increases in the manufacture of electronic and optical products and chemicals and

chemical products. However, manufacture of food products and basic metals decreased.

In 2020, the turnover of manufacturing increased at current prices. The volumes of products sold on the domestic market slightly decreased (-1.1%), whereas volumes of exported products increased (+ 3.7%).

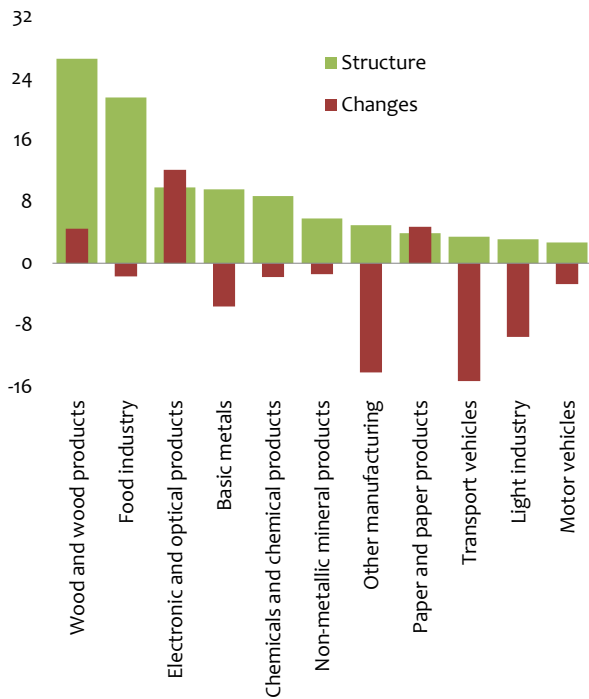


In 2018 and 2019, the number of occupied posts in manufacturing remained practically unchanged. However, in 2020, the number of occupied posts in manufacturing decreased by 6.8 thousand. They declined faster in light industry and machinery and equipment, while occupied posts increased in manufacture of basic metals, food products, and electronic and optical products.

### Structure of Manufacturing and Development Trends by Field as per cent

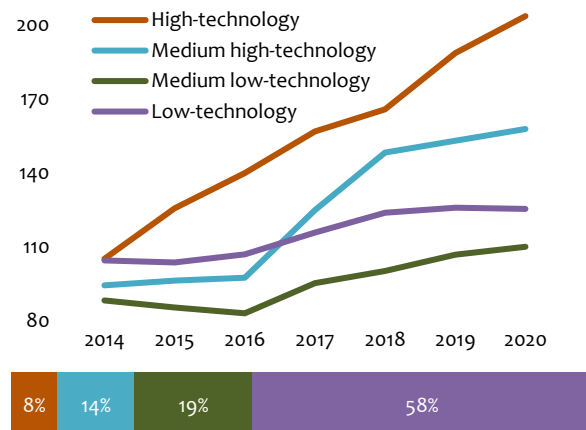
	Structure in 2020			Changes in production volumes			
	Output	Occupied posts	Exports in total sales	2018	2019	2020	2021 Jan-Feb
<b>Manufacturing</b>	<b>100</b>	<b>100</b>	<b>66.0</b>	<b>2.7</b>	<b>2.1</b>	<b>-0.9</b>	<b>-1.9</b>
Food industry	21.5	20.1	38.5	-2.9	-0.7	-1.7	-11.4
Light industry	3.1	8.5	82.1	-0.8	-2.6	-9.5	0.2
Manufacture of wood and wood products	26.5	20.0	72.5	4.5	0.0	4.5	1.5
Manufacture of paper and paper products	3.9	4.3	66.2	-3.7	5.7	4.7	5.6
Manufacture of chemicals and chemical products	8.7	7.1	73.5	7.0	3.9	-1.8	11.9
Manufacture of non-metallic mineral products	5.8	5.3	51.8	1.3	-2.1	-1.4	-10.9
Manufacture of basic metals	9.6	11.2	67.8	3.6	13.5	-5.6	-10.8
Manufacture of electronic and optical products	9.8	5.2	89.3	12.1	11.3	12.1	10.0
Manufacture of machinery and equipment	2.7	3.1	85.2	7.0	-1.9	-2.7	4.6
Manufacture of motor vehicles	3.4	3.1	90.1	7.3	-7.7	-15.3	-5.0
Other manufacturing	4.9	12.1	67.1	-1.8	2.8	-14.2	-5.2

**Growth of Manufacturing structure and changes in 2020, as per cent**



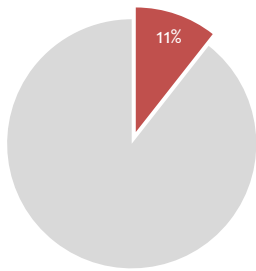
As in the overall economy, the outlook for manufacturing in 2021 remains highly uncertain. Although producers have been able to adapt to the current situation, new outbreaks of the epidemic and measures to limit the spread of the virus may hamper the growth of the manufacturing. Manufacturing still has a potential for development, especially at the expense of rising exports.

**Manufacturing Volume Index and Structure by Levels of Technology**  
2013 = 100, structure in 2020, as per cent

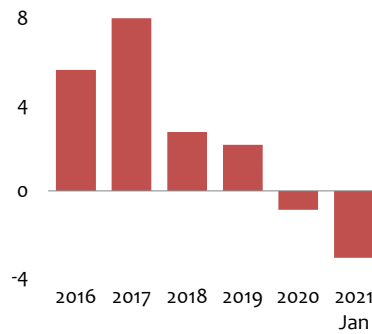


**Main Indicators of Manufacturing<sup>1</sup>**

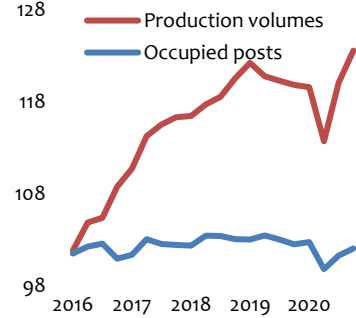
**Share in total value added 2020, as per cent**



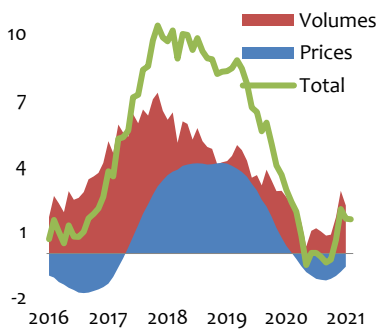
**Changes in production volumes as per cent**



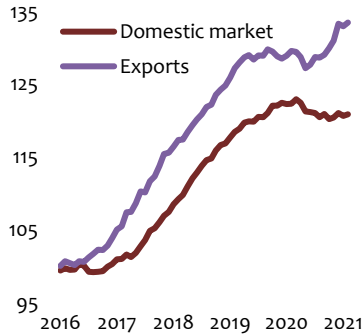
**Production volumes and occupied posts**  
Q4 2013 = 100



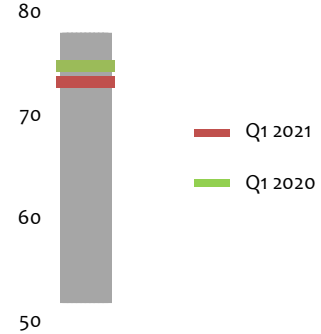
**Changes in sales of production 12-month moving average**



**Production sales**  
December 2013 = 100, 12-month moving average



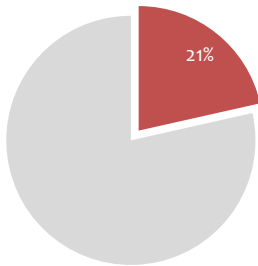
**Capacity utilization rate**  
Historically highest/ lowest level, as per cent



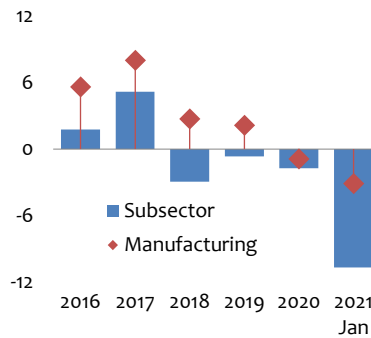
<sup>1</sup>Sales data available until January 2021

Manufacture of food products and beverages

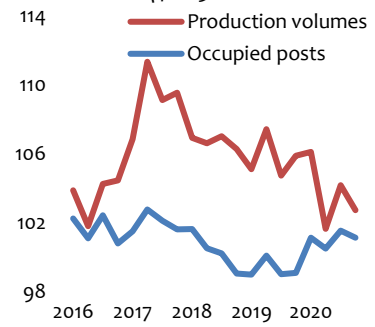
Share of manufacturing 2020, as per cent



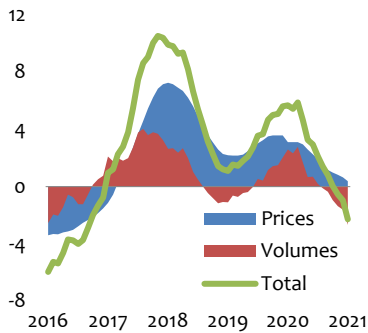
Changes in production volumes as per cent



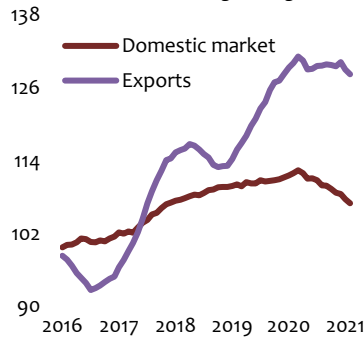
Production volumes and occupied posts Q4 2013 = 100



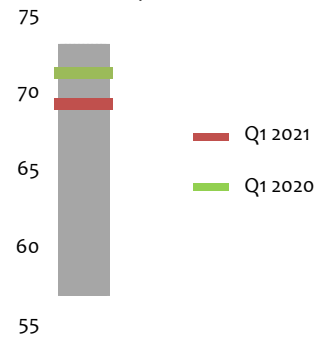
Changes in sales of production 12-month moving average



Production sales December 2013 = 100, 12-month moving average

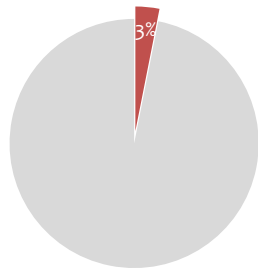


Capacity utilization rate Historically highest/ lowest level, as per cent

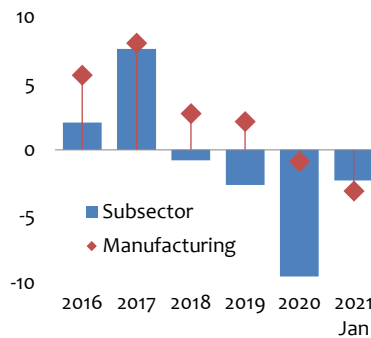


Light Industry

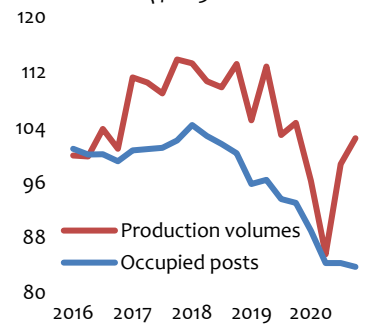
Share of manufacturing 2020, as per cent



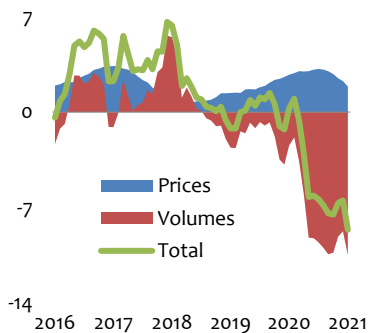
Changes in production volumes as per cent



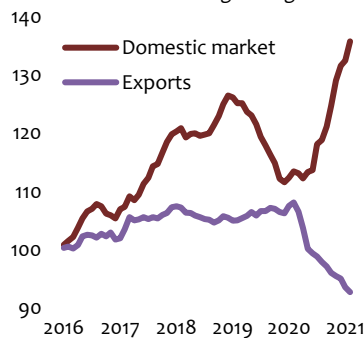
Production volumes and occupied posts Q4 2013 = 100



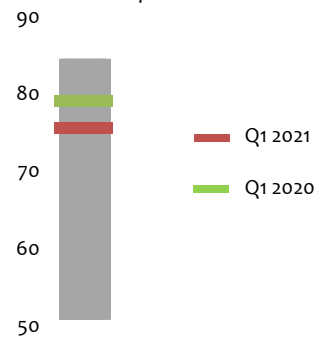
Changes in sales of production 12-month moving average



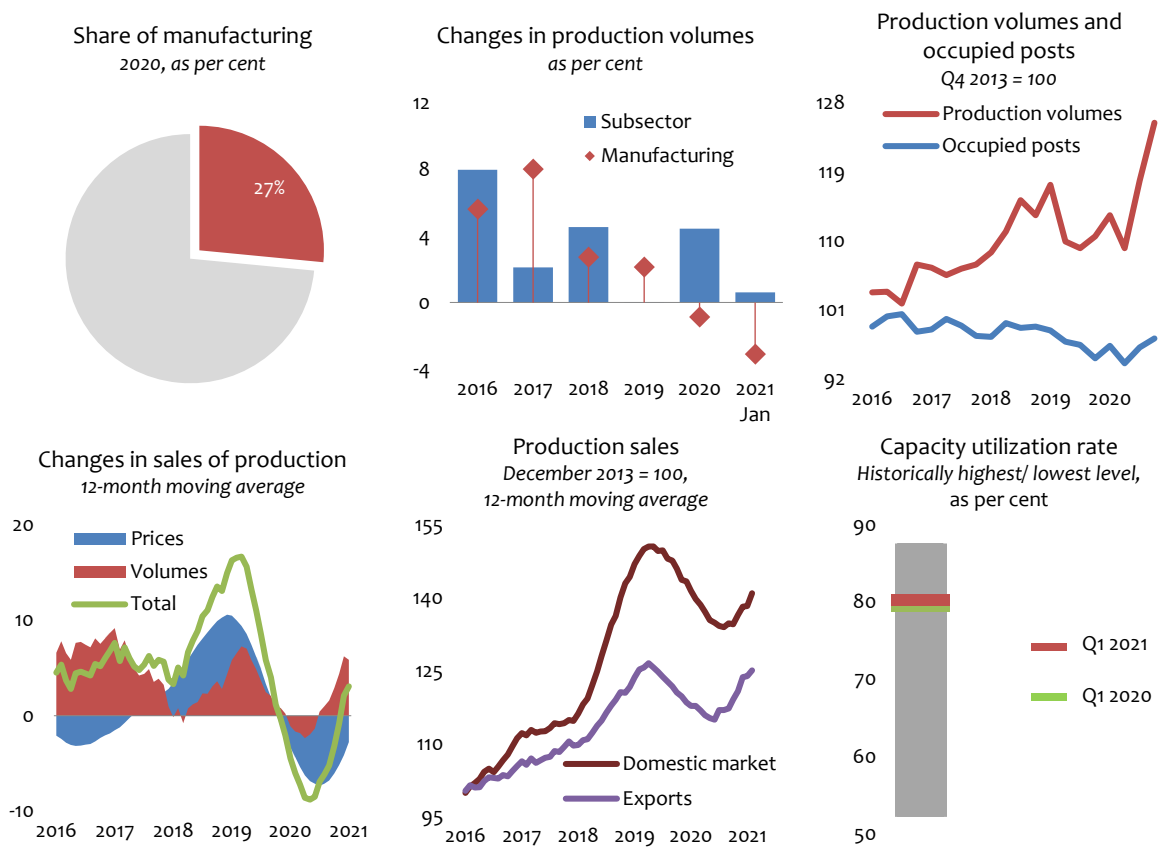
Production sales December 2013 = 100, 12-month moving average



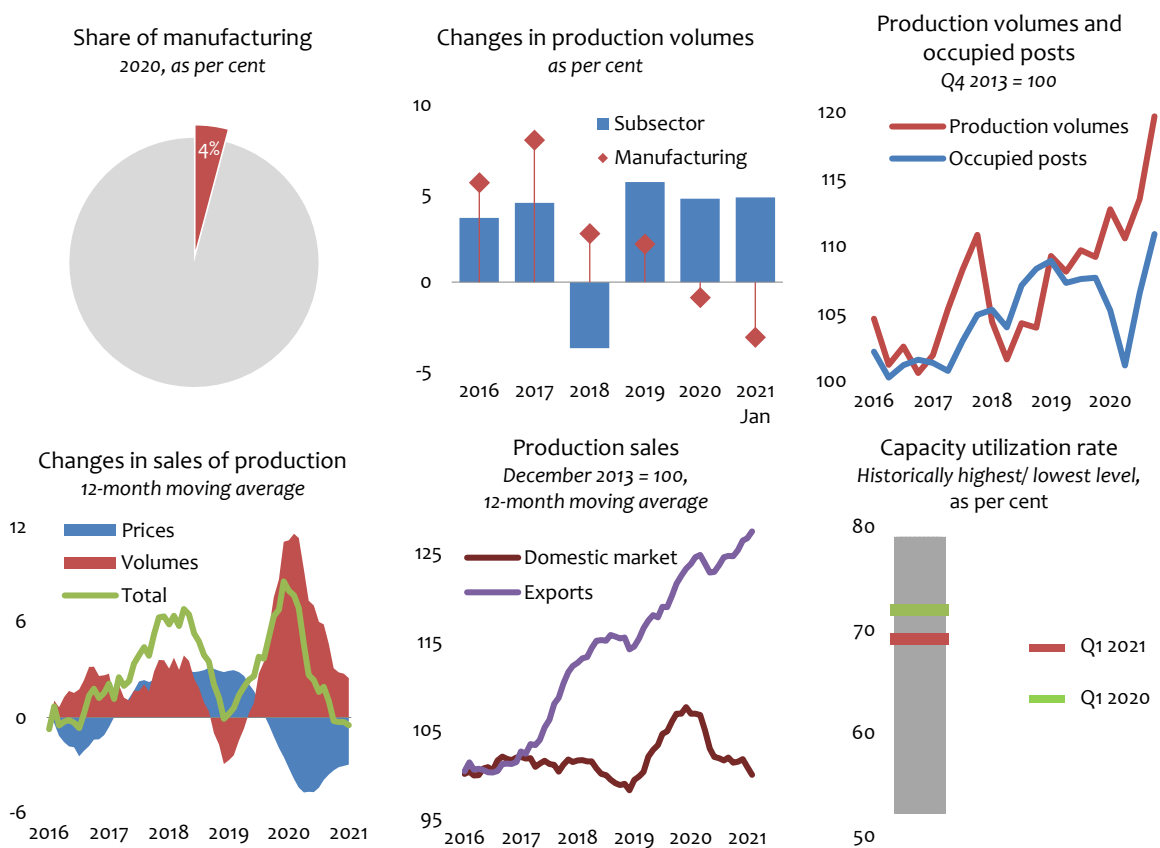
Capacity utilization rate Historically highest/ lowest level, as per cent



Manufacture of wood and wood products

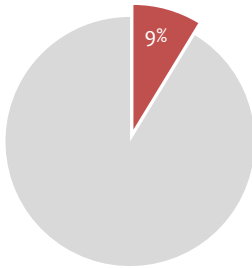


Manufacture of paper and paper products

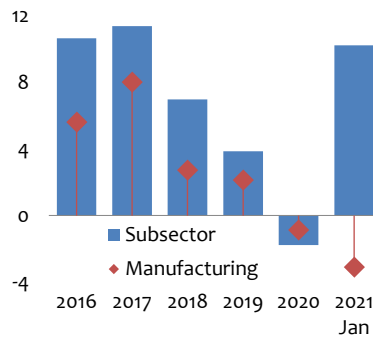


Manufacture of chemicals and chemical products

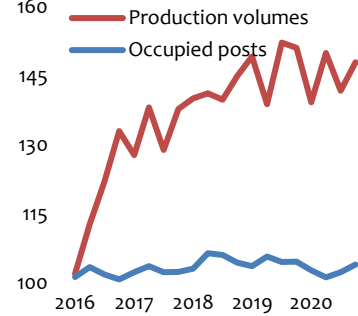
Share of manufacturing 2020, as per cent



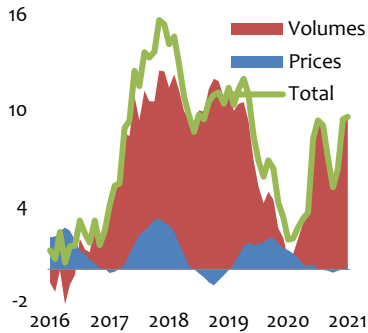
Changes in production volumes as per cent



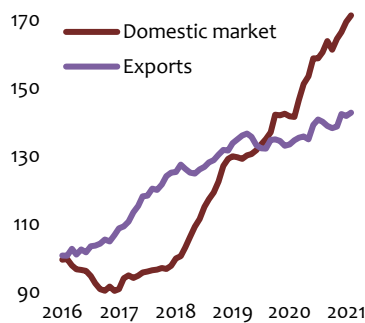
Production volumes and occupied posts Q4 2013 = 100



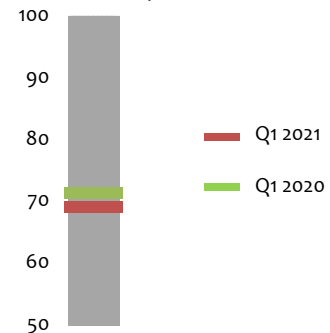
Changes in sales of production 12-month moving average



Production sales December 2013 = 100, 12-month moving average

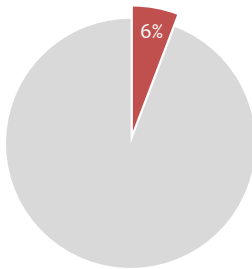


Capacity utilization rate Historically highest/ lowest level, as per cent

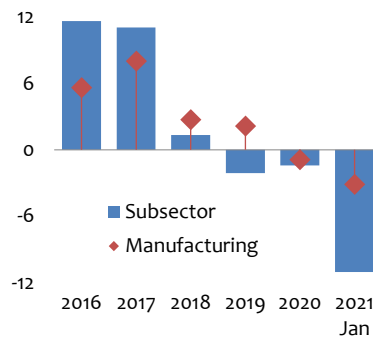


Manufacture of non-metallic mineral products

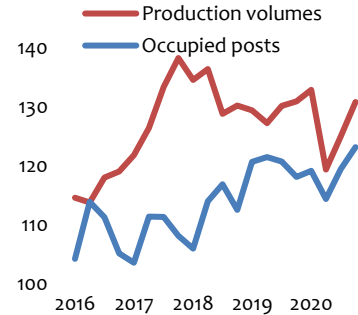
Share of manufacturing 2020, as per cent



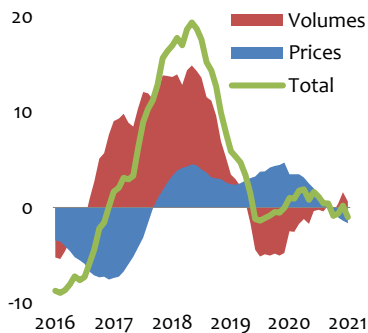
Changes in production volumes as per cent



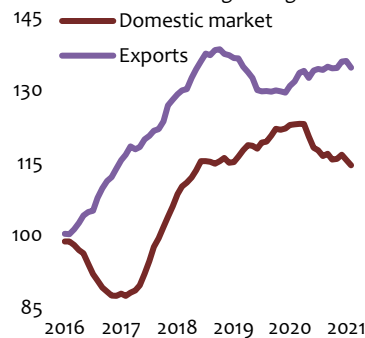
Production volumes and occupied posts Q4 2013 = 100



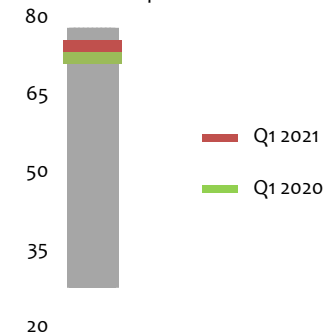
Changes in sales of production 12-month moving average



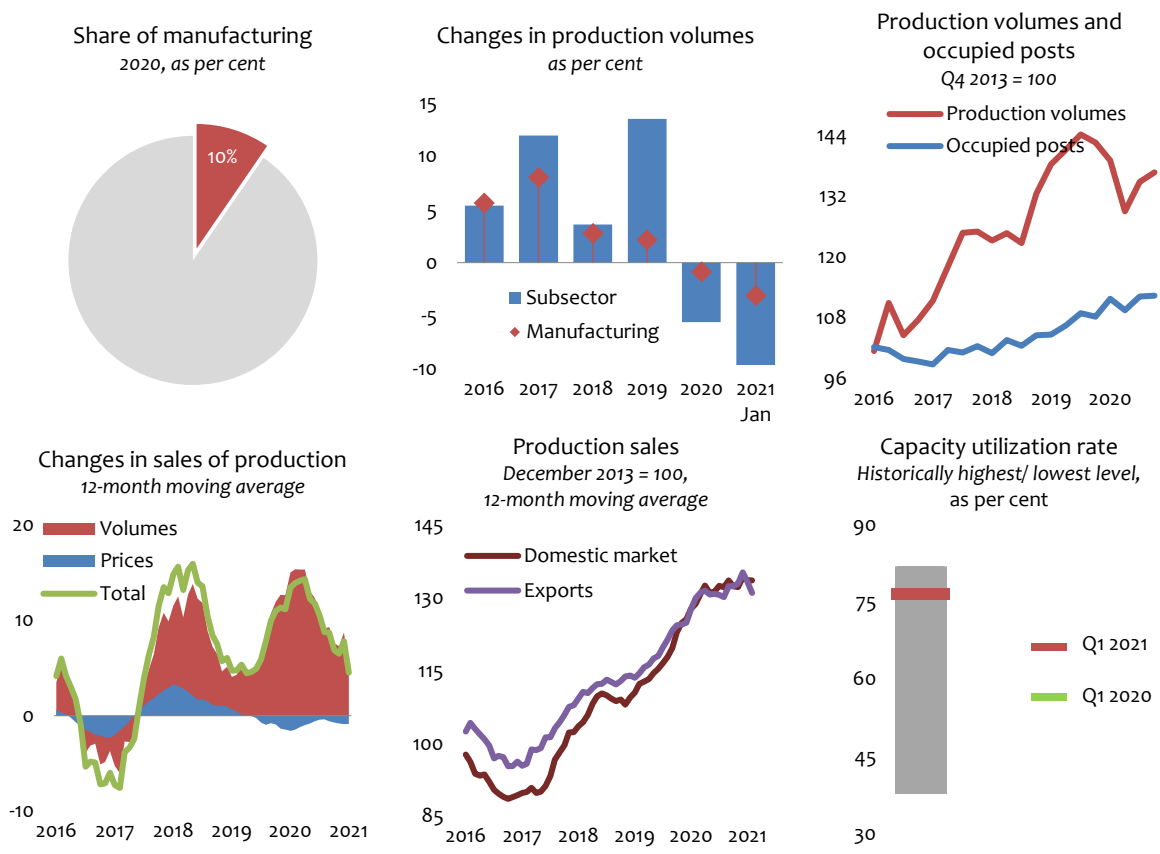
Production sales December 2013 = 100, 12-month moving average



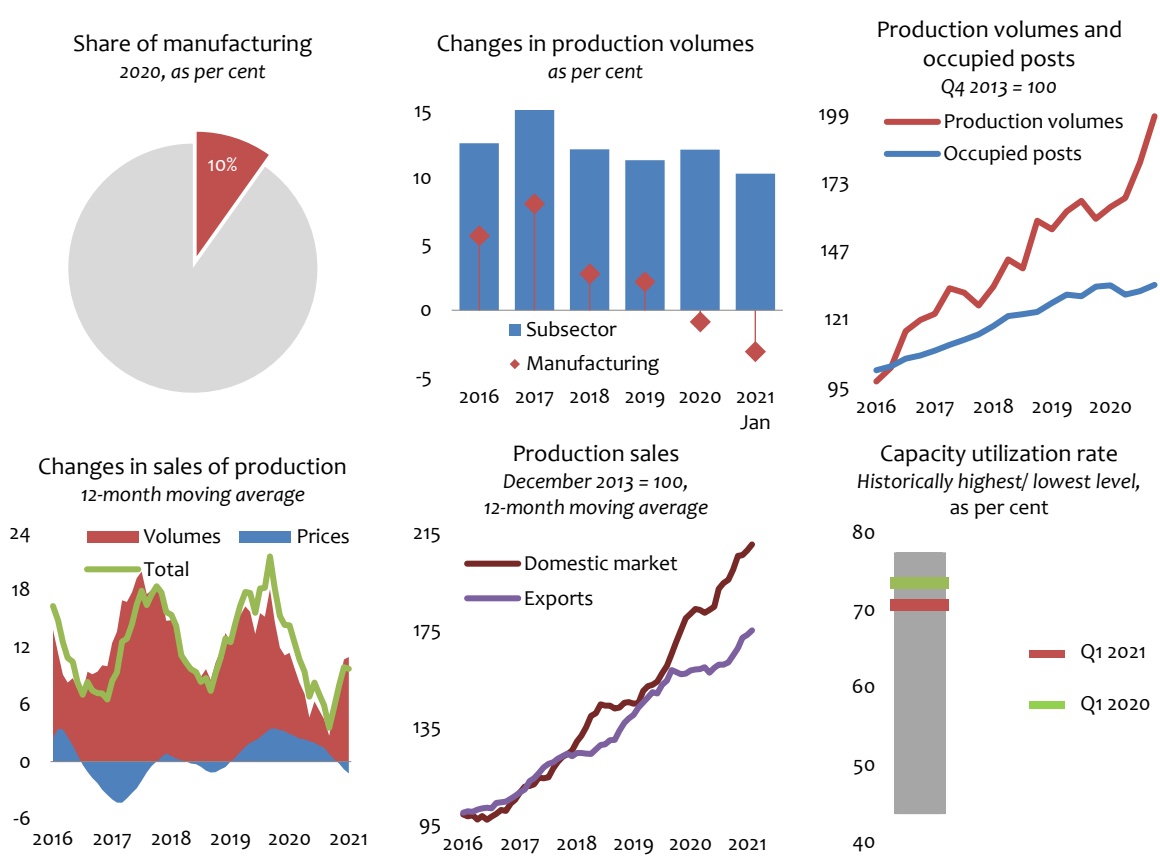
Capacity utilization rate Historically highest/ lowest level, as per cent



Manufacture of basic metals and fabricated metal products

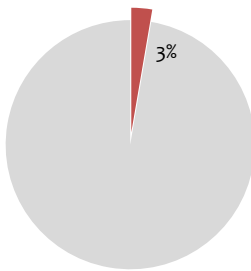


Manufacture of electronic and optical products

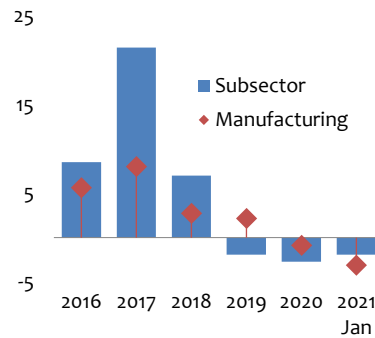


Manufacture of machinery and equipment

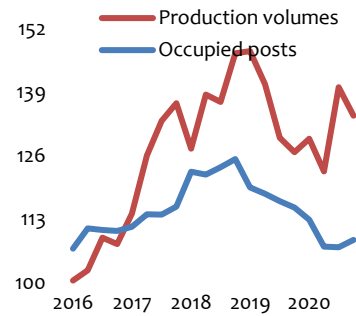
Share of manufacturing 2020, as per cent



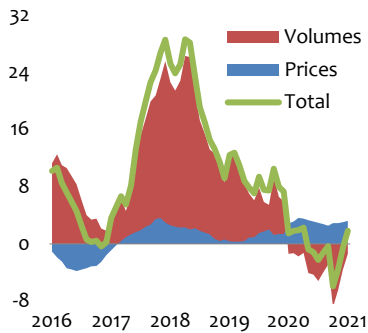
Changes in production volumes as per cent



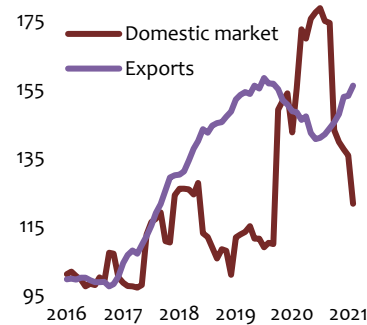
Production volumes and occupied posts Q4 2013 = 100



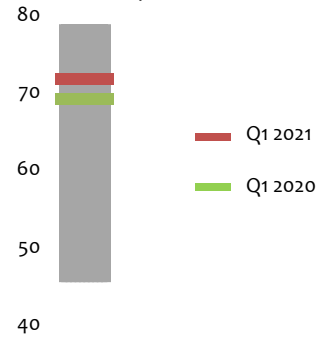
Changes in sales of production 12-month moving average



Production sales December 2013 = 100, 12-month moving average

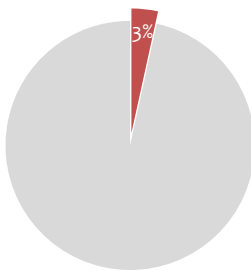


Capacity utilization rate Historically highest/ lowest level, as per cent

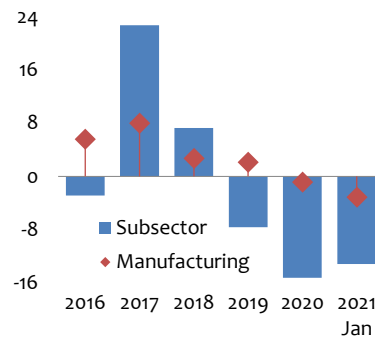


Manufacture of motor vehicles

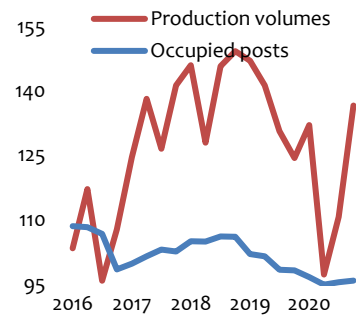
Share of manufacturing 2020, as per cent



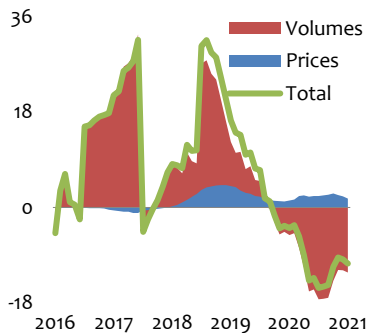
Changes in production volumes as per cent



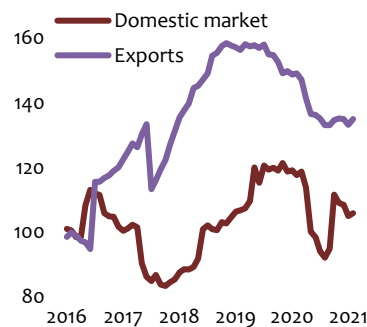
Production volumes and occupied posts Q4 2013 = 100



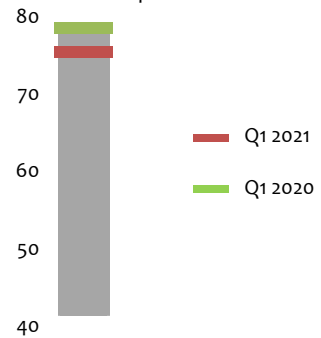
Changes in sales of production 12-month moving average



Production sales December 2013 = 100, 12-month moving average

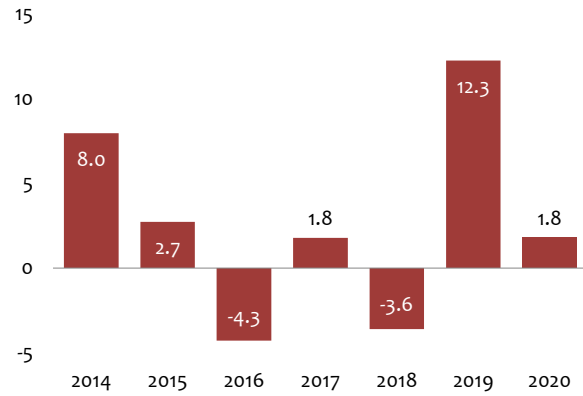


Capacity utilization rate Historically highest/ lowest level, as per cent



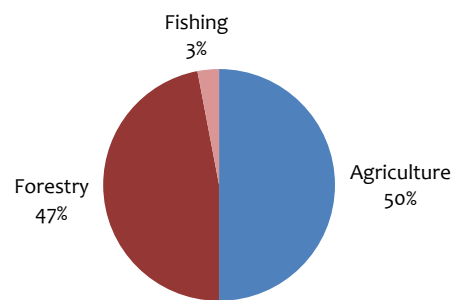
AGRICULTURE, FORESTRY, AND FISHING

**Agriculture, Forestry, and Fishing**  
value added, changes against the corresponding period last year, as per cent



Production volumes increased in crop and livestock production, forestry and logging. However, production volumes decreased in fishing. In recent years, the number of employees and occupied posts have been on the rise, already exceeding the pre-crisis levels. Occupied posts grew at a higher rate, indicating that the sector is increasingly using paid labour. In 2020, the number of occupied posts declined, especially in the forestry sector, due to Covid-19 outbreak.

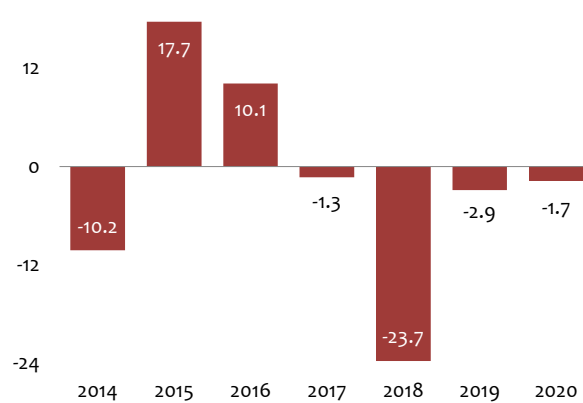
**Structure of Agriculture, Forestry, and Fishing**  
2020, as per cent



Agriculture and forestry provide the largest contribution to growth within the sector. The economic activity of the sector is closely tied to weather conditions. Thus, volatile growth within the sector can be observed. In 2019, a rapid increase in production volumes was observed due to favourable weather conditions and rapid growth in crop production. In 2020, the sector volumes increased slightly.

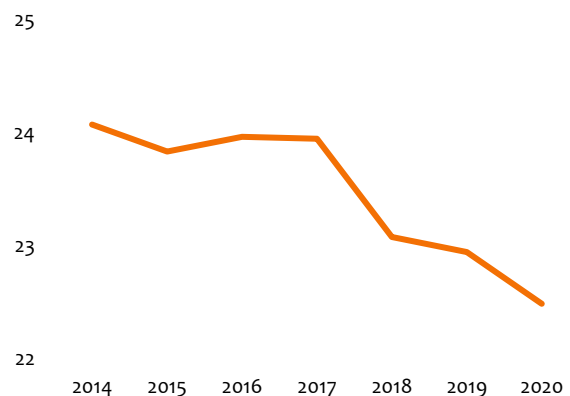
OTHER MANUFACTURING

**Other Manufacturing**  
value added, changes against the corresponding period last year, as per cent



In 2020, the volumes of other industries decreased slightly. Favourable weather conditions contributed to the development of the mining and quarrying, while non-seasonal warm weather significantly reduced the supply of natural gas and electricity generation and supply. The number of occupied posts declined in the electricity, gas, steam, and air conditioning supply, the water supply, and waste management sectors.

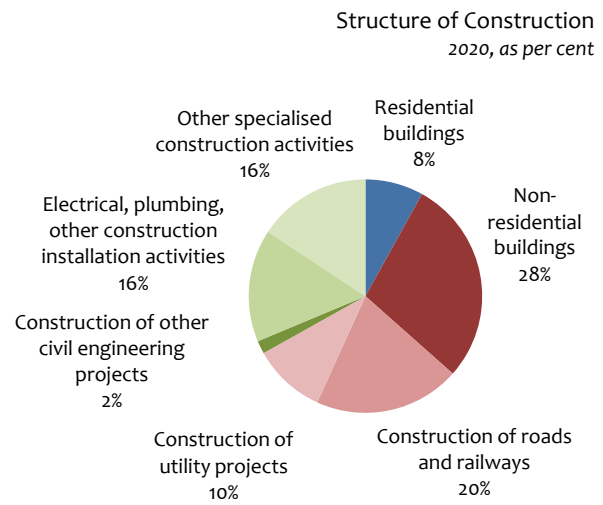
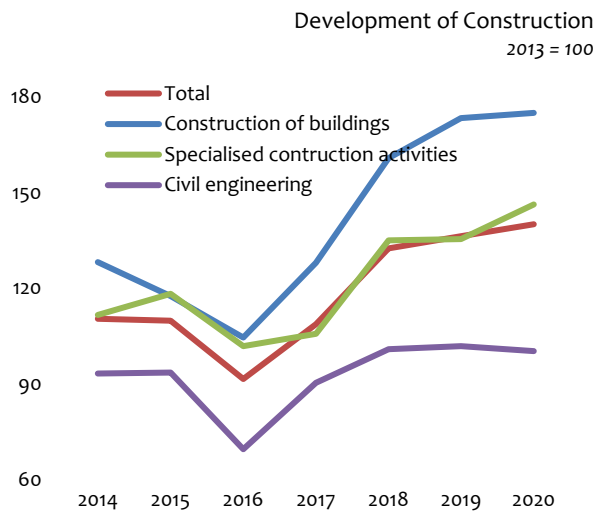
**Occupied Posts in Other Manufacturing**  
in thousands



The largest share of added value in other manufacturing (incl. mining and quarrying, electricity, gas, steam, and air-conditioning supply, water supply, and waste management) provide electricity and gas supply sub-sectors. In 2017-2019, the volumes of other manufacturing decreased, primarily determined by the decline in the electricity and gas supply due to warm weather conditions.



CONSTRUCTION

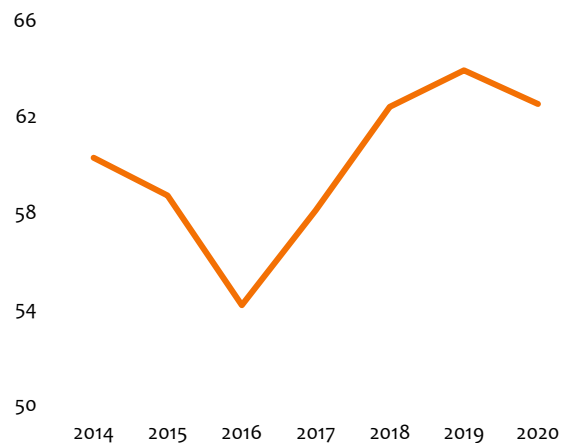


In 2020, the volumes of construction output increased by 2.7%. Although the decline in private investment caused by the economic downturn in the second and third quarters of 2020 had a negative impact on the output of the sector, the growth of construction was ensured by the positive indicators of the first and fourth quarters of 2020.

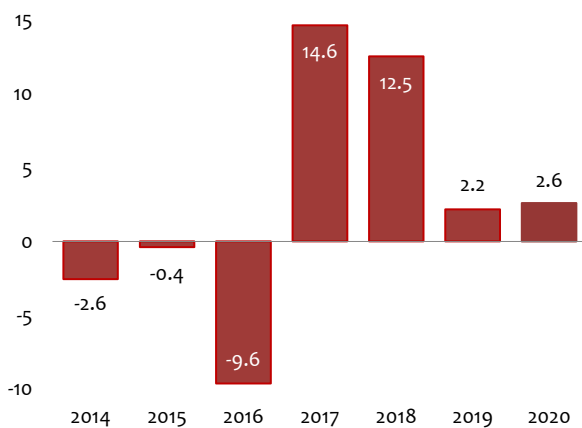
Specialized construction works significantly contributed to the growth of construction on an annual basis. Also, growth was observed in construction of residential buildings, while construction volumes of civil engineering decreased slightly.

In 2020, the number of building permits granted reached 4819, representing a 3.3% decline, compared to the last year. It can primarily be attributed to a decrease in the number of building permits granted for the construction of residential buildings. At the same time, the expected floor space decreased at a higher rate - by 16.9%.

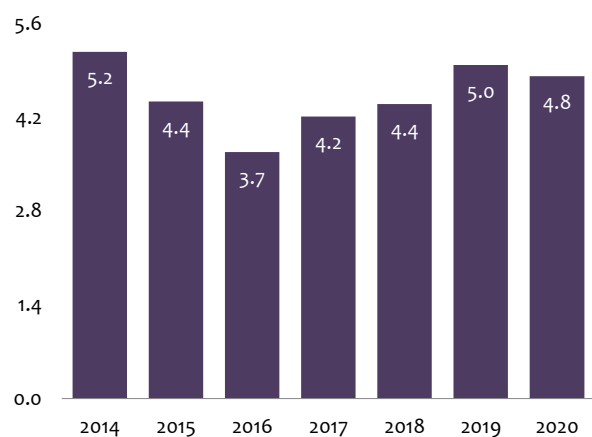
Occupied Posts in Construction in thousands



Construction value added, changes against the corresponding period last year, as per cent

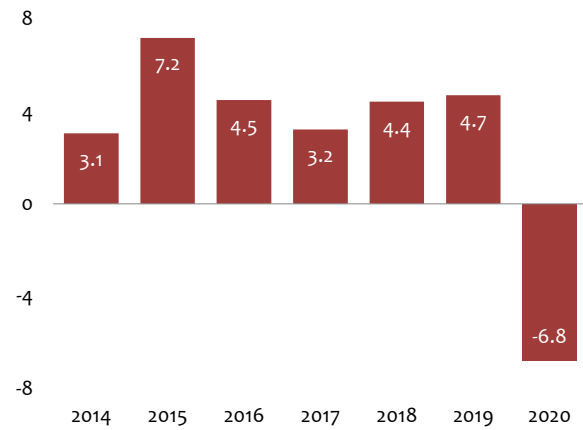


Building Permits Granted in thousands



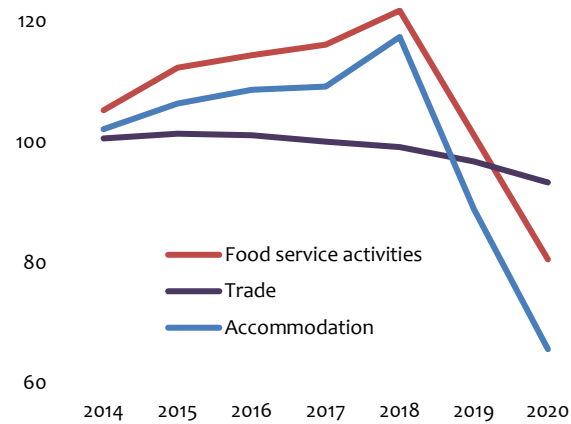
TRADE, ACCOMMODATION, AND FOOD SERVICE ACTIVITIES

Trade, Accommodation, and Food Service Activities value added, changes against the corresponding period last year, as per cent

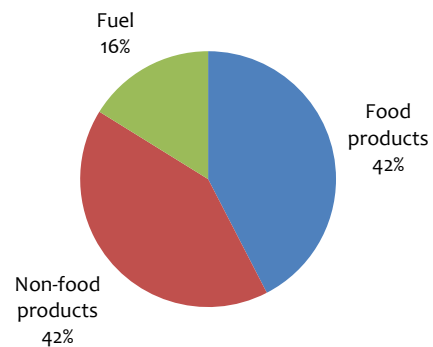


In 2020, the volume of services provided in the trade, accommodation, and food service activities decreased rapidly. The trade sector was negatively affected by the fall in private consumption caused by Covid-19, rising unemployment, and declining incomes. In 2020, it decreased by 2.2%. The growth of retail trade turnover in 2020 was slower than in the previous year, increased by 1.5%. Retail sales of food and fuel increased. However, sales of non-food decreased. The turnover of the wholesale sector at current prices decreased by 6.8%. Accommodation and food service activities were particularly negatively affected by the strict measures put in place to limit the spread of the virus. In 2020, the volumes of accommodation and food service activities decreased by 38.1%. The largest share of occupied posts prevails in trade. In 2020, under the influence of Covid-19, a decrease in the number of occupied posts was observed in both sectors. However, an especially sharp decline was observed in accommodation and food service activities.

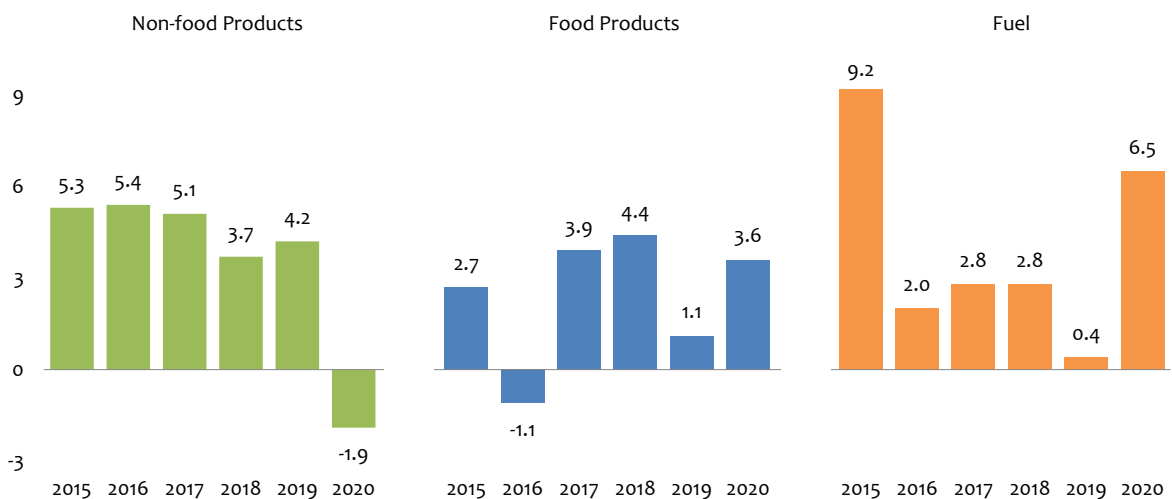
Occupied Posts In Trade, Accommodation, and Food Service Activities 2013 = 100



Structure of Retail Turnover 2020, as per cent

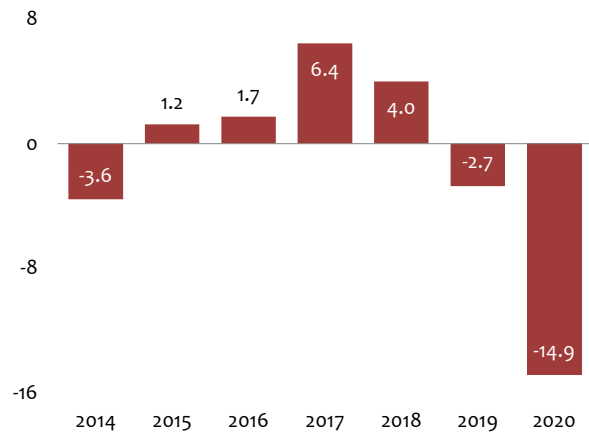


Retail Turnover changes as per cent



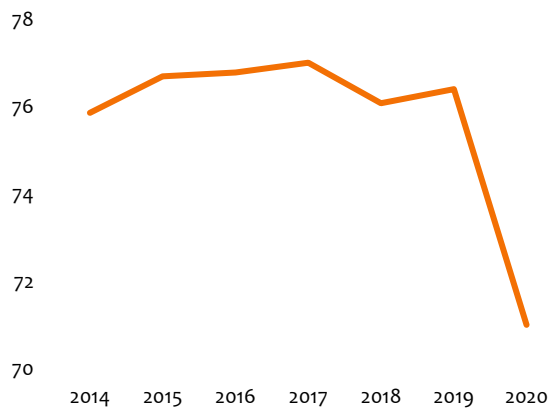
TRANSPORTATION AND STORAGE

Transportation and Storage value added, changes against the corresponding period last year, as per cent

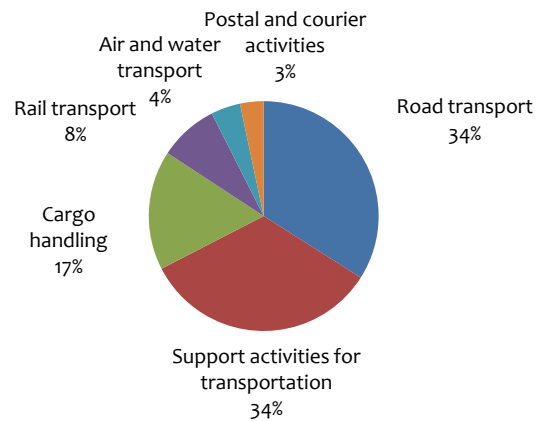


The transportation and storage sector is closely linked to international transportation. Between 2014-2019, the sector's volumes increased only by 1.1% annually, reflecting a decline in freight transport caused by Russia's transport policies and increased competition. In 2020, the sector's volumes shrank sharply. The restrictions on Covid-19 have had a significant impact on aviation, land transport, and transport by rail. A sharp decline was observed in freight transport by rail and at ports, while volumes of freight transport by road increased slightly due to an increase in volumes domestically. Passenger traffic decreased in all modes of transport. The sharpest decrease in the number of passengers was in air transport - by 74.2%. Also, at ports the number of passengers decreased by 56.5%. However, in land transport the decline reached 36.4%.

Occupied Posts In Transportation and Storage in thousands

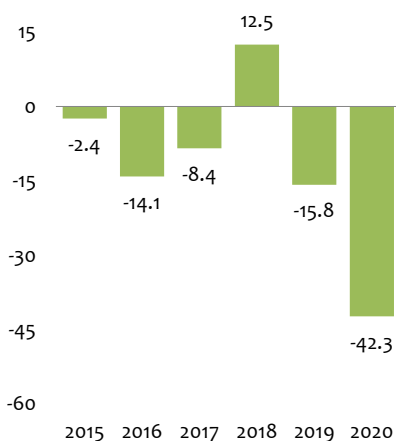


Structure of Transportation and Storage 2020, as per cent

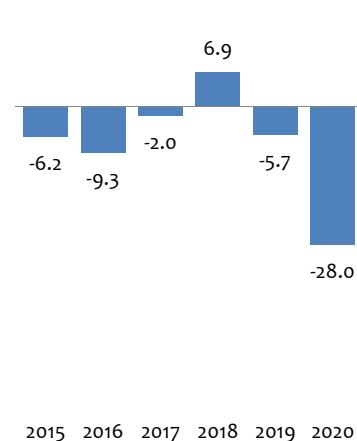


\* - forecast by the Ministry of Economics

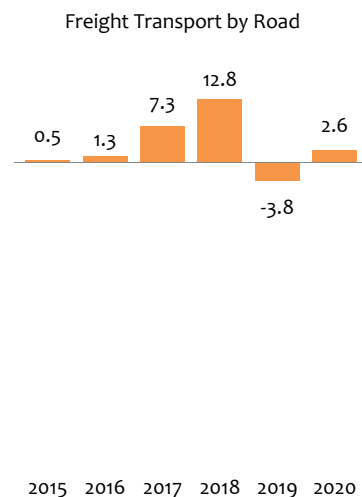
Freight Rail Transport



Cargo Loaded and Unloaded at Ports

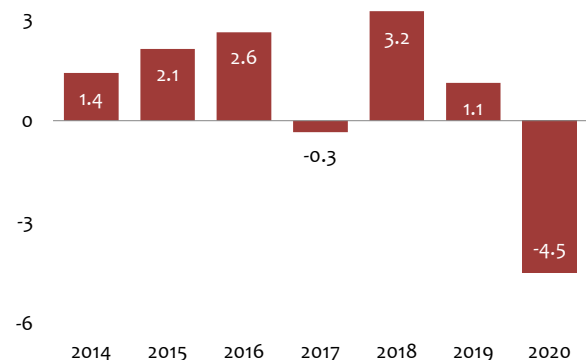


Freight Traffic changes as per cent



## COMMERCIAL SERVICES

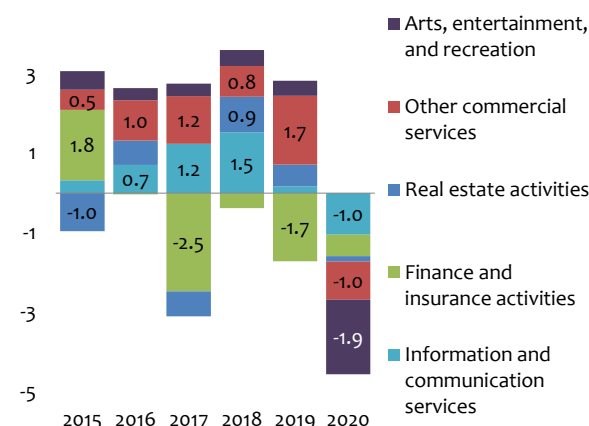
**Commercial Services**  
value added, changes against the corresponding period last year, as per cent



The largest share of added value in commercial services (incl. information and communication services, financial and insurance activities, real estate activities, professional, scientific, and technical services, administrative and support service activities, arts, entertainment, and recreation) provide real estate activities. In 2020, due to the Covid-19 crisis, the volume of commercial services decreased rapidly in all sectors. The largest impact was due to the decline in the arts, entertainment, and

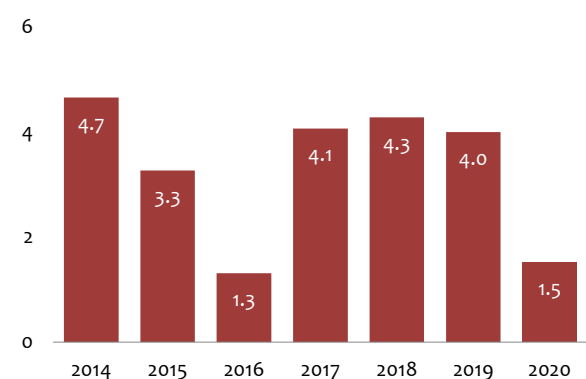
recreation, which was negatively affected by the strict measures put in place to contain the Covid-19 pandemic. In other sectors, the effects of volume reductions were similar, except in real estate activities. The largest share of occupied posts remains in professional, scientific, and technical services, administrative and support service activities, and ICT services. In 2020, the number of occupied posts decreased rapidly in the arts, entertainment, and recreation; however, an increase was observed in ICT services.

**Contribution of Commercial Services**  
changes as per cent



## PUBLIC SERVICES

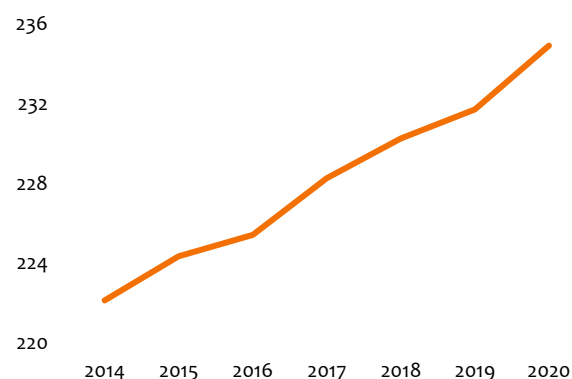
**Public Services**  
value added, changes against the corresponding period last year, as per cent



The largest share of value added in public services (incl. public administration and defence, education, health and social work activities) provide public administration and defence. In 2020, the public service sector was also negatively affected by the Covid-19 crisis. Total services grew moderately. The volumes of public administration

and defence increased by 1.5%; the volumes of education services increased by 0.8%. Also, the volumes of health and social care rose by 2.4%. The largest share of occupied posts remains in education. The largest increase in occupied posts in recent years has been observed in healthcare. Also, in 2020, a rapid increase in the number of occupied posts in health care was recorded. However, the number of occupied posts in public administration continued to decline.

**Occupied Posts in Public Services**  
in thousands



2021 | 1

## LABOUR MARKET

## EMPLOYMENT AND UNEMPLOYMENT

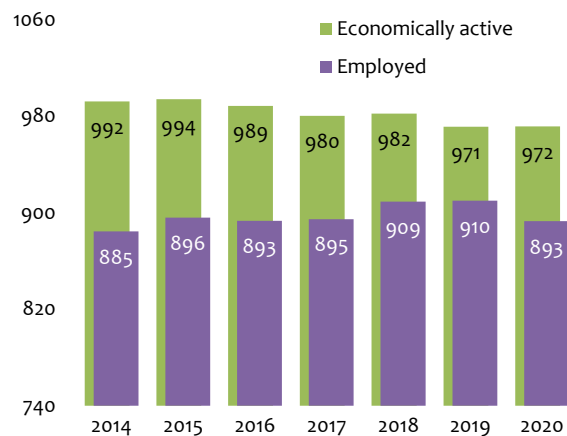
The Covid-19 crisis has contributed to the growing structural imbalances in the labour market. The Covid-19 pandemic has had a negative impact on the labour market, especially in sectors such as tourism, accommodation and food service activities, transport (i.e., passenger transport), the arts, entertainment, and recreation. At the same time, with the prolongation of the crisis, the number of long-term jobseekers has increased - the decrease in the number of vacancies in the labour market has slowed down the return to work of those who have lost their jobs. Meanwhile, the differences between the changes in the employed population and the number of occupied posts indicate an increase in the share of unregistered employment.

Overall, in Q4 of 2020, 885.5 thousand or 63.8% of the population aged 15-74 in private households were employed.

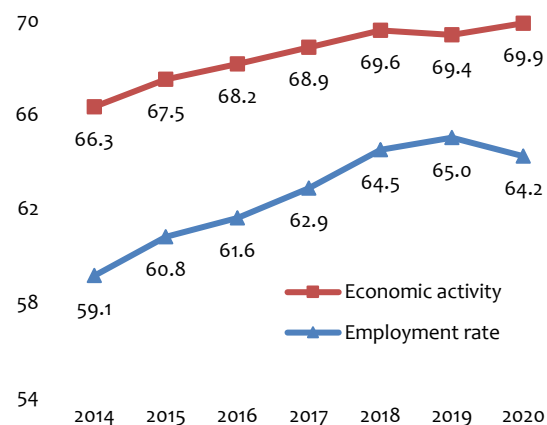
It should be noted that public intervention can only compensate for the slowdown in economic activity in the short term. Therefore, as economic activity remains muted for a longer time, the impact of the crisis only intensifies.

The decline in real employment has been elevated, considering the downtime of certain sectors and changes in production / customer service processes, which has reduced the workload of some jobs. In Q4 of 2020, the average number of employees in normal time units was 4.6% lower than a year ago. With economic activity remaining protracted, risks of job losses are exacerbated.

Employed and Economically Active aged 15-74, in thousands



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



During the crisis, the economic activity of the population has increased.

Considering the decline in labour demand, which was affected by the overall downturn in economic activity due to the Covid-19 crisis, in 2020, the number of employees decreased by approximately 17 thousand or 1.9%, compared to 2019, thus representing the largest decrease in the number of employees since 2010.

Although the overall negative impact of Covid-19 on employment has been significantly mitigated by the state aid measures in place, which have allowed both jobs and incomes to be maintained in part during the emergency, the burden on the labour market has increased over the crisis and the number of employees declined by 3% or 27.6 thousand in Q4 of 2020 (compared to Q4 of 2019).

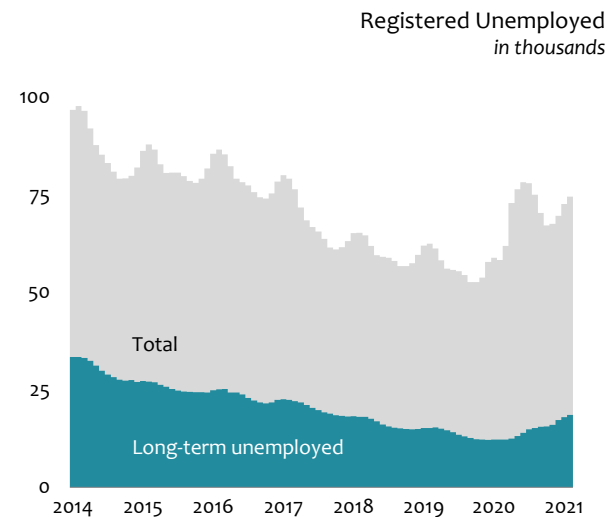
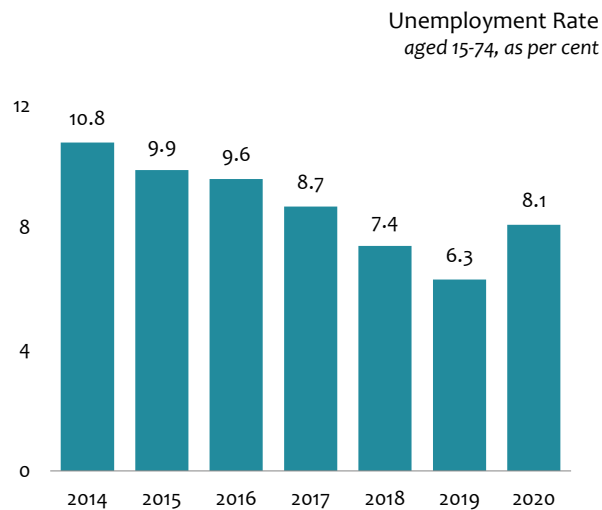
At the same time, despite the decline in overall economic activity, the level of participation in the labour market remained high - more than 2/3 (69.9%) of the total population aged 15-74 in 2020 were employed or looking for a job, which is the highest indicator over the last 30 years. It should be noted that the economic activity of the population as a whole has increased during the crisis. Compared to 2019, the level of participation of the population in 2020 increased by 0.5 percentage points (from 69.4% in 2019). Overall, the number of economically active population in 2020 increased to 971.7 thousand.

Along with declining employment, unemployment has also risen. Unemployment rates remained almost 1/3 higher than before the Covid-19 crisis. The unemployment rate in

the Q4 of 2020 was 7.9% or 1.9 percentage points higher than in the corresponding period of 2019 (6%). Overall, in 2020, the average unemployment rate increased to 8.1%, which is 1.8 percentage points higher than in 2019.

In Q4 of 2020, the number of jobseekers reached 75.6 thousand (i.e., 17.7 thousand more than a year ago).

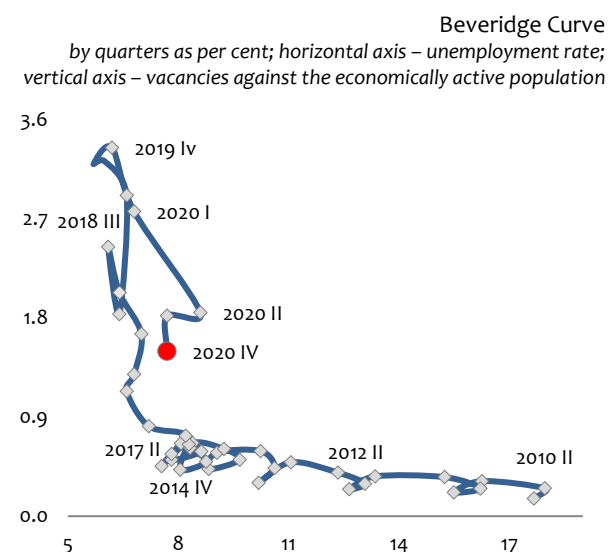
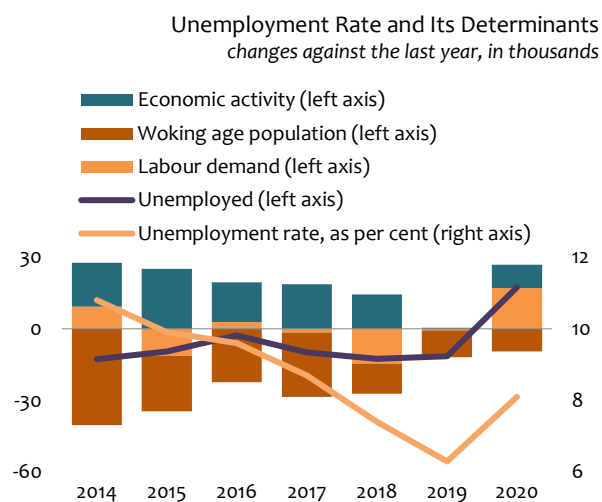
unemployment. Since the end of April 2020, the share of long-term job seekers has increased. The share of registered long-term jobseekers (i.e., unemployed for more than a year) from the end of April 2020 to the end of February 2021 has risen by 7.8 percentage points (from 17.2% to 24.9%). In February 2021, 18.6 thousand jobseekers were unemployed for more than a year.



It should be noted that unemployment trends in 2020 were influenced by the declining demand for labour and the increase in the economic activity of the population. In 2020, the growth of economic activity contributed to almost 2/4 of the increase in the number of job seekers.

The labour market is also affected by the negative demographic situation for a long time, leaving an impact on both unemployment and the dynamics of the number of employees. In 2020, population in private households aged 15-74 declined by 9.5 thousand, compared to 2019.

It should be noted that high long-term unemployment can lead to an increase in structural unemployment, i.e., the longer these people remain unemployed, the greater the risk of losing their previous skills. Also, it becomes increasingly difficult for them to adapt to new labour market needs. Risks that some of the unemployed may have difficulty finding a job matching their skills in the future remain elevated, as recovery in the sectors directly affected by the Covid-19 crisis may be only gradual, or the previously acquired skills may not be in demand.



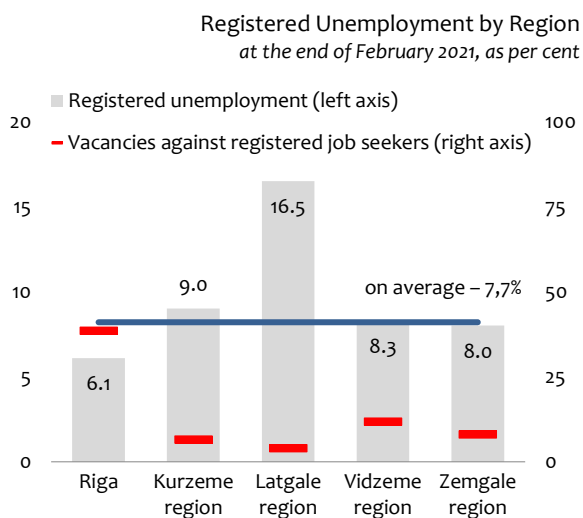
**Long-term unemployment is rising**

The crisis and the decline in the number of job vacancies have reduced the chances of the unemployed to return to work quickly, contributing to the rise in long-term

At the same time, the current crisis has accelerated the digitalisation of the economy and the automation of jobs. Thus, it has increased the productivity potential of the

labour force. On the other hand, it has reduced labour demand and changed the structure of skills demand in the labour market.

Structural problems may also exacerbate significant regional disparities in the labour market, which may hamper future labour market recovery. Although regional disparities in the labour market have levelled off slightly during the crisis, the unemployment rate in Latgale region is still twice as high as in Latvia on average. In particular, it remains almost 3 times higher than in Riga region, which along with low geographical labour mobility increase structural unemployment risks.



Overall, in Q3 of 2020, the unemployment rate in Latvia was the seventh highest among the EU27 countries (0.9 percentage points higher than the EU27 average - 7.5%). Also, it was by 0.7 percentage points higher than in Estonia (7.7%). However, it was lower than in Lithuania (9.3%).

Half of the total job losses have occurred in the sectors directly affected by the Covid-19 crisis. In 2020, compared to 2019, the number of occupied posts decreased by 2.7% or 25 thousand. Overall, the number of occupied posts in 2020 amounted to 889.2 thousand.

More than 3/5 (15.2 thousand) of the total job losses were in the sectors directly affected by the Covid-19 crisis (accommodation and food service activities, transport, arts, entertainment, and recreation, administrative and support service activities), of which the most significant decline has been observed in the accommodation and food service activities - by 7.7 thousand, accounting for 30.8% of the total decline in occupied posts.

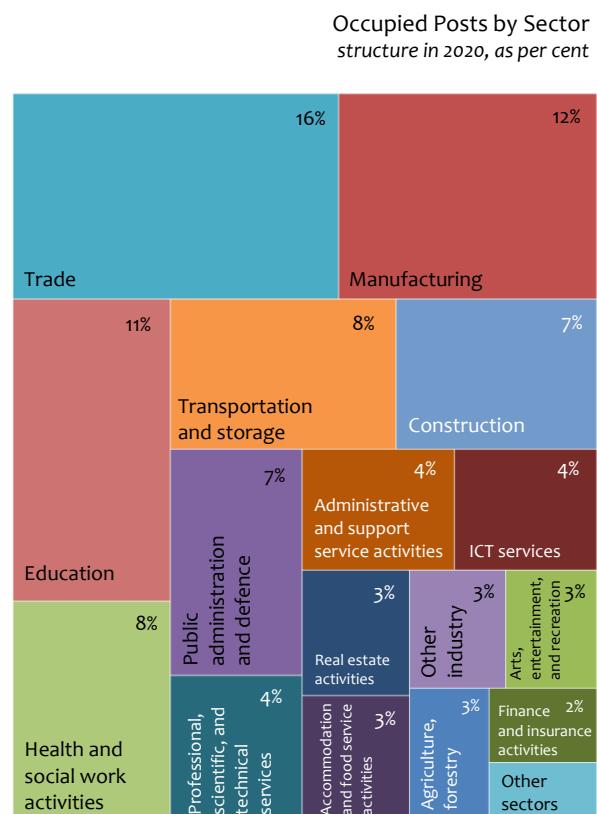
At the same time, the number of occupied posts in certain sectors continued to grow in 2020. In 2020, the most significant increase in the number of occupied posts was in observed in health care - by 2.1 thousand jobs (3%

increase compared to 2019). The number of occupied posts in education has also grown significantly - by 1.1 thousand (i.e., by 1.2%, compared to 2019). Also, the number of occupied posts has increased in the ICT services (mainly in the computer programming and information services segments) - by 1 thousand (i.e., by 2.9%, compared to 2019).

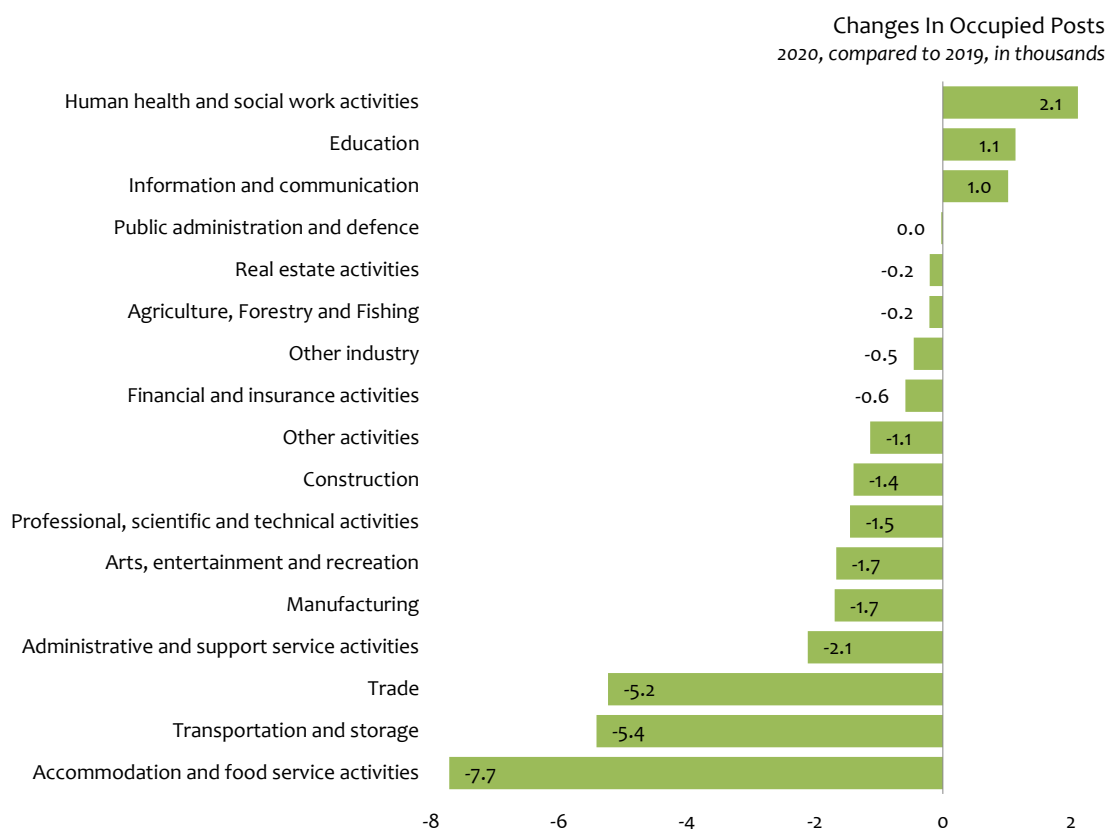
In 2020, the largest decline in occupied posts was observed in the private sector - by 22.9 thousand or by 3.7%, compared to 2019. Also, the number of occupied posts reached the level of 2016.

Overall, the public sector has been less affected by the Covid-19 crisis - the number of occupied posts has decreased by 2.2 thousand or 0.7%. The largest job losses in the public sector have been in the transportation and storage, the arts, entertainment, and recreation.

At the same time, it should be noted that the statistics on the number of occupied posts do not consider those enterprises with less than 50 occupied posts. Therefore, total job losses could be significantly higher.



Meanwhile, the differences between the number of occupied posts and the dynamics of the number of employees (according to the Labour Force Survey data), which also consider unregistered employment, generally indicate an increase in the shadow economy / unregistered employment during the Covid-19 crisis.



## WAGES AND SALARIES

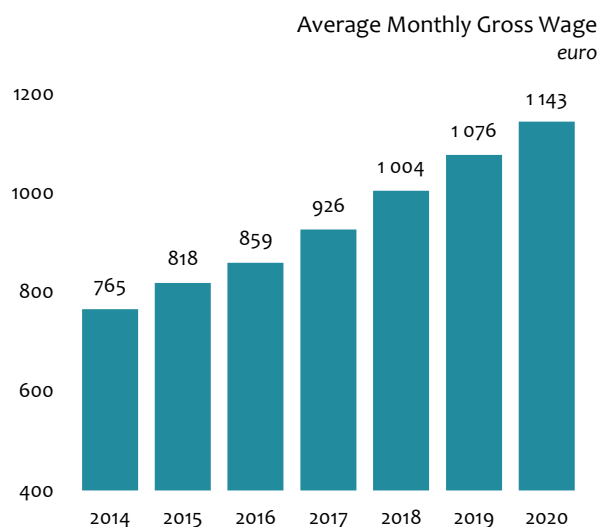
The average wage in the economy continues to grow; however, along with a decline in activity, the growth rates have moderated. In Q4 of 2020, the average monthly gross wage increased by 6.7% - rising to an average of EUR 1 188 per month, which is still a significant increase. However, it remains more moderate than in Q4 of 2018 and 2019, when the increase in the average gross wage accounted for 8.3% and 6.9%, respectively. Wage growth has remained above 5% per year on average over the last four years. In 2019, the average gross wage increased by 7.2%. However, in 2018, it rose by 8.4 percent.

Overall, in 2020, the average gross wage increased by 6.2% - to an average EUR 1 143 euros, which represents the slowest wage growth since 2016.

Wage growth has been driven in part by a decline in the share of lower paid jobs in the labour market, given the significant decline in both the accommodation and food service activities and the retail sector, wherein average wage levels have so far been significantly lower than the national average.

Wages are growing more rapidly in the private sector. Although wages increased in both the private and public sectors in 2020, a significantly larger increase was observed in the private sector. In 2020, the average gross wage in the private sector increased by 6.7% (to an average of EUR 1 138). However, in the public sector it rose

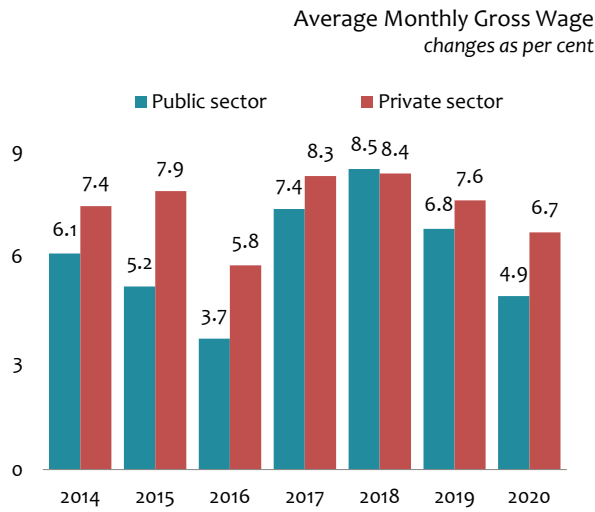
by 4.9% (to an average of EUR 1 156). It should be noted that since 2010, wages have increased in both the private and public sectors. At the same time, the growth in the private sector has been more rapid in recent years. It can primarily be attributed to the different dynamics of labour demand between sectors. Between 2011-2020, the number of occupied posts in the private and public sectors increased by 15.8% and 0.6%, respectively.



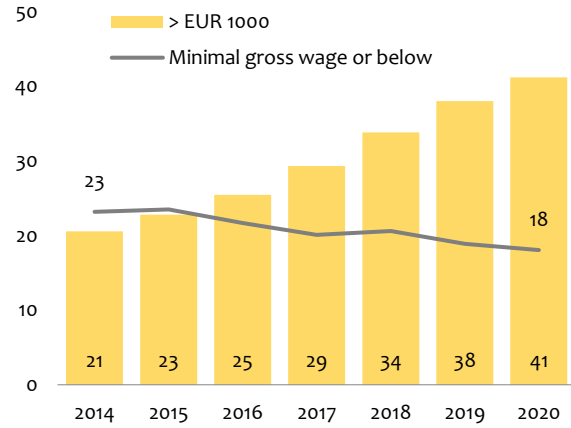


In recent years, the share of minimum wage earners has been gradually declining. At the same time, the number of employees receiving a monthly gross wage above EUR 1 000 has increased. In 2020, approximately 2/5 received a gross salary above EUR 1 000.

services, wherein an increase was largely determined by wage rises in advertising and market research services (by 23.9%) and scientific research (by 11.9%).

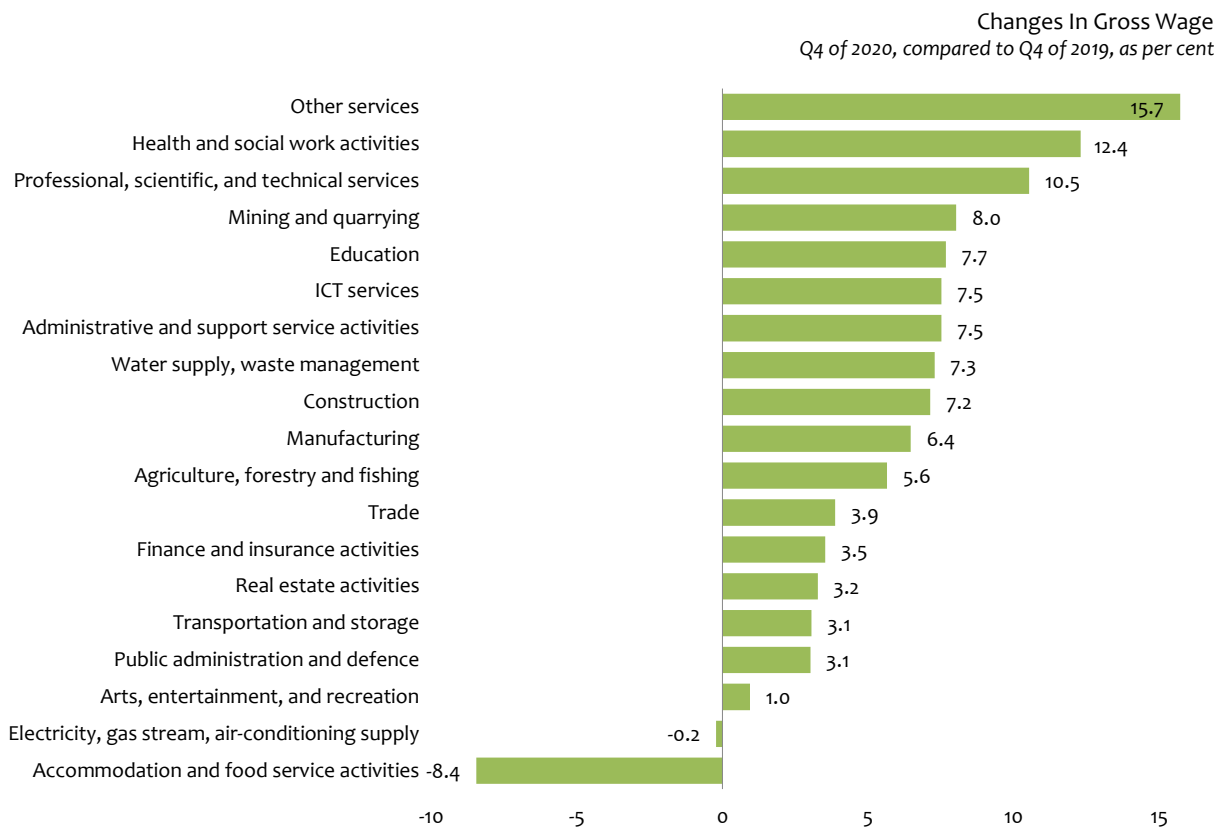


**Employee Gross Wage as per cent of total number employed**



In Q4 of 2020, the highest wage growth was observed in other services, primarily in the repair of computers and personal and household goods (by 16.6%), public, political, and other organizations (by 14.1%), health and social care (by 12.4%), and professional, scientific, and technical

services, wherein an increase was largely determined by wage rises in advertising and market research services (by 23.9%) and scientific research (by 11.9%). In Q4 of 2020, the largest decline was observed in the accommodation and food service activities, wherein the average gross wage decreased by 8.4%, compared to Q4 of 2019. Meanwhile, in Q4 of 2002, the highest level of gross wage remained in finance and insurance activities - the average gross monthly wage reached EUR 2 110.

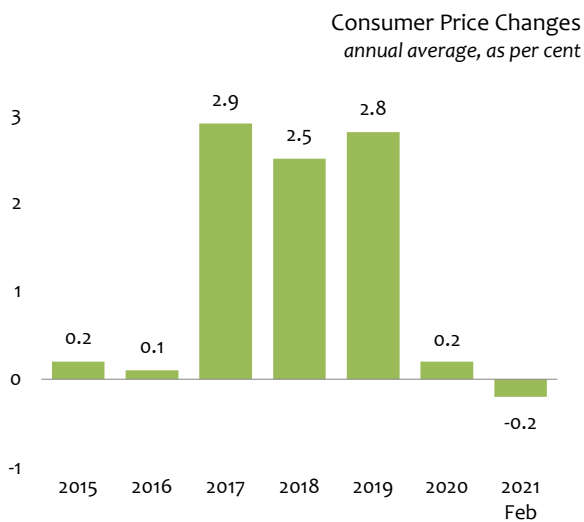


# 2021 | 1 ECONOMIC STABILITY AND COMPETITIVENESS

## PRICES

In 2020, a sharp fall in prices was observed. Consumer prices fell by 0.5%, while average annual inflation reached 0.2%. The fall in demand due to the Covid-19 crisis had a major impact on the level of consumer prices.

In January-February 2021, prices rose sharply. In February 2021, compared to December 2020, consumer prices increased by 0.8%, which was the largest increase in the period since 2012. The rise was mainly determined by the increase in fuel prices. Compared to February 2019, consumer prices declined by 0.2%. In February 2021, the average annual inflation was -0.2 percent.

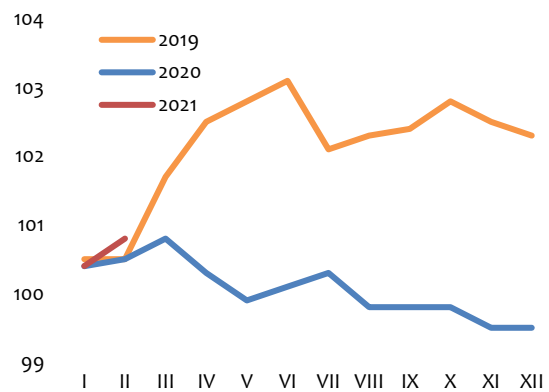


### Key factors affecting overall price level in 2020:

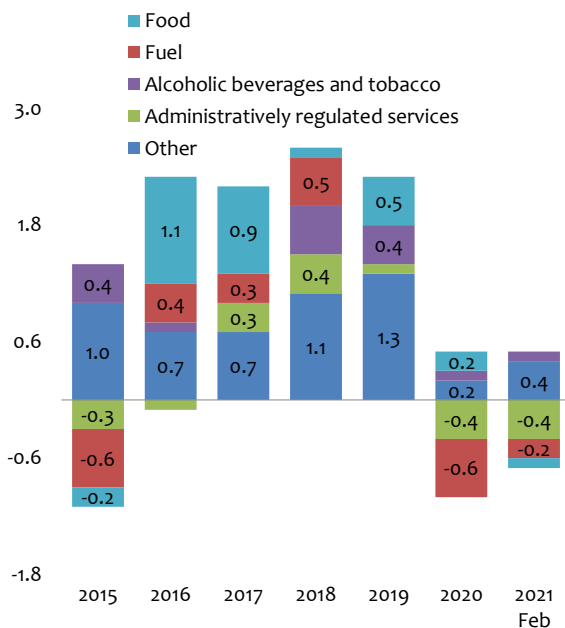
- (1) falling fuel prices due to declining world oil prices. In 2020, oil prices decreased by 23%. The fall in oil prices was driven by falling oil demand and increasing restrictions on oil production due to the Covid-19 crisis;
- (2) falling prices for heat and natural gas due to tariff reductions caused by declining world oil prices. Electricity prices also fell due to increased hydropower development and falling demand due to the Covid-19 crisis;
- (3) the sharpest fall in prices for clothing and footwear since 2009 was observed, primarily due to declining demand;
- (3) rising prices for services – in particular, outpatient, food service, leisure, and cultural services had the largest impact;

- (4) rising food prices - mainly affected by price rises at the beginning of the year and an uncharacteristic rise in July 2020. The largest upward effect yielded the rise in prices for bread and cereals. World food prices rose by 7.4%. An increase was observed in all major groups except meat;
- (5) increase in prices for alcoholic beverages and tobacco products due to the rise in excise duty;

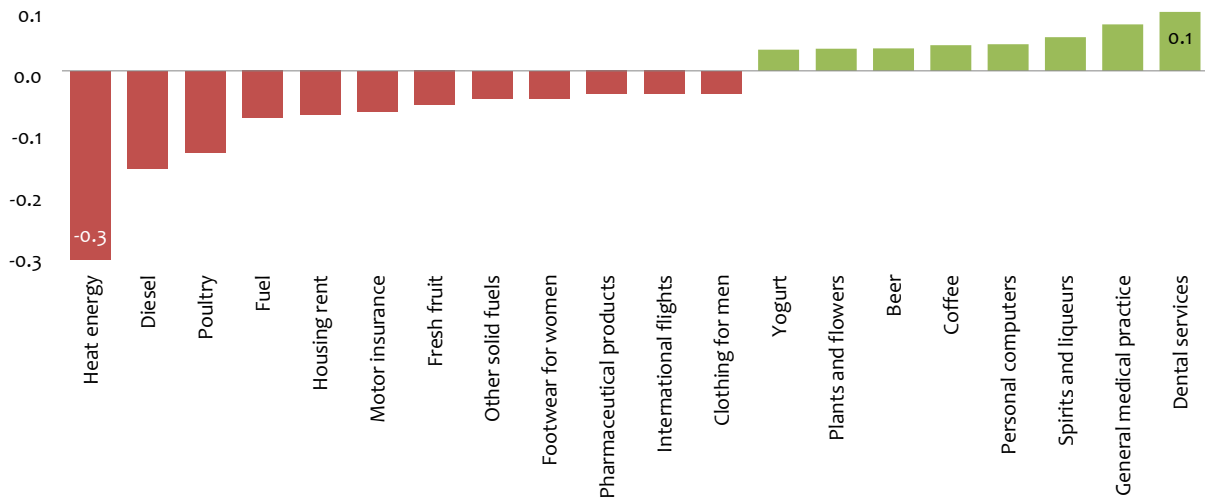
Consumer Price Index  
December of the previous year = 100



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



Consumer Price Changes by Goods and Services  
February 2021, contribution to 12-month changes, as per cent



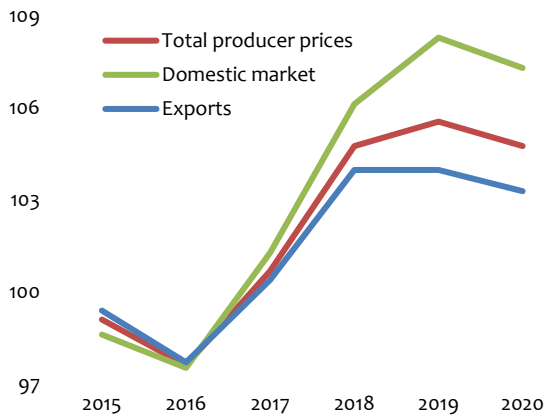
In 2021, the average annual inflation will be higher than in 2020. Consumer prices will not rise sharply in the coming months, with demand for measures to contain the virus remaining low. As the pandemic recedes, consumer prices will stabilize. At the same time, it will still be determined by fluctuations in world prices.

In 2020, producer prices decreased. Also, producer prices in manufacturing declined slightly.

producer prices in manufacturing increased by 2.1%, compared to December 2020.

In 2021, manufacturing producer prices will grow at a higher rate than in 2020. The level of producer prices is largely influenced by fluctuations in the producer prices of exported products, which are mainly determined by the dynamics of world raw material prices. Fluctuations in raw material supply and demand in the context of the Covid-19 pandemic will have a major impact on producer prices. It should be noted that world energy and raw material prices rose sharply in January-February 2021. Also, the dynamics of producer prices for products sold domestically will continue to be influenced by growth rates.

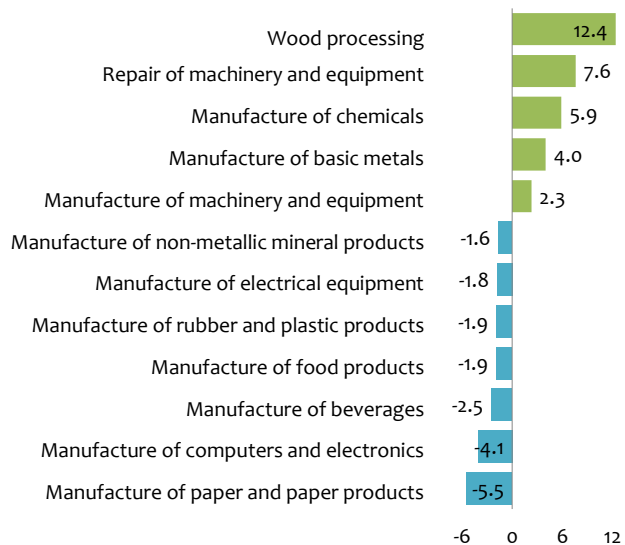
Producer Prices in Manufacturing  
2013 = 100



In 2020, producer prices in manufacturing decreased by 0.8%. The decline in producer prices was similar for both domestically sold and exported products. The largest fall in prices was observed in the manufacture of wood and wood products. However, prices increased in the repair of machinery and equipment and food production.

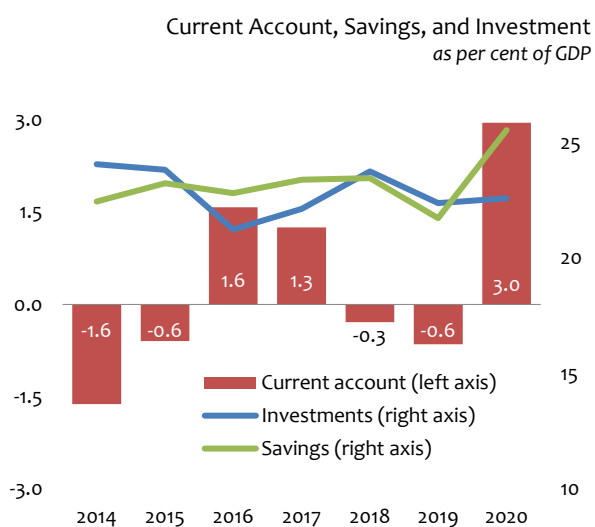
At the beginning of 2021, an increase in producer prices in manufacturing was observed. In January-February 2021,

The Most Rapid Producer Price Changes In Manufacturing  
in February 2021  
against the corresponding period last year, as per cent



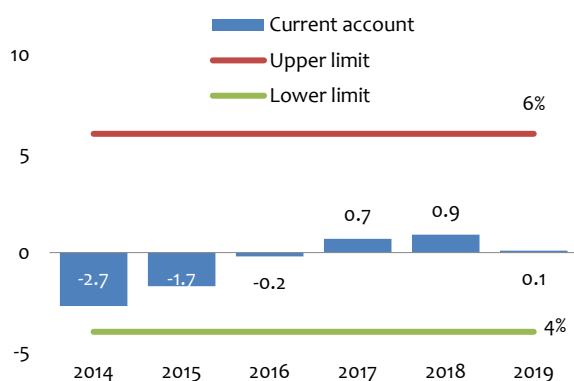
## BALANCE OF PAYMENTS

As a small open economy, Latvia is susceptible to external shocks, as demonstrated by the current account situation. Between 2017-2019, the annual fluctuations of the current account were moderate, and the balance remained positive - on average at the level of 0.1% of GDP, indicating that since the global financial crisis, the Latvian economy has become significantly more resilient. In 2020, the current account position was determined by the shock caused by the Covid-19 pandemic, which was reflected in the current account surplus at the level of 3% of GDP, with various implications on cross-border flows of goods, services, and income.



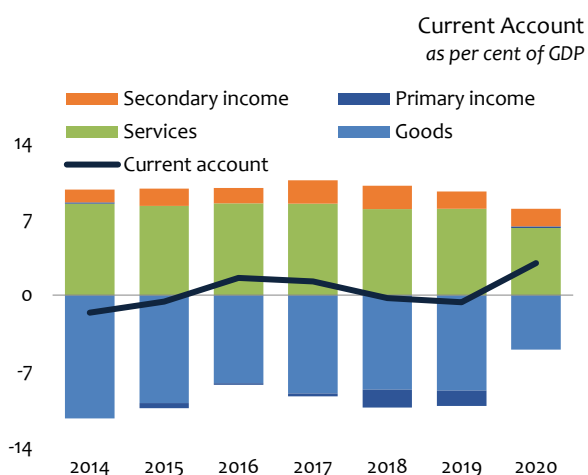
The current account does not exceed the indicative thresholds set by the EU alert mechanism and thus is considered sustainable.

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



In recent years, external trade flows have weakened. It can primarily be attributed to the uncertainty in the external environment and declining external demand. In 2020, measures to limit the spread of the Covid-19 pandemic

also had a strong negative impact on trade intensity. Latvia has a foreign trade deficit in goods. Between 2017-2019 the deficit on average constituted 8.9% of GDP (in 2019 - 8.1% of GDP). In 2020, compared to 2019, the value of exports of goods at current prices increased by 4.3%, while the value of imports decreased by 4.2%. Consequently, the trade deficit reached 5% of GDP.



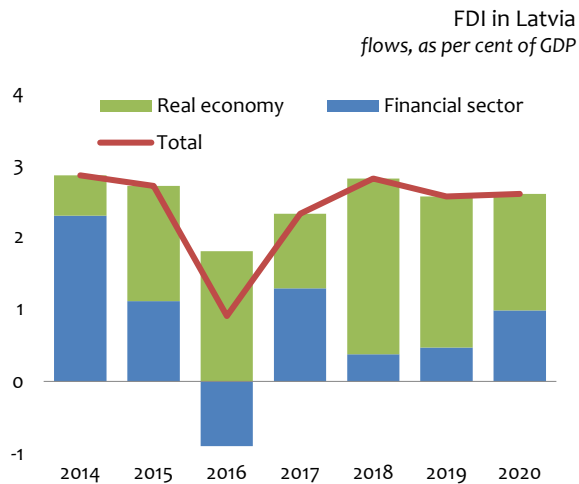
Cross-border trade in services is more strongly affected by the Covid-19 shock than trade in goods. The services balance is positive, averaging 8.1% of GDP over 2017-2019, and almost covering the foreign trade deficit. In 2020, the balance of services declined. In 2020, exports and imports of services at current prices decreased by 21.2% and 18.2%, respectively. Therefore, the surplus of the services balance decreased, reaching 6.2% of GDP (in 2019 - 8% of GDP). The decline in cross-border flows of services was due to restrictions on movement and the decline in leisure and business travel, which led to a decline in air travel and road transport services.

Changes in income and capital accounts are primarily due to variations in the absorption activities of EU funds. The capital account surplus has averaged 1.4% of GDP over the last three years. In 2020, it reached 1.7% of GDP.

In recent years, the financial account balance was primarily determined by the public sector (i.e. the financial sector stabilisation measures and other measures adopted by the Bank of Latvia for the restructuring of public debt within the framework of the extended asset purchase programme). Fluctuations in the financial account were affected by the decline in non-resident deposits in credit institutions of Latvia. In 2020, financial account assets increased more than liabilities; the financial account balance (with reserve assets) reached 6.7% of GDP. The state of balance of payments in the near future will be largely determined by the extent and duration of the spread of the COVID-19 pandemic and the restrictions imposed to combat it.

## FOREIGN DIRECT INVESTMENT

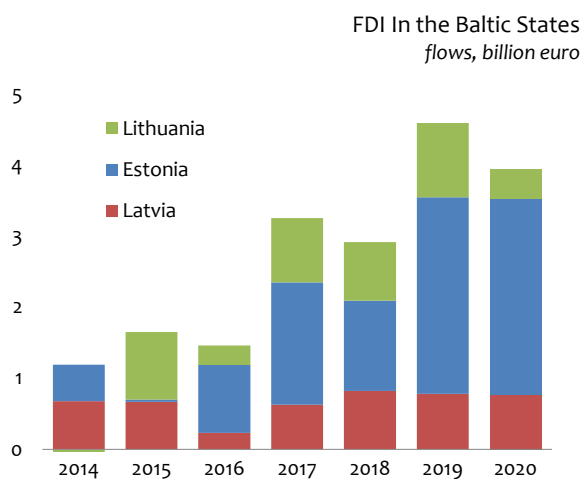
The dynamics of foreign direct investment (FDI) flows in Latvia remain moderate. Instability in the global economy, and restrictions on the spread of the Covid-19 pandemic, are a major barrier to cross-border investment flows.



In the Baltic States, cross-border direct investment flows in 2020 were more moderate than a year ago.

Between 2017-2019, the inflows of FDI in the Baltic States averaged almost 3% of GDP; however, most of the FDI flows were in the Estonian economy.

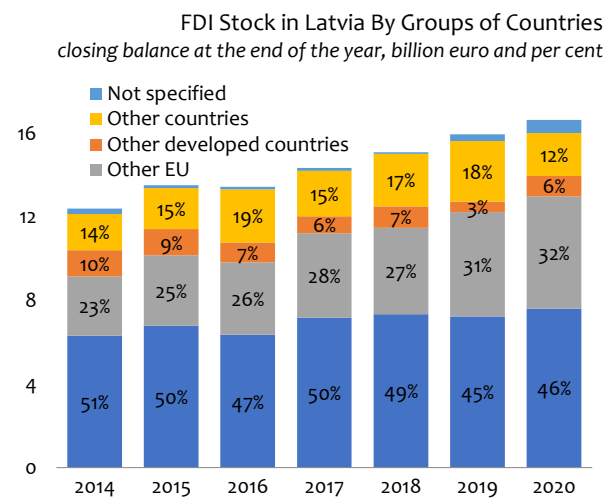
In 2020, the total net inflow of FDI in the Baltic States reached nearly 4 billion euros; Latvia attracted 19% of all FDI (Estonia - 70%; Lithuania - 11%).



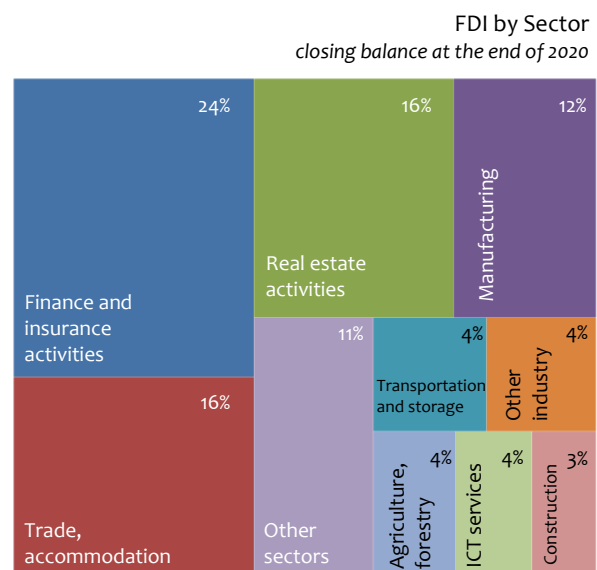
The intensity of attracted FDI flows is higher than a year ago. In 2020, the volume of FDI transactions reached 763 million euro. Most of them constituted non-residents' investments in the equity of companies registered in Latvia. The liabilities to direct investors increased by 440 million euro. On the other hand, reinvested earnings flows were more moderate than a year ago. It should be noted

that in 2020, compared to 2019, net FDI inflows were only 4.7% lower, accounting for 2.6% of GDP.

At the end of 2020, accumulated FDI in Latvia's economy reached EUR 16.7 billion (almost 57% of GDP). In 2020, an increase of 4.7% was observed. Currently, the largest investor in Latvia's economy is Sweden. In 2020, accumulated FDI from Sweden (mainly financial intermediation services) amounted to 16.4% of total FDI in Latvia. Also, significant FDI flows have come from Estonia, Russia, the Netherlands, Cyprus, Lithuania, and Germany. In 2020, the investment of these countries represented 70.8% of FDI in the Latvian economy.

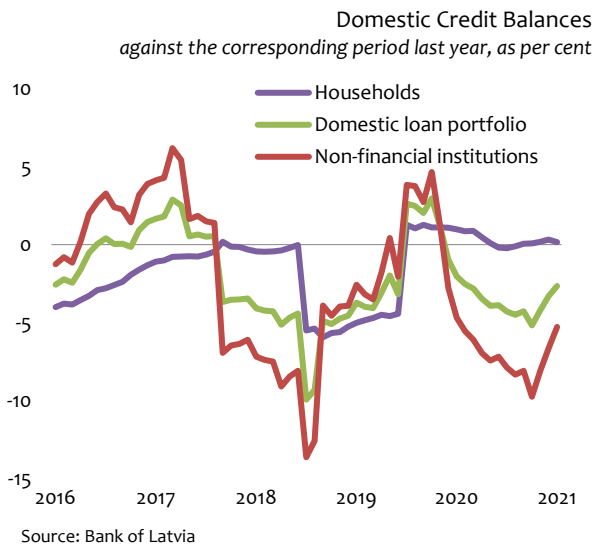


The largest share of accumulated FDI represent investments in financial intermediation services (24.2% of accumulated FDI), trade (16.3%), real estate activities (16.1%), and manufacturing (11.5%).

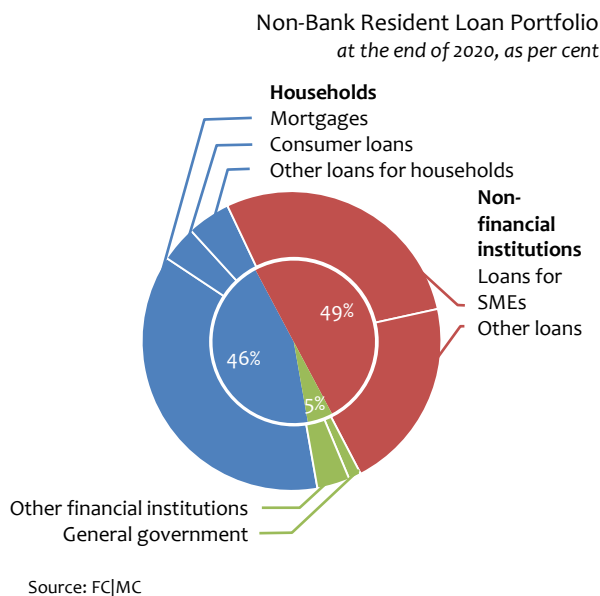


MONETARY INDICATORS

Despite the impact of Covid-19 and the associated uncertainty, the financial sector remains stable. Deposits increased in 2020, while the situation in lending remained essentially unchanged. The total loan portfolio remains negative.



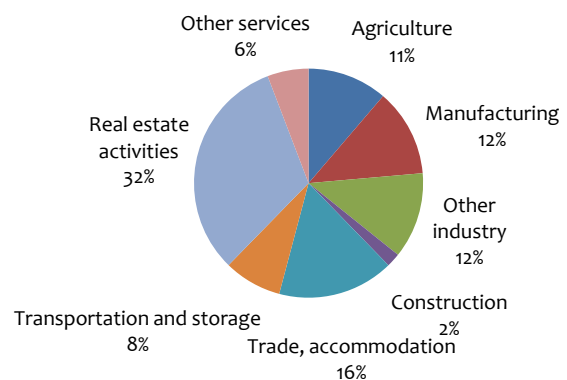
In December 2020, the domestic loan portfolio shrank by 2.7% annually. The loan portfolio of non-financial corporations declined by 6.7%. The situation in household lending improved slightly and the household loan portfolio increased by 0.3% (data from the Bank of Latvia).



The breakdown of loans by sector has not significantly changed - at the end of December 2020, the largest loan volumes were issued in real estate activities (32% of total loans), trade and accommodation (16%), and other manufacturing (12%).

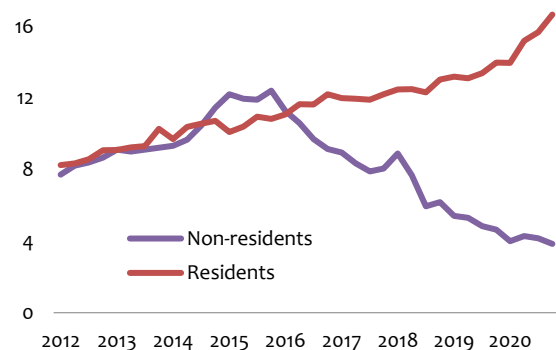
Interest rates (balances) on loans to non-financial corporations denominated in euro have been relatively stable since 2016 and have increased slightly since 2019. In December 2020, they were 2.51% for long-term loans. For short-term loans a slight decline to 3.09% was observed. Interest rate fluctuations on long-term loans to households for house purchase remain minimal and amounted to 2.29% in December 2020. However, short-term loan interest rates continued to decline, reaching 2.82% in December 2020 (3.12% in December 2019).

**Lending Portfolio of Non-Financial Institutions by Sector**  
*at the end of 2020, as per cent*



At the end of December 2020, deposit volumes increased to 20.5 billion euro and were by 10.1% higher than a year ago. It represents the largest increase since mid-2015, which can be related to the inclination of the population to build up savings due to the Covid-19 crisis. The volumes of foreign deposits were 17.2% lower than a year ago, accounting for slightly less than 1/5 of all deposits (at the end of June 2015 - 53% of all deposits). Domestic deposits increased by 19.1% during this period. Banks working with non-resident deposits are subject to higher liquidity and capital adequacy requirements.

**Non-Bank Deposits in Banks**  
*billion euro*



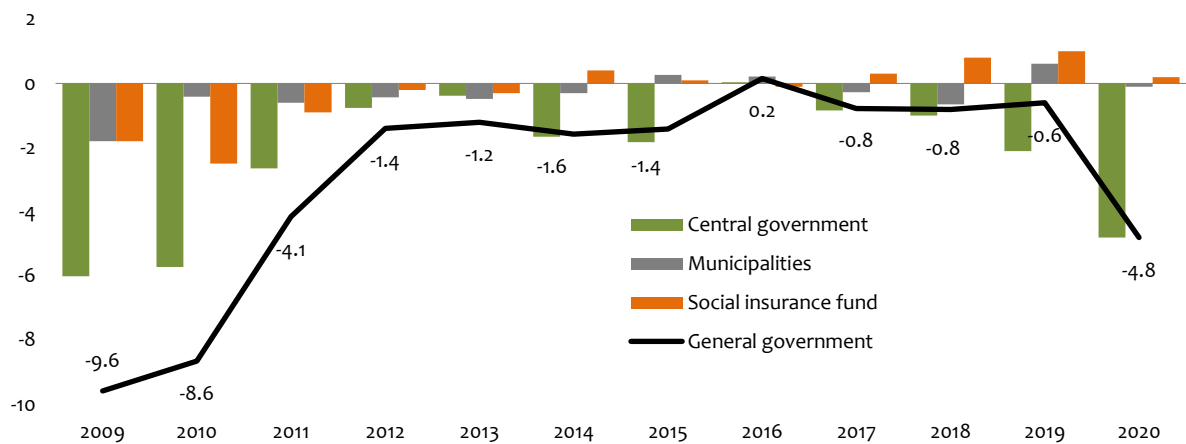
## BUDGET AND GOVERNMENT DEBT

Since 2011, as Latvia returned to economic growth, significant improvements in the fiscal position have been achieved. The general government budget deficit, in accordance with European System of Accounts (ESA), has been reduced from 9.6% of GDP in 2009 to 1.4% of GDP in 2015. In 2016, for the first time since 1998, a budget surplus of 0.2% was observed. However, in 2017-2019, budget was at a small deficit, not exceeding 1%. The Saeima approved the 2020 budget with a deficit of 0.3% of GDP. However, as a result of the Covid-19 pandemic, in 2020, the budget deficit increased to 4.8% of GDP.

General Government Budget

	2016	2017	2018	2019	2020
Revenues, bln euro	9.5	10.2	11.2	11.5	11.4
% of GDP	37.5	37.9	38.6	37.8	38.8
Expenditures, bln euro	9.5	10.4	11.5	11.7	12.8
% of GDP	37.4	38.7	39.4	38.4	43.6
Net, bln euro	0.04	-0.21	-0.23	-0.17	1.41
% of GDP	0.2	-0.8	-0.8	-0.6	-4.8

General Government Budget Balance by Sector  
as per cent of GDP

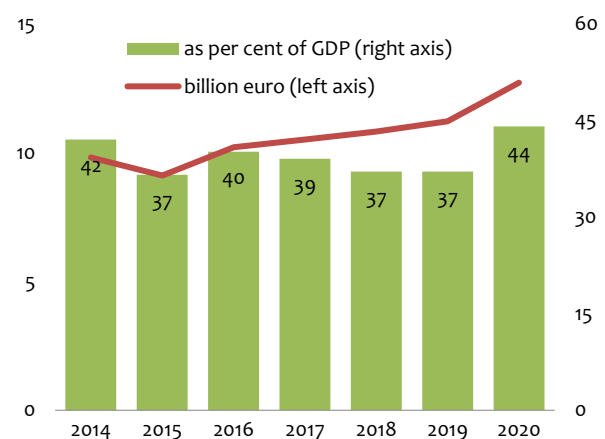


In Latvia, general government debt level remains one of the lowest amongst EU. Until 2007, it increased moderately. To finance state financial obligations, however, general government debt increased more rapidly. At the end of 2010, it reached EUR 8.6 billion or 47.9% of GDP. Since the end of 2011, general government debt on average has declined. In 2019, it reached EUR 11.2 billion or 37.0% of GDP.

Due to the COVID-19 pandemic, in 2020, the level of public debt reached 43.5% of GDP

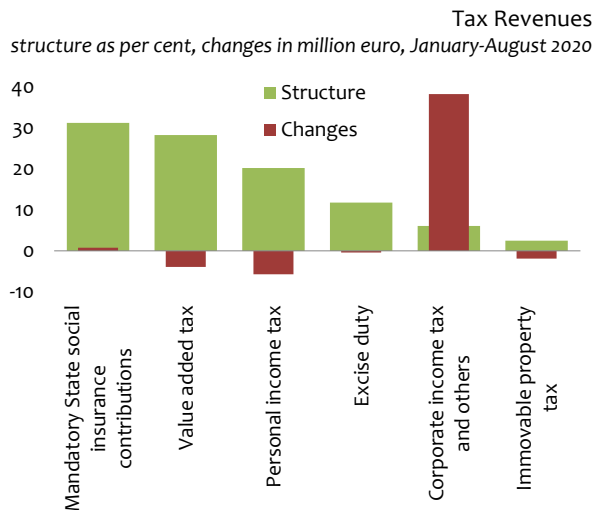
By borrowing in a timely manner in line with the medium-term strategy and pursuing a sustainable fiscal policy, it is possible to refinance current central government debt liabilities on favourable terms; reduce and stabilize general government debt in the long run, meeting the general government debt criterion set out in the Maastricht Treaty.

General Government Consolidated  
Gross Debt nominal value at the year end



## BUDGET REVENUES AND EXPENDITURES

Since 2011, general government budget revenues have increased. At the beginning of 2020, budget revenues continued to increase; however, with the declaration of a state of emergency in the country, revenues began to decline. Budget revenues in May and June 2020 sharply declined by 17.4% and 24.3%, respectively, compared to the corresponding period last year. Overall, in 2020, budget revenues fell by 0.8%.



In 2020, tax revenues decreased in almost all tax categories. Revenues from personal income tax decreased by 5.7%. However, revenues from state social insurance contributions increased by 0.7%.

### Consolidated General Government Budget

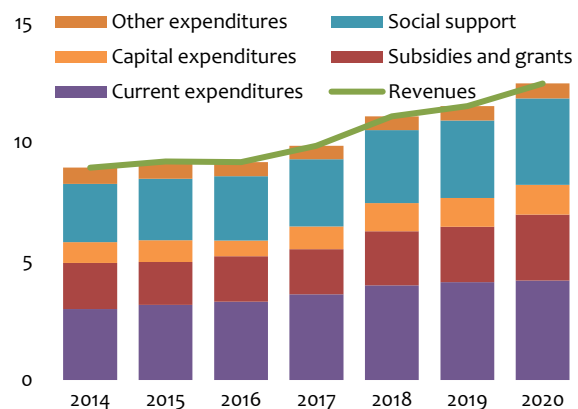
	Billion euro			Changes as per cent
	2018	2019	2020	2020
Revenues:	10.9	11.4	11.3	-0.8
Tax revenues:	8.7	9.1	9.0	-0.6
Mandatory State Social Insurance Contributions	2.5	2.8	2.8	0.7
Value added tax	2.5	2.6	2.5	-3.9
Personal Income Tax	1.7	1.9	1.8	-5.7
Corporate Income Tax	0.3	0.0	0.2	363.3
Excise Duty	1.0	1.1	1.1	-0.4
Immovable Property Tax	0.2	0.2	0.2	-1.9
Other taxes	0.4	0.3	0.3	-3.5
Other revenues	2.2	2.3	2.3	-1.4
Expenditures	11.1	11.5	12.5	8.2

In 2020, consumption tax revenues also declined. Revenues from value added and excise duty decreased by 3.9% and 0.4%, respectively. However, revenues from the natural resource tax increased by 12.4%.

In 2020, capital tax revenues increased sharply, which was determined by the rapid increase in corporate income tax revenues - by 363.3%. The rise can primarily be attributed to the changes made in the procedure of paying the tax within the framework of the 2019 tax reform.

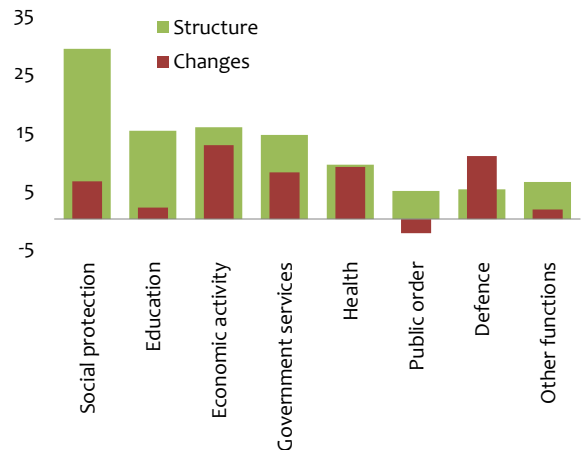
In 2020, expenditures of the state consolidated budget amounted to EUR 12.5 billion, rising by 8.2%. Subsidies and grants rose by 19.1%. Also, current and capital expenditures increased by 1.8% and 3.6%, respectively.

### Consolidated General Government Budget Expenditures billion euro



In 2020, expenditure on defence grew rapidly; however, expenditures decreased for public order and security.

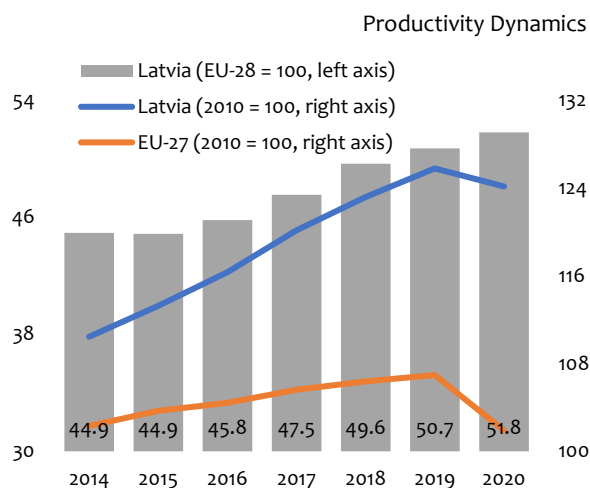
### Consolidated General Government Budget Expenditures by Functions structure and changes in January-August 2020, as per cent





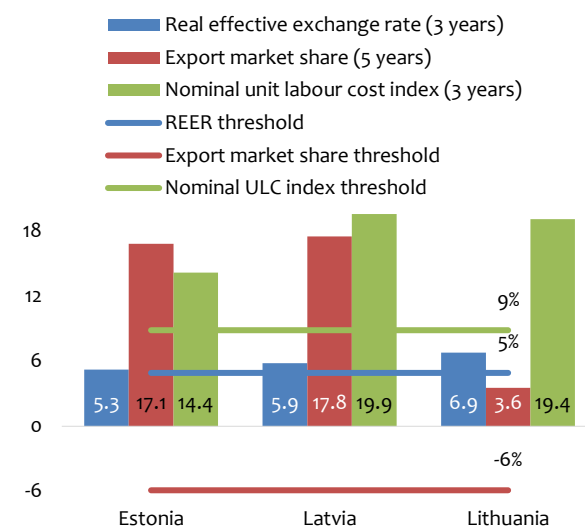
## PRODUCTIVITY AND COMPETITIVENESS

The Covid-19 pandemic has a negative impact on productivity. As a result of COVID-19 pandemic control measures, in 2020, productivity was 1.3% lower than a year ago (EU average - 4.7%) and GDP per employee reached 51.8% (almost 70% after PPS) from the EU average. Overall, over the last ten years (since 2010), productivity has grown at an average rate of 2.2% annually (i.e., almost 3.5 times faster than the EU average). The productivity gap has narrowed by almost 14 percentage points since 2010.

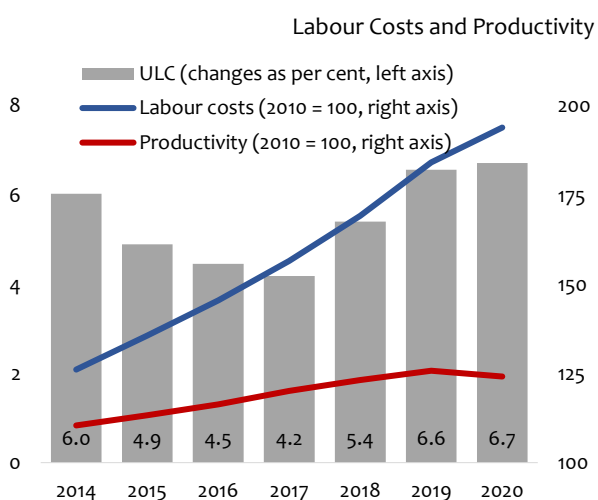


In recent years, strong growth in nominal ULC has been observed in all Baltic countries. In 2020, compared to 2017, the nominal ULC in Latvia increased by 19.9%; in Estonia - by 14.4%; and in Lithuania - by 19.7%. The ULC growth in Baltic countries exceeds the EU average (8.3%) and the threshold set by the EU Alert Mechanism (MIP) (9%).

### Competitiveness Indicators changes as per cent



Labour costs continue to rise. The decline in economic activity also affected the dynamics of labour costs. In 2020, labour costs increased by 5.3% (in 2019 - by 8.8%). Despite more moderate labour cost developments, it did not offset the decline in productivity, which led to a 6.7% increase in unit labour costs (ULC). Such tendencies increase the risks of declining competitiveness of Latvian entrepreneurs.



REER dynamics have been positive. Between 2017-2020, the consumer price index (CPI) (based on REER against 42 trading partners) has increased by 5.9%. The indicator exceeds the threshold set by the EU Alert Mechanism.

Despite the negative trend of cost competitiveness indicators, the long-term dynamics of Latvia's export market share is improving. On average, in the last five years (2016-2020), the share of Latvia's exports in world markets increased by 17.8%, which was largely influenced by the positive changes in 2020. Although, in 2019, Latvia's export market share in world markets decreased by 1.27%, in 2020, it rose by 9.87%, primarily determined by a significant increase in the export market share of goods (by 14.9%). In Estonia and Lithuania, the share of exports of goods and services increased by 5.32% and 9.15%, respectively.

Productivity growth is a key determinant of competitiveness. Although the share of Latvia's exports in world markets increased in 2020, the risks of declining competitiveness prevail elevated. In the near future, the dynamics of productivity and labour costs will be largely determined by measures to combat the Covid-19 pandemic and stimulate economic activity.

## EU ALERT MECHANISM

In line with the economic and fiscal policy surveillance rules adopted in 2011, a macroeconomic imbalances procedure was also established in the EU alongside the Excessive Deficit Procedure, aimed at identifying (through the Alert Mechanism Scoreboard) and correcting macroeconomic imbalances.

The Alert Mechanism Report for 2021 did not identify Latvia amongst those 12 EU Member States, where macroeconomic imbalances were present, and further in-depth study – required. Unlike previous reports, the analysis was based on annual data up to 2019 and short-term data for 2020 and projections. In the list of indicators (see table), Latvia has 2 indicators that exceed the set thresholds. The net international investment position

exceeded the threshold. However, it continued to improve. The nominal unit labour cost index also exceeded the threshold, similarly to 7 other EU Member States, as wages continued to rise (in Latvia, mainly in non-tradable sectors in the private sector). However, wage growth is not expected to be as strong due to the Covid-19 crisis. House price growth remained high in 2019, slightly below the threshold. Nevertheless, it is expected to slow down as a result of the Covid-19 crisis. The banking sector entered the crisis on a strong footing, with both capital and liquidity ratios above the EU average. It is expected that with the cessation of government support measures, the amount of non-performing loans will increase, which has been relatively low for Latvia so far.

List of Indicators for the Macroeconomic Imbalances Procedure for Latvia

	Threshold	2014	2015	2016	2017	2018	2019
<b>External imbalances and competitiveness</b>							
Current account (% of GDP, 3-year average)	-4%/6%	-2.7	-1.7	-0.2	0.7	0.9	0.1
Net international investment position (% of GDP)	-35%	-65.5	-61.7	-55.8	-53.1	-46.5	-41.7
Real effective exchange rate – 42 partner countries. HICP deflator (% changes over the last 3 years)	±5%* & ±11%	0.4	2.5	4.8	1.7	5.1	3.8
Export market share – % of world export (% changes over the last 5 years)	-6%	11.5	13.1	9.2	7.4	8.5	3.6
Nominal unit labour costs index (% changes over the last 3 years)	9%* & 12%	17.0	17.3	16.2	14.2	14.7	17.0
<b>Internal imbalances</b>							
House price index (% annual changes)	6%	4.6	-2.8	6.3	5.6	6.4	5.8
Private sector credit flow (% of GDP, consolidated)	14%	-4.6	-0.8	2.5	2.7	-0.2	1.5
Private sector debt (% of GDP, consolidated)	133%	82.3	78.4	78.4	75.7	69.8	67.2
General government debt (% of GDP)	60%	41.6	37.1	40.4	39.0	37.1	36.9
Unemployment rate (3-year average)	10%	12.6	10.9	10.1	9.4	8.6	7.5
Financial sector liabilities (% annual changes)	16,5%	10.9	13.3	4.7	6.2	-3.5	4.6
<b>Employment indicators</b>							
Economically active population – % of population aged 15-64 (% over the last 3 years)	-0,2 percentage points	1.8	1.3	2.3	2.4	2.0	1.0
Long-term unemployment rate – % economically active population (% changes over the last three years)	0,5 percentage points	-4.2	-3.3	-1.7	-1.3	-1.4	-1.6
Youth unemployment rate – % of economically active population (% over the last 3 years)	2 percentage points	-11.4	-12.2	-5.9	-2.6	-4.1	-4.9

\* – Euro area countries.

Note: highlighted numbers exceed the thresholds set out in the Early Alert Mechanism Report 2019.

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

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# LATVIA IN INTERNATIONAL RANKINGS

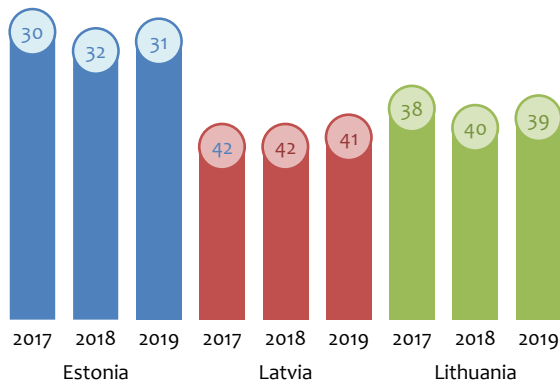
Ratings from the United Nations, the World Bank Group, the World Economic Forum, and other organisations described Latvia as a country that makes a lot of reforms to improve its competitiveness via e-government, the business environment, ICT infrastructure, and other areas, while providing free press and not militarily endangering other countries of the world. In World Economic Forum report and the **Global Competitiveness Index (GCI 4.0)** for 2019 Latvia is ranked 41st between 141 surveyed countries.

in skills and labour market indexes – 22<sup>nd</sup> and 28<sup>th</sup> place, respectively. An average performance can be observed in business dynamism (40<sup>th</sup>), infrastructure (43<sup>rd</sup>), institutions (47<sup>th</sup>), product market (47<sup>th</sup>), and innovation capability (54<sup>th</sup>) indexes. However, the worst assessment has been received for health (84<sup>th</sup>), financial system (85<sup>th</sup>), and market size (95<sup>th</sup>) indicators.

The 2020 edition of the GCI was dedicated to countries' responses to the Covid-19 crisis. As obtaining information was an impediment, only the lists of the highest performing countries with some indicators were published, in which Latvia has not entered.

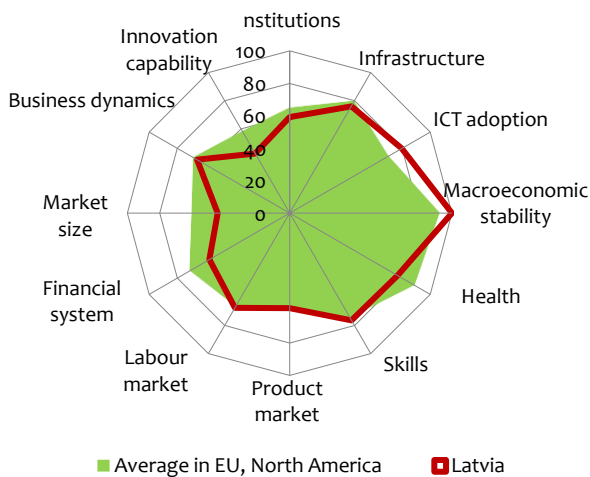
In the World Bank Group *Doing Business* Latvia ranks 19<sup>th</sup> amongst 190 countries. However, between EU countries Latvia has been ranked in the 6<sup>th</sup> place.

Baltic Countries In Global Competitiveness Index 4.0



Source: World Economic Forum, The Global Competitiveness Report 2019

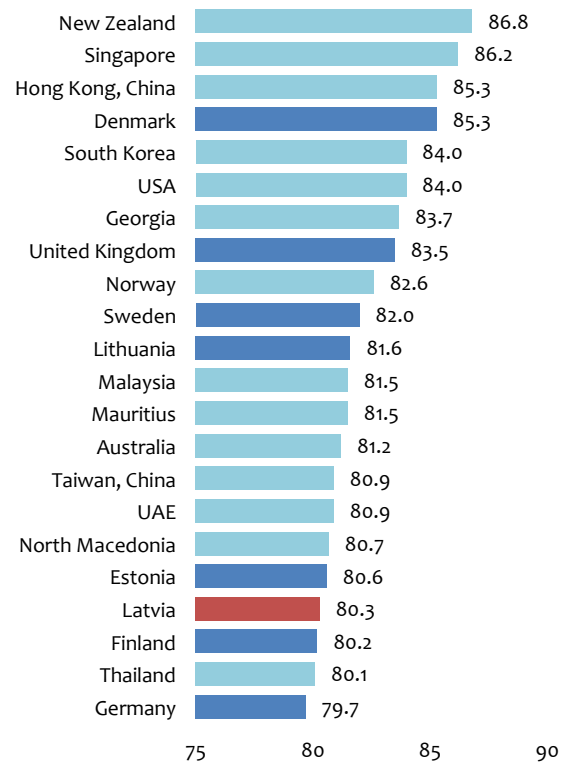
Latvia GCI 4.0 2019 in scale from 0 to 100



Source: World Economic Forum, The Global Competitiveness Report 2019

In terms of macroeconomic stability, Latvia ranks 1<sup>st</sup> (along with other 33 countries). Based on well-developed infrastructure and a larger share of internet users, Latvia ranks 15<sup>th</sup> in the ICT adoption index. Latvia also ranks high

Doing Business 2020 in scale from 0 to 100



Source: Doing Business 2020, International Bank for Reconstruction and Development, The World Bank

The issuance of the 2021 Doing Business rating was postponed indefinitely pending a data integrity audit due to incorrect information provided by many countries.

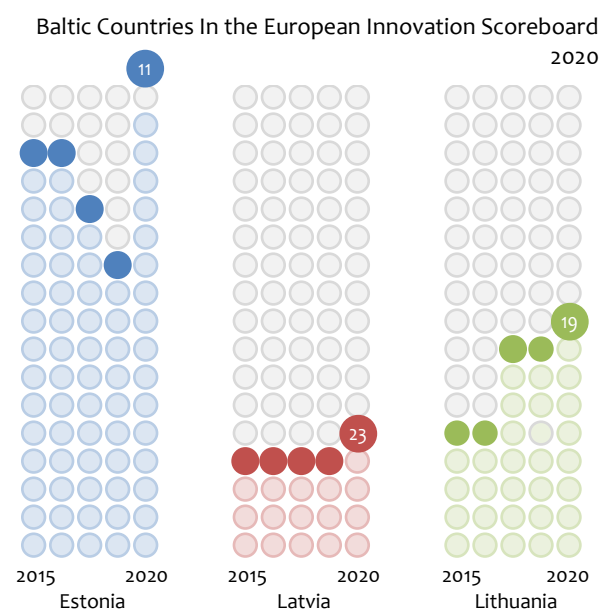
Baltic Country Assessment, Doing Business 2020

	Latvia			Lithuania		Estonia	
	place	score	changes. compared to Doing Business 2019*	place	score	place	score
<b>Index. total</b>	<b>19</b>	<b>80.3</b>	<b>0</b>	<b>11</b>	<b>81.6</b>	<b>18</b>	<b>80.6</b>
Starting a business	24	94.1	0	34	93.3	14	95.4
Dealing with construction permits	56	73.5	0	10	84.9	19	82.6
Getting electricity	61	82.3	+0.1	15	92.9	53	83.3
Registering property	25	82.3	0	4	93.0	6	91.0
Getting credit	15	85.0	0	48	70.0	48	70.0
Protecting minority investors	45	68.0	0	37	70.0	79	58.0
Paying taxes	16	89.0	-0.7	18	88.8	12	89.9
Trading across borders	28	95.3	0	19	97.8	17	99.9
Enforcing contracts	15	73.5	0	7	78.8	8	76.1
Resolving insolvency	55	59.6	+0.2	89	46.7	54	60.1

\* Doing Business 2019 the results have been recalculated according to the Doing Business 2020 methodology  
 Source: Doing Business 2020, International Bank for Reconstruction and Development, The World Bank

In the European Innovation Scoreboard 2020, published annually by the European Commission, Latvia ranks 23<sup>th</sup> among the 27 EU countries, and has been included in the group of moderate innovators for the fourth consecutive year. Finance and support, the impact on employment and an innovation-friendly environment are Latvia's strongest dimensions of innovation. However, innovators, research systems and business investment are the weakest dimensions of innovation.

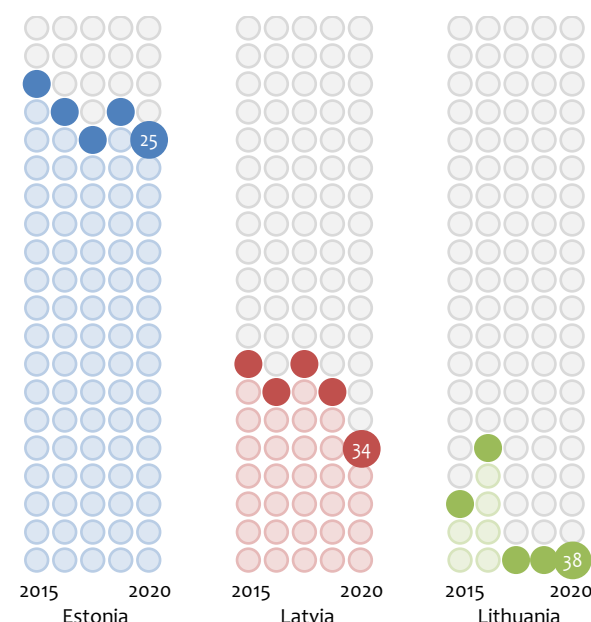
management system standards, ease of obtaining credit, the share of women with higher education, total domestic R&D expenditure financed by foreign, domestic increase in gross domestic product per employee by purchasing power parity, export volumes of ICT, as well as increase in the volume of products of creative industries.



Source: European Commission, European Innovation Scoreboard 2020

In turn, in Global Innovation Index 2020 Latvia is ranked 36<sup>th</sup> between 131 surveyed countries. The strengths of Latvia are highlighted: the ratio of students and teachers in secondary education institutions, the share of secondary school graduates, compliance with environmental

Baltic Countries In Global Innovation Index



Source: Cornell University, INSEAD, WIPO, The Global Innovation Index 2020: Who Will Finance Innovation?

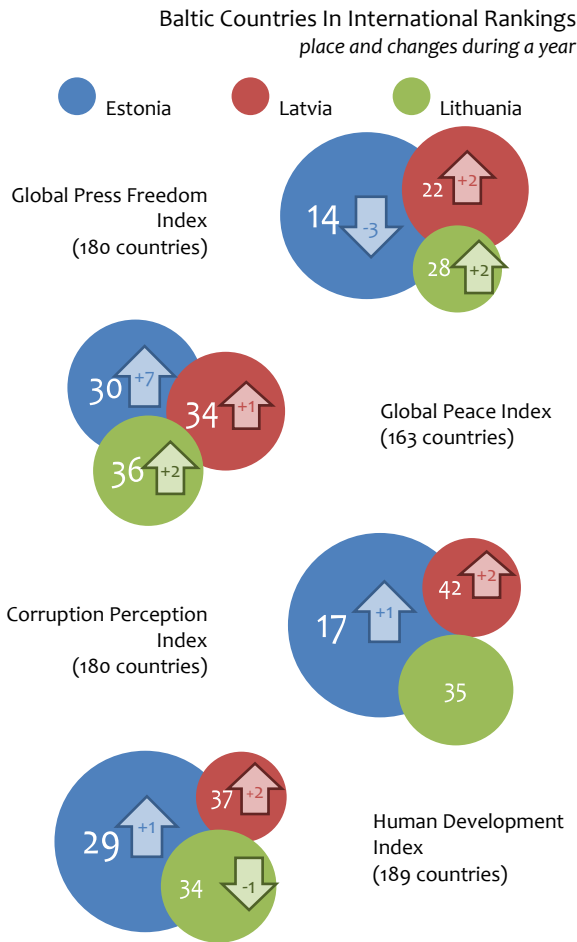
In World Press Freedom Index by Reporters Without Borders (RWB) Latvia ranks 22<sup>nd</sup> (amongst 180 countries), improving its position by two positions, compared to 2019.

In Global Peace Index (GPI) produced by the Institute for Economics and Peace (IEP) Latvia was ranked 34<sup>th</sup>

(amongst 163 countries) in 2020. Compared to 2019, Latvia's position has ranked one position higher due to improvements in social security and defence.

In **Corruption Perceptions Index 2020** produced by The Global Anti-Corruption Organisation *Transparency International* Latvia ranked 42<sup>nd</sup> (among 180 countries), improving its position by 2 places, compared to 2019.

In the **Human Development Index (HDI)** produced by the United Nations Organization Latvia ranks 37<sup>th</sup> (amongst 189 countries) in 2020, thus achieving by two places higher position than in 2019.



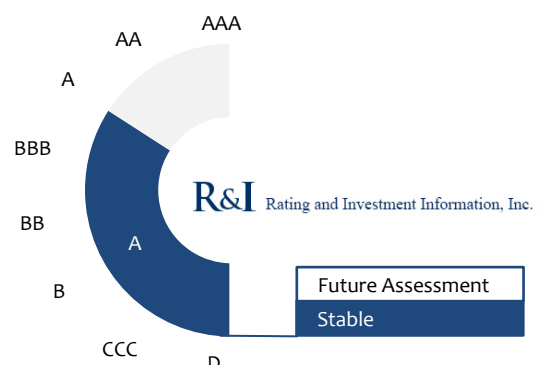
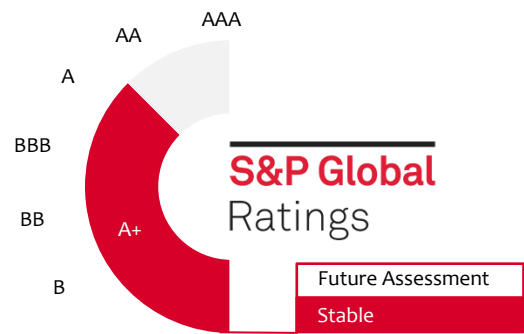
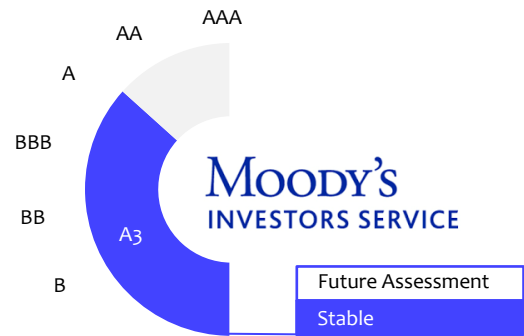
Source: Reporters Without Borders, 2020 World Press Freedom Index; The Institute for Economics and Peace, Global Peace Index 2020; Transparency International, Corruption Perceptions Index 2020; United Nations Development Programme, Human Development Report 2020.

In February 2020, the international rating agency S&P Global Ratings raised Latvia's credit rating from "A" to "A +", which marks the historically highest credit rating for Latvia. In August 2020 and February 2021, the agency confirmed that Latvia meets the "A +" level with a stable future assessment. In 2020, other rating agencies did not change their ratings.

The agencies concluded that the fundamentals of the Latvian economy have not been significantly affected by

the Covid-19 crisis. Therefore, as the impact of the pandemic diminishes, economic growth will resume. Owing to the funds available from the European Recovery and Sustainability Mechanism and the implementation of large-scale investment projects, more rapid economic growth could be anticipated from 2022 onwards.

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



Source: Treasury Republic of Latvia