Ministry of Economics
Republic of Latvia

MACROECONOMIC REVIEW OF LATVIA

April 2024

ISSN 2592-8538

Mainly, numerical information and data, except of particularly indicated cases, are received from Central Statistical Bureau of the Republic of Latvia. European Union data are taken from Eurostat database. Data from the Bank of Latvia and Financial and Capital Market Commission are used in characterizing Latvia's Balance of Payments, banking and monetary indicators. Data from the Treasury are used in characteristics of public finances.

If you have comments, questions or suggestions, please address them to:
Ministry of Economics of the Republic of Latvia
55 Brīvības str.
Riga, LV-1519

Telephone: 371 67 013 109
E-mail: macro@em.gov.lv
Web page: em.gov.lv/en

ISSN 2592-852X

2024 | 1

CONTENTS

2024 | 1

ECONOMIC DEVELOPMENT TRENDS

After the rapid recovery of the economy from the Covid-19 pandemic crisis in 2021, growth in Latvia slowed down to 3% in 2022. The economic development in 2022 was significantly affected by supply chain disruptions caused by Russia's invasion of Ukraine, the rise in inflation caused by the cost of energy resources and food, as well as the decrease in global demand.

In the first half of 2022, the consequences of the war were not yet fully felt. The economy grew by 5.4% compared to the first half of 2021. The rise was influenced by the low base at the beginning of 2021 and the gradual lifting of Covid-19 restrictions. However, in the second half of the year, annual growth decreased to 0.8%, as the balance of exports and imports worsened, and private consumption and investment growth rates decreased.

In 2023, economic development continued to be affected by the geopolitical situation and uncertainty, high prices and rising bank interest rates. GDP decreased by 0.3%. In the second half of the year, the GDP decline was higher than in the first half of the year. In Q4 of 2023, compared to Q4 of 2022, GDP declined by 0.5%. In general, private consumption, export and import decreased in 2023, albeit public consumption and investments increased.

In 2024, the economy will start to grow at a higher pace. International institutions forecast that the economy will grow in Latvia's largest export markets in 2024, which will positively affect the country's export opportunities. As real wages resume growth, private consumption is anticipated to resume growth as well. The implementation of EU fund programs will have a positive impact on investment dynamics. The Ministry of Economics forecasts that GDP growth could reach 1.8% in 2024.

Key Economic Development Indicators

	2018	2019	2020	2021	2022	2023	2024f
Gross domestic product, at current prices, billion euro	29.2	30.6	30.1	33.3	38.4	40.3	42.0
changes compared to the previous year, as per cent							
Gross domestic product	4.0	0.6	-3.5	6.7	3.0	-0.3	1.8
Private consumption	3.0	0.0	-4.3	7.3	7.2	-1.3	2.0
Public consumption	1.7	5.6	2.1	3.5	2.8	7.0	1.8
Gross fixed capital formation	11.7	1.5	-2.2	7.2	0.6	8.2	3.5
Exports	4.4	1.3	0.4	9.0	10.3	-5.9	1.5
Imports	6.3	2.2	-1.1	15.1	11.1	-2.8	2.2
Consumer prices	2.5	2.8	0.2	3.3	17.3	8.9	1.7
as per cent							
Changes in the number of employed	1.6	0.1	-1.9	-3.2	2.6	-0.2	0.1
Employment rate	64.5	65.0	64.2	62.5	63.9	64.2	64.8
Unemployment rate	7.4	6.3	8.1	7.6	6.9	6.5	6.3
as per cent							
General government balance	-0.8	-0.5	-4.4	-7.2	-4.6	-2.2	-2.8
General government debt	37.0	36.7	42.7	44.4	41.8	43.6	41.0
Net exports	-0.7	-0.7	1.3	-3.2	-4.6	-3.9	-4.4

f-forecast

The dynamics of the population's real income, especially in the first half of the year, negatively affected household consumption in 2023. In contrast to the rapid growth of private consumption in 2022, it decreased by 1.3% in 2023.

Public consumption continues to grow largely at the expense of the state budget deficit in order to finance the government's priority measures. In 2023, public consumption increased by 7%.

Despite the geopolitical uncertainty, investments are growing. Thanks to the increase in funding from EU funds, in 2023, investments in the gross fixed capital formation were 8.2% higher than a year ago. Investments in housing, buildings and structures increased by 21.4%, but investments in machinery and equipment and vehicles decreased by 0.3% and investments in intellectual property products by 0.8%.

Net flows of FDI attracted in Latvia continue to increase. In 2023, the net flows of FDI attracted in Latvia constituted 2.8% of GDP, while the accumulated FDI at the end of the year reached 23.8 billion. EUR (59% of GDP). During the year, they increased by 8.5% or 1.9 billion. euro.

The situation in the external environment adversely affects foreign trade. The export volumes of goods and services in 2023 were 5.9% lower than a year ago. Export volumes of goods decreased by 7.1%. The main exports at this time were wood and wood products, machinery and mechanical devices, and electrical appliances and electrical equipment. Export of services decreased by 2.6% in 2023. Air transport services, travel, trade brokerage and ICT services made a major contribution to the growth of services exports. On the other hand, the export value of sea and rail transport, as well as financial and insurance services decreased. Import volumes of goods and services decreased by 2.8% in 2023 and the export-import balance in actual prices was -3.9% of GDP.

In 2023, the current account deficit was 4% of GDP, mainly due to the negative balance of initial income. The current account is expected to improve in the coming years.

In terms of sectors, the total added value increased by 0.2% in 2023. The decrease in volumes was observed in the manufacturing sectors, which is largely related to the deterioration of export opportunities. Manufacturing industry shrank by 5.2%. On the other hand, a decrease of 8.1% was recorded in the agriculture and forestry sector, which was largely influenced by the decrease in the crop production sector in connection with this summer's unfavorable weather conditions. In the rest of the industry, the decrease in volumes (by 0.4%) was influenced by the decline in the mining industry. The decrease in volumes in the transport and storage sector (by 7.8%) was influenced by land transport and auxiliary activities of storage and transport. In 2023, there was also a drop in volumes in the trade sector – by 5.1%, which is affected by low household consumption and the contraction of foreign trade.

The increase in 2023 was observed in construction and most service sectors. In construction, the growth during the year was 18.6%. Stable growth rates remain in the sectors that were most affected by the restrictions of Covid-19 – in 2023, the accommodation and food service activities grew by 7.4%, the arts, entertainment and recreation – by 11.7%. A steady rise can still be observed in the ICT sector – an increase by 2.5%.

The Covid-19 pandemic has caused significant changes in the fiscal policy implemented so far. In 2020, the "Stability and Growth Pact (SGP) general exception clause" was activated in the EU, allowing EU countries to increase the general government budget deficit to the extent necessary to mitigate the economic damage caused by the pandemic. Taking into account the Russian-Ukrainian war and all the consequences related to it, the SGP general exception clause was also valid in 2023.

As a result of the Covid-19 pandemic, the budget deficit in Latvia significantly increased in 2020-2022 and exceeded 4% of GDP. The budget deficit of the general government in 2023 was 0.9 billion. euro or 2.2% of GDP. The Saeima has approved the budget for 2024 with a deficit of 2.8% of GDP.

Despite the increase in the budget deficit in recent years, the general government debt level in Latvia is one of the lowest in the EU. The outbreak of Covid-19 led to the need to provide a significant amount of funding to mitigate the impact of the crisis caused by Covid-19. In 2021, the amount of national debt increased to 44.4% of GDP, or 14.8 billion. EUR. Since nominal GDP growth is rapid in conditions of high inflation, in 2022 it decreased to 41.8% in relation to GDP, but in nominal terms it increased to 16 billion. EUR. In 2023, the national debt was 17.6 billion euros, or 43.6% of GDP. In 2024, general government debt is predicted to be 41% of GDP. It is expected that in the medium term the debt condition set by the Law on Fiscal Discipline – 60% of GDP – will be respected and the general government debt of Latvia will stabilize at a level below 40% of GDP.

The banking sector has been able to maintain stability despite the economic turmoil caused by the Covid-19 pandemic and geopolitical tensions. The banking sector is profitable. However, credit development is still considered weak, especially business lending. On the other hand, positive features can be seen in lending to households. Deposit volumes continue to grow.

Inflation in 2022 was most significantly affected by the rise in world prices for energy resources and food. In December 2022, consumer prices in Latvia were 20.8% higher than a year ago, while the annual average inflation rose to 17.3%. In December, during the year, food prices had increased by 29.3%, electricity, gas and solid fuel – by 63.9%, and fuel – by 17.9%.

In 2023, consumer prices will stabilize, with monthly growth decreasing compared to the corresponding month of the previous year – from 21.5% at the beginning of 2023 to 0.6% in December. Considering the base effect of inflation dynamics, in 2023, the average annual inflation remained high – 8.9%.

In the three months of 2024, the price increase was slightly faster than in the corresponding period of the previous year. Consumer prices in March 2024, compared to December 2023, increased by 2.2%. Annual average inflation in March was 4.5%.

In the future, the main influence on price changes will continue to be related to fluctuations in energy and food prices in the world, as well as will be determined by global developments. At the same time, inflation in Latvia will be affected by various factors on the supply side in connection with the increase of taxes and tariffs, as well as on the demand side, which will be promoted by the increase in wages. The Ministry of Economics forecasts that in 2024 the average annual inflation is expected to be 1.7%.

Despite the economic turbulence, the labor market remains stable as demand for labor is high. In 2023, the employment rate increased by 0.3 percentage points – to 64.2%. The unemployment rate in 2023 was 6.5%, which is 0.4 percentage points lower than a year ago. However, in 2023, the number of employed people decreased by 0.2% or 2 thousand. employed compared to 2022. The decrease in the number of employed people has been largely influenced by both the slowing down of the economic growth rate and factors on the supply side of the labor market – the decrease in the number of working age population, as well as the drop in the total labor supply.

Considering the still high uncertainty in foreign markets, as well as the tense geopolitical situation, it is expected that labor market activity in 2024 will generally remain tentative. A significant increase in new jobs and employment in general is not expected in 2024. The situation in the labor market will continue to be increasingly influenced by factors on the supply side, considering the negative demographic background, as well as the decrease in the total labor supply, thus keeping unemployment at a low level. In general, the unemployment rate could decrease to an average of 6.3% in 2024, while the number of employed persons would remain close to the level of 2023.

The monthly average gross wage continues to increase, albeit its growth rate compared to the corresponding period of the previous year from Q1 of 2022 to Q1 of 2023 was lower than the growth rate of inflation, causing a decrease in purchasing power. Since Q2 of 2023, the real salary has started to rise again. The average net salary in 2023 (calculated using the labor taxes applicable at the workplace) was 1,119 euros or 72.9% of the gross salary, and during the year it increased by 11.3%, ahead of the increase in consumer prices. Real net wage growth, adjusted for inflation, was 2.2%.

At the same time, positive pressure on wages will continue to be maintained both by the process of wage convergence closer to the wage level of the economically developed countries of the EU, and by the increasing shortage of qualified labor – the narrowing of the labor market, which makes it necessary for entrepreneurs to think more actively not only about how to attract new specialists, but also how to keep the existing ones , incl. reviewing rates of pay.

The further development of the economy in the medium term depends on the situation in the external environment and the progress of reforms. The largest risk to Latvia's growth is related to the development of the global economy, especially the geopolitical situation. The future development of the EU's common economic space is also important. Latvia's economic advantages in the medium term will mainly be based on the achieved macroeconomic stability, as a result of which Latvia's credit ratings have improved, as well as on the efficiency of the planned EU support programs and improvements in the business environment. As the war in Ukraine drags on, the pace of economic recovery could be slower.

As the competitive advantage of Latvia's economy is basically based on technological factors, improvement of production efficiency and innovations, to a lesser extent on cheap labor and low resource prices, in the medium-term Latvia's growth rates can potentially reach 4-5% growth per annum.

2024 | 1 WORLD ECONOMIC OUTLOOK

Global growth in 2023 was steady, with inflation falling faster than expected. Strong growth remained in the US and many emerging economies, while the decline was evident in most European countries. Global GDP is forecast to grow by 2.7% and 3% in 2024 and 2025, respectively[1].

Gross Domestic Product

changes compared to the previous year, as per cent

	2023	2024f	2025f
World (excluding EU)	2.9	2.7	3.0
Euro Area	0.6	0.9	1.5
USA	2.4	1.5	1.7
China	5.2	4.7	4.2
Germany	-0.1	0.6	1.2

Source: OECD database; f – forecast

China's economy grew by 5.2% in 2023. China's GDP is forecast to grow by 4.7% in 2024, while growth will slow to 4.2% in 2025, despite additional policy stimulus reflecting weak demand, high debt and a weak real estate market. India's economy grew by 6.3% in 2023. On the other hand, in 2024 and 2025, it is forecast that GDP will grow by 6.1% and 6.5%, respectively.

United States GDP grew by 2.4% in 2023, boosted by an increase in private consumption as households continued to reduce savings since the start of the Covid-19 pandemic. GDP is expected to grow by 1.5% and 1.7% in 2024 and 2025, respectively.

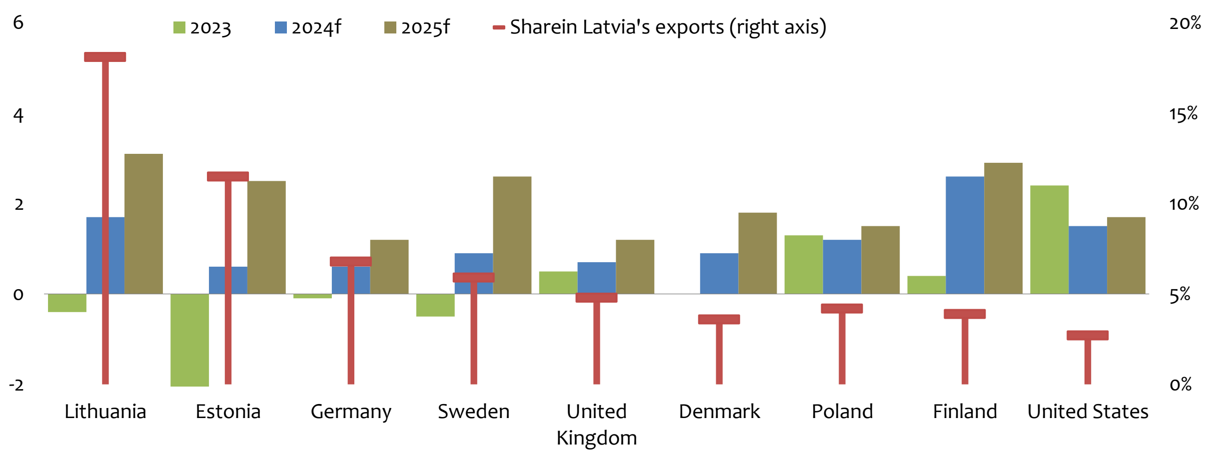
It is anticipated that GDP growth in the eurozone will reach 0.9% in 2024 and then gradually increase to 1.5% in 2025. In the near future, the activity will be slowed down by the strict lending conditions. Stable commodity prices, a reduction in supply and demand imbalances in the labor market, as well as a reduction in price pressures in the service sectors will affect the decline in interest rates.

In the United Kingdom, GDP grew by 0.5% in 2023. It is forecast that in 2024 GDP will increase by 0.7%, while in 2024 GDP will increase by 1.2%.

In Germany, GDP decreased by 0.1% in 2023. Weak investment dynamics are expected to continue, labor shortages will slow down growth. A tighter fiscal policy will reduce growth prospects. It is predicted that in 2024 the German economy will grow by 0.6%, while in 2025 the GDP growth will reach 1.2%. In Sweden, GDP decreased by 0.5% in 2023, mainly due to lower private consumption. However, service exports strengthened the economy, reflecting strong competitiveness. In 2024, GDP is predicted to grow by 0.9%, while in 2025 – by 2.6%. Estonia's GDP decreased by 2.6% in 2023. Although wages have grown rapidly, the increase has not offset inflation in recent years, eroding purchasing power. In 2024, real GDP will grow by 0.6%, while in 2025, GDP growth will reach 2.5%. Lithuania's GDP decreased by 0.4% in 2023. It is predicted that in 2024 GDP will grow by 1.7%, and in 2025 the growth rate will reach 3.1%. The labor market remained strong, with an increase in the number of self-employed and people fleeing the war in Ukraine.

Growth of Latvia's Largest Trade Partners

GDP changes compared to the previous year, as per cent – left axis; share as per cent in 2023 – right axis



Source: CSB, OECD database; f – forecast

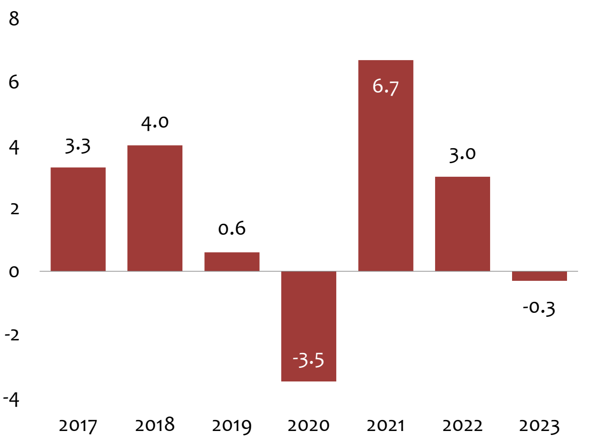
[1] In this chapter data is taken from OECD database

2024 | 1 GROSS DOMESTIC PRODUCT AND AGGREGATE DEMAND

GROSS DOMESTIC PRODUCT

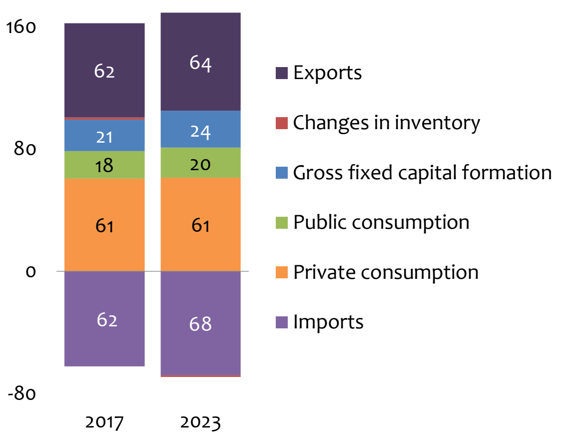
In 2023, economic growth slowed down. In 2023, GDP decreased by 0.3%, which was the sharpest decrease since the financial crisis of 2010, excluding the decrease in 2020 due to the Covid-19 pandemic.

Gross domestic product
changes compared to the previous year, per cent

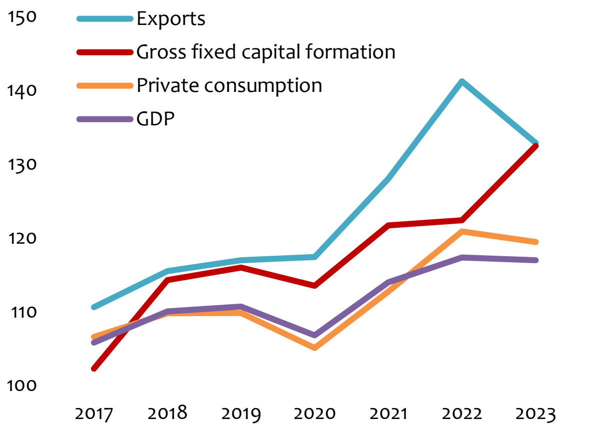


The economic growth in 2023 continued to be affected by the geopolitical situation, high prices and rising bank interest rates. The largest contribution was the increase in investment and public consumption, while negative – the decrease in exports and private consumption.

Gross Domestic Product from Expenditure Approach
structure as per cent of GDP

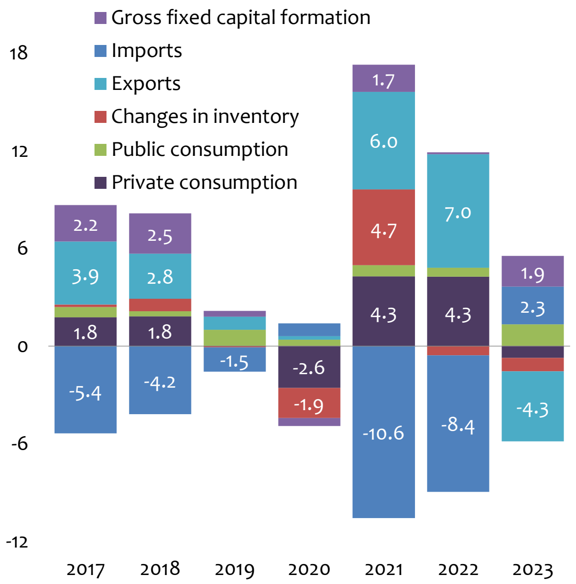


Gross Domestic Product by Expenditure Items
2015 = 100



Investment volumes increased very rapidly, especially in housing, buildings and structures, driven by the growth of construction. Public consumption continued to grow rapidly, which was determined by state support to mitigate the spike in prices of energy resources. The unfavorable situation in the external environment and weak demand affected exports. Exports of both goods and services declined. The rates of price growth, outpacing the rise in wages, had a negative impact on private consumption.

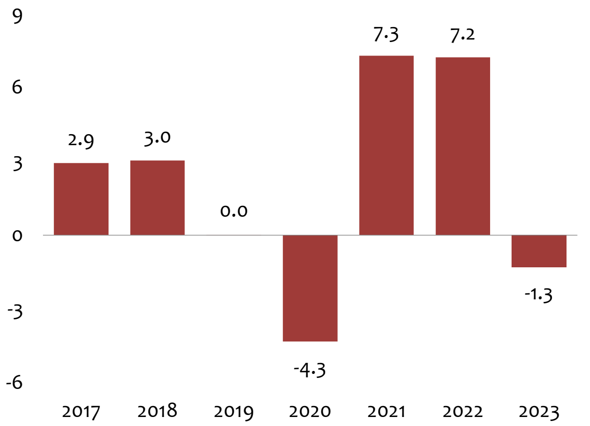
Gross Domestic Product by Expenditure Items
contribution to growth as percentage points



CONSUMPTION

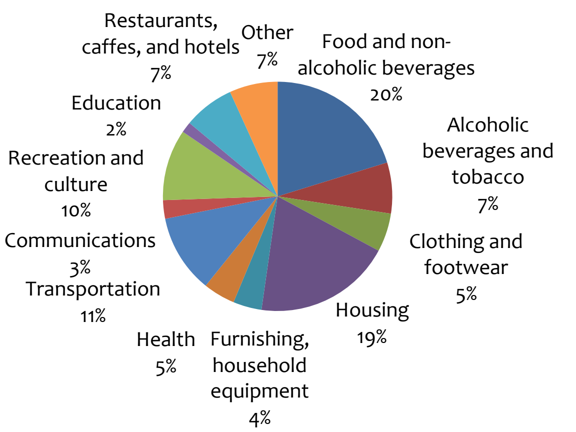
Private consumption decreased in 2023. As the economy recovered, a rapid increase in private consumption was observed in 2021-2022. However, the pace of price growth was ahead of wages, which negatively affected the purchasing power of the population in the first half of 2023. Despite the base effect due to Covid-19 and the improvement of the situation in the labor market, private consumption decreased more rapidly in Q1-Q3 of 2023, but it already decreased more moderately in Q4 of 2023.

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



In the structure of household consumption, the majority is made up of expenses for housing. High prices for energy resources and food encouraged households to continue saving in 2023 as well, and both housing-related expenses and food expenses decreased sharply, while household expenses for transport increased rapidly. At the beginning of the year, household spending on recreation and culture, restaurant and hotel services, increased significantly, which was partly affected by the low base effect due to the restrictions of Covid-19 in early 2022.

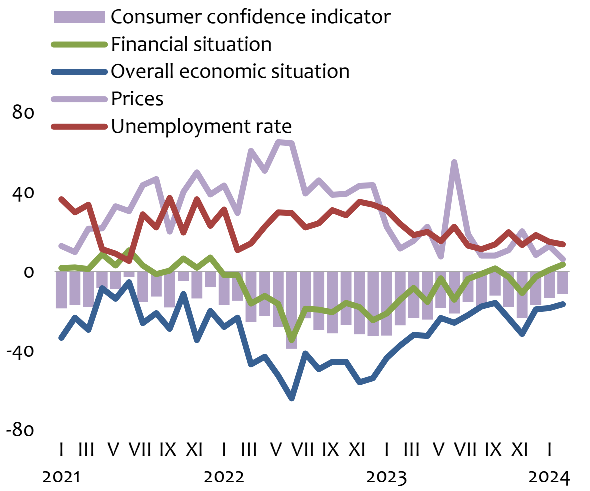
Structure of Household Expenditures
in 2023, as per cent



In 2023, consumer confidence in general significantly improved. In 2022, consumer sentiment had deteriorated sharply after Russia's invasion of Ukraine and was also exacerbated by rising inflation.

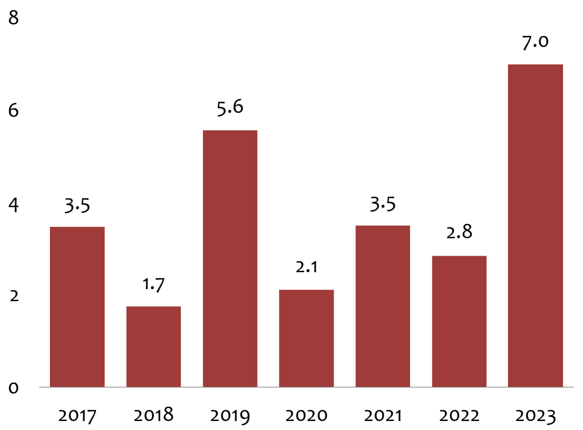
The increase in the wage level and the decrease in inflation allow for a more optimistic assessment of the prospects. The positive trend was pronounced in the first 3 quarters, only in the month of June the planned increase in electricity distribution tariffs damaged the mood of consumers. In Q4 of 2023, consumers became more volatile, and the confidence index and its main items worsened. In 2024, confidence has been recovered, increasing during the first two months of the year.

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



Public consumption continues to grow. Support measures implemented by the government to mitigate the negative impact of Covid-19 and the rapid rise in energy prices has maintained positive increase in public consumption.

Public Consumption
changes compared to the previous year, per cent

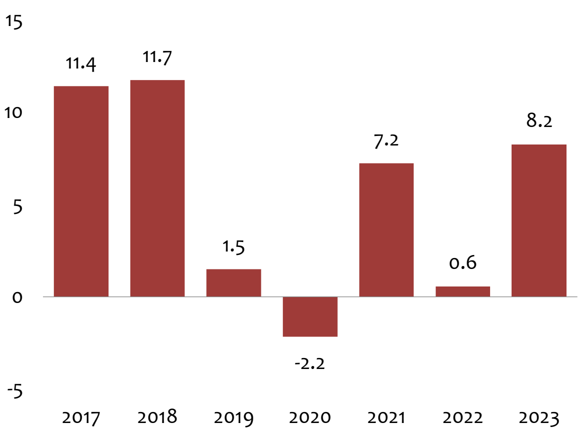


INVESTMENT

Investment activities in the Latvian economy have been very volatile in recent years, which are significantly affected by changes in the geopolitical situation, the availability of financing and production resources, and other external and internal factors. In the last four years (2020-2023), expenses in the formation of total fixed capital increased by an average of 3.4% per year, which is much more moderate than before the Covid-19 pandemic in 2017-2019, when the increase was by an average of 8.1% year.

Gross Fixed Capital Formation

changes compared to the previous year, per cent



As the economy stabilized after the shock caused by the Covid-19 pandemic, investment volumes increased by 7.2% in 2021. However, the war in Ukraine has increased uncertainty and this is reflected in the dynamics of investment activities. In 2022, investments increased by only 0.6% and accounted for 21.7% of GDP. Investment activities were also limited by the rise in construction prices and delays in the implementation of EU-funded programs.

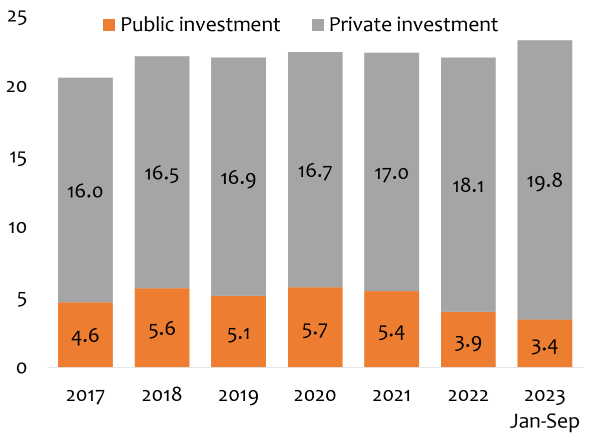
After three years of moderate growth, investment activities increased rapidly in 2023 – expenses in the formation of gross fixed capital increased by 8.2% compared to the corresponding period of the previous year.

Weak credit, low demand and high uncertainty significantly limit private investment, which remains at a low level for a long time. In 2021 and 2022, the volume of private sector investments increased by 9.1% annually. Positive dynamics also remained in the nine months of 2023 – the volume of private investments was 5.3% higher than a year earlier and their level reached 19.8% of GDP.

Public investments in Latvia are at a relatively high level. Public investments constitute almost 1/5 of the total investments in the national economy of Latvia, and their dynamics are largely related to the cyclical nature of EU structural funds. Although we experienced the Covid-19 crisis, public investments increased by 8% in 2020 and by 1.8% in 2021. On the other hand, in 2022 (at constant prices) they decreased and were respectively 26.2% smaller than a year ago. In nine months of 2023, compared to the corresponding period of the previous year, the volume of public investments increased by 15.4%.

Public and Private Investment

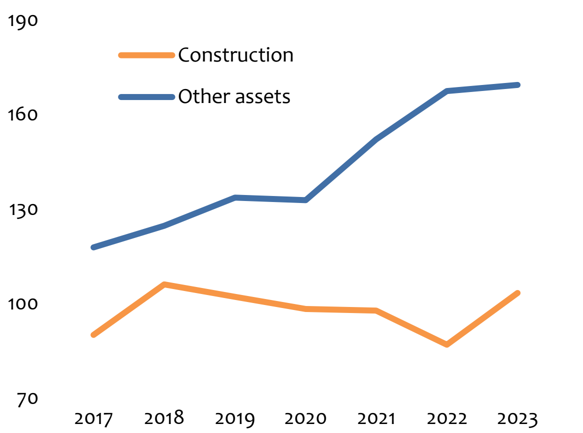
as per cent of GDP



Investments in construction assets make up most of the total investment volume. These are mainly investments in buildings and constructions, which in the last four years (2020-2023) accounted for 48.8% of the expenses for the formation of the total fixed capital. From 2020-2022, investments in construction assets (assessed at comparable prices) decreased – on average by almost 6% per year, including in 2022 – by 11%. In 2023, investment activities in construction assets increased rapidly – by 19%. This was determined by the increase of investments in engineering structures and buildings – by 21.4%, and the increase of investments in housing by 11.3%.

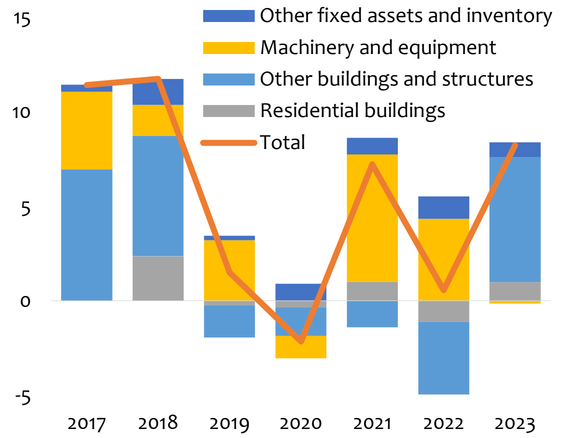
Gross Fixed Capital Formation by Type of Assets

2015 = 100



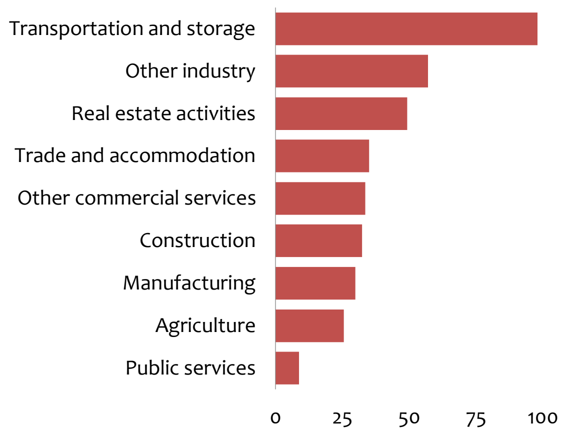
The dynamics of investments in machinery and equipment (excluding vehicles) is slower than in other assets. In 2022, 9.4% more was invested in machines and equipment than a year ago. On the other hand, in 2023, such investments significantly decreased and were 8.9% smaller than in 2022.

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



The increase in investments in recent years was largely determined by investments in vehicles, as well as in information and communication technology equipment, which is necessary equipment for remote work.

Non-financial Investment Dynamics
*in January-June 2023, changes compared to the corresponding period of the previous year, as per cent**



* calculated using quarterly data, at current prices

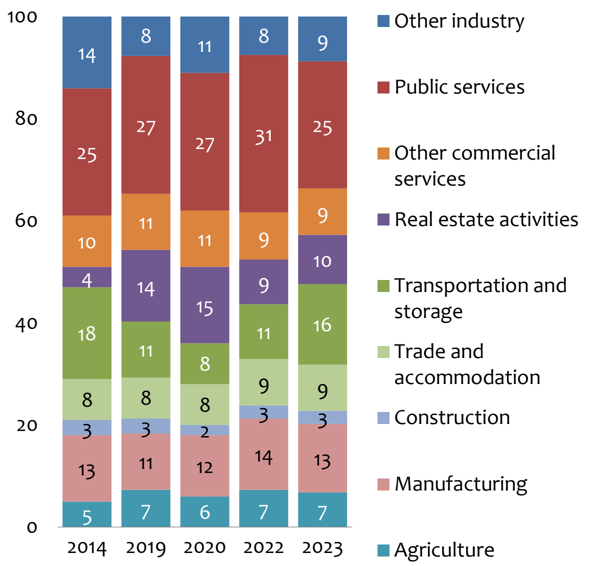
Investments in intellectual property assets make up approximately 7% of investments. They are characterized by resilience in the years of economic recession and in general a growing dynamic is observed. Since 2020, investments in these assets increased 1.5 times. In 2023, investments in intellectual property products declined by 0.8% annually, accounting for 2.4% of GDP.

Capital investments in tangible fixed assets in goods production sectors in 2023 (in actual prices), were almost 35.6% larger than a year ago. On the other hand, capital investments in service sectors increased by 34.7%.

The largest contribution in 2023 yielded the increase in investments in transportation and storage (by 98%), in real estate (by 49.3%), in trade (by 36.5%), in the manufacturing sector (by 29.9%), as well as in the energy sector (by 62.7%). On the other hand, capital investments in the mining industry were 0.1% lower than a year ago.

The survey data conducted by the European Investment Bank (EIB) in 2023 show that in the field of investment, Latvian businessmen consider the lack of qualified personnel and the uncertainty of the future to be the most significant long-term obstacles. They are also the two most frequently cited barriers in EU Member States. Investments are also limited by the cost of energy resources and gaps in business regulation. The negative impact of the rise in energy resource prices caused by Russia's military aggression may negatively impact Latvian economy.

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



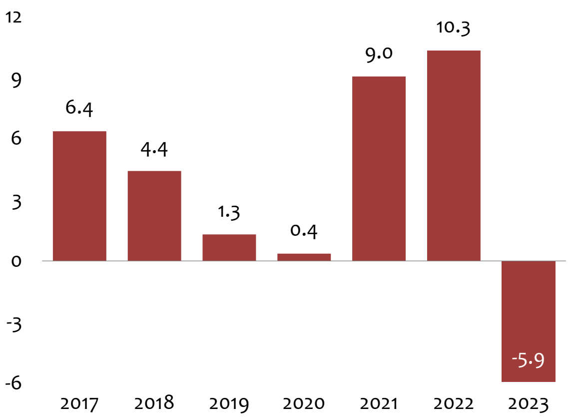
* Gross capital investment in tangible assets. Calculated using quarterly data

The dynamics of investments will continue to be affected by the uncertainty of the international environment. EU funding will have a positive impact, which is an important stimulus for raising the level of investment. Several projects, which are expected to be financed within the framework of the Renewal and Resilience Facility (RRF), will make a significant contribution to the increase of investment activities. Increasing the credit portfolio, which has been very small for a long time, is also of great importance. However, it should be noted that in the coming years, investments will be significantly limited both by the rise in costs and the increase in lending costs, as the ECB implements the restrictive monetary policy.

EXPORTS

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

Exports of Goods and Services
changes compared to the previous year, as per cent

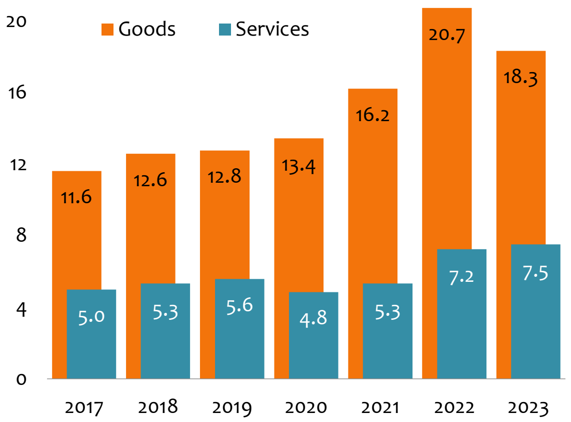


In 2020, the export volumes of goods and services practically did not increase, mainly due to the Covid-19 pandemic. In 2021, thanks to significant external demand, and partly due to the base effect, export growth started to grow again.

In 2022, as external demand continued to grow, export volumes increased significantly. Export growth was equally rapid in Q1-Q3 of 2022, while it slowed down a bit in the last quarter of the year.

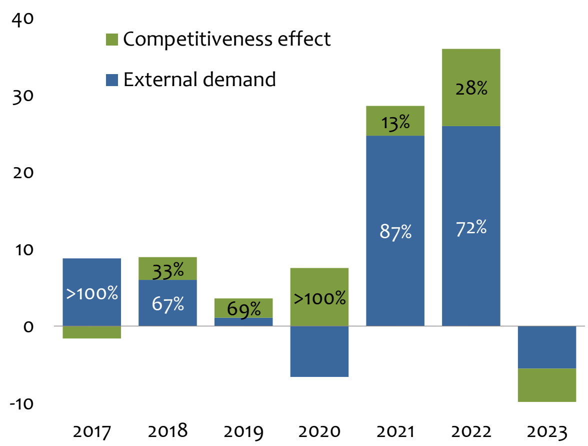
In 2023, mostly due to weak external demand, export volumes were lower than a year ago.

Exports of Goods and Services
at current prices, billion euro



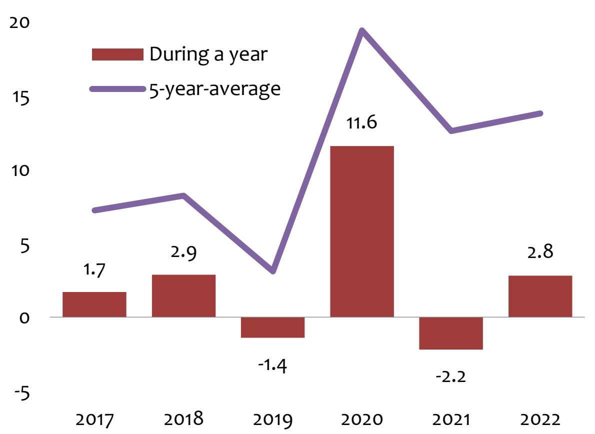
In 2018, export growth was mainly determined by external demand, while the role of price competitiveness in export growth was smaller, but in 2019, export growth was promoted by the competitiveness effect associated with successfully acquiring new markets. In 2020, under the influence of the spread of Covid-19, external demand declined rapidly, which was almost completely compensated by the increase in competitiveness in certain sectors. Both in 2021 and in 2022, the growth of exports was promoted by a rapid increase in external demand, as well as competitiveness. On the other hand, the opposite effect was observed in 2023.

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



Since 2016, the share of Latvian exports in the world market has tended to increase, except for 2019 and 2021, when Latvian export growth rates were lower than the world average. This shows that Latvia remains competitive, despite the rapid increase in labor costs.

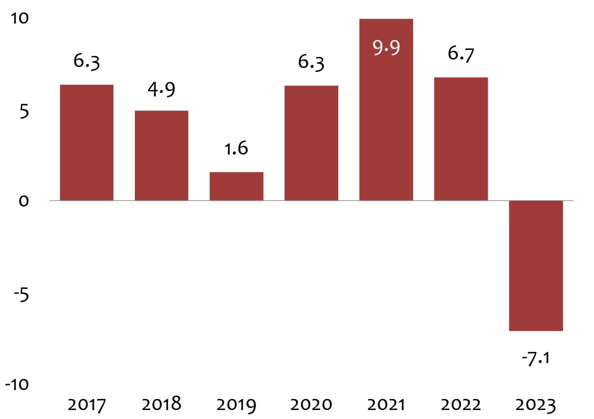
Share of Exports in World Trade
changes compared to the previous year, as per cent



Exports of goods

The proportion of goods exports has not changed significantly since 2020 and makes up approximately 3/4 of Latvia's total exports.

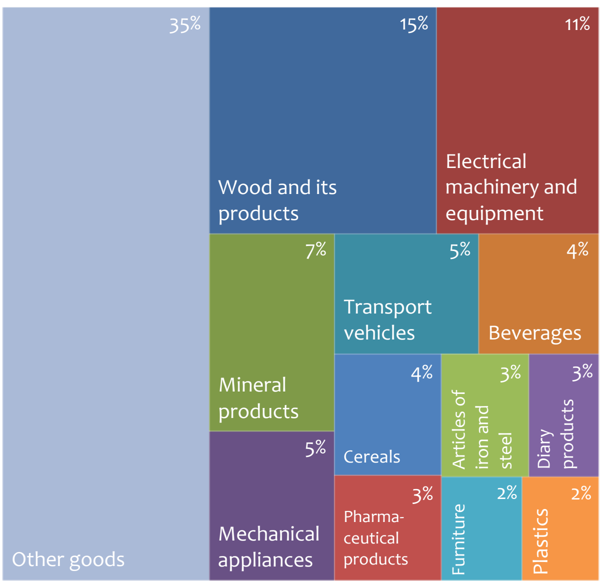
Exports of Goods
changes compared to the previous year, as per cent



In 2020-2022, the growth of export of goods was relatively fast. In 2022, at constant prices, exports increased by 6.7%, with a significant increase in export prices. The increase in actual prices was much faster – by 27.9%.

The opposite effect was observed in 2023, export volumes decreased both in actual and comparative prices.

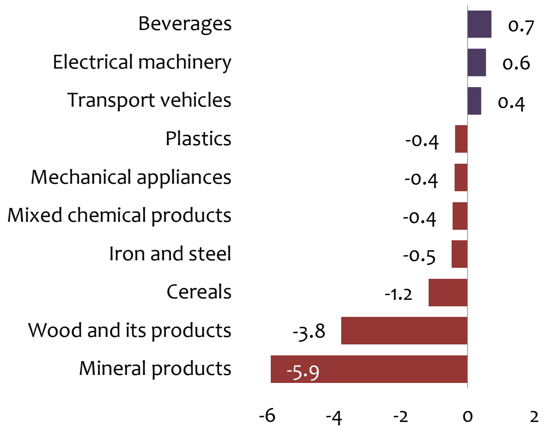
Exports of Goods
in 2023, structure as per cent



In 2023, the export value of goods decreased by 10.9%. The decrease in exports was determined by the decrease in the value of exports of mineral products and wood and its products, while it was partially compensated by the growth of exports of beverages and electrical appliances.

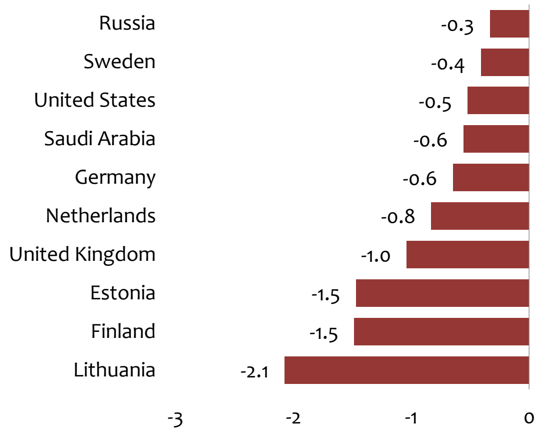
In January 2024, export volumes decreased by 1.1%, caused by the decline in the exports of mineral products.

Exports of Goods
contribution to growth in 2023, compared to the previous year, percentage points



In 2023, the export of goods to individual countries increased slightly, but decreased to several main export markets – EU countries, as well as the United Kingdom.

Exports of Goods by Country
contribution to growth in 2023, compared to the previous year, percentage points



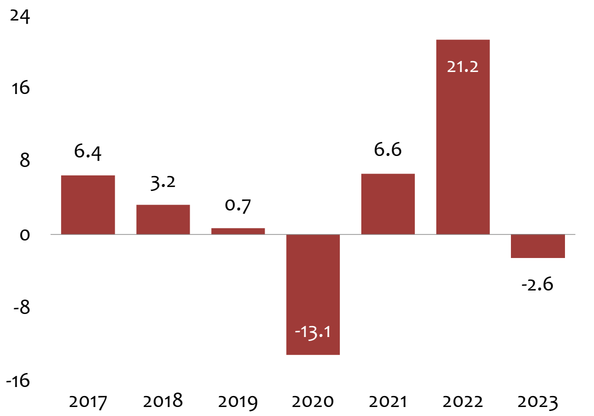
The largest Latvia's export partner countries in 2023 were Lithuania, Estonia, Germany, Russia, Sweden, the United Kingdom, Denmark, Poland and Finland. Latvia exported approximately two-thirds of all goods to these countries.

In 2023, the main export goods to EU countries were wood, electrical appliances and equipment, as well as mineral products. Alcoholic beverages and pharmaceutical products made up a large part of exports to the CIS countries, while to the rest of the countries the largest export groups were wood and its products, cereals, as well as electrical devices and equipment.

Exports of services

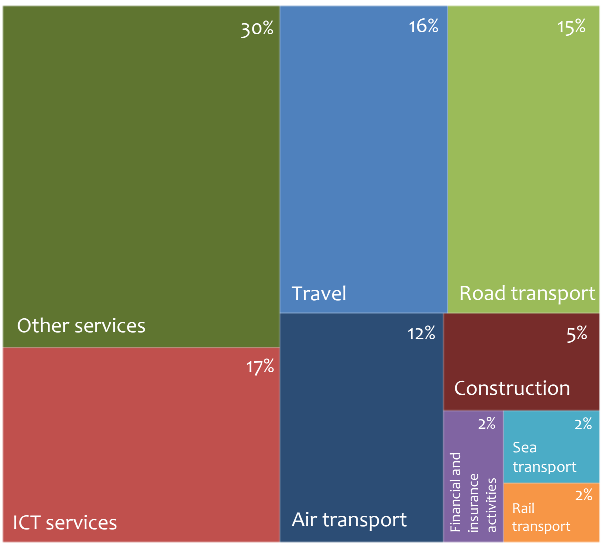
From 2016 to 2021, Latvia's export of services grew at similar rates as the export of goods. The exception was 2020, when the export of services significantly decreased due to Covid-19. In 2021, the export of services returned to growth, and in 2022 its growth exceeded that of the exports of goods. In the first half of 2023, the exports of services increased, but in the second half – declined.

Exports of Services
changes compared to the previous year, as per cent

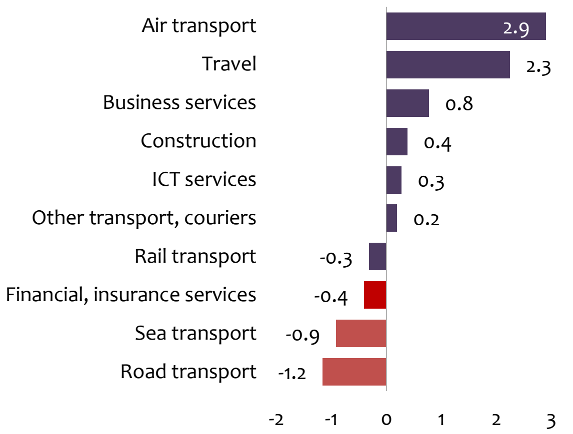


In 2022, the export of services in actual prices increased by 35.9%, and in 2023 – by 3.8%. In 2023, a large contribution to the growth of export of services was made by several service items – air transport, travel, trade mediation and ICT services. The export value of sea and rail transport, and financial and insurance services declined.

Exports of Services
in 2023, structure, as per cent



Exports of Services
contribution to growth in 2023, compared to the previous year, percentage points

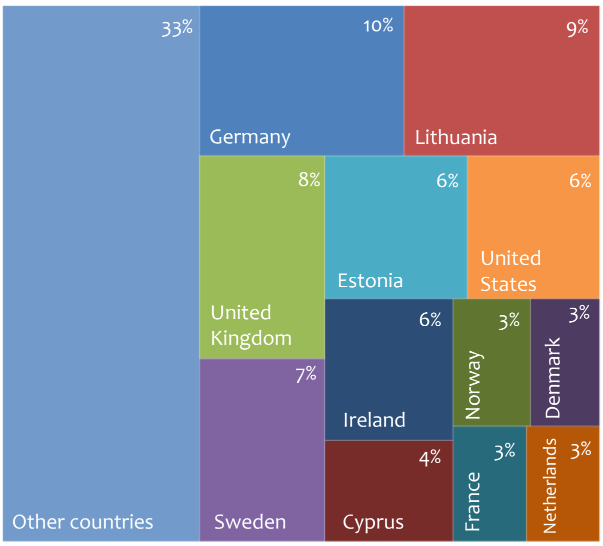


In the export of services by group of countries, an increasing proportion is made up of exports to EU countries. In 2019, it made up 61%, and in 2023 – 64% of all service exports. Trade brokerage, road transport, travel, air transport, as well as ICT services make up a large part of services exported to EU countries.

An increasingly smaller share of service exports is made up of exports to CIS countries, which are mostly related to transit services and their dynamics. It should be noted that the share of service exports to CIS countries has decreased from 12% in 2019 to 3.5% in 2023.

In the group of other countries, except for the EU and the CIS, the export of services is developing dynamically. In 2023, it grew faster to the United Arab Emirates, Ukraine, the Isle of Man and Switzerland.

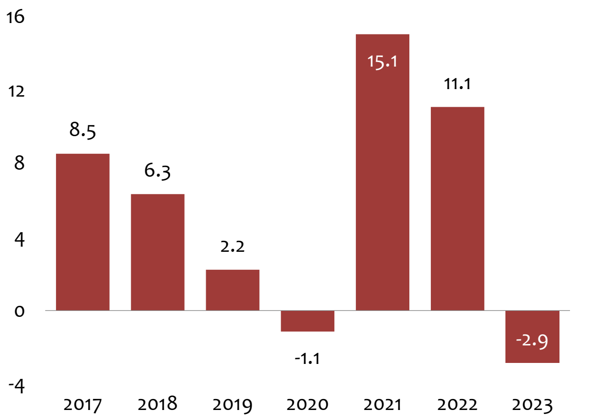
Exports of Services by Country
in 2023, structure, as per cent



IMPORTS

The growth of imports of goods and services until 2019 was similar to the growth of exports. In 2020, due to the impact of Covid-19, the import of services decreased significantly, while the import of goods increased slightly. On the other hand, in 2021, the import of both goods and services increased significantly. In 2022, import growth continued, with services growing more rapidly, goods imports more moderately.

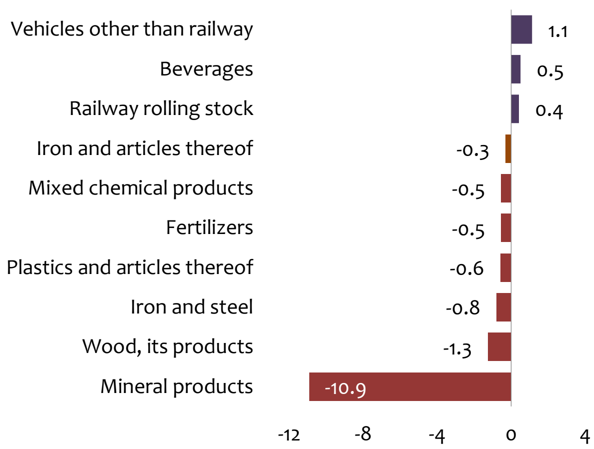
Imports of Goods and Services
changes compared to the previous year, as per cent



In 2023, the import of goods was 3.9% lower, and the import of services was 2.5% higher than a year ago.

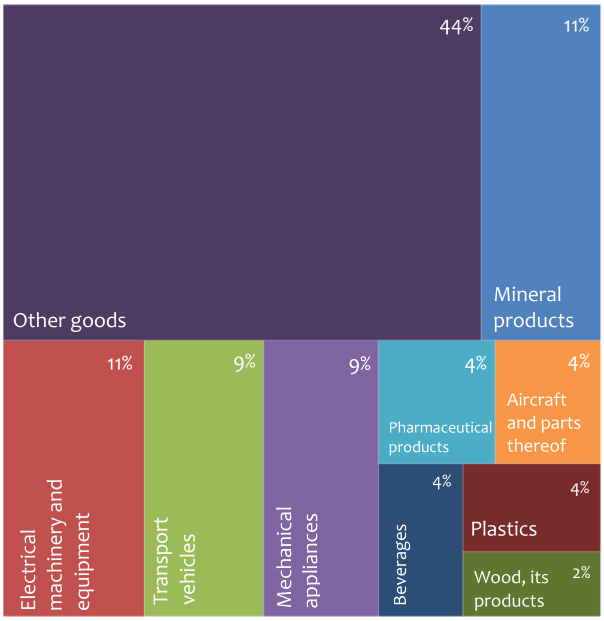
The decrease in the imports of goods in 2023 was significantly affected by the decrease in the value of the import of mineral products, while the import of vehicles, beverages and railway rolling stock increased. The import of goods also decreased significantly in January 2024 – by 15.3%, which, similarly to exports, was determined by the decrease in the value of the import of mineral products.

Imports of Goods
contribution to changes in 2023, percentage points



The main import partner countries of Latvia are Lithuania, Germany, Poland, Estonia, the Netherlands, Finland, China, and Italy. Imports from these countries in 2023 made up two thirds of the total imports. It should be noted that the import from Russia has significantly declined, which was 2.6% of the total goods imports. For comparison, in 2021, imports from Russia accounted for 9.1% of all imports.

Structure of Imports of Goods
in 2023, as per cent



In 2023, the main groups of imported goods from EU countries were mineral products, vehicles, mechanisms and electrical appliances. From the CIS countries, a large part constitutes mineral products (29% in 2023), animal feed, cereal products, animal and vegetable fats and oils. Imports from Russia make up two thirds of all CIS imports.

Latvia's imports of services developed dynamically in 2017-2019, but in 2020, due to the spread of Covid-19, it decreased slightly. In 2021-2022, partly due to the base effect, the import of services started to grow again.

Although in 2023 the imports of services increased moderately at constant prices, in actual prices it grew faster – by 8.6%.

A large part of the imports of services constitutes imports of trade brokerage, transport services, and travel services.

About 2/3 of the services import structure is made up of EU countries. In 2023, imports from Germany, Sweden, Ireland, Turkey, Lithuania, Poland, the Netherlands and Spain grew more rapidly. On the other hand, the import of services from Russia decreased significantly in 2023. It decreased more moderately from Luxembourg, Belarus and China.

2024 | 1

SECTORAL DEVELOPMENT

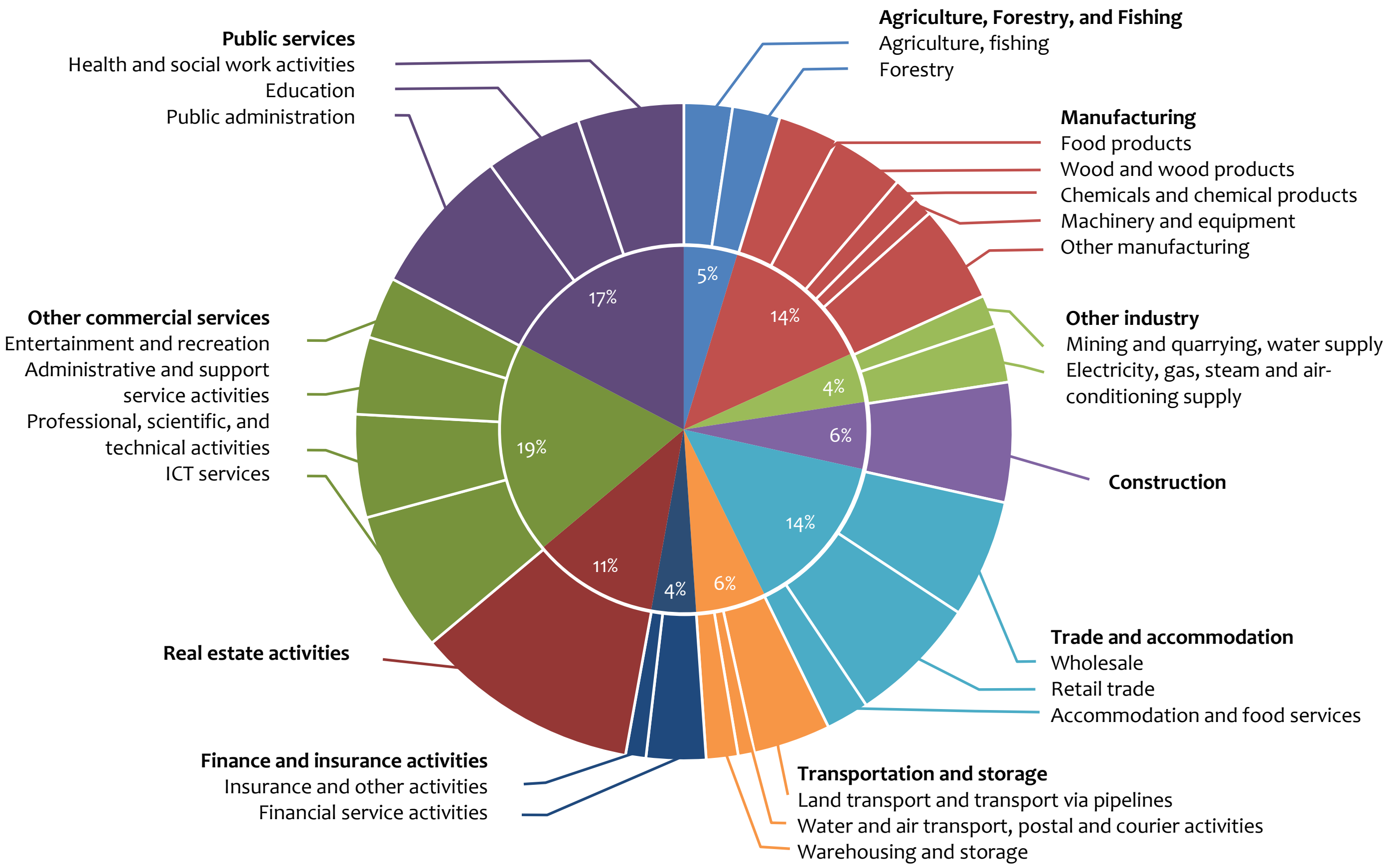
In 2009-2010, as labor costs decreased, the competitiveness of Latvian producers improved, which was the basis for export growth. The structure of the national economy changed. In 2010, the productive sectors (agriculture, forestry and fishing, manufacturing, as well as construction) accounted for 27.6%, and in 2023 – 28.5% of the total added value. In 2023, compared to 2010, the share in the structure of the national economy has increased in construction, commercial services and public services sectors, but decreased in the rest of industry, transport, trade and accommodation, while in agriculture, forestry and fishing and manufacturing it has practically remained unchanged.

In 2015-2019, growth was observed across all sectors, except for the electricity, gas supply, heating and air conditioning supply, financial activities, and real estate operations. The increase in the volume of trade and manufacturing had the greatest impact on growth.

In 2020, the Covid-19 crisis negatively affected practically all sectors, and the largest impact yielded the drop in volumes in a large number of service sectors and construction. As the economy recovered, in 2021-2022 growth was observed in all sectors, except for construction and other industry. The largest impact provided the increase in volumes in trade and manufacturing.

In 2023, as the economy slowed down, volumes decreased in all productive sectors, except construction, but increased in all service sectors, except trade, transportation and healthcare. The largest impact yielded the rise in volumes in construction and public administration and defense and the fall in trade, manufacturing, and transportation.

Structure of Value Added
*2023 *, as per cent*



* calculations by the Ministry of Economics

Development of Sectors

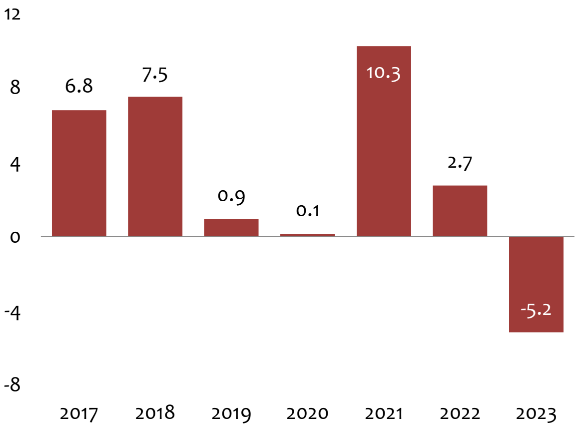
changes compared to the previous year, as per cent

	2017	2018	2019	2020	2021	2022	2023
Gross domestic product	**3.3**	**4.0**	**0.6**	**-3.5**	**6.7**	**3.0**	**-0.3**
Agriculture, forestry, and fishing	1.9	-3.6	20.0	-0.4	1.1	6.5	-8.1
Mining and quarrying	9.1	9.1	-8.6	6.2	-5.0	-0.4	-19.5
Manufacturing	6.8	7.5	0.9	0.1	10.3	2.7	-5.2
Manufacture of food products	5.2	-2.9	-0.7	-1.7	1.3	1.3	2.8
Light industry	7.6	-0.8	-2.6	-9.5	11.8	5.1	-7.2
Manufacture of wood and articles of wood	2.1	4.5	0.0	4.5	3.7	-1.0	-8.4
Manufacture of paper and paper products	4.5	-3.7	5.7	4.7	14.0	-2.7	-23.0
Manufacture of chemicals and chemical products	11.4	7.0	3.9	-1.8	14.8	4.1	-7.7
Manufacture of non-metallic mineral products	11.1	1.3	-2.1	-1.4	4.4	5.4	-16.8
Manufacture of basic metals	12.0	3.6	13.5	-5.6	5.8	16.1	-6.1
Manufacture of computer, electronic and optical products	15.8	12.1	11.3	12.1	5.7	3.5	13.6
Manufacture of machinery and equipment	21.5	7.0	-1.9	-2.7	24.1	-12.3	4.2
Manufacture of motor vehicles	22.8	7.3	-7.7	-15.3	17.7	19.5	-15.5
Other manufacturing	4.3	-1.8	2.8	-14.2	11.8	3.8	-4.1
Electricity, gas, steam, and air-conditioning supply	-1.9	-38.8	-10.4	30.4	29.3	-14.0	-0.7
Construction	14.7	12.4	1.3	-5.9	-13.6	-11.3	18.6
Construction of buildings	11.7	16.1	11.4	-8.1	-16.1	-9.8	26.8
Civil engineering	26.6	6.5	-11.5	-7.4	-15.3	-13.1	10.8
Trade	2.6	3.9	2.2	-4.2	19.8	-6.1	-5.1
Retail trade	0.4	1.2	-2.0	-0.3	16.7	3.1	-1.9
Transportation and storage	6.6	3.8	-2.1	-18.6	6.6	3.0	-7.8
Freight rail transport	-8.4	12.5	-15.8	-42.0	-9.5	-2.1	-27.5
Cargo handling	-2.0	6.9	-5.7	-27.9	-7.2	15.2	-19.6
Freight transport by road	7.0	12.8	-3.8	2.6	7.8	-0.8	-0.3
Accommodation and food service activities	9.3	7.6	-4.9	-31.4	-4.1	57.3	7.4
Information and communication services	8.7	9.6	3.6	0.6	12.6	12.6	2.5
Finance and insurance activities	-17.7	-2.4	-9.9	0.6	16.0	-9.4	2.3
Real estate activities	-1.6	2.3	-1.0	-1.9	5.8	0.1	3.1
Other service activities	4.6	2.7	-0.6	-2.1	5.2	17.3	1.1
Public administration and defence; compulsory social security	3.7	2.7	0.2	2.8	0.5	3.7	6.1
Education	4.4	3.1	-4.4	1.1	-0.8	4.1	7.8
Health and social work activities	4.4	9.3	4.8	-3.4	6.1	1.0	-1.5
Arts, entertainment, and recreation	5.1	6.1	1.9	-33.5	2.8	29.4	11.7

MANUFACTURING

The development of manufacturing is promoted by the improvement of the competitiveness of Latvian producers, as well as the dynamics of demand in the largest export markets. Production volumes increased particularly rapidly in 2017 and 2018, and more slowly in 2019. Due to the impact of the Covid-19 crisis, the growth of the manufacturing slowed down in 2020.

Manufacturing
change in value added compared to the previous year, as per cent

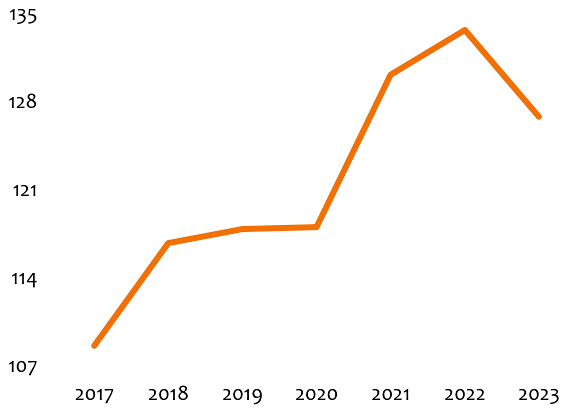


In 2021, fast growth resumed in manufacturing. More rapid growth rates of the sector were observed in the first half of 2022, while in the second half the growth turned negative.

Similar to the second half of 2022, also in 2023, overall production volumes of manufacturing were lower than a year ago. This was mainly due to reductions in wood processing, as well as non-metallic mineral production and chemical industry sub-sectors. The decline was partially offset by growth in the electrical and optical equipment and food industry. January 2024 was also marked by a minus sign in manufacturing.

In 2023, the turnover of manufacturing in actual prices decreased by 2.6%. The volume of production sold domestically decreased more slowly, but exported production volume decreased a little faster. In January 2024, domestic market and export sales decreased slightly.

Manufacturing
value added, 2015 = 100

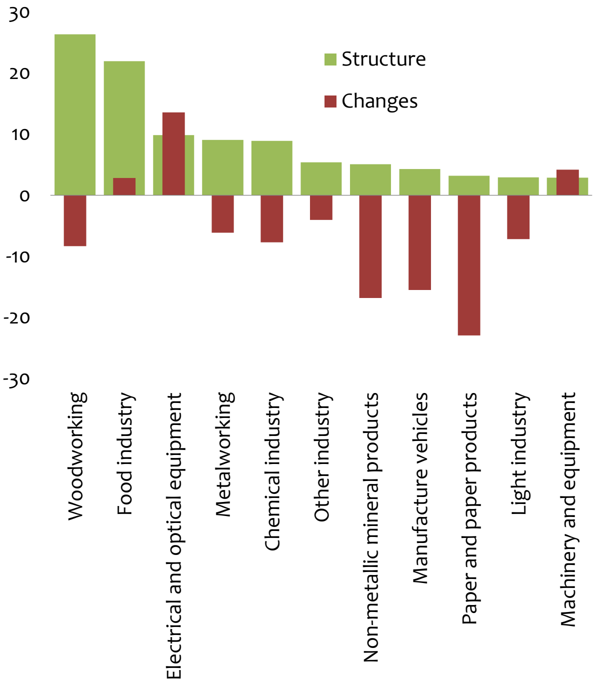


In 2021, the number of occupied posts in manufacturing increased by 5 thousand, but in 2022 and 2023 it decreased again – by 1.9 and 6 thousand, respectively. In 2023, the number of occupied posts decreased in woodworking, non-metallic mineral production, paper production and printing, light and chemical industries. However, the number of occupied posts increased in the manufacture of computers, electrical and optical equipment, and vehicles.

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

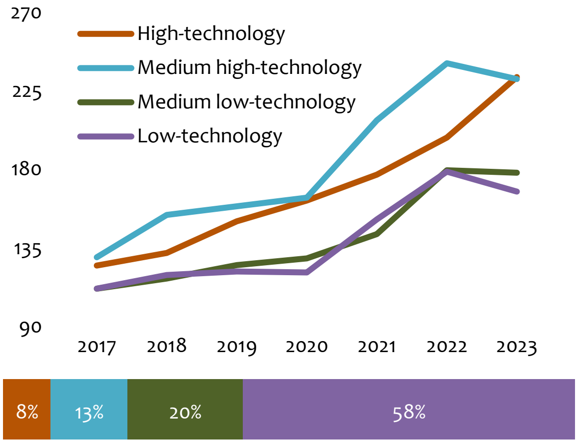
	Structure in 2023			Changes in production volumes				
	Output	Occupied posts	Exports in total sales	2020	2021	2022	2023	2024 Jan
Manufacturing	**100**	**100**	**65.9**	**-0.9**	**7.5**	**2.7**	**-5.2**	**-6.6**
Food industry	22.0	18.7	42.2	-1.7	1.3	1.3	2.8	4.7
Light industry	2.9	8.0	85.7	-9.5	11.8	5.1	-7.2	-8.0
Manufacture of wood and wood products	26.4	20.4	67.3	4.5	3.7	-1.0	-8.4	-1.6
Manufacture of paper and paper products	3.2	4.4	62.7	4.7	14.0	-2.7	-23.0	8.7
Manufacture of chemicals and chemical products	8.9	7.5	76.7	-1.8	14.8	4.1	-7.7	-24.7
Manufacture of non-metallic mineral products	5.1	5.3	50.1	-1.4	4.4	5.4	-16.8	-23.7
Manufacture of basic metals	9.1	11.2	65.3	-5.6	5.8	16.1	-6.1	-6.8
Manufacture of electronic products	9.9	5.7	87.9	12.1	5.7	3.5	13.6	-6.7
Manufacture of machinery and equipment	2.9	3.1	90.8	-2.7	24.1	-12.3	4.2	1.0
Manufacture of motor vehicles	4.3	3.6	92.3	-15.3	17.7	19.5	-15.5	-8.2
Other manufacturing	5.4	12.1	67.7	-14.2	11.8	3.8	-4.1	-17.0

Growth of Manufacturing
structure and changes in 2023, compared to the previous year, as per cent



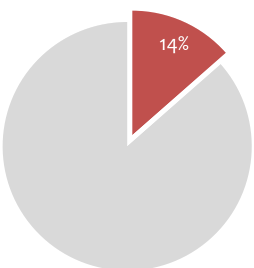
Weak demand in the largest market for Latvian goods in the EU largely determined the decline in the growth of manufacturing in 2023. Also, the development of the industry was negatively affected by the war in Ukraine, as a result of which the existing supply chains of raw materials are disrupted. Although the year 2024 has started with a slight decrease in output, it is expected that manufacturing will return to growth in this year, which will be mainly determined by the improvement of export opportunities.

Manufacturing Volume Index and Structure by Levels of Technology
2015 = 100, structure in 2023, as per cent

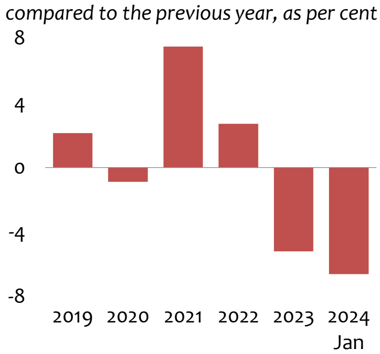


Main Indicators of Manufacturing[1]

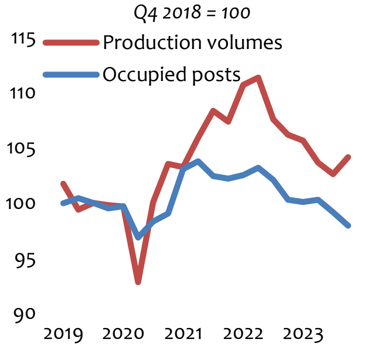
Share in total value added
in 2023, as per cent



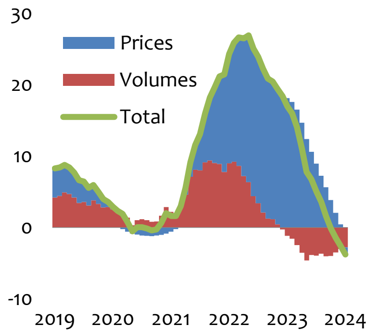
Changes in production volumes
compared to the previous year, as per cent



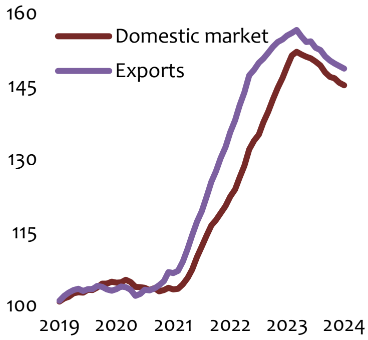
Production volumes and occupied posts
Q4 2018 = 100



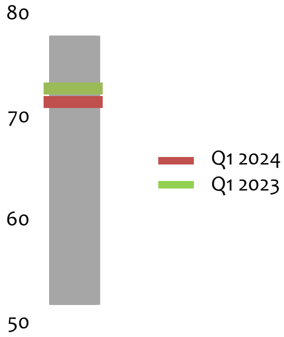
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2018 = 100, 12-month moving average



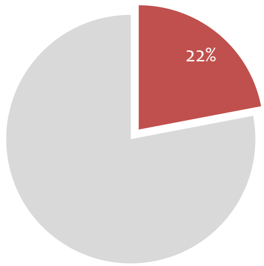
Capacity utilization rate
Historically highest/lowest level, as per cent



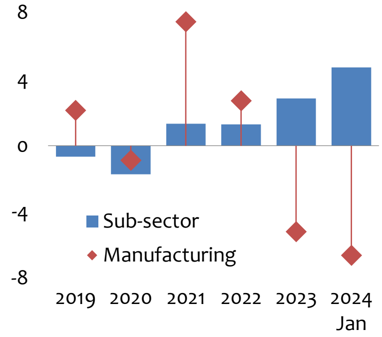
[1] data on sales of products until January 2024

Manufacture of food products and beverages

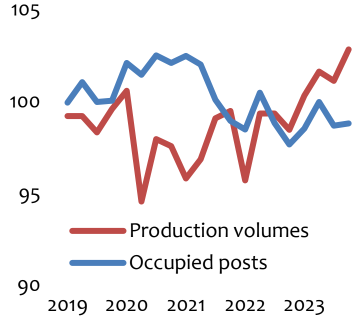
Share in manufacturing
in 2023, as per cent



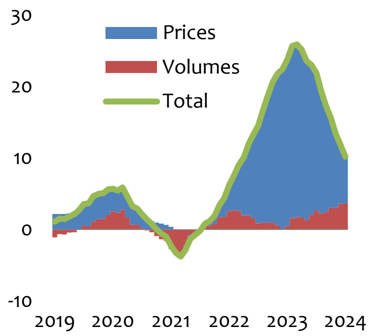
Changes in production volumes
compared to the previous year, as per cent



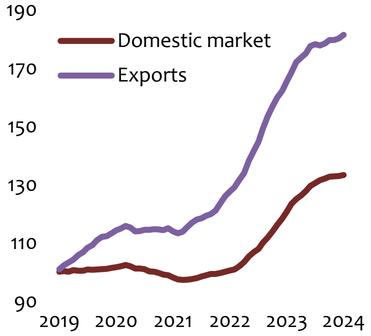
Production volumes and occupied posts
Q4 2018 = 100



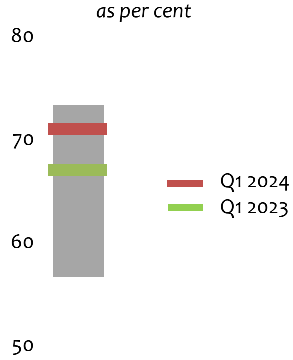
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2018 = 100,
12-month moving average

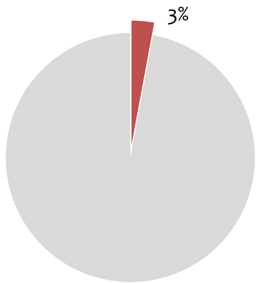


Capacity utilization rate
Historically highest/lowest level,
as per cent

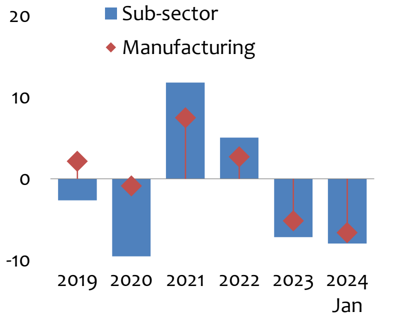


Light industry

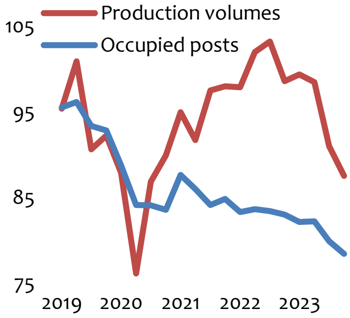
Share in manufacturing
in 2023, as per cent



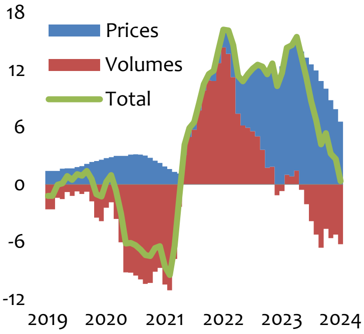
Changes in production volumes
compared to the previous year, as per cent



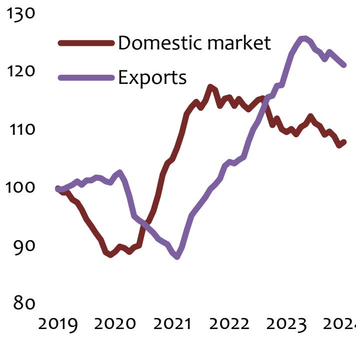
Production volumes and occupied posts
Q4 2018 = 100



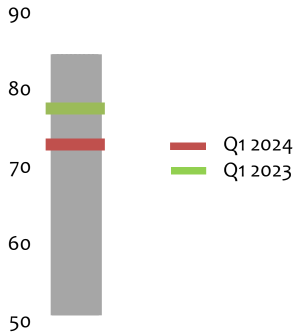
Changes in sales of production
12-month moving average,
as per cent



Production sales
December 2018 = 100,
12-month moving average

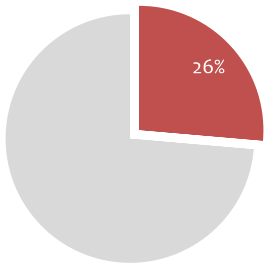


Capacity utilization rate
Historically highest/lowest level,
as per cent

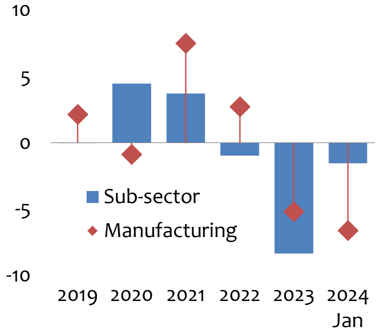


Manufacture of wood and wood products

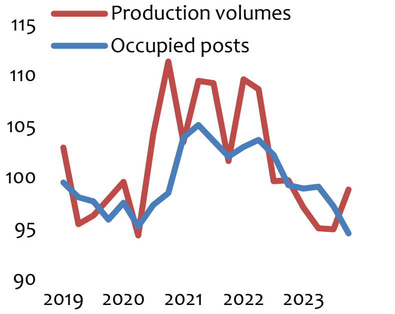
Share in manufacturing
in 2023, as per cent



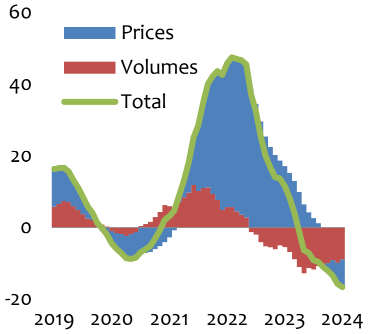
Changes in production volumes
compared to the previous year, as per cent



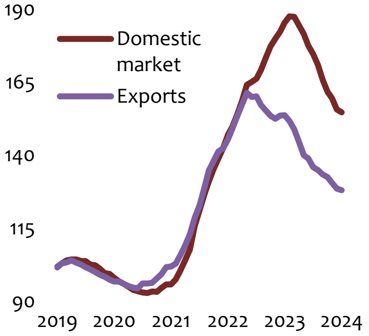
Production volumes and occupied posts
Q4 2018 = 100



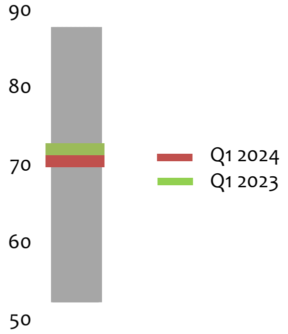
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2018 = 100, 12-month moving average

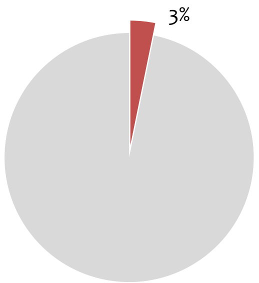


Capacity utilization rate
Historically highest/lowest level, as per cent

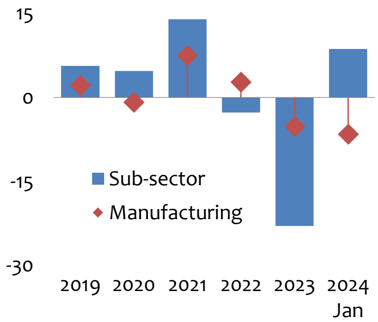


Manufacture of paper and paper products

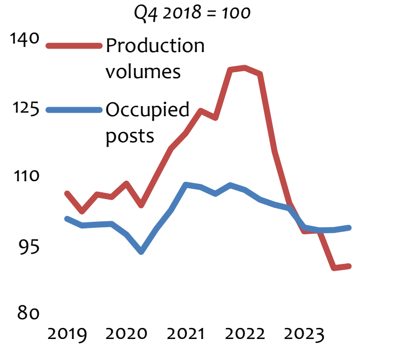
Share in manufacturing
in 2023, as per cent



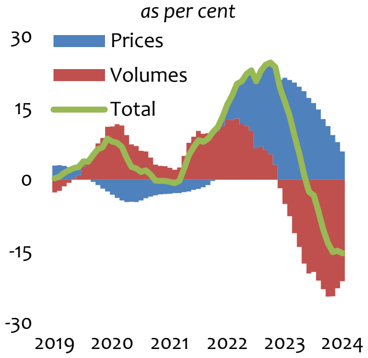
Changes in production volumes
compared to the previous year, as per cent



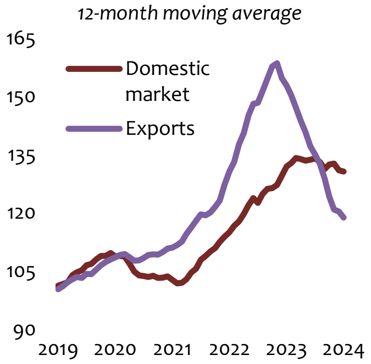
Production volumes and occupied posts
Q4 2018 = 100



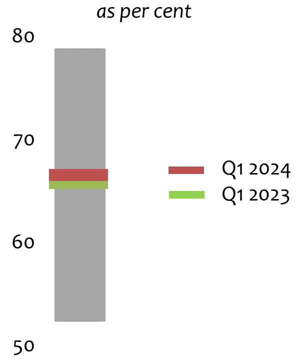
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2018 = 100, 12-month moving average

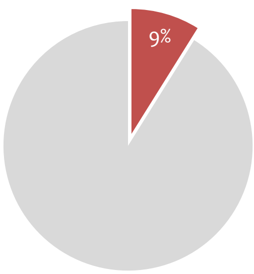


Capacity utilization rate
Historically highest/lowest level, as per cent

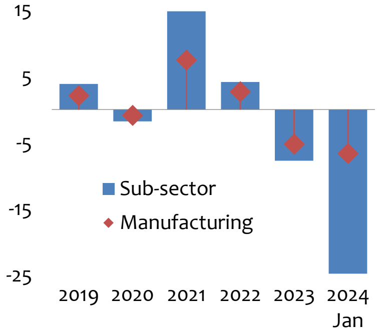


Manufacture of chemicals and chemical products

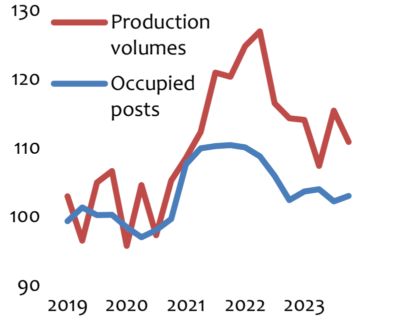
Share in manufacturing
in 2023, as per cent



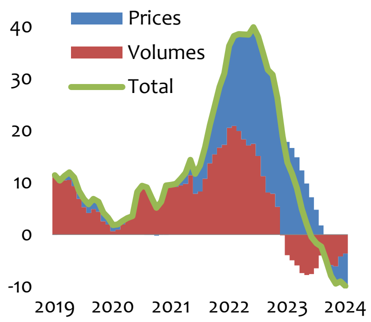
Changes in production volumes
compared to the previous year, as per cent



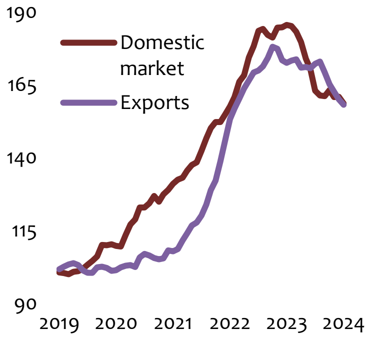
Production volumes and occupied posts
Q4 2018 = 100



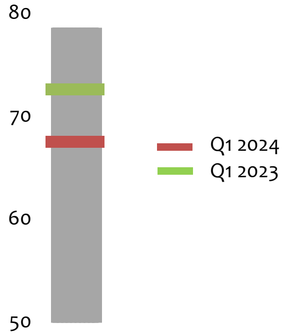
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2018 = 100, 12-month moving average

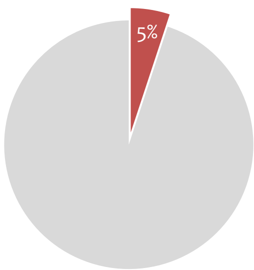


Capacity utilization rate
Historically highest/lowest level, as per cent

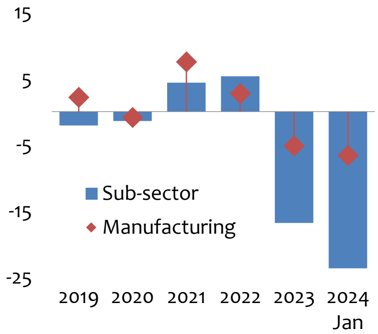


Manufacture of non-metallic mineral products

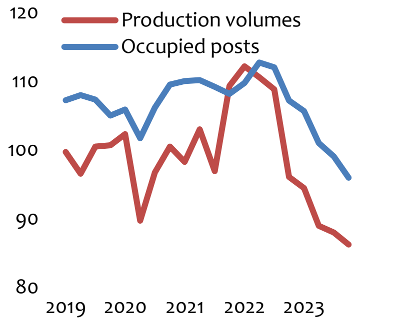
Share in manufacturing
in 2023, as per cent



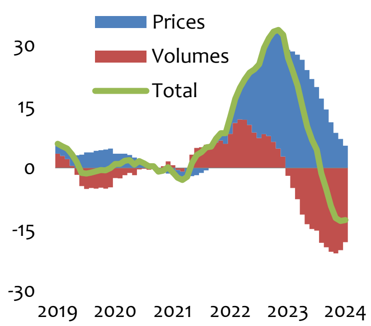
Changes in production volumes
compared to the previous year, as per cent



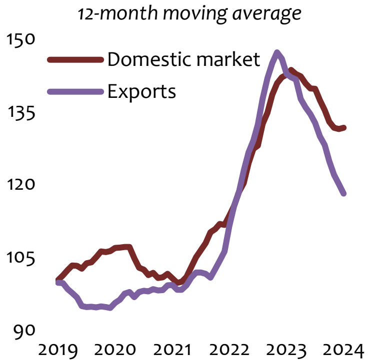
Production volumes and occupied posts
Q4 2018 = 100



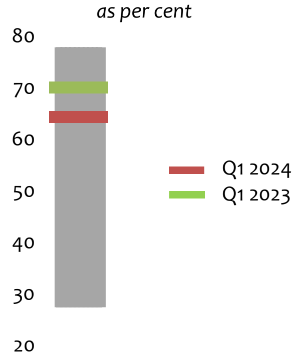
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2018 = 100, 12-month moving average

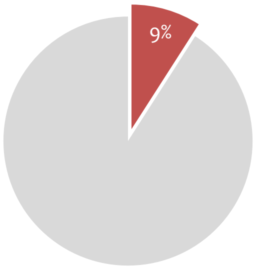


Capacity utilization rate
Historically highest/lowest level, as per cent

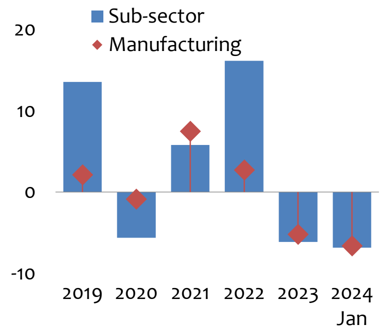


Manufacture of basic metals and fabricated metal products

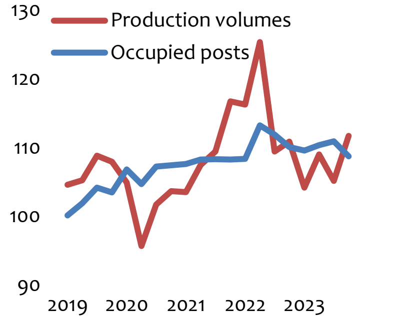
Share in manufacturing
in 2023, as per cent



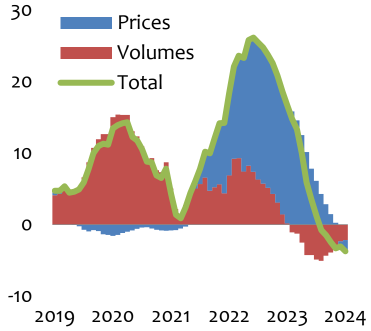
Changes in production volumes
compared to the previous year, as per cent



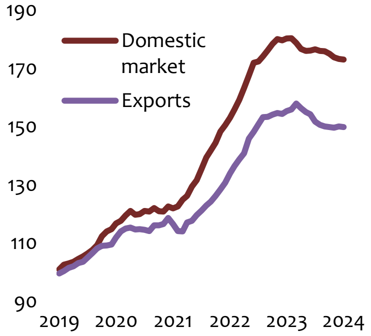
Production volumes and occupied posts
Q4 2018 = 100



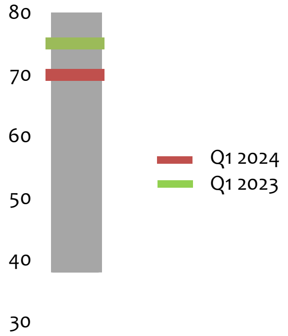
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2018 = 100, 12-month moving average

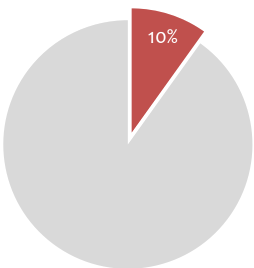


Capacity utilization rate
Historically highest/lowest level, as per cent

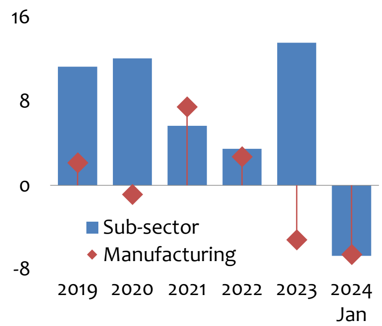


Manufacture of electronic and optical products

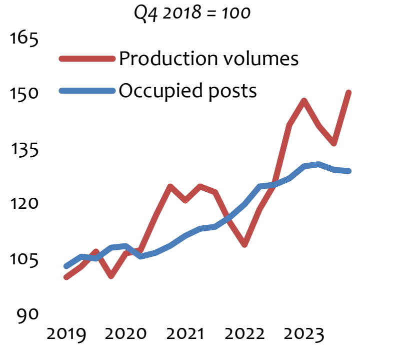
Share in manufacturing
in 2023, as per cent



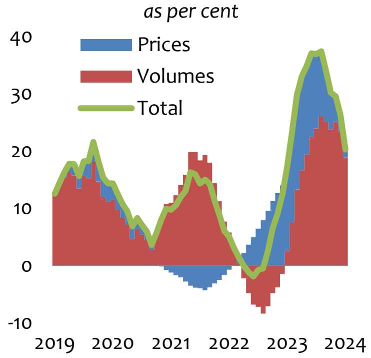
Changes in production volumes
compared to the previous year, as per cent



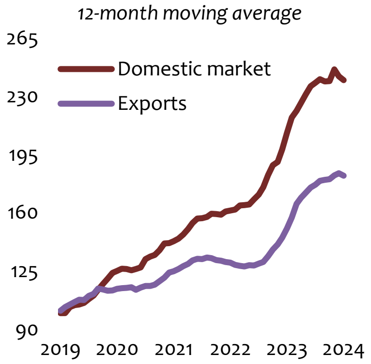
Production volumes and occupied posts
Q4 2018 = 100



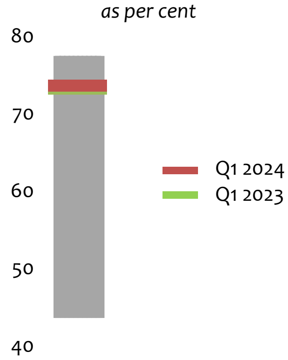
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2018 = 100, 12-month moving average

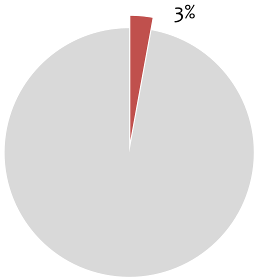


Capacity utilization rate
Historically highest/lowest level, as per cent

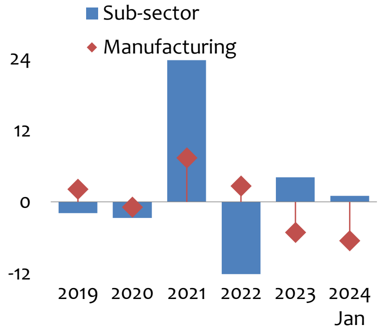


Manufacture of machinery and equipment

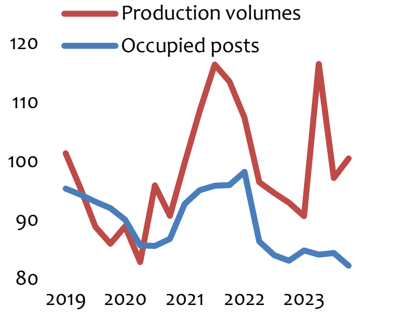
Share in manufacturing
in 2023, as per cent



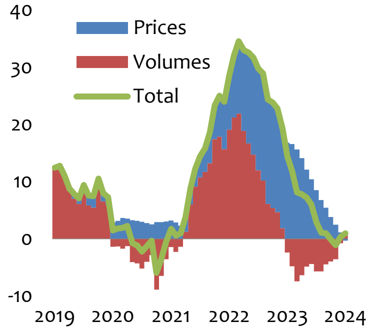
Changes in production volumes
compared to the previous year, as per cent



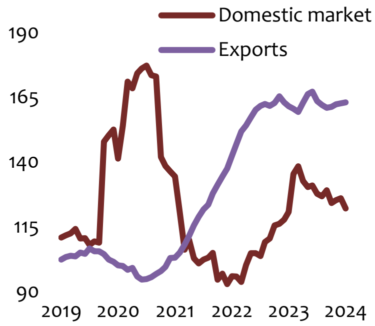
Production volumes and occupied posts
Q4 2018 = 100



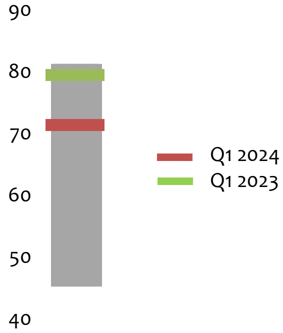
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2018 = 100, 12-month moving average

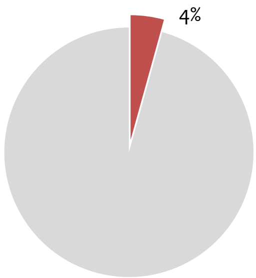


Capacity utilization rate
Historically highest/lowest level, as per cent

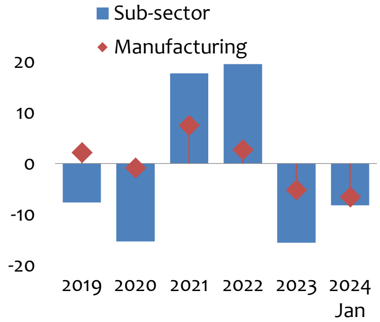


Manufacture of motor vehicles

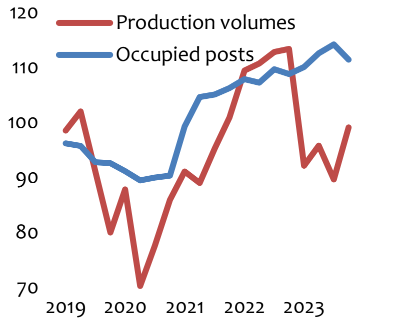
Share in manufacturing
in 2023, as per cent



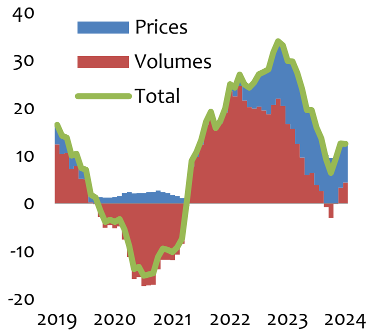
Changes in production volumes
compared to the previous year, as per cent



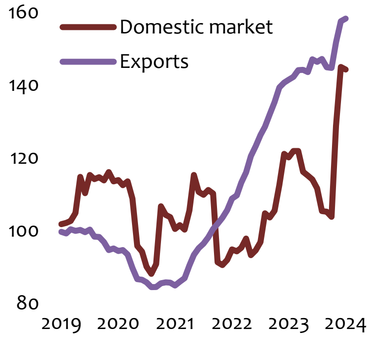
Production volumes and occupied posts
Q4 2018 = 100



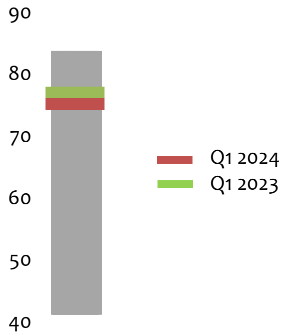
Changes in sales of production
12-month moving average, as per cent



Production sales
December 2018 = 100, 12-month moving average

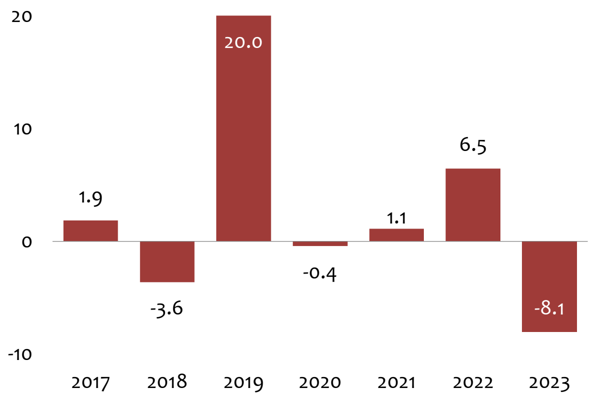


Capacity utilization rate
Historically highest/lowest level, as per cent



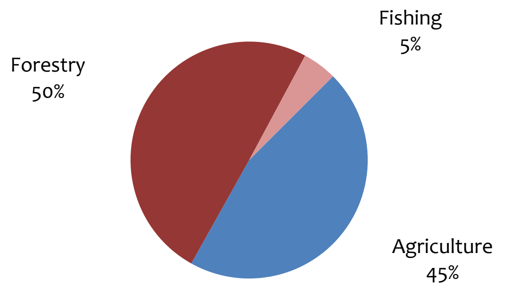
AGRICULTURE, FORESTRY, AND FISHING

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



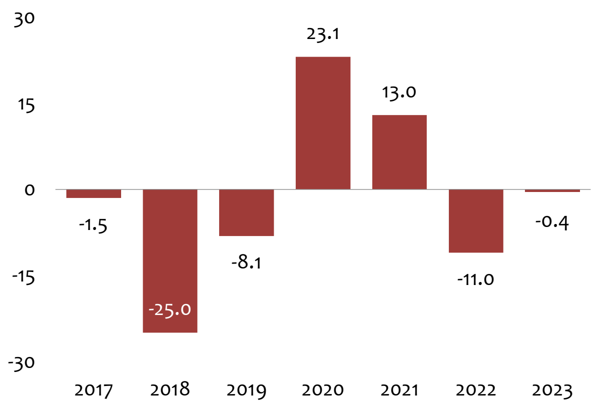
Agriculture and forestry provide the largest contribution to growth within the sector. The activity of the sector is closely related to the weather conditions, therefore the industry experiences fluctuating growth. After the rapid rise in 2022, in 2023, the volumes of the sector decreased rapidly, which was facilitated by both unfavorable weather conditions and a decrease in product prices and demand. Production volumes decreased sharply in crop and animal production and forestry and logging, but there was an increase in the fishing sector. In general, the number of occupied posts decreased in 2020-2021 under the influence of Covid-19, but in recent years it has increased again, which is ensured by a rapid increase in the number of occupied posts in forestry, while the number of occupied posts in agriculture continues to decrease.

Structure of Agriculture, Forestry, and Fishing
2023, as per cent



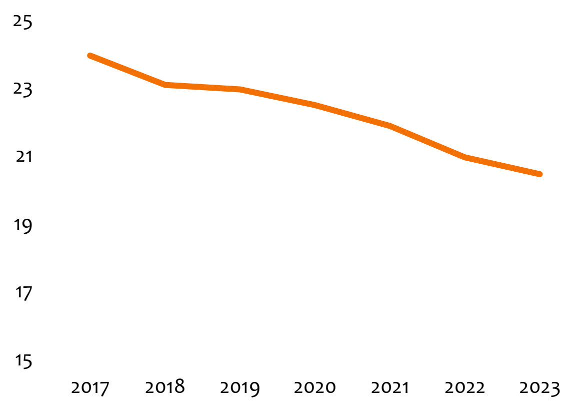
OTHER INDUSTRY

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



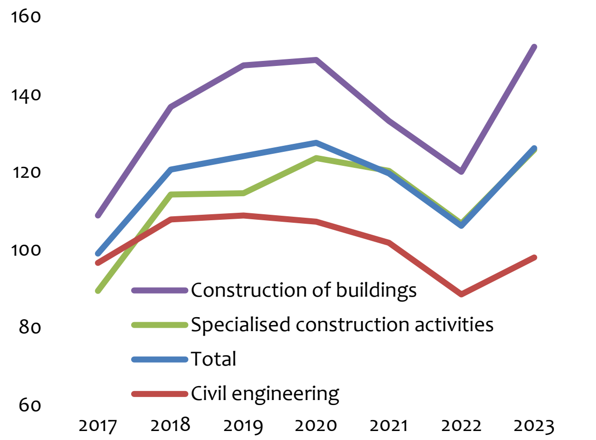
The largest share of added value in other industry (incl. mining and quarrying, electricity, gas, steam, and air-conditioning supply, water supply, and waste management) provide electricity and gas supply sub-sectors. In 2023, the volumes of other industrial sectors continued to decrease. The largest impact yielded the decline in volumes in the mining and quarrying sector, which was determined by both the reduction in volumes in gravel and sand quarrying and in peat mining and processing. The volumes of the electricity, gas supply, heat supply and air conditioning industry decreased slightly, as the amount of electricity produced in cogeneration stations decreased and their consumption decreased due to the increase in the price of energy resources. The number of occupied posts filled has increased in recent years in the mining industry, but it has fallen sharply in other sectors. On the other hand, in 2023 it decreased in all sub-sectors.

Occupied Posts in Other Industry
in thousands

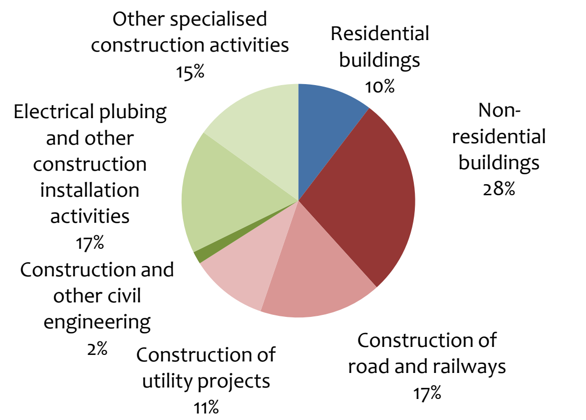


CONSTRUCTION

Development of Construction
2015 = 100



Structure of Construction
in 2023, as per cent

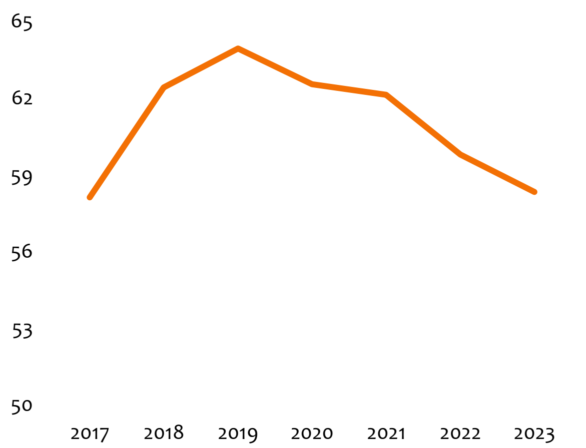


In 2023, construction started to recover. In general, the volume of construction output in 2023 was 18.9% higher than in 2022. The industry and customers have overcome the challenges of recent years, and the increase in customer activity has a positive effect on the industry indicators. The low base effect of the industry's two-year recession can also be mentioned as an influencing factor.

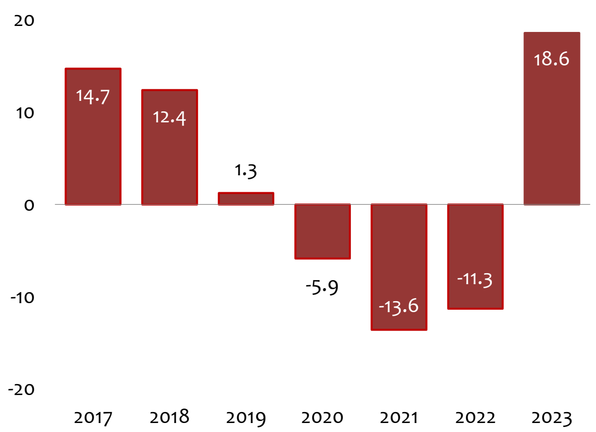
Growth trends can be observed in all basic construction groups in 2023. Looking at growth rates within the sector, the leader is building construction with a 26.8% increase, while slower growth (10.8%) is observed in engineering construction.

In 2023, 4,239 building permits were issued, which is 9.2% less compared to the previous year. The area expected in building permits is slightly larger than in 2022, the increase is by 0.6%.

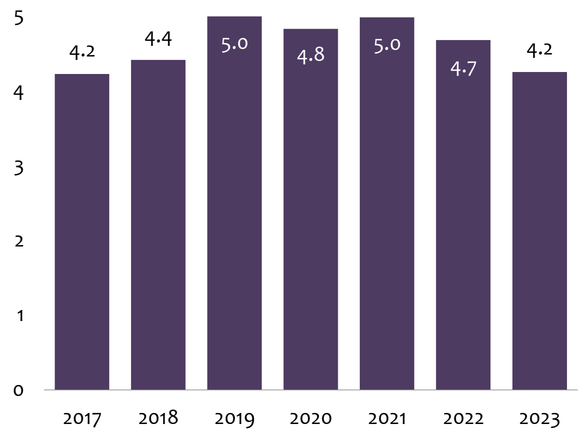
Occupied Posts in Construction
in thousands



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

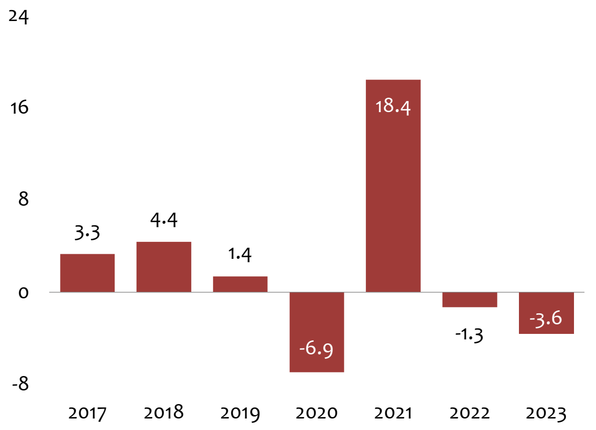


Building Permits Granted
in thousands



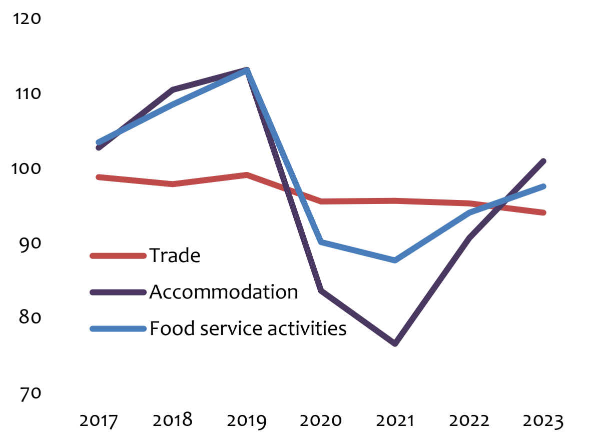
TRADE, ACCOMMODATION, AND FOOD SERVICE ACTIVITIES

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

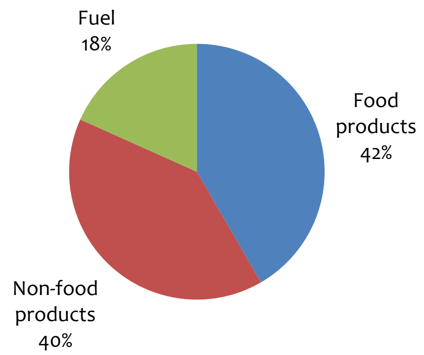


The volumes of services provided in the trade, accommodation, and food service activities continue to decrease. In 2023, the trade sector continued to be negatively affected by the unfavorable situation in the external environment, as wholesale volumes decreased rapidly (by 11.3%). On the other hand, as the increase in consumer prices exceeded the increase in income, the real income of the population decreased, which negatively affected household consumption and the turnover of retail trade decreased – by 1.9%. Retail turnover of food products decreased the fastest. It decreased more moderately for non-food items, but increased for fuel, which was affected by lower trade volumes in 2022 due to higher fuel prices. The growth of the accommodation and food service activities endured in 2023 (by 7.4%), exceeding the pre-Covid-19 crisis level. Also, the number of occupied posts increased rapidly in the accommodation and food service activities albeit decreased in trade. The largest share of occupied posts remains in trade.

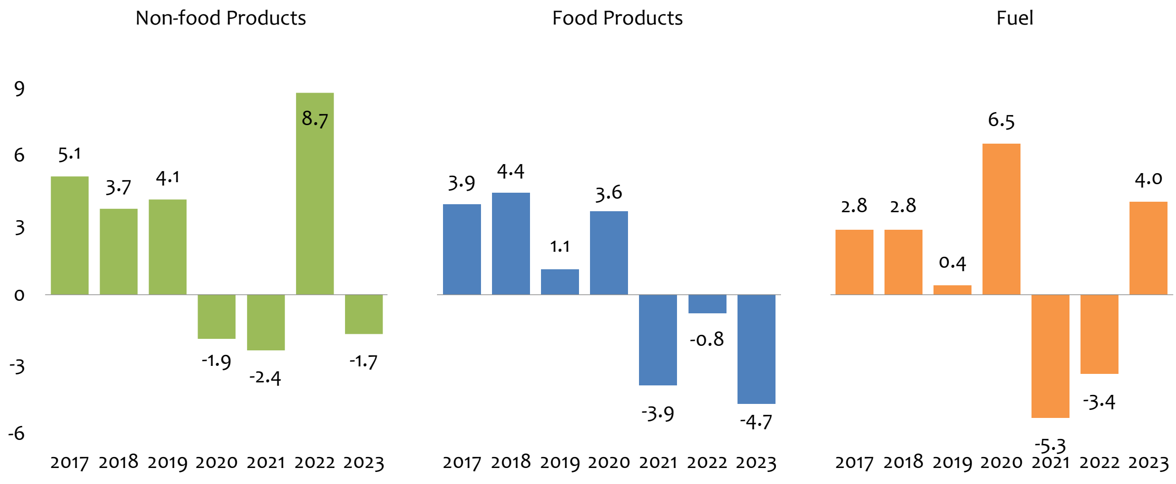
Occupied Posts in Trade, Accommodation, and Food Service Activities
2015 = 100



Structure of Retail Turnover
2023, as per cent

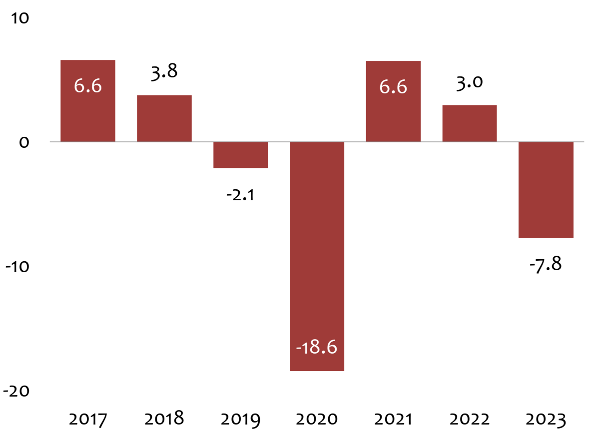


Retail Turnover
changes compared to the previous year, as per cent



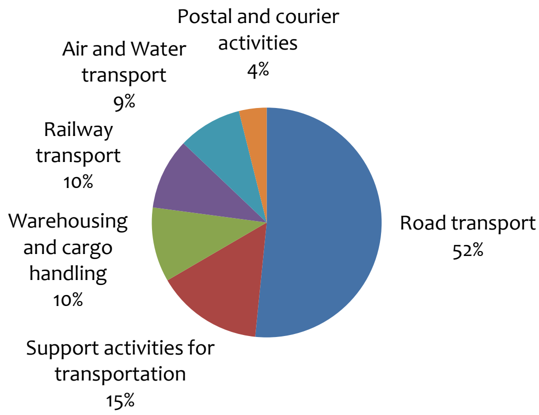
TRANSPORTATION AND STORAGE

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



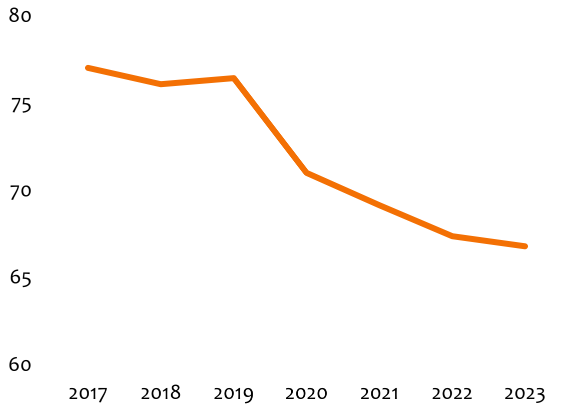
The transportation and storage sector is closely linked to international transportation. After growth in the previous two years, in 2023, the volumes of the transportation sector decreased, which was determined by the decrease in all transport sub-sectors, except for air transport. Service volumes in land and pipeline transport, as well as in warehousing and support activities for transportation, decreased the fastest. The volumes of transported cargo decreased in all modes of transport, which was determined by the drop in the volume of cargo transported in international transport. Passenger transportation in 2023 grew the fastest in air transportation – by 23.2%, in land transportation it increased by 15.4% and in ports – by 1.7%.

Structure of Transportation and Storage
2023, as per cent*



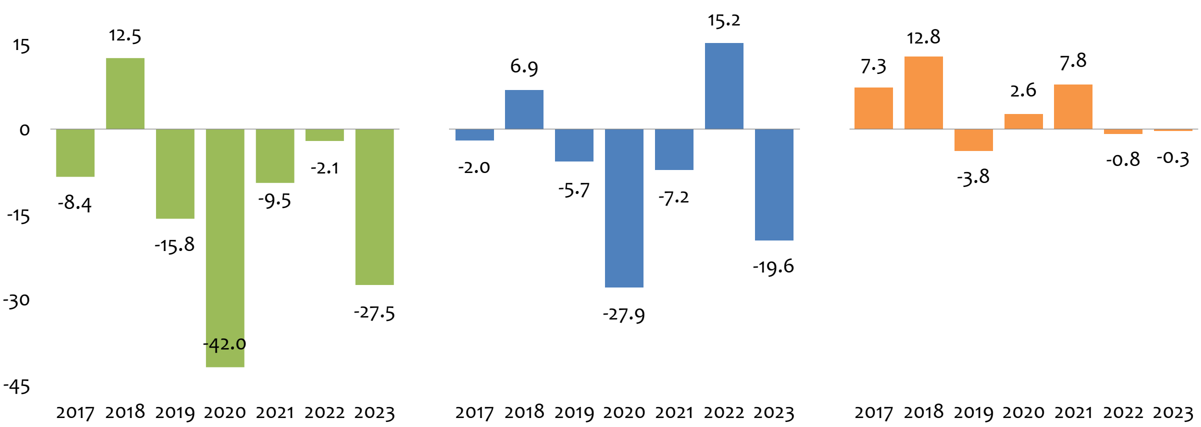
* – forecast by the Ministry of Economics

Occupied Posts in Transportation and Storage
in thousands



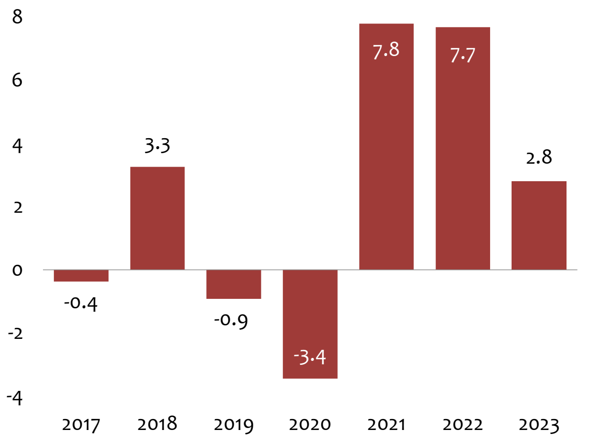
Freight Traffic
changes compared to the previous year, as per cent

Freight Rail Transport — Cargo Loaded and Unloaded at Ports — Freight Transport by Road



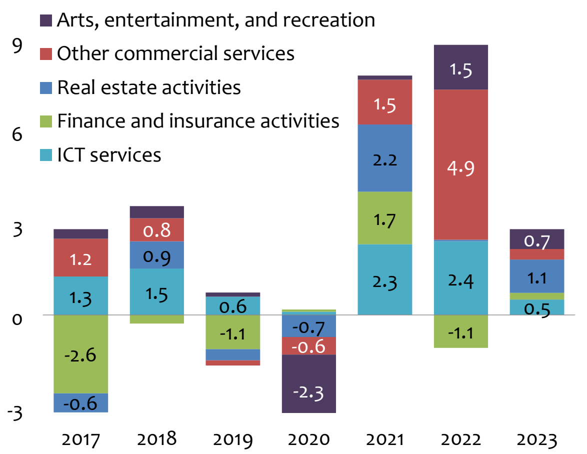
COMMERCIAL SERVICES

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



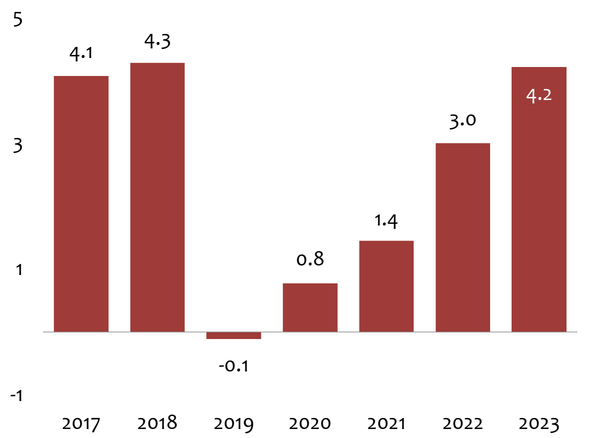
The largest share of added value in commercial services (incl. information and communication services, financial and insurance activities, real estate activities, professional, scientific, and technical services, administrative and support service activities, arts, entertainment, and recreation) provide real estate activities. In 2021-2022, recovering from the Covid-19 crisis, the volumes of commercial services increased rapidly. Also in 2023, an increase in volumes can be observed. Volumes increased in all commercial services sectors. The biggest impact was the increase in service volumes in real estate operations, arts and entertainment and ICT services. The largest share of occupied posts is in ICT services, professional, scientific and technical services and administrative and service activities. In 2023, the number of occupied posts increased in all sectors of commercial services.

Contribution of Commercial Services
percentage points



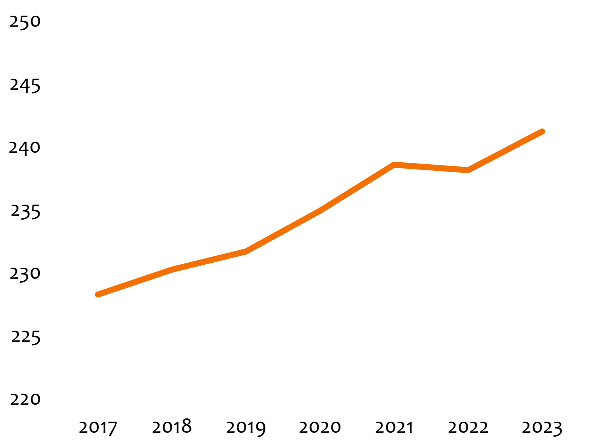
PUBLIC SERVICES

Public Services
value added, changes compared to the previous 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. After a moderate increase in 2020-2021, in 2022 and 2023 the total volumes of public services grew more rapidly. In 2023, volumes increased faster in education – by 7.8%. The volumes of public administration and defense services increased by 6.1%, while those of health and social care decreased by 1.5%. The largest proportion of occupied posts remains in education. In 2023, the number of occupied posts increased only in the health and social care sector. The largest decline in occupied posts was observed in education.

Occupied Posts in Public Services
in thousands



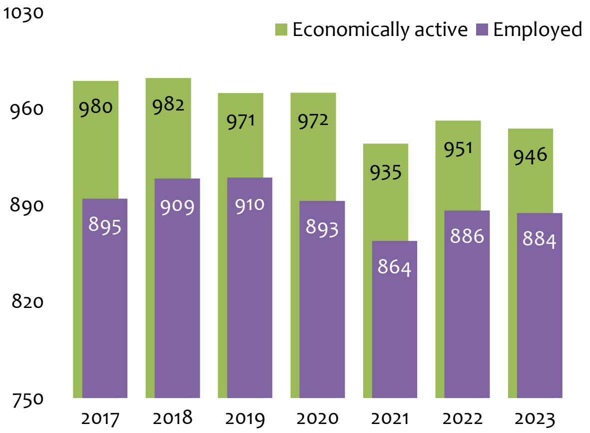
2024 | 1

LABOUR MARKET

EMPLOYMENT AND UNEMPLOYMENT

Given the slowdown in economic growth, overall labour demand and employment growth is slowing. At the same time, activity in the labor market remained at a high level, which continues to be sustained by supply factors. Unemployment continues to decrease and the population's employment rate increases. Also, considering the return of unemployment indicators to the level of 2019, increasingly more industries are facing a shortage of workers. Although the negative impact of the supply side on the labor shortage has been reduced by the influx of Ukrainian war refugees in Latvia, it should be considered that some of the war refugees are returning home, so demographic trends continue to maintain tension in the labor market.

Employed and Economically Active
aged 15-74, in thousands

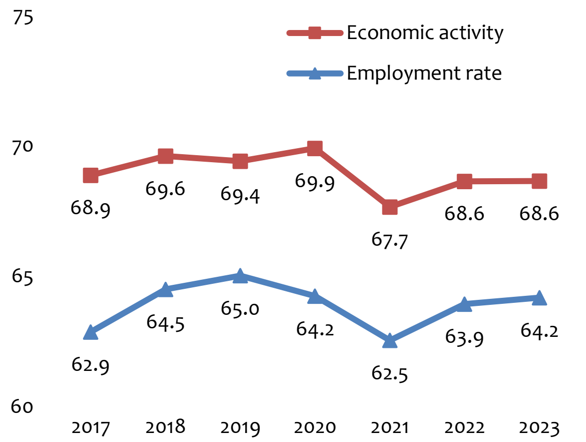


Even though the overall level of employment continued to grow in 2023 – by 0.3 percentage points compared to 2022, in absolute terms a decrease in the number of employed persons by 0.2% (2 thousand employed) compared to 2022 was observed. However, in Q4 of 2023, compared to Q4 of 2022, the decrease in the number of employed reached 1.4% or 12.9 thousand.

The decrease in the number of employed people has been largely influenced by the slowdown in economic growth, as well as factors on the supply side of the labor market – the decrease in the number of people of working age, as well as the slowdown in the growth of the population's economic activity.

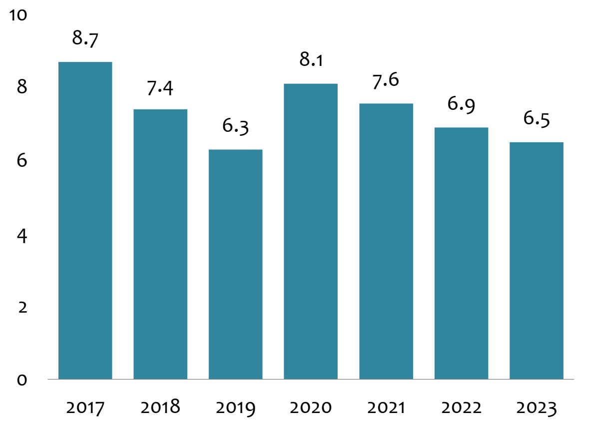
In Q4 of 2023, 877.7 thousand, or 64% of population aged 15-74, were employed, while the average number of employed in 2023 was 884.2 thousand, and the employment rate – 64.2%.

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



Along with the slowdown in the growth of labor demand, the participation of population in the labor market in 2023 has generally remained at the level of 2022. Considering the still tense situation in the labor market, the dynamics of economic activity of the population continued to grow. In Q4 of 2023, compared to the population's economic activity reached 68.6%, which was 0.1 percentage points higher than a year ago (68.5%).

Unemployment Rate
aged 15-74, as per cent

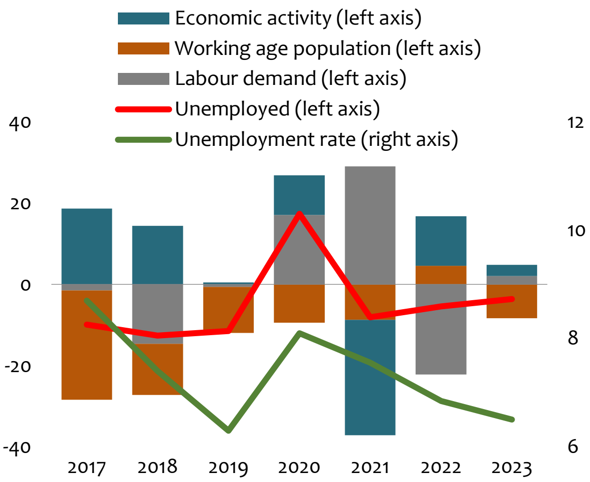


At the same time, it should be noted that the labor supply (the number of economically active population) continues to decrease, which is largely influenced by demographic trends and the decrease in the number of working-age population. In Q4 of 2023, the number of economically active population aged 15-74 was 941.9 thousand, which is by 12.2 thousand less than a year ago.

It should also be noted that along with the decrease in the incoming flow of refugees from the war in Ukraine, the positive effect of this flow on the dynamics of labor supply is also gradually drying up. The negative impact of demographic factors on labor supply dynamics could become more pronounced in the coming years. Overall, in 2023, compared to 2022, the number of residents aged 15-74 decreased by 8.3 thousand.

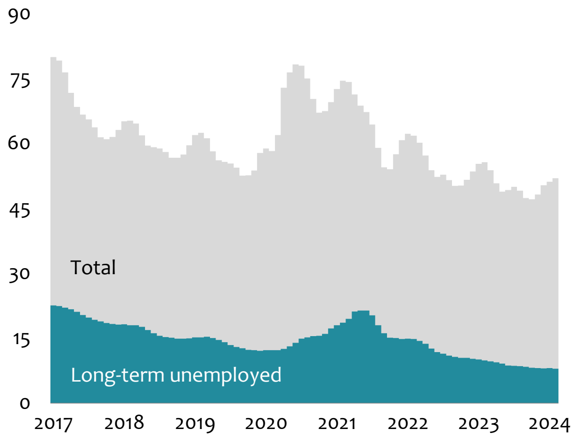
Considering the decrease in labor demand, the overall downward trend of unemployment has also stopped – In Q4 of 2023, compared to Q4 of 2022, the unemployment rate increased by 0.1 percentage points (to 6.8%). In general, in Q4 of 2023, there were 64.2 thousand people of population aged 15-74 looking for work, which is by 1.1%, or 0.7 thousand, more than in Q4 of 2022. At the same time, unemployment continued to decrease on average in 2023 and reached 6.5%, which is 0.4 percentage points less than in 2022.

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



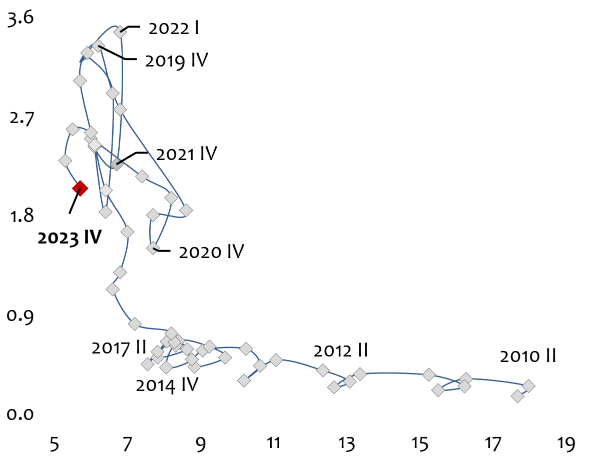
Positive trends can also be observed in the dynamics of the long-term unemployed. From the middle of 2021, both the number of long-term unemployed and their share in the total number of jobseekers will gradually decrease. From February 2023 to the end of February 2024, the number of registered long-term unemployed decreased by approximately 19% or 1.9 thousand. Overall, at the end of February 2024, there were approximately 8 thousand long-term unemployed, or approximately 15.4% of all registered unemployed (i.e., for more than a year).

Registered Unemployed
in thousands



Despite the decrease in unemployment, a risk prevails that some of the existing unemployed might have problems finding a job that matches their skills, i.e., the longer a person is unemployed, the greater the risk of losing previous work skills and abilities, and more difficult it is to adapt to new work conditions and market requirements. It should also be considered that long-term unemployment creates risks of structural unemployment.

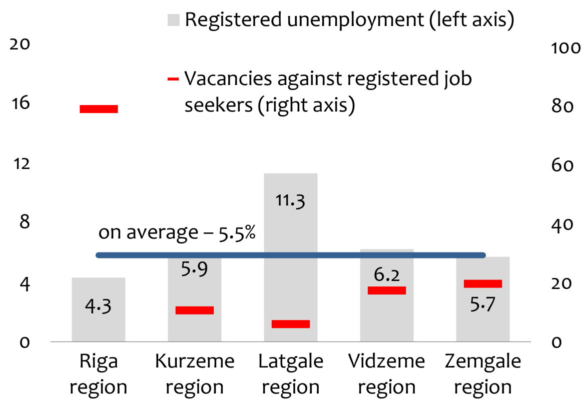
Beveridge Curve
by quarters, as per cent; horizontal axis – unemployment rate; vertical axis – vacancies against the economically active population



Similarly, structural problems still have a significant impact on regional differences in the labor market, which limit the effective use of labor resources in the national economy. Although regional disproportions are gradually leveling off, the process is slow. Pronounced problems can be observed for a long time in the Latgale region, where the unemployment rate is still more than twice as high as the average in the country, but almost 3 times higher than in the Riga region, which, together with the low geographical mobility of the workforce, increases the risks of structural unemployment.

Although the situation in the Latvian labor market continues to improve, it should be noted that the improvements are slower than in the neighboring countries. In Q4 of 2023, the employment rate in Latvia was still 5.1 percentage points lower than in Estonia (69.1%), albeit 1.7 percentage points lower than in Lithuania (65.7%). Similarly, the unemployment rate in Latvia in Q4 of 2023 (6.8%) remained on average 0.5 percentage points higher than in Estonia (6.3%) and 0.7 percentage points lower than in Lithuania (7.5%).

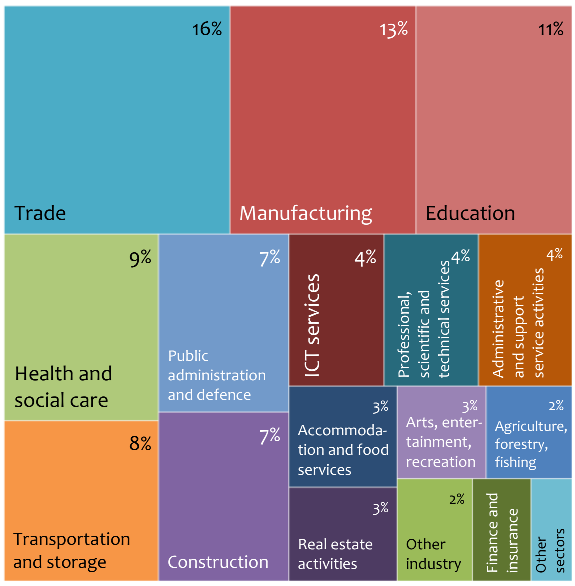
Registered Unemployment by Region
at the end of February 2024, as per cent



The number of occupied posts in 2023 decreased by 0.1%, or approximately by 1.3 thousand, reaching 886.5 thousand, compared to 2022.

In 2023, the most significant increase in occupied posts was observed in the health and social care sector, accommodation and food service activities, as well as in agriculture and forestry. Job growth in the accommodation and food service activities, the arts, entertainment, and recreation, as well as administrative and support service activities continues to be largely affected by the low base effect after the Covid-19 pandemic and, despite the gradual recovery of the sectors, the number of occupied posts still significantly lags the 2019 level prior the Covid-19 crisis.

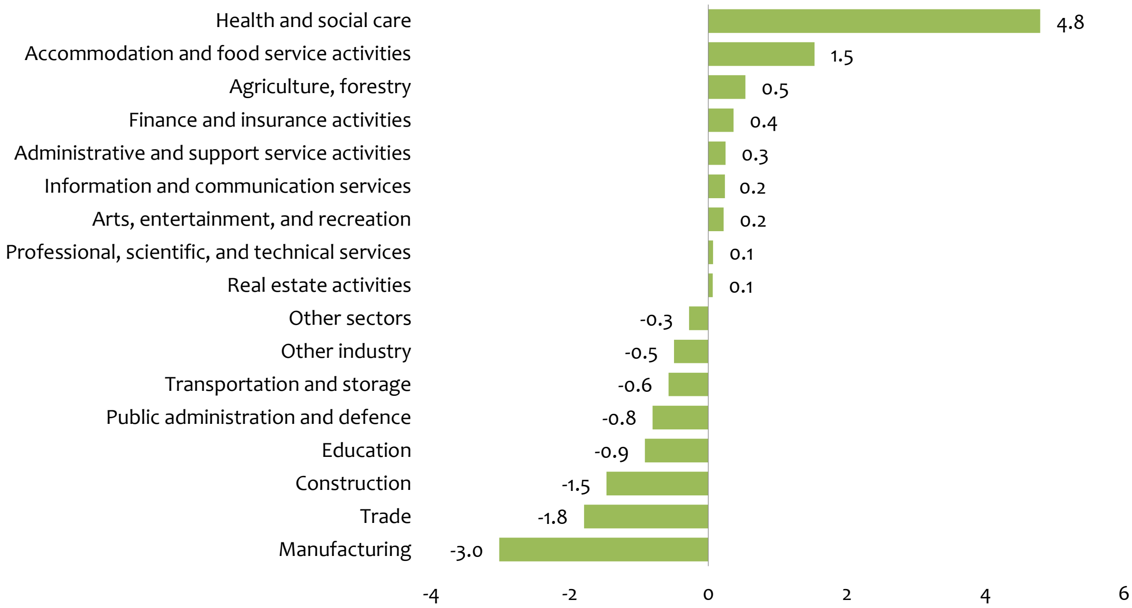
Occupied Posts by Sector
structure in 2023, as per cent



The largest decrease in occupied posts in 2023 was observed in manufacturing (by 3 thousand), which was largely influenced by the decrease in the output of the sector, considering the weak external demand.

Also, in 2023, compared to 2022, a significant decrease in the number of occupied posts can be observed in trade – a decrease of 1.8 thousand (or 1.3%), in construction (by 1.5 thousand or 2.5%), in the education sector (by 0.9 thousand or 0.9%).

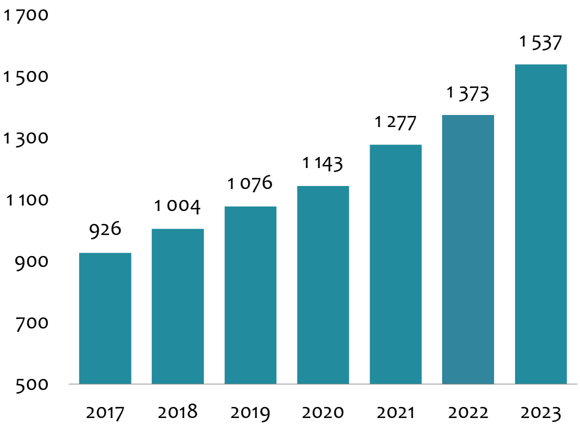
Changes in Occupied Posts
in January-June 2023, changes compared to the corresponding period of the previous year, in thousands



WAGES AND SALARIES

Considering the increase in prices, as well as pressure from the supply side of the labor market, the average wage continued to grow rapidly in 2023. The average monthly gross wage in 2023 increased by 11.9% compared to 2022, rising to an average of 1,537 euros. At the same time, in Q4 of 2023, the average gross wage increased to 1,610 euros. It should be noted that over the past 3 years, the average gross wage in the economy has increased by more than a third.

Average Monthly Gross Wage
euro

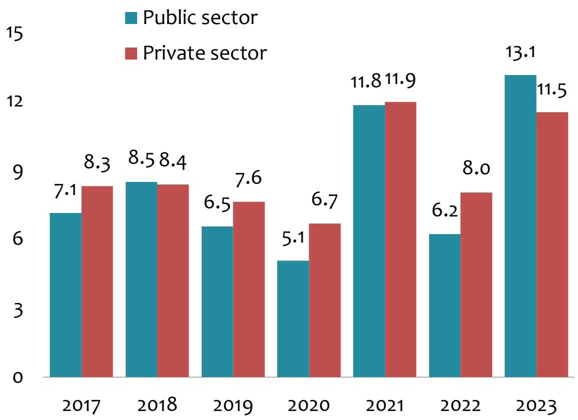


The increase in the average wage in 2023 was significantly influenced by the increase in the minimum wage rate by 24% – to 620 euros from 500 euros in 2022, as well as structural changes in labor demand in favor of higher-paid professions – the number of occupied posts in senior specialist professions increased by 3.7% or 6.5 thousand.

Also, wage growth continues to be affected by the lack of labor, as well as the general inflationary pressure. Despite the rapid increase in wages, real wages in 2023, compared to 2022, increased by only 2.2%.

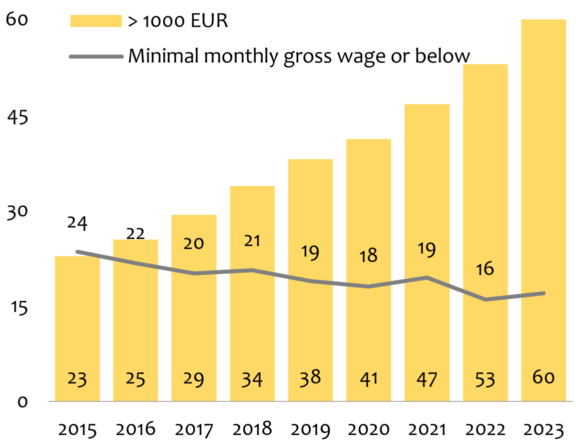
In 2023, wages have grown for both private and public sector workers. Compared to 2022, the average gross wage in the public sector in 2023 increased by 13.1% (to an average of 1,553 euros), and in the private sector – by 11.5% (to an average of 1,533 euros). On the other hand, in Q4 of 2023, the average wage for employees in the public sector increased to 1,669 euros, and in the private sector to 1,586 euros. Although the increase in wages for those working in the public sector in 2023 was faster than for those employed in the private sector, it should be noted that in the period from 2019-2022, the increase in wages in the private sector generally remained more rapid and in 2022 the average gross wage for those employed in the private sector exceeded the average gross wage for employees in the public sector for the first time in the last two decades.

Average Monthly Gross Wage
changes compared to the previous year, as per cent



Overall, the tendency to decrease the proportion of low-paid employees remained stable, which is evidenced by the ever-increasing tendency in the proportion of employees who receive a wage above 1,000 euros per month. In 2023, the gross wage of 60% of all employees exceeded 1,000 euros.

Employee Gross Wage
as per cent of employed in total



In 2023, wage growth was observed in all sectors of the economy. The most rapid wage increase was observed in agriculture and forestry – compared to 2022, the average gross wage increased by 18.2%. Similarly, wages have grown rapidly in electricity, gas, and heat supply (by 17.5%), and in the transportation and storage sector (by 15.5%).

A slower increase in wages in the health and social care sector (increase by 3.9% compared to 2022) was observed, which can largely be attributed to the rapid increase in wages already in previous years (from 2020-2022), as well as by the reduction of bonuses within the sector that were prevalent during the Covid-19 pandemic.

It should be noted that health and social care still maintained the third fastest wage increase compared to the pre-pandemic period. In 2023, in health and social care, the average gross wage was approximately 50% higher than in 2019.

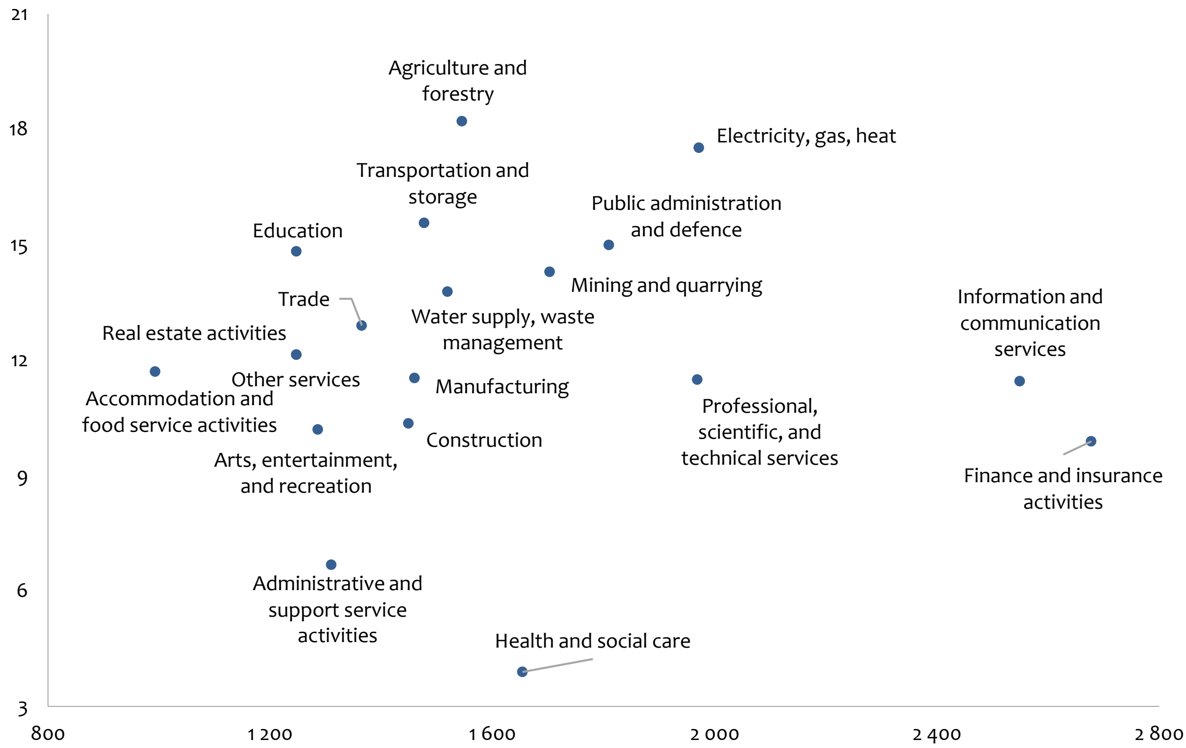
The highest wage level in 2023 remained in finance and insurance activities – the average monthly gross wage reached 2,678 euros, while the lowest wage was observed in the accommodation and food service activities – an average of 993 euros per month.

Gross wages in economic sectors

in 2023;

horizontal axis – average gross wage, euro;

vertical axis – average gross wage changes, compared to the previous year, as per cent



2024 | 1

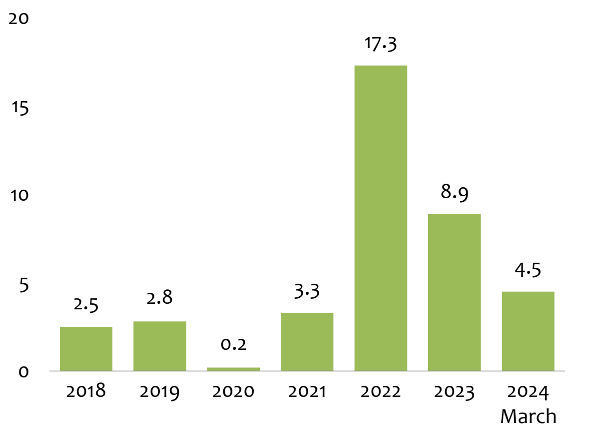
ECONOMIC STABILITY AND COMPETITIVENESS

PRICES

In 2023, consumer prices stabilized, with monthly growth decreasing compared to the corresponding month of the previous year – from 21.5% at the beginning of the year to 0.6% in December 2023. It continued to be affected by global prices and the unstable geopolitical situation. Considering the base effect of inflation dynamics, in 2023, the average annual inflation remained high – 8.9%.

In the three months of 2024, the price increase was slightly faster than in the corresponding period of the previous year. Consumer prices in March 2024, compared to December 2023, increased by 2.2%. Compared to March of the previous year, consumer prices increased by 0.9%. Annual average inflation in March was 4.5%.

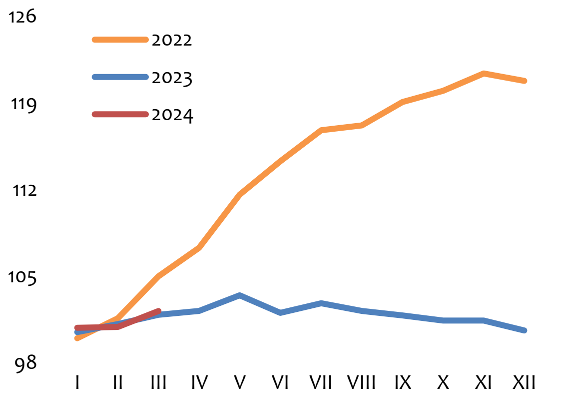
Consumer Price Changes
annual average, as per cent



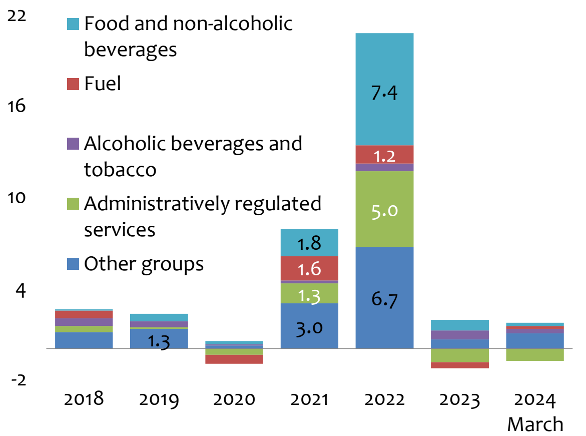
The key factors affecting prices in 2023:

(1) the largest impact on the average level of consumer prices yielded the rise in prices for services – a significant increase in the price of outpatient, catering, transport and leisure and cultural services;
(2) rising food prices, where prices rose in all major food groups except dairy products, oils and other fatty substances, but it should be noted that the rapid rise in food prices has stopped;
(3) price increase for alcoholic beverages and tobacco, where the biggest impact was the price increase for strong alcoholic beverages and cigarettes;
(4) rising prices for clothing and footwear;
(5) price drop for housing-related energy resources, along with the government's support for measures;
(6) the drop in fuel prices, which was affected by the sharp drop in world oil prices, supported by signs of rising crude oil production, particularly from non-OPEC countries, and an uncertain demand outlook.

Consumer Price Index
December of the previous year = 100

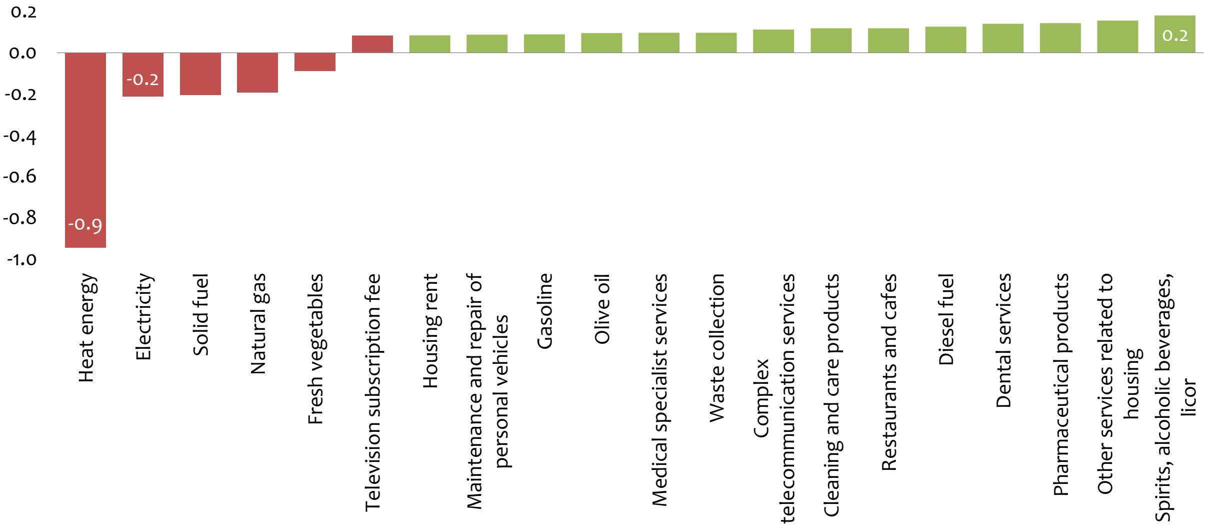


Consumer Prices by Goods and Services
contribution to 12-month changes, as per cent



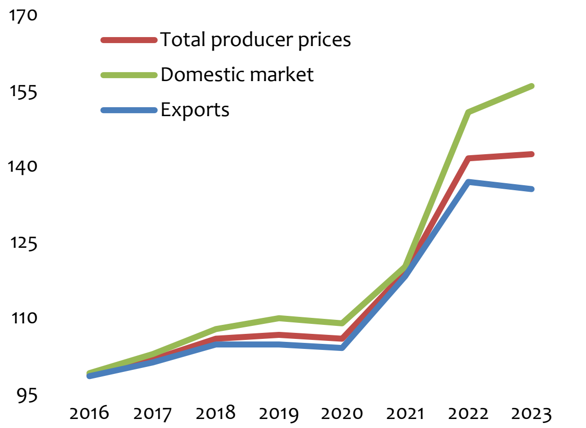
The average annual inflation in 2024 will be significantly lower than that observed in 2023. In the future, the main influence on price changes will continue to be related to fluctuations in energy and food prices in the world, determined by global developments. Also, inflation in Latvia will be affected by various factors on the supply side due to the increase of taxes and tariffs, as well as on the demand side, which will be promoted by the increase in wages. Overall, in 2024, the average annual inflation is expected to be within 2%.

Consumer Price Changes by Goods and Services
March 2024, contribution to the 12-month changes, as per cent



In 2023, due to the drop in the prices of energy resources and raw materials, producer prices in manufacturing increased moderately.

Producer Prices in Manufacturing
2015 = 100

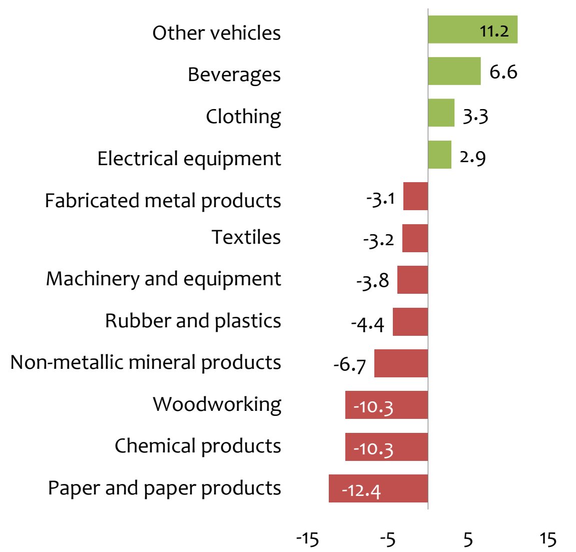


In 2023, producer prices in manufacturing increased by 0.6%. Prices for products sold on the domestic market increased by 3.5%, while prices for exported products decreased by 1%. The most influential price increase was observed in the manufacture of food products, the manufacture of non-metallic mineral products and printing, while the largest negative effect provided woodworking and the manufacture of chemicals.

Also, at the beginning of 2024, the increase in producer prices in manufacturing remain very moderate. In the two months of 2024, producer prices in manufacturing increased by 0.5%.

In 2024, the prices of the producers of manufacturing will continue to rise moderately. The level of producer prices will largely be influenced by the price fluctuations of producers of exported products, which are basically determined by the dynamics of global raw material prices. It should be noted that in 2023 world energy and raw material prices decreased, but at the end of the year they started to rise again, which could also affect the dynamics of producer prices. Uncertainty in the supply of raw materials due to the tense geopolitical situation continues to have a significant impact on producer prices. The prices of products sold domestically will also increase more moderately, which is mainly affected by the drop in the prices of energy resources and raw materials such as wood, raw food, etc. Also, the dynamics of producer prices for the production sold domestically will be affected by growth rates, which will be more moderate this year.

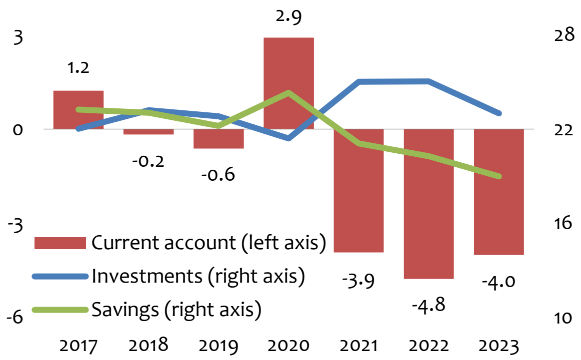
The Most Rapid Producer Price Changes in Manufacturing in February 2024
changes compared to the corresponding period of the previous year, as per cent



BALANCE OF PAYMENTS

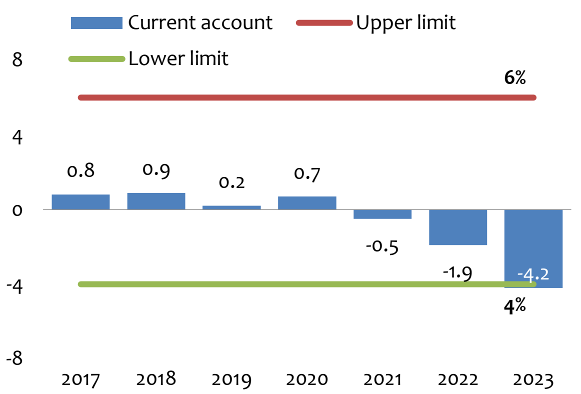
Due to external shocks, the current account deficit has remained at a relatively high level in recent years. In 2021, the current account deficit was affected by the rise in energy prices, which began in the second half of 2021, and increased rapidly in 2022 in connection with Russia's aggression against Ukraine. Due to changes in the geopolitical environment, in 2022 the negative balance of the current account reached 4.8% of GDP. In 2023, the current account deficit reached -4% of GDP.

Current Account, Savings, and Investment
as per cent of GDP



As the downward trends of the current account persisted, the risks of external imbalances increased. In 2023, the three-year average current account deficit indicative threshold set by the EU warning mechanism was exceeded.

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

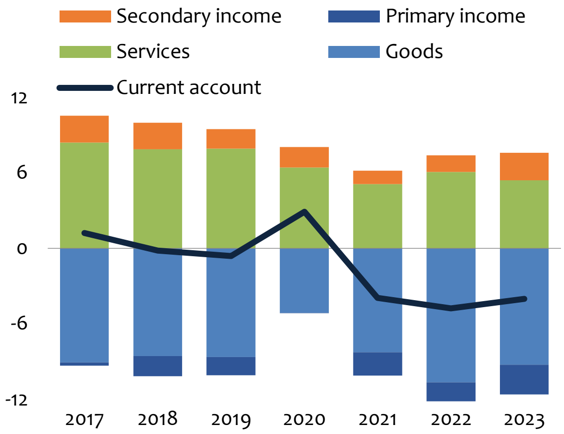


The weakening of foreign trade flows has been observed in recent years. Its main cause was the economic shock caused first by the Covid-19 pandemic, then by the Russian invasion of Ukraine, which increased the uncertainty of the external environment.

In 2022, the increase in the price of energy resources and the need to change their supply sources due to the war in Ukraine significantly increased the value of imports. As exports continued to grow more slowly than imports and prices increased for imported products, the trade deficit increased to 10.7% of GDP (8.3% in 2021).

In 2023, the value exports and imports were lower than a year ago. As the value of imports decreased more rapidly, the foreign trade balance improved to 9.3% of GDP.

Current Account
as per cent of GDP



The services trade surplus remained, but at a lower level than before the crisis caused by the Covid-19 pandemic. In 2021-2023, the positive balance of services was on average 5.5% of GDP, which is less than in the years before the Covid-19 pandemic (8.1% of GDP on average).

In 2023, the growth rates of imports and exports of services were much slower than in 2022. Imports in actual prices increased by 8.6%, while exports grew moderately – by 3.8%, and the balance of services surplus reached 5.4% of GDP, which is 0.6 percentage points less than in 2022.

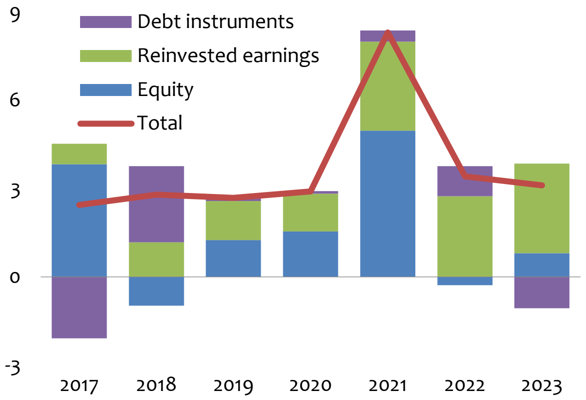
Changes in the income and capital account are mainly related to the appropriation of EU funds. The capital account balance in 2023 was at the level of 2% of GDP.

The state of the financial account balance in recent years was determined by financial sector stabilization measures, public sector debt restructuring, the Bank of Latvia's measures within the extended asset purchase program, as well as the European Central Bank's restrictive monetary policy to combat inflation. In 2023, financial account liabilities decreased slower than liabilities, and the financial account balance (with reserve assets) reached 0.2% of GDP. Balance of payments will be determined by changes in the geopolitical situation and their impact on global supply chains, cross-border flows and Latvia's economy.

FOREIGN DIRECT INVESTMENT

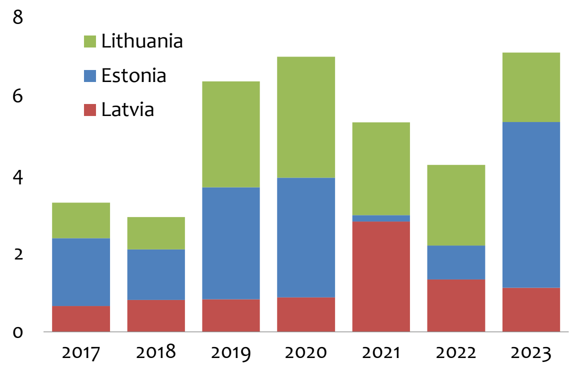
The intensity of foreign direct investment (FDI) flows is moderate. This was mainly influenced by the restrictions on the spread of the Covid-19 pandemic, as well as instability in the world economy. The war in Ukraine added to the uncertainty caused by geopolitical events and put negative pressure on global FDI flows.

FDI in Latvia
flows, as per cent of GDP



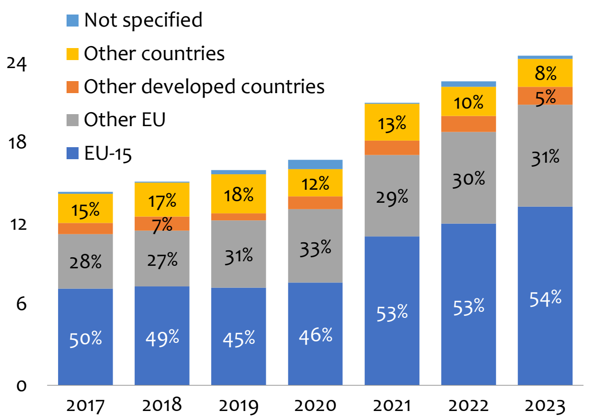
Overall, the cross-border flows of direct investments in the Baltic States were larger in 2023 than a year ago. FDI reached the level of 4.7% of GDP, where most of the FDI flows were in the Estonian economy. In total, the net flows of FDI attracted in the Baltic States in 2023 were almost 7 billion. euro. **Around 16% of the total FDI (net) transaction volume was in the Latvian economy.** The share of Estonia and Lithuania in the total amount of FDI transactions was 59% and 25% respectively.

FDI in Latvia
transactions, billion euro



The volume of FDI transactions in 2023 was 15.9% lower than a year ago and accounted for 2.8% of GDP. This was largely due to a decrease in liabilities and an increase in claims against direct investors. Investments in company equity (including reinvested profits) were almost 1.6 times higher than a year earlier. Weak economic activities have not significantly affected FDI income. In 2023, they were 25.4% higher than a year ago.

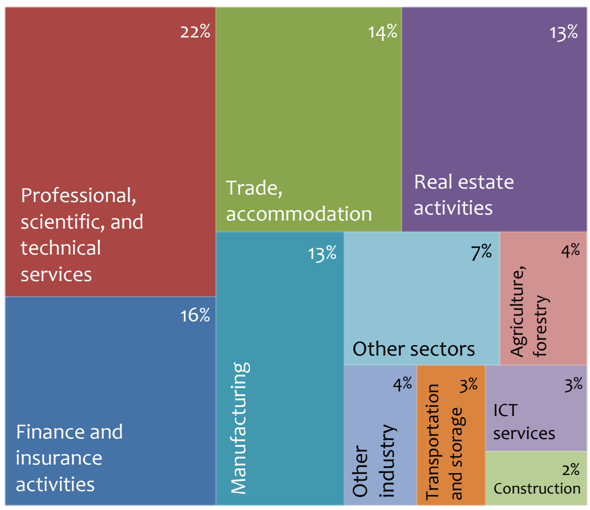
FDI Stock in Latvia by Groups of Countries
closing balance at the end of the year, billion euro and per cent



Accumulated FDI in the Latvian economy at the end of 2023 reached 23.8 billion euro, i.e., 59% of GDP. In 2023, FDI increased by almost 8.5% or 1.9 billion euro. The geopolitical structure of accumulated FDI is relatively stable. It is dominated by the investments of EU entrepreneurs, constituting 83.5% of the total accumulated FDI in 2023. Sweden is the largest investor in Latvia's economy. The accumulated FDI of its entrepreneurs have grown 3 times since 2019 and at the end of 2023 made up 30% of all accumulated FDI. Investments by entrepreneurs from Estonia, Lithuania, Germany, Cyprus, the Netherlands, Russia, and Denmark are also large.

The structure of the accumulated FDI sectors has changed. Thanks to large-scale investments in the professional, scientific, and technical services sector, its share in the total accumulated FDI increased to 22.4% at the end of 2023. Significant investments have been made in financial intermediation (15.6% of all FDI), trade (12.7%), real estate activities (13.4%), and manufacturing (12.9%).

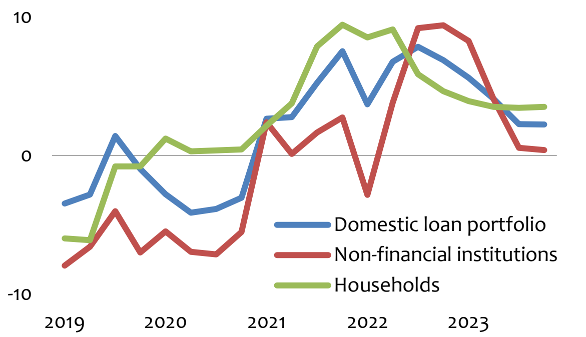
FDI by Sector
closing balance at the end of 2023



MONETARY INDICATORS

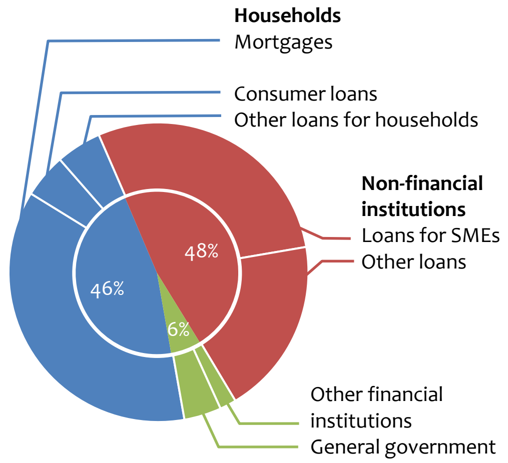
The banking sector remains stable[1]. Deposits are at the previous year's level, however, activity in lending is still moderate, business lending can be assessed as weak.

Domestic Credit Balances
changes, compared to the corresponding period of the previous year, as per cent



The total credit portfolio of banks at the end of 2023 was 15.9 billion. euro. 13.4 billion euro was issued to domestic non-bank clients, which was 2.2% more than a year ago. The credit portfolio of non-financial companies grew slightly (by 0.4%), while lending to small and medium-sized enterprises developed faster – by 5.7%. The household credit portfolio continued to grow (by 3.5%).

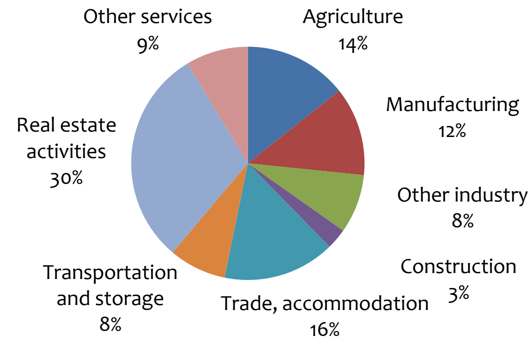
Lending Portfolio of Non-Financial Institutions by Sector
at the end of 2023, as per cent



In 2023, the structure of loans by sector has not changed significantly. Out of all corporate loans, the largest amount was issued for real estate activities, reaching a 30% share, followed by agriculture and forestry, as well as trade with 14% and 13%, respectively.

In Q4 of 2022, a rapid rise in credit interest rates, which was determined by the ECB's decisions on raising base interest rates to limit inflation, was observed. In 2023, this increase continued and at the end of the year, interest rates for non-financial companies for long-term loans were 6.18%, and for short-term loans – 6.65%. For households, long-term interest rates for housing loans were 6.14%, and short-term interest rates – 6.5%.

Lending Portfolio of Non-Financial Institutions by Sector
at the end of January-June 2023, as per cent

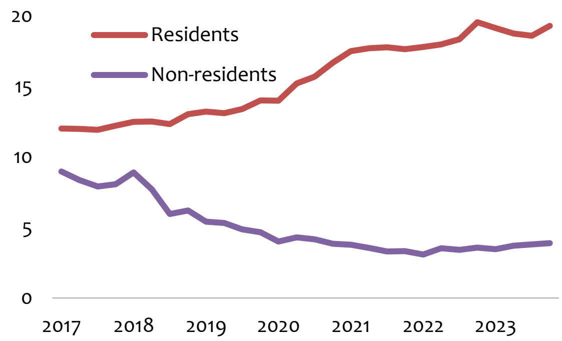


The increase in the ECB's base interest rates is seen not only in the increase in the cost of loans. The profit indicators of the banking sector in 2023 have grown significantly. The excess profits made by the banks prompted a wider discussion about its taxation. Amendments to the CIT law have been adopted in Latvia, providing for the mandatory advance payment for banks.

To partially compensate the matured loans, amendments have been adopted to the Law on the Protection of Consumer Rights, which envisages compensating 30% of mortgage loan interest payments in 2024.

The growth of deposits has stopped in 2023, reaching 23.2 billion euro with an annual increase of 0.3%. Domestic deposits decreased by 1.3% during 2023. In contrast, foreign deposits grew by 9.1% and accounted for 17%. For comparison, in 2015, the proportion of foreign deposits exceeded half of all deposits.

Non-Bank Deposits in Banks
billion euro



[1] Data source – Bank of Latvia

BUDGET AND GOVERNMENT DEBT

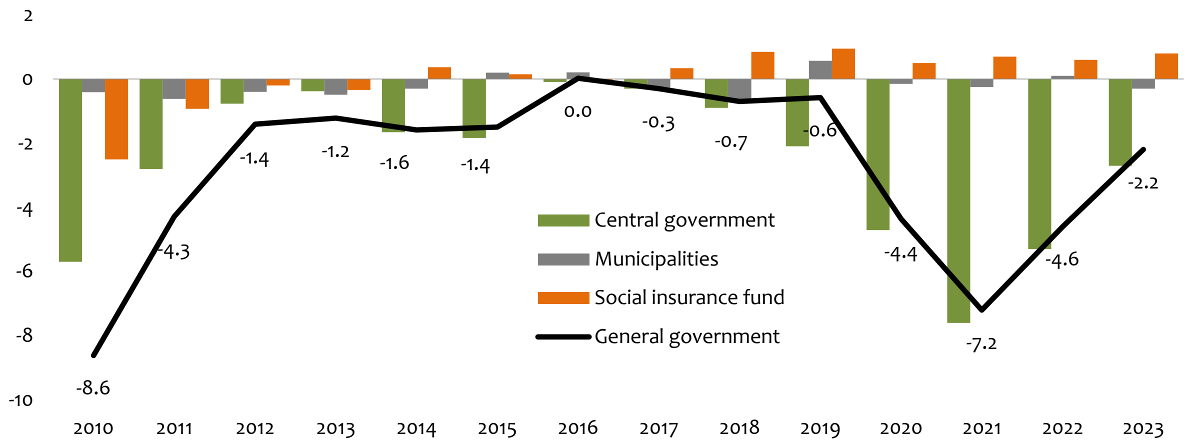
The Covid-19 pandemic has caused significant changes in the policies implemented so far. In 2020, the "General Exception Clause of the Stability and Growth Pact (SGP)" was activated in the EU, allowing EU countries to increase the general government budget deficit in 2020-2022 to the extent necessary to mitigate the economic damage caused by the pandemic. Considering the Russia-Ukraine war and all the consequences related to it, the SIP general exception clause is also valid in 2023.

As a result of the Covid-19 pandemic, the budget deficit in Latvia increased to 4.4% of GDP in 2020, or 1.3 billion euro, but in 2021 – up to 7.2% of GDP or 2.4 billion euro. In 2022, it decreased slightly and was 4.6% of GDP or 1.8 billion euro. The budget deficit of the general government in 2023 was 0.9 billion euro or 2.2% of GDP. The Saeima has approved the budget for 2024 with a deficit of 2.8% of GDP.

General Government Budget

	2020	2021	2022	2023
Revenues, bn euro	11.5	12.5	13.9	15.6
% of GDP	38.0	37.5	36.3	38.7
Expenditures, bn euro	12.8	14.9	15.7	16.5
% of GDP	42.4	44.7	40.9	41.0
Net, bn euro	-1.3	-2.4	-1.8	0.9
% of GDP	-4.4	-7.2	-4.6	-2.2

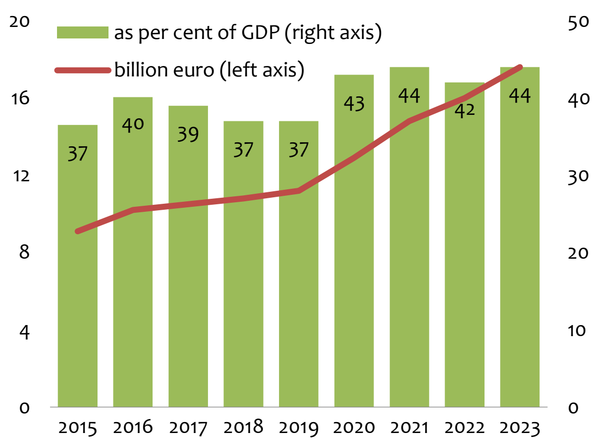
General Government Budget Balance by Sector
as per cent of GDP



Despite the increase in the budget deficit in recent years, the general government debt level in Latvia is one of the lowest in the EU. The outbreak of Covid-19 led to the need to provide a significant amount of funding to mitigate the impact of the crisis caused by Covid-19. In 2021, the amount of national debt increased to 44.4% of GDP, or 14.8 billion euro. Since nominal GDP growth is rapid in conditions of high inflation, in 2022 it decreased to 41.8% of GDP, but in nominal terms it increased to 16 billion euro. In 2023, the national debt reached 17.6 billion euro, or 43.6% of GDP. It should be noted that the increase in the general government debt in 2023 was influenced by the issuance of three new Eurobonds.

In 2024, general government debt is predicted to be 41% of GDP. It is expected that in the medium term the debt condition of 60% of GDP set by the Law on Fiscal Discipline will be respected and the general government debt of Latvia will stabilize at a level below 40% of GDP.

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

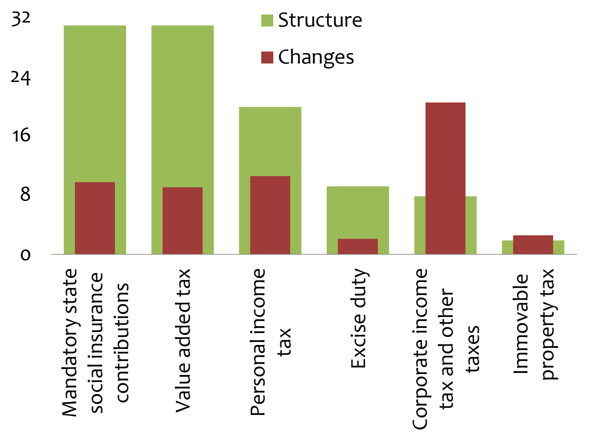


BUDGET REVENUES AND EXPENDITURES

Since 2011, the revenues of the state's consolidated budget have been increasing. As a result of the Covid-19 crisis, budget revenues only slightly decreased in 2020. As economic growth resumes, the positive trend continues. Budget revenues in 2023 increased by 8.7%, compared to 2022.

Tax Revenues

structure and changes in 2023, compared to the previous year, as per cent



Revenue growth in 2023 can be observed in all major tax groups. Positive labor market indicators and wage growth were reflected in the dynamics of employment taxes. Income from personal income tax in this period was 10.5% higher than a year ago, and income from state social insurance contributions – by 9.7%.

Consolidated General Government Budget

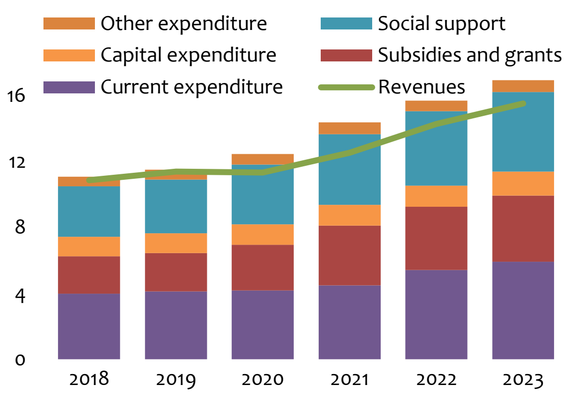
	billion euro			changes as per cent
	2021	2022	2023	2023
Revenues:	12.5	14.3	15.5	8.7
Tax revenues:	10.0	11.6	12.6	9.0
Mandatory State Social Insurance Contributions	3.0	3.5	3.8	9.7
Value added tax	2.8	3.6	3.9	9.0
Personal Income Tax	1.9	2.3	2.5	10.5
Corporate Income Tax	0.3	0.4	0.5	43.8
Excise Duty	1.1	1.1	1.2	2.1
Immovable Property Tax	0.2	0.2	0.2	2.6
Other taxes	0.4	0.4	0.4	0.2
Other revenues	2.5	2.7	2.9	7.5
Expenditures	14.4	15.7	17.0	7.9

The dynamics of consumption taxes in 2023 was determined more by the trends in the growth of wages and consumer prices. Revenues from value added tax increased by 9% and excise tax – by 2.1% during the year. The dynamics of capital tax revenues was positive: company income tax revenues increased by 43.8% and taxes on immovable property – by 2.6%.

State consolidated budget expenditures in 2023 were 7.9% higher than in 2022. The dynamics of budget expenditures was determined by lower allocation of funds to support measures than in previous years and much better acquisition of EU funds, as well as increasing expenditures for compensation. The allocation of funds to support measures for Covid-19 decreased significantly, the previous support for compensating the prices of energy resources and supporting Ukraine remained. The fastest growth rate was observed for capital expenditures – by 13.7%, while current expenditures – by 9%. Social support expenditure and expenditure on subsidies and grants grew more slowly – by 6.9% and 5.1%, respectively.

Consolidated General Government Budget Expenditures

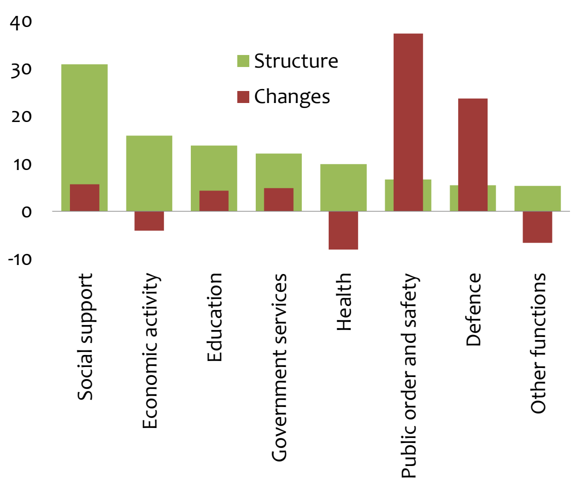
billion euro



The data of budget expenditures by functional categories show that in 2023 the areas with the highest growth rate were defense, public order and security, and social support.

Consolidated General Government Budget Expenditures by Functions

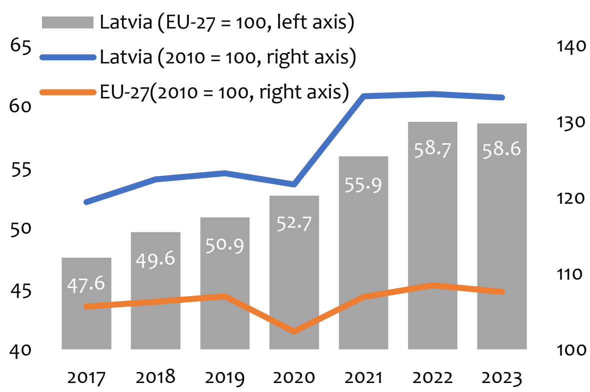
structure and changes in 2023, compared to the previous year, as per cent



PRODUCTIVITY AND COMPETITIVENESS

Productivity dynamics have been volatile in recent years, driven by adjustments in product and labour markets in response to external shocks. As economic activities resumed, productivity increased by 9.5% in 2021, but in 2022 it exceeded the previous year's level by only 0.2%. Also in 2023, economic growth was weak and productivity, compared to the previous year, decreased by 0.3%. In 2023, the GDP per employed person in the national economy of Latvia reached 58.6% (72.8% according to PPS) of the average EU level. Since 2019, the productivity gap with the EU average level (according to PPS) has decreased by almost 4 percentage points.

Productivity Dynamics



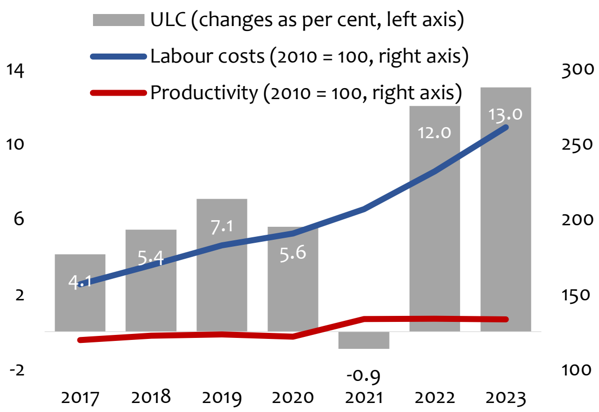
Labor costs continue to rise. Due to the increase in economic activities, labor costs increased by 8.5% in 2021, which was more moderate than the increase in productivity. Workers' compensation increased by 12.2%, and with productivity remaining at the previous year's level, this significantly worsened cost competitiveness. Also in 2023, labor costs are growing rapidly. Compared to the previous year, labor costs increased by 12.6%, significantly exceeding productivity dynamics. Nominal ULC increased by 13%, the fastest increase in ten years.

In the Baltic neighboring countries, the nominal ULC has been growing faster than in Latvia in the last three years. In 2023, compared to 2020, the nominal ULC in Latvia increased by 25.4%, in Estonia – by 32.8%, and in Lithuania – by 36.5%. Overall, the growth of ULC in the Baltic States is much faster than the EU average (10%) and this indicator has significantly exceeded the threshold set by the EU Alert Mechanism (MIP) (9%).

The real effective exchange rate (REER) is increasing. The REER based on the consumer price index against 42 trading partner countries increased by 12.3% from 2019 to 2023, significantly exceeding the threshold set by the MIP.

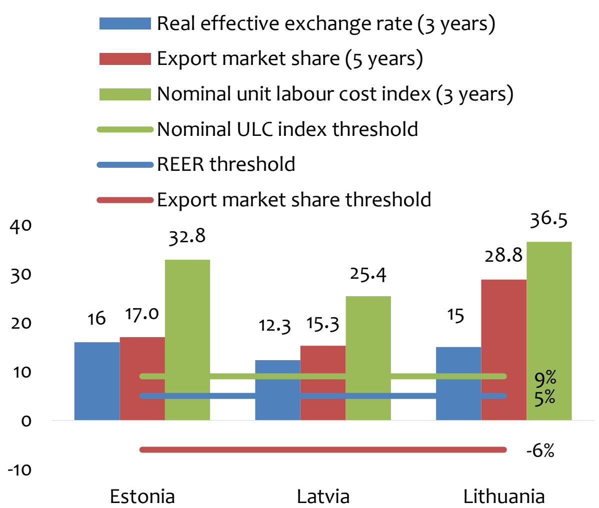
Although the share of Latvia's exports in the world markets is growing, the risks of a decrease in competitiveness are still very high. In 2018-2022, Latvia's export share in world markets increased by 15.3%, which was largely influenced by the positive changes in the goods export market in 2020. Since 2018, Latvia's share in the export market of goods increased by 19.9%, while the share of services – by 5.5%, which was determined by the decrease in the market share in 2019 and 2021, respectively by 3.4% and 4.7% due to the Covid-19 pandemic.

Labour Costs and Productivity



In the conditions of the slow dynamics of productivity, the increase in labor costs puts significant pressure on the cost competitiveness of Latvian entrepreneurs. The weakening of economic activities has had little effect on the labor market situation. This shows the urgency of the labor shortage problem for entrepreneurs and, despite the slowdown in economic activity, jobs are preserved. However, wages continue to rise as a result of high inflationary pressures. These trends are widening the gap between productivity and labor costs. Raising productivity is the key driver of competitiveness, and its persistently positive dynamics will largely be determined by structural changes in the Latvian economy towards higher value-added activities and knowledge-intensive industries.

Competitiveness Indicators
as per cent



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.

In the 2024 Alert Mechanism Report (AMR), Latvia is not marked among the 11 EU member states that were found to have macroeconomic imbalances.

The compilation of Latvian results (including statistical clarifications after the AMR publication) shows that in 2022, three indicators exceeded the indicative thresholds – nominal labor unit cost index, economically active labor force level, and youth unemployment rate.

AMR has noted that there has been a rapid decrease in inflation – from a peak of 22% in September 2022, compared to September of the previous year, to 2.4% in October 2023, compared to October of the previous year.

External sustainability is affected by the current account deficit, which remains relatively large, but with a tendency to decrease. This is supported by improvements in the commodity balance and capital account. The net international investment position remained stable in 2022 and was -26.5% of GDP. Latvia's liabilities largely consist of government bonds and foreign direct investments, exceeding the volume of other financial instruments.

Cost competitiveness issues are not abating. Nominal labor unit costs have been rising rapidly for several years. For 2024, a slowdown in the rate of growth of unit labor costs is predicted.

The ratio of non-financial corporate debt and household debt to GDP is low. The debt ratio of non-financial companies remained unchanged in the first half of 2023, while household debt continued to decrease.

House price growth accelerated in the first half of 2022, but then decreased. House prices are estimated to have been overvalued by 12% as a result of recent growth.

The banking sector is stable and well capitalized, their profitability is close to the EU average. The share of non-performing loans is declining. Credit dynamics are slow.

List of Indicators for the Macroeconomic Imbalances Procedure for Latvia

	Threshold	2018	2019	2020	2021	2022	2023
External imbalances and competitiveness							
Current account (% of GDP, 3-year average)	-4%/6%	0.9	0.2	0.7	-0.5	-1.9	..
Net international investment position (% of GDP)	-35%	-45.1	-40.1	-34.0	-27.3	-26.5	..
Real effective exchange rate – 42 partner countries, HICP deflator (% changes over the last 3 years)	±5%* & ±11%	4.9	3.8	6.1	2.2	4.8	12.3
Export market share – % of world export (% changes over the last 5 years)	-6%	8.2	3.1	20.3	13.1	15.3	..
Nominal unit labour costs index (% changes over the last 3 years)	9%* & 12%	14.7	17.5	19.2	12.0	17.2	25.4
Internal imbalances							
House price index (% annual changes)	6%	6.3	5.5	3.5	7.2	0.4	-3.9
Private sector credit flow (% of GDP, consolidated)	14%	-0.2	1.1	-1.8	0.9	3.0	..
Private sector debt (% of GDP, consolidated)	133%	69.8	66.4	65.2	58.5	52.5	..
General government debt (% of GDP)	60%	37.0	36.7	42.2	44.0	41.0	..
Unemployment rate (3-year average)	10%	8.6	7.5	7.3	7.3	7.5	7.0
Financial sector liabilities (% annual changes)	16.5%	-3.5	4.6	10.6	13.3	4.1	..
Employment indicators							
Economically active population – % of population aged 15-64 (% over the last 3 years)	-0.2 pp	1.9	1.1	1.1	-1.8	-0.5	-1.4
Long-term unemployment rate – % economically active population (% changes over the last three years)	0.5 pp	-1.5	-1.7	-1.2	-1.1	-0.7	-0.6
Youth unemployment rate – % of economically active population (% over the last 3 years)	2 pp	-4.1	-4.8	-2.1	2.6	2.6	-2.6

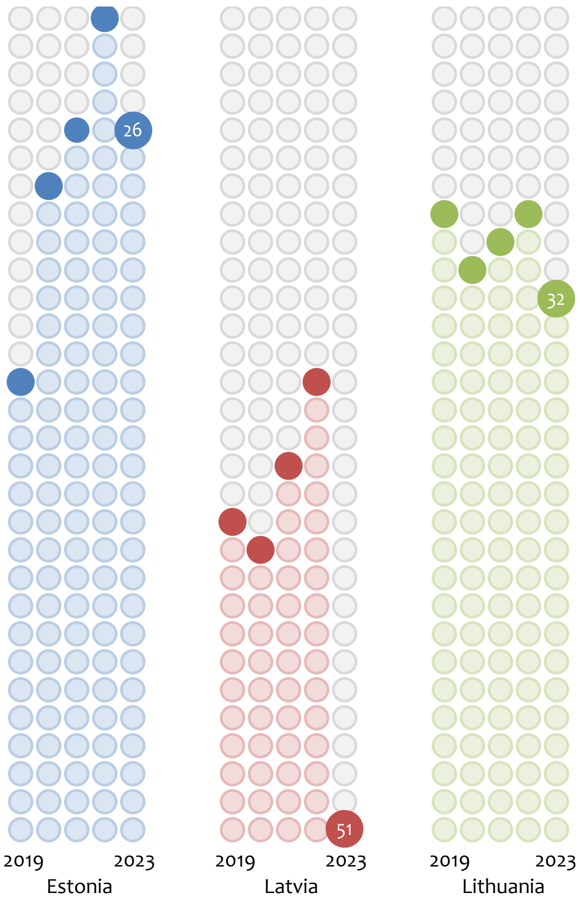
* – Euro area countries; .. – no data;
Note: highlighted numbers exceed the thresholds set out in the Early Alert Mechanism Report.
Source: List of Indicators for the Macroeconomic Imbalances Procedure for Latvia, *Eurostat*

2024 | 1 LATVIA IN INTERNATIONAL RANKINGS

The ratings created by the International Management Development Institute, the World Intellectual Property Organization, the European Commission and other organizations describe Latvia as a highly developed country that overcomes various external shocks with varying degrees of success, but at the same time maintains a high development potential.

In the World Competitiveness Ranking 2023, published annually by the International Institute for Management Development (IMD), Latvia is ranked 51st out of 64 countries, decreasing its position by 16 positions compared to 2022.

Baltic Countries in Global Competitiveness Ranking

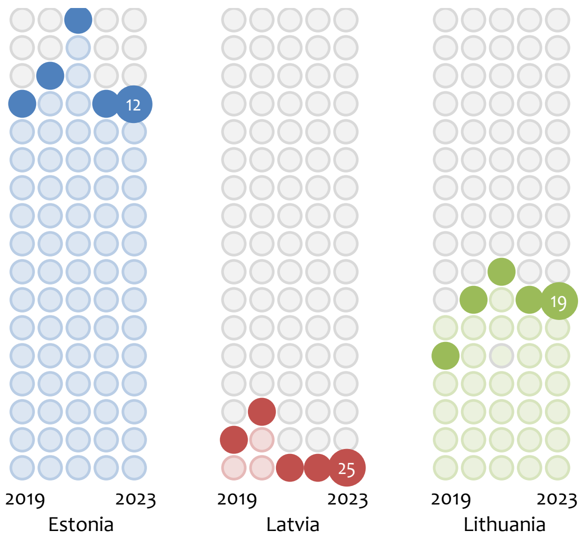


Source: IMD, *World Competitiveness Ranking 2023*

Factors that in 2022 were associated with concerns about Latvia's ability to maintain economic security at the start of Russia's aggression against Ukraine have had the largest impact on the rating drop. Rising energy prices led to high consumer price inflation, which in turn put pressure on wages and labor costs. There was a high risk of economic recession. As a result, the mood of entrepreneurs was reflected in the assessment of the government's work and in the assessment of business efficiency. Also, some long-term risks such as labor availability in the long term, the low level of stock market capitalization, etc. worsened the overall rating. However, at the same time, the evaluation recognizes that the level of foreign investment in relation to GDP is relatively high and that the main attractiveness factor of the economy is the skilled labor force.

In the European Innovation Scoreboard 2023 published annually by the European Commission, Latvia is ranked 25th among the 27 EU countries and is in the group of modest innovator countries. The report notes that over the past two years, Latvia's rating in points has improved due to both the increase in the number of people employed in the ICT sector and the increase in the number of people employed in science and technology.

Baltic Countries in European Innovation Scoreboard*

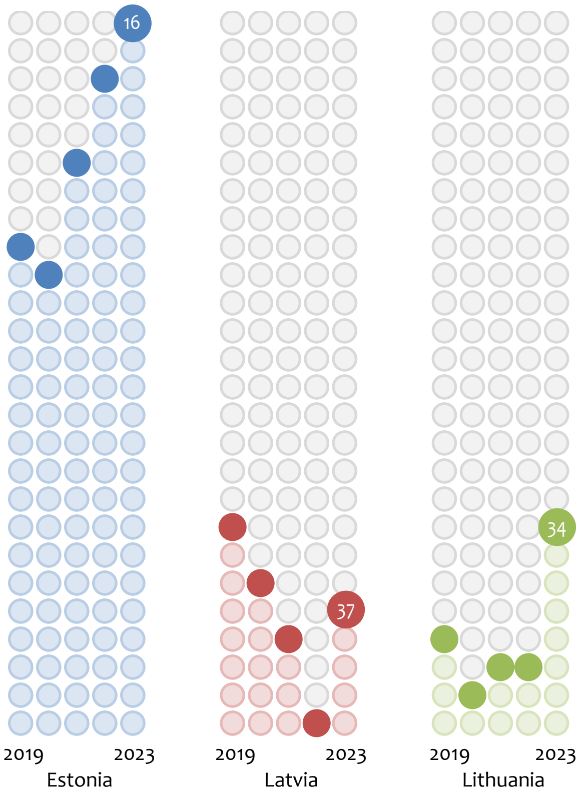


Source: *European Commission, European Innovation Scoreboard 2023*
** since 2010 excluding the UK.*

In the Global Innovation Index 2023 prepared by the World Intellectual Property Organization (WIPO), Latvia is ranked 37th among the 132 surveyed countries.

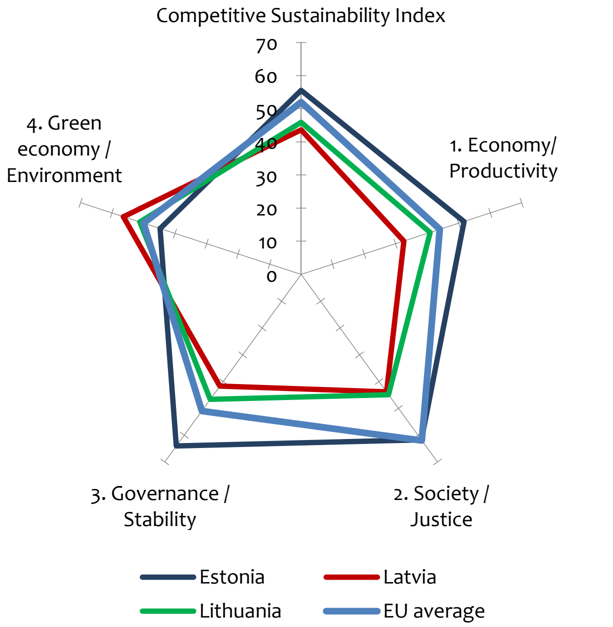
The strengths of Latvia have been highlighted: the proportion of secondary education students enrolled in universities, the number of foreign students, the use of ICT, ecological efficiency, the proportion of employed women with scientific degrees, high-tech exports, FDI net inflows, exports of cultural and creative services, the number of national feature films, exports of creative industries goods.

Baltic Countries in Global Innovation Index



Source: *Cornell University, INSEAD, WIPO, Global Innovation Index 2023: Innovation in the face of uncertainty*

Performance of the Baltic States in the Competitive Sustainability Index and its dimensions
(rating scale from 0 to 100)



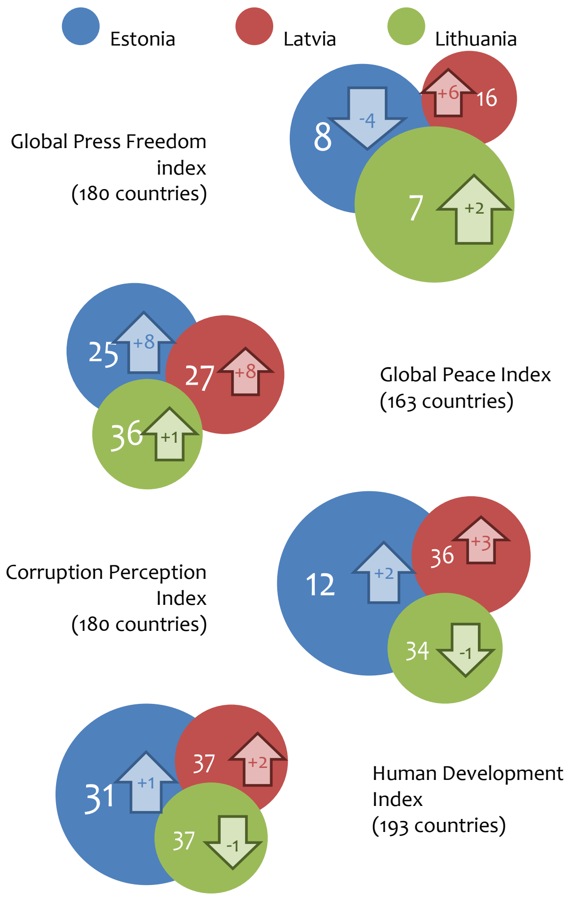
Source: *University of Cambridge Institute for Sustainability Leadership, Competitive sustainability index 2022*

In the 2022 Competitive sustainability index developed under the leadership of the Institute of Sustainable Management of the University of Cambridge, which measures competitiveness in connection with the transition to a smart, green and climate-neutral economy, Latvia is ranked 19th among the 27 EU countries and is in the group of moderately performing countries (Estonia – in 11th place and is included in the group of good performers, Lithuania – in 16th place and is included in the group of moderate performers).

The competitive sustainability index has 4 dimensions, of which Latvia's performance exceeds the EU 27 average in only one dimension – green economy and environment, thanks to preserved biological diversity, good water, forest and wind resources and their rational use.

In the World Press Freedom Index created by the international press and freedom of speech organization "Reporters without Borders", Latvia took 16th place in 2023 (180 countries were surveyed), improving its position by 6 positions compared to 2022.

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



Source: *Reporters Without Borders, 2023 World Press Freedom Index; The Institute for Economics and Peace, Global Peace Index 2023; Transparency International, Corruption Perceptions Index 2023; United Nations Development Programme, Human Development Report 2023/2024.*

In the World Peace Index created by the Institute of Economics and Peace, Latvia took 27th place in 2023 (surveyed 163 countries). Compared to 2022, Latvia has improved its position by 8 positions, as it has transferred part of its armament as aid to Ukraine, as well as provided social support to refugees from Ukraine, maintaining the security situation in the country.

In the Corruption Perception Index created by the international anti-corruption organization *Transparency International*, Latvia took 36th place in 2023 (out of 180 surveyed countries), improving its position by 3 places compared to 2022.

In the 2023/2024 Human Development Index created by the United Nations Development Program (UNDP), Latvia took 37th place (out of 193 surveyed countries), improving its position by 2 positions compared to the 2021 result.

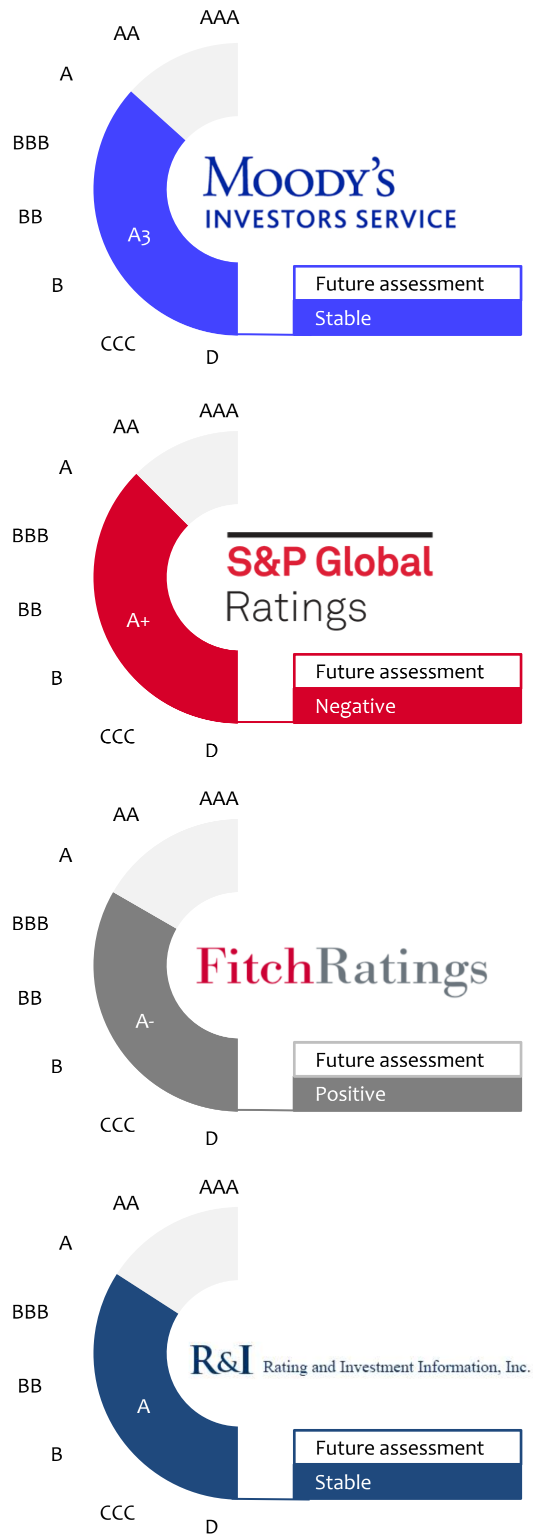
In February 2020, the international rating agency *S&P Global Ratings* raised Latvia's credit rating from the "A" level to the "A+" level, which is the highest credit rating level determined for Latvia so far. In December 2022, this credit rating agency was cautious in its assessments of the development of the economic situation in connection with the conduct of hostilities in Ukraine and high inflation, however, it confirmed that Latvia still corresponds to the "A+" level but reduced the future assessment from stable to negative. In the latest assessment of December 15, 2023, this credit rating agency maintained the credit rating and future assessment, basing it on the capacity of the Latvian government, membership in the eurozone and a moderate level of public debt, and praised the government's political course towards strengthening national security.

Other credit rating agencies have not changed their assessments of Latvia's credit rating since 2020, but the future assessment has only been changed by the credit rating agency *Fitch Ratings*, which on July 28, 2023, raised the future assessment of the credit rating from stable to positive, justifying it with Latvia's relative resilience to external shocks, exceeding pre-pandemic GDP levels. This credit rating agency stated that Latvia has managed to get rid of its dependence on energy imports from Russia relatively easily.

The credit rating agency *Moody's Investors Service* also recognizes that Latvia's financial situation is stable and that the relatively low general government debt level will be maintained at a stable and moderate level in the coming years. This credit rating agency predicts that the growth rate of Latvia's economy will recover in 2024, reaching 1.3%, in 2025 it will increase to 2.4%, and in 2026 to 2.9%, which will be facilitated by the acquisition of EU funds in areas such as national defense and security, strengthening of digital infrastructure, modernization of electricity transmission and distribution networks. An additional positive impact on the economy is also expected from the implementation of the Rail Baltica project.

The Japanese credit rating agency *R&I* has also concluded that in the medium term the growth of Latvia's economy will be stable, which will be facilitated by a favorable business environment and financing from EU funds available for investments.

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



Source: State Treasury