



Ministry of Economics of the Republic of Latvia



Central Statistical Bureau of Latvia



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THE NATIONAL ECONOMY OF LATVIA MACROECONOMIC REVIEW

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Central Statistical Bureau of Latvia

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

Telephone: 371 67 013 293
E-mail: macro@em.gov.lv
Internet site: <http://www.em.gov.lv>

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ECONOMIC SITUATION: BRIEF OVERVIEW

From 2011 to 2013 growth of the Latvian economy on average reached 4.4% annually. In 2014 the GDP increased by 2.4%. The growth was slower because of the weak economic growth in the EU countries and worsening of the economic situation in Russia.

Despite the tense geopolitical situation in the region, in 2015 the Latvian economy continued to grow. Since the 2nd quarter growth rates have increased, and the annual growth was 2.7%. Latvia was among the fastest growing economies in the EU.

In 2015 domestic demand kept increasing. The relatively rapid growth in the average wages and salaries, and the low inflation promoted rise of private consumption (an increase of 3.3%). In turn, the dynamics of investments in 2015 was modest (an increase of 2.6%). With the growth of the state budget expenditure, also public consumption continued to grow in 2015 (by 3.1%).

In recent years, the low demand in foreign markets has affected the dynamics of exports, and it has become slower. Despite the fact that in 2015 exports to Russia witnessed a significant

drop, the total exports of commodities has even slightly increased (by about 1%).

In breakdown by sector, growth in 2015 was observed in manufacturing (of 4.3%), where metalworking and wood processing industries had the most significant positive impact. Trade services witnessed a steady growth (of 3.7%). Good growth rates were recorded in accommodation and food services sector, as well as in information and communication (of 6% and 3.3%, respectively). In turn, volumes of transport services and construction lagged behind the results of 2014.

Situation in the labour market keeps improving. As compared to the 2014, in 2015 the number of the employed had increased by 1.3%, and unemployment rate dropped to 9.9 per cent.

A moderate price dynamics was observed in 2015, which was basically affected by global oil and food prices. In 2015 the average annual inflation is expected at 0.2 per cent.

The Ministry of Economics forecasts that in 2016, despite the weak external demand, GDP growth might reach 3.2 per cent.

Key Indicators of Economic Development

	2011	2012	2013	2014	2015	2016f
<i>increase over the previous year, as per cent</i>						
Gross Domestic Product	6.2	4.0	3.0	2.4	2.7	3.2
Consumer prices	4.4	2.3	0.0	0.6	0.2	0.0
<i>per cent</i>						
Employment rate	54.0	56.1	58.2	59.1	60.8	62.0
Unemployment rate	16.2	15.0	11.9	10.8	9.9	8.7
<i>as per cent over gross domestic product</i>						
General government sector balance	-3.4	-0.8	-0.9	-1.6	-1.4	-1.0
Exports-imports balance	-5.0	-4.5	-3.2	-2.2	-1.6	-2.2

f – forecast

THE EXTERNAL ECONOMIC ENVIRONMENT

Development of the global economy is still weak, and differs from region to region. In 2015 the global economic growth was slightly slower than in 2014. In the developed countries growth perspectives are gradually improving. In turn, in the developing countries the situation has worsened slightly, despite the fact that the growth rates are relatively high there.

Since 2013 the economic situation in the EU has been gradually improving. In the 4th quarter of 2015 as compared to the 3rd quarter, the GDP rose by 0.3%, which is 1.8% more than in the previous year (in the euro area 0.3% and 1.5%, respectively). In 2015 GDP in the EU increased by 1.9% (in the euro area – by 1.6%). The latest business tendency surveys show that economic activities in the EU are slowly increasing. The euro area still faces fiscal problems.

The US economy in the 4th quarter of 2015 witnessed a notable increase, and as compared to the 3rd quarter the GDP rose by 0.3%, exceeding the level of the previous year by 1.9%.

In 2015 the US economy grew by 2.4%. Economic growth was promoted by increase in investments, government expenditure, personal consumption and exports.

Asian countries have overcome the global crisis more successfully than countries of other regions; however, lately growth has been slowing down. China shows the slowest growth since the beginning of the 90-ties, negatively affecting the growth of the global economy.

The economic situation in Russia continues to worsen. In the 4th quarter of 2015 the GDP was 3.8% below the level of the previous year, and altogether in 2015 dropped by 3.7%. Due to the decrease in oil prices and value of the Rouble, the economic recession of Russia is deepening and forecasts show that recession will continue also in 2016. A high inflation still has a negative effect on private consumption. Geopolitical uncertainty significantly influences investor confidence. The European Commission forecasts 1.2 per cent recession in Russia in 2016.

Global Economic Growth

GDP, per cent changes

	2012	2013	2014	2015	2016f
World	3.5	3.2	3.3	3.0	3.3
USA	2.2	1.5	2.4	2.5	2.7
Japan	1.7	1.6	-0.1	0.7	1.1
China	9.6	8.0	7.3	6.9	6.5
CIS, of which	3.5	2.1	0.9	-3.1	-0.3
Russia	3.4	1.3	0.6	-3.7	-1.2
European Union, of which:	-0.5	0.2	1.4	1.9	1.9
Germany	0.4	0.3	1.6	1.7	1.8
Sweden	-0.3	1.2	2.3	3.6	3.2
United Kingdom	1.2	2.2	2.9	2.3	2.1
Lithuania	3.8	3.5	3.0	1.6	2.9
Estonia	5.2	1.6	2.9	0.9	2.1

Source: European Commission, f – forecast

GROSS DOMESTIC PRODUCT: EXPENDITURE

After a rapid economic growth in 2005-2007 when the average annual GDP growth rate almost exceeded 10%, in 2008 due to the global financial crisis the Latvian economy experienced recession. During the crisis the GDP declined by 22.5%, falling to its lowest point in mid-2010.

From 2011 to 2013 growth of the Latvian economy on average reached 4.4% annually, which was among the best growth indicators in the EU. In 2014, the GDP growth was slower – 2.4 per cent.

In 2015 the GDP grew by 2.7%, which is regarded as a very good result, given the geopolitical situation in the region. Despite the fact that during the past few years quite a rapid increase was observed in the Latvian economy, the GDP still lags behind the pre-crisis level of 2007 by 4.9%.

In the 1st quarter of 2015, the GDP grew by 1.8%, in the 2nd quarter – by 2.7%, in the 3rd quarter – by 3.3%, and in the 4th quarter – by 2.7% as compared to the year before.

Still the comparatively rapid growth of the average wages and salaries, as well as the low inflation raise purchasing power of the population. As compared to the 3rd quarter, in the 4th quarter of 2015, private consumption rose by 0.3% (according to seasonally adjusted data), and exceeded the previous year's level by 2.4%; altogether private consumption grew by 3.3% in 2015.

In 2015 government consumption kept increasing – in the 4th quarter it grew by 2%, in 2015 reaching 3.1 per cent.

Investment dynamics in the recent years has been very volatile. After a considerable growth in the 3rd quarter of 2015, a moderate increase in investments could be observed in the 4th quarter, with the annual growth accounting for 1.1%. In 2015 investments grew by 2.6 per cent.

Gross Domestic Product
2004 = 100



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

	2010	2011	2012	2013	2014	2015
Gross Domestic Product	-3.8	6.2	4.0	3.0	2.4	2.7
Private consumption	2.8	3.0	3.2	5.1	2.3	3.3
Public consumption	-8.1	3.0	0.3	1.6	4.9	3.1
Gross fixed capital formation	-19.8	24.1	14.4	-6.0	0.5	2.6
Exports	13.4	12.0	9.8	1.1	3.1	1.0
Imports	12.4	22.0	5.4	-0.2	0.8	1.6

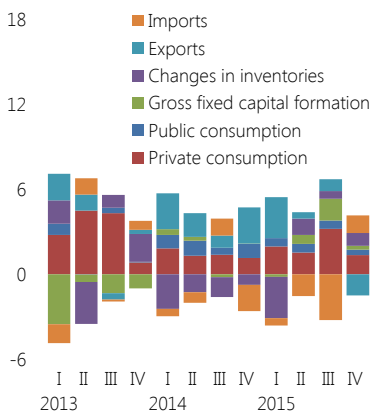
In 2010 -2012 exports of Latvian goods and services increased very sharply, serving as the main driving force for the development of the national economy. Export volumes in 2012 exceeded the pre-crisis level by almost 22%. Since 2013, due to the low demand in external markets, export dynamics has become more moderate. Slower than expected growth in the EU countries and weakening of the economic situation in Russia had a notable effect on the Latvian exports in 2014. Export volumes rose by 3.1 per cent.

In the 4th quarter of 2015, export volumes dropped by 2.5%, as compared to the 4th quarter of 2014. Despite the fact that exports to Russia witnessed a significant drop, in 2015 the total volume of exports increased by 1%. Exports of goods increased both to the EU countries, as well as to the third countries. Also the total exports of services showed growth.

After a considerable drop during the crisis, in 2010 and 2011 imports grew quite rapidly. Since mid-2012 import dynamics has become more moderate. In the 4th quarter of 2015, import volumes decreased by 2%, compared to the 4th quarter of 2014, but altogether in 2015 grew by 1.6%. In 2015 exports-imports balance was -1.6% of the GDP.

In 2016 growth will be determined by the development of the domestic demand. It will be promoted by growth in wages and salaries, as well as by decrease of the level of unemployment. Investments will play an important role. Events in the external environment will also have an effect on exports, which means that a rapid growth of exports is most likely not to be expected.

Expenditure of Gross Domestic Product
contribution to changes over the corresponding quarter of the previous year, as per cent



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

	2013		2014				2015			
	IV	I	II	III	IV	I	II	III	IV	
Gross domestic product	2,8	2,7	2,3	2,3	2,1	1,8	2,8	3,5	2,7	
Private consumption	1,4	2,9	2,1	2,2	2,0	3,1	2,4	5,2	2,4	
Public consumption	0,2	5,3	5,7	3,2	5,4	3,4	3,3	3,7	2,0	
Gross fixed capital formation	-3,6	2,3	1,2	-0,8	0,1	-1,0	2,9	6,0	1,1	
Exports	0,5	4,0	2,8	1,4	4,2	4,6	0,8	1,4	-2,5	
Imports	-1,0	0,8	1,2	-1,9	3,0	0,8	2,6	5,3	-2,0	

GROSS DOMESTIC PRODUCT: DEVELOPMENT OF SECTORS

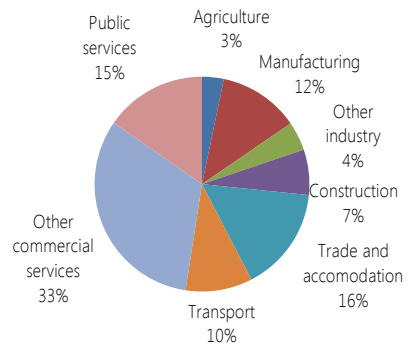
Thanks to the improvement of competitiveness and exports opportunities, tradable sectors were the first to recover from the crisis. In manufacturing, which is the main export sector, production volume in 2013 exceeded the level of 2009 by 22%. Growth of tradable sectors and increase of income from exports have also promoted development of domestic market-oriented sectors – commercial services, trade and construction. Contribution of these sectors to the total growth has significantly increased over the past years, but the weak demand in exports markets in 2013 and 2014 limited the manufacturing growth.

In 2015 different sectors of the national economy had different development trends. Manufacturing significantly promotes the growth of the economy, and manufacturing volumes in 2015 rose by 4.3% as compared to the previous year.

In other sectors of the industry, despite the decline witnessed at the beginning of 2015, the overall growth of the sector amounted to 1.3%. Similar trends are observed in agriculture and forestry where in 2015 volumes rose by 5 per cent.

Despite the fact that construction growth rates increased sharply in 2014, already since the 2nd half of 2014 growth rates of the sector have been slowing down. In spite of the increase in construction volumes in the 3rd quarter of 2015, over the year they decreased by 1.1 per cent.

GDP Structure
2014, as per cent



Gross Domestic Product by Sectors
volume changes in per cent

	2010	2011	2012	2013	2014	2015
Gross Domestic Product	-3.8	6.2	4.0	3.0	2.4	2.7
Agriculture	-3.9	-1.7	7.4	1.2	1.6	5.0
Manufacturing	14.2	3.7	4.3	-1.2	-0.3	4.3
Other industry	-1.5	-5.2	-5.7	1.6	-3.1	1.9
Construction	-34.4	29.9	8.9	4.4	8.1	-1.1
Trade and accommodation	-1.6	2.9	1.3	4.2	2.3	4.0
Transport and storage	-4.9	17.9	5.5	0.2	3.2	-0.1
Other commercial services	-3.9	6.1	5.1	3.9	1.6	2.4
Public services	-6.9	3.0	-0.3	2.4	3.4	3.0

The decline was due to drop in construction volumes, both in residential and non-residential sector. The negative trends can be partly explained with the transitional period of the structural funds, which will also continue in 2016.

In 2015 the volume of services rendered in the transport and storage sector remained at the level of the previous year. To a great extent the small volume of provided services was due to a decline in freight turnover at ports and railways.

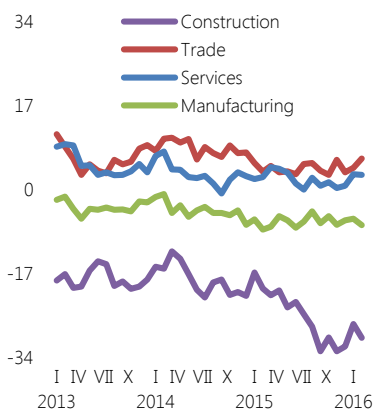
The volume of services provided in trade sector grew by 4% in 2015. At the beginning of the year increase of volumes was quite moderate; however, from the 2nd quarter it started growing more rapidly. Trade sector was positively affected by rise of private consumption and increase of retail trade turnover, which in 2015 was 4.9% higher than a year before.

Growth in the commercial services sector was moderate in 2015 (just like in 2014). Over the year the volume of commercial services rose by 2.4%. Increase was mostly advanced by growth in real estate activities, in information and communication, as well as in arts, entertainment and recreation.

As government expenditure continues to increase, volume of services provided in public services sectors also rises – in 2015 it grew by 3 per cent.

Confidence Indicators by Sectors

by months, seasonally adjusted data



Gross Domestic Product by Sectors

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

	2014				2015			
	I	II	III	IV	I	II	III	IV
Gross Domestic Product	2.7	2.3	2.3	2.1	1.8	2.8	3.5	2.7
Agriculture	8.8	5.2	-6.4	3.3	-3.9	9.0	8.6	2.6
Manufacturing	1.2	0.1	-0.6	-1.7	4.4	5.9	3.7	3.2
Other industry	-7.4	-5.2	-1.6	2.3	-4.1	3.3	5.9	3.9
Construction	24.6	15.8	0.6	4.4	-0.1	-3.4	4.9	-6.2
Trade and accommodation	2.6	2.1	2.5	2.0	0.6	4.3	6.0	4.2
Transport and storage	5.1	2.2	2.3	3.1	-1.5	-4.3	1.7	3.5
Other commercial services	1.8	-0.1	4.0	0.9	1.6	3.5	0.5	3.9
Public services	3.4	3.5	3.2	3.4	4.0	3.1	3.6	1.9

MANUFACTURING

In 2013 production volumes in the sector remained at the level of 2012, but in 2014 manufacturing production output decreased by 0.3%. It was mainly affected by the low demand in export markets.

In 2015 manufacturing output increased by 4.3% as compared to 2014. Manufacture of computers, electrical and optical equipment, wood processing, manufacture of basic metals, as well as manufacture of machinery and equipment had the most significant effect on the growth of the manufacturing sector.

In wood processing, which is the largest manufacturing sector, production volumes are growing steadily. In 2015 production volumes increased by 7.1% as compared to the year before.

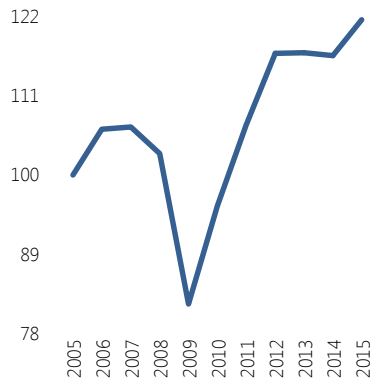
Significant contribution to the development of the manufacturing sector in 2015 was ensured by the metalworking sector, which is affected by resumption of the activity of one of the major industrial enterprises JSC "KVV Liepājas Metalurģs".

In 2015 manufacture of computers, electrical and optical equipment kept growing rapidly, reaching an increase of 16.7%. Over the year the volume of production of machinery and equipment, furniture, as well as of transport vehicles also increased.

Production volume manufactured in food industry in 2014 in general remained at the level of 2013, while in 2015 production volume went down by 4.6% as compared to the previous year. Development of the sector is affected by sanctions imposed by Russia on imports of separate food products.

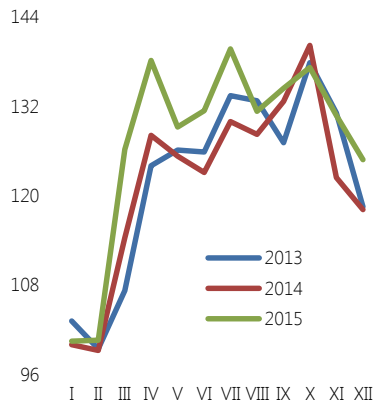
In 2015 production volumes also decreased in light industry, in manufacture of other non-metallic mineral products, and in chemical industry. In turn, production volumes in paper industry and publishing remained at the level of 2014.

Manufacturing output, 2005 = 100



Production Volume Index

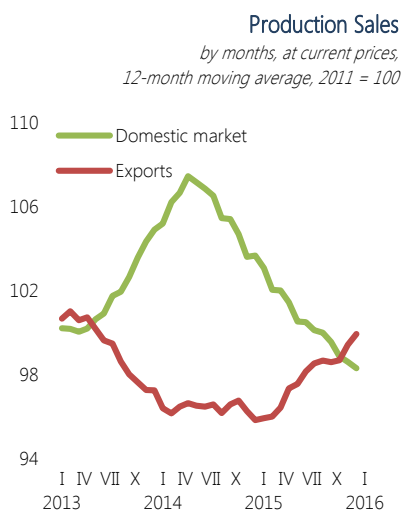
by months, not seasonally adjusted data, 2010 = 100



In January 2016 manufacturing volumes fell by 5.2%. However, a moderate growth is expected in manufacturing in 2016. In 2015 manufacturing turnover rose by 0.7%. Growth was affected by increase in exported commodities.

The volume of exported goods in 2015 rose by 4.3%, while turnover of products sold on the domestic market decreased by 5.2%. Wood processing, manufacture of electrical and optical equipment, manufacture of machinery and equipment as well as metal working had the most significant positive effect on the total turnover growth. In turn, manufacture of food, other non-metallic mineral products, as well as light industry had the most negative impact.

In 2015, 64% of total manufacturing production were exported. Almost $\frac{3}{4}$ of the total products exported are sold on the EU markets.



Main Indicators of Manufacturing

as per cent

	Structure of output	Structure of occupied jobs	Exports share in sales of sector	Volume changes		
				2014	2015	2016 Jan
Manufacturing – total	100	100	63.8	-0.3	4.3	-5.2
Food industry	23.6	20.6	34.3	0.1	-4.6	-7.6
Light industry	3.9	10.1	86.4	-13.6	-13.2	3.2
Wood processing	27.0	21.0	74.7	6.9	7.1	6.3
Paper industry and publishing	4.4	4.1	61.2	-0.6	0.0	5.3
Chemical industry	7.5	7.0	76.4	-2.6	-4.1	-18.8
Other non-metallic mineral products	5.9	4.5	48.0	1.2	-9.8	-2.0
Metals and metal articles	9.0	10.2	67.6	-10.5
Electrical and optical equipment	7.3	3.9	90.9	32.3	16.7	-10.2
Machinery and equipment	2.3	2.9	83.8	2.4	7.9	-12.4
Motor vehicles	3.5	3.3	88.0	-15.2	3.5	-14.6
Other industries	5.6	12.4	58.1	-12.0	3.5	-19.4

... no data available

INVESTMENTS

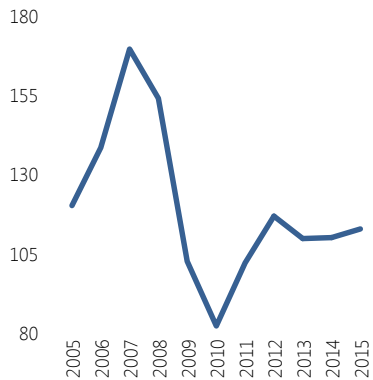
During the recent years investment dynamics has been moderate. Due to the crisis, the drop in the investments in the Latvian economy was almost four times greater than on average in the EU. In 2010 investments in the national economy of Latvia accounted for 42% of the level of 2007. With the stabilisation of the economy, investment activity is also growing; however, the annual pace is slower than during the years of rapid growth, and the amount of investments has not reached the pre-crisis level yet. In 2014 investments in the national economy of Latvia accounted for 23% of the GDP (in 2007 – 36.5%).

At the beginning of 2015 investment process was rather moderate; however, in the second half of the year investments grew more rapidly. Altogether in 2015 investments in the national economy of Latvia exceeded the level of the previous year by 2.6%. Mainly it was affected by the growth of investments in machinery and equipment, as well as in intellectual property products, thus compensating the drop of investments in dwellings.

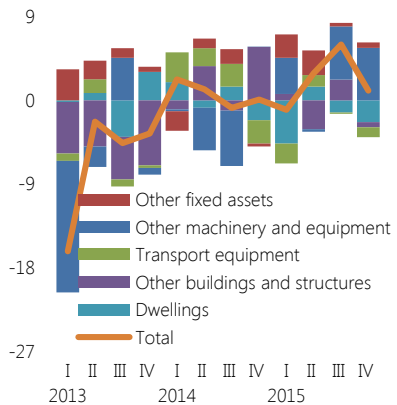
According to provisional data, in 2015 non-financial investments in production sectors lagged behind the level of the previous year by 1%. It was mainly due to drop in investments in the energy sector. In turn, investments in manufacturing increased by 6.5%, and accounted for almost 13% of the total investments in the Latvian economy. In services sectors investments rose by almost 5% in 2015, which was mainly affected by an increase in investments in transport and storage sector, as well as in real estate activities.

In 2015, FDI became more intensive. The attracted FDI flows in 2014 accounted for 1.4% of the GDP. In 2015 investments were 30% above the level of the previous year, and amounted to 2.4% of the GDP.

Gross Fixed Capital Formation
2004 = 100



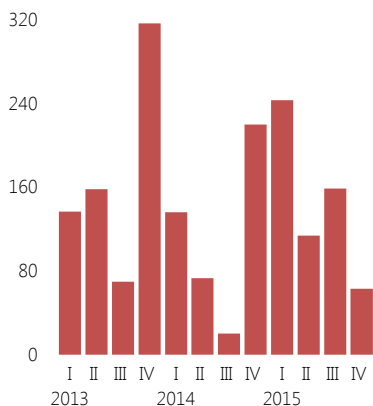
Gross Fixed Capital Formation
changes over corresponding quarter of the previous year, as per cent



According to the international investment balance at the end of 2015 FDI accrued in the Latvian economy reached EUR 13.4 bln (54.8% of the GDP). Over the year they rose by almost 10.6%. A larger share of accrued FDI in breakdown by sector was recorded in investments in bank intermediation, real estate activities and manufacturing. Sweden is the largest investor in the Latvian economy. At the end of September 2015 investments of Swedish entrepreneurs accounted for almost 18.8% of the total FDI accrued. Mainly these were investments in financial intermediation.

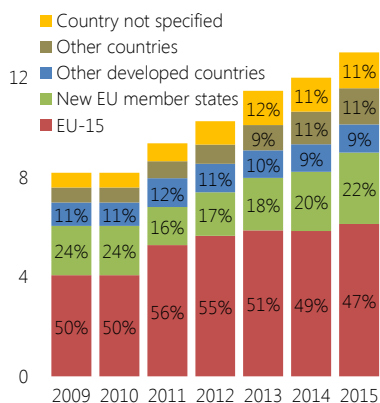
Foreign Direct Investment in Latvia

flows by quarters, mln euro



Foreign Direct Investment in Latvia

by groups of countries
balance at the end of period, bln euro



Foreign Direct Investment in Latvia by Sectors

mln euro

	Structure	Closing position				
	2015	2011	2012	2013	2014	2015
Agriculture	3.6	263.2	294.4	299.9	441.2	477.6
Manufacturing	11.5	1'114.4	1'200.3	1'403.5	1'455.7	1'539.3
Other industry	4.4	385.9	492.2	589.3	583.2	588.0
Construction	4.0	544.4	528.1	559.6	458.8	536.3
Trade and accommodation	10.3	1'329.2	1'416.1	1'472.9	1'325.5	1'372.8
Transport and storage	3.4	399.6	449.0	408.1	423.2	458.8
Financial and insurance activities	26.8	2'571.6	2'825.7	2'922.2	3'319.0	3'578.2
Other services	19.1	1'916.9	1'866.6	2'071.8	2'296.9	2'547.0
Not allocated economic activity	17.0	834.5	1'185.5	1'842.4	1'777.5	2'265.8
Total	100	9'359.8	10'257.9	11'569.6	12'081.0	13'363.6

FOREIGN TRADE

After the crisis foreign trade of Latvia developed very rapidly. As compared to 2009, exports of goods at current prices in 2012 had almost doubled, while imports of goods – increased by more than 80%. From 2009 to 2012 on average exports annually grew by 25%, and imports – by 23%. During this period, the largest contribution to growth in exports of goods was ensured by agricultural and food products, as well as by metalworking articles. Exports of wood processing, machinery and mechanical appliances, electrical equipment also witnessed significant growth.

Exports of Latvian goods in 2013 increased by 1.5% (at current prices), and in 2014 – by 2.3%. Rate of imports of goods slowed down even more rapidly – in 2013 increase accounted for 1%, and in 2014 – for 0.2 per cent.

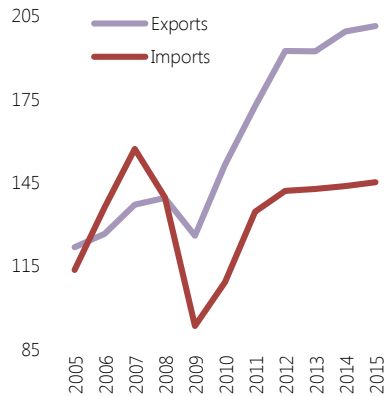
In 2015, exports of goods (just like in 2014) showed a moderate growth - of 1.3%. Exports of machinery and mechanical appliances, electrical equipment had the most significant positive effect on export development; in turn, export value of mineral products decreased. In 2015 imports of goods declined by 1.1 %. This reduction in the context of low oil prices, was mainly influenced by import value of mineral products.

In January 2016 exports of Latvian goods dropped by 10.9% (at current prices). In the first month of the year export growth was negatively affected by nearly all commodity groups. Increase was recorded only in exports of agricultural and food products (mainly of cereals), as well as of goods of chemical industry.

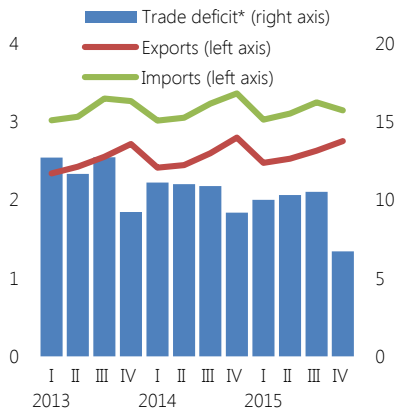
In January 2016 imports of goods declined by 12.2%. With the exception of agricultural and food products, where import volumes grew, in all other commodity groups imports witnessed decrease. Half of the total drop of imports was due to decrease in imports of machinery and mechanical appliances, electrical equipment.

At the beginning of 2016, with imports declining more rapidly than exports, trade balance improved. Export-import deficit in January amounted to 7.2% of trade turnover.

Exports and Imports of Goods
at constant prices, 2004 = 100



Exports and Imports of Goods
by quarters, in bln euro and as per cent



* as per cent of total trade turnover

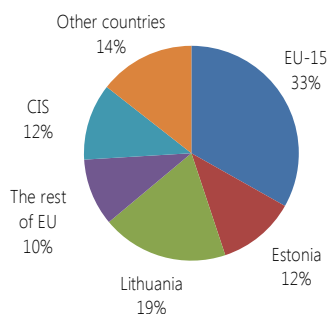
Export of commodities to the largest export market of Latvia – the EU countries - in 2015 rose by 1.9% (of which exports to Lithuania increased by 3.1%, and to Estonia – by 0.1%). Increase of the value of agricultural and food products had the greatest contribution to the growth of exports to the EU countries. Also exports of products of chemical industry and of machinery and mechanical appliances, electrical equipment increased. In turn, in January 2016 exports to the EU countries decreased by 13 per cent.

Exports to the CIS countries in 2015 decreased by 19.8% (of which to Russia – by 24.4%). Mainly this reduction was affected by drop in exports of agricultural and food products. Also exports of goods of chemical industry, as well as of wood and wood products witnessed decrease. During this period, exports to the CIS countries increased only in machinery and mechanical appliances, electrical equipment group. In January 2016 imports from the CIS countries decreased by 3.9 per cent.

In 2015 exports to other countries increased by 22.4%. This increase was largely driven by growth in exports of machinery and mechanical appliances, electrical equipment, as well as by increase in exports of agricultural and food products. In January 2016 exports to these countries increased by 1.7 per cent.

Structure of Exports of Latvian Goods

in 2015, as per cent



Exports and Imports of Latvian Goods

in 2015, as per cent

	Exports			Imports		
	structure	volume changes	contribution to changes	structure	volume changes	contribution to changes
Total, of which:	100	1.3	1.3	100	-1.1	-1.1
Agricultural and food products	18.8	-1.3	-0.3	15.5	-2.9	-0.5
Mineral products	7.0	-14.0	-1.2	12.0	-18.6	-2.7
Chemical products	10.2	4.0	0.4	16.0	3.8	0.6
Products of light industry	4.2	-9.7	-0.5	5.4	-9.7	-0.6
Wood and articles of wood	16.7	2.2	0.4	3.0	13.4	0.3
Metals and metal articles	8.7	-2.2	-0.2	8.0	-3.9	-0.3
Machinery and electrical equipment	18.4	10.7	1.8	21.8	7.6	1.5
Transport vehicles	5.1	0.6	0.0	8.2	5.7	0.4
Other goods	10.7	7.1	0.7	10.0	1.1	0.1

BALANCE OF PAYMENTS

Since 2011, the current account of balance of payments is at the level of a small deficit. On average during the last three years the negative balance of the current account amounted to 1.9% of the GDP, which does not exceed the indicative threshold set out in the EU early-warning mechanism. In 2015 the negative balance of the current account accounted for 1.2% of the GDP (in 2014 – 2%).

Current account of Latvia is mainly determined by changes in foreign trade balance. Latvia has foreign trade deficit that increased during the years of rapid growth, but dropped in the period of recession. The current account cyclical correction was largely driven by a decline in import volumes. With stabilisation of the economy, also import volumes increased. However, export of goods rose more rapidly than import, and the external trade balance improved. In recent years, the export and import dynamics has been slowing down, which is largely influenced by the geopolitical instability in the region.

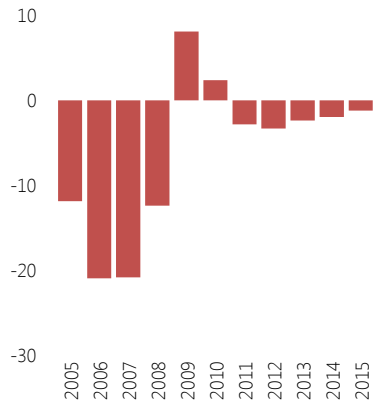
Since 2011, foreign trade deficit has been moderately decreasing. In 2014 it accounted for 9.6% of the GDP, and in 2015 – 8.7% of the GDP. External trade balance improved owing to decrease in import volumes.

Balance of services is positive, and covers foreign trade deficit by almost 80%. In 2015 exports of services increased by 4.9%, and imports of services grew by 8.1% compared to the previous year; the balance of services reached 7.2% of the GDP (in 2014 – 7.4%).

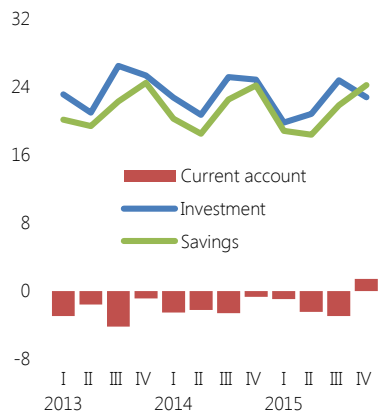
Over the past three years balance of preliminary income has been negative – an annual average of 0.3% of the GDP with relatively small fluctuations. In 2015 balance of preliminary income had a slight deficit (0.3% of the GDP).

Balance of financial accounts (excluding reserve assets) was negative in 2015 – 1.9% of the GDP (in 2014 – surplus 3.9% of the GDP). Changes in the financial account balance were mainly influenced by negative balance of other investments (8.8% of the GDP), due to reduction of bank assets in form of cash and investments which was almost entirely covered by surplus of balance of portfolio investments in the amount of 8.5% of the GDP.

Current Account Balance
as per cent of GDP



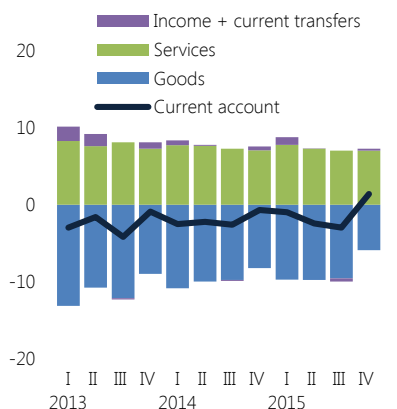
Current Account, Investment and Savings
by quarters, as per cent of GDP



The activity of foreign investors is gradually increasing. In 2015 the incoming FDI flows were 30% higher than a year before, and amounted to 2.4% of the GDP.

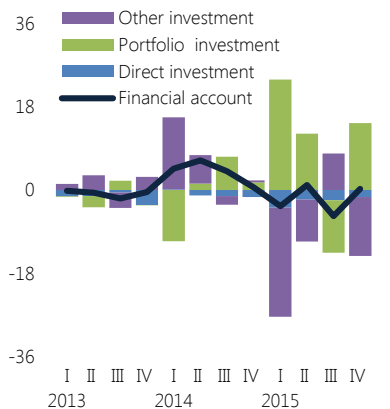
Current Account by Items

by quarters, as per cent of GDP



Financial Account by Items

without reserve assets, by quarters, as per cent of GDP



Latvian Balance of Payments by Items

as per cent of GDP

	2010	2011	2012	2013	2014	2015
A. Current account	2.3	-2.8	-3.3	-2.4	-2.0	-1.2
Trade balance	-8.3	-12.1	-11.7	-11.2	-9.6	-8.7
Service balance	7.3	7.3	7.4	7.8	7.4	7.2
Net income	1.1	0.0	-0.6	-0.3	-0.2	-0.3
Net current transfers	2.3	1.9	1.6	1.3	0.4	0.5
B. Capital account	2.0	2.1	3.0	2.5	3.2	2.8
C. Financial account**	2.1	4.0	-2.9	-0.7	3.9	-1.9
Direct investment stock	-1.5	-4.9	-3.3	-1.6	-1.0	-2.3
Portfolio investment*	2.9	1.8	-4.8	-0.1	0.2	9.2
Other investment	0.8	7.2	5.1	1.0	4.6	-8.8
D. Deviation	1.8	0.3	1.0	0.8	2.2	-2.2
E. Reserve assets	4.0	-4.5	3.6	1.7	-0.5	1.3

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

According to requirements of the sixth edition of the *Balance of Payments and International Investment Position Manual*, net items of current and capital accounts are formed by deducting debit from credit. Net items (*Financial account*, *Direct investment*, *Portfolio investment*, *Derived financial instruments* and *Other investment*) are formed by deducting liabilities from assets.

PRICES

After deflation, caused by the crisis, when 12-month consumer price inflation in February 2010 dropped to -4.2%, prices started to rise again. In 2011, 12-month consumer price inflation was 4%, and in 2012 – 1.6%. In 2013, consumer prices fell by 0.4%, while in 2014 there was a moderate rise in prices – of 0.2%. Drop in prices of oil and food during the past years had the most significant impact on consumer prices.

In 2015 there was a very moderate rise in prices – of 0.3%, while the average annual inflation was 0.2%. Increase in prices of electricity and alcoholic beverages, as well as drop in prices of fuel and food had the most notable impact.

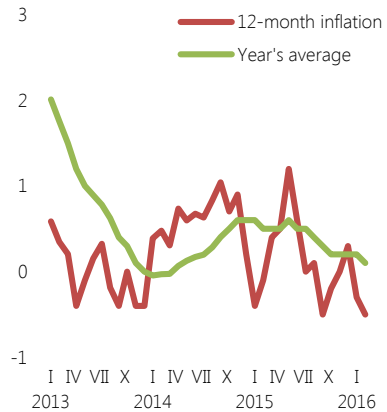
At the beginning of 2016 deflation was recorded. In the first two months of 2016 prices increased by 0.5%. In February, consumer prices during the year also decreased by 0.5%. Rise in prices of food (of 1.5%) and tobacco (of 2.4%), as well as decline in prices of wearing apparel and footwear (of 8.5%), of fuel (of 6.5%), heat (of 2.3%) and electricity (of 1.9%) had the most significant impact on price changes in January-February. It should be noted that in February global food prices dropped by 14.5% as compared to February of the previous year. Oil prices in the world during this period dropped by 45 per cent.

This year, inflation will still be affected by the low global oil and food prices. The significant drop in energy prices has led to reduced total costs, which now affect prices in the majority of commodity groups; therefore, the average annual inflation could be close to zero or even negative.

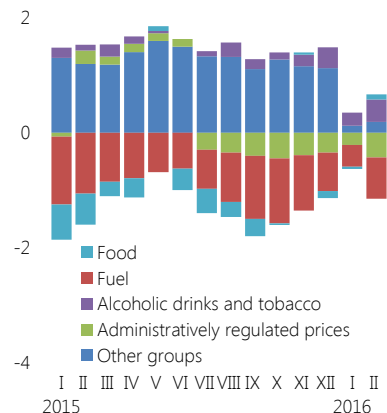
After the sharp increase in 2010-2012, in 2013-2014 producer prices were rising moderately. In 2015 they decreased by 1%, mainly due to a drop in waste management prices.

In February 2016, as compared to February 2015, the total level of producer prices in industry decreased by 2.7%; for products sold on the domestic market – by 4%, and for exported products – by 1.4 per cent.

Consumer Price Changes
by months, per cent



Impact of Goods and Services Groups on Consumer Price Index
contribution to 12-month changes, as per cent

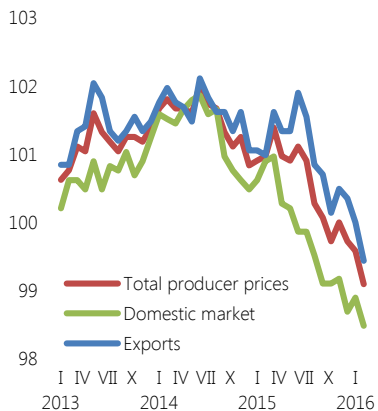


Producer prices in manufacturing in February 2016 decreased by 1.9%, as compared to February of the previous year. Producer prices of both, products sold on the domestic market and of exported products during the year decreased – by 2.4% and 1.5%, respectively, which is mainly related to the sharp drop in energy prices since mid-2014.

Over the year the most significant price rise was recorded in manufacture of chemical products and electrical appliances; in turn, wood processing, manufacture of food products, and manufacture of other non-metallic mineral products had the most significant lowering impact. Producer prices are still affected by the Russian embargo on food products, by the economic situation in the EU and Russia, as well as by the drop in the global prices of raw materials. It should be noted that during the year the global prices of energy and industrial and agricultural raw materials witnessed a rapid drop.

Producer Prices in Manufacturing

by months, December 2012 = 100



Consumer Price Changes

by months, as per cent

		Over the previous month	Over corresponding month of the previous year	Over December of the previous year	Annual average
2015	January	0.1	-0.4	0.1	0.6
	February	0.3	-0.1	0.3	0.5
	March	0.8	0.4	1.2	0.5
	April	0.6	0.5	1.7	0.5
	May	0.6	1.2	2.3	0.6
	June	-0.2	0.6	2.1	0.5
	July	-1.0	0.0	1.1	0.5
	August	-0.5	0.1	0.5	0.4
	September	-0.1	-0.5	0.4	0.3
	October	0.3	-0.2	0.7	0.2
	November	0.0	0.0	0.7	0.2
	December	-0.3	0.3	0.3	0.2
2016	January	-0.6	-0.3	-0.6	0.2
	February	0.1	-0.5	-0.5	0.1

MONETARY INDICATORS

Since 2010, the situation in the financial sector has been gradually improving: deposit volumes are increasing, corporate and household crediting is slowly recovering, and the quality of loan portfolios – improving.

The total loan portfolio of banks is still negative; however, the decline rate is slowing down. Compared to the corresponding period of 2014 the balance of loans at the end of the 2015 declined by 1.8%. Outstanding mortgage loans decreased by 5.3%, while growth was recorded in other credit positions, with the most rapid increase in outstanding consumer loans (of 5.8%).

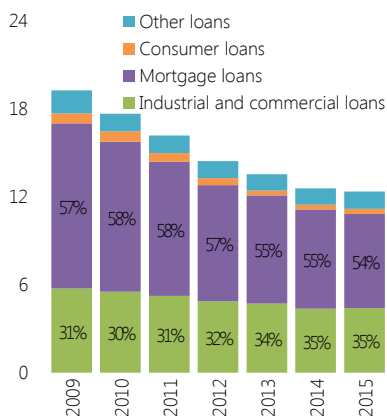
In 2015 the volume of new loans grew by 20%. In the 4th quarter of 2015, the volume of new loans granted to enterprises increased by more than a half as compared to the previous year, and accounted for EUR 240.3 mln or 34% of the total volume of new loans. Positive trends can also be observed in household crediting – in the 4th quarter the volume of new loans grew by 18% as compared to the previous year, and amounted to EUR 119.1 mln or 17% of the total amount of new loans. Also the amount of new loans for purchase and reconstruction of dwellings increased.

After a significant increase in first half of 2015, at the end of the year the share of credits granted to non-residents in the total loan portfolio decreased.

From 2010 to 2014 the quality of credit portfolio improved significantly, which was mainly related to the improvement of economic situation, as well as to writing off bad loans. During the past two years the quality of credit portfolio did not change significantly. At the end of 2015, 10.9% of loans in the total credit portfolio of the banking sector were with overdue payments – 1.4 percentage points less than a year ago.

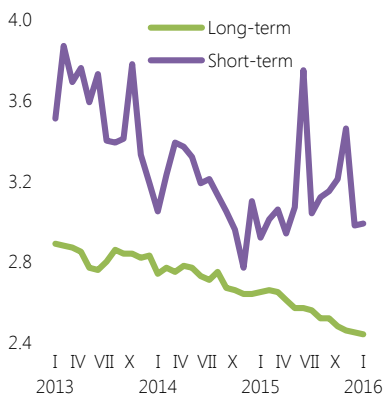
Loans Issued to Residents

at the end of the period, billion euro



Average Weighted Interest Rates (Balance) for loans to non-financial companies

by months, as per cent

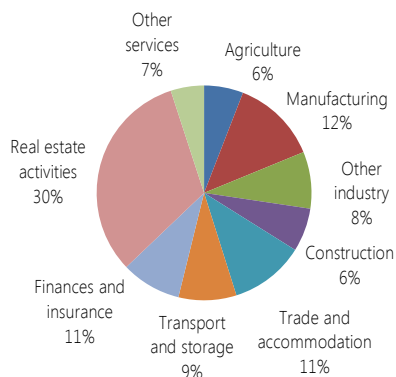


Deposit volumes keep growing; however, the growth rate is declining slightly, and at the end of 2015 deposit volumes exceeded the level of the previous year by 4.8%. Non-resident deposits rose more rapidly and in 2015 accounted for 53% of the total volume of deposits.

Interest rates (outstanding amounts) of long-term loans issued to non-financial corporations almost do not change, in January 2016 accounted for 2.5%. Short-term interest rates dropped to 3 per cent.

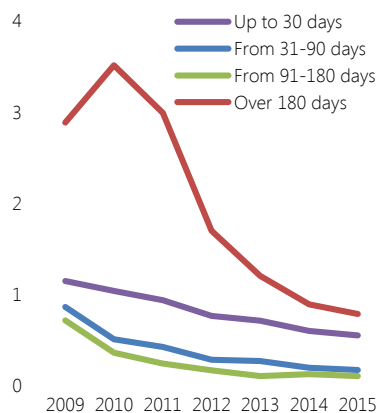
Structure of Loans Issued by Sectors

at the end of 2015, as per cent



Loans with Overdue Payments

at the end of the period, bln euro



Monetary Indicators of the Banking System of Latvia

	2011	2012	2013	2014	2015	2016 Jan
<i>at the end of period, bln euro</i>						
Net foreign assets	-0.3	0.9	1.2	-1.8	-3.6	-2.6
Net domestic assets	9.5	8.8	8.6	11.3	13.9	12.8
Domestic loans	15.7	13.7	13.5	12.6	13.4	13.3
Other assets (net)	-6.2	-4.9	-4.8	-1.3	0.5	-0.4
Broad money M2X	9.2	9.6	9.8	9.4	10.3	10.2
Cash in turnover (without vault cash balance)	1.5	1.5	0.7	3.7	3.8	3.7
Deposits of individuals and companies	7.7	8.1	9.2	9.5	10.3	10.2
<i>changes as per cent</i>						
Domestic loans	-1.5	-13.1	-1.4	-5.9	6.1	0.2
Broad money M2X	1.5	4.5	2.0	-3.6	9.0	10.3
Cash in turnover (without vault cash balance)	28.8	4.1	-56.6	461.0	2.6	6.9
Deposits of individuals and companies	-2.4	4.5	13.2	-3.6	9.0	10.3
Gross Domestic Product at current prices	13.0	7.7	4.4	3.6	3.4	-

GOVERNMENT BUDGET

To stabilise the fiscal situation in the country, during the crisis period (from 2008 to 2012) Latvia consolidated its budget. General government budget deficit was reduced from 9.1% of the GDP in 2009 to 0.9% of the GDP in 2013. In 2014, general government budget deficit was 1.5% of the GDP, which was mainly determined by one-off measures. The government aims at maintaining low budget deficit.

As the economic situation was improving, also budget revenues grew in 2015. The total budget revenues accounted for EUR 8 822.6 mln, which was 3.4% more than in 2014. Total tax revenue during this period increased by 4.9%. At the beginning of 2016, budget revenues continued to grow, and exceeded the level of January-February 2015 by 9 per cent.

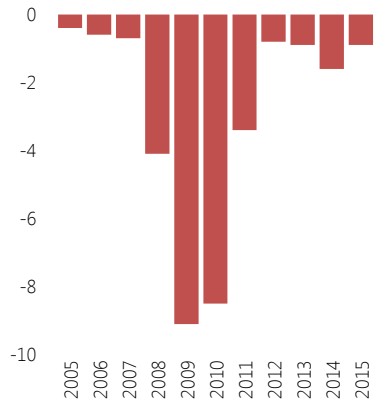
Employment taxes account for almost a half of the total tax revenues. Mandatory social contributions and personal income tax revenues in 2015 increased by 3.7%. The increase was promoted by the growing employment rate and wages and salaries, as well as by the increased minimum wage. In 2015 revenues from labour force taxes were affected by changes in the tax policy – reduction of personal income tax rate to 23 per cent.

In 2015 also income from taxes on consumption increased by 5.8%. In the group of taxes on consumption Value Added Tax revenues had the most significant role. In 2015 Value Added Tax revenues rose by 5.5 per cent.

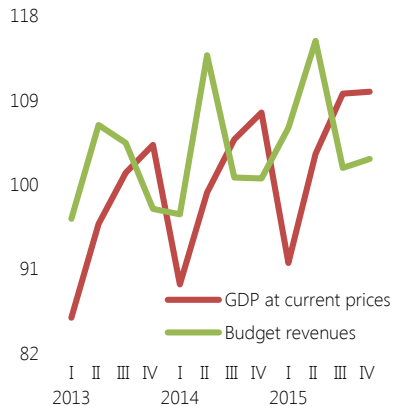
All in all at the beginning of 2016 tax revenues continue to grow in all tax groups.

Since 2011 state budget expenditure has also been gradually increasing. In 2015 budget expenditure accounted for EUR 9'194.8 mln, which is 2.9% more than in 2014. At the beginning of 2016 budget expenditure decreased by 0.8% as compared to January-February 2015.

Budget Balance
as per cent of GDP

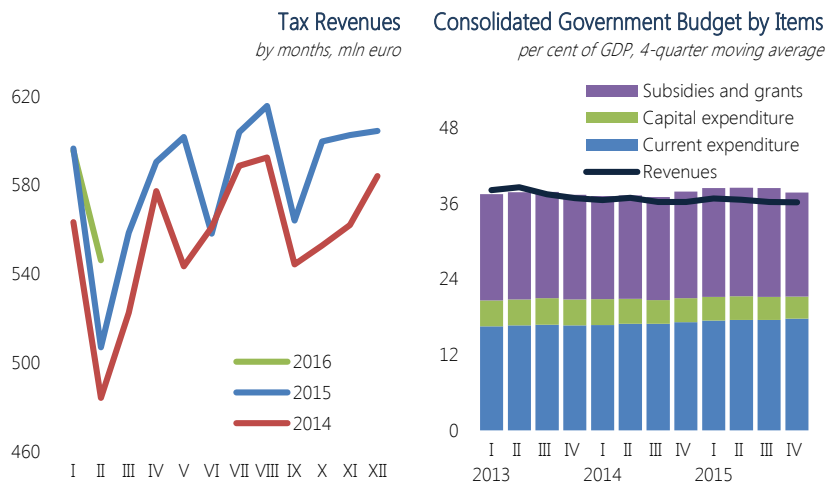


GDP and Budget Revenues
2012 Q4 = 100



Capital expenditure showed the most rapid growth – of 5.5%; in turn expenditure on subsidies and grants decreased by 0.2% and 4.8%, respectively. These growth trends of different expenditure groups are similar also in 2016.

In 2015 the expenditure dynamics of functional categories was different. Expenditure on social protection, education and general government services increased, while expenditure on economic activity witnessed a drop.



General Government Budget

	bln euro			per cent changes		
	2013	2014	2015	2016 Jan-Feb	2015	2016 Jan-Feb
Revenues, of which:	8.4	8.5	8.8	1.5	3.4	9.0
Indirect taxes, of which:	2.4	2.6	2.7	0.4	5.9	2.6
Value added tax	1.7	1.8	1.9	0.3	5.5	1.0
Income and real estate taxes	1.9	1.9	2.0	0.3	4.5	6.5
Social insurance contributions	2.0	2.0	2.0	0.3	3.7	2.3
Other taxes	0.2	0.2	0.2	0.04	8.9	-1.9
Other revenues	2.0	1.9	1.8	0.4	-2.2	28.8
Expenditure	8.5	8.9	9.2	1.4	2.9	-0.8

LABOUR MARKET

Along with the improvement of economic situation, positive trends are also observed in the labour market – unemployment rate is decreasing and employment rate is growing.

In 2014 situation in the labour market kept recovering, however, at a slower pace than before. Unemployment level decreased to 10.8% which is 1.1 percentage points less than in 2013, while employment rate rose by 0.9 percentage points, reaching 59.1%. In 2014 there were 884.6 thsd employed persons and 107.6 thsd unemployed, which was 12.7 thsd less than in 2013.

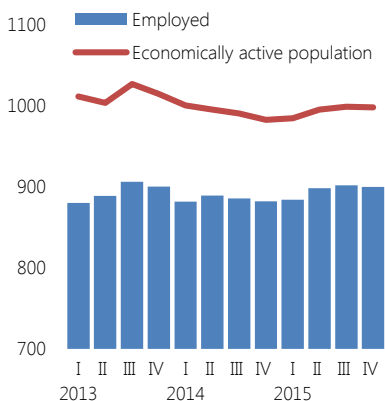
The situation in labour market continued to improve in 2015 – the number of the employed increased by 1.3%, reaching 896.1 thsd or 60.8% of the total population aged 15-74 years. Compared to 2014, employment level increased by 1.7 percentage points.

Unemployment rate in 2015 decreased by 0.9 percentage points – to 9.9%. Altogether there were 98.2 thsd job seekers in 2015, which is 9.5 thsd less than a year before.

Registered unemployment rate also keeps decreasing. In February 2016, 86.8 thsd unemployed were registered, which is 1 300 persons fewer than a year ago. Registered unemployment rate at the end of February was 9.2%. The highest level of unemployment was registered in Latgale region (19.3%), but the lowest – in Riga (5.3%). The long-term unemployed (without a job for a period of more than a year) constituted almost one third of the total number of registered unemployed persons.

Employed and Economically Active Population

by quarters, in thousands



Occupied Jobs

in thousands

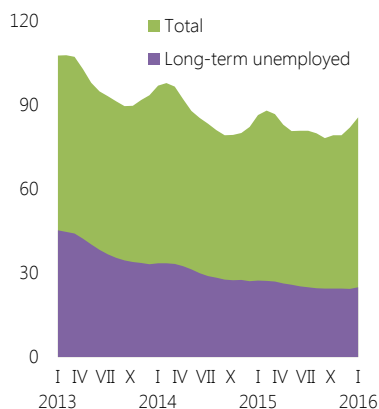
	2010	2011	2012	2013	2014	2015
Total	776.7	805.5	839.1	865.1	874.6	883.8
Agriculture	17.5	19.0	20.6	21.2	21.5	21.6
Manufacturing	101.8	109.1	114.5	117.3	114.4	111.2
Other industry	22.4	22.9	23.7	24.2	24.1	23.8
Construction	46.0	50.9	55.7	60.6	60.3	58.7
Trade and accommodation	159.7	162.8	170.7	173.9	176.0	179.0
Transport and storage	66.8	68.8	72.7	75.2	75.9	76.7
Other commercial services	148.4	157.0	168.5	176.2	180.3	188.3
Public services	214.2	215.0	212.8	216.5	222.1	224.3

Despite the growth of employment rate and decrease of unemployment rate, the labour market situation is still affected by the negative demographic trends: the number of working age population (aged 15-74 years) last year decreased by 23.2 thsd or 1.5% as compared to 2014, which outlines the problem of availability of labour force.

In 2016 situation in the labour market keeps recovering; however, at a slower pace than in 2015. On the one hand, it will be affected by a higher basis effect in the labour market, on the other hand – by the negative demographic trends. It has been estimated that the number of employed population will increase by 0.9% in 2016. In turn, unemployment rate in 2016 could decrease to an average of 9.7 per cent.

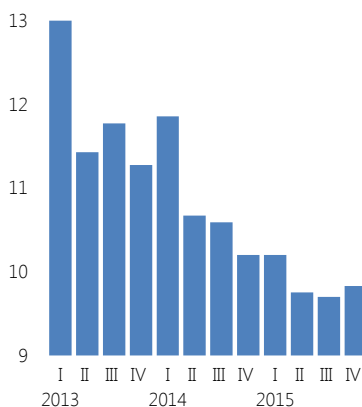
Registered Unemployed

by months, in thousands



Unemployment

by quarters, per cent



Main Indicators of Labour Market

in age group 15-74 years

	2011	2012	2013	2014	2015
<i>in thousands</i>					
Population*	1'595.3	1'560.0	1'536.1	1'495.8	1'472.6
Economically active population	1'028.2	1'030.7	1'014.2	992.3	994.2
Employed persons	861.6	875.6	893.9	884.6	896.1
Unemployed persons	166.6	155.1	120.4	107.6	98.2
<i>as per cent</i>					
Economic activity rate	64.5	66.1	66.0	66.3	67.5
Employment rate	54.0	56.1	58.2	59.1	60.8
Unemployment rate	16.2	15.0	11.9	10.8	9.9

* population in private households

PERSONAL INCOME

During the years of crisis, adjustment of remuneration was rather moderate. The drop in economic activities was compensated with a reduction of the number of the employed.

With the stabilisation of the economic situation, since the end of 2010 wages and salaries have been growing again, while unemployment rate remained rather high.

Along with the growth of labour demand, average gross wages and salaries have also been rising gradually. In 2012 and 2013 they increased by 3.7% and 4.6%, respectively, and in 2014 – by 6.8%, reaching EUR 765.

Rapid increase of wages and salaries was also observed in 2015 – the average gross wages and salaries increased by 6.9%, reaching EUR 818.

Similarly like before, the highest wages and salaries were in Riga region (EUR 925), but the lowest – in Latgale region (EUR 564).

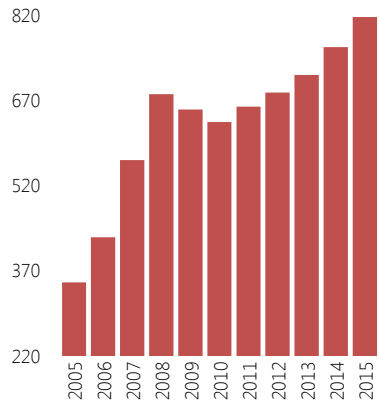
Since 2010, wages and salaries have been growing both in the private and public sector. In 2015 wages and salaries in the private sector rose by 7.8%, and in the public sector – by 5%. It should also be noted that in 2015 the average gross wages and salaries in the public sector exceeded the level of 2008 by as little as 6.2%, while in the private sector – by almost 28 per cent.

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

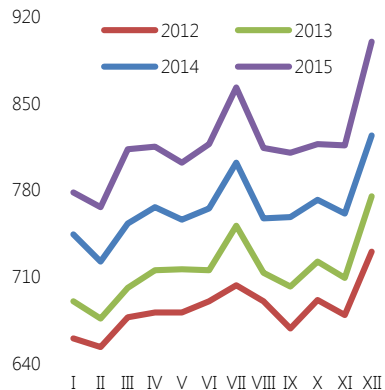
In 2015, as compared to 2014, the most significant growth in wages and salaries was observed in accommodation and food services sector (of 10.5%) and in real estate sector (of 9.9%).

The highest monthly wages and salaries (just like before) were recorded in finance and insurance services sector – on average EUR 1'745.

Average Monthly Wages and Salaries of Employed
gross, in euro

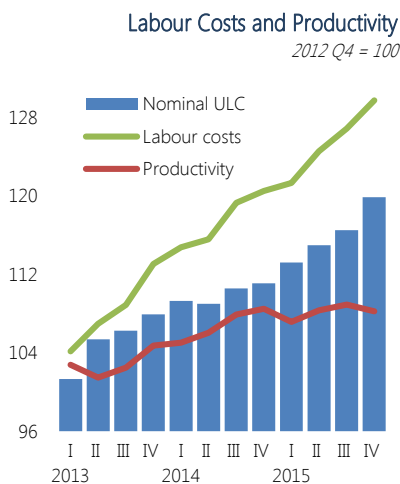
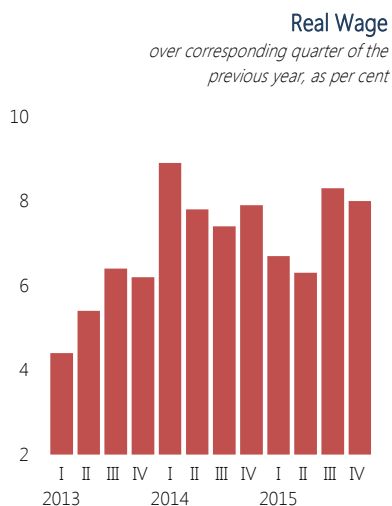


Average Monthly Wages and Salaries of Employed
gross, in euro



Along with the increase of nominal wage, real wage is also increasing gradually. In 2011-2012, along with the increase of consumer prices, rise of real wage was moderate. In 2013, real wage grew by 5.6%, and in 2014 – by 8%. At the same time, since mid-2014 growth rate of real wage has been slowing down. In 2015, real wage increased by 7.4%. During the last three years increase of real wage was mainly determined by the rapid growth of nominal wage, and moderate changes of consumer prices.

The average old-age pension also keeps increasing. In 2014, the average old-age pension grew by 2.7%, as compared to 2013. In turn, in 2015 the average monthly old-age pension rose by 2.7%, as compared to 2014, and on average accounted for EUR 273.4.



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

	2010	2011	2012	2013	2014	2015
Total	-3.5	4.4	3.7	4.6	6.8	6.8
Agriculture	5.8	8.2	0.7	4.8	8.6	5.0
Manufacturing	0.1	5.0	4.6	4.0	7.0	8.5
Other industry	4.1	3.7	3.6	1.8	5.0	5.5
Construction	-5.3	4.7	2.0	6.8	7.7	7.9
Trade and accommodation	-3.6	5.9	4.5	6.0	7.4	8.9
Transport and storage	0.2	1.0	7.7	0.5	5.9	4.5
Other commercial services	-1.4	3.9	2.4	3.4	6.9	6.1
Public services	-9.0	4.5	2.7	6.3	6.5	5.9

COMPARATIVE INTERNATIONAL STATISTICS

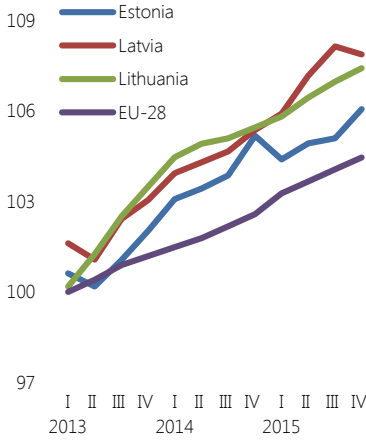
Economic Development in Baltic Countries

	Latvia	Lithuania	Estonia
Territory, thsd km ²	64.6	65.3	45.2
Population, thsd, at the 1 st July 2015	1'967.0	2'881.7	1'311.8*
Gross domestic product, over corresponding period of the previous year, %			
2013	3.0	3.5	1.6
2014	2.4	3.0	2.9
2015	2.7	1.6	1.1
2015 Q4	2.7	1.9	0.7
Volume of manufacturing production, over corresponding period of the previous year, %			
2013	0.1	4.4	3.9
2014	-0.3	1.1	5.4
2015	4.3	5.4	-0.7
2015 Q4	2.5	6.0	-3.4
Retail trade turnover**, over corresponding period of the previous year, %			
2013	3.5	5.1	3.1
2014	3.1	5.4	7.3
2015	2.2	2.4	3.1
2015 Q4	0.1	2.6	3.3
Changes of consumer prices, over corresponding period of the previous year, %			
2013	0.0	1.2	3.2
2014	0.6	0.2	0.5
2015	0.2	-0.7	0.1
2015 Q4	0.1	-0.4	0.1
Number of employed, over corresponding period of the previous year, %			
2013	2.1	1.3	1.0
2014	-1.0	2.0	0.6
2015	1.8	1.3	2.6
2015 Q4	2.0	1.3	1.4
Unemployment rate, % of economically active population			
2013	11.9	11.8	8.6
2014	10.8	10.7	7.4
2015	9.9	9.1	6.2
2015 Q4	9.8	8.8	6.4

* Population at the 1st January 2016; ** data adjusted by working days

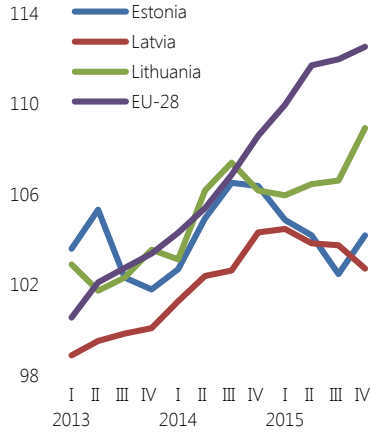
Gross Domestic Product

seasonally adjusted data
2011 Q4 = 100



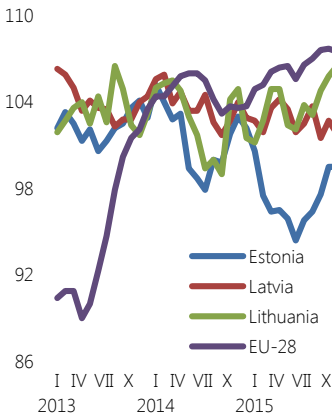
Exports of Goods and Services

seasonally adjusted data
2011 Q4 = 100



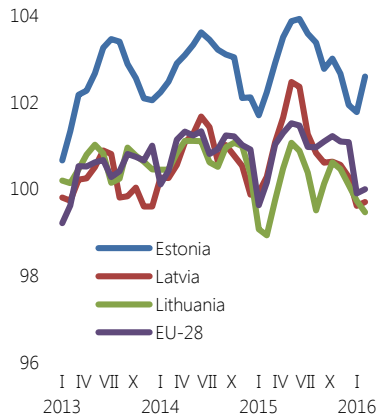
Economic Sentiment Indicator

seasonally adjusted data



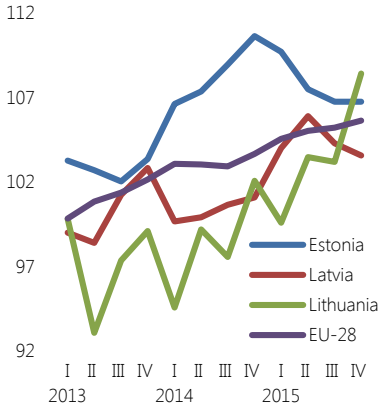
Harmonised Consumer Price Index

December 2011 = 100



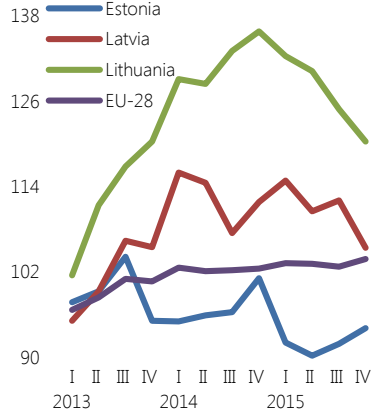
Manufacturing Production Volume

seasonally adjusted data
2011 Q4 = 100



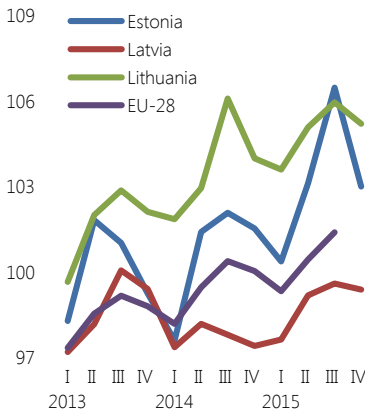
Construction Production Volume

seasonally adjusted data
2011 Q4 = 100



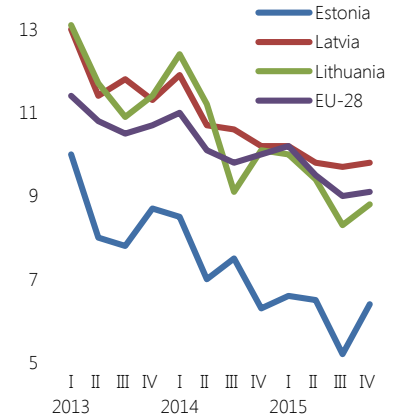
Number of Employed

not seasonally adjusted data
2011 Q4 = 100



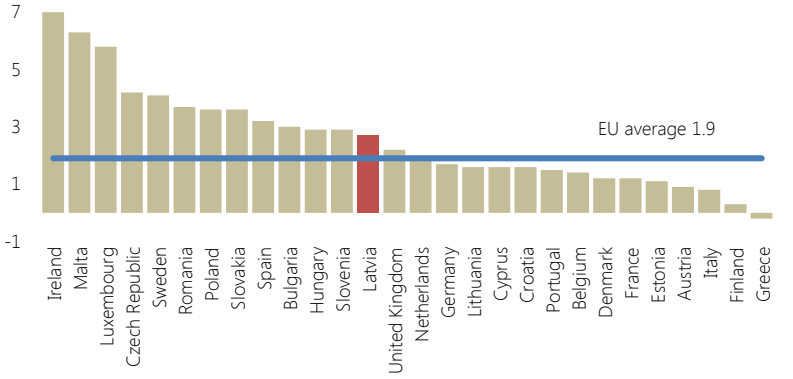
Unemployment Rate

as per cent



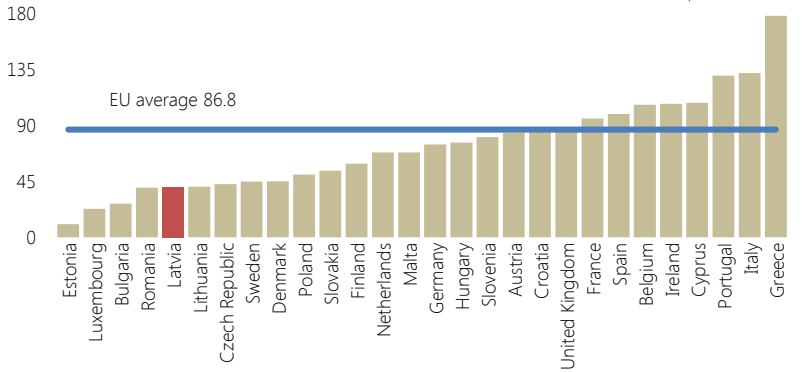
Gross Domestic Product

in 2015, changes of volumes, as per cent



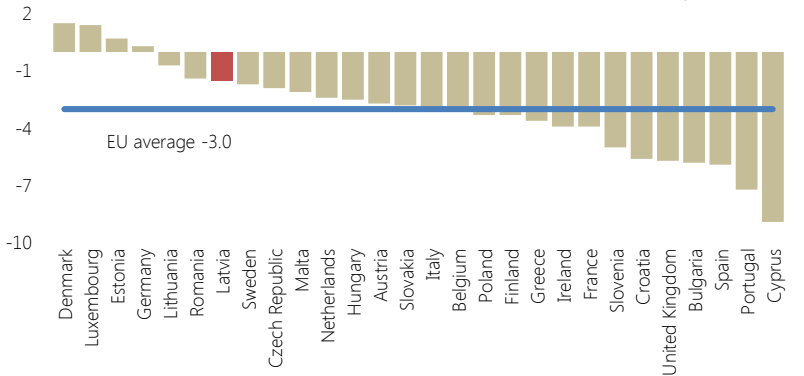
Public Debt

in 2014, as per cent of GDP



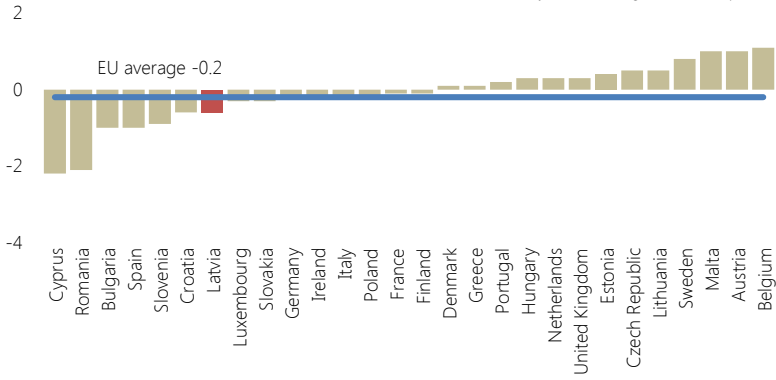
Budget Balance

in 2014, as per cent of GDP



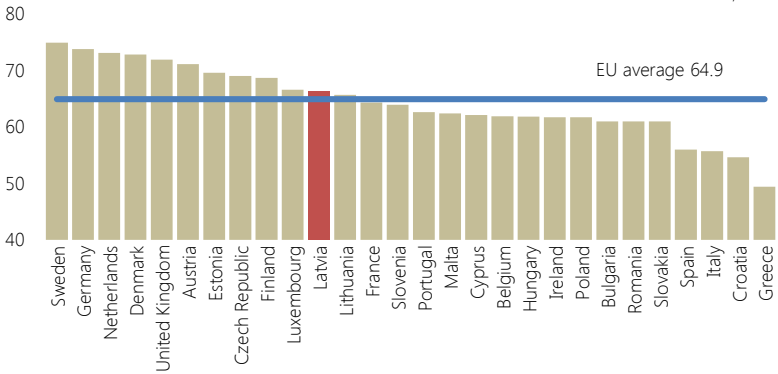
Harmonised Consumer Price Index

in February 2016, average annual, as per cent



Employment Rate

in 2014, as per cent



Unemployment Rate

in 2015, as per cent

