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Central Statistical Bureau of Latvia

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ISSN 1407-5334



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ECONOMIC SITUATION: BRIEF OVERVIEW

During the period from 2011 to 2013, the average growth of the Latvian economy amounted on average 4.4% annually. In 2014, the GDP increased by 2.4%. The growth rate slowed down due to the weak economic development within the EU, as well as the worsening of the economic situation in Russia.

Despite the geopolitical tensions within the region, the Latvian economy continued to grow in 2015 and the growth rate reached 2.7%.

Just as during 2015 Q1, the growth rate of the GDP was moderate during 2016 Q1 – by 2.1% higher than 2015 Q1.

The relatively rapid growth in average wages and salaries, as well as the low inflation promoted a rise in private consumption. With the state budget expenditures increasing, public consumption continued to grow. However investment dynamics is unstable. In 2015 investments increased by 2.7%, but in 2016 Q1 they decreased by 15.8% in comparison with 2015 Q1. It was mainly due to the reduced activity in the acquisition of structural funds.

In recent years, the low demand in foreign markets has affected the dynamics of exports,

and it has become slower. In 2015 exports increased by 1.4%, but in 2016 Q1, the volume of exports dropped by 1.9%, as compared to 2015 Q1.

In breakdown by sector, stable growth is observed in manufacturing, trade, and commercial services. In the 5 months of 2016, output in manufacturing was by 3.1% higher than before the year. In this period retail volumes increased by 2.3%. Whereas the volumes of construction are significantly lagging behind the results of the previous year.

In 2015 situation in the labour market continued to improve. Unemployment rate decreased to 9.9%, but the number of employed increased by 1.3%. Improvements are observed also in 2016.

The price dynamics continue to be moderate – the inflation is mainly related to the dynamics of oil and food prices in the world. In May 2016, consumer prices were by 0.8% lower than a year before. The average level of consumer prices could be close to zero in 2016.

The Ministry of Economics forecasts that the GDP could grow by up to 2.8% in 2016 despite the weak external demand.

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	2.8
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	62.1
Unemployment rate	16.2	15.0	11.9	10.8	9.9	9.4
<i>as per cent over gross domestic product</i>						
General government sector balance	-3.4	-0.8	-0.9	-1.6	-1.3	-1.0
Exports-imports balance	-5.0	-4.5	-3.2	-2.2	-1.4	-0.8

f – forecast

THE EXTERNAL ECONOMIC ENVIRONMENT

The development of the global economy is still weak, and it differs from region to region. In 2015, the global economy grew slower than in 2014. Prospects for growth are gradually improving in developed countries. Whereas the situation in developing countries has slightly worsened despite the fact that the growth rates are still relatively high there.

The economic situation within the EU has been gradually improving since 2013. In comparison to 2015 Q4, during the 2016 Q1 the GDP rose by 0.5% and was by 1.7% higher than 2015 Q1 (0.5% and 1.5% in the euro area, respectively). The latest business tendency surveys show that economic activities in the EU are gradually improving. At the same time the UK vote on withdrawal from the EU (Brexit) which was held in June can affect economic development of EU.

The growth of the US economy was considerably slower during the 2016 Q1. In comparison to the 2015 Q4, the GDP rose by 0.2% and it was by

2% higher than a year before. Economic growth was influenced by an increase in consumption, whereas the volume of investments decreased more rapidly than expected.

Asian countries have managed to overcome the global crisis more successfully than countries of other regions; however, lately growth rates has been slowing down. China is experiencing its slowest growth since the beginning of the 90s, thus negatively affecting the growth of the global economy.

At the beginning of 2016, Russia was showing a slower downturn in GDP than during the 2015 Q4. In the 2016 Q1, the GDP was by 1.2% lower than a year before. Nevertheless, the economic situation is still unstable. The economy of Russia could start growing again at the end of 2016 due to the stabilisation of oil prices and value of the rouble. The European Commission forecasts a 1.9% economic 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	3.1
USA	2.2	1.5	2.4	2.4	2.3
Japan	1.7	1.6	0.0	0.5	0.8
China	9.6	8.0	7.3	6.9	6.5
CIS, of which	3.5	2.1	0.9	-2.9	-1.1
Russia	3.4	1.3	0.6	-3.7	-1.9
European Union, of which:	-0.5	0.2	1.4	2.0	1.8
Germany	0.4	0.3	1.6	1.7	1.6
Sweden	-0.3	1.2	2.3	4.1	3.4
United Kingdom	1.2	2.2	2.9	2.3	1.8
Lithuania	3.8	3.5	3.0	1.6	2.8
Estonia	5.2	1.6	2.9	1.1	1.9

Source: European Commission, f – forecast

GROSS DOMESTIC PRODUCT: EXPENDITURE

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

During the period 2011-2013, the growth of the Latvian economy amounted to 4.4% annually on average, and it was one of the most rapid growth rates within 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, considering the geopolitical situation in the region. Despite the fact that during recent years the Latvian economy has been growing quite rapidly, the GDP is still lagging behind the pre-crisis level of 2007 by 4.9 per cent.

In the 2016 Q1, the GDP rose by 0.1% (according to seasonally adjusted data) in comparison to the 2015 Q4, and it was by 2.1% higher than a year before.

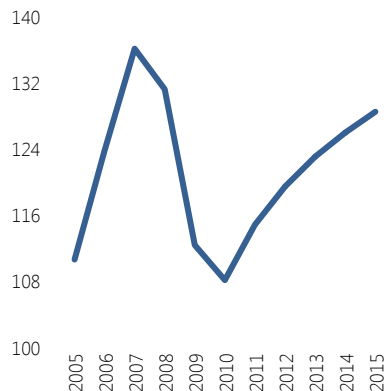
The relatively rapid growth of average wages and salaries, as well as the low inflation are still increasing the households purchasing power. Compared to the 2015 Q4, during the 2016 Q1 private consumption rose by 1.2% (according to seasonally adjusted data) and was 3.7% higher than 2015 Q1. The growth rates of private consumption have become more rapid in comparison to the 2015 Q4.

Government consumption is continuing to increase in 2016 – in the Q1 it was by 2.2% higher than a year before.

The dynamics of investments has been very unsteady in recent years. Investments indicated the sharpest decline in the 2016 Q1; a drop of 15.8% over the year was mainly affected by the downward trend in the use of structural funds.

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	5.0	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	2.7
Exports	13.4	12.0	9.8	1.1	3.1	1.4
Imports	12.4	22.0	5.4	-0.2	0.8	1.8

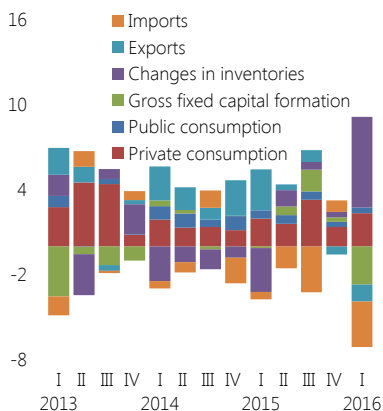
During the period from 2010 to 2012, exports of goods and services grew very rapidly, serving as the main driving force for the development of the national economy. In 2012, the volume of exports exceeded the pre-crisis level by almost 22%. The dynamics of exports has become more moderate since 2013 due to the low demand in external markets. Despite the fact that exports to Russia experienced a significant drop, the total volume of exports increased by 1.4% in 2015.

In the 2016 Q1, the volume of exports dropped by 1.9%, as compared to the 2015 Q1. Exports of goods reduced more rapidly and the exports of services was slightly higher than a year before.

After a considerable drop during the crisis, the volume of imports grew quite rapidly in 2010 and 2011. The import dynamics has become more moderate since mid-2012. In the 2016 Q1, the volume of imports increased by 5% in comparison to the 2015 Q1. During the 2016 Q1, the exports-imports balance amounted to -1% 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 a decrease of unemployment. Investments will also play an important role. Events in the external environment will continue to have an effect on exports, therefore rapid growth of exports is most likely not 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

	2014				2015				2016
	I	II	III	IV	I	II	III	IV	I
Gross domestic product	2.7	2.3	2.3	2.1	1.8	2.8	3.5	2.7	2.1
Private consumption	2.9	2.1	2.2	2.0	3.1	2.4	5.2	2.4	3.7
Public consumption	5.3	5.7	3.2	5.4	3.4	3.3	3.7	2.0	2.2
Gross fixed capital formation	2.3	1.2	-0.8	0.1	-0.6	2.9	6.0	1.2	-15.8
Exports	4.0	2.8	1.4	4.2	4.6	0.8	1.4	-0.9	-1.9
Imports	0.8	1.2	-1.9	3.0	0.8	2.6	5.3	-1.3	5.0

GROSS DOMESTIC PRODUCT: DEVELOPMENT OF SECTORS

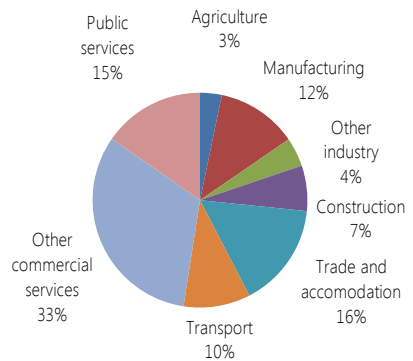
Due to improvements in competitiveness and rising demand in export markets, tradable sectors were the first to recover from the crisis. In manufacturing, which is the main export sector, the production volume in 2013 exceeded the level of 2009 by 22%. The growth of tradable sectors and increase in income from exports promoted the development of domestic market-oriented sectors – commercial services, trade, and construction. The contribution that these sectors provide to the overall growth has increased significantly over the past years, but the weak demand in export markets in 2013 and 2014 limited the growth of manufacturing. In 2015, growth continued in almost all sectors, except for construction, and transportation and storage.

In 2016, the development trends of the sectors are different. Despite the decrease of volumes in January, in the Q1 manufacturing output was by 0.5% higher than a year before.

In other industry sectors due to the colder weather conditions, output in the 2016 Q1 was by 10.5% higher than a year before. Whereas the production volume in agriculture and forestry increased by only 0.4 per cent.

The growth rate of the construction sector has been decreasing since the second half of 2014. In 2015, construction volumes decreased by 1.1%, and there was also a very rapid drop at the beginning of 2016 – a decrease of 19%. The downturn was caused by a rapid decline in the building construction, which can be mainly explained by the transitional period in the use of EU structural funds, as the development of the construction sector is closely related to public procurements and projects of EU funds.

GDP Structure
2014, as per cent



Gross Domestic Product by Sectors
volume changes in per cent

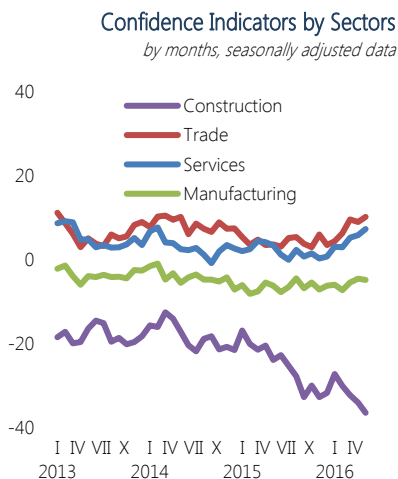
	2010	2011	2012	2013	2014	2015
Gross Domestic Product	-3.8	6.2	4.0	3.0	2.4	2.7
Agriculture, forestry	-3.9	-1.7	7.4	1.2	1.6	5.0
Manufacturing	14.2	3.7	4.3	-1.2	-0.3	4.3
Other industry	-1.5	-5.2	-5.7	1.6	-3.1	1.4
Construction	-34.4	29.9	8.9	4.4	8.1	-1.1
Trade and accommodation	-1.6	2.9	1.3	4.2	2.3	4.0
Transport 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	2.5
Public services	-6.9	3.0	-0.3	2.4	3.4	3.0

In 2015, the volume of services in the transportation and storage sector remained at the level of the previous year. It was affected by a decline in freight turnover at ports and on railways. Despite the fact that the cargo in ports and railways continue to shrink sector experienced a moderate growth of 1.6% at the beginning of 2016.

The volume of services provided within trade sector continue to grow. In 2015, the volume of services provided increased by 4%, but in the 2016 Q1 they were by 3.7% higher than a year before. The trade sector was positively influenced by the increase in private consumption and growth of the retail trade turnover.

Growth in the commercial services sector was moderate both in 2014 and 2015. The volume of services provided in the 2016 Q1 increased by 2.4% in comparison to the 2015 Q1. The growth was mainly facilitated by improvements in information and communication services and art and entertainment sector.

As government expenditures continue to increase, the volume of services provided within the public services sectors also keeps on rising – it grew by 1.8% during the 2016 Q1.



Gross Domestic Product by Sectors

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

	2014				2015				2016
	I	II	III	IV	I	II	III	IV	I
Gross Domestic Product	2.7	2.3	2.3	2.1	1.8	2.8	3.5	2.7	2.1
Agriculture, forestry	8.8	5.2	-6.4	3.3	-3.9	9.0	8.6	2.6	0.4
Manufacturing	1.2	0.1	-0.6	-1.7	4.4	5.9	3.7	3.2	0.5
Other industry	-7.4	-5.2	-1.6	2.3	-4.1	3.3	5.9	2.2	10.5
Construction	24.6	15.8	0.6	4.4	-0.1	-3.4	4.9	-6.2	-19.0
Trade and accommodation	2.6	2.1	2.5	2.0	0.6	4.3	6.0	4.2	3.7
Transport and storage	5.1	2.2	2.3	3.1	-1.5	-4.3	1.7	3.5	1.6
Other commercial services	1.8	-0.1	4.0	0.9	1.6	3.5	0.5	4.2	2.4
Public services	3.1	3.5	3.2	3.4	4.0	3.1	3.6	1.9	1.8

MANUFACTURING

In 2013, the production volumes within the sector remained at the level of 2012, whereas in 2014 the output volumes of manufacturing production decreased by 0.3%. This was mainly caused by the low demand in export markets. In 2015, the 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.

The manufacturing output is continuing to grow in 2016. During the five months, manufacturing output increased by 3.1% in comparison to January-May 2015. The development trends within the manufacturing sub-sectors are different at the beginning of 2016.

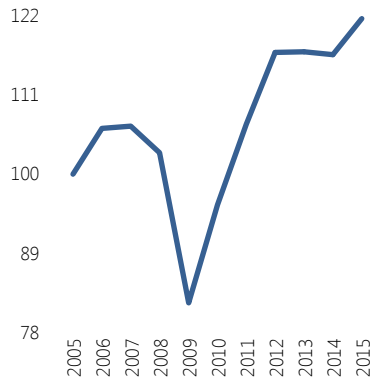
In wood processing, which is the largest manufacturing sector, production volumes are continuing to grow steadily. During the five months of 2016, the production volume was by 9.6% higher than a year before.

In 2016, a rapid increase in production volumes was experienced in the manufacture of non-metallic mineral products – an increase of 7.8% during January-May. Production volumes also increased in the manufacture of machinery and equipment, manufacture of paper and printing, manufacture of electrical and optical equipment, and in light industry.

The volume of products manufactured in the food industry in January-May 2016 decreased by 0.9% in comparison with the January-May 2015. The development of the sector is being affected by the sanctions imposed by Russia on the import of specific food products.

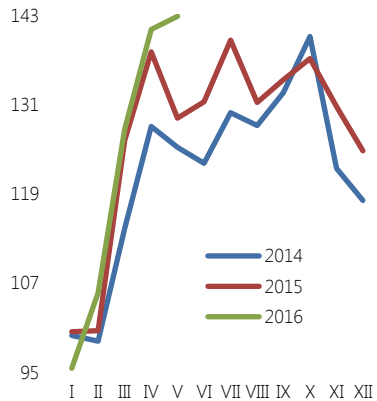
During January-May 2016, the production volumes in the chemical industry decreased by 3.2% in comparison to the respective period of the previous year. Production volumes also decreased in the manufacture of transport equipment. A drop in production volumes was also experienced in the manufacture of metals and metal products.

Manufacturing
output, 2005 = 100



Production Volume Index

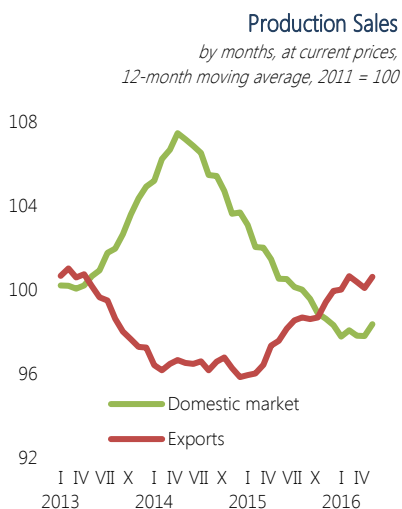
by months, not seasonally adjusted data, 2010 = 100



In five months of 2016, the manufacturing turnover was by 0.1% higher than a year before. Growth was promoted by the volume increase of the exported products, but volumes of products sold on the domestic market were similar to the previous year

The volume of exported goods increased by 1.6% during January-May 2016. Wood processing and light industry had the most significant positive effect on the growth of the total turnover. In turn, manufacture of food, as well as manufacture of metals and metal products had the most negative impact.

Overall, moderate growth is expected in manufacturing in 2016.



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-May
Manufacturing – total	100	100	63.8	-0.3	4.3	3.1
Food industry	23.6	20.6	34.3	0.1	-4.6	-0.9
Light industry	3.9	10.1	86.4	-13.6	-13.2	3.4
Wood processing	27.0	21.0	74.7	6.9	7.1	9.6
Paper industry and publishing	4.4	4.1	61.2	-0.6	0.0	5.1
Chemical industry	7.5	7.0	76.4	-2.6	-4.1	-3.2
Other non-metallic mineral products	5.9	4.5	48.0	1.2	-9.8	7.8
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	4.2
Machinery and equipment	2.3	2.9	83.8	2.4	7.9	7.9
Motor vehicles	3.5	3.3	88.0	-15.2	3.5	-2.0
Other industries	5.6	12.4	58.1	-12.0	3.4	-5.3

... the data is confidential

INVESTMENTS

Investment activities have been quite moderate during recent years, and investment volumes have still not reached the pre-crisis level. The low investment level and the weak dynamics within the sector is mainly affected by poor crediting, a relatively low demand, as well as the uncertainty of the economic and political situation in the external environment.

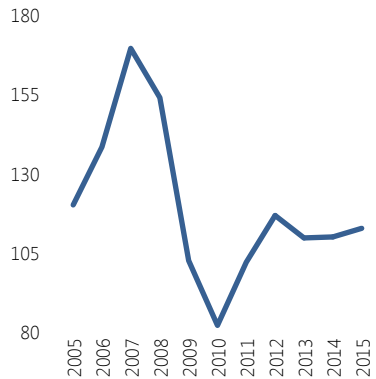
In 2015, investments amounted 23% of the GDP and exceeded the level of the previous year by 2.6%. However, since 2011, average investments during each year have been at a level that is almost by 20% less than during the pre-crisis period.

At the beginning of 2016, investment activities were more deficient than a year before. During the Q1, investments decreased by 15.8% in comparison to the 2015 Q1. Although investments in housing remained at the level of the previous year, the total volume of investments in construction was almost by 10% smaller than a year before due to the cyclical nature of EU structural funds.

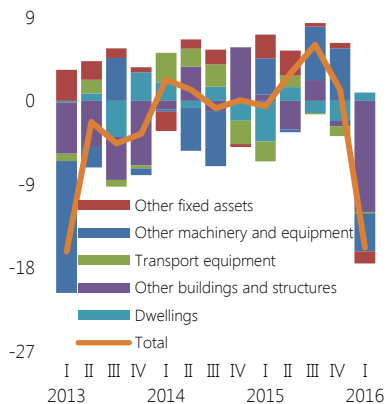
According to provisional data, during the 2016 Q1 non-financial investments in production sectors lagged behind the level of the previous year by 18%. This was mainly due to a drop in investments in the manufacturing sector, as well as in public utilities. During the 2016 Q1, the volume of investments in the manufacturing sector was by 22.1% lower than a year before and accounted for almost 16% of total investments in the Latvian economy. During the 2016 Q1, total investments in service sectors decreased by almost 26%, which was mainly due to the downturn of investments in the transportation and storage sector.

Although the flow of FDI became more intensive in 2015 and exceeded the level of 2014 by almost 30%, it was negative in 2016 Q1 (-1.6% of the GDP), which was mainly due to an increase in dividend payouts.

Gross Fixed Capital Formation
2004 = 100



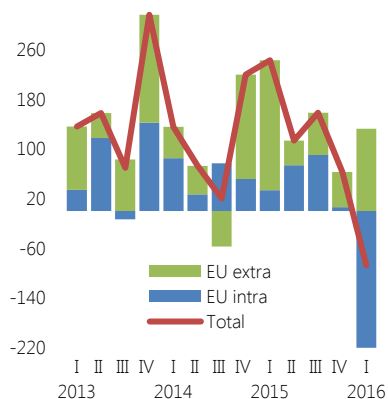
Gross Fixed Capital Formation
changes over corresponding quarter of the previous year, as per cent



According to the international investment balance, at the end of March 2016 FDI accrued in the Latvian economy reached EUR 14.3 bln (58.4% of GDP). Over the year they rose by 5.3 %. In breakdown by sector, a larger share of accrued FDI was recorded in investments in financial intermediation, real estate activities, and manufacturing. Sweden is the largest investor in the Latvian economy. At the end of March 2016, investments of Swedish entrepreneurs comprised almost 18 % of total FDI accrued, and they mainly invested in financial intermediation.

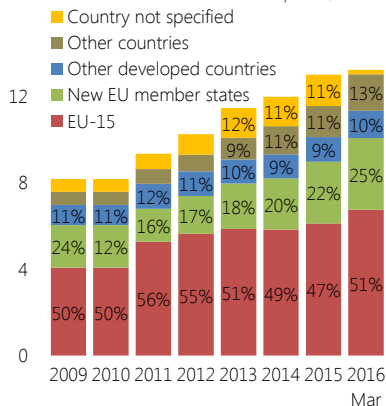
Foreign Direct Investment in Latvia

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				
	2016 Mar	2012	2013	2014	2015	2016 Mar
Agriculture, forestry	4.2	294.4	299.9	441.2	477.6	579.1
Manufacturing	12.1	1'200.3	1'403.5	1'455.7	1'539.3	1'677.3
Other industry	5.0	492.2	589.3	583.2	588.0	695.3
Construction	4.7	528.1	559.6	458.8	536.3	648.0
Trade and accommodation	13.5	1'416.1	1'472.9	1'325.5	1'372.8	1'875.6
Transport and storage	3.6	449.0	408.1	423.2	458.8	503.5
Financial and insurance activities	25.3	2'825.7	2'922.2	3'319.0	3'578.2	3'509.3
Other services	27.1	1'866.6	2'071.8	2'296.9	2'547.0	3'119.6
Not allocated economic activity	4.6	1'185.5	1'842.4	1'777.5	2'265.8	639.5
Total	100	10'257.9	11'569.6	12'081.0	13'363.6	13'247.2

FOREIGN TRADE

After the crisis the 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 had increased by more than 80 %. From 2009 to 2012, export annually grew by 25% on average, whereas import – by 23%. During this period the largest contribution to the growth in exports of goods was ensured by agricultural and food products, as well as by metalworking articles. Significant growth was also experienced in the exports of wood processing products, machinery, as well as mineral products.

In 2013, exports of Latvian goods increased by 1.5% at current prices, whereas in 2014 – by 2.3%. The rate of imports of goods slowed down even more – in 2013 there was an increase of 1%, but in 2014 – of 0.2 per cent.

In 2015, exports of goods grew moderately just as in 2014 – by 1.2%. Exports of machinery and electrical equipment had the most significant positive effect on export growth; however, the export value of mineral products decreased. In 2015, imports of goods declined by 0.9%. The respective drop was mainly influenced by a decrease in the import value of mineral products in the context of the low oil prices.

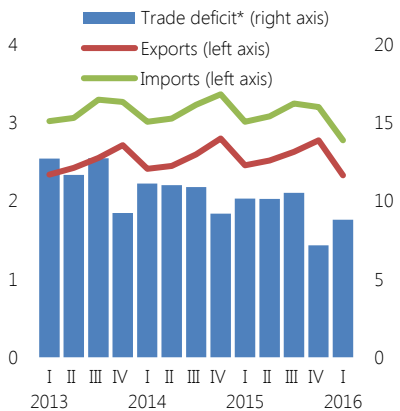
In January-April 2016, exports of Latvian goods dropped by 5.7% at current prices. This was mainly influenced by a decline in the exports of machinery and electrical equipment, mineral products, and light industry products. In turn, an increase was recorded in the exports of agricultural and food products (mainly of cereals), wood and wood products, as well as of goods of the chemical industry.

Exports of goods to the largest export market of Latvia – the EU countries – dropped by 6.7% in January-April 2016 (of which exports to Lithuania decreased by 9.5%, and to Estonia – by 0.4%). The drop in the exports to EU countries was mostly affected by a decline in the exports of machinery and electrical equipment, mineral products, and light industry products. Whereas positive trends could be observed in the exports of wood and wood products, as well as of goods of the chemical industry, and agricultural and food products.

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

Exports to the CIS countries decreased by 13.5% (of which to Russia – by 15%) during the four months of 2016. The decrease was mainly affected by a drop in the exports of machinery and electrical equipment, as well as agricultural and food products. A decrease could be also observed in the exports of goods of the chemical industry, as well as wood and wood products. Whereas a positive impact on the exports to CIS countries was provided by exports of goods of the chemical and light industry.

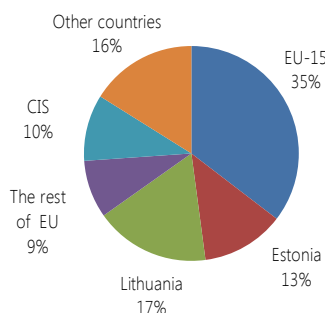
Exports to other countries increased by 5.2% in January-April 2016, and this was mainly ensured by a significant boost in the exports of cereals.

In January-April 2016, imports of goods dropped by 7.8%. This was mainly influenced by a decline in the imports of mineral products, machinery and electrical equipment, and transport equipment. Whereas an increase was observed in the imports of agricultural and food products, goods of the chemical industry, as well as wood and wood products.

During the four months of 2016, the trade balance improved. The export-import deficit in January-April amounted to 8.8% of the total trade turnover.

Structure of Exports of Latvian Goods

in January-April 2016, as per cent



Exports and Imports of Latvian Goods

in January-April 2016, as per cent

	Exports			Imports		
	structure	volume changes	contribution to changes	structure	volume changes	contribution to changes
Total, of which:	100	-5.7	-5.7	100	-7.8	-7.8
Agricultural and food products	18.6	14.6	2.2	17.1	10.4	1.5
Mineral products	5.3	-31.2	-2.3	9.3	-30.4	-3.8
Chemical products	11.7	9.1	0.9	18.3	6.5	1.0
Products of light industry	3.9	-33.6	-1.9	5.8	-17.0	-1.1
Wood and articles of wood	19.7	5.5	1.0	3.6	10.4	0.3
Metals and metal articles	8.4	-9.8	-0.9	7.4	-16.2	-1.3
Machinery and electrical equipment	16.6	-19.3	-3.7	21.0	-9.5	-2.0
Transport vehicles	4.6	-14.6	-0.7	7.6	-22.3	-2.0
Other goods	11.3	-3.3	-0.4	9.9	-4.6	-0.4

BALANCE OF PAYMENTS

Since 2011, the current account of the balance of payments has been at the level of a slight deficit. On average, during the last three years the negative balance of the current account amounted to 2% of the GDP, which does not exceed the indicative threshold set out in the EU early-warning mechanism and is viewed as sustainable. In 2015, the current account had a slight deficit – 1.2% of the GDP, whereas during the 2016 Q1 there was a surplus in the current account – 1.8% of the GDP.

The current account of Latvia is mainly determined by changes in the foreign trade balance. Foreign trade deficit in Latvia increased during the years of rapid growth, but dropped in the period of recession. The cyclical corrections of the current account were driven by a significant decline in import volumes. As the economy became more stable, the import volumes also grew. In recent years, the export and import dynamics has been slowing down, which is largely due to the geopolitical instability in the region.

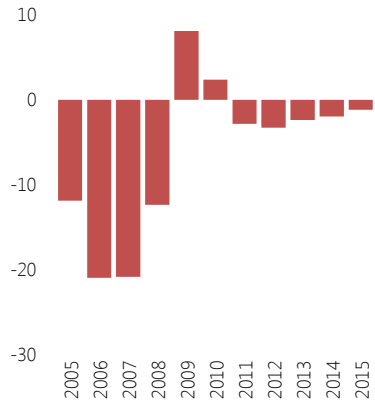
Since 2011, foreign trade deficit has been moderately decreasing. In 2015, it accounted for 8.7%, whereas during the 2016 Q1 – 8.4% of the GDP. Improvements in the foreign trade balance were determined by the fact that the imports decreased more rapidly than the exports value.

The balance of services is positive and covers foreign trade deficit by almost 90%. In the 2016 Q1, exports of services (at current prices) increased by 3.8%, whereas imports of services grew by 4.8% in comparison to the 2015 Q1, with the balance of services reaching 7.8% of the GDP (in the 2015 Q1 – 7.7%).

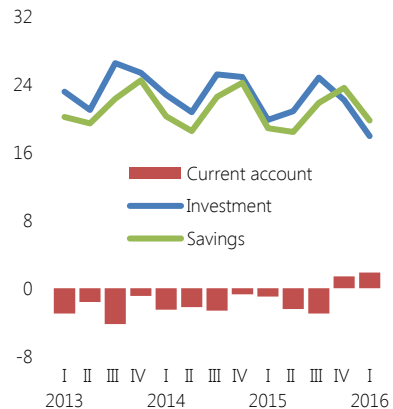
Over the past three years the balance of preliminary income has been negative – an annual average 0.3% of the GDP with relatively small fluctuations. Driven by the inflow of resources of EU funds, in 2016 Q1 the balance of preliminary income was positive (2.2% of GDP).

The financial account (excluding reserve assets) was positive in the 2016 Q1 – 1.1% of the GDP (negative in 2015 Q1 – 3.5% of GDP). The level and fluctuations of the financial account are mainly determined by stabilisation measures, as well as measures implemented by the Bank of Latvia within the framework of the Expanded Asset Purchase Programme (EAPP).

Current Account Balance
as per cent of GDP



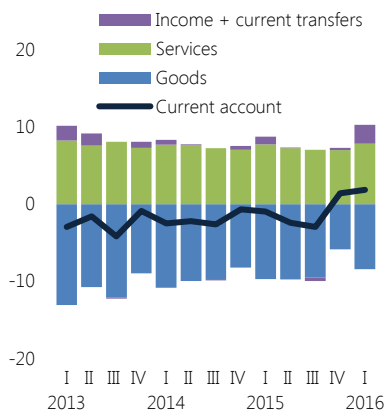
Current Account, Investment and Savings
by quarters, as per cent of GDP



The balance of direct investments has been negative during recent years, thus indicating the inflow of foreign direct investments. Foreign investors are gradually becoming more active. In 2015, the volume of incoming FDI flows was almost by 30% higher than a year before and amounted to 2.4% of the GDP. Whereas during the 2016 Q1, FDI flows were negative – 1.6% of the GDP, which was due to an increase in dividend payouts.

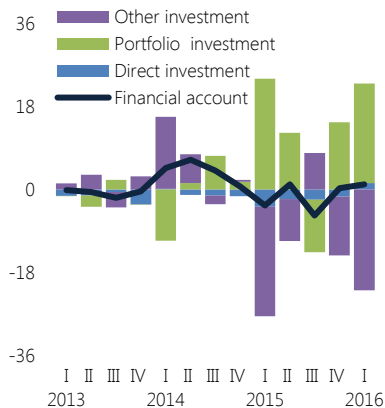
Current Account by Items

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

	2011	2012	2013	2014	2015	2016 Jan-Mar
A. Current account	-2.8	-3.3	-2.4	-2.0	-1.2	1.8
Trade balance	-12.1	-11.7	-11.2	-9.6	-8.7	-8.4
Service balance	7.3	7.4	7.8	7.4	7.2	7.8
Net income	0.0	-0.6	-0.3	-0.2	-0.3	2.2
Net current transfers	1.9	1.6	1.3	0.4	0.5	0.3
B. Capital account	2.1	3.0	2.5	3.2	2.8	2.0
C. Financial account**	4.0	-2.9	-0.7	3.9	-1.9	1.1
Direct investment stock	-4.9	-3.3	-1.6	-1.0	-2.3	1.4
Portfolio investment*	1.8	-4.8	-0.1	0.2	9.2	21.6
Other investment	7.2	5.1	1.0	4.6	-8.8	-21.8
D. Deviation	0.3	1.0	0.8	2.2	-2.2	-2.6
E. Reserve assets	-4.5	3.6	1.7	-0.5	1.3	0.1

* 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.

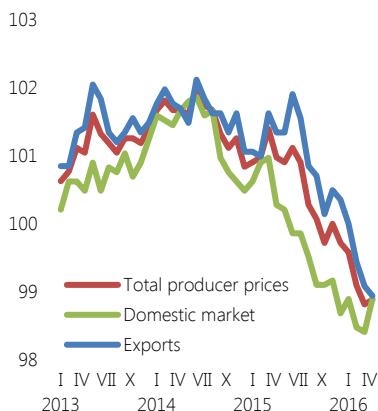
In April 2016, as compared to April 2015, the level of producer prices in industry decreased by 3.1%; for products sold on the domestic market – by 3.9%, and for exported products – by 2.2 per cent.

Producer prices in manufacturing reduced by 2% in April 2016, as compared to April of the previous year. During the year, producer prices of both products sold on the domestic market and of exported products decreased by 1.4% and 2.4%, respectively, which is mainly due to the sharp drop in energy prices since mid-2014.

Over the year, the most significant price rise was observed in the manufacture of chemical products, beverages and wearing apparel, whereas a lowering effect could be seen in wood processing, manufacture of food products, computers, electrical and optical equipment, and other non-metallic mineral products. Producer prices are still being affected 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	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
	March	0.7	-0.6	0.2	0.1
	April	0.4	-0.8	0.6	0.0
	May	0.6	-0.8	1.2	-0.2

MONETARY INDICATORS

Although the monetary indicators are gradually improving and some credit groups are increasing, however crediting is still relatively weak.

The total loan portfolio of banks has not changed significantly – it declined by only 0.8% in the 2016 Q1, as compared to the respective period of the previous year. The balance of mortgage loans decreased by 5.3%, while growth was recorded in other credit positions, with the most rapid increase in the balance of consumer loans (of 11.3%) and commercial credits (of 9%).

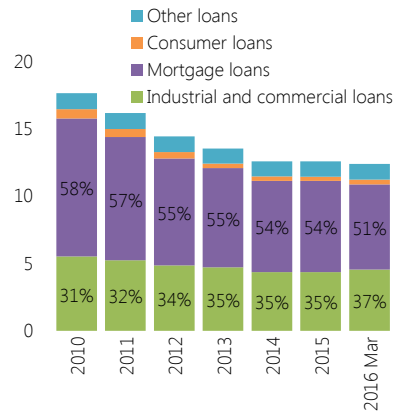
Although the volume of loans newly granted increased in 2015, but decreased in the 2016 Q1 (by 2.7%, as compared to the 2015 Q1). There was also a decrease in the volume of new loans granted to enterprises, and it accounted for a total of EUR 145.3 mln or 25% of the total volume of new loans. In breakdown by sectors, the largest amount of loans was granted for real estate activities, as well as in the sector of electricity, gas and heat supply.

Positive trends are continuing in household crediting – during the 2016 Q1 the volume of the loans newly granted grew by 41%, as compared to the previous year, and amounted to EUR 118.2 mln or 20% of the total amount of new loans. There was also a significant increase in the amount of the loans newly granted for house purchase, reconstruction and repair and for the purchase of consumer goods.

The quality of the credit portfolio improved significantly during the period 2010-2014, and that was mainly related to the improvement of the economic situation, as well as to the writing-off of bad loans. During the past two years the quality of the credit portfolio has not changed significantly. During the 2016 Q1, 10.9% of loans in the total credit portfolio of the banking sector were with overdue payments, which is by 2.1 percentage points less than a year before.

Deposit volumes in the 2016 Q1 were only by 0.2% larger than in 2015 Q1. Deposit volumes made by non-residents decreased for the first time since 2009, and it accounted for half of the total volume of deposits in the 2016 Q1.

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



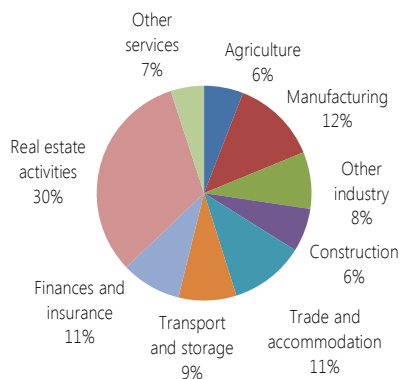
Average Weighted Interest Rates (Balance)
for loans to non-financial companies
by months, as per cent



Interest rates (outstanding amounts) for long-term loans issued to non-financial corporations are gradually decreasing, and they amounted to 2.4% in March 2016. Short-term interest rates dropped to 3 per cent.

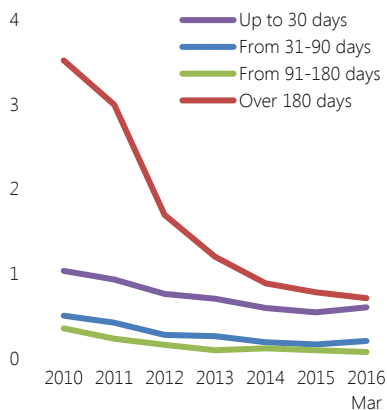
Structure of Loans Issued by Sectors

at the end of March 2016, as per cent



Loans with Overdue Payments

at the end of the period, bln euro



Latvijas banku sistēmas monetārie rādītāji

	2011	2012	2013	2014	2015	2016 Apr
<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

In order to stabilise the fiscal situation in the country during the financial crisis, several budget consolidation measures were implemented in Latvia during the period from 2008 to 2012. The general government budget deficit was reduced from 9.1% of the GDP in 2009 to 0.9% of the GDP in 2013. In 2014, the general government budget deficit amounted to 1.6% of the GDP, which was mainly determined by one-off measures. Whereas in 2015, it dropped to 1.3% of the GDP. The government aims at maintaining a low budget deficit.

In January-May 2016, revenues of the general government consolidated budget amounted to EUR 3'820.6 mln, which was by 0.2% less than during the respective period of 2015. The total revenues from taxes rose by 4.5% during the respective period.

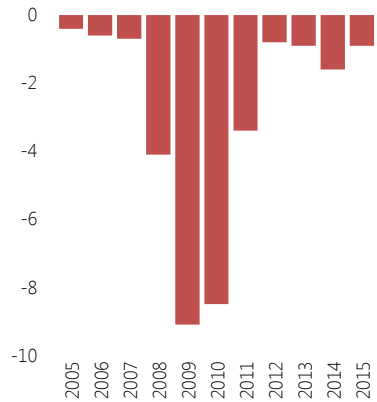
Employment taxes account for almost a half of the total tax revenues. The revenue from state social insurance mandatory contributions and personal income tax increased by 2.9% and 4.1% respectively during the five months of 2016. The increase was promoted by the growing employment and increase in wages and salaries, as well as by the increased minimum wage.

During the five months of 2016, the revenue from taxes on consumption also increased – by 4.6%. The most significant contribution in the group of taxes on consumption was provided by revenues from the value-added tax which in comparison with the respective period of 2015, rose by 4.7 per cent.

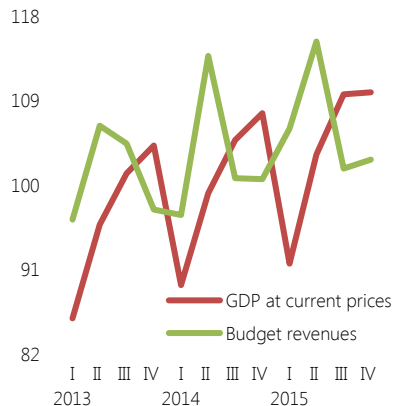
Overall, tax revenues are continuing to grow in all tax groups in 2016.

State budget expenditures have also been gradually increasing since 2011. In January-May 2016, budget expenditures amounted to EUR 3'632 mln, which was by 2.2 % more than during the respective period of 2015.

Budget Balance
as per cent of GDP



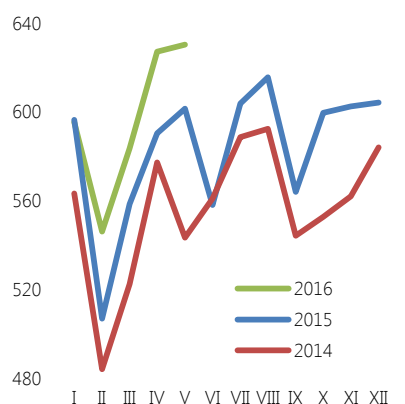
GDP and Budget Revenues
2012 Q4 = 100



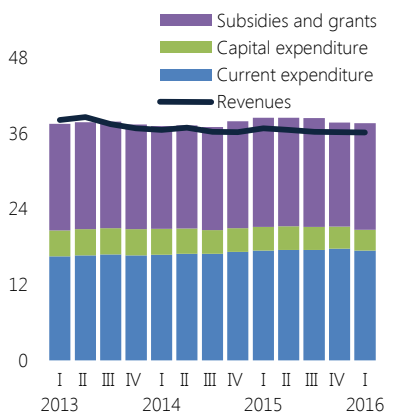
During the five months of 2016, the expenditures on subsidies and grants increased most rapidly – by 14.5%. Whereas capital expenditures and current expenditures decreased by 36% and 3.3%, respectively.

In the five months of 2016, in comparison with the respective period of previous year, expenditure on social care, economic activities and defence increased considerably, while expenditures on environmental protection and general government services decreased.

Tax Revenues
by months, mln euro



Consolidated Government Budget by Items
per cent of GDP, 4-quarter moving average



General Government Budget

	bln euro			per cent changes		
	2013	2014	2015	2016 Jan-May	2015	2016 Jan-May
Revenues, of which:	8.4	8.5	8.8	2.9	3.8	0.2
Indirect taxes, of which:	2.4	2.6	2.7	1.1	5.9	5.4
Value added tax	1.7	1.8	1.9	0.8	5.5	4.7
Income and real estate taxes	1.9	1.9	2.0	0.9	4.5	5.3
Social insurance contributions	2.0	2.0	2.0	0.8	3.7	2.9
Other taxes	0.2	0.2	0.2	0.1	8.9	1.0
Other revenues	2.0	1.9	1.8	0.9	-2.2	-12.6
Expenditure	8.5	8.9	9.2	3.6	2.9	2.2

LABOUR MARKET

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

In 2015, the situation in the labour market kept on improving. The unemployment rate decreased to 9.9%, which was by 0.9 percentage points less than in 2014, while the employment rate rose by 1.7 percentage points, reaching 60.8%. In 2015, there were 896.1 thsd employed persons within the country, whereas 98.2 thsd were unemployed, which was by 9.5 thsd less than in before the year.

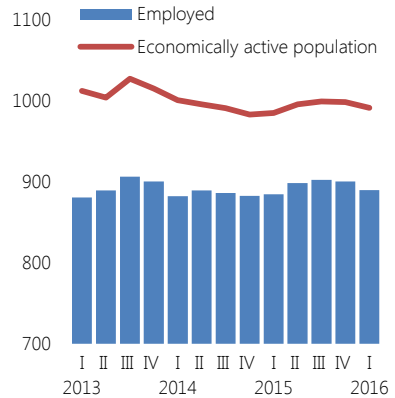
The situation in the labour market is continuing to improve. During the 2016 Q1, the number of the employed increased by 0.6% in comparison to the 2015 Q1, reaching 889.2 thsd or 61% of the total population aged 15-74. The employment rate increased by 1.3 percentage points.

In the 2016 Q1, the unemployment rate amounted to 10.3% and there were 101.6 thsd job seekers – by 0.1 percentage points more than during the 2015 Q1. The most significant increase in unemployment was experienced among residents within the age group of 55-74.

Although at a slower pace, the registered unemployment rate is also continuing to decrease. At the end of May 2016, there were 79.1 thsd unemployed persons registered in the country, which was approx. 1.5 thsd less than a year before. The registered unemployment rate at the end of May was 8.4%.

Employed and Economically Active Population

by quarters, in thousands



Occupied Jobs

in thousands

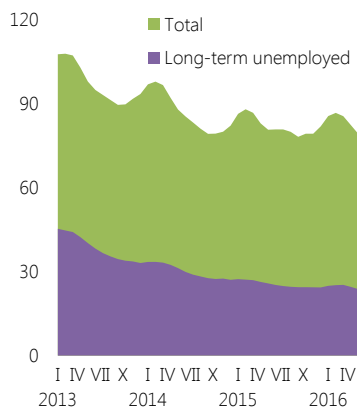
	2011	2012	2013	2014	2015	2016 Jan-Mar
Total	805.5	839.1	865.1	874.6	883.8	874.6
Agriculture, forestry	19.0	20.6	21.2	21.5	21.6	20.5
Manufacturing	109.1	114.5	117.3	114.4	111.2	110.7
Other industry	22.9	23.7	24.2	24.1	23.8	23.6
Construction	50.9	55.7	60.6	60.3	58.7	50.3
Trade and accommodation	162.8	170.7	173.9	176.0	179.0	176.9
Transport and storage	68.8	72.7	75.2	75.9	76.7	76.0
Other commercial services	157.0	168.5	176.2	180.3	188.3	191.4
Public services	215.0	212.8	216.5	222.1	224.3	225.1

The highest unemployment rate remained in the Latgale region (18.3%), but lowest – in Riga (5.3%).

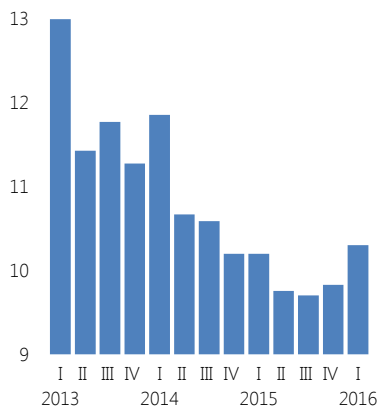
The situation in the labour market is still affected by the negative demographic trends – during the previous year the number of working age population (aged 15-74) decreased by 23.2 thsd or by 1.5% in comparison to 2014. The number of working age population also continued to decrease during the 2016 Q1 – it decreased by 23 thsd or by 1.6% in comparison to the 2015 Q1.

The overall situation in the labour market will continue to improve in 2016, however, at a slower pace than during the previous years. On the one hand, it will be affected by a higher basis effect in the labour market, whereas on the other hand – by negative demographic trends.

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	2016 Jan-Mar
<i>in thousands</i>						
Population*	1'595.3	1'560.0	1'536.1	1'495.8	1'472.6	1'458.0
Economically active population	1'028.2	1'030.7	1'014.2	992.3	994.2	990.9
Employed persons	861.6	875.6	893.9	884.6	896.1	889.2
Unemployed persons	166.6	155.1	120.4	107.6	98.2	101.6
<i>as per cent</i>						
Economic activity rate	64.5	66.1	66.0	66.3	67.5	68.0
Employment rate	54.0	56.1	58.2	59.1	60.8	61.0
Unemployment rate	16.2	15.0	11.9	10.8	9.9	10.3

* population in private households

PERSONAL INCOME

During the crisis the adjustment of remuneration was rather moderate. The drop in economic activities was compensated by a decrease in the number of employed.

With the economic situation becoming more stable, wages and salaries have been growing again since the end of 2010, although the unemployment rate has remained rather high.

As the demand for labour increases, average gross wages and salaries have also been rising gradually. They increased by 3.7% and 4.6% in 2012 and 2013, respectively, by 6.8% in 2014, and by 6.9% in 2015, reaching EUR 818.

A rapid increase of wages and salaries was also observed during the 2016 Q1 – average gross wages and salaries increased by 5.3%, as compared to the 2015 Q1. The highest wages and salaries were in the Riga region (EUR 937), whereas the lowest – in the Latgale region (EUR 571).

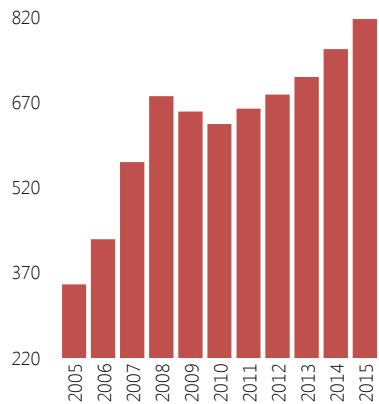
Since 2010, remuneration has been growing both in the private and public sector. In 2015, wages and salaries in the private sector rose by 7.9%, whereas in the public sector – by 5%. At the same time, it should also be noted that in 2015 the average gross wages and salaries in the public sector exceeded 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 within the real estate sector, trade sector, and the accommodation and food sector.

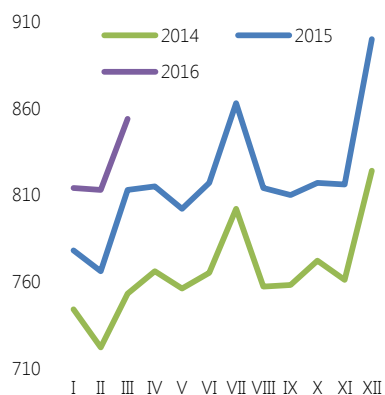
In the 2016 Q1, compared to the 2015 Q1, the most significant wage increase was observed in trade (by 8.3%), manufacturing (by 7.6%) and in construction (by 6.7%).

The highest monthly wages and salaries were recorded in the finance and insurance services sector – EUR 1'804 on average.

Average Monthly Wages and Salaries of Employed
gross, in euro



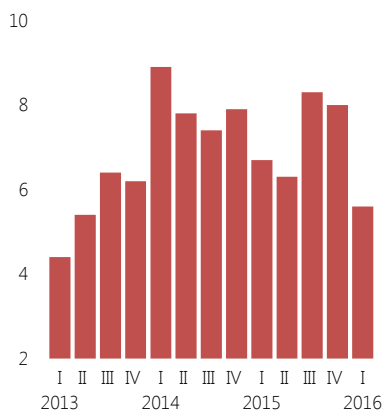
Average Monthly Wages and Salaries of Employed
gross, in euro



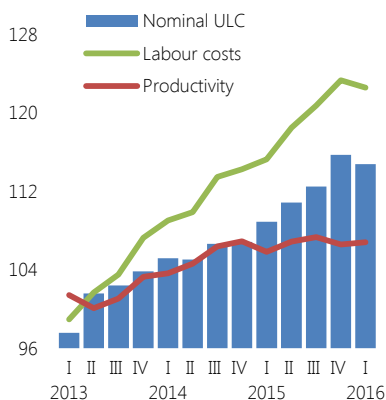
Along with the increase of nominal wage, real wage is also increasing gradually. In 2011-2012, along with the increase of consumer prices, the rise of real wage was moderate. In 2013, real wage increased by 5.6%, whereas in 2014 it grew by 8%, and in 2015 – by 7.4%. Real wage also continued to grow during the 2016 Q1, as it increased by 5.6% in comparison to the corresponding period of the previous year. During the last three years, the increase of real wage was mainly determined by the rapid growth of nominal wage, as well as the moderate changes of consumer prices.

The average old-age pension also keeps on increasing. In 2015, the average monthly old-age pension grew by 2.7%. Whereas during the 2016 Q1, the average monthly old-age pension rose by 2% in comparison to the 2015 Q1, and comprised EUR 277.78 per month on average.

Real Wage
over corresponding quarter of the previous year, as per cent



Labour Costs and Productivity
2012 Q4 = 100



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

	2011	2012	2013	2014	2015	2016 Jan-Mar
Total	4.4	3.7	4.6	6.8	6.8	5.3
Agriculture, forestry	8.2	0.7	4.8	8.6	5.0	8.4
Manufacturing	5.0	4.6	4.0	7.0	8.5	6.6
Other industry	3.7	3.6	1.8	5.0	5.5	5.3
Construction	4.7	2.0	6.8	7.7	7.9	6.7
Trade and accommodation	5.9	4.5	6.0	7.4	8.9	5.3
Transport and storage	1.0	7.7	0.5	5.9	4.5	4.7
Other commercial services	3.9	2.4	3.4	6.9	6.1	4.0
Public services	4.5	2.7	6.3	6.5	5.9	4.4

COMPARATIVE INTERNATIONAL STATISTICS

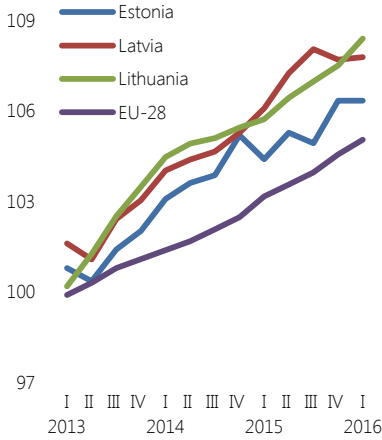
Economic Development in Baltic Countries

	Latvia	Lithuania	Estonia
Territory, thsd km ²	64.6	65.3	45.2
Population, thsd, at the 1 st June 2016	1'961.6	2'872.3	1'315.9*
Gross domestic product, over corresponding period of the previous year, %			
2014	2.4	3.0	2.9
2015	2.7	1.6	1.1
2015 Q4	2.7	2.0	0.7
2016 Q1	2.1	2.3	1.7
Volume of manufacturing production, over corresponding period of the previous year, %			
2014	-0.3	1.1	5.4
2015	4.3	5.4	-0.7
2015 Q4	2.5	6.0	-3.4
2016 Q1	0.5	6.4	-1.2
Retail trade turnover**, over corresponding period of the previous year, %			
2014	3.1	5.4	7.3
2015	2.3	2.4	3.2
2015 Q4	3.1	2.6	3.4
2016 Q1	1.8	5.0	5.5
Changes of consumer prices, over corresponding period of the previous year, %			
2014	0.7	0.2	0.5
2015	0.2	-0.7	0.1
2015 Q4	0.1	-0.4	0.1
2016 Q1	-0.5	0.7	0.3
Number of employed, over corresponding period of the previous year, %			
2014	-1.0	2.0	0.6
2015	1.3	1.2	2.5
2015 Q4	2.1	1.3	1.1
2016 Q1	0.6	2.5	1.0
Unemployment rate, % of economically active population			
2014	10.8	10.7	7.4
2015	9.9	9.1	6.2
2015 Q4	9.8	8.8	6.4
2016 Q1	10.3	8.4	6.5

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

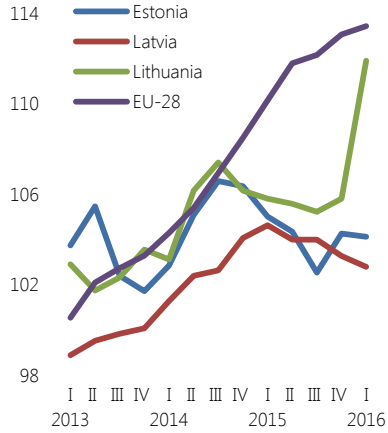
Gross Domestic Product

seasonally adjusted data
2012 Q4 = 100



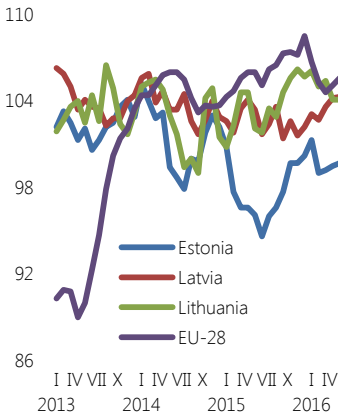
Exports of Goods and Services

seasonally adjusted data
2012 Q4 = 100



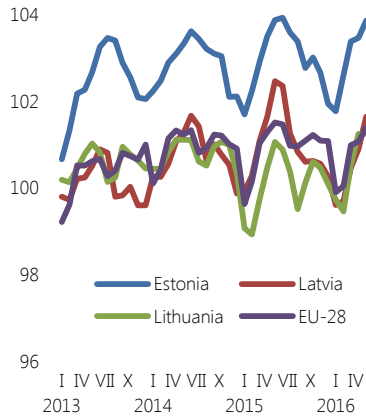
Economic Sentiment Indicator

seasonally adjusted data



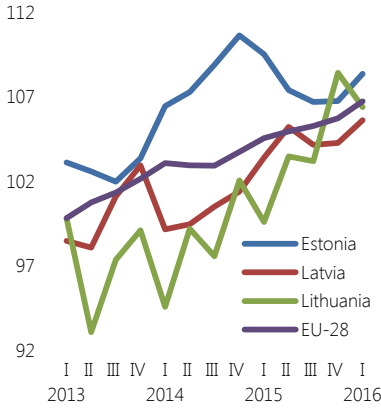
Harmonised Consumer Price Index

December 2012 = 100



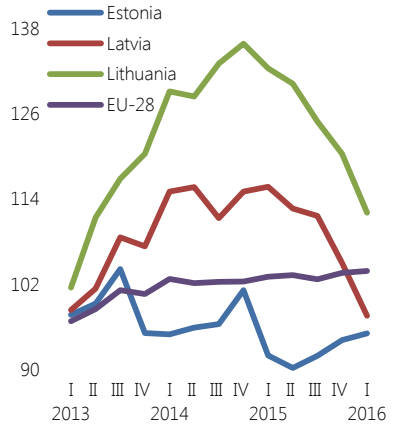
Manufacturing Production Volume

*seasonally adjusted data
2012 Q4 = 100*



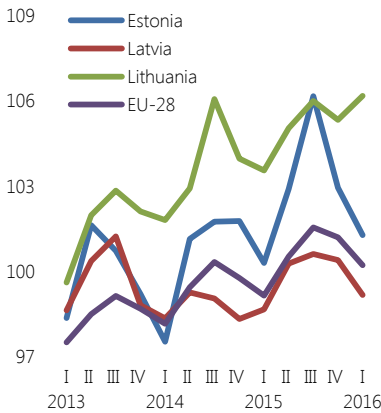
Construction Production Volume

*seasonally adjusted data
2012 Q4 = 100*



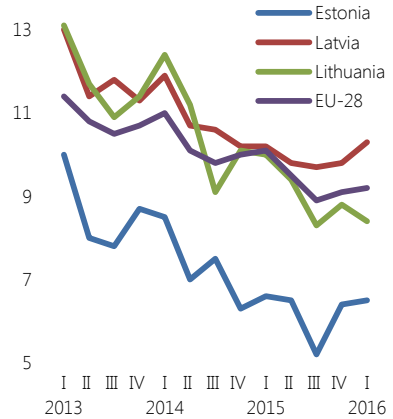
Number of Employed

*not seasonally adjusted data
2012 Q4 = 100*



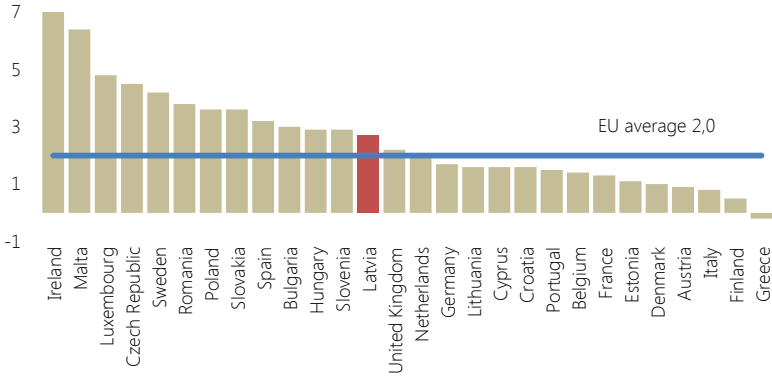
Unemployment Rate

as per cent



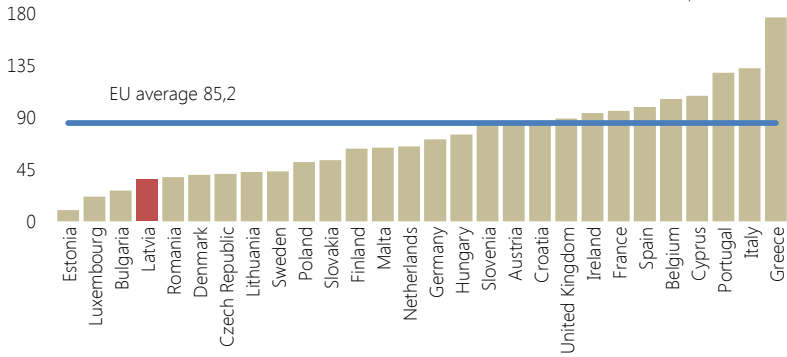
Gross Domestic Product

in 2015, changes of volumes, as per cent



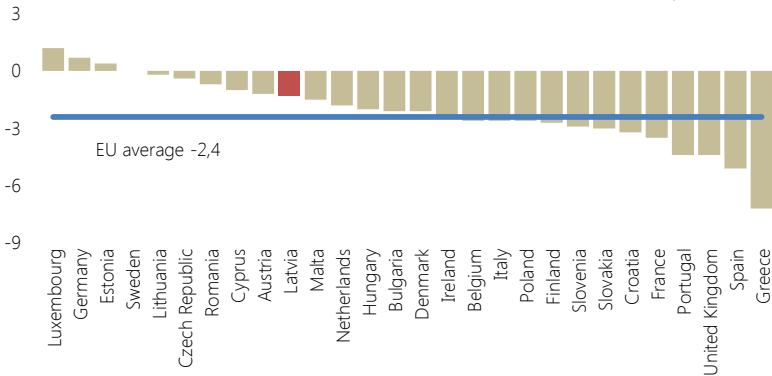
Public Debt

in 2015, as per cent of GDP



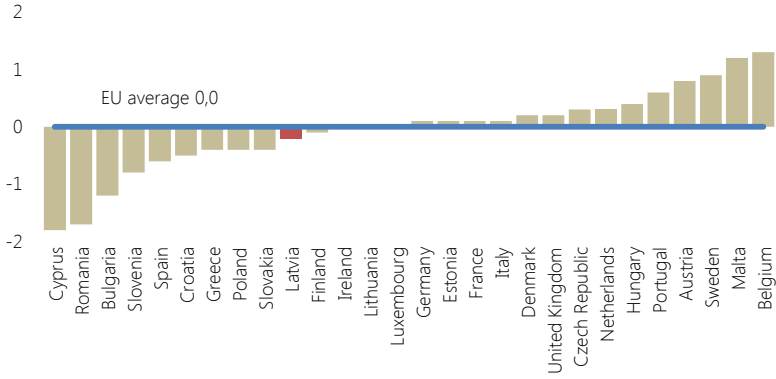
Budget Balance

in 2015, as per cent of GDP



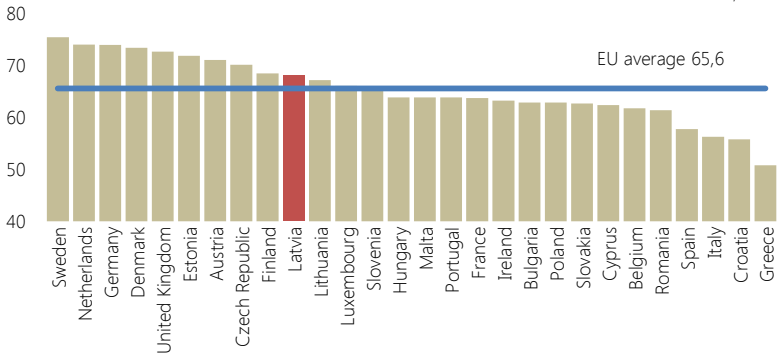
Harmonised Consumer Price Index

in May 2016, average annual, as per cent



Employment Rate

in 2015, as per cent



Unemployment Rate

in 2015, as per cent

