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ECONOMIC SITUATION: BRIEF OVERVIEW

From 2011 to 2013 growth of the Latvian economy on average amounted to 4.7% annually. Since 2014 growth rate is slowing down, which is determined by trends in external environment – slow increase in the EU and weakening of economic situation in Russia. In 2014 GDP increased by 2.4%. In the 1st quarter of 2015 GDP was by 1.9% more than a year ago.

In 2014 private consumption rose by 2.3%. The same as general economic growth, also private consumption dynamics was more moderate than a year ago. Improvement of the situation in the labour market and low inflation is promoting growth of purchasing power of population. In the 1st quarter of 2015 private consumption was by 2.6% higher than a year ago.

At the beginning of 2015 average wages and salaries continued to increase, in the 1st quarter number of employed population rose by 0.3% and level of unemployment reduced to 10.2%.

As budget expenditure is increasing, public consumption continues to grow. But dynamics of investment is moderate which is affected by the wait-and-see attitude of entrepreneurs in connection with uncertainty in external environment.

Situation in external environment is affecting opportunities of Latvia's exports. In 2014 exports increased by 2.2%. The increase was determined by rise of exports of goods, but volume of exports of services shrank. Total exports volume in the 1st quarter of 2015 was by 2.7% higher than a year ago.

The largest contribution in the GDP growth in 2014 was in construction, trade and services. Weak demand in exports markets slowed down growth of manufacturing. In 2015 growth remains in services and trade sectors, but rise of manufacturing volume in wood processing and metalworking promote rise in manufacturing.

In 2015 moderate price dynamics continue – inflation is mainly related to dynamics of oil and food prices in the world. In May consumer prices were by 1.2% higher than a year ago. In 2015 average level of consumer prices could increase slightly slower faster than in the previous year.

Further development of national economy of Latvia still will be closely related to exports opportunities, therefore the largest risk of development of Latvia is related to global economic development. In 2015 GDP growth might be around 2 per cent.

Key Indicators of Economic Development

	2011	2012	2013	2014	2015 ^f
<i>increase over the previous year, as per cent</i>					
Gross Domestic Product	5.0	4.8	4.2	2.4	2.0
Consumer prices	4.4	2.3	0.0	0.6	0.9
<i>per cent</i>					
Employment rate	54.0	56.1	58.2	59.1	60.1
Unemployment rate	16.2	15.0	11.9	10.8	9.8
<i>as per cent over gross domestic product</i>					
General government sector balance	-3.4	-0.8	-0.9	-1.4	-1.5
Exports-imports balance	-5.0	-4.4	-2.9	-2.9	-2.7

THE EXTERNAL ECONOMIC ENVIRONMENT

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

Since 2013 economic situation in the EU is improving gradually and GDP is increasing already for the eighth quarter in row. In the 1st quarter of 2015 as compared to the previous quarter GDP rose by 0.4% and was by 1.5% higher than a year ago. Of which in euro area GDP in the 1st quarter grew by 0.4% and over a year rose by 1%. The latest business surveys show that economic activities in the EU are increasing gradually and, compared to previous forecasts, the European Commission has improved the EU and euro area forecasts, however, fiscal problems in euro area still are topical.

In the USA economy there was a reduction – in the 1st quarter of 2015 as compared to the 4th quarter of 2014 GDP decreased by 0.2% and was by 2.7% higher than a year ago. Economic recession is related to cold winter conditions and drop in shale oil extraction sector. As these are temporary factors, in general in 2015 more rapid economic growth than in 2014 is forecasted.

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

Economic situation in Russia continues to get worst. In the 1st quarter of 2015 GDP reduced by 1.9%. World oil price drop observed at the end of 2014 has stopped and along with it pressure on Russia's ruble has reduced. However, high inflation still affects private consumption negatively. Uncertainty of geopolitical situation significantly affects investor confidence. In 2015 European Commission forecasts economic recession of 3.5 per cent.

Global Economic Growth

GDP, per cent changes

	2011	2012	2013	2014	2015f
World	4.0	3.2	3.3	3.4	3.5
USA	1.6	2.3	2.2	2.4	3.1
Japan	-0.5	1.8	1.6	0.0	1.1
China	9.4	7.8	7.6	7.4	7.0
CIS, of which	4.8	3.5	2.1	0.8	-2.7
Russia	4.3	3.4	1.3	0.6	-3.5
European Union, of which:	1.7	-0.5	0.0	1.4	1.8
Germany	3.6	0.4	0.1	1.6	1.9
Sweden	2.7	-0.3	1.3	2.1	2.5
United Kingdom	1.6	0.7	1.7	2.8	2.6
Lithuania	6.1	3.8	3.3	2.9	2.8
Estonia	8.3	4.7	1.6	2.1	2.3

Source: European Commission, f – forecast

GROSS DOMESTIC PRODUCT: EXPENDITURE

After rapid economic growth lasting several years when average annual increase rate of GDP in 2005-2007 was almost exceeded 10%, as a result of global financial crisis, in 2008 Latvian economy experienced recession. During the crisis GDP reduced by almost 20%, reaching the lowest value at the end of 2009.

From 2011 to 2013 growth of the economy of Latvia on average reached 4.7% annually, which was one of the most rapid in the EU.

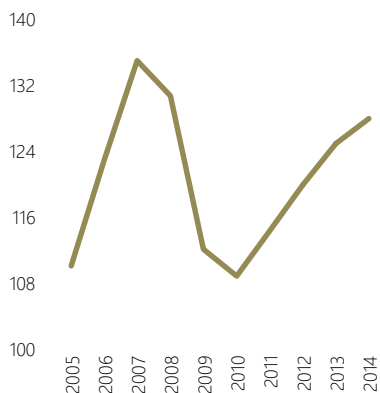
In 2014 growth rate slowed down, which was determined by trends in external environment – slow increase in the EU and weakening of economic situation in Russia. In 2014 GDP was by 2.4% higher than in the previous year. Although during the last few years, rather rapid increase was observed in Latvian economy, however GDP is still less by 5% than it was before the crisis in 2007. In the 1st quarter of 2015 the GDP rose by 1.9% as compared to the corresponding period of the previous year.

Still rather fast growth of average wages and salaries and low inflation is promoting increase of purchasing power of population. In the 1st quarter of 2015, compared to the 4th quarter of 2014, private consumption rose by 0.6% (according to seasonally adjusted data) and was by 2.6% higher than a year ago. Compared to the second half of the last year, growth rates of private consumption have become slightly more rapid.

In May 2015, consumer confidence had improved slightly – it was higher by 2 points, compared to December 2014, however, it still was negative.

Gross Domestic Product

2004 = 100



Expenditure of Gross Domestic Product

changes over the previous year, as per cent

	2009	2010	2011	2012	2013	2014
Gross Domestic Product	-14,2	-2,9	5,0	4,8	4,2	2,4
Private consumption	-16,2	3,1	2,9	3,0	6,2	2,3
Public consumption	-10,7	-8,1	3,1	0,4	2,9	3,4
Gross fixed capital formation	-33,3	-20,0	24,2	14,5	-5,2	1,3
Exports	-12,9	13,4	12,0	9,8	1,4	2,2
Imports	-31,7	12,4	22,0	5,4	-0,2	1,6

In 2015 government consumption continues to increase – in the 1st quarter, compared to the 1st quarter of 2014, it was by 3.4% higher. But dynamics of investment is moderate which is affected by the wait-and-see attitude of entrepreneurs in connection with the increasing uncertainty in external environment. In the 1st quarter of 2015 investment was by 0.9% lower than a year ago.

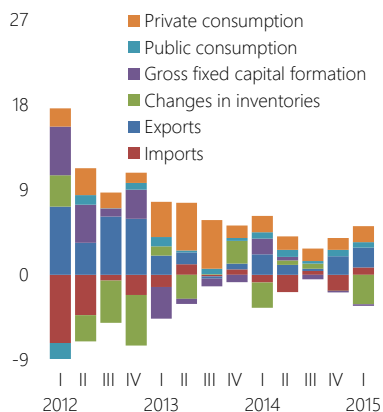
Since 2010 exports of Latvian goods and services increased very rapidly and it was main driving force of the development of national economy. Exports volume in 2012 exceeded pre-crisis level by almost 25%. Since 2013, due to the low demand in external markets, exports dynamics has become more moderate. In 2014 Latvian exports was affected by slower than expected growth in the EU countries and worsening of economic situation in Russia and exports volume rose by 2.2 per cent.

In the 1th quarter of 2015, exports volumes increased by 3.5%, compared to the 1th quarter of 2014. Growth of exports was ensured both by rise of exports volume of goods by 2.2% and of exports volume of services by 7.1%. After considerable drop during the crisis, imports volume grew rather rapid both in 2010 and in 2011. Since the 2012 imports dynamics is more moderate. In the 1th quarter of 2015, imports volumes reduced by 1.2%, compared to the 1th quarter of 2014. In the 1st quarter of 2015 exports-imports balance was -1.9% of GDP.

In 2015 events in external environment will continue to affect exports, which means that rapid growth of exports sooner is not expected. It is expected that private consumption will continue to increase. Its dynamics will be determined by the increase of wages and salaries, which, however, will be slower than in 2014.

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
	I	II	III	IV	I	II	III	IV	I
Gross domestic product	3.1	4.6	4.6	4.5	2.8	2.3	2.4	2.1	1.9
Private consumption	5.9	8.2	8.4	2.3	2.7	2.3	2.1	2.2	2.6
Public consumption	6.2	1.2	3.7	1.5	3.7	4.2	1.7	3.8	3.4
Gross fixed capital formation	-15.6	-2.5	-2.9	-2.8	9.3	1.8	-1.7	-0.6	-0.9
Exports	3.4	2.1	-0.4	1.0	3.5	1.8	0.4	3.3	3.5
Imports	1.9	-1.8	0.2	-0.9	1.2	3.0	-0.7	2.8	-1.2

GROSS DOMESTIC PRODUCT: DEVELOPMENT OF SECTORS

After significant reduction of volume during the crisis, due to the improvement of competitiveness and exports opportunities, tradable sectors recovered first from the crisis. In the main exports sector – manufacturing – production volume in 2013 exceeded level of 2009 by 24%. Growth of tradable sectors and rise of income from exports promoted increase of domestic market oriented sectors – commercial services, trade and construction, whose contribution in growth during the last years has increased.

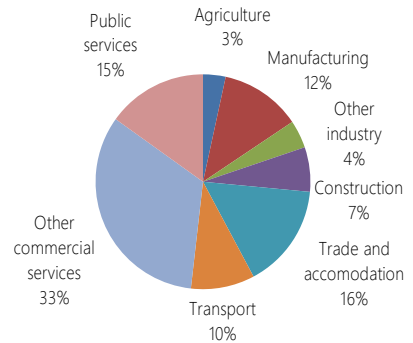
Weak demand in exports markets in 2013 and 2014 slowed down growth of manufacturing and in general production volumes in the sector reduced by 0.3% over a year. In 2015 production volumes of manufacturing increased rapidly – in the 1st quarter – by 4.4 per cent.

In 2014 production volume in other industry sectors reduced by 2.5%. Mainly it was related to weather, in the result of which less electricity and heat energy was produced. Also in 2015 production volume in the sector are reducing and in the 1st quarter it was by 4.1% lower than a year ago.

Since 2011 rapid growth was observed in construction sector. In 2014 volumes of construction rose most rapidly as compared to other sectors – by 8.1%. Construction of buildings provided larger contribution in the rise of sector. In general at the beginning of 2015 volume of construction remained at the level of corresponding quarter of 2014.

GDP Structure

2014, as per cent



Gross Domestic Product by Sectors

as per cent

	2011	2012	2013	2014	2011	2012	2013	2014
	volume changes				contribution to changes			
Gross Domestic Product	5.0	4.8	4.2	2.4	5.0	4.8	4.2	2.4
Agriculture	-1.8	7.5	-0.1	1.5	-0.1	0.4	0.0	0.1
Manufacturing	4.0	4.6	0.0	-0.3	0.4	0.7	0.0	0.0
Other industry	-5.2	-5.5	-3.3	-2.5	-0.2	-0.3	-0.2	-0.1
Construction	27.1	14.5	7.5	8.1	1.0	1.0	0.5	0.6
Trade and accommodation	4.1	1.7	4.8	2.3	0.5	0.3	0.9	0.4
Transport and storage	18.5	6.9	1.6	3.2	1.5	0.9	0.2	0.4
Other commercial services	6.2	5.2	6.0	1.3	1.4	1.8	2.2	0.5
Public services	3.1	0.0	3.8	3.3	0.4	0.0	0.7	0.6

In 2014 stable growth rates remained in transport sector while rise reached 3.2%. The growth was promoted both by increase of volume of freights by rail, at ports and by transport by road. At the beginning of 2015 volume of provision of services in transport sector reduced – in the 1st quarter – by 1.6%. The decrease was mainly promoted by drop in freight turnover at railway and ports.

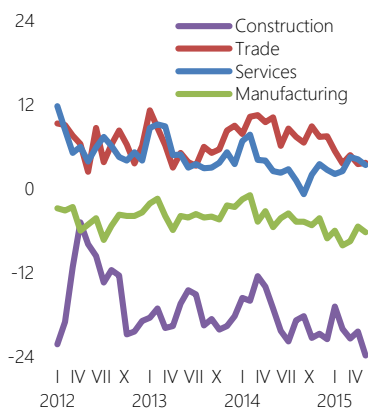
Volume of services provided in trade sector continue to grow (by 2.3% in 2014). Rise in volume of services provided at the beginning of 2015 was more moderate – in the 1st quarter volume increased by 1.1%. Trade sector is positively affected by the increase of private consumption and growth of retail trade turnover. But weak foreign trade activities are slowing down growth of wholesale sector.

Growth in commercial services sector in 2014 was more moderate than in 2013 and increased by 1.3%. Increase was mainly promoted by growth in arts, entertainment and recreation, as well as in financial and insurance activities. At the beginning of 2015 volume of services provided is increasing more rapidly than in 2013 – in the 1st quarter – by 3.8 per cent.

As government expenditure increases, volume of services provided in public services sectors also rises – in 2014 it grew by 3.3%. In 2015 volume of services provided in the sector continue to increase and they were by 3.5% higher than in the level of the corresponding period of 2013.

As private consumption is increasing, in 2015 stable development of domestic market-oriented sectors will remain. Development of tradable sectors will be affected by dynamics of demand in foreign markets.

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

	2013				2014				2015
	I	II	III	IV	I	II	III	IV	I
Gross Domestic Product	3.1	4.6	4.6	4.5	2.8	2.3	2.4	2.1	1.9
Agriculture	1.2	-1.7	-2.0	4.3	9.1	4.3	-5.6	2.4	-8.6
Manufacturing	-4.8	-0.6	2.5	2.6	1.2	0.1	-0.6	-1.7	4.4
Other industry	-1.4	1.4	-4.1	-8.3	-7.4	-5.4	0.5	3.4	-4.1
Construction	9.8	5.3	11.6	3.9	24.6	15.8	0.6	4.4	-0.1
Trade and accommodation	6.2	5.8	5.2	2.2	2.6	2.2	2.4	2.1	1.1
Transport and storage	2.0	0.5	0.8	3.3	5.1	2.2	2.3	3.2	-1.6
Other commercial services	4.2	6.2	7.3	6.6	1.9	-0.1	2.9	0.7	2.1
Public services	1.3	5.0	2.7	5.1	3.3	3.4	3.2	3.4	3.5

MANUFACTURING

During the last two years the weak demand in export markets is slowing down development of manufacturing sector. In 2013 production volumes in the sector remained at the level of 2012, but in 2014 manufacturing production output volume reduced by 0.3%. Development trends differ greatly in different manufacturing sub-sectors.

Production output volume in manufacturing in the 4 months of 2015 increased rapidly and were by 6.3% higher than a year ago. In separate subsectors stable growth is continuing, but in other sectors, due to impact of various factors, production volume is decreasing.

In the largest manufacturing sector – in wood processing production volume continues to increase. Output of the sector in 2014 was by 6.9% higher than a year ago. Production volume in the 4 months of 2015 was by 8.2% higher than a year ago.

Significant contribution in the development of overall indicators of manufacturing at the beginning of 2015 was ensured by metalworking sector, which was affected by resumption of activity of one of major industrial enterprises JSC “KVV Liepājas Metalurģs”.

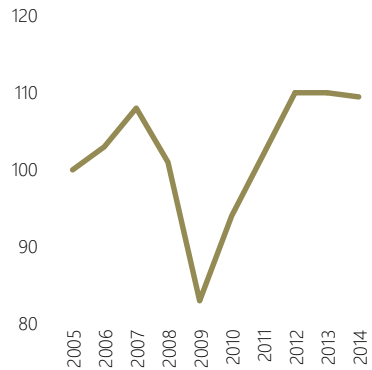
Volumes of production manufactured in food industry in 2014 in general remained at the level of the previous year, but in January-April 2015 production volumes were by 5.1% lower than a year ago. Sector development is considerably affected by economic relationship between EU and Russia.

Most rapid increase in production volume both in 2014 and at the beginning of 2015 was in manufacture of computers, electrical and optical equipment.

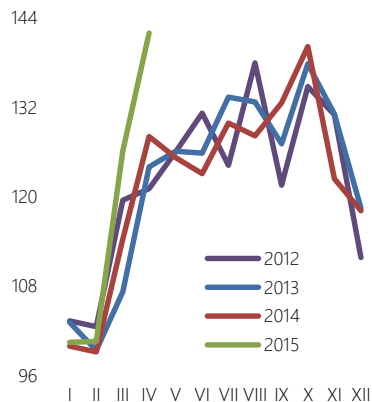
However production volumes decrease in light industry, manufacture of non-metallic mineral products, paper industry and publishing and chemical industry.

Since the middle of 2012 in general production capacity utilisation rate in manufacturing has not changed significantly and in the 2nd quarter of 2015 it was 72.2 per cent.

Manufacturing
output, 2005 = 100



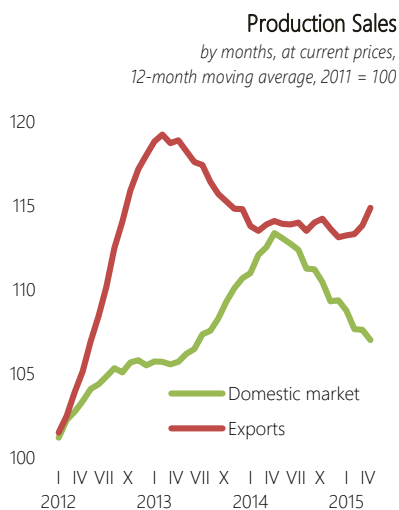
Production Volume Index
by months, seasonally unadjusted data, 2010 = 100



In 2014 total turnover of manufacturing reduced by 1.4%. Turnover on products sold at the domestic market dropped by 1.2%, while turnover of exported goods – by 1.5 percent.

In 4 months of 2015 manufacturing turnover was 0.4% more than a year ago. During this time turnover of products sold at the domestic market decreased by 6.8%, while turnover of exported goods increased by 4.7 per cent.

Majority of production produced in manufacturing is exported, therefore, growth of the sector in 2015 will be closely related to trends in external markets – slow economic growth in the EU and economic recession in Russia.



Main Indicators of Manufacturing

as per cent

	Structure of output	Structure of occupied jobs	Exports share in sales of sector	Volume changes		
				2013	2014	2015 Jan-Apr
Manufacturing – total	100	100	61.6	0.1	-0.3	6.3
Food industry	25.5	21.7	35.5	6.0	0.1	-5.1
Light industry	4.1	10.6	86.0	1.4	-13.6	-18.7
Wood processing	25.7	20.3	72.8	2.7	6.9	8.2
Paper industry and publishing	4.5	4.0	59.8	5.6	-0.6	-2.5
Chemical industry	7.6	6.7	76.7	-8.7	-2.6	-0.2
Other non-metallic mineral products	6.6	4.5	46.7	4.6	1.2	-7.1
Metals and metal articles	9.1	10.0	59.3	-17.6	-10.5	..
Electrical and optical equipment	6.0	3.9	90.3	18.4	32.3	23.4
Machinery and equipment	2.2	3.0	81.5	1.4	2.4	3.4
Motor vehicles	3.4	3.3	86.7	3.0	-15.2	2.4
Other industries	5.3	12.0	56.9	-7.6	-12.0	0.7

INVESTMENTS

Since 2008 investments in national economy of Latvia are fluctuating. In the years of rapid decline they decreased by more than a half, in 2010 reaching the lowest level.

As economics became more stable, investments rose rather rapidly, however the dynamics is becoming more moderate. In 2014, investment volume in the national economy of Latvia in general lagged behind by almost 34% of the pre-crisis level and comprised 23% of GDP (in 2007 – 36.5%). Also at the beginning of 2015 investment process was slightly weaker than a year ago. In the 1st quarter of this year, as compared to the corresponding period of the previous year, investment in the national economy of Latvia were at almost 1% lower level. Mainly it was affected by the reduction of investment in dwelling and transport vehicles, which was partially covered by the increase of investment in other machinery and equipment, as well as in intellectual property products.

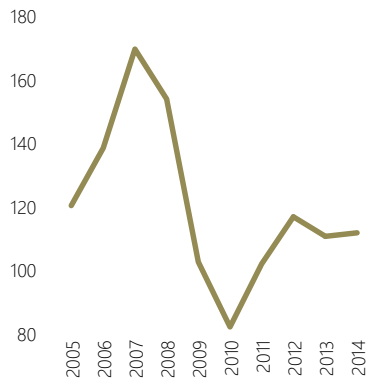
According to provisional data, in 2014 non-financial investment in sectors of manufacturing of goods reduced by 5.3%, which was mainly determined by lower activity of investments in energy sector. But investments in manufacturing rose by 22%. Investment volume in services sectors in 2014 was by 5.5% higher than a year ago. In the 1st quarter of 2015 investment in sectors of manufacturing of goods was at 1.3% lower level than a year ago, while in services sectors it rose by 8.5 per cent.

Due to geopolitical uncertainty in the region it is expected that in the nearest years investment dynamics will remain moderate.

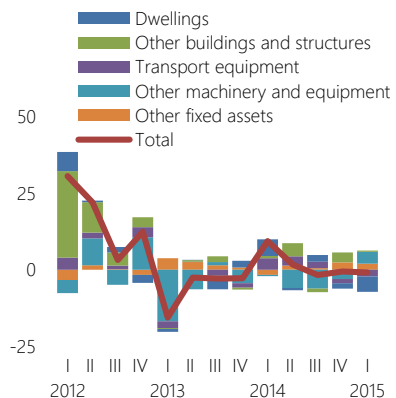
Also intensity of FDI flows is rather moderate. Affected by the global financial crisis volume of the attracted FDI in Latvia has reduced significantly. As economics became more stable, FDI flows intensified, but during the last two years they are becoming weaker.

The attracted net FDI flows in 2014 in general was almost two times less than in 2013 and comprised 1.5% of GDP.

Gross Fixed Capital Formation
2004 = 100



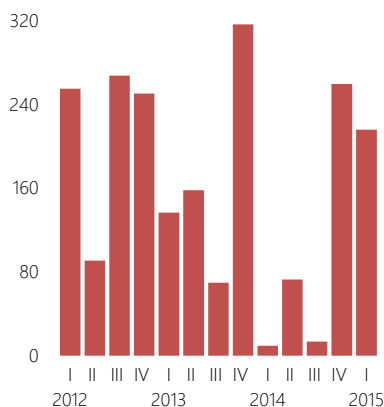
Gross Fixed Capital Formation
changes over corresponding quarter of the previous year, as per cent



According to international investment balance at the end of March 2015 FDI accrued in economy of Latvia reached EUR 12'447.9 mln and comprised 51% of GDP. Compared to the end of March of the previous year, they increased by 8%. Larger share of FDI by sectors is on investment in bank intermediation, real estate activities and manufacturing. Sweden is the largest investor in the economy of Latvia. At the end of March 2015 investment of Sweden entrepreneurs comprised almost 20% of total FDI accrued. Mainly they were investments in financial intermediation.

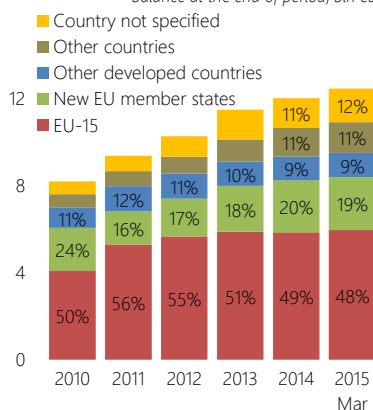
Foreign Direct Investment in Latvia

flows by quarters, mln euro



Foreign Direct Investment in Latvia

balance at the end of period, bln euro



Foreign Direct Investment in Latvia by Sectors

mln euro

	Structure	Closing position				
	2015 Mar	2011	2012	2013	2014	2015 Mar
Agriculture	3.6	263.2	294.4	299.9	311.5	442.5
Manufacturing	11.8	1'114.4	1'200.3	1'403.5	1'415.0	1'474.2
Other industry	5.0	385.9	492.2	589.3	549.9	625.0
Construction	3.9	544.4	528.1	559.6	475.6	490.1
Trade and accommodation	11.3	1'329.2	1'416.1	1'472.9	1'326.3	1'407.2
Transport and storage	3.1	399.6	449.0	408.1	407.0	391.5
Financial and insurance activities	26.6	2'571.6	2'825.7	2'922.2	3'013.5	3'310.5
Other services	18.3	1'916.9	1'866.6	2'071.8	2'217.8	2'282.0
Not allocated economic activity	16.3	834.5	1'185.5	1'842.4	2'281.4	2'024.9
Total	100	9'359.8	10'257.9	11'569.6	11'998.1	12'447.9

FOREIGN TRADE

After the crisis foreign trade of Latvia developed very rapidly. As compared to 2009, exports of goods at current prices in 2012 has almost doubled, while imports of goods – increased by more than 80%. From 2009-2012 on average exports has grown by 25%, but imports – by 23% annually. In this period, the largest contribution to growth in exports of goods was provided by agricultural and food products, as well as by metals and metal articles. Exports of wood processing, machinery and electrical equipment and mineral products have risen significantly.

Exports of Latvian goods at current prices in 2013 was developing moderately, it rose by 1.5%, but in 2014 slightly decreased – by 2.4%. Rate of imports of goods slowed down even more – in 2013 increase comprised 1%, but in 2014 – there was a reduction of 0.4 percent.

In 2014 development of exports was mainly promoted by the rise in exports of wood and wood products and machinery products. Due to termination of economic activity of JSC „Liepājas Metalurģs” exports of metals and metal articles decreased significantly. In 2014 also exports of agriculture and food products group has reduced.

In January-April 2015 exports of Latvian goods at current prices increased by 2.5%. However imports of goods during this period has reduced by 2.8%. As exports of goods grew and imports reduced, trade balance continues to improve.

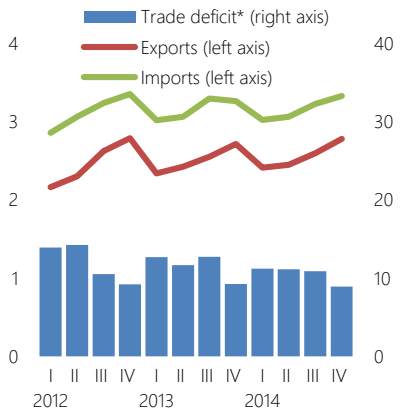
In January-April 2015 exports was positively influenced by rise of exports of machinery and equipment, wood, as well as chemical products. But, as prices decreased significantly, exports value of agriculture and food products reduced. Also exports of transport vehicles and metal articles decreased.

In January-April 2015, reduction of the imports of goods was mainly affected by decrease of imports of mineral products and agriculture and food products. It was determined by significant price reduction of oil and food products. Imports of transport vehicles, metals and metal articles, as well as of light industry goods also decreased.

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



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



* as per cent of total trade turnover

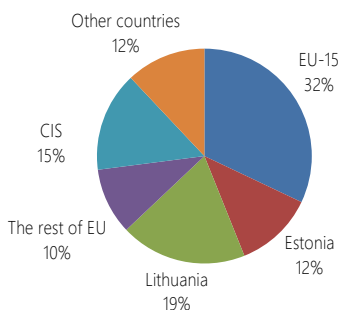
These reductions were partly compensated by growth of imports of machinery and equipment, chemical products and wood and wood articles.

Exports of goods to the EU countries in 2014 rose almost two times faster than total exports, but to CIS countries – reduced by 5%. Export to main export partner of Latvia – Lithuania – has increased by 11.3%, but to Estonia – export decreased by 4.5 per cent.

In January-April 2015, exports to the EU countries increased by 4.9%, which similarly as in 2014 was significantly more rapid than total export growth. But to CIS countries exports decreased by 19.4%. It was determined by significant reduction of exports to Russia (by 23.9%). It must be noted that exports to other countries is growing rapidly (by 11.8%), which means that entrepreneurs partly are able to compensate losses from export reduction to CIS countries by finding new sales markets.

Largest Latvia's trade partners in four months of 2015 were Lithuania – 17% of total foreign trade turnover, Estonia – 10%, Poland and Germany – 9% each, Russia – 8%, as well as Sweden and Finland – 4% each.

Structure of Exports of Latvian Goods in 2014, as per cent



Exports and Imports of Latvian Goods in January-April 2015, as per cent

	Exports			Imports		
	structure	volume changes	contribution to changes	structure	volume changes	contribution to changes
Total, of which:	100	2.5	2.5	100	-2.8	-2.8
Agricultural and food products	15.4	-18.0	-3.5	14.9	-10.6	-1.7
Mineral products	7.6	0.2	0.0	12.0	-21.3	-3.1
Chemical products	10.3	10.8	1.0	17.0	6.0	0.9
Products of light industry	5.3	10.5	0.5	6.3	-3.8	-0.2
Wood and articles of wood	18.1	6.4	1.1	3.1	15.4	0.4
Metals and metal articles	9.1	-2.9	-0.3	8.3	-5.0	-0.4
Machinery and electrical equipment	18.9	22.7	3.6	21.5	10.9	2.1
Transport vehicles	4.5	-15.7	-0.9	7.1	-9.0	-0.7
Other goods	10.8	8.4	0.9	9.8	-0.1	-0.0

BALANCE OF PAYMENTS

Since the period of crisis, Latvian external stability has improved significantly. During the last years, the current account of balance of payments has been at the level of a small deficit. In 2012 it accounted for 3.3% of the GDP, and in 2013 – 2.3%, and in 2014 – 3.1% of the GDP. On average over the last three years negative balance of the current account amounted to 2.9% of the GDP, which does not exceed the EU indicative threshold set out in the EU early-warning mechanism.

Current account fluctuations are mainly determined by changes in foreign trade balance. Latvia is characterised by 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. As the economy started to stabilise, exports grew faster than imports. 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, the foreign trade deficit has been moderately decreasing. In 2014 it accounted for 10.1% of the GDP, and in the 1st quarter of 2015 – 9.5% of the GDP. External trade balance improved, owing to rapid increase in exports.

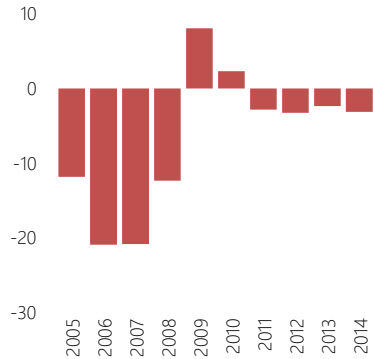
Balance of services is positive, and covers foreign trade deficit by almost 80%. In the 1st quarter of 2015 export of services increased by 5%, and import of services grew by 6.9% as compared to the previous year, and the balance of services reached 7.6% of the GDP (in 2014 – 7.4%).

In the last three years the balance of primary income has been negative with an annual average of 0.7% of the GDP with relatively small fluctuations. Driven by the inflow of EU funds subsidies, in the 1st quarter of 2015 balance of primary income was positive (1.9% of the GDP).

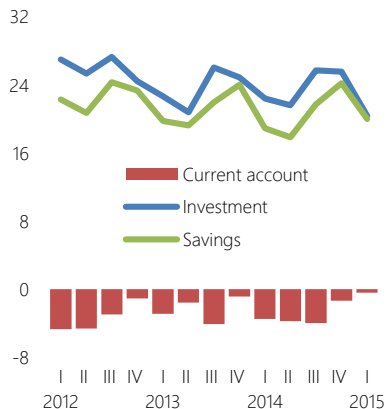
Balance of financial accounts (excluding reserve assets) was negative in 2014 – 4.5% of the GDP. Increase of the financial account deficit was mainly determined by changes in other investment flows in the banking sector in the first half of the year. Balance of income witnessed a surplus of 2% of the GDP.

FDI flows increased more rapidly at the beginning of 2015, but are still lagging behind the level of the pre-crisis period, which means that investors are still cautious.

Current Account Balance
as per cent of GDP

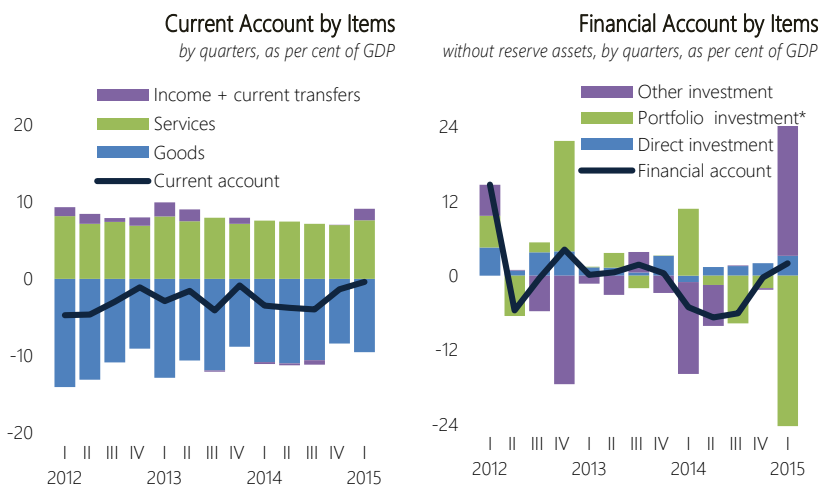


Current Account, Investment and Savings
by quarters, as per cent of GDP



Significant fluctuations can be observed in portfolio investments and positions of other investments.

In the 1st quarter of 2015 balance of other investments had a surplus of 23% of the GDP, while portfolio investment balance deficit reached 20.9% of the GDP. Fluctuations in balance of portfolio and other investments are affected by financial sector stabilisation measures and public sector debt restructuring.



* portfolio investment and derived financial instruments

Latvian Balance of Payments by Items as per cent of GDP

	2010	2011	2012	2013	2014	2015 Jan-Mar
A. Current account	2.3	-2.8	-3.3	-2.3	-3.1	-0.4
Trade balance	-8.2	-12.0	-11.6	-10.9	-10.1	-9.5
Service balance	7.2	7.3	7.4	7.6	7.3	7.6
Net income	1.0	0.0	-0.6	-0.3	-0.8	1.9
Net current transfers	2.3	1.9	1.6	1.3	0.5	-0.4
B. Capital account	1.9	2.1	3.0	2.5	3.0	3.3
C. Financial account*	-2.1	-4.0	2.9	0.7	-4.5	2.0
Direct investment stock	1.5	4.9	3.2	1.6	1.0	3.2
Portfolio investment**	-2.8	-1.8	4.7	0.1	-0.5	-24.3
Other investment	-0.7	-7.2	-5.1	-1.0	-5.0	23.0
D. Deviation	1.8	0.3	1.0	0.8	4.1	-3.4
E. Reserve assets	-4.0	4.5	-3.6	-1.7	0.5	-1.5

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

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%, but in 2012 – 1.6%. In 2013 consumer prices decreased by 0.4%. In 2014 very moderate price increase could be observed – by 0.2%, but annual average price level in 2014 rose by 0.6 per cent.

Major influence on consumer prices during the last years had global price drop of oil and food.

In 2015 moderate price rise continues. In five months of 2015 prices increased by 2.3%. In May consumer prices were by 1.2% higher than a year ago. In January-May the largest impact on price changes mainly had price rise on electricity (by 27.5%), on food (by 2.5%), on services (by 1.7%), as well as on wearing apparel and footwear (by 6.5%) and on transport (by 2.2%). It must be noted that global food prices in January-May reduced by 10.2%. In January-May global oil prices on average rose by 3% and in the second half of May they became stable at level of 65 USD per barrel (in Latvia fuel prices grew by 1.2%).

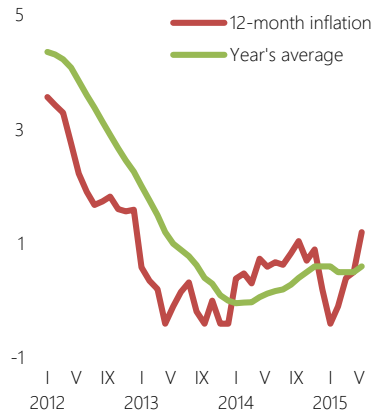
In general average annual inflation this year will be determined by external factors (dynamics of oil and food prices in the world) and it could be slightly higher than in previous year.

In May 2015, compared to May 2014, in the EU countries price level increased by 0.3 per cent.

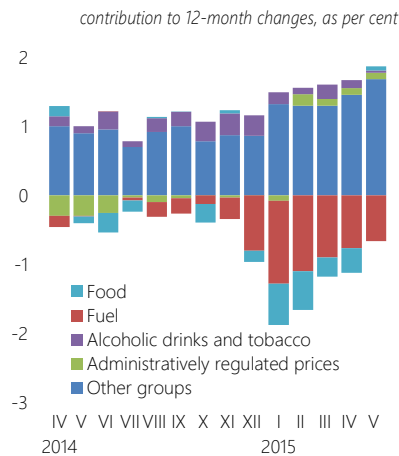
After rapid increase in 2010-2012, in 2013 producer prices were rising moderately. In 2014, average level of producer prices rose slightly (by 0.4%), mainly due to price increase in manufacturing by 0.4 per cent.

In May 2015, compared to May 2014, general level of producer prices decreased by 0.1%, on products sold in the domestic market and on exported production decrease by 0.1 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

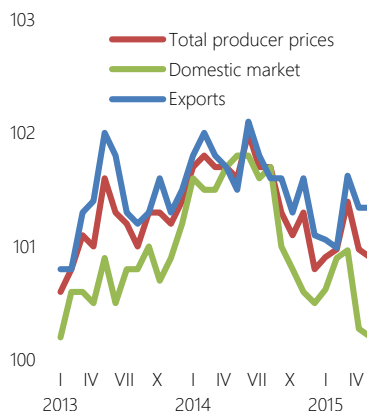


Producer prices in manufacturing in May 2015 reduced by 0.7% as compared to April of previous year. Over a year dynamics of producer prices reduced both on products sold in domestic market and on exported products – by 1.5% and 0.2%, respectively, which mainly can be explained with rapid price drop of energy resources since the middle of 2014.

Most significant price rise was observed in manufacture of computers, electrical and optical equipment, but decreasing impact – in manufacture of food and wood processing. Russia's embargo on food products, as well as economic situation in the EU and Russia and drop of global prices of raw materials continue to affect producer prices. It must be noted that during a year global prices of energy and industrial and agricultural raw material reduced rapidly.

Producer Prices in Manufacturing

by months, December 2010 = 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
2014	May	-0.1	0.6	1.3	0.1
	June	0.3	0.7	1.6	0.2
	July	-0.4	0.6	1.2	0.2
	August	-0.6	0.8	0.6	0.3
	September	0.5	1.0	1.1	0.4
	October	0.0	0.7	1.1	0.5
	November	-0.3	0.9	0.8	0.6
	December	-0.6	0.2	0.2	0.6
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

MONETARY INDICATORS

After worsening of economic situation during the crisis since 2010 situation in financial sector is improving gradually.

At the beginning of 2015 volume of deposits and new loans issued continued to increase in banking sector, also reduction rates of overall credit portfolio decreased.

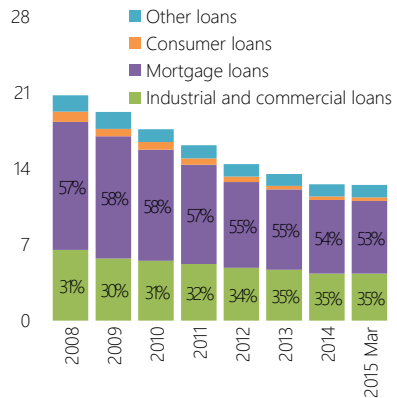
In the 1st quarter of 2015 in banking sector new loans in amount of EUR 601.9 mln were granted in total, which is by 21% more than a year ago (it must be taken into account that in the 1st quarter of 2014 volume of new loans issued was very small). Share of new loans issued to non-residents has increased by almost 50%. Share of loans issued to non-residents in the banking sector total credit portfolio account for 15.3%.

Since the beginning of 2015 volume of new loans granted to enterprises is increasing slightly, however, it still is at a low level. In the 1st quarter of 2015, their volume were by 5% higher than a year ago and comprised EUR 154.4 mln or 26% of the total volume of new loans granted. Household crediting is also improving – in the 1st quarter volume of new loans granted increased by 21% and comprised EUR 83.6 mln or 14% of total amount of new loans granted.

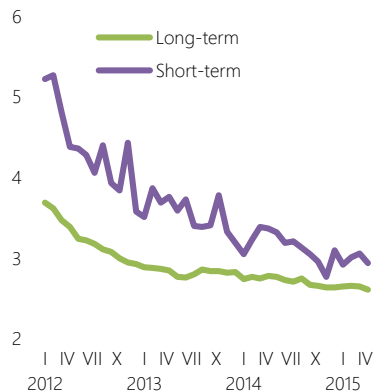
At the beginning of 2015 total credit portfolio of banks kept decreasing, but negative trend has reduced. At the end of the 1st quarter, compared to the same period of 2014, balance of loans shrank by 3.5%. Balance of mortgage loans fell most rapidly (by 4.9%) and balance of industrial loans (by 3.7%). But surplus of commercial loans rose slightly. Volume-wise the majority of loans were issued for real estate sector and manufacturing activities.

Even though quality of loans still continues to improve, in the 1st quarter of 2015, 13.1% of loans in the total credit portfolio of banking sector were with overdue payments, which is by 0.8 percentage points higher than in the previous quarter. Improvement of quality of credit portfolio of banking sector is mainly related to writing off bad loans.

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



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

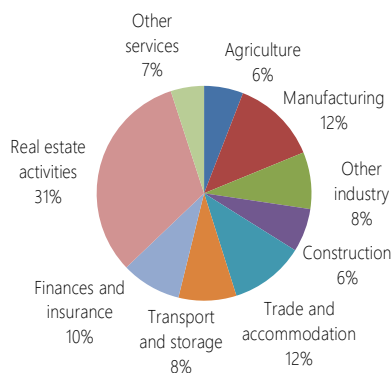


As income of population is growing, volume of deposits also continues to increase. In the 1st quarter of 2015, compared to the corresponding period of 2014, volume of deposits increased by 17.2%. Volumes of non-resident deposits rose more rapidly – by 31% – and comprised 55% of the total volume of deposits.

Interest rates (outstanding amounts) for long-term loans issued to non-financial corporations are still decreasing, and in April 2015 accounted for 2.6%. Short-term interest rates in April amounted 2.9%.

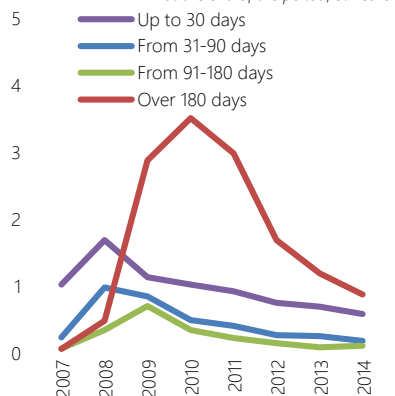
Structure of Loans Issued by Sectors

at the end 2014, 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 Mar
<i>at the end of period, bln euro</i>					
Net foreign assets	-0.3	0.9	1.2	-1.8	-1.7
Net domestic assets	9.5	8.8	8.6	11.3	11.1
Domestic loans	15.7	13.7	13.5	12.6	13.3
Other assets (net)	-6.2	-4.9	-4.8	-1.3	-2.1
Broad money M2X	9.2	9.6	9.8	9.4	9.4
Cash in turnover (without vault cash balance)	1.5	1.5	0.7	3.7	3.6
Deposits of individuals and companies	7.7	8.1	9.2	9.5	9.4
<i>changes as per cent</i>					
Domestic loans	-1.5	-13.1	-1.4	-5.9	-1.7
Broad money M2X	1.5	4.5	2.0	-3.6	5.9
Cash in turnover (without vault cash balance)	28.8	4.1	-56.6	461.0	3.4
Deposits of individuals and companies	-2.4	4.5	13.2	-3.6	5.9
Gross Domestic Product at current prices	11.7	8.6	5.3	3.6	2.6

GOVERNMENT BUDGET

To make fiscal situation in the country more stable during the crisis, from 2008 to 2012 Latvia consolidated its budget. Budget deficit was reduced from 9% of GDP in 2009 to 0.7% of GDP in 2013.

In 2014, general government budget deficit was 1.4% of GDP. Aim of the government is to continue to maintain low budget deficit.

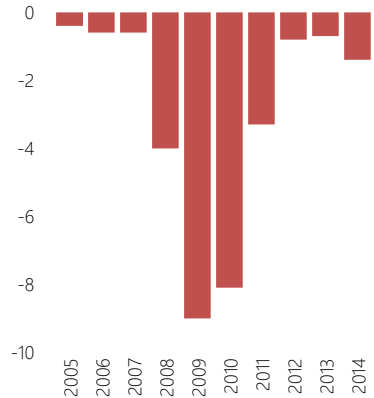
As economic situation improved budget revenues also increased, in 2014 they comprised EUR 8'536 mln, which was by 1.9% higher than in 2013. Total revenues from taxes during this period of time rose by 3.9%. In 2015, budget revenues continued to increase – in January-April they rose by 12.4 per cent.

In 2014 mandatory state social insurance contributions reduced by 0.2%. But revenues from personal income tax rose by 3.9%. Collection of labour force taxes in 2014 was affected by changes in tax policy – reduction of the social insurance instalment rate, increase of non-taxable minimum and deduction for dependants. In January-April 2015 both mandatory social insurance contributions and revenues from personal income tax rose – by 5.3% and 3.8%, respectively.

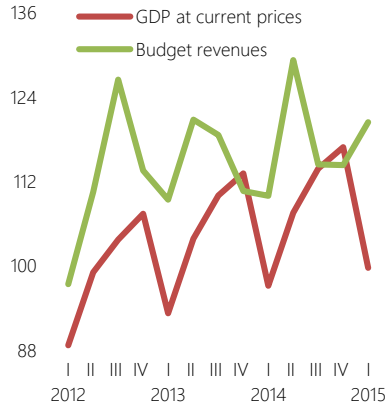
In 2014 VAT collected was by 8.2% higher than a year ago and it ensured more than a half of the total increase of taxes collected. In the four months of 2015 income from VAT was by 4.4% higher than a year ago.

Since 2011 state budget expenditure is also increasing gradually. In 2014 they comprised EUR 8'935 mln, which was by 5% higher than a year ago. In the four months of 2015 state budget expenditure rose by 6.3 percent.

Budget Balance
as per cent of GDP

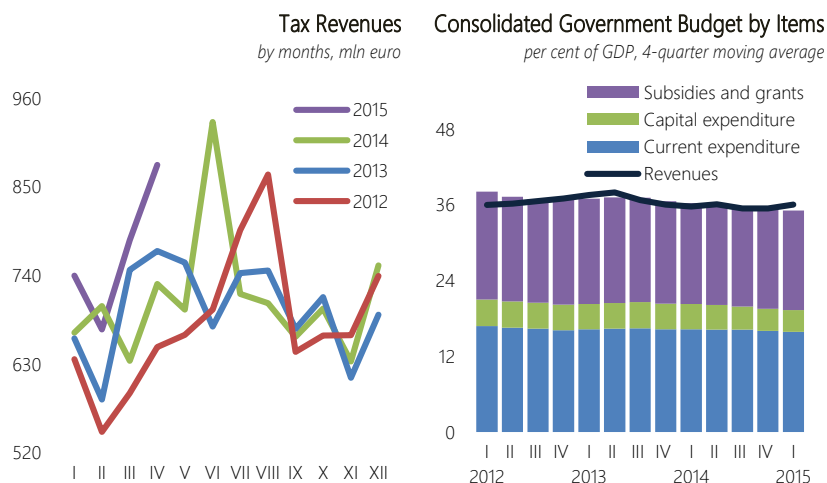


GDP and Budget Revenues
2011 Q4 = 100



In 2014 current expenditure increased more rapidly – by 8.7%. Expenditure on subsidies and grants rose by 7.4%. In turn capital expenditure decreased by 4% compared to the previous year. In January-April 2015 current expenditure rose by 6.1%, expenditure on subsidies and grants – by 5.9%, but capital expenditure – decreased by 6.1 percent.

Out of the functional categories in 2014 the largest contribution in the growth of expenditure had social protection, education, general government services and economic activity. In turn, expenditure on management of local government territories reduced. Similar trends in expenditure dynamics also remained in 2015.



General Government Budget

	bln euro				per cent changes	
	2012	2013	2014	2015 Jan-Apr	2014	2015 Jan-Apr
Revenues, of which:	8,2	8,4	8,5	3,1	1,9	12,4
Indirect taxes, of which:	2,3	2,4	2,6	0,9	6,7	5,1
Value added tax	1,6	1,7	1,8	0,6	8,2	4,4
Income and real estate taxes	1,8	1,9	1,9	0,7	3,4	3,1
Social insurance contributions	1,9	2,0	2,0	0,7	-0,2	5,3
Other taxes	0,1	0,2	0,2	0,0	19,0	18,2
Other revenues	2,1	2,0	1,9	0,8	-4,8	39,7
Expenditure	8,1	8,5	8,9	2,9	5,0	6,3

LABOUR MARKET

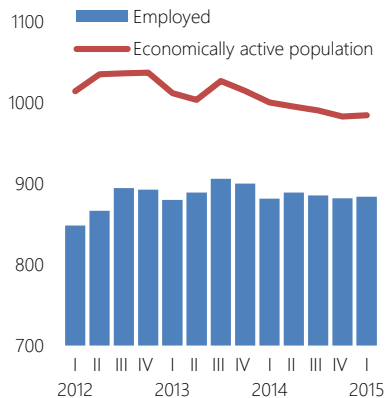
Along with the improvement of economic activity positive trends are also observed in labour market – unemployment is decreasing and employment rate is increasing. At the same time improvements are becoming slower which is affected by gradual reduction of base effect in labour market, as well as slow-down of growth rates due to trends in external environment.

In 2014 situation in labour market continued to improve, however, at a slower rate than previously. Level of unemployment reduced to 10.8% which was by 1.1 percentage point lower than in 2013, but level of employment rose by 0.9 percentage points – to 59.1%. In total in 2014 there were 884.6 thsd employed persons and 107.6 thsd unemployed persons which was 12.7 thsd less than in 2013.

In 2014 number of economically active population continued to reduce – it fell by almost 22 thousand or 2.2% as compared to 2013. It must be noted that trend of declining number of economically active population already remained since the beginning of 2013. Despite of that level of economic activity of population in 2014 rose by 0.3 percentage points and reached 66.3% among population aged 15-74 years.

In the 1st quarter of 2015 the number of employed population rose by 0.3% as compared to the corresponding period of the previous year. In total in the 1st quarter of 2014 there were 884.1 thsd persons employed or 59.7% of population aged 15-74 years. If compared to the 1st quarter of 2014, level of employment has increased by 1.1 percentage point.

Employed and Economically Active Population
by quarters, in thousands



Occupied Jobs
in thousands

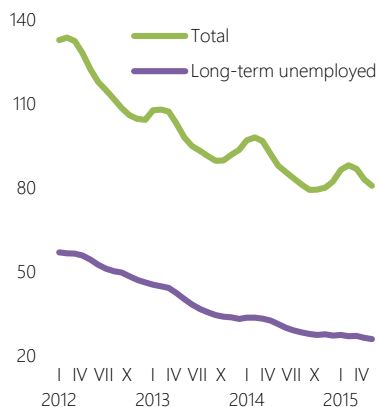
	2009	2010	2011	2012	2013	2014	2015 Jan-Mar
Total	826.1	776.7	805.5	839.1	865.1	874.6	864.2
Agriculture	17.9	17.5	19.0	20.6	21.2	21.5	20.8
Manufacturing	104.1	101.8	109.1	114.5	117.3	114.4	111.4
Other industry	23.7	22.4	22.9	23.7	24.2	24.1	23.7
Construction	54.6	46.0	50.9	55.7	60.6	60.3	55.4
Trade and accommodation	173.3	159.7	162.8	170.7	173.9	176.0	173.5
Transport and storage	67.6	66.8	68.8	72.7	75.2	75.9	75.2
Other commercial services	162.8	148.4	157.0	168.5	176.2	180.3	180.7
Public services	222.1	214.2	215.0	212.8	216.5	222.1	223.6

Level of unemployment in the 1st quarter of 2015, compared to the corresponding period of 2014, reduced by 1.7 percentage points – up to 10.2%. But, compared to the previous quarter, level of unemployment has remained the same.

Registered unemployment rate also continues to decrease – at the end of May 2015 it was 8.6%. There were registered 81 thsd unemployed, which is 7 thsd less than in May 2014. The highest level of registered unemployment remained in Latgale region (18.9%), but the lowest – in Riga (5%). Long-term unemployed (without job for a period of more than a year) constituted almost one third of total registered unemployed.

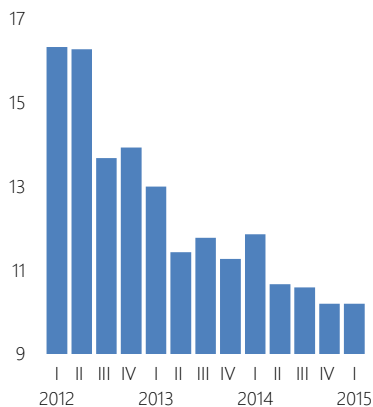
Registered Unemployed

by months, in thousands



Unemployment

by quarters, per cent



Main Indicators of Labour Market

in age group 15-74 years

	2009	2010	2011	2012	2013	2014
<i>in thousands</i>						
Population*	1'674.3	1'635.3	1'595.3	1'560.0	1'536.1	1'495.8
Economically active population	1'101.4	1'056.5	1'028.2	1'030.7	1'014.2	992.3
Employed persons	908.5	850.7	861.6	875.6	893.9	884.6
Unemployed persons	192.9	205.8	166.6	155.1	120.4	107.6
<i>as per cent</i>						
Economic activity rate	65.8	64.6	64.5	66.1	66.0	66.3
Employment rate	54.3	52.0	54.0	56.1	58.2	59.1
Unemployment rate	17.5	19.5	16.2	15.0	11.9	10.8

* population in private households

PERSONAL INCOME

During the crisis adjustment of remuneration has been rather moderate. Reduction of economic activities was compensated by the decrease of number of employed.

As economic situation became more stable, since the end of 2010 increase of remuneration has restarted, although unemployment rate remains at a rather high level.

Along with the growth of labour demand, average gross wages is rising gradually. In 2012 and 2013 it increased by 3.7% and 4.6%, respectively, but in 2014 – by 6.8% and reached EUR 765.

Rapid increase of wages and salaries was observed in the 1st quarter of 2015 – over a year average gross wages and salaries increased by 6.1%, compared to the corresponding period of 2014. The largest remuneration remained in Riga region (EUR 892), but the smallest – in Latgale region (EUR 536).

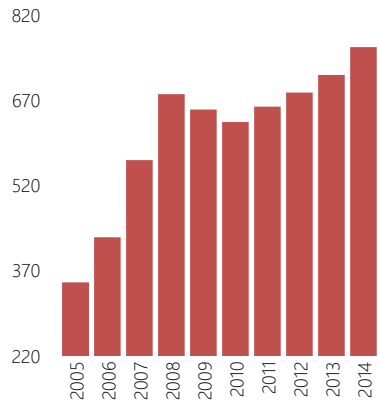
Since 2010, annual wages have risen in both private and public sector. In 2014 remuneration in private sector grew by 7.4%, slightly slower increase in remuneration was observed in public sector (by 6.1%). It must be noted, that in 2014 average gross wage in public sector still was by 0.8% higher than in 2008, but in private sector it exceeded level of 2008 by almost 19 per cent.

Since 2010, wages have risen in all sectors of national economy. Most significant increase in salaries was in financial activities, real estate sector and public administration.

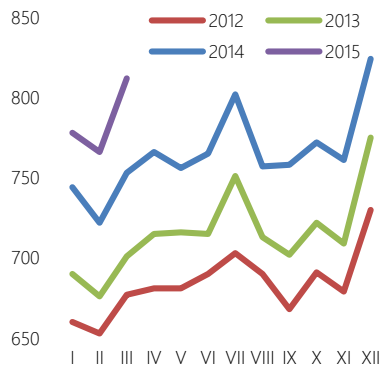
In the 1st quarter of 2015, compared to the 1st quarter of 2014, most important wage increase was observed in trade (by 8.3%), manufacturing (by 7.6%) and in construction (by 6.7%).

Highest remuneration level remained in finance and insurance services sector – on average EUR 1'748 per month.

Average Monthly Wages and Salaries of Employed
gross, in euro

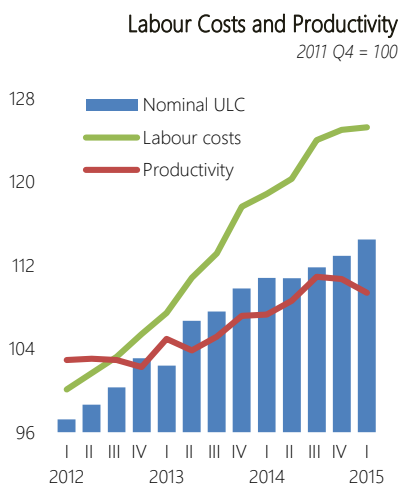
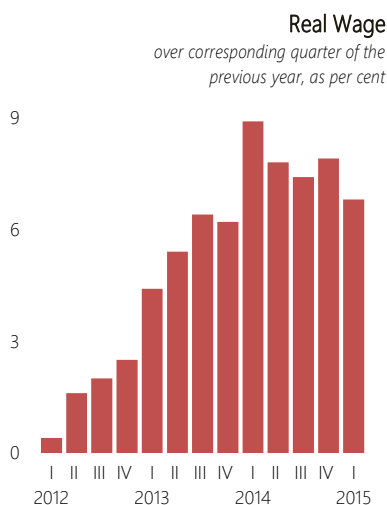


Average Monthly Wages and Salaries of Employed
gross, in euro



Along with the increase of nominal wage, real wage is also increasing gradually. In time period from 2011-2012, as consumer prices grew, increase of real wages was moderate – respectively, 0.1% and 1.6% annually. Since 2013 increase of real wages has become more rapid. In 2013, real wages grew by 5.6%, but in 2014 – by 8%. In the 1st quarter of 2015, real wages increased by 6.8%. Since 2013 rise in real wages was mainly determined by rapid increase of nominal wage, as well as slow growth of consumer prices.

The average old-age pension also keeps increasing. In 2014, average old-age pension grew by 2.7%, as compared to 2013. But in the 1st quarter of 2015 average monthly old-age pension rose by 2.9%, compared to the 1st quarter of 2013, and on average comprised EUR 272.46 per month.



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

	2009	2010	2011	2012	2013	2014	2015 Jan-Mar
Total	-3.9	-3.5	4.4	3.7	4.6	6.8	6.1
Agriculture	-4.7	5.8	8.2	0.7	4.8	8.6	4.3
Manufacturing	-2.0	0.1	5.0	4.6	4.0	7.0	7.6
Other industry	-4.2	4.1	3.7	3.6	1.8	5.0	4.6
Construction	-1.0	-5.3	4.7	2.0	6.8	7.7	6.7
Trade and accommodation	-2.8	-3.6	5.9	4.5	6.0	7.4	8.3
Transport and storage	0.2	0.2	1.0	7.7	0.5	5.9	3.7
Other commercial services	-1.1	-1.4	3.9	2.4	3.4	6.9	5.3
Public services	-12.8	-9.0	4.5	2.7	6.3	6.5	5.7

COMPARATIVE INTERNATIONAL STATISTICS

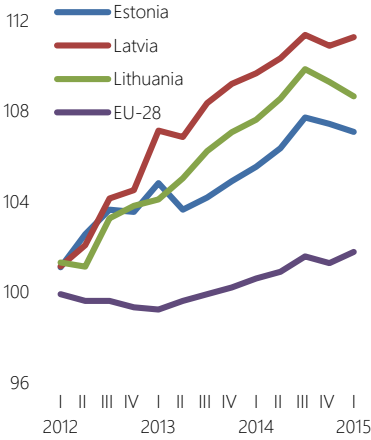
Economic Development in Baltic Countries

	Latvia	Lithuania	Estonia
Territory, thsd km ²	64.6	65.3	45.2
Population, thsd, at the 1 st January 2015	1'986.1	2'921.3	1'312.3
Gross domestic product, over corresponding period of the previous year, %			
2013	4.2	3.3	1.6
2014	2.4	2.9	2.1
2014 Q4	2.1	2.5	3.0
2015 Q1	1.9	1.2	1.1
Volume of manufacturing production, over corresponding period of the previous year, %			
2013	0.1	3.3	4.1
2014	-0.3	0.0	1.9
2014 Q4	-1.7	3.6	5.2
2015 Q1	4.4	4.3	2.5
Retail trade turnover*, over corresponding period of the previous year, %			
2013	3.3	5.1	3.1
2014	3.1	5.5	7.3
2014 Q4	2.9	5.0	6.7
2015 Q1	3.5	0.3	1.5
Changes of consumer prices, over corresponding period of the previous year, %			
2013	0.0	1.0	2.8
2014	0.6	0.1	-0.1
2014 Q4	0.6	0.0	-0.5
2015 Q1	0.0	-1.6	-0.9
Number of employed, over corresponding period of the previous year, %			
2013	2.1	1.3	1.0
2014	-1.0	2.0	0.6
2014 Q4	-2.0	-2.0	2.3
2015 Q1	0.3	-0.4	2.9
Unemployment rate, % of economically active population			
2013	11.9	11.8	8.6
2014	10.8	10.7	7.4
2014 Q4	10.2	10.1	6.3
2015 Q1	10.2	10.0	6.6

* data adjusted by working days, in current prices

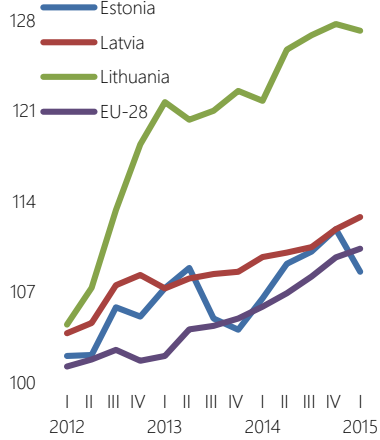
Gross Domestic Product

seasonally adjusted data
2011 Q4 = 100



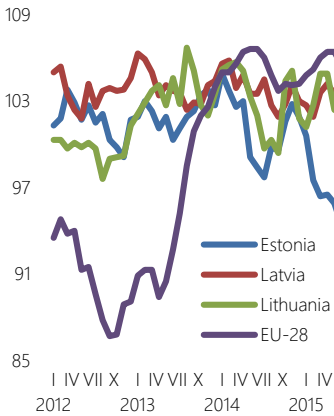
Exports of Goods and Services

seasonally adjusted data
2011 Q4 = 100



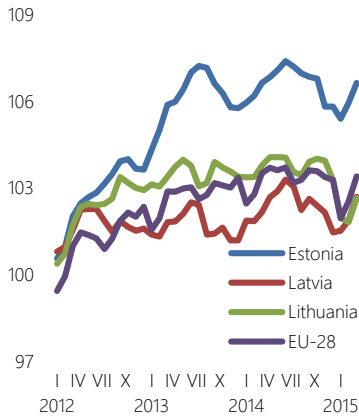
Economic Sentiment Indicator

seasonally adjusted data



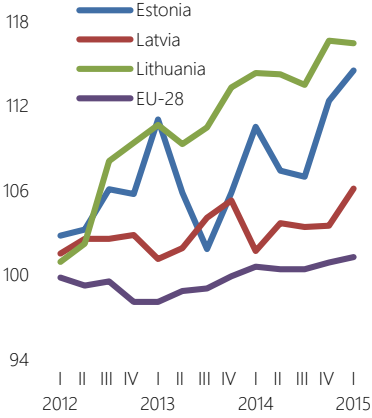
Harmonised Consumer Price Index

December 2011 = 100



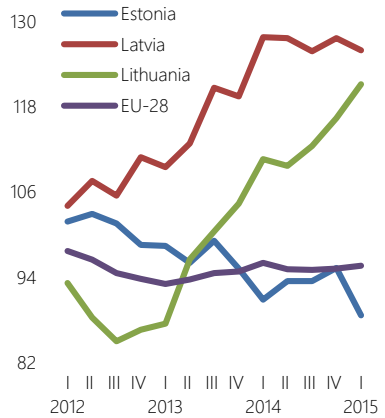
Manufacturing Production Volume

seasonally adjusted data
2011 Q4 = 100



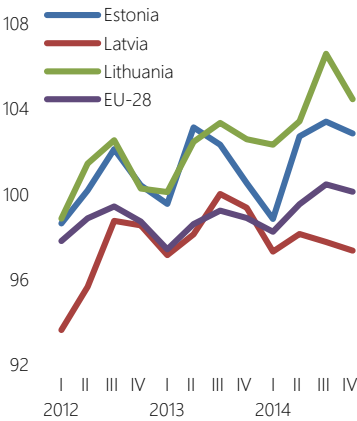
Construction Production Volume

seasonally adjusted data
2011 Q4 = 100



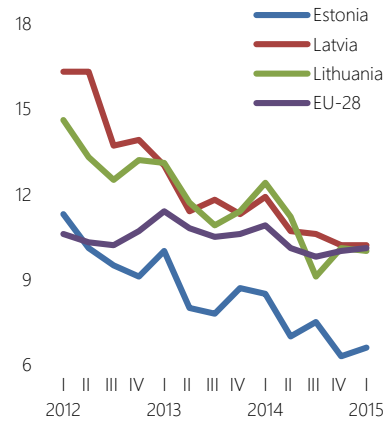
Number of Employed

not seasonally adjusted data
2011 Q4 = 100



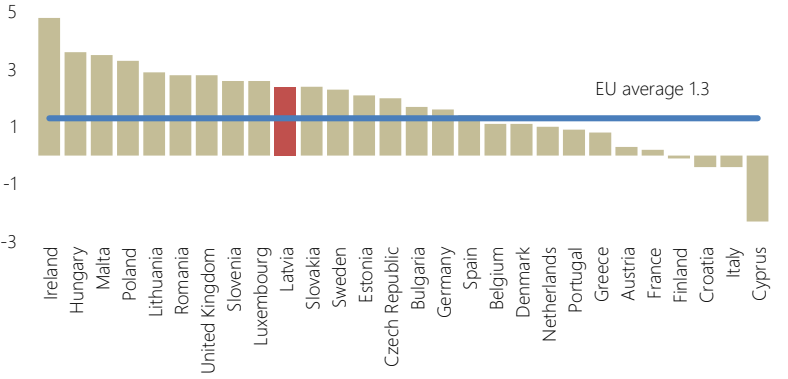
Unemployment Rate

as per cent



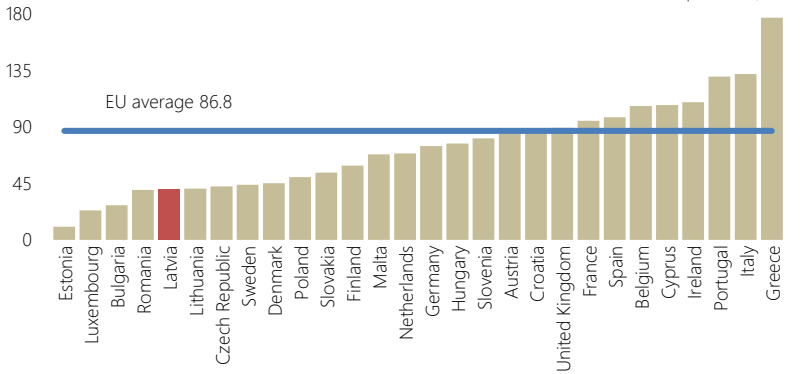
Gross Domestic Product

in 2014, changes of volumes, as per cent



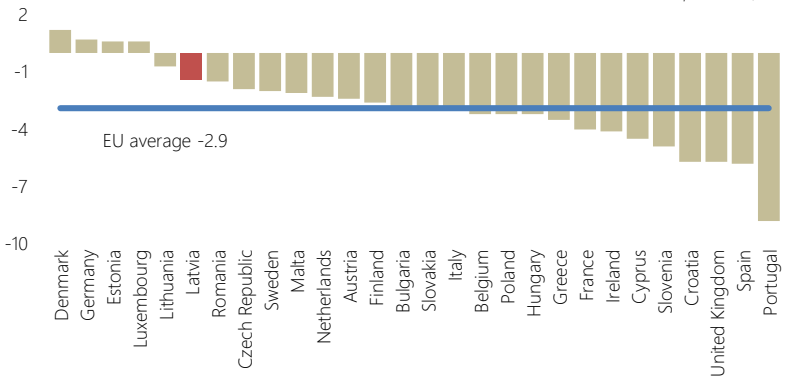
Public Debt

in 2014, as per cent of GDP



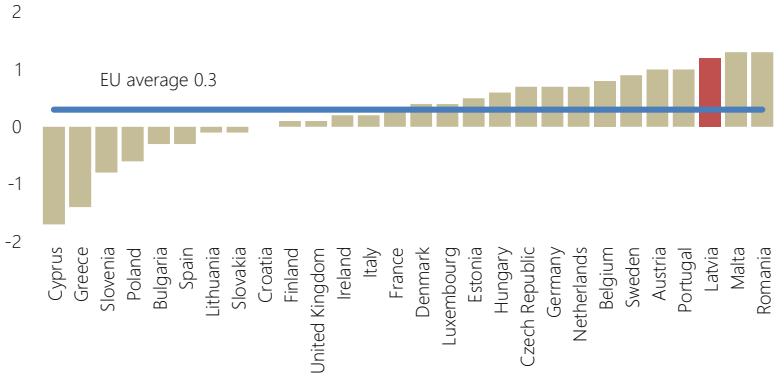
Budget Balance

in 2014, as per cent of GDP



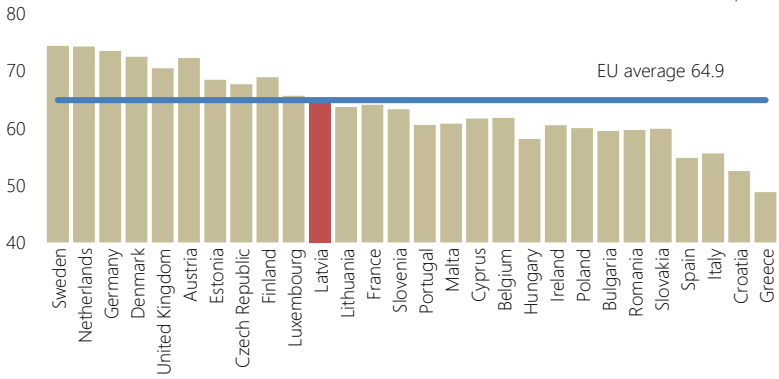
Harmonised Consumer Price Index

in May 2015, average annual, as per cent



Employment Rate

in 2014, as per cent



Unemployment Rate

in 2014, as per cent

