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## ECONOMIC SITUATION: BRIEF OVERVIEW

From 2011 to 2013 growth of the Latvian economy on average amounted to 4.4% annually. In 2014 GDP increased by 2.8%. Slower growth was determined by weak increase in the EU and weakening of economic situation in Russia. In the 2nd quarter of 2015 GDP was by 2.7% more than a year ago. Despite the high reduction of exports opportunities to Russia, growth rate of the national economy of Latvia is increasing and is more rapid than the previously forecasted.

Fast growth of average wages and salaries and low inflation is promoting increase of purchasing power. In the 1st half of 2015 private consumption was by 2.5% higher than a year ago. General government final consumption expenditure continue to increase, as well as investment dynamics is improving, which in the 1st half was already positive (rise of 1.3%).

Exports of goods and services in the 1st half of 2015 was by 2.7% higher than a year ago. Exports volume to Russia was by 20% less than a year ago. At the same time exports to the EU countries rose by 3.9%, but to third countries (excluding EU and CIS) – by 17.1%. Overall dynamics of Latvian exports is also improved by increase of exports of services.

In breakdown by sectors rapid increase in the 1st half of 2015 occurred in manufacturing (rise of 5.4% over a year), where the largest contribution to growth was in metals and its articles and wood processing sectors. Stable increase can be observed also in trade and commercial services sectors. Volumes of transport services and construction lag behind indicators of 2014.

Situation in labour market continues to improve. In the 1st half of 2015 the number of employed was by 0.6% larger than a year ago, but unemployment level reduced to 9.8% which was almost 1 percentage point less than a year ago.

In 2015 moderate price dynamics is observed which is mainly affected by the oil and food prices in the world. In August consumer prices were only by 0.1% higher than a year ago. In general average annual inflation in 2015 will be lower than in 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 the global economic development. In 2015 GDP growth might reach 2.5 per cent.

### Key Indicators of Economic Development

	2011	2012	2013	2014	2015f
	<i>increase over the previous year, as per cent</i>				
Gross Domestic Product	6.2	4.0	3.0	2.8	2.5
Consumer prices	4.4	2.3	0.0	0.6	0.1
	<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	-3.3	-0.8	-0.7	-1.4	-1.5
Exports-imports balance	-5.0	-4.5	-3.2	-2.2	-2.3

f – forecast

# THE EXTERNAL ECONOMIC ENVIRONMENT

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

Since 2013 economic situation in the EU is improving gradually and GDP is increasing already for the 9th quarter in a row. In the 2nd quarter of 2015 as compared to the 1st quarter GDP rose by 0.4% and was by 1.9% higher than a year ago. Of which in euro area GDP grew by 0.4% and over a year – by 1.5%. The latest business surveys show that economic activities in the EU are increasing, the European Commission has improved the EU and euro area forecasts, however, fiscal problems still are topical.

In the USA economy after a drop in the 1st quarter of 2015, in the 2nd quarter an increase can be observe – as compared to the

1st quarter, GDP rose by 0.9% and was by 2.7% higher than a year ago. Growth of economy was mostly promoted by rise of investment, domestic expenditure and private consumption.

Asian countries have overcome the global crisis more successfully than countries of other regions; however, the weak external demand limits development of the region. China experiences the slowest growth since the beginning of 90s, causing turmoil in the global stock market.

Economic situation in Russia continues to get worst. In the 2nd quarter of 2015 GDP reduced by 4.6%. Due to the drop of oil prices and value of rouble economic recession of Russia is deepening and it is forecasted that the recession will continue also in the second half of the year. Also 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 21%, reaching the lowest value at the end of 2009.

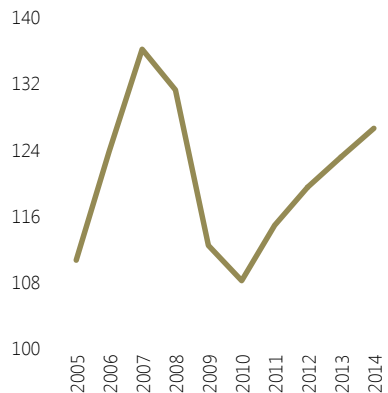
From 2011 to 2013 growth of the economy of Latvia on average reached 4.7% annually, which was one of the most rapid growth in the EU.

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 2.8% 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 7% than it was before the crisis in 2007.

In the 1st quarter of 2015 GDP was by 1.9% higher, but in the 2nd quarter – by 2.7% higher than a year ago which is characterized as a very good indicator.

Still rather rapid growth of wages and salaries and low inflation is promoting increase of purchasing power of population. In the 2nd quarter of 2015, compared to the 1st quarter, private consumption rose by 0.7% (according to seasonally adjusted data) and was by 2.4% more than a year ago. Compared to the second half of the previous year, growth rates of private consumption have become slightly more rapid.

**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	-14.3	-3.8	6.2	4.0	3.0	2.8
Private consumption	-16.1	2.8	3.0	3.2	5.0	2.6
Public consumption	-10.7	-8.1	3.0	0.3	1.6	4.9
Gross fixed capital formation	-33.3	-19.8	24.1	14.4	-6.0	0.3
Exports	-12.9	13.4	12.0	9.8	1.1	3.1
Imports	-31.7	12.4	22.0	5.4	-0.1	0.8

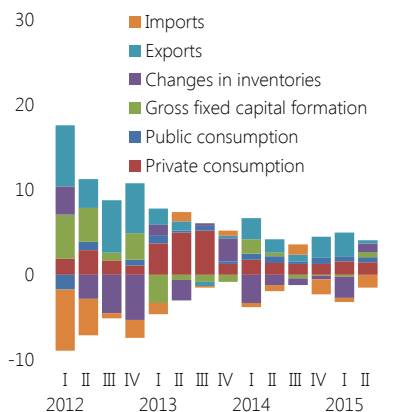
In 2015 government consumption continues to increase – in the 2nd quarter, compared to the 2nd quarter of 2014, it was by 3.3% higher. Also dynamics of investment is improving, which in the 2nd quarter already was positive (increase of 3.1%, in the 1st quarter – reduction of 0.9%).

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 22%. 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. Exports volume rose by 3.1 per cent.

In the 2nd quarter of 2015, exports volumes increased by 0.8%, compared to the 2nd quarter of 2014. Growth of exports was ensured both by rise of exports volume of goods (by 0.5%) and of exports volume of services (by 1.6%). After considerable drop during the crisis, imports volume grew rather rapid both in 2010 and 2011. Since the middle of 2012 imports dynamics is more moderate. In the 2nd quarter of 2015, imports volumes increased by 2.6%, compared to the 2nd quarter of 2014. In the 2nd quarter of 2015 exports-imports balance was negative – -2.5% of GDP.

In 2015 events in external environment will continue to affect exports, which means that rapid growth of exports is not expected shortly. 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 slightly 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	
	III	IV	I	II	III	IV	I	II
Gross domestic product	4.6	4.5	2.8	2.3	2.4	2.1	1.9	2.7
Private consumption	8.4	2.3	2.7	2.3	2.1	2.2	2.6	2.4
Public consumption	3.7	1.5	3.7	4.2	1.7	3.8	3.4	3.3
Gross fixed capital formation	-2.9	-2.8	9.3	1.8	-1.7	-0.6	-0.9	2.8
Exports	-0.4	1.0	3.5	1.8	0.4	3.3	3.5	2.0
Imports	0.2	-0.9	1.2	3.0	-0.7	2.8	-1.2	0.7

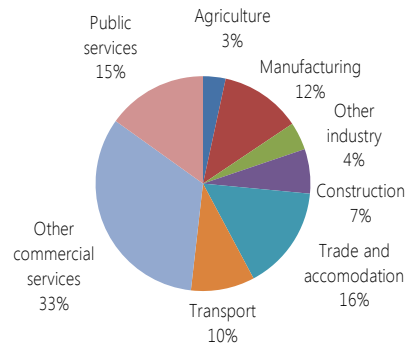
## GROSS DOMESTIC PRODUCT: DEVELOPMENT OF SECTORS

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 22%. Growth of tradable sectors and increase of income from exports have also promoted development of domestic market-oriented sectors – commercial services, trade and construction. Contribution to the growth of these sectors is becoming larger over the last years, but the weak demand in exports markets in 2013 and 2014 slowed down growth of manufacturing.

In 2015 trends of development of main sectors are different. As opportunities of exports improved, stable growth was observed in manufacturing, where its volumes in the 2nd quarter were by 6.2% higher than a year ago. In the other industry sector, after the decrease in the 1st quarter, volumes of production in the 2nd quarter rose by 4.4 per cent.

Since the 2nd half of 2014 growth rates of construction sector are slowing down. Construction volume in the 2nd quarter of 2015 was by 3.4% lower than a year ago. It was mainly determined by the base effect – a year ago construction growth in the 2nd quarter reached 16%. In the 2nd quarter of 2015 volumes of construction of buildings reduced significantly (by 11.9%), but volumes of civil engineering structures were by 4.9% higher than a year ago.

**GDP Structure**  
2014, as per cent



**Gross Domestic Product by Sectors**  
volume changes in per cent

	2009	2010	2011	2012	2013	2014
Gross Domestic Product	-14.3	-3.8	6.2	4.0	3.0	2.8
Agriculture	12.7	-3.9	-1.7	7.4	1.2	1.5
Manufacturing	-22.1	14.2	3.7	4.3	-1.2	-0.3
Other industry	6.8	-1.5	-5.2	-5.7	1.6	-2.5
Construction	-38.3	-34.4	29.9	8.9	4.4	8.1
Trade and accommodation	-16.3	-1.6	2.9	1.3	4.2	2.3
Transport and storage	-22.4	-4.9	17.9	5.5	0.2	3.2
Other commercial services	-6.7	-3.9	6.1	5.1	3.9	1.3
Public services	-9.9	-6.9	3.0	-0.2	2.4	3.3



In 2015 volumes of services in transport and storage sector are decreasing. The decrease is determined by the drop in freight turnover at railway and ports. Volume of services provided in transport sector in the 2nd quarter of 2015 was by 4.3% lower than a year ago.

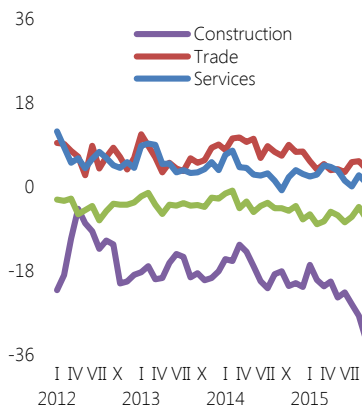
Volume of services provided in the trade sector continue to grow in 2015. Rise in volume of services at the beginning of 2015 was more moderate, but in the 2nd quarter volume increased by almost 5%. Trade sector was positively affected by the rise of private consumption and increase of retail trade turnover, which in seven months of 2015 was by 5.9% higher than a year ago. While weak foreign trade activities are impacting growth of wholesale sector.

In the commercial services sector increase is continues in 2015 (rise in the 2nd quarter – 3.6%). The growth is promoted by increase in retail estate activities, commercial services, financial and insurance activities and information and communication services.

As government expenditure continues to increase, volumes of services provided in public sector rises as well – in the 2nd quarter of 2014 it grew by 3.1 per cent.

### Confidence Indicators by Sectors

*by months, seasonally adjusted data*



### Gross Domestic Product by Sectors

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

	2013		2014				2015	
	III	IV	I	II	III	IV	I	II
Gross Domestic Product	4.6	4.5	2.8	2.3	2.4	2.1	1.9	2.7
Agriculture	-2.0	4.3	9.1	4.3	-5.6	2.4	-8.6	2.2
Manufacturing	2.5	2.6	1.2	0.1	-0.6	-1.7	4.4	6.2
Other industry	-4.1	-8.3	-7.4	-5.4	0.5	3.4	-4.1	4.4
Construction	11.6	3.9	24.6	15.8	0.6	4.4	-0.1	-3.4
Trade and accommodation	5.2	2.2	2.6	2.2	2.4	2.1	1.1	4.7
Transport and storage	0.8	3.3	5.1	2.2	2.3	3.2	-1.6	-4.3
Other commercial services	7.3	6.6	1.9	-0.1	2.9	0.7	2.1	3.6
Public services	2.7	5.1	3.3	3.4	3.2	3.4	3.5	3.1

## MANUFACTURING

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

Production output in manufacturing in the seven months of 2015 increased rapidly and were by 6.2% higher than a year ago. Growth of sector is promoted by gradual rise of demand in the largest exports market – EU.

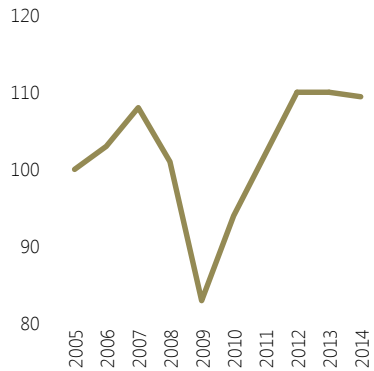
At the same time trends of development in sub-sectors are different – in separate sub-sectors stable growth is continuing, but in other sectors, due to impact of various factors, production volume is decreasing.

In the largest manufacturing sector – wood processing production volume increases stably. Production volumes in the seven months of 2015 was by 6.9% higher than in the corresponding period of the previous year. Significant contribution to the development of overall indicators of manufacturing in 2015 was ensured by metal processing sector, which is affected by resumption of activity of one of major industrial enterprises JSC “KVV Liepājas Metalurģs”.

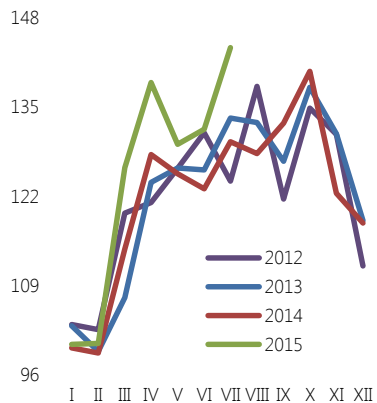
Rapid increase of volume of manufacturing in 2015 continued in the manufacture of computers, electrical and optical equipment – rise in January-July by 21.1%, compared to the corresponding period of the previous year. Also over a year production volume in sectors of production of machinery and equipment, as well as of transport vehicles has increased.

Volumes of production in food industry in 2014 in general remained at the level of the previous year, but in January-July 2015 production volumes were by 3.8% lower than a year ago. Development of the sector is significantly affected by the sanctions on imports of various food products determined by Russia. In the seven months of 2015 production volumes are lagging behind the level of the previous year also in light industry, manufacture of non-metallic mineral products, chemical industry and paper industry and publishing.

**Manufacturing**  
*output, 2005 = 100*



**Production Volume Index**  
*by months, not seasonally adjusted data, 2010 = 100*

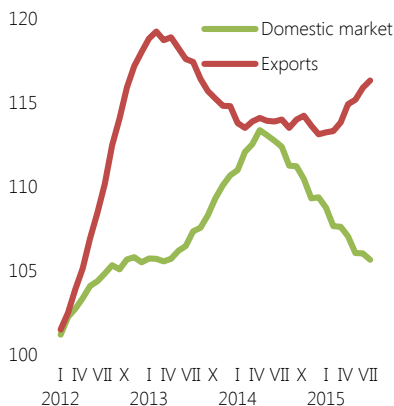


In 2015 increase of turnover in manufacturing is moderate. In the seven months of 2015 manufacturing turnover was by 0.8% higher than a year ago.

Products sold at the domestic market dropped by 5.9%, while turnover of exported goods rose by 4.9%. The largest positive contribution to the increase of total turnover was in wood processing and production of optical equipment, as well as on metal processing. The largest negative contribution was in food industry, where turnover in seven months was by 6.8% lower than a year ago.

In the seven months of 2015, 64% of total production was exported. Almost 3/4 of total products exported are sold to the EU markets. Lately volumes of exports to the third countries are increasing.

**Production Sales**  
by months, at current prices,  
12-month moving average, 2011 = 100



**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-Jul
Manufacturing – total	100	100	61.6	0.1	-0.3	6.2
Food industry	25.5	21.7	35.5	6.0	0.1	-3.8
Light industry	4.1	10.6	86.0	1.4	-13.6	-14.9
Wood processing	25.7	20.3	72.8	2.7	6.9	6.9
Paper industry and publishing	4.5	4.0	59.8	5.6	-0.6	-0.4
Chemical industry	7.6	6.7	76.7	-8.7	-2.6	-5.1
Other non-metallic mineral products	6.6	4.5	46.7	4.6	1.2	-8.6
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	21.1
Machinery and equipment	2.2	3.0	81.5	1.4	2.4	10.3
Motor vehicles	3.4	3.3	86.7	3.0	-15.2	6.0
Other industries	5.3	12.0	56.9	-7.6	-12.0	2.3

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## INVESTMENTS

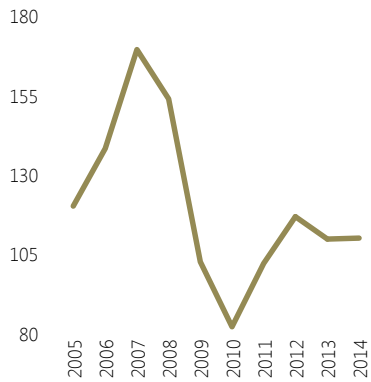
Since 2008 investments dynamics are fluctuating. Reduction of investments during the crisis was almost four times larger than in EU on average and in 2010 it was at a 63% lower level than before the crisis. As economy became more stable, investment volumes rose rather rapidly, however investment dynamics are becoming more moderate. In 2014 investments in the national economy of Latvia comprised 23% of GDP (in 2007 – 36.5%). At the beginning of 2015 investment dynamics was rather moderate, investments are unfavourably affecting geopolitical situation in the region. In the 1st quarter of 2015, as compared to the corresponding period of the previous year, investments reduced by 0.9%, while in the 2nd quarter – rose by 2.8%, in the result – in the 1st half of 2015 investments in the national economy of Latvia in total were at a 1.2% higher level than a year ago. Mainly it was affected by the increase of investments in machinery and equipment, as well as in intellectual property products by compensating reduction of investments in housing sector.

According to the provisional data, in the 1st half of 2015 non-financial investments in production sector in total remained at the level of the previous year. In energy sector investments rose by 16%, which covered reduction of investments in agriculture and mining. Also in manufacturing was invested by 2.4% more than a year ago. In the 1st half of 2015 in services sectors investments in total increased by almost 6%, which was mainly affected by the rise of investments in trade, as well as in transport and storage sectors.

Also intensity of FDI flows is rather moderate. Attracted FDI net flows in 2014 comprised 1.5% of GDP. But in the 1st half of 2015 they were almost 2 times larger than a year ago and comprised 3% of GDP.

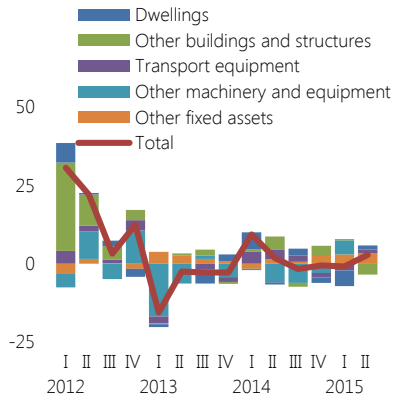
**Gross Fixed Capital Formation**

*2004 = 100*



**Gross Fixed Capital Formation**

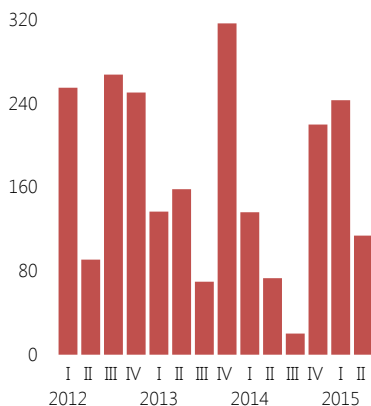
*changes over corresponding quarter of the previous year, as per cent*



According to international investment balance at the end of June 2015 FDI accrued in economy of Latvia reached EUR 12'777 mln (at 52.3% level of GDP). Compared to the end of June of the previous year, they increased by almost 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 June 2015 investment of Sweden entrepreneurs comprised almost 20% of total FDI accrued. Mainly they were investments in financial intermediation.

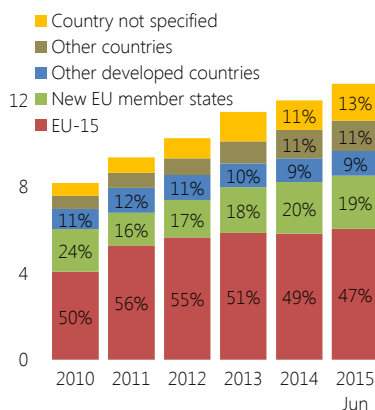
### Foreign Direct Investment in Latvia

flows by quarters, mln euro



### Foreign Direct Investment in Latvia

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



### Foreign Direct Investment in Latvia by Sectors

mln euro

	Structure	Closing position				
	2015 Jun	2011	2012	2013	2014	2015 Jun
Agriculture	3.6	263.2	294.4	299.9	441.2	457.1
Manufacturing	11.7	1'114.4	1'200.3	1'403.5	1'455.7	1'491.3
Other industry	4.5	385.9	492.2	589.3	583.2	574.9
Construction	3.9	544.4	528.1	559.6	458.8	503.3
Trade and accommodation	11.2	1'329.2	1'416.1	1'472.9	1'325.5	1'433.9
Transport and storage	3.1	399.6	449.0	408.1	423.2	393.4
Financial and insurance activities	27.0	2'571.6	2'825.7	2'922.2	3'319.0	3'451.2
Other services	18.2	1'916.9	1'866.6	2'071.8	2'296.9	2'325.4
Not allocated economic activity	16.8	834.5	1'185.5	1'842.4	1'777.5	2'146.6
<b>Total</b>	<b>100</b>	<b>9'359.8</b>	<b>10'257.9</b>	<b>11'569.6</b>	<b>12'081.0</b>	<b>12'776.9</b>

## 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 goods at current prices in 2013 was developing moderately, it increased by 1.5%, but in 2014 slightly decreased – by 2.3%. Growth of imports of goods slowed down even more – in 2013 increase comprised 1%, but in 2014 – of 0.2 per cent.

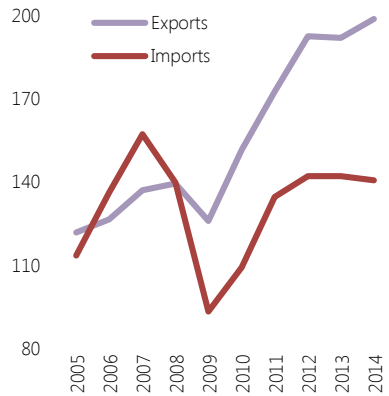
In 2014 development of exports was mainly promoted by the rise in exports of wood and wood products and machinery products. Due to termination of economic activity of JSC „Liepājas Metalurģis” exports of metals and metal articles decreased significantly. In 2014 also exports of agriculture and food products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

In January-July 2015 exports of goods at current prices increased by 2.4%. Imports of goods during this period grew by 1.1%. As exports of goods increased faster than imports, trade balance is continuing to improve.

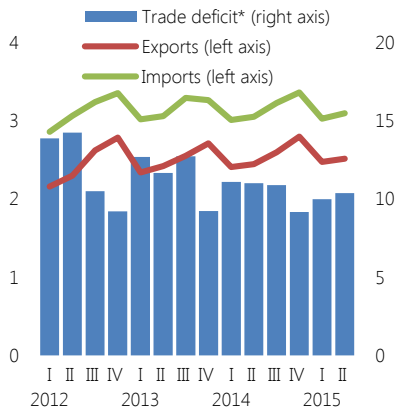
In January-July 2015 exports was positively influenced by rise of exports of machinery and equipment, chemical industry, as well as of wood and wood products. As prices decreased, exports value of agriculture and food products, as well as of mineral products, reduced. During this period also exports of transport vehicles and metal articles has decreased.

In January-July 2015 increase of imports of goods, similar as exports, was positively influenced by the rise of exports of machinery and equipment, chemical industry, as well as of wood and wood products.

**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

Imports of mineral products and agricultural and food products reduced. It was determined by significant price reduction of oil and agricultural and food products. Also imports of transport vehicles, light industry goods, as well as of metals and metal articles decreased.

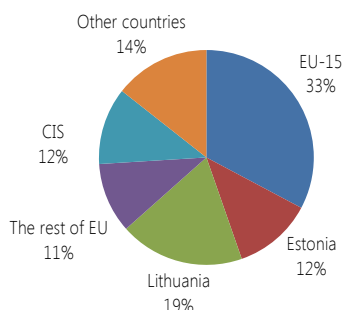
Exports of goods to the EU countries in 2014 increased almost two times faster than total exports, but to CIS countries – reduced by 5%. Export to main export partner of Latvia – Lithuania – has increased by 11.3%, but to Estonia – export decreased by 4.5 per cent.

In January-July 2015, exports to the EU countries increased by 3.1%, which is slightly more rapid than total export growth. To the CIS countries exports decreased by 15.5%. It was determined by significant reduction of exports to Russia (by 19.2%). It must be noted that exports to other countries is growing rapidly (by 18.2%), 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 seven months of 2015 were Lithuania – 19% 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 January-July 2015, as per cent*



### Exports and Imports of Latvian Goods

*in January-July 2015, as per cent*

	Exports			Imports		
	structure	volume changes	contribution to changes	structure	volume changes	contribution to changes
Total, of which:	100	2.4	2.4	100	1.1	1.1
Agricultural and food products	15.1	-12.2	-2.1	14.7	-5.8	-0.9
Mineral products	7.5	-5.4	-0.4	11.7	-16.8	-2.4
Chemical products	10.5	7.9	0.8	16.7	8.3	1.3
Products of light industry	4.7	4.1	0.2	5.7	-5.2	-0.3
Wood and articles of wood	17.7	2.5	0.4	3.1	17.8	0.5
Metals and metal articles	9.5	-1.9	-0.2	8.4	-1.8	-0.2
Machinery and electrical equipment	19.3	21.0	3.4	22.3	16.5	3.2
Transport vehicles	4.6	-15.2	-0.9	7.4	-6.4	-0.5
Other goods	11.2	11.6	1.2	10.0	4.7	0.5

## BALANCE OF PAYMENTS

Since the crisis the Latvian external stability has significantly improved. During the last years, current account of balance of payments has been at the level of a small deficit. In 2012 it was 3.3% of the GDP, in 2013 – 2.4%, and in 2014 – 2% of GDP. On average over the last three years the negative balance of the current account amounted to 2.6% of GDP, which does not exceed the EU indicative threshold set out in the EU alert mechanism. In the 1st half of 2015 deficit of the current account was 1.7% of GDP.

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. As the economy stabilised, exports grew more rapidly than imports. However, 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 GDP, and in the 1st half of 2015 – 9.5%. External trade balance improved, owing to rapid increase in export volumes.

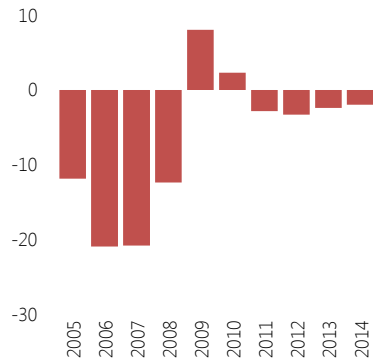
Balance of services is positive and covers foreign trade deficit by almost 80%. In the 1st half of 2015 export of services increased by 4.6%, and import of services grew by 7.8% compared to the previous year, and the balance of services reached 7.3% of GDP (in 2014 – 7.4%).

Throughout the last three years the balance of primary income has been negative – an annual average of 0.4% of the GDP. Driven by the inflow of EU funds, in the 1st half of 2015 balance of primary income was with small surplus (0.4% of GDP).

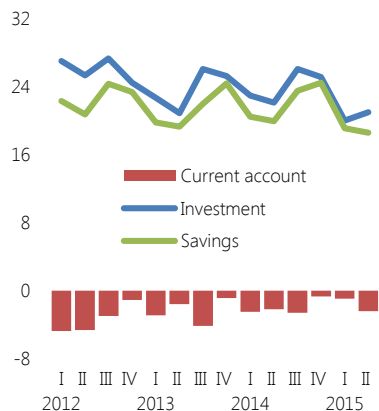
Balance of financial account (excluding reserve assets) was positive in 2014 – 3.8% of GDP, which was determined by larger increase of assets than of liabilities. In the 1st half of 2015 it was at the level of a small deficit – 1% of GDP.

Deficit of balance of other investments (15.6% of GDP) was entirely covered by surplus of balance of portfolio investments.

**Current Account Balance**  
*as per cent of GDP*



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

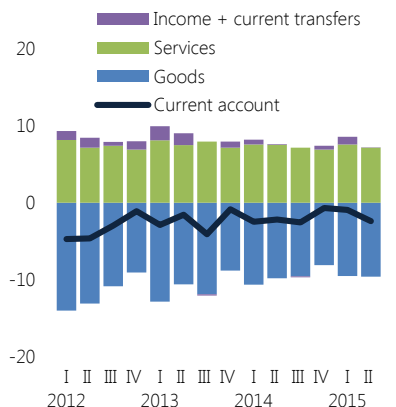




Activity of foreign investors is increasing gradually. In the 1st half of 2015 attracted FDI flows were by almost 2% more than a year ago and comprised 3% of GDP.

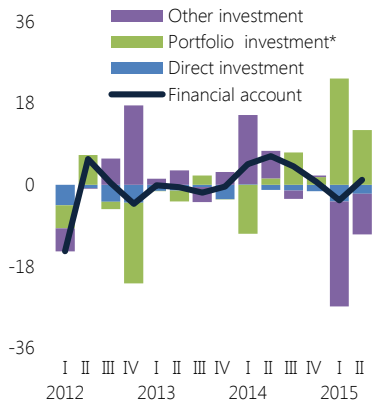
### Current Account by Items

by quarters, as per cent of GDP



### Financial Account by Items

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



### Latvian Balance of Payments by Items

as per cent of GDP

	2010	2011	2012	2013	2014	2015 Jan-Jun
A. Current account	2.3	-2.8	-3.3	-2.4	-2.0	-1.7
Trade balance	-8.3	-12.1	-11.7	-11.2	-9.6	-9.5
Service balance	7.3	7.3	7.4	7.8	7.4	5.3
Net income	1.1	0.0	-0.6	-0.3	-0.2	0.4
Net current transfers	2.3	1.9	1.6	1.3	0.4	0.1
B. Capital account	2.0	2.1	3.0	2.5	3.2	3.7
C. Financial account**	2.1	4.0	-2.9	-0.7	3.8	-1.0
Direct investment stock	-1.5	-4.9	-3.3	-1.6	-1.0	-2.8
Portfolio investment*	2.9	1.8	-4.8	-0.1	0.2	17.4
Other investment	0.8	7.2	5.1	1.0	4.6	-15.6
D. Deviation	1.8	0.3	1.0	0.8	2.2	-1.6
E. Reserve assets	4.0	-4.5	3.6	1.7	-0.5	1.4

\* 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 investments, Derived financial instruments and Other investments*) are formed by deducting liabilities from assets.

## PRICES

After deflation, caused by the crisis, when 12-month consumer price inflation in February 2010 dropped to -4.2%, prices started to rise again. In 2011, 12-month consumer price inflation was 4%, but in 2012 – 1.6%. In 2013 consumer prices decreased by 0.4%. In 2014 very moderate price increase was observed – 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 products.

In 2015 moderate price rise continues. In eight months of 2015 prices increased by 0.6%. In August prices were by 0.1% larger than a year ago. In January-August the largest impact on inflation mainly had price rise on electricity (by 27.5%), on services (by 2.4%) and on alcoholic beverages and tobacco (by 3.3%), as well as price drop on food (by 1%), wearing apparel and footwear (by 4%) and on fuel (by 3.1%). Global food prices in January-August reduced by 16.2%. In January-August world prices of oil fell on average by 10% and in August they reduced to the lowest level over the last six years.

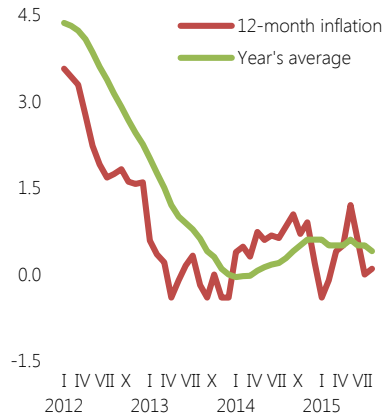
In general average annual inflation this year is determined by external factors (dynamics of oil and food prices in the world) and it could be lower than in previous year.

In total in the EU countries in August 2015, compared to August 2014, prices remained at the same level.

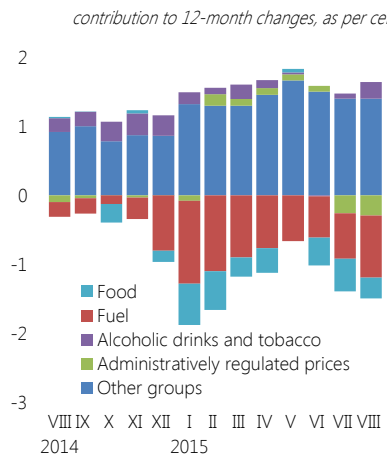
After rapid increase in 2010-2012, in 2013 producer prices were rising moderately. In 2014, average level of producer prices rose slightly (by 0.4%), mainly due to price drop in manufacturing by 0.4 per cent.

In July 2015, compared to July 2014, producer prices decreased by 0.9%, on products sold in the domestic market – by 1.6%, but on exported production – by 0.2 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*

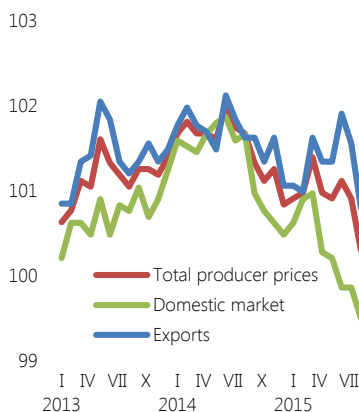


Producer prices in manufacturing in July 2015 reduced by 0.8% as compared to July of the previous year. Over a year dynamics of producer prices reduced both on products sold in domestic market and on exported products – by 1.7% and 0.3%, respectively, which mainly can be explained with rapid price drop of energy resources since the middle of 2014.

Over a year most significant producer price growth was observed in manufacture of chemical products and computers, electrical and optical equipment, but decreasing – in manufacture of food and wood processing. Russia's embargo on various 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 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
2014	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
	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

## 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 continued to increase in banking sector, at the same time entrepreneurship and household crediting is still weak.

In the 1st half of 2015 total credit portfolio in banking sector continued to reduce, but at a slower rate. At the end of the 2nd quarter, compared to the same period of 2014, balance of loans shrank by 3.3%. Balance of mortgage loans fell most rapidly (by 5.3%) and balance of commercial loans (by 3%). In turn, industrial and consumer credit balances even slightly increased. Volume-wise the majority of loans were issued to the real estate sector and manufacturing activities.

Share of loans issued to non-residents in the banking sector total credit portfolio account for 15.1 per cent.

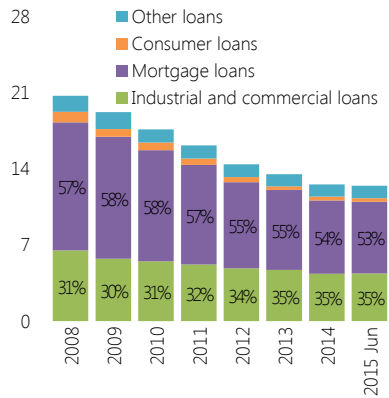
Since the beginning of 2015 volume of new loans granted to enterprises is increasing slightly, however, it is still at a low level. At the end of 2nd quarter of 2015, their volume were by 13.4% higher than a year ago and comprised EUR 186.5 mln or 24% of the total volume of new loans granted. Household crediting is also improving – in the 2nd quarter volume of new loans granted increased by 21% and comprised EUR 106.2 mln or 14% of total amount of new loans granted.

Quality of loans has improved significantly after the crisis. At the end of 2nd quarter of 2015, 13.2% of loans in the total credit portfolio of banking sector were with overdue payments, which is by 1.7 percentage points higher than a year ago. Improvement of quality of credit portfolio of banks is related to the improvement of economic situation, as well as to writing off bad loans.

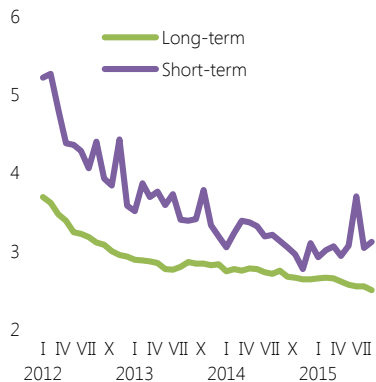
As income of population is growing, volume of deposits also continues to increase. Deposit volumes at the end of 2nd quarter of 2015 were by 11.6% higher than a year ago.

Volumes of non-resident deposits rose more rapidly – by 24% – and comprised 53% of the total volume of deposits.

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



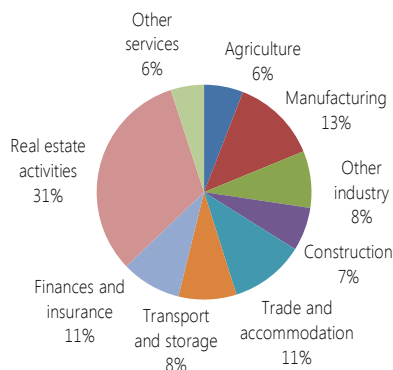
**Average Weighted Interest Rates (Balance)**  
*for loans to non-financial companies*  
*by months, as per cent*



Interest rates (outstanding amounts) for long-term loans issued to non-financial corporations are almost the same, and in August 2015 accounted for 2.5%. Short-term interest rates in August increased to 3.1 per cent.

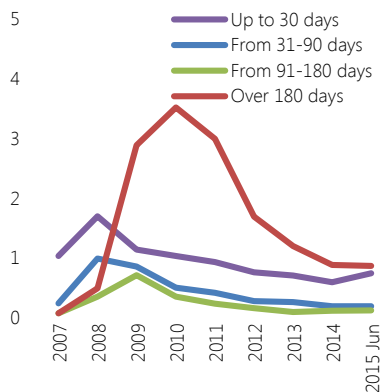
### Structure of Loans Issued by Sectors

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 Jun
<i>at the end of period, bln euro</i>					
Net foreign assets	-0.3	0.9	1.2	-1.8	-2.1
Net domestic assets	9.5	8.8	8.6	11.3	11.8
Domestic loans	15.7	13.7	13.5	12.6	13.2
Other assets (net)	-6.2	-4.9	-4.8	-1.3	-1.4
Broad money M2X	9.2	9.6	9.8	9.4	9.7
Cash in turnover (without vault cash balance)	1.5	1.5	0.7	3.7	3.8
Deposits of individuals and companies	7.7	8.1	9.2	9.5	9.7
<i>changes as per cent</i>					
Domestic loans	-1.5	-13.1	-1.4	-5.9	4.3
Broad money M2X	1.5	4.5	2.0	-3.6	8.4
Cash in turnover (without vault cash balance)	28.8	4.1	-56.6	461.0	4.1
Deposits of individuals and companies	-2.4	4.5	13.2	-3.6	8.4
Gross Domestic Product at current prices	13.0	7.7	4.4	4.1	4.2*

\* 2nd quarter of 2015

## GOVERNMENT BUDGET

To make fiscal situation in the country more stable during the crisis, from 2008 to 2012 Latvia consolidated its budget. General government 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, which was mainly determined by the one-off measures. Aim of the government is to continue to maintain low budget deficit.

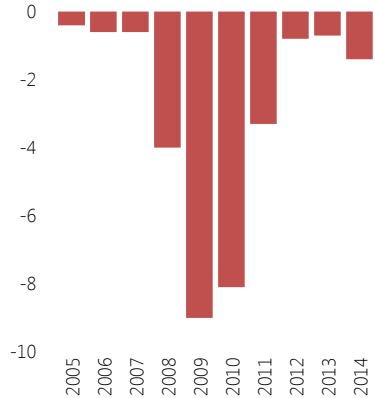
As economic situation improved budget revenues also increased. In 2014 revenues increased by 19%. In the eight months of 2015, budget revenues comprised EUR 5'264 mln, which is by 4.9% more than in January-August 2014. Total revenues from taxes during this period rose by 4.5 per cent.

Employment taxes comprise almost half of total tax revenues. Mandatory state social insurance contributions in eight months of 2015 grew by 4.1%. Revenues from personal income tax, compared to January-August 2014, increased by 4.3%. Revenues from labour force taxes in 2015 are affected by changes in tax policy – reduction of the social insurance instalment rate to 23%, as well as increase of non-taxable minimum from EUR 320 to EUR 360.

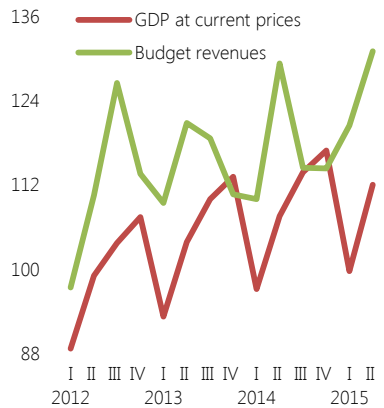
In 2015 also taxes on consumption continue to increase – in the eight months – by 4.2%. The most significant contribution in group of taxes on consumption had revenues from value added tax. In the eight months of 2015 revenues from the value added tax rose by 3.7 per cent.

Since 2011 state budget expenditure is also increasing gradually. In 2014 they grew by 5%, but in the eight months of 2015, budget revenues comprised EUR 5'132 mln, which is by 6.4% more than a year ago.

**Budget Balance**  
*as per cent of GDP*

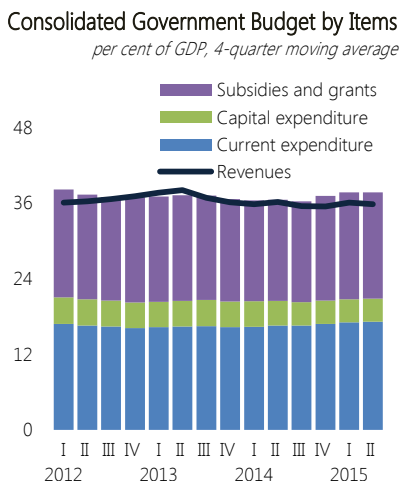
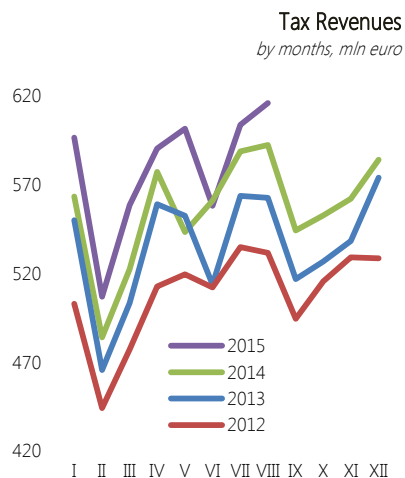


**GDP and Budget Revenues**  
*2011 Q4 = 100*



In eight months of 2015 current expenditure increased more rapidly – by 6.5%. Expenditure on subsidies and grants rose by 6%. But increase of capital expenditure was more moderate – by 1.6%, as compared to the corresponding period of the previous year.

In 2015 expenditure is increasing in all functional categories, but in eight months the largest contribution in rise of expenditure was in social protection, education and economic activities.



### General Government Budget

	bln euro				per cent changes	
	2012	2013	2014	2015 Jan-Aug	2014	2015 Jan-Aug
Revenues, of which:	8.2	8.4	8.5	6.1	1.9	4.9
Indirect taxes, of which:	2.3	2.4	2.6	1.8	6.7	4.2
Value added tax	1.6	1.7	1.8	1.2	8.2	3.7
Income and real estate taxes	1.8	1.9	1.9	1.4	3.4	4.7
Social insurance contributions	1.9	2.0	2.0	1.4	-0.2	4.1
Other taxes	0.1	0.2	0.2	0.1	19.0	10.0
Other revenues	2.1	2.0	1.9	1.4	-4.8	6.5
Expenditure	8.1	8.5	8.9	5.8	5.0	6.4

## LABOUR MARKET

Along with the improvement of economic activity positive trends are also observed in the labour market – unemployment is decreasing and employment – increasing. Simultaneously improvements are becoming slower.

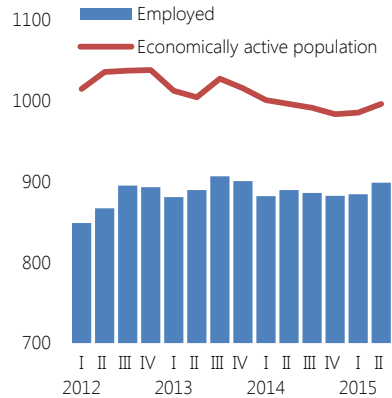
In 2014 situation in labour market continued to improve, however, at a slower pace. Unemployment level reduced to 10.8% which was by 1.1 percentage point lower than in 2013, employment level rose by 0.9 percentage points – to 59.1%. In 2014 in total there were 884.6 thsd persons employed and 107.6 thsd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

In the 1st quarter of 2015 the number of employed population rose by 0.6%, but in the 2nd quarter – by 1% as compared to the corresponding period of the previous year. Even though increase of employment has been the most rapid over the last one and a half year, it still lags behind significantly from employment increase rates in 2012 and 2013.

### Employed and Economically Active Population

*by quarters, in thousands*



### Occupied Jobs

*in thousands*

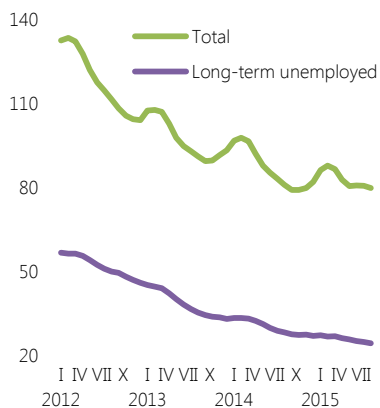
	2009	2010	2011	2012	2013	2014	2015 Jan-Jun
Total	826.1	776.7	805.5	839.1	865.1	874.6	870.1
Agriculture	17.9	17.5	19.0	20.6	21.2	21.5	21.5
Manufacturing	104.1	101.8	109.1	114.5	117.3	114.4	111.0
Other industry	23.7	22.4	22.9	23.7	24.2	24.1	24.1
Construction	54.6	46.0	50.9	55.7	60.6	60.3	57.1
Trade and accommodation	173.3	159.7	162.8	170.7	173.9	176.0	176.2
Transport and storage	67.6	66.8	68.8	72.7	75.2	75.9	75.5
Other commercial services	162.8	148.4	157.0	168.5	176.2	180.3	181.0
Public services	222.1	214.2	215.0	212.8	216.5	222.1	223.7



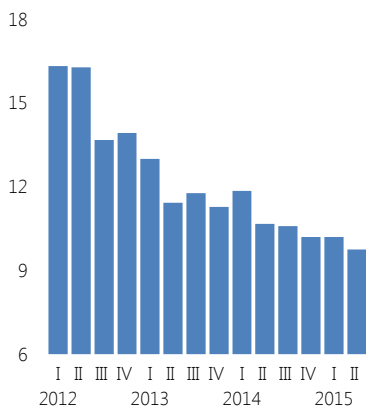
In the 2nd quarter of 2015 there were 898.2 thsd employed or 60.9% of population aged 15-74. If compared to the 2nd quarter of 2014, level of employment has increased by 1.5 percentage points. Unemployment level in the 2nd quarter, compared to the 2nd quarter of 2014, reduced by 0.9 percentage points – to 9.8%, but, compared to the previous quarter – by 0.5 percentage points.

Registered unemployment still continues to decrease – at the end of August 2015 it was 8.5%. 79.8 thsd unemployed were registered, which is by 1.1 thsd less than in August 2014. The highest level of registered unemployment remained in Latgale region (18.4%), but the lowest – in Riga (5.1%). Long-term unemployed (without job for a period of more than a year) constituted almost 1/3 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*

	2011	2012	2013	2014	2015 Jan-Jun
in thousands					
Population*	1'595.3	1'560.0	1'536.1	1'495.8	1'478.2
Economically active population	1'028.2	1'030.7	1'014.2	992.3	990.0
Employed persons	861.6	875.6	893.9	884.6	891.2
Unemployed persons	166.6	155.1	120.4	107.6	98.8
as per cent					
Economic activity rate	64.5	66.1	66.0	66.3	67.0
Employment rate	54.0	56.1	58.2	59.1	60.3
Unemployment rate	16.2	15.0	11.9	10.8	10.0

\* population in private households

## PERSONAL INCOME

During the crisis adjustment of income 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 also observed in 2015 – in the 2nd quarter average gross wages and salaries increased by 6.9%, compared to the corresponding period of 2014, and reached EUR 815.

The largest wages remained in Riga region (EUR 921), but the smallest – in Latgale region (EUR 560).

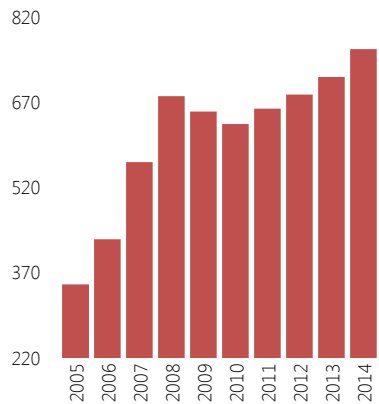
Since 2010, annual wages have risen in both private and public sectors. In the 2nd quarter of 2015 wages in private sector rose by 7.8%, but in public sector – by 5.3%. At the same time it must be noted, that in the 2nd quarter average gross wage in public sector still was by 6.2% higher than in 2008, but in private sector it exceeded level of 2008 by almost 28 per cent.

Since 2010, wages have risen in all sectors of economy. Most significant increase in salaries was in real estate and trade sectors as well as in public administration.

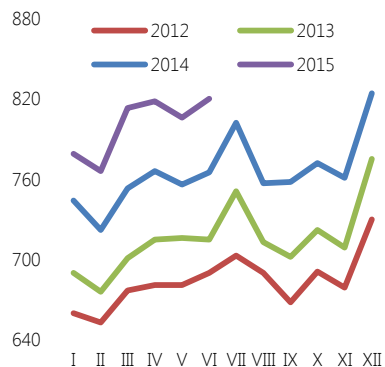
In the 2nd quarter of 2015, compared to the 2nd quarter of 2014, most important wage increase was observed in information and communication services (by 9.7%), real estate activities (by 9.4%) and accommodation and food services sector (by 9%).

Highest wage level remained in finance and insurance services sector – on average EUR 1'790 per month.

Average Monthly Wages and Salaries of Employed  
*gross, in euro*

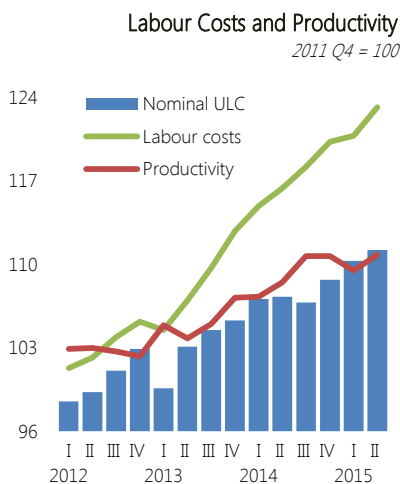
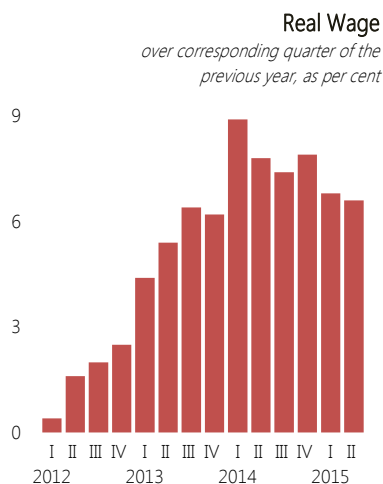


Average Monthly Wages and Salaries of Employed  
*gross, in euro*



Along with the increase of nominal wage, real wage is also increasing gradually. In 2011-2012, along with the increase of inflation, rise of real wage was moderate. In 2013, real wage grew by 5.6%, but in 2014 – already by 8%. At the same time, since the middle of 2014 growth rates of real wage is decreasing slowly – in the 2nd quarter of 2015 real wage rose by 6.6%, but a year ago – by 7.8%. During the last three years increase of real wage was mainly determined by the rapid growth of nominal wage, moderate changes 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 2nd quarter of 2015 average monthly old-age pension rose by 2.9%, compared to the 2nd quarter of 2014, and on average comprised EUR 272.42 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-Jun
Total	-3.9	-3.5	4.4	3.7	4.6	6.8	6.6
Agriculture	-4.7	5.8	8.2	0.7	4.8	8.6	3.9
Manufacturing	-2.0	0.1	5.0	4.6	4.0	7.0	8.2
Other industry	-4.2	4.1	3.7	3.6	1.8	5.0	4.5
Construction	-1.0	-5.3	4.7	2.0	6.8	7.7	6.9
Trade and accommodation	-2.8	-3.6	5.9	4.5	6.0	7.4	8.6
Transport and storage	0.2	0.2	1.0	7.7	0.5	5.9	3.4
Other commercial services	-1.1	-1.4	3.9	2.4	3.4	6.9	6.6
Public services	-12.8	-9.0	4.5	2.7	6.3	6.5	6.1

## COMPARATIVE INTERNATIONAL STATISTICS

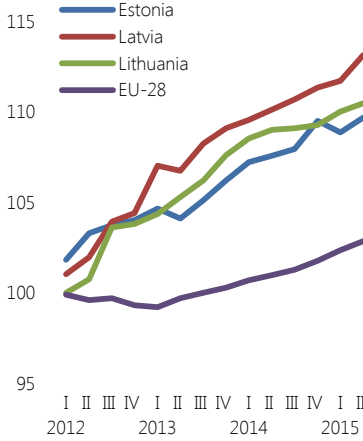
## Economic Development in Baltic Countries

	Latvia	Lithuania	Estonia
Territory, thsd km <sup>2</sup>	64.6	65.3	45.2
Population, thsd, at the 1 <sup>st</sup> January 2015	1 986.1	2 921.3	1 312.3
Gross domestic product, over corresponding period of the previous year, %			
2013	3.0	3.3	1.6
2014	2.8	2.9	2.9
2015 Q1	1.9	1.3	1.1
2015 Q2	2.7	1.4	2.0
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
2015 Q1	4.4	4.3	2.5
2015 Q2	6.2	4.6	1.5
Retail trade turnover*, over corresponding period of the previous year, %			
2013	3.3	5.1	3.1
2014	3.1	5.5	7.3
2015 Q1	3.4	0.3	1.6
2015 Q2	2.8	3.4	3.3
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
2015 Q1	0.0	-1.6	-0.9
2015 Q2	0.8	-0.7	-0.1
Number of employed, over corresponding period of the previous year, %			
2013	2.1	1.3	1.0
2014	-1.0	2.0	0.6
2015 Q1	0.3	-0.4	2.9
2015 Q2	1.0	-1.4	1.7
Unemployment rate, % of economically active population			
2013	11.9	11.8	8.6
2014	10.8	10.7	7.4
2015 Q1	10.2	10.0	6.6
2015 Q2	9.8	9.4	6.5

\* data adjusted by working days, in current prices

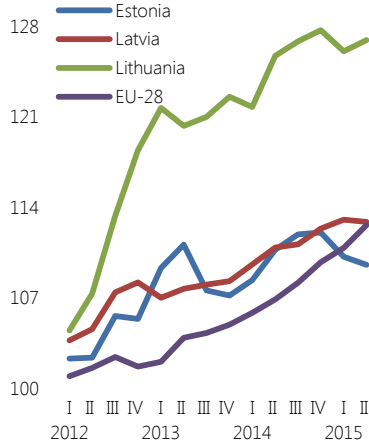
### Gross Domestic Product

seasonally adjusted data  
2011 Q4 = 100



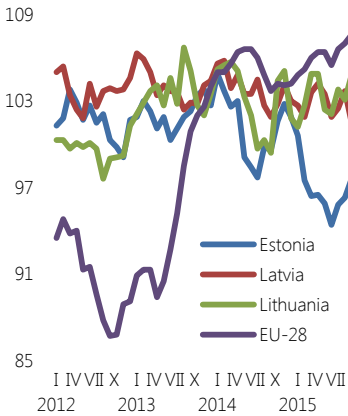
### Exports of Goods and Services

seasonally adjusted data  
2011 Q4 = 100



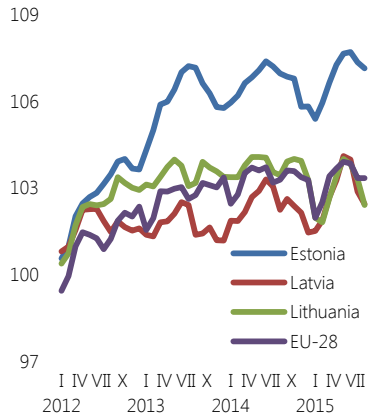
### Economic Sentiment Indicator

seasonally adjusted data



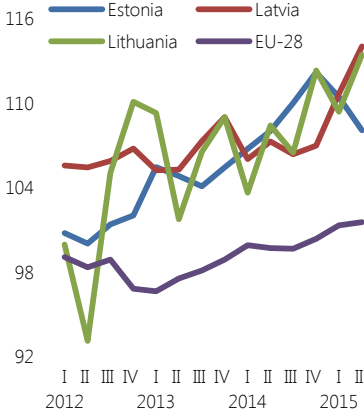
### Harmonised Consumer Price Index

December 2011 = 100



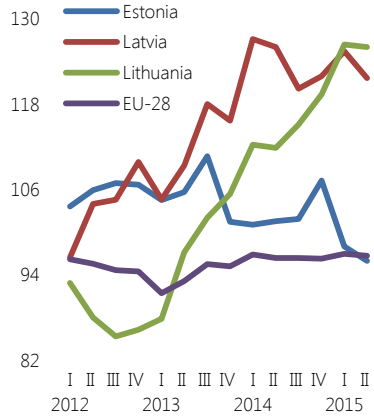
### Manufacturing Production Volume

*seasonally adjusted data*  
2011 Q4 = 100



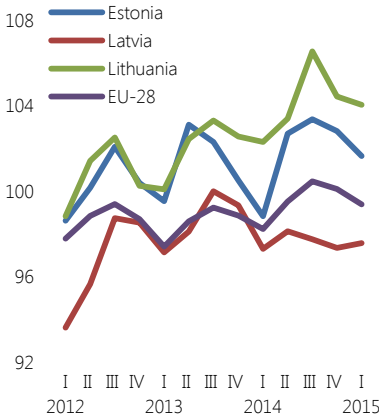
### Construction Production Volume

*seasonally adjusted data*  
2011 Q4 = 100



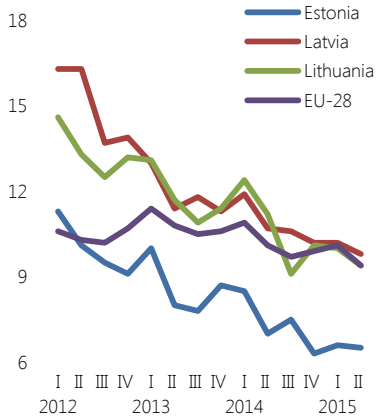
### Number of Employed

*not seasonally adjusted data*  
2011 Q4 = 100



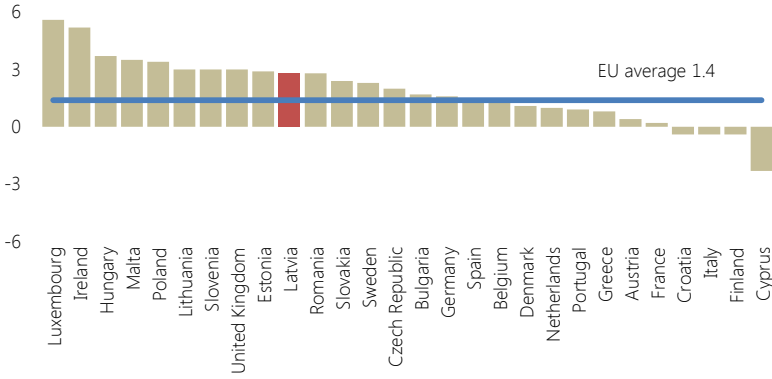
### Unemployment Rate

*as per cent*



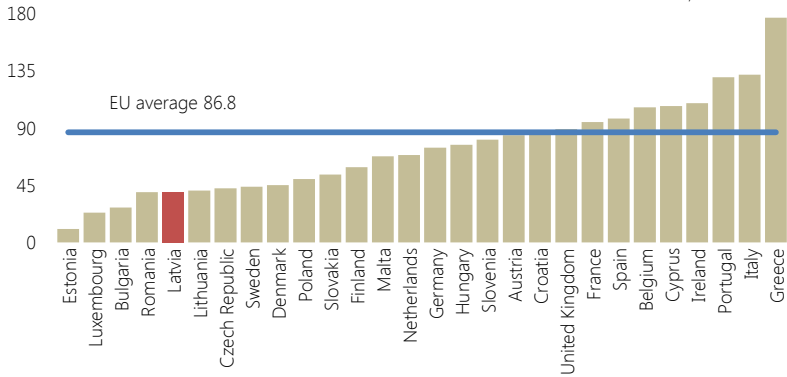
### Gross Domestic Product

in 2014, changes of volumes, as per cent



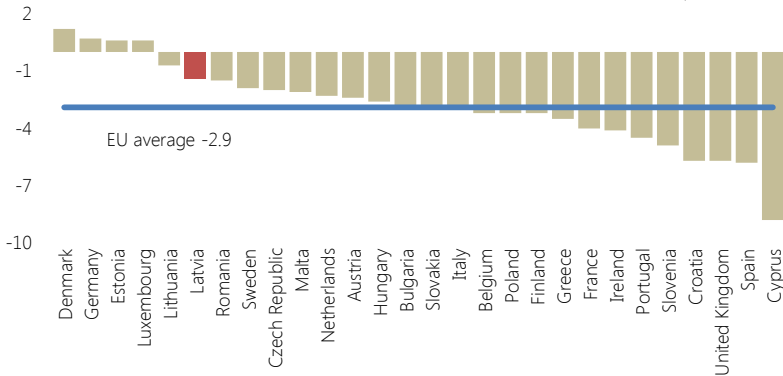
### Public Debt

in 2014, as per cent of GDP

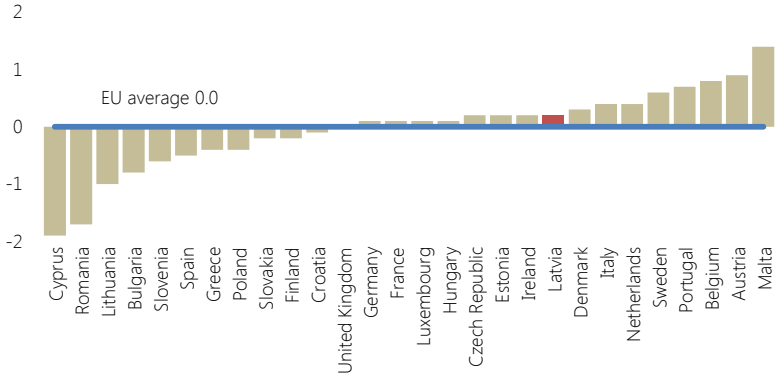


### Budget Balance

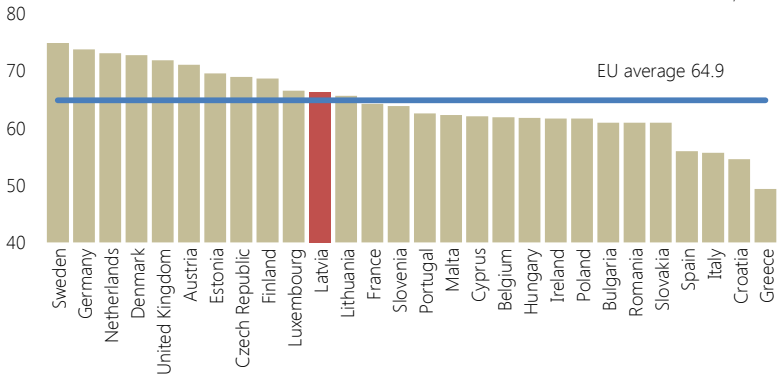
in 2014, as per cent of GDP



### Harmonised Consumer Price Index *in August 2015, average annual, as per cent*



### Employment Rate *in 2014, as per cent*



### Unemployment Rate *in 2014, as per cent*

