

ECONOMIC SITUATION: BRIEF OVERVIEW  
 INVESTMENTS  
 MONETARY INDICATORS  
 PRICES PERSONAL INCOME  
 THE EXTERNAL ECONOMIC ENVIRONMENT  
 TRADE FOREIGN  
 LABOUR MARKET  
 BALANCE OF PAYMENTS  
 COMPARATIVE INTERNATIONAL STATISTICS  
 MANUFACTURING  
 FOREIGN TRADE  
 GOVERNMENT BUDGET  
 EXPENDITURE  
 DOMESTIC PRODUCT  
 PRICES  
 GROSS DOMESTIC PRODUCT  
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 STATISTICS  
 INTERNATIONAL  
 COMPARATIVE  
 BALANCE OF PAYMENTS

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MINISTRY OF ECONOMICS  
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CENTRAL STATISTICAL  
 BUREAU OF LATVIA

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# CONTENTS

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ECONOMIC SITUATION: BRIEF OVERVIEW .....	4
THE EXTERNAL ECONOMIC ENVIRONMENT .....	5
GROSS DOMESTIC PRODUCT: EXPENDITURE .....	6
GROSS DOMESTIC PRODUCT: DEVELOPMENT OF SECTORS .....	8
MANUFACTURING.....	10
INVESTMENTS.....	12
FOREIGN TRADE .....	14
BALANCE OF PAYMENTS.....	16
PRICES.....	18
MONETARY INDICATORS.....	20
GOVERNMENT BUDGET .....	22
LABOUR MARKET .....	24
PERSONAL INCOME.....	26
COMPARATIVE INTERNATIONAL STATISTICS.....	28

## ECONOMIC SITUATION: BRIEF OVERVIEW

From 2011 to 2013 GDP growth rates on average reached 4.7% annually, which was one of the most rapid growth in the EU. GDP growth rate in 2014 have reduced slightly. In the 2nd quarter of 2014 GDP in annual terms rose by 2.3%, and in general in the 1st half of 2014 exceeded level of the corresponding period of the previous year by 2.5 per cent.

Domestic demand provided the largest contribution in the GDP growth in 2014. In the 1st half of the year private consumption exceeded the level of the 1st half of the previous year by 2.5%. Compared to 2013, dynamics of the private consumption is slower – even though wages have enlarged in 2014, rise of employment is slow. Investments in the 1st half of 2014 was by 5% more than a year ago. Dynamics of investments is affected by the wait-and-see attitude in connection with the increasing uncertainty in external environment.

Slower than expected growth in the EU countries and weakening of the economic situation in Russia are affecting Latvian exports. Exports volume of goods and services in the first half of 2014 was 2.5% more than a year ago.

In breakdown by sectors, construction, trade and transport sectors provided larger contribution in

the GDP growth in the 1st half of 2014. In the 8 months production volumes in manufacturing was close to the level of January-August of the previous year, at the same time development trends in sub-sectors are very different.

Situation in labour market continues to improve, however, at a slower rate than in previous years. Number of employed in the 1st quarter of 2014 increased by 0.2%, but in the 2nd quarter it practically not changed. In the 2nd quarter there were 889.1 thsd persons employed or 59.3% of population aged 15-74 years. Level of unemployment in the 2nd quarter reduced to 10.7%. It is expected that growth of the number of employed in 2014 will reach 0.3%, but unemployment level will drop to 10.4 per cent.

In 2014 moderate price dynamics is observed. In September consumer prices were by 1% larger than a year ago. Price rise on wearing apparel and footwear, alcoholic beverages and tobacco, as well as services had the greatest impact on the consumer prices over the year. It is expected that average consumer price level in 2014 will be below 1 per cent.

The Ministry of Economics forecasts that GDP in 2014 will increase by 2.5%. Main driving force of the economy still will be domestic demand.

### Key Indicators of Economic Development

	2010	2011	2012	2013	2014f
	<i>increase over the previous year, as per cent</i>				
Gross Domestic Product	-2.9	5.0	4.8	4.2	2.5
Consumer prices	-1.1	4.4	2.3	0.0	0.8
Number of employed	-6.4	1.3	1.6	2.1	0.3
	<i>per cent</i>				
Unemployment rate	19.5	16.2	15.0	11.9	10.4
	<i>as per cent over gross domestic product</i>				
General government sector balance	-8.2	-3.4	-0.8	-0.9	-0.9
Exports-imports balance	-1.5	-5.0	-4.4	-3.2	-2.3

f – forecast

## THE EXTERNAL ECONOMIC ENVIRONMENT

Development of global economy still is weak and in separate regions it differs. In developed countries growth perspectives are improving slowly. But in developing countries situation has worsened slightly, even though growth rates there still are rather rapid.

Since 2013 economic situation in the EU is improving gradually and GDP is increasing already for the fifth quarter in row. In the 2nd quarter of 2014 GDP rose by 0.2% and was 1.3% more than a year ago. In euro area in the 2nd quarter, GDP remained unchanged and was 0.5% more than a year ago. In the 2nd quarter growth rates were weaker than expected, even though it was partially determined by single factors. The latest business surveys shows that EU economic activities increasing gradually, however, fiscal problems still are topical in the euro area, and it is expected that economic growth rates will be moderate.

In the US economy growth is observed – in the 2nd quarter of 2014 GDP rose by 1% and was

2.5% more than a year ago. In the basis of the rapid growth there was increase of exports, private and public expenditure, as well as of investments.

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

Growth of CIS countries is not even. In Russia growth is becoming slower – in the 2nd quarter of 2014 GDP reduced by 0.3% and was only 0.8% more than a year ago. Growth rates of private consumption are slowing down and its contribution to growth is shrinking. It is mainly determined by drop of value of Russian rouble and increasing inflation. Crisis in Ukraine caused significant problems in Russia's financial markets.

According to forecasts of the International Monetary Fund, in 2014 growth of the world economy might reach 3.3 per cent.

### Global Economic Growth

*GDP, per cent changes*

	2010	2011	2012	2013	2014f
World	5.4	4.1	3.4	3.3	3.3
USA	2.5	1.6	2.3	2.2	2.2
Japan	4.7	-0.5	1.5	1.5	0.9
China	10.4	9.3	7.7	7.7	7.4
CIS	5.0	4.8	3.4	2.2	0.8
EU-27, of which:	2.0	1.6	-0.4	0.1	1.6
Germany	3.9	3.4	0.9	0.5	1.4
Sweden	6.6	2.9	0.9	1.6	2.1
United Kingdom	1.7	1.1	0.3	1.7	3.2
Latvia	-1.3	5.3	5.2	4.1	2.7
Lithuania	1.6	6.0	3.7	3.3	3.0
Estonia	2.5	8.3	4.7	1.6	1.2

Source: International Monetary Fund, f – forecast

## GROSS DOMESTIC PRODUCT: EXPENDITURE

After rapid economic growth lasting several years when average annual increase 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.

At the beginning of 2012 perspectives of the national economy of Latvia were evaluated very attentively because there were concerns that worsening of economic situation in the EU will affect growth rates of Latvian economy. However, Latvian economy was resistant towards crashes of external environment and in 2012 GDP rose by 4.8%. In 2013 growth continued and GDP was 4.2% more than in the previous year. In the first half of 2014 GDP rose by 2.5% as compared to the same period of 2013. Although during the last few years, most rapid increase in the EU was observed in Latvian economy, however GDP is still less by 7% than it was before the crisis in 2007.

Private consumption provided the greatest contribution to growth both in 2013 and 2014. However, in 2014 it increases at a slower rate than in 2013. In the 2nd quarter of 2014, compared to the 1st quarter, private consumption rose by 0.9% (according to seasonally adjusted data) and was by 2.3% more than a year ago. Even though in the first half of the year wages and salaries have increased rather rapid, growth of employment in 2014 is much slower than in the previous year.

In 2014 government consumption is rising steadily – in the 2nd quarter, compared to the 2nd quarter of 2013, it was higher by 4.9 per cent.

Gross Domestic Product  
*2004 = 100*



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

	2009	2010	2011	2012	2013
Gross Domestic Product	-14.2	-2.9	5.0	4.8	4.2
Private consumption	-16.2	3.1	2.9	3.0	6.2
Public consumption	-10.7	-8.1	3.1	0.4	-4.2
Gross fixed capital formation	-33.3	-20.0	24.2	14.5	-5.2
Exports	-12.9	13.4	12.0	9.8	1.5
Imports	-31.7	12.4	22.0	5.4	0.3

Investments in the 2nd quarter of 2014 was by 1.8% more than a year ago. Rather slow growth of investments is related to the wait-and-see attitude in connection with the increasing uncertainty in external environment. At the same time it is positive that in the main exports sector in Latvia – in manufacturing investment throughout the year rose by 32 per cent.

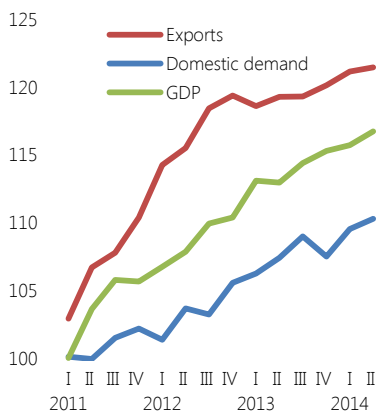
Since 2010 exports of Latvian goods and services increased very rapidly and it was main driving force of the development of national economy. Exports volume in 2012 exceeded pre-crisis level by almost 25%. Since 2013, due to the low demand in external markets, exports dynamics has become more moderate.

Slower than expected growth in the EU countries and weakening of the economic situation in Russia in 2014 are affecting Latvian exports. In the 2nd quarter of 2014, as compared to the same period of the previous year, exports volume of goods and services increased by 1.7%. The increase was ensured by rise of exports of goods, but volume of exports of services shrank.

After considerable drop during the crisis, imports volume grew rather rapid in 2010 and 2011. Since the middle of 2012 imports dynamics has become much more moderate. In the 2nd quarter of 2014 imports volume rose by 2.3% which was the most rapid increase of imports volume throughout the year during the last five quarters. In the 2nd quarter of 2014 exports-imports balance was -3.7% of GDP.

### Expenditure of Gross Domestic Product

*seasonally adjusted data, 2010 Q4 = 100*



### Expenditure of Gross Domestic Product

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

	2012			2013				2014		
	II	III	IV	I	II	III	IV	I	II	
Gross domestic product	4.3	3.7	3.4	3.1	4.6	4.6	4.4	2.8	2.3	
Private consumption	4.6	2.7	1.8	5.9	8.2	8.4	2.3	2.7	2.3	
Public consumption	5.5	0.2	3.7	0.3	-9.8	-0.6	-5.0	5.2	4.9	
Gross fixed capital formation	22.0	3.2	12.4	-15.6	-2.5	-2.9	-2.8	9.3	1.8	
Exports	5.9	10.6	10.3	3.4	2.2	-0.4	1.0	3.4	1.7	
Imports	7.0	0.9	3.4	2.6	-1.2	0.8	-0.9	0.5	2.3	

## GROSS DOMESTIC PRODUCT: DEVELOPMENT OF SECTORS

After reduction of economic activities during the crisis, due to the improvement of competitiveness and exports opportunities, tradable sectors recovered first. In the main exports sector – manufacturing – production volume in 2013 exceeded level of 2009 by 24%. Growth of tradable sectors and increase of income from exports have also promoted development of domestic market-oriented sectors.

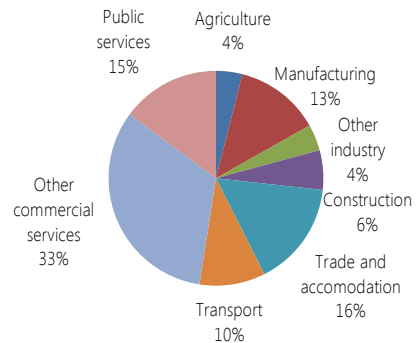
At the beginning of 2013 weak demand in exports markets slowed down growth of manufacturing. In the second half of the year, as the situation in largest exports market of Latvia – the EU – improved gradually, as well as economic activities in domestic market increased, production volume in manufacturing also increased. However, in 2013 production volume in sector in general remained at the level of 2012. Production volume in manufacturing in the 1st half of 2014 was by 0.6% more than a year ago.

In 2013 production volume in other industry sectors reduced by 3.3%. Production volume in the sector in the 1st half of 2014 was by 7.6% less than a year ago. Mainly it was related to weather – compared to the previous year, less electricity and heat energy was produced.

In transport sector growth in 2013 reached 1.6%, which was promoted by the increase of volume of freight transported by road transport. Services provided in the sector in the 1st half of 2014 were by 3.6% more than a year ago. It was affected by the increase of volume of freight by rail and cargoes loaded at ports at the beginning of the year.

### GDP Structure

2013, as per cent



### Gross Domestic Product by Sectors

as per cent

	2010	2011	2012	2013	2010	2011	2012	2013
	volume changes				contribution to changes			
Gross Domestic Product	-2.9	5.0	4.8	4.2	-2.9	5.0	4.8	4.2
Agriculture	-3.9	-1.8	7.5	-0.4	-0.1	-0.1	0.4	0.0
Manufacturing	14.0	4.0	4.6	0.0	1.0	0.4	0.7	0.0
Other industry	-1.7	-5.2	-5.5	-3.3	-0.1	-0.2	-0.3	-0.2
Construction	-35.4	27.1	14.5	7.5	-1.6	1.0	1.0	0.5
Trade and accommodation	-1.9	4.1	1.7	4.8	-0.2	0.5	0.3	0.9
Transport and storage	-5.5	18.5	6.9	1.6	-0.4	1.5	0.9	0.2
Other commercial services	-4.2	6.2	5.2	6.0	-0.8	1.4	1.8	2.1
Public services	-6.9	3.1	0.1	3.8	-0.8	0.4	0.0	0.7



Volumes of construction are increasing steadily during the last years, however, they significantly lag behind the pre-crisis level. In 2013 volumes of construction enlarged by 7.5%, which was mainly promoted by increase in volume of construction of civil engineering structures. In the first half of 2014 volumes of construction were by 18.9% more than a year ago, which was mainly determined by the increase of construction volumes of residential buildings.

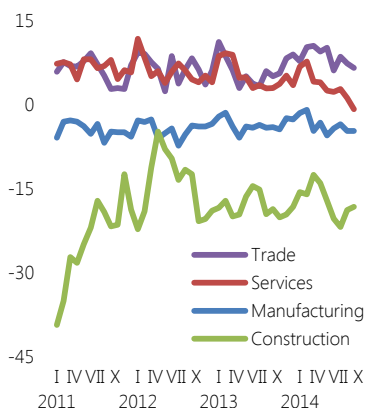
Due to the rise of private consumption, volume of services provided in the trade sector grew by 4.8% in 2013. Also in 2014 growth of the sector continues – in the 1st half rise by 2.3 per cent.

In 2013 volumes of commercial services rose by 6% and, taking into account large share of sectors, it comprised almost half of the total growth of national economy. In 2014 volumes of services provided in commercial services are increasing more moderate – in the 1st half of 2014 they were by 1% more than a year ago. Rise of volume in 2014 is mainly promoted by growth in financial and insurance activities, as well as in arts, entertainment and recreation sectors.

As government expenditure enlarged, in 2013 stable increase was also observed in public services by – 3.8%. Also in 2014 volumes in sector are increasing – in the 1st half they were by 3.5% more than a year ago.

In the second half of 2014, as domestic demand is increasing, stable development of domestic market-oriented sectors will remain. But 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*

	2012			2013				2014	
	II	III	IV	I	II	III	IV	I	II
Gross Domestic Product	4.3	3.7	3.4	3.1	4.6	4.6	4.4	2.8	2.3
Agriculture	6.6	15.9	-0.2	1.2	-1.7	-2.0	2.8	8.8	4.0
Manufacturing	4.0	2.4	1.5	-4.8	-0.6	2.5	2.6	1.2	0.1
Other industry	-9.3	-5.4	-1.3	-1.4	1.4	-4.1	-8.3	-9.2	-5.4
Construction	25.8	7.3	8.3	9.8	5.3	11.6	3.9	24.6	15.8
Trade and accommodation	0.1	1.3	3.4	6.2	5.8	5.2	2.2	2.6	2.2
Transport and storage	10.5	6.8	4.0	2.0	0.5	0.8	3.3	5.1	2.2
Other commercial services	4.1	5.2	3.7	4.1	6.1	7.2	6.5	2.2	-0.1
Public services	-0.4	0.5	-3.2	1.3	5.0	2.7	5.1	3.3	3.4

# MANUFACTURING

Improvement of competitiveness of Latvian producers during the crisis promoted development of the manufacturing. In 2012 output volume in manufacturing was more than 40% more than at the lowest point during the crisis – in 2009. Weak demand in foreign markets in 2013 has influenced sector contribution, and volume of goods produced in manufacturing sector remained at the level of 2012. In 2013 manufacturing was greatly affected by discontinuation of economic activity of JSC "Liepājas Metalurģis", in the result of which manufacture of basic metals shrank significantly.

Output volume in manufacturing in eight months of 2014 was 0.4% less than a year ago. Development of the sector is mainly affected by trends in external markets – slower than expected development in the EU, as well as poor economic situation in Russia. Development trends in sub-sectors of manufacturing differ.

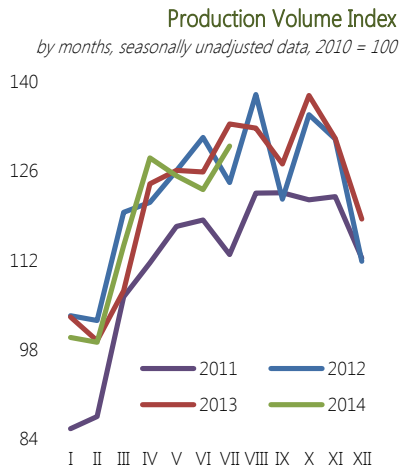
In one of the largest manufacturing sectors – wood processing – production volume in 2014 is increasing steadily. In eight months output of the sector in general was by 7.5% more than a year ago. Volume of exports is steadily rising in the sector and demand for sectors' production is also increasing in domestic market.

In the largest sector of manufacturing – food industry – in eight months of 2014 production volume was by 1.4% more than a year ago.

Most rapid increase in production volume in eight months of 2014 was in manufacture of computers, electrical and optical equipment. Significant increase in production volume in 8 months of 2014 was also in chemical industry, manufacture of furniture and manufacture of other non-metallic mineral products.

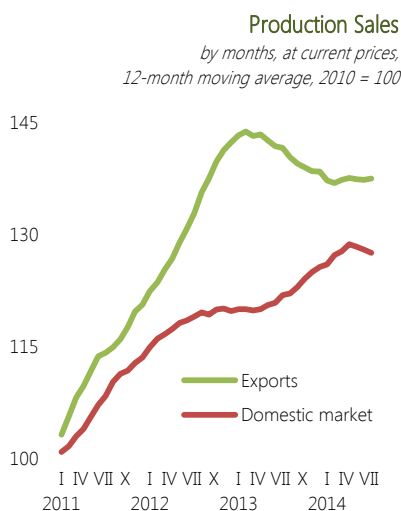
Idle standing of "Liepājas metalurģis" still significantly affects manufacture of basic metals. Also production volume in the manufacture of wearing apparel and textiles, manufacture of transport vehicles, as well as manufacture of paper in 2014 lag behind the level of the previous year.

Since the middle of 2012 production capacity utilisation rate in manufacturing practically has not changed. In the 3rd quarter of 2014 it was 71.5 per cent.



In eight months of 2014 total manufacturing turnover shrank by 0.8%, as compared to the corresponding period of 2013. During this time turnover on products sold at the domestic market grew by 0.7%, while turnover of exported goods decreased by 1.7 per cent.

It is expected that in the nearest future current trend will remain in manufacturing sectors. In sectors, where production volumes increased steadily already until now, growth will continue, which will be promoted by growth of demand in domestic market, as well as gradual improvement of economic situation in the EU countries, which is the largest exports market of Latvia. While in sectors, where production volume this year due to various factors (competitiveness, economic situation in CIS countries, etc.) is decreasing, production growth most probably is not expected.



### Main Indicators of Manufacturing

*as per cent*

	Structure of output	Structure of occupied jobs	Exports share in sales of sector	Volume changes		
				2012	2013	2014 Jan-Aug
Manufacturing – total	100	100	61.7	9.3	0.1	-0.4
Food industry	25.2	21.7	36.1	2.5	6.0	1.4
Light industry	4.4	11.2	84.5	3.0	1.4	-13.4
Wood processing	23.0	19.4	73.3	5.4	2.7	7.5
Paper industry and publishing	4.5	3.9	58.6	10.1	5.6	-0.4
Chemical industry	7.4	6.3	74.9	8.3	-8.7	2.9
Other non-metallic mineral products	6.5	4.2	43.9	8.6	4.6	2.8
Metals and metal articles	10.7	11.0	65.3	16.2	-17.6	-15.9
Electrical and optical equipment	6.2	3.7	88.5	20.0	18.4	29.3
Machinery and equipment	2.4	2.9	74.8	8.7	1.4	-4.4
Motor vehicles	4.0	3.3	92.0	15.8	3.0	-17.0
Other industries	5.7	12.4	50.6	26.1	-7.6	-9.5

## INVESTMENTS

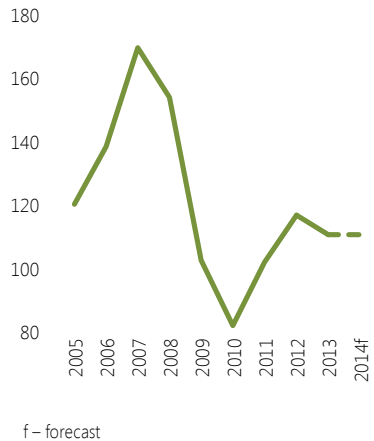
Since the end of 2010 investments increasing, but their dynamics is slowing down over the last years. In 2011 investment value exceeded level of 2010 by 24.2%, while in 2012 increase was slightly more moderate – by 14.5%. In 2013 investment was by 5.2% less than a year ago and comprised 23.3% of GDP.

At the beginning of 2014 investment is increasing moderate. In the 1st half of 2014 investment was by 5% more than a year ago. Investment level still is lower than before the crisis.

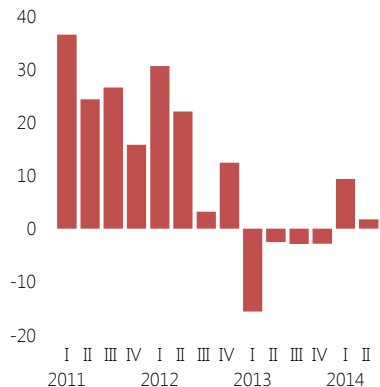
According to provisional data in the 1st half of 2014 non-financial investment in manufacturing was by 33.4% more than a year ago and comprised almost 15% of total non-financial investment. Also in services sectors investment dynamics was positive, which was greatly affected by the increase of investment in transport and storage sector – by 16.2%, in information and telecommunication services – by 24.9%. But in the 1st half of 2014 investment in energy was at 46% lower level than a year ago, which is explained with the completion of large investment project implemented in the previous year. Stable increase of investment value is mainly delayed by slow renewal of crediting.

Since 2010, incoming foreign direct investment (FDI) inflows are increasing gradually. However, dynamics off attracted FDI during the last years has become more moderate. In 2011 attracted FDI inflows were 5.1% of GDP. However, in 2012 their volume was 3.9% of GDP, but in 2013 – 2.6% of GDP. Attracted net FDI inflows in the 1st half of 2014 were 21% of inflows of corresponding period of the previous year. It must be noted that similar trends are also observed in our neighbouring countries. It is affected by uncertainty in the region as a whole in connection with events in Ukraine.

**Gross Fixed Capital Formation**  
*2004 = 100*



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

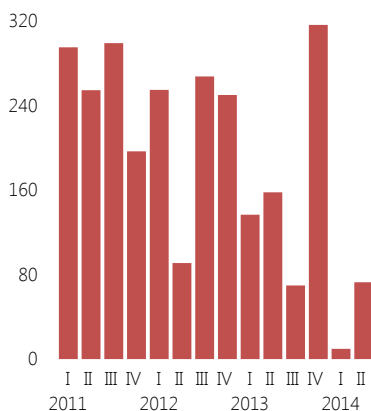


In 2013 attracted FDI value in Baltic countries in general was EUR 1'891.5 mln, i.e., by almost 1/4 less than a year ago. Latvia attracted about 36% of all FDI in Baltics.

According to the international investment balance of Latvia, in the 1st half of 2014, FDI stock reached EUR 11'690 million – by 4% more than a year ago. Larger share of FDI by sectors have investment in finance intermediation, real estate activities and manufacturing.

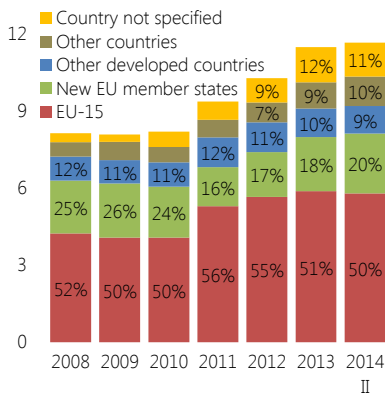
### Foreign Direct Investment in Latvia

flows by quarters, mln euro



### Foreign Direct Investment in Latvia

stocks by groups of countries, mln euro



### Foreign Direct Investment in Latvia by Sectors

mln euro

	Structure		Stocks			
	2014 Jun	2010	2011	2012	2013	2014 Jun
Agriculture	2.7	214.6	263.2	294.4	299.9	312.3
Manufacturing	12.2	1'017.0	1'114.4	1'200.3	1'403.5	1'426.6
Other industry	5.0	385.9	385.9	492.2	589.3	588.1
Construction	4.2	540.7	544.4	528.1	559.6	490.0
Trade and accommodation	12.1	1'046.3	1'329.2	1'416.1	1'472.9	1'411.3
Transport and storage	3.4	346.0	399.6	449.0	408.1	397.1
Financial and insurance activities	24.7	2'326.9	2'571.6	2'825.7	2'922.2	2'885.9
Other services	18.3	1'635.0	1'916.9	1'866.6	2'071.8	2'141.3
Not allocated economic activity	17.4	671.4	834.5	1'185.5	1'842.4	2'037.4
Total	100	8'183.8	9'359.8	10'257.9	11'569.6	11'690.0

## FOREIGN TRADE

Since 2009 foreign trade of Latvia has been developing very rapidly. As compared to 2009, exports of goods at current prices in 2012 has almost doubled, while imports of goods at current prices – increased by more than 80%. From 2009-2012, exports on average increased by 25% each year, while imports – by 23%. 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. Volumes of exports of wood processing, machinery and electrical equipment and mineral products have risen significantly.

Exports of Latvian goods in 2013 was developing moderately, it rose by 1.5% at current prices, but slightly decreased – by 0.3% – at constant prices. Imports of goods at current prices rose only by 1%, but at constant prices – remained at the level of 2012.

As uncertainty in external environment remained, in the eight months of 2014 exports of Latvian goods increased moderately – at current prices – by 2.1%. Imports of goods during this period has reduced by 1.8 per cent. As volumes of exports of goods grew and volumes of imports reduced, negative trade balance in January-August 2014, has improved significantly, as compared to the corresponding period of 2013.

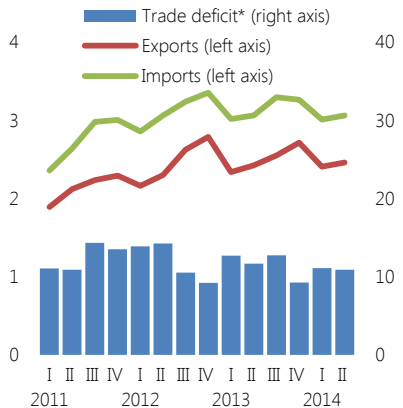
In 2013 development of exports was mainly promoted by the rise in volumes of export of machinery products and wood and wood products. Due to termination of economic activity of JSC „Liepājas Metalurģs” exports of metals and metal articles has decreased significantly. In 2013 exports volume of transport vehicle group also has reduced.

In January-August 2014, export was positively influenced by growth of wood and wood products, as well as by increase of exports of chemical products. In comparison with the corresponding period of the previous year volume of exports of metals and metal articles, of light industry, as well as of agricultural and food products have 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

In January-August 2014 reduction of the volume of imports of goods was mainly affected by decrease of imports volume of mineral products. Similar as in 2013 volume of imports of transport vehicles and of metals and metal articles also decreased. These declines, in turn, were compensated by the increase of imports volume of chemical products, as well as of wood and wood products.

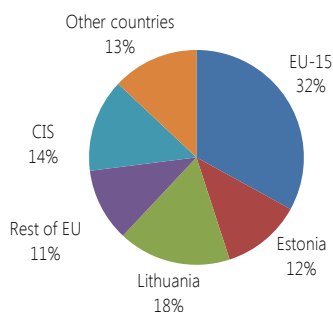
Exports volume of goods to the EU countries in the eight months of 2014 grew slightly more rapidly than total exports. In its turn exports to CIS countries reduced by 3.4%. Export to the main export partner of Latvia – Lithuania – has increased by 9%, but to Estonia – decreased by 7%. Exports volume to other countries (except EU and CIS countries) has remained at the level of the previous year.

Largest Latvia's trade partners in January-August 2014 were Lithuania – 18% of total foreign trade turnover, Estonia – 10%, Germany, Poland and Russia – 9% each, Sweden and Finland – 4% each and United Kingdom, Netherlands, Denmark and Italy – by 3 per cent each.

Further export opportunities will be closely related to processes in foreign markets.

### Structure of Exports of Latvian Goods

*in January-August 2014, as per cent*



### Exports and Imports of Latvian Goods

*in January-August 2014, as per cent*

	Exports			Imports		
	structure	volume changes	contribution to changes	structure	volume changes	contribution to changes
Total,	100	2.1	2.1	100	-1.8	-1.8
of which:						
Agricultural and food products	17.9	-1.1	-0.2	16.0	0.5	0.1
Mineral products	8.4	-2.2	-0.2	14.6	-17.9	-3.1
Chemical products	10.2	9.7	0.9	16.0	4.0	0.6
Products of light industry	4.6	-5.5	-0.3	6.3	-0.7	0.0
Wood and articles of wood	18.1	12.5	2.0	2.7	33.6	0.7
Metals and metal articles	10.1	-9.9	-1.1	8.7	-2.6	-0.2
Machinery and electrical equipment	16.0	3.1	0.5	18.9	1.4	0.3
Transport vehicles	4.8	-0.6	0.0	7.1	-9.4	-0.7
Other goods	10.0	5.0	0.5	9.8	8.0	0.7

## BALANCE OF PAYMENTS

Since 2011, the current account of balance of payments is at the level of a small deficit. In 2012 it was 3.3% of GDP and in 2013 – 2.3% of GDP. But in the 1st half of 2014 current account deficit reached 3.6% of GDP, which is slightly more than a year ago.

Changes in current account balance are mainly determined by fluctuations in foreign trade balance. Foreign trade deficit, that increased during the years of rapid growth, is characteristic to Latvia, but during the recession – it shrank significantly, mainly due to reduction of import volume. As economy became more stable, exports grew more rapidly than imports, however during the last years export and import dynamics is slowing down.

In 2013 volume of export and import of goods enlarged rather moderate. Foreign trade deficit reached 10.9% of GDP or 0.7 percentage points less than a year ago. Also in the 1st half of 2014 exports dynamics was more rapid than imports dynamics and foreign trade deficit remained at the level of the previous year.

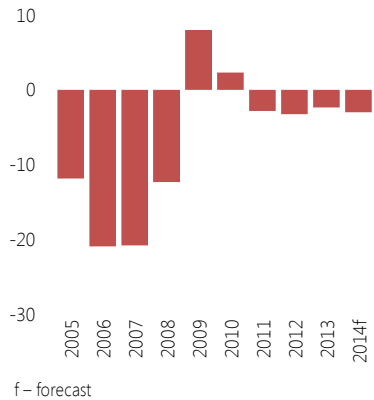
Balance of services still is positive and covers foreign trade deficit by almost 70%. In 2013 services balance surplus was 7.6% of GDP. In the 1st half of 2014, export of services reduced by 0.5%, but imports – by 1.1%, thus services balance surplus reached 7.5% of GDP.

Position of income balance is mainly determined by changes of profitability of non-resident enterprises. Since 2011 income balance is negative and in 2013 it was at 0.3% level of GDP. In the 1st half of 2014 income balance was with slight surplus (0.01% of GDP).

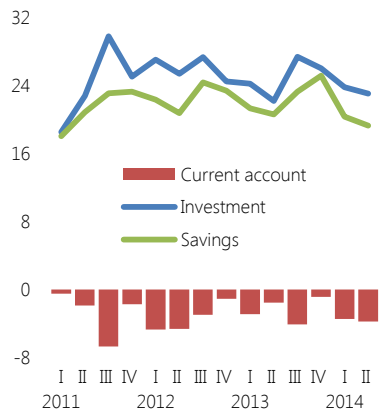
Fluctuations of balance of financial account by quarters are reducing gradually. In 2013 positive balance of financial account was 0.7% of GDP. While in the 1st half of 2014 financial account was in deficit (6% of GDP).

FDI net flows in 2013 comprised 1.6% of GDP. Also in the 1st half of 2014 FDI balance was positive – at 0.2% level of GDP.

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



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

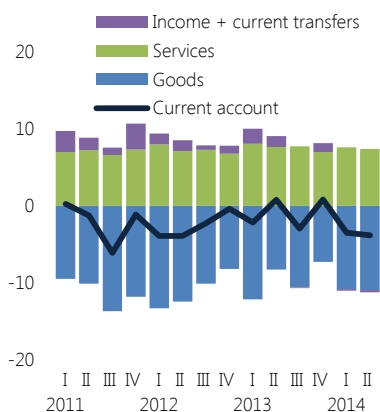




Significant fluctuations are observed in portfolio investment and positions of other investments. In 2013 other investment balance was with slight deficit – 1% of GDP. In the 1st half of 2014 deficit of balance of other investments reached 10.5% of GDP. Fluctuations of balance of portfolio investment and other investments are mainly related to stabilisation activities of financial sector and restructuring of public sector debt.

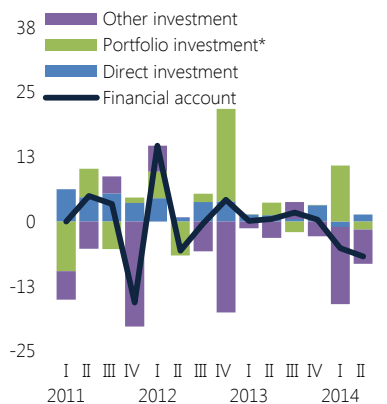
### Current Account by Items

by quarters, as per cent of GDP



### Financial Account by Items

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



\* portfolio investment and derived financial instruments

### Latvian Balance of Payments by Items

as per cent of GDP

	2009	2010	2011	2012	2013	2014 Jan-Jun
A. Current account	8.0	2.3	-2.8	-3.3	-2.3	-3.6
Trade balance	-8.1	-8.2	-12.0	-11.6	-10.9	-10.9
Service balance	7.6	7.2	7.3	7.4	7.6	7.5
Net income	6.1	1.0	0.0	-0.6	-0.3	0.0
Net current transfers	2.4	2.3	1.9	1.6	1.3	-0.3
B. Capital account	2.4	1.9	2.1	3.0	2.5	3.9
C. Financial account*	-6.1	-2.1	-4.0	2.9	0.7	-6.0
Direct investment stock	0.6	1.5	4.9	3.2	1.6	0.2
Portfolio investment**	2.3	-2.8	-1.8	4.7	0.1	4.3
Other investment	-8.9	-0.7	-7.2	-5.1	-1.0	-10.5
D. Deviation	1.2	1.8	0.3	1.0	0.8	5.5
E. Reserve assets	-5.6	-4.0	4.5	-3.6	-1.7	0.3

\* 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%. Deflation mainly was determined by the reduction in prices of natural gas, fuel and food. Large impact had price drop of oil and food in the world. Average annual prices in 2013 remained at the level of 2012.

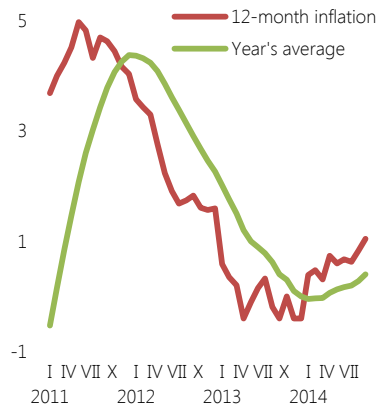
In 2014 moderate price increase was observed. In September consumer prices were by 1% larger than a year ago. In nine months of 2014 the largest impact on price changes mainly had price rise on alcoholic beverages and tobacco (by 4.5%), on wearing apparel and footwear (by 3.1%) and on services (by 3.2%), as well as price drop on food (0.8%). It should be noted that world's food prices reduced rapidly and they were by 7.1% lower than in December 2013. At the end of September, oil prices in world markets fell to the lowest level over the last two years. Also in Latvia in January-September fuel prices decreased.

Also in the EU price dynamics in 2014 in general was moderate. In September 12-month inflation in the EU countries was 0.4%, which was determined by price rise on services.

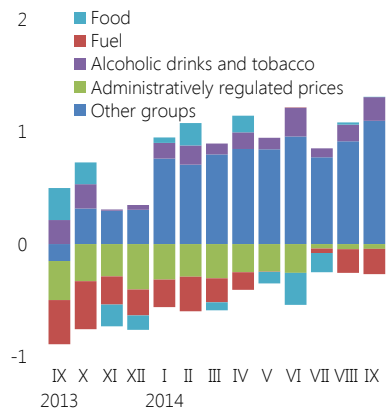
In general moderate inflation is expected in 2014. Ministry of Economics estimates that average annual inflation may be below 1% on condition that food and oil product prices will maintain the current trend and rapid increase is not expected. General consumer price level will be also affected by limitations in trade between the EU and Russia.

After rapid increase in 2010 and in first half of 2011, producer prices are rising moderately. In 2013, producer prices rose slightly (by 0.3%), mainly due to price growth in manufacturing.

**Consumer Price Changes**  
*by months, per cent*



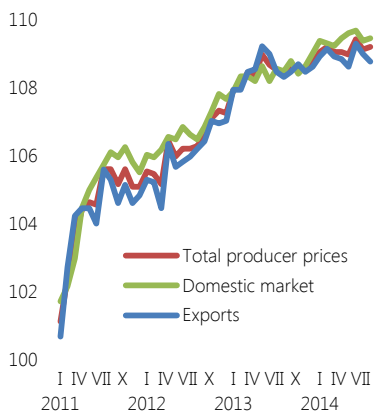
**Impact of Goods and Services Groups on Consumer Price Index**  
*contribution to 12-month changes, as per cent*



In August 2014, compared to August 2013, general level of producer prices increased by 0.5%, on products sold in the domestic market – by 0.6%, but on production exported – by 0.4 per cent.

In August 2014 producer prices in manufacturing were by 0.6% higher than a year ago. In August 2014 producer prices on exported production in manufacturing over a year have grown by 0.5%, but on products sold in the domestic market – by 0.9%. Most significant price increase was observed in wood processing and manufacture of basic metals, but significant reduction was recorded in manufacture of computer, electronic and optical products, as well as in manufacture of chemical products.

**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
2013	September	0.3	-0.4	-0.4	0.4
	October	0.3	0.0	0.0	0.3
	November	-0.5	-0.4	-0.5	0.1
	December	0.0	-0.4	-0.4	0.0
2014	January	0.6	0.4	0.6	0.0
	February	0.0	0.5	0.6	0.0
	March	0.3	0.3	0.9	0.0
	April	0.5	0.7	1.4	0.1
	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

## MONETARY INDICATORS

Even though economic situation is improving, however, there are no significant improvements in crediting – both crediting of entrepreneurship and of households still is at a low level. Improvement of credit portfolio is positive, which means that solvency of borrowers is improving.

At the beginning of 2014 amount of new loans decreased – in the 2nd quarter of 2014 in banking sector new loans in amount of EUR 688.2 mln were issued in total, which is by 7.6% less than a year ago.

More than a half (54%) of new loans was issued to non-residents and the share is increasing, however, share of loans issued to non-residents in total credit portfolio of banking sector comprise only 11.7 per cent.

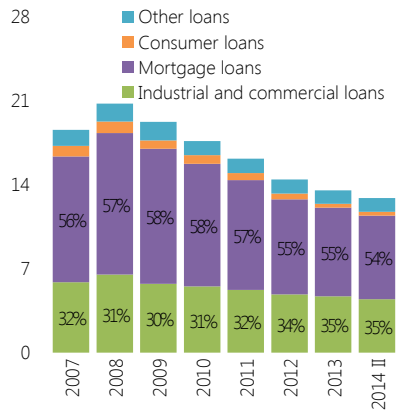
Amount of new loans issued to enterprises is reducing. In the 2nd quarter of 2014, compared to the corresponding period of the previous year, volume of new loans issued to enterprises reduced by almost 1/3 and comprised 23% or EUR 159 mln of total amount of new loans issued. Balance of new loans issued to households reduced by 4.4% and comprised 12% or EUR 80.1 million.

Balance of loans continues to decrease. Amount of loans repaid still is larger than new loans issued. At the end of the 2nd quarter of 2014, compared to the corresponding period of the previous year, balance of loans shrank by 6.7%. In the 2nd quarter of 2014 most rapidly reduced balance of industrial loans – for acquisition of fixed assets and financing of other long-term investment projects (by 10%). But balance of commercial loans decreased by 8.5%. In volume majority of loans were issued for real estate activity and manufacturing.

Quality of loans continues to improve. In the 2nd quarter of 2014, 14.9% of loans in the total credit portfolio of banking sector were with overdue payments – it is one of the lowest indicators since the end of 2008. Improvement of quality of credit portfolio of banking sector is mainly related to writing off bad loans.

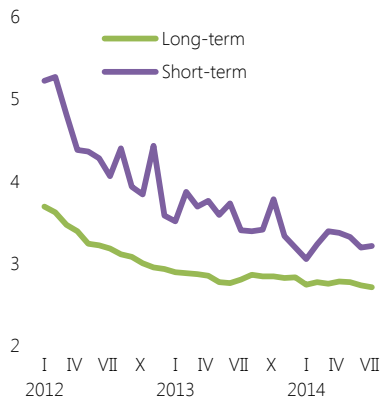
### Loans Issued to Residents

*at the end of the period, billion euro*



### Interest Rates on Loans to Non-financial Corporations

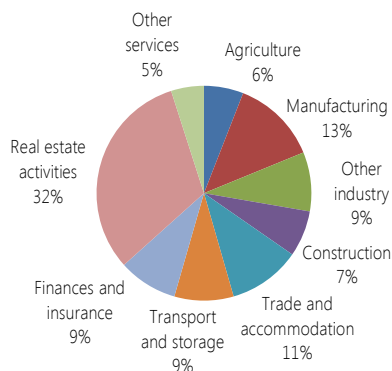
*by months, as per cent*



Interest rates on loans issued in euros to non-financial organisations are still reducing and in July 2014 reached the lowest level and comprised 2.71%, but fluctuations of short-term interest rates are larger and at the end of July reached 3.21 per cent.

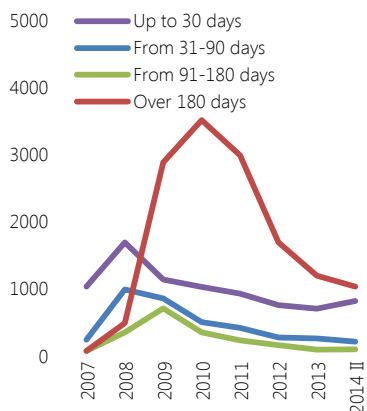
### Structure of Loans Issued by Sectors

at the end of June 2014, as per cent



### Loans with Overdue Payments

at the end of the period, mln euro



### Monetary Indicators of the Banking System of Latvia

	2010	2011	2012	2013	2014 Jun
<i>at the end of period, mln lats</i>					
Net foreign assets	-1.7	-0.3	0.9	1.2	-0.4
Net domestic assets	10.8	9.5	8.8	8.6	9.3
Domestic loans	16.0	15.7	13.7	13.5	12.7
Other assets (net)	-5.1	-6.2	-4.9	-4.8	-3.4
Broad money M2X	9.1	9.2	9.6	9.8	8.9
Cash in turnover (without vault cash balance)	1.1	1.5	1.5	0.7	3.6
Deposits of individuals and companies	7.9	7.7	8.1	9.2	8.9
<i>per cent changes</i>					
Domestic loans	-8.1	-1.5	-13.1	-1.4	-3.6
Broad money M2X	9.8	1.5	4.5	2.0	-5.2
Cash in turnover (without vault cash balance)	21.0	28.8	4.1	-56.6	169.4
Deposits of individuals and companies	8.3	-2.4	4.5	13.2	10.6
Gross Domestic Product at current prices	-3.8	11.7	8.6	5.3	3.8

## GOVERNMENT BUDGET

To make fiscal situation in the country more stable during the crisis, from 2008 to 2012 Latvia consolidated its budget. Budget deficit is reduced from 8.9% of GDP in 2009 to 0.9% of GDP in 2013.

As economic situation improved budget revenues enlarged. In 2013 they were by 2.6% more than in 2012.

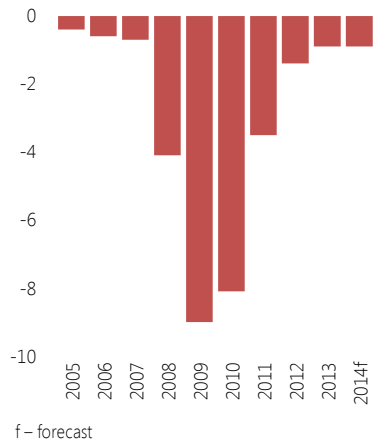
In eight months of 2014, general government consolidated budget revenues were EUR 5'786.5 mln, which is by 1.7% more than in the corresponding period of the previous year. Total revenues from taxes during this period rose by 3.8 per cent.

In eight months of 2014 mandatory state social insurance contributions remained at the level of the corresponding period of 2013, but revenues from personal income tax were by 3% more than a year ago. Despite the increase in wages and improvement of the situation in the labour market, collection of labour force taxes is affected by changes in tax policy that became effective on 1 January 2014 – reduction of the social insurance instalment rate, enlargement of non-taxable minimum and deduction for dependants.

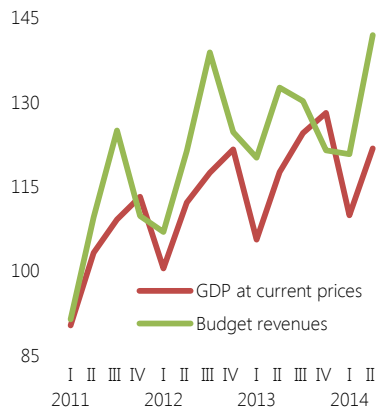
In eight months of 2014 value added tax collected by 8% more than a year ago and it ensured more than a half of the total increase of taxes collected during this period.

Since 2011 state budget expenditure is also increasing gradually. In 2013 they were by 4.5% more than a year ago. In the eight months of 2014, consolidated budget expenditure was EUR 5'474.2 mln, which is by 2.7% more than in January-August 2013. Current expenditure rose by 7.8% and expenditure on subsidies and grants – by 3.1% during the same period. While capital expenditure was by 7% less than a year ago.

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

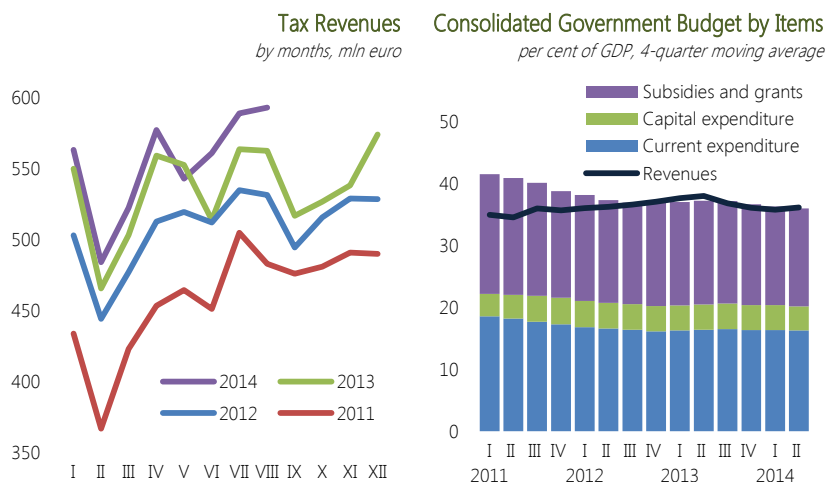


**GDP and Budget Revenues**  
*2010 Q4 = 100*



From functional categories in eight months of 2014 most rapidly expenditure increased on social protection. Significantly expenditure rose also on public order and safety, general public services, health and education. Expenditure reduced on recreation, culture and religion, economic affairs and environmental protection. Expenditure on defence practically remained at the level of the corresponding period of the previous year.

Aim of the government is to continue to maintain low budget deficit and it is planned that in 2014 it will reach 0.9% of GDP.



General Government Budget

	bln euro				per cent changes	
	2011	2012	2013	2014 Jan-Aug	2013	2014 Jan-Aug
Revenues, of which:	7.2	8.2	8.4	5.8	2.6	1.7
Indirect taxes, of which:	2.1	2.3	2.4	1.7	4.3	6.6
Value added tax	1.4	1.6	1.7	1.2	4.9	8.0
Income and real estate taxes	1.6	1.8	1.9	1.3	6.5	2.9
Social insurance contributions	1.7	1.9	2.0	1.3	5.1	0.1
Other taxes	0.1	0.1	0.2	0.1	8.6	17.5
Other revenues	1.7	2.1	2.0	1.4	-0.5	-4.5
Expenditure	7.9	8.1	8.5	5.5	4.5	2.7

## LABOUR MARKET

Increase of economic activities positively affects situation in labour market – employment increases and high unemployment caused by crisis decreases.

In 2013 number of persons employed increased by 2.1% reaching 894 thsd, but the level of unemployment have decreased to 11.9 per cent.

Situation in labour market continued to improve also in the first half of 2014, however, at a slower rate than in previous years. The number of unemployed in the 1st quarter of 2014 rose only by 0.2%, but in the 2nd quarter it practically remained the same, as compared to the corresponding period of the previous year. In the 2nd quarter of 2014 there were 889.1 thsd persons employed or 59.3% of population aged 15-74 years.

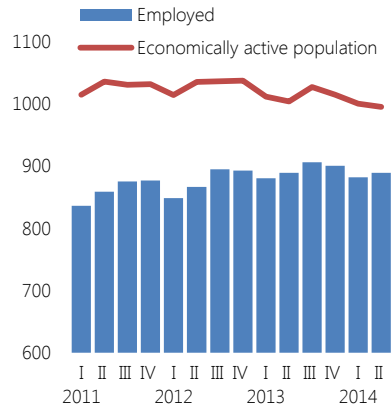
Despite the rather slow increase of employment, unemployment still is reducing steadily. Level of unemployment in the 2nd quarter of 2014, compared to the 2nd quarter of 2013, reduced by 0.7 percentage points – to 10.7 per cent.

Also the registered unemployment rate continues to decrease. At the end of August 2014 it was 8.4%. There were registered 80.9 thsd unemployed, which is by 10.3 thsd less than a year ago.

The highest level of registered unemployment remained in Latgale region (17.8%), but the lowest – in Riga (5%).

### Employed and Economically Active Population

by quarters, in thousands



### Occupied Jobs

in thousands

	2009	2010	2011	2012	2013	2014 Apr-Jun
Total	826.1	776.7	805.5	839.1	865.1	872.5
Agriculture	17.9	17.5	19.0	20.6	21.2	22.1
Manufacturing	104.1	101.8	109.1	114.5	117.3	114.8
Other industry	23.7	22.4	22.9	23.7	24.2	24.9
Construction	54.6	46.0	50.9	55.7	60.6	62.4
Trade and accommodation	173.3	159.7	162.8	170.7	173.9	175.8
Transport and storage	67.6	66.8	68.8	72.7	75.2	75.7
Other commercial services	162.8	148.4	157.0	168.5	176.2	178.4
Public services	222.1	214.2	215.0	212.8	216.5	218.4

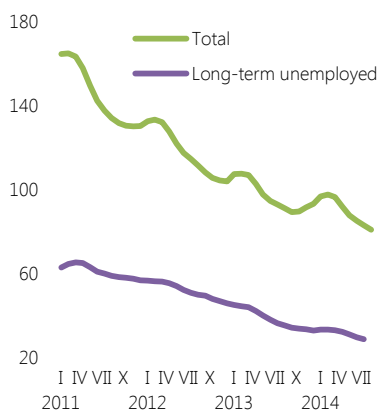


Long-term unemployed (without job for a period of more than a year) constituted more than a third of total registered unemployed.

In 2014 situation in labour market continues to improve, however, improvements will become more moderate. On the one hand, it will be affected by gradual decrease of low basis effect in labour market, on the other hand – slow-down of growth rates. In general in 2014 number of persons employed could increase by about 0.3%, as compared to 2013, but the level of unemployment – reduce to 1.04 per cent.

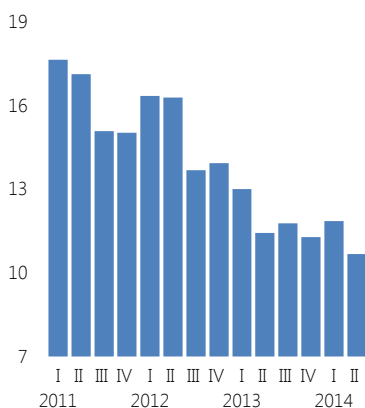
### Registered Unemployed

*by months, in thousands*



### Unemployment Rate

*by quarters, per cent*



### Main Indicators of Labour Market

*in age group 15-74 years*

	2009	2010	2011	2012	2013	2014 Jan-Jun
in thousands						
Population*	1'674.3	1'635.3	1'595.3	1'560.0	1'536.1	1'501.0
Economically active population	1'101.4	1'056.5	1'028.2	1'030.7	1'014.2	997.8
Employed persons	908.5	850.7	861.6	875.6	893.9	885.4
Unemployed persons	192.9	205.8	166.6	155.1	120.4	112.4
as per cent						
Economic activity rate	65.8	64.6	64.5	66.1	66.0	66.5
Employment rate	54.3	52.0	54.0	56.1	58.2	59.0
Unemployment rate	17.5	19.5	16.2	15.0	11.9	11.3

\* population in private households

## PERSONAL INCOME

During the crisis adjustment of remuneration has been rather moderate, major part of fall in volume of economy 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 level of unemployment remains at a rather high level.

Along with the growth of labour demand, average gross wages is rising gradually. In 2011 and 2012 it increased by 4.4% and 3.7%, respectively, but in 2013 – by 4.6% and reached EUR 716.

Since 2010, annual wages have risen in both private and public sector. In 2013 remuneration in private sector grew by 4.7%, similar increase was also observed in public sector (by 4.6%). It must be noted, that in 2013 average gross wage in public sector still was less by 5% than in the same period of 2008, but in private sector it exceeded level of 2008 by 10.7 per cent.

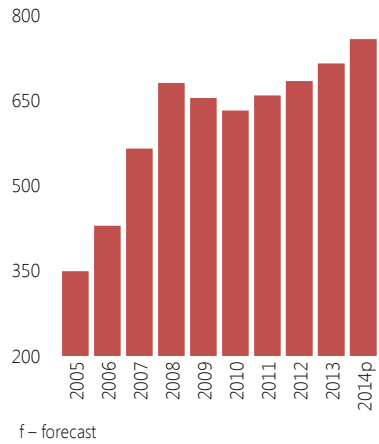
Comparatively high wages continued to increase also in the first half of 2014. In the 2nd quarter gross average salary increased by 6.4%, compared to the 2nd quarter of 2013. The largest wages and salaries remained in Riga region (EUR 862), but the smallest – in Latgale region (EUR 520).

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.

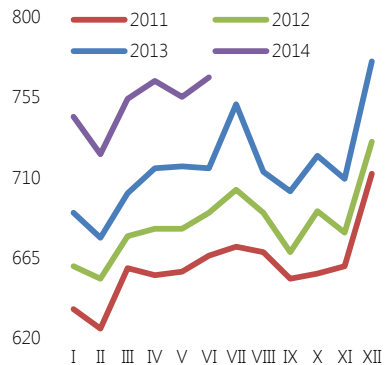
In the 2nd quarter of 2014, compared to the 2nd quarter of 2013, most rapid wage increase was observed in real estate activities (11%) and financial activities (9.8%).

Highest remuneration level remained in finance and insurance services sector – on average EUR 1'718 per month.

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

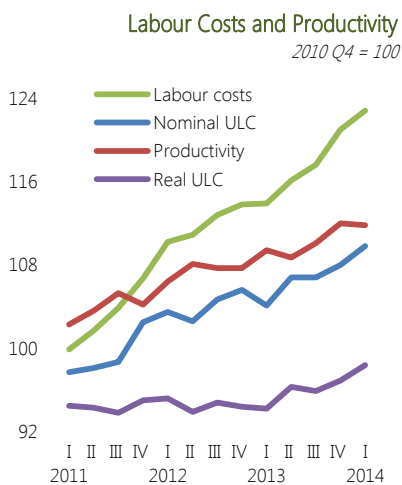
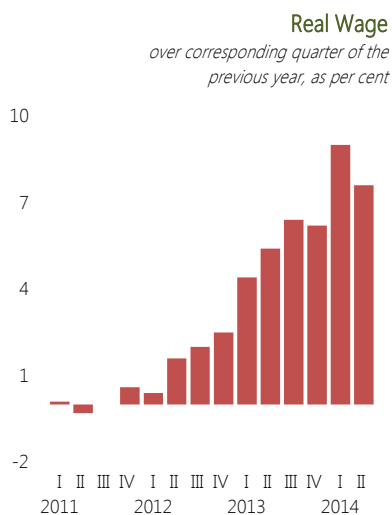


Average Monthly Wages and Salaries of Employed by Months  
*gross by months, in euro*



Along with the increase of nominal wage, real wage is 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. In 2013, real wages grew by 5.6% which was mainly determined by consumer prices that remained at the current level. At the same time, in the 2nd quarter of 2014 real wages rose by 7.6%, as compared to the 2nd quarter of 2013, which is mainly related to rapid increase of nominal wage.

Amount of average old-age pension also continues to increase. In 2013, it grew by 1%, as compared to 2012. But in the 2nd quarter of 2014 average monthly old-age pension rose by 2.9%, compared to the 2nd quarter of 2013, and on average comprised EUR 264.81 per month.



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

	2009	2010	2011	2012	2013	2014 Jan-Jun
Total	-3.9	-3.5	4.4	3.7	4.6	6.9
Agriculture	-4.7	5.8	8.2	0.7	4.8	8.8
Manufacturing	-2.0	0.1	5.0	4.6	4.0	7.1
Other industry	-4.2	4.1	3.7	3.6	1.8	5.3
Construction	-1.0	-5.3	4.7	2.0	6.8	7.8
Trade and accommodation	-2.8	-3.6	5.9	4.5	6.0	7.1
Transport and storage	0.2	0.2	1.0	7.7	0.5	6.5
Other commercial services	-1.1	-1.4	3.9	2.4	3.4	7.5
Public services	-12.8	-9.0	4.5	2.7	6.3	6.2

## COMPARATIVE INTERNATIONAL STATISTICS

## Economic Development in Baltic Countries

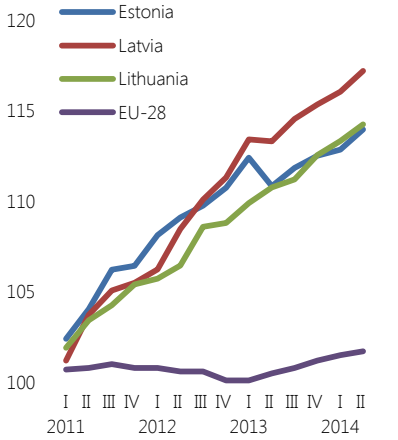
	Latvia	Lithuania	Estonia
Territory, thsd km <sup>2</sup>	64.6	65.3	45.2
Population, thsd, at the 1 <sup>st</sup> October 2014	1'991.8	2'927.3	1'318.8*
Gross domestic product, over corresponding period of the previous year, %			
2012	5.2	3.8	4.7
2013	4.1	3.3	1.6
2014 Q1	2.8	3.2	0.3
2014 Q2	2.3	3.3	2.4
Volume of manufacturing production, over corresponding period of the previous year, %			
2012	9.4	3.7	1.1
2013	0.1	3.3	2.9
2014 Q1	1.2	-7.7	-1.2
2014 Q2	0.1	3.5	0.8
Retail trade turnover*, over corresponding period of the previous year, %			
2012	9.1	6.2	9.3
2013	3.4	5.2	3.1
2014 Q1	1.9	5.3	7.6
2014 Q2	4.8	6.0	8.4
Changes of consumer prices, over corresponding period of the previous year, %			
2012	2.3	3.1	3.9
2013	0.0	1.0	2.8
2014 Q1	0.4	0.2	0.6
2014 Q2	0.7	0.1	0.0
Number of employed, over corresponding period of the previous year, %			
2012	1.6	1.8	1.9
2013	2.1	1.3	1.0
2014 Q1	0.2	2.2	-0.7
2014 Q2	0.0	0.9	1.2
Unemployment rate, % of economically active population			
2012	15.0	13.4	10.0
2013	11.9	11.8	8.6
2014 Q1	11.9	12.4	8.5
2014 Q2	10.7	11.2	6.9

\* data on 1st January 2014

\*\* data adjusted by working days, in current prices

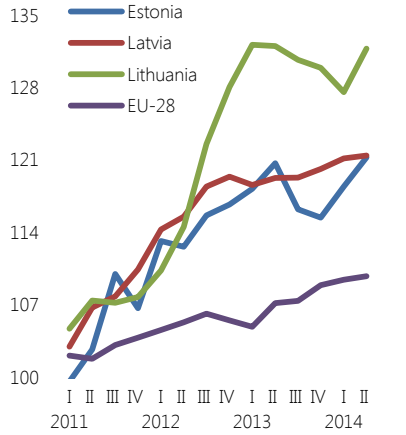
### Gross Domestic Product

seasonally adjusted data  
2010 Q4 = 100



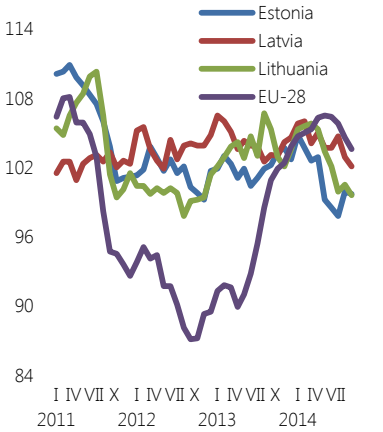
### Exports of Goods and Services

seasonally adjusted data  
2010 Q4 = 100



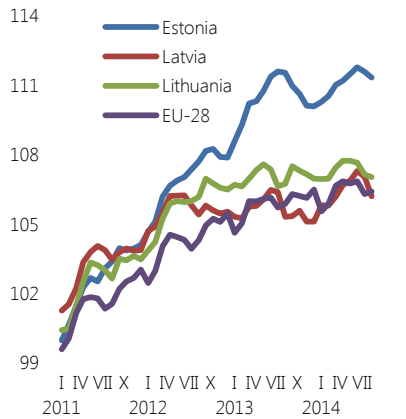
### Economic Sentiment Indicator

seasonally adjusted data



### Harmonised Consumer Price Index

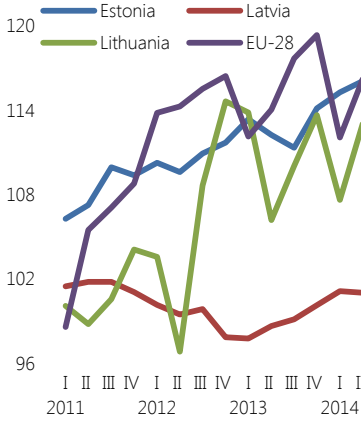
2010 Q4 = 100



### Manufacturing Production Volume

seasonally adjusted data

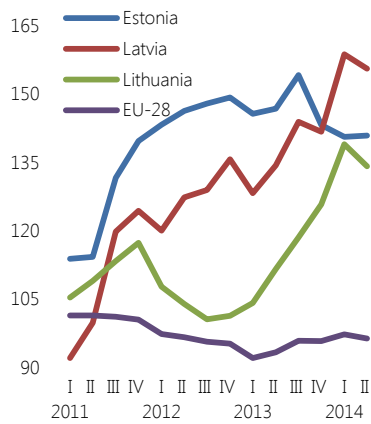
2010 Q4 = 100



### Construction Production Volume

seasonally adjusted data

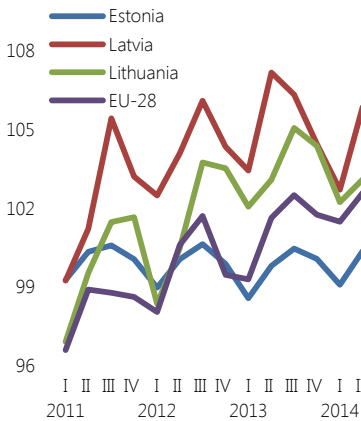
2010 Q4 = 100



### Number of Employed

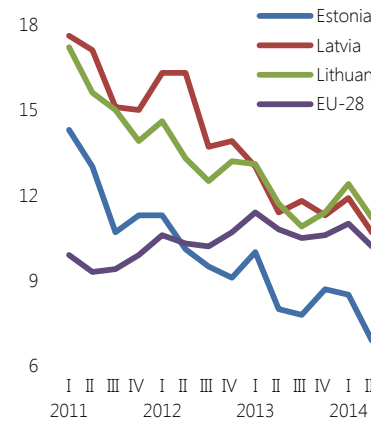
seasonally adjusted data

2010 Q4 = 100



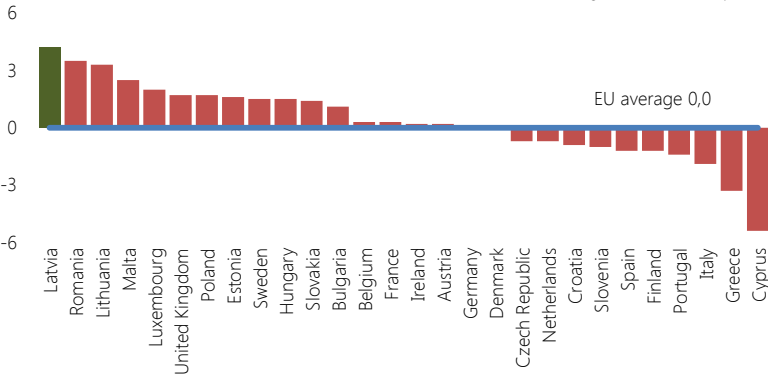
### Unemployment Rate

as per cent



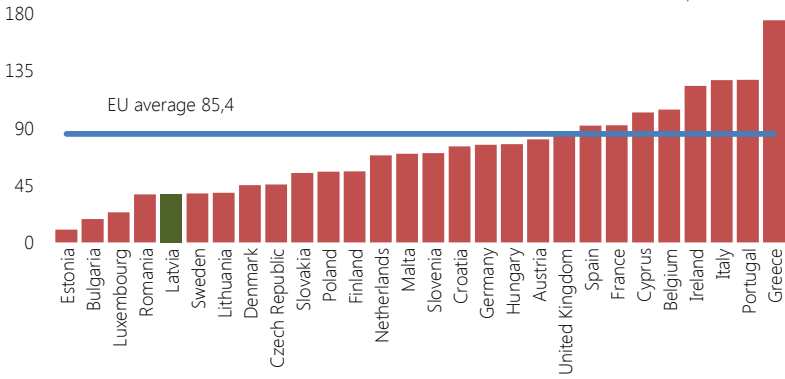
### Gross Domestic Product

in 2013, changes of volumes, as per cent



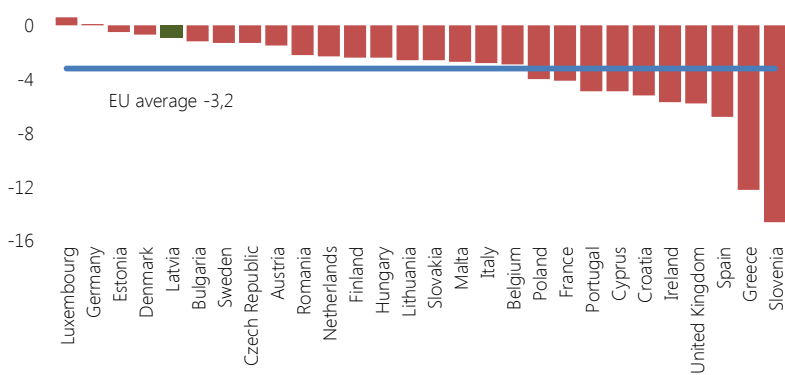
### Public Debt

in 2013, as per cent of GDP

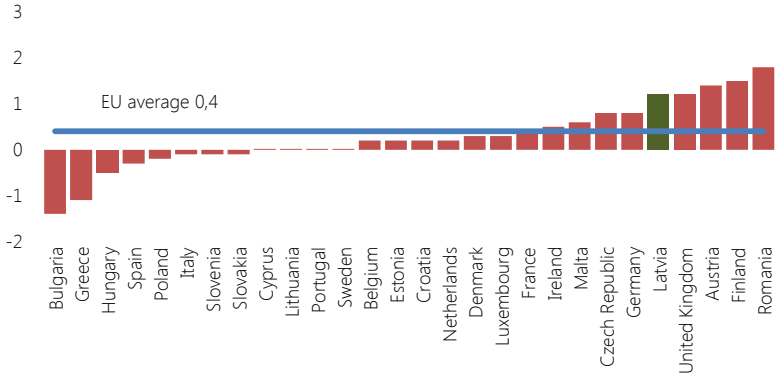


### Budget Balance

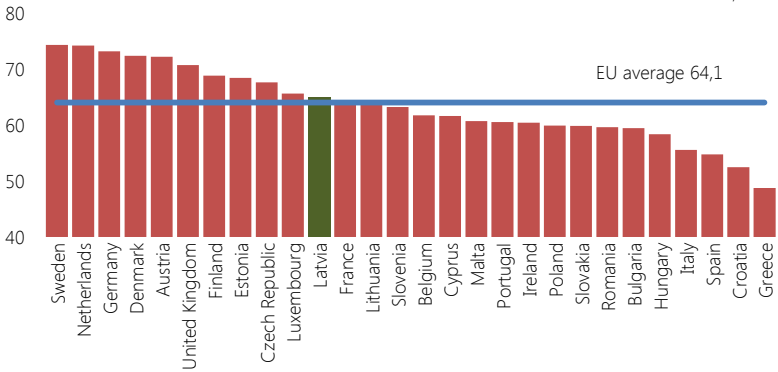
in 2013, as per cent of GDP



**Harmonised Consumer Price Index**  
in September 2014, average annual, as per cent



**Employment Rate**  
in 2013, as per cent



**Unemployment Rate**  
in 2013, as per cent

