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ECONOMIC SITUATION: BRIEF OVERVIEW

Even though economic situation in euro area is complicated, rapid growth in national economy of Latvia remained and in 2012 GDP rose by 5.6%. Despite that during the last two years most rapid increase in the EU was observed in Latvia, GDP is still less by 12% than it was before the crisis in 2007.

Driving force of the economy still is export. Even though low demand remains in some trading partner countries, in general, exports of Latvian goods and services increases. Exports opportunities advance growth of manufacturing – in 2012 volume of production rose by 9.3 per cent.

Situation in domestic market is improving gradually – retail trade turnover and volumes of business services sector are increasing. Consumer confidence even though slowly, but is improving.

Domestic demand continues to grow. Private consumption in 2012 rose by 5.4%, but volume of investment – by 12.3%. At the same time more rapid increase of investment is restricted by weak crediting and wait-and-see position of entrepreneurs, taking into account uncertainty regarding future development of the situation in external environment.

Not all population have perceived improvement of economic situation yet. Work opportunities and

remuneration increase slower than economy in general. In 2012 number of employed rose by 2.8%, but unemployment rate dropped to 14.9%. It is foreseen that situation in labour market will continue to improve; however, main risks are related to development trends of global economy, which may also impact situation in labour market.

In 2012 consumer prices in general maintained moderate growth close to level of seasonal fluctuations – average consumer price level increased by 2.3% within a year. Also in the three months of 2013 consumer prices are growing very moderately. In March 12-month inflation was 0.2%. In 2013 changes of consumer prices will mostly depend on price trends in the world, and it is expected that average annual inflation will not exceed 1.5 per cent.

In external environment very big uncertainty regarding further development perspectives still exists. It is expected that increase of exports of Latvian goods and services this year will be more moderate than in previous years. At the same time, as the situation in labour market continues to improve, more rapid rise of demand in domestic market is expected. The Ministry of Economics forecasts that growth of Latvian economy in 2013 in general could be within 4 per cent.

Key Indicators of Economic Development

	2008	2009	2010	2011	2012	2013p
	<i>increase over the previous year, as per cent</i>					
Gross Domestic Product	-3.3	-17.7	-0.9	5.5	5.6	4.0
Consumer prices	15.4	3.5	-1.1	4.4	2.3	1.5
Number of employed*	0.5	-12.2	-4.6	2.5**	2.8	2.4
	<i>as per cent over gross domestic product</i>					
General government sector balance	-4.2	-9.7	-8.1	-3.6	-1.2	-1.1
Exports-imports balance	-13.7	-1.5	-1.4	-4.8	-3.3	-2.7
Unemployment rate*	7.5	16.9	18.7	16.2	14.9	12.1

* started from 2011 data are recalculated accordingly Population census results, before and after 2011 data are not intercomparable

** estimation of the Ministry of Economics

THE EXTERNAL ENVIRONMENT

Development of world economy still differs. After recession in the first half of 2012, activity in developed countries has become stable. In its turn, in part of developing countries it has grown due to new support policy and renewed confidence. In some developing countries growth rate has become slower due to inner political problems and weak external demand.

After successful development at the beginning of 2011, growth rate in the European Union became more moderate, and since the end of the year, decrease of economic activity was observed. Economic recession is related to tension in finance sector, worries regarding financial situation of governments, continuation of adjustment of balance items, as well as unfavourable situation in external environment.

In the Baltic countries after deep economic recession since the end of 2009 development has restarted. In 2011 and 2012 most rapid economic growth rates in the EU were in the Baltic countries.

Unlike trends in Europe, in the economy of USA in 2012 growth continued. In the basis of this were strong incentives of macroeconomic policy and activities of financial stabilisation.

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

Recovery of CIS region in post crisis period is based on high resource prices and renewal of capital flows. The same as in other regions, growth of CIS countries also is not even. In Russia growth rates are reducing, in the basis of which lays weak external demand.

According to forecast of International Monetary Fund, in 2013 world economy is expecting growth by 3.3%, but in 2014 global increase could exceed 4 per cent.

Global economic growth

GDP, per cent changes

	2009	2010	2011	2012	2013 IMF*	2013 EC**
World	-0.6	5.1	4.0	3.2	3.3	3.1
USA	-3.1	2.4	1.8	2.2	1.9	1.9
Japan	-5.5	4.7	-0.6	2.0	1.6	1.4
China	9.2	10.4	9.3	7.8	8.0	8.0
CIS	-6.4	4.8	4.8	3.4	3.4	3.3
EU-27, of which:	-4.2	2.1	1.6	-0.2	0.0	-0.1
Germany	-5.1	4.2	3.1	0.9	0.6	0.4
Sweden	-5.0	5.9	4.0	1.2	1.0	1.5
United Kingdom	-4.0	1.8	0.9	0.2	0.7	0.6
Latvia	-17.7	-0.9	5.5	5.6	4.2	3.8
Lithuania	-14.8	1.4	5.9	3.6	3.0	3.1
Estonia	-14.3	2.3	7.6	3.2	3.0	3.0

Source: International Monetary Fund

* forecast of International Monetary Fund; ** forecast of European Commission

GROSS DOMESTIC PRODUCT: EXPENDITURE

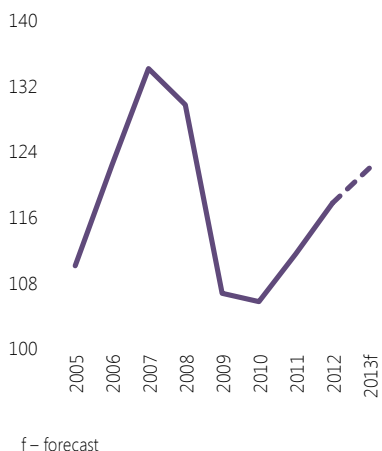
After rapid economic growth lasting for several years when average annual increase rate of GDP in 2005-2007 was almost 11%, as a result of global financial crisis, in 2008 Latvian economy experienced recession. During the crisis GDP reduced by ¼. Since the end of 2009 development has restarted in the economy of Latvia.

In 2011, GDP increased by 5.5%. Even at the beginning of 2012 perspectives of national economy of Latvia were estimated very carefully, because there was concern regarding large uncertainty in foreign markets, especially in euro area. However, Latvian economy was resistant towards crashes of external environment and, in general, in 2012 GDP exceeded the level of 2011 by 5.6%. Despite that, during the last two years, most rapid increase in the EU was observed in Latvian economy, GDP is still less by 12% than it was before the crisis in 2007.

Exports still is main driver of the national economy. In the 4th quarter of 2012, compared to the 3rd quarter, volume of exports of goods and services increased by 2.1% (according to seasonally adjusted data), but in general in 2012 – by 7.1 per cent.

Increase of income from exports has promoted growth of domestic demand; in 2011 it rose by 8.7%, in its turn in the 4th quarter of 2012 – by 3.6%, compared to the 4th quarter of the previous year. In general in 2012 domestic demand increased by 6.2%. Also investment in 2012 rose at a slower rate than in 2011 – by 12.3%. More rapid increase of investment is still restricted by weak crediting, as well as wait-and-see position of entrepreneurs, taking into account uncertainty regarding future development of the situation in external environment.

Gross Domestic Product
2004 = 100



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

	2009	2010	2011	2012
Gross Domestic Product	-17.7	-0.9	5.5	5.6
Private consumption	-22.6	2.4	4.8	5.4
Public consumption	-9.4	-7.9	1.1	-0.2
Gross fixed capital formation	-37.4	-18.1	27.9	12.3
Exports	-14.1	11.6	12.7	7.1
Imports	-33.3	11.4	22.7	3.1

During the crisis, as domestic demand decreased, volume of imports reduced rapidly. As economic activities increase gradually in domestic market, demand for imports grows – in 2012 it rose by 3.1% (at constant prices), but that was significantly slower than growth of volume of exports. As a result, in 2012 exports-imports balance improved and comprised -3.3% of GDP.

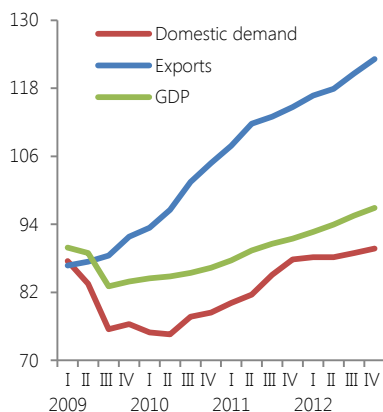
Increase of private consumption is affected by the growth of employment and increase of wages. In the 4th quarter of 2012, compared to the 3rd quarter, private consumption rose by 0.6% (according to seasonally adjusted data) and was 4.2% higher than in the 4th quarter of the previous year. In general, in 2012 private consumption grew by 5.4%, however, it still significantly lags behind the pre-crisis level – at the end of 2012 it was 17.6% less than at the end of 2007 when its decrease began.

Also government consumption does not increase due to continuation of expenditure restriction implemented by the government.

In December 2012, consumer confidence was the highest since August 2007, when it started to decrease due to crisis. Since August 2009 consumers are getting more and more optimistic, however, consumer confidence still remains negative. It must be mentioned that also in years of rapid growth confidence has always been negative.

At the beginning of 2013, consumer confidence has reduced slightly – in March it was lower by 2.5 points, compared to December 2012. In March 2013 decrease was mostly determined by concern of consumers regarding possible price rise in the future.

Expenditure of Gross Domestic Product
seasonally adjusted data, 2008 Q4 = 100



Expenditure of Gross Domestic Product by quarters

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

	2011				2012			
	I	II	III	IV	I	II	III	IV
Gross Domestic Product	3.6	5.7	6.6	5.7	7.0	5.2	5.2	5.1
Private consumption	3.5	5.2	5.9	4.3	5.4	7.1	5.1	4.2
Public consumption	1.4	1.7	2.8	-1.1	0.7	0.5	-1.7	-0.2
Gross fixed capital formation	31.4	28.8	27.6	26.0	39.0	20.5	2.0	4.2
Exports	14.1	15.8	11.7	9.7	9.8	3.3	7.0	8.4
Imports	23.5	26.8	22.4	19.0	10.2	3.8	-1.3	1.0

GROSS DOMESTIC PRODUCT: DEVELOPMENT OF SECTORS

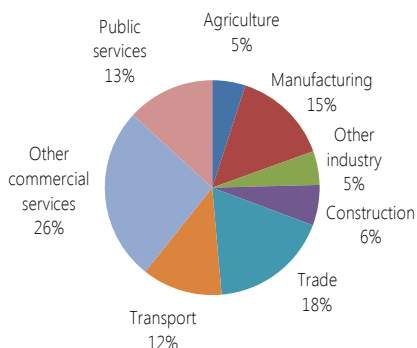
During the crisis, as overall level of wages and prices in domestic market reduced, competitiveness of Latvian producers improved, which was basis for the increase of exports and, therefore, also for the development of tradable sectors.

As exports opportunities remained and demand in domestic market grew, in 2012 stable increase remained in the manufacturing. Production volumes of manufacturing rose by 9.3% in 2012. Taking into account increasing role of the sector in national economy growth of production volume during this period ensured more than ¼ of the rise in economy.

In 2012 growth was observed in all sectors, except other industry sectors (electricity, gas and heat supply) and public services. Despite of increase of production volume in other industry sectors at the end of 2012, production volume in general in 2012 decreased by 2%. Decrease was mostly determined by smaller volumes of electricity and heating produced due to weather conditions. In 2012, volume of public services reduced by 0.6 per cent.

In agriculture and forestry production volume rose by 6.9% in 2012.

GDP structure
2012, as per cent



Gross Domestic Product by sectors
as per cent

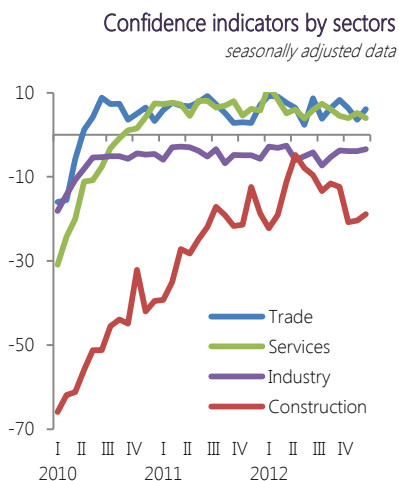
	2009	2010	2011	2012	2009	2010	2011	2012
	volume changes				contribution to changes			
Gross Domestic Product	-17.7	-0.9	5.5	5.6	-17.7	-0.9	5.5	5.6
Agriculture	9.1	-8.9	-0.5	6.9	0.3	-0.3	0.0	0.3
Manufacturing	-17.8	19.1	11.7	9.3	-2.3	1.7	1.5	1.4
Other industry	-3.9	2.8	-0.9	-2.0	-0.2	0.1	0.0	-0.1
Construction	-32.0	-31.1	11.9	14.6	-3.6	-2.0	0.7	0.9
Trade and accommodation	-25.2	0.2	9.5	7.3	-6.5	0.0	1.9	1.6
Transport and storage	1.1	-1.8	8.1	4.0	0.1	-0.2	1.0	0.6
Other commercial services	-14.7	2.5	1.2	3.4	-4.5	0.5	0.3	1.0
Public services	-9.3	-8.2	0.6	-0.6	-1.3	-0.8	0.1	-0.1

Slightly slower growth in 2012 was observed in transport and storage sector – volume of services provided increased by 4%. Slower increase was mainly determined by the decrease of volume of freight carried both at railway and at ports at the end of 2012. However, despite of that, in 2012 freight turnover at railway was larger by 2%, but at ports – by 9.3% than in 2011.

In 2012 development of construction sector continues – increase by 14.6%. Even though construction volume during the last 18 months has increased rather rapidly, it comprises only 58% of the volume of pre-crisis level. It must be mentioned that sector's recovery from crisis is mostly related to public investments and projects of the EU funds. Taking into account that volume of financing of structural funds does not increase, it reduces large contribution of public orders in the growth of construction.

As private consumption grew, increase in trade sector also continued in 2012. Volume of services provided in trade sector increased by 7%. Taking into account the large share of the sector, in 2012 it ensured more than ¼ of the total increase of national economy. Volume of commercial services rose by 3.4% in 2012. Increase was mostly promoted by the growth in information and communication sector as well as arts, entertainment and recreation.

Even though development remained in most sectors, external environment risks also remains, which are related to further development of situation in the EU.



Gross Domestic Product by sectors

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

	2011				2012			
	I	II	III	IV	I	II	III	IV
Gross Domestic Product	3.6	5.7	6.6	5.7	7.0	5.2	5.2	5.1
Agriculture	2.1	1.5	-1.9	-3.4	7.0	7.6	9.9	1.1
Manufacturing	14.7	14.6	9.3	9.2	16.5	9.0	7.2	6.2
Other industry	-0.9	3.1	4.8	-7.8	-2.8	-5.2	-2.2	1.6
Construction	-15.1	-0.9	19.6	25.9	28.5	26.9	8.3	9.3
Trade and accommodation	10.4	8.3	10.1	9.1	7.4	5.7	6.8	9.1
Transport and storage	8.1	8.6	8.0	7.5	4.2	7.5	3.2	1.1
Other commercial services	-0.4	3.1	0.6	1.5	3.0	0.8	5.8	4.0
Public services	0.8	0.9	1.7	-0.6	1.4	0.0	-3.2	-0.5

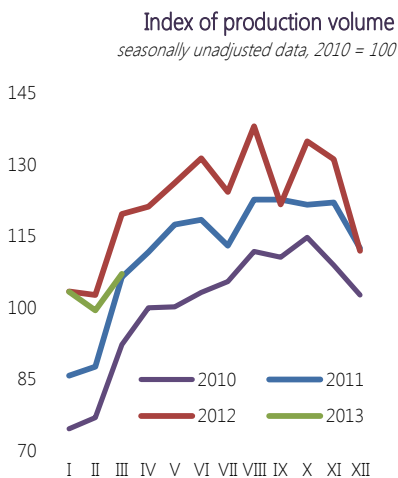
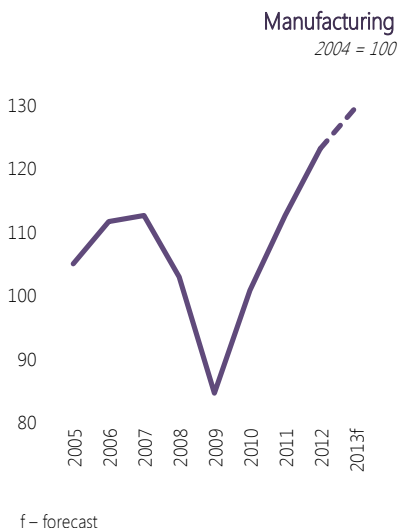
MANUFACTURING

Since the end of 2009 production volume in manufacturing is increasing. As development of economy resumed, growth rate of manufacturing was more rapid than total development of national economy. At the moment manufacturing is the main driver of development of national economy. In the basis of growth of the sector there are both stable external demand and gradual increase of the demand in domestic market.

Stable increase of production volume also remained at the end of 2011 when worsening of growth rates was observed in the EU countries. Despite of tense economic situation and recession in some EU countries, Latvian manufacturing was resistant towards external shocks. Even though during 2012 production volume by months fluctuated a lot – after rapid increase within one month slight weakening followed. In general, stable growth was observed in the sector. Production volume in manufacturing rose by 9.3% in 2012. Largest contribution was in production of electronic and optical equipment, metal working, manufacture of transport equipment, as well as production of paper and printing.

Volume of production in the manufacturing in the 1st quarter of 2013 was by 4.8% less than a year ago. Trends by subsectors are different. In the largest sector of manufacturing – wood processing – in the 1st quarter of 2013 production volume remained at the same level as it was a year ago. Stable production volumes continue to grow in such domestic demand-guided sectors as production of food products and production of non-metallic mineral products. In its turn, in separate subsectors as chemical industry and pharmacy production, manufacture of transport equipment, manufacture of basic metals and fabricated metal products in the 1st quarter of 2013 output volumes were smaller than a year ago.

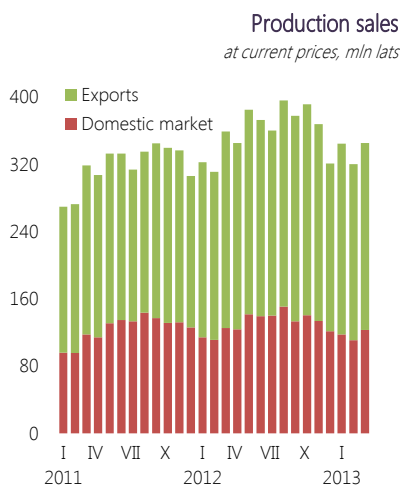
Turnover of manufacturing rose by 13% in 2012. Increase of turnover in manufacturing was mainly determined by rise of production volumes.



In January-February 2013 turnover of manufacturing exceeded level of January-February 2012 by 5%. More rapidly turnover increased of production exported – by 7.1%, but in domestic market – by 1%. Largest contribution in the increase of manufacturing turnover were in production of food products, wood processing and production of electronic and optical equipment, which comprised 90% of total growth of manufacturing sales.

Capacity utilisation rate continues to increase. In the 1st quarter of 2013, level of capacity load in manufacturing was 72.1% – by 3.8 percentage points higher than a year ago.

Further development of manufacturing will mainly depend on economic situation in Latvia's exports partner countries.



Main indicators of manufacturing

as per cent

	Structure in 2012		2012	2013 I-II	
	turnover	occupied jobs	exports share in sales of sector	volume changes	volume changes
Manufacturing – total	100	100	63.5	9.3	-1.6
Food industry	22.7	22.2	33.9	2.5	6.1
Light industry	4.2	11.2	84.6	3.0	2.8
Wood processing	22.1	19.5	73.2	5.4	-1.0
Paper industry and publishing	3.9	3.9	58.7	10.1	3.92
Chemical industry and related industries	7.9	6.3	77.3	8.3	-11.8
Other non-metallic mineral products	5.8	4.1	45.5	8.6	5.1
Metals and metal articles	15.5	11.1	77.3	16.3	-6.2
Electrical and optical equipment	5.5	3.6	89.5	20.0	13.9
Machinery and equipment	2.3	2.8	80.3	8.7	-0.6
Motor vehicles	3.8	3.1	93.2	15.8	-6.2
Other industries	6.1	12.2	43.6	26.1	-20.3

INVESTMENTS

Economic development has positively impacted investment process in Latvia. Since the end of 2010 investment activities increase gradually. In 2011, compared to 2010, investment in national economy of Latvia rose by 27.9%. In its turn, in 2012 investment value exceeded level of the previous year by 12.3% and comprised 23.5% of GDP. Even though investment dynamics is rather fast, on average investment value per quarter is almost half less than in 2007.

Investment in equipment and machinery comprise almost 40% of investment. In 2012 investment in services sectors rose by 16%, which is slightly faster than in tradable sector, which was mainly impacted by voluminous investment in trade, transport and storage, as well as in real estate activities. In its turn, investment dynamics in tradable sector was more moderate than in 2011 (it increased by 12.3%), but in 2012 6.8% less was invested in manufacturing than a year ago. Increase of investment volume is mainly delayed by slow renewal of crediting.

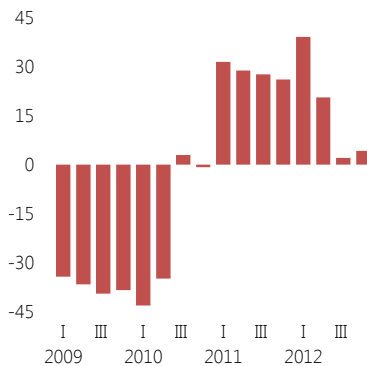
Since 2010, incoming foreign direct investment (FDI) flows are increasing gradually. In 2011 FDI value in Latvia's economy exceeded incoming FDI flows of previous year almost 4 times and comprised 5.2% of GDP level. In its turn, value of incoming FDI in 2012 was 26% less than in previous year. Decrease of value of incoming FDI is mainly related to negative net investment in energy sector and in real estate activities in the 2nd quarter of 2012.

In 2012 value of incoming FDI in Baltic countries in general was 2,563 mln euros, i.e., by 12.8% more than in the previous year. Latvia attracted about 30% of all FDI in region of Baltic countries. Lithuania has attracted 25% of FDI in Baltic countries in 2012 and it was by 37.5% lower than a year ago. In its turn, in Estonia FDI flows increased almost five times, which was mainly determined by voluminous investment in banking sector.

Gross fixed capital formation
2004 = 100



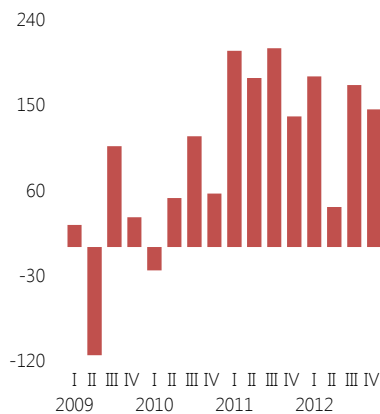
Gross fixed capital formation
changes over corresponding period of
the previous year, as per cent



According to International investment position of Latvia, at the end of 2012 FDI stock in Latvian economy reached 7,038 mln lats (10,015 mln euros) which was by 7% more than at the end of 2011, of which in manufacturing – by 4.2%. Larger share of FDI by sectors is in real estate activities and bank intermediation.

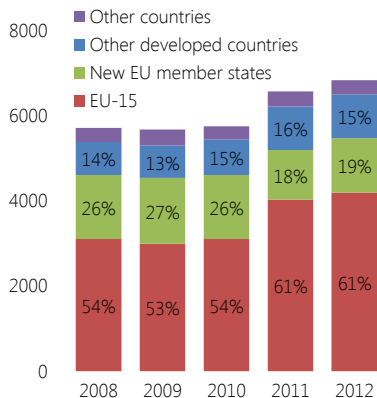
Foreign direct investment in Latvia

flows, mln lats



Foreign direct investment in Latvia

by groups of countries
balance at the end of period, mln lats



Non-financial investment by sectors

as per cent

	structure	changes of volume			
	2012	2009	2010	2011*	2012**
Investments – total	100	-34.4	-24.2	28.4	16.7
Agriculture	7.4	-43.9	19.6	59.2	33.6
Manufacturing	15.7	-53.1	5.5	41.6	-6.8
Other industry	17.0	-34.3	-9.3	71.0	27.5
Construction	1.9	-46.1	-33.3	21.3	24.3
Trade and accommodation	7.5	-50.6	-24.2	24.5	15.4
Transport and storage	20.4	-44.2	8.1	48.1	49.7
Other commercial services	8.5	-30.5	-32.2	-3.5	30.3
Public services	21.6	0.1	-44.3	22.5	1.5

* provisional data

** calculated using quarterly data

FOREIGN TRADE

During the last three years foreign trade of Latvia is developing very dynamically. Over this time (2012 compared to 2009) exports of goods at current prices has almost doubled, but imports – has increased by more than 80%. Starting with 2009 on average exports has grown by 24%, but imports – by 23% annually. 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.

As external economic environment remained unstable in 2012 demand for Latvian exports goods was rather limited. However, despite of that, exports of Latvian goods continued to increase rapidly. In 2012, it increased by 15.5% at current prices (by 11.4% at constant prices).

Similarly to exports, imports of Latvian goods increased rapidly in 2012 – by 14% at current prices. Taking into account comparatively more rapid increase of import unit value (by 8%) at constant prices, imports rose by 5 per cent.

In 2012, as exports of goods increased more rapid than imports, trade deficit also decreases. In general in 2012 it comprised 12% of total trade turnover.

In 2012, volume of all largest exports groups increased. Exports development was mainly impacted positively by growth of exports volume of agricultural and food products. This group ensured almost half of all exports increase and, correspondingly, its share in total exports over a year has increased by 4 percentage points and already comprises more than 20%. In 2012 this has become a largest commodity group of Latvian exports. Exports of mechanical appliances and electrical equipment gave large contribution in exports growth at this time period.

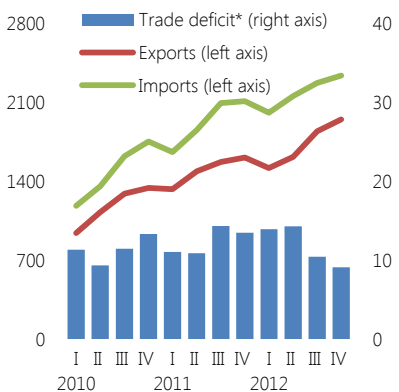
Increase of imports of goods in 2012 was mainly impacted by increase of volume of production of machinery and electrical equipment as well as mineral products, which in general comprised almost half of all imports increase.

Imports volume of agricultural and food products has also increased significantly.

Exports and imports of goods
at current prices, 2004 = 100



Exports and imports of goods by quarters
in mln lats and as per cent



* as per cent of total trade turnover

Also in January-February 2013 exports of goods continues to grow at a rather fast rate. Compared to January-February 2012 exports has increased by 11%, but imports more moderately – by 1.3%. In exports increase largest part is comprised by growth of volume of agricultural and food products, as well as of machinery and electrical equipment. In its turn, imports increase is mostly impacted by increase of volume of chemical products, as well as of agricultural and food products.

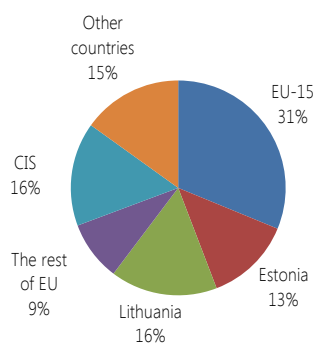
Volume of exports of goods to the EU countries in 2012 and January-February 2013 grew more moderately than total exports. But exports to CIS countries in 2012 rose more rapidly. Exports to both largest exports partner countries of Latvia – Lithuania and Estonia – are growing more stable.

Largest Latvia's trade partners in 2012 were Lithuania – 18% of total foreign trade turnover, Russia, Estonia and Germany – 10%, Poland – 7%, Sweden and Finland – 4% and Netherlands, Denmark and Belarus – 3 per cent.

Within 2013, increase of exports volume will be more moderate as compared to excellent growth indicators in 2012. Exports growth in the future will be closely related to competitiveness of producers and growth in main trade partner countries.

Structure of exports of Latvian goods

in 2012, as per cent



Exports and imports of Latvian goods

in 2012, as per cent

	Exports			Imports		
	structure	volume changes	contribution to changes	structure	volume changes	contribution to changes
Total, of which:	100	15.5	100	100	13.7	100
Agricultural and food products	20.3	43.5	45.9	15.4	15.7	17.3
Mineral products	8.8	11.0	6.5	17.7	16.4	20.7
Chemical products	9.4	3.8	2.6	14.0	6.8	7.5
Products of light industry	4.7	17.1	5.1	5.4	16.1	6.3
Wood and articles of wood	14.9	2.5	2.7	1.6	22.5	2.5
Metals and metal articles	14.0	12.0	11.3	10.4	8.4	6.7
Machinery and electrical equipment	13.7	24.3	20.0	18.3	20.2	25.5
Motor vehicles	5.4	-7.4	-3.2	8.5	7.9	5.2
Other goods	8.7	16.5	9.2	8.5	13.4	8.3

BALANCE OF PAYMENTS

Since the end of 2010 current account of balance of payments has become more stable at the level of small deficit. In 2011 current account deficit was 2.2% of GDP, but in 2012 – 1.7% of GDP. Present position of the current account witnesses about external balanced position of Latvian economy.

Changes of current account balance within last years determine changes in items of balance of foreign trade. In 2011 foreign trade deficit reached 10.8% of GDP, which was at a significantly lower level than before the crisis in 2007 (24% of GDP). In 2012 exports and imports dynamics was almost twice as moderate as a year ago. In 2012 exports increased by 14.2% (at current prices), but imports – by 11%. Thus deficit of foreign trade balance reduced to 9.8% of GDP. In the two months of 2013 exports was larger by 10.6% than a year ago, but imports – by 5 per cent.

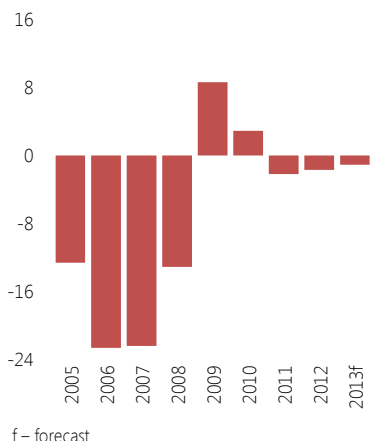
Since 2009 balance of services is improving – in 2012 its positive balance was 6.8% of GDP, which almost twice exceeds level of 2007. Also, at the beginning of 2013 volume of exports of services almost twice exceeded imports volume of services.

Position of income balance is mainly determined by changes of income of non-resident investment. Due to losses of foreign investors, during the crisis income balance was positive. In 2012 deficit of income balance was 1.5% of GDP, which was impacted by increase of income of non-resident investment. Account of current transfers is positive (2.9% of GDP), thus remaining at the level of previous years.

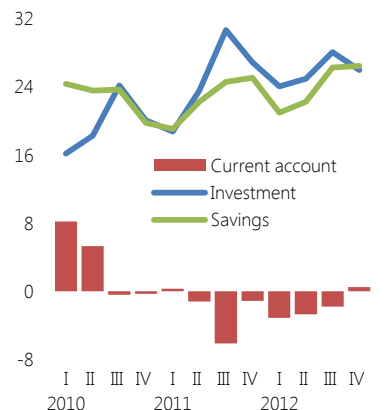
Fluctuations of balance of financial account by quarters still are explicit. In 2011 deficit of financial account in general (without reserve assets) was 4% of GDP. In its turn, positive balance of financial account in 2012 was 2% of GDP. Also at the beginning of 2013 financial account is in surplus.

Since 2010 intensity of incoming FDI is increasing. In 2011 FDI flows exceeded indicator of 2010 almost 4 times, reaching 5.2% of GDP. High level of incoming FDI also remained in 2012 (3.5% of GDP).

Current account balance
as per cent of GDP



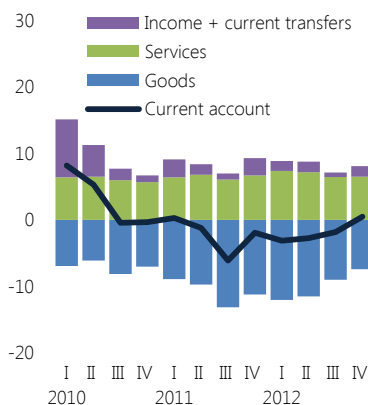
Current account, investment and savings
as per cent of GDP



Part of portfolio investment is rather small in incoming financial flow, and it does not exceed 10% of that during the last 3 years. Significant fluctuations are observed for other investments. In 2012 other investment balance was negative – 5.4% 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.

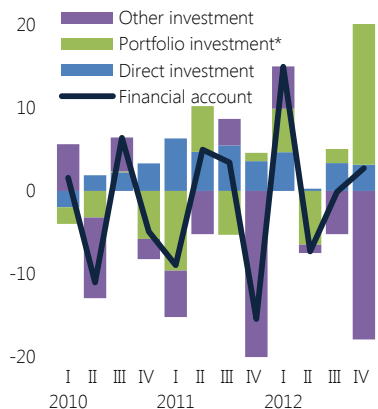
Current account by items

as per cent of GDP



Financial account by items

without reserve assets, 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
A. Current account	8.6	2.9	-2.2	-1.7
Trade balance	-7.1	-7.0	-10.8	-9.8
Service balance	6.0	6.1	6.5	6.8
Net income	6.3	0.2	-0.9	-1.5
Net current transfers	3.4	3.6	3.1	2.9
B. Capital account	2.4	1.9	2.1	3.0
C. Financial account*	-6.9	-2.1	-4.0	2.2
Direct investment stock	0.6	1.5	4.9	2.8
Portfolio investment**	2.3	-2.8	-1.8	4.8
Other investment	-9.8	-0.7	-7.2	-5.4
D. Deviation	0.8	1.2	-0.4	0.1
E. Reserve assets	-5.0	-4.0	4.4	-3.6

* 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 grew by 4%, in 2012 – only by 1.6%, and this increase was mainly determined by price rise on natural gas, food products and fuel. Large impact had price dynamics of fuel in the world. Taking into account comparatively fast price increase in 2011, average price level in 2012 was higher by 2.3 per cent.

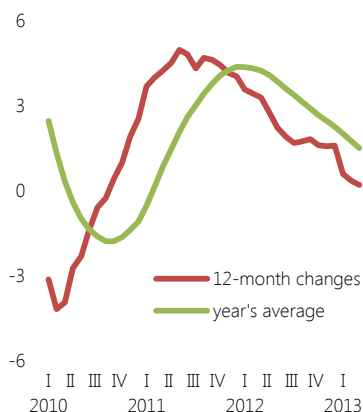
In March 2013, compared to March 2012, level of consumer prices rose by 0.2%. In the three months of 2013 largest impact on changes of prices mainly had price increase on food products (by 1%) and on health related commodities and services (by 1.1%), as well as price drop on heating (by 4%), which is related to price fall of natural gas. It must be mentioned that in the world prices on food products are decreasing since October 2012 and in March 2013 remained at the same level as in December of the previous year. In January-February 2013 world oil prices increased, but in March – reduced. In general in the first three months of 2013, price increase of fuel in the world comprised 1.4%, but in Latvia it was more moderate – by 0.5 per cent.

In 2012, compared to 2011, average price level in the EU increased by 2.6%, in February 2013 it was 2.5%. The same as in Latvia, it was determined by rise of prices of food products and energy.

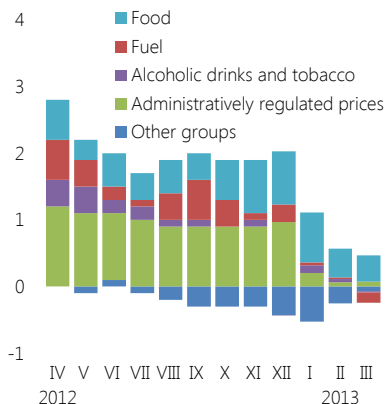
Also in the future changes of consumer prices in Latvia will mainly depend on price trends in the world. The Ministry of Economics forecasts that in general in 2013 moderate price dynamics up to 1.5% is expected.

After rapid increase in 2010 and in first half of 2011, producer prices were moderate in the following months in general. In 2012, producer prices indicated small, however, stable increase, mainly due to price increase of energy resources.

Consumer price index



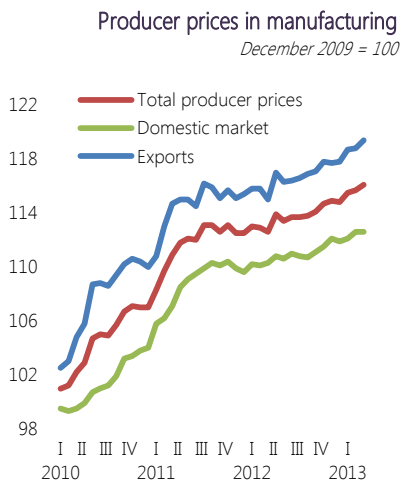
Impact of commodity and services group on consumer price index
contribution to 12-month changes, as per cent



In March 2013, compared to March 2012, general level of producer prices grew by 2.2%, on products sold in the domestic market – by 0.8%, but on exported production – by 3.8%. Most significant price increases were observed in production of food products (by 3.6%) and wood processing (by 3.2%), but largest price decrease – in waste management (by 6.4%).

In manufacturing producer prices mainly impact trends in external markets. In March of 2013, compared to March 2012, level of producer prices rose by 3.1%. In the three months of 2013 producer prices on exported production have grown twice as fast (by 1.3%) than on products sold in the domestic market (by 0.7%). Fastest increase of producer prices was in sector of printing (by 6.9%) and in manufacture of metal products (by 3.6%), in its turn, prices decreased in manufacture of electric equipment (by 2.3%).

Rise of producer prices witnesses that demand for products manufactured in Latvia is increasing not only in domestic market, where economic situation is improving gradually, but it remains high also in external markets, despite of weak economic growth in main partner countries.



Changes of consumer prices by months
as per cent

		Over the previous month	Over corresponding month of the previous year	Over December of the previous year	Annual average
2012	March	0.6	3.3	1.6	4.2
	April	0.6	2.8	2.2	4.1
	May	-0.2	2.2	2.0	3.8
	June	-0.1	1.9	2.0	3.6
	July	-0.5	1.7	1.5	3.4
	August	-0.3	1.7	1.2	3.1
	September	0.5	1.8	1.6	2.9
	October	0.0	1.6	1.6	2.7
	November	-0.1	1.6	1.6	2.5
	December	0.0	1.6	1.6	2.3
2013	January	-0.2	0.6	-0.2	2.0
	February	-0.1	0.3	-0.3	1.8
	March	0.5	0.2	0.2	1.5

MONETARY INDICATORS

From 2005 to 2007 crediting increased rapidly, in its turn, during the crisis remaining balance on loans reduced. In 2012 main monetary indicators have improved significantly, however, influence of external risks still remains.

In 2012, compared to the previous year, amount of new loans issued to residents has increased by 11.4%; however, the number of new loans has reduced by 36.4%. In 2012 in general almost 98 thsd new loans were issued in amount of 1,948 mln lats. 40% of the amount of new loans issued was issued to non-residents, which is almost 9% of the number of new loans.

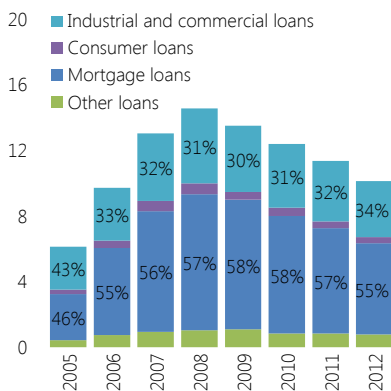
In national economy of Latvia majority of new loans (in value) in 2012 were issued in financial and insurance activities (35%). In 2012, compared to the previous year, value of loans issued to enterprises reduced. Major part of loans issued to households is issued for purchase of consumer goods. Compared to previous year, housing crediting has increased.

Quality of credit portfolio continues to improve, and in the 4th quarter of 2012 only 17.4% of loans were with overdue payments, which is lowest indicator since the end of 2008. It was mainly determined by the decrease of 43.4% in resident loans with overdue payments over 180 days. These loans comprise almost 60% of all loans with overdue payments.

In dynamics of loan balance significant changes are not observed. At the end of 4th quarter of 2012 loan balance reduced by 10.7%, compared to corresponding period of the previous year. In the 4th quarter of 2012, balance of industrial and commercial loans decreased by 7.1%. Even though balance of industrial loans continued to shrink, balance of commercial loans were positive (+0.1%) for the first time since the beginning of 2009.

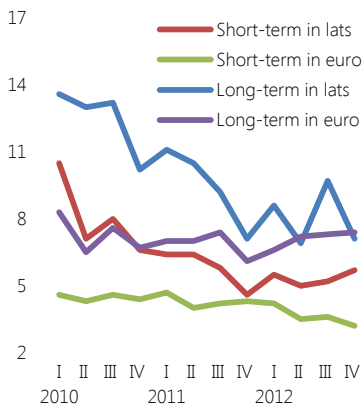
Loans issued to residents

at the end of the period, billion lats



Interest rates on loans issued

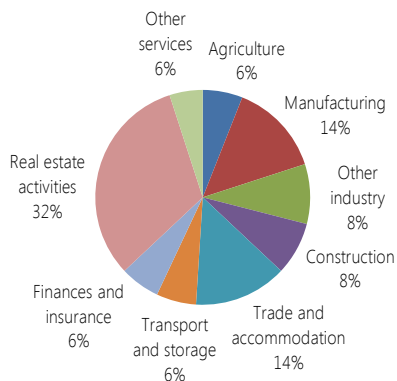
average weighted, as per cent



In the 4th quarter of 2012, interest rate on short-term loans issued in euros reached its lowest point in the last years (3.2%). Fluctuations of interest rate on long-term loans issued in lats is more explicit and at the end of 4th quarter of 2012 it was identical to the indicator of the end of 2011, which also is the lowest point in the last years (7.1%). Fluctuations of interest rate on long-term loans issued in euros were minimal.

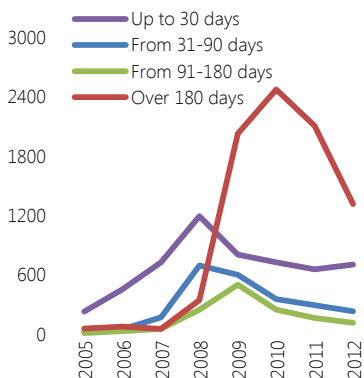
Structure of loans issued by sectors

at the end of 2012, as per cent



Loans with overdue payments

at the end of the period, mln lats



Monetary indicators of the banking system of Latvia

at the end of period, mln lats

	2009	2010	2011	2012
Net foreign assets	-3,022.0	-1,219.8	-224.8	155.0
Net domestic assets	8,842.3	7,609.8	6,710.9	6,316.8
Domestic loans	12,204.3	11,215.1	11,045.4	9,765.2
Other assets (net)	-3,362.0	-3,605.3	-4,334.5	-3,448.4
Broad money M2X	5,820.3	6,390.0	6,486.1	6,471.8
Cash in turnover (without vault cash balance)	667.3	807.4	1,040	1,062.8
Deposits of individuals and companies	5,153.0	5,582.7	5,446.1	5,409.0
Domestic loans	-14.5	-8.1	-1.5	-5.7
Broad money M2X	-1.9	9.8	1.5	2.6
Cash in turnover (without vault cash balance)	-23.0	21.0	28.8	19.6
Deposits of individuals and companies	1.7	1.1	-2.5	-0.2
Gross Domestic Product (at current prices)	-18.7	-2.2	11.7	8.7

GOVERNMENT BUDGET

Economic situation in Latvia in 2008 and 2009 significantly worsened fiscal situation of the country. Not to allow that situation in financial sector becomes uncontrollable, since 2008 budget consolidation was carried out in Latvia in amount of 2.3 billion lats with fiscal impact of 17% of GDP, of which 6.8% of GDP comprise measures in income side, in its turn 10.2% – measures in expenditure side.

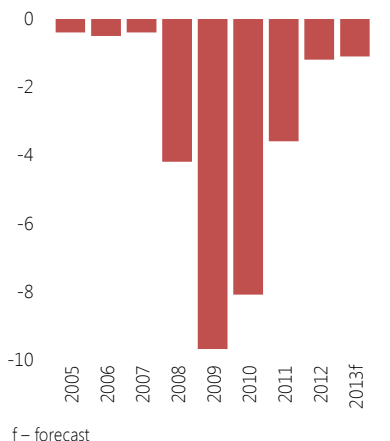
As a result of budget consolidation activities implemented by the government in 2010, 2011 and 2012 budget deficit reduced, respectively, by 8.1%, 3.6% and 1.2% of GDP.

As economic situation improved and income from taxes increased, fiscal situation of the country is improving gradually – budget revenues are growing and budget deficit is decreasing. In general in 2012, compared to 2011, general government consolidated budget revenues increased faster than consolidated budget revenues, respectively, by 12.9% and 3.5 per cent.

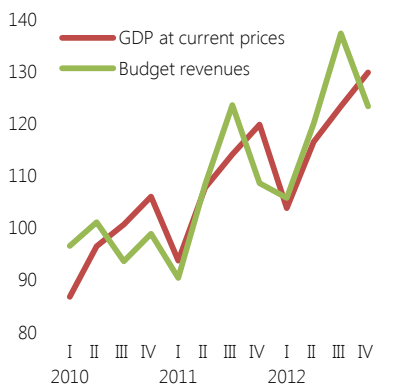
In January-March 2013, general government consolidated budget revenues were 1,403 mln lats, which is by 12.3% more than in January-March 2012. In general revenues from taxes increased by 6.6%. The same as in the previous year, in January-March 2013, most rapidly grew corporate income tax revenues – by 24.9%. Due to gradual increase of employment, as well as growth of wages, revenues from labour taxes rose significantly – mandatory state social insurance contributions rose by 8.1%, compared to January-March 2012, in its turn, personal income tax – by 8.9%. In its turn, VAT contributions in January-March 2013 basically remained at level of January-March 2012.

In January-March 2013, general government consolidated budget expenditure was 1371 mln lats, which is by 6% more than in January-March 2012. In three months of 2013 current expenditure and expenditure on subsidies and dotations increased by 7.8% and 2.6%, respectively. Whereas capital expenditure decreased by 1.1 per cent.

Budget balance
as per cent of GDP

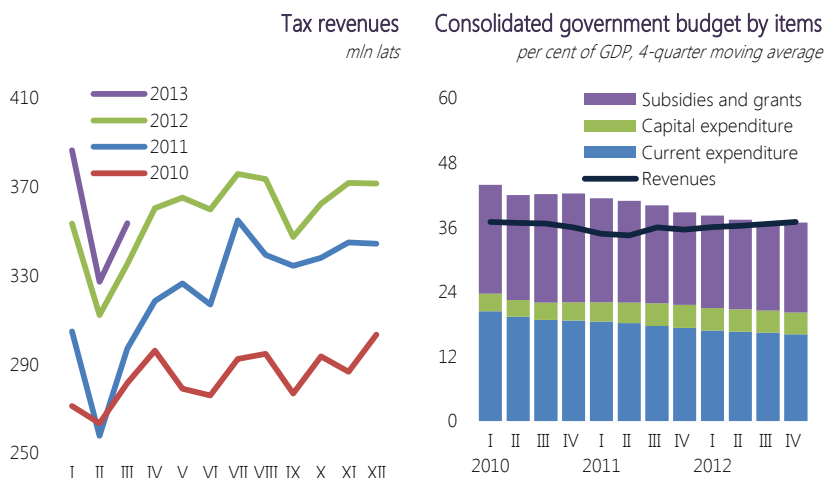


GDP and budget revenues
2009 Q4 = 100



In January-March most rapidly expenditure grew in environmental protection sector – by 19.7%, however, significant increase of expenditure also was in such sectors as economic activity, management of territories of local governments, public order and security, protection and expenditure on general government services. Decrease was observed in health care and social security.

General government budget deficit in 2013-2015 cannot exceed ceilings set in the Convergence programme. As general government budget deficit in 2012 was significantly lower than previously set aim, it is forecasted that in 2013 general government budget deficit will be 1.1% of GDP, but in 2014 and 2015 – 0.9% of GDP.



General government budget

	mln lats					per cent changes	
	2009	2010	2011	2012	2013 I-III	2013 I-III	
Revenues, of which:	4.72	4.61	5.09	5.74	1.40	12.3	
Indirect taxes, of which:	1.32	1.30	1.46	1.63	0.39	0.8	
Value added tax	0.80	0.83	0.96	1.12	0.26	0.9	
Income and real estate taxes	1.00	0.99	1.10	1.23	0.32	11.8	
Social insurance contributions	1.17	1.09	1.23	1.32	0.33	8.1	
Other taxes	0.03	0.03	0.09	0.10	0.03	19.8	
Other revenues	1.22	1.19	1.21	1.45	0.34	35.3	
Expenditure	5.61	5.41	5.53	5.72	1.37	6.0	

PERSONAL INCOME

During the recession of economy not only the number of employed reduced, but also amount of wages and salaries of employed. As economic situation became more stable, since the end of 2010 increase of remuneration has restarted, while level of unemployment remains at a rather high level.

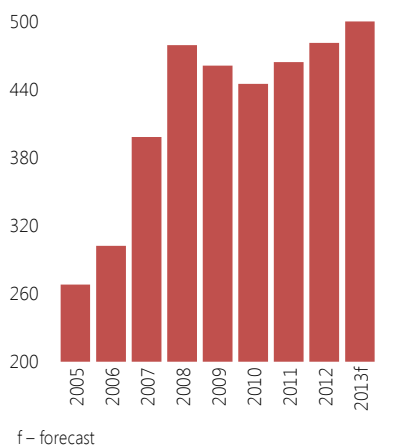
Along with the improvement of economic situation and, as demand for labour force is growing, average remuneration in national economy rises gradually. In 2011, compared to 2010, gross average salary increased by 4.4%. Wages increased equally fast both in private and public sector, moreover, increase was observed practically in all sectors. Most significant increase of wages was in commercial services sector, as well as in agriculture and forestry sector.

Gross average wages and salaries of employed comprised 445 lats in 2010, i.e., less by 3.5% than in 2009 and by 7.3% than in 2008. Estimating dynamics of wages and salaries during the crisis, it must be mentioned that adjustment of remuneration has been rather moderate and major part of fall in volume of economy was compensated by the decrease of number of employed. Gross average monthly wages and salaries of employed in 2011 was by 4.4% more than a year ago, however it was still less by 3.2% than in 2008.

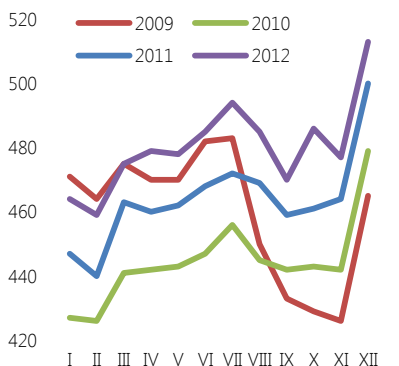
Along with increase of economic activities in 2012, average wage in national economy continued to increase – compared to 2011, gross wage rose by 3.7% and comprised 481 lats. The largest wages and salaries were in Riga region (547 lats). In breakdown by year increase of wages and salaries rose both in private and in public sector, however, increase in public sector was slightly faster (4.5%) than in private sector (by 3.5%).

In breakdown by sectors most rapid increase of wages was in transport and storage sector (by 7.7%), as well as in electricity, gas and heat supply. At the same time most significant increase of wages was also observed in manufacturing and public administration. Highest remuneration level remained in finance and insurance services sector – 1,005 lats per month.

Average monthly wages and salaries of employed
gross, in lats



Average monthly wages and salaries of employed by months
gross, in lats



It must be mentioned that adjustment of wages and salaries of persons employed in public sector during the crisis was much larger than in private sector, which was determined by the need to limit expenditure of government budget. Therefore, in 2012 gross average monthly wages and salaries in public sector still were 9.2% lower than in 2008. But gross average monthly wages and salaries of persons employed in private sector in 2012 exceeded level of 2008 already by 5.7 per cent.

Real wage since 2011 have remained practically unchanged. In 2011 real wage increased only by 0.1%, compared to 2010, but in 2012 – by 1.6 per cent.

In 2012, volume of average old-age pension continued to grow, which was approximately 1.2% larger than a year ago.



Average wages and salaries of employed by sectors
gross, over the previous year, as per cent

	2009	2010	2011	2012
Total	-3.9	-3.5	4.4	3.7
Agriculture	-4.7	5.8	8.2	0.7
Manufacturing	-2.0	0.1	5.0	4.6
Other industry	-4.2	4.1	3.6	3.6
Construction	-1.0	-5.3	4.7	2.0
Trade and accommodation	-2.8	-3.6	5.9	4.5
Transport and storage	0.2	0.2	1.0	7.7
Other commercial services	-1.1	-1.4	3.9	2.4
Public services	-12.8	-9.0	4.5	2.7

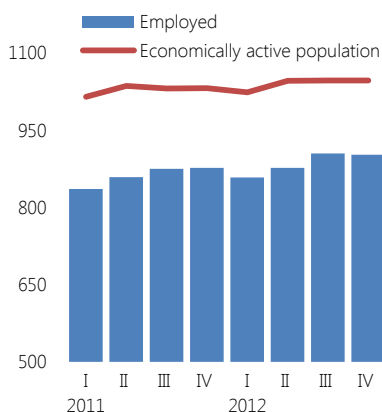
LABOUR MARKET

Gradual increase of economic activities positively impacts situation in labour market – employment increases and high unemployment caused by crisis decreases. At the same time some population groups, especially persons with low level of education and qualification, elderly persons, as well as youth, improvement of the situation feel weaker.

In 2012, number of employed reached 885.6 thsd which is more by 2.8% or by about 24 thsd as compared to 2011. At the same time number of economically active persons has increased moderately (by 1.3%). Unemployment level in 2012 on average was 14.9%, which is less by 1.3 percentage points than a year ago.

According to the data of State Employment Agency, in 2012 registered unemployment level also continued to decrease, and at the end of December it reached the lowest level since April 2009 (10.5%). At the same time at the beginning of 2013, under the impact of seasonal factors, registered unemployment slightly increased and at the end of March comprised 10.8% – 107.1 thsd unemployed were registered, which was by 25.1 thsd less than in March 2012. The highest level of registered unemployment remained in Latgale region (21.4%), but the lowest – in Riga (6.6%). In February 2013, long-term unemployed (without job for a period of more than a year) constituted 41.5% of the total registered unemployed.

Employed and economically active population
in thousands



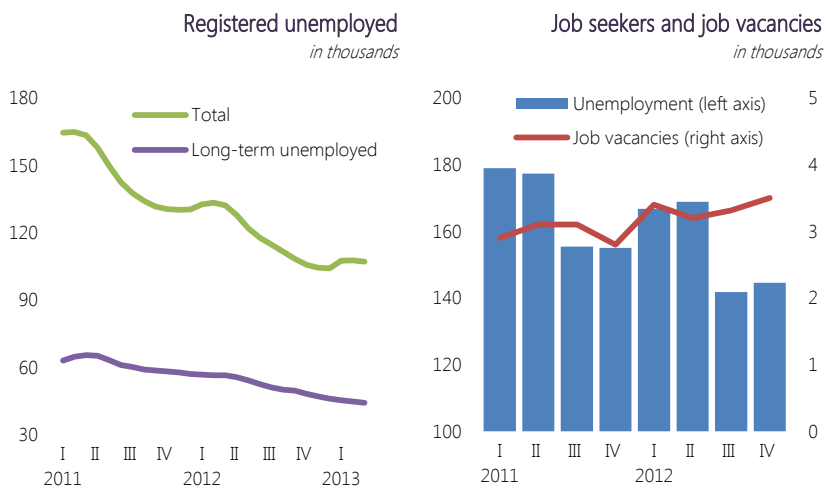
Occupied jobs
in thousands

	2008	2009	2010	2011	2012			
					I	II	III	IV
Total	1,016.6	826.1	776.7	805.5	822.0	840.2	848.4	845.7
Agriculture	20.8	17.9	17.5	19.0	19.7	21.4	21.6	19.6
Manufacturing	138.9	104.1	101.8	109.1	112.4	115.0	115.4	115.3
Other industry	26.7	23.7	22.4	22.9	23.2	24.2	23.5	23.7
Construction	89.3	54.6	46.0	50.9	49.9	56.5	60.5	55.8
Trade and accommodation	221.8	173.3	159.7	162.8	165.7	170.7	173.6	172.7
Transport and storage	77.8	67.6	66.8	68.8	71.4	72.4	73.4	73.4
Other commercial services	196.2	162.8	148.4	157.0	165.0	167.6	169.9	171.3
Public services	245.1	222.1	214.2	215.0	214.7	212.3	210.4	213.9

Since the middle of 2010, number of registered job vacancies is rising. At the end of February 2013, in total 3,878 job vacancies were registered, which was by 56% more than a year ago.

Comparatively high unemployment is still mainly related to cyclical factors however, features of structural unemployment are becoming more typical. Risk that part of current unemployed will not be able to find job in long-term still remains, because sectors, which recover faster from the crisis, are not the same where there was largest loss of jobs during the crisis.

It is expected that situation in labour market will continue to improve. In 2013, number of persons employed could increase by about 3%, but the level of unemployment – reduce to 12 per cent.



Main indicators of employment and unemployment
in age group 15-74 years

	2011	2012
<i>in thousands</i>		
Population	1,595.3	1,574.1
Active population	1,028.2	1,041.1
Employed persons	861.6	885.6
Unemployed persons	166.6	155.5
<i>as per cent</i>		
Activity rate	64.5	66.1
Employment rate	54.0	56.3
Unemployment rate	16.2	14.9

COMPARATIVE INTERNATIONAL STATISTICS

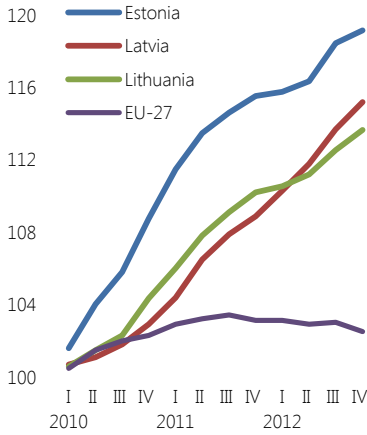
Economic development in Baltic countries

	Latvia	Lithuania	Estonia
Territory, thsd km ²	64.6	65.3	45.2
Population, thsd, at the beginning of 2013	2,028.4	2,979.3	1,286.5
Gross domestic product, over corresponding period of the previous year, %			
2011	5.5	5.9	8.3
2012	5.6	3.7	3.2
2012 Q3	5.2	4.8	3.5
2012 Q4	5.1	4.1	3.7
Volume of manufacturing production, over corresponding period of the previous year, %			
2011	11.7	6.4	19.9
2012	9.3	3.7	-0.1
2012 Q3	7.2	6.6	-1.7
2012 Q4	6.2	8.7	1.1
Retail trade turnover, over corresponding period of the previous year, %			
2011	8.2	6.1	11.0
2012	9.2	3.9	10.0
2012 Q3	8.8	2.5	7.0
2012 Q4	7.4	3.0	6.0
Changes of consumer prices, over corresponding period of the previous year, %			
2011	4.4	4.1	5.1
2012	2.3	3.1	4.2
2012 Q3	1.7	3.2	3.7
2012 Q4	1.6	2.9	3.7
Number of employed, over corresponding period of the previous year, %			
2011	–*	–*	6.7
2012	2.8	1.8	2.5
2012 Q3	3.4	3.1	1.1
2012 Q4	2.9	0.8	1.7
Unemployment rate, %			
2011	16.2	15.3	12.5
2012	14.9	13.2	10.2
2012 Q3	13.5	12.3	9.7
2012 Q4	13.8	13.0	9.3

* from 2011 data are recalculated accordingly Population census results, before and after 2011 data are not intercomparable

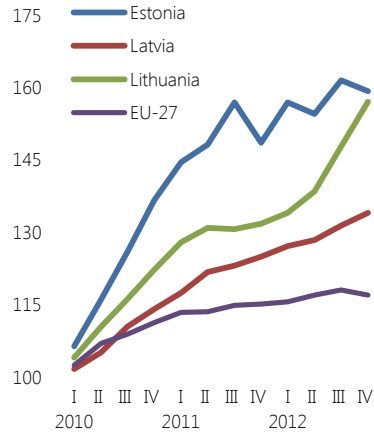
Gross Domestic Product

seasonally adjusted data
2009 Q4 = 100



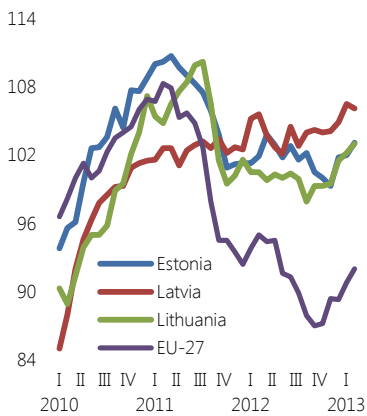
Exports of goods and services

seasonally adjusted data
2009 Q4 = 100



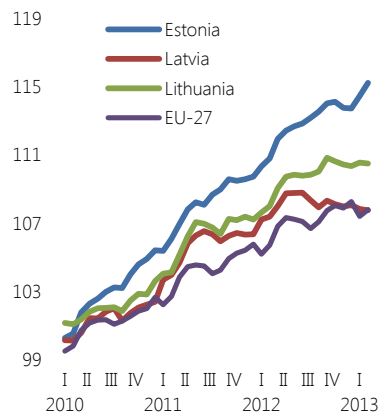
Economic sentiment indicator

seasonally adjusted data



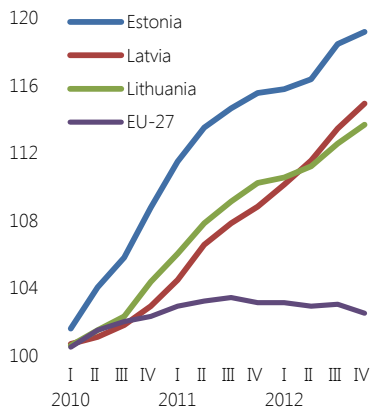
Harmonised consumer price index

seasonally adjusted data
2009 Q4 = 100



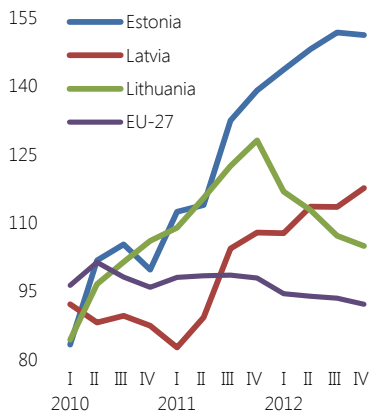
Manufacturing volume

seasonally adjusted data
2009 Q4 = 100



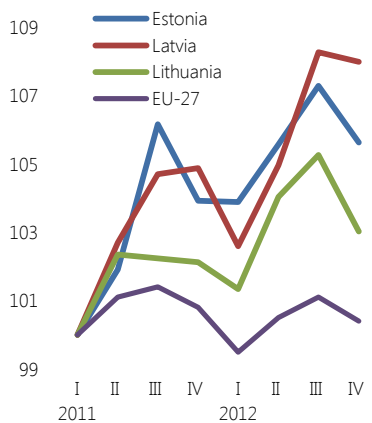
Construction volume

seasonally adjusted data
2009 Q4 = 100



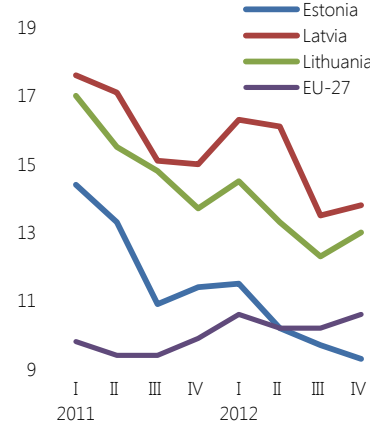
Number of employed

2011 Q1 = 100



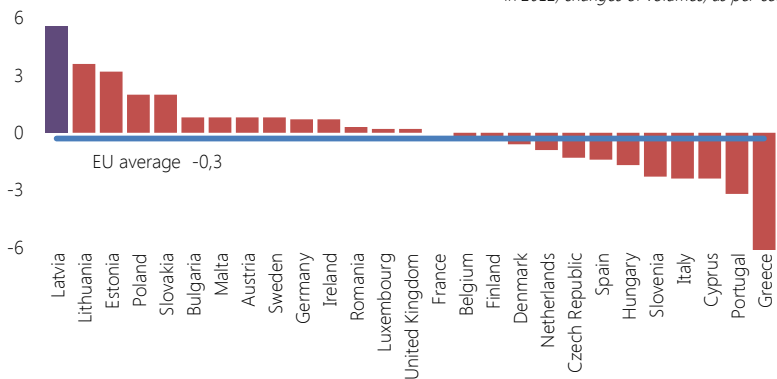
Unemployment rate

as per cent



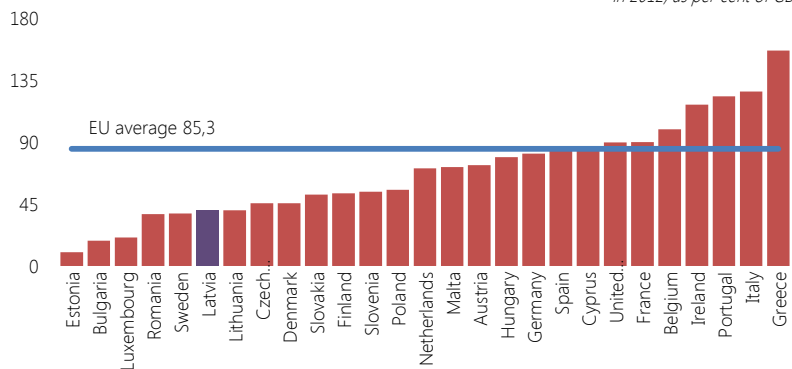
Gross Domestic Product

in 2012, changes of volumes, as per cent



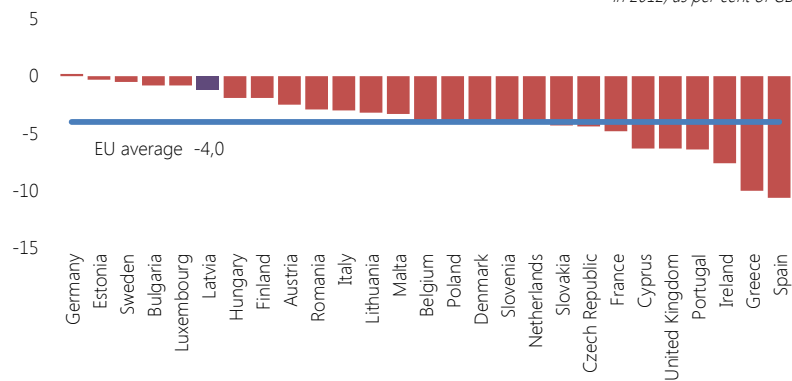
Public debt

in 2012, as per cent of GDP

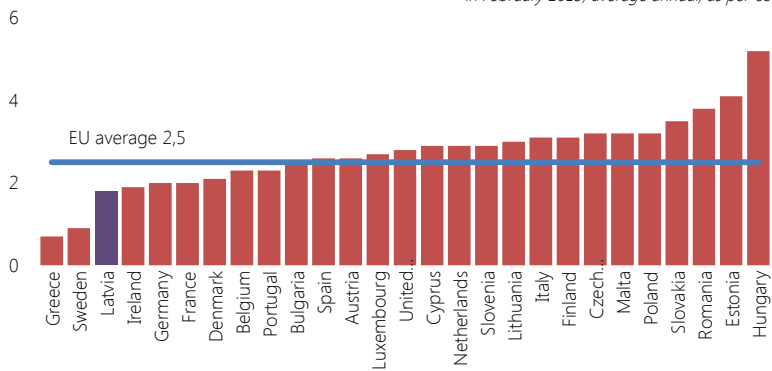


Balance of budget

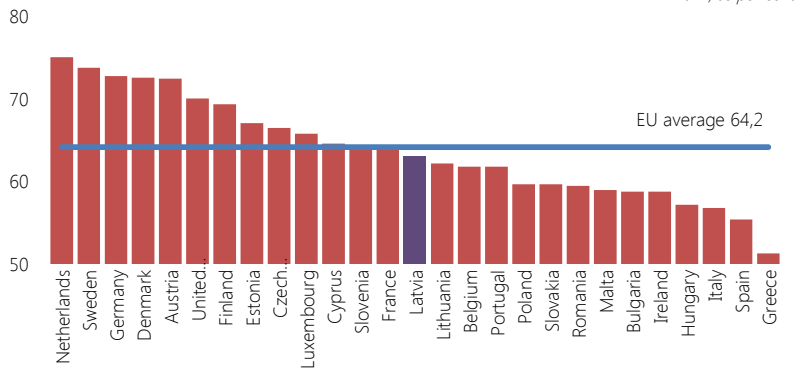
in 2012, as per cent of GDP



Harmonised consumer price index in February 2013, average annual, as per cent



Employment rate in 2012, as per cent



Unemployment rate in 2012, as per cent

