

# THE NATIONAL ECONOMY OF LATVIA:

## A MACROECONOMIC REVIEW

*Key Indicators of Economic Development*

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### **Latvia: 2012**

Territory, thsd km <sup>2</sup>	64.6
Population as of 01.01.2013 (thsd)	2 028
of which:	
Urban area	1 376
of which Riga, the capital city	648
Rural area	652

National currency: lats (LVL)

## Key indicators of economic development

	Actual data				Estimate	Forecast
	2008	2009	2010	2011	2012	2013
	<i>changes over the previous year, %</i>					
Gross domestic product	-3.3	-17.7	-0.9	5.5	5.5	4.0
Consumer prices	15.4	3.5	-1.1	4.4	2.3	1.5
	<i>% of GDP</i>					
General government						
budget balance	-4.2	-9.7	-8.1	-3.4	-1.5	-1.4
General government debt	19.8	36.7	44.5	42.2	44.5	45.8
Exports-imports balance	-13.7	-1.5	-1.4	-4.8	-3.9	-4.3
Unemployment rate*	7.5	16.9	18.7	16.2	14.8	11.9

	2010		2011				2012			
	IV	I	II	III	IV	I	II	III	IV	
	<i>changes over the corresponding period of the previous year, %</i>									
Gross domestic product	2.8	3.6	5.7	6.6	5.7	6.9	5.0	5.2	5.1**	
Consumer prices	1.8	4.0	4.8	4.5	4.2	3.4	2.3	1.7	1.6	
	<i>% of GDP</i>									
General government										
budget balance	-16.1	-2.4	2.0	-1.8	-10.6	1.9	3.9	0.1	-10.5***	
Exports-imports balance	-1.8	-3.0	-3.5	-7.4	-4.9	-4.9	-4.7	-2.8	-3.5***	
Unemployment rate*	16.9	17.6	17.1	15.1	15.0	16.3	16.1	13.5	13.4***	

\* share of unemployed persons to the economically active population, aged 15-74, % (as of 2011 data are recalculated on the basis of population census. Recalculations for 2008-2010 data will be available in the second half of 2013. Until that, as of 2011 data are not comparable with previous periods)

\*\* GDP flash estimate

\*\*\* estimation by the Ministry of Economics

## Economic policy

Latvia successfully continues to recover from consequences of the global financial crisis. At the end of 2011, international loan program has been successfully completed, thus verifying Latvia's affiliation to Nordic countries, which has responsible attitude to public administration and finances. Recovery of the economy of Latvia is also recognized internationally, by international rating agencies, which are increasing the Latvia's credit rating, which reduces both state expenditures for the external debt service and loan costs for entrepreneurs.

Working on the state budget project of 2013, first time during last 4 years Latvia could afford to increase the budget expenditures. In 2013, state budget priorities for the next year is economic development, improvement of the demographic situation and increase of wages for certain categories of employees working in public sector.

In 2013, budget deficit has been reduced to 1.4% of GDP, also in upcoming years, budget deficit will be reduced, thus reaching the balanced budget, latest in 2016. In order to establish counter-cyclical and sustainable fiscal policy framework, *Fiscal Discipline Law* has been submitted to the Saeima.

Main tax policy focuses on the reduction of labour taxes. The government has decided to diminish standard rate of personal income tax from 25% to 20% starting from the January 1, 2013 to December 31, 2015. Starting from July 1, 2012, standard rate of value added tax has been diminished by 1% – to 21%.

At the moment Latvia is working on introduction of euro currency. Government has defined the provisional euro introduction date – January 1, 2014. According to the forecasts, Latvia will be able fulfil Maastricht criteria, which are used to measure the state readiness to join European Monetary Union.

Government policy is aimed to promote long-term development in Latvia, production of higher value-

added tax products and services, as well as to provide better paid jobs. In this field, it is important to work on development of *National Industrial Policy*, which will point out the main state support principles for the next planning period of structural funds.

Attraction of investments has been started in a new quality – the *Coordination Council for Large and Strategically Important Investment Projects* has been established and investment attraction strategy *Polaris* has been introduced. The aim of these activities is active coordination of the work of public and local government institutions and non-governmental organizations in order to simplify clarification of any emerging issue, facilitate project development and ensure timely prevention of problems.

At the same time government is implementing a range of activities in order to eliminate administrative barriers in the areas of tax policy and administration, insolvency process, registration of real estate, tourism, construction etc. World Bank *Doing Business 2013* index ranks Latvia 25 among 185 countries or 8 among EU member states. Active work is being continued to limit the grey economy. The reform of the management of state enterprises is being implemented. It will ensure transparent and clear principles for the society as well as potentially higher income in the state budget. In *Doing Business 2013* Latvia is included as a good praxis example for improving business environment. Research approves that as a result of purposeful action of public administration, during 15 years continuous reform cycle has been provided in Latvia, due to which the winners are the economy of Latvia and entrepreneurs.

Overall reform of energy policy has been launched – by detailed analysis of the previous implementation of the energy policy, state support and effectiveness, new proposal for the further energy policy to 2030 has been developed.

## Macroeconomic development

Since the end of 2009, economic downturn in Latvia has stopped and growth resumed. Recovery of economic growth was based mainly on the increase of external demand and accordingly to increase of exports, as well as growth of tradable sectors. Income increase from export promoted the gradual increase of domestic demand. Although at the second part of 2011, uncertainty in external markets increased, however recovery of economy of Latvia continued and in 2011 GDP increased by 5.5 percent.

Also in 2012, economy of Latvia was sustainable against the shocks of external market. Export volumes continued to increase – in 3 quarters of 2012, export of commodities and services exceeded the according period of the previous year by 7.3%. Almost half of the total increase of export of Latvia is related to the EU markets which were less affected by the crisis – mainly Poland, Denmark, Estonia and Great Britain. Export volumes increased considerably also to CIS countries and other countries, which approves that entrepreneurs are constantly acquiring new markets.

Export possibilities have promoted increase of production volumes in manufacturing. During 2012, monthly production volumes of manufacturing considerably fluctuated – rapid monthly increase was followed by the moderate slow-down, however in total this sector experienced a stable growth. In 2012, production volumes of manufacturing were considerably higher than in the according period of 2011 – increase by 9.3%. Even along with the weak demand in external markets, none of the manufacturing sectors experiences tendencies, which would indicate on decrease of production.

In 2012, private consumption continued to increase, retail sale volumes increased accordingly. Tax incomes were higher than was forecasted before.

Unlike tendencies in EU, confidence of inhabitants and businessman of Latvia did not decrease. According to estimation of the Ministry of Economics, in 2012 GDP has increased by 5.5 percent.

Not all people have already felt the improvement of the economic situation. Labour possibilities and wages increase slower than economics in general. In the 4th quarter of 2012, number of employed reached 902 thousand, which was by 2.9% or 25 thousand more than in the 4th quarter of the previous year. Although unemployment rate has decreased to 13.5%, however it is still high. Gross average wage in the 3rd quarter of 2012 was by 3.6% higher than a year ago.

Also the further economic development of Latvia will still be tightly dependent on export possibilities, the main growth risk for Latvia is related to the development of the global economy. In 2013, along with the weak demand in external markets, it is expected that increase of export volumes of commodities and services of Latvia will be more moderate than in previous years. At the same time, income increase of export will promote the increase of demand in domestic market. The Ministry of Economics forecasts that in 2013 economic growth could be within 4 percent.

Despite the comparatively high growth, consumer prices in 2012 maintained moderate increase, which was close to the level of seasonal fluctuations. Average price level in 2012 was by 2.3% higher than in a previous year. Price increase was mainly determined by the increase of administratively regulated prices, as well as increase of food and fuel prices. The Ministry of Economics forecasts, that in 2013 moderate price increase could be observed – on average yearly by 1.5%. At the same time great uncertainty related to the global food and fuel prices will remain.



## Gross domestic product

In 2012, despite the weak economic growth in EU, situation in the economy of Latvia remained comparatively stable. In 3 quarters of 2012, GDP exceeded the level of the according period of 2011 by 5.6%. In the 3rd quarter of 2012, GDP was by 14.7% higher than in the lowest point of crisis in the 3rd quarter of 2009 and at the moment it is 86% of pre-crisis level. In recent years economic growth of Latvia has one of the fastest growth in EU.

Due to the revival of competitiveness during the crisis, export has become the main cause of the economic recovery of Latvia. In 2012, export volumes continued to increase. In 3 quarters of 2012, export of commodities and services exceeded the level of the according period of 2011 by 7.3 percent.

Increase of employment and wages promotes increase of private consumption. In 3 quarters of 2012, private consumption exceeded the level of the according period of 2011 by 5.7 percent.

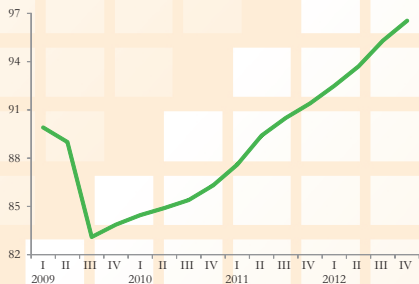
Since the end of 2010, investment activities are gradually increasing. In the first half of 2012,

investment volumes in the economy of Latvia were by 28.4% higher than in the according period of 2011. Whereas in the 3rd quarter, non-financial investments were just by 2% higher than in the 3rd quarter of the previous year. Such an investment increase was already foreseen because the rapid increase of volumes at the beginning of the year on a great extent was based on a low base effect. More rapid investment increase is still limited by the weak crediting as well as by the wait-and-see policy, taking into account uncertainty of the development of future situation in external market.

During the crisis, along with the decrease of domestic demand, import volumes shrunk considerably. Along with the gradual increase of economic activities in domestic market, demand for import is increasing – in 3 quarters of 2012, import of commodities and services was by 3.9% higher than in the according period of 2011. Despite the comparatively rapid increase of import volumes in recent years, they are still behind the pre-crisis level.

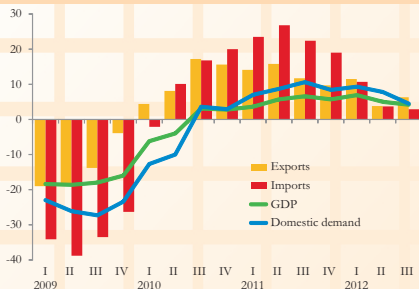
### Dynamics of GDP by quarters

*seasonally adjusted data, 4th quarter of 2008 = 100*



### GDP by expenditure items

*changes over the corresponding period of the previous year, %*



## Development of sectors

During the crisis, along with the decrease of wages and prices in domestic market, competitiveness of Latvian producers has increased, which was based on the export increase and wherewith development of the tradable sectors. Total income increase from export has gradually promoted increase of domestic demand and wherewith also development of several economic sectors related to domestic market.

In 2012, despite the tense economic situation and even recession in several EU countries, economic growth of Latvia continued. Stable growth was observed in manufacturing – in 3 quarters production volumes were by 10.5% higher than in the according period of 2011.

Construction sector is trying to recover from the deep recession during the crisis – in 3 quarters – increase by 16.3%, compared to the according period of 2011. Although construction volumes are increasing comparatively fast, at the moment they

are just 55% of pre-crisis period.

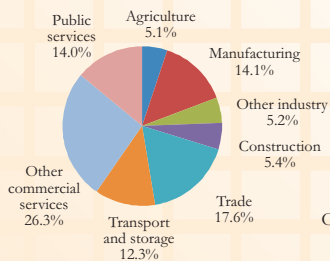
In 3 quarters of 2012, increase was observed in the sector of transport and storage - by 4.9%, when compared to the according period of 2011, which was to the great extent determined by the increase of transportation load volumes. Along with the increase of private consumption, growth continued in the tradable sector – in 3 quarters of 2012, services volumes were by 7.3% higher than in the according period of the previous year.

In 2012, moderate growth is observed in other commercial services sectors – in 3 quarters services volumes were just by 2.7% higher than in the according period of the previous year. In the public services sector services volumes were by 0.7% lower than in the according period a year ago.

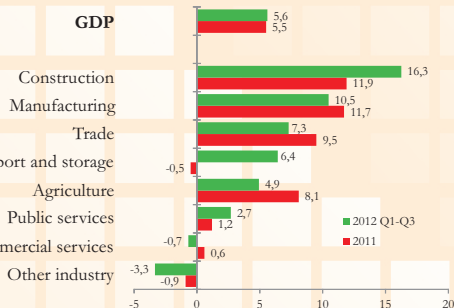
Although stable growth has been observed in several sectors, however external risks related to the development of further situation in euro zone remains.

### GDP by sectors

structure in 2011, %



changes over the previous year, %



# Manufacturing

Since the second part of 2009, production volumes in manufacturing are increasing. Along with the recovery of economic growth, growth rates of manufacturing volumes were considerably higher than total economic growth. Manufacturing is currently the main driving force of economic growth.

In 2011, production volumes of manufacturing exceeded the level of 2010 by 11.7%. Growth was based on stable external demand and gradual increase of demand in domestic market. In 2011, production volumes in the sector reached pre-crisis level. It must be noted that stable increase of production volumes remained also at the end of 2011, when in EU countries, which are the main export markets of Latvia, growth rates slowed down.

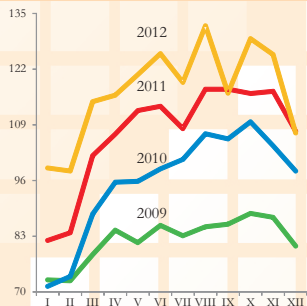
Despite the tense economic situation and recession in several EU countries, manufacturing of Latvia was sustainable against external shocks. Although during 2012, monthly production volumes of manufacturing considerably fluctuated – rapid monthly increase was followed by the moderate slow-down – in total this sector experienced a stable growth. In 2012, production vo-

lumes of manufacturing were considerably higher than in the according period of 2011 – increase by 9.3%. Even along with the weak demand in external markets, none of the manufacturing sectors experiences tendencies, which would indicate on decrease of production. Considerable increase of production volumes of manufacturing promotes also increase of labour force demand. In the 3rd quarter of 2012, this sector had by 5.2% more occupied job vacancies than a year ago.

In 2012, most considerable contribution in the total manufacturing growth was made by metal working sector. Production volumes considerably increased in the production of computers, electrical and optical equipment, as well as in production of transport vehicles, equipment, mechanisms and production of machine tools, as well as in the production of paper and printing and publishing sector. It must be noted, that in these sectors and in wood processing production volumes already considerably exceeds the pre-crisis level. However in food production and light industry during 2012 production volumes increased moderately.

## Production volume index

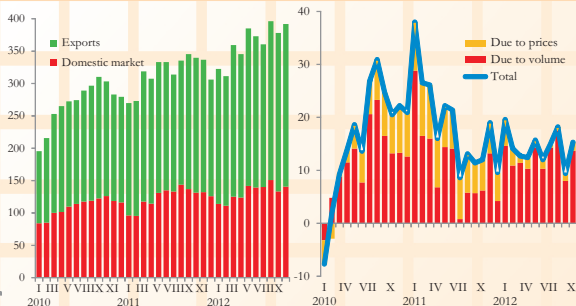
*not seasonally adjusted data, 2005 = 100*



## Production sales

*in current prices, mln lats*

*changes over the corresponding period of the previous year, %*



# Investments

Economic growth has positively affected investment process in Latvia. Since the end of 2010, investment activities have gradually increased. In 3 quarters of 2012 – investment volumes exceeded the according period of the previous level by 16.2% and was 25.4% of GDP. Investments in equipment and machines constitutes almost 40% of investments. Increase of investment volumes was considerably determined by the investments in energy, wood processing and metal working sectors. Although investment dynamics is quite rapid, however its quarterly volumes are almost by half smaller than in 2007. Increase of investment volumes was on a great extent slowed down by the slow recovery of crediting.

Since 2010, foreign direct investment (FDI) increase has recovered. In 2011, FDI stock in the economy of Latvia has almost 4 times exceeded the level of 2010 and was 5.2% of GDP. However in 3 quarters of 2012, incoming FDI stock was by 33.9% smaller than in the according period of the previous

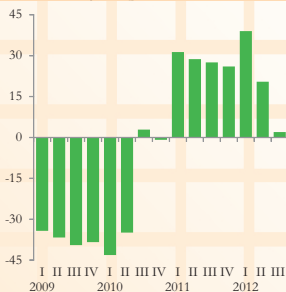
year. Decrease of incoming FDI stock is mainly determined by the negative net investments in energy sector and dealings in real estate. It must be noted that in the 3rd quarter FDI stock flows were almost 3 times higher than in the 2nd quarter.

At the end of September 2012, FDI stock was 6838.6 million lats (9730,5 million euro). When compared to the end of 2011, FDI stock increased by 5%, int.al. in manufacturing – by 4.5%. Highest share of FDI stock in the structure of sectors is made by the investments in real estate and banking intermediations.

More than 70% of FDI stock is EU investments, ¼ of FDI stock are investments from the new EU member states. The major investors are Sweden (24.3% of FDI investment stock at the end of September 2012), the Netherlands (7.8%), Cyprus (6.1%), Estonia (5.6%) and Germany (4.7%). Russian businessman investments in Latvia are 4.2% of FDI stock.

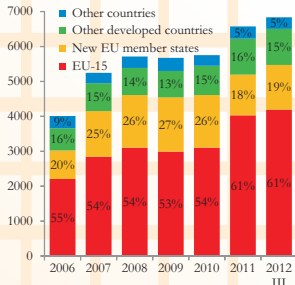
## Gross fixed capital formation

*changes over the corresponding period of the previous year, %*

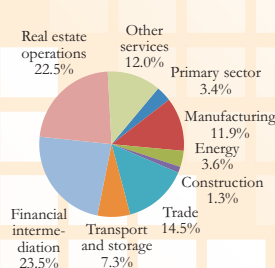


## FDI stock

*by group of countries, at the end of the period, mln lats*



*structure by sectors, at the end of September 2012, %*



## Foreign trade

Latvian commodity export at current prices increased by 28% in 2011, compared to 2010, but at constant prices it increased by 14%. Also in 2012, commodity export continued to increase rapidly (at current prices – by 15%).

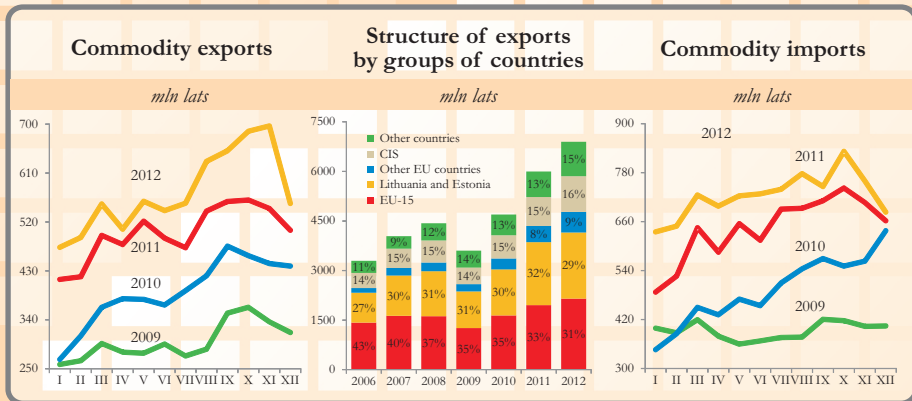
In 2012, increase of all biggest commodity export volume groups was observed. Total export development mainly was affected by export volume increase of agriculture and food products. This commodity group provided more than 40% of all export increase. In 2012, its share in the total export structure has increased by 3.6 percentage points and already constitute 20% and this has become the biggest commodity export group of Latvia. The main reason of the growth of this commodity group in 2012 is a good crop and seed harvest of oil plants, as well as increase of certain commodities of food industry. Considerable increase is observed also for the export of machinery and metal and its production. These both commodity groups made about 30% of total export increase.

Commodity export to EU countries in 2012 increased by 10%. Biggest contribution to this growth (more than 50%) was provided by the export growth of agriculture and food products. At the same time, export to CIS countries increased by 22%. Most considerable contribution (50%) to this growth, similar to EU countries, was made of agriculture and food product export group.

In 2012, export to Estonia and Lithuania increased by 9% and 2%, accordingly. Main export commodities to Estonia and Lithuania are agriculture and food products as well as products of engineering industry.

Commodity import in 2011 increased very rapidly, at current prices by 31%, but at comparable prices by 22%. In 2012, commodity import has increased at the same pace as export (at current prices – by 13%).

During this period biggest import commodity groups have increased at the same pace (goods of engineering industry, mineral products, agriculture and food products). In total, this group forms 2/3 of total import increase.



# Balance of payments

The dynamics of the current account of balance of payment is stable, without considerable fluctuations, which were observed during the years of deep recession. Since the 2nd part of 2010, current account has a small deficit. In 2011, it was 2.4% of GDP and in the 3 quarters of 2012 – 2.9% of GDP (in the 3rd quarter – 1.8% of GDP). At the moment current account condition indicates on the balanced position of the economy of Latvia.

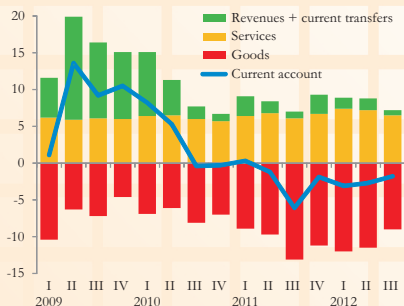
Current account balance is mainly determined by the changes of foreign trade balance. Along with the increase of economic activities since 2011, import is increasing more rapidly than export and foreign trade deficit is also increasing. In 2011, it reached 10.9% of GDP. In 3 quarters of 2012, foreign trade deficit slightly decreased and was 10.7% of GDP. Almost 2/3 of external trade deficit is paid off by services balance. In 9 months of 2012, services balance surplus was 7% of GDP (in 2011 – 6.5%).

Since 3rd quarter of 2010, income balance of current account is negative. In 2011, income balance deficit was -0.9% of GDP, but in 3 quarters of 2012, it increased to 1.9% of GDP. Increase of negative income balance is related to the income of non-resident deposits, int.al. increase of dividend volumes of non-residents.

Since 2009, financial account (without reserve assets) is negative and its quarterly fluctuations are still quite considerable. Financial account condition is mainly determined by the decrease of external debt in private sector (commercial banks) and long-term loans of public sector. At the end of September 2012, government gross external debt was 4853,9 million lats (32% of GDP), which is by almost 9% less than a year ago. Total gross external debt at the end of September 2012 was 145.2% of GDP, which is by 11 percentage points lower than a year ago.

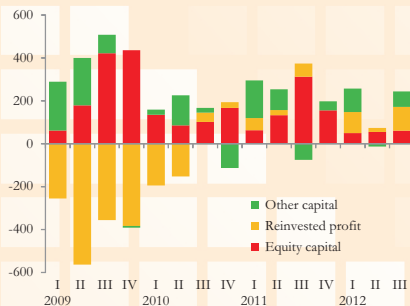
## Current account

% of GDP



## Foreign direct investments in Latvia

received during the quarter, mln euro





# Prices

In 2012, regardless the economic growth of Latvia, which was the most rapid in EU countries, consumer prices remained moderate increase, close to the seasonal fluctuation level. In 2012, consumer prices increased by 1.6% and was 2.5 times less than in 2011, when prices reached 4% (12 month inflation). Price increase in 2012 was mainly determined by the increase of administratively regulated prices and food and transportation costs. Considerable impact was made by the global fuel price dynamics.

Price increase was mainly determined by the administratively regulated price increase at the beginning of year (for natural gas and heat energy), which increased the total consumer price increase by 0.94 percentage points; rise of food prices increased it by 0.76 percentage points and rise of transport expenditures (fuel) – by 0.13 percentage points. In 2012, average inflation, which is the indicator to evaluate Maastricht criteria, continue to decrease – in December the average yearly inflation was 2.3 percent.

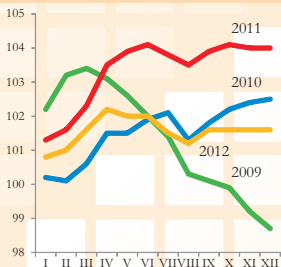
After rapid increase of production prices in 2010 and at the beginning of 2011, in upcoming months production prices were moderate. In 2012, production prices slightly increased, but increase was stable, mainly due to the price increase of energy resources.

In December 2012, compared to December 2011, production prices in industry increased by 3.6%. Most considerable price increase was observed for electricity, gas supply, heat supply and air conditioning (by 7.7%), which was mainly affected by the global energy prices.

Production prices in manufacturing on a great extent is affected by the tendencies in external markets. Since the second part of 2011, along with the weakening of total demand in EU countries, also Latvian production prices for exported production increase moderately – in December 2012, they were by 2.1% higher than a year ago. During a year, production prices for products sold in domestic market increased by 2 percent.

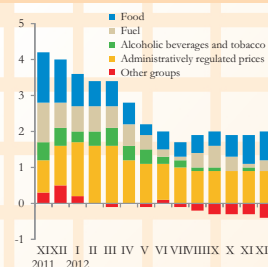
## Consumer price index

December of the previous year = 100



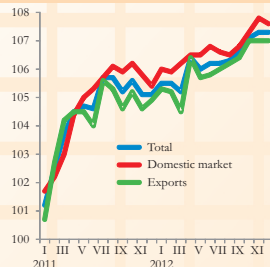
## The impact of commodity and services groups on the total consumer price index

contribution to 12-month inflation



## Producer price index

December of 2010 = 100



# Monetary indicators

After financial shock during the crisis, monetary indicators of Latvia are gradually stabilizing.

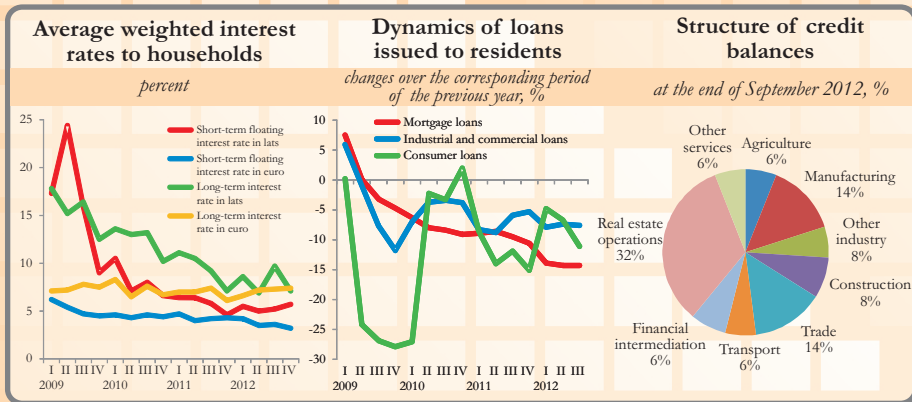
Volumes of new loans are increasing. In the three quarters of 2012, when compared to the according period of the previous year, volume of new loans has increased by 11.4% and in total in this period 70 thousand new loans were granted for a total amount of 768,5 million lats. Biggest amount of new loans are issued for entrepreneurship – financial and insurance activities and the biggest number of new loans are issued in agriculture, forestry and fishing. For households the biggest part of new loans are issued for buying consumer products.

The quality of credit portfolio continues to increase and in 3 quarters of 2012 there were 19.8% delinquent loans. It was mainly determined by the decrease of loans to residents with more than 180 days overdue payment by 41%. These credits form more than a half of all delinquent loans.

In total, crediting is weak and recovers slowly. At

the end of 3rd quarter of 2012, loan balances decreased by 11.1%, when compared to the according period of 2011. Mortgage loan balance are still decreasing more rapidly. Since the beginning of 2011, dynamics of industrial and commercial loan balances are almost unchangeable and in the 3rd quarter of 2012 industrial and commercial loan balances decreased by 7.6%, compared to the according period of 2011.

Since the middle of 2010, the fluctuations of weighted average interest rates for short-term loans issued in lats and euro have been minimal. In the 4th quarter of 2012, weighted average interest rates for short-term loans issued in euro reached the lowest level during last years (3.2%). Fluctuations of interest rates for long-term loans issued in lats are sharper and at the end of 4th quarter of 2012, it was identical with the indicator of the end of 2011, which is also the lowest indicator during last years (7.1%). Fluctuations of interest rates for long-term loans issued in euro were minimal.



# General government consolidated budget

Along with the improvement of the economic situation and increase of tax incomes, state fiscal condition is gradually improving – budget revenues are increasing and budget deficit is decreasing.

General government consolidated budget revenues in 2012 were 5742,8 million lats, which was by 12.9% more than in 2011. Tax revenues increased by 10.6%. Incomes from corporate income tax (by 24,1%) increased most rapidly. Increasing expenditures promoted the increase of value added tax, which in 2012 was by 16.5% higher than a year ago. Increase of employment and wages promotes increase of incomes from labour taxes. Personal income tax increased by 10%, but mandatory state social insurance contributions increased by 7.7%, compared to the previous year. These four taxes' incomes formed more than 90% of the whole tax income increase in 2012.

Budget expenditures increases more slowly than

incomes. General government consolidated budget expenditures in 2012 was 5723.6 million lats, which was by 3.5% more than in 2011. In 2012, compared to 2011, expenditures for subsidies and grants and capital increased by 4% and 1.2% accordingly. Current expenditures in 2012 remained at the level of previous year.

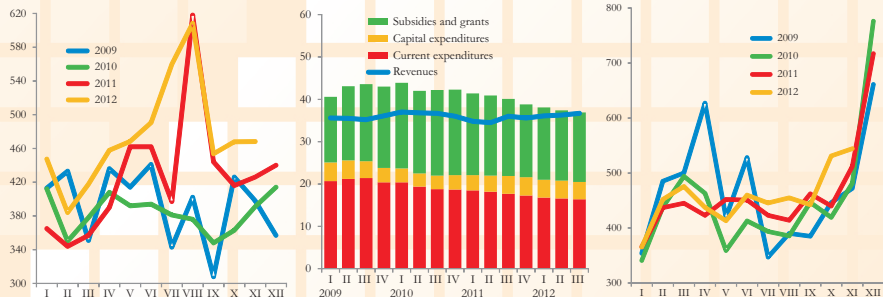
As a result of budget consolidation implemented by the government, budget deficit has considerably decreased. According to provisional data, budget deficit in 2012 was 1.5% of GDP (according to ESA methodology). It creates preconditions for closing excessive deficit procedure initiated by the EU, as well as successful fulfilment of the Maastricht criteria. In the medium term, considering the goal set by the government – to introduce the euro in 2014, it is planned to reduce budget deficit to 1.4% of GDP in 2013 and 0.8% of GDP in 2014 and 0.3% of GDP in 2015.

## General government consolidated budget revenues and expenditures

revenues, mln lats

% of GDP, 4-quarter moving average

expenditures, mln lats



## Personal income

Along with the improvement of the economic situation and by the increase of labour force demand, an average income in the economy increases gradually.

In 2011, an average gross wage increased by 4.3%, compared to 2010. Wages increased equally both in private and public sector, besides increase was observed actually in all sectors. Most considerable wage increase was in the sector of commercial services and in the agriculture and forestry.

In the 3rd quarter of 2012, gross wages increased by 3.6%, compared to the 3rd quarter of 2011 and was 484 LVL. Highest wages were in Riga region. Within the year wages increased both in private and public sector, although in the public sector increase was slightly higher (by 5.2%) than in the private sector (by 2.8%).

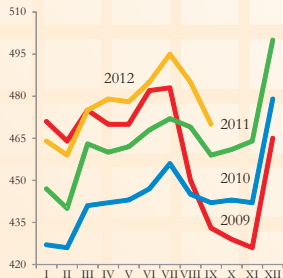
As regards sectors, most rapid wage increase was in the sectors of transportation and storage (by 7.4%), real estate (5.3%) and public administration (6.1%). At the same time considerable wage increase was observed also in manufacturing and trade. Highest wage still remains in financial and insurance services sector – on average 987 LVL per month.

In 2011, real wage remained unchanged, despite the increase of average wage. Positive effect on wage increase was diminished by the increase of consumer prices. In the 3rd quarter of 2012, compared to the according period of 2011, real wage increased by 1.9 percent.

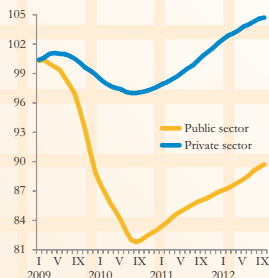
In 2012, also average old-age pension increased, in the 3rd quarter of 2012 it was 181 LVL, which is by 1.2% more than in the according period of 2011.

### Average gross wage of employed persons

*lats*

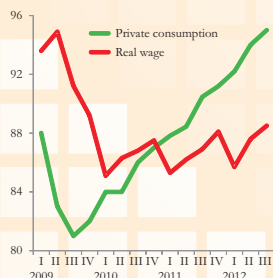


12-month moving average index,  
December of 2008 = 100



### Dynamics of real wage and private consumption

*4<sup>th</sup> quarter of 2008 = 100*



# Employment and unemployment

During economic recession from 2008 to 2010, situation in labour market deteriorated considerably. Since the beginning of 2010, along with the revival of economic activities, situation in labour market is improving – employment and job vacancies are increasing and unemployment is decreasing gradually.

In accordance with the estimation of the Ministry of Economics, number of employed in 2011 increased by 2.5%, compared to 2010. During the year, unemployment rate also decreased considerably. In 2011, it was on average 16.2%, which is by 3.3 percentage points lower than in 2010.

In accordance with the Labour Force Survey, in the 4th quarter of 2012, number of employed reached 902 thousands, which is by 2.9% or 25 thousand more than a year ago. At the same time number of economically active population has increased moderately (by 1.5%). Unemployment rate in the 4th quarter of 2012 was 13.8%, which is by 1.2 percentage points lower than a year ago.

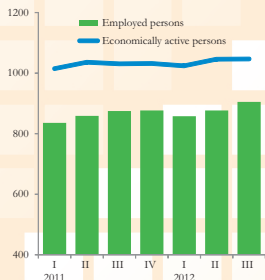
At the end of December 2012, registered unemployment rate reached the lowest rate since April 2009 and was 10.5% – 104.1 thousand unemployed were registered, which is by 26.2 thousand less than in December 2011. The highest registered unemployment rate is still in Latgale region (21.1%) but lowest in Riga (6.4%). In December 2012, 44.2% of all registered unemployed were long-term unemployed (without a job more than a year).

Since the middle of 2010, comparatively stable increase of job vacancies have been observed. At the end of December 2012, totally 3140 job vacancies were registered, which was by 25% more than in the according period of 2011, but by 14.6% less than in November. More than 2/3 of all registered vacancies were registered in Riga region.

It is expected that situation in labour market will continue to improve in 2013. At the same time, along with the gradual slow-down of economic growth, also labour market recovery could become moderate.

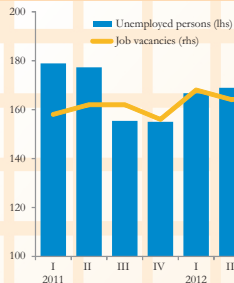
### Employed and economically active population

thousands



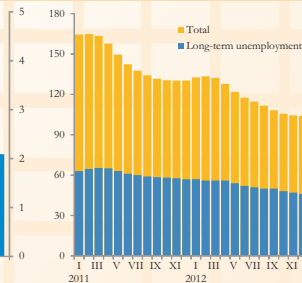
### Unemployed persons and job vacancies

thousands



### Registered unemployment

thousands



## Baltic states. Main socio-economic indicators

	Estonia	Latvia	Lithuania
Territory, thsd km <sup>2</sup>	45.2	64.6	65.3
Population as of January 1, 2012, thsd	1286.5	2028.2*	2979.3
Gross domestic product, changes over the corresponding period of the previous year, %			
2010	3.3	-0.9	1.5
2011	8.3	5.5	5.9
2012 Q3	3.5	5.2	4.4
2012 Q4	3.7**	5.1**	4.0
Industrial output, changes over the corresponding period of the previous year, %			
2010	23.5	16.5	6.6
2011	16.8	11.7	7.4
2012 Q3	-2.5	7.2	7.1
2012 Q4	3.9	6.2	9.3
Unemployment rate, share of unemployed persons in the economically active population, %			
2010	16.9	18.7	17.8
2011	12.5	16.2	15.3
2012 Q3	9.7	13.5	12.3
2012 Q4	9.3	13.8	13.1
Consumer price changes, changes over the corresponding period of the previous year, %			
2010	3.0	-1.1	1.3
2011	5.0	4.4	4.1
2012 Q3	3.7	1.7	3.2
2012 Q4	3.7	1.6	2.9
Producer price changes in industry, changes over the corresponding period of the previous year, %			
2010	3.3	3.1	10.3
2011	4.4	7.7	13.8
2012 Q3	1.9	2.3	5.0
2012 Q4	2.1	3.2	2.6

\* data of 2011 is recalculated on the basis of results of population census, as of 2012 results of Labour Force survey are based on number of population determined in the population census. Recalculation for 2010 will be available in the second half of 2013. Until that, as of 2011 data are not comparable with previous periods.

\*\* GDP flash estimate