



# THE NATIONAL ECONOMY OF LATVIA: A MACROECONOMIC REVIEW

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### Latvia: 2008

|                                      |       |
|--------------------------------------|-------|
| Territory, thsd km <sup>2</sup>      | 64.6  |
| Population (as of 01.01.2008, thsds) | 2 271 |
| of which:                            |       |
| Urban area                           | 1 541 |
| of which Riga, the capital city      | 717   |
| Rural area                           | 730   |
| National currency: lats (LVL)        |       |

## Key indicators of economic development

|  | 2004  | 2005  | 2006  | 2007  | 2008 f |
|--|-------|-------|-------|-------|--------|
| (increase over the previous year, in per cent)   |       |       |       |       |        |
| Gross domestic product   | 8.7   | 10.6  | 12.2  | 10.3  | 2.2    |
| Consumer prices  | 6.2   | 6.7   | 6.5   | 10.1  | 16.5   |
| (% of GDP)   |       |       |       |       |        |
| Central government sector deficit or surplus   | -1.0  | -0.4  | -0.2  | -0.04 | 0.1    |
| Central government debt  | 14.9  | 12.4  | 10.7  | 9.7   | 8.5    |
| Current account balance  | -12.8 | -12.5 | -22.5 | -22.9 | -15.0  |
| Exchange rate, LVL per US dollar   | 0.540 | 0.565 | 0.560 | 0.514 | 0.460  |
| Exchange rate, LVL per euro  | 0.671 | 0.703 | 0.703 | 0.703 | 0.703  |
| Unemployment rate (rate of job seekers as % of economically active population, aged 15-74 years) | 10.4  | 8.7   | 6.8   | 6.0   | 6.5    |

|  | 2006  |       |       |       | 2007  |       |       |       | 2008  |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|  | I     | II    | III   | IV    | I     | II    | III   | IV    | I     |
| (increase over the corresponding period of the previous year, in per cent)                       |       |       |       |       |       |       |       |       |       |
| Gross domestic product   | 12.9  | 11.7  | 12.5  | 11.9  | 11.3  | 11.0  | 10.9  | 8.1   | 3.3   |
| Consumer prices  | 7.0   | 6.3   | 6.6   | 6.3   | 7.6   | 8.6   | 10.3  | 13.7  | 16.4  |
| (% of GDP)   |       |       |       |       |       |       |       |       |       |
| Central government sector deficit or surplus   | 1.4   | 2.5   | 4.1   | -7.4  | 3.3   | 4.3   | 3.2   | -9.1  | 1.5   |
| Current account balance  | -16.1 | -19.4 | -24.9 | -27.2 | -26.6 | -23.7 | -25.0 | -17.7 | -19.3 |
| Exchange rate, LVL per US dollar   | 0.585 | 0.560 | 0.551 | 0.546 | 0.536 | 0.522 | 0.512 | 0.485 | 0.470 |
| Exchange rate, LVL per euro  | 0.703 | 0.703 | 0.703 | 0.703 | 0.703 | 0.703 | 0.703 | 0.703 | 0.703 |
| Unemployment rate (rate of job seekers as % of economically active population, aged 15-74 years) | 7.8   | 7.2   | 6.2   | 6.1   | 6.9   | 6.0   | 5.9   | 5.3   | 6.5   |

f - forecast of the Ministry of Economics

## Economic policy

The reforms that were carried out in the previous decade have consolidated the private sector and good macroeconomic conditions have been created to foster growth. Private initiative and capital are the main driving forces for development. The law guarantees the protection of foreign investment, non-residents can repatriate profit and capital freely and equal terms are provided to domestic and foreign entrepreneurs. The Bank of Latvia implements *de facto* the policy of the fixed exchange rate of the national currency. It reduces uncertainty, averts the currency risks and provides a stable ground to entrepreneurs for planning.

Accession to the EU provided Latvia with new opportunities for economic growth. By joining the EU single market Latvia can benefit from the advantages provided by a wide and stable market, free movement of goods and services, labour and capital, i.e., the most favourable terms in the EU market.

The aim of economic policy of Latvia is to ensure sustainable and balanced economic and social development, to implement transition from labour-intensive economy to the knowledge-based one and to achieve average EU GDP per capita level in 20-30 years.

The government has identified three main priorities for further economic development of Latvia in the period of 2007-2013: an educated and creative individual, technological excellence and flexibility of enterprises and development of science and research.

In 2008 one of the key tasks is to improve macroeconomic situation as fast as possible. In order to stabilize economy, the government has developed number of measures for the nearest 2 years the aim of which is the change of private capital flow direction towards export-related sectors, as well as development of knowledge-based economy.

To ensure balanced development, the government is resolved to implement budget with surplus in 2008, as well as in 2009 and 2010. The general government debt in Latvia is among the lowest in the EU and it is expected that in the medium-term its level will remain considerably below the Maastricht criterion on public debt.

In recent years the business environment in Latvia has been substantially improved by introducing the requirements of the EU body of legislative acts (*acquis communautaire*) and implementing the *Action Plan for Improvement of Business Environment*. In the study *Doing Business 2008* carried out by the World Bank group, Latvia is ranked on the 22<sup>nd</sup> place among 178 countries in terms of the business environment, i.e. by 2 places higher compared to the previous year. Currently the corporate income tax in Latvia (15%) is among the lowest in the EU.

To raise competitiveness of Latvia the Cabinet of Ministers has adopted the *Programme for Promotion of Business Competitiveness and Innovation in 2007-2013*. Certain activities for the improvement of the business environment, promotion of financial accessibility, development of new business initiatives, transfer and commercialization of knowledge, etc. are defined in the programme. The administrative territorial reform is under way in Latvia and it is intended to complete it before the local government elections in 2009.

Latvia is consistent in its efforts to open to competition the monopolist markets such as telecommunications, electricity and gas supply, post and railway. The government continues to improve the basic infrastructure paying particular attention to the development of the energy sector, building of the electronic communications and information systems, as well as to the improvement of the quality of transport infrastructure and creation of an effective network. The utilisation of EU structural funds and the Cohesion Fund offers broader opportunities to improve infrastructure.

Successful implementation of structural reforms in Latvia will ensure stability of economic growth, promote the convergence process and deeper integration into the European and global economy.

## Macroeconomic development

In the period of 2005-2007 rapid development has been observed in Latvia. During this period GDP on average increased by 11% annually, of which in 2007 – by 10.3%. Fast growth rate was mainly ensured by domestic demand.

Since the mid-2007 growth rates have slowed down. It was determined by both internal (decrease of domestic demand) and external (decline of growth globally).

In the 1st quarter of 2008, compared to the 1<sup>st</sup> quarter of 2007, the GDP has increased by 3.3%. The decrease of domestic demand has influenced development of trade, construction and real estate market. In the 1st quarter of 2008 contribution to growth of these sectors was only 1.7%. In 2007 the contribution to growth of these sectors was almost by 6%, or by more than a half of total growth.

Output in manufacturing is gradually decreasing. Decrease of the growth in production volume of manufacturing started at the end of 2006, however, in the 2nd half of 2007 a substantial decrease of output volumes had been already observed. At the same time it must be noted that financial intermediation and transport and communication services are continuing to develop in Latvia. In the 1<sup>st</sup> quarter of 2008 these sectors increased by 11.6% and 9.6%, respectively. The development of transport services is largely related to increase of transit services.

The decrease of domestic demand has reduced the external imbalances. The current account deficit of the balance of payments has decreased from 25% of GDP in the 3<sup>rd</sup> quarter of 2007 to 19.3% in the 1<sup>st</sup> quarter of 2008. It must be noted that exports of Latvian goods and services show good increase rates despite the overall decrease of the GDP. In the 1st quarter of 2008, compared to the 1<sup>st</sup> quarter of 2007, exports increased by 6.5%.

Inflation in the 1<sup>st</sup> half of 2008 remained at a high level due to the supply-side factors – increase of administratively regulated prices (electricity, natural gas and heat), increase of fuel prices, increase of excise tax on tobacco and fuel, increase of food prices. Total increase of consumer prices in June 2008, compared to June 2007, was 17.9% that is twice higher than a year before (8.8%).

However, it must be noted that producer price influence on consumer prices is decreasing, because since 2007 they are increasing at a slower pace than consumer prices. Decrease of producer prices indicate that in the 2nd half of 2008 consumer price inflation must go down, if there are no significant supply-side impulses.

Economic development in recent years in Latvia has positively influenced the situation on the labour market. In the period of 2005-2007 the number of employed (15-74 years) on average increased by 3.2% annually, but unemployment level has decreased from 8.7% in 2005 to 6% in 2007.

The decrease of growth rate does not affect employment indicators yet. In the 2nd half of 2008 the number of employed can decrease and the level of unemployment can increase, if economic growth trends do not change.

Main growth risks are related to the high inflation and external sector imbalances. The latter are related to the prices of energy resources, instability of the global financial markets and the situation in Latvian export markets. Increase in 2008 and 2009 is expected to be more moderate than in the previous years. The Ministry of Economics forecasts that GDP will increase by 2-3% in 2008, but in 2009 – by 3-4%.

## Gross domestic product

### 2007

#### GDP, at current prices

|                |       |
|----------------|-------|
| mln lats       | 13957 |
| mln US dollars | 27154 |
| mln euro       | 19853 |

#### GDP per capita

|            |       |
|------------|-------|
| lats       | 6173  |
| US dollars | 11930 |
| euro       | 8724  |

#### GDP by sector, %:

|                              |      |
|------------------------------|------|
| Agriculture <sup>1</sup>     | 3.3  |
| Industry                     | 13.6 |
| Construction                 | 8.4  |
| Trade <sup>2</sup>           | 22.2 |
| Transport and communications | 10.8 |
| Public services <sup>3</sup> | 13.8 |
| Other services               | 27.8 |

In 2007 economic growth was very high, but with a slight decrease in the 4th quarter of 2007, when it was 8.1% in contrast to 11.3%, 11% and 10.9% in the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> quarter respectively. In total, increase of GDP in 2007 comprised 10.3%. The decrease of the growth in the 4<sup>th</sup> quarter was determined mainly by slower increase of domestic demand compared to the rapid increase during the previous period.

Main incentive of the rapid growth of previous years was significant increase of investment and private consumption. The rapid dynamics of investments was influenced mainly by the widening of availability of financial resources determined by the two main factors: firstly, the inflow of foreign capital since Latvia's accession to the EU, and secondly, improvement of financial situation due to the relatively low tax burden and high domestic demand. In turn, rapid increase of private consumption was determined by significant increase of wages, increase of employment, good crediting conditions, especially, mortgage lending and leasing. In the 2<sup>nd</sup> half of 2007 with the decrease of crediting volumes, investment did not increase anymore and private consumption did not grow that rapidly as well. Such tendency influenced volume of trade and construction. Another factor which has decreased GDP growth rate is gradual decrease of manufacturing.

According to the estimation of the Eurostat, GDP per capita in Latvia, calculated in the purchasing power parity units, was 58.9% of the EU-27 average level in 2007. In the past three years the backwardness of Latvia compared to the average EU GDP per capita level was successfully reduced by 13.1 percentage point.

In the 1st quarter of 2008, compared to the 1st quarter of 2007, the GDP increased by 3.3%. GDP growth was fostered by increase in transport and communications sector and in construction, but in manufacturing and trade decrease had been observed.

<sup>1</sup> Including forestry and fishing

<sup>2</sup> Including hotels and restaurants

<sup>3</sup> Public administration including healthcare and education

## Gross domestic product

**GDP by Sectors**  
(growth over the corresponding period of the previous year, %)

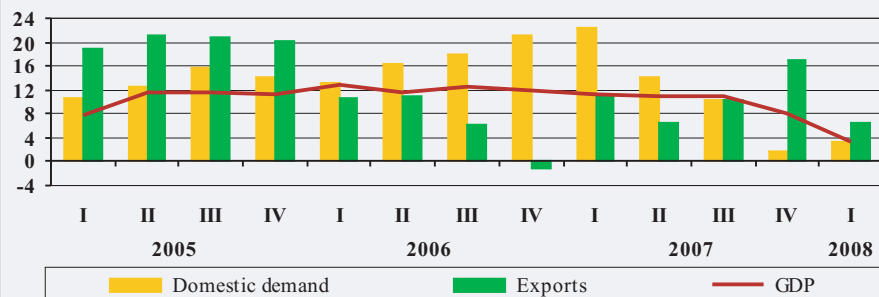
|                              | 2007        |             |             |            | 2008       | 2005        | 2006        | 2007        |
|------------------------------|-------------|-------------|-------------|------------|------------|-------------|-------------|-------------|
|                              | I           | II          | III         | IV         | I          |             |             |             |
| <b>GDP</b>                   | <b>11.3</b> | <b>11.0</b> | <b>10.9</b> | <b>8.1</b> | <b>3.3</b> | <b>10.6</b> | <b>12.2</b> | <b>10.3</b> |
| Agriculture <sup>1</sup>     | 5.4         | 7.5         | 12.2        | 5.0        | -2.8       | 9.3         | -5.2        | 8.1         |
| Industry                     | 1.7         | 1.0         | 0.7         | 0.2        | -3.1       | 5.5         | 5.7         | 0.9         |
| Construction                 | 17.0        | 15.9        | 13.2        | 12.4       | 9.1        | 15.5        | 21.5        | 14.4        |
| Trade <sup>2</sup>           | 15.6        | 13.8        | 13.7        | 6.3        | -0.7       | 16.7        | 17.9        | 12.3        |
| Transport and communications | 7.6         | 9.4         | 10.4        | 11.6       | 9.6        | 13.7        | 5.5         | 9.8         |
| Public services <sup>3</sup> | 3.6         | 3.4         | 5.6         | 5.6        | 4.8        | 4.6         | 4.7         | 4.6         |
| Other services               | 13.1        | 13.1        | 14.2        | 13.6       | 8.1        | 10.3        | 18.2        | 13.5        |

<sup>1</sup> Including forestry and fishing

<sup>2</sup> Including hotels and restaurants

<sup>3</sup> Public administration including healthcare and education

**Quarterly Changes in Real GDP and Major Expenditure Items**  
(% of the corresponding quarter of the previous year)



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## Manufacturing

**2007**

**Growth rate:** -1.0%

**Share in GDP** 10.2%

In 2007 average production volumes of manufacturing decreased by 0.3% compared to 2006. No growth had been observed in several manufacturing sectors, such as in food production (-1.1%), in production of chemicals and chemical products (-0.8%), in machinery and equipment (-6.8%), as well as in wood processing (-5.8%), which is one of the major sectors of the Latvian economy. At the same time increase of other export-

oriented sectors should be noted, such as production of metals and metal articles increased by 9.1%, production of electrical and optical equipment increased by 6.7%.

Decrease of the growth in manufacturing is related to the reduction of external demand, as well as with restructuring of wood-processing enterprises, which will ensure increase of competitiveness of this sector in the future and higher contribution to the growth of GDP. However, competitiveness of other labour-intensive sectors is decreasing significantly due to substantial growth of wages. In 2007 wages in manufacturing increased by 30.1%, however, producer prices – by 16.1%.

In the 1st quarter of 2008 average production volumes of manufacturing decreased by 4.1%, compared to the same period of the previous year. The decrease was observed in food production, textiles and wood-processing. However, the increase had been observed in the production of electrical and optical equipment and production of transport vehicles.

**Manufacturing Output**  
(average monthly output in 2000 = 100)



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## Investments

**2007**

**Foreign direct investment stock per capita, at the end of the 1<sup>st</sup> quarter: 5249 US dollars**

Since 2004 rapid investment growth has been observed in Latvia (by 22% on average annually), which was influenced mainly by the widening of the availability of financial resources that in turn had been determined by two key factors: firstly, inflow of foreign capital since Latvia's accession to the EU, and secondly, financial situation of enterprises improved due to the relatively low tax burden and high domestic demand.

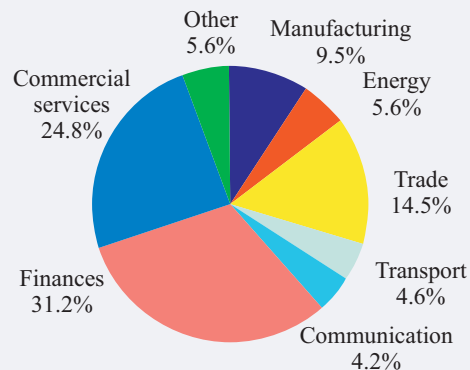
In 2007 investment growth rate declined (mostly in the 2<sup>nd</sup> half of the year). In the 1<sup>st</sup> quarter of 2008 investment growth was rather moderate – 2%.

Foreign direct investment (FDI) stock in Latvia at the end of the 1st quarter of 2008 was 5297.8 million lats, i.e., by 4.3% more compared to the end of 2007.

Investments in the services sector account for the largest share of the FDI. In the 1<sup>st</sup> quarter of 2008 one third of the attracted FDI were invested in the real estate sector.

Almost 80% of FDI are connected with the EU member states, and the biggest investors are Estonia (16% of the FDI stock at the end of the 1<sup>st</sup> quarter of 2008), Sweden (14.7%), Denmark (9.3%) and Germany (8.8%). Investments from Russia constitute 5%.

**Foreign Direct Investment Stocks by Industry**  
(end of 1<sup>st</sup> quarter of 2008, per cent)



## Foreign trade

**2007**

**Structure of export, %:**

|   |             |
|---|-------------|
| <b>Wood and products of wood -</b>                              | <b>22.5</b> |
| <b>Metalworking, machine building and transport equipment -</b> | <b>32.5</b> |
| <b>Light industry goods -</b>                                   | <b>7.3</b>  |
| <b>Chemical goods and articles of plastics -</b>                | <b>10.4</b> |
| <b>Agricultural and food products -</b>                         | <b>14.4</b> |
| <b>Other goods -</b>  | <b>12.9</b> |

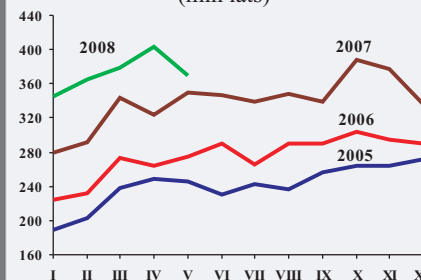
Exports of Latvian goods has increased by 23.4% in 2007 compared to 2006 in current prices, but in constant prices – by 8.9%. However, imports increased at a slower pace – by 22.5% in current prices and by 15.9% at constant prices.

Until the mid-2007, dynamics of exports and imports had the same character as in the previous 3 years, when imports increased slightly faster than exports. Starting with August 2007 the situation has changed, as import volume decreased significantly and exports volume – increased. It can be explained mainly by the decrease of growth of domestic demand, which decreased demand for imports. From the other side, exports in separate commodity groups increased, which was related rather with re-export than with exports of Latvian industrial products.

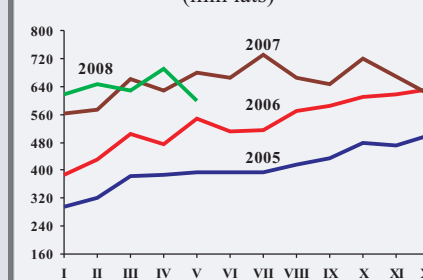
In 2007 exports of goods increased in almost all groups, especially in agricultural and food product exports, which comprised almost 20% of the total exports increase, as well as increase of exports of wood (1/4 of the total exports increase). Increase of wood exports was mainly influenced by the increase of the prices on wood in the world market.

In the 1<sup>st</sup> quarter of 2008 exports to the EU member states increased by 19% compared with the respective period of the previous year. Similarly, as total Latvian exports, exports to the EU member states increased in almost all groups as well. One of the highest increases in exports to the EU member states was ensured by wood and wood products. Agricultural and food product exports to Estonia increased by 10.1%, but exports to Lithuania – by 56.2%. Imports of the same products from Estonia has increased by 47.2%, but from Lithuania – by 26.7%.

**Commodity Exports by Months**  
(mln lats)



**Commodity Imports by Months**  
(mln lats)



## Balance of payments

**2007**

**Current account balance**

**mln LVL:** -3200.7

**mln US dollars:** -6231.2

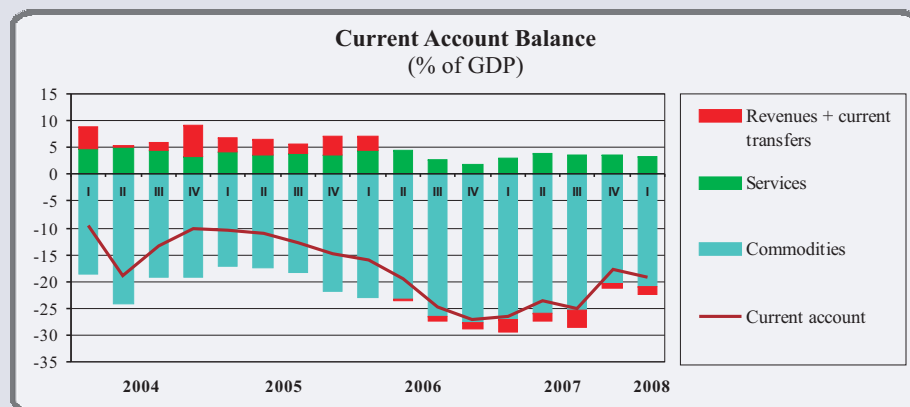
In the recent years, high current account deficit of the balance of payments is characteristic for Latvia and the main reason of that is typically negative trade balance. Until the 4<sup>th</sup> quarter of 2006 current account deficit increased rapidly – reaching 27.1% of GDP.

In the beginning of 2007 current account deficit started to decrease and in the 4<sup>th</sup> quarter of 2007 it was 17.7% of GDP, namely due to the increase of exports and considerable decrease of imports.

However, in the 1<sup>st</sup> quarter of 2008 current account deficit was 19.3%

of GDP or by almost 1.5 times less than in the 1<sup>st</sup> quarter of the previous year.

Decrease of the current account's negative balance mainly reflects the slowdown of growth in the economy of Latvia. Also in the finance account of the balance of payments significant changes have occurred – the amount of foreign financial resources attracted by commercial banks has decreased and portfolio investment has increased. In general, balance of payments of Latvia in the 1<sup>st</sup> quarter of 2008 has been positive with capital inflow exceeding current account deficit.



## Inflation

**June 2008**

**(12-month inflation)**

**CPI:** 17.7%

**PPI:** 12.9%

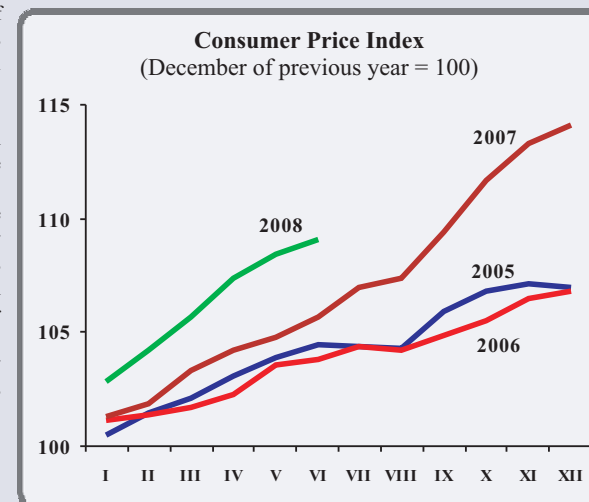
Total consumer price increase in December 2007 (by 14.1%, December over December) was two times more than in the previous year (by 6.8%). Prices for services rose more rapidly (by 16.4%), while the increase in the prices of goods was more moderate (13.2%). Average annual inflation in 2007 was 10.1% (in 2006 – 6.5%).

Similarly as in the previous three years, the main reason for the growth of prices in 2007 was the increase in the prices of food products. In 2007 it increased overall price level by 5.1 percentage points. Second largest group, which determined price increase in 2007 was maintenance of housing and utilities payment. Price

increase in this group was mainly determined by the rise in administratively regulated prices for heat energy, water supply, waste disposal, sewerage services, rent and payments for property management.

In general, high inflation in 2007 was determined by the following main conditions – secondary effect from a rather high inflation of the previous year (inflation spiral), which was fostered by high crediting volumes and considerable increase of wages, rapid increase of food prices, increase of administratively regulated prices and increase of world prices on oil products.

Also in the first months of 2008 prices increased more rapidly than in the previous years. Total price increase in January-June was 9.1%. The main reason of the rapid price increase was the administratively regulated price growth, as well as significant excise tax increase on tobacco products. Faster than a year ago prices increased on fuel, alcoholic beverages, water supply and other housing related services, as well as on catering services.



## Monetary indicators

**2007**

### Domestic enterprises and private persons

|                  |                     |
|------------------|---------------------|
| <b>Loans:</b>    | <b>93.5% of GDP</b> |
| <b>Deposits:</b> | <b>37.8% of GDP</b> |

issued in 2007 increased by 34%, which is significantly slower than in 2004-2006, when the volume of issued loans increased by 50-60% annually. In the 1<sup>st</sup> half of 2008 the decrease of the growth rate of monetary indicators continued. It must be noted that since the crediting volume has increased, the quality of loans has not worsened.

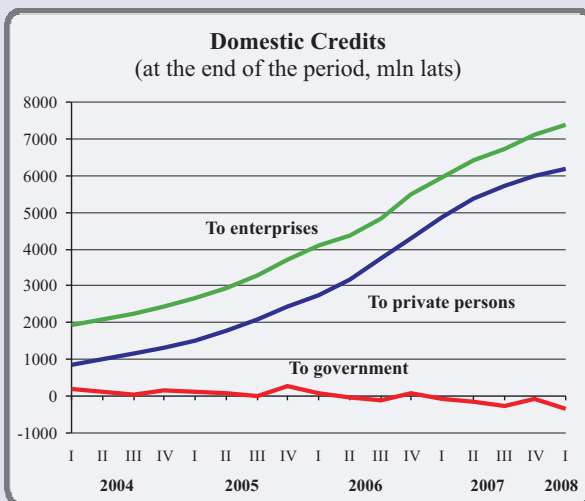
The slowdown of crediting dynamics is mainly influenced by the decrease of mortgage lending. However, it must be noted that in the 1st quarter of 2008, the growth rate of industrial loans and commercial loans decreased.

Largest loan recipients from commercial banks at the end of 2007 were real estate, manufacturing, financial intermediation and trade, which received 33%, 14%, 13% and 12%, respectively, from the total issued volume of loans.

In 2007, the interest rates on loans issued to households in lats have increased rapidly, but the increase of interest rates on loans issued in euro was moderate. In the first 4 months of 2008, there was a decrease of short-term floating interest rates on loans issued to households in lats. The interest rates on loans issued in euro have stabilized after moderate increase during the last year.

Starting with the 2<sup>nd</sup> half of 2007, decrease of growth in monetary indicators has been observed. In accordance with the news on the crisis in the US real estate market, situation in the world financial markets, as well as in macroeconomic situation of Latvia and *Inflation Reduction Plan* adopted by the government in March 2007 has slowed down the rapid increase of monetary indicators, which has been observed in the previous years.

At the end of 2007, compared to the end of 2006, the volume of deposits of enterprises and private persons attracted from residents increased by 17%, while in 2004-2006 the volume of deposits increased on average by 30-40 percent annually. However, the volume of loans



## Budget and central government debt

**2007**

### General government budget (% of GDP):

|                                     |             |
|-------------------------------------|-------------|
| <b>Revenues:</b>                    | <b>38.5</b> |
| <b>of which taxes:</b>              | <b>29.3</b> |
| <b>Expenditures:</b>                | <b>37.9</b> |
| <b>of which capital investment:</b> | <b>4.8</b>  |

General government budget balance has tendency to improve. In 2003 there was a deficit of 1.6% of GDP in the general government budget, but as the financial situation gradually improved, in 2007 it was only 0.04% of GDP.

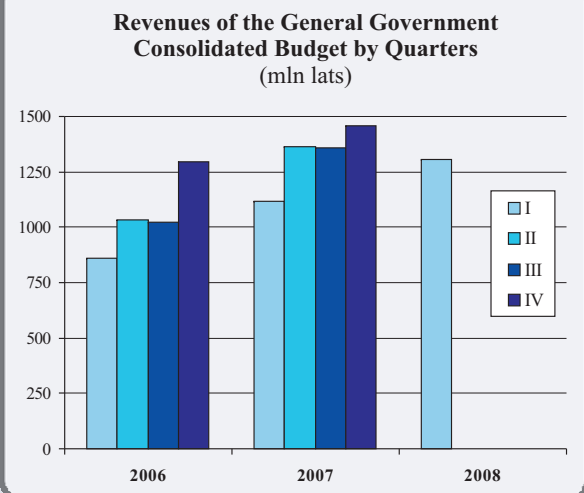
The Parliament has accepted budget for 2008 with a surplus of 163 million lats, which is 1% of GDP. In the further years budget with a surplus is foreseen as well: in 2009 – 1.2% of GDP and in 2010 – 1.5% of GDP.

The budget of 2008 is formed as austerity budget, which limits expenses by “freezing” increase of wages in the public sector and increase of staff units.

In 2008 it is planned to introduce new tool of the fiscal policy – long-term stabilization reserve in order to decrease risks of general economy, to ensure financing for the long-term investment and structural reforms, etc. It is foreseen that government general budget income is included in the reserve, which exceeds income planned in the annual budget law and privatization income.

In the 1<sup>st</sup> quarter of 2008 consolidated budget surplus was 114.3 million lats, i.e. 3.3% of GDP, which is by 2 percentage points less than in the 1<sup>st</sup> quarter of 2007. In the first 4 months of 2008 consolidated budget surplus was 152.7 million lats.

The level of the central government debt in Latvia is one of the lowest in the EU. At the end of 2007 it was 1350.0 million lats or 9.7% of GDP (1190.5 million lats or 10.7% of GDP at the end of 2006).



## Personal income

**2007**

**Average monthly net wage:**

**lats** 286  
**US dollars** 556

**Average monthly old-age pension (paid):**

**lats** 111  
**US dollars** 216

The average net monthly wage in 2007 was by 69 lats or 32% higher than in the preceding year. There was also a substantial rise (by 19.9%) of real wages despite the considerable increase of prices.

The overall increase of wages was to a great extent influenced by the high inflation level of the previous years, as well as by the increase of labour demand due to rapid economic growth.

Wages represent on average 68.8% of the household income and social benefits comprise approximately 23.6%. Minimum wage in 2007 was 120 lats.

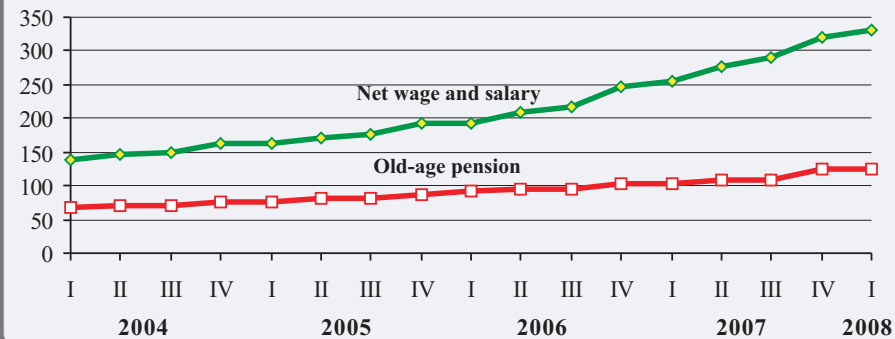
Old-age pensions in December 2007 on average were 124 lats, i.e., by 21 lats more compared to December 2006.

On January 1, 2008 the minimum monthly wage was raised to 160 lats and the minimum monthly untaxable income of the population to

80 lats, as well as the monthly allowance for a dependent person increased to 56 lats.

In the 1<sup>st</sup> quarter of 2008, compared to the same period of the previous year, the average monthly net wage increased from 255 lats to 330 lats. The largest wage increase was observed in financial intermediation, public administration, transport, storage and communications, real estate and other commercial services, as well as in education.

**Wages and Salaries and Old-Age Pensions**  
(average per month, lats)



## Employment and unemployment<sup>1</sup>

**2007**

**Employment rate (aged 15-64)** 68.4%

**Unemployment rate (rate of unemployed, aged 15-74):** 6.0%

Rapid economic development in recent years in Latvia has positively influenced the situation on the labour market – employment has increased, unemployment has decreased and economically active population has grown. During the last three years (2005-2007), the number of employed on average increased by 2.9% annually, but unemployment level has decreased from 10.4% in 2004 to 6% in 2007.

In the last three years (2005-2007) employment level in Latvia has increased by 6.1 percentage points and in 2007 it comprised 68.4%. In 2004 employment level in Latvia was by 0.6 percentage points lower than in the EU on average, but in 2006 it exceeded the average EU level by 1.8 percentage points.

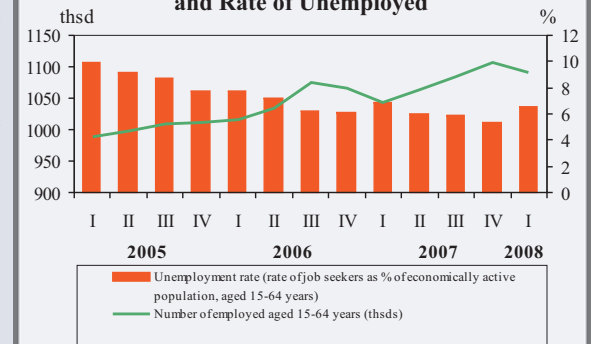
In 2007 the number of employed increased by 2.7%. Major increase of employed was in construction (by 20%) and in real estate (by 12%). However, in such sectors as manufacturing, financial intermediation, agriculture, education, as well as public administration the number of employed decreased.

In the 1<sup>st</sup> quarter of 2008, compared to the 1<sup>st</sup> quarter of 2007, the number of employed has increased. The number of employed has decreased in agriculture, hotels, restaurants and transport. However, the number of employed has increased in construction, real estate, health and social care, as well as in public utilities, social and individual services.

However, the unemployment level has decreased to 6.5%, compared to the 1<sup>st</sup> quarter of 2007 (6.9%).

<sup>1</sup> In the analysis of employment and labour market, indicators for employment are given for persons aged 15-64, but for unemployment - for persons aged 15-74, which corresponds to the EU practice.

**Number of Employed Persons and Rate of Unemployed**





## Baltic States

### Main socio-economic indicators of the Baltic States

|   | Estonia | Latvia | Lithuania |
|---|---------|--------|-----------|
| Territory, thousand km <sup>2</sup>   | 45.2    | 64.6   | 65.3      |
| Population<br>as of January 1, 2008, thousand   | 1340.9  | 2270.9 | 3366.4    |
| Gross domestic product changes, % over the corresponding period of the previous year                  |         |        |           |
| 2007  | 7.1     | 10.3   | 8.8       |
| 2008: 1 <sup>st</sup> quarter   | 1.0     | 3.3    | 6.8       |
| Industrial output changes, % over the corresponding period of the previous year                       |         |        |           |
| 2007  | -0.2*   | 0.9*   | 5.5*      |
| 2008: 1 <sup>st</sup> quarter   | -0.2*   | -3.2*  | 7.3*      |
| Unemployment rate (share of job-seekers<br>in % of economically active population aged 15-74 years)** |         |        |           |
| 2007  | 4.7     | 6.0    | 4.3       |
| 2008: 1 <sup>st</sup> quarter   | 4.1     | 6.5    | 4.9       |
| Consumer price changes, % over the corresponding period of the previous year                          |         |        |           |
| 2007  | 6.6     | 10.1   | 5.7       |
| 2008: 1 <sup>st</sup> quarter   | 11.1    | 16.4   | 10.6      |
| Producer price changes, % over the corresponding period of the previous year                          |         |        |           |
| 2007  | 8.3     | 16.1   | 7.0       |
| 2008: 1 <sup>st</sup> quarter   | 6.0     | 10.9   | 21.7      |

\* Short-term data.

\*\* Eurostat data: <http://epp.eurostat.ec.europa.eu>