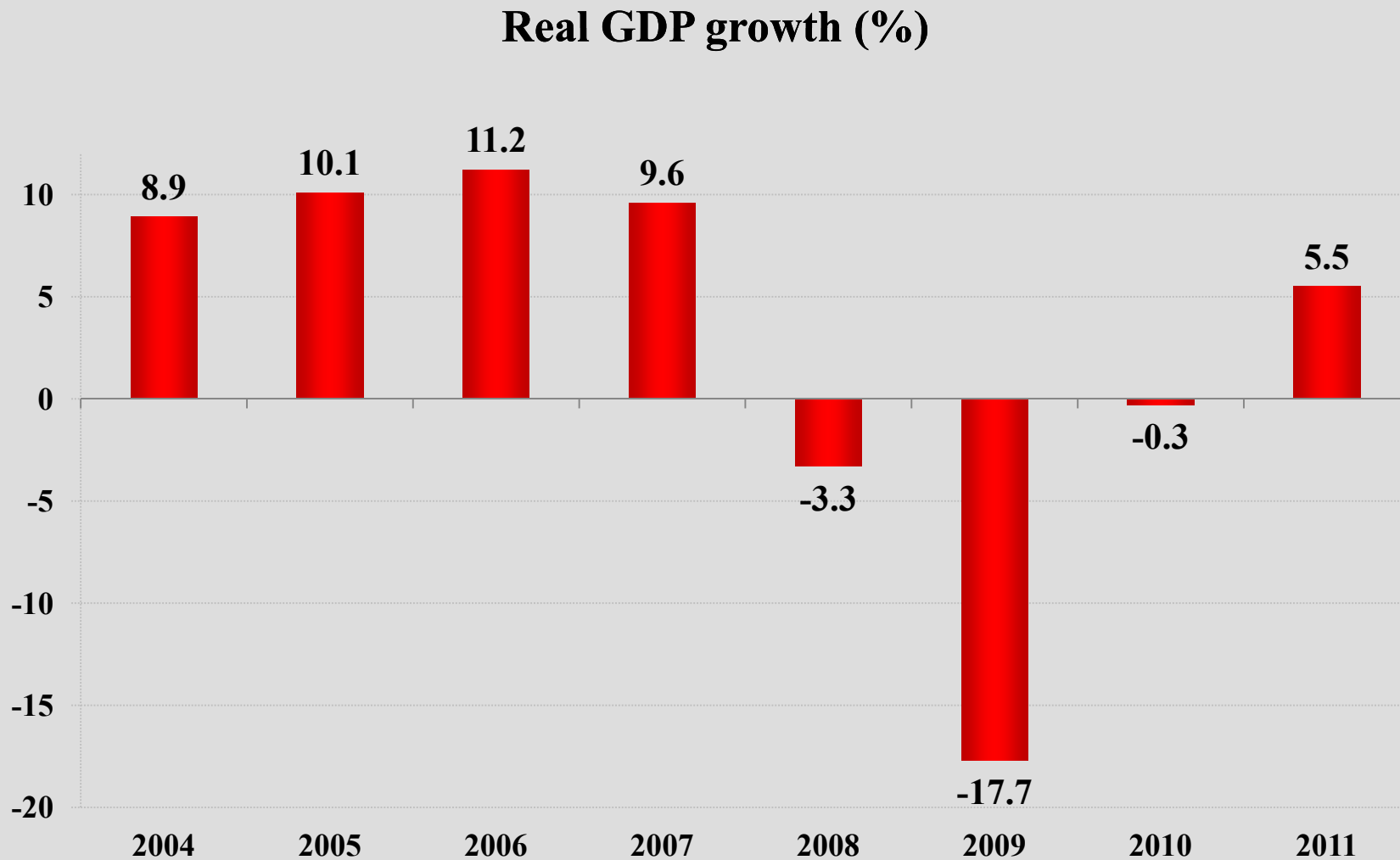


Recent Economic Developments in Latvia and Outlook

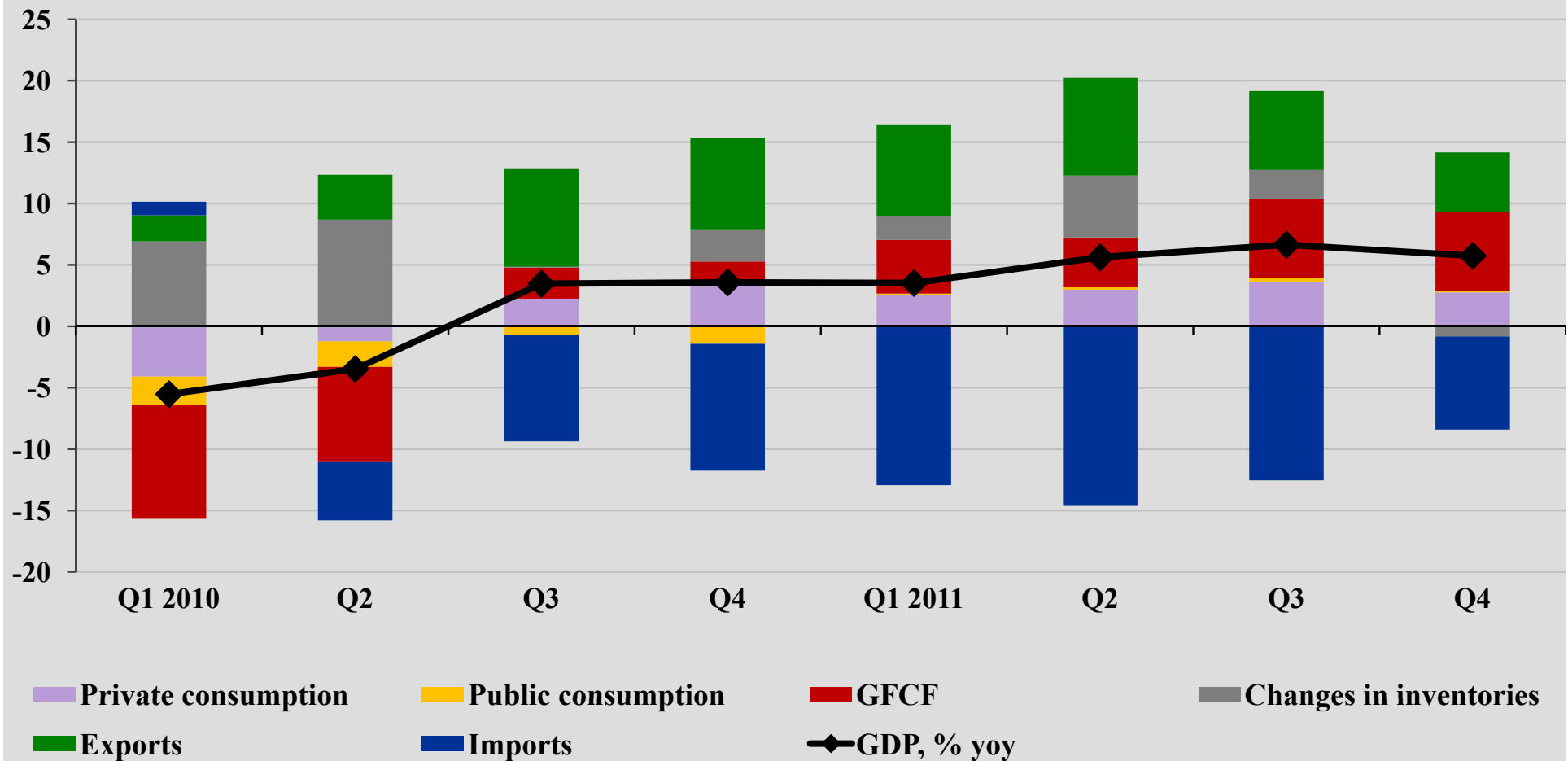
March, 2012

So far economy has recovered swiftly



GDP growth, initially was led by exports; broadened to investment

Real GDP growth (y-o-y, %) and contribution to the growth (percentage points)

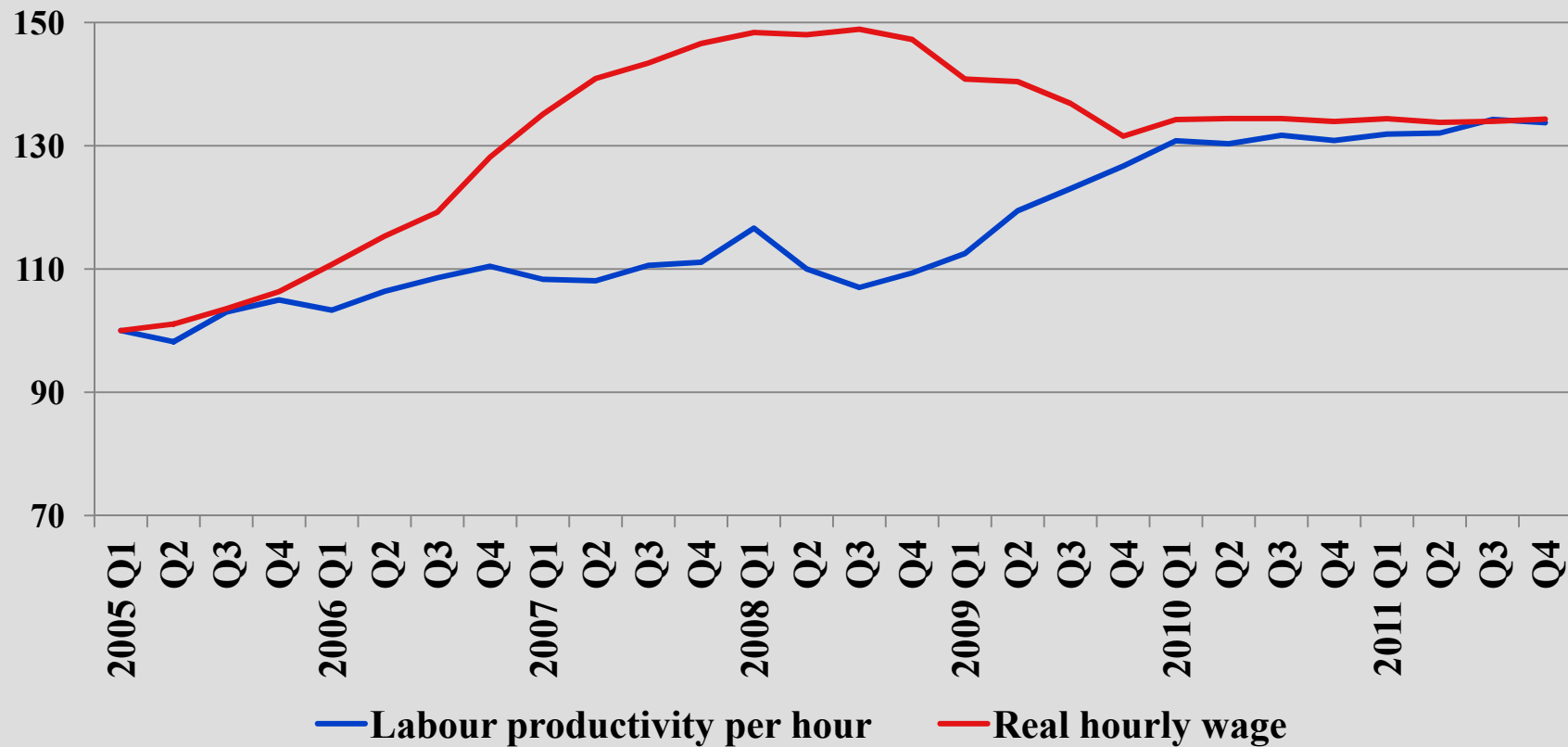


Source: Central Statistical Bureau of Latvia

Wage-productivity gap has been closed

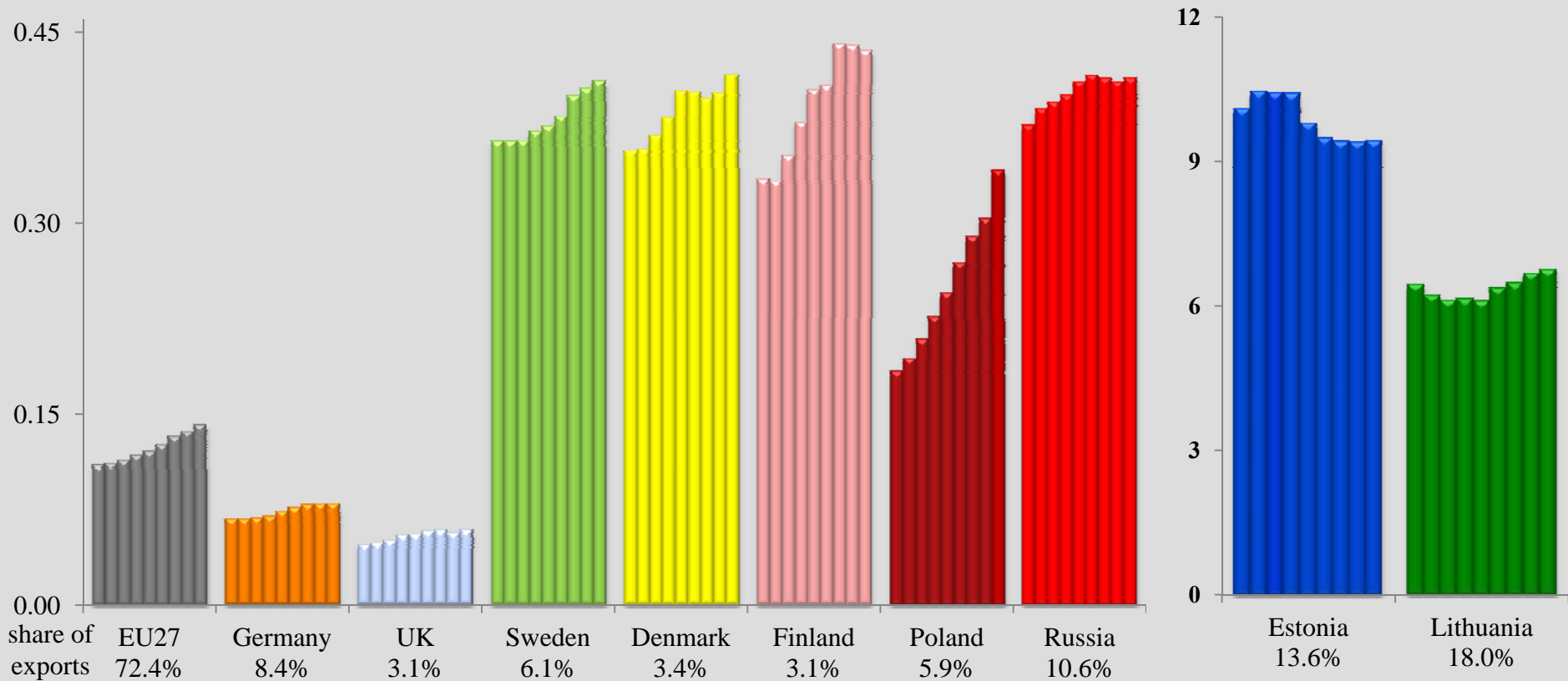
Real wage and productivity index

(whole economy, seasonally adjusted, per hour worked, 2005 Q1 = 100)



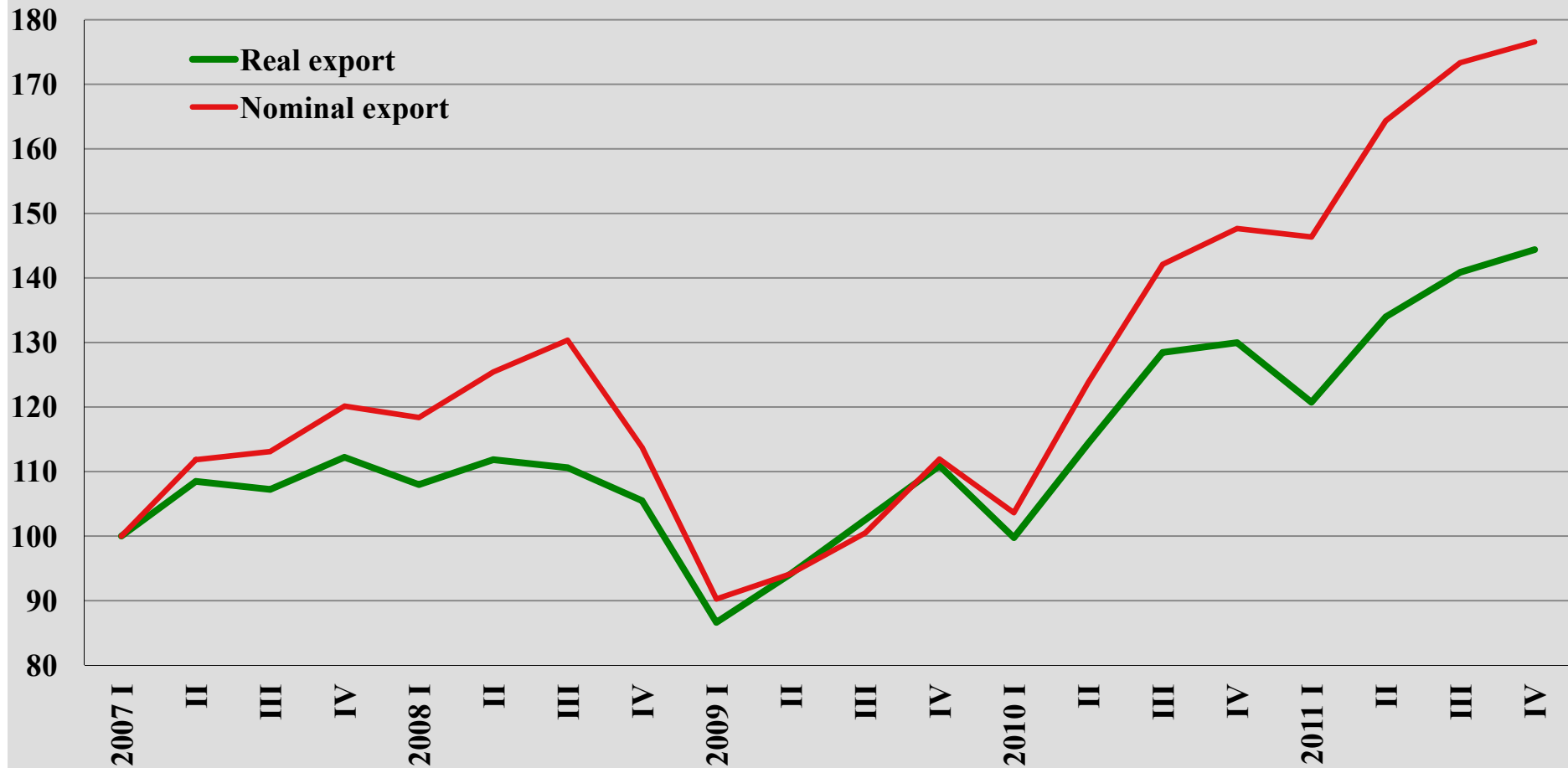
Latvia's export market shares are up in most of our key markets reflecting gains in competitiveness

Share of Latvian exports in particular country's imports, % (4q-moving average), 2009 Q4–2011 Q4



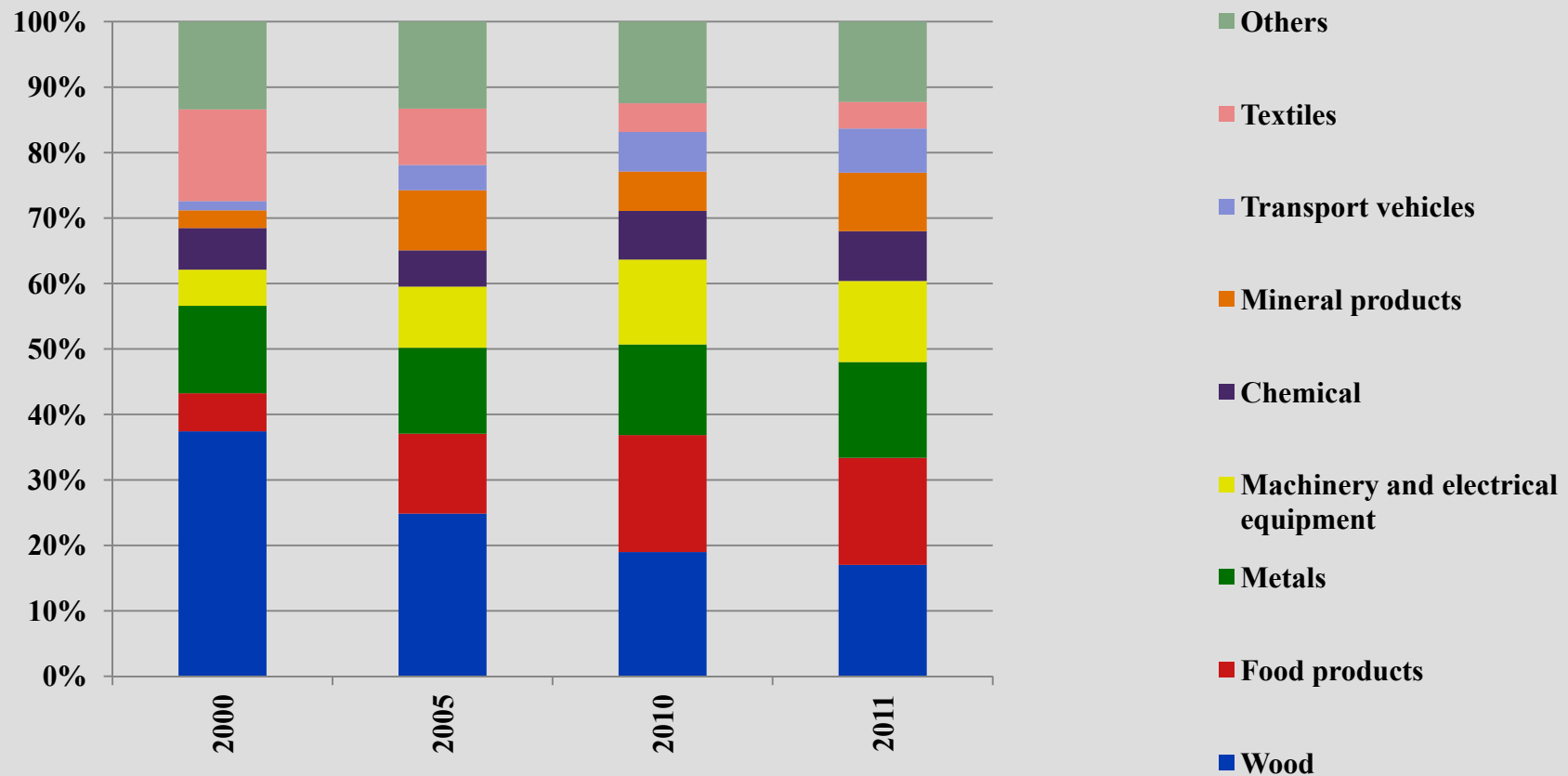
Merchandise export growth remains robust both in nominal and real terms

Merchandise export (Q1 2007 = 100)



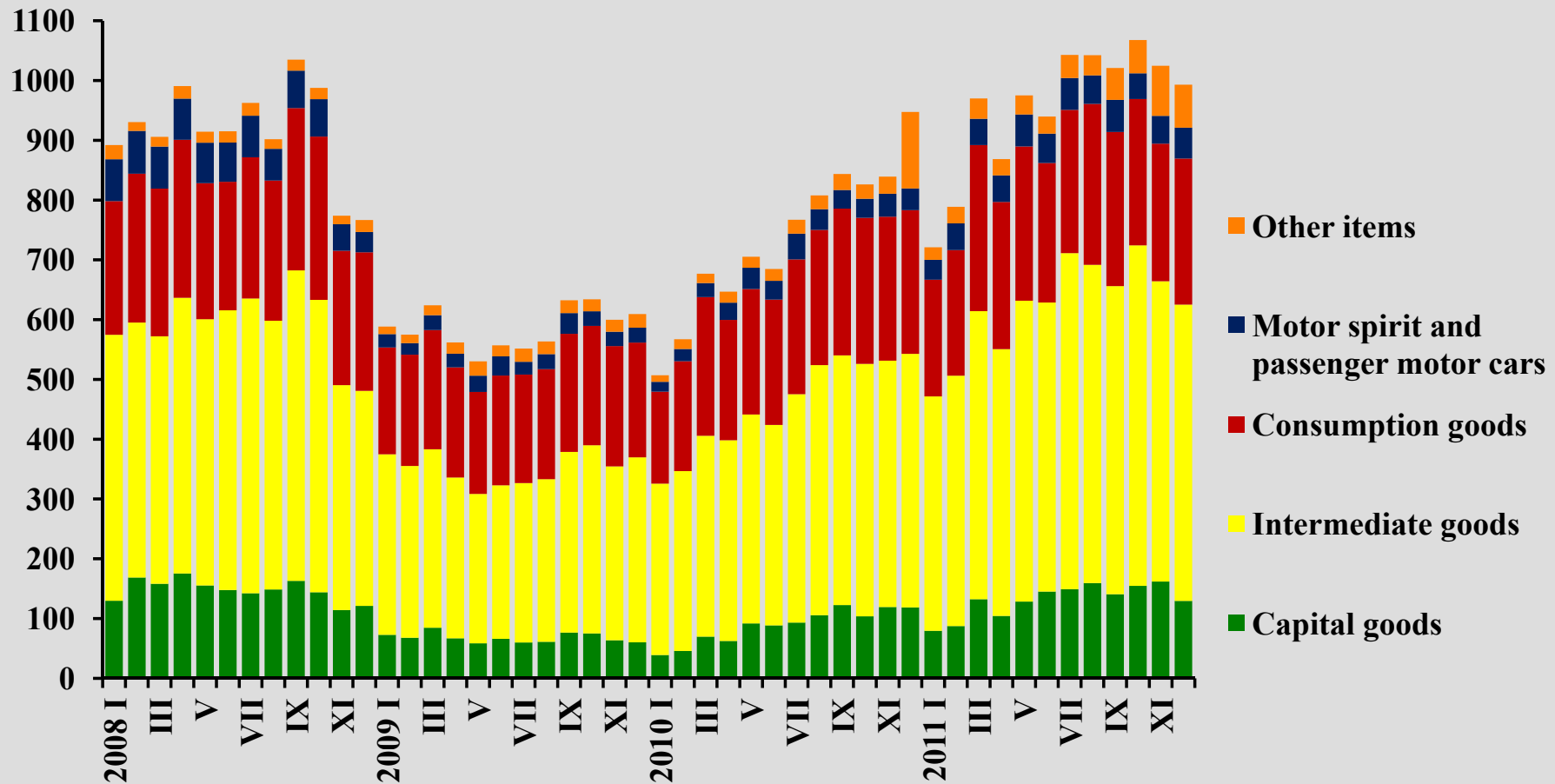
Latvia's export profile: a significant diversification

Structure of merchandise exports (%)



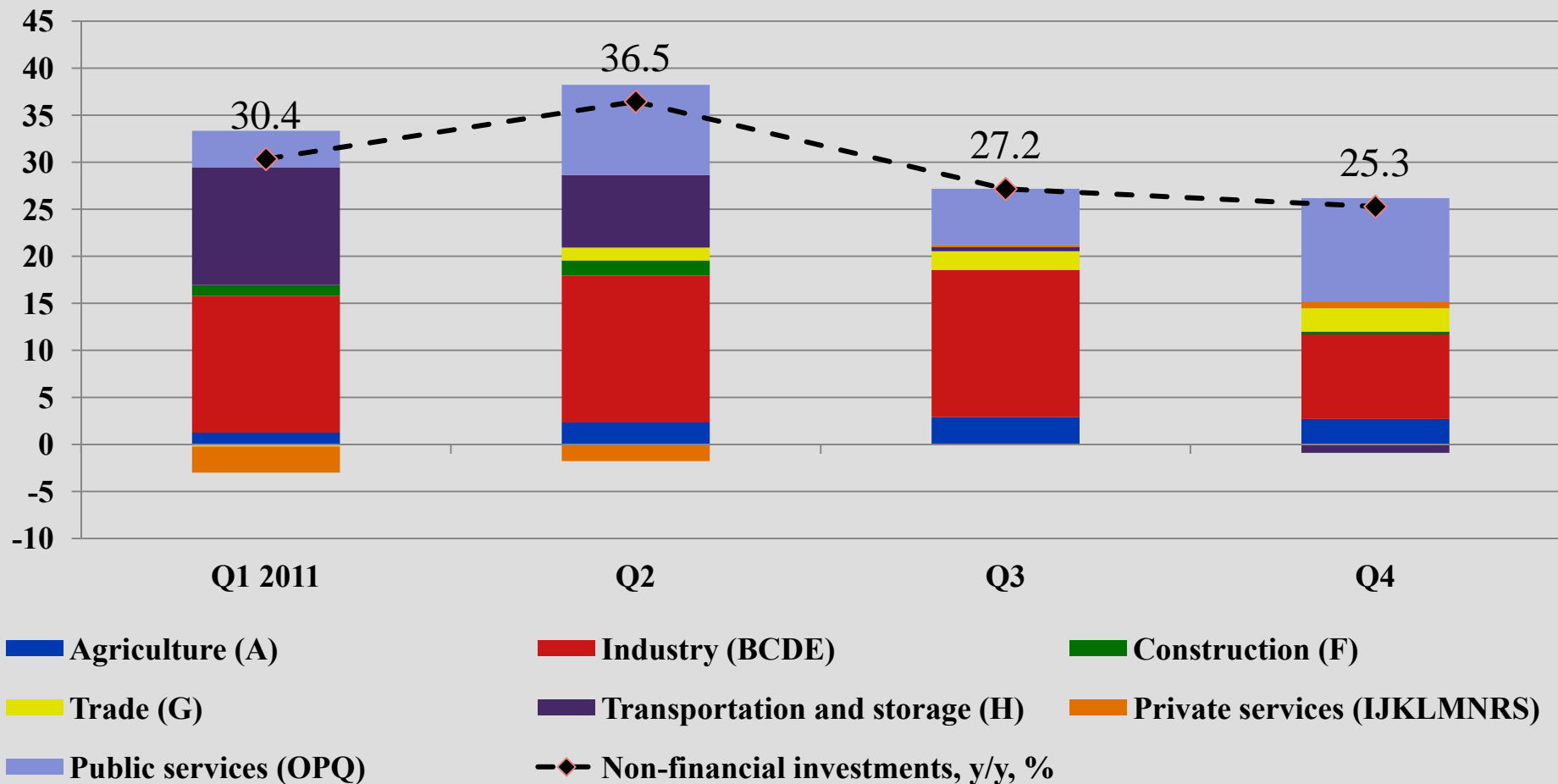
Intermediate goods dominate in the import structure and drive import growth

Import by BEC product group (million EUR)



Investment in productive sectors like industry and transport accounted for a half of non-financial investment

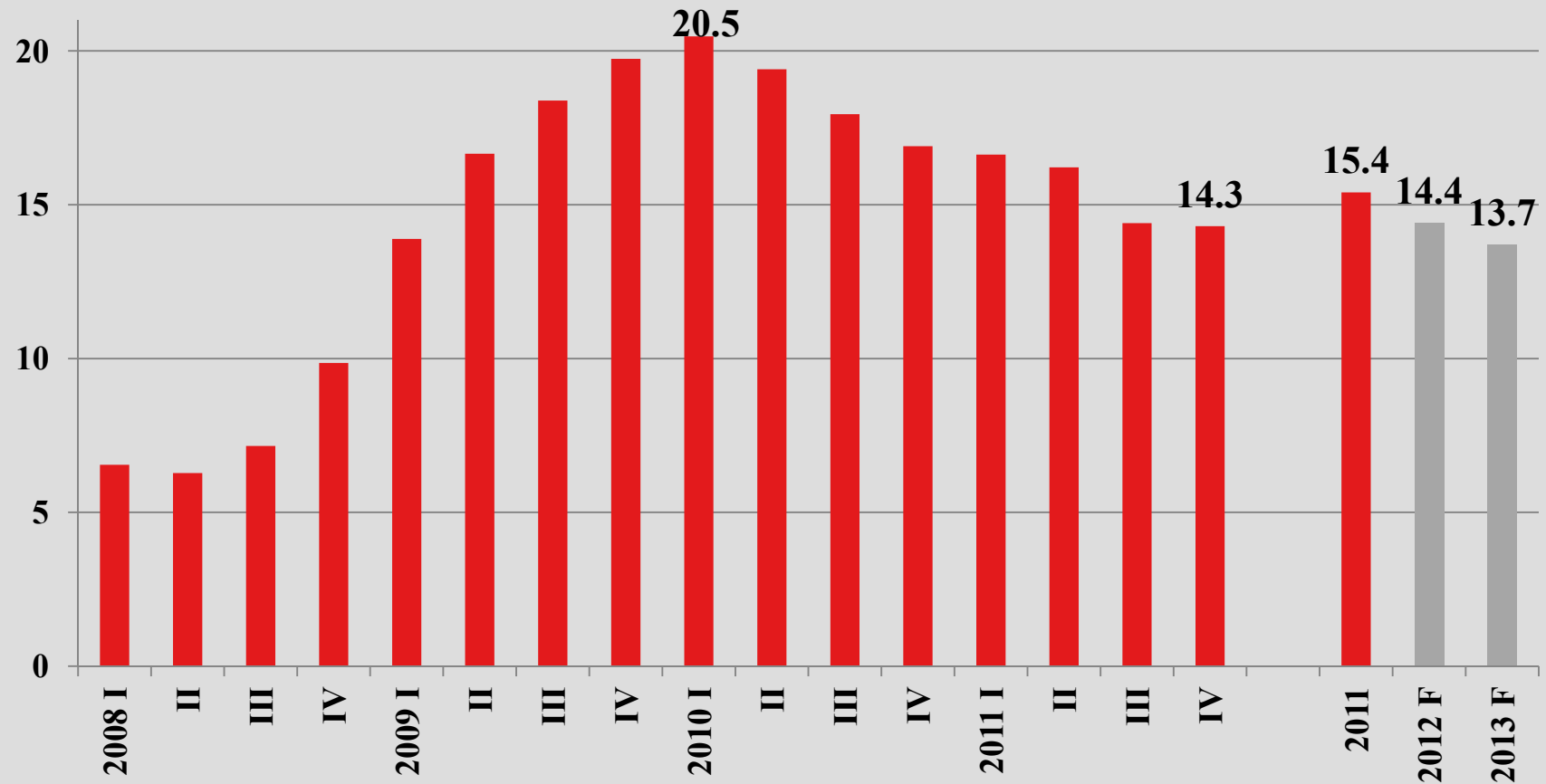
Non-financial investment growth (y-o-y; %) and sector contribution to the growth (percentage points)



Source: Central Statistical Bureau of Latvia

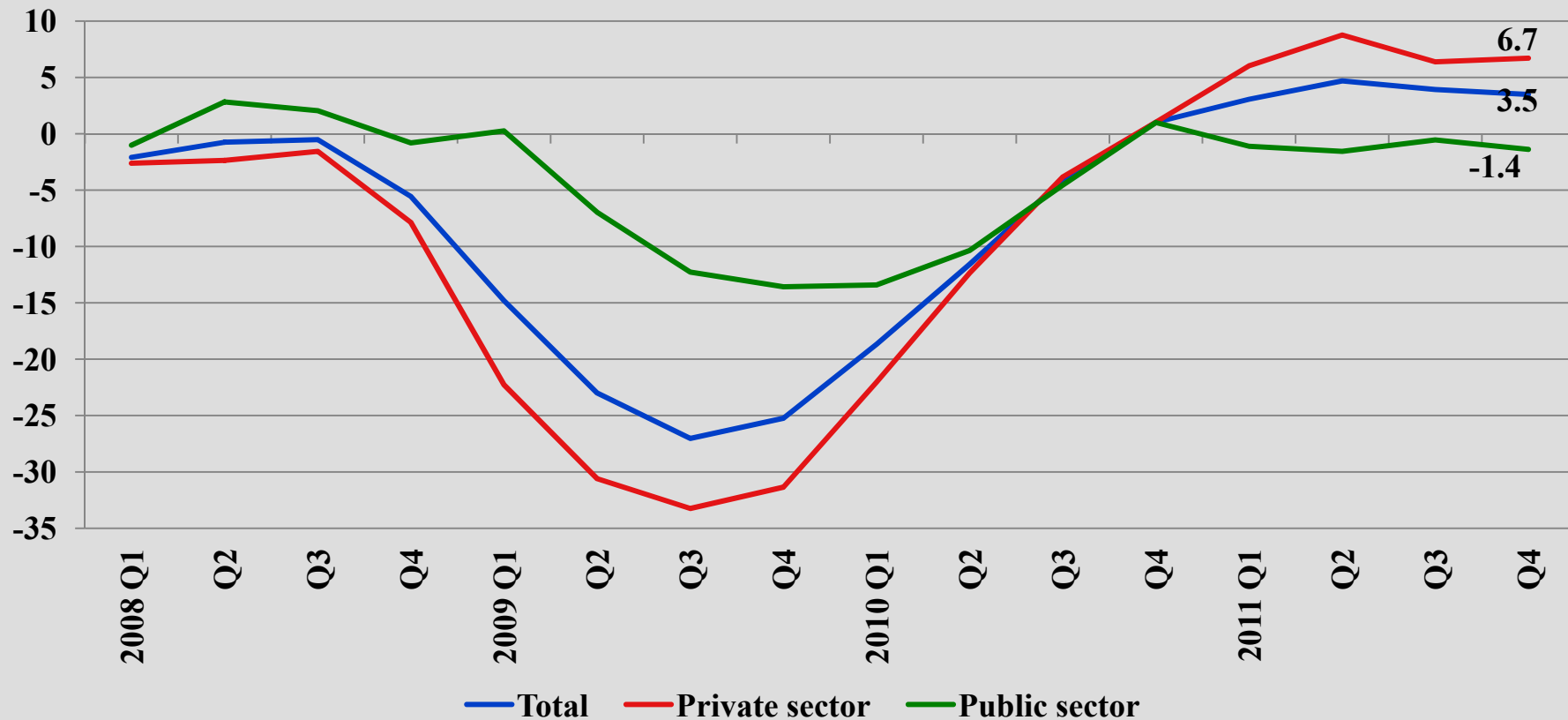
Unemployment rate continue to decline

Unemployment rate (% of economically active population)



Employment increased in the private sector (manufacturing)

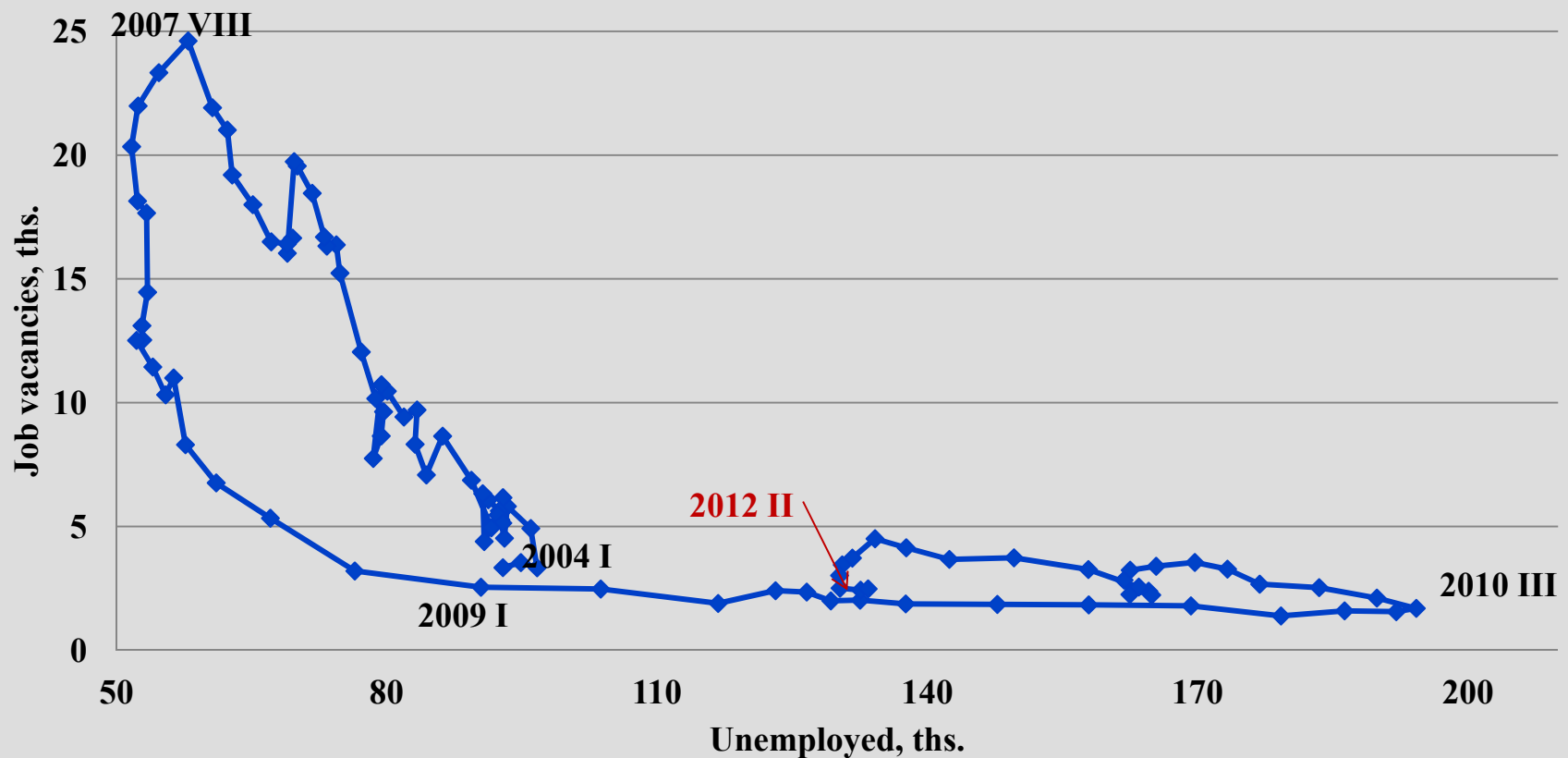
Hours worked by institutional sectors (y-o-y, %)



Source: Central Statistical Bureau of Latvia (firms' survey data)

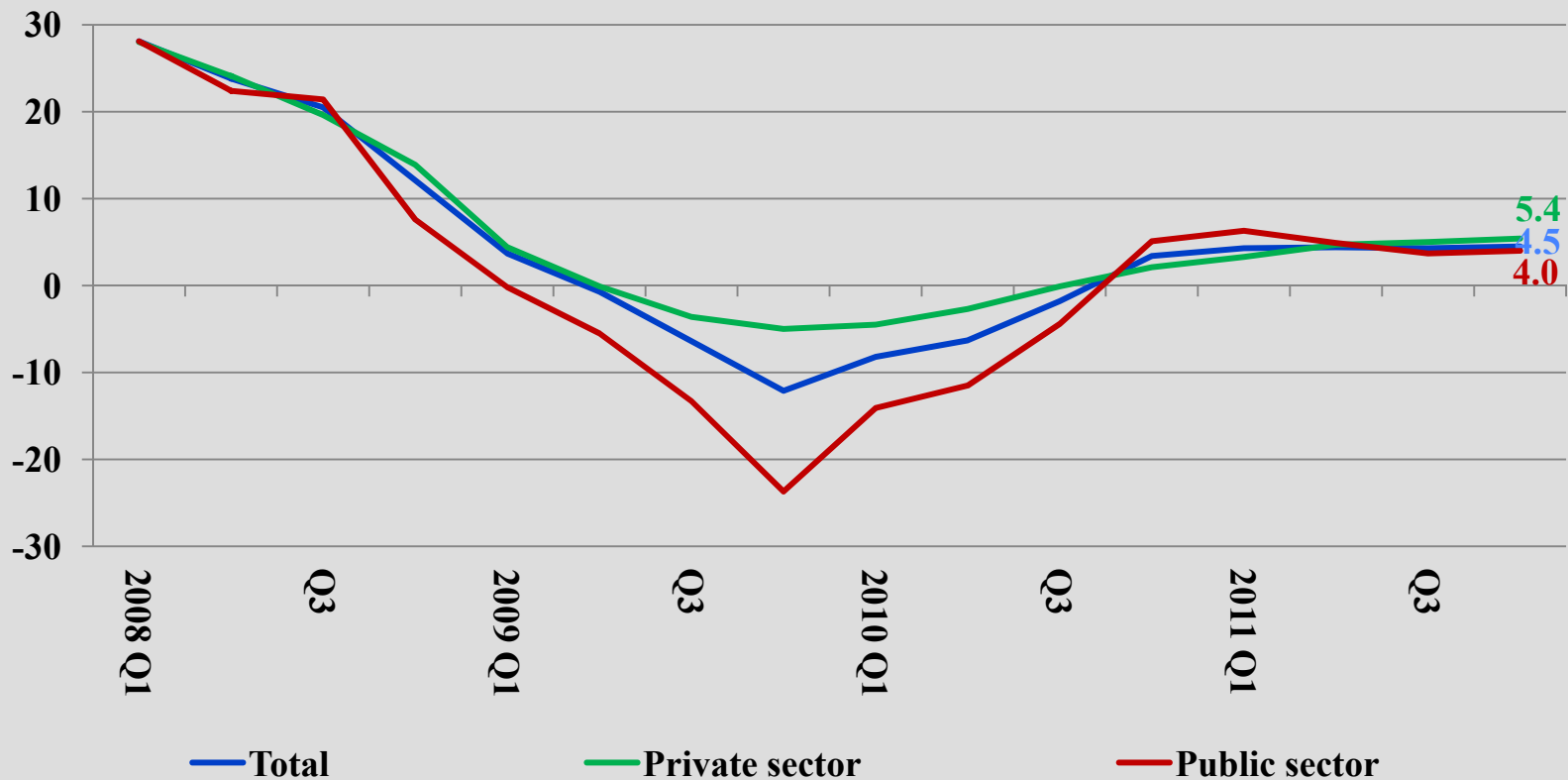
Number of job vacancies low; no evidence of country-wide labour shortage

Beveridge curve: unemployed and job vacancies registered in the SEA



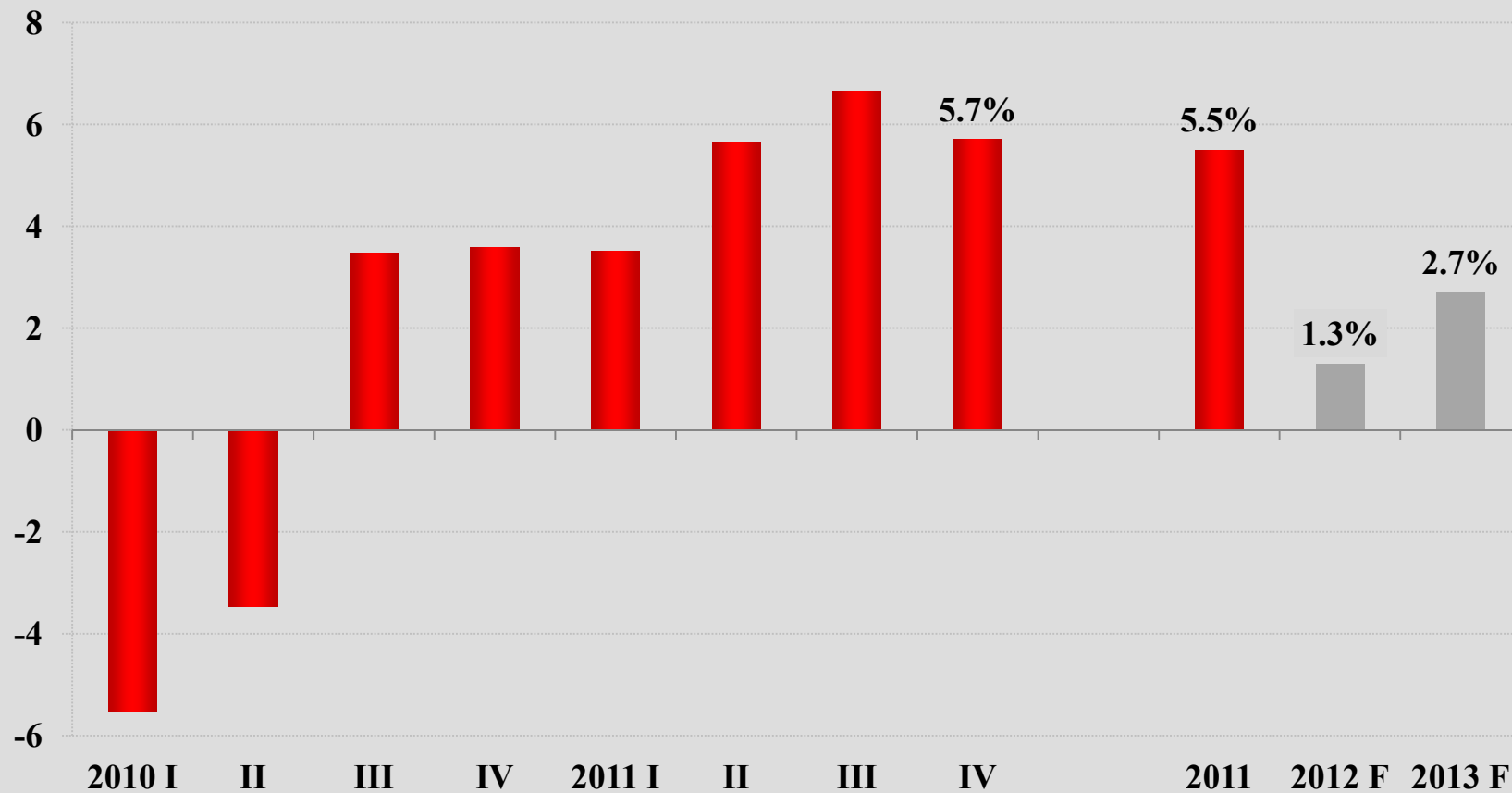
While wage growth resumed in all sectors, it remains stable and no major risks for wage acceleration so far

Average gross nominal wage (for full-time work) by institutional breakdown (y-o-y changes, %)



In 2012, slowdown in economic activity is expected due to weakening in external demand

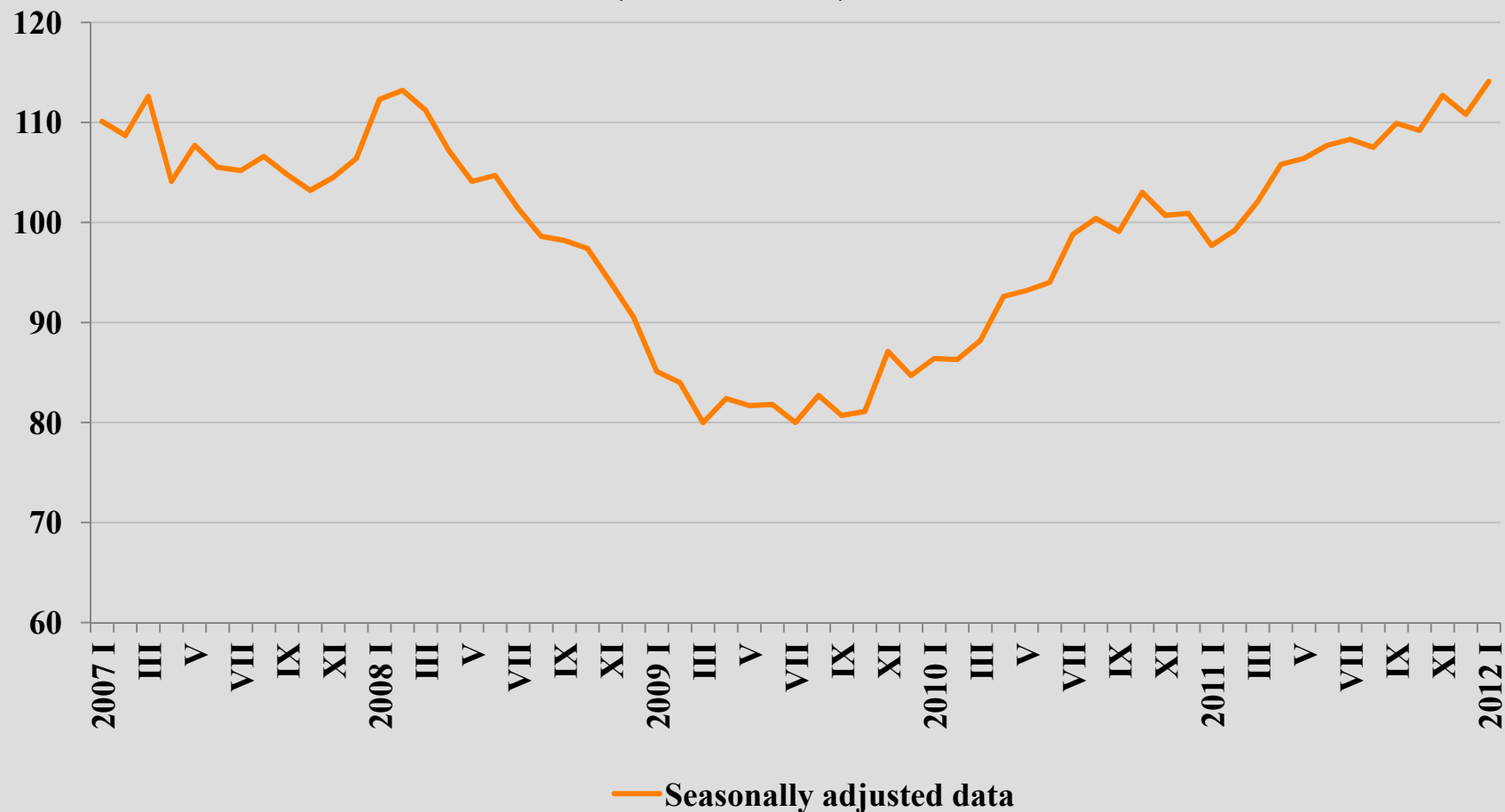
Real GDP growth (%)



Source: Central Statistical Bureau of Latvia data; F – Bank of Latvia forecast

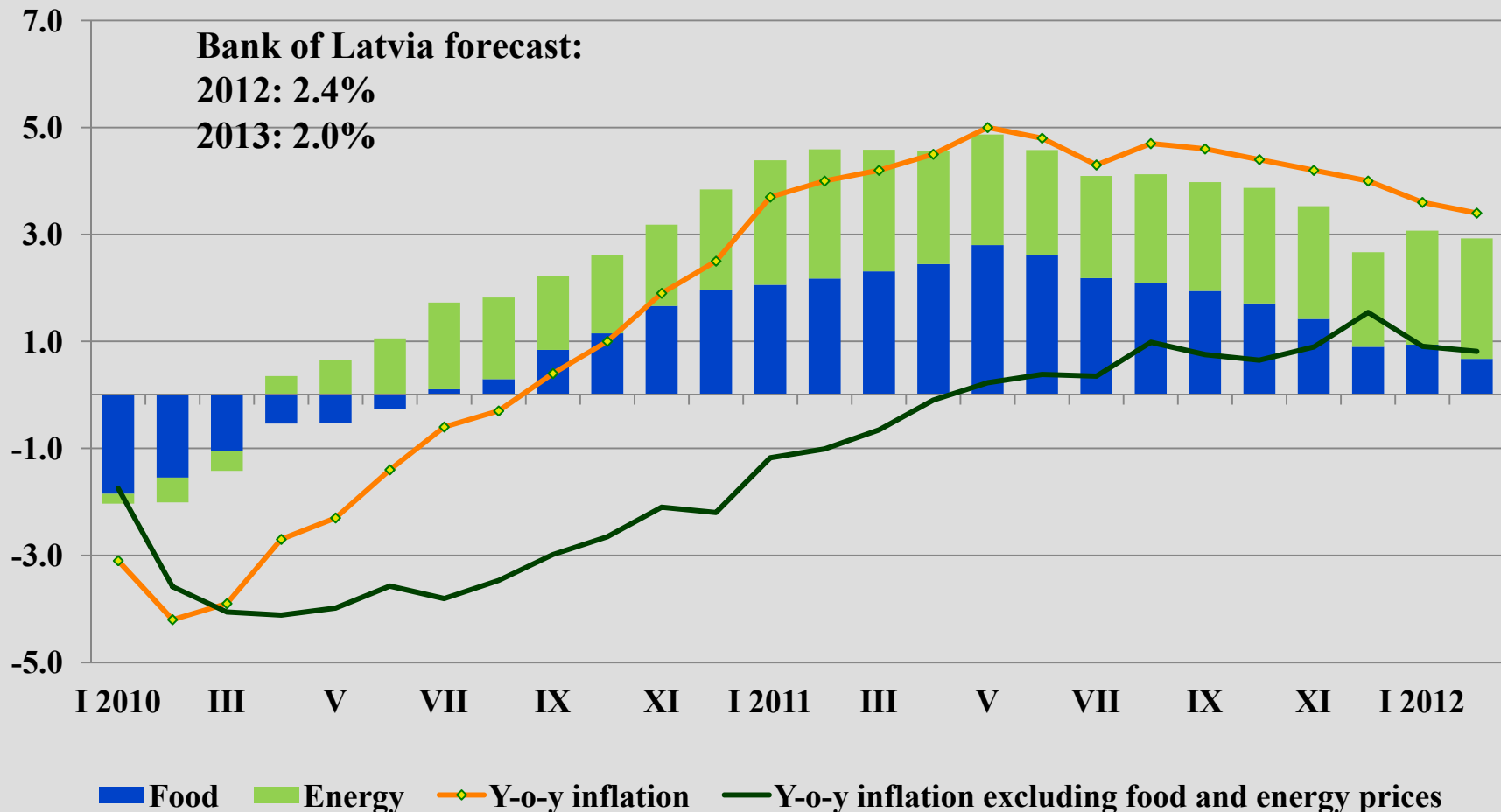
Despite unfavorable external conditions, manufacturing growth doesn't show signs of weakening

**Manufacturing volume index
(2005 = 100)**



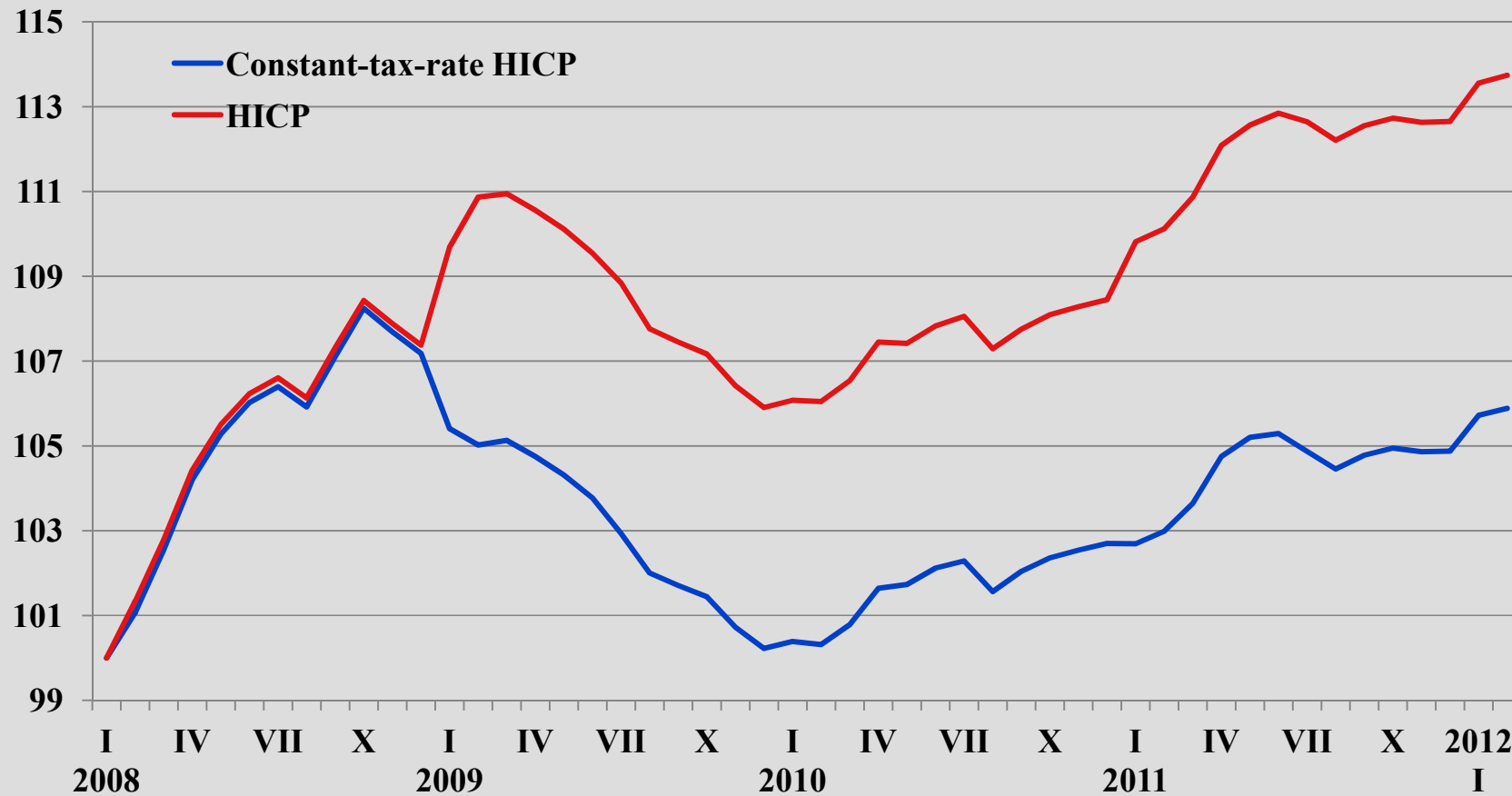
The global commodity prices tend to contribute less to the y-o-y inflation than in 2011 on average

Impact of food and energy prices on total inflation (pp) and the y-o-y inflation rate (%)



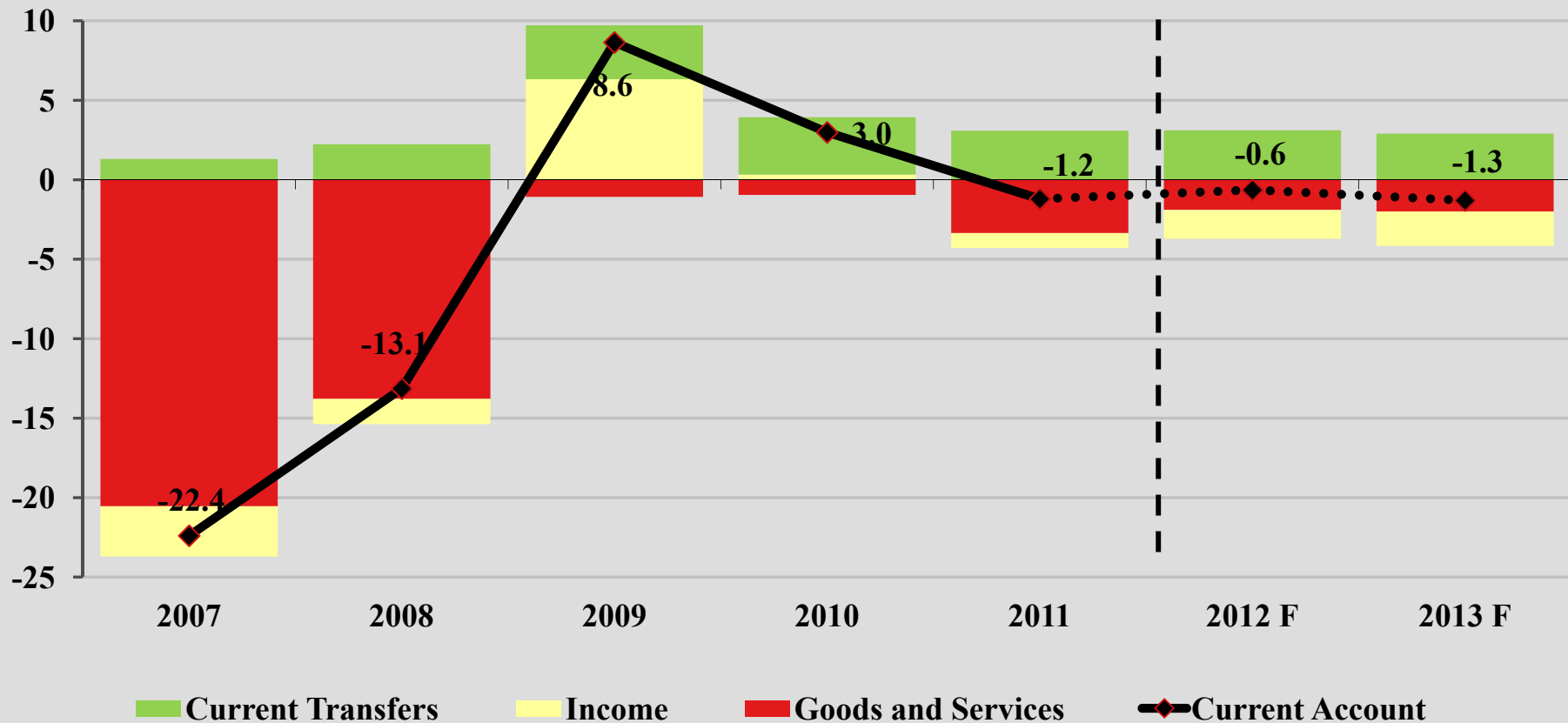
Indirect tax changes contributed notably to inflation in the recent years; no indirect tax increases this year

The impact of changes in tax rates on HICP (I 2008=100)



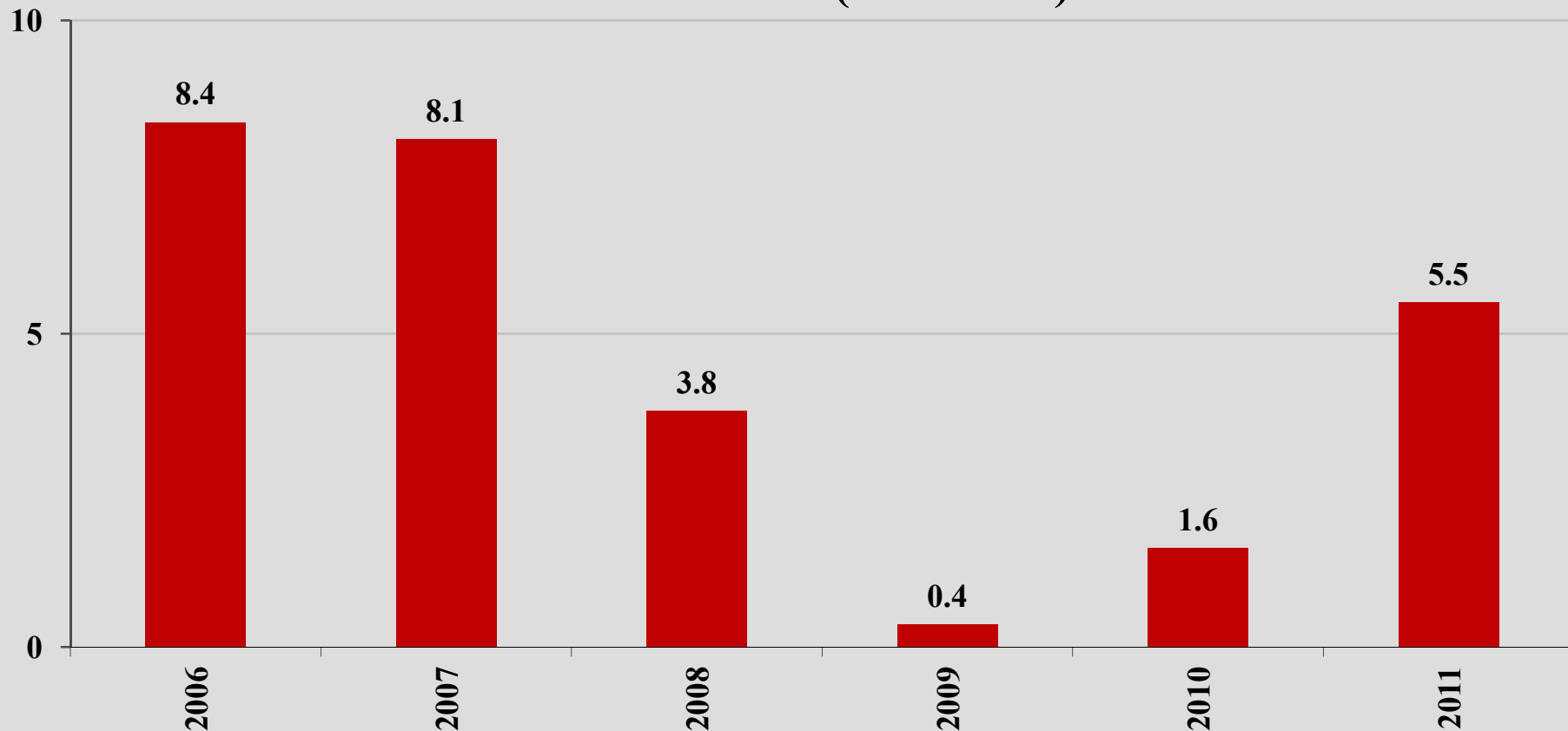
External imbalances have seen a significant improvement resulting in a sustainable level of CA and its components

Current account main positions (% of GDP)



With the economic environment stabilizing, Latvia has been able to attract considerably more net FDI in 2011 than in previous year

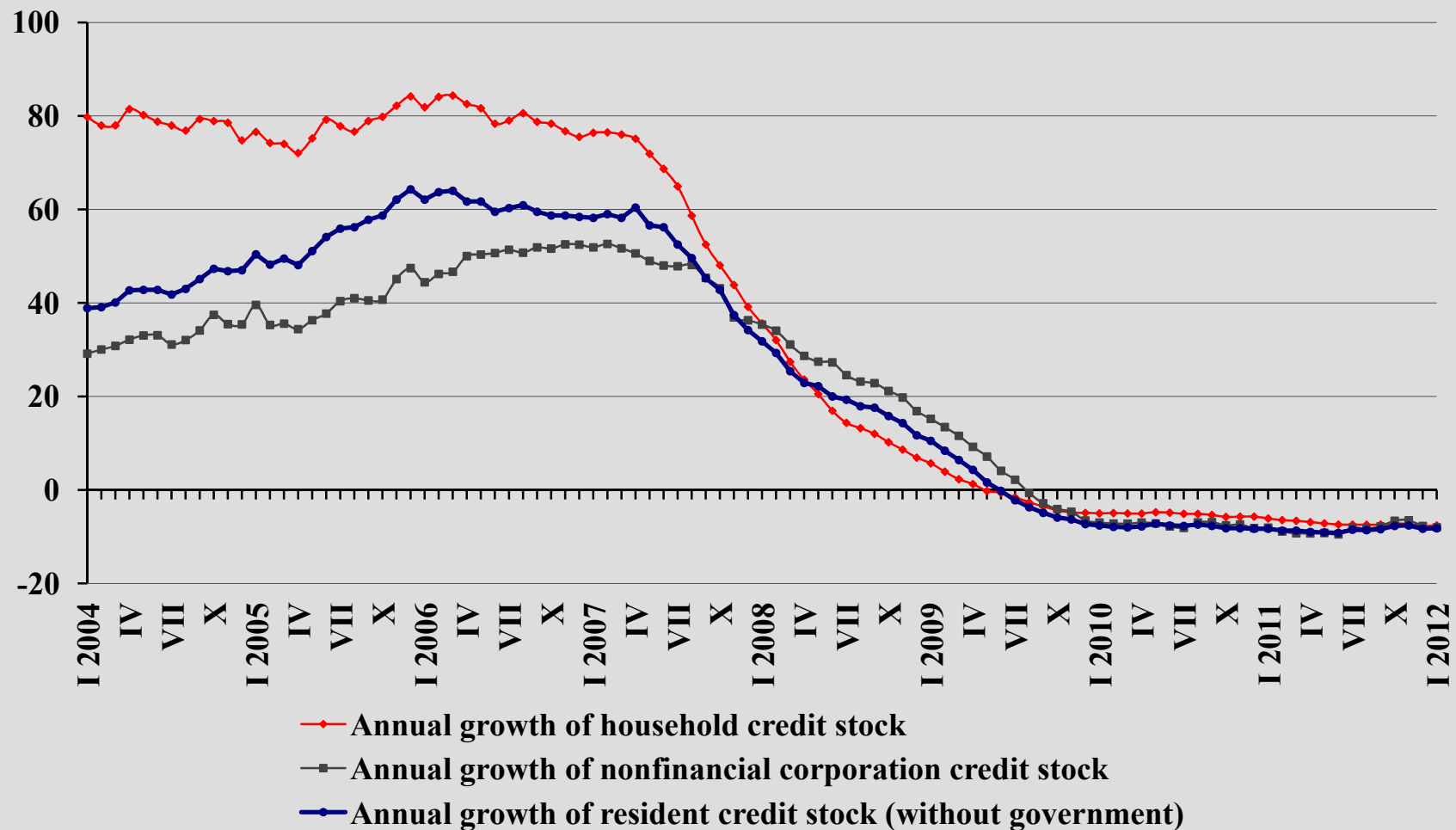
Net FDI inflows (% of GDP)



Monetary and Financial Market Developments

Both tight lending standards and low demand for loans determined credit decline

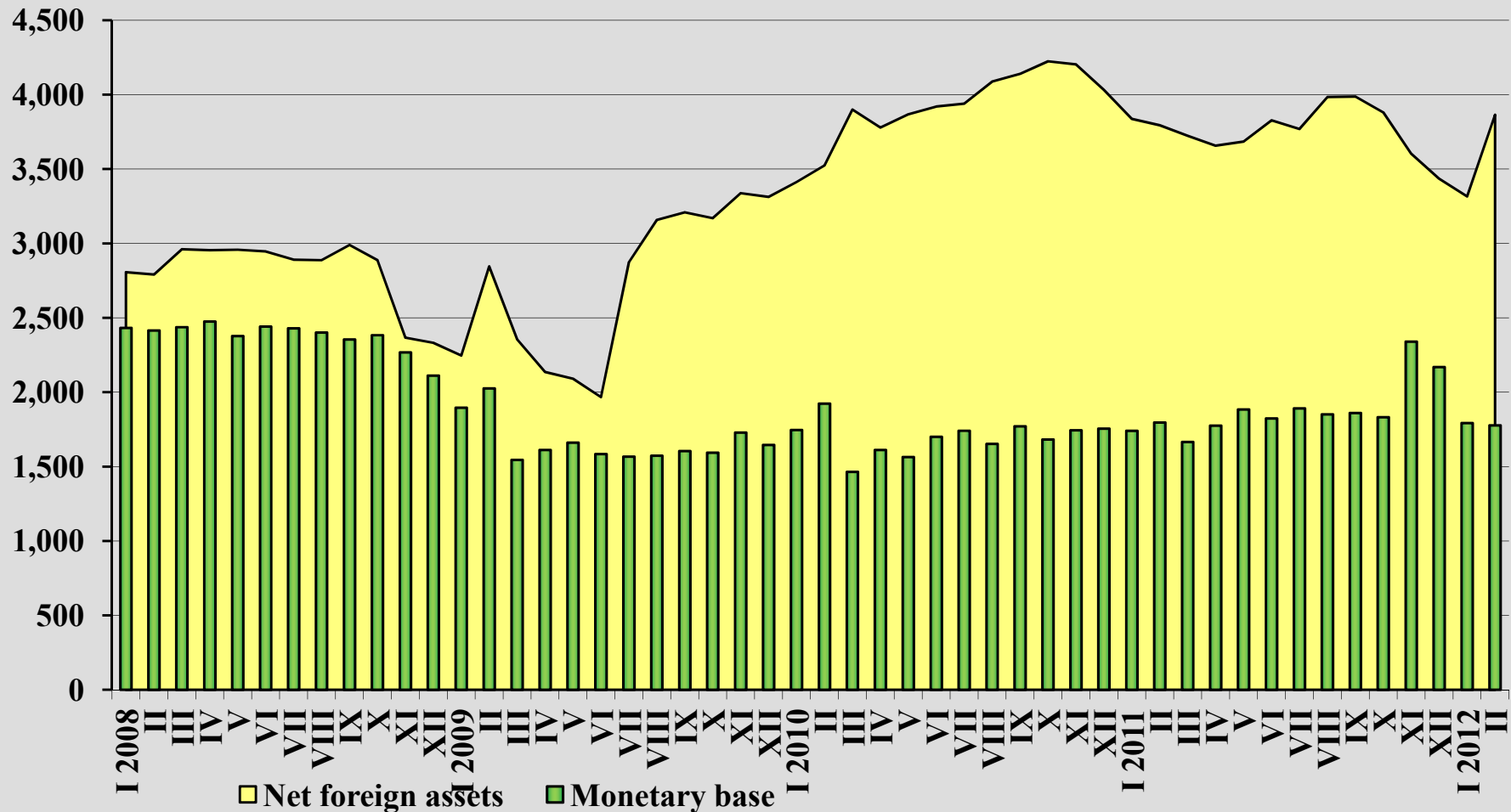
Credit to private sector (y-o-y, %)



Source: Bank of Latvia

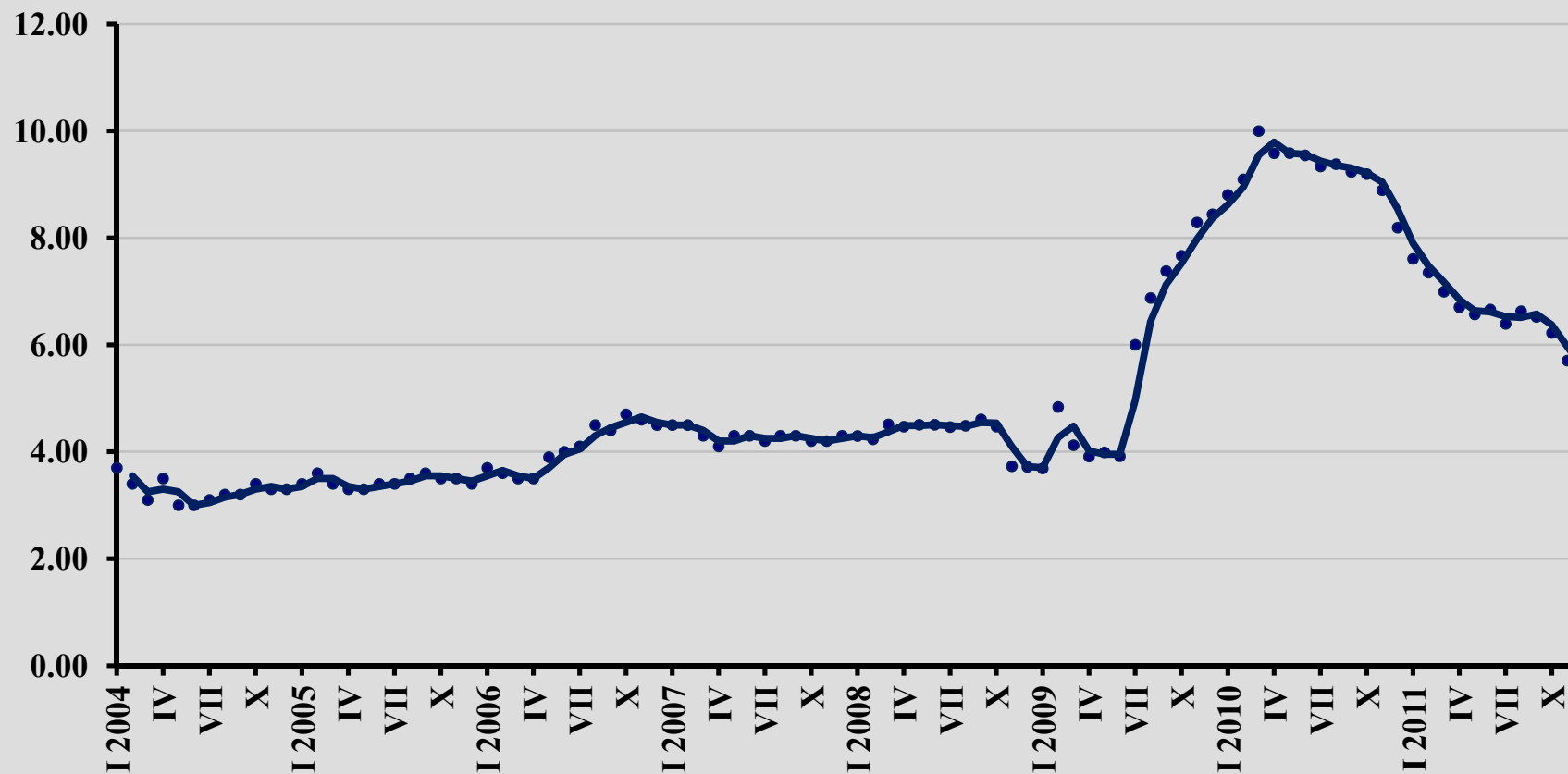
The backing of the monetary base with foreign reserves is high

Net foreign assets and Monetary base (mln lats)



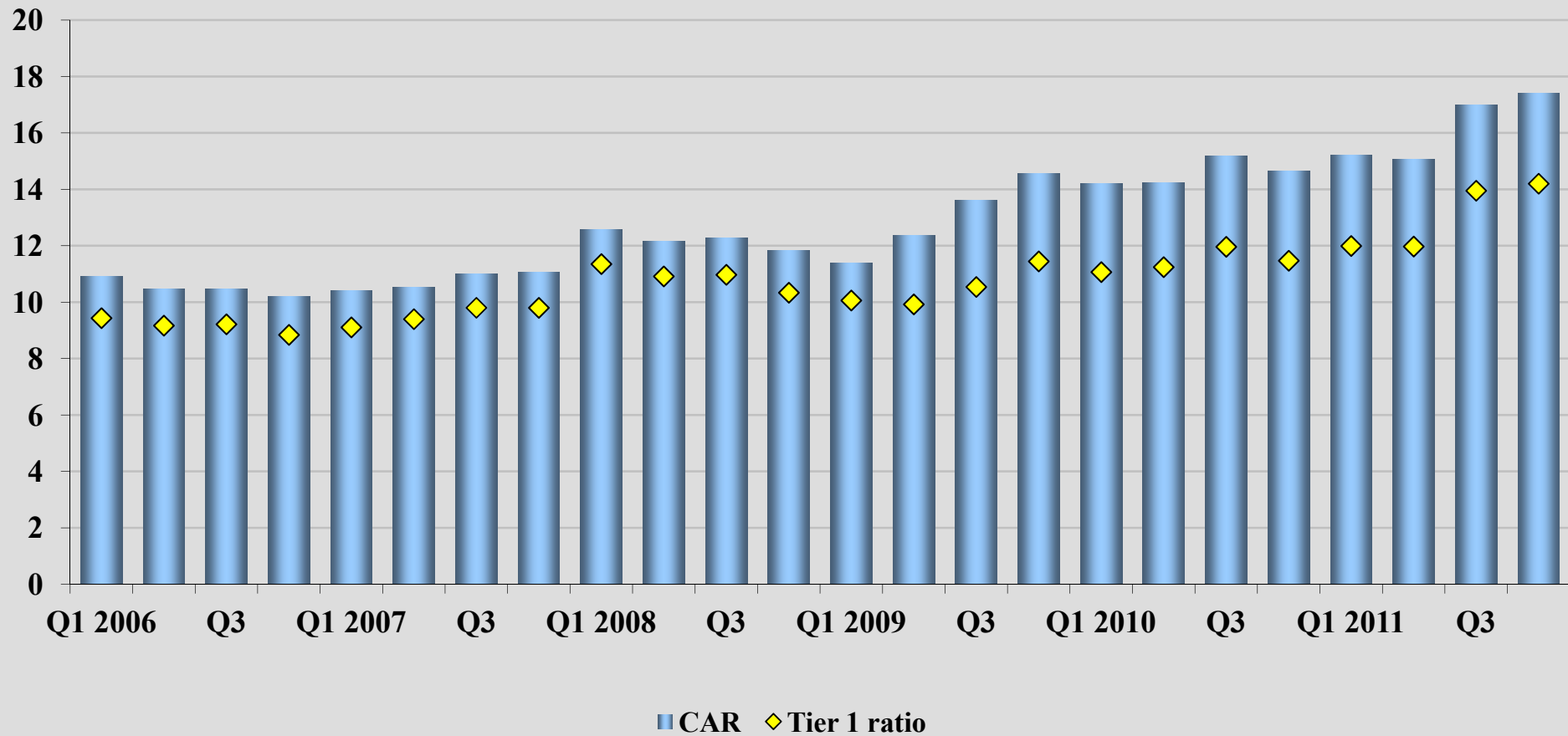
Foreign exchange resources are adequate to meet 5.4 months of import

Ratio of the net foreign assets of the Bank of Latvia in the months of imports of goods



Sector capital adequacy ratios at historically highest levels

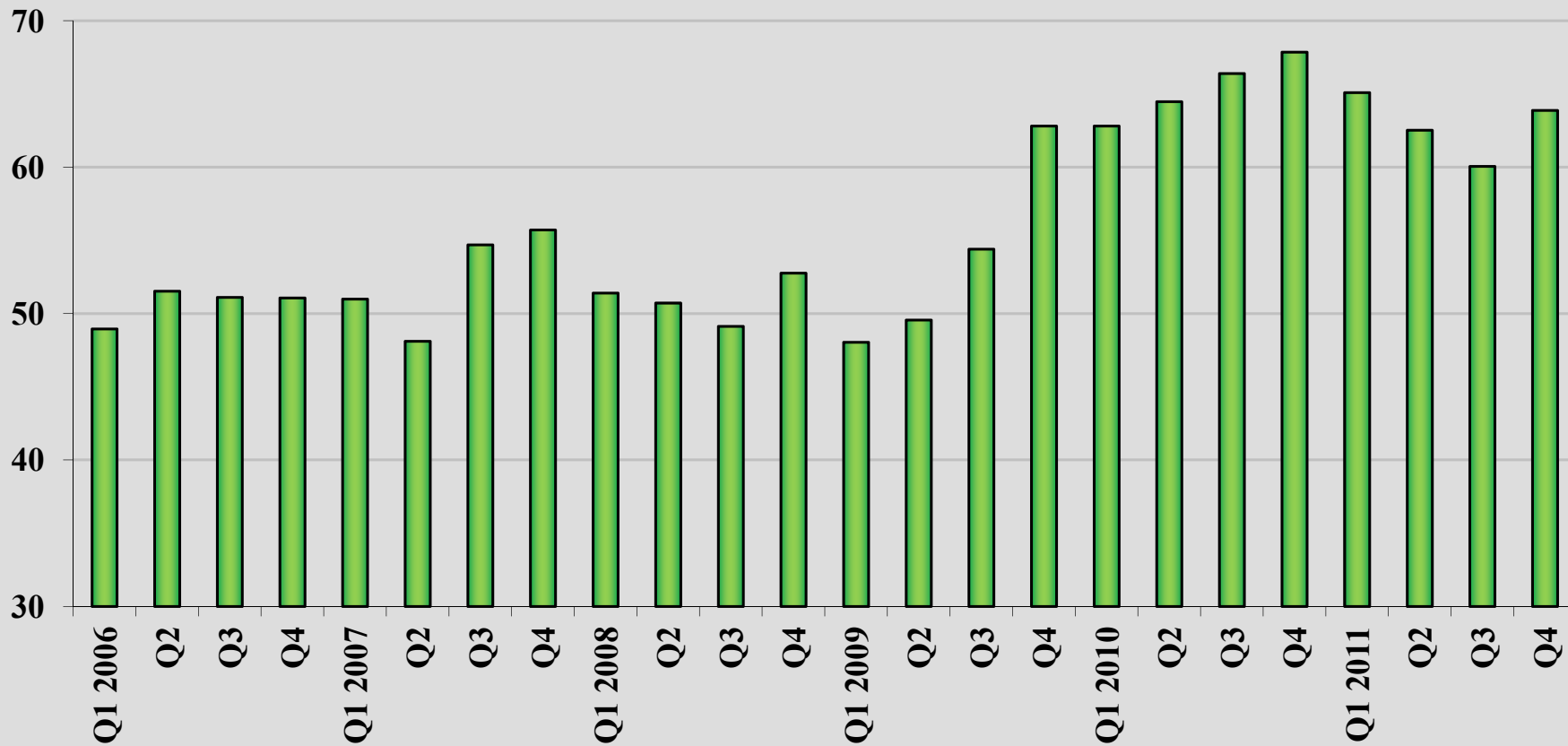
Capital adequacy ratios (%)



Source: Financial and Capital Market Commission

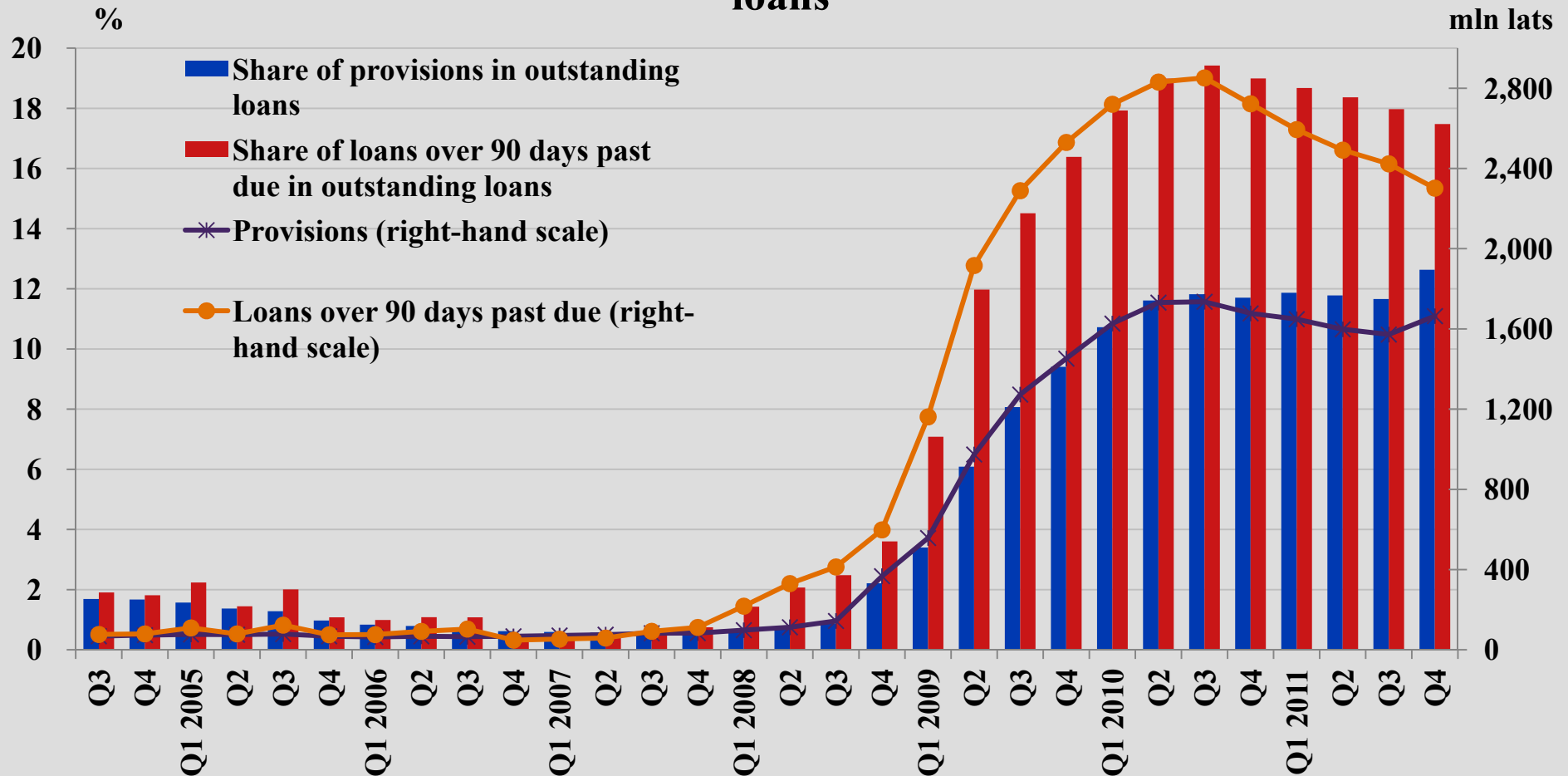
Liquidity level remains very high

Liquidity ratio (defined by FCMC, %)



Non-performing loans have peaked in Q3 2010; signs of improvement are evident

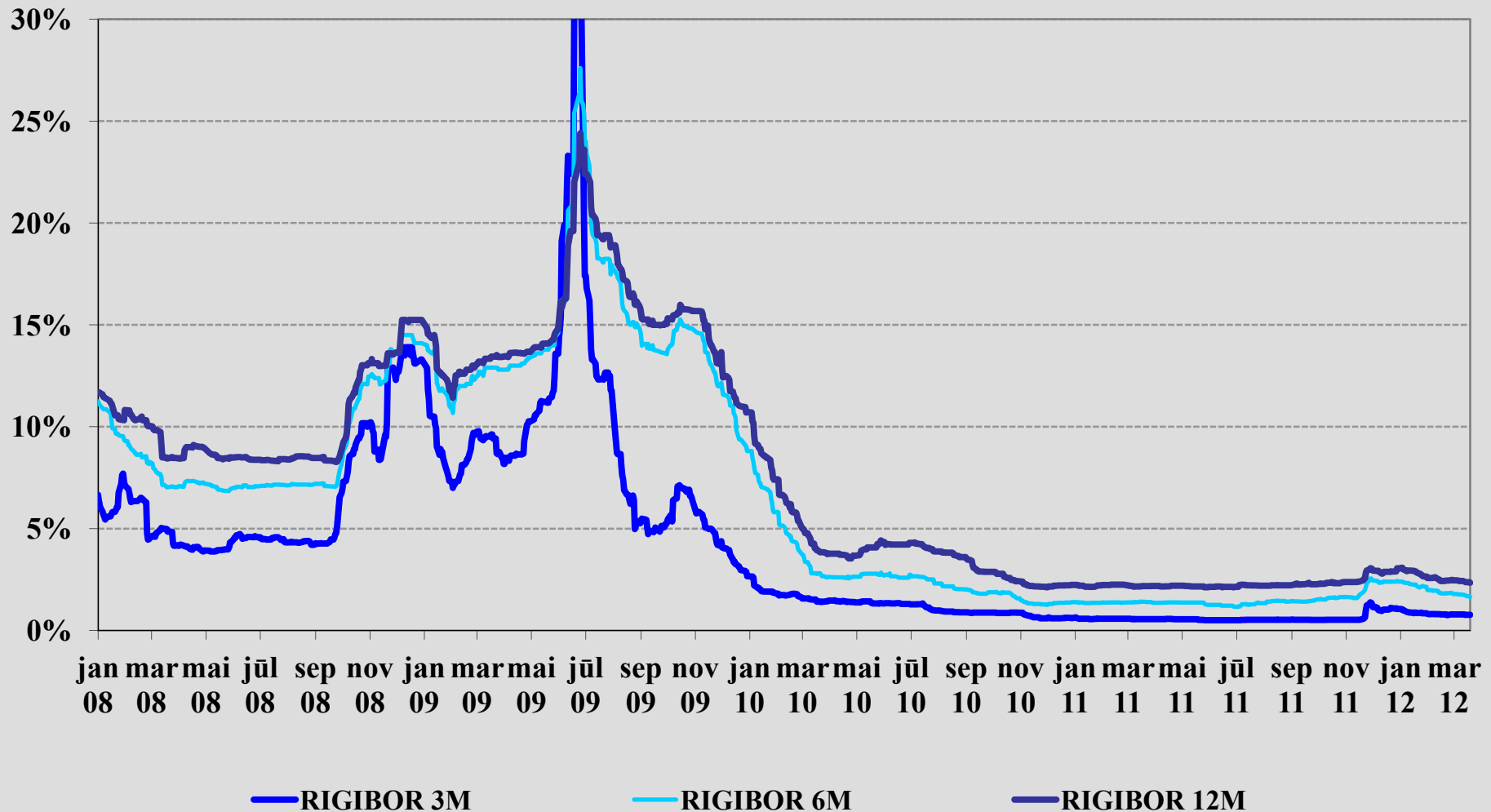
Amount of loans over 90 days past due, provisions and their share in outstanding loans



Source: Bank of Latvia, Financial and Capital Market Commission

Fiscal consolidation and implemented reforms helped to stabilize economy and financial markets: interest rates below pre-crisis level

Money market rates (%)



Source: Bank of Latvia

