

  
LATVIJAS BANKA  
EIROSISTĒMA



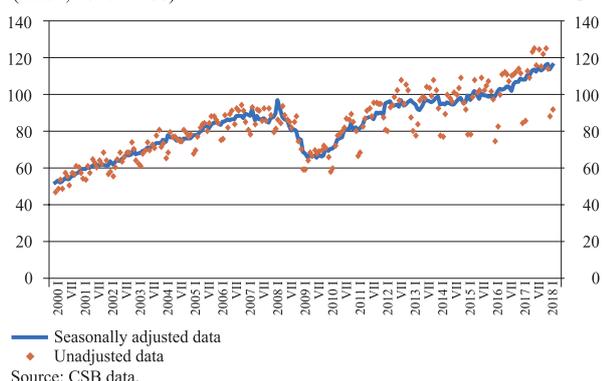
**LATVIJAS BANKA  
MONTHLY NEWSLETTER**

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**APRIL 2018**

## Robust manufacturing growth dominated by high-tech sectors

**Real manufacturing production**  
(index; 2015 = 100)

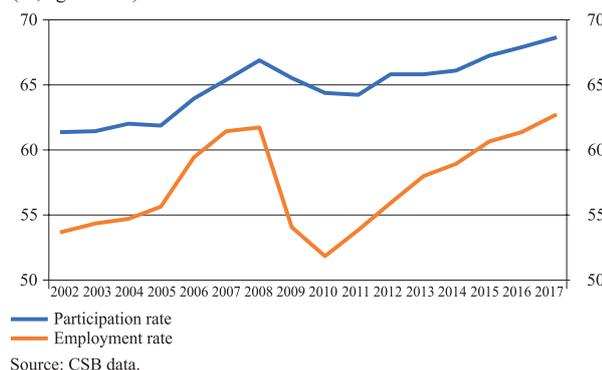


Manufacturing output continued to expand in real terms, with the annual rate reaching 7.3% in February 2018. The steepest growth was recorded in high and medium-high technology sectors like manufacture of chemicals, pharmaceuticals and electric equipment. Combined with a solid export growth and stable export market shares, this indicates retained international competitiveness. Indeed, the labour income share in manufacturing is quite close to the historical average. This is contrary to the situation in the services sector where wage growth has exceeded labour productivity for several years. This might also reflect the ongoing structural transformation of

the economy, with Latvia's comparative advantages gradually moving towards higher value-added products. This structural transformation goes hand-in-hand with the income convergence process: solid income growth increases incentives of firms to adopt the latest technologies and increase the capital-labour ratio, which, in turn, raises labour productivity and living standards.

## Employment and participation rates at historical highs

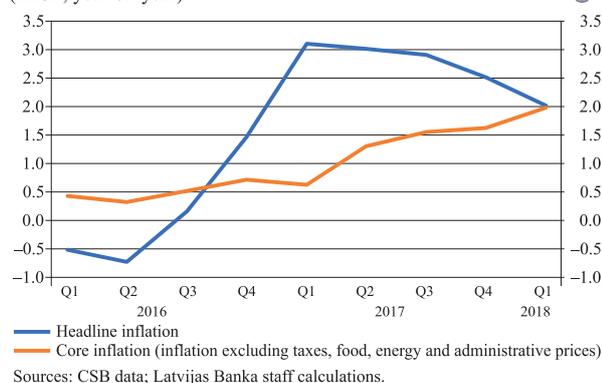
**Participation and employment rates**  
(%; age 15–74)



Strong labour demand conditions were reflected in a robust growth of employment and participation rates reaching 62.9% and 68.9% respectively in 2017, both ahead of the EU average. Other labour market indicators are improving as well. Unemployment rate decreased to 8.1% at the end of 2017 which, according to Latvijas Banka estimates, is slightly below the natural rate. The share of long-term unemployed as well as the number of discouraged workers is on a downward path. All available four statistical data sources point to a year-on-year employment rise in the second half of 2017. Private sector has driven employment growth for years and entrepreneurs' expectations about the future employment dynamics remain positive.

## Inflation in line with expectations

**Headline and core consumer price inflation**  
(HICP; year-on-year)



Inflation developments during the first quarter of 2018 (2.0% year-on-year) were broadly in line with Latvijas Banka expectations. The upward trend in inflation recorded in March is likely to continue during the subsequent months, bringing the 2018 annual average inflation close to the 2017 outcome (2.9%). Comparing to the previous year, we expect a somewhat lower contribution from global food and oil price developments but a higher impact from domestic demand and taxation. Core inflation (inflation excluding taxes, food, energy and administered prices) rises gradually, reflecting a slightly larger contribution from domestic demand

on account of the rising purchasing power and gradual tightening of the labour market. Although oil price increased to about 68 US dollars at the beginning of April (Brent), the year-on-year price rise was largely offset by the euro appreciation relatively to the US dollar.

	Reporting period	Data (%)
<b>Gross domestic product (GDP)</b>		
Real GDP (year-on-year growth)	2017 Q4	4.7
Real GDP (quarter-on-quarter growth; seasonally adjusted)	2017 Q4	0.3
<b>Public finances</b>		
General government budget expenditure (since the beginning of the year; year-on-year growth)	2018 III	5.0
Tax revenue (since the beginning of the year; year-on-year growth)	2018 III	8.4
<b>Consumer price changes</b>		
Consumer Price Index (CPI; year-on-year growth)	2018 III	2.2
Harmonised Index of Consumer Prices (HICP; year-on-year growth)	2018 III	1.7
12-month average inflation (HICP)	2018 III	2.6
11.04.2018 <a href="#">Inflation rebounds in March</a> 		
<b>Foreign trade</b>		
Exports (year-on-year growth)	2018 II	11.6
Imports (year-on-year growth)	2018 II	8.4
<b>Balance of payments</b>		
Current account balance (ratio to GDP)	2017 Q4	1.6
Foreign direct investment in Latvia (net flows; ratio to GDP)	2017 Q4	-1.0
<b>Industrial output</b>		
Working day-adjusted manufacturing output index (year-on-year growth)	2018 II	7.3
<b>Retail trade turnover</b>		
Retail trade turnover at constant prices (year-on-year growth)	2018 II	3.7
<b>Labour market</b>		
Registered unemployment (share in working age population)	2018 III	7.0
Jobseekers rate (share in working age population)	2017 Q4	8.1
<b>Monetary indicators</b>		
Resident deposits (year-on-year growth)	2018 II	2.8
29.03.2018 <a href="#">Weathering the storm</a> 		

Sources: Treasury, CSB and Latvijas Banka.

## Advantages of regions



Agnese Rutkovska,  
Chief Economist,  
Latvijas Banka

**The territory of Latvia is not large; however, it is diverse enough to allow for regional development using different historical and natural advantages – the land, sea, airspace, architecture inspired by various periods of history, industrial clusters and significant buildings such as hydroelectric power stations. Although regional inequality is high in terms of socio-economic indicators, each region has its strengths that may be of interest to investors or tourists.**

Even though Latgale is the region with the lowest economic activity, tourists can find it a nice place to go to get away from the city noise and heated asphalt. The diverse landscape and the large number of lakes, rivers and protected areas with unique flora and fauna are excellent tourist destinations. The territory is crossed by two cross-border highways and three railway routes; thus there are logistics centres in Daugavpils and Rēzekne. The region can be proud of powerful metalworking, machinery and food processing companies. To promote entrepreneurship in the region, advantages are provided by two special economic zones: [Rēzekne SEZ](#) and [Latgale SEZ](#).

Vidzeme is the most forested region in Latvia, with competitive forestry and wood industry companies. It has a well-developed dairy farming industry, which is growing rapidly. Several manufacturers of building materials contribute significantly to the added value of this region.

Zemgale has very fertile soil and agriculture plays an important role there. Consequently, several grain producers, processors and merchants are among the companies with the highest turnover. Despite smaller areas of pasture land, the region records high livestock and poultry indicators. Zemgale also accounts for the highest share of the mining industry and can be proud of geothermal waters, gypsum, peat, dolomite, limestone, sand, gravel and clay.

Kurzeme has the longest sea border with two important ports in the cities of Liepāja and Ventspils as well as three small harbours. That's why the region is rich in fishing industry traditions and has a developed transportation and storage services sector. Kurzeme is one of the most forested regions, with forestry and wood industry playing an important role. The [Free Port of Ventspils](#) and [Liepāja SEZ](#) offer advantages to facilitate entrepreneurial activities. The region has also several metalworking and machinery companies that have been developed both historically and through launching new production units. Historically, Liepāja has evolved into the centre of lingerie manufacturers.

Speaking of Rīga's vicinity airspace is a significant contributor to the added value, along with such resources as agricultural land, forest and water areas. The SJSC Riga International Airport and several aviation companies are registered in Mārupe Municipality. The manufacture of building materials, chemical and pharmaceutical industries, light industry, metalworking and wood industry contribute to its added value significantly. Sigulda and Jūrmala can certainly be mentioned as the places especially loved by tourists.

Latvia's capital Rīga is the country's trade and transport hub with a crossover point of railway infrastructure and the Free Port of Riga. Financial service providers and real estate developers likewise concentrate here. As to manufacturing industries, one can single out the manufacture of food, metal products and electronic equipment. The capital also accounts for the highest share of information and communication services. The city's added value per capita is higher than that of other regions; moreover, this difference has increased from two times to three times within the last five years. Rīga is and will most likely remain the country's centre with high economic activity.