

# LATVIJAS BANKA

## PRESS RELEASE

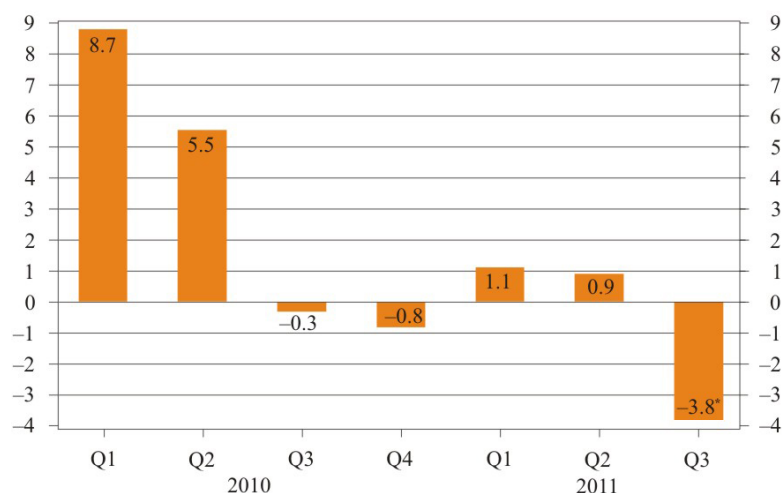
Riga, 2 December 2011

### Latvia's Balance of Payments in the Third Quarter of 2011

In the third quarter, the current account deficit of Latvia's balance of payments amounted to 138.5 million lats or 3.8% of the forecast GDP.

#### CURRENT ACCOUNT BALANCE

(% of GDP)



\* Calculation is based on the Bank of Latvia's GDP forecast.

\*Bank of Latvia GDP forecast used in the calculation.

**Some large purchases of investment goods made in July** boosting the deficit on foreign trade in goods were the main contributors. The trade data for the next months already demonstrated that this deterioration of the trade balance was only temporary. The surplus on foreign trade in services also contracted slightly quarter-on-quarter in the third quarter, whereas the exports of travel, financial and construction services expanded. Despite an increase in the reinvested earnings of foreign direct investors, the overall deficit of the income account decreased marginally under the impact of other income developments.

The surplus of the capital account reached a historical high at 226.7 million lats in the third quarter as the inflows of previously suspended European Union structural funds (Cohesion Fund and European Regional Development Fund) payments resumed in August.

Foreign direct investment in Latvia grew by 249.4 million lats representing the highest increase since the second quarter of 2008. It was achieved primarily on account of investment into equity, whereas other capital investment contracted, i.e. loans granted by direct investors were repaid. Although a significant share of investment was channelled to financial intermediation and real estate activities, investment made in maintaining the production capacity was also notable, i.e. manufacturing ranked the third sector in terms of the size of investment inflows.

With the sovereign debt crisis in several European Union Member States exacerbating, the European Commission revised downwards the economic growth figures of Latvia's main trade partners in its autumn forecasts, including the estimated 2012 import volumes of those countries. This reduces Latvia's export forecast for the next year. Nevertheless, decelerated export growth will also decrease the need for imports of intermediate goods; therefore, **no deterioration of the current account balance as a result of changes in the trade balance should be expected.**



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