

LATVIJAS BANKA

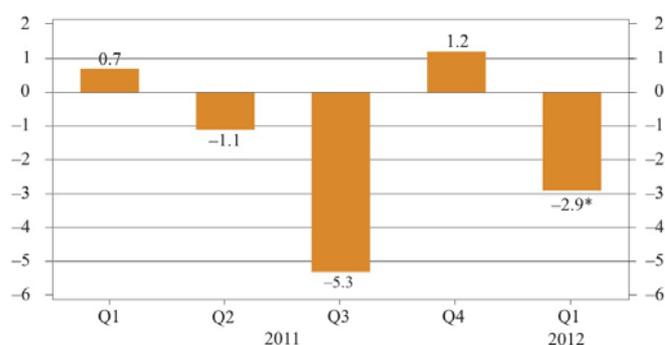
PRESS RELEASE

Riga, 4 June 2012

Latvia's Balance of Payments in the First Quarter of 2012

In the first quarter of 2012, the current account deficit of Latvia's balance of payments totalled 98.8 million lats or **2.9%** of the forecast gross domestic product (GDP).

CURRENT ACCOUNT BALANCE
(% of GDP)



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

The foreign trade deficit in goods and services increased to 144.3 million lats or 4.2% of the forecast GDP in the first quarter. The quarter-on-quarter decline in the exports of goods was faster than that in the imports of goods, thereby increasing the foreign trade deficit. This can be explained by both the weakening external demand in major trade partners against the background of Latvia's economic growth remaining strong and the sizeable rise in oil prices observed in the first months of 2012. The foreign trade surplus of services offset almost two thirds of the foreign trade deficit. Exports of transportation services expanded by 53.9 million lats year-on-year, with the highest growth reported in transportation services by rail and by sea.

Income account reported a deficit of 57.6 million lats or 1.7% of the forecast GDP. This was primarily determined by the increase in income on investment by foreign investors which was both reinvested as well as paid out in dividends.

The surplus of the current transfers account reached 103.1 million lats or 3.0% of GDP. Although some part of the EU funds payments was temporarily suspended in January, subsidies from EU funds increased in the first quarter, and Latvia received a total of 110.2 million lats from the EU budget via the current transfers and capital accounts. It is expected that the inflows of the suspended EU funds payments will resume in the near future, thereby also contributing to an improvement in the current account of Latvia's balance of payments.

Financial account recorded a surplus of 151.5 million lats or 4.4% of the forecast GDP in the first quarter. Foreign direct investment inflows into Latvia amounted to 127.0 million lats or 3.7% of the forecast GDP. The most significant rise in foreign direct

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investment in Latvia was observed in the sectors of electricity, gas and water supply, real estate activities as well as transport and communication. An increase was reported also for portfolio investment liabilities, reflecting the 1 billion USD worth issue of Latvian government securities launched on the international markets in February. The government repaid part (54.6 million lats) of the International Monetary Fund loan in the first quarter, while the external assets of banks expanded as a result of their investment in foreign long-term debt securities.

It is expected that the current account deficit of Latvia's balance of payments will remain moderate in 2012, and there are no concerns as to its financing. The negative developments in confidence indicators both in the European Union and, in the recent months, also in Latvia suggest that the development of the domestic and external demand in Latvia will be balanced and will exert no significant pressure on the current account deficit.



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