

# LATVIJAS BANKA

PRESS RELEASE

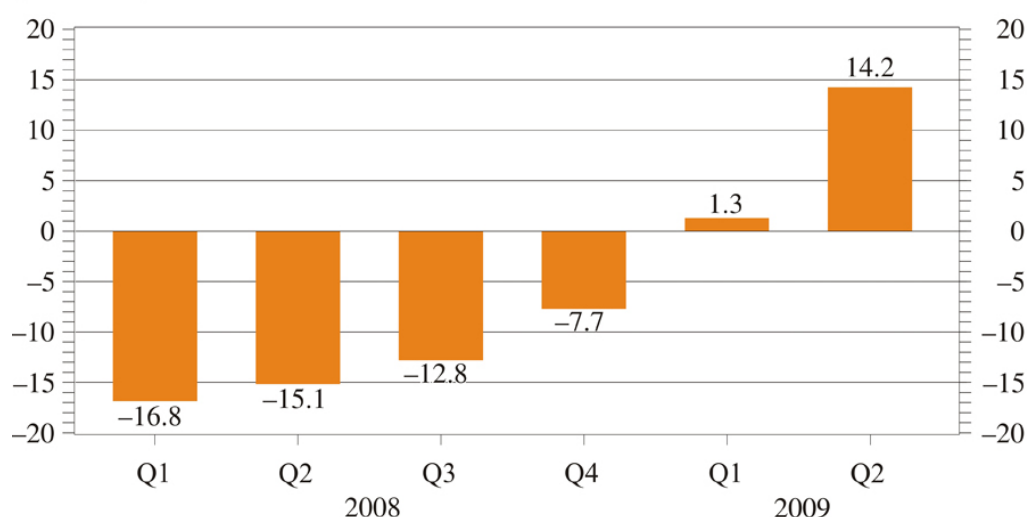
Riga, 23 September 2009

## Latvia's Balance of Payments in the Second Quarter of 2009

In the second quarter, **the current account of Latvia's balance of payments continued to record a surplus which rose to 14.2% of GDP** (478.8 million lats); likewise, the goods and services balance was also positive for the first time since the second quarter of 1994 (1.9 million lats or 0.1% of GDP).

### CURRENT ACCOUNT BALANCE

(% of GDP)



The quarter-on-quarter improvement in the goods and services balance (-4.2% of GDP in the first quarter) was underpinned by an increase in goods exports (4.2%) and a decrease in goods imports (9.4%). Quarter-on-quarter, overall exports and imports of services did not change notably.

The balance of the income account, which was already positive, increased further primarily on account of losses incurred in Latvia by non-resident direct investment companies. Both quarter-on-quarter and year-on-year, compensation of Latvian residents employed abroad increased.

The capital and financial account recorded net outflows of 531.4 million lats, which resulted from the private sector depositing more abroad and the banking sector decreasing its short-term liabilities. Likewise, it was the banking sector that determined the main direct investment flows, with more than a half of all losses offset by inflows in equity and other capital. In the second quarter, the bulk of capital inflows from abroad were made up of EU funding. The

reserve assets of the Bank of Latvia contracted by 318.4 million lats as a result of the central bank's interventions in the foreign exchange market and shifts in the government deposit with it.

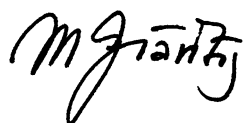
### **Evaluation and outlook**

With exports of goods and services exceeding imports in the second quarter of 2009, the next point of reference on Latvia's way to sustainable growth had been attained. Provided that companies succeed in making their costs and production structures more effective, find innovative business solutions and intensify international cooperation in the current crisis environment, the trend of improving goods and services trade balance is likely to persist.

In comparison with the previous quarter, Latvia's exports and market shares in its major trade partner countries (Lithuania, Estonia, and Russia) expanded. It was a result of changes in Latvia's export structure (e.g. exports of food products increased, while prices stabilised; exports volume is cyclically less sensitive and typically larger in the second quarter due to seasonal factors). As to some EU countries, e.g. Germany, Sweden, and Denmark, exports dropped somewhat due to a slight prevalence of cyclically sensitive goods.

The role of Lithuanian and Estonian markets in Latvia's exports is likely to stabilise and resume the former trend of substantial expansion along with the recovery of the respective economies. In view to the EU economic revival, in the current and next year, export dynamics is likely to be fuelled by the economic growth in those EU countries that receive around half of overall Latvian exports. Meanwhile, export guaranties will be decisive for the expansion in exports to Russia and other non-euro area EU countries.

Despite a certain global economic stabilisation, uncertainty about its sustainability lingers. Therefore, corporate lending continues to be sluggish in Latvia and abroad; nevertheless, a number of signs (e.g. soaring stock prices of Baltic corporations) suggest that investors' interest in the region is reviving. As has been often emphasised, a predictable and consistent fiscal policy of the government may substantially boost direct investment inflows in Latvia, which, in turn, can generate new jobs and incite export growth.



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