



LATVIJAS BANKA

PRESS RELEASE

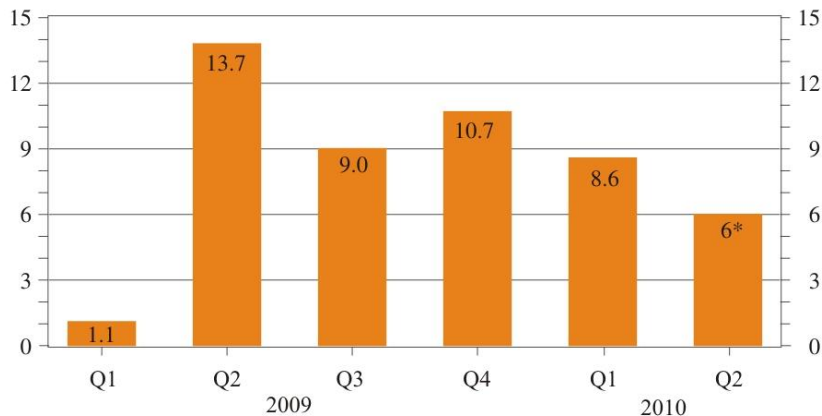
Riga, 3 September 2010

Latvia's Balance of Payments in the Second Quarter of 2010

In line with the forecasts, **the surplus in the current account** of Latvia's balance of payments **contracted in the second quarter** on account of a considerable decline in losses incurred by foreign direct investment companies. The current account surplus amounted to **183.8 million lats or 6% of GDP***. The balance of trade of goods and services improved and was positive (1.2% of GDP).

CURRENT ACCOUNT BALANCE

(% of GDP)



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

On the backdrop of the gradual recovery of the economic growth in Latvia's major trade partners, **exports of goods expanded, thereby promoting a rise in export value of transportation services, with exports of freight transportation by road posting the highest pickup.** Moreover, export value of passenger transportation by air, financial services and other business activities also increased, providing a considerable contribution to the positive trade balance of services. Positive quarter-on-quarter and year-on-year changes in exports of goods were observed in all major commodity groups. The increase in risks to the global demand growth notwithstanding, **the tendency for indicators of price and cost competitiveness to improve persisted,** with competitiveness growing on account of an increasing positive contribution of labour productivity rather than the cuts in labour costs that dominated in the past.

The income account surplus contributed to merely less than one fifth of the current account surplus as compared to almost a half in the first quarter. In the second quarter, losses incurred by foreign direct investment companies grew at a considerably lower rate. The share of EU funds in the current account surplus posted a relatively minor quarter-on-quarter fall, whereas the share allocated for capital investment shrank more than twofold as a result of a smaller amount of funds received from the Cohesion Fund.

Stabilisation of the Latvian economy and improvement in business confidence or outlook, observed in the second quarter, facilitated the availability of capital. The **accrued foreign direct investment grew** by approximately 80 million lats; inter alia, its major increases were registered in real estate transactions and several manufacturing sectors (manufacture of wood, chemical industry etc.), supporting a positive outlook on the dynamics of industry and exports in the short term.

Latvia's net foreign debt continued on its downward trend (7.2 billion lats or approximately 58% of GDP in the second quarter, down from 7.4 billion lats in the first quarter). The debt declined on account of contracting bank long-term liabilities and corporate sector debt.



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