LATVIJAS BANKA

PRESS RELEASE

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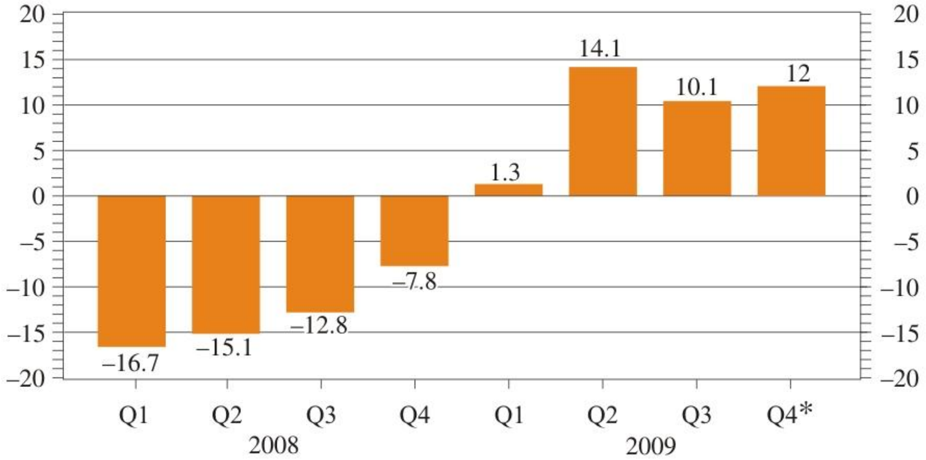
Latvia's Balance of Payments in the Fourth Quarter of 2009

The surplus in the current account of Latvia's balance of payments amounted to **12% of GDP in the fourth quarter of 2009**; for the year overall, it stood at 1.25 billion lats or 9% of GDP, and the aggregated balance of goods and services was positive. Bank investment in equity to cover losses underpinned the inflow of net foreign direct investment in Latvia in the fourth quarter. Direct investment flows went also to agriculture and manufacturing.

CURRENT ACCOUNT BALANCE

(% of GDP)



* The Bank of Latvia GDP forecast has been used for the calculation.

Net foreign debt (in nominal terms) decreased from 8.0 billion lats to 7.5 billion lats in the fourth quarter of 2009, yet remained broadly unchanged vis-à-vis GDP (56%). The private sector, primarily banks, accounted for the recorded nominal decrease by making long-term debt and trade credit repayments as well as by investing in short-term foreign assets. The World Bank loan to the government was placed with the Bank of Latvia, hence not affecting the country's net external debt, while gross external debt rose to 154% of GDP.

Assessment of Latvia's Balance of Payments

With economic recovery going on and the current account surplus persisting, the external debt burden may rapidly be reduced, particularly so if a major part of financing required for the development is attracted as direct investment in equity. As the situation in the banking sector stabilises and risks associated with the term structure of financial resources abate, the overall external debt assessment will increasingly depend on the net external debt whose burden amid the steep economic downturn has not amplified.

Economic growth requires a consistent and clear fiscal policy, which is based on financial sustainability, enhancement of employment, and promotion of exports. First, it would minimise the key factors hampering Latvia's economic growth, the limited private sector's access to funding and high unemployment in particular. Second, it would accelerate the economic growth by re-allocating resources towards the production of internationally competitive goods and services. The steadiness of credit ratings is indicative of correctly chosen policy stances.

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