Latvian economy – what happened and the way ahead

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Economy is back to growth: export is leading economic recovery

Source: Central Statistical Bureau of Latvia; F - flash estimate
End of consumption boom and gains in competitiveness ensure increase of export role in the economy

Share of exports and private consumption in GDP (%, in constant prices)

Source: Central Statistical Bureau of Latvia,
A shift to tradable sector is underway

Value added structure in 2007 and 2010 (%)

Latvia

Estonia

Lithuania

Manufacturing

Transport

Other sectors

Source: Central Statistical Bureau of Latvia, Central Statistical Bureau of Lithuania, Central Statistical Bureau of Estonia
Unemployment has been steadily declining since its peak in early 2010.

Unemployment rate (% of economically active population)

Source: Central Statistical Bureau of Latvia; State Employment Agency
Institutional fundamentals ensure smooth economic adjustment through wage flexibility in Latvia

Collective bargaining coverage (%)

Source: ETUI-REHS
Latvia has quickly regained its cost competitiveness: wage-productivity gap has narrowed considerably

Wages and productivity

(whole economy, seasonally adjusted, per hours worked, 1Q 2005=100)

Source: Central Statistical Bureau of Latvia
Real wage and productivity index in manufacturing  
(2005 Q1 = 100; seasonally adjusted)

Real wage and productivity index in construction  
(2005 Q1 = 100; seasonally adjusted)

Source: Central Statistical Bureau of Latvia
After a strong adjustment ULC have stabilized; manufacturing still gaining competitiveness with strong productivity growth.

Nominal ULC y-o-y changes by sector (%)

Source: Eurostat; Bank of Latvia staff calculations
Price and cost competitiveness measures have improved significantly and have come close to their long-term averages.

Real effective exchange rates of the Lats (2000 = 100)

Source: Bank of Latvia
Latvia’s export market shares are up in many key markets reflecting gains in competitiveness

Share of Latvian exports in particular country’s imports, % (4q-moving average), 2009 Q1–2011 Jan-Feb

Source: Eurostat, Central Statistical Bureau of Latvia, Bank of Latvia staff calculations
Merchandise export has already surpassed its pre-crisis level

Nominal and real merchandise exports (Q1 2003 = 100)

Source: Central Statistical Bureau of Latvia
External imbalances have seen a significant improvement resulting in a sustainable level.

Balance of Payments (% of GDP)

Source: Bank of Latvia.  
F – BoL forecast
Energy and food as well as taxes contributed to the recent increase in overall price level.

Inflation excluding food, energy price and tax changes (%), contributions (percentage points)

Source: Central Statistical Bureau of Latvia; Bank of Latvia’s calculations
Price adjustment has been dampened by increase in indirect taxes

Constant tax HICP (March 2011/ average 2008, %)

Source: Eurostat
Fiscal consolidation based on structural reforms is on agenda

Breakdown of budget consolidation measures 2009-2011*, mln LVL

* - including full year effect of measures taken in amendments to 2011 budget.
Further government budget deficit reduction is envisaged

General Government budget balance (% of GDP)

Source: Central Statistical Bureau of Latvia; F – forecast; Target – according to Convergence Programme 2011
General government debt is expected to be below the Maastricht threshold value

General government debt (ESA95), % of GDP

Source: Central Statistical Bureau of Latvia F - Forecast