



# Latvian economy – what happened and the way ahead

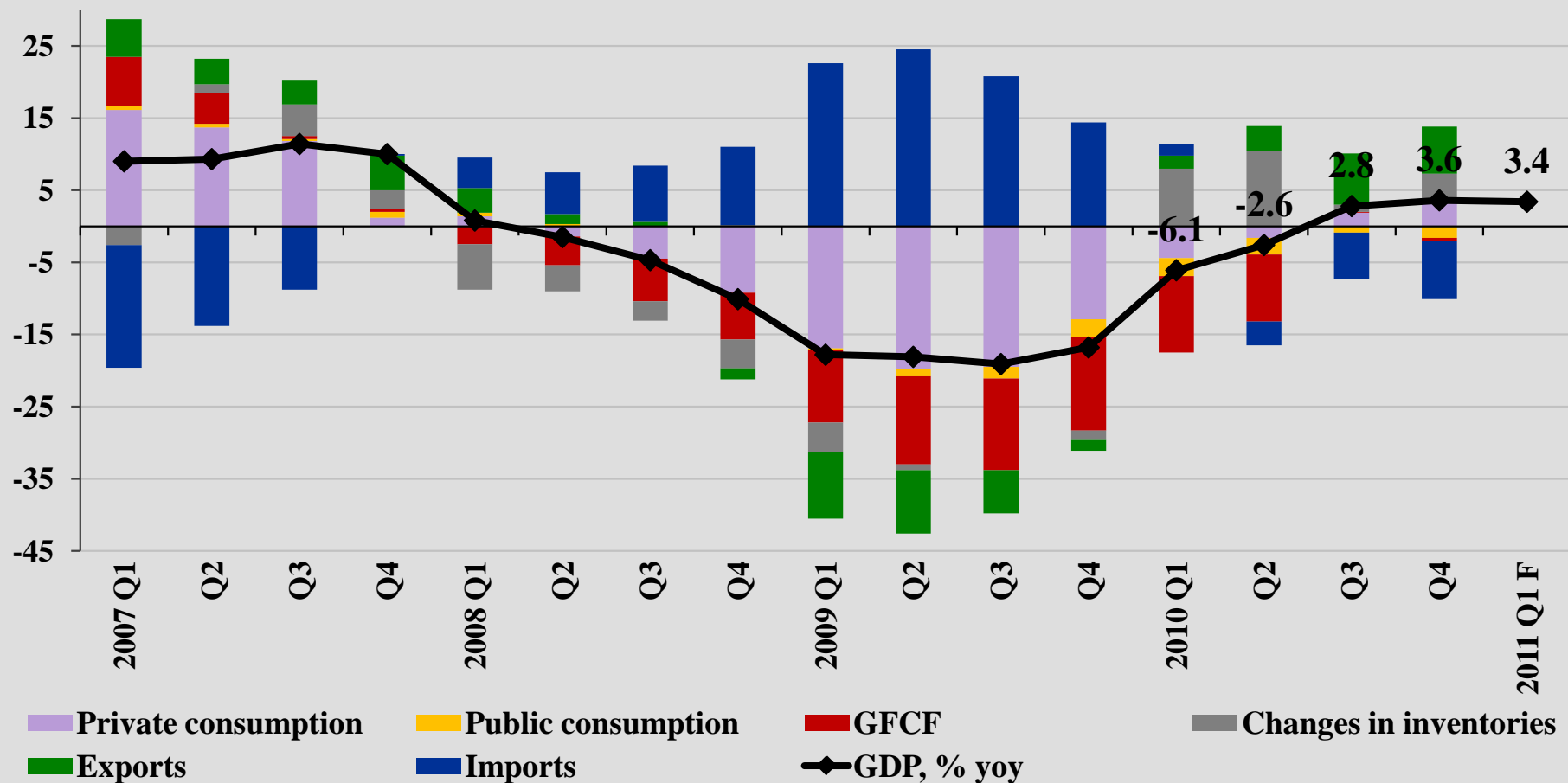
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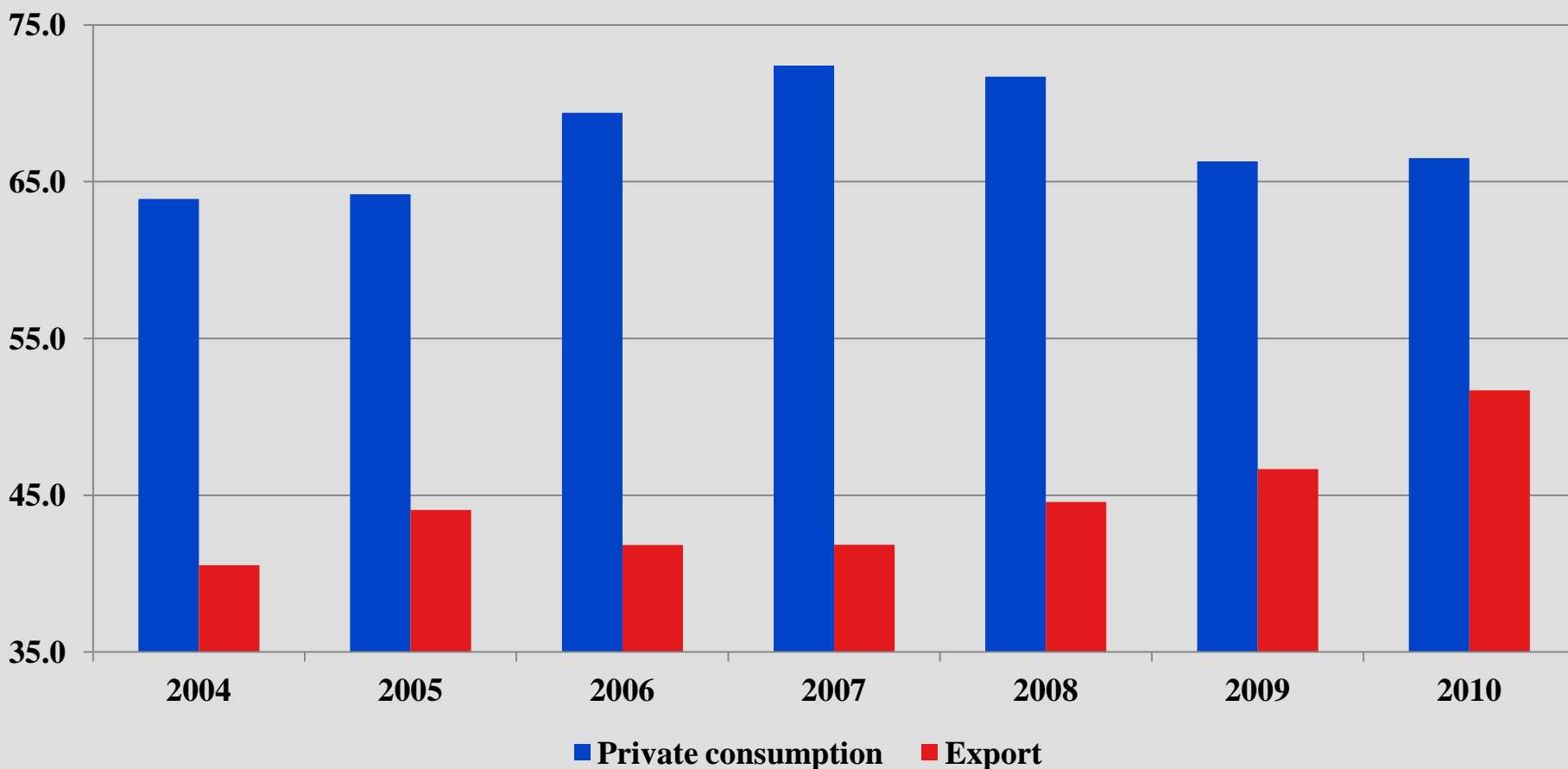
# Economy is back to growth: export is leading economic recovery

## Contribution to real GDP growth (p. p.) and real GDP growth (%)



# End of consumption boom and gains in competitiveness ensure increase of export role in the economy

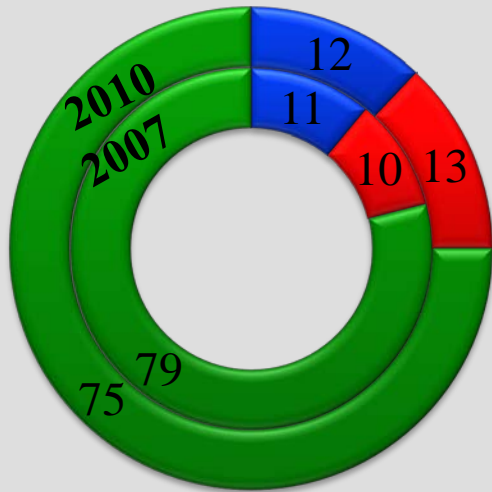
Share of exports and private consumption in GDP (% , in constant prices)



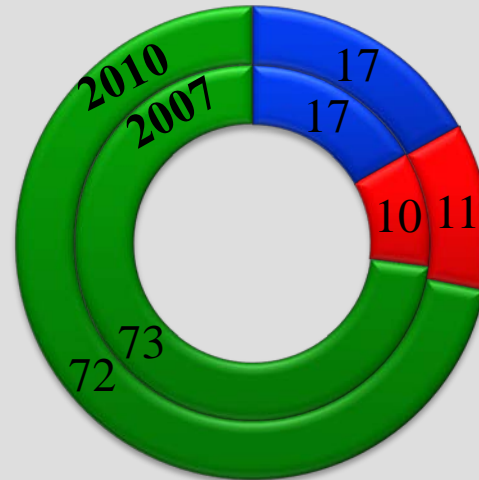
# A shift to tradable sector is underway

Value added structure in 2007 and 2010 (%)

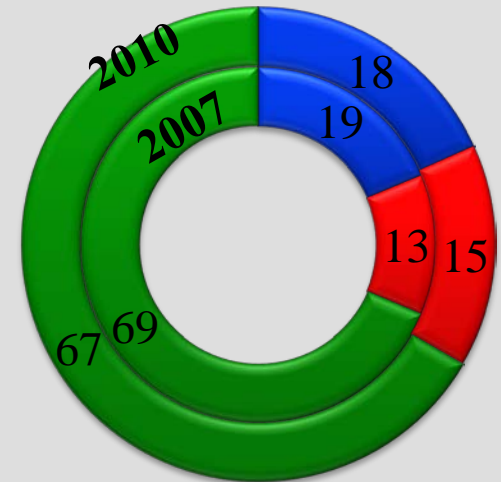
Latvia



Estonia



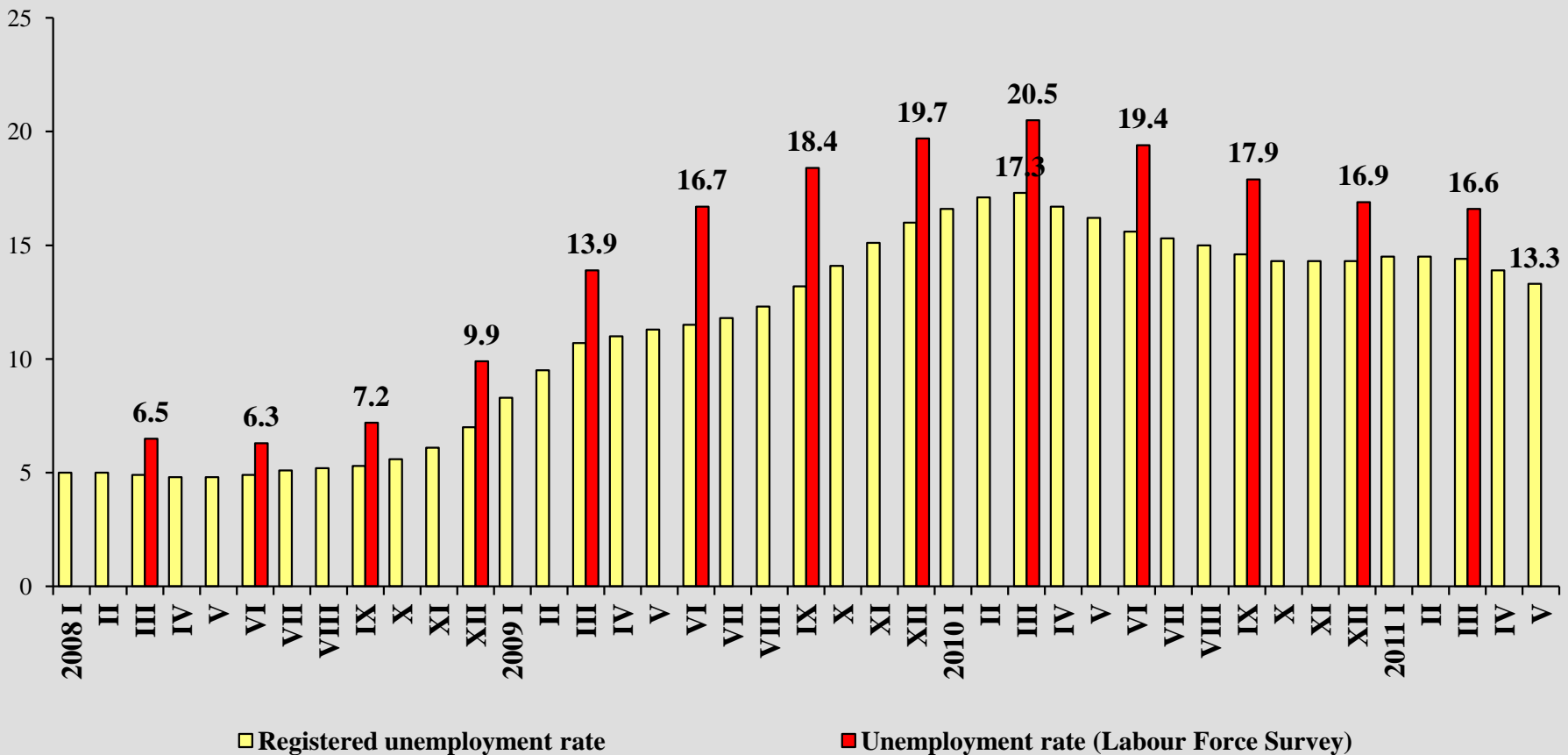
Lithuania



- Manufacturing
- Transport
- Other sectors

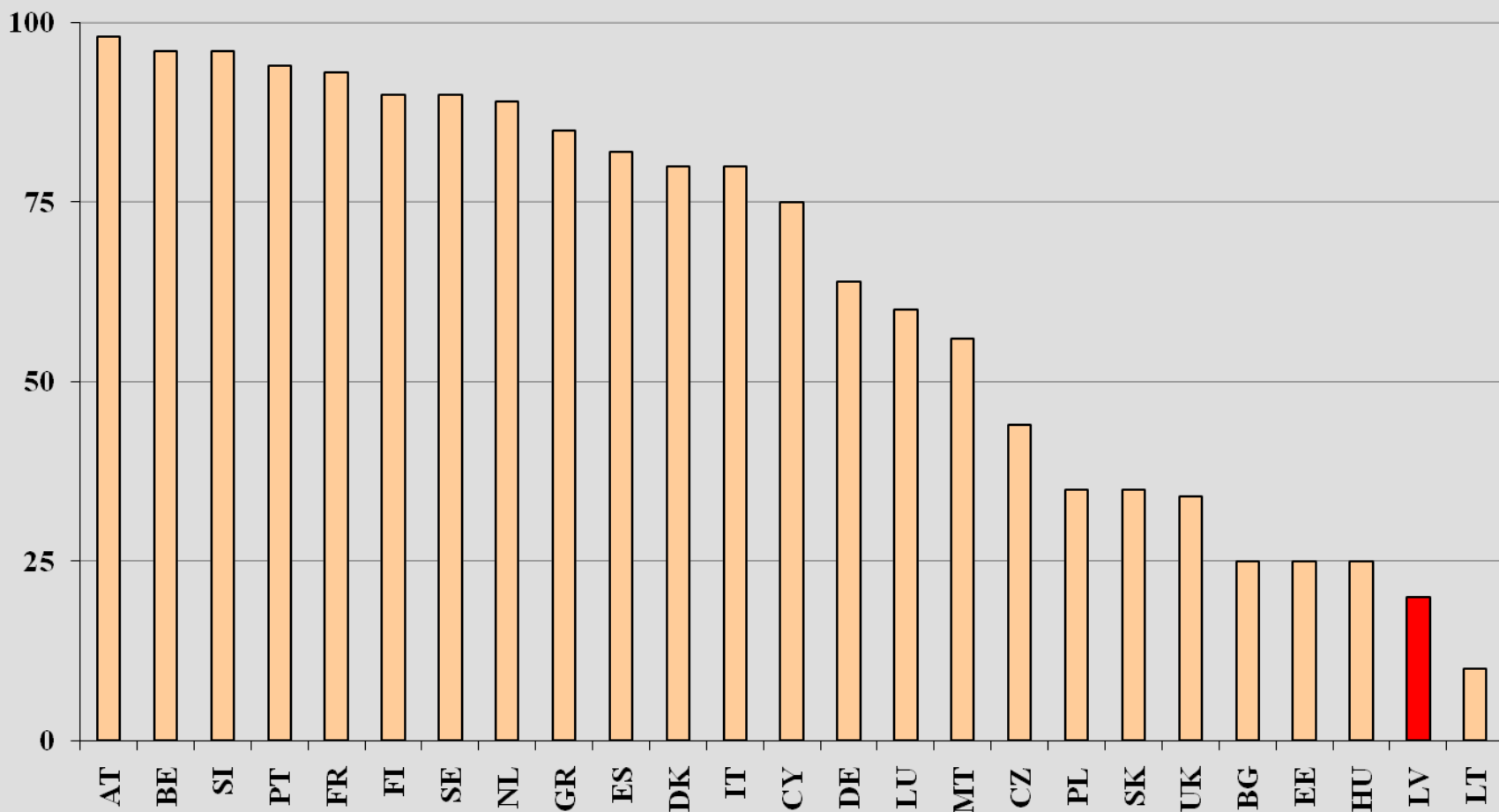
# Unemployment has been steadily declining since its peak in early 2010

Unemployment rate (% of economically active population)



# Institutional fundamentals ensure smooth economic adjustment through wage flexibility in Latvia

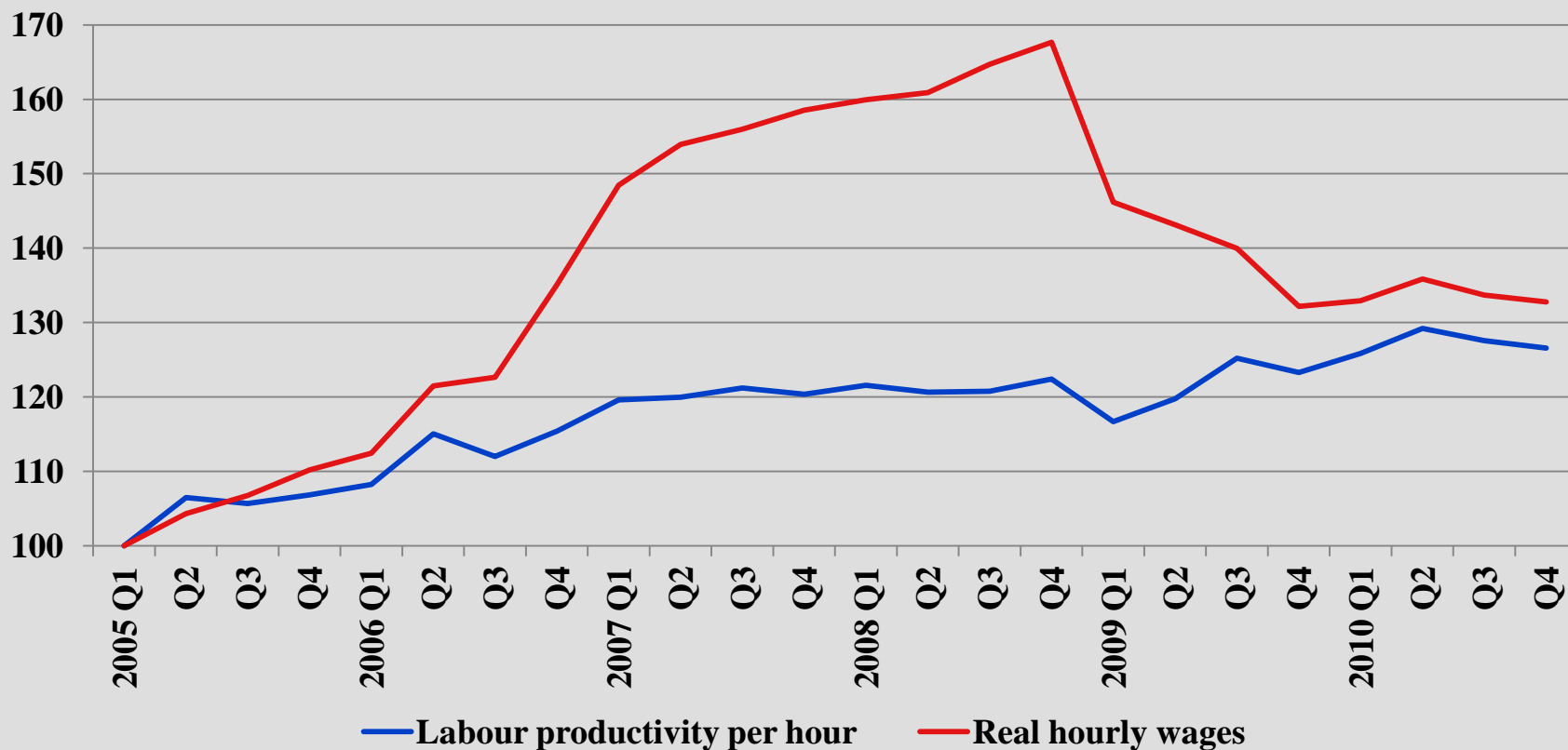
Collective bargaining coverage (%)



# Latvia has quickly regained its cost competitiveness: wage-productivity gap has narrowed considerably

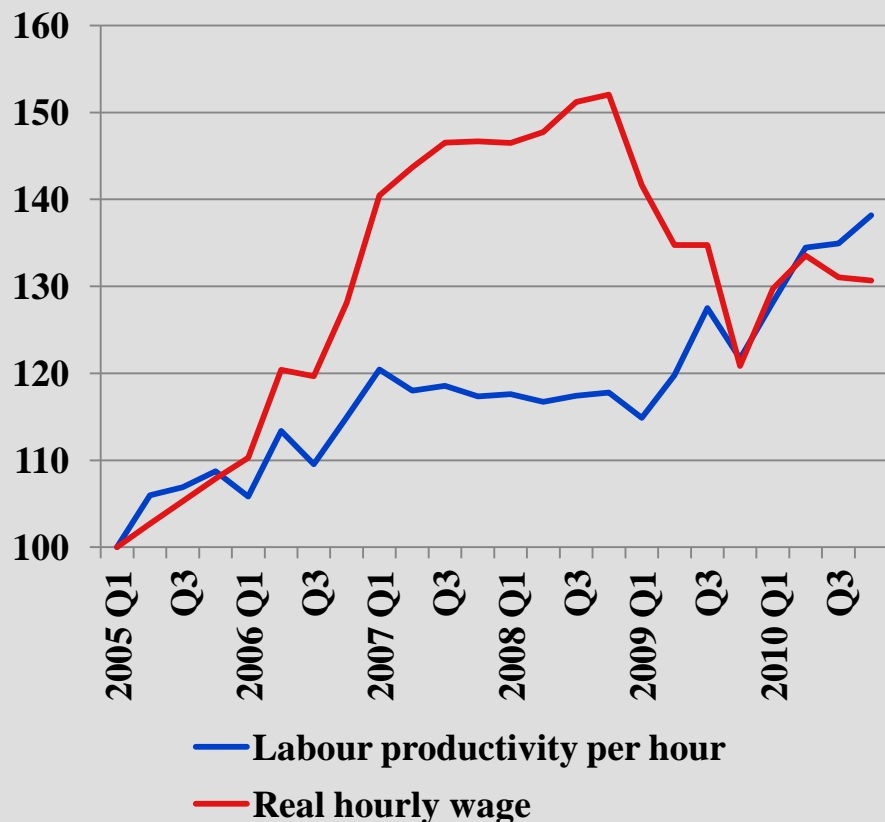
## Wages and productivity

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

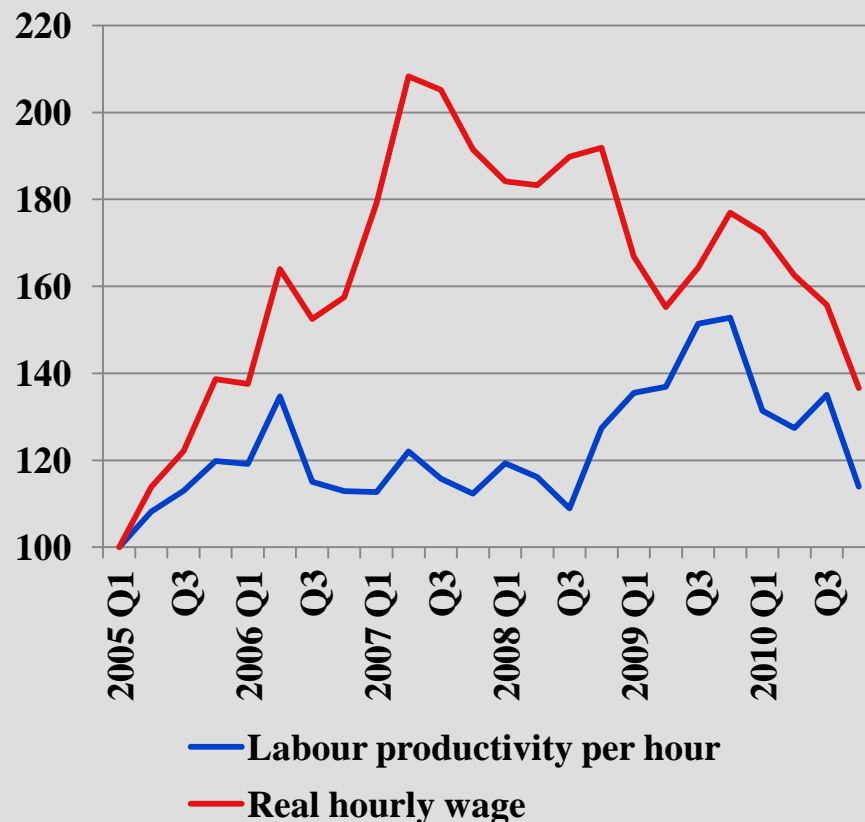


# ... particularly in tradable sector

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



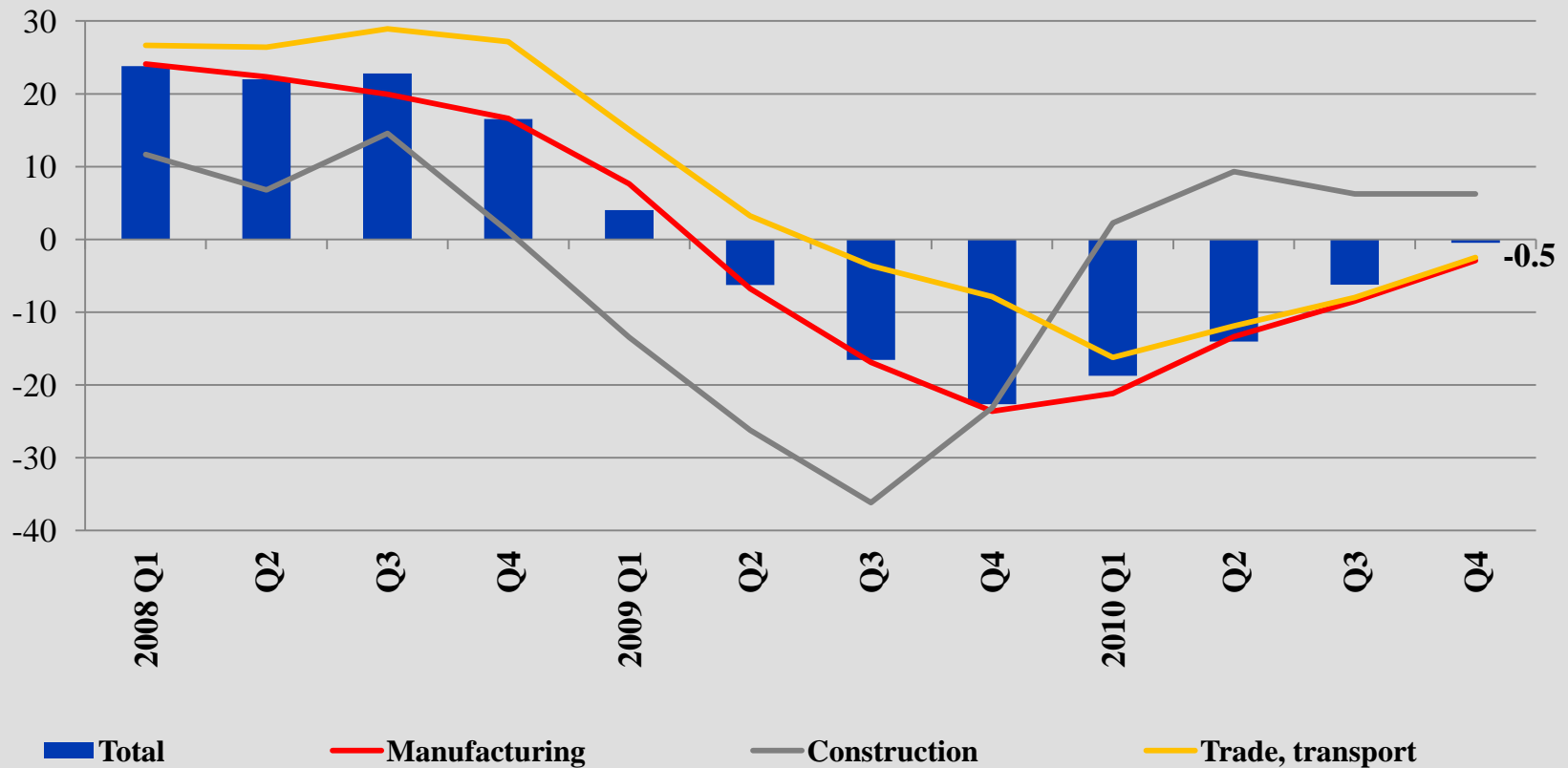
**Real wage and productivity index in construction**  
(2005 Q1 = 100; seasonally adjusted)





# After a strong adjustment ULC have stabilized; manufacturing still gaining competitiveness with strong productivity growth

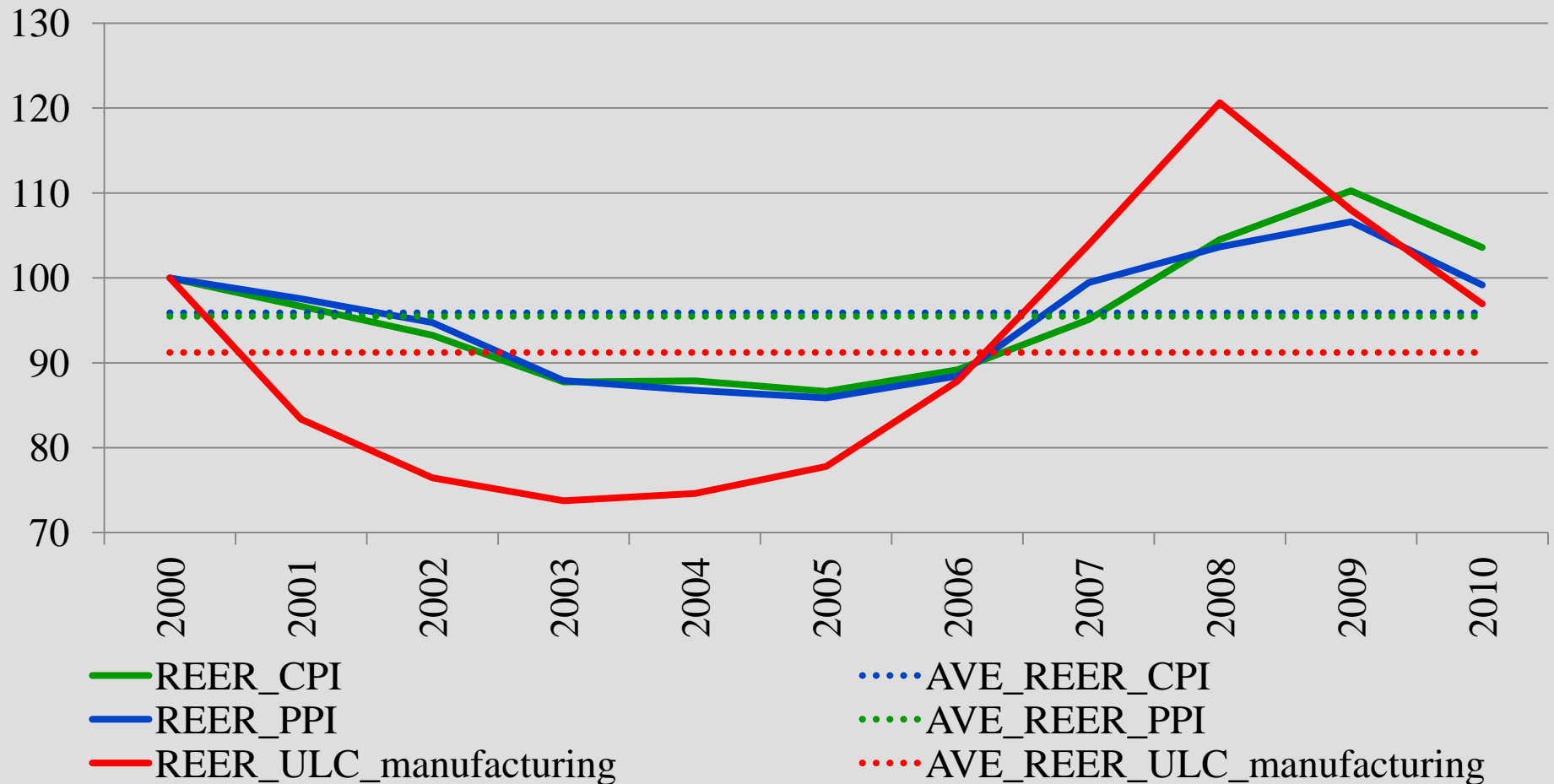
## Nominal ULC y-o-y changes by sector (%)



Source: Eurostat; Bank of Latvia staff calculations

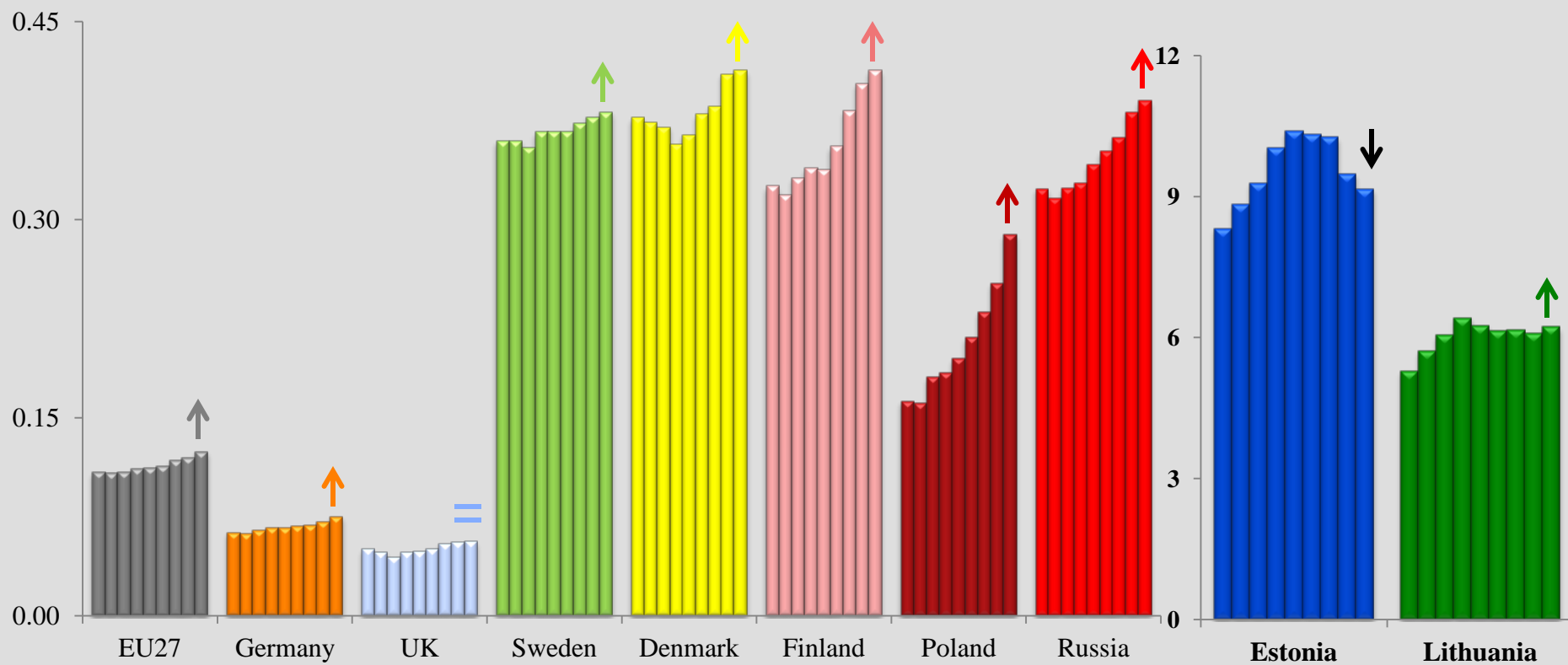
# Price and cost competitiveness measures have improved significantly and have come close to their long-term averages

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



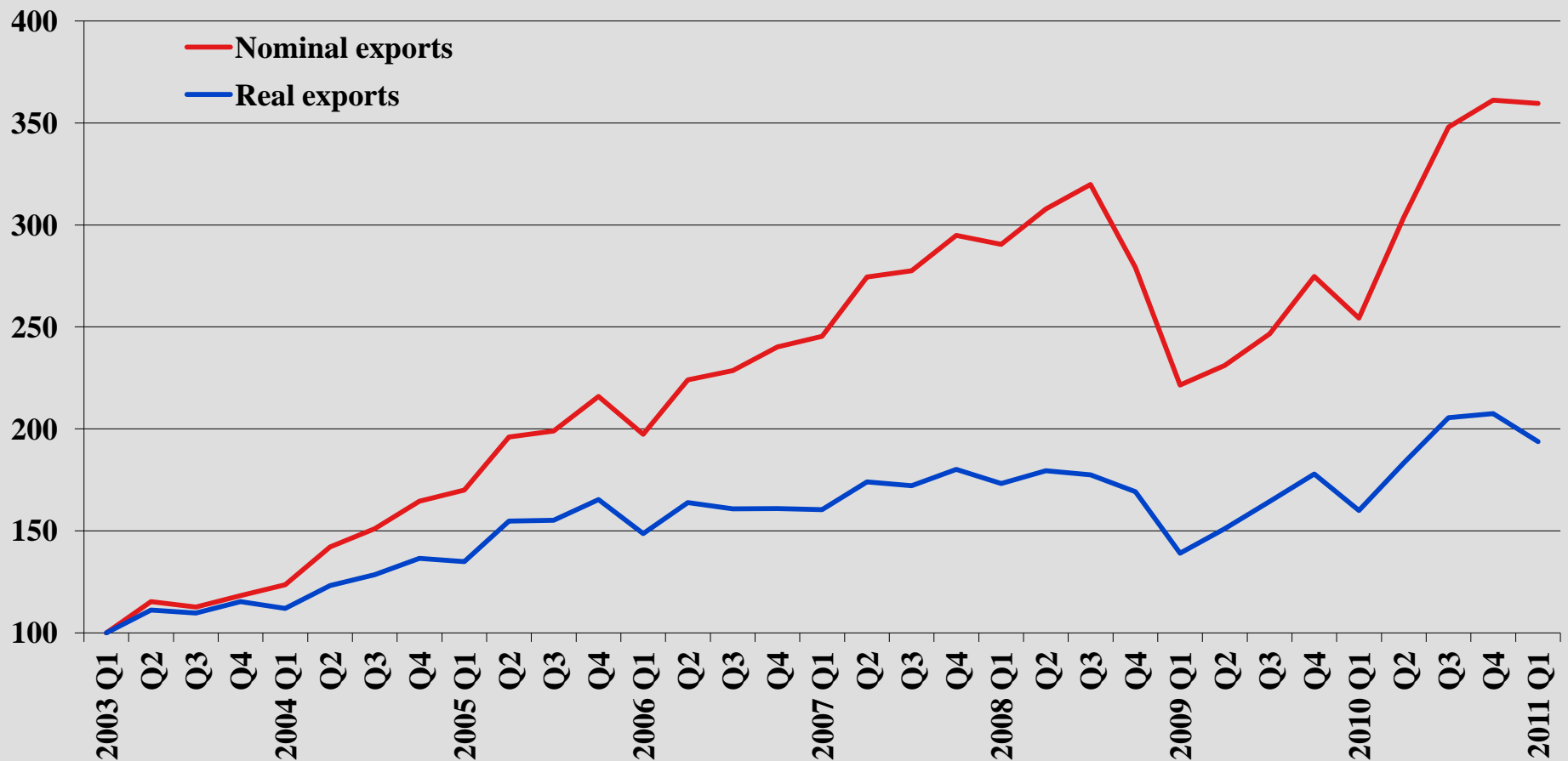
# Latvia's export market shares are up in many key markets reflecting gains in competitiveness

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



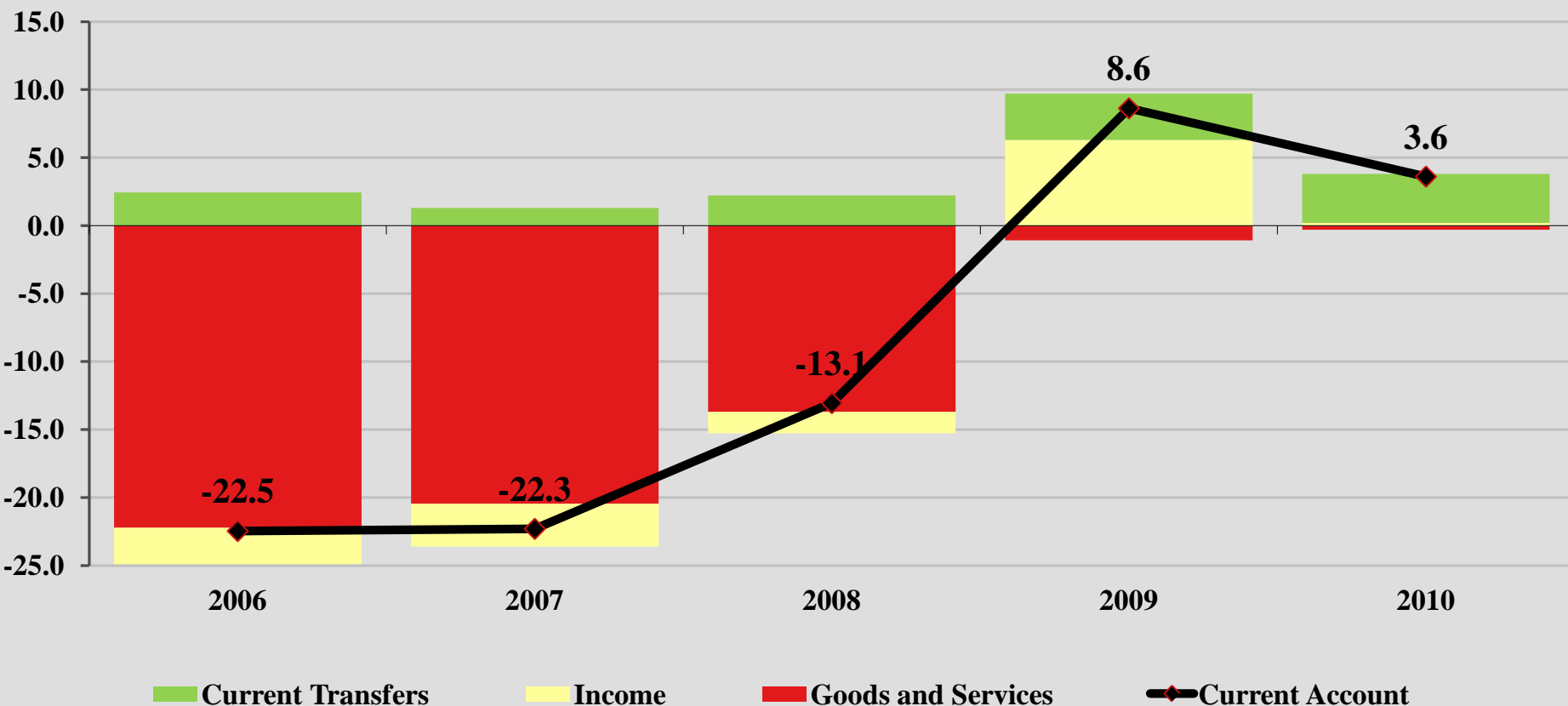
# Merchandise export has already surpassed its pre-crisis level

Nominal and real merchandise exports (Q1 2003 = 100)



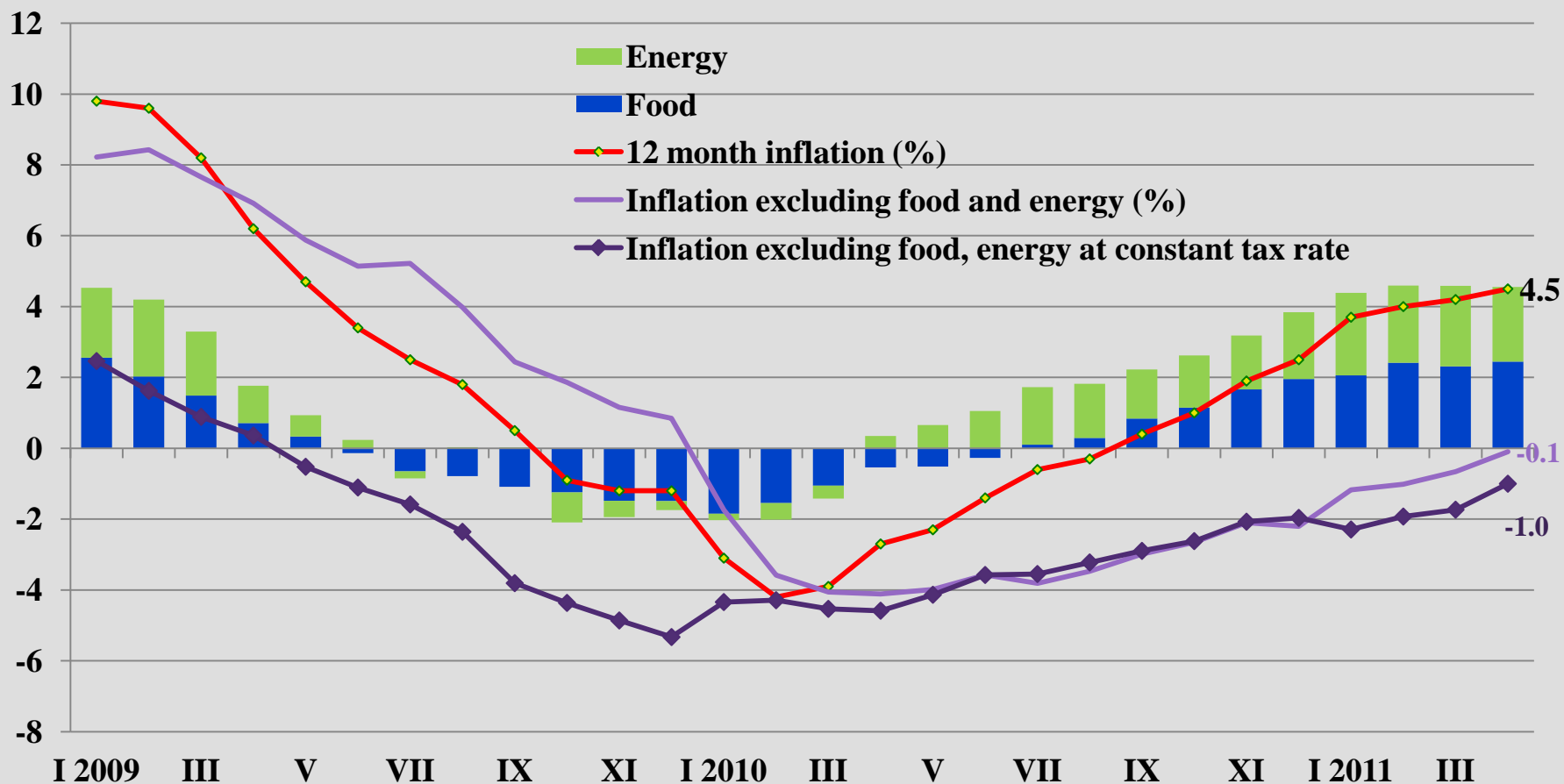
# External imbalances have seen a significant improvement resulting in a sustainable level

## Balance of Payments (% of GDP)



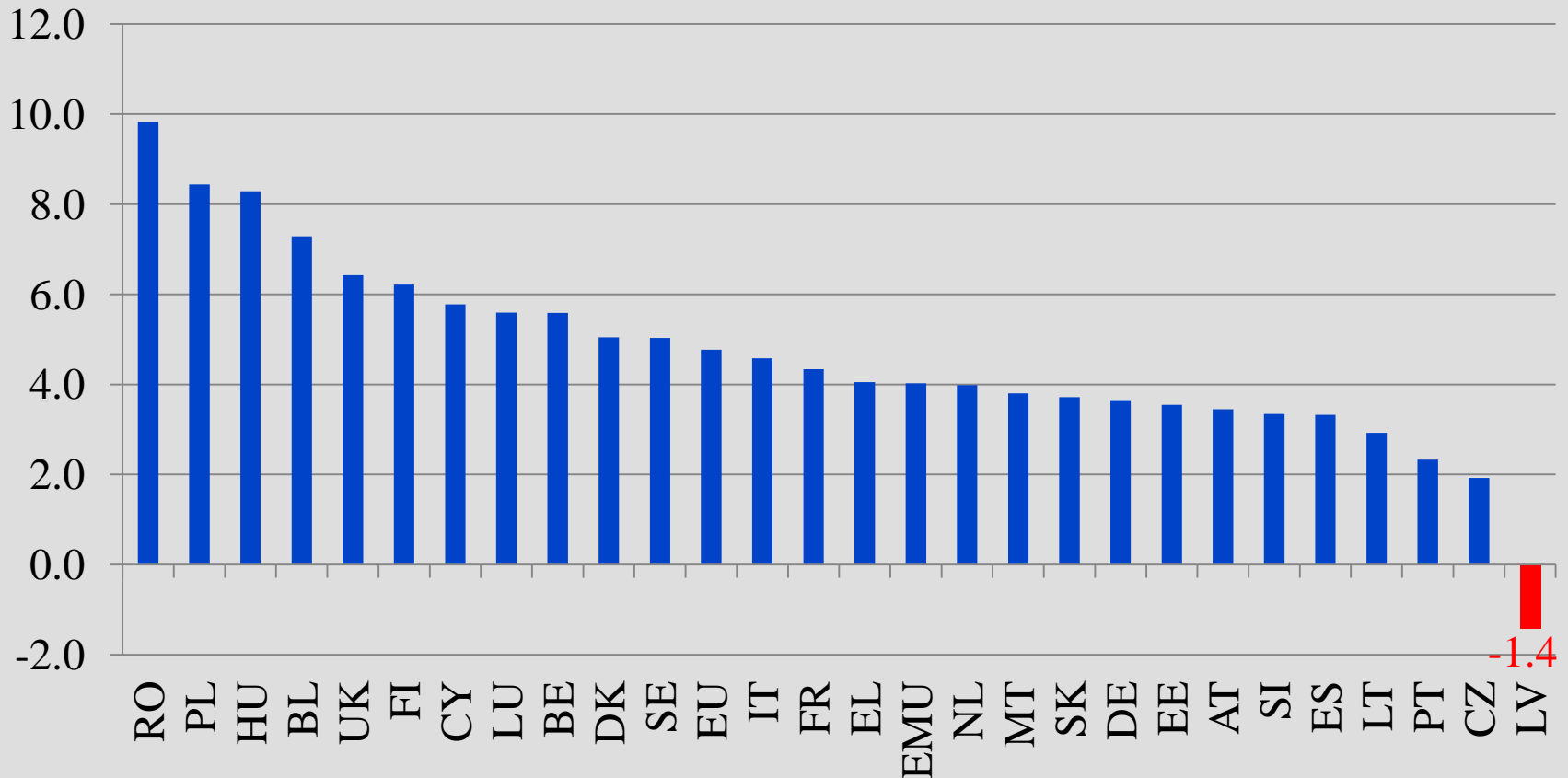
# Energy and food as well as taxes contributed to the recent increase in overall price level

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



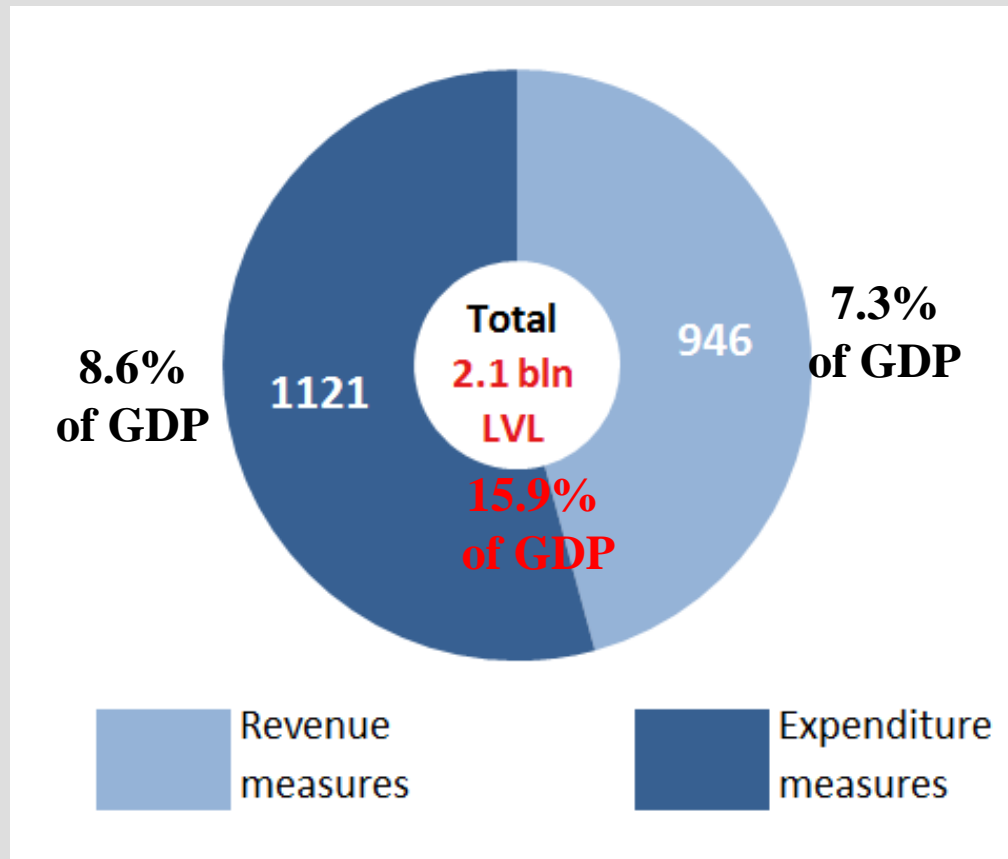
# Price adjustment has been dampened by increase in indirect taxes

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



# Fiscal consolidation based on structural reforms is on agenda

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

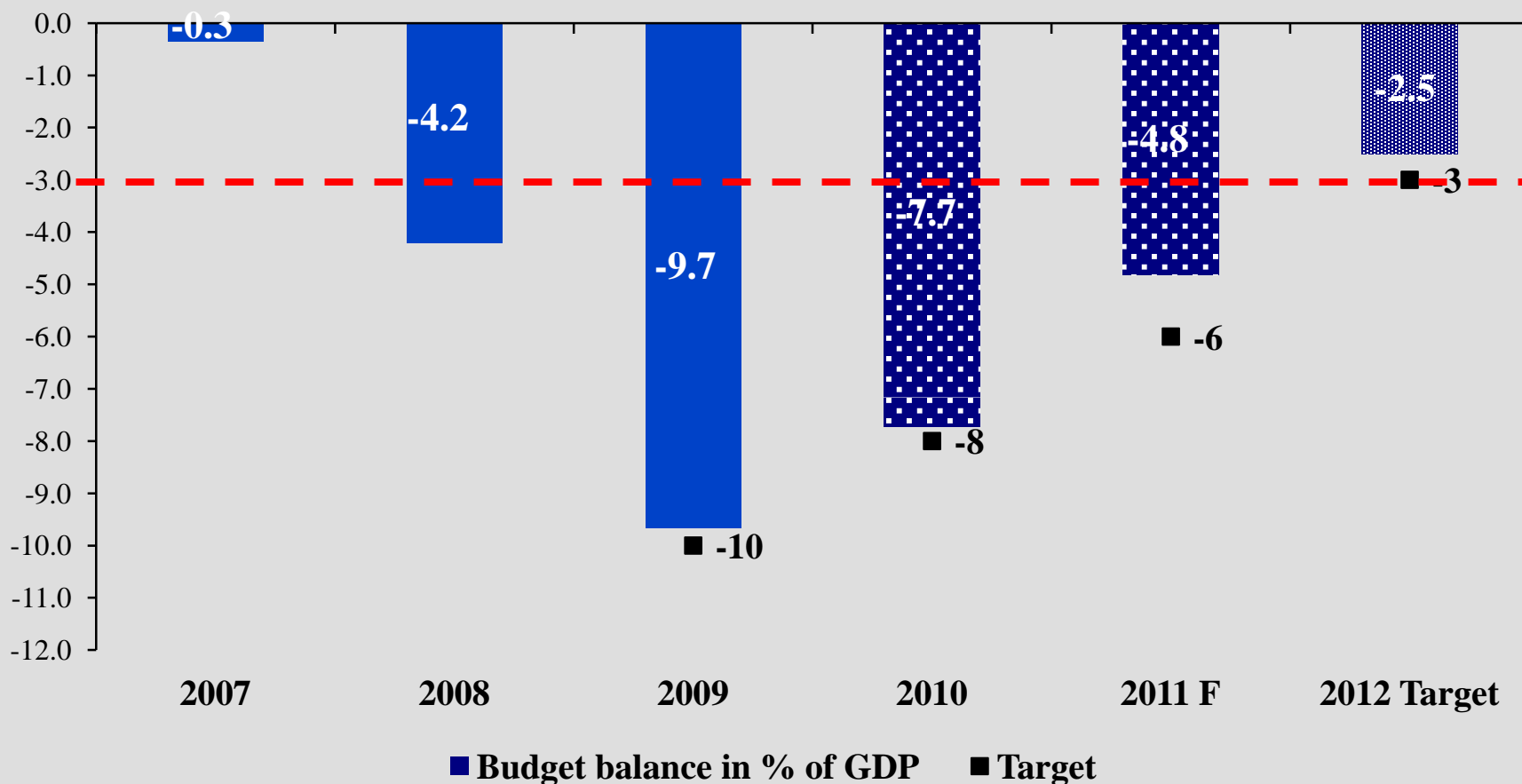


\* - including full year effect of measures taken in amendments to 2011 budget.



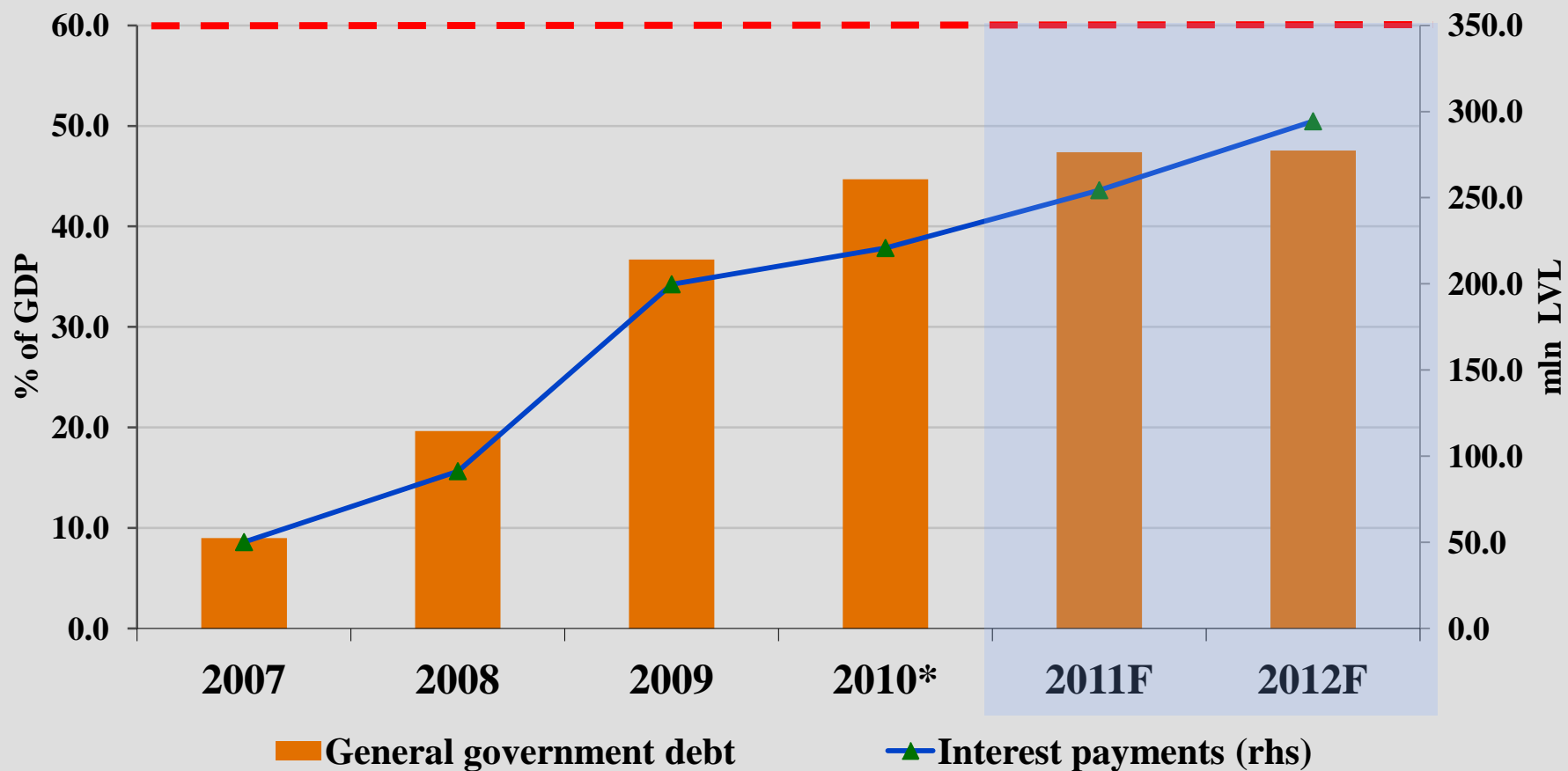
# Further government budget deficit reduction is envisaged

General Government budget balance (% of GDP)



# 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



LATVIJAS BANKA

