Economic Overview

Summary

During 2014, the Latvian economy faced a series of challenges associated with political tension plus the slowdown in the main external markets. Still, the Latvian economy experienced positive annual developments, even though to a more modest extent than initially predicted.

According to the latest available estimates, real GDP growth in 2014 amounted to 2.3 per cent. Growth was driven mainly by household consumption, in line with employment and remuneration growth in the recent years. Among the most successful real economy sectors in terms of average y-o-y quarterly growth in Q1 - Q3 2014 were the construction sector (average 13.7 per cent growth), the financial and insurance sector (average 7.6 per cent growth) and accommodation and food services (average 3.8 per cent growth).

The export sector, which has been among the main economy drivers during recent years, suffered from devaluation of the ruble and a decrease in demand on the main external markets. The situation is not expected to improve within the upcoming year.

Annual inflation for 2014 stood at 0.6 per cent, mainly driven by low energy prices. The highest price increases were observed in housing, water, electricity and gas product group, as well as alcoholic beverage and tobacco product group, while transport, communication and food and non-alcoholic beverages expressed deflation. The fact of low inflation had a positive influence on consumption through an increase in real wages in the context of steadily growing incomes.

Throughout 2014, unemployment continued to decrease, reaching 10.8 per cent by the end of 2014. Notably, the share of young people among the unemployed continues to decrease.

Along with the decrease in unemployment, wage growth is observed. During Q1 - Q3 2014, real wages grew at an average rate of 8.2 per cent per quarter, which indicates an effective increase in the consumption power of the population.

Tendencies and Forecasts

» According to available forecasts, GDP is expected to grow by 2.5 per cent in 2015. Household consumption will remain as the main driver.

» Unemployment is expected to decrease further, yet at a slower pace compared to previous years. This trend is expected to intensify the demand for skilled labour.

» Given continuation of low energy prices, the Latvian economy is expected to operate with inflation close to zero. A positive contribution to the inflation figure will come from liberalization of the energy market.

» Given low inflation expectations and the expected decrease in unemployment, further positive real wage development is foreseen. Additionally, in January 2015 the minimum wage was raised by 12.5 per cent and personal income tax was decreased by 1 per cent. All these considerations will continue to improve purchasing power.

Key Economic Indicators of Latvia

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<tbody>
<tr>
<td>GDP Current Prices, bio EUR</td>
<td>17.1</td>
<td>22.5</td>
<td>24.4</td>
<td>18.9</td>
<td>18.2</td>
<td>20.3</td>
<td>22.0</td>
<td>23.2</td>
<td>23.9</td>
<td>24.7</td>
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<tr>
<td>GDP Growth (Real), % yoy</td>
<td>11.6</td>
<td>9.8</td>
<td>-3.2</td>
<td>-14.2</td>
<td>-2.9</td>
<td>5.0</td>
<td>4.8</td>
<td>4.2</td>
<td>2.3</td>
<td>2.5</td>
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<tr>
<td>Industrial Production, % yoy</td>
<td>4.8</td>
<td>-1.0</td>
<td>-8.3</td>
<td>-17.7</td>
<td>14.0</td>
<td>11.5</td>
<td>9.4</td>
<td>0.6</td>
<td>-0.1</td>
<td>1.0</td>
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<tr>
<td>Share of Unemployed to the Active Population, %</td>
<td>6.8</td>
<td>6.0</td>
<td>7.5</td>
<td>16.9</td>
<td>18.7</td>
<td>16.2</td>
<td>15.0</td>
<td>11.9</td>
<td>10.8</td>
<td>10.2</td>
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<tr>
<td>Total Central Government Debt, % of GDP</td>
<td>11.0</td>
<td>9.0</td>
<td>20.0</td>
<td>37.0</td>
<td>44.7</td>
<td>42.6</td>
<td>40.6</td>
<td>38.2</td>
<td>40.7</td>
<td>39.4</td>
</tr>
<tr>
<td>PPI, % yoy</td>
<td>10.2</td>
<td>16.1</td>
<td>11.8</td>
<td>-4.7</td>
<td>3.1</td>
<td>7.7</td>
<td>3.6</td>
<td>1.5</td>
<td>0.3</td>
<td>n/a</td>
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<tr>
<td>CPI, % yoy</td>
<td>6.5</td>
<td>10.1</td>
<td>15.4</td>
<td>3.5</td>
<td>-1.1</td>
<td>4.4</td>
<td>2.3</td>
<td>0.0</td>
<td>0.6</td>
<td>0.7</td>
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<tr>
<td>Fiscal Deficit, % of GDP</td>
<td>-0.5</td>
<td>-0.3</td>
<td>-4.2</td>
<td>-9.7</td>
<td>-8.2</td>
<td>-3.4</td>
<td>-0.8</td>
<td>-0.9</td>
<td>-0.9</td>
<td>-0.9</td>
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<tr>
<td>Export Change, % yoy</td>
<td>14.0</td>
<td>22.7</td>
<td>9.6</td>
<td>-18.7</td>
<td>30.3</td>
<td>27.8</td>
<td>13.9</td>
<td>2.2</td>
<td>1.1</td>
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<tr>
<td>Import Change, % yoy</td>
<td>31.1</td>
<td>22.0</td>
<td>-3.2</td>
<td>-37.4</td>
<td>25.5</td>
<td>30.6</td>
<td>12.0</td>
<td>0.9</td>
<td>0.4</td>
<td>1.6</td>
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<tr>
<td>Current Account, % of GDP</td>
<td>-22.6</td>
<td>-22.4</td>
<td>-13.1</td>
<td>8.6</td>
<td>2.9</td>
<td>-2.2</td>
<td>-1.7</td>
<td>-2.3</td>
<td>-2.8</td>
<td>-2.6</td>
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<tr>
<td>FDI Indicator, mln EUR</td>
<td>810.5</td>
<td>955.2</td>
<td>408.3</td>
<td>-1,089.7</td>
<td>79.4</td>
<td>486.2</td>
<td>841.7</td>
<td>557.3</td>
<td>693.1</td>
<td>296.4</td>
</tr>
</tbody>
</table>

f - forecast
Source: Central Statistical Bureau, SEB, Swedbank
485 offices in 63 countries on 6 continents

United States: 146
Canada: 44
Latin America: 25
Asia Pacific: 186
EMEA: 84

€1.5 billion in annual revenue

135.8 Commercial square meters under management

15,712 professionals and staff

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