



This information was prepared by the Latvian Ministry of Economics.

MINISTRY OF ECONOMICS: ECONOMIC DOWNTURN SLOWS, GROWTH EXPECTED IN 2010

On 29 September, the Ministry of Economics informed the Cabinet of Ministers on Latvia's macroeconomic situation and stressed that further growth and economic recovery would be determined not only by global economic recovery, but also by the effectiveness of the Latvian government's economic policies.

According to the International Monetary Fund's corrected prognoses, the world's economy has begun to recover from the unprecedented recession of the last decades. Nevertheless stabilization is not unequivocal and the expected recovery is going slowly. Financial conditions have improved faster than expected mainly due to active measures undertaken by countries. New data indicates that the shrinking of the economy has slowed down. Notwithstanding positive tendencies, the global recession has not been fully overcome, recovery is slow, and financial systems have not fully stabilized.

The Economics Ministry's economic prognosis for 2009 and 2010 is based on weak external demand and a shrinking internal demand. If the 2008 economic recession was determined by a decrease in internal demand, then the main factor in 2009 has been reduced external demand. Most likely, the 3rd quarter of 2009 will reveal a sharper GDP decrease than first two quarters. However, it is anticipated that GDP reductions will gradually diminish until mid-2010, when Latvia's economy will hit the lowest point of its recession.

Compared to the previous report on the macro economic situation Latvia, the prognosis for 2009 remains constant, and anticipates an 18% decrease of GDP.

The government will continue to consolidate the state budget in 2010 and plans to substantially reduce government expenditure. As the result government and private expenditures will continue to fall. Restricted access to credit will restrict investment. Weak internal demand will decrease the volume of imports. On the other hand, as external demand grows in the second half of 2010 and manufacturer competitiveness improves, it is expected that export levels will exceed the 2009 figures. Despite positive tendencies for the second half of 2010, overall GDP could face a 4% decline in comparison with 2009.

Latvia's economic recovery could begin in 2011, if the world's financial markets fully stabilize and credit availability is renewed. This would provide a positive stimulus for domestic business and ensure a steady growth in demand for products and services in Latvia's primary export market countries.

GDP growth in 2011 is expected to increase by 1,5% in comparison with 2010.

According to Economics Ministry's experts, labour market recovery is expected a year later than the recovery of overall economic growth. It will be based on productivity and not on the number of employed. Social problems related to low employment will remain an issue for the next 3 to 4 years. The decrease in demand for labour will experience its biggest reduction in 2009 and 2010.

It is projected, that in 2009 the number of people employed will decrease in all sectors, and unemployment figures, in comparison with 2008, will increase sharply. Thus, the average

unemployment level this year could reach 16 – 17% and will remain at this level in 2010 as well. A gradual reduction of unemployment is expected only in 2011 when the unemployment level will decrease to 15 – 16% from economically active population.

An essential factor characterizing the macro economic situation is consumer price change. Since mid-2008 the consumer price increase tempo has gradually decreased, and as a result of weak demand, deflation is forecasted for the coming months.

During January – August 2009 consumer prices have increased by 0,4% in comparison with December 2008. This is more than 8 percentage points lower than during the corresponding period a year earlier. During eight months of 2009 overall, 12-month inflation has decreased to 1,8% but until December changes during the 12-month period might be negative (-0,6%). Deflation is anticipated in 2010 during the year prices could fall another 3,5%.

THE LATVIAN INSTITUTE

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