



ECONOMY

The country's development is specific among the European Union members in two aspects, i.e. on one side there is a fastest-growing in the Union GDP (about 7-8 %), on another — it has the highest in the Union inflation (about 7 %).

Some general factors reflecting Latvian economic development can be mentioned:

- Stable growth in the GDP outcome regardless of inflation and other negative trends.
- Good growth rates have been observed in service sector, in construction industry and to a certain degree in manufacturing.
- Major driving force behind GDP growth is private consumption and growth rates in export (about 34 % -twice as much as before EU accession), although with adequate growth in import (about 27 %); the old EU members constitute about half of Latvian export.
- Labour shortage as a result of massive workers' migration to, mainly, the UK and Ireland, has pushed wages up (almost 10 % of labour force has left the country for good). Labour shortage and high inflation already pushed wages up by 17 % in 2005.
- Retail sales grew by 21 %, housing loans almost doubled, new car sales increased by 48 %.
- Consumption and living standards are still well below average EU figures.
- The current account deficit is above 12 % of GDP and there is still strong demand for merchandise imports, mainly from the EU states.
- Inflow of foreign direct investments covers only a third of the current account deficit.

Source: *The Baltic Course*

MAIN INDUSTRY SECTORS

Forestry and woodworking industry is the most important export industry in Latvia, amounting up to one third of total exports. One of the success factors of the industry are the richest forest resources in Europe (Baltic pine, birch, spruce and aspen) that is strongly supported with easy access to raw materials from Russian forests, cost effective local labour and proven R&D capability.

The leading sub-sector of the industry is timber sawing (42.2 %), plywood and boards & panels (13.5 %), round wood (10.6 %) and furniture (10.6 %), most of which is exported to UK, Germany and Scandinavia, following by Japan and US.

Engineering and metalworking in Latvia, has a long history of a leading industrial sector. Latvia has been previously utilised as one of the high-tech manufacturing centres for the Soviet military and aerospace industries. Currently, it is based on contract manufacturing for foreign customers and further development of domestic construction market. The evolving trends in the metal manufacturing lean towards electronics contract manufacturing, tool production, automotive contract manufacturing and shipbuilding.

Products typically include intermediate goods, semi finished products, construction components and finished merchandise such as transport vehicles, machines and machine tools, and electrical/electromechanical apparatus and equipment. Among the biggest outsourcing orders in the industry come from engineering multinationals such as ABB, Ford, GM, Audi, Volvo and Philips.

Construction and real estate industry is one of the most dynamic sectors in Latvian national economy. The rapid growth of 12.5 % within the last three years is generated by local construction for public use along with export of construction services. The escalation of amount of shopping centres, government buildings and private housing is expected to raise the purchasing power, as consumers will wish to increase their living space in the near future.

Primary export directions for price-sensitive construction services are Sweden and Norway, and advanced civil engineering projects are executed on behalf of multinational corporations world wide.

Chemicals and pharmaceuticals are covering production of pharmaceuticals, raw materials and semi processed products, as well as manufacturing of paints, industrial and household chemicals. The industry growth is strongly supported by the rapid expansion of local construction works and metalworking, resulting in increasing R&D activities within life sciences, wood chemistry and the development of new materials for aerospace and automotive sector.

So far, the main export directions for pharmaceuticals are Russia and CIS (Commonwealth Independent States) markets (54.3 %). However, the industry expects to attract more foreign contractors for e.g. casein, glass fibre and its products as well as generic drugs.

INFRASTRUCTURE

Latvia is a transit gateway between East and West and is a binding link between its Baltic State sister-countries, namely Estonia and Lithuania. Moreover, its geographical location allows for transporting/distributing Asian and Chinese goods in Europe. The governmental policy to strengthen the economical links with Russia, has initiated the preparation processes for railway corridor to China (through Russia and Kazakhstan). This could result in cargo turnover growth at Latvian ports by up to 20 % a year.

EU membership offers broad opportunities for the logistics and distribution businesses in Latvia. In the process of improving local infrastructure, the current focus is to better integrate the sea ports and railway junctions locally as well as with nearest country-neighbours. It is planned to be finished with renovation of major highways by 2013, and the construction of the highway along the East-West transport corridor will start.