

NOVEMBER 2011 ECONOMIC OUTLOOK FOR LATVIA: ANSWERS FROM LDDK
MAIN FORECAST

<i>Annual % change</i>	2011	2012
Real GDP growth	3,5	2,5
Consumer price inflation	3,5	2,0
Unemployment rate	16,0	14,0
Employment growth	2,6	2,0
government net lending (% of GDP)	0,0	0,0
gross public debt (% of GDP)	43,0	43,5
current account balance (% of GDP)	1,7	0,5

Components of aggregate demand - in real terms

<i>Annual % change</i>		
Private consumption	3,0	3,7
Public consumption	-2,0	0,0
Investment (Gross Fixed Capital Formation)	8,0	8,5
Private non-residential investment	9,0	9,0
Exports	9,5	7,5
Imports	9,0	7,6

ECONOMIC SENTIMENT

	<i>Positive</i>	<i>Negative</i>	<i>Unchanged</i>
Trend in business climate over the next 6 months	Industry		Services

	<i>Positive</i>	<i>Negative</i>	<i>Unchanged</i>
Trend in profitability over the next 6 months	Industry		Services

	<i>Increase (faster pace)</i>	<i>Increase (slower pace)</i>	<i>Unchanged</i>	<i>Decrease (slower pace)</i>	<i>Decrease (faster pace)</i>
Investment intentions over the next 6 months	Industry				
	Services				

	<i>Global demand</i>	<i>Domestic demand</i>	<i>Cost of finance</i>	<i>Availability of finance</i>	<i>Company Profitability</i>	<i>Capacity Utilisation</i>
Influence on companies' investment decisions	negative	neutral	positive	neutral	positive	positive

	<i>Replacement</i>	<i>Extension</i>	<i>Rationalisation</i>	<i>Innovation</i>
Driving force behind investment decisions in the next 6 months	positive	positive	neutral	neutral

	<i>Industry: past 6 months</i>	<i>Industry: next 6 months</i>	<i>Services: past 6 months</i>	<i>Services: next 6 months</i>
Overall trend in employment	Up	Up	Same	Up



ACCESS TO FINANCE AND IMPACT OF THE CRISIS ON POTENTIAL GROWTH

<i>Compared to 6 months ago, cost/access to finance has been... for SMEs</i>	sharply up / restrained	up / more difficult	same Cost Access	down / easier
<i>for larger companies (>250 employees)</i>			Cost Access	
Over the next 6 months, cost /access to finance will be... for SMEs	sharply up / restrained	up / more difficult	same Cost	down / easier Access
<i>for larger companies (>250 employees)</i>			Cost	Access

	Consolidation of banking sector balance sheets	Access to capital markets	Encouraging equity financing through tax reforms	Better use of existing EU instruments (including EIB)	Greater potential for Public-Private- Partnerships
Measures to alleviate current financial difficulties for SMEs	Moderate effect	Moderate effect	Important effect	Important effect	Important effect
Measures to alleviate current financial difficulties for midsize and large companies	Moderate effect	Important effect	Important effect	Important effect	Important effect



POLICY MIX

	<i>Tight, appropriate for the euro area</i>	<i>Tight</i>	<i>Appropriate</i> yes	<i>Loose</i>	<i>Loose, appropriate for the euro area</i>
<i>Monetary policy is...</i>					
	<i>adequate</i>	<i>inadequate</i> yes			
<i>Consistency between fiscal and monetary policies</i>					
	excellent committment	satisfactory committment	neither satisfactory nor unsatisfactory yes	unsatisfactory committment	no clear committment creating an extremely
<i>Regarding the sustainability of public</i>					
<i>Exit Strategies</i>	excessive focus	sufficient focus	satisfactory nor unsufficie	unsufficient focus	so far ignored
<i>Tight fiscal rules and more effective institutions</i>			yes		
<i>Greater efficiency of public</i>				yes	
<i>Credible cost-cutting measures</i>				yes	
<i>Increased scope of public-private</i>					yes
<i>Reform of pension systems</i>				yes	
<i>Improved efficiency of healthcare sector</i>			yes		
<i>Entry Strategies</i>	excessive focus	sufficient focus	satisfactory nor unsufficie	unsufficient focus	so far ignored
<i>More and better-targeted education and training</i>			yes		
<i>More and better targeted R&D and</i>				yes	
<i>Prioritisation of infrastructure investments</i>				yes	
<i>Growth enhancing tax reforms</i>			yes		
<i>In 2015, the government deficit will...</i>	respect the 3% limit yes	be in balance no			