

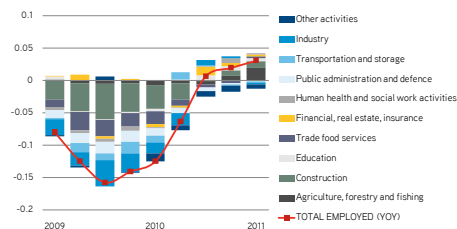


LATVIA, RIGA

RESEARCH & FORECAST REPORT

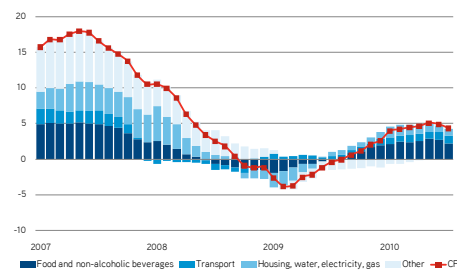
MARKET INDICATORS

NUMBER OF PERSONS EMPLOYED (YOY growth)



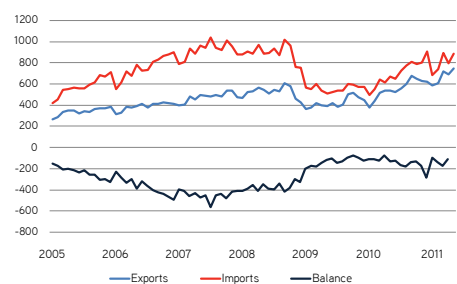
Source: CSB

CONSUMER PRICE INDEX (YOY growth)



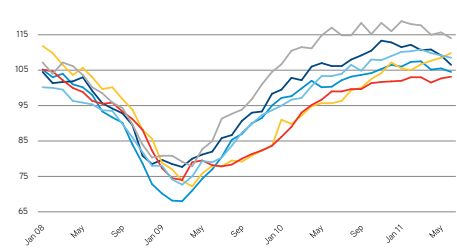
Source: CSB

IMPORTS AND EXPORTS ('000s EUR)



Source: CSB

ECONOMIC SENTIMENT INDICATOR



Source: Eurostat

1HY 2011: Export the Main Driver of Economic Growth

OVERVIEW

Although the Latvian economy is showing the first signs of economic improvement and forecasts for the next 12-24 months are relatively optimistic, the situation is again uncertain due to financial instability in the eurozone and the USA.

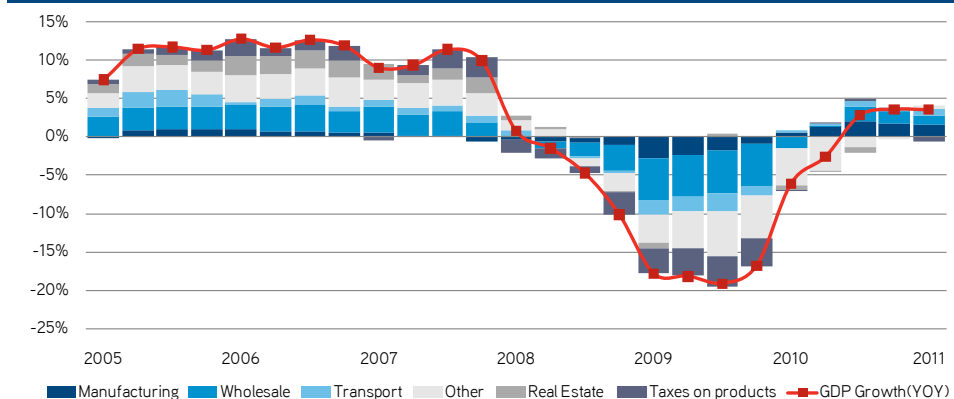
GROSS DOMESTIC PRODUCT

Recovery in terms of real GDP started in 3Q 2010 and has spread into 2011, with year-on-year growth of 3.3 per cent quarterly in 2010 and 4 per cent in 1Q2011. As a result, real GDP reached a level of 2.15 billion euro in March 2011 and according to a rough assessment of the Central Statistical Bureau grew by 5.6 per cent in the second quarter of 2011. The real GDP rise during 1Q2011 stemmed from a rise in such activities as manufacturing, wholesale and transport. Segments of the Latvian economy to decline substantially were construction and taxes on products. A considerable increase is reported in the hotels and restaurants segment (27.6 per cent y-o-y growth), as the sector recovers after a decline during 2009 and 2010. From the expenditure approach, growth in GDP stemmed from a rise in exports and inventory rebuilding, as companies had to renew resources depleted during the recession. It is worth noting that both inventory rebuilding and exports have limited capacity, as companies are expected to restore inventories in 2011 and there are local constraints for export, such as lack of skilled workforce and need to invest in production. If the Latvian economy pursues improvements and there are no new downfalls and shocks on global markets, real GDP is expected to grow by approx 4.0 per cent in both 2011 and 2012.

CONFIDENCE INDICATORS

The Economic Sentiment Indicator (ESI) has improved in Latvia by approx 10 per cent since January 2010 but its growing pace has slowed since September 2010. According to Eurostat, the indicator that increased the most in Latvia during 1HY2011 was the Construction Confidence Indicator (CCI), which suggests that business is becoming more confident about the future of the construction market.

GROSS DOMESTIC PRODUCT (YOY growth)



Source: CSB

EMPLOYMENT/UNEMPLOYMENT

In 1Q 2011, 944.3 thousand persons were employed, equivalent to 3.1 per cent y-o-y growth. Economic activities that caused the labour market to grow were agriculture, construction and education. Although the number of unemployed has been decreasing at an almost constant rate since 1Q2010, the decline cannot be attributed only to improvements in the labour market: since the beginning of 2010 the number of unemployed has decreased by 47.5 thousand, while the number of persons employed increased only by 28.2 thousand. General factors that could drive the number of unemployed down were population outflow, ability to avoid taxes and receive envelope salaries plus inactivity due to negative labour expectations.

EXPORTS/IMPORTS

Export is one of the main forces underpinning GDP growth, increasing by 40 per cent y-o-y every month since January 2011. Currently a number of export-oriented companies have reached their maximum capacity level and future growth will depend largely on production improvements. A promising sign is a shift from the wood industry to metal products and machinery, which provides more possibilities for growth and development.

INFLATION

The Consumer Price Index (CPI), a coefficient for measuring inflation, has started to edge up in comparison with corresponding periods in the previous year in third quarter 2010, soaring from 0.4 per cent in September 2010 to 2.5 per cent in December 2010 and rising by an average of 4 per cent monthly since January 2011. The leap in annual CPI growth at the beginning of 2011 is explained mainly by a Value Added Tax (VAT) increment from 21 per cent to 22 per cent, which came into force on January 1st, 2011. Another firm external force that steadily supports CPI growth is the global commodity price level, which has been climbing ever since 2HY2010. Thus, growth in CPI is largely explained by supply-related factors, such as growing costs of business, enhanced import prices and tax increases. Current and future elaboration of deflationary pressure is vague, as several factors are unevenly and uncertainly influencing price reduction.

FDI

Foreign direct investment flow in Latvia had been increasing rapidly on an exponential trend in 2003-2007, reaching 1600 million EUR in 2007. The market recession hindered further investment flow in the region, and this concern was fulfilled to the full extent, with FDI inflow decreasing for 2008-2009. Latvia saw the first improvements in 2010, when FDI returned to the 2003 level and the Latvian investment rating was upgraded by Standard & Poor at the end of 2010 from BB to BB+. FDI is expected to return to the 2004 level in 2011.

TRENDS AND FORECAST

> Forces underpinning GDP growth in Latvia during 1HY2011 were exports, household spending and rebuilding of inventories, along with improvements in the retail trade, manufacturing and real estate. Future GDP growth will depend largely on household consumption, exports and investment in fixed capital. If no new downfalls and shocks appear on global markets, real GDP is expected to grow by approx 4.0 per cent in both 2011 and 2012.

> Real net wages have stopped shrinking; average gross wages have shown a 4 per cent y-o-y increase. No significant increase is expected in the number of employed persons during 2HY2011, unless business or government invests in large projects.

> Inflation at a level of 4 per cent is expected in 2011 and 3 per cent in 2012. Measures that could be implemented by the government and that could reduce price growth are strengthening business competitiveness, equalizing incomes and reducing taxes.

512 offices in
61 countries on
6 continents

> Revenues:	€1.14 Billion
> Professionals & Staff:	12,509
> Brokers:	4,387
> Square Meters Managed:	90.9 Million
> Lease/Sale Transactions:	73,972
> Total Transaction Value:	€44.5 Billion

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