

# news2biz LATVIA

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If this country is still relatively poor, the education is just not good enough.

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Gabi Kool, the CEO of BalticMiles, believes that it could eventually grow to be the largest coalition loyalty programme in Russia. Photo: BalticMiles

## More than just frequent flyer miles

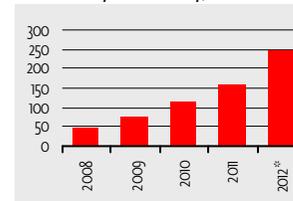
BalticMiles, having started out as a loyalty programme for airBaltic, has now grown to be a sizeable coalition loyalty programme. Its members can now earn points for free flights at 200 different places, ranging from tanning saloons to book stores. But it does not plan to stop there, as the next thing on its agenda is regional domination. **PAGE 9**

## Old name, new ideas

Norwegian mobile services provider LINK Mobility has changed its name back from LINK Mobile Solutions. But this does not mean that the company is looking back: instead, as it looks in the future, it sees a growing market for its services. **PAGE 7**

### Growing market

SMSes sent by LINK Mobility, m \*estimate



Source: Link Mobility

## Where Latvia stands now?

Morten Hansen, Head of Economics Department at Stockholm School of Economics in Riga, talks about Latvia's achievements, issues, systemic unemployment and education. **PAGE 12**

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## MANUFACTURING

### HEAT EXCHANGERS

#### Eko Air Company opens heat exchanger plant

Having invested EUR 11m, Latvian **Eko Air Company** has opened a brazed heat exchanger manufacturing plant in Salaspils, a town some 20 km from Riga. This is the only plant in Eastern Europe that manufactures this product.

"A heat exchanger ensures the exchange of heat between two different environments. The simplest example is hot and warm water, although it is also possible to use, say, glycol and freon, as in refrigeration systems," says Zintis Dzeguze, technical advisor for Eko Air Company, to news2biz. "The advantage is that, even though the heat is exchanged, the liquids do not mix, which allows maintaining high output. The system is also energy-efficient: the separator between the two liquids is a stainless steel plaque just 0.03mm thick. This also saves metal, and the prices of metal are rising."

Although the heat exchangers can be used in a variety of industrial applications, the first and most obvious use is closer to home: Eko Air plans to use its heat exchangers when upgrading the central heating system of old Soviet-era block houses.

"We clearly saw that there is a need for this product. Consider the current central heating system: it delivers the water to the house heating

system at the same pressure as the magistral pipeline. But that is not right; first, if something goes wrong with the house heating system, the entire pipeline shuts down," Dzeguze explains. "Second, you do not need this pressure at the house heating system; much lower one will work, too, and do less damage to the system. So, if you install a heat exchanger, you no longer have to deal with all the excess pressure."

Eko Air sees instant market for its products as the Baltic housing managers and local governments upgrade their heating systems.



**Eko Air Company believes that its new product already has a steady market around Europe – and its capacity will allow it to meet that demand.** Photo: Eko Air Technologies

"The Baltic market alone is too small for our capacity, but then there is Russia, Ukraine and Belarus, which all have the very same issues with upgrading. We aim to supply our products to these markets," Dzeguze notes. "We can compete there with our product, which has turned out to be really good, both efficient and affordable. We are also closer, which means that the trans-

port costs are lower and we can fulfil orders quicker."

### Fact

# 150,000

**heat exchangers is the annual capacity of the new Eko Air Company plant; at this speed, it estimates that it would cover the needs of the Baltics in a week.**

The plant's area reaches 2,400 sq.m. and its current output stands at 150,000 heat exchangers a year, although it can be expanded by adding another vacuum furnace. Its projected turnover in the first year is up to EUR 11m. It currently employs eight people, as most of the process is automatic.

98% of the plant's output is to be exported; besides Russia, Ukraine and Belarus, the company also plans to sell its products to Western Europe and Eastern Europe. The heat exchangers will be sold under the ANT (Alfa Nordic Technologies) brand.

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### BEARINGS

#### LEAX Baltic wins prestigious order from SKF

**LEAX Baltix**, one of the Latvian daughters of Sweden's **LEAX** contract manufacturing group, has won a prestigious order for so-called

CARB rings for Swedish bearings giant **SKF**. The outer and inner CARB rings will be made in steel quality specified by SKF in diameters from 110 to 240 mm.

"For us this is just one more victory," says Anna Martinova, Sales Engineer at LEAX Baltix, to news2biz. She adds that it is difficult to say whether this order will mean an increase in the number of staff at the plant, but LEAX Baltix is generally expanding anyway.

LEAX entered the Baltic market in 1998 and now has two production plants in Latvia. LEAX Baltix is situated in Pinki outside Riga and employs 137 staff. In addition to the Pinki location, Leax also has a plant in Rezekne in Eastern Latvia, **LEAX Rezekne**.

When asked if LEAX experiences the same problems with finding labour as numerous other companies note, Martinova replies:

"It is true that there are some difficulties in getting staff, especially as we need people with CNC experience. Most people have old school metal working experience, but we have staff from Sweden that train new staff."

LEAX Group is a contract manufacturer of mechanical components for the heavy vehicle, mining, construction and other industries. In 2011, LEAX Group turned over SEK 870m and employed 525 people.

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**FINANCE****STATE BUDGET**  
**Saeima passes**  
**the 2013 state budget**

This year, Latvia went on to celebrate the 18th of November, its Declaration of Independence day, with something that it has not been able to do for the last few years: a passed state budget for the next year. Usually, the budget got passed late in December and faced numerous changes later on. This time around, the budget was passed on 15 November, with 55 coalition MPs voting for and 38 opposition MPs voting against it.

In addition to being passed so very much on time, the 2013 budget also is the first in four years to be prepared without the control of Latvia's international creditors; Latvia successfully completed its loan programme in late 2011.

When addressing the Saeima before the passing of the budget, the Latvian PM Valdis Dombrovskis stressed that this budget reflects Latvia's achievements: rising GDP, increasing foreign ratings and increased tax income have all allowed to increase the budget expenditures.

"When talking about our GDP growth, the positive industrial and export data, about the fact that Latvia is the fastest growing economy in the EU, we often hear criticism," said Dombrovskis in his speech. "As in, yes, these are good numbers, but when will it show in people's earn-

ings? I believe that the most important criterion here is the salary growth. And for two years in a row we have a gradual yet stable growth here."



**Latvian PM Valdis Dombrovskis speaking to Saeima before passing the 2013 state budget.** Photo: Saeima

Still, lots of MPs were eager to put even more money in the citizens' pockets, suggesting a number of additional budget changes before it was passed in the final reading. Numerous changes have indeed found their way to the budget, increasing, for example, child support and unemployment benefits. At the same time, the government has maintained its budget deficit goal – 1.4% of GDP.

The total revenues are planned at LVL 5.666bn, whereas expenditures stand at LVL 5.824bn. The government expects that the Latvian GDP will rise by 3.7%.

**BAD ASSET RECOVERY**  
**Former Parex owners still receive interest payments**

Even though the Latvian government bailed out the failed **Parex Bank** in 2008, it turns out that it is still paying interest payments to the former owners of the bank, Valerijs Kargins and Viktors Krasovickis. In 2012, they have earned LVL 2m, and since 2010, when the bank's good assets were spun off as **Citadele**, its bad asset manager, now known as **Reverta**, has paid the two former shareholders more than LVL 6m.

The Latvian government took over the bank in 2008 at a great cost: as the bank immediately needed huge cash injections to keep it afloat, Latvia was forced to borrow money from the International Monetary Fund and European Commission. Even though Kargins and Krasovickis agreed to sell the bank for LVL 2, it later turned out that, despite the sale, they still maintained deposits in the bank's subordinated capital and continued to receive interest payments for their deposits.

Reverta explains that it is legally obliged to carry on the payments and there is very little that it can do. At the same time, Reverta has sued Kargins and Krasovickis on a number of cases, both seeking damages and trying to find a way how to stop paying the interest. Still, the legal action has been dragging on since 2010 and could only be resolved in the next years.

The situation presents a remarkable legal loophole. As the collapse of **Latvijas Krajbanka** has illustrated, Latvia only compensates deposits up to EUR 100,000; in this case, Kargins and Krasovickis own about LVL 36m.

Even though the situation is not new, it has just now attracted the attention of Latvian legislators who are considering legal changes to put an end to similar loopholes.

**PROPERTY & CONSTRUCTION****NEW PROJECTS**  
**Russians invest in new real estate projects**

Ambitious upscale residential projects used to be a thing of the past in Latvia, but now, thanks to a large Russian investor, Riga again could see the kinds of projects that were put on ice following the bust of the Latvian real estate bubble. Moscow-based construction company and real estate developer **Moskapstroy** has entered the Latvian market to develop an EUR 11m office and residential building on Elizabetes iela in the very centre of Riga.

In the Latvian market, Moskapstroy has joined forces with the local real estate developer **R.Evolution City**. The project, named Tal Residence after the Riga-born former World Chess Champion Mikhail Tal, calls for an 8-storey 32-apartment

building with floor space reaching 6,600 sq.m. The building's façade will feature various chess figures, and is expected to be finished by 2014. It is an update on a similar project first proposed in 2006.



**The Russian real estate developer Moskapstroy is bringing to life a boom years project that was put on ice.**

Photo: R.Evolution City

Unfortunately, news2biz could not reach Moskapstroy for a comment on its plans. It has, however, earlier noted that it would be interested in other projects if the Tal Residence is a success story.

The company has established a Latvian subsidiary **SIA T-Development**, which will handle the Latvian project.

The apartments will be marketed towards Russian clients, selling for EUR 3,500-4,500 per sq.m. This would be enough to meet the necessary amount a foreigner must invest in order to receive a five-year Latvian residence permit.

Moskapstroy dates back to 1957 and is the largest city building company in Russia. It has extensively worked in Russia and especially in Moscow, where it has been respon-

sible for many large-scale projects such as entire living districts of Moscow or the reconstructed Christ the Saviour Cathedral.

R.Evolution, active in the Latvian market since 2000, has been responsible for a number of upscale residential projects, both finished and unfinished.

### IN BRIEF

#### SMP buys Krajbanka's house

Russian **SMP Bank** has bought the office space in Riga, Brivibas iela 38, previously occupied by **Latvijas Krajbanka**. SMP already works at the very same building right next door to Krajbanka's former branch, so it points out that the acquisition is a logical step in expanding the bank's business. The sales price has not been revealed, but it has exceeded the original LVL 700,000 starting price.

## ENERGY & RESOURCES

### HEATING

#### Divine Heat Company: Swedish heating for Latvia

Back in 2000, the Swede Stefan Westberg had just returned to Latvia after living for some time in Sweden with his Latvian wife. He wanted to build a house for his family and being from Sweden, Stefan was skimming the market for heat pumps for water-based heating systems – and what he found did not please him.

"So I contacted **NIBE** to get one for my own house and eventually I

got a reseller agreement with them," says Stefan to news2biz. This is the way he started up **Divine Heat SIA** in 2002. The focus for the company ten years later is still heat pumps for water-based heating, most commonly including a geothermal system, but the ride has been quite bumpy along the road.

"In 2006-2007, I sold 500 pumps and had 13-14 staff and then sales plummeted so we had a very hard time with an organisation made for 500 pumps and sales hitting rock bottom," says the entrepreneur. Now, with rising energy prices and also an improving economy in Latvia, sales have been increasing and last year, Divine sold 170 pumps.



**We had a very hard time with an organisation made for 500 pumps and sales hitting rock bottom.**

Stefan Westberg of Divine Heat Company

"Most sales are for single-family houses in the outskirts of Riga where people have the space to have the geothermal pipes dug in, but we actually have clients all over the country. Selling NIBE pumps, we cannot compete for the low cost segment and 95% of the pumps we sell are for water-based systems."

The heating structure in Latvia is very fragmented. A very high degree of households have wood burning stoves or furnaces as their primary source of heat and in the case of stoves have no water-based heat system which due to the high one-off cost make it less attractive to go for geothermal heating and NIBE heat pumps. Here, an air-based heat pump is a low-cost alternative for improving heat supply.

"Also, many private homes in the central parts of Riga do not have the land area necessary for geothermal heating and they are more likely to choose gas heating when they change their heating system. But the gas network does not stretch much further than 10 km from Riga's city centre, so we have plenty of potential customers," says Stefan Westberg.

The Swede, who originally came to Latvia from his native Umeå in Northern Sweden back in 1988 with his school choir and has lived in Latvia (with a break) since 1992, is also working on other energy-related projects. They include co-generation plants for schools, hospitals and other public heat users, for which Stefan Westberg and partners have 10 licences, as well as a patented Swedish single-household wind turbine that can be used in urban surroundings, but these activities are not related to Divine Heat.

Divine Heat today has 6-7 staff that perform both sales and after-market service in places where the company has no local partner. But

according to Westberg, not much service is necessary as the heat pumps do not require periodical service, just an observant user.

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## TRANSPORT & LOGISTICS

### CAR PARTS

#### Vianor ambitious, but not ready to expand in Latvia

Even though the largest tyre retailer in the Nordic and Baltic countries, Finnish-owned **Vianor** covers neighbouring Estonia and Lithuania well, the company is not ready to expand in Latvia.

"It is always a question, how to find a suitable set-up for different markets. In Estonia and Lithuania we have found a good set-up also for future growth; in Latvia we still have a lot of work to do," says Olli Nuutila, Business Manager, Vianor Partner Operations, to news2biz.

At the moment the chain, which has just opened its 1000th outlet, has just one tyre centre in Latvia even though being in place in Latvia since 2005.

Nuutila says that the slump in 2008-2010 was "unique", but he underlines that even though the position in Latvia today is rather weak, the ambition is to grow.

"Definitely the drop in that period also postponed some projects what we had planned. But, what I

think is much more important, it did not change our strategy which is to grow and to have a good position in the whole Baltic area that we consider to be a part of our home market."



**Although Vianor has been present in Latvia since 2005, it still has just one tyre centre in Latvia – but it is not yet ready to expand.**

Photo: Vianor

Vianor started up in Norway in 1987, spread to Sweden 11 years later and to Finland and Estonia already in 1999. Lithuania and Poland were added in 2008 and now the company covers Europe from France to Azerbaijan. The network is made up of both fully owned and so-called partner or franchise outlets, but the expansion is franchiser driven and, e.g., in the Baltics and Poland, Vianor is only represented through partners.

"Our franchising system is based on soft franchising concept. It means that in co-operation we bring Vianor marketing name as well as many Vianor conceptual elements but the entrepreneur can keep their independence in many things. Also, the premises are always owned or leased by the entrepreneur, not by Vianor.

This is why we use the word Vianor partner rather than a franchisee.

By the end of 2011, Vianor had 1,370 employees and more than 3,000 in partner operations. The chain is fully owned by Finnish tyre maker **Nokian Tyres**. Nokian has roots back to 1898, made the world's first winter tyre in 1934 and was listed on the NASDAQ OMX Helsinki exchange in 1995. 15.4% of Nokian Tyres is owned by Japan's **Bridgestone**.

In 2011, Nokian Tyres grew its turnover by 37% to EUR 1.45bn, made a handsome profit before tax of EUR 359m and employed slightly less than 4,000.

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### PORT BUSINESS

#### Belarus threatens to strip Baltic ports of cargo

Belarus has threatened to redirect the majority of its industry export shipments from Lithuanian and Latvian ports to Russia's Saint Petersburg.

Belarus' autocratic president Aleksandr Lukashenko was cited as saying that such a programme was agreed with Russia's president Vladimir Putin. Apparently, Russia's higher cargo transportation railway tariffs remain the only major barrier for the plan to be set in motion.

The Latvian authorities believe that the statement is purely a political one and there is no economic

reason to move the cargo to Saint Petersburg. One possible explanation could be that the announcement is an attempt to improve Belarus' relationship with Russia. Another explanation could be that the decision is a response to the EU economic sanctions against Belarus, which Latvia has argued against. The Belarusian authorities, however, maintain that the decision is based on costs, not politics.

## FOOD & AGRICULTURE

### ALCOHOL

#### Finnish Altia buys Jaunalko, gets Arsenitch brand

In September, the Finnish listed wine and spirits company **Altia** has through its Latvian sales company **SIA Altia Latvia** (formerly SIA Mobil Plus) acquired 88% of the shares in **Jaunalko SIA**, one of the largest alcohol beverage producers in Latvia. By now, the Finns are very close to having 100% of the shares.

Altia says that Jaunalko's vodka brands Arsenitch, Kurland and Delo nr 5 are to reinforce Altia Latvia's market position in Latvia and strengthen Altia's white spirits portfolio in general. Jaunalko owns the trade mark rights of the Arsenitch brand within EU area and this is in fact the focus of the acquisition.

"The acquisition of Jaunalko is a perfect fit with Altia's strategy which focuses on the local, strong brands.

We believe that there is a great potential to develop Jaunalko's brands, especially Arsenitch Vodka, as a part of Altia's portfolio in the future," says Antti Pankakoski, CEO of Altia, in a statement.

Arsenitch is the only Russian vodka brand in Altia's own brand portfolio. It has roots in the 1860s and it has been awarded in many international vodka competitions for its great quality.

"The sales and distribution organizations of Jaunalko and Altia Latvia were combined starting from 17 September to serve customers with the new combined product portfolio," Anu Salmi-Savilampi, Altia's communications director, tell news2biz how the takeover was executed. Altia Latvia will take care of the sales and distribution in the future and SIA Jaunalko continues as the second largest spirits producer in Latvia with personnel of 34 working for the production unit. This unit is located near Talsi in Western Latvia.

Even though Altia also has an impressive position on the Estonian alcohol market, the Finns' ambitions to continue to Lithuania are limited – at the moment.

"Lithuania is an interesting market, but for the time being we are concentrating on fine-tuning the integration of the acquired business in Latvia," says Anu Salmi-Savilampi.

Altia is the leading wine and spirits company in the Nordic and Baltic countries. After the acquisition, Altia Latvia will become one of the largest

alcohol beverage producers in Latvia with the total market share of 14%.

Altia produces, markets, sells, imports and exports alcoholic beverages in its market area. Altia serves its consumers, customers and partners close to markets with its wide production, sales and logistic set-up. Annual net sales amounted to EUR 525m in 2011 and the profit before taxes reached EUR 31m. Altia has approximately 1,200 staff.

Altia's own brands, such as Blossa glögg, Chill Out wines, Explorer and Koskenkorva vodkas, Grönstedts and Renault cognacs, Jäloviina brandy and O.P. Anderson and Skåne aquavits, have a strong market position in the Nordic markets. Altia's partner brands represent both local and international brands from all over the world, such as Codorníu, Drosty-Hof, Hardy's, Jack Daniel's, Bowmore, Nederburg, Ravenswood and Robert Mondavi. In Estonia, Altia owns its own production plant in Tabasalu near Tallinn which made 4.2m litres of alcoholic beverages in 2011, including the best-selling Saaremaa vodka brand.

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## DUMPLINGS

### Polish ready-made foods firm eyes Baltic markets

U Jedrusia, one of Poland's leading ready-made foods producers, is set to begin exporting to the Baltics.

Lithuania will serve as the stepping stone for the company.

"First of all we would like to start exporting to Lithuania and then to the other Baltic countries," says Konrad Michal Andrzejewski, sales director at U Jedrusia, to news2biz. "We have already had preliminary talks with major local chains and distributors interested in the possibility of trade relations with our company. I hope that we will come to positive end of it."

The company specialises in chilled ready-to-eat products with stuffed dumplings, croquettes, potato dumplings and steamed dumplings being its top sellers.

"We think that there is a big chance to start supplying to the Baltics, mainly because our products are quite similar to traditional Baltic dishes. Most importantly, we produce chilled products instead of frozen ones and these are very popular in the Baltics," Andrzejewski says.



**Polish U Jedrusia brings its chilled ready-to-eat products in the Baltics.** Photo: U Jedrusia

"Demand for ready-to-eat chilled food is big as people today are too busy to prepare meals themselves.

We realised that some time ago and since then we have opened two big production plants to be able to supply major Polish, British and German chains." U Jedrusia's export volume stands at around a quarter of total sales.

U Jedrusia dates back to the early 1980s when it started with one restaurant. Today the company employs more than 500 staff and turns over around PLN 100m per year. Last year the company was eyed by US **Heinz**. The deal never materialised but U Jedrusia remains one of Heinz's Polish subcontractors.

We have talked to

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## LEGAL REGULATIONS

### Stricter regulations for alcohol retail

The Latvian Saeima has supported new alcohol retail regulations. Although alcohol still can be purchased from 18 years, now the buyers aged 18-25 will have to present an ID to the cashier without being asked to do so.

The new legislation also includes a number of other requirements. The supermarkets will now be required to create a separate alcohol department. It also bans the sale and use of alcohol in state and local government institutions.

The proponents of the new regulations point out that the Latvian rates of alcohol consumption among young people are among the highest

in the European Union and hope that they will help alleviate the situation.

Although the Saeima has voted to support the new legislation, it still has not passed it in the final reading, so the regulations could still be changed and adapted. For example, it is not yet clear when exactly the new regulations would come into force, what would be the exact requirements for the separate alcohol departments in supermarkets or what would be the punishment if people of legal drinking age do manage to purchase alcohol without showing the mandatory ID.

## IN BRIEF

### Swine fever reported

The Latvian food safety watchdog Partikas un veterinārais dienests (PVD) reports that it has detected two cases of classical swine fever in wild boars in Latgale region. PVD has issued warnings to pig farmers in Latgale and has announced a quarantine in parts of Latgale. It is checking the livestock in quarantine areas, but so far has found no cases of the disease among domestic pigs.

Meanwhile, Latvia's neighbour Belarus has responded to the disease outbreak by banning pork imports from Latvia.

Classical swine fever is a highly contagious infectious disease which, while being unharmed to people, usually is fatal in pigs. The last time a case of the disease was reported in domestic pigs in Latvia was in 1996.

## IT & TELECOM

### MOBILE TELECOM

#### LINK Mobility goes back to its old name

The largest Nordic and Baltic provider of mobile services – such as messaging, customer dialogue and mobile payment – has gone back to its former name **LINK Mobility**. The Norwegian company has changed its name back from LINK Mobile Solutions, the name it took in 2011, when it acquired its competitor **Aspiro Mobile Solutions** (see no 323 page 10). The company explains that the new old name is shorter and communicates the message more clearly.

The change also means renaming the company's Baltic offices: the Baltic head office in Riga and the Estonian office in Tallinn.

"The Riga office is our main Baltic office, and we handle all Baltic business activities from here," says Madars Sondors, Regional Manager for Link Mobility, to news2biz. "We have sales, operational and technical staff in Tallinn. Even though the product is mobile, we still need an office where our partners can come and meet us.

Estonia is the largest market Link Mobility has in the Baltics: it is a clear market leader in the country, and about 50-60% of the group's Baltic turnover comes from Estonia. Latvia and Lithuania each account for about 20-25%.

"We also have lots of foreign clients from countries like, Germany, the Netherlands, Russia, Israel, Finland, England, or Poland who cover the entire Baltic market from Latvia."

#### Two products, two markets

In the Baltics, the company focuses on two kinds of SMS solutions – SMS payments and SMS communications/SMS dialogues, two distinct markets with two distinct growth potentials.



**SMS communications are the most effective tools of reaching customers, as they always have their phones with them.**

Picture: LINK Mobility

"SMS payment are used, say, for mobile games portals or social networks who allow their users to pay for the services by SMS," Sondors explains. "Here, the market has already reached a position where all providers are able to provide pretty much the same price, so what really matters is service and how the payment company treats its clients. What we do is that we treat all our clients as partners – quite literally, too. We often start co-operating with some company with providing SMS payments, but then we end up working together on some other project

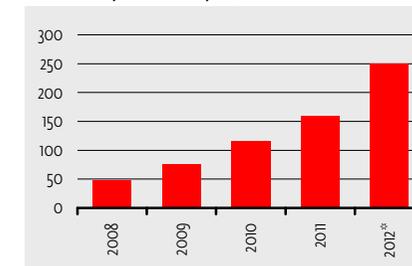
that we already offer to other clients."

Sondors notes that the market for SMS payment is stable at best; there is little room for growth. The SMS communications market, however, is quite different both in its outlook and nature.

"The communication SMSes are sent by retailers, grocery and clothing stores, banks, energy companies, travel operators, e-commerce, insurance and brokerage companies, media enterprises, cable TV and internet service providers, health service providers and more with a database of clients. For example, one may send loyal customer discount offer, birthday greetings, reminders about dentist appointments, information about insurance renewals and such. We focus more on these solutions, as this market is growing: we plan to send 250m SMSes within the entire group this year."

### Growing market

SMSes sent by LINK Mobility, m; \*estimate



Source: Link Mobility

Sondors is quick to point out that the quality is important here, too, as

it is all too easy to disregard the messages.

"SMS communication is not just spam you would receive from shoes or underwear stores; it also can be tailor-made," he notes. "For example, we provided a mobile loyalty programme for **Carlsberg** brewery's **Tuborg** beer in Latvia, **GreenPass**; people would buy beer and send an SMS with a code printed on the back of the label, thus earning points which later can be redeemed to receive concert tickets. There have been more than 3m unique value codes generated for this project since the first mobile loyalty programme in the Baltics was launched in August 2010."

Sondors is convinced that, at least in the near future, SMS communication will maintain its important role.

"Feedback-wise, SMS communication will still be the Tool Number One. SMS always works; people always have their phones with them and it does not require any special apps or data connection. Yes, smartphones do offer increasingly interesting options, but they still are not that widespread."

He also believes that Link Mobility can successfully compete in the rather saturated SMS communications market.

"One thing we see in SMS communications is that some players treat messaging/dialogue into something of a commodity market. Just like you need a barrel of oil and you buy a barrel of oil. Still, I believe

that this very much cuts the option to develop more customised solutions, such as the Tuborg loyalty programme."

"The Baltic market is small and everybody knows each other very well; we also co-operate with each other when we need to. For example, our competitors use our networks to provide SMS payment services to their customers in those countries where they have no coverage. We can offer the direct coverage towards all mobile operators in all Baltic and Nordic countries for SMS payments, and worldwide messaging/dialogue coverage."

Link Mobility has offices in Riga, Tallinn, Oslo and Stockholm. Its 2011 sales reached EUR 43.2m.

We have talked to:

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## IT SERVICES

### Finnish 3 Step IT seeks expansion in Baltics, Russia

**3 Step IT**, the Finnish IT services company, has set itself to growth on all main markets, including the Baltics and Russia.

3 Step IT's last year's turnover grew by 30% year-on-year to EUR 392m. The company established subsidiaries in Asia – Hong Kong, Malaysia, and Singapore – and jumped to the 3rd spot among Finland's largest IT enterprises, according to the Finnish business magazine *Talouselämä*. In 2015, the

company expects to reach EUR 1bn in yearly turnover.



**3 Step IT's computer refurbishing centre in Finland.** Photo: 3 Step IT

The three Baltic countries have to contribute along with 14 other markets to that ambitious target. "My estimate is that our business grows by 10-15% in Estonia and 20-30% in Latvia and Lithuania," says Mika Gröndahl, newly appointed director of Baltics and Russia in 3 Step IT, to *news2biz*.

"In Russia, our business is in the start-up phase, so the growth may reach even up to 100% there," he notes. "There are other issues with the Russian market, though. We are similar to pioneers there as the concept of leasing IT is fairly new."

In Lithuania and Latvia, 3 Step IT has been also present for years – still the company's business volume there is not comparable to that of the Estonian unit. In Lithuania, for in-

stance, 3 Step IT has only 2 employees on the payroll.

In Estonia, 3 Step IT has been present since 2001. The Estonian subsidiary turned over EUR 3.3m in 2011, a y/y drop of 8%. The company employed 22 staff by the end of last year.

"This is about to change – we plan to grow our business in both countries and also hire more people," says Gröndahl. "At least 1 employee will be added to both Latvian and Lithuanian offices."

"Yet, we intend to grow in a manner that the growth would be reasonable and the business would remain profitable. That is, new personnel will be hired correspondingly to new contracts and clients added."

According to Gröndahl, the southern Baltic markets have more potential than Estonia, even though the company has had more success in the northernmost Baltic country. "The Estonian market is already somewhat more mature and competition runs high," he notes. "We need to implement new services and add more value to the customers in order to be able to grow."

3 Step IT helps enterprises and organisations to cope with their IT needs by financing IT equipment, and replacing and recycling it when it becomes too old. The company has refurbishment centres in Finland and Sweden, in addition it contracts several partners in other markets. In total, the company employs 220 and has over 1.2m clients globally.

The company is owned by its founders (55%), employees (14%) and institutional investors (31%), including pension funds.

We have talked to

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## RETAIL & SERVICE

### LOYALTY CARDS

## BalticMiles grows in Latvia and abroad

The local loyalty programme company **BalticMiles** has announced seven new partners in Latvia. Ranging from a chain of tanning parlours to chocolate manufacturers, the new companies bring the total number of BalticMiles partners up to 200, of which about 80 are in Latvia.

As the name suggests, BalticMiles started out as a frequent flyer programme for airBaltic. In early 2011, however, BalticMiles switched to being an independent coalition loyalty programme. It no longer is just the frequent flyer programme: its members now can earn points at a large variety of places who, in turn, do not have to maintain their own loyalty programmes. The collected points can – and often are – be used for free airBaltic flights.

"Our relationship with airBaltic is threefold: airBaltic is our shareholder, airBaltic is a partner where our clients can earn points and it is also a partner where they can spend

points," says Gabi Kool, CEO of BalticMiles, to news2biz.

"Two-thirds of all the points are not earned with airBaltic, but about 80% of them are spent with the airline," he adds. "No matter where they live, people usually tend to use their points for the most aspiring reward, which in this case is free travel."

When BalticMiles became an independent company, it had 30 members. Kool explains how they have grown: "We look at the things households spend their money on; there are about 20 different categories, such as sports goods, pharmacy and books. So our strategy is to try to team up with someone who is a market leader in a particular category. When we have found a partner in a particular category, we do not look for another partner in the same field. For example, we have teamed up with **Janis Roze** [one of the leading bookstore chains in Latvia – ed.], so we are not looking for another bookstore, because that would mean Janis Roze would lose its competitive edge."

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**If you partner with others, everybody brings their own customer base to the table.**

Gabi Kool, CEO of BalticMiles

So what is the benefit for the partner companies? "It is quite expensive to run your own loyalty programme. We have one IT system and one card, which means we divide the costs between the partners, so it is always cheaper than having your own programme," Kool explains.

"Another thing is that if you have your own loyalty programme, you can only build more loyalty with your existing customer base. If, however, you partner with others, everybody brings their own customer base to the table."



**One card, 200 partners: BalticMiles has grown to become a coalition loyalty programme, and it aims much higher than that.** Photo: BalticMiles

"Finally, if you analyse what the average Latvian household spends on, say, sports goods, it is about 35 EUR. If you are a sports chain and run your own programme, you can maybe invest 2% of these 35 EUR back in your own loyalty programme. So after a year, you can give back about 1 EUR to your customer. Why would you want to carry

your loyalty card with you for just 1 EUR? Being in a coalition allows for saving for much larger goals."

In addition, BalticMiles also runs a staff incentive programme for its partners. The employees are encouraged to tell their clients about the programme and explain its advantages. When they reach a certain number of new members, the partners get bonus points to distribute among their workers – who then can redeem them for free travel.

### Expanding abroad

The programme is not limited to Latvia: it has about 600,000 members, 200,000 of which are in Latvia. The rest are spread between Lithuania, Estonia, Finland and Russia, and BalticMiles sees good growth potential in these markets.

"We recently completed a deal with **Pohjola**, the largest bank in Finland, about releasing a co-branded credit card in Finland. Last year, we saw the fastest growth in Russia, and we eventually strive to be the largest loyalty card company in Russia. We have completed agreements with two large Russian banks, which is our entrance strategy: they work with lots of smaller merchants, so we will also reach them through these banks. Next year, some 40% of our revenue will come from Russia."

BalticMiles plans to reach 5m members by 2015, and this number cannot come from Latvia or the Baltics alone. The company hopes to

have some 1-1.5m members in Finland by then, but the majority would come from Russia.

"We have more optimistic and more pessimistic scenarios, but we think that this one is realistic," Kool notes.

He agrees that the BalticMiles brand does sound a lot like a frequent flyer programme for airBaltic, and the brand's recognition beyond the Baltics is limited. The company is not planning to change its brand as it has already invested a lot in it, but it does plan some regional adaptations; the BalticMiles currency, now known as points, could bear different names in different markets.

Kool concludes: "The great thing about BalticMiles is that it is a knowledge-based, home-grown company. I am the only foreign expert; the rest is Latvian workers. We are exporting nothing else but knowledge."

We have talked to

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## FASHION RETAIL

### Spanish Cortefiel plans 50 Baltic stores in 5 years

Spanish fashion retailers are beefing up their Baltic presence. **Grupo Cortefiel**, Spain's second biggest player in the sector, has just launched its first Baltic stores in Riga and plans to bring the number in the three countries to around 50.

In Spain, Grupo Cortefiel is second only to **Inditex** whose key

brands (Zara, Pull & Bear, Bershka) have been represented in the region by Lithuanian **Apranga** for several years.

Grupo Cortefiel's Baltic debut took place in Riga in November with three stores in the Galleria Riga shopping centre, cortefiel (urban style fashion for men and women), Springfield (casual wear for men and women) and women'secret (women's underwear and swimwear). Springfield and women'secret are Grupo Cortefiel's brands with most stores worldwide.



**With 50 stores Spanish Cortefiel is set to boost competition among Baltic fashion retailers.**

Photo: Grupo Cortefiel

According to a press release from Grupo Cortefiel's Baltic franchise partner **KarKat Fashion**, the Riga openings totalling around 700 sq.m and 35 jobs cost EUR 0.8m.

Next year KarKat Fashion plans to open 12 Spanish stores in the three Baltic countries. These further openings will also include Grupo Cortefiel's fourth brand, Pedro del

Hierro (for contemporary, self-confident women).

"First Cortefiel stores in Lithuania and Latvia will open in spring 2013," KarKat Fashion's CEO Katrin Horn has told news2biz. She asked to email her any additional questions but has failed to get back with answers, including about KarKat Fashion owners and managers' experience in fashion retail, by the publication deadline.

Set up as recently as in May 2012, KarKat Fashion seems to be connected to the owners of Estonian **Riverside**, a property developer.

Grupo Cortefiel's Baltic entry is the second piece of good news for healthier competition in the Baltic fashion retail market. Earlier this autumn, Swedish **H&M** opened its first Baltic stores, also in Riga, and plans fresh openings in 2013 (see no 343 page 11). The new opening is also a welcome development for the Galleria Riga shopping centre. The mall opened in 2010 at the very height of the Latvian retail slump, and it is still struggling to find enough tenants.

Grupo Cortefiel dates back to 1946. Today it has more than 1,800 stores (more than two-thirds owned, the rest are franchise operations) in 63 countries. In 2011, the group turned over EUR 954m with 8,300 staff. The company sources its products from Spain, Hong Kong and India.

We have talked to

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## WORK CLOTHES

### Snickers back in Latvia after construction slump

The opening of Estonian work safety chain **Tamrex**' first Latvian outlet in Riga on 1 November means that the Swedish work clothes and safety brand Snickers Workwear is back in Latvia. Or rather, it hasn't really been gone, as the clothes are actually made in Tukums, but on the sales side, they are back now.

"We've had a fantastic cooperation with Tamrex in Estonia for more than a decade and we wanted them to open a shop in Latvia to re-enter the Latvian market. Now they have started up," says David Lekås, manager Export and Business Development at **Hultafors Group**, to news2biz. Hultafors Group owns the Snickers brand that it markets with sister brands Wibe (ladders) and Hultafors (measuring tools, axes, etc.)

Tamrex' new Riga shop is located on Maskavas iela 328 and Snickers does take up a significant part of the selection there.

"Until 2008 or 2009 we had a small sales company in connection with our manufacturing unit in Tukums, but we closed it down in connection with the crisis. It was a small operation with just two staff," says Lekås.

He adds that unlike in Latvia, the Estonian market, which has been maintained by Tamrex, has not seen a significant slump.

"Even though construction has taken a beating, we still see our sales growing, because things are moving in our direction. Safety is becoming more and more important and workers find out they want clothes and aids that keep the hips, back and other joints in working order, so that they can take a 40-year career in construction. Further, many Baltic construction workers have been working in sites in Western Europe and they are affected by what they see. It is a question of a maturing market – and I think you can say it is maturing from north to south," says Lekås.



**Hultafors and Tamrex see growing sales as safety is becoming increasingly important.** Photo: Snickers Workwear

Hultafors Group has 650 employees, an annual turnover of SEK 1.2bn and sales operations in more than 37 markets worldwide. The Swedes have also recently opened a sales company in Poland. The Snickers work clothes & safety brand has nothing in common with the **Mars**

**Inc.** chocolate bar – 'snickare' is the Swedish word for carpenter.

Tamrex was founded in 1999 and its turnover in 2011 stood at EUR 12.2m with stores back then in Tallinn, Tartu, Rakvere, Pärnu, Viljandi, Jõhvi, Võru, Valga, Narva and Haapsalu and more than 300 points of presence in Estonia.

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## CONSULTING

### Dia Logs: Happy workers are more productive

Increasingly often, Latvian businesses complain that it is hard to attract and keep the right kind of workers. **Dia Logs**, started by Dr Psych Egita Gritane of Latvia and Kurt Engelen of Belgium, offers a new insight on the issue: it helps companies improve the interpersonal relationships between its workers – who may even come to realise that work can actually be rewarding and satisfying beyond the paycheck.

"We studied human resources together, and Egita was starting her PhD in psychology. We talked, and we decided that it would be a good idea to use this knowledge and make it available to companies instead of just keeping it in the academic world," says Engelen to news2biz.

"We bring the core psychological concepts to all kinds of companies. The basic idea is managing the hu-

man aspect within any company," says Gritane to news2biz.



**Dia Logs helps companies find new insights how to overcome their old problems and move ahead.**

Photo: news2biz

According to Dia Logs, their mix of skills is the perfect combination for tackling company problems. "The very big advantage is that I am not a psychologist, but I have developed more than ten different companies and I know where things go wrong; I know why people fail to work together and how different cultures do not mix," explains Engelen, adding: "Different cultures are not just people coming from different countries: try putting an engineer and a salesperson together and telling them that they both work for the same company and should co-operate. It will not work."

"At the same time, I know that there are ways how to work on that. I do not know how, this is what Egita does, but I can go to a company and make them recognise the problem and tell them that there is a solution. I cannot implement it myself, but there is a member of the team who can."

## Not another consulting firm

This mix provides Dia Logs some unique advantages. For example, instead of coming up with their solutions, Dia Logs helps companies to come to a solution themselves.

"We bring different insights to the managers and encourage looking at the company from different angles. Companies live on different stages of development, and we look at what stage they are; we do not bring any ready-made solutions. We offer the company what can work for them at this stage to help them develop to the next stage," Gritane explains. "Sometimes we see that companies already have some solutions created by previous consultants, but they do not really work. Then we say that all the solutions already are within the company: all we do is bring them out and make them work."

Engelen adds: "You do not come to a company, take away everything that has happened before and build something new; you have to add to what is already there. Very often, very valuable things have already happened inside the company, and we can build on them. It is with evolution, not revolution, that you get the best results."

With this kind of thinking, Dia Logs is almost unique in its niche: "We do not compete with other consulting businesses; we co-operate. In the niche that we are in, there are not that many people around. There are some other people who generally

operate from an academic background, with little knowledge as to how companies work. We believe that Dia Logs is unique; in one company, we have the psychological knowledge and business knowledge how companies work."

More notably, this knowledge can actually cost less than other consulting companies.

"When we come to a company, they see us as outsiders and immediately view us as consultants – and with that they immediately think of the rates large consulting companies would charge," says Engelen. "But we do not have a team of five people sitting six months in a company; we do workshops. Actually, when we made our first quotation, people were very happy, noting that this is something that they can fit in their budget. This is nice to hear; it shows that you do not need to overprice to be good."

### Right product, right time

So do Latvian companies really need and appreciate this product, or is, say, finding new export markets a higher priority than increasing understanding between the company workers?

Says Engelen: "Some people would suggest that what we do is still too early and Latvian companies are not yet at this stage of development. This is not true; Latvian companies have the very same human problems as any other company in the world."

Surprisingly, there has been notable demand.

"With my background in marketing and sales, I was making estimates how many people we would have to visit before we meet one person who is interested," adds Engelen. "I had to revise my entire plans; very quickly. Before long, we had the first senior executive asking us: "When can we start working together?" So there is a need, there is willingness, there is a market and there is the competence to feed the market. I am very confident in this business."

We have talked to

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## ECONOMY & POLITICS

### INTERVIEW

## Morten Hansen: Latvia back to much stabler growth

Morten Hansen, Danish economist and Head of Economics Department at Stockholm School of Economics in Riga, has been living in Latvia since 1994, so he has seen most of Latvia's changes first-hand. Even though he agrees that there are still some deep problems in Latvia, he notes that the Latvian economy is now growing on a much stronger basis: it is no longer based just on credit bubble or exports, and the growing internal demand could help it carry through if

some part – such as the exports – fails.



**Morten Hansen**

- ▶ Head of Economics Department, Stockholm School of Economics in Riga
- ▶ Research Associate, Baltic International Centre for Economic Policy Studies
- ▶ MSc in economics from Aarhus University, Denmark
- ▶ Lived in Latvia since 1994
- ▶ Also has held lectures at University of Latvia, SEB, Bank of Latvia and others
- ▶ Author and co-author of dozens of research papers and articles on the Latvian economy

news2biz spoke to Morten Hansen about his view on the current state of the Latvian economy and estimates for the future.

### ▶ We see a more widespread growth and rising internal consumption, but can the internal consumption really continue if the exports fail?

Yes, the growth came from the exports. They were the first thing to take the country out of the recession, and that is not too strange, either. If you have recession in the country but there is demand on the outside, you can expand in exports. So more people are employed in exports, earn more money to spend here, and the growth spreads from the exports.



**If the exports were to fail, there still would be no reason why the growth would go back to negative.**

Morten Hansen of SSE Riga

But now the growth is in all the major sectors, not just coming from the exports. If the exports were to fail, there still would be no reason why the growth would go back to negative. Rather, what is likely to happen is that, as the exports slow because of the developments in the eurozone, there will be not so much

extra development coming from them into the rest of the economy. The growth rates that we see will slow down: they will not stay around 5%. But my guess is that they still will remain positive.

► **Latvian producers have now regained their competitiveness. Could that become an issue again as they are forced to raise salaries because of the lack of workforce?**

I do not expect the very same things to happen again; things went pretty wild in 2005-2007. It was also helped by the credit boom which helped create enormous amounts of activity.

Still, you have to be careful. Migration indeed could create some push to increase the wages. I just hope that, this time around, something will be done before it becomes a really serious problem.

Also, things are no longer moving as fast as they did in 2005-2007. Back then, it would have been very difficult to stop the development, because every single thing in the economy back then was creating boost: credit boom, EU structural funds coming in, lots of optimism that things can only go well – all things reinforced each other. Right now, things are moving slow. This could also be the right time for some policy change.

► **Even though Latvia still retains high unemployment figures, an increasing number of businesses com-**

**plain about the lack of workers. How can you explain this?**

It is something quite typical for many Eastern European countries, and a lot of it is left over from the Soviet times, when lots of people were educated in fields like engineering, maths and science – the kind of professions we have little demand for anymore because we have a service economy. Still, I am a bit surprised that twenty years later we still see that effect; it should not be like that.

If we compare the Baltics to Denmark, we see that we can never have unemployment as low as there, because structural unemployment is not that much of an issue in Denmark. Some people are still living in countryside where there is not that much employment; for example, Latgale has always had high unemployment.

Some of it will end with a generation change; some people will just retire without ever having had much of a job. But I think that it is a waste of resources, to say that we do not care about 10% of our labour market. Those people should have been re-educated, which I have never seen as a big priority for the government.

► **Could entire Latvia eventually end up as a sort of countryside in the European Union with little job prospects and all the successful people moving to bigger countries?**

This is something we see all over Western Europe: people move away

from the countryside and into the big cities. That is where the jobs are in the service economy.

But I am afraid that your comparison is quite good: yes, in the European Union, Latvia indeed is a bit of countryside. There are lots of jobs that will remain here: there are resources of wood and land, and there is also the opportunity to provide banking services to Eastern clients, where you have an advantage, as you know the language and share a common background.

Still, if you have free movement in the European Union, there is not much you can do.

► **What are some fields that make good investment opportunities in Latvia?**

There are the natural resources such as forestry. But what we need to see are large, comprehensive industries which use human skills. Of course, there are many individual things, but you do not see any major industries here which rely on that – except banking. Banking is obviously very big here, and it clearly uses the human capital. But other than that – people have talked about IT, but Latvia has not done that much in IT.

This probably also suggests that there are not enough people who are trained in IT. This is a case of "build it and they will come." If people have the IT skills, investors will come. But, if the investors are not coming, there is lack of skills.

If you look at education here, you see a very strong focus on busi-

ness education. There is even data showing that, percentage-wise, there are more people being educated in business, economy and related fields in Latvia than anywhere else in the European Union. This probably creates a disbalance, such as the lack of engineers.

If investors do not invest in industries that take advantage of human skills, then for me this means that there are not enough skilled people.

► **Why is that the case, considering that Latvia has a high percentage of people with university education?**

It is an issue of quantity versus quality. Yes, the quantity is huge, but it is an indicator that the quality is lacking. Quite frankly, this country is the third-poorest in the European Union, and I strongly believe that there is a huge correlation between education and the wealth of country. Therefore, you can say that, if this country is still relatively poor, the education just is not good enough.

What you need is better universities. There are pockets of good universities here, but if you look at the rating of the best 500 universities in the world, you can find 22 universities from the Nordic countries. How many from the Baltics? Zero, and only five in Eastern Europe. It still is very much a Soviet thing, and universities are very slow to change.

Another important thing would be the vocational education. Perhaps Latvia is even emphasizing university education too much; I would

very much like to see more vocational education and people getting training in trades. Even though I am a teacher of economics, I do not want everybody to be a business economist. But that is what has happened too much in the past twenty years.

We have talked to

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## EDUCATION

### Massive protests against Minister of Education

Foreign observers have often praised Latvians for their unshakeable patience and willingness to accept tough measures without any protesting. Yet you could not tell that by looking at the number of complaints the Latvian government has been facing: numerous groups have asked for its ministers to step down for various reasons, often complete with loud protests and demonstrations.

The latest minister to face the collective wrath is the Latvian Minister of Education Roberts Kilis. His ministry has proposed a number of radical education reforms aimed at increasing its competitiveness. His stated aim is getting at least two or three Latvian universities in the Top 500 list of best universities in the world by 2020. In order to do that, Kilis is considering a re-evaluation of study programmes and focusing on the quality ones. Those deemed less valuable would lose state funding.

Kilis' plans have sparked massive protests among those universities whose programmes are most likely to be axed. The Latvian student union Latvijas Studentu apvienība has forwarded a letter to the Latvian Prime Minister Valdis Dombrovskis asking him to dismiss Kilis; Dombrovskis has declined the request. The opposition has been growing, however: seven Latvian universities have joined the request to dismiss Kilis, including the Art Academy of Latvia, Latvian Academy of Culture and the engineering-oriented Riga Technical University.



**The Minister of Education Roberts Kilis faces large popular protests and opposition from universities, asking him to step down.**

Photo: Art Academy of Latvia

Interestingly enough, the protesters claim that they do support education reforms, but they are against Kilis, noting that his reform proposal is just a presentation, not a proper document. To address the issue, Kilis is now preparing a more "bureaucratic", as he puts it himself, version of the reforms.

## SOCIAL ISSUES

### Protests against Berzins' comments on poverty

The President of Latvia Andris Berzins has lately been under attack for his recent comments about poverty in Latvia. According to the Latvian Ministry of Welfare, one-fifth of all people in Latvia live at the risk of poverty, earning less than LVL 150 a month per each member of household. Berzins previously questioned the data, suggesting that the shadow economy may explain why the official incomes are so low.

Berzins' comments have sparked massive outrage from Latvians who accuse him of disregarding the Latvian social issues. An activist group has even started a campaign and a petition for Berzins to step down.

Berzins, a former banker, is a millionaire who also receives a very generous pension. He was elected when his predecessor Valdis Zatlers was enjoying sudden and widespread popular support due to Zatlers' decision to dissolve the Saeima, and his election was widely seen as against the wishes and interests of Latvian people. Together with his advanced age, this has led to claims that he has increasingly weak grasp on the reality most Latvian people face.

Berzins has since apologised for his remarks, saying that he has not explained the issue clearly enough.

## IN BRIEF

### Pavluts vs Krugman

The Latvian Minister of Economy Daniels Pavluts has published an article in the Wall Street Journal in response to Nobel prize-winning economist Paul Krugman who earlier criticised Latvia for exaggerating its success story. More specifically, Krugman suggested that Latvia hardly counts as successful example of overcoming recession, as its GDP still remains 15% below the pre-recession level. Pavluts points out that the pre-recession growth can hardly be seen as an indicator of healthy economic growth, as the economy was highly unbalanced. This time around, Pavluts believes that the growth is much more balanced and sustainable, confirming that the austerity measures were a success.

Read Pavluts' response online:  
<http://online.wsj.com/>

## EVENTS

### SCC Business Lunch

The Joys and Miseries of Work-Out Banking: a business lunch with Christopher Gwilliam, CEO of Reverta. He has over 40 years experience in the financial sector, specialising on Recoveries. Since 1 August 2010, he is the CEO of Reverta, formerly known as Parex.

Time: 27 November

Place: Clarion Collection Hotel Valdemars

Organiser: Swedish Chamber of Commerce in Latvia

Details: <http://www.scc.lv>

**AmCham Outlook**

The road to the Euro: no more bumps ahead for Latvia? An event with Martins Kazaks, Chief Economist for Swedbank Latvia, Hardo Pajula, Independent Economist and Vesa Vihriälä, Managing Director for Research Institute of the Finnish Economy.

Time: 28 November, 15:00-18:00

Place: Stockholm School of Economics

Organiser: American of Commerce in Latvia

Details: <http://amcham.lv>

**B2B LIST networking event**

Mixed business event. Running an enterprise with 200-300 employees or 1 man show company? Developing IT software or a metal producer? This event is for everyone! Get new ideas by communicating with active business people from various fields, present your company and products to everyone in the room.

Time: 28 November, 15:30

Place: Stockholm School of Economics

Organiser: Prime Recruitment

Details: <http://www.b2blist.lv>

**Joint Chamber After Hours**

The role of corporations in the fight against corruption: Business after Hours at KPMG Baltics. The following experts will share their experience and best practices in anti-fraud efforts: Jimmy Helm, Head of KPMG CEE Forensic, and Juta Stike, Deputy Director of the Latvian corruption watchdog Korupcijas noversanas un apkarošanas birojs (KNAB).

Time: 29 November, 18:30-21:00

Place: Rietumu Banka

Organiser: American, British, Norwegian and Swedish Chambers of Commerce in Latvia

Details: <http://amcham.lv>

**Christmas Charity Bazaar**

Shop for interesting and unusual Christmas gifts, taste different national cuisines, bid on special offers from restaurants, spas and hotels, meet hockey players from Riga Dinamo, taste a seasonal menu created by Martins Ritins (Vincents), and, of course, meet Father Christmas.

Time: 1 December, 11:00-16:00

Place: Riga Town Hall

Organiser: International Women's Club of Riga

Details: <http://www.bccl.lv/>

**BCCL Monthly Dinner**

The ultimate dinner of 2012 with Prime Minister Valdis Dombrovskis. Mr Dombrovskis will look at the achievements of his government and present his vision for Latvia going forward. The owners of the restaurant have also kindly offered three raffle prizes for the door raffle: overnight stays at great hotels in Vilnius and Tallinn.

Time: 3 December, 18:30

Place: La Boheme Restaurant

Organiser: British Chamber of Commerce in Latvia

Details: <http://bccl.lv/>

**AmCham Christmas Reception**

Get in the holiday spirit with American Chamber of Commerce! Programme includes lighting a Christmas tree, musical

performance, carolling and a holiday greeting by AmCham President and the US Ambassador.

Time: 5 December, 19:00-21:00

Place: Hotel Bergs

Organiser: American Chamber of Commerce in Latvia

Details: <http://amcham.lv/>

**DBHK Seminar**

Privatisation of state companies in Latvia: a seminar with German-Baltic Chamber of Commerce.

Time: 6 December

Place: to be announced

Organiser: German-Baltic Chamber of Commerce

Details: <http://www.ahk-balt.org>

**AmCham Luncheon**

A leap towards a better future: a luncheon with Valdis Dombrovskis, the Prime Minister of Latvia. He will address questions such as Latvia's continued commitment to reforms, its plans to join the Eurozone, given the current uncertainty in Europe, and improving the investment climate to boost investors' confidence.

Time: 7 December, 11:30

Place: Radisson Blu Hotel Latvija

Organiser: American Chamber of Commerce in Latvia

Details: <http://amcham.lv/>

**NCCL Christmas Party**

NCCL welcomes all members and friends to the traditional Christmas Party. The celebration will include a delicious Christmas buffet, lottery and live music entertainment.

Time: 7 December, 19:30

Place: Restaurant Piramida, Radisson Blu Ridzene Hotel

Organiser: Norwegian Chamber of Commerce in Latvia

Details: <http://www.nccl.lv/>

**BCCL Christmas Party**

The traditional Christmas party of the British Chamber of Commerce in Latvia.

Time: 13 December, 17:00

Place: to be announced

Organiser: British Chamber of Commerce in Latvia

Details: <http://www.bccl.lv/>

**DBHK Business Lunch**

Business Lunch with Valdis Dombrovskis, Prime Minister of Latvia.

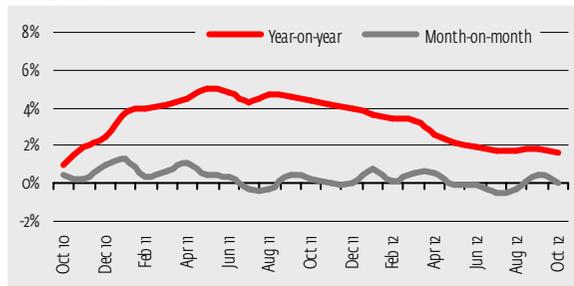
Time: 17 December

Place: to be announced

Organiser: German-Baltics Chamber of Commerce

## KEY FIGURES

### INFLATION



Source: The Latvian statistical office, Centraļa statistikas parvalde

### PRODUCER PRICE INDEX

On monthly basis	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12
100 = previous month	100.9	99.6	100.2	100.5	102.1	100.0	100.2
100 = same month prev year	104.0	102.6	102.3	102.1	108.1	102.6	102.9
<b>Year</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
100 = previous year	107.1	112.6	112.2	109.2	91.6	103.1	107.7

Note: Producer prices are prices of industrial goods excluding VAT and other taxes.

Source: The Latvian statistical office, Centraļa statistikas parvalde

### INDUSTRIAL OUTPUT INDEX

On monthly basis	Mar '12	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12
100 = previous month	102.0	98.8	101.9	101.0	103.3	102.0	97.2
100 = same month prev year	108.5	103.8	106.0	105.4	110.0	108.1	103.1
<b>Year</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
100 = previous year	99.9	106.7	100.9	96.8	82.3	114.2	108.9

Source: The Latvian statistical office, Centraļa statistikas parvalde

### RETAIL TRADE

At current prices	Jun '12	Jul '12	Aug '12	Sep '12
Turnover in LVL '000	370.7	382.2	400.9	371.6
Index 100 = previous month	102.1	102.7	101.7	99.6
Index 100 = same month prev year	108.4	110.3	110.0	107.9
<b>Year</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Turnover in LVL '000	4910.2	3665.5	3584.8	3933.3
Index 100 = previous year	103.6	74.6	97.8	104.6

Source: The Latvian statistical office, Centraļa statistikas parvalde

### CONSUMER PRICE INDEX

column A: 100 = current 12 months; column B: 100 = previous month

Sector	Jul '12		Aug '12		Sep '12		Oct '12	
	A	B	A	B	A	B	A	B
Food	101.6	99.5	102.1	98.5	101.6	99.9	102.3	101.2
Beverages, tobacco	102.5	100.0	101.0	98.8	100.5	101.2	100.6	99.4
Clothing, footwear	99.0	94.4	95.9	97.2	96.0	105.0	96.8	102.4
Housing	105.7	101.3	105.3	100.2	105.3	100.1	105.7	100.0
Transport	100.9	99.3	103.1	102.0	104.4	101.1	102.2	98.6
Communications	97.9	98.7	100.7	100.0	97.9	99.9	94.4	96.3
<b>Gross CPI</b>	<b>101.7</b>	<b>99.5</b>	<b>101.7</b>	<b>99.7</b>	<b>101.8</b>	<b>101.8</b>	<b>101.6</b>	<b>100.0</b>

Source: The Latvian statistical office, Centraļa statistikas parvalde

### GROSS WAGES

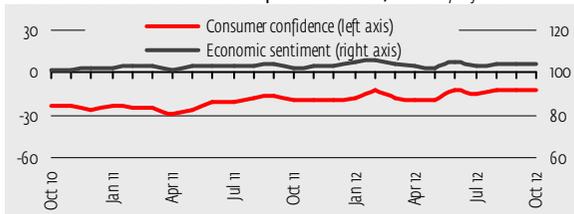
column A: average monthly wages in LVL; column B: indexed average wages, 100=Q1 2005

Sector	Q4 2011		Q1 2012		Q2 2012	
	A	B	A	B	A	B
Manufacturing	440	226	427	219	444	228
Finance, insurance	989	165	1,018	170	1,015	169
Construction	449	241	432	232	435	234
IT	804	173	794	170	768	165
Retail and wholesale	401	277	400	276	407	281
Hotels and restaurants	298	218	310	226	313	228
Transport, logistics	524	217	511	212	563	234
<b>National average</b>	<b>475</b>	<b>210</b>	<b>466</b>	<b>206</b>	<b>481</b>	<b>213</b>

Note: Without taxes; Source: The Latvian statistical office, Centraļa statistikas parvalde

### SENTIMENT INDICATORS

Economic sentiment and consumer confidence indicators, seasonally adjusted

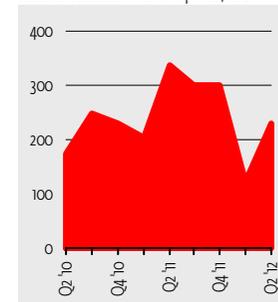


The economic sentiment (1990-2010 average = 100) is a composite made up of five sectoral confidence indicators, which are arithmetic means of seasonally adjusted balances of answers to a selection of questions closely related to the reference variable. Source: Eurostat.

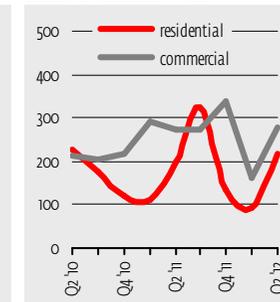
### CONSTRUCTION PRICE INDEX

On monthly basis	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12
100 = previous month	100.7	101.0	100.4	100.6	100.2	100.8
100 = same month prev year	106.5	106.4	107.3	108.3	108.6	108.6
<b>Year</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
100 = previous year	120.9	126.2	114.4	89.1	97.3	102.1

Market volume in current prices, LVL m



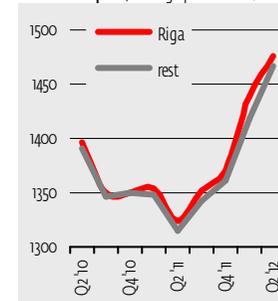
License to construct in 1000 m<sup>2</sup>



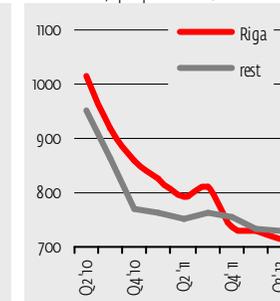
Source: The Latvian statistical office, Centraļa statistikas parvalde

### REAL ESTATE PRICES

Residential flats, average price in LVL/m<sup>2</sup>



Commercial, spot price in LVL/m<sup>2</sup>



Number of transactions

	Q4 '10	Q1 '11	Q2 '11	Q3 '11	Q4 '11	Q1 '12	Q2 '12	Q3 '12
<b>Riga</b>	2460	1964	2269	2802	3220	2822	2794	3128
<b>rest</b>	7794	6323	7844	7618	8432	6822	7758	8242

Source: spot.city24.lv; Latvian Land Register, Valsts vienota datorizēta zemesgrāmata

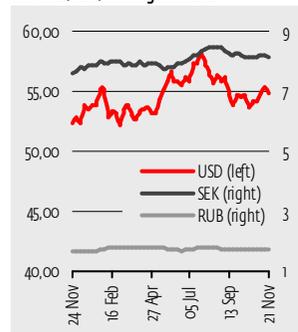
## CURRENCY

### Central Bank rates

as of 23 November 2012

100 USD	54.70	↓
100 GBP	87.30	↓
100 CHF	58.30	↑
100 DKK	9.42	→
100 SEK	8.15	↓
100 NOK	9.59	→
100 JPY	0.66	↓
100 UAH	6.72	↓
100 LTL	20.40	→
100 PLN	17.10	↑
100 RUB	1.75	→

100 USD/SEK/RUR against LVL



Source: Latvia's central bank, Latvijas Banka

## MONEY SUPPLY

in LVL m	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12
Monetary base	1,919.9	2,060.0	2,206.6	2,255.3	2,310.7
<b>M1</b>	<b>4,361.2</b>	<b>4,431.0</b>	<b>4,498.7</b>	<b>4,525.6</b>	<b>4,602.5</b>
- Currency outside banks	1,029.3	1,042.8	1,051.9	1,062.8	1,053.4
<b>M2</b>	<b>6,539.5</b>	<b>6,541.1</b>	<b>6,607.2</b>	<b>6,518.1</b>	<b>6,566.7</b>
- Time deposits	1,966.4	1,900.6	1,900.2	1,783.8	1,754.3
<b>M3</b>	<b>6,611.9</b>	<b>6,656.6</b>	<b>6,723.2</b>	<b>6,633.4</b>	<b>6,682.8</b>
- Net foreign assets	54.2	249.9	378.6	155.0	155.0

**Monetary base:** Latvian currency emitted by the central bank and money on accounts held with it. **M1**= currency outside banks + demand deposits **M2**= M1+ time deposits (Inc in foreign currencies) **M3**= the broad measure of money supply. Source: Latvia's central bank, Latvijas Banka

## TRADE

Latvian exports and imports divided according to commodity groups, according to Latvian classification

	EXPORTS in LVL m				IMPORTS in LVL m			
	Jan-Aug 2012	Share	Jan-Aug 2011	Share	Jan-Aug 2012	Share	Jan-Aug 2011	Share
Agricultural & food products (I-IV)	721.9	17%	555.0	14%	855.8	15%	685.6	14%
Food, beverages & tobacco (IV) *	344.8	8%	258.1	7%	379.9	7%	305.0	7%
Chemical products (VI)	278.9	6%	336.4	9%	502.9	9%	501.5	11%
Plastic & rubber products (VII)	134.6	3%	118.4	3%	295.6	5%	265.1	6%
Wood & articles of wood (IX)	711.8	17%	678.2	18%	91.7	2%	75.0	2%
Textiles (XI)	173.6	4%	158.0	4%	230.5	4%	194.4	4%
Metal (XV)	665.8	16%	596.6	16%	616.1	11%	559.1	12%
Machinery & electric equipment (XVI)	665.8	13%	451.9	12%	961.4	17%	796.6	17%
Transport vehicles (XVII)	229.5	5%	249.8	7%	462.4	8%	404.8	9%
Various, including furniture (XX)	115.7	3%	93.8	2%	137.9	2%	98.8	2%
Other commodity groups	695.9	16%	598.8	15%	1,417.7	25%	1,191.6	25%
<b>TOTAL</b>	<b>4,287.9</b>	<b>100%</b>	<b>3837.2</b>	<b>100%</b>	<b>5,572.3</b>	<b>100%</b>	<b>4,772.8</b>	<b>100%</b>

## INTEREST RATES

Average weighted annual interest rates on credits for corporation

Term / currency	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12
Short-term (LVL)	5.07%	4.93%	4.73%	4.58%	4.33%	4.55%
Short-term (USD)	n/a	2.0%	3.04%	2.54%	3.19%	4.20%
Short-term (EUR)	4.66%	4.14%	4.52%	4.79%	4.07%	3.59%
Long-term (LVL)	4.59%	3.35%	4.70%	3.67%	4.72%	n/a
Long-term (EUR)	5.74%	5.0%	n/a	4.39%	n/a	4.52%

Riga Inter Bank Offered Rate (RIGIBOR) 23 Nov 2012

overnight	1 month	3 months	6 months	12 months
0.17%	0.33%	0.55%	1.05%	1.42%

Note: Short-term credits - up to 12 months, long-term credits - over 1 and up to 5 years.

Source: Latvia's central bank, Latvijas Banka

## CREDIT

The financial sector's net lending in LVL m, loan stock by the end of period

Type of loan	May '12	Jun '12	Jul '12	Aug '12	Sep '12
<b>Loans to customers</b>	<b>10,418.2</b>	<b>10,439.3</b>	<b>10,424.3</b>	<b>10,447.4</b>	<b>10,420.9</b>
- to private companies	4,827.7	4,826.8	4,826.7	4,869.2	4,884.4
- to individuals	4,874.1	4,837.5	4,815.5	4,785.4	4,744.8
- short term (up to 1 year)	1,726.2	1,725.4	1,722.4	1,804.3	1,829.1
- long term (over 1 year)	8,691.9	8,714.0	8,718.3	8,643.1	8,755.5
<b>Consolidated balance</b>	<b>19,229.8</b>	<b>19,585.3</b>	<b>19,444.7</b>	<b>19,662.0</b>	<b>19,525.9</b>

of the banking institutions

Source: Latvia's central bank, Latvijas Banka

## STOCK EXCHANGE

Riga Stock Exchange 9 Nov 2012

main list	Price	Change	Change
in alphabetic order		9 Nov	end of '11
↑ Grindex	4.39	+11%	+3%
→ Latvijas Balzams	2.04	0%	-2%
↓ Latvijas Gaze	5.90	-1%	+4%
↓ LASCO	0.23	-2%	-24%
↑ Olainfarm	3.27	+9%	+33%
↑ SAF Tehnika	1.37	+1%	-17%
↑ Valmieras SSR	0.72	+1%	+27%
↑ Ventspils Nafta	1.10	+5%	-8%

OMX Riga index

**385.28**

Change 9 Nov +2% ↑  
Change end of '11 +4% ↑

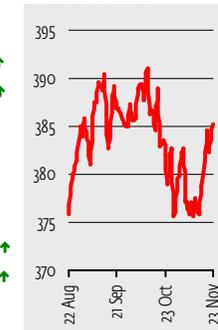
OMX Baltic Benchmark

**523.45**

Change 9 Nov +3% ↑  
Change end of '11 +21% ↑

OMX Riga closing index

the last three months



Note: The OMX Riga Stock Index is calculated on a continuous basis from the most recent prices of all shares listed on the Riga Stock Exchange's Main List and I-List. Index 100 = 1 January 2000  
Source: NASDAQ OMX Riga Stock Exchange

Latvia's largest markets, ranked according to 2011 in LVL m

No	Country	EXPORT		IMPORT	
		Jan-Aug 2012	Share	Jan-Aug 2011	Share
1	Lithuania	688.8	16.0%	671.0	17.4%
2	Estonia	559.0	13.0%	553.7	14.5%
3	Russia	467.6	10.8%	391.1	10.1%
4	Germany	312.2	7.3%	318.4	8.4%
5	Sweden	237.7	5.5%	240.3	6.5%
6	Poland	286.7	6.7%	218.2	5.7%
7	Denmark	173.7	4.0%	123.2	3.2%
8	UK	154.7	3.6%	119.4	3.2%
	EU	3,022.9	70.5%	2,791.2	73.1%
	CIS	635.5	14.8%	548.5	14.2%
1	Lithuania	1,096.1	19.7%	863.3	17.56%
2	Russia	542.6	9.7%	436.1	9.4%
3	Germany	650.9	11.7%	571.1	12.0%
4	Poland	472.4	8.5%	363.4	7.5%
5	Estonia	412.8	7.4%	320.4	6.6%
6	Finland	244.7	4.4%	232.6	4.9%
7	Sweden	185.2	3.2%	178.0	3.8%
8	Netherlands	179.2	3.1%	168.3	3.6%
	EU	4,258.7	76.4%	3,595.4	75.1%
	CIS	878.7	15.7%	760.3	16.2%

\*\* included in the previous category. Source: The Latvian statistical office, Latvijas centrālā statistikas parvalde

### GDP

at current prices

Period	Real growth year on year	GDP in LVL m current prices	GDP per capita in EUR	Current account in % of GDP
Q3 2012	+ 5.3%	n/a	n/a	n/a
Q2 2012	+ 5.0%	3,806	2,663	-4.2%
Q1 2012	+ 6.9%	3,401	2,357	-3.1%
Q4 2011	+ 5.7%	3,903	2,076	1.7%
Q3 2011	+ 6.6%	3,706	2,391	1.4%
2011	+ 5.3%	14,161	9,804	n/a
2010	-0.3%	12,736	8,102	8.6%
2009	-18.0%	13,083	8,234	8.6%

Source: The Latvian statistical office, Centraļa statistikas parvalde; Latvia's central bank, Latvijas Banka

### CURRENT ACCOUNT

excerpts shown in LVL m

	2010	2011	Jul '12	Aug '12	Sep '12
Trade balance	-821.1	-1,405.2	-144.9	-117.3	-90.0
Services	787.5	930.3	84.8	83.4	86.3
Direct investments, net	176.6	736.7	34.3	58.2	20.7
Current account balance	455.8	-170.9	-22.2	-27.6	27.9

Source: Latvia's central bank, Latvijas Banka

### FOREIGN DIRECT INVESTMENT

in EUR m

On quarterly basis	Q1 '11	Q2 '11	Q3 '11	Q4 '11	Q1 '12	Q2 '12
in Latvia	8,796.2	9,087.4	9,339.2	9,372.9	9,381.4	9,497.4
Latvian DI abroad	621.4	647.0	661.9	686.6	713.5	772.0
Year	2006	2007	2008	2009	2010	2011
in Latvia	5,701	7,466	8,126	8,072	8,250	9,372.9
Latvian DI abroad	362.5	637.5	742.2	620.0	634.1	686.6

Source: Latvia's central bank, Latvijas Banka

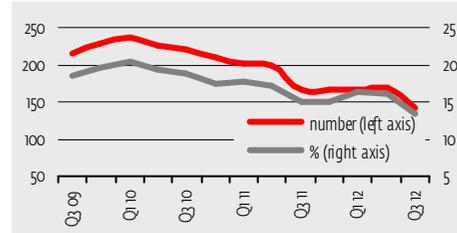
### KEY ECONOMIC DATA FORECAST

Indicator	2011	2012		2013	
		Swed	MoE	Swed	MoE
GDP change	+ 5.3%	+ 4.0%	+ 5.0%	+ 3.5%	n/a
Consumer prices (inflation)	+ 4.4%	+ 2.3%	+ 2.5%	+ 2.5%	n/a
CA balance, % of GDP	+ 1.7%	- 1.6%	n/a	- 2.7%	n/a
Real net wage change	+ 0.1%	+ 1.5%	n/a	+ 2.9%	n/a
Unemployment rate	15.4%	15.6%	13.4%	13.7%	n/a

Sources: the Ministry of Economy (Jun 2012), Swedbank (Aug 2012)

### UNEMPLOYMENT

Registered unemployed, in '000 and % of population in working age



Source: The Latvian statistical office, Centraļa statistikas parvalde

### REGIONAL DATA

Latvia's regions (main cities indicated in brackets)

Latvia's regions (main cities indicated in brackets)	Industrial output Aug 2012*		Monthly wages (LVL) Jun 2012 **		Unemployment Aug 2012		New dwellings 2011	
	Industry	Construction	Public	Private	in '000	%	Number	Index *
Riga region	n/a	n/a	426	356	24.3	5.8	n/a	n/a
Riga city	n/a	n/a	438	367	24.3	5.8	n/a	n/a
Pieriga region	n/a	n/a	370	319	14.5	6.2	n/a	n/a
Vidzeme region	n/a	n/a	292	263	12.7	9.7	n/a	n/a
Kurzeme region	n/a	n/a	297	308	14.6	8.8	n/a	n/a
Zemgale region	n/a	n/a	302	288	15.0	9.4	n/a	n/a
Latgale region	n/a	n/a	275	223	30.3	16.0	n/a	n/a
<b>National average</b>	<b>108.1</b>	<b>108.6</b>	<b>377</b>	<b>331</b>	<b>111.5</b>	<b>11.0</b>	<b>1134</b>	<b>83.2</b>

\* Index 100 = same period of the previous year. \*\* In addition the employer must pay social taxes amounting to app. 20% altogether.

Source: The Latvian statistical office, Centraļa statistikas parvalde; Employment State Agency, Nodarbinātības valsts aģentūra

### COUNTRY RATING

Agency	rating	outlook
Fitch Ratings	BBB-	stable
Standard & Poor's	BBB	positive
Moody's Investor Service	Baa3	positive

Source: Investment agencies

### GENERAL INFORMATION

Population: 2 237,600

Currency: lats (LVL) = 0.702804 EUR

In power: President Andris Bērziņš. Most seats in parliament Saskaņas Centrs (31%), Vienotība (22%; PM Valdis Dombrovskis), Reformu partija (16%).

Elections: 2014 parliamentary, 2015 presidential

Most important tax rates:

Income tax: individual 25%, corporate 15%

VAT: 21%,

Social tax: up to 33%

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### REAL EARNINGS



Development of the average gross wages and inflation.

Index 100 = Jan 1996.

Source: Centraļa statistikas parvalde