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THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS OFFERING CIRCULAR MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") AND WITHIN THE UNITED STATES TO "QUALIFIED INSTITUTIONAL BUYERS" ("**QIBs**") AS DEFINED IN AND PURSUANT TO RULE 144A OF THE SECURITIES ACT ("**RULE 144A**"). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN ANY JURISDICTION. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT TO QIBs PURSUANT TO RULE 144A.

Confirmation of your Representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, you must be a person other than a U.S. person (within the meaning of Regulation S under the Securities Act) who is outside the United States unless you are a QIB in the United States. By accepting the email and accessing this Offering Circular, you shall be deemed to have represented to us that you and any customers you represent are not a U.S. person unless you are a QIB in the United States; the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the U.S., its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia unless you are a QIB in the United States; and that you consent to delivery of such Offering Circular by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Offering Circular to any other person.

Any materials relating to the potential offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the potential offering be made by a licensed broker or dealer and any underwriter or any affiliate of any underwriter is a licensed broker or dealer in that jurisdiction, any offering shall be deemed to be made by the underwriter or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall this Offering Circular constitute an offer to sell or the solicitation of an offer to buy any securities in any jurisdiction. Recipients of this Offering Circular who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the final Offering Circular. This Offering Circular may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Republic of Latvia, acting through the Treasury, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, any person who controls any such persons, or any of their respective directors, officers, employees, agents or affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from Citigroup Global Markets Limited or Credit Suisse Securities (Europe) Limited.

NOT FOR GENERAL CIRCULATION IN THE UNITED STATES OF AMERICA
OFFERING CIRCULAR DATED 13 JUNE 2011

REPUBLIC OF LATVIA, ACTING THROUGH THE TREASURY

U.S.$500,000,000

5.25 PER CENT. NOTES DUE 2021

The issue price of the U.S.$500,000,000 5.25 per cent. Notes due 2021 (the "**Notes**") of the Republic of Latvia, acting through the Treasury ("**Latvia**" or the "**Republic**") is 98.164 per cent. of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 16 June 2021. See "*Terms and Conditions of the Notes – Redemption and Purchase*".

The Notes will bear interest from and including 16 June 2011 (the "**Issue Date**") at the rate of 5.25 per cent. per annum payable semi-annually in arrear on 16 June and 16 December each year, commencing on 16 December 2011. Payments on the Notes will be made in U.S. dollars without deduction for or on account of any Latvian withholding taxes and the Republic will pay additional amounts if any such taxes are imposed, as described under "*Terms and Conditions of the Notes – Taxation*".

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to admit the Notes to trading on the Luxembourg Stock Exchange's regulated market pursuant to the rules and regulations of the Luxembourg Stock Exchange.

This Offering Circular neither constitutes an offering circular pursuant to Part II of the Luxembourg law on prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) dated 10 July 2005 (the "**Luxembourg Prospectus Law**") which implements Directive 2003/71/EC (the "**Prospectus Directive**") nor a simplified offering circular pursuant to Part III of the Luxembourg Prospectus Law. Accordingly, this Offering Circular does not purport to meet the format and the disclosure requirements of the Prospectus Directive and Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive, and it has not been, and will not be, submitted for approval to any competent authority within the meaning of the Prospectus Directive and in particular the Supervisory Commission of the Financial Sector (*Commission de Surveillance du Secteur Financier*), in its capacity as competent authority under the Luxembourg Prospectus Law. The Notes, issued pursuant to this Offering Circular, will therefore not qualify for the benefit of the single European passport pursuant to the Prospectus Directive.

The Notes are expected to be rated BBB- by Fitch Ratings Limited ("**Fitch**"), Baa3 by Moody's Investors Service, Inc. ("**Moody's**") and BB+ by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**S&P**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Fitch, Moody's and S&P are established in the European Union and have applied for registration under Regulation (EU) No 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the Regulation (EU) No 1060/2009 ("**CRA Regulation**") unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Notes are being offered, sold or delivered: (a) in the United States only to qualified institutional buyers ("QIBs") (as defined in Rule 144A ("Rule 144A") under the Securities Act) in reliance on, and in compliance with, Rule 144A; and (b) to Persons (other than U.S. Persons) (each as defined in Regulation S) outside the United States in reliance on Regulation S ("Regulation S") under the Securities Act. Each purchaser of the Notes will be deemed to have made the representations described in "*Subscription and Sale*" and is hereby notified that the offer and sale of Notes to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A. In addition, until 40 days after the commencement of the offering, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

The Notes will initially be represented by two global certificates in registered form (the "**Global Certificates**"), one of which will be issued in respect of the Notes offered and sold in reliance on Rule 144A (the "**Restricted Global Certificate**") and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("**DTC**") and the other of which will be issued in respect of the Notes offered and sold in reliance on Regulation S (the "**Unrestricted Global Certificate**") and will be registered in the name of a nominee of a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). It is expected that delivery of the Global Certificates will be made on 16 June 2011 or such later date as may be agreed (the "**Closing Date**") by the Republic and the Joint Lead Managers (as defined under "*Subscription and Sale*").

JOINT LEAD MANAGERS

CITI **CREDIT SUISSE**

CO-MANAGERS

SEB **SWEDBANK**

13 June 2011

The Republic has confirmed to the Managers named under "*Subscription and Sale*" that all information regarding the Republic and the Notes contained in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect; this Offering Circular does not omit to state any material fact necessary to make such information not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing. The Republic accepts responsibility for the information contained in this document accordingly.

The Republic has not authorised the making or provision of any representation or information regarding the Republic or the Notes other than as contained in this Offering Circular or as approved for such purpose by the Republic. Any such representation or information should not be relied upon as having been authorised by the Republic or the Managers.

Neither the delivery of this Offering Circular or the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial, economic or otherwise) of the Republic since the date of this Offering Circular.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Republic.

The distribution of this Offering Circular and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Republic and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Offering Circular and other offering material relating to the Notes, see "*Subscription and Sale*".

In this Offering Circular, unless otherwise specified, references to "**U.S.$**", "**U.S. dollars**" and "**dollars**" are to the lawful currency for the time being of the United States of America, references to "**LVL**", "**Lats**" and "**Ls**" are to the lawful currency for the time being of the Republic of Latvia and references to "**Euro**", "**euro**" and "**€**" are to the single currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended. Translations of amounts from Lats to U.S. dollars are solely for the convenience of the reader and, unless otherwise stated, are made at year end exchange rates. No representation is made that Lats or dollar amounts referred to herein could have been or could be converted into dollars or Lats, as the case may be, at any particular rate at all. The Bank of Latvia's foreign exchange rate for U.S. dollars on 27 May 2011 was LVL 0.496 = U.S.$1.00, whilst the Bank of Latvia's foreign exchange rate for Euro since 1 January 2005 has been fixed at LVL 0.702804 = €1.00.

Unless otherwise stated, all annual information, including budgetary information, is based on calendar years. Government budget execution is compiled on a cash flow basis. Statistical data appearing in this Offering Circular has, unless otherwise stated, been obtained from the Central Statistical Bureau of Latvia (the "**Central Statistical Bureau**"), the Ministry of Finance, the Bank of Latvia, the Financial and Capital Market Commission and the Treasury. Similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Certain statistical information relating to 2011 should be treated as preliminary and statistical information for this and prior years may be subject to future adjustment.

Certain figures including in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In connection with the issue of Notes, Credit Suisse Securities (Europe) Limited (the "Stabilising Manager") (or persons acting on behalf of any Stabilising Manager) may over allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action

or over-allotment must be conducted by the Stabilising Manager (or person(s) acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities reviewed or passed upon the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offence.

This Offering Circular is being submitted on a confidential basis in the United States to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of the Notes. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Each purchaser or holder of interests in the Notes will be deemed, by its acceptance or purchase of any such Notes, to have made certain representations and agreements as set out in "*Subscription and Sale*".

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Offering Circular, as well as written and oral statements that Republic and its representatives make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, are or may be deemed to be forward-looking statements. Statements that are not historical facts, including, without limitation, statements about the Republic's beliefs and expectations, are forward-looking statements. These statements are based on current plans, objectives, assumptions, estimates and projections. When used in this Offering Circular, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward-looking statements. Therefore, undue reliance should not be placed on them. The Republic has based these forward-looking statements on its current view with respect to future events and financial results.

Forward-looking statements speak only as of the date on which they are made and the Republic undertakes no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. the Republic cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Forward-looking statements include, but are not limited to: (i) plans with respect to the implementation of economic policy, including privatisations, and the pace of economic and legal reforms; (ii) expectations about the behaviour of the economy if certain economic policies are implemented; (iii) the outlook for gross domestic product, inflation, exchange rates, interest rates, foreign investment, trade and fiscal accounts; and (iv) estimates of external debt repayment and debt service.

CONTENTS

SUMMARY

This Summary does not purport to be complete and must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of this Offering Circular as a whole.

Words and expressions defined in "*Terms and Conditions of the Notes*" shall have the same meanings in this Summary.

THE REPUBLIC OF LATVIA

Geography and Population

Latvia is located in the Baltic region of northern Europe and is bordered by Estonia to the north, Russia to the east, Lithuania to the south and Belarus to the south-east. The western border of the country is the Baltic Sea, along which the country has a 498 kilometre ("**km**") coastline. Latvia is divided into four historical districts: Kurzeme (western Latvia), Zemgale (southern Latvia), Vidzeme (northern Latvia) and Latgale (eastern Latvia). Latvia covers an area of approximately 64,559 square kilometres. The capital city is Riga.

Government Structure

In accordance with the Constitution of the Republic of Latvia (the "**Constitution**"), the Saeima is the highest legislative body. The Saeima is a unicameral parliament consisting of 100 members, elected in general, equal, direct, secret and proportional elections for a four-year term. All Latvian citizens who are 18 years of age and over are entitled to vote. The next Saeima elections will be held in October 2014.

The Saeima is entitled to elect, appoint, approve or dismiss a range of state officials and also elects the president of Latvia (the "**President**") for a term of four years. The current President is Valdis Zatlers who will be in office until 7 July 2011. On 2 June 2011, Andris Bērziņš was elected as the new President and will assume office on 8 July 2011.

International Relations

Latvia became a member state of the United Nations ("**UN**") in 1991, of the International Monetary Fund (the "**IMF**") in 1992, of the World Trade Organization (the "**WTO**") in 1998 and of the European Union (the "**EU**") and the North Atlantic Treaty Organization ("**NATO**") in 2004. Latvia's relations with Russia are based on pragmatic foundations and co-operation and Latvia regards the United States of America as a strategic partner and ally.

GDP

During 2006 and 2007, Latvia experienced rapid growth with real GDP growing by 12.2 per cent. in 2006 and 10.0 per cent. in 2007. These growth rates were principally driven by private consumption and investment, which was largely based on a substantial inflow of foreign capital. In 2008 and 2009, Latvia's economy was significantly adversely affected by the global economic crisis which commenced at the end of 2007, with real GDP falling by 4.2 per cent. in 2008 and by 18.0 per cent. in 2009.

Since 2009, Latvia's economy has begun to recover, with real GDP growing in each quarter since the last quarter of 2009, although on an annual basis and reflecting the steep decline in 2009 Latvia's real GDP for 2010 was 0.3 per cent. lower than it was for 2009. Latvia's real GDP grew by 0.3 per cent. in the first quarter of 2011 compared to the fourth quarter of 2010.

Inflation

Inflation (measured in terms of changes in the consumer price index) fell from a peak of 17.9 per cent. in May 2008 to a low of minus 4.2 per cent. in February 2009 (in each case when compared with the corresponding period of the previous year). The decrease in consumer prices principally reflected reduced private consumption (as a result of increased unemployment, wage reductions and other factors) and falling global energy and food prices. Since the end of 2009, inflation has increased gradually as a result of increasing world energy and food prices and domestic indirect tax rate increases and was 4.5 per cent. in April 2011.

Financial Assistance

Deteriorating economic conditions in Latvia in 2008 and a banking crisis at the end of that year significantly adversely affected State budget revenues and, as a result, Latvia sought financial assistance from the IMF and other international bodies towards the end of 2008. As at 30 April 2011, €4.4 billion in financial assistance (out of a total agreed package of €7.5 billion) had been disbursed to Latvia. No further borrowings within the programme are planned in 2011, except that a €100 million loan from the International Bank for Reconstruction and Development (the "**World Bank**") may be drawn.

On 25 May 2011, the Executive Board of the IMF completed its fourth review of Latvia's performance in connection with the provision of the financial assistance package and confirmed that funds would continue to made available to Latvia under the package. On 7 June 2011, the EU and Latvia entered into a supplemental memorandum of understanding in relation to the financial assistance provided by the EU and following completion of its fourth review of Latvia's performance in connection with the provision of the financial assistance package. The EU also confirmed that funds would continue to be made available to Latvia under the package.

Issuer:	The Republic of Latvia, acting through the Treasury
Risk Factors:	There are certain factors that may affect the issuer's ability to fulfil its obligations under the Notes. These are set out under "*Risk Factors*" below and include, among other risks, certain potential factors which could adversely affect Latvia's economy and banking sector in the future and risks relating to the strength and sustainability of Latvia's economic recovery. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes. These are set out under "*Risk Factors*" and include the fact that the Notes may not be a suitable investment for all investors.
Description of Notes:	U.S.$500,000,000 5.25 per cent. Notes due 2021, to be issued by the Republic on the Issue Date.
Joint Lead Managers:	Citigroup Global Markets Limited Credit Suisse Securities (Europe) Limited
Co-Managers:	Skandinaviska Enskilda Banken AB (publ) Swedbank AB (publ)
Interest:	5.25 per cent. per annum payable semi-annually in arrear on 16 June and 16 December in each year.
Events of Default:	Events of default under the Notes include the non-payment of any interest due in respect of the notes or any of them for a period of 14 days from the due date for payment thereof, breach of other obligations under the Notes (which breach is not remedied within 30 days) and certain events related to the Republic. Notes may only be declared due and payable, upon an Event of Default, if holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes give notice in writing to the Republic. Furthermore if the Republic receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the event of default giving rise to a declaration of acceleration is cured and that such holders wish the relevant declaration to be withdrawn, the relevant declaration shall be withdrawn and shall have no further effect.
Negative Pledge:	The terms of the Notes contain a negative pledge provision given by the Republic in respect of Public External Indebtedness as described in Condition 4 (*Negative Pledge*).
Status of the Notes:	The Notes will constitute direct, general, (subject to the provisions of Condition 3 (*Status*)) unsecured and unconditional obligations of the Republic and will rank *pari passu* and without any preference

	among themselves and at least (save for certain obligations required to be preferred by law) equally with all other present and future unsecured obligations of the Republic.
Meetings of Noteholders:	The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally (see Condition 13 (*Meetings of Noteholders; Written Resolutions*)). These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Conditions also contain provisions for the appointment of a Noteholders' representative committee (see Condition 14 (*Noteholders' Representative Committee*)).
Modification:	The Conditions of the Notes contain a provision permitting the Notes and the Conditions of the Notes to be amended without the consent of the Noteholders to correct a manifest error.
Taxation:	All payments in respect of the Notes by or on behalf of the Republic shall be made without withholding or deduction for, or on account of any Taxes as provided in Condition 8 (*Taxation*).
Listing and admission to trading:	Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to admit the Notes to trading on the Luxembourg Stock Exchange's regulated market.
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by and shall be construed in accordance with, English law, provided, however, that the due authorisation and execution of the Notes by and on behalf of the Republic shall be governed by the laws of the Republic.
Form and Denomination:	The Notes will be issued in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Credit Ratings:	The Notes are expected to be assigned on issue a rating of BBB- by Fitch Ratings Limited, Baa3 by Moody's Investors Service, Inc. and BB+ by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. Fitch, Moody's and S&P are established in the European Union and have applied for registration under the CRA Regulation (EU) No 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Selling Restrictions:	The Notes have not been and will not be registered under the Securities Act and are subject to certain restrictions on transfers. See "*Subscription and Sale*" below.
Use of Proceeds:	The net proceeds of the issue of the Notes will be applied by the Republic for the refinancing of indebtedness and general budgetary purposes of the Republic.

RISK FACTORS

Investment in the Notes involves risk. Prospective investors should carefully consider the following risk factors, together with the other information set out in this Offering Circular, before making a decision to invest in the Notes and should understand that the risks set forth below could, individually or in the aggregate, have a material adverse effect on Latvia's capacity to repay principal and make payments of interest on the Notes or otherwise fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Republic is not in a position to express a view on the likelihood of any such contingency occurring. Additional risks and uncertainties not currently known to the Republic or that the Republic currently deems to be immaterial may also materially affect the Republic's economy and its ability to fulfil its obligations under the Notes. In any such case, investors may lose all or part of their investment in the Notes. Words and expressions defined in "Terms and Conditions of the Notes" or elsewhere in this Offering Circular have the same meanings in this section.

Risk Factors Relating to Latvia

Latvia's economy and banking sector were significantly adversely affected by the global financial crisis and any similar future global economic downturns, or difficulties experienced by its major regional trading partners or by more general "contagion" effects, could have a material adverse effect on Latvia's economic growth and banking sector

Latvia experienced adverse economic and financial effects as a result of the global financial crisis. For example, Latvia's nominal gross domestic product ("**GDP**") declined by 18.0 per cent. in real terms in 2009 compared to 2008 and by 0.3 per cent. in 2010 compared to 2009. Although certain sectors of the economy have recovered, including manufacturing (which increased by 15.4 per cent. primarily due to exports to recovering EU countries), others including, in particular, construction (which decreased by 24.2 per cent. in 2010) and public services (which decreased by 7.8 per cent. in 2010 due to government spending cuts), have not. Austerity measures taken in response to the recession have slowed growth in domestic consumption, which is reflected in the 1.4 per cent. decline in services in 2010 compared to 2009. The downturn has caused the registered unemployment rate in Latvia to increase from 7.0 per cent. at 31 December 2008 to 16.0 per cent. at 31 December 2009 and although this decreased in 2010, to 14.3 per cent. at 31 December 2010, the registered unemployment rate remains well above the pre-recession level. Latvia also recorded consolidated general government budget deficits of 3.3 per cent. of nominal GDP in 2008, 6.8 per cent. in 2009 and 6.3 per cent. in 2010. The consolidated general government budget deficit is currently budgeted to be around 4.1 per cent. of assumed nominal GDP for 2011. See "*Public Finance – Consolidated General Government Budget*".

In addition, Latvia's banking sector was significantly adversely affected by the global financial crisis. Parex Bank, the largest Latvian-owned bank, was nationalised in November 2008 and subsequently restructured into Citadele Banka during 2010 with the troubled assets remaining in the former Parex Bank. The recession in Latvia also adversely affected the financial position of both corporate and retail borrowers resulting in a deterioration of loan quality and an increase in provisions in Latvian banks, with the share of non-performing Latvian bank loans (being loans with payments overdue more than 90 days) ("**NPLs**") in the total Latvian bank loan portfolio being 16.4 per cent. and 19.0 per cent., respectively, at 31 December 2009 and 2010, compared to 3.6 per cent. at 31 December 2008. Reflecting adverse economic conditions, the total amount of bank loans outstanding fell by 7.0 per cent. during 2009 and by 7.1 per cent. in 2010.

Instability in the financial markets and the recession in Latvia also adversely affected the profits of Latvian banks. The profit of the Latvian banking sector for the years ended 31 December 2006, 2007 and 2008 was LVL 265.9 million, LVL 371.3 million and LVL 60.1 million, respectively. In 2009 and 2010, the losses of the Latvian bank sector were LVL 773.4 million and LVL 360.7 million, respectively. These losses mainly reflected increased provisions for loan losses.

Latvia's economy and banking sector may be vulnerable to further significant external shocks. As noted above, the recovery of several of Latvia's trading partners contributed significantly to certain sectors of the economy that exhibited growth in 2010. A significant decline in the economic growth of any of Latvia's major trading partners, such as the EU countries and the Russian Federation, could, among other effects, have a material adverse impact on Latvia's balance of trade and adversely affect Latvia's economic growth and its banking sector.

In addition, because international investors' reactions to the events occurring in one market sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment ceases to be favoured by international investors, Latvia could be adversely affected by negative economic or financial developments in neighbouring countries (including, among others, Lithuania and Estonia). Latvia has been adversely affected by such contagion effects on a number of occasions, including following the 1998 Russian financial crisis and the global financial crisis. Similar developments can be expected to affect the Latvian economy and banking sector in the future.

There can be no assurance that any crises such as those described above or similar events will not negatively affect investor confidence in markets such as Latvia. In addition, there can be no assurance that these events will not adversely affect Latvia's economy, its banking sector or its ability to raise capital in the external debt markets in the future. See "*Cautionary Statement Regarding Forward-Looking Statements*" in this Offering Circular.

Although Latvia's economy has emerged from recession, no assurance can be given as to the strength of the recovery or that it will be sustained

Latvia's economy has emerged from recession, having grown on a quarterly basis since the last quarter of 2009. The quarterly growth rates remain low and, reflecting the depth of the recession in 2009, real GDP for 2010 was still 0.3 per cent. lower than that for 2009. A significant contributor to Latvia's emergence from recession has been the economic reforms implemented, including those required under the conditions of the financial assistance package (the "**financial assistance package**") agreed with the EU, the IMF, the World Bank , the European Bank for Reconstruction and Development (the "**EBRD**") and a number of Nordic and other EU countries. The principal aims of this economic reform programme were to arrest the liquidity crisis prevailing in late 2008, to stabilise the financial sector and to make structural adjustments with a view to ensuring economic recovery, while maintaining the exchange rate peg. As at 30 April 2011, €4.4 billion in financial assistance had been disbursed to Latvia. Although (excluding the Loan Agreement with the Nordic countries which remains undrawn) €1.2 billion remains available under the programme funds, no further borrowings within the programme are planned in 2011, except that the remaining €100 million of the loan from the World Bank may be drawn. To date, the economic policy criteria set out as conditions to the disbursement of funds under the financial assistance package have been sufficiently achieved to permit all disbursements requested by Latvia. Except as described above, Latvia does not expect to make further drawings and is now reorienting its borrowing strategy towards market funding. This does not, however, affect Latvia's commitment to comply with any further criteria to be achieved under the financial assistance package.

Notwithstanding these achievements, a number of risks remain, including:

- *Political factors*: the political landscape in Latvia has historically been fragmented, with multiple parties represented in parliament, and collaborations among different parties required in order to form a governing coalition. The governing coalition can change, and has also changed, in between elections. There were three separate governing coalitions between the prior two elections in October 2006 and October 2010. The current coalition remained intact before and after the October 2010 general election and has been in place since 3 November 2010. However, on 28 May 2011, the then President, in accordance with Article 48 of the Latvian Constitution, announced a proposal for a referendum on the dissolution of the tenth Saeima which will be held on 23 July 2011. If the referendum results in a decision to dissolve the current Saeima, then a new general election will be required. The dissolution, referendum and possible general election create political uncertainty and may exert pressure on the current coalition. Any significant change in, or in the policies of, the current administration might cause a shift in economic policy or a reversal (in whole or in part) of the economic and other reform measures undertaken to mitigate the impact of the global financial crisis on Latvia's economy or might lead to Latvia not achieving the remaining targets included in the financial assistance package, either of which could give rise to a decrease in the confidence of external lenders in the Latvian economy and/or the administration;

- *Internal economic factors*: decreasing disposable income and reduced confidence levels among individuals could lead to reduced spending by them which in turn could negatively influence economic performance and structural reforms which have been, or may in the future be, implemented could prove to be less efficient than anticipated;

- *External factors*: external factors such as a failure of the economies of Latvia's main trading partners to return to, or to sustain, growth as anticipated or other global financial shocks or significant commodity price movements could adversely affect Latvia's economy; and

- *Growth in shadow economy*: higher tax rates may increase the share of the shadow economy in the total economy of Latvia and exert pressure on public finances.

The occurrence of any one or more of these factors could adversely affect the Latvian economy, increase Latvia's cost of funding in the capital markets and affect Latvia's capacity to repay principal and make payments of interest on the Notes.

Any depreciation of the lat could adversely affect Latvia's economy

Latvia's central government debt at 30 April 2011 amounted to LVL 4,950.4 million, equal to 36.9 per cent. of assumed nominal GDP for 2011, of which LVL 4,066.7 million (or 82.1 per cent.) was denominated in foreign currencies, principally the euro, see "*Indebtedness*". As a result, Latvia is vulnerable to currency risk. Since 2005, the lat has been pegged to the euro and maintaining the peg has been a key governmental policy, including throughout the global financial crisis when it came under sustained market pressure to devalue, as well as a condition in the financial assistance package Latvia obtained in 2008. Thus Latvia considers a devaluation of the lat (whether pursuant to a "re-pegging" or otherwise) to be unlikely. Nevertheless, in the event of a significant devaluation of the lat, the negative impact on Latvia's service obligations in respect of its central government debt denominated in foreign currencies could be significant and would not be significantly offset by the positive impact on its service obligations in respect of central government debt denominated in Lats. Any significant devaluation of the lat may have an adverse effect on the Republic's ability to repay its central government debt denominated in foreign currencies, including the amounts due under the Notes.

In addition, at 31 December 2010 approximately LVL 11.4 billion of private sector credit and approximately LVL 2.5 billion of private sector deposits were foreign currency-denominated. Any devaluation of the lat against foreign currencies would also therefore be likely to affect negatively the capacity of private sector borrowers to repay their debt and, as a result, adversely affect the financial and economic condition of Latvia.

Further, a devaluation of the lat would not necessarily have a material positive effect on Latvia's current account, as a significant portion of the value of goods and services exported by Latvia reflects the cost of raw materials imported by Latvia which are denominated in other currencies, primarily the euro. Consequently, a devaluation may not result in a significant decrease in the costs of Latvia's exports.

Any deterioration in Latvia's relations with its major energy suppliers may adversely affect the supply of energy resources and therefore have a negative effect on the Latvian economy

In 2009, Latvia was 35.9 per cent. self-sufficient in its energy requirements. As a result, Latvia imports a large percentage of its energy requirements, including all of its natural gas requirements, from Russia. Any significant increases in the prices of its major energy imports or adverse changes in relations with its major energy suppliers could have an adverse effect on certain sectors of Latvia's economy.

Official economic data may not be directly comparable with data produced by other sources

Although a range of government ministries, including the Ministry of Finance, along with the Bank of Latvia and the Central Statistical Bureau, produce statistics on Latvia and its economy, there can be no assurance that these statistics are comparable with those compiled by other bodies, or in other countries, which use different methodologies. Prospective investors in the Notes should be aware that figures relating to Latvia's GDP and many other aggregate figures cited in this Offering Circular have been prepared in accordance with EU standards and may differ from figures prepared by international bodies, such as the IMF, which use a different methodology. The existence of an unofficial or unobserved economy may affect the accuracy and reliability of statistical information. Prospective investors should be aware that none of the statistical information in this Offering Circular has been independently verified.

Risk Factors Relating to an Investment in the Notes

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The conditions of the Notes may be modified, waived or substituted without the consent of all the Noteholders

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally and for the passing of written resolutions of Noteholders without the need for a meeting. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting or sign the relevant written resolution and Noteholders who voted in a manner contrary to the majority. Any such change in the conditions of the Notes may adversely affect the trading price of the Notes.

The conditions of the Notes contain a provision permitting the Notes and the conditions of the Notes to be amended without the consent of the Noteholders to correct a manifest error or where the amendment is of a formal, minor or technical nature or is not materially prejudicial to the interests of the Noteholders.

The conditions of the Notes restrict the ability of an individual holder to declare a default and permit a majority of holders to rescind a declaration of default

The conditions of the Notes contain a provision which, if an Event of Default occurs, allows the holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes to declare all the Notes to be immediately due and payable by providing notice in writing to the Republic, whereupon the Notes shall become immediately due and payable, at their principal amount with accrued interest, without further action or formality.

The conditions of the Notes also contain a provision permitting the holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to notify the Republic to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn. The Republic shall give notice thereof to the Noteholders, whereupon the relevant declaration shall be withdrawn and shall have no further effect.

The EU Savings Directive may result in certain holders not receiving the full amount of interest

Under EC Council Directive 2003/48/EC (the "**EU Savings Directive**") on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income (within the meaning of the EU Savings Directive) paid by a paying agent in the meaning of the EU Savings Directive within its jurisdiction to, or collected by such a paying agent for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent., unless in the case of Luxembourg the beneficial owner of the interest payments opts for one of the two information exchange procedures available. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a paying agent within its jurisdiction to, or collected by such a paying agent for, an individual resident in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Republic nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Republic is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive.

The law governing the conditions of the Notes may change

The conditions of the Notes are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

There may be no active trading market for the Notes

Although an application has been made to list on the Official List of the Luxembourg Stock Exchange and to trade the Notes on the Luxembourg Stock Exchange's regulated market, there is no assurance that such application will be accepted or that an active trading market for the Notes will develop or, if one does develop, that it will be liquid or maintained. If an active trading market in the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

The market for securities issued by the Republic is influenced by economic and market conditions in Latvia and, to a varying degree, economic conditions in other Eastern European markets as well as global, emerging and developed markets generally. There can be no assurance that events which would cause volatility of the sort that occurred in worldwide financial markets in 1998 and 2008 will not occur again, or that any such volatility will not adversely affect the price or liquidity of the Notes.

In addition, if the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Republic. As a result of the above factors, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

A claimant may not be able to enforce a court judgment against certain assets of the Republic in certain jurisdictions

Latvia is a sovereign state. Consequently, it may be difficult for investors to obtain judgments of courts in countries outside Latvia against the Republic. Enforcement of such judgments in Latvia may be refused in certain circumstances in the absence of an applicable treaty facilitating such enforcement. There is also a risk that, notwithstanding the waiver of sovereign immunity by the Republic, a claimant will not be able to enforce a court judgment against certain assets of the Republic in certain jurisdictions (including the imposition of any arrest order or attachment or seizure of such assets and their subsequent sale) without the Republic having specifically consented to such enforcement at the time when the enforcement is sought.

The foreign exchange reserves of Latvia are controlled and administered by the Bank of Latvia, which is an independent central bank legally distinct from the government. Accordingly, such reserves would not be available to satisfy any claim or judgment in respect of the Notes.

Fluctuations in exchange rates and interest rates may adversely affect the value of the Notes

The Republic will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the

Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the U.S. dollar would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal. In addition, investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Credit ratings may not reflect all risks

Moody's, Standard & Poor's and Fitch have assigned credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be endorsed on the Certificates issued in respect of the Notes:

The U.S.$500,000,000 5.25 per cent. Notes due 2021 (the "**Notes**", which expressions includes any further notes issued pursuant to Condition 15 (*Further Issues*) and forming a single series therewith) of the Republic of Latvia, acting through the Treasury (the "**Republic**") are the subject of a fiscal agency agreement dated 16 June 2011 (as amended or supplemented from time to time, the "**Fiscal Agency Agreement**") between the Republic, Citibank, N.A., London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). Certain provisions of these Conditions are summaries of the Fiscal Agency Agreement and subject to its detailed provisions. The holders of the Notes (the "**Noteholders**") are entitled to the benefit of a deed of covenant dated 16 June 2011 (the "**Deed of Covenant**") and made by the Republic. The original of the Deed of Covenant is held by the Fiscal Agent on behalf of the Noteholders at its specified office. The holders of the Notes (the "**Noteholders**") are bound by, and are deemed to have notice of, all the provisions of the Fiscal Agency Agreement and the Deed of Covenant applicable to them. Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Fiscal Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below. References in these Conditions to the Fiscal Agent, the Registrar, the Paying Agents and the Agents shall include any successor appointed under the Fiscal Agency Agreement.

*The owners shown in the records of Euroclear Bank SA/NV ("**Euroclear**"), Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") and the Depository Trust Company ("**DTC**") of book-entry interests in Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Fiscal Agency Agreement applicable to them.*

1. Form, Denomination and Title

(a) *Form and denomination*

The Notes are issued in registered form in amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (referred to as the "**principal amount**" of a Note). A note certificate (each a "**Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the Register (as defined below) which the Republic will procure to be kept by the Registrar.

The Notes are not issuable in bearer form.

(b) *Title*

The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Fiscal Agency Agreement. Title to the Notes passes only by registration in the Register. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions Noteholder and (in relation to a Note) holder means the person in whose name a Note is registered in the Register.

For a description of the procedures for transferring title to book-entry interests in the Notes, see the Fiscal Agency Agreement and Condition 2.

2. Transfers of Notes and Issue of Certificates

(a) *Transfers*

A Note may be transferred by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the Agents.

For a description of certain restrictions on transfers of interests in the Notes, see "Transfer Restrictions" and the Fiscal Agency Agreement.

(b) ***Delivery of new Certificates***

Each new Certificate to be issued upon transfer of Notes will, within five business days of receipt by the Registrar or the relevant Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition, "**business day**" shall mean a day on which commercial banks and foreign exchange markets are open for business in the city in which the specified office of the Agent with whom a Certificate is deposited in connection with a transfer is located.

Except in the limited circumstances described herein (see "The Global Certificates – Registration of Title" and "The Global Certificates – Exchange For Certificates"), owners of interests in the Notes will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Notes are subject to compliance by the transferor and transferee with the certification procedures described above and in the Fiscal Agency Agreement and, in the case of Restricted Notes, compliance with the Securities Act legend as set out under "Subscription and Sale".

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred a new Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the relevant Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

(c) ***Formalities free of charge***

Registration of transfer of Notes will be effected without charge by or on behalf of the Republic or any Agent but upon payment (or the giving of such indemnity as the Republic or any Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

(d) ***Closed periods***

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal, premium or interest on that Note.

(e) ***Regulations***

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Fiscal Agency Agreement. The regulations may be changed by the Republic with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one.

3. Status

The Notes constitute direct, general, (subject to the provisions of Condition 4 (*Negative Pledge*) unsecured and unconditional obligations of the Republic and will at all times rank *pari passu* and without any preference among themselves. The full faith and credit of the Republic is pledged for the due and punctual payment of the principal of, and interest on, the Notes and the performance of all the Republic's other obligations under the Notes. The payment obligations of the Republic under the Notes will at all times rank at least equally with all the other present and future unsecured and unsubordinated indebtedness of the Republic.

4. Negative Pledge

So long as any of the Notes remains outstanding the Republic will not grant or permit to be outstanding, and will procure that there is not granted or permitted to be outstanding, any mortgage, charge, lien, pledge or other security interest over any of its present or future assets or revenues or upon the official external reserves of the Republic (which expression includes the gold and the reserves of the Republic by whomsoever and in whatever form owned or held or customarily regarded and held out as the official external reserves thereof) or any part thereof, to secure any Relevant Indebtedness or any guarantee thereof unless the Republic shall, in the case of the granting of the security, before or at the same time, and in any other case, promptly, procure that all amounts payable in respect of the Notes are secured equally and rateably, or such other security or other arrangement is provided as shall be approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of the Noteholders.

For this purpose, "**Relevant Indebtedness**" means any indebtedness, present or future, (A) evidenced by notes, bonds or other similar instruments which are or may be quoted, listed or ordinarily purchased and sold on any stock exchange and (B) which is not listed on the Riga Stock Exchange and issued in dematerialised form into the Latvian Central Depositary system.

5. Interest

(a) ***Interest rate and Interest Payment Dates***

The Notes bear interest on their outstanding principal amount from, and including, 16 June 2011 (the "**Issue Date**") at the rate of 5.25 per cent. per annum, payable in arrear on 16 June and 16 December in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 7 (*Payments*).

(b) ***Interest accrual***

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue until whichever is the earlier of:

(i) the date on which all amounts due in respect of such Note have been paid; and

(ii) the day on which notice has been given to the Noteholders that the Fiscal Agent or the Registrar has received all sums due in respect of the Notes up to such day (except, in the case of payment to the Fiscal Agent or the Registrar to the extent that there is any subsequent default in payment in accordance with these Conditions).

(c) ***Calculation of broken interest***

When interest is required to be calculated in respect of a period of less than a half-year, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

6. Redemption Purchase

(a) ***Scheduled redemption***

Unless previously redeemed, repaid or purchased and cancelled, the Republic will redeem the Notes at their principal amount on 16 June 2021, subject as provided in Condition 7 (*Payments*).

(b) ***Purchase and cancellation***

The Republic and its Agencies may at any time purchase Notes in the open market or otherwise and at any price. Any Notes so purchased, while held by or on behalf of the Republic or any Agency, shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Noteholders. Any Notes so purchased may be cancelled or held and resold by the Republic. Any Notes so cancelled will not be reissued or resold.

In this Condition 6(b), "**Agency**" means any political sub-division, regional government, ministry, department, authority or statutory corporation of the Republic and the government thereof (whether or not such statutory corporation is autonomous) and "**Agencies**" shall be construed accordingly.

7. Payments

(a) ***Payments in respect of Notes***

Payment of principal and interest will be made by transfer to the registered account of the Noteholder or by U.S.$ cheque drawn on a bank that processes payments in U.S.$ mailed to the registered address of the Noteholder if it does not have a registered account. Payments of principal and payments of interest due otherwise than on an Interest Payment Date will only be made against surrender of the relevant Certificate at the specified office of any of the Agents. Interest on Notes due on an Interest Payment Date will be paid to the holder shown on the Register at the close of business on the date (the "**record date**") being the fifteenth day before the due date for the payment of interest.

For the purposes of this Condition 7(a), a Noteholder's registered account means the U.S.$ account maintained by or on behalf of it with a bank that processes payments in U.S.$, details of which appear on the Register at the close of business, in the case of principal, on the second Business Day (as defined below) before the due date for payment and, in the case of interest, on the relevant record date, and a Noteholder's registered address means its address appearing on the Register at that time.

(b) ***Payments subject to applicable laws***

Payments in respect of principal and interest on Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*).

(c) ***Payment on Business Days***

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day (as defined below), for value the first following day which is a Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Business Day preceding the due date for payment or, in the case of a payment of principal or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Noteholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

In this Condition 7 (*Payments*) "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London, New York City and, in the case of presentation of a Note Certificate, in the place in which the Note Certificate is presented.

(d) ***Partial Payments***

If the amount of principal or interest which is due on the Notes is not paid in full, the Registrar will annotate the Register with a record of the amount of principal, premium (if any) or interest in fact paid.

8. Taxation

All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the Republic of Latvia or any political sub-division or any authority thereof or therein having power to tax (together, "**Taxes**"), unless such withholding or deduction is required by law. In that event, the Republic shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

(a) presented for payment by a holder which is liable to such Taxes in respect of such Note by reason of its having some connection with the Republic of Latvia other than the mere holding of such Note; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) presented for payment by or on behalf of a holder who would not be liable for or subject to such withholding or deduction (A) by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such holder fails to do so, or (B) by presenting the relevant Note to another Paying Agent in a member state of the European Union; or

(d) presented for payment more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had presented such Note on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (i) the date on which the payment in question first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent as provided in the Fiscal Agency Agreement on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition.

9. Events of Default

(a) ***Declaration of acceleration***

If either of the following events (each an "**Event of Default**") occurs and is continuing:

(i) *Non-payment*

Any default is made in the payment of any interest due in respect of the Notes or any of them when due and the default continues for a period of 14 days; or

(ii) *Breach of other obligations or undertakings*

The Republic fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by any Noteholder on the Republic of notice requiring the same to be remedied,

then the holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes may, by notice in writing to the Republic (with a copy to the Fiscal Agent), declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Republic.

(b) ***Rescission of declaration of acceleration***

If the Republic receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to the above mentioned declaration of acceleration is or are cured following any such declaration, the Republic shall give notice thereof in writing to the Noteholders (with a copy to the Fiscal Agent), the Notes shall cease to be due and payable. No such rescission shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

10. Prescription

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Notes are presented for payment within five years of the appropriate Relevant Date.

11. Replacement of Certificates

If any Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Republic and the Fiscal Agent may require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

12. Paying Agents

In acting under the Fiscal Agency Agreement and in connection with the Notes, the Paying Agents act solely as agents of the Republic and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Republic reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent and additional or successor paying agents; provided, however, that the Republic shall at all times maintain (a) a fiscal agent and (b) a paying agent in a member state (if any) of the

European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 16 (*Notices*) below.

13. Meetings of Noteholders; Written Resolutions

(a) ***Convening meetings of Noteholders***

The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the provisions of the Fiscal Agency Agreement. Such a meeting may be convened by the Republic and shall be convened by the Republic at any time upon the request in writing of holders of at least 10 per cent. of the aggregate principal amount of the outstanding Notes.

(b) ***Quorum***

The quorum at any meeting of Noteholders convened to vote on an Extraordinary Resolution (as defined below) will be:

(i) one or more persons present and holding or representing at least 50 per cent. of the aggregate principal amount of the outstanding Notes; or

(ii) where a meeting is adjourned and rescheduled owing to a lack of quorum, at any rescheduled meeting of Noteholders, one or more persons present and holding or representing at least 25 per cent. of the aggregate principal amount of the outstanding Notes;

provided, however, that any proposals relating to a Reserved Matter (as defined below) may only be approved by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more persons present and holding or representing at least 75 per cent. of the aggregate principal amount of the outstanding Notes form a quorum.

(c) ***Reserved Matters***

In these Conditions, "**Reserved Matter**" means any proposal:

(i) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;

(ii) to change the currency in which any amount due in respect of the Notes is payable;

(iii) to change the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;

(iv) to change this definition, the definition of "**Extraordinary Resolution**", the definition of "**outstanding**" or the definition of "**Written Resolution**" in these Conditions or in the Fiscal Agency Agreement;

(v) to change or waive the provisions of the Notes set out in Condition 3 (*Status*);

(vi) to change the law governing the Notes, the courts to the jurisdiction of which the Republic has submitted in the Notes, the Republic's obligation to maintain an agent for service of process in England or the Republic's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 17 (*Governing Law and Jurisdiction*);

(vii) to approve any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Republic or any other person; or

(viii) in connection with any proposed exchange, substitution or conversion of the type referred to in paragraph (vii) to amend any of the provisions of the Notes describing circumstances in which Notes may be redeemed or declared due and payable prior to their scheduled maturity date.

(d) ***Modifications***

Any modification of any provision of these Conditions may be made if approved by an Extraordinary Resolution or a Written Resolution (as defined below). In these Conditions, "**Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement by a majority of at least:

(i) in the case of a Reserved Matter, 75 per cent. of the aggregate principal amount of the outstanding Notes; or

(ii) in the case of a matter other than a Reserved Matter, $66^2/3$ per cent. of the aggregate principal amount of the outstanding Notes which are represented at that meeting. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not and whether they voted in favour or not.

(e) ***Written Resolutions***

In addition, the Fiscal Agency Agreement contains provisions relating to Written Resolutions. A "**Written Resolution**" is a resolution in writing signed by or on behalf of the holders of at least 75 per cent. of the principal amount of the outstanding Notes, in the case of a Reserved Matter, or $66^2/_3$ per cent. of the principal amount of the outstanding Notes, in the case of a matter other than a Reserved Matter. Any Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders. Any Written Resolution shall be binding on all of the Noteholders, whether or not signed by them.

(f) ***Manifest error, etc.***

The Notes, these Conditions and the provisions of the Fiscal Agency Agreement may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Republic shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Noteholders.

(g) ***Outstanding Notes***

For the purposes of (i) ascertaining the right to attend and vote at any meeting of Noteholders, (ii) this Condition 13 (*Meetings of Noteholders; Written Resolutions*) and Schedule 5 to the Fiscal Agency Agreement, (iii) Condition 14 (*Noteholders' Representative Committee*) and (iv) Condition 9 (*Events of Default*), those Notes (if any) which are for the time being held by or on behalf of the Republic or by any person owned or controlled directly or indirectly by the Republic, or by any public sector instrumentality of the Republic shall (unless and until ceasing to be so held) be disregarded and be deemed not to remain outstanding. "**Public sector instrumentality**" means the Republic of Latvia, any department, ministry or agency of the government of the Republic of Latvia or any corporation, trust, financial institution or other entity owned or controlled by the government of the Republic of Latvia. "**Control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

(h) ***Written requests etc.***

Before any request is made or notice is delivered or Written Resolution is signed by any Noteholder in accordance with the provisions of this Condition or Conditions 14 (*Noteholders' Representative Committee*) or 9 (*Events of Default*), the relevant Noteholder must deposit its Notes with any Paying Agent and obtain two copies of an acknowledgment of receipt (an "**Acknowledgment**") signed and dated by the relevant Paying Agent and certifying the principal amount of Notes so deposited. Any request so made, notice so given or Written Resolution so signed by any Noteholder must be accompanied by an Acknowledgment issued to the Noteholder. Notes so deposited will not be released until the earlier of (i) the thirtieth day after the date of deposit and (ii) the request, notice or Written Resolution becoming effective in accordance with these Conditions and will only be released against surrender of a relevant Acknowledgment.

14. Noteholders' Representative Committee

(a) ***Appointment***

The Noteholders may, by a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement by a majority of at least 50 per cent. in aggregate principal amount of the Notes then outstanding, or by notice in writing to the Republic (with a copy to the Fiscal Agent) signed by or on behalf of the holders of at least 50 per cent. in aggregate principal amount of the Notes then outstanding, appoint any person or persons as a committee to represent the interests of the Noteholders if any of the following events has occurred:

(i) an Event of Default;

(ii) any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 9 (*Events of Default*) become an Event of Default; or

(iii) any official public announcement by the Republic to the effect that the Republic is seeking or intends to seek a restructuring of the Notes (whether by amendment, exchange offer or otherwise),

provided, however, that no such appointment shall be effective if the holders of more than 25 per cent. of the principal amount of the outstanding Notes have either (A) objected to such appointment by notice in writing to the Republic (with a copy to the Fiscal Agent) during a specified period following notice of the appointment being given (if such notice of appointment is made by notice in writing to the Republic) where such specified period shall be either 30 days or such other longer or shorter period as the committee may, acting in good faith, determine to be appropriate in the circumstances, or (B) voted against such resolution at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement.

(b) ***Powers***

Such committee shall, if appointed by notice in writing to the Republic, give notice of its appointment to all Noteholders in accordance with Condition 16 (*Notices*) as soon as practicable after the notice is delivered to the Republic. Such committee in its discretion may, among other things, (i) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders, (ii) adopt such rules as it considers appropriate regarding its proceedings and (iii) enter into discussions with the Republic and/or other creditors of the Republic. The Republic shall pay any fees and expenses of any such committee (including, without limitation, the costs of giving notices to Noteholders and the reasonable fees and expenses of the committee's legal advisers and financial advisers, if any) within 30 days of the delivery to the Republic of a reasonably detailed invoice and supporting documentation.

15. Further Issues

The Republic may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount and date of the first payment of interest) so as to form a single series with the Notes provided, however, that the Notes are either (i) not issued with original issue discount, (ii) issued with less than a *de minimis* amount of original issue discount, or (iii) issued in a "qualified reopening" for U.S. federal income tax purposes.

16. Notices

Notices to the Noteholders shall be valid if published (i) in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort* or the *Tageblatt*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe or (ii) to the extent and in the manner permitted by the rules and regulations of the Luxembourg Stock Exchange, by posting such notices on the official website of the Luxembourg Stock Exchange (www.bourse.lu). Any such notice shall be deemed to have been given on the date of first publication or, if so published more than once on different dates, on the date of the first publication.

All notices to the Republic will be valid if sent to the Republic at the Treasury of the Republic of Latvia, Riga or such other address as may be notified by the Republic to the Noteholders in accordance with the above paragraph of this Condition.

17. Governing Law and Jurisdiction

(a) ***Governing law***

The Notes and any non-contractual obligations arising out of or in connection with them are governed by English law.

(b) ***Jurisdiction***

The Republic agrees for the benefit of the Noteholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Notes (respectively, "**Proceedings**" and "**Disputes**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

(c) ***Appropriate forum***

The Republic irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.

(d) ***Service of process***

The Republic irrevocably appoints the Ambassador of the Republic of Latvia to the Court of St. James's as its authorised agent for the service of process in England in respect of any Proceedings or Disputes. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law.

(e) ***Non-exclusivity***

The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any Noteholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

(f) ***Consent to enforcement etc***

For the purposes of the State Immunity Act 1978, the Republic consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such Proceedings.

(g) ***Waiver of immunity***

To the extent that the Republic may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise and whether or not on the grounds of sovereignty or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Republic or its assets or revenues, the Republic agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction provided, however, that immunity is not waived in respect of present or future "**premises of the mission**" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, "**consular premises**" as defined in the Vienna Convention on Consular Relations signed in 1963 or military property or military assets or property or assets of the Republic related thereto.

There will appear at the foot of the Conditions endorsed on each Note in definitive form the names and Specified Offices of the Paying Agents as set out at the end of this Offering Circular.

THE GLOBAL CERTIFICATES

The Global Certificates contain the following provisions which apply to the Notes in respect of which they are issued whilst they are represented by the Global Certificates, some of which modify the effect of the Conditions. Terms defined in the Conditions have the same meaning in paragraphs 1 to 7 below.

1. FORM OF THE NOTES

The Notes sold in reliance on Regulation S under the Securities Act will be represented on issue by the Unrestricted Global Certificate, which will be deposited with, and registered in the name of a nominee for the common depositary for, Euroclear and Clearstream, Luxembourg. Beneficial interests in an Unrestricted Global Certificate may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. By acquisition of a beneficial interest in the Unrestricted Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it acquired such beneficial interest in accordance with Regulation S and that it will only offer, sell, pledge or otherwise transfer such beneficial interest in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See "*Subscription and Sale*" and "*Transfer Restrictions*".

The Notes sold in reliance on Rule 144A will be represented on issue by the Restricted Global Certificate, which will be deposited with a custodian for, and registered in the name of a nominee of, DTC. Beneficial interests in a Restricted Global Certificate may only be held through DTC or its participants at any time. Beneficial interests in a Restricted Global Certificate may only be held by persons who are QIBs, holding their interests for their own account or for the account of one or more QIBs. By acquisition of a beneficial interest in a Restricted Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Restricted Global Certificate. See "*Subscription and Sale*".

Beneficial interests in Global Certificates will be subject to certain restrictions on transfer set out therein and under "*Transfer Restrictions*" and in the Agency Agreement and such Global Certificates will bear a legend as set out under "*Subscription and Sale*". On or prior to the 40th day after the later of the commencement of the offering and the Issue Date, ownership of interests in an Unrestricted Global Certificate will be limited to persons who have accounts with Euroclear or Clearstream, Luxembourg, or persons who hold interests through Euroclear or Clearstream, Luxembourg, and any sale or transfer of such interests to U.S. persons shall not be permitted during such period unless such resale or transfer is made pursuant to Rule 144A as provided below.

No beneficial interest in an Unrestricted Global Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in a Restricted Global Certificate unless (i) the transfer is to a person that is a QIB, (ii) such transfer is made in reliance on Rule 144A, and (iii) the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transferee is a QIB, that the transfer is being made in a transaction meeting the requirements of Rule 144A and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. No beneficial interest in the Restricted Global Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in an Unrestricted Global Certificate unless the transfer is to a non-U.S. person in an offshore transaction in reliance on Regulation S and the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made to a person who is a non-U.S. person in accordance with Regulation S.

Any beneficial interest in an Unrestricted Global Certificate that is transferred to a person who takes delivery in the form of an interest in a Restricted Global Certificate will, upon transfer, cease to be an interest in such Unrestricted Global Certificate and become an interest in the Restricted Global Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Restricted Global Certificate for as long as it remains such an interest. Any beneficial interest in a Restricted Global Certificate that is transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Certificate will, upon transfer, cease to be an interest in each Restricted Global Certificate and become an interest in the Unrestricted Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in an Unrestricted Global Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Republic may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in the Global Certificates will not be entitled to receive physical delivery of Notes.

2. ACCOUNTHOLDERS

For so long as any of the Notes are represented by the Global Certificates, each person (other than another clearing system) who is for the time being shown in the records of DTC or Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each an "**Accountholder**") (in which regard any certificate or other document issued by DTC or Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression "Noteholders" and references to "holding of Notes" and to "holder of Notes" shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Republic, solely in the nominee for the relevant clearing system (the "**Relevant Nominee**") in accordance with and subject to the terms of the Global Certificates. Each Accountholder must look solely to DTC or Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

3. CANCELLATION

Cancellation of any Note following its redemption or purchase by the Republic will be effected by reduction in the aggregate principal amount of the Notes in the Register and by the annotation of the appropriate schedule to the relevant Global Certificate.

4. PAYMENTS

Payments of principal and interest in respect of Notes represented by a Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Notes, against presentation and surrender of such Global Certificate to or to the order of the Fiscal Agent or such other Agent as shall have been notified to the holders of the Global Certificates for such purpose.

Distributions of amounts with respect to book-entry interests in the Unrestricted Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Fiscal Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

Holders of book-entry interests in the Restricted Notes holding through DTC will receive, to the extent received by the Fiscal Agent, all distribution of amounts with respect to book-entry interests in such Notes from the Fiscal Agent through DTC. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

A record of each payment made will be endorsed on the appropriate schedule to the relevant Global Certificate by or on behalf of the Fiscal Agent and shall be *prima facie* evidence that payment has been made.

5. NOTICES

So long as the Notes are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by Condition 16 (*Notices*) except that, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, notices shall also be published in a daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort* or the *Tageblatt*). Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Certificate, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Fiscal Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

6. REGISTRATION OF TITLE

The Registrar will not register title to the Notes in a name other than that of the Relevant Nominee for a period of 15 calendar days preceding the due date for any payment of principal, or interest in respect of the Notes.

7. EXCHANGE FOR CERTIFICATES

(a) ***Exchange***

Each Restricted Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Restricted Certificates and each Unrestricted Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Unrestricted Certificates upon the occurrence of an Exchange Event.

For these purposes an "**Exchange Event**" means that:

(i) circumstances described in Condition 9 (*Events of Default*) have occurred;

(ii) in the case of an Unrestricted Global Certificate only, if Euroclear and/or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces that it is permanently to cease business or does in fact do so and no successor or alternative clearing system is available; or

(iii) in the case of a Restricted Global Certificate only, if DTC notifies the Republic that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the relevant Global Certificate or DTC ceases to be a "clearing agency" registered under the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**") or is at any time no longer eligible to act as such and no qualified successor clearing system has been identified within 90 days of receipt of such notice from DTC,

provided that, in the case of any exchange pursuant to (b) or (c) above, the holder has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such exchange.

In exchange for the relevant Global Certificate, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of an equal aggregate principal amount of duly executed Certificates in or substantially in the form set out in the Agency Agreement.

(b) ***Delivery***

In such circumstances, the relevant Global Certificate shall be exchanged in full for Certificates and the Republic will, at the cost of the Republic (but against such indemnity as the Registrar or Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Certificates to be executed and delivered to the Registrar for completion and dispatch to the relevant Noteholders. A person having an interest in a Global Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Republic and the Registrar may require to complete, execute and deliver such Certificates and (b) in the case of the Restricted Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB. Certificates issued in exchange for a beneficial interest in the Restricted Global Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Subscription and Sale*".

(c) ***Legends and transfers***

The holder of a Certificate may transfer the Notes represented thereby in whole or in part in the applicable denomination by surrendering it at the specified office of any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Certificate bearing the legend referred to under "*Subscription and Sale*", or upon specific request for removal of the legend on a Certificate, the Republic will deliver only Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Republic and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Republic that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act. Restricted Certificates will bear the same legend as the legend for the Restricted Global Certificates set out under "*Subscription and Sale*". The Restricted Certificates may not at any time be held by or on behalf of U.S. persons that are not QIBs. Before any Unrestricted Certificate may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of a Restricted Certificate, the transferor and/or transferee, as applicable, will be required to provide the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transfer is (i) to a person that is a QIB and (ii) such transfer is made in reliance on Rule 144A. Unrestricted Certificates will bear the same legend as the legend for the Unrestricted Global Certificates set out under "*Subscription and Sale*". Before any Restricted Certificates may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of an Unrestricted Certificate, the transferor and/or transferee, as applicable, will be required to provide the relevant Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made to a person who is a non-U.S. person in accordance with Regulation S.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to U.S.$489,820,000, will be used for the refinancing of indebtedness and general funding purposes of the Republic.

DESCRIPTION OF THE REPUBLIC OF LATVIA

Geography and Population

Latvia is located in the Baltic region of northern Europe and is bordered by Estonia to the north, Russia to the east, Lithuania to the south and Belarus to the south-east. The western border of the country is the Baltic Sea, along which the country has a 498 kilometre coastline. Latvia is divided into four historical districts: Kurzeme (western Latvia), Zemgale (southern Latvia), Vidzeme (northern Latvia) and Latgale (eastern Latvia). Latvia covers an area of approximately 64,559 square kilometres. The capital city is Riga.

The country is low lying and generally flat, rising steadily from west to east, reaching its highest point of 312 metres above sea level at Gaizina Kalns. Latvia shares its longest border with Lithuania (588 km), followed by Estonia (343 km), Russia (276 km) and Belarus (161 km).

As of 1 January 2011, the total population of Latvia was approximately 2,229,600. Since early 2000, the total population has decreased by approximately 152,100 persons, or 6.4 per cent. of the population in early 2000, principally as a result of ageing, low birth rate and emigration. In terms of age profile, 20.1 per cent. of the population was under 20 at 1 January 2010, 57.3 per cent. was between 20 and 59 and 22.6 per cent. was aged 60 and over. The equivalent proportions at 1 January 2005 were 22.8 per cent., 55.0 per cent. and 22.2 per cent., respectively.

The urban/rural ratio of the total population has remained constant since 2000 with 68 per cent. of the total population living in urban areas as of 1 January 2010 and 32 per cent. in rural areas. The population density is 34.8 persons per square kilometre as of 1 January 2010.

The highest population concentration is in the capital city, Riga. As of 1 January 2010, the population in Riga was 706,413, which is equal to 31.4 per cent. of the total population. Since 2000, the population in Riga has decreased by 59,968, or 7.8 per cent.

At 1 January 2010, 66.0 per cent. of the Latvian population was of working age, 59.4 per cent. of the population were Latvian, 27.6 per cent. were Russian and no other ethnic group exceeded 4 per cent. of the total population.

The average life expectancy of those born in 2009 is 73.4 years (68.3 years for males and 78.1 years for females), weighted for gender balance.

Historical Background

Latvia's origins lie in the 12th century with the arrival of western Europeans, mainly German crusaders spreading the Catholic faith, although records of inhabitants date back to the ancestors of Baltic Finns in around 3,000 BC and the formation of the Baltic and Finno-Ugrian tribes in 2,000 BC.

The crusaders had established the state of Livonia as a political union of territories belonging to the Livonian Order of Knights and to the Catholic church by the 1270s. Riga, the capital city of Latvia, was founded in 1201. In 1285, Riga was admitted into the Hanseatic League of northern Germany, thereby assuming a central mediating role in east-west trade.

The territory of Latvia, through its access to the Baltic Sea trade routes, is strategically positioned. As a result, throughout the middle ages, Latvia (or parts of it) was controlled by other states, including Denmark, Poland-Lithuania, Sweden and Russia. From the middle of the 16th century until the end of the 18th century, part of Latvia was known as the Duchy of Courland, a semi-independent state paying tribute to Poland.

In 1721, Russia took control of the Latvian territories as a result of its victory over Sweden in the Great Northern War. In the 1860s, the Young Latvian Movement was formed in order to promote the indigenous language against Russification policies and to publicise and counteract the socioeconomic oppression of Latvians. In 1903, the Latvian Social Democratic Union was formed, which continued to champion national interests and Latvia's national self-determination, particularly during the failed 1905 revolution in Russia.

As a consequence of the First World War, Latvia's independence from Russia was declared on 18 November 1918. In 1922, the Constitutional Assembly (*Satversmes Sapulce*, a special meeting convened to approve a constitution) adopted a constitution (*Satversme*) which proclaimed the country to be a democratic republic. In May 1934, the parliament was dismissed and the activities of the political parties were suspended following a coup d'etat engineered by the then prime minister. With the outbreak of the Second World War, Latvia was annexed by the Soviet Union in 1940 and was invaded and occupied by Germany between 1941 and 1944. The Soviet Union reacquired control of Latvia in 1944 although its annexation of Latvia in 1940 was never recognised by most western democracies, including the United States.

After rapid political change in Eastern Europe and the Soviet Union in the late 1980s, the Supreme Council of Latvia re-established legal independence with the Declaration of the Renewal of the Independence of the Republic of Latvia on 4 May 1990. On 6 September 1991, the independence of the Baltic Republics (including Latvia) was recognised by the Soviet Union.

In September 1991, following the collapse of the Soviet Union, Latvia was admitted to the UN. On 29 March 2004, Latvia joined NATO and, on 1 May 2004, it became a Member State of the EU.

On 27 March 2007, a border treaty between Latvia and Russia was signed. The treaty was ratified by the Saeima (the Latvian Parliament) on 17 May 2007, by the State Duma of the Russian Parliament on 5 September 2007, and by the Russian Parliament Federation Council on 19 September 2007. The ratification procedure was finalised on 3 October 2007 when the President of Russia, Vladimir Putin, signed the agreement.

Political System and Developments

In accordance with the Constitution, the Saeima is the highest legislative body. The Saeima is a unicameral parliament consisting of 100 members, elected in general, equal, direct, secret and proportional elections for a four-year term. All Latvian citizens who are 18 years of age and over are entitled to vote.

The main function of the Saeima is to pass legislation. In addition, the Saeima approves the national budget, determines the size of the armed forces and oversees the work of the government. International agreements, which include matters that are decided by a legislative process, require ratification by the Saeima.

The Saeima is entitled to elect, appoint, approve or dismiss a range of state officials and also elects the President for a term of four years. According to the Constitution, any person who enjoys full rights of citizenship and who has attained the age of 40 years may be elected President. A person with dual citizenship is not eligible. The same person may not hold office as President for more than eight consecutive years.

One of the President's main functions is to represent Latvia internationally. The President nominates the prime minister and, if necessary, may initiate a referendum to approve the dissolution of the Saeima. The Cabinet of Ministers, which consists of ministers appointed by the prime minister, is the highest executive power in Latvia.

On 2 June 2011, the Saeima elected Andris Bērziņš as the President. Mr. Bērziņš will be the fourth President to be appointed since the Constitution was re-instituted in 1993.

The elections for the tenth Saeima were held in October 2010 with an election turnout of 944,841 (or 63.1 per cent. of eligible voters). The following political parties or party alliances were elected to the tenth Saeima:

Name of party	**Number of seats**
Alliance of political parties: Unity	33
Alliance of political organisations: Concord Centre	29
Union of Greens and Farmers	22
National alliance of: All for Latvia and Union For Fatherland and Freedom/LNNK[(1)]	8
Political alliance: For a Good Latvia	8
Total	**100**

Source: the Saeima
Note:
(1) Subsequently, one member has left the alliance and is now an unaffiliated member.

Five parliamentary groups have been established in the tenth Saeima. The Presidium of the Saeima consists of the Speaker, two Deputy Speakers, the Secretary and a Deputy Secretary. There are 16 standing committees in the Saeima. In addition, groups of members of Parliament and permanent delegations to international organisations have been established to promote cooperation with parliaments of other countries.

On 28 May 2011, the then President, in accordance with Article 48 of the Latvian Constitution, announced a proposal for a referendum on the dissolution of the tenth Saeima which will be held on 23 July 2011. The President declared that he was taking this step on the basis of a lack of trust between the people of Latvia and the Saeima after a majority of deputies in the Saeima blocked an anti-corruption investigation.

Local Governments

Following reform of local government and the local elections held in June 2009, there is now a single tier of 118 local government bodies in Latvia, comprising nine cities (*republikas pilsēta*) and 109 municipalities (*novads*). Previously there were two tiers of local government, comprising 548 local government bodies. The purpose of the reform of the local government system was to improve the efficiency and effectiveness of local government. Local government bodies are elected for four years by direct universal suffrage, under proportional representation on the basis of a list system.

Local government bodies in Latvia are responsible for a wide range of functions, including organising utility services, providing some education and health facilities, social assistance and social care for residents and maintaining cultural activities. See "*Public Finance – Relationship between Central Government and Local Government Budgets*" and "*Indebtedness – Local Government Debt*" for a discussion on local government funding.

Prevention and Combating of Corruption

In 2002, a single independent institution aimed at the prevention and combating of corruption and the monitoring of political parties' financing was established. This institution, known as the Bureau for the Prevention and Combating of Corruption (the "**Bureau**") currently employs approximately 140 people. The Bureau is an independent public administration institution supervised by the Cabinet of Ministers.

The Bureau develops and coordinates implementation of Latvia's mid-term anti-corruption policy (which is defined in two documents, the National Strategy and the National Programme for Prevention and Combating of Corruption (the "**Anti-corruption Programme**"), both for 2009-2013), monitors observance of the law "On Prevention of Conflict of Interest in Activities of Public Officials", controls party financing and screens draft legislation in order to identify any corruption risk. The Bureau reports on a regular basis to the Government and the Parliament with its results.

The Bureau also has full capacity to initiate enforcement proceedings in corruption-related crimes in public service. Between 2003 and 2010, the Bureau initiated 275 criminal cases, of which 167 criminal cases against 376 persons resulted in criminal prosecutions. From the time the Bureau started to control party financing up to 31 December 2010, LVL 2.0 million of illegal funding has been reimbursed to the State budget as a result of Bureau investigations.

The Bureau has investigated a number of cases of aggravated corruption as a result of which several high ranking officials (including a local government head, board members of one of the largest state companies and a former head of the Customs Criminal Board) have been detained. In order to decrease the influence of specific individuals or groups, the Bureau has initiated state funding for political parties and is responsible for administering this funding. The Bureau has also ensured that protection for whistle blowers has been introduced in Latvia. Looking ahead, the Bureau intends to focus on increasing the awareness of, and providing guidance in relation to preventing, conflicts of interest and on strengthening internal control measures in line with the stated policy in the Anti-corruption Programme.

According to the annual Transparency International Corruption Perception Index, an index published by Transparency International (a global civil society organisation), Latvia ranked 59th out of 180 countries in 2010 in terms of its perceived level of corruption, as determined by expert assessments and opinion surveys. For these purposes, corruption is defined as the abuse of entrusted power for private gain. Since 2006, when Latvia's score on the index was 4.7 out of 10, the scores have been 4.8 in 2007, 5.0 in 2008, 4.5 in 2009 and 4.3 in 2010, principally reflecting the fact that although the number of persons involved in criminal offences in Latvia has increased in recent years, the number of criminal proceedings investigated by the Bureau has decreased. See also "*– Political System and Developments*".

Combating Terrorism

In April 2003, a Government Action Plan for fighting terrorism was prepared and introduced. The plan aims to improve co-operation between state institutions in measures for the prevention and combating of terrorism. In particular, the plan aims to prevent terrorists from using the territory of Latvia or its banking system to achieve their goals. All the measures identified in the plan have been implemented and completed.

In particular, a counter-terrorism centre has been established which started operations on 1 February 2005. The centre seeks to co-ordinate the actions of institutions fighting terrorism, ensuring the timely exchange of information, and the compilation and analysis of information on counter-terrorist activities. In order to improve the efficiency of the national counter-terrorism system, the Ministry of Interior and the counter-terrorism centre have prepared a conceptual rating scale of levels of terrorism threat.

Latvia also participates in the efforts of international organisations, including the UN, NATO, the EU, the Organisation for Security and Co-operation in Europe and the Council of Europe, to combat global terrorism. Latvia has ratified and introduced all 13 UN Conventions and Protocols which form the basis of international legislation on issues of counter-terrorism, including most recently, the International Convention for the Suppression of Acts of Nuclear Terrorism.

Within the EU, Latvia has become involved in a range of practical counter-terrorism initiatives which provide for an increased level of cooperation between investigatory and security services, as well as in judicial matters. According to the EU Declaration on Combating Terrorism (adopted 25 March 2004) and the EU Plan of Action on Combating Terrorism (passed by the European Council on 17-18 June 2004), Latvia has introduced a number of provisions in its legislation aimed at promoting practical cooperation among EU Member States in combating terrorism and is participating in the preparation of other EU regulations relating to the exchange of information, witness protection and funding for the fight against terrorism.

The Judicial System

Latvia's three-tier judicial system is independent. The first level comprises 35 district (city) courts as the courts of first instance, with six regional courts acting as courts of appeal and courts of first instance for certain civil, criminal cases and administrative cases comprising the second level and the Supreme Court comprising the third level. The administrative courts were introduced to the Latvian judicial system in 2004. They consider cases relating to the exercise of executive power by state, municipal and other public institutions which relate to the rule of law and public law issues.

The highest court in Latvia is the Republic of Latvia's Supreme Court (the "**Supreme Court**"). The Supreme Court comprises two separate judicial bodies: the Senate, which has authority to accept cassation appeals in all types of cases and is the final and supreme judicial body in Latvia, and the

Supreme Court Chambers. The total number of Supreme Court justices is established by Saeima, upon the recommendation of the Board of Justice. The total number of justices in the Senate and the Supreme Court Chambers is determined by the Board of Justice, upon the recommendation of the Chief Justice. The Chief Justice is selected from among the justices for confirmation by the Saeima and serves a seven-year term. The current Chief Justice has been in office since 2008.

In addition, the Constitutional Court of Latvia consists of seven justices who are elected by the Saeima for a 10-year term. This court is authorised to hear cases involving legislative acts and international agreements, including cases relating to the compliance of such acts and agreements with law and the Constitution. The Constitutional Court hears cases following the filing of a petition by an eligible party in accordance with the Constitution. Members of the Constitutional Court elect a Chairman for a three-year term who presides at sessions of the Constitutional Court, organises the work of the Court and represents the Court.

International Relations

Participation in global and regional organisations, especially membership of the EU, NATO, the IMF and other European organisations (such as the Council of Europe and the Organisation for Security and Co-operation in Europe) is becoming increasingly important in terms of meeting new challenges and is advantageous for Latvia, allowing Latvia to contribute to the resolution of specific problems while also representing its national interests in global politics.

Latvia became a member state of the UN in 1991, thus creating a global dimension for Latvian foreign policy. By acceding to international declarations such as the Millennium Development Declaration and the UN Cairo Declaration, Latvia has demonstrated its readiness to become involved in the resolution of global problems.

In October 2010, Latvia was elected to the United Nations Economic and Social Council ("**ECOSOC**") for the period 2011 to 2013. As an ECOSOC member, Latvia will be expected to participate in the decision-making process relating to current international matters, including the implementation of the Millennium Development Goals.

Membership of the WTO, which was achieved in 1998, has contributed to the development of Latvia's economy. Latvia continues to cooperate actively with the Organisation for Economic Co-operation and Development (the "**OECD**") with a view to eventual accession to the OECD.

By joining NATO and the EU in 2004, Latvia achieved its strategic goals in terms of international institutional membership. Ensuring and developing relations with EU Member States and institutions plays a major role in Latvia's foreign policy; see "– *EU Membership*".

Latvia has participated in the UN-mandated and NATO-led International Security Assistance Force ("**ISAF**") mission in Afghanistan and Latvia has also contributed to NATO training programmes in Iraq.

Latvia has been a member of the Schengen Area since 21 December 2007. This allows the free movement of people and goods within the Schengen zone, comprising 25 European countries, without any passport controls or customs formalities.

Latvia seeks good relations with its neighbouring countries, both at a bilateral level and through membership of regional organisations such as the Council of Baltic Sea States. Other institutions that have been jointly established by Latvia, Lithuania and Estonia, such as the Baltic Assembly and the Baltic Council of Ministers, have also contributed to harmonising the foreign policies of these Baltic States and to promoting practical cooperation between them.

Active bilateral and multilateral dialogue with the Nordic countries is also important to Latvia as a means of enhancing long-term cooperation among the Baltic and Nordic countries, sharing participation in the implementation of regional programmes, projects and initiatives and strengthening the region's influence at a global level. The EU Strategy for the Baltic Sea region provides another opportunity to increase regional competitiveness and sustainable growth.

At the bilateral level, relations between Latvia and Russia are based on pragmatic foundations and cooperation, with particular emphasis on the need to resolve issues which affect both countries (for instance, the border demarcation), and to strengthen the role of the Baltic Sea region. In December 2010, the President of Latvia paid the first official visit to Russia by a Latvian President since 1994. Latvia also promotes its interests with regard to Russia within the framework of EU-Russia relations, by participating actively in the work of the relevant EU institutions, dealing with specific issues and developing a joint strategy of relations.

Latvia regards the United States of America as a strategic partner and ally and believes that it is important to maintain an ongoing dialogue with the United States on both traditional and new security challenges, including energy security and areas such as money laundering and international terrorism.

EU Membership

As a Member State of the EU, Latvia actively participates in the EU decision-making process at meetings of the European Council and the Council of Ministers and in working groups of the European Commission, the Council of Ministers and the Committee of Permanent Representatives. Latvia is also represented in the European Parliament, the Committee of Regions and the European Economic and Social Committee. On 8 May 2008, Latvia became the 12th EU Member State to ratify the Treaty of Lisbon. Latvia will assume the rotating presidency of the Council of Ministers during the first half of 2015.

After the European Parliamentary elections of 2009, Latvia has eight parliamentary seats in the European Parliament. The Group of the European People's Party (Christian Democrats) holds the largest number of the Latvian seats in the European Parliament with three seats. The Group of the Alliance of Liberals and Democrats for Europe, the Group of the Progressive Alliance of Socialists and Democrats in the European Parliament, the Confederal Group of the European United Left – Nordic Green Left, the Group of the Greens/European Free Alliance and the European Conservatives and Reformists each hold one seat.

As membership in the European Economic and Monetary Union and the adoption of the single currency are both required by the terms of Latvia's accession to the EU and have been set as objectives by the Latvian government, Latvia is in a continuing dialogue with the EU on these matters. As a Member State, Latvia is subject to multilateral surveillance by the Council of Ministers. Latvia is obliged to prepare an annual Convergence Programme covering fiscal policy, Latvia's main assumptions underlying its economic outlook and an assessment of economic policy measures and their budgetary impact. This information must cover the current and previous year and include forecasts for at least the next three years.

Latvia's membership in the EU has resulted in a major inflow of EU funds. The total amount of financing allocated to Latvia for the period between 2007 and 2013 equals €6.6 billion, of which €4.6 billion is intended for cohesion and structural funds, and €2.0 billion is intended for agricultural development.

The table below sets out the inflow of EU funds to Latvia for each of the years ended 31 December 2006, 2007, 2008, 2009 and 2010.

	2006	2007	2008	2009	2010
			(LVL)		
Pre-accession funds[1]	21,766,013	368,715	226,631	15,094	0
Structural funds[2]	44,836,650	214,537,225	143,115,312	245,437,315	208,333,548
Cohesion policy[3]	73,410,700	123,117,324	113,613,189	97,186,884	143,565,547
Common agricultural policy[4]	95,964,070	106,042,840	161,052,090	165,037,291	198,920,370
Transition policy	20,469,710	4,594,649	1,748,517	557,639	0
Other funds	7,871,610	9,309,363	7,865,347	13,874,782	27,233,896
Non-EU facilities	—	858,524	3,659,623	8,647,226	22,113,430
Repaid to EU	—	—	(4,219,000)	(6,244,316)	(1,640,003)
Total	**264,318,753**	**458,828,640**	**427,061,709**	**524,511,915**	**598,526,788**

Source: The Treasury

Notes:

(1) Pre-accession funds help to finance a Member State's expenditure on conforming its laws to the existing body of European Community law and on development in general.

(2) Structural funds allow the EU to grant financial assistance to help resolve a Member State's structural economic and social problems.

(3) Cohesion policy funds are designed to offset the burden of the single market for the less-favoured Member States or regions of Member States.

(4) Common agricultural policy funds represent agricultural subsidies paid to a Member State.

The table below sets out the use of EU funds by Latvia for the period between 1 January 2006 and 31 December 2010.

	(LVL)
Current expenditure	1,975,479,621
Capital expenditure	468,634,173
Funds received but not yet spent	170,865,989
Total	**2,273,247,805**

Source: The Treasury

The table below summarises Latvia's own resource payments to the EU for each of the years ended 31 December 2006, 2007, 2008, 2009 and 2010 and for the period from 1 January 2011 to 31 March 2011.

	2006	2007	2008	2009	2010	2011[1]
			(LVL millions)			
GNI[2]	70.4	82.4	94.8	107.7	90.7	32.8
VAT[3]	17.6	24.6	24.8	15.8	9.7	5.1
UK correction[4]	8.1	10.5	13.6	10.8	7.6	2.0
Traditional own resources[5]	15.6	21.6	20.4	13.1	11.9	3.9
Agricultural levies	0.7	1.0	1.1	0.5	—	—
Customs duties	14.7	19.4	18.7	12.0	11.9	3.9
Sugar levies	0.2	1.2	0.6	0.6	—	—
Total	**111.7**	**139.1**	**153.5**	**147.4**	**119.9**	**43.8**

Source: Ministry of Finance

Notes:

(1) From 1 January 2011 to 31 March 2011.

(2) Gross National Income, charged at a uniform rate of 0.73 per cent. of each Member State's gross national income.

(3) Charged at 0.3 per cent. of Latvia's VAT revenue (harmonised to reflect VAT rate differences between Member States).

(4) Reflecting Latvia's contribution to the EU compensation paid to the UK in respect of its lower agricultural fund receipts.

(5) This represents duties that are charged on imports of relevant products into Latvia from a non-EU state.

ECONOMY OF LATVIA

Background

During 2006 and 2007, Latvia experienced rapid growth with real GDP growing by 12.2 per cent. in 2006 and 10.0 per cent. in 2007. These growth rates were principally driven by private consumption and investment, which was largely based on a substantial inflow of foreign capital. In 2008 and 2009, Latvia's economy was significantly adversely affected by the global economic crisis which commenced at the end of 2007, with real GDP falling by 4.2 per cent. in 2008 and by 18.0 per cent. in 2009. Since 2009, Latvia's economy has begun to recover, with real GDP growing in each quarter since the last quarter of 2009, although on an annual basis and reflecting the steep decline in 2009 Latvia's real GDP for 2010 was 0.3 per cent. lower than it was for 2009.

Impact of the Global Economic Crisis and Resolution

The global economic crisis significantly adversely impacted Latvia's economy. Comparing the last quarter of negative real growth (the fourth quarter of 2009) with the last quarter of positive real growth (the fourth quarter of 2007), real GDP decreased by 23.8 per cent., with the steepest period of decline being the first six months of 2009. Although the economic downturn continued in the second six months of 2009, the rate of negative real growth slowed significantly and slight increases in both exports and manufacturing output became apparent.

Positive growth on a quarter-on-quarter basis began in the last quarter of 2009, with real GDP growing by 0.1 per cent. In 2010, real GDP grew by 0.2 per cent., 0.6 per cent., 1.6 per cent. and 1.1 per cent., respectively, in the four quarters of the year, in each case compared to the previous quarter, although, on an annual basis, in 2010, real GDP decreased by 0.3 per cent. in comparison to 2009. Latvia's real GDP grew by 0.3 per cent. in the first quarter of 2011 compared to the fourth quarter of 2010.

Economic sentiment and confidence in Latvia were both adversely affected by developments commencing in early 2007. The general economic sentiment indicator in Latvia showed a declining trend on a quarter-by-quarter basis since March 2007 (when it stood at a positive 15 per cent., indicating that 15 per cent. more respondents had a positive outlook than a negative outlook) to March 2009 (when it stood at a negative 48 per cent.). Since March 2009, economic sentiment in Latvia has steadily improved and, at December 2010, it stood at a negative 9 per cent. Confidence indicators in the industry, retail trade, services, construction and consumer sectors have all shown similar trends; see "*Recent Economic Developments*".

The economic downturn also significantly adversely affected the labour market. By the end of 2009, the registered unemployment rate (being the number of unemployed non-working persons aged 15 to 62 actively seeking a job who are registered with the State Employment Agency expressed as a percentage of the active population (which in turn is defined as employed persons and persons actively seeking a job)) had increased from 4.9 per cent. in 2007 to 16.0 per cent. and the employment rate (defined as the number of employed persons in the 15 to 64 years age group expressed as a percentage of the total population) had fallen from 68.4 per cent. in 2007 to 61.1 per cent. In 2010, the registered unemployment rate fell to 14.3 per cent. although the employment rate also fell, to 59.4 per cent. The 2010 information is estimated.

The global financial crisis did, however, positively affect Latvia's foreign trade balance and its current account balance of payments. In 2009, Latvia's imports fell by 37.7 per cent. compared to 2008. Latvia's exports fell by 19.2 per cent. in 2009 compared to 2008. As a result, Latvia's negative foreign trade balance fell significantly, from LVL 2,862.4 million in 2008 to LVL 931.6 million in 2009, and represented 7.1 per cent. of GDP in 2009. The foreign trade balance continued to improve in 2010 as exports increased faster than imports, with the deficit being 6.5 per cent. of GDP in that year. Latvia's current account balance of payments was additionally significantly affected by a slowdown in the inflow of foreign investments from the second half of 2007 due to the global crisis and, as a result, the current account balance moved from a deficit equal to 24.8 per cent. of GDP in the third quarter of 2007 to a surplus equal to 10.7 per cent. of GDP in the fourth quarter of 2009. In 2010, the current account balance showed a surplus equal to 3.6 per cent. of GDP.

In addition, inflation (measured in terms of changes in the CPI) fell from a peak of 17.9 per cent. in May 2008 to a low of minus 4.2 per cent. in February 2009 (in each case when compared with the corresponding period of the previous year). The decrease in consumer prices principally reflected reduced private consumption (as a result of increased unemployment, wage reductions and other factors) and falling global energy and food prices. Since the end of 2009, inflation began to increase gradually as a result of increasing world energy and food prices and domestic indirect tax rate increases.

Financial Assistance

Deteriorating economic conditions in Latvia in 2008 and a banking crisis at the end of that year significantly adversely affected State budget revenues and, as a result, Latvia sought financial assistance from the IMF and other international bodies towards the end of 2008. The IMF Standby Arrangement which Latvia entered into in December 2008 was part of the wider financial assistance package agreed with the EU, the World Bank, the EBRD and a number of Nordic and other EU countries. In addition to the IMF Standby Arrangement of up to SDR1.5 billion, the EU agreed to provide a loan of up to €3.1 billion, five Nordic countries (Sweden, Denmark, Finland, Norway and Estonia) agreed to provide a loan of up to €1.9 billion, the World Bank agreed to provide a loan of up to about €400 million, the Czech Republic and Poland agreed to provide a loan of up to €300 million and the EBRD agreed to provide financial assistance in the amount of around €100 million, bringing the total financial assistance package to approximately €7.5 billion (equal to approximately U.S.$10.5 billion). As at 30 April 2011, €4.4 billion in financial assistance had been disbursed to Latvia. Although (excluding the Loan Agreement with the Nordic countries which remains undrawn) €1.2 billion remains available under the programme funds, no further borrowings within the programme are planned in 2011, except that the remaining €100 million of the loan from the World Bank may be drawn. See "*Indebtedness – Financial Assistance from International Lenders*".

Economic Reform Programme

As part of the financial assistance package, Latvia agreed to implement an economic reform programme whose principal objectives were to arrest the immediate liquidity crisis and then to restructure Latvia's economy and improve its competitiveness to reach sustainable GDP growth and a balanced budget as soon as practicable, while maintaining the exchange rate peg which is a key policy of both the Latvian government and the Bank of Latvia. The programme included a range of measures to stabilise and strengthen the financial sector as well as substantial fiscal tightening to reduce financing needs and foster real depreciation.

The economic reform programme also aimed to develop structural reforms and other policies to increase competitiveness and facilitate external adjustment, through tax incentives as well as improved property registration, construction approval and insolvency and liquidation processes.

Recent Economic Developments

Economic sentiment and confidence in Latvia fell significantly during the financial crisis and as a result of the early stages of the economic reform programme in Latvia that followed. The low point for general economic sentiment in Latvia was March 2009 (when 48 per cent. more respondents had a negative outlook than a positive outlook). Since March 2009, general economic sentiment in Latvia has improved with confidence indicators in the industry, construction, retail trade, services and consumer sectors showing similar trends.

The table below shows economic sentiment and confidence indicators (seasonally adjusted) by sector in the period March 2007 to December 2010.

	2007				2008			
	March	June	September	December	March	June	September	December
				(per cent.)[1]				
Economic sentiment	**15**	13	11	7	(1)	(10)	(15)	(32)
Industry	**9**	6	2	0	(8)	(13)	(18)	(29)
Construction	**17**	12	11	0	(14)	(31)	(46)	(59)
Retail trade	**23**	19	19	11	5	(1)	(8)	(27)
Services	**18**	16	17	14	6	(3)	(6)	(22)
Consumers	**(5)**	(4)	(9)	(14)	(18)	(27)	(31)	(48)

	2009				2010			
	March	June	September	December	March	June	September	December
	(per cent.)[1]							
Economic sentiment	(48)	(42)	(39)	(31)	(19)	(12)	(10)	(9)
Industry[2]	(36)	(28)	(26)	(19)	(8)	(5)	(7)	(12)
Construction	(75)	(77)	(73)	(67)	(61)	(51)	(45)	(40)
Retail trade	(33)	(28)	(25)	(16)	(6)	9	4	3
Services	(44)	(41)	(36)	(31)	(20)	(8)	1	8
Consumers	(51)	(50)	(51)	(52)	(32)	(27)	(28)	(26)

Source: Central Statistical Bureau

Notes:

(1) Presented as ratio of positive to negative.

(2) Not seasonally adjusted in the period March 2010 to December 2010.

The table below shows selected economic indicators as at the end of each quarter in the years ended 31 December 2007, 2008, 2009 and 2010.

	2007				2008			
	31 March	30 June	30 September	31 December	31 March	30 June	30 September	31 December
Household consumption	24.7	20.2	17.1	1.6	1.9	(1.9)	(6.2)	(13.3)
Retail trade turnover	23.1	21.9	14.8	5.2	(3.2)	(4.4)	(7.6)	(13.6)
First registered passenger cars	53.4	23.3	0.6	(20.6)	(39.1)	(46.0)	(50.6)	(62.4)

	2009				2010			
	31 March	30 June	30 September	31 December	31 March	30 June	30 September	31 December
Household consumption	(22.3)	(26.7)	(27.2)	(19.6)	(6.2)	(2.4)	2.9	5.2
Retail trade turnover	(23.5)	(27.2)	(28.7)	(28.8)	(12.9)	(5.1)	2.2	7.2
First registered passenger cars	(75.7)	(71.9)	(66.5)	(50.2)	(13.0)	36.2	81.7	108.9

Source: Central Statistical Bureau

Note:

(1) Growth measured against the equivalent period of the preceding year.

Gross Domestic Product

Latvia's annual real GDP grew by 12.2 per cent. in 2006 and by 10.0 per cent. in 2007 before declining by 4.2 per cent. in 2008, 18.0 per cent. in 2009 and 0.3 per cent. in 2010, in each case compared to the previous year. Latvia's real GDP declined on a quarter-on-quarter basis from and including the first quarter of 2008 until and including the third quarter of 2009, but has been growing on a quarterly basis since the fourth quarter of 2009. Latvia's 2011 budget (as amended on 14 April 2011) projects nominal GDP for 2011 of LVL 13,415.9 million and real GDP for 2011 of LVL 7,029.3 million (based on an assumed inflation rate of 3.5 per cent.), an increase of 3.3 per cent. in real terms from the LVL 6,805.0 million real GDP figure for 2010.

Growth in nominal GDP in 2006 and 2007 was principally driven by private consumption, which showed real growth rates of 21.2 per cent. in 2006 and 14.8 per cent. in 2007, and by investment, with gross fixed capital formation growing by 16.4 per cent. in 2006 and 7.5 per cent. in 2007 in real terms. By contrast public consumption grew at less than 5 per cent. in real terms in each of 2006 and 2007.

The global financial crisis severely affected the economy of Latvia in 2008 and subsequent years. The effects of the financial crisis were intensified by the unbalanced position of the Latvian external sector, which had developed during the previous period of rapid growth. The growth in private consumption and investment, which was more rapid than overall economic growth, was largely based on a substantial inflow of foreign capital and gave rise to a high current account deficit of the balance of payments which in turn increased the vulnerability of the Latvian economy. With the onset of the global financial crisis, financial inflows to Latvia fell significantly leading to rapid declines in private consumption and investment.

The recession in Latvia ended in the fourth quarter of 2009 when real GDP grew by 0.1 per cent. compared to the previous quarter. Although growth continued in each quarter of 2010, reflecting the fact that growth resumed from a very low level, real GDP in 2010 as a whole was still 0.3 per cent. lower than in 2009.

The tables below set out Latvia's nominal GDP determined using the expenditure method in each of the years ended 31 December 2006, 2007, 2008, 2009 and 2010 and the percentage contribution of each sector specified to such GDP.

	2006		2007		2008	
	(LVL millions)	*Contribution (per cent.)*	*(LVL millions)*	*Contribution (per cent.)*	*(LVL millions)*	*Contribution (per cent.)*
Private consumption	7,280.5	65.2	9,196.1	62.2	10,181.3	62.9
Public consumption	1,855.2	16.6	2,574.9	17.4	3,169.8	19.6
Gross fixed capital formation	3,644.1	32.6	4,975.1	33.7	4,748.5	29.3
Changes in inventories	789.9	7.1	994.7	6.7	298.1	1.8
Exports of goods and services	5,014.3	44.9	6,258.7	42.3	6,931.1	42.8
Imports of goods and services	(7,412.3)	(66.3)	(9,219.7)	(62.4)	(9,140.6)	(56.4)
GDP	**11,171.7**	**100.0**	**14,779.8**	**100.0**	**16,188.2**	**100.0**

	2009		2010	
	(LVL millions)	*Contribution (per cent.)*	*(LVL millions)*	*Contribution (per cent.)*
Private consumption	8,053.8	61.6	8,023.1	63.0
Public consumption	2,569.7	19.6	2,186.7	17.2
Gross fixed capital formation	2,806.8	21.5	2,286.3	17.9
Changes in inventories	(153.9)	(1.2)	346.0	2.7
Exports of goods and services	5,741.7	43.9	6,797.2	53.4
Imports of goods and services	(5,935.3)	(45.4)	(6,903.3)	(54.2)
GDP	**13,082.8**	**100.0**	**12,735.9**	**100.0**

Source: Central Statistical Bureau

The tables below set out the real growth rates of each sector specified to Latvia's nominal GDP determined using the expenditure method for each of the years ended 31 December 2006, 2007, 2008, 2009 and 2010.

	2006	2007	2008	2009	2010
			(per cent.)		
Private consumption	21.2	14.8	(5.2)	(24.1)	(0.1)
Public consumption	4.9	3.7	1.5	(9.2)	(11.0)
Gross fixed capital formation	16.4	7.5	(13.6)	(37.3)	(19.5)
Exports of goods and services	6.5	10.0	2.0	(14.1)	10.3
Imports of goods and services	19.4	14.7	(11.2)	(33.5)	8.6
GDP	**12.2**	**10.0**	**(4.2)**	**(18.0)**	**(0.3)**

Source: Central Statistical Bureau

The tables below set out the total and per capita GDP of Latvia for each of the years ended 31 December 2006, 2007, 2008, 2009 and 2010, in both current and constant prices.

	2006	2007	2008	2009	2010
			(per cent.)		
Total GDP					
At current prices *(LVL millions)*	11,171.7	14,779.8	16,188.2	13,082.8	12,735.9
At constant prices *(LVL millions)*	7,903.1	8,691.7	8,322.8	6,828.5	6,805.0
Percentage change over previous period (constant prices)	12.2	10.0	(4.2)	(18.0)	(0.3)
Per capita(1)					
At current prices *(LVL)*	4,883	6,494	7,144	5,802	5,688
At constant prices *(LVL)*	3,454	3,819	3,673	3,028	3,039
Resident population					
At beginning of year	2,294,590	2,281,305	2,270,894	2,261,294	2,248,374
Average for the period(2)	2,287,948	2,276,100	2,266,094	2,254,834	

Source: Central Statistical Bureau
Note:
(1) Based on average population for the relevant period.
(2) No average for 2010 is currently available.

Principal Sectors of the Economy

In terms of broad sectoral classification, Latvia's primary sector (agriculture, hunting and forestry; fishing; and mining and quarrying) accounted for 4.7 per cent. of total value added in 2010 compared to 3.9 per cent. in 2006.

The secondary sector (manufacturing; electricity, gas and water supply; and construction) accounted for 21.3 per cent. of the total value added in 2010 compared to 21.6 per cent. in 2006. Within this sector, the share of construction has fallen as a result of the global financial crisis although the share of manufacturing increased significantly in 2010 and the share of utilities increased generally throughout the period.

The tertiary sector (services) accounted for 74.1 per cent. of total value added in 2010. Within the services sector, the main activities are wholesale and retail trade and repairing services; the provision of real estate renting and business services; and a range of public services.

Outside the services sector, the principal contributors to total value added are manufacturing and construction which accounted for 12.2 per cent. and 5.0 per cent., respectively, of total value added in 2010. Manufacturing grew at real rates of 6.2 per cent. in 2006 and 0.5 per cent. in 2007 before falling at real rates of 6.5 per cent. in 2008 and 19.2 per cent. in 2009 and increasing at a real rate of 15.4 per cent. in 2010. Construction grew at real rates of 21.5 per cent. in 2006 and 15.7 per cent. in 2007 before falling at real rates of 2.6 per cent. in 2008, 33.6 per cent. in 2009 and 24.2 per cent. in 2010.

The tables below set out nominal GDP (calculated using the production method) by primary, secondary and tertiary sector (and by each principal sub-sector within those sectors) and the percentage contribution of each sector to total value added for each of the years ended 31 December 2006, 2007, 2008, 2009 and 2010.

	2006	2007	2008	2009	2010
			(LVL millions)		
Primary sector	379.0	521.1	501.7	444.5	532.4
Secondary sector	2,120.5	2,983.4	3,286.5	2,378.1	2,427.8
Manufacturing	1,159.4	1,487.3	1,563.0	1,171.4	1,389.4
Electricity, gas, water supply	235.0	319.2	414.1	425.8	468.4
Construction	726.1	1,176.9	1,309.4	780.8	570.0
Tertiary sector	7,336.2	9,555.2	10,731.5	8,965.9	8,448.6
Trade[(1)]	2,236.9	2,817.4	2,727.0	1,955.6	2,019.1
Transport, storage and communications	1,126.0	1,334.4	1,546.7	1,341.9	1,426.6
Other commercial services[(2)]	2,529.1	3,448.3	4,080.1	3,648.3	3,225.4
Public services[(3)]	1,444.3	1,955.2	2,377.7	2,020.0	1,777.5
Total value added	**9,835.7**	**13,059.7**	**14,519.7**	**11,788.5**	**11,408.8**
Taxes on products (minus subsidies)	1,335.9	1,720.1	1,668.5	1,294.3	1,327.2
Nominal GDP	**11,171.7**	**14,779.8**	**16,188.2**	**13082.8**	**12,735.9**

	2006	2007	2008	2009	2010
			Contribution (per cent.)		
Primary sector	3.9	4.0	3.5	3.8	4.7
Secondary sector	21.6	22.8	22.6	20.2	21.3
Manufacturing	11.8	11.4	10.8	9.9	12.2
Electricity, gas, water supply	2.4	2.4	2.9	3.6	4.1
Construction	7.4	9.0	9.0	6.6	5.0
Tertiary sector	74.6	73.2	73.9	76.1	74.1
Trade[(1)]	22.8	21.6	18.8	16.6	17.7
Transport, storage and communications	11.5	10.2	10.7	11.4	12.5
Other commercial services[(2)]	25.7	26.4	28.1	30.9	28.3
Public services[(3)]	14.7	15.0	16.4	17.1	15.6
Total value added	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Statistical Bureau

Notes:

(1) Includes wholesale and retail trade, repairing services and hotels and restaurants.

(2) Includes real estate, renting and business activities, financial intermediation and other community, social and personal services activities.

(3) Includes public administration, defence and compulsory social security, education and health and social work.

The tables below set out the real growth rate of each GDP sector and principal sub-sector (calculated using the production method) for each of the years ended 31 December 2006, 2007, 2008, 2009 and 2010.

	2006	2007	2008	2009	2010
			(per cent.)		
Primary sector	(4.1)	10.0	0.5	3.0	3.8
Secondary sector	10.5	6.1	(4.6)	(23.2)	2.1
Manufacturing	6.2	0.5	(6.5)	(19.2)	15.4
Electricity, gas and water supply	3.1	4.4	(2.4)	(7.2)	12.7
Construction	21.5	15.7	(2.6)	(33.6)	(24.2)
Tertiary sector	13.1	10.0	(2.4)	(14.6)	(1.4)
Trade[(1)]	17.9	14.2	(8.4)	(29.0)	3.2
Transport, storage and communications	5.5	7.0	0.5	(14.8)	3.0
Other commercial services[(2)]	18.2	11.2	(0.0)	(5.5)	(3.6)
Public services[(3)]	4.7	3.3	1.3	(6.3)	(7.8)
Taxes on products (minus subsidies)	16.1	17.3	(15.8)	(37.7)	1.2
GDP	**12.2**	**10.0**	**(4.2)**	**(18.0)**	**(0.3)**

Source: Central Statistical Bureau

Notes:

(1) Includes wholesale and retail trade, repairing services and hotels and restaurants.

(2) Includes real estate, renting and business activities, financial intermediation and other community, social and personal services activities.

(3) Includes public administration, defence and compulsory social security, education and health and social work.

Services

The tables below set out a breakdown of the contribution of the services sector (calculated using the production method) to total value added by significant sub-sectors for each of the years ended 31 December 2006, 2007, 2008, 2009 and 2010.

	2006		2007	
	(LVL millions)	*Contribution (per cent.)*	*(LVL millions)*	*Contribution (per cent.)*
Real estate, renting and business activities	1,466.9	14.9	2,108.2	16.1
Wholesale, retail trade; repairing services	2,050.5	20.8	2,577.7	19.7
Transport, storage and communications	1,126.0	11.4	1,334.4	10.2
Public administration and defence; compulsory social security	718.7	7.3	983.1	7.5
Financial intermediation	667.8	6.8	804.5	6.2
Education	441.3	4.5	611.2	4.7
Health and social work	284.3	2.9	361.0	2.8
Hotels and restaurants	186.5	1.9	239.6	1.8
Other community, social and personal service activities	394.4	4.0	535.6	4.1
All services	**7,336.2**	**74.6**	**9,555.2**	**73.2**

	2008		2009		2010	
	(LVL millions)	*Contribution (per cent.)*	*(LVL millions)*	*Contribution (per cent.)*	*(LVL millions)*	*Contribution (per cent.)*
Real estate, renting and business activities..........	2,533.4	17.4	2,354.5	20.0	2,157.8	18.9
Wholesale, retail trade; repairing services	2,486.1	17.1	1,792.9	15.2	1,868.1	16.4
Transport, storage and communications............	1,546.7	10.7	1,341.9	11.4	1,426.6	12.5
Public administration and defence; compulsory social security	1,169.9	8.1	980.7	8.3	871.3	7.6
Financial intermediation..	873.3	6.0	721.7	6.1	535.7	4.7
Education........................	744.6	5.1	649.7	5.5	538.4	4.7
Health and social work....	463.2	3.2	389.6	3.3	367.8	3.2
Hotels and restaurants.....	240.9	1.7	162.7	1.4	151.0	1.3
Other community, social and personal service activities.......................	673.5	4.6	572.1	4.9	531.9	4.7
All services	**10,731.5**	**73.9**	8,965.9	76.1	8,448.6	**74.1**

Source: Central Statistical Bureau

The tables below set out a breakdown of the real rates of growth of each significant sub-sector within the services sector (calculated using the production method) for each of the years ended 31 December 2006, 2007, 2008, 2009 and 2010.

	2006	2007	2008	2009	2010
			(*per cent.*)		
Real estate, renting and business activities	17.6	11.4	1.5	(0.1)	(1.5)
Wholesale, retail trade; repairing services	17.8	14.6	(8.3)	(28.7)	3.3
Transport, storage and communications	5.5	7.0	0.5	(14.8)	3.0
Public administration and defence; compulsory social security	5.8	3.4	0.2	(7.2)	(11.3)
Financial intermediation	22.9	9.3	(8.8)	(12.6)	(10.5)
Education	4.2	3.0	0.5	(7.4)	(5.0)
Health and social work	2.8	3.9	5.3	(2.3)	(3.5)
Hotels and restaurants	20.0	8.6	(10.7)	(33.9)	0.8
Other community, social and personal service activities	14.4	13.2	5.5	(18.6)	(4.9)
Services total...................................	**13.1**	**10.0**	**(2.4)**	**(14.6)**	**(1.4)**

Source: Central Statistical Bureau

Within the services sector, the principal sub-sectors by contribution are real estate, renting and business activities ("**real estate**"); wholesale and retail trade and repairing services ("**trade**"); transport, storage and communications ("**transport**"); and public administration and defence and compulsory social security ("**public administration**"). Together, these activities accounted for 73.1 per cent. of total services in 2006, 73.3 per cent. of total services in 2007, 72.1 per cent. of total services in 2008, 72.2 per cent. of total services in 2009 and 74.9 per cent. of total services in 2010.

Real estate

The real estate sector developed rapidly in the years before 2008, due to an increase in available credit and levels of demand which substantially exceeded supply. Due to the global financial crisis, the demand for real estate has decreased since 2008 as evidenced by a significant decline in apartment prices in Riga since early 2007. However, growth rates for the real estate sector have remained above average in comparison to growth rates for the services sector as a whole, principally as result of the fact that demand for business services such as tax advisory, information technology and security services has remained steady as these services are less sensitive to declining economic conditions. Reflecting this trend, the contribution of the real estate sector to Latvia's total value added has grown from 14.9 per cent. in 2006 to 20.0 per cent. in 2009 before falling to 18.9 per cent. in 2010 as other sectors recovered.

In the World Bank's *Doing Business* 2011 report, Latvia was ranked 24 out of 183 countries on ease of doing business and ninth among EU Member States. Latvia is ranked among the 85 per cent. of countries surveyed which have made it easier for local entrepreneurs to operate in the past five years.

Trade

The table below shows a breakdown of trade (calculated using the production method) for each of the years ended 31 December 2006, 2007, 2008, 2009 and 2010.

	2006	2007	2008	2009	2010(1)
			(LVL millions)		
Wholesale trade	1,060.3	1,167.0	1,206.2	818.5	
Retail trade	640.7	1,041.7	940.6	761.6	
Repairing services	349.5	369.1	339.3	212.8	
Wholesale and retail trade and repairing services	**2,050.5**	**2,577.7**	**2,486.1**	**1,792.9**	**1,868.1**

Source: Central Statistical Bureau

Note:

(1) Only total data is currently available for 2010.

For the purposes of calculating GDP, wholesale trade is defined as an intermediate process in the distribution of merchandise, whereas retail trade is defined as the final process in the distribution of merchandise. Repairing services comprise the maintenance and repair of goods associated with wholesale and retail trade.

Both wholesale trade and repairing services grew strongly in real terms in 2006, grew slightly in real terms in 2007, declined slightly in real terms in 2008 and declined significantly in real terms in 2009. By contrast, in real terms retail trade grew strongly in 2006 and 2007, grew slightly in 2008 and declined significantly in 2009. As a result, as a percentage of trade as a whole, retail trade was 31.2 per cent. in 2006 and 42.5 per cent. in 2009; wholesale trade was 51.7 per cent. in 2006 and 45.7 per cent. in 2009; and repairing services was 17.0 per cent. in 2006 and 11.9 per cent. in 2009.

In overall terms, trade grew strongly in real terms in 2006 and 2007, fell in 2008 and significantly in 2009 and then grew slightly in real terms in 2010. These trends reflected the fact that consumer demand was negatively affected in 2009 by declining disposable income as a result of increased unemployment, wage cuts and tax increases as well as by the effects of the liquidity crisis and reduced bank lending which adversely impacted the consumption of durable goods. During 2010, retail trade turnover increased by 7.9 per cent. (in real terms on a seasonally adjusted basis), although for 2010 as a whole retail turnover was 2 per cent. lower than in 2009. Since August 2010, retail turnover has exceeded the level of the corresponding month of the previous year.

In terms of real growth rates, the wholesale and retail trade and repairing services sector outperformed services as a whole in 2006, 2007 and 2010 but was significantly more adversely affected in 2008 and 2009.

Transport

Transport contributed 11.5 per cent. to Latvia's total value added in 2006, 10.2 per cent. in 2007, 10.7 per cent. in 2008, 11.4 per cent. in 2009 and 12.5 per cent. in 2010. In terms of real growth, transport grew in 2006, 2007 and 2008 (by 5.5 per cent., 7.0 per cent. and 0.5 per cent., respectively), fell by 14.8 per cent. in 2009 and grew by 3.0 per cent. in 2010, in each case compared to the previous year. Certain freight transport statistics are set out below under "*– Infrastructure*".

Public administration

Public administration contributed 7.3 per cent. to Latvia's total value added in 2006, 7.5 per cent. in 2007, 8.1 per cent. in 2008, 8.3 per cent. in 2009 and 7.6 per cent. in 2010. In terms of real growth, public administration grew by 5.8 per cent., 3.4 per cent. and 0.2 per cent. in 2006, 2007 and 2008, respectively, and fell by 7.2 per cent. in 2009 and 11.3 per cent. in 2010, in each case compared to the previous year.

Since Latvia's accession to the EU, real growth rates for the public administration sector have been lower than those for the services sector as a whole. However, in 2008 and 2009, the percentage of Latvia's total value added attributable to the public administration sector increased reflecting the fact that this sector is not as sensitive to global economic conditions as certain other services sectors. See also "*Public Finance – Impact of the Global Financial Crisis on Latvia's Budgets for 2009, 2010 and 2011*" for a discussion of budget cuts affecting the public sector since 2009.

Financial intermediation

Financial intermediation contributed 6.8 per cent. to Latvia's total value added in 2006, 6.2 per cent. in 2007, 6.0 per cent. in 2008, 6.1 per cent. in 2009 and 4.7 per cent. in 2010. The real growth rate for this sector was 22.9 per cent. in 2006 and 9.3 per cent. in 2007. Since 2007, the financial intermediation sector has declined at real rates of 8.8 per cent. in 2008, 12.6 per cent. in 2009 and 10.5 per cent. in 2010, in each case compared to the previous year.

In 2008, bank lending in Latvia slowed reflecting increased reserve requirements imposed by the Bank of Latvia in response to concerns about the overheating of the economy and reduced availability of finance to Latvian banks due to concerns about Latvia's economic vulnerability. Most Latvian banks are owned by non-Latvian groups and the only significant Latvian-owned bank, JSC Parex banka (**Parex Bank**), was nationalised in late 2008. In 2009, the level of financial intermediation fell compared to the equivalent period in the previous year as slackening economic activity led to lower levels of lending and other banking services. In 2010, the macroeconomic and financial environment improved which has had a positive impact on the financial intermediation sector. The core banking business of Parex Bank was transferred to a newly-established bank, JSC Citadele banka (**Citadele Bank**), in mid-2010, leaving Parex Bank with the troubled assets; see "*Monetary and Financial System – Financial Sector Supervision*". However, banks' lending continues to fall as a result of banks' deleveraging their balance sheets as well as reduced demand for credit from corporations and households. In addition, a lack of sustainable preconditions for lending recovery and write-offs of bad loans have also contributed to the decline in lending.

Education and health

Together, education and health and social work contributed 7.4 per cent. to Latvia's total value added in 2006 and in 2007, 8.3 per cent. in 2008, 8.8 per cent. in 2009 and 7.9 per cent. in 2010. In terms of real growth, education grew in the period between 2006 and 2008 although the rate of growth slowed in 2007 and was only 0.5 per cent. in 2008. Education declined in real terms by 7.4 per cent. in 2009 and by 5.0 per cent. in 2010, in each case compared to the previous year. The health and social work sub-sector grew in real terms between 2006 and 2008 with the rate of growth in 2008 being 5.3 per cent. as compared to 3.9 per cent. in 2007. Health and social work declined by 2.3 per cent. in real terms in 2009 and by 3.5 per cent. in 2010, in each case compared to the previous year.

Manufacturing

The tables below set out the contribution of manufacturing to Latvia's total value added, as well as the real growth rate in manufacturing (in each case, calculated using the production method) for each of the years ended 31 December 2006, 2007, 2008 and 2009 and as at 30 November 2010.

	2006	**2007**	**2008**	**2009**	**2010**
Manufacturing *(LVL millions)*	1,159.4	1,487.3	1,563.0	1,171.4	1,389.4
Contribution *(per cent.)*	11.8	11.4	10.8	9.9	12.2
Real growth rate *(per cent.)*	6.2	0.5	(6.5)	(19.2)	15.4

Source: Central Statistical Bureau

Latvia's industrial strength is principally in labour-intensive sectors such as wood processing, the food industry, the production of metal articles, the chemical industry and the paper industry, which together constituted 74.8 per cent. of the manufacturing sector's value added in 2010.

The table below shows an estimate by the Ministry of Economics of the structure of manufacturing by value added in the year ended 31 December 2010 and changes in production volumes in manufacturing in each of the years ended 31 December 2007, 2008 and 2009 and for the 11 months ended 30 November 2010.

	Structure	**Changes in production volumes**			
	2010	**2007**	**2008**	**2009**	**2010(1)**
	(per cent.)		*(per cent.)*		
Wood processing	26.3	(6.0)	(12.1)	2.6	29.2
Food industry	18.6	1.3	(5.3)	(16.5)	(2.9)
Metals and metal articles	11.3	11.5	1.8	(23.6)	21.4
Chemical, rubber, plastics and pharmaceuticals	9.4	3.1	(2.6)	(18.4)	7.1
Paper industry and publishing	9.2	0.2	(4.2)	(15.8)	19.5
Light industry	4.9	0.3	(11.0)	(37.6)	14.7
Machinery and equipment	4.5	5.0	12.2	(7.6)	16.1
Non-metallic mineral products	4.2	(17.1)	(5.6)	(34.3)	8.8
Transport vehicles	4.1	10.7	8.1	(48.8)	41.3
Electrical and optical equipment	3.2	3.8	4.5	(26.5)	27.6
Other industries	4.3	3.0	(8.0)	(18.8)	(3.2)
Total	**100.0**	0.3	(4.7)	(18.0)	14.1

Source: Ministry of Economics

Note:

(1) January to November only.

In the wood industry, declining production in 2007 and 2008 reflected decreased demand in Europe for processed wood products in those years. Approximately 75 per cent. of the wood processing industry's production is exported, principally to EU States. The decline in the food industry began at the end of 2007 and reflected both weaker domestic and export demand. Approximately 75 per cent. of the goods produced by the food industry are sold in the domestic market. The majority of the metal and metal products produced in Latvia are exported, principally to EU countries, and demand in these markets for these products did not significantly decline until mid-2008. In both the chemical and paper industries, production volumes declined in 2008 and 2009 before recovering in 2010. Around 75 per cent. of Latvia's chemical, rubber, plastics and pharmaceutical production is exported. Reflecting the recessions in Latvia, more than half of Latvia's paper production was exported in 2010 compared to less than 40 per cent. in 2007.

The general recovery in production volumes in most industries in 2010 reflects the fact that from the second half of 2009, many of Latvia's trade partner countries began to experience economic growth. This increase in external demand provided a positive growth stimulus to Latvian producers.

The expansion of export opportunities and a rise in competiveness due to increasing external demand is the principal reason for the increase in the production volume of manufacturing overall which, in November 2010, was 15.7 per cent. higher than in November 2009. The total revenues from manufacturing sales in the first 11 months of 2010 were 16.2 per cent. higher than in the corresponding period of 2009.

Construction

The tables below set out the contribution of construction to Latvia's total value added, as well as the real growth rate in construction, (in each case, calculated using the production method) for each of the years ended 31 December 2006, 2007, 2008, 2009 and 2010.

	2006	2007	2008	2009	2010
Construction *(LVL millions)*	726.1	1,176.9	1,309.4	780.8	570.0
Contribution *(per cent.)*..................	7.4	9.0	9.0	6.6	5.0
Real growth rate *(per cent.)*	21.5	15.7	(2.6)	(33.6)	(24.2)

Source: Central Statistical Bureau

The construction sector grew strongly in real terms in 2006 and 2007, driven by both residential and commercial private construction in turn boosted by the ready availability of bank credit. In addition, construction was also boosted by public infrastructure projects, including port improvements, road repairs and sewage processing works, many of which were supported by EU financing. Construction contracted in real terms in each of 2008, 2009 and 2010 as bank financing ceased to be readily available as a result of the liquidity crisis in Latvia.

Primary sector

The primary sector accounted for between 3.5 per cent. and 4.7 per cent. of Latvia's total value added in the period from 2006 to 2010. Notwithstanding the global financial crisis, the real growth rate in the primary sector was 3.0 per cent. in 2009 and 3.8 per cent. in 2010. Forests cover about 45 per cent. of Latvia and are the country's most important natural resource, while wood production is one of Latvia's principal exports. Agriculture plays a considerable role as a source of employment and provides additional income for many families. According to the 2001 agricultural census, there were 180,263 farmsteads of all sizes spread over 2.2 million hectares of land, giving an average farm size of around 20 hectares. According to the provisional results of the 2010 agricultural census, there were 1.6 million hectares of managed agricultural land and the average farm size has increased by 15 per cent. Between 2001 and 2010, the total area of arable land in the country has decreased by 10 per cent. and 2,800, or 3 per cent., of the surveyed farms have ceased to be engaged in agriculture. The main reasons for this are the use of what was previously agricultural land for forestry and construction.

Tourism

The government is targeting tourism in Latvia as one of its priority industries for development. A new tourism marketing strategy for 2010-2015 has been developed by the Latvian Tourism Development Agency which focuses on specific markets considered to have high tourist potential in order to increase the efficiency of Latvian tourism promotion. Latvia is also considering ways to reduce the administrative burden for entrepreneurs operating in the tourist sector and to seek EU structural funding for tourism development.

Between 2006 and 2008, the number of border crossings by non-resident travellers in Latvia grew from 4.6 million to 5.5 million with the total expenditure of such travellers growing from LVL 266.2 million in 2006 to LVL 403.2 million in 2008. In 2009, the number of border crossings by non-resident travellers in Latvia was 4.7 million, approximately 14.5 per cent. lower than in the previous year, and the total expenditure of those travellers was LVL 344.1 million, approximately 14.7 per cent. lower than in 2008. In 2010, the number of non-resident travellers in Latvia reached 5.0 million, a 6.7 per cent. increase over 2009. The total expenditure of those travellers declined slightly in 2010, to LVL 336.9 million.

Inflation

Between 2006 and 2008, inflation (as measured by changes in the CPI) in Latvia increased sharply as a result of high domestic demand fuelled by rapid credit growth. The increase in inflation initially reflected increased import prices and the effect of EU accession (including increases in indirect taxes and heightened inflation expectations). Thereafter, demand-driven pressure and increases in global food and energy prices (which together constitute around 36 per cent. of Latvia's consumer price basket) also became significant contributors to the increase in inflation.

Inflation measured on a year-on-year basis peaked at 17.9 per cent. in May 2008 and then declined steadily until February 2010 (when it was -4.2 per cent.). The decline in inflation reflected both significant weakening of domestic demand as a result of increasing unemployment, wage reductions and other measures taken to combat the effects of the global financial crisis on Latvia, and a decline in global energy and food prices as a result of the deterioration in the global economic environment. Although domestic demand remained fragile in 2010, increases in world energy and food prices in indirect tax rates in Latvia resulted in increased inflation from February 2010. In April 2011, the inflation rate in Latvia was 4.5 per cent. and the 12-month average inflation rate was 1.5 per cent.

The table below sets out the growth rates of the CPI for each of the years ended 31 December 2006, 2007, 2008, 2009 and 2010.

	2006	2007	2008	2009	2010
CPI *(annual 12-month average rate of change in per cent.)*	6.5	10.1	15.4	3.5	(1.1)
CPI *(end of year compared to the end of the previous year in per cent.)*	6.8	14.1	10.5	(1.2)	2.5

Source: Central Statistical Bureau

Wages

Between 2006 and 2007 average monthly wages increased sharply in Latvia reflecting economic growth and productivity gains, with average monthly gross wage growth reaching 31.8 per cent. in 2007. In 2008, the rate of increase in average monthly gross wages in Latvia declined to 20.4 per cent. as a result of the economic downturn and average monthly wages fell in both 2009 and 2010.

The average monthly gross wage in 2010 was LVL 445, 7.1 per cent. lower than in 2008 but 11.8 per cent. higher than in 2007.

Although the growth rates in average monthly wages in Latvia since EU accession were among the highest in the EU according to Eurostat, the nominal wage level in Latvia remains low when compared to the EU average. In 2007, the average annual net earnings in the EU-27 countries (being all the existing Member States of the EU), the EU-25 countries (being all the existing Member States of the EU except Romania and Bulgaria which joined in 2007) and in Latvia were €17,797.26, €18,657.51 and €4,151.1, respectively, according to Eurostat. No equivalent data subsequent to 2007 are currently available.

The table below sets out the average monthly gross and net wages in Latvia and their growth rates for each of the years ended 31 December 2006, 2007, 2008, 2009 and 2010.

	2006	2007	2008	2009	2010
Average monthly gross wages *(LVL)*	302	398	479	461	445
Gross growth *(per cent.)*	22.8	31.8	20.4	(3.8)	(3.5)
Average monthly net wages *(LVL)*	216	286	350	342	316
Growth *(per cent.)*	22.7	32.4	22.4	(2.3)	(7.6)
Real wage index *(per cent. of previous year)*	115.6	119.9	106.2	94.4	93.5

Source: Central Statistical Bureau

Between January 2006 and January 2011, the minimum monthly wage in Latvia increased from LVL 90 to LVL 200. Over the period between January 2006 and January 2009, the basic personal allowance was increased from LVL 32 to LVL 90, although from 1 July 2009 this was decreased to

LVL 35 as part of the measures taken to combat the effects of the global financial crisis on Latvia. In January 2011, the basic personal allowance was increased from LVL 35 to LVL 45.

The monthly tax allowance for dependent persons has increased from LVL 22 at 1 January 2006 to LVL 70 at 1 January 2011.

Employment

In 2007 and 2008, the number of employed persons between the ages of 15 and 74 in Latvia increased by 2.9 per cent. and by 0.5 per cent., respectively. In addition, in the same period the labour participation rate (which measures the active population (that is, employed persons and persons actively seeking a job) as a percentage of the total population) and the employment rate (being the number of employed persons aged 15 to 64 expressed as a percentage of the total population) both increased. The labour participation rate increased from 71.3 per cent. in 2006 to 74.5 per cent. in 2008 and the employment rate increased from 66.3 per cent. in 2006 to 68.6 per cent. in 2008.

Reflecting the impact of the global financial crisis, unemployment increased rapidly after 2008 and the number of employed persons also decreased. The lowest point was reached in the first quarter of 2010 when the employment rate was 57.7 per cent. and the unemployment rate (being unemployed non-working persons aged 15 to 62 actively seeking a job who are registered with the State Employment Agency as a percentage of the active population) was 17.3 per cent. At the end of 2010, the unemployment rate had improved to 14.3 per cent.

The table below sets out the registered unemployment rate at 31 December in each of 2006, 2007, 2008, 2009 and 2010 and the labour participation rate and the employment rate (by gender) in Latvia in each of 2006, 2007, 2008, 2009 and 2010.

	2006	**2007**	**2008**	**2009**	**2010(1)**
Registered unemployment rate, end of period *(per cent.)*(2)	6.5	4.9	7.0	16.0	14.3
Labour participation rate, annual data *(per cent.)*(3)	71.3	72.9	74.5	73.9	73.2
Employment rate *(per cent.)*(4)	66.3	68.4	68.6	61.1	59.3
Men	70.5	72.6	72.0	61.3	59.2
Women	62.3	64.4	65.5	60.9	59.4

Sources: State Employment Agency, Central Statistical Bureau

Notes:

(1) Preliminary.

(2) Unemployed non-working persons aged 15 to 62 actively seeking a job who are registered with the State Employment Agency as a percentage of the active population.

(3) The active population as a percentage of the total population.

(4) Employed persons aged 15 to 64 expressed as a percentage of the total population.

The recession in Latvia impacted male employment more significantly than female employment. The male employment rate fell marginally in 2008 and then decreased from 72.0 per cent. in 2008 to 61.3 per cent. in 2009. The female employment rate increased marginally in 2008 before falling from 65.5 per cent. in 2008 to 60.9 per cent. in 2009. Reflecting Latvia's emergence from recession, in the second and third quarters of 2010 the male employment rate increased faster than the female employment rate. Female unemployment did not change significantly in 2010 while male unemployment fell to 18.4 per cent. in the fourth quarter of 2010 compared to 25.6 per cent. in the first quarter of 2010.

Social Security System

Social insurance

The State social security system guarantees a defined amount of compensation for loss of income in certain situations to persons paying social insurance contributions. The amount of compensation depends on the income from which the amount of the contribution has been calculated. The receipt of social benefits requires contributions to have been made.

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