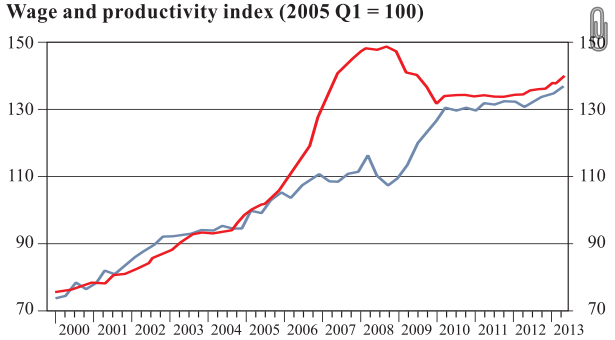
3. In Focus

Labour market recovery is well underway, yet posing no risks to price stability

In just three years, Latvia managed to move down from the first to the eighth position in EU in terms of the highest unemployment rate. During this period, Latvia recorded one of the fastest employment growth rates among the EU Member States. For instance, Latvia ranked first in terms of job creation in 2012. Furthermore, employment growth was driven solely by the private sector. In the first quarter of 2013, the unemployment rate decreased to 12.4% which is at par with the euro zone average. However, the decline of unemployment was somewhat hindered by the increase in economically active population owing to the robust rise of participation rate.

Net labour outflow has virtually stopped. The Net emigration slowdown witnessed in CSB flash data (net emigration in 2012 decreased to 11 000 as compared to 23 000 in 2011 and 36 000 in 2010) is further confirmed by the passenger flows in Riga airport. The difference between passenger departures and passenger arrivals fell to a marginal 2 000 in 2012 as compared to 20 000 in 2011 and 35 000 in 2010. Youth unemployment halved as well. The only concern is associated with the already two decades' old unemployment enclaves, particularly in rural areas of the eastern part of the country. Going forward, investment inflows and structural policies for promoting business activity should aim at benefiting municipalities where unemployment is still high.

Wage and productivity index (2005 Q1 = 100)



Source: CSB data, Bank of Latvia staff calculations..

Nominal and real wage growth
(%)

Source: CSB data.

Wages are growing, especially in real terms: the average real net wage grew by 4.8% year-on-year in the first quarter of 2013. On a seasonally adjusted basis, the average wage for full-time work in the first quarter of 2013 just exceeded its pre-crisis peak in nominal terms and was only 6% lower than the historical maximum in real terms. Yet this does not pose any risks to price stability. The wage rise is commensurate with labour productivity increase. The wage-productivity gap which accumulated during the period of economic overheating was closed both owing to the wage adjustment and labour productivity gains. The share of businesses claiming labour shortage as the main business obstacle is stable and below 10%. Thus, the labour shortage concern expressed by particular companies is not sufficient to cause economy-wide wage increases exceeding labour productivity growth. Furthermore, the annual growth of the nominal wage is stable at around 4% for the third consecutive year, while the real wage growth acceleration was driven by decreasing inflation (in May 2013, inflation was the second lowest in the EU) and the 1 percentage point cut of personal income tax rate (to 24%) as of January 2013.