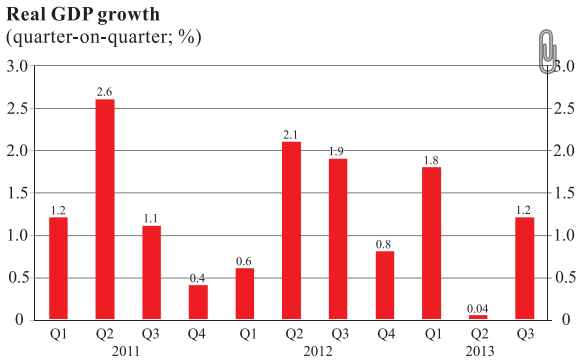
# 1. Highlights

## GDP grows in the third quarter of 2013

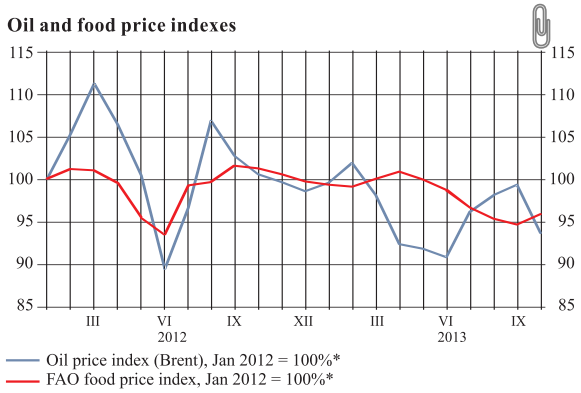


Source: CSB.

According to the flash estimate by the Central Statistical Bureau, Latvian GDP grew 1.2% in the third quarter of 2013 (quarter-on-quarter, seasonally adjusted). Meanwhile, the rate of annual growth was similar to that of the first two quarters of the year (4.2%), which implies that the Latvian economy might still be the fastest growing economy in the EU. The growth of GDP in the third quarter was most likely determined by the rising private consumption supporting a steep increase in services.

Recent readings of the confidence indicators in Europe compiled by the European Commission and PMI data indicate that the situation is gradually improving. In Russia, the leading indicators of the third quarter signaled weakness; however, the final quarter of the year started with comparatively better readings pointing to improved business conditions. If the real economy of Latvia's trading partners develops in line with the leading indicators, an increase in external demand can be expected, which might have a further positive impact on the growth of Latvian exports and our export-oriented manufacturers.

## Inflation remained untypically low in October



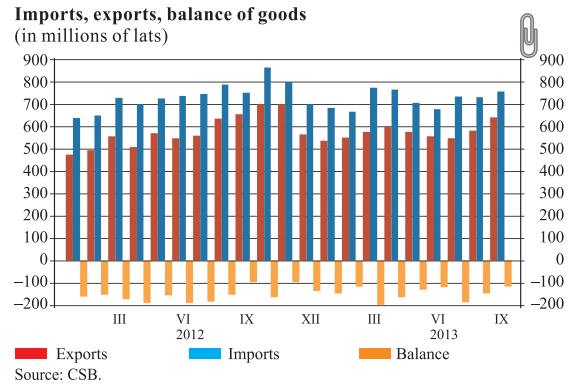
Sources: Bloomberg, Food and Agriculture Organization, Bank of Latvia calculations.
* based on prices in LVL

In October, annual inflation still remained untypically low for a growing economy, with the average consumer prices at the level equivalent to that observed in October 2012. Declining fuel prices, seasonal reduction in potato prices as well as falling travel and hotel service prices due to the end of the tourist season were the primary factors affecting consumer prices over the month. An inflation increasing impact was exerted by another seasonal factor, appearance of autumn/winter clothing and footwear in stores, and probably also by the price-setting policy of companies. Overall, consumer prices increased by 0.3% in October, thus not exceeding the average longer-term price growth observed in October.

Currently, the developments of global oil and food prices have opposite effects on inflation. Oil price has shrunk since mid-September and has a favourable impact on other energy prices. However, the data on the global agricultural and food prices reported growth in October.

Data for January–October suggest that the annual inflation in 2013 will be the lowest observed under circumstances of positive growth.

## Latvian goods exports continue to rise



Source: CSB.

In September 2013, the external trade turnover of Latvian goods grew by 6.4% month-on-month. Despite complicated external conditions, our businesses have managed to increase exports. For a second consecutive month, exports of Latvian goods posted growth (9.8% month-on-month), whereas the respective imports grew by 3.7%. Due to lower activity in some commodity groups of goods, exports of goods dropped by 2.3% year-on-year in September. Despite the high growth rate reported in September, vegetable products have maintained the largest negative impact on the overall annual goods exports. This was determined by the last year's record-high harvest. The exports of iron and steel have dropped as a result of the continued suspension of production at "Liepājas metalurgs". Positive annual growth was retained in the exports of the two largest economic sectors: wood and articles of wood as well as foodstuffs.

The latest economic forecasts of the European Commission for the coming year point to improving growth rates in all of Latvia's main trading partners compared to this year. Thus next year export growth could be supported by higher external demand followed by rising investment activity in oder to increase the export capacity.