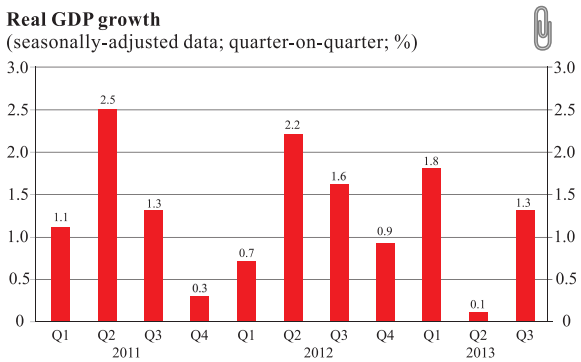
1. Highlights

GDP growth adjusted upwards relative to the flash estimate

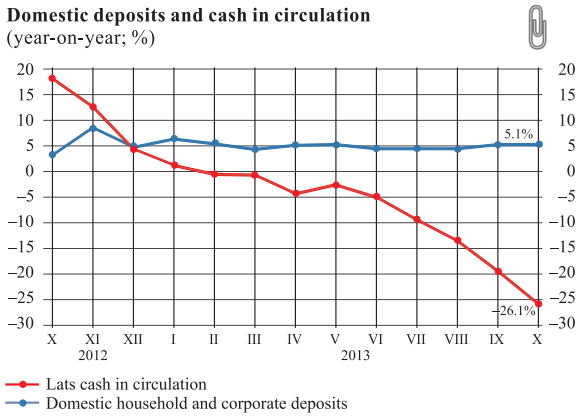
In the third quarter of 2013, GDP grew by 1.3% quarter-on-quarter (adjusted upwards by 0.1 percentage point relative to the flash estimate) and by 4.5% year-on-year (adjusted upwards by 0.3 percentage point), thereby confirming a rise in the economic activity. The main contributor was private consumption, supported by a rise in disposable income – (solid annual growth was reported for the nominal net wage bill). Although in anticipation of the euro people are depositing their cash savings with banks, part of the savings is being spent, stimulating consumption. Another positive trend is the rise of investment by 3% experienced in the third quarter. Lower exports of goods and services were offset by a similar decrease in the respective imports in the third quarter. Therefore, the effect from net exports on GDP growth was almost neutral.



Source: CSB.

It is estimated that next year GDP growth will remain at about 4%. Initially, it will be mostly supported by domestic demand, yet the role of exports will gradually increase again, as the economies of the EU Member States continue to recover. Investment will also play an important role in export growth and Latvia's joining the euro area could provide an additional stimulus.

Money supply has resumed growth

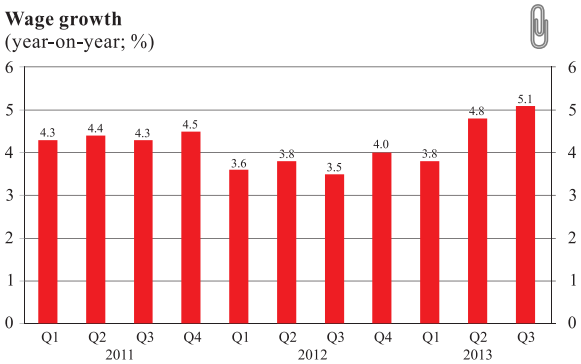


Source: CSB.

Despite the decline in the demand for cash in lats, the aggregate money supply increased in October on account of a rise in corporate and household deposits. Broad money (M3) increased by 0.6%, with the annual growth rate at 0.8%. The amount of lats in circulation declined by 26.1% year-on-year. The return of cash currency to banks translated in further rise in household deposits (particularly in lats) for a ninth consecutive month. Both lats and foreign currency deposits by private businesses increased, reflecting an increase in domestic consumption as well as export activity. The total amount of deposits with banks at the end of October (5.8 billion lats/8.25 billion euro) was the highest ever observed.

Money supply will remain stable also in the coming months, hovering slightly above the last year's level, with the rise in balances on bank accounts offsetting the drop in currency in circulation. The financial situation of households is likely to remain favourable. Rising employment and salaries along with the impact of the decline in lats cash will result in an increase in bank deposits. An increase in corporate deposits can also be expected because of the improvement seen in private consumption and a gradual increase in exports.

Wages and productivity growing in the third quarter



Source: CSB.

In the third quarter of 2013, the quarter-on-quarter rise in wages remained broadly similar to that of the previous quarters, while the annual growth accelerated to 5.1% due to the base effect. Wage growth is determined by the productivity developments. This year a more substantial growth rate of the wage bill was recorded in the private sector, indicating that the positive developments in the labour market are sustainable and reflect the actual situation instead of the impact of artificial short-lived measures (e.g., state subsidised temporary jobs).

A further rise in both employment and wages can be expected in 2014 as well. Business surveys indicate the number of employers planning to increase their staff is higher than that of the employers planning staff reductions (EC data). The assessment of businesses concerning labour shortages has remained stable indicating that the wage rise will continue to be based on higher productivity and will thus be sustainable, without inflationary pressures and adverse impact on competitiveness.