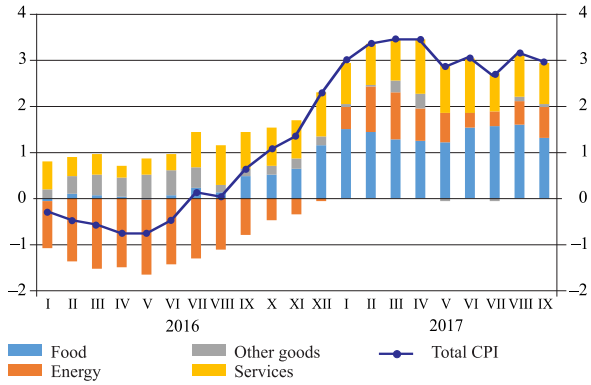
Annual inflation boosted by growth in energy prices while food prices decrease

Year-on-year inflation
(contribution; in percentage points)



Source: CSB.

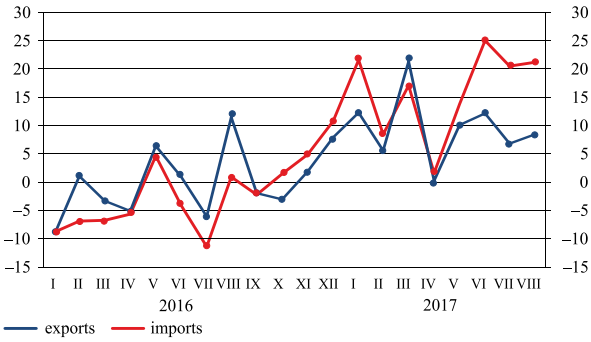
In September, annual inflation declined to 2.9%. The monthly inflation was negligible, i.e. 0.3%. Overall, the strongest upward pressure on annual inflation was exerted by the rising energy prices, whereas the fall in unprocessed food (cereals, vegetables, etc.) prices had a downward effect. Moreover, the year-on-year changes in inflation reflected atypical seasonal developments observed for footwear and clothing. International tourism likewise saw lower average prices than those charged during the previous years. These developments could be explained by higher household propensity to save, as suggested by the latest consumer confidence survey of the European Commission.

The growth of core inflation can be viewed as stable and there is no reason for any comparisons with the demand-side-induced economic overheating observed in the years preceding the crisis.

Stable growth in partner countries helps increase exports

As the global economy picks up, the sustained growth in Latvia's main trading partners and rising global prices have continued to foster Latvian exports. August was the tenth consecutive month when the annual growth in exports and imports of goods was positive, i.e.8.5% and 21.2% respectively.

Annual growth in exports and imports of goods
(%; current prices)



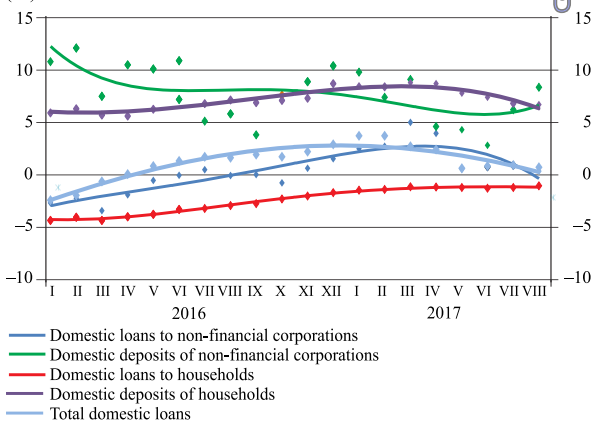
Source: CSB.

In the first eight months of this year, the uptrend in exports of goods was ensured by both the increase in actual volumes and price rises. Re-exports have also picked up this year, whereas the greatest positive contributor was domestically produced goods. Year-on-year, a positive rise in exports was retained in almost all groups of goods.

Meanwhile, growth in imports accompanies development of exports and the renewed private investment activity.

Moderate dynamics of monetary aggregates suggest economic stability

Annual changes in selected monetary aggregates (%)
(%)



Source: Latvijas Banka.

Over the last few months, discussions have been raised about the potential movement of the Latvian economy towards overheating. While certain signs of heating up have indeed surfaced on the supply side, the demand-side factors do not yet suggest such developments, which is also confirmed by the dynamics of the monetary aggregates.

Even though new loans increased in August, the size of the loan portfolio has remained practically unchanged and its annual rate of change has also been standing close to zero for quite some time now, with loans to non-financial corporations and households growing by 0.4% and –1.0% respectively. Therefore, loans should not be viewed as a factor significantly affecting money supply. While deposits with banks did rise slightly faster due to the inflows of investment and European Union funds as well as due to an expansion of exports, the increase was only 2.7% in August year-on-year.