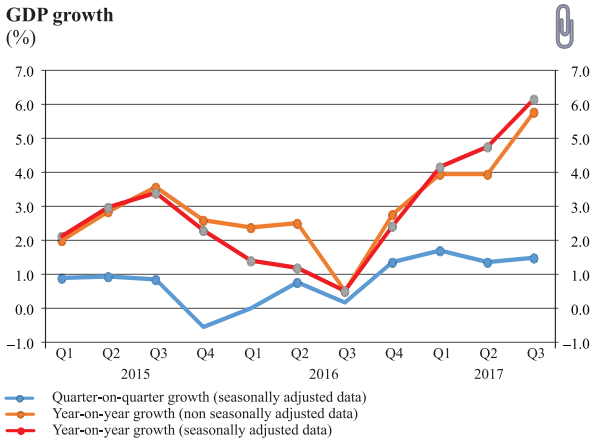
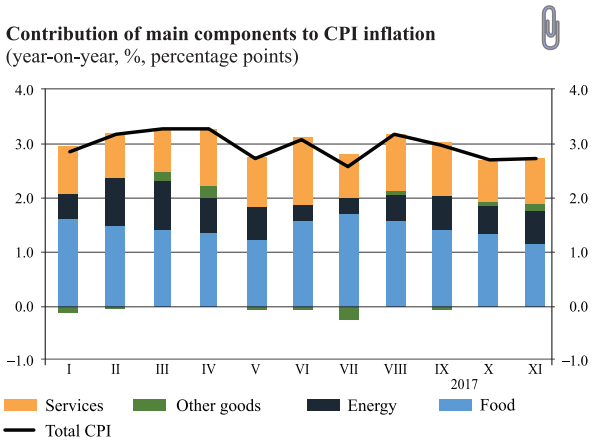
Healthy growth, but caution warranted



Source: CSB.

Latvia's economy is growing at a healthy rate, recovering from the last year's weakening. Alongside positive developments in investment and increasing purchasing power, individual signs of imbalances have also emerged. Reportedly shortage of labour is restricting businesses, pointing to an upward pressure on wages and prices that can have a negative effect on competitiveness. The third quarter economic growth of 6.2% year-on-year was broad-based. Construction is developing at a particularly high rate, yet it might face labour shortages. Exports of Latvian goods and services continue to expand, albeit at a decelerating rate. Although at the moment the contribution of the growing investment to GDP growth is already higher than that of private consumption, the latter also steadily remains on an upward track.

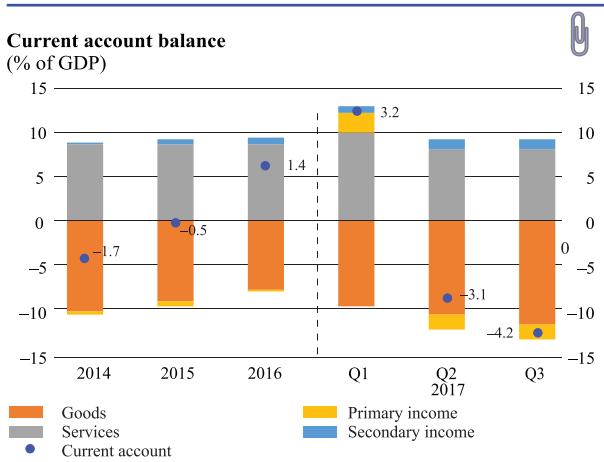
Inflation growth decelerating



Source: CSB.

Annual inflation growth continued to decelerate in November and the monthly increase in prices was negligible. The main contributors to the changes in inflation were the rising oil prices ahead of the OPEC meeting and lower prices in food groups like meat, butter and other fats. Annual inflation amounted to 2.7% in November. The highest growth was reported in the energy sector, whereas the increase in food prices decelerated. With the previous forecast remaining unchanged, the earlier assumptions about the core inflation and its development are also confirmed. Regardless of the overall decline resulting from the base effect, core inflation will remain stable. In the near term, an upward effect on inflation can be expected from demand side factors caused by the rapidly growing wages in the circumstances of shrinking unemployment.

Recovery of imports increased current account deficit



Source: Latvijas Banka.

The current account of Latvia's balance of payments continued to reflect the recovery of the imports of goods. This resulted in a significant build-up of the deficit, to 4.2% of GDP in the third quarter. Robust global demand and that of Latvia's major trade partners also supported an increase in exports. Imports of goods are supported by a recovery in investment in production equipment. The annual growth of exports of goods was 6.7% in the third quarter, whereas imports of goods grew by 18.7%. Income from exports of services continued on an upward trend, with the main contribution coming from transport services. Exports of computer services and construction services also expanded further. FDI totalled 5.5% of GDP representing the largest quarterly inflow of the last few years. Largest recipients were finance, transport and storage as well as manufacturing.