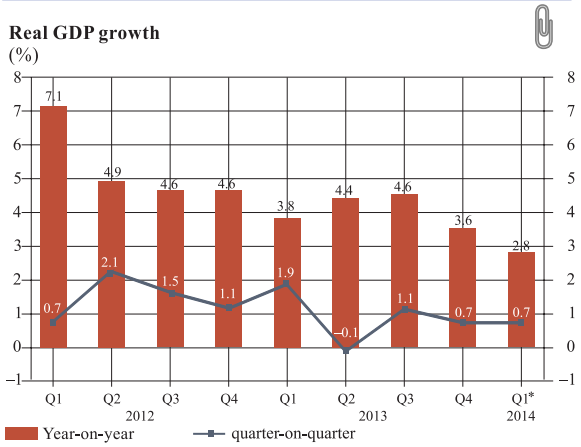
Latvian economy growing at a stable rate

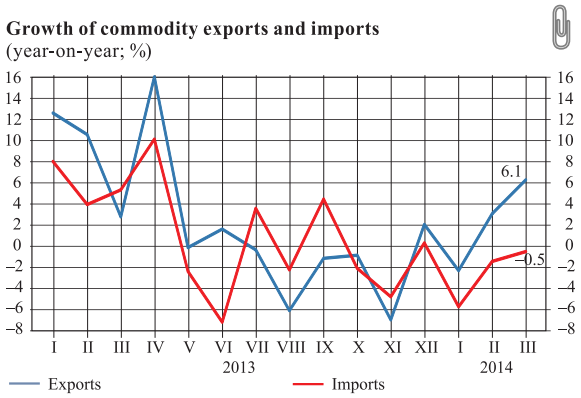


* Flash estimate
Source: CSB.

According to the flash estimate, GDP grew by 0.7% quarter-on-quarter (seasonally adjusted data) and by 2.8% year-on-year in the first quarter of 2014.

There were some positive surprises in the first quarter, supporting the GDP growth. Firstly, because of the warm weather conditions activity in construction was stronger than usually in the winter months. Thus, in all likelihood, we can expect a substantial rise in the construction sector in the first quarter. Secondly, the transport sector (particularly transportation through ports) has performed especially well during the first three months of the year. Moreover, other services sub-sectors, including utilities, have posted stable growth in recent quarters. The continued recovery of the EU economies will allow Latvian manufacturers to raise their export volumes, yet currently the main uncertainty is related to the tensions between Ukraine and Russia. At the moment, there are no macroeconomic signs that would indicate that the Latvian economy is already suffering from the effects of the above-mentioned geopolitical situation. However, new tensions could weigh on economic activity by hurting business and consumers confidence.

Latest export data confirm the flexibility of Latvian exporters to adapt to changes in external demand



Source: CSB.

In March 2014, the turnover of external trade in Latvian goods grew by 11.2%. Despite the deterioration of the political and economic situation concerning its eastern neighbours, the exports of Latvian goods increased by 7.3% month-on-month. The annual rise in the exports of goods reached 6.1%, whereas the respective imports decreased by a mere 0.5%.

Compared to February, the fastest growth was reported for the exports of products of chemical and allied industries (exports of medical products to Uzbekistan and Finland), mineral products, wood products, electrical and optical equipment, furniture and transport vehicles. According to the preliminary data of the World Trade Organization, the Latvian export market shares in the world's imports continued to expand in the first two months of this year.

The structural changes in manufacturing, i.e. gradual re-focussing on the production of higher value added goods, together with cost competitiveness will pave the road for further growth in commodity exports this year. Yet this might be dampened by weaker external demand.

Annual inflation was 0.7% in April

Source: CSB.

In April, the annual inflation rose to 0.7%. One of the reasons for this rise was the gradual shrinking of the negative contribution of supply-side factors to inflation. For example, in the case of thermal energy and fuel it was explained by the base effect. Compared to March, the negative contribution from prices of unprocessed food also diminished, while the prices of processed food rose.

Reflecting the economic growth with a slight lag, core inflation is higher this year than the average for 2013. At the same time, the consumer survey conducted by the European Commission in April points to further decreasing of the inflation expectations in Latvia, i.e. the percentage of respondents believing that the prices will rise rapidly in the course of the next year is declining. In the coming periods, domestic factors are not expected to cause substantial inflationary pressure, while the main risks are related to the global food and energy price developments.