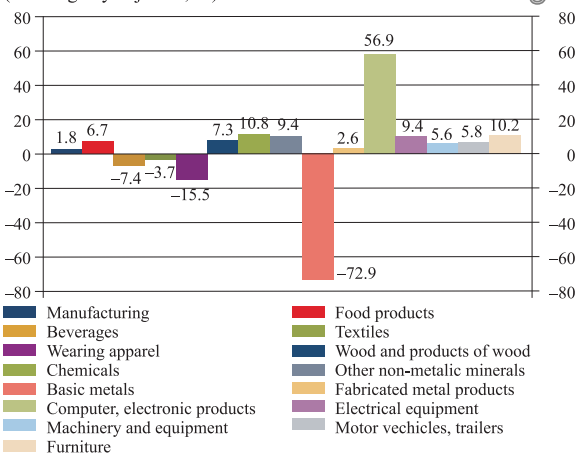
Despite weakness in month-on-month data, year-on-year growth in manufacturing continues

Manufacturing growth in the first five months of 2014
(working day adjusted; %)

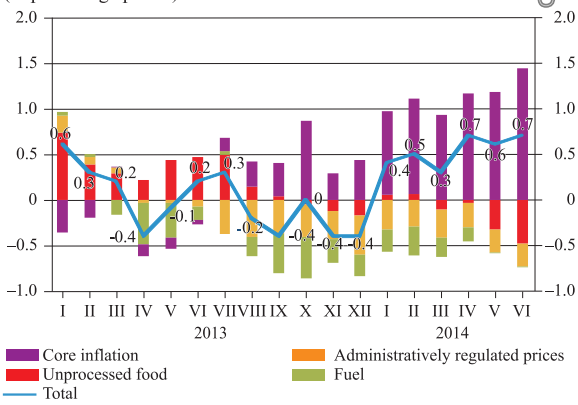


Source: CSB.

In May the manufacturing output dropped 0.7% month-on-month, whilst increasing by 1.8% year-on-year. The month-on-month decrease in manufacturing output resulted from a downturn in one of the largest sectors – manufacture of food products. On the other hand, the second largest sector – manufacture of products of wood – posted a rise in May, balancing out the fall in manufacture of food products. Both sectors, alongside the manufacture of computer, electronic and optical products, were among the largest contributors to the year-on-year manufacturing growth in May. The continued year-on-year decrease in the output of the manufacture of basic metals was due to internal problems in some of the sector's enterprises. The latest news suggest a potential pick-up in the investment activity in manufacturing, since the total financing for the 4th round of the EU funds programme "High Value-Added Investments" has been increased to around 80 million EUR. As a result, more than 100 projects will receive co-financing of up to 45% of the eligible costs of their knowledge and/or technology-intensive projects.

Annual inflation is low, whereas core inflation reflects economic growth

Contributions to annual inflation
(in percentage points)

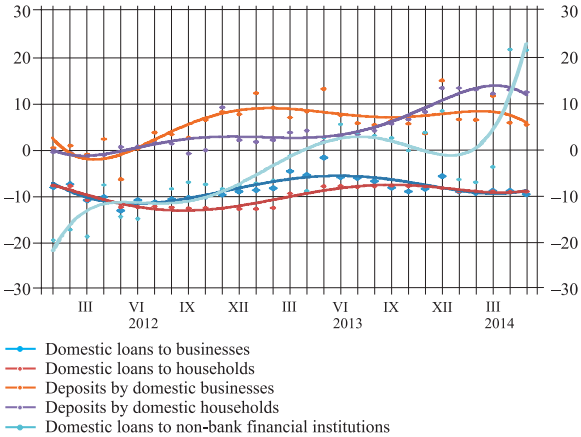


Source: CSB.

In June, the year-on-year consumer price inflation remained stable at 0.7%. The total impact of external supply factors on the Latvian inflation in June was rather neutral as oil prices in the second half of June rose due to attacks on the largest Iraqi oil processing plant, whilst global food prices fell for the third consecutive month. Core inflation exceeded overall inflation suggesting that the low overall inflation level derived from supply factors. The impact of demand on the core inflation data was mostly felt in prices of services. In June, just as in May, the prices of tourism-related services posted a seasonal increase that was higher than a year ago, and this dynamics probably resulted from a rise in tourism activity related to the fact that Riga is the European Capital of Culture this year. The 8th World Choir Games took place in Latvia in July and Riga welcomed a large number of guests: this might also have a short-term upward push on service prices. Nevertheless, even if such events may have some impact on the price level, it does not constitute a trend.

Private business deposits up in May

Changes in selected money indicators
(year-on-year; %)



Source: Latvijas Banka.

The slight drop in the level of money indicators in May was primarily caused by a fall in state enterprise deposits with banks, as they made payments to the budget for using the state capital (dividends). On the other hand, deposits of private businesses increased both as a result of successful economic development and the growing household consumption due to consumer confidence indicators being close to the post-crisis-high. Loans granted by banks recorded a slight decrease as the loans granted to non-financial corporations and households continued to shrink, whilst those granted to non-bank financial institutions continued to grow. Looking forward, the European Central Bank's recent monetary policy decisions could urge banks to be more active in lending to the economy. On the other hand, the planned amendments to the Insolvency Law and the introduction of the "principle of returned keys" in mortgage lending would reduce the importance of collateral and is likely to hinder lending to households.