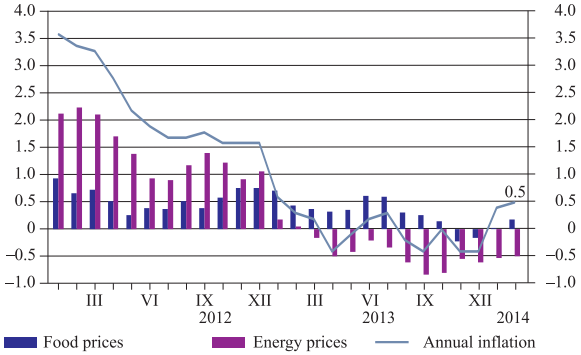
Annual inflation reaches 0.5% in February

Contribution of food and energy prices to annual inflation
(in percentage points)



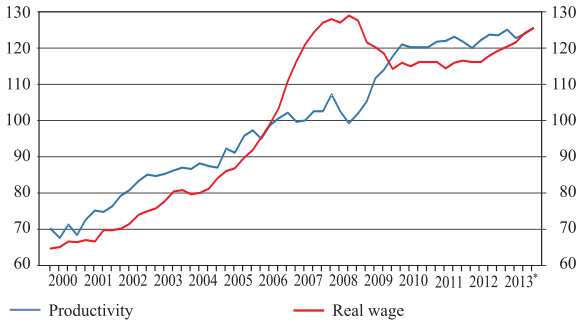
Sources: CSB; Latvijas Banka calculations.

In February, consumer prices remained broadly unchanged, with the annual inflation reaching only 0.5%. As regards the monthly seasonal factors, the impact of the sales of winter clothing and footwear was offset by the rising prices on seasonal tourist services. External factors mostly had an upward effect on prices in February. The average level of oil prices was slightly higher month-on-month which translated into a marginal rise in fuel prices. Moreover, the global food prices (except the prices on meat products) also increased. Meanwhile the price of natural gas for industrial consumers continued to drop exerting a downward pressure on thermal energy prices.

In the next few months, the annual inflation is expected to remain positive, although it could be somewhat lower than previously anticipated due to the postponed liberalisation of the electricity market (until January 2015).

Wage growth remains moderate

Productivity based on working hours and real wage index
(historic average = 100; seasonally adjusted)



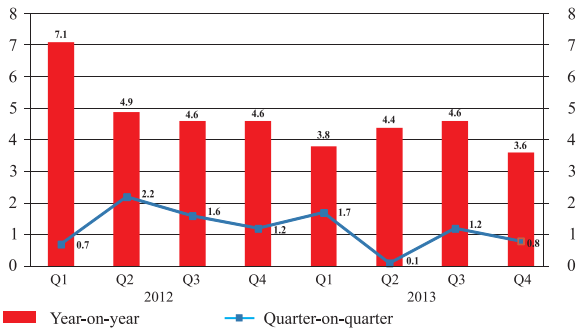
Source: CSB; Latvijas Banka calculations
*2013 Q4: provisional productivity data

Wage growth remained moderate with 4.8% year-on-year in the final quarter of 2013, thus neither creating any substantial inflationary pressures, nor deteriorating competitiveness.

There are several factors indicating that Latvia has achieved macroeconomic balance: the output gap is close to zero, the unemployment rate is close to the natural rate of unemployment and the average wage matches productivity. Looking forward, Latvia's economy can be expected to remain close to the macroeconomic balance: inter alia, real wage rise will be mostly based on productivity gains and will therefore pose no threat to competitiveness and create no substantial inflationary pressure.

GDP growth adjusted upwards relative to the flash estimate

Real GDP growth rate
(%)



Source: CSB.

In the final quarter of 2013, GDP grew by 0.8% quarter-on-quarter (adjusted upwards by 0.1 pp. relative to the flash estimate) and by 3.6% year-on-year (adjusted upwards by 0.1 pp.). Private consumption was the main engine of economic growth throughout 2013 and it retained the leading role also in the fourth quarter, increasing by 4.3% and contributing 2.6 percentage points to the GDP growth. Mostly as a result of higher employment and rising real wages, the purchasing power of residents continued to grow. Moreover, the price dynamics remained favourable to consumers at the end of the year. From a sectoral perspective, the highest contribution to the GDP growth in the fourth quarter was made by services – real estate activities, commercial services, as well as public administration.

This year, GDP growth is projected to remain at approximately 4%. Taking into account the recent developments concerning Russia and how it might affect Latvian exports, such projections are no longer seen as too conservative.