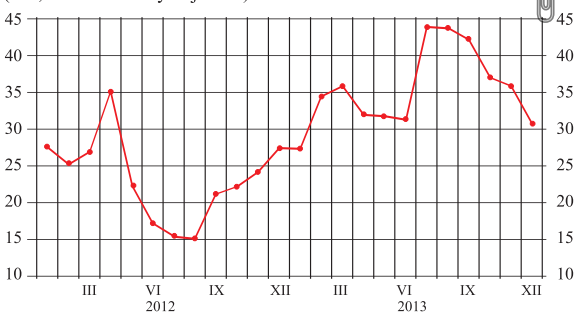
Consumer prices remained unchanged in 2013 as compared to 2012

Balance of answers regarding inflation perceptions
(%*, not seasonally adjusted)



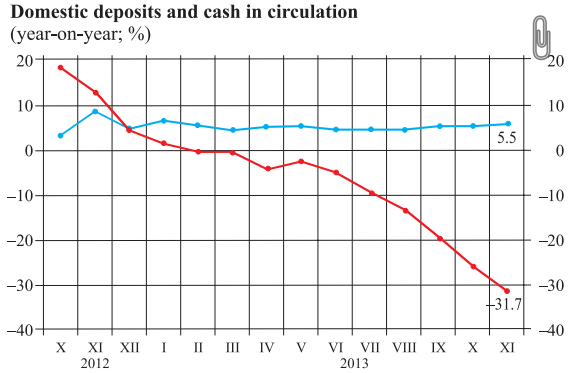
Source: European Commission.
* difference between the fraction of respondents mostly expecting increase in prices and the ones mostly expecting decrease in prices

On 1 January 2014, with its inflation rate untypically low for a growing economy, Latvia joined a low-inflation monetary union. In 2013, the low inflation was essentially a result of external and/or supply side factors such as global oil and food price developments as well as modernisation of the thermal energy production. Similar factors determined the low year-on-year inflation rate in December (–0.4%), while the average level of consumer prices remained unchanged in 2013 as compared to 2012.

Moreover, following the Council's decision of July 2013 on Latvia joining the euro area, the low real inflation and euro-related activities acted to reduce the inflation expectations, particularly as of October 2013, with the start of the period of the dual price display. Chart 1 shows that the net percentage of respondents expecting an increase in prices in the coming 12 months decreased in December pointing towards a smooth changeover process as well as expectations of price stability.

Money supply has resumed to increase

Domestic deposits and cash in circulation
(year-on-year; %)



Deposits of domestic households and companies
Amount of LVL cash in circulation
Source: CSB.

Aggregate money supply continued to increase in November 2013. Cash and non-cash currency (M3) in the economy increased by 1.7% in November, with the rate of its annual growth at 0.7%. The amount of lats cash in circulation declined by 31.7% year-on-year. Household deposits grew for a tenth consecutive month, by 8.1% year-on-year, while corporate deposits increased for a second consecutive month. The balance of domestic deposits with banks reached a new high at the end of November: 8.4 billion euro or 5.9 billion lats.

Data clearly indicate that the amount of lats cash in circulation declined rapidly in November and December 2013. According to Latvijas Banka calculations, the amount of euro cash in circulation has exceeded that of the lats already since 10 January 2014. For the sake of comparison, in the case of Estonia the amount of euro in circulation also exceeded that of krona on the tenth day following the euro changeover. Latvia has joined the euro area successfully and euro is the sole legal tender in Latvia as of 15 January.

Manufacturing grows in November

Volume index of production in manufacturing
(2010 = 100, seasonally adjusted)

Source: CSB.

Manufacturing output (seasonally-adjusted; at constant prices) increased by 2.1% month-on-month and by 2.6% (year-on-year in November.

The growth of manufacturing in November was supported by the large sub-sectors, including the manufacture of fabricated metal products (16.5% month-on-month and 12.3% year-on-year respectively). Similarly, manufacture of wood and products of wood (except furniture) also registered substantial growth in November (3.4% month-on-month and 6.6% year-on-year respectively). Manufacture of food products expanded by 2.1% month-on-month and 10.3% year-on-year in November. Moreover, an increasingly larger part of the food products is exported (35% in the first three quarters of 2013 as opposed to 33% in the first three quarters of 2012).

Eurozone's ESI and PMI could also point towards further development of Latvia's manufacturing sector. In December, the ESI in the euro area climbed to 100.0 reaching its long-term average. In the final quarter of 2013, manufacturing PMI also showed the best result in the last two-and-a-half years. Particularly positive manufacturing PMI development has been observed in Germany and the United Kingdom, both of which are highly important markets for Latvia.