



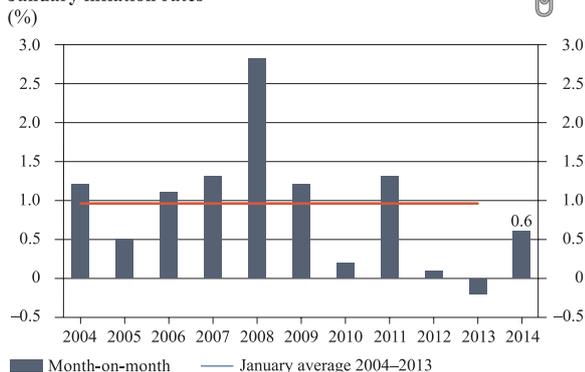
**LATVIJAS BANKA**  
**MONTHLY NEWSLETTER**

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**FEBRUARY 2014**

## Inflation is lower than the January averages of the previous 10 years

### January inflation rates



Sources: CSB, Latvijas Banka calculations.

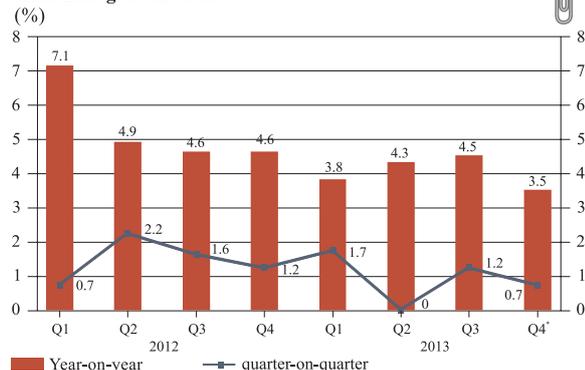
In January, annual inflation turned positive, albeit remaining low at 0.4%. While the excise tax on tobacco and auto gas (LPG) increased somewhat in January, as well as the prices of energy and several non-regulated services, half of the annual inflation seen that month stemmed from a seasonal increase in potato and other vegetable prices exceeding that of January 2013.

However, the month-on-month growth of service prices was lower than the January averages observed in the previous 10 years. The impact of external factors on the price level was favourable: the average level of oil prices did not exceed the one observed in December while the global food prices even dropped slightly. In the coming months, the annual inflation will remain in a positive territory, yet

the developments in the prices of natural gas, thermal energy, public transportation and communication services could keep the annual inflation low.

## GDP keeps growing in the final quarter of 2013

### Real GDP growth rates



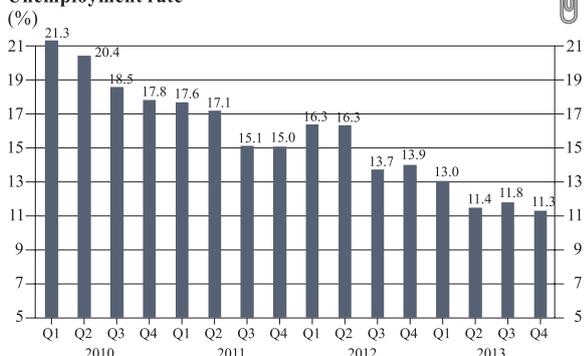
Source: CSB.  
\* CSB flash estimate

The flash estimate by the Central Statistical Bureau indicates that in the fourth quarter of 2013 Latvian GDP grew 0.7% quarter-on-quarter in seasonally-adjusted terms and 3.5% year-on-year. In 2013 overall, GDP thus grew approximately by 4.0%. It is very likely that Latvia remained the fastest growing economy in the euro area in 2013. Even though the manufacturing output and retail trade turnover increased in the fourth quarter, a downward impact on GDP growth was exerted by other sectors like mining and quarrying as well as energy. The GDP flash estimate is based on preliminary statistics on the output of some selected sectors, whereas a more complete picture including transport, construction, wholesale and other sectors will become available in March.

The Bank of Latvia projects that Latvia's GDP growth will reach 4.1% in 2014 (in seasonally and calendar adjusted terms). Economic growth will remain primarily dependent on developments in the external markets in 2014, yet the role of investment is also bound to increase.

## Unemployment decreases in the fourth quarter of 2013

### Unemployment rate



Source: CSB.

In the fourth quarter of 2013, Latvia's unemployment rate decreased to 11.3% of the economically active population. As previously expected, employment data confirmed a shift from employment-based to more productivity-based economic development. Since employment grew only by 0.8% and GDP increased significantly, it is probable that productivity increased by as much as 3% over the last year. This productivity increase suggests that the Latvian economy has switched from an extensive to a more intensive development, which is the only way to further improve the standards of living also in the future.

It is expected that unemployment will continue to fall both in the euro area and in Latvia. However, Latvia's unemployment rate could decrease by no more than one percentage point in 2014. A sustainable decline in unemployment can only be achieved on account of the structural component.

	Reporting period	Data (%)
<b>Gross Domestic Product (GDP)</b>		
Real GDP (year-on-year growth)	2013 Q4 <i>(flash estimate)</i>	3.5
Real GDP (quarter-on-quarter growth; seasonally adjusted)	2013 Q4 <i>(flash estimate)</i>	0.7
11.02.2014 <a href="#">Slight slowdown in GDP growth in the last quarter of 2013</a> 		
<b>Public Finances</b>		
Tax revenue (since the beginning of the year; year-on-year growth)	2014 I	2.4
General government budget expenditure (since the beginning of the year, year-on-year growth)	2014 I	-0.6
<b>Consumer price changes</b>		
Consumer Price Index CPI (year-on-year growth)	2014 I	0.4
Consumer Price Index HICP (year-on-year growth)	2014 I	0.5
12-month average inflation (HICP)	2014 I	0.0
12.02.2014 <a href="#">Consumer price level in January grew slower than average over the past ten years</a> 		
<b>Foreign trade</b>		
Exports (year-on-year growth)	2013 XII	0.6
Imports (year-on-year growth)	2013 XII	-0.9
10.02.2014 <a href="#">One-off effects behind export growth in 2013</a> 		
<b>Balance of payments</b>		
Current account balance (ratio to GDP)	2013 Q3	-3.0
Foreign direct investment in Latvia (net flows; ratio to GDP)	2013 Q3	1.1
<b>Industrial output</b>		
Working day-adjusted manufacturing output index (year-on-year growth)	2013 XII	1.0
03.02.2014 <a href="#">A new production volume record in manufacturing in December</a> 		
<b>Retail trade turnover</b>		
Retail trade turnover at constant prices (year-on-year growth)	2013 XII	4.2
30.01.2014 <a href="#">In the second half of 2013, trade was fostered by spending of savings and tourism</a> 		
<b>Labour market</b>		
Registered unemployment (share in working age population)	2014 I	9.8
Job seekers rate (share in working age population)	2013 Q4	11.3
17.02.2014 <a href="#">Latvian economic growth moves onto productivity track</a> 		
<b>Monetary indicators</b>		
Resident deposits (year-on-year growth)	2013 XII	13.2

Source: Treasury, Central Statistical Bureau of the Republic of Latvia, and Latvijas Banka data.

## Deposit Growth Reflects Flourishing Economic Activity and Euro Changeover

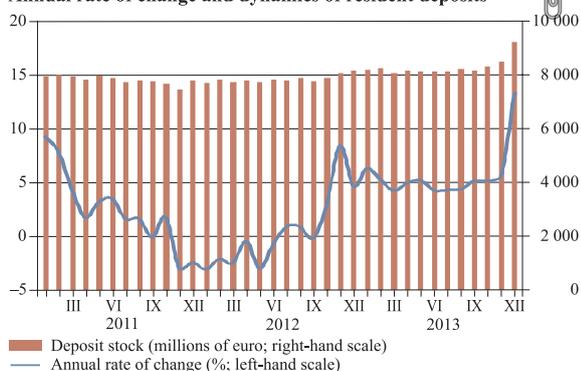


**Vilnis Purviņš**  
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While money supply remained quite stable in Latvia, with its annual rate of change merely 2.8%, the rise in deposits received by credit institutions more than offset the fall in the demand for cash in the last few months of the year. Thus in October – December 2013 domestic deposits increased by 13.4%, with the annual growth rate reaching 13.2% in December (see Chart 1).

A month-on-month increases in household deposits could already be observed throughout 2013. This was attributable to the fact that cash currency was being placed on accounts with the banks as well as to the rising income levels. The increase in non-financial corporation deposits was also to a large extent driven by the cash factor, yet the economic growth and export expansion also played a significant role. With the year coming to its close, the surplus of the central government budget shrank increasing the inflows of government budget funds into the economy and thereby resulting in an even higher growth of corporate deposits.

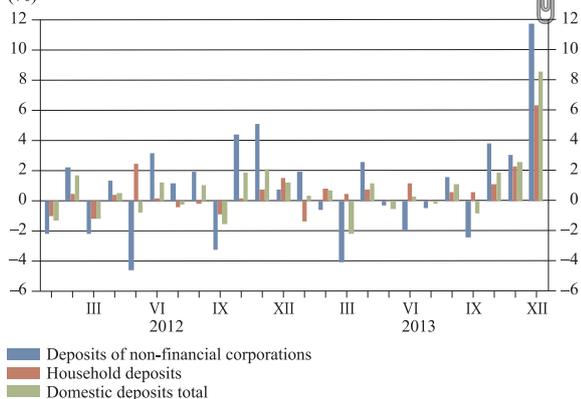
Chart 1  
Annual rate of change and dynamics of resident deposits



Low remuneration paid on deposits throughout the year supported concentration of the corporate and household savings on current accounts with banks. Nevertheless, in December deposits with an agreed maturity of up to two years and deposits redeemable at notice increased by 5.1% and 5.2% respectively, whereas overnight deposits grew by 8.8%, thereby improving the annual growth rates of deposits as well.

December was the last month when the lats was the only legal tender in Latvia. As expected, with the euro changeover drawing close, the amount of cash lats in circulation dropped rapidly, as both households and businesses returned their savings to banks and the preference for noncash transactions increased. This was one of the basic factors behind the record-high month-on-month rise of 0.7 billion euro in corporate and household deposits observed in December.

Chart 2  
Monthly rate of change in resident deposits (%)



Although household deposits grew significantly in December (by 6.3% month-on-month; 13.2% year-on-year), the rise in deposits by non-financial corporations was even higher (11.7% month-on-month, 14.8% year-on-year; see Chart 2). Overall, the balance of domestic deposits with banks peaked at 9.2 billion euro at the end of the year.

In the first months of 2014, the financial position of households will remain positive: the growth of savings on bank accounts will be ensured by higher employment and wages together with apparent changes in habits stimulated by the euro changeover, namely an increasingly wider preference for using payment cards instead of cash in transactions. Moreover, continued economic growth and pickup in private consumption could act to increase the deposits of non-financial corporations: the latter is likely to be quite notable, provided that external demand continues to improve.