



LATVIJAS BANKA

# BANK OF LATVIA

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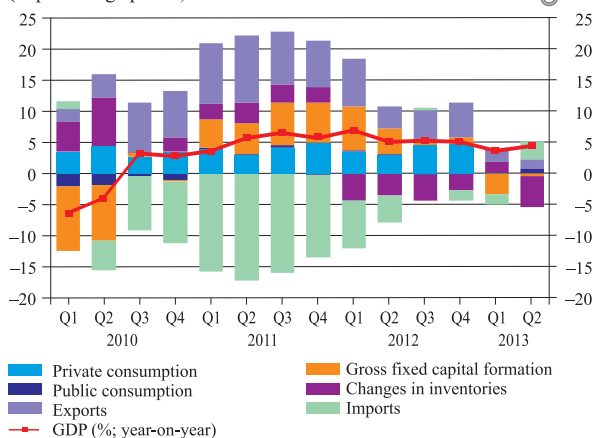
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## 1. Highlights

### GDP growth in the second quarter of 2013 beats expectations

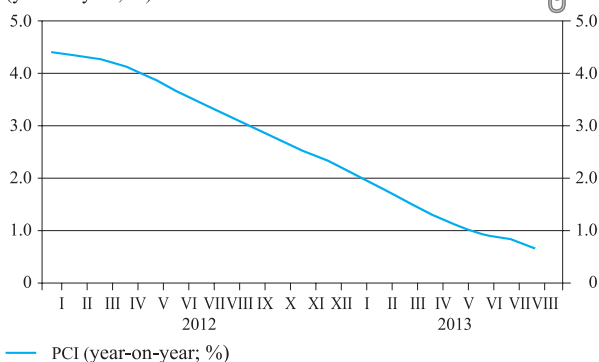
Real GDP growth and contributions  
(in percentage points)



The GDP data for the second quarter of 2013, revised by the Central Statistical Bureau of Latvia, point towards higher economic growth than previously estimated by the flash estimate. In the second quarter, GDP grew by 4.4 % and 0.7 % year-on-year and quarter-on-quarter respectively. Similarly to the first quarter of 2013, private consumption remained the main driver of economic growth contributing 4.7 percentage points to the GDP growth. Private consumption increased by 6.6% mainly on account of a rise in disposable income resulting from higher average salaries and improved employment levels. In contrast to the wage bill increase back in the "fat" years, the current growth is associated with higher productivity and thus is more sustainable. With private consumption as the main support for growth and exports as a necessary supplement, the economy is likely to move along the track of the previous quarters and sustain its growth.

### Seasonality determines price changes

12-month average PCI  
(year-on-year; %)

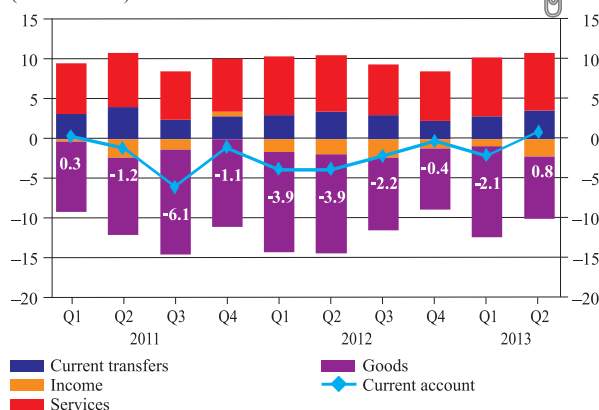


August data on month-on-month consumer prices show a decrease of 0.8%; however, this is considered to be seasonal. The seasonal drop in prices was mainly caused by the new harvest of vegetables leading to a decrease in prices of this particular group of foodstuffs. The year-on-year decline in prices, however, amounted to merely 0.2% in August, since the seasonal drop in vegetable prices observed last August was substantially lower. Other factors supporting the annual decrease in prices were the reduced prices of telecommunications services as well as those of thermal energy. Opposite to the tendencies in the world food prices, the prices of meat and grain products increased. Moreover, the prices of transport vehicles also went up. The above mentioned increases suggest improvements in the purchasing power in Latvia.

Risks to inflation outlook are mostly related to external factors (energy prices). In the coming months, a domestic factor affecting inflation could be the pricing policies of businesses. Nevertheless, the 2013 inflation could remain the lowest registered average annual inflation under conditions of positive growth.

### Latvia's current account runs a surplus in the second quarter

Main components of current account  
(in % of GDP)



In the second quarter of 2013, a surplus of 32.3 million lats was registered in Latvia's balance of payments, thereby decreasing the deficit in the current account for the first half of 2013 to 44.9 million lats or 0.6% of GDP.

The year-on-year drop in the current account deficit was caused by a decrease in the deficit of foreign trade in goods and services. As a result of a 4.7% year-on-year increase in goods and services exports, the deficit of foreign trade in goods and services dropped to 24.4 million lats in the second quarter of 2013. This positive change was driven by the exports of transportation and travel services, and especially the exports of passenger vessels built at Riga Shipyard.

Amongst other positive trends in economic development, data on the current account for the first half of 2013 point towards the current account deficit remaining small in 2013 overall.

## 2. Macroeconomic Data

	Reporting period	Data (%)
<b>Gross Domestic Product (GDP)</b> (quarter-on-quarter growth; seasonally adjusted) 06.09.2013 <a href="#">Private consumption demonstrates excellent performance in the second quarter</a> 	2013 Q2	<b>0.7</b>
<b>State budget</b> Tax revenue (current month; year-on-year growth) General government expenditure (since the beginning of the year, year-on-year growth)	2013 VIII 2013 VIII	<b>5.9</b> <b>7.0</b>
<b>Consumer price changes</b> Consumer Price Index CPI (month-on-month growth) 12-month average annual inflation (to comply with the Maastricht Criteria) 09.09.2013 <a href="#">In August as well prices post a seasonal drop</a> 	2013 VIII 2013 VIII	<b>0.7</b> <b>-0.8</b>
<b>Foreign trade</b> Exports (year-on-year growth) Imports (year-on-year growth) 09.09.2013 <a href="#">Global growth forecasts warrant caution regarding Latvian export growth</a> 	2013 VII 2013 VII	<b>-2.4</b> <b>-1.4</b>
<b>Balance of payments</b> Current account balance (ratio to GDP) Foreign direct investment in Latvia (net flows; % of GDP) 03.09.2013 <a href="#">Latvia's balance of payments in the second quarter of 2013</a> 	2013 Q2 2013 Q2	<b>0.8</b> <b>3.0</b>
<b>Industrial output</b> Working day-adjusted industrial output index (year-on-year growth) 03.09.2013 <a href="#">Manufacturing industry successfully begins the second half of the year</a> 	2013 VII	<b>4.2</b>
<b>Retail trade turnover</b> Retail trade turnover at constant prices (year-on-year growth) 30.08.2013 <a href="#">Trade pulse remains stable</a> 	2013 VII	<b>5.5</b>
<b>Employment and unemployment</b> Registered unemployment (share in working age population) 30.08.2013 <a href="#">The rise in purchasing power of salaries will promote private consumption</a> 	2013 VIII	<b>9.3</b>
<b>Monetary indicators</b> Broad money M3 (year-on-year) 19.09.2013 <a href="#">The impact of euro expectations becomes more pronounced</a> 	2013 VIII	<b>1.2</b>

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

### 3. In Focus

#### Euro Conference Latvia: The Common Currency – New Opportunities and Responsibilities



In mid-September, the Bank of Latvia in co-operation with the European Central Bank, the European Commission and the Ministry of Finance of the Republic of Latvia held Euro Conference Latvia in Riga. Latvian and European Union economic policy makers and economists discussed the common currency of the euro area, its financial system and economy, focusing on what has already been achieved and still has to be done in improving the euro area governance.

Speeches and presentations from the conference are now available at <http://www.macroeconomics.lv/speeches-and-presentations>

#### Highlights from the conference address by Ilmārs Rimšēvičs, the Governor of the Bank of Latvia:

Latvia has accomplished a lot after the restoration of independence. Just twenty-five years ago, the thought of a free and independent country was but a dream. It was even more difficult to imagine that Latvia could become a full member of the European Union and NATO or that we could have a currency shared by 330 million Europeans.

"Nevertheless, all these dreams were turned into reality. How did it happen? First, there was clarity of the aims, then – a strong determination and very decisive action. [...] And second, we received invaluable support from our friends," stressed Mr. Rimšēvičs.

It is decisive action that has helped Latvia to overcome its recent economic difficulties and to become the fastest growing economy in the European Union as well as to meet the Maastricht criteria for becoming the 18th euro area member state.

Latvia is currently busy completing the outstanding practical preparations for the euro changeover. The conference focussed on Latvia's future challenges which could be conveyed by two words – **opportunities** and **responsibilities**.

First and foremost, it means a full-fledged participation in the Economic and Monetary union. It means a profound and irrevocable integration of Latvia into Europe – not only economic but also a deep political integration.

The euro as a trusted and secure currency will provide Latvia with better opportunities for external trade, attraction of investments, creation of jobs and promotion of economic growth.

Yet the euro is no panacea, it is an instrument for continued structural reforms that are still necessary for Latvia's development. In the words of Mr. Rimšēvičs: "However, the euro itself – and that can be said about any currency – is not a wand. The euro just establishes a solid basis for further structural reforms that are still necessary for our economy. The euro will provide excellent opportunities for our economic development, but it will first and foremost depend on ourselves, both on policy makers and on businesses, how we are able to use them to the benefit of our people and the future of our country."

