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# Snapshot

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## Latvia: Inflation remains very moderate after euro introduction

According to the Statistics Latvia, price level remained unchanged in February vs. January, annual inflation increased slightly to 0.5%, from 0.4% in January. Euro introduction helped to end the intermittent deflation that was observed last year, but failed to push prices up in a way as was feared before.

Price rises in Latvia are mostly kept in check by low prices of certain key imports, primarily oil and grain as well as indirect effects on import prices of gas. Prices for goods even fell by 0.3% Y/Y. For example, clothing and apparel prices fell by 0.9% Y/Y both due to falling import costs last year and increasing competition of retailers. Prices of electronic and electric goods continue their long term downward trend.

On the other hand, price pressures are starting to appear in services that were 2.5% more expensive than a year ago, in August 2013 service price inflation was still zero. This especially applies to labour intensive services. Most notably, prices of haircuts have risen by more than 6% in the first two months of the year. Rising prices for these and similar services were inevitable as wage inflation is gradually creeping up, but it is visible in data that euro introduction accelerated the process somewhat.

**Assessment:** In the coming months price rises in Latvia will remain modest as deflationary potential of import prices is still not fully exhausted and the impact of rising wages remains modest for most goods and services. Annual inflation will however creep up as the price level throughout 2013 was almost exactly flat. Electricity prices are likely to remain frozen until January 2015, instead of planned liberalisation in April that would have increased the average price paid by households by ca 1/5. We are not yet reviewing our forecast but a scope for a moderate lowering of estimated Dec-Dec price rise of 2.5% might appear in near future due to policy changes. Very moderate inflation, quite strong wage and employment growth, low heating costs both due to lower price per unit (-5.4%) and consumption volume influenced by warm weather should support consumption in the first half of 2014.

**Pēteris Strautiņš**

Macro analyst  
DNB Markets