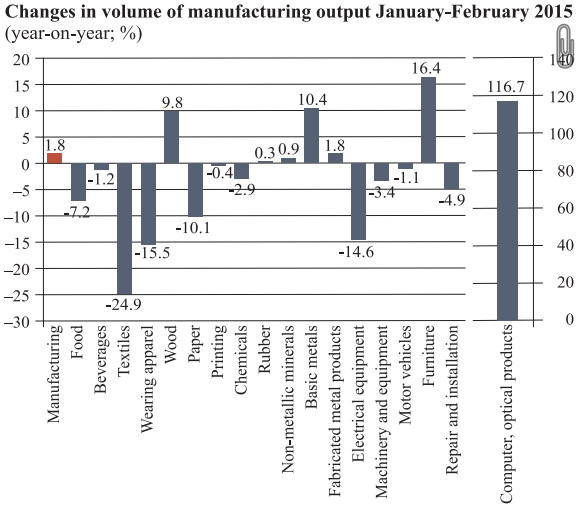
Slight growth in manufacturing with a positive outlook

In February, manufacturing output grew by 0.7% month-on-month (seasonally adjusted data) and by 1.8% year-on-year (calendar adjusted data). The relatively positive dynamics of manufacturing was overshadowed by a weak performance of the energy sector, remaining low for the second consecutive month. The increase in manufacturing output was mainly on account of the wood industry, and this upward trend was supported by manufacture of basic metals, furniture and computers. Meanwhile, a negative contributor to the total manufacturing output was the food industry, as was manufacture of textiles, wearing apparel and electrical equipment.

Changes in volume of manufacturing output January-February 2015
(year-on-year; %)



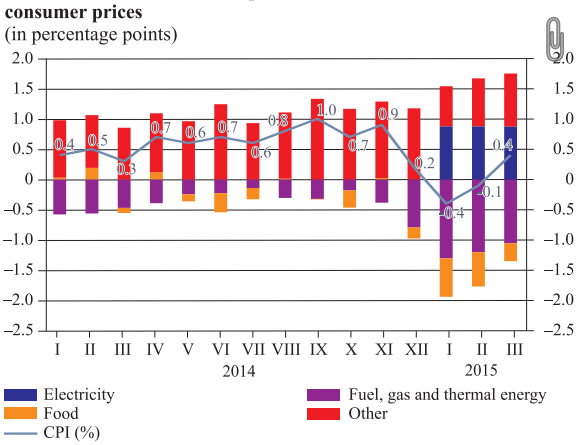
Source: CSB.

In the past three years, the performance of manufacturing was described as "stagnating". Currently the situation is improving as suggested by the news favourable to the industry: the resumed operation of KVV *Liepājas metalurgs* is expected to have a positive impact on the performance indicators of the industry already in the next few months. In addition, the latest macroeconomic indicators of the euro area countries give rise to hope, and the investments initiated last year indicate that manufacturing output could record moderate growth this year.

In March inflation increased due to domestic factors

In March, inflation stood at 0.4%, reaching a positive annual price increase. Global factors, such as oil and food prices, continued to play a leading role in headline inflation, which remained low. Meanwhile, the negative impact of global factors on annual inflation tended to decrease. World oil prices went up somewhat at the end of February and the beginning of March. However, this rise was short-lived. At the same time, core inflation increased slightly, possibly as a result of channelling consumption expenditure from the goods sector to the services sector.

Contribution of selected components to the annual increase in consumer prices
(in percentage points)

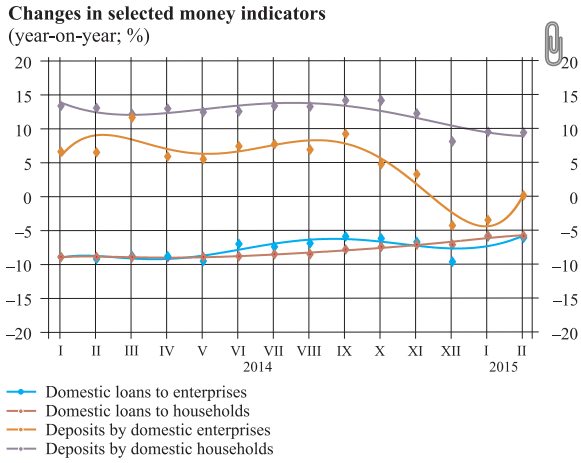


Source: CSB.

A continued rise in prices of services due to the sustained demand is expected to have a positive effect on the average annual inflation. In addition, the reduction of the personal income tax rate by 1% and the resumed operation of KVV *Liepājas metalurgs* could contribute to a gradual increase in the real income of employees. Other indicators, including changes in the excise tax and a rise in parking tariffs in Riga, will have a very insignificant impact on inflation development.

Bank deposits on the rise again, and favourable conditions for lending expected

Changes in selected money indicators
(year-on-year; %)



Source: Latvijas Banka.

In February, total deposits received by banks rose by 1.2% month-on-month and by 4.9% year-on-year, with both businesses and households increasing their savings. Despite economic slowdown, they are still in a reasonably comfortable position to expand deposits.

The domestic loan portfolio of banks, however, contracted slightly by 0.5% month-on-month, with the annual rate of decrease in lending remaining close to 4.5%.

Legislative amendments, providing an option of receiving housing loans with or without the application of the clause of returned keys, took effect in March. Moreover, the monetary stimulation measures by the Eurosystem, including an asset purchasing programme, was launched on 9 March. The above two developments are expected to ensure favourable conditions for improvement in lending.