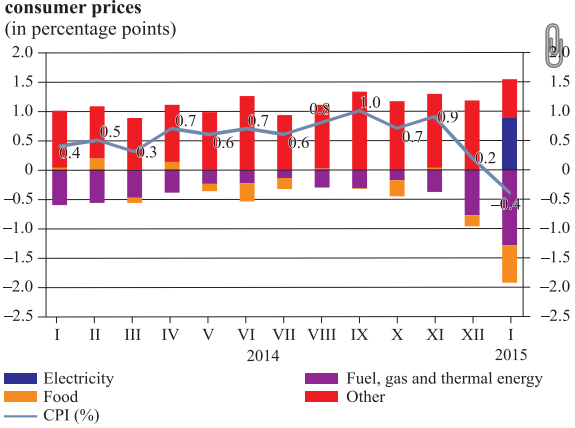
## Oil price dynamics dominant over impact of electricity market liberalisation in January

**Contribution of selected components to the year-on-year increase in consumer prices**
(in percentage points)

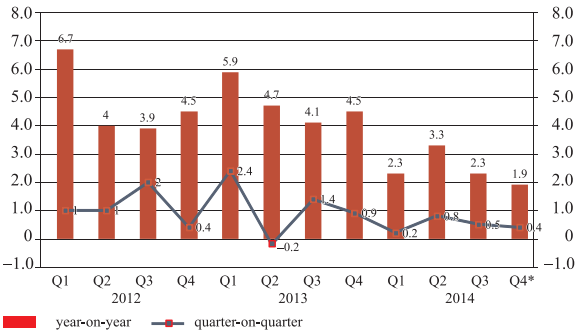



Source: CSB.

Even though the contribution of electricity prices to total inflation reached almost 0.9 pp due to electricity market liberalisation, total annual inflation remained very low in January (-0.4%) under the impact of other factors. One of such factors was the low oil prices. The combined effect of falling fuel, gas and thermal energy prices on annual inflation reached -1.3 pp. Food and agricultural product prices also continued to decline in January and together with energy prices limited the upward trend in both producer and consumer prices not only in Latvia but also in a number of its trading partner countries. Thus, many industries in Latvia's trading partner countries do not feel any upward pressure from the commodity prices and, consequently, the impact of import prices on consumer prices in Latvia is limited. Whereas the rise in the prices of several products and services, which are not seen as prime necessities, gives us no ground for ascribing overall price drops to the demand side.

## GDP growth at 2.4% in 2014

**Real GDP growth rate**
(%; seasonally adjusted)

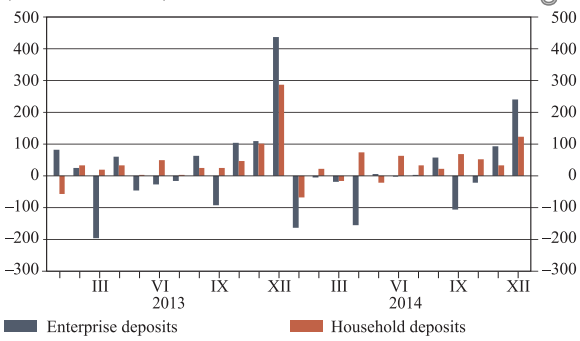



Source: CSB.
** flash estimate*

According to the flash estimate, annual GDP grew by 1.9% in the fourth quarter of 2014, while in 2014 overall GDP expanded by about 2.4% (calendar adjusted). However, the growth took place primarily on account of the domestic activity. Export market accomplishments of the previous years have facilitated progress in the labour market, bringing down unemployment and raising real wages, simultaneously leaving a positive impact on retail trade which posted growth in 2014, with the volume of annual sales increasing by 3.6%. This trend shows that retail trade has grown at a slower pace than wages, most likely indicating that the people in Latvia remain cautious and are building safety cushions. Despite the problems in external markets, manufacturing output volumes remained almost unchanged overall in 2014 (-0.1%) compared with 2013. Latvia reported 2.2% growth in exports of goods in 2014. Latvian exporters have managed to expand their market shares in world imports and succeed in entering new markets.

## Attraction of deposits speeds up in December

**Monthly growth of domestic deposits**
(in millions of euro)




Source: Latvijas Banka.

As corporate and household deposits increased, the total balance of deposits grew by 4.0% month-on-month in December 2014. This rapid rise in deposits is related to both seasonal increase in income partly under the impact of the high budgetary expenditure and certain precautionary spending due to sustained uncertainty regarding external developments.

The total domestic loan portfolio contracted by 2.3% month-on-month in December. This drop was primarily caused by the repayment of some large short-term loans and writing off bad loans typical for the year's end. With the domestic economic growth slowing and geopolitical tension continuing, a notable recovery in lending cannot be expected. Although banks are not planning to tighten their lending standards for businesses, the economic situation does not encourage companies to increase the demand for loans. In the medium term, the lending activity in Latvia could be positively affected by the monetary policy stimulus measures launched by the ECB.