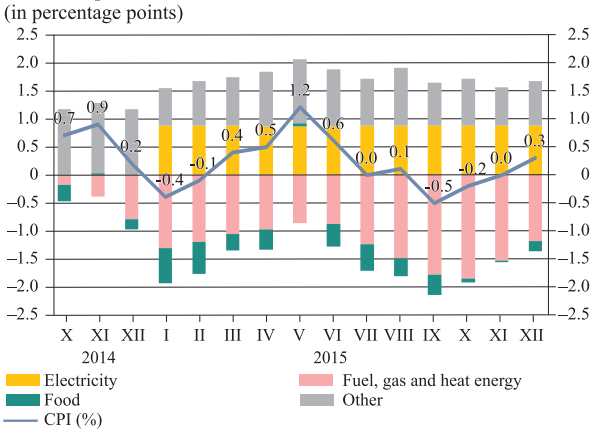
Annual inflation stands positive

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



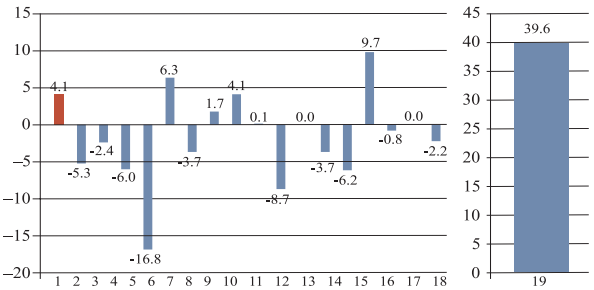
Source: CSB.

In December, the average consumer price level rose by 0.3% year-on-year: prices of goods decreased by 0.3%, while prices of services grew by 2.1%. Meanwhile, the annual average inflation was 0.2%. Its main leitmotif throughout the year was declining global prices of food and energy, thus hindering inflation growth. Nevertheless, the liberalization of the electrical power market for households, a slight rise in indirect taxes, an increase in the public transportation fares in Riga and gradually improving purchasing power that supported core inflation contributed positively to the pick-up in prices.

The major contributors to the annual average inflation in 2015 were fuel and heat energy prices (-1.2 percentage points (pps) overall), dairy product prices (almost -0.3 pp), while the largest upward pressure resulted from electricity prices (0.9 pp) and several services within the core inflation – catering, as well as recreational and cultural services (a total of around 0.2 pp).

Manufacturing growth has become stronger

The year-on-year changes in volume of manufacturing production
(January-November 2015; %)



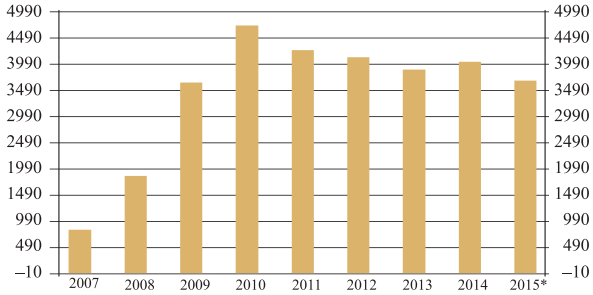
1 Manufacturing
2 Food
3 Beverages
4 Textiles
5 Wearing apparel
6 Wood
7 Paper
8 Printing
9 Chemicals
10 Rubber
11 Non-metallic minerals
12 Basic metals
13 Fabricated metal products
14 Electrical equipment
15 Machinery and equipment
16 Motor vehicles
17 Furniture
18 Repair and installation
19 Computer, optical products

Source: CSB.

During the first 11 months of 2015, manufacturing output rose by 4.1% year-on-year in a context of diverse sectoral developments. By the end of November good results were observed in the production of computers, electronic and optical equipment, as well as furniture. The end of the year was also successful for the largest branch of manufacturing, the wood industry, which has been persistently increasing its output over the past few years. Conversely, recession continued in the manufacture of wearing apparel and building materials, as well as the food industry as they showed a weaker performance than usual. The largest metal producer *KVV Liepājas metalurgs* has had both positive and negative effects on the sectoral growth. After re-launching the company in March, with promising prospects, the problems in global metallurgy market persisted resulting in a weaker than expected performance at the end of 2015. Nevertheless, *KVV Liepājas metalurgs'* contribution did improve the overall manufacturing output data.

Government debt servicing costs have been reduced

General government gross debt
(% in GDP, ESA2010)



* – expected.
Sources: Eurostat, MoF.

On 8 December 2015, taking advantage of the unique situation in the financial markets, the Treasury repurchased its outstanding US bonds maturing in 2020 (yield of 2.889%) and 2021 (yield of 5.491%) at the nominal value of 650 million USD. In order to finance the operation, new 5-year bonds in the amount of 550 million EUR (yield of 0.532%) were issued on the same day. These transactions resulted in reduced government debt servicing costs in the medium term, estimated at around 85 million EUR, having a positive effect on the state budget balance. According to preliminary data, at the end of 2015 Latvia's central government debt stood at 8.4 billion EUR (34% of GDP, expected close to 37% in ESA2010 terms).

In 2016, the Treasury plans to borrow at least one billion EUR in the international financial markets in order to secure the financing needs of the state and repayment of the 5-year bonds worth one billion USD maturing in February 2017.