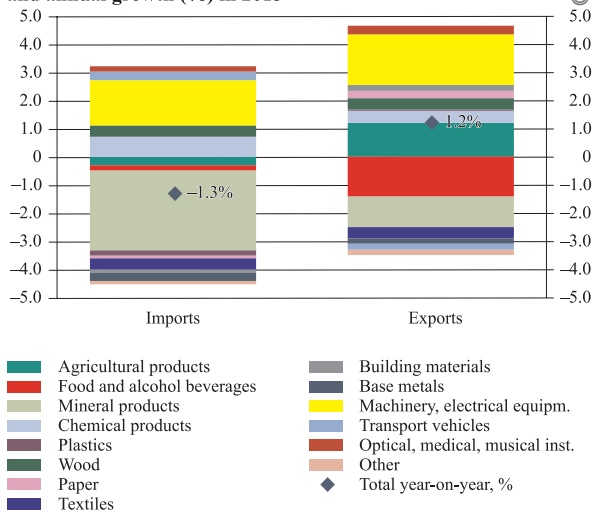
Export growth resists adverse external environment

Contribution of product groups to the annual growth of merchandise exports and imports (percentage points) and annual growth (%) in 2015



Source: Central Statistical Bureau of Latvia, Latvijas Banka's staff calculations.

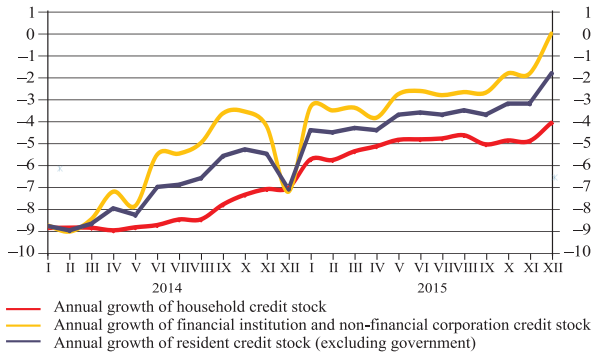
Latvia's exports of goods managed to show a small rise of 1.2% last year despite reduced Russian demand and depreciation of the rouble as well as the sluggish and uneven development in the euro area countries. Food exports suffered notably, while exports of many other goods such as electrical equipment and machinery, pharmaceuticals, wood products, etc. grew.

According to the preliminary data provided by the World Trade Organisation, an increase in the market shares of Latvian goods exports was observed in global imports in 2015 after two years of stagnation. This means that exporters have worked vigorously to penetrate new markets.

Imports of goods stagnated for a third consecutive year with a small year-on-year drop of 1.3%. Even though this continued to improve the balance of foreign trade in goods, the decline in imports is related to the slow growth in exports, weak investment activity and a decrease in oil prices.

Money indicators develop favourably

Lending to the private sector
(year-on-year; %)



Source: Latvijas Banka.

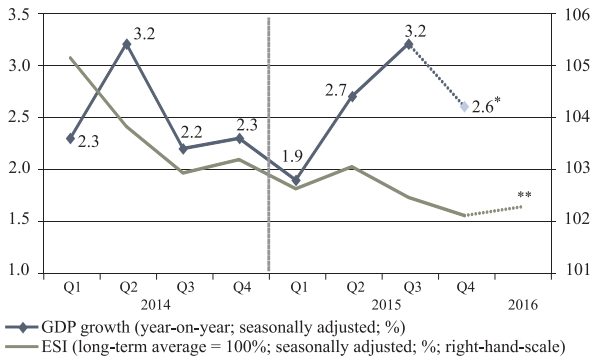
The positive developments in the Latvian economy continue to be borne out by the dynamics of monetary aggregates. The growth rate of domestic deposits was three times faster in December 2015 than in December 2014, whereas the rate of decline in loans has decreased from –7.1% to less than –2% within 12 months.

The repayment of short-term loans and write-off of bad loans in December led to a moderate contraction of the domestic loan portfolio. Yet the drop was less than half of that seen in December 2014. As a result, the annual rate of decrease in lending drastically improved by 1.4 percentage points, to –1.8%.

The annual rate of decrease in total domestic loans decelerated substantially, while the annual rate of change in loans to domestic financial institutions and non-financial corporations moved slightly into positive territory (+0.02%) for the first time since 2009.

Economic sentiment tends to improve

GDP growth rate and the Economic Sentiment Indicator



Source: CSB.
* – flash estimate; ** – 3-m moving average in January 2016.

According to the flash estimate for the fourth quarter of 2015 by the Central Statistical Bureau, gross domestic product (GDP) grew by 2.6% in 2015 despite no quarter-on-quarter increase in the fourth quarter. With the complicated geopolitical situation remaining the main factor impeding growth in 2015, this could be a slight acceleration of growth as compared to 2014. Meanwhile, the reduced oil prices had a positive impact on consumption.

The Economic Sentiment Indicator, though, points to possible acceleration in GDP growth as the indicator improved in all kinds of economic activity in January as compared to December (seasonally adjusted). Construction, manufacturing and trade confidence has gained most, with improvement in expected assessment of orders and employment expectations. Some optimism in these indicators might have also been brought about by the reduced energy costs.