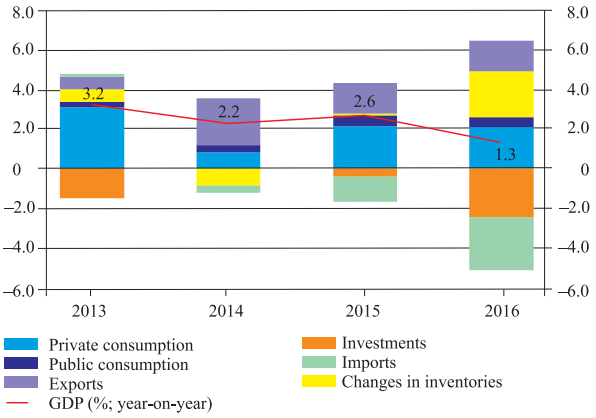
2016 passed in expectations of investment and in the environment of weak external demand

Real GDP growth and contribution to real GDP growth
(%; in percentage points; seasonally adjusted)

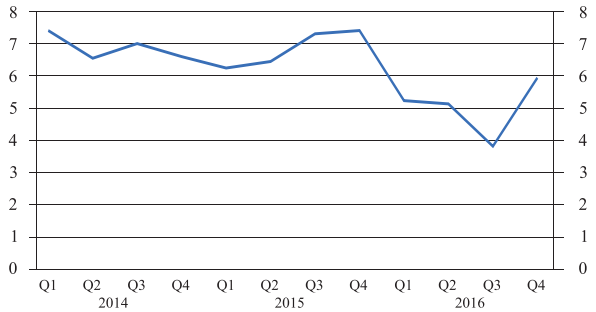


Sources: CSB, Latvijas Banka calculations.

In 2016, the Latvian economy grew by 1.3% (according to seasonally and calendar adjusted data), posting a temporary slowdown in the GDP growth due to contracting investment. Implementation of investment projects was hindered by delayed adoption of relevant legislative acts of the new EU funding programming period. This is expected to reverse as the implementation of projects picks up speed. The growth in real exports of goods and services was positive despite the weak external demand. The expansion of private consumption in 2016 reflects the latest wage increases, particularly in the private sector. Recent good performance of manufacturing (7.8% year-on-year in January) is mostly associated with the strengthening of external demand on account of the recovery of the EU economic growth and the rapidly improving industrial confidence indicators across the EU member states. In 2017, a more positive effect of the EU funding round on the economy is expected to result in stronger domestic demand and accelerated GDP growth, at 3.0%.

Wages grew at a slower rate last year

Gross nominals wage growth
(%; year-on-year)

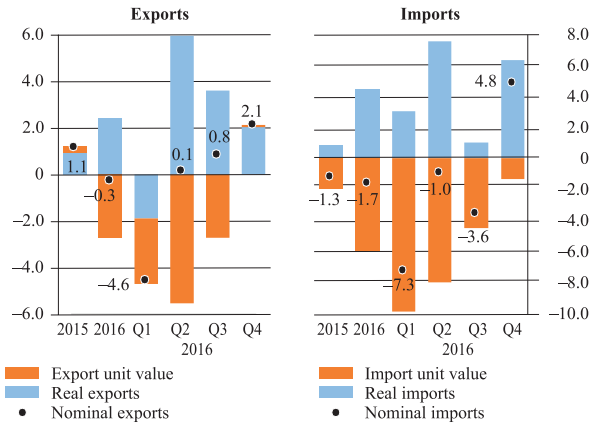


Source: CSB.

The annual rate of wage increase, albeit still robust, slowed to 5% in 2016. It was related to the slowdown in economic growth and a smaller positive impact of legislative changes. In 2017, wage growth is likely to remain similar. The growth around 5% still enhances income convergence in Latvia, and, at the same time, moderation is welcome from the perspective of competitiveness. Unemployment rate is decreasing slowly, and stood at 9.3% of the economically active population in the fourth quarter of 2016. This is close to the natural rate of unemployment and below the euro area average. The unemployment rate is expected to continue to drop gradually over the year. The labour market is flexible and characterised by decentralised wage bargaining and free labour mobility across sectors.

The current account recorded a surplus of 369.5 million euro or 1.6% of GDP in 2016

Growth of goods exports and imports
(%; year-on-year)



Sources: CSB and Latvijas Banka calculations.

The main driver of the current account's improvement has been the goods account. Despite the unfavourable external environment and the resulting weak foreign demand, the value of goods exports was unchanged from the year before. At the same time, a drop of imports resulted from both lower commodity prices and weak domestic investment activity, consequently causing a decline in imports of capital goods. In 2016, the growth was broad-based across product groups, with the largest positive contribution from exports of agricultural and food products, chemicals, wood products, construction materials, transport vehicles and furniture. Services exports showed good performance, too, especially in the IT and construction sectors. The economy of Latvia has recently become less sensitive to external shocks, and the export structure has become more diversified. Furthermore, Latvia's merchandise market share in world imports increased in 2016.