Latvia's exports to euro area: developments after joining

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For two years now, Latvia has been a member of the euro area (EA). Already before Latvia had joined the EA, the latter was and continues to be an important market for Latvian exporters.

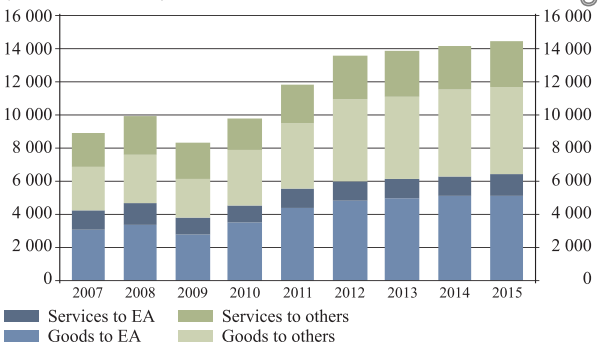
At present, slightly less than a half of total exports from Latvia go to markets of EA countries: in 2015 overall, the volume of goods and services exports to the EA accounted for 44.2% of the total export volume. The Figure below shows that exports of goods notably dominate over exports of services in total Latvian exports. Currently, almost half of total goods exported from Latvia (amounting to 49.0% in 2015) are sold in the EA markets. As to exports of services, the EA share is considerably smaller and in 2015 accounted for 32.0% of total services exports. It is noteworthy that almost two thirds of total exports of goods to the euro area go to Estonia and Lithuania, the two neighbouring Baltic States participating in the euro area.

Better foreign trade integration and diversification within the EA with its single monetary policy act as preconditions for an effective absorption of external economic shocks originating outside the EA.

Via joining of the single currency area several barriers have been lifted, e.g. currency fluctuation risk has been reduced, currency conversion costs have been eliminated, bank lending interest rates have fallen, etc. As a result, some potential momentum is likely to be given to the foreign trade activity in a longer term. Nevertheless, Latvia's EA export dynamics has not been promising in the recent two years, yet, taking into account the region's overall slow and uneven growth, even a moderate upward movement should be treated as a positive development. It should also be noted that in the two respective years the dynamics of both exports of goods and exports of services to the EA have differed rather notably.

According to the CSB data, a slight increase by 2.2% in 2014 and 2015 annually has been recorded for exports of goods to the EA. Nevertheless, the 2014 rise in exports to the EA was basically determined by a positive 4.4% export growth primarily to the other two Baltic States, as economic weaknesses of the rest of the EA countries found their reflection in Latvia's exports already in 2013 when goods exports to the EA (Baltic States excluding) contracted; exports to the rest of the EA countries continued to decrease also in 2014, i.e. after Latvia had joined the single currency area. In 2015, however, the annual increase recorded for exports of goods to the other EA countries (2.5%) was similar to the one for the two other Baltic States (2.1%). In exports to the EA countries, a pickup was primarily posted by exports of wood, food and agricultural products.

Goods and services exports of Latvia
(in millions of euro)



Source: Latvijas Banka.

According to the data of Latvijas Banka, a decrease in services exports to the EA in 2014 was 2.4% year-on-year, basically on account of falling transport, computer, information and telecommunication services exports, whereas in 2015 services exports to the EA expanded markedly by 10.5%, primarily determined by an increase in exports of travel and financial services.

Given the weak demand from the EA, it was and is still important for the Latvian exporters to strengthen their positions and penetrate new foreign markets also outside the EA. Moreover, better foreign trade integration and diversification within the EA with its single monetary policy act as preconditions for an effective absorption of external economic shocks originating outside the EA. That is why the strengthening of competitive positions of Latvian exporters is more important than passively waiting for the external demand from the EA to build up.