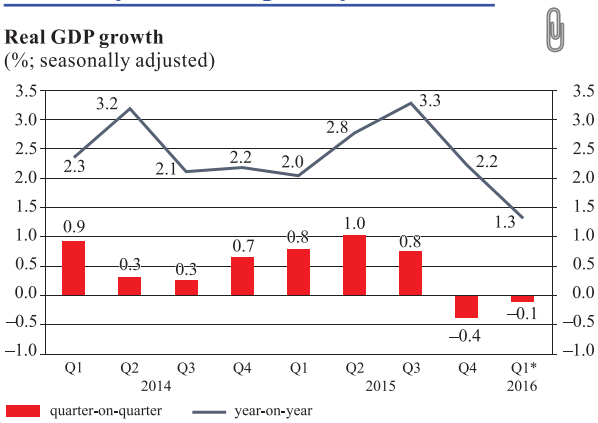
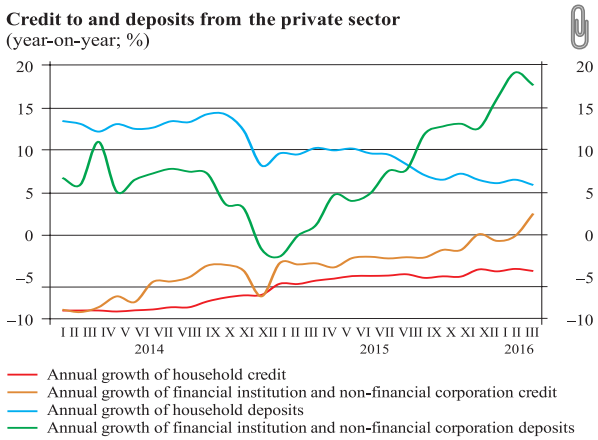
## Economy faces temporary slowdown



Source: CSB.
* – flash estimate.

In accordance with the flash estimate of the Central Statistical Bureau of Latvia (CSB), gross domestic product (GDP) at constant prices increased by 1.3% on a year-on-year basis (according to calendar adjusted data). Meanwhile, on a quarter-on-quarter basis, GDP fell by 0.1% in the first quarter of 2016. These data confirm concerns expressed earlier that GDP growth could be slower this year than in previous years. The major factor holding back GDP growth was considerably smaller output of construction works (–22.0% year-on-year). This cannot be considered a great surprise, since currently, especially in the first half of the year, the growth will see the anticipated slowdown due to the disruption of the European Union funding cycle. In the absence of new substantial shocks, GDP is likely to grow faster in the second half of the year and also in 2017 on the back of strengthening foreign demand and investment recovery.

## Loan portfolio is showing some signs of moderation

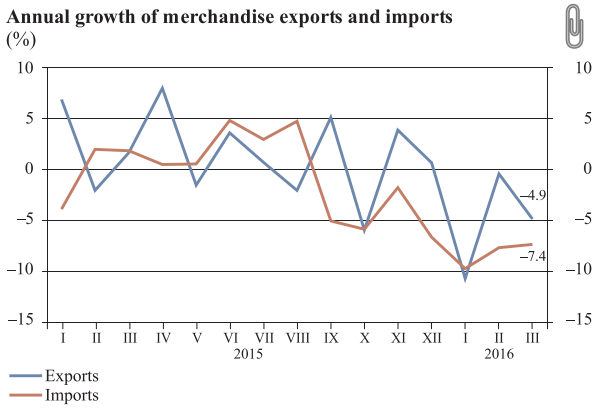


Source: Latvijas Banka.

The domestic deposit growth rate stood at 10.9% in March of 2016. But various trends persisted – deposits of financial institutions and non-financial corporations remained at a high level (17.3% in March of 2016), reflecting relatively high profitability rates of the corporate sector. Meanwhile, household deposits decelerated somewhat, to 5.8% on an annual basis, most likely because of low interest rates on deposits.

In March, loans to domestic companies and households grew by 1.1%, mostly on account of loans granted to non-bank financial institutions. The annual rate of decrease in total domestic loans improved, to stand at –0.6%, albeit posting slight declines in loans to non-financial corporations and households. The results reflect a continuous ongoing deleveraging of the loan portfolio. It is expected that loans to corporations will be positively affected by the boost of EU funding starting with the new planning period. Latest developments in the real estate market also point to a further (but still moderate) improvement of household loan portfolio.

## External trade activity drops due to slowdown in re-exports



Source: CSB.

In the first quarter of 2016, exports of goods contracted by 5.4% in year-on-year terms. A positive contribution was maintained by increased exports of vegetable products (cereals), wood and articles of wood, products of the chemical industry, prepared foodstuffs, building materials and articles of paper. At the same time, negative contributors were exports of machinery and mechanical appliances; electrical equipment. It should be stressed that the same groups of goods were behind the drop in imports (8.2% year-on-year), thus pointing to a decrease in re-export volumes instead of domestically produced goods.

As evidenced by confidence indicators published by the European Commission, the complicated situation in the global market has not prevented Latvian entrepreneurs from positively assessing the volume of orders in the second quarter of 2016, and export prospects are considered good.