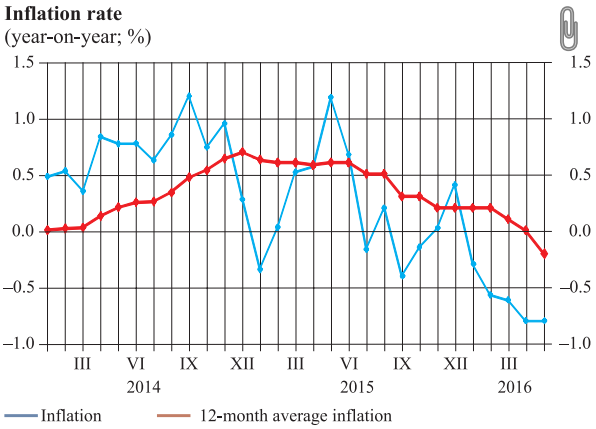
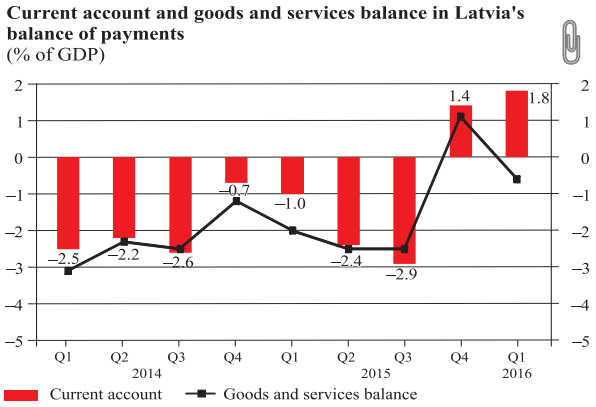
Consumer prices are on the rise though annual inflation remains negative



Source: CSB.

The consumer price level in May was 0.6% higher month-on-month and 0.8% lower year-on-year. The month-on-month price rise was primarily on account of seasonal volatility of prices of several goods, an increase in prices of fixed line services and changes in fuel prices. Even though the lagged effect of the reduced costs of some resources is still topical, inflation will gradually change its course in the coming months. The impact of drivers of higher inflation will increase, but since the first half of the year is likely to end with negative annual changes in consumer prices, a gradual price rise in the second half of the year may not return the average annual inflation of 2016 to positive territory.

Surplus in the current account for the second consecutive quarter

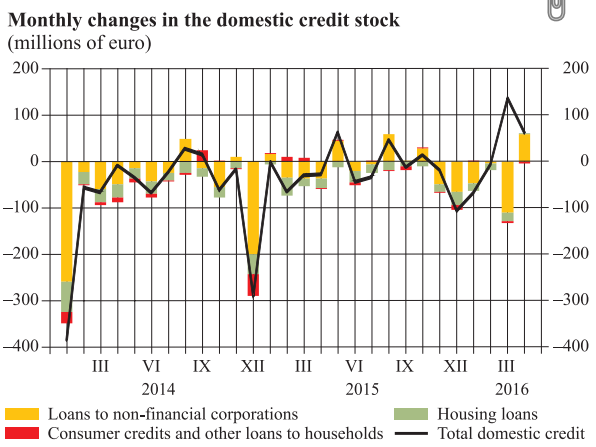


Source: Latvijas Banka.

For the second consecutive quarter, the current account recorded a surplus in the first quarter of 2016. The formation of the 1.8% of GDP surplus was primarily due to inflows of European Union (EU) funds into the primary income account and due to dynamics of the goods account. The latter is still characterised by decreasing imports affected both by dropping commodity prices and declining imports of capital goods.

The surplus in services shrank slightly quarter-on-quarter primarily owing to seasonal factors. However, it improved year-on-year as income generated from foreign guests arriving to Latvia for the purposes of recreation, education or improvement of their health grew. The surplus of the secondary income account decreased as a result of annual contributions to the EU's own resources from the value added tax and gross national income. The current account deficit is expected to be small in Latvia in the medium term which is considered appropriate for a country with a low savings ratio to support investment capacity and growth potential.

Lending is back



Source: Latvijas Banka.

April was characterised by a long-awaited event which finally came to pass, i.e. the annual growth rate of domestic loans returned to positive territory. For the second consecutive month, the volume of the domestic loan portfolio of banks also expanded. Loans granted to non-financial corporations grew as did, albeit slightly, housing loans to households. Loans to domestic enterprises and households granted by banks in April augmented by 0.5%, with loans to non-financial corporations increasing by 1.0%, loans to financial institutions picking up by 0.6% and housing loans to households growing by 0.02%. The annual rate of change in total domestic loans improved and reached +0.1%.

Even though individual months have seen fluctuations in lending dynamics, the trend is becoming more pronounced, i.e. lending is growing. Moving from a very cautious approach to a policy of moderate rise in support lent to competitive entrepreneurship plans by granting loans and with mortgage lending recovering, new loans have been increasingly granted. This trend is expected to persist also in the future. It will be supported both by the necessity to ensure co-financing of EU funds and by the general sentiment of market participants.