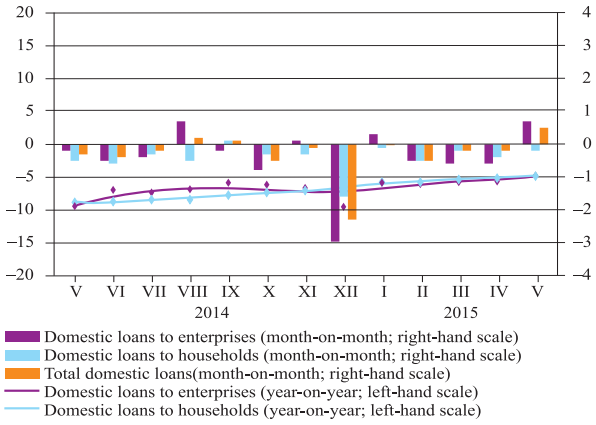
An increase in bank loan portfolio

Year-on-year/Month-on-month changes in loan indicators
(%)



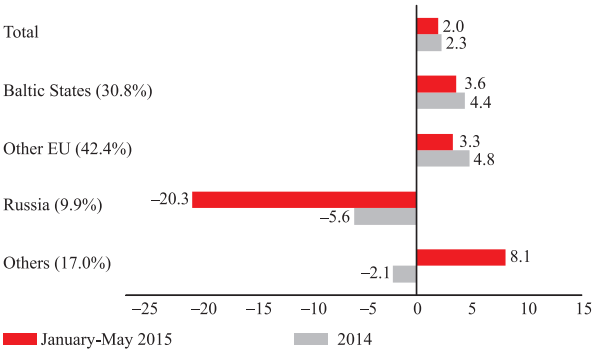
Source: Latvijas Banka.

In May, the domestic loan portfolio of banks grew month-on-month for the first time in the last eight months, expanding by 0.5%, of which loans to non-financial corporations accounted for a 0.7% pick-up. Although consumer credit to households posted a 0.9% increase, the total household loan portfolio shrank by 0.2% in May. The annual rate of decrease in domestic loans improved somewhat and stood at 3.7%. Overall, better availability of resources and low interest rates, partly also due to the Eurosystem's monetary policy measures, are expected to act as drivers behind strengthening of the demand for loans.

Deposit growth continued to be strong in annual terms, despite a slight month-on-month contraction in time deposits, which, however, was almost fully offset by an increase in overnight deposits.

Merchandise exports continue on a successful trend

Annual growth of merchandise exports and share in total exports
(%)

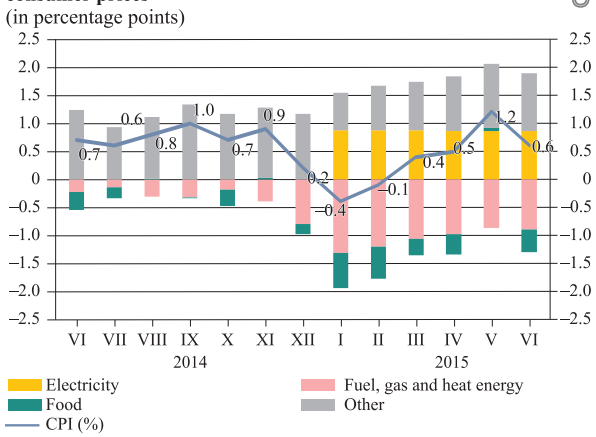


Source: CSB.

In the first five months, exports of goods continued to grow reaching a 2.0% increase year-on-year, despite a 2.8% year-on-year drop in May. The fastest growth rate was observed for machinery and electrical equipment, products of chemical industry, building materials, paper and cardboard products, as well as plastic products. The merchandise export shares in the world import also continued to increase; however, the hardly predictable external environment development remains an issue. Nevertheless, the drop in exports to Russia has been compensated by growth in other markets such as Lithuania, Denmark, the UK and the USA. Furthermore, the situation in Greece has not affected exports of Latvian goods, neither directly due to its small share (a mere 0.2 %) in total Latvian exports, nor indirectly through Latvia's main export partners in the EU. Meanwhile, good news was received: in April 10 Latvian dairy producers obtained a permission to export their products to China. Moreover, certification of 11 Latvian fish processing enterprises was announced in May. Future holds a promise of pleasant surprises from markets in Europe, represented by a fairly good cyclical recovery of the euro area in the first quarter 2015.

Annual inflation declines in June

Contribution of selected components to the annual increase in consumer prices
(in percentage points)



Source: CSB.

In June, annual inflation shrank to 0.6%, down from 1.2% in May. The dynamics was attributable to an expected fall in energy prices and a greater than usual seasonal decrease in vegetable and wearing apparel prices, which was a surprise, suggesting a seasonal price hike trend being reversed. According to first quarter data, a slight decline in the annual growth rate of average wages and salaries also points to no increase in the demand side impact on inflation.

No increase in oil prices was observed in June as compared to the May average, while the value of the US dollar recorded a slight decline. Energy prices also had a dampening effect on inflation as a result of reduced tariffs for industrial consumers, followed by a drop in the heat energy price. Moreover, the low inflation observed in other euro area countries is hardly expected to facilitate strengthening of the import price impact on inflation in Latvia. Therefore, inflation estimate levels for 2015 remain low.