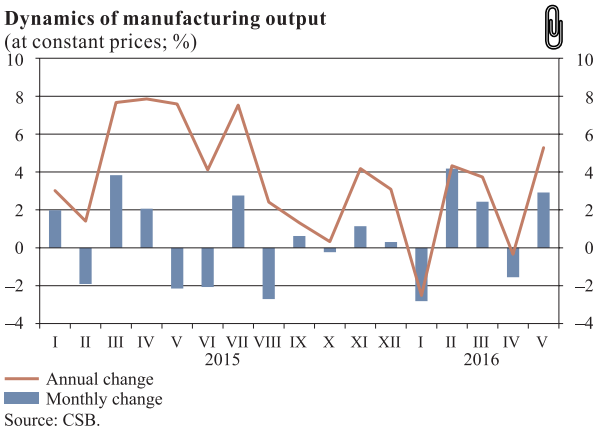
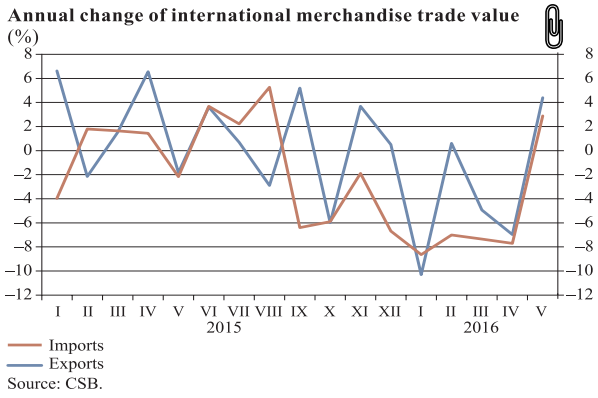
Manufacturing buoyant in May



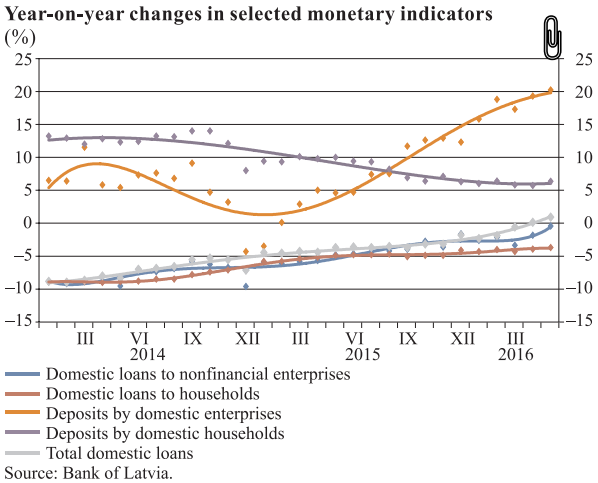
In May 2016 manufacturing output increased by 2.9% and 5.3% month-on-month and year-on-year respectively. The strong performance in May was a sound basis for a good manufacturing result in the second quarter and for the total GDP growth. The year-on-year manufacturing growth in May was supported by a 6.0% rise in the wood industry output. A positive contribution was also made by the manufacture of fabricated metal products and that of computers, electronic equipment and optical products. A negative impact on the sector's output resulted from the manufacture of electrical equipment and food industry, affected by Russia's sanctions, as well as manufacture of wearing apparel. The strong performance has been reflected in the improving confidence indicator of the Latvian manufacturing sector over the past few months – a larger number of orders and higher output plans have been reported for the coming months.

Exports withstand geopolitical circumstances



In May international trade slightly exceeded the value recorded in April. Base metals, motor vehicles and pharmaceutical products posted the highest month-on-month increase in exports in May. In annual terms, merchandise exports increased by 4.4%, which is remarkable, given the uncertain external environment. External demand is still fragile and last month's news about the referendum in the United Kingdom poses questions about the impact of Brexit on Latvia's external trade. Within the next few years, fundamental changes in exports, related to Brexit, are not expected, for merchandise exports to the UK amount to only 5.3% (in 2015); moreover, cooperation between Latvia and the UK in the area of trade has historical roots. Wood and its products, for which the UK is one of the largest exports markets (21.5%), could be most affected by potential fallout from Brexit; however, this type of merchandise to a large extent could be redirected to other countries.

Growth trends in lending stabilize



In May the annual rate of change of the domestic loan portfolio stabilized in the positive territory improving by 0.8 percentage points to +0.9%. The growth for the month was broad-based across institutional sectors; however, the annual rate of change, while on an upward trend, still remained negative for loans to non-financial corporations and households. At the same time, deposits attracted by banks grew reflecting the improving financial situation of households and enterprises.

The Eurosystem continues to actively stimulate the growth of the economy, and a positive impact on the recovery of lending is expected also in Latvia. Three Latvian commercial banks participated in the new longer-term refinancing operation (TLTRO II) auction in June, borrowing funds that could foster the granting of new loans. The loan portfolio growth will be supported by more favourable domestic lending conditions both on the supply and demand sides.