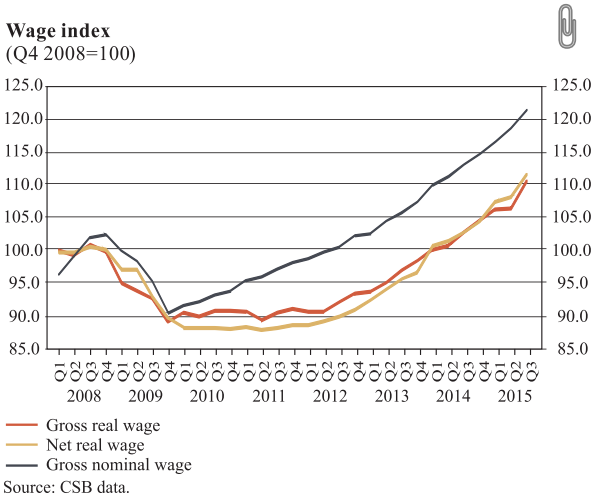
Wage growth continues

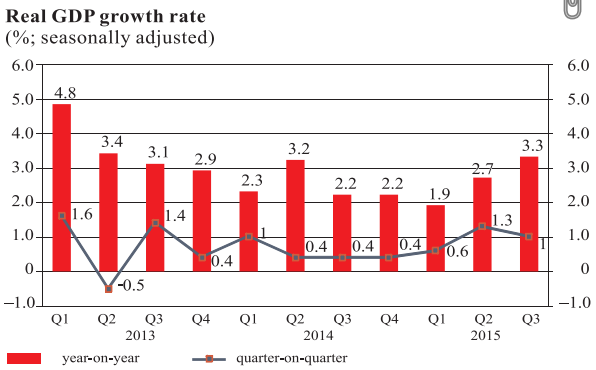


Source: CSB data.

The latest data indicate that the average gross monthly wage for full-time employment in the third quarter of 2015 rose by 7.3% year-on-year. Although consumer prices have dropped during the year and the tax burden on labour income has been reduced, the purchasing power of an average wage (or real net wage) has increased by 8.3%. This bolstered private consumption dynamics amid conditions of weak external demand. The private sector is still playing a leading role in raising wages. It increased the average gross nominal wage by 8.3%, but the public sector – by 5.4%.

Wage growth is expected to abate next year. The deceleration in the rise of net real wage will be faster than that of gross nominal wage, and labour income will not support private consumption to the extent seen so far. This will highlight the significance of external demand and competitiveness in economic development.

Private consumption behind GDP growth



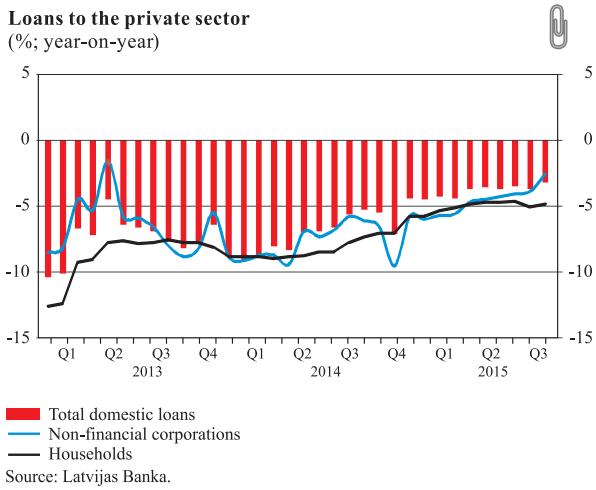
Source: CSB.

According to the data of the Central Statistical Bureau (CSB), gross domestic product (GDP) of Latvia in the third quarter of 2015 increased by 1.0% quarter-on-quarter and 3.3% year-on-year. GDP grew faster than projected in the flash estimate published at the end of October.

Similar to the previous quarter, in the third quarter it was again private consumption that contributed substantially to economic growth, increasing by 5.2% year-on-year. The strengthening in private consumption was primarily bolstered by the rise in disposable income, which reflects a pick-up in real net wages. The available information on retail volumes, which continued to edge up in the third quarter, had already shown that private consumption would grow. Although the total consumer confidence indicator decreased in the third quarter, the population's vision of its financial situation remained positive. This shows that a pronounced fall in private consumption is not expected, at least in the near future.

As in 2015, private consumption will primarily remain the major driver of growth in the next quarters. Yet we have to reckon with the fact that such strong wage rises may not be possible in the long term. With this increase moderating, the question of how to promote export expansion and maintain investment growth will once again come to the forefront.

Situation in lending is improving



Source: Latvijas Banka.

Although no radical changes in money indicators were observed in October, almost all lending-related indicators improved slightly, i.e. the loan portfolio either increased in absolute terms or at least the annual rate of decrease in loans decelerated.

In October the domestic loan portfolio of banks increased by 0.1%, including loans to non-financial corporations which rose by 0.4%, while loans to households dropped by 0.2%. The annual rate of decrease in domestic loans in October was –3.2%, including –2.7% regarding loans to non-financial corporations and –4.9% in relation to loans to households.

The long-expected positive developments in lending are gradually taking shape. Recovery in lending to businesses has begun. New loans are increasing, and the total loan portfolio has slightly expanded in the first ten months of 2015. In the household sector, consumer lending has edged up this year, while the contraction rate in housing loans has slowed. Banks are of the opinion that the environment for housing loans is currently favourable in Latvia and mortgage loans will grow next year. Lending to households will also be fostered by the projected low interest rates and a rise in the population's income.