



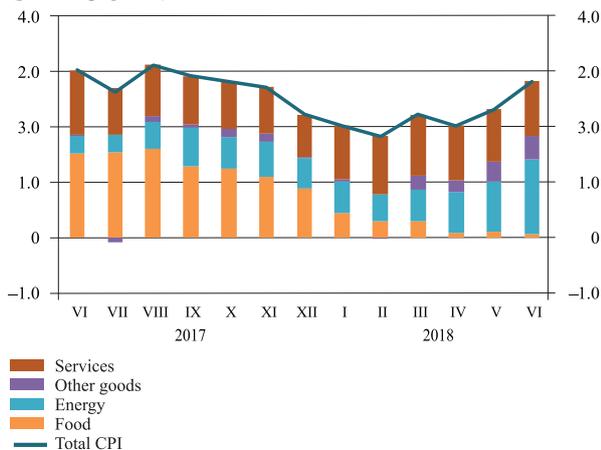
**LATVIJAS BANKA**  
**MONTHLY NEWSLETTER**

---

**JULY 2018**

## Energy pushes consumer prices upward

Annual inflation by consumption group  
(percentage points)

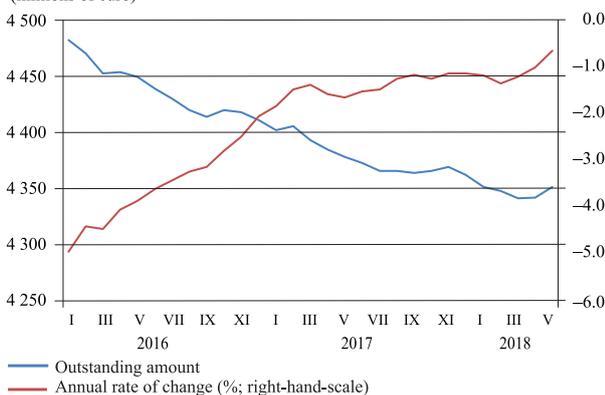


Source: Latvijas Banka.

In June, the increase in consumer prices was mainly driven by the rise in energy prices and related costs; consumer prices were 2.8% up in annual terms and 0.6% in monthly terms. Food prices were barely higher in June year-on-year and month-on-month, while global prices posted the first decrease this year. Although oil prices remained virtually unchanged in June, the fuel price increased by 4.5% in Latvia during the month. In comparison with June 2017, fuel prices were up by 17.5% partly due to exchange rate depreciation. In June, some increase was recorded in housing costs. This was driven by the rise in energy costs, water supply tariffs in Riga and rent owing to high rental demand. The developments in consumer prices are in line with the Macroeconomic Developments Report published in June, projecting 2018 inflation at 2.9%.

## Household lending increased in May

Household loans for house purchase  
(millions of euro)

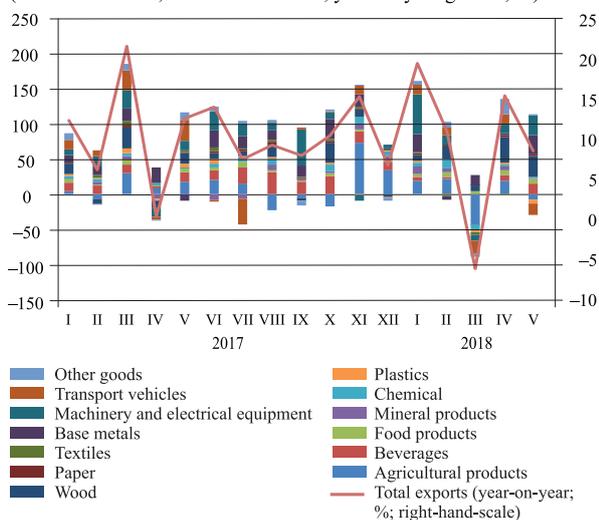


Source: Latvijas Banka.

New loans to households have been increasing for more than three years, and this growth resulted in an expansion of the household loan portfolio in May. Loans for house purchase and consumer credit increased by 0.3% and 1.8% respectively during the month. The annual rate of decrease in the loan portfolio of households improved to reach -0.7%. On account of the growing household lending, the total domestic loan portfolio also expanded slightly in May, despite a decline in the loans granted to non-financial corporations. The recovery of lending to households was facilitated by the state support programme for house purchase for families with children and young professionals. The prospects of continued economic growth allow anticipating further expansion of loans for house purchase and consumer credit.

## Growth in goods exports continued in May

Merchandise exports by commodity groups  
(in nominal terms; in millions of euro, year-on-year growth; %)



Source: CSB.

Benefiting from the continued sustained foreign demand in May, the value of goods exported by Latvian companies continued to increase and was by 8.5% higher than a year ago. In the first five months of 2018, the value of exports of goods recorded a year-on-year increase of 9.3%. Almost all commodity groups posted growth in the first five months; the main drivers were the traditional ones: articles of wood, articles of base metals, electrical equipment and mechanical appliances. Some caution regarding the robustness of the growth trend comes from the fact that re-exports and one-off transactions strongly contributed to the rise in exports in the first quarter and April. While the global economy remains on a solid growth path, risks to global trade, among others associated with trade tariffs, have increased over recent months.

	Reporting period	Data (%)
<b>Gross domestic product (GDP)</b>		
Real GDP (year-on-year growth, seasonally and calendar adjusted)	2018 Q1	4.9
Real GDP (quarter-on-quarter growth, seasonally adjusted)	2018 Q1	1.5
<b>Public finances</b>		
General government budget expenditure (since the beginning of the year; year-on-year growth)	2018 VI	7.4
Tax revenue (since the beginning of the year; year-on-year growth)	2018 VI	9.7
<b>Consumer price changes</b>		
Consumer Price Index (CPI; year-on-year growth)	2018 VI	2.8
Harmonised Index of Consumer Prices (HICP; year-on-year growth)	2018 VI	2.7
12-month average inflation (HICP)	2018 VI	2.5
13.07.2018 <a href="#">Energy prices still on the rise</a> 		
<b>Foreign trade</b>		
Exports (year-on-year growth)	2018 V	8.5
Imports (year-on-year growth)	2018 V	10.4
<b>Balance of payments</b>		
Current account balance (ratio to GDP)	2018 Q1	3.4
Foreign direct investment in Latvia (net flows; ratio to GDP)	2018 Q1	2.5
<b>Sectoral performance</b>		
Working day-adjusted manufacturing output index (year-on-year growth)	2018 V	2.9
Retail trade turnover at constant prices (year-on-year growth)	2018 V	7.0
<b>Labour market</b>		
Average monthly wage (year-on-year growth)	2018 Q1	8.6
Jobseekers rate (share in working age population)	2018 Q1	8.2
<b>Monetary indicators</b>		
Resident deposits (year-on-year growth)	2018 V	4.1
Loans to residents (year-on-year growth)	2018 V	-3.1
28.06.2018 <a href="#">Lending to households shows encouraging trends</a> 		

Sources: Treasury, CSB and Latvijas Banka.

## Competitiveness of Latvia's Exports of Goods in the Region

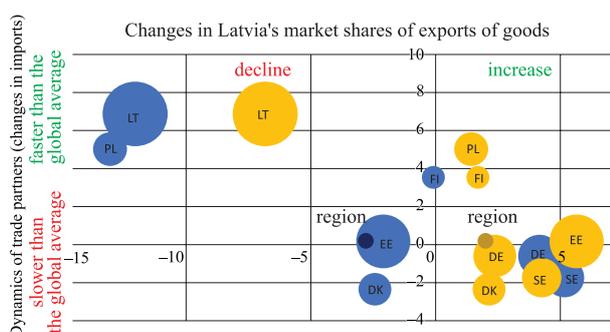


**Santa Bērziņa,**  
Head of the Macroeconomic Analysis Division, Latvijas Banka

The favourable domestic and external environment has been beneficial for Latvia's economic growth, inter alia allowing for a double-digit rate of increase in income from exports of goods last year. The competitiveness position has also been maintained: the market share of Latvia's merchandise exports expanded globally. However, the optimistic note has been overshadowed by the heightened protectionism emerging in the world this year.

Our neighbours – the European Union (EU) countries of the Baltic Sea region – have developed into Latvia's major merchandise export markets (53% of exports of goods were delivered to the above countries in 2017), with the geographical proximity being a supportive factor in trade. Even if businesses have managed to penetrate markets or grasp the specific interests and adjust their offer, or find a niche also in the markets not traditional for Latvia (the share of exports of goods to Asian, African and American countries has expanded), the role of markets of our neighbouring countries and our competitiveness there is essential for Latvia's growth.

**Changes in Latvia's market shares of exports of goods and relative import changes of Latvia's trade partners vis-à-vis the world**  
(in 2017; % of previous year)



The size of the figure is proportionate to the country's share in Latvia's exports of goods; exports of goods – blue; domestically produced exports of goods – orange.

Sources: Eurostat, author's estimates.

Estonia, Poland and Denmark – are featured to the left in the Chart, pointing to a deterioration in competitiveness. Nevertheless, the market shares of domestically produced exports with excluded re-export activities (orange shade in the Chart) shift to the right in the Chart, pointing to a more favourable competitiveness position in the region. Total exports of goods have been affected by the re-export flows, particularly the decrease in re-exports of machinery and electrical equipment, as well as a decline in re-exports of mineral products to Poland. By excluding the re-export flows from the exports of goods data, the competitiveness of domestically produced goods in Latvia is sustainable in the EU countries of the Baltic Sea region: export market share in the region is expanding.

During the global cyclical upswing, good growth performance, including export growth, is easier to achieve. However, with the downside risks to the global growth mounting due to escalation of trade tensions, strength and capacity should be built up. This refers to competitiveness which is the foundation for sustainable growth towards higher well-being.

No doubt, activity in any sector contributes to the economy; however, for assessing the competitiveness of exports, we are particularly interested in the competitiveness of the domestically produced merchandise exports. According to our estimation, re-export activities to the neighbouring countries are relatively more pronounced than on average in Latvia (35% of merchandise exports), e.g. in 2017 re-exports to Lithuania and Estonia stood at approximately 60%, while to Poland it was around 40%.

The market shares of Latvia's exports comprising both domestically produced exports and re-exports (see blue shade in the Chart) in the region overall and in several our major trade partners – Lithuania,

**By excluding the re-export flows from the exports of goods data, the competitiveness of domestically produced goods in Latvia is sustainable in the EU countries of the Baltic Sea region: export market share in the region is expanding.**