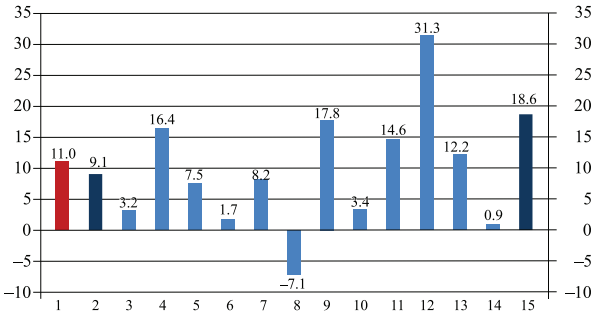
Macroeconomic recovery expected in 2017

Annual percentage changes in volume of manufacturing output
(November 2016; %)



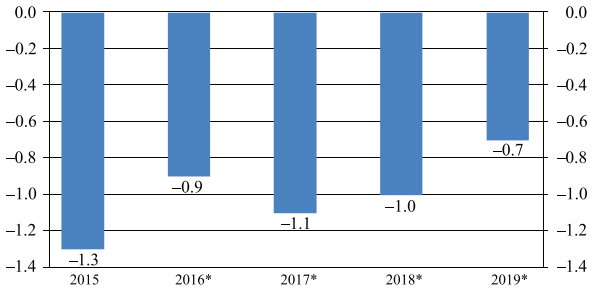
Source: CSB.

Latvia's economic growth projections for 2016 remain prudent at around 1%, yet a higher rate of 3.0% is expected in 2017. In November 2016, the volume of output in manufacturing increased by 11.0% year-on-year continuing the positive trend from the previous months. Across the sub-sectors, respectable results were reported by the wood industry and the production of construction materials with their respective year-on-year growth rates at 8.0% and 18.0%, the latter pointing to a potential recovery in the construction sector. Exceptional growth at 19.0% was also observed in the energy sector. The strong performance of the manufacturing sector was reflected by the growth of nominal exports following a positive annual trend. The positive data on the fourth quarter of 2016 (two-month data) could point to an imminent recovery of the overall economy.

In 2017, risks will be mostly related to acceleration of the absorption of the EU funds. It has a significant positive effect on the GDP, yet the timing of the EU investment inflows benefitting the economy remains uncertain. On the other hand, as an indirect effect, higher public sector expenditure may result in an increase of domestic demand.

Budget deficit target met; financing of priorities in 2017

General government budget balance
(% of GDP, ESA 2010)



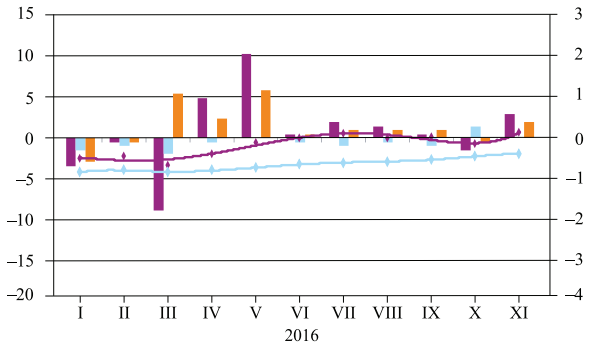
* Expected.
Source: Ministry of Finance.

The annual growth rate of revenue from taxes is expected to exceed 5% in 20016, reaching the budget target and considerably outpacing the economic growth. The main drivers of revenue windfalls have been "profit-related-taxes" and excise duty. In addition, there were expenditure shortfalls influenced by the delayed implementation of EU projects and lower expenditure on goods and services due to a lag in the election cycle. Hence, the budget deficit target at 0.9% of GDP is likely to be met.

The Latvian government is committed to keep the budget deficit low in 2017, at 1.1% of GDP. The general government spending will grow by 8.3%, and the entire increase will be allocated to priority sectors such as the financing for educational and health reforms, while the spending on national defence will reach 2% of GDP already in 2018.

Stable growth in both loans and deposits

Loan developments
(year-on-year/month-on-month; %)



Domestic loans to non-financial enterprises (month-on-month; right-hand scale)
Domestic loans to households (month-on-month; right-hand scale)
Total domestic loans(month-on-month; right-hand scale)
Domestic loans to non-financial enterprises (year-on-year; left-hand scale)
Domestic loans to households (year-on-year; left-hand scale)

Source: Latvijas Banka.

In November, a moderate increase in banks' balance sheets was observed both in terms of loans granted and deposits received. The annual growth of total domestic loans reached 2.3% in November, representing the highest year-on-year increase since April 2009. Overall 2016 was marked by a substantial change: the prolonged period of post-crisis stagnation in lending ended. With the annual rise in new loans exceeding 30.0%, the corporate loan portfolio resumed growth. The same development can probably be expected in the household sector in 2017.

Bank deposits by households and non-financial enterprises increased, with the overall year-on-year growth rate at 8.1%, whereas those by financial institutions, particularly by pension funds, decreased.