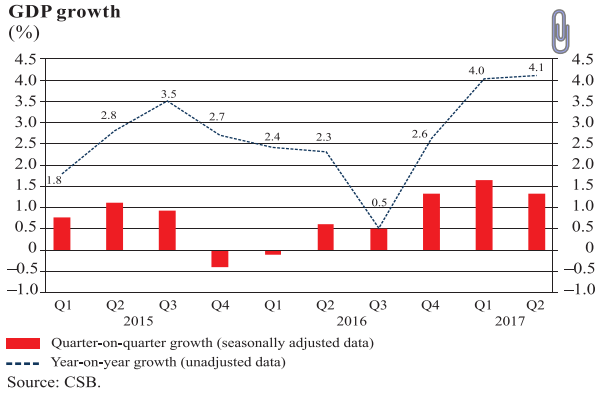
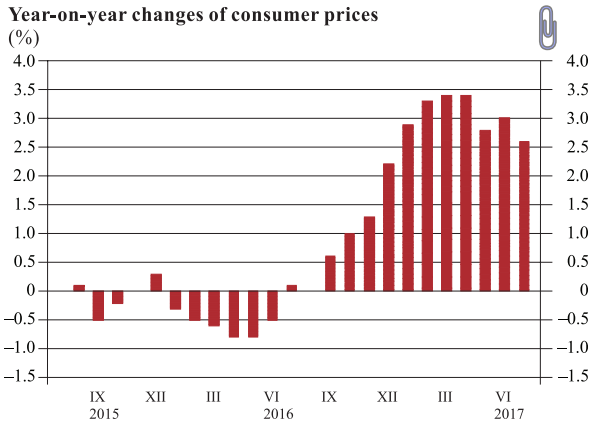
Strongest growth since 2012



Source: CSB.

The flash estimate published by the Central Statistical Bureau of Latvia, reveals that the economy has achieved the highest growth rate since the beginning of 2012. In the second quarter of 2017, unadjusted year-on-year growth of GDP was quite impressive at 4.1%. After the last year's significant drop, the growth of construction sector and investment seem to have accelerated in first half of this year. This is happening against the backdrop of a gradual recovery in the lending market and improved absorption of the EU structural funds. Supported by favourable economic conditions in major trading partners, manufacturing continues to be a positive contributor to growth. Retail sector has also picked up the pace in the second quarter after relatively moderate growth rates reported in the second half of 2016 and first quarter of 2017. If these trends continue to persist, GDP growth could turn out to be higher than previously expected.

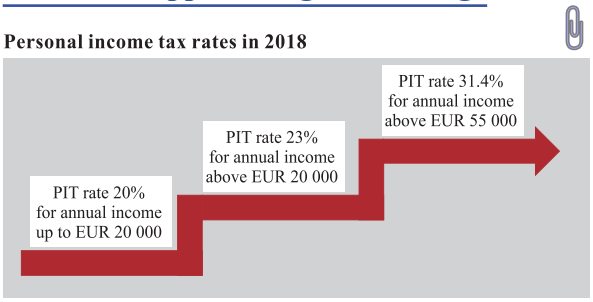
Annual growth of consumer prices slightly lower in July



Source: CSB.

According to the Central Statistical Bureau data, the annual growth in consumer prices decelerated to 2.6% in July, to a level lower than that observed in June or in May. This drop can be mostly explained by the base effect: last July, housing management services became subject to VAT and hence contributed to higher consumer price growth for 12 consecutive months up to July this year. From a broader perspective, however, the inflation dynamics shows the same trends as before: world prices of several food commodities continue to rise, economic growth and labour market conditions remain favourable and the oil price is hovering around 50 US dollars per barrel.

Tax reform approaching its final stage



Parliamentary approval marks the beginning of the last stage of the "tax reform". Major changes are foreseen regarding most of the taxes, including: (a) introduction of progressive personal income tax (PIT) rates (20% for annual income up to EUR 20 000; 23% for annual income up to EUR 55 000 and 31.4% for annual income exceeding EUR 55 000); (b) 1% increase in the social security contributions; (c) implementation of a reverse charge mechanism for value added tax on several product groups; (d) higher excise tax rates; and (e) higher minimum wage etc.

Most significant alterations will concern the corporate income tax (CIT). Currently, corporate profits are taxed annually based on the profit shown in profit and loss statement. Following the reform, reinvested profits will not be subject to CIT and only the profits distributed to stakeholders, e.g. as dividends or non-business expenses, will be taxed at a 20% rate.