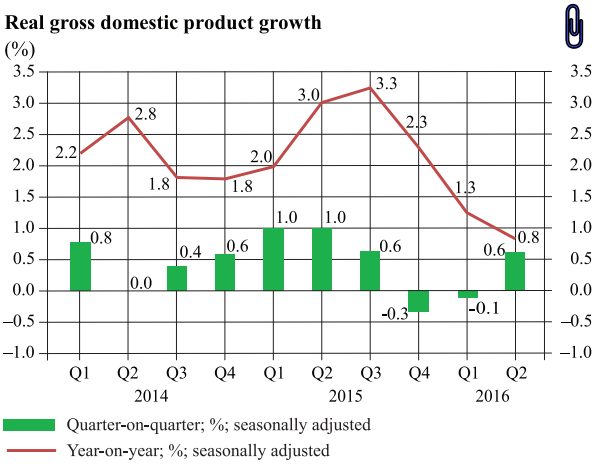
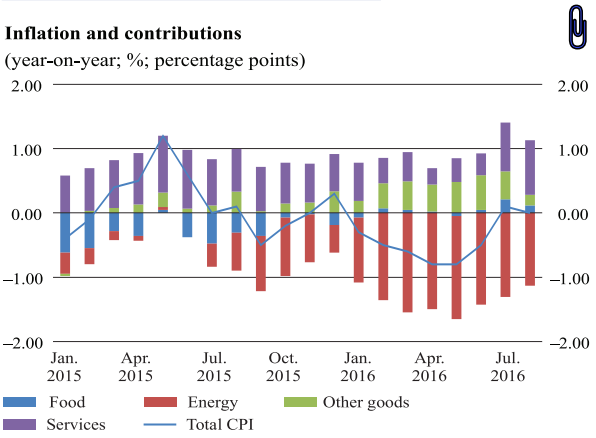
Economy faces temporary slowdown



Source: CSB.

The Central Statistical Bureau reports that real gross domestic product (GDP) increased by 0.8% year-on-year and by 0.6% quarter-on-quarter (according to seasonally and calendar adjusted data). The major impediment to economic growth for the second consecutive quarter was the weak investment activity. This can be linked to the disruption in the EU funding cycle, which has resulted in a continued fall in the value added of the construction sector by 16.9% year-on-year in the second quarter. On a more positive note, manufacturing has shown robust performance in the second quarter, recording a 6.8% pickup in value added year-on-year. Even though in nominal terms both exports and imports decreased, it mostly happened on account of a drop in prices, as in real terms exports and imports increased in the second quarter. Despite the recent moderation in wage growth, private consumption remains a key positive contributor to GDP growth. In the second half of the year and in 2017, GDP growth is likely to accelerate on the back of recovery of investment and some strengthening of foreign demand.

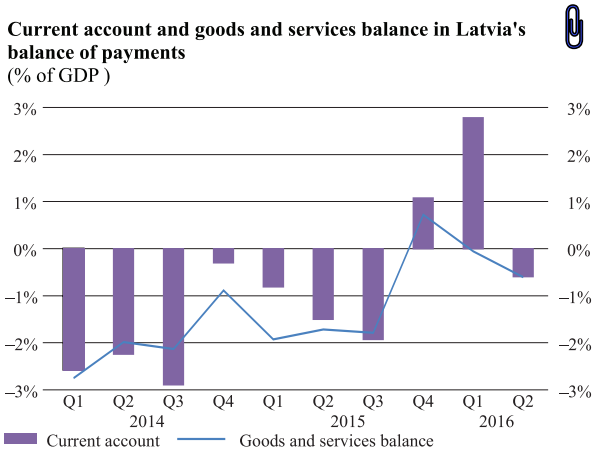
Inflation hovering around 0



Source: CSB.

The consumer price level in August was unchanged as compared to the same period of the last year. After edging just above zero in July, inflation was at 0.0% in August. The most important negative factor was still low energy prices, but their negative contribution has been diminishing and is expected to continue doing so. The positive impact on inflation stemming from services prices has increased substantially in the last couple of months due to the recent changes in administered prices and indirect taxes on some services. The low inflation still reflects the supply-side factors, and the aforementioned slower economic growth, coupled with more moderate wage increases, does not create conditions for demand-side pressure on prices. Therefore, it is expected that in the coming months inflation, albeit positive, will remain low.

Current account back to normal



Source: Latvijas Banka.

In the second quarter of 2016, after two consecutive quarters of posting surplus, current account returned to deficit of 0.6% of GDP. The primary income account turned negative, at –1.1%, due to the dividends paid out to foreign investors. The EU fund inflows in the primary account were at the same level as in the respective period of the last year. The positive balance in the services account diminished somewhat, to 7.0% of GDP, due to the fall in rail and sea transport services exports as well as an increase in transport services imports. The goods account registered a deficit of 7.6% of GDP, with imports falling more than exports. Also in July, the weak foreign demand and the fall in export prices continued to weigh on exports, which decreased by 7.4% year-on-year. Imports were also negatively affected by falling prices, in July recording a drop of 11.9% year-on-year.