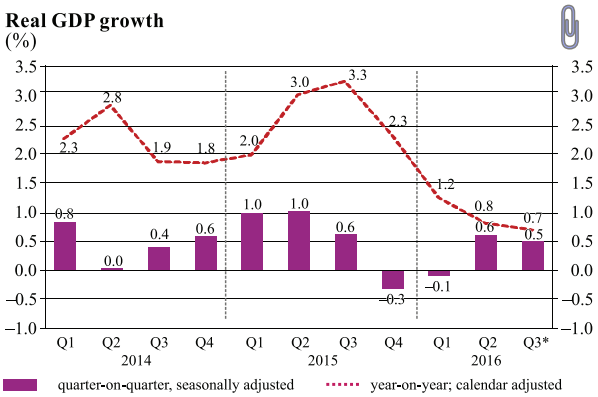
## Slowdown in GDP growth reflects temporary delay in EU funds' implementation

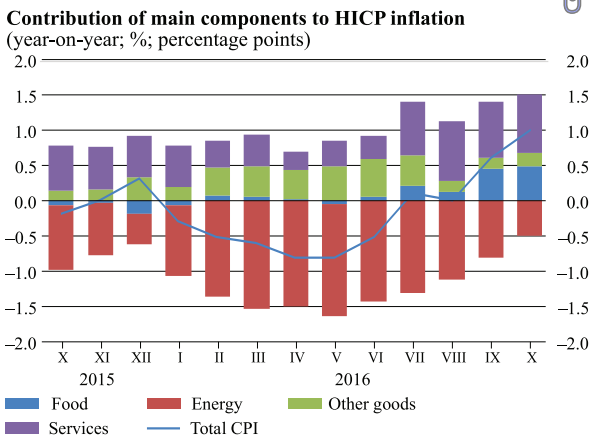


Source: CSB. * – flash estimate.

According to the flash estimate, GDP grew by 0.7% year-on-year in the third quarter of 2016 (calendar adjusted data). In the same quarter, manufacturing recorded a 3.8% year-on-year growth in value added. The major impediment to economic growth in the third quarter was a decrease in construction output by 22 % (calendar adjusted data at constant prices), which resulted from a delay in the implementation of EU related investment projects. Recently there has been a marked progress, which is expected to translate into recovering investments in the coming quarters.

However, in 2017, the growth is expected to accelerate. The resumption of the flow of EU funding will positively contribute to construction. Public consumption, along with the still robust private consumption, is a factor that will foster GDP growth, as the fiscal budget for 2017 foresees an increase in public sector wages and consequently higher consumption of goods and services.

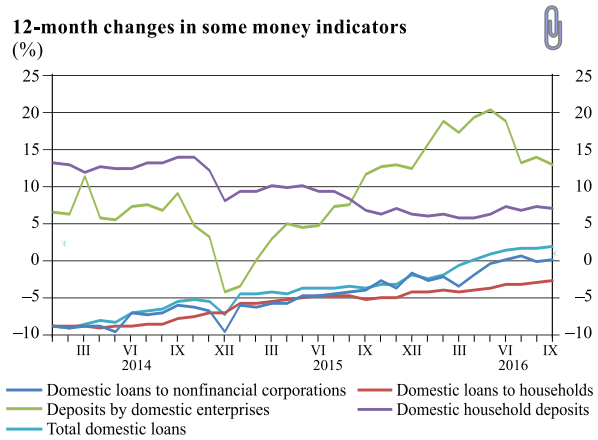
## Inflation is on the rise as expected



Source: CSB.

The consumer price level in October grew by 0.8% month-on-month and by 1.0% year-on-year. As indicated by global resource price trends and purchasing price developments of selected agricultural products domestically, inflation increased on account of the impact from oil prices on fuel prices, with the latter picking up 4.2% month-on-month, and the rise in several food product prices. Although the impact on monthly and annual consumer price changes is still largely determined by different supply-side factors affecting consumer prices directly, core inflation is also accelerating, pointing to stronger effects of costs rather than sustainability of the demand. Seasonally volatile prices of such groups of goods and services as wearing apparel, footwear, accommodation services, passenger transportation services by air, and even fresh vegetables recorded a higher month-on-month increase in October. In the coming months, however, inflation is most likely to continue to rise, as the decreasing effects of commodity prices are fading out.

## Encouraging situation in credit market



Source: Latvijas Banka.

In September, the total domestic loan portfolio, including newly granted loans, and lending to non-financial corporations both grew. With finances in bank accounts of enterprises on the rise, the balance of deposits attracted by banks also grew. The annual rate of change of domestic loans in September increased by 2.0%. Domestic deposits attracted by banks in September grew by 9.7% year-on-year, but enterprise deposits went up by 13.0% year-on-year.

The resumption of lending growth and moderately maintained rise in deposits will foster further stability of the economy and investments necessary for continued economic growth. The survey of bank lending conducted in September also points to an encouraging situation in the loan market. The overall mood of market participants remains positive, and the impact of the supporting monetary policy of the Eurosystem on low interest rates will continue, therefore there are grounds to expect a further recovery of the lending indicators.