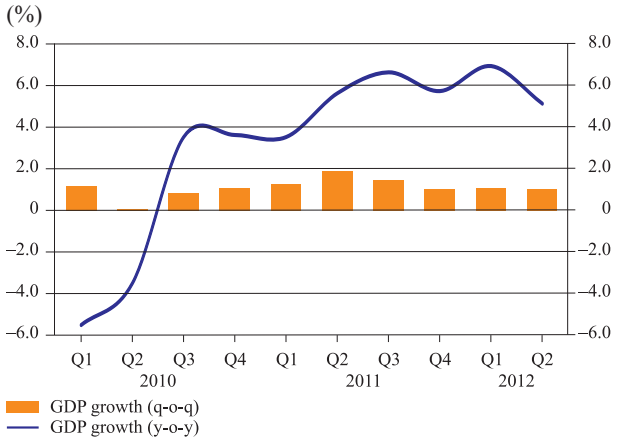
1. Highlights

GDP growth declines in Q2 but still robust

GDP growth in Latvia



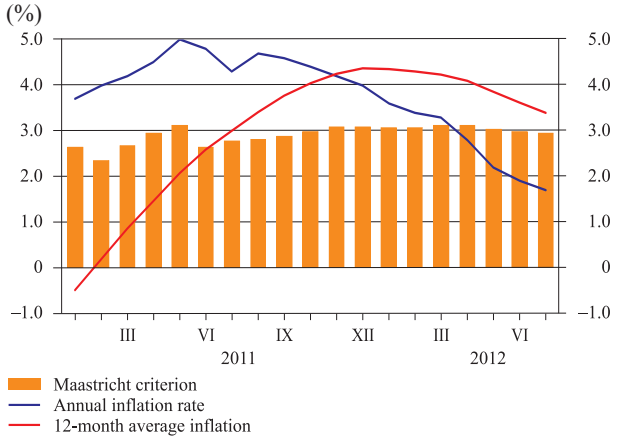
According to the flash estimate, in the second quarter the seasonally adjusted GDP grew 1.0% quarter-on-quarter or 5.1% year-on-year.

This is a notable achievement, particularly in comparison with other countries whose growth has slowed substantially under the impact of the European debt crisis. The development, however, also points to gradual deceleration of the Latvian economy, particularly if compared to the rapid growth in the middle of last year when the quarterly GDP growth rates were one-and-a-half to two times higher.

The observed slowdown in growth is likely to persist in the near future. While convincing solutions to the European economic problems are yet to be found, real drops in the output of particular sectors cannot be ruled out as well as a further drop in the GDP growth rate.

Average annual inflation approaching the Maastricht criterion

Inflation in Latvia and the Maastricht criterion

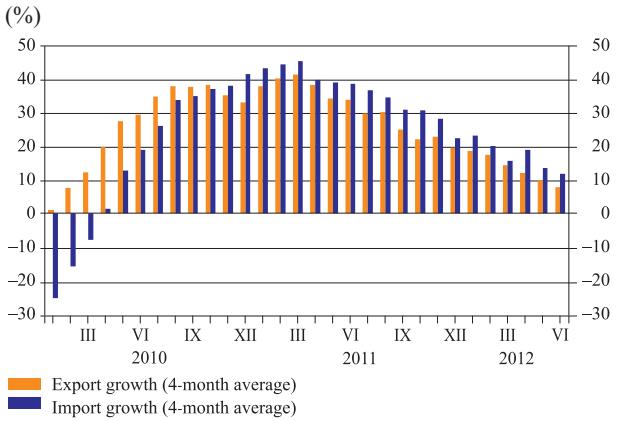


In July, the annual inflation continued to drop in Latvia, reaching a mere 1.7%. Within a month, consumer prices decreased by 0.5% and the 12-month average inflation (national data) at 3.4% approached the level of the Maastricht criterion.

Seasonal sales of clothing and footwear as well as the reduction of the VAT rate by 1 percentage point were the main downward pressures on the monthly inflation, whereas the energy prices had an opposite impact. Thus, although the annual inflation will remain low, a steep downward trend will no longer be observed.

Foreign trade: growth still robust but slowdown visible

Annual growth in goods trade



Source: Eurostat

The annual growth rate of the export value of goods remained robust in June 2012 (9.6%). Substantial annual growth in exports was observed in such commodity groups as prepared foodstuffs, base metals as well as machinery and mechanical appliances.

The preliminary monthly data on the second quarter suggest that, compared to the first quarter of the year, exports have grown in the principal as well as the small commodity groups and thus the structure of Latvian export goods has become more diversified.

The annual growth of the import value of goods reached 15.0%. This reflects the structure of Latvian GDP growth where exports still have a substantial role, while the significance of investment is also increasing.