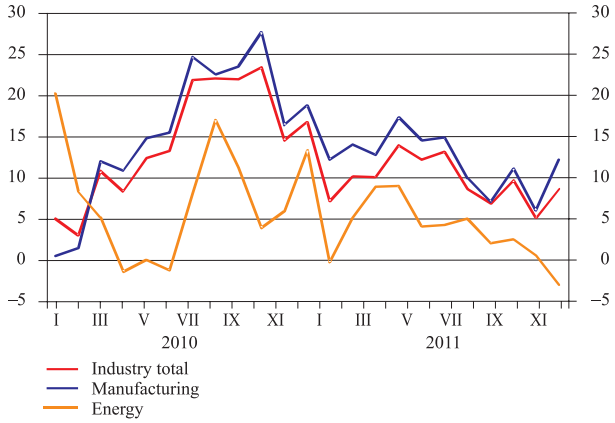
1. Highlights

Manufacturing continues to surprise

Annual changes of industrial output
(%)



Manufacturing followed a prominent upward trend throughout 2011 determined by both the hitherto persistent external demand and the regained competitiveness of the sector.

Despite global developments, surprisingly high growth rates were continuously reported for manufacturing output: 3.2% month-on-month and 12.1% year-on-year in November 2011.

The performance of manufacturing has been quite impressive in the recent months, yet the future prospects of the industry will depend mainly on the depth of the recession prevailing in Europe. Thus it can be expected that the development will be fairly uneven in the coming months, and the possibility of a slightly downward trend cannot be fully ruled out.

Unemployment to continue on a downward trend, albeit at a slower pace

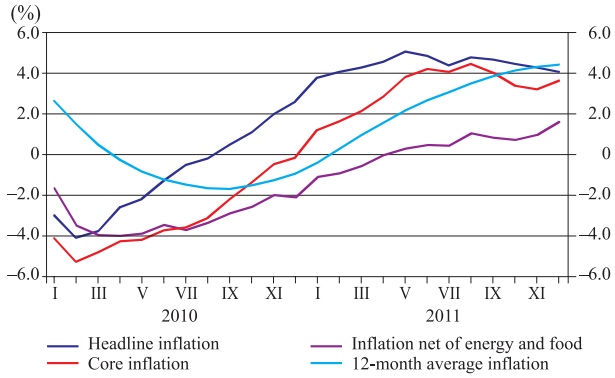
Beveridge curve: number of unemployed registered with the SEA and job vacancies
(in thousands)

Registered unemployment stabilised since mid-October and stood at 11.5% of the economically active population at the end of 2011.

It is expected that during the remaining winter months it could rise again slightly by 0.1–0.2 percentage point per month. Yet with the appearance of seasonal vacancies in spring (particularly in construction, agriculture and catering), the downward trend in unemployment would resume. With the economy decelerating, the overall drop in registered unemployment in 2012 will be about half of what it was in 2011 when it amounted to 2.8 percentage points. In the second half of the year, registered unemployment may approach 10%.

Inflation declines, still affected by taxes and global developments

CPI based inflation rates
(%)



The average consumer prices remained unchanged in December 2011, whereas the annual inflation dropped to 4.0%. The main contributor was the diminished impact of the prices on fuel and unprocessed food. The average rise in consumer prices by 4.4% observed in 2011 was mostly related to the impact of indirect taxes as well as the global energy and food prices.

Deceleration of the global and Latvian economic growth as compared to the rates in 2011 eases the pressure on prices both in Latvia and Latvia's main trading partners. At the same time, higher natural gas prices and heating tariffs will be an inflation-supporting factor. Overall, we expect that the average annual inflation this year will drop to 2.4%.