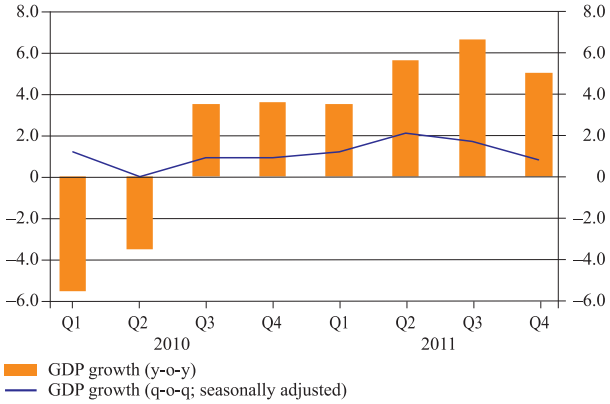
1. Highlights

GDP growth robust amid global concerns

GDP growth in Latvia
(%)



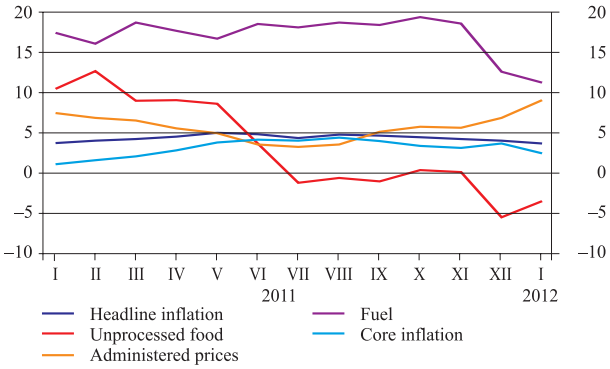
According to the flash estimate, real GDP in Latvia grew 5.0% year-on-year, and 0.8% quarter-on-quarter. Thus in 2011 overall, Latvian GDP grew by approximately 5.3%, making Latvia one of the most rapidly growing economies in the European Union.

Nevertheless, the last quarter of the year produced a slowdown of GDP growth. Successful performance in manufacturing and transportation was offset by disappointing growth in retail trade. This shows that weaker growth in Europe is affecting our economy.

It is possible that the full impact of the European problems on our economy will be somewhat delayed because historical evidence suggests that the Latvian economy lags slightly behind the European cycle of economic activity. On the other hand, economic confidence remains robust: according to EC data, the Latvian economic sentiment indicator (ESI) lags behind only that of Germany.

Annual inflation continues to shrink despite soaring energy prices

Annual inflation by components
(%)



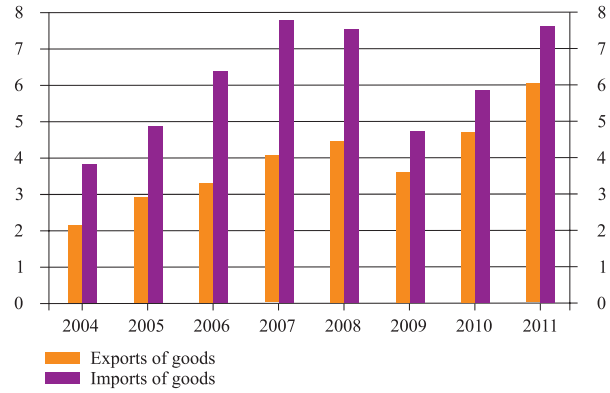
In January 2012, the annual inflation dropped to 3.6%, yet consumer prices rose 0.8% month-on-month.

As was already expected, the global price hikes resulted in a month-on-month rise in energy prices: gas (8.6%), thermal energy (9.4%) and fuel (4.0%). Global food prices have become less volatile year-on-year and, compared to 2011, the proportion of food in the consumer basket has shrunk, thereby easing the upward pressure of food prices on inflation. Overall the prices of food and non-alcoholic beverages rose 1.1% month-on-month.

Despite the high degree of uncertainty surrounding the future development of oil prices, considering the deceleration observed in the global economy it is quite likely that this year demand will have a much smaller effect on the prices of oil products and other energy resources than in 2011. Therefore, it is likely that the domestic prices will remain on a downward trend throughout the year.

Foreign trade results good for 2011, a tougher year ahead

Latvia's foreign trade turnover
(in billions of LVL)



Latvia's foreign trade activity grew substantially in 2011, with exports and imports of goods rising by 28.1% and 28.3% year-on-year respectively. In December, however, a month-on-month decline for both was reported (8.2 % and 1.8% respectively). The slackening of the trade activity in goods in the last months of 2011 was determined by the weakening external demand.

In 2011, nominal exports of goods exceeded the pre-crisis level substantially reaching new peaks for several consecutive months. Similar to 2010, Latvia was among the European leaders in terms of export growth in 2011. One of the main reasons behind it was improved competitiveness.

In 2012, Latvia's economic growth will remain largely dependent on export opportunities; therefore, the primary risk on the downside is related to the global economic development. Especially the quality of export goods will play an increasingly more important role in Latvian exports.