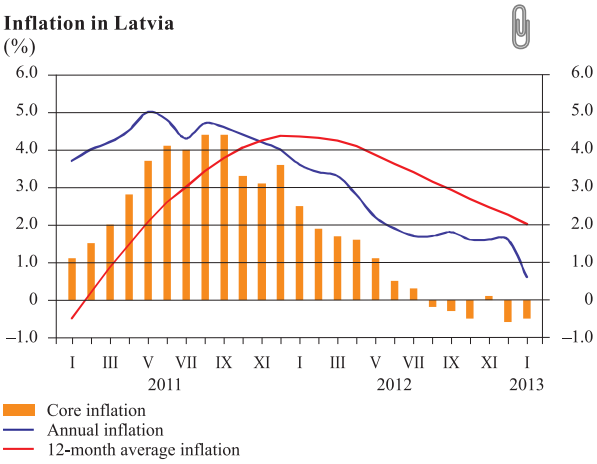
1. Highlights

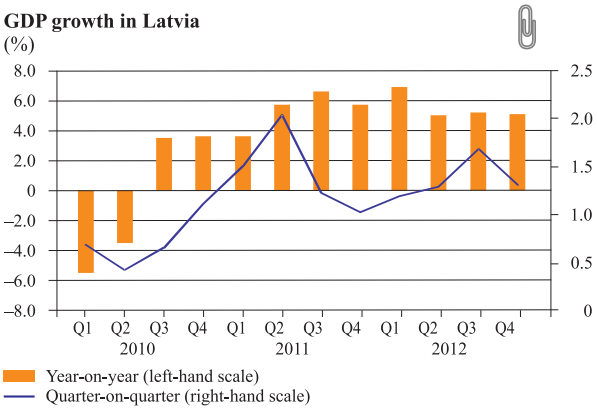
Inflation hits record lows in January



The annual inflation in January benefited from the favourable effects of stabilizing global food prices and the developments in the prices of oil over the previous months. As a result, inflation dropped to its lowest level since September 2010 and reached 0.6% in year-on-year terms.

No significant demand side pressures on inflation are expected in the medium term, and the average level of 2013 inflation in all likelihood will be lower than last year and will not exceed 2.0%.

GDP growth in the fourth quarter of 2012 beats expectations, again

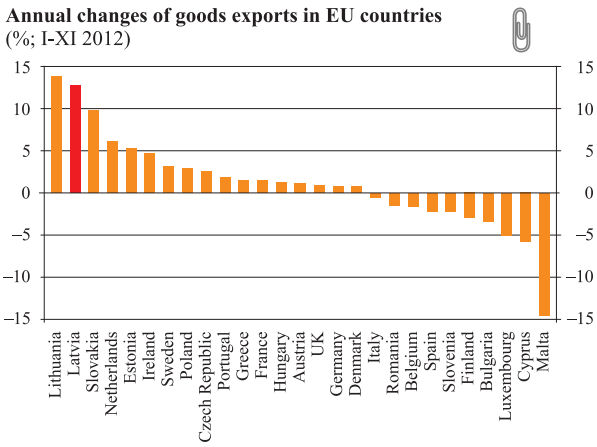


According to the flash estimate published by the Central Statistical Bureau (CSB), gross domestic product (GDP) grew 1.3% in the fourth quarter of 2012 quarter-on-quarter, and 5.1% year-on-year. Thus in 2012 overall, GDP grew by about 5.5%.

The overall GDP growth is supported by better-than-expected manufacturing output growth (1.8% in the fourth quarter) as well as robust growth of retail turnover (1.8% at the end of the year).

The confidence indicators for January and the first quarter of 2013 published by the European Commission indicate that the Latvian economy will continue on its path of growth in early 2013 as well. Moreover, in recent months, various indicators continue to improve in the euro area as well, giving rise to hopes that the worst of the euro area debt crisis is behind.

Diversification underpins robust export growth



Source: Eurostat

Despite the external slowdown, the Latvian external trade activity grew substantially in 2012, exceeding even the most optimistic expectations. Owing to the improved competitiveness achieved by Latvian businesses, the increase in the exports of Latvian goods was more rapid year-on-year (15.0%) than imports (12.7%).

For a second year running, the exports of Latvian goods demonstrated one of the highest growth rates in the European Union: at some point Latvia even had the leading position among the EU27 countries in 2012. The improvement in exporter competitiveness was underpinned by the diversification of production and markets, a rise in productivity and an increase in producer value added.