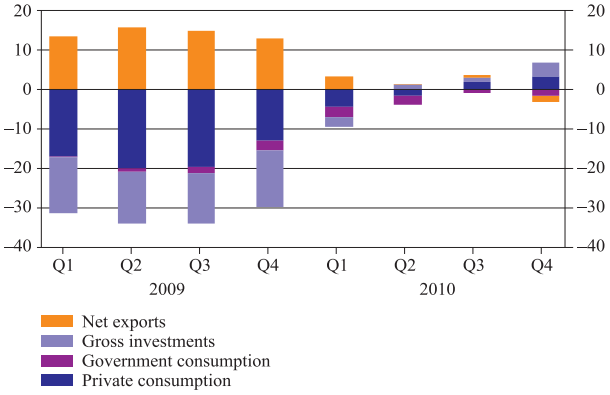
1 Highlights

GDP on the rise for five consecutive quarters

GDP growth by components, demand side
(% points)



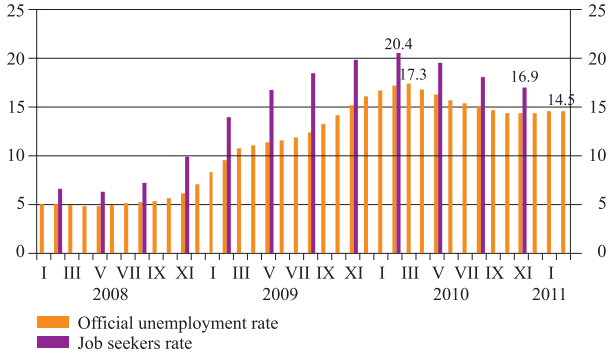
The revised GDP figures confirm both quarterly and year-on-year growth of 1.1% and 3.6% respectively. Overall in 2010, however, the GDP has declined, albeit by a modest 0.3%. On a per capita basis, real GDP even grew slightly last year.

Robust 5.2% year-on-year growth in private consumption was registered in Q4 2010, supported by real exports of goods and services, which increased 13.8% year-on-year. Export growth benefitted from both regained competitiveness and improved demand.

The persistent decline in investment finally stopped in Q3 2010. Moreover, the improved rating outlook by the Standard & Poor's should provide a welcome boost to future investments, conditional upon compliance with budgetary discipline for the 2012 budget.

Economic recovery leads to gradual improvements in the labour market

Unemployment
(% of labour force)

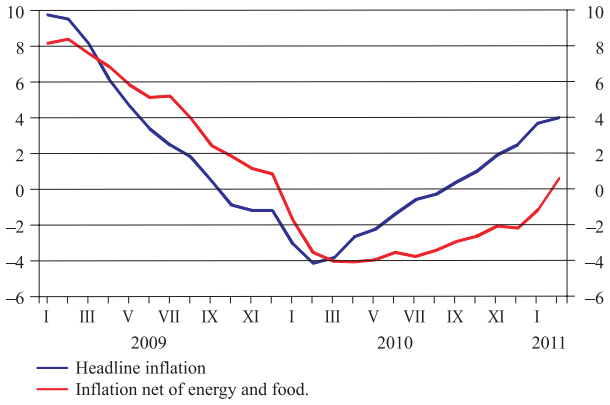


In Q4 2010, the rate of job-seekers continued on a downward trend for a third consecutive quarter to stand at 16.9% of the economically active population. This decline would have been even sharper if not prevented to some extent by two one-off factors. First, the positive contribution of seasonality was smaller in the fourth quarter in comparison with the third quarter. Second, fewer temporary jobs were offered through the State Employment Agency in Q4. Hence, it is likely that the official statistics understate the underlying rate of decline in unemployment.

Nevertheless, the decrease in unemployment can be expected to decelerate this year, as the mismatch of job-seeker skills and employer requirements and the resulting structural unemployment become ever more topical. Thus the average rate of job-seekers this year is forecast at about 16%.

Global developments and tax raises continue to determine Latvia's inflation

Inflation
(%)



Annual inflation reached 4.0% in February. To a large extent, higher consumer prices reflected the tax hikes in Latvia and the rising global energy and food prices which will most likely remain the main contributors to Latvia's inflation also going forward.

Considering that Latvia imports a significant amount of goods for consumption and manufacturing purposes, the rising prices will act as a supply shock, thus reducing the demand for other goods and services. This is likely to be the key factor limiting any rise of the overall price level in the near future.

An imminent decline in inflation can still be expected as a result of the base effect. Nevertheless, the expected easing would be less pronounced should the tax rates be raised in the middle of the year as currently planned: this might drive the inflation up by almost 0.5 percentage points.