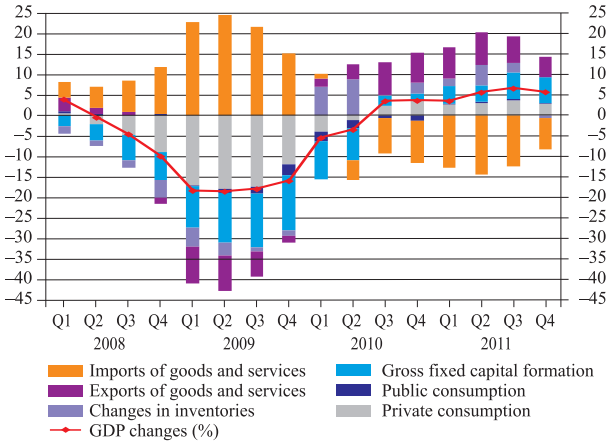
1. Highlights

GDP growth revised upwards

Breakdown of annual changes in GDP
(demand side; in percentage points)



GDP growth reached 5.5% in 2011 (instead of 5.3% estimated previously), including an increase of 5.7% in the fourth quarter. Consequently, Latvia was one of the fastest growing European economies in 2011 alongside with the other Baltic States.

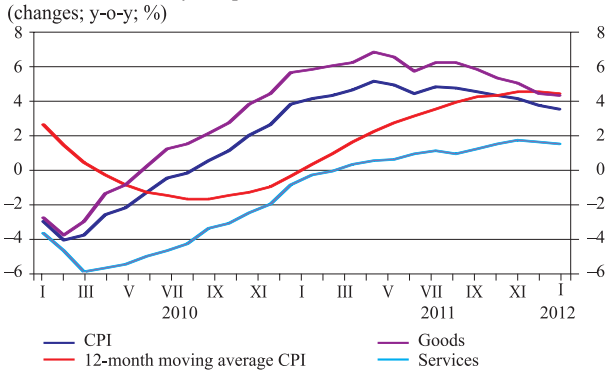
Real exports of goods and services retained its position as the main driver of the economy in 2011. Despite the negative global developments, particularly those observed in Europe, Latvia's export growth was impressive at 12.6%. This was supported by the regained competitiveness in manufacturing and the surge in investment inflows.

Although the rise in external demand was more vigorous, domestic demand also developed dynamically as a result of the very sharp increase in investment. Gross fixed capital formation grew by 24.6% in 2011.

Private consumption (the largest component of domestic demand) increased by 4.4% in 2011. In Latvia's case, this rise should be considered as moderate. The recovery of the private consumption is slow because of the weak purchasing power and the high level of household indebtedness.

Annual inflation down again

Inflation in Latvia by components
(changes; y-o-y; %)



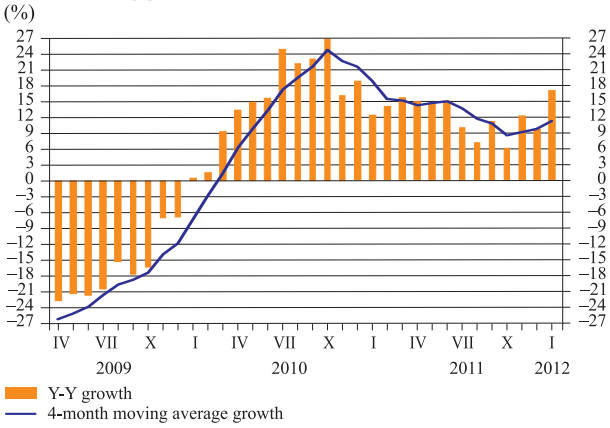
Inflation increased by 0.1% month-on-month in February 2012, which is a much lower rise than in January when the prices of natural gas and heating tariffs were raised. Annual inflation dropped to 3.4% in February (down from 3.6% in January).

External developments, such as changes in global food prices and global oil price trends, remain the main factors determining the inflation dynamics in Latvia. That being said, the contribution of fuel prices to the annual inflation declined slightly in February compared to a year ago and amounted to 0.7 percentage point.

With the upside risks associated with the oil price developments remaining broadly unchanged, the downward inflation trend could gain momentum starting from April, as some of the one-off effects from the last year (such as higher electricity tariffs as well as excise tax on fuel and tobacco etc.) start to fade.

Manufacturing starts the year on a strong note

Manufacturing growth in Latvia
(%)



In January, manufacturing output grew by 3.0% month-on-month, with the year-on-year rise amounting to 16.8% (calendar-adjusted data).

The main contributors to this growth were the manufacture of wearing apparel, pharmaceutical products, basic metals, fabricated metal products as well as other transport equipment, their respective outputs expanding by 9.4%, 15.8%, 10.2%, 10.2% and 46.6% month-on-month.

In 2011 overall, manufacturing sales rose by16.8%, including an increase of 20.6% in exports and 13.3% in the domestic market respectively. This is another indication that in 2011 manufacturing growth was based on a substantial rise of turnover in the external markets.