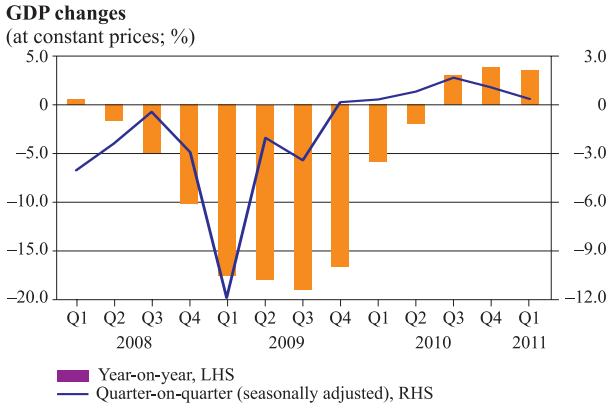
1. Highlights

Economy expansion falls below expectations



According to flash estimates, in Q1 2011 the Latvian GDP grew by 0.2% in seasonally adjusted terms, with the annual growth reaching 3.4%. It became already obvious that the rate will not be high in Q1 2011 when analysing several preliminary sector indicators, such as manufacturing output and retail turnover.

Despite lower growth, the economic sentiment indicator improved by 1.2 points over Q1, suggesting that the deceleration of output growth was probably indicative of short-term fluctuations in economic activity.

Future GDP dynamics will depend on several factors. On the one hand, the regained competitiveness stimulates economic recovery as demonstrated by the rapid growth of exports. On the other hand, rising food and energy prices in the world commodity markets as well as the domestic decisions to raise taxes act to dampen the economic growth.

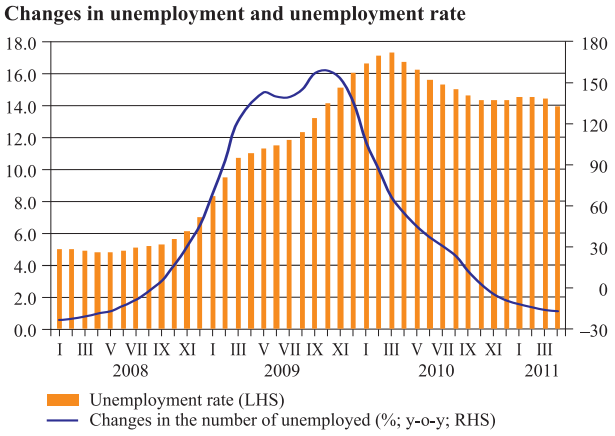
Foreign trade: exports set new records

The combination of expanding foreign demand, good competitiveness of Latvian enterprises in foreign markets as well as rising export prices resulted in a new all-time-high for exports in March 2011. In the last 12 months, exports had grown by 38.5% and imports by 39.0%.

Businesses are asserting their competitiveness and continuing to increase the sales of their products in the already existing foreign markets, where demand is on the rise, e.g., Russia, Scandinavian countries and Germany, as well as conquering new markets.

In 2011, the growth in export-oriented industries will be higher than the average in the economy, yet the rate of growth will gradually decelerate. Global trade will continue to develop more rapidly than expected, but the recovery of external economic activity will be dampened by the fiscal consolidation measures undertaken by several EU countries, growing public debt and labour market uncertainty.

Unemployment down, but skills' upgrade needed



For the first time in the last six months, a steep drop in registered unemployment was observed in April 2011: by 0.5 percentage point, reaching 13.9% of the economically active population by the end of the month. Thus, this year the decrease in the number of unemployed that usually takes place in spring as seasonal work resumes is more notable than last year.

The rise in the number of vacancies registered in the State Employment Agency (SEA) likewise indicates improved work opportunities. Despite rising labour demand caused by the economic recovery, it is becoming increasingly difficult to find suitable employees. With the demand for skilled labour rising, there are ever fewer such unemployed on the SEA registers while the percentage of unemployed with only primary or general secondary education, and with poor Latvian language proficiency is growing.