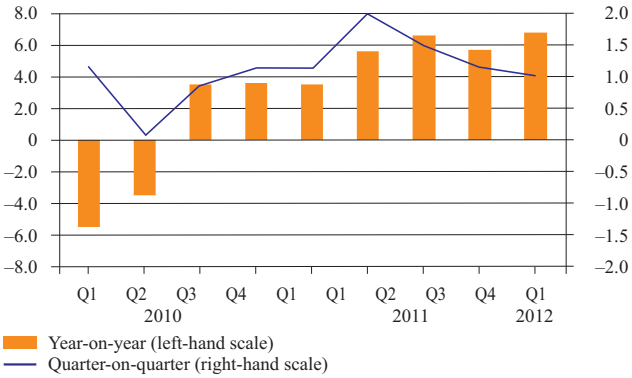
1. Highlights

GDP growth in Q1 surprises on the upside

GDP growth in Latvia
(%)

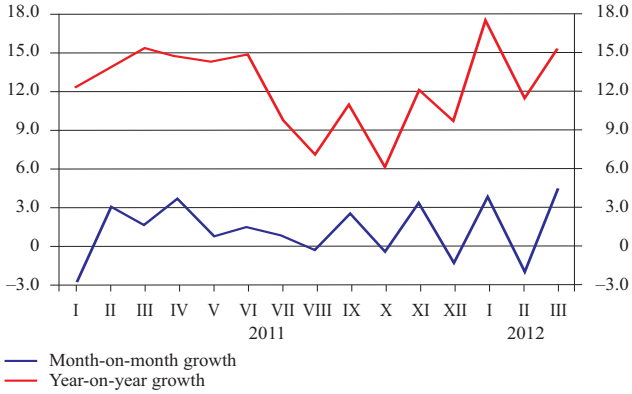


According to the flash estimate, Latvian GDP grew by 1.0% quarter-on-quarter in the first quarter of 2012. The year-on-year growth rate reached 6.8%. Such growth rates are likely to be among the fastest in the European Union. Preliminary statistical data suggest that rather robust growth could also be expected in the second quarter as evidenced by the successful performance in manufacturing, expanding trade turnover, new records in terms of the volume of cargoes loaded and unloaded at Latvia's ports and railroad terminals. Moreover, the increase in tax revenues in the first quarter also points towards further economic growth.

Of course, there are still concerns over the potential deceleration of the growth rates primarily caused by the developments elsewhere in Europe. After a long period of stability, the Latvian industrial confidence indicator also fell substantially. Consequently, a slowdown is likely in the future, while the exact timing remains yet uncertain.

Manufacturing shows strong numbers, future uncertain

Manufacturing growth in Latvia
(%)

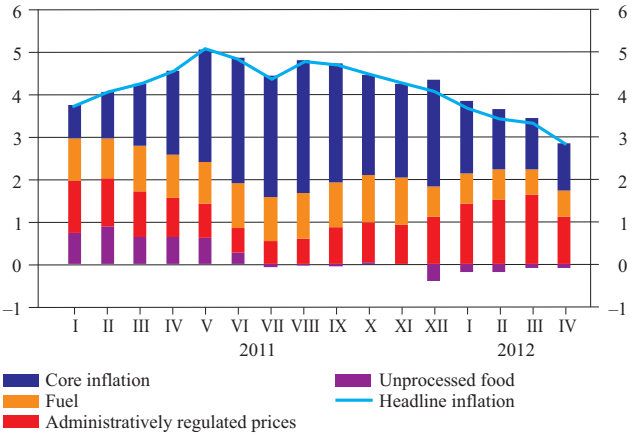


In March 2012, manufacturing output increased strongly: by 4.3% month-on-month and 15.4% year-on-year. The growth in March was determined by the higher output in manufacture of wood and products of wood (+5.6%), basic metals (+28.1%) and other transport equipment (+80.1%), which probably reflects the successful performance of shipbuilding. The robust growth reported in January and March supported an increase in the production output by 3.5% quarter-on-quarter in the first quarter of 2012.

Based on the EC confidence indicators (down by 3.4 points in April) however, a small drop in output may be the case in the coming months. At the moment, the confidence indicators point to a drop in new orders and representatives of some sub-sectors confirm that such a drop, albeit small, is already observed.

Inflation declining in line with forecasts

Inflation in Latvia by main components
(in percentage points)



In April 2012, the annual inflation continued to decline (by 0.5pp, to 2.8% month-on-month), reflecting the so-called base associated with the rise in electricity tariffs in last April and confirming the dependence of a small economy on the global price developments.

With the global oil prices gradually decreasing, a small drop in fuel prices was also observed at the end of April. Moreover, the global food price index declined by 1.4%. However, this did not have any substantial effect on the average monthly energy and food price levels as it will be reflected in Latvia's consumer prices with a slight time lag.

The weakness of the demand side is still evident in the falling annual core inflation which went down to 1.6% in April.