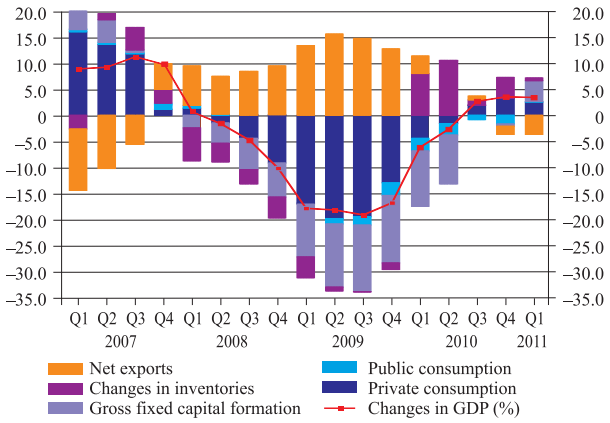
1. Highlights

GDP growth revised upwards, yet risks remain

Contribution to real GDP growth
(precentage points)



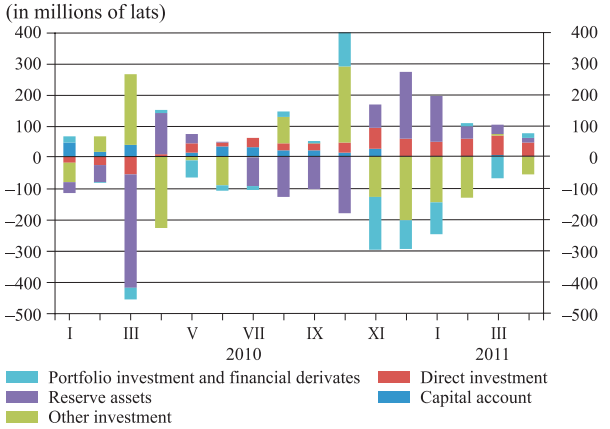
Revised data reveal that in the first quarter of 2011 the real GDP expanded by 0.3% quarter-on-quarter and by 3.5% year-on-year. Both the quarterly and the annual growth figures have been adjusted upwards by 0.1 point in comparison with the flash estimate of the CSB.

With the wage-bill gradually increasing, private consumption continued on the upward trend observed in the previous two quarters, albeit the rate of growth remained low. Gross fixed capital formation increased by 28.4% year-on-year, yet it has to be noted that the level of investment still remains very low from a historical perspective.

The GDP growth is expected to pick up in the second quarter. However, in the second half of the year downward risks to further growth are related to further price shocks on the world commodity exchanges and lingering uncertainties with respect to Latvia's 2012 budget.

Current and financial account dynamics positive

Net positions of financial and capital accounts
(in millions of lats)



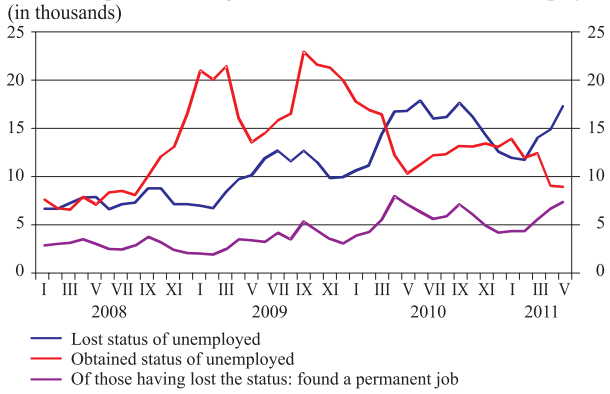
In April, the current account surplus increased, fostered primarily by the improved trade balance. With the imports of goods contracting at a notably faster pace than exports, the goods trade deficit reversed into surplus, while a small increase in the surplus of the services sector was determined by successful development of freight transportation services by rail.

The financial account also ran a surplus in April. The largest inflows were formed by the non-resident deposits made with the banking sector and foreign direct investment.

Gradual spending of the received international loan funding, with the government abstaining from further borrowing from these sources in the first four months, resulted in a progressive contraction of reserve assets, yet it is important to note that the rate of the coverage of the monetary base by reserve assets remains record-high at over 200%. Reserve assets also equalled the imports of 6.8 months, which is substantially higher than during the boom years when this ratio fluctuated between 3.5 and 4.5 months.

Labour market recovering

Number of persons having obtained and lost the status of unemployed
(in thousands)



A steep decline in registered unemployment has been observed for the second consecutive month: to 13.2% of the economically active population in May. Unemployment is thus contracting faster than last year and also during other post-crisis periods after the restoration of national independence.

Compared to its historic high in March of 2010, registered unemployment has dropped by 4.1 percentage points, with the number of unemployed contracting by almost one fourth. In April and May, the number of people with newly-granted unemployed status hovered around the average level of 2004–2005. Thus the period of 2.5 years when the labour market was characterised by layoffs can be considered to have come to an end, and the staff turnover currently corresponds to the historical average.

The contraction in registered unemployment is taking place alongside a decline in actual unemployment. The number of employed is growing according to all available sources of statistics. This eases the concerns that the recovery of the labour market is taking place merely on paper and the number of unemployed is decreasing in the State Employment Agency (SEA) registers only because jobseekers have ceased registering with the SEA.