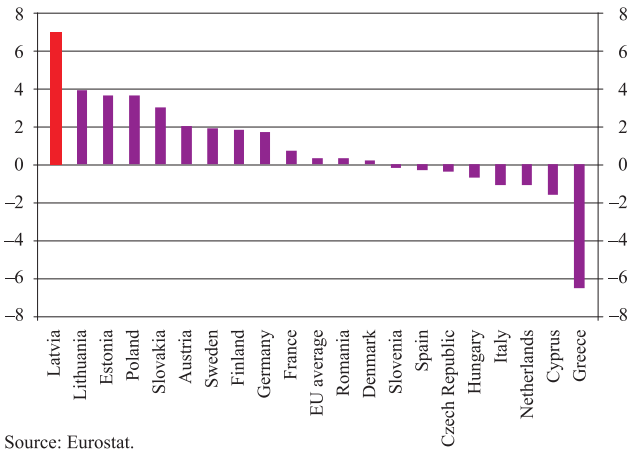
1. Highlights

Revised GDP figures confirm rapid growth in 1Q

GDP growth in EU
(Q1 2012; %)



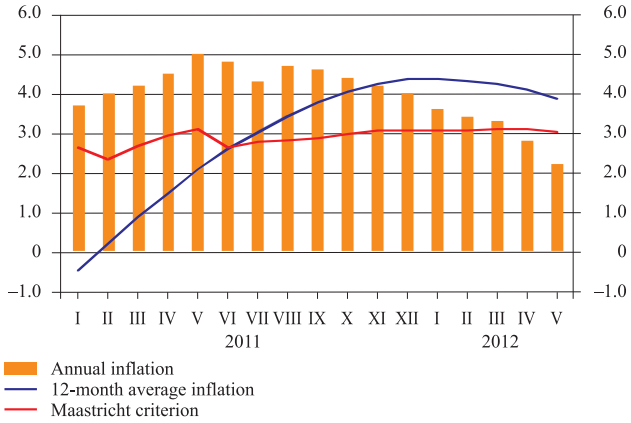
Source: Eurostat.

Latest GDP figures confirm rapid growth in the first quarter of the year (1.1% quarter-on-quarter and 6.9% year-on-year). Both figures are by 0.1% higher than the previously reported flash estimates. Thus, according to Eurostat data Latvia was the European leader in terms of economic growth in the first quarter of 2012.

The economic growth of the first quarter was mostly driven by investment (which increased by 39.0%), whereas the growth of exports gradually decelerated. On a more positive note, however, the export growth outpaced that of the imports which stands in contrast to the previous quarters.

Inflation declines again, 12-month average moves closer to the Maastrich threshold

Inflation rate in Latvia
(%)

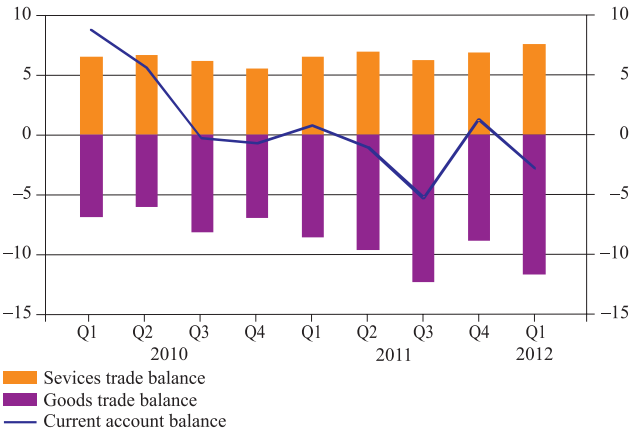


The rise in consumer prices abated and their average level went down 0.2% in May, with the annual inflation thus dropping to 2.2%.

The declining fuel prices were the most significant contributor to the decreases in the monthly and annual inflation figures. The prices of other tradable goods also dropped substantially over the month. As a result, the annual core inflation decreased substantially. In May, this was additionally supported by the fact that the prices of processed foods had a smaller effect than in April and that the food prices partially mirrored the developments in the global food prices. No rise in administered prices was observed in May this year and their annual growth decelerated due to the base effect.

Negative current account reflects Latvia's faster-than-average growth

Current account balance and its main components
(% of GDP)



In the first quarter of 2012, the current account deficit of Latvia's balance of payments totalled 2.9% of GDP. The quarter-on-quarter decline in exports of goods was faster than that in imports of goods, thereby increasing the foreign trade deficit. This can be explained by both the weakening external demand in major trade partners against the background of Latvia's economic growth remaining strong and the sizeable rise in oil prices observed in the first months of 2012. However, as usual, the foreign trade surplus of services offset almost two thirds of the foreign trade deficit.

The decline in the oil prices observed in the previous months and having a decreasing influence on the value of goods imports is expected to have a positive effect on the balance of payments; therefore, the current account deficit will not increased significantly in the next few months.