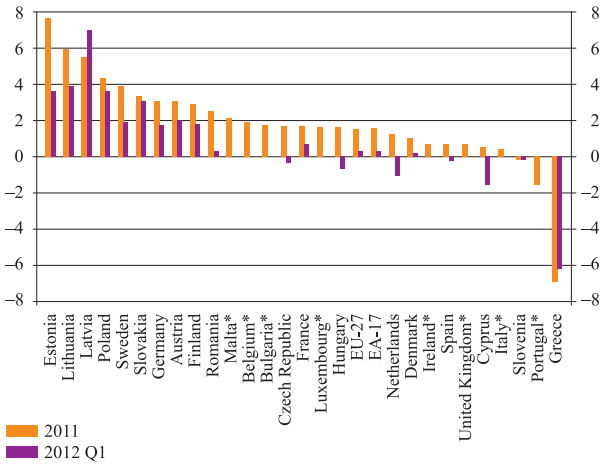
3. In Focus

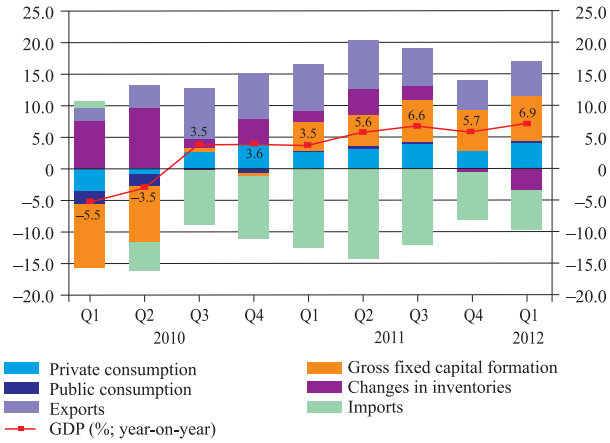
Latvia – a European leader in terms of economic growth

GDP growth
(year-on-year; %; nswda)



Source: Eurostat; * no data for Q1 of 2012

Real GDP growth and contributions
(in percentage points; nswda)



Source: Central Statistical Bureau of Latvia

Latvia is among the most rapidly growing economies in the EU. In 2011, real GDP grew by 5.5% which was the third highest result after Estonia and Lithuania. At the beginning of 2012, despite stagnating GDP in the euro area and EU-27 in q-o-q terms, GDP growth in Latvia even accelerated. Eurostat data indicate that in the first quarter Latvia became the European leader in terms of economic growth: its GDP grew by 1.1% q-o-q and 6.9% y-o-y (5.6%, seasonally and working day adjusted).

The strength of the economic growth in Latvia is not the only accomplishment: it has also become more balanced and resistant to shocks. Real GDP growth was driven by a significant recovery in gross fixed capital formation (especially in the productive segment), further expansion of exports as well as resuming private consumption.

• Despite adverse developments in Europe, Latvian exports posted a strong increase (12.6% in 2011 and 9.9% in the first quarter of 2012). This expansion in exports was supported by regained competitiveness and a solid advance in investment.

• In the second half of 2011, gross fixed capital formation replaced exports as the main driver of growth. In the first quarter of 2012, the annual growth of investment continued to accelerate and reached 39.0%. Moreover, the structure of investment changed. Investment in industry and transport sector accounted for a half of the non-financial investment in 2011 and increased to 55.2% of total investment in the first quarter of 2012. The robust upswing in gross fixed capital formation and the shift towards productive investment are expected to spur the growth potential.

• Private consumption rose to 4.4% in 2011 and 5.4% in the first quarter of 2012. However, due to the low base and a stronger increase in other GDP expenditure components, this growth should be considered moderate for Latvia. Weak purchasing power and high household indebtedness are set to weigh on the private consumption growth. Although improvements in employment, average wages and salaries resulted in higher disposable income, the gains in the households' purchasing power were diminished by higher taxes and global price rises.

• The upward trend in rebuilding inventories that were depleted during the economic downturn ended in 2011, hence the positive contribution of changes in inventories to GDP growth declined to 2.1 percentage points in 2011 (from 4.5 percentage points in 2010), whereas in the first quarter of 2012 these changes accounted for a 3.7 percentage point negative contribution to GDP growth.

• Imports of goods and services expanded by 20.7% in 2011 and 9.5% in the first quarter of 2012, primarily on account of imports of intermediate goods for export production. Steeply rising investment contributed substantially to the pick-up in capital goods imports as well.

The GDP growth rate is expected to moderate during the year as high uncertainty in the global environment prevails and weakening in external demand is evident. The GDP growth rate, however, is expected to be higher than projected earlier, exceeding 3% this year overall.