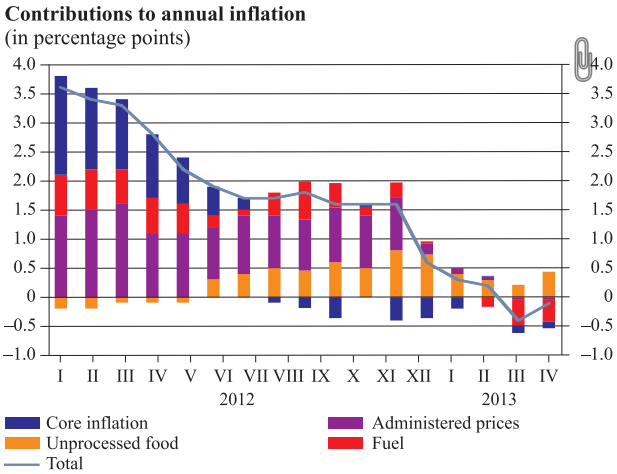
1. Highlights

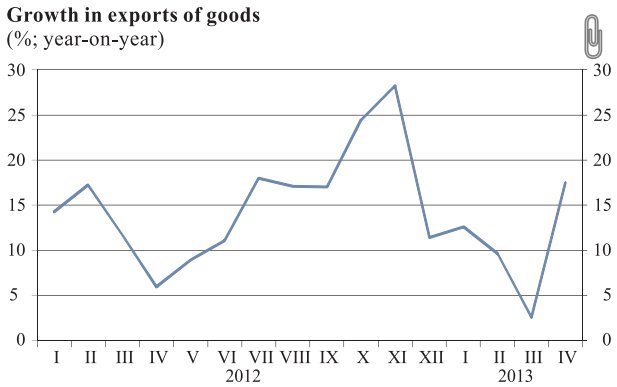
Inflation heading towards record lows



Annual inflation remained slightly negative (–0.1%) in May for the second consecutive month, mainly as a result of dropping fuel and processed food prices.

Going forward, several supply factors continue to signal low inflation. For instance, the thermal energy prices in Riga will be decreased from July as a result of introducing new reduced tariffs (possible because of the launching of the new biofuel plants) as well as lower sales price of natural gas. Under the impact of energy prices, this year's average annual inflation could become the lowest positive average annual inflation since the beginning of the 1990s when data became available.

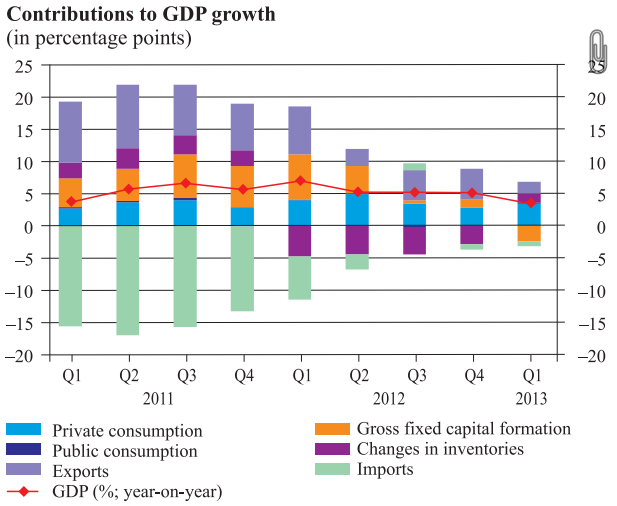
Exports picking up despite weak external demand



Despite the odds of dropping growth rates, decreasing output of most manufacturing sub-sectors as well as severe problems in manufacture of base metals, the exports of Latvian goods continue to rise. The year-on-year growth rate stood at 17.5% in April, which is a very good performance considering the unstable external environment.

Regardless of the fact that the Latvian exporting sectors, manufacture of wood and base metals, are currently facing a global contraction of production, both the producers of metal structures and wood processing enterprises continue to expand their exports to Denmark, Sweden, Norway, the United Kingdom and Iceland where many public procurement tenders are organised. This proves that the ability of Latvian exporters to respond flexibly to changes in the external environment is a substantial advantage helping them to maintain external competitiveness even in an unfavourable global situation.

Resilient domestic consumption supports GDP growth



According to the adjusted statistical data (an upward adjustment of 0.2 percentage point), GDP grew by 1.4% quarter-on-quarter in the first quarter of 2013, while the annual growth rate was 6.0% according to calendar adjusted data and merely 3.6% according to seasonally non-adjusted data.

With industrial performance weakening and export growth decelerating, private consumption with its contribution of 3.4 percentage points became the main driver of GDP growth in the first quarter of 2013. Private consumption expanded on account of both recently growing employment and the gross average wage increase. The reduction in the personal income tax rate also contributed to this expansion. Thus, private consumption could retain its leading position in the coming months as well. Yet there are limits to its ability to sustain rapid GDP growth in the case of a small and open economy.