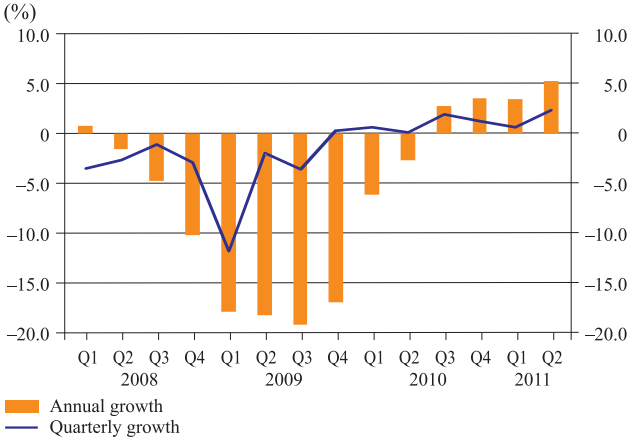
1. Highlights

GDP growth accelerates amid global uncertainties

GDP changes
(%)



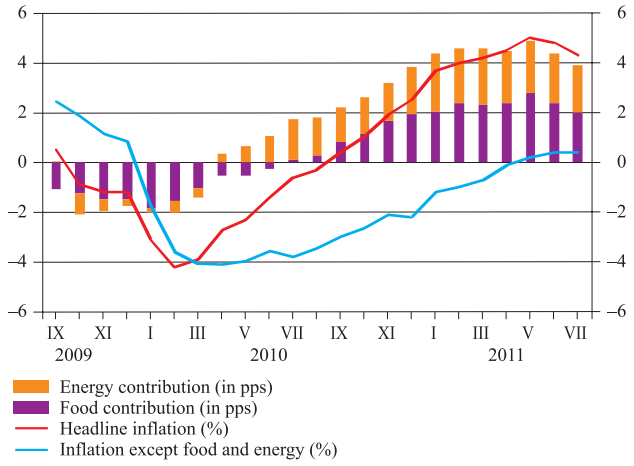
Flash estimates of Latvian GDP figures revealed better-than-expected results, with annual growth hitting 5.3%. Encouragingly, the pick-up in growth has led to a decline in unemployment figures, as employment has been following an upward trend for several quarters now.

Looking by sector, industry posted very good results along with transport and trade. Construction also improved relative to the first quarter. The financial results probably improved in the banking sector as well.

That being said, one has to acknowledge that the current realities of the global economic development appear rather grim. It is therefore unlikely that the Latvian economy will be able to resist the global trends for long and it can be expected that exports and hence GDP growth will slow down in the second half of the year.

Inflation falls, further decline expected

Energy, food prices and headline inflation



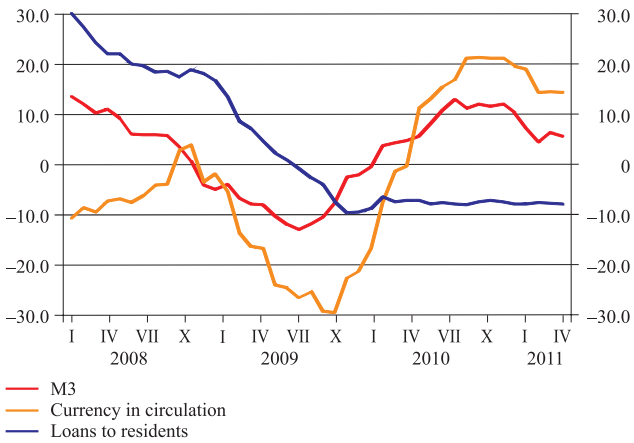
Annual inflation continued to drop for a second consecutive month, reaching 4.3% in July. The overall price decline was supported both by the stabilisation of global prices as well as seasonal factors.

Oil prices were rather stable on the world's commodity exchanges last month, and the fuel prices remained unchanged in Latvia. A drop, however, was observed in food prices.

The prices are expected to preserve relative stability in the coming months, with a substantial drop in the annual inflation expected next year. A more pronounced decline in inflation this year will be prevented by the rise in the excise tax on natural gas exerting an additional upward pressure on the output prices of other industries, e.g., on the heating tariffs.

Money supply levelled out

Y-Y growth of monetary aggregates
(%)



Although the demand for cash currency went up as the holiday season began, deposits with banks contracted, resulting in a decline in the money supply of the economy. The loan portfolio of banks continued to shrink, with the annual rate of decrease in domestic loans reaching 9.2% in June.

Against the background of deteriorating industrial confidence and the cautious attitude of consumers caused by the rising prices in the first half of the year, the current economic developments do not lead to a stable recovery in the growth of money supply; nor can we can expect it in the near future. Likewise, no increase in lending is anticipated at least for this year because of the uncertainty currently surrounding the plans for cutting the 2012 budget deficit and the potentially unstable conditions in the external markets.