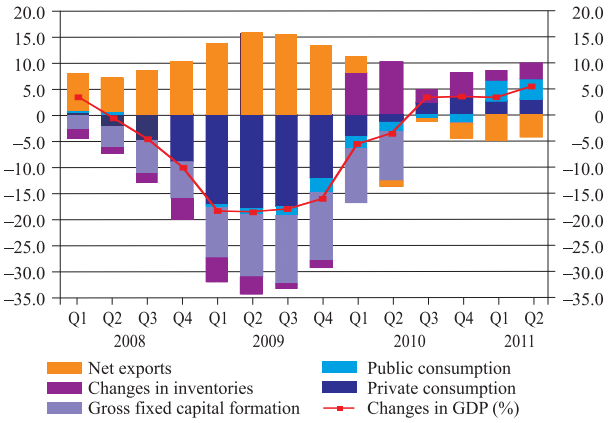
# 1. Highlights

## GDP growth solid, but uncertainties abound

**Breakdown of annual GDP changes**
(demand side; in percentage points)



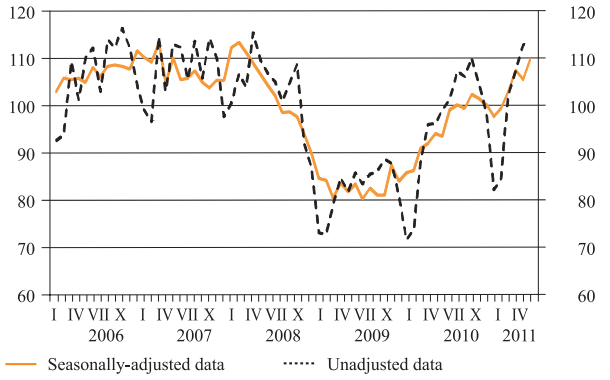

In the second quarter of 2011, Latvia's GDP grew by 2.0% quarter-on-quarter with annual growth reaching 5.6% according to the updated information by the CSB. Analysing by sector, trade, transport and manufacturing remained the largest contributors to growth, the same as in the previous quarter.

Currently, Latvia ranks one of the first in Europe in terms of the GDP growth (the first in terms of the second quarter growth). Manufacturing and transport sectors are almost back to their pre-crisis levels, and their share in total economic activity in Latvia is growing.

At the same time, the external environment background is negative, as already confirmed not only by the leading indicators (confidence indicators, PMI etc.), but also by real economic data. Nevertheless, although Latvia will feel the negative impact of the global developments, it is possible that growth will continue, albeit at a slower pace.

## Despite global tensions manufacturing growth still strong

**Volume index of industrial output in manufacturing**
(2005 = 100)

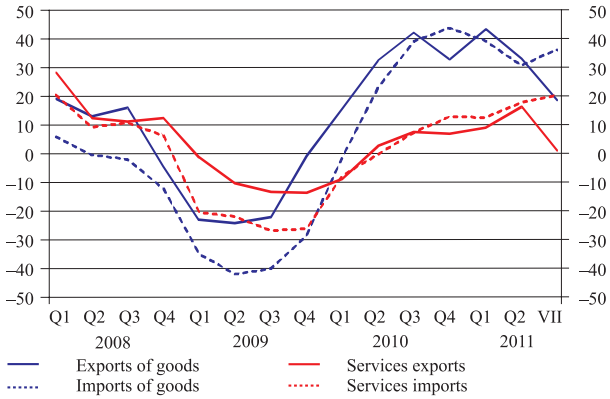



Manufacturing output grew again in July, 0.7% month-on-month and 10.8% year-on-year. Moreover, compared to the corresponding period of 2010, manufacturing output grew by 13.7% in the first seven months of this year.

In June, the manufacturing turnover index grew by 2.3% month-on-month (seasonally-adjusted data), including by 3.6% in the domestic market and 1.0% in exports, reflecting both gradually reviving private domestic consumption and rising external uncertainties. Looking ahead, the majority of indicators point towards a gradual "cooling off" in the global economy, which could translate into a lower manufacturing output growth in the second half of this year.

## External factors contribute to slowdown in foreign trade

**Growth rates of goods and services exports and imports**
(year-on-year; %)




In the first seven months of this year, the rates of annual growth for both exports and imports were similar, growing by 34.1%. The deterioration of the external environment along with the falling prices of some goods continued to determine a drop in the activity of Latvian external trade in July as reflected in the contraction of goods exports by 1.4% over a month.

Year-on-year, goods exports grew by 19.8% in July. Thus, the rate of annual growth of goods exports began to slow down as a result of both weakened external demand and base effect.

At the same time, the improved competitiveness of manufacturers has allowed Latvia to maintain and even increase its export market shares in all the most important partner markets in the EU, with the sole exception of Estonia, and in Russia, as well as to conquer new market niches. Therefore, we can hope that despite external weaknesses exports will not lose much of their importance as the driver of economic growth this year.