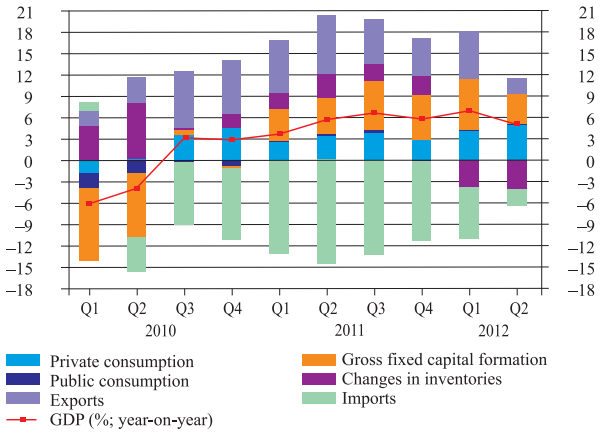
1. Highlights

Latvian GDP growth remains the fastest in the EU

Real GDP growth and contributions
(in percentage points)



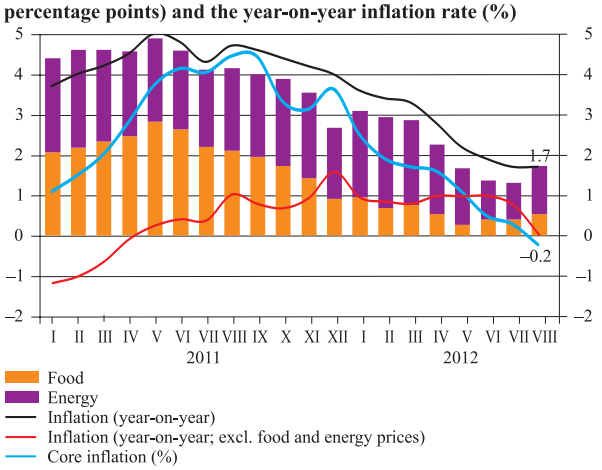
In the second quarter of 2012, GDP has grown by 5.0% year-on-year (NSA). According to Eurostat data, the Latvian GDP growth remains the fastest in Europe.

The largest contributor to the GDP growth in the second quarter of 2012 was private consumption which developed in line with the pickup in the real wages against the background of falling inflation. Moreover, the overall consumer confidence in Latvia has remained stable this year, contrasting with most of Europe where it has deteriorated substantially.

The first provisional data on the third quarter of this year suggest that it started as a minimum at the level of the previous quarter or even slightly higher. The annual growth rate, however, will go down starting with the third quarter because of the base effect. Nevertheless, it will remain positive, unlike in some other European countries.

Average annual inflation below 2%

Impact of food and energy prices on headline inflation (in percentage points) and the year-on-year inflation rate (%)



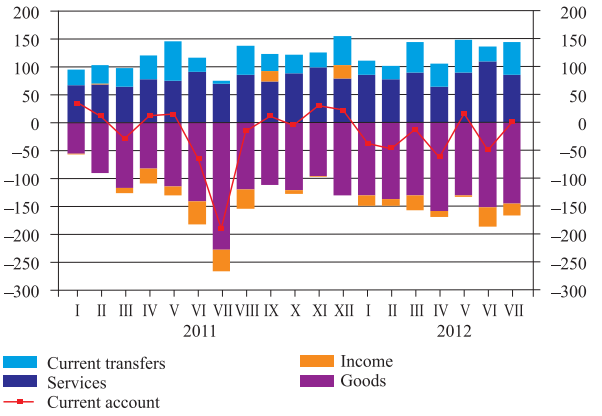
With consumer prices down by 0.3% month-on-month, the annual inflation remained low in August (at the July level of 1.7%). The 12-month average inflation dropped to 3.1%.

The rise in the global food prices has abated for now. The global oil prices stabilized gradually in August at a level higher than the July average and slightly higher year-on-year. No steep changes in administered prices were observed either in August of this year or a year ago.

On the demand side, the wage and productivity trends suggest that the unit labour costs exert no pressure on the consumer prices. They have dropped both in nominal and real terms year-on-year in the second quarter of 2012. Hence, we expect inflation to remain moderate in the months to come.

Current account balance improves in July

Current account by main components
(in millions of lats)



In July 2012, the current account deficit of Latvia's balance of payments dropped to 22.2 million lats. With the foreign trade deficit in goods and services remaining broadly unchanged, the improvement of the current account was achieved due to the inflows of current transfers (primarily EU funds).

Exports of goods grew faster than imports in July, thereby compressing the foreign trade deficit in goods. This deficit was still partly offset by the trade surplus in services.