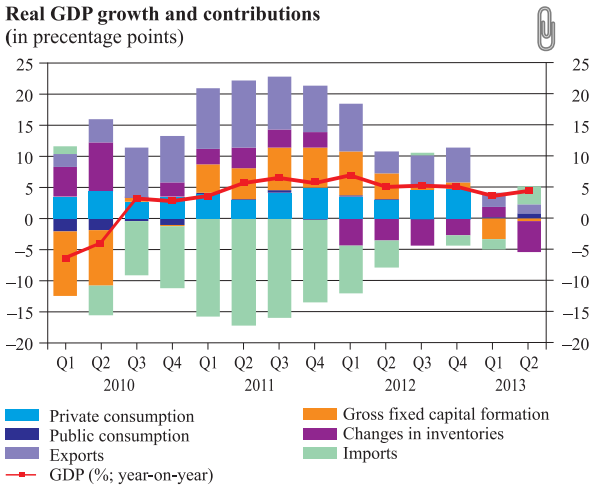
1. Highlights

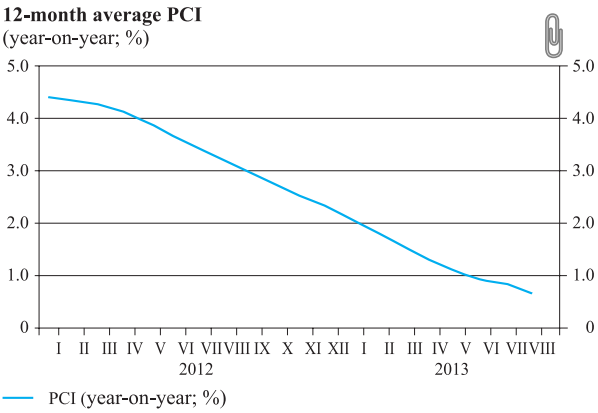
GDP growth in the second quarter of 2013 beats expectations



The GDP data for the second quarter of 2013, revised by the Central Statistical Bureau of Latvia, point towards higher economic growth than previously estimated by the flash estimate. In the second quarter, GDP grew by 4.4 % and 0.7 % year-on-year and quarter-on-quarter respectively.

Similarly to the first quarter of 2013, private consumption remained the main driver of economic growth contributing 4.7 percentage points to the GDP growth. Private consumption increased by 6.6% mainly on account of a rise in disposable income resulting from higher average salaries and improved employment levels. In contrast to the wage bill increase back in the "fat" years, the current growth is associated with higher productivity and thus is more sustainable. With private consumption as the main support for growth and exports as a necessary supplement, the economy is likely to move along the track of the previous quarters and sustain its growth.

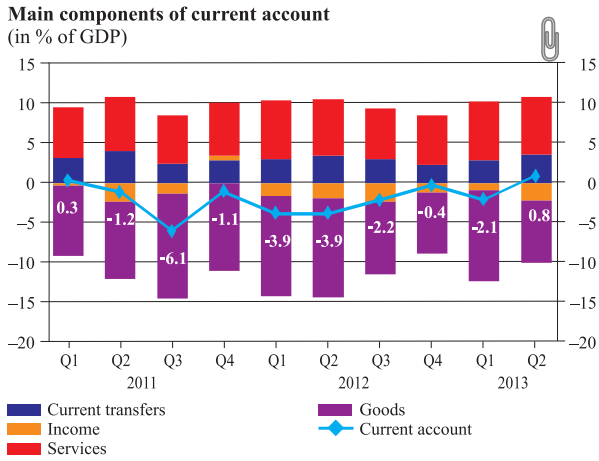
Seasonality determines price changes



August data on month-on-month consumer prices show a decrease of 0.8%; however, this is considered to be seasonal. The seasonal drop in prices was mainly caused by the new harvest of vegetables leading to a decrease in prices of this particular group of foodstuffs. The year-on-year decline in prices, however, amounted to merely 0.2% in August, since the seasonal drop in vegetable prices observed last August was substantially lower. Other factors supporting the annual decrease in prices were the reduced prices of telecommunications services as well as those of thermal energy. Opposite to the tendencies in the world food prices, the prices of meat and grain products increased. Moreover, the prices of transport vehicles also went up. The above mentioned increases suggest improvements in the purchasing power in Latvia.

Risks to inflation outlook are mostly related to external factors (energy prices). In the coming months, a domestic factor affecting inflation could be the pricing policies of businesses. Nevertheless, the 2013 inflation could remain the lowest registered average annual inflation under conditions of positive growth.

Latvia's current account runs a surplus in the second quarter



In the second quarter of 2013, a surplus of 32.3 million lats was registered in Latvia's balance of payments, thereby decreasing the deficit in the current account for the first half of 2013 to 44.9 million lats or 0.6% of GDP.

The year-on-year drop in the current account deficit was caused by a decrease in the deficit of foreign trade in goods and services. As a result of a 4.7% year-on-year increase in goods and services exports, the deficit of foreign trade in goods and services dropped to 24.4 million lats in the second quarter of 2013. This positive change was driven by the exports of transportation and travel services, and especially the exports of passenger vessels built at Riga Shipyard.

Amongst other positive trends in economic development, data on the current account for the first half of 2013 point towards the current account deficit remaining small in 2013 overall.