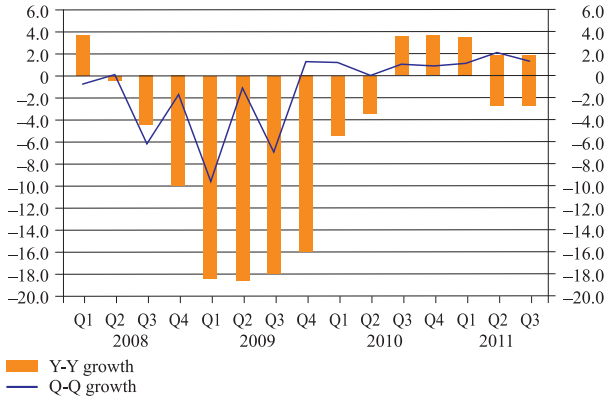
1. Highlights

Growth continues, slowdown likely ahead

GDP growth rates
(%)

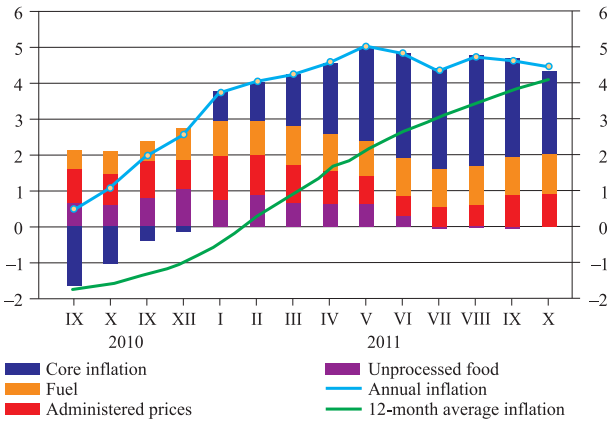


According to the flash estimate, the annual GDP growth reached 5.7% at constant prices in the third quarter of 2011, with the quarterly growth amounting to 1.3%.

Such GDP growth can be considered as a success, particularly against the deteriorating external economic background. Yet there is no guarantee that this trend will persist in the coming quarters, since the growth in most EU economies is gradually beginning to slow down. The Latvian economy, however, has rebounded after the downslide and has lately been growing fast; therefore, it is now much better prepared for the second wave of the crisis than before. Nevertheless, any adverse developments in the EU are likely to affect also the growth of the Latvian economy. Consequently, we expect it to moderate next year.

Inflation still on a downward trend

Main components of annual inflation
(in percentage points)

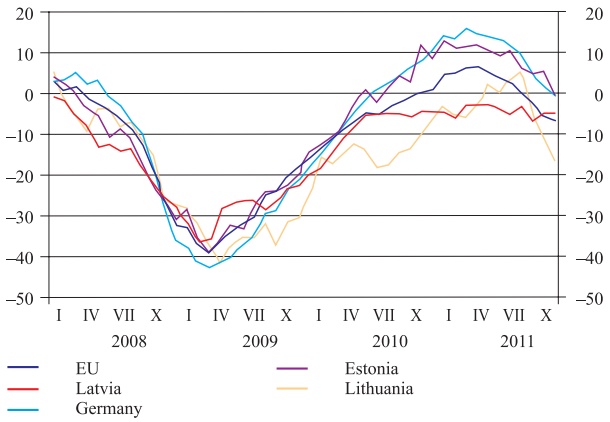


The annual inflation continued to decline in October reaching 4.4%. The price rise was smaller than last year because of the gradual strengthening of the downward pressure of global prices. As the fall of the global food prices has accelerated, we expect that the food prices in Latvia will also go down accordingly.

Next year, inflation can be expected to ease considerably, largely as a result of the economic developments in Europe and in the rest of the world. With concerns regarding growth in Europe and elsewhere continuing to mount, the upward pressure of demand on global prices will be negligible. Nevertheless, no substantial drop that could cause a decline in consumer prices in Latvia can be anticipated as the supply, especially that of the oil products remains limited.

Manufacturing growth lower, but still respectable

Industrial confidence index
(percentage points)



In September 2011, manufacturing output grew 2.1% month-on-month at constant prices, with the quarterly growth amounting to 1.1% in the third quarter and that of the first nine months of 2011 totalling 12.4% year-on-year.

Industrial confidence has only declined by 0.3 point in Latvia over the year, whereas elsewhere in the European Union the drop has been much larger. In terms of the manufacturing output growth reported over the year, Latvia is among the leaders and is likely to conclude the year in the same group.

There is no reason for euphoria, however. The Purchasing Managers Index of recent months suggests that most countries can expect a drop in industrial volumes in the coming months. Despite quite remarkable manufacturing results recently achieved by Latvia, any global turmoil and demand shocks would inevitably result in deceleration of its economic activity.