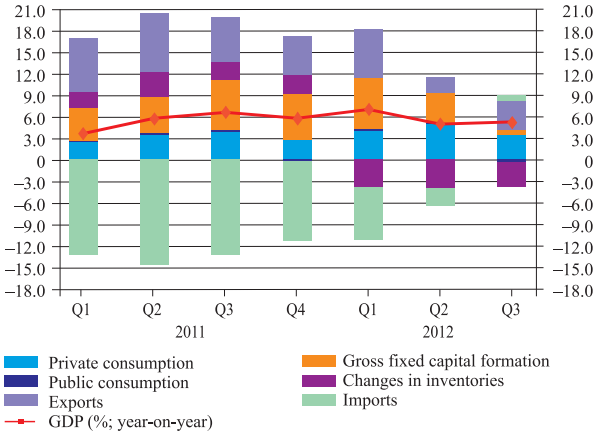
1. Highlights

Latvia records the fastest GDP growth in the EU yet again

Real GDP growth and contributions
(year-on-year; %; contributions in precentage points)



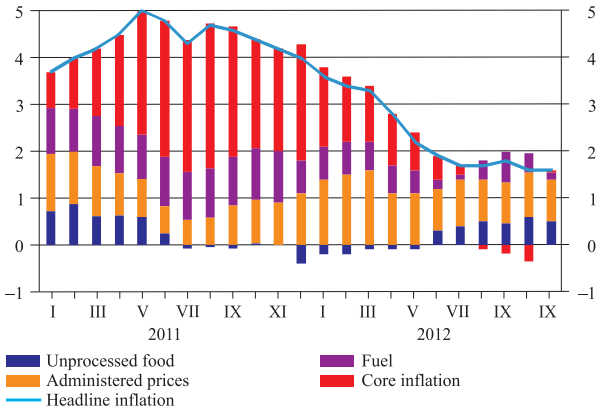
In the third quarter, Latvian GDP grew 5.2% year-on-year. This suggests that the overall GDP growth for 2012 could be higher than previously forecast (around 5.0%), putting Latvia in the lead among the European Union (EU) countries.

Exports were the largest contributor to GDP growth in 2012: almost all main commodity groups experienced export growth in the third quarter which exceeded that of the imports. Moreover, the economic growth was supported by rising private consumption due to improvement in the purchasing power of households. Finally, even though the contribution from investment was not quite as large as in the previous quarters, it still accounted for a rather substantial part of GDP growth for the year as a whole.

Further development of the Latvian economy will be largely dependent on the developments in Latvia's main trade partners. In 2013, Latvia's economic growth is expected to decelerate as a result of weaker export development compared to this year. Nevertheless, the Latvian GDP growth, in all likelihood, will remain among the fastest in the EU in 2013 as well.

Inflation remains consistently low

Inflation in Latvia
(year-on-year; %)



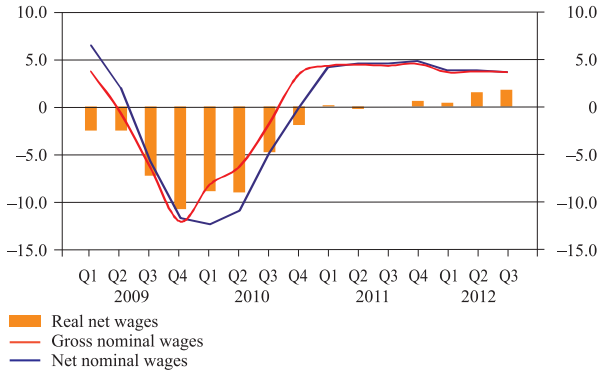
In November the annual inflation in Latvia remained as low as in October (1.6%). The global food prices mostly follow a slightly downward trend. Nevertheless, the Latvian food market still experiences the lagged effects from the elevated grain prices gradually passing through to the prices of both unprocessed and processed food. This can thus be considered a supply-side-caused price rise that represents no threat to the price stability over the medium term or longer term.

On the other hand, stable global oil prices had a favourable effect on energy prices in Latvia, including both fuel prices and other, mostly administered, prices.

Currently, the wage improvements are in step with those of the productivity. Consequently, the labour market is not expected to exert any substantial inflationary pressure on consumer prices in the coming months. If the global commodity prices retain stability, inflation in Latvia will also remain at a persistently low level.

Productivity gains and low inflation lead to higher purchasing power

Wage growth in Latvia
(year-on-year; %)



In the third quarter, the purchasing power of the average wage and salary continued to improve, increasing 1.9% year-on-year. The average wage and salary grew by 3.6% year-on-year in nominal terms, i.e. not one iota faster than during the first half of the year. Consequently, the purchasing power improved mostly on account of the drop in inflation observed since the beginning of the year.

Overall, the wage and salary rises go hand in hand with productivity growth and do not cause any concerns about the price stability. Higher productivity could lead to slightly more significant wage and salary improvements in 2013. Stable productivity gains are the foundation for any sustainable rises in wages and salaries that do not distort the competitiveness of the economy, which is the case in Latvia already from the beginning of 2010. Despite the shortage of labour observed in several industries, this concerns mainly highly qualified staff and therefore is not translated into an overall salary rise decoupled from productivity gains.