LATVIJAS BANKA

PRESS RELEASE

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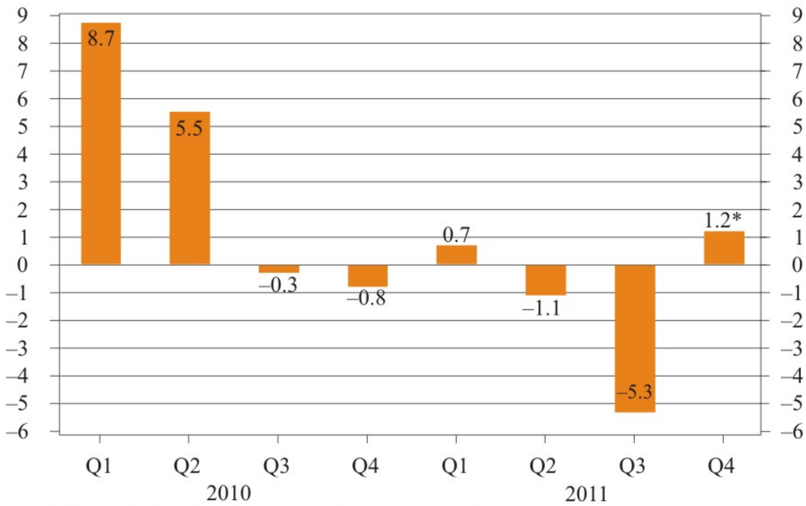
Latvia's Balance of Payments in the Fourth Quarter of 2011 and Year 2011

In 2011 the current account deficit of the balance of payments was 170.9 million lats or 1.2% of the forecast GDP. The current account surplus of 46.2 million in the fourth quarter notwithstanding, the overall annual balance was notably affected by one-off substantial purchases of investment goods made in the third quarter and driving up imports of goods considerably. A more successful performance of the companies owned by foreign investors was another factor expanding the current account deficit.

CURRENT ACCOUNT BALANCE
(% of GDP)



* Calculation is based on the Bank of Latvia's GDP forecast.

In the fourth quarter of 2011 the overall trade balance deficit in goods and services stood at 82.0 million lats. The foreign trade deficit in goods declined as the decrease in imports of goods exceeded the moderation of the value growth of exports of goods. The positive contribution of the services trade balance grew in the fourth quarter as exports of services continued on the upward trend while their imports contracted (transportation and imports of travel services posted the sharpest fall). Nevertheless, the surplus in the services trade balance failed to fully offset the goods trade balance deficit.

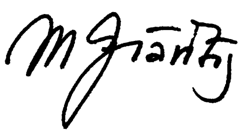
In 2011 the overall foreign trade deficit in goods and services amounted to 474.9 million lats or 3.4% of the forecast GDP. Exports and imports of goods grew by 25.7% and 30.5% respectively, while exports of services expanded more rapidly than their imports (by 14.4% and 11.0% respectively). The growth in exports of services was supported by the positive dynamics of the transportation sector, with the value of transportation by rail and road increasing by more than one third and exports of travel services, financial services and information and computer services also posting a rise.

The income account has recorded a deficit already since the second half of 2010, and also in 2011 its overall balance was negative (132.9 million lats or 0.9% of the forecast GDP), mostly as a result of the growing income on foreign investor investment.

In 2011 the current transfers account posted a 437.0 million lats surplus or 3.1% of the forecast GDP. The current transfers account received substantial inflows of the European Union funding, particularly those from the European Agricultural Guidance and Guaranty Fund (195.8 million lats) and European Social Fund (91.2 million lats).

In 2011 the inflows of the European Union funding also contributed significantly to the **capital account** surplus as it reached 301.2 million lats or 2.1% of the forecast GDP. Outflows from the **financial account** in 2011 mostly resulted from bank deleveraging and an increase in their assets whereas inflows stemmed from foreign direct investment. The substantial year-on-year investment growth (783.0 million lats or an almost four-fold increase) demonstrates an improvement in investors' confidence. The foreign direct investment structure changed in comparison with the previous year. Investment in the trade and transportation and communications sectors grew considerably while the largest inflows were observed in financial intermediation and real estate and other business activities.

Overall a minor current account deficit is likely to persist **in 2012**. After the success in 2011 exporters have to find new solutions, mostly due to the fall in external demand, in order to retain and expand their market shares abroad. In 2012 a rise in imports of goods might result from inflows of funds related to European Union projects in the capital account as well as inflows of private capital related to the implementation of investment projects; moreover, these capital investments will support an increase in production and exports.



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