



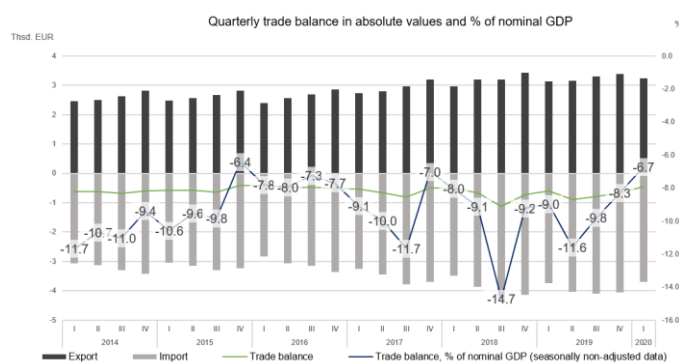
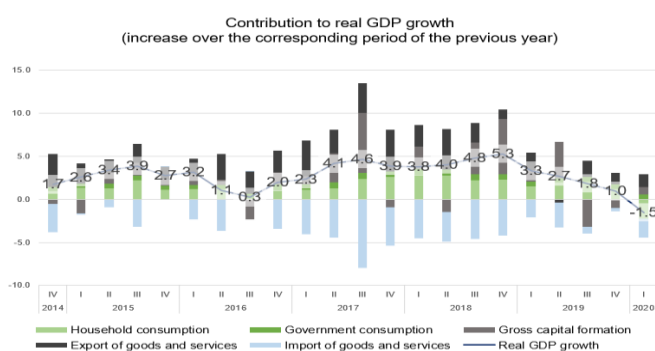
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## Quarter I of 2020 monitoring of macroeconomic indicators

The results of the first quarter of 2020 show both the first effects of Covid-19 lockdown and the cooling of the Latvian economy, started in 2019. The economic sentiment indicator for Latvia's main trading partners started to decline from March, while in February it was still optimistic. Among other things, in Latvia the confidence indicator by sectors started to decrease already in February, except for the industrial sector, where the mood was positive, but in March there was already a decrease in confidence for all sectors. The GDP decline in the first quarter of 2020 was 1.5%. According to the seasonally adjusted data of the Central Statistical Bureau (CSB), the decline was due to a sharp drop in household consumption (to -2.3% compared to the first quarter of 2019). GDP has been positively affected by exports of goods and services (+ 1.4% compared to the first quarter of 2019), investment (+ 1.1%) and, to a lesser extent, by government consumption (+ 0.5%). The decline in imports and a slight increase in exports led to an improvement in the trade balance from (-8.3%) to (-6.7%) of GDP.

Macroeconomic indicator (seasonally adjusted)	2018 actual data				2017	2019 actual data				2019	2020 actual data				2020	Forecast (15.06.2020 <sup>1</sup> )				2020 comparison to forecast
	I	II	III	IV		I	II	III	IV		I	II	III	IV		2020	2020	2021	2022	
Real GDP growth	3.8%	4.0%	4.8%	5.3%	4.3%	3.3%	2.7%	1.8%	1.0%	2.2%	-1.5%	-	-	-	-	-7.0%	5.1%	3.1%	3.1%	higher than forecasted
Nominal GDP growth	7.9%	8.0%	9.0%	9.6%	8.4%	7.5%	6.0%	4.1%	2.3%	4.9%	-0.2%	-	-	-	-	-7.4%	6.5%	5.3%	5.2%	higher than forecasted
Inflation (CPI)	2.0%	2.4%	2.9%	2.9%	2.6%	2.9%	3.3%	2.9%	2.2%	2.8%	1.9%	-	-	-	-	0.2%	1.2%	2.0%	2.0%	higher than forecasted
GDP deflator	3.8%	3.8%	4.1%	4.1%	4.0%	4.0%	3.1%	2.3%	1.4%	2.6%	1.3%	-	-	-	-	-0.5%	1.3%	2.0%	2.0%	higher than forecasted

Source: CSB, FDC, MoF.



### Advantages of economic growth in 2020Q1

In the 1st quarter of 2020, the volume of exports of goods increased by 3.5% (y-o-y) due to exports to the CIS and Other countries. Exports to EU countries, on the other hand, fell by 1%. In March, the value of Latvia's exports decreased by 0.7%. According to the CSB, in the first quarter of 2020, Latvia's foreign trade turnover at current prices reached 6.87 billion euros - by 20.3 million euros or 0.3% more than in the corresponding period of 2019. The value of exports amounted to 3.23 billion euros (an increase of 110.1 million euros or 3.5%), while the value of imports amounted to 3.64 billion euros (a decrease of 89.8 million euros or 2.4%).

In the first quarter of 2020, wages continued to grow, but slower: compared to the corresponding period of 2019, the average monthly gross wage increased by 7% in January, reaching 1101 euros, in February - by 7.8% (1,085 euros), but in March the pace was the lowest - 5% (1113 euros). Overall, in the 1st quarter, gross wages for full-time work increased by 6.6% and the average wage in the public sector was 1,104 euros and in the private sector 1,100 euros. Although this is an unfavourable factor from the point of view of household consumption, but in general, the slowdown in wage growth can be seen as a sign of the normalization of the previously tension labour market.

### Disadvantages of economic growth in 2020Q1

According to the CSB data, the unemployment rate reached 7.4% in the first quarter. In total, compared to the first quarter of 2019, the number of unemployed increased by more than five thousand people, aged 15-74. In the first quarter, the number of unemployed increased among men and most often were men with professional or secondary professional education.

Exports of services fell by 6.5% in the first quarter. The largest declines were observed in the transport services sector (-8.2%) and the telecommunications (-1.1%). It should be noted that the decline in transport services was recorded at a time when Covid-19 restrictions were not yet in place at most national borders.

The volume of freight transportation in the railway transport segment reached a decline of (-21.6%) in the first quarter, with a declining trend in this segment since the first quarter of 2019. There is also a significant reduction in the number of employees in companies in the sector. Data on freight transport by road registered in Latvia in the 1st quarter show that the volume of freight transported decreased by (-0.7%) compared to the 1st quarter of 2019. The contribution of Latvian ports to cargo turnover decreased by (-29.3%), continuing the decline observed in previous quarters. The largest decrease in cargo turnover was observed in the port of Ventspils (-15%) and in the port of Riga (-12%).

The number of registered vehicles fell sharply in the first quarter, suggesting that high uncertainty about the duration of the COVID-19 crisis affected both transport companies investment in fixed assets and households priorities for long-term car investment. Compared to the corresponding period of the previous year, in the 1st quarter of 2020, the number of registrations of new lorries (incl. road tractors) has decreased by (-35%) and new passenger cars- by (-13%).

In the 1<sup>st</sup> quarter of 2020 loans to residents (in total) decreased on average by (-2.5%). However, in the period from January to March small lending activity was observed in the local government segment (+0.8%), month over the corresponding month of the previous year) and in the household segment (+0.3%), due to mainly real estate loans.

<sup>1</sup> macroeconomic forecast endorsement (15.06.2019) <https://fiscalcouncil.lv/17022020-macroeconomic-forecast-endorsement>