

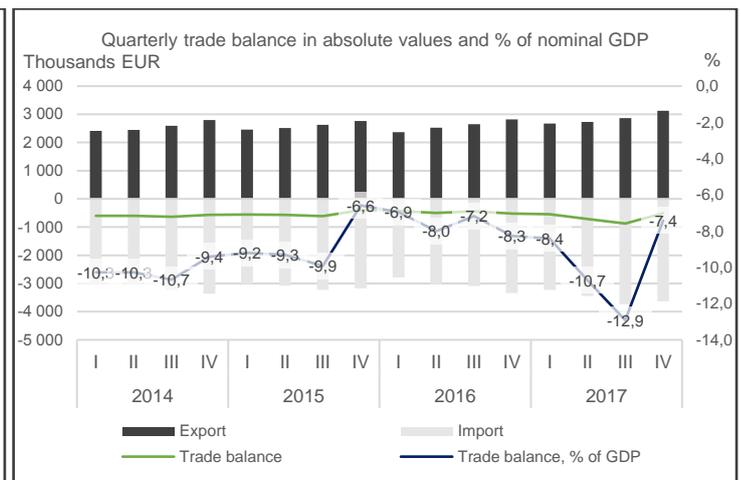
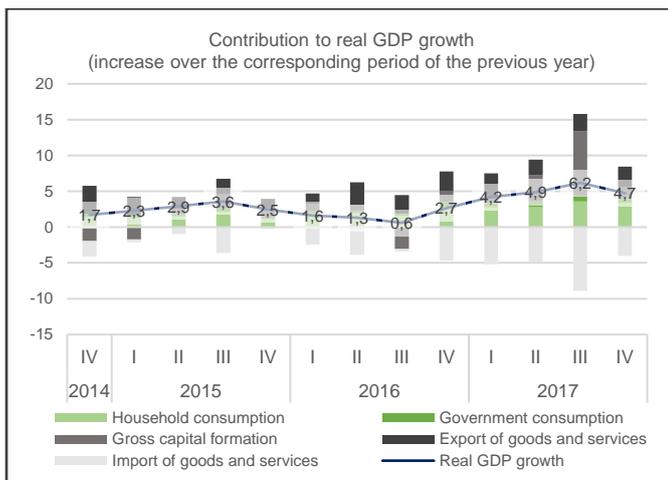


Fiskālās disciplīnas
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Quarters I-IV of 2017 monitoring of macroeconomic indicators

During the year 2017 the increase of both the real and nominal gross domestic product (GDP) has been higher than expected. The main contributor to fast GDP growth in 2017 was gross capital formation and household consumption. Consumer price index has also exceeded the forecasted levels of last year.

Macroeconomic indicator	2016 actual data				2016	2017 actual data				2017	Forecast				in comparison to 2017 prediction
	I	II	III	IV		I	II	III	IV		2017	2018	2019	2020	
Real GDP growth	1,6%	1,3%	0,6%	2,7%	2,2%	4,2%	4,9%	6,2%	4,7%	4,5%	3,7%	3,4%	3,2%	3,2%	excess
Nominal GDP growth	1,7%	1,3%	1,8%	4,4%	2,5%	6,0%	7,7%	8,7%	7,8%	7,7%	6,6%	6,3%	5,7%	5,6%	excess
Inflation (PCI)	-0,4%	-0,7%	0,2%	1,5%	0,1%	3,2%	3,1%	2,9%	2,6%	2,9%	2,8%	2,8%	2,4%	2,1%	excess
GDP deflator	-0,4%	-0,5%	0,6%	1,3%	0,3%	2,5%	3,4%	3,2%	3,0%	3,0%	2,8%	2,8%	2,4%	2,3%	excess



Advantages of economic growth in 2017

The forecasts of economic growth for Latvia, Baltic States and other European Union countries have been increased for upcoming years due to regained optimism and improved economy in 2017. Both consumer and business confidence indexes are high and stable.

During 2017, the turnover has increased in manufacturing, reaching historically high capacity usage, as well as in construction and other sectors. The export growth was stimulated by increasing external markets and demand; export increased in almost all sectors. A significant contribution to export growth came from turbo-reactive and turbo-propeller engine re-export to USA and plant product exports. The export also increased in sectors such as food products, wood products, base metals and its products, electrical equipment, vehicles, mineral products and furniture¹.

Investments were the main contributor to economic growth in 2017, of which an important aspect was the increasing activity in implementation of EU Structural funds.

The increasing economic activity has decreased the unemployment rate to the historically lowest level since 2008 (the official unemployment rate is below 7%).

Disadvantages of economic growth in 2017

While all the components with a positive contribution to GDP growth (household and governmental consumption, export and gross capital formation) have improved in 2017, the GDP growth was slowed down by fast increase in imports. However, a significant share of imports came from aircraft purchases by *airBaltic*.

The activity of lending is still limited – while there was an incremental increase in value of loan portfolio of domestic enterprises, the value of loan portfolios of domestic households and foreign customers fell².

The number of entrepreneurs claiming that labour shortage is restricting their business activity has increased for the second year in a row. The tightening of labour market has contributed to the wage increase correspondingly leading to inflation risks for 2018. According to the *Eurostat* data, in 2017 the inflation level was on average higher in Euro zone countries with actual unemployment level below the natural unemployment level³. The regional differences in unemployment still remain problematic – the unemployment level in Latgale region is more than twice as high as the average-national unemployment level.

¹ Bank of Latvia, available in Latvian: <https://www.makroekonomika.lv/eksports-ir-apnemibas-pilns-turpinat-2017-gada-labi-iesakto> [accessed 13.03.2018.]

² Financial and Capital Market Commission, available in Latvian: http://www.fktk.lv/attachments/article/6556/Q2_2017_L_parskats.pdf [accessed 13.03.2018.], 1p.

³ Bank of Latvia, available in Latvian: <https://www.makroekonomika.lv/tik-dazadais-bezdarbs> [accessed 13.03.2018.], Figures 2 and 3