



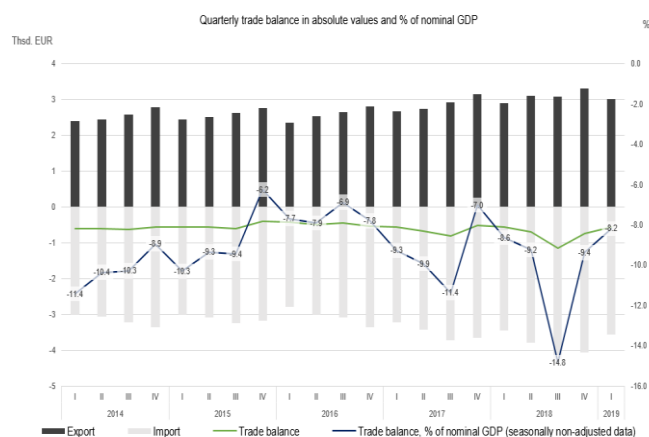
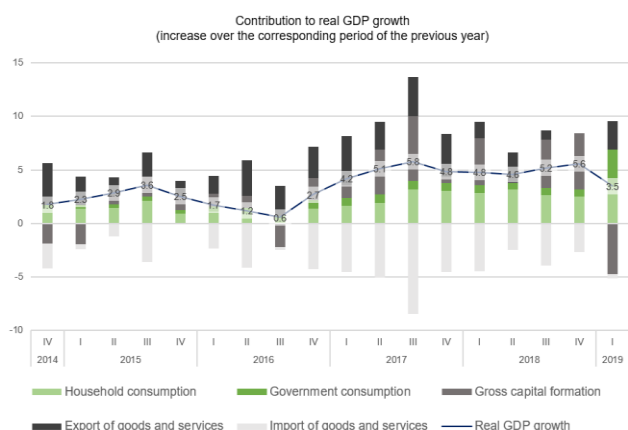
Fiskālās disciplīnas
padome

Quarter I of 2019 monitoring of macroeconomic indicators

Real GDP growth in 2019Q1 was about 0.2pp lower than forecasts, endorsed in April 2019, however nominal GDP growth slightly exceeded the forecasts. Decreasing of Real GDP growth in 2019Q1 was caused by weaker investment and construction growth as well as contraction of energy sector. The main contribution to GDP growth in 2019Q1 comes from household consumption (3.5%) and government consumption (3.3%), trade balance contribution is also positive (2.4%).

Macroeconomic indicator	2017 actual data				2017	2018 actual data				2018	2019	Forecast (Apr. 2019) ¹			Quarter I, 2019 in comparison to forecast
	I	II	III	IV		I	II	III	IV			2019	2020	2021	
Real GDP growth	4.2%	5.1%	5.8%	4.8%	4.6%	4.8%	4.6%	5.2%	5.6%	4.8%	3.0%	3.2%	3.0%	2.9%	lower than forecasted
Nominal GDP growth	6.2%	8.3%	9.4%	8.5%	8%	9.1%	8.9%	9.6%	10.4%	9.2%	6.9%	6.4%	5.9%	5.5%	excess
Inflation (CPI)	3.2%	3.1%	2.9%	2.6%	2.9%	2%	2.4%	2.9%	2.9%	2.5%	2.9%	2.5%	2.2%	2.1%	excess
GDP deflator	2.4%	3.5%	3.7%	3.1%	3.2%	3.8%	4%	4.5%	4.6%	4.2%	3.8%	3.1%	2.8%	2.5%	excess

Source: CSB, FDC, MoF.



Advantages of economic growth in 2019Q1

The rail and road freight growth remains high in 2018Q4 after recovery in 2018Q2. Contribution of ports to growth of cargoes turnover in 2019Q1 has been positive, thanks to performance of all ports, except for Liepaja (-0.7%, compared to the corresponding period of 2018).

Main contributor to export growth of services in the beginning of 2019 have been so called other services. Transportation together with travel, computer and IT, and other business services have been the leading sectors in services export in 2019Q1. Export growth for all sectors, except for financial services, was positive in 2019Q1, compared to 2018Q1.

Nominal labor productivity (both per person employed and hour worked) in Latvia in 2017 was approx. 7-8% lower than in Estonia and Lithuania. Notable fact is that, since 2010, the level of real labor productivity in Latvia has increased faster than in Estonia and Lithuania.

The retail growth rate in beginning of 2019 has increased since December 2018. The main contributors to retail output growth in March 2019 have been food and non-food industries.

Disadvantages of economic growth in 2019Q1

Labor shortage problem in 2019 continuously increases across all sectors, with a slight decrease for services sector. In 2019Q1 the highest labor shortage has been observed in manufacturing sector - in April 26% of enterprises have claimed that labor shortage is restricting their business development.

Average gross wage continues to rise both in the public and private sectors compared to the corresponding period of the previous year - growth for 2018 was 8.4%. In this way, both pressure on employers and prerequisites for inflation are emerging.

Average capacity utilization in manufacturing remains high (above 75%), capacity utilization for small enterprises has repeatedly reached its historical maximum (70%). In 2019Q1, in all manufacturing industries (except for food-and-drinks) capacity utilization has been 75% or higher.

The lending activity in the beginning of 2019 has been presumable as low, the value of real estate loans issued to households continues to decrease.

¹ Endorsement of the macroeconomic indicator forecast (https://fiscalcouncil.lv/files/uploaded/FDP_1_08_215_20190215_macroecconomic_forecasts.pdf)