



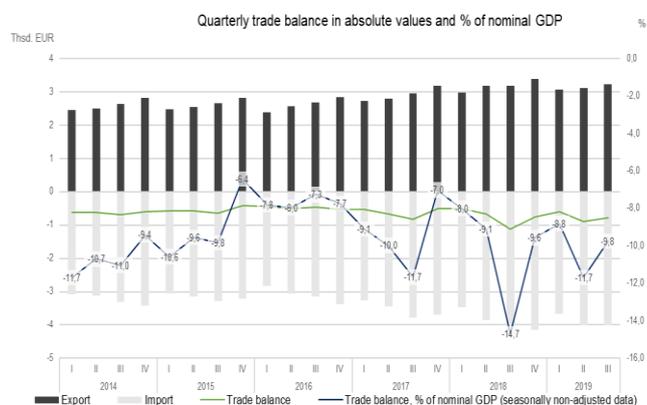
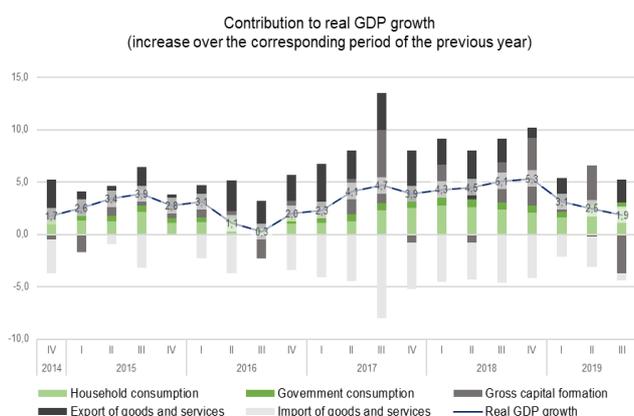
Fiskālās disciplīnas
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Quarter III of 2019 monitoring of macroeconomic indicators

Both real and nominal GDP growth in the third quarter of 2019 lagged behind the forecasts of the MoF, which were approved this June. The largest contribution to GDP growth by 1.9% in 2019 Q3 (compared to 2018Q3) was driven by household consumption growth of 2.5% and export growth of 2.2%, while investment in the third quarter of 2019 fell by 3.8%, and imports of goods continued to decline also. Compared to the performance of 2017 and 2018, the volume of Latvia's exports has generally declined. In the third quarter, exports of goods increased by only 1.1% year-on-year, with exports to Lithuania and Russia increased by 17% and 15%, respectively. However, exports to the United Kingdom have fallen by -9% and Sweden by -7%.

Macroeconomic indicator (seasonally adjusted)	2017 actual data				2017	2018 actual data				2018	2019			Forecast (25.06.2019) ¹				Quarter II, 2019 in comparison to forecast
	I	II	III	IV		I	II	III	IV		I	II	III	2019	2020	2021	2022	
Real GDP growth	2.3%	4.1%	4.7%	3.9%	3.8%	4.3%	4.5%	5.1%	5.3%	4.6%	3.1%	2.5%	1.9%	3.2%	2.8%	2.8%	2.8%	lower than forecasted
Nominal GDP growth	4.5%	7.3%	8.3%	7.0%	6.9%	8.4%	8.4%	9.2%	9.8%	8.8%	7.0%	5.7%	4.4%	6.4%	5.6%	5.3%	5.3%	lower than forecasted
Inflation (CPI)	3.2%	3.1%	2.9%	2.6%	2.9%	2.0%	2.4%	2.9%	2.9%	2.5%	2.9%	3.3%	2.9%	2.8%	2.5%	2.1%	2.0%	excess
GDP deflator	2.2%	3.3%	3.5%	2.9%	3.0%	3.9%	3.6%	4.0%	4.4%	4.0%	3.7%	3.0%	2.4%	3.1%	2.7%	2.4%	2.4%	lower than forecasted

Source: CSB, FDC, MoF.



Advantages of economic growth in 2019Q3

Exports of services overall increased by 5.5% in the third quarter of 2019 compared to the third quarter of 2018. The structure of service exports was dominated by so-called "other business services", construction and transport. At the same time, exports of financial services fell by 1.3% and exports of telecommunications services fell by 0.2%. In September 2019, exports of services increased significantly, reaching 14.7% compared to September 2018. The largest increase is contributed by the so-called "Other Services" segment - 6.7% in September compared to September 2018.

In the period between July and September, lending activity to both residents and households has improved. In the reporting period, the largest growth in loans to the resident segment was observed in July, at 2.1%, with the largest amount of loans to non-financial institutions. In the household segment, loans increased by 1%, mainly due to the activation of real estate loans.

In the third quarter of 2019, average gross wages and salaries have increased in all planning regions compared to the third quarter of 2018, which contributes to the development of household consumption. The average gross salary in Riga was 53% higher than in the Latgale region. The highest salary increase in the third quarter of 2019 (compared to the third quarter of 2018) was observed in Zemgale and Latgale planning region (8.6%).

Disadvantages of economic growth in 2019Q3

Average gross wages continued to rise in both the public and private sectors. Compared to the third quarter of 2018, the average wage growth in the country reached 8.3%, it should be noted that in this quarter the growth rate was similar in the public sector (8.5%) and the private sector (8.45%). At the same time, Nominal labor productivity (both per person employed and hour worked) in Latvia in 2018 was about 69.1% of the EU level, which is approx. 12% lower than in Estonia and 9% lower than in Lithuania. Since 2015, the level of real labor productivity in Latvia has increased faster than in Estonia and Lithuania.

Freight traffic in both road and rail has been declining for three consecutive quarters since early 2019. The overall decline in the third quarter was about 9.7% compared to the corresponding period of 2018. In the third quarter of 2019, the contribution of Latvian ports to cargo turnover declined by 8.6%, marking a downturn for two consecutive quarters. The Port of Riga also experienced the largest decrease in cargo turnover for two consecutive quarters, decreasing by 8.1% in the third quarter compared to the corresponding period of 2018. In the third quarter, all Latvian ports, except Liepaja, showed a decrease in the volume loaded and unloaded of cargoes. In the port of Liepaja, cargo turnover increased only by 0.04%.

Retail sales growth was moderate between July and September and slowed somewhat in September compared with the corresponding period of 2018. On average, in the third quarter, total retail trade turnover grew by 4.2%. The main contributor to this growth was the reliance on non-food retail and retail sale in non-specialized stores. Turnover for car fuel retailers dropped 0.1% in September.

¹ https://fiscalcouncil.lv/27062019_macro-economic_forecast_endorsement