



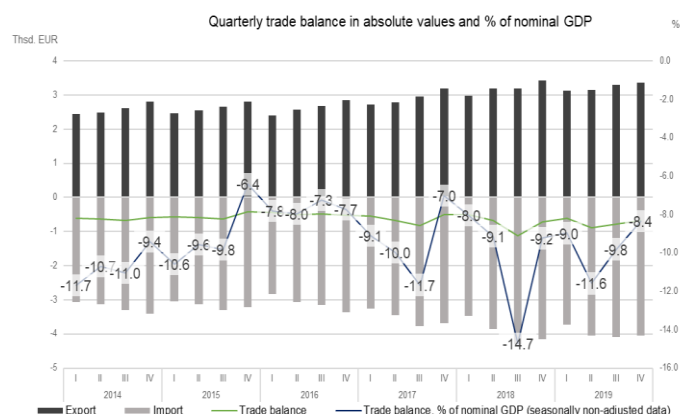
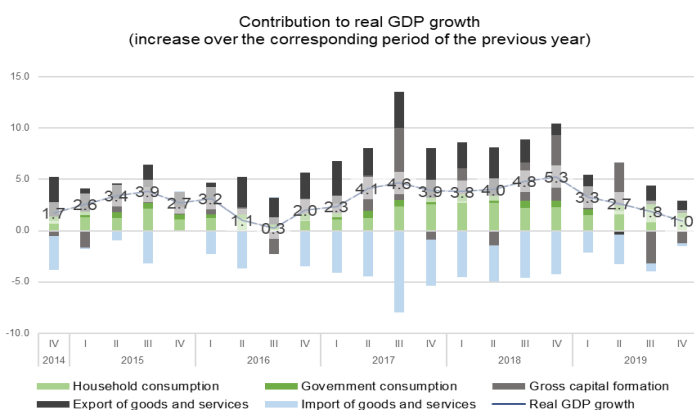
Fiskālās disciplīnas
padome

Quarter IV of 2019 monitoring of macroeconomic indicators

Both real and nominal GDP growth in the third quarter of 2019 lagged behind the MoF forecasts, which were approved by FDC in June¹. GDP growth in the last quarter of 2019 was 1%. The largest contribution to GDP growth in 2019 IV quarter was supported by exports grew by 1.3% and household consumption by 1.2%, while gross capital formation fell by 1.2%, experiencing a decline with this segment for the second consecutive quarter. The contribution of government consumption to GDP growth is stable at 0.5%. Compared to the performance of 2017 and 2018, export volume from Latvia have generally decreased. In the fourth quarter, year-on-year exports of goods decreased by 1.5%, with exports to the EU28 falling (-2.7%). Exports to the CIS countries, on the other hand, increased slightly (+ 1.2%). In the fourth quarter of 2019, export to main trading partners increased to Russia, Estonia and Germany. Export fell to Lithuania, Denmark and the United Kingdom, exports to Sweden fell particularly sharply (-17% on average).

Macroeconomic indicator (seasonally adjusted)	2017 actual data				2017	2018 actual data				2018	2019 actual data				2019	Forecast (25.06.2019)				2019 comparison to forecast
	I	II	III	IV		I	II	III	IV		I	II	III	IV		2019	2019	2020	2021	
Real GDP growth	2.3%	4.1%	4.6%	3.9%	3.8%	3.8%	4.0%	4.8%	5.3%	4.3%	3.3%	2.7%	1.8%	1.0%	2.2%	3.2%	2.8%	2.8%	2.8%	lower than forecasted
Nominal GDP growth	4.5%	7.3%	8.2%	7.0%	6.9%	7.9%	8.0%	9.0%	9.6%	8.4%	7.5%	6.0%	4.1%	2.3%	4.9%	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%	2.6%	2.9%	3.3%	2.9%	2.2%	2.8%	2.8%	2.5%	2.1%	2.0%	forecast fulfilled
GDP deflator	2.2%	3.3%	3.5%	2.9%	3.0%	3.8%	3.8%	4.1%	4.1%	4.0%	4.0%	3.1%	2.3%	1.4%	2.6%	3.1%	2.7%	2.4%	2.4%	lower than forecasted

Source: CSB, FDC, MoF.



Advantages of economic growth in 2019Q4

The increase in the consumer price level can be generally described as stable in all consumption segments and is generally within the range of projected indicators. According to the CSB data, in the last three months of 2019 the consumer price level increased on average by 2.9%. Compared to 2015, consumer prices in December 2019 were 8.8% higher. Prices for goods increased by 7.3%, but for services by 12.6%.

In manufacturing, average capacity utilization in all enterprise size groups remains high at 75%, while capacity utilization in small enterprises is at 72%, the highest since 2010.

In the 4th quarter of 2019, the capacity utilization of the manufacturing industry was 75%, and the highest indicator (77%) was achieved in the production of capital goods.

Disadvantages of economic growth in 2019Q4

Eurostat data on labor productivity suggest that productivity during 2019 continued to grow, but slowly. Nominal labour productivity per employee in Latvia in 2019 was 68.8% of the EU average (increase compared to 2018 (+0.5%p. points), productivity per hour worked was 60.2% of the EU average (increase compared to 2018 (+1.5%p. points). The indicators suggest that productivity continued to grow slowly during 2019, however, it was approx. 12.5% lower than in Estonia and 10.8% lower than in Lithuania.

The volume of freight transport in both the road and rail segments has shown a decline throughout 2019. The total decline in the fourth quarter reached 13.5% year-on-year. In the fourth quarter of 2019, the contribution of Latvian ports to cargo turnover decreased sharply, declining by 13.3%, marking a decline for three consecutive quarters. The port of Riga also saw a decrease in cargo turnover for three consecutive quarters, in the fourth quarter it decreased by 5% compared to the corresponding period of 2018. In the fourth quarter, the largest decline was observed in Ventspils port (-7.9%) as a result of the application of sanctions and the rapid change of management structure.

In the period from October to December, the growth of industrial production slowed down more and more. Compared to December 2018, the increase in production was only 0.8%. During this period, the Mining and quarrying sector declined on average (-5%) and the electricity and gas supply sector continued to decline on average (-5%). In the last three months of 2019, an increase in production volume in manufacturing was observed on average by 2%. In the fourth quarter, overall output and turnover in manufacturing decreased by 0.6%, with the largest contribution to this decline being related to the manufacture of wood products (except furniture) -2.5% and the manufacture of chemical products -0.1%. A slight increase was observed in the food industry (+ 0.7%) and the metal products industry (+ 0.8%), the slowest growth was observed in the manufacture of computers and electronics (+ 0.1%).

In the 4th quarter of 2019, the problem of labour shortage was most pronounced in the retail and manufacturing sectors, where this factor was indicated as a limitation by 24% of the surveyed enterprises. In the service provider sector, the availability of labour has started to normalize since the beginning of 2019.

¹ macroeconomic forecast endorsement https://fiscalcouncil.lv/27062019_macroecconomic_forecast_endorsement