



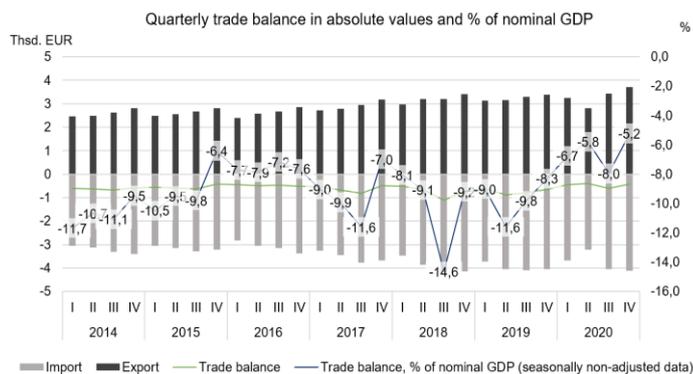
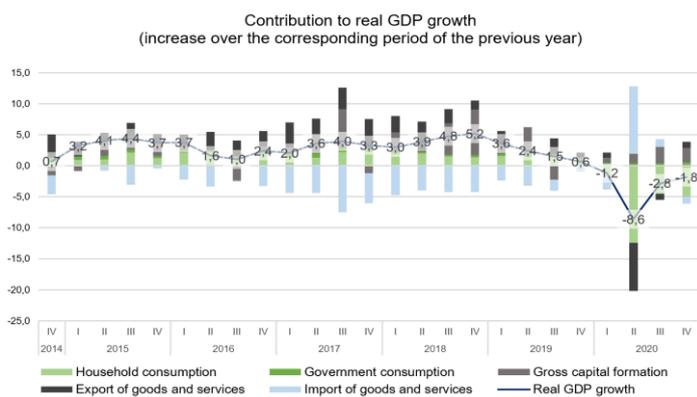
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Quarter IV of 2020 monitoring of macroeconomic indicators

In the fourth quarter of 2020 GDP at current prices was 7,534 billion EUR, nominal GDP fell by 1.4%, real GDP fell by 1.8%. Household consumption had the largest negative impact on GDP (-5%), while investment (2.4%), government consumption (0.5%) and exports (1%) had a positive impact. Consumer prices remained in the deflation range in the fourth quarter (-0.6%). Macroeconomic projections comparing with performance in 2020 are broadly conservative. Annual real GDP performance was 3.4 percentage points higher than projected, nominal GDP performance was 3.8 percentage points higher than forecast, the inflation forecast was fulfilled, but the deflator forecast was 0.6 percentage point higher than forecast.

Macroeconomic indicator (seasonally adjusted)	2018 actual data				2017	2019 actual data				2018	2020 actual data				2020	Forecast (15.06.2020 ¹)				2020 comparison to forecast
	I	II	III	IV		I	II	III	IV		I	II	III	IV		2020	2021	2022	2023	
Real GDP growth	3.0%	3.9%	4.8%	5.2%	4.0%	3.6%	2.4%	1.5%	0.6%	2.0%	-1.2%	-8.6%	-2.8%	-1.8%	-3.6%	-7.0%	5.1%	3.1%	3.1%	Higher than forecasted
Nominal GDP growth	7.0%	7.9%	8.7%	9.2%	8.1%	7.2%	5.3%	3.6%	1.9%	4.4%	-0.1%	-9.5%	-3.1%	-1.4%	-3.6%	-7.4%	6.5%	5.3%	5.2%	Higher than forecasted
Inflation (CPI)	2.0%	2.4%	2.9%	2.9%	2.5%	2.9%	3.3%	2.9%	2.2%	2.8%	1.9%	-0.4%	0.0%	-0.6%	0.2%	0.2%	1.2%	2.0%	2.0%	Forecast fulfilled
GDP deflator	3.7%	3.8%	4.1%	4.0%	3.9%	3.4%	2.7%	2.1%	1.3%	2.3%	1.1%	-1.0%	-0.2%	0.3%	0.1%	-0.5%	1.3%	2.0%	2.0%	Higher than forecasted

Source: CSB, FDC, MoF.



Advantages of economic growth in 2020 Q4

Manufacturing output in the 4th quarter of 2020 increased by 7.4% compared to the 4th quarter of 2019. The positive contribution to the growth was made by the manufacture of wood products (except furniture), where the output increased by 4.2%, the manufacture of chemicals and chemical products - by 0.5% and the manufacture of non - metallic mineral products - by 0.1%. Although the manufacturing industry, on the background of the Covid-19 crisis, helped to maintain economic activity and reduce the recession, some segments suffered. Among them, in the fourth quarter, there were food producers, whose output decreased by 0.2% and metal products producers, whose output decreased by - 0.1%.

The volume of exports in the fourth quarter increased by 9.6% compared to the last quarter of 2019. Exports to EU countries increased by 7.3%, but to other countries by 2.1%. At the end of 2020, exports of timber and timber products to Denmark and the United Kingdom increased significantly. Compared to November 2019, exports of these goods to Denmark increased by 42% and to the United Kingdom by 59%, while in December timber exports to the United Kingdom increased by 126% due to pre-Brexit activities.

Data for the fourth quarter of 2020 show an increase in road freight transport (11.7%), partly due to large timber exports in the last months of the year, and active use of goods delivery services due to restrictions on retail sales.

Disadvantages of economic growth in 2020 Q4

Despite an increase of 0.05% in freight transport in the fourth quarter, in which road transport had a large impact, the volume of rail freight decreased by 11.7% in the fourth quarter, as well as the turnover of freight sent and received by Latvian ports decreased by 22.9%.

Deflation was observed in the fourth quarter, the average consumer price level decreased by 0.6%. However, consumer prices have not fallen steadily. Prices fell for insurance, accommodation services, personal vehicle operating expenses. Housing rents and the costs of electricity, gas and other fuels also decreased. At the same time, the consumer price index increased in the outpatient services and social protection segments, as well as for certain food product groups.

According to the CSB data, in the 4th quarter of 2020, compared to the 3rd quarter, the unemployment rate has decreased by 0.5 percentage points and was 7.9%. In the 4th quarter, the status of an unemployed person was 75.6 thousand inhabitants, which is by 5.8 thousand or 7.1% less than in the 3rd quarter. However, in annual terms the picture is less optimistic, in 2020, compared to 2019, the number of unemployed has increased by 17.4 thousand or 28.4%. In 2020, the overall unemployment rate in Latvia was 8.1%, which is 1.8 percentage points higher than in 2019.

Retail sales fell by an average of 0.4% in the fourth quarter, with the sharpest decline observed in December (-4.5%), driven by tight measures restricting Covid-19 and restrictions on trade in special product groups.

In the last quarter of 2020, gross wages and salaries of employees increased by 6.7%, while wages and salaries in the private sector increased by 7% and in the public sector by 5.8%. However, according to the CSB's ad-hoc study, due to the COVID-19 pandemic crisis in 2020, compared to 2019, the number of full-time employees in the country decreased by 29.3 thousand, or 3.9%. It was affected by redundancies, reductions in workloads and a decrease in the number of full-time employees due to downtime benefits.

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