



Fiskālās disciplīnas
padome

Quarter II of 2021 monitoring of macroeconomic indicators

According to data published by the CSB, the real GDP in the second quarter of 2021 was 6.976 billion euro. Compared to the second quarter of 2020, the GDP grew by 10.8% (seasonally adjusted data), but compared to the previous quarter of this year, the growth was 4.4%. In the structure of GDP in the second quarter, the largest positive impact has been on investment (12.5%), exports (9.5%) and household consumption (8.2%).

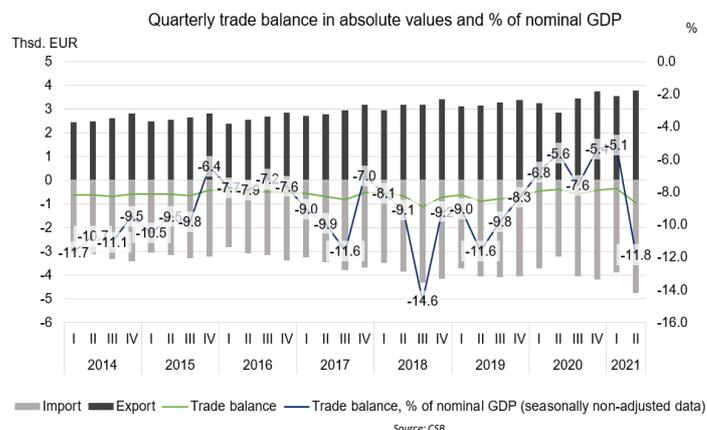
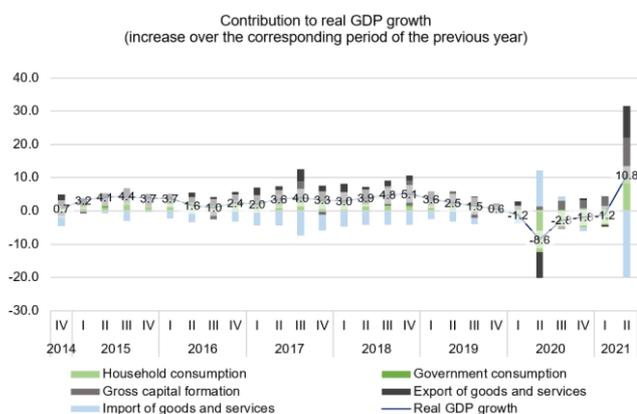
Changes in GDP by kind of activity, compared to 2020, show that activity in almost all sectors has successfully resumed.

Although the worst-hit sectors are recovering fastest, the level of accommodation and catering, arts and entertainment services, transport and storage services, etc. was not reached the pre-crisis level.

With imports growing significantly in the second quarter, the trade balance fell to (-11.8%) of GDP. Overall, however, there is a general economic recovery, supported by active consumption, production and exports. At the same time, inflation is rising sharply due to global demand/supply imbalances and rising gas and fuel prices.

| Macroeconomic indicator (seasonally adjusted) | 2019 actual data | | | | 2019 | 2020 actual data | | | | 2020 | 2021 actual data | | | | Forecast (14.06.) | | | | 2021 comparison to forecast |
|--|------------------|------|------|------|------|------------------|-------|-------|-------|-------|------------------|-------|-----|----|-------------------|------|------|------|-----------------------------------|
| | I | II | III | IV | | I | II | III | IV | | I | II | III | IV | 2021 | 2022 | 2023 | 2024 | |
| Real GDP growth | 3.6% | 2.5% | 1.5% | 0.6% | 2.0% | -1.2% | -8.6% | -2.8% | -1.8% | -3.6% | -1.2% | 10.8% | - | - | 3.7% | 5.0% | 3.5% | 3.4% | Higher than forecasted |
| Nominal GDP growth | 7.5% | 5.0% | 3.6% | 1.8% | 4.4% | 0.5% | -9.9% | -3.0% | -1.6% | -3.6% | 1.8% | 16.1% | - | - | 6.9% | 8.5% | 6.2% | 5.3% | Higher than forecasted |
| Inflation (CPI) | 2.9% | 3.3% | 2.9% | 2.2% | 2.8% | 1.9% | -0.4% | 0.0% | -0.6% | 0.2% | -0.1% | 2.3% | - | - | 2.0% | 2.4% | 2.2% | 2.0% | Higher than forecasted |
| GDP deflator | 3.4% | 2.6% | 1.9% | 1.2% | 2.2% | 0.7% | -1.2% | -0.4% | 0.2% | -0.2% | 2.7% | 5.6% | - | - | 3.1% | 3.3% | 2.6% | 1.9% | Higher than forecasted |

Source: CSB, FDC, Mof.



Advantages of economic growth in 2021 Q2

Unemployment continued to fall in the second quarter. According to the CSB data, the seasonally adjusted unemployment rate on average was 7.8% in the second quarter, compared to 8.5% in the second quarter of 2020. According to the SEA data, the registered unemployment rate averaged 7.6% in the second quarter. In the Latgale region, where unemployment is the highest, it reached 16% in the second quarter and it has increased by 0.3 percentage points when compared to the previous year. Unemployment rate decreased most successfully in Kurzeme region- it decreased by 1.1 percentage points compared to the second quarter of the previous year.

Capacity utilization in industries continues to grow in all sectors: it was 74.5% in the second quarter, reaching the pre-crisis levels. The highest capacity utilization (77%) is observed in the production of capital goods, followed by the production of intermediate goods 76.8%. The volume of industrial production increased on average by 8.2% in the second quarter. The 3-month average increase in electricity and gas supply was 8.5%, but in manufacturing 8.4%. In 3 months on average an increase of 5.4% is also observed in the mining and quarrying sector. Manufacturing output increased by 27.3% compared to the second quarter of 2020. The largest contribution to this increase was made by the production of wood and wood products (14.1%), which was also reflected in the increase in wood exports.

The volume of exports in the second quarter increased by 33.6% compared to the second quarter of 2020. Exports to EU countries increased by 28.4%. The share of exports by major trading partners in the second quarter indicated successful trade relations with the Baltic neighbours: 18.3% of exports were to Lithuania and 11.6% to Estonia. Germany (7.2%) and the United Kingdom (7.2%) were also important trading partners during this period.

The increase in retail trade turnover will have a positive short-term effect on growth in 2021. On average, in the months of the second quarter, retail trade turnover increased by 13.5%, mainly due to non-food retail trade, where turnover increased on average by 7%.

Disadvantages of economic growth in 2021 Q2

A general rise in consumer prices has been observed every month since March of this year; in the second quarter it affected almost all groups of goods and services. Consumer prices rose by 2.3% in the quarter. The rise in inflation is driven by long-term and short-term factors, including the global effect of postponed consumption and rising fuel and gas prices.

Along with the rise in consumer prices, the second quarter also saw an increase in the average wage by 10.2%, the average amount of gross wage was 1237 euros. The gross wages increased faster in the public sector (+13.4%), reaching on average 1291 euros, which is higher by 76 euros when compared to the private sector. The fastest wage growth in the public sector is observed in the health and social care sector (+35.1%) and the education sector (+12.4%). In the private sector, wages increased by 9%, reaching 1215 euros before taxes, the fastest growth observed in the trade sector (+11.7%). Although wage growth has a positive effect on household consumption, in the context of rising budget base expenditures and rising general consumer prices, it should rather be seen as a limiting factor for economic development.

Cargo turnover in Latvian ports decreased by 11.2% in the second quarter. The largest decline was observed in Ventspils port (-8%) and Riga port (-7%). However, in Liepāja port and small ports the cargo turnover has slightly increased, respectively by 2.9% and 0.8%. This allowed to slightly alleviate the decline in the total port turnover; however, since the second quarter of 2019, port turnover has been systematically declining.