



Fiskālās disciplīnas
padome

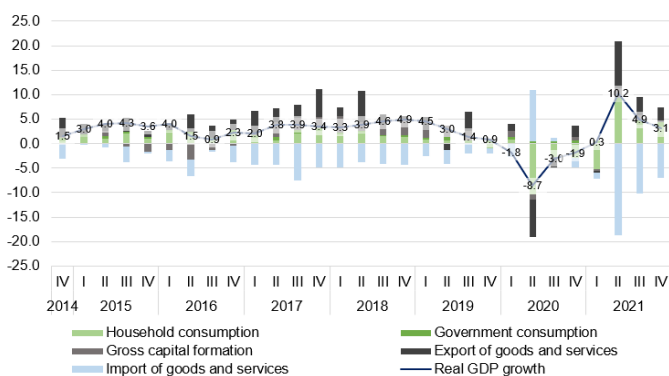
Quarter IV of 2021 monitoring of macroeconomic indicators

According to the data published by the CSB, in 2021 GDP growth reached 4.8%. Real GDP in the fourth quarter of 2021 was 7.006 billion euros. Compared to the fourth quarter of 2020, GDP grew by 3.1% (seasonally adjusted), however, compared to the third quarter of 2021, GDP dropped by 0.1%. GDP structure at this quarter was positively affected by growth in household consumption (+ 3.5%), growth in exports (+ 3.1%) and government consumption (+ 0.9%), while fixed capital formation declined by 0.1%. The positive trend in the economic recovery has been overshadowed by the sharp rise in inflation. 2021 started with a deflation of 0.1%, but in the last quarter, inflation reached 7.1%. The annual inflation rate reached 3.3%.

Macroeconomic indicator (seasonally adjusted)	2019 actual data				2019	2020 actual data				2020	2021 actual data				2021	Forecast (14.06.21)				2021 comparison to forecast
	I	II	III	IV		I	II	III	IV		I	II	III	IV		2021	2021	2022	2023	
Real GDP growth	4.5%	3.0%	1.4%	0.9%	2.5%	-1.8%	-8.7%	-3.0%	-1.9%	-3.8%	0.3%	10.2%	4.9%	3.1%	4.8%	3.7%	5.0%	3.5%	3.4%	Higher than forecasted
Nominal GDP growth	8.7%	6.0%	3.6%	2.4%	5.1%	0.0%	-9.3%	-4.2%	-1.9%	-4.0%	2.5%	16.8%	13.4%	13.4%	11.8%	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%	3.8%	7.1%	3.3%	2.0%	2.4%	2.2%	2.0%	Higher than forecasted
GDP deflator	4.0%	2.9%	2.1%	1.5%	2.6%	1.5%	-0.8%	-0.9%	-0.1%	-0.1%	2.2%	6.2%	7.9%	9.9%	6.7%	3.1%	3.3%	2.6%	1.9%	Higher than forecasted

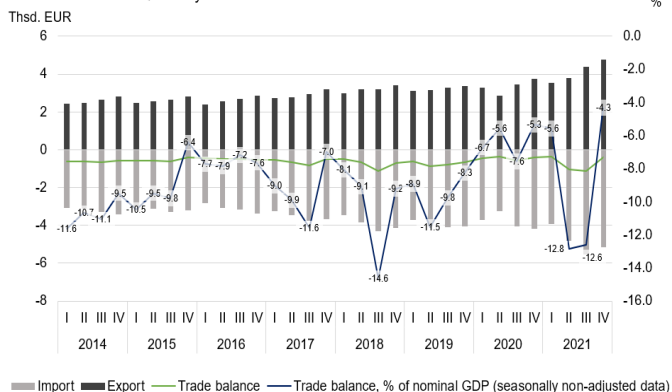
Source: CSB, FDC, MoF.

Contribution to real GDP growth (increase over the corresponding period of the previous year)



Source: CSB

Quarterly trade balance in absolute values and % of nominal GDP



Source: CSB

Advantages of economic growth in 2021 Q4

Exports continue to strengthen GDP growth. In the fourth quarter, Latvia's exports of goods increased by 27.5%, exports to EU countries accounted for the largest share (+ 26.9%). Exports to the CIS countries decreased by 0.3% in the fourth quarter, while exports to other countries increased by 1%. In the breakdown by main trading partners in the 4th quarter, 19% of exports belonged to Lithuania and 11% to Estonia. About 7% of exports are to the United Kingdom, Russia and Germany, 4% to Denmark and 5% to Sweden.

The decline in the unemployment rate indicates a stabilization of economic growth. According to the SEA data, the registered unemployment rate averaged 6.4% in the fourth quarter. According to seasonally adjusted CSB data, the actual unemployment rate in the fourth quarter was 7.3%. Overall, the unemployment rate in 2021 was 7.6%, which is by 0.5 percentage points lower compared to 2020.

Compared to the 4th quarter of 2020, the volume of industrial production increased by 6.6%. During the year, a sharp increase in the volume of the industry was observed in the second quarter, but thereafter and until the end of the year, this growth slowed down on a quarterly basis. In the fourth quarter, industrial production in EUR decreased by 1.3 percentage points compared to the third quarter. The opposite situation is observed in industrial turnover in percent compared to the corresponding period of the previous year. In the first quarter, turnover increased by 6.6%, but in the period from the second to the fourth quarter, the increase in turnover was on average 25.4%, which reflected a rapid rise in inflation and also the increase in producer costs.

Disadvantages of economic growth in 2021 Q4

Labour shortages, structural changes in the labour market and inflation continue to stimulate wage growth, which is not linked to productivity growth. The average gross wage increased by 12.5% in the fourth quarter, reaching 1336 EUR. On an annual basis, average wage growth is similar in the public (+11.8) and private (+11.9) sectors. However, in terms of regions, the pay gap between Riga and Capital suburb and other regions is widening. In the last quarter of the year, wages in the Riga planning region were 61% higher than in Latgale, 42% higher than in Vidzeme, 31% higher than in Kurzeme and 30% higher than in Zemgale.

The level of economic activity lags behind the two previous years. Although the unemployment rate is declining, the level of economic activity is lower than the 2019 or 2020 average. In the 4th quarter of 2021, the level of economic activity was 67.7%, the same as the annual indicator. This is 2.2 percentage points less than in 2020 and 1.7 percentage points less than before the crisis in 2019.

Inflation is picking up, reducing the value of savings, destabilizing household consumption and rising production costs. The rise in consumer prices reached 7.1% in the fourth quarter. The rise in inflation was mainly due to the rise in prices of electricity and other fuels, which increased by 22.8% on average during the fourth quarter. The rise in inflation was also reflected in producer prices, which increased by 23.6% in the fourth quarter compared to the fourth quarter of 2020. In quarterly terms, producer's prices increased by 5.2% compared to the third quarter of 2021. Savings accumulated by households during the Covid-19 lock-down are increasingly being invested in real estate, especially in the existing dwellings segment, as evidenced by the sharp rise in the house price index.