



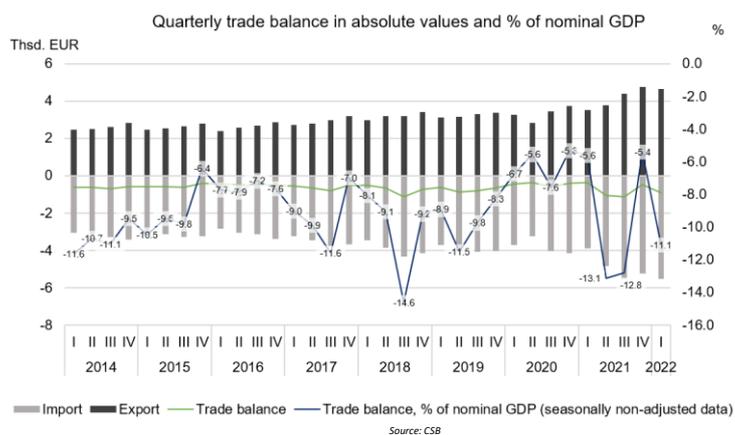
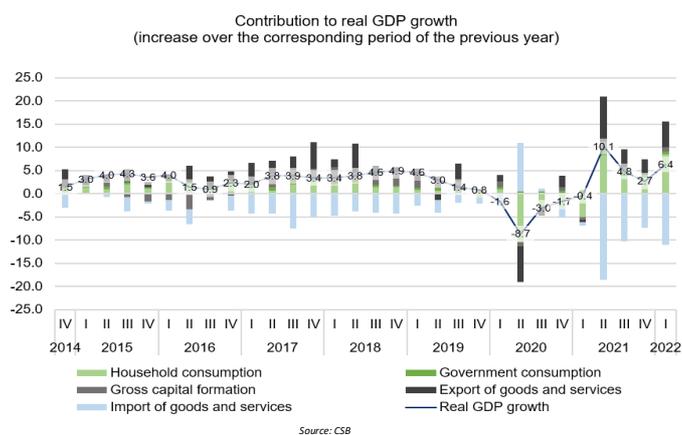
Fiskālās disciplīnas
padome

Quarter I of 2022 monitoring of macroeconomic indicators

According to data published by the CSB, real GDP in the first quarter of 2022 was 7.239 billion euros. Compared to the first quarter of 2021, GDP grew by 6.4% (seasonally adjusted data), and by 3.6% on a quarter-on-quarter basis. In the structure of GDP in the first quarter, the largest positive impact comes from household consumption (8.5%), exports (5.5%), and the contribution of the investment was 1%. During the closing month of the first quarter, a sharp negative geopolitical turnaround with the start of the war in Ukraine happened which led to an urgent revision and almost halving the GDP forecast and raising the inflation forecast. However, the first quarter showed that the economy had stabilized after the pandemic crisis and entered a new growth cycle, which will be significantly slowed down during the next quarters. At the same time, the result of the first quarter may help keep the annual GDP result positive.

Macroeconomic indicator (seasonally adjusted)	2020 actual data				2020	2021 actual data				2021	2022 actual data				Forecast (09.03.¹)				2022 comparison to forecast
	I	II	III	IV		I	II	III	IV		I	II	III	IV	2022	2023	2024	2025	
Real GDP growth	-1.6%	-8.7%	-3.0%	-1.7%	-3.8%	-0.4%	10.1%	4.8%	2.7%	4.5%	6.4%	-	-	-	2.1%	2.5%	3.3%	3.4%	Higher than forecasted
Nominal GDP growth	0.2%	-9.4%	-4.2%	-1.8%	-3.9%	2.0%	16.8%	13.4%	13.0%	11.6%	18.9%	-	-	-	10.9%	6.8%	6.1%	5.8%	Higher than forecasted
Inflation (CPI)	1.9%	-0.4%	0.0%	-0.6%	0.2%	-0.1%	2.3%	3.8%	7.1%	3.3%	9.2%	-	-	-	8.5%	3.5%	2.5%	2.0%	Higher than forecasted
GDP deflator	1.3%	-1.0%	-1.2%	-0.3%	-0.3%	2.5%	6.7%	8.6%	10.6%	7.3%	12.3%	-	-	-	8.7%	4.2%	2.7%	2.3%	Higher than forecasted

Source: CSB, FDC, MoF.



Advantages of economic growth in 2022 Q1

The value of exports of goods and services is growing. The value of exports of goods in euros in the first quarter increased by 31.2% compared to the first quarter of 2021, which included 30% exports growth to the EU countries and 1.8% to other countries, while exports to the CIS countries decreased by 0.4%. In total, the value of exports of goods amounted to 4.62 billion euros, exceeding the result of the first quarter of 2021 by 1.1 billion euros. Exports of services grew by 39.4% in the first quarter. The largest contributors to the increase were transport services (8.7%), other business services (+ 10.8%) and travel (+ 14%). The increase in the value of goods and services is calculated using the value in euros, not the physical quantities. Therefore, in a period of rising price levels, this increase in exports can be assessed as a positive factor, however, the inflation risks to the economy should be accounted as well.

Industry continues to grow, although turnover is ahead of output. Growth in industrial production 4.2% on average in the first quarter. This was due to good growth in mining and quarrying (+ 11%) and manufacturing (+ 7%), but overall quarterly growth was slower than in previous quarters due to a 14.3% decline in electricity and gas supply. Manufacturing output grew by 28.3% in the first quarter, with a significant contribution from producers of wood and wood products (+ 11.4%), as well as other manufacturing (7.3%) and chemical producers (3.3%). Although industry provides stable GDP growth, since 2021 there has been an imbalance in the sector's turnover 3-4 times exceeding the output.

Retail turnover is growing rapidly. At current prices, retail trade turnover increased by 25.1% in the first quarter, but at constant prices of 2015 by 12.7% year-on-year. In terms of actual prices, turnover increased significantly in retail trade of non-food products and (+ 12.7%) and retail sale of automotive fuel (+7.2%).

Unemployment level continues to decline. The registered unemployment rate in the first quarter was 7.3%. Although compared to the previous quarter it increased by 0.2% points, year-on-year it decreased by 0.8% points. The number of long-term unemployed is decreasing. - their share in the number of unemployed in the first quarter was 27.8%, or 4.5 percentage points less than in the previous quarter and compared to the corresponding quarter of the previous year, it has decreased by 1.5 percentage points.

Disadvantages of economic growth in 2022 Q1

Inflation is beginning to threaten growth. Inflation reached 9.2% in the first quarter due to a sharp rise in prices of housing-related goods and services (+ 11.9%), food and non-alcoholic beverages (+ 11.8%), and transport-related goods and services (+ 17%). As for most of the Latvian households these three product groups take the largest part in a consumer basket, a further rise in inflation could lead to an equally sharp decline in the purchasing power of the population, followed by a recession, or a significant slowdown in GDP growth.

Workers' incomes are growing lower than inflation. In the first quarter of this year, gross wages and salaries increased by 6.9% compared to the first quarter of the previous year, but compared to the last quarter of 2021, average monthly wages and salaries decreased by 2.9%. At the same time as inflation is rising sharply, there is a downside risk to the purchasing power and consumption of employees in the coming months.

Rising production costs. Producer prices in the manufacturing sector increased on average by 19.5% in the first quarter of this year. In most sub-sectors of the manufacturing industry, the increase in the cost of the production process has been felt since the end of 2021, but for some,

a sharp increase in production costs was observed only in the first quarter of this year. Rising costs are also making it difficult to operate in the construction sector, with construction costs rising by 14% in the first quarter, incl. material costs increased by 30%.