

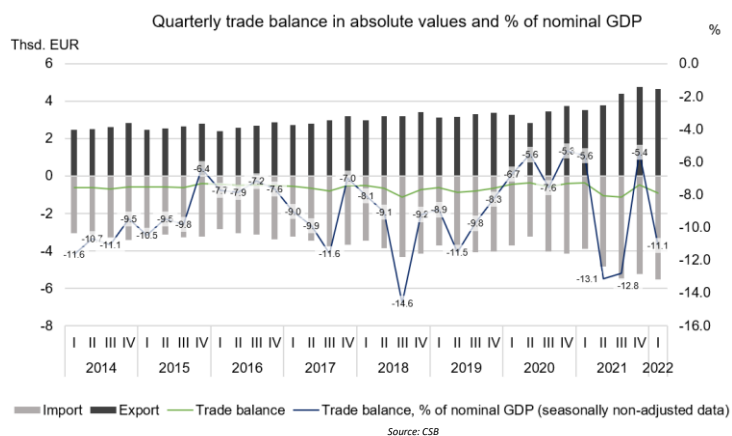
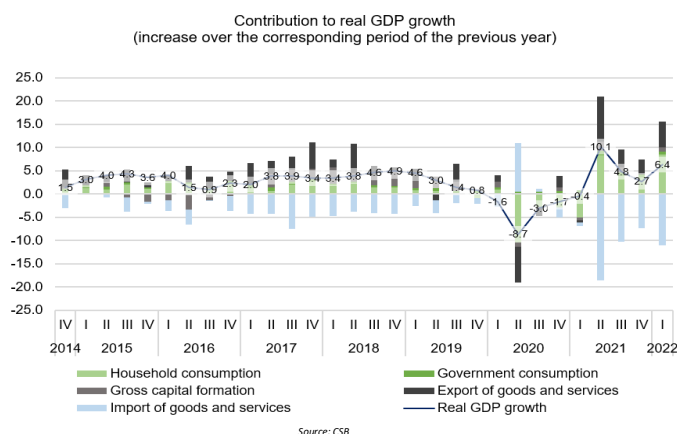


Quarter II of 2022 monitoring of macroeconomic indicators

According to the data published by CSB, the real GDP in the II quarter of 2022 was 7.163 billion euros. Compared to the II quarter of 2021, GDP increased by 2.9% (seasonally adjusted data), but a 1% decline was recorded compared to the previous quarter. In the year's first half, GDP growth reached 4.7%, the highest indicator among the Baltic States. In terms of production, positive contributions were made by commercial services (+16.5%), information and communication services (15.3%), agriculture, forestry, and fisheries (+7.9%), and transport and storage (+7.2%). In the manufacturing industry, growth by 6%, however, a 9.8% decrease was observed in the rest of the industry. Growth in the accommodation sector (+77%) and (+36%) growth in the arts, entertainment, and leisure sectors, indicate the presence of post-pandemic effects in the economy. The biggest decrease in the II quarter was observed in the construction sector (-13.8%). Economic growth is increasingly threatened by the rapid increase in consumer prices, which reached 16.7% in the II quarter and is one of the highest in the EU and the Eurozone. A further increase in inflation may lead to an equally rapid decline in the purchasing power of the population, which will be followed by a recession, or a significant slowdown in GDP growth. In August, the MoF updated macroeconomic forecasts. Compared to the forecast in March, the inflation forecast increased by 8% points, while the GDP forecast for this year increased by 0.7% points.

Macroeconomic indicator (seasonally adjusted)	2020 actual data				2020	2021 actual data				2021	2022 actual data				Forecast (10.08.22)				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%	-1.6%	-3.8%	-0.4%	10.1%	4.8%	2.8%	4.5%	6.4%	2.9%	-	2.8%	1.0%	3.0%	3.4%	Higher than forecasted	
Nominal GDP growth	0.2%	-9.5%	-4.2%	-1.6%	-3.9%	1.9%	16.5%	13.4%	13.6%	11.6%	18.9%	16.1%	-	16.7%	7.7%	5.4%	6.1%	Lower 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%	16.4%	-	16.5%	6.5%	1.0%	2.0%	Lower than forecasted	
GDP deflator	1.5%	-0.8%	-0.9%	-0.1%	-0.1%	2.3%	6.2%	7.9%	10.0%	6.8%	11.6%	13.4%	-	13.5%	6.7%	2.3%	2.6%	Lower than forecasted	

Source: CSB, FDC, MoF.



Advantages of economic growth in 2022 Q2

Growth in exports of goods and services. The value of exports of goods in euros in the II quarter increased by 31.8% compared to the II quarter of 2021, including by 28% to EU countries, and by 3.6% to other countries, while the increase in exports to CIS countries was minimal (+0.4%). The most important export partner countries were Lithuania with 20% export share, Estonia (12%) and Germany (8%). In total, the value of the export of goods was 4.97 billion EUR, exceeding the result of the II quarter of 2021 by 1.2 billion euros. The export of services increased by 50% in the second quarter. Travel made the biggest contribution to the increase (+18.2%), other services (+16.7%) and transport services (+15%) also provided a significant contribution. It should be noted that the increase in the export value of goods and services is calculated based on their value in euros, and not based on the physical quantity, which worsens the objectivity of the assessment in conditions of high inflation.

The unemployment rate continues to fall. Unemployment registered by NVA in the II quarter was 6.1% on average, compared to the previous quarter it decreased by 0.6 percentage points. Also, according to CSB data, the overall unemployment rate decreased to 6.5% in the second quarter. In the second quarter, compared to the first quarter, the number of unemployed women with higher education increased by 8 percentage points, while the number of unemployed women with vocational education decreased by 14 percentage points. Among unemployed men, there have been 13.8 percentage points more persons with general secondary education.

Retail turnover is still high, but the growth is slowing. In the second quarter, retail turnover increased by 21% at current prices. Turnover increased in auto fuel retail (+8%) and food retail (+7%). Growth in non-food retail sales was 5.6% but slowed to 3.3% in the last month of the quarter.

In an industry, growth is decelerating, but manufacturing shows the best results. The volume of industrial production increased by 4.1% on average. This was ensured by good growth in the manufacturing industry (+6.9%). In the mining industry, the growth was more modest (+3.1%), but in the electricity and gas supply industry there was a decline (-13.8%), which continues for the second quarter in a row. In the II quarter, the increase in production output of the manufacturing industry reached 25.2%, where a significant contribution was made by manufacturers of wood and wood products (+8.8%), as well as other branches of the manufacturing industry (7.7%), and food manufacturers (4%). Capacity utilization in manufacturing reached 76.4%, which corresponds to the pre-pandemic level.

The heterogeneous situation in freight transport. After a three-year recession, the growth of cargo turnover in Latvian ports has resumed. In the second quarter, cargo turnover in Latvian ports increased by 20.8%, especially in the port of Riga (8.4%) and the port of Ventspils by 11.8%. However, there was a 0.5% decrease in land transport, which was affected by a 4.8% decrease in road transport. At the same time, rail transport, which caused concern due to the geopolitical context, closed the second quarter with a 4.3% increase.

Disadvantages of economic growth in 2022 Q2

Inflation is almost twice as high as in the EU and the EEA and is the third highest in the Baltics. In the second quarter, inflation reached 16.4%. The rapid rise in prices for food (+19.2%) and energy (+49.2%) continued. The shortage of energy resources continues to cause an increase in prices: in the II quarter, the average price of diesel fuel increased by 59%, the price of gasoline by 47%, electricity by 36%, and the price of natural gas by 120%.

The income of working people grows slower than inflation. In the second quarter, the average gross salary reached 1,362 euros. It increased by 8.3% compared to the II quarter of the previous year, but compared to the I quarter of this year, the average monthly salary increased by 5%. In the private sector, wages increased by 9.1%, and in the public sector by 7%. However, the average salary of employees working in the public sector is 22 euros higher (1,380 euros) than employees of the private sector (1,358 euros). Employees' incomes grow slower than inflation, which impairs purchasing power. It is expected that as consumer prices rise, the fall in consumption will be one of the factors causing the recession.

Recession in the construction industry. The volume of construction output has been falling since the III quarter of 2021, however, the lowest result in the last five years was achieved in the II quarter of this year (-13.8%). The decrease was observed in engineering construction (-16.8%), specialized construction works (-15.5%), and building construction (-9.6%). The number of building permits issued also fell by 6.8% and the expected construction area decreased by 28%. At the same time, construction costs continue to rise, which is one of the major negative factors in the industry. In the second quarter, construction costs increased by 22% compared to the second quarter of the previous year, including the price of building materials increased by 30%, the costs of operating machines and mechanisms by 18%, and workers' wages by 9%.