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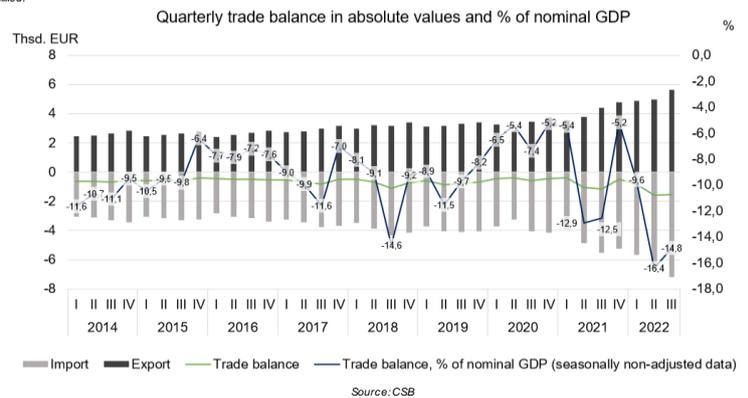
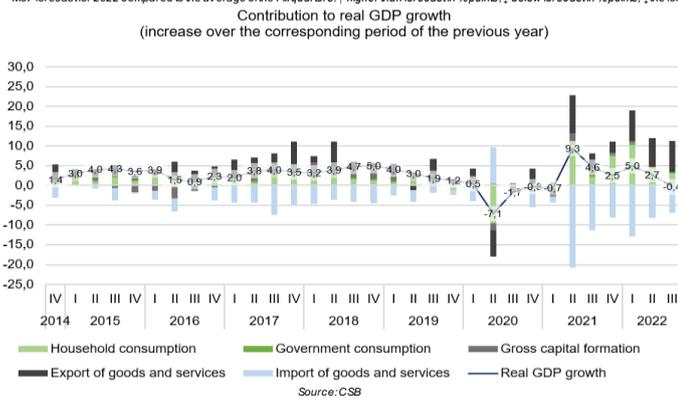
Quarter III of 2022 / monitoring of macroeconomic indicators

According to the data published by CSB, the real GDP in the III quarter of 2022 was 7.1 billion. euro. Compared to the III quarter of 2021, GDP decreased by 0.4% (seasonally adjusted data), but compared to the previous quarter (II), the decline was by 1.7%. From the production approach, a positive contribution to the total added value was made by accommodation and catering services (+33.1%), art entertainment and leisure services (+26.2%), which can be explained by the recovery of these sectors after the crisis caused by Covid-19. Other significant increases were observed in information and communication services (+14.2%), and commercial services (+13.2%). The biggest decrease in the III quarter was observed in the construction sector (-13.6%), trade (-10.3%) and other industries (DBE) (-8.5%). From the expenditure approach perspective, quarter III demonstrated a slowdown in household consumption (+3.1%) and in investments, where growth is not observed, but the contribution of exports to GDP was (7.9%) and was stable at around 7% in all three quarters. Economic growth is hampered by the rapid increase in consumer prices, which reached 21.7% in the third quarter and is one of the highest in the EU and Eurozone.

Macroeconomic indicators (seasonally adjusted)	2020 actual data				2020	2021 actual data				2021	2022 actual data				Forecast (1.12. ¹)				2022 Actual vs forecast *
	I	II	III	IV		I	II	III	IV		I	II	III	IV	2022	2023	2024	2025	
	Real GDP growth	0.5%	-7.1%	-1.7%		-0.3%	-2.2%	-0.7%	9.3%		4.6%	2.5%	4.1%	5.0%	2.7%	-0.4%	-	1.6%	
Nominal GDP growth	3.0%	-6.6%	-1.9%	0.6%	-1.3%	2.1%	15.1%	13.5%	13.5%	11.2%	17.5%	16.4%	15.6%	-	17.0%	8.1%	5.4%	5.7%	- 0.5 %p.
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%	21.7%	-	17.3%	8.5%	1.0%	2.0%	- 1.5 %p.
GDP deflator	2.5%	0.4%	0.3%	0.9%	1.0%	2.6%	5.3%	8.1%	10.7%	6.9%	11.5%	14.4%	15.6%	-	15.2%	8.7%	2.3%	2.6%	- 1.4 %p.

Source: CSB, FDC, MoF.

*MoF forecast for 2022 compared to the average of the I-III quarters: 1 higher than forecast in % points; 1 below forecast in % points; 1 the forecast fulfilled.



Advantages of economic growth in 2022 Q3

Exports of both goods and services increased and were a significant factor in reducing the GDP decline. The export of services increased by 39% in the third quarter, and the most important contribution to this increase was transport services (+15%) and other economic activity services (+12%). The value of export of goods increased by 29% in the third quarter, moreover, since the beginning of 2021, the share of export of goods to EU countries has been persistently high - around 24%. Exports to Lithuania and Estonia, which are Latvia's most important trade partners, increased by 44% and 34% respectively in the 3rd quarter, however, there was a significant increase in trade with Sweden (+44%) and Denmark (+33%).

Port cargo turnover is back on the growth path after several years of decline. Cargo turnover in Latvian ports has been increasing for three quarters in a row, and in the third quarter, it increased by 18%. The increase was provided by the port of Riga (+9%) and the port of Ventspils (+7%). In general, the volume of shipped cargo has increased by 13%, while the volume of received cargo has increased by 27%. Riga port received 20% and Ventspils port 37% more cargo than in the third quarter of the previous year. The volume of cargo sent from the port of Riga increased by 15%, and from the port of Ventspils by 25%. However, there was a 4% decrease in road and rail transportation in the III quarter, including -2% in rail transportation and -3% in road transportation.

The labor market is still without negative developments despite raising risks in the economy. In the third quarter, the unemployment rate, according to CSB data, was 7% including an unemployment rate of 8% for men, and for women 6%. The registered unemployment rate, according to NEA data, was 5.8% in the third quarter. Looking at the regions - in Riga and Riga suburb it was 4.3%, in the Kurzeme region 5.8%, in the Latgale region 12.6%, in the Vidzeme region 6%, in the Zemgale region 5.4%.

Disadvantages of economic growth in 2022 Q3

Inflation continued to rise rapidly in the third quarter, but the real income of the households fell. The increase in consumer prices reached 21.5% in the third quarter and remained almost unchanged for all three months, under the influence of high energy resource prices and food prices. Core inflation indicators are also high, averaging 8.4% per quarter. At the same time, CSB data on the income of employees show that in the third quarter of this year, compared to the third quarter of 2021, the average monthly gross salary increased (+6.3%), but compared to the second quarter of this year, the average monthly gross salary wages increased by only 1.6%. Considering the rise in consumer prices, the net wage decreased by 12.9%, which indicates a sharp decline in the purchasing power of employees, which has been observed for the third quarter in a row.

The growth of industrial production in the third quarter averaged 2.1%, which is half slower compared to previous quarters of this year. Looking structurally, the growth is slower in all segments: mining (+1.4%), and manufacturing (+4.4%), while the electricity and gas supply sector, a decline for the third quarter in a row (-13.9%). In the manufacturing industry, the output growth in quarter III was 12%, the slowest of the three quarters of this year. The growth was provided by the food industry (+4.1%), other industries (+6.4%), non-metallic mineral industry (+2%), however, the growth was slowed down by the decrease in the volume of production in the wood industry (-1.7%) and the chemical industry (-0.3%).

The recession in the construction industry is prolonged, but construction costs remain high. The volume of construction output has been falling since the 3rd quarter of 2021, however, the 3rd quarter of this year reached one of the lowest rates in the last five years (-13.6%). The

¹ Adjusted Macro forecasts for 2022 and VTBI 2023-2025 (1.12) | Fiskālās disciplīnas padome (fdp.gov.lv)

decrease was observed in all sub-sectors - engineering construction (-12%), specialized construction works (-13%) and building construction (-14%). The number of building permits issued also fell by 3.6% and the expected construction area by 56%. Construction costs, compared to the third quarter of the previous year, continue to increase, however increasing compared to this year quarter II was significantly slower. In the third quarter, compared to the III quarter of 2021 (y-o-y), costs in construction increased by 21% in general, but compared to the II quarter of 2022 (q-o-q) - by 3%, including the price of construction materials increased by 27% (y-o-y) and by 4% (q-o-q), costs for the operation of machines and mechanisms by 18% (y-o-y) and by 2% (q-o-q), and workers' wages by 10% (y-o-y) and by 3 (q-o-q).