



Fiskālās disciplīnas
padome

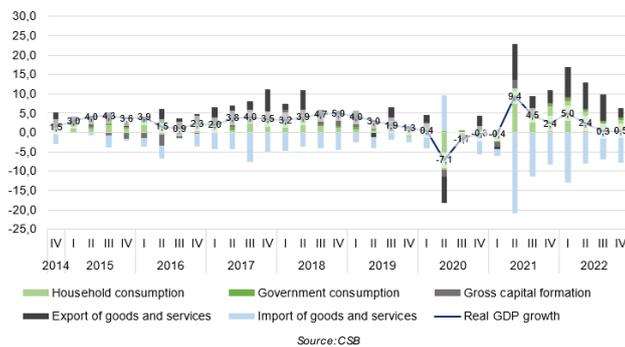
Quarter IV of 2022 / monitoring of macroeconomic indicators

According to the data published by CSB, the real GDP in the quarter IV of 2022 was 7.1 billion euro. Compared to quarter IV of 2021, GDP increased by 0.5% (seasonally adjusted data), but no changes occurred compared to the previous quarter. GDP grew by 2% in 2022, exceeding the MoF's December forecast by 0.4 percentage points. GDP growth in current prices in quarter IV was 16.2%, but for the year 16.4%, or 0.6 percentage points less than the MoF forecast. Inflation growth in 2022 was extraordinarily fast and exceeded 21% in the second half of the year. Inflation reached 21.5% in the 4th quarter, but for the year it was 17.3%, which is in line with the MoF's forecast. The inflation rate was the most important factor of macroeconomic imbalance throughout the year and had a negative impact on GDP dynamics. The biggest contribution to GDP growth in 2022 was export growth (+6%), and household consumption (+4.8%). Government consumption contributed 0.5% of the GDP growth structure, while investment contribution was minimal (0.2%). Considering the sharp increase in the price of imported energy resources, the trade balance deteriorated significantly, which also had a broad negative impact on the GDP growth rate. In general, in 2022, economic development balanced between the recession and growth. The opportunities to note unequivocally positive dynamics are narrowing, but the risks are increasing.

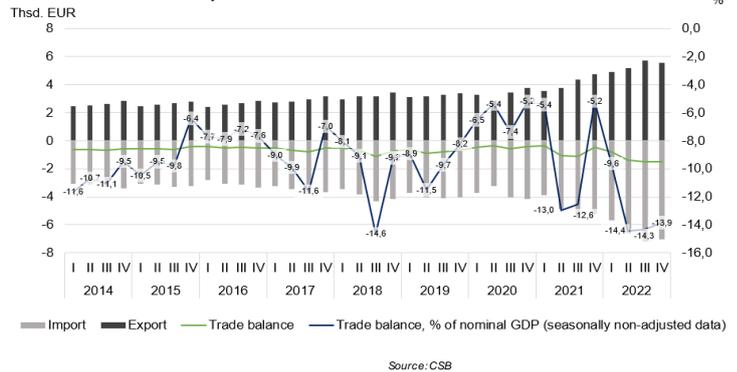
Macroeconomic indicators (seasonally adjusted)	2020 actual data				2020	2021 actual data				2021	2022 actual data				2022	Forecast (1.12.1)				2022 Actual vs forecast*
	I	II	III	IV		I	II	III	IV		I	II	III	IV		2022	2023	2024	2025	
Real GDP growth	0.5%	-7.1%	-1.7%	-0.3%	-2.2%	-0.7%	9.3%	4.6%	2.5%	4.1%	5.0%	2.4%	0.3%	0.5%	2.0%	1.6%	-0.6%	3.0%	3.0%	1 0.4 %p.
Nominal GDP growth	3.0%	-6.6%	-1.9%	0.6%	-1.3%	2.1%	15.1%	13.5%	11.2%	17.6%	15.7%	15.7%	16.2%	16.4%	17.0%	17.0%	8.1%	5.4%	5.7%	-0.6 %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%	21.5%	17.3%	17.3%	8.5%	1.0%	2.0%	1 0.0 %p.
GDP deflator	2.5%	0.4%	0.3%	0.9%	1.0%	2.6%	5.3%	8.1%	10.7%	6.9%	11.6%	13.7%	15.1%	15.6%	14.1%	15.2%	8.7%	2.3%	2.6%	-1.1 %p.

Source: CSB, FDC, MoF.
*2022 MoF forecast compared to the actual annual outcome: ↑ higher than forecast in % points; ↓ below forecast in % points; □ the forecast fulfilled.

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



Quarterly trade balance in absolute values and % of nominal GDP



Advantages of economic growth in 2022 Q4

Exports of goods and services helped avoid the recession, but export growth slowed down through the last quarters. At the same time, the exports of services increased by 29% in the 4th quarter compared to the corresponding period of the previous year, according to BoL data. Transport services (+14%) and other economic activity services (+8%) made the most significant contribution to this increase. According to CSB, the value of export of goods increased by 16% in quarter IV. Since the beginning of 2021, the share of exports of goods to EU countries was persistently high - around 24%, however, it fell to 10% in quarter IV, compared to 21% in quarter III. The most important trade partners for Latvia were Estonia and Lithuania, where 12% and 17% of the export of goods arrived, respectively. Exports to Estonia continued to grow rapidly (+33%) in quarter IV, but the growth of exports to Lithuania slowed down to (+10%), which is the slowest growth since quarter IV of 2021. In this quarter, this can be explained by the decrease in the value and physical volume of exported milk (KN0401), as well as the value of electricity (KN2716). Regarding other major trade partners, the volume of goods exports increased to Sweden (+24%), Denmark (+11%) and Russia (4%), while goods exports to the United Kingdom decreased by 25% and to Germany by 1%. In general, compared to the previous quarter, the growth rate of the export of services decreased by 12 percentage points, while the growth of the export of goods decreased by 14 percentage points.

Retail trade turnover in general continued to grow, however, growth slowed down in certain segments and indicated a decrease in the purchasing power of households. The turnover of retail companies increased by 24% in the 4th quarter, but in December the increase was only 16.3%, which is the slowest growth since the pandemic period. In the 4th quarter, compared to the same period of the previous year, the turnover from the sale of motor fuel and food retail increased by 7%, and the turnover from the retail sale of non-food goods increased by 9%. Comparing the third and fourth quarters of 2022, turnover in fuel trade and food retail trade decreased by 1 percentage point.

The situation in the labor market is quite stable and the unemployment rate is not increasing significantly - however, the persistence of labor-force constraint is a significant long-term risk. In 2022, the average unemployment rate was 6.8%, while the unemployment rate among women was lower at (5.6%) than among men at (8.1%). Also in the IV quarter, the average unemployment rate was 6.9%, according to CSB seasonally adjusted data. In the IV quarter, 22.5 thousand vacancies were available, which is 16% less than in the same period last year. The lack of employees observed in the state administration sector, ICT sectors and in construction can create risks in the more intensive phase of the implementation of EU fund projects.

Disadvantages of economic growth in 2022 Q4

Inflation continued to rise in the IV quarter, but the real income of the population decreased. Inflation in 2022 was 17.3%, but in the IV quarter, it reached 21.5%. The inflation rate has not fallen below 20% since July 2022. Core inflation indicators are also high, on average in the IV quarter above 10%. At the same time, CSB data on the income of employees show that in the fourth quarter of this year, compared to the fourth quarter of 2021, the average monthly gross salary increased by 8%. In general, gross wages increased by 7.5% during 2022, but considering the rise in consumer prices, net real wages decreased by 8.7% during the year, negatively affecting the purchasing power of households.

The decline in the construction sector continues, but growth in the industry is slowing down. The decline in the construction industry has been continuing since quarter III of 2021, and in quarter IV of this year, the volume of construction output decreased by another 8.3%. The decline can be observed in all construction sub-sectors: building construction (-7.7%), engineering (-9.8%) and specialized construction works (-8.1%). The industrial sector is also decelerating, in quarter IV the production volume increased by only 1%. In the manufacturing industry, the volume of production increased by 12%, which leads to the conclusion of the industry's resilience even in the energy crisis, however, the growth has remained slower due to the slowdown in the production of chemical substances, wood industry and metal processing.