



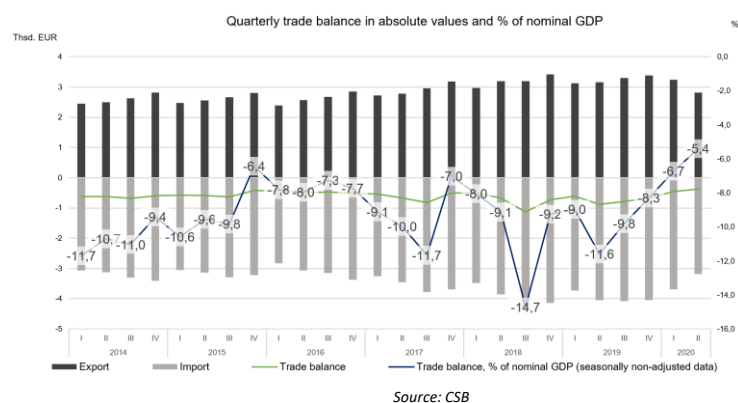
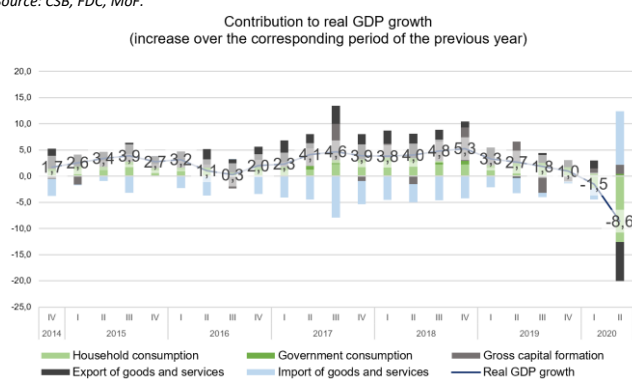
Fiskālās disciplīnas
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Quarter II of 2020 monitoring of macroeconomic indicators

As a result of the Covid-19 crisis, the Latvian economy experienced a sharp economic downturn, which began in the I quarter of this year. In the second quarter of 2020, the decline in GDP reached 8.6%, which was caused by a decrease in household consumption by 12.6% and a decrease in exports of goods/services by 7.4%. However, government consumption had a positive impact on GDP in the second quarter, growing by 0.5%. In the second quarter of this year, a significant decrease in the volume of exports was observed by 11% compared to the corresponding period of 2019. The Ministry of Finance forecasted output gap performance as negative in 2020 (-7.9), and in 2021 it was also forecast to be below economic potential (-5.6). In the context of fiscal policy planning, a negative output gap implies the planning and implementation of stimulative fiscal policies, with the aim of restoring economic growth and preventing negative structural changes in the national economy.

Macroeconomic indicator (seasonally adjusted)	2018 actual data				2017	2019 actual data				2018	2020 actual data				2020	Forecast (15.06.2020 ¹)				2020 comparison to forecast
	I	II	III	IV		I	II	III	IV		I	II	III	IV		2020	2021	2022	2023	
Real GDP growth	3.8%	4.0%	4.8%	5.3%	4.3%	3.3%	2.7%	1.8%	1.0%	2.2%	-1.5%	-8.6%	-	-	-	-7.0%	5.1%	3.1%	3.1%	lower than forecasted
Nominal GDP growth	7.9%	8.0%	9.0%	9.6%	8.4%	7.5%	6.0%	4.1%	2.3%	4.9%	-0.2%	-9.4%	-	-	-	-7.4%	6.5%	5.3%	5.2%	lower than forecasted
Inflation (CPI)	2.0%	2.4%	2.9%	2.9%	2.6%	2.9%	3.3%	2.9%	2.2%	2.8%	1.9%	-0.4%	-	-	-	0.2%	1.2%	2.0%	2.0%	higher than forecasted
GDP deflator	3.8%	3.8%	4.1%	4.1%	4.0%	4.0%	3.1%	2.3%	1.4%	2.6%	1.3%	-0.9%	-	-	-	-0.5%	1.3%	2.0%	2.0%	higher than forecasted

Source: CSB, FDC, MoF.



Advantages of economic growth in 2020 Q2

From April / May, the economic sentiment indicator started to improve, although confidence and sentiment indicators are still very low and the values are negative, in the services sector the confidence indicator remained the lowest in q II. The return of some optimism to the business environment of both domestic and Latvia's trading partners was influenced by news about the success of pandemic containment measures and the gradual lifting of mobility restrictions. In Lithuania, sentiment indicators improved faster than in Estonia.

The volume of freight transport by road increased by 3.2%. This is the only transport segment that showed an increase and can be explained by more active use of delivery services at a time when the physical mobility of the population was limited.

The total turnover of retail trade enterprises decreased on average by 4% in the period from April to June, however, it was in June that an increase in turnover observed by 2.6%. In June, household shopping activity started to recover, growth in the food segment was by 1.9% and at the non-food segment by 2.4%. However, through the months of q II, the fuel trade segment continued to decline on average by 3.3%, and in June by 1.7%.

The latest CSB data show that in the second quarter there was a sharp slowdown in the growth of the average monthly wage of employees by 3.9% year-on-year. In the second quarter of 2020, compared to the first quarter of 2020, gross wages and salaries increased by 1.6%. Although this is a negative factor for household consumption, the slowdown in wage growth in the economy as a whole is reducing the pressure on employers previously caused by limited labour supply.

Disadvantages of economic growth in 2020 Q2

Deflation was observed in the second quarter, with consumer prices falling by 0.4%. In April, consumer prices remained unchanged, but already in May, they decreased compared to the corresponding period of the previous year - May (-0.6), June (-0.7). However, consumer price indices have not declined steadily, with certain groups of goods and services falling. Prices fell sharply in the transport services segment. Prices for insurance, accommodation services, personal vehicle operating expenses, housing rents and the costs of electricity, gas and other fuels also decreased significantly.

Data from the Bank of Latvia show that in the second quarter of 2020, there was a sharp decline in exports of services, by an average of 31%, in June, exports of services fell by 30% compared to June 2019. The decline in June was mainly influenced by a decrease in exports of transport services by 19.5% and a decrease in exports of travel services by 11%, which is a direct effect of the Covid19 crisis.

In the second quarter of 2020 total road and rail traffic decreased by 12.8% year-on-year. Rail transport turnover fell by 16%. The contribution of Latvian ports to cargo turnover showed a dramatic decline of 31%. The decline was observed in all ports, but the port of Riga (-15%) and the port of Ventspils (-14%) suffered the most.

In the period from April to June, the volume of industrial production decreased on average by 4.1%. In June, since the beginning of 2019, the decline reached 3.8%.

In June 2020, the seasonally adjusted unemployment rate reached 8.9%. The overall registered unemployment rate has risen from 6.8% in March to 8.6% in June. Since March 2020, in June, the sharpest increase in the number of unemployed was observed in Riga and the Riga region.

¹ macroeconomic forecast endorsement (15.06.2019) <https://fiscalcouncil.lv/17022020-macroeconomic-forecast-endorsement>