



Fiskālās disciplīnas
padome

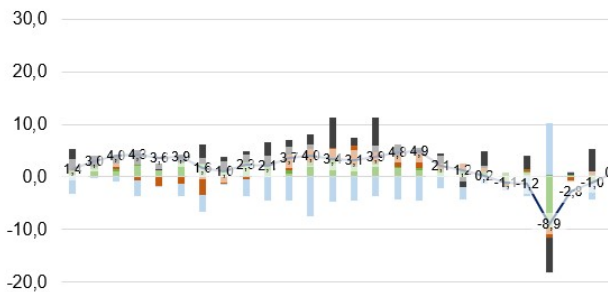
Quarter I of 2023 monitoring of macroeconomic indicators

According to the data published by the Central Statistical Bureau (CSB), in the first quarter of 2024, the gross domestic product (GDP) at constant prices increased by 0.9% (seasonally and calendar adjusted data) or by 0.1% (seasonally and calendar unadjusted data). Compared to the fourth quarter of 2023, the increase was also 0.9%. GDP growth at current prices in the first quarter was 3% compared to the same quarter of the previous year, and compared to the fourth quarter of 2023, the increase was 1.6%. From the GDP expenditure perspective, the largest contributors to GDP growth were government consumption (1.5%) and household consumption (+0.3%). Notably, throughout 2023, household consumption had been negative. Currently, the negative contributions to GDP come from exports (-2.3%) and investments (-1.7%). From the production perspective, the largest positive contributions to GDP were from agriculture, forestry, and fisheries (+8.1%), the public sector (+7.2%), and mining (+6.2%). The sectors with the largest negative contributions were transport and storage (-8.9%), construction (-5.6%), and the ICT sector (-3.3%). Inflation continued to decrease in the first quarter, reaching 0.8%, influenced by a more than 7% decline in housing maintenance, gas, and electricity prices.

Macroeconomic indicator (seasonally adjusted)	2022 actual data				2022				2023				2024 actual data				2024				2024 comparison to forecast *
	2022 actual data				2022				2023				2024 actual data				2024				
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	2024	Forecast (12.02)	2025	2026	
Real GDP growth	6.6%	4.0%	0.5%	1.3%	3.0%	0.2%	-0.3%	0.2%	-0.1%	-0.3%	0.9%	-	-	-	-	-	1.4%	2.9%	2.5%	2.3%	-0.5 pp.
Nominal GDP growth	16.1%	16.8%	15.5%	12.5%	15.1%	10.8%	6.0%	2.8%	3.1%	5.1%	3.0%	-	-	-	-	-	4.1%	6.0%	5.3%	5.1%	-1.1 pp.
Inflation (CPI)	9.2%	16.4%	21.7%	21.5%	17.3%	19.6%	11.6%	5.0%	1.2%	8.9%	0.8%	-	-	-	-	-	1.6%	2.5%	2.5%	2.5%	-0.8 pp.
GDP deflator	8.8%	12.1%	15.1%	10.9%	11.8%	10.9%	6.3%	2.5%	3.2%	5.4%	2.2%	-	-	-	-	-	2.7%	3.0%	2.7%	2.7%	-0.5 pp.

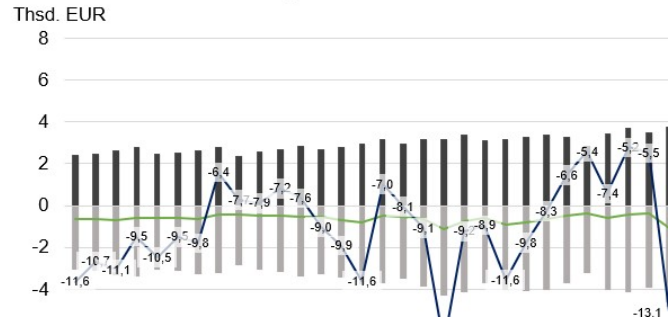
Source: CSB, FDC, MoF.

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



Source: CSB

Quarterly trade balance in absolute values and



Source: CSB

Economic growth forecasts for 2024 range from 1.4% (Ministry of Finance²) to around 2% (Citadele Bank³). On average, various forecasters⁴ estimate that the economy could grow by 1.8%.

Economic sentiment in the first quarter was positive in retail trade (1.9%) and services (1.4%), while it remained negative in industry (-6.4%) and construction (-12.3%), although it is improving month by month. Consumer sentiment was the lowest (-13.5%), and it has further deteriorated. Among Latvia's trade partner countries, sentiment was below the long-term average, although it improved compared to the last quarter of 2023: by 6.4 percentage points in Sweden, 2.5 percentage points in Germany, and 0.8 percentage points in Lithuania. However, sentiment among Estonian entrepreneurs worsened by 0.6 percentage points.

In Latvia, during the first quarter, a frequently mentioned limiting factor for businesses was the lack of demand, which constrained production, construction, services, and retail trade. Despite the lack of demand, capacity utilization in the manufacturing industry improved slightly by 2.5 percentage points compared to the end of 2023. Specifically, capacity utilization increased by 0.1 percentage points in the production of consumer goods, by 5 percentage points in the production of intermediate goods, and by 0.5 percentage points in food and beverage production.

The decline in **exports** continues, albeit at a slower pace. In the first quarter, Latvia exported goods worth 4.7 billion euros, which is 8.9% less than during the same period last year. Exports to EU countries decreased by 6%, exports to the CIS countries fell by 1%, and exports to other countries declined by 1.9%. Among Latvia's main trading partners, the largest decreases in goods exports were to Sweden (-22%), Germany (-11%), and Lithuania (-8.5%), while exports to Estonia increased by 3.4%. The trade balance deficit in the first quarter was 5% of GDP, which improved by 3.4 percentage points compared to the fourth quarter of 2023. According to data from the Bank of Latvia, the export of services decreased by an average of 1.6% in the first quarter, with the largest decrease in the group of unclassified services (-5.5%). However, there were slight increases in transport services (+3.2%) and travel services (+0.7%).

The **transit sector** was one of the weakest in this quarter. The volume of cargo transported by sea through Latvian ports decreased by 11.3% compared to the first quarter of the previous year, and freight transported by rail dropped by 29.5%.

The volume of **industrial production** in the first quarter decreased by 0.1% compared to the first quarter of 2023, but increased by 0.5% compared to the fourth quarter of 2023. The largest contributions to the increase in industrial production volume came from mining and quarrying, which increased by 18.6% compared to the first quarter of the previous year, and from electricity and gas supply, which rose by 9.3%, while manufacturing industry production decreased by 3.9%.

In the **manufacturing industry**, output decreased by 7.7% compared to the first quarter of 2023. The decline continues in the wood processing (-3.2%), building materials (-1%), and production of other unclassified products (-3.3%). Small increases were observed in the food industry (+0.4%) and the chemicals industry (+0.2%). Overall, a decline was observed in 14 out of 20 manufacturing sub-sectors. The worst result in the first quarter was for furniture manufacturers (-21%), while the largest output increase (+18%) was for metal and metal alloy manufacturing companies.

¹ Interim Surveillance Report on Stability Program 2024-2028 | Fiskālās disciplīnas padome (fdp.gov.lv)

² Interim Surveillance Report on Stability Program 2024-2028 | Fiskālās disciplīnas padome (fdp.gov.lv)

³ Baltijas ekonomikas apskats 06/2024 | Banka Citadele

⁴ SWEDBANK, SEB Bank, Citadele Bank, International Monetary Fund, European Commission, OECD

The construction industry entered a recession in the first quarter, although it maintained good growth throughout 2023; in the first quarter, the volume of production decreased by 5.5%. The largest decrease was in building construction (22.2%), although there were increases in civil engineering and specialized construction, by 19% and 3%, respectively. The number of building permits issued decreased by 6%, while the construction areas for which building permits were issued declined by 26%. Construction costs overall increased slowly in the first quarter (+1.8%), with the largest increase in labor costs (+6.6%) compared to the first quarter of 2023, while the prices of construction materials decreased by 1%.

Retail turnover has been slowly growing for two consecutive quarters. In the first quarter of this year, retail sales turnover at comparable prices increased by 0.4%, driven by a 6.1% increase in fuel retail sales and a 0.3% increase in food retail sales, following a six-quarter-long decline. However, the four-quarter-long decline continues in the retail trade of non-food products, with the latest data for the first quarter showing a 1.7% decrease.

Lending in Latvia has often been described as insufficient, and its attractiveness is currently being reduced by the restrictive monetary policy of the European Central Bank. According to data from the Bank of Latvia, in the first quarter, new loans issued to households for purchasing housing decreased by 5%. New loans issued to companies (non-financial corporations) decreased by 10% compared to the first quarter of 2023. However, during the same period, consumer loans issued to households increased by 13%, and other loans to households rose by 31%. The actual unemployment rate, according to CSB data, was 6.9% in the first quarter, while registered unemployment, according to the State Employment Agency data, averaged 5.8%. The education levels of the unemployed vary across different periods; however, in the first quarter of this year, most unemployed men had secondary or secondary vocational education (36%), while the fewest had higher education (12%). Among women, the majority of the unemployed (32.6%) had higher education, while the fewest registered unemployed women had no school education—15% of the total number of unemployed women. The economic activity rate in the 15-74 age group is 68.9%, which is still below the pre-pandemic level (69.4%) in 2019.

Wage growth in the first quarter reached 11%, including 16.3% in the public sector, while in the private sector, it was almost half as slow, at 8.9%. In the public sector, the average gross wage was 1,657 euros, while in the private sector it was 43 euros lower, at 1,514 euros, making it 1,623 euros in total for the country. The median gross salary was 1,293 euros, and the net salary was 957 euros, indicating that half of the workers received approximately this salary. Real net wages increased by 9.3%, the same increase as in the final quarter of 2023, showing that household purchasing power continues to improve.

Labor costs increased by 11% in the first quarter, with an 18% increase in the public sector and an 8% increase in the private sector. A significant factor for such a difference is related to a considerable increase in the section of irregular allowances and bonuses in the public sector (+33%) compared to the first quarter of 2023, while no increases have been recorded in this section in the private sector. The rise in bonuses and allowances is not a systematic phenomenon, as a similar sharp (+28.6%) increase occurred in this section in the first quarter of 2021. However, overall, the increase in public sector wages is a concerning signal from a fiscal stability perspective.