



Fiskālās disciplīnas padome

Quarter II of 2018 monitoring of macroeconomic indicators

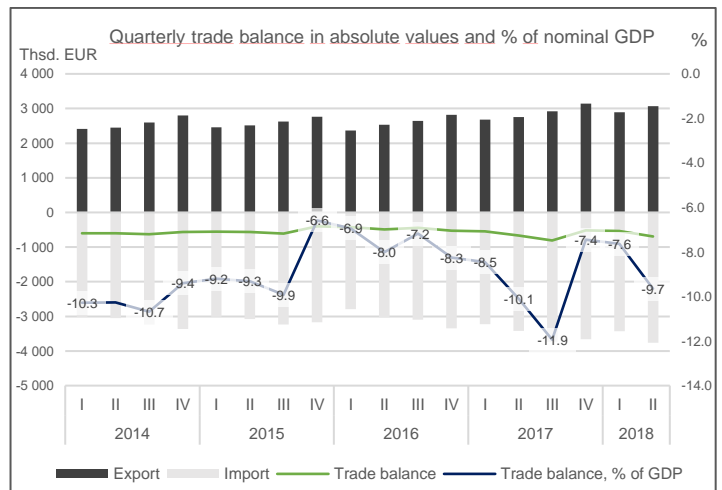
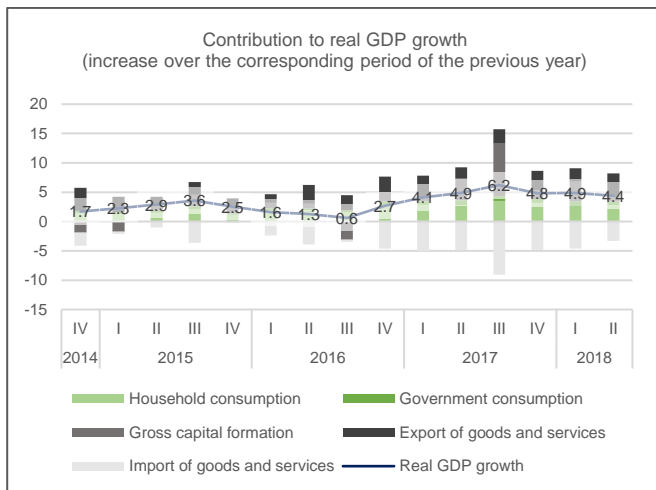
Both real and nominal GDP growth in 2018Q1-2018Q2 exceeded the forecasted levels of GDP growth for 2018. The main contributor to GDP growth in 2017 and the first half of 2018 has been growth of export, and household consumption (caused by increased purchasing power). Consumer price index at the end of 2018Q2, however, has been below the forecasted level for year 2018. Price for energy has an increase level over 2% (monthly rise over corresponding month of the previous year) since July 2017, whereas price for food has been significantly lower – below 2% during 2018, and with negative growth in July 2018.

Macroeconomic indicator	2017 actual data				2017	2018 actual data		Forecast				Year 2017 in comparison to 2017* prediction	Quarter I, 2018 in comparison to 2018** prediction
	I	II	III	IV		I	II	2017*	2018**	2019**	2020**		
Real GDP growth	4,1%	4,9%	6,2%	4,8%	4,5%	4,9%	4,4%	3,7%	4,0%	3,4%	3,0%	excess	excess
Nominal GDP growth	5,8%	7,6%	9,0%	8,4%	7,7%	8,6%	8,3%	6,6%	7,2%	6,5%	5,8%	excess	excess
Inflation (PCI)	3,2%	3,1%	2,9%	2,6%	2,9%	2,0%	2,4%	2,8%	2,8%	2,4%	2,1%	excess	lower than forecasted
GDP deflator	2,4%	3,5%	3,7%	3,1%	3,1%	3,6%	3,9%	2,8%	3,1%	3,0%	2,7%	excess	excess

* 04.08.2017. Macroeconomic forecast endorsement, available: http://fiscalcouncil.lv/files/uploaded/FDP_1_08_202_20170216_Macroeconomic_forecasts_endorsement_MoF.pdf

** 14.02.2018 Macroeconomic forecast endorsement (04.04.2018. Final updates on macroeconomic indicators by Ministry of Finance),

available: http://fiscalcouncil.lv/files/uploaded/FDP_1_08_418_20180406_makroekonomikas_proгноzes_Piel2_precizets_PotIKP_izmainas.xlsx



Advantages of economic growth in 2018Q1-2018Q2

Both consumer and business confidence indexes are stable in the first half of 2018. Long-term average confidence level has been reached in construction sector as well.

In the first half of 2018, the turnover has increased in manufacturing, reaching historically high capacity usage for the sector (close to 80%), as well as for each size group – 80% for large enterprises, 78% for medium-size enterprises, 70% for small enterprises.

Construction sector has faced growth of 40.9% in 2018Q1 and 37.8% in 2018Q2, compared to the corresponding period of 2017.

In 2018Q2 transport sector has achieved growth of almost 20%, compared to the corresponding period of 2017, reaching the highest total amount of road and rail cargo since 2012 – close to 32 million tons. Due to increase in turnover for ports of Riga and Liepaja contribution of sea cargo to the transport sector has been positive (+8.9%).

The increasing economic activity has decreased the unemployment rate to the historically lowest level since 2008 (the registered unemployment rate since May 2018 is below 6.5%).

Disadvantages of economic growth in 2018Q1-2018Q2

The number of entrepreneurs claiming that labour shortage is restricting their business activity continues to increase – sectors with the sharpest increase of labour shortage in 2018Q2 (compared to 2018Q1) are construction and retail. The tightening of labour market has contributed to the average gross wage increase of 8.5% in average in the first half of 2018 (compared to the corresponding period of 2017).

In the beginning of 2018, a turmoil in the Latvian financial market was caused by liquidation of ABVL Bank. Lending activity is assessed as low by the Bank of Latvia¹, fall in value of loans given to households have been observed, compared to the previous year.

¹ Bank of Latvia (2018), Macroeconomic Developments Report, June 2018.