



Fiskālās disciplīnas  
padome

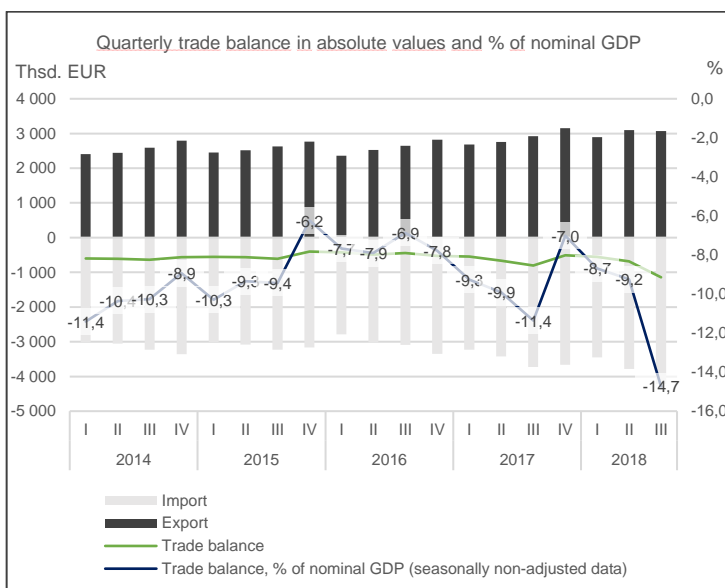
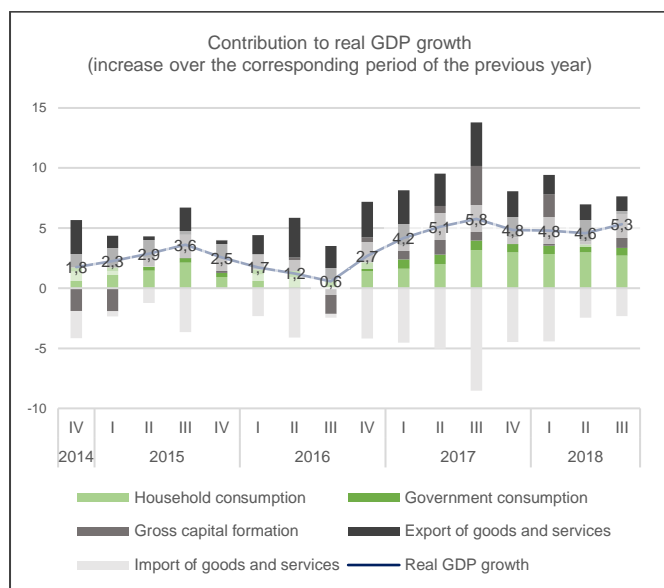
## Quarter III of 2018 monitoring of macroeconomic indicators

Both real and nominal GDP growth in 2018Q1-2018Q3 has exceeded the levels of GDP growth for 2018 forecasted in October. The main contributor to GDP growth in the first three quarters of 2018 has been growth of investments as well as household consumption (because of increased purchasing power). Consumer price index in 2018Q3 has been above the forecasted level for year 2018, due to increase in price for energy.

Macroeconomic indicator	2017 actual data				2017	2018 actual data			Forecasts				Quarter III, 2018 in comparison to 2018* prediction
	I	II	III	IV		I	II	III	2018*	2019*	2020*	2021*	
Real GDP growth	4,2%	5,1%	5,8%	4,8%	4,5%	4,8%	4,6%	5,3%	4,2%	3,0%	3,0%	2,9%	excess
Nominal GDP growth	6,2%	8,3%	9,4%	8,4%	7,7%	8,9%	8,8%	9,7%	7,4%	6,2%	5,8%	5,5%	excess
Inflation (PCI)	3,2%	3,1%	2,9%	2,6%	2,9%	2,0%	2,4%	2,9%	2,5%	2,5%	2,2%	2,1%	excess
GDP deflator	2,4%	3,5%	3,7%	3,1%	3,1%	3,6%	3,9%	4,3%	3,1%	3,1%	2,7%	2,5%	excess

\* 15.10.2018. Macroeconomic forecast endorsement, available: [http://fiscalcouncil.lv/files/uploaded/FDP\\_1\\_08\\_1182\\_20181011\\_macroecconomic\\_forecasts.pdf](http://fiscalcouncil.lv/files/uploaded/FDP_1_08_1182_20181011_macroecconomic_forecasts.pdf)

15.10.2018 Macroeconomic forecast endorsement (11.10.2018. Macroeconomic indicators by Ministry of Finance), available: [http://fiscalcouncil.lv/files/uploaded/FDP\\_1\\_08\\_1182\\_20181011\\_makroekonomikas\\_viedoklis.xlsx](http://fiscalcouncil.lv/files/uploaded/FDP_1_08_1182_20181011_makroekonomikas_viedoklis.xlsx)



### Advantages of economic growth in 2018Q1-2018Q3

Growth rates of industrial production volumes (in comparison to corresponding months of the previous year) have slightly slowed down since the beginning of 2018. In this period, wood industry has been the main contributor to growth of manufacturing output. Average capacity utilization in manufacturing in 2018Q1-2018Q3 has been high (above 75%), and capacity utilization in medium enterprises has reached the highest level of all time (79%).

In 2018, the growth in construction sector was 40.9% in 2018Q1 and 37.8% in 2018Q2 (compared to the corresponding periods of 2017), followed by a slow-down of more than 20 percentage points in 2018Q3 explicable by high base level in 2017Q3. In 2018Q3, the growth was led by repair of buildings and structures of both civil engineering works and non-residential buildings, while previously it was led by new constructions.

After decrease in transportation sector in 2018Q1, compared to the corresponding period of 2017, there was a strong growth in 2018Q2 and 2018Q3 reaching the highest total turnover of road and rail cargo since 2012 – close to 34 million tons. Thanks to increase in turnover in Riga and Liepaja ports, contribution of sea cargo to the transport sector has been positive (above 10%).

Because of strong increase of economic activity, unemployment rate has decreased to historically lowest level since 2008 (the registered unemployment rate in September and October 2018 was 6.1%).

### Disadvantages of economic growth in 2018Q1-2018Q3

Number of entrepreneurs claiming that labour shortage is restricting their business activity has even further increased in 2018 since continuous increase in 2017. In October 2018, 28% of enterprises in construction sector have mentioned the labour shortage as hindering factor, as well as 24% in retail sector, 20% in manufacturing sector and 15% in services sector. Tension in the labour market has contributed to the average gross wage increase of 8.4% in average in 2018Q1-2018Q3 (compared to the corresponding periods of 2017).

The trade deficit in 2018Q3 has increased to historically (since 2013) high level, in % of GDP. It was driven by product-trade deficit with countries outside Eurozone, especially with Russia. Imports of services have grown faster than exports, as for example, to meet the internal demand in construction sector.<sup>1</sup>

At 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 Latvia<sup>2</sup>, fall in value of loans given to households have been observed, compared to the previous year.

<sup>1</sup> Bank of Latvia (2018), available in Latvian: <https://www.makroekonomika.lv/negativas-tirdzniecibas-bilances-ietekme-veidojies-pedejo-gadu-lielakais-ceturksna-tekosa-konta>

<sup>2</sup> Bank of Latvia (2018), Macroeconomic Developments Report, June 2018.