

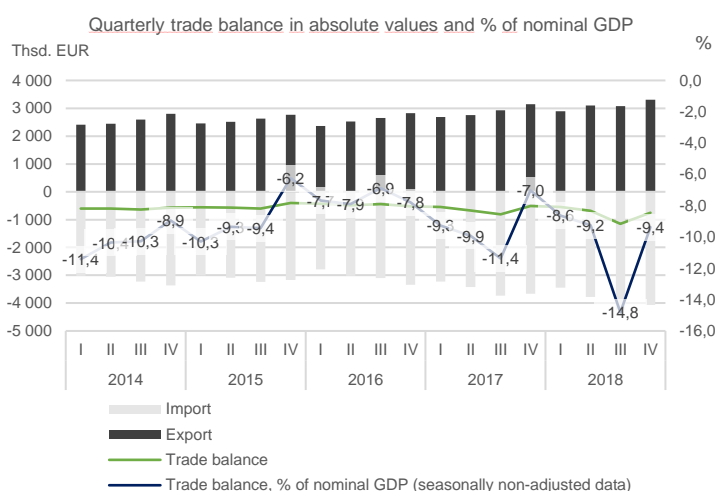
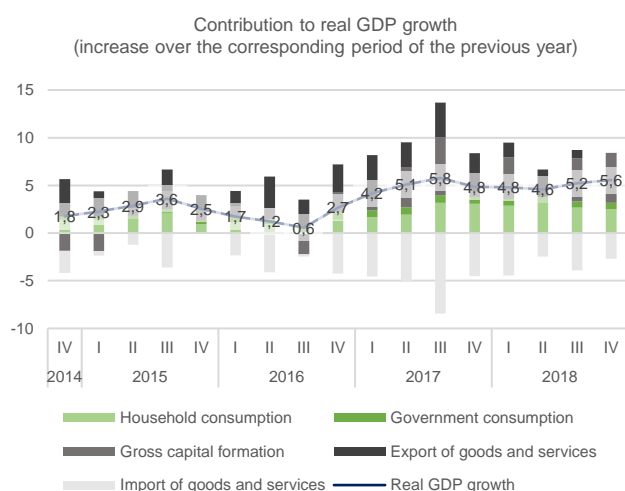


Fiskālās disciplīnas
padome

Quarter IV of 2018 monitoring of macroeconomic indicators

During the year 2018 the increase of both the real and nominal gross domestic product (GDP) has been higher than expected. The main contributor to fast GDP growth in 2018 was gross capital formation and household consumption. Consumer price index has been at the forecasted level of last year.

Macroeconomic indicator	2017 actual data				2017	2018 actual data				2018	Forecast (04.02.107) ¹				2018 actual data in comparison to 2018 forecast
	I	II	III	IV		I	II	III	IV		2017	2018	2019	2020	
Real GDP growth	4.2%	5.1%	5.8%	4.8%	4.6%	4.8%	4.6%	5.2%	5.6%	4.8%	3.7%	3.4%	3.2%	3.2%	excess
Nominal GDP growth	6.2%	8.3%	9.4%	8.5%	8.0%	9.1%	8.9%	9.6%	10.4%	9.2%	6.6%	6.3%	5.7%	5.6%	excess
Inflation (PCI)	3.2%	3.1%	2.9%	2.6%	2.9%	2.0%	2.4%	2.9%	2.9%	2.5%	2.8%	2.8%	2.4%	2.1%	below forecast
GDP deflator	2.4%	3.5%	3.7%	3.1%	3.1%	3.8%	4.0%	4.5%	4.6%	4.2%	2.8%	2.8%	2.4%	2.3%	excess



Advantages of economic growth in 2018

In 2018, exports grew by 8.8%², compared to 2017. Attraction of investments, including acquisition of European Union funding, continued successfully.

As a result of increasing economic activity, unemployment level has significantly decreased in 2018, reaching lowest historical level since 2008 (officially registered unemployment in December 2018 was 6.4%). The average gross wage increase was 8.4%, compared to 2017. Thanks to the additional funding allocated, the average gross wage in the health and social care sector has been raised by more than 15%, reducing the gap between the sector and country averages.³

Total construction turnover in 2018 has increased by more than 25% (compared to 2017), mainly due to construction of new buildings.

The growth of manufacturing has been moderate – the production turnover in 2018 has increased by nearly 8% (compared to 2017). In this period, the main contribution to manufacturing output was generated by the timber industry (28%). The average capacity utilization rate in manufacturing in 2018 has been high (above 75%), including the historically highest level reached by medium-sized enterprises (79%).

Disadvantages of economic growth in 2018

Despite an increase in investment and exports, as well as an increase in household and general government consumption, total GDP growth in 2018 was limited by an increase in the value of imports.

Purchasing power has grown faster than inflation, however, low activity in the lending sector has prompted citizens to accumulate savings, including for real estate purchase and improvements, at the same time slowing down retail industry growth.⁴

In 2018, the proportion of companies claiming that labor shortages restrict business development has increased. Tensions in the labor market have continued to stimulate wage growth.

Disparity in the structure of unemployment across regions still persists - the unemployment rate in Latgale is still more than twice as high as the national average.

¹ Fiscal discipline council (2017) *Macroeconomic forecast endorsement*. Available: <http://fiscalcouncil.lv/04082017-macroeconomic-forecast-endorsement> [accessed 15.05.2019]

² Central Statistics Bureau of Latvia (2019) *In 2018 foreign trade turnover of Latvia was EUR 2.25 billion larger than a year ago*. Available: <https://www.csb.gov.lv/en/statistics/statistics-by-theme/foreign-trade/foreign-trade-aggregated/search-in-theme/2509-foreign-trade-latvia> [accessed 14.05.2019]

³ Anete Migale (2019) *Ātalgojuma pieaugums pērn straujākais pēckrīzes periodā*. Bank of Latvia, available in Latvian: <https://www.makroekonomika.lv/atalgojuma-pieaugums-pern-straujakis-peckrizes-perioda> [accessed 13.05.2019]

⁴ Daina Paula (2019) *Mazumtirdzniecības attīstības latīņa saglabājas augsta*. Bank of Latvia, available in Latvian: <https://www.makroekonomika.lv/mazumtirdzniecibas-attistibas-latina-saglabajas-augsta> [accessed 13.05.2019]