

On GDP in Q2 of 2021

In Q2 of 2021, the economy exceeded pre-Covid-19 levels; however, the uncertainty regarding the epidemiological situation in the autumn is intensifying

According to the data published by the CSB, in Q2 of 2021, GDP was by 11.1% higher than a year ago. However, according to seasonally adjusted data, growth rate reached 4.4%. Economic volumes exceeded the level of Q4 of 2019 (the last quarter before the Covid-19 pandemic) by 0.9%.

Given the difficult epidemiological situation and the restrictions imposed, the economy continued to contract earlier this year. In the second quarter, however, the economy experienced rapid growth, largely due to the base effect.

In Q2 of 2021, the largest relative growth rates (i.e., in percentage terms) were observed in the sectors most severely affected by the deteriorating epidemiological situation. In Q2 of 2021, the volumes of services in the accommodation and catering were 42.5% higher than

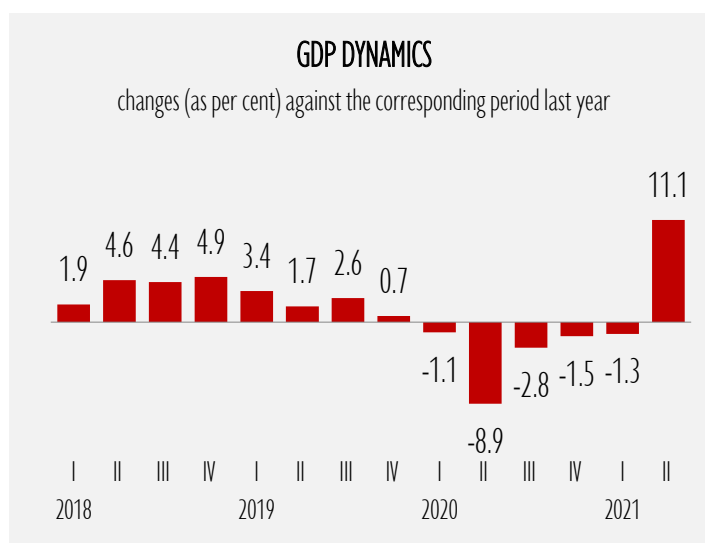
a year ago. Also, a significant increase on an annual basis was observed in the number of passengers served at the airport. However, it should be noted that these sectors are recovering from a very deep and prolonged recession and still significantly lag behind the pre-crisis level at the end of 2019. In Q2 of 2021, compared to Q4 of 2019, the volumes in the air transport sector declined by 74%. Also, the volumes in accommodation were by 58% lower. In addition, the volumes, compared to Q4 of 2019, in catering as well as in the arts and entertainment sectors declined by 40%.

At the same time, in Q2 of 2021, the growth rates in some economic sectors already significantly exceeded the pre-crisis levels. These sectors include a number of manufacturing sub-sectors, healthcare, information and communication services, etc. In Q2 of 2021, the volumes of manufacturing were by 15.2% higher than a year ago. The increase was observed in almost all sub-sectors of manufacturing. Also, the volumes of wood processing and furniture production are growing rapidly. In 2021, stable development is observed in the chemical industry, metalworking, production of machinery and equipment, electronic equipment, etc. Stable demand in sales markets allows Latvian manufacturing companies to maintain positive growth rates. In the largest Latvian export market - EU countries, the economic situation is improving, and confidence indicators have reached the highest level in recent years. Therefore, manufacturing continues to have the potential for growth, especially at the expense of increasing export volumes, emphasizes the Minister of Economics, J. Vitenbergs.

Due to the base effect, household consumption in the second quarter was 16% higher than a year ago. However, government final consumption expenditure increased by 7.1% annually. In 2020, investment volumes under Covid-19 conditions were relatively stable and even increased slightly. Positive trends can also be observed in 2021. In Q2 of 2021, investments in gross fixed capital formation increased by 11.2%. Investment in dwellings, other buildings, and structures grew by 1.1%, whereas investment in machinery and equipment and intellectual property products, compared to the corresponding period last year, increased by 23.8% and 22%, respectively.

In 2021, due to the favourable economic situation in Latvia's largest export markets, export volumes are increasing. In Q2 of 2021, almost 18% more goods were exported than a year ago. In June, the value of exports of goods at current prices increased by 31.7% annually. At the same time, exports of services lag significantly behind the pre-crisis level (10% increase in the second quarter). In 2020, it decreased by 21.4%. The decline was largely due to exports from the aviation and tourism services sectors affected by the Covid-19 pandemic. Exports of transit services are also on a decline.

The minister of Economics, J. Vitenbergs emphasizes "the relatively rapid recovery of the economy reveals that in most cases companies have been able to adapt to the prevailing circumstances. State support has also made a significant contribution, both in terms of downtime and subsidized job benefits and in terms of working capital grants to companies, as it has made it possible to maintain the potential of companies and to re-establish their business quickly enough. Vaccination has improved the chances of overcoming the Covid-19 pandemic more expeditious. However, the near-term outlook remains highly uncertain, as the epidemiological situation has deteriorated in recent weeks due to new strains of the virus and slowing vaccination rates. Therefore, it is vital to ensure rapid vaccination, treatment of Covid-19 patients, as well as continued epidemiological measures, all of which have a direct impact on economic development in both the short and medium term".



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The Ministry of Economics forecasts that in the second half of the year the growth rates will be lower than in the second quarter, as the base effect will gradually subside. Overall, in 2021, economic growth may increase by 3-4%. However, uncertainty remains elevated.