

On GDP in Q3 of 2021

GDP data for the third quarter suggest that the economy continues to recover

According to the CSB data, in Q3 of 2021, GDP grew by 5.1% annually. Also, in January-September 2021, GDP increased by 5.2%, compared to the corresponding period last year. However, according to seasonally adjusted data, in Q3 of 2021, GDP rose by 0.6%. Also, economic volumes exceeded the level of the 4th quarter of 2019 (i.e., the last quarter prior to the Covid-19 pandemic) by 1.7%.

In Q3 of 2021, private consumption grew by 8.8% annually, driven by declining unemployment, rising average wages, and reduced Covid-19 restrictions in the summer months.

In Q3 of 2021, investments increased by 6% annually. Although investment in buildings and structures declined on an annual basis, investment in machinery and equipment and intellectual property products grew by 16% and 18.3%, respectively.

Exports also continue to increase. In Q3 of 2021, the volume of exports of goods and services was 5.4% higher than a year ago. Exports of goods and exports of services increased by 4.4% and 8.6%, respectively. Rising private consumption and investment are boosting imports. In Q3 of 2021, imports of goods were 11.8% higher than a year ago. However, imports of services increased by 27.5%.

Growth has been observed in most sectors of the economy. Manufacturing grew by 7.9% annually, driven by growth in the sectors related to the manufacture of wood and wood products, chemicals and chemical products, furniture, metal, and electronics. The volume of the trade sector increased by 7.8% annually. The increase was also observed in the car and motorcycle trade and repair sector, as well as in wholesale and retail trade. In the transport and storage sector, volumes increased by 5.4%, largely driven by the recovery of the aviation sector in the summer months, as well as growth in ancillary storage and transport activities. In the information and communication sector, volumes were 9.5% higher than a year ago, primarily driven by growth in the information services and computer programming sectors. In Q3 of 2021, the financial and insurance sectors grew very rapidly (by almost 42% annually). In financial services, commission income and trade in financial instruments increased. Growth was also observed in the insurance sector. Investment in health care related to Covid-19 pandemic control has accelerated the sector's growth by nearly 20 percent.

However, trends in some sectors remain less encouraging. In Q3 of 2021, due to less favourable weather conditions, the output of the crop sector and the volumes of the electricity sector decreased. In Q3 of 2021, construction volumes declined by 3.3%, largely due to rising costs, with a particularly significant rise in wood and metal prices. This has negatively affected both the development of existing construction projects and a potential launch of new projects. In Q3 of 2021, no significant improvements in the sectors most severely affected by the Covid-19 crisis has been observed. In particular, the volumes of services in the accommodation and catering sector reached the level of the 3rd quarter of 2020. However, in Q3 of 2021, compared to the corresponding period last year, the arts, entertainment, and recreation sector declined by 4.8%.

"GDP growth rates in the previous quarters can be assessed positively. The growth of exports and stable growth rates in manufacturing and several service sectors are particularly gratifying. At the same time, action must be taken to maintain stable economic growth in both the short- and medium-term. Firstly, state support will be provided to limited sectors this autumn. Past experience evidently indicates that the government's task in these difficult circumstances is primarily to preserve the potential of economic sectors to ensure that companies can resume operations as soon as possible. Secondly, solutions will be sought to mitigate the negative effects of the surge in global energy prices. Thirdly, to strengthen the competitiveness of the economy, the implementation of the measures of the Recovery and Sustainability Plan will be initiated in the near future. Also, the regulatory enactments required for the launch of the new EU Structural Funds programming period will be developed." emphasizes the Minister of Economics J. Vitenbergs.

Given that the prevalence of Covid-19 infection has risen sharply again in the autumn and the government has imposed a series of restrictive measures, overall economic growth is anticipated to be slightly slower in the fourth quarter, compared to the previous two quarters. Overall, in 2021, GDP growth could be close to 5%. The relatively high vaccination coverage suggests that various restrictions could be significantly more moderate next year, allowing economic growth to even exceed 5% in 2022. At the same time, the uncertainty regarding the prevalence of Covid-19, potential new strains of the virus, and their impact on the epidemiological situation remains elevated. This may slow down economic growth, but not development.

