

On GDP in Q4 of 2021 and the year as a whole

Despite the spread of the Covid-19 virus, the economy continued to recover in 2021

According to the data published by the CSB, in Q4 of 2021, GDP increased by 3.5% annually. Overall, in 2021, GDP increased by 4.8%. The economy continued to be affected by the Covid-19 pandemic and measures to contain it. Although the economy has been above pre-pandemic levels since the middle of last year, the recovery from the crisis varies widely across sectors.

A significant contribution to GDP growth was made by private consumption, which increased by 6.5% annually. Also, in Q4 of 2021, private consumption rose by 4.8%. Growth was driven by both the easing of Covid-19 restrictions and the rise in average wages and government support measures.

In Q4 of 2021, investment declined by 1.6% annually, driven by a decline in investment in housing, buildings and structures. Overall, gross fixed capital formation increased by 3%, compared to 2020. The increase was driven by a rise in investment in machinery and equipment, as well as intellectual property products.

Exports have increased significantly. In Q4 of 2021, exports of goods and services were 5% higher than a year ago. Overall, in 2021, exports increased by 6.2%. In 2021, exports of goods increased by 5.9%, reaching the historically highest value. The main export goods last year were wood and wood products, electrical appliances and equipment, machinery. Also, in 2021, exports of services increased by 7.2%. Transport services were the most exported. However, the decline continued in tourism, whose export volumes lag behind both the 2020 and 2019 levels.

As mentioned above, the development trends in terms of sectors over the past year have been very disparate. The volumes of the agricultural and forestry sector decreased by 6.8%, which was especially affected by the unfavourable weather conditions in the crop sector in the summer of 2021. The sharp rise in construction material prices (mainly for wood products and metals) had a negative impact on the construction, where production volumes decreased by 6.1% in 2021. Also, in 2021, a decline in the catering and accommodation, as well as arts, entertainment and recreation sectors, which were significantly affected by the restrictions of the Covid-19 infection, was observed. In turn, for a number of other economic sectors, the last year can be assessed as successful. The manufacturing sector grew by 7.4% last year due to export growth. The rapid growth in wholesale trade affected the growth of the trade sector by 8.9%. The volume of services provided in the transportation and storage increased by 5.9%, mainly due to the rise in the volume of services provided in support activities of storage and transport. In 2021, the value added of the IT sector increased by 11.1%, including in computer programming - by 14.3%, in the provision of information services - by 11.7%; and in telecommunications services - by 6.5%. The health and financial services sectors also increased markedly.

"Economic development indicators remain positive. Despite various difficulties, Latvia's exports of goods and services exceeded 21 billion euros last year. Strong contentment with stable growth rates in manufacturing, IT, and a number of service sectors prevails. However, the military aggression and invasion of Ukraine by Russia and Belarus have radically transformed the course of events. Russia has long been an important outlet for most Latvian exporters, while there are alternatives to the availability of energy resources that are being discussed in coordination with colleagues in the EU. In the short term, Latvia faces no problems with available energy resources, incl. fuel and natural gas. However, those Latvian entrepreneurs who until now had Russia or Belarus as a market for the extraction of raw materials or products must look for solutions for new supply chains and new export markets as soon as possible," emphasizes Minister of Economics Jānis Vitenbergs.

The aggression of Russia and Belarus in Ukraine has created an unprecedented geopolitical tension in the region, which will undoubtedly slow down Latvia's economic growth, albeit not the development.

