

On GDP in Q1 of 2022

Despite the challenges, the beginning of the year in the economy can be evaluated positively

According to the data published by the CSB, in Q1 of 2022, compared to the corresponding period last year, GDP increased by 6.7%. The increase has been significantly higher than forecast a month ago; however, it should be noted that it was affected by the low base in the first quarter of 2021 and the phasing out of Covid-19 restrictions.

In Q1 of 2022, a significant contribution to GDP growth provided private consumption, which rose by 15.1% year-on-year. The increase was driven by both the easing of Covid-19 restrictions and the rise in average wages and unemployment.

Investments have grown moderately - in Q1 of 2022, they were 1.9% higher than a year ago. The sharp rise in costs limited the construction sector (investment in housing and other buildings and structures fell by 8%).

At the same time, despite growing uncertainty, investment in machinery and equipment and intellectual property products increased by 11.2% and 24.6%, respectively.

Exports also continue to increase. Exports of goods increased by 6.8% (the main exported goods were wood and wood products). Exports of services, on the other hand, grew by 14.5% year-on-year (primarily affected by transport services, computer services). Overall, in Q1 of 2022, exports of goods and services were 8.6% higher than a year ago.

In Q1 of 2022, the development trends across economic sectors are highly variant - some sectors are declining, others continue to increase, while others are just beginning to recover from the effects of the Covid-19 pandemic. In Q1 of 2022, the most rapid growth was observed in the sectors most severely affected by the crisis, which are beginning to recover as restrictions have eased. In Q1 of 2022, the volume of services provided in the accommodation and food service activities was almost 85% higher than a year ago, while the growth in the arts, entertainment, and recreation sector reached 26.9%. Also, manufacturing continues to increase. Due to the growth of exports, the volumes of manufacturing increased by 8.3%. Growth was largely driven by an increase in wood processing, metalworking, building materials, and chemicals. The increase in value added in the information and communication sector (by 8.6%) was primarily facilitated by an increase in the volume of telecommunications services and computer programming. The increase in retail trade volumes and the increase in foreign trade turnover in wholesale trade had a positive impact on the trade sector, which grew by 8% year-on-year. Also, in Q1 of 2022, in some sectors volumes have declined. In Q1 of 2022, compared to the corresponding period last year, volumes in the agriculture and forestry sectors were 0.8% lower (largely due to a decline in the forestry sector). The sharp rise in construction material prices (mainly for wood products and metals) had a negative impact on construction, as production volumes declined by 8.4%. In Q1 of 2022, the energy and education sectors also declined.

"Overall, in Q1 of 2022, the performance of the economy can be evaluated very positively. Household consumption is recovering, exports continue to grow, despite the difficult geopolitical situation, and business investment in equipment is rising. However, challenges have also increased. In the current economic juncture, the only solution for Latvian enterprises is new and diversified raw material supply markets and reorientation from Russia to more solvent Western markets. Strengthening Latvia's energy independence in search of new supply alternatives is also a priority. At the same time, given the spike in prices, the government is actively working on targeted support instruments for those who need it most," emphasizes Ilze Indriksone, Minister of Economics.

In the coming quarters, economic growth will be slower than at the beginning of the year. It will be affected by both the base effect and the geopolitical situation in the region, as well as high energy and food prices. The extent of the economic impact of Russia's aggression in Ukraine will depend on the duration of the war and political reactions; nevertheless, it is evident that the war will stifle growth and increase inflationary pressures. However, growth will remain positive and is forecast to reach 2% on an annual basis.

