

On GDP in Q2 of 2022

Despite the difficulties, the economy continues to increase

According to CSB data, in Q2 of 2022, the economy grew by 3%, compared to the corresponding period last year. The geopolitical uncertainty, the rapid rise in energy prices, and the disruption of raw material supply chains due to Russia's invasion of Ukraine negatively weighs on the economic development.

Household consumption makes a significant contribution to GDP growth. Although a significant rise in consumer prices has been observed, private consumption at constant prices in the 2nd quarter was 7.9% higher than a year ago. The increase was facilitated by both the rise in the average salary, the decrease in unemployment, and the entirely lifted restrictions on the spread of Covid-19.

Despite the great uncertainty, investments have increased in the 2nd quarter - by 2.7% on an annual basis.

Investments in buildings and structures decreased by 13.8% due to the rapid increase in costs. At the same time, investments in machinery, equipment and vehicles increased by 18.2% and in intellectual property products by 19.8%.

In Q2 of 2022, rapid growth rates have been maintained in both exports and imports. In Q2 of 2022, compared to the corresponding period last year, export volumes of goods and services increased by 9.1%. Considering the high base effect, the increase in the volume of exports of goods is more moderate - by 5.7%. On the other hand, exports of services has increased by more than 20% during the same period, which was influenced by the increase in the export of transport services and computer services. In Q2 of 2022, imports of goods and services was 11.2% higher than a year ago.

Development trends vary across sectors of the economy. Rapid growth rates can be observed in the sectors that were most severely hit by the Covid-19 restrictions. On an annual basis, in Q2 of 2022, the growth in the accommodation and food service activities reached 77.4%; in the arts, entertainment and leisure sector - 35.9%; and in air transport - an increase by 3.7 times. Also, a rapid increase (+16.5%) was observed in the commercial services sector (i.e., legal and accounting services, provision of professional, scientific and technical services, advertising and market research), as well as in the ICT sector (by 15.3%). The average growth rates of the national economy were also exceeded by the largest production sectors - in particular, agriculture and forestry increased by 7.9%, while manufacturing rose by 5.8%.

In Q2 of 2022, a decline was observed in some sectors. As a result of EU sanctions, the turnover of goods with the markets of Russia and Belarus has declined. Therefore, the wholesale sector decreased by 21.1%, compared to the corresponding period last year. The rapid increase in costs has forced a review of the planned construction projects or extended their deadlines - the volumes of construction were 13.8% lower than a year ago. A decline was also observed in the energy, mining, and the financial services sectors.

"Considering the consequences of Russia's invasion of Ukraine in global markets and supply chains, the performance of Latvian companies so far is commendable - exports and production volumes are rising, stable consumption endures, which promotes demand in the domestic market. However, it is clear that major challenges remain in the economy, which we will have to overcome in the coming months. To reduce the impact of high energy resource prices on the purchasing power of the population, the government has already approved more than 400 mln. EUR support for households in this heating season. From now on, all electricity users will have zero in the fields of the compulsory procurement component (OMC), and we are also moving forward rapidly with support for companies. It has been decided that for 7 months starting from October 2022, legal entities will be fully compensated for the electricity system service fee, while energy-intensive processing industry companies will have access to state support to compensate for the increase in the cost of energy resources. In these uncertain conditions, the competitiveness of companies is of vital significance", emphasizes the Minister of Economics Ilze Indriksone.

In the following quarters, the pace of economic growth could be slower than at the beginning of the year; nevertheless, in 2022, growth will remain positive and may reach 2-3 percent on an annual basis.

