

## On GDP in Q3 of 2022

**Uncertainty and rapidly rising prices are slowing down the economy**

According to the data published by the Central Statistical Bureau (CSB), in Q3 of 2022, GDP at constant prices was 0.6% lower, compared to the corresponding period last year. Overall, in January-September 2022, the economy has grown by 2.4%, compared to the corresponding period of the previous year.

The main reasons for the economic slowdown are the great uncertainty in the current geopolitical situation, which affects the raw material supply chains, and the rapidly rising energy and food prices. The rate of price growth is ahead of the wage growth, negatively affecting the purchasing power of the population.

In Q3 of 2022, private consumption was 5.5% higher than a year ago. The increase was largely influenced by the base effect, as in Q3 of 2022 household consumption was affected by the restrictions of the Covid-19 pandemic.

Despite the rapid rise in prices, moderate growth remained in investments. In Q3 of 2022, investments in the gross fixed capital formation increased by 0.4% on an annual basis. Considering that certain construction plans are postponed due to high prices, while already started construction projects have become significantly more expensive, investments in housing and other constructions in the 3rd quarter were 13% lower than a year ago. At the same time, investments in machinery and equipment grew by 9.9% and investments in intellectual property products by 18.3%.

In Q3 of 2022, the export volumes of goods and services at constant prices were 12.3% higher than a year ago, representing the most rapid quarterly growth of exports this year. Considering the impact of the Covid-19 pandemic, the exports of services are rapidly recovering – in Q3 of 2022, compared to the corresponding period last year, it increased by 21.7%. At the same time, the exports of goods also maintains a rapid growth – in Q3 of 2022, it increased by 9.3% on an annual basis. Also, in Q3 of 2022, imports were 8.8% higher than a year ago.

Although the GDP decreased in Q3 of 2022, the total added value by industry was 0.5% higher than a year ago. Rapid growth rates are maintained in the sectors that were hardest hit by the Covid-19 restrictions. In Q3 of 2022, the volume of services in the accommodation and food service activities increased by 33% year-on-year. Also, in the arts, entertainment and leisure sector it rose by 26.2%; in commercial services - by 13.2%. Stable growth can be observed in the ICT sector (in Q3 of 2022 – by 14.2%). At the same time, in Q3 of 2022, a drop in volumes in several manufacturing sectors was observed. Due to the rapid rise in prices and the decrease in consumption, in Q3 of 2022, an annual decrease in the supply of electricity, gas, and heat was observed. Due to the rapid increase in costs, the decline in the construction sector endures (by 13.6%, compared to Q3 of 2022). Also, production volumes in the manufacturing decreased by 1.6%, which was affected by the decline in the food industry, woodworking, and chemical industry. As a result of the EU sanctions, the turnover of goods with the markets of Russia and Belarus has decreased, as a result of which the wholesale sector decreased by 23% in Q3 of 2022.

Uncertainty and the rapid rise in prices have slowed down the economy and it is forecast that the GDP could grow in the range of 1-2% in 2022. The great uncertainty affects both the consumption of citizens and the future plans of companies and foreign trade. It is anticipated that the most difficult situation in the economy will be at the end of this year and in the first months of next year. Growth could return in the middle of 2023; however, in 2023, GDP will remain close to the previous year's levels, given the current geopolitical situation does not significantly deteriorate.

