

On GDP in Q1 of 2023

Despite the high inflation and the geopolitical situation, the economy continues to grow

According to the data of the Central Statistical Bureau (CSB), in Q1 of 2023, GDP at constant prices was 0.8% higher than a year ago. Although the GDP growth has been relatively moderate, it can be evaluated positively, considering the high price level, as well as the still great uncertainty of the geopolitical situation in the region.

The rate of price growth is ahead of the wage growth, which affects the purchasing power of the population. However, due to the base effect of the Covid-19 restrictions and the improvement of the situation in the labor market, the dynamics of household consumption remain positive - in Q1 of 2023, private consumption was 0.3% higher than a year ago.

In Q1 of 2023, a rapid increase in investments was observed. Investments in gross fixed capital formation increased by 11.3% year-on-year. Investments in housing, buildings and structures increased by 17%; investments in machinery and equipment rose by 4.9%; and in intellectual property products - by 4.3%.

Export volumes of goods and services in Q1 of 2023 were 0.7% lower than a year ago. After the Covid-19 pandemic, the exports of services continue to recover, which in Q1 of 2023 were 4% higher than a year ago. As in the previous year, the increase in the first quarter of this year was mainly determined by the increase in the exports of transport services, computer services, and other economic activity services. Export volumes of goods at constant prices decreased by 2.3%. The main export goods were wood and wood products, mineral products, electrical appliances, and electrical equipment. Unlike exports, in Q1 of 2023, the imports of goods and services increased (by 3.1%). Furthermore, the export-import balance in actual prices was -5.5% of GDP.

In terms of sectors, the total added value in the first quarter of 2023 increased by 0.7%, compared to the corresponding period last year. The growth was largely driven by service industries. Rapid growth rates are maintained in the sectors that were most affected by the restrictions of Covid-19 - in Q1 of 2023, the accommodation and food service activities grew by 27.3% year-on-year; the arts, entertainment, and recreation sector - by 19.5%; and commercial services - by 4.5%. Stable growth continues in the ICT sector - in Q1 of 2023, an increase of 12.2%. After three years of volume reduction, the construction sector is starting to recover. In Q1 of 2023, construction volumes increased by 17%, compared to the Q1 of 2022. The growth in the first quarter was observed in all construction sub-sectors, the most rapid growth was in building construction.

A considerable decrease in volumes in the first quarter was in the trade sector (by 10.3%). It was affected by the drop in wholesale trade by 27.3%, while the drop in retail trade (by 1.4%) was largely related to the decrease in retail sales of food products. Despite the significant growth of the air transport sector, in the transport and storage sector, a decrease of 4.7% in the first quarter was observed, which was determined by the decline in the volume of services in land transport, as well as in storage and transport auxiliary activities. In Q1 of 2023, compared to the corresponding period last year, also a decrease in volumes in the forestry, financial services, energy, mining, and health care sectors was observed. For the third consecutive quarter, the volume of the manufacturing industry has declined - in Q1 of 2023, it fell by 4.3%. At the same time, development trends in sub-sectors are highly variant. At the beginning of this year, production fell in woodworking, non-metallic mineral products, chemical industry, metalworking, and rubber and plastic products. On the other hand, growth was observed in the food industry, electrical equipment manufacturing, computer, electronic, and optical equipment manufacturing, as well as pharmaceuticals.

Geopolitical uncertainty and high inflation are expected to continue to affect economic development. Very moderate economic growth rates are likely to be observed in the first half of the year. The Ministry of Economics forecasts that in 2023 GDP could grow by 0.8%.

