

The economy continues to slow down, improvement is expected in 2024

According to the data of the Central Statistical Bureau (CSB), in Q3 of 2023, GDP at constant prices was 0.7% lower than a year ago. Developments in the economy in the third quarter have been slightly weaker than in the flash estimate of GDP published a month ago. Overall, in Q1-Q3 of 2023, GDP decreased by 0.6%, compared to the corresponding period of the previous year.

In 2023, the drop in the real income of the population has significantly affected the purchasing power of the population. In Q3 of 2023, household consumption was 1.3% lower than a year ago, which is a slightly more moderate decline than during the first quarters of the year.

In Q3 of 2023, public consumption and investments increased. Also, government expenditures increased by 7.7% year-on-year. Investments, on the other hand, increased by 3.1% in the same period, which was a slower increase than previously expected. In Q3 of 2023, investments in housing, buildings and structures were 16% higher than a year ago. At the same time, investments in machinery and equipment decreased by 7.1% and investments in intellectual property products - by 1.4%.

Slowdown of economic activities in Latvia's trade partner countries affects foreign trade – in Q3 of 2023, both export and import volumes decreased. The export of goods and services decreased by 11.8%. Export of goods decreased by 14.7% and export of services - by 4%. The import of goods and services decreased by 8.3%. In Q3 of 2023, the export-import balance in actual prices was -4% of GDP.

In terms of sectors, highly variant development trends remained in Q3 of 2023 as well. Unfavorable weather in had a significant impact on the agricultural sector (year-on-year decline of 10.7%). Deterioration of export opportunities continues to have a negative impact on the manufacturing industry (decrease in volumes by 6.3%). In the rest of the industry, the decrease in volumes (by 9.3%) was influenced by the decline in the electricity, gas and heat supply sector, as well as in the mining industry. Weak household consumption and the contraction of foreign trade affect the retail and wholesale sectors - in Q3 of 2023, trade volumes decreased by 3.6%, compared to the corresponding period last year. The volumes of the transport and storage sector decreased by 9.8%, while the financial sector fell by 14.5%. On the other hand, in Q3 of 2023, an increase in construction and most service industries was observed. In the construction sector, the annual increase was 16.1%, which was the largest positive contribution to the economy in Q3 of 2023. Volume growth was also observed in the accommodation and food service activities, real estate operations, education, health care, and the arts, entertainment, and recreation.

In the last months of the year, significant changes in the national economy are not anticipated. Overall, in 2023, GDP will remain close to the level of 2022. The situation is expected to improve next year. International institutions forecast that the economy in our largest export markets will grow in 2024, which will positively affect our export opportunities. As the real wage starts to rise again, it is expected that private consumption will also start to grow again, the implementation of EU fund programs will have a positive effect on the dynamics of investments. If developments in the external environment do not deteriorate significantly, it is expected that economic growth could reach 2% in 2024.

