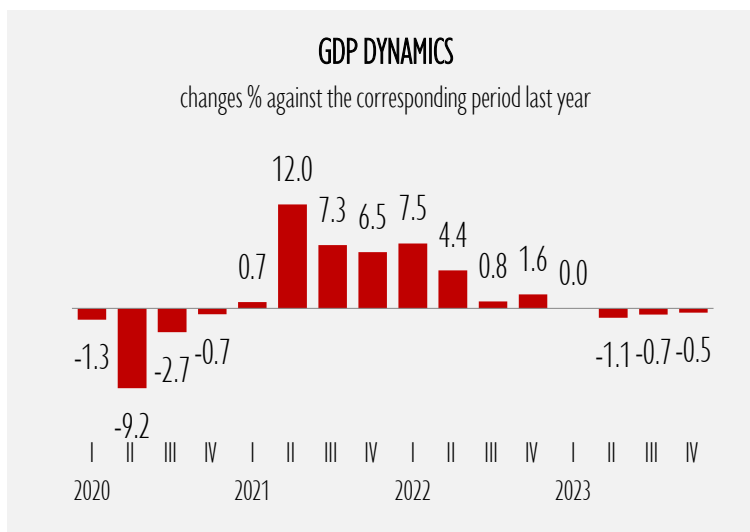


## On GDP Flash Estimate in Q4 of 2023

**Although GDP decreased in 2023, starting from the second half of the year, economic activities have begun to gradually increase**

According to the flash estimate of the gross domestic product (GDP) by the Central Statistical Bureau (CSB), GDP was 0.5% lower in the fourth quarter of last year compared to the fourth quarter of 2022 (at constant prices according to unadjusted data). The Central Statistical Bureau's preliminary estimates indicate that this GDP change was influenced by a 3.6% increase in the manufacturing sectors, a 0.7% decrease in the service sectors, and a significant 9.2% drop in product tax collection. Overall, GDP shrank by 0.6% over the entire year.



Economic trends in 2023 suggested that GDP would remain close to 2022 levels. Latvia's export indicators were affected by unfavorable external conditions and weak demand. High inflation negatively impacted household consumption and reduced the real income of the population. Additionally, the geopolitical situation in the region and weak lending hindered a more rapid increase in investment.

However, there was a positive trend: in the fourth quarter of 2023, compared to the third quarter of 2023, GDP increased by 0.4%, according to seasonally and calendar-adjusted data. This indicates that economic activity, although modest, is still on the rise. More detailed data for the last quarter of the past year will be available in a month.

Looking forward, the economic situation is expected to improve this year. International institutions predict economic growth in Latvia's major export markets in 2024, which will positively influence export opportunities. As real wages begin to rise again, private consumption is also expected to increase. The implementation of EU fund programs is anticipated to have a positive impact on investment dynamics.

As seen in recent years, different sectors will likely experience varied trends in 2024. Similar to 2023, the construction sector is expected to experience the fastest growth this year. This sector's development will be positively influenced by EU funds, public orders, and a decrease in inflation, which will reduce the impact on the price increases of upcoming construction projects. Following a decline in 2023, the trade sector is expected to gradually recover, supported by increased foreign trade flows and the dynamics of the wholesale sector. The retail sector will likely benefit from a

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rise in private consumption. Manufacturing is expected to return to growth, primarily driven by improved export opportunities. Challenges will persist for companies connected to the markets of Russia and the CIS countries, which will need to continue seeking new supply opportunities and markets. Industries focused on the internal market will also influence the purchasing power of the population.

If the external environment does not significantly deteriorate, economic growth in 2024 is expected to reach 2-3%.