

## Flash Estimate of GDP in Q3 of 2022

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

According to the rapid assessment of the gross domestic product (GDP) by the Central Statistical Bureau (CSB), in Q3 of 2022, compared to the corresponding period last year, GDP at constant prices declined by 0.6%. According to preliminary estimates, the GDP was affected by the decline in the manufacturing sectors (by 3.9%) and the increase in the volumes in the service sectors (by 1.7%). Overall, in January-September 2022, GDP was 2.4% higher than a year ago.

The economic slowdown was anticipated. As a result of Russia's aggression, the geopolitical situation and prospects for economic development have worsened. Energy and food

prices have risen significantly, adding to inflationary pressures at a time when the cost of living around the world was already rising rapidly in the recovery from the Covid-19 pandemic. In the face of soaring inflation, the European Central Bank raises interest rates, which in turn slows economic growth. War also affects the global economy by disrupting raw material supply chains.

High inflation negatively affects the purchasing power of citizens. The rate of price growth outpaces wage growth, resulting in a decline in real income. In recent months, the turnover of the retail has slowed down. Excluding the effect of prices, in Q3 of 2022, retail sales volumes were only 0.8% higher than a year ago.

Also, the rapid increase in costs has a negative impact on the construction. In Q3 of 2022, it had the largest decline in volumes amongst the producing sectors. Certain construction plans are being postponed due to high prices, while already started construction projects have become significantly more expensive. Trends in construction significantly affect the dynamics of investments, as investments in buildings and structures make up a large proportion of total investments.

Also, overall economic indicators are affected by foreign trade trends. The exports of goods continues to grow (July-August 2022, in actual prices it was 26.7% higher than a year ago). At the same time, export unit values, or prices of exported products, grew by 21-22%. Therefore, in Q3 of 2022, export volumes continued to grow at constant prices, albeit at a slower pace than before. On the other hand, import volumes are growing more rapidly than exports, as entrepreneurs are stockpiling both in connection with significantly disrupted supply chains and in fear of possible disruptions in the future due to new sanctions. In the first half of 2022, the negative balance of exports-imports of goods and services increased to 6.6% of GDP.

A great uncertainty regarding how the war and related sanctions will affect the future development of Latvia's economy. Uncertainty will affect the consumption of citizens as well as the investments of companies and foreign trade. It is anticipated that the situation in the economy will be more difficult at the end of this year and in the first months of next year. The Ministry of Economy forecasts that overall economic growth in 2022 will remain positive and will be within 2%. On the other hand, in 2023, overall GDP growth rates will be lower, and growth could be below 1%, provided that a significant deterioration in the current geopolitical situation does not occur.

