

On GDP in the 4<sup>th</sup> Quarter of 2020 and in 2020

## In 2020, the negative impact of Covid-19 was mitigated by the increase in exports of goods

No significant revisions to the data since the publication of the flash estimate of GDP in January 2020 have taken place. According to the information provided by the Central Statistical Bureau (CSB), in Q4 of 2020, GDP was 1.5% lower than a year ago. Overall, in 2020, due to Covid-19 pandemic, the economic decline reached 3.6 percent.

The rise in unemployment and the fall in income caused by the Covid-19 crisis have affected household consumption. In Q4 of 2020, it was 8.5% lower than a year ago. Overall, in 2020, private consumption decreased by 10%.

In Q4 of 2020, the total export volumes of goods and services increased by 3.1%, compared to the corresponding period last year. Overall, in 2020, export volumes declined by 2.7%. At the same time, contrasting trends in exports of goods and services have been observed. Despite a significant drop in external demand and weaker economic activity caused by the Covid-19 crisis in both the EU and other important markets for Latvia, in 2020, Latvia's exports of goods were 5.5% higher, compared to 2019. The largest contribution to the growth of exports of goods was provided by a 16% increase in exports of machinery and electrical equipment. A significant rise in exports was also observed in the category of food and agricultural goods – i.e., the export volumes increased by 5.9%. Also, products of wood processing significantly contributed to the overall rise in export volumes. However, in 2020, exports of services decreased by 21.3%. The decline can largely be attributed to the fall in exports in the aviation and tourism services sectors most severely affected by the Covid-19 pandemic. Also, in 2020, the exports of transit services declined significantly. As the import volumes of goods and services decreased by 3.3% in 2020, the total export-import balance remained positive (i.e., 1.2% of GDP).

Despite the decline in overall economic activity in 2020, investments have slightly increased (by 0.2%). In 2020, investments in housing, buildings, and structures increased by 1.5%; however, investments in intellectual property products rose by 2.6%. In contrast, a decline of 2.2% was observed in investments in machinery and equipment.

During the first wave of the Covid-19 pandemic in spring, a decline was observed in essentially all sectors of the economy. However, in the fourth quarter of 2020, the volumes of production or services in some sectors exceeded the level of the corresponding period last year. Volumes increased in agriculture and forestry, manufacturing, construction, real estate management, and public services. On the other hand, in the sectors that require high social contact (i.e., accommodation and catering (-48%); arts, entertainment, and recreation (-28.6%); transport (-12.7%)) significant annual volume reductions in the fourth quarter have been observed. Similar sector development trends can also be observed throughout 2020. "Sector development trends over the past year evidently reflect the emergence of "a two-speed economy". Due to the performance of manufacturing, in 2020, a record export value of goods worth 13.2 billion euros was achieved. At the same time, activity in many sectors has been lacklustre in recent months. It is unequivocally clear that the epidemiological situation must not be ignored and a reasonable balance must be struck between lifting the restrictions and re-launching the economy, as Covid-19 will not disappear any time soon, and we need to think about how we can work in such conditions," emphasizes Jānis Vitenbergs.

Along with the enduring epidemiological constraints, the economy is expected to decline in the first quarter of 2021. However, with the resumption of seasonal work in the spring and the improvement of the epidemiological situation due to vaccination, economic activity is expected to increase gradually. The forecasts of the baseline scenario of the Ministry of Economics reveals that in 2021 economic growth may exceed 3 percent. At the same time, uncertainty remains highly elevated.

