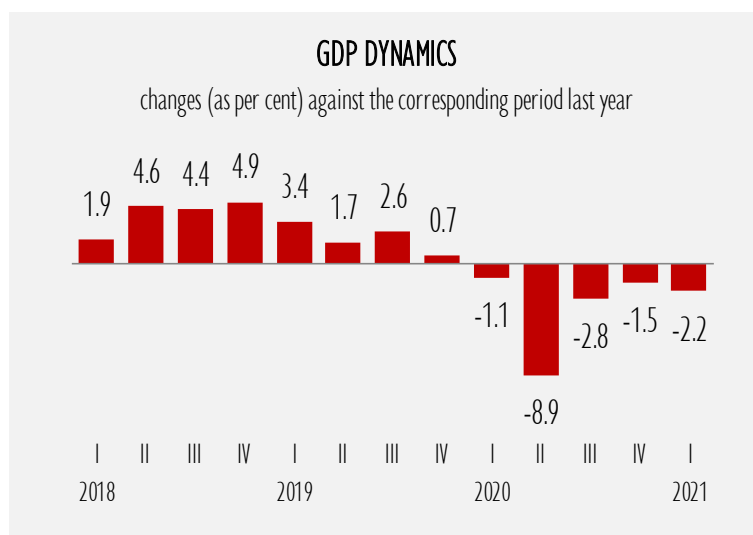


Flash Estimate of GDP in Q1 of 2021

At the beginning of 2021, the economy continued to decline moderately; it is anticipated that the situation will gradually improve in the coming months

According to the flash estimate of GDP by the Central Statistical Bureau (CSB), in Q1 of 2021, GDP was by 2.2% lower than a year ago. In the production of goods sectors, volumes declined by 1.3%, compared to the corresponding period last year. However, in the services sector the decrease reached 4%.

Given the burdensome epidemiological situation and the restrictions imposed, the economy continued to contract at the beginning of 2021. Since the economic shock caused by the pandemic in March-May 2020, henceforth the rate of quarterly decline has not exceeded 3%. This indicates that **industries and companies have largely been able to adapt to the prevailing circumstances**. Also, state aid has significantly contributed to stabilizing the economy, both in terms of downtime and subsidized employment benefits and in terms of working capital grants to companies that were not allowed to carry out economic activities due to restrictions.



In Q1 of 2021, the worst situation in the economy was observed in January, when decline in economic activity was recorded in essentially all service sectors. Also, in January 2021, exports of goods and manufacturing output declined significantly, which, in turn, markedly abated the economic downturn last year.

On the other hand, **export growth has resumed since February 2021 (+ 7.5%)**. **In March 2021, the turnover of the retail trade sector has grown by 4.1%**, representing the sole year-on-year increase since November 2020. The increase can largely be attributed to the streamlining of trade restrictions and the abandonment of lists of available goods, while ensuring compliance with measures to limit the spread of the virus. With the resumption of spring season work, the unemployment rate has been declining since mid-March 2021.

With improved vaccination rates, the chances of overcoming the Covid-19 pandemic sooner have improved. However, as the epidemiological situation has deteriorated in recent weeks, the near-term outlook remains highly uncertain. It is vital to ensure rapid vaccination and treatment of Covid-19 patients, as well as adherence to epidemiological measures, all of which have a direct impact on economic development in both the short and medium term.

“The key priority is to preserve the businesses severely affected by the Covid-19 pandemic, allowing companies to promptly return to work once the restrictions are terminated. The government has approved amendments to the working capital grant support to benefit companies and industries that directly suffer from the restrictions imposed by Covid-19. At the same time, new forms of support must be worked on to strengthen the competitiveness of exporting and growing companies, especially as the contest for export markets on a global scale is intensifying,” emphasizes **the Minister of Economics Jānis Vitenbergs**.

With the spring, economic activity is expected to increase gradually. In addition, the base effect will also have a positive effect – i.e., the situation is anticipated to significantly improve, compared to the corresponding period last year. At the same time, trends will vary markedly across sectors. For example, some industries have already reached and even exceeded the pre-crisis level of 2019, while other industries will need more time to return to pre-pandemic levels. The forecasts of the baseline scenario of the Ministry of Economics reveal that economic growth in 2021 may exceed 3 percent.