Rapid economic growth in 2018 was mainly driven by increased investments and private consumption

According to the Central Statistical Bureau of Latvia, GDP growth, in comparison with the corresponding period last year, in the 4th quarter of 2018 has increased by 5.1%. Overall, in 2018 the economy of Latvia has grown by 4.8%, thus reaching the highest GDP growth rate in the last seven years.

In 2018, the largest contribution to GDP growth can be attributed to increased household consumption and gross fixed capital formation. Along with a rise in employment and wages, private consumption in the last year grew by 4.5%. The observed increase in private consumption has, in fact, been the largest since 2013.

In 2018, investments, mainly in housing and buildings (an increase of 23%), have risen by 16.4%. The large growth in investments was mainly facilitated by high domestic demand, which heavily relies on the increased intensity of the implementation of the EU structural fund projects, and private investments in various construction projects. The relatively rapid growth of investments in machinery and equipment (11%) should also be noted. However, investment in intellectual property products, which is a highly significant factor in strengthening the competitiveness of the Latvian economy, increased only by 5%

Exports of goods and services continue to increase (EUR 17.3 billion at current prices in 2018). However, growth rates are slowing down. At constant prices, export volumes of goods and services have increased only by 1.4%. Exports of goods have risen relatively faster (2%) than exports of services. In the breakdown by commodity groups, exports of wood and its articles have contributed the most to the growth in exports of goods. Similarly, exports of machinery and equipment, iron and steel products, and vehicles have also significantly increased. In turn, exports of services have risen by only 1%, mainly generating its income from revenues from tourism and ICT sectors.

By sectors in 2018, the largest contribution to economic growth can be attributed to the construction sector, which grew by 21.4%, and accounted for almost 1/3 of the overall economic growth. A significant contribution in GDP growth was also provided by ICT services (13%), transport and storage (5.3%), and trade, manufacturing, and other commercial services sectors.

In 2019, the economic growth will be affected by several uncertainties in the external environment, the impact of trade wars on global markets, the outcome of Brexit, and the overall economic slowdown in the EU countries. Declining demand in external markets and several local factors (rapidly rising labour costs and relatively slow productivity growth) pose threats to the competitiveness of Latvian producers and for further economic growth.

In 2019, the growth of investments will mostly be facilitated by the EU structural funds and private investments. At the same time, a more rapid investment growth will be constrained by the wait-and-see attitude of entrepreneurs of the growing uncertainty in the external markets and the continuing cautious bank lending. Private consumption, however, will continue to increase due to several improvements in the labour market – high employment and rising wages.

According to the forecasts by the Ministry of Economics, in 2019 GDP growth rates could reach 3.5%. Similarly as in the last two years, it is anticipated that private consumption will provide the largest contribution to the overall economic growth. In 2019, stable growth in manufacturing will prevail. However, the growth opportunities in the sector will mostly be determined by the situation in the export markets. Also, growth rates in construction, although expected to slightly slow down, will remain relatively high.