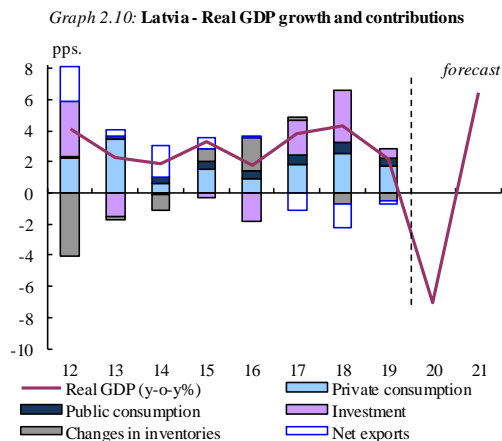


## 2.10. LATVIA

In the first quarter of 2020, the economy declined by 2.9% compared to the previous quarter, somewhat less than expected in the spring. Consumption took by far the largest hit as containment measures enacted in the middle of March shut many services down and uncertainty over future incomes made consumers hold back on purchases of durable goods. Exports of services declined substantially due to border closures and falling demand. Government consumption picked-up because of increased spending on healthcare.

The drag on consumer activity is estimated to have peaked in April as containment measures have gradually been eased since the start of May. A notable improvement in expectations among key industries together with a resumption of mobility patterns, both in May, further support this view. However, demand from European trading partners appears to be taking longer to recover and as a result, exports may still show a decline in May before resuming growth. Also, the pace of recovery is set to differ significantly across the economy – private investment and exports may still struggle in the third quarter while consumption is forecast to pick up at a brisk pace relatively soon. Public consumption and investment are set to get a boost from the government stimulus package. Overall, GDP is forecast to decline by some 13% in the first half of 2020 compared to the last quarter of 2019. It is expected to recover rather quickly receiving a particular boost at the end of the year when work begins on the Rail Baltica project, which will integrate the rail systems of the Baltic countries with the rest of the EU. Overall, GDP is projected to contract in 2020 by 7%. In 2021, GDP growth is forecast to exceed 6%.



Inflation is forecast to slow to a near standstill due to declining energy prices and deflationary pressure stemming from a sizeable demand shortfall. Conversely, it should pick up again in 2021, as demand recovers, led primarily by food and services prices.