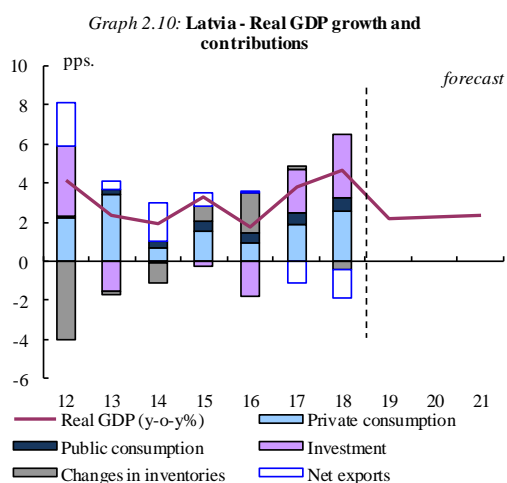


2.10. LATVIA

GDP growth is expected to have reached 2.1% in 2019, supported primarily by solid domestic demand growth. While employment growth slowed, rapid wage growth and tax cuts continued to drive private consumption growth. Investment growth continued on a solid pace thanks to the support of EU funds and private sector optimism. However, growth in goods exports slowed considerably and was only compensated for by a strong rebound in the service exports.

GDP growth is expected to increase slightly over the forecast horizon and is forecast at 2.3% in 2020 and 2.4% in 2021. Robust support from wage growth coupled with falling inflation should give a slight boost to private consumption growth. Moreover, public consumption growth is set to increase slightly following previous year's restraint. A favourable calendar effect is also expected to support GDP growth slightly. Conversely, investment growth is set to decrease further due to the maturing cycle of EU fund disbursements. Exports are expected to slow in step with slowing import growth in the EU – Latvia's main export market. In 2021, private consumption growth is forecast to remain solid as slowing employment growth is expected to be compensated by slightly lower inflation. Investments will get a boost from the beginning of works on the Rail Baltic project.



HICP inflation reached 2.7% in 2019, slightly higher than the 2.6% recorded in 2018. While energy price growth slowed, food and industrial goods prices rose faster than in 2018. Inflation is set to slow slightly over the forecast horizon due to slowing energy price growth. It is forecast to reach 2.3% and 2.2% in 2020 and 2021, respectively driven primarily by food and services prices.