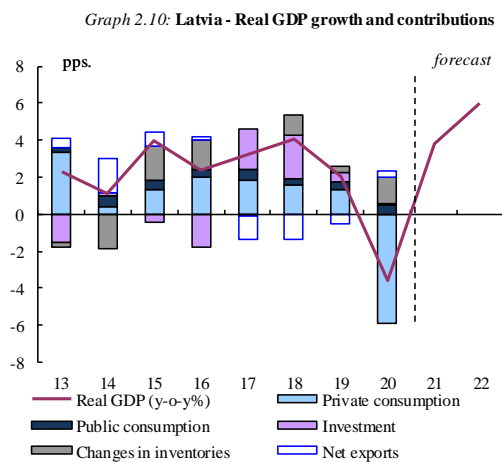


2.10. LATVIA

Latvia's economy contracted by 1.8% in the first quarter of 2021 due to the tightening of COVID-19 containment measures from late 2020. Still, the outcome was somewhat better than expected in the spring as a sharp slump in the first two months of the year was followed by economic activity rebounding formidably in March on the back of strong export growth. However, economic activity in employment-intensive sectors remained subdued due to ongoing containment measures. The employment rate continued to decline throughout the first five months of the year.

GDP growth is set to rebound in the second quarter as data from April suggest double digit growth in exports and industrial production. An even bigger boost to growth is set to come in the third quarter when containment measures are expected to be significantly relaxed and many contact-intensive services are set to reopen. All in all, GDP is forecast to grow by 3.8% in 2021.



In 2022, GDP growth is set to accelerate to 6.0% thanks to further growth in household consumption, exports and a boost to investments coming from the start of the implementation of the Recovery and Resilience Plan.

Inflation is forecast to accelerate significantly in 2021 on the back of recovering energy prices. Annual HICP inflation is forecast to climb from a near standstill in 2020 to 1.9% in 2021. In 2022, prices are set to increase by 2.1% driven by the buoyant domestic demand.