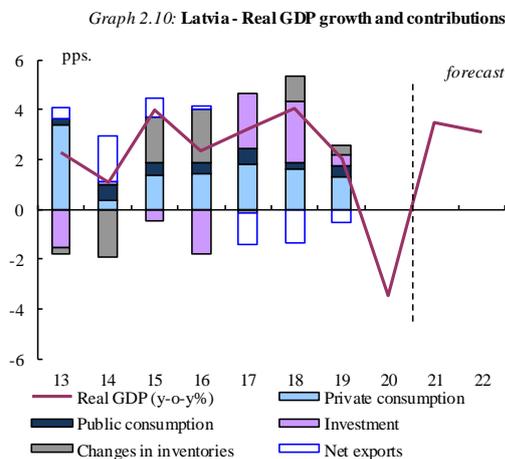


2.10. LATVIA

Latvia's GDP is expected to have declined by 3.5% in 2020. Private consumption and exports suffered the most as pandemic containment measures dampened consumer demand and restricted the supply of services, in particular. The first two quarters saw a significant fall in output, before recovering strongly in the third quarter. The recovery stalled in the last quarter of the year due to a renewed tightening of restrictions following a resurgence in COVID-19 cases. These restrictions are expected to impact economic growth throughout the first quarter of 2021.

Overall, GDP growth is forecast to rebound in 2021, reaching 3.5%. In the first half of the year, the recovery will be relatively limited as the restrictive measures are expected to be lifted only gradually. However, the extension of income support programmes should help the economy maintain activity at around the same level as at the end of 2020. A much more significant easing of restrictions will be possible, once the level of vaccination coverage reaches a substantial part of population towards the end of summer. This is expected to provide a strong short-term boost to growth as restricted parts of the economy reopen. Overall, GDP growth in 2022 is expected to reach 3.1% with the largest contribution to growth coming from private consumption and exports. Future spending related to the Recovery and Resilience Facility is not included in this forecast and constitutes an upside risk.



HICP inflation was very low in 2020, averaging 0.1% as a result of a significant decline in energy prices on the one hand and an elevated inflation of unprocessed food prices on the other side. In 2021, inflation is forecast to pick up to 1.5%, primarily due to a recovery in energy prices. It is set to increase further to 1.9% in 2022 as the return of economic growth is projected to revive wage pressures and hence push for accelerating services price growth.