

## 2.10. LATVIA

Real GDP is estimated to have grown by 4.7% in 2021 driven by a strong recovery of both domestic and foreign demand as restrictions eased in spring. However, the recovery slowed significantly towards the end of the year as new restrictions were put in place in response to the resurgence of COVID-19 infections.

In 2022, GDP growth is expected to reach 4.5%. With COVID-19 restrictions still in place, only moderate growth is expected at the start of the year. Growth should resume on a solid path in the second quarter as the health situation improves. Strong labour market performance and the un-winding of excess savings are expected to support private consumption growth, although surging inflation is set to dent consumer purchasing power. Investments are forecast to receive a strong boost from increased inflows of EU funds. While growth in goods exports is expected to continue benefitting from the EU recovery, it is set to slow down compared to 2021. As GDP approaches its pre-pandemic path, growth is projected to converge close to its medium-term potential. In 2023, GDP growth is forecast at 3.8%, driven by still strong private consumption. Investments will continue to benefit from increasing EU-fund inflows, but the phasing out of some of the nationally-financed investments put in place to contribute to the recovery, are set to slow the growth down. Export growth is also expected to moderate as the demand boost from the EU recovery wanes.

Consumer price inflation is set to accelerate considerably on the back of rapidly rising energy prices. After reaching 3.3% in 2021, HICP inflation is expected to increase considerably to 5.9% in 2022 driven by a double-digit growth in energy prices. In the second half of 2022 energy price inflation is expected to moderate, but the knock-on effects on other prices is set to keep inflation at elevated levels throughout the forecast horizon. In 2023, however, HICP inflation is forecast to decline to 0.9% due to the expected decline in energy prices.

