2.14. LATVIA

Continued rapid investment growth coupled with persistently strong private consumption are expected to have pushed GDP growth in Latvia to 4.7% in 2018. However, export growth slowed, mostly due to weaker agricultural and food exports as a result of a poor harvest, but also because of a decline in road transport and financial services. Unemployment fell even faster than in 2017 as the investment boom helped increase employment notably for the first time in three years. Although this supported continued rapid wage growth, headline inflation slowed to 2.6%, largely due to lower growth in food prices.

GDP growth is forecast to slow in 2019 as investment growth moderates. However, brisk private consumption growth is expected to extend into 2019 supported by still rapid wage growth.

However, with external demand weakening and both financial and transport services expected to continue struggling, export growth in 2019 is set to be modest. Public consumption growth is expected to be constrained, due to a lack of fiscal space. On the back of these factors, GDP growth in 2019 is forecast to cool to 3.1%. Growth is forecast to fall further in 2020 to 2.6%, as slower growth in the rest of the EU will eventually weigh on consumer optimism and private consumption, which have been the backbone of GDP growth over the last three years. Delayed energy price increases and a recovery of unprocessed food price inflation are expected cause inflation to rise slightly in 2019 before falling again in 2020. Slowing investment growth should ease pressure on the labour market but the market it is set to remain tight, as the labour force continues to decline. Wage growth is expected to remain steady.

Risks to the forecast are tilted to the downside as a deterioration of the external environment could lead to a sharper slowdown than currently forecast.

Graph 2.14: **Latvia - Real GDP growth and contributions**