2.10. LATVIA

Following strong, investment driven growth of 4.8% in 2018, GDP growth in Latvia cooled down considerably in the first quarter of 2019, to stand at 3.0% year-on-year. While all domestic demand components slowed compared to the previous year, export growth picked up slightly relative to its disappointing growth in 2018. Looking ahead, confidence indicators have trended slightly downwards in recent months, but they remain somewhat above long-term averages, pointing to robust GDP growth in the second quarter of 2019.

Full-year GDP growth in 2019 is forecast to slow to 3.0%, driven mainly by private consumption and, to a lesser extent, by exports and investment. The slowing of private consumption is due to an expected moderation in employment growth but wage growth is expected to remain rapid and supportive. Investment growth is set to decelerate markedly as the peak of EU funding approaches providing relatively little support to investment growth in 2019 and none in 2020. Export growth is set to recover slightly after a disappointing 2018, but slowing EU growth and trade implies that a strong rebound is unlikely.

In 2020, real GDP growth in Latvia is expected to slow further to 2.8%, as investment is projected to level out and private consumption to slow further as a result of lower employment growth and falling consumer confidence. Unemployment is forecast to fall further over the coming years, mainly because the labour supply is expected to continue falling. As a result, labour market conditions should remain tight and maintain pressure on wage growth.

HICP inflation is forecast to increase from 2.6% in 2018 to 3.1% in 2019 due to recovering food prices and an acceleration of service prices. Inflation is forecast to decrease to 2.5% in 2020 as the rise in food prices moderates and the pressure from wage growth on service prices eases.