

# Baltic economic outlook

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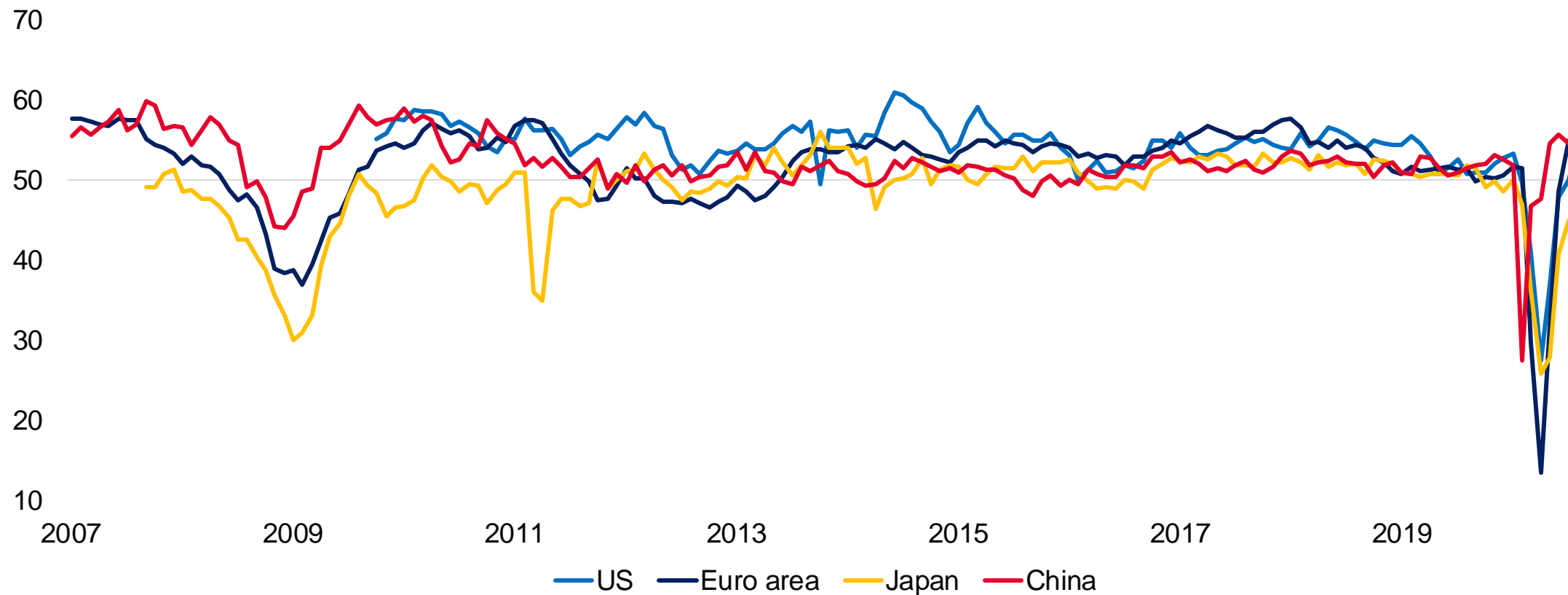
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# Global economy

The global economic sentiment is rebounding, but recovery is incomplete

## IHS Markit Composite PMI



Source: Markit, Tradingeconomics

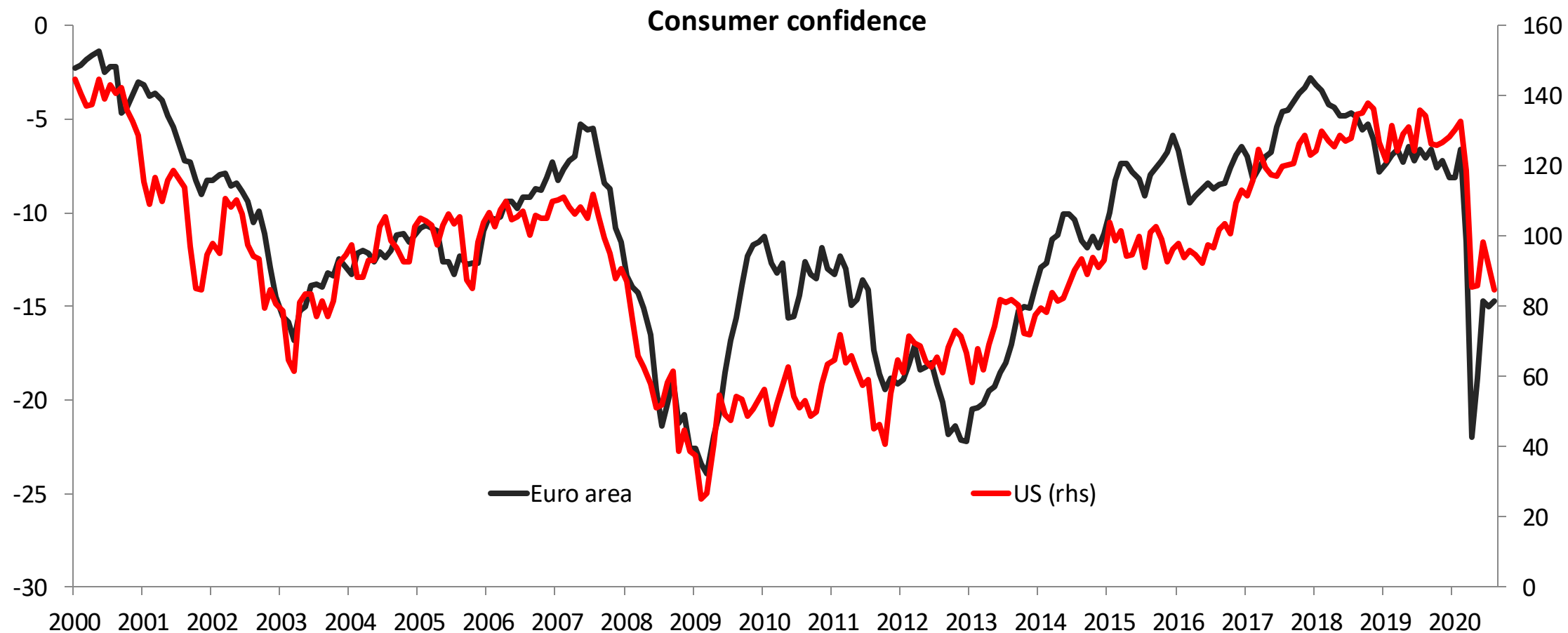
# World trade

Industrial orders are recovering from the fall in the spring and world trade is stabilizing



# Consumer confidence

US and euro area consumer sentiment remains significantly below previous levels



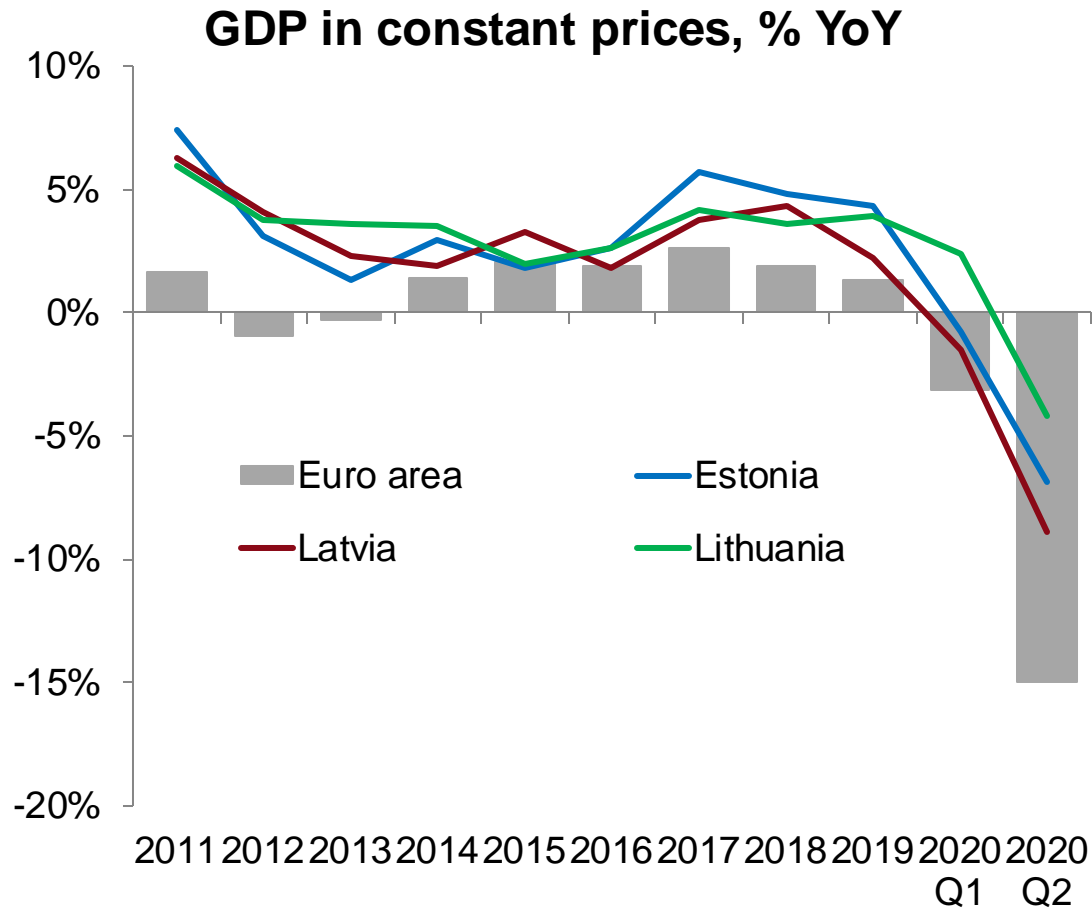
Source: DG ECFIN, Bloomberg

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# Baltic region

Economic shock in the Baltics has been less severe than in euro area as a whole



**GDP in Baltics in Q2 2020, % YoY**

**Estonia**

- Construction +12.3%
- Public services +1.0%
- Trade, tourism and transport -14.1%
- Manufacturing -18.9%
- Arts and entertainment -22.5%

**Latvia**

- Construction -0.6%
- Public services -1.5%
- Manufacturing -6.9%
- Trade, tourism and transport -19.8%
- Arts and entertainment -38.4%

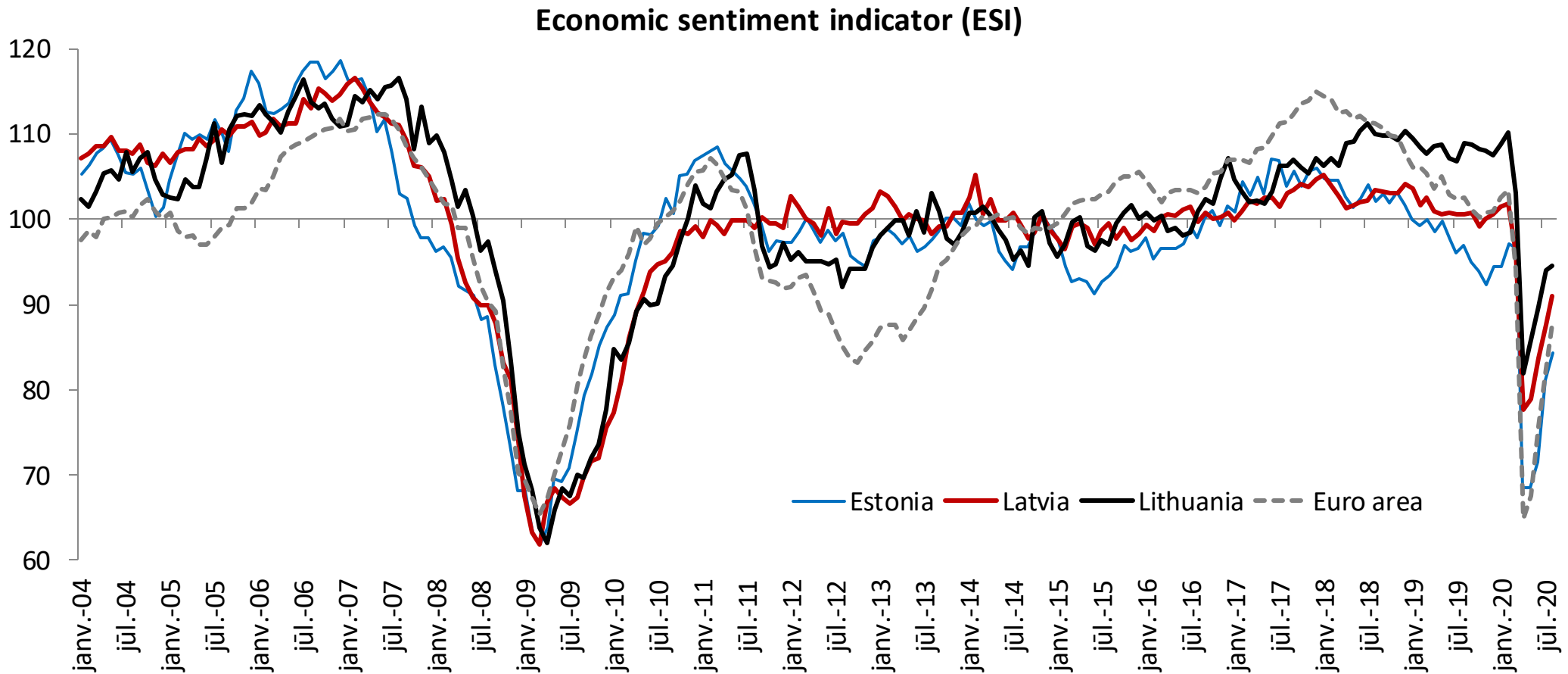
**Lithuania**

- Public services -1.2%
- Construction -3.4%
- Manufacturing -5.2%
- Trade, tourism and transport -6.3%
- Arts and entertainment -15.9%

Source: Eurostat

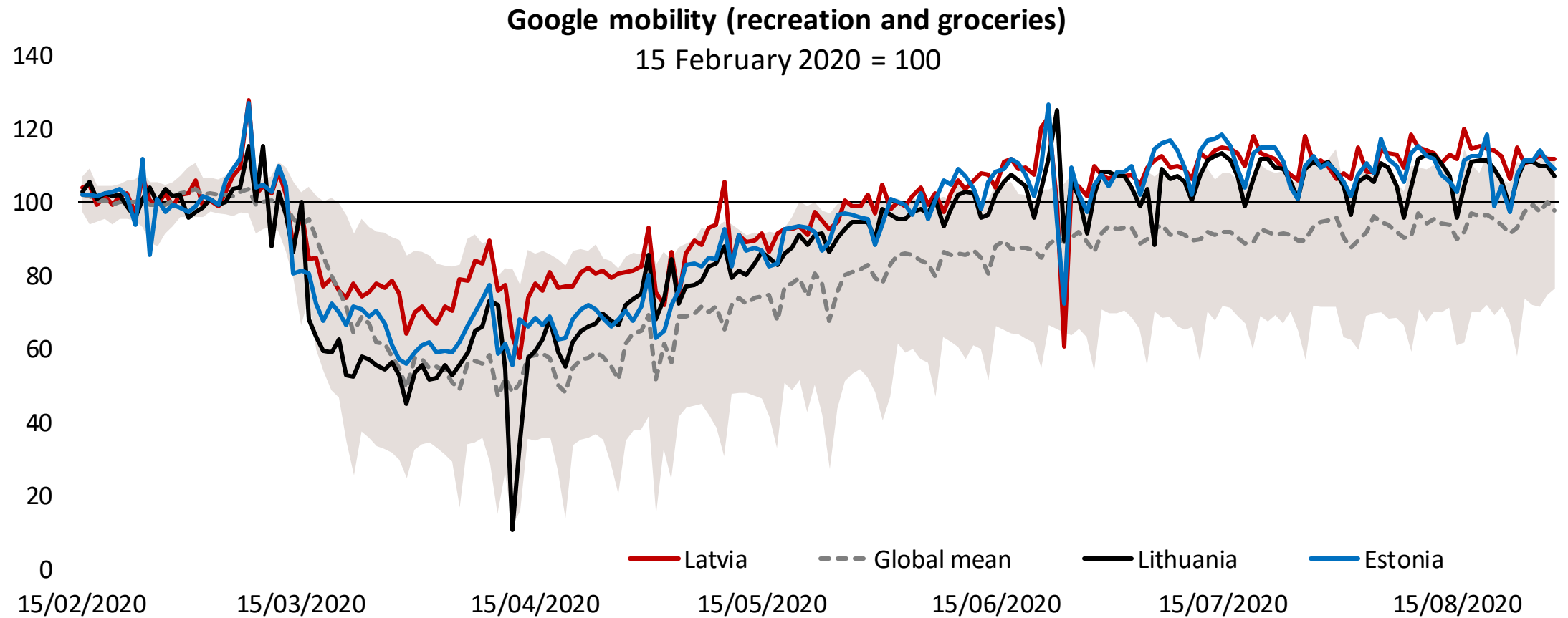
# Economic sentiment

After the sharp decline, business sentiment in the Baltics is improving, but is still in negative territory



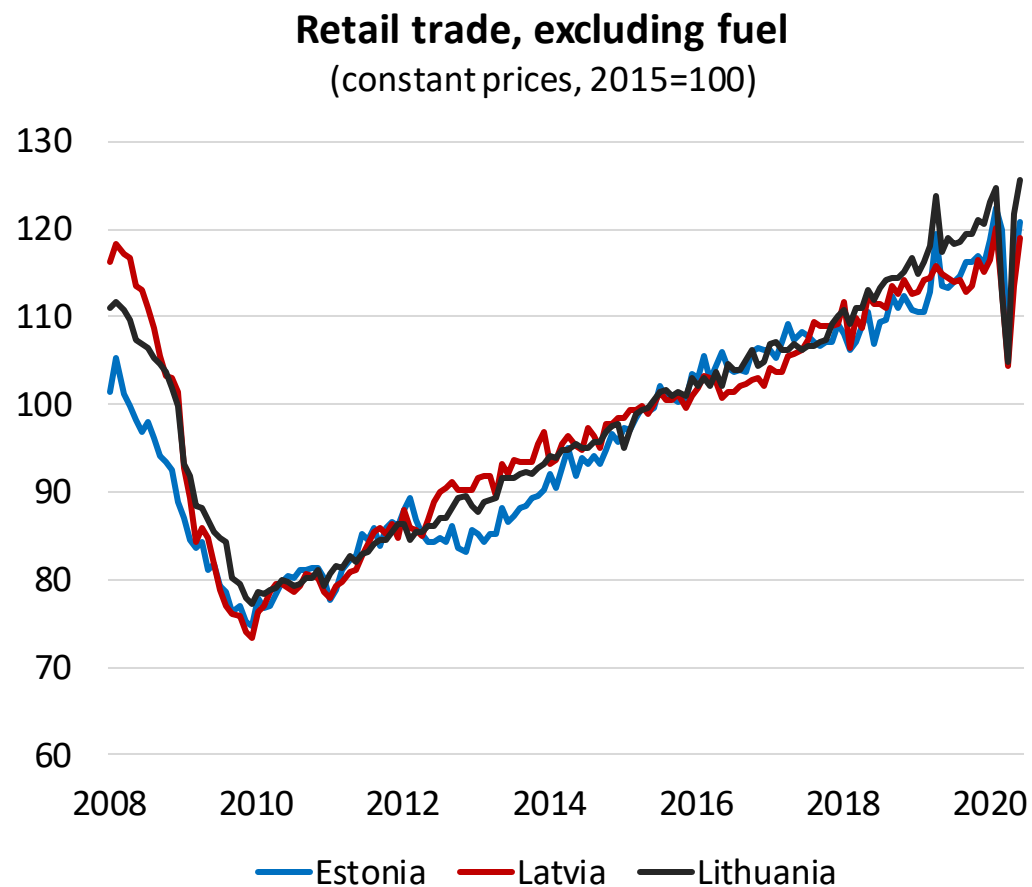
# Mobility

Mobility indicators in the Baltics are ahead of most countries in the world



# Retail trade

## Unexpectedly rapid V-shape recovery in retail trade

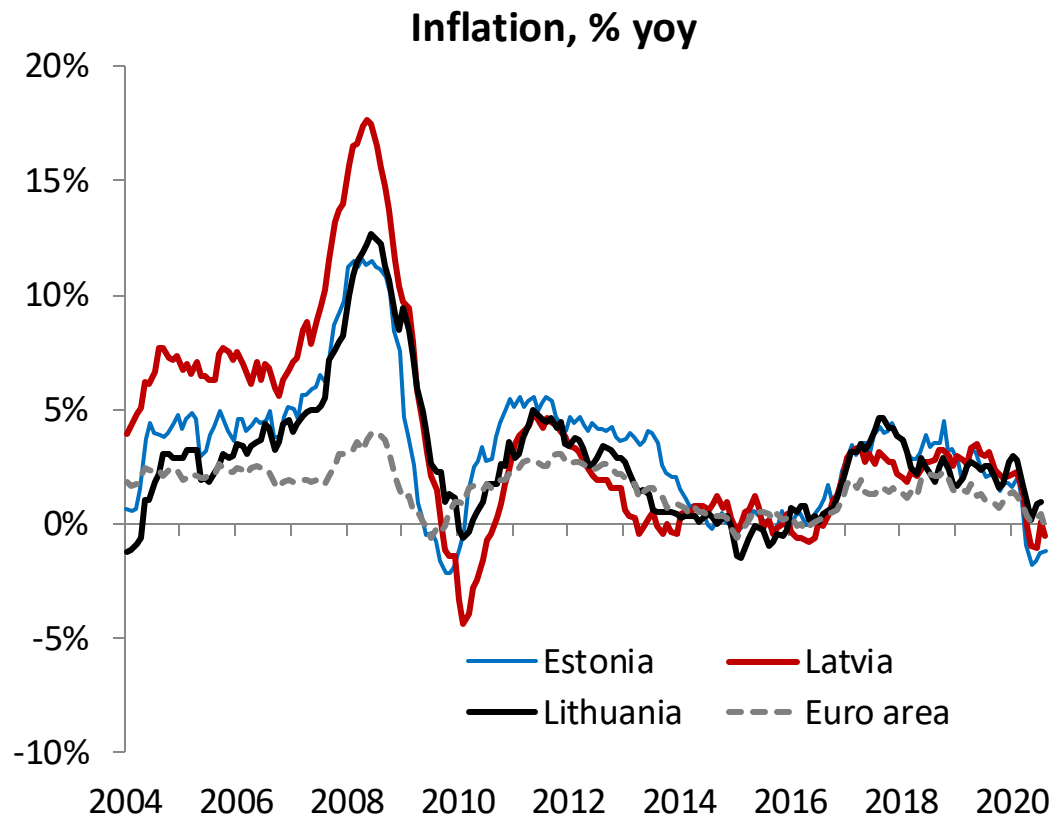


- ❑ Retail sales in the Baltics are experiencing a very rapid V-shape recovery
- ❑ Trade is only part of private consumption
- ❑ In many service sectors, turnover lags behind pre COVID-19 level
- ❑ During COVID-19 pandemic households have significantly increased savings in commercial banks
- ❑ Part of the increase in consumption during the summer could be the deferred demand from the spring months
- ❑ Rising unemployment and declining wage growth is a risk to the sector's growth in the second half of the year



# Inflation

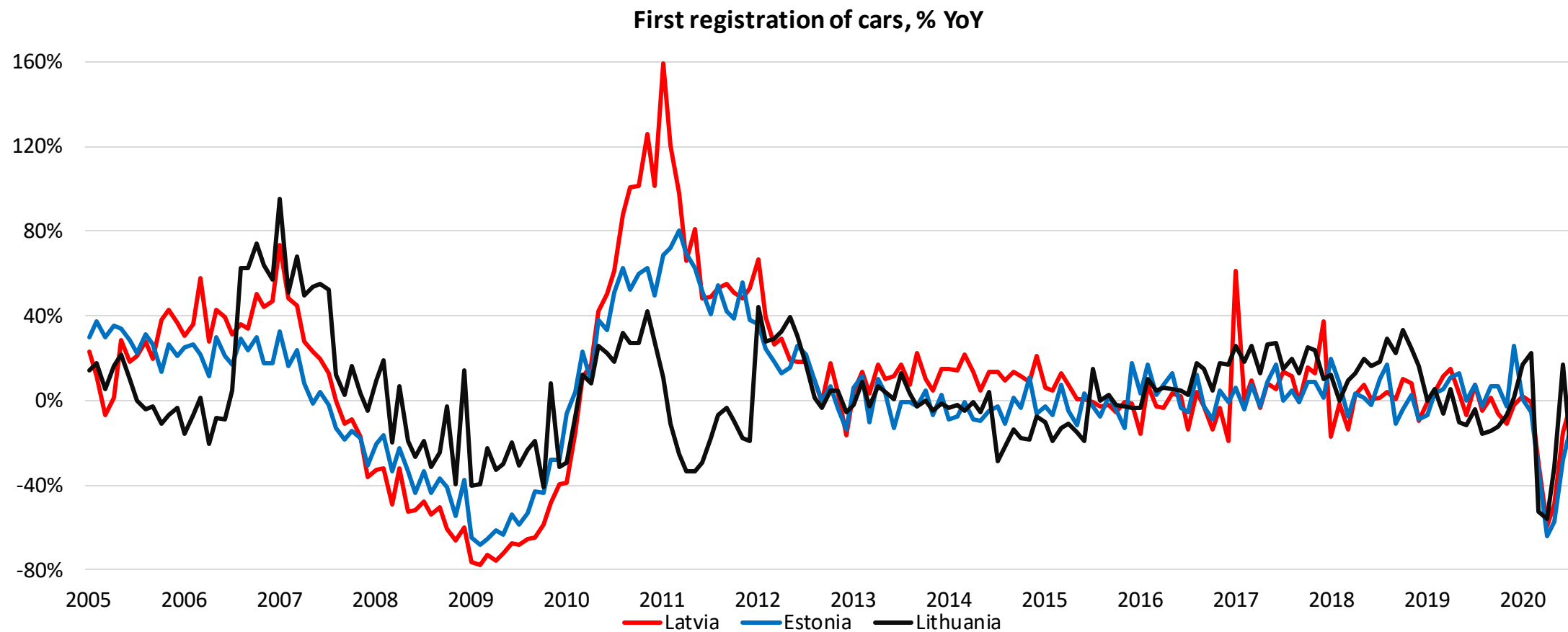
The COVID-19 shock has reduced consumer price inflation in the Baltics



Source: Eurostat, DGECEFIN

# Car market

Car market has also recovered, but the number of registrations is below the previous level

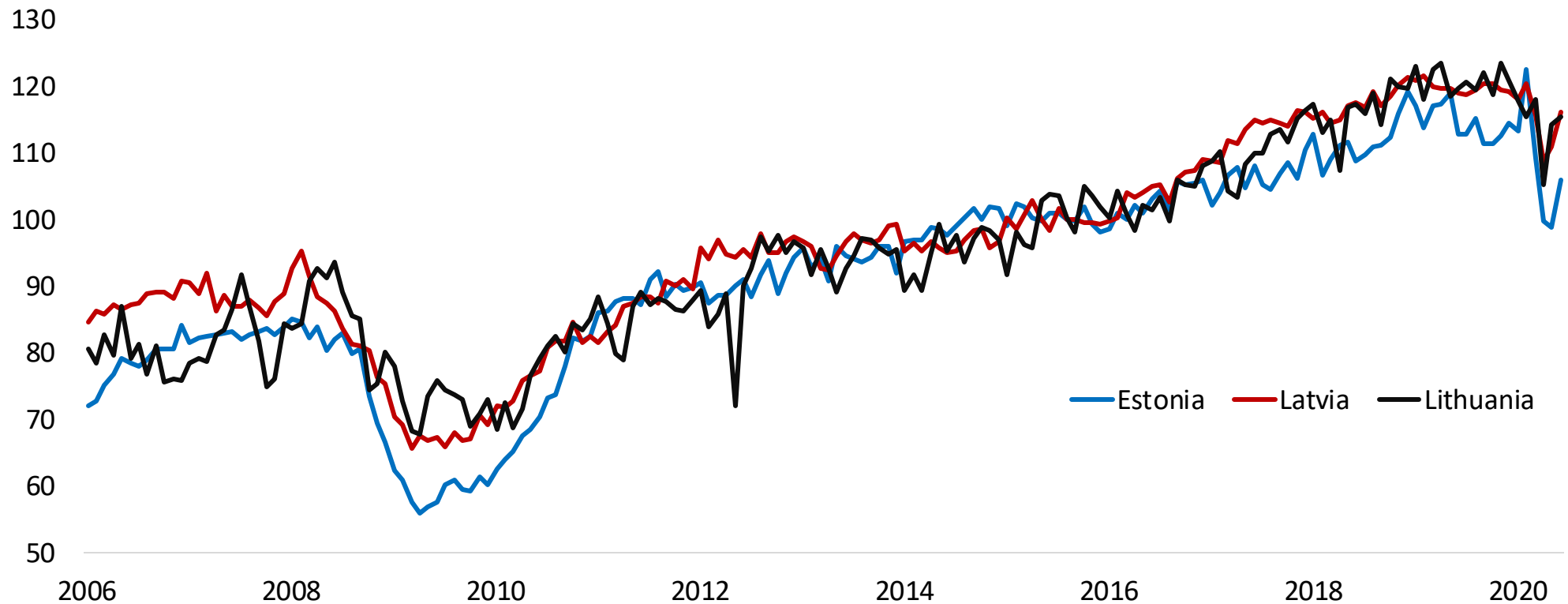


Source: CSDD, Lithuania Statistics, Estonia Statistics

# Manufacturing

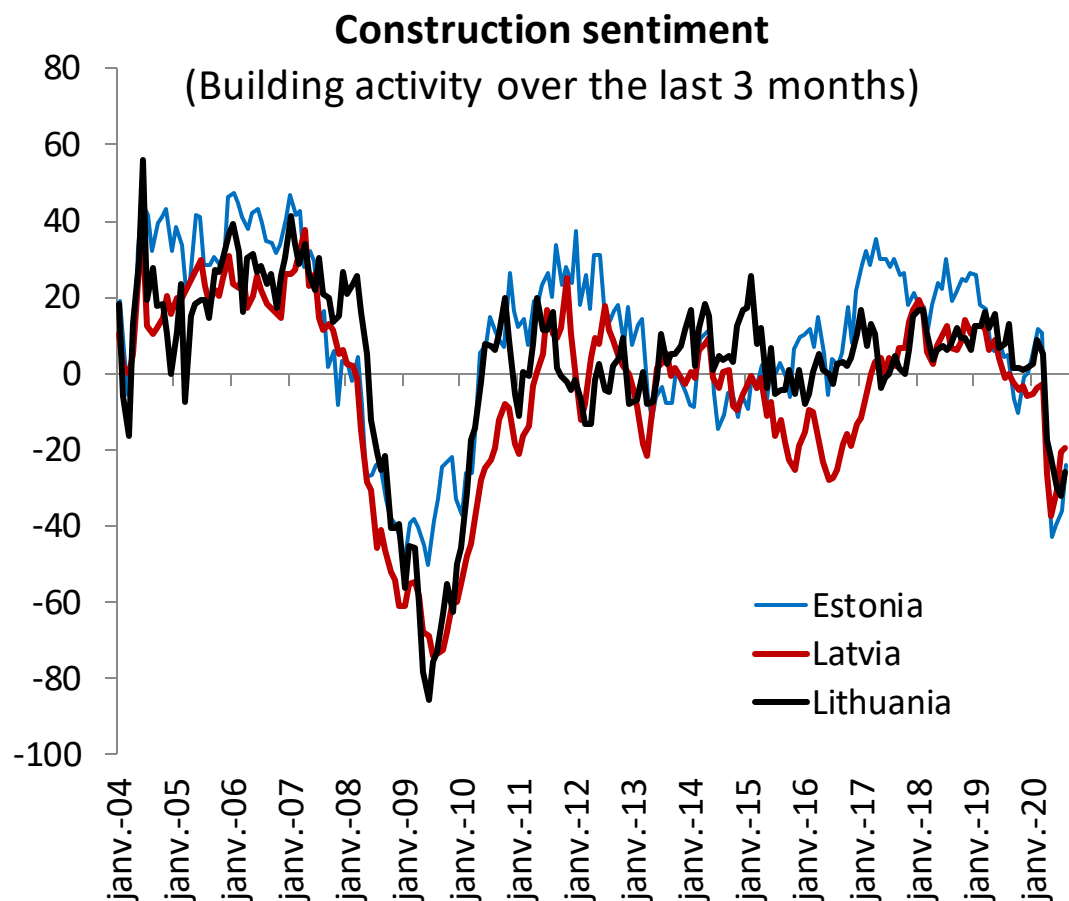
Industrial recovery is lagging behind trade and consumption

Manufacturing output  
(constant prices, 2015=100)



# Construction

The slowdown in private investment is having a negative impact on the construction industry



Source: DG ECFIN

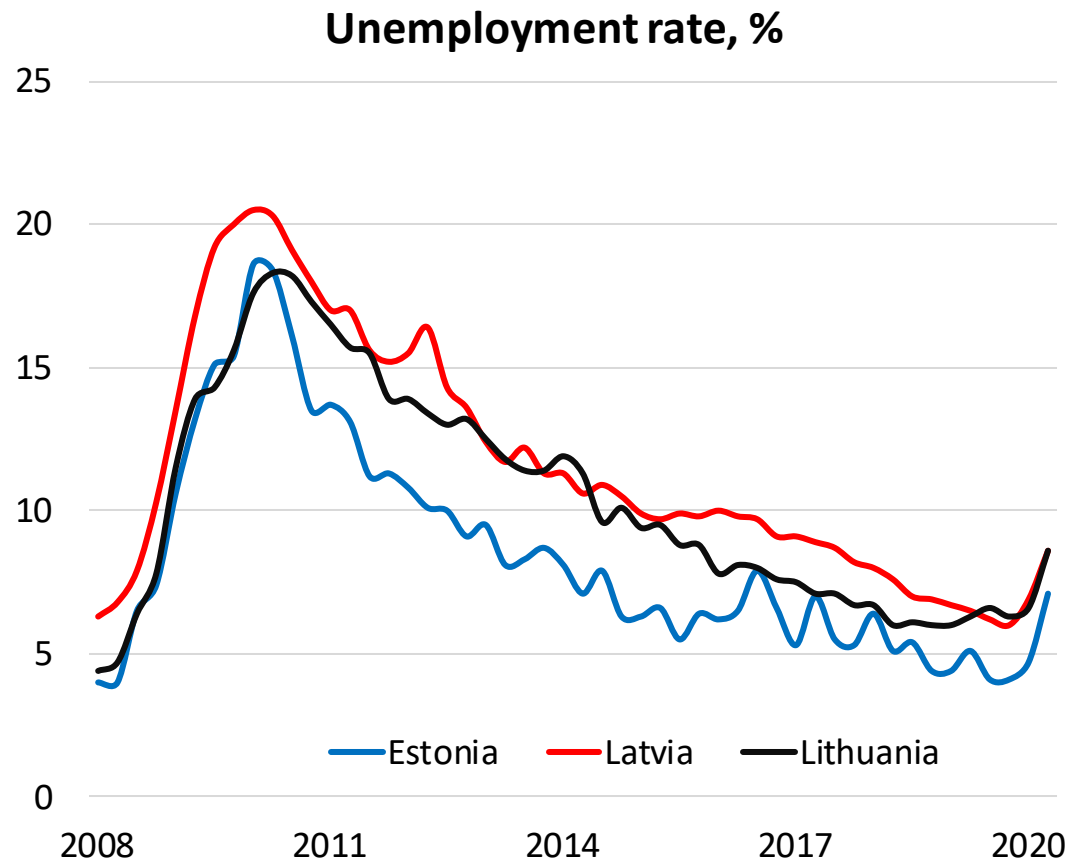
- ❑ The COVID-19 shock did not directly affect the construction industry
- ❑ Uncertainty and the economic downturn are having a negative impact on private sector investment plans
- ❑ Lending in the spring months has been slow
- ❑ Builders' sentiment has deteriorated significantly and indicates a decline in construction volumes in the second half of the year
- ❑ In 2021, large amounts of funds from the EU Reconstruction Fund will flow into construction
- ❑ In the medium term, overheating could become a risk again especially if the implementation of large EU-funded projects coincides with increased demand from the private sector

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# Labour market

Increase in unemployment has been less than expected



Source: Eurostat

- ❑ The increase in the unemployment rate in the Baltics has been lower than expected and is similar among all three countries
- ❑ Short-term employment support programs have helped curb rising unemployment
- ❑ Wage growth in Latvia and Estonia has slowed significantly
- ❑ Employment expectations are improving in all sectors, but they are still negative
- ❑ The number of vacancies has increased since mid-April, but lag behind the previous level

# Conclusions

## The Baltic region is recovering from the COVID-19 shock, but uncertainty remains

- ❑ The Baltic economy reached its lowest point in mid-April.
- ❑ The economic recovery has so far been much stronger than expected.
- ❑ Domestic consumption is leading economic recovery.
- ❑ Retail sales returned to positive growth in June, but the situation in the services sector is less encouraging.
- ❑ Exports and production lag behind consumption, but the situation in foreign markets is improving.
- ❑ In the second quarter, the decline in GDP in the Baltics was significantly smaller than in the euro area as a whole.
- ❑ The key to the Baltic's success was rapid virus containment, strong public finances, timely support for the economy and balanced economic development in previous years.
- ❑ The sectors hardest hit, tourism and leisure, will only be able to return to previous levels when a vaccine or effective treatment for COVID-19 is available.
- ❑ The decline in GDP in the Baltic region in 2020 will not exceed 5% and economic losses will be lower than in other countries.
- ❑ Economic growth in the Baltics in 2021 will be in the range of 3-5%.
- ❑ The economic recovery both in the world and in the Baltics is still incomplete.
- ❑ Since June, improvements in short-term economic performance have slowed significantly.
- ❑ Strong fiscal and monetary stimulus measures continue to support the economy. Financial markets remain optimistic.
- ❑ The eurozone has slipped into deflation and consumers do not expect inflation to rise in the near future.
- ❑ The biggest risk to economic recovery is the possible second wave of COVID-19.

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