

Baltic economic outlook

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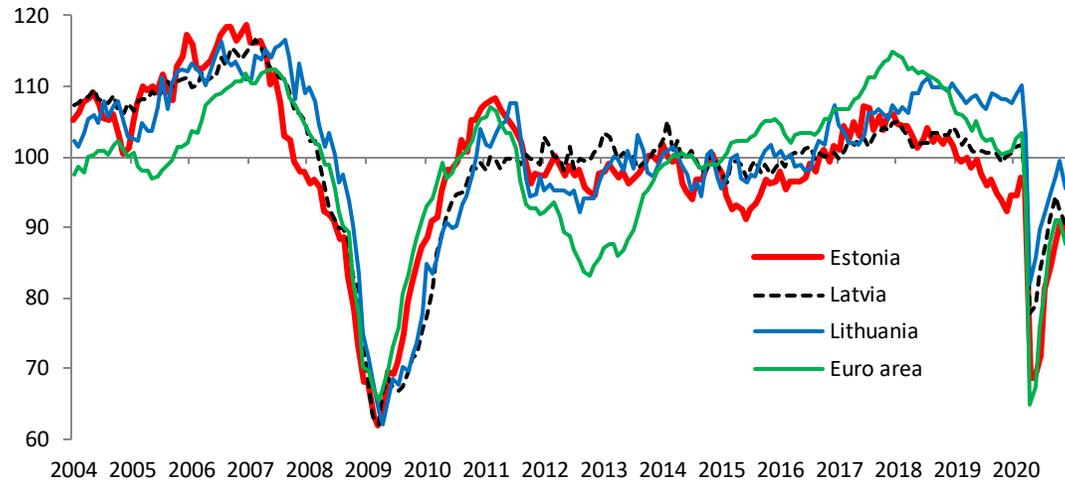
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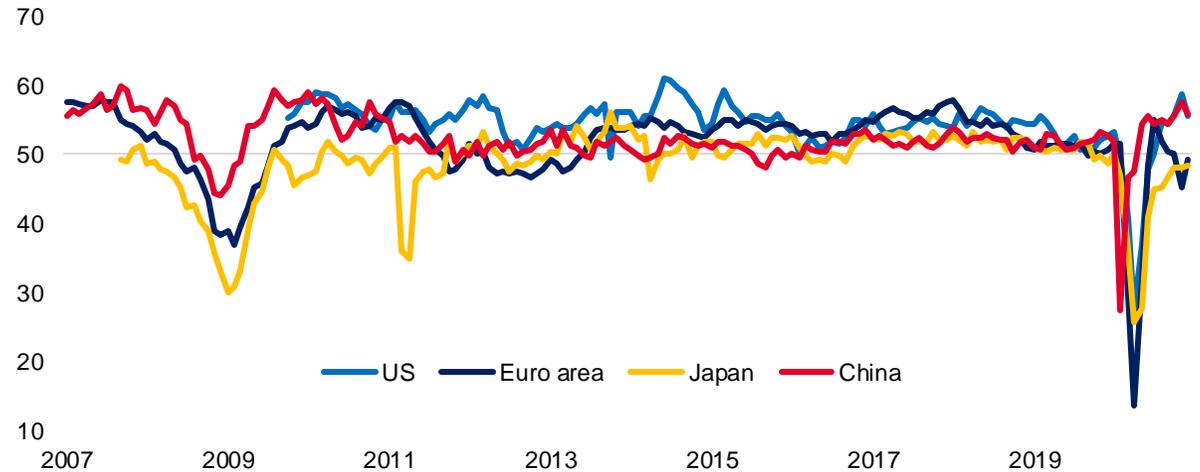
Global economy

Economic activity has rebounded from spring lows, but 2nd wave of COVID-19 has dampened activity

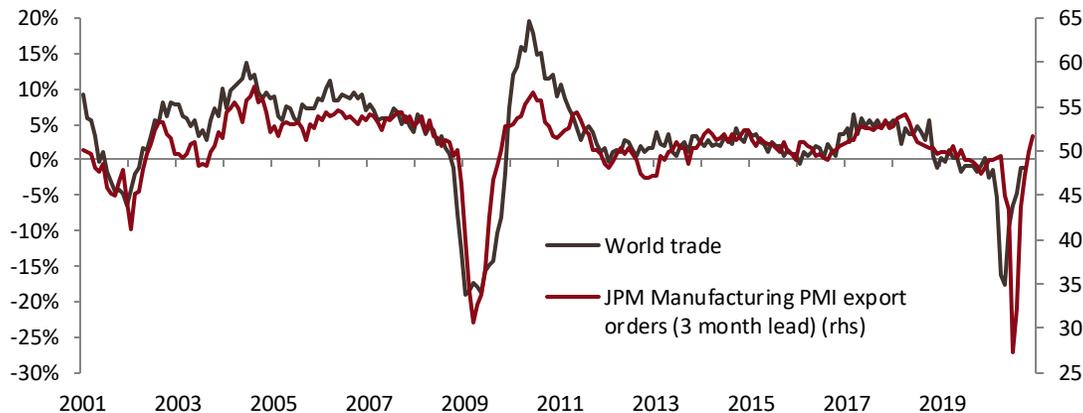
Economic Sentiment Indicator



IHS Markit Composite PMI



World trade, % YoY



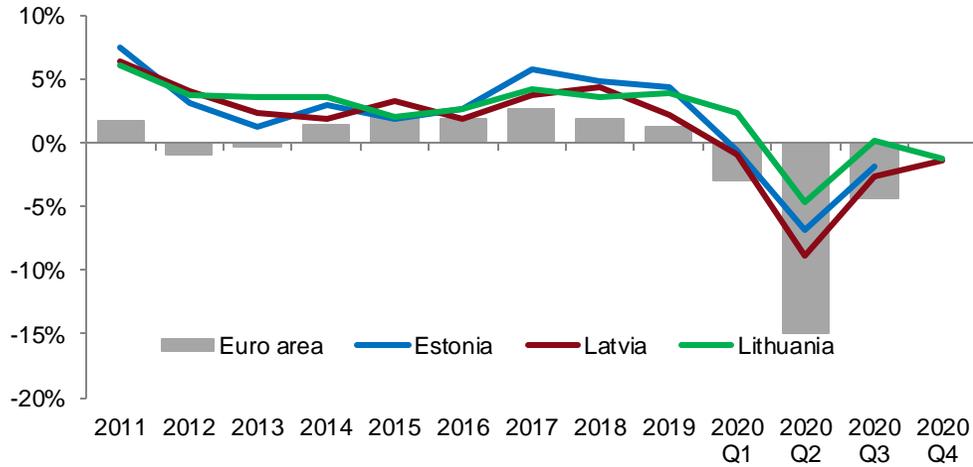
Comments

- Global economic sentiment has rebounded strongly from March & April lows.
- Second/third waves of COVID-19 have led to new lockdowns and dampened activity especially in euro area and could lead to double dip recession.
- Manufacturing continues to recover strongly. Consumption shift towards good from services and low activity in the 1H of 2020 has reduced inventory levels.
- Rebuilding of inventories as well as rebound in overall economic activity provide good tailwinds for manufacturing in 1H of 2021.
- COVID-19 vaccine rollouts together with continued fiscal & monetary stimulus could lead to boom in consumer services in 2H 2021.

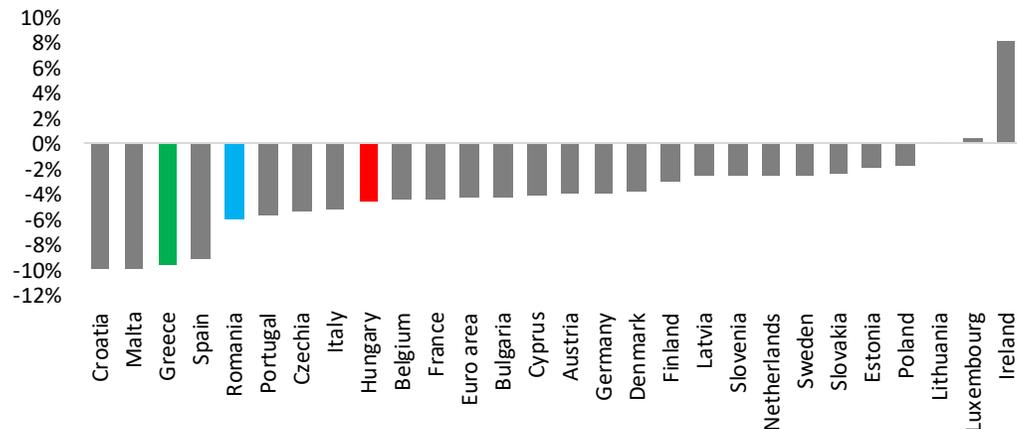
Baltic region

In 2020 Baltics have fared better than other EU countries

Real GDP, % YoY

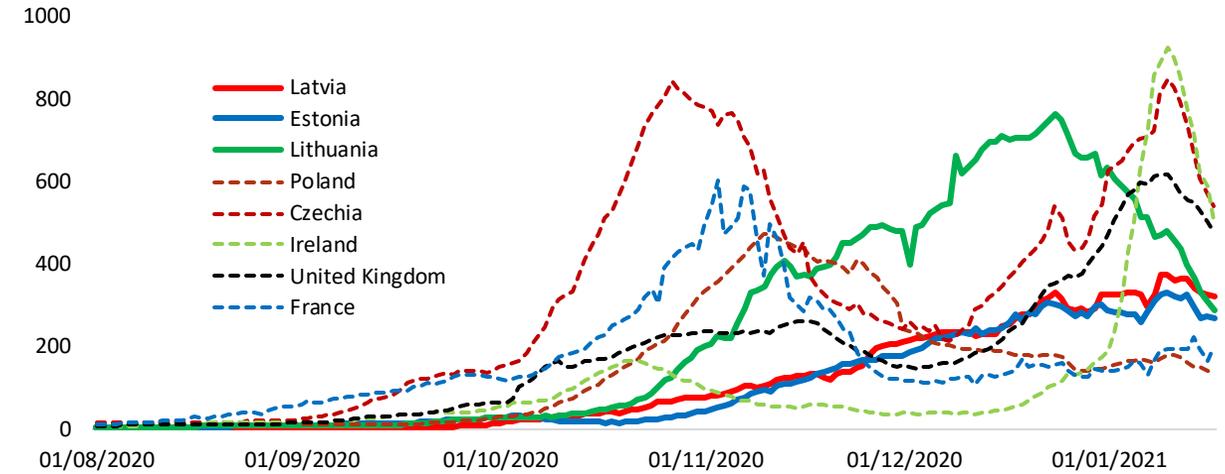


GDP in Q3 2020, % YoY



Source: Eurostat, DG ECFIN, ourworldindata.org

COVID-19 positive cases per 100'000, 7 day cumulative



Comments

- GDP decline in the Baltics in 2020 will be significantly smaller than in other EU countries.
- COVID-19 2nd wave and new lockdowns measures are likely to lead to renewed fall in the economic activity in Q4 2020 & Q1 2021 in the Baltics. However, economic sentiment so far remains more positive than in Spring and is mostly due to lockdown measures. Cases and deaths likely to remain elevated driving policy response and some lockdown measures are likely to remain in place atleast until April
- Manufacturing and construction so far have not been materially affected by the 2nd wave of COVID-19.

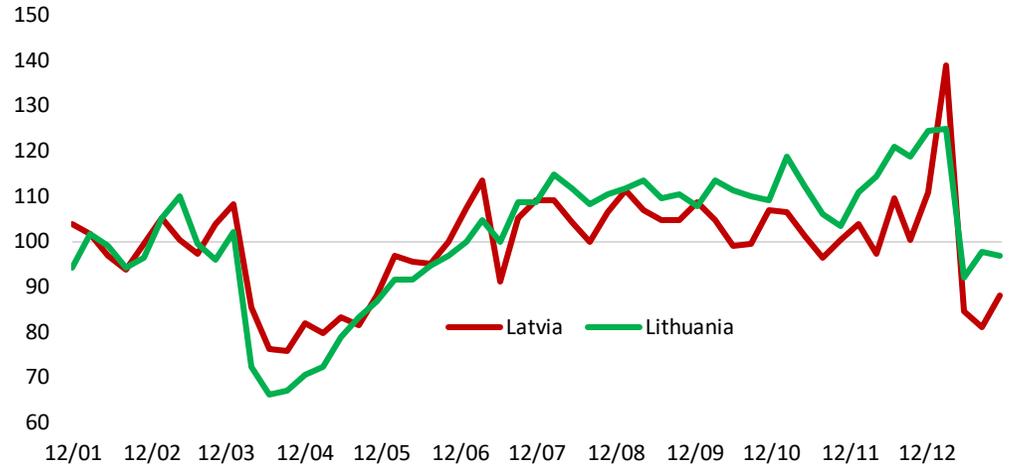
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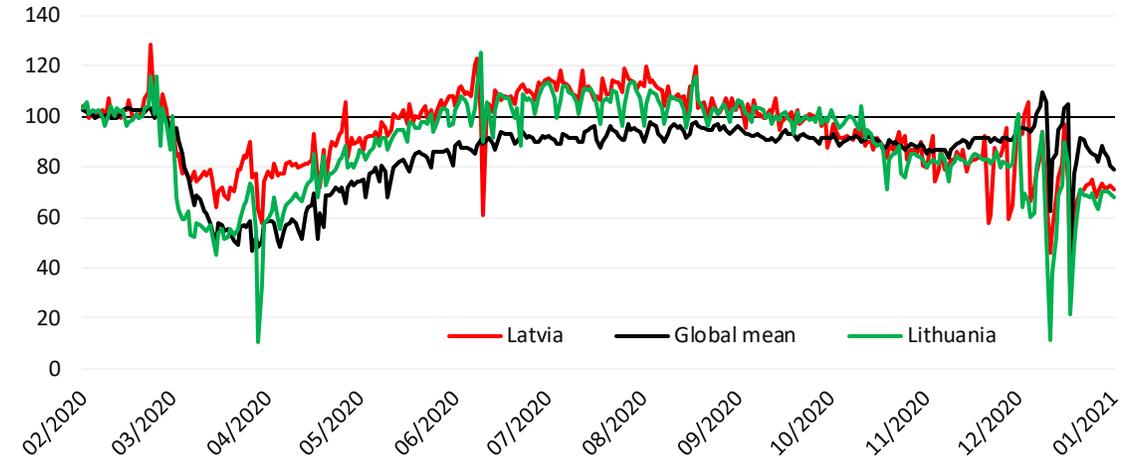
Trade and consumption

Consumption rebounded quickly after lockdown measures were lifted

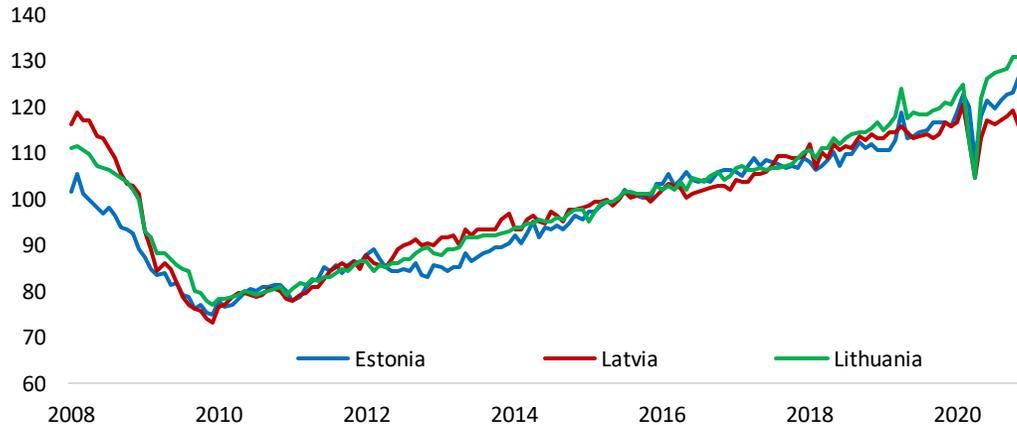
Card spending by Citadele clients (Jan-Feb average=100)



Google mobility (retail, recreation and groceries)



Retail trade excl. fuel in constant prices, 2015=100



Comments

- Overall consumption remains strong and retail trade has rebounded to pre-COVID levels, but Latvia lags behind other Baltic countries. This could be due to less generous support measures and unemployment benefits.
- Short term data point to a significant fall in mobility, however economic impact from 2nd wave of COVID-19 so far has been significantly less severe than in Spring.
- Closure of shops has affected consumption in the final weeks of December; however this was preceded by large spike in week before measures were implemented. Overall card spending in December was unchanged compared to previous months.

Source: Google, Eurostat

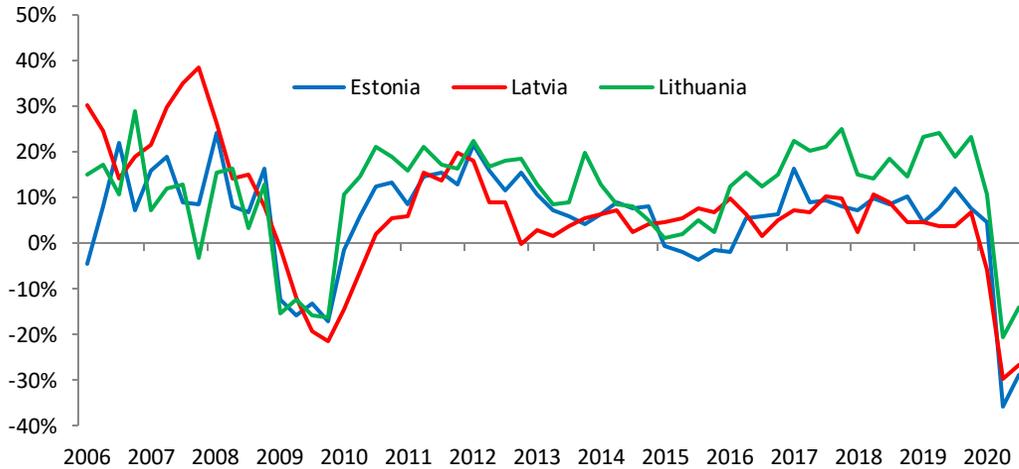
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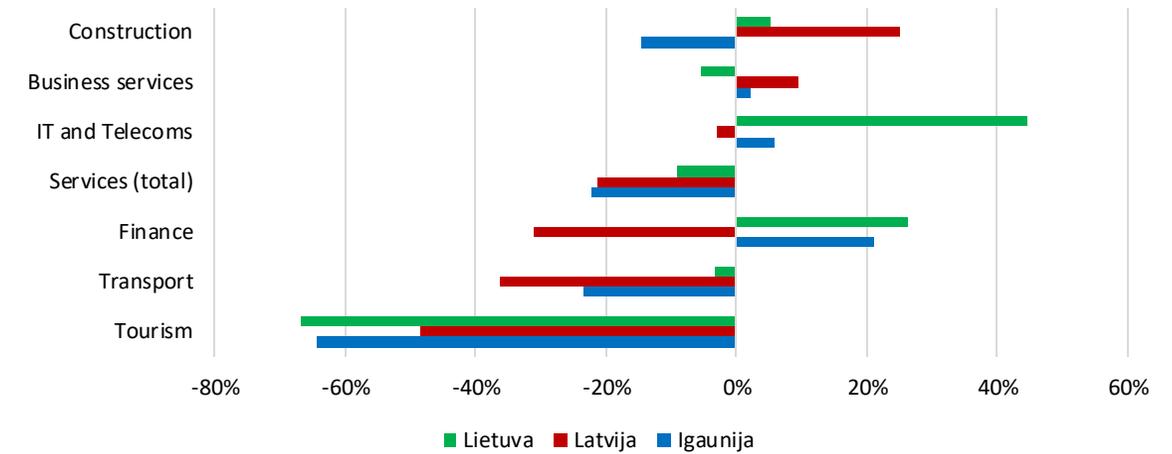
Services

The COVID-19 crisis has hit the services sector hard

Export of services, % YoY

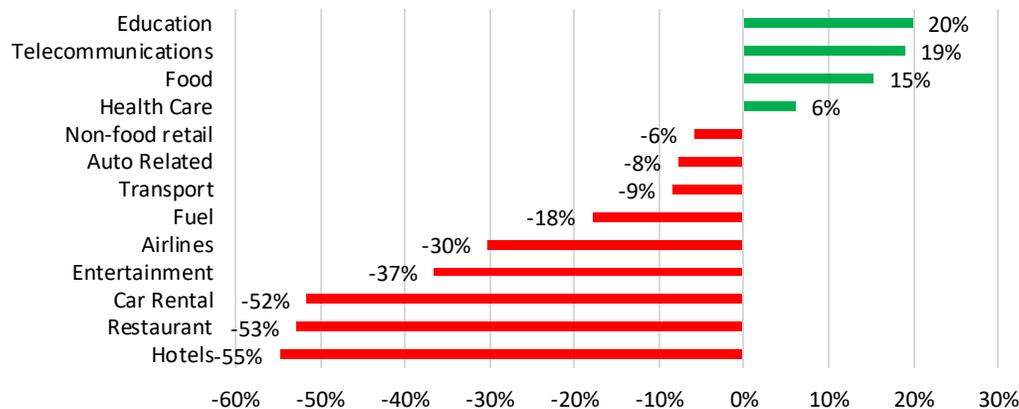


Export of services Q1-Q3 2020, % compared to 2019



Citadele customer payment card turnover in the Baltics

(November-December 2020 compared to July-August)



Source: Bank of Latvia, Bank of Estonia, Bank of Lithuania

Comments

- The services sectors have been hit hard by the COVID-19 crisis. In tourism, catering, entertainment and transport services, a full recovery will take considerable time and will only be possible with vaccination.
- At the same time, growth has slowed in other sectors, such as IT and business services.
- Since the summer, spending on services has fallen again by ~ 50%, but as soon as the epidemiological situation allows, the service sector is recovering rapidly. If vaccination plans are implemented, a rapid recovery in these sectors can be expected in the second half of 2021.

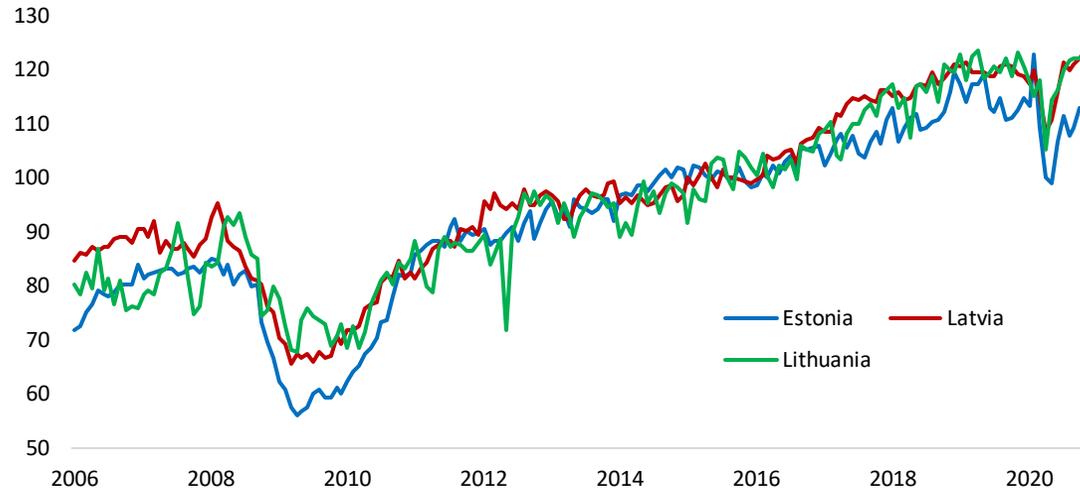
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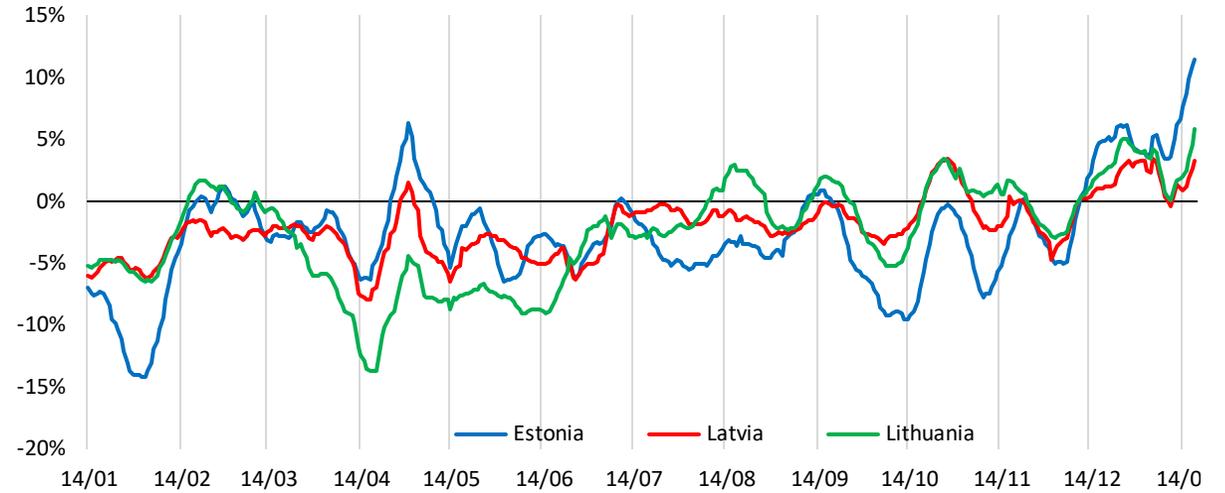
Manufacturing

Manufacturing is currently one of the best performing sectors in the Baltics

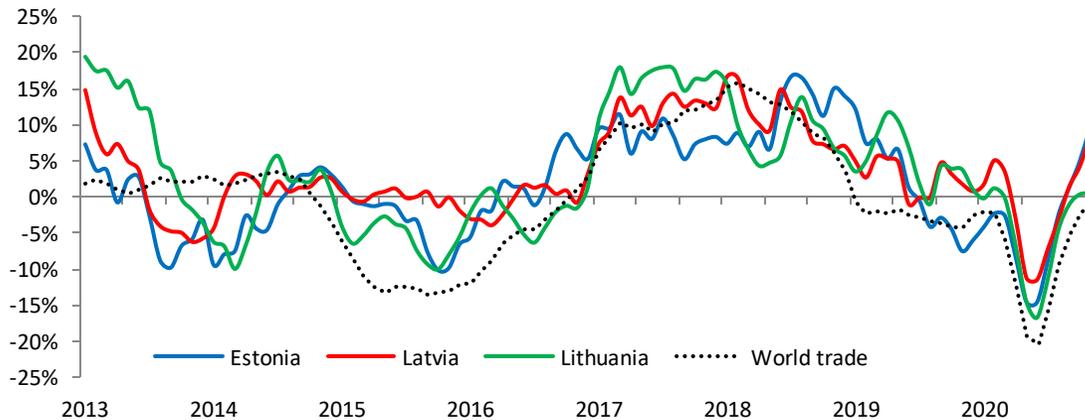
Manufacturing, 2015=100



Electricity consumption in 2020, % YoY (14 day average)



Export of goods, % YoY



Comments

- Manufacturing output has fully recovered COVID-19 slump and reached new highs in late 2020. Manufacturing is supported by improving global economic environment and shift in consumption from goods to services.
- Most sectors are now above pre-COVID levels except textiles, metal products and manufacture of drinks.
- Electricity consumption suggests that manufacturing so far has not been affected by the 2nd wave of COVID-19 and remains strong.

Source: Eurostat, Nordpool

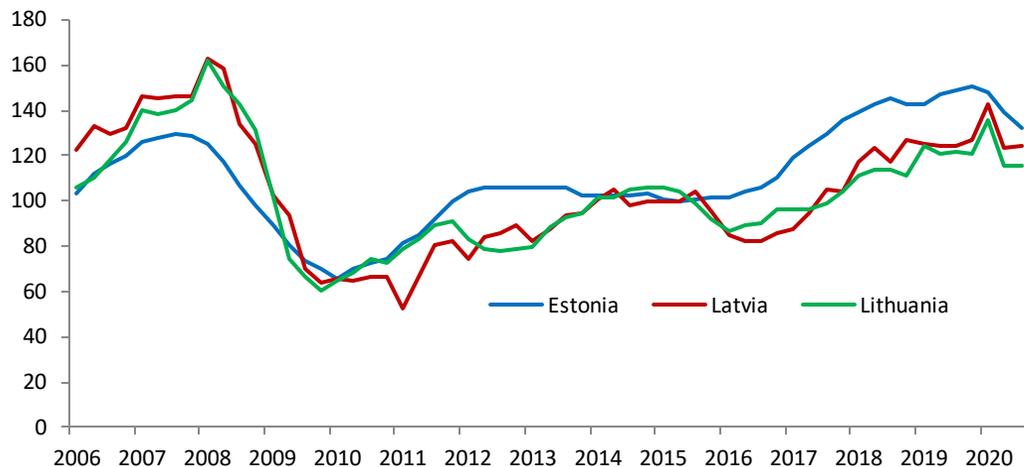
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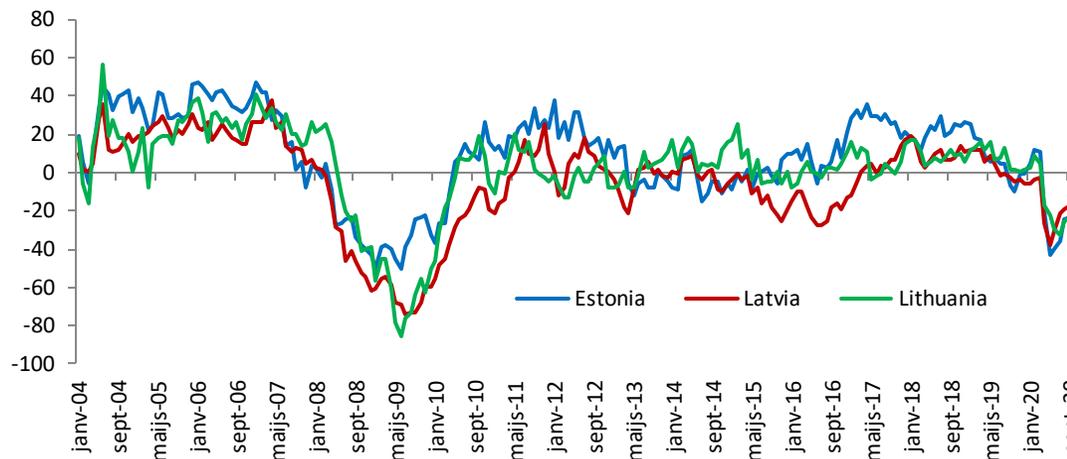
Construction

The impact of COVID-19 on construction has been small

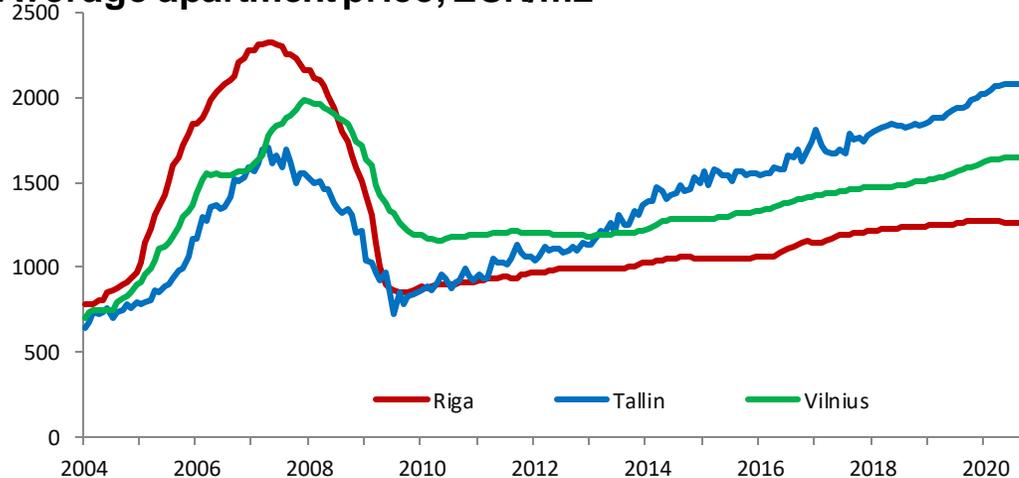
Construction, 2015=100, constant prices



Construction sentiment (activity in previous 3 months)



Average apartment price, EUR/m2



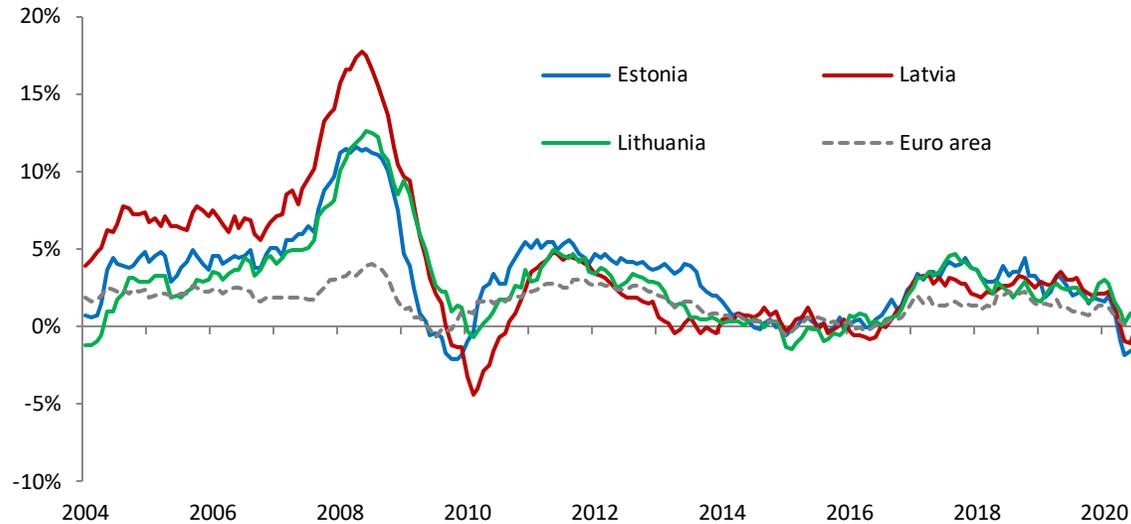
Comments

- The construction of the COVID-19 pandemic has not been significantly affected and volumes have generally remained at the 2019 level or decreased slightly. The second wave of COVID-19 did not affect the construction sentiment either.
- Activity in the real estate market has rebounded strongly after spring months. Real estate prices have stabilized in the Baltics, but are not declining. Wage growth has decelerated, but affordability of real estate continues to improve.
- Short term indicators point to a stable activity in the construction sector.

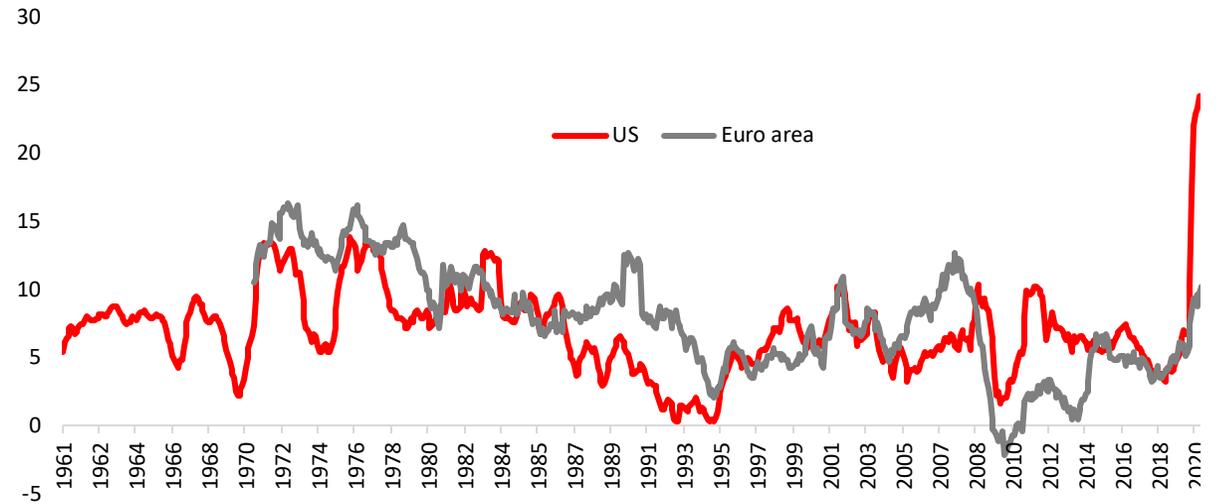
Inflation

Inflation remains near 0%, but is likely to pick up in 2021

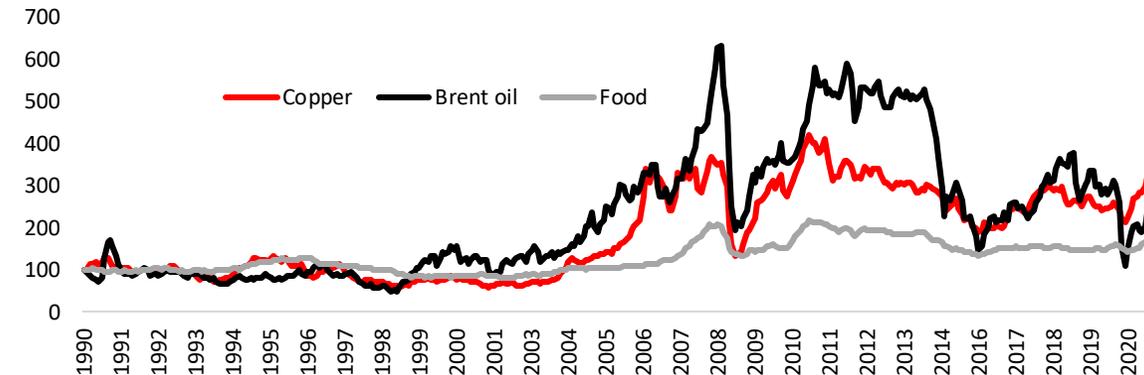
Inflation, % YoY



M3 money supply, % YoY



Commodity prices, 1990=100



Comments

- Inflation in the Baltics remains near 0% as economic activity remains depressed due to lockdown measures.
- In 2021 inflation is likely to pick up. Monetary & fiscal stimulus measures in 2020 have been unprecedented. Government guarantees have ensured banks continue to lend and monetary base in the euro area is expanding at the fastest pace since 2008.
- Since May commodity prices have increased substantially, but decline in USD has dampened inflationary impact in euro area.
- Inflation will probably be one of the big macro stories for 2021 & 2022.

Source: Eurostat, FRED, FAO

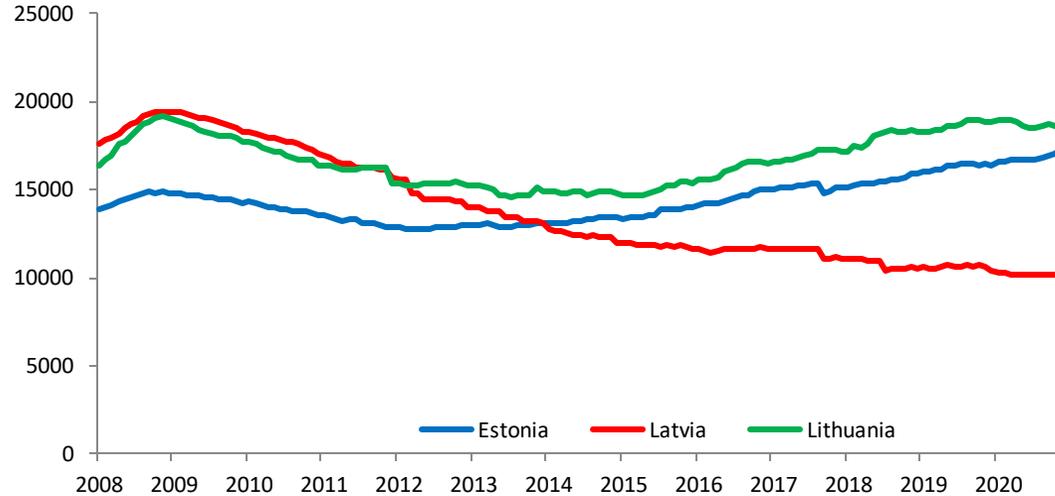
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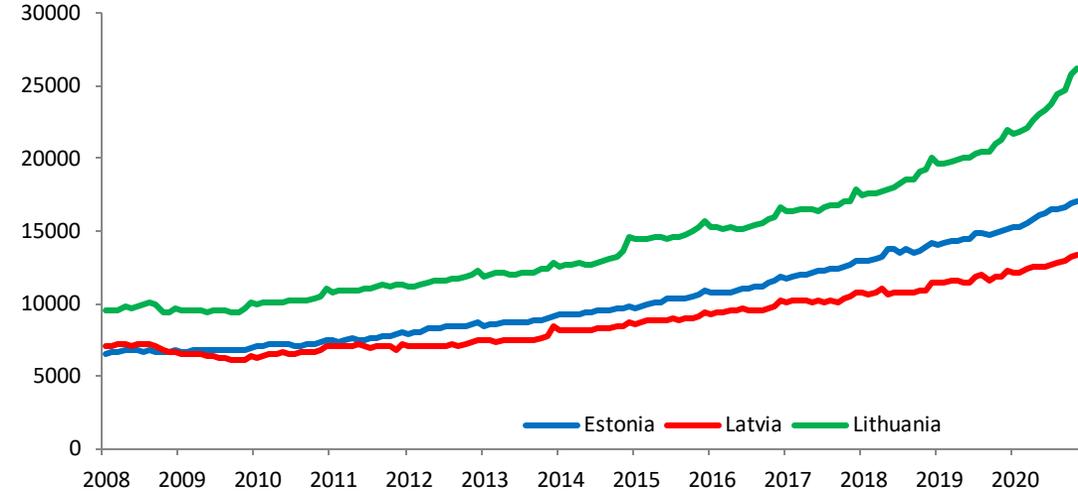
Banking sector

In the Baltics households and companies have accumulated significant savings during 2020

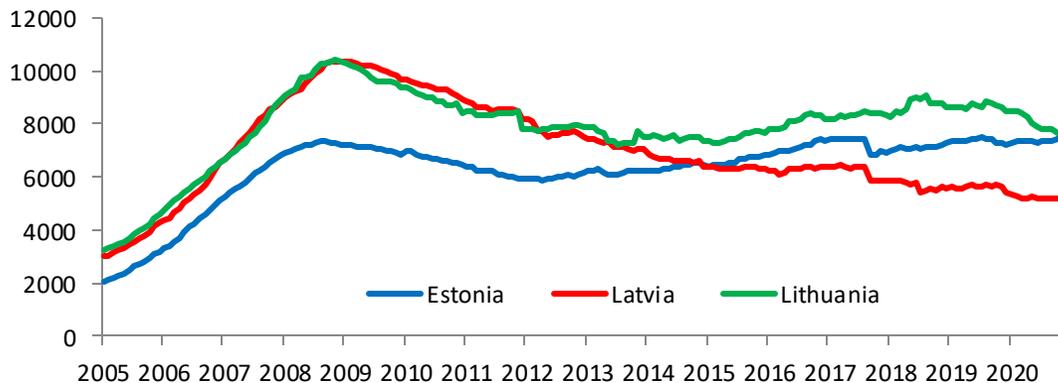
Loans to households and companies, MEUR



Deposits from households and companies, MEUR



Loans to non-financial companies, MEUR



Comments

- Despite decline in the economic activity the Baltics, savings have increased. Household deposits in 2020 are up by 12-14%, while in Lithuania deposits by non-financial companies have increased by 36%. At the same time overall banking loan book has shrunk in Lithuania and Latvia.
- There appears to be significant amount of idle money in the Baltics, that could flow into consumption & investment especially if vaccine rollout is successful and inflation expectations begin to pick up.
- Consumer services could see large recovery in 2H of 2021.

Source: Bank of Latvia, Bank of Estonia, Bank of Lithuania

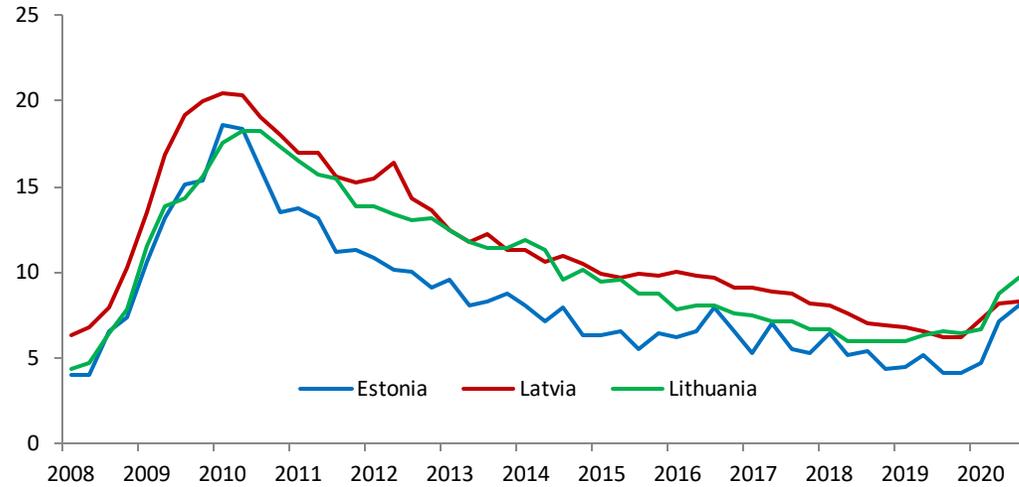
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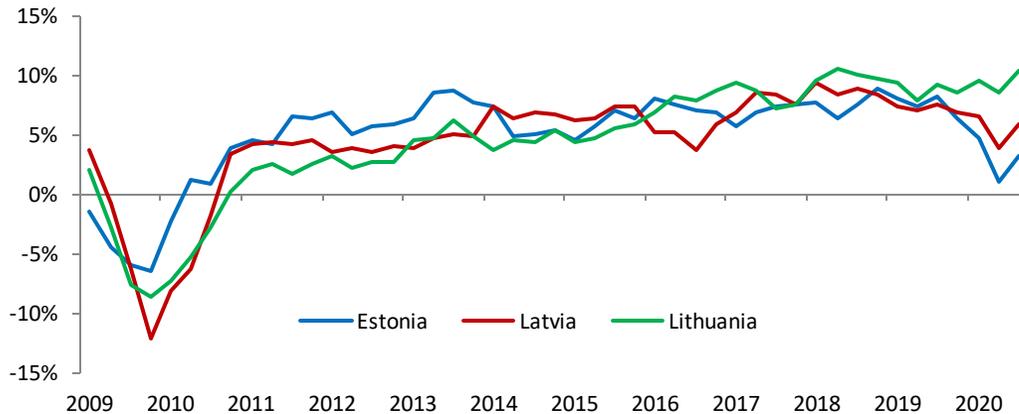
Labour market

Increase in unemployment so far has been less pronounced than in Spring

Unemployment, %

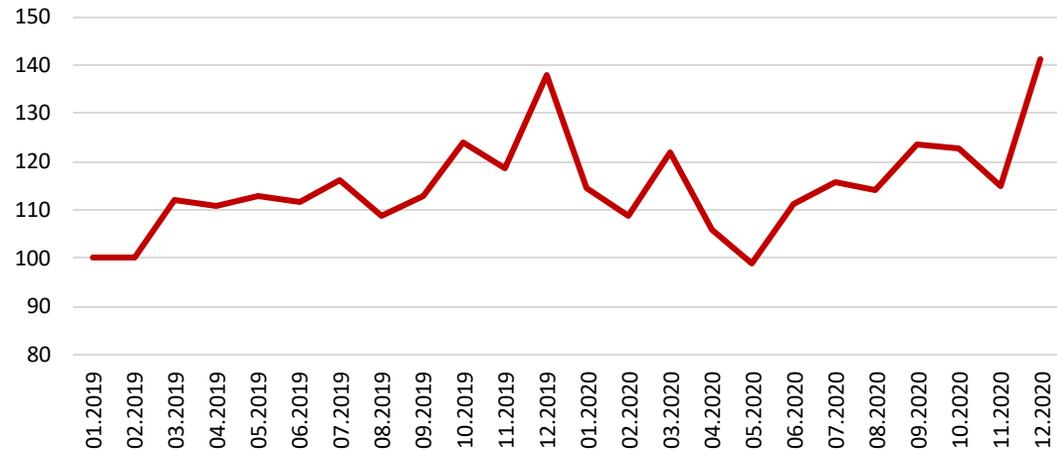


Average wage, % YoY



Source: Eurostat, CSB

Retail client income in Citadele, 2019 jan=100



Comments

- Unemployment growth in the Baltics in 2020 has been lower than expected, reaching 7.7% in Estonia, 8.4% in Latvia and 9.3% in Lithuania in the third quarter.
- At the same time, in 2020, wages in the Baltics continued to grow. In the third quarter of 2020, the average wage in Latvia increased by 5.9% compared to 2019, while in Estonia and Lithuania the wage growth was 3.2% and 10.4%, respectively. However, actual growth in income is lower than shown by the average wage due to higher unemployment and decline in hours worked.
- Incomes have rebounded from April lows and in September reached pre-COVID levels. In December income by Citadele retail clients was 2.9% above 2019 level.

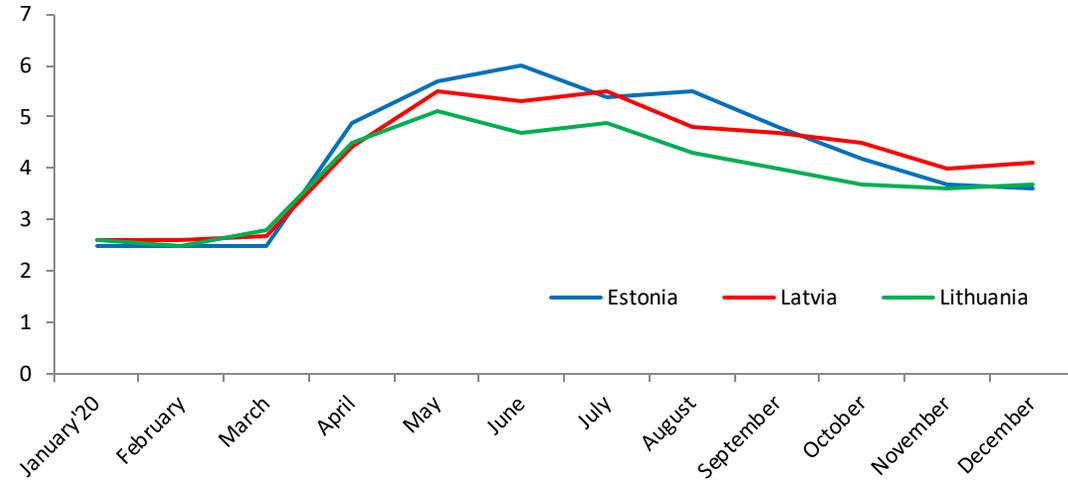
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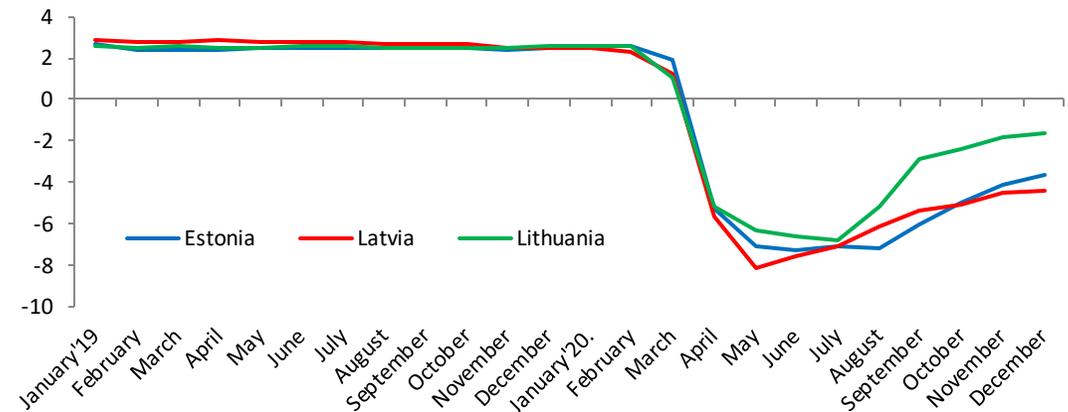
Forecasts

2021 will be a year of two halves

Consensus forecast (2021)

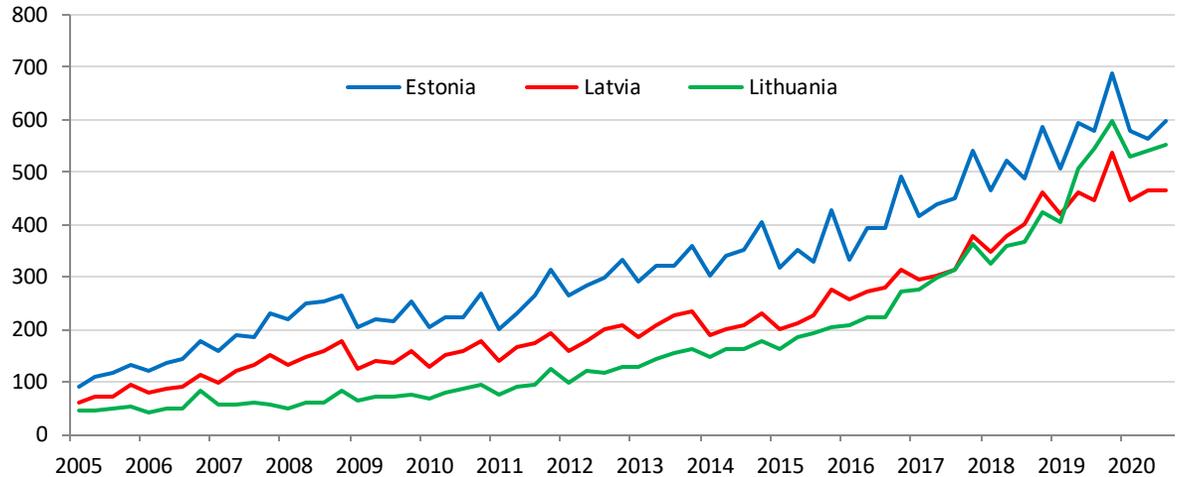


Consensus forecast (2020)



Source: Consensus economics, Bank of Latvia, Bank of Estonia, Bank of Lithuania

Export of IT and business services, MEUR/quarter



Comments

- Economic impact from 2nd wave of COVID-19 has been significantly smaller than in spring but economic output is likely to decline in Q4 2020 & Q1 2021.
- 2021 will be a year of two halves. Some lockdown measures are likely to remain in place until April or May. If vaccine rollout is successful 2H of 2021 is likely to see significant economic rebound although weakness in sectors directly unaffected by COVID-19 is a worry.
- In 2021 growth in the range of 2-3%. In 2022 Baltic is likely to see very strong growth as cyclical recovery from COVID-19 is boosted by large inflows from EU funds.

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