



Baltic economic outlook

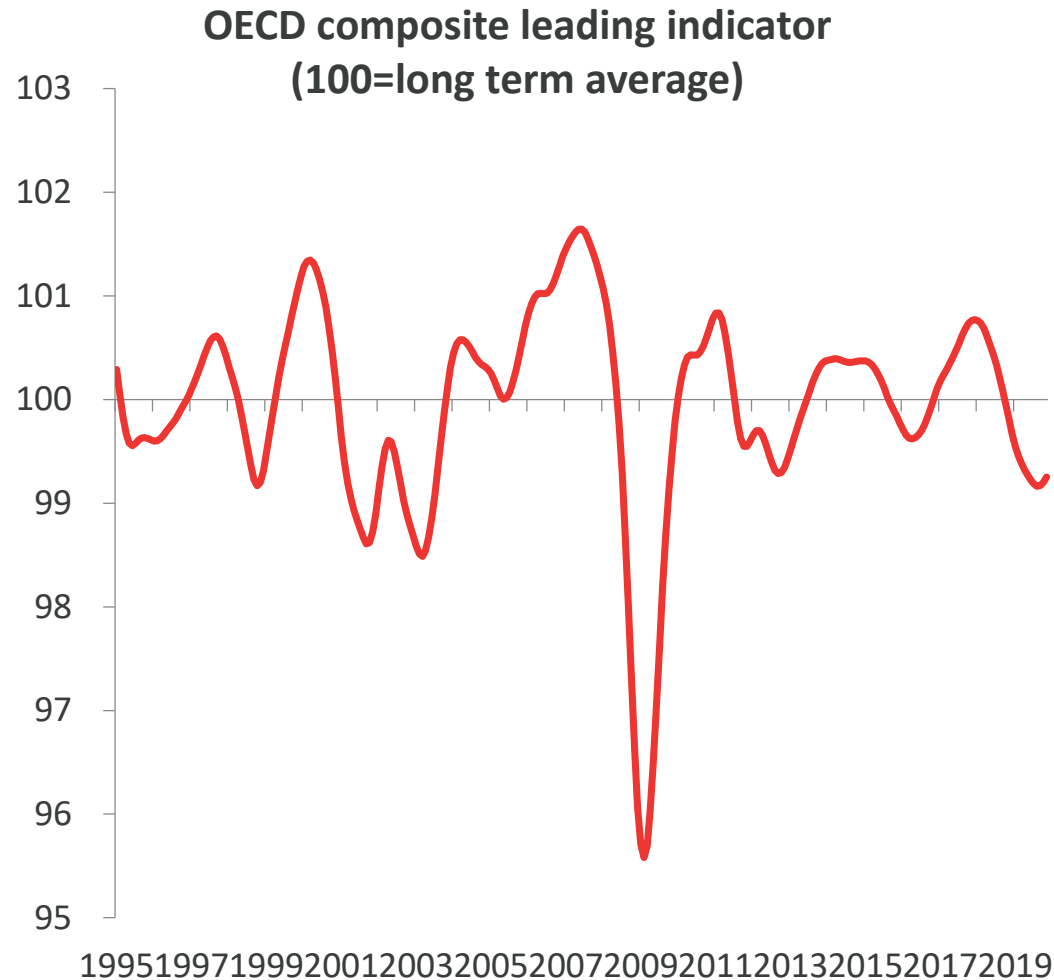
Mārtiņš Āboliņš
Economist

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Global economy

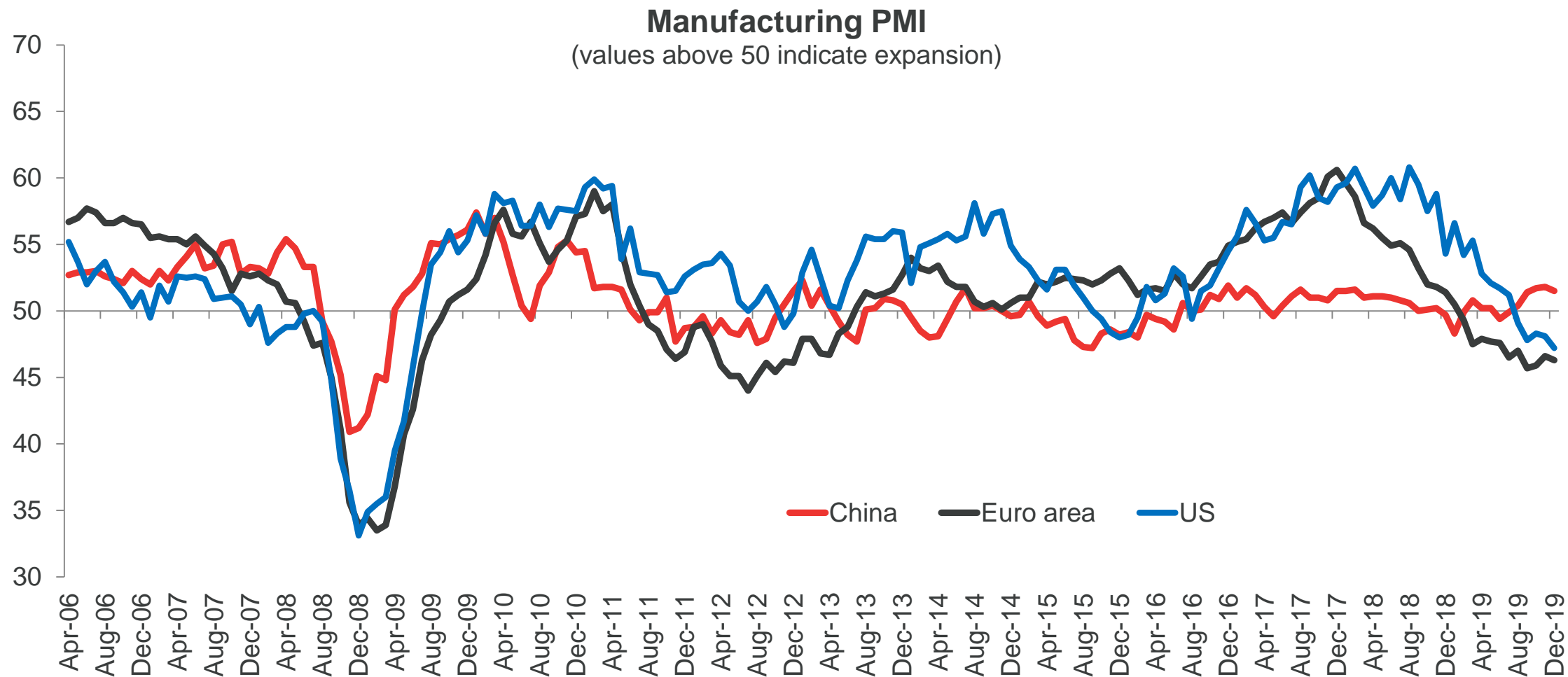
The global economy is showing some signs of stabilization



- ❑ **Global economy remains in a moderate cyclical slowdown in growth.** OECD leading indicators show signs of stabilization.
- ❑ **Manufacturing and world trade remain the weakest link in the global economy.** The China-US agreement has reduced the risks associated with world trade.
- ❑ **Service sectors and labour markets have not yet been affected by weakness in global manufacturing.** However, these indicators respond to economic cycle fluctuations with a delay.
- ❑ **Concerns about the recession have not yet materialized,** but risks remain and are still largely negative.
- ❑ **Most major central banks have cut interest rates and resumed stimulus measures in 2019,** but fiscal policy will become less expansionary in 2020.
- ❑ **Financial markets are generally very positive.** In the absence of negative surprises, global economic growth should pick up in the second half of the year.

Global economy

Manufacturing remains the weakest link in the global economy



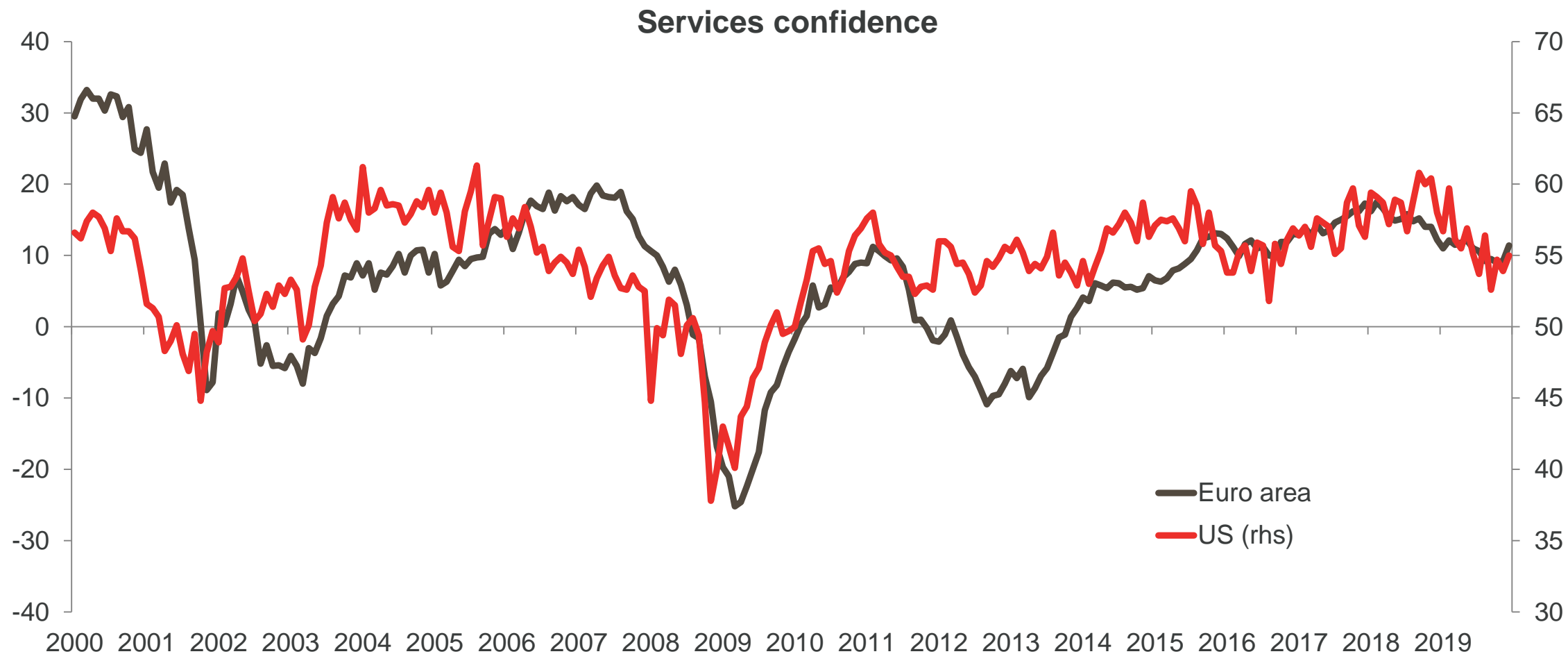
Global economy

World trade declining for the first time since 2009, but new manufacturing orders are improving



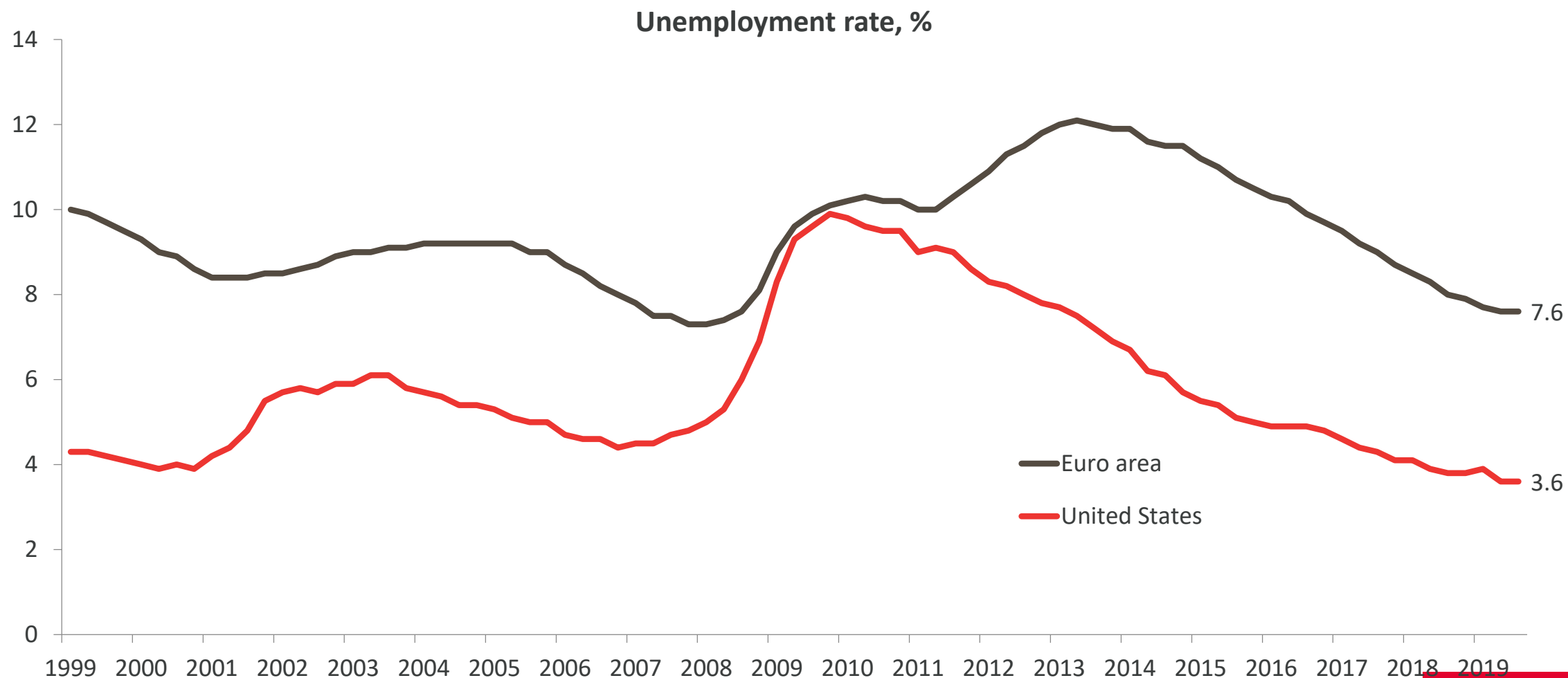
Global economy

Weakness in manufacturing so far has not affected service sectors



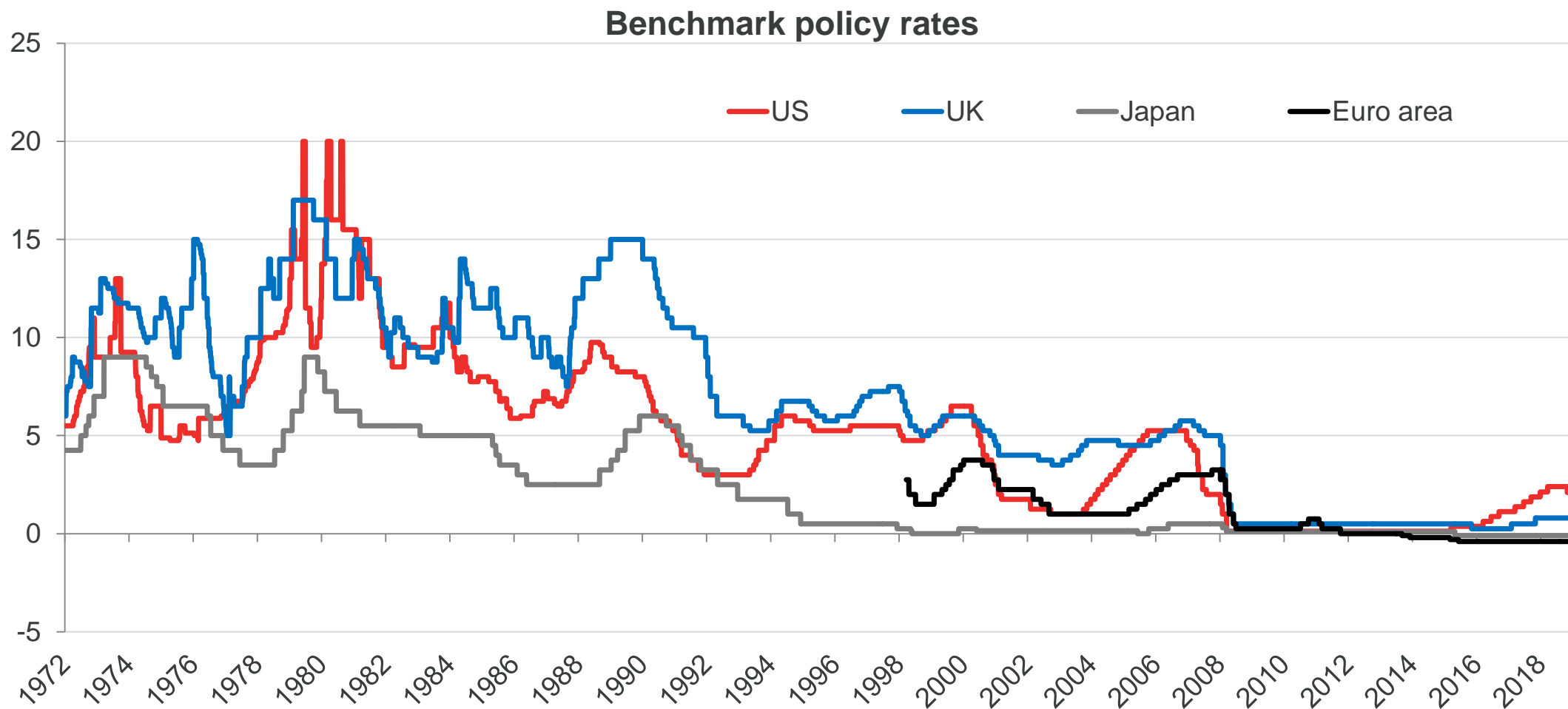
Global economy

Unemployment in the world has reached its lowest level in recent decades



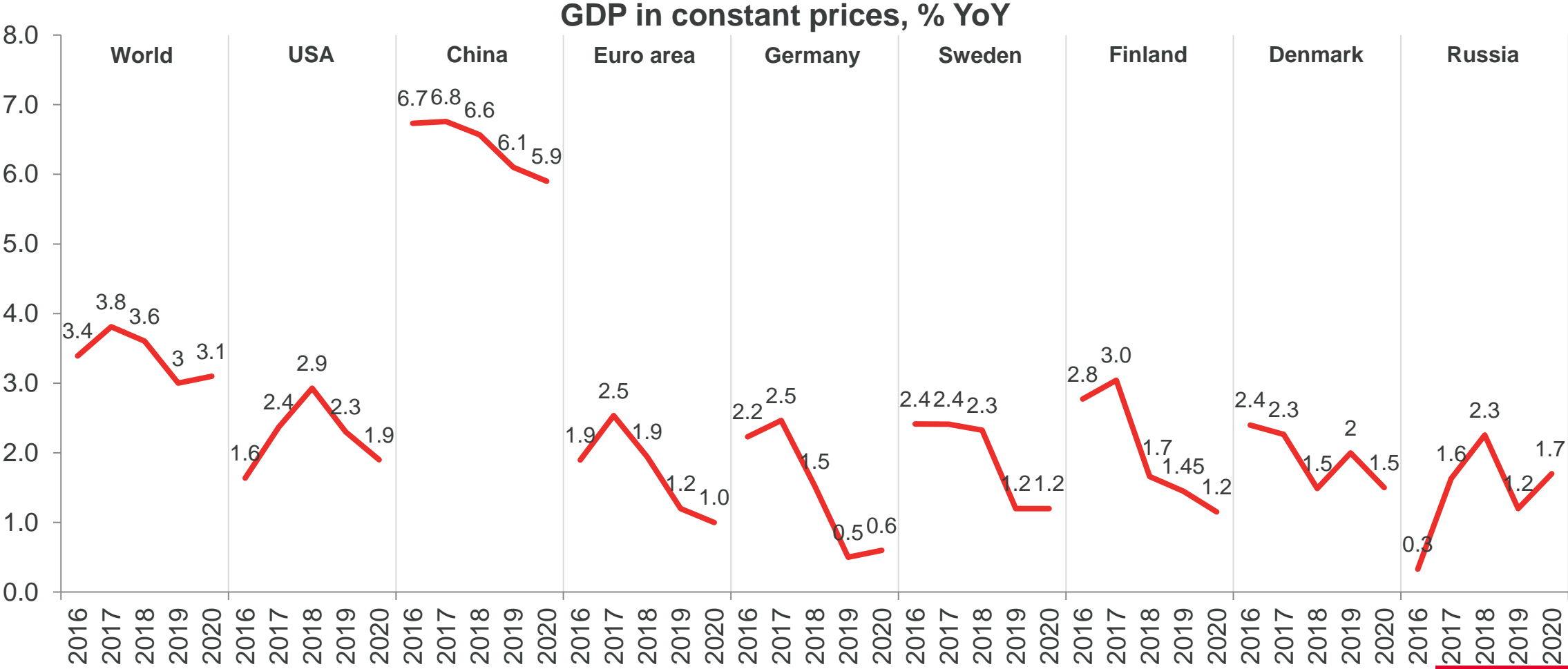
Global economy

Central banks have resumed monetary stimulus and the era of low interest rates is continuing



Global economy

GDP projections have been revised downwards, but a slight acceleration in growth is expected in 2020



Source: IMF, Bloomberg

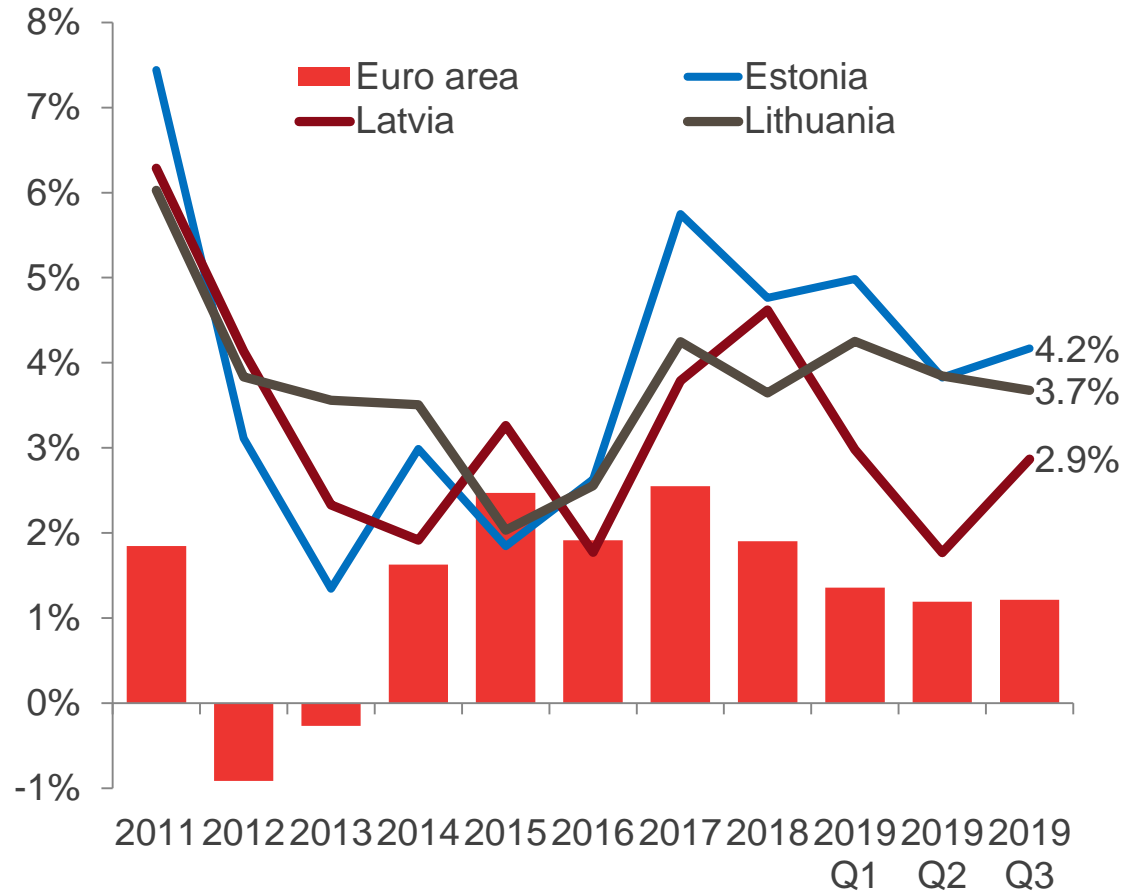
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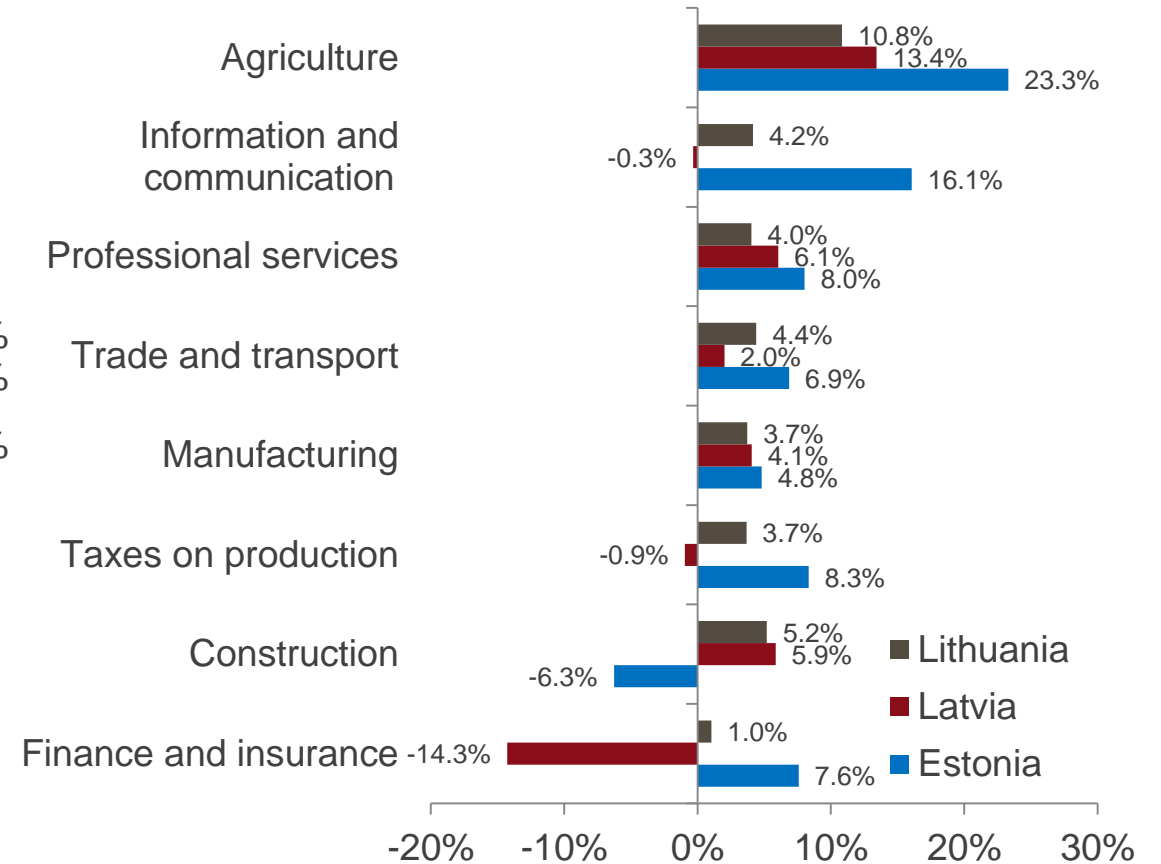
Baltic region

Strong growth continues in the Baltic region, but the Latvian economy has become significantly cooler

Real GDP, % annual change

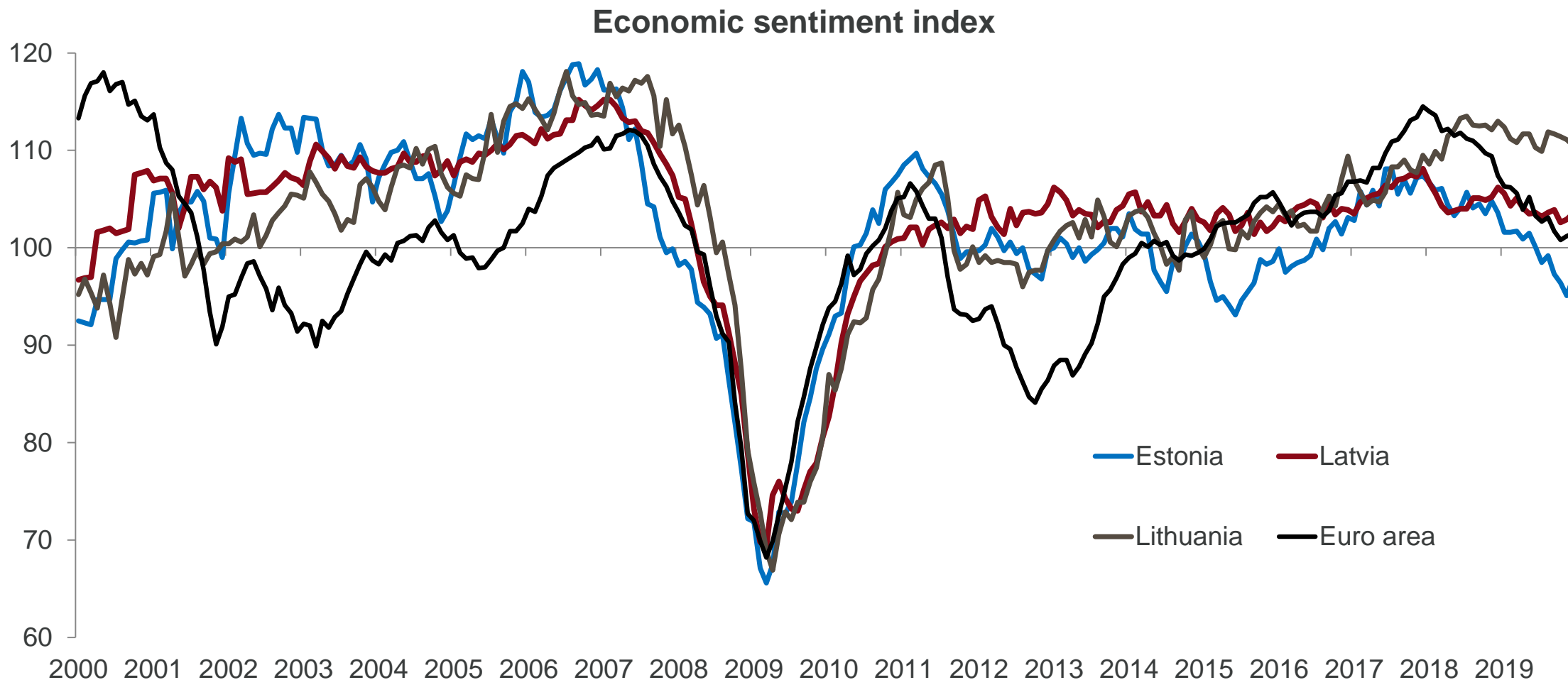


GDP growth in Q3 2019, % YoY



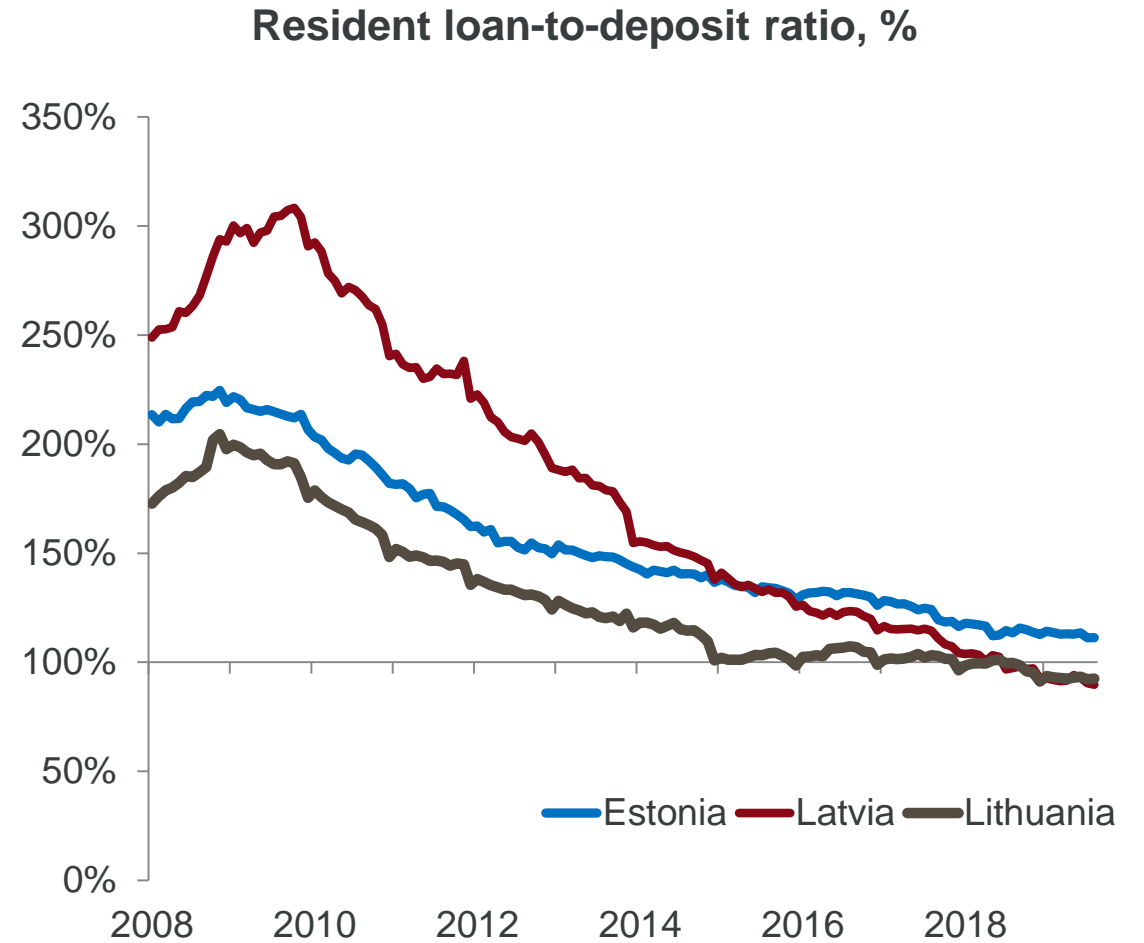
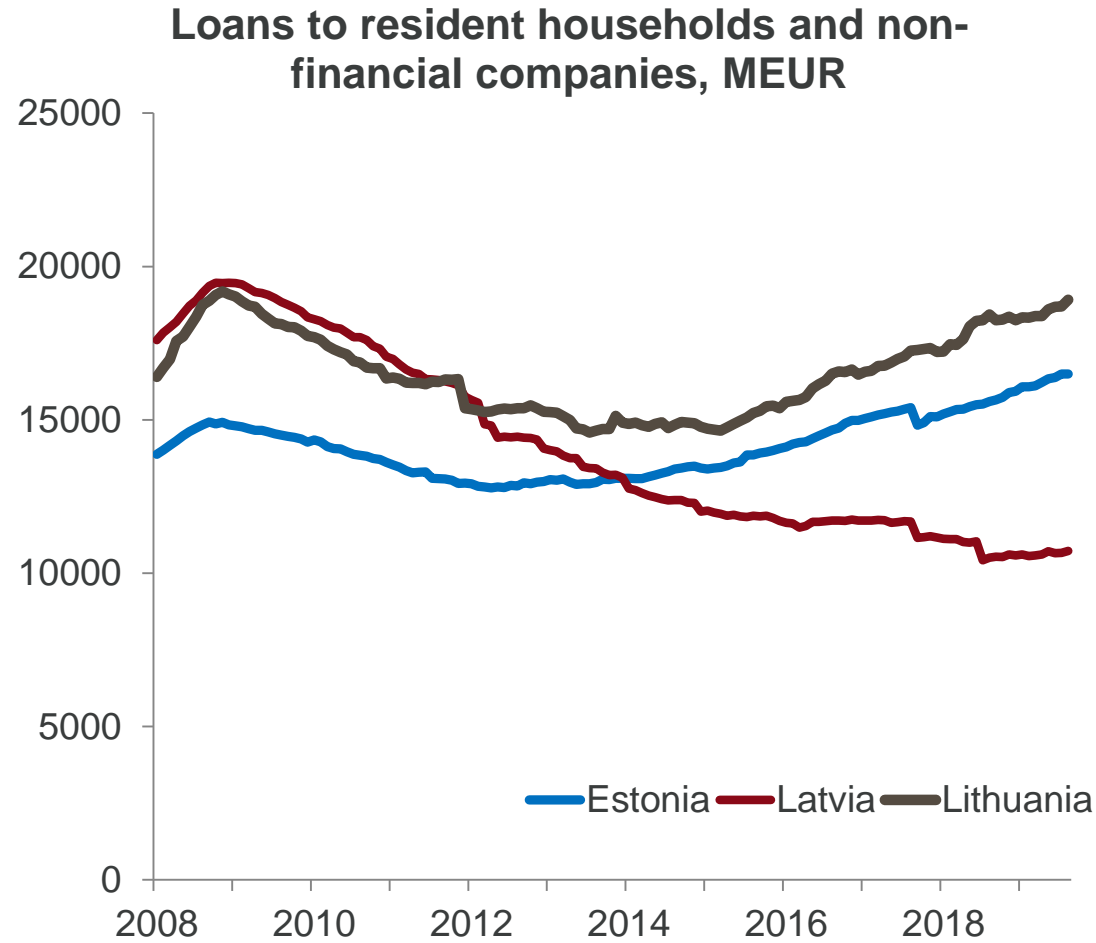
Economic sentiment

Weaker external environment has adverse impact on economic sentiment



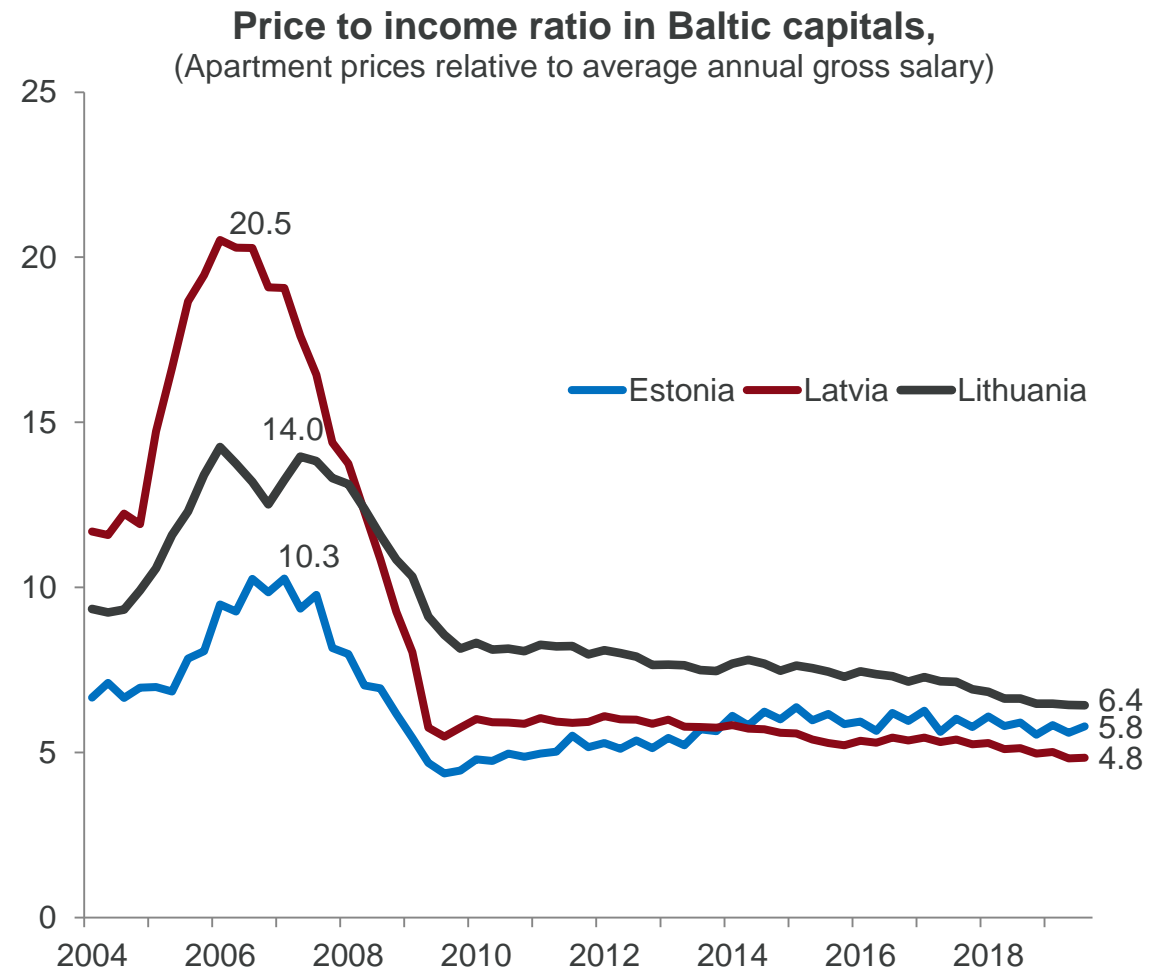
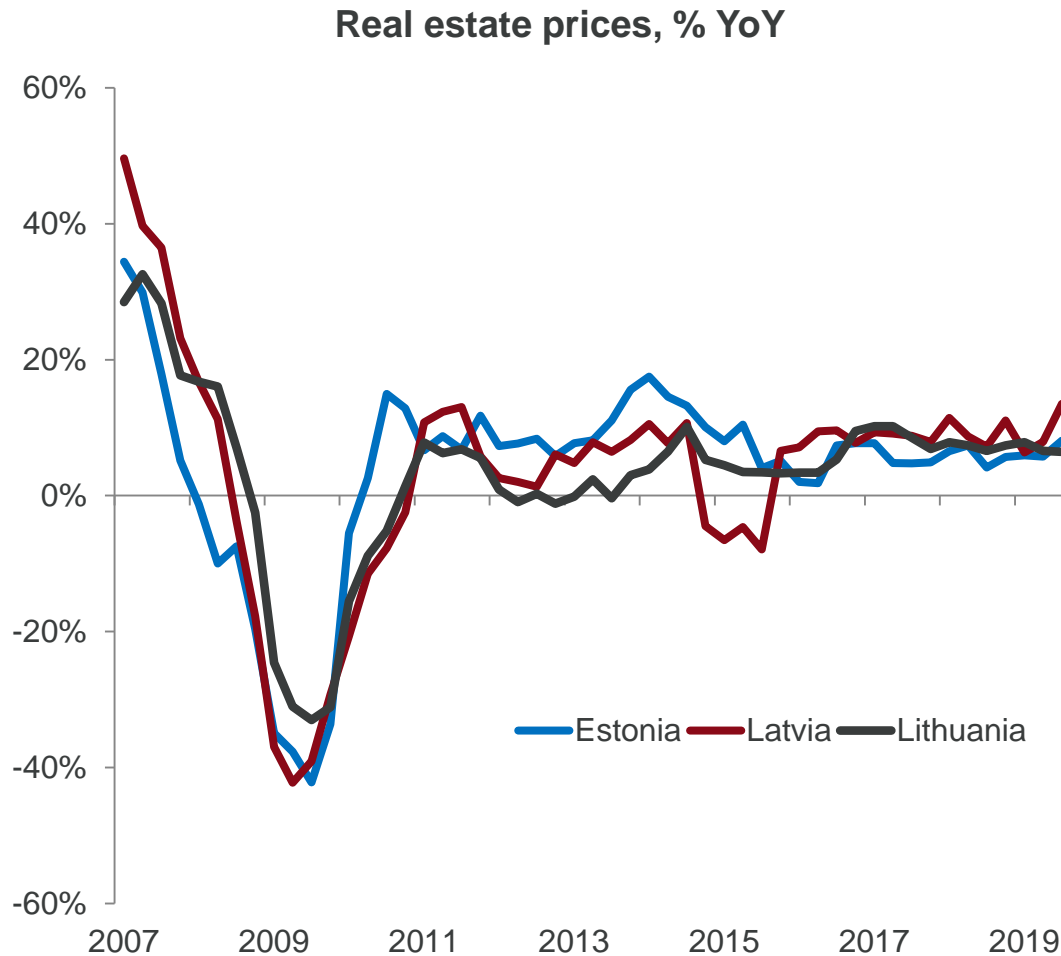
Lending

Domestic lending in the Baltics is financed from domestic savings



Real estate

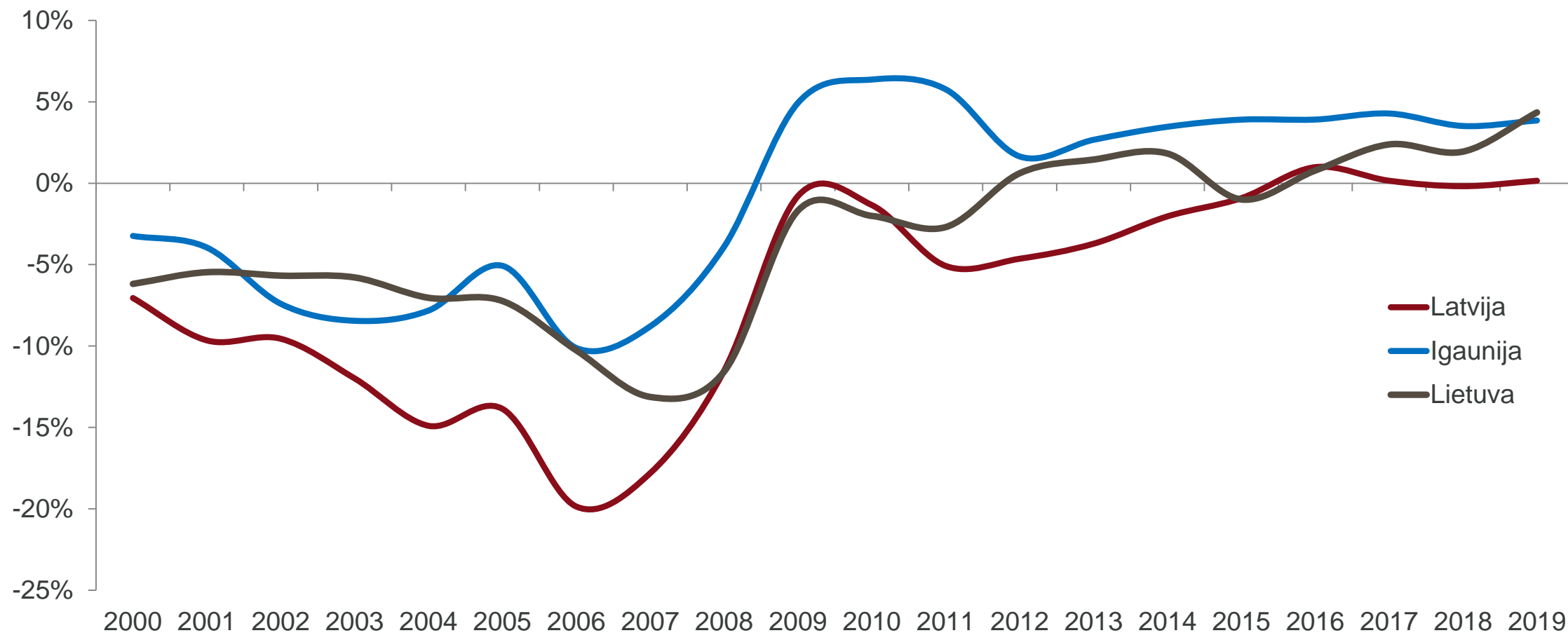
Real estate prices in the Baltics continue to grow, but mostly in line with wages



External trade

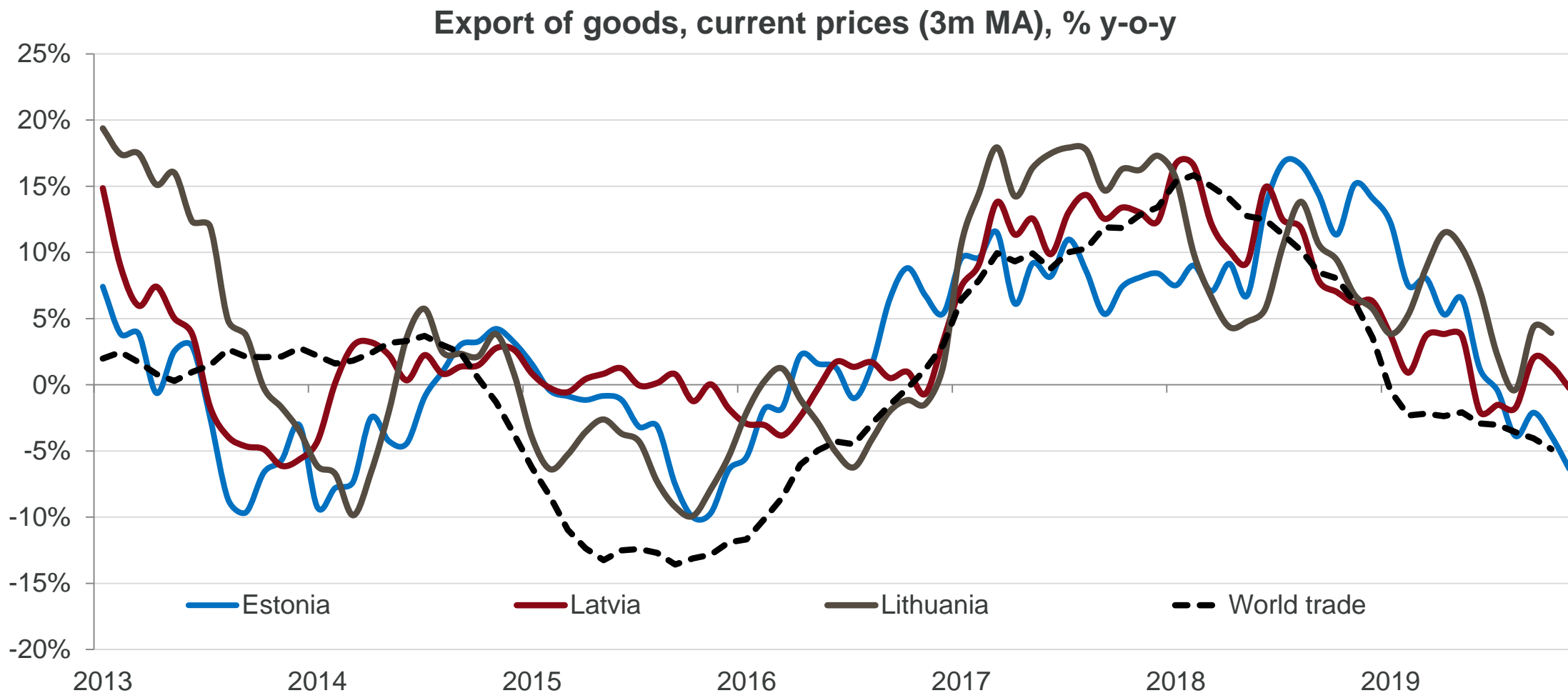
Trade balance in the Baltics has shifted from large deficits to surpluses

External trade balance, % GDP



External trade

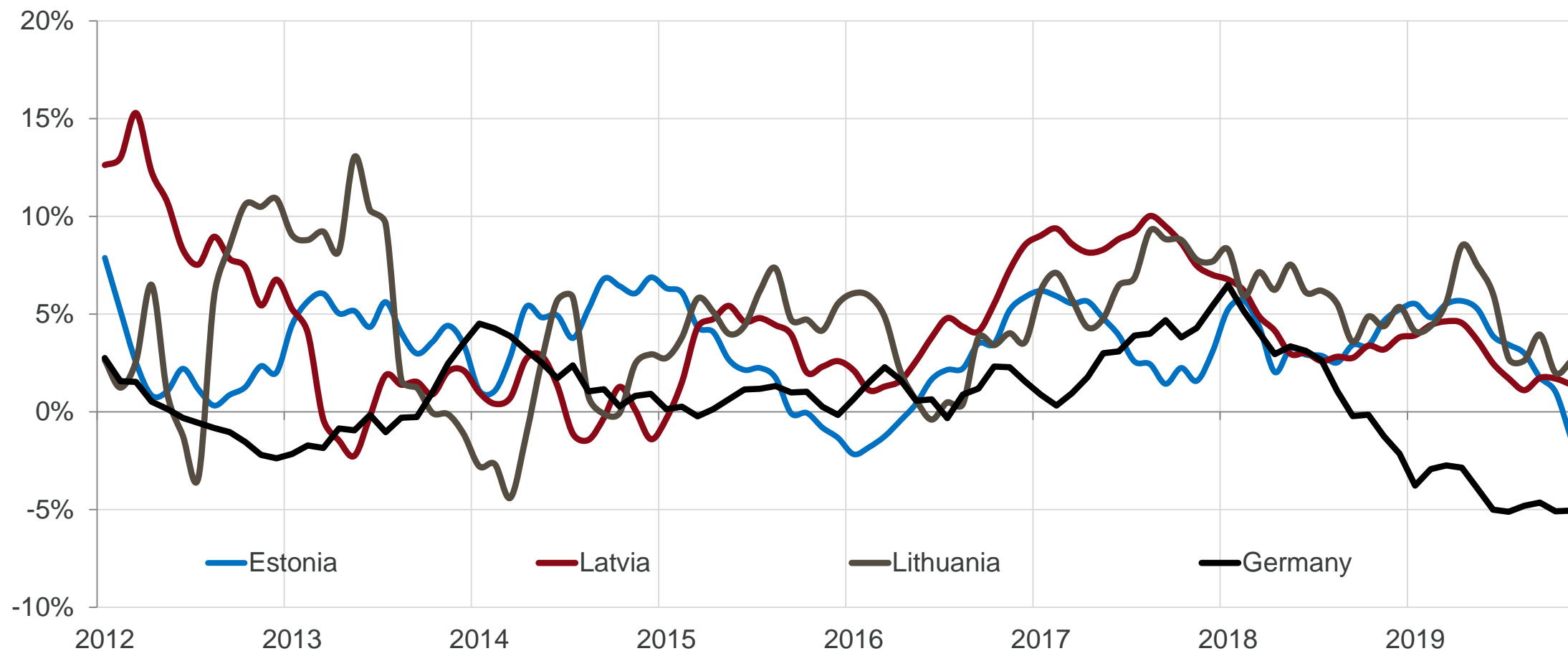
Exports in Baltics moving in line with global trade



Manufacturing

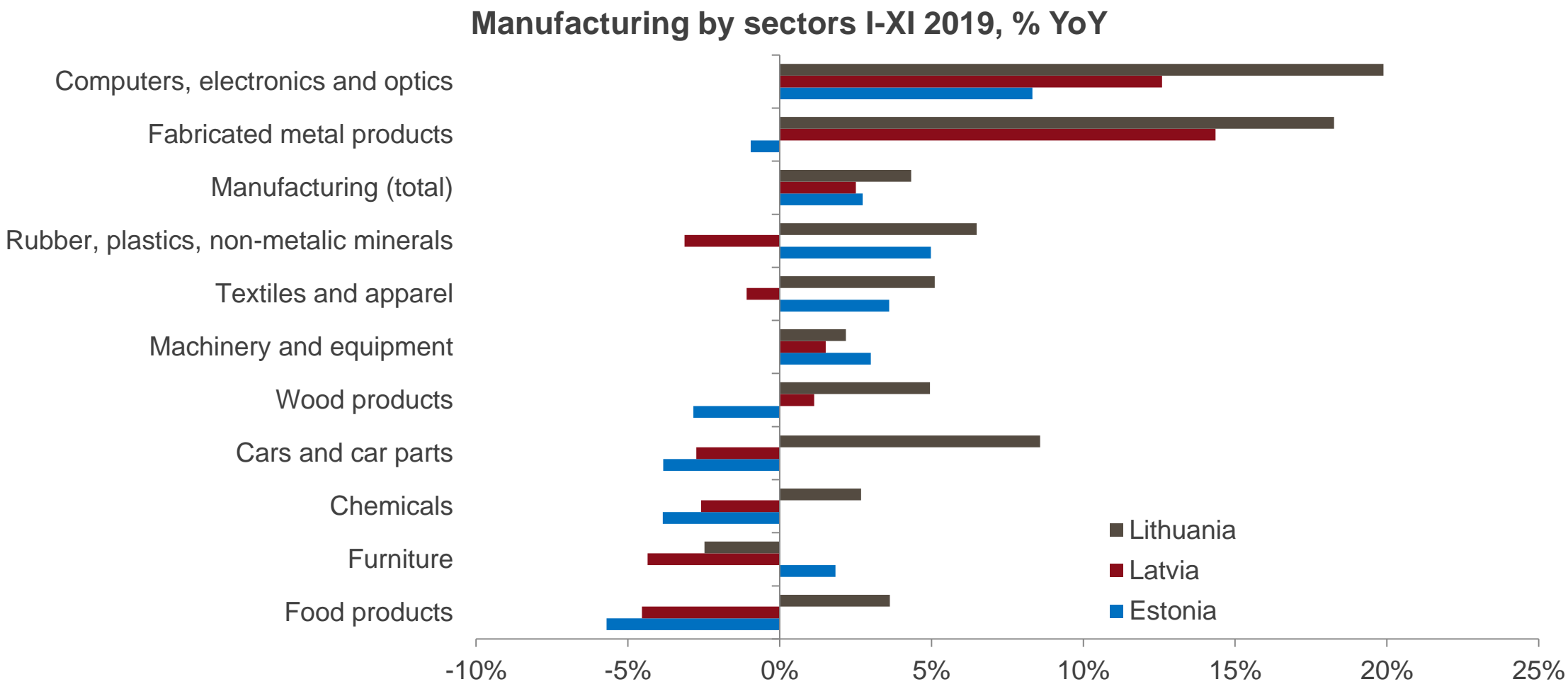
The resilience of the Baltic manufacturing to the weakening of external demand is not unlimited

Manufacturing, % YoY (3 month MA)



Manufacturing

Electronics and metal products remain the best performing sectors



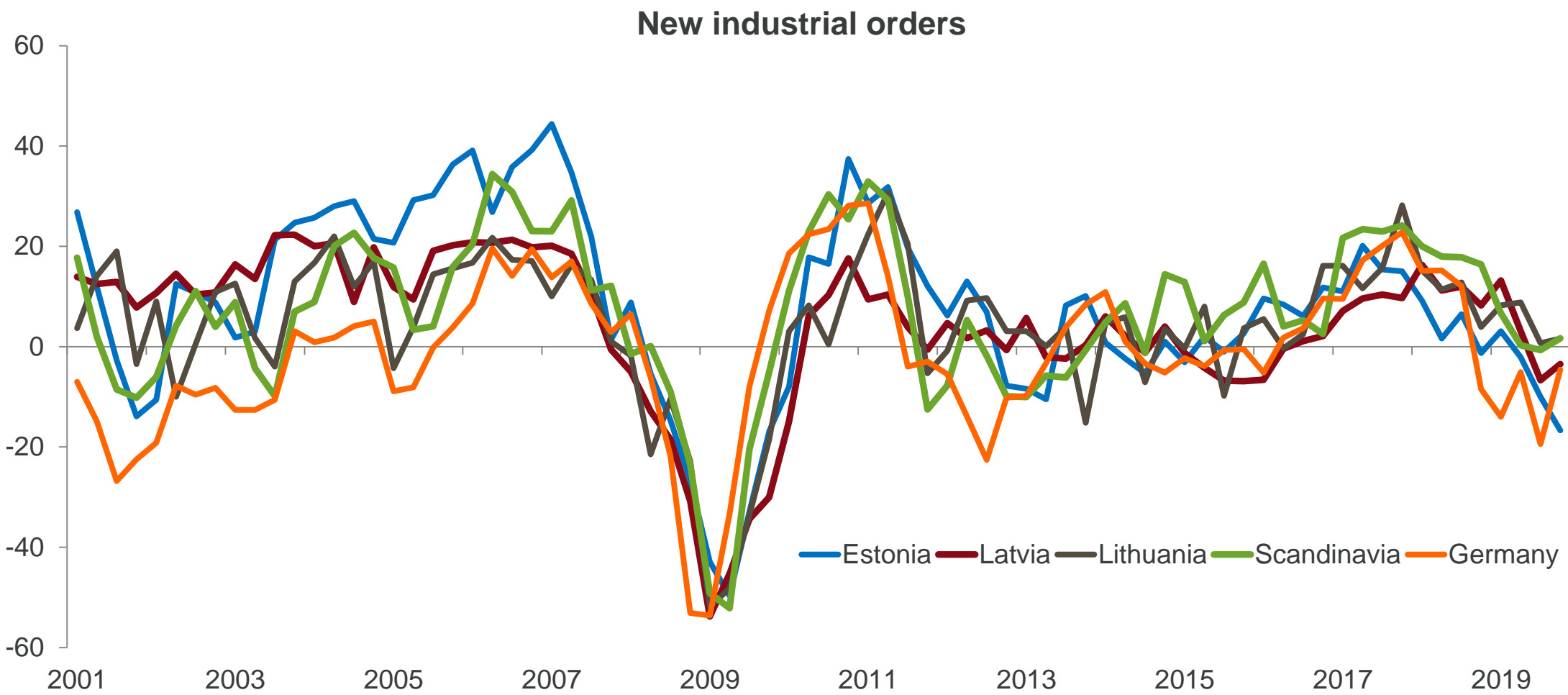
Source: Eurostat

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New orders

New industrial orders in Baltics declining in line with Germany and Scandinavia



Source: DG ECFIN

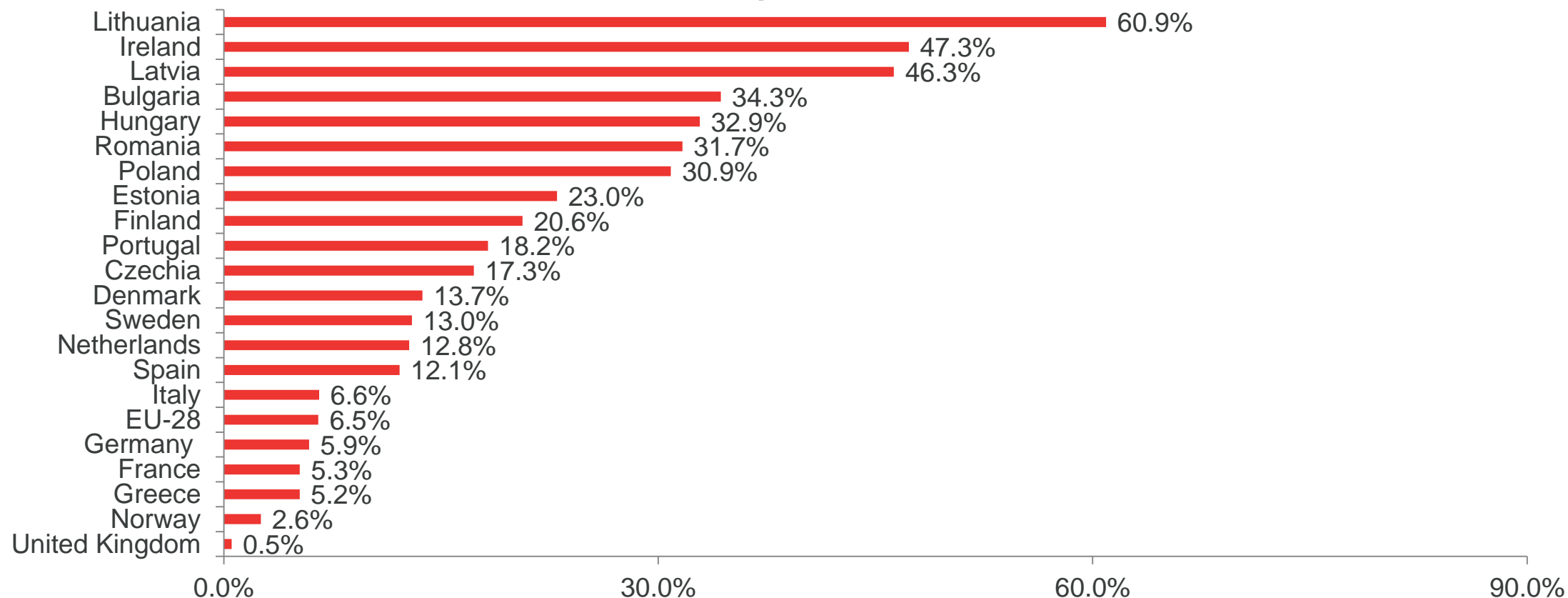
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Manufacturing

Engineering industries are among the fastest growing sectors in the Baltics

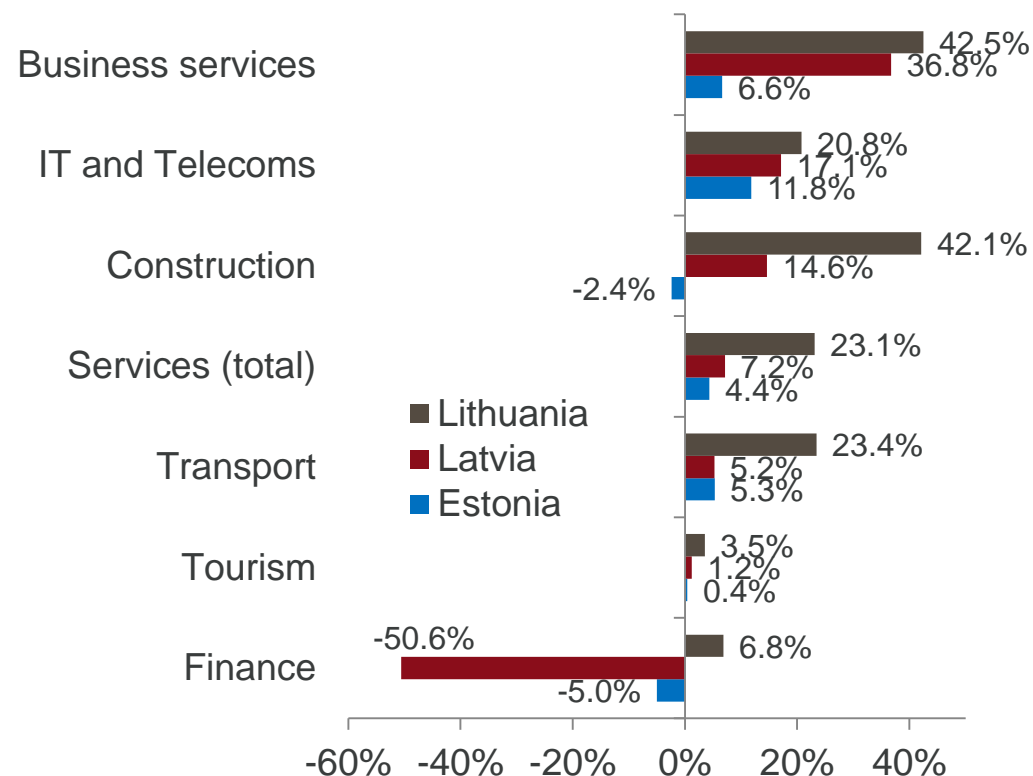
Industrial production in metal products, electronics, car parts and machinery
2019 compared to 2015, %



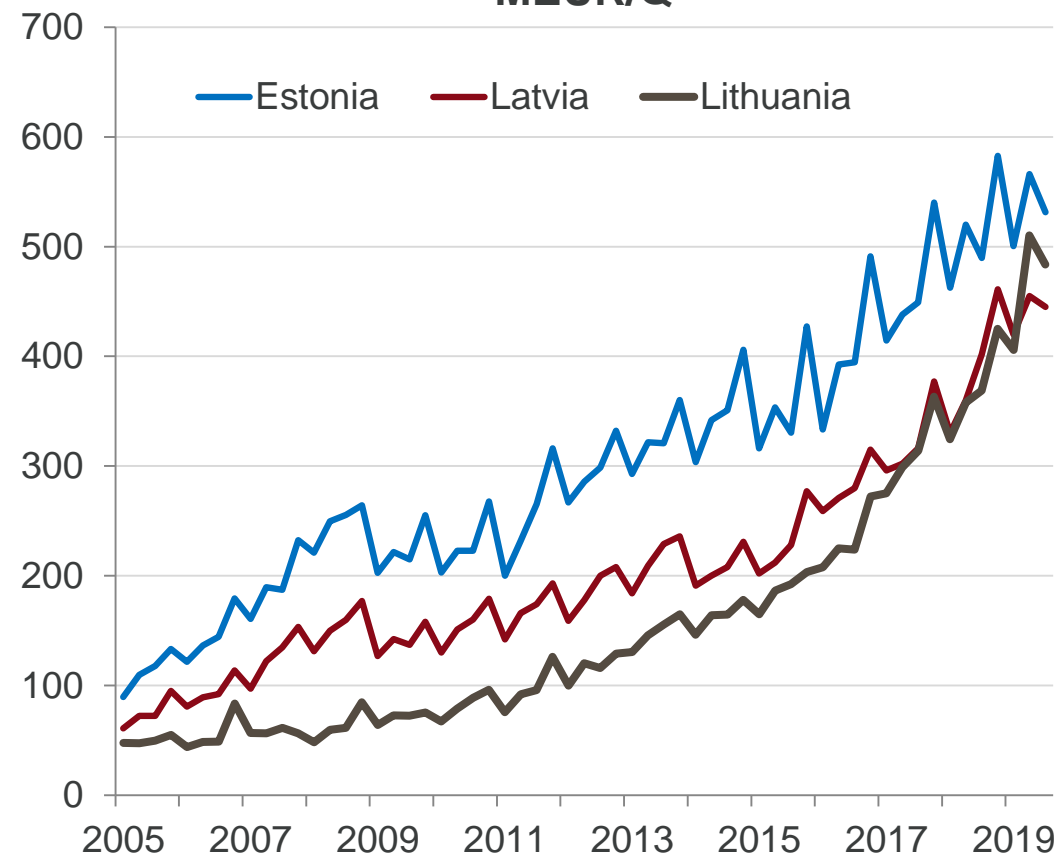
Services

Business and ICT services remain the strongest performing sectors in the Baltics

Export of services in Q3 2019, % YoY

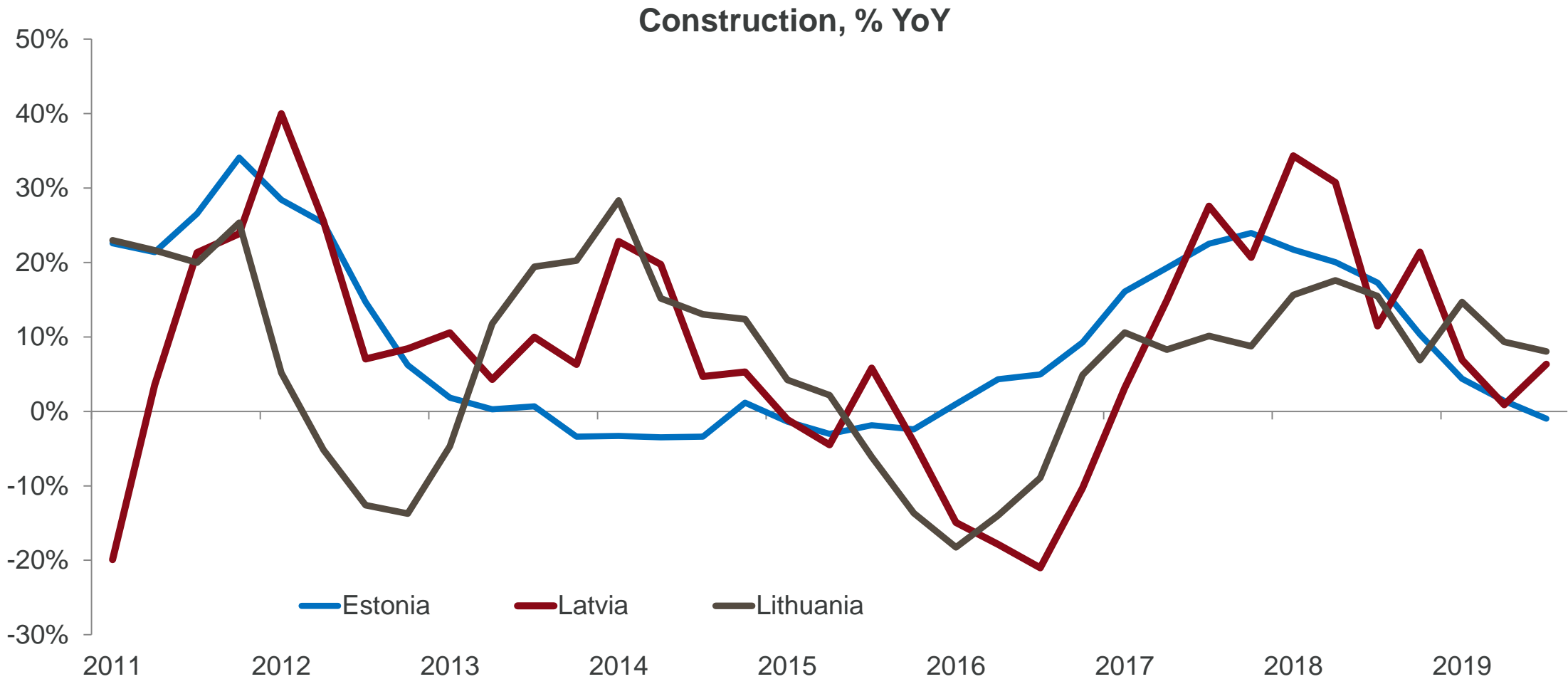


Export of ICT and business services, MEUR/Q



Construction

Construction sector in the Baltics is past cyclical peak and growth is slowing down



Source: Eurostat

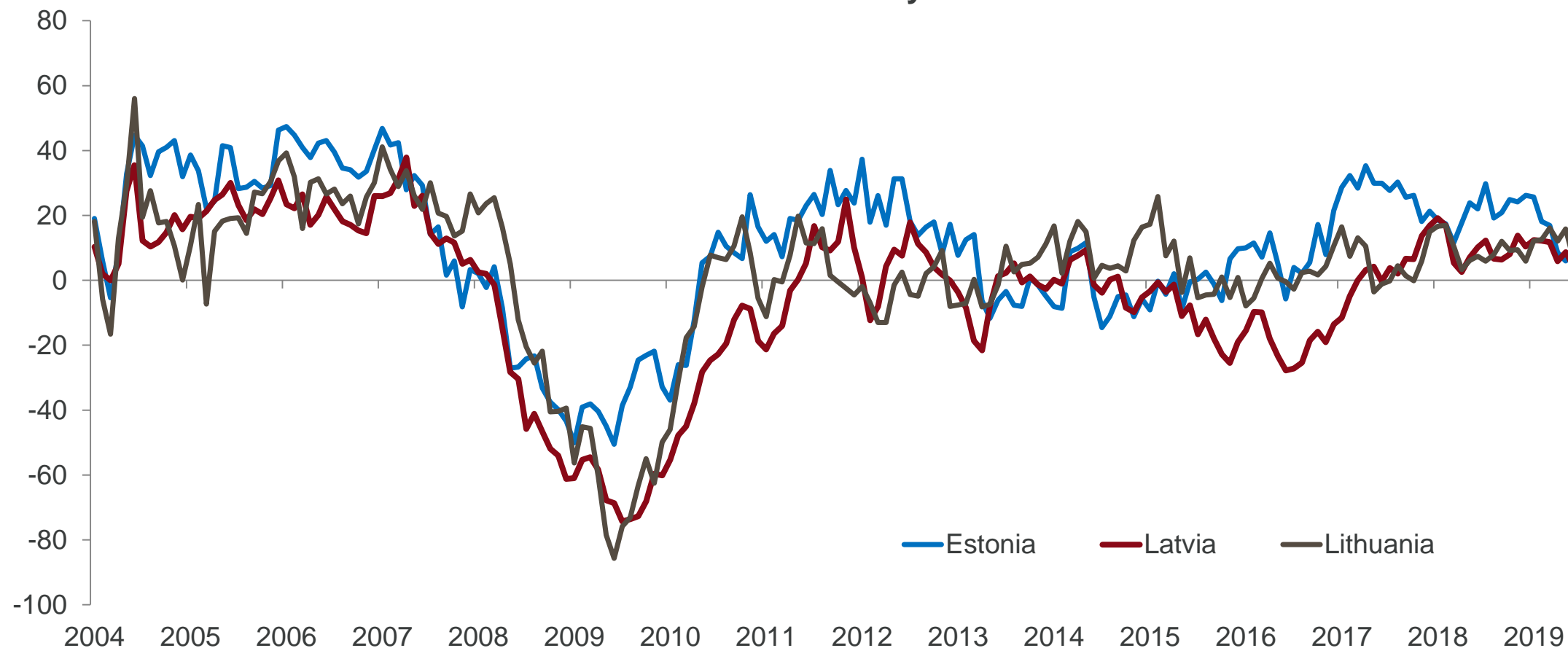
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Construction

The sentiment of construction companies indicates weak growth or a slight decline in construction in 2020

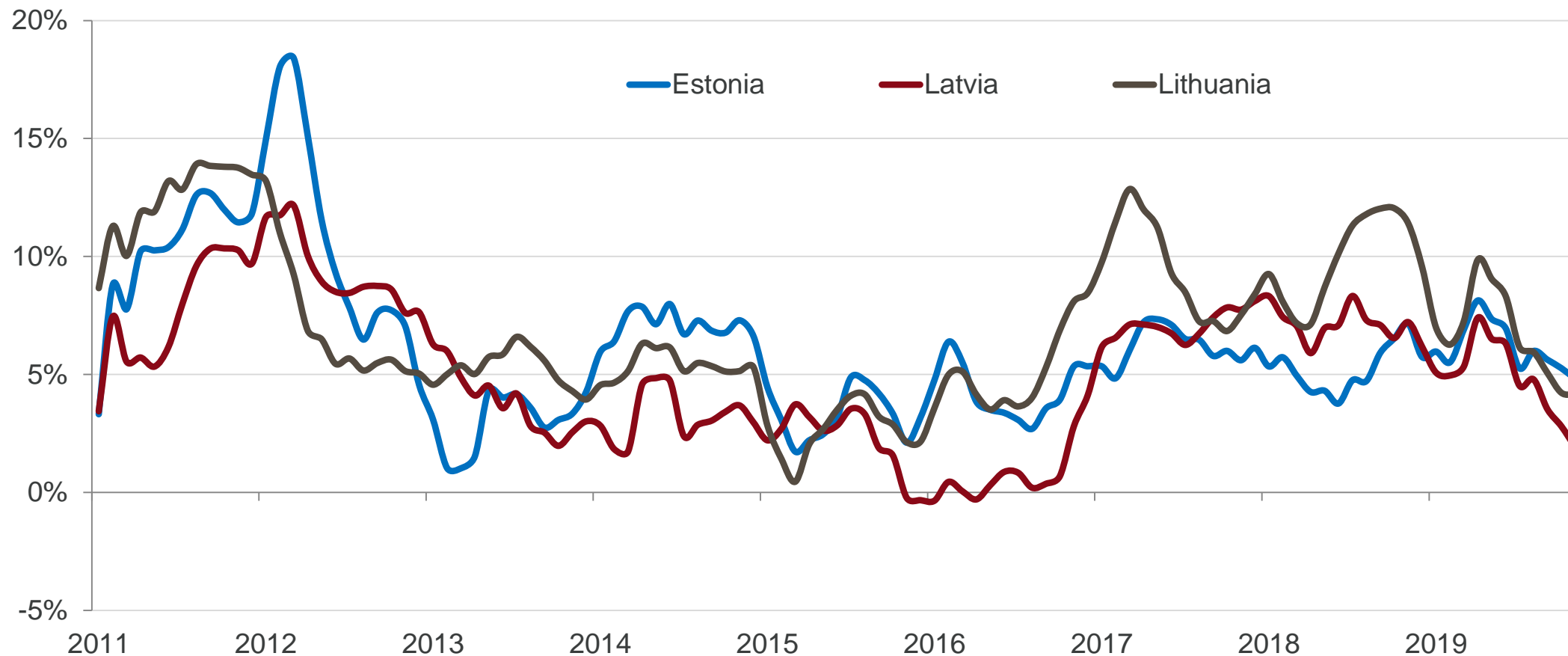
Construction sentiment – activity in the last 3 months



Trade

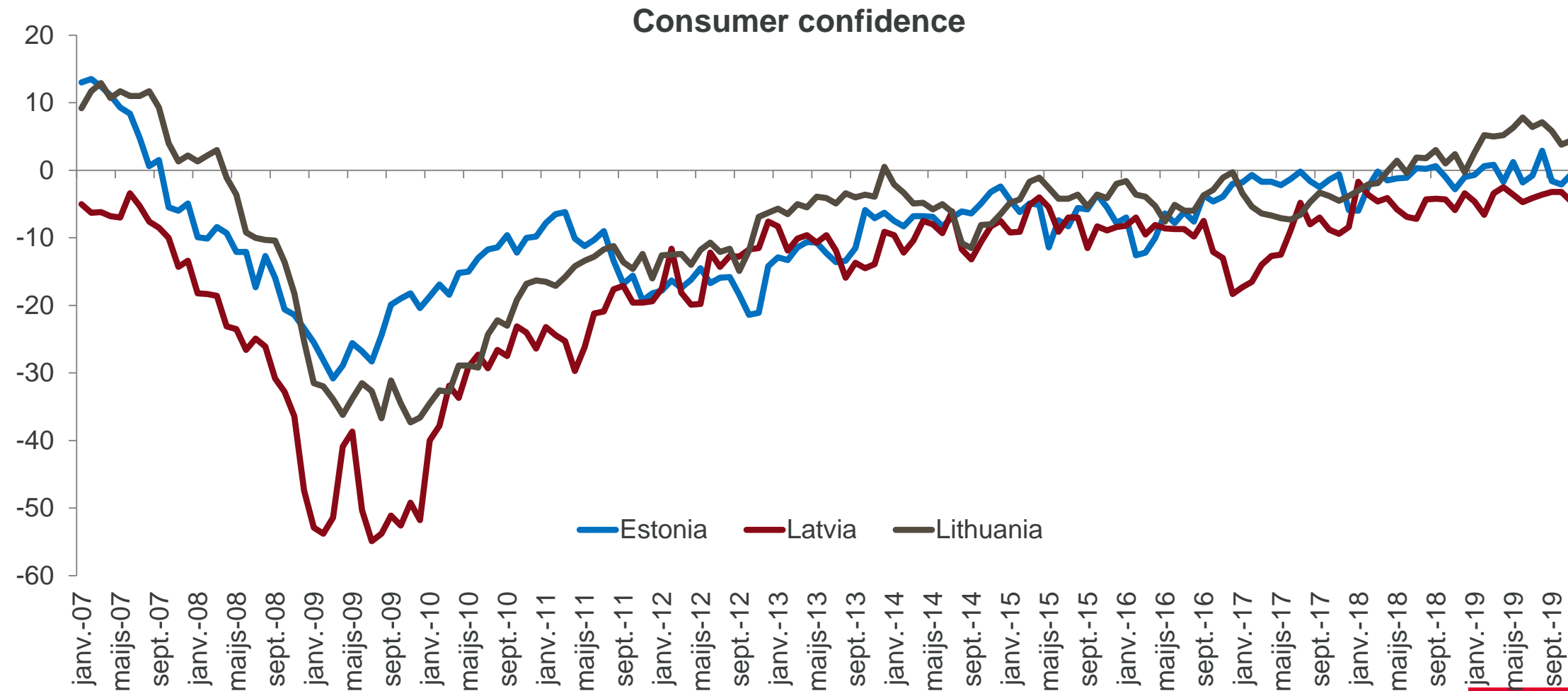
Retail sales growth in the Baltics has slowed, but overall domestic consumption remains strong

Retail trade turnover in euros, % YoY (3 month average)



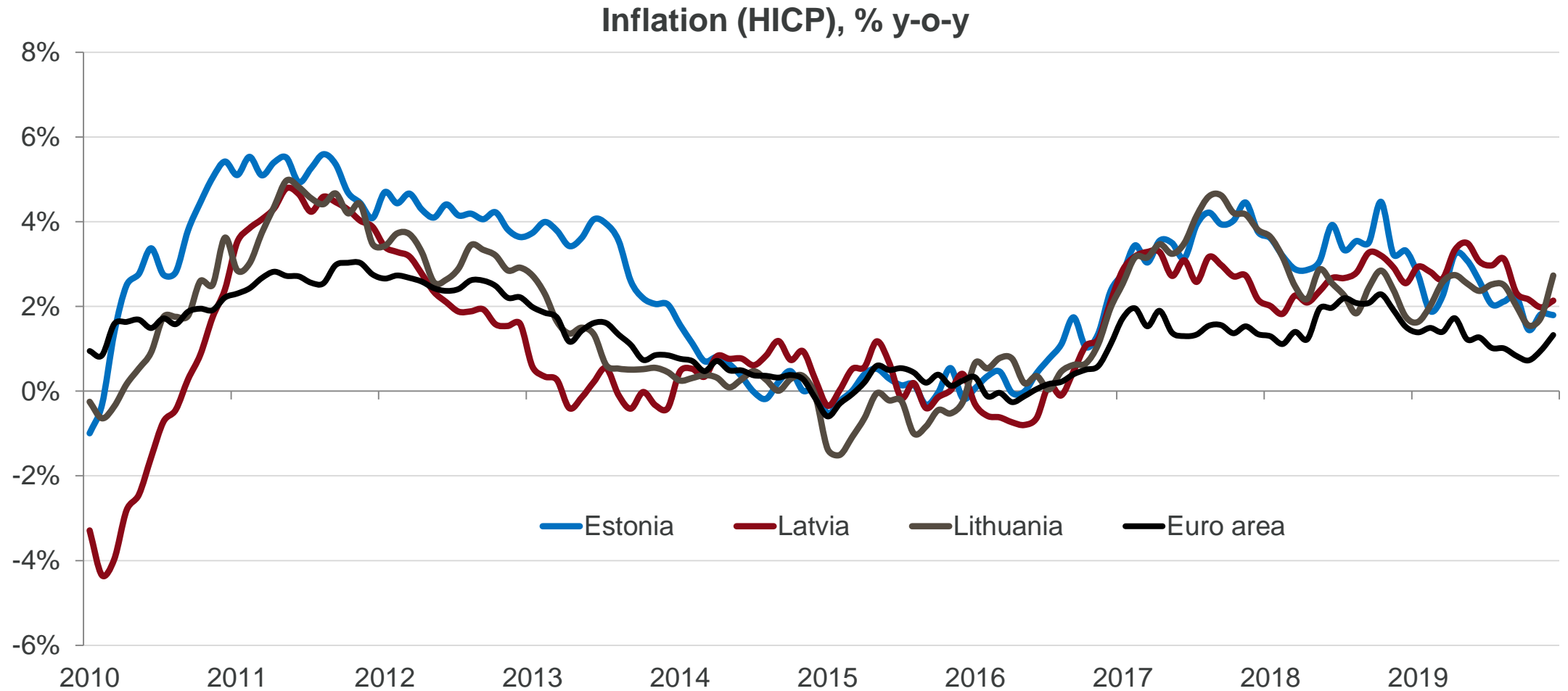
Consumer confidence

Slower economic growth has not yet affected consumer sentiment



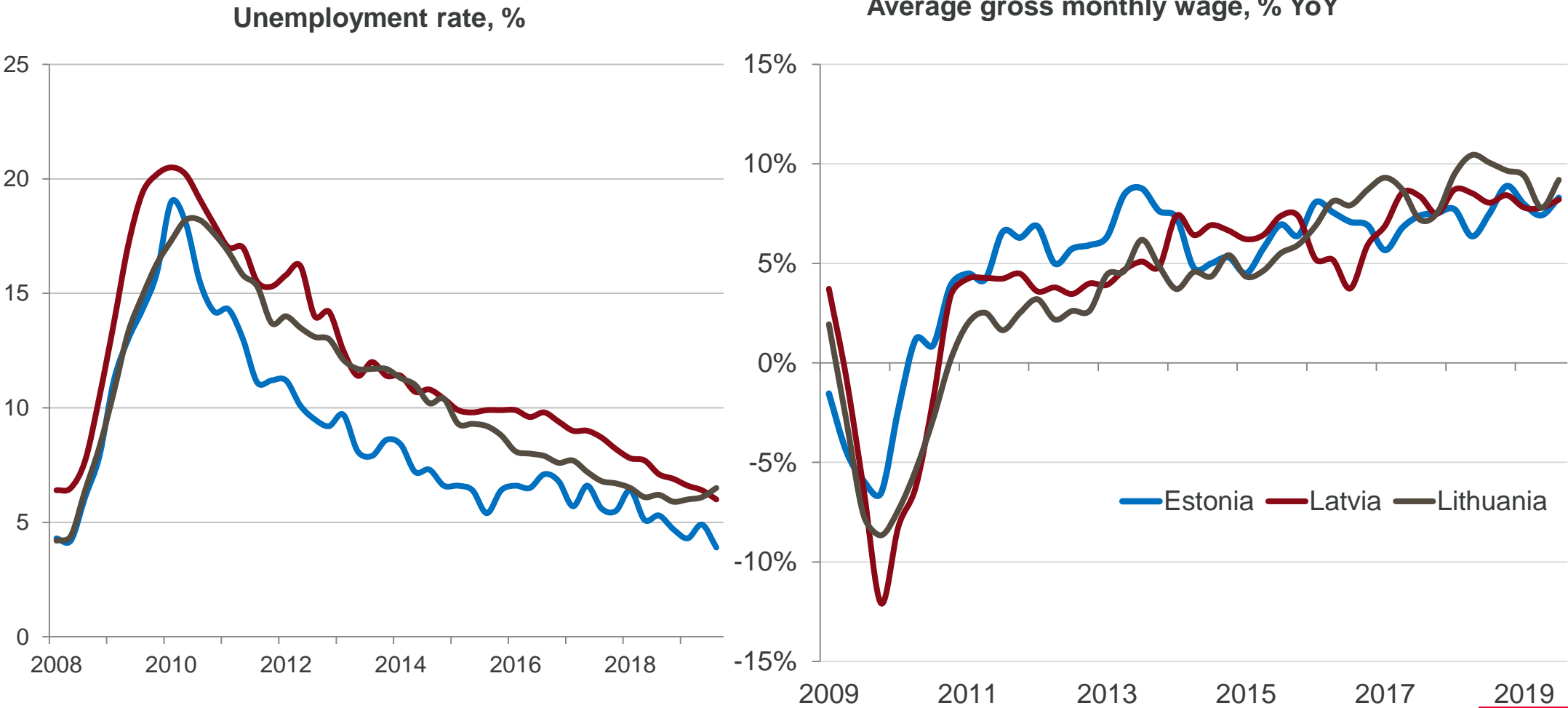
Inflation

Consumer price inflation remains moderate



Labour market

Unemployment in the Baltics is close to pre-crisis lows



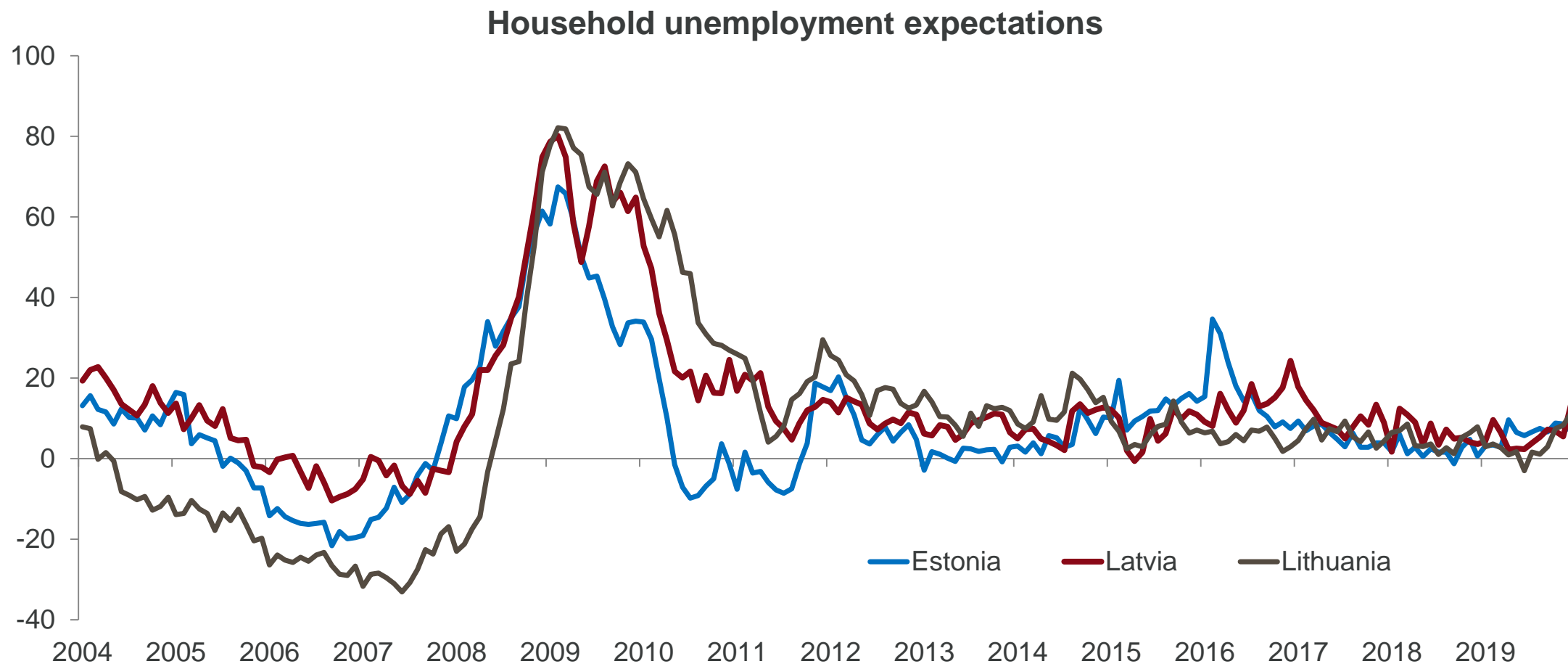
Source: Eurostat

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Darba tirgus

Household unemployment expectations have risen slightly but remain at a low level



Conclusions

Lead indicators signal further slowdown in growth

- ❑ **Global economy remains in a moderate cyclical slowdown in growth, but concerns about the recession have not materialized.** Short-term indicators point to a stabilization of the situation.
- ❑ **Business sentiment in the Baltics has deteriorated, the export sector is adversely affected by weaker external demand and economic growth is likely to slow down.** Short-term macroeconomic indicators remain better than in 2016.
- ❑ **There is currently no significant macroeconomic imbalance in the Baltic States and concerns about significant crisis are unfounded.** Foreign trade is balanced, lending is financed by local deposits and real estate prices relative to wages are significantly lower than in the pre-crisis period.
- ❑ **In 2019 Latvian economy was affected by several one-off factors.** For example, the decrease in transit freight, the negative impact of weather conditions on the energy sector, the sharp fall in wood prices, changes in Estonian excise duties and tighter fiscal policy.
- ❑ **Economic growth in the Baltics in 2020 will continue to be supported by IT and business services as well as domestic consumption sectors.** Meanwhile, manufacturing will be negatively affected by external factors, while slower activity in construction will be due to fluctuations in the EU funds financing cycle.
- ❑ **In the medium term, the demographic situation and rapid wage growth remain the greatest risks to the economic development of the Baltic region.**



Thank you for attention!

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