

Baltic economic overview

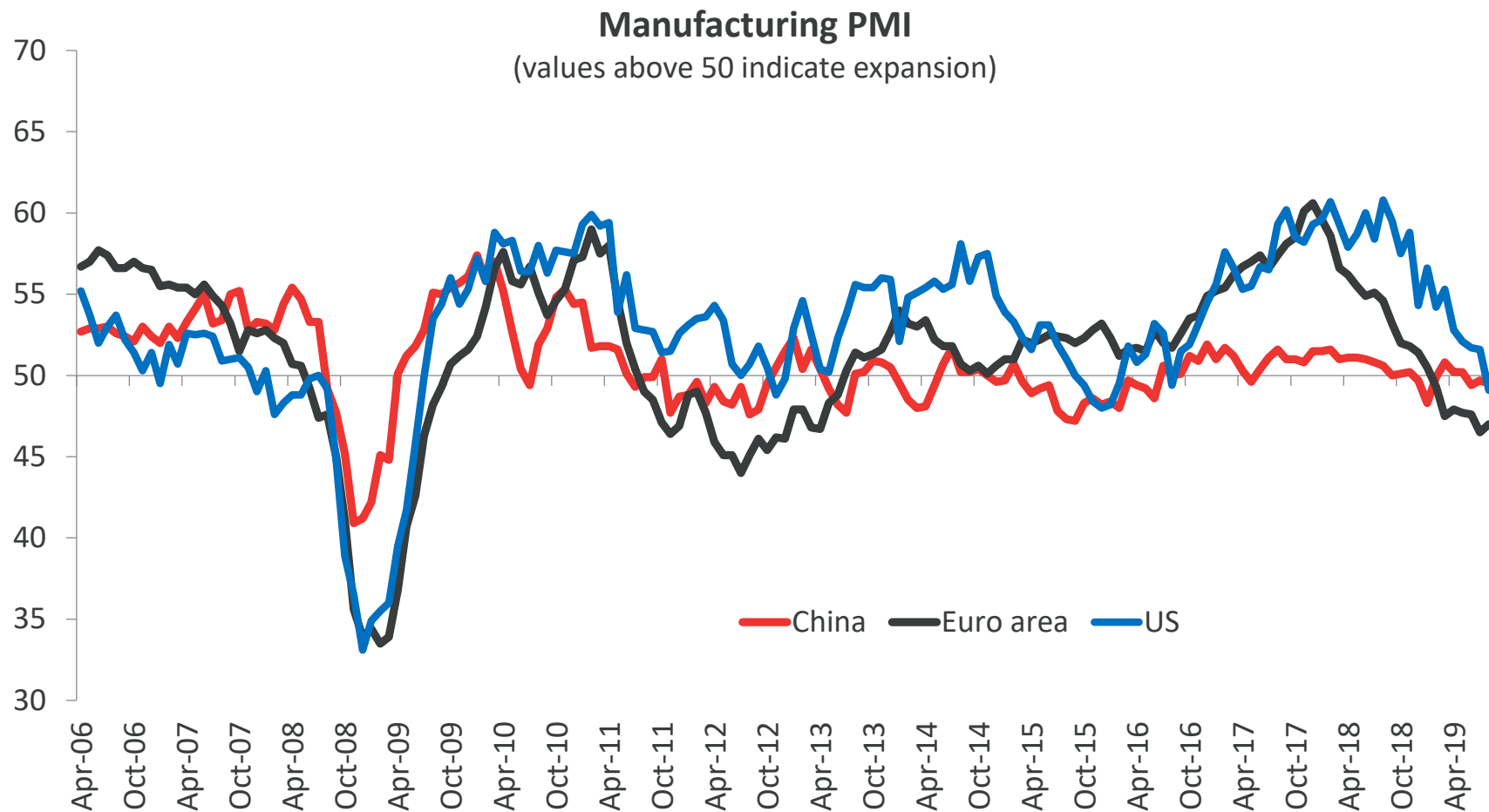
Martins Abolins
Economist
September 2019

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Global economy

Manufacturing globally continues to decelerate and is close to recession



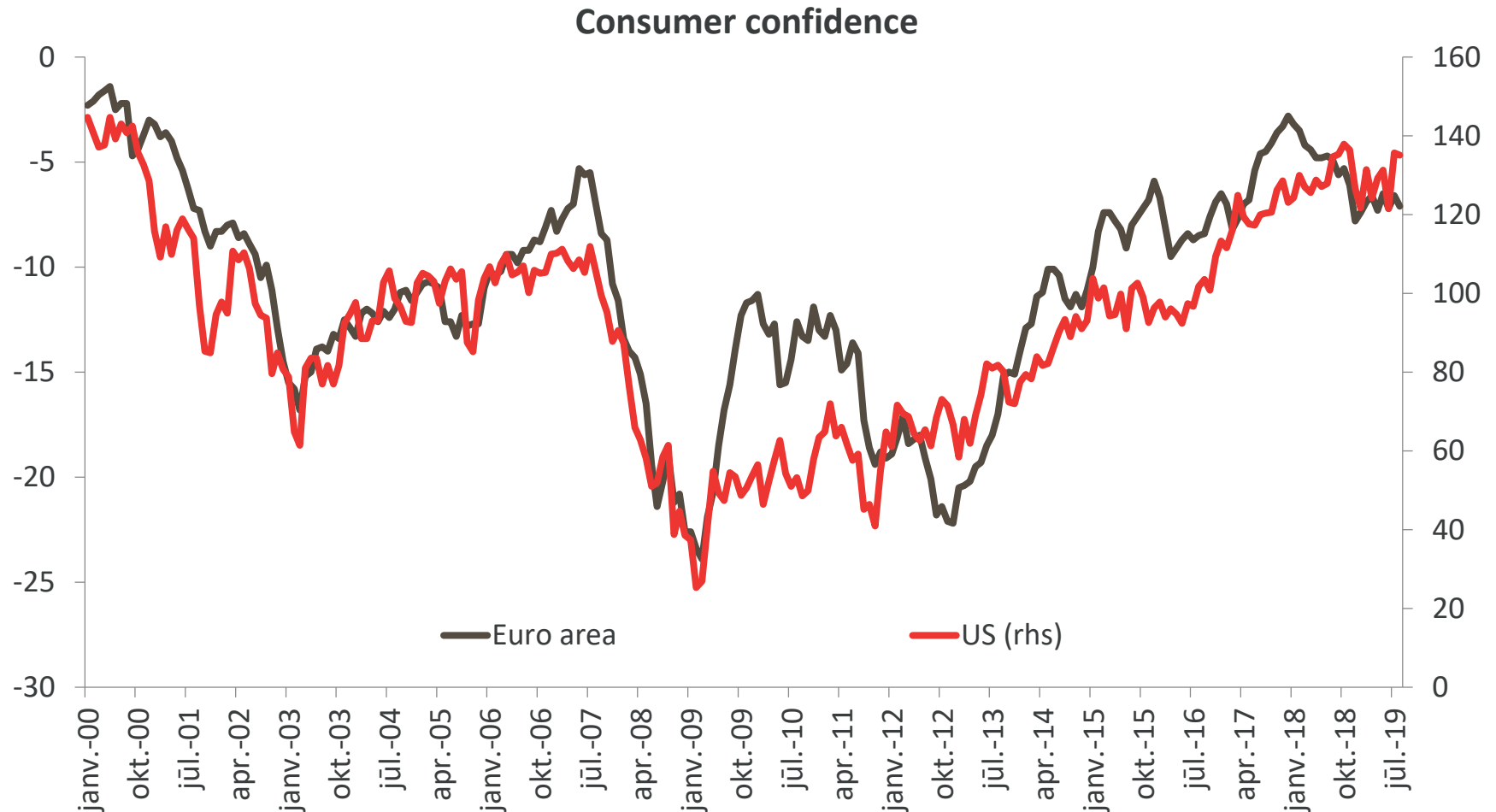
Global economy

Political uncertainty and trade wars are slowing down international trade



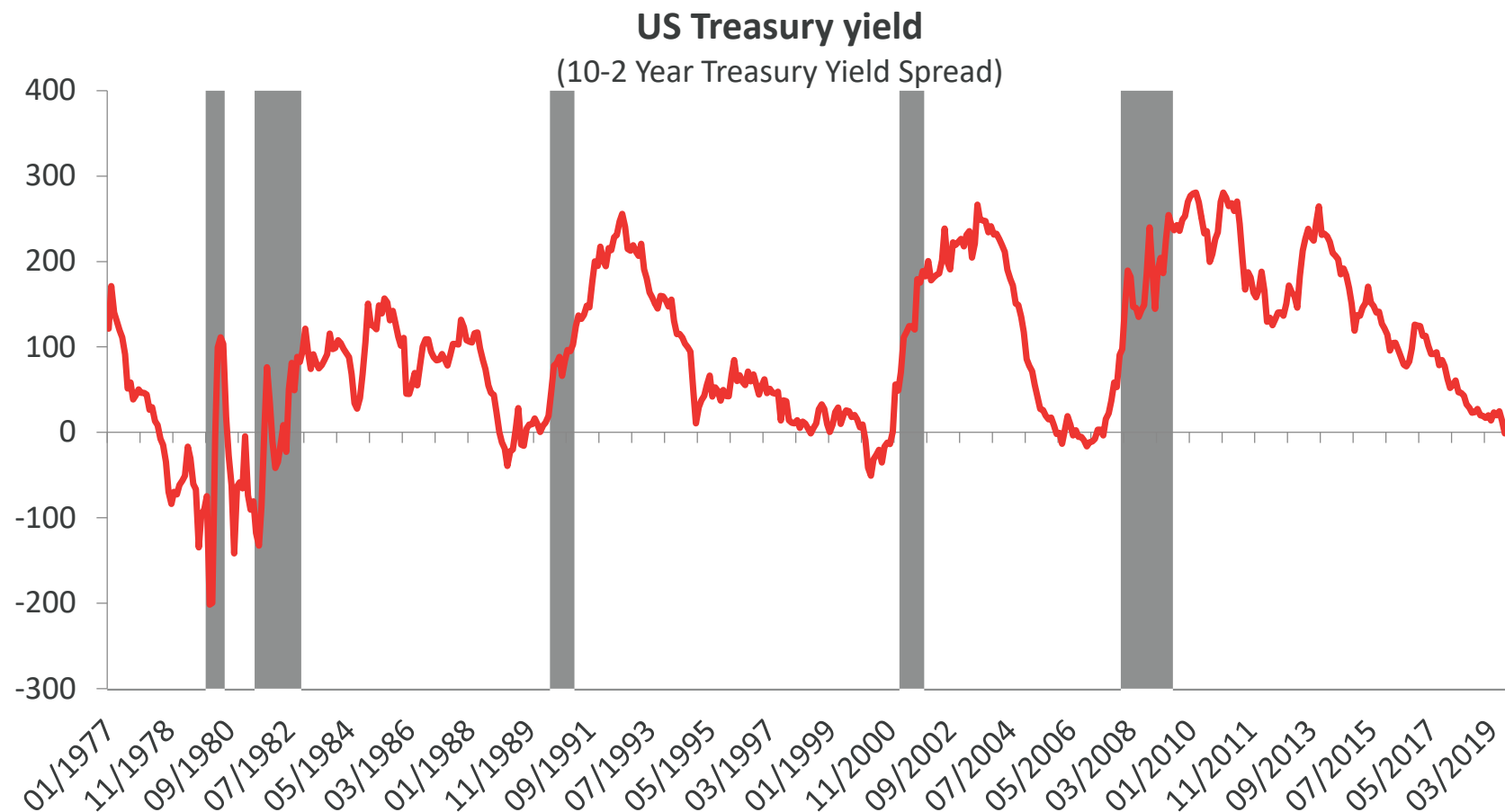
Global economy

Consumption and labour markets remain strong despite slowdown in manufacturing



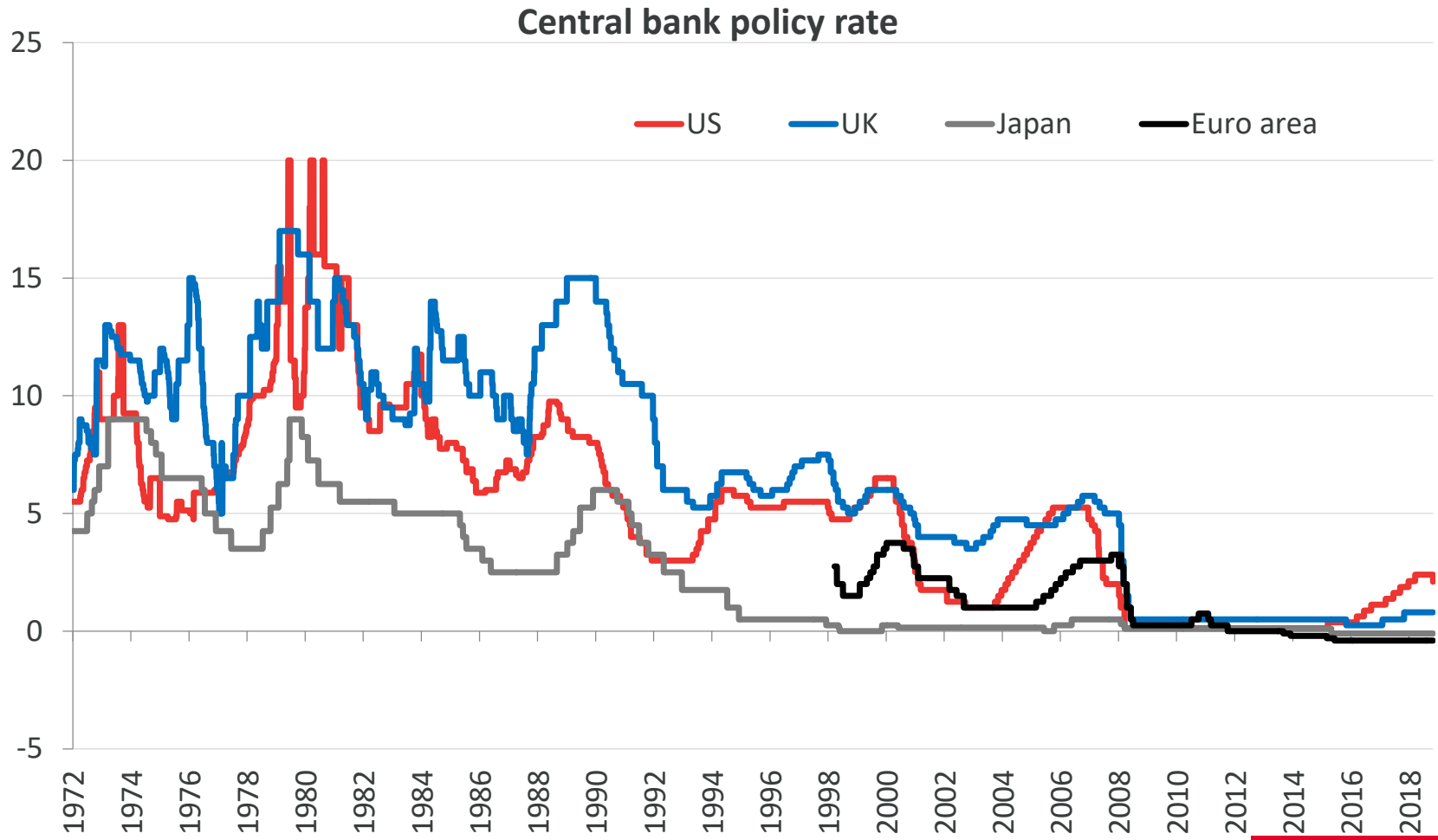
Global economy

Bond markets in the US point to an increasing recession probability



Global economy

Interest rates in the leading economies are likely to remain at very low level for longer



Source: Bloomberg

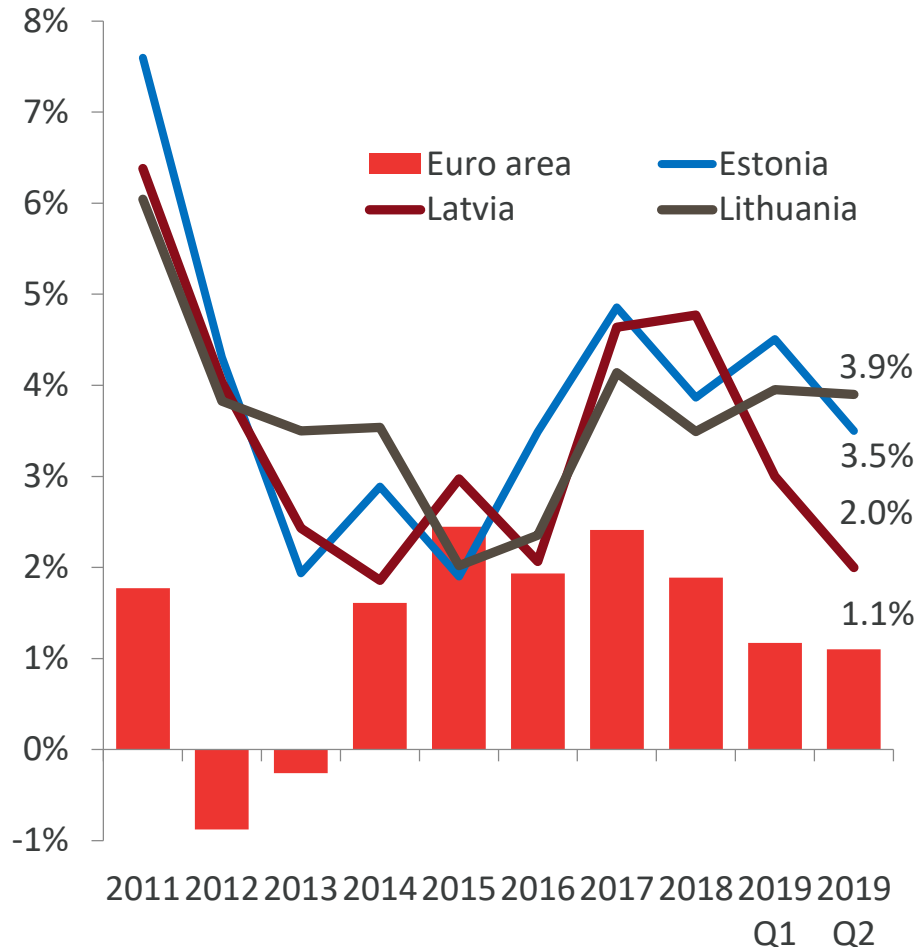
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Baltic region

Growth in Latvia has slowed sharply, but remains strong in Lithuania and Estonia

Real GDP, % annual change



GDP, % YoY in Q2 2019

Estonia

- IT and communication services +29.3%
- Trade and transport +6.0%
- Manufacturing +4.4%
- Financial services and real estate +0.5%
- Construction -1.3%

Latvia

- Professional services +9.7%
- Financial services and real estate +1.9%
- Trade and transport +1.4%
- Construction +1.0%
- Manufacturing 0.4%

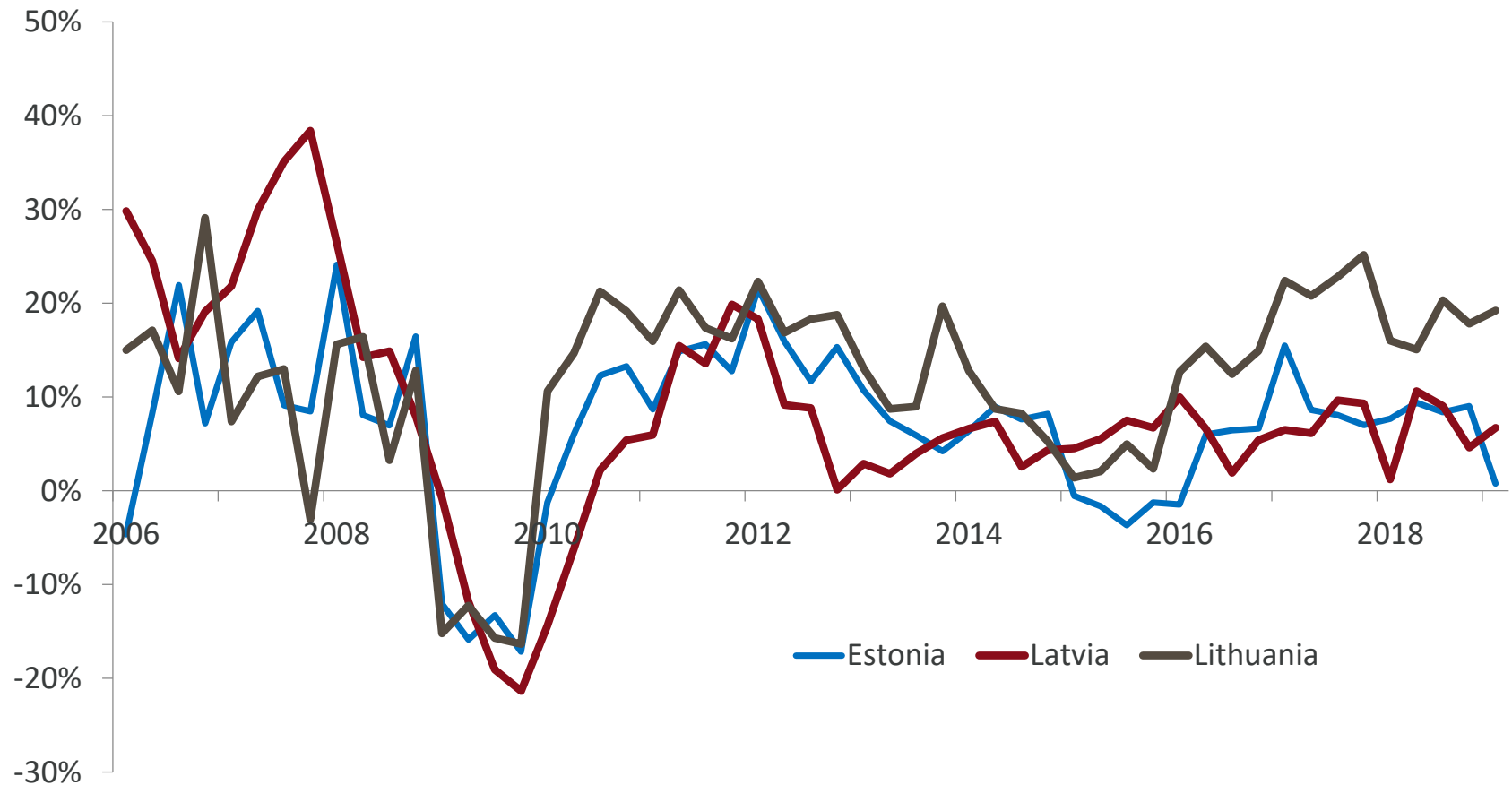
Lithuania

- Construction +9.0%
- Trade and transport +6.0%
- Manufacturing +4.1%
- IT and communication services +3.2%
- Financial services and real estate +0.1%

Services

With some exceptions, service sectors in the Baltics continue to grow strongly

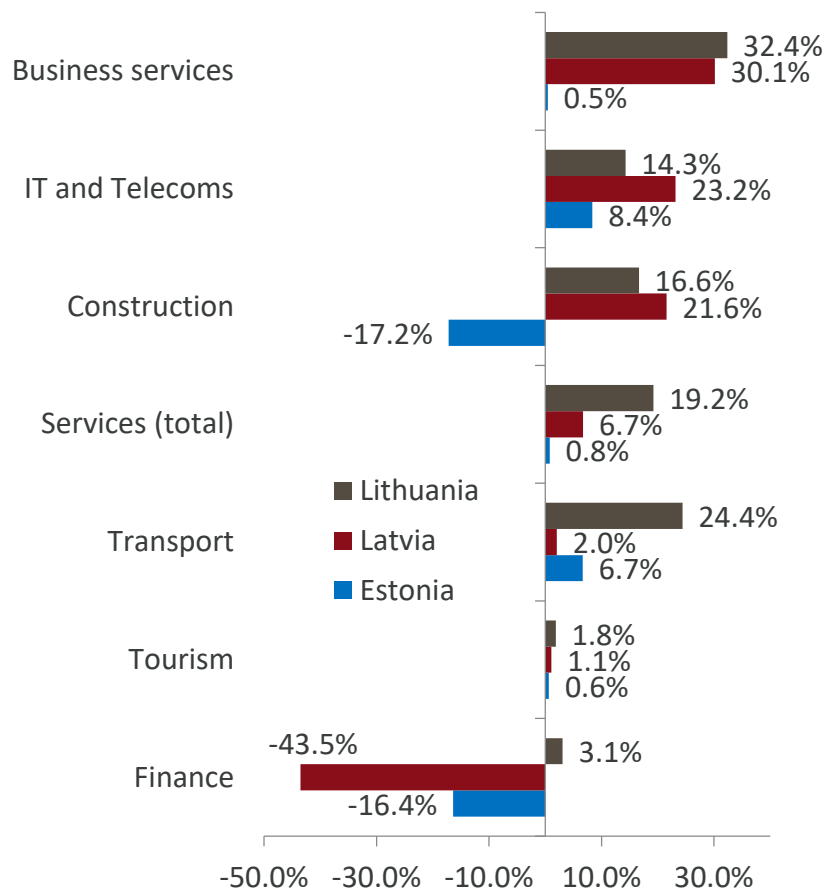
Export of services, % YoY



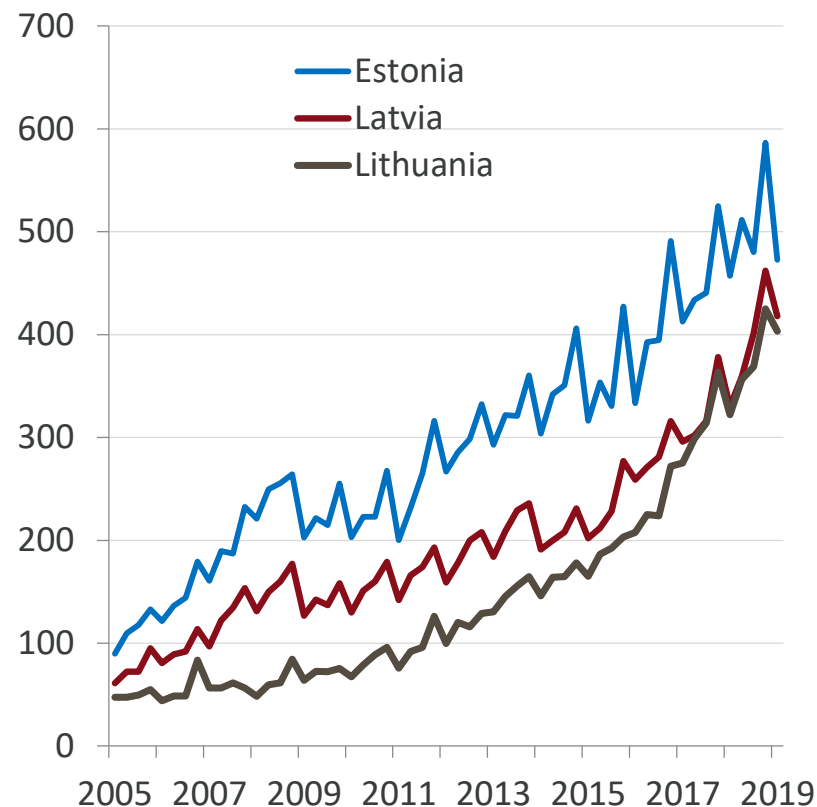
Services

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

Export of services in Q1 2019, % YoY



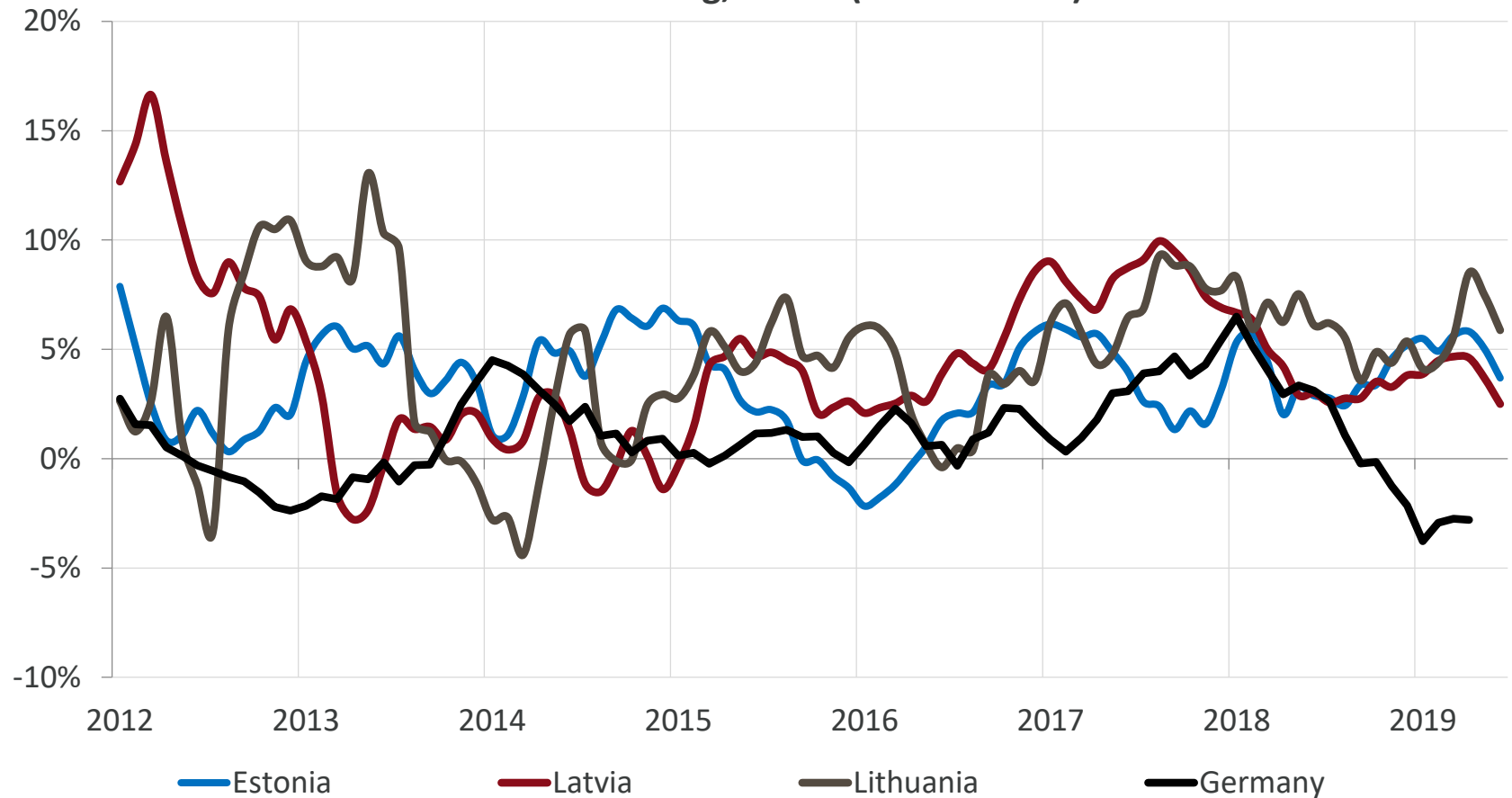
Export of ICT and business services, MEUR/Q



Manufacturing

Baltic manufacturing so far relatively unaffected by global headwinds

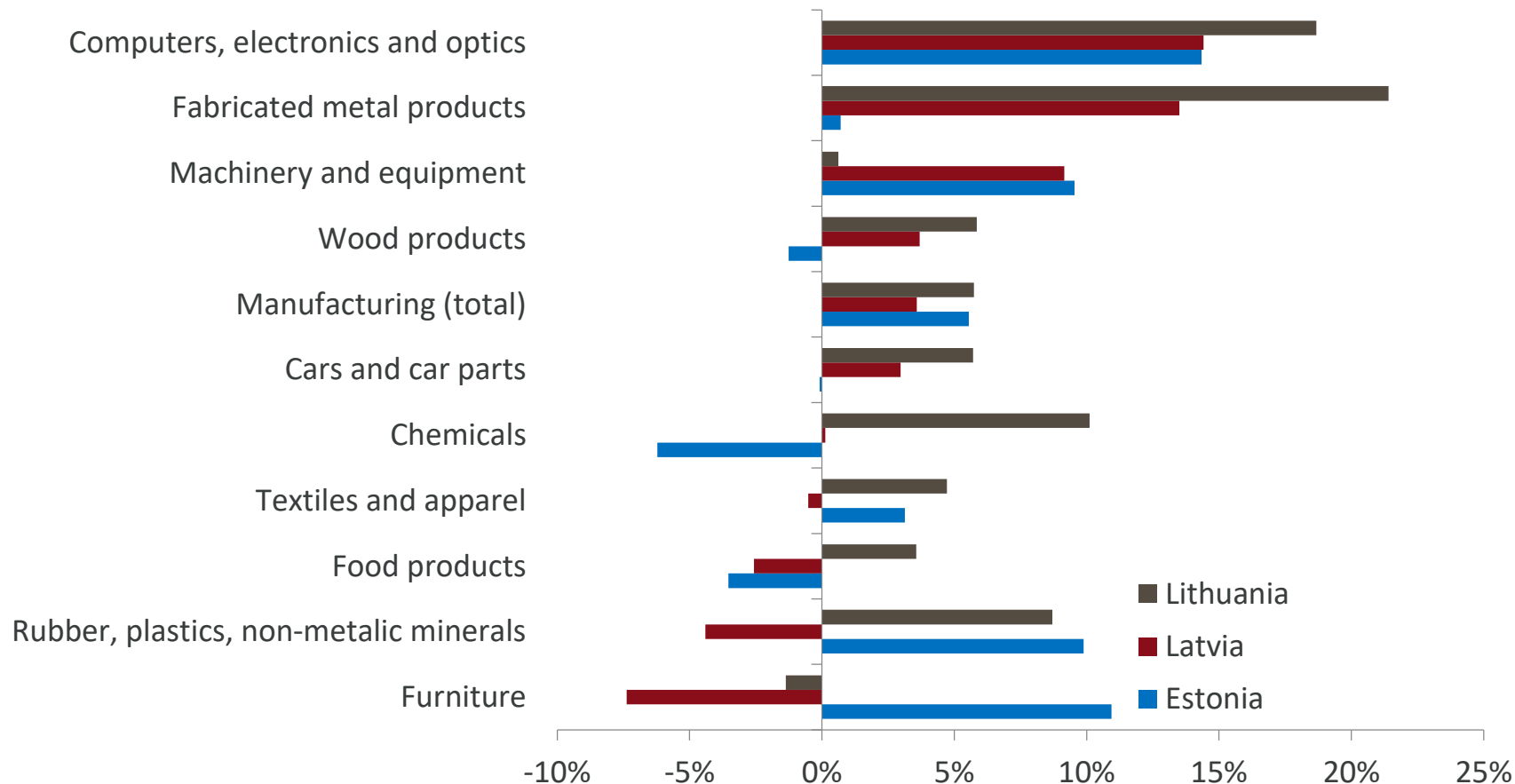
Manufacturing, % YoY (3 month MA)



Manufacturing

Electronics, machinery and metal products remain the best performing sectors

Manufacturing by sectors I-VI 2019, % YoY



Manufacturing

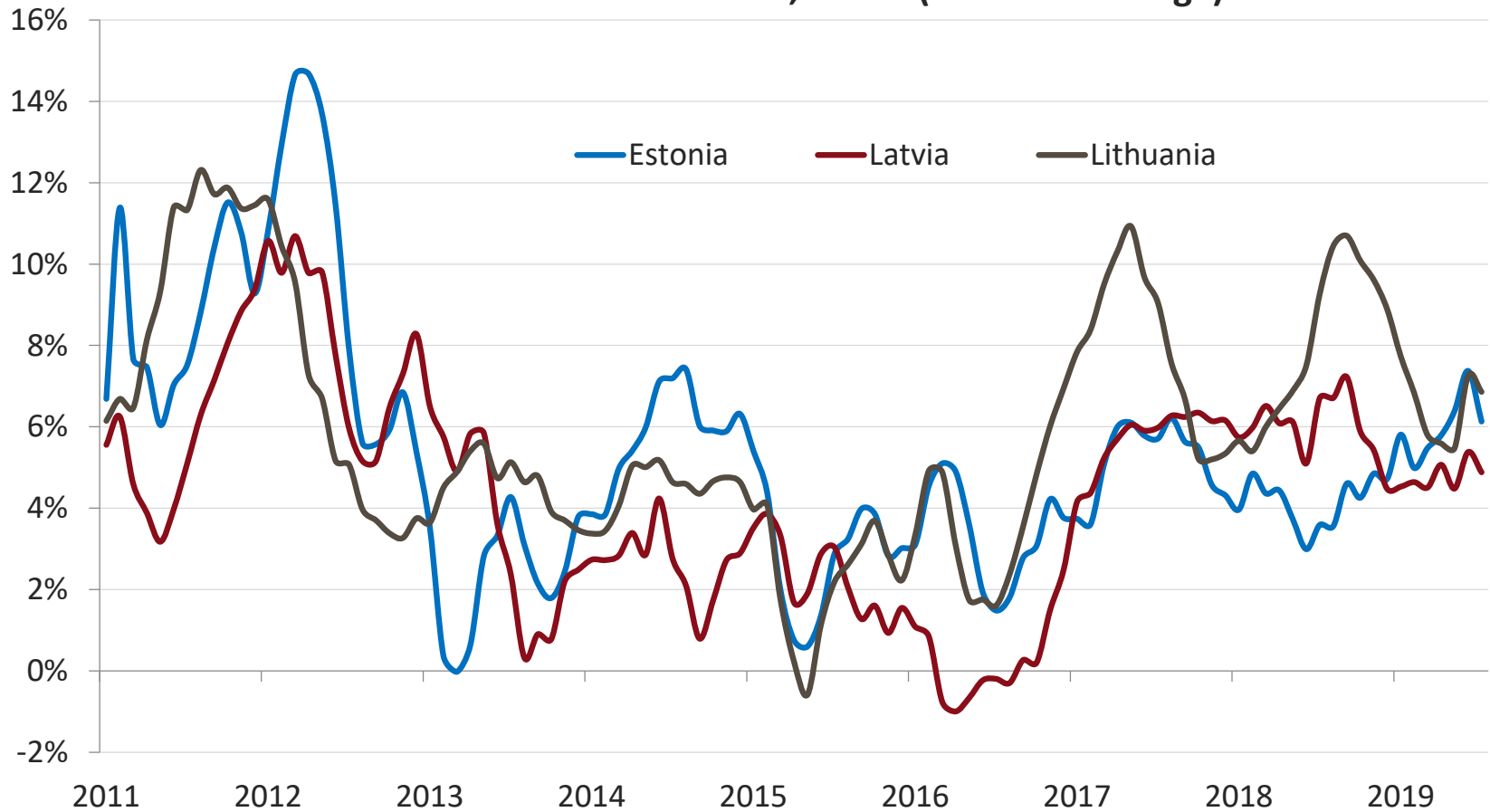
New orders in manufacturing are declining pointing to weaker growth ahead



Trade

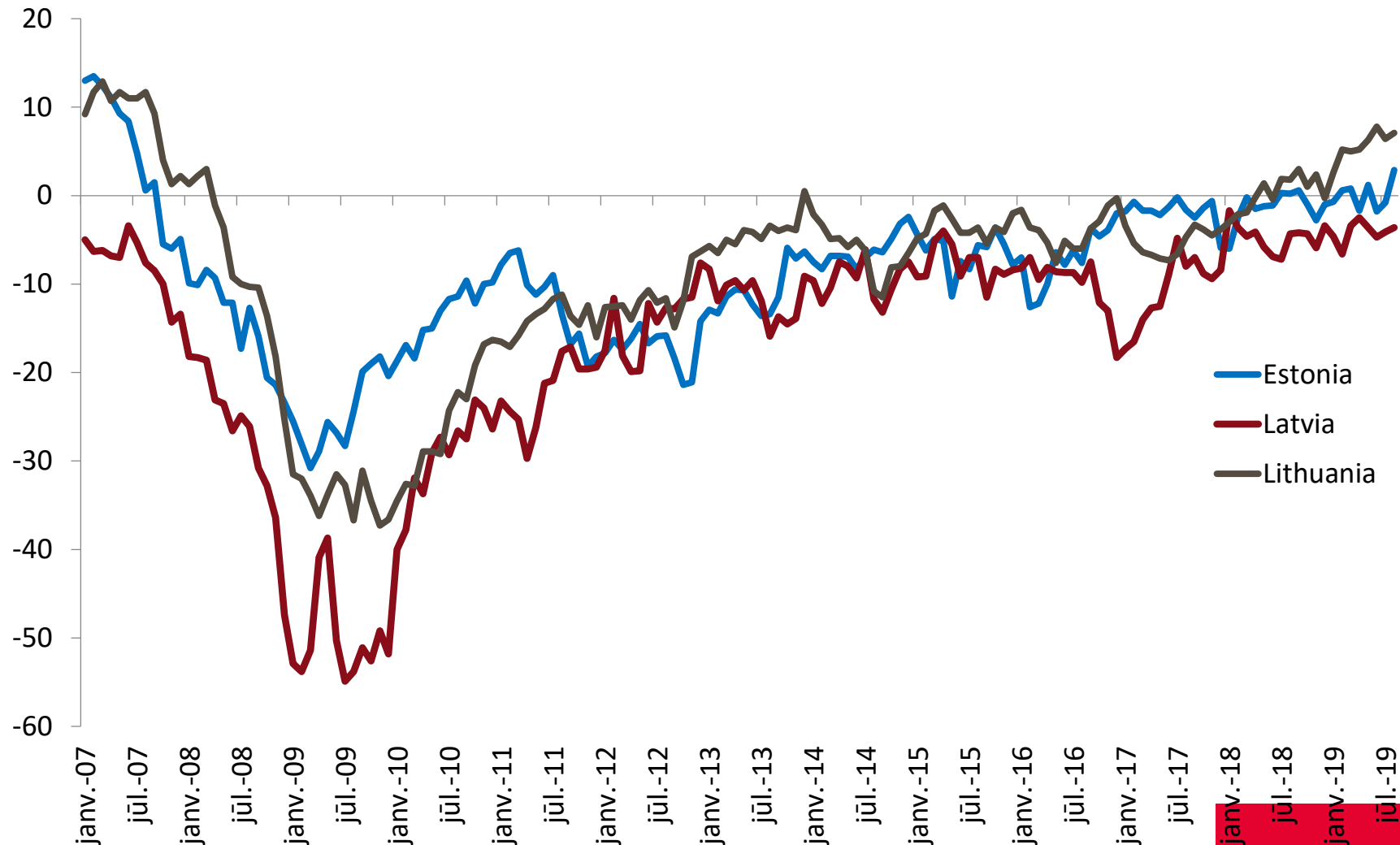
Domestic demand in the Baltics continues to grow broadly in line with wages

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



Consumer confidence

Strong and stable consumer confidence will continue to support domestic demand

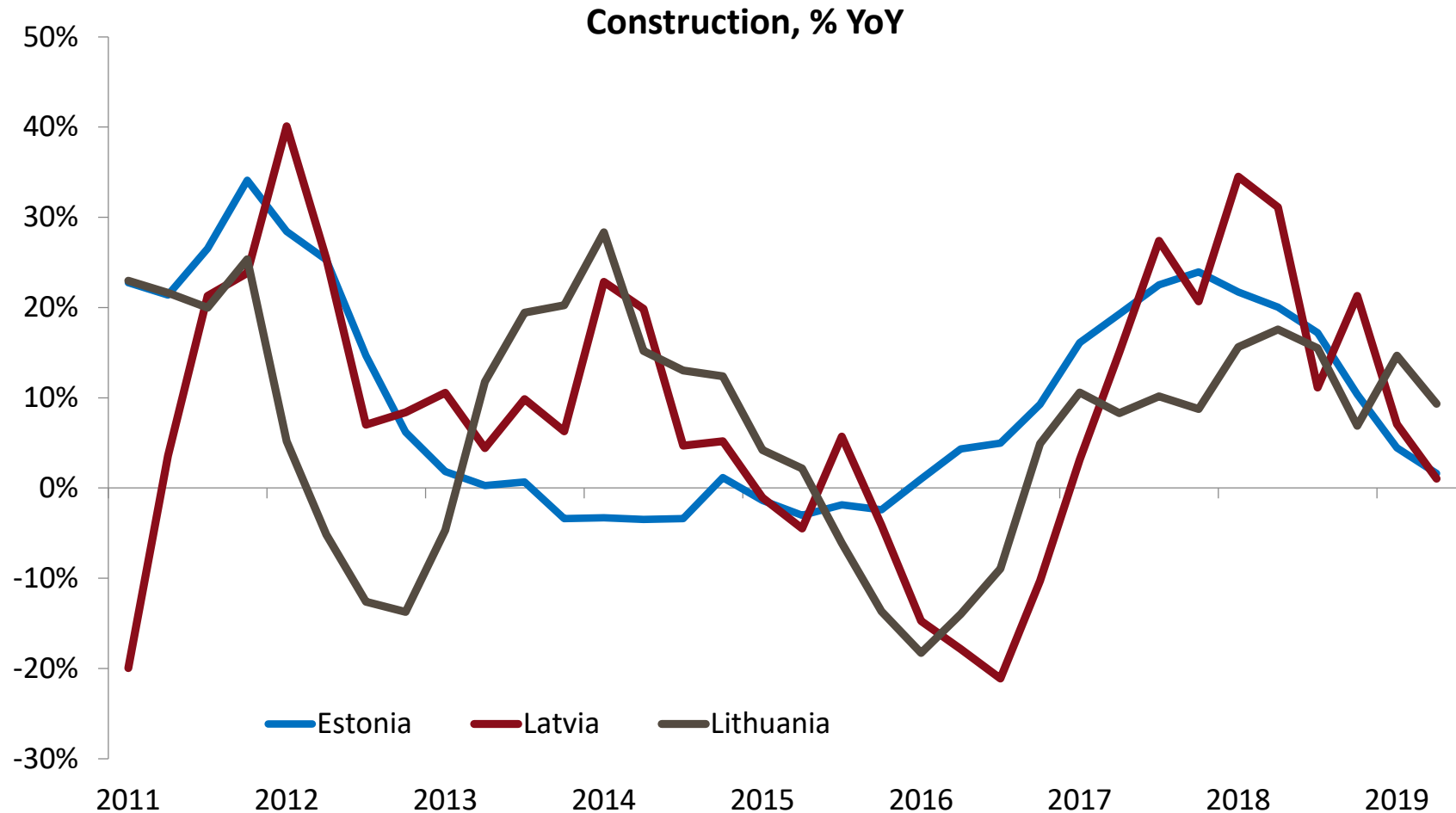


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Construction

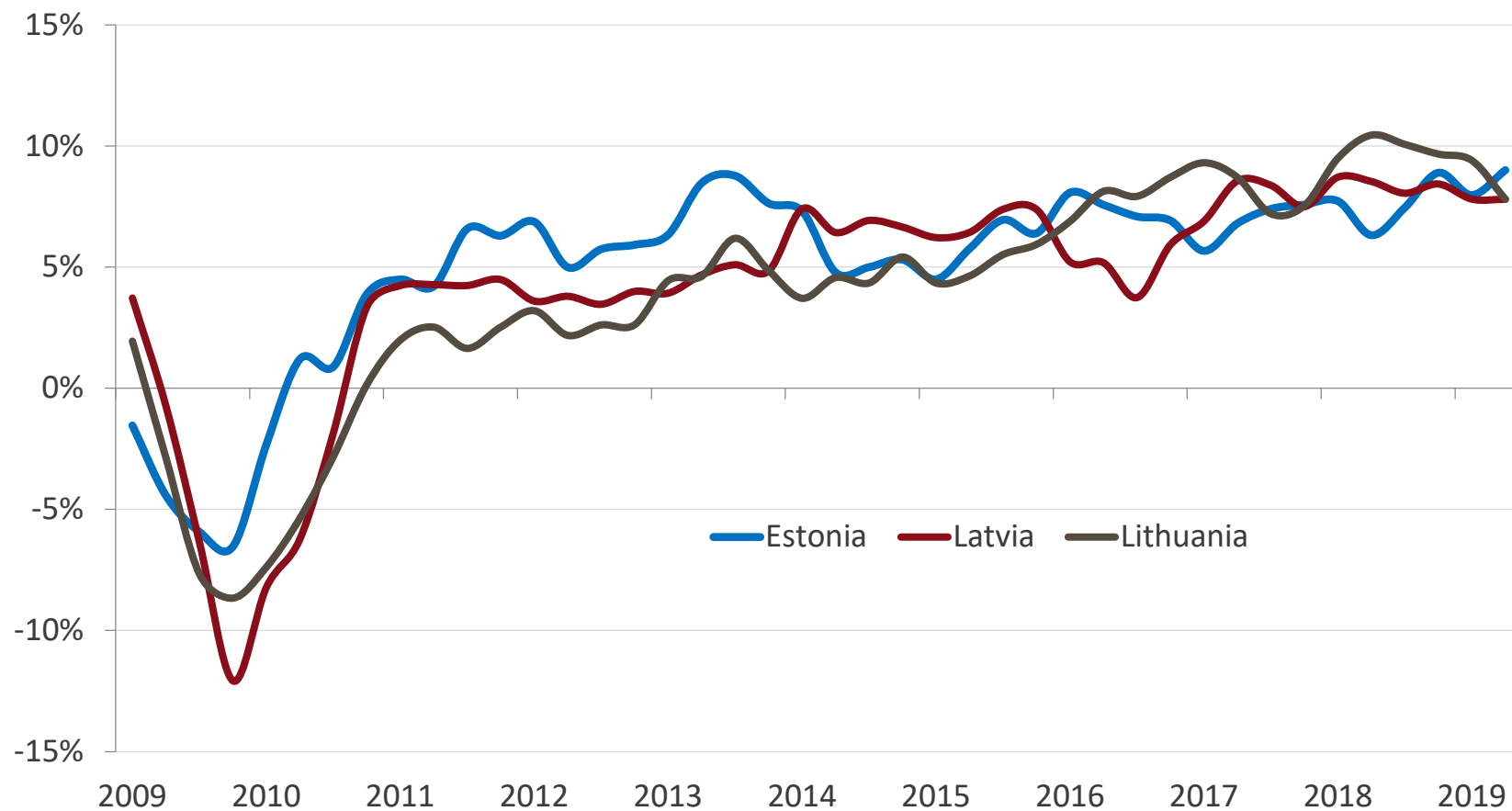
Construction sector in the Baltics is near cyclical peak and growth is slowing down



Labour market

Declining unemployment continues to put pressure on wages

Average monthly wage, % YoY



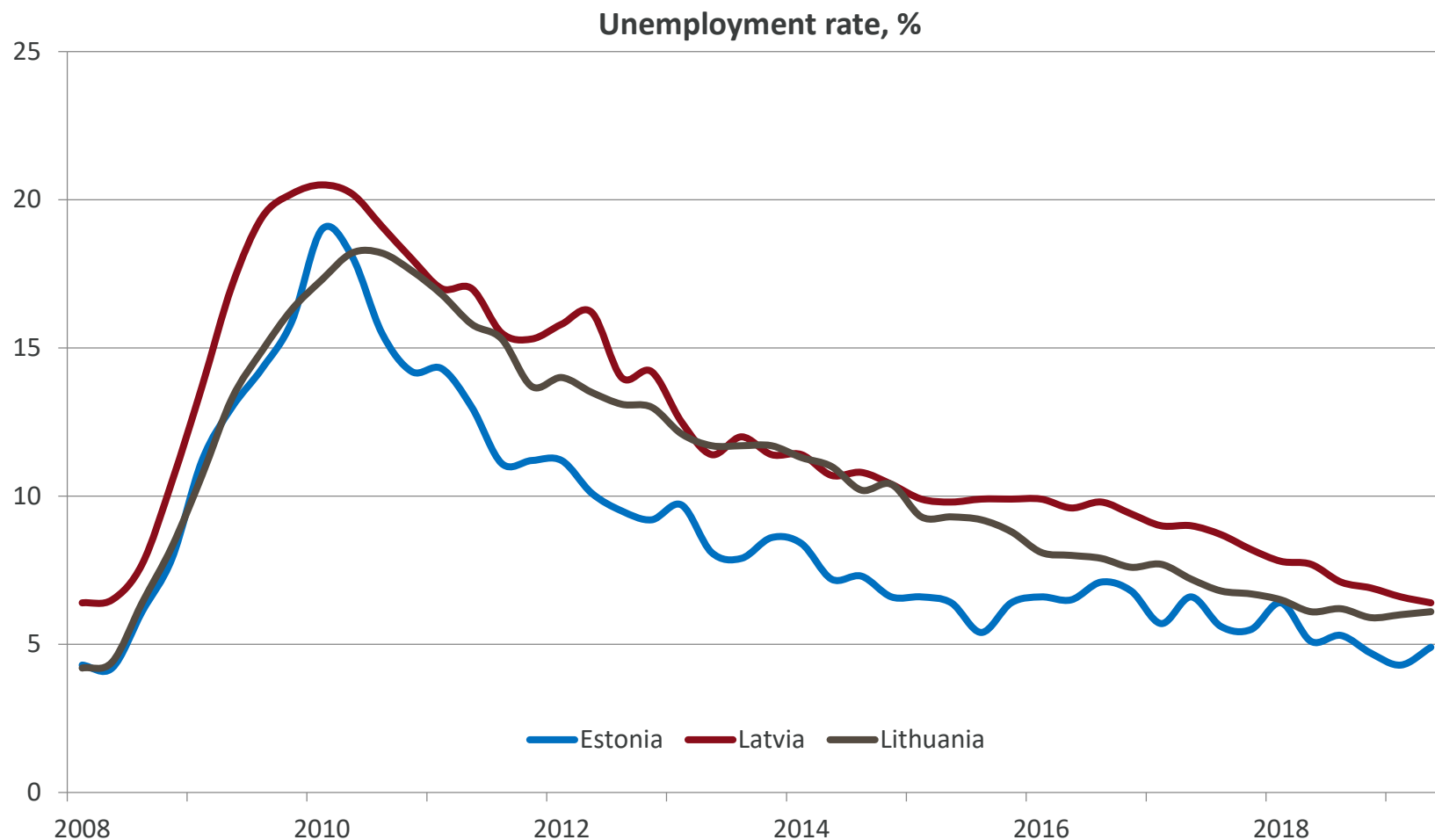
Source: National statistical offices, Eurostat

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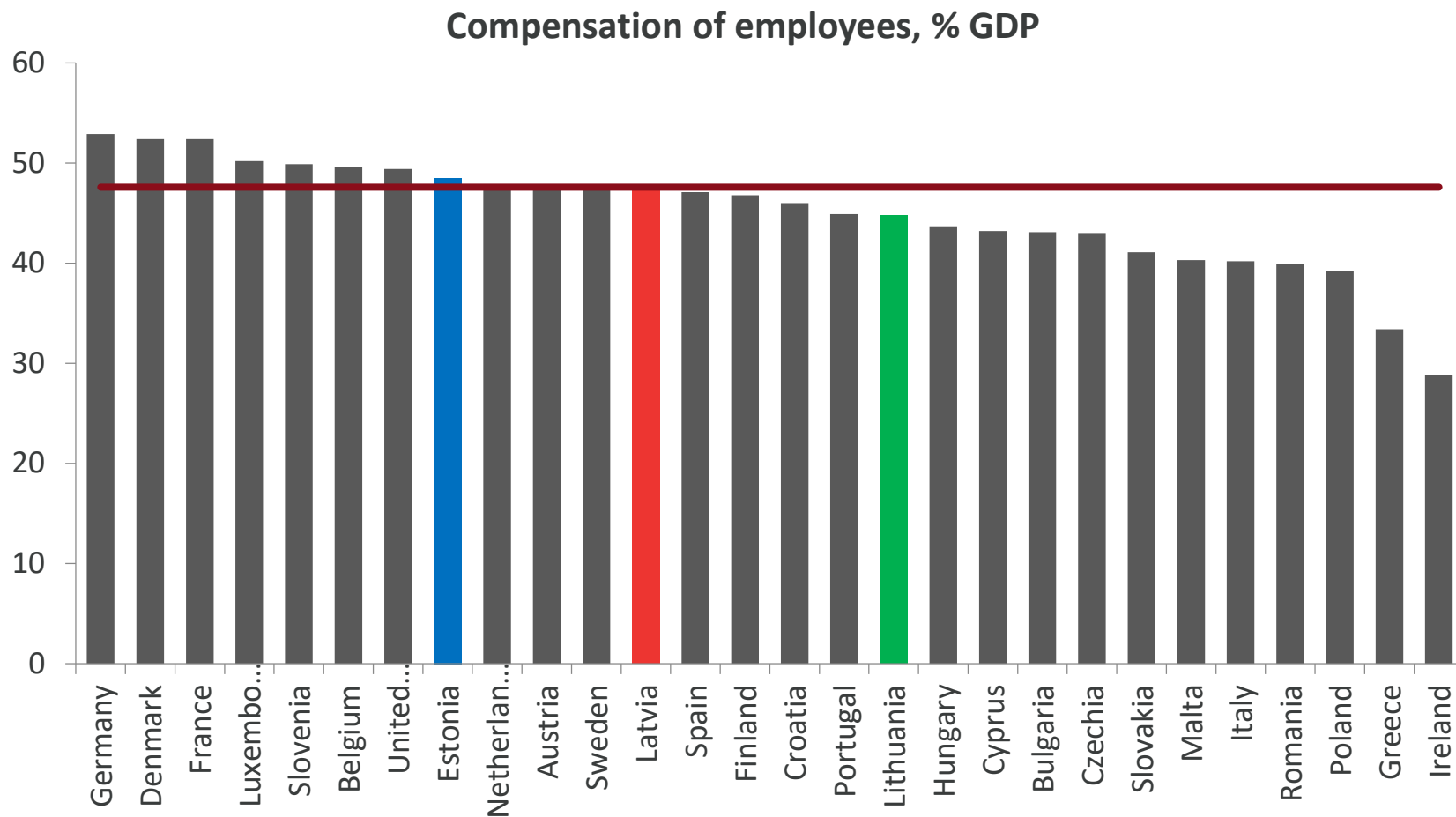
Labour market

Unemployment is already close to pre-crisis low



Labour market

Wage share in the economy in the Baltics is already at EU average level



Conclusions

- **Global economy is decelerating and growth in 2019 is expected to be weakest since 2009.** Current macro data looks more like soft patch rather than recession.
- **In short term risks to growth in the Baltic region remain tilted to the downside.** Trade uncertainty, Brexit, geopolitical conflicts, financial vulnerabilities such as debts in China and US corporate sector, weak euro area banks could all trigger more significant downturn.
- **Domestic consumption will remain key driver of economic growth in the Baltics.** Consumption and retail trade will continue to be supported by strong wage growth.
- **Service sectors IT and business services remain the fastest growing sector in the Baltics.** Global demand in high value added services so far has not been affected by slowdown in manufacturing or trade wars.
- **Slowdown in global trade and manufacturing will be a drag on manufacturing sector in the Baltics.** Declining new industrial orders and employment expectations point to a weak growth ahead.
- **Construction cycle slowing is slowing in the Baltics mainly due to public sector demand.** Private sector demand remains robust and mortgage lending in Latvia is beginning to turn the corner. Prolonged slowdown in manufacturing and external markets can affect private sector.
- **In the medium term domestic risks dominate.** Demographic challenges, shrinking labour force and excessive wage growth are expected to weigh on potential growth. Current wage growth is not sustainable if GDP growth continues to decelerate.

Thank you!

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