

Baltic economic overview

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Economist

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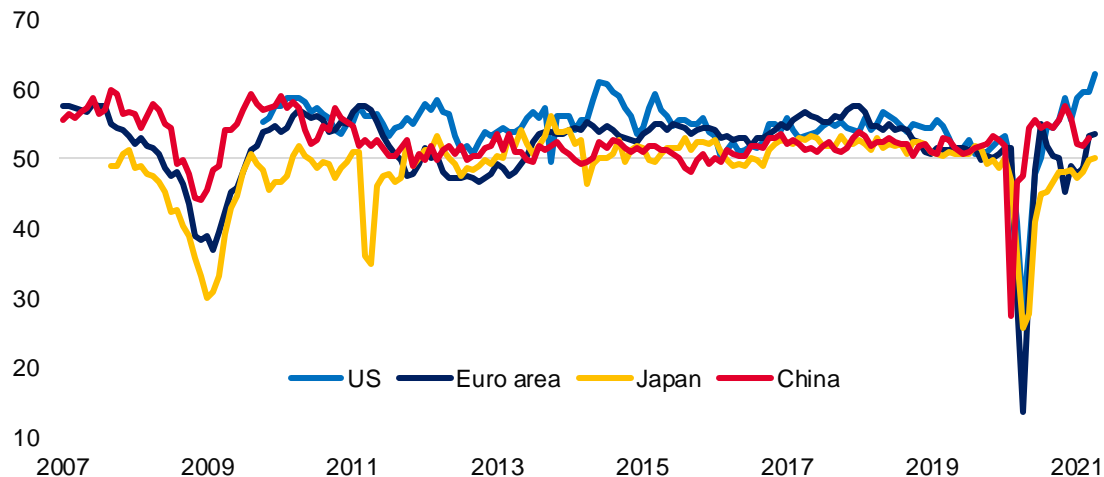
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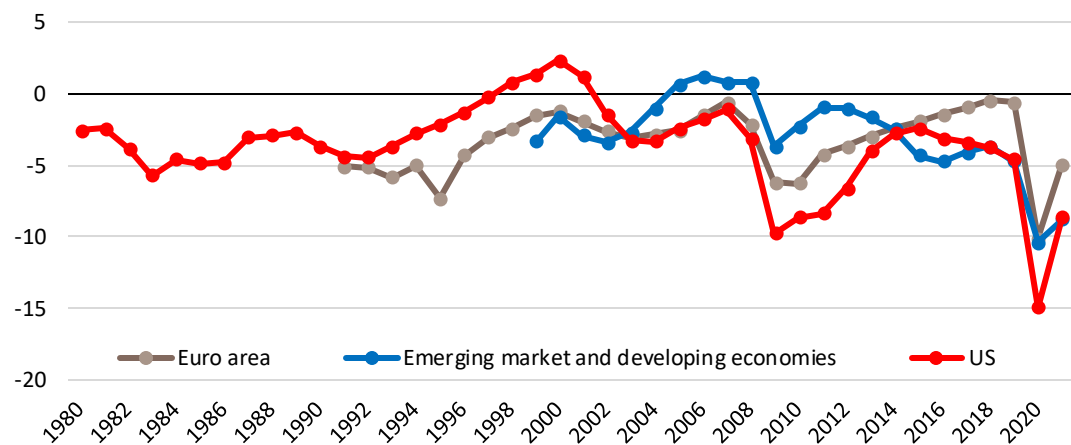
Global economy

In 2021 global economy is expected to grow at its fastest pace in decades

IHS Markit Composite PMI

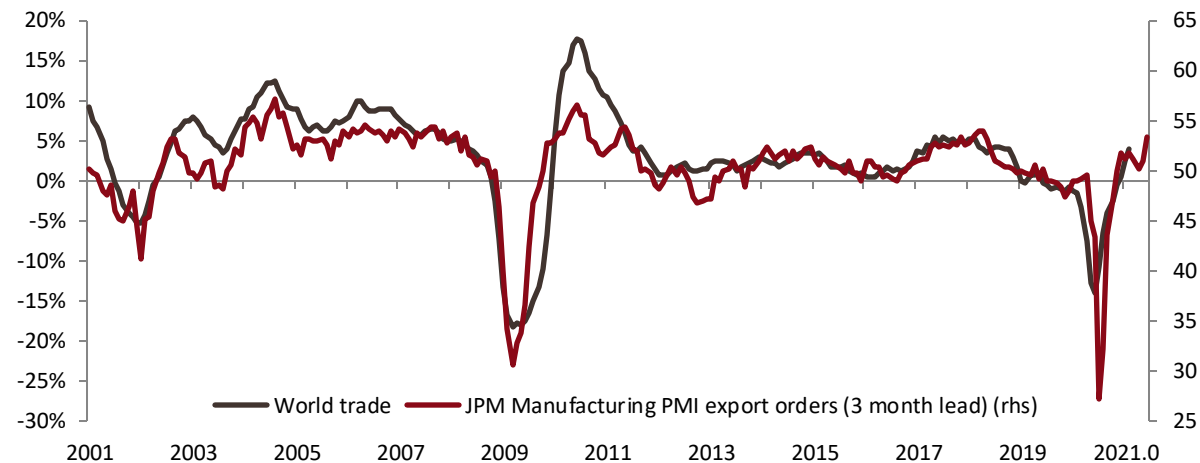


Budget balance, % of GDP



Source: IMF 2021 April WEO, Markit, CPB

World trade, % YoY



Comments

- **The second wave of COVID-19 has caused smaller drop in economic activity in the in the developed world than the first wave.** Global manufacturing sentiment has reached record highs in recent months.
- **A rapid recovery in the global economy has largely been possible due to the unprecedented support of fiscal and monetary policies.** The US budget deficit in 2021 could exceed 15% of GDP for the second year in a row, as well as the budget deficit in the euro area in 2021 will exceed 7%.
- **Optimism about the economic growth prospects is also reflected in financial markets.** Global economic growth forecasts are being revised upwards.

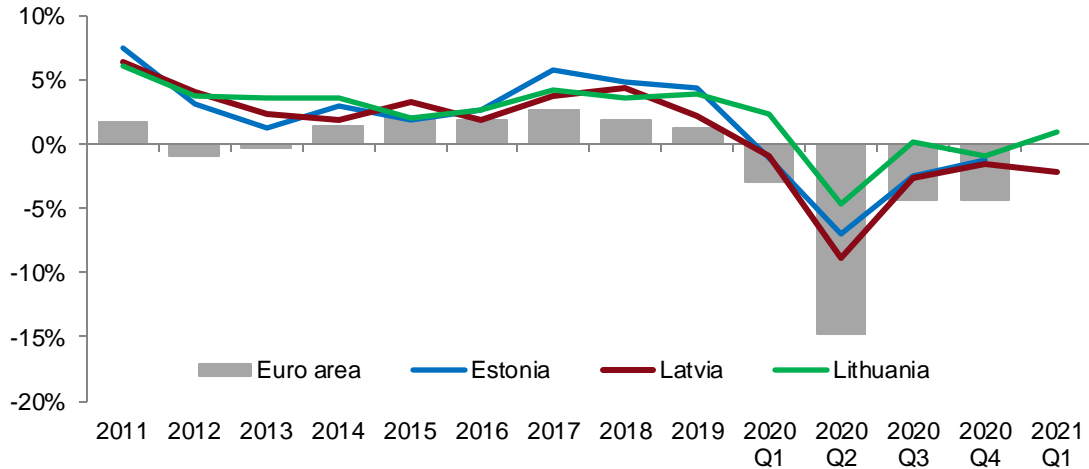
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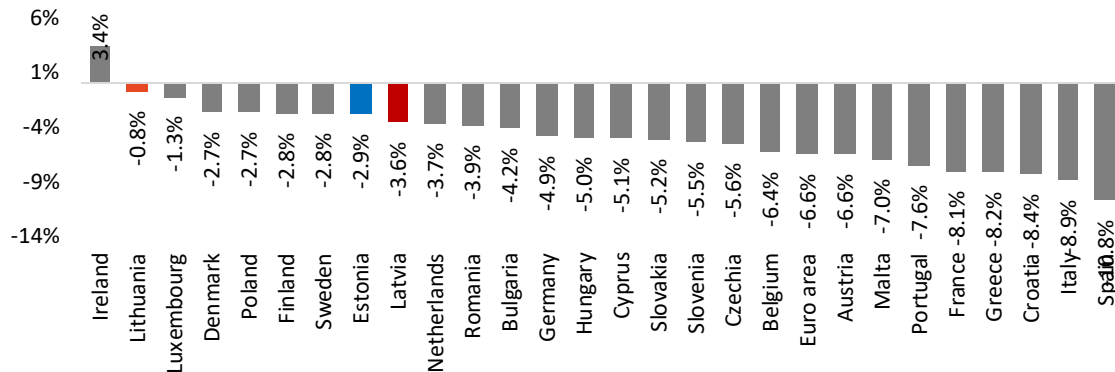
Baltic region

We expect a rapid economic recovery in the Baltic States

GDP in constant prices, % YoY

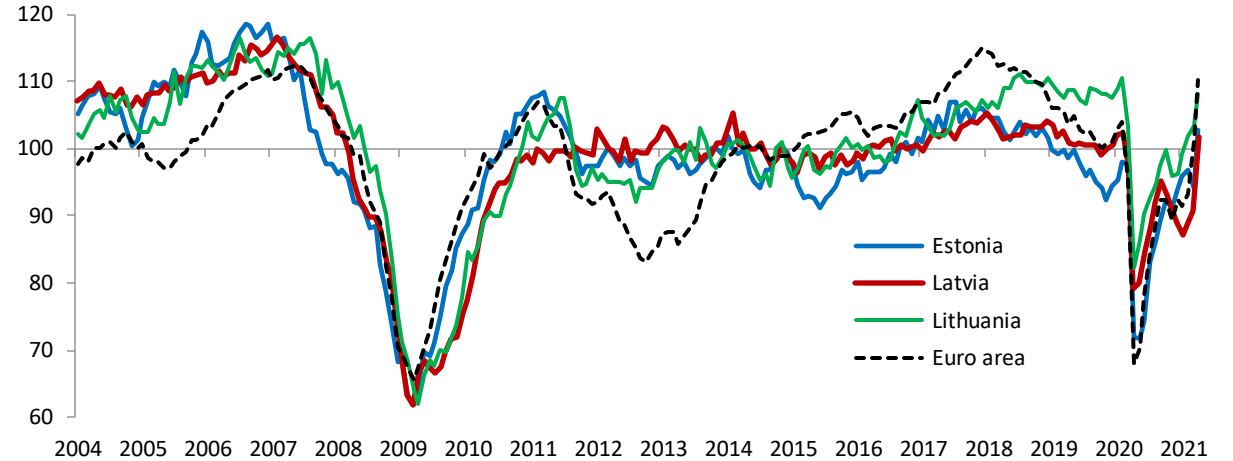


GDP in 2020, % change compared to 2019



Source: Eurostat, DG ECFIN

Economic sentiment indicator



Comments

- **The beginning of 2021 has been better than expected in the Baltic economies.** The economic downturn in the second wave will be significantly smaller than in the first wave of COVID-19 in spring 2020.
- **Businesses and the economy continues to adapt to the constraints of COVID-19 and find ways to, for example, develop distance selling.** In addition, economic activity in industry and construction has not decreased.
- **In the second half of this year and next year, economic activity in the Baltics will increase significantly.**

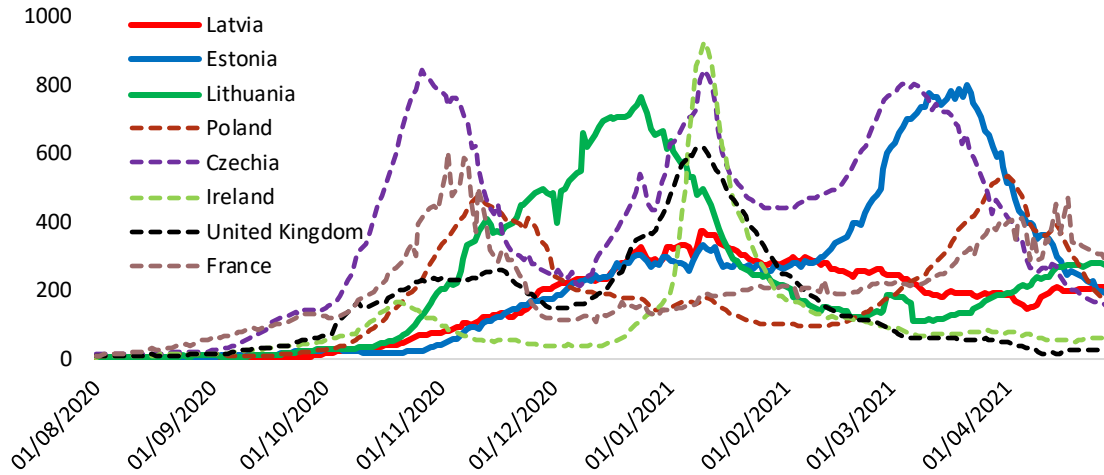
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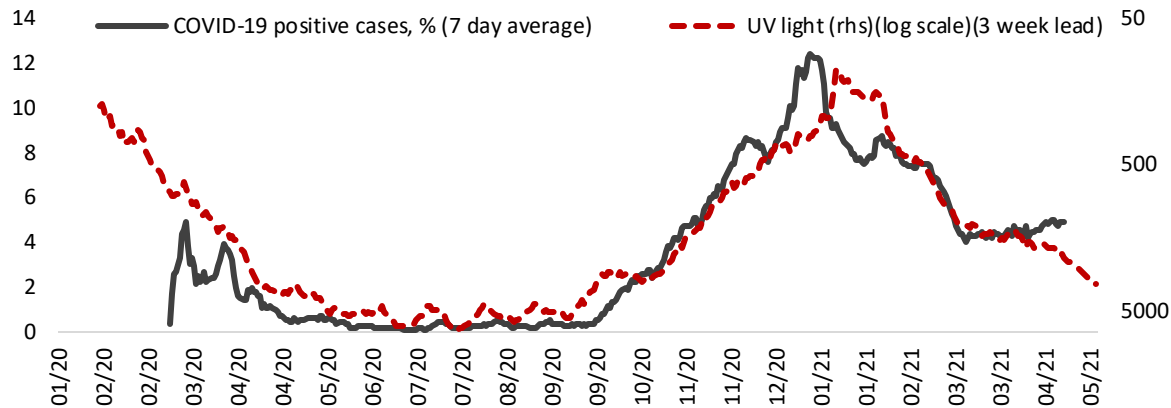
COVID-19

In the Baltic States, 2021 has begun with the second wave of COVID-19 and repeated restrictions

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

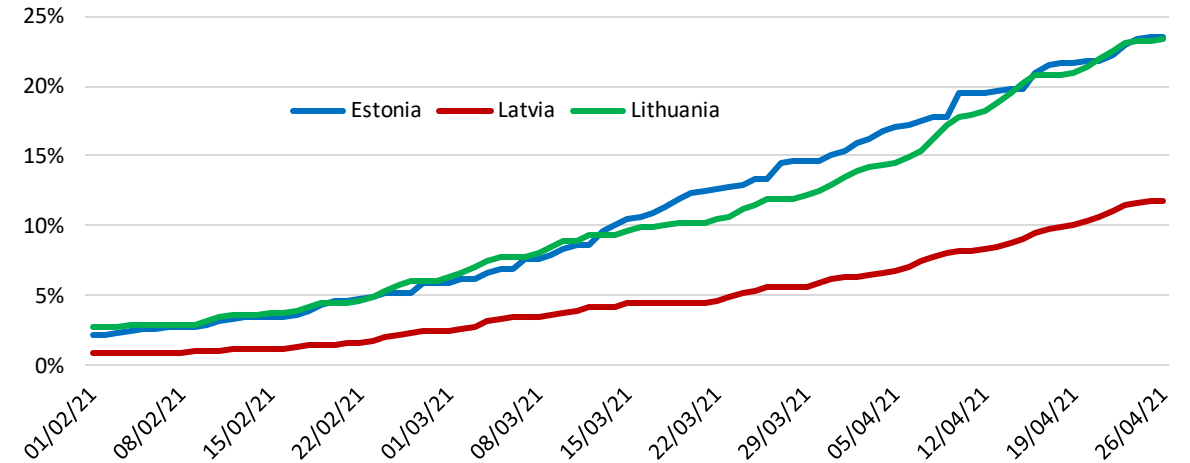


COVID-19 in Latvia and weather



Source: ourworldindata.org, meteo.lv

Vaccinations against COVID-19, % of population



Comments

- Experience in Israel, the United Kingdom and the United States has shown that **COVID-19 vaccines are effective**. That is the way to overcome this crisis.
- In the European Union, the rate of vaccination lags behind these countries by a few months. But the availability of vaccines is improving, which means that the COVID-19 pandemic is coming to an end, at least in developed countries.
- Like other coronaviruses, **COVID-19 could be a seasonal virus**. Unpleasant surprises are possible in the fall, especially if vaccinations are not enough to achieve herd immunity

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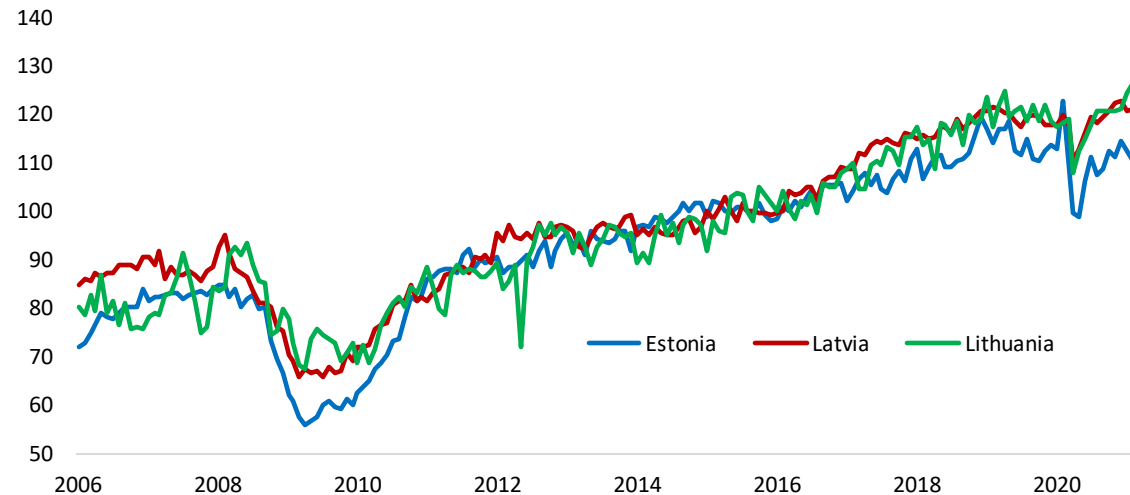
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Manufacturing

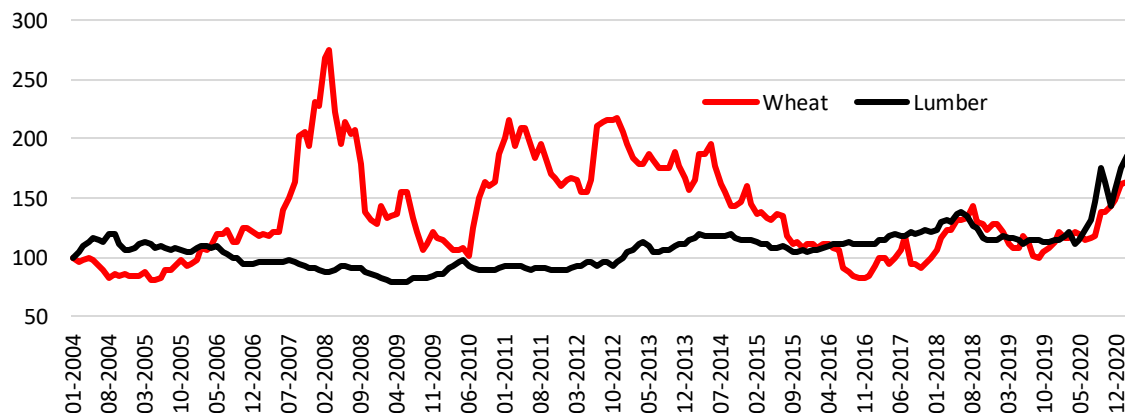
Manufacturing is currently one of the strongest sectors in the Baltic economy

Manufacturing output

(Constant prices, 2015=100)



Wheat and Lumber prices, 2004 Jan.=100



Source: Eurostat, DG ECFIN, FRED

New industrial orders



Comments

- **Manufacturing is currently one of the strongest sectors in the Baltic economy.** The global production cycle is currently in a strong upswing.
- **Export growth is currently driven not only by rising production but also by rising prices.** In recent months, the prices of many natural resources have risen sharply on world markets, including grain prices, which have risen by more than 40% since the middle of last year and reached their highest level since 2013.

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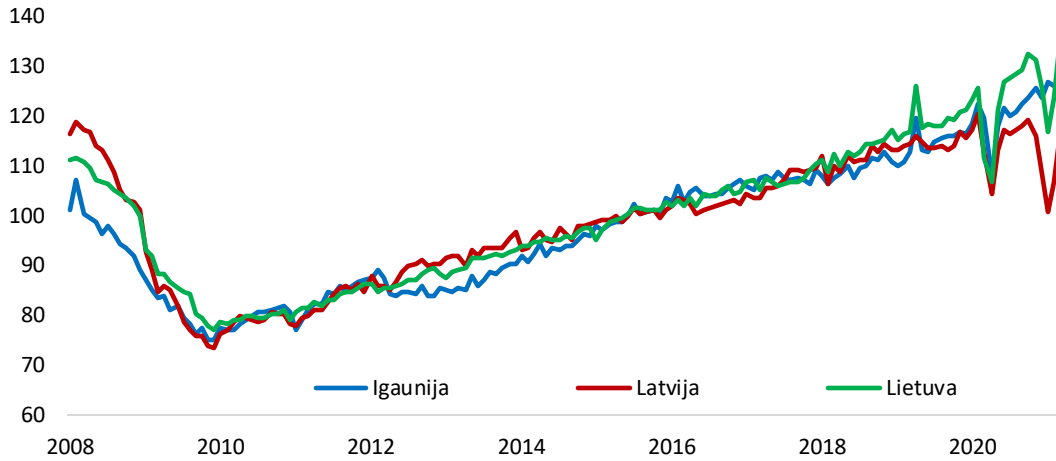
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Trade and consumption

Retail trade has been affected by COVID-19 restrictions

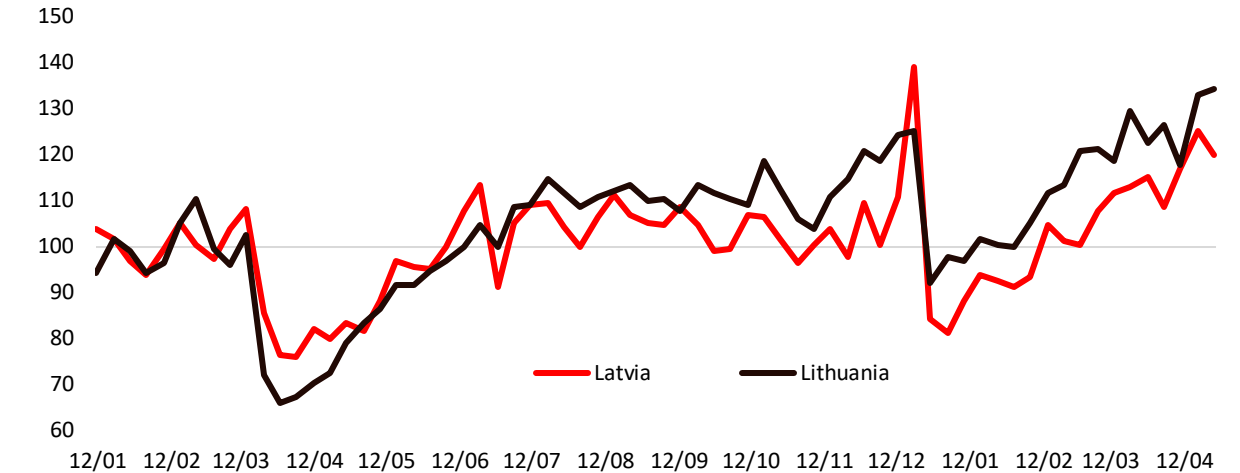
Retail trade excluding fuel

(constant prices, 2015=100)



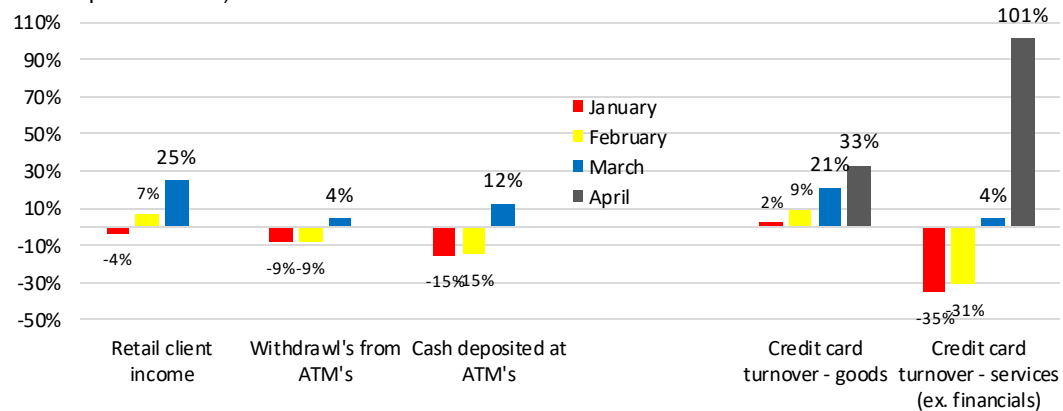
Credit card turnover by Citadele clients

(January-February 2020=100)



Credit card and ATM turnover by Citadele clients

(% compared to 2020)



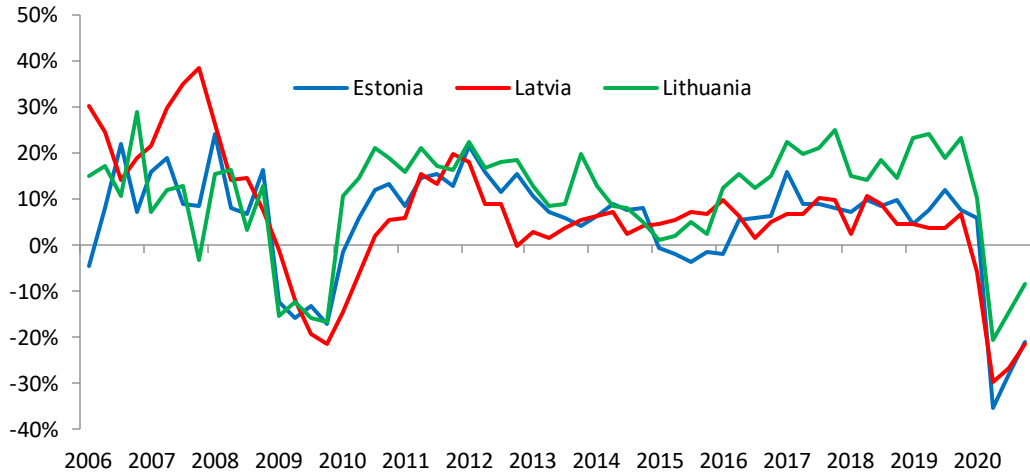
Comments

- **Retail trade activity has been affected by COVID-19 restrictions, but people's incomes and savings are growing.** Entrepreneurs continue to adapt to the new situation, by expanding online sales.
- **Our customers' credit card turnover data show that sales have been gradually improving since mid-January.** Turnover in product segments increases each time any restrictions are eased while government support measures have supported incomes.

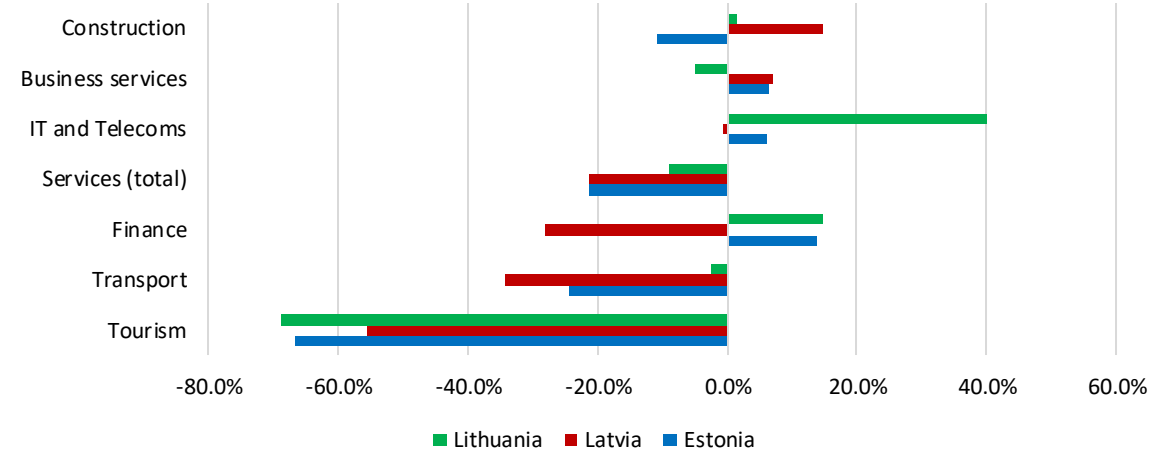
Services

The services sector is by far the weakest link in the economy

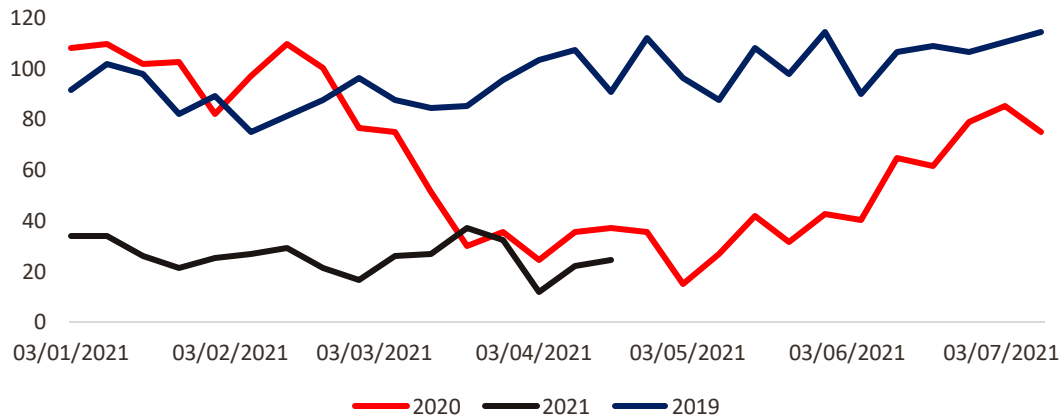
Export of services, % YoY



Export of services in 2020, % compared to 2019



Google searches (Riga Hotel), 2019=100



Comments

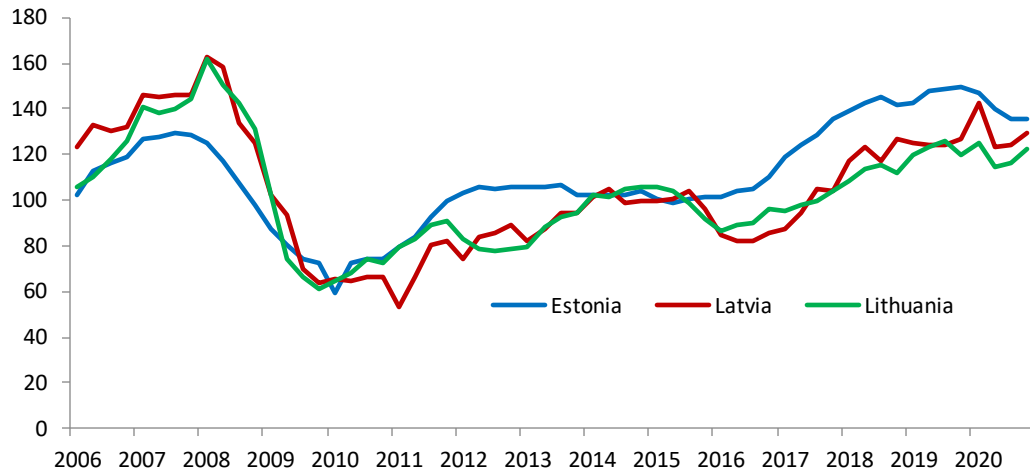
- As COVID-19 decreases, service sectors have a high potential for recovery. The experience of the Baltic States in the summer of 2020, as well as of other countries that have managed to limit the spread of COVID-19, shows that the service sector is recovering rapidly as soon as the epidemiological situation allows.
- In the tourism sector, since the end of 2019, about 75% of employees have lost their jobs or are receiving downtime benefits. However, there is little interest in Airbaltic and hotels in the Baltic capitals. Recovery in the tourism sector may be delayed

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

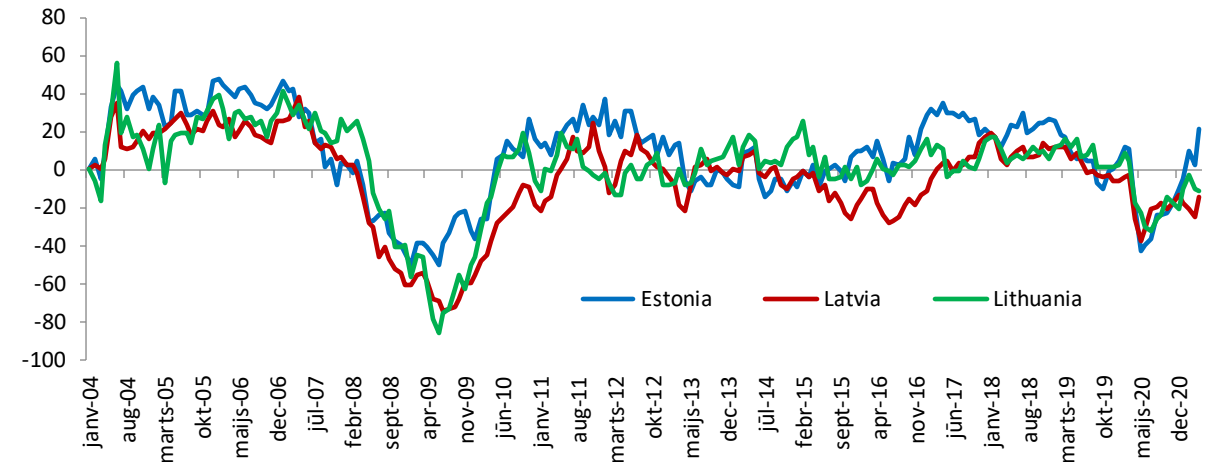
Construction and real estate

In the second wave of COVID-19 construction activity has not decreased

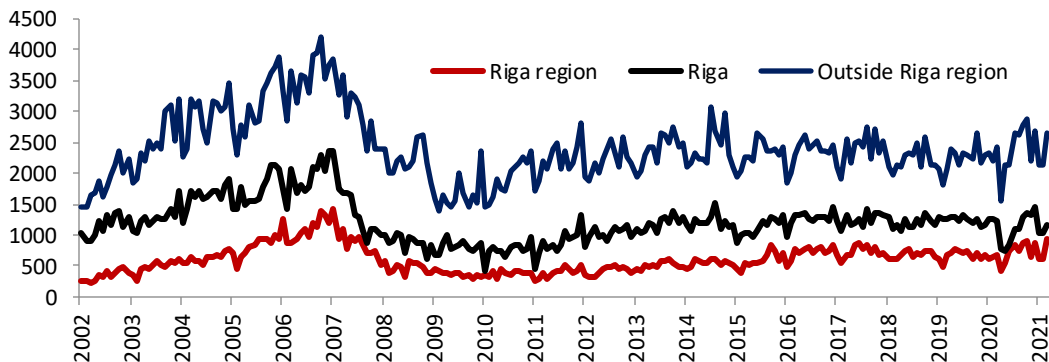
Construction output, 2015=100



Construction sentiment (changes in activity in the last 3 months)



Number of real estate purchase transactions per month



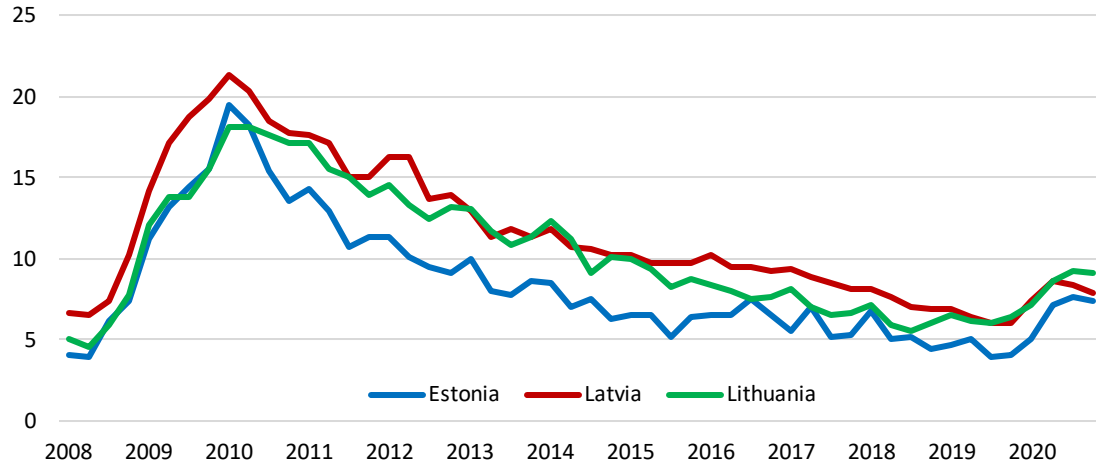
Comments

- **The second wave of the COVID-19 pandemic has not had a significant impact on construction and the industry is in an upward cycle.** Private sector demand is stable and in 2021 from the governments have significantly increased investment in construction.
- **Further growth is expected in construction.** As a result of the COVID-19 pandemic, there has been a rapid increase in interest in houses close to the capital, as well as in regions that are also stimulating construction. At the same time, in the next few years, large amounts of funds from the EU Economic Recovery Fund and the implementation of the Rail Baltica project will flow into the economy, as well as construction.

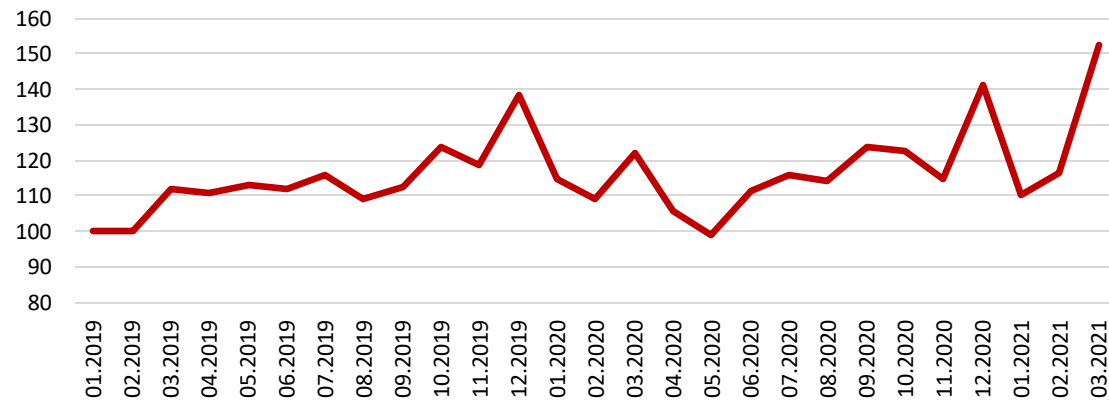
Labour market

Unemployment has risen, but so has the income of the population

Unemployment rate, %

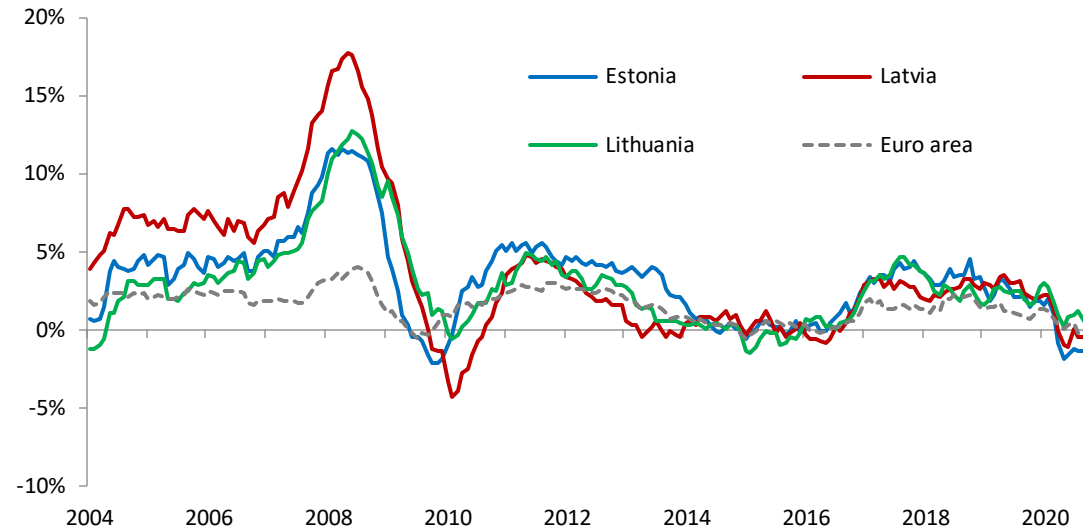


Credit turnover of retail client bank accounts in Citadele bank, 2019 jan=100



Source: CSB, Eurostat

Inflation, % YoY



Comments

- **There is currently a paradoxical situation in the labor market in the Baltics.** Unemployment has risen sharply, but it is difficult to answer the question of how high the actual unemployment is, as economic activity is artificially limited and many workers receive some types downtime benefits.
- **Income lost by employees and companies in the sectors affected by COVID-19 restrictions is at least partially compensated.** In addition, investments in construction have significantly increased, as well as various one-off benefits help to stimulate economic activity.

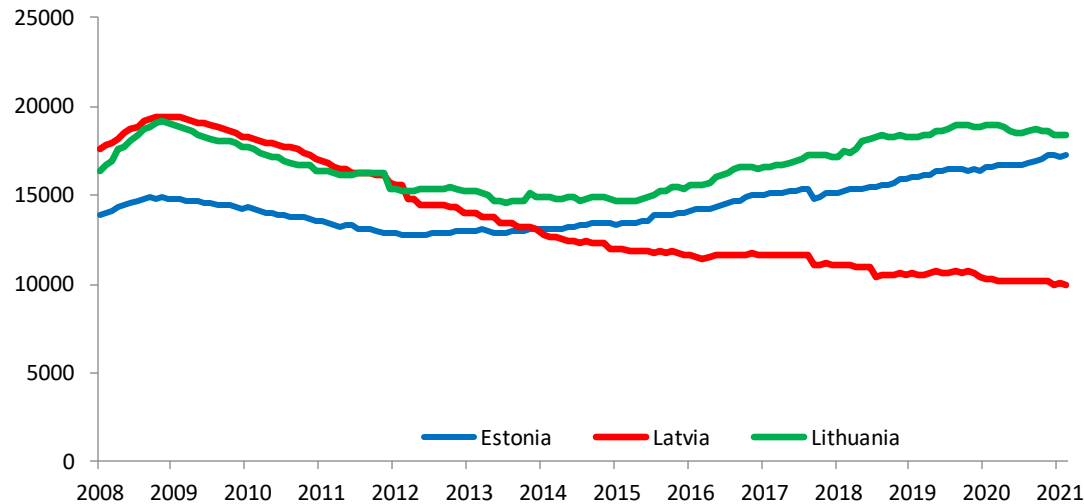
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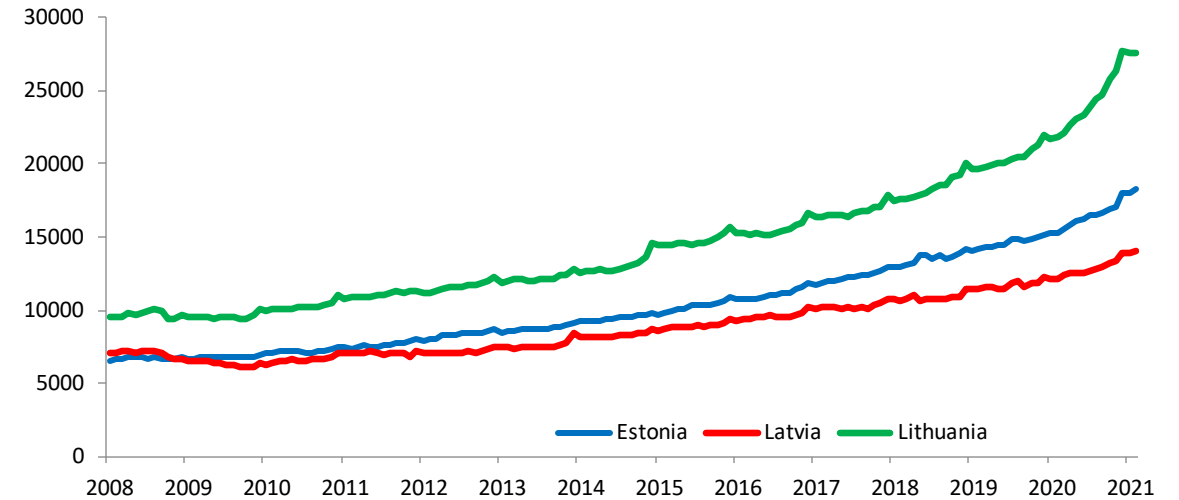
Banking sector

Households and businesses are rapidly accumulating savings

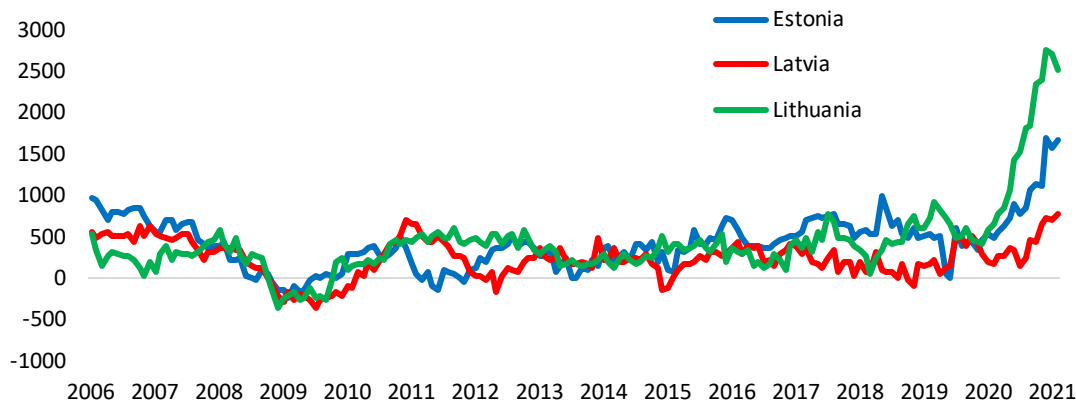
Loans to resident households and companies, MEUR



Deposits by resident households and companies, MEUR



Deposits of non-financial companies, annual change MEUR



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

Comments

- **In February 2021, household savings in the Baltics were 15-22% higher than before the pandemic.** In Latvia, household savings in banks in 2020 have grown by about 1 billion euros. In addition, the provision represents a significant potential for deferred consumption of resources in both the services and trade sectors
- **In the pandemic, we have borrowed cautiously and the loan portfolio has not grown significantly.** The recovery of credit after the end of the COVID-19 pandemic may provide additional impetus to growth.

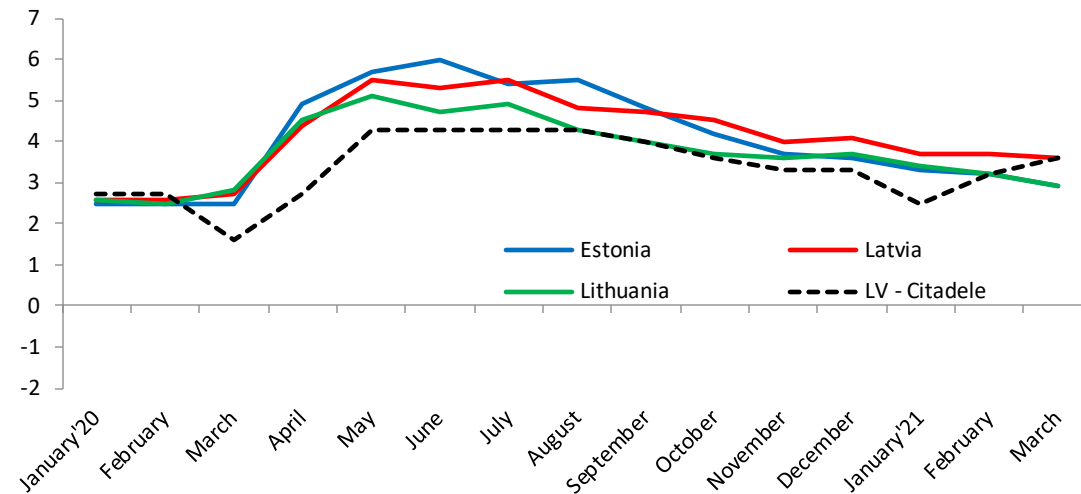
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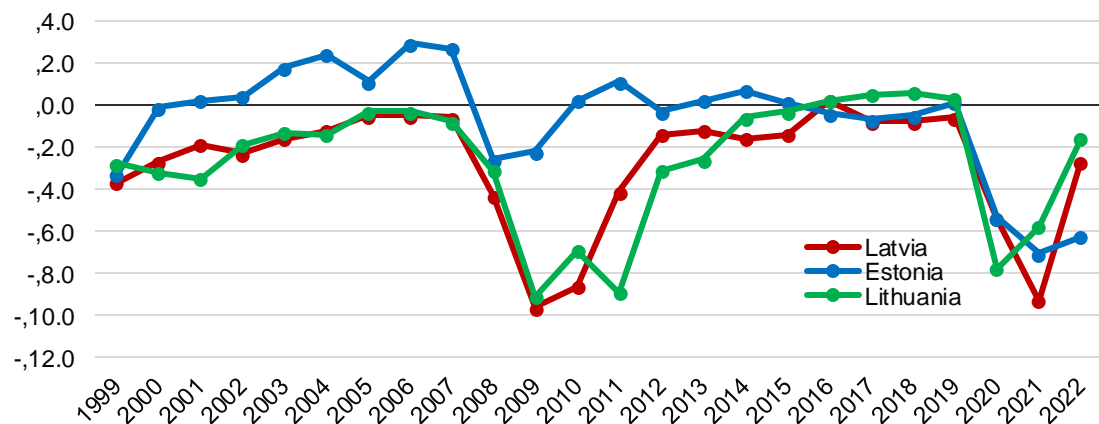
Forecast

There are strong arguments as to why the economic growth in the Baltics could be very rapid in the next 2 years

GDP growth forecast (2021)

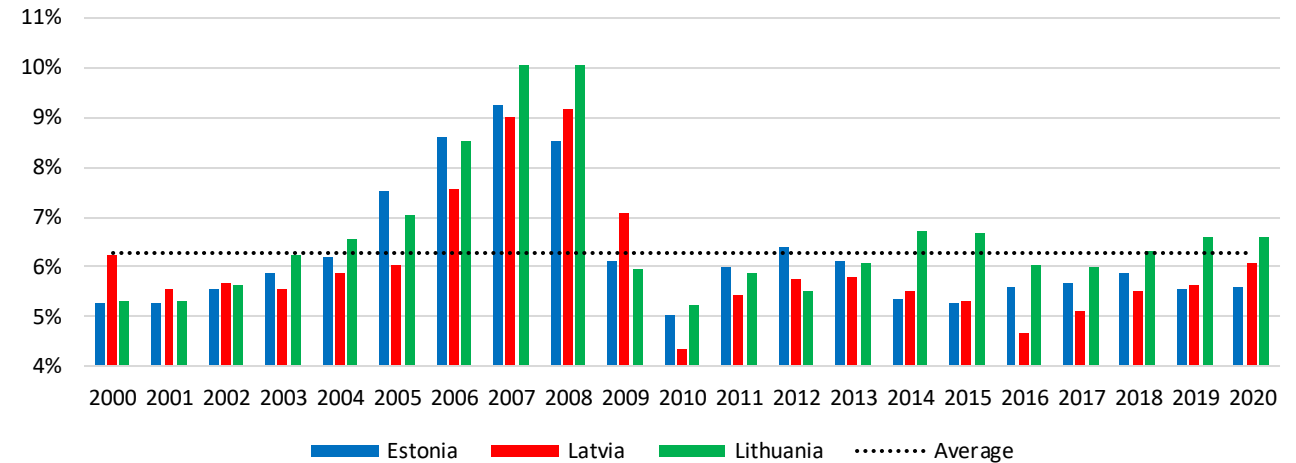


Budget balance, % of GDP



Source: CSP, Citadele, Eurostat, IMF 2021 April WEO

Construction share of GDP



Comments

- **In the second half of this year and in 2022, rapid growth is expected in the Baltics.** It will be driven by the recovery of the service sectors, the upward global manufacturing cycle, and the inflow of substantial investment in construction.
- **The COVID-19 pandemic remains the biggest risk to the economy.** Without significant improvements in the Latvian vaccination process, it might not be possible to achieve herd immunity by the autumn.
- **Expectations for construction may be too optimistic.** The new construction cycle is currently starting at a relatively high level and there is probably not much spare capacity in the construction industry. As a result, expected growth may be more in prices and less in real construction volumes.

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