

Latvia Business Forecast Report Q1 2015

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Abstracts

Core Views

Latvia's economic recovery will continue into 2015 and beyond, although we emphasize that strong headline real GDP growth is largely a result of statistical base effects. We see growing scope for the government to ease up on its long-held policy of fiscal austerity going forward.

The Russian embargo on EU agricultural goods has weakened the growth outlook and Latvia will be among the worst EU states affected. Growth will remain subdued due to the need for further deleveraging.

Major Forecast Changes

We have downgraded our forecast for Latvia's real GDP growth as the escalating trade war between the EU and Russia is adversely affecting Latvia's goods and services export prospects. We now forecast Latvia to grow by just 2.1% in 2014 and 2.2% in 2015, from a previous forecast of 3.8% for both years previously due to the impact of the Russian embargo on trade.

We have adjusted our 2015 budget deficit forecast to 1.1% of GDP, from 1.7% previously following the passing of the government's draft budget.

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Coalition To Remain Intact

We expect the ruling coalition, headed by Unity party, to remain in power following the results of Latvia's parliamentary election in early October. Coalition partners Greens and National Alliance both increased their share of the vote, and may push for more dominant roles within government, although we expect policy trajectory to remain largely unchanged.

table: Political Overview

Long-Term Political Outlook

Slower Growth And Ethnic Tensions Key Themes To 2024

The coming decade for Latvia will be marked by the scars of the global financial crisis of 2008/09. The country's governments will struggle to return the economy to pre-crisis growth and will pay the political and social price for this inability to promote growth and ease ethnic tensions.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis
BMI Economic Risk Index
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We have lowered our forecast for 2015 real GDP growth to 2.2%, from 3.5% previously, as the deterioration in EU-Russia relations and slowing regional growth is dampening the growth outlook for Latvia.

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Balance Of Payments

Deleveraging May Be Delayed By Russian Embargo

The deterioration in Russia-EU trade relations is worsening the outlook for Latvia's

current account deficit over the coming quarters, and may delay progress in deleveraging the credit excesses of the pre-crisis period.

Table: Current Account

Fiscal Policy

No Major Budget Adjustments Expected

The ruling coalition has survived the parliamentary election, and will remain in power for another term. We do not expect to see a major shift in policy continuity, and expect the government to remain one of the most fiscally conservative in the region.

table: Fiscal Policy

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The Latvian Economy To 2023

Looking For A 'New Normal'

After three years of growth outperformance following one of the worst recessions in Europe, we think growth is set to shift down a gear over the next ten years, despite the country's accession to the eurozone, as it struggles with competitiveness and demographic challenges.

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