

The Latvian economy post-2009: L-, U-, or V-typed development?

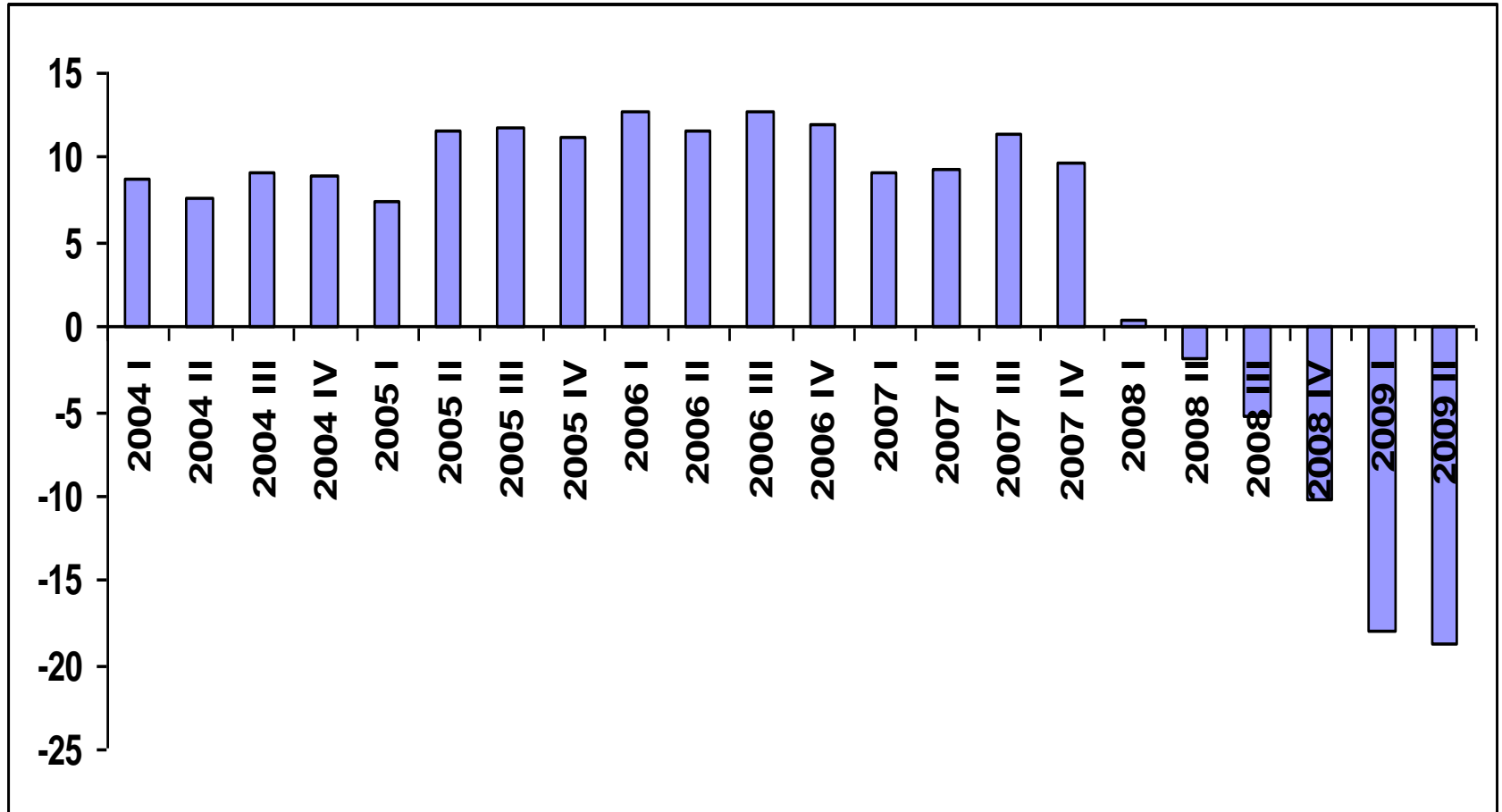
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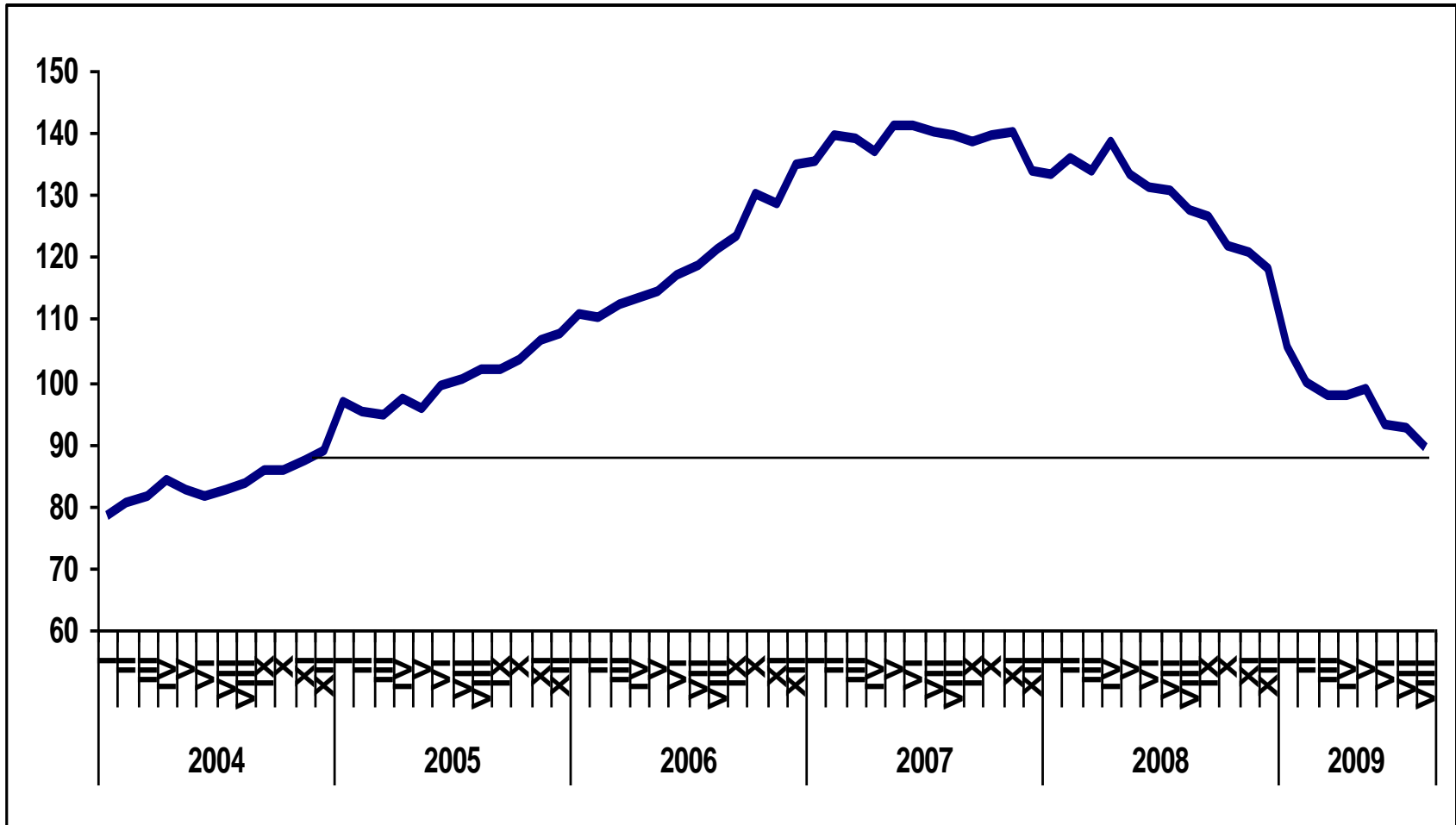
Economic growth, 2004-I – 2009-II, year on year

Biggest boom turns to the (2nd) biggest bust...



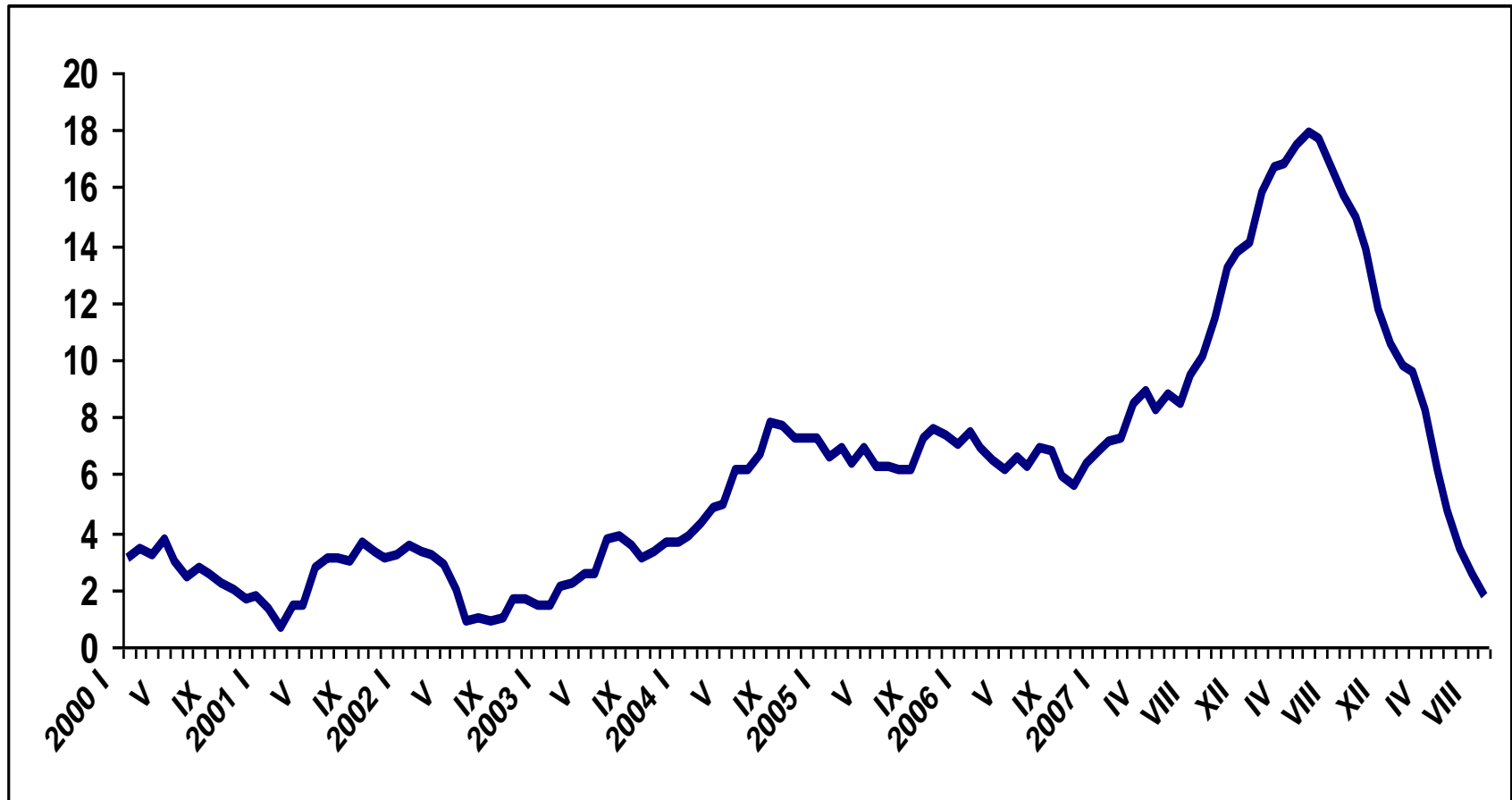
Retail sales, 2004-I – 2009-VIII, volume, seasonally adjusted, 2005 = 100

Bombed back 5 years....



Latvian inflation 2000-I – 2009-VIII, %, year on year

Steepest decline in the EU – but not enough



L-, U-, or V-typed development?

V

V-shaped recession:
Quick recovery

U

U-shaped recession:
Slow recovery,
lengthy recession

L

L-shaped recession:
Recovery distant, remote

Now, 2009

“Lost” year – GDP decline 18-20%

- Consumer spending will remain subdued
 - Overleveraged consumers
 - Credit constraints
 - Gloomy consumers
- So will investment spending
 - Poor domestic & world economic outlook
- Fiscal policy forced to be procyclical
 - Poor fiscal prudence in the heydays
 - THERE IS NO STIMULUS MONEY!!!
- Exports?
 - World economic outlook,
 - Competitiveness

Thus, for 2009-10 (and 11?)

No apparent growth drivers!

Recession takes place at the worst possible time:

- **Global slowdown**
- **International financial crisis**

Estonia and Lithuania: **Similarities and differences when compared to Latvia**

Much more prudent fiscal policy in Estonia

→ euro adoption by 2011 (?)

Depends crucially on Latvia's fixed exchange rate

- but also a severe recession and no fast growth on the horizon

Lithuania

Larger GDP collapse than in Latvia (Q2 2009)

- but still able to borrow

IMF to the rescue eventually?

Lessons for retail

Latvia: A changing place.....

→ 2007:

Perhaps too easy.....

From 2008:

Much more difficult/challenging

International lesson:

Many companies/businesses/ideas take off during recessions

Latvia:

Still poor by EU standards

*Much potential for catch-up,
much potential for business*