

# Flash Comment

## Latvia: Worst-case scenario is reality

- GDP dropped by 18% y/y in Q1 09 – much more than the consensus forecast of a drop of 16.4 % y/y and our forecast of 16.8% y/y.
- The latest Lithuanian GDP numbers indicate very weak Q1 GDP numbers and increased risk that Latvian GDP might suffer to a much higher extent than in the previous quarter. However, the decline by 18% y/y was somewhat unexpected even taking into account continuously deteriorating industrial production and retail trade performance.

### Details

The Latvia statistical office released its flash estimate on GDP growth in Q1 09 today. GDP dropped by 18% y/y compared with a decline of 10% y/y in Q4 08. The developments clearly indicated that a “worst case” scenario for the medium term outlook with regard to Latvia have become a reality.

The downturn in Latvia has steepened, but an even more negative outcome is expected during the coming quarters. Especially taking into account further tightening on the fiscal front, which should be implemented as soon as possible – otherwise Latvia would not qualify for the international aid package. Probably only at the end of this year we might see a change to this worsening trend.

### Assessment and outlook

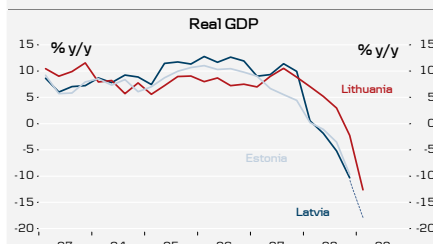
This afternoon we saw really shocking GDP numbers for Latvia for Q1. GDP dropped by 18% y/y – much more than consensus forecast and our expectation of a drop of 16.8% y/y – and a very significant deterioration from Q4 08, in which GDP dropped by 10% y/y.

The details for GDP have not been published yet, but it is almost clear that the drop in GDP is broad based – with both domestic and external demand.

We already expected that the Latvian economy might decline by 15% y/y in 2009, but today's GDP numbers mean that we would have to adjust our GDP forecast in a significantly more negative direction and it is now likely that GDP will drop by more than 20% as an average for 2009.

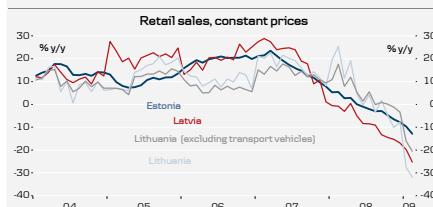
The very weak GDP numbers are also a clear indication that the Latvian government budget situation will have further deteriorated. It looks like the IMF agreed fiscal deficit target of around 7% of GDP will be very difficult to achieve. We believe that uncertainties with regard to the budget situation have increased significantly.

### Worsening economic outlook



Source: EcoWin

### Retail trade is in free-fall



Source: EcoWin

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