

Flash Comment

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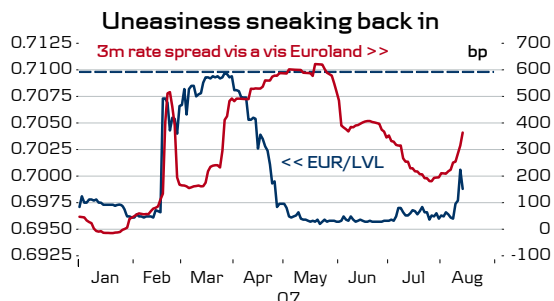
Latvia: Currency weakness is sneaking in again

During February-April the Latvian lat came under significant pressure, but during May the market calmed down again. However, now we are beginning to see signs that the pressures on the lat are re-emerging. Hence, there is clearly reason to focus on the risk of renewed pressures on the lat - and on the other Baltic markets.

We see three overall reasons for the signs of renewed pressure on the lat:

1. Global credit conditions are worsening - this makes it much harder to fund the large current account deficits in Latvia (and the other Baltic states). Furthermore, the Scandinavian banks naturally are also becoming less willing to fund the Baltic credit boom with global credit conditions worsening and concerns about over-leveraged households and investors in the Baltics.
2. There are now clear signs that the property markets are coming under fairly strong selling pressure in all three Baltic states. Property prices have dropped around 10% in Estonia over the last two quarters. Latvian (Riga) property prices have dropped 5-8% over the last two months and Lithuania property prices are no longer rising. Furthermore, there is anecdotal evidence that property developers in the Baltics are freezing property projects that have already been initiated. See also *"Flash Comment Baltics: Property prices have peaked"*.
3. The Baltic economies are now clearly slowing. In particular, the Estonian economy is showing significant signs of a fairly sharp slowdown (Q2 GDP was the lowest in seven years in q/q-terms), cf. *"Flash Comment - Estonia: Slowdown gathers momentum"*.

In conclusion, we might very easily see an eruption of renewed financial distress in the Baltic markets in the nearest future. So caution is clearly warranted.



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