

Flash Comment

Latvia: CPI remains on the downtrend

- The Latvian Statistical Office has released consumer price inflation figures for April. As it was broadly expected, inflation decelerated further to 6.2% y/y (minus 0.4% m/m) from 8.2% y/y (0.2% m/m) in March.
- The latest GDP figures showing a drop of 18% y/y in Q1 09 indicate that a “worst case” scenario for Latvia’s medium term outlook has become a reality. This will result in even more deflationary pressure in the economy.

Details

The Latvian statistics released consumer prices inflation today. CPI decelerated to 6.2% y/y (down 0.4% m/m) from 8.2% y/y (0.2 m/m) in March. The outcome was lower than consensus forecast and our expectation.

The decline in monthly CPI stems mainly from the drop in food prices (1.7% m/m) and housing costs (0.7% m/m), while increase in the prices of pharmaceutical goods, tobacco products, footwear and fuel have prevented more significant deceleration in consumer prices.

Assessment and outlook

Looking forward we expect inflation to remain on a downtrend in the Baltic States. The Latvian economy is in a deep recession and CPI is expected to move to negative territory relatively soon. We expect to see annual deflation in the fourth quarter of 2009. Based on the more pronounced deterioration in growth we have revised our average inflation forecast for this year down to 3.6% and to -0.2% in 2010.

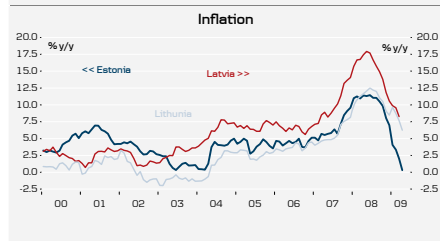
Taking into account a tough budget position there is some minor upside risk related to rises in indirect taxes. However, the previous hike in VAT was relatively short lived and without strong second round effects. In general the period of consumer price decline will come to an end with a return to the recovery process, which is hardly possible until 2011-12.

Key figure (month)

	Act	Con	DB	Last
CPI (% y/y)	6.2%	6.4%	6.6%	8.2%

Danske Bank

Returning to a downward trend



Source: EcoWin

Worsening economic outlook



Source: EcoWin

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Disclosure

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