

ISO Economic Review for Latvia, March 2012

Jakob Hauptmann, BAC Metal sia, Jelgava, Latvia.

First of all, sorry for not attending the Congress, but here's my report:

Things has started to improve in Latvia

Opposite other EU members, Latvia (and the other Baltic states) has taken some really drastic political decisions by cutting down public salary and increasing VAT. These brave moves, we now see the effect from.

And what is most admiring is that the public has more or less accepted it without any large scale crying out. All right, they have a past that taught them to bend their heads down. But, how many countries would the majority of the public sector quietly accepted a large salary cut – some ALMOST 50% cut in buying power (large cut in salaries, vat and energy increase).

For a change that makes the Baltic countries to stand out as a good example – and make one suggest to go to Latvia on a field trip! Greek standing out as the most obvious example!!!!

Since BAC Metal does almost 100% exports (mainly to DK) we do not have an accurate feeling of the local shopfitting market. But I do see that the few producers I know, again have work and seem to do fine. Some of them are exporting to Russia as replacement of some of the lost local sales.

When speaking about retail and shopping centers in Latvia, it should be kept in mind that Latvia is (almost) equal to “Riga”. In the 3 largest cities after Riga, there are some small shopping centers, but most of them is only barely hanging on, and the only reason they continue to exists is they house a Rimi or their counterpart “Maxima”.

In the boom years there was made a fairly large amount of shopping centers in Riga. I think almost all of them have survived so far – which to me is rather amazing. So now when things improve, I believe they will survive for good. Latvia did show remarkable results in the January retail growth where trade was up 6,4% m-o-m (seasonally adjusted) and 16,6% y-o-y. But as the article from *news2Biz* say there are several reasons for this, so the 2012 overall increase will be more moderate.

For the time to come the question, in my eyes is how to avoid another financial crisis. One of the problems is that the Latvia population has decreased, and most believe it still does. In the last 10 years population has decreased 13% (in amount 309.000). Leaving LV with just barely above 2mill per 1/3 2011, where the last census/people count was made. Negative birth rate counts for 119.000, the main reason being immigration of 190.000. And that is the official figure. I believe it is higher since people could register online in the census and therefore could do it from abroad. Latvia is in need of export, but also gas to transform from a “cheap labor” country to a more western country with a higher product value gain. If this happen over a long period, companies get time to adjust.

But with so many people leaving – and remember it is the best people leaving first – I fear we could easily get another period with rapid salary raises without, the time to adjust. Last time that happened - was the building-boom years ago when many of the old Latvian companies went out of business. To compensate a higher salary cost with investments in technology is not so simple because the clever people, who should operate the machinery, have left. Some may argue they will come back... but that is mostly Latvian politicians, that show their hope, and people who have not lived in Latvia.

Ok - I should be fair to LV, it is not a bad place when you are financially all right, but when your choice comes to where your kids should go to school, which hospital you prefer to be admitted to, and which social system to choose – the choice is easy and will be for VERY many years to come. The Latvian (and probably the other two Baltic countries) may end up in some “yo-yo economy”.

That is all for now – hope to see you in October ;-) JH.