

Flash Comment

Baltics: inflation gap between Baltic states

- As expected Lithuanian inflation picked up in September to 2.7%, from 2.6% y/y in August. This was due to higher VAT and excise duties on tobacco products. While inflation in Latvia continues to decelerate: CPI decelerated to 0.5% y/y in September down from 1.8% y/y in August.

Details

Lithuania and Latvia Statistics have today published CPI inflation numbers for September. The hike in VAT and excise duties picked up Lithuanian CPI to 2.7% y/y in September. In Latvia CPI decelerated to 0.5% y/y from 1.8% y/y in August. We expected to see annual deflation as early as October.

Assessment and outlook

As expected the VAT increase in September in Lithuania had a broad upside effect on consumer prices. However, we believe that this impact will be short lived. Our assessments of price developments in Lithuania and Latvia for 2009 remain broadly unchanged: average inflation should stand at 4.5% and 3.6%, respectively.

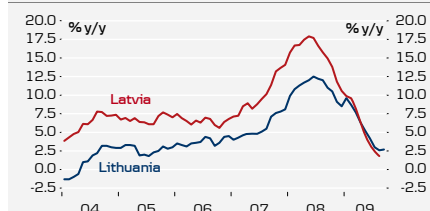
Higher electricity prices in Lithuania from 2010 are expected to push inflation up again. It looks like it would not be a one-time hike and probably extended throughout a longer period of time. Some independent experts expected the electricity price to rise by as much as two times in the coming three years. The Lithuanian government initiated some changes in the electricity price setting mechanism, which would somewhat diminish the negative impact of the expected energy price shock. Thus we revised downward our inflation forecast for 2010 to 0.9% on average. We do not expect a sustainable recovery of Latvian growth in 2010 and relatively poor domestic outlook in 2010 would determine even steeper price declines. Thus we expect CPI to decelerate to -0.9% in average. The risks to inflation projection are on the upside and mostly originate from the possible further rise in indirect taxes and global oil prices.

Key figures – CPI July

	Act	DB	Last
LTL (%y/y)	2.7%	2.7%	2.6%
LVL (%y/y)	0.5%	0.4%	1.8%

Source: Danske Markets

Inflation drops further



Source: EcoWin Reuters

Senior Baltic Economist
Violeta Klyviene
+370 611 24354
vkly@danskebank.dk

Disclosure

This report has been prepared by Danske Research, which is part of Danske Markets, a division of Danske Bank. Danske Bank is under supervision by the Danish Financial Supervisory Authority. The author of this report is Stanislava Pravdova, Analyst.

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high quality research based on research objectivity and independence. These procedures are documented in the Danske Bank Research Policy. Employees within the Danske Bank Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and to the Compliance Officer. Danske Bank Research departments are organised independently from and do not report to other Danske Bank business areas. Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Danske Bank research reports are prepared in accordance with the Danish Society of Investment Professionals' Ethical rules and the Recommendations of the Danish Securities Dealers Association.

Financial models and/or methodology used in this report

Calculations and presentations in this report are based on standard econometric tools and methodology. Documentation can be obtained from the above named authors upon request.

Risk warning

Major risks connected with recommendations or opinions in this report, including a sensitivity analysis of relevant assumptions, are stated throughout the text.

First date of publication

Please see the front page of this research report.

Disclaimer

This publication has been prepared by Danske Markets for information purposes only. It has been prepared independently, solely from publicly available information and does not take into account the views of Danske Bank's internal credit department. It is not an offer or solicitation of any offer to purchase or sell any financial instrument. Whilst reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and no liability is accepted for any loss arising from reliance on it. Danske Bank, its affiliates or staff, may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives), of any issuer mentioned herein. [The Equity and Corporate Bonds analysts are not permitted to invest in securities under coverage in their research sector.](#) This publication is not intended for retail customers in the UK or any person in the US. Danske Markets is a division of Danske Bank A/S. Danske Bank A/S is authorized by the Danish Financial Supervisory Authority and is subject to provisions of relevant regulators in all other jurisdictions where Danske Bank A/S conducts operations. Moreover Danske Bank A/S is subject to limited regulation by the Financial Services Authority (UK). Details on the extent of our regulation by the Financial Services Authority are available from us on request. Copyright (C) Danske Bank A/S. All rights reserved. This publication is protected by copyright and may not be reproduced in whole or in part without permission.