



## **Weekly Briefing**

**Latvia economy briefing:  
Impact of the War in Ukraine  
and Western Sanctions on the Economy of Latvia  
Institute of Economics at the Latvian Academy of Sciences**

# **Impact of the War in Ukraine and Western Sanctions on the Economy of Latvia**

## **Summary**

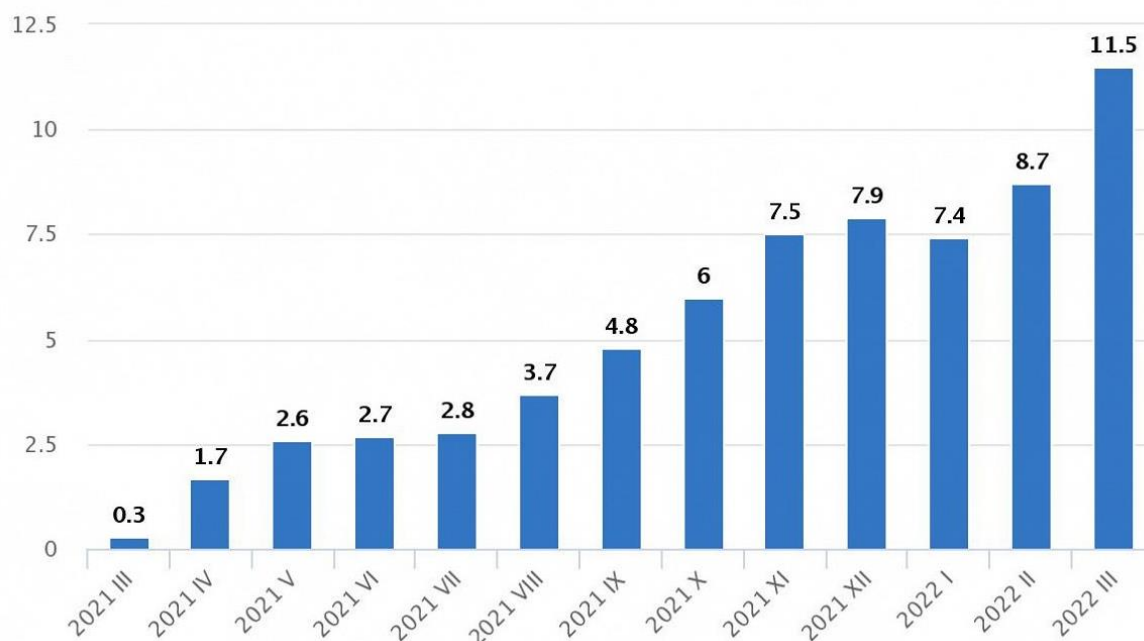
*In Latvia, the average consumer price level in March 2022, compared to March 2021, increased by 11.5%. In turn, food, fuel and electricity prices accounted for two-thirds of total price increases. Individuals must prepare that sanctions, rising energy prices and rising food prices will lead to further price rises and possibly high inflation unseen for a long time. However, the biggest concern at the moment is the situation in the natural gas market - Latvia's dependence on Russian gas. For Latvia, it will be necessary to think not only about how to compensate for the increase in prices, but also to look for alternative sources of supply. Thus, minimal economic growth can be predicted this year, however, inflation and resource scarcity are currently the biggest challenges faced by Latvian economy. Forecasts suggest that this wave of inflation is expected to reach up to 15% and is unlikely to end without a recession.*

## **Introduction**

The restrictions previously caused by the pandemic and now the Russian invasion of Ukraine have led to an even sharper rise in world prices for food, energy and other raw materials. Inflation in Latvia has exceeded 10% for the first time since 2008. Everyone is facing rising food and energy prices on a daily basis, and people are worried about the future of the economy. This analytical economy briefing presents the latest statistics on changes in consumer goods, as well as assess potential threats and new perspectives at the individual and business level.

## **I Growing Inflation**

As can be seen in Figure 1, annual inflation in Latvia reached 11.5% in March 2022 - the consumer price inflation has seen the sharpest rise since 1996.



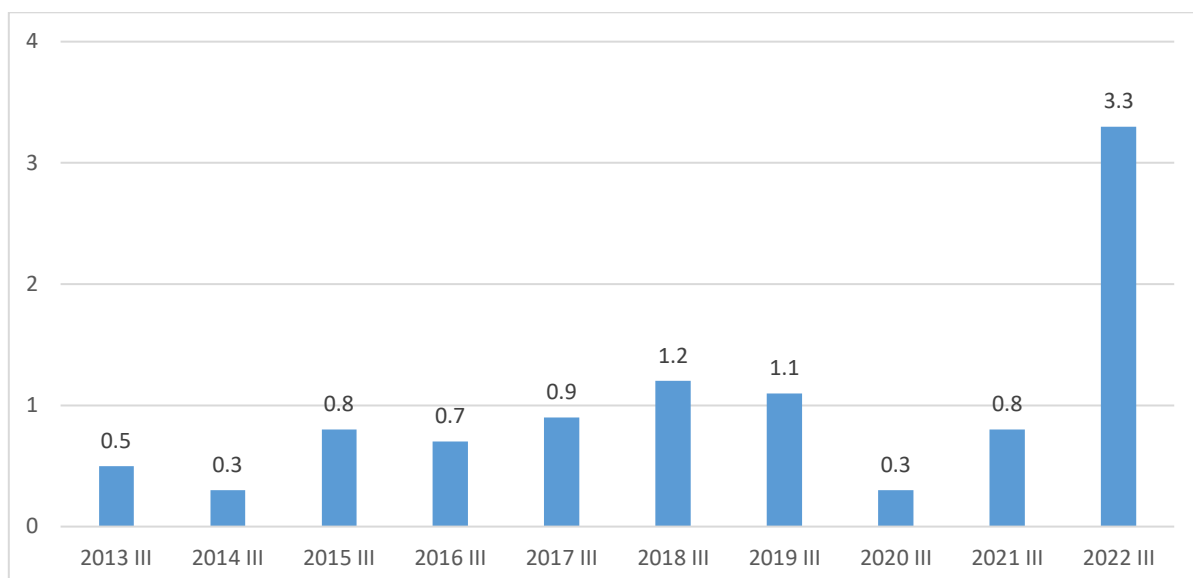
**Figure 1. Percentage change in consumer prices in Latvia compared to the corresponding month of the previous year**

Data: Central Statistical Bureau of Latvia, 2022

According to the data published by the Central Statistical Bureau in April 2022, prices in the group of food and non-alcoholic beverages increased by 14.7%. The average price level of alcoholic beverages and tobacco products increased by 4%.

The average price level of housing-related goods and services increased by 14.5%. The most significant price increase during the year was for heat energy and natural gas. In the health care group, the average price level increased by 5.5% during the year. Dental services, specialist medical services and pharmaceutical products have risen in price. Prices for transport-related goods and services increased by 22.9%, driven by a 43.3% increase in fuel prices. Diesel became more expensive by 45.7%, petrol by 40.5% and car gas by 35.8%. Average price levels increased for cars, maintenance and repair of personal transport equipment, and spare parts and accessories for personal transport equipment.

Goods and services related to recreation and culture increased in price by 4.2%. Recreational and sports services, pet food, flowers, toys, television subscription fees have become more expensive. Books and personal computers have become cheaper. In the group of miscellaneous goods and services, prices increased by 8.5%, which was significantly influenced by the rise in prices for personal care products and beauty products. Car insurance, hairdressing and beauty salons services also rose in price. In the other consumer groups, the most significant increase in prices fell on catering services, clothing, footwear and telecommunications services.



**Figure 2. Percentage change in Latvian consumer prices compared to the previous month, 2013 - 2022**  
Data: Central Statistical Bureau of Latvia, 2022

As shown in Figure 2, in March 2022, compared to February 2022, the average consumer price level increased by 3.3%, the largest increase in the last 10 years.

The most significant price changes occurred for goods related to transport. Services became more expensive by 9.4%, mainly due to a 17.1% rise in fuel prices. Diesel prices rose by 20.3%, gasoline - by 15%, and car gas - by 2.5%. Currently, oil prices are directly affected by the Russia-Ukraine conflict. Passenger air transport, spare parts and accessories for personal vehicles have become more expensive.

Obviously, inflation in Latvia this year will definitely exceed 10%, and in early summer, inflation in Latvia may approach 15%, as in neighboring countries. At present, there is no reason to expect a decrease in food or energy prices in the world. The population of Latvia has significantly felt the impact of rising prices for natural gas. Current natural gas prices are about five times higher than before, and heat prices are sure to rise in the autumn. Thus, the government will have to think about support measures, especially on the verge of Latvia's complete renunciation of Russian energy resources starting at the end of this year.

## **II Losses and New Perspectives for the Latvian Economy**

In Latvia, several hundred companies that actively traded with Russia and Belarus before the war stopped their trade relations with these countries. Consequently, the direct effects of

the cessation of trade will also be known. Unemployment will continue to rise. Despite the general shortage of employees, there are some companies whose exports are directly related to Russia and Belarus, and which may therefore find themselves in a state of insolvency.

The effects of the sanctions of the war in Ukraine will be felt in various sectors, from the wood industry to the textile and metalworking industries. If it is not possible to find alternatives to the supply of steel and other materials previously supplied from Russia within a reasonable time, production interruptions in Latvia could occur, harming both entrepreneurs and the national economy.

In turn, Latvian producers have the opportunity to replace the shares of Russia, Belarus and also Ukraine in European markets, to which these three countries do not currently actively export. Its areas are food production and agriculture, these are wood products and also the production of textiles. It should also be mentioned that the demand for firewood is also growing due to the high gas prices. This is another positive demand stimulus for the wood industry. The question of raw materials will be very crucial, namely whether they will be available to meet demand.

Entrepreneurs who had built up stocks of materials, for whom the price has risen sharply and availability has fallen, benefit in the current situation. Then the winners are those who said left Russian and Belarusian markets and cooperation partners after Russia's annexation of Crimea. Those are high-risk markets - this has been known for a long time. The winners are also those companies that have diversified their supplies, for example, purchased some materials not only in Russia, but also in other places. It is much easier for such companies to increase production volumes rather than starting from scratch due to the need to establish new suppliers.

Western-oriented companies are unlikely to experience the crisis as much. In addition, there is a possibility that some companies may grow strongly, start earning more and also increase their salaries. Demand in the West is likely to increase due to the current shortage of Russian, Belarusian and Ukrainian products in Western markets. And if demand is growing and Latvian companies are able to fill these niches, then it is even an opportunity in these times.

The effects of the war could also have a positive effect on companies operating in the fields of business services and information technology (IT). Many companies have left Russia, so it could be expected that part of the orders there will go to Latvian companies. The IT and business services sectors has always been interested in the Baltic Region, had a good growth forecast in the past and, thus, could even be benefitted by the war.

## **Conclusions**

The crisis caused by the war in Ukraine and the sanctions imposed by the West are a loss for the Latvian economy as a whole. It is not so easy to find the industries that are gaining during this time. Very little economic growth is likely to continue this year, but the risks are very high and the economy may be in the red. As the geopolitical situation worsens, global crude oil prices have risen sharply. Sanctions are already being imposed on Russian crude oil products, which is also affecting the oil market, such as world crude oil prices. As a result, inflation is rising, including prices for goods and services. The population of the country will continue to experience the rise in prices of goods, energy resources and services in the coming months. The previously expected economic recovery after the end of the covid pandemic restrictions will not materialize due to sanctions against Russia, and it is still expected that economic growth in Latvia will remain low this year. However, it is difficult to predict how Western sanctions against Russia will affect the Latvian economy in the current conditions of war. However, the current events opens up new perspectives and opportunities for Latvian enterprises, to fill the niches previously occupied by Russian and Belarusian companies - in food production, forestry and agriculture, as well as in the field of IT and global business services.

## References

1. Centrālā statistikas pārvalde. (2022). *Centrālā statistikas pārvalde*. csb.gov.lv. <https://www.csb.gov.lv/lv>
2. Citadele Bank Group. (2022, April 12). *Martā patēriņa cenu kāpums ir bijis straujākais kopš 1996. gada*. CBG.com. <https://www.cblgroup.com/lv/media/press-releases/2022/price-increase-march/>
3. LSM. (2022a, March 30). *Ekonomists: Par spīti Krievijai noteiktajām sankcijām šogad Latvijā saglabāsies neliela ekonomiskā izaugsme*. LSM.LV. [https://www.lsm.lv/raksts/zinas/ekonomika/ekonomists-par-spiti-krievijai-noteiktajam-sankcijam-sogad-latvija-saglabasies-neliela-ekonomiska-izaugsme.a450236/?utm\\_source=lsm&utm\\_medium=theme&utm\\_campaign=theme](https://www.lsm.lv/raksts/zinas/ekonomika/ekonomists-par-spiti-krievijai-noteiktajam-sankcijam-sogad-latvija-saglabasies-neliela-ekonomiska-izaugsme.a450236/?utm_source=lsm&utm_medium=theme&utm_campaign=theme)
4. LSM. (2022b, April 8). *Gada inflācija martā Latvijā sasniegusi 11,5%*. LSM.LV. [https://www.lsm.lv/raksts/zinas/ekonomika/gada-inflacija-marta-latvija-sasniegusi-115.a451626/?utm\\_source=lsm&utm\\_medium=theme&utm\\_campaign=theme](https://www.lsm.lv/raksts/zinas/ekonomika/gada-inflacija-marta-latvija-sasniegusi-115.a451626/?utm_source=lsm&utm_medium=theme&utm_campaign=theme)
5. Ministry of Finance. (2022, March 9). *FM: Energoresursu un pārtikas cenu pieaugums var paaugstināt gada inflāciju līdz 10%*. LSM.LV. <https://www.lsm.lv/raksts/zinas/ekonomika/fm-energoresursu-un-partikas-cenu-pieaugums-var-paaugstinat-gada-inflaciju-lidz-10.a447074/>
6. Neatkarīgā. (2022). *Degvielas cenas*. nra.lv. <https://nra.lv/latvija/374735-degvielas-cenas-kapj-debesis-visticamak-palielinasies-vel.htm>
7. Zalāne, L. (2022, April 5). *Ekonomisti: Mežsaimniecības, piena lopkopības un graudkopības uzņēmumiem Ukrainas karš nesis augšupeju*. LSM.LV. [https://www.lsm.lv/raksts/zinas/ekonomika/ekonomisti-mezsaimniecibas-piena-lopkopibas-un-graudkopibas-uznemumiem-ukrainas-kars-nesis-augsupeju.a451205/?utm\\_source=lsm&utm\\_medium=theme&utm\\_campaign=theme](https://www.lsm.lv/raksts/zinas/ekonomika/ekonomisti-mezsaimniecibas-piena-lopkopibas-un-graudkopibas-uznemumiem-ukrainas-kars-nesis-augsupeju.a451205/?utm_source=lsm&utm_medium=theme&utm_campaign=theme)