

Political-Economic realities in the Baltic Region

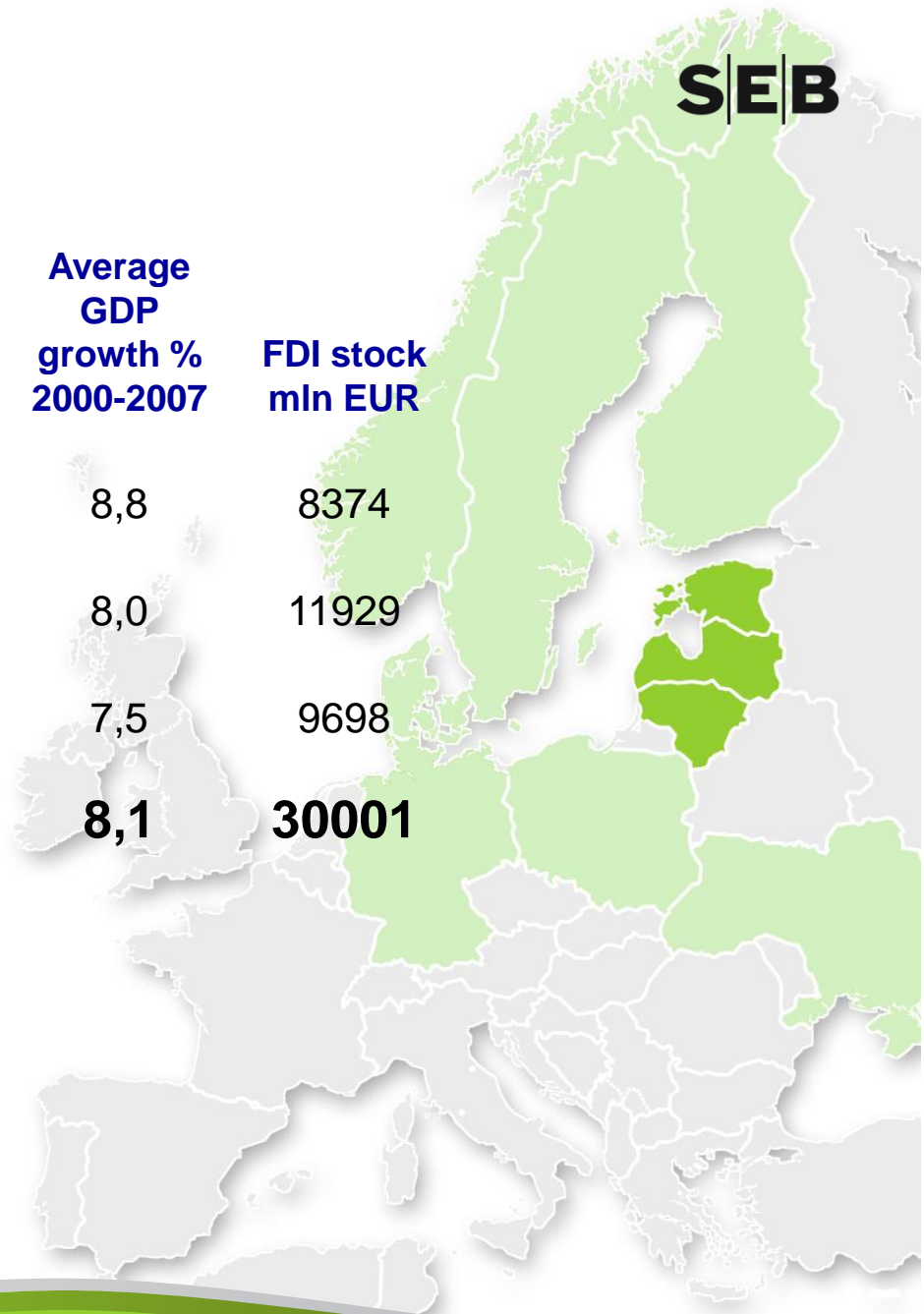
Andris Vilks

SEB banka

Baltic State Market

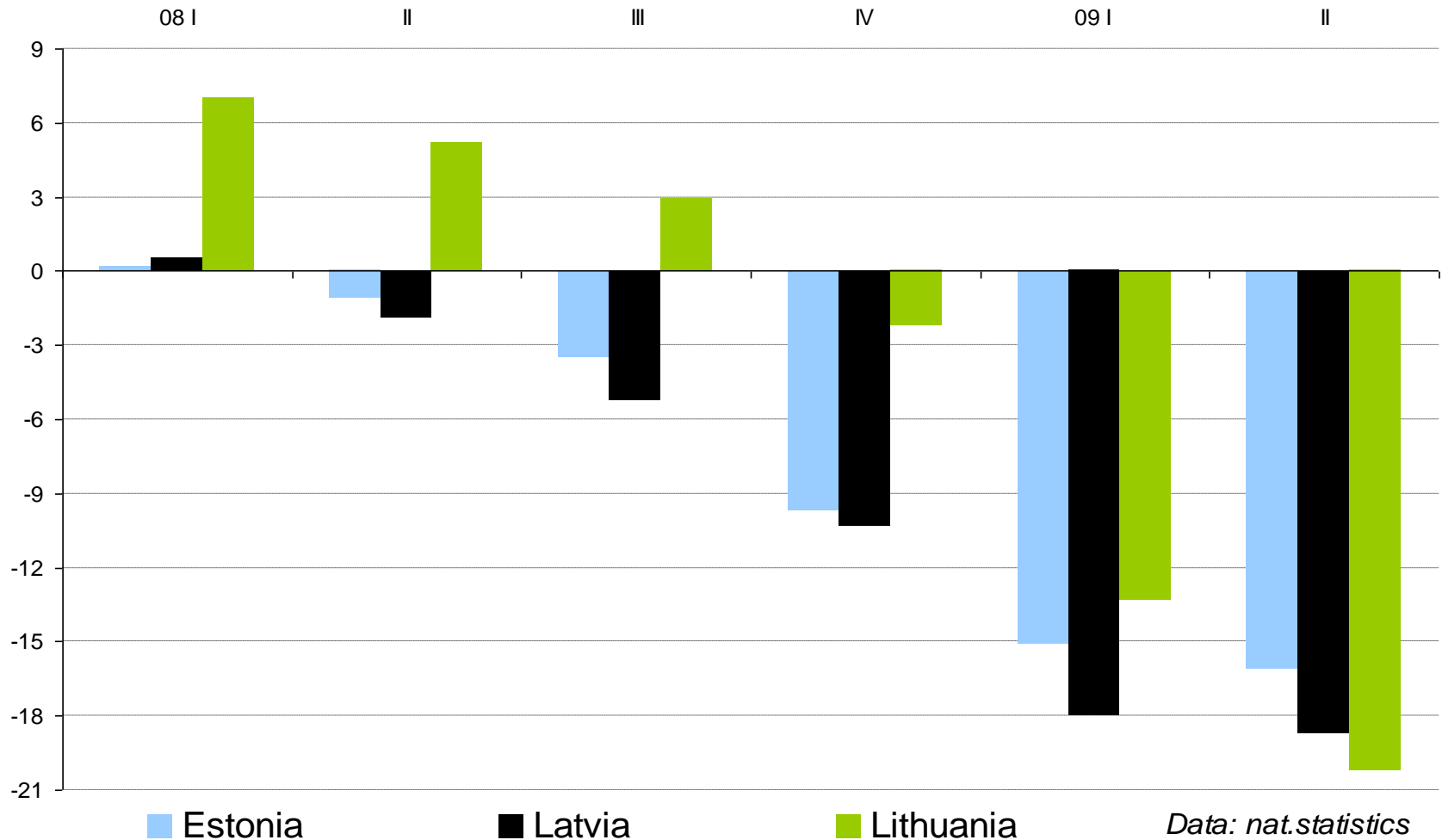
SEB

	Population mln	Size of economy mln EUR, 2008	Average GDP growth % 2000-2007	FDI stock mln EUR
Latvia	2,26	23204	8,8	8374
Estonia	1,34	15856	8,0	11929
Lithuania	3,35	32298	7,5	9698
Baltic market	6,95	71358	8,1	30001



Simultaneous double shock

Baltic States GDP changes (% , quarters yoy)

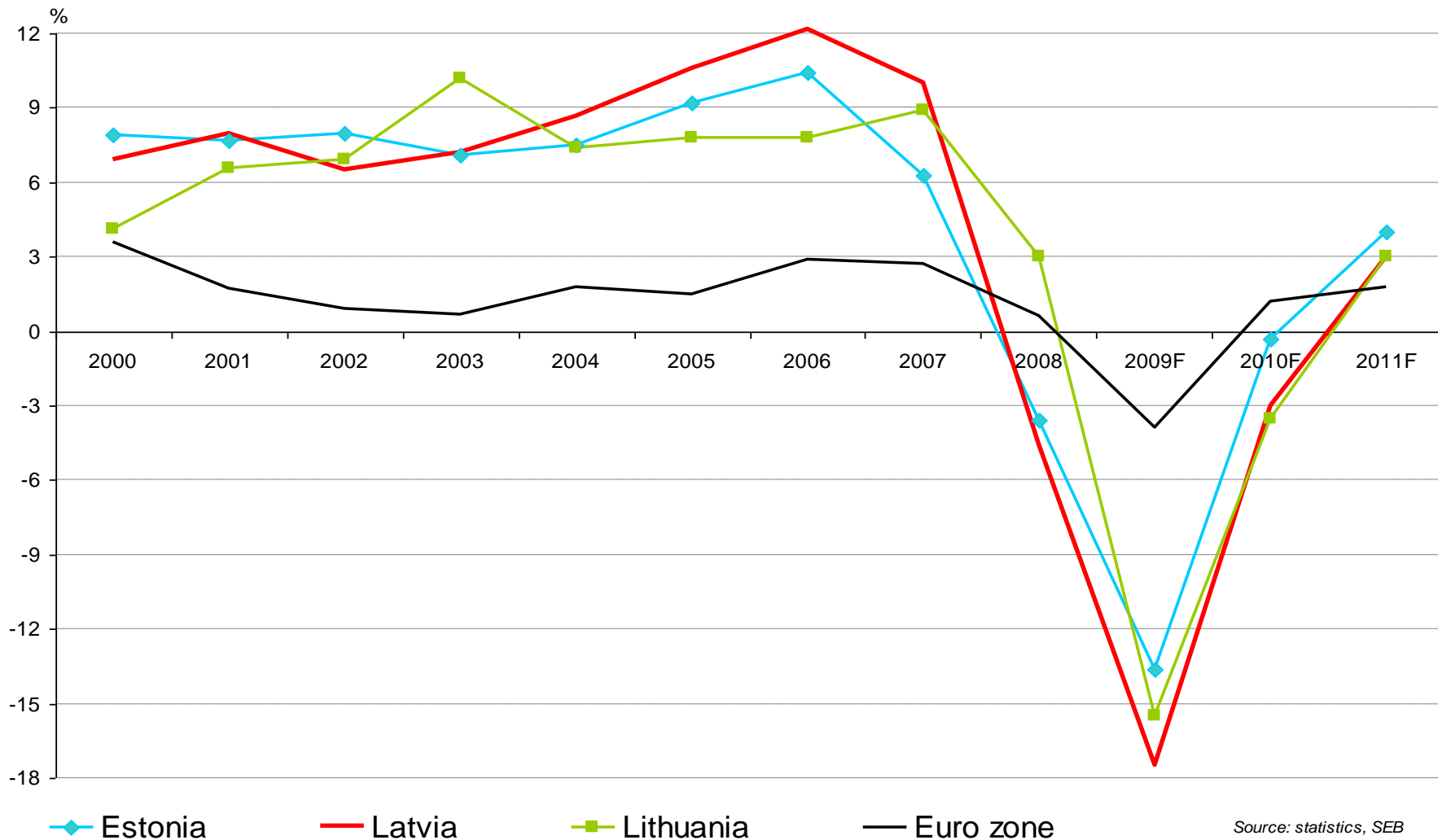


Latvia

- GDP -22% in 2 years
- S&P credit rating down from A- to BB in 2 years
- Tax revenues down by 30% yoy in 2009
- Public expenditure cuts by 15% compared to 2008
- Unemployment from 7% to 17% in 12 months
- Wages down by 20% in 2 years
- Tax increases: VAT, excise, property
- Apartments' prices down by 70% from the peak in 2007
- NPL in banks up to 20% in 2009

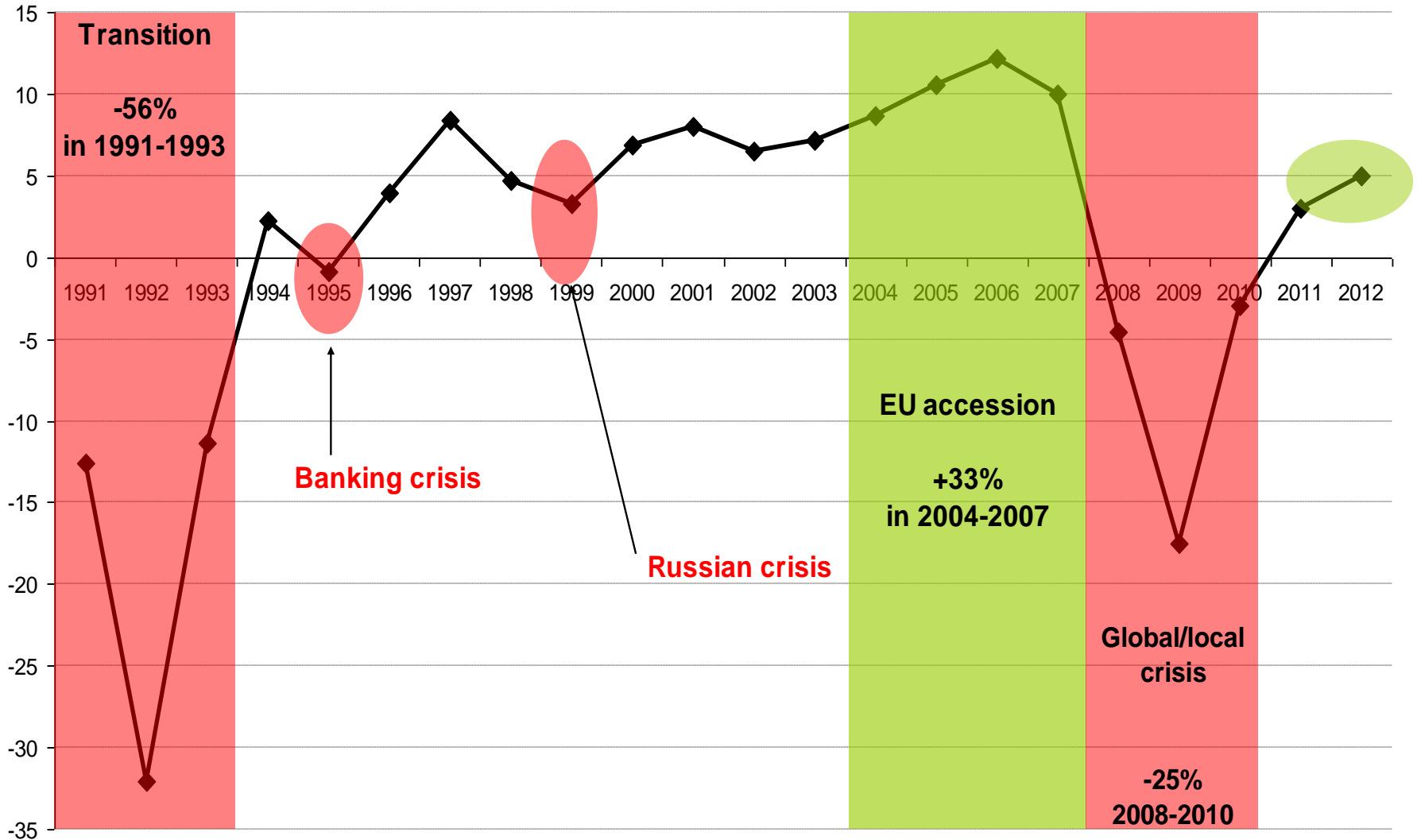
Sharp downturn – recovery in 2011

GDP Growth in Baltics and Euro zone



Bumpy road and experience from crisis

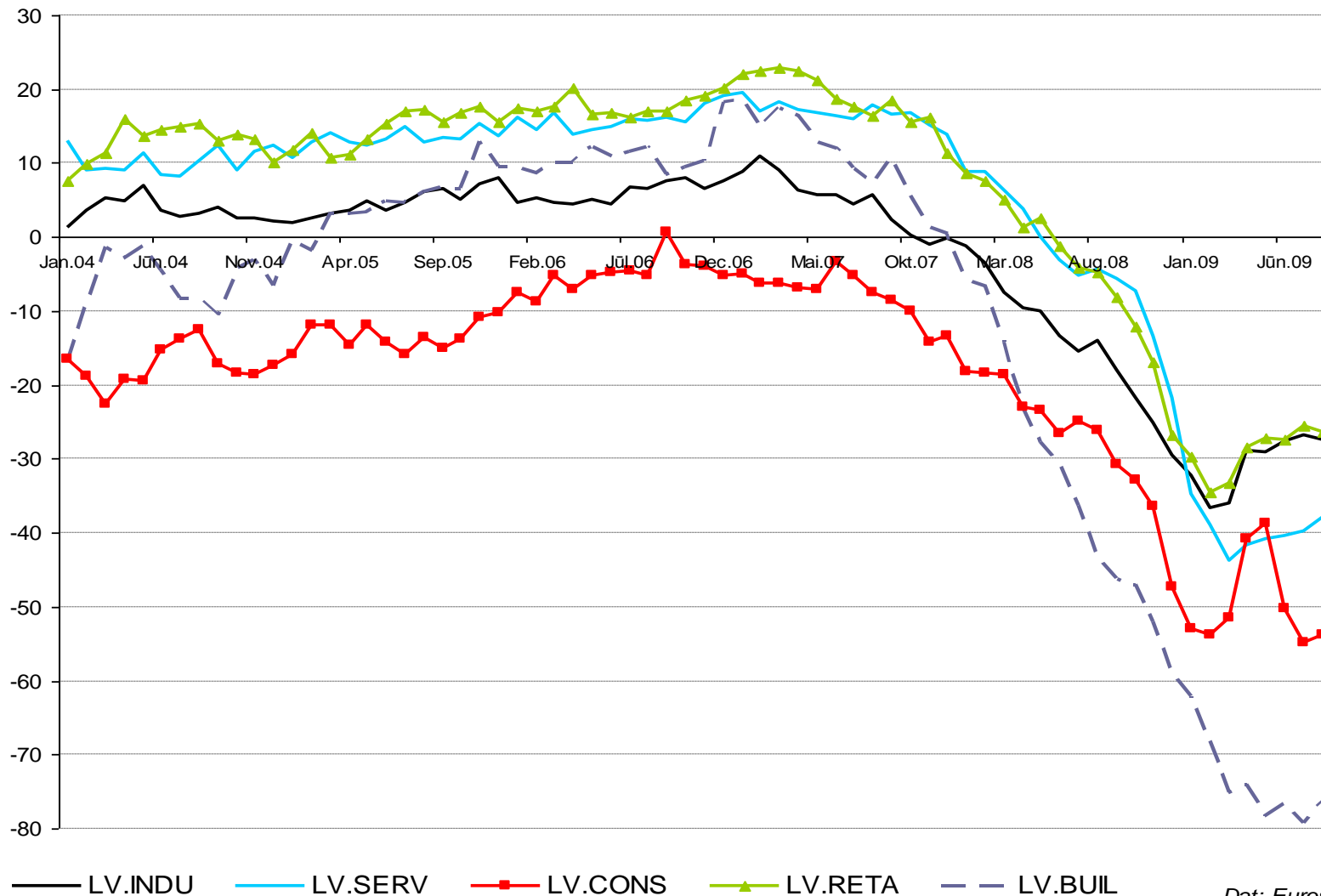
GDP 1991-2012 (% yoy)



Source: statistics, SEB banka

Slight improvement in confidence

Economic Sentiment Indicators



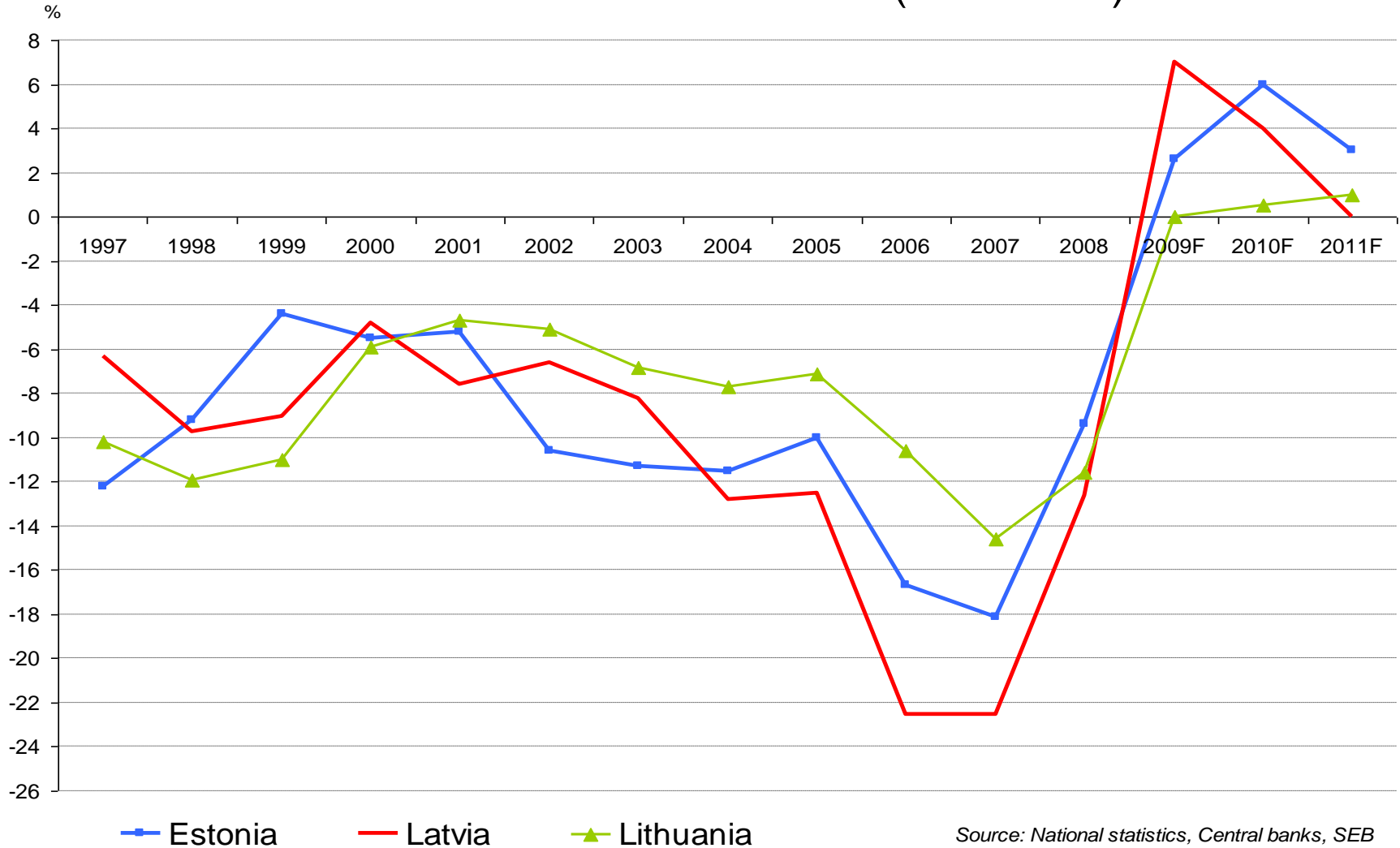
Dat: Eurostat

Deleveraging is unavoidable

Estonia and Latvia: high foreign debt

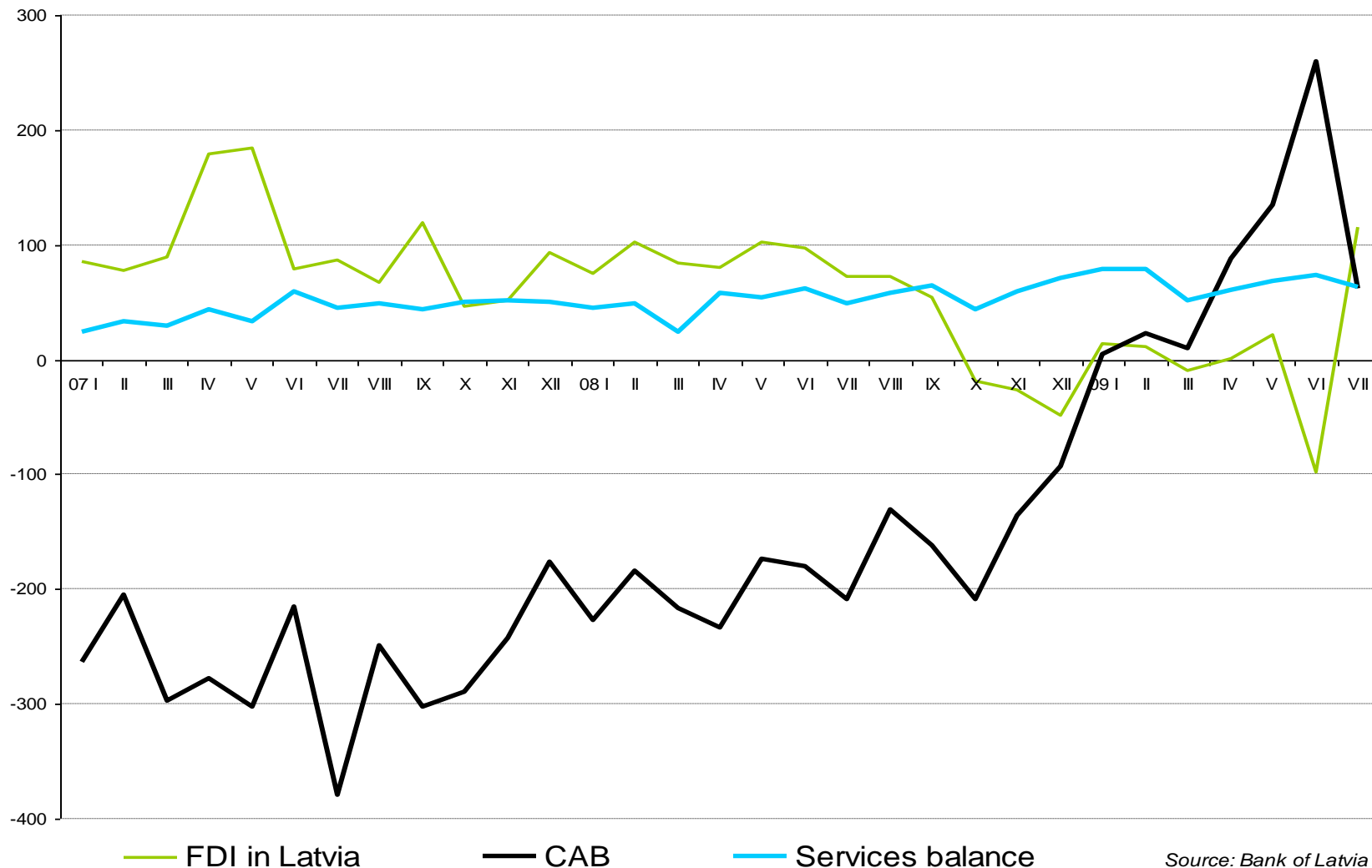
Rapidly corrected external imbalances

Current Account Balance (% of GDP)



Astonishing surplus in current account

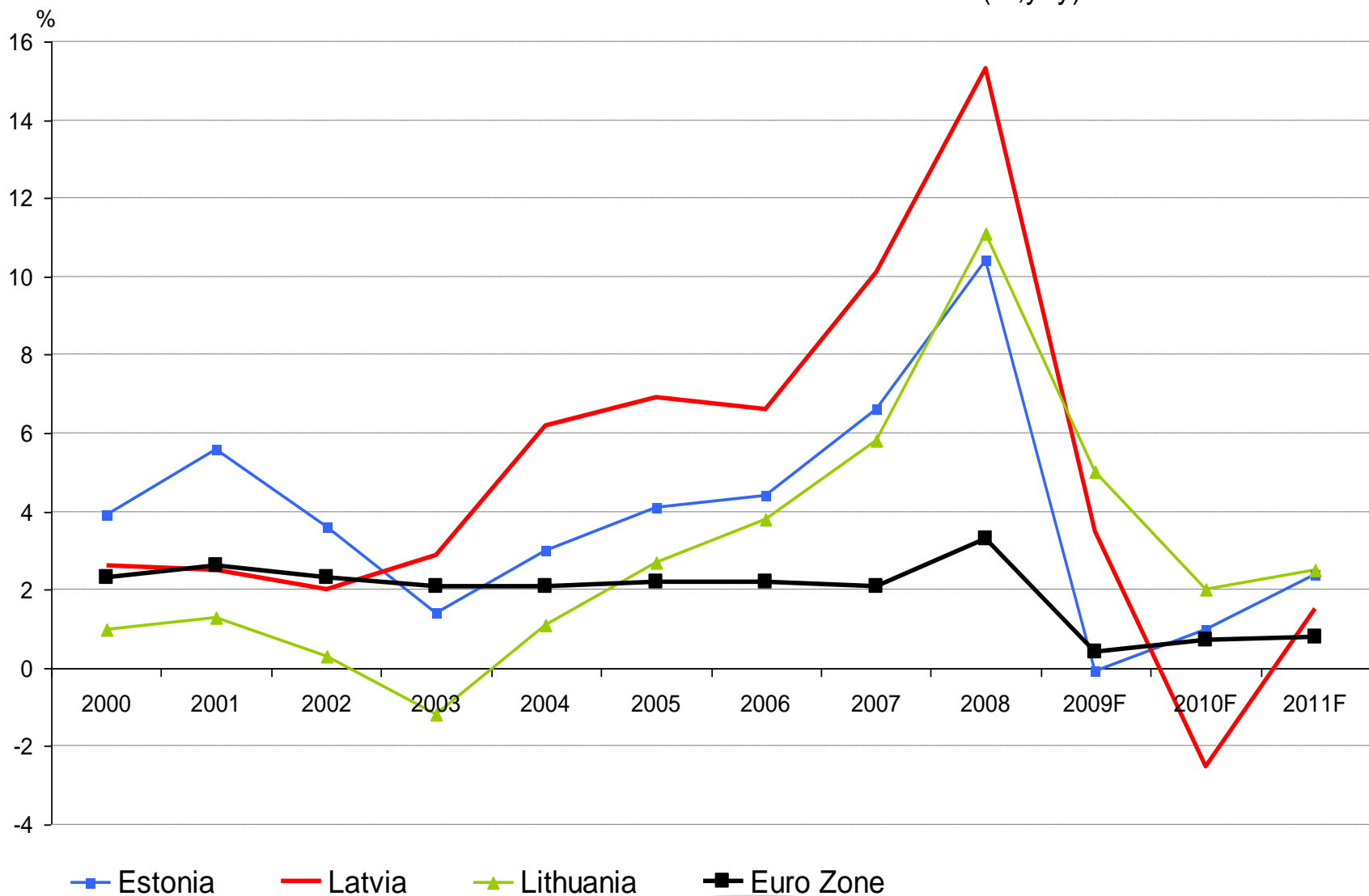
Balance of Payments (LVL mln)



Source: Bank of Latvia

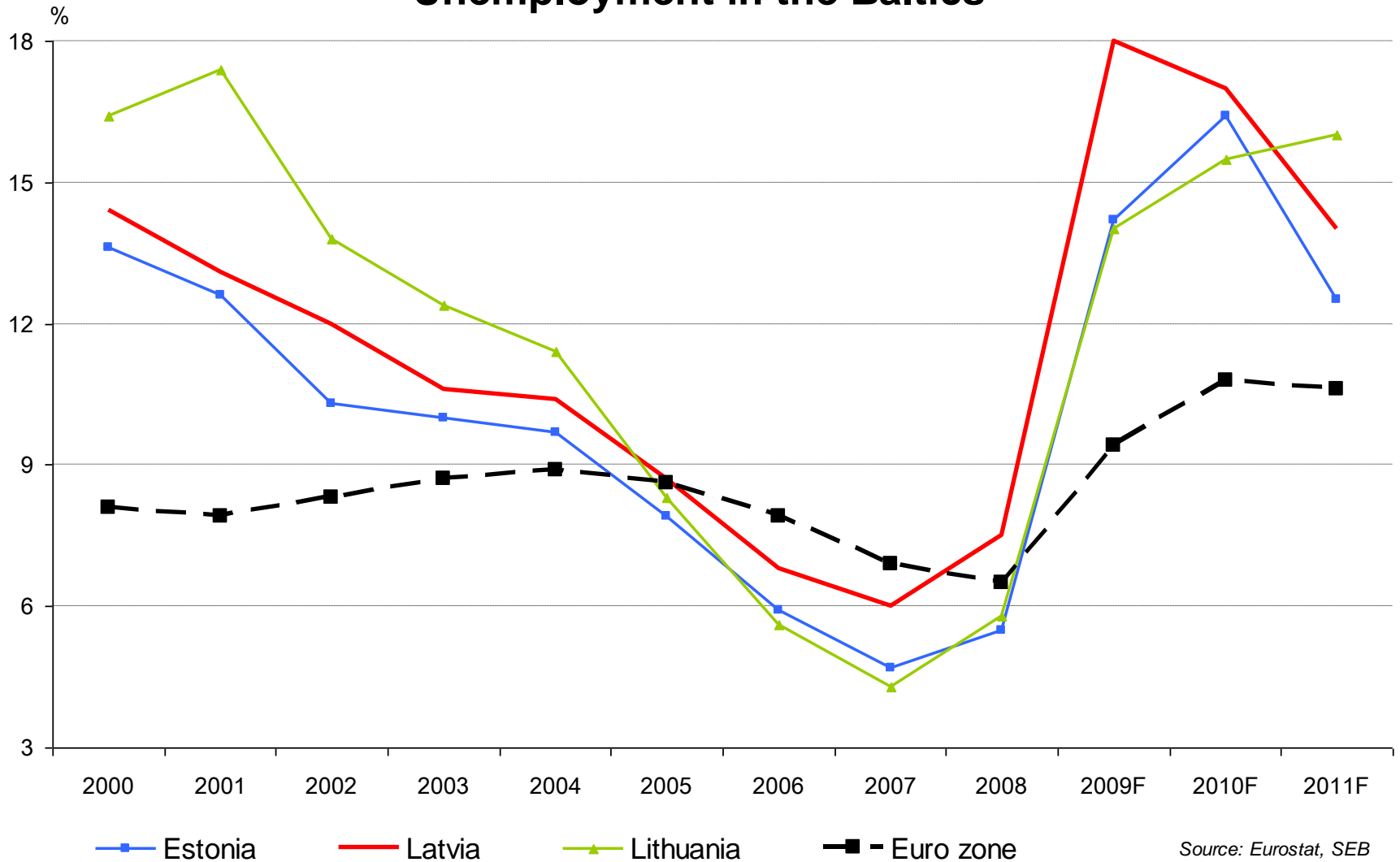
Adjustments in prices. Deflation!?

HCPI in the Baltics and Eurozone (% ,yoy)



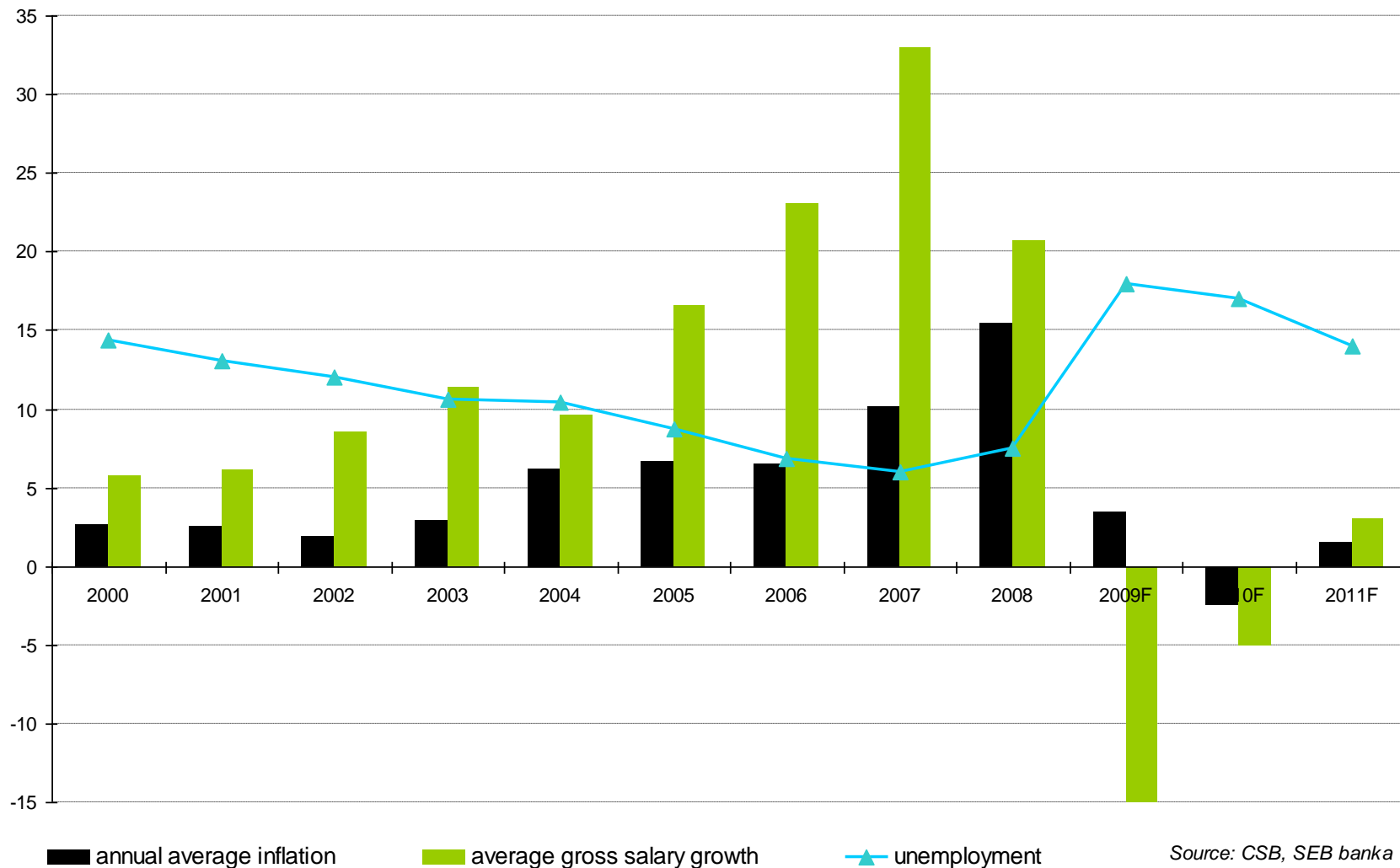
Unemployment triples

Unemployment in the Baltics



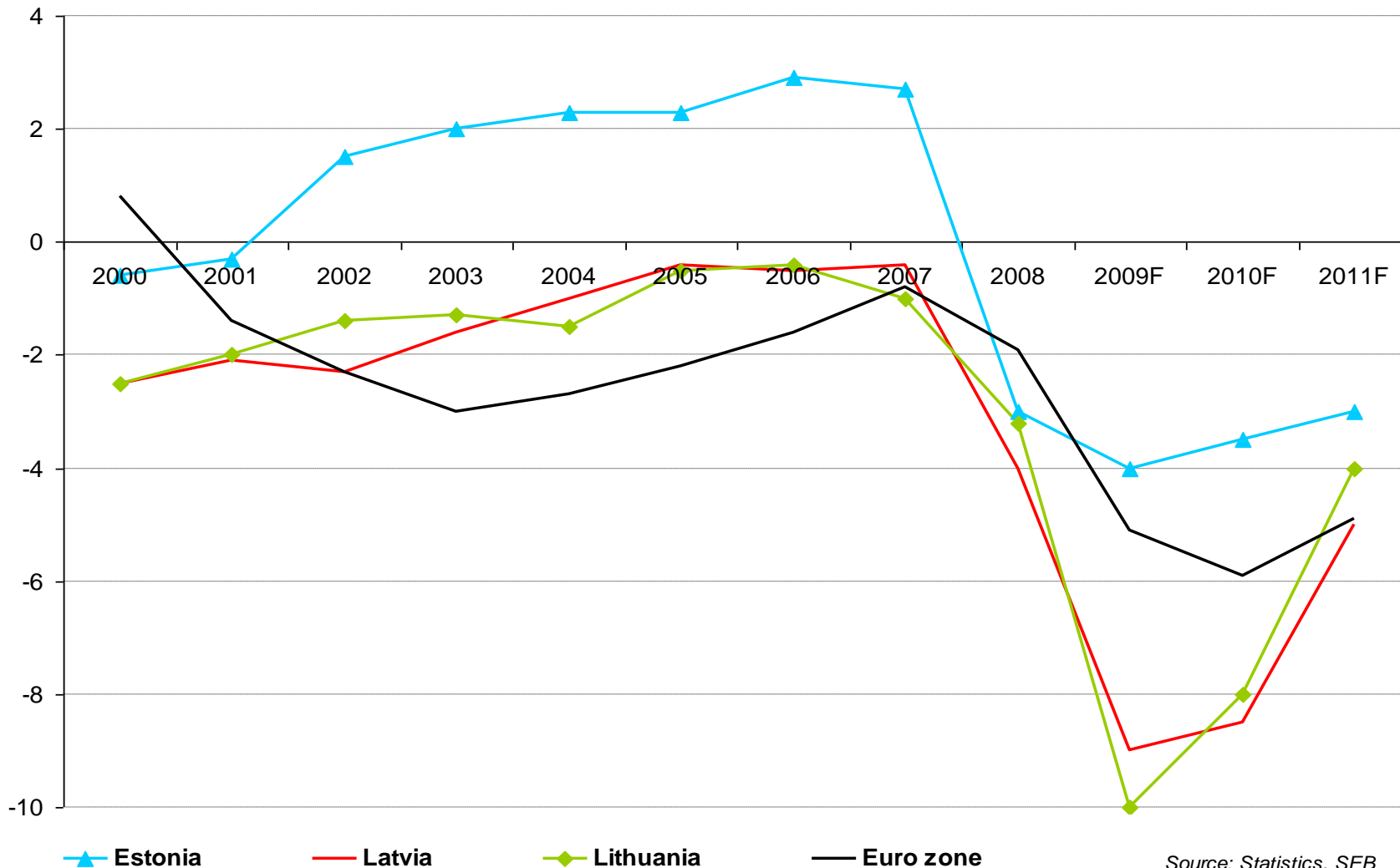
Source: Eurostat, SEB

Latvia: Purchasing power and unemployment (% , yoy)



Fiscal troubles – enlarged public debt

Public sector financial balance (% to GDP)



Exit strategy – euro adoption

 **Latvia - 2013/2014**

	2009	2010	2011	2012	2013	2014
Fiscal balance (% of GDP)	-8.5-9.5	-7.0-8.5	-4.0-5.5	-3.0-4.0	-2.5-3.0	-1.0-0.0
CPI (%)	3.2-3.6	2.5-3.5	1.0-2.0	1.5-2.5	1.5-2.0	1.5-2.0

Budget deficit

Prices

Euro adoption

 **Estonia - 2012/2013**

 **Lithuania - 2013/2014**

Conclusion:

- Sharpest downturn in Q2 (Q3)
- Imbalances shrinking: current account, inflation
- Main policy – internal devaluation:
 - Massive public expenditure cuts (incl. pensions)
 - State functions restructuring
 - Wage cuts
 - Focus on productivity
- Deleveraging, debt stock
- Economy activation measures
- Strong political focus on euro zone accession
- Pan Baltic market, Scandinavian domestic market

