

After some tough years for the Baltics, Poland and Russia the crisis is now over, Swedish bank Nordea said in its Baltic Rim Outlook.



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Estonia's nearby membership of the euro club highlights that a new era has begun for the Baltic countries. Exports have been the key element in the early part of the recoveries in the region, while the development of the domestic economies varies significantly. Poland is clearly in the lead, with Russia gaining pace and the Baltics still struggling to get domestic demand to pick up.

In **Estonia** exports have been the main driver of the recovery. Although the labour markets have started to improve, consumption is still fragile. The euro adoption is expected to boost confidence in the economy both at home and abroad, strengthening the recovery. Whereas public finances are at sustainable levels, the economy has other challenges to overcome, such as accelerating inflation and high long-term unemployment.

In **Latvia** focus is on fiscal consolidation. The budget deficit should be cut below 6% of GDP in 2011 – a challenge from 10.2% in 2009. However, a gradual recovery is clearly seen in the economy, although the domestic economy is showing little sign of an upturn. The outcome of the recent elections was good news for the markets, but credibility needs to be upheld to ensure favourable conditions on the local financial markets.

Lithuanian GDP still has a long way up to pre-crisis levels, and for this also a recovery in domestic demand is needed. Although growth this year is seen lacklustre, acceleration is expected in 2011. However, a slowdown in export demand could keep the economy weak for a longer time. Budget cuts will also be needed, with preferably some structural reforms implemented. Stable government finances are necessary for sustainable growth.

Crisis over in the Baltics and Eastern Europe

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Growth in **Russia** is seen slowing in the second half of the year, indicating that growth for 2010 as a whole will undershoot previous forecasts. Especially the agricultural sector has stagnated due to the summer drought. Although inflation has accelerated, we do not foresee double-digit figures over our forecasting horizon. The budget deficit will remain fairly large despite for example rising oil prices and privatisation plans.

The **Polish** economy continues to pick up speed and almost all engines are now up and running again after the global crisis. However, we expect the economy to start losing momentum late this year and in the first half of next year. Fiscal policy is our key domestic concern at the moment, especially since general elections are due next year. A lot of focus is currently on the central bank, as the first interest rate hike is near.

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