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Eastern European Outlook

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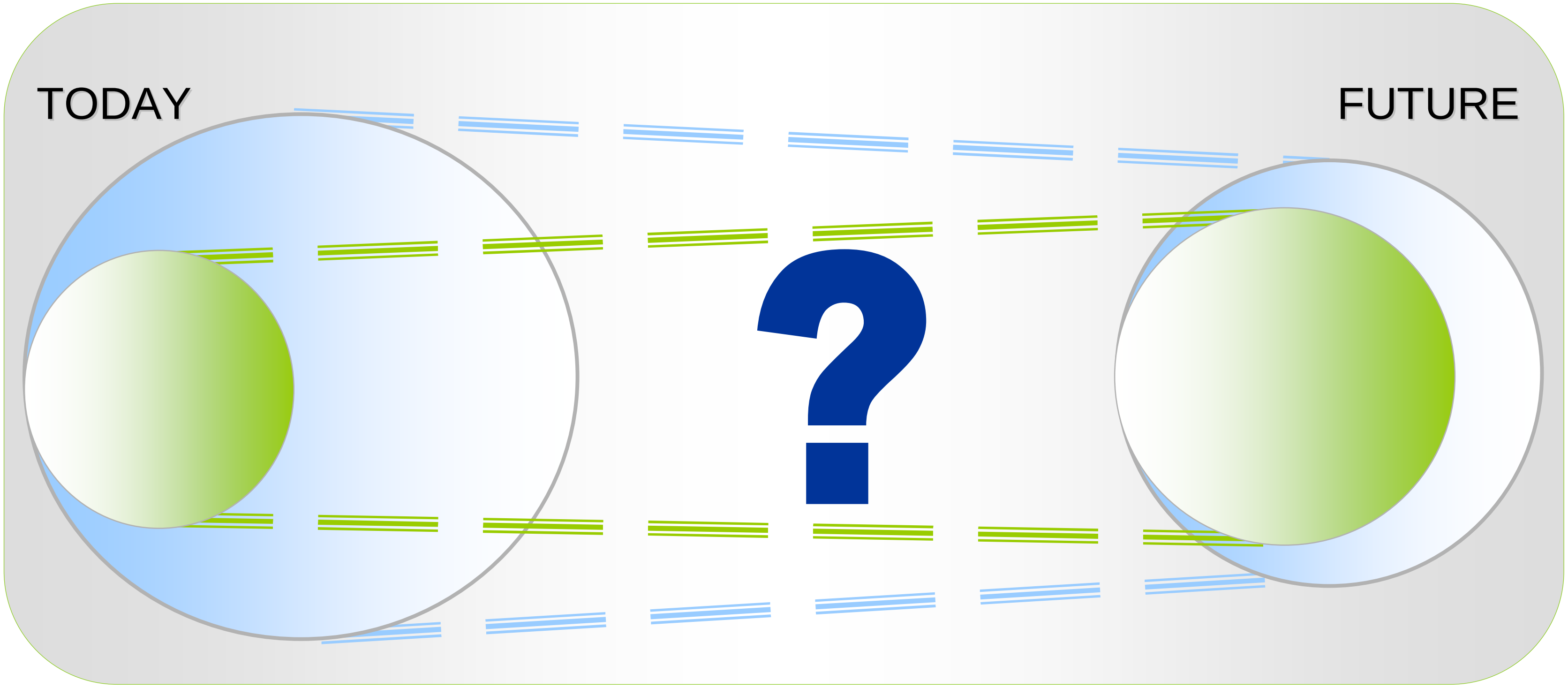
Major global forces in motion

Hampering economic growth - not 'business as usual'

- **Necessary restructuring processes under way…**
  - Crisis policies are stabilising the economy, but have not solved the world's problems
  - Fiscal budget consolidation handicaps economic policy
- **Political consensus: Shrink credit/banking market**
  - …hopefully without a major impact on the economy
- **G20: Globalisation & review of economic policy / framework**

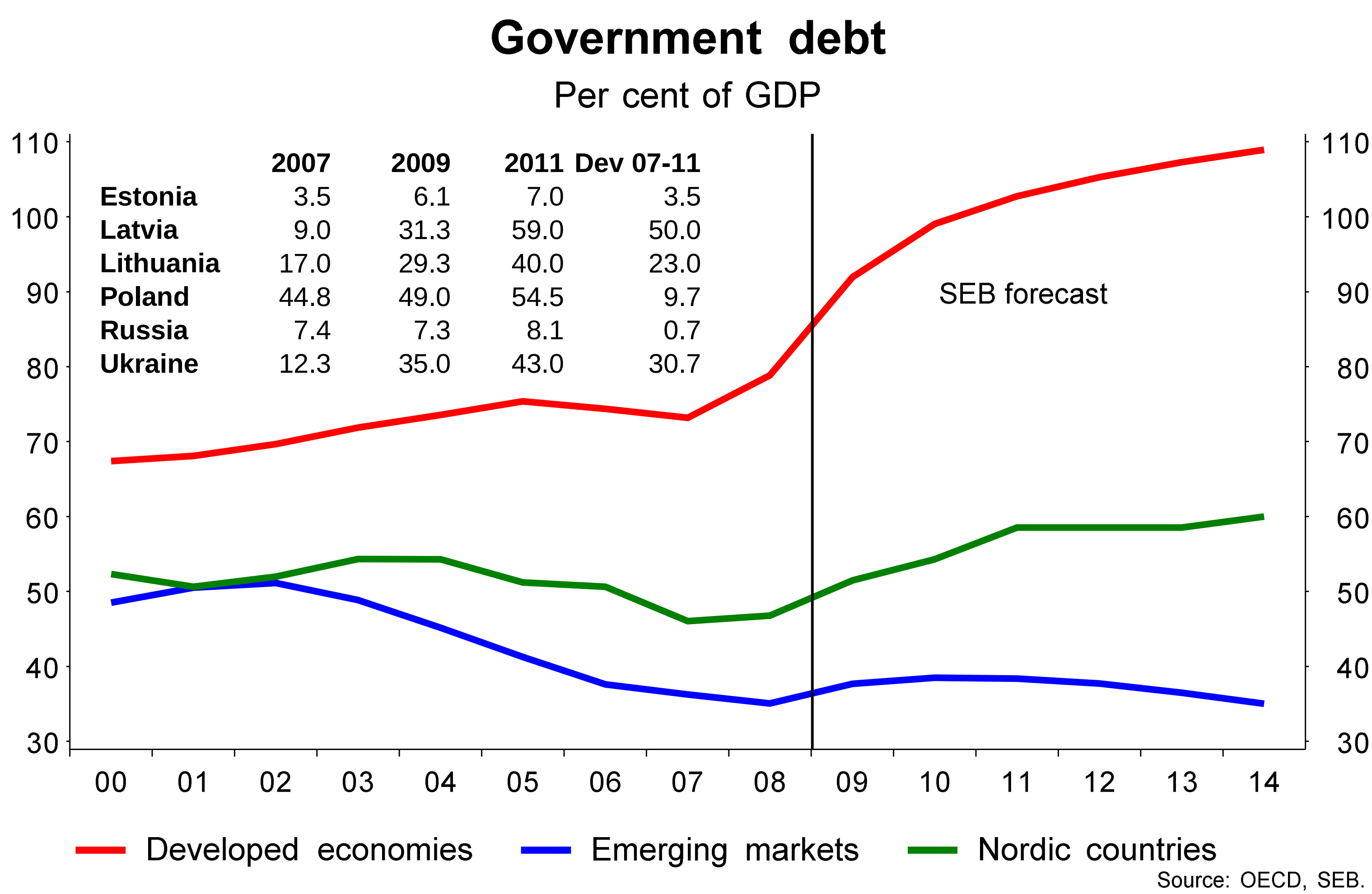
Rightsizing the credit markets – impact on economic development?



= Real economy

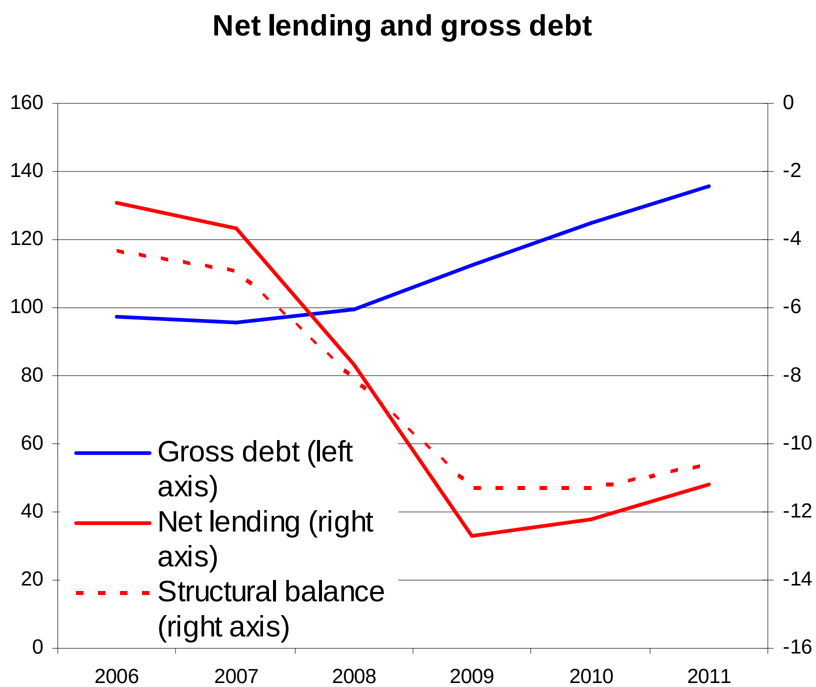
= Credit/banking market

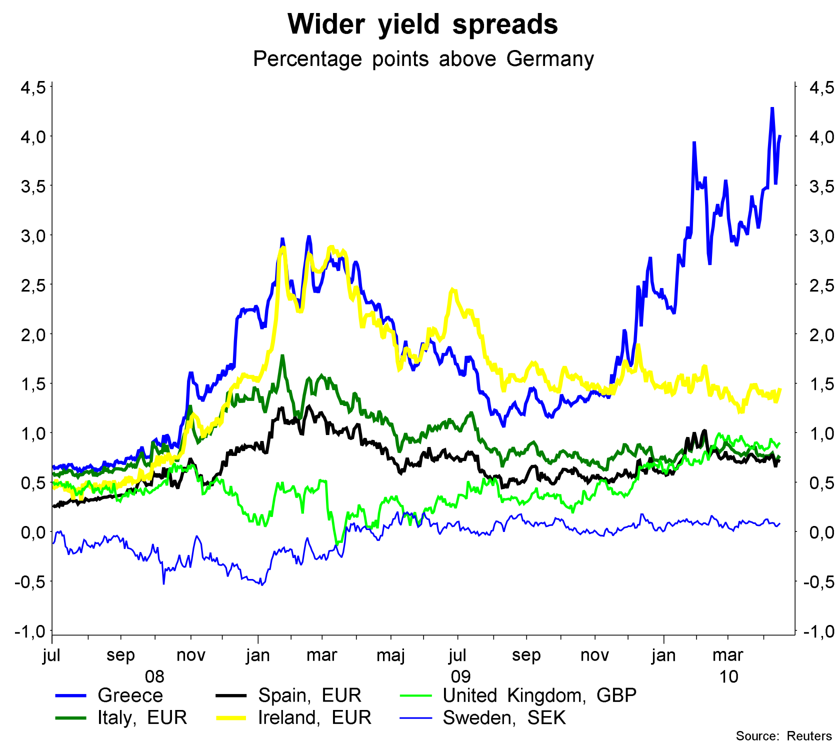
Low public sector debt levels in Eastern Europe



	2007	2009	2011	Dev 07-11
Estonia	3.5	6.1	7.0	3.5
Latvia	9.0	31.3	59.0	50.0
Lithuania	17.0	29.3	40.0	23.0
Poland	44.8	49.0	54.5	9.7
Russia	7.4	7.3	8.1	0.7
Ukraine	12.3	35.0	43.0	30.7

Problems in Greece





- Deficit: 12,2 % of GDP 2010 – a large part structural
- Debt level 2010 125 % of GDP

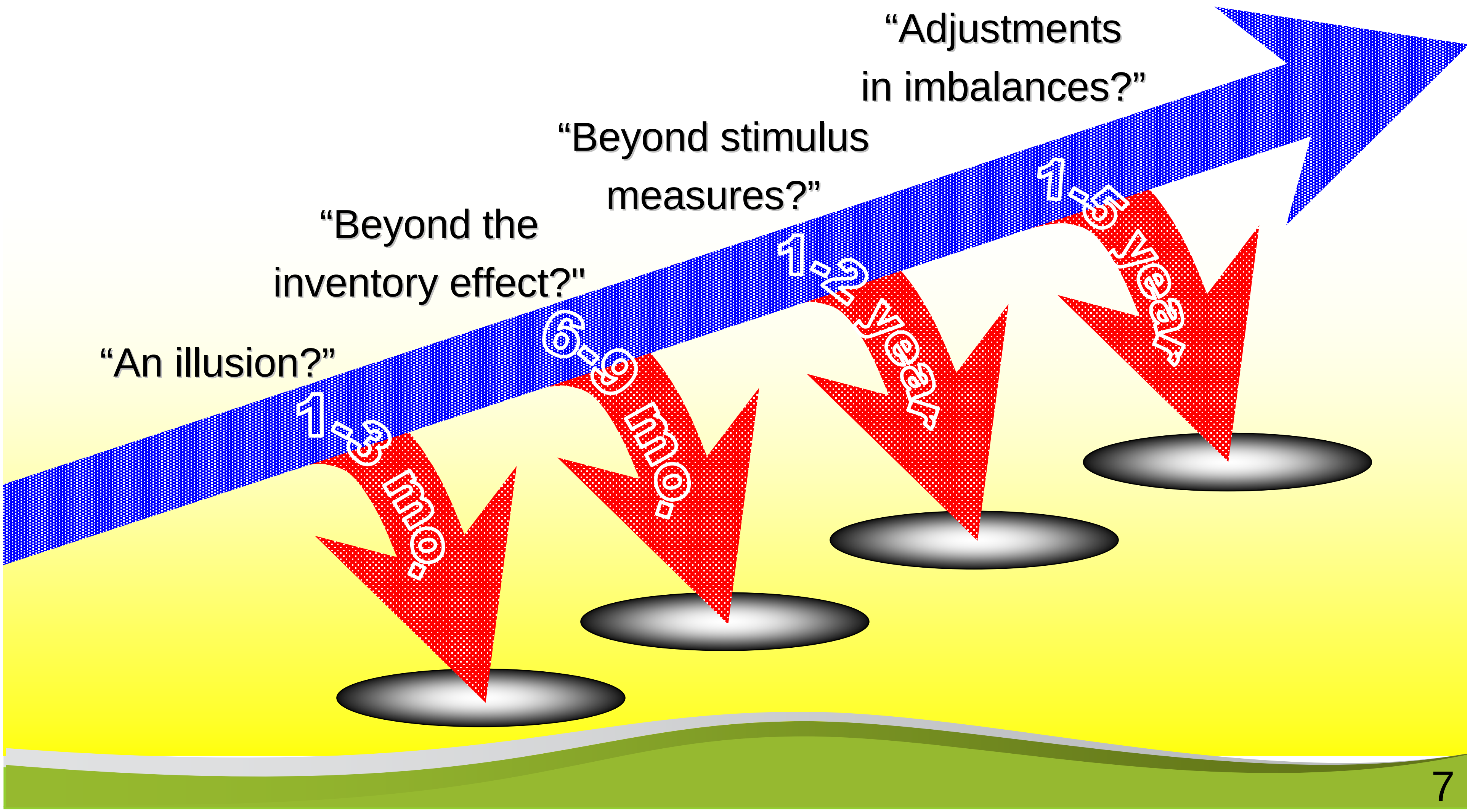
- Current account deficit and low internal savings rate
- CDS and yield-spreads creeping higher

Greece (cont.)

- No country in the EMU has fiddled with its figures as much as Greece
- Preserving the SGP or risk default?
  - Moral hazard arguments against supporting Greece *BUT* necessary for political reasons
- The government might use outside pressure to implement unpopular austerity measures
- Support programme buys time for Greece, but does not solve the underlying problem
- What is asked for now are credible savings and results that they improve public finances

Questions that plague the recovery

Both in the short and long term



Decent global outlook

GDP, year-on-year percentage change

	2008	2009	2010	2011
United States	0.4	-2.4	3.4	2.2
Euro zone	0.5	-4.1	1.7	2.0
Poland	4.9	1.7	3.5	4.5
The world	3.0	-0.7	4.5	4.3
Oil, USD/barrel	97.2	61.9	75.0	75.0
EUR/USD, Dec.	1.40	1.43	1.30	1.25

EEO, March 2010: Economic recovery but weak domestic demand

- Eastern and Central Europe has been the region hardest hit by the global credit crisis and recession
- Gradual economic recovery from low levels, with competitive exports leading the way
- Domestic demand will slowly thaw
- Inflation will decelerate – non-existent in the Baltic countries in 2010
- Narrowing of imbalances; public sector debts will be low or moderate
- Renewed market confidence, resting on a fairly stable foundation

- **GDP forecasts for 2010-2011 – not as high as lively pre-crisis growth:**
- **Poland** in the best shape – growth will continue to accelerate, reaching its potential rate of 4.5% in 2011
- **Russia** will achieve a decent 5% annual growth rate
- **Ukraine** will grow by a moderate 3.5 and 4.5% after last year's big slide
- Coming out of the Baltic crash: **Estonia** +2.0% and +5.0%. **Latvia** -2.8% and +4.0%. **Lithuania** +1.0% and 4.0%

Industrial production rebounding faster in Eastern Europe than in the West

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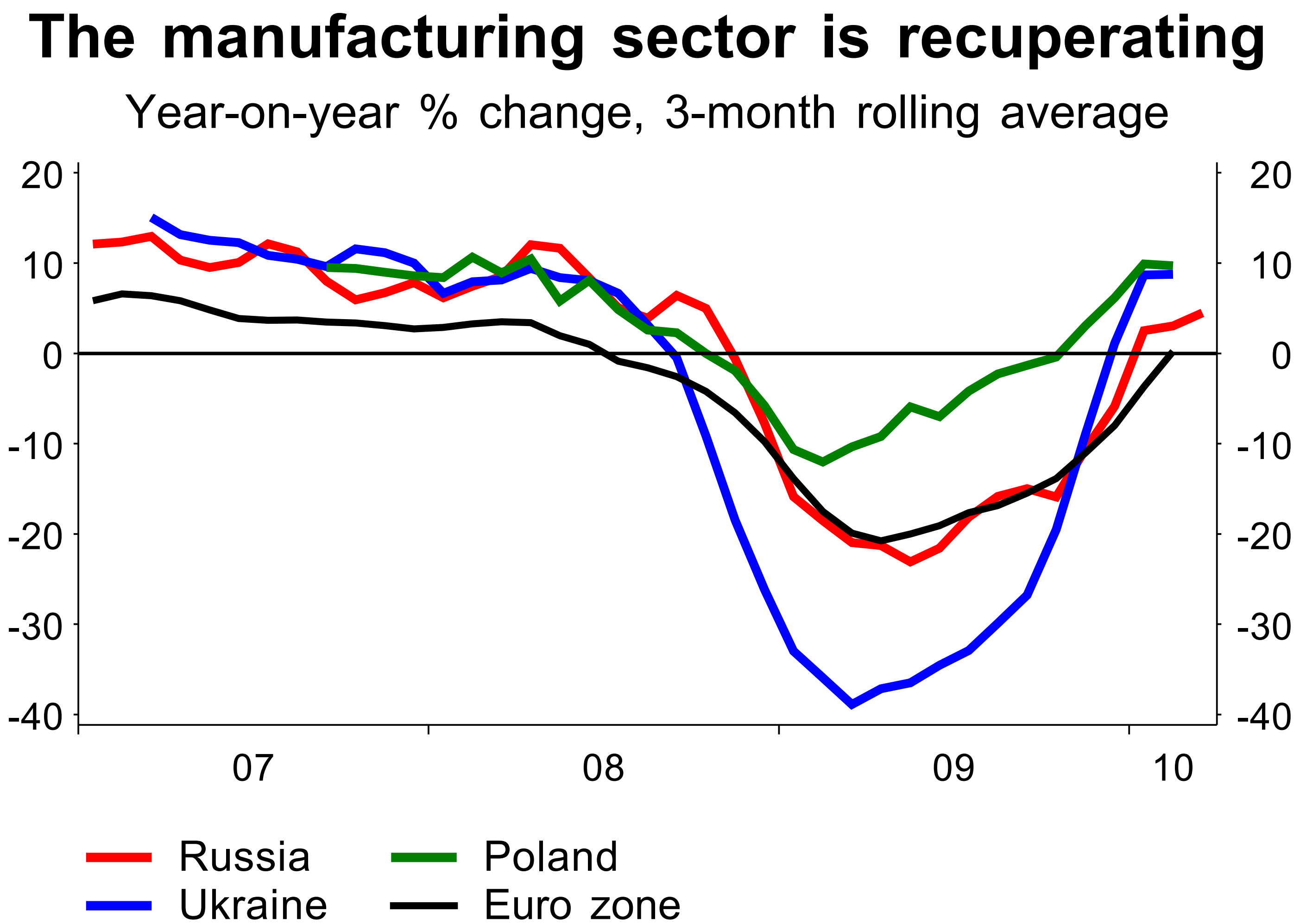

Source: Eurostat, local statistical offices

Greater risk appetite in Eastern European markets and falling interest rates in the Baltics

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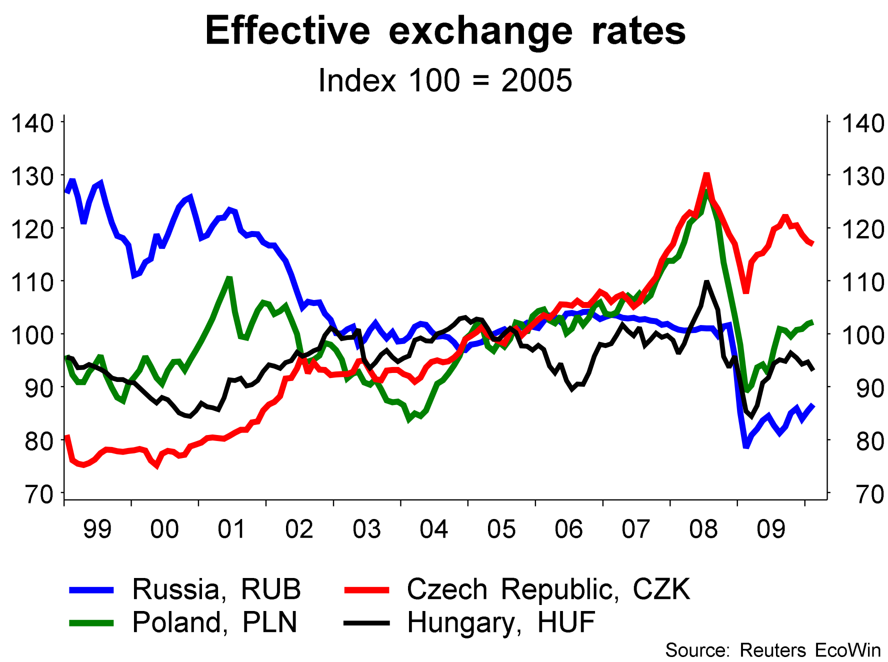
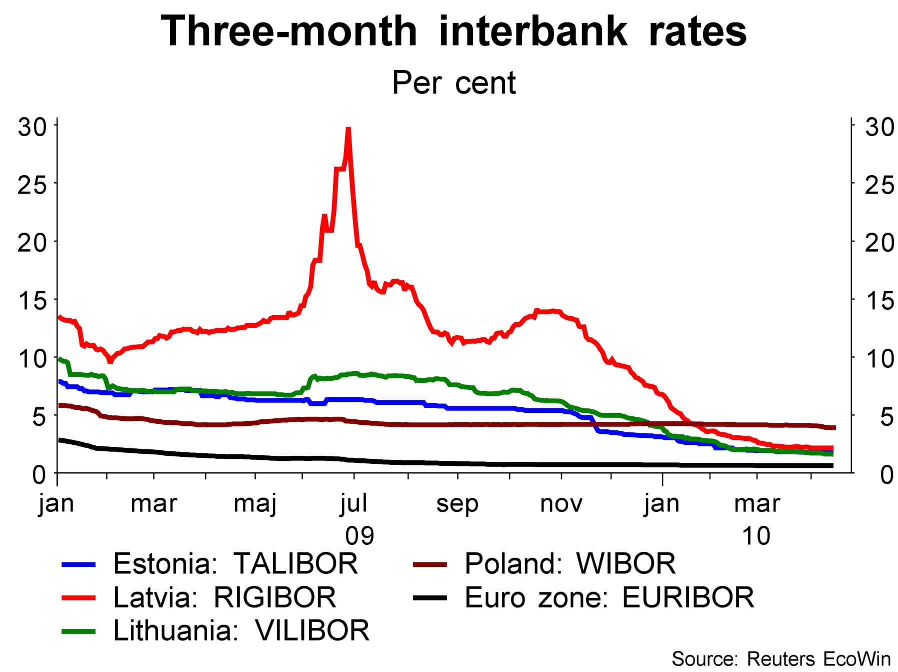
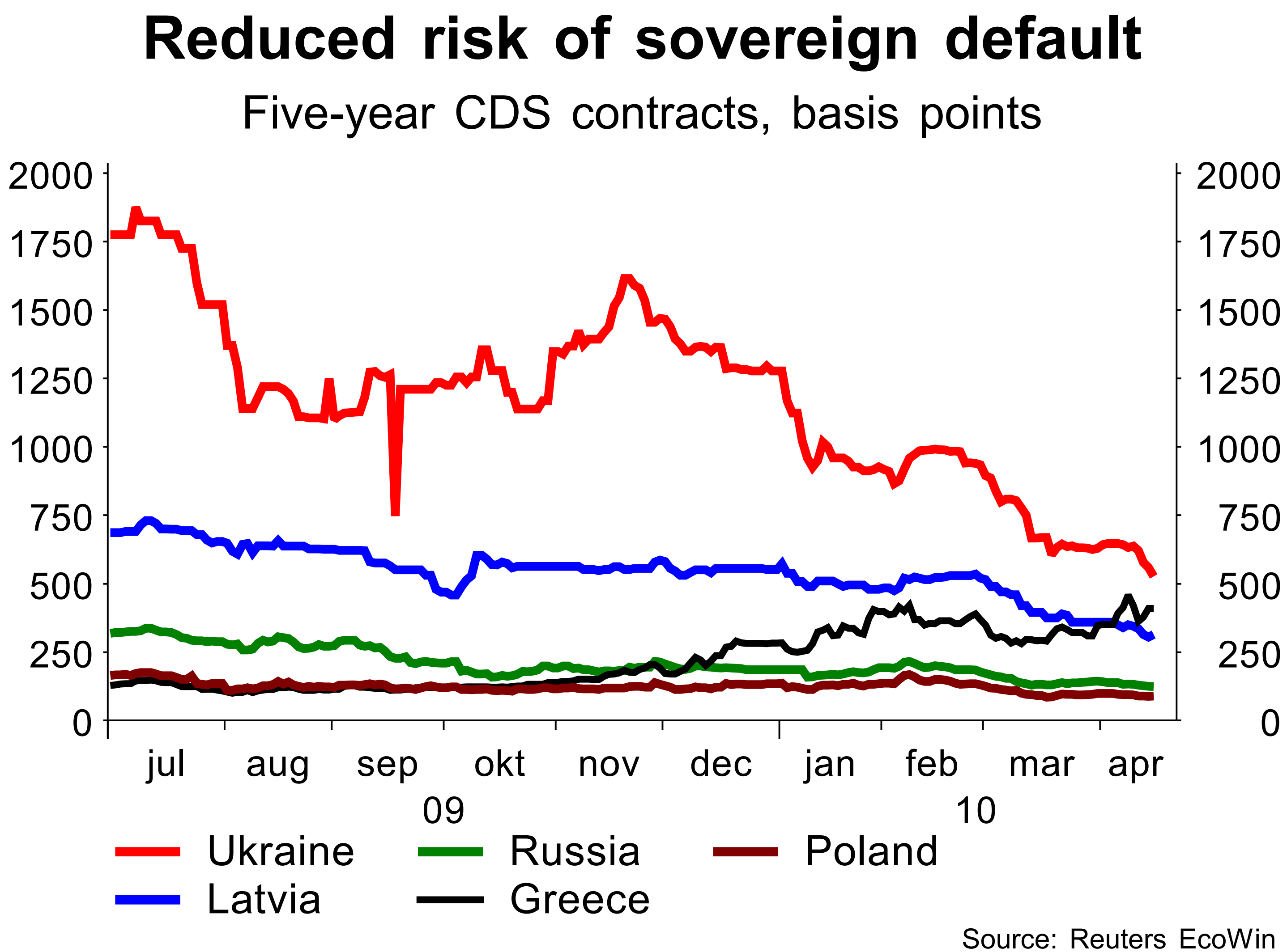




Eastern Europe not being hurt by market worries about Greece



Baltic countries: Growth is returning – but Latvia is lagging behind

- Export-led recovery
- Painful austerity policies will continue
- Internal devaluation instead of currency devaluation = deflationary environment
- Greater political risk, especially in Latvia and Lithuania – but this will not destroy fundamental financial market confidence
- Latvia's international bail-out programme will remain in place and Baltic euro pegs will survive
- Very high likelihood that Estonia will join the euro zone in 2011

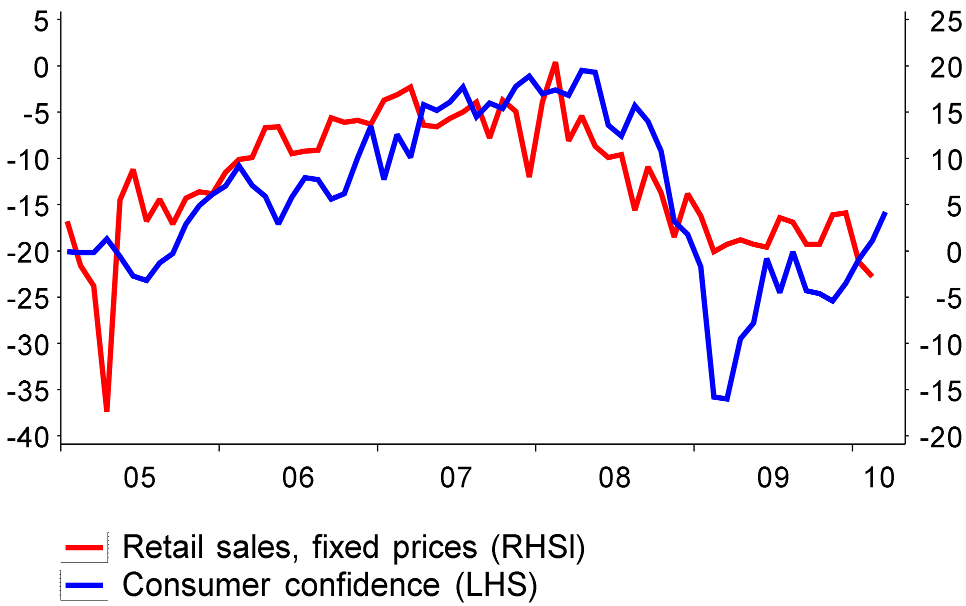
Estonia first in euro timetable

	Official	Our view
Estonia	2011	2011
Latvia	2014	2014
Lithuania	Aiming at 2014	2014
Poland	No target	2014-2015

Poland: Well-positioned but with budgetary challenges

Consumer confidence and retail sales

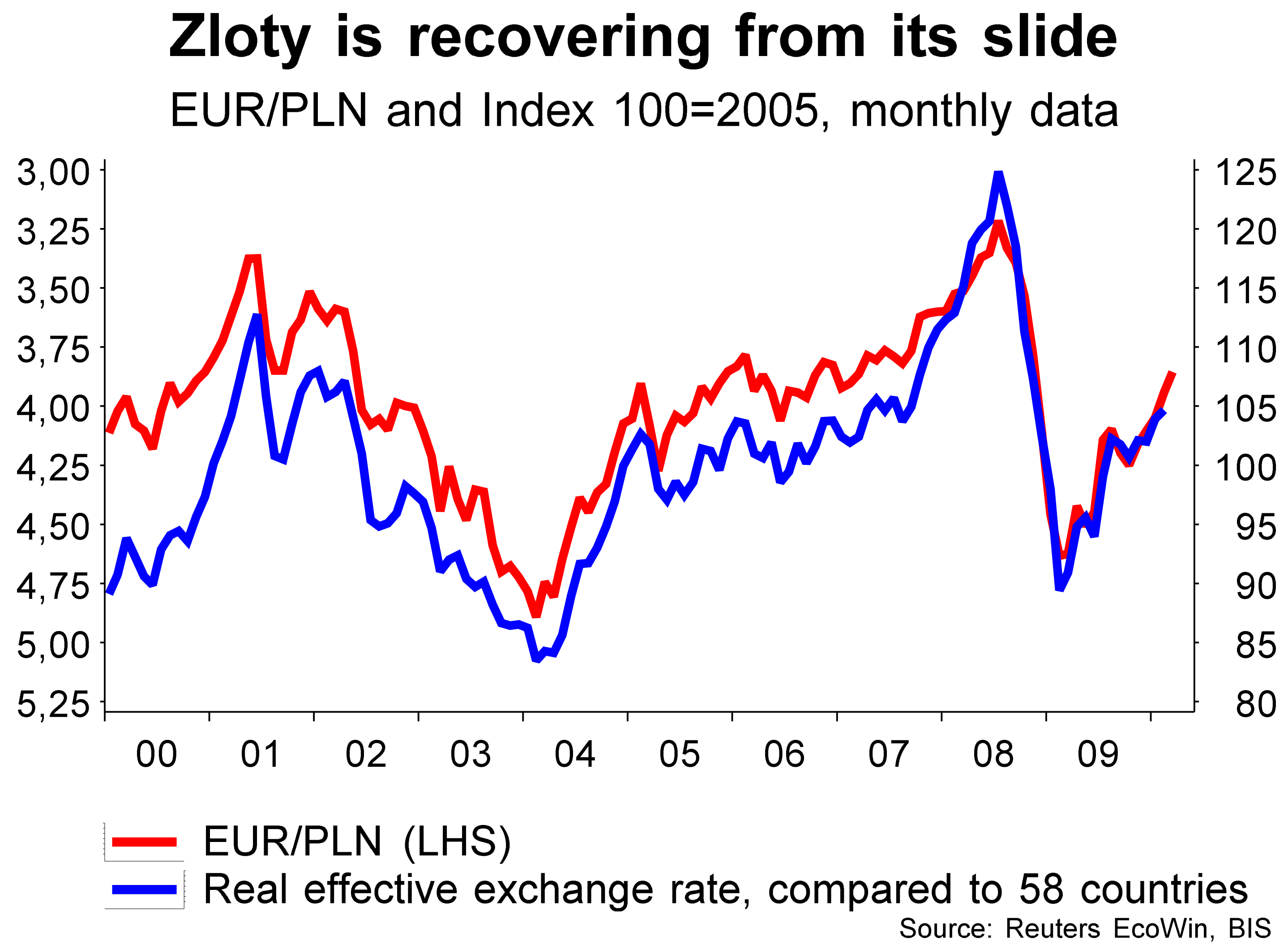
Index and year-on-year percentage change



Source: Reuters EcoWin

- Only EU country with positive GDP growth in 2009
- Moderate private debt, little foreign currency loan exposure, competitive exports
- Resilient households
- GDP growth +3.5% in 2010, +4.5% in 2011
- Domestic demand will follow exports upward later this year
- Larger public sector debt will require fiscal tightening – Poland can stay below its debt ceiling

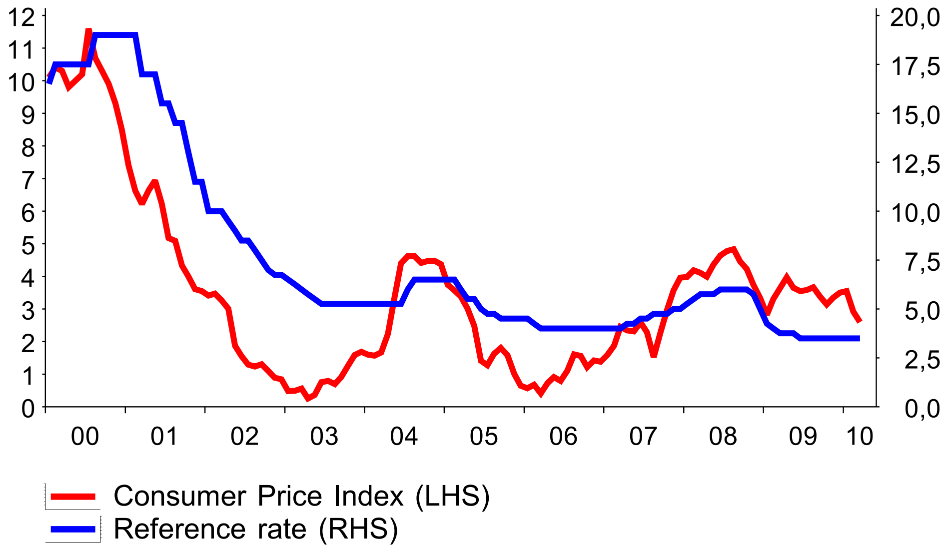
Zloty continuing to appreciate



Lower price pressure

Inflation and reference rate

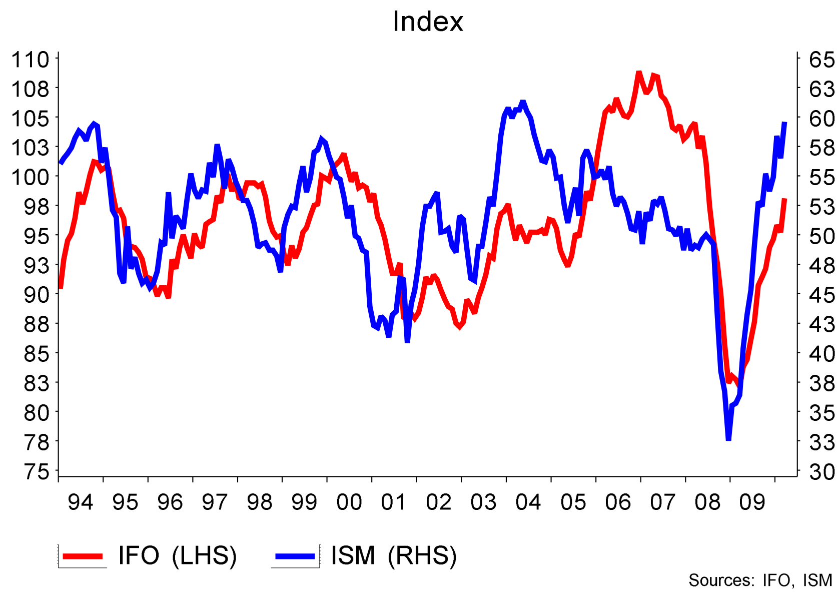
Year-on-year percentage change and level in per cent

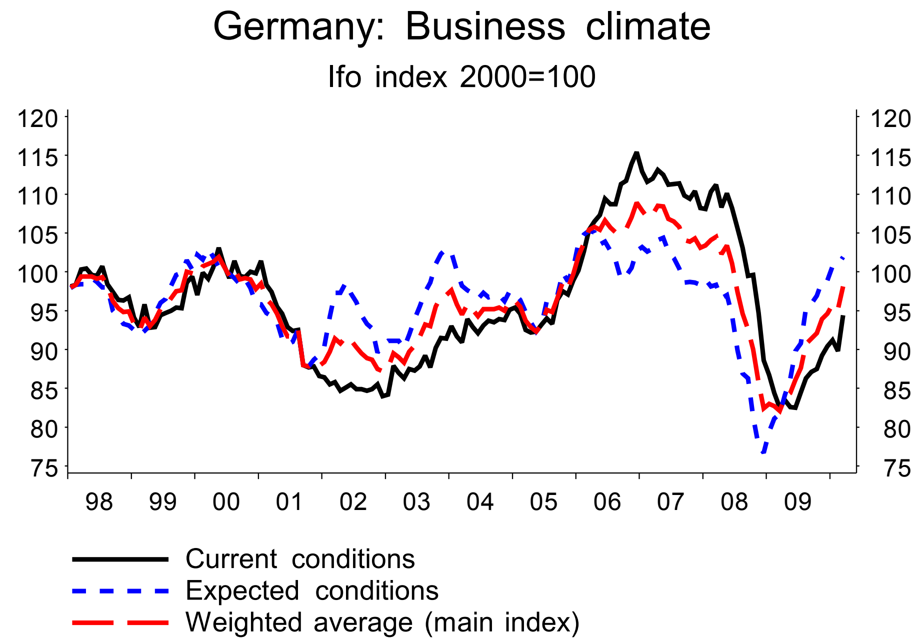


Source: Central Statistical Office, Reuters EcoWin

- Inflation near central bank ceiling, but falling – no key interest rate hike until H2 2010

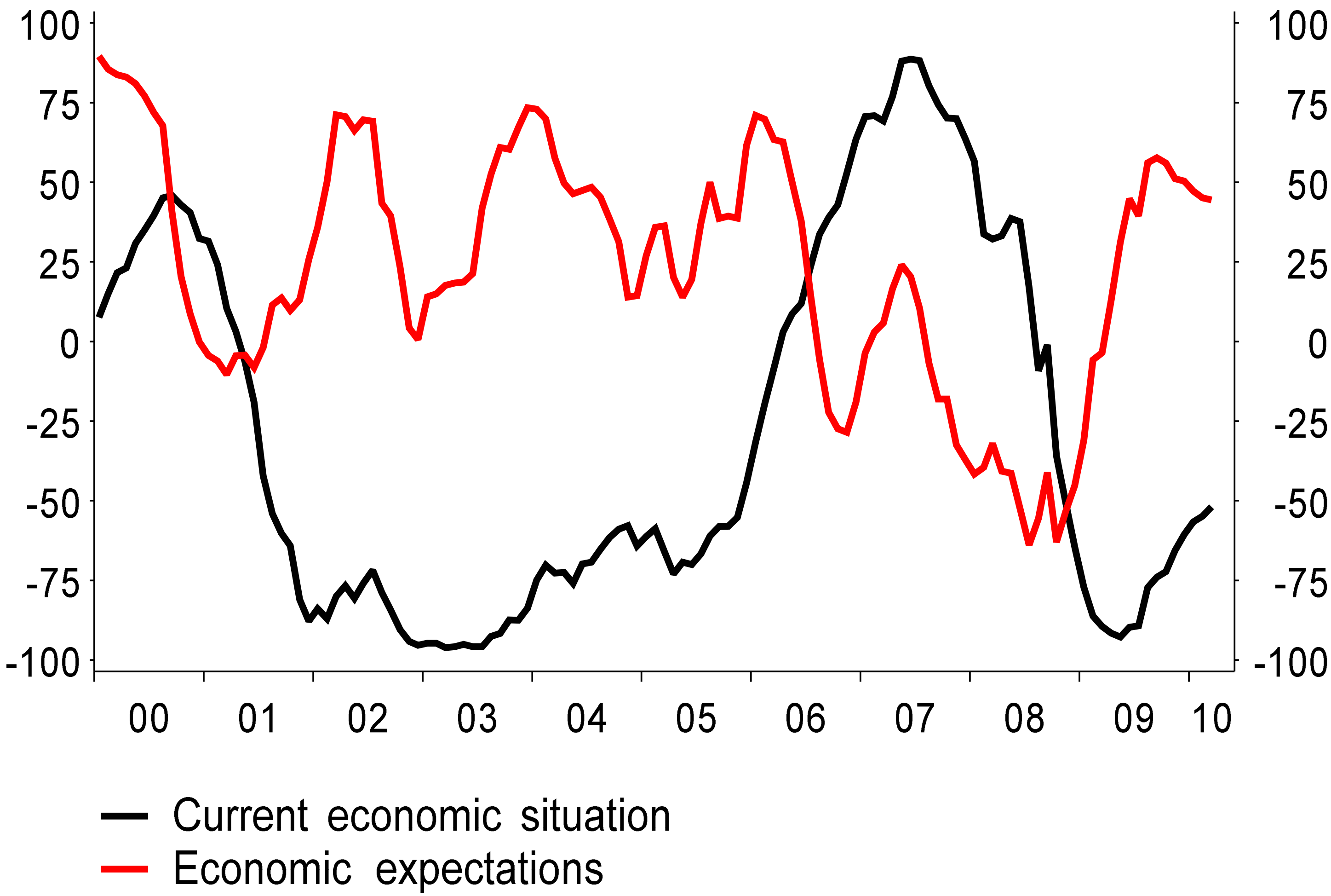
Germany: IFO still improving





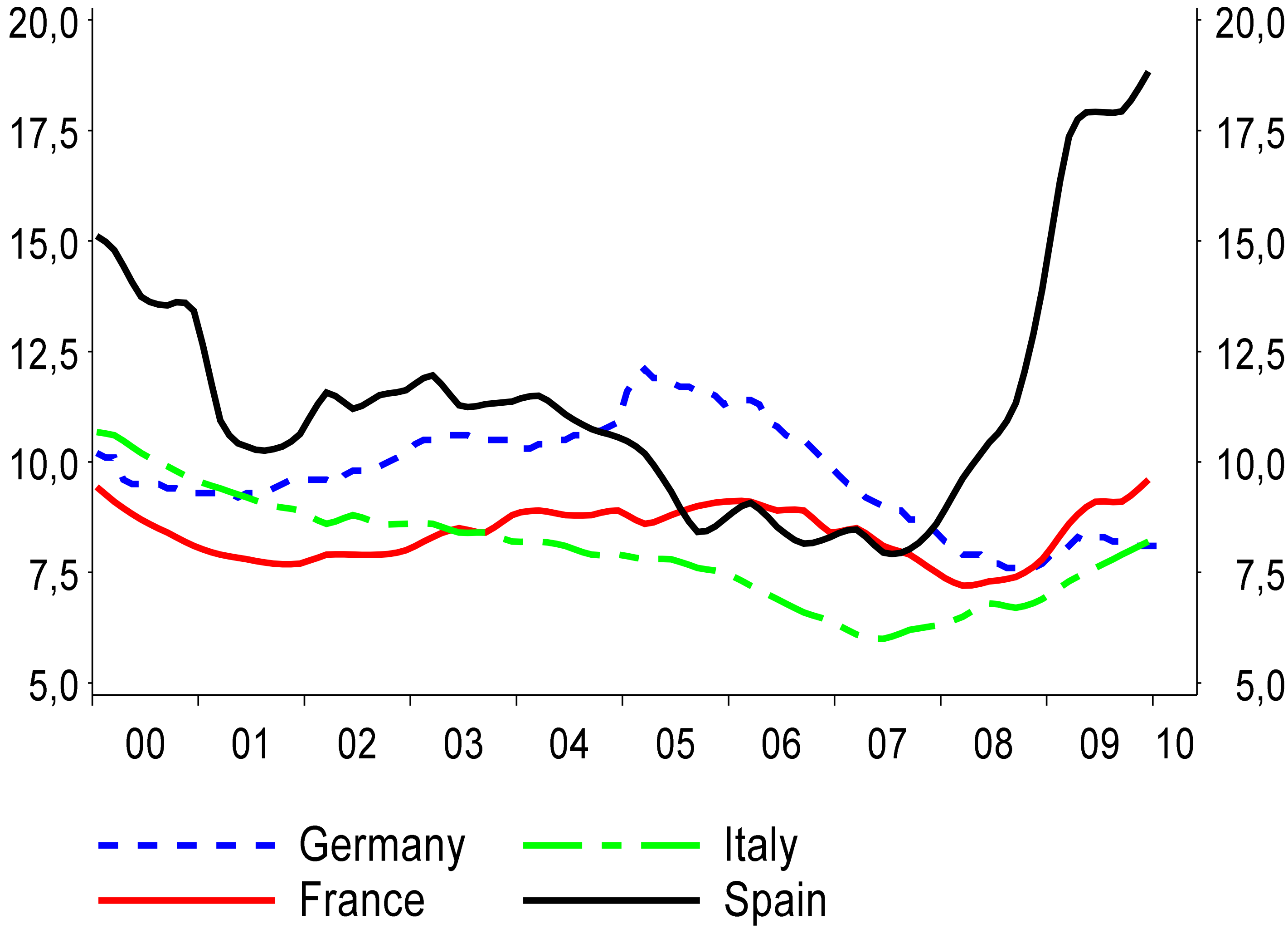
Germany: ZEW business surveys

Net balance



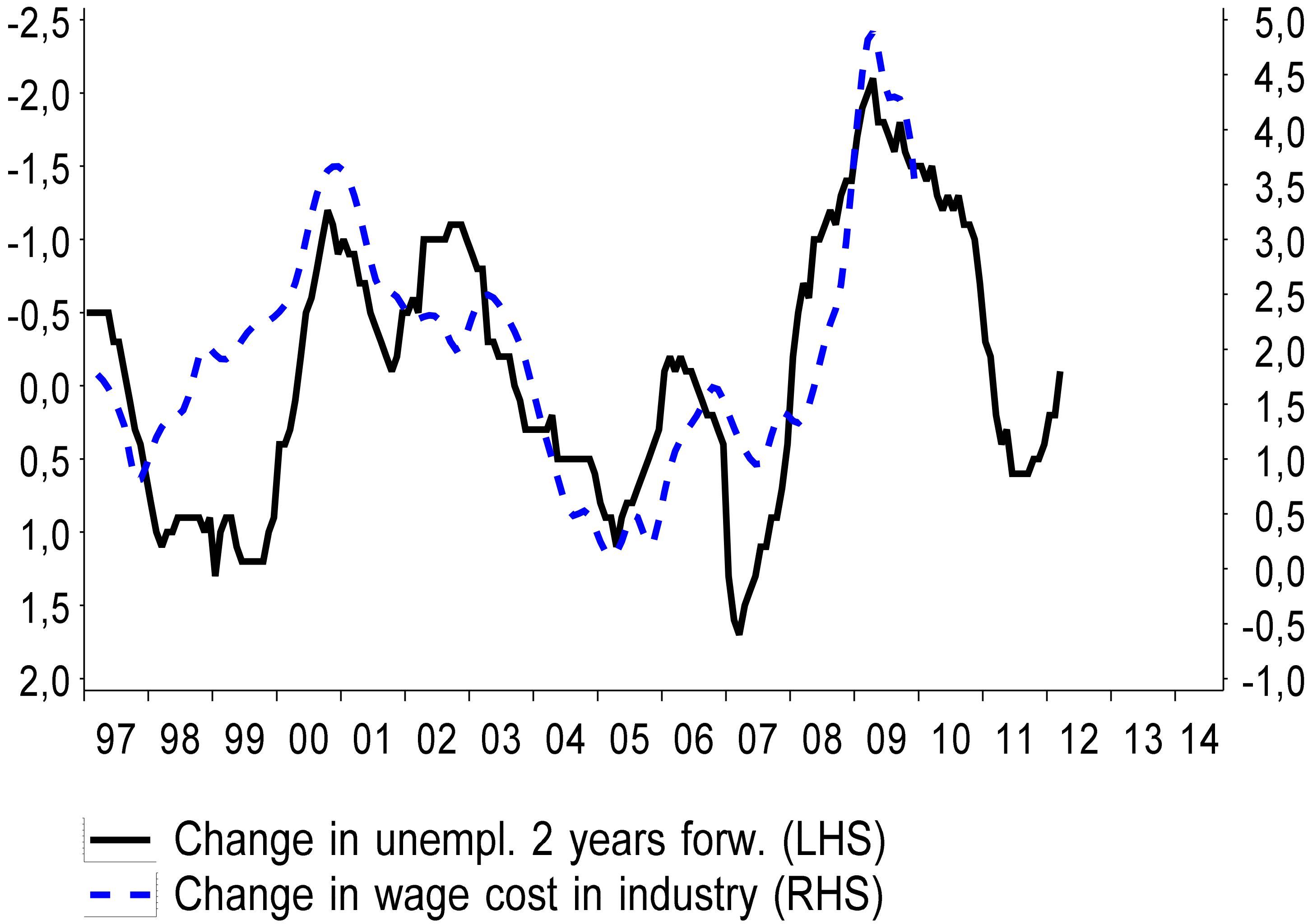
Eurozone: Unemployment rates

Per cent



Germany: Unempl. and wages

Percentage and per cent



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