BALTIC ECONOMIC OUTLOOK

Spring 2013

DNB

The Baltics escape global weakness

Since the economic rebound in 2011 Lithuania, Latvia and Estonia have continuously demonstrated fastest economic growth rates in Europe. The countries have reinvented themselves as exporting economies since 2009 through internal devaluation, which guaranteed export competitiveness and put them back on a growth path. However, the region is not an isolated island and uncertainty about the near term global economic growth has to be taken into account when forecasting the development of the region. The main trading partners of the Baltic States are Russia, Germany, Poland and the Nordic countries and all of them face weak economic growth this year.

Russian Ministry of Economic Development has recently slashed its growth forecast for 2013 from previous 3.6 percent to 2.4 percent – the slowest pace since 2009. The main reasons for slowdown are poor investments and lower consumer spending. The most alarming aspect of Russian economy is sluggish growth combined with record low unemployment and industries operating close to full capacity levels. This shows that problems in Baltic's main export market are fundamental. Any short-term Russian government fiscal stimulus without durable growth in productive investments will not ensure sustainable economic development.

In addition, Russian central bank with the new, somewhat less independent, head will most probably reduce the key interest rate in the second half of 2013 weakening the rouble and making goods produced in or transported through Baltic countries more expensive and less attractive in Russia. On top of this, we expect the price of oil to remain steady around current levels in 2013 and not provide additional support neither to Russia's economy nor to rouble. Thus, there exists a risk of weaker exports growth from the Baltics to Russia this year.

On the other hand, Germany, another key export partner, is demonstrating some positive growth momentum with the latest Purchasing Managers Index (PMI) pointing to 2 percent upturn for entire 2013 when European Commission (EC) expects a modest 0.5 percent increase. Yet, German economic growth is a function of the euro zone's periphery strength, and despite recent calm in the markets for countries' sovereign debt the region is still weak. Latest euro zone composite PMI is still below 50, pointing to possible output contraction this year led by weak domestic consumption, deleveraging and contracting government spending.

Furthermore, given indecisive elections in Italy, problems in Cyprus and Slovenia market tension can escalate again putting a lid on consumption and investment recovery, and weakening demand for Baltic origin goods. Nevertheless, Lithuania, Latvia and Estonia did manage to increase their exports to the euro zone (mainly Germany) in recent years despite laggard growth in the region. Thus, weak demand in the West is not something new for the local exporters.

Other neighbouring countries do not offer much optimism either. Euro zone struggles begin to leave a mark on Polish economic growth which is forecast to reach only 1.2 percent in 2013. In an attempt to stimulate the economy, Polish central bank is reducing the key interest rate. That should lead to cheaper zloty and worsening competitiveness of Baltic exports to Poland. Nordic countries (excluding Norway) will also show only a meagre growth in 2013 due to struggling exports, lower investments and weaker domestic demand. EC expects Finland to grow by 0.3 percent, Sweden by 1.3 percent and Denmark by 1.1 percent in 2013.

Looking at the larger picture and longer time frame, US economic growth remains the biggest unknown. Latest labour market and new home construction data are positive but mixed. Reduction in government spending adds to uncertainty as well. On the other hand, intensified debate of Fed governors about QE3 exit indicates that an economic turnaround should be around the corner. We expect to see US economy fully recovered in 2014. This should feed to the growth of Germany and Nordic countries in 2014. However, the near term future looks less promising.

Thus, Baltic countries are operating in economically adverse external environment and significant export growth might be challenging in 2013. On the other hand, these challenges are not new for exporters in Lithuania, Latvia and Estonia. Weaker external trade leaves the Baltic countries with two choices – stimulating domestic demand or encouraging investment. We believe that increasing investments is the most feasible and attractive way to ensure sustained economic growth in the region in the upcoming years.

Lithuania: Further Growth Requires Actions

Lithuania's **economic growth** slowed to 3.6 percent in 2012, yet for the second year in a row the country reaped the laurels of being the second most rapidly growing economy in the EU. Solid growth was largely supported by robust exports, exceptional harvest and unusually generous grain price – the combination that will be almost impossible to replicate this year. Given the external environment remains vague if not deteriorating further, the growth perspective for the country is thoroughly mixed.

Fixed investments in Lithuania after dropping from 28 percent of GDP in 2007 to around 17 percent in 2009 have been stagnating since. In 2012 gross fixed capital formation dropped by 2.5 percent. Especially noteworthy low levels of productive investments – transport, machinery and equipment. In 2012, it was below EU average (6.2 percent of GDP) and for a number of years well below Latvia's and Estonia's ratios (about 8 and 11 percent of GDP, respectively). Despite the combination of manufacturing companies working on the edge of their capacity utilisation (73 percent), solid financial results and improving sentiments, business investments remain trimmed. It seems that companies are looking forward to additional incentives to restore investing process.

Lithuanian exporters again proved their resistance to global uncertainty and according to **export growth** rate (above 10 percent) Lithuania was among EU front-runners. Even more impressive was an expansion in exports of services – the latter has been increasing by 16 percent on average in real terms for the last three years. The bulk of it is related to transportation services and exports flow towards CIS countries. Russia's share in total exports of goods (mineral products excluded) rose from 17 percent in 2009 to 25 percent in 2012. Bearing in mind the slowing down Russian market and ongoing non-tariff barriers, further expansion towards this direction is seen to be limited. On the upside, Russia joining WTO should bring some alleviation for the local exporters in the medium to long term.

Situation on the labour market has been improving due to both creation of the new jobs and emigration. The **unemployment rate** has dropped from nearly 18 percent in 2010 to 13.2 percent in the end of 2012. Youth unemployment contracted by almost a third over the same period. However, during the last year overall unemployment rate trimmed by meagre 0.6 percentage points and further brisk reduction is only possible if investment process recovers. Moreover, labour market bottlenecks are emerging, as business development in many areas has been limited due to the lack of qualified labour force. We believe that this year we will see a reduction in the unemployment rate to 12.5 percent. On the other hand, structural unemployment will remain high; leaving the country with bitter combination of elevated unemployment, lack of available labour force in certain segments of the economy and rising labour costs.

The latter, however, will bring some relief for consumers, as **growth of earnings** this year will start contributing positively to

Chart 1. Value added at constant prices, annual change, %

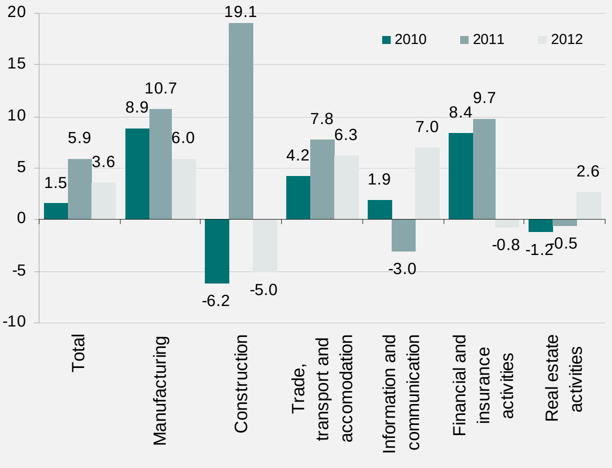


Chart 2. Investments in fixed capital formation, ratio to GDP, %

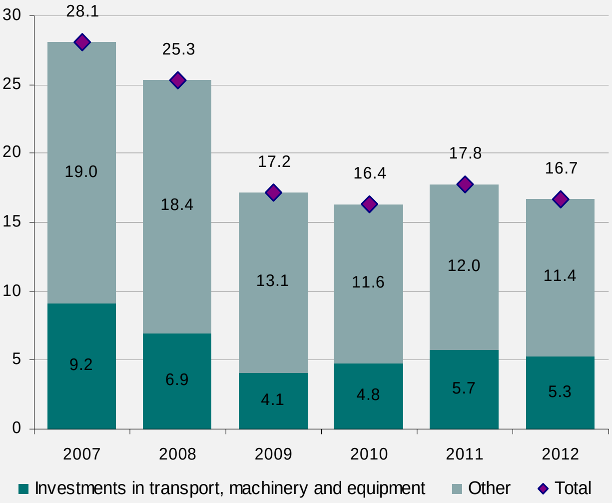
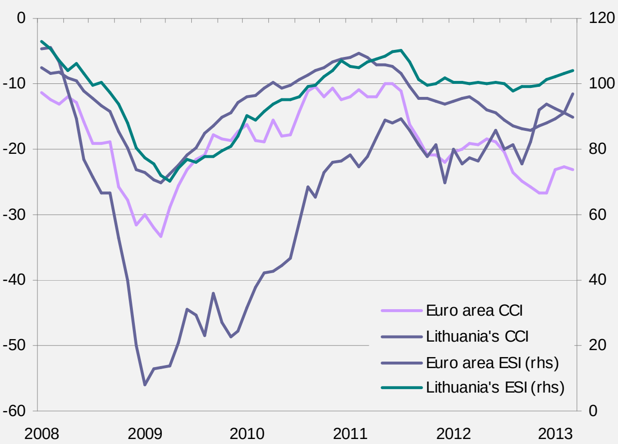


Chart 3. Economic sentiment (ESI) and consumer confidence (CCI) indicators



domestic consumption. In 2012 gross wages rose by 4.5 percent, while real wages went up by 1.1 percent – for the first time in four years. However, private consumption remains muted, notwithstanding consumer confidence has risen and labour market conditions have improved considerably. Final consumption of households slowed down from 6.3 percent in 2011 to 4.7 percent last year. We expect it to speed up to at least 5.5 percent this year on the back of improving conditions and higher minimum wage. Moreover, the net wages are forecast eventually to reach the pre-crisis level in 2013.

Harmonized consumer price index decreased to 3.2 percent in 2012 on the back of weak inflationary pressure. **Inflation** keeps moderating this year and stood only at 1.6 percent in March. However 12-month average inflation still remains substantially higher than the Maastricht criterion (see chart 5). On the back of sluggish global development, food and energy prices are projected to decline in 2013, resulting in subdued inflation in Lithuania this year. In 2014, inflation is forecast to pick up again, feeding on the abolishment of reduced VAT rate on heating and higher external inflationary pressure.

Credit market has been stretched, reflecting the weakness in business investment, household consumption and limited access to capital. Deleveraging process is not yet over while the dynamics is improving. The total credit portfolio of private sector has decreased by 0.8 percent per 2012 (compared to a decrease of almost 7 percent a year ago). Credits to businesses rose by 0.2 percent in December and are following the trend thereafter. We expect that taking off investment will result in sustainable stream of credits in 2014. Noteworthy, that credit market has shrunk over the two preceding years – four credit institutions collapsed due to insolvency. After the failure of two domestically-owned banks and two credit unions, the overall soundness of the financial system has improved. However, it has not added to the residents' confidence in the sector and weighted negatively on public finance.

Public finance consolidated in the short term, with fiscal deficit narrowing from 5.5 percent in 2011 to 3.3 percent in 2012. Commitments (while not firm) to euro adoption in 2015 are likely to put limits on fiscal loosening in upcoming years. Nonetheless, moderating economic growth and increasing liabilities toward long term projects may cause extra constraints on public sector. Moreover, increase in the minimum wage since 2013 will raise wage bill burden of the public sector while first months of VAT collection showed up sour. Lithuanian government is a well-seasoned issuer in the international capital markets and successfully to finances its deficits through raising money both on domestic and international markets.

Putting all of this together, Lithuanian economic rebound has faltered recently, however, is not expected to go into reverse. Downside risks are linked with delayed investments and reluctant private consumption. On the upside, the construction sector, which saw a slump last year, is likely to bounce in 2013, finally adding to economic growth. Renovation process should contribute positively to

Chart 4. Seasonally adjusted unemployment rates, average, percent

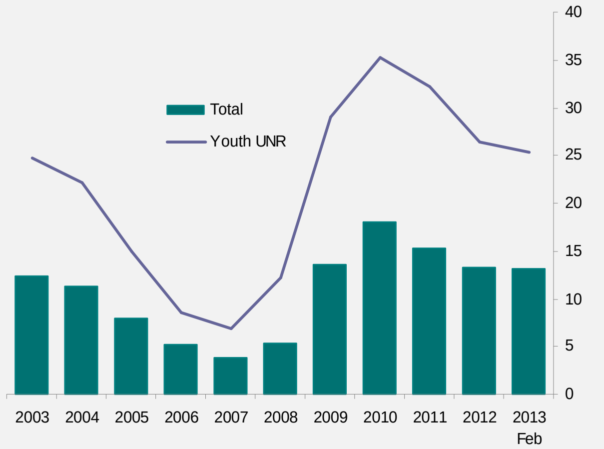


Chart 5. Average annual inflation and Maastricht criterion, percent

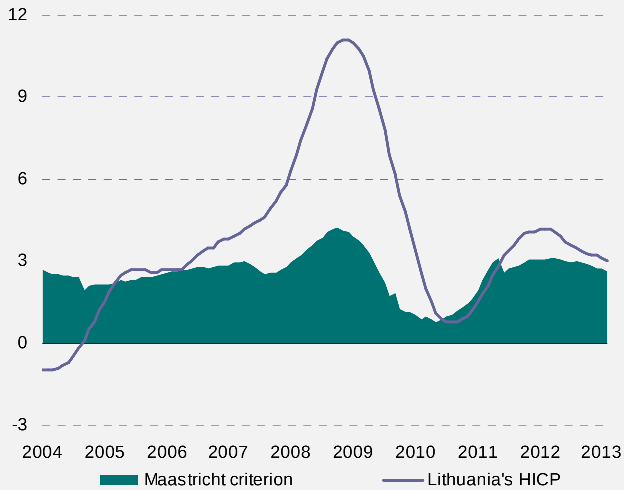
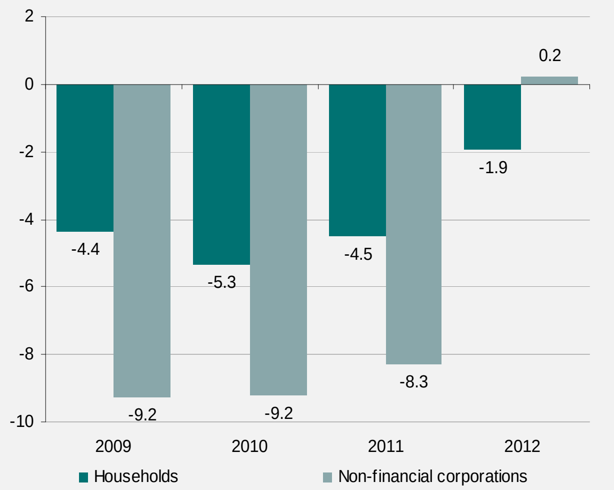


Chart 6. Loans to households and non-financial corporations at the end of period, annual change, %



Sources: National statistics office, ECB, Eurostat, national central bank

the overall expectations, however will not be the driving force due to its limited scope. Tentative recovery in labour market has been marked with evolving bottlenecks and will require additional attention.

Table 1. Lithuania's main macroeconomic forecasts

	2013	2014	2015
Real GDP, annual change, %	2.0	3.5	4.0
Inflation, HICP, e-o-p, %	2.5	3.0	3.0
Gross monthly wages, annual change, e-o-p, %	4.0	5.0	4.0
Harmonized unemployment rate, e-o-p, %	12.5	11.0	10.0
Current account balance, % of GDP	-1.5	-2.0	-3.0
General government deficit, % of GDP	-2.5	-2.0	-2.0

Latvia is to retain EU growth leadership

Latvia was the fastest growing EU economy in 2012, and it has a remarkably good opportunity to retain the position also in 2013. However, we believe that GDP growth will slow down to 4 percent due to smaller exports and investment growth in the first half of a year. A coincidence of negative factors has occurred: a fall in transit volumes that is partly caused by capacity limitations in Russia as well as crisis in metal manufacture. Private consumption, however, should continue to expand at a similar pace and contribute to economic expansion.

Forward-looking indicators support a broadly positive view. Economic Sentiment Index (ESI) in Latvia is currently the highest among the EU countries. There are no significant signs of weakness among sector (consumer, manufacturing, trade etc.) confidence indicators. Most importantly, forward looking sub-indices have remained stable in the first quarter of 2013.

Despite sluggish global economy and recession in the euro area **exports** growth has continued to contribute strongly, annual growth rate even improved in the second half of 2012. Latvia's leading trade partners in the euro area (Germany and Estonia) are its healthiest economies; the same can be said about other key partners — Lithuania, Russia, Poland and Sweden. Latvia has continued to improve its competitiveness, and its share in imports of main partner countries has been rising helped by modest growth of labour costs and relatively high investment rate. Besides, as the volume and diversity of manufacturing sectors increases (especially in food, metalworking industries) cluster effects emerge.

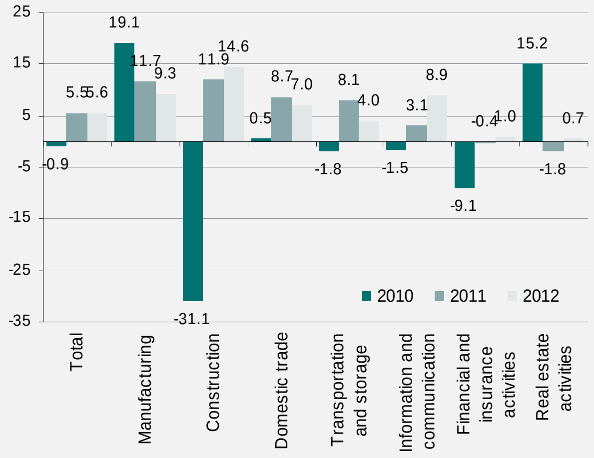
Latvia has high **investment** rate comparing to EU average, but even higher investment rate should be achieved in the current stage of development. Ratio of capacity utilisation in manufacturing is slowly, but consistently rising. In the first quarter of 2013, it reached 72.1 percent and was close to historical maximum (ca 75 percent) seen at the end of 2005. Thus, to sustain the growth path, investment has to pick up.

From policy side, this can be encouraged first and foremost by removing two self-inflicted *wounds*: (a) inflated electricity tariff caused by excessive feed-in tariffs paid to efficiency and green energy projects; (b) inadequate regulation of insolvency procedures that has raised doubts about the security of property rights. Besides, as most of the EU environmental regulations have been met, a larger share of EU funds could be allocated to activities with higher direct impact on growth in the next EU financing period (road infrastructure, improving access to financing for companies, innovation process etc.).

Labour market in 2012 improved significantly, though different data sources provide somewhat diverging results. LFS reports that the average number of employed last year increased by 24 thousand or 2.8 percent. Business Survey tells that the number of occupied jobs in the end of 2012 was 4.5 percent higher than a year earlier, with a phenomenal increase in the private sector (7.3 percent). Decline of the unemployment rate stuttered due to increasing labour force participation – people have regained hopes to get a job.

Any economic slowdown that could occur in 2013 is unlikely to make a perceivable difference on the countrywide rate of growth of wages and employment. Most businesses in potentially

Chart 1. Value added at constant prices, annual change, %



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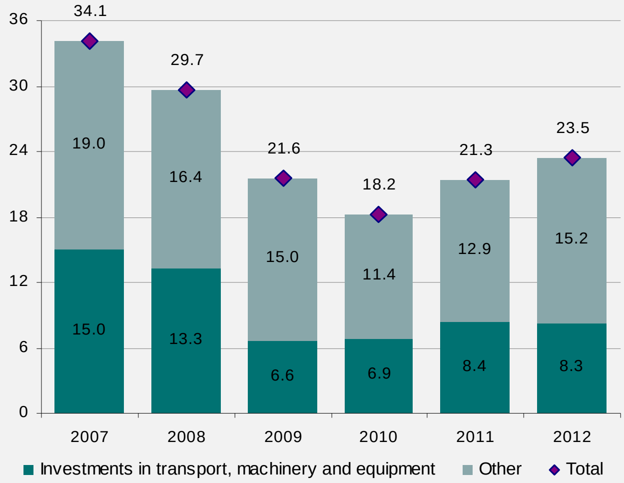

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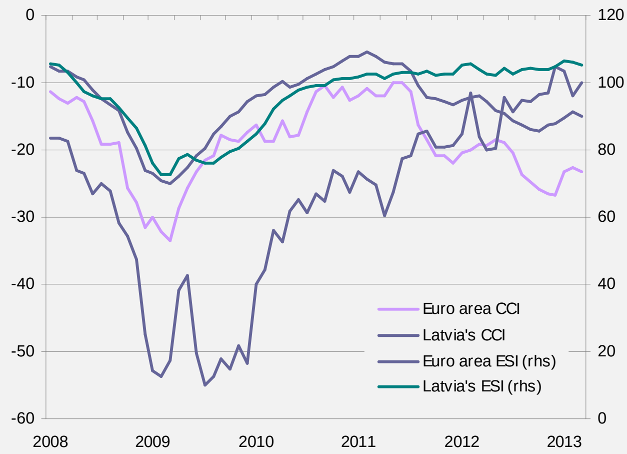


Sources: National statistics office, ECB, Eurostat, national central bank affected sectors (like timber processing) are as strong financially as they have ever been with an ability to absorb the impact of temporary export market difficulties.

Even more, as labour market gradually becomes tighter, especially in Greater Riga the benefits from recovery will be better distributed. It has been a common complaint “I do not see the improvement in my family” and it is probably true for more than a half of the population as significant income gains have arrived for people exiting unemployment, entrepreneurs and a minority of wage-earners who have seen substantial rises in real earnings. The history of previous growth cycle (2000-2007) shows that due to the highly decentralised nature of country’s labour market (near absence of centralised bargaining) it can take more than half a decade for proportional gains to employees to show up.

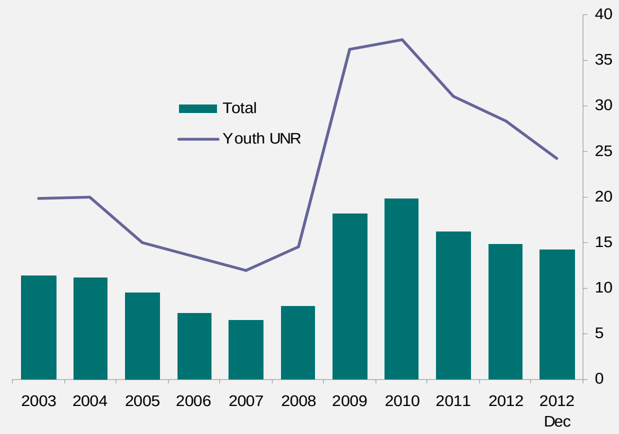
Low **inflation** rate in Latvia (harmonised index of consumer prices rose by just 0.3 percent year-on-year in March) is the combined result of VAT reduction in July 2012, moderation of commodity prices and increased competition in certain retail sectors. In the second half of 2013 inflation will bounce back, driven by early “preparation” of some businesses for the euro introduction, the dissipation of VAT reduction effect and gradually tightening labour market.

2012 was fairly uneventful year for the **financial system**, after the earthquake caused by the demise of Latvijas Krājbanka in late 2011. Overall loan portfolio continued to shrink gradually, mostly because of households’ deleveraging. Total corporate loan portfolio increased in some months, but again shrunk sharply at the end of the year. The apparent reason was write-downs, so essentially an accounting event, aside from that, lending to businesses is on the mend. Household deleveraging, however, is likely to persist throughout 2013 and could stretch even into following years.

Latvia’s accession to euro area in 2014 can now be regarded as a decided matter. There are no ways how it could be stopped at national level and rejection by current euro member states is highly unlikely. Maastricht criteria are fulfilled by a large margin, and just the technical procedure has left to go through. This event could provide some additional boost for FDI activity, due to improved country’s positioning in the eyes of potential investors. Also, there will be some gains to the real sector from disappearing foreign exchange costs. However, published estimates of both are an exaggeration, in our opinion. Euro introduction could also marginally reduce lending costs for households and companies operating primarily in the local market.

According to mainstream forecasts, global economy will accelerate gradually in 2014. We expect the GDP growth to slow down to 4 percent this year but to revive up to 5 percent in 2014. The slowdown will feed on smaller exports growth and weaker investment activities in 2013 while private consumption will continue to grow at a similar pace. In 2014, export environment is projected to become more responsive and consumption will be strengthened by growing purchasing power of households, more favourable labour market conditions and winding down of household deleveraging.

Chart 4. Seasonally adjusted unemployment rates, average, %



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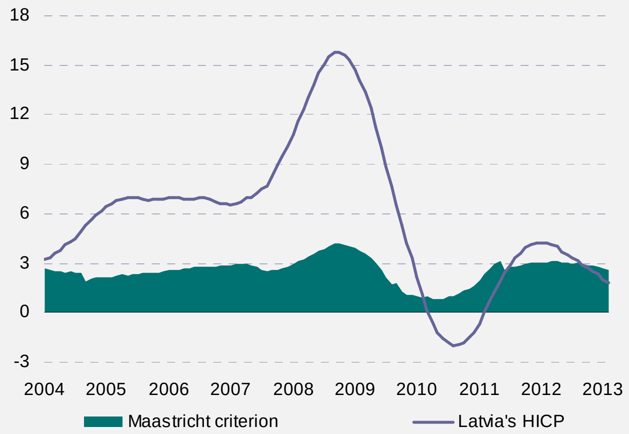

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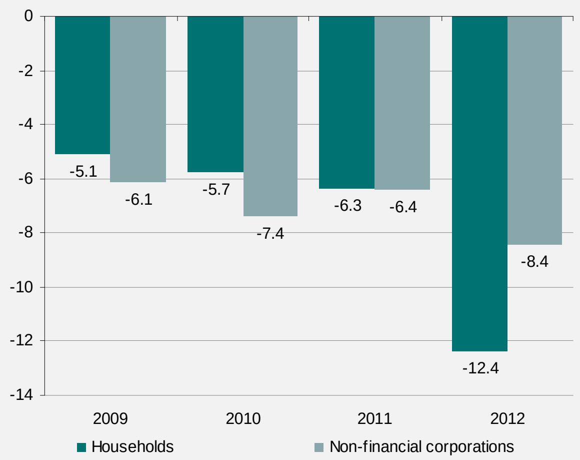


Table 1. Latvia’s main macroeconomic forecasts

	2013	2014	2015
Real GDP, annual change, %	4.0	5.0	4.0
Inflation, HICP, e-o-p, %	2.0	3.5	3.0
Gross monthly wages, e-o-p, annual change, %	4.0	4.0	5.0
Harmonized unemployment rate, e-o-p, %	12.0	10.5	9.0
Current account balance, % of GDP	-2.0	-2.0	-3.0
General government deficit, % of GDP	-1.0	-1.0	0.0

Estonia: Chance Favours the Prepared Mind

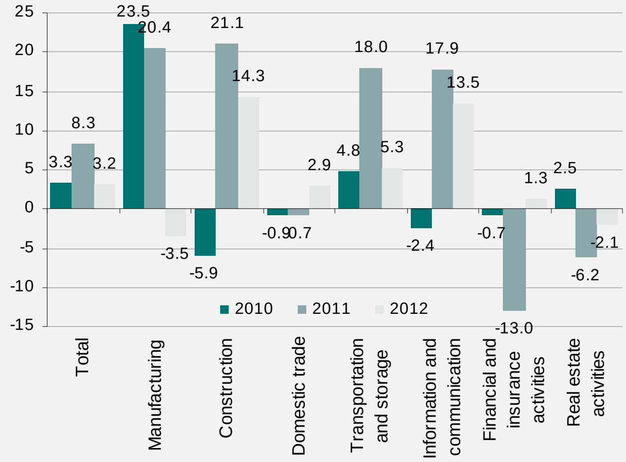
Estonia's economy has learnt the lessons of the economic downturn in 2009 and has prepared well for the new phase of economic growth. Increasing demand for Estonia's exports and recovering business confidence within the country fed on each other stimulating investments in fixed capital formation and the demand for labour. That resulted in the fastest spurt among the EU member states in 2011. Driven by the 23 percent increase in exports country's GDP grew by striking 8.3 percent that year. However, due to the worsening confidence and shrunk capacity of Estonia's target markets, its exports growth ran out of steam last year and increased by 5.6 percent year-on-year supporting a mere 3.2 percent annual rise in value added.

Fixed investments in Estonia have been mounting up rapidly in recent couple of years. It grew by roughly a quarter in 2011 followed by an increase of 21 percent last year. Such growth rates were achieved by the boost in both private and public investments, as the proceeds from sales of greenhouse-gas emission allowances combined with the EU funds fuelled some energy efficiency and other projects. However, this is only a temporary accelerator. Nevertheless, Estonia's level of investments in machinery and equipment was the highest in the EU in 2012 amounting to 11 percent of GDP, i.e. nearly 5 percentage points above the EU average. The rise in productive investment and ameliorating employment rates reveal positive expectations of corporate enterprises, which consider the economic slowdown to be temporary and start setting the stage for sustainable future growth.

Strengthening country's **domestic consumption** became an increasingly prominent engine of growth. Given the improving labour market indicators and wage statistics, final consumption expenditure of households increased by 4.4 percent last year following 3.5 percent in 2011.

After the massive surge seen in 2010-2011 Estonia's **exports** have lost momentum last year. Exports of goods at constant prices grew by 6.7 percent in 2012, i.e. at the pace 4.5 times slower than a year ago, while invisible exports developed by a mere 2.5 percent year-on-year. The main reason for such a slowdown in exports was the diminishing demand in the key Estonia's markets. Estonia's exports of goods (at current prices) to Russia and Latvia amounted to 26 percent of overall visible exports and fuelled country's exports by increasing 16 percent and 15 percent accordingly. As compared to 2011 its pace dropped significantly, though. Exports growth to Sweden and Finland decelerated to single digits while exports to the United States even dropped by more than a fifth. The commodity breakdown of Estonian visible exports shows that country's export was driven by the manufacture of electronics. The exports of this industry branch had been mounting in triple digits since the mid of 2010 due to the activities of renovated Ericsson Eesti AS plant. However, last year this plant had some technical severities and that added up strongly to the overall pessimistic exports trend. Noteworthy, Estonia sustains its strong position in terms of invisible exports. Its foreign trade net flows in services in 2012 stood at 7.2 percent and outweighed the foreign trade deficit in goods. However, invisible exports last year also grew at a lower pace as the major categories of services (i.e. transport and travel) exports

Chart 1. Value added at constant prices, annual change, %



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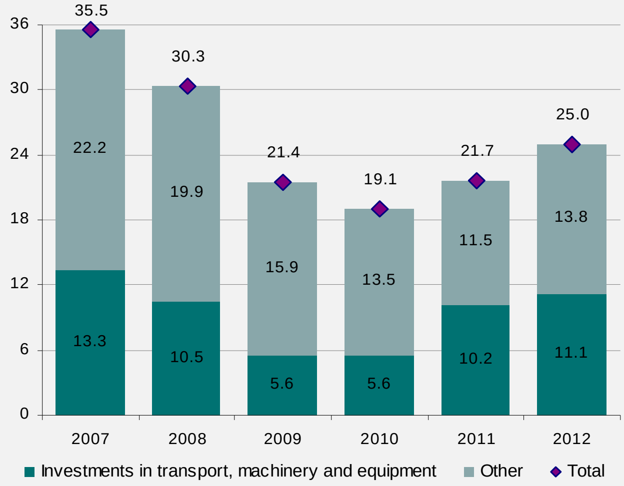

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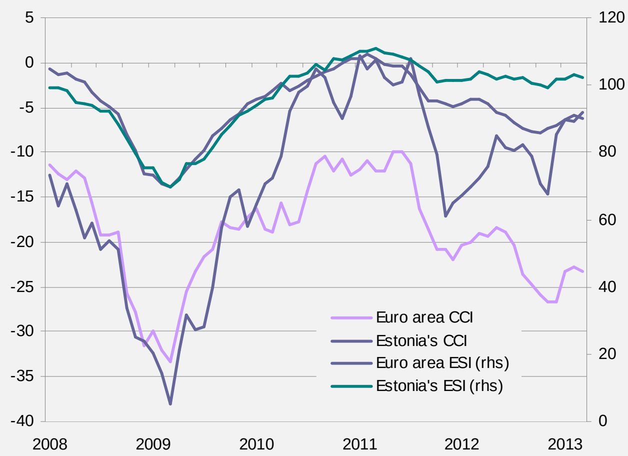


have lost momentum.

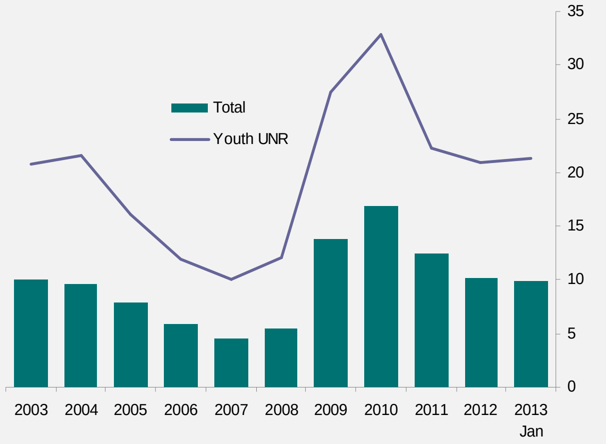
Estonia unquestionably keeps winning the competition of attracting **foreign direct investments** (FDI) among the Baltic countries leaving Latvia and Lithuania far behind according to the FDI per capita results. At the end of 2012, this indicator in Estonia stood at EUR 10 thou, exceeding that of Latvia and Lithuania by 1.8 and 3 times respectively. FDI inflow to Estonia reached 6.7 percent of GDP in 2012. Estonia's economy as the promising target is mostly valued by Sweden (28 percent of total FDI), Finland (23 percent), Netherlands (10 percent), Norway (4.7 percent) and Russia (4.6 percent).

Labour market conditions in Estonia have improved significantly in recent years. The **unemployment rate** has shrunk steadily from the peak of 19.8 percent in 2010 accumulating the ravage of economic crisis down to 10 percent seen at the end of 2012. Growing economic activity increased the youth involvement in labour market, as the unemployment rate of persons younger than 25 years dropped from 38 percent to 19.3 percent since the 1st quarter of 2010. Current situation in labour market is satisfying and still has room for improving. However, given the aging population phenomenon, Estonia's business enterprises are meant to face depleting labour resources in the longer-term perspective. That will add strongly to the pressure on wages, which already are the highest among the Baltics and still growing. The **average gross monthly earnings** in Estonia have been rising by 6 percent for the second year in a row stimulating consumers' confidence and private consumption. However, the trend of rising labour costs is considered as one of the greatest threats leading to imbalances and weaker competitiveness as the wage growth has been overtaking that of productivity since the mid of 2011.

The average annual **inflation** in Estonia has been following the downward trend since the height of 5.2 percent in October 2011, though it still remains the second highest in the EU (4 percent in March, 2013) and obviously well above the Maastricht criterion. The annual growth of harmonised consumer price index stood at 3.8 percent in March. The main contributors to this increase were rising food prices, higher excise tax for alcohol and tobacco, above all, inflating housing expenditure, driven mainly by the hike in electricity, gas and heat energy prices. Since the beginning of 2013 Estonia's electricity market has been opened up to competition and the number of free CO2 emission credits given to Eesti Energia was reduced. These factors forced up electricity prices by 30 percent year-on-year in February adding up nearly 1 percentage point to overall country's annual inflation. The effect from this one-off energy price shock will trail along throughout 2013 and could be fairly widespread in country's economy as Estonia's indicator of production energy intensity is the second highest in the EU. Inflation in Estonia is expected to vary above 3 percent by the end of 2013. Deflationary effect will come from anticipated decline in global grain prices, which are expected to translate into cheaper food.

Given a favourable macroeconomic climate financial health of Estonia's **banking sector** improved significantly. Deposit growth of nearly 9 percent year-on-year has provided sufficient funding for gradual increases in lending volumes. After more than three years of pronounced deleveraging, banking sector credit portfolio started to grow again in 2012. By the end of last

Chart 4. Seasonally adjusted unemployment rates, average, %



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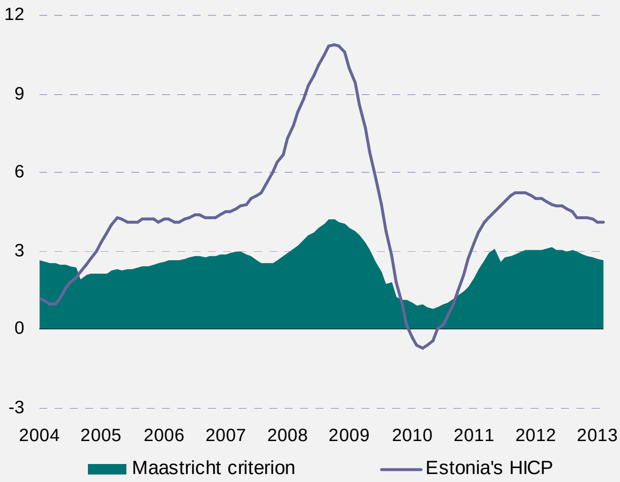
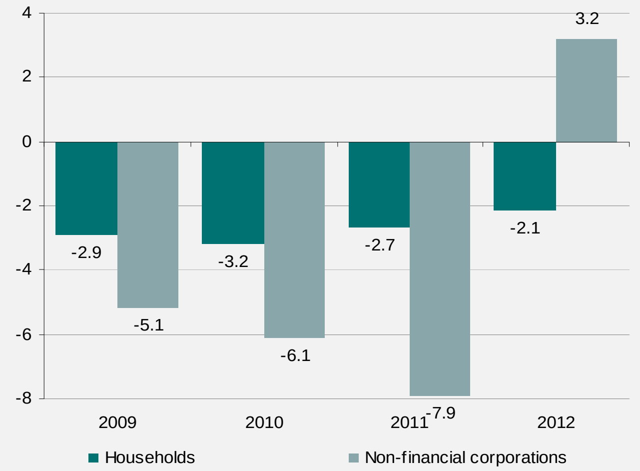


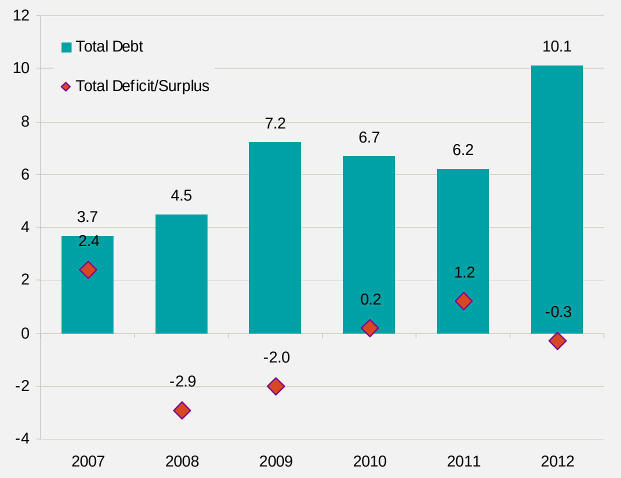
Chart 6. Loans to households and non-financial corporations at the end of period, annual change, %



year, the outstanding amount of loans granted to the private sector was at the levels last witnessed in the fall of 2007; however, it is 15.7 percent less than at the peak registered in 2008. The overall private loan portfolio growth was driven by the intensive corporate crediting processes, while loans granted to households were still decreasing on an annual basis. The rise was largely stipulated by short-term business financing, though increases in long-term loans also accelerated last year. Given recent deleveraging and much stronger GDP figures, the indebtedness of Estonia's resident private sector approached sustainable levels of 77 percent of GDP at the end of 2012. The weight of loans to households in this number amounted to roughly a half. The quality of banking credit portfolio improved considerably in recent years feeding on better corporate financial performance, timely restructuring and write-offs of loans. Ameliorating macroeconomic environment gradually forced the ratio of non-performing loans down from the spike of 7.6 percent registered in August, 2010 to 3.2 percent at the end of 2012.

Estonia continues to act as a role model for the rest of the EU in terms of **fiscal discipline**. The sustainability of Estonia's fiscal balance in the future is guaranteed by reserves accumulated in prosperous years, which could be used to smoothen the cycle. After two years of demonstrating fiscal surpluses Estonia's general government balance came out negative and stood at -0.3 percent of GDP in 2012. That was mainly triggered off by the government investment projects. Estonia's budget deficit is expected to fluctuate around 0.5 percent of GDP reflecting the Government's goal of reducing the tax burden to the country's pre-recession level through cuts in labour-related taxes and the rise in certain expenditure items in 2013.

Chart 7. Estonia's general government deficit and debt, % GDP



Sources: National statistics office, ECB, Eurostat, national central bank

Table 1. Estonia's main macroeconomic forecasts

	2013	2014	2015
Real GDP, annual change, %	3.0	4.0	5.0
Inflation, HICP, e-o-p, %	3.0	2.5	3.0
Gross monthly wages, e-o-p, annual change, %	5.0	5.0	5.0
Harmonized unemployment rate, e-o-p, %	8.5	8.0	7.5
Current account balance, % of GDP	-0.5	1.0	1.0
General government deficit, % of GDP	-0.5	0.0	1.0

Estonia's general government debt stood at 10.1 percent at the end of 2012 and remained the lowest among the EU member states. However, as compared to 2011 it rose by 4 p.p. There were two underlying liabilities forcing this increase: a credit from European Investment Bank (amounting to EUR385mn or 2.3 percent of GDP) for the road infrastructure improvement and liabilities to the European Financial Stability Facility (EFSF). The total liabilities towards the EFSF comprised EUR355mn (2.1 percent of GDP) in 2012.

Given the delays in global economic rebound, Estonia's small open economy is expected to develop at a slower pace in the short-term. In 2013 country's GDP will rise by 3 percent and is seen to gradually increasing the pace after. Meanwhile, due to improving labour market conditions and ameliorating households' purchasing power (stimulated by both market's forces and fiscal instruments), private consumption will remain among the key drivers this year. The overall domestic input is expected to be weaker given the slower developments in both private and public fixed capital formation, though. Inflation will ride the globally dictated downward trend. However, it will remain at elevated level given the trailing impact of energy price shock. Estonia's fiscal performance is still widely considered as an excellent example aiming at achieving balanced and sustainable economic development. Conclusively, we believe that well balanced Estonian economy is prepared for sustainable growth and the last thing it needs is the external trigger.

ANNEX

		Euro area	Estonia	Latvia	Lithuania
NATIONAL ACCOUNTS					
Real GDP, annual change, %					
	2009	-4.4	-14.1	-17.7	-14.8
	2010	2.0	3.3	-0.9	1.5
	2011	1.4	8.3	5.5	5.9
	2012	-0.6	3.2	5.6	3.6
GDP per capita, EUR thousand					
	2009	27.1	10.3	8.6	8.4
	2010	27.8	10.7	8.6	8.9
	2011	28.3	11.9	9.8	10.2
	2012	:	12.7	10.9	11.0
Final consumption expenditure of households and NPISH, real, annual change, %					
	2009	-1.0	-14.8	-22.6	-17.8
	2010	1.0	-2.4	2.4	-4.7
	2011	0.1	3.5	4.8	6.4
	2012	-1.3	4.4	5.4	4.7
Gross fixed capital formation, real, annual change, %					
	2009	-12.7	-38.3	-37.4	-39.5
	2010	-0.4	-7.4	-18.1	1.9
	2011	1.5	25.7	27.9	18.3
	2012	-4.1	21.0	12.3	-2.5
Exports of goods, real, annual change, %					
	2009	-14.5	-24.4	-10.7	-11.9
	2010	13.2	31.5	19.8	18.0
	2011	7.1	30.2	11.8	13.5
	2012	2.5	6.7	9.8	10.4
Imports of goods, real, annual change, %					
	2009	-12.2	-33.1	-33.2	-29.3
	2010	11.0	22.9	14.8	20.8
	2011	4.9	25.8	25.1	13.2
	2012	-1.2	9.2	3.0	4.3
Exports of services, real, annual change, %					
	2009	-5.2	-12.8	-20.2	-16.2
	2010	5.0	7.7	-5.4	14.6
	2011	3.8	8.0	15.0	17.3
	2012	3.1	2.5	0.2	15.5
Imports of services, real, annual change, %					
	2009	-6.5	-27.4	-33.7	-19.8
	2010	5.1	14.3	-3.0	2.1
	2011	1.6	21.9	10.8	17.8
	2012	0.2	8.8	3.1	15.9
PRICES, LABOUR MARKET & EARNINGS					
HICP, end of period, annual change, %					
	2009	0.9	-1.9	-1.4	1.2
	2010	2.2	5.4	2.4	3.6
	2011	2.7	4.1	3.9	3.5
	2012	2.2	3.6	1.6	2.9
PPI, end of period, annual change, %					
	2009	-2.5	-1.7	-9.1	1.4
	2010	5.5	5.0	7.9	16.1
	2011	4.0	3.2	7.0	8.7
	2012	1.9	2.2	3.8	2.0
Harmonised unemployment rate, sa, end of period, %					
	2009	10.0	16.6	21.1	16.4
	2010	10.1	14.6	18.2	17.8
	2011	10.6	11.8	15.6	13.8
	2012	11.8	9.8	14.3	13.2
Gross wages and salaries, end of period, annual change, %					
	2009	:	-6.6	-12.1	-8.7
	2010	:	4.0	3.4	0.2
	2011	:	6.3	4.5	2.5
	2012	:	5.9	4.0	2.6

		Euro area	Estonia	Latvia	Lithuania
FINANCIAL MARKET					
Loans to households and non-financial corporations, % of GDP					
	2009	108.3	104.6	100.5	66.9
	2010	107.4	95.9	96.4	59.8
	2011	105.8	81.6	80.5	50.1
	2012	103.2	76.9	65.6	46.7
Loans to non-financial corporations, end-of-period, % of GDP					
	2009	52.7	50.5	54.1	35.5
	2010	51.0	45.5	51.4	31.1
	2011	50.1	37.6	42.9	25.6
	2012	47.9	36.4	35.7	24.1
Mortgage loan portfolio, end-of-period, % of GDP					
	2009	39.9	44.4	36.8	22.6
	2010	40.5	41.7	36.0	21.7
	2011	40.2	36.8	29.8	19.3
	2012	40.4	34.4	24.1	17.9
Consumer credit, % GDP					
	2009	7.1	5.5	5.5	3.8
	2010	7.0	4.6	5.2	3.3
	2011	6.7	3.7	3.4	2.8
	2012	6.4	3.5	2.9	2.4
Deposits, % GDP					
	2009	80.1	52.2	36.3	38.3
	2010	80.2	54.7	41.6	40.5
	2011	79.7	51.8	38.4	37.0
	2012	82.4	53.2	37.6	37.7
BALANCE OF PAYMENTS					
Current account balance, % of GDP					
	2009	-0.1	3.4	8.6	3.7
	2010	0.0	2.9	2.9	0.1
	2011	0.1	2.1	-2.1	-3.7
	2012	1.2	-1.2	-1.7	-0.5
FDI net flow, % of GDP					
	2009	3.2	9.6	0.4	0.0
	2010	2.9	8.4	1.6	2.2
	2011	2.7	1.2	5.1	3.4
	2012	1.7	6.7	3.5	2.0
Net portfolio investment, % of GDP					
	2009	2.8	-10.6	0.7	3.3
	2010	1.4	-3.2	-1.7	5.8
	2011	2.9	7.2	-2.2	4.0
	2012	0.7	-0.7	4.5	2.8
Gross country's external debt, end-of-period, % of GDP					
	2009	:	125.0	157.5	83.9
	2010	:	114.5	166.6	83.2
	2011	:	97.2	146.1	77.8
	2012	:	98.0	135.5	75.6
PUBLIC FINANCE					
General government balance, % of GDP					
	2009	-6.3	-2.0	-9.8	-9.4
	2010	-6.2	0.2	-8.1	-7.2
	2011	-4.2	1.1	-3.4	-5.5
	2012	-3.7	-0.3	-1.2	-3.3
General government debt (ESA95), end-of-period, % of GDP					
	2009	80.0	7.2	36.7	29.3
	2010	85.4	6.7	44.5	37.9
	2011	87.3	6.1	42.2	38.5
	2012	90.6	10.1	40.7	40.7

Sources: National statistics offices, ECB, Eurostat, national central banks

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