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PRESS RELEASE

Eastern European Outlook

Central and Eastern Europe show continued strength, signs of overheating in the Baltic region

The Central and Eastern European economies will continue to perform strongly in 2006-2007. Domestic demand is robust and exports will gain further traction from the euro zone upturn. In most countries, meanwhile, growth is heading towards a peak after several good years, according to SEB economists in the latest issue of the Eastern European Outlook released today.

“In the Baltic countries, Estonia and Latvia are showing signs of overheating, but no fiscal tightening is on the horizon. High inflation will subside only slowly. This will have consequences for the euro zone timetable,” says Mikael Johansson at SEB Economic Research and editor-in-chief of the Eastern European Outlook.

“Our assessment remains that Estonia and Latvia will each have to wait a year for euro zone accession, until 2008 and 2009, respectively. Lithuania will barely make it into the euro zone as officially planned, in 2007. Slovenia will also adopt the euro that year,” Johansson says, adding that the delays in euro entry pose no threat to the Baltic states’ fixed-exchange rates.

In Central Europe, inflation is establishing itself at a low level, but euro adoption will be delayed a few years due to large budget deficits. Slovakia is expected to join the euro zone in 2009 while the Czech Republic is seen adopting the euro in 2010. Poland and Hungary are not expected to enter the euro zone until after 2010.

Estonia will be the fastest-growing economy in the region this year, at 9 per cent. In Latvia, overheating tendencies are mounting while Lithuania’s economy is balanced, with inflation and current account deficit at modest levels.

Poland’s recovery will continue. The minority government is expected to stay in power but will postpone fiscal tightening. Russia’s economy will grow at a healthy pace, buoyed by high energy prices and more expansive fiscal policy. Growth is increasingly driven by private consumption.

“The outlook for Russia’s economy is positive in the short term. However, low investment level is a cause for concern when it comes to long-term growth. Investments are growing, but at a low level compared to other growth economies,” says Bo Enegren at SEB Economic Research.

Eastern European Outlook is an economic and political analysis of Central and Eastern Europe with focus on the three Baltic States (Estonia, Latvia and Lithuania), Poland, Russia and Ukraine. The report is published twice a year. It also includes a comprehensive overview of Slovakia, the Czech Republic and Hungary.

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