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PRESS RELEASE

Eastern European Outlook: Continued credit slowdown and more tightening in Latvia will lead to Baltic soft landing

Central and Eastern Europe will remain economically strong over the next couple of years despite weaker global demand. High domestic demand will continue to permeate the region. But rapid consumption and investment growth will be slowed somewhat by higher interest rates and more cautious lending: the latter partly as a consequence of global credit market turmoil. The overheated economies of Estonia and Latvia will undergo a soft landing, SEB maintains in a new issue of *Eastern European Outloo*k.

Ukraine and Slovakia will eclipse the Baltic countries as the fastest growing economies in the region when Estonia and Latvia decelerate. In many countries, inflation is on the way up due to strong domestic demand and high resource utilisation. This is especially true of the three **Baltic countries**, which are plagued by continued major imbalances in the form of high inflation and large current account deficits. These will ease only slightly. Lithuania will partly diverge from this picture, with more balanced economic performance.

"Estonia will decelerate more sharply than expected and will move towards a new period of adjustment below its trend growth rate of 6-7 per cent, but our main scenario is still a soft landing in both Estonia and Latvia. Their high credit growth will continue to slow. Another requirement in Latvia is that a new, upcoming economic stabilisation package is actually launched," says Mikael Johansson of SEB Economic Research, Chief Editor of ***Eastern European Outlook***.

Russia's vigorous economic growth will continue, helped by persistently high commodity prices and expansive fiscal policy. Inflation will remain stuck at high levels. The Kremlin's policies will remain in place after the parliamentary and presidential elections. The investment upswing will continue.

"It seems as if the investment upswing will continue over the next couple of years, sustained by large infrastructure spending and rising inflows of foreign direct investments," says Bo Enegren of SEB Economic Research.

Ukraine's growth and inflation will remain high. The credit boom will slow somewhat, but consumption will be buoyed by rapid pay increases and higher pensions. We expect the newly revived “orange” government coalition to pursue an expansive fiscal policy and intensify economic integration with the European Union.

In **Poland**, consumption is riding on the investment-driven upturn. GDP growth will weaken slightly and remain somewhat above its 5 per cent trend. **Slovakia** will show continued high growth paired with low inflation, and the government’s goal of euro zone accession in 2009 is within easy grasp. The **Czech Republic** is shifting towards a tighter long-term fiscal policy with an eye towards joining the euro zone, but the negative impact on growth will be small. **Hungary** will rise slowly out of a deep slump, with budget consolidation continuing to shrink the country’s twin deficits to more sustainable levels.

SEB is a North European financial group serving some 400,000 corporate customers and institutions and five million private individuals. SEB has a local presence in the Nordic and Baltic countries, Germany, the Ukraine and Russia, and a global presence through its international network in another ten countries. On 30 June 2007, the Group’s total assets amounted to SEK 2,188bn while its assets under management totalled SEK 1,403bn. The Group has about 20,000 employees. Read more about SEB at ww.sebgroup.com.

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