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PRESS RELEASE: Eastern European Outlook: Resilient in the face of global slowdown - clear deceleration in the Baltics

Central and Eastern Europe will continue to show good growth, despite the global economic slowdown and credit crisis as well as surging inflation in the region. This is mainly due to vibrant domestic demand, but also small exposure to the US as an export market. The Baltic countries and Hungary will diverge, showing a weakening trend, SEB maintains in a new issue of Eastern European Outlook.

Overheated Latvia and Estonia are decelerating markedly, partly because of stricter lending practices. Meanwhile the Baltics and other economies in the region are plagued by major imbalances in the form of large current account deficits and/or high inflationary pressure, which will ease only slowly.

"The very high economic growth of recent years in the Baltics has not been sustainable, so it is logical that a period of adjustment will come. Latvia and Lithuania now look set to follow in the wake of Estonia's slowdown. Meanwhile the Baltic cool-down is coming in a sensitive situation as the global economy is weakening. Exports are expected to show resilience but the downside risks in our forecast have increased," notes Mikael Johansson of SEB Economic Research, Chief Editor of ***Eastern European Outlook*.**

In the nine countries covered in ***Eastern European Outlook***, GDP growth will slow moderately from an average of 7.4 per cent in 2007 to 6.1 per cent in 2008 and 5.6 per cent next year. In most of these countries, consumption is being stimulated by high pay increases and a strong labour market, while investments are being nurtured by EU structural funding and in Ukraine and Russia by pressure for change and major public investment projects. Inflationary pressure, which is largely due to rising energy and food prices, is nevertheless partly eroding purchasing power. Somewhat tighter credit is dampening demand.

Russia's strong growth will continue, supported by high commodity prices and expansive fiscal policy this year as well. The investment upswing will continue and will eventually ease capacity constraints. Current government policies will remain in place after the new president has taken office. Russia's dual leadership may lead to tension ahead. **Ukraine's** growth and inflation will remain at high levels. The economic catch-up process from a relatively low living standard and an expansive fiscal policy are sustaining growth.

"The biggest challenge to stabilisation policy in Russia and Ukraine is high and rising inflation," says Bo Enegren of SEB Economic Research.

Poland's high growth will cool to a sustainable level of 5 per cent. Overheating risks will be cooled by lower global demand and continued monetary policy tightening. **Slovakia** will grow fast and in a balanced manner and will succeed in joining the euro zone in 2009. The **Czech Republic** will implement growth-promoting reforms. The key interest rate will be raised, eventually dampening strong inflationary impulses. **Hungary's** economy is in a deep slump following fiscal policy tightening and will rise slowly.

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