

Outlook for the Baltics

Baltic Investors' Forum

Vilnius, October 25, 2012

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The views expressed in this Presentation are those of the author
and do not necessarily represent those of the IMF or IMF policy.

Scope of the presentation

- ✓ Recovery in the Baltic States
- ✓ Old and new vulnerabilities



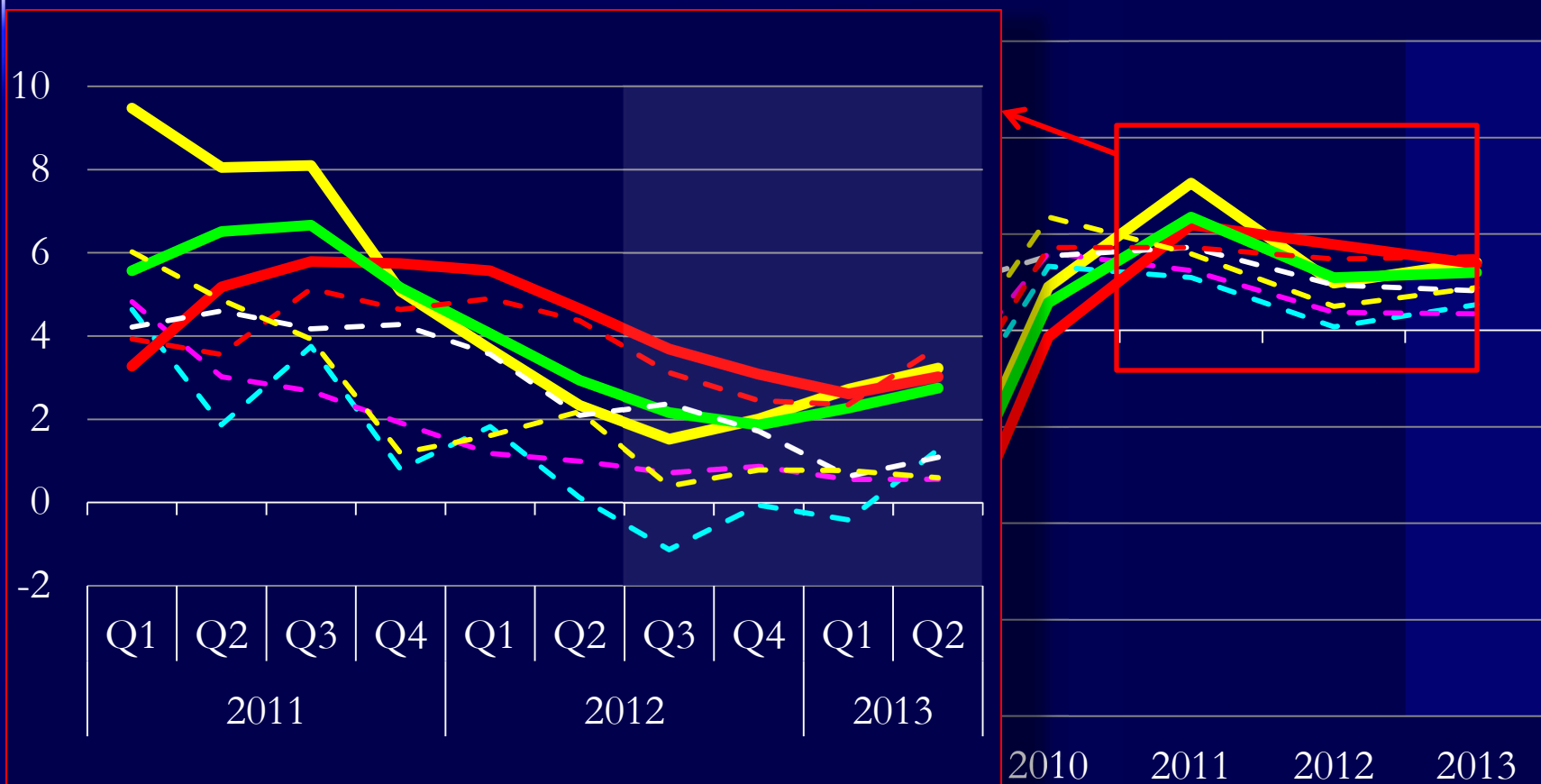
Scope of the presentation

- ✓ Recovery in the Baltic States



Recovery from deep recession has been strong...

GDP growth
(percent y/y)



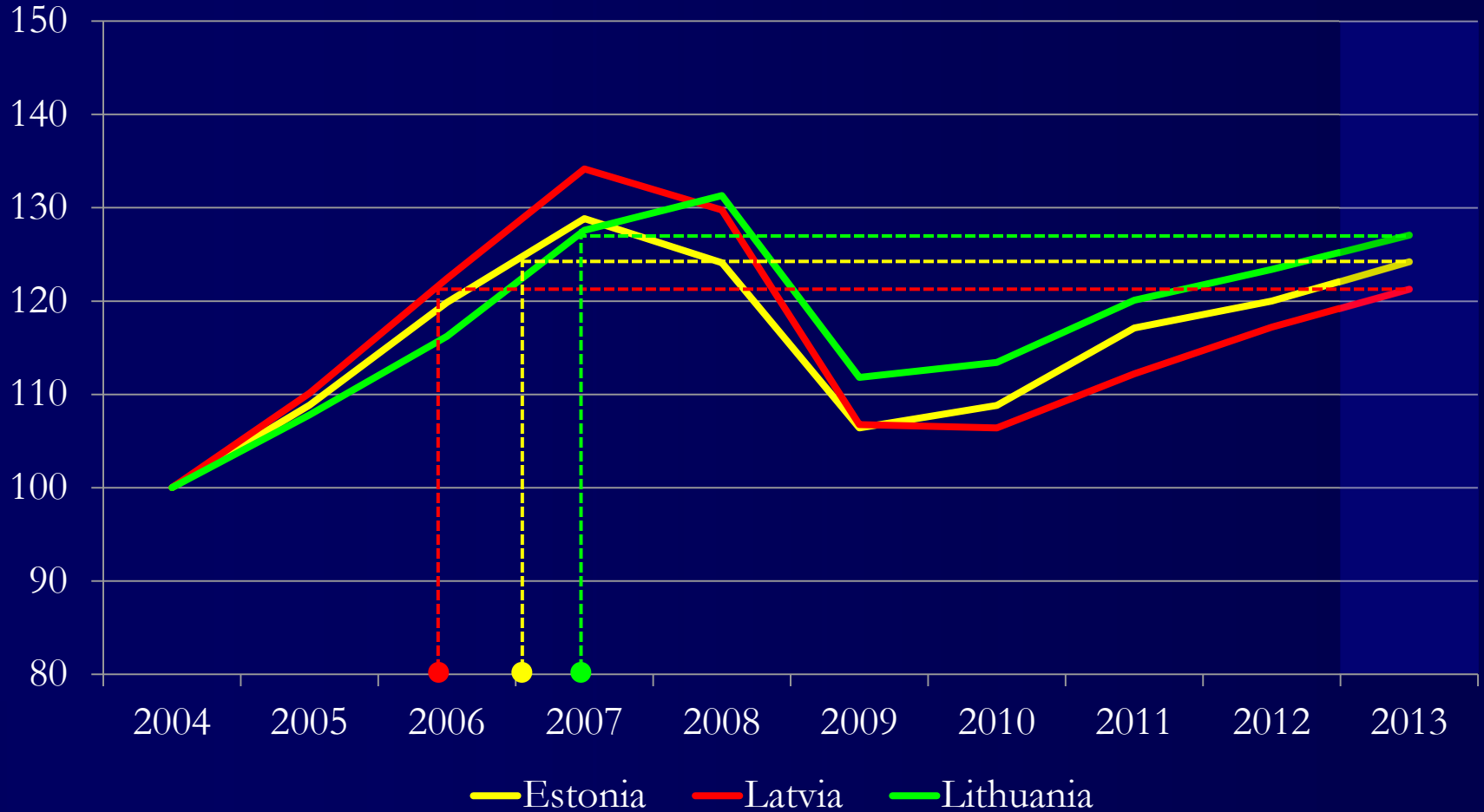
- Estonia
- Germany
- Lithuania
- Russia
- Finland
- Latvia
- Poland
- Sweden

Source: WEO database.



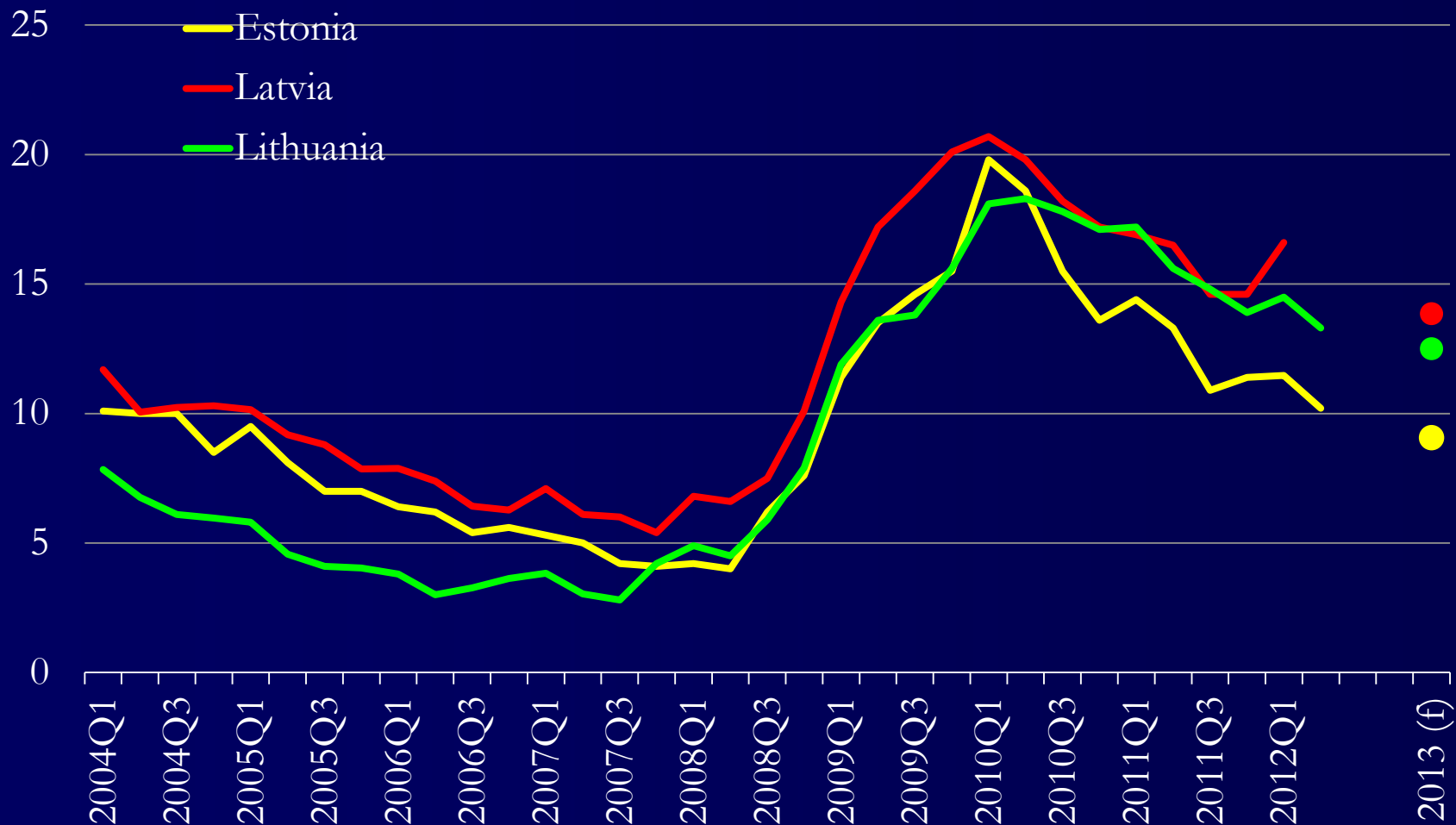
... and GDP has recovered to 2006/7 levels.

GDP level
(2004 = 100)



Unemployment is quickly falling

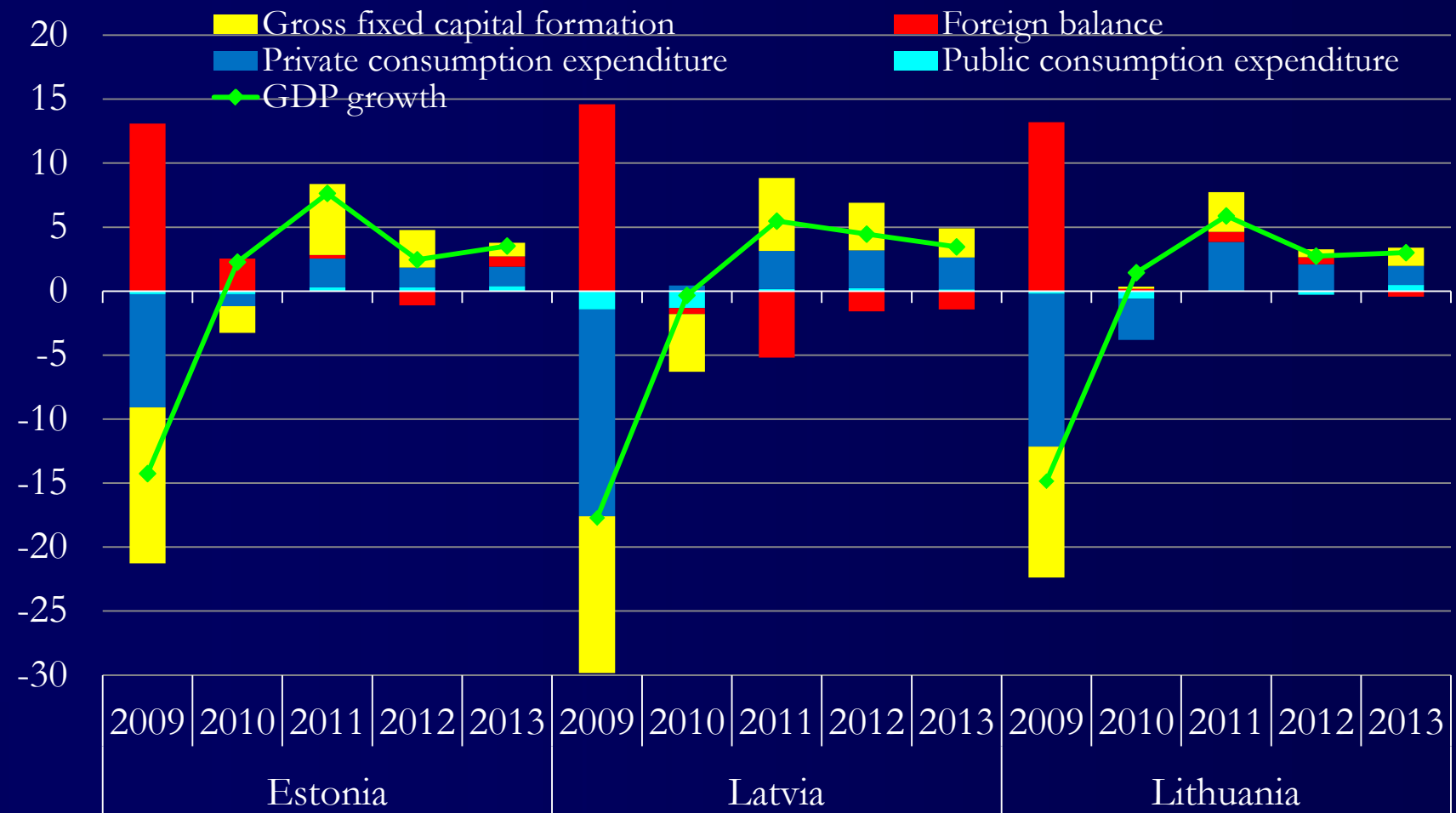
Unemployment rate
(percent)



Domestic demand is now contributing to growth

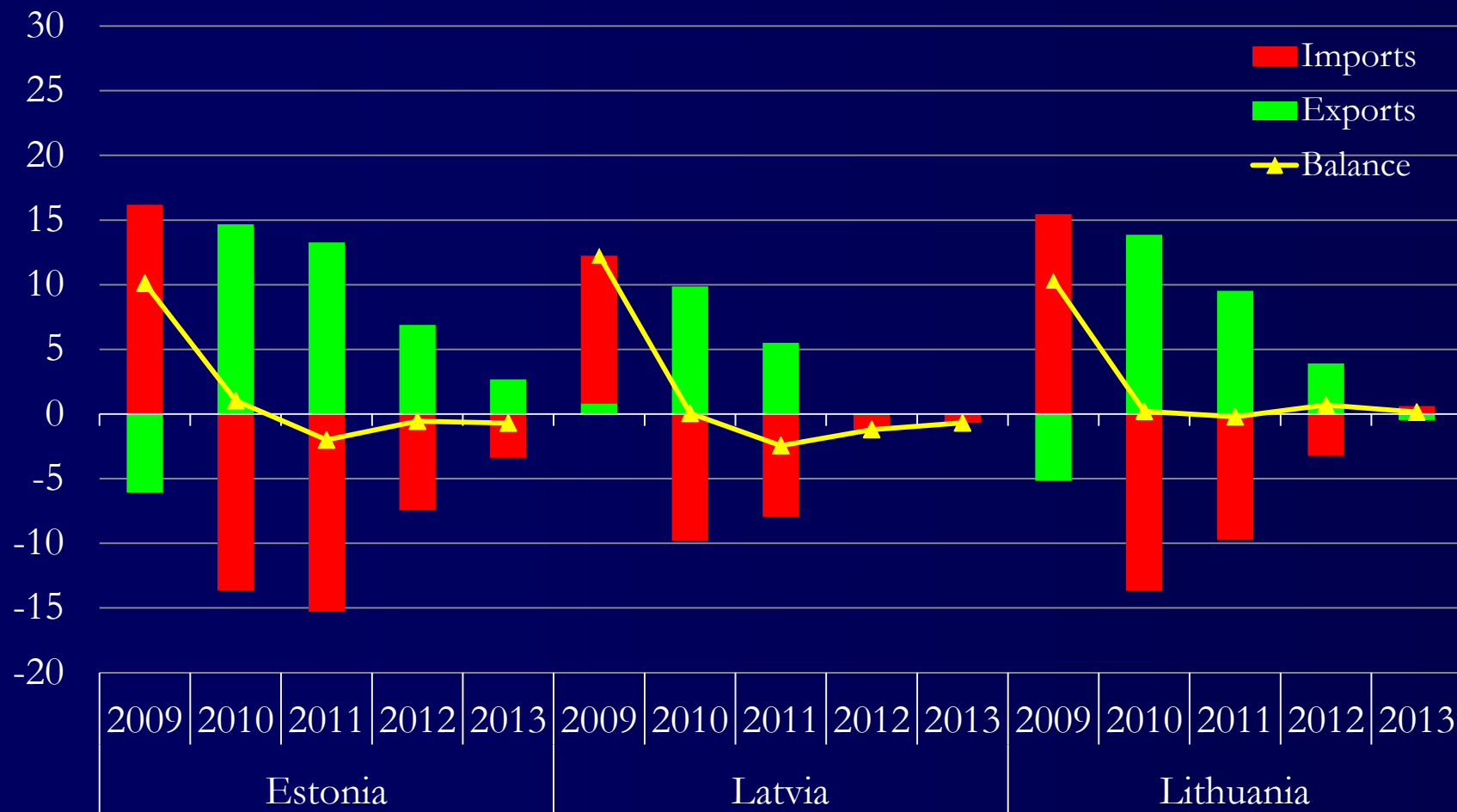
Contributions to Growth

(percentage points)



Exports rebounded, but have slowed

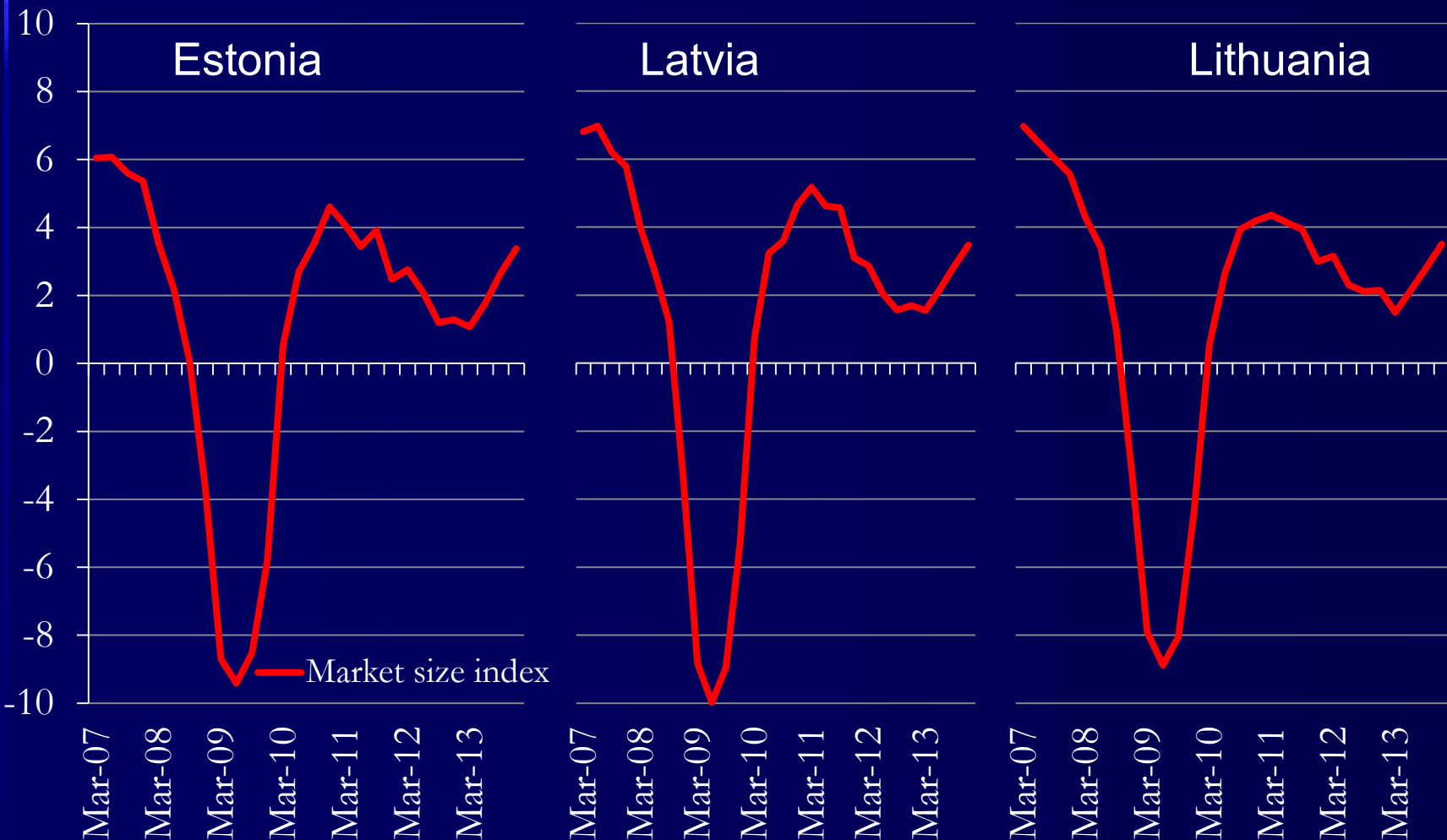
Changes in Exports and Imports to GDP ratio
(percentage points)



Export markets have grown...

Export markets growth

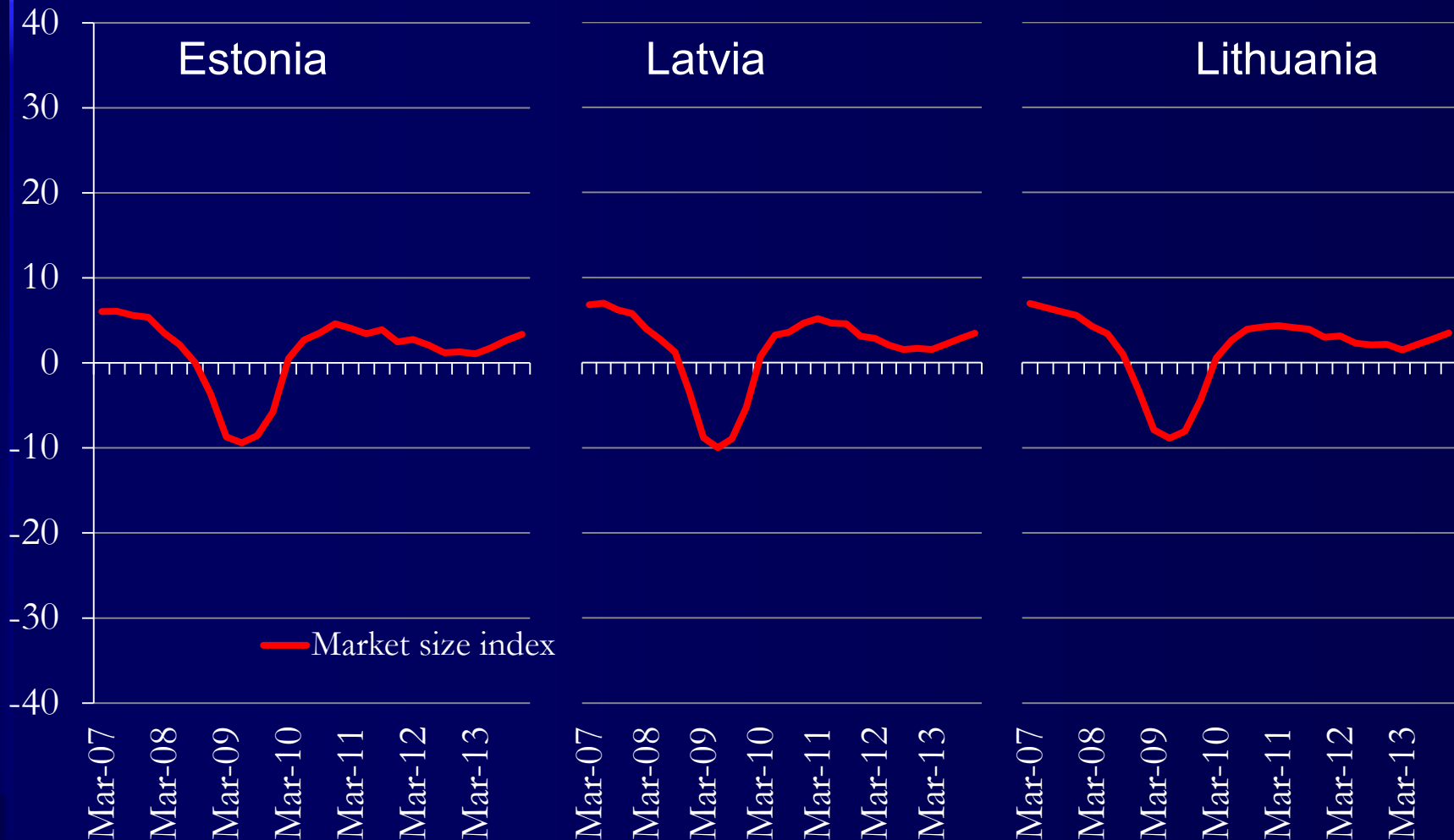
(percent y/y, partner GDP weighted by 2007 export patterns)



Export markets have grown...

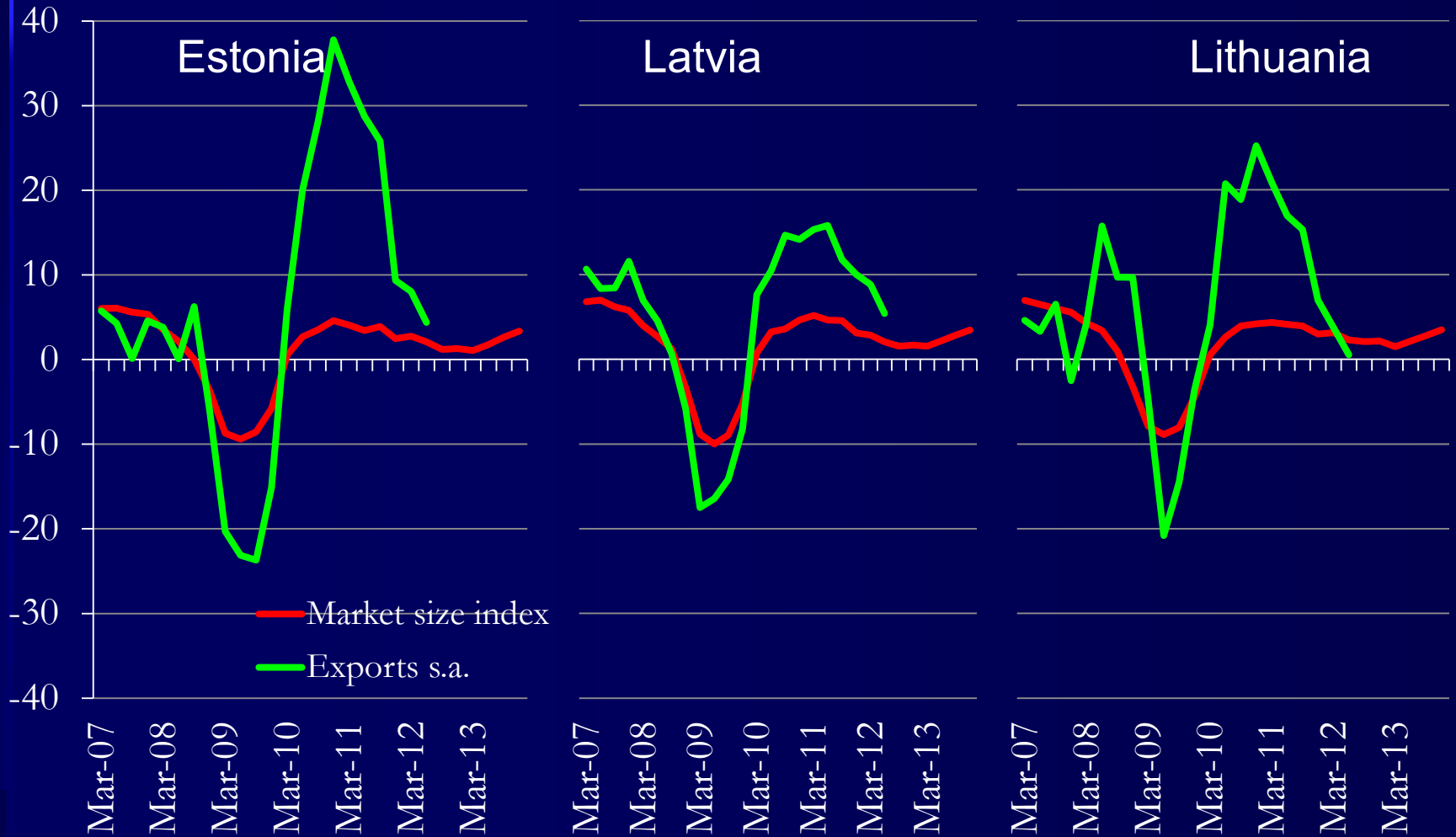
Export markets growth

(percent y/y, partner GDP weighted by 2007 export patterns)



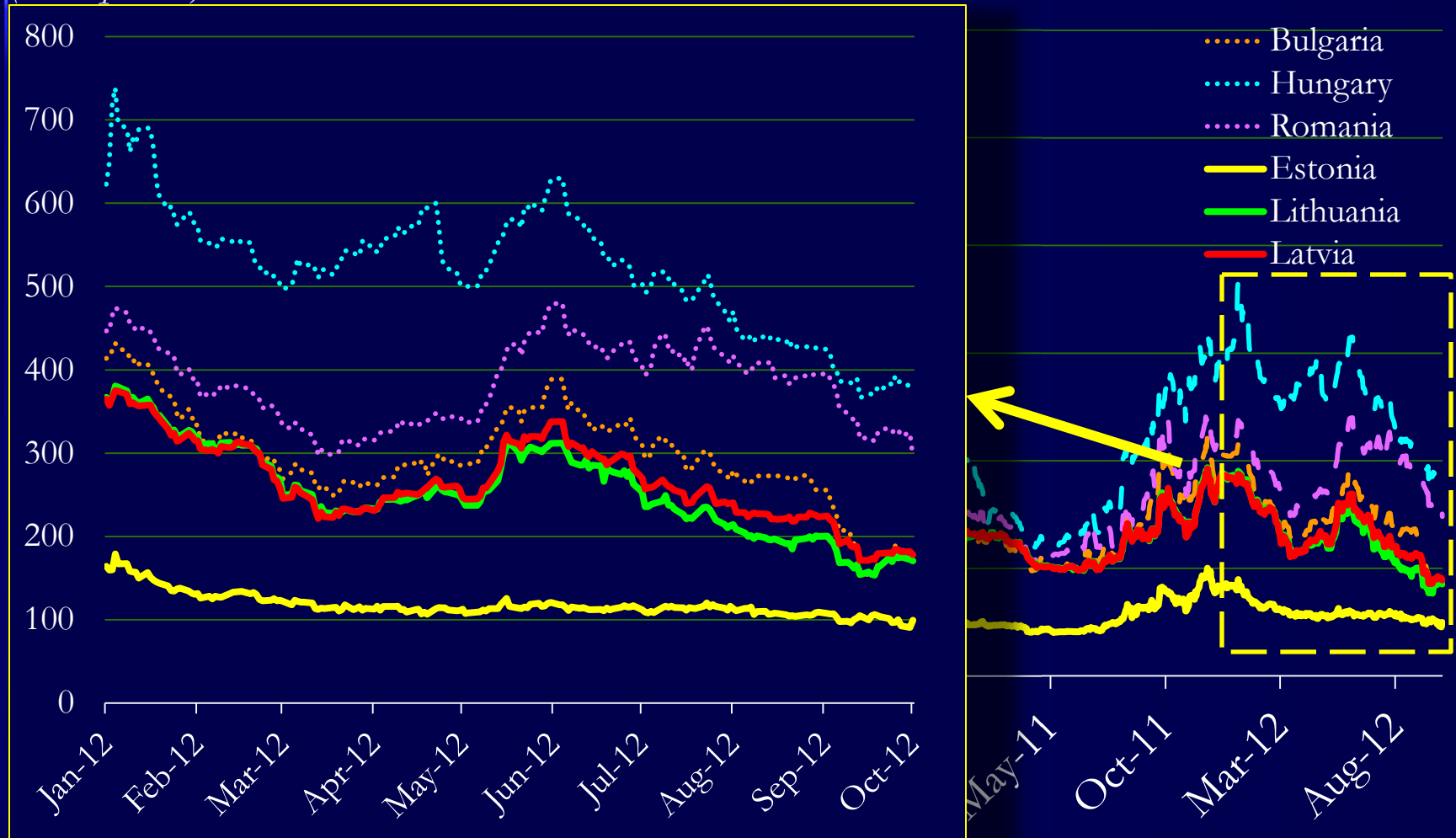
...and Baltic exports have gained.

Export markets and exports volume growth
(percent y/y, partner GDP weighted by 2007 export patterns)



Market perceptions have improved remarkably

CDS spreads
(basis points)



Scope of the presentation

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- ✓ Old and new vulnerabilities



Fiscal positions are returning to “Maastricht”

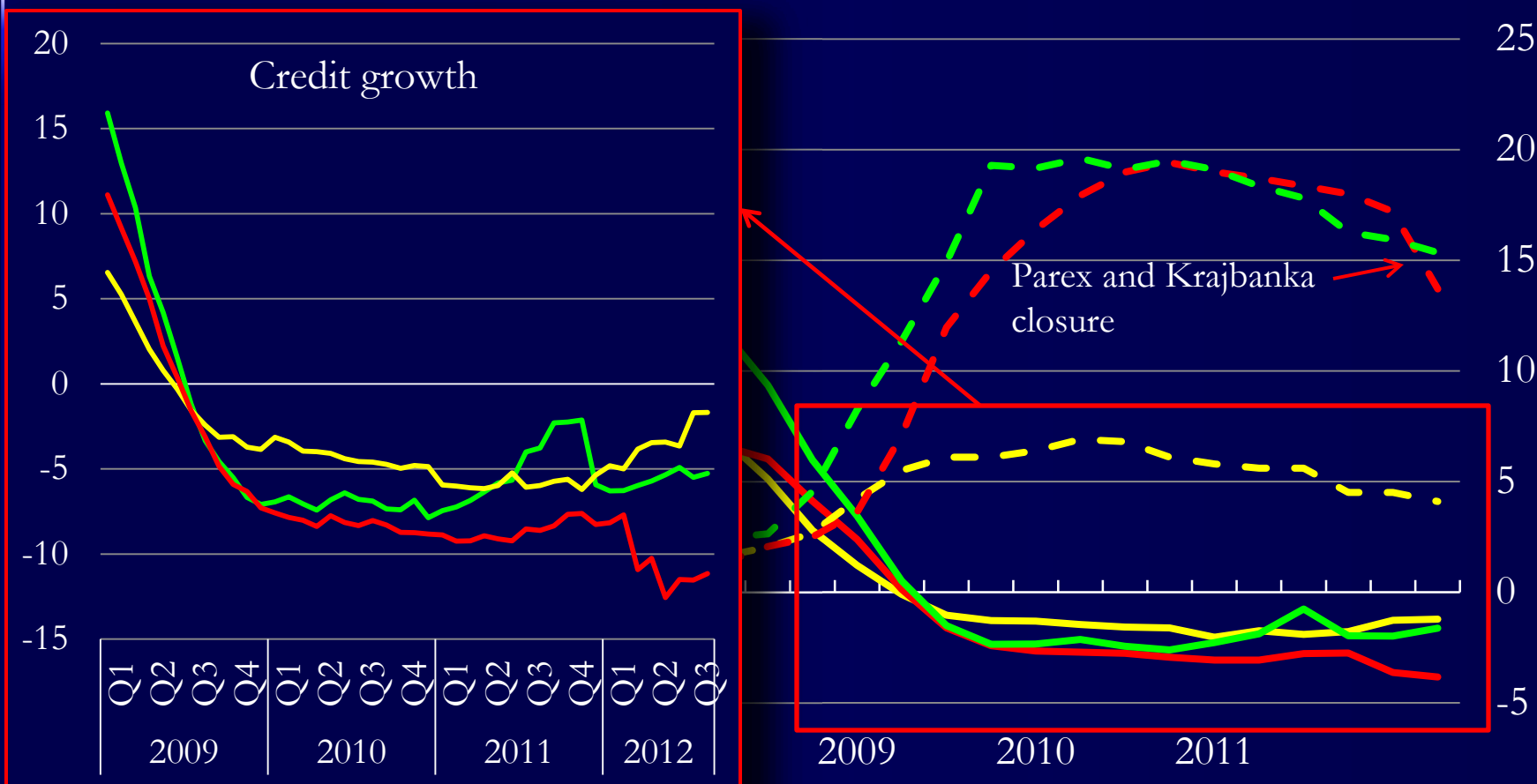


Source: WEO database.



NPLs are falling but credit remains weak

Non-performing Loans to Total Loans (*percent*)
and Credit Growth (*year-on-year percent change*)

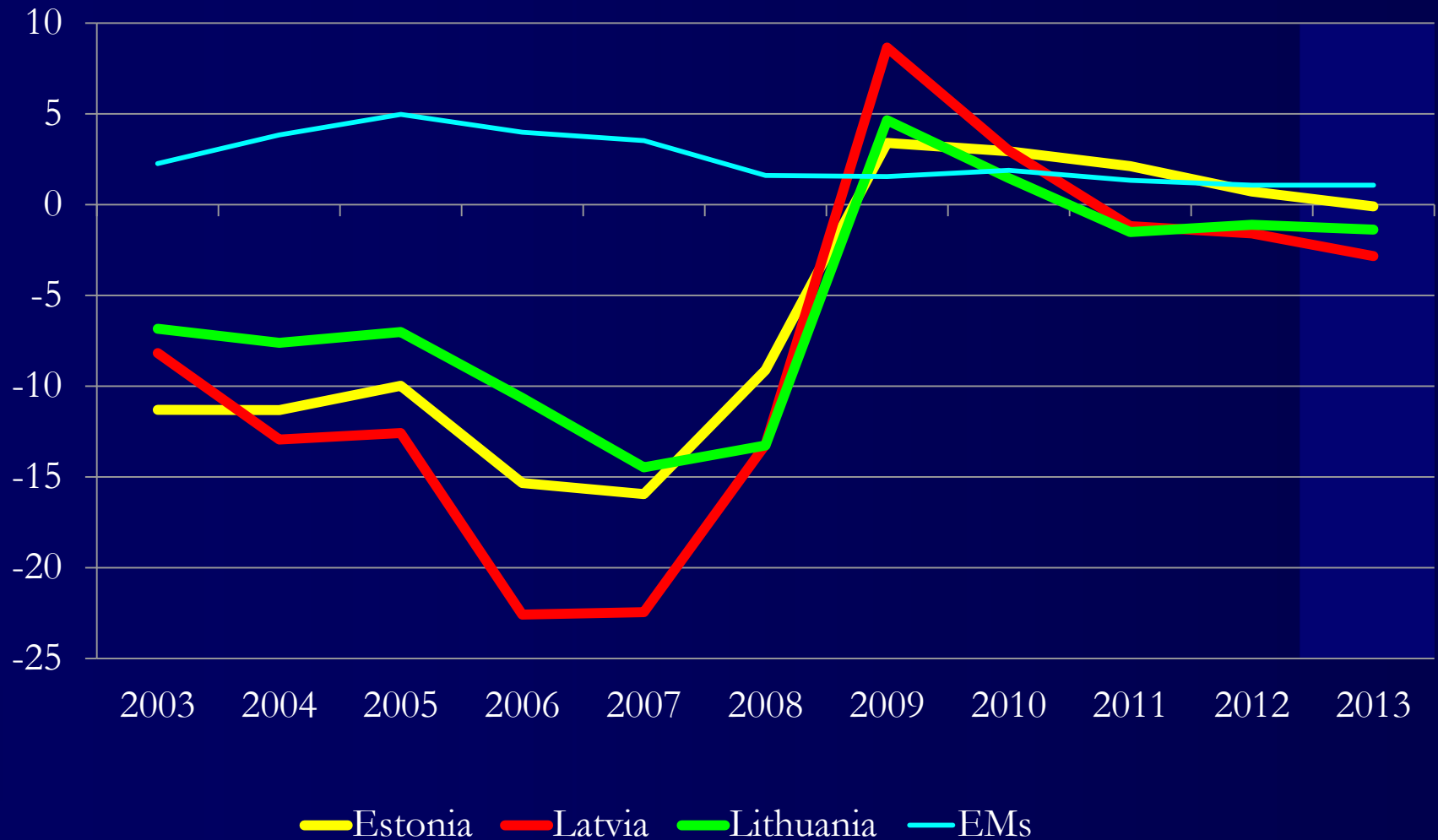


— Estonia Credit — Latvia Credit — Lithuania Credit
- - - Estonia NPLs (rhs) - - - Latvia NPLs (rhs) - - - Lithuania NPLs (rhs)



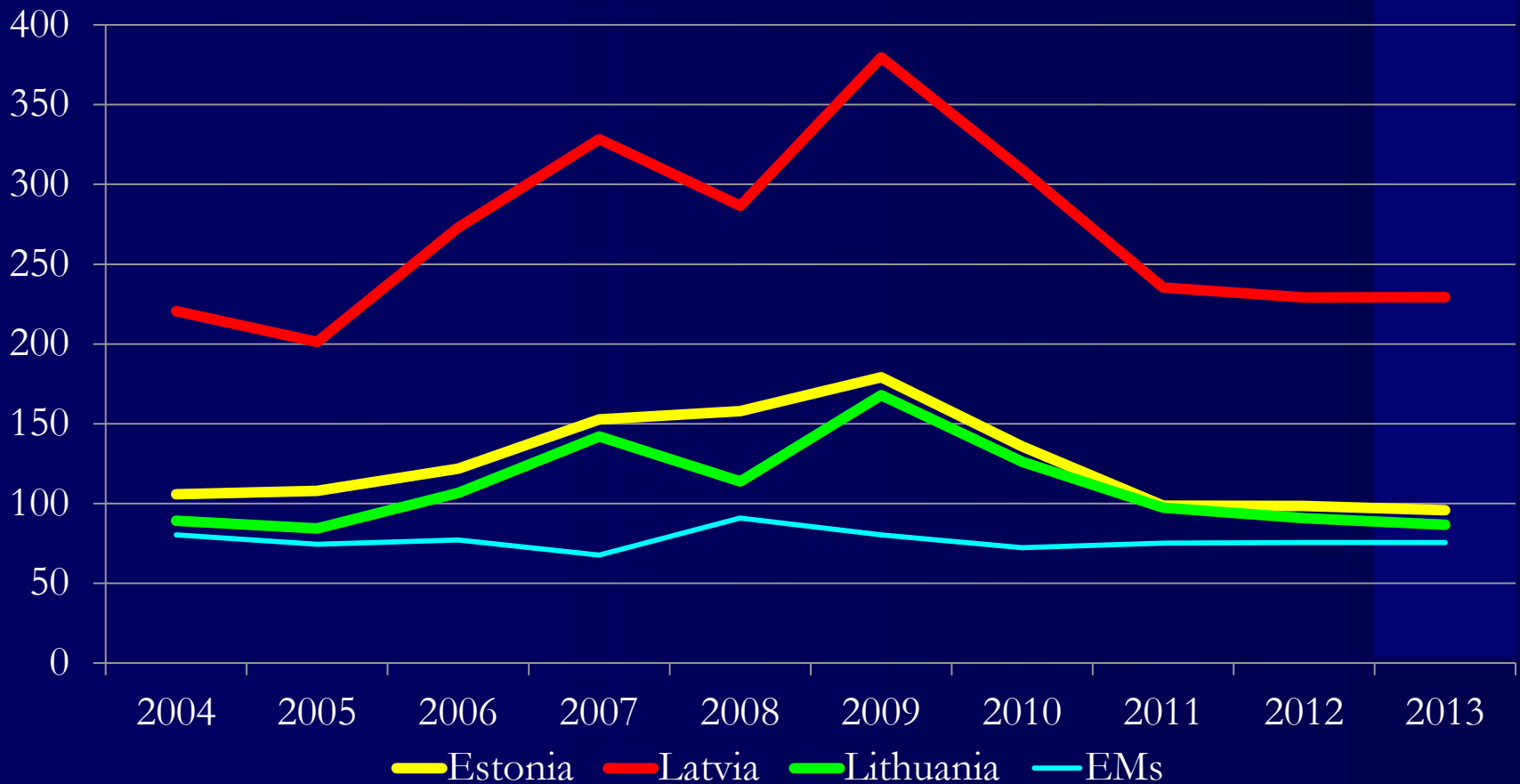
Current accounts are no longer a risk factor

Current Account Balance
(percent of GDP)



Total external debt has fallen...

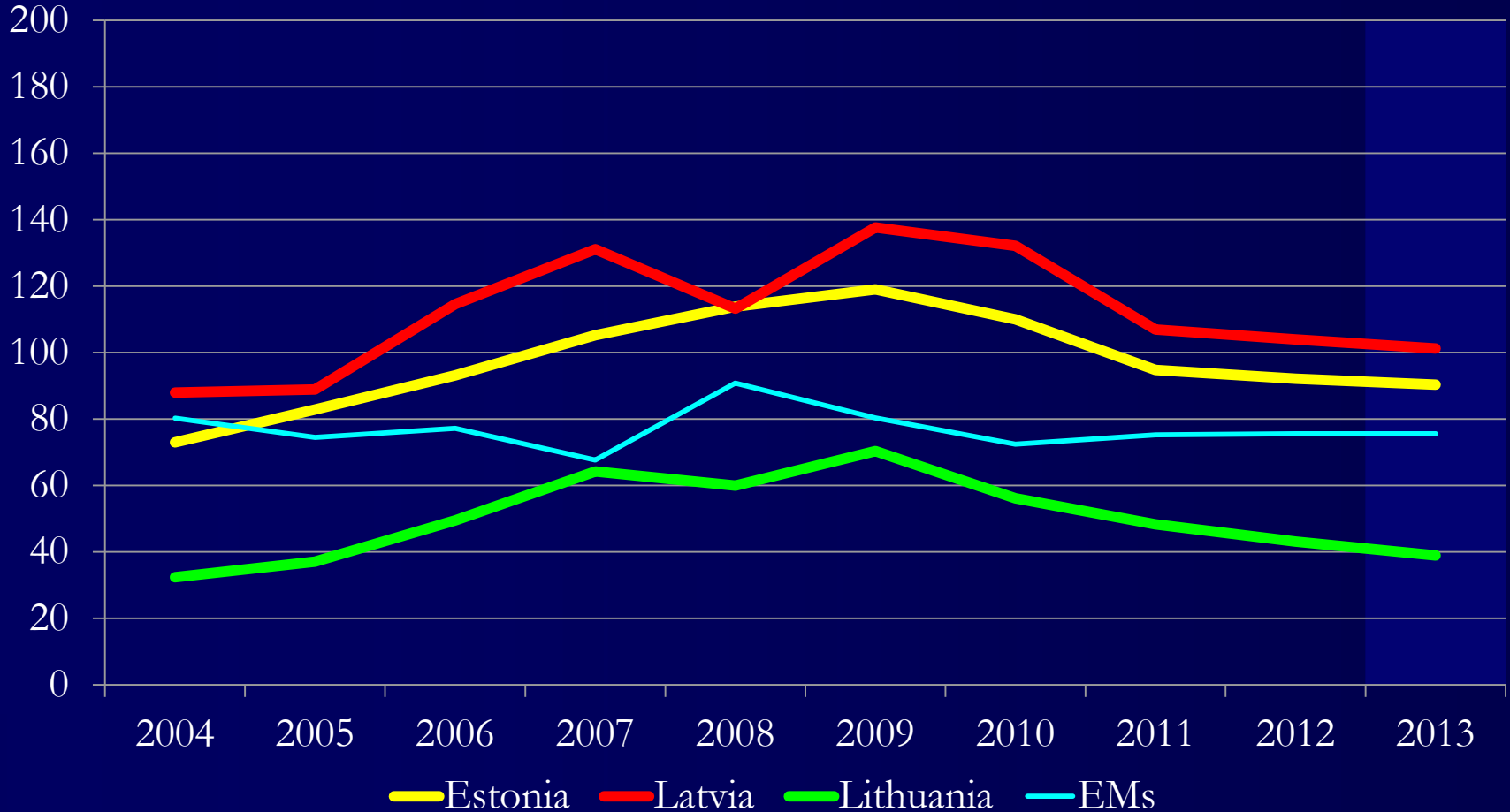
Gross External Debt
(percent of exports)



...but private debt stays high in Estonia and Latvia.

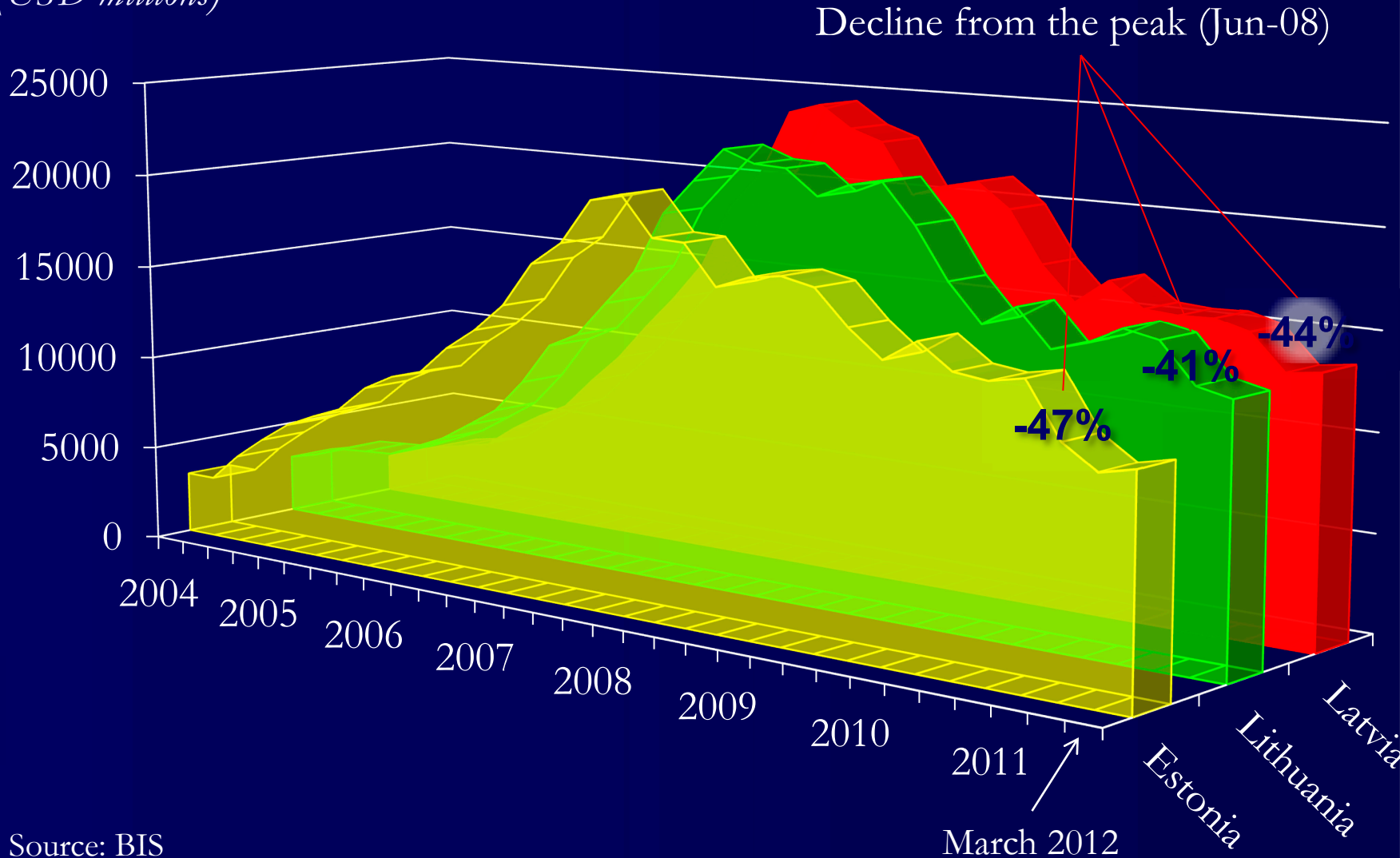
Private Sector External Debt

(percent of GDP)



This is reflected in lower foreign bank exposure

Foreign Bank Exposure
(USD millions)



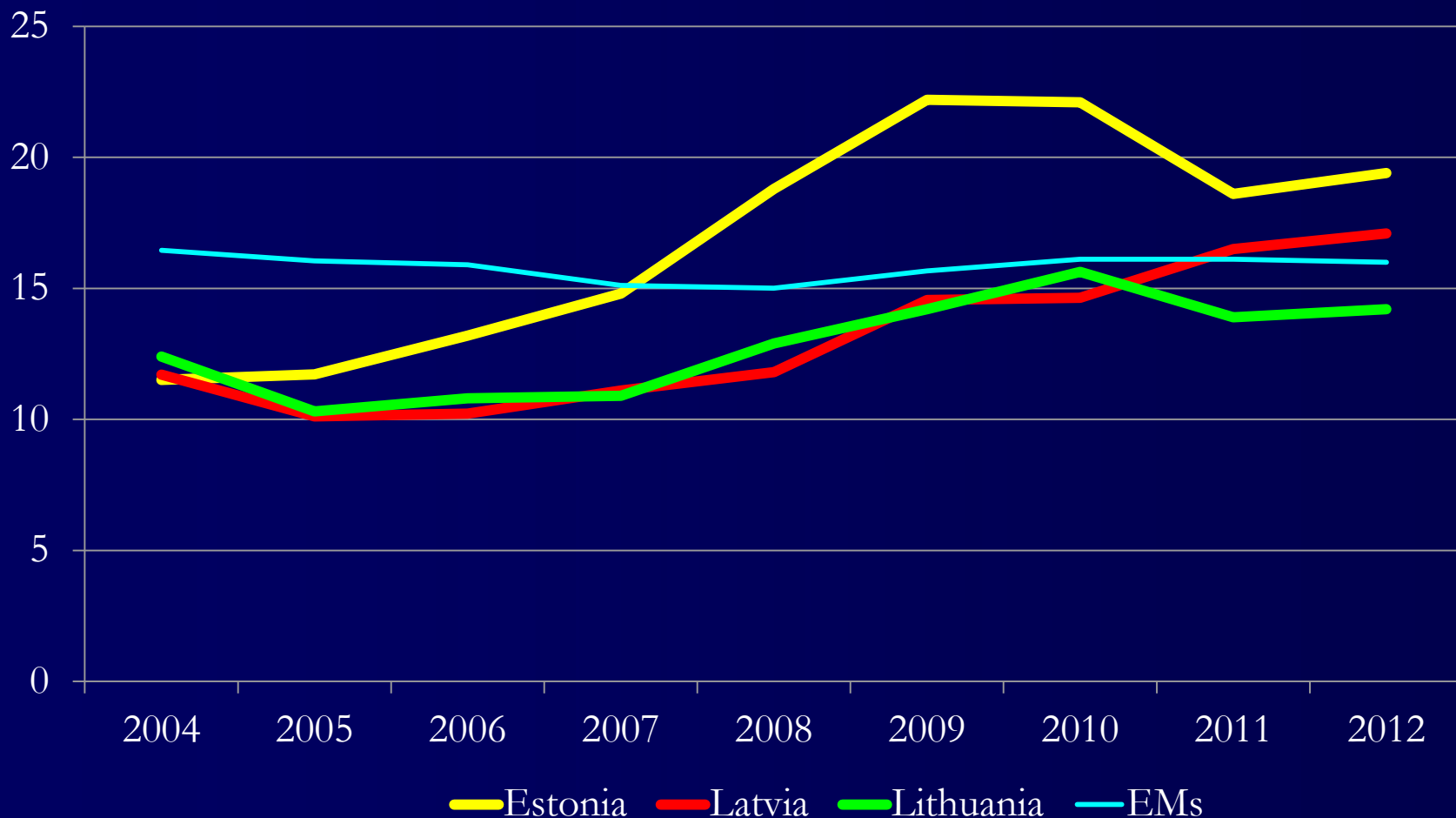
...and Loan-to-Deposit ratios.

Loan to Deposit Ratio



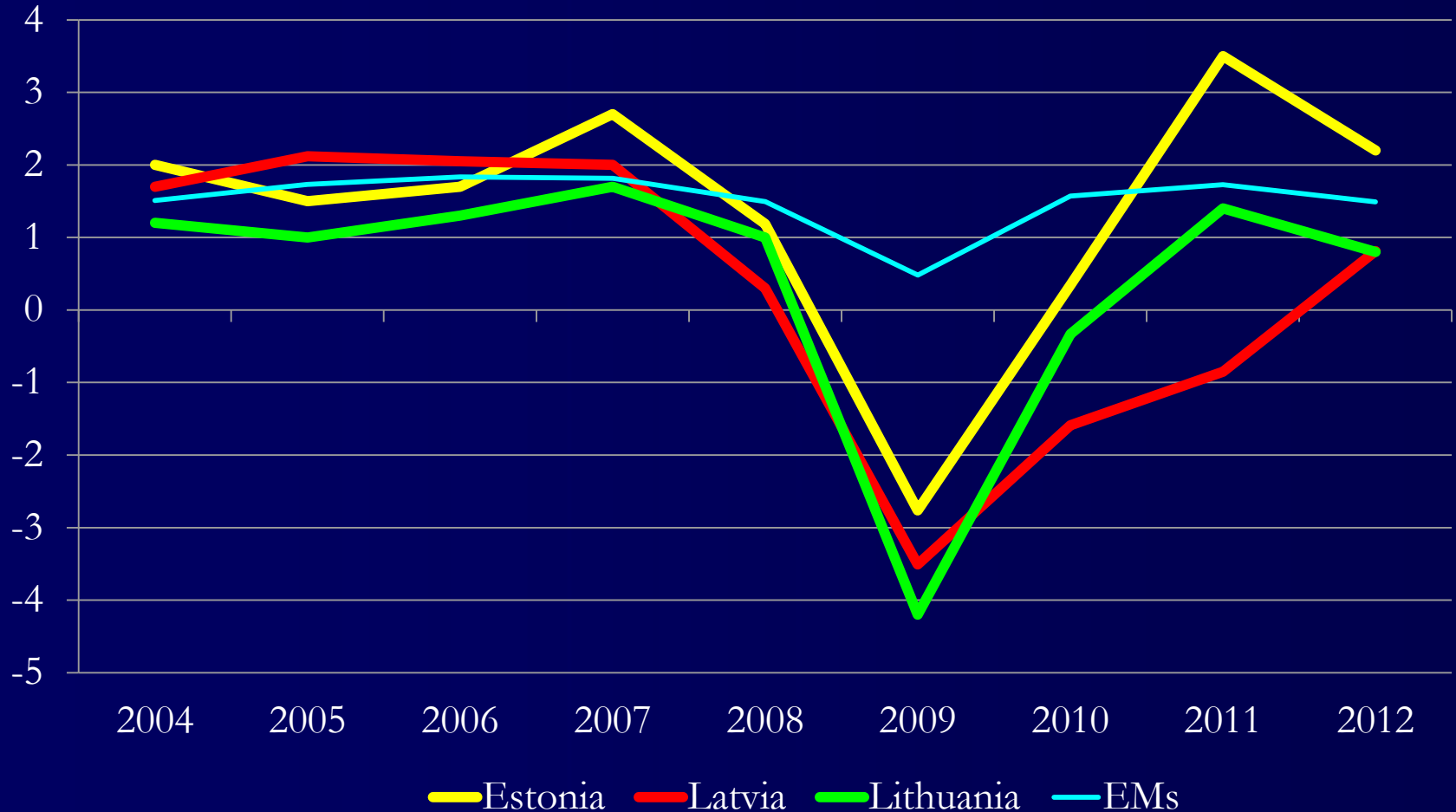
Capital adequacy ratios have increased...

Capital Adequacy Ratio



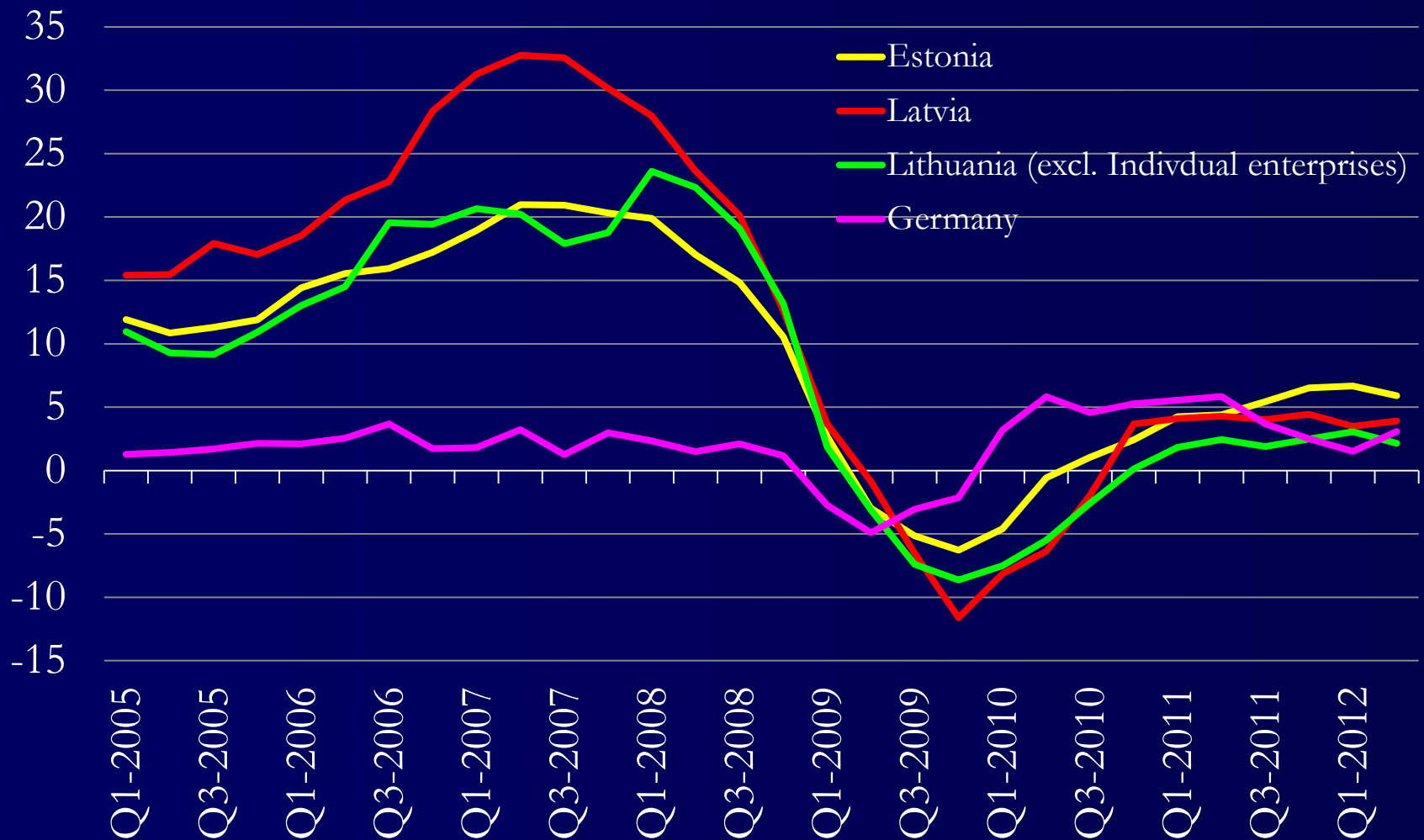
...and banking sectors are no longer loss-making.

Return on Assets



Internal devaluation corrected wages...

Average Gross Earnings
(percent y/y)

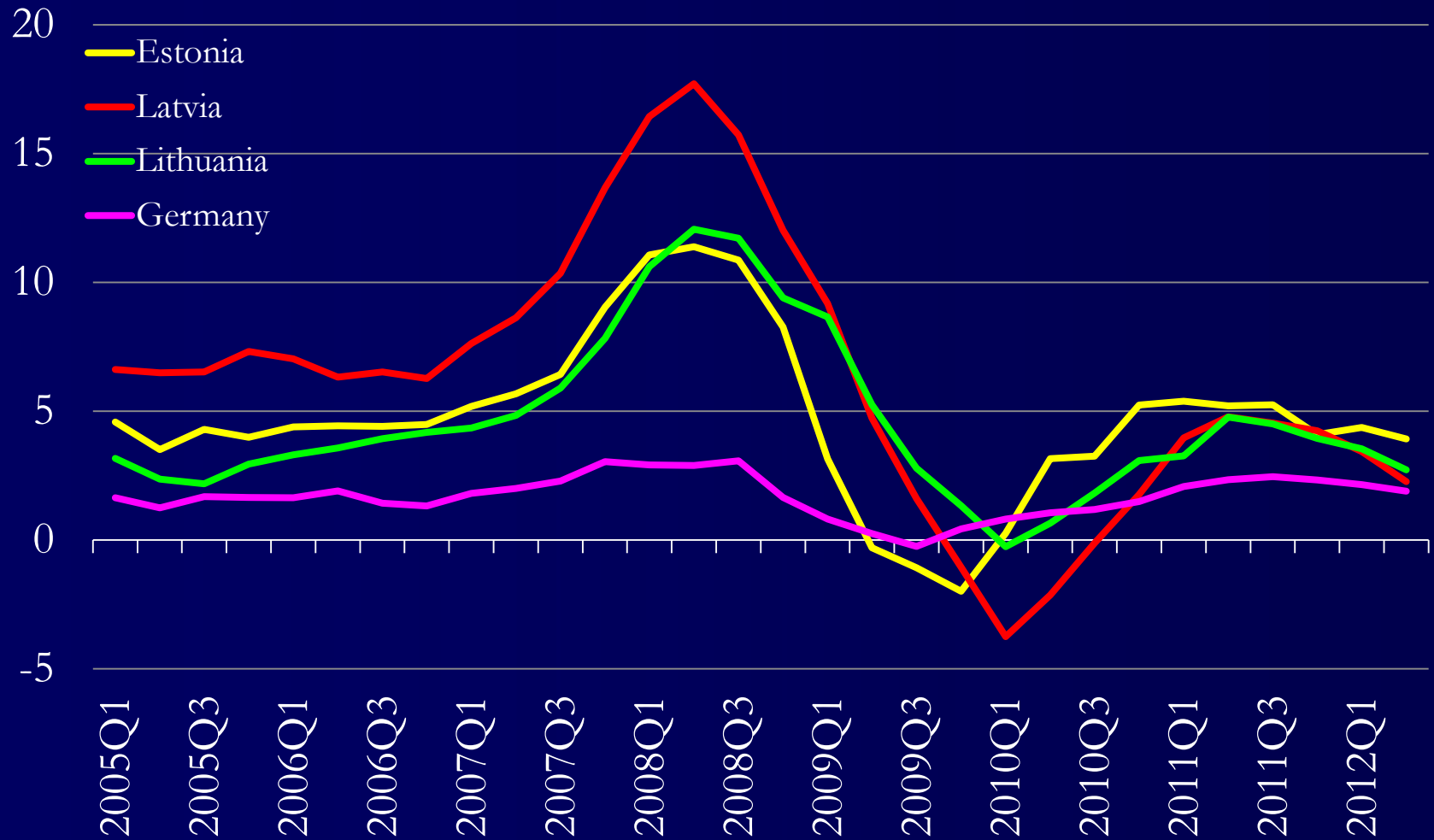


Source: Haver; IMF Country Reports



...and price levels...

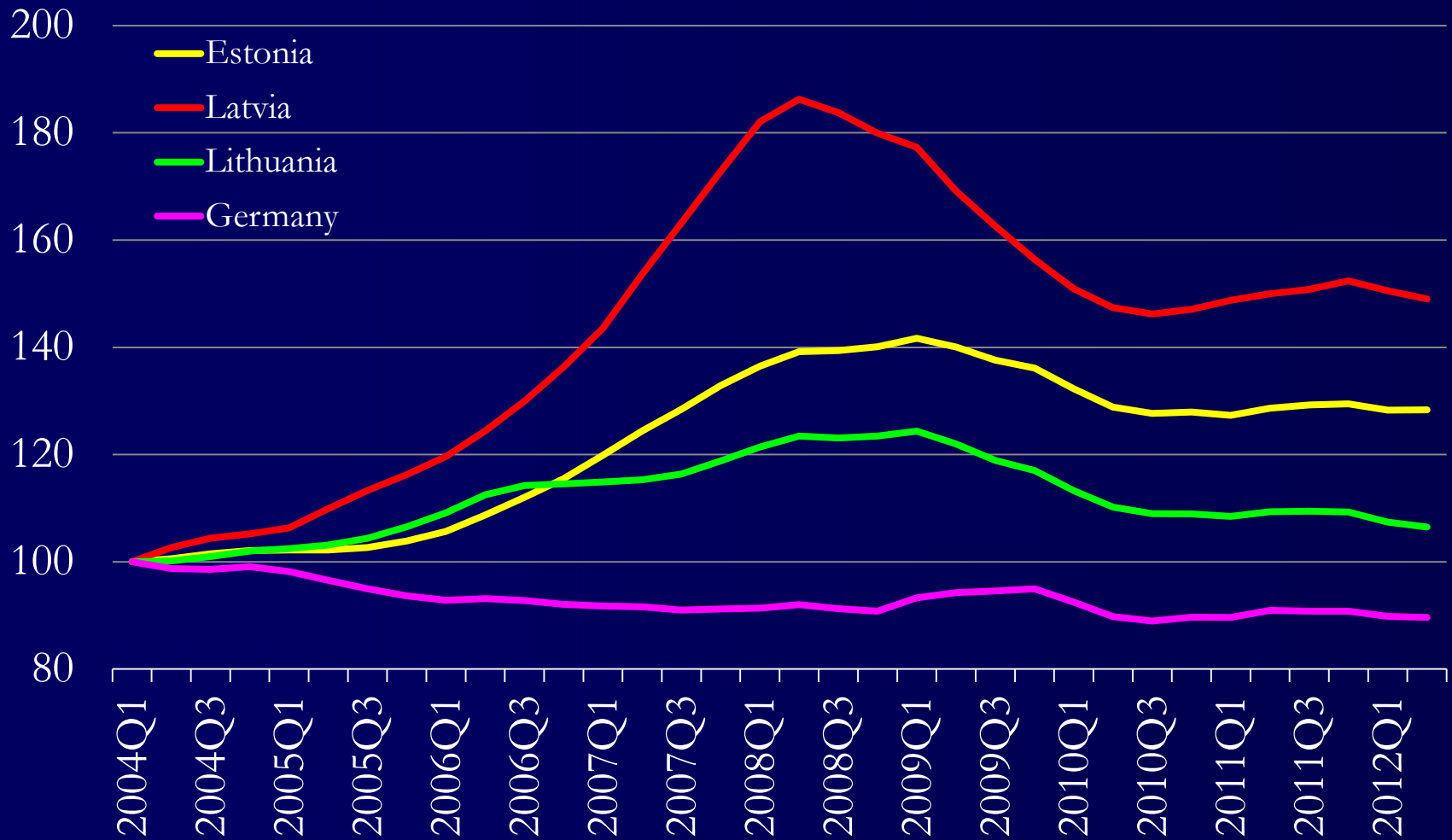
CPI inflation
(percent y/y)



...thus improving competitiveness.

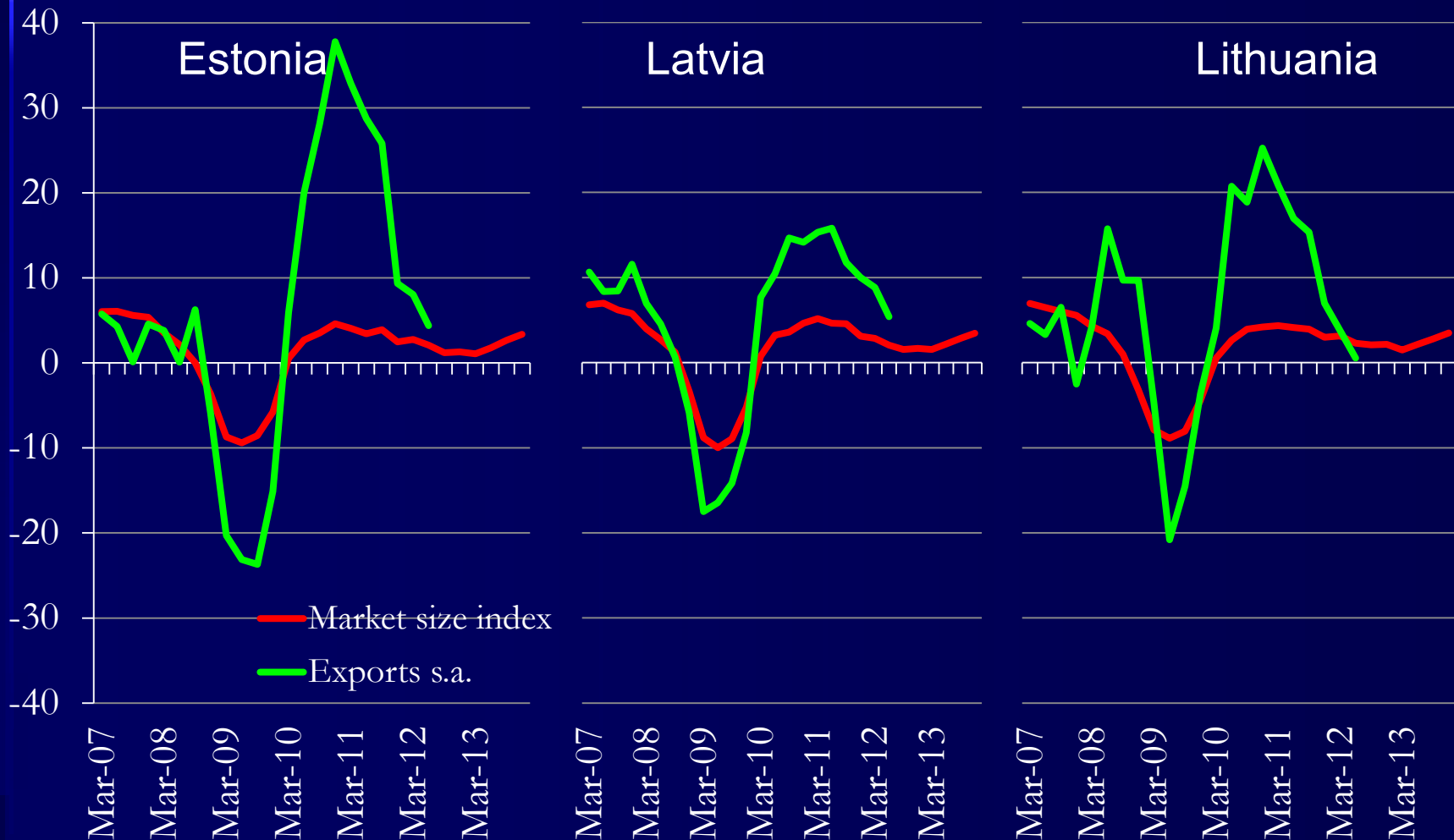
Real Effective Exchange Rate (ULC based)

(Mar-04=100)



Sustained export growth is key for the Baltic states

Export markets and exports volume growth
(percent y/y, export market weighted by 2007 export patterns)



Source: IMF, Direction of Trade; World Economic Outlook; Eurostat



Main messages

- The adjustment and recovery have been remarkable
- Many vulnerabilities have been corrected
- But some challenges remain
 - Coping with higher public debt (LT, LV)
 - Coping with high private debt (EE, LV)
 - Reviving credit to support growth
 - Sustaining improvement in competitiveness



Thank you

