

Estonia enters Euroland:
A two-speed Baltic development ahead?

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1st idea:

The Baltics: **Growing apart?** Effects of Estonia joining Euroland

- The Baltic countries are (so!) often pooled together as if they could best be described as one entity
- They sometimes can...
- But perhaps it is increasingly misleading to think and do so !!!
- Several reasons to believe that the future will imply divergence

2nd idea:

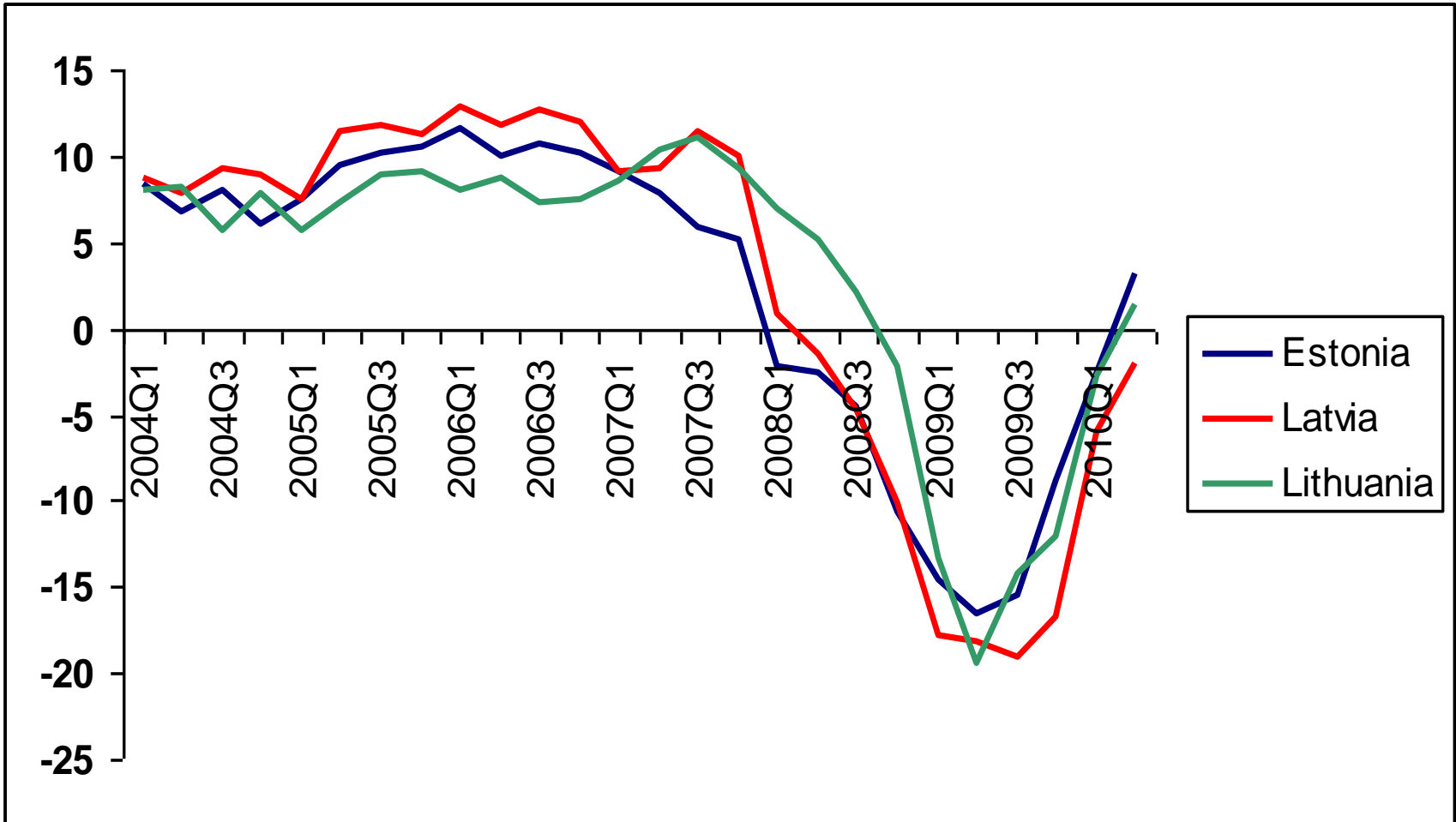
The crisis is over! (**sort of...**)

- Just look at the data!
- But convincing people may be harder....
- December 2008 – October 2009:

The age of diminished expectations:

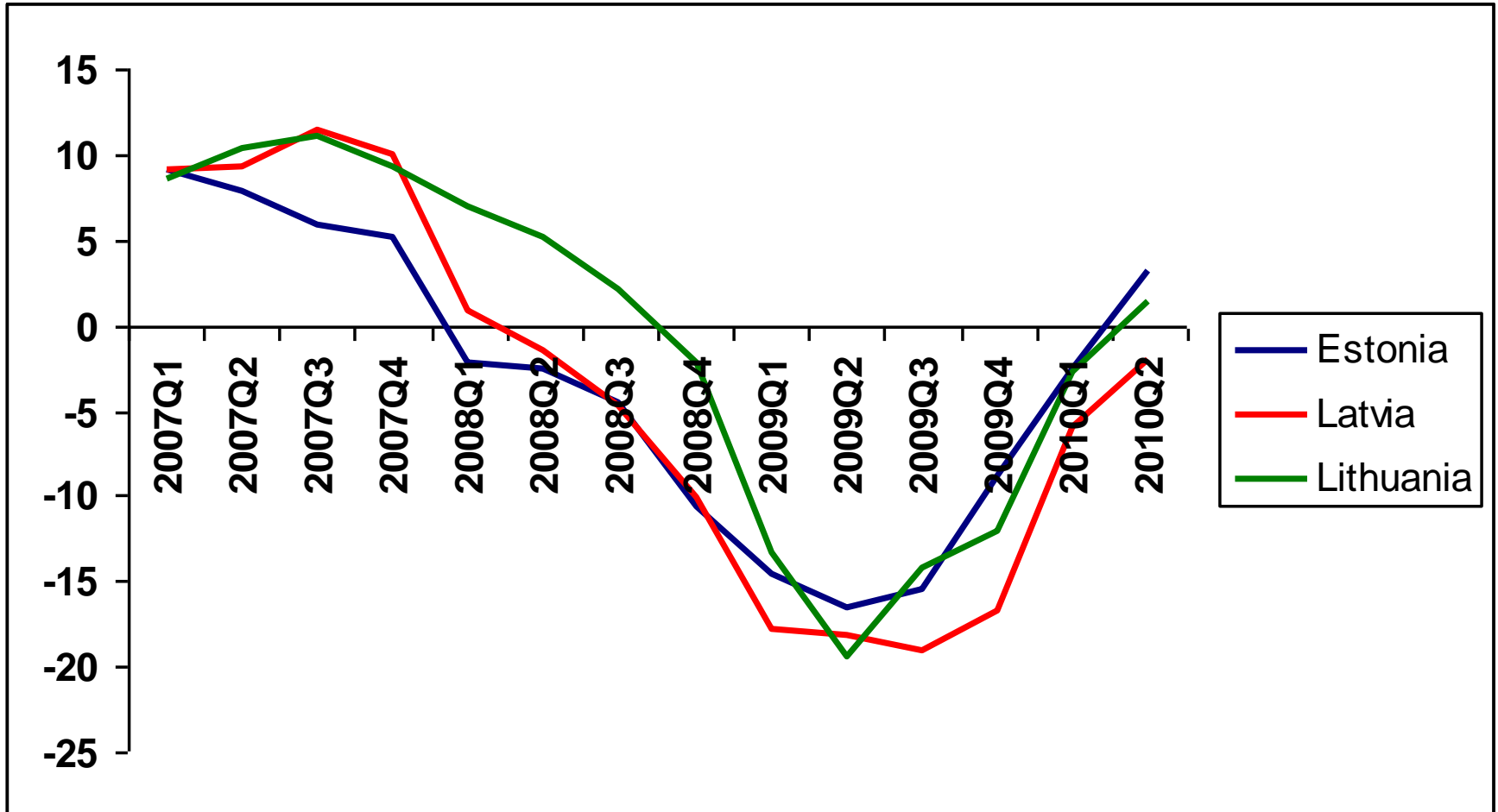
One could have been forgiven for believing that the Baltic economies (notably Latvia's) were on the verge of collapse

EE, LV, LT: Similarity... GDP growth
'Baltic Tigers'
... at least until the crisis struck



EE, LV, LT: Similarity...GDP growth

But scratch the surface and the similarities become differences



EE, LV, LT: Crisis response

Estonia

- Fiscal strangulation to meet the Maastricht criteria to enter the *Promised Land*, aka the eurozone

Latvia

- Parex trouble, default looming – call in the cavalry i.e. the IMF and EU
- Then see no evil, hear no evil, say no evil until June 2009

Lithuania

- Reasonable fast fiscal response but not so tough as in Estonia

EE, LV, LT: Status, mid-to-late 2010

Estonia

- Invited to join the eurozone 1 January 2011

Latvia

- Draconian cuts and more is needed
- Troublesome election – ahem – was not so troublesome....

Lithuania

- Muddling along decently

EE, LV, LT: Divergence?

Estonia

- Being part of the eurozone may attract more foreign investment
- Also investment that was otherwise meant for LV or LT

Latvia and Lithuania

- The two sick men of the Baltics?

EE, LV, LT: Outlook

Estonia

- Poised for a post-euro surge

Latvia

- Hopefully Estonia's euro success will inspire
- Reform – reform – reform

Lithuania

- Better positioned than Latvia
- But still too reliant on economic activity in the east

EE, LV, LT: The aftermath of recession

Estonia

- Fiscal policy extreme – extreme (perverse !) flexibility
- Fits well into the eurozone

Latvia

- Amazing !!!
- Hang on to the IMF!!!
- But long term unemployment?

Lithuania

- Long term unemployment?
- Competitiveness?

EE, LV, LT: The immediate future

No return to the 'Tiger' days...

Estonia

Euro effect

Latvia

Overleveraged consumers and companies

Migration?

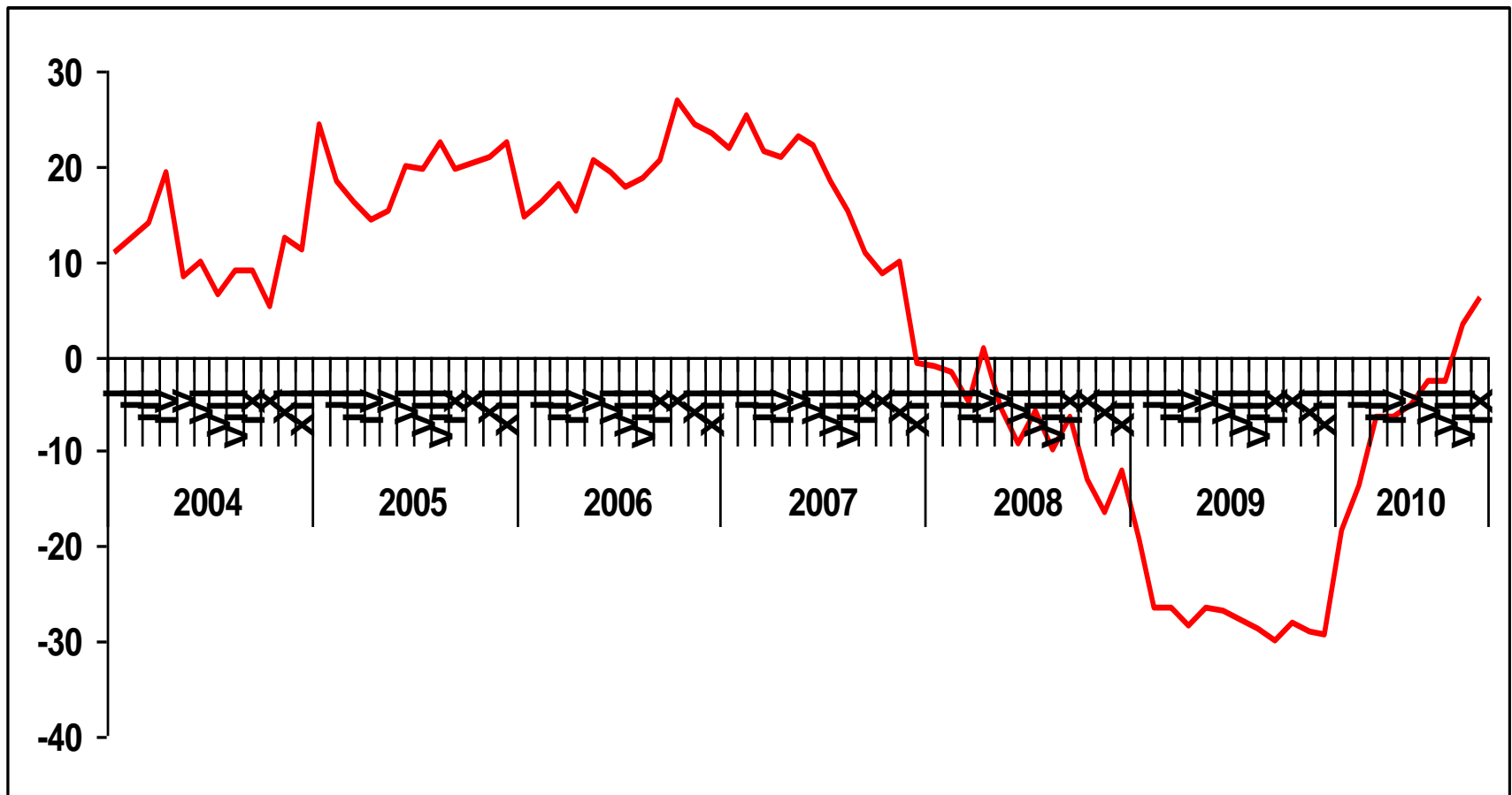
Lithuania

Migration?

Competitiveness?

But (Idea 2) – substantial parts of the crisis are over

Example: Retail sales, growth y-o-y (Latvia), (constant prices)



EE, LV, LT: Idea/conclusion

No return to the 'Tiger' days, but still...

Estonia, Latvia, Lithuania:

Retail sales



Manufacturing



Industrial production



GDP



- but admittedly, from a low base

But this is not:

Portugal

- very slow on reforms, way behind the Baltics

Ireland

- 32% of GDP budget deficit

Greece

- bankrupt by 2013

Spain

- 20+% unemployment and rising

Thank you!

Questions / comments are welcome!



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