



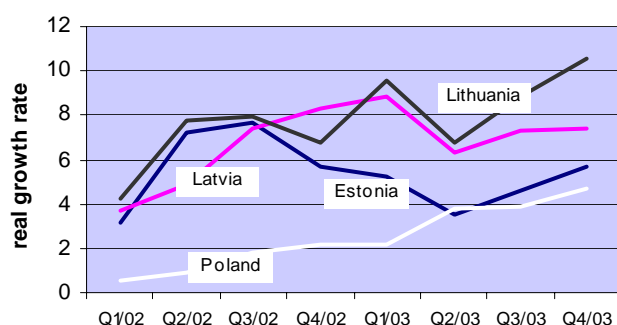
### Estonia

#### GDP grew 4.7% in 2003, positive forecasts for 2004

Estonia's economic growth accelerated, as expected, during the last quarter of 2003. GDP grew 5.7% compared to same period in 2002. According to preliminary calculations, the annual real economic growth in 2003 was 4.7%.

Calculated by economic activities, the value added increased most in mining and quarrying (10% y-o-y) and manufacturing (8%) compared to 2002. At the same time the value added decreased most in forestry (-10%) and fishing (-7% y-o-y). Manufacturing constituted a 19% share of total GDP, transport and storage 16%, and wholesale and retail trade 14%. By expenditure approach, domestic demand grew 7% y-o-y, and its current value reached 109.8% of GDP. Gross fixed capital formation grew by 13% y-o-y up to 30% of GDP (28.5% in 2002) and private consumption by 6%.

#### Quarterly GDP growth 2002-2003 year-on-year



GDP growth is expected to boom with the onset of recovery in the EU. According to recent forecasts, annual GDP growth is expected to be around 5.2-6.0% in 2004 and 2005. Especially, growing export will support the growth.

#### Inflation expected to increase in 2004 and 2005

Consumer prices increased slightly in the first quarter of 2004 by 0.4% compared to the analogous period of 2003. Prices increased most in health services (6.4%) and housing (3.1%), and went down especially in transport (-3.7%) and communications (-2.4%). Correspondingly, construction prices rose 3.8% y-o-y, mainly due to a sharp increase in labour costs.

Although the inflation rate has been at a record low level since April 2003, analysts expect that inflation will rise significantly from mid-2004 and next year even more so, due to higher excise taxes (upon accession to the EU), electricity and water fees and rising food prices.

#### Industrial production up 7.4% in the first quarter

The growth of industrial production continued within the first three months. The unadjusted production index was 7.4% higher y-o-y. The manufacture of office machinery and computers grew 53%, the manufacture of chemicals and chemical products by 34%. In addition the manufacture of electrical machinery and metal product increased rapidly.

#### Exports grew faster than imports during Jan-Feb

In 2003, both the exports of goods and services grew around 6% y-o-y (at constant prices), whilst imports grew still faster by 9%. Imports of goods grew extremely fast by 13%, however imports of services declined nearly 8%. Although export revenues increased in the second half of 2003, it was still insufficient to improve the economic balance significantly.

However, the value of exports grew 14.1% y-o-y within the first two months of 2004, whilst imports grew only 5.4% (at current prices). Exports of machinery and transport equipment increased by 20% and exports of chemicals and related products up 60% y-o-y. On the other hand exports of beverages and tobacco declined by 31%. The growth of imports was mainly based on the increased imports of crude materials (inedible, except fuels) (26%), chemicals and related products (22%), and food and live animals (17%).

However, according to custom statistics, the improvement of trade balance stopped in March. The deficit was more than twofold from February, making for a gap of EEK 6.1 billion.

#### FDI inflow accelerated in 2003

Inward foreign investment reached EUR 10.2 bn at the end of 2003, in which FDI's share is EUR 5.1 bn. FDI in 2003 amounted to EUR 0.8 bn, nearly 1.5 times more than in 2002. Despite a record-sized inward FDI flow, it covered a bit over 50% as a source of funding. Current account deficit was alarmingly high, 13.7% of GDP, which causes pressures to decrease domestic demand. However Estonian public sector finances are under good control; their budget surplus was the highest ever, reaching 2.6% of GDP.

#### Some business highlights

- EU and Russia signed a protocol (April 27) on extending their partnership and cooperation agreement (PCA) to the new EU members. Thereby the double import tariffs that Russia levies on Estonian goods will be abolished from May 1.
- A loophole in legislation allows Estonian to work in Finland without permits. Finland allows the free mobility of services, and thus firms may recruit employees through Estonian staffing service companies.
- TeliaSonera made a buy-out offer to acquire all the shares of Eesti Telecom. The company owns already 49% of Eesti Telecom; Finnish travel agency KalevamatkatKaleva acquired Herman Reisid.
- Stora Enso Timber decided to build a glue-laminated beam mill in Imavere. The value of investment is EUR 13.2 mln, and is the largest ever made in the post-treatment of timber.
- Number of foreign start-ups grew sharply during last six months. Since September 2003, 253 subsidiaries have been founded, 45% more than a year ago.
- Two new shopping centres opened their doors in April: Viru Centre (30 000m<sup>2</sup>) in city centre and Ulemiste Centre (50 000m<sup>2</sup>) near Tallinn Airport.
- Estonian ferry "Fantasia" (Tallink Group) started to operate on the Tallinn-Helsinki-St. Petersburg line.
- EBRD invests EUR 20 mln in an Estonian pulp mill project at Kunda.
- Electronics: Elcoteq moves its production from Espoo (Finland) to Tallinn; LGP Allgon plans to relocate parts of its Swedish based production to Tanassilma park.
- Russian investors, Baltic Energy investment Group, plans to build gas-fuelled power station at the Muuga sea port.
- The Port of Tallinn plans to spend EUR 340 mln during the next five years on new technology and on upgrading its facilities.

Estonia - main economic indicators	1997	1998	1999	2000	2001	2002	2003	2004	as of
GDP (y-o-y %-growth, constant prices)	9,8	4,6	-0,6	7,3	6,5	6,0	4,7		1-12/2003
Industrial production (y-o-y %-growth)	14,6	4,1	-3,4	14,6	8,9	8,2	9,8	7,6	1-3/2004
Inflation (CPI, end of period, y-o-y %-change)	12,5	6,5	3,9	5,0	4,2	2,7	1,1	0,4	3/2004
General government budget balance (% of GDP)	2,2	-0,3	-4,7	-0,7	0,4	1,2	2,6		1-12/2003
Gross wage (period average, EUR)	227	262	284	314	352	393	455		Q4/2003
Unemployment (% end of period, LFS data)	9,8	10,2	12,9	13,9	11,9	11,3	9,3		Q4/2003
Exports* (EUR million, current prices)	1 891	2 252	2 239	3 445	3 698	3 642	3 996	646	1-2/2004
Imports* (EUR million, current prices)	3 127	3 529	3 224	4 615	4 798	5 079	5 734	877	1-2/2004
Current account (% of GDP)	-12,1	-9,2	-4,7	-5,8	-6,0	-12,2	-13,7		1-12/2003

Source: Statistical Office of Estonia, Bank of Estonia, own calculations

\*special trade system

## Latvia

### GDP grew by 7.5% in 2003

Stable economic growth continued during the last quarter of 2003. Real GDP grew by 7.4% y-o-y compared to the analogous quarter of 2002. In the fourth quarter, the increase was greatest in trade (11% y-o-y), in transport and communications (9%) and in manufacturing (8%).

In 2003, the total GDP growth reached 7.5% y-o-y. Thus Latvia's strong and stable economic growth has been continued since the last quarter of 1999. Through the whole of 2003, growth was mainly based on the growth in construction (14% y-o-y), trade (11%), manufacturing (9%), and in transport and communications (8%). Transport has been growing strongly despite the lack of oil throughout the Russian pipeline. Trade constituted over 20% of total GDP, and manufacturing and transport both nearly 15%. The high domestic demand promotes trade and construction in particular.

This rapid growth seems to be continuing this year. Forecasts for 2004 vary around 6.3-7.0%. In comparison, according to the EU commission's forecast, the average GDP growth in the 10 new member countries will be 4.0% in 2003 and 4.2% in 2005. In Latvia, the main engine for economic growth will be private consumption due to higher wages and the availability of loans, and growing exports.

### Inflation still accelerates

Consumer prices rose by 4.8% from March 2003 to March 2004. Prices increased rapidly in health care (11.9%) and in the commodity group of housing, water, electricity, gas and fuels (9.2%). Producer prices grew even faster, by 5.7%, during the same period. However construction costs rose more slowly, by 2.4% y-o-y in the first quarter of 2004.

According to analysts, inflation could be the biggest economic challenge in the coming years in Latvia. The Bank of Latvia raised its refinance rate for lats by 0.5% in March in order to calm the rising tide of inflation.

### EU membership dues and structural support

	Membership dues in 2004	Structural support available in 2004-2006		of which in 2004 (estimate)
EUR million, 2004 prices		Total	Per capita	
<b>Estonia</b>	62	683	505	43
<b>Latvia</b>	77	1 144	494	73
<b>Lithuania</b>	137	1 510	438	103
<b>Poland</b>	1 745	12 562	329	950

Source: SEB

### Industry and construction in tailwind

The value of construction output increased by 13.7% (at constant prices) in 2003. The value of new construction and repair construction grew side by side. The growth of construction was mainly based on works at ports, residential buildings and road building. However, the construction of education buildings decreased nearly 40% y-o-y.

In the first two months of 2004, the growth of industrial production continued at the same level as in 2003. In February, the most remarkable growth was observed in the manufacture of basic metals, plastic products, and wood products.

Latvia - main economic indicators	1997	1998	1999	2000	2001	2002	2003	2004	as of
GDP (y-o-y %-growth, constant prices)	8,4	4,8	2,8	6,8	7,9	6,1	7,5		1-12/2003
Industrial production (y-o-y %-growth)	6,1	2,0	-8,8	3,2	6,9	5,8	6,5	6,3	1-2/2004
Inflation (CPI, end of period, y-o-y %-change)	7,0	2,8	3,2	1,8	3,2	1,4	3,6	4,8	3/2004
General government budget balance (% of GDP)		0,1	-4,0	-2,8	-2,1	-2,5	-1,8		1-12/2003
Gross wage (period average, EUR)	183	202	225	268	282	297	313		Q4/2003
Unemployment (% end of period, LFS data)	14,1	13,7	13,2	13,3	12,9	11,6	10,3		Q4/2003
Exports* (EUR million, current prices, average exch. rate)			1 613	2 020	2 232	2 416	2 559	428	1-2/2004
Imports* (EUR million, current prices, average exch. rate)			2 758	3 453	3 910	4 284	4 634	702	1-2/2004
Current account (% of GDP)		-10,6		-9,8	-6,9	-9,6	-7,6	-9,2	1-12/2003

Source: Central Statistical Bureau of Latvia, Bank of Latvia, Ministry of Economy; own calculations

\*special trade system

### Export benefits from strong euro

Despite lazy economic growth in the EU, Latvia's exports grew quickly in 2003 and within the first two months of this year. The rising exchange rate of the euro supports the competitiveness of Latvian producers in the EU market. Additionally, exports outside of the euro area are also growing.

Within the first two months of 2004, exports grew by 22% y-o-y, whilst imports grew nearly 20%. Thereby the export-import gap was a bit lower than a year ago. It should be noted, that last year import pressure resulted a record-high trade deficit. Exports of wood and wood articles grew nearly 40%. The share of exports to the EU increased up to 63.0% but correspondingly declined in imports to 48.1%. Great Britain passed Germany as a most important export country.

### Latvia received FDI for EUR 311 million

In 2003 Latvia received foreign direct investments for 206 million lats (EUR 311 mln), down 16.4% or 40.2 million lats from 2002, according to the Latvian balance of payments. At the same time Latvia's direct investments abroad increased 3.4 times up to 18 million lats. Thus, the surplus in 2003 was 187.4 million lats or 3.2 percent of GDP.

Latvia's current account deficit last year was 9.2 percent of GDP (EUR 821 mln). The rapid rise in domestic demand and the strengthening of lending had an impact on the current account deficit. IMF forecasts 9.9% deficit for 2004.

### EU citizens can buy Latvian land after May 1

EU citizens are able to buy land in Latvia after May 1. However, until May 1, 2011, there will be a transition period, during which citizens and legal persons registered in EU member countries will be able to buy land in Latvia without restrictions – only – if they are doing business in Latvia and if their main field is not agriculture or forestry.

### Some business highlights

- Latvian government and TeliaSonera reached a settlement concerning the monopoly rights of Lattelekom. TeliaSonera also announced its readiness to start Lattelekom privatisation talks with the Latvian state.
- Riga Port and the Port of Tallinn were the two fastest-growing Baltic ports in Q1 of 2004. The Port of Tallinn increased its cargo handling volume 18.9% at 9.7 mln tons and Riga was a close second by handling 18.4% more than a year ago.
- Riga will contract a syndicate of five Latvian construction companies for building the hall for 2006 World Hockey Championship. The works must be completed by February 1, 2006.
- Itera Latvija is ready to sell 9% of Latvijas Gaze (LG) to Gazprom – if – Gazprom offer an adequate price and close a long-term contract on gas supply to Latvia; Itera Latvija plans to restart the gas pipeline project from Latvia to Lithuania.
- LMT, Latvian Mobile Telephone, reached a profit of LVL 42.3 mln in 2003, and pays LVL 31.72 mln in dividends.
- According to the Latvian IT and Telecommunications Association, the EU membership will stimulate development of IT in Latvia, but it will also sharpen competition and raise costs. Salaries in the IT sector increased 5 percent in 2003.
- The total amount of real estate sales grew 38% in 2003. The most expensive apartments were in Riga (LVL 220/m<sup>2</sup>), and cheapest in Livani (LVL 9/m<sup>2</sup>).
- The first risk capital fund is being established in Latvia for financing SMEs. The fund plans to offer assistance to about 40 SMEs.
- The first business activity index, Parex Index by Parex Banka, has been launched to monitor businessmen's expectations.
- Latvian shipping company, LSC, buys eight new ice-class tankers from Croatia and four new tankers from South-Korea.

## Lithuania

### Record-high GDP growth in 2003

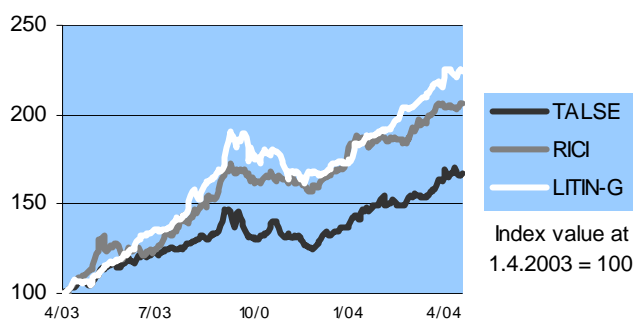
Lithuania's gross domestic product expanded at constant prices by 9.0% in 2003. The growth per capita was even larger, it grew by 9.4% compared to 2002. The most rapid growth was observed in electricity, gas and water supply (25%), construction (17%) and manufacturing (14%). During the last quarter of 2003, GDP grew 10.6% y-o-y, which was the largest quarterly growth ever observed.

The economic growth in 2003 was mainly based on rising domestic demand. Using the expenditure approach, gross fixed capital formation and households' consumption grew both over 11%, whilst government expenditures increased slower by 6%.

Sales of industrial production grew rapidly in 2003 by 16.1% y-o-y at constant prices. Relative growth was largest in the manufacture of electric equipment and apparatus (58%) and in the manufacture of radio, television and communication equipment (36%).

According to recent forecasts, Lithuania will be the fastest growing economy in the enlarged EU. Lithuania's GDP will grow 6.7-7.3% in 2004, and a bit slower in 2005. The growing domestic demand is the main contributor for the economic growth. According to preliminary data, GDP grew by 7.5% y-o-y and manufacturing 10.5% in the first quarter of 2004.

### Stock exchange indices in the Baltic States



### Imports grew faster within Jan-Feb 2004

Imports grew strongly during the first two months of 2004. Measured by a special trade system, the growth rate was over 12% whilst exports grew only by 5.7%. Thus, the trade deficit rose extremely by 46% y-o-y.

Exports of electrical machinery and equipment grew by 36%, furniture 25%, and fertiliser 16%. In imports, the growth was greatest in plastic and plastic articles (34%), in vehicles (31%) and in chemical and allied industries (26%). The share of EU trade increased strongly, around 15%, both in exports and imports. Generally, the growth of imports was based on the increase of capital and consumption goods demand.

### Annual deflation 1.0% in March

Consumer prices were 1.0% lower in March 2004 than a year before. However, the prices rose 0.5% from the previous month, and 0.3% in the first quarter of 2004. The prices of communications dropped by 14.6% y-o-y in the first three months, whilst the prices of health care and alcohol and tobacco products increased nearly 5%. Inflation is expected to accelerate slightly this year and especially in 2005.

Lithuania - main economic indicators	1997	1998	1999	2000	2001	2002	2003	2004	as of
GDP (y-o-y %-growth, constant prices)	7,0	7,3	-1,7	3,9	6,4	6,8	9,0		1-12/2003
Industrial production in sales (y-o-y %-growth)	3,3	8,2	-9,9	2,2	16,0	3,1	16,1	4,6	1-2/2004
Inflation (CPI, end of period, y-o-y %-change)	8,4	2,4	0,3	1,4	2,0	-1,0	-1,3	-1,0	3/2004
General government budget balance (% of GDP)				-2,5	-2,1	-1,5	-1,7		1-12/2003
Gross wage (period average, EUR)	173	208	231	264	296	332	350		Q4/2003
Unemployment (% end of period, LFS data)	14,1	12,6	15,3	16,1	17,5	13,0	11,6		Q4/2003
Exports* (EUR million, current prices, average exch. rate)			2 583	3 841	4 778	5 526	6 135	1 039	1-2/2004
Imports* (EUR million, current prices, average exch. rate)			4 340	5 650	6 767	7 943	8 441	1 329	1-2/2004
Current account (% of GDP)	-10,2	-12,1	-11,2	-5,9	-4,7	-5,2	-6,6		1-12/2003

Source: Statistics Lithuania, Bank of Lithuania, own calculations

\*special trade system

### Unemployment rate on the decline

Lithuania's unemployment has declined very fast, about 6 percentage units, during the previous two years. The unemployment rate gains on the rate in Estonia and Latvia, although it is still a bit higher. At the same time, the number of employed population has stable growth, due to the positive economic climate and rising volumes of production and services. According to the latest labour force survey, the number of long-term unemployment persons declined by 21 000 persons, 17% y-o-y.

### Lithuania issued EUR 600 million Eurobonds

Foreign investors seem to trust Lithuania's economic stability in forthcoming years. The investors purchased the whole offered EUR 600 million Eurobond issue.

Lithuania's public debt has decreased in four successive months, from November 2003 to February 2004 by LTL 335 mln down to LTL 12 945 bn (EUR 3 749 mln). On the other hand, there are some growing troubles with the external balance. Their current account deficit increased by 37.5% up to 6.6% of GDP, which is the highest value since 1999, and it is still expected to widen in 2004. Foreign direct investment fell to 552 mln litas in 2003, whilst in 2002 FDI was 4.8 times larger. Public deficit is expected to rise up to 3% of GDP in this year due to NATO and EU related expenditures.

### Enterprises' profitability improved in 2003

Over 60% of Lithuanian enterprises worked profitably in 2003. Within the post and telecommunications sector 72% of enterprises operated profitably, also 64% in trade and 63% in construction. The highest turnover was in trade, which accounted for 41% of total turnover and industry's share was around 30%.

In the last quarter of 2003, the income from transport enterprises increased by 13% year-on-year, in which income from land transport enterprises was the most, by 17%. Income from service enterprises grew by 7%, in which the growth was sharpest in computer and related activities and education. Retail sales grew rapidly in almost all categories.

### Some business highlights

- OMHEX, Nordic-Baltic exchange leader, has been selected as strategic partner for the National Stock Exchange of Lithuania. OMHEX was competing against a consortium of the Warsaw Stock Exchange and the Euronext alliance.
- Lithuanian companies expect to get lucrative orders due to Lithuania's NATO membership, since they have already been providing services to NATO countries.
- Lithuanian oil giant Mazeikiu Nafta, managed by Russian Yukos, earned LTL 221 mln net profit in 2003. A year before, the company had a LTL 114 mln net loss.
- Russian Gazprom acquired a 34% share of the Lithuanian gas concern Lietuvas Dujas. The price of shares was LTL 100 mln.
- Lithuanian dairy market may centralise into two mega-dairy consortiums. Rokisko Suris would like to merge with Zemaitijos Pinas, and Pieno Zvaigzdes owns now 97.5% of Panevezio Pienas due to a swap.
- Lithuanian government did not accept Eesti Energia's bid for Ruty Skirstomieji Tinklai, the power grid in eastern Lithuania.
- German retailer Lidl is preparing to enter the Lithuanian food market this autumn. The company has also intentions towards the Latvian and Estonian markets.
- Real estate company Vilniaus Akropolis plans to invest EUR 240 mln in Akropolis shopping and entertainment centres in Lithuania and Latvia.
- In the first quarter of 2004, EUR 54 mln flowed into Lithuanian Privatization Fund. Revenues for the full-year 2004 are projected to reach EUR 115 mln.

## Poland

### GDP grew strongly through the first quarter of 2004

According to preliminary estimates, GDP growth still accelerated in the first quarter of 2004, and the rate of growth is reaching 6% y-o-y, due to increasing production and exports.

Sales of domestic industry grew extremely fast within the first three months in 2004, by 19% y-o-y. In March, the growth rate was 24% y-o-y. One reason for the rapid growth is the introduction of a new VAT law, which comes into force on May 1. Especially exporters are selling as many goods as possible, because they fear they may have to wait longer for VAT refunds after May 1. In addition, in some product categories, the VAT rate will increase on May 1, which causes such a surge on sales.

The year 2003 did not bring the long awaited improvement in the situation of the Polish construction sector. According to preliminary data, sold construction and assembly output (of business employing over nine people) fell nearly 6% y-o-y. Within the early months of 2004, weak development continued. However, in March, output increased surprisingly 6% year-on-year.

Growing exports will be the main growth stimulant in Poland's economy. The competitiveness of Polish exports has strengthened due to higher productivity and a weakening of zloty against the euro. In addition, growing private consumption (3.1% y-o-y in 2003), due to increasing real wages, will contribute towards the economic growth. However, imports will also rise due to economic recovery and growing capital spending. Thereby, the current account deficit is expected to enlarge gradually in the coming years.

Real GDP growth is expected to grow quite stably during this and the next years, by 4.3-5.0% annually.

### External balance getting better

In February, Poland's current account posted a deficit of EUR 210 million (1.4% of GDP). The deficit was notably narrower than in February 2003, when EUR 733 mln deficit was observed. Also, due to growing exports, the trade deficit narrowed in the period of March 2003 – February 2004, down to 4.5 bn euros from 7.5 bn euros during the analogous period a year before. The result was much better than expected.

### Inflation accelerates slightly

Consumer prices increased in March 1.7% annually. Prices of food, beverages and housing rose around 3%, whilst prices of clothing and footwear dropped by 4% y-o-y. Although there are no notable inflation pressures on the Polish economy, a weaker zloty, growing prices of food products and gradually recovering consumer demand could push inflation up. The annual CPI is expected to rise around to 2.5% at the end of the year.

According to National Bank of Poland, EU accession will push consumer prices higher by a maximum 0.9% in 2004 and a similar rate in 2005.

### FDI is expected to increase in 2004

According to the estimate by Polish Information and Foreign Investment Agency (PAIZ), inward FDI totalled around USD 6.4 bn in 2003 (EUR 5.7 bn), thereby USD 360 mln more than in 2002. However PAIZ predicts that in 2004 the inward could grow by 25%, up to USD 8 billion, if the Polish government's privatisation plans will be realised.

### Government finance the main concern

The representatives of the IMF and the World Bank urge Poland to complete fiscal reforms, stabilise public debt and intensify reforms, building on the so-called Hausner's plan. Forthcoming Prime Minister Marek Belka has promised not to resign from the Hausner plan, but rather expand it.

Poland's budget deficit is expected to widen this year to PLN 43 bn, from 37 bn in 2003. At the end of 2003, Poland's public debt ratio stood at between 51-52% of GDP. A year before, the ratio was 46%. According to governmental calculations, the ratio will be close to 55% by the end of this year. According to the preliminary estimate by Ministry of Finance, this deficit could narrow in 2005.

### Poland speeds up privatisation?

Poland's State Treasury, in charge of privatisation, announced its plans to sell 211 companies in 2004. The number is 50 units larger than previously thought. At the same time the State Treasury predicted that Polish government's target, PLN 9 bn in 2004 from privatisation, is difficult to achieve.

The privatisation list includes e.g. state banking giant PKO BP, power distribution groups ENEA and G-8, power generation group PKE, natural gas monopolist PGNiG, chemical firm Ciech, pharmaceutical manufacturer Jelfa, coal holding KHW, alcohol producer Polmos Bialystok and educational book publisher WSiP. This year, the State Treasury received over PLN 800 million for its sale of GZE shares. Yukos, the Russian oil giant, has announced its interest to take part in the privatisation of Polish oil companies, should this finally happen.

### Some business highlights

- French industrial giant Saint-Gobain plans to invest EUR 60 mln in Poland and double the revenue by Polish units within the next five years; Japanese-French auto-parts producer, TBMECA, plans to invest EUR 10 mln to renovate the plastic components factory in the Legnica Special Economic Zone.
- EBRD signed a contract with ING Bank Slaski to disburse EUR 45 mln loans to Poland's small and medium-sized townships for the development of their infrastructure.
- According to financial market analysts, around 30 companies stand a chance of having their stock listed in the Warsaw Stock Exchange this year.
- Energa, Polish energy distributor, has been selected to prepare a consolidation plan for the G-8 power group by the end of May; Poland's largest power group BOT Górnictwo i Energetyka, plans to invest PLN 23 bn by 2016.
- Whirlpool will invest EUR 130 mln in a new factory and developing existing production lines in Wrocław; In addition three Whirlpool's subcontractors plan to invest in Wrocław in the near future.
- Gillette will invest EUR 120 mln in a new factory near Łódź. The project starts this year and will be completed in 2007.
- Lotos Group, Poland's second large oil refiner, will invest PLN 500 mln to enlarge its gas-station network by the end of 2005.
- Polish leading mobile operator PTC's net profit grew by 89% in 2003, to PLN 654 mln; Poland's top insurer PZU reported record-high profits in 2003, PLN 1.5 bn.
- Poland Central, the Polish-Britain company, decided to build a logistics park in Wola Bykowska near Piotrków Trybunalski. The investment is estimated to be around USD 250 mln, the largest of its kind in Poland.
- New car sales grew 21% in February. Two months growth was 12% y-o-y. Fiat auto held onto the market leader position due to its 20% share of the total.
- According to experts, economic stability seems to be more important than job creation for most Polish industrial firms. Only a small share of PLN 14 bn net profits in 2003 will be earmarked for job creation.
- Hyundai spurned Poland and decided to choose Slovakia for its new car factory.

Poland - main economic indicators	1997	1998	1999	2000	2001	2002	2003	2004	as of
GDP (y-o-y %-growth, constant prices)	6,8	4,8	4,1	4,0	1,0	1,4	3,7		1-12/2003
Industrial production (y-o-y %-growth)	11,5	3,5	3,6	6,7	0,6	1,1	8,7	19,1	1-3/2004
Inflation (CPI, end of period, y-o-y %-change)	13,2	8,6	9,8	8,5	3,6	0,8	1,7	1,7	3/2004
General government budget balance (% of GDP)	-1,2	-2,4	-2,0	-2,2	-4,3	-5,0	-4,5		1-12/2003
Gross wage (period average, EUR)	288	314	401	472	557	544	492		Q4/2003
Unemployment (% last survey in the year, LFS data)	10,2	10,6	15,3	16,0	18,5	19,7	19,3		Q4/2003
Exports* (EUR billion, current prices, average exch. rate)		25,1	25,7	34,4	40,4	43,4	47,5	7,1	1-2/2004
Imports* (EUR billion, current prices, average exch. rate)		41,5	43,2	53,1	56,2	58,3	60,4	8,9	1-2/2004
Current account (% of GDP)	-3,0	-4,3	-7,4	-6,3	-4,1	-3,6	-1,9		1-12/2003

Source: Polish Official Statistics, National Bank of Poland, own calculations

\*special trade system

## The Challenge Ahead – Estonia's Vision

By Matti Maasikas

As of May 1, 2004, Estonia becomes a member of the European Union. First and foremost this means a new opportunity for Estonia to proactively contribute together with other member states in the work of further developing the European Union. As a member we would have to put our interests in the broader context of the European Union, in particular those of increasing European competitiveness. Success in this challenge also depends on the ability to find like-minded partners. These goals constitute the essence of Estonia's policy in the European Union, outlined in the document *Estonia's EU policy concept for 2004-2006*.

Estonia wishes to contribute to building a more wealthy and powerful Europe through achieving more open trade, the further development of the internal market, as well as further exploring the ways to reduce excessive regulation.

Estonia has wholly oriented herself to trade with the EU and Acceding countries — for several years already their percentage in the total trade of Estonia is around 80%, the inevitable increase has been ever continuous. Hence, in the light of this long experience we view Estonia's membership in the EU as a natural developmental stage.

We expect sustainable development towards a considerable rise in the competitiveness in the world markets — more precisely, there is a need for continued efforts to achieve economic power and favourable trading conditions worldwide. In this context we deem important our contribution to the development of the Baltic Sea Region as well as the new neighbours initiative. It may be of interest to point out here that the legal framework of trade relations between Estonia and Ukraine is currently more favourable than what would be available in the EU-Ukraine Partnership and Cooperation Agreement. On the other hand, there is a far-reaching offset coming: the terms and conditions of the EU-Russia PCA provide Estonia with fair conditions to trade with Russia for the first time in a decade.

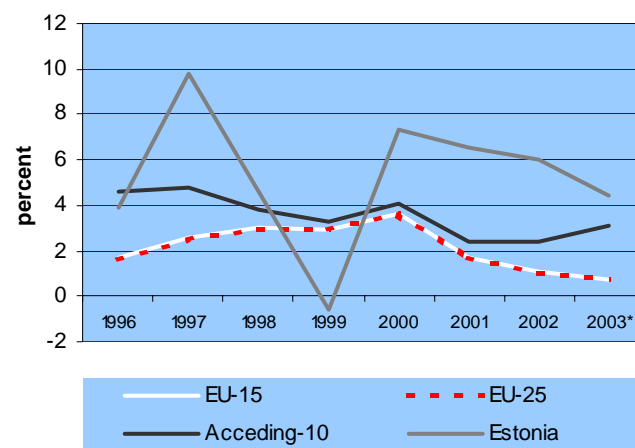
Concerning changes in the forthcoming largest trade area in the world, we believe that the accession of new members would add momentum to the Lisbon process. Four years after its initiation we have to admit that the EU as a whole has fallen short of the goals set. In preparation for membership Estonia has taken the Lisbon goals as a benchmark in the development of economics, societal and environmental thought — to facilitate economic development, the programme *Estonia's Success 2014* outlines instruments and actions to encourage transfer to a knowledge-based economy.

In order to subscribe to more ambitious goals of economic growth in the European Union we consider it important that all four key freedoms of EU — the free movements of goods, services, capital and people — functioned in the internal market without any restriction. Therefore, Estonia supports the strengthening of the role of the Commission in the supervision of the timely harmonisation of internal market acquis by member states.

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### GDP at constant prices, annual growth rates



### Expenditure components of GDP, 2002

	Estonia	EU-15	EU-25	Acc-10
Private final consumption	57,3	58,3	58,4	60,6
General government consumption	19,7	20,6	20,6	19,9
Gross fixed capital formation	28,5	19,4	19,5	21,7
Changes in inventories	2,9	-0,1	0,0	1,1
External balance	-9,4	1,7	1,5	-3,3

### Gross value added by industry, 2002

	Estonia	EU-15	EU-25	Acc-10
Agriculture, forestry and fishing	5,4	2,0	2,1	3,5
Industry, including energy, water	22,8	21,4	21,6	25,2
Construction	6,6	5,6	5,6	6,2
Trade, transport and communic.	31,5	21,5	21,8	27,8
Business activities and fin. services	15,8	27,4	26,9	17,2
Other services, incl. public services	18,0	22,1	22,0	20,0

### Employment breakdown by industry, 2002

	Estonia	EU-15	EU-25	Acc-10
Agriculture, forestry and fishing	6,8	4,0	6,0	17,0
Industry, including energy, water	24,7	18,3	19,2	23,7
Construction	6,5	6,6	6,6	6,6
Trade, transport and communic.	26,9	25,7	25,3	23,2
Business activities and fin. services	8,9	15,0	14,0	8,5
Other services, incl. public services	26,1	30,3	29,1	21,8

Source: Eurostat 2004

Figures compiled by editor

## Finnish Firms Look Forward to Growth Prospects in the New EU Countries

by Kari Alho, Ville Kaitila and Markku Kotilainen

*Finnish firms have been active in the new EU countries' markets. In the future, the firms want to continue to primarily reap benefits from the enlarged Internal Market. Also, lower costs will lead to the relocation of business activities there.*

Economic development in the new EU member countries has been relatively favourable, but from a global perspective not outstanding. Their price and wage levels are still low, although rising as convergence proceeds. However, due to low initial levels, it is likely that it will take a quarter-of-a-century until real incomes and the cost level will reach 75 per cent of their respective levels in the EU-15 countries.

Of the new member countries, Estonia and Poland are the most important trading partners for Finland. Economic growth has been rapid in Estonia, but the country has to pay close attention to keeping its large external imbalance in check. Estonia is very dependent on inward FDI flows, which so far have enabled the country to finance its current-account deficit without need to raise foreign debt. It is uncertain how long such a process can continue. From the point of view of the stability of Estonia's macroeconomic development, this also forms a risk to the Finnish firms operating there.

According to the results from a questionnaire sent to Finnish firms already operating in the Baltic countries and Poland, firms still aim to expand their operations in the new EU countries. The most significant form of expansion is exports as 55 per cent of the responding firms aim to do so. The next most important forms are subcontracting and the expansion of their own production units in these countries.

Some 30 per cent of the firms aim to shift some of their production to the new member countries. The most important form in this respect is production, the second in importance being customer services. It is noteworthy that no firm will move their R&D activities or their parent company with any degree of certainty.

On the other hand, we reached the important result that the bigger the planned rise in FDI into the new member countries is, the bigger is the expected growth in exports from

Finland to these countries. So, in this sample of firms, exports and FDI complement each other, and are not substitutes, as is sometimes feared. At the moment only less than 3 per cent of the total FDI stock of Finnish firms is located in the accession countries, whilst these countries' share in Finnish goods exports is 7 per cent. The investment made into the new member countries has also been more profitable than outward Finnish FDI on average.

Growing markets in the new member countries is the most important factor enhancing business conditions in these markets. The next most important factors are low costs and the expansion of the Internal Market. On the other hand, the main handicap for business is the deficient quality of public administration.

Intensified competition on the part of new member countries' firms is not considered to be a severe threat in third markets. This is based on the fact that the goods structure of the exports of the accession countries and that of Finland are dissimilar. On the other hand, Finnish firms expect to face more competition in the markets of the new member countries.

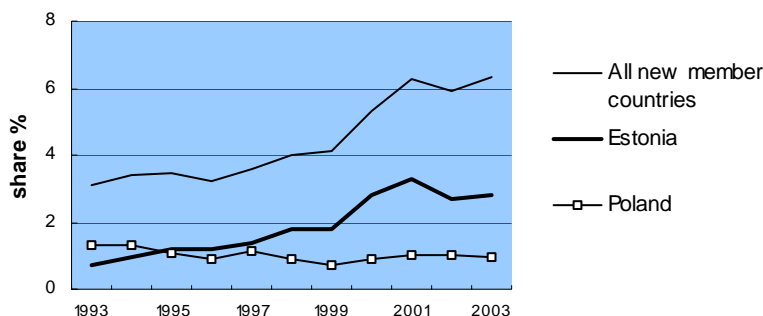
EU enlargement will create some adjustment problems for the Finnish economy. At the same time, by operating actively in the markets of the new member countries, Finnish firms can increase their overall competitiveness, which they can then use in their operations in their major export markets. This advantage should neutralise the burden of the initial adjustment as to the overall level of employment in Finland.

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### New EU countries as Finland's trade partners

In Finland's imports



In Finland's exports

