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Baltic Rim Economies

Estonia – Latvia – Lithuania – Poland

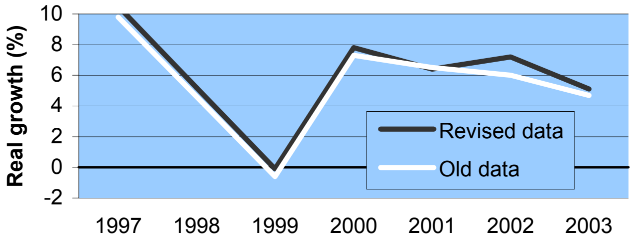
Bimonthly Review 3▪2004

Estonia

Revised GDP data for 1993-2003

Due to the criteria for pre-accession to the EU, The Statistical Office of Estonia has recalculated GDP data from 1993 to 2003, in order to have a fully comparative statistics with other member states. According to the revised data, Estonia's annual GDP growth rates exceed the former values.

Märten Ross, Deputy Governor of Estonian Central Bank, stated "the good news is that Estonia has overnight become richer by 7,500 kroons per person, the bad news is that this money does not exist – we have consumed it".



GDP grew by 6.8% in the first quarter

According to preliminary calculations, Estonia's GDP grew by 6.8% y-o-y in the first quarter of 2004. The value added increased most in construction (22%), in hotels and restaurants (14%) and in the wholesale and retail trade (11%). Manufacturing grew by 9% y-o-y.

Using the expenditure approach, the share of gross fixed capital formation decreased from 28% to 24% of GDP. On the contrary the share of exports grew sharply. Thus the economic growth was driven by the increasing external demand.

External balance improved slightly in Q1

According to Estonian preliminary balance of payments for the first quarter of 2004, Estonia's external balance has slightly improved. The current account deficit was EEK 3.5 bn or 11.2% of excepted GDP, thus 1.7 bn less than in the previous quarter. The main component of current account deficit, foreign trade deficit, fell from 18% to 15% of GDP y-o-y.

The accelerating growth of exports was main reason for the lower deficit. Exports of goods grew by 18% y-o-y, whereas imports grew slower, by 9% y-o-y. Although the growth of exports was observed across the categories, the largest growth was observed in transport vehicles, machinery and equipment, chemical products and metal processing.

In the first quarter of 2004, the surplus of service balance increased 40% y-o-y and amounted to nearly EEK 3 bn due to the growth in other business services. Transport accounted for 45% of the total turnover of services.

However, the trade deficit more than doubled in April. Thereby the improved trade balance within the first quarter might be temporary.

Inflation accelerated to 3.7% in May

Estonia's consumer prices increased in May by 2.1% from April, which was the largest monthly increase since 1998. The increase was mainly influenced by the increasing prices of sugar and motor fuels. In May, the annual increase of CPI was 3.7%. Economists have predicted an upswing of prices due to rapid economic growth.

Investors' eye on Baltic real estate market

Real estate investment forum "Eye on the Baltic" was held in Tallinn in mid-June. The forum attracted over 225 property developers and investors. According to the main speakers, the international investors will invest in the Baltic real estate market in the near future. For example, Gazit & Globe, one of the largest real estate companies in Israel, plans to invest around USD 400 million in the Baltic region. Their main interest lies in shopping centres, which have a good location and a strong anchor tenants. Also, GE Real Estate and Heitman International announced that they are eying specific acquisitions. The owner of Ober Haus, Paul Oberschneider concluded that "now is the time to invest in Baltic real estate".

Strict competition lowers housing loans rates

Competition for customers seems to be accelerating, together with increased lending in Estonia. In May, the Baltic's largest bank, Hansabank, lowered its housing loan rate down to 3.4%. After that, Sampo Bank, Ühisbank and Nordea lowered their rates to an equal level.

Estonia and Lithuania joined the ERM II

The Estonian kroon was included in the Exchange Rate Mechanism II on June 27. The central rate of the kroon is set at 1 euro = 15.6466 kroon. Thereby joining the ERM II is not changing the exchange rate. The decision creates the possibility for the adoption of the euro by mid-2006, if Estonia will meet the Maastricht criteria (see also Lithuania's chapter).

Some business highlights

- Estonian investment company Alta Capital purchased a 76.4% stake in the Latvian lingerie manufacturer company Lauma.
- Finnish Kesko and Swedish ICA decided to combine their business operations in the Baltics. The joint venture of Kesko Food and ICA Baltic AB aims to compete against the Baltics' largest retail chain VP Market; VP Market plans to open new stores in Estonia and Latvia, and also intends to include Russia and the Ukraine.
- Eesti Energy signed an agreement with EIB on procuring a EUR 80 mln loan for its upcoming investments in infrastructure.
- The City of Tallinn won a landmark court case in Estonia's supreme court. That will open the way for Danish Tivoli International's planned theme park investment in Tallinn. The value of the investment would be EUR 100 mln (EEK 1.5 bn).
- Estonian and Finnish ferry companies were disappointed by the small numbers of Finnish "vodka tourists" after May 1. The companies' expectations were higher; Estonia plans to raise excise tax on alcohol beverages and cigarettes.
- Larvik Cell's pulp plant project in Kunda is starting, and should be completed in December 2005. The plant will create 420 jobs, in which 70 will be in production.
- Enics AG will build a new electronics plant in Elva by the end of this year. The plant will offer jobs for 150 people.
- Lemminkäinen Eesti plans to build a so-called two-towers building in Tallinn. The building would be the highest building in Tallinn.
- The Estonian government rejected TeliaSonera's offer to buy a 27%-share of Eesti Telekom. The government considered the offered price to be too low, and criticised the political pressure by TeliaSonera and the Swedish state.

Estonia - main economic indicators	1997	1998	1999	2000	2001	2002	2003	2004	as of
GDP (y-o-y %-growth, constant prices)	10,5	5,2	-0,1	7,8	6,4	7,2	5,1	6,8	Q1/2004
Industrial production (y-o-y %-growth)	14,6	4,1	-3,4	14,6	8,9	8,2	9,8	6,7	1-4/2004
Inflation (CPI, end of period, y-o-y %-change)	12,5	6,5	3,9	5,0	4,2	2,7	1,1	3,7	5/2004
General government budget balance (% of GDP)	2,1	-0,3	-4,2	-0,9	0,6	1,1	2,4		1-12/2003
Gross wage (period average, EUR)	227	262	284	314	352	393	430	431	Q1/2004
Unemployment (% end of period, LFS data)	9,8	10,2	12,9	13,9	11,9	11,3	9,3	10,1	Q1/2004
Exports* (EUR million, current prices)	1 891	2 252	2 239	3 445	3 698	3 642	3 996	1 436	1-4/2004
Imports* (EUR million, current prices)	3 127	3 529	3 224	4 615	4 798	5 079	5 734	2 158	1-4/2004
Current account (% of GDP)	-11,4	-8,6	-4,4	-5,5	-5,6	-11,3	-12,6	-11,2	Q1/2004

Source: Statistical Office of Estonia, Bank of Estonia, author's calculations *special trade system

Latvia

GDP expanded by 8.8% in the first quarter of 2004

Rapid economic growth continued within the first quarter of 2004. GDP grew by 8.8% y-o-y. Due to robust growth in the first quarter of 2004, the Bank of Latvia raised its forecast for 2004 by 0.5% percent units, up to 7.5% y-o-y.

In the first quarter, the increase of GDP was mainly due to the growth in trade (11%), in transport and communications (8%), in manufacturing (11%) and in construction (13%). In retail trade, the largest growth was observed in the sales of textiles and related products, and in sales of construction materials, whilst they both grew over 30% y-o-y. In manufacturing, the increase was sharpest in the manufacturing of chemical products, fabricated metal products and wood and wood articles.

The growth was based both on the growth of domestic and external demand. According to an analyst from Hansabank Markets, the growth was also influenced by some speculative factors connected to pre EU accession: consumers were buying goods that will serve for long time, and companies increased stocks and made investments.

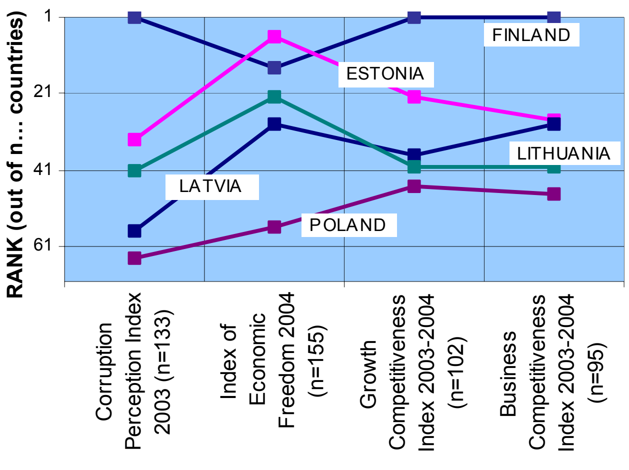
The Bank of Latvia is concerned about the fast growth, which could cause an overheating of the economy. In order to slow down the growth of private crediting, the bank raised its refinancing rate to 3.5% in March.

Inflation 6.2% year-on-year in May

As expected, increasing inflation seems to be a major problem for the Latvian economy. In May, consumer prices were 1.3% higher than in April. From the previous month, prices increased extremely fast in transport and health care, around 5%. The increase in health costs was influenced by the imposition of 5% VAT on pharmaceutical products.

In May, the annual CPI rate was 6.2%, and Latvia recorded the third highest inflation rate among the EU-25 countries after Slovakia and Hungary.

Comparison of some Business environment indices



Source: Transparency International, The Heritage Foundation, World Economic Forum

Imports exceeded exports by 82%

The trade deficit, which has already been relatively the largest in the Baltic Sea region, widened within the first four months of 2004. Imports exceeded Latvian exports by 82%, while in the corresponding period for 2003 the value was 71%. During January-April 2004, Latvian imports grew by 32% and exports 24% y-o-y.

Within the four months period, the growth of exports was relatively largest in the chemical industry (up 40%), in machinery and equipment (36%) and in wood and wood articles (25%). Thus the main export-groups are growing fastest. In imports, the rapid growth was observed in almost all sectors. Imports of wood and wood articles almost doubled and imports of transport vehicles grew by 78%.

54% of Latvians are neither rich or poor

According to Household Budget Survey by CSB, 53.5% of Latvians feel themselves to be "neither rich or poor". 7.5% classified themselves as "poor", and 8.4% as "not rich but well-off". The share of well-offs grew by 0.7 units and the share of poor declined by 1.5 units from the previous year.

Latvia recorded a surplus within the first 4 months

Latvia's national consolidated total budget posted a surplus of 50 mln lats within January-April 2004. According to Latvia's government budget for 2004, the fiscal deficit is estimated be 137 mln lats, 2% of GDP.

Latvia's government and Central Bank envisage that the Latvian lat will be pegged to the euro from January 1, 2005, joining to ERM II at the same time. Thus the earliest time for the adoption of the euro is January 1, 2007, given that Latvia meets all the criteria necessary for the introduction of euro.

Big Mac Index: Baltic currencies underestimated

According to latest Big Mac survey, calculated by the Economist, the Latvian lat is 31% underestimated against the USD. The Estonian kroon and Lithuanian litas are both underestimated by 22%. According to the survey, the European common currency euro is 13% underestimated related to USD.

Some business highlights

- Norwegian food manufacturer Orkla announced that it will buy Spilva, the largest fruit and vegetable processing company in Latvia. The acquisition needs approval from the Competition Council.
- Lasco plans to order two more tankers from Croatian shipbuilders. Previously Lasco has agreed the commission of 8 ice-class double-hull tankers.
- Latvian ports handled 3.9% more cargo within the first five months, up to 24.9 mln tons. Concurrently Latvian railways handled 21.9 mln tons, up by 6.1% y-o-y.
- Latvijas Gaze was ranked at 86th and the Latvian Shipping Company at 100th in the Financial Time's list of the 100 largest companies in Eastern Europe. Russian Gazprom was ranked at 1st.
- Merks, Latvian subsidiary of Estonian largest construction company Merko Group, won the tender to build the Riga ice-hockey hall. The tender from the consortium of Latvian companies was rejected due to controversy in financial matters.
- The first RIMI hypermarket outside Riga (5th in Latvia) opened its doors in Daugavpils in mid-June. RIMI's 38th supermarket opened in Jekabpils in May.
- Latvian property developer Balozu Ligzda plans to build a hotel complex and water entertainment park in Brazciems by the Lielupe River.
- Conglomerate Hutchison Whampoa's A.S. Watson Group has bought Drogas, the health and beauty chain that operates in Latvia and Lithuania.
- Latvian Railways' turnover reached LVL 131 mln in 2003, up 17% from 2002.
- Liepajas Osta LM, stevedoring company, plans to invest LVL 46 mln in cargo warehouse terminals in Liepaja Port.
- SAF Tehnika, MicroLink's Latvian subsidiary, listed into Riga Stock Exchange. The equity issue was 1.7 times oversubscribed.

Latvia - main economic indicators	1997	1998	1999	2000	2001	2002	2003	2004	as of
GDP (y-o-y %-growth, constant prices)	8,3	4,7	3,3	6,9	8,0	6,4	7,5	8,8	Q1/2004
Industrial production (y-o-y %-growth)	6,1	2,0	-8,8	3,2	6,9	5,8	6,5	10,0	1-4/2004
Inflation (CPI, end of period, y-o-y %-change)	7,0	2,8	3,2	1,8	3,2	1,4	3,6	6,2	5/2004
General government budget balance (% of GDP)		0,1	-4,0	-2,6	-2,0	-2,3	-1,6		1-12/2003
Gross wage (period average, EUR)	183	202	225	268	282	297	298	291	Q1/2004
Unemployment (% end of period, LFS data)	14,1	13,7	13,2	13,3	12,9	11,6	10,3	11,5	Q1/2004
Exports* (EUR million, current prices, average exch. rate)			1 613	2 020	2 232	2 416	2 559	948	1-4/2004
Imports* (EUR million, current prices, average exch. rate)			2 758	3 453	3 910	4 284	4 634	1 729	1-4/2004
Current account (% of GDP)		-9,7	-9,0	-6,4	-9,0	-7,0	-8,6		1-12/2003

Source: Central Statistical Bureau of Latvia, Bank of Latvia, Ministry of Economics, author's calculations *special trade system

Lithuania

GDP up by 7.7% in the first quarter

Over the first quarter of 2004, Lithuania's GDP grew by 7.7% y-o-y. The largest value added growth was observed in construction (10% y-o-y), and in industry (9%). The most of all value added was generated, as in the previous quarters, on the activities related to final consumption: the wholesale and retail trade, hotel and restaurant services, and transport, storage and communications.

Within the first four months of 2004, the turnover of retail trade enterprises grew by 14.5% y-o-y at constant prices. Industrial production increased nearly 13% due to the 17%-growth in manufacturing. The manufacture of refined petroleum products, fabricated metal products and electric equipment all grew more than 40% y-o-y.

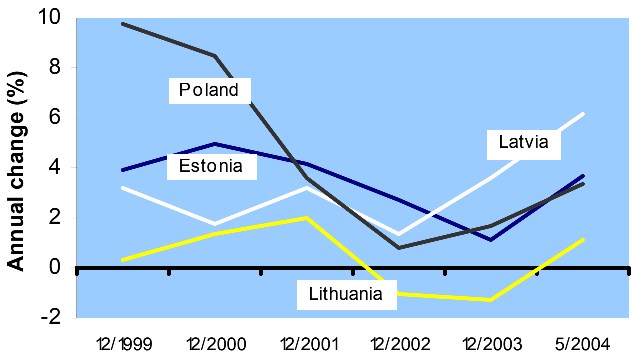
Trade deficit is widening

Lithuania's exports grew by 15% and imports by 18% (by special trade system) in the first four months of 2004. In April, imports grew extremely fast and widened the trade deficit up to LTL 3.1 bn in January-April, from LTL 2.4 bn in the first four months of 2003.

Mineral fuel covered 22% of Lithuanian exports and its exports grew 22% y-o-y. Exports of machines and equipment grew by 38% y-o-y, covering 13% of total exports. Within the group, exports of electric machinery and equipment grew even faster, by 48% y-o-y.

In imports, the fastest growth was observed in imports of iron and steel, up 69% from the first four months in 2003. Imports grew by 20-30% in all the most important categories.

Inflation (CPI) at the end of period



Source: National statistical authorities

Lithuanian consumer prices increased in May by 1.1% y-o-y. The prices went up for the first time since early 2002, when compared to the corresponding period of previous year. The increase was still moderate compared to the other Baltic States and Poland. The increase from April was 1.5%, mainly influenced by the rising prices in transport, health care and food products.

Lithuania joins the Baltic cable project

Nordic Energy Link was founded to manage the underwater power cable project between Estonia and Finland. Lietuvos Energija decided to participate in the project and plans to invest LTL 93 mln (EUR 27 mln) in the project, 25% of the estimated total cost EUR 100 mln. Other partners are Eesti Energia, Latvanegro from Latvia, and Helsingin Energia and Pohjolan Voima from Finland. The project should be completed by the end 2006, and it will open a new route to electricity transfers since it would be the first direct connection between the Baltic States and the EU electricity system.

Lithuania plans to close its old nuclear power plants in Ignalina in 2005 and 2009. At the moment, there is an active public debate on whether they should, or should not, build new nuclear power facilities.

Speculations around Yukos and Mazeikiu Nafta

A trial against Russia's largest oil producer Yukos core shareholders might drive Yukos into receivership. Thereby a hypothetical takeover of the company could put Mazeikiu Nafta in the hands of Russia's government because of Yukos' majority stake (54%) of Mazeikiu Nafta. Due to this speculation, the rate of MN's stake dropped sharply in the Lithuanian bourse, nearly 20% down during May.

However, president Putin's statement that the Russian government does not intend a bankruptcy of the oil company, pushed up the prices of MN's shares. In addition, Yukos announced that it is not considering selling shares of MN. On the contrary, the company is planning to develop its activity in Lithuania.

Lithuania, Estonia and Slovenia entered the ERM II

On June 27, Lithuania and Estonia announced that they have joined the ERM II mechanism with their existing exchange rates (EUR 1 = LTL 3.4528). In addition, the Lithuanian and Estonian authorities announced that they will not use the ERM II standard fluctuation band, +/- 15% around the central rate. However, this was a unilateral commitment placing no additional obligation on the ECB.

Earlier in June, Lithuania's Central Bank had repeated that despite the speculations, comments and forecasts, Lithuania is well prepared for participation in ERM II and will join the mechanism at the earliest possible date.

Some business highlights

- Vilnius Bankas, owned by Swedish SEB, is catching Hansabankas in terms of housing-loans market share. At the end of April, Hanksabankas' market share was 30.5%, Vilnius Banka's 28.2% and Nord/LB Lietuva's 13.7%.
- A merger of two Lithuanian IT companies, Alna and Sonex, is cancelled due to a refusal from EBRD, which owns stocks of both companies.
- The Thai company Indorama will invest EUR 100 mln in its new plastics manufacturing facility in the Klaipeda free economic zone. Lithuanian construction companies are hoping EUR 40 mln contracts, while EUR 60 mln will be spent on technology and designing.
- From July 7, Lithuanians are able to travel to Ukraine visa-free and stay there up to 90 days within a six month period.
- Colliers International, international real estate consultancy group, plans to open an office in Vilnius. The company has offices in some 50 countries.
- airBaltic has started to offer direct flights to Berlin, Cologne, Copenhagen, Dublin, and Hamburg. In August, the company will start flights to Helsinki, Oslo, Tallinn, Vienna and Warsaw.
- EBRD received a permission from the Competition Council to acquire a 30%-share of Litesko, Lithuania's largest private energy service company.
- The Dutch capital real estate company, Middle Europe Investments Baltija, plans to invest EUR 100 mln in Lithuania.

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	7,7	Q1/2004
Industrial production in sales (y-o-y %-growth)	3,3	8,2	-9,9	2,2	16,0	3,1	16,1	12,9	1-4/2004
Inflation (CPI, end of period, y-o-y %-change)	8,4	2,4	0,3	1,4	2,0	-1,0	-1,3	1,1	5/2004
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	263	274	293	306	332	Q1/2004
Unemployment (% end of period, LFS data)	14,1	12,6	15,3	16,1	17,5	13,0	11,6	13,0	Q1/2004
Exports* (EUR million, current prices, average exch. rate)			2 583	3 841	4 778	5 526	6 135	2 167	1-4/2004
Imports* (EUR million, current prices, average exch. rate)			4 340	5 650	6 767	7 943	8 441	3 070	1-4/2004
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, author's calculations *special trade system

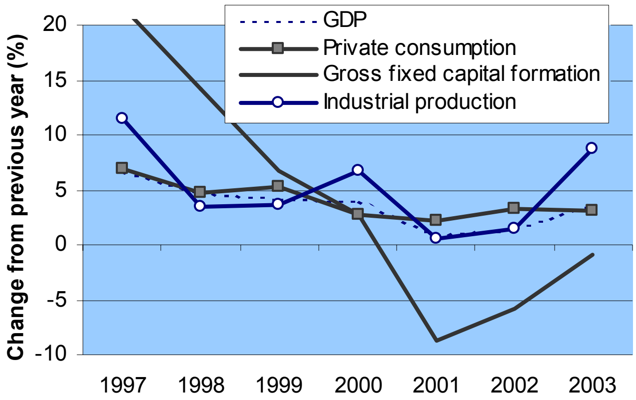
Poland

GDP growth exceeded forecasts in the first quarter

Poland's GDP grew in the first quarter of 2004 even faster than previously estimated. GDP increased by 6.9% y-o-y, generated mainly by increasing exports and the rapid growth of industrial output. Moreover, investments increased by 3.5% y-o-y, after long slow-growing period, and individual consumers' consumption by 4.0% y-o-y.

The growth of household's consumption was supported by a huge growth in lending, driven by 61% y-o-y increase in mortgage loans within the first four months.

As in the Baltic States, inflation accelerated in May due to growing fuel prices and EU accession related costs.



Source: Canstat Statistical Bulletin 4/2003

Industrial production grew by 20% in January-April

The strong and broad-based growth in industry continues. Within the first four months of 2004, the sold production of industry grew nearly 20% y-o-y. Manufacturing grew by 24% in which the sharpest growth was observed in the manufacture of motor vehicles (75%) and other transport equipment (58%). The manufacture of mineral products, metal products and rubber and plastic products also grew strongly.

The sales of construction increased nearly 5% y-o-y within the first four months after the long decrease-period. In addition, sales of retail trade grew by 20% y-o-y.

Average employment in enterprise sector

Thousands of people	2000	2001	2002	2003
Total	5 312	5 138	4 912	4 724
Industry	2 770	2 629	2 481	2 409
- mining and quarrying	239	222	210	198
- manufacturing	2 300	2 181	2 045	1 993
- energy, gas and water supply	231	227	226	219
Construction	523	481	422	354
Trade and repair	839	828	828	804
Hotes and restaurants	82	83	87	78
Transport, storage and communications	578	550	514	498
Real estate and business activities	379	404	412	421

Source: Ministry of Economy, Labour and Social policy

According to the latest LFS data from the first quarter of 2004, the unemployment rate was 20.7%, rising 1.4% from the previous quarter and 0.1% y-o-y. During recent years, as presented in the table above, the average number of employees has decreased in almost all enterprise sectors, except real estate and business activities.

In the first quarter of 2004, the average gross monthly wages were 4.6% higher than a year ago. An average employee received 2332 zlotys, about 488 euros per month.

Steep increase in foreign trade

Poland's exports and imports have grown rapidly during the first months of 2004. Measured in zlotys, exports grew by 39% y-o-y and imports by 35% within January-April. Due to the peak in imports in April, the trade deficit was more than PLN 3.4 billion larger than in the first four months of 2003.

Poland passed only Latvia in GDP per capita

Despite the rapid GDP growth, the Baltic States and Poland are the poorest EU countries measured by GDP per head. According to Eurostat, GDP per capita in 2003 expressed in terms of PPS was below the 50%-level of average EU-25 in each Baltic country. Poland scored 46, Estonia 48, Lithuania 46 and Latvia 42, when the EU-25 was indexed at 100.

New law on freedom of economic activities

In May, Sejm passed a new law on the freedom of economic activities. According to the act, the number of areas of activity, which a company has to have permission, has been reduced and contains only areas required by EU law, e.g. banking, the alcohol trade, and telecommunications. Moreover, the new law simplifies the registration and establishment of companies, e.g. companies will use only one registration number (NIP), which is its tax identification number.

Within the framework of the operational sector programme (SPO), Polish companies will receive EUR 1.7 billion in the years 2004-2006, for increasing their competitiveness and supporting their innovativeness. The bulk of this comes from the EU, from the ERDF.

The EU's Phare 2002 for SMEs opened in May. The overall budget is EUR 58 mln. Contrary to the previous programme, the new programme allows not only investment but also advice services, e.g. market analysis and strategic formation.

Some business highlights

- In 2003, the US offset agreements related to Poland's acquisition of 48 F-16 military planes were USD 519 mln, thus two-thirds below the agreed sum of USD 1.7 bn.
- The banking sector earned in Q1 of 2004 a net profit of PLN 1.8 bn, up 62% y-o-y.
- Apollo-Rida, the US consortium, paid EUR 700 mln for 28 shopping centres operating under Germany's Metro; the US based developer Polimeni announced its plans to invest PLN 1 bn, in retail, recreational and entertainment centres.
- French retailer Auchan Polska reported PLN 3.4 bn sales in 2003, up 9% from 2002. However, the net loss grew by 8% to PLN 166 mln. The company has invested nearly PLN 2 bn during the years 2001-2003.
- The sales of new passenger cars declined sharply in May, by 42% from April, and 15% y-o-y. Although the decrease was expected, its sharpness surprised many. In April, before the VAT change, sales had grown by 46% y-o-y.
- KGHM Polska Miedz has signed a contract to sell 300 000 tons of copper to China during 2005-2010. The value of contract is around USD 800 mln.
- The Czech government accepted PKN Orlen's offer to buy 63% of petrochemical Unipetrol. The price of acquisition is PLN 1.92 bn.
- Metro AG, Polish subsidiary of German largest retailer, will invest EUR 100 mln in 8 new outlets.
- PKP will invest more than PLN 1 bn in railway infrastructure in 2004, 2.6 bn in 2005 and 2.8 bn in 2006. Around PLN 3.4 bn of this would come from EU funds.
- IKEA plans to invest PLN 300 mln in a wood processing and chipboard plant.

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	3,8	6,9	Q1/2004
Industrial production (y-o-y %-growth)	11,5	3,5	3,6	6,7	0,6	1,1	8,7	19,6	1-4/2004
Inflation (CPI, end of period, y-o-y %-change)	13,2	8,6	9,8	8,5	3,6	0,8	1,7	3,4	5/2004
General government budget balance (% of GDP)	-1,2	-2,4	-2,0	-2,2	-4,4	-5,1	-4,5		1-12/2003
Gross wage (period average, EUR)	288	314	401	472	557	544	501	488	Q1/2004
Unemployment (% last survey in the year, LFS data)	10,2	10,6	15,3	16,0	18,5	19,7	19,3	20,7	Q1/2004
Exports* (EUR billion, current prices, average exch. rate)		25,1	25,7	34,4	40,4	43,4	47,5	18,2	1-4/2004
Imports* (EUR billion, current prices, average exch. rate)		41,5	43,2	53,1	56,2	58,3	60,4	22,6	1-4/2004
Current account (% of GDP)	-3,0	-4,1	-7,0	-6,0	-3,9	-3,5	-1,9		1-12/2003

Source: Polish Official Statistics, National Bank of Poland, Ministry of Economy, Labour and Social policy, author's calculations *special trade system

Poland in the Baltic Sea Rim – Challenges Ahead

By Stanislaw Stebelski

On 1 May this year, the EU ultimately transcended a line that once artificially had divided the continent into the East and the West. Following two earlier enlargements of NATO, in 1999 and 2004, the enlargement of the EU by 8 Central and Eastern European Countries, including Poland, Estonia, Latvia and Lithuania, has brought about the final elimination of the past divide of Europe and involved the new members-old European countries in the mainstream of the European integration process with full rights. The Baltic has become quasi an internal sea of the Union. The Eastern border of the Union with Russia and other CIS countries has been extended considerably.

The new member States have not come back to Europe. They have never left it. To Poland and other new members the membership in EU and NATO have constituted the fulfilment of dreams of many generations of freedom and human rights fighters to achieve a permanent and deserved place in the family of democratic European nations. However, challenges lie ahead of both the old and the new member states. And in spite of many fears this is not an extremely expensive enlargement, taking into account the disparity in development and prosperity which exists between old and new members of the Union.

Poland has joined the EU for many reasons, in fact, all relevant to the Union fields of competence: political, security, economic, ecological, social, human and civilisational. According to a study by Polish research institutes on the consequences of Poland's membership in the Union, the developmental gap separating Poland from EU Member States will significantly narrow. In 2004, Polish GDP per capita constitutes approximately 21% of average GDP in EU-15 at current exchange rates and approximately 41% at Purchasing Power Parity (PPP). By 2014 Poland shall attain a GDP level equal to 31% of average GDP in UE-15 in the same period at current exchange rates and approximately 55% at PPP.

For a few years after accession an investment and consumption boom is expected. Trade with the EU members will further increase. Already now the turnover with them constitutes ca. 80 % of the total Polish foreign trade. A greater inflow of FDI is foreseen. Simultaneously, Poland will receive increasing transfers from the EU. The described stage of GDP growth should be accompanied by improved macroeconomic stability. After accession to the EU, Poland will accede to ERM II and stabilise the Polish zloty to the euro exchange rate. In the most probable scenario Poland would join the euro zone in 2009-2010.

By doing that Poland will contribute to the further development and security of the Baltic region which can become a nucleus of economic growth in Europe. Already now riparian states represent important economic end technological potential. Further advancement of the new EU countries will reinforce that. However there is still a lot to be done to foster economic relations among countries in the Baltic region.

In spite of her economic potential and sizeable market, Poland attracts less than 2% of Finnish exports whilst providing less than 1% of Finnish imports. Finnish investors occupy the 19th position as foreign investors in Poland, with cumulative investments of about 500 million euros. More co-operation and joint projects are necessary to develop the infrastructure and transport links in the region. The citizens of Finland and other riparian states have still to discover many interesting tourist spots in Poland.

Regional co-operation structures face new opportunities for intensifying their activities. In most cases these organisations have become yet another framework of EU-Russia co-operation, like the Northern Dimension Programme of Action. Since June 2004 Poland has assumed the chairmanship of the Council of the Baltic Sea States to lead it through the first year of activities in a new environment.

Poland will remain a country open to the neighbours of the Union. Due to Poland's geographical location, the eastern neighbours are at the centre of its attention, which, however, does not mean neglecting other dimensions of the EU external relations. As well Poland supports further enlargement of the Union by all those European countries that are willing and ready to do so.

Poland believes that the European Union should have a clear and bold vision of its relations with Eastern Europe. It should consist of two parallel objectives: the establishment of four common spaces between Russia and the EU and the opening of prospects of membership in the Union for Ukraine, Moldova and eventually Belarus. These can be two mutually reinforcing processes. Poland is aware how far away we are at present from accomplishing this vision. The main source of concerns today is the deepening deficit of democracy in the majority of EU Eastern neighbours. Aware of the necessity to foster relations with the eastern neighbours of the Union, Poland already submitted an idea of an Eastern Dimension some years ago.

EU policy towards its eastern neighbours should be supported by relevant assistance programmes. The volume of assistance should be at least maintained at present levels, and wherever possible, it should be increased. Poland supports the European Union's decision for developing the "Wider Europe" concept and creating a new assistance instrument for those neighbours that should be a part of the new financial perspective from 2007 – 2013.

Russia, Ukraine and other eastern neighbours of the Union also represent important potential as economic partners. Poland and Finland have acquired, in particular, a great deal of knowledge on how to carry out commercial and economic operations with their neighbours. Nonetheless, they rarely use that knowledge to undertake joint operations on the eastern markets.

Enlargement has posed serious challenges to the Union itself, such as how to manage its activities and provide for sufficient efficiency of its operations among 25 member states. Poland considers that the European Union can and should be based further on the principles of coherence and solidarity in its activities. This will enable it to take into account the interests of all states, regardless of their demographic or economic potential. Poland wants the Union to be a strong, efficient and effective structure. In order to achieve this, it needs decision-making procedures encouraging compromise, instead of escaping to vote too frequently. Poland assumes that a cautiously weighted balance in the Constitutional Treaty adopted by the European Council several days ago will serve these purposes.

Membership in the European Union has not been an end in itself for Poland. For many years Poles could only witness the benefits arising from full participation in the European integration process. Now, Poland is already anchored in it as well. Making full use of the opportunities offered by it, Poland, together with Finland, wants to contribute to its further development, to the security and prosperity of the participating nations and of the whole Baltic region.

Stanislaw L. Stebelski
Ambassador of Poland to Finland

Foreign Direct Investments in Poland

by Kazimiera Wójcik

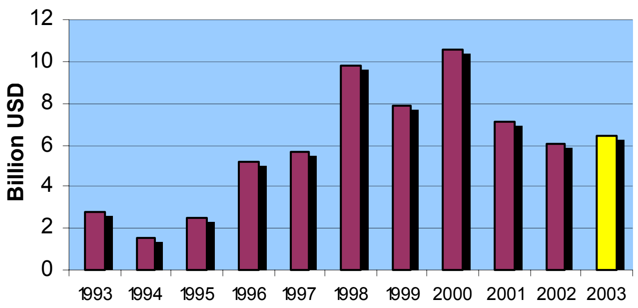
Twelve years into the steady process of economic and political reform, Poland has secured its place among the largest and most stable economies of Central & Eastern Europe. A proven member of NATO and OECD, with the full membership in the European Union, Poland is also a reliable, ever attractive partner for the international business community.

The inflow of foreign capital, initiated at the outset of the 1990's, maintains its pace. Foreign investors – big and small – have already invested over 72 billion US$ in the form of foreign direct investments, elevating Poland to the very top of the Central & Eastern European region in terms of the cumulative value of committed foreign capital.

According to the data of the Polish Information and Foreign Investment Agency (PAIiIZ) the inflow of FDI into Poland amounted to $6.4 billion in 2003. This signifies a strong, over 5% growth, by $360 million, in comparison to 2002, which in turn proves that the tendency of decreasing inflow of FDI into Poland has been overcome.

The accumulated value of FDI in Poland amounted to $72.7 billion at the end of 2003. The investments exceeding $1 million reached the level of $69.44 billion, while the investments below $1 million have been estimated by PAIiIZ at over $3.26 billion.

The inflow of foreign capital into Poland over the years 1993-2003



Source: PAIiIZ

The sector structure of foreign direct investment in 2003 shows that the majority of investments flow into the manufacturing sectors in Poland. Investments in this branch of the economy stood at $2.9 billion, roughly 46% of all investments. This gives an over 12 percentage points increase in comparison to 2002. Most of the investments in this branch of the economy were observed in the chemical and pharmaceutical sectors, which have attracted $570 million in total. The second most popular sector turned out to be non-metal products, which attracted $533 million in FDI. The following position was taken by financial intermediation, which attracted 38% of all investments in 2003.

Taking into account the accumulated values, manufacturing and financial intermediation sectors are still the most dominant, and they are followed by trade and repairs sector, as well as the transportation sector.

France, for the fourth time in a row, remained the largest foreign investor in Poland in terms of accumulated value of foreign investments inflow. French companies have invested, in total, $13.85 billion, which constitutes roughly 20% of all foreign investments in Poland.

The second largest foreign investor in Poland are companies from the Netherlands with their investments totaling $9.86 billion, followed by the United States with $8.69 billion.

The pace of foreign investment remains a valuable, objective measure of our economic development. Knowing and appreciating the importance of foreign capital, the Polish government continues its systematic effort to liberalise and simplify the laws governing business activity in Poland. Today, our country offers would-be business partners a broad array of investment incentives, harmonised with the laws of the European Union.

It has been ten years since Poland applied for membership in the European Union and six years since the accession negotiations began. Poland entered the EU on 1st May 2004.

Already now Poland is in the top 10 of the EU's trade partners. The EU remains Poland's biggest trade partner. The volume of Polish - EU trade turnover totaled over EUR 60 billion in 2003. EU accounts for around 70% of Polish export and import.

Integration with the European Union in 2004 will create new opportunities for foreign investors in Poland:

- They will gain unlimited access to the single market of 500 million customers (present EU, new member states, Norway, Iceland and Liechtenstein).
- Infrastructure will be significantly upgraded thanks to the EU structural aid. No matter what the priorities of the structural policy will be after the reform, Poland will be the single largest beneficiary of EU aid among the acceding countries.
- Polish law will be further harmonized with *acquis communautaire* thus making the legal environment fully compatible with Western standards.
- Membership in the EU will also be a guarantee of stability and dynamic development. The examples of Ireland and Spain show how the membership contributes to a country's rapid economic development and a massive inflow of investment.

The accumulated value of FDI in Poland

Rank	Country of registration	Capital invested (USD mln)	Plans (USD mln)
1	France	13857	1 733
2	The Netherlands	9863	1 263
3	USA	8689	2 898
4	Germany	8415	1 373
5	Italy	3837	1 113
6	United Kingdom	3690	280
7	International	3162	237
8	Sweden	3062	260
9	Belgium	2048	350
10	Denmark	2111	461
…	…	…	…
19	Finland	479	179
	Investments exceeding $1 million	69 441	12 058
	...not exceeding $1 million (est.)	3 265	
	Total	72 706	

Source: PAIiIZ

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