Baltic Rim Economies

Estonia – Latvia – Lithuania – Poland

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Estonia

GDP growth expected to remain at current level

According to preliminary estimates, the Estonian economy grew around 6% y-o-y in 2004. Therefore real economic growth seems to exceed the forecasts set out in early 2004.

Over the third quarter of 2004, Estonia's GDP grew by 6.1% y-o-y. The value added increased most in financial intermediation (16% y-o-y), followed by hotels and restaurants (12%). The growth of private consumption expenditure decelerated to 4.7% y-o-y, whilst exports grew by 21.5% y-o-y.

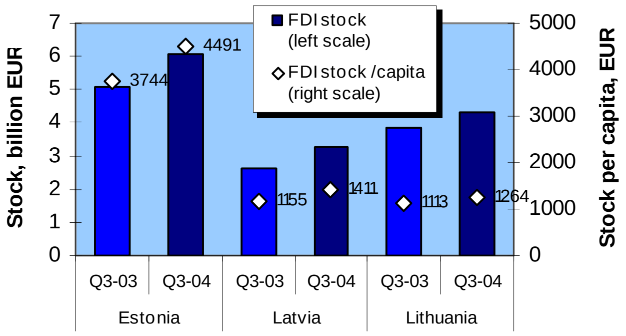
According to recent forecasts, real GDP growth will remain close to this level in 2005. The strong growth of exports is expected to continue but at slightly lower level than in 2004. The Estonian manufacturing sector will benefit from the global recovery of the telecommunication sector due to Estonia's large subcontracting industry. Further growth will also be based on the growth of trade and construction.

Prices rose by 3% in 2004

Consumer prices rose by 4.2% y-o-y in January. The highest annual price-increase was observed in the prices of transport, in food and beverages and in housing costs. However, prices decreased sharply in communications, by 7% compared to January 2004.

In 2004, prices rose by 3.0% compared to the average inflation in 2003. The average price increase was mainly influenced by the rapid rise in the prices of motor fuel, housing services and sugar. Estonia's annual inflation is expected to drop in spring, since the EU accession related price-rise disappears from the year-on-year rates.

FDI stock at the end of the third quarter of 2004



Source: Central Statistical Bureau of Latvia

According to Enterprise Estonia, the foreign investment promotion agency, inflows of foreign direct investments reached EEK 10-11 bn in 2004, which is slightly below the previous year's amount of 12.4 bn. Enterprise Estonia forecasts that Estonia's FDI inflow will notably increase in 2005-2006.

At the end of the third quarter of 2004, Estonia's FDI stock per capita reached EUR 4,491 and grew by 20% y-o-y. Latvia's FDI stock per capita increased relatively most among the Baltic States, by 22%, and Lithuania's stock by 14% compared to the third quarter of 2003.

CA deficit narrowed in the third quarter, but…

Estonia's current account deficit narrowed in the third quarter of 2004 and more than halved over the record-high deficit in the previous quarter. Within the first three quarters of 2004, the deficit amounted to 13.2% of GDP. However, according to Estonia's preliminary monthly balance of payment, their current account deficit expanded sharply during the last quarter. Therefore the whole year's current account deficit will reach a record-high level in 2004.

According to preliminary foreign trade data for 2004, Estonia's exports and imports grew both around 17.5% y-o-y last year. Estonia's trade deficit extended more than EUR 300 mln y-o-y. However, the rapid growth of imports weakened during recent months.

Unemployment decreased, wages climbed upwards

According to a recent labour force survey, Estonia's unemployment rate declined in the last quarter of 2004, both over quarter and year-on-year down to 8.5%. However, the number of employed and unemployed persons decreased when compared to the corresponding period in 2003, and the share of the inactive population increased. The highest unemployment rate was observed in Northeastern Estonia and the lowest in Western Estonia.

The average monthly gross wage increased in the fourth quarter of 2004 by 8.1% y-o-y, up to 7,704 kroons (EUR 492). According to the forecast by Ministry of Finance, Estonian gross wages will reach 10,576 kroons a month by 2009.

Some business highlights

- ABB, the Swiss-Swedish engineering company won the tender for installing the "Estlink" underwater cable, which connects Estonia's and Finland's energy networks. The project will cost around EUR 110 mln and should be completed by the end of 2006. Eesti Energia owns 40% of shares in this Nordic Energy Link project.
- Swedbank has offered to acquire all stakes of Hansabank and offers EUR 11 a share to minority shareholders. The total value of the offer amounts to EUR 1.4 bn. Currently Swedbank controls 60% of Estonia's largest bank.
- The Finnish logistics company Assistor plans to open a motor vehicle terminal in Paldiski. Finnish John Nurminen has opened such terminal last December.
- Estonia's banks' aggregate profit nearly doubled last year up to EUR 157 mln.
- Estonian government rejected TeliaSonera's public offer to buy its remaining 27.2%-stake in Eesti Telekom at EUR 7.02 a share. TeliaSonera holds over 50% of Eesti Telekom. Eesti Telekom earned EUR 64 mln in 2004.
- Tallink's profit decreased by EEK 70mln y-o-y in 2004 due to end of tax-free trade last May. The company earned last year EEK 313 mln at a turnover of EEK 3.4 bn. However, the number of carried passengers increased by 20% y-o-y; The sales of alcohol in Estonia grew by 38% y-o-y over May-December.
- Finnish meat producer Atria has received permission from Finland's competition authorities to acquire Estonian Valga Lihatööstus, the second largest meat producer in Estonia. Valga was privatised in 1994.
- The owners of the Pirita Yachting Centre in Tallinn plan to build a new water park in the area. The water park would be the largest in the Baltics and would cost around EUR 64 mln.
- TALSE, the main index of Tallinn Stock Exchange, climbed by 57% y-o-y in 2004. This is the highest annual growth since the bourse crash in 1998.
- Skanska has won a tender to build and repair theTallinn-Narva motorway.

Estonia - main economic indicators	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**as of**
GDP (y-o-y %-growth, constant prices)	5.2	-0.1	7.8	6.4	7.2	5.1	6.2		1-9/2004
Industrial production (y-o-y %-growth)	4.1	-3.4	14.6	8.9	8.2	9.8	7.3		1-12/2004
Inflation (CPI, end of period, y-o-y %-change)	6.5	3.9	5.0	4.2	2.7	1.1	5.0	4.2	1/2005
General government budget balance (% of GDP)	-0.2	-4.3	-1.0	0.3	1.0	2.4	1.0*		1-12/2004
Gross wage (period average, EUR)	262	284	314	352	393	430	492		Q4/2004
Unemployment (% end of period, LFS data)	10.2	12.9	13.9	11.9	11.3	9.3	8.5		Q4/2004
Exports (EUR million, current prices)	2 252	2 239	3 445	3 698	3 642	3 996	4 698		1-12/2004
Imports (EUR million, current prices)	3 529	3 224	4 615	4 798	5 079	5 734	6 737		1-12/2004
Current account (% of GDP)	-8.6	-4.4	-5.5	-5.6	-10.2	-13.2	-13.2		1-9/2004

Source: Statistical Office of Estonia, Bank of Estonia, author's calculations *estimate

Latvia

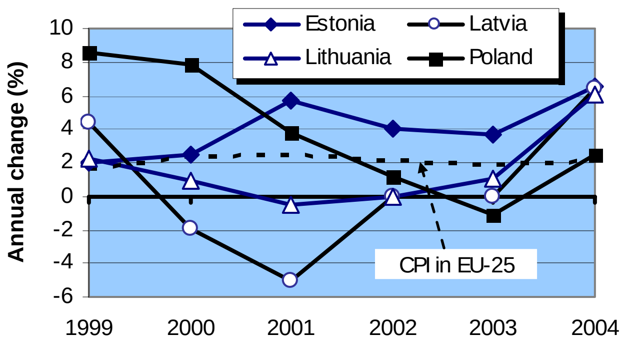
GDP growth in 2004 will reach all-time high

The Bank of Latvia estimates that Latvia's real GDP growth remained strong within the fourth quarter of 2004. Therefore Latvia's economic growth will reach a record-high level, since GDP is expected to increase by 8.5% y-o-y in 2004.

Latvia is expected to be one of the most rapidly growing EU countries in 2005. However, forecasts for this year differ remarkably. According to Latvia's central bank, GDP will grow by 7.5% in 2005, but for example according to the EIU, economic growth will decelerate to a 5.5% annual level due to the slower growth in employment and real wages, which will undermine the expansion of consumer spending. In addition, high inflation will have a negative effect on real incomes. Currently Latvian labour costs are somewhat below 15% of the EU-25 level, but prices are around 55% of this level.

Rapid inflation has been – and will remain – as the main concern for the Latvian economy. In 2004, consumer prices rose by 6.2 compared to 2003. This year's inflation forecast lies around 4.5-5.0% y-o-y. Among EU countries, prices went up faster only in Hungary and Slovakia in 2004.

Change in construction prices, 1999-2004



Source: National statistical authorities

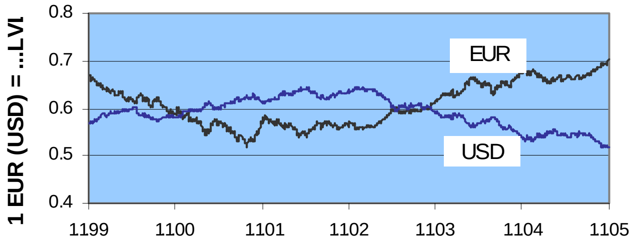
Despite robust growth, construction costs have increased quite steadily during recent years, or have even decreased in some Baltic rim countries. However, a sharp cost increase was observed in 2004. In Estonia, Latvia and Lithuania, construction prices climbed more than 6% compared to 2003, whilst in Poland prices still moderately increased by 2.5% due to a long lasting recession in its construction sector.

In Estonia and Lithuania, the increase of construction costs was mainly influenced by the sharp rise in salaries. In Latvia, the costs of operating machines and equipment grew over 9%, but wages increased less than 6% y-o-y.

Exports grew by 28% in 2004

Latvia's exports increased rapidly during 2004, by 28% y-o-y at current prices. Correspondingly, imports grew slightly slower, by 25% y-o-y. In exports, wood and wood products constituted 30.5% of the total value. The growth was, relatively speaking, largest in the export of base metals as well as in machinery and mechanical appliances, both of which went up over 40% y-o-y. Exports to CIS countries nearly doubled and totalled 11.5% of the total volume in 2004. Machinery and mechanical appliances is the largest group in Latvia's exports to the CIS area, whilst wood products dominate their EU-exports.

Latvian lat was pegged to the euro at 0.70



Source: Bank of Latvia

At the end of December, the Latvian lat was pegged to the euro at the rate of EUR 1 = LVL 0.702804. The Bank of Latvia unilaterally ensures the fluctuations within +/- 1.0% of this central rate. Since 1994 the lat has been pegged to the IMF's accounting unit SDR. The lat has been depreciating against the euro during recent years, and the pegging rate was the lowest observed since 1999. According to analysts, the current lat/euro rate is high, which will benefit Latvia's exports to the Eurozone. On the contrary, importers and consumers will be worse off. Moreover, at least in the short term, the USD-based exports (e.g. to the CIS area) will be less profitable due to the current USD-euro rate.

Metsäliitto withdraws their pulp mill project

Finnish Metsäliitto Group announced that it will pull out of their planned pulp mill project due to lack of support from Latvians. The final decision was made after the publishing of the Latvian state environmental committee's report. According to the report, the pulp mill would cause irreparable damage to the environment.

The Baltic Pulp project is worth about 900 million euros and would have been the largest foreign investment in Latvia. The pulp mill was planned to be built on the Daugava River near the town of Jekabpils. The planning of the Baltic Pulp project was started about 5 years ago by a collaboration between Metsäliitto, Södra Cell and the State of Latvia.

Some business highlights

- Latvia's banks posted a record-high aggregate profit in 2004. The banks' preliminary profit increased by 62% y-o-y up to LVL 116 mln (EUR 166 mln).
- airBaltic launches flights from Riga to Paris from the end of April. This will be the company's 26th straight route from Riga. In 2004, airBaltic carried 75% more passengers compared to 2003.
- Norwegian Linstow plans to invest EUR 10 mln in a new hotel building in Riga; Domina Hotels & Resorts will open its first hotel in Riga this spring.
- The US-based real estate company Domuss is selling its large properties in Riga. According to the company's CEO, it is the right time to start to sell properties because it is possible to get the right price.
- Riga airport served nearly 1.1 million passengers in 2004, up by 49% from 2003. Correspondingly Tallinn airport's passenger amount grew by 40% y-o-y and almost reached 1 million.
- Ministry of Transport plans to split the Latvian State rail company Latvijas Dzelzcels (LDz) into three independent companies by the end of this year.
- Ventspils city municipality has set a new company, Ventspils Energo, which will build a new heat and power plant in Ventspils. The project will cost EUR 64 mln, of which more than a third comes from EU Cohesion Fund.
- US fiscal authorities have threatened to impose sanctions on 12 Latvian banks if they do not take steps to combat money laundering.
- The State of Latvia earned LVL 31 mln from privatisation revenues in 2004. More than 80% of this came from the sales of shares in Lattelekom.

Latvia - main economic indicators	1998	1999	2000	2001	2002	2003	2004	2005	as of
GDP (y-o-y %-growth, constant prices)	4.7	3.3	6.9	8.0	6.4	7.5	8.5		1-9/2004
Industrial production (y-o-y %-growth)	2.0	-8.8	3.2	6.9	5.8	6.5	6.0		1-12/2004
Inflation (CPI, end of period, y-o-y %-change)	2.8	3.2	1.8	3.2	1.4	3.6	7.3	6.6	1/2005
General government budget balance (% of GDP)	0.1	-3.7	-2.6	-2.0	-2.3	-1.6	-1.1*		1-12/2004
Gross wage (period average, EUR)	202	225	268	282	297	298	318		Q3/2004
Unemployment (% end of period, LFS data)	13.7	13.2	13.3	12.9	11.6	10.3	10.0		Q3/2004
Exports (EUR million, current prices, average exch. rate)		1 613	2 020	2 232	2 416	2 559	3 151		1-12/2004
Imports (EUR million, current prices, average exch. rate)		2 758	3 453	3 910	4 284	4 634	5 579		1-12/2004
Current account (% of GDP)	-9.7	-9.0	-6.4	-7.6	-6.7	-8.2	-13.1		1-9/2004

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

Lithuania

GDP growth estimate 6.6% for 2004

The statistical authorities' preliminary estimate indicates that Lithuania's GDP expanded by 6.6% last year. In 2004, the growth was based on the increase in all main economic sectors, without any particular distinct engine. Although GDP growth remained strong, the growth rate is lower than was predicted in early 2004 and decelerated remarkably from the record-high level in 2003. In the last quarter of 2004, GDP grew by 6.4% compared to the corresponding period in 2003.

According to recent forecasts, Lithuania's economy will expand by around 6% y-o-y this year. The growth is expected to remain considerably stronger than in Western Europe, since, according to the UN's Economic Commission for Europe, the average GDP growth in EU-25 countries lowers slightly to 2.2% y-o-y in 2005, and the Eurozone's growth lies below 2% y-o-y. The UN forecasts that the Baltic economies' aggregate growth will be 5.8%, down from 6.5% in 2004.

Retail trade and industry grew steadily in 2004

Turnover of retail trade enterprises increased by 9.3% y-o-y over 2004. Although the sales increased in all categories, the most rapid growth was observed in the sales of furniture and household appliances (32% y-o-y), and in the sales of textiles and related products (26%). The turnover of restaurants grew also rapidly by 14% compared to 2003.

Lithuania's industrial production grew steadily in 2004, by 10.3% y-o-y. Manufacturing increased nearly 12%, whilst production of mining and quarrying declined almost 8% y-o-y.

Exports increased rapidly during the last quarter, which lowered the country's trade deficit. During 2004, the value of exports increased by 21% y-o-y, whilst imports grew by 16%. The trade deficit totalled EUR 2.4 bn, up by 2.4% y-o-y.

Baltic ports in 2004	Volume (mln tons)	Change (%) y-o-y
St. Petersburg	51.1	+22.7
Primorsk	44.5	+152
Tallinn	37.4	+7.2
Ventspils	27.3	+1.8
Riga	23.9	+10.4
Gdansk	23.0	+9.5
Klaipeda	20.2	-4.8
Kaliningrad	13.9	+10.3
Gdynia	10.7	+10.2
Butinge	6.8	-36
Liepaja	4.5	-7.9

Source: The Baltic Times

Russia's Baltic Sea ports' cargo volumes increased sharply in 2004. Cargo handling also increased quite strongly in Riga and Tallinn, but volume decreased in Klaipeda, Lithuania's biggest port, by 5% compared to their 2003 volume.

Russia's transit is of crucial importance for the Baltic States' ports. "Russia's unfavourable rail tariff policy has been a significant hindrance to further growth", stated a spokesman from Klaipeda Port in "The Baltic Times" magazine. In the case of Klaipeda Port, transit cargo accounts for a third of total volume, but practically all of this is Russian oil transits. Although Russia is at present developing its own harbours, Russian capacity will not be sufficient, at least in the short term. Klaidepa Port also awaits Belarusian cargo owners increasing their exports through Klaipeda Port.

Favourable investment climate survey by the WB

The World Bank's recently published investment climate assessment report notes an improved investment climate over the past few years due to the rapid rise in efficiency of the Lithuanian economy and growing labour productivity.

According to the report, tax-related issues and regulatory uncertainty continue as the most important business constraints. It was noticed that though Lithuania's overall tax revenue of GDP is the lowest in the EU, labour taxes are about 39% of total labour compensation, which clearly exceeds the EU-25 average. The survey was based on the opinions of 239 firms from five economic sectors.

As a response, the political council of Lithuania's governing coalition surprisingly introduced its proposal for a tax reform in February. It suggested reducing personal income tax gradually to 24% offsetting the reduction by a personal real estate tax and an extension of the so-called road tax.

Rail Baltica initiative moves forward

The EU officials have started to make preparations for the Rail Baltica project that would connect Warsaw and Tallinn by a high-speed railway link. The project has been included in the EU's 30 most important transport infrastructure projects. The Rail Baltica project is estimated to cost more than EUR 4 bn, of which a major part would come from the EU.

Lithuania prepared to take control of Mazeikiu Nafta

Confusion around the future of the Mazeikiu Nafta refinery speeded up since the refinery failed to receive crude oil supplies in early February. Lithuania's government has made efforts to supplant Yukos, the main shareholder of the MN refinery, as a strategic investor since Yukos can not guarantee an adequate oil supply for the refinery. However, according to Yukos' executives, the company has no plans to relinquish control of the refinery. In January, Lithuania's Economy Ministry sent a proposal to Yukos finance to buy a 9.72% equity issue.

Some business highlights

- German Eltern und Kind Kur-Klinik plans to build a health and rehabilitation centre in Palanga. The investment is worth EUR 85 mln and it would include a 200-room hotel which is specified to the needs of kids and disabled.
- The first unit of the Ignalina nuclear power plant was closed at the end of 2004. The Lithuanian government has stated that though Lithuania itself could not finance a new reactor, it may be possible to build it by a commercial project.
- Lithuania's banks' aggregate profit increased by 27%y-o-y in 2004 up to EUR 86 mln. In 2004, each of Lithuania's banks was profitable for the first time.
- SBA Baldu Kompanija, the Lithuanian furniture producer, has bought the Russian furniture factory Novo Mebel. The plant is located 200km from Moscow. The SBA Group also plans to build a new furniture plant in Visaginas.
- Lithuanian airline companies carried 48% more passengers (up to 589 200) in 2004 compared to 2003.
- Real estate company E.L.L. Nekilnojamasis Turtas (part of the Estonian Merko Group) invests LTL 20 mln in a new shopping centre in Vilnius. The new 5 500m² mall will be opened next autumn. E.L.L. will also develop a new shopping centre in Siauliai. The investment will cost about EUR 20 mln.
- Lithuanian State Asset Fund concluded 277 privatisation transactions in 2004, and the total revenue gained to LTL 252 mln. Lithuania's local privatisation institutions closed 299 cases worth LTL 159 mln. The largest privatisation action was the sale of 34%-stake in gas utility Lietuvos Dujos for LTL 100 mln.
- Russia has ratified an agreement with Lithuania on avoiding double taxation and preventing tax evasion. The agreement was sign in June 1999.

Lithuania - main economic indicators	1998	1999	2000	2001	2002	2003	2004	2005	as of
GDP (y-o-y %-growth, constant prices)	7.3	-1.7	3.9	6.4	6.8	9.7	6.6*		1-12/2004
Industrial production in sales (y-o-y %-growth)	8.2	-9.9	2.2	16.0	3.1	16.1	10.3		1-12/2004
Inflation (CPI, end of period, y-o-y %-change)	2.4	0.3	1.4	2.0	-1.0	-1.3	2.9	2.9	1/2005
General government budget balance (% of GDP)			-2.5	-2.0	-1.5	-1.9	-2.5*		1-12/2004
Gross wage (period average, EUR)	208	231	263	274	293	311	335		1-12/2004
Unemployment (% end of period, LFS data)	12.6	15.3	16.9	17.9	13.0	11.6	10.8		Q4/2004
Exports (EUR million, current prices, average exch. rate)		2 583	3 841	4 778	5 526	6 158	7 451		1-12/2004
Imports (EUR million, current prices, average exch. rate)		4 340	5 650	6 767	7 943	8 526	9 875		1-12/2004
Current account (% of GDP)	-12.1	-11.2	-5.9	-4.7	-5.2	-6.9	-9.2		1-9/2004

Source: Statistics Lithuania, Bank of Lithuania, author's calculations *estimate

Poland

GDP growth lagged behind forecasts in 2004

According to preliminary estimates by the central statistical office, Poland's GDP expanded by 5.4% y-o-y in 2004, up from 3.8% in 2003. However, the growth weakened during the latter half of 2004.

Although statistical authorities have not yet published the growth figures for the fourth quarter of 2004, all the signs indicate that the growth decelerated remarkably from the extremely strong first half of 2004. In 2004, the rapid growth in export-oriented industrial production has been the engine behind economic growth. Industrial sales grew last year more than 12% compared to 2003, but within the fourth quarter just by 6% y-o-y. Moreover, retail sales increased over the first half of 2005 by double-digit numbers, but in the fourth quarter only by 1% compared to the corresponding period in 2003. These negative trends of lowering production and declining orders have also been observed in January this year.

The Polish construction sector's recession has continued for over five years, and its unfavourable trend continues since construction and assembly production decreased nearly 1% y-o-y in 2004. However, gross fixed capital formation has finally recorded positive values over recent quarters, which indicate better times for the Polish construction sector.

According to the National Bank of Poland, Poland's economy will grow by 4.0-4.5% this year. This forecast is slightly lower than the bank's estimate last November, but in line with recent forecasts by international organisations. However, the central bank's forecast for the years 2006-2007 is more optimistic. The bank predicts that growth will accelerate, supported by rising investments.

Poland's public debt ratio at the end of 2004 seems to be notably lower than predicted in early 2004. According to the Finance Ministry, the debt ratio against GDP stands at around 50.5%, whilst it was forecasted to reach 54% by the end of 2004. This lower ratio is influenced by the strong zloty, higher privatisation revenues and a lower budget deficit.

Exports grew almost a third in 2004

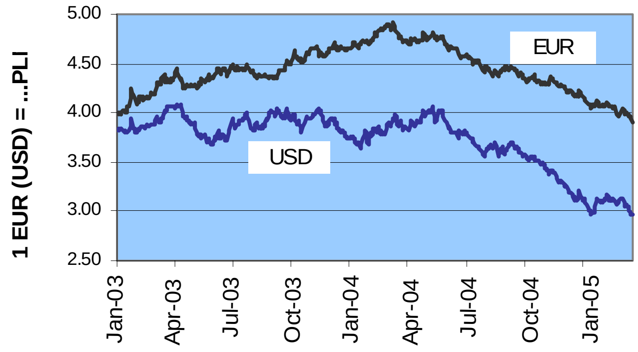
Poland's exports increased strongly in 2004 supported by the weak zloty for the most of the year. The value of exports grew by 30% y-o-y in zloty terms. Imports also grew strongly, by 22% from the previous year. With regards to the main product groups, the export of mineral fuels and related products increased by 64% and the export of machinery and transport equipment by 34% y-o-y. In exports, Germany's share declined from 32% to 30%, and correspondingly Russia's share rose from 3% to 4% of the total export volume. The structure of imports by nations remained quite stable.

Unemployment facilitates slightly

High unemployment with low employment levels are regarded as the main problems in Poland's economy. According to a recent labour force survey, the unemployment rate declined in the third quarter over quarter by 0.9 units to 18.2%, and down by 1.2% y-o-y. The economic activity rate increased slightly over quarter but declined year-on-year.

Although a long lasting record-high unemployment weakens the Polish economy and contributes to an increase in public spending, the competitiveness of Polish enterprises has improved notably since high unemployment has limited the increase of wages.

Zloty gained the highest values in 2.5 years



Source: National Bank of Poland

During the latter half of 2004 and over the first two months of 2005, the zloty has appreciated notably against the euro and USD. In late February 2005, the zloty's exchange climbed to the highest level against the euro since mid-2002.

The zloty's appreciation has been influenced by the recovery of the economy, and on the other hand, by relatively high interest rates due to the central bank's restrictive monetary policy. According to analysts, the central bank is already concerned about the overvalued zloty, and is likely to cut interests rates. However, the bank's monetary council decided in late February to leave interest rates unchanged, but it decided to change its bias from tightening to easing. Therefore interest rates will probably decline in the near future.

Some business highlights

- According to Warsaw University's research, almost a third of Polish companies have altered their products on offer to meet conditions arising from EU accession. Despite these additional costs, the major proportion of companies is of the opinion that after EU entry it is easier to do business.
- UK-based Parkridge CE Retail plans to invest EUR 200 mln over next few years in a new multifunctional entertainment and commercial centres, named Focus Park.
- US-based Enterprise Investors has acquired an 80%-stake in the bottle caps producer GDS. The transaction is worth EUR 90 mln.
- France-based tyre manufacturer Michelin will invest EUR 253 mln to expand its operations in Olsztyn. A New plant will open in 2006 and creates 520 new jobs.
- Indian steel giant Mittal Steel and Ukrainian industrial group Donbas have submitted bids to acquire the Huta Czestochowa steel plant. The starting price for the plant is rumoured to be PLN 900 mln.
- WIG Index, the index of the Warsaw Stock Exchange, has recently reached the highest level of its 14-year history.
- The EBRD has approved a EUR 60 mln loan to the Patnow-Adamow-Konin (PAK) power plant, controlled by Elektrim.
- US-based defence contractor Lockheed Martin and the government have signed a USD 876 mln contract to provide technology and investment for ammunition producer Mesko. The deal is part of the offset programme tied to Poland's USD 3.5 bn purchase of fighter jets from Lockheed.
- The European Commission is to investigate whether Poland's plans to support its troubled carmaker Daewoo-FSO are in line with EU state-aid rules.
- Swedish construction giant NCC has made a USD 37.7 mln contract related to the building and repairing of the Wroclaw-Katowice highway.
- Eastern European investment agencies are competing for a new investment, from one of the world's leading tyre producers, Hankook Tire (South Korea), The proposed plant is worth EUR 700m and is expected to create 2,000 jobs.
- Poland's banking industry's net profit more than tripled in 2004, up to PLN 7 bn.
- The Treasury Ministry has presented a list of companies that will be privatised in 2005. The list includes 150 companies. The estimated revenue is PLN 5.7 bn.

Poland - main economic indicators	1998	1999	2000	2001	2002	2003	2004	2005	as of
GDP (y-o-y %-growth, constant prices)	4.8	4.1	4.0	1.0	1.4	3.8	5.9		1-9/2004
Industrial production (y-o-y %-growth)	3.5	3.6	6.7	0.6	1.1	8.3	12.3		1-12/2004
Inflation (CPI, end of period, y-o-y %-change)	8.6	9.8	8.5	3.6	0.8	1.7	4.4	4.0	1//2005
General government budget balance (% of GDP)	-2.4	-2.0	-2.2	-4.4	-5.1	-4.5	-5.4*		1-12/2004
Gross wage (period average, EUR)	314	401	472	557	544	497	505		1-12/2004
Unemployment (%, last survey in the year, LFS data)	10.6	15.3	16.0	18.5	19.7	19.3	18.2		Q3/2004
Exports (EUR billion, current prices, average exch. rate)	25.1	25.7	34.4	40.4	43.4	47.5	60.0		1-12/2004
Imports (EUR billion, current prices, average exch. rate)	41.5	43.2	53.1	56.2	58.3	60.3	71.6		1-12/2004
Current account (% of GDP)	-4.1	-7.0	-6.0	-3.9	-3.5	-1.9	-2.0		1-9/2004

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

The Baltic Sea – A New Dimension?

by Paula Lehtomäki

The Baltic Sea region cooperation – stretching from Russia in the East to Norway in the West, from Germany and Poland in the South to Sweden and Finland in the North – has been an effective response to the fact that these countries sharing a common Northern geography can better face challenges collectively than singly.

Modern challenges affect domestic, social and economic development as a result of the globalisation process. Through cooperation, the Baltic Rim region has been able to raise its influence in the EU, by showing progress on a regional level towards the goals of the Lisbon Agenda. The Baltic Sea region has enhanced the economic efficiency and world market competitiveness of the European Union as a whole. The key to this success has been increasing integration by removing the existing barriers for trade and investment.

Now the Baltic Sea region is entering a new stage in its economic development. With the accession of Poland, Lithuania, Latvia, and Estonia to the European Union, all countries, except Russia and Norway, are now part of one integrated economic area, subject to common rules and regulations in many areas. The new EU members on the Baltic Rim are moving out of transition into their next stage of economic development as young but established market economies. Regional cooperation is shifting from western countries providing support to their eastern neighbours to a more balanced give-and-take where both sides invest to achieve joint economic returns.

This new stage of development is in many ways a confirmation of past achievements. The enthusiasm that fueled the Baltic Area cooperation throughout the 1990s was well founded. But that will not be enough, we can not simply sit back and enjoy our previous successes based on the existing models and means. In order to take advantage of all the opportunities opening up in the interest of the region and its business community, a new strategy for cooperation is critical. This new strategy can be built on the institutions and networks created in the last decade but will have to be based on a hard-nosed look at the facts to make the case for why businesses and political leaders should invest their energy in this regional effort.

The actual starting point for the strategy composing is very challenging indeed. The Baltic Rim-region has many times been referred to as one of the most dynamic areas in the world economy. This is very true. Especially Estonia, Latvia and Lithuania have, over time, been very successful, albeit from a rather low footing. In a great number of clusters, such as telecommunications or forestry and wood processing, for example, the Baltic Area has reached a strong position, notably on a regional level and not just on any single national one.

We need to find ways how the level of economic performance and integration can developed as a function of enhanced and mutually harmonised quality and business environments across the whole of the Baltic region. The process of economic integration has been very impressive, but not completely on a really universal Baltic Area level: the process has many times been stronger between individual pairs of countries, for example, Finland and Estonia.

The differences in integration in different dimensions are pointing still to the existence of a number of real or perceived barriers holding back stronger economic ties. That is why we must go on in upgrading the context for cross-regional activities through transportation and infrastructure investments.

With regard to the world market aspect, the competitiveness agenda for the Baltic Rim requires more than just an assessment of where we stand today; it needs to be based on where exactly we want to go. We can not be strong in all areas, we must have priorities. Based on current discussions, the Baltic Area very understandably wants to be innovation-driven, focused on clusters such as IT, telecom, be active as a bridge to the Russian market and predominantly industry-driven and so on. But what of our aspirations regarding environment rules, progressive gender and labour relations, tax and regulation issues or social welfare state models? Do we have enough common ground on these issues to be able to utilise them as competitiveness factors for the whole Baltic Sea Rim? This is a question that deserves some serious consideration when talking about a new strategy for cooperation in the Baltic Sea region.

And last but by far not least: we must take care of sound business environment based on a sufficient predictability of the legislation framework and practical operation conditions for the enterprises involved. Especially in this area huge differences exist between parts and countries of the Baltic region. Even if historically explicable they are nevertheless delineating one of the main obstacles for the increase of economic integration and interaction. As long as they prevail they will have a negative impact on the further development of Baltic region, making it unnecessarily vulnerable, even to outside influences.

As the saying goes, the future Europe will be a Europe of regions to a much greater extent than the actual holistic entity. That will be a challenge even for the Northern part of our continent. But this challenge we accept with trust in our capabilities. The Baltic Sea region has all the prerequisites to become once again a closely integrated economic and cultural area such as the one it was in times past. For that to happen, we need to cooperate, but the success of our efforts up to now gives me confidence.

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On the Marine Oil Transportation and Terminal Development in the Gulf of Finland

by Jorma Rytkönen

The Baltic Sea, the largest brackish body of water in the world, has always been an important sea route connecting the Nordic countries and Russia to continental Europe. Surrounded by nine countries, it also has some of the densest maritime traffic in the world. The Baltic Sea is also a European inland sea and important fairway between the European Union and Russia. The financial importance of this is significant. The strong economic development of trade in the Baltic See area is also reflected in the development of shipping. Consequently, when economies strengthen and trade increases, it is important that shipping and the transport system in general are not restricted by various barriers, bottlenecks and certain institutional differences. Trade development, however, is leaning towards general standards with harmonized tools and legislation

Rapid development of the oil transport - Gulf of Finland in focus

The disintegration of the Soviet Union forced Russia to start developing its own Baltic ports and terminals and to find new routes to export its oil. The Baltic States have enjoyed a remarkable economic boom, especially regarding new port and terminal development and oil transportation.

In 2000 the total amount of oil transported on the Gulf of Finland area alone was 40 million tons, in 2004 about 100 million tons and may reach 190 million tons by 2010. Russia is now the largest oil producer in the world, and the high market price of oil also puts more pressure on Russian plans to bring more oil into the world markets. Thus the development of the marine oil transport and development has been especially busy in Russia and Baltic States.

There are a lot of new oil terminal and development projects going on in the Russian Ports of the Baltic Sea. The largest oil terminal in the area is the Primorsk oil terminal which last year accounted for roughly 40 million tons alone. Together with crude oil export, the oil product transportation will soon commence, and the capacity in the future may achieve an annual level of 60 - 80 million tons. Other large scale terminals are Vysotsk, St. Petersburg's oil terminal and Ust Lugas's port area, including Vistino.

Finland's largest oil terminal in the Gulf of Finland area is Sköldvik, near the city of Porvoo. Its annual oil transportation varies between 15 - 16 million tons, but is expected to grow to 18 - 20 million tons in the future. Some amount of oil has been also transported through the ports of Kotka and Hamina as transit.

Estonia's largest oil terminal is the port of Muuga, situated close to Tallinn. It handled around 25 million tons of oil in 2004. Other main ports handling oil products are Paldiski, Paljassaare, and Miiduranna. However, there are new ports under construction, such as Aseri and Sillamae, which may have a significant oil transportation role in the future.

As traffic volumes on the Gulf of Finland seem to continue and rise rapidly, the risk of accidents is increasing accordingly. In three years' time the total number of ship calls will have more than doubled in the main oil harbours in the Gulf. Some positive developments can be noticed in the tankers that visited the Skölvik, Primorsk, St. Petersburg and Tallinn oil terminals in May 2004 when comparing the data in 2001: new vessels have been taken into use, and the tankers' age development has also had a positive effect on the vessels' structure as well. These are good signs of an increase in safety consciousness in oil transportation.

How to minimise the risk?

One fact covering recent decades has been the significant improvement of maritime safety. There are many reasons affecting this positive development. Many of these reasons are based on past accidents such as the "Erika", "Prestige" or "Baltic Carrier". Also new actions against terrorism, such as the ISPS code and new mandatory regulations in ports have improved general safety. However, even if the parts of internal or external safety are taken care of, there are still the human-machine interaction and the environmental issues left as a parts of the total safety concept. Here we have the most promising field to work with, due to the simple truth that human-related accidents represent around 80 % of the total amount of accidents.

In April 2004 the International Maritime Organisation (IMO) nominated the Baltic Sea, except for the Russian territorial waters, a Particular Sensitive Sea Area, PSSA. This is a direct signal to seafarers to take into account the Baltic Sea's vulnerable environment. An especially sensitive part of the Baltic Sea is the Gulf of Finland, which is shallow and surrounded by a broken coastline of bays and islands, and which is partly covered by ice in wintertime.

In recent years the Gulf countries have taken several steps to improve safety. An example of recent measures is the Gulf of Finland mandatory Ship Reporting System (GOFREP) which came into operation in July 2004. The system was established to improve maritime safety, to protect the marine environment, and to monitor compliance with the International Regulations for Preventing Collisions at Sea.

Nevertheless, no system, no regulation, nor double-hulled tankers can totally eliminate the risk of accidents. Due to the fact that maritime transport, and especially oil transport, is increasing dynamically, the most important task would be to identify the environmental risks and then to proceed systematically to decrease hazards and any negative impacts on nature.

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