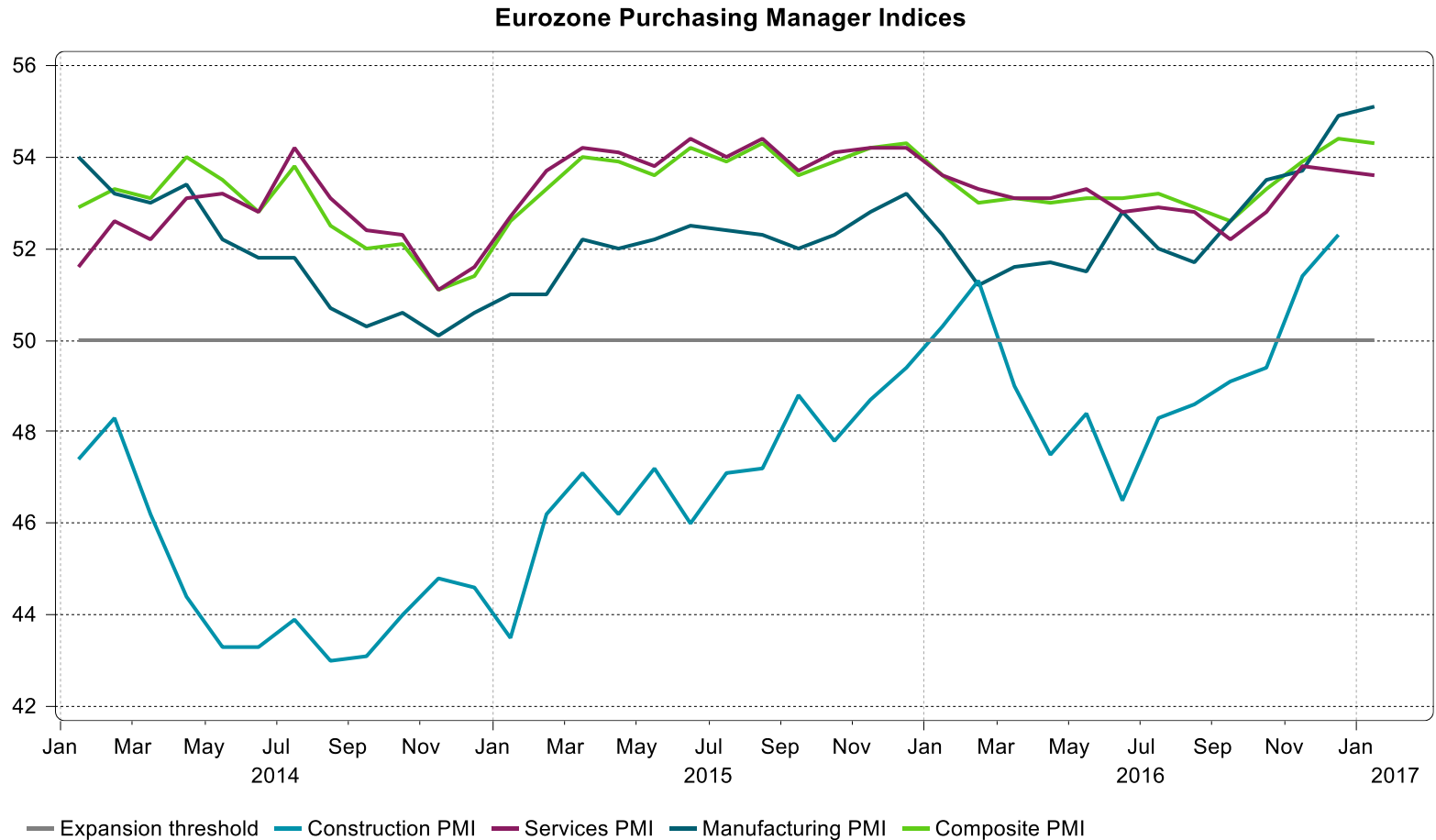




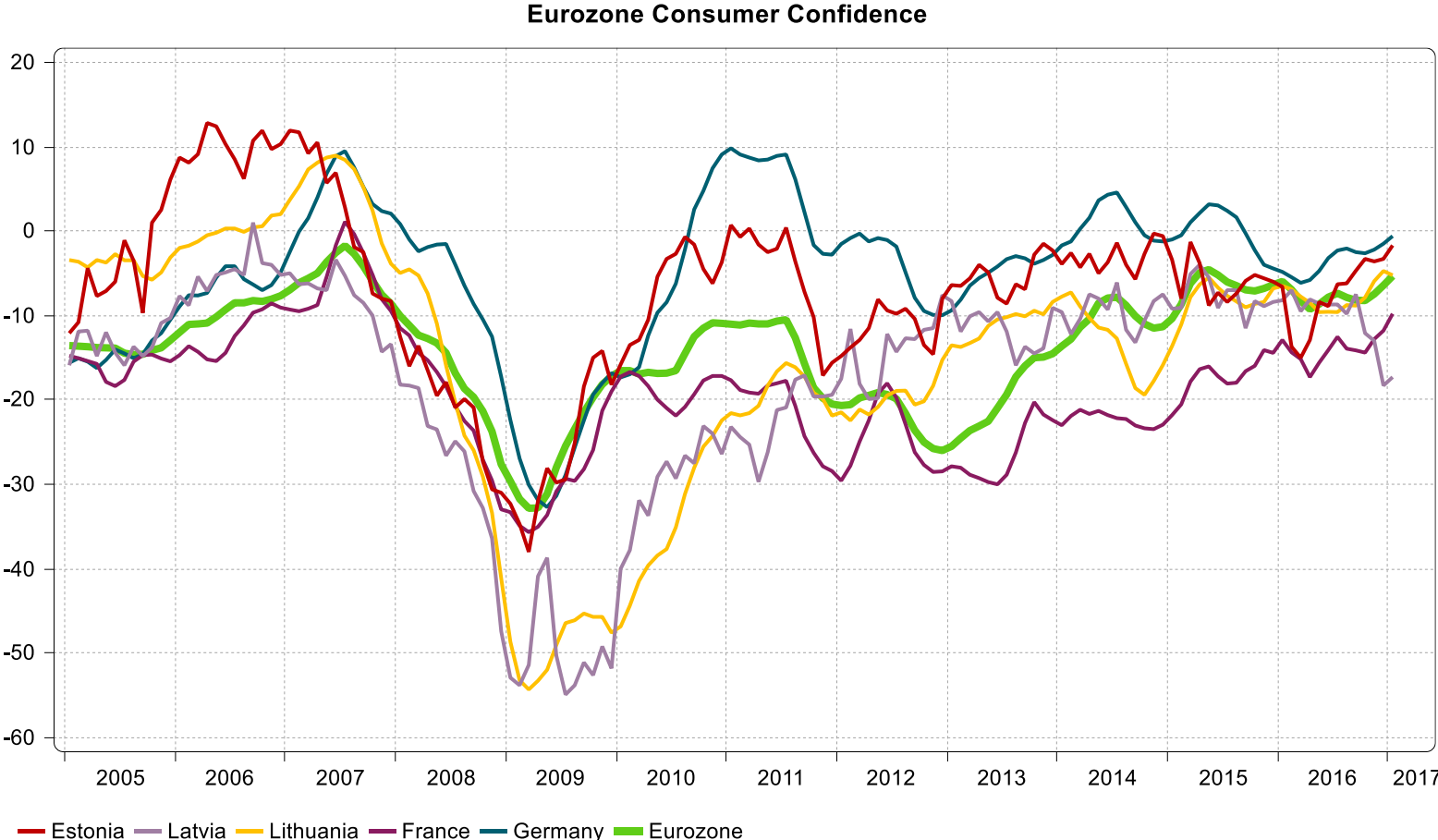
Don't count Europe out just yet!

EZ business sentiment: Recovery despite global & European risks



Source: Macrobond

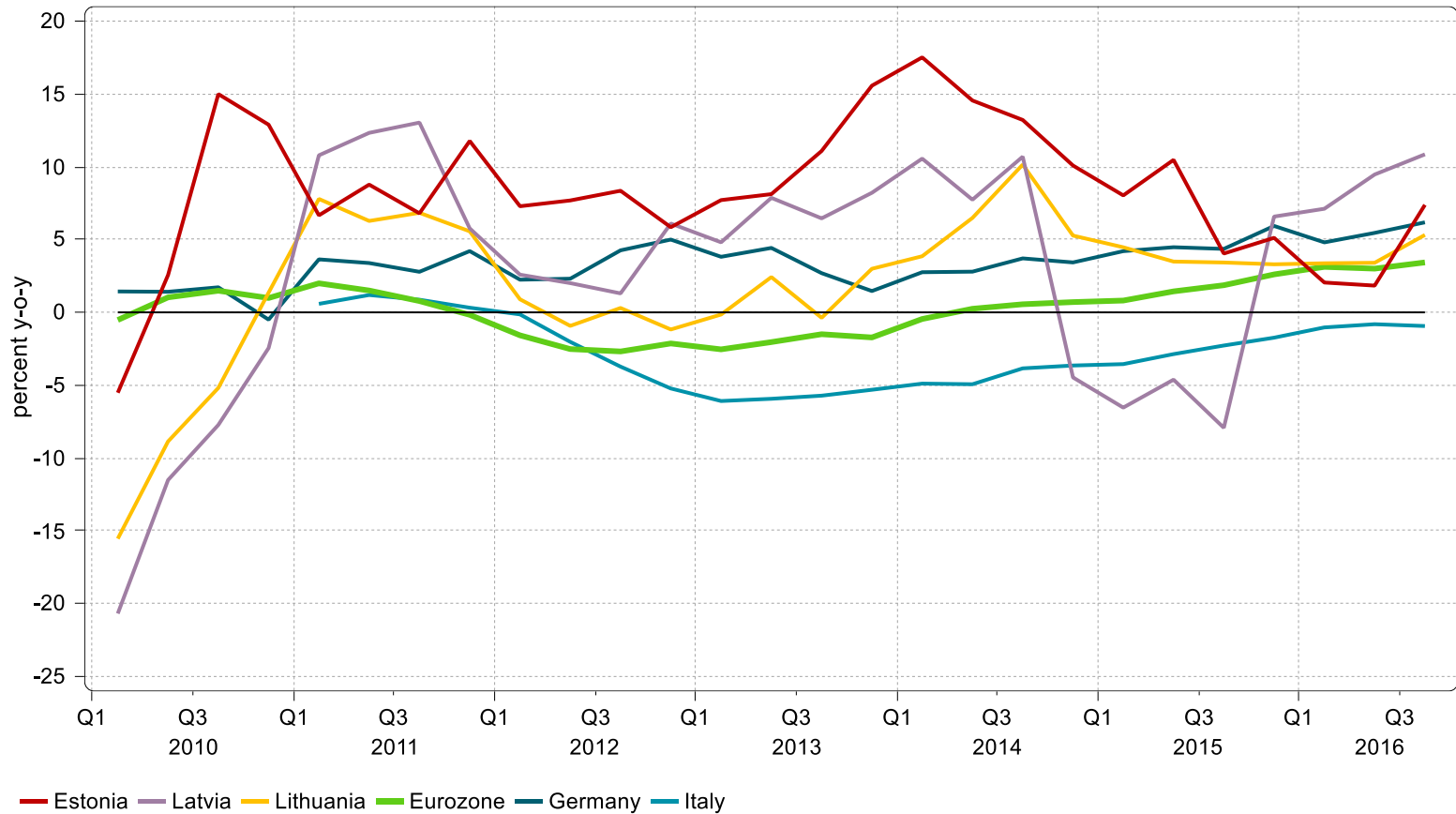
Consumer confidence: Improving in most regions



Source: Macrobond, EU Commission

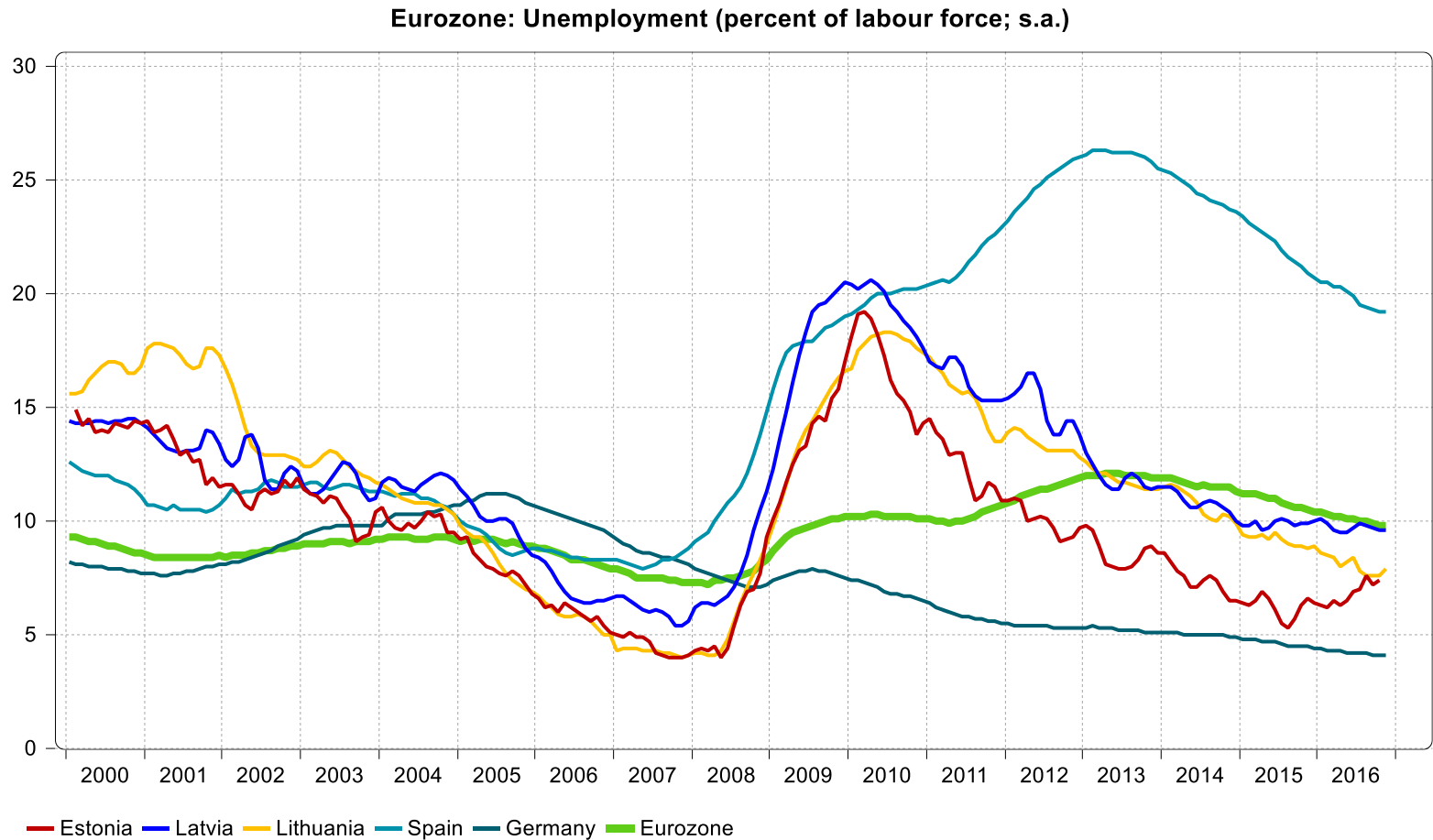
Rising home prices underpin household balance sheets

Home prices are on their way up



Source: Macrobond

Unemployment on gradual downward trend



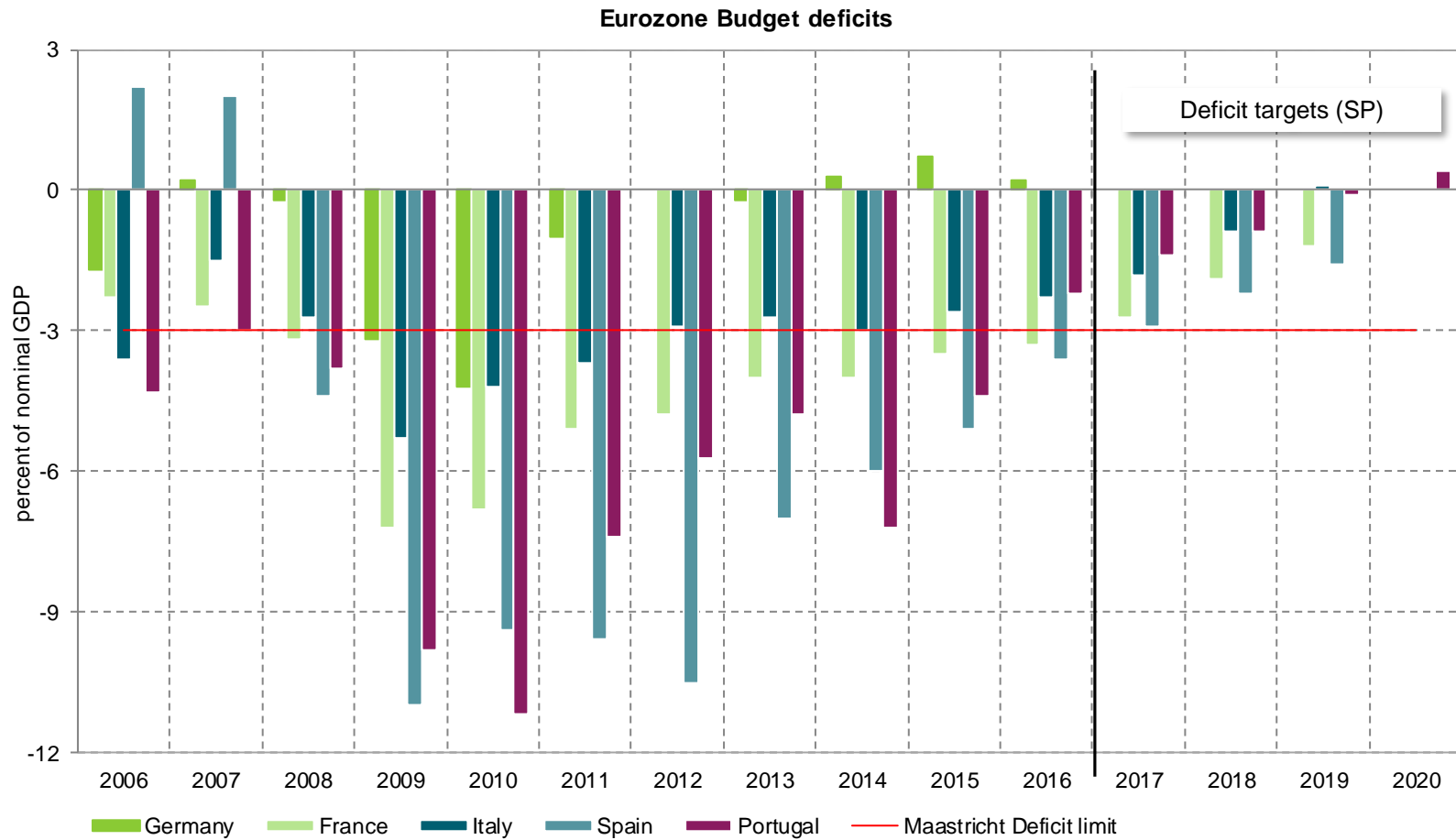
Source: Macrobond, Eurostat

Five-year outlook: IMF expects robust growth

realGDP	2014	2015	2016	2017	2018	2019	2020	2021
world	2,7	2,6	2,4	2,8	2,9	3,0	2,9	3,0
USA	2,4	2,6	1,6	2,3	2,5	1,9	1,7	1,6
EU	1,6	2,3	1,9	1,7	1,8	1,8	1,8	1,7
Estonia	2,9	1,1	1,5	2,5	2,9	3,1	3,2	3,3
Latvia	2,0	2,7	2,5	3,4	3,7	3,9	3,9	4,0
Lithuania	3,0	1,6	2,6	3,0	3,3	3,6	3,6	3,3
inflation	2014	2015	2016	2017	2018	2019	2020	2021
world	3,2	2,8	2,9	3,3	3,3	3,2	3,3	3,3
USA	1,6	0,1	1,2	2,3	2,6	2,5	2,4	2,3
EU	0,5	0,0	0,3	1,3	1,6	1,7	1,8	1,8
Estonia	0,5	0,1	0,5	1,4	1,8	2,0	2,1	2,2
Latvia	0,7	0,2	0,2	1,7	2,0	2,0	2,0	2,0
Lithuania	0,2	-0,7	0,5	1,2	2,2	2,2	2,2	2,2
debt/GDP	2014	2015	2016	2017	2018	2019	2020	2021
USA	105	105	108	108	108	108	108	108
EU	93	94	94	92	91	89	87	84
Estonia	10	10	9	9	9	8	8	8
Latvia	39	35	35	35	33	32	30	29
Lithuania	41	43	42	41	39	38	36	35

Source: Bloomberg

Recovery underpinned by lenient fiscal policy



Source: Bloomberg, EU Commission



ECB: Doing whatever it takes to preserve the euro

What has the ECB achieved so far?

- Balance sheet size



- Excess liquidity



- Interest rate levels



- Inflation & inflation expectations



- Credit growth



- Investment activity



- Growth & employment



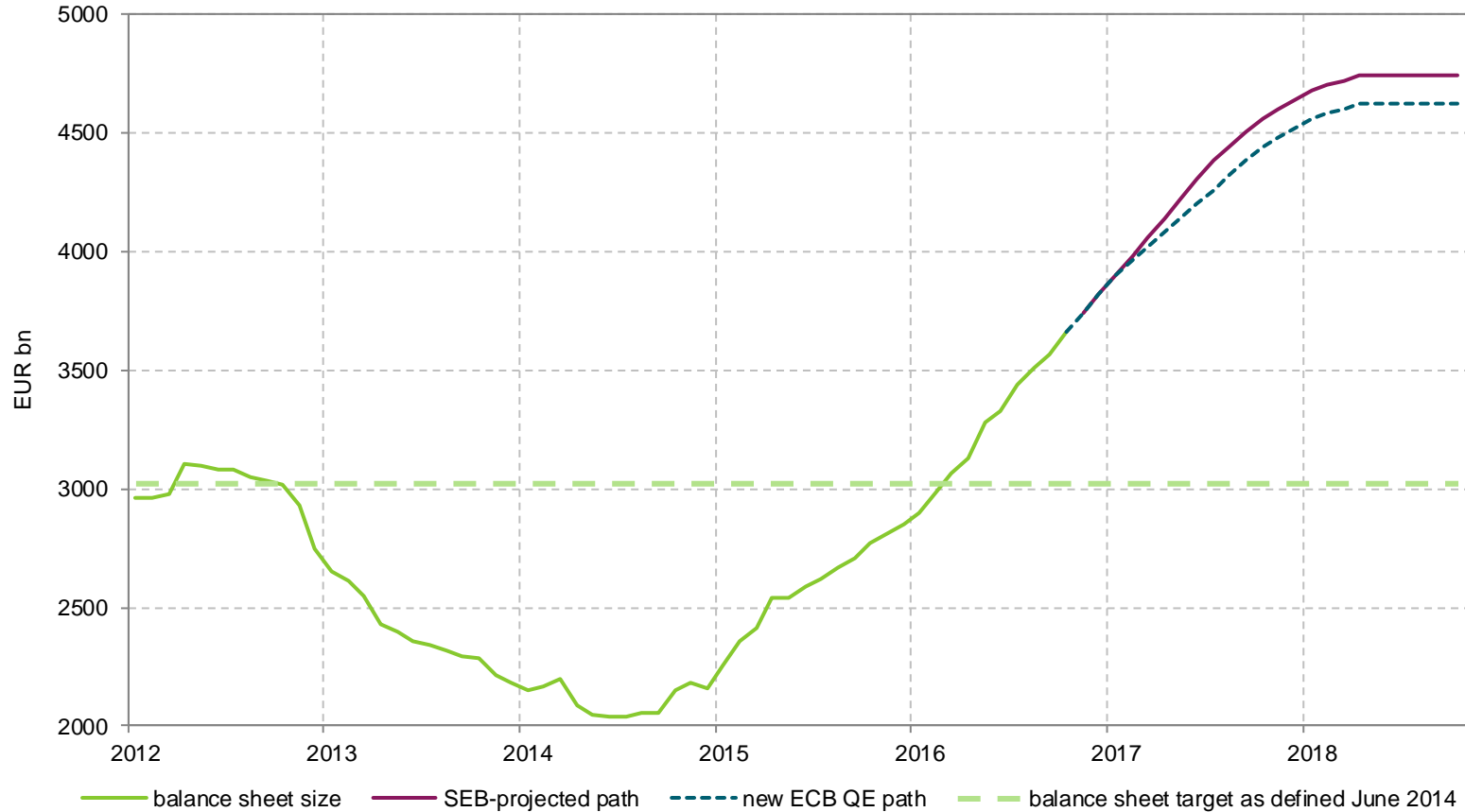
What side effects has it caused?

- exchange rate
- market (allocation) efficiency
- financial stability
- Financial sector profitability
- wealth distribution
- private pension savings
- negative externalities



ECB balance sheet overshoots target by a wide margin

Balance sheet and QE scenarios (monthly asset purchases, EUR bn)



Source: Bloomberg

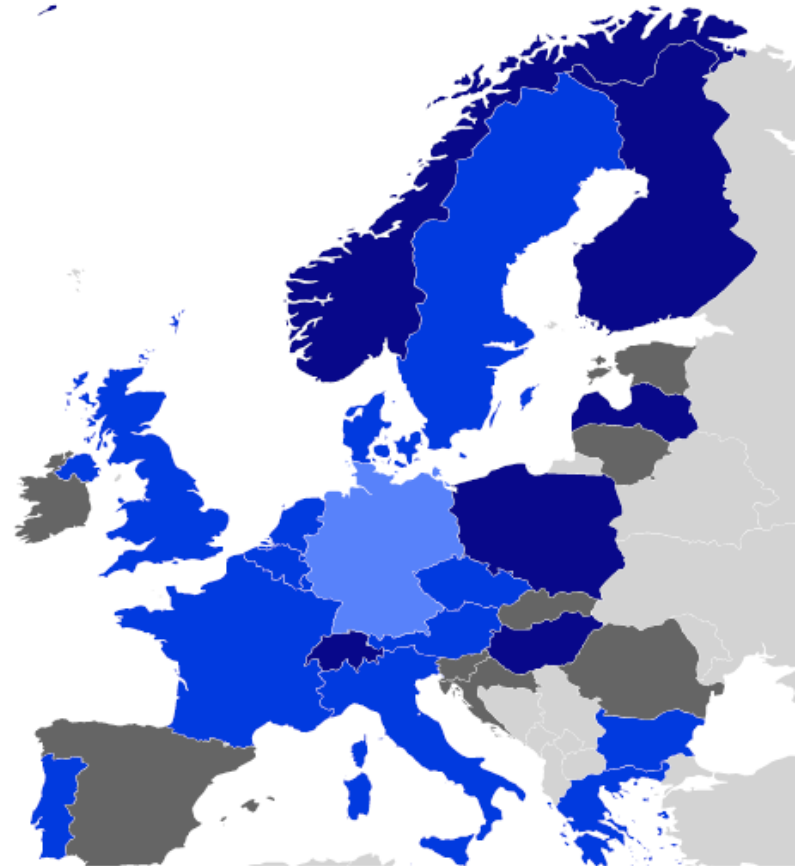
European Integration: At the limit

- **Europe:** The **2015 Grexit debate** has widened the rift between the “no-bailout” camp and „transfer unionist“ countries (e.g. Greece, France, Italy)
- **The 2016 refugee crisis** has caused a second rift – between liberal, western European EU members and CEE EU member countries opposing migration. However, also within the liberal EU members, political polarization is advancing and support **for** populist, xenophobic movements growing
- **Breaches of EU treaties** by member states are undermining the credibility of EU institutions
- **UK Brexit** is hanging in the balance, inspiring euro-sceptics in other EU member countries, further eroding Europe’s capacity for political compromise
- **European monetary policy** is losing support in core European member countries as negative side-effects of NIRP and QE spread. The ECB as an institution has lost credibility after successive failures (ELA, Anfa agreement, media communication)

Europe 2017: Populists at the gate?

Upcoming elections 2017

- **Italy:** Early elections (Feb 2017?)
- **UK:** Parliamentary vote on Brexit? (Q1-17)
- **Netherlands:** Parliamentary elections (15 Mar)
- **Serbia:** Presidential election (09 Apr)
- **France:** Parliamentary elections (11/ 18 June)
- **Germany:** Parliamentary elections (24 Sep)
State elections:
Saarland (26 Mar)
Schleswig-Holstein (07 May)
NRW (14 May)
- **Norway:** Parliamentary elections (11 Sep)
- **Czech Rep.:** Parliamentary elections (Oct)



in government
deputies in national (and in EU parliament)
deputies in EU parliament
No party, no influence

Source: Der Spiegel/Bento

Europe 2020: Three Scenarios

1. muddling through

2. disintegration

=> Schengen area

=> Euro Area, EU

3. further integration

=> European Defence Union

=> tax harmonisation

=> fiscal (transfer) union



Europe 2020: What we know or can guess

- **Germany:** Unchanged government, but vocal populist opposition
- **Netherlands, France, Italy:** Populist governments, EMU exit?
- **EU Parliament** (elections 2019): Strong and vocal populist faction
- **UK:** Brexit done, UK out. A deterrent for other EU members?
- **External relations:** US-EU political & economic relations improving?
- **EU** struggling to reform; will Brussels make concessions to populists?
- **EU** struggling to gain a larger weight of its own in the world;
stronger military cooperation among EU members
- **ECB** done with QE, interest rates normalisation under way



Brexit: Quo vadis, Britannia?

UK: In search of a new place in Europe

Europe's Ties That Bind

The U.K.'s plan to leave the European Union has focused attention on long-standing pacts that govern trade, immigration and the common currency

European Union

28-nation single market of free trade and shared regulation; includes "free movement" of goods, services, capital and people

Euro Zone

19 countries using the euro currency

European Economic Area

provides access to single market in exchange for payments; has "emergency brake" on free movement of people

European Free Trade Association

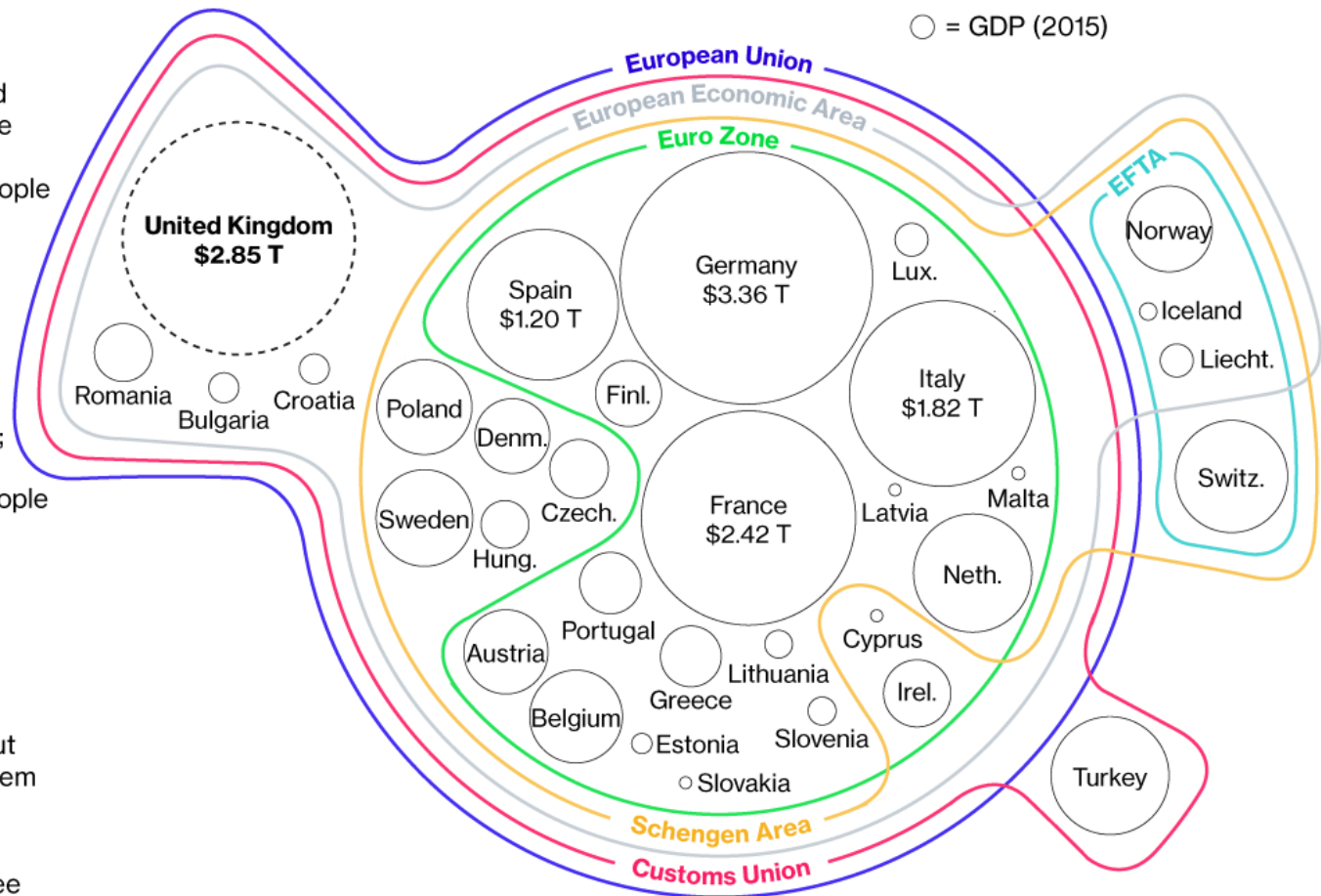
Free-trade zone and network of agreements with other countries

Customs Union

Circulates goods without duties, has uniform system for handling imports

Schengen Area

26-country passport-free travel zone



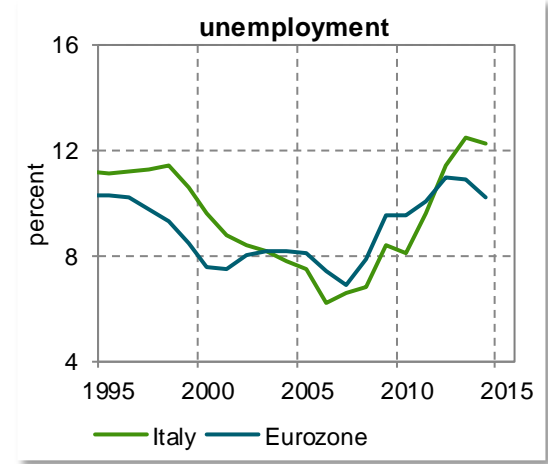
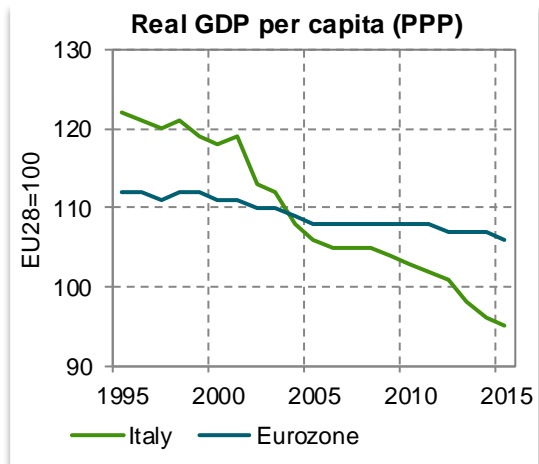
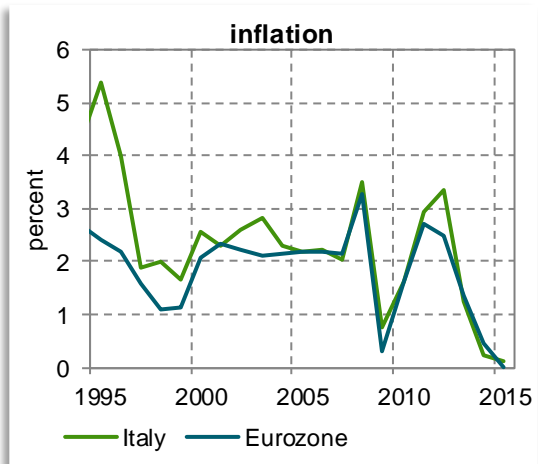
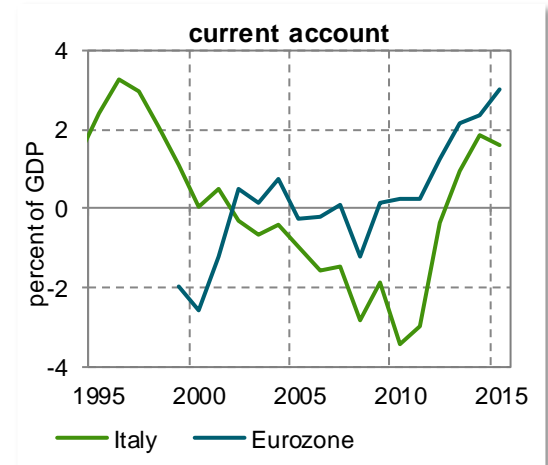
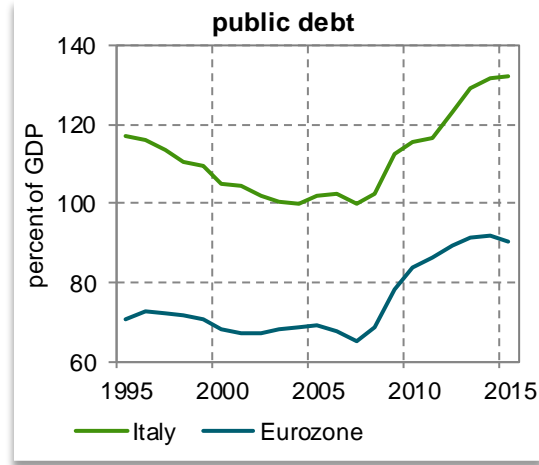
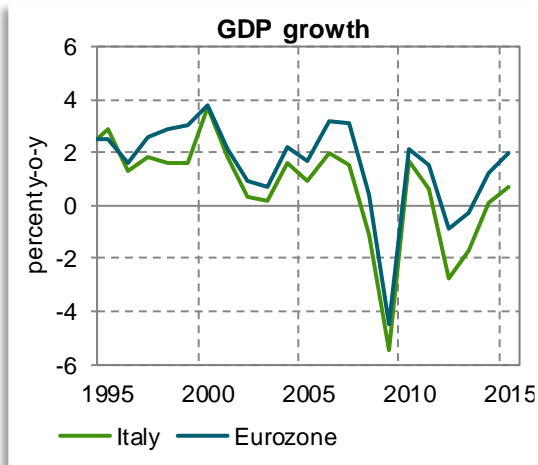
Sources: EU, ETRA, IMF

Bloomberg Graphics



Italy: Can it sustain EMU membership?

Italy and the euro: Weaker together?

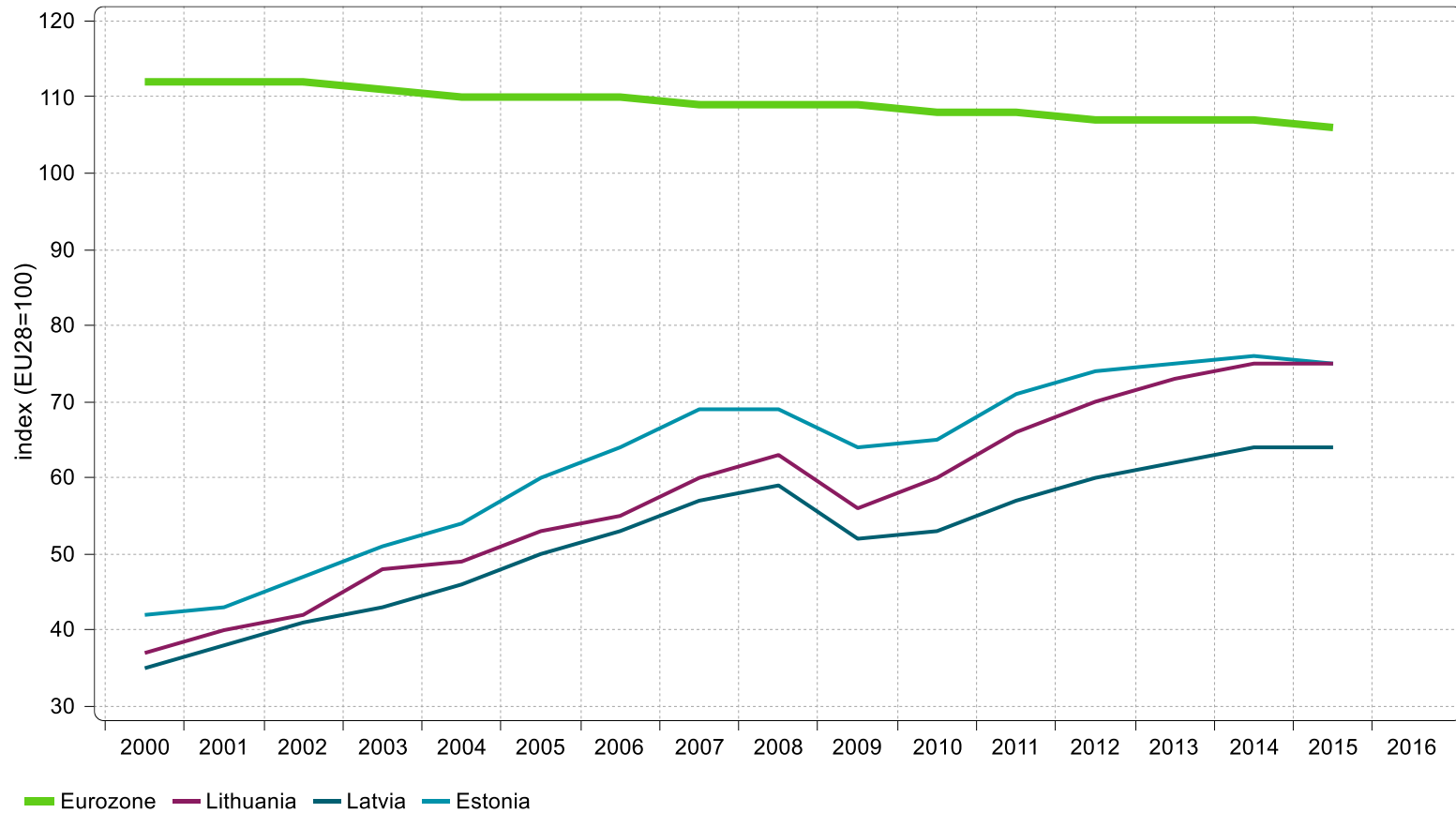




The Baltics: Catching up with the Euro Area

Baltics: Improving economic strength

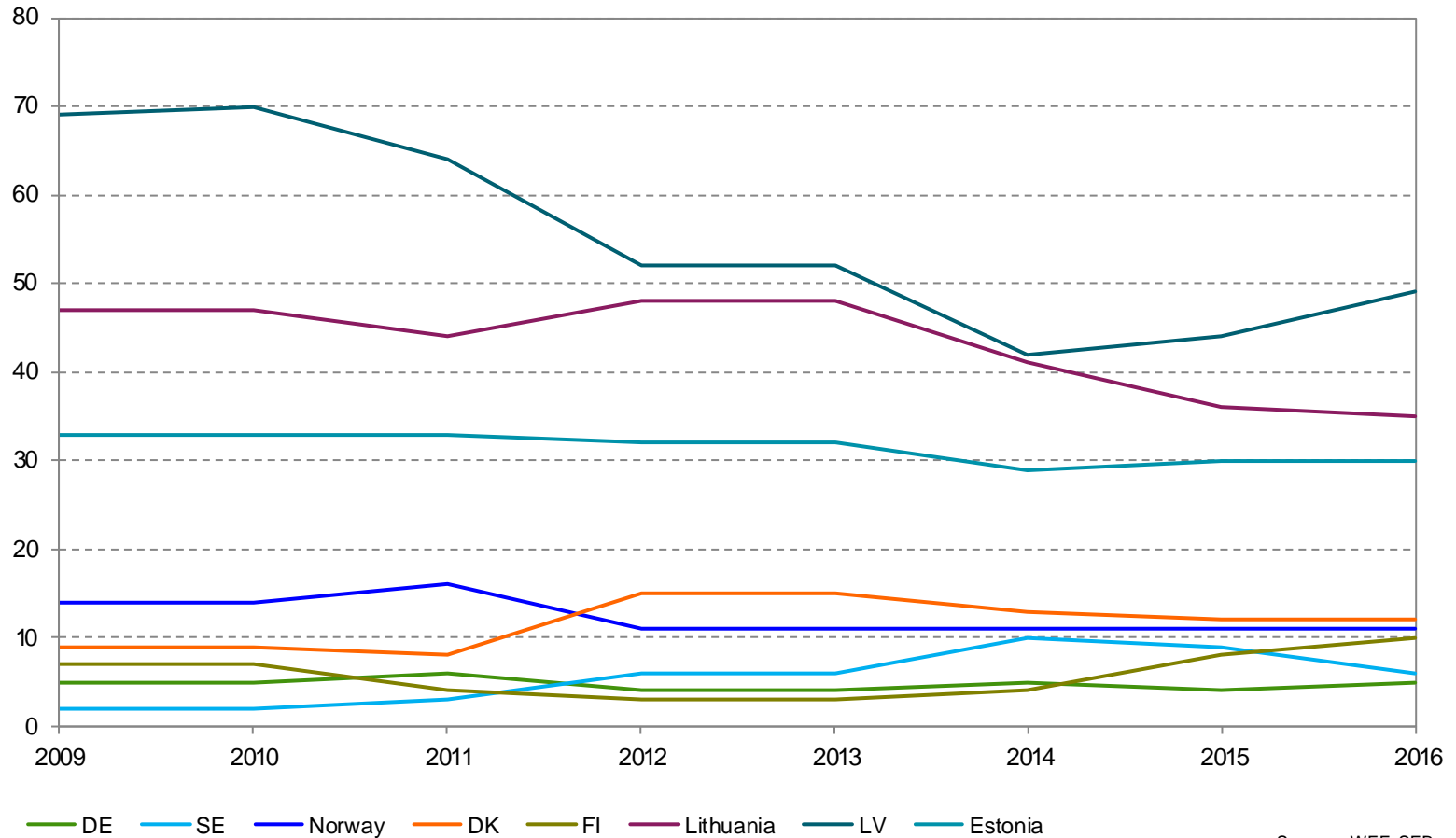
Baltics and Eurozone: Real GDP per capita at PPP



Source: Macrobond

Baltics: Room for improvement of competitiveness

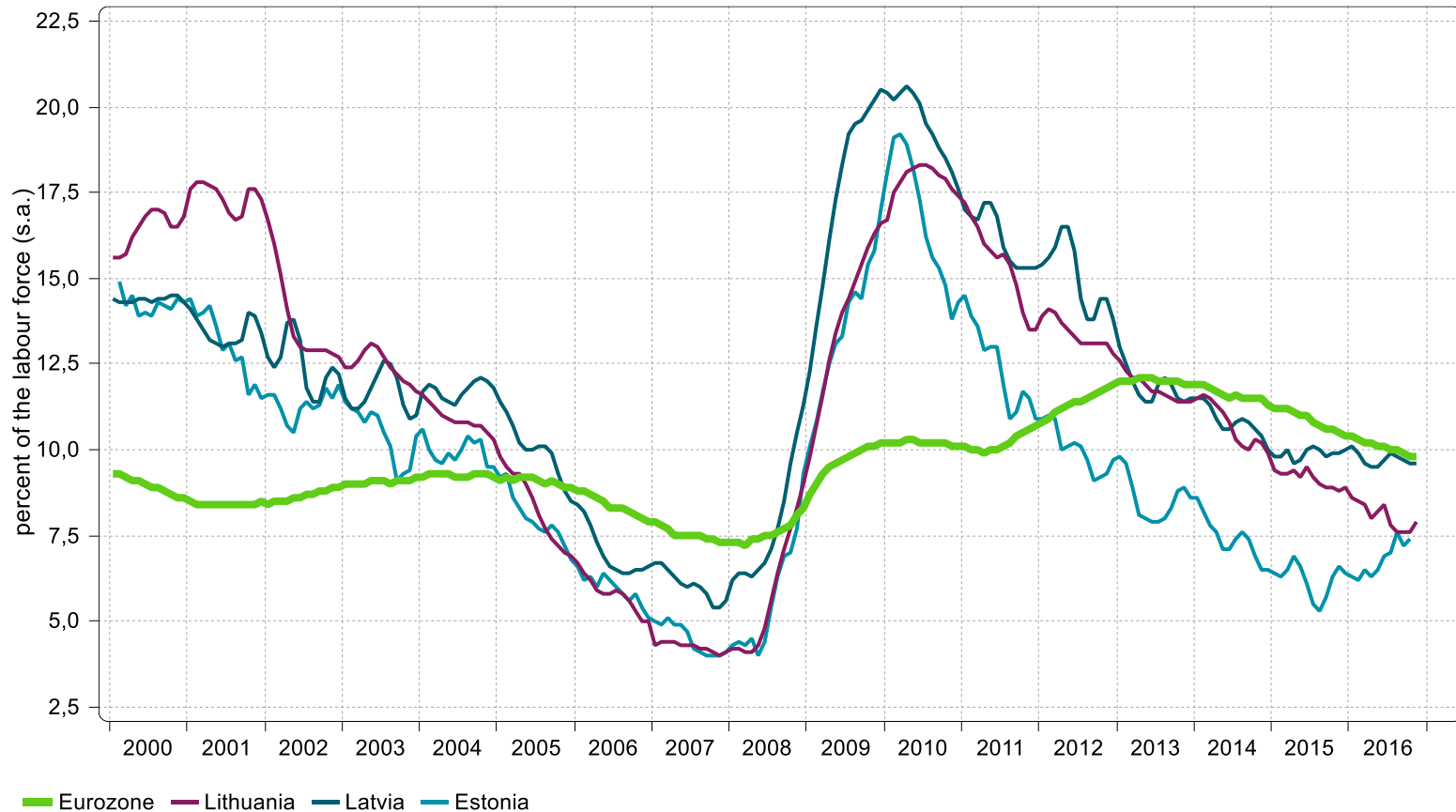
World Economic Forum: Competitiveness rankings since 2009



Sources: WEF, SEB

Baltics: Employment trends more favourable than EA

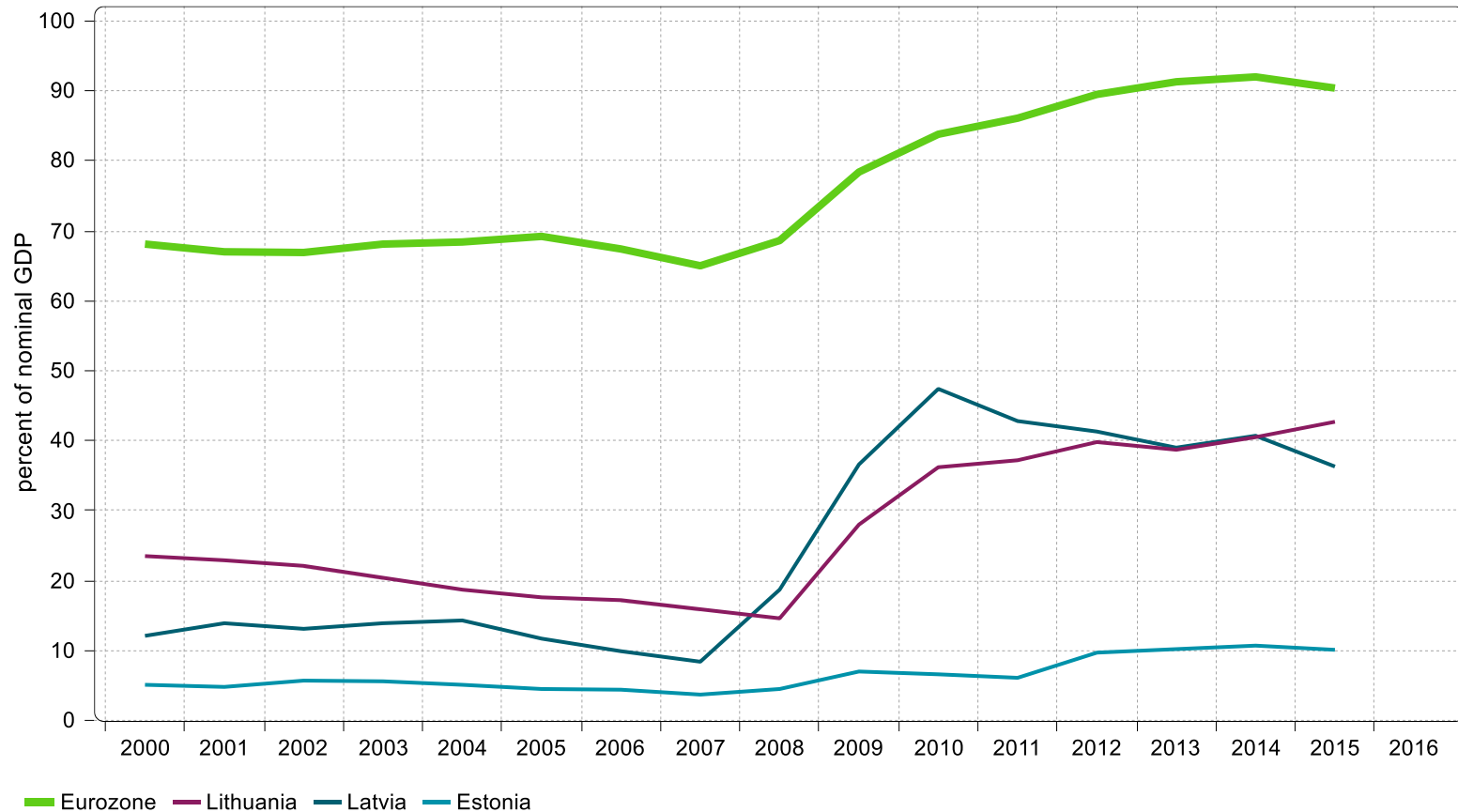
Baltics and Eurozone: Labour market dynamics



Source: Macrobond

Baltics: Much lower debt burden than EA

Baltics and Eurozone: Dynamics of public debt



Source: Macrobond

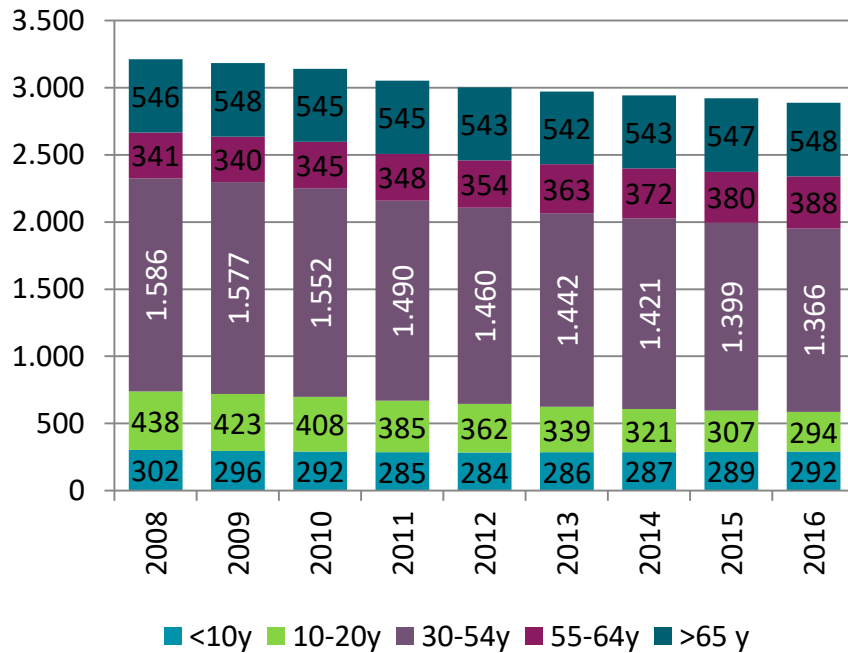


Lithuania: More bright than weak spots

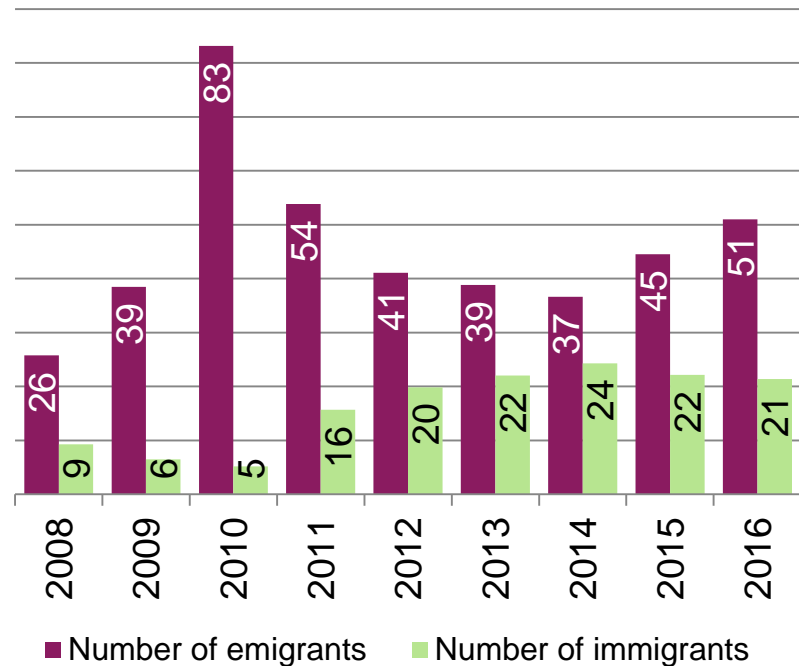
Lithuania: Adverse demographics

- negative demographic trend due to strongly negative balance of migration
- pressure on labor force and consumption outlook for the coming years

Number of residents in the beginning of the period by the age group (thou)



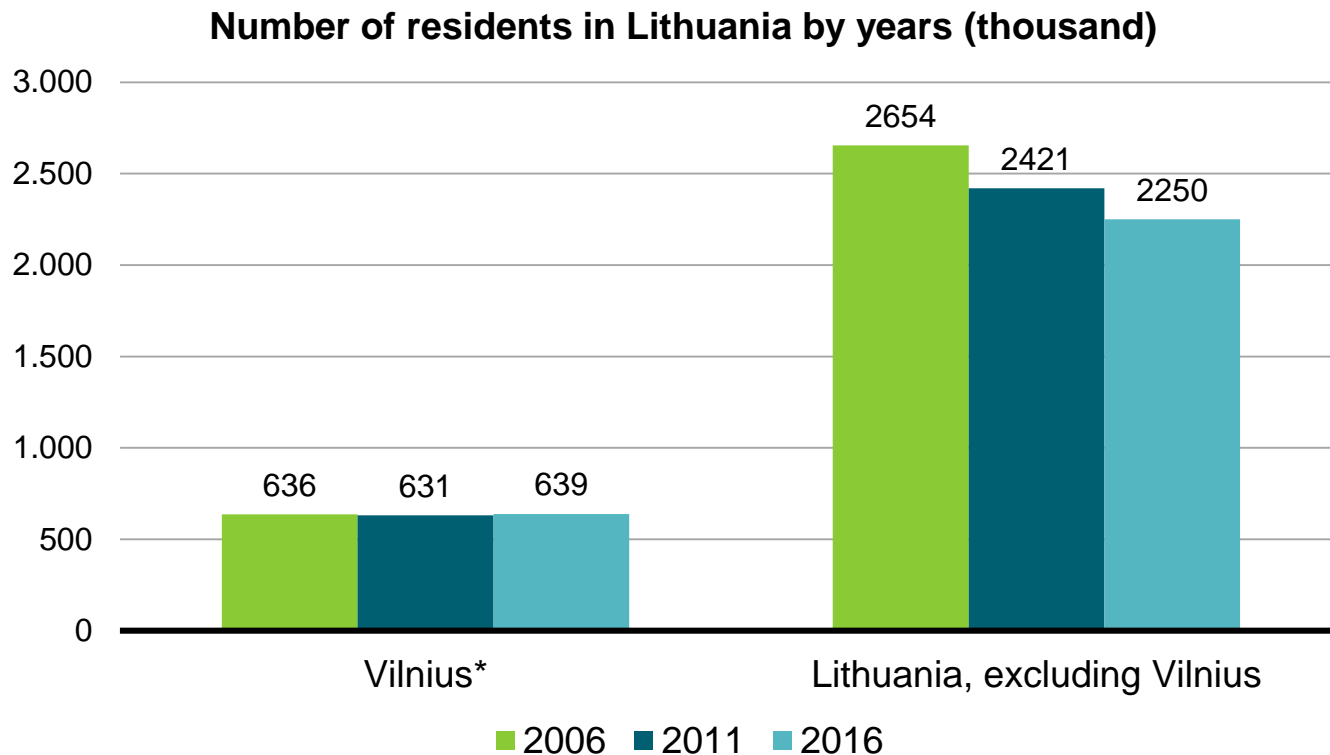
Migration activity to/out of Lithuania (thousand)



Source: Statistics Lithuania

Lithuania: Adverse demographics (2)

- Vilnius, the capital, manages to retain the number of residents unchanged
- but the regions suffers from the negative demographic trend



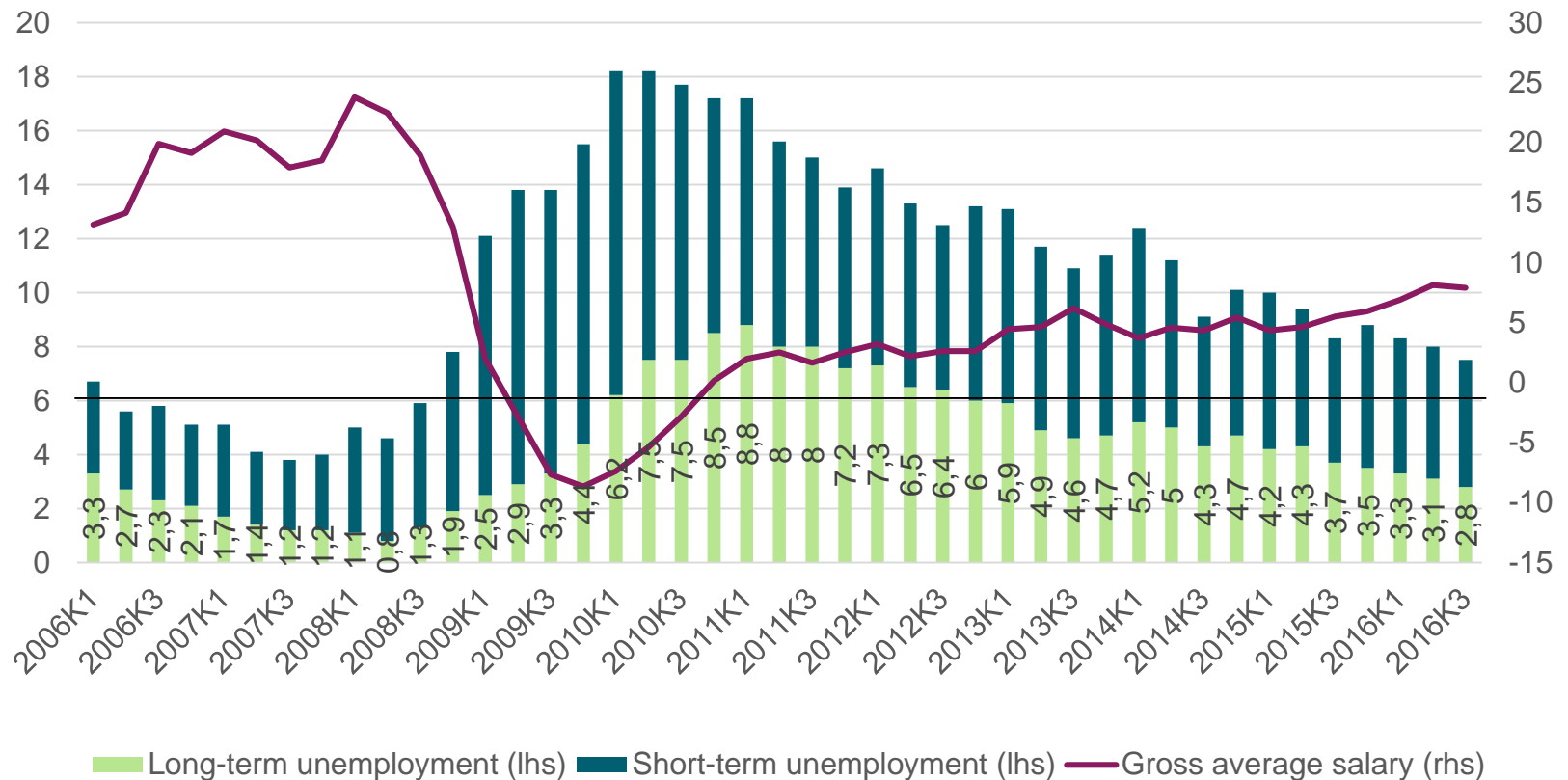
*Vilnius municipality and district

Source: Statistics Lithuania

Lithuania: Labour market

- the labour market is tightening and the labour costs are going up
- there is a huge lack of qualified labour at the moment

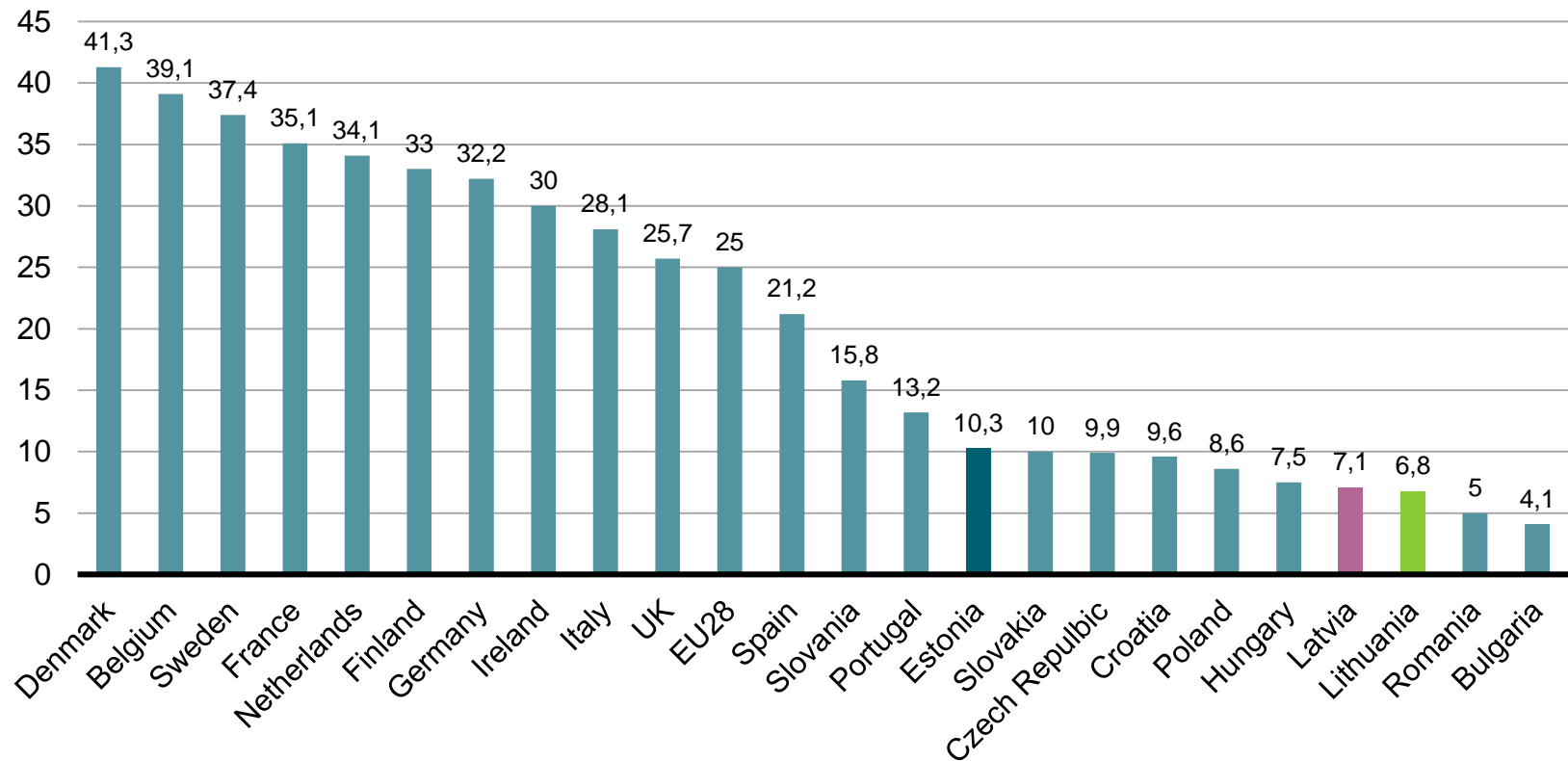
Unemployment and average gross wage changes (%)



Lithuania: Labour costs

- still the lowest among Baltics and the third-lowest in EU

Average labor costs in business economy (2015, EUR/hour)

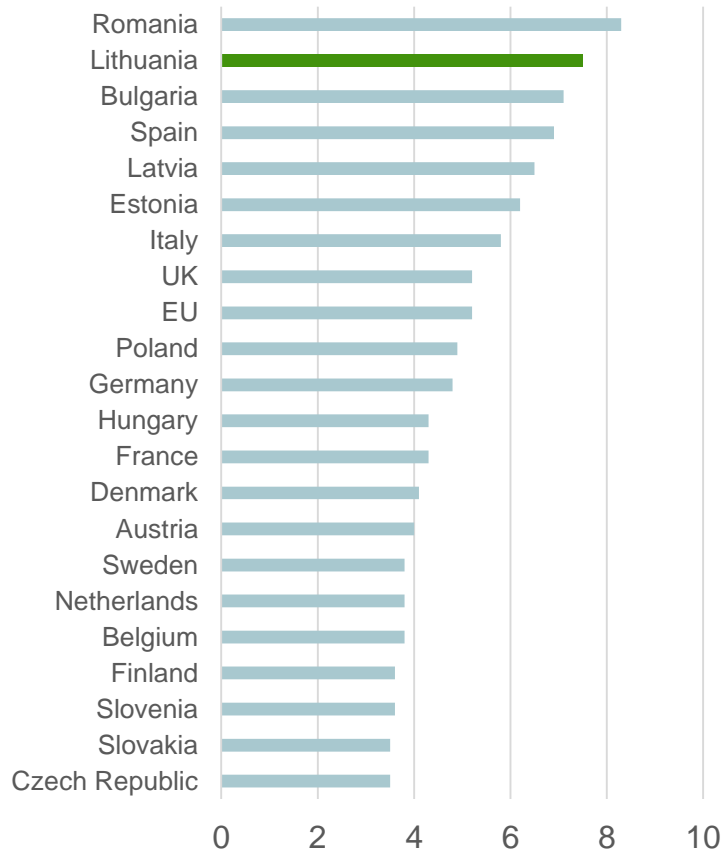


Source: Eurostat

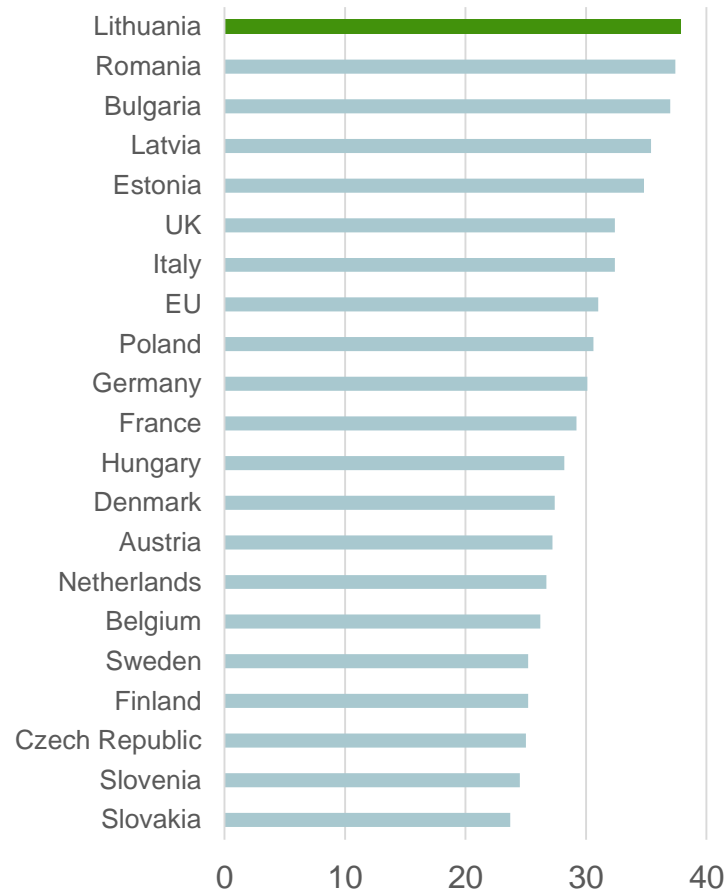
Lithuania: Income inequality

- very high income inequality creates negative sentiment among the people, and depresses the expectations for the future

S80/S20 income quintile share ratio
(2015)



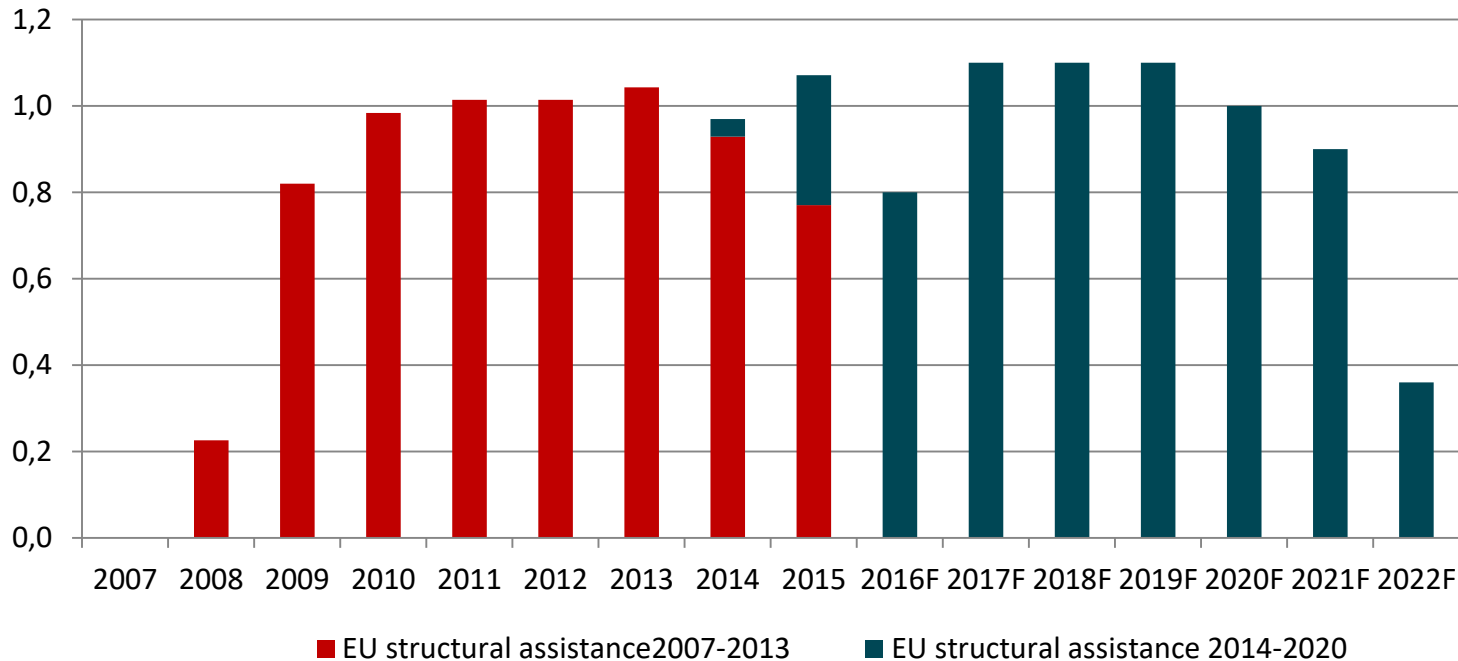
Gini coefficient (2015)



Lithuania: Declining EU support

- Uncertain EU support to Lithuania in the new programme after 2020
- Uncertainty of EU financing strategy also because of Brexit

Annual EU funds *payments* to the beneficiaries of projects (EUR bn) in Lithuania

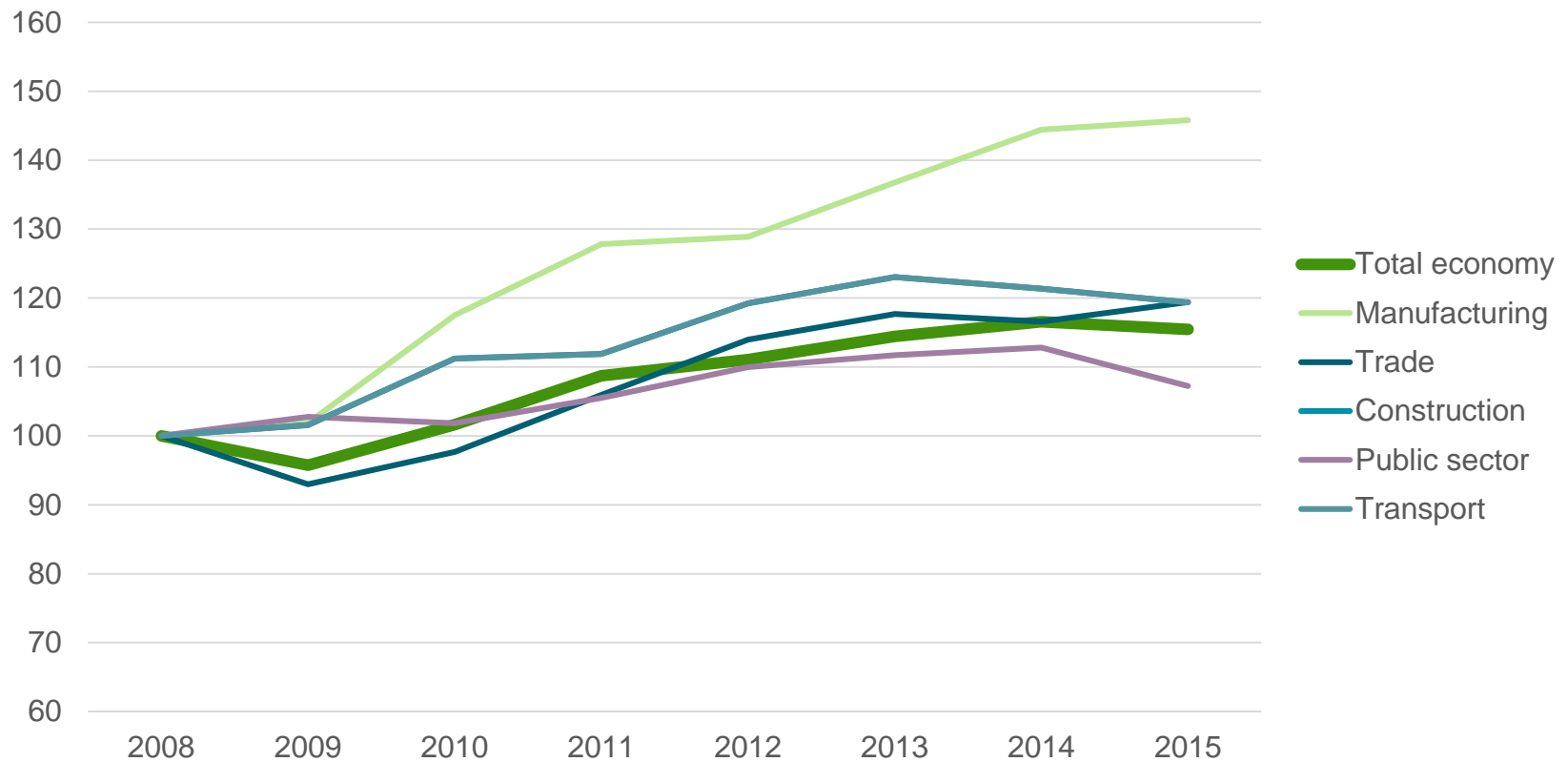


Source: Ministry of Finance, SEB forecasts

Lithuania: Low productivity growth

- Lithuania's public sector is too large (~30% of total employees)
- public sector labour productivity declined in 2015

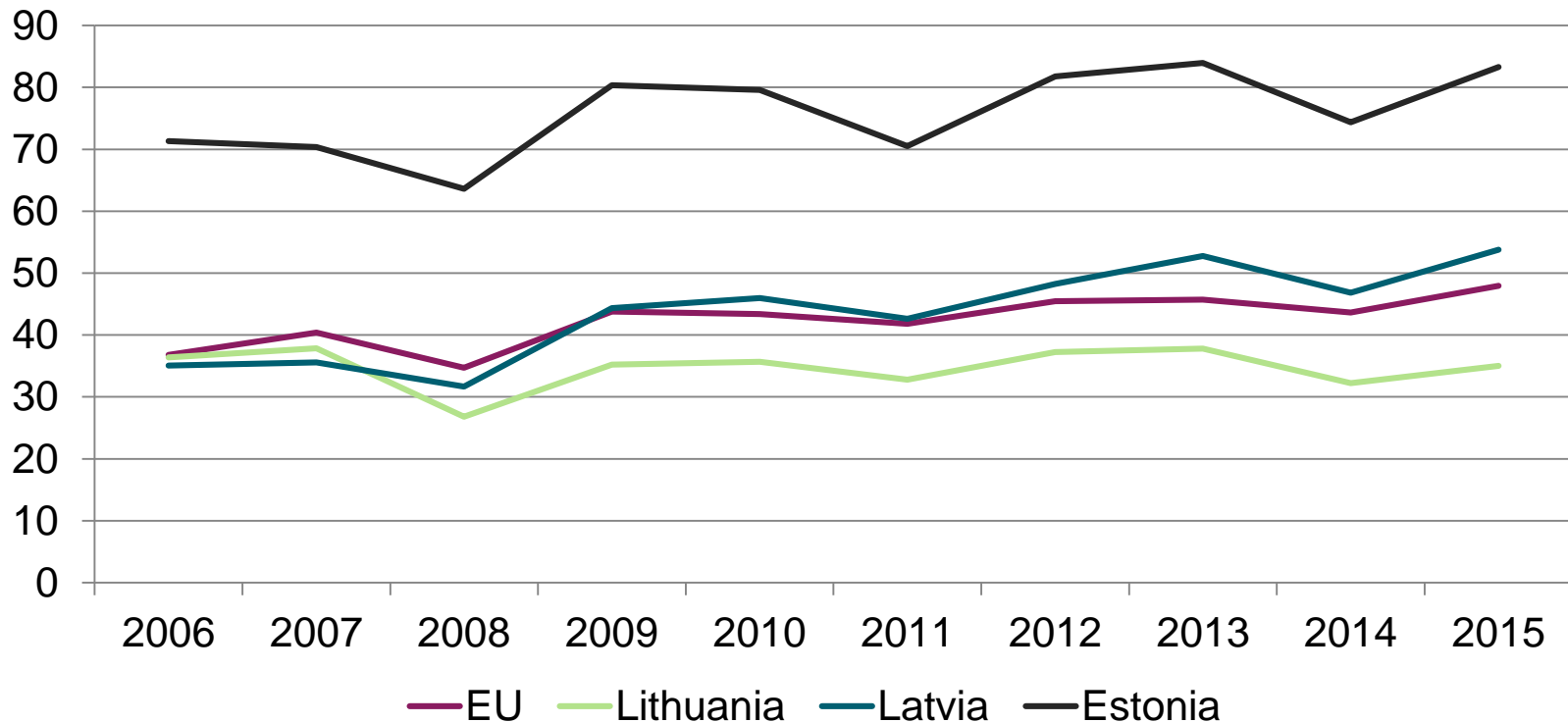
Labor productivity dynamics (index 2008 = 100)



Lithuania: Lacklustre foreign direct investment

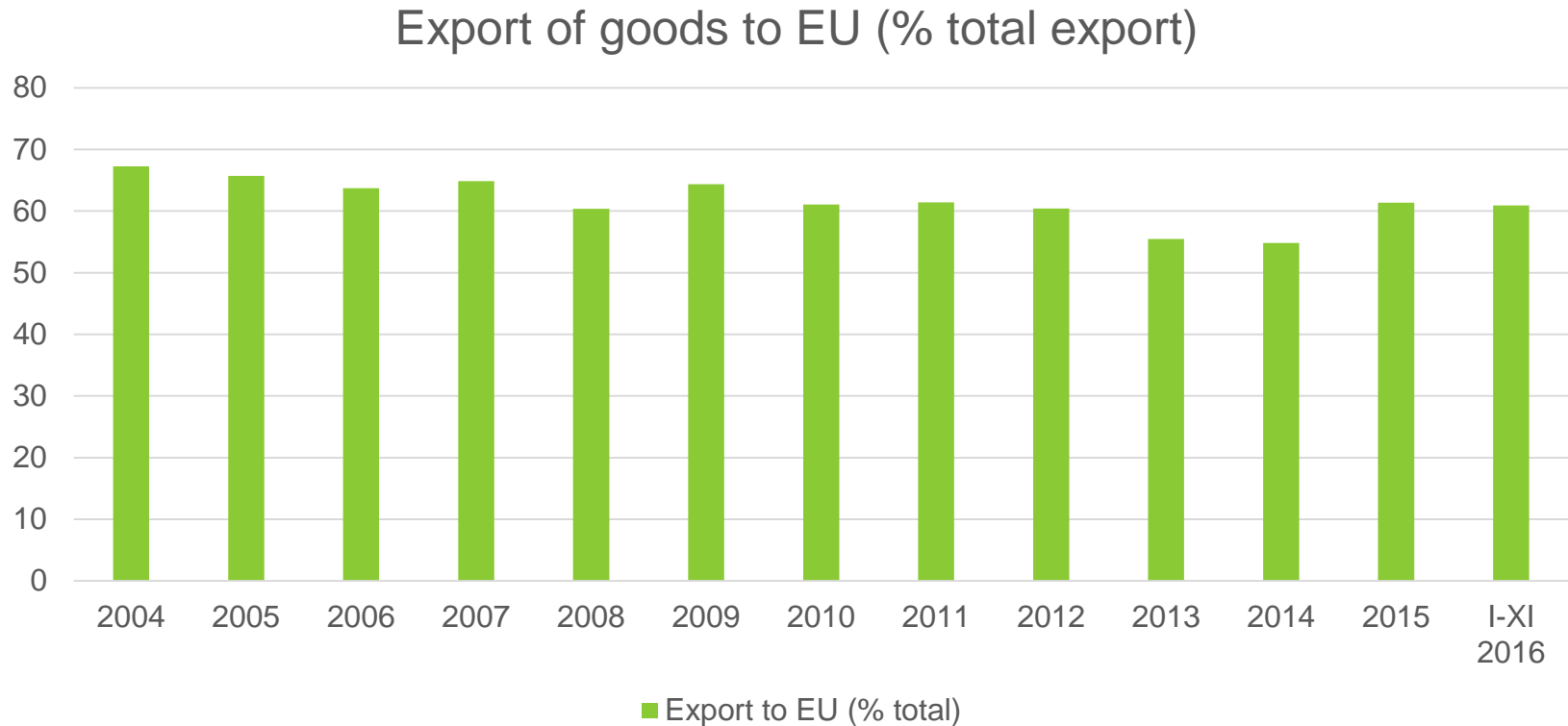
- although Lithuania has benefitted from the coming of new shared service centers, FDI in Lithuania stock did not improve much

FDI inward stock (%GDP)



Lithuania: High share of goods exports to EU

- EU is the key export market but its share in total exports is lower than in 2006



Source: Eurostat

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