UniCredit Group

Analysis by the Unicredit Group New Europe Research Network

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Key Economics News

Bulgaria – GDP grew by 6.9 % in Q4 2007 bringing full-year preliminary GDP growth to a real 6.2 %, in line with our forecast and above consensus. The key domestic demand drivers were investment and government consumption, which posted its strongest quarterly reading in seven years. However, both consumption and investment slowed down and lowered the pressure on imports thus allowing for improvement in the balance between the domestic and external demand contribution to GDP growth. Final full-year GDP growth for 2006 came in at 6.3 %, somewhat stronger than preliminary estimations for 6.1 % yoy real economic growth.

Despite strengthening of export growth to 28.1 % outpacing the pace of import growth by 17.7 %, the twelve-month current account deficit widened to 22.3 % of projected full-year GDP in January.

Czech Republic – The CNB kept the benchmark two-week repo unchanged at 3.75 % last week as expected, following a 25 bps hike in February. Flat rates were supported by six board members, one member voted for a quarter-point tightening. The bank reported that the inflation risks were significant in both directions: a strong crown and the prospect of deeper reduction of the eurozone's growth remained anti-inflationary factors, while higher than forecast CPI data early this year and potential cost-side shocks threaten to keep inflation at an elevated level. Hence, the CNB stressed the importance of upcoming data which could somewhat brighten the picture. March CPI is expected by the markets to drop to 7.3 % yoy from a nine-year high of 7.5 % in February, while activity indicators should continue to show robust readings as already witnessed by the March PMI. For the moment, however, we do not find the above arguments so convincing as to change our scenario of flat rates by the year-end.

Estonia – The media quoted Finance Minister Ivari Padar saying that Estonia's government will have to cut spending this year as budget revenues are lower than planned, indirectly confirming that growth is slowing faster than expected. The parliament will likely need to adopt a negative supplementary budget. There are basically two options – to cut expenses in the range of EEK 3 to 5 bn (1 %–2 % of GDP), which would further reduce growth, or to use the "stabilisation reserve" funded from proceeds of state assets sales and budget surpluses of previous years and standing at EEK 6.4 bn (EUR 0.4 bn). Probably some combination of the two options will be applied later this year, not, however, without serious political discussions.

Hungary – The NBH's Monetary Council raised the base rate by 50 bps on 31 March. The decision was mainly based on increasing inflationary pressures and the expected widening of the risk spread on forint assets. Over the past couple of weeks it became obvious that even though mom indices are expected to start gradually declining from March onward, yoy CPI is going to remain in the high ranges for longer than previously expected, thus endangering the fulfilment of the NBH's inflationary target (set at 3 % yoy) by the end of 2009. The other decisive impetus for interest rates came from the money and bond market, which was particularly under pressure in the last two months, and caused the inter-bank rates to head upward. In the meantime most recent statistics on the current account (CA) show slight, although far more moderate than earlier expected, improvement. The CA deficit narrowed to EUR 5.1bn (5.0 % of GDP) thanks largely to an impressive development in the trade balance. At the same time, the income flow deficit surged to EUR 7.93 bn, because of increased profit repatriation from foreign-owned companies.

Latvia – Latvian retail sales rose by a marginal 1 % yoy in February after a decline posted at the beginning of the year mainly on the back of a lower dynamic in the sale of food beverages and tobacco. The pace of expansion of Latvia's economy is gradually losing ground as confirmed by recently released data on the current account deficit in January which marked a significant deceleration by –14.7 % yoy to 225mn Lati (0.3bn Eur) on the back of lowering domestic demand. On March 13, Latvia's central bank left its main refinancing rate unchanged at 6.0 %, while the reserve requirement for bank liabilities over 2Y was cut for the second time in a year to 6 % from 7 %.

Poland – As expected, the MPC, for the third month in a row, hiked the key interest rate by 25 bps to 5.75 % at its March meeting. The Council pointed to rising inflationary pressure, stemming from a tight labour market and strong GDP growth, running above the potential output in Q1 2008. Moreover, the MPC has expected the headline CPI to remain above the upper limit of NBP's inflation target at 3.5 % in the medium term due to supply shocks and rising regulated prices. Summing up, the MPC maintains its restrictive bias in its monetary policy and a further interest rate hike cannot be ruled out in the coming months. Taking into account recent MPC members' statement, suggesting a tight monetary policy, the probability of a rate hike in April increases significantly.

It is worth noting that Poland's government approved the yearly update to the Convergence Program. The Convergence Program assumed curbing the general government deficit to 1.5 % of GDP in 2010 from 3.8 % of GDP in 2006 (excluding pensionfunds). The reduction of the central budget deficit, higher privatisation inflows and a still favorable macroeconomic situation will allow the Ministry of Finance to reduce public finance debt to 42.3 % of GDP in 2010, down from 47.6 % of GDP in 2006. The updated convergence program is very ambitious, but its weak link is the GDP forecast, as it assumes economic growth of 5 % on average in 2009–2010. Moreover, the government avoids indicating a euro adoption date. However, Minister of Finance Rostowski said that joining the ERM-2 system would be possible in 2009, thus suggesting euro-zone entry in 2012.

Romania – In response to the significant deterioration in inflationary expectations, the Romanian central bank raised its monetary policy rate on 26 March by another 50 bps to 9.5 % in line with our expectations. CA deficit widening decelerated from 66% in 2007 to 17 % yoy growth in January 2008. Although the trade deficit (FOB/FOB) inched up slightly by 0.8 % yoy in January, exports dynamics continued to be much stronger (+17 % yoy) than the one in imports (+11 % yoy). FDI also performed well, peaking at EUR 695 mn in January against EUR 394 mn registered in the same month of last year, providing improved coverage of 61 % of the CA deficit.

Slovakia – In line with expectations, the NBS kept key interest rates unchanged in March. Producer prices surprisingly accelerated their yearly growth dynamics to 5.1 % in February – pulled up mainly by energy and raw materials prices. Unemployment fell close to its historical low reaching 7.84 % in February. The current account deficit reached 5.3 % of GDP in 2007 (based on revised figure of NBS), mostly covered by FDI inflows (3.8 % of GDP).

Slovenia – Consumer prices in March rose by an unexpectedly high: +1.3 % compared to February and +6.9 % in year on year terms. According to the harmonised consumer price index indicator, prices rose 6.6 % yoy in March. Food and non-alcoholic beverages prices actually fell 0.1 % compared to February but the highly seasonal clothing and footwear component rose 9.2 % mom. Fuel prices rose 5 % compared to February. Considering that for two months in a row food price dynamics have had a disinflationary impact, the breadth of price increases lend support to the ECB's and the Bank of Slovenia's call for further product market liberalisation in an effort to combat inflationary pressures.

Croatia – GDP growth continued to slow in 4Q 2007, coming in at only 3.7 % yoy as a result of slower than expected merchandise export growth. Thus for the full year GDP growth was 5.6 %, the fastest rate recorded since 2002. At the same time the current account deficit widened to EUR 3.2 bn or 8.6 % of GDP (from 7.7 % in 2006). The good news is that net foreign direct investment inflows more than covered the deficit, coming in at EUR 3.4 bn (9.2 % of GDP). A large part of this FDI figure is composed of extensive banking sector capital increases carried out during 2007, which are unlikely to be repeated to the same extent this year. This suggests FDI coverage of the current account this year will fall. With credit activity slowing in response to central bank measures, combined with higher inflation, domestic demand will slow: this should also help rein in the current account deficit. This is despite January–February merchandise trade data showing a widening of the merchandise trade deficit to EUR 1.7 bn (+25.6 % yoy). This outcome was influenced by a 31 % yoy increase in oil imports.

Turkey – Turkey found itself in the midst of another political debacle, following the acceptance of the chief prosecutor's bid in Constitutional Court to ban the ruling Justice and Development Party (AKP) for anti-secular activities. This appeal also involved a ban of 69 senior party members, Prime Minister Tayyip Erdogan, and President Abdullah Gul from politics for five years. The case could last from six months to a year, which means that whether the party is closed or not, the possibility of prolonged uncertainty and political instability has already increased. On the economic front, the GDP posted a dismal 3.4 % growth in the fourth quarter, bringing the cumulative growth in 2007 to 4.5 %, the lowest growth since the 2001 economic crisis. February foreign trade figures reflected continuation of growth, with both exports and imports posting 44 % and 40 % increases, respectively.

Bosnia-H. – At the end of March the European Union said it was ready to sign a Stabilisation and Association Agreement with Bosnia and Herzegovina, at its next summit on 28 April, if the country enacted reforms to police services. This is another effort to encourage Bosnia's politicians to advance the country's EU perspectives. Nonetheless, given differing opinions over the direction of reform, there is no guarantee an agreement will be reached on this issue. Consumer prices in February rose 0.4 % compared to January. This resulted in an increase in the consumer price of 6.2 % yoy, the same as in January. The main driver of the February CPI outcome was food and non-alcoholic beverage prices, which rose 1.1 % compared to January. All other components of the CPI were essentially unchanged.

Kazakhstan – The monetary survey published by the central bank on 31 March 2008 confirms the lack of foreign funding for Kazakh banks. Liabilities vis-à-vis non residents stood at KZT 5,106 bn at the end of January, compared with KZT 5,172 bn at the end of August. The development is also reflected in the balance of payments. In Q4 2007 there was a net outflow of loans to Kazakh banks of USD 873 mn as repayments on long-term loans amounted to USD 3,660 mn and could not be rolled over in full. The lack of foreign funding did not completely halt credit growth, but the increase was only marginal: corporate credit grew by a total of 1.9 % between August and January, loans to households by 1.5 %. Adjusting for inflation, this means a significant contraction. We expect some recovery later in 2008, but a lot will depend on developments in the global banking system.

Russia – Due to the strong EUR, the ruble continued to appreciate against the USD and averaged 23.52 during the last two weeks. Russian stock market RTS and MICEX indexes have followed the international trend and dropped by 0.5 % and 1.5 %, respectively during the last two weeks. Industrial production, however, accelerated to 7.5 % yoy in February from 4.8 % yoy in January, with manufacturing with 11.2 % yoy growth the best performing sector. Retail sales grew by an impressive 17.0 % yoy in February, investment by 21.1 % yoy. The Ministry of Economic Development and Trade estimates the CPI to have increased by 4.5 % through the end of March and raised its CPI forecast for December 2008 to 8.5–9.0 % yoy. Russia's international reserves reached a record high USD 502.2 bn as of 21 March.

Serbia – GDP data for Serbia showed growth in 2007 of 7.5 % yoy, which was favored by strong wage growth, especially in the public sector, and robust credit growth. Inflationary pressures remain high, with the most widely watched retail price index up 11.8 % yoy in March. At the same time core inflation rose to 7.1 % yoy, well above the central bank's target range of 3–6 %. In response, on 31 March the National Bank of Serbia (NBS) announced measures to increase demand for the RSD: banks from 18 May will have to deposit 10 % of reserve requirements calculated in foreign exchange in local currency. This decision came two weeks after the NBS raised policy rates by 300 bps, to 14.5 %, in an effort to combat inflation and to take the pressure off the RSD. The currency was indeed exposed to depreciation pressures on the back of political uncertainty ahead of 11 May elections. In 1Q 2008 the NBS spent EUR 276 mn defending the RSD (which is less than the EUR 481 mn it spent in 1Q 2007 for the same purpose).

Ukraine – The authorities have intensified their fight against inflation (the CPI stood at 21.9 % yoy in February). The government signed a memorandum with the largest retailers. Reportedly the agreement limits the trade profit margin on 22 socially important food products to 10 %. Earlier the Minister for Economy, Bogdan Danilishin, blamed rapidly growing food prices for the inflation surge. Danilishin stressed that in his view, monetary anti-inflation measures will be inefficient and only slow economic growth. However, many are apparently convinced that the hryvnia will be allowed to appreciate. The currency traded at cash points as low as 4.8 to the USD in the last couple of weeks although the central bank has kept the official rate at 5.05 to the USD and said that the appreciation is only a temporary phenomenon. We still do not believe that the exchange rate policy will be changed very soon, given political uncertainty and also ongoing discussion about the gas price. But the likelihood of a more liberal policy has increased. We now expect the central bank's overnight rate to remain at 14.5 % through the whole of 2008. In view of continued strong inflation pressures brought about by high global food prices, higher gas prices and up to now little slowdown in credit growth and despite some tightening measures taken by the central bank, we increase our forecast for official inflation from average 16.1 yoy in 2008 and 12.1 % yoy in December 2008 to 17 % and 14 % respectively. Price increases outside the closely watched area agreed with retailers might even be higher.

Feature
Financial jitters hitting CEE, selectively

by Alessia Muzio, Matteo Ferrazzi

Financial markets have remained very volatile in recent weeks, amid concerns about the US and world economy and the news regarding some banking institutions. However, despite substantial losses in the stock markets both internationally and in the CEE countries (see chart 1), the deterioration in the country risk during the month of March – in terms of credit default swap (CDS, see chart 2) – was relatively limited in most of the CEE economies, with some exceptions. Indeed financial markets are discriminating more than before among different countries, and are particularly sensitive to any bad news originating from the domestic level.

Turkey, Ukraine, Kazakhstan and Serbia are currently considered among the riskiest countries in the CEE region, when looking at the current level of credit default spreads. However, only Turkish CDS spreads had a significant deterioration during the month of March. Turkey is suffering not only from the global environment, but also from local issues, especially regarding the domestic political landscape (see the article on Turkey in the current biweekly). Indeed, the ruling AKP party closure petition by the Constitutional Court members can lead to months of political uncertainty and derailing the speed of reforms.

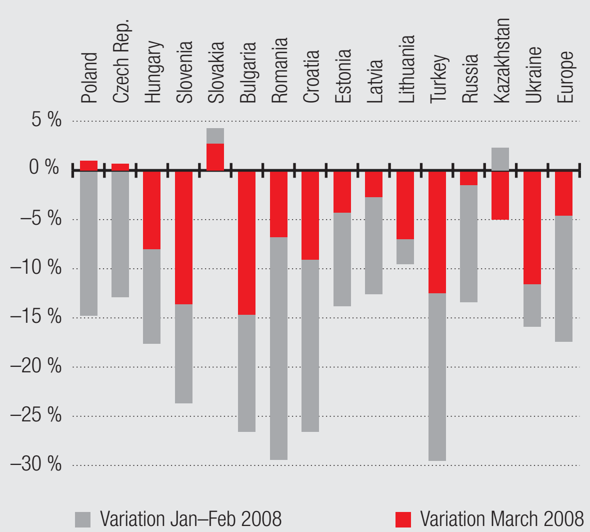
Hungary also can be considered in a weaker position if compared with its Central European peers: the Hungarian country risk, in terms of CDS, increased considerably in March given the country's weak position in terms of growth (only 1.3 % GDP growth in 2007), high internal and external imbalances (fiscal deficit and current account deficit respectively at 5.5 % and 5.3 % of GDP in 2007) and some political uncertainty. The increased risk aversion was particularly noticeable in the government bond market, which was under pressure because of lack of demand for government bonds. The central bank increased interest rates to 8 % on 31 March, up from 7.50 %.

South Eastern European countries CDS are also priced at high level, but the deterioration was relatively limited during the month of March. The Romanian currency was also under pressure (it has lost 11 % of its value versus the Euro in the last six months), considering that it is targeted by financial investors as a "substitute" for other currencies in the region, given the fact that some countries in CEE adopt fixed exchange rate regimes. Forward exchange rates in the Baltics discount only a very limited risk of devaluation: these markets are probably too thin for any speculative attack. In Serbia, political issues are also at centre stage: following Kosovo's declaration of independence in February, the Serbian Prime Minister Kostunica resigned (8 March) amid political differences with the Democratic Party (led by President Tadic), a key partner of the outgoing governing coalition, over Kosovo and EU accession.

Russia and Kazakhstan have been relatively protected from high commodity prices.

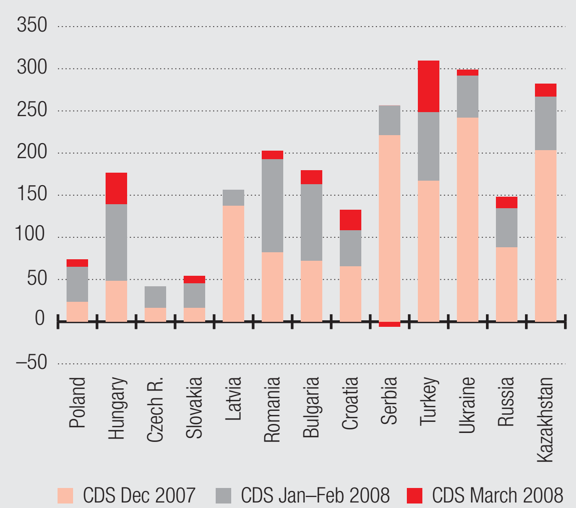
Country risk (in terms of bond spreads or credit default swap – CDS), exchange rates and stock markets in CEE will remain sensitive in the next months to developments both on international markets and at the domestic level, and are good indicators of the uncertainty that is hitting

Year to date performance of CEE stock exchanges



Source: Bloomberg

Year to date performance of Credit Default Swap (CDS)

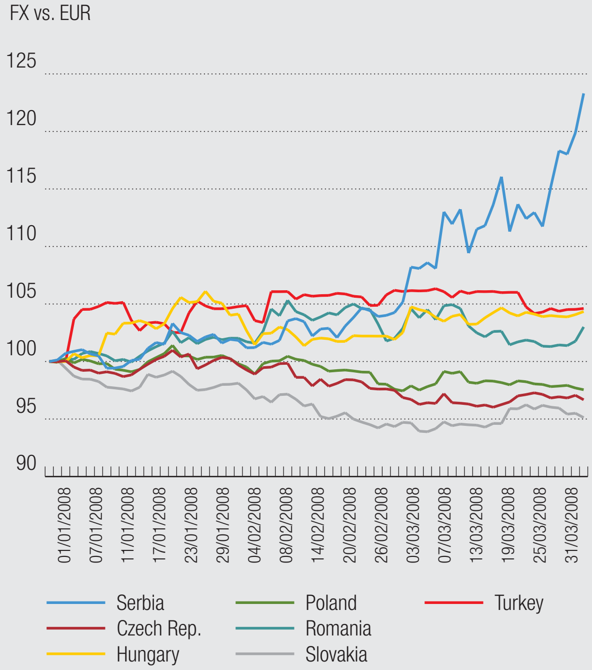


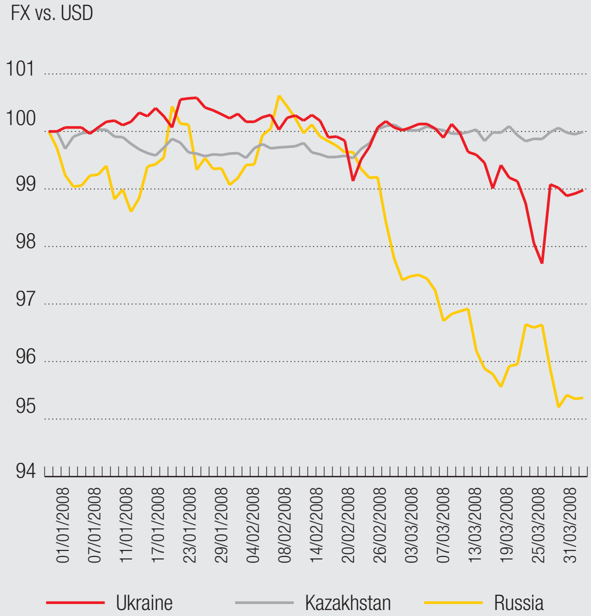
Source: Bloomberg

the global economy. Central European countries are more protected (their currencies were strong in the last months, see chart 3), while any negative news – as in the case of the recent events in Turkey and Serbia – will be taken by markets as a pretext to be selective among different countries.

So far the volatility in the markets did not significantly impact the fundamentals of CEE economies. But the negative effects of the transmission from the financial variables to the real economies, together with the continuation of the selective play against single markets, will depend very much on the duration of the turmoil, which is still far from over.

Recent movements in Currency Markets (31/12/07 = 100)





Source: Bloomberg

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Country Monitoring
Turkey

by Yelda Yucel

Turkey's Constitutional Court accepted the AKP party closure bid, paving the way to more uncertainties in the coming period

The country found itself in the midst of another political debacle not long after the general and presidential election disputes in the spring/summer of 2007. A state prosecutor asked Turkey's Constitutional Court on March 14th for shutting down the ruling Justice and Development Party (AKP) for anti-secular activities, heightening the tensions between the secularist establishment and the government. This appeal also involved a ban of 69 senior party members, Prime Minister Tayyip Erdogan, and President Abdullah Gul from politics for five years. On 31 March, the court accepted the case officially following a technical assessment, meaning that a long judiciary process has begun.

There has been a continuous tension between the secular establishment, consisting of the judiciary, the army, part of the bureaucracy, and university rectors, as well as the main opposition party (CHP), and the governing AKP, since the latter came to power in 2002. Recently political tensions have increased, as the Parliament, dominated by the AKP, approved constitutional amendments in February to ease a ban on female students wearing the headscarf in university campuses. A symbolic meaning is attributed to the headscarf issue, which stands as one of the major demarcations between the secular establishment and the government. Any move to lift the ban on the headscarf is interpreted as an anti-secular action by the former.

Considering that in the last ten years Turkey's Constitutional Court shut down the Welfare Party and the Virtue Party, two forerunners of the AKP, based on assessment of similar anti-secular activities, the closure decision for the AKP should also not be ruled out. The case could last from six months to a year, which means that, whether the party is closed or not, the possibility of prolonged uncertainty and political instability has increased. Therefore, concerns arise regarding possible delays in economic and other reforms, especially those required by the European Union.

From now on the AKP has two options which might have different consequences for Turkish politics during the judiciary process. The first and the more likely one is that the AKP will push constitutional changes to prevent a possible closure of the party for its alleged anti-secular activity. However, as it does not have the required two-thirds majority in parliament to make the changes to the constitution, it would need support from the opposition parties. The option of a referendum may take place when the AKP takes the constitutional change to the President without having obtained the two-thirds of the Parliament's support, although it may not occur quickly, due to waiting time requirements for a referendum. The second option is to make the defense in court, a very long and cumbersome process on the part of the AKP, as it will have to try to convince the members of the court during the judiciary process.

In any case, the threat of lingering political instability has already unsettled financial markets, along with the problems in the global economy. The YTL weakened as much as 7.1 % against the US-Dollar since 14 March and 8.8 % against the Euro. As of the end of March, the benchmark bond traded at 18.6 %, 0.85 percentage points higher with respect to the 14 March level and the decline in the stock exchange index was 8.4 % in the same period. The global and political uncertainties are expected to continue to create volatility in the financial markets in the days ahead, and even the FDI inflows might be adversely affected in the medium term.

A slowdown in the Turkish economy became apparent in the second half of 2007

The GDP posted a dismal 3.4 % growth in the fourth quarter, below the market's expectations of around 5 %. This brought the cumulative growth in 2007 to 4.5 %, the lowest since the 2001 economic crisis.

On the production side, agriculture sector output which contracted by 6.8 % in 2007 was the major factor containing GDP growth, while the industrial sector and services grew by 5.5 % and 5.8 %, respectively. Breakdown of the components reveals that the slowdown in the manufacturing industry began as early as the second quarter, while the construction sector which posted growth of 18.5 % in 2006 reduced its pace significantly, recording a 0.5 % growth in the last quarter and 5 % growth in 2007 as a whole.

On the consumption side, final consumption expenditures grew by a disappointing 3.8 % in 2007, reflecting depressed domestic demand. Investment expenditures growth was 3.3 % in this period, mainly determined by sluggish private investment growth of 2.7 %. Nevertheless, the fourth quarter growth in private investment at 8.1 % was notable, and promising for next year's growth, if this trend persists. The negative contribution of net exports also increased in 2007, as expected, with export and import growth 6.7 % and 11.1 %, respectively.

Special Automotive industry
Driving further east

by Alessia Muzio, Matteo Ferrazzi

The automotive industry in CEE is still operating at high speed: almost 6.2 mn passenger cars and commercial vehicles were produced in the region during 2007, according to figures recently released by OICA, the International Organisation of Motor Vehicle Manufacturers. Production in CEE grew by 18.7 % in 2007, much higher than the world average of 5.5 %. The most notable increases were registered in Hungary and Slovakia.

The 2007 numbers once again confirm the increasing role of CEE in the automotive industry: all the top ten global car producers now have plants in CEE and export from the region.

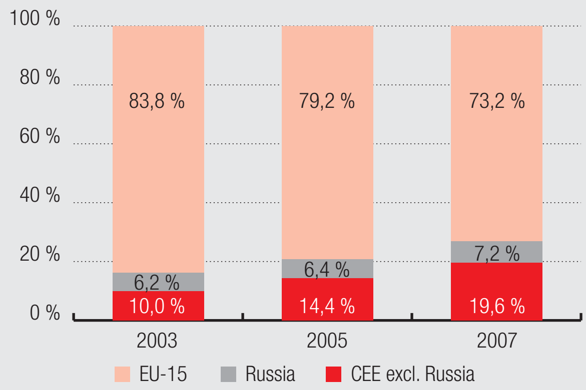
Last year 27 % of all passenger cars and commercial vehicles produced in Europe were from CEE countries, while this share was 15 % in 2000 (and the increase remains sizeable even excluding Russia). In the same period the number of cars produced in the CEE region doubled from 3.0 mn to 6.2 mn.

A change in the hierarchies at the global level is underway: intense international competition has made the relocation of production unavoidable for the top global market players and the CEE region is one of the main beneficiaries of this process, enjoying spectacular growth rates.

A west-east substitution is thus visible, with European production shifting toward CEE countries. The "old" European countries last year produced 600,000 vehicles less than eight years ago (from 17.5 mn to 16.9 mn); their share from a pan-European perspective is now 73 %, down from 85 % in 2000.

It should also be noted that in 2007 the CEE region, producing almost one million vehicles more than the previous year, contributed one-fourth of the increase in production at the world level (which was 3.8 mn). Furthermore, CEE production now represents 10 % of total passenger cars and 5 % of commercial vehicles which are globally produced.

Cars and commercial vehicles: the role of CEE from a pan-European perspective (share of CEE in European production)



Production of cars and commercial vehicles (2006–2007)

	2006	2007	2006–2007 Growth %	delta 2006–2007
Czech Rep.	854,907	938,527	9.8 %	83,620
Hungary	190,823	292,027	53.0 %	101,204
Poland	714,600	784,700	9.8 %	70,100
Romania	213,597	241,712	13.2 %	28,115
Russia	1,508,358	1,660,120	10.1 %	151,762
Serbia	11,182	9,903	–11.4 %	–1,279
Slovakia	295,391	571,071	93.3 %	275,680
Slovenia	150,320	198,402	32.0 %	48,082
Turkey	987,780	1,099,414	11.3 %	111,634
Ukraine	295,260	402,591	36.4 %	107,331
CEE-10	**5,222,218**	**6,198,467**	**18.7 %**	**976,249**
CEE excl. Russia	**3,713,860**	**4,538,347**	**22.2 %**	**824,487**
EU-15	16,571,955	16,934,101	2.2 %	362,146
pan European (EU-15 + CEE) production	21,794,173	23,132,568	6.1 %	1,338,395
World Total	69,257,914	73,101,695	5.5 %	3,843,781
CEE share on pan-European production	24.0 %	26.8 %	–	–
CEE share (excl. Russia) on pan-European production	18.3 %	21.1 %	–	–
Total European share out of world	31.5 %	31.6 %	–	–

Source: OICA

Tables

Two-week market movers and risk factors

Date	Event/Release	Reference date	Source	Notes
Bulgaria				
April 14, 08	"Inflation CPI; Harmonized CPI"	"1Q 2008; March 2008"	SO	–
April 15, 08	Foreign trade sector structure	January 2008	CB	–
April 15, 08	Balance of Payments, FDI	February 2008	CB	–
Czech R.				
Apr 07, 08	Foreign trade	February 2008	SO	We expect surplus to shrink on a yoy basis as one-off factors seem to have boosted the result in February 2007.
Apr 08, 08	CPI	March 2008	SO	CPI is expected to drop to 7.3 % yoy from 9-year peak of 7.5 % yoy.
Apr 11, 08	Industrial production	February 2008	SO	We forecast a 10.5 % yoy growth in the output, up from a 9.3 % yoy in crease the prior month.
Estonia				
Apr 25, 08	Foreign Trade	Feb 2008	SO	–
Hungary				
April 8, 08	Industrial output	February 2008	SO	7.3 % yoy growth is expected
April 11, 08	CPI	March 2008	SO	The index may increase by 6.5 % yoy
April 17, 08	Wages	February 2008	SO	They are supposed to rise by 2.5 % yoy
Kasakhstan				
Apr 28, 08	Central government debt	Q1 2008	CB	–
Latvia				
Apr 03, 08	Industrial Output	February 2008	SO	–
Apr 08, 08	CPI	March 2008	SO	0.8 % mom increase expected
Poland				
April 15, 08	CPI	March 2008	SO	MinFin forcasts the headline CPI at 4.1 % yoy
April 15, 08	CA balance	February 2008	CB	We predict CA defict at EUR 1.0bn, with double-digit growth of exports and imports
April 18, 08	Industrial production	March 2008	SO	We expect industrial production to increase by 9.8 % yoy
Romania				
April 14, 08	CPI	March 2008	SO	Expected further acceleration of the annual CPI above 8 % in March
April 14, 08	Current account (CA)	February 2008	CB	–
Slovakia				
Apr 11, 08	CPI	March 2008	SO	Accelaration of yearly inflation should continue also in March pulled up by food and oil prices
Apr 11, 08	Foreign Trade	February 2008	SO	We expect FT turned back to deficit in February due to higher pressure on import driven by increasing oil prices
Croatia				
April 15, 08	CPI	March 2008	SO	Fuel prices expected to keep yoy rate near 6.0 %
April 16, 08	Central Bank Board Meeting	-	CB	No change in monetary policy settings expected
Turkey				
Apr 3, 08	Inflation	March 2008	SO	CPI rose to 9.1 % (yoy) in February due to surge in food prices.
Apr 10, 08	Balance of Payments	February 2008	CB	Current account balance posted a deficit of USD 3.9 bn. in January, bringing the cumulative deficit (yoy) to USD 38.9 bn.
Kasakhstan				
Apr 28, 08	Central government debt	Q1 2008	CB	–
Russia				
Apr 3–8, 08	CPI	March 2008	SO	1,10 %
Apr 7, 08	Official Reserves	March 2008	SO	USD 508.3 bn
Apr 13–15, 08	Industrial Production	March 2008	SO	6,0 %
Serbia				
Apr 15, 08	Monetary Policy Committee Meeting	–	NBS	No increase in the policy rate expected
Ukraine				
Apr 15, 08	Merchandise Trade	February 2008	SO	–
Apr 29, 08	GDP	Q4 2007	SO	–

Source: Statistical Office (SO), Central Bank (CB), Ministry of Finance (MoF), Labour Office (LO)

Interest and exchange rates

	Upcoming meetings*		Policy interest rate, eop (% p.a.)**				Fx rate, n.c. per euro, eop***			
	Next move	Date	current	Jun 08	Sep 08	Dec 08	current	Jun 08	Sep 08	Dec 08
Bulgaria	Currency board	–	–	–	–	–	1.96	1.96	1.96	1.96
Czech R.	On hold	May 7, 08	3.75	3.75	3.75	3.75	25.2	26.0	26.5	26.5
Estonia	Currency board	–	–	–	–	–	15.65	15.65	15.65	15.65
Hungary	On hold	April 28, 2008	8.00	7.50	7.25	7.00	259.4	260.0	258.0	254.0
Latvia	On hold	May 15, 08	6.00	6.00	5.50	5.50	0.70	0.70	0.70	0.70
Lithuania	Currency board	–	–	–	–	–	3.45	3.45	3.45	3.45
Poland	On hold	Apr 29 –30, 08	5.75	5.75	5.75	5.75	3.51	3.62	3.71	3.65
Romania	On hold	May 06, 08	9.50	9.50	9.50	9.50	3.73	3.60	3.58	3.58
Slovakia	On hold	Apr 29, 08	4.25	4.00	3.75	3.50	32.6	32.3	32.3	32.3
Slovenia	–	–	4.00	4.00	3.75	3.50	EUR	EUR	EUR	EUR
Croatia	–	–	4.21	7.50	5.50	6.50	7.27	7.15	7.20	7.28
Turkey	Rate cut not expected	Apr 17, 08	15.25	15.25	15.00	14.25	2.07	1.91	1.84	1.75
Bosnia-H.	Currency Board	–	–	–	–	–	1.96	1.96	1.96	1.96
Kasakhstan	–	–	11.00	11.00	11.00	11.00	120.70	121.00	123.00	124.00
Russia	–	–	10.25	10.50	10.50	10.50	23.5	24.2	24.2	24.0
Serbia	–	–	14.50	17.00	17.00	17.00	81.5	83.0	82.0	82.0
Ukraine	–	–	14.50	14.50	14.50	14.50	5.05	5.05	5.05	5.05

* of the decision making board or council
** Policy interest rates: Czech Rep. – 2-week repo rate, Hungary – 2-week deposit rate, Latvia – Refinancing rate, Poland – 7 day open market operation, Romania – 1M commercial bank deposits, Slovakia – 2-week repo rate, Slovenia – ECB main refinancing operation, Croatia – 1W ZIBOR, Macedonia – Central bank bills auction, Turkey – ON borrowing rate, Albania – Repo rate, Russia – CBR refinancing rate, Serbia – 2W Repo, Ukraine – Overnight central bank credits
*** For Kasakhstan, Russia and Ukraine exchange rate to the USD
Source: Central banks, UniCredit Group New Europe Research Network

Ratings

	Moody's		S & P's		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
Bulgaria	Baa3	positive	BBB+	stable	BBB	negative
Czech R.	A1	positive	A	stable	A+	stable
Estonia	A1	stable	A	negative	A	negative
Hungary	A2	stable	BBB+	negative	BBB+	stable
Latvia	A2	stable	BBB+	negative	BBB+	negative
Lithuania	A2	stable	A–	negative	A	neagtive
Poland	A2	stable	A–	positive	A–	stable
Romania	Baa3	stable	BBB–	negative	BBB	negative
Slovakia	A1	stable	A	positive	A	positive
Slovenia	Aa2	positive	AA	stable	AA	stable
Croatia	Baa3	positive	BBB	stable	BBB–	stable
Turkey	Ba3	stable	BB–	stable	BB–	stable
Bosnia-H.	B2	stable	–	–	–	–
Kasakhstan	Baa2	stable	BBB–	stable	BBB	negative
Russia	Baa2	stable	BBB+	positive	BBB+	stable
Serbia	–	–	BB–	stable	BB–	stable
Ukraine	B1	positive	BB–	negative	BB–	positive

Source: Rating agencies, UniCredit Group New Europe Research Network

Monthly indicators

	Exports, euro (yoy)			Imports, euro (yoy)			Industrial prod, (yoy)			Retail sales, real (yoy)			Consumer prices, (yoy)		
	Dec	Jan	Feb	Dec	Jan	Feb	Dec	Jan	Feb	Dec	Jan	Feb	Dec	Jan	Feb
Bulgaria	13.6	28.1	–	9.2	17.7	–	5.0	8.5	–	2.3	4.3	–	12.5	12.5	13.2
Czech R.	9.6	18.7	–	9.3	17.9	–	3.1	9.3	–	5.4	4.1	–	5.4	7.5	7.5
Estonia	–8.6	3.8	–	–2.4	–4.4	–	0.4	4.1	–	4.7	–0.9	–	9.6	11.0	11.3
Hungary	6.4	16.4	–	7.1	12.9	–	5.3	6.1	–	–4.0	–3.0	–	7.4	7.1	6.9
Latvia	10.9	19.4	–	–9.3	1.6	–	–5.4	–0.1	–	0.9	–0.6	1.2	14.1	15.8	16.7
Lithuania	21.0	23.4	–	10.7	25.1	–	7.2	8.5	11.1	8.2	22.0	27.1	8.1	9.9	10.8
Poland	20.0	22.9	–	21.2	21.5	–	6.4	10.7	14.9	8.1	16.1	19.2	4.0	4.0	4.2
Romania	15.1	16.9	–	6.5	11.3	–	–0.1	5.6	–	11.1	29.3	–	6.6	7.3	8.0
Slovakia	14.9	20.5	–	14.4	21.7	–	6.5	8.4	–	7.7	15.6	–	3.4	3.8	4.0
Slovenia	2.4	9.5	–	1.0	15.4	–	–0.1	1.1	–	4.5	9.0	–	5.7	6.4	6.5
EU-10	14.1	19.7	–	12.5	17.3	–	4.2	8.2	–	6.0	12.4	–	5.8	6.3	6.6
Croatia	–10.9	19.6	7.7	6.0	27.4	13.0	1.4	6.7	8.1	–0.2	2.2	–	5.8	6.2	5.8
Turkey	–0.2	40.1	–	11.1	36.0	–	–1.0	11.7	–	–	–	–	8.4	8.2	9.1
Bosnia-H.	13.1	12.1	27.9	10.6	28.3	37.3	–0.4	11.3	–	–	–	–	4.9	6.2	6.2
Kasakhstan	36.8	25.5	–	13.4	–4.8	–	4.0	2.6	4.3	8.0	4.4	5.6	18.8	18.7	18.8
Russia	17.1	38.7	10.0	13.3	18.3	35.0	6.3	4.8	7.5	15.2	14.1	17.0	11.9	12.6	12.7
Serbia	13.5	13.3	34.3	24.9	18.4	37.8	–0.2	4.0	12.2	20.1	12.7	–	10.7	11.3	11.8
Ukraine	17.9	–	–	17.0	–	–	5.5	5.7	11.5	30.7	28.1	–	16.6	19.4	21.9

Source: National statistical offices, UniCredit Group New Europe Research Network

Quarterly GDP

constant	2006	2007	2008	2006				2007				2008			
prices, % yoy				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Bulgaria	6.3	6.2	5.9	4.8	6.9	7.1	6.2	5.5	7.3	4.9	6.9	6.3	6.2	5.8	5.4
Czech R.	6.4	6.5	4.0	6.6	6.4	6.3	6.2	6.5	6.5	6.3	6.6	4.1	4.0	4.0	3.8
Estonia	11.2	7.1	5.7	11.4	11.2	11.1	11.0	10.1	7.6	6.4	4.8	4.7	5.2	5.2	5.4
Hungary	3.9	1.3	2.8	4.5	3.5	3.9	3.7	2.7	1.2	0.9	0.8	1.9	2.5	2.9	3.5
Latvia	11.9	10.2	6.8	13.1	11.1	11.9	11.7	11.2	11.0	10.9	8.0	7.5	6.9	6.7	6.4
Lithuania	7.7	8.8	6.8	8.2	9.1	6.3	7.4	8.1	8.0	10.8	8.0	7.6	7.3	6.7	6.5
Poland	6.2	6.5	5.2	5.4	6.3	6.6	6.6	7.2	6.4	6.4	6.1	5.6	5.3	5.4	4.7
Romania	7.9	6.0	5.5	7.0	7.9	8.4	7.9	6.1	5.7	5.7	6.6	5.5	5.4	5.7	5.5
Slovakia	8.5	10.4	6.9	9.0	7.9	9.0	8.2	8.3	9.3	9.4	14.3	7.5	7.4	7.3	5.7
Slovenia	5.7	6.1	4.4	5.0	4.7	5.6	6.3	7.2	6.0	6.4	4.7	4.0	4.3	4.5	4.6
EU-10	6.6	6.2	5.0	6.2	6.5	6.8	6.6	6.6	6.1	6.0	6.2	5.1	5.0	5.1	4.7
Croatia	4.8	5.6	4.3	6.0	3.6	4.7	4.8	7.0	6.6	5.1	3.7	4.2	3.5	4.5	4.8
Turkey	6.9	4.5	4.9	5.9	9.7	6.3	5.7	7.6	4.0	3.4	3.4	4.5	4.8	5.1	5.2
Bosnia-H.	6.2	6.7	6.5	–	–	–	–	–	–	–	–	–	–	–	–
Kasakhstan	10.6	8.5	5.0	7.5	10.9	12.5	11.1	10.6	9.9	8.9	5.6	5.2	5.0	4.9	5.0
Russia	6.7	8.1	6.7	5.0	7.0	6.8	7.8	7.9	7.8	7.6	9.1	7.0	6.6	6.6	6.6
Serbia	5.7	7.5	6.0	7.0	6.2	5.1	4.8	8.2	7.6	7.5	6.9	5.0	5.5	6.0	6.2
Ukraine	7.1	7.3	5.6	4.1	6.8	6.9	9.5	8.0	7.9	6.4	7.2	7.1	5.0	6.5	4.2

Source: National statistical offices, UniCredit Group New Europe Research Network

Main indicators

	GDP, real (yoy)				Unemployment, (% of labor force)				Budget balance (in % of GDP)				Current account (in % of GDP)			
	2006	2007	2008	2009	2006	2007	2008	2009	2006	2007	2008	2009	2006	2007	2008	2009
Bulgaria	6.3	6.2	5.9	5.7	9.1	6.9	6.7	6.5	3.6	3.7	3.2	2.0	–17.9	–21.5	–19.2	–17.0
Czech R.	6.4	6.5	4.0	4.5	8.1	6.6	5.7	5.5	–2.7	–1.6	–2.9	–2.9	–3.1	–2.5	–3.4	–3.1
Estonia	11.2	7.1	5.7	5.9	5.9	5.3	4.7	4.0	3.4	2.8	–0.2	1.0	–15.5	–17.4	–14.5	–14.0
Hungary	3.9	1.3	2.8	3.4	7.5	7.3	7.3	7.2	–9.2	–5.5	–4.0	–3.2	–6.1	–5.0	–4.4	–4.1
Latvia	11.9	10.2	6.8	6.0	6.8	6.0	6.2	6.2	–0.3	0.6	0.9	1.1	–22.3	–22.8	–19.7	–16.6
Lithuania	7.7	8.8	6.8	5.4	5.6	4.3	4.5	4.8	–0.3	–0.1	–0.5	–0.3	–10.8	–13.7	–11.9	–11.2
Poland	6.2	6.5	5.2	4.4	16.2	12.7	10.4	9.0	–1.8	–2.0	–2.6	–2.4	–3.2	–3.7	–4.3	–4.7
Romania	7.9	6.0	5.5	5.0	5.4	4.3	4.2	4.2	–1.6	–2.3	–3.0	–2.9	–10.4	–13.9	–14.2	–13.5
Slovakia	8.5	10.4	6.9	6.0	10.4	8.4	7.8	7.3	–3.7	–2.2	–2.3	–1.8	–7.0	–5.3	–3.0	–1.7
Slovenia	5.7	6.1	4.4	4.7	6.0	4.8	5.0	4.8	–1.2	–0.1	–1.0	–1.2	–2.5	–4.0	–3.8	–4.2
EU-10	6.6	6.2	5.0	4.7	10.6	8.5	7.5	6.8	–2.6	–1.9	–2.4	–2.2	–6.1	–6.9	–6.8	–6.7
Croatia	4.8	5.6	4.3	4.5	11.2	9.5	9.1	8.7	–3.0	–2.3	–2.6	–2.8	–7.7	–8.6	–6.8	–6.5
Turkey	6.9	4.5	4.9	5.5	9.9	9.9	9.5	9.2	–0.6	–1.6	–1.9	–1.5	–6.1	–5.8	–5.7	–5.9
Bosnia-H.	6.2	6.7	6.5	6.0	44.5	44.0	42.5	40.0	2.9	2.3	1.9	1.3	–9.9	–13.3	–12.5	–11.8
Kasakhstan	10.6	8.5	5.0	8.0	7.8	7.3	7.5	7.2	7.5	4.3	2.0	2.0	–2.2	–6.3	–4.0	–5.0
Russia	6.7	8.1	6.7	6.2	6.7	6.1	5.6	5.1	7.4	4.0	2.5	2.0	9.6	5.2	4.9	3.9
Serbia	5.7	7.5	6.0	6.2	20.9	19.0	18.7	18.3	1.5	1.3	–0.6	–0.9	–11.8	–16.8	–14.8	–13.9
Ukraine	7.1	7.3	5.6	5.1	6.8	6.5	6.2	6.0	–0.7	–1.3	–3.0	–3.5	–1.5	–4.2	–5.0	–4.9

Source: National statistical offices, UniCredit Group New Europe Research Network

	CPI, average (yoy)				CPI, December (yoy)				Policy interest rate, eop (% p.a.)				Foreign exchange rate, n.c. per euro*, eop			
	2006	2007	2008	2009	2006	2007	2008	2009	2006	2007	2008	2009	2006	2007	2008	2009
Bulgaria	7.3	8.4	7.7	6.2	6.5	12.5	7.2	5.3	–	–	–	–	1.96	1.96	1.96	1.96
Czech R.	2.5	2.8	6.7	3.2	1.7	5.4	5.0	2.8	2.50	3.50	3.75	4.00	27.5	26.6	26.5	26.0
Estonia	4.4	6.6	9.0	5.3	5.1	9.6	7.1	5.0	–	–	–	–	15.65	15.65	15.65	15.65
Hungary	3.9	8.0	5.9	3.6	6.5	7.4	4.4	3.5	8.00	7.50	7.00	5.75	252	253	254	252
Latvia	6.5	10.1	13.5	7.5	6.8	14.1	9.5	6.5	5.00	6.00	5.50	5.00	0.70	0.70	0.70	0.70
Lithuania	3.8	5.7	7.5	6.0	4.5	8.1	6.8	5.2	–	–	–	–	3.45	3.45	3.45	3.45
Poland	1.0	2.5	4.2	2.6	1.4	4.0	3.8	2.2	4.00	5.00	5.75	4.75	3.83	3.58	3.65	3.63
Romania	6.6	4.8	7.4	4.6	4.9	6.6	5.8	4.0	8.75	7.50	9.50	8.75	3.38	3.61	3.58	3.66
Slovakia	4.5	2.8	3.8	3.8	4.2	3.4	3.6	3.6	4.75	4.25	3.50	3.00	34.57	33.6	32.3	32.3
Slovenia	2.5	3.6	4.5	2.7	2.8	5.6	3.5	2.3	3.75	4.00	3.50	3.00	239.6	EUR	EUR	EUR
EU-10	3.1	4.2	5.8	3.6	3.2	5.8	4.7	3.2	–	–	–	–	–	–	–	–
Croatia	3.2	2.9	6.2	3.5	2.0	5.8	5.0	3.5	3.80	6.70	6.50	6.00	7.38	7.33	7.28	7.28
Turkey	9.6	8.8	7.2	5.5	9.7	8.4	6.1	4.8	17.50	15.75	14.25	12.50	1.86	1.71	1.75	1.75
Bosnia-H.	6.1	1.5	6.0	3.4	4.6	4.9	4.3	2.8	–	–	–	–	1.96	1.96	1.96	1.96
Kasakhstan	8.6	10.8	14.2	8.3	8.4	18.8	9.5	7.0	9.00	11.00	11.00	9.00	127.0	121.0	124.0	123.0
Russia*	9.7	9.0	10.8	8.6	9.0	11.9	10.0	8.0	12.00	10.00	10.50	10.00	26.3	24.6	24.0	24.4
Serbia	12.7	6.8	10.3	6.7	6.6	10.1	10.0	6.7	14.00	10.00	17.00	13.00	79.0	79.2	82.0	82.5
Ukraine*	9.1	12.8	17.0	10.8	11.6	16.6	14.0	9.0	9.50	14.50	14.50	12.00	5.05	5.05	5.05	5.05

* For Kasakhstan, Russia and Ukraine exchange rate to the USD
Source: National statistical offices, central banks, UniCredit Group New Europe Research Network

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Please note: The forecasts are shown against a grey background in the tables

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