

CEE Biweekly

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

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KEY ECONOMICS NEWS

Bulgaria – Industrial production and sales recovered in January 2008 rising by 8.5 % and 11.5 % yoy, following a well pronounced deceleration in the second half of 2007. Likewise, retail sales posted their strongest reading in six months growing by 4.3 % yoy in the first month of the current year. Total customer loans and deposits sustained their strong growth momentum rising by 64.3 % and 31.3 % yoy in January, compared with 65.0 % and 31.1 % reported in the last month of 2007.

Czech Republic – Q4 GDP growth reached 6.6 % yoy, lagging the flash estimate of 6.9 % yoy but beating our forecast of 6.2 % yoy. Combined with slight revisions of previous quarters, it put full-2007 growth at 6.5 % yoy, up a notch from the 2006 expansion. All major components on the demand side contributed to growth in 2007, with the structure in Q4 becoming even more balanced as growth drivers shifted in part from household spending to net exports. For this year, we keep our forecast for a 4 % yoy expansion, with a slowdown from last year's growth attributable mainly to faltering private consumption. This will be dampened primarily by high inflation, which in February remained at a nine-year high of 7.5 % yoy. Although the inflation is likely to hold at elevated levels and much above the central bank's target for most of this year, we assume that a possible proposal for yet another interest rate hike at the bank's board meeting in March will not enjoy sufficient backing. Monetary tightening is now secured by the strength of the CZK, whose yoy gains amount to a hefty 11 % against the euro and 24 % versus the dollar.

Estonia – All indicators point to a fast cooling of the economy. According to calculations of Statistics Estonia, published on March 10, real GDP increased by 7.1 % yoy at constant prices in 2007, down from 11.2 % in 2006. In the 4th quarter of 2007, GDP grew by 4.8 % yoy. Due to a sharp deceleration in the growth of private consumption and investment in the second half of the year, growth in domestic demand decreased to 9.3 % yoy from 16.1 % yoy in 2006. Private consumption grew by only 4.2 % yoy in H2 2007, compared with 14.2 % yoy in H1 2007, fixed investment even fell by 0.1 % yoy in H2, following an increase of 18.5 % yoy in H1. Exports and imports of goods and services also fell in H2 2007, by 1.6 % yoy and 0.5 % yoy respectively. Sales of retail trade enterprises grew by only 1 % yoy in constant prices in January 2008, manufacturing was up only 2 % in January from a year earlier.

Hungary – The Hungarian economy has been going through a period characterized by a weak economic performance, surging prices and a tense political atmosphere. According to the latest release of national account statistics Hungarian GDP in 2007 grew by only 1.3 %, decelerating from 3.9 % in 2006. Consumer prices increased in February by 6.9% yoy (1.1 % mom), only moderately decelerating from 7.1 % (1.0 % mom) in January. Indeed, the abolition of the flexible peg of the forint to the euro, within a fluctuation band, on 25 February, has not helped so far in changing the monetary policy conditions. The HUF continued to put off any considerable appreciation. The political scene, with the uncertainties on the referendum results, first, and the actual outcome afterwards – in favour of the removal of fees in healthcare and higher education – could have also had an impact on the exchange rate dynamic so far. In order to achieve the inflation target, the National Bank could be thus prompted to increase interest rates by 50bp during the next meeting due on the 31st of March.

Latvia – In February CPI inflation surged to its highest level in more than 11 years to 16.7 % yoy from 15.8 % in January. Among the main contributors, food prices went up by 21 % yoy while those for housing, electricity, gas and fuels by almost 24 %. Retail sales fell by 0.7 % yoy in January, the first decline in six years, thus signaling some declining of domestic demand for consumer goods after the recent tightening in credit conditions. Latvia's economy expanded by a revised 8 % yoy in Q4 2007 (compared to a flash estimate of 9.6 %) posting 10.2 % for the full year.

Lithuania – The CPI inflation rose by 1.1 % mom in February, reaching a record high of 10.8% in annual terms, up from 9.9% in January. This growth, mainly driven by gas, heating and water price increases that add to increases in food prices, is the highest inflation level in the last 11 years. The inflation data are currently strictly monitored, after the jumps in CPI inflation also in Estonia (+11.3 % yoy in February) and Latvia (+16.7 %). In the meantime, Lithuanian exports and imports accelerated their growth: they increased by 23 % and 25 %, respectively in January.

Poland – Recent macroeconomic data suggest that inflation pressure became stronger. The February MPC statement clearly suggests that there is still room for further tightening in the coming months. The MPC will mainly focus on the inflation outlook. It is concerned that recent interest rates moves are not enough to curb the inflation rate to 2.5 % in the medium term. The Council worries that building inflation pressure will make CPI out of control (we predict that headline CPI will increase to 5 % yoy in the coming months). Moreover, most of the pressure is coming from food and fuel prices, and has not yet spilled over to core inflation. However, regulated prices increase could speed up net inflation, even over the upper limit of the NBP's target at the end of this year. We believe that interest rate rises are on the short-term agenda. However, further MPC decisions might be influenced by developments in the FX markets. We expect zloty strengthening in the medium term will help to curb inflation. Summing up, based on macro data and

taking into account comments from members of the MPC, we change our stance and expect the next rate hike of 25 bps this month.

Romania – Real GDP growth accelerated in Q4 above expectations to 6.6 % yoy, outperforming the first three quarters and lifting the yearly growth to 6 %. In February, CPI rose by 0.7 % mom and 7.97 % yoy, mainly on the back of upward adjustments in gas prices (+8.5 %), while food prices started to show some signs of moderation. On the positive side, the monthly trade deficit (FOB/CIF) moderated to EUR 1.4 bn in January. Exports growth (16.9 % yoy) outperformed that of imports (11.3 % yoy) reflecting benefits from the recent strong depreciation of the RON but also the strong base effect of imports' jump in January last year.

Slovakia – GDP grew by a record 14.3 % yoy (in constant prices) in Q4, partially driven by a one-off effect of forward buying of cigarettes (by our estimate with a positive impact of 2 pp.). GDP growth remains sound – driven both by domestic and external demand, followed by a relatively healthy labor market development. Employment grew by 2.8 % yoy, while unemployment fell to 10.3 % in Q4. Even despite moderate acceleration of real wage growth (4.5 % yoy in Q4), the increase is still significantly behind the real growth of labour productivity (11.7 % yoy). As expected, the Central Bank left key interests rates unchanged in February. The koruna reached a new historical maximum close to 32.2 SKK/EUR at the beginning of March – driven by politicians' statements (Prime Minister, Ministry of Finance) and the upgrade of the rating outlook by S&P.

Slovenia – Gross domestic product rose 4.7 % yoy in Q4 2007, confirming the slowing trend we had expected. For full-year 2007 growth was 6.1 %, the fastest rate on record. Gross fixed capital formation rose 17.2 % in 2007, but moderated to 7.6 % yoy in Q4, after double-digit growth in the previous four quarters. Private consumption remained relatively subdued in 2007 rising only 3.1 % yoy despite extensive credit growth. Government consumption rose by 2.7 % yoy in Q4 2007 and 1.4 % for the full year. Export growth was robust throughout the whole of last year, but slowed markedly to 9.3 % yoy in Q4, which was also expected given the more challenging external environment. In line with the general moderation of domestic demand in the final quarter of last year, import growth also slowed to 8.6 % yoy. Developments in Q4 2007 foreshadow a slowing of economic growth this year and indeed we forecast a decelerating growth of 4.4 % in 2008 with investment activity, in particular, moderating and the contribution of exports to growth being also lower.

Croatia – In early March the parliament passed the budget for this year, which was delayed because of elections in November 2007. The government is aiming for a budget deficit of 2.3 % of GDP this year, which amounts to no fiscal contraction compared to 2007 if we look at the headline numbers. Still, given the repayment of pensioner debt, which is not included in the deficit calculation, which was HRK 3.5 bn last year and will be HRK 850–900 mn this year, there will be a fiscal tightening this year. That said the new budget does not contain many details on reform initiatives so that recurrent spending will continue to rise. While the budget is based on very conservative revenue growth figures of 6.0 %, it remains to be seen whether recurrent spending can be contained near the 7.0 % growth targets, given that over 75 % of expenditures are mandated by legislation. All in all, we expect a rebalance of the budget at some stage this year and believe the deficit target is exposed to the risk of slight upward pressure.

Turkey – Turkey's long-awaited revision of the national income series has been finalized. Instead of the SNA 68 classification of United Nations that was used since 1972, new GDP estimates have now been compiled according to the European System of Accounts (ESA-95). The methodology has been improved and the sample coverage has been increased significantly. As a result, with the new series 2006 GDP in current prices has increased by 31.6 % compared to the previous index. Moreover, current account to GDP and debt ratios improved such that current account deficit as a percentage of GDP declined from 8 % to 6.1 %, while public debt to GDP fell to 48.1 % from 63.4 % for 2006. Surge in per capita GDP from 4,525 euros to 5,954 euros in the same period was also notable.

On the other hand, inflation figures for February were quite dismal with consumer prices (CPI) increasing by 1.29 % mom, much higher than expectations (around 0.45 %). The yoy growth in CPI reached 9.1 %. Substantially high food price inflation contributed 1.4 percentage points. Under these circumstances, the Monetary Policy Committee will have its March meeting on the 19th and we expect that it will choose to stop the easing process temporarily, given the ongoing tensions in the global economy and the surge in international commodity prices. Moreover, industrial production in January came in higher than expected at 11.7 %, thanks to ongoing robust export performance. Finally, unemployment continues to be a concern for Turkey, with the 9.9 % unemployment rate unchanged in 2007 with respect to the previous year. The government is working on an "employment package" to increase employment.

Bosnia-H. – Consumer prices in Bosnia-Herzegovina rose by 6.2 % yoy (1.4 % mom) in January. Since September 2007 the consumer price index has risen from 1.6 % to 6.2 % yoy. Some items contributed more than others to the increase: in January the price of communications rose 3.7 % mom while the price of accommodation, water, electrical energy, gas and other energy rose 2.3 % compared to December, largely on the back of increases in the price of electricity, which were mandated by entity-level reg-

ulators. In addition, the price of food and non-alcoholic beverages also rose by 2.1 % mom. In late February the Republika Srpska entity issued BAM 209 mn in bonds for frozen foreign exchange deposits. According to the High Representative, this was in contravention of a constitutional court decision which stated the national level government should issue these bonds. Nonetheless, the bonds will not be rescinded. Additionally, question marks were again raised over whether the country's largest aluminum plant, Aluminij from Mostar, would be sold. The government in the Federation of BiH has failed to reach an agreement with the preferred bidder, according to the local press, jeopardizing the EUR 117.4 mn privatization.

Serbia – The central bank is showing increasing concern regarding the developments in inflationary expectations. Core inflation in February rose to 6.6 % yoy, above the target range of 3-6 %. This led governor Jelasic to announce the bank will continue to tighten monetary policy. This year it has already increased interest rates 150 bps and is set to increase rates again at the end of March, by another 75 bps. At the same time, it is active in the FX market to ensure the EUR/RSD doesn't go above 84. Meanwhile, the government in Serbia has fallen after a disagreement amongst coalition partners as to whether the country should continue its EU accession path after Kosovo's declaration of independence on 17 February was recognized by many EU member states. Early parliamentary elections will be held on 11 May and the result will be close, similar to the presidential election in February.

Due to the increased political instability and uncertainty in Serbia following the collapse of the government, Standard & Poor's revised the outlook for Serbia from stable to negative.

Russia – The ruble achieved a record high rate of 23.84 for 1 USD last week due to the sharp appreciation of the EUR against USD on the international markets. Following the current upward trend, the cost of Urals oil rocketed by 3.5 % to 101.32 USD/bbl as of March 11, 2008. Increasing oil prices are expected to support a relatively strong surplus of the trade balance in Q1 2008. According to Rosstat information, the CPI increase reached 3.5 % year-to-date in February, mostly contributed by service prices growth. Industrial production in January achieved 4.8 % yoy. The best performing sector became water, gas and energy, where 12.8 % yoy growth was recorded. Retail sales in January 2008 increased by 14.1 % yoy and achieved a total of USD 37.2 bn. The non-food component of retail sales accounted for 55 % of entire turnover in January 2008, while sales of food products constituted the other 45 %.

Standard & Poor's announced on March 11th that Russia's huge fiscal and external reserves prompted the rating agency to upgrade the Outlook on Russia's 'BBB+' long term sovereign credit rating to positive from stable.

Ukraine – Gas imports have remained a major source of tension not only between Russia and Ukraine but also between the president and the government. In an open letter to Victor Yushchenko, Prime Minister Yulia Tymoshenko criticized parts of the gas deal with Russia which was reached after three days of cuts in supplies. Presidents Yushchenko and Putin struck an agreement on Feb.12, intended to end a dispute over Ukraine's unpaid debts for Russian gas and to reorganize the gas supply relationship. The agreed price was USD 179.5 per 1,000 cubic meters. Tymoshenko said in her letter that she is ready to fulfill the agreements between the presidents as far as the necessity of an urgent normalization in relations in the gas sphere is concerned. But she added that the cabinet of ministers cannot agree with other terms such as the purchase of gas for USD 315.6 in Q1 2008 (presumably for some amount of Russian gas, not Turkmen transit gas) and the use again of intermediary companies. President Yushchenko sharply denied that he instructed the Ukrainian delegation to negotiate about any other price than the USD 179.5. However, he also said that a Russian-Ukrainian working group will work on open issues. The re-emerging of the gas dispute later this year or next is highly likely. President Yushchenko's angry reaction to Tymoshenko's letter reveals also a further deterioration in the internal relations of the "orange" coalition.

Country monitoring

HUNGARY

Over 82 % of voters that turned out for the referendum held on 9 March voted for the abolition of the doctor's appointment fee, daily hospitalisation fee and the tuition fee. On the whole, the results are a clear victory for the opposition party FIDESZ and a setback for the government and its reform process. The official referendum's results will however be announced on March 14, the day before Hungary's national holiday (the Anniversary of the Revolution), when demonstrations could occur. As a consequence, popular unrest and a government reshuffle are possible but a deep government crisis is unlikely.

From a fiscal policy point of view, in response to this outcome the government is to restore those regulations that were valid prior to the introduction of these fees. The fiscal impact of these reversing measures on the healthcare and education system is about a loss of HUF 30 bn, or 0.1 % of GDP, which does not have any effect on the state budget, however, as the government will not have to fill the funding gaps. On the other hand, the risk of a less strict fiscal policy in future may grow because of the rising political pressure on the government to improve its approval rating. However, even if some kind of reconsideration about fiscal policy issues may get on the agenda, the government is determined to

accomplish the targeted GDP proportional budget deficit of 4 % for 2008. So far, the financing gap has been evolving in line with plan. Its amount was HUF 215.9 bn in February, slightly below the HUF 219.8 bn target, according to preliminary data from the Finance Ministry. The budget deficit was HUF 182.1 bn in the first two months of the year, slightly below the target of HUF 186 bn, as the budget ran a surplus of HUF 33 bn in January.

Although sound budget figures should support the exchange rate, the currency may weaken in the short run due to rising concern among investors over a possible deceleration in the stabilisation programme. Indeed, the abolition of the flexible peg of the forint to the euro, within a fluctuation band, on 25 February so far has not helped to change monetary policy conditions. The HUF continued to move in a range of 256–266 against the euro, thus putting off any considerable appreciation that would curb inflation pressures, as was the Central Bank's intention. Inflation seems to decline much more moderately than earlier predicted. According to the February CPI, prices were up by 6.9 % yoy, and 1.1 % mom compared to the 7.1 % yoy and 1.0 % mom price rise registered in January. Thus, the Monetary Council is likely to implement a 50 bp base rate in-

crease at its forthcoming policy meeting scheduled for 31 March. If the National Bank really wants to meet its annual inflationary target, set at 3.5 %, then it needs a HUF exchange rate of at least 250–245 vs the euro, but without an interest rate increase, however, this rate would be too hard to achieve given the adverse factors exerting pressure on the forint.

Because of the still weak economic environment and the uncertainty on the political scene, the Hungarian fixed income market has been under pressure over the last weeks. Sovereign bond risk increased to a record level, with 5Y CDS reaching 179.5 bps as of March 11, with investors anticipating the Central Bank's next 50 bp rate hike.

Indeed, national account statistics confirmed that the Hungarian economy grew by only 1.3 % in 2007 following a modest quarterly rise of 0.8 % in Q4. Consumption was flat throughout the year because of the ongoing fiscal stabilisation programme, while investments picked up by 2.7 % in Q4, which is however a promising sign. The strong export performance (14.2 % yoy in 2007) was however the main driver of GDP growth, although settling down a bit as the end of the year approached.

KOSOVO

On February 17, 2008, following the failure of two years of internationally mediated talks on the UN-administered territory's future, Kosovo unilaterally declared its independence, becoming the seventh state to emerge from former Yugoslavia. It was soon recognised as a sovereign state by the United States and major EU countries¹ despite the fierce resistance of Serbia, backed by Russia².

Russia and of course Serbia reacted angrily: a few days later, some 200,000

people gathered in central Belgrade to protest against Kosovo's independence. Mobs peeled off to loot shops and set many Western targets (banks, embassies) on fire. Moreover, on March 8, 2008 Serbian PM Kostunica resigned amid political differences with the Democratic Party (led by President Tadic), a key partner of the outgoing governing coalition, over Kosovo and EU accession.

Kosovo's declaration of independence on February 17 was formally unilateral

however, its timing suited EU requirements: it was delayed to allow the 27-nation bloc to authorize beforehand the deployment of a police and justice mission, EULEX Kosovo. On the whole, Kosovo's unilateral declaration of independence and Serbia's negative reaction to it will probably have several regional and international consequences:

Northern enclave: the Serb-dominated northern districts of Kosovo are crucial to the evolving situation. Expectations that

1) Among them: Germany, France, UK, Italy, Austria, Poland, Latvia, Denmark, Estonia, Belgium, Turkey, Albania and Australia.

2) Among the principal countries against Kosovo's independence: China, India, Spain, Brazil, Romania, Slovakia, Greece and Cyprus.

this 40–45,000-strong Serb community would respond with its own declaration of independence have not been realised – largely because of Belgrade’s staunch insistence of sovereignty over the entire territory. Nevertheless, Kosovo Serbs have been encouraged to build up their institutions, and these constitute a key source of uncertainty and tension.

Belgrade divisions: Serbia itself is split between those like PM Kostunica who think that Serbia should abandon the path of European integration and those like President Tadic, who argue that although Serbia must not recognize Kosovo, it should not abandon its EU ambitions. On March 5, 2008 PM Kostunica decided to back a resolution in Parliament that demands an end to any development of ties with the EU unless Brussels drops its support for Kosovo’s independence. The motion was strongly opposed by the Democratic Party of President Tadic. The result is early parliamentary elections to be held

on May 11, 2008. Now, the main risk is that despite popular support for President Tadic and his pro-Western party, PM Kostunica could summon a patriotic majority with the support of the Radicals and the smaller Socialist Party, formerly headed by Milosevic.

Regional consequences: Macedonia and Montenegro have both indicated that they are not prepared to recognise Kosovo because of implications for their internal stability. Most significantly, Kosovo’s independence has troublesome implications for the integrity of Bosnia-Herzegovina. Secessionist pressure in the Serb-dominated entity, Republika Srpska, is likely to grow-despite outside pressure for stability.

International Consequences: While Russia’s influence in Serbia is strongly raised (it has blocked any attempt to secure retrospective UN approval for independence and it warned that Kosovo sets a precedent for other separatist territories, for

example Abkhazia and South Ossetia) the EU has failed to take a common position regarding Kosovo issue. Moreover the failure (following the threat of a Dutch and Belgium veto) of negotiations for the signature of the Stabilisation and Association Agreement between the EU and Serbia has increased the risk that Serbia could establish closer ties with Russia as an alternative to Europe, as the latest parliamentary motion demonstrates.

On the whole for most of the Serbian people, Kosovo remains an emotional and not a rational issue, so predictions of how the Balkans will look after Kosovo at this stage are risky, especially as the electorate is evenly divided. Undoubtedly the results of the coming Serbian elections will be crucial, as they will provide a key signal as to how ready Serbia is to embrace the West, even if without Kosovo, or whether it prefers returning to isolationism thereby delaying EU entry for a number of years.

RUSSIA

On March 2, 2008, Dmitry Medvedev won Russia’s presidential election with 70.28 % of votes. Communist Party chief Zyuganov won 17.72 %, while ultranationalist Zhirinovskiy had 9.35 % of votes. Medvedev’s landslide victory was assured by Putin’s blessing in December 2007, when Putin announced him as his successor, while promising also to become Russia’s next Prime Minister.

Medvedev, who will not succeed V. Putin until May, is quite different from past Russian leaders. An urban and youthful lawyer with no background in the structures of communism, he could become the first truly post-Soviet President of Russia.

Medvedev is not a silovik (a former employee of the military or security services), he is a lawyer by training and his working life has been spent in government (at both the regional and national level) and in business (Gazprom).

His background could be a new chance for the country’s future development: he resembles many Western politicians, he is

often described as a “liberal”, and he frequently underscores that the EU is Russia’s main partner. However Putin’s will to retain political power, becoming Russia’s Prime Minister, and his political weight in the Kremlin – which Medvedev still lacks – could limit future changes, especially in the short to medium-term of his office.

In any case Medvedev has just underscored that one of his main priorities is to assure the country, that there will be stability and continuity with the policies of the outgoing President Putin.

For sure a softening of rhetoric and a more liberal foreign economic policy can be expected, but probably no radical changes will be implemented.

Putin’s decision not to leave the political scene will strengthen dual executive power, with a PM (who is almost certain to be V. Putin) with a stronger influence on the country’s political life. However this will not be Russia’s first cohabitation: several PM’s have played an influential

role before, such as Ryzhkov during Gorbachev’s presidency, Primakov under Yeltsin, or Kasyanov under Putin’s first term, but it will be the first time that a President nominates a PM who has been a popular president.

Despite informal agreements that have been undoubtedly reached between Putin and Medvedev could allow for significant power sharing in the short term, it is difficult to understand if this arrangement can continue indefinitely.

On the whole, Medvedev’s election as the new Russian president potentially creates opportunities for economic stabilisation, the country’s modernisation and a dialogue with the West, especially the EU. But the most delicate issues, such as the energy policy, US missile shield in Eastern Europe, Russian withdrawal from the Conventional Forces in Europe treaty or crucial elements in the relations with CIS states (NATO enlargement to Ukraine and Georgia, or a tangible US military presence in the CIS), will prove difficult to overcome.

Tables

TWO-WEEK MARKET MOVERS AND RISK FACTORS

Date	Event/Release	Reference date	Source	Notes
Bulgaria				
Mar 17, 08	GDP	"4Q 2007; 2007"	SO	-
Mar 31, 08	Consolidated Budget Data	February 2008	MF	-
Mar 31, 08	PPI	February 2008	SO	-
Czech R.				
Mar 13, 08	Current account	January 2008	CB	We expect surplus to increase on a yoy basis.
Mar 18, 08	Retail sales	January 2008	SO	Trend of decelerating sales growth is set to continue.
Estonia				
Mar 27, 08	Foreign Trade	January 2008	SO	-
Hungary				
Mar 19, 08	Wages	January 2008	SO	We expect 7 % rise yoy
Mar 21, 08	Retail sales	January 2008	SO	They may shrink by 4.1 % yoy
Mar 28, 08	Unemployment	February 2008	SO	It is anticipated to moderate to 7.8 %
Latvia				
Mar 31, 08	Retail trade	February 2008	SO	-
Apr 03, 08	Industrial Output	February 2008	SO	-
Poland				
Mar 17, 08	Wages	February 2008	SO	We expect two-digit growth vs 11.5 % yoy in Jan
Mar 19, 08	Industrial production	February 2008	SO	We predict industrial production growth at 10.5 % yoy
Mar 21, 08	Net core inflation	February 2008	CB	We predict net core inflation at 2.4 % yoy, closed to NBP's mid-inflation target
Romania				
Mar 14, 08	Current account	January 2008	CB	CA deficit reached 13.9 % of GDP in 2007
Slovakia				
Mar 13, 08	CPI	February 2008	SO	We expect only a slight acceleration of yearly inflation growth to be at 3.9 % yoy
Mar 13, 08	Foreign Trade	January 2008	SO	FT balance is expected to be again in surplus, driven by higher export performance in automotive
Croatia				
Mar 28, 08	GDP	4Q 2007	SO	Figures to confirm slowing of economic activity
Mar 31, 08	Balance of Payments	4Q 2007	SO	Risk of a wider current account deficit on poor Dec exports
Turkey				
Mar 19, 08	Monetary Policy Committee Meeting	-	CB	Central Bank is expected to keep its policy rates on hold.
Mar 31, 08	National Income Figures	Q4 2007	SO	With the new revised figures, GDP grew by 5 % in the first three quarters of 2007.
Russia				
Mar 18-19, 08	Industrial Production, yoy	February 2008	SO	5.2 %
Mar 22-26, 08	Retail sales	February 2008	SO	14.0 %
Mar 22-26, 08	CPI, yoy	February 2008	SO	12.8 %
Serbia				
Mar 31, 08	GDP	4Q 2007	SO	Expected to confirm slowing in economic activity
Ukraine				
Mar 17-21, 08	Balance of Payments	Q4 2007	CB	-

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	Mar 08	Jun 08	Sep 08	current	Mar 08	Jun 08	Sep 08
Bulgaria	Currency board	-	-	-	-	-	1.96	1.96	1.96	1.96
Czech R.	On hold	Mar 26, 08	3.75	3.75	3.75	3.75	25.1	26.3	26.5	26.5
Estonia	Currency board	-	-	-	-	-	15.65	15.65	15.65	15.65
Hungary	+50 bps	Mar 31, 08	7.50	8.00	7.50	7.25	262.3	265.0	260.0	258.0
Latvia	On hold	Mar 13, 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	+25 bps	Mar 25-26, 08	5.50	5.75	5.75	5.75	3.55	3.50	3.62	3.71
Romania	+50 bps	Mar 26, 08	9.00	9.50	9.50	9.50	3.72	3.65	3.60	3.58
Slovakia	On hold	Mar 25, 08	4.25	4.25	4.00	3.75	32.4	32.1	32.3	32.3
Slovenia	-	-	4.00	4.00	4.00	3.75	EUR	EUR	EUR	EUR
Croatia	-	-	4.56	5.00	7.50	5.50	7.28	7.25	7.15	7.20
Turkey	Rate cut not expected	Mär 19, 08	15.25	15.25	15.25	14.75	1.91	1.87	1.84	1.80
Bosnia-H.	Currency board	-	-	-	-	-	1.96	1.96	1.96	1.96
Russia	-	-	10.25	10.50	10.50	10.50	23.9	24.2	24.2	24.1
Serbia	-	-	11.50	12.25	13.00	13.00	83.3	84.0	82.0	82.0
Ukraine	-	-	14.50	14.50	13.50	12.50	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 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+	stable	BBB+	stable
Latvia	A2	stable	BBB+	negative	BBB+	negative
Lithuania	A2	stable	A-	negative	A	neagitive
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	-	-	-	-
Russia	Baa2	stable	BBB+	positive	BBB+	stable
Serbia	-	-	BB-	negative	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)		
	Nov	Dec	Jan	Nov	Dec	Jan	Nov	Dec	Jan	Nov	Dec	Jan	Dec	Jan	Feb
Bulgaria	20.7	13.0	-	27.2	11.0	-	7.4	5.0	8.5	2.7	2.2	4.3	12.5	12.5	-
Czech R.	17.5	9.6	18.7	13.9	9.3	17.9	6.7	2.9	-	5.9	5.4	-	5.4	7.5	7.5
Estonia	12.6	-8.0	-	4.0	-3.9	-	6.2	0.4	4.1	5.5	4.7	0.5	9.6	11.0	11.3
Hungary	8.1	6.4	16.4	5.5	7.1	12.9	5.7	5.3	6.6	-4.2	-4.0	-	7.4	7.1	6.9
Latvia	24.1	10.9	-	8.2	-9.3	-	1.3	-5.4	-0.1	10.9	0.9	-0.7	14.1	15.8	16.7
Lithuania	11.5	21.0	23.4	12.0	10.7	25.1	3.2	7.2	8.5	11.9	8.2	22.0	8.1	9.9	10.8
Poland	14.6	20.0	-	14.5	21.2	-	8.5	6.4	10.8	15.1	8.1	15.9	4.0	4.3	-
Romania	12.1	15.1	16.9	22.4	6.5	11.3	3.9	-0.2	-	19.0	18.7	-	6.6	7.3	8.0
Slovakia	21.5	14.6	-	18.9	12.2	-	13.2	6.5	8.4	4.7	7.7	15.6	3.4	3.8	-
Slovenia	10.3	2.4	-	6.9	1.0	-	2.4	-0.1	-	4.7	4.5	-	5.7	6.4	6.5
EU-10	14.4	14.1	-	14.3	12.4	-	6.9	4.2	-	9.9	7.0	-	5.8	6.4	-
Croatia	12.6	-10.9	13.8	12.7	6.0	27.6	2.5	1.4	6.7	3.0	-0.2	-	5.8	6.2	-
Turkey	11.5	-0.4	-	13.0	10.6	-	8.1	-1.0	11.7	-	-	-	8.4	8.2	9.1
Bosnia-H.	13.9	13.1	12.1	14.8	10.6	28.2	4.1	-0.4	-	-	-	-	4.9	6.2	-
Russia	23.8	17.1	29.0	21.5	13.3	20.0	4.7	6.3	4.8	15.6	15.2	14.1	11.9	12.6	12.7
Serbia	13.3	13.5	-	18.6	24.9	-	-2.5	-0.2	4.0	17.1	20.1	12.7	10.1	10.7	11.3
Ukraine	16.6	17.9	-	30.1	17.0	-	7.9	5.5	5.7	33.4	30.7	28.1	16.6	19.4	21.9

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

QUARTERLY GDP

constant prices, % yoy	2006			2006				2007				2008			
	2006	2007	2008	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Bulgaria	6.1	6.1	5.9	5.5	6.4	6.7	5.7	6.2	6.6	4.5	7.2	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	5.3	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	7.7	6.0	5.5	6.9	7.8	8.3	7.7	6.0	5.6	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	6.5	6.2	5.0	6.3	6.5	6.7	6.6	6.6	6.0	6.0	6.2	5.1	5.0	5.1	4.7
Croatia	4.8	5.8	4.3	6.0	3.6	4.7	4.8	7.0	6.6	5.1	4.5	4.2	4.3	4.9	4.9
Turkey	6.9	4.4	4.9	5.9	9.7	6.3	5.7	8.2	4.2	3.3	2.7	3.5	4.8	5.6	5.3
Bosnia-H.	6.2	6.7	6.5	-	-	-	-	-	-	-	-	-	-	-	-
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	5.9	5.3	5.0	8.4	7.7	7.2	6.0	5.0	5.5	6.0	6.2
Ukraine	7.3	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	6.1	6.1	5.9	5.7	9.1	6.9	6.7	6.5	3.6	3.8	3.2	2.0	-15.7	-21.5	-19.2	-17.0
Czech R.	6.4	6.5	4.0	4.5	8.1	6.6	5.7	5.5	-2.9	-1.9	-2.9	-2.9	-3.1	-2.5	-3.4	-3.1
Estonia	11.2	7.1	5.3	5.9	5.9	5.3	4.7	4.0	3.8	3.4	1.5	1.0	-15.5	-16.0	-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	-6.5	-5.3	-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	-23.3	-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	-13.2	-11.9	-11.2
Poland	6.2	6.5	5.2	4.4	16.2	12.7	10.4	9.0	-1.7	-2.5	-2.6	-2.4	-3.2	-3.7	-4.3	-4.7
Romania	7.7	6.0	5.5	5.0	5.4	4.3	4.2	4.2	-1.7	-2.3	-3.0	-2.9	-10.5	-13.9	-14.3	-13.8
Slovakia	8.5	10.4	6.9	6.0	10.4	8.4	7.8	7.3	-3.7	-2.5	-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	-0.6	-1.0	-1.2	-2.5	-4.0	-3.8	-4.2
EU-10	6.5	6.2	5.0	4.7	10.6	8.5	7.5	6.8	-2.5	-2.2	-2.3	-2.2	-6.1	-6.9	-6.8	-6.7
Croatia	4.8	5.8	4.3	4.5	11.2	9.5	9.1	8.7	-3.0	-2.3	-2.6	-2.8	-7.7	-7.4	-6.8	-6.5
Turkey	6.9	4.4	4.9	5.5	9.9	9.9	9.5	9.2	-0.6	-1.6	-1.9	-1.5	-6.1	-5.9	-5.8	-6.0
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
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	7.3	7.3	5.6	5.1	6.8	6.5	6.2	6.0	-0.7	-1.3	-3.0	-3.5	-1.5	-4.1	-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	2.7	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	5.6	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	5.7	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	3.84	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
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	8.4	6.7	14.00	10.00	13.00	10.00	79.0	79.2	82.0	82.5
Ukraine*	9.1	12.8	16.1	10.8	11.6	16.6	12.1	9.0	9.50	14.50	12.50	12.00	5.05	5.05	5.05	5.05

* For Russia and Ukraine exchange rate to the USD

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

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