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

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## KEY ECONOMIC NEWS

**Bulgaria** – The passing of legislation backing the 2008 fiscal plan is in its final phase. Discussion in the parliament Budget Committee revealed plans for the introduction of mandatory health insurance contribution payments channeled to private funds, as part of a broader reform of the health care system. In the event that fiscal revenues in 2008 continue to outperform the target strongly enough the new compulsory health insurance contributions will be financed at the expense of cutting the contribution rate for the state-run first pillar of the pension system. Consumer prices posted a 1.6% mom increase in November, slightly above expectation, fuelled by higher food and transportation costs. The twelve-month CA deficit widened to 19.7% of projected GDP, fully backed by a surge in FDI.

**Czech Republic** – Q3 GDP growth came in at 6.0% yoy, slowing from an upwardly revised 6.3% yoy in Q2 and overshooting slightly our and consensus forecasts, both at 5.8% yoy. The growth continued to be driven by domestic demand, while the contribution of net exports was slightly positive. Starting from Q4, however, GDP growth is set to ease much more substantially due to faltering private consumption, affected by the inflation spike and by a reform-related drop in consumer confidence. Hence, we expect growth to slow to 4.0% yoy in 2008 from 5.7% yoy projected for this year. Inflation jumped by a full percentage point to 5% yoy in Nov from Oct, pulled by food and fuel prices. Although much of another inflation surge in Q1 2008 to levels around 6% yoy will come from regulatory price hikes, fears of second-round effects on CPI remain in place. Two quarter-point interest rate increases to be delivered by the CNB in 2008 will be, in our view, the most appropriate response to that.

**Estonia** – On 12 December the parliament approved the 2008 state budget. Expenditures were set to EEK 93.7 bn (33.8 % of GDP, compared with a likely 32.6 of GDP in 2007), while revenues are projected to amount to EEK 96.4 bn (34.8% of GDP compared with 33.1% in 2007). The income tax rate will be cut from 22% to 21% in January, but hikes in excise duties on tobacco and alcohol are expected to more than offset income tax losses. The state budget surplus is targeted at EEK 2.7 bn (1% of GDP compared with a likely 0.5% of GDP in 2007), the general government surplus at EEK 3.6 bn or 1.3% of projected GDP. We believe that the budgeted general government surplus is slightly smaller than the likely 2007 outcome. Fiscal policy is thus somewhat loosening or at least not tightening. Underlying budget assumptions are 5.2% real GDP growth and 8.5% inflation. The Bank of Estonia's recently projected GDP growth of 4.3% and inflation of 7.4% for 2008. Because of the global liquidity crisis, we lower our own GDP forecast for 2008 to 5.7% from 6.5%, however, still above the authorities' forecasts. We look now for average annual inflation of 8.9%, up from 7.8% previously.

**Hungary** – The Monetary Council of the National Bank of Hungary left the base rate on hold at 7.50% at its meeting on 17 December 2007 - in line with analysts' consensus. The Monetary Council has cut the base rate only twice this year by a total of 50 basis points from 8.0 %, stressing concern over persisting inflation pressures. As the inflation outlook remains gloomy and negotiations on wage hikes in 2008 between employees and employers unions have been conducted in a climate of strike movements, the Central Bank is expected to wait until at least the end of February-March to consider a first interest rate cut in 2008. November CPI increased from 6.7% in October to 7.1% yoy, rising by 0.6% mom basically due to a 1.4% rise in food prices (11.3% on yoy basis). The fuel price increase was 3.3 % mom from October to November due to the international oil price hike. Household energy prices rose by 0.3 %, (12.3 % yoy). In light of the November data, average CPI in 2007 will be some 1.0-1.2 pp higher than any earlier forecast of official or market research institutions and will be close to 8.0%.

**Latvia** – Latvian CPI inflation rose by 1.4% mom in November reaching a record high of 13.7% on annual terms – the highest level observed since 1996 – on the back of fast growing food and transportation prices. In the January-October period, CA widening slightly slowed, increasing by 46.7% yoy - compared to 52.8% posted in September - to reach LVL 2.77 bn (EUR 3.5bn). In the same period, FDIs provided financing of around 32% of the gap. After the resignation of Prime Minister Aigars Kalvitis on December 5<sup>th</sup>, Latvian president Valdis Zatlers has named interior Minister Ivars Godmanis as premier, charging him with the creation of a five-party coalition. Godmanis already led the government from 1990 to 1993 when the Baltic EU nation launched a series of reforms to make the transition from a Soviet-style to a free market economy.

**Lithuania** – Excessive growth, higher inflation, lower unemployment and increasing tension on the local interest rate market is continuing to characterise the Lithuanian economy. High economic growth pushed the unemployment rate to 3.9% in Q3 2007, down from 5% and 4.1% in the previous two quarters. Inflation is still accelerating, driven by fuel and food prices and costs of utilities. CPI inflation increased by 7.8% yoy (1.1% in monthly terms) in November, up from 7.6% in October. The same rate was 4.4% one year ago. The Interbank rate is still increasing quite significantly: the 3 months Vilibor hit 7.21%, the highest rate since 2001 and 50 bps higher than two weeks ago. In the meantime, Fitch revised the rating outlook for the country

to negative (from stable). Two (S&P's and Fitch) out of the three major rating agencies now have a negative outlook for the country's long-term debt.

**Poland** – Recent macroeconomic data showed healthy growth for Poland's economy. After a 6.4% rise this year, GDP growth is expected to decline modestly to around 5.2% in 2008. Despite the CA gap widening to EUR 1.3 bn in October, the gap between export and import growth has narrowed, which means that external imbalances have widened more slowly than we previously expected. Nevertheless, we expect a CA deficit at 3.5% of GDP at the end of 2007 and we predict a further increase to near 5% of GDP in 2008. The main danger is inflation acceleration in the coming months. In November headline CPI increased by 3.6% yoy due to food and fuel prices growth, slightly exceeding the top of NBP's inflation target limit. It is worth noting that inflation grew despite the strong zloty. CPI outlook is still negative. We predict the upward trend of inflation to continue to 3.9% yoy at the end of 2007 and to remain close to this level for full-year 2008. Both CPI and wages growth (in November wages increased by 12% yoy) are strong arguments for further tightening monetary policy. We uphold our stance that the MPC will continue hiking interest rates in the first half of next year. We expect two hikes by 25 bp with some risks on the upside.

**Romania** - Romanian GDP accelerated to 5.7% yoy in Q3 in line with our expectations, mainly driven by an impressive surge of 32.2% yoy in gross fixed capital formation and still strong although decelerating growth in private consumption (up by 8% yoy compared to 11% posted in Q2). The consumer price index surged by 0.93% mom in November, lifting the annual inflation to 6.7% yoy. The major surge was recorded in the services prices, channelled through the strong depreciation of the local currency. Due to lower than expected food price deceleration, we slightly revised upward our year-end forecast to 6.2%. The current account deficit has been widening by 72% yoy in the first 10 months of the year to reach EUR 13.3 bn, although marginally moderating in October. FDIs provided 45% coverage of the gap, summing up to EUR 5.9 bn in the same period

**Slovakia** – Consumer inflation grew by 0.5% in November, slowing to 3.1% yoy (thanks to the disappearance of the effect of last year's November increase in gas prices). As expected, November inflation was driven by food and oil prices, but also demand-pulled inflation recorded an acceleration (negatively influenced by financial services), sending a slightly hawkish signal to monetary policy. Despite this, the central bank left key interest rates unchanged. Foreign trade repeated the September surplus in October (SKK 2.5 bn). Unemployment fell to a new historical low of 7.76% in November.

**Slovenia** – National accounts data for the third quarter were released in Slovenia on 10 December and revealed very strong growth of 6.3% yoy. In the first three quarters of 2007, GDP growth in Slovenia was 6.5% yoy. Domestic demand rose by 7.4% yoy in Q3 2007, driven by an increase in gross fixed capital investment of 17.7% yoy. The combination of robust private sector activity and public sector infrastructure investment lies behind the continued strong rise in gross fixed capital expenditure, which is also reflected in double-digit growth rates of construction activity over the past 12 months. Household consumption growth remains stable, having risen 2.7% yoy in Q3. Net exports contributed -1 percentage point with both goods and services imports rising strongly. At the same time the current account deficit has risen over 230% yoy, to EUR 818 mn, although exports of goods and services increased 15.8% yoy in Q3, one of the strongest rates of growth on record. With inflation in November at 5.7% yoy and the Euro rising in value, Slovenia's real effective exchange rate is rising strongly, affecting the price competitiveness of Slovenia's exports. Export performance during 2008 will thus be one of the more interesting variables to follow in Slovenia.

**Croatia** – The November consumer price inflation numbers were released, revealing an increase in inflation of 4.6% yoy. Compared to October, consumer prices rose 1.0%, with food prices having increased 1.6% mom in aggregate (+5.4% mom in vegetable prices and +8.3% mom for oils and fats). Croatian National Bank data on core inflation reveals that since August the rate of inflation has been over 3.0% yoy. Our calculations for November suggest core inflation remained at 3.4% yoy, as in October. The combination of high food prices, oil price increases and rising core inflation point to higher headline inflation rates, which we expect will exceed 5.0% yoy during the first quarter of 2008. The new government, which we expect will be formed before the end of the year (elections were held on November 25), will be exposed to demands for increased wages from unions in light of the spike in inflation.

**Turkey** – National income accounts posted a surprising slowdown in the third quarter of 2007. The agricultural sector played the major role in the results, with a 7.8% decrease yoy, and accompanied by trade with its 1.3%. In contrast, on the expenditures side, 3.6% growth in private consumption seems promising in the sense that it may indicate a beginning of a recovery in domestic demand, helped also by lower interest rates. Indeed, the Central Bank cut the overnight borrowing rates by 50 basis points, to 15.75%. Although the inflation target in 2007 is expected to be missed by a wide margin, further cuts are expected from the CB in the first quarter of 2008, given the slowdown in economic growth and the declining trend in core inflation.

**Bosnia-H.** – In early December the European Union initialed a Stabilization and Association Agreement (SAA) with Bosnia-Herzegovina, marking the first concrete step the country has taken toward eventual full EU membership. The signing of the SAA will however be contingent upon progress in implementing concrete reform proposals. The news was positively received by Bosnia's stock markets which both rose sharply following the announcement. The next day on 5 December the Central Bank of BiH (CBBH) decided to increase reserve requirements from the current level of 15% to 18% as of 1 January 2008. As CBBH governor Kemal Kozaric said at the press conference announcing the measure "We don't expect the measure to stop credit growth, but to slow it down." Data from the CBBH reveals that in October 2007 credit growth expanded at a rate of 30% yoy. On December 17 the Serb entity adopted its proposed BAM 1.5 bn budget which the IMF has praised. At the same time the proposed BAM 1.75 bn Federation budget, which envisages 40% of expenditures going to social welfare categories, is seen as too expansionary.

**Russia** – According to Rosstat, inflation in November 2007 was 1.2 % mom and 11.4% yoy. We expect the CPI increase to amount to 11.5% yoy in December and to average 8.9% yoy in 2007 as a whole. Real GDP grew by 7.6% yoy in Q3 2007, driven by strong consumption and investment activities. We keep our forecast at 7.5% yoy for the whole year. Thanks to the high commodity prices, exports increased by a strong 39.5 % yoy in USD terms in November.

**Serbia** – The parliamentary speaker called presidential elections for January 20. We do not expect the UN Security Council to say anything special in relation to the final status of Kosovo following its closed session on 19 December. The international community will wait for the presidential elections in Serbia to pass before any decision to recognize the expected future declaration of independence by Kosovo takes place. In the near-term there will be plenty of noise on the Serbian political scene. While the political scene remains interesting, the economic data increasingly point to an overheating economy. The current account deficit in the first ten months of the year has more than doubled compared to the same period in 2006 to USD 5.2 bn. Inflation in November came in at 8.8% yoy and is set to exceed 9.0% yoy in December, while public sector wages are set to rise once more following an average increase in excess of 15% in late 2006.

## SLOVAKIA

### Safely on track toward the Euro

According to the last issue of the poll conducted regularly among economists on the likelihood of EMU entry, the probability of Euro adoption in Slovakia increased from 71% in October to 75% in November. This was mainly backed by increased optimism over public finance, after the 2008 budget was approved. In general, we still see three possible areas of risk together constituting the 25% joint likelihood of non-entry in 2009.

The first and major concern is related to the inflation indicator. Recent inflation figures are still optimistic – Slovakia has the third lowest CPI in the EU-27, despite food and oil price pressures. Even when looking ahead to March 2008 (official evaluation period) we anticipate that inflation will remain at least a safe 0.7 percentage point below the Maastricht benchmark. The major discussion is, however, related to the inflation sustainability definition. Although there is no clear threshold which the country should not exceed, there exists a growing opinion that e.g. Slovenia is above it. A country like Slovakia should naturally be at least by 0.7 percentage points above the Eurozone inflation level (due to the Balassa-Samuelson „catching up“ effect) and another few percentage points due to different weights in the basket attached to energy and food prices. In short, we assume any inflation below

4% should be in line with the sustainability condition. Our forecasts of HICP (not being very different from those of the NBS) point to 3.1% in December 2008 and 2.7% in December of 2009. We could therefore be quite confident, but still leave some space for uncertainty attached to over-hawkish or non-economic attitudes of some relevant policy makers in Brussels.

Previously the major problem – the fiscal position has gradually turned out to be less of an issue. This year the budget will most probably end up with a deficit below 2.5% of GDP (against a plan of 2.9%) – both due to extraordinarily good tax incomes and savings on the expenditures side. Next year the fiscal effort should bring another cut in the deficit to 2.3% or even below that. Sustainability is much less of an issue than in the case of inflation. The only open threat therefore remains as to whether the Ministry of Finance correctly included all the items in the expenditures side in line with ESA95. The best remedy for this sort of uncertainty is to squeeze the deficit as much as possible below the 3% in order to leave a cushion for surprises of this kind. A cushion of 0.5% (or more) of GDP this year and 0.7% and more next year seem to be enough for us to absorb almost all of the uncertainty about fulfilling this criterion.

The very last nut to crack is the stability of currency. SKK appreciation was directly reflecting the strong convergence the country was achieving over the last two years – appreciating by 14% in nominal terms. Although in our opinion there is still one more appreciation of the parity in the pipeline (the central parity was already once revalued – in March 2007) this can be fundamentally explained by the extraordinary growth of labor productivity in Slovakia. Having said that, we assume that using economic reasoning, i.e. that natural convergence can not be mixed up with instability, we feel quite confident that fixing the final parity at the level around EUR/SKK 33.00 would also answer the last open question in the entry process. This level of exchange rate should not only be close to the fundamentally correct one, but should also sufficiently help to fight the inflation sustainability problem.

Summing up, the uncertainty we have on the Slovak Euro adoption in 2009 is almost solely related to a political aspect, rather than to a technical one. Indeed, much more attention has been paid to this aspect by Slovak policy makers over the last three months, after the country's officials had been accused of underestimating the lobbying aspect of Euro adoption. Having seen that, we now think that Slovaks are more safely on track toward the Euro than before.

## TURKEY

### A sharp slowdown in the third quarter

In the third quarter of 2007 gross domestic product grew by 1.5% with respect to the same period of the previous year. The figures are surprisingly low. The agricultural sector played the major role in the results, with a 7.8% decrease year on year, and accompanied by trade with its 1.3% growth. The manufacturing sector grew only by 2.8%. Even the construction sector, lately the brightest sector with double-digit growth figures for ten consecutive quarters, cooled down and grew by 5.4% (down from 15.7% in the second quarter). The 10.3% contraction in hotels and restaurants' output was quite alarming, indicating possible issues in the tourism sector.

The expenditures side is not as gloomy as the production side, with signs of a recovery in domestic demand. Private consumption growth was the major figure backing the optimistic scenario; it grew by 3.6% (2.3 percentage points contribution to GDP growth). Durable goods growth was also in line with the argument; it positively contributed to the growth for the first time since Q2 2006 (by 0.6 percentage points). The semi-durable goods sector also had a remarkable contribution. Net exports were the major negative contributor on the expenditures side, with -3.3 contribution points, with its positive contribution trend since Q2 2006 already coming to a halt. Year-end GDP growth is likely to be around 5%, probably a little below (however, we retain our GDP

forecast of 5% in order to see more clearly the fourth quarter developments).

### Inflation far from the target

The Central Bank cut the O/N borrowing rates by 50 basis points to 15.75%. With this recent rate cut, policy rates have been reduced by 175 basis points since September. Although the inflation target in 2007 is expected to be missed by a wide margin, further cuts are expected from the CB in the first quarter of 2008, if the slowdown in economic growth and the declining trend in core inflation continue.

In fact, November inflation of 1.95% mom brought the annual inflation in terms of CPI to 8.40% yoy from 7.70% in the previous month.

Much of the observed jump in the headline inflation was the result of the increases in water fee and special consumption tax rates on fuel products and tobacco products. Although the acceleration of this kind is temporary, risks pertaining to food and energy (i.e. electricity) prices still persist and are likely to jeopardize the downward trend of headline inflation over the next year. The CPI is likely to end 2007 at around 8.5%, significantly surpassing the 4% official target and the 2 percentage points (+/-) band around the point target. This will necessitate the Central Bank writing an open

letter to the government explaining the deviation from the target. It seems quite difficult from today to achieve the official 2008 CPI target of 4%. Our projection for year-end 2008 CPI is 5.7%.

The unemployment rate rose to 9.3% in September, from 9.1% a year ago and from 9.2% in August. Capacity utilization for November came in slightly lower than anticipated at 82.6% and combined with recent employment data and Q3 GDP data that came in last week, these figures may indicate that the slowdown in domestic demand might

continue. Finally, the October current account deficit of USD 3 billion was slightly below expectations. Expansion in the current account deficit became marked in the second half of the year, bringing the cumulative deficit in the last 12 months to USD 35.2 billion, around USD 2.3 billion higher with respect to the previous year-end. We expect to end 2007 at a current account deficit of around USD 36.5 billion, corresponding to 7.3% of the projected GDP down from 8.2% at the end of 2006.

## UKRAINE

### Tymoshenko

On 18 December the Verkhovna Rada appointed Yulia Tymoshenko with 226 votes, exactly the required number, to be prime minister.

Yulia Tymoshenko was born on 27 November 1960, in Dnipropetrovsk. She graduated from the Dnipropetrovsk state university in 1984 majoring in economics. Between November 1995 and January 1997, Tymoshenko headed the Unified Energy Systems of Ukraine.

In 1997 she started her political career. From 1997 to May 1999 Tymoshenko was a member of the All-Ukrainian Hromada association, led by ex-Prime Minister Pavlo Lazarenko; she has been the party's first deputy chairperson since 1999. In December 1999-January 2001, she worked as Vice Premier in charge of the fuel and energy complex at Yushchenko's government. In February 2001, Tymoshenko was arrested, and then dismissed from the Vice Premier's post. The Supreme Court has recognized her arrest as unlawful. In July 2004, Yulia Tymoshenko and Viktor Yushchenko created the coalition „Syla Narodu” (strength of the people) to win the presidency for Yushchenko.

After the “Orange Revolution” in December 2004 and the defeat of Viktor Yanukovich, Yulia Tymoshenko became prime minister until she had to resign in September 2005 due to disagreements with president Yushchenko and parts of his administration.

Neither preserving a coalition nor ruling will be an easy task given the very thin majority. A Tymoshenko-led government might mean renewed tensions with local oligarchs,

especially from the Donbas steel and coal region similar to 2005. This would result in decreased investment and some capital flight. Relations with Russia could also become more complicated, possibly resulting in faster growth of gas import prices than under a Yanukovich government.

However, Tymoshenko has begun to show high flexibility - needed to win political power – not only vis-à-vis the demands of her electorate but also vis-à-vis important power groups. She appears to have softened her stance on re-privatisations, a controversial issue during the 2005. Viktor Pynzenyk (finance minister in the 2005 Tymoshenko government, also in the successor Yekhanurov government, and now again) reportedly said that the new government will provide better access for all who wish to participate in privatisation tenders, but that the party saw no need for large-scale re-privatisations. The government will use the courts to examine only a few cases of privatisation where the tender conditions were not in line with the law.

The tone vis-à-vis Russia has also been modified. Russia is no longer accused of breaking gas contracts; now the formulation is that one should get rid of non-transparent intermediation companies such as RosUkrEnerg. At the same time, Gazprom also has probably shifted tactics and is now likely to agree to only moderate price increases through 2010 (with 279 per 1,000 cubic meters in 2008), in exchange for an agreement on “market prices”, i.e. almost West European prices from 2011.

Tymoshenko also made efforts to improve her relations with international business. On 10 September 2007, she signed a program

called “Contract with Investors”. This contract promises among other things upgrading and professionalizing the government at all levels through the adoption of international standards, training staff and reducing the number of government employees while raising the salaries of those who remain. The “Contract” also promises to strengthen the powers of the judicial system, to curb tax evasion, combat organized crime and to pursue the adoption of a joint stock company law that is harmonized with EU legislation. It intends to overhaul the Economic Code for removing contradictory and overlapping regulations. The VAT regime and the social tax system are to be reviewed in order to ensure that the systems are comprehensive and in accordance with EU harmonisation. VAT reimbursements have to become unbiased and made within 60 days.

### The new government

Later on 18 December the parliament approved with 227 votes the new government led by Yulia Tymoshenko. The government has shrunk from 27 to 25 members at the expense of vice-premiers. There were five vice-premiers in the Cabinet of Prime Minister Viktor Yanukovich, and there will be only two in the Tymoshenko cabinet.

Alexander Turchinov, a central figure in the Yulia Tymoshenko Bloc (BYUT), has become the first vice-premier. Ivan Vasyunik, former first deputy head of the presidential (Yushchenko) secretariat, is a vice-premier. Political Research Center Director Grigory Nemyrya (BYUT) is the other vice-premier.

Other BYUT ministers: The chairman of the “Center for Ukraine Productive Forces Studies”,

Bogdan Danilishin, is minister of economy. Iosif Vinsky, a former member of the Socialist Party that switched to the Yulia Tymoshenko Bloc, is transport and communications minister. Lviv National University Rector Prof. Ivan Vakarchuk is education minister. Producer and scriptwriter Vasily Vovkun is the minister of culture and tourism.

Other NUNS (Our Ukraine - Self Defence, the block of president Yuschenko) ministers: Viktor Pynzenik is finance minister. Deputy Secretary of the National Security and Defense

Council Yuri Prodan is the fuel and energy minister, Vladimir Novitsky is industrial policy minister, Viktor Poltavets mining industry minister. The co-leader NUNS and former interior minister Yuri Lutsenko is again the interior minister. Agriculture Minister Yuri Melnik also retained his position. Former premier minister Yuri Yekhanurov has become defense minister, former first deputy minister Vladimir Ogryzko for foreign affairs became minister.

### Outlook

The political situation in Ukraine will remain shaky and economically Ukraine will have to cope with double-digit inflation because of globally higher food prices and hikes in gas prices. GDP growth will therefore slow, we expect it to remain above 5% however both in 2008 and 2009. The other (good) side of the coin of political fragility is that the sharp competition between political forces will ensure control and increasing transparency, a promising prerequisite for reliability and a further deepening of economic reform.

## TWO-WEEK MARKET MOVERS AND RISK FACTORS

Date	Event / Release	Reference date	Source	Notes
<b>Bulgaria</b>				
Dec 21, 07	Unemployment	September 2007	NEA	-
Dec 28, 07	Consolidated Budget Data	November 2007	MF	-
Dec 28, 07	PPI	November 2007	SO	-
<b>Czech R.</b>				
Jan 9, 08	CPI	December 2007	SO	We do not expect any change on yoy basis from November's 5%.
Jan 10, 08	Foreign trade	November 2007	SO	-
<b>Estonia</b>				
Dec 27, 07	Foreign Trade	October 2007	SO	-
Jan 4, 08	Retail Trade	November 2007	SO	-
<b>Hungary</b>				
Jan 7, 08	Unemployment	November 2007	SO	It is expected to climb at 7.4%
Jan 9, 08	External trade	November 2007	SO	A rise of 2.5% in import and of 6.5% in export is expected
Jan 9, 08	Industrial output	November 2007	SO	5.7% yoy growth expected
<b>Latvia</b>				
Dec 28, 07	Domestic trade	November 2007	SO	-
<b>Lithuania</b>				
Dec 24, 07	Industrial Production	November 2007	SO	Previous number was +6.1%
<b>Poland</b>				
Dec 21, 07	Net core CPI	November 2007	CB	We expect net core CPI to increase by 1.5% yoy
Dec 21, 07	Retail sales	November 2007	SO	We predict retail sales growth at 18.5% yoy
<b>Romania</b>				
Dec 21, 07	Budget law 2008	-	MoF	Budget deficit in 2008 planned at 2.7% of GDP.
Jan 07, 08	NBR Board meeting	-	CB	+50 bp expected to 8.0%
Jan 11, 08	CPI	December 2007	SO	We expect 6.2% end of year inflation.
<b>Slovakia</b>				
Dec 27, 07	PPI	November 2007	SO	-
Jan 2, 08	State Budget	2007	MoF	We expect the budget deficit on cash basis to be at only 1/2 of plan
<b>Croatia</b>				
Dec 28, 07	GDP	3Q	SO	-
Dec 28, 07	Balance of Payments	3Q	CB	Tourism receipts will see a large surplus recorded
<b>Turkey</b>				
Dec 31, 07	Foreign trade	November 2007	SO	Trade deficit posted a 22.7% increase in Jan-Oct 2007.
Jan 4, 08	Inflation	December 2007	SO	Annual CPI inflation surged to 8.4% as of November.
<b>Russia</b>				
21-24.12.07	Retail Sales	November 2007	SO	14.7%
21-24.12.07	Unemployment Rate	November 2007	SO	5.9 %
28-31.12.07	M2	November 2007	CB	46.8 %
<b>Ukraine</b>				
Jan 28, 08	GDP	Q3 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	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.	+25 bps	Feb 07, 08	3.50	3.75	3.75	4.00	26.2	26.3	26.5	26.7
Estonia	Currency board	-	-	-	-	-	15.65	15.65	15.65	15.65
Hungary	on hold	Jan 21, 08	7.50	7.25	7.00	7.00	254.5	256.0	255.0	252.0
Latvia	On hold	Jan 17, 08	6.00	6.00	6.00	6.00	0.70	0.70	0.70	0.70
Lithuania	Currency board	-	-	-	-	-	3.45	3.45	3.45	3.45
Poland	on hold	-	5.00	5.25	5.50	5.50	3.62	3.58	3.67	3.75
Romania	+50bp	Jan 7, 08	7.50	8.50	8.50	8.50	3.56	3.52	3.55	3.57
Slovakia	on hold	Jan 29, 08	4.25	4.25	4.25	4.25	33.6	32.8	33.0	33.0
Slovenia	-	-	4.00	4.00	4.25	4.25	EUR	EUR	EUR	EUR
Croatia	-	-	6.00	6.00	6.50	6.00	7.32	7.31	7.30	7.30
Turkey	Rate cut expected	Jan 17, 08	15.75	14.25	14.25	14.25	1.71	1.80	1.88	1.82
Bosnia-H.	Currency board	-	-	-	-	-	1.96	1.96	1.96	1.96
Russia***	-	-	10.00	10.50	10.50	10.50	24.7	24.6	24.9	24.9
Serbia	-	-	9.50	10.50	10.50	10.50	78.5	86.0	87.0	87.0
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

\*\*\* 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	stable
Czech R.	A1	positive	A	stable	A	stable
Estonia	A1	stable	A	negative	A	stable
Hungary	A2	stable	BBB+	stable	BBB+	stable
Latvia	A2	stable	BBB+	negative	BBB+	stable
Lithuania	A2	stable	A	negative	A	neaglive
Poland	A2	stable	A-	stable	A-	stable
Romania	Baa3	stable	BBB-	negative	BBB	stable
Slovakia	A1	stable	A	stable	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+	Stable	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 production, (yoy)			Retail sales, real (yoy)			Consumer prices, (yoy)		
	Aug	Sept	Oct	Aug	Sept	Oct	Aug	Sept	Oct	Aug	Sept	Oct	Sept	Oct	Nov
Bulgaria	6.4	14.2	23.1	8.2	23.1	21.3	8.4	8.9	10.4	3.6	2.1	2.3	13.1	12.4	12.6
Czech R.	16.1	15.6	17.6	16.3	12.4	15.4	6.0	1.3	8.4	7.3	4.1	9.4	2.8	4.0	5.0
Estonia	-2.3	-7.5	-	0.7	-7.3	-	2.4	3.4	8.5	14.6	11.8	9.4	7.2	8.5	9.1
Hungary	18.3	10.8	16.5	13.9	7.1	12.8	9.5	6.2	8.5	-3.6	-4.6	-	6.4	6.7	7.1
Latvia	22.3	15.0	22.9	12.7	7.6	15.4	3.3	-2.6	0.2	19.1	16.7	9.6	11.4	13.2	13.7
Lithuania	15.8	7.3	12.2	9.7	6.3	10.6	-0.8	6.1	-	16.2	12.4	14.7	7.1	7.6	7.8
Poland	16.5	8.4	15.7	12.9	13.9	17.0	8.9	5.4	10.6	16.1	12.2	16.3	2.3	3.0	3.6
Romania	8.3	11.9	23.4	20.0	23.1	28.1	4.3	6.1	3.6	31.0	35.6	13.9	6.0	6.8	6.7
Slovakia	14.6	18.9	21.5	17.4	8.8	15.3	5.8	15.3	17.3	5.1	1.9	2.1	2.8	3.3	3.1
Slovenia	25.5	9.3	15.9	20.8	15.2	19.0	10.1	2.9	10.9	0.3	4.9	8.2	3.5	5.1	5.7
EU-10	15.4	11.0	-	14.6	13.2	-	7.3	5.4	-	12.1	10.3	-	4.3	5.0	5.5
Croatia	7.9	7.3	7.6	5.9	6.4	12.8	2.8	2.1	5.5	10.7	-1.1	4.6	3.9	4.3	4.6
Turkey	14.8	4.4	26.3	11.3	6.1	22.3	5.9	2.4	7.9	-	-	-	7.1	7.7	8.4
Bosnia-H.	13.7	7.4	13.4	17.1	6.0	19.7	5.8	5.5	6.5	-	-	-	2.3	3.7	4.3
Russia	3.1	6.3	23.7	29.0	17.8	22.2	3.8	3.0	6.1	16.0	15.4	14.6	9.3	10.8	11.4
Serbia	25.4	20.5	19.1	19.3	21.1	34.9	6.5	-0.3	3.2	26.6	22.8	25.7	7.4	8.5	8.8
Ukraine	11.8	2.8	-	19.5	7.4	-	8.7	8.4	13.7	29.0	27.6	30.8	14.4	14.8	15.2

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

## QUARTERLY GDP

constant prices, % yoy	2005	2006	2007	2005				2006				2007			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Bulgaria	6.2	6.1	6.2	6.6	7.3	5.4	6.0	5.5	6.4	6.7	5.7	6.2	6.6	6.2	6.0
Czech R.	6.4	6.4	5.7	5.8	6.4	6.3	7.0	6.6	6.4	6.3	6.2	6.4	6.3	6.0	4.4
Estonia	10.5	11.4	7.5	7.8	10.0	11.6	11.0	11.4	11.2	11.1	11.0	10.1	7.6	6.4	6.2
Hungary	4.1	3.9	1.8	3.0	4.5	4.2	4.7	4.5	3.5	3.9	3.7	2.7	1.2	0.9	2.3
Latvia	10.6	11.9	10.6	7.7	11.5	11.6	11.4	13.1	11.1	11.9	11.7	11.2	11.0	10.9	9.0
Lithuania	7.9	7.7	9.2	5.6	7.4	8.8	9.6	8.2	9.1	6.3	7.4	8.1	8.0	10.8	9.6
Poland	3.6	6.2	6.4	2.4	3.2	4.3	4.4	5.4	6.3	6.6	6.6	7.2	6.4	6.4	5.2
Romania	4.1	7.7	5.8	6.0	4.7	2.6	4.3	6.9	7.8	8.3	7.7	6.0	5.6	5.7	5.6
Slovakia	6.6	8.5	9.0	5.0	7.3	7.2	6.6	9.0	7.9	9.0	8.2	8.3	9.3	9.4	8.9
Slovenia	4.1	5.7	5.7	3.0	5.4	3.8	3.9	5.0	4.7	5.6	5.5	7.2	5.9	6.3	4.7
EU-10	4.9	6.5	6.0	4.1	5.0	5.0	5.4	6.3	6.5	6.7	6.6	6.6	6.0	6.0	5.3
Croatia	4.3	4.8	5.5	1.8	5.1	5.2	4.8	6.0	3.6	4.7	4.8	7.0	6.6	4.6	4.3
Turkey	7.4	6.1	5.0	6.6	5.5	7.7	9.5	6.7	8.3	4.8	5.2	6.8	4.1	1.5	6.7
Bosnia-H.	4.3	6.2	6.7	-	-	-	-	-	-	-	-	-	-	-	-
Russia	6.4	6.7	7.5	5.0	5.6	6.5	8.0	5.0	7.0	6.8	7.8	7.9	7.8	7.6	6.7
Serbia	6.2	5.7	6.5	4.6	7.8	7.4	5.0	7.0	5.9	5.3	5.0	8.4	7.7	5.8	5.5
Ukraine	2.7	7.1	7.2	5.0	3.5	1.5	1.9	4.1	6.8	6.9	9.5	8.0	7.9	6.3	6.8

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)			
	2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008
Bulgaria	6.2	6.1	6.2	6.2	10.7	9.1	7.3	6.5	2.3	3.6	4.5	3.2	-12.0	-15.8	-19.2	-17.2
Czech R.	6.4	6.4	5.7	4.0	8.9	8.1	6.6	5.7	-3.5	-2.9	-3.1	-2.9	-1.6	-3.1	-3.5	-3.1
Estonia	10.5	11.4	7.5	5.7	7.9	5.9	5.3	4.7	2.3	3.8	1.9	0.5	-10.3	-14.7	-15.4	-15.0
Hungary	4.1	3.9	1.8	3.1	7.2	7.5	7.6	7.3	-7.8	-9.2	-6.2	-4.2	-6.8	-6.5	-4.9	-4.3
Latvia	10.6	11.9	10.6	8.0	8.9	6.8	5.6	5.0	-0.4	-0.3	0.9	0.7	-12.5	-22.3	-23.8	-21.2
Lithuania	7.9	7.7	9.2	7.7	8.3	5.6	4.3	4.6	-0.5	-0.3	-0.2	-0.3	-7.2	-10.8	-13.4	-11.9
Poland	3.6	6.2	6.4	5.2	17.6	14.9	11.2	9.6	-2.5	-1.7	-3.0	-2.9	-1.7	-2.3	-3.5	-4.9
Romania	4.1	7.7	5.8	5.5	5.8	5.4	4.3	4.2	-0.8	-1.7	-2.2	-3.0	-8.7	-10.3	-13.5	-14.1
Slovakia	6.6	8.5	9.0	7.4	11.6	10.4	8.3	7.8	-2.8	-3.7	-2.7	-2.3	-8.4	-7.0	-3.8	-2.5
Slovenia	4.1	5.7	5.7	5.0	6.5	6.0	5.0	4.8	-1.4	-1.4	-0.6	-1.5	-1.9	-2.5	-3.0	-2.8
EU-10	4.9	6.5	6.0	5.1	11.7	10.1	8.0	7.2	-2.8	-2.6	-2.6	-2.5	-4.5	-5.7	-6.7	-6.8
Croatia	4.3	4.8	5.5	4.7	12.7	11.2	10.2	9.4	-4.0	-3.0	-2.6	-2.5	-6.4	-7.8	-8.3	-7.9
Turkey	7.4	6.1	5.0	6.1	10.3	9.7	9.3	9.0	-1.4	-0.8	-2.5	-2.0	-6.3	-8.2	-7.3	-7.3
Bosnia-H.	4.3	6.2	6.7	6.5	44.1	44.5	44.0	42.5	2.4	2.9	2.3	1.9	-19.8	-10.7	-16.9	-17.5
Russia	6.4	6.7	7.5	6.6	7.1	6.7	6.2	5.7	7.5	7.4	7.0	2.2	11.0	9.6	5.2	4.0
Serbia	6.2	5.7	6.5	6.2	20.8	20.9	21.2	20.7	1.9	1.5	-0.5	-0.6	-8.5	-11.6	-14.1	-12.8
Ukraine	2.7	7.1	7.2	5.6	7.2	6.8	6.5	6.2	-1.8	-0.7	-3.0	-4.0	2.8	-1.5	-3.1	-5.5

Source: National statistical offices and central banks, 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			
	2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008
Bulgaria	5.0	7.3	8.4	7.0	6.5	6.5	12.0	6.5	-	-	-	-	1.96	1.96	1.96	1.96
Czech R.	1.9	2.5	2.8	5.4	2.2	1.7	5.0	4.4	2.00	2.50	3.50	4.00	29.0	27.5	26.3	27.0
Estonia	4.1	4.4	6.6	8.9	3.6	5.1	9.5	6.1	-	-	-	-	15.65	15.65	15.65	15.65
Hungary	3.6	3.9	7.9	5.5	3.3	6.5	6.9	4.0	6.00	8.00	7.50	6.50	253	252	253	252
Latvia	6.7	6.5	10.1	10.6	7.0	6.8	14.2	7.0	4.00	5.00	6.00	6.00	0.70	0.70	0.70	0.70
Lithuania	2.7	3.8	5.7	6.9	3.0	4.5	7.9	5.8	-	-	-	-	3.45	3.45	3.45	3.45
Poland	2.1	1.0	2.4	4.2	0.7	1.4	3.9	3.8	4.50	4.00	5.00	5.50	3.86	3.83	3.63	3.73
Romania	9.0	6.6	4.8	5.7	8.6	4.9	6.2	4.6	7.50	8.75	7.50	8.50	3.68	3.38	3.48	3.58
Slovakia	2.7	4.5	2.7	3.8	3.7	4.2	3.3	3.6	3.00	4.75	4.25	4.25	37.85	34.6	33.0	33.0
Slovenia	2.5	2.5	3.5	2.8	2.3	2.8	5.0	2.8	3.75	3.75	4.25	4.25	239.6	239.6	EUR	EUR
EU-10	3.4	3.1	4.1	5.1	3.0	3.2	5.5	4.3	-	-	-	-	-	-	-	-
Croatia	3.3	3.2	2.8	3.8	3.6	2.0	4.3	2.6	4.38	3.84	4.50	4.50	7.38	7.35	7.31	7.34
Turkey	8.2	9.6	8.8	7.1	7.7	9.7	8.5	5.7	13.50	17.50	15.75	13.75	1.60	1.86	1.71	1.81
Bosnia-H.	3.8	7.4	1.8	3.4	4.3	6.0	3.7	2.2	-	-	-	-	1.96	1.96	1.96	1.96
Russia *	12.7	9.7	8.9	8.6	10.9	9.0	11.5	8.0	12.00	11.00	10.50	10.00	28.8	26.3	24.6	25.0
Serbia	16.5	12.7	6.5	7.1	17.7	6.6	9.6	8.4	19.20	14.00	10.00	10.50	85.5	79.0	85.0	90.0
Ukraine *	13.5	9.1	12.7	13.6	10.3	11.6	15.6	10.4	12.00	9.50	14.50	12.50	5.05	5.05	5.05	5.05

\* exchange rate to the USD

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

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