

# CEE Biweekly

17 OCTOBER 2007



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

### Imprint

Published by UniCredit Group / Bank Austria Creditanstalt  
<http://www.unicreditgroup.eu>  
<http://www.ba-ca.com>

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## KEY ECONOMIC NEWS

**Bulgaria** – Retail sales in August grew by a meager 3.7% yoy, extending the slowdown trajectory seen in the last five months of the current year. In September CPI increased by 1.3% mom, showing signs of moderation after jumping by 2.2% and 3.1% in July and August respectively. The twelve-month CA gap (capital account balance included) widened to 17.9% of projected GDP at the end of August, amid persistent speculations about the quality of foreign trade data, collected through the INTRASTAT system.

**Czech Republic** – President Vaclav Klaus signed the Act on Public Finance Stabilization, meaning that the economic reform measures will definitely come into force in January 2008. Positively, the progress in reforms has already been reflected in upgrading the country's rating to A with stable outlook from A- with positive outlook by S&P's. On the data front, in addition to inflation's surge to 2.8% yoy in September, we expect the pickup in the price growth to continue for the rest of 2007 and in early 2008. We stick to our forecast that the CNB will raise rates once more by 25bps in Q4 (we bet on October), but we see a downside risk to our prediction for three-quarter point hikes next year as the world's major central banks are shifting now to a more dovish stance.

**Estonia** – The current account deficit narrowed to EUR 104 mn in August from EUR 121 mn a year earlier. Exports grew by 4.6% yoy, imports declined by 1.5%. This probably indicates a further cooling of the economy. Remarkable is also that for the first time since April 2005 a significant net overall outflow of capital (Eur 307 mn) was recorded on the financial account of the balance of payments.

**Hungary** – September headline inflation came to 6.4% yoy against the market consensus of 6.2%. Core inflation mom edged up to 0.6% from August's 0.4%, on a yearly basis it was 4.3, down from 5.4% in the previous month. This decrease was offset by an increase in foodstuff prices. Soaring prices of raw material for the food industry - the price of crops, for example, stood 32% higher than a year ago - put significant upward pressure on food prices, which are now starting to be passed on to the consumer price level. Given, however, the extent of the upsurge in agriculture prices (2.5% mom or 10.5% yoy) the rise in food prices looks quite modest and leads us to assume that this is only the beginning. As a consequence we revised our CPI forecast – we now expect CPI yoy growth to be 6.3% at the end of 2007 (versus a previous 5.9%).

**Latvia** – Latvian CPI continues to surprise on the upside easing further to 11.4% yoy in September. Compared to August, the average consumer price level rose by 1.9% driven by a sizeable increase in food prices. Faster increases compared to last year were also observed in prices for housing, clothing and footwear. Given the adverse international trends especially in terms of volatile prices and the still rapid pace of expansion in domestic demand, annual inflation will most probably exceed double digits this year to reach 10.6% in December, despite a curb in spending anticipated in the next months. First signs of some cool down in the economy come from a modest decline in the external deficit in August. The CA deficit increased by 259mn lats to reach 2.2bn lats (EUR 3.1bn - up by 65% yoy) marking a significant deceleration compared to July's all-time high.

**Lithuania** – CPI inflation was registered at 7.1% yoy in September, up from 5.5% in August (+1.4% in monthly terms), driven by higher increases in prices of alcoholic drinks and tobacco, and clothing and footwear. Inflation has been constantly rising since last February, but the amount of this increase surprised most of the analysts on the upside. Inflation is still the main hurdle for the Lithuanian aspirations to join Eurozone in the next years. The reading is particularly negative as it adds up to other signs of overheating of the Lithuanian economy (growth higher than potential, increasing external imbalances, rapid wage growth) and a more difficult external environment, considering the situation in the other two Baltic states as well.

**Poland** – All attention in Poland is now focused on the parliamentary elections scheduled for October 21. The pro-market party Civic Platform (PO) performed much better than we originally expected, increasing the chances of the PO-led government. Fortunately, Poland's economy is thriving despite turmoil in the country's political landscape. Recent macroeconomic data showed strong growth of domestic demand. The risk of this picture is linked to inflation. The unexpectedly sharp rise of September CPI showed that the headline inflation rate will rise to over 3% by the end of the year. Therefore, we predict the reference rate to peak at 5.25% at the end of Q1 2008.

**Romania** – CPI Inflation is not showing decisive signs of moderation, accelerating to 6.03% y/y in September from 4.96% y/y in August. The 1.08% monthly increase was mainly prompted by an increase in food prices (up by 1.94%), fuelled by poor agricultural crops. Adverse trends in international volatile prices are expected to keep inflationary pressures at a high level through the rest of the year, supporting an upward revision in our forecast to 5.2% for year end (slightly above the upper threshold of the CB target band).

Romania's trade deficit widened by 69% yoy (FOB/CIF) in the first 8M to reach EUR 10.8 bn, on the back of continued rapid expansion in imports (up by 27.5% yoy) compared to relatively weak export growth (11.8%). As a result, the CA deficit only marginally moderated in August to reach 10.22bn EUR (up by 87% yoy). Romania's government approved the budget law for 2008 envisaging a 2.7% deficit based on a projection for 2008 GDP growth of 6.5%.

**Slovakia** – Consumer prices grew up by 0.3% mom in September – accelerating to 2.8% yoy from 2.3% in August. This increase was driven by a food prices hike and a base effect in fuel and communication prices. The nominal fulfillment of Maastricht inflation criterion is not, however, endangered. Demand-pulled inflation is still under control (slowing down to 2.1% in September), thus sending a neutral signal to monetary policy. As expected, the foreign trade deficit deepened in August (reaching SKK 7.6 bn) and industrial production significantly slowed (5.7% yoy) due to holidays in all of the Slovak auto plants. Construction production surprisingly fell by 1.7% yoy in August – recording the first yoy decline since May 2003. The government approved 2008 state budget proposal, with the deficit expected to be 2.3% of GDP.

**Slovenia** – The Ministry of Finance on 12 October announced that it had cancelled a planned EUR 1bn bond issue because it did not need the money. Indeed, given strong growth and thus better than expected tax revenue coupled with discipline in the execution of public spending, the Ministry of Finance now expects the budget deficit to amount to 0.6% of GDP as opposed to the original forecast of 1.5% of GDP. The government last week also increased its growth forecast for the year to 5.8%; our growth forecast is very close, i.e. 5.7% for 2007. Given the effects of food price increases over the summer the government's official forecast for inflation was revised up to 3.4% yoy for this year (up from its autumn forecast of 2.2% yoy), that in line with our expectation for this year. In 2008 the inflation rate is seen at 3.5% (up from the autumn forecast of 2.5% yoy). This coming weekend presidential elections will be held in Slovenia. The outcome will have no major effect on economic policy.

**Croatia** – Economic growth in Q2 2007 was a stronger than expected 6.6% yoy driven by private consumption and stronger public spending. Investment activity rose 5.8% yoy, which was less than expected. Exports contributed 4.1 percentage points to growth. The current account deficit for Q2 2007 came in as expected at EUR 1.35 bn to yield a cumulative deficit for the 12 months to June 2007 of EUR 2.8 bn, or 7.5% of GDP. Thus, the current account deficit is little changed from the previous year despite strong domestic demand. FDI inflows over this period amounted to 8.6% of GDP. In addition, the central bank appears more confident foreign debt growth is stabilizing, having announced on 10 October that foreign debt rose EUR 300 mn in September to EUR 30.7bn. September consumer price index data showed an increase in the headline figure to 3.9% yoy (from 2.6% in August). Croatia will hold a general parliamentary election on 25 November.

**Turkey** – Financial markets started the second half of October with a quite loaded agenda. Local politics have been heating up, due to tensions about the possibility of Turkey's cross-border military operations in Iraq and the approval of the Armenian Resolution (labeling the Ottoman killings of the Armenians as "genocide") in the US House Foreign Affairs Committee. Regarding the former, the Turkish Parliament will vote for permission to authorize the military intervention in Iraq to fight against Kurdish PKK troops this week. Concerning the latter, whether the Armenian resolution will be passed in the US House of Representatives will be followed by market players. On the economic front, the budget for 2008 will be presented in the Parliament on October the 17th. There are signals that the primary surplus target (as a ratio of GDP) for the consolidated public sector may be lower compared to the previous year's 6.5%. Finally, the central bank lowered interest rates on October 16th by 50 bp.

**Bosnia** – On 11 October political parties in Bosnia and Herzegovina failed to reach agreement on police reforms after, in response to an initiative by two Croatian political parties to find a compromise solution, representatives from Republika Srpska (RS) set additional conditions which ended up being deal breakers. RS representatives were not prepared to see the organization and financing of the police force move from the entity level. In response, High Representative Miroslav Lajcak said efforts to agree police reform had ended, implying strongly that BiH's efforts to join the EU would be halted. The final precondition for the ratification of the Stabilization and Association Agreement with the EU is police reform. On Monday 15 October the European Commission expressed regret that police reform had failed and noted this would slow BiH's EU accession process. In essence, BiH's already slow EU accession process has effectively stalled.

**Russia** – In September 2007 Russia's CPI increased by 0.8% mom, significantly exceeding analysts' expectations. There were two main drivers of inflation. Firstly, price dynamics were predetermined by the spike in foodstuffs, mainly in dairy products and the grain industry. Secondly, massive liquidity injections were made by the central bank into the banking sector. The September rise brings the price growth during the first nine months of the year to 7.5% ytd (7.2% ytd during the same period of 2006). Russia will significantly overshoot its inflation target of 8.0% yoy for December 2007. Inflation will likely reach 9.5% yoy in December.

**Serbia** – Economic growth in Q2 2007 was a robust 7.7% yoy following a strong first quarter. The other side of this coin however, is a widening of the current account deficit which in the eight months to August 2007 was 83% higher yoy (at USD 3.8 bn) and is expected to widen to 14.3% of GDP in 2007. At the same time FDI inflows are lower, as last year's privatization revenues have not been matched this year. Banking sector capital increases during Q4 will boost the FDI figure this year, however coverage of the deficit will still be below 50%. Core and headline inflation are heading higher, rising to 7.4% yoy in September, as food prices and base effects begin to take hold. Nevertheless, the National Bank of Serbia left interest rates unchanged at 9.75% on 1 October. Instead the NBS appears ready to allow the EUR/RSD to head lower, given that the currency is the more important transmission mechanism for monetary policy and thus more effective in fighting inflation. The other benefit of this approach is that it contains the costs of sterilization.

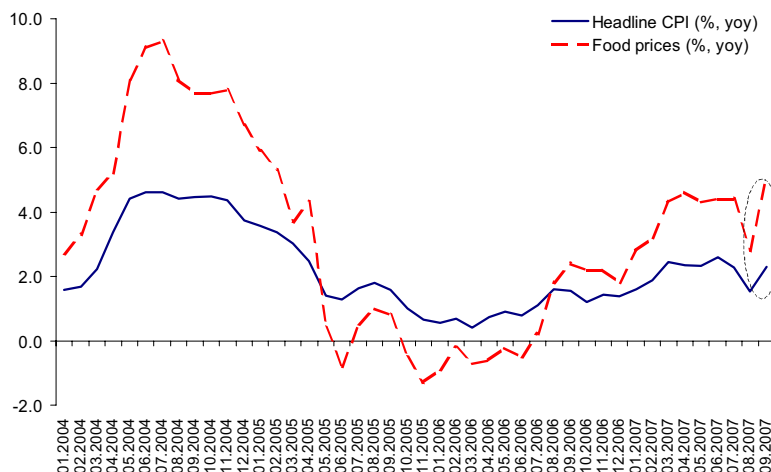
## POLAND

### The Civic Platform has strengthened its position on the political scene

The crucial event, which could change the course of political and economic developments in coming years, are the parliamentary elections set for October 21. The TV debates were a turning point in the election campaign. The leader of the Civic Platform (PO), Tusk, performed much better than expected and according to the opinion polls he won all debates (both with the PM Kaczynski and leader of the ex-communist party LiD Kwasniewski). Opinion polls taken after the debates showed a sharp increase in PO's support, over 40% (compared to 33% on average). However, the ruling Law and Justice (PiS) maintained its strong, core support near 33-35% of voters. It is worthy noting that a new Parliament will consist of the three biggest parties PO, PiS, LiD and one small Peasants' Party (PSL).

Recent opinion polls suggest that the PO will be the main beneficiary, raising the likelihood that the PO will play the leading role in a new government. The Civic Platform's economic philosophy is mainly based on cutting taxes, even introducing linear tax, minimizing the role of the state in society and removing politics from the justice system and the secret service. Moreover, the pro-market PO wants to improve relations with the EU and Germany. In our opinion, the PO would not win sufficient votes to form a one-party government, despite its gains in the polls. However, we still believe that the new government coalition led by the Civic Platform would improve fiscal policy. On the other hand, the main danger is that

### Surprisingly strong growth of food prices



Source: SO, Bank Pekao SA

the outcome of the elections will not bring an outright winner and hence pave the way for a more inefficient government.

### Rapid growth of food prices

September inflation rate increased surprisingly strongly to 2.3% yoy from 1.5% yoy in August (unexpected slowdown due to a sharp decrease of internet prices). This growth is attributed to food prices, which increased by 5.1% yoy (or 2.4% mom), the highest level since 2005. We predict that not only headline CPI will return to an upward trend, but also core CPI should accelerate again in the coming months (our forecasts of September net core inflation is 1.2% yoy). If our forecast comes to pass, we predict

the gap between the headline inflation rate and the net core rate to increase over 1pps. However, due to seasonal effects we expect the gap to narrow in the medium term. On the other hand, robust economic growth clearly supports the rising trend in consumer price inflation. We expect the headline inflation rate to exceed 3% yoy at the end of the year.

On the monetary policy side, the acceleration of inflation and the strong growth of wages (by 9.5% yoy in September) support the hawks in the Monetary Policy Council. At the moment we expect one more hike in November, bringing the reference rate to 5.00%. We believe that the tightening cycle will continue in Q1 2008, as well, with another 25bps increase.

## CZECH REPUBLIC

### Economic reforms – a good start, but more will have to come

President Vaclav Klaus has signed the Act on Public Finance Stabilization recently, concluding the legislative process for the economic reforms. The reform package, consisting of the tax pillar, welfare spending cuts and changes in healthcare financing, should take effect in January 2008. Within the tax pillar, a flat 15% tax rate on all personal income will substitute for the current progressive tax with brackets ranging from 12% to 32%. However,

the effective rate will reach 23.4% as the tax will be calculated from a much broader base than under current conditions. Also, corporate income tax will fall to 21% next year, 20% in 2009 and 19% in 2010 from 24% now. By contrast, the lower VAT rate will be raised to 9% from 5%, making essential items like foodstuffs and medicines more expensive. In addition to changes in VAT, excise taxes on cigarettes will continue to rise, and new environmental taxes will be implemented. Social spending cuts include reductions in the

state's contribution to the family allowance and child benefits, in the state's birth and funeral contributions, and other welfare services. Finally, patients will have to pay extra fees for doctor visits, prescriptions and stays in hospital – measures which the government hopes will not only improve the financing of the healthcare system but also prevent misuse of healthcare.

Overall, for 2008 the measures are intended to be mildly restrictive in fiscal terms, which will primarily be reflected in welfare spending cuts as the tax reform alone appears to be fiscally

broadly neutral. Tax changes in principle prove to reflect political preferences of the current government coalition rather than efforts aimed at fiscal stabilization, shifting the burden from direct to indirect taxes.

The economic implications of the reform in the short term are likely to be mainly an inflationary spike and a reduction of household spending. Some negative effects can also be expected in the construction sector due to the shift in the VAT rate for the construction of housing. On the inflation front, we expect that the hikes in the reduced VAT rate and excise tax on tobacco products will add more than 1 percentage point to the yoy CPI next year. Importantly, however, the CNB has signaled that it will not take into account the primary impacts of tax changes when deciding on interest rates. Economic growth is set to be adversely affected slightly by the lower purchasing power of households. A reduction of social spending and sickness benefits, a smaller rise in pensions and public sector wages will be the main measures affecting private consumption. On a positive note, a mild increase in employment and a continued strong rise in wages in the private sector should somewhat

ease the burden of consumers already mentioned above. In the long-term, however, the positive effects of the reform package on the growth potential might prevail.

The reform measures implemented to date are undoubtedly welcome internationally (S&P's has already raised the country's rating one notch to A), but they are undoubtedly insufficient for a consolidation of public finances in the long term. Although the fiscal restriction is expected to allow slashing the public sector deficit to 2.95% of GDP next year by the assumption of the Finance Ministry from 3.6% forecast for this year (we expect 3% of GDP for 2008, down from 2007's 3.5%), the continuation of this trend beyond 2008 is far from certain. With respect to the government's pledges to continue reducing the personal income tax rate further to 12.5% in 2009, additional changes in the tax system and/or significant spending cuts would have to be adopted to keep the restrictive course of the budgets. However, the government has not yet defined any specific goals for the second phase of the reform.

Moreover, even if the country manages to meet the Maastricht fiscal criterion of 3%

of GDP in 2008 and onwards, it may not be enough to comply with its obligations under the Stability and Growth Pact. Within the Pact's framework, the EU ministers have pressed the Czechs to cut its structural deficit (a gap that excludes one-off and cyclical factors) by 0.75% of GDP in 2008 and then by at least 0.5% of GDP annually in order that the country's public finance deficit would not exceed 1% of GDP in 2012. Apparently, there is much work to do for the Czechs to achieve this goal in a credible and sustainable manner, as required by the Pact. In this respect, the Czech government will for instance need to: cut a sizable share of mandatory expenditures in the state budget; to consolidate more in times of strong economic growth and so create reserves for worse times; and last but not least, start overhauling the pension system in order to at least mitigate the rise of contingent liabilities in the budgets.

From the viewpoint of the adoption of the euro, the measures so far adopted are insufficient to qualify in the near term. Importantly, the second phase of the reform has to follow soon to maintain the chances for entering before 2013.

## UKRAINE

### A new government

The Yulia Tymoshenko bloc and Our Ukraine Party-People's Self-Defense have signed a draft deal on a coalition government. Under the deal, the Tymoshenko party will nominate the prime minister (most certainly Yulia Tymoshenko) while Our Ukraine will nominate the candidate for the parliamentary speaker.

The coalition will have a thin majority of 228 out of 450 seats. In the September 30<sup>th</sup> parliamentary elections, Prime Minister Viktor Yanukovich's Regions Party garnered 175 seats, Tymoshenko's bloc managed 156, Our Ukraine 72, the Communists 27 and the Lytvin party 20.

When she was prime minister in 2005, Tymoshenko showed that she is not afraid of confronting either Russia or the local business magnates, especially those from Donetsk. This could trigger a new gas conflict with Russia and,

as in 2005, a marked reluctance by major companies to invest capital, and it could lead to capital flight. Stormy disputes with the coalition partner are also likely, especially if, as in 2005, Tymoshenko should again try to prevent price rises through administrative methods or to initiate a large-scale review of privatizations.

Tymoshenko's economic policy is not lacking in elements that are difficult to fulfill, such as the promise that Ukrainians would receive back their savings which had depreciated during the transition period. As the election campaign saw all parties make generous promises, some of which will have to be fulfilled at least to some extent, the Ukraine's budget deficit is likely to rise in 2008 (to 4-5% of GDP).

One should however also bear in mind that Tymoshenko has done a lot to improve relations with the business sector and foreign investors. One example is the „Contract with Investors“ which Yulia Tymoshenko signed on 10 September – a paper inter alia professing a commitment to a market economy, to the EU and WTO, to an improvement of investment conditions and to a reform of agriculture and the administrative system.

There is some risk of a new gas conflict, a growing budget deficit and capital flight. However, it is likely that privatization will proceed faster, relations with the EU will further improve and FDI continue to grow. GDP growth should slow a bit but remain above 5% over the coming years. FX reserves should be sufficiently high to keep the exchange rate at 5.05 to the USD.

## TWO-WEEK MARKET MOVERS AND RISK FACTORS

Date	Event / Release	Reference date	Source	Notes
<b>Bulgaria</b>				
Oct 30, 07	Inflation (PPI)	Sep, 07	SO	-
Oct 30, 07	Consolidated Budget Data	Sep, 07	MF	-
<b>Czech R.</b>				
Nov 2, 07	Foreign trade	Sep, 07	SO	We expect the trade balance to switch to a surplus from a small deficit posted in August.
<b>Estonia</b>				
Oct 26, 07	Foreign Trade	Aug, 07	SO	-
Oct 30, 07	Retail trade	Sep, 07	SO	-
<b>Hungary</b>				
Oct 25, 07	Unemployment	July-Sept, 07	SO	slight upturn to 7.3% from the August 7.2% is expected
Oct 25, 07	Retail sales	Aug, 07	SO	volume of sales on a yearly base is very much likely to decline further by 5.5%
Nov 8, 07	Industrial output	Sep, 07	SO	export led growth may reach a rate at around 11% yoy
<b>Latvia</b>				
Nov 5, 07	Industrial output	Sep, 07	SO	-
Nov 8, 07	CPI	Oct, 07	SO	We anticipate inflation to further ease to 11.5% yoy (0.6% mom)
<b>Lithuania</b>				
Oct 22, 07	Industrial production	Sep, 07	SO	Manufacturing activity is remaining strong
Nov 9, 07	Trade balance	Sep, 07	SO	External imbalances are still a source of concern
<b>Poland</b>				
Oct 22, 07	Net core CPI	Sep, 07	CB	Slight acceleration of net core inflation to 1.2% yoy
Oct 23, 07	Retail sales	Sep, 07	SO	We expect retail sales growth at 17% yoy, down from 17.4% in August
<b>Romania</b>				
Oct 31, 07	NBR Board meeting	-	CB	We expect CB to keep policy rate on hold
Nov 02, 07	Industrial output	Sep, 07	SO	-
<b>Slovakia</b>				
Oct 26, 07	PPI	Sep, 07	SO	we expect acceleration of yearly growth driven by base effect
Oct 30, 07	CA	Aug, 07	CB	we expect worsening of CA in August due to fall-out of automotive exports
<b>Slovenia</b>				
Oct 30, 07	CPI	October	SO	-
<b>Croatia</b>				
Oct 23, 07	Industrial production	Sep, 07	SO	Pick up expected compared to August figures
<b>Turkey</b>				
Nov 14, 07	Monetary Policy Committee Meeting	-	CB	25 basis point rate cut is expected in this meeting
<b>Russia</b>				
18-19.10.2007	Unemployment Rate	Sep, 07	SO	5.7%
18-19.10.2007	Retail Sales	Sep, 07	SO	15.0%
29-31.10.2007	M2	Sep, 07	CB	-
<b>Ukraine</b>				
Oct 25, 07	Wages, Earnings	Sep, 07	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	Dec 07	Mar 08	Jun 08	current	Dec 07	Mar 08	Jun 08	
Bulgaria	Currency board regime	-	-	-	-	1.96	1.96	1.96	1.96	
Czech R.	+25bps	Oct 25, 07	3.25	3.50	3.75	4.00	27.6	28.0	27.9	27.8
Estonia	Currency board	-	-	-	-	15.65	15.65	15.65	15.65	
Hungary	25 base point rate cut	Oct 29, 07	7.50	7.00	6.75	6.50	250.9	253.0	252.0	251.0
Latvia	+50bps	Nov 15, 07	6.00	6.50	6.50	6.50	0.70	0.70	0.70	0.70
Lithuania	Currency board	-	-	-	-	3.45	3.45	3.45	3.45	
Poland	on hold	Oct 30-31, 07	4.75	5.00	5.25	5.25	3.72	3.85	3.75	3.82
Romania	On hold	Oct 31, 07	7.00	7.00	7.00	6.50	3.33	3.32	3.33	3.33
Slovakia	on hold	Oct 30, 07	4.25	4.25	4.25	4.25	33.6	33.0	32.8	33.0
Slovenia	-	-	4.00	4.25	4.25	4.25	EUR	EUR	EUR	EUR
Croatia	-	-	5.57	4.50	4.50	4.75	7.32	7.35	7.30	7.30
Turkey	Rate cut expected	Nov 14, 07	16.75	16.50	15.75	15.00	1.71	1.74	1.76	1.78
Bosnia-H.	Currency Board	-	-	-	-	1.96	1.96	1.96	1.96	
Russia***	-	-	10.00	10.00	9.50	9.50	25.7	25.2	25.2	25.2
Serbia	-	-	9.75	10.50	10.50	10.50	77.7	79.0	78.0	77.0
Ukraine***	-	-	9.00	9.00	9.00	9.00	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+	negative
Latvia	A2	Stable	BBB+	Negative	BBB+	Stable
Lithuania	A2	stable	A	negative	A	stable
Poland	A2	stable	A-	stable	A-	stable
Romania	Baa3	stable	BBB-	stable	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)		
	June	July	Aug	June	July	Aug	June	July	Aug	June	July	Aug	July	Aug	Sep
Bulgaria	9.8	14.7	6.4	20.7	20.0	7.9	7.7	14.3	7.3	6.4	5.8	3.7	8.4	12.0	13.1
Czech R.	14.1	21.2	13.4	14.4	19.2	13.0	6.6	11.5	5.5	7.6	8.9	-	2.3	2.4	2.8
Estonia	0.9	12.4	-	-2.5	-1.2	-	5.5	7.6	1.9	18.0	13.6	13.7	6.4	5.7	7.2
Hungary	17.9	23.1	18.9	16.0	16.8	14.7	9.1	12.3	9.5	-3.6	-4.2	-	8.4	8.3	6.4
Latvia	15.5	16.3	22.3	26.5	39.8	12.7	0.9	2.1	-	24.4	24.7	19.1	9.5	10.1	11.4
Lithuania	12.5	24.0	17.2	13.1	26.3	8.3	4.7	12.2	13.7	15.8	10.8	-	5.1	5.5	7.1
Poland	10.7	17.4	16.7	16.6	23.5	12.8	5.6	10.4	9.0	14.3	15.0	16.1	2.3	1.5	2.3
Romania	9.5	18.3	7.6	23.3	28.5	18.6	5.3	6.3	3.8	15.9	23.5	31.3	4.0	5.0	6.0
Slovakia	20.6	29.4	14.2	21.1	30.3	18.1	10.9	17.3	5.7	7.5	5.9	5.1	2.3	2.3	2.8
Slovenia	14.1	19.3	25.5	14.3	17.5	20.8	6.0	8.9	10.1	-1.9	1.0	-	3.8	3.5	3.6
EU-10	12.7	19.7	-	17.1	22.5	-	6.5	10.6	-	9.9	11.0	-	3.9	3.9	4.3
Croatia	17.9	20.4	4.5	1.3	17.6	4.8	4.4	8.5	2.8	4.0	5.9	10.7	2.1	2.6	3.9
Turkey	8.1	16.2	19.2	8.1	16.9	13.8	2.3	3.9	6.1	-	-	-	6.9	7.4	7.1
Bosnia-H.	10.4	18.1	3.3	18.2	22.1	4.9	12.0	5.8	5.8	-	-	-	0.9	1.6	-
Russia	0.8	6.3	3.1	19.8	30.5	29.0	10.9	7.8	3.8	15.3	14.8	16.0	8.7	8.6	9.3
Serbia	29.4	33.5	25.7	21.8	33.1	19.5	4.7	3.8	6.5	25.3	23.8	4.9	5.9	6.3	7.4
Ukraine	20.5	18.2	-	22.4	33.8	-	10.4	7.8	8.7	26.1	39.5	-	13.5	14.2	14.4

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.	6.5	6.4	5.9	5.9	6.6	6.4	7.0	6.6	6.5	6.3	6.1	6.4	6.0	5.7	5.2
Estonia	10.5	11.4	8.0	7.8	10.0	11.6	11.0	11.4	11.2	11.1	11.0	10.1	7.6	7.4	7.4
Hungary	4.1	3.9	2.4	3.0	4.5	4.3	4.7	4.9	3.7	3.9	3.3	2.7	1.2	2.4	3.2
Latvia	10.6	11.9	10.0	7.7	11.5	11.6	11.4	13.1	11.1	11.9	11.7	11.2	11.0	9.2	8.5
Lithuania	7.6	7.5	8.2	4.6	8.3	8.3	8.7	8.5	8.4	6.4	6.9	8.3	8.0	8.0	8.2
Poland	3.6	6.1	6.6	2.4	3.2	4.3	4.4	5.5	6.0	6.3	6.6	7.4	6.7	5.2	5.0
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	5.9	5.8
Slovakia	6.0	8.3	8.8	4.9	5.4	6.3	7.5	6.7	6.7	9.8	9.6	9.0	9.4	8.1	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	5.0	4.7
EU-10	4.8	6.5	6.1	4.1	4.9	4.9	5.4	6.2	6.3	6.7	6.6	6.7	6.1	5.5	5.4
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	6.9	3.9	4.5	5.3
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	7.0	7.2
Serbia	6.2	5.7	6.5	4.6	7.8	7.4	5.0	7.0	6.2	5.1	4.8	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	6.5	6.7

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	3.0	2.0	-12.0	-15.8	-17.6	-16.8
Czech R.	6.5	6.4	5.9	4.8	8.9	8.1	6.6	6.2	-3.5	-2.7	-3.5	-3.0	-1.6	-3.1	-3.5	-3.3
Estonia	10.5	11.4	8.0	6.7	7.9	5.9	5.3	4.7	2.3	3.8	3.4	1.5	-10.3	-14.7	-16.8	16.0
Hungary	4.1	3.9	2.4	3.1	7.2	7.5	7.6	7.3	-7.8	-9.2	-6.2	-4.2	-6.9	-5.8	-4.9	-4.4
Latvia	10.6	11.9	10.0	8.0	8.9	6.8	5.6	5.0	-0.2	0.4	0.1	0.2	-12.5	-22.3	-22.7	-19.6
Lithuania	7.6	7.5	8.2	7.3	8.3	5.6	5.0	5.0	-0.5	-0.3	-0.2	-0.3	-7.2	-10.8	-13.4	-11.9
Poland	3.6	6.1	6.6	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	-2.5	-2.3	-8.7	-10.3	-12.8	-12.0
Slovakia	6.0	8.3	8.8	7.4	11.6	10.4	8.3	7.8	-2.8	-3.4	-2.9	-2.3	-8.6	-8.3	-3.9	-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	4.8	6.5	6.1	5.3	11.7	10.1	8.1	7.2	-2.8	-2.5	-2.8	-2.5	-4.6	-5.7	-6.5	-6.0
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	-7.2	-7.4
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	7.7	8.4	5.0	3.2	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	-14.3	-13.2
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	-3.4	-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	7.4	5.2	6.5	6.5	6.7	4.6	-	-	-	-	1.96	1.96	1.96	1.96
Czech R.	1.9	2.5	2.6	4.4	2.2	1.7	3.6	4.5	2.00	2.50	3.50	4.25	29.0	27.5	28.0	27.7
Estonia	4.1	4.4	6.0	7.0	3.6	5.1	6.5	7.1	-	-	-	-	15.65	15.65	15.65	15.65
Hungary	3.6	3.9	7.8	4.4	3.3	6.5	6.3	4.0	6.00	8.00	7.00	6.00	253	252	253	250
Latvia	6.7	6.5	9.4	8.3	7.0	6.8	10.6	6.0	4.00	5.00	6.50	6.00	0.70	0.70	0.70	0.70
Lithuania	2.7	3.8	4.8	5.1	3.0	4.5	5.4	4.7	-	-	-	-	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	5.25	3.86	3.83	3.85	3.85
Romania	9.0	6.6	4.6	5.3	8.6	4.9	5.2	4.5	7.50	8.75	7.00	6.50	3.68	3.38	3.32	3.34
Slovakia	2.7	4.5	2.5	2.9	3.7	4.2	2.2	3.3	3.00	4.75	4.25	4.25	37.85	34.6	33.0	33.0
Slovenia	2.5	2.5	3.2	2.8	2.3	2.8	3.4	2.8	3.75	3.75	4.25	4.25	239.6	239.6	EUR	EUR
EU-10	3.4	3.1	3.9	4.5	3.0	3.2	4.6	4.1	-	-	-	-	-	-	-	-
Croatia	3.3	3.2	2.4	2.8	3.6	2.0	3.2	2.6	4.38	3.84	4.50	4.50	7.38	7.35	7.35	7.34
Turkey	8.2	9.6	8.5	6.4	7.7	9.7	7.0	5.7	13.50	17.50	16.50	14.50	1.60	1.86	1.74	1.82
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	8.5	7.5	10.9	9.0	9.5	7.0	12.00	11.00	10.00	9.00	28.8	26.3	25.2	25.2
Serbia	16.5	12.7	6.3	7.1	17.7	6.6	8.4	5.8	19.20	14.00	10.50	10.00	85.5	79.0	79.0	77.5
Ukraine *	13.5	9.1	11.9	10.4	10.3	11.6	12.5	8.0	9.50	9.50	9.00	9.00	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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