UniCredit Group

CEE

Quarterly

Economics & FI/FX Research
Credit Research
Equity Research
Cross Asset Research

02 2009

"Your Leading Banking Partner in Central and Eastern Europe"

Bank Austria UniCredit Group

HypoVereinsbank UniCredit Group

UniCredit Bank

UniCredit Bank Banja Luka

UniCredit Bulbank

UniCredit Țiriac Bank

Zagrebačka banka UniCredit Group

BANK PEKAO SA

YapıKredi

ATF Bank Member of UniCredit Group

UKRSOTSBANK Member of UniCredit Group

Contents

Martin Blum, Head of EEMEA Economics, Fixed Income & FX Research (CAIB)
+43 50505 82363, martin.blum@caib.unicreditgroup.eu

Cevdet Akcay, Ph.D., Chief Economist, Turkey (Yapi Kredi)
+90 212 319 8430, cevdet.akcay@yapikredi.com.tr

Dmitry Gourov, Economist, EEMEA (CAIB)
+43 50505 82364, dmitry.gourov@caib.unicreditgroup.eu

Hans Holzhacker, Chief Economist, Kazakhstan (ATF Bank)
+7 727 244 1463, h.holzhacker@atfbank.kz

Anna Kopetz, Economist, Baltics (CAIB)
+43 50505 82364, anna.kopetz@caib.unicreditgroup.eu

Marcin Mrowiec, Chief Economist, Poland (Bank Pekao)
+ 48 22 656 0678, marcin.mrowiec@pekao.com.pl

Vladimir Osakovsky, Ph.D., Head of Strategy and Research, Russia (UniCredit Bank)
+7 495 258 7258 ext. 7558, vladimir.osakovsky@unicreditgroup.ru

Rozália Pál, Ph.D., Chief Economist, Romania (UniCredit Tiriac Bank)
+40 21 203 2376, rozalia.pal@unicredit.ro

Kristofor Pavlov, Chief Economist, Bulgaria (UniCredit Bulbank)
+ 359 2 9269 390, kristofor.pavlov@unicreditgroup.bg

Goran Šaravanja, Chief Economist, Croatia (Zagrebačka banka)
+ 385 1 6006 678, goran.saravanja@unicreditgroup.zaba.hr

Pavel Sobisek, Chief Economist, Czech Republic (UniCredit Bank)
+420 2 211 12504, pavel.sobisek@unicreditgroup.cz

Gyula Toth, Economist/Strategist, EEMEA (CAIB)
+43 50505 82362, gyula.toth@caib.unicreditgroup.eu

Jan Toth, Chief Economist, Slovakia (UniCredit Bank)
+421 2 4950 2267, jan.toth@unicreditgroup.sk

Bloomberg
UCGR

Internet
www.globalresearch.unicreditmib.eu

For publication requests in Austria and CEE please refer to:

Bank Austria Identity & Communications Department
pub@unicreditgroup.at
+43 50505 52826

Emerging Europe: Glimmers of hope, but some tough times still ahead

- **Given the very weak start to the year for growth indicators we revise our broad CEE17 growth forecasts lower (we expect a contraction of 3.5% in 2009, following 4% regional growth in 2008), current account deficit tighter (to a 4.2% GDP deficit, ex Kazakhstan and Russia, from a 7.3% deficit in 2008) and average inflation down (to 7.6% from 11.3%, despite weaker currencies).**

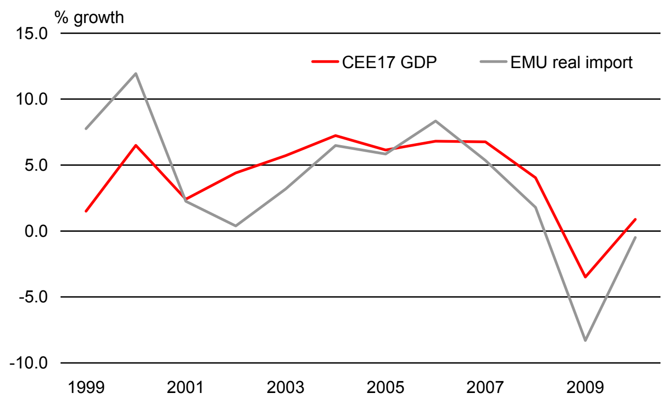
- More positively, some tentative signs of recovery in global manufacturing and capital flows are now being witnessed, whilst external support for Emerging Markets clearly also clarified positively. Medium-term challenges remain significant, however, and we look for underlying fundamental differences between countries to prove increasingly important in differentiating between countries.

- Countries with wide external financing gaps will continue to face the most meaningful downwards pressure on economic growth, higher risk of skeletons in the closet and more challenging market prospects. This group includes the Baltic States, Bulgaria, Hungary and Ukraine.

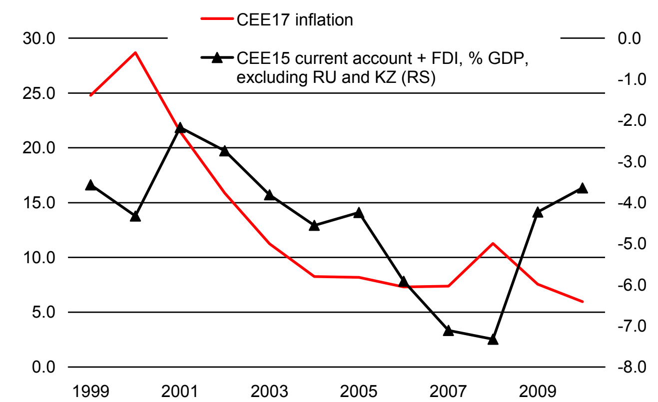
- We remain more constructive on countries which have lower external financing gaps and greater policy flexibility (lower FX leverage) and continue to see medium-term recovery prospects as stronger in the Czech Republic, Poland and Turkey.

GDP CONTRACTS, LEADING TO A SIGNIFICANT REDUCTION IN REGIONAL IMBALANCES

GDP growth following EMU imports lower



Balance of payments improving fast and inflation falling



Source: UniCredit Research

Tentative signs of hope in global industry and capital flows

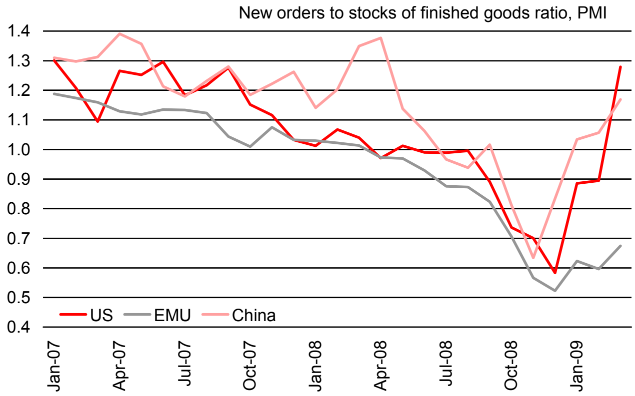
Emerging Markets were dealt a significant twin blow in Q4/08/Q1/09 by the collapse in both global manufacturing and capital flows

Emerging Markets were dealt a significant twin blow in Q4/08/Q1/09 by the collapse in both global manufacturing and capital flows. This was especially important for CEE, both to the extent that the region has a relatively large industrial sector as well as a wide external financing gap. The net result of this twin across the board shock was a sharp regional collapse in beginning year growth indicators, significant market weakness and relatively limited differentiation on fundamentals between countries.

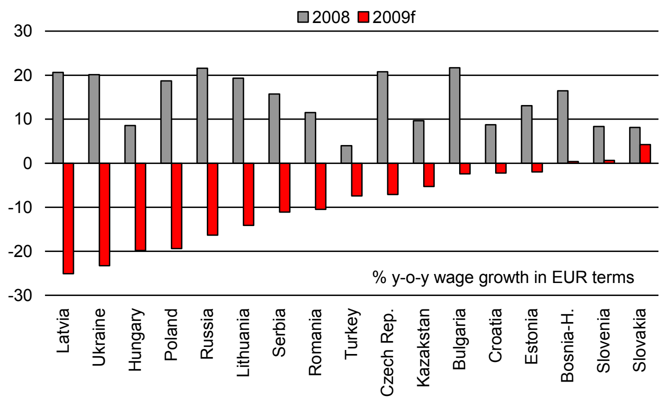
The intensity of Q1/9 across the board shock is easing, however. Specifically: 1. Leading industrial indicators globally have recently improved (PMI new orders to inventory ratios, see chart). From a medium-term perspective recovery in global manufacturing would be very important to CEE both given the importance as a GDP driver and given the significant increase in competitiveness CEE producers have experienced in the last 12 months (see chart). **2.** There is very tentative evidence of a pick-up of net capital flows as implied by firmer currencies (from effectively zero, see chart). **3.** The IMF has, alongside a tripling of promised lendable resources, launched a new Flexible Credit Line facility (FCL) for “very strong-performing” members to receive high and front loaded resources. We expect the majority of countries in the region to either end up with a standby IMF package or an FCL, which will ultimately further reduces tail risks in the region.

GLOBAL MANUFACTURING SHOWING SOME SIGNS OF RECOVERY, WHICH WOULD BE GOOD NEWS FOR A MORE COMPETITIVE EMERGING EUROPE

New orders/inventory ratios head higher in the US and China



Regional manufacturers have become significantly more competitive



Source: Markit, China Federation of Logistics and Purchasing, UniCredit Research

The outlook still remains challenging, however…

Q2/09 hence marks an important juncture for the region

Q2/09 marks an important juncture for the region, with “stage 1” of the slowdown drawing to a close. Medium-term challenges remain significant, however. We see the varying extent of country-by-country headwinds proving pivotal in differentiating between countries in “stage 2”. Specifically:

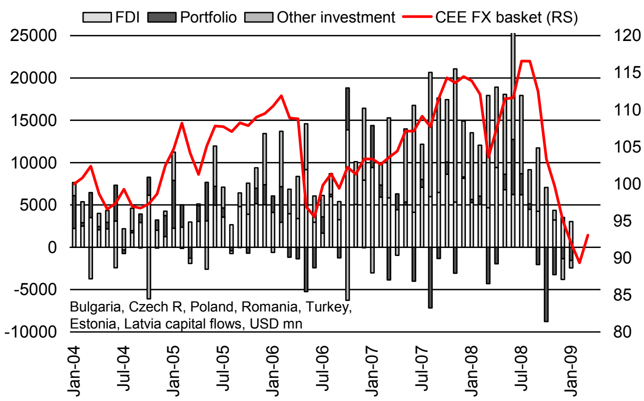
1. Emerging European spare capacity is likely significant, actual GDP is set to be 5-10% below potential by end 2009 in most countries in the region. This is a challenge for household and corporate incomes, which in turn is a risk for both credit quality and politics.

2. Inventory levels don’t look like they’ve adjusted that significantly in some CEE countries yet. In contrast, to the US and China, CEE new orders to inventory ratios still look very depressed, underlining that industrial output recovery is at risk of lagging the pick up in demand.

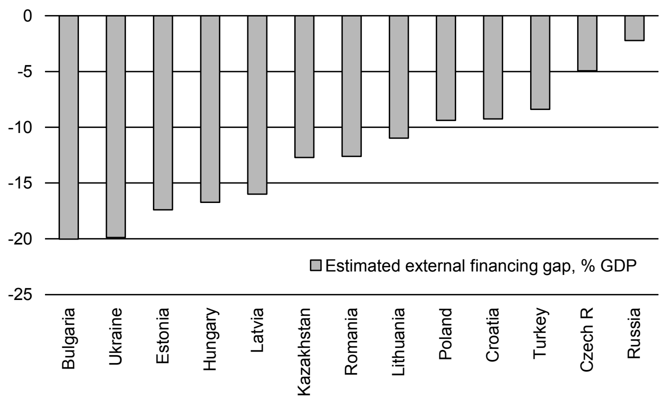
3. Even assuming capital inflows pick up from Q4/08/Q1/09 lows, external debt rollover ratios will still likely remain below 100% during 2009. The simple reality of this is that investment ratios will be pushed lower, savings ratios higher and current account deficits tighter in countries with wider external financing gaps.

LOWER CAPITAL FLOWS ARE A BIGGER HEADWIND FOR COUNTRIES WITH WIDER EXTERNAL FINANCING GAPS…

Capital flows collapsed, but recently firmer FX is a positive omen…



External financing gap: Assuming variable rollover ratios per borrower



Source: UniCredit Research

FX and Monetary Policy Outlook

We do not see a one way FX appreciation trend ahead

	Current	Q4/09
EUR/CZK	26.59	26.50
EUR/HUF	296.58	319.76
EUR/PLN	4.48	4.00
EUR/HRK	7.42	7.73
EUR/RON	4.18	4.50
EUR/RSD	93.51	101.95
USD/KZT	150.90	165.00
RUB basket	38.62	39.88
USD/TRY	1.60	1.62
USD/UAH	8.02	8.05
EUR/USD	1.33	1.33

The regional FX backdrop has improved to the extent that the twin global manufacturing and capital flow shock is easing. This, coupled with greater policymaker willingness to support their currencies through FX intervention reduces the risk of CEE currencies uniformly re-testing their early year weak points. This is specifically relevant for the zloty to the extent that given its better liquidity it has been traded as CEE FX proxy, YTD and correspondingly suffered when regional sentiment has been uniformly weak. Despite most regional currencies now being fundamentally undervalued, we do not, however, see a one way FX appreciation trend ahead. There are 2 key reasons for this:

1. Countries with wider external financing gaps will continue to face some depreciation pressure if external debt rollover ratios remain meaningfully below 100%. The implication for countries in fixed FX regimes is risk of FX reserve losses (which in most cases are nevertheless substantial and will increase further following IMF deals).

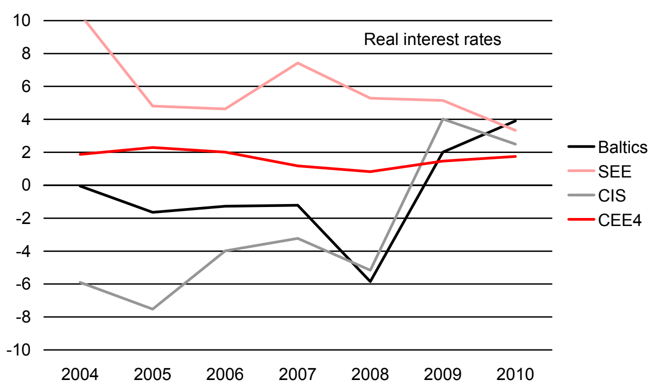
2. As we noted above, all countries will likely have significant negative output gaps, even after growth data initially stabilizes. This means policymakers in countries with smaller external financing gaps would probably ease interest rates if currencies came under significant appreciation pressure (in turn slowing appreciation pressure).

On balance we remain cautious on currencies in countries with wider external financing gaps (Bulgaria, Ukraine, Baltics and Hungary) and medium-term neutral on those with better economic recovery prospects (Czech Republic, Poland and Turkey). Only once global manufacturing is more demonstrably feeding through to CEE activity data would we become significantly more constructive on the latter group of currencies.

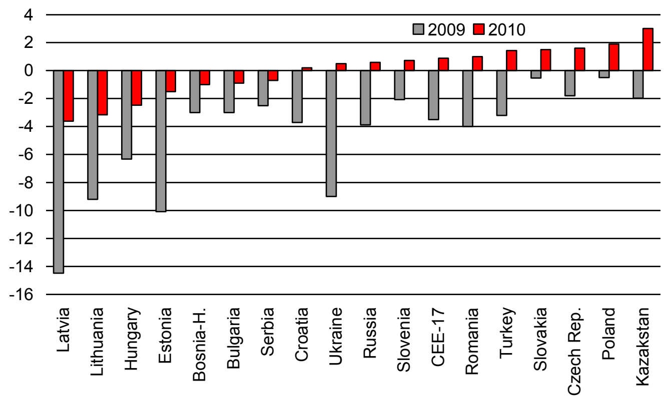
Monetary policy: Despite heavily below potential regional growth, we see a mixed outlook for regional central bank policy. We see the most meaningful scope for loose monetary policy in countries with smaller external financing gaps relative to GDP and low household FX leverage. This means the Czech R., Poland and Turkey. In contrast, countries with wide external financing gaps have far more limited scope to ease rates and we look for real rates to be higher on average in these countries than the low, or negative, levels in previous years given lower capital inflows. Separately, Russian policy is more oil driven. If oil prices stabilize above USD 45 per bbl we'd expect the CBR to initiate a gradual easing cycle late Q2+.

NEGATIVE REAL INTEREST RATES ARE HISTORY

The end to the negative real interest rate story…



Differing recovery prospects: Real GDP forecasts



Source: UniCredit Research

Bottom line: The road ahead – A more differentiated story

The global backdrop has started to evolve over the last quarter. This means CEE will be confronted with a progressively different set of challenges as 2009 plays out, gradually shifting from the global to the local

The intensity of the global shock has started to ease. This suggests CEE will be confronted with progressively greater cross country differentiation in the future, dependent on the extent of individual macro vulnerabilities. The extent to which domestic demand is pressured lower – partly in relation to the size of external financing gaps – will play a key role in determining the degree of spillover to domestic credit quality and more broadly the political ramifications of economic weakness. In some cases, the outlook will still prove very challenging, particularly if the glimmers of global manufacturing recovery prove to be a false dawn.

Conversely, of course is that during recent months the scale of external support for the region has also become clear. This is insofar as the IMF and EU funds are concerned and non-resident bank's commitment to the region. Looking ahead, external support could intensify further, both through broader IMF packages (including the new FCL) and through the potential acceptance of non-euro collateral by the ECB for the provision of euro liquidity. None of this reduces the need for economies to adjust, but it does reduce regional tail risks and will help to ensure that domestic fundamentals increasingly come to the fore as global drivers.

Looking to the long-term, regional real convergence prospects remain intact, whilst the ability and willingness of CEE EU members to join EMU, post slowdown has also increased meaningfully too. The bottom line, therefore, is Q2/09 is not going to mark the end of the region's challenges, but is going to mark one more step along the road to re-joining the convergence path.

Author:
Martin Blum, Head of EEMEA Economics, Fixed Income & FX Research (CAIB)
+43 50505 823 63, martin.blum@caib.unicreditgroup.eu

SOVEREIGN CREDIT RATING OUTLOOK

Country	Rating, LT FC (Moody's/ S&P/Fitch)	5Y CDS Mid	Fiscal balance, % GDP, 2009 forecast	Gross external debt/GDP, 2008	Estimated external financing gap, % GDP, 2009*	FX reserves, % GDP, end 2008	2009 GDP forecast minus 5y average	Rating Outlook
Bulgaria	Baa3s/BBBn/ BBB-s	435.00	-0.4	107.7	-20.0	37.3	-9.3	Despite good public sector finance metrics, we see risk of **downgrade** in the coming months related to growing risk of a growth hard landing. The currency board also constrains policymaker's ability to respond.
Croatia	Baa3s/BBn/ BBB-s	315.00	-2.6	84.2	-9.3	19.7	-7.9	We see ratings remaining on **hold**, given a relatively moderate financing requirement in relation to reserves. If FX reserve losses accelerated in the face of attempts to stabilize the currency our view would change, however.
Czech Republic	A1s/As/A+s	160.00	-4.6	39.9	-4.9	17.9	-7.2	Although the long-term ratings outlook remains **positive** a more prolonged global manufacturing downturn may question the export-manufacturing driven nature of the Czech economy.
Estonia	**-/An/A-n**	570.00	-2.7	122.9	-17.4	17.7	-16.1	We continue to see a meaningful **downgrade** risk (possibly more than one-notch), given the economy is now experiencing a hard landing, while the currency board limits the scope for policy to respond to this.
Hungary	Baa1n/ BBB-n/BBBn	470.00	-3.5	109.2	-16.7	22.8	-9.2	A very weak growth backdrop and limited scope for policy response means we see risk for further downgrades as public sector debt is still increasing. We see a high probability of further Moody's downgrade and would not rule out sub investment grade by the end of the year.
Kazakhstan	**-/BBB-n/ BBB-n**	900.00	-9.9	77.0	-12.7	16.1	-10.4	A deteriorating fiscal balance, alongside falling FX reserves and banking sector concerns risk **downgrade**.
Latvia	Baa1n/BB+n/ BBB-n	850.00	-6.8	127.0	-16.0	15.1	-21.9	Although the chunky IMF/EU package reduces immediate balance of payments risks, the extent of the growth slowdown coupled with the size of the external financing gap mean that we see risk of further **downgrades**.
Lithuania	A2n/BBBn/ BBB+n	670.00	-3.7	77.4	-11.0	14.2	-16.2	Although imbalances in Lithuania are less extreme than those in Latvia, the external financing and growth outlook are still challenging. Ratings outlook is **negative**.
Poland	A2s/A-s/A-s	250.00	-3.5	56.6	-9.4	12.3	-5.8	We see the ratings outlook as **neutral**, with the negatives of a recession and relatively high public debt being offset by a relatively low external financing gap in relation to the size of the economy.
Romania	Baa3s/BB+n/ BB+n	430.00	-5.0	36.6	-12.6	20.6	-10.8	Given the IMF/EU package reduced tail risk for Romania we see rating dynamics stabilizing in the coming 3M. Downside growth risks however mean we would not completely rule out further **downgrades** though.
Russia	Baa1s/BBBn/ BBBn	422.00	-7.1	41.3	-2.2	26.6	-10.7	Stabilizing oil prices and RUB will likely have a stabilizing effect on Russia's rating in the coming 3M. **Neutral.**
Serbia	-/BB-n/BB-n	600.00	-3.0	65.1	-16.0	24.4	-9.0	IMF package reduces tail risks, but the relatively wide external financing gap, coupled with an uncertain long-term growth outlook mean we are cautious on the ratings outlook.
Slovakia	A1s/ A1s/ A+s	135.00	-4.1	56.0	Eurozone	20.9	-7.9	Eurozone membership is a stabilizing factor, though to the extent that this is reflected in the rating already we are neutral on the outlook. If global manufacturing turns in a double dip, however, downside ratings risk would increase.
Slovenia	Aa2s/AAs/ AAs	130.00	-3.8	105.1	Eurozone	1.9	-7.0	Eurozone membership is a key supportive factor for Slovenia's ratings, as are low public sector debt levels. We hence see ratings remain on **hold**, despite high overall external debt levels.
Turkey	Ba3s/BB-n/ BB-s	360.00	-4.0	37.9	-8.4	10.1	-9.3	Deteriorating fiscal policy underlines the need for an IMF agreement. We expect the rating to be kept stable in the coming months but further delay in the IMF deal might have negative implication on rating.
Ukraine	B1n/CCC+n/ Bn	3800.00	-8.7	57.3	-19.9	15.6	-15.3	We remain **negative** on the ratings outlook. Lack of agreement among politicians, a weak UAH and a recession, do not bode well. The main challenge will be to keep private debt roll-over ratios high.

* Estimated debt maturities x variable rollover ratios + current account balance forecast.

Source: UniCredit Research

Bulgaria

Outlook

The economy looks set to slide into recession in 2009, with fixed investment expected to decline significantly. On a more positive note, against the backdrop of rapidly slowing domestic demand, the current account deficit and inflation are forecast to improve considerably. In terms of politics, the key focus is on early July parliamentary elections, with the opposition in a slight lead.

Author: Kristofor Pavlov, Chief Economist (UniCredit Bulbank)
+ 359 2 9269 390, kristofor.pavlov@unicreditgroup.bg

	Moody's	S&P	Fitch
Long-term foreign currency credit rating	**Baa3 stable**	**BBB negative**	**BBB- stable**

MACROECONOMIC DATA AND FORECASTS

	2006	2007	2008	2009f	2010f
GDP (EUR bn)	25.2	28.9	34.1	34.3	34.6
Population (mn)	7.7	7.6	7.6	7.6	7.5
GDP per capita (EUR)	3286	3782	4485	4530	4594
GDP (constant prices y-o-y %)	6.3	6.2	6.0	-3.0	-0.9
Private Consumption, real, y-o-y (%)	8.5	5.1	4.5	-2.0	-1.4
Fixed Investment, real, y-o-y (%)	14.7	21.7	20.4	-14.0	-7.6
Public Consumption, real, y-o-y (%)	-2.5	3.4	-1.4	-0.1	0.4
Exports, real, y-o-y (%)	8.7	5.2	2.9	-11.6	-2.3
Imports, real, y-o-y (%)	14.0	9.9	4.9	-12.2	-4.8
CPI (average, y-o-y %)	7.3	8.4	12.4	3.5	1.8
Central bank reference rate	3.26	4.58	5.77	3.50	3.40
Monthly wage, nominal (EUR)	184	220	268	261	256
Unemployment rate (%)	9.1	6.9	6.3	10.2	12.0
Budget balance/GDP (%)	3.6	3.5	3.0	-0.4	-1.5
Current account balance (EUR bn)	-4.7	-7.3	-8.6	-3.4	-2.4
Current account balance/GDP (%)	-18.4	-25.1	-25.3	-9.8	-6.9
Net FDI (EUR bn)	6.0	8.3	5.7	2.6	2.1
FDI % GDP	23.9	28.7	16.7	7.5	6.0
Gross foreign debt (EUR bn)	20.7	29.0	36.7	35.3	35.5
Gross foreign debt (% of GDP)	81.9	100.2	107.7	102.9	102.5
FX reserves (EUR bn)	8.9	11.9	12.7	10.0	9.3
(Cur.Acc-FDI)/GDP (%)	5.4	3.5	-8.6	-2.3	-0.9
FX reserves/Gross foreign debt (%)	43.2	41.2	34.6	28.4	26.1
Exchange rate to USD eop	1.48	1.34	1.40	1.47	1.50
Exchange rate to EUR eop	1.96	1.96	1.96	1.96	1.96
Exchange rate to USD AVG	1.56	1.43	1.33	1.51	1.49
Exchange rate to EUR AVG	1.96	1.96	1.96	1.96	1.96

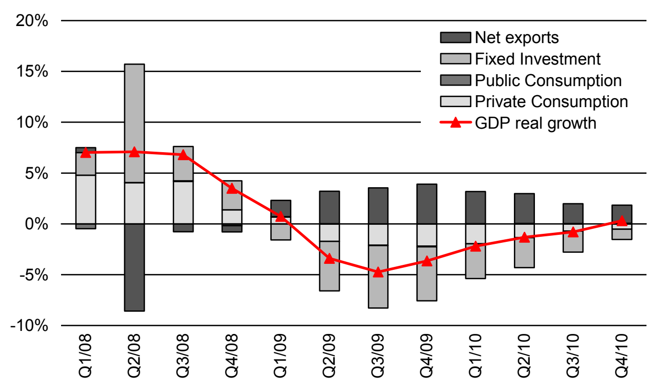
Source: UniCredit Research

Economy slides into recession

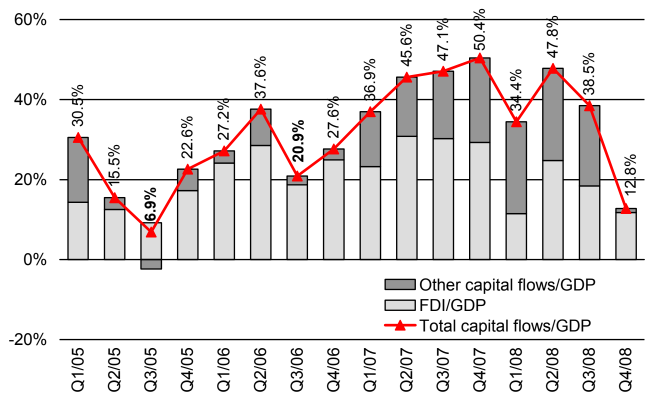
Slowdown of economic activity started in Q4/08

In contrast to some EU countries the global recession hit the Bulgarian economy with a considerable time lag. The economy only lost momentum in Q4/08 on weakening external demand and slowing foreign capital inflows. GDP growth was reined to 3.5% y-o-y mostly on the back of a sharp contraction of inventories, which subtracted 2.6 pp from overall GDP. Looking ahead, given weak external demand and more limited foreign capital inflows the economy is unlikely to avoid recession. Our central projection envisages annualized GDP growth to slip into negative territory for six consecutive quarters, as of Q2/09. A contraction in fixed investment is set to exert the biggest drag on growth (we forecast a 14% y-o-y tightening). Private spending is likely to drop off (-2% y-o-y), even though the sharp slowdown in inflation will continue to prop up real incomes. GDP will, however, receive some support from a big improvement in the external balance. We see GDP contracting by 3% in 2009 and 0.9% in 2010, before posting positive growth of 2.3% in 2011.

GDP GROWTH DEMAND SIDE COMPONENTS



CAPITAL FLOWS DROPPED SHARPLY



Source: ECB, National Statistics Institute, UniCredit Research estimates

Recession will put a brake on inflation

Inflation has remained on a downward trend in early 2009, after falling steadily to 7.8% y-o-y at the end of 2008. Declining energy and food inflation on top of a favourable base effect contributed to a drop in twelve month CPI (based on the national methodology) to 6% in February 2009. Against the backdrop of sharply falling aggregate demand we expect CPI to move lower over the course of 2009 to an average of 3.5% y-o-y and only 1.5% y-o-y at the eop. We think that core inflation will decrease further driven by waning consumer demand and rising spare capacity. Disinflation dynamics will also draw support from a favourable base effect and lower energy prices, though increases in excise taxes and regulated prices will still provide some upside non-core pressure.

C/A gap shrinks, but capital inflows dry up even faster

C/A gap adjustment gained momentum in early 2009

The bleak global manufacturing backdrop saw exports down 27.2% y-o-y in January 2009. Imports plunged even faster enabling the C/A gap to shrink by 46% in January and providing an indication of the pace of C/A adjustment. On the negative side, official reserves decreased by 7% in the first three months of the year. The large private non-financial sector external debt, and particularly its short-term component, remains a key source of vulnerability. We think that a significant share of this debt will be rolled over given that 51% of it is related to commercial bank lending. Nevertheless, automatic re-financing of non-affiliated debt can no longer be taken for granted in the context of the deepening global deleveraging process. The balance of payment risk that Bulgarian economy faces is greatly alleviated by the favourable debt metrics of the public sector, alongside a EUR 4.2 bn fiscal reserve fund.

Sliding fiscal revenues might prompt more spending cuts

The economic downturn tests fiscal revenues

The economic downturn had already eroded fiscal revenues by the end of 2008. Although in January 2009 revenues strengthened, underpinned by the bringing forward of the release of EU regional aid funds for East European members, they were still below the growth rate envisaged in the consolidated fiscal programme for the whole year. To compensate for the revenue shortfalls, authorities froze public sector wages and continued to restrict discretionary spending to 90% of that planned in the budget. We believe that despite large spending buffers the sharp economic slowdown will prompt additional spending cuts to keep the budget in surplus. Separately, the BNB eased prudent regulations as regards provisioning and classification of risk exposures.

General elections likely to be held in early July

Right-wing CEDB extends its lead over Socialists

The newsflow from parliament suggests that general elections will be scheduled for early July. Opinion polls show the opposition right-wing CEDB party extending its lead over the ruling Socialists by 2-3 pp in March. Meanwhile, the other two key right-wing political formations, UDF and DSB, hammered out their long-anticipated pre-election alliance, which is expected to boost their electoral support. We think that following the elections, the CEDB and its potential right-wing coalition partners will concentrate their efforts on showing tangible progress in fighting organized crime and corruption, which are seen as major stumbling blocks to improve the utilization of EU funds. The CEDB plans to implement more cutbacks in public sector spending and to improve its ability to free-up room for an additional reduction of social insurance contribution rates, but these plans have to stand the test of potential slippage in fiscal revenues as the economic downturn deepens.

Czech Republic

Outlook

Despite low external debt levels, the economy is set to contract by 1.8% in 2009, with its heavy reliance on manufacturing the key drag. Looking ahead, however, we see the Czech economy amongst the best placed in Europe to recover given its strong banking sector, flexible monetary policy and low external financing gap.

Author: Pavel Sobisek, Chief Economist (UniCredit Bank)
+420 2 211 12504, pavel.sobisek@unicreditgroup.cz
Author: Patrik Rozumbersky, Economist (UniCredit Bank)
+420 2 211 12506, patrik.rozumbersky@unicreditgroup.cz

	Moody's	S&P	Fitch
Long-term foreign currency credit rating	**A1 stable**	**A stable**	**A+ stable**

MACROECONOMIC DATA AND FORECASTS

	2006	2007	2008	2009f	2010f
GDP (EUR bn)	113.5	127.2	148.6	137.0	150.6
Population (mn)	10.3	10.3	10.4	10.5	10.5
GDP per capita (EUR)	11050	12318	14245	13063	14279
GDP (constant prices y-o-y %)	6.8	6.0	3.2	-1.8	1.6
Private Consumption, real, y-o-y (%)	5.4	5.3	2.9	0.3	1.0
Fixed Investment, real, y-o-y (%)	6.5	6.7	3.1	-3.8	2.0
Public Consumption, real, y-o-y (%)	-0.7	0.4	0.9	0.7	1.0
Exports, real, y-o-y (%)	15.8	14.9	6.9	-7.8	5.7
Imports, real, y-o-y (%)	14.2	14.2	4.6	-7.3	5.5
CPI (average, y-o-y %)	2.5	2.8	6.3	1.7	1.7
Central bank reference rate	2.50	3.50	2.25	1.50	2.50
Monthly wage, nominal (EUR)	713	781	944	877	963
Unemployment rate (%)	8.1	6.6	5.5	7.6	8.2
Budget balance/GDP (%)	-2.7	-1.0	-1.2	-4.6	-4.0
Current account balance (EUR bn)	-2.9	-4.0	-4.6	-3.3	-3.3
Current account balance/GDP (%)	-2.6	-3.2	-3.1	-2.4	-2.2
Net FDI (EUR bn)	4.4	7.6	7.3	4.8	9.2
FDI % GDP	3.8	6.0	4.9	3.5	6.1
Gross foreign debt (EUR bn)	43.4	50.7	55.0	60.6	67.8
Gross foreign debt (% of GDP)	37.1	38.2	39.9	42.9	44.2
FX reserves (EUR bn)	23.9	23.7	26.6	28.0	29.0
(Cur.Acc-FDI)/GDP (%)	1.3	2.9	1.9	1.1	4.0
FX reserves/Gross foreign debt (%)	55.0	46.8	48.4	46.2	42.7
Exchange rate to USD eop	20.85	18.25	19.30	19.92	19.62
Exchange rate to EUR eop	27.50	26.62	26.93	26.50	25.50
Exchange rate to USD AVG	22.56	20.25	16.96	21.05	19.77
Exchange rate to EUR AVG	28.34	27.76	24.94	27.30	26.00

Source: UniCredit Research

Economy is entering recession

Q4 GDP growth slows markedly on a slump in exports

GDP growth slowed substantially to 0.7% y-o-y in Q4/08 from 2.9% y-o-y in the previous quarter, bringing the expansion for the whole of 2008 to 3.1%. In y-o-y terms, the slowdown can be primarily attributed to a sharp fall in exports, with the contribution of net exports to GDP growth -1.1%-points. Moving into 2009, **with the global economic downturn gathering pace, the very open Czech economy was also hit hard.** Looking at January data, CZK-based exports of goods slumped by a record 24.0% y-o-y, industrial output was down a hefty 23.3% y-o-y and even retail sales fell 3.3% y-o-y. This, combined with an unprecedented increase in the unemployment rate by 1.4%-points over the first two months of the year and a sharp deterioration in consumer and services sentiment indicators from December to February, hint at a widespread decline in economic activity in Q1/09 from Q4/08. Therefore, the economy clearly slid into recession at the start of the year, with our Q1 GDP growth forecast standing at about -3% in both q-o-q and y-o-y (NSA) terms.

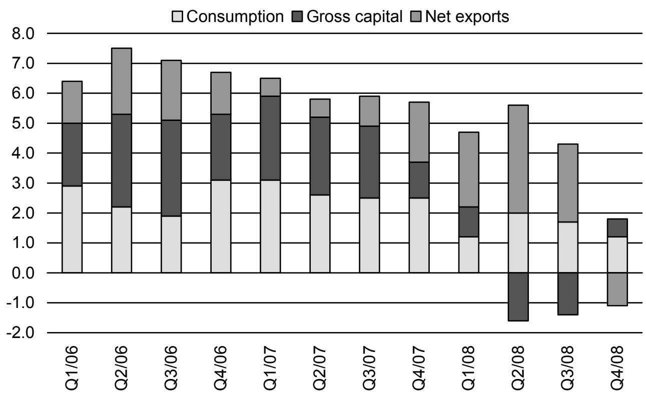
GDP contraction in 2009 is set to be deeper than previously assumed

The sharp contraction of the economy at the start the year means that we are now more pessimistic about the full-year 2009 GDP performance than we were three months ago. First, a deeper fall in exports based on the grimmer outlook for the eurozone economy is set to reduce the capacity utilization of a number of industrial firms, thus lowering their demand for investment. Second, we expect private consumption to grow just 0.3% y-o-y instead of 1.2% y-o-y in 2009 on a loosening labour market. That said, we have also become more positive that the economic cycle might have bottomed out in Q1. Our belief is based on the facts that: **1.** car production has been rapidly gathering pace from almost standstill at the start of the year and **2.** in other manufacturing branches (with machinery being a notable exception) a sizeable inventory rundown has probably been underway lately.

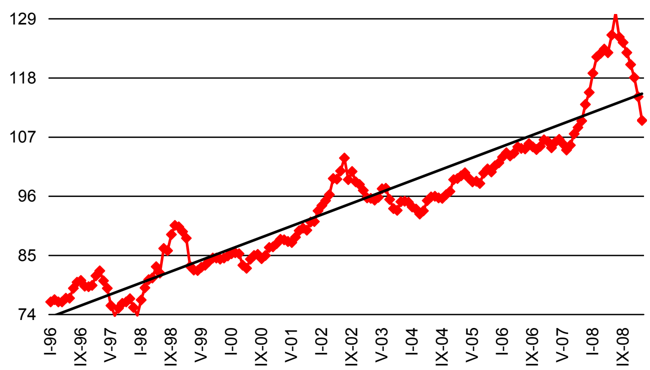
The disinflation trend is set to continue but with less intensity

Inflation continued to fall from January's 2.2% y-o-y to 2.0% y-o-y in February, hitting the lower end of the CNB's 2-4% target band. The disinflation trend has eased markedly compared with sharp declines in previous months. This, on the one hand, reflects the fall-out of food price related base effects. On the other hand, fuel prices have rebounded from their multi-year lows. That said, the inflation downtrend is far from over. The base effect related to the surge in oil prices in Q2/08 will likely push the headline rate down in the months to come. Room for a further drop in core inflation is, however, limited by the weaker CZK.

GDP BREAKDOWN – CONTRIBUTION TO GDP GROWTH IN P.P.



REAL EFFECTIVE EXCHANGE RATE OF CZK (2005=100)



Source: Czech Statistical Office, UniCredit Research

No end to CZK volatility

Economic woes and political uncertainty make an uneasy backdrop for CZK value

With the exchange rate volatility remaining elevated, EUR/CZK climbed as high as 29.7, a three-year peak, in mid-February and retreated sharply thereafter. In mid-March, the koruna even firmed to near 26.5 to the euro, thus erasing all of its losses suffered since the start of this year. Notwithstanding that the end Q1 EUR/CZK level of around 27.0 was still more than 15% above its all-time low seen in July 2008, we estimate the koruna's real effective exchange rate to be broadly in line with its long-term trend (see chart). Uncertainty about the timing of economic recovery and political uncertainty mean we expect a volatile CZK in the coming months, though assuming at least some of the uncertainties will diminish by late 2009; we stick to our year-end forecast of EUR/CZK at 26.5.

C/A deficit well under control

FDI inflow is expected to drop but should be sufficient to finance the C/A gap in 2009

The C/A deficit dipped to 3.1% of GDP in 2008 from 3.2% in 2007, underscoring the low macro vulnerability of the Czech Republic. On the financing side, net FDI came in at 4.1% of GDP comfortably covering the C/A gap. Looking ahead, a forecasted drop in corporate profitability is expected to reduce the income balance deficit substantially this year, thereby allowing the C/A gap to shrink further. At the same time, we believe there will only be a mild decline in the foreign trade surplus in 2009 compared to last year, as lower energy prices dragging down the value of imports should offset much of the deterioration on the export side. We project the C/A deficit at 2.4% of GDP and net FDI inflow at 2.8% of GDP this year.

Government proposes a reasonably-shaped stimulus plan

The CNB found the extent of previous monetary policy easing sufficient and left interest rates on hold in March. Nevertheless, we still expect another small rate cut in Q2 on our baseline scenario that would bring the two-week repo to 1.50%. Stabilization of CZK at a firmer level will make such a step more likely.

Government starts implementing anti-crisis measures focused mainly on the supply side of the economy

The size of the government fiscal stimulus package introduced in February looks to be a good compromise between the need to help the crisis-hit economy and the effort to prevent the budget deficit from exploding. Moreover, most measures go in the right direction since they are tailored to help companies rather than aimed at boosting household spending. The package – comprising various tax measures, a capital injection enabling a state-run bank to provide loans to SMEs and other measures – aims to pour funds worth 1.1% of GDP into the economy over a two-year period. We have raised our forecast for the fiscal deficit per GDP ratio to 4.6% this year (from previous 2.9%) and to 4.0% in 2010 (2.7%). However, including several opposition party initiatives into the government package, which is part of the latest political deal, could widen the deficit by an additional 0.5 percentage points of GDP.

Politics – Government loses no-confidence vote

Early elections are to be held in October

The fifth attempt to topple the centre-right government of PM Topolanek, initiated by opposition CSSD, was successful. Subsequently, the coalition and the opposition are forging political deals consisting of three major strands. First, early elections are to be held in October 2009, ahead of the regular spring 2010 term. Second, a caretaker government is to be installed to run the country until the elections (apparently, this part of the deal is complicated by the need of policy continuity for the remainder of the EU presidency concluding in June). Third, the coalition will include some of the CSSD's economic measures to fight the recession (for fiscal implications see above). On balance, both good and bad news can been seen in the new deal. On the one hand, Topolanek's minority and inherently weak government may be replaced earlier by a (hopefully) more viable arrangement. On the other hand, having a government with a restricted mandate at a time of full-blown economic crisis looks potentially risky.

Estonia

Outlook

The weak global backdrop coupled with Estonia's large financing gap will lead to a second year of economic contraction in Estonia. Politicians, however, seem to be prepared to react quickly to these developments. They show a strong commitment to keep the budget deficit at sustainable levels, as demonstrated by the amendments to the budget that were pushed through parliament in mid-March.

Author: Anna Kopetz, Economist (CAIB)
+43 50505 82364, anna.kopetz@caib.unicreditgroup.eu

	Moody's	S&P	Fitch
Long-term foreign currency credit rating	**–**	**A under review negative**	**A- negative**

MACROECONOMIC DATA AND FORECASTS

	2006	2007	2008	2009f	2010f
GDP (EUR bn)	13.1	15.3	15.9	14.7	14.9
Population (mn)	1.3	1.3	1.3	1.3	1.3
GDP per capita (EUR)	9745	11379	11842	10983	11187
GDP (constant prices y-o-y %)	10.4	6.3	-3.5	-10.1	-1.5
Private Consumption, real, y-o-y (%)	12.7	7.9	-3.7	-12.5	-3.1
Fixed Investment, real, y-o-y (%)	19.5	4.8	-8.0	-17.5	-5.3
Public Consumption, real, y-o-y (%)	1.8	3.9	4.4	-1.6	-0.1
Exports, real, y-o-y (%)	11.6	0	-1.1	-5.5	-1.8
Imports, real, y-o-y (%)	20.4	4.2	-7.9	-6.7	-3.4
CPI (average, y-o-y %)	4.4	6.6	10.4	1.4	1.6
Monthly wage, nominal (EUR)	601	725	819	803	811
Unemployment rate (%)	5.9	4.7	4.9	9.5	11.9
Budget balance/GDP (%)	3.3	2.7	-2.2	-2.7	-2.3
Current account balance (EUR bn)	-2.2	-2.8	-1.5	-0.6	-0.3
Current account balance/GDP (%)	-16.7	-18.1	-9.2	-3.8	-2.1
Net FDI (EUR bn)	0.5	0.8	0.6	0.3	0.2
FDI % GDP	4.2	5.3	3.7	2.0	1.2
Gross foreign debt (EUR bn)	12.8	17.2	19.5	19.9	19.7
Gross foreign debt (% of GDP)	97.7	112.4	122.9	135.5	132.0
FX reserves (EUR bn)	2.1	2.2	2.8	2.3	2.0
(Cur.Acc-FDI)/GDP (%)	-12.5	-12.8	-5.4	-1.8	-0.9
FX reserves/Gross foreign debt (%)	16.6	13.0	14.4	11.6	10.2
Exchange rate to USD eop	11.86	10.73	11.21	11.76	12.04
Exchange rate to EUR eop	15.65	15.65	15.65	15.65	15.65
Exchange rate to USD AVG	12.45	11.41	10.64	12.06	11.90
Exchange rate to EUR AVG	15.65	15.65	15.65	15.65	15.65

Source: UniCredit Research

Macro outlook

GDP contracted by 3.6% in 2008

GDP, which started to contract in the second quarter in 2008, resulted in a 3.6% y-o-y decline in FY 2008. This contraction was mainly driven by falling private consumption as well as a drop in investments. The trend is set to continue in 2009; the start of this year showed a further fall in retail trade data (-11.3% y-o-y from December's -10.3% y-o-y) and an especially strong drop in industrial production activity (-26.4% y-o-y after December's -22.4% y-o-y, working day adjusted; see chart). Estonia's Economic Sentiment Indicator moved lower as well at the beginning of the year to reach 64.0, the lowest value since the beginning of the time series in 1992.

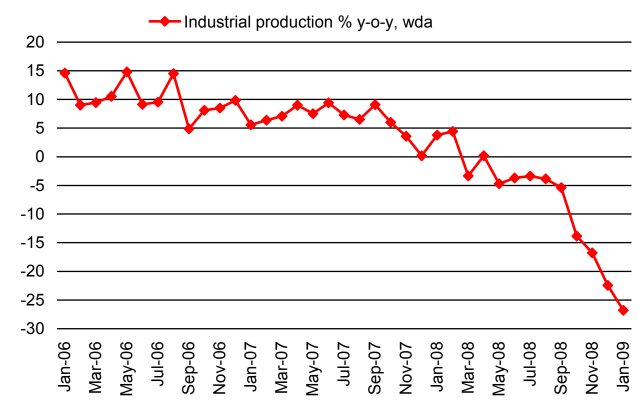
Recession to continue throughout 2009

We expect the fall in domestic demand and investment to continue throughout this year and pencil in a large 10% contraction of economic activity. A fall in exports, due to the weak global backdrop will further aggravate the economic contraction. In addition, the tight global capital backdrop and associated increase in real interest rates will exert downwards pressure on investment, and upwards pressure on savings. This, coupled with the associated increasingly significant spare capacity in the economy means domestic demand is set to slump in 2009 and remain soft in 2010.

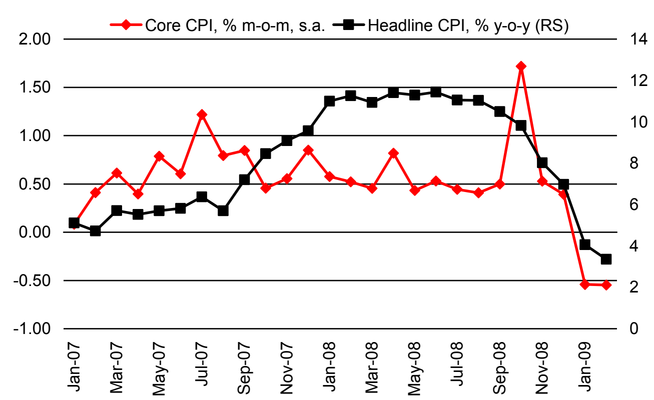
Seasonally adjusted core inflation moved lower at the start of this year

Inflation registered a large fall at the beginning of this year to 4.1% y-o-y and to 3.4% y-o-y in February from the end-year figure of 7.0% y-o-y. This fall in inflation reflects the drop in domestic demand, as is clearly illustrated by our calculations of the seasonally adjusted core inflation rate: the first two months saw core inflation decline on average by 0.5% m-o-m. We expect this development to continue throughout the year on the back of a further weakening of domestic demand with possible negative headline figures in the second half of this year. This means that overall we pencil in an average inflation rate of 1.4% y-o-y for 2009.

INDUSTRIAL PRODUCTION HEADS SOUTH



CORE INFLATION (S.A.) TURNED NEGATIVE



Source: Statistical Office and Ministry of Finance, UniCredit Research estimates

Macro vulnerability indicators

C/A deficit likely to narrow sharply

The strong fall-off in exports as well as imports, already seen at the end of last year, continued in January. The seasonally adjusted 3-month moving averages show a contraction of -11.8% m-o-m and -10.7% m-o-m for exports and imports, respectively. We expect exports and imports to continue to fall-off over the year with imports contracting far more than exports, given the expected weakness in domestic demand leading to a sharp contraction of the current account deficit to 3.8% to GDP from 9.2% seen in 2008. The sharp contraction in the current account deficit, coupled with scope for external balance of payments support if meaningful FX reserve losses occur, mean our central scenario is for an unchanged exchange rate regime to remain in place.

Amendments to the budget already implemented

First budget deficit in 2008 for several years

The government ran its first budget deficit in 2008 in years: the preliminary figures show a deficit of 2.5% to GDP. PM Ansip has reiterated his aim to join the euro as early as in July 2010 which means that he has a very strong commitment to keep to the 2009 budget deficit below 3% to GDP. Having said that, this will clearly prove a major challenge, if the strong contraction we expect plays out.

Government pushes through spending cuts in mid-March

The cuts in public expenditure, equivalent to about 7% of the initially planned expenditure, pushed through parliament in mid-March, comprising cuts in the planned rise in pensions and the reduction in operating costs, showed a positive signal of the government’s ability to implement austerity measures without provoking social unrest.

It should also be noted that the recent sharp rise in the unemployment rate – at 7.1% in February, up from 4.7% at the end of last year – and the fact that it is very likely to increase further over the course of this year, will make it increasingly difficult for the government to implement further austerity measures without provoking widespread discontent. In addition, the rise in unemployment represents a more direct threat to the budget, as pointed out by PM Ansip, because the unemployment insurance benefits will weigh increasingly on the budget.

Hungary

Outlook

GDP is set to contract by 6.2% in 2009 and pressure to reduce the external financing gap together with the associated restrictive monetary/fiscal policy mix will mean another weak year in 2010. On a brighter note, the significant IMF/EU balance of payments support has sharply reduced external financing tail risks but meaningful private sector FX exposure suggests that HUF is unlikely to recover meaningfully either.

Author: Gyula Toth, Economist/Strategist (CAIB)
+43 50505 82362, gyula.toth@caib.unicreditgroup.eu

	Moody's	S&P	Fitch
Long-term foreign currency credit rating	**Baa1 negative**	**BBB- negative**	**BBB negative**

MACROECONOMIC DATA AND FORECASTS

	2006	2007	2008	2009f	2010f
GDP (EUR bn)	90.0	101.1	105.4	82.0	83.8
Population (mn)	10.1	10.1	10.1	10.0	10.0
GDP per capita (EUR)	8932	10048	10483	8166	8361
GDP (constant prices y-o-y %)	4.1	1.1	0.5	-6.2	-2.3
Private Consumption, real, y-o-y (%)	1.9	-1.8	-0.1	-7.0	-4.7
Fixed Investment, real, y-o-y (%)	-6.2	1.5	-2.6	-10.6	-2.6
Public Consumption, real, y-o-y (%)	5.8	-2.2	-2.1	-2.2	0
Exports, real, y-o-y (%)	18.6	15.9	4.6	-11.0	2.8
Imports, real, y-o-y (%)	14.8	13.1	4.0	-13.2	2.2
CPI (average, y-o-y %)	3.9	8.0	6.2	3.9	2.6
Central bank reference rate	8.00	7.50	10.00	9.00	7.00
Monthly wage, nominal (EUR)	648	736	799	638	649
Unemployment rate (%)	7.5	7.4	7.8	12.2	12.6
Budget balance/GDP (%)	-9.3	-4.9	-3.3	-3.5	-3.5
Current account balance (EUR bn)	-6.8	-6.6	-8.9	-3.3	-2.6
Current account balance/GDP (%)	-7.5	-6.5	-8.4	-4.0	-3.1
Net FDI (EUR bn)	0.5	0.8	3.6	1.4	1.5
FDI % GDP	0.6	0.8	3.4	1.8	1.8
Gross foreign debt (EUR bn)	83.3	100.4	115.0	125.0	112.1
Gross foreign debt (% of GDP)	92.5	99.3	109.2	152.5	133.8
FX reserves (EUR bn)	16.4	16.4	24.0	29.0	25.0
(Cur.Acc-FDI)/GDP (%)	-6.9	-5.7	-5.0	-2.2	-1.3
FX reserves/Gross foreign debt (%)	19.7	16.3	20.9	23.2	22.3
Exchange rate to USD eop	190.64	173.30	190.27	240.60	230.77
Exchange rate to EUR eop	251.43	252.72	265.49	320.00	300.00
Exchange rate to USD AVG	210.28	183.33	171.09	242.06	235.74
Exchange rate to EUR AVG	264.19	251.31	251.66	314.00	310.00

Source: UniCredit Research

Recession to last beyond 2009

Ex-agriculture GDP declined by 5% in Q4/08

GDP contracted by 2.3% y-o-y in Q4/08 and we expect the recession to worsen in Q1-Q2/09 as the positive contribution from agriculture (ex-agriculture Q4 was already neg. 4.9%) is fading and domestic and external demand remain extremely weak.

We have slashed our 2009-10 GDP forecast on investment and household demand

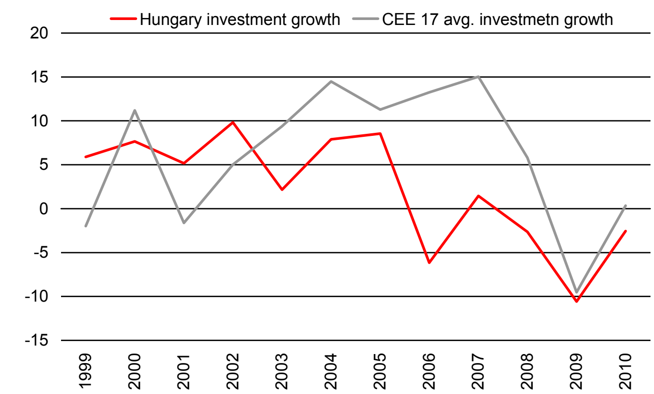
We have revised down our 2009 GDP forecast to neg. 6.2% from neg. 2.8% and now expect the recession to continue in 2010 (neg. 2.3% revised from previous +0.9%). The revision is primarily driven by worse-than-expected ex-agriculture Q4/08 figures and by the significant reduction of our investment growth forecast (to neg. 10.6% y-o-y and neg. 2.6% respectively). Previously, we thought that investment would hold up better given it has already been very weak in the last 3 years (see chart 1) and hence there were no serious excess capacity problems. Deteriorating credit conditions and the worsening German growth forecast have, however, prompted us to revise this view and we now believe that the economy is adjusting to a weaker longer-term growth outlook primarily via investments. Although we did not materially change our household demand forecast for 2009 (neg. 7% from 6.1%) we reduced our 2010 expectation (to neg. 4.7% from neg. 1.1%). The much worse labour market outlook and high HUF interest rates will likely have a longer lasting drag on wage and credit dynamics at the same time as households are looking to boost their savings. We maintain our view that fiscal policy is unlikely to offset any of these negative factors as serious financing constraints (extremely limited possibility to issue government bonds) and the IMF programme will prevent the government from widening the budget deficit. Given the significant revision of our investment forecast we now estimate that the potential growth will likely decline to around 2% from previous 3%.

Potential growth declines further to 2%

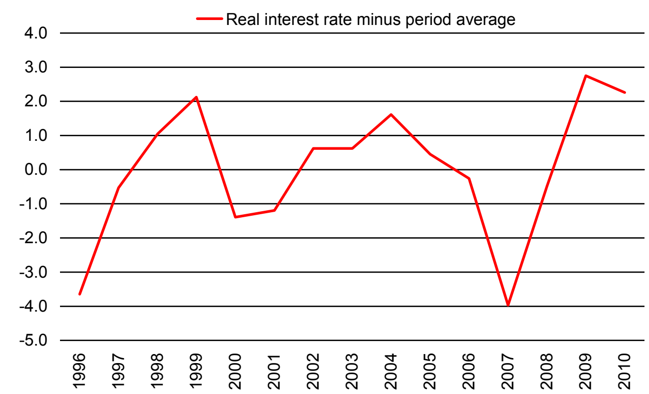
Higher 2009 vs. lower 2010 inflation

In line with our previous estimations CPI reached the 3% target in February. In the coming three months we forecast headline CPI to head to 1% before jumping in June-July on the back of an expected hike in VAT rates. Accordingly, we revised higher our end 2009 forecast (4.5% from 2%) but given lower growth and supportive base effect we reduced our 2010 CPI forecast (1.8% from 2.8%). Although the PPI has seen some pressure from a weaker HUF we do not think that it will have an impact in 2010 and our 2009 forecasts already include some moderate pass-through.

HUNGARIAN INVESTMENT GROWTH WAS LAGGING REGION



REAL INTEREST RATES ARE VERY HIGH



Source: UniCredit Research

External financing need is covered but private sector FX exposure will likely keep HUF under pressure

Current account deficit is expected to improve on the back of falling imports and weaker HUF

Our reduced GDP forecast means that the improvement in the current account deficit will likely be stronger both in 2009 and 2010 than previously forecasted. We expect the shortfall to improve to 3.2% and 2.5%/GDP respectively from almost 7%/GDP in 2008. This forecast takes into account the considerably reduced financing possibilities as we only calculated with IMF/EU related inflows and with very moderate FDI (50% less than in 2008 and this only takes into account the already pledged projects).

External financing has been largely addressed by the IMF led package

But private sector re-hedging will keep HUF under pressure

Improving current account deficit and significant amount of secured external funding (EUR 7 bn already arrived from the EU/IMF) imply that 2009 external financing needs are covered. As well as the supranational assistance we also note that the non-resident banking support has proven stable in the last couple of months. Even so, meaningful private sector FX debt may prompt participants to reduce their implicit FX shorts (given falling export volumes many exporters are now running "unintended" open FX positions) via buying EUR/HUF. Accordingly, although external financing needs seem to be covered by the external funding we still do not think that EUR/HUF can sustainably turn around in the coming quarter (we target 300 at the end of 2009) as the private sector might start buying FX.

Monetary and fiscal policy will not be growth supportive

Local policymakers panicking too much…

…meaning that rates will be kept higher for a longer period...

…with negative implications for growth prospects

The mini-easing cycle has been halted as the NBH adopted a more hawkish tone at the March meeting. The main reason was clearly the upside pressure on EUR/HUF and its potential negative impact on financial stability. In this area we feel that the NBH and Hungarian policymakers in general are probably focusing too much on FX weakness given the HUF outperformed several EM currencies (partly due to the more hawkish NBH) and the key CHF/HUF rate moved lower after the SNB intervened. This nevertheless illustrates how limited the options are where financial stability concerns are in conflict with monetary policy. We think that the NBH will decide to keep rates on hold for a longer period (we expect only a 50 bp rate cut by the end of the year), which has obvious negative implications on growth recovery potential (we expect the recession to continue beyond 2009).

Funding of fiscal deficit depends on IMF

Higher ratio of FX debt will likely lead to credit downgrade

Fiscal policy will not be pro growth in 2009-2010

We expect serious downside pressure on tax incomes as real GDP growth is now much weaker than when the budget was originally set. Although this might tempt the government to allow the deficit to widen, we note that the IMF programme and more importantly the market itself would not tolerate such a move. More specifically given the government bond market is still frozen and it is still not possible to issue a decent amount of long-term paper the financing side of the budget deficit is for now dependent on IMF funds. Accordingly, although the fund might allow the deficit to rise slightly higher (we expect it to be at 3.5%/GDP) we do not think that the fiscal policy will be expansionary in 2009 and 2010 (revenue shortfall will be offset by expenditure cuts). Given the AKK is buying back HUF paper (funded by the IMF) and the public debt/GDP ratio is unlikely to decline in 2009-10 we see a high probability that Hungarian sovereign debt will be downgraded further.

Politics

No early election is still the main scenario after parties appoint new PM

Following the "resignation" of PM Gyurcsany the ruling minority Socialist party agreed with ex-coalition member Free Democrats to pick former EconMin Gordon Bajnai as the new Prime Minister. The approval followed a rather chaotic selection process but did underline that the two parties do not want early elections. We believe that the new PM represents more or less the same for Hungarian policy and we do not think there will be any major reform steps carried out in the 12 months leading up to the next election. We, however, expect further fiscal adjustments to keep the budget deficit close to 3%/GDP.

Latvia

Outlook

A sharp broad-based contraction in economic activity, accompanied by an increase in the unemployment rate and associated social tension will be the key focus in 2009. The new government, in place since mid-March 2009, has a crucial role to play, since the economic future of Latvia lies in its hands: thus, a lot depends on its ability to negotiate more benign conditions with the IMF or, if this is impossible, to communicate another set of austerity measures to an already very dissatisfied public.

Author: Anna Kopetz, Economist (CAIB)
+43 50505 82364, anna.kopetz@caib.unicreditgroup.eu

	Moody's	S&P	Fitch
Long-term foreign currency credit rating	**Baa1 negative**	**BB+ negative**	**BBB- negative**

MACROECONOMIC DATA AND FORECASTS

	2006	2007	2008	2009f	2010f
GDP (EUR bn)	15.9	21.0	23.1	20.9	20.2
Population (mn)	2.3	2.3	2.3	2.3	2.3
GDP per capita (EUR)	6928	9218	10177	9248	8984
GDP (constant prices y-o-y %)	12.2	10.0	-4.6	-14.5	-3.6
Private Consumption, real, y-o-y (%)	21.2	14.8	-10.6	-20.1	-7.3
Fixed Investment, real, y-o-y (%)	16.4	7.5	-12.7	-24.3	-5.0
Public Consumption, real, y-o-y (%)	4.9	3.7	9.9	-6.6	1.0
Exports, real, y-o-y (%)	6.5	10.0	-1.3	-10.0	-1.7
Imports, real, y-o-y (%)	19.4	14.7	-13.6	-21.1	-5.2
CPI (average, y-o-y %)	6.5	10.1	15.5	4.7	0.6
Central bank reference rate	5.00	6.00	6.00	4.50	3.50
Monthly wage, nominal (EUR)	430	565	682	511	485
Unemployment rate (%)	6.8	6.0	5.3	13.5	15.6
Budget balance/GDP (%)	-0.2	0.1	-3.3	-6.8	-4.9
Current account balance (EUR bn)	-3.6	-4.6	-3.1	-0.8	-0.1
Current account balance/GDP (%)	-22.5	-23.8	-13.2	-3.9	-0.6
Net FDI (EUR bn)	1.2	1.4	1.0	0.6	0.4
FDI % GDP	7.5	6.8	4.2	2.8	2.1
Gross foreign debt (EUR bn)	18.1	28.4	29.4	28.7	27.7
Gross foreign debt (% of GDP)	114.0	135.1	127.0	137.6	137.2
FX reserves (EUR bn)	3.3	3.8	3.5	2.5	1.9
(Cur.Acc-FDI)/GDP (%)	-15.0	-14.9	-9.0	-1.1	1.4
FX reserves/Gross foreign debt (%)	18.2	13.4	11.9	8.7	6.9
Exchange rate to USD eop	0.53	0.48	0.50	0.53	0.54
Exchange rate to EUR eop	0.70	0.70	0.70	0.70	0.70
Exchange rate to USD AVG	0.56	0.51	0.48	0.54	0.53
Exchange rate to EUR AVG	0.70	0.70	0.70	0.70	0.70

Source: UniCredit Research

Macro outlook

Economic contraction accelerates in Q1/09…

The contraction in economic activity accelerated in the first quarter of 2009: After a contraction in real GDP of 4.6% y-o-y in 2008, the Latvian economy's slide into negative territory accelerated in the first months of this year with industrial production and retail sales data recording new lows in January (at -23.9% y-o-y and -19.8% y-o-y, respectively, both figures are working day adjusted). The Economic Sentiment Indicator registered 53.9 in February, the lowest figure since the beginning of the time series and also one of the lowest levels in the EU: Only the economic sentiment in Hungary, Greece and Slovenia were worse than the sentiment in Latvia.

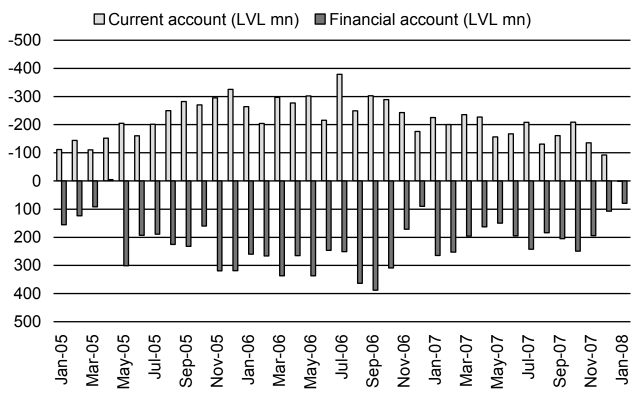
…and is set to contract further throughout 2009

Given the further deterioration in the global backdrop plus the increasing pace of the economic adjustment witnessed in Latvia we have significantly revised our forecast to a GDP contraction of -14.5% in 2009. Our central scenario, namely an unchanged quasi-peg of the LVL to the EUR, remains in place. This, however, means an additional drag on exports due to the deterioration in competitiveness. We expect the already weak and still weakening domestic demand to be further pushed down by the sharp narrowing of Latvia's current account and, more specifically, the drop in imports will result in a further fall in investment and private consumption.

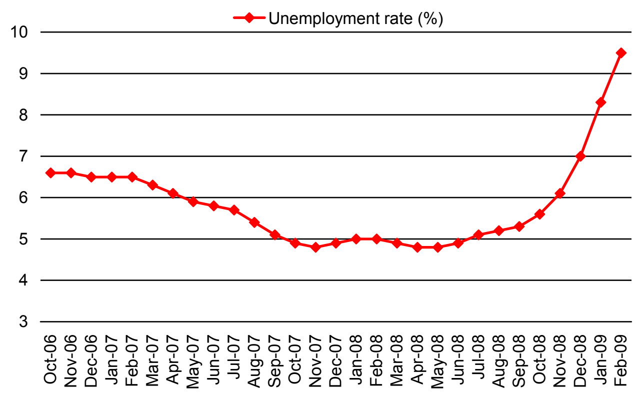
Inflation is coming down

Inflation fell in the first two months of 2009 to reach 9.6% y-o-y in February, the fall was, however, smaller than expected, due to increases in excise taxes at the beginning of the year and the spillover of these increases into February's data. Given those effects our calculations of the core inflation rate showed some small upswings in the first two months of 2009; in our view, these increases will only be a temporary phenomenon, given the sharp economic contraction we expect for 2009. We therefore pencil in an average inflation rate for 2009 of 4.5% y-o-y.

CURRENT ACCOUNT DEFICIT NARROWING



UNEMPLOYMENT RATE IS MOVING NORTH



Source: Central Bank, Statistical Office, UniCredit Research

Macro vulnerability indicators

Financing of the C/A deficit remains the main worry

The wide current account deficit and the increasing difficulties of attracting foreign capital to finance the external liabilities are still the main risk to the Latvian economy. The international loan of USD 10 bn which was granted to Latvia at the end of last year provided relief, but the pace of the economic contraction – resulting in a larger than expected shortfall in tax revenues, thus a wider than targeted budget deficit, and in renewed pressure on the Lat (the Central Bank had to intervene repeatedly at the end of February and the beginning of March by selling more than EUR 112 mn) raises doubts about whether the international loan will be enough to finance even a sharply narrowing current account deficit.

Our calculations show that a current account deficit of 3.9% to GDP in 2009 should be financeable (alongside a relatively high rollover ratio of bank debt and some run down in FX reserves). These calculations, however, rely on several key assumptions, one of them being a continuation of the payments from the international loan which is at the moment not to be taken for granted. This means that we see a risk that the deficit might have to contract more sharply, thereby leading to an even more pronounced fall-off in economic activity, aggravating social tensions and, finally, to a possible devaluation. This, as already noted above, is not our central scenario. Recent data flow supports our forecasts with the January current account recording a surplus of LVL 0.5 mn, which was the first surplus in a long time (see chart above).

New austerity measures already adopted

Austerity measures package already outmoded

The austerity measures package which was implemented at the end of last year already seems inadequate in some areas: Some of the measures of the package which was designed with the underlying assumption of a GDP contraction of 5% have already been reformulated and incorporated into the package to account of a double-digit contraction of the economy in 2009.

We think that the introduction of new austerity measures will be one of the leitmotivs in politics throughout the year, at least during the coming weeks. Admittedly, a lot depends on the ongoing negotiations with the IMF about the widening of the authorised budget deficit, which has delayed the payout of the March loan tranche. According to the original agreement between Latvia and the IMF, the budget deficit in 2009 must not exceed 5% of GDP which some Latvian officials say should be altered to at least 7%, given the worsening economic backdrop.

A widening of the deficit would ease some pressure and would therefore be welcome, but at the same time it would decrease the likelihood of euro-adoption in 2012 (official target). Even more welcome would be the additional loan of EUR 1 bn, mentioned and hoped for by incumbent PM Dombrovskis, but – in our view – this is even less likely to materialize at least in the near future than the increase in the permitted budget deficit.

Politics – new government in place

New government in place since mid-March

At the end of February, former PM Godmanis' government collapsed, reportedly on difficulties over amendments to the budget. Some three weeks later, the Saeima appointed a new government led by Valdis Dombrovskis, former member of the EU parliament. The new government which comprises five parties (one more than the previous government) agreed as a first major step on further budget cuts, which was welcomed by the market. It remains to be seen, however, if the new government proves to be more successful than the previous one. A major challenge will be a potential negative decision by the IMF about the further widening of the budget deficit.

In the meantime, the government is working hard to find ways to stimulate the economy that do not include massive government spending since it simply hasn't the funds to do so. This means that the "economy reanimation measures" put forward so far include red tape for entrepreneurs and introducing an export guarantee system. It is, however, doubtful whether these measures will boost economic activity.

Lithuania

Outlook

After positive dynamics for most of 2008, economic activity is expected to contract sharply this year due to a fall-off in exports and low capital inflows. The positive flipside will, however, be a sharp contraction in the current account deficit. The political response to the growth slowdown namely the implementation of a stimulus package as well as the introduction of public expenditure cuts should help slow the deterioration of the budget deficit.

Author: Anna Kopetz, Economist (CAIB)
+43 50505 82364, anna.kopetz@caib.unicreditgroup.eu

	Moody's	S&P	Fitch
Long-term foreign currency credit rating	**A2 under review negative implicatios**	**BBB negative**	**BBB+ negative**

MACROECONOMIC DATA AND FORECASTS

	2006	2007	2008	2009f	2010f
GDP (EUR bn)	24.0	28.4	32.4	31.2	30.5
Population (mn)	3.4	3.4	3.4	3.4	3.3
GDP per capita (EUR)	7065	8420	9628	9304	9121
GDP (constant prices y-o-y %)	7.8	8.9	3.1	-9.2	-3.2
Private Consumption, real, y-o-y (%)	10.6	12.4	6.1	-14.8	-4.5
Fixed Investment, real, y-o-y (%)	19.4	20.8	-5.7	-16.3	-5.0
Public Consumption, real, y-o-y (%)	3.7	3.3	3.7	-7.8	-0.5
Exports, real, y-o-y (%)	12.0	4.3	11.5	-12.6	-3.9
Imports, real, y-o-y (%)	13.7	11.6	10.3	-21.1	-4.7
CPI (average, y-o-y %)	3.7	5.7	11.0	5.5	0.9
Monthly wage, nominal (EUR)	459	548	654	561	531
Unemployment rate (%)	5.6	4.3	5.8	9.9	12.3
Budget balance/GDP (%)	-0.4	-1.2	-1.9	-3.7	-2.8
Current account balance (EUR bn)	-2.6	-4.1	-4.2	-1.2	-0.5
Current account balance/GDP (%)	-10.6	-14.6	-13.0	-3.7	-1.7
Net FDI (EUR bn)	1.2	1.0	0.8	0.4	0.3
FDI % GDP	5.1	3.6	2.4	1.1	0.9
Gross foreign debt (EUR bn)	14.4	20.5	25.1	26.1	26.3
Gross foreign debt (% of GDP)	60.2	72.3	77.4	83.5	86.2
FX reserves (EUR bn)	4.4	5.2	4.6	4.1	3.9
(Cur.Acc-FDI)/GDP (%)	-5.6	-11.0	-10.6	-2.5	-0.7
FX reserves/Gross foreign debt (%)	30.5	25.3	18.3	15.7	14.8
Exchange rate to USD eop	2.62	2.37	2.47	2.60	2.66
Exchange rate to EUR eop	3.45	3.45	3.45	3.45	3.45
Exchange rate to USD AVG	2.75	2.52	2.35	2.66	2.63
Exchange rate to EUR AVG	3.45	3.45	3.45	3.45	3.45

Source: UniCredit Research

Macro outlook

After the 3.1% y-o-y expansion in economic activity in 2008…

After last year's GDP growth rate of 3.1% y-o-y, the indicators at the beginning of this year point in the opposite direction: February's industrial production figure registered a yearly contraction of more than 15%, while January's retail trade data plummeted by 27.2% y-o-y. As seen in the other Baltic States, the Economic Sentiment Indicator hit an all-time low of 58.9 in February, which heralds dire releases in the coming months. The extent to which tight credit conditions are impacting the economy was also reflected in the recent downgrade of Lithuania's credit rating by S&P to BBB, which will probably be followed by cuts by other agencies in the future.

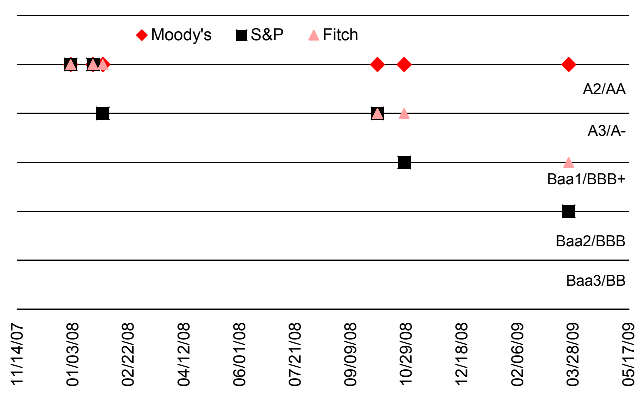
…this year the economy is expected to contract sharply

The sharp recent slowdown in economic activity, the weaker global backdrop and the tight external funding available made us revise our forecast of 2009 GDP growth to approx -9%. We expect a sharp contraction in domestic demand as well as in investment; partly also provoked by a sharp narrowing of the current account. Should Lithuania approach the IMF in order to secure an international loan the picture could change somewhat and – depending on the size of the loan – improve the situation; for the moment being, however, Lithuania's officials have not shown any serious ambition to approach the IMF.

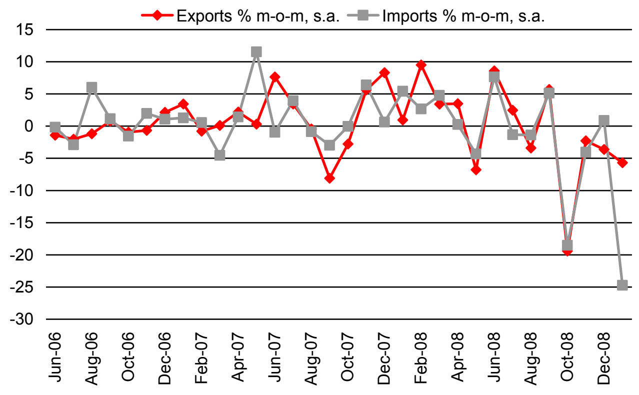
Inflation likely to decrease

As expected, inflation moved slightly higher at the beginning of this year on an increase in excise taxes put in place by the government as part of the austerity measures plan aimed at increasing public finances. In February, however, the inflation rate stood at 8.7% y-o-y which was still higher than the end-2008 rate of 8.5% y-o-y. Our estimate of seasonally adjusted core inflation also showed some pick-up on a monthly basis at the beginning of this year. Despite this, we expect core inflation to come down and possibly turn negative given the sharp expected contraction in economic activity and the dire expectations of the economic agents. We forecast inflation to fall markedly over the coming months and pencil in an average inflation rate of 5.5% y-o-y in 2009.

CREDIT RATINGS LIKELY TO CONTINUE FALLING



VERY SHARP FALL IN IMPORTS WITNESSED



Source: European Commission, Central Bank, Statistical Office, UniCredit Research

Macro vulnerability indicators

Sharp narrowing of the C/A deficit expected…

The current account deficit which stood at 11.6% to GDP in 2008 is likely to narrow sharply over 2009. We expect a very sharp contraction to a deficit of 3.8% to GDP throughout this year on the back of a pronounced fall-off in imports, accompanied by a decrease in exports, albeit not as strong as the reduction in imports.

…on a large fall in imports

January's current account data already pointed in this direction: January saw a large drop in imports of goods and services (-39.5% y-o-y after -9.2% y-o-y in December) and a less pronounced fall in exports of goods and services (-17.2% y-o-y after -5.6% y-o-y in December). The seasonally adjusted figures show an even more pronounced picture (see chart above): Seasonally adjusted imports contracted by 24.7% m-o-m, while exports decreased by "just" 5.7% m-o-m. The 3-month moving averages stand now at -9.2% m-o-m (from -7.2% m-o-m in December) and -3.9% m-o-m (from -8.4% m-o-m in December), respectively.

No changes in the exchange rate regime expected

Our central scenario remains that the currency board will hold, though to the extent that the external financing gap is significant risks to the board would be reduced through international support (which has not been asked for).

Policy response to macro outlook

Stimulus package adopted, budget to be revised in April and June

The government, in place since the end of last year, announced as its initial main objective the implementation of tough fiscal measures and the reining in of the budget deficit. Given, however, the fast deterioration of the economic backdrop and the increasing discontent of the public about the austerity measures, the government decided to change horses and introduced at the beginning of March a stimulus package worth EUR 1.6 bn. EUR 1.1 bn will be provided by the European Investment Bank, the remaining sum should be contributed by commercial banks, the EU Structural Funds and the state budget. The stimulus plan consists of five different parts aimed at the improvement of the country's economic environment, the encouragement of exports and investment, and an increase in the speed of the take-up of EU funding.

At the same time, judging from recent newsflow, Lithuania's politicians are well aware of the risk of the budget deficit getting out of control and do not want to lose sight of their initial target, namely a budget deficit that stays below 3% to GDP. This is why they announced plans to cut spending in at least two rounds of budget revisions in April and June. The planned cuts should comprise pay cuts in public wages and the "reduction of bureaucracy" by cutting 4000 jobs in the public sector. Despite the ambitious plan, we see a high risk that the budget deficit will exceed the target of 3% to GDP.

Politics

No riots seen during the past weeks

The government led by PM Kubilius and in place since the end of last year went through a challenging time when it introduced austerity measures at the beginning of this year which sparked large-scale riots. Since then, the situation has calmed but we see the risk that the social unrest might flare-up again in April and/or June when the government revises the budget. The severe and quite abrupt deterioration of the economic situation in Lithuania increases this risk of social unrest and instability.

Poland

Outlook: We now forecast a 0.5% contraction in 2009 against the backdrop of falling exports, tighter credit conditions, a looser labour market and associated weakness in domestic demand. That said, the Polish economy won't be hit as hard as some others in the region. This, coupled with focus on IMF FCL talk, alongside somewhat less weak regional FX sentiment, sets up PLN for a more stable outlook (in contrast to Q1 09, when it was penalized as a CEE FX proxy, given its higher liquidity).

Author: Marcin Mrowiec, Chief Economist (Bank Pekao)
+ 48 22 656 0678, marcin.mrowiec@pekao.com.pl

	Moody's	S&P	Fitch
Long-term foreign currency credit rating	**A2 stable**	**A- stable**	**A- stable**

MACROECONOMIC DATA AND FORECASTS

	2006	2007	2008	2009f	2010f
GDP (EUR bn)	272.1	310.8	360.2	295.3	347.2
Population (mn)	38.1	38.1	38.1	38.1	38.1
GDP per capita (EUR)	7137	8154	9453	7750	9115
GDP (constant prices y-o-y %)	6.2	6.7	4.8	-0.5	1.9
Private Consumption, real, y-o-y (%)	5.0	5.0	5.3	-0.8	2.2
Fixed Investment, real, y-o-y (%)	14.9	17.6	7.8	-4.8	0
Public Consumption, real, y-o-y (%)	6.1	3.7	0	2.7	2.5
Exports, real, y-o-y (%)	14.6	9.1	5.8	-5.2	4.8
Imports, real, y-o-y (%)	17.3	13.6	6.2	-6.2	3.6
CPI (average, y-o-y %)	1.0	2.5	4.2	2.6	1.9
Central bank reference rate	4.00	5.00	5.00	3.25	4.00
Monthly wage, nominal (EUR)	677	762	904	744	889
Unemployment rate (%)	16.2	12.7	9.8	11.4	13.5
Budget balance/GDP (%)	-1.8	-2.0	-2.4	-3.5	-3.1
Current account balance (EUR bn)	-7.4	-14.6	-19.6	-13.8	-16.1
Current account balance/GDP (%)	-2.7	-4.7	-5.5	-4.7	-4.6
Net FDI (EUR bn)	15.7	16.7	11.0	7.0	10.0
FDI % GDP	5.7	5.4	3.0	2.4	2.9
Gross foreign debt (EUR bn)	128.9	158.4	171.8	192.2	198.6
Gross foreign debt (% of GDP)	46.6	48.3	56.6	65.1	57.2
FX reserves (EUR bn)	36.8	44.7	44.1	48.6	52.4
(Cur.Acc-FDI)/GDP (%)	3.0	0.7	-2.4	-2.3	-1.8
FX reserves/Gross foreign debt (%)	28.6	28.2	25.7	25.3	26.4
Exchange rate to USD eop	2.91	2.47	2.97	3.01	2.85
Exchange rate to EUR eop	3.84	3.60	4.15	4.00	3.70
Exchange rate to USD AVG	3.10	2.76	2.39	3.35	2.93
Exchange rate to EUR AVG	3.90	3.78	3.52	4.34	3.85

Source: UniCredit Research

External and internal demand weakness to weigh on GDP

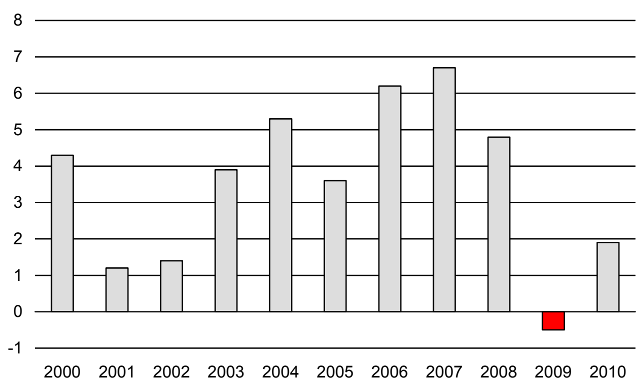
Foreign demand is slowing markedly, with the largest trading partner (Germany) set to plunge into recession

The increasingly adverse external backdrop renders positive GDP growth this year a forlorn hope. Since our last Quarterly, the EU growth outlook has worsened considerably and with a 3.5% EMU contraction now forecast in 2009. A significant slowdown in foreign trade was already seen in January (-25% y-o-y in EUR terms), and no better prospects for the rest of H1/09 are exerting significant pressure on expectations of foreign support for domestic economic activity. Nonetheless, one has to bear in mind that the zloty was one of the hardest-hit currencies in the region, and this creates a significant boost for exports in those areas where there's still demand. This is evident on the Polish-German, Polish-Slovak and Polish-Lithuanian borders (i.e. borders with the eurozone), with significant demand for items that in many cases are 50% cheaper than in the respective countries. This is also the source of our hope for a boost to the economy in H2/09, when the situation in Western economies is likely to stabilise (& possibly improve), which should trigger a rise in much cheaper (due to PLN weakening) Polish exports.

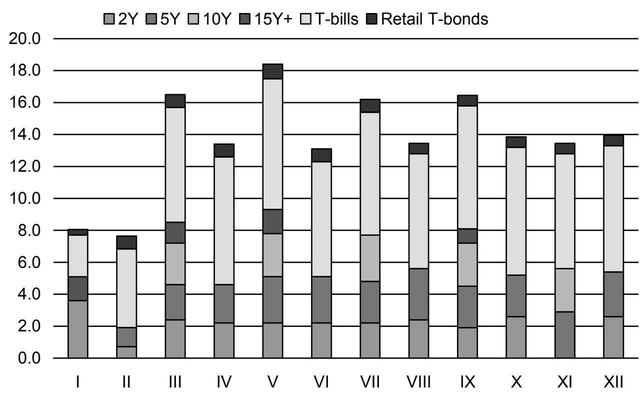
Deterioration in labor market to curb proclivity to consume

Even though exports and industrial output are likely to rebound in H2/09, the bullish consensus among consumers clearly no longer exists. The situation on the labour market is deteriorating, with the unemployment rate up to 10.9% in Feb, from 9.5% in Dec 2008, and likely to increase to almost 13% by year-end. Employment in the corporate sector in Jan-Feb was up +0.3% y-o-y, but it's only a matter of time before it dives into negative y-o-y territory. Wages in the corporate sector held up pretty well in February (5.1% y-o-y), but they're set to moderate in the coming months, and the real wage bill in 2009 is expected to decline by 1.5% y-o-y in 2009, compared with 7-11% real growth in the previous three years. Such a slowdown in real wages, combined with increased job insecurity, will curb the propensity to spend, all the more so as the previous 3-4 years saw a real shopping binge. On top of this are credit considerations – recent years saw a major credit expansion, which will be absent this year, as banks tighten their lending standards (esp. for mortgages), and households are increasingly reluctant to take on more debt. All these factors will likely push real private consumption into negative territory (-0.8%) this year, dragging GDP into a 0.5% decline in 2009.

GLOBAL BACKDROP WILL PUSH GDP GROWTH INTO NEGATIVE TERRITORY IN 2009



HEAVY ISSUANCE CALENDAR IS THE MAJOR DRAG ON ANY OPTIMISM IN PLN T-BOND MARKET



Source: Eurostat, BIS, Markit, UniCredit Research

Macro vulnerability indicators

The Cabinet will have to widen the budget gap

Heightened T-bond issuance is almost certain and tax hikes seem increasingly probable

The key concern in the domestic market is still related to government borrowing needs and potential funding problems: The official domestic (PLN) borrowing needs set in the 2009 budget were estimated at PLN 32.3 bn. Clearly these forecasts were prepared last summer, when the Cabinet (and market consensus) saw GDP growth close to 5% in 2009, and even in such circumstances tax revenues were on the optimistic side as were privatization revenue forecasts (PLN 12 bn). The Cabinet recently announced savings of almost PLN 20 bn, but even so the scale of the mismatch between forecasts and reality will likely make it necessary to increase the budget deficit (in our view to circa PLN 35 bn, from originally planned PLN 18.2 bn). The gross borrowing needs (net needs + rolling maturing debt) are currently estimated at PLN 155 bn by the Finance Ministry – but this is under the assumption of 1.7% GDP growth, i.e. it will have to be adjusted for weaker numbers, creating additional pressure of circa PLN 20-30 bn (depending on the actual pace of growth and tax revenue). Although this supply pressure is to some extent reflected in the yield curve movements (it steepened 100 bp since December) the spread between bond yields and interest rate swaps may continue to widen. On top of a challenging issuance environment another important consideration is that such huge government borrowing needs ‘crowd out’ private borrowers from the loan market (particularly when there is no lending in FX). This pressure, however, could ease after May-June once the big maturities are out of the way.

MPC seems ready to cut rates further

NBP rate to fall to 3.25% by end 2009

With its March rate cut (by 25 bp, to 3.75%) the MPC showed it is focused on the medium- and long-term inflation picture, and will likely continue cutting rates. We maintain our target for the MPC reference rate at 3.25%, which will likely be attained by the end of June. The discussion is now focused on which steps the Central Bank should take in order to stimulate lending, as banks are reluctant to extend new credit in the face of the sharp economic slowdown. Demand for credit is also choked by a significant increase in the banks’ cost of funding, which forces them increase margins on loans – an additional obstacle for credit growth. The ideas proposed by the banks focus on measures that would increase the NBP’s role as a source of longer-term funding that could be used to finance new loans. On the other hand, the NBP is considering lowering the deposit rate more than other CenBank rates, to discourage banks from “parking” money with the NBP rather than lending it to the non-financial sector.

Politics

First signs of declining popularity of the ruling Civic Platform

The deteriorating economic situation is starting to affect support for the ruling coalition In the previous issue we noted that the high level of support enjoyed by the ruling Civic Platform will likely be challenged as the economic situation in Poland deteriorates, and the first signs of this process are already starting to take place. Additionally, the junior coalition partner – farmers’ PSL – is increasingly voicing its “votum separatum” to some statements and decisions by the Prime Minister. This is raising the likelihood of tension within the coalition. We do not expect any major political dramas in the coming months, although the upcoming elections to the European Parliament (June) will likely encourage the PSL to try to win some votes by challenging the more “socially tough” stances of the Cabinet, and hence the probability of political jitters is clearly higher than it was recently.

Romania

Outlook

We look for a significant domestic demand led 4% contraction in GDP in 2009, with the flipside being a significant improvement in the current account deficit. A significant IMF led balance of payments support package reduces risks to the economy, though given downside risks to growth the market outlook remains challenging.

Author: Rozália Pál, Ph.D., Chief Economist (UniCredit Tiriac Bank)
+40 21 203 2376, rozalia.pal@unicredit.ro

	Moody's	S&P	Fitch
Long-term foreign currency credit rating	**Baa3 stable**	**BB+ negative**	**BB+ negative**

MACROECONOMIC DATA AND FORECASTS

	2006	2007	2008	2009f	2010f
GDP (EUR bn)	97.8	123.8	136.9	124.2	139.2
Population (mn)	21.6	21.5	21.4	21.3	21.2
GDP per capita (EUR)	4530	5751	6391	5829	6565
GDP (constant prices y-o-y %)	7.9	6.2	7.1	-4.0	1.0
Private Consumption, real, y-o-y (%)	11.6	9.8	8.4	-5.9	1.2
Fixed Investment, real, y-o-y (%)	19.9	29.0	19.3	-8.0	1.1
Public Consumption, real, y-o-y (%)	-11.5	7.6	3.7	-2.5	2.0
Exports, real, y-o-y (%)	10.4	7.9	19.4	-6.7	6.5
Imports, real, y-o-y (%)	22.6	27.2	17.5	-12.4	6.0
CPI (average, y-o-y %)	6.6	4.8	7.9	6.1	4.3
Central bank reference rate	8.75	7.50	10.25	8.50	7.00
Monthly wage, nominal (EUR)	246	313	348	312	338
Unemployment rate (%)	5.4	4.3	4.0	8.7	8.0
Budget balance/GDP (%)	-1.5	-2.3	-4.8	-5.0	-4.5
Current account balance (EUR bn)	-10.2	-16.7	-16.9	-10.8	-9.8
Current account balance/GDP (%)	-10.4	-13.5	-12.3	-8.7	-7.1
Net FDI (EUR bn)	8.7	7.2	9.0	4.5	4.6
FDI % GDP	8.9	5.8	6.6	3.6	3.3
Gross foreign debt (EUR bn)	31.4	38.5	50.1	61.5	70.6
Gross foreign debt (% of GDP)	32.1	31.1	36.6	49.5	50.7
International reserves (EUR bn)	22.9	27.2	28.3	33.3	32.6
(Cur.Acc-FDI)/GDP (%)	-1.5	-7.7	-5.7	-5.1	-3.8
Int. reserves/Gross foreign debt (%)	73.0	70.7	56.4	54.1	46.2
Exchange rate to USD eop	2.56	2.45	2.89	3.38	3.29
Exchange rate to EUR eop	3.38	3.58	4.03	4.50	4.28
Exchange rate to USD AVG	2.80	2.43	2.50	3.39	3.34
Exchange rate to EUR AVG	3.52	3.34	3.68	4.39	4.39

Source: UniCredit Research

GDP growth slumps but financing solution breathes life into the economy

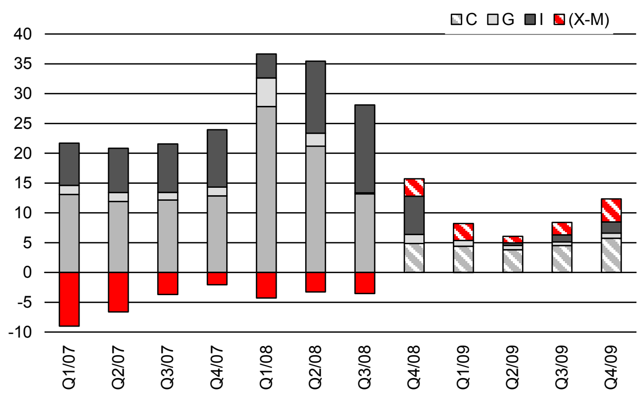
Real economy entering negative territory in Q1/09

Romania's vulnerability and exposure to the global financial crisis became apparent in the sharply decelerating Q4 GDP. Strong corrections were registered in private consumption, slumping from 14.6% in the previous quarter to a 3.7% y-o-y contraction while investment remained positive at 2.8%, but was down significantly from 27.7% growth registered in the first three quarters. In Q1/09 household consumption remained under pressure on the back of tighter credit conditions, rising unemployment (5.3% in Feb from 4% avg 2008), less job security and significantly lower wage growth (13% relative to 24% y-o-y nominal growth in 2008). Private consumption is expected to lose its role as a growth engine this year and to stay in negative territory throughout 2009. In line with global trends, January's depressed industrial production (-15% y-o-y) and record export contraction (-24% y-o-y) will persist in H1. Moreover, the volume of construction works decelerated to 9% y-o-y in January from 30% y-o-y in 2008 and a further scale down is anticipated. The implementation of government infrastructure projects and strategic investment projects supported by EU funds will be crucial for the Romanian economy to return to growth in 2010.

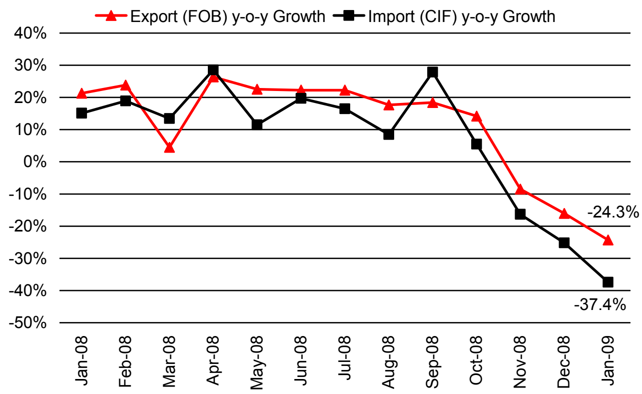
Inflation will likely stay above the NBR target band during 2009

Inflation in the first two months came in above expectations, eliminating any chances to end the year below the target band (Central Bank target set at 3.5% +/-1%). This, coupled with a weaker RON and increase in tobacco excise taxes this year mean we expect year-end CPI to slow to just 5.4% y-o-y, despite significantly weaker economic growth.

CONTRIBUTION TO NOMINAL GDP %



EXPORT AND IMPORT DYNAMIC, % Y-O-Y



Source: BNR, UniCredit Research estimates

Current account to improve significantly

Export growth to remain negative but the stronger downturn in imports will bring the expected C/A correction

The Romanian C/A deficit halved in January compared to the first month of 2008 and is expected to improve further in Q1 driven by a strong downturn in imports (-37% y-o-y in January). This figure supports our forecast for the full year 2009 current account deficit to diminish by 36% to EUR 10.8 bn or 8.7% of GDP. Additional good news can also be seen in January FDI data (EUR 912 mn, up 50% y-o-y) providing more than 100% coverage of the C/A deficit on the back of auto industry investment. This also shines the spotlight on the country's continued constructive real convergence prospects.

Coverage of the external financing need solved

The EUR 20 bn IMF/EU balance of payments support package equals the size that we estimate Romania's external financing gap to be, estimated using a relatively high bank external debt rollover ratio and some repayments (50%) of short-term company debt. Although major foreign banks operating in Romania have committed themselves to maintaining their overall exposure to the country and to recapitalise in case of need, there is some scope for a locally led improvement in FX loan to deposit ratios. Amid fears of capital outflow, the commitment of banks to their long-term strategies is a major support for the economy (bearing around one-third of the country's external debt).

Medium and long-term external debt is set to reach 50% of GDP in 2009 on the back of accelerating public debt of around 31% of GDP that still remains on a relatively moderate level compared to the countries in the region. Moody's has reconfirmed the rating for Romania as stable, after the agreement with the IMF was officially signed. Fitch also acknowledged that IMF support should shore up the country's external finances and reduce the risk of a damaging financial crisis.

Interest rate easing on the way

Monetary policy to be loosen significantly in 2009

While only a gradual policy rate cut is expected with overall 150 bp through the year, effectively monetary policy loosening will also occur through an MRR reduction. In its recent meeting on March 31, the NBR held interest rates at 10%, while cutting the minimum reserve ratio on foreign-denominated liabilities with residual maturities of over two years to zero from 40% at present, as of the May 24-June 23, 2009 maintenance period. We estimate that this would mean a release of slightly below EUR 1 bn from FX reserves.

On the fiscal side, **Romania's Government will revise the 2009 budget in April-May,** after the authorities and the IMF agreed upon a budget deficit of 4.6% of GDP (initially set at 2% according to the budget law) based on economic growth of -4%. Strong focus on structural reforms has been requested. The "fiscal responsibility law" aims to improve budget-making transparency and allow for long-term planning. The pensions system and salaries in the public sector, as well as the monitoring and control procedures for state-owned companies will also be revised with international assistance.

Politics

Presidential and EU elections to be held in 2009

2009 is election year in Romania with both presidential and EU-parliamentary elections expected to take place. The EU-elections will be held in June 09, and will be followed by the Presidential election in November. President Basescu might win a new mandate. However, the social tensions caused by cost cutting measures of the new cabinet formed by his party might also erode the President's popularity. Although there are some degrees of uncertainty about their candidature, contenders potentially could be Mircea Geoana, the president of PSD and Crin Antonescu, the new president of the main opposition party, the centre-right PNL. Crin Antonescu replaced former PM Calin Popescu-Tariceanu as leader of the PNL.

The solidity of the new coalition was once again put on trial, during the IMF negotiations, when PSD criticized its partner on lack of transparency. Tensions between the two parties although without severe consequences at the moment, might intensify during the year bearing in mind that they will be opponents in the presidential elections.

Slovakia

Outlook

As one of the region's most open economies Slovakia is exposed to the collapse of European trade and thus manufacturing, with euro adoption also preventing exporters benefiting from exchange rate depreciation. The positive flipside of the euro, however, is that it keeps the cost of debt low. The local banking sector remains and has one of the lowest loan/deposit ratios in the region with no FX debt.

Author: Jan Toth, Chief Economist (UniCredit Bank)
+421 2 4950 2267, jan.toth@unicreditgroup.sk

	Moody's	S&P	Fitch
Long-term foreign currency credit rating	**A1 stable**	**A1 stable**	**A+ stable**

MACROECONOMIC DATA AND FORECASTS

	2006	2007	2008	2009f	2010f
GDP (EUR bn)	44.5	54.8	64.8	68.1	71.7
Population (mn)	5.4	5.4	5.4	5.4	5.4
GDP per capita (EUR)	8260	10155	11993	12600	13284
GDP (constant prices y-o-y %)	8.5	10.4	6.4	-0.5	2.1
Private Consumption, real, y-o-y (%)	5.8	7.0	6.1	1.3	2.0
Fixed Investment, real, y-o-y (%)	9.3	8.7	6.8	-5.0	0.7
Public Consumption, real, y-o-y (%)	10.2	-1.3	4.3	5.5	5.0
Exports, real, y-o-y (%)	21.0	13.8	3.2	-7.1	2.7
Imports, real, y-o-y (%)	17.7	8.9	3.3	-6.4	2.7
CPI (average, y-o-y %)	4.5	2.8	4.6	2.1	2.9
Central bank reference rate	4.75	4.25	2.50	1.00	1.00
Monthly wage, nominal (EUR)	622	669	723	754	795
Unemployment rate (%)	13.3	11.0	9.6	13.0	12.9
Budget balance/GDP (%)	-3.6	-2.2	-2.0	-4.1	-3.5
Current account balance (EUR bn)	-4.3	-3.3	-4.2	-3.9	-3.1
Current account balance/GDP (%)	-7.7	-5.3	-6.3	-5.8	-4.3
Net FDI (EUR bn)	4.6	2.7	1.7	1.2	1.8
FDI % GDP	8.4	4.4	2.5	1.7	2.5
Gross foreign debt (EUR bn)	24.4	30.2	38.0	40.1	43.2
Gross foreign debt (% of GDP)	50.9	54.7	56.0	56.8	57.3
(Cur.Acc-FDI)/GDP (%)	0.8	-1.1	-3.9	-4.1	-1.8
Exchange rate to USD eop	26.21	23.04	21.59	22.65	23.17
Exchange rate to EUR eop	34.57	33.60	30.13	30.13	30.13
Exchange rate to USD AVG	29.65	24.64	21.27	23.22	22.91
Exchange rate to EUR AVG	37.25	33.78	31.29	30.13	30.13

Source: UniCredit Research

Macro outlook

Slovakia to enter recession after 10.4% growth in 2007 and 6.4% growth last year

GDP growth is set to slump from 6.4% last year to an estimated recession of 0.5% this year on the back of a collapse in global trade. As the recession deepens in Germany and the Czech Republic – Slovakia's main trading partners – a stagnating manufacturing sector in Q1/09 will push the country into recession. The fiscal package of 0.5% of GDP is not that ambitious and there remains implementation uncertainty around additional infrastructure spending (via public-private partnership) and effective EU funds absorption. Public sector wages and falling inflation will keep domestic demand in positive territory. However, our forecast relies on the validation of more positive signals coming from German Ifo and ZEW indicators and a possible shift of production (in relative terms) from more expensive Western European regions to Slovakia. Therefore, on a q-o-q basis (adjusted for one-offs), we expect limited positive growth in Q4/09 with the biggest plunge in Q1/09.

We expect most pain to be felt in Q1/09 as Slovak exporters will be hit by the collapsing global manufacturing sector

We revise our estimate of recession in the manufacturing from 7% to 10%

Industrial production has been in free-fall in Q1/09. The main pillars of the Slovak economy are cyclical sectors such as autos, electronics, steel and chemicals. We have revised our estimate for the recession in the industry from -7% to -10% on the back of a greater slowdown of Slovakia's trading partners. The weighted average of GDP of Slovakia's trading partners will change radically from 2.2% growth last year to 2.7% recession this year and to a hopeful 0.7% growth next year. As a result of the sudden global recession, the two most important sectors – autos and electronics – stalled on the planned rollout of production. In 2009 we estimate the unused capacity in Slovak auto manufacturing could reach the 45% mark. The latest German industry indicators Ifo and ZEW suggests that H1/09 will see the Slovak industry bottoming at a 13% y-o-y collapse while the fall should mitigate towards year-end to 5% y-o-y. The risk is that the recent revival in the mood in Germany could turn out to be a temporary blip based on administrative measures such as the car scrapping subsidy. New orders to inventory ratios signal tough times ahead in the very near future.

Confidence surveys point to a possible stabilization in industry in H2/09

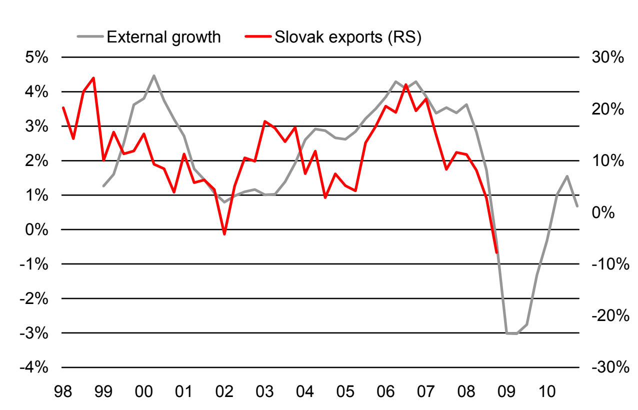
Domestic demand will be a mixed bag of positive real wages and falling investments

Construction will suffer as overcapacity is removed

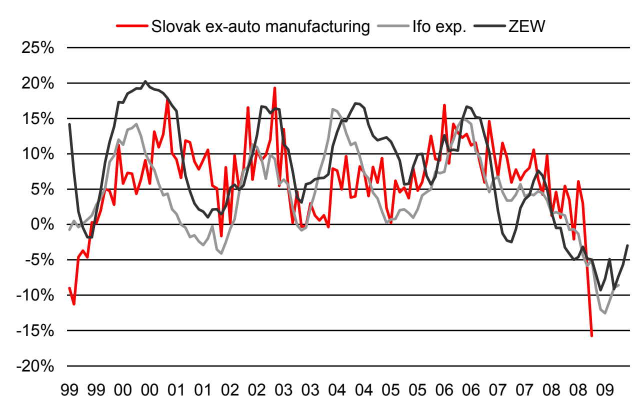
Inflation is expected to fall more sharply to 1.8% by year-end

Domestic demand growth will hover around zero. Despite some steps towards infrastructure investments via the PPP scheme, we expect investments to fall as companies face free capacity. There has been overcapacity in real estate. Over the years, due to the weak local equity market, households used real estate as an investment vehicle based on past price developments. We expect construction output to fall by 8% as real estate prices start to fall and the number of transactions dips dramatically. Private sector wages will suffer. On the other hand, inflation will be more subdued, partially offsetting the hit on purchasing power. With the exchange rate fixed, Slovakia will not import any inflation.

SLOVAK EXPORTS VS. EXTERNAL GROWTH



SLOVAK MANUFACTURING VS. GERMAN IFO AND ZEW IND.



Ex-auto manufacturing considered due to huge capacity increases in autos over previous years. Ifo expectations component pushed 3M and ZEW 6M ahead.

Source: UCB

Banking sector remains in good shape

Slovak banking sector shows a very low loan/deposit ratio

Not long ago, the government absorbed 12% of GDP of bad debt ahead of selling the banks to foreigners

The fx-denominated debt is non-existent for both households and corporates

Slovakia has one of the lowest loan/deposit ratios. Before the privatization of the two biggest market players in the early 2000s, the government carved out bad loans to the tune of 12% of GDP. The banks received government bonds in their stead. Therefore, the country has (together with the Czech Republic) the lowest loan/deposit ratio of 85% in the region. Falling inflation and a fiscal policy inspired by the euro adoption process kept local currency interest rates low, plus Slovak households did not venture into fx-denominated debt. The relatively recent introduction of mortgages did not push the banks to sell the product to lower income households. With the euro adoption, almost all fx risk was taken out of the equation. Indeed, the share of fx-denominated debt of corporates fell from 32% to 2% as the Slovak koruna seized to exist. In terms of pricing, the short-term ECB rate is below the Slovak inflation rate. The price of long-term debt did not rise despite widening of spreads for Slovakia since the benchmark's German Bund's rate fell.

Policy response to macro outlook

Slovakia is unlikely to meet its public commitment of a fiscal deficit below 3% of GDP

We expect the fiscal deficit to reach over 4% of GDP as tax revenue collection slumped from high-growth era

At the same time, the fiscal stimulus package is limited to a mere 0.5% of GDP while the overall fiscal impulse could range between 2-3% of GDP based on the EU fund usage

The government will likely double the fiscal deficit to over 4% of GDP. With growth collapsing from 10.4% to an estimated recession of 0.5% within 2 years, the tax revenue shortages took the government by surprise. Mostly for political reasons, the authorities are trying to implement a limited fiscal package of 0.5% of GDP with 0.3% of GDP planned for tax cuts and 0.2% of GDP given to boost public spending. The implementation of more serious fiscal stimuli in addition to that in the form of PPP infrastructure investment or EU funds has been delayed due to the market situation and the lack of capacity on the government's side. We expect the fiscal deficit to shoot up from 2% of GDP last year to over 4% of GDP this year despite the government's public commitment to keep a deficit below 3% of GDP. The public debt will rise to 33% of GDP, still one of the lowest figures in the region. Taking into account the overall fiscal impulse, we see it between 1.6% of GDP up to a theoretical 3% of GDP (assuming that all EU funds are used).

Politics

The government was taken by surprise after the first round of presidential elections

Parliamentary elections are scheduled for summer 2010

There is no reform agenda planned ahead of the elections

The ruling leftist populist coalition continues to have a stable majority in parliament. The on-going presidential elections surprised the government as the difference between its incumbent candidate and the opposition one was narrower than suggested by the popularity preferences. The incumbent government candidate won the elections by 55.5% to 44.5% vote.

The much more important general parliamentary elections will take place in summer 2010. The leftist populist government does not plan any reforms to boost the attractiveness of Slovakia for investors. The calls from the opposition to cut the flat tax from 19% to 16% have been rejected. The turnaround of the messy social contributions system is also unlikely.

Slovenia

Outlook

Slovenia's economy will contract by over 2% this year as the significant scope for stimulus from fiscal policy softens the impact of the global recession. The relatively high importance of exports indicates a period of anaemic growth looks likely, especially if wage developments undermine price competitiveness. Government debt will remain low even after this year's stimulus packages, however.

Author: Goran Šaravanja, Chief Economist (Zagrebačka banka)
+ 385 1 6006 678, goran.saravanja@unicreditgroup.zaba.hr

	Moody's	S&P	Fitch
Long-term foreign currency credit rating	**Aa2 stable**	**AA stable**	**AA stable**

MACROECONOMIC DATA AND FORECASTS

	2006	2007	2008	2009f	2010f
GDP (EUR bn)	31.0	34.5	37.1	36.7	37.7
Population (mn)	2.0	2.0	2.0	2.0	2.1
GDP per capita (EUR)	15487	17169	18366	18010	18395
GDP (constant prices y-o-y %)	5.9	6.8	3.5	-2.1	0.7
Private Consumption, real, y-o-y (%)	2.8	5.3	2.2	-0.9	0.2
Fixed Investment, real, y-o-y (%)	10.4	11.9	6.2	-3.7	2.5
Public Consumption, real, y-o-y (%)	4.1	2.5	3.7	2.5	2.2
Exports, real, y-o-y (%)	12.5	13.8	3.3	-6.5	2.2
Imports, real, y-o-y (%)	12.2	15.7	3.5	-5.0	2.8
CPI (average, y-o-y %)	2.5	3.6	5.7	1.1	1.9
Central bank reference rate	3.50	4.00	2.50	1.00	1.00
Monthly wage, nominal (EUR)	1212	1284	1391	1400	1441
Unemployment rate (%)	6.0	4.9	4.5	5.8	6.2
Budget balance/GDP (%)	-1.2	-0.1	-0.2	-3.8	-2.5
Current account balance (EUR bn)	-0.8	-1.5	-2.2	-1.4	-1.2
Current account balance/GDP (%)	-2.5	-4.2	-5.9	-3.7	-3.2
Net FDI (EUR bn)	-0.2	-0.3	0.3	0.3	0.5
FDI % GDP	-0.6	-0.8	0.7	0.7	1.3
Gross foreign debt (EUR bn)	24.1	34.8	39.0	41.8	44.0
Gross foreign debt (% of GDP)	77.6	100.7	105.1	113.6	116.7
(Cur.Acc-FDI)/GDP (%)	-3.0	-5.0	-5.2	-3.0	-1.9
Exchange rate to USD eop	181.70	164.33	171.75	180.18	184.34
Exchange rate to EUR eop	239.64	239.64	239.64	239.64	239.64
Exchange rate to USD AVG	190.71	174.82	162.92	184.74	182.24
Exchange rate to EUR AVG	239.61	239.64	239.64	239.64	239.64

Source: UniCredit Research

Government widens support packages as recession bites

Growth outlook deteriorating sharply…

Indicators for Q1/09 point to deepening recession: Slovenia recorded a drop in economic activity of 0.8% y-o-y in Q4/08 with gross fixed capital formation falling 5.4% y-o-y while imports and exports of goods and services contracted by 6.2% and 6.6% respectively. Available data for Q1/09 point to a deterioration of economic conditions. Industrial production was down 17.4% y-o-y seasonally adjusted and the construction sector, which has seen double-digit growth in real terms in each of the past three years and where the number of apartments sold in Q4/08 was down 50% y-o-y, appears particularly vulnerable to a slowdown. With domestic demand weaker and exporters under greater pressure we expect the unemployment rate to rise from 4.5% to 5.8% this year and climb further in 2010.

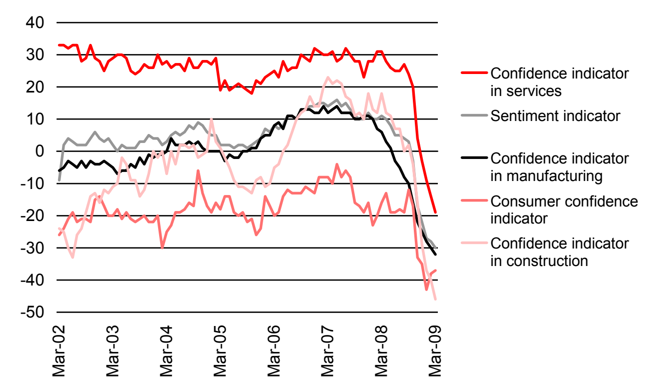
…risks to growth forecast skewed to the downside…

Most strikingly, business and consumer confidence indicators are sharply lower in Q1/09. In March 2009 five of six confidence indicators were at record lows, with only consumer confidence improving from -38 in February to -37 in March (see graph). Since October 2008 confidence in the construction sector has plummeted from -4 to -46 while in the services sector it has shifted from 20 to -19 over the same period. We forecast a contraction in growth of 2.1% in Slovenia this year with fixed investment down 3.7% y-o-y on tighter availability of credit while rising unemployment and slowing wage growth, especially in the private sector will push private consumption down 0.9% y-o-y.

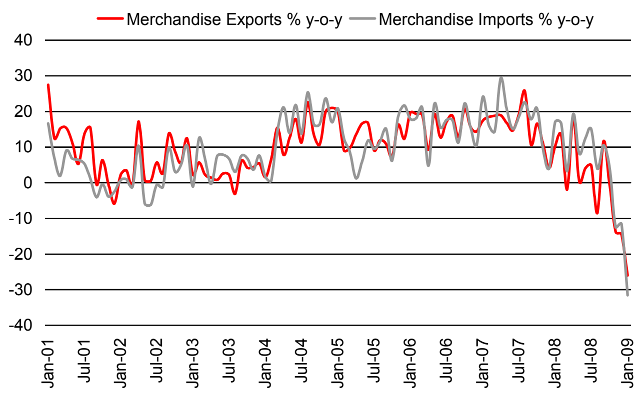
…given the importance of exports to total growth

With Slovenia relatively dependent on external demand for generating growth, the deterioration in the outlook for the global economy, the Eurozone and South East Europe presents an additional risk to our growth forecast. Nonetheless, we believe the significant increase in government spending entailed in stimulus packages will soften the impact of the recession on Slovenia.

BUSINESS AND CONSUMER CONFIDENCE SURVEY…



…MERCHANDISE EXPORTS AND IMPORTS



Source: Sors, UniCredit Research estimates

Inflation set to fall but wage developments may hinder the pace of recovery

Inflation takes a back seat: Consumer prices rose 2.1% y-o-y in February after rising 1.6% y-o-y a month earlier. With domestic demand moderating we expect lower inflation this year. At the same time, unit labor cost data point to a deterioration in competitiveness with the total economy real ULC indicator increasing 1.4% y-o-y for the first three quarters of 2008. In the manufacturing sector, which is bearing the brunt of the global recession the deterioration in price competitiveness is even more pronounced with unit labor costs in rising in real terms by 4.7% y-o-y in H1/08. Gross earnings in real terms in 2008 rose 2.5% for the whole economy, but in January 2009 they rose 5.1% y-o-y, largely because of increases in public sector salaries (administration 13.4% y-o-y, education 7.6% and health and social welfare 23.5% y-o-y in real terms). That said a government brokered deal on public sector salaries in 2009-10 will slow the increase in public sector salaries (as well as saving approximately EUR 100 mn per annum for the government). With currency depreciation no longer an option, wages will have to adjust if the price competitiveness of Slovenia's export sector is to be maintained. Given the importance of exports to Slovenia's growth profile, wage developments will be an important factor influencing the pace of recovery.

Government unveils more measures to combat recession

Second stimulus package for the economy announced in February 2009

Second stimulus package unveiled: In February the government unveiled a second, more focused stimulus package for the economy. The government continues to implement policies aimed at softening the impact of the global recession. In March it approved a guarantee scheme to boost access to finance for companies. A total of EUR 1.2 bn is being made available with guarantees on offer until December 31, 2010. This is in addition to a EUR 12 bn guarantee scheme adopted earlier for the financial sector. An additional EUR 300 mn from budget funds, the development bank's resources (which itself is receiving a more than 100% capital increase of EUR 160 mn) reallocation of cohesion funds and EIB credit lines is being provided to enterprises. Given the reliance of the banking sector and the relatively high number of domestically-owned enterprises in recent years on wholesale markets (gross foreign debt at the end of 2008 stood at 105% of GDP) it is not surprising that the government is focusing on improving banking sector credit activity and enterprise liquidity.

Budget deficit to widen, but public debt will remain low

So far in 2009 the government has issued two Eurobonds amounting to EUR 2.5 bn and the development bank (SID) has borrowed EUR 750 mn to support the economy. We see the budget deficit widening to 3.8% of GDP this year and while public debt will rise, we expect it to be less than 25% of GDP by the end of the year.

Current account deficit to narrow on lower imports

Current account deficit to narrow

Merchandise exports and imports drop off a cliff in Q4/08: The current account deficit in 2008 rose 50% to EUR 2.2 bn or 5.9% of GDP as merchandise exports fell in sharply Q4 and interest payments on foreign debt rose. This year sharply lower investment spending and a contraction in private consumption will see imports fall (down 31.5% y o y in January). The outlook for export growth is far from constructive given the deterioration in the growth outlook in G7 and we look for a fall in exports of goods and services of over 5% this year. While the income balance in the current account will deteriorate as interest payments on foreign debt rise, the net effect leads us to forecast a deficit of EUR 1.35 bn this year (3.7% of GDP).

Politics

Official growth forecast concentrates minds. In late March the official government forecaster (UMAR) predicted a fall in GDP growth of 4% this year. That shock has concentrated minds even more on how to deal with the effects of the recession on Slovenia. The weekend following UMAR's forecast PM Pahor announced a third economic package, including possible cuts in public sector employment, would be put together by the government The main foreign policy issue remains Slovenia's effective veto (over a border dispute) on the continuation of Croatia's EU accession talks.

Bosnia & Herzegovina

Outlook

Falling inflation, collapsing merchandise exports and imports, strained fiscal positions and a call to the IMF for assistance all point to a contraction in GDP growth this year and next. External imbalances will narrow appreciably as domestic demand slows, but to the extent that the currency board means domestic demand has to take the burden of adjustment we also see output contracting in 2010.

Author: Goran Šaravanja, Chief Economist (Zagrebačka banka)
+ 385 1 6006 678, goran.saravanja@unicreditgroup.zaba.hr

	Moody's	S&P	Fitch
Long-term foreign currency credit rating	**B2 Stable**	**B+ Stable**	**–**

MACROECONOMIC DATA AND FORECASTS

	2006	2007	2008	2009f	2010f
GDP (EUR bn)	9.8	11.1	12.5	12.3	12.5
Population (mn)	3.8	3.8	3.9	3.9	3.9
GDP per capita (EUR)	2543	2876	3253	3187	3236
GDP (constant prices y-o-y %)	6.7	6.8	5.8	-3.0	-1.0
CPI (average, y-o-y %)	6.1	1.5	7.4	1.0	2.6
Monthly wage, nominal (EUR)	444	488	568	570	578
Unemployment rate (%)	44.5	44.0	40.3	44.0	45.0
Budget balance/GDP (%)	2.9	1.0	-0.9	-2.5	-2.0
Current account balance (EUR bn)	-0.8	-1.2	-1.9	-1.0	-0.7
Current account balance/GDP (%)	-7.9	-10.4	-15.0	-7.9	-5.5
Net FDI (EUR bn)	0.6	1.5	0.7	0.2	0.4
FDI % GDP	5.8	13.8	5.5	1.7	3.3
FX reserves (EUR bn)	2.8	3.4	3.2	2.6	2.5
(Cur.Acc-FDI)/GDP (%)	-2.1	3.4	-9.5	-6.2	-2.3
Exchange rate to USD eop	1.48	1.34	1.40	1.47	1.50
Exchange rate to EUR eop	1.96	1.96	1.96	1.96	1.96
Exchange rate to USD AVG	1.56	1.43	1.33	1.51	1.49
Exchange rate to EUR AVG	1.96	1.96	1.96	1.96	1.96

Source: UniCredit Research

Bosnia calls in IMF to help deal with recession

Growth outlook deteriorating…

High frequency data and anecdotal evidence suggest recession. While the central bank announced at the end of March it expected 2008 growth to be 5.5%, it is increasingly evident that Bosnia Herzegovina has slipped into recession in 2009. Industrial production in the Federation fell 13.3% y-o-y in Jan-Feb while in Republika Srpska the headline increase in industrial production was 7.2% y-o-y, with manufacturing up 12.6% y-o-y. However, this increase is largely due to the commencement in November 2008 of production in a long-dormant refinery (manufacturing of coke, refined petroleum is up 5,457% y-o-y in January-February) and the manufacturing of transport equipment (up 7,659% m-o-m in February 2009). Since October 2008 the number of unemployed in the country has risen 11,000 and as growth slows more job losses are likely, especially with double-digit increases in gross salaries in all sectors of the economy in January 2009 compared to a year earlier. The level of loans outstanding is slightly lower at the end of February 2009 than at the end of October 2008, so the graph below to some extent understates the contraction in lending activity in recent months. At the same time, deposits in the banking system at the end of February 2009 were over EUR 500 mn below that registered at the end of October 2008.

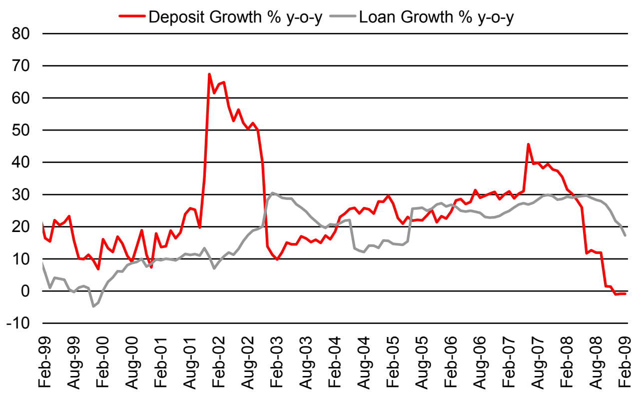
…with the Federation for now feeling the impact harder than Republika Srpska…

The outlook for growth in 2009 is poor. Admittedly, the predominantly Serbian entity, Republika Srpska (RS), appears to be in better economic and fiscal shape than the Muslim-Croat Federation. That said both parts of Bosnia Herzegovina are likely slide into recession. Our forecast is for a contraction of GDP growth of 3% this year with a further contraction of 1% next year, with the risk skewed to the downside. Wage dynamics will have to slow, especially as the country has a currency board arrangement thus precluding a weaker exchange rate as a mechanism for adjustment. We also see the continuation of slowing credit growth given the relatively high loan/deposit ratio of 121% at the end of February and stagnant deposit growth. Without a resumption of capital inflows, we see little prospect of a return to growth in 2010.

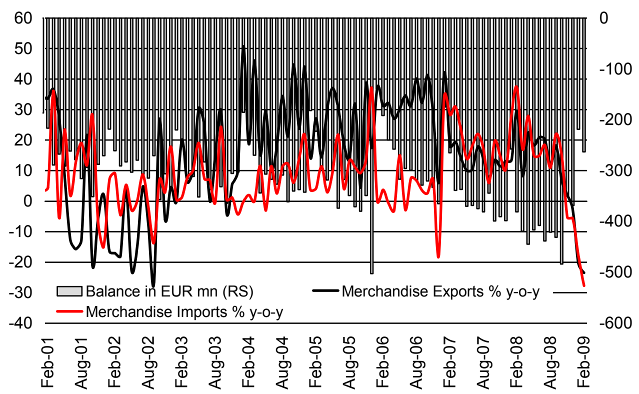
Inflation heading south and set to stay there

Sharp drop in inflation suggests slowing domestic demand. In February CPI rose just 1.8% y-o-y having been at 8.7% at the end of Q3/08. Inflation recorded m-o-m falls in RS between November and February. In the Federation the same would be true but for the 0.1% m-o-m increase seen in February. The bottom line: sharply contracting domestic demand is pushing inflation lower. We see inflation averaging a mere 1% this year as a result.

CREDIT GROWTH SHARPLY DOWN, DEPOSITGROWTH FLAT



SLOWING OF IMPORTS AND EXPORTS ACCELERATES



Source: Central Bank of BiH, UniCredit Research

Slowing import growth to push C/A deficit lower

Current account deficit to narrow in 2009

Fall in merchandise exports and imports accelerates in 2009. Not only have merchandise imports into Bosnia Herzegovina been falling since November, but entering 2009 that fall has accelerated to 23.4% y-o-y in Jan-Feb 2009. Merchandise export growth has also fallen sharply, by 22% y-o-y, in the first two months of 2009. Since we expect the slowing in import growth to exceed that of export growth and considering imports are more than twice the size of exports, we forecast an almost halving of the current account deficit in 2009 from 15% of GDP to 7.1%. Although we see FDI inflows down to only EUR 200 mn this year, the external financing gap for Bosnia Herzegovina will contract by over EUR 800 mn to EUR 1.5 bn on the basis of our forecasts. We also expect the country's FX reserves to fall from EUR 3.2 bn to EUR 2.6 bn this year. If a deal with the IMF is agreed however, the fall in FX reserves (if at all) would be minimal.

Fiscal Council calls on Central Bank to ease policy

Central bank can only lower mandatory reserve requirements to counter slowing growth...

Little the Central Bank can do. An easing of policy would amount to a reduction in the mandatory reserve requirement from the current 14% (and 10% from deposits in excess of 1 year). Although the amount of easing has not been mentioned, the initial reaction from Governor Kozaric of the Central Bank was positive. More importantly, the Fiscal Council instructed the national finance ministry to invite the IMF to see whether an assistance package could be agreed to help the economy deal with the effects of the recession. A deal would be important given the Central Bank's reserves have fallen by an additional EUR 117 mn in the first two months of the year. Despite the precarious position of the economy, we do not expect the currency board to be brought into question. Bottom line: the international community would step in to protect one of its most successful policies in Bosnia Herzegovina.

Federation government faced with the biggest issues, but RS also staring at tough times

Tax revenue declines highlight unsustainable budget expenditures. The Federation government concluded it had generated EUR 133 mn arrears in 2008 mainly as a result of obligations arising from generous war veterans' and disability pensions granted after the 2006 elections, which make up 40% of budget expenditures. In mid-March it had borrowed EUR 81.8 mn from a syndicate of local banks in a first step to meet those obligations. Tax revenues in the Federation have fallen 12% y-o-y in January and 15% y-o-y in February, which led to a budget rebalance in March. As tax revenues continue to fall, the need to revise pension entitlements will become more urgent. In Republika Srpska budget revenues were down approximately 5% to mid-March, according to the government. It is also discussing how to pay arrears which have built up. Its ability to fund a planned EUR 100 mn support programme through its development bank will hinge on securing credit lines from multilateral lenders. At the national level, in late March the Fiscal Council decided to mainly use EUR 300 mn in European Commission and international financial organization funds for infrastructure projects and efforts to support small and medium sized enterprises.

Call to IMF demonstrates ability to reach agreement

Prospect of a deal with the IMF will improve policy implementation

Call for IMF assistance represents an encouraging show of unity by Bosnia's politicians. Admittedly, this did occur in the context of one of the largest global slowdowns in economic growth, but it is nonetheless encouraging. IMF assistance, if agreed upon, would be very important to managing the slowdown in growth. In the meantime as the recession takes hold, we expect politicians, especially in the Federation, where the precarious fiscal position threatens the timely pay out of pensions, to be exposed to many challenges.

Croatia

Outlook

The growth outlook remains poor as slower capital inflows constrain domestic demand while the international environment shows no sign of improving. The tourist season will provide a seasonal inflow of FX revenues, complementing the Central Bank's stable currency policy, but will not provide the room needed to ease general monetary policy settings. Fiscal policy is too tight for countercyclical management as evidenced by the government's decision to rescind the 6% public sector wage increase granted at the start of the year.

Author: Goran Šaravanja, Chief Economist (Zagrebačka banka)
+ 385 1 6006 678, goran.saravanja@unicreditgroup.zaba.hr

	Moody's	S&P	Fitch
Long-term foreign currency credit rating	**Baa3 stable**	**BBB negative**	**BBB- stable**

MACROECONOMIC DATA AND FORECASTS

	2006	2007	2008e	2009f	2010f
GDP (EUR bn)	39.0	42.9	46.4	43.7	45.8
Population (mn)	4.4	4.4	4.4	4.4	4.4
GDP per capita (EUR)	8774	9662	10462	9856	10322
GDP (constant prices y-o-y %)	4.7	5.5	2.4	-3.7	0.2
Private Consumption, real, y-o-y (%)	3.5	6.2	0.8	-3.0	0
Fixed Investment, real, y-o-y (%)	10.9	6.5	8.2	-4.0	0
Public Consumption, real, y-o-y (%)	2.2	3.4	1.9	1.0	1.0
Exports, real, y-o-y (%)	6.5	4.3	1.7	-4.0	0
Imports, real, y-o-y (%)	7.4	6.5	3.6	-5.0	0.3
CPI (average, y-o-y %)	3.2	2.9	6.1	2.7	2.5
Monthly wage, nominal (EUR)	906	961	1044	1021	1048
Unemployment rate (%)	11.2	9.6	8.6	10.5	11.0
Budget balance/GDP (%)	-2.6	-2.0	-1.6	-2.6	-2.3
Current account balance (EUR bn)	-2.7	-3.2	-4.5	-2.7	-2.5
Current account balance/GDP (%)	-6.9	-7.5	-9.6	-6.1	-5.5
Net FDI (EUR bn)	2.6	3.5	2.8	1.5	1.7
FDI % GDP	6.6	8.1	6.1	3.4	3.7
Gross foreign debt (EUR bn)	29.3	33.3	39.0	40.0	42.0
Gross foreign debt (% of GDP)	75.1	77.6	84.2	91.5	91.8
FX reserves (EUR bn)	8.7	9.3	9.1	7.8	8.5
(Cur.Acc-FDI)/GDP (%)	-0.3	0.5	-3.5	-2.7	-1.7
FX reserves/Gross foreign debt (%)	29.8	28.0	23.4	19.4	20.2
Exchange rate to USD eop	5.57	5.03	5.29	5.83	5.85
Exchange rate to EUR eop	7.35	7.33	7.37	7.75	7.60
Exchange rate to USD AVG	5.83	5.35	4.91	5.78	5.71
Exchange rate to EUR AVG	7.33	7.34	7.22	7.50	7.50

Source: UniCredit Research

Economic realities force the government's hand

Growth surprised on the upside in Q4/08, but the outlook remains poor with…

Structure of GDP growth in Q4/08 foreshadows worse to come. At 0.2% y-o-y GDP growth in Q4/08 exceeded expectations. However, private consumption was much weaker (-3.2% y-o-y) and investment activity moderated further (3.5% y-o-y vs 6.6% in Q3/08). All indicators undoubtedly point to sharply slowing domestic demand in Q1/09. New car registrations were down approximately 40% y-o-y in Jan-Feb, while retail sales were down 13.7% y-o-y in January. Since the turn of the year unemployment has risen by 22,000, with February being the first month in over 3 years where unemployment has increased on a y-o-y basis. Industrial production fell 13.3% y-o-y in the first two months of the year, with manufacturing activity falling over 15% y-o-y. Construction activity, a mainstay of growth in 2008, fell 5.6% y-o-y in real terms in January.

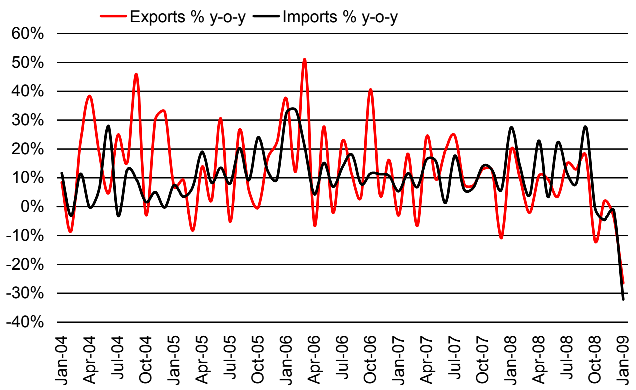
…risks to growth forecast still skewed to the downside.

The growth outlook remains poor. The risk to our forecast of a 3.7% contraction in growth this year remains to the downside. Slowing credit growth (access to international markets for corporates is minimal compared to previous years) points to a contraction in investment activity while private consumption entering 2009 is in negative territory. Meanwhile export growth is being hampered by the global recession. We see unemployment rising to 10.5% on an ILO basis (from 8.6% in 2008). The government, faced with deteriorating tax revenue growth has already begun to cut spending and will likely have to continue to do so. The scope for looser monetary policy is minimal not least because maintaining currency stability is the main pillar of the central bank's strategy.

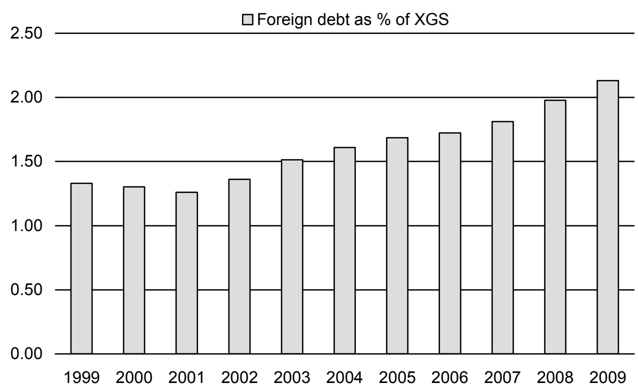
Inflation lower on commodity prices and domestic demand contraction

Inflation to halve this year. We base our 2.7% y-o-y forecast on our expectation the Central Bank continues to maintain a stable currency this year coupled with lower commodity prices and contracting domestic demand.

MERCHANDISE TRADE…



…FOREIGN DEBT AS A PERCENTAGE OF XGS



Source: CBS, HNB, UniCredit Research estimates

C/A deficit to narrow, but external obligations remain high

Slowing domestic demand and lower commodity prices set to lower current account deficit…

This year we expect the current account deficit to narrow to 6.1% of GDP as import growth slows. In January 2009 merchandise imports fell 32.2% y-o-y while merchandise exports fell 26.5% y-o-y, in addition the continued fall in industrial production in February points to lower demand for intermediate goods. With private consumption having already contracted sharply in Q4/08 and investment activity certain to contract this year the fall in merchandise imports will narrow Croatia's merchandise trade gap even though merchandise exports will also fall. The key for Croatia's current account will be the tourist season where we expect a fall in revenues, but not of the same magnitude as the fall in merchandise exports. Our projection of EUR 1.5 bn in FDI inflows and net credit inflows of EUR 1 bn implies a minimal residual gap to finance the current account gap this year.

…but high debt service obligations remain a source of vulnerability

Foreign debt service requirements of EUR 6.7 bn in final Q2-Q4 of 2009. Central Bank projections estimate a further EUR 6.7 bn in foreign debt repayments. Assuming 100% rollover for the government, banks and intercompany loans that leaves EUR 3.1 bn of private sector debt to be refinanced. Since this number includes non-bank financial institutions we assume 30% of this total amount is apportioned to NBFIs, leaving roughly EUR 2.2 bn of private sector debt to be refinanced this year. Combined with the financing gap for the current account that implies an external financing gap of EUR 2.4 bn for the economy in Q2-Q4 2009.

Monetary & fiscal policy

Tourist season to provide the currency some breathing space

Currency to remain under pressure in 2009 on the basis of our financing gap estimates although the onset of the tourist season will ease these pressures. With roughly 2/3 of bank lending FX-linked, maintaining exchange rate stability is the main aim of monetary policy since a more meaningful depreciation would adversely impact on disposable income and the ability of companies to service their obligations, leading to a far more disorderly adjustment process. The Central Bank is prepared to spend EUR 1 bn defending the currency and in Q1/09 spent a net EUR 180 mn doing so. This is encouraging bearing in mind that Q1 is traditionally the period in the year when most refinancing activity takes place (half of all foreign debt repayments for 2009 were due in Q1 according to central bank data.

Money market rates to remain high. Recent weeks have seen money market rates stabilize at 9-10% levels, after at one point rising to over 40% in early March. With the onset of the tourist season at Easter, the depreciation pressures on the currency should moderate in the coming months. Nonetheless, monetary policy conditions will remain tight, not least because of increased uncertainty over tourism sector FX earnings in a global recession environment.

Economic realities force the government's hand

Government tables budget rebalance early. In late March the government proposed cutting expenditures by HRK 5.4 bn (wage bill cuts HRK 1.8 bn) and revised its revenue forecast down HRK 8 bn leading to a deficit of HRK 5.5 bn or 1.4% of GDP. In essence, falling tax revenues forced the government's hand. Rising unemployment has dented social welfare contributions' revenues while falling imports and lower commodity prices have lowered VAT and excise tax revenues. Government officials have already flagged the possibility of another rebalance if the growth outlook worsens. In a nutshell, the likelihood of additional saving measures later in the year is high so we view this rebalance as the first concrete effort to prepare public opinion for further unpopular measures later in the year.

Politics

May local elections in focus

Budget rebalance marks a turning point. Initially, the government had sought to delay the budget rebalance until after the 17 May local elections. This is an evident risk for the government in terms of the local elections, but should it succeed in tapping international capital markets during Q2 in part as a result of its decision to rescind previous granted wage increases, its political fortunes may improve. Irrespective, the worsening growth outlook presents an evident risk for the government. And while entry into the NATO pact on April 1 represented a long standing foreign policy goal, for now progress on EU accession remains on ice with Slovenia blocking 12 chapters over a border dispute and the Netherlands and UK expressing reservations over cooperation with the Hague Tribunal.

Kazakhstan

Outlook

We expect the Kazakh economy to begin to see some hesitant growth in late 2009 after a tough first half thanks to strong fiscal support and some easing of the global crisis. From mid-2010 on, the recovery will be driven mainly by exports. Efforts to stabilise systemically important banks will remain at the center of economic policy in H1/09, while in H2/09 government funds should finally reach the construction, SMEs and agriculture sectors.

Author: Hans Holzhacker, Chief Economist (ATF Bank)
+7 727 244 1463, h.holzhacker@atfbank.kz

	Moody's	S&P	Fitch
Long-term foreign currency credit rating	**–**	**BBB- negative**	**BBB- under review negative implications**

MACROECONOMIC DATA AND FORECASTS

	2006	2007	2008	2009f	2010f
GDP (EUR bn)	64.5	76.1	89.8	78.0	87.5
Population (mn)	15.4	15.6	15.8	15.9	15.9
GDP per capita (EUR)	4191	4885	5704	4894	5491
GDP (constant prices y-o-y %)	10.7	8.9	3.2	-2.0	3.0
Private Consumption, real, y-o-y (%)	12.6	10.8	-1.2	-2.3	3.0
Fixed Investment, real, y-o-y (%)	29.7	17.3	4.9	-8.8	5.7
Public Consumption, real, y-o-y (%)	7.3	14.0	4.3	4.0	3.4
Exports, real, y-o-y (%)	6.5	9.0	-1.0	-10.0	6.5
Imports, real, y-o-y (%)	12.1	25.5	-12.0	-7.0	6.0
CPI (average, y-o-y %)	8.6	10.8	17.2	10.8	8.8
Central bank reference rate	9.00	11.00	10.50	9.50	9.00
Monthly wage, nominal (EUR)	258	313	343	325	372
Unemployment rate (%)	7.8	7.6	6.6	7.2	7.6
Budget balance/GDP (%)	8.4	5.2	1.2	-9.9	-4.0
Current account balance (EUR bn)	-1.6	-5.4	6.0	-7.4	-3.6
Current account balance/GDP (%)	-2.5	-7.0	6.7	-9.5	-4.1
Net FDI (EUR bn)	5.0	7.4	8.4	6.4	9.1
FDI % GDP	7.8	9.8	9.4	8.3	10.4
Gross foreign debt (EUR bn)	56.2	65.7	69.2	65.2	67.3
Gross foreign debt (% of GDP)	87.1	86.3	77.0	83.6	77.0
FX reserves (EUR bn)	15.2	12.7	14.4	9.3	10.8
(Cur.Acc-FDI)/GDP (%)	5.3	2.7	16.1	-1.2	6.3
FX reserves/Gross foreign debt (%)	27.1	19.3	20.9	14.3	16.1
Exchange rate to USD eop	126.80	120.68	120.88	165.00	165.00
Exchange rate to EUR eop	167.23	175.99	168.66	219.45	214.50
Exchange rate to USD AVG	126.00	122.54	120.32	154.79	165.00
Exchange rate to EUR AVG	158.30	167.98	176.98	200.79	216.98

Source: UniCredit Research

From a tough Q1 to a better H2

Industry, retail sales, sentiment, all pointing south in Q1

A tough Q1: In 2008, real GDP grew 3.2% y-o-y according to Statistical Agency data, which according to our estimates means growth of 1.3% y-o-y in Q4. For Q1/09, all indicators point to a substantial output contraction: Industrial output declined 3.2% y-o-y in Jan-Feb 2009, with manufacturing down 11.4% y-o-y. Constant price retail sales decreased 2.2%, fixed capital investment 9.7% y-o-y. Thanks to some recovery in global commodity demand and the effects of fiscal loosening in the magnitude of 11% of GDP (KZT 1800 bn, USD 12 bn), made possible by ample reserves and low public debt, the economy should begin to grow slightly again in seasonally adjusted quarter on quarter terms in late 2009. Beside bank stabilisation, most of the additional money spent will go to construction and higher social spending. Support for public sector incomes should allow real disposable income to grow by about 1% despite a likely fall in real wages of 1-2%. Private consumption is nevertheless likely to shrink further in 2009, given increasing unemployment and stalled consumer lending. Additionally, for the upgrading of the infrastructure in Astana and Almaty KZT 95 bn have been earmarked.

Unemployment at 7.1%, additional 1.9% hidden

Unemployment on the rise: Unemployment is increasing despite agreements between the authorities – mostly the local governments – and companies not to lay off workers. In February, 599,000 people were unemployed or 7.1% of the workforce. This compares with 575,000 people or 6.9% a year earlier. The Statistical Agency estimates that an additional 1.9% of the workforce can be regarded as hidden unemployed because of compulsory part-time work or unpaid vacation. The number of such cases has risen sharply since February.

Exports slump in January by more than 50%

Sharp contraction in foreign trade: According to initial data from customs statistics, the foreign trade surplus narrowed to USD 0.8 bn in January 2009 from USD 2.9 bn the year before. Exports fell 50.5% y-o-y in USD terms, imports 21.4%. Exports of oil were 9.3% y-o-y lower in physical terms and 66.1% in USD terms; iron ore exports fell 54.5% in physical and 35.5% in USD terms. The most significant decline on the import side was car imports, which were down 54% y-o-y in physical and 55% y-o-y in USD terms.

With oil prices one-half that of 2008, C/A deficit could amount to 9% of GDP in 2009

Current account deficit set to widen drastically: We see oil prices recovering to about USD 60 per barrel Brent at end-2009. This nevertheless implies that they will be on average 47% lower in 2009 than in 2008. Global demand for metals will also remain weak because of the difficult situation in the automotive and construction industries. We therefore expect the current account deficit to widen to as much as of 9% of GDP, even though weak domestic demand, the February tenge devaluation and “buy Kazakh” policies will also keep imports low.

Record high FDI inflows in Q4/08

FDI resilient: Net inward FDI inflows amounted to USD 12.4 bn in 2008, according to preliminary Central Bank estimates, up from USD 10.2 bn in 2007. The fourth quarter even brought an all-time high in inflows of USD 4.6 bn. Several projects in the oil/gas and electricity sectors are under way, which make us believe that FDI inflows could amount to as much as USD 8.7 bn in 2009 despite restraint by investors given the difficult global environment.

Reserves to decrease another USD 12 bn, after USD 6 bn in January-February

Reserves to fall another USD 12 bn: Central Bank reserves stood at USD 19.6 bn on February 28, 2008, and we see them decreasing to USD 12.4 bn at end-2009. We assume that the Oil Fund will wind down its foreign assets by additional USD 6-7 bn after a decline of almost USD 6 bn between end-January and end-February 2009 to USD 22.32 bn. The combined NBRK reserves and Oil fund assets would thus contract by about USD 12 bn from the February amount to USD 30 bn at the end of 2009. More broadly, the Majilis (lower house of parliament) approved in the first reading of the bill the streamlining of procedures for introducing currency controls in early March. The new law, once approved, will give the President the right to impose mandatory forex sales on exporters.

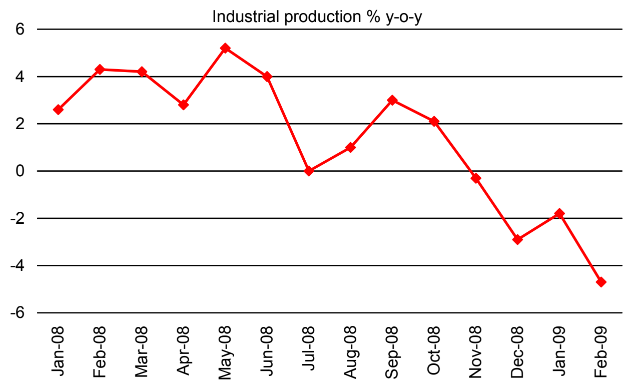
Fiscal deficit of almost 10% of GDP in 2009

Revised budget, further transfers from the Oil Fund: Having revised its macro parameters, revenues of the Republican Budget are now projected to amount to KZT 2,837.4 bn (or 17.7% of GDP) in 2009, down from KZT 2,845 bn. Expenditures, by contrast, increased to KZT 3,411 bn or 21.3% of GDP. Revenues include new transfers from the Oil Fund of KZT 347.9 bn (2.2% of GDP). We now expect a combined deficit of the budgets on all levels and the Oil Fund of 9.9% of GDP for 2009.

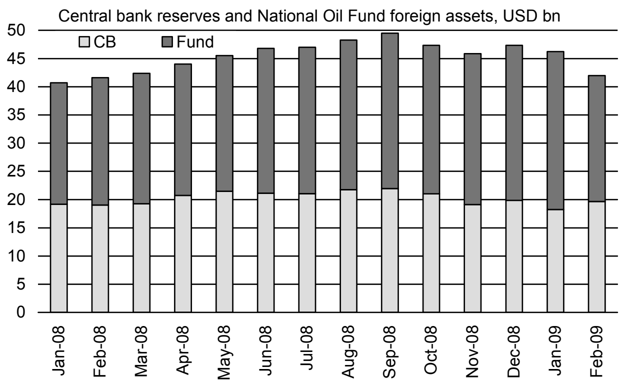
Inflation in December 2009: 12.6% y-o-y

Inflation moderate in February, but more to come: On 4 February 2009, the National Bank of the Republic of Kazakhstan announced that it would no longer hold the tenge in the previous implicit corridor of 119-121 to the dollar and set an explicit corridor of 145-155. We estimate the pass-through to inflation to be about 0.32, meaning that the roughly 20% devaluation should increase the consumer price level by about 6% over the next couple of months. We forecast an inflation rate of 12.6% y-o-y for December 2009.

INDUSTRIAL PRODUCTION HEADING SOUTH



NATIONAL FX RESERVES



Source: NBK, National Statistics Office, UniCredit Research

Funds equivalent to 4.5% of GDP disbursed, only a fraction has reached clients as yet

Flow of funds has begun: Funds equivalent to 4.5% of GDP (KZT 716 bn) have been disbursed by the Samruk-Kazyna state holding to banks. Another KZT 364 bn or 2.3% of GDP are in the pipeline. Of the KZT 716 bn, KZT 308 bn were used for acquiring bank shares, the rest for liquidity support and for SME and mortgage lending programmes.

Restructuring of BTA debt?

Bank stabilisation remains crucial: The aggregate pretax loss of banks amounted to KZT 264 bn in January-February 2008 according to local accounting standards as KZT 366 bn in provisions were set aside, 70% of the amount of 2008 as a whole. Dubious assets increased from 2.3% of total assets at end-2007 and 10.5% at end-2008 to 18.4%. The case of BTA, Kazakhstan's largest bank, is of particular interest. We believe that the authorities, who took over the majority of the bank, will be able to renegotiate some of its foreign debt while avoiding a default in the technical sense.

Devaluation risk lower

Risk of further devaluation in 2009 diminished: The drain on fx-reserves will be substantial in 2009, a further devaluation of the tenge in 2009 cannot be ruled out. We therefore keep our forecast of 165 to the USD at end-2009. However, there are factors which make further devaluation less likely than before. Among them are: diminished pressures on competitiveness because of likely rouble bottoming out, reduced import elasticity because of "buy Kazakh" campaigns, tightened fx-control legislation. And the state meanwhile is majority or at least 25% owner of the major banks, which enables a better control of speculative flows.

Russia

Outlook

The economic outlook remains challenging against the backdrop of tight financial conditions, increasing spare capacity and deteriorating labour markets. As a result, we downgrade our forecast of Russian real GDP growth again to negative 3.6% in 2009, mostly on an expected 7.0% contraction in consumption. On the positive side, pressure on the RUB to depreciate has eased partly because the unit is now closer to fair value and additionally because of a more hawkish central bank interest rate policy. This, coupled with stabilizing oil prices has also seen FX reserves climb off of their lows.

Author: Vladimir Osakovsky, Ph.D., Head of Strategy and Research (UniCredit Bank)
+7 495 258 7258 ext. 7558, vladimir.osakovskiy@unicreditgroup.ru

	Moody's	**S&P**	**Fitch**
Long-term foreign currency credit rating	**Baa1 stable**	**BBB negative**	**BBB negative**

MACROECONOMIC DATA AND FORECASTS

	2006	**2007**	**2008**	**2009f**	**2010f**
GDP (EUR bn)	788.0	942.2	1139.8	910.9	1034.0
Population (mn)	142.2	142.0	141.7	141.2	140.8
GDP per capita (EUR)	5542	6635	8044	6450	7343
GDP (constant prices y-o-y %)	6.7	8.1	5.6	-3.9	0.6
Private Consumption, real, y-o-y (%)	11.2	12.8	11.5	-7.8	1.0
Fixed Investment, real, y-o-y (%)	13.7	21.1	9.1	-10.0	0
Public Consumption, real, y-o-y (%)	2.5	5.0	2.5	6.7	2.5
Exports, real, y-o-y (%)	7.3	6.4	0.2	-7.2	2.9
Imports, real, y-o-y (%)	21.9	27.3	17.7	-18.1	5.3
CPI (average, y-o-y %)	9.7	9.0	14.1	11.3	8.5
Central bank reference rate	5.71	6.08	13.00	11.00	8.00
Monthly wage, nominal (EUR)	314	386	469	393	445
Unemployment rate (%)	6.7	6.1	6.2	9.0	7.5
Budget balance/GDP (%)	8.4	6.1	4.1	-7.1	-5.5
Current account balance (EUR bn)	75.2	55.6	63.6	35.1	67.5
Current account balance/GDP (%)	9.5	5.9	5.6	3.9	6.5
Net FDI (EUR bn)	22.9	38.3	44.0	27.0	33.9
FDI % GDP	2.9	4.1	3.9	3.0	3.3
Gross foreign debt (EUR bn)	234.7	314.0	365.5	334.5	345.1
Gross foreign debt (% of GDP)	31.4	35.9	41.3	35.8	32.2
FX reserves (EUR bn)	230.2	325.4	302.9	317.1	404.4
(Cur.Acc-FDI)/GDP (%)	12.4	10.0	9.4	6.8	9.8
FX reserves/Gross foreign debt (%)	98.1	103.7	82.9	94.8	117.2
Exchange rate to USD eop	26.31	24.64	30.53	34.72	35.24
Exchange rate to EUR eop	34.70	35.93	42.59	46.18	45.81
Exchange rate to USD AVG	27.15	25.54	24.78	35.20	34.98
Exchange rate to EUR AVG	34.11	35.01	36.46	45.65	45.99

Source: UniCredit Research

Economy to slump in 2009, stabilize in 2010

Economy slumped in Q1/09

The Ministry of Economic Development estimates that real GDP contracted 8% y-o-y in the first two months of the year, driven by a sharp fall in industrial output and investment. Despite tentative signs of stabilization in the worst-hit industries i.e. those exposed to rapidly falling investment demand, such as steel, manufacturing equipment etc., the outlook remains challenging with household consumption likely continuing to deteriorate even after fixed investment stabilizes. A sharp contraction in industrial production has already triggered a rise in unemployment to 8.5% in February, which contributed to a 4.7% decline in real disposable incomes, a slowdown of real wages to a mere 0.1% y-o-y and retail sales slipping to negative 2.4% y-o-y for the first time since 1999. We now forecast a 7% household consumption contraction in 2009.

Intensified contraction of consumer demand is set to deepen recession

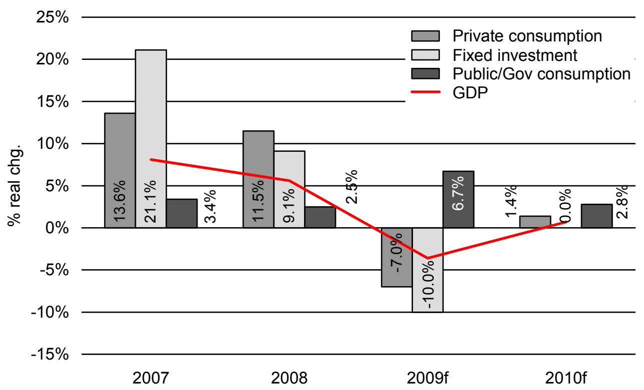
In contrast to household consumption, the pace of investment deterioration might have already reached a bottom and might start to post a weak recovery later in the year on slowing capital flight, easing domestic monetary conditions and a low base effect. However, the outlook for investment for the whole year remains at negative 10% on the massive contraction in Q1/09. The economy is expected to receive support from the massive boost of public spending from the recently approved RUB 3000 bn or 8% of GDP federal budget deficit, as well as improvement in the net external balance (in constant price terms) due to a sharp contraction of imports.

Slowing consumption is expected to start slowing inflation

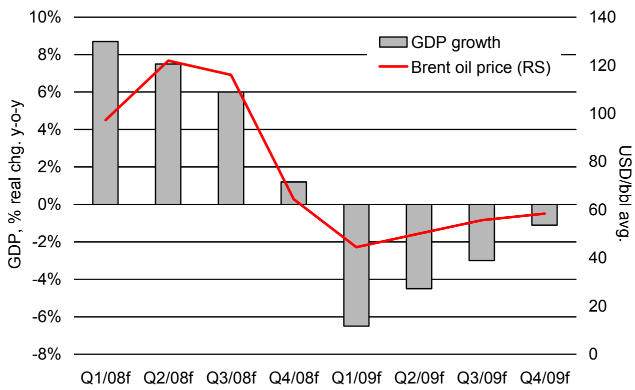
The slowdown in domestic demand will help to start to slow inflation. The sharp devaluation of the RUB in early 2009 has boosted imported goods prices, which continue to dominate the consumption bundle, and accelerated inflation to some 13.9% y-o-y in February. However, as the RUB stabilizes, the importance of this factor is likely to ease, giving way to deflationary pressures in the broader economy. Overall, we expect inflation to start slowing in Q2/09 to reach 9% y-o-y by the end of the year.

We continue to see global commodities prices as a major source of uncertainty to our forecasts. If prices remain strong, we would expect economic growth to exceed our outlook due to a further improvement in government finances, a rebound in corporate profits and investment spending, as well as limit or further improve the capital account. On the other hand, we would expect the reverse in the case of a deeper correction in oil prices. Moreover, an additional downside risk to our forecast might come from the continued deterioration of assets quality in the Russian banking system and impact on investment.

WE EXPECT RUSSIAN ECONOMY TO SLUMP IN 2009F, STABILIZE IN 2010F



FIRST SIGNS OF STABILIZATION SHOULD START TO APPEAR BY THE END OF 2009 ALONG WITH OIL PRICE REBOUND



Source: CBR, UniCredit Research estimates

Real monetary policy at a cost of USD 200 bn of reserves

The RUB seems to have reached new equilibrium level

After losing some 50% against the USD since its August 2008 peaks, the RUB seems to have reached its new equilibrium level and gained some support from stabilizing oil prices and, most importantly, from CBR's decision to squeeze liquidity provisions.

As a result of the gradual devaluation policy in Q4/08 and early 2009, the Central Bank has net claims against the local banking system in excess of RUB 2600 bn (USD 75 bn) or over 60% of the entire money base. The figure represents a massive jump from net negative claims just a few months ago.

We emphasize that such claims are almost entirely short-term, with maturities of no longer than six months. This gives the CBR a great variety of tools to keep domestic money markets and money supply under full control and clearly increases the importance of the CBR's interest rates. Therefore, we point out that as a result of such developments, the Bank has effectively done a great deal of work in proceeding with its strategic policy to shift from exchange rate to inflation targeting. Overall, we can say that at a cost of over USD 200 bn of its reserves, the CBR appears to have bought itself the ability to pursue a real monetary policy, which further supports our expectations of a sharp deceleration of inflation in the near future.

The CBR's new-found ability for real monetary policy increases the importance of interest rate fluctuations. The CBR is now the most important source of funding for local markets, so its ability to set the cost of funding enables it to influence borrowing costs for the corporate sector. We thus believe the Russian equity market is likely to be increasingly responsive to interest rate adjustments, as is the case in developed economies.

Fiscal boost to ease problems, but will not resolve them

Government adopts a massive anti-crisis package

The slump in oil prices and continued deterioration of the economic environment prompted the Russian government to revise its Federal budget. The revised budget was approved in mid-March with an almost RUB 3000 bn (USD 88 bn or 7.1% of expected GDP) deficit, which will be mostly financed from the Reserve fund. The budget incorporates a new RUB 1700 bn (USD 50 bn or some 4.5% of GDP) anti-crisis package, including a range of fiscal measures such as recapitalizing the banking system, a profits tax cut, social spending hike, loan guarantees etc. On the other hand, the government has moved to cut its infrastructure spending and to freeze some planned investment projects. Given that public infrastructure spending usually acts as a catalyst for private investment, we think that such cuts could seriously undermine the positive impact of expansionary fiscal effort.

New problems might bring new solutions and new faces

Economic meltdown might trigger changes in domestic political landscape

The unfolding economic crisis clearly poses new challenges for the current political elite. With the government's ability to expand its fiscal policy becoming increasingly constrained, the authorities might be forced to adopt completely new approaches to deal with arising problems in an attempt to prevent a political backlash, possibly including some personnel reshuffling. To date the President has replaced six regional governors, including one with over 16 years of tenure. In an interesting development, one of the newly appointed governors came from an increasingly obscure liberal opposition party. Although we do not see any signs of erosion of political support, we believe that the importance of political factors is likely to gain momentum in Russia over the coming quarters.

Serbia

Outlook

With the period of cheap and plentiful capital inflows over, Serbia has embarked on the process of paring back consumption and investment growth implying a recession this year and more than likely in 2010 as well. Public spending will be cut by EUR 1 bn this year as part of the EUR 3 bn IMF package which will run until April 2011 will assist this rebalancing process and should mean that most of the depreciation in the currency has already occurred.

Author: Goran Šaravanja, Chief Economist (Zagrebačka banka)
+ 385 1 6006 678, goran.saravanja@unicreditgroup.zaba.hr

	Moody's	S&P	Fitch
Long-term foreign currency credit rating	**Not rated**	**BB- negative**	**BB- negative**

MACROECONOMIC DATA AND FORECASTS

	2006	2007	2008	2009f	2010f
GDP (EUR bn)	23.5	29.1	33.5	29.5	29.4
Population (mn)	7.4	7.4	7.4	7.4	7.4
GDP per capita (EUR)	3177	3946	4552	4003	3993
GDP (constant prices y-o-y %)	5.6	7.1	5.5	-2.5	-0.7
CPI (average, y-o-y %)	12.7	6.5	11.7	7.8	6.5
Central bank reference rate	14.00	10.00	17.75	20.00	17.50
Monthly wage, nominal (EUR)	376	484	561	493	491
Unemployment rate (%)	20.9	18.1	18.0	21.0	21.5
Budget balance/GDP (%)	1.5	1.3	-2.0	-3.0	-2.0
Current account balance (EUR bn)	-2.4	-4.6	-6.0	-3.2	-2.7
Current account balance/GDP (%)	-10.1	-15.9	-17.8	-10.8	-9.2
Net FDI (EUR bn)	3.4	1.8	1.9	1.1	1.3
FDI % GDP	14.4	6.3	5.6	3.7	4.4
Gross foreign debt (EUR bn)	14.9	17.8	21.8	22.8	24.8
Gross foreign debt (% of GDP)	63.2	61.1	65.1	77.2	84.2
FX reserves (EUR bn)	9.0	9.6	8.2	8.0	8.0
(Cur.Acc-FDI)/GDP (%)	4.3	-9.5	-12.3	-7.1	-4.8
FX reserves/Gross foreign debt (%)	60.6	54.2	37.4	35.2	32.3
Exchange rate to USD eop	60.50	54.03	64.34	76.69	80.77
Exchange rate to EUR eop	79.79	78.79	89.78	102.00	105.00
Exchange rate to USD AVG	67.19	58.34	55.40	75.22	78.71
Exchange rate to EUR AVG	84.42	79.98	81.49	97.58	103.50

Source: UniCredit Research

IMF package cushions impact of recession

Growth outlook deteriorating…

The Serbian economy continued to cool in the final quarter of 2008. The deterioration in high frequency data which began in October 2008 has continued coming into 2009. Total industrial production was down 17.1% in January 2009 after falling 8.9% y-o-y in December 2008, while manufacturing output has dropped even more since Q4/08 (see graph) as global trade and demand for Serbia's key exports such as steel and chemical has fallen. Credit growth has also slowed abruptly, while unemployment is rising. In EUR terms total credit growth was 34.1% y-o-y in September, but in January 2009 had already moderated to just 16.5% y-o-y. With the loan/deposit ratio at over 128% at the end of January, domestic credit growth is set to falter further impacting on domestic demand. In addition, direct access to fresh credit from abroad has largely dried up for Serbian corporates without foreign strategic partners.

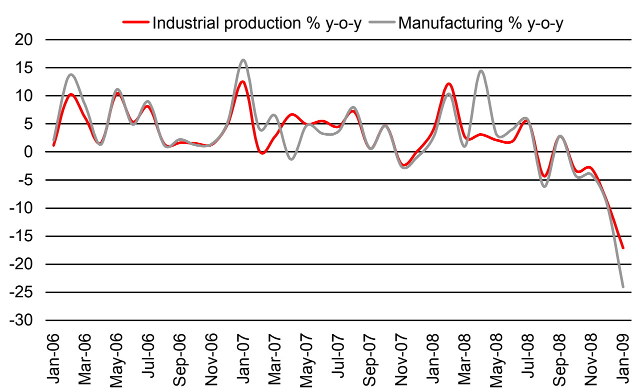
…as consumption and investment spending are pared back

We expect GDP in 2009 to contract 2.5% compared to growth of 5.5% in 2008. The risks to forecasts remain significantly to the downside. This is underscored by Serbia's large external imbalances and rising foreign debt obligations in the context of a global recession where capital inflows into the region are not likely to recover to previous levels in the near-term. We expect the Serbian economy to contract in 2010 as well. The government will have to raise taxes and cut spending as part of an extensive IMF assistance package, while a further depreciation of the currency risks provoking undesired balance sheet effects associated with FX-linked lending, which would further undermine domestic demand.

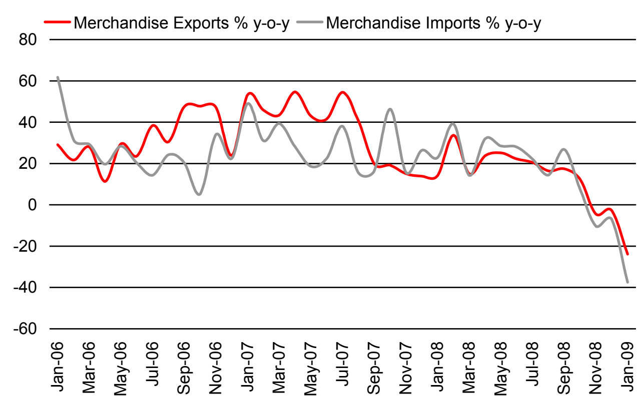
…inflation should moderate, but risks remain

Inflation to moderate as domestic demand contracts. Consumer prices averaged 10.4% y-o-y in January-February 2009 influenced to some extent by increases in regulated prices which traditionally arrive with the New Year. Slowing domestic demand, falling commodity prices and our expectation that depreciation pressures on the currency should largely moderate given the IMF package agreed in late March underpin our 7.8% annual average inflation forecast for this year. Nonetheless, the risk to our forecast is on the upside.

INDUSTRIAL OUTPUT CONTRACTS…



…AS TRADE ACTIVITY SLOWS



Source: Serbian Statistics Office, NBS, UniCredit Research estimates

High external financing requirement in 2009

Current account deficit to narrow in 2009…

External obligations high despite narrowing current account deficit. Merchandise exports have fallen in each month since November 2008. In January 2009 exports were down 23.8% y-o-y and imports 37.5% y-o-y. The continuation of this trend throughout this year forms the basis of our 10.8% of GDP current account deficit forecast for 2009, representing a contraction of 7%-points of GDP compared to 2008. This year we estimate the financing gap for the current account will halve to EUR 2.1 bn (CAD+FDI inflows) as domestic consumption reverses. On March 27, after the authorities announced the IMF deal, the main foreign-owned banks operating in Serbia agreed to maintain exposure to the country, suggesting that most of this debt will be refinanced. With the first tranche of the IMF's money expected in May depreciation pressures on the dinar should moderate. We see the EUR/RSD averaging 97 this year, but risks are still to the upside. There are also risks to the downside on foreign exchange reserves, which fell by EUR 1.4 bn in 2008.

…as agreement by commercial banks to maintain exposure to Serbia eases external liquidity concerns

EUR 3 bn IMF package defines policy parameters

IMF agreement in place, but involves spending cuts…

As a result of the package announced on March 26 public spending will be cut by EUR 1 bn. That amounts to roughly 3%-points of GDP. The IMF deal requires the government to table a new budget which will freeze public sector salaries and pensions this year and next as well as increasing taxes which will be in effect for the duration of the recession. The budget will have to be in place by May when the IMF Board is expected to approve the deal. The combination of savings and tax increases sees the authorities forecasting a budget deficit of 3% of GDP in 2009. Given the uncertainty over the extent of the fall in tax revenues going forward we would not be surprised if further spending cuts proved necessary this year to meet the budget deficit target.

…while the NBS is unlikely to be in a position to lower interest rates.

Little scope for lower interest rates this year. Although the Governor of the National Bank of Serbia (NBS) Jelasic has linked the possibility of lowering policy rates (currently 15%) to the approval of the IMF deal, we see little scope for such a move this year, given the downside risks to our growth forecast and the fact that Jelasic has flagged the possibility that the bank's inflation target may be raised from 6-10% to 8-12%.

In coming months the NBS will unveil new liquidity facilities. Together with the IMF the NBS is working to develop new local and hard currency liquidity facilities, which are likely to be in effect from May onwards. The current exchange rate regime will also be maintained throughout the duration of the IMF package. We continue to see the dinar as exposed to depreciation pressures, but in the advent of IMF assistance, our belief is that most of the depreciation in the currency has already occurred.

Politics: spending cuts a tough sell for the government

Economic situation presents a political conundrum

Unpopular spending cuts and recession increase political risk. Rising unemployment, cuts to government spending and slowing wage growth as the economy adjusts all spell a more difficult task for the government. At the same time, progress on EU accession remains stalled on Hague Tribunal co-operation issues. Since financial assistance from the IMF will cushion some of the impact of the recession, the stability of the government in the immediate future should not be brought into question. However, as the economic outlook has worsened requiring more politically difficult decisions, the risk of the government falling is not something to be dismissed out of hand.

Turkey

Outlook

We now forecast a 3.2% contraction in GDP in 2009 and 1.4% growth in 2010. This, coupled with lower commodity prices has seen us revise our inflation forecasts down to 6.0% for 2009 and 5.0% for 2010. This will facilitate further CBT rate easing, though the wildcard remains politics and the extent to which this impacts reform, fiscal policy and the TRY. An IMF deal would prove a positive signal here.

Author: Cevdet Akcay, Ph.D., Chief Economist (Yapi Kredi)
+90 212 319 8430, cevdet.akcay@yapikredi.com.tr

	Moody's	S&P	Fitch
Long-term foreign currency credit rating	**Ba3 stable**	**BB- negative**	**BB- stable**

MACROECONOMIC DATA AND FORECASTS

	2006	2007	2008	2009f	2010f
GDP (EUR bn)	419.2	472.1	498.3	450.7	484.8
Population (mn)	69.7	70.6	71.5	72.4	73.4
GDP per capita (EUR)	6018	6688	6968	6222	6609
GDP (constant prices y-o-y %)	6.9	4.7	1.1	-3.2	1.4
Private Consumption, real, y-o-y (%)	4.6	4.6	0.3	-4.6	1.5
Fixed Investment, real, y-o-y (%)	13.3	5.4	-4.6	-10.0	1.0
Public Consumption, real, y-o-y (%)	8.4	6.5	1.8	12.0	4.0
Exports, real, y-o-y (%)	6.6	7.3	2.6	-10.0	6.0
Imports, real, y-o-y (%)	6.9	10.7	-3.1	-13.0	6.5
CPI (average, y-o-y %)	9.6	8.8	10.5	6.4	6.3
Central bank reference rate	17.50	15.75	15.00	9.00	8.00
Monthly wage, nominal (EUR)	815	907	943	873	917
Unemployment rate (%)	9.9	9.9	10.7	12.5	11.5
Budget balance/GDP (%)	-0.6	-1.6	-1.8	-4.0	-3.0
Current account balance (EUR bn)	-25.5	-28.0	-28.3	-13.8	-16.7
Current account balance/GDP (%)	-6.1	-5.9	-5.7	-3.1	-3.4
Net FDI (EUR bn)	16.1	16.1	12.3	9.2	10.5
FDI % GDP	3.8	3.4	2.5	2.0	2.2
Gross foreign debt (EUR bn)	164.9	182.1	188.8	207.4	206.5
Gross foreign debt (% of GDP)	39.3	38.6	37.9	46.0	42.6
FX reserves (EUR bn)	46.2	48.4	50.2	44.4	42.3
(Cur.Acc-FDI)/GDP (%)	-2.3	-2.5	-3.2	-1.0	-1.3
FX reserves/Gross foreign debt (%)	28.0	26.6	26.6	21.4	20.5
Exchange rate to USD eop	1.42	1.17	1.54	1.62	1.55
Exchange rate to EUR eop	1.87	1.71	2.15	2.15	2.02
Exchange rate to USD AVG	1.44	1.30	1.30	1.67	1.59
Exchange rate to EUR AVG	1.81	1.79	1.91	2.17	2.08

Source: UniCredit Research

Macro outlook

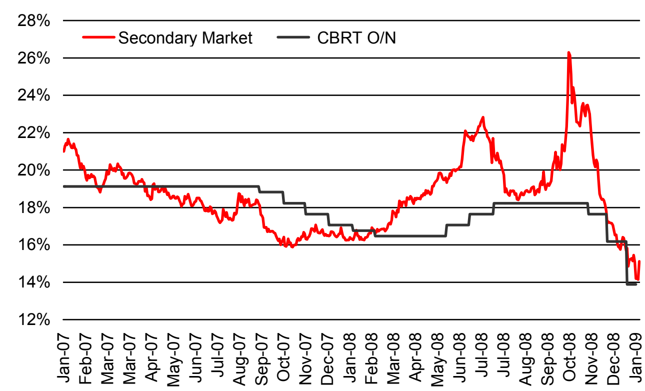
Economic activity was severely hit in Q4/08…

Real GDP contracted by 6.2% y-o-y in the last quarter dragging annual growth down to 1.1% in 2008 from 4.7% in 2007. The figure was mostly in line with market expectations in the face of a significant fall in economic activity that had been suggested by dismal industrial production and foreign trade figures in the very same period. On the expenditure side, private consumption shrank by 4.6%, which underlined the deceleration in household spending seen in Q3/08. The sharp drop in gross fixed capital formation stemmed mainly from the 23.5% y-o-y contraction in the private sector's investment expenditures. Neither the public sector's consumption/investment expenditures nor the positive contribution from net exports were able to fully cushion the blow.

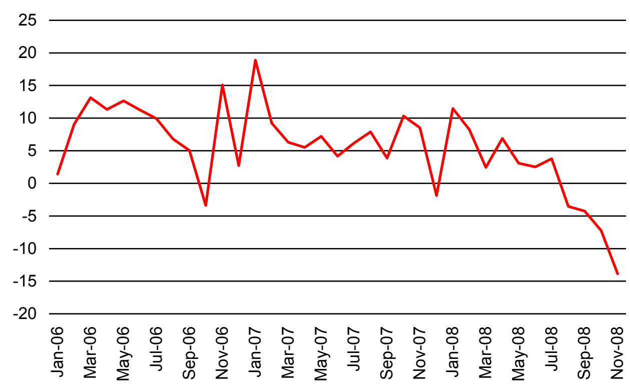
Our growth forecasts for Q1/09, 2009, and 2010 currently stand at -5.3%, -3.2%, and 1.4%, respectively. There are few positive driving forces for GDP growth in 2009, and public spending will thus continue to act as a catalyst (up to a certain threshold level of course). From 2010 onwards, however, fiscal policy will again become tight since the Government will have to take sound measures to ensure the fiscal austerity and signal absence of permanent deterioration in debt dynamics. Net exports will also likely make a positive contribution to overall growth in 2009, however, as has been the case in all crisis years. At this juncture, however, real growth rates close to their potential levels will probably be seen later than 2011 and a discernible output gap is thus likely to prevail for an extended period.

As of February annual inflation dropped to 7.7% and the downward trend is likely to continue. GDP's expected growth path means weaker demand conditions will continue at least for the next two years, which in turn will lead to a smooth disinflationary period. Given the favorable developments in oil and other commodity prices as well as the limited impact of exchange rate pass-through, we revised our inflation forecasts down to 6.0% for 2009 and 5.0% for 2010, which is below the year-end targets of the Central Bank. The key risk remains the volatility of the exchange rate, since it could come under pressure in the absence of capital inflows and net borrowing by local banks and corporates.

MARKET RATES CONVERGE



Y-O-Y INDUSTRIAL PRODUCTION GROWTH SLOWING FAST



Source: Statistics Office, Bloomberg

Macro vulnerability indicators

The current account in January came in at an unexpected surplus

The current account in January came in at an unexpected surplus of USD 291 mn, and the non-energy component was an even more impressive surplus of USD 2.6 bn. Financing problems seem to continue as portfolio outflows amounted to USD 841 mn while both banks and non-banks were net repayers with net payments of USD 236 mn and USD 420 mn, respectively. Overall financing quality through non-debt items appears to hover around 50% and there was a welcome rise to 51.3% in January from 44.9% in December 2008.

Net errors and omissions item continues to register significantly positive figures. USD 1.7 bn this time around, bringing the 12-month rolling figure to USD 8.4 bn. What is striking is that the 4-month rolling figure stands at USD 14.0 bn! This is potentially related to unofficial inflows related to the tax amnesty. The amnesty has now finished, however, questioning whether such inflows will sustain in the coming months.

The Central Bank is set to ease one more time in Q2

The easing cycle is about to finish…

The Central Bank continued its front-loaded easing stance, and brought the O/N borrowing interest rate down to 10.5% as of March. So far, aggressive rate cuts have helped benchmark rates come down close to 14% levels. There is a very favorable base effect in inflation in the upcoming two months, and the bank will probably act in line with market expectations. We expect that there will be another 50 bp rate cut in April and a total of 100 bp will take place during the second half of the year. Alongside a significant negative output gap, we expect policy rates to drop to 9.0% by end-2009 and to 8.0% by end-2010. This would put simple real CBT policy rates at 3% by end 2010 (i.e. our end 2010 CBT rate forecast minus end 2010 CPI forecast).

Politics

Turkey voted in municipal elections…

Local elections were held at the end of March. The ruling AKP won 38.8% of the provincial assemblies followed by CHP (23.1%) and MHP (16.0%), according to provisional results. That the economic slowdown had a significant impact on the erosion in AKP votes is somewhat unfounded we believe. We witnessed landslide victories by the AKP in most of the industrial cities that were hit hard by the sharp drop in industrial production. Either way, the vote result suggests partial paralysis and confusion will be rampant and the pace of reform and prudent policy making might stagnate. This is the main risk that we face at the moment. The AKP will either step up reforms and push more aggressively the agenda that had distinguished it from its rivals or try to make its agenda more conciliatory and hope to steal some base from the very same competitors. Our opinion has always been that the former was always the only viable option for the AKP. In relation to this, the end of April or early May announcement of the medium term fiscal framework is important (this could include medium-term fiscal rules, cross checks etc). This would be integral to an IMF agreement which we expect would be a circa USD 30 bn 3-year stand-by package.

Ukraine

Outlook

The ongoing deterioration of economic conditions is linked to limited capital inflows at the same time as a wide external financing gap and faltering external demand. Moreover, ongoing political uncertainty and growing discontent among the population is denting local confidence. Receiving external support is key, but does not substitute credible policies. Recent current account improvements, chiefly linked to a collapse in imports are helping to rebalance the economy, but a meaningful recovery can only be expected when demand for key exports starts to pick up.

Author: Dmitry Gourov, Economist (CAIB)
+43 50505 823 64, dmitry.gourov@caib.unicreditgroup.eu

	Moody's	S&P	Fitch
Long-term foreign currency credit rating	**B1 under review negative implications**	**CCC+ negative**	**B negative**

MACROECONOMIC DATA AND FORECASTS

	2006	2007	2008	2009f	2010f
GDP (EUR bn)	84.8	103.1	123.4	93.0	112.0
Population (mn)	46.9	46.6	46.4	46.1	45.8
GDP per capita (EUR)	1808	2210	2661	2018	2445
GDP (constant prices y-o-y %)	7.1	7.6	2.1	-9.0	0.5
Private Consumption, real, y-o-y (%)	14.4	17.1	11.6	-17.5	-3.1
Fixed Investment, real, y-o-y (%)	18.7	24.8	4.2	-31.0	2.0
Public Consumption, real, y-o-y (%)	4.8	2.8	-0.4	0.8	1.4
Exports, real, y-o-y (%)	-7.6	2.8	6.7	-10.0	9.0
Imports, real, y-o-y (%)	13.2	20.2	17.5	-26.0	3.2
CPI (average, y-o-y %)	9.1	12.8	25.2	15.8	11.5
Central bank reference rate	8.50	8.00	12.00	11.50	10.00
Monthly wage, nominal (EUR)	164	195	234	180	203
Unemployment rate (%)	6.8	6.4	6.4	11.8	10.4
Budget balance/GDP (%)	-0.7	-1.4	-1.3	-8.7	-1.0
Current account balance (EUR bn)	-1.3	-4.3	-8.1	0.8	3.2
Current account balance/GDP (%)	-1.5	-4.2	-6.6	0.8	2.9
Net FDI (EUR bn)	4.6	6.7	6.8	2.3	5.5
FDI % GDP	5.4	6.5	5.5	2.4	4.9
Gross foreign debt (EUR bn)	42.3	58.4	70.6	73.9	76.5
Gross foreign debt (% of GDP)	49.8	56.7	57.3	79.4	68.3
FX reserves (EUR bn)	16.6	21.8	19.3	11.2	8.6
(Cur.Acc-FDI)/GDP (%)	3.9	2.3	-1.1	3.3	7.8
FX reserves/Gross foreign debt (%)	39.2	37.4	27.3	15.2	11.3
Exchange rate to USD eop	5.04	5.09	7.81	8.05	7.40
Exchange rate to EUR eop	6.65	7.42	10.90	10.71	9.62
Exchange rate to USD AVG	5.04	5.05	5.24	8.17	7.73
Exchange rate to EUR AVG	6.34	6.92	7.70	10.60	10.16

Source: UniCredit Research

Macro outlook

Economic deterioration

The economic slump comes amid limited capital availability and faltering external demand. The financial woes are now starting to feed through into the real economy, as real wages turn negative, further eroding local confidence and pushing retail sales down. However, we are also seeing signs of rebalancing and painful macroeconomic adjustment, as the current account moved into surplus in February 2009, on a 50% falloff in imports. Nevertheless, the +/-60% depreciation and the associated risks related to domestic FX debt and necessary bank recapitalization and rising NPL's, will continue to haunt the economy in the coming months. Moreover, the limbo associated with the IMF negotiations in the past months does not engender confidence, although we still expect all the funds to be disbursed as hurdles are jumped through and open way for other international assistance.

Particularly evident in IP headlines

The extent of the ongoing contraction is best reflected in the decline in industrial production – down by more than 30% in both January and February 2009**.** All industrial categories are in a decline, particularly noteworthy are the 40% decline in metallurgy (sensitive to external demand), 60% fall in transport and equipment manufacture (a sector sensitive to economic cycles) and 35% fall in chemicals. Despite these poor readings there has been limited feed thought into unemployment, although there is anecdotal evidence that this will gather pace.

And feeding through to the population

Consequently the overall decline is impacting the population's purchasing power and real wages are already down by 15% (and wage arrears are on the rise up to USD 210 mn in March), while UAH depreciation has cut average monthly wages in USD by a third (by USD 110 to USD 214 in February 2009 in comparison to a year ago).

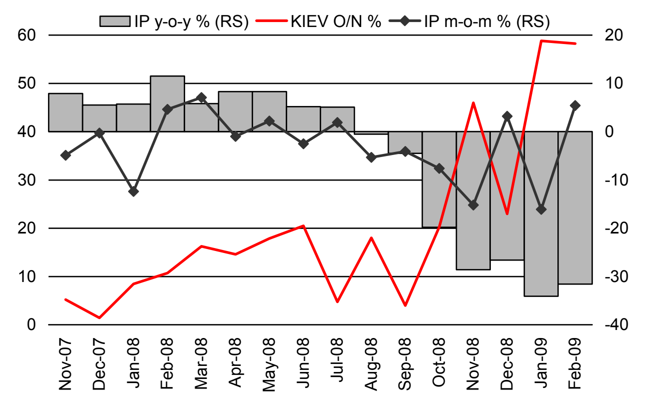
Helping rebalance economic imbalances

Going forward, a meaningful recovery, in our view, ought to come from external demand, while consumption is likely to remain weak on lack of credit availability. However, a number of support factors ought to play out over the coming years: rising investment ahead of EURO 2012, the essential gas network overhaul (potential USD 7 bn of investment mulled), dire infrastructure needs and improvements in competitiveness – a result of a flexible exchange regime. In addition, the March sale of carbon emission quotas to Japan worth USD 580 mn – could help create a new export market. (World Bank estimates show that sales of free carbon quotas could help Ukraine bring in some USD 15-17 bn by 2012).

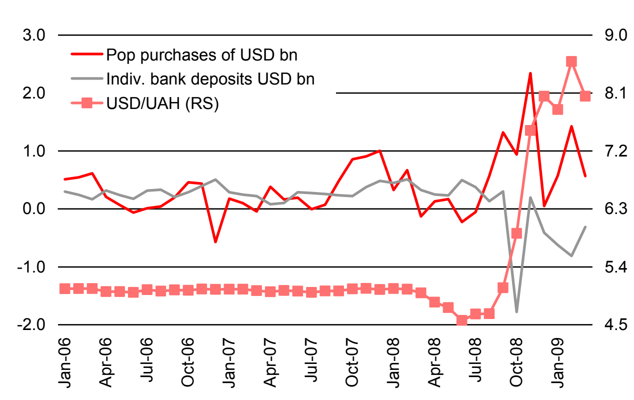
Inflation a secondary concern for now

The recent moderation in inflation, and the significant fall-off in demand, ought to keep this a secondary concern for the time being, but much will depend on food prices (55% of the CPI basket), any further UAH depreciation and monetary financing of the budget.

IP FACES DOUBLE HIT: FALLING DEMAND AND TIGHT CREDIT



UAH STABILITY LINKED TO LOCAL CONFIDENCE



Source: Statistical Office, Central Bank, UniCredit Research

Macro vulnerability indicators

Significant capital needs

Financing questions are likely to remain key in 2009. We see **significant external financing needs, chiefly related to maturing external debt – estimated at 18.4% of GDP.** The rapid UAH depreciation has helped to improve the current account to USD 562 mn surplus in February 2009 after a USD 11.9 bn deficit in 2008, and we expect the surplus to be maintained. However, grinding through this alone is an uphill struggle, in this respect international help is vital to help keep Central Bank FX reserves at an adequate level.

Talk of default by the sovereign is in our view unjustified given the low debt levels (13.6% of GDP at the end of 2008). By the same token corporates, banks and households do look more exposed, and may need assistance, although private sector restructuring is more likely. One of the keys from the authorities' point of view is to maintain confidence and keep the UAH stable – the recent introduction of special auctions for the population has done just that. But increased pressure to re-service debt and adjust balance sheets will be painful, especially as market expectations are for NPL's to rise to +20%.

Policy response to macro outlook

International support is vital but cannot substitute credible and well-coordinated policies

A slow policy response to the crisis and recent lack of agreement on ways and means to fight the crisis has created room for speculation, and already delayed the 2nd IMF tranche (originally due on February 15). Conciliation with the latter ought to bring forward further support from other potential creditors (WB/Russia/EU/EBRD). However, the government has been reluctant to revise its budget deficit penciled in at 3% of GDP with significant potential for revenues to undershoot while expenditure needs build up. Going forward a credible and a well-coordinated reaction is essential to maintain confidence.

Even as risks are centered around Naftogaz and bank recapitalisation

One of the main risks related to government funding concerns Naftogaz, which has significant debt liabilities in 2009 and has already been experiencing difficulties paying monthly dues to Gazprom citing non-payments by utility companies (debt accrued has risen to USD 650 mn at the end of March). While recent newsflow on the potential upgrade of the natural gas pipeline with investment costs of USD 4.5-7 bn are positive, it will not replace ongoing refinancing needs (although much still needs to be agreed upon). On the other hand, bank recapitalisation (currently the government budgets UAH 44 bn) is likely to be higher, as NPL's rise and more banks turn for government support. And it will take time to restore confidence, as a recent poll has shown that after receiving a big sum of money only 3.9% would open a deposit, while 18.7% would spend it immediately, 27.1% keep it at home and 27.7% exchange it into USD (with 12.6% not being able to answer). Although USD 600 mn assistance from the EBRD are of a support, much more consolidation will need to happen.

Politics

Political surprises and social protests cannot be ruled out as we head into the presidential elections

All focus has now shifted to the upcoming Oct-2009 presidential elections (although the date may still change). In this respect, the date of elections will significantly complicate active efforts to fight the crisis and will coincide with campaigning and rising unemployment plus falling real wages. However, as many are disappointed with the current leaders, the potential for protest has significantly risen, where 42% of those polled showed a readiness to take part in organised protests and 15% to take part in violent protests. All political parties will take advantage of this explosive social dynamic, but the government will get most of the blame. As a result, one cannot rule out a disproportionate reaction from PM Tymoshenko as she tries to maintain political clout and jump start the economy. What can be said is that in a constantly changing environment there are three potential players vying for the presidency: Viktor Yanukovich, Yulia Tymoshenko and Arseniy Yatsenyuk. Although given the extent of problems, whoever does come to power will need to lead a very pragmatic policy.

Disclaimer

Our recommendations are based on information obtained from, or are based upon public information sources that we consider to be reliable but for the completeness and accuracy of which we assume no liability. All estimates and opinions included in the report represent the independent judgment of the analysts as of the date of the issue. We reserve the right to modify the views expressed herein at any time without notice. Moreover, we reserve the right not to update this information or to discontinue it altogether without notice.

This analysis is for information purposes only and (i) does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for any financial, money market or investment instrument or any security, (ii) is neither intended as such an offer for sale or subscription of or solicitation of an offer to buy or subscribe for any financial, money market or investment instrument or any security nor (iii) as an advertisement thereof. The investment possibilities discussed in this report may not be suitable for certain investors depending on their specific investment objectives and time horizon or in the context of their overall financial situation. The investments discussed may fluctuate in price or value. Investors may get back less than they invested. Changes in rates of exchange may have an adverse effect on the value of investments. Furthermore, past performance is not necessarily indicative of future results. In particular, the risks associated with an investment in the financial, money market or investment instrument or security under discussion are not explained in their entirety.

This information is given without any warranty on an "as is" basis and should not be regarded as a substitute for obtaining individual advice. Investors must make their own determination of the appropriateness of an investment in any instruments referred to herein based on the merits and risks involved, their own investment strategy and their legal, fiscal and financial position. As this document does not qualify as an investment recommendation or as a direct investment recommendation, neither this document nor any part of it shall form the basis of, or be relied on in connection with or act as an inducement to enter into, any contract or commitment whatsoever. Investors are urged to contact their bank's investment advisor for individual explanations and advice.

Neither Bayerische Hypo- und Vereinsbank AG, UniCredit CAIB AG, Bayerische Hypo- und Vereinsbank AG Milan Branch, UniCredit CAIB Securities UK Ltd., UniCredit Securities, UniCredit Menkul Değerler A.Ş., UniCredit Bulbank, Zagrebačka banka, UniCredit Bank, Bank Pekao, Yapi Kredi, UniCredit Tiriac Bank, ATFBank nor any of their respective directors, officers or employees nor any other person accepts any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

This analysis is being distributed by electronic and ordinary mail to professional investors, who are expected to make their own investment decisions without undue reliance on this publication, and may not be redistributed, reproduced or published in whole or in part for any purpose.

Responsibility for the content of this publication lies with:

a) Bayerische Hypo- und Vereinsbank AG, Am Tucherpark 16, 80538 Munich, Germany, (also responsible for the distribution pursuant to §34b WpHG). The company belongs to UCI Group.
Regulatory authority: “BaFin“ – Bundesanstalt für Finanzdienstleistungsaufsicht, Lurgiallee 12, 60439 Frankfurt, Germany.

b) Bayerische Hypo- und Vereinsbank AG Milan Branch, Via Tommaso Grossi, 10, 20121 Milan, Italy, duly authorized by the Bank of Italy to provide investment services.
Regulatory authority: “Bank of Italy”, Via Nazionale 91, 00184 Roma, Italy and Bundesanstalt für Finanzdienstleistungsaufsicht, Lurgiallee 12, 60439 Frankfurt, Germany.

The UniCredit CAIB Group, consisting of
c) UniCredit CAIB AG, Julius-Tandler-Platz 3, 1090 Vienna, Austria
Regulatory authority: Finanzmarktaufsichtsbehörde (FMA), Praterstrasse 23, 1020 Vienna, Austria

d) UniCredit CAIB Securities UK Ltd., Moor House, 120 London Wall, London EC2Y 5ET, United Kingdom
Regulatory authority: Financial Services Authority (FSA), 25 The North Colonnade, Canary Wharf, London E14 5HS, United Kingdom

e) UniCredit Securities, Boulevard Ring Office Building, 17/1 Chistoprudni Boulevard, Moscow 101000, Russia
Regulatory authority: Federal Service on Financial Markets, 9 Leninsky prospekt, Moscow 119991, Russia

f) UniCredit Menkul Değerler A.Ş., Büyükdere Cad. No. 195, Büyükdere Plaza Kat. 5, 34394 Levent, Istanbul, Turkey
Regulatory authority: Sermaye Piyasası Kurulu – Capital Markets Board of Turkey, Eskişehir Yolu 8.Km No:156, 06530 Ankara, Turkey

g) UniCredit Bulbank, Sveta Nedelya Sq. 7, BG-1000 Sofia, Bulgaria
Regulatory authority: Financial Supervision Commission, 33 Shar Planina str.,1303 Sofia, Bulgaria

h) Zagrebačka banka, Paromlinska 2, HR-10000 Zagreb, Croatia
Regulatory authority: Croatian Agency for Supervision of Financial Services, Miramarska 24B, 10000 Zagreb, Croatia

i) UniCredit Bank, Na Príkope 858/20, CZ-11121 Prague, Czech Republic
Regulatory authority: CNB Czech National Bank, Na Příkopě 28, 115 03 Praha 1, Czech Republic

j) Bank Pekao, ul. Grzybowska 53/57, PL-00-950 Warsaw, Poland
Regulatory authority: Polish Financial Supervision Authority, Plac Powstańców Warszawy 1, 00-950 Warsaw, Poland

k) UniCredit Bank, Prechistenskaya emb. 9, RF-19034 Moscow, Russia
Regulatory authority: Federal Service on Financial Markets, 9 Leninsky prospekt, Moscow 119991, Russia

l) UniCredit Bank, Šancova 1/A, SK-813 33 Bratislava, Slovakia
Regulatory authority: National Bank of Slovakia, Stefanikovo nam. 10/19, 967 01 Kremnica, Slovakia

m) Yapi Kredi, Yapi Kredi Plaza D Blok, Levent, TR-80620 Istanbul, Turkey
Regulatory authority: Sermaye Piyasası Kurulu – Capital Markets Board of Turkey, Eskişehir Yolu 8.Km No:156, 06530 Ankara, Turkey

n) UniCredit Tiriac Bank, Ghetarilor Street 23-25, RO-014106 Bucharest 1,Romania
Regulatory authority: CNVM, Romanian National Securities Commission, Foişorului street, no.2, sector 3, Bucharest, Romania

o) ATFBank, 100 Furmanov Str., KZ-050000 Almaty, Kazakhstan
Agency of the Republic of Kazakhstan on the state regulation and supervision of financial market and financial organisations, 050000, Almaty, 67 Aiteke Bi str., Kazakhstan

POTENTIAL CONFLICTS OF INTEREST

Bayerische Hypo- und Vereinsbank AG acts as a Specialist or Primary Dealer in government bonds issued by the Italian, Portuguese and Greek Treasury. Main tasks of the Specialist are to participate with continuity and efficiency to the governments' securities auctions, to contribute to the efficiency of the secondary market through market making activity and quoting requirements and to contribute to the management of public debt and to the debt issuance policy choices, also through advisory and research activities.

ANALYST DECLARATION

The author’s remuneration has not been, and will not be, geared to the recommendations or views expressed in this study, neither directly nor indirectly.

ORGANIZATIONAL AND ADMINISTRATIVE ARRANGEMENTS TO AVOID AND PREVENT CONFLICTS OF INTEREST

To prevent or remedy conflicts of interest, Bayerische Hypo- und Vereinsbank AG, UniCredit CAIB AG, Bayerische Hypo- und Vereinsbank AG Milan Branch, UniCredit CAIB Securities UK Ltd., UniCredit Securities, UniCredit Menkul Değerler A.Ş., UniCredit Bulbank, Zagrebačka banka, UniCredit Bank, Bank Pekao, Yapi Kredi, UniCredit Tiriac Bank, ATFBank have established the organizational arrangements required from a legal and supervisory aspect, adherence to which is monitored by its compliance department. Conflicts of interest arising are managed by legal and physical and non-physical barriers (collectively referred to as “Chinese Walls”) designed to restrict the flow of information between one area/department of Bayerische Hypo- und Vereinsbank AG, UniCredit CAIB AG, Bayerische Hypo- und Vereinsbank AG Milan Branch, UniCredit CAIB Securities UK Ltd., UniCredit Securities, UniCredit Menkul Değerler A.Ş., UniCredit Bulbank, Zagrebačka banka, UniCredit Bank, Bank Pekao, Yapi Kredi, UniCredit Tiriac Bank, ATFBank and another. In particular, Investment Banking units, including corporate finance, capital market activities, financial advisory and other capital raising activities, are segregated by physical and non-physical boundaries from Markets Units, as well as the research department. In the case of equities execution by Bayerische Hypo- und Vereinsbank AG Milan Branch, other than as a matter of client facilitation or delta hedging of OTC and listed derivative positions, there is no proprietary trading. Disclosure of publicly available conflicts of interest and other material interests is made in the research. Analysts are supervised and managed on a day-to-day basis by line managers who do not have responsibility for Investment Banking activities, including corporate finance activities, or other activities other than the sale of securities to clients.

ADDITIONAL REQUIRED DISCLOSURES UNDER THE LAWS AND REGULATIONS OF JURISDICTIONS INDICATED

Notice to Austrian investors

This document does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for any securities and neither this document nor any part of it shall form the basis of, or be relied on in connection with or act as an inducement to enter into, any contract or commitment whatsoever.

This document is confidential and is being supplied to you solely for your information and may not be reproduced, redistributed or passed on to any other person or published, in whole or part, for any purpose.

Notice to Czech investors

This report is intended for clients of Bayerische Hypo- und Vereinsbank AG, UniCredit CAIB AG, Bayerische Hypo- und Vereinsbank AG Milan Branch, UniCredit CAIB Securities UK Ltd., UniCredit Securities, UniCredit Menkul Değerler A.Ş., UniCredit Bulbank, Zagrebačka banka, UniCredit Bank, Bank Pekao, Yapi Kredi, UniCredit Tiriac Bank, ATFBank in the Czech Republic and may not be used or relied upon by any other person for any purpose.

Notice to Italian investors

This document is not for distribution to retail clients as defined in article 26, paragraph 1(e) of Regulation n. 16190 approved by CONSOB on October 29, 2007.

In the case of a short note, we invite the investors to read the related company report that can be found on UniCredit Research website **www.globalresearch.unicreditmib.eu.**

Notice to Russian investors

As far as we are aware, not all of the financial instruments referred to in this analysis have been registered under the federal law of the Russian Federation "On the Securities Market" dated April 22, 1996, as amended, and are not being offered, sold, delivered or advertised in the Russian Federation.

Notice to Turkish investors

Investment information, comments and recommendations stated herein are not within the scope of investment advisory activities. Investment advisory services are provided in accordance with a contract of engagement on investment advisory services concluded with brokerage houses, portfolio management companies, non-deposit banks and the clients. Comments and recommendations stated herein rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not suit your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely on the information stated here may not result in consequences that meet your expectations.

Notice to Investors in Japan

This document does not constitute or form part of any offer for sale or subscription for or solicitation of any offer to buy or subscribe for any securities and neither this document nor any part of it shall form the basis of, or be relied on in connection with or act as an inducement to enter into, any contract or commitment whatsoever.

Notice to UK investors

This communication is directed only at clients of Bayerische Hypo- und Vereinsbank AG, UniCredit CAIB AG, Bayerische Hypo- und Vereinsbank AG Milan Branch, UniCredit CAIB Securities UK Ltd., UniCredit Securities, UniCredit Menkul Değerler A.Ş., UniCredit Bulbank, Zagrebačka banka, UniCredit Bank, Bank Pekao, Yapi Kredi, UniCredit Tiriac Bank, ATFBank who (i) have professional experience in matters relating to investments or (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc.") of the United Kingdom Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or (iii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

Notice to U.S. investors

This report is being furnished to U.S. recipients in reliance on Rule 15a-6 ("Rule 15a-6") under the U.S. Securities Exchange Act of 1934, as amended. Each U.S. recipient of this report represents and agrees, by virtue of its acceptance thereof, that it is such a "major U.S. institutional investor" (as such term is defined in Rule 15a-6) and that it understands the risks involved in executing transactions in such securities. Any U.S. recipient of this report that wishes to discuss or receive additional information regarding any security or issuer mentioned herein, or engage in any transaction to purchase or sell or solicit or offer the purchase or sale of such securities, should contact a registered representative of UniCredit Capital Markets, Inc. ("UCI Capital Markets").

Any transaction by U.S. persons (other than a registered U.S. broker-dealer or bank acting in a broker-dealer capacity) must be effected with or through UCI Capital Markets.

The securities referred to in this report may not be registered under the U.S. Securities Act of 1933, as amended, and the issuer of such securities may not be subject to U.S. reporting and/or other requirements. Available information regarding the issuers of such securities may be limited, and such issuers may not be subject to the same auditing and reporting standards as U.S. issuers.

The information contained in this report is intended solely for certain "major U.S. institutional investors" and may not be used or relied upon by any other person for any purpose. Such information is provided for informational purposes only and does not constitute a solicitation to buy or an offer to sell any securities under the Securities Act of 1933, as amended, or under any other U.S. federal or state securities laws, rules or regulations. The investment opportunities discussed in this report may be unsuitable for certain investors depending on their specific investment objectives, risk tolerance and financial position. In jurisdictions where UCI Capital Markets is not registered or licensed to trade in securities, commodities or other financial products, transactions may be executed only in accordance with applicable law and legislation, which may vary from jurisdiction to jurisdiction and which may require that a transaction be made in accordance with applicable exemptions from registration or licensing requirements.

The information in this publication is based on carefully selected sources believed to be reliable, but UCI Capital Markets does not make any representation with respect to its completeness or accuracy. All opinions expressed herein reflect the author's judgment at the original time of publication, without regard to the date on which you may receive such information, and are subject to change without notice.

UCI Capital Markets may have issued other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. These publications reflect the different assumptions, views and analytical methods of the analysts who prepared them. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is provided in relation to future performance.

UCI Capital Markets and any company affiliated with it may, with respect to any securities discussed herein: (a) take a long or short position and buy or sell such securities; (b) act as investment and/or commercial bankers for issuers of such securities; (c) act as market makers for such securities; (d) serve on the board of any issuer of such securities; and (e) act as paid consultant or advisor to any issuer.

The information contained herein may include forward-looking statements within the meaning of U.S. federal securities laws that are subject to risks and uncertainties. Factors that could cause a company's actual results and financial condition to differ from expectations include, without limitation: political uncertainty, changes in general economic conditions that adversely affect the level of demand for the company's products or services, changes in foreign exchange markets, changes in international and domestic financial markets and in the competitive environment, and other factors relating to the foregoing. All forward-looking statements contained in this report are qualified in their entirety by this cautionary statement

This document may not be distributed in Canada or Australia.

Banking network

UniCredit Group CEE banking network – Headquarters

Azerbaijan

Yapi Kredi Azerbaijan
G28 May Street,5
AZ-1014 Baku, Azerbaijan
Phone: +994 12 497 77 95
E-mail: yapikredi@yapikredi.com.az

The Baltics

UniCredit Bank Estonia Branch
Liivalaia Street 13/15,
EST-10118 Tallinn
Phone: +371 67085500
www.unicreditbank.ee

UniCredit Bank Lithuania Branch
Vilniaus Gatve 35/3,
LT-01119 Vilnius
Phone: +370 5 2745 300
www.unicreditbank.lt

UniCredit Bank (Latvia)
Elizabetes Iela 63,
LV-1050 Riga
Phone: +371 708 5500
www.unicreditbank.lv

Bosnia and Herzegovina

UniCredit Bank
Kardinala Stepinca b.b.,
BH-88000 Mostar
Phone: +387 36 312112
E-mail: info@unicreditgroup.ba
www.unicreditbank.ba

UniCredit Bank Banja Luka
Marije Bursac 7,
BH-78000 Banja Luka
Phone: +387 51 243 295
E-mail: info-bl@unicreditgroup.ba
www.unicreditbank-bl.ba

Bulgaria

UniCredit Bulbank
Sveta Nedelya Sq. 7,
BG-1000 Sofia
Phone: +359 2 923 2111
www.unicreditbulbank.bg

Croatia

Zagrebačka banka
Paromlinska 2,
HR-10000 Zagreb
Phone: +385 1 6305 250
www.zaba.hr

Czech Republic

UniCredit Bank
Na Príkope 858/20
CZ-11121 Prague
Phone: +420 221 112 111
E-mail: info@unicreditgroup.cz
www.unicreditbank.cz

Hungary

UniCredit Bank
Szabadság place 5-6,
H-1054 Budapest,
Phone: +36 1 301 12 71
E-mail: info@unicreditbank.hu
www.unicreditbank.hu

Kazakhstan

ATFBank
100, Furmanov Str.
KZ-050000 Almaty
E-mail: info@atfbank.kz
Phone: +7 (727) 2 583 111
www.atfbank.kz

Kyrgyzstan

ATFBank Kyrgyzstan
493, Zhibek Zholu Ave.
KG-720070 Bishkek
Phone: +7 312 67 00 47
E-mail: bank@atfbank.kg
www.atfbank.kg

Macedonia

Bank Austria Representative Office
Dimitrie Cupovski 4-2/6,
MK-1000 Skopje
Phone: +389 2 3215 130
E-mail: office@ba-ca.com.mk

Montenegro

Bank Austria Representative Office
Hercegovacka 13,
ME-81000 Podgorica
Phone: +382 81 66 7740
E-mail: ba-ca@cg.yu

Poland

Bank Pekao
ul. Grzybowska 53/57,
PL-00-950 Warsaw
Phone: +48 42 6838 232
www.pekao.com.pl

Russia

UniCredit Bank
Prechistenskaya emb. 9,
RF-19034 Moscow
Phone: +7 095 258 7200
www.unicreditbank.ru

Serbia

UniCredit Bank
Rajiceva 27-29,
RS-11000 Belgrade
Phone: +381 11 3204 500
E-mail: office@unicreditgroup.rs
www.unicreditbank.rs

Slovakia

UniCredit Bank
Sǎncova 1/A,
SK-813 33 Bratislava
Phone: +42 1 44 547 6870
www.unicreditbank.sk

Slovenia

UniCredit Bank
Šmartinska cesta 140,
SI-1000 Ljubljana
Phone: +386 1 5876 600
E-mail: info@unicreditbank.si
www.unicreditbank.si

Turkey

Yapi Kredi
Yapi Kredi Plaza D Blok, Levent,
TR-80620 Istanbul
Phone: +90 212 339 70 00
www.yapikredi.com.tr

Ukraine

UniCredit Bank
14, D. Galitsky St.,
UA-43016 Lutsk
Phone: +380 332 776210
www.unicredit.com.ua

Ukrsotsbank
29 Kovpak Street,
UA-03150 Kiev
Phone: +380 44 230 3203
E-mail: info@ukrsotsbank.com
www.usb.com.ua

UniCredit Group CEE banking network – Corporate customers

German contact

HypoVereinsbank

Sebastian Modlmayr
Phone: +49 89 378-28546
E-mail: sebastian.modlmayr@unicreditgroup.de
(Estonia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Russian Federation, Ukraine, Hungary)

Steffen Reiser
Phone: +49 89 378-25639
E-mail: steffen.reiser@unicreditgroup.de
(Bulgaria, Romania)

Monika Jurowicz-König
Phone: +49 89 378-25647
E-mail: monika.jurowiczkoenig@unicreditgroup.de
(Poland, Austria)

Ulrich Burghardt
Phone: +49 89 378-27472
E-mail: ulrich.burghardt@unicreditgroup.de
(Azerbaijan, Czech Republic, Slovakia, Slovenia, Turkey)

Peter Ulbrich
Phone: +49 89 378-25282
E-mail: peter.ulbrich@unicreditgroup.de
(Bosnia and Herzegovina, Croatia, Serbia)

Austrian contact

Bank Austria

Sonja Holland
Phone: +43 50505-56344

Martina Kreysler-Hehberger
Phone: +43 50505-58042

E-mail: business_development@unicreditgroup.at

Italian contact

UniCredit Corporate Banking

Stefano Coceancigh
Phone: +39 0422 654 006
E-mail: stefano.coceancigh@unicreditgroup.eu

International contact

Azerbaijan

Yusuf Sevinc
Phone: +994 12 497 7095
E-mail: yusuf.sevinc@yapikredibank.com.az

Bosnia and Herzegovina

Unicredit Bank
Ilvana Dugalija
Phone: +387 33 562-755
E-mail: ilvana.dugalija@unicreditgroup.ba

Unicredit Bank Banja Luka
Kristina Grozdanic
Phone: +387 51 243 295
E-mail: kristina.grozdanic@unicreditgroup.ba

Bulgaria

Florian Mahiny
Phone: +359 2 9232-783
E-mail: florian.mahiny@unicreditgroup.bg

Croatia

Zoran Ferber
Phone: +385 1 6305 437
E-mail: zoran.ferber@unicreditgroup.zaba.hr

Czech Republic

Miroslav Hrabal
Phone: +420 2 2111 6271
E-mail: miroslav.hrabal@unicreditgroup.cz

Estonia

Diana Safoskina
Phone: +372 66 88 358
E-mail: diana.safoskina@unicreditgroup.ee

Hungary

Paolo Garlanda
Phone: +36 1 301-1207
E-mail: paolo.garlanda@unicreditbank.hu

Kazakhstan

Can Tekin Yildirimer
Phone: +7 727 2598 -692
E-mail: dzhan-tekin@atfbank.kz

Latvia

Inga Cernova
Phone: +371 7085 551
E-mail: inga.cernova@unicreditgroup.lv

Lithuania

Joana Kucinskaite
Phone: +370 5 2745 353
E-mail: joana.kucinskaite@unicreditgroup.lt

Macedonia

Milan Djordjevic
Phone: +389 23215130
E-mail: milan.djordjevic@unicreditgroup.rs

Montenegro

Milan Djordjevic
Phone: +382 81 66 77 40
E-mail: milan.djordjevic@unicreditgroup.rs

Poland

Tomasz Pelc
Phone: +48 22 6560 784
E-mail: tomasz.pelc@pekao.com.pl

Romania

Christian Staller
Phone: +40 21 200 1616
E-mail: christian.staller@unicredit.ro

Russia

Inna Maryasina
Phone: +7 495 554 5352
E-mail: inna.maryasina@unicreditgroup.ru

Serbia

Vladimir Ivanovic
Phone: +381 11 3204 602
E-mail: vladimir.ivanovic@unicreditbank.rs

Slovakia

Katarina Hajnikova
Phone: +421 2 4950 4004
E-mail: katarina.hajnikova@unicreditbank.sk

Slovenia

Branka Cic
Phone: +386 1 5876-512
E-mail: branka.cic@unicreditgroup.si

Turkey

Kristina Mestric
Tel.: +90 212 339-7119
E-mail: kristina.mestric@yapikredi.com.tr

Ukraine

Nicola Longo-DentePetra Kellner
Phone: +38 044529 0583
E-mail: petra.kellner@unicredit.com.ua

UniCredit Research*

Thorsten Weinelt, CFA
Global Head of Research & Chief Strategist
+49 89 378-15110
thorsten.weinelt@unicreditgroup.de

Dr. Ingo Heimig
Head of Research Operations
+49 89 378-13952
ingo.heimig@unicreditgroup.de

Economics & FI/FX Research

Marco Annunziata, Ph.D., Chief Economist
+44 20 7826-1770, marco.annunziata@unicreditgroup.co.uk

Economics & Commodity Research

Global Economics

Dr. Davide Stroppa, Global Economist
+39 02 8862-2890, davide.stroppa@unicreditgroup.de

European Economics

Aurelio Maccario, Chief Eurozone Economist
+39 02 8862-8222, aurelio.maccario@unicreditgroup.de

Andreas Rees, Chief German Economist
+49 89 378-12576, andreas.rees@unicreditgroup.de

Marco Valli, Chief Italian Economist
+39 02 8862-8688, marco.valli@unicreditgroup.de

Tullia Bucco
+39 02 8862-2079, tullia.bucco@unicreditgroup.de

Chiara Corsa
+39 02 8862-2209, chiara.corsa@unicreditgroup.de

Alexander Koch
+49 89 378-13013, alexander.koch1@unicreditgroup.de

Chiara Silvestre
chiara.silvestre@unicreditgroup.de

US Economics

Roger M. Kubarych, Chief US Economist
+1 212 672-5668, roger.kubarych@us.unicreditgroup.eu

Dr. Harm Bandholz
+1 212 672-5957, harm.bandholz@us.unicreditgroup.eu

Commodity Research

Jochen Hitzfeld
+49 89 378-18709, jochen.hitzfeld@unicreditgroup.de

Nikolaus Keis
+49 89 378-12560, nikolaus.keis@unicreditgroup.de

EEMEA Economics, Fixed Income & FX Research

Martin Blum, Head
+43 50505 82363, martin.blum@caib.unicreditgroup.eu

Cevdet Akcay, Ph.D., Chief Economist, Turkey
+90 212 319-8430, cevdet.akcay@yapikredi.com.tr

Dmitry Gourov, Economist, EEMEA
+43 50505 82364, dmitry.gourov@caib.unicreditgroup.eu

Hans Holzhacker, Chief Economist, Kazakhstan
+7 727 244-1463, h.holzhacker@atfbank.kz

Anna Kopetz, Economist, Baltics
+43 50505 82364, anna.kopetz@caib.unicreditgroup.eu

Marcin Mrowiec, Chief Economist, Poland
+48 22 656-0678, marcin.mrowiec@pekao.com.pl

Vladimir Osakovsky, Ph.D., Head of Strategy and Research, Russia
+7 495 258-7258 ext.7558, vladimir.osakovsky@unicreditgroup.ru

Rozália Pál, Ph.D., Chief Economist, Romania
+40 21 203-2376, rozalia.pal@unicredit.ro

Kristofor Pavlov, Chief Economist, Bulgaria
+359 2 9269-390, kristofor.pavlov@unicreditgroup.bg

Goran Šaravanja, Chief Economist, Croatia
+385 1 6006-678, goran.saravanja@unicreditgroup.zaba.hr

Pavel Sobisek, Chief Economist, Czech Republic
+420 2 211-12504, pavel.sobisek@unicreditgroup.cz

Gyula Toth, Economist/Strategist, EEMEA
+43 50505 82362, gyula.toth@caib.unicreditgroup.eu

Jan Toth, Chief Economist, Slovakia
+421 2 4950-2267, jan.toth@unicreditgroup.sk

Global FI/FX Strategy

Michael Rottmann, Head
+49 89 378-15121, michael.rottmann1@unicreditgroup.de

Dr. Luca Cazzulani, FI Strategy
+39 02 8862-0640, luca.cazzulani@unicreditgroup.de

Chiara Cremonesi, FI Strategy
+44 20 7826-1771, chiara.cremonesi@unicreditgroup.co.uk

Giuseppe Maraffino, FI Strategy
+39 02 8862-2027, giuseppe.maraffino@unicreditgroup.de

Armin Mekelburg, FX Strategy
+49 89 378-14307, armin.mekelburg@unicreditgroup.de

Roberto Mialich, FX Strategy
+39 02 8862-0658, roberto.mialich@unicreditgroup.de

Kornelius Purps, FI Strategy
+49 89 378-12753, kornelius.purps@unicreditgroup.de

Herbert Stocker, Technical Analysis
+49 89 378-14305, herbert.stocker@unicreditgroup.de

Publication Address

UniCredit Markets & Investment Banking
Bayerische Hypo- und Vereinsbank AG
UniCredit Research
Arabellastrasse 12, D-81925 Munich
Tel. +49 89 378-12559
Fax +49 89 378-13024

Bloomberg
UCGR

Internet
www.globalresearch.unicreditmib.eu

* UniCredit Research is the joint research department of Bayerische Hypo- und Vereinsbank AG (HVB), UniCredit CAIB Group (CAIB), UniCredit Securities (UniCredit Securities), UniCredit Menkul Değerler A.Ş. (UniCredit Menkul), UniCredit Bulbank, Zagrebačka banka, UniCredit Bank, Bank Pekao, Yapi Kredi, UniCredit Tiriac Bank and ATFBank.