



The National Bank of Poland

Economic Institute  
Bureau of World Economy and European Economic Integration

Analysis of economic situation in countries  
of  
Central and Eastern Europe

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This report has been prepared for information purposes on the basis of various research sources independent from the National Bank of Poland.

*The authors of the report Analysis of economic situation in countries of Central and Eastern Europe wish to inform that, beginning with the present issue, the structure of the report and the frequency of compilation hereof will change. Taking account of the growing Importance of the CEE region in global processes, and the prevailing differences in the economic and social situation of particular countries, the authors' team decided to modify the organizational structure of the contents of the report. The core element of the Report presents the developments in the individual countries of the CEE region. The executive summary indicates the common development tendencies as well as the differences due to the specific characteristics of the economic processes in the countries covered by this study.*

*The Report was extended to include Slovenia, the only NMS country which has adopted a common European currency so far. The experience of Slovenia, and also of Slovakia in the near future, will be very important for the other countries of the region, which already aspire or will aspire to a full membership in the euro area.*

*Taking the calendar of important macroeconomic data into account, it has been considered reasonable to publish the Report twice a year (spring and autumn edition).*

## **Executive summary**

### **Economic growth**

In the first six months of 2008, the growth rate in NMS<sup>1</sup> remained at a relatively high level. Although the GDP growth rates declined vis-à-vis the corresponding figures of 2007, the scale of moderation in the economic activity of NMS proved considerably smaller than in other countries of the European Union (EU-15). The GDP maintained its momentum, to a large extent stimulated by a relatively stable growth in household consumption. Quite buoyant growth also prevailed in investments. Therefore, domestic demand strengthened relatively fast in NMS and in effect the net exports continued to have a dampening impact on the economic growth. Whereas imports slowed down slightly, the growth in exports contracted.

As appears from the recently released data, the economic growth declined further in 2008 Q3 across the region, especially in the Baltic states and Hungary, as private consumption, exports to Western Europe countries moderated.

The developments in particular economies, on the other hand, were very divergent. At the same time, the disparities in the GDP growth rates deepened as from early 2008. Whereas on one hand the economic growth markedly declined in the Baltic states (the real GDP fell already in 2008 Q1 in Estonia and in 2008 Q2 in Latvia), on the other hand it gained momentum in Bulgaria and Romania (as compared to 2007).

The countries with a significant contribution of private consumption to their economic growth reported relatively high retail sales growth rates - to a considerable extent on the back of the wage growth. However, retail sales slowed down over the last six months of 2008. As appears, households may be likely to curb their consumption in the oncoming quarters, as also reflected in the deterioration in consumer sentiment.

The economic downturn in NMS is even more markedly evidenced by a weaker growth in industrial output - by and large - both due to lower output in the sectors selling primarily to foreign markets due to sluggish economic activity in Western Europe, main export market for the businesses of NMS. Against this background, the business sentiment markedly deteriorated -most specifically the index of export orders showed a pronounced decline.

### **Labour market**

Due to relatively high economic growth in NMS the employment posted a further increase and in the first six months of 2008 unemployment rate further declined. In a number of countries the unemployment rate fell to its minimum for the present decade. In mid-year the growth rate of employment moderated (and in Estonia and Lithuania the number of jobs went even down). Respectively, the unemployment rate edged up in some countries. By contrast, the developments in the Hungarian labour market followed a different pattern. Since early 2008 the employment in Hungary pursued a declining path. In effect the unemployment rate rose to achieve the historical height for the last 10 years (and at the same time it was the highest in the region).

### **Inflation**

Between January and July 2008 the growth in inflation accelerated in the region, primarily driven by global factors,

i.e., growing prices of energy and food. NSM-9 reported higher growth than UE-15, in line with the higher percentage of fuels and food in their HICP basket. Meanwhile, relatively robust wage growth and increased rates of indirect taxes also put inflation upwards. High growth in inflation (peak value for 10 years) occurred both in the Baltic states and in Bulgaria.

In mid-2008 HICP inflation declined (primarily in the wake of decrease in fuel prices in the global markets). The decrease, on the other hand, was not that strong as in Western Europe as NMS posted a higher rise in its core inflation than EU-15. On the other hand, core inflation moderated in Hungary - since early 2008 as well as in Estonia and Latvia - in the last six months of 2008 - reflecting the lower wage growth.

### **External imbalances**

The first six months of 2008 saw the current account deficit accumulate in NMS. This trend primarily reflected the rapid growth in the negative balance on income. Other categories recorded relatively minor changes. The highest growth in the current account deficit in the first six months of 2008 occurred in Bulgaria and Romania (in Bulgaria it widened to reach 23.3% of the GDP). On the other hand, the deficit moderated (in Estonia and Latvia) or stabilized (in Hungary) in the countries where households significantly reduced their consumption. As the financial crisis amplified, the perspectives for financing current account deficits in the region showed a pronounced deterioration.

### **Interest rates and the exchange rate**

Over the first six months of 2008 central banks tightened their monetary policy in most countries which pursue a direct inflation target. Central banks of the Czech Republic, Poland, Hungary and Romania rose their interest rates.

The Bank of Hungary decided to rise its interest rates by 300 bps last October with a view to preventing the mass outflow of foreign investors, as the crisis in the global financial markets intensified. More recently, however, both the Central Bank of Hungary as well as central banks of the Czech Republic and Poland cut their interest rates. As regards the Bank of Slovakia, the lowering of rates was also designed to bring them into compliance with those of the ECB.

Following the intensification of crisis in the international financial markets and increase in global aversion to risk, the currencies of the NMS countries underwent a marked depreciation. Investors downgraded their rankings of the NMS economies stability and emphasized their negative assessment of external imbalances.

### **Forecasts**

The international institutions lowered their forecasts for the growth of the NMS economies in recent months. Although the GDP is likely to continue upwards in 2008 (oscillating near the average for the period between 2000 and 2007), its growth may drop by 50% in 2009. Looking ahead, most the slowdown will be attributable to a lower growth in consumption. Meanwhile, the negative impact of net exports will be on a downside, with imports decelerating more than exports. The real GDP decrease is anticipated in 2009 in the Baltic states and in Hungary.

Even though the current account deficit is forecast to narrow, the worries about financing the gap are on the rise, as the crisis is becoming more apparent. Consequently, the inflow of investments to NMS is expected to decline.

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<sup>1</sup> New Member States

## CZECH REPUBLIC

### Economic growth

In the first six months of 2008 the economy of the Czech Republic grew at 4.9% y/y (up from 6.6% y/y in 2007). The GDP slowed down in comparison to the previous year, dampened by the lower growth both in private consumption and in investments. Furthermore, the macroeconomic growth was on a downside, due to the contraction in inventories which also posted a lower growth than in 2007. Meanwhile, in the context of the relatively stable growth in exports, imports (first of all that of capital goods) moderated, in line with the decline in domestic demand. In effect the contribution of net exports to the GDP growth showed a pronounced increase. GDP growth continued to ebb down slowly, as indicated in the preliminary estimates for 2008 Q3 (4.2% y/y). This decrease reflected the lower contribution of net exports.

Figure 1.1

Contribution to GDP growth (pp, y/y)

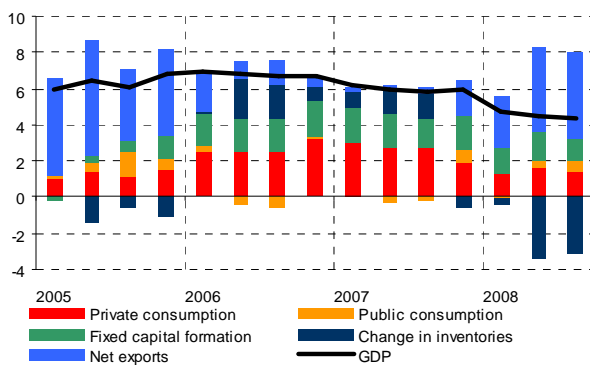


Table 1.1

GDP and its components (% y/y)

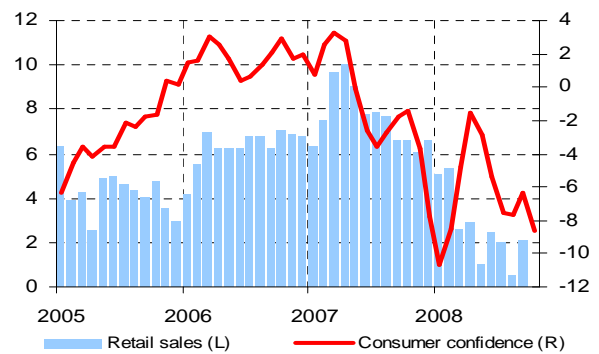
	2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
GDP	6.6	6.6	5.3	4.5	4.2
Private consumption	6.0	4.2	2.7	3.4	2.5
Public consumption	0.4	3.7	0.5	2.0	3.7
Fixed capital formation	5.7	7.5	4.6	4.1	4.5
Exports	14.7	13.1	13.0	14.1	5.0
Imports	14.0	10.9	11.2	9.6	1.6

Source: Ecowin Economic

Whereas private consumption followed a declining path, so did retail sales which slowed down to 2.2% y/y in the first nine months of 2008 (vis-à-vis 7.5% y/y posted in 2007). This moderation in households' spending may also reflect on the deterioration in the European Commission's index of consumers' sentiment.

Figure 1.2

Retail sales (3m average, %, y/y) and consumer confidence

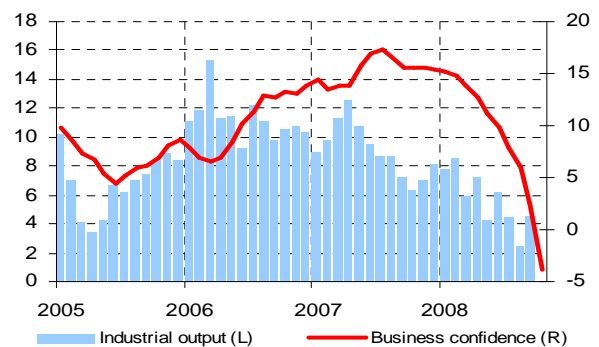


Source: Ecowin Economic

An amplifying economic downturn also translates into a steady deterioration in the indicators of business sentiment (both that of the European Commission and the PMI). The PMI in manufacturing plunged to reach 42.9 pts in October 2008. Accordingly, it reached its lowest level since the survey began (i.e. since 2001).

Figure 1.3

Industrial output (3m average, %, y/y) and business confidence



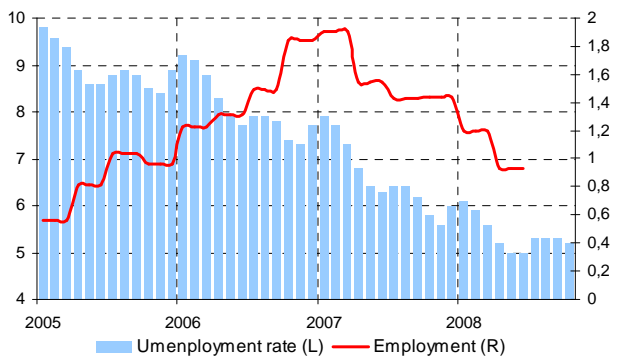
Source: Ecowin Economic

### Labour market

Notwithstanding a further growth in employment recorded in the Czech Republic over the first six months of 2008, its growth rate trended down steadily since the first half of 2007. The unemployment rate, after sinking to its lowest level of 5.0% in May and June 2008, picked up to 5.3% between July and September the same year.

Figure 1.4

Unemployment rate and employment growth rate (% y/y)



Source: Ecowin Economic

## Inflation and labour costs

Inflation peaked to its maximum in the Czech Republic in January 2008, i.e. earlier than in other NMS countries (HICP rose to 7.9% at that time, fuelled by the increase in administered prices in the health-care sector). Thereafter the inflation rate went down (to reach 5.7% last October).

Figure 1.5

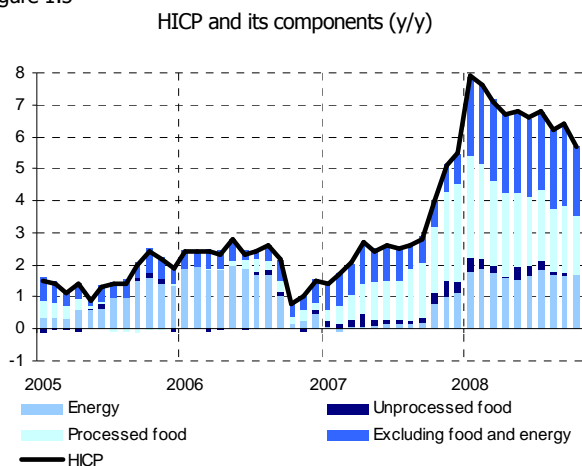


Table 1.2

	Q4 2007	Q1 2008	Q2 2008	Q3 2008	paž-08
HICP	4,9	7,5	6,7	6,5	5,7
Largest contribution to HICP growth rate (pp, y/y)					
Housing	1,0	1,8	1,9	2,1	2,3
Food and non-alcoholic beverages	1,7	2,2	1,9	1,7	1,0
Alcohol and tobacco	1,4	1,3	0,9	0,8	0,9
Health	0,1	0,7	0,7	0,7	0,7
Restaurants and hotels	0,3	0,5	0,5	0,5	0,5

Source: Ecowin Economic

Inflation followed a steady decline, primarily attributable to the fall in the prices of processed food and – to a lesser extent – in the prices of energy. Furthermore, a significant dampening effect on inflation stemmed from the appreciation of the Czech koruna between July 2007 and July 2008.

The growing ratio of the core inflation to HICP may point to the growing impact of wage development on the evolution of inflation in the Czech Republic.

A very low unemployment precipitated a significant increase in wages, which soared by 9.1% y/y between January and June this year (up from 7.3% y/y in 2007). Hence unit labour costs – after edging up in 2006 and 2007 (by 1.1% and 3.6% y/y, respectively) – hiked rapidly by 6.2% and 8.9% y/y in 2008 Q1 and Q2.

### External imbalances

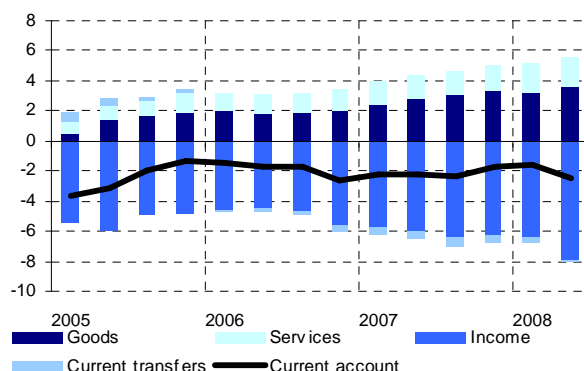
Over the first six months of this year, the inflow of direct investments surpassed that of the first six months of 2007. Furthermore, improvement occurred in the balance of portfolio investments which showed a surplus in 2008 Q2, for the first time since 2005.

As regards the current account deficit, its growth over the 2<sup>nd</sup> half of 2008 was attributable to the continued widening of

the negative balance on income. Meanwhile, the surplus in the trade in goods and services continued its trend of broad growth.

Figure 1.6.

Current account and its components (balance, % of GDP, 4Q average)



Source: Ecowin Economic

Figure 1.7

Sources of financing current account deficit (% of GDP, 4Q average)

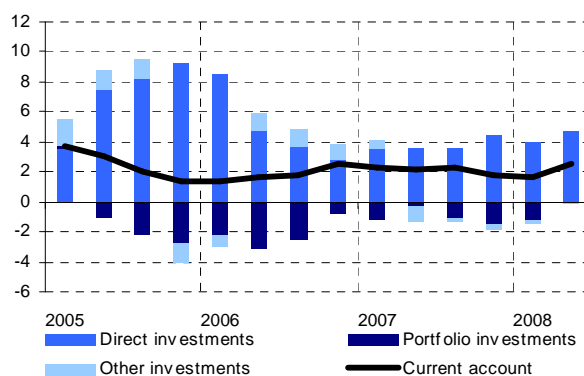


Table 1.3

	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
Current account	-1 056	-1 259	-961	1 128	-2 458
Goods	966	745	1 005	1 633	1 668
Services	625	575	404	946	754
Income	-2 391	-2 395	-2 283	-1 496	-4 944
Current transfers	-257	-183	-88	45	64
Capital account	5	122	503	272	515
Financial account	398	1 144	2 120	-259	2 942
Direct investments	1 116	1 214	2 183	863	2 329
Portfolio investments	-210	-1 443	472	-510	1 583
Other investments	-900	1 794	-479	-613	-970

Source: Ecowin Economic

### Interest rates and the exchange rate

It was mainly a gradual appreciation of the Czech koruna vis-à-vis the euro and the symptoms of the economic downturn that made the National Bank of the Czech Republic cut its interest rates by 25 bps last August. In other words, the cycle of monetary policy tightening – launched in October 2005 – came to an end.

Last September the global financial crisis amplified and aversion to risk soared. Accordingly, the demand for assets of the emerging markets (EM), incl. those of NMS dove rapidly. As most NMS currencies, the koruna considerably depreciated

last October. As the outlook for economic activity in the Czech Republic was on the downside, the next (and the biggest since January 1999) cut - by 75 bps - in interest rates took place in November, sending the rates down to 2.75%.

As regards the interbank market, 3-month interest rates remained broadly unchanged until August 2008. After a considerable growth in October - to about 4.5% at the end of the month - the interbank rates fell in November, to anchor relatively stable at 4.2%.

### Forecasts

Looking ahead, the Czech economy will follow a downward trend in 2009. Most institutions anticipate that the rate of growth will again diminish by 0.5-1 pp. Apparently, any decline in contribution of net exports to the GDP growth (as a result of a macroeconomic slump in Germany - the main recipient of goods and services from the Czech Republic) may conclusively bear upon the scale of slowdown in economic activity in the Czech Republic. It is anticipated that inflation in the Czech Republic will go down rapidly, probably to the lowest level in the region. The tendency will stem particularly from the disappearance of the base effect in the early 2009 in the wake of the change to indirect taxes and controlled prices.

Table 1.4

Forecasts					
	OECD	European Commission	IMF	Consensus Economics	ČNB
	11.2008 (06.2008)	11.2008 (04.2008)	10.2008 (04.2008)	10.2008 (05.2008)	11.2008 (08.2008)
GDP, %, y/y					
2008	4,4 (4,5)	4,4 (4,7)	4,0 (4,2)	4,3 (4,8)	4,5 (4,1)
2009	2,5 (4,8)	3,6 (5,0)	3,4 (4,6)	3,3 (5,0)	2,9 (3,6)
CPI, %, y/y					
2008	6,6 (6,8)	6,6 (6,2)	6,7 (6,0)	6,6 (6,4)	6,6 (6,8)
2009	2,0 (2,9)	3,1 (2,7)	3,4 (3,5)	3,1 (3,3)	2,5 (3,1)
Current account balance, % of GDP					
2008	-2,3 (-2,6)	-1,9 (-2,9)	-2,2 (-3,0)		-1,4 (-1,8)
2009	-2,9 (-1,8)	-2,2 (-2,6)	-2,5 (-2,8)		0,0 (-2,3)

ČNB - Česká národní banka

## SLOVAKIA

### Economic growth

Slovakia recorded the second most rapid growth in the whole NMS group in the first half of 2008. The growth of the GDP developed at 8.5% y/y (down from 10.4% y/y in 2007). Domestic demand remained the main factor of growth over the first six months of 2008. Its main categories broadly maintained their rate of growth of 2007 (though Q2 brought about a change to the structure of the growth, i.e., a decrease was observed in the contribution of private consumption). The GDP, meanwhile, grew at a slower pace, inhibited by a considerable contraction in the contribution of net exports and seriously hampered by a subdued growth in exports. This was closely related to the economic downturn affecting the major economies of the European Union (which receives nearly 90% of Slovak total exports). In parallel, consumption demand expanded relatively fast, and in effect imports continued to follow a rapid growth. According to the preliminary estimates for 2008 Q3, economy continued its quite buoyant expansion (at 7.0%), fuelled – as before – by domestic demand.

Figure 2.1

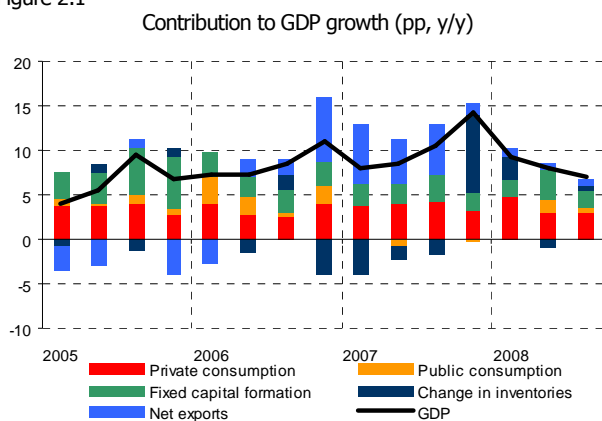


Table 2.1

GDP and its components (% y/y)

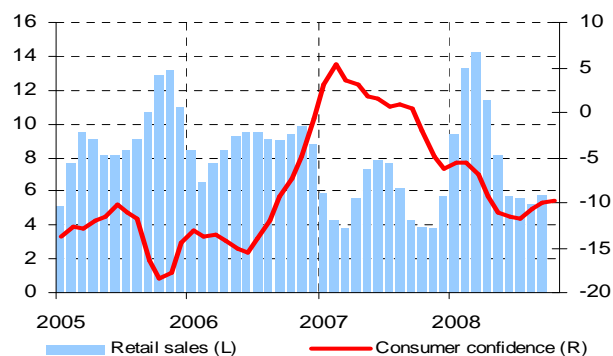
	2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
GDP	10,3	14,3	9,3	7,9	7,0
Private consumption	7,1	5,9	8,4	5,7	6,0
Public consumption	0,8	-1,3	0,7	9,6	3,3
Fixed capital formation	8,1	8,9	2,4	9,6	7,3
Exports	16,3	11,6	11,2	8,1	2,7
Imports	10,6	10,2	10,6	7,7	2,0

Source: Ecowin Economic

The growth rate of retail sales followed a slowdown pattern observed in private consumption. In the first nine months of 2008, this category rose by 5.4% y/y, i.e. down from 8.6% y/y in 2007, whereas the confidence of Slovak consumers deteriorated.

Figure 2.2

Retail sales (3m average, %, y/y) and consumer confidence

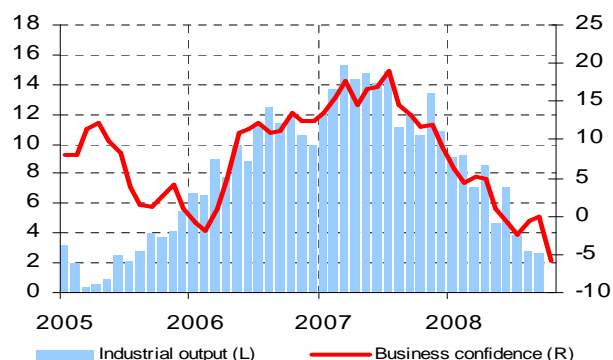


Source: Ecowin Economic

Adverse tendencies in manufacturing sector are evidenced on the one hand by the lower growth in manufacturing (which rose by 5.4% y/y between January and September this year, as compared to 12.7% y/y in 2007), and on the other hand by a pronounced worsening of business confidence indicators.

Figure 2.3

Industrial output (3m average, %, y/y) and business confidence



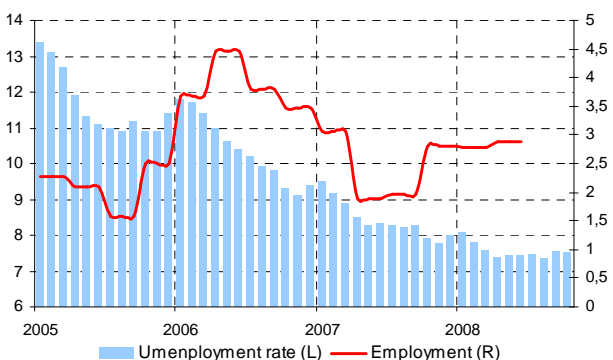
Source: Ecowin Economic

### Labour market

The first half of 2008 saw the growth in employment accelerate somewhat (up to 2.8% y/y, from the average of 2.4% y/y in 2007). At the same time, unemployment continued to decrease, to report its historical low of 7.4% last August (as compared to 8.0% in December 2007). Nevertheless, the rate of decline was getting lower month by month.

Figure 2.4

Unemployment rate and employment growth rate (% y/y)



Source: Ecowin Economic



## Inflation and labour costs

Slovakia recorded the lowest inflation in the NMS region in 2008. Since early this year it exhibited a clear upward trend stopped only last October, where the HICP index declined to reach 4.2% y/y. Inflation rose Most of the inflation growth in the first three quarters of 2008 was attributable to the core inflation increase and - to some extent only – energy prices rebound. Prices of energy rose relatively slow as the energy market in Slovakia is highly regulated, and thus the developments in its prices to a lesser extent follow the patterns of the global markets.

A considerable upturn in the nominal wages, by nearly 10.0% y/y in 2008 Q1 (up from 7.5% in 2007) accounted for most of the growth in the core inflation. Meanwhile, as a consequence unit labour costs went up by 4.0% in 208 Q1 (up from -3.0% in 2007 Q4).

Figure 2.5

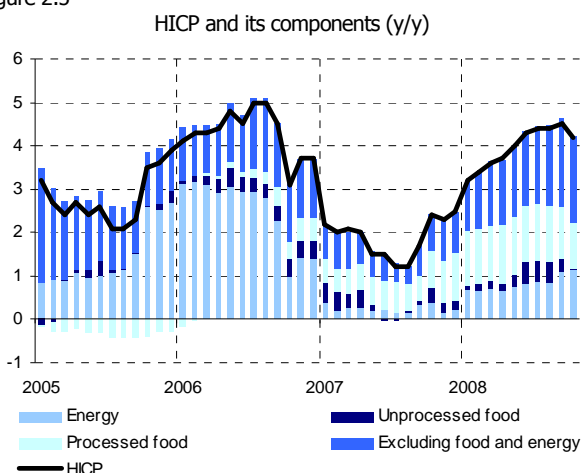


Table 2.2

HICP and its components (y/y)					
	Q4 2007	Q1 2008	Q2 2008	Q3 2008	paž-08
HICP	2,4	3,4	4,0	4,4	4,2
Largest contribution to HICP growth rate (pp, y/y)					
Housing	0,3	0,6	0,7	0,9	1,3
Food and non-alcoholic beverages	1,1	1,3	1,5	1,6	0,8
Transport	0,3	0,4	0,4	0,6	0,7
Restaurants and hotels	0,0	0,2	0,4	0,4	0,4
Alcohol and tobacco	0,1	0,2	0,2	0,2	0,3

Source: Ecowin Economic

## External imbalances

The downward tendency observed in the current account deficit since the mid-2005 (fuelled by the decline in the negative balance of trade in goods) was stopped in the first six months of 2008. The current account deficit widened in line with the materially higher negative balance on income.

A narrowing inflow of foreign investments – especially in the categories of direct investments and the other investments (due to a lower availability of loans and credit) resulted from the turmoil in the global financial markets.

Figure 2.6

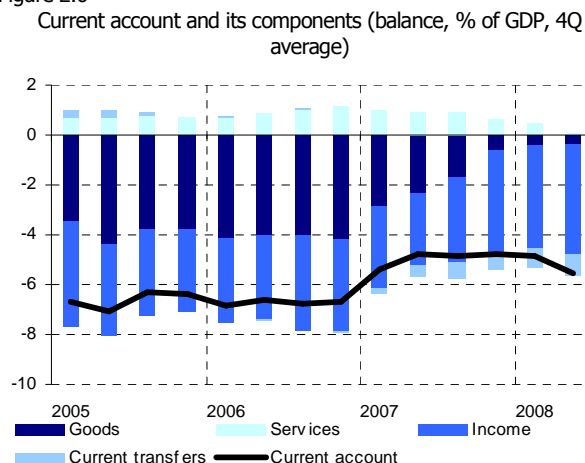


Figure 2.7

Sources of financing current account deficit (% of GDP, 4Q average)

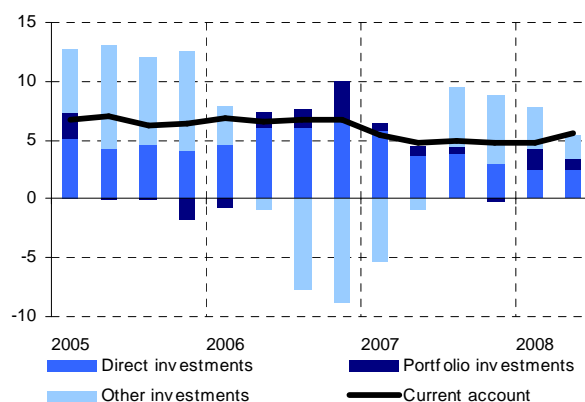


Table 2.3

Balance of payments (net, EUR mln)					
	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
Current account	-661	-1088	-955	-47	-1 224
Goods	-295	-40	-126	252	-326
Services	138	161	29	-64	-100
Income	-386	-1107	-821	-48	-655
Current transfers	-118	-102	-36	-187	-142
Capital account	35	133	206	129	409
Financial account	2 221	1 424	675	189	944
Direct investments	266	1035	319	-180	312
Portfolio investments	691	86	-258	503	287
Other investments	1308	261	602	-155	439

Source: Ecowin Economic

## Interest rates and the exchange rate

Over the first half of 2008, the 3-month interest rates remained broadly unchanged at about 4.3%. Precedent to Slovakia's accession to the Economic and Monetary Union scheduled for 2009, the level of interest rates in Slovakia approached that of the euro area. As Slovakia is about to join the EMU in the near future, strong turmoil in the financial markets last October had no impact on the evolution of its interbank rates.

Since the decision taken in July that Slovakia would join the euro area, the interest rates of the National Bank of Slovakia have been anchored at the level consistent with the ECB's rates, and hence the NBS cut them in October and November this year by 25 bps and 50 bps, respectively.

Last May the central parity of the koruna was revalued for the second time (the first revaluation took place in March 2007), thereby reflecting the underlying real appreciation trend of the koruna. Following the adoption of euro changeover rate (in July 2008), the koruna's exchange rate escaped depreciation which affected the currencies of the other NMS countries, even though strong turmoil prevailed in global financial markets.

### Forecasts

According to the forecasts of economic growth, the GDP will slow down further, both in the second half of 2008, and in 2009, on a lesser scale though than in the other NMS countries. More specifically, those developments will reflect a probable slump in exports, on the one hand (as evidenced by data for 2008 Q3), and in private consumption and investments on the other hand. As international institutions forecast, Slovakia is to boast the highest growth in the region in 2009. The forecasts also show that inflation will decline next year, whereas the current account deficit will narrow.

Table 2.4

Forecasts					
	OECD	KE	IMF	Consensus Economics	NBS
	11.2008 (06.2008)	11.2008 (04.2008)	10.2008 (04.2008)	10.2008 (05.2008)	11.2008 (07.2008)
GDP, %, y/y					
2008	7,3 (7,3)	7,0 (7,0)	7,4 (6,6)	6,9 (7,5)	7,5 (7,6)
2009	4,0 (6,1)	4,9 (6,2)	5,6 (5,9)	5,0 (6,2)	4,7 (6,6)
CPI, %, y/y					
2008	4,4 (4,0)	4,0 (3,8)	3,9 (3,3)	4,5 (3,7)	3,9 (3,8)
2009	2,8 (3,6)	3,5 (3,2)	3,6 (3,1)	3,9 (3,4)	2,7 (3,4)
Current account balance, % of GDP					
2008	-5,0 (-4,3)	-5,6 (-4,0)	-5,1 (-5,0)		-5,8 (-5,1)
2009	-4,1 (-3,1)	-4,7 (-3,1)	-4,7 (-4,7)		-4,6 (-2,9)

NBS - Národná banka Slovenska

### **The Euro in Slovakia: potential implications for inflation**

Last May the ECB published Convergence Report 2008 where the current state of economic convergence was assessed for the EU Member States from outside the euro area. For Slovakia the Report was of pivotal Importance, since it had a large impact on the decision to accept the country to the EMU. In spite of the fact that the Report deemed Slovakia to meet the convergence criteria, it summed up, i.a., that:

*(...) although the 12-month average rate of HICP inflation in Slovakia is currently well below the reference value, there are considerable concerns regarding the sustainability of inflation convergence. (...)*

According to the ECB, such factors as strong domestic demand and tightening of the labour market may adversely impact the development of inflation. Furthermore, in conjunction with the hikes in energy and/or food prices, these may produce the second round effects. Against this background, if the common currency is adopted, the above factors may amplify their impact exerted via two channels. Whereas on the one hand the real appreciation trend, reflected in the strong position of the Slovak koruna will push up inflation, on the other hand, the absence of strengthening Slovakian currency will have a negative effect on import prices.

The inflationary risks in Slovakia were examined in the OECD study „The euro changeover in the Slovak Republic: implications for inflation and interest rate,” 12 August 2008. Quoting after the authors of the study, the experience of EMU Member States allows to identify a number of mechanisms responsible for the rise in prices directly upon the changeover of currency in circulation. These include the so-called menu costs, upward rounding of prices of „attractive” goods, asymmetry of information – as the consumers have to calculate the prices quoted by the sellers upon every transaction, the level of competition and disparity between the perceived and actual inflation.

The Slovak strategy to adopt the euro assumes the reduction of the effects of the above-mentioned factors, first of all by way of: the obligation to quote double prices for half a year prior to the adoption of the euro currency and for a year following that date, the principle to continue the contracts agreed in the Slovak koruna, systematic information on the evolution of prices and closer supervision, oversight and monitoring aimed at detecting groundless rises in prices. The National Bank of Slovakia, the Trade Inspection, offices of consumer protection and local governments have been involved in the supervision and oversight process. Any failure to comply with the relevant regulations may carry a penalty fee of up to 60 000 euro.

As regards its estimated size– presented in the OECD study -, the immediate impact of the adoption of the euro currency on HICP inflation does not exceed 0.3 pp.

Meanwhile, the OECD indicates a number of factors which determine inflation over a long term, similarly as the EBC: i.e., the potential increase in growth in imports prices and diversification in productivity manifested via Balassa-Samuelson effect. In Slovakia the upward risks to price stability are clearly on the increase; on one hand the growth in prices of imports from the euro area (ca. 40% of total Slovak imports) will not be inhibited by the appreciation of the koruna, whilst on the other hand the growth in the prices of imports from the NMS countries (ca. 30% of total Slovak imports) may gain momentum following the potential appreciation of the currencies vis-à-vis the euro in the countries of the region.) Over the period 1996-2006 the estimated impact of Balassa-Samuelson effect on the disparity between inflation in Slovakia and in the euro area fluctuated within the band between +1.0 and +1.8 pp., i.e., due to slower growth in wages than in productivity, growth in productivity in the non-tradable sector and relatively slight shares of the non-tradable sector and the general government sector in Slovak economy. Hence, inflation will rise by 1.5 pp. per year in the euro area until the end of 2010, as estimated by the National Bank of Slovakia.

## HUNGARY

### Economic growth

For nearly two years, the Hungarian economy has posted a serious slowdown, because both consumption demand and investment demand have suffered a downturn. The first half of 2008 saw a temporary increase in the GDP growth. Between January and June 2008 the economy of Hungary grew at 1.9% y/y (up from 1.1% y/y in 2007).

Figure 3.1

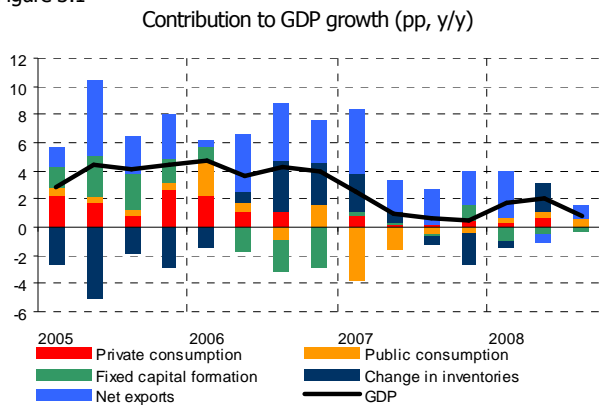


Table 3.1

GDP and its components (% y/y)

	2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
GDP	1,1	0,5	1,7	2,0	0,8
Private consumption	-0,3	-0,2	0,4	1,4	0,1
Public consumption	-6,1	-4,0	-6,4	0,7	0,0
Fixed capital formation	-0,1	2,6	-5,4	-2,2	-1,5
Exports	14,3	10,4	13,9	11,1	3,5
Imports	12,1	9,1	10,2	11,2	2,8

Source: Ecowin Economic

In 2008 Q1 economic expansion mainly reflected the growth in net exports. On the other hand, in 2008 Q2, the contribution of this factor to the growth of the GDP was clearly on the downside, because imports grew faster whereas external demand declined. In a sectoral breakdown, the GDP growth was primarily attributable to the growth in output in the farming sector, which had pursued a steady decline between 2005 and 2007. In other words, this temporary factor will remain neutral for the GDP growth over the oncoming quarters. Agricultural production expanded considerably, and pushed up the level of inventories, which prevailed in the structure of economic growth in 2008 Q2.

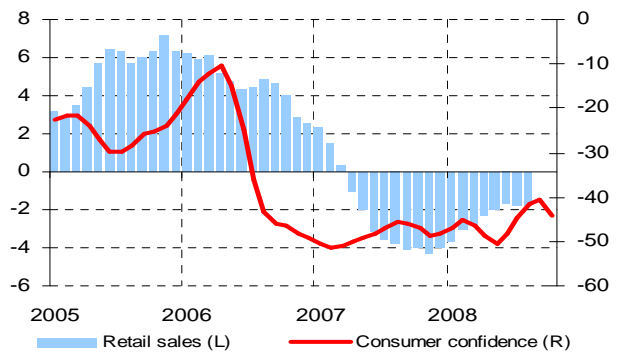
According to the preliminary data, Hungarian economy developed at 0.8% in 2008 Q3 in comparison with the corresponding quarter of the preceding year, which indicates that the economic growth relapsed into low growth. The decline reflected first of all the lower contribution of inventories and further slowdown in private consumption.

As a lagged result of a rapid wage expansion and a temporary boost in the capital markets, retail sales declined at a slower rate in 2008 Q2 and Q3, whilst consumption spending rose in 2008 Q2. Both the surveys and the structure of consumption spending growth (increase in household expenditure on services vis-à-vis the decline in

consumption spending on durable goods) indicate that the boost in consumption demand is of a temporary character. In the face of the main indices of the stock exchange falling dramatically and the government announcing a freeze in social spending, households are likely to further curb their consumption.

Figure 3.2.

Retail sales (3m average, %, y/y) and consumer confidence

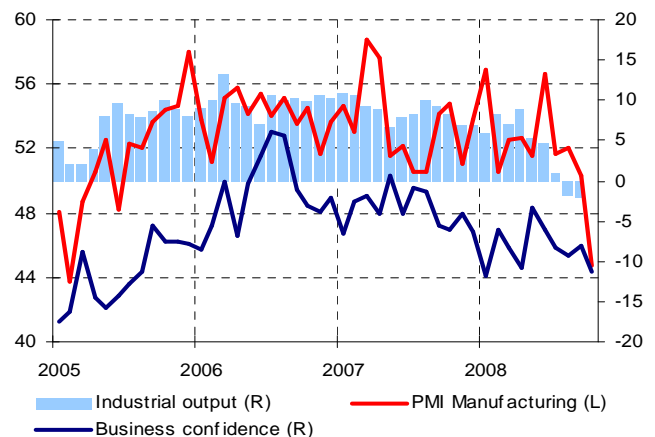


Source: Ecowin Economic

Having boosted in the early 2008, the growth in industrial output came to a clear descent in 2008 Q2, following a weakening in external demand. As the economic climate indicators show, industrial production continues its declining trend, in particular in the context of a rapid deterioration of the outlook for economic growth for the major trading partners of Hungary.

Figure 3.3

Industrial output (3m average, %, y/y) and business confidence

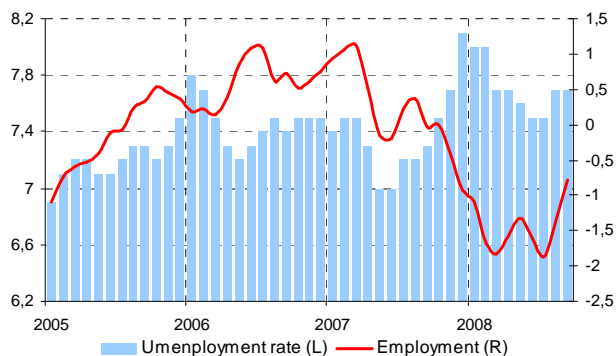


Source: Ecowin Economic

### Labour market

Since the mid-2007 the situation in the labour market showed a rapid deterioration, manifested both in the rise in the unemployment rate and in the decline in the economic activity ratio. These developments were fuelled both by economic slowdown, reduction in employment in the public sector and factors of a demographic character. Even though some signs of stabilization appeared in the labour market in 2008 Q2 and Q3 in the form of a slight fall in unemployment rate and the rise in the economic activity ratio - those developments should be seen as temporary ones, because Hungary experiences the continuation of the economic slowdown.

Figure 3.4  
Unemployment rate and employment growth rate (% , y/y)



Source: Ecowin Economic

### Inflation and labour costs

The growth rate in the prices of consumption goods has featured a steady decline since 2007 Q2, when the HICP inflation reached 9.0% y/y. In 2008 Q1 and Q2 a fast growth in the prices of processed food and energy carriers inhibited this process. HICP inflation stood at 6.9% y/y during the first six months of the year,

to resume its declining path in 2008 Q3. The HICP index decreased to reach 5.1% last October (i.e. the lowest level since August 2006), driven by the fall in the hitherto recorded growth in the prices of energy and food as well as by the reduction in the core inflation. The core inflation declined because productivity increased, consumer demand fell and thereby the cost pressure eased.

In the context of the unfavourable developments in the labour market, the upward pressure to price stability exerted by the labour market declined over the recent year. Given a lesser role played by the wage pressure, unit labour costs remain below the long-term average. Inflationary expectations continue at a high level, reflecting the negative assessment of the economic situation in Hungary.

Figure 3.5

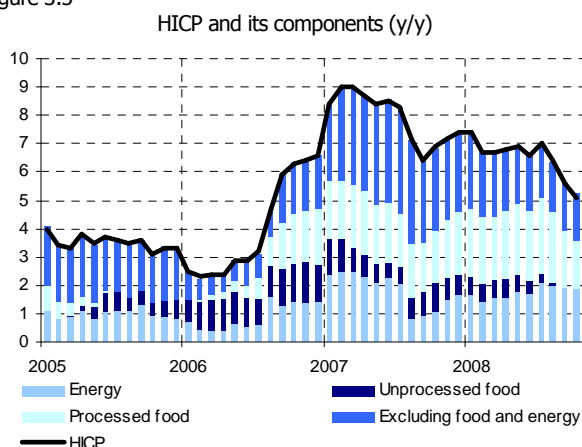


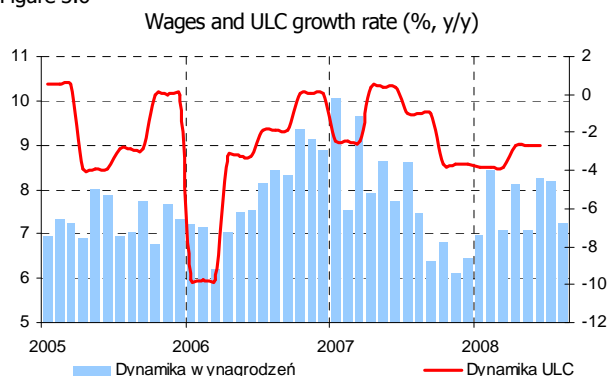
Table 3.2

HICP and its components (y/y)

	Q4 2007	Q1 2008	Q2 2008	Q3 2008	paź-08
HICP	7,2	6,9	6,8	6,3	5,1
Largest contribution to HICP growth rate (pp, y/y)					
Housing	1,5	1,2	1,4	1,8	2,0
Food and non-alcoholic beverages	2,5	2,6	2,7	2,1	1,1
Transport	1,0	1,4	1,2	1,0	0,8
Restaurants and hotels	0,5	0,6	0,6	0,6	0,5
Alcohol and tobacco	0,4	0,4	0,4	0,5	0,5

Source: Ecowin Economic

Figure 3.6



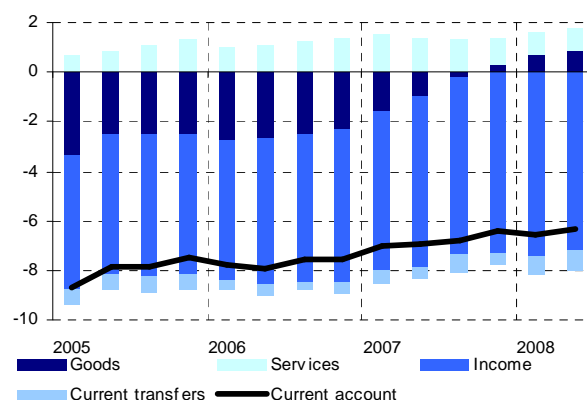
Source: Ecowin Economic

### External imbalances

As the positive balance on services rose in the second quarter of 2008 (as the income on tourism grew), the ratio of the current account deficit to the GDP posted a decline. Nonetheless, the surplus on the trade in goods declined in parallel. Accordingly the reduction in the negative balance on the current account proved relatively small.

Figure 3.7

Current account and its components (balance, % of GDP, 4Q average)



Source: Ecowin Economic

From a financing perspective, most of the current account deficit was covered by net inflows of direct investments, and also of other investments (the net inflows of other investments contracted in 2008 Q2 as a consequence of the growth in the foreign debt of the Hungarian financial sector).

Figure 3.8  
Sources of financing current account deficit (% of GDP, 4Q average)

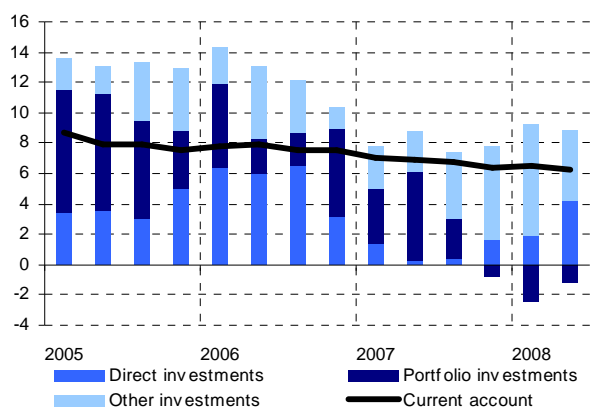


Table 3.3  
Balance of payments (net, EUR mln)

	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
Current account	-1 969	-1 680	-1 420	-1 647	-1 838
Goods	89	47	194	375	287
Services	339	402	144	73	301
Income	-2 187	-1 726	-1 846	-1 822	-2 092
Current transfers	-210	-403	87	-272	-334
Capital account	136	601	348	788	126
Financial account	2 287	796	1 442	2 464	3 311
Direct investments	-818	1 419	782	497	1 735
Portfolio investments	-245	-2 110	-339	236	961
Other investments	3 349	1 486	998	1 731	616

Source: Ecowin Economic

### Interest rates and the exchange rate

In 2008 Q2 and early Q3 the interest rates in Hungary to a high extent correlated with those in the developed countries, peaked from 8.4% to 9.0% in 2008 Q2, and thereafter, dove to 8.5% until mid-July 2008. In the meantime, the forint gained value due to a temporary calming in the sentiments prevailing in the global markets and investors' positive attitude to high-interest currencies of the emerging markets. The gradual increase in the interest rates effective in the interbank market, fuelled by the growing risk aversion in the global financial markets, significantly accelerated in early 2008 Q3. In parallel a mild depreciation of the Hungarian forint - observed since mid-July 2008 – intensified; whereas the Hungarian currency weakened in relation to the euro to reach its historical low in the second half of October 2008. Thereby, the Magyar Nemzeti Bank (MNB) rose its reference rate by 300 bps on 22 October (see Box 2). This helped stabilize the exchange rate of the Hungarian currency. On two occasions - in November and in December 2008 - the MNB reduced its reference rate by 50 bps to 10.5%.

### Forecasts

The economic growth forecasts presented by the external institutions indicate the risk that the negative demand gap will be closing very slowly. After the acceleration in the first half of 2008, the GDP is likely to relapse into a low growth in the second half of 2008. In turn, the 2009 will mark a dramatic dive in the GDP growth or even its decline. Slower growth or a decline is forecast to affect all the categories of the GDP, and most specifically consumption spending and

external demand. The growth in prices is expected to fall dramatically following the decrease in consumption demand. As forecast by external centres, the depreciation of the real exchange rate and a weakening of domestic demand will reduce the current account deficit.

Table 3.4

	Forecasts				
	OECD	KE	IMF	Consensus Economics	MNB
	11.2008 (06.2008)	11.2008 (04.2008)	10.2008 (04.2008)	10.2008 (05.2008)	11.2008 (08.2008)
GDP, %, y/y					
2008	1,4 (2,0)	1,7 (1,9)	1,8 (1,8)	1,9 (2,1)	1,1 (2,2)
2009	-0,5 (3,1)	0,7 (3,2)	-1,0 (2,5)	1,6 (3,1)	-1,0 (2,6)
CPI, %, y/y					
2008	6,4 (6,3)	6,3 (6,3)	6,3 (5,9)	6,3 (6,0)	6,2 (6,3)
2009	3,6 (3,7)	3,9 (3,7)	4,5 (3,5)	3,9 (3,8)	3,3 (4,1)
Current account balance, % of GDP					
2008	-6,1 (-4,4)	-6,3 (-4,4)	-6,2 (-5,5)		-7,1 (-4,9)
2009	-6,1 (-4,1)	-5,1 (-3,9)	-2,0 (-5,1)		-4,5 (-4,8)

MNB - Magyar Nemzeti Bank

### Hungarian hotchpotch

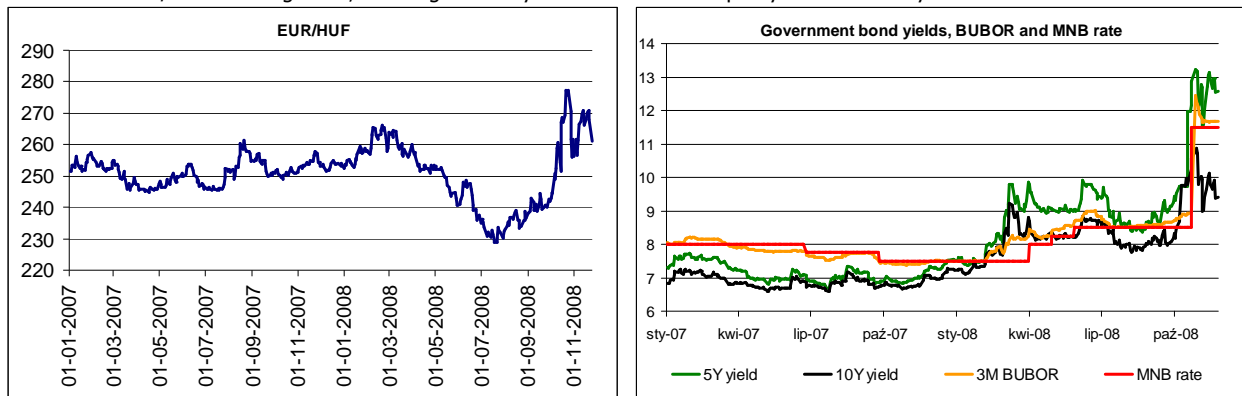
As the crisis of confidence in the financial markets has become more apparent and aversion to risk grew, investors moderated their exposure to the emerging markets and reduced the financial leverage. Accordingly, the financial markets in Central and Eastern Europe reported a slump. Risk grew strongly and in effect investors went to draw profits on high-yielding assets and to repay loans denominated in low-yielding currencies. Considerable share of foreign equity capital in the banking sector in the CEE exposes the liquidity supply via financing within corporate group structure/intra-corporate financing to risks. Furthermore, amid dramatic tightening in financing conditions in the international financial markets, concerns about serviceability of public debt and collateralising loans denominated in foreign currencies were raised.

In effect, even though Hungarian financial institutions posted insignificant exposure to the so-called toxic assets, close integration with the international financial markets made the country vulnerable to the effects of the financial crisis. As a consequence of a high proportion of loans denominated in foreign currencies (58.8% of total lending contracted by the household sector<sup>2</sup>) Hungarian financial not only were exposed to capital outflows caused by the great unwind characteristic of all the region but also became to a high extent reliant on the FX swap market. Hungarian financial institutions resorted to FX swaps in order to gain new sources of crediting, hedge excessive exposure to exchange risks and current administration of credit installments repayment. Nevertheless, as financial markets dried up, it became difficult to hedge against FX risk via swap transactions. As a consequence Hungarian financial institutions, including the major bank – OTP, came to be recognized as being exposed to liquidity risks.

In the context of anxiety about the liquidity in the FX swap market and about the stability of the spot market combined with investors’ aversion to the emerging markers the Hungarian forint lost 17% of its value against the euro (between 1 October and 21 October 2008). In parallel the Budapest Stock Exchange witnessed a massive outflow of foreign capital. Furthermore considerable widening occurred in the spreads between the Hungarian bonds and European bonds as well as in the CDS spreads for Hungarian debt securities.

Figure 1

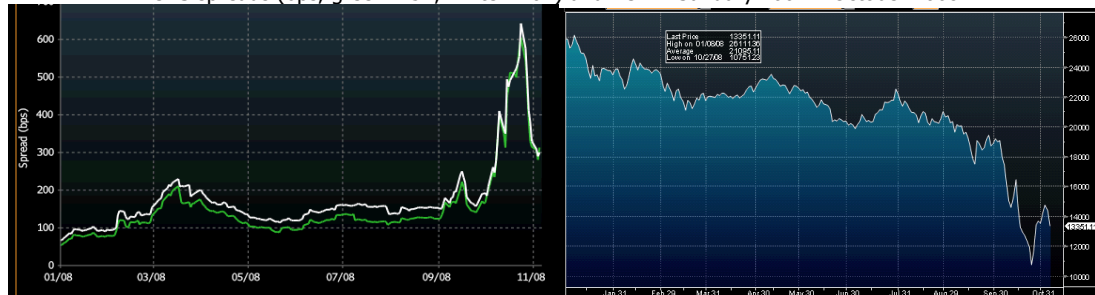
EUR/HUF exchange rate, sovereign bonds yields and MNB main policy rate in January 2007 – October 2008



Source: Ecowin Financial

Figure 2

CDS spreads (bps, green – 5Y, white - 10Y) and BUX in January 2007 – October 2008



Source: Bloomberg

<sup>2</sup> in accordance with the MNB data of July 2008

In the context of anxiety about the liquidity in the FX swap market and about the stability of the spot market combined with investors' aversion to the emerging markets the Hungarian forint lost 17% of its value against the euro (between 1 October and 21 October 2008). In parallel the Budapest Stock Exchange witnessed a massive outflow of foreign capital. Furthermore considerable widening occurred in the spreads between the Hungarian bonds and European bonds as well as in the CDS spreads for Hungarian debt securities.

The Hungarian authorities undertook a series of actions with a view to preventing the investors' flight to safety, and demonstrated their determination to continue the ongoing fiscal reforms, i.a., by way of downward revision of budget deficit forecasts from 3.2% to 2.6%. The lower deficit would be achieved by way of cutting expenditure and increasing the tax base. Moreover, a number of long-term solutions was suggested – i.a., to set the upper limit for budget spending and the plans to establish a fiscal supervisory authority.

With a view to providing ongoing liquidity, the Magyar Nemzeti Bank (MNB) launched swap and lending tenders, whereby it became de facto an intermediary institution in the interbank market. In virtue of the agreement on loans denominated in foreign currencies concluded with banks, the National Bank of Hungary will be able to prolong the loan repayment period, suspend the repayment or convert the currency of the loan. What is more, the MNB became actively involved in the government bond market to the effect that those instruments will become more attractive.

On 22 October 2008 the MNB decided to raise its reference rate by 300 base points, up to 11.5% with the aim to protect the forint from further depreciation. Neither this measure nor the previous announcements made by the Hungarian authorities, managed to stop the depreciation of the forint. The Hungarian currency – following a brief adjustment – continued its downward trend. Meanwhile, the European Central Bank lent the MNB 5 billion euro.

Business sentiments improved radically on announcing the assistance package of 25.1 billion USD to be extended jointly by the IMF, the European Commission and the World Bank. Not only is the loan designed to enhance the liquidity of the Hungarian banking sector but also to provide for the recovery of the public finance sector. Still, the extension of the facility was contingent on the review of the budget, which took account of a rapid deterioration of the outlook for economic growth and implementation of a number of fiscal reforms, i.a.: freezing nominal wages, cancelling end-of-year bonus for the employees of the public sector and reducing the end-of-year bonuses for the pensioners, postponing the indexation of benefits and old age pensions and reducing the expenditure of particular ministries. As set forth under the fiscal responsibility law of 18 November 2008, the growth in real public debt shall be moderated, and limited to the growth rate of the CPI index and the institution for fiscal oversight shall be established.

The size of the loan suffices to roll-over a short-term (with the maturity period of up to 12 months) public debt. In combination with acknowledging and discharging of the provisions of the contract concluded with the IMF, this has removed investors' anxieties whether Hungary was in a position to provide current debt servicing. Amidst improving sentiment, the Hungarian forint strengthened, whilst the bond market and the Stock Exchange recorded a considerable boost in demand. In effect bond spreads declined considerably, whilst the main index of the Budapest Stock Exchange (BUX) rebounded to recover the loss of October. Even though the situation broadly stabilized in the Hungarian market, both the financial indices and the exchange rate continue to show high volatility. Most likely, not until a considerable improvement of sentiments occur in the international financial markets, will volatility prevail across all the emerging markets.



## SLOVENIA

### Economic growth

Over the first six months of 2008, Slovenia recorded a deceleration in its economic growth. Between January and June 2008, the GDP in Slovenia rose by 5.5% y/y (as against the record-high growth of 6.8% for the whole of 2007). Even though the economic growth slowed down, not only did Slovenia remain the fastest developing economy in the euro area but also rated among the fastest developing NMS countries. Most of the economic growth was accounted for by a relatively high increase in fixed capital formation – most specifically this incurred in the construction sector. In turn, the increase in corporate investment in machinery and equipment de-escalated. The economic growth was the product of two divergent tendencies, on the one hand it was fuelled by a relatively stable household consumption, yet on the other slowed down by net exports which continued to have a dampening effect.

Figure 4.1

Contribution to GDP growth (pp, y/y)

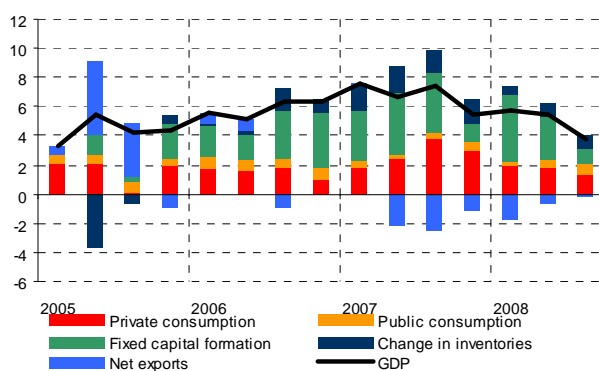


Table 4.1

GDP and its components (% y/y)

	2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
GDP	6,1	5,4	5,7	5,5	3,8
Private consumption	3,1	5,6	3,8	3,5	2,7
Public consumption	1,4	3,5	2,0	3,3	4,6
Fixed capital formation	17,6	4,2	16,8	10,2	3,5
Exports	13,1	10,1	7,3	8,5	4,2
Imports	14,4	11,0	9,6	9,2	4,4

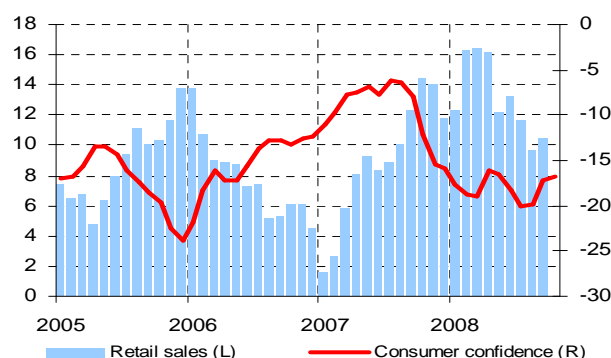
Source: Ecowin Economic

The weakening of the economic activity in Slovenia was evidenced by the sluggish growth in industry, reported since early 2008. Over the first nine months of 2008, the volume of industrial output rose by a mere 0.9% over the corresponding period of the preceding year (where this growth amounted to 8.0%). This tendency is anticipated to prevail also in the coming months, as appears from the flagging indexes of orders, both the domestic ones and those from the euro area (meanwhile the indexes of export orders from other countries recorded a growth). The adverse tendencies in industry were reflected in the economic climate survey results. According to the European Commission, business sentiment deteriorated markedly last October (the business sentiment index sunk to its lowest level

since May 1999). More specifically, the employment subindex recorded a particularly deep fall, this indicating that the situation in the labour market may deteriorate. Most of the industrial output growth concentrated in the consumer goods manufacturing sectors, which can be anticipated from growth in retail sales which broadly sustained its level of 2007.

Figure 4.2

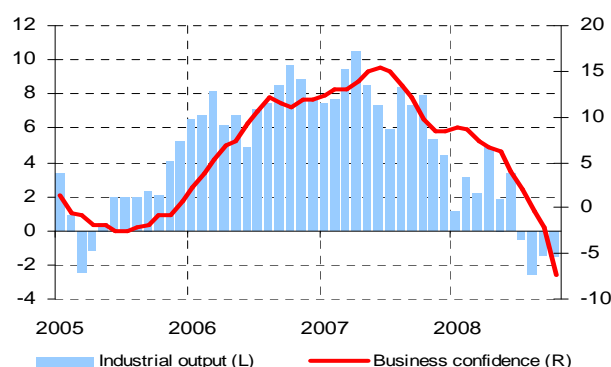
Retail sales (3m average, %, y/y) and consumer confidence



Source: Ecowin Economic

Figure 4.3

Industrial output (3m average, %, y/y) and business confidence

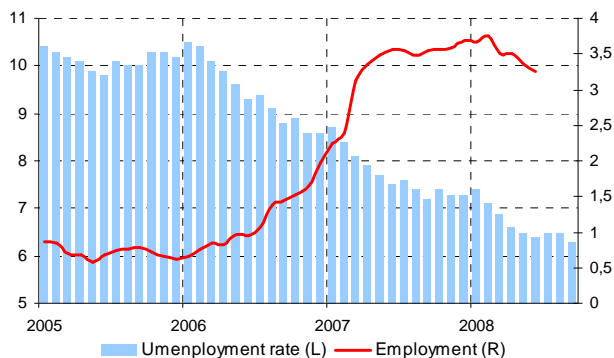


Source: Ecowin Economic

### Labour market

Relatively high economic growth encouraged the increase in employment. Whereas on the one hand employment rose by 2.0% over the first nine months of 2008, as compared to the period January-September 2007, on the other hand, the growth rate was lower than in 2007. In effect the unemployment rate sunk from 7.3% in December 2007 to 6.3% in September 2008. Most of the growth concentrated in the sectors of construction and transportation sectors.

Figure 4.4.  
Unemployment rate and employment growth rate (% , y/y)



Source: Ecowin Economic

### Inflation and labour costs

Before September 2008, Slovenia recorded the highest inflation in the euro area. Last July the HICP climbed to its maximum of 6.9%. It was the highest level for Slovenia since 2002. Over the subsequent months inflation featured a decline (to reach 4.8% last October). Between January and October 2008 the prices of goods and services rose by 6.2% on average (compared to 3.8% for the whole of 2007). Inflation to a high extent depends on global factors (as reflected in the strong changes in food and energy prices) and is intrinsically linked primarily to the considerable pay rise (which may be evidenced by a relatively high level of core inflation - ca. 4.0%).

Between January and September 2008 wages rose by 8.8% y/y and 2.3% y/y, respectively, in nominal and real terms. Wages grew strongly both in the private and public sector. Those developments reflect on the one hand the intensification of wage pressures, and on the other hand they stem from a new compensation plan in the public sector (launched last June).

Figure 4.5

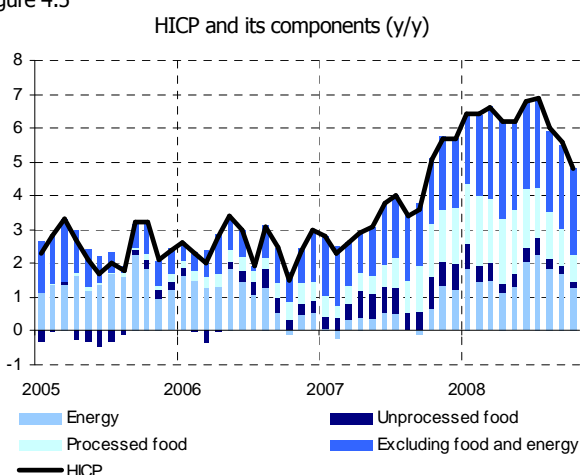


Table 4.2

HICP and its components (y/y)

	Q4 2007	Q1 2008	Q2 2008	Q3 2008	paž- 08
HICP	5,5	6,5	6,4	6,2	4,8
Largest contribution to HICP growth rate (pp, y/y)					
Housing	2,0	2,3	2,0	1,7	0,9
Alcohol and tobacco	0,9	1,1	1,2	1,2	0,8
Food and non-alcoholic beverages	0,7	0,8	0,8	0,9	0,8
Transport	0,3	0,5	0,5	0,9	0,5
Restaurants and hotels	0,3	0,3	0,4	0,4	0,5

Source: Ecowin Economic

### External imbalances

Over the first half of 2008, the negative balance on the trade in goods accounted for most of the widening in the current account deficit. Following 2008 Q2, the annual current account deficit rose to 6.2% of the GDP (as compared to 4.3% for the whole of 2007). The balance of trade deficit increased in the first six months of 2008 because the decline in growth – as compared to the preceding year - was stronger in the case of exports than in imports. The growth in exports clearly lost its momentum (7.4% in the first six months of 2008, as compared to 16.3% for the whole of 2007), primarily because Slovenia's major trading partners, especially the euro area reported an economic downturn (i.a., the sales to Italy showed a considerable slump), whereas the price competitiveness of Slovenian exporters suffered deterioration. Meanwhile, the value of imports rose relatively fast (12.3% in the first six months of 2008, as compared to 18.1% in 2007) in correlation with the rise in prices of commodities, most specifically of oil. Furthermore, the first half of 2008 saw the increase in the negative balance on incomes and transfers. The current account deficit went down, because the surplus in the trade in services recorded an increase (most of which was attributable to soaring exports of services).

Figure 4.6

Current account and its components (balance, % of GDP, 4Q average)

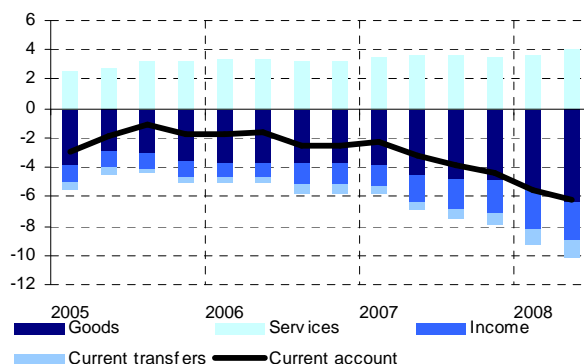
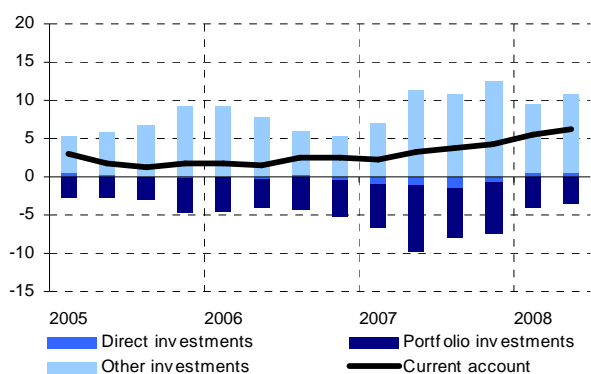


Figure 4.7  
Sources of financing current account deficit (% of GDP, 4Q average)



Source: Ecowin Economic

Table 4.3

Balance of payments (net, EUR mln)					
	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
Current account	-216	-481	-663	-542	-495
Goods	-359	-401	-664	-496	-678
Services	366	354	198	343	502
Income	-188	-356	-112	-222	-235
Current transfers	-34	-78	-86	-167	-84
Capital account	-27	-32	-8	-2	-21
Financial account	204	371	924	416	835
Direct investments	-64	-4	47	155	-14
Portfolio investments	-1204	377	-814	303	-1140
Other investments	1484	-22	1636	37	1907

Source: Ecowin Economic

In Slovenia, a net exporter of foreign direct investments over the period between 2005 and 2007, the value of received investments exceeds that of Slovenian investments abroad.

### Exchange rate

Whereas the wages in manufacturing rose faster than productivity, Slovenian enterprises lost much of their competitiveness in the export markets. Both the nominal and real exchange rate deflated by unit labour costs in manufacturing appreciated by 1.2% and 6.4%, respectively in the 1st half of 2008, i.e., both the nominal effective exchange rate and the real exchange rate appreciated more strongly than in 2007, while also reaching the highest level from all the euro area countries. Nonetheless, a parallel considerable appreciation of the currencies of other Central Europe countries - the key competitors of Slovenia on the European market - to a high extent offset the slump in price and cost competitiveness of Slovenian exporters.

### Forecasts

The European Commission raised its forecast of economic growth for 2008 in comparison to the spring forecast (on the back of a relatively high GDP growth over the first six months of 2008). By contrast, a slower growth is anticipated for the Slovenian economy for the last six months of 2008, as reflected in the worsening forecast for growth in 2009. The lower GDP growth will be primarily attributable to weaker investments (mainly due to the declining capacity utilization in manufacturing and falling real estate prices). Relatively high wage growth is likely to support the growth in

consumption. Also the net exports contribution to the GDP growth may decrease.

A marked deceleration in the employment growth is anticipated, which may account for some rise in the unemployment rate. Looking ahead, inflation is likely to exceed its forecasts, driven, on the one hand by robust wage rise, and on the other hand by the anticipated growth in some categories of administered prices (i.e. utility services, gas and electricity).

Table 4.4

	Forecasts				
	OECD	KE	IMF	Consensus Economics	IMAD
	11.2008	11.2008 (04.2008)	10.2008 (04.2008)	10.2008 (05.2008)	10.2008 (04.2008)
GDP, %, y/y					
2008	4,8	4,4 (4,2)	4,3 (4,1)	4,7 (4,4)	4,8 (4,4)
2009	2,1	2,9 (3,8)	3,7 (3,5)	3,5 (4,3)	3,1 (4,1)
CPI, %, y/y					
2008	4,9	6,2 (5,4)	5,9 (4,0)	6,0 (5,4)	6,2 (5,2)
2009	3,0	3,1 (2,7)	3,3 (2,4)	4,0 (3,6)	3,9 (3,2)
Current account balance, % of GDP					
2008		-6,3 (-4,9)	-4,7 (-4,8)		-5,8 (-4,6)
2009		-6,3 (-4,3)	-4,7 (-4,9)		-4,7 (-2,8)

IMAD - Institute of Macroeconomic Analysis and Development

## ESTONIA

### Economic growth

Estonia was the only country in the CEE region, which recorded a decline in real GDP over the first six months of 2008. Whereas the annual economic growth continued at a positive rate (0.2%) in 2008 Q1, in Q2 the GDP contracted by -1.1% y/y. Respectively, the GDP in Estonia trended downwards for seven consecutive quarters (since 2006 Q3). Over that time the GDP growth fell by a total of 11.6 pp. As it is the case in Estonia, recession has become reality, for the GDP trended downwards in quarterly terms, in Q1 and Q2. Both the GDP decline, and previously its subdued growth, reflected the weakening in domestic demand (both in consumption and investments). For the first time since the end of 2005, the contribution of net exports was positive in the first half of 2008, mainly stimulated by a significant decline in imports. In 2008 Q3 the Estonian economy continued to slide down into recession. According to the preliminary estimates, the GDP contracted by 3.5%, as compared to 2007 Q3. As private consumption and investments declined, the inventories also recorded a considerable decrease. In turn net exports expanded their contribution, following higher growth in this category.

Figure 5.1

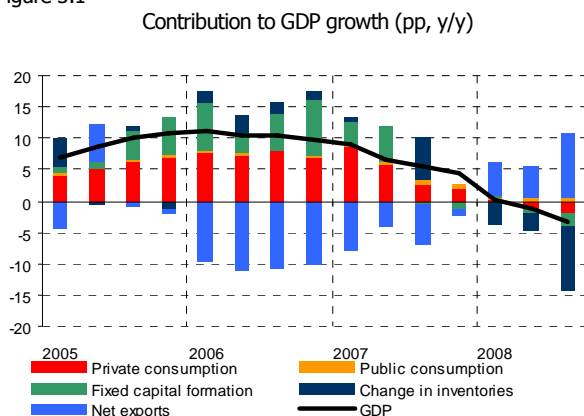


Table 5.1

GDP and its components (% y/y)

	2007	Q3 2007	Q4 2007	Q1 2008	Q3 2008
GDP	6,4	4,4	0,2	-1,1	-3,5
Private consumption	8,1	3,2	0,1	-2,0	-3,5
Public consumption	4,0	3,9	4,2	4,6	5,7
Fixed capital formation	5,9	-3,0	0,5	-2,5	-6,0
Exports	0,1	-1,3	-2,1	-4,9	6,3
Imports	4,5	-0,3	-6,3	-8,2	-5,1

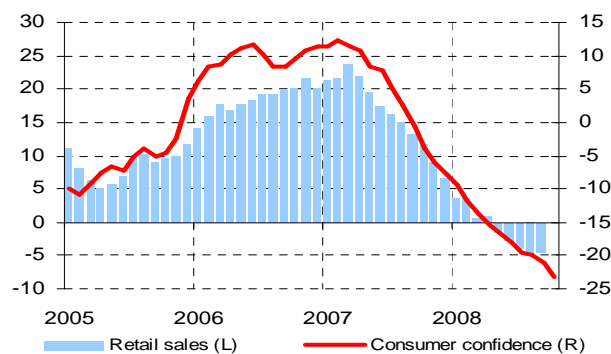
Source: Ecowin Economic

2008 witnessed further deterioration in consumer sentiments coupled with a slowdown in of retail sales, which turned negative in 2008 Q2.

Worsening sentiment prevailed in the business sector, which reflected upon the industrial output contractions (observed since last April).

Figure 5.2.

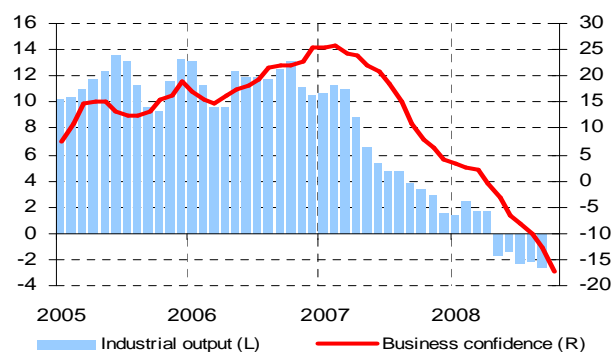
Growth in retail sales (% y/y) and consumer confidence indicator



Source: Ecowin Economic

Figure 5.3

Industrial output (3m average, % y/y) and business confidence



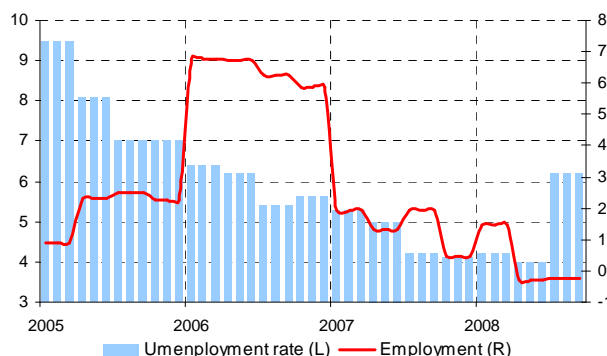
Source: Ecowin Economic

### Labour market

The first symptoms of labour market deterioration occurred in 2008 Q2 and Q3. The unemployment rate rose by 2.2 pp, to reach 6.2% in 2008 Q3, thereby peaking to the levels last seen in 2002. Slowdown also inhibited the growth in employment, which assumed negative values already in 2008 Q2 and Q3.

Figure 5.4

Unemployment rate and employment growth rate (% y/y)



Source: Ecowin Economic

### Inflation and labour costs

Inflation in Estonia peaked to its maximum (of 11.6%) in April 2008, and thereafter featured a slow decline. HICP growth, nevertheless, continues at above 10% y/y (10.1% in October 2008). The decline in inflation slowed down since last September, in line with the increase in excise duty on tobacco products, whereupon the inflation grew by ca. 0.6 pp.

Most of the decrease in inflation in Estonia was attributable to the moderating growth in energy and unprocessed food prices.

Even though the labour market situation deteriorated and the growth in nominal wages slowed down in 2008, the inflationary pressures from the labour market failed to ease. ULC growth was even higher in the first half of 2008, as neither the decline in employment nor declining wage growth did not compensate the scale of the economic downturn.

Figure 5.5

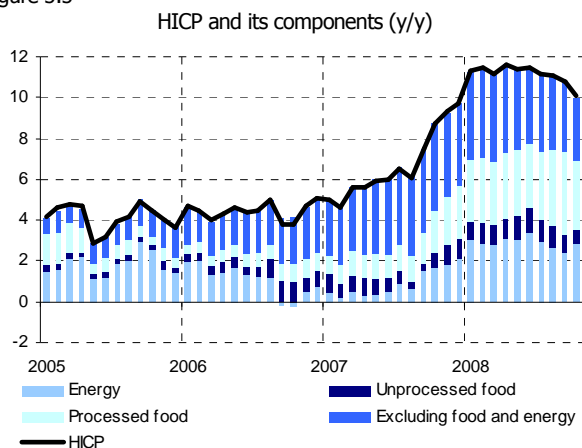


Table 5.2

HICP and its components (y/y)

	Q4 2007	Q1 2008	Q2 2008	Q3 2008	paž- 08
HICP	9,2	11,3	11,5	11,0	10,1
Largest contribution to HICP growth rate (pp, y/y)					
Housing	1,9	2,0	2,3	1,7	2,4
Alcohol and tobacco	0,4	0,7	0,7	1,6	2,1
Food and non-alcoholic beverages	2,9	3,5	3,8	3,2	1,9
Transport	1,2	2,0	2,0	2,0	1,3
Restaurants and hotels	1,0	1,1	1,0	1,0	0,8

Source: Ecowin Economic

### External imbalances

As a result of the weakening domestic demand in Estonia and shrinking volume of oil supplies from the Russian Federation, which used to be processed at the local refineries and re-exported, growth in Import of goods and services showed a clear slowdown. Accordingly, mainly on account of the above developments the current account deficit narrowed, albeit remained very high (12.7 % of the GDP over the first half of 2008, on average).

The implications of the liquidity crisis in the financial markets reflected upon the financial account, which showed a clear contraction in the net inflow of other investments (most of all, of the loans of the banking sector).

Figure 5.6.

Current account and its components (balance, % of GDP, 4Q average)

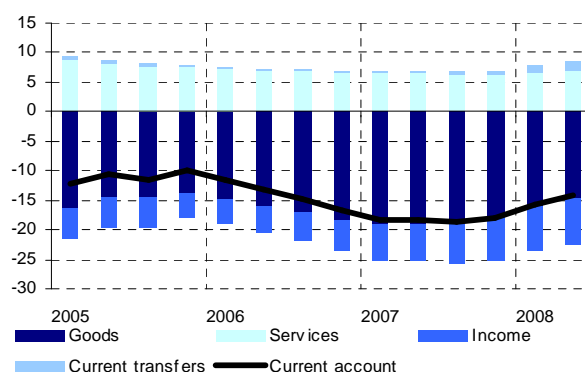
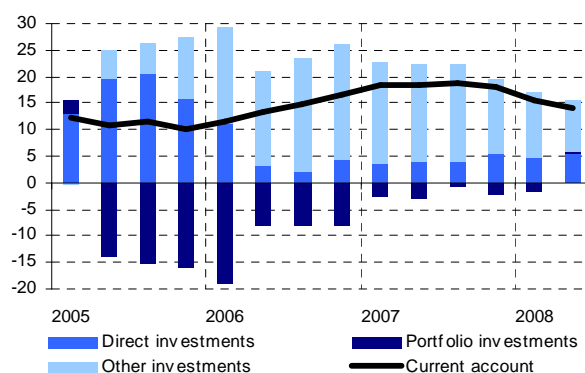


Figure 5.7

Sources of financing current account deficit (% of GDP, 4Q average)



Source: Ecowin Economic

Table 5.3

Balance of payments (net, EUR mln)

	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
Current account	-653	-669	-502	-417	-581
Goods	-687	-639	-495	-508	-534
Services	290	219	237	365	259
Income	-295	-289	-324	-336	-354
Current transfers	39	40	80	61	48
Capital account	12	31	53	5	5
Financial account	1 011	342	569	568	482
Direct investments	97	343	270	149	322
Portfolio investments	-127	-8	30	142	-127
Other investments	1071	30	218	278	335

Source: Ecowin Economic

### Interest rates

After a rapid growth at the turn of 2007 and 2008, the short-term interest rates dropped to 6.3-6.4% in 2008 Q2 and Q3. As the crisis in the global financial markets accumulated, the interest rates rebounded to 7.8%, last October and November, yet developed at a slightly lower level than a year before.

### Forecasts

As compared to the forecasts for the first half of 2008, economic growth projection has been materially downshifted. The external centres downgraded the anticipated economic growth for the current and next year, by as much as 3-4 pp. Looking ahead, worse perspectives for the Estonian economy will be primarily

determined by the domestic demand, both the consumption and fixed capital formation, which are likely to have a dampening impact on the GP growth. Over the future horizon, inflation is anticipated to ebb down both in late-2008 and in 2009, driven by the lower prices of commodities, the disappearance of the base effect due to the indirect tax rates and flagging domestic demand. Inflation forecast remained broadly unchanged as compared to those of last April and May. As regards the current account balance, all the institutions agree that this category will continue to narrow both in the last six months of 2008 and in 2009, mainly due to the contracting imports in the aftermath of the recession in Estonia. Whereas the recession tendencies develop, the current account deficit will narrow faster than indicated in the forecasts for the first half of 2008.

Table 5.4

Forecasts					
	OECD	KE	IMF	Consensus Economics	EP
	11.2008 (06.2008)	11.2008 (04.2008)	10.2008 (04.2008)	10.2008 (05.2008)	10.2008 (04.2008)
GDP, %, y/y					
2008	-1,9	-1,3 (2,7)	-1,5 (3,0)	-1,1 (2,0)	-1,8 (2,8)
2009	-2,0	-1,2 (4,3)	0,5 (3,7)	0,8 (3,6)	-2,1 (2,9)
CPI, %, y/y					
2008	10,7	10,6 (9,5)	10,2 (9,8)	10,7 (9,5)	10,7 (9,8)
2009	5,1	4,9 (5,1)	5,1 (4,7)	6,0 (5,0)	4,8 (4,5)
Current account balance, % of GDP					
2008		-12,1 (-11,2)	-10,8 (-11,2)		-9,1(-10,2)
2009		-8,1 (-9,3)	-8,7 (-11,2)		-4,8 (-7,5)

EP - Eesti Pank

## LATVIA

### Economic growth

Latvia, besides Estonia, recorded the highest decline in its economic growth in 2008. Whereas the annual GDP growth in 2007 exceeded 10%, it nearly dropped to zero in 2008 Q2. Most of this fall was attributable to the contraction in loans and credits, worse sentiments in the economy, and in effect the material decrease in household consumption and in investments. Notwithstanding, as imports slowed down, the contribution of net exports to the GDP growth increased. According to the GDP estimates for 2008 Q3, Latvia, similarly to Estonia suffered a slump in its real GDP, which plummeted by 4.2% y/y in Q3.

Figure 6.1

Contribution to GDP growth (pp, y/y)

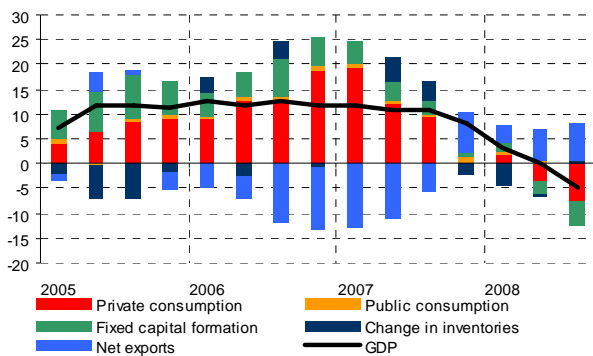


Table 6.1

GDP and its components (% y/y)

	2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
GDP	10,3	8,1	3,3	0,1	-4,6
Private consumption	15,4	0,0	2,4	-5,1	-9,5
Public consumption	4,7	9,2	4,7	3,0	0,5
Fixed capital formation	9,4	2,6	5,1	-8,6	-12,7*
Exports	11,3	17,1	6,5	2,5	1,9
Imports	16,4	-1,8	-1,6	-8,2	-10,6

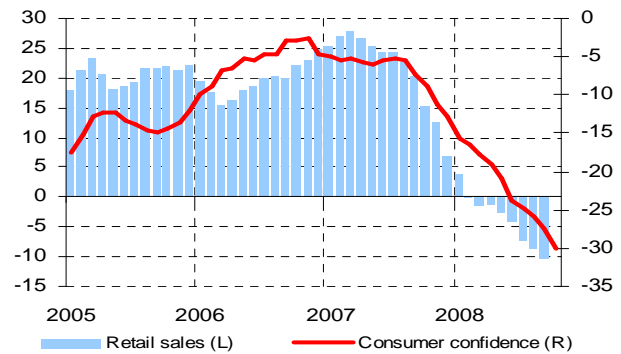
\*-akumulacija brutto

Source: Ecowin Economic

Growing pessimism among consumers coincided with the downward month-to-month trend in retail sales. Between January and September 2008 retail sales contracted by 2.2%, vis-à-vis a growth of 18% over the corresponding period of the preceding year.

Figure 6.2.

Growth in retail sales (% y/y) and consumer confidence indicator

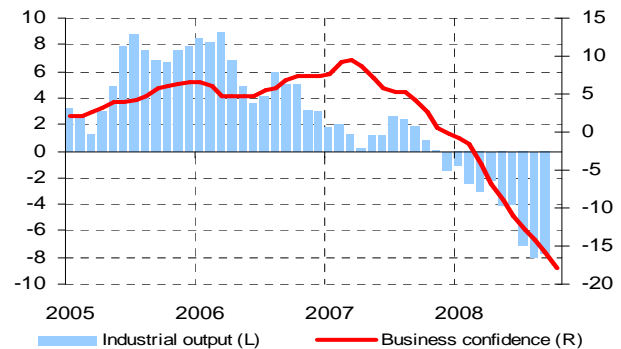


Source: Ecowin Economic

Business sentiments also deteriorated, reflecting the steady decline in the volume of industrial output (down by -10.8% y/y last August)

Figure 6.3

Industrial output (3m average, % y/y) and business confidence



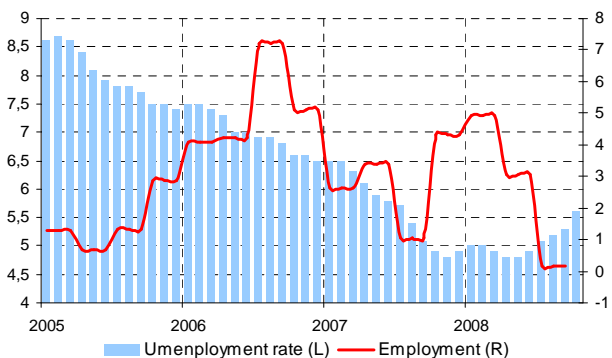
Source: Ecowin Economic

### Labour market

The labour market situation began to deteriorate in the second half 2008. Having been on the decline since 2004, the unemployment rate rose from 4.8% in May to 5.6% in October 2008. The employment growth remained positive over the first three quarters of 2008, nevertheless it showed a clear downward trend.

Figure 6.4

Unemployment rate and employment growth rate (% y/y)



Source: Ecowin Economic

## Inflation and labour costs

Latvia recorded the highest inflation among the countries of the region in 2008. Last May the HICP rose to 17.7% y/y, but over the following months ebbed down to reach 13.7% (last October). The decline in inflation over the recent months spanned nearly all categories of prices, most specifically unprocessed food prices, which may result from the disappearance of the base effect due to significant growth in global food prices a year earlier. Over the 2nd half of 2008, weakening consumption growth led to the decline in core inflation.

The economic downturn in Latvia was one of the reasons for lower growth in nominal wages in the 1<sup>st</sup> half of 2008. On the other hand, the wages continued to rise at above 25% r/r in Latvia (as compared to above 30% in 2007), - i.e. the fastest among the NMS countries. The ULC growth in Latvia edged up in 2008, as the subdued wages and employment growth entirely offset the economic downturn; respectively, labour productivity reported a marginal decline.

Figure 6.5

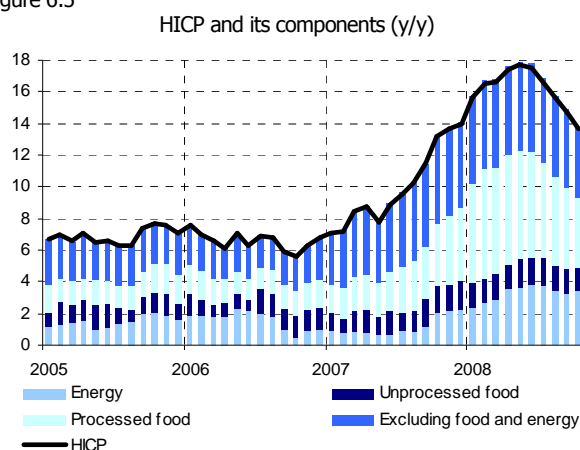


Table 6.2

HICP and its components (y/y)					
	Q4 2007	Q1 2008	Q2 2008	Q3 2008	paź-08
HICP	13,6	16,2	17,5	15,6	13,7
Largest contribution to HICP growth rate (pp, y/y)					
Housing	2,7	2,6	3,8	3,4	3,7
Food and non-alcoholic beverages	4,7	4,9	5,0	4,6	3,6
Alcohol and tobacco	1,3	3,0	3,2	2,2	2,1
Restaurants and hotels	1,4	1,7	1,8	1,6	1,3
Transport	1,7	2,0	1,7	1,7	1,3

Source: Ecowin Economic

## External imbalances

The economic slowdown in Latvia followed by a drop in the growth of imports accounted for most of the decline in the foreign trade deficit and accordingly, brought about the contraction in the current account deficit. Even though the current account imbalance reported a decrease over the three recent quarters, it remains one of the highest in the region (over 16% of the GDP in 2008) and is considered among the major risks to the development of the Latvian economy, in particular in the period of economic crisis.

Figure 6.6

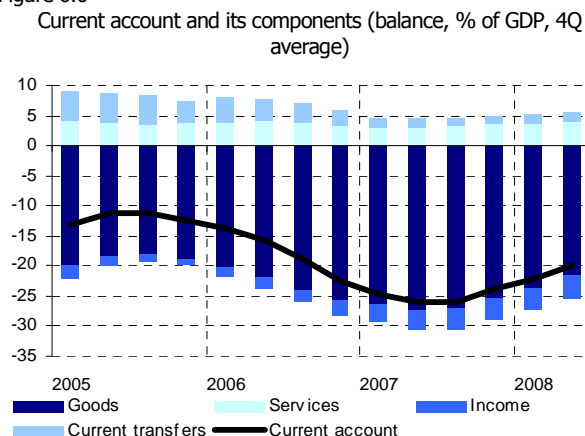


Figure 6.7

Sources of financing current account deficit (% of GDP, 4Q average)

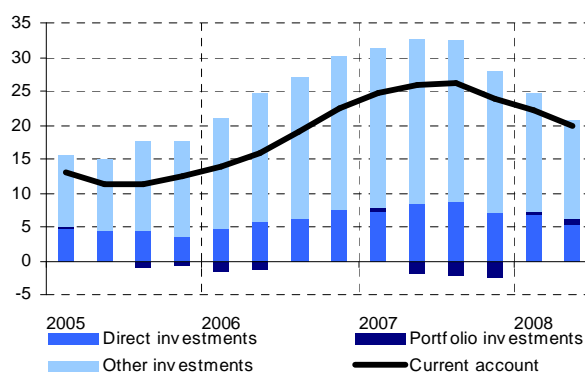


Table 6.3

Balance of payments (net, EUR mln)					
	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
Current account	-1 374	-1 102	-901	-840	-711
Goods	-1 399	-1 238	-999	-989	-1 016
Services	198	182	170	248	245
Income	-173	-151	-162	-287	-112
Transfery bieżące	0	105	90	188	172
Rachunek kapitałowy	6	130	31	21	28
Financial account	1 393	694	1 067	719	897
Direct investments	328	138	370	281	266
Portfolio investments	0	0	0	0	0
Other investments	1 430	602	483	638	645

Source: Ecowin Economic

The financial account of Latvia most clearly shows the drop in the net inflow of other investments, primarily effected via the moderation in the inflow of loans and credits for the banking sector. In 2008 also the inflow of direct investments suffered a slump.

## Interest rates

After a rapid growth in 2007, short-term interest rates recorded a decline in the first six months of 2008, and thereafter they stabilized at ca. 6.0 - 6.5%. As in the other countries of the region, the interbank interest rates rose last October and November, in line with the intensification of worries in the financial markets. In Latvia the growth proved exceptionally high and it stood at ca. 5.5 pp.



## Forecasts

Looking ahead, according to the GDP growth forecasts of October 2008, the real GDP is anticipated to fall down both in 2008 and 2009, reflecting the decline in private consumption and investments. A considerable downward revision was observed as compared to the forecasts made in the first half of 2008. Most specifically, the GDP forecasts were revised downwards by ca. 3-4 pp both for 2008 and 2009.

As regards inflation, all institutions forecast it will continue to trend downward both in 2008 and 2009, due to the disappearance of the base effect and weakening domestic demand.

In consequence of a strong deterioration in the domestic demand outlook, the current account deficit will narrow more rapidly than it was anticipated in the 1<sup>st</sup> half of 2008.

Table 6.4

Forecasts				
	KE	IMF	Consensus Economics	LB
	11.2008 (04.2008)	10.2008 (04.2008)	10.2008 (05.2008)	10.2008
GDP, %, y/y				
2008	-0,8 (3,8)	-0,9 (3,6)	-0,2 (3,0)	-0,5
2009	-2,7 (2,5)	-2,2 (0,5)	-1,1 (2,8)	-1,0
CPI, %, y/y				
2008	15,7 (15,8)	15,9 (15,3)	15,6 (14,7)	15,9
2009	8,2 (8,5)	10,6 (9,2)	7,1 (7,4)	8,6
Current account balance, % of GDP				
2008	-14,5 (-17,7)	-15,1 (-15,0)		-15,6
2009	-8,7 (-15,5)	-8,3 (-10,5)		-9,6

LB - Latvijas Banka

## LITHUANIA

### Economic growth

In contrast to Latvia and Estonia, the economic downturn in Lithuania was not that strong in 2008. Whereas on the one hand the GDP growth declined to 5.2% in 2008 Q2 (as compared to 8.8% in 2007), on the other hand it was by far the highest among the Baltic countries. As in Estonia and Latvia, the fall in the GDP growth reflected the sluggish domestic demand, most specifically weaker investments. In turn, the growth in household consumption continued at quite high levels in 2008 Q2. Net exports reduced its contribution to the economic growth, in particular in the 1<sup>st</sup> half of 2008, mainly in the wake of the growth in imports in 2008 Q1. According to the GDP estimates for 2008 Q3, the economic growth fell to 3.1% y/y, on the back of contracting investment and inventories.

Figure 7.1.

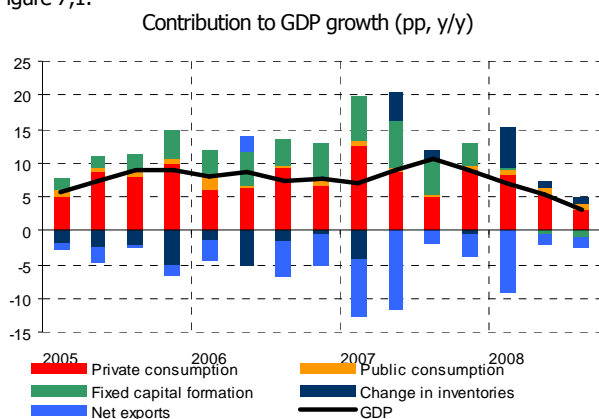


Table 7.1

GDP and its components (% y/y)

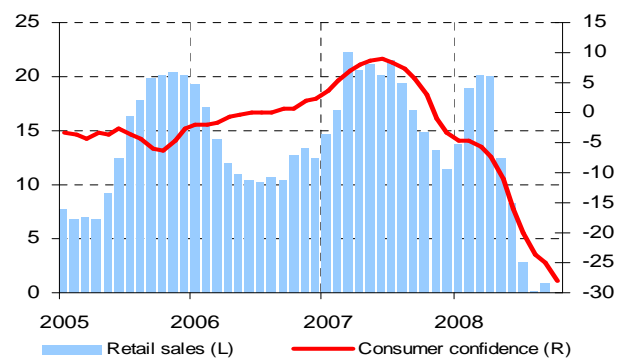
	2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
GDP	8,8	8,8	7,0	5,2	3,1
Private consumption	12,7	12,5	11,1	7,3	9,9
Public consumption	3,3	3,4	4,0	5,4	5,6
Fixed capital formation	22,0	10,9	1,6	-2,3	-4,1
Exports	4,3	0,6	9,8	13,7	14,4
Imports	11,8	4,6	18,5	12,1	11,9

Source: Ecowin Economic

Both the consumers and business confidence indexes featured a decline since early 2008. The growth rates in retail sales and industrial output were relatively stable in the 1<sup>st</sup> half of 2008 notwithstanding, close to the average of 2007. Pronounced declines in those categories occurred only at the beginning of 2008 Q3.

Figure 7.2.

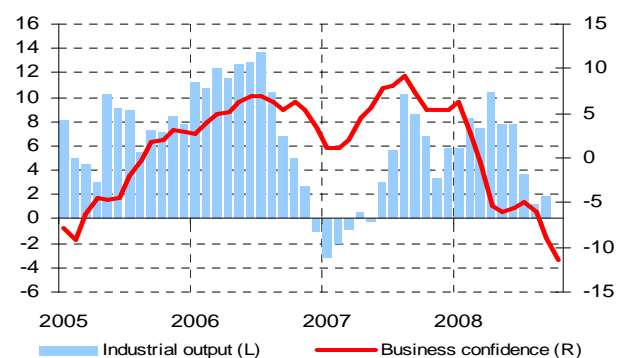
Growth in retail sales (% y/y) and consumer confidence indicator



Source: Ecowin Economic

Figure 7.3

Industrial output (3m average, % y/y) and business confidence



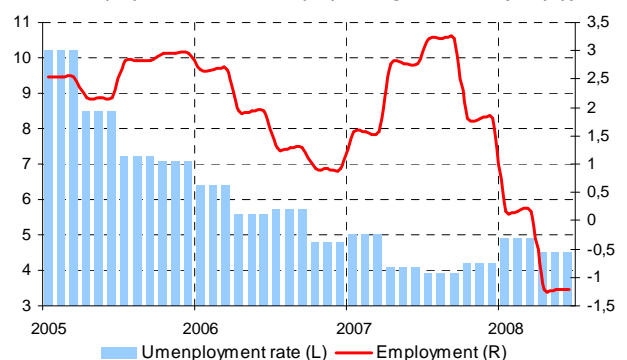
Source: Ecowin Economic

### Labour market

Having risen considerably in 2008 Q1 from the levels of end-2007, the unemployment rate - whereas declined marginally in 2008 Q2 - remained above the levels of the 2<sup>nd</sup> half of 2007. The growth in employment has also featured a downward trend over the last four quarters. In 2008 Q2 the number of working persons in Lithuania decreased in year-on-year terms.

Figure 7.4

Unemployment rate and employment growth rate (% y/y)



Source: Ecowin Economic

### Inflation and labour costs

In the 1<sup>st</sup> half of 2008 the inflation in Lithuania increased by ca. 2 pp, primarily fuelled by the acceleration in food prices and in the core inflation - the latter due to the prevailing labour market pressure. The annual HICP, albeit ebbed down

steadily, continued at over 10% y/y last October. Most of the decline in inflation was attributable to the drop in food - most specifically in processed food - prices, and to a lesser extent in the energy prices. Following the growth in the first half of 2008, the core inflation stabilized in the second half of 2008.

Figure 7.5

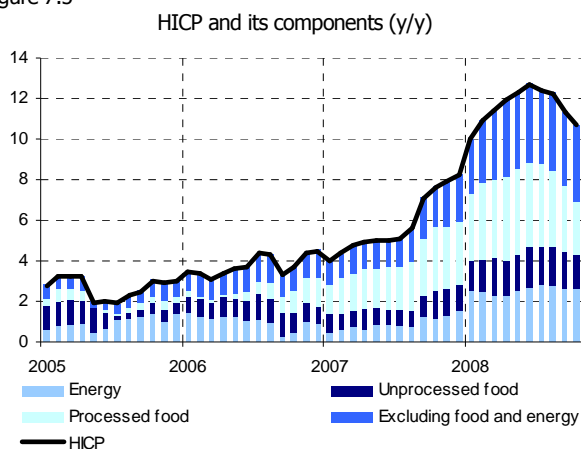


Table 7.2

HICP and its components (y/y)

	Q4 2007	Q1 2008	Q2 2008	Q3 2008	paź- 08
HICP	7,9	10,8	12,3	12,0	10,7
Largest contribution to HICP growth rate (pp, y/y)					
Food and non-alcoholic beverages	3,9	4,2	4,5	4,3	3,1
Housing	1,5	2,1	2,2	2,2	2,5
Transport	1,0	1,8	1,9	1,9	1,3
Restaurants and hotels	0,8	1,0	1,2	1,2	1,3
Alcohol and tobacco	0,5	0,9	1,3	1,2	1,1

Source: Ecowin Economic

In contrast to other Baltic states, not only did the wage growth in Lithuania escape the decline but it even increased to over 20% in 2008, mainly because of the pick up in the public sector (possibly against the background of the Parliamentary elections of October 2008). In parallel, the private sector reported a marginal decline in its wage growth.

With stagnating economic activity and robust wage growth, Lithuania recorded a very rapid ULC growth, to over 20% in 2008 Q2.

### External imbalances

In contrast to the two other Baltic economies, the current account deficit in Lithuania ebbed up only marginally over the first six months of 2008 (to reach 15.3% after 2008 Q2). However even though the trade in goods deficit narrowed, the surplus shrank in services and transfers and the income deficit widened.

Figure 7.6

Current account and its components (balance, % of GDP, 4Q average)

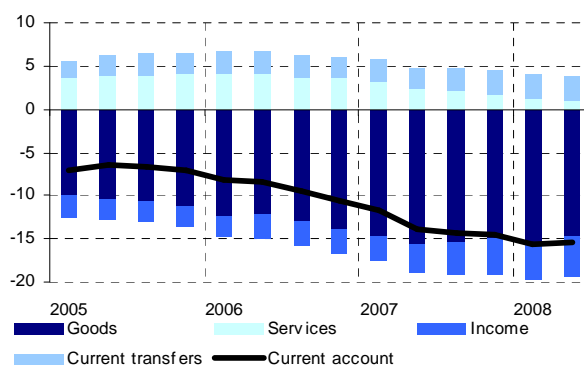


Figure 7.7

Sources of financing current account deficit (% of GDP, 4Q average)

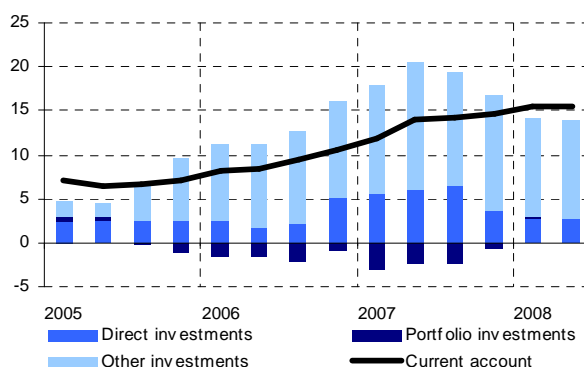


Table 7.3

Balance of payments (net, EUR mln)

	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
Current account	-991	-1 067	-1 333	-1 389	-628
Goods	-1 003	-1 167	-1 308	-1 082	-728
Services	188	105	36	18	94
Income	-395	-234	-280	-479	-212
Transfery bieżące	219	228	219	154	218
Rachunek kapitałowy	29	19	132	62	20
Finacial account	745	1 070	1 000	1 319	555
Direct investments	370	134	90	277	147
Portfolio investments	-285	520	-153	-96	-88
Other investments	785	985	324	1360	210

Source: Ecowin Economic

In the 1<sup>st</sup> half of 2008, Lithuania experienced a pronounced deterioration in its financial account balance. What seems worrying is the decline in the net inflow of not only other investments but also direct investments. Accordingly, the surplus in the financial account in 2008 was lower than the current account deficit.

### Interest rates

Having fallen in 2008 Q1, short-term interest rates trended upwards over the following months. Between March and September 2008, three-month interbank interest rates rose from 4.8% to 6.0%. Due to the turmoil in the financial markets, they climbed by additional 2.5 pp last October, to ebb down slowly in November.

## Forecasts

According to the economic growth forecasts, Lithuania is pursuing a similar path of economic growth as Latvia and Estonia, which is also evidenced by a material weakening in both retail sales and industrial output in 2008 Q3. Looking ahead, most forecasts indicate that the GDP growth will post a serious downturn (or will even come to a halt) towards the end of 2008 and in 2009, in line with the weakening domestic demand. As regards Lithuania, the adjustments of forecasts over the recent months were the highest among the Baltic states and amounted to as much as 6 pp for 2009.

Inflation forecasts were also subject to downward adjustment. In the future perspective, price growth is anticipated to continue its declining trend at the end of 2008 and in 2009, due to weakening domestic demand. On the other hand, the stronger decline in inflation will be prevented by the anticipated growth excise duty on tobacco products as well as by the increase in electricity prices (to come as a result of the scheduled closure of the atomic power plant).

Looking further ahead, the current account deficit is also expected to narrow in 2009, yet the deficit forecast edged up a bit as compared with the 1<sup>st</sup> half of 2008.

Table 7.4

Forecasts				
	KE	IMF	Consensus Economics	LB
	11.2008 (04.2008)	10.2008 (04.2008)	10.2008 (05.2008)	10.2008
GDP, %, y/y				
2008	3,8 (6,1)	3,9 (6,5)	4,6 (5,6)	4,2
2009	0,0 (3,7)	0,7 (5,5)	2,3 (4,4)	1,2
CPI, %, y/y				
2008	11,9 (10,1)	11,3 (8,3)	11,3 (9,5)	11,6
2009	7,1 (7,2)	6,2 (6,1)	7,4 (6,6)	6,9
Current account balance, % of GDP				
2008	-13,8 (-12,3)	-14,9 (-10,5)		-13,0
2009	-8,7 (-11,2)	-8,7 (-8,8)		-6,2

LB - Lietuvos bankas

## BULGARIA

### Economic growth

Over the first six months of 2008, Bulgaria recorded a recovery of its economic growth. Between January and June 2008, the Bulgarian GDP rose by 7.1% in comparison to the preceding year, whereas in 2007 the growth amounted to 6.2%. Most of the economic growth was attributable to gross fixed capital formation. The contribution of both investments and inventories increased. After a steady decline since early 2007, investments recorded a considerable upturn (by nearly 30%) in 2008 Q2. The contribution of consumption edged up in relation to 2007. By contrast, stronger than last year dampening pressure on growth occurred due to a widening foreign trade deficit (most of which was accounted for by the accelerating growth in imports). According to the preliminary estimates, the GDP rose by 5.6% y/y in 2008 Q3, subdued primarily by the weakening domestic (particularly investment-related) demand.

Figure 8.1

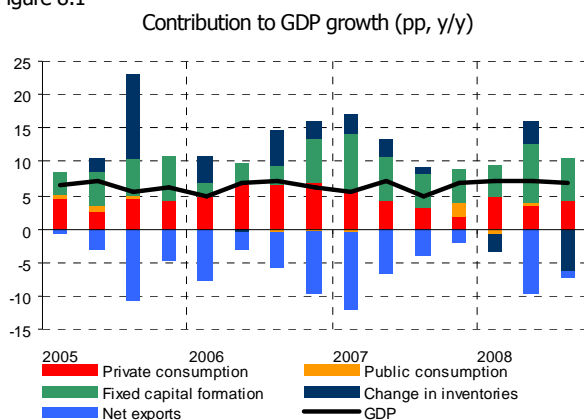


Table 8.1

GDP and its components (% y/y)

	2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
GDP	6,2	6,9	7,0	7,1	5,6
Private consumption	5,4	2,7	6,5	5,4	3,2
Public consumption	2,2	11,2	-4,4	2,0	0,8
Fixed capital formation	23,6	14,0	15,5	28,6	10,9
Exports	5,1	6,0	9,2	5,1	3,9
Imports	10,2	5,7	5,8	13,7	2,9

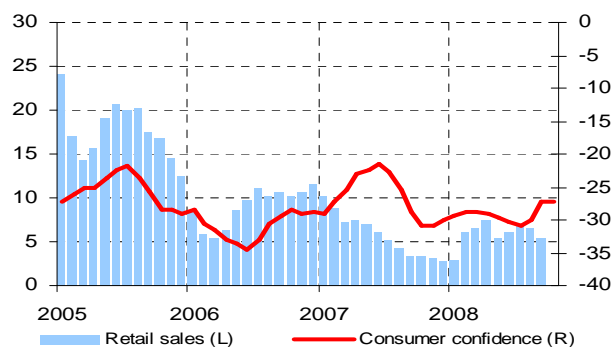
Source: Ecowin Economic

Not only are good consumer sentiments in Bulgaria evidenced by the growing confidence indexes but also by high growth in retail sales prevailing since early 2008.

Business confidence indexes over the first six months of 2008 remained broadly unchanged as compared to 2007, even though the industrial output was clearly suffering a slowdown. More recently, however, 2008 Q3 brought about a considerable decline both in business confidence index and in the growth rate of industrial output.

Figure 8.2

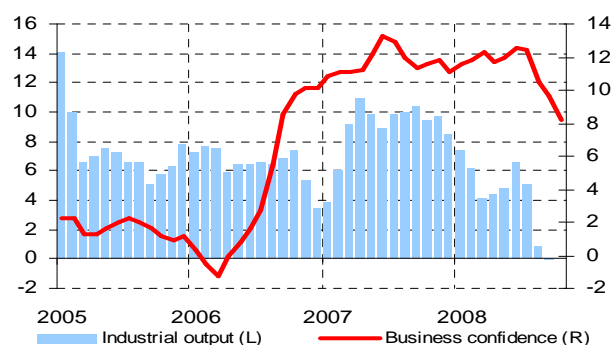
Growth in retail sales (% y/y) and consumer confidence indicator



Source: Ecowin Economic

Figure 8.3

Industrial output (3m average, % y/y) and business confidence



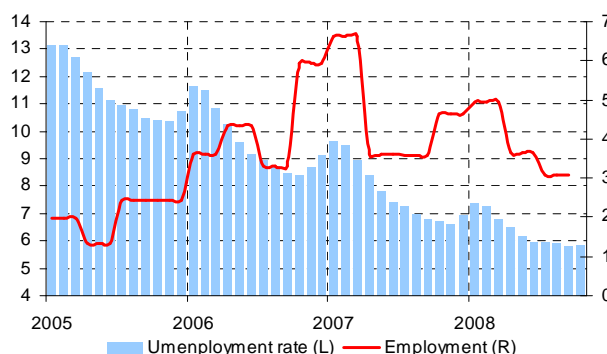
Source: Ecowin Economic

### Labour market

The situation in the labour market in Bulgaria remained good. Between January and October 2008 the unemployment rate fell by 1.5 pp, to reach 5.9%. The employment growth, by contrast, featured a steady decline since early 2008 (to stand at 3% in 2008 Q3, i.e. down from nearly 5% in 2008 Q1). Regardless, it continued to rank among the highest in the NMS region.

Figure 8.4

Unemployment rate and employment growth rate (% y/y)



Source: Ecowin Economic

### Inflation and labour costs

Bulgaria, set aside the Baltic countries, reports one of the highest inflation rates in the region. In 2008 HICP growth accelerated to reach 14.7% last June, i.e. the highest level since 2000. Between June and October 2008 inflation contracted by 3.5 pp, driven by over-twofold drop in the growth of food prices (fading out of the base effect). Furthermore the energy prices featured a decline since last

July. The core inflation, nevertheless, showed a rising trend since early 2008.

Figure 8.5

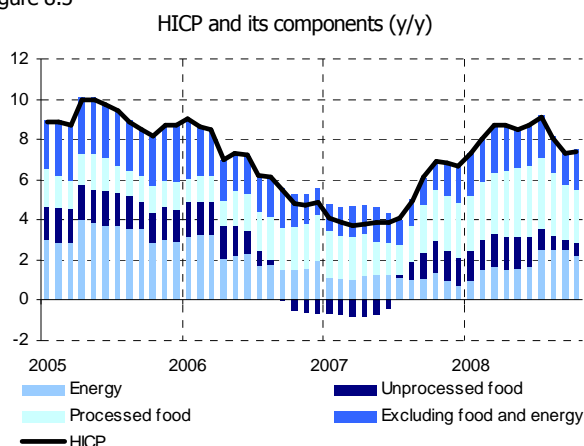


Table 8.2

	Q4 2007	Q1 2008	Q2 2008	Q3 2008	paž-08
HICP	11,2	12,4	14,0	12,5	11,2
Largest contribution to HICP growth rate (pp, y/y)					
Transport	2,1	3,1	3,2	3,7	2,9
Food and non-alcoholic beverages	5,1	5,3	5,9	3,0	2,4
Restaurants and hotels	2,1	2,3	2,4	2,3	2,0
Housing	0,8	0,8	0,8	1,3	1,4
Alcohol and tobacco	0,4	0,4	0,4	0,9	0,9

Source: Ecowin Economic

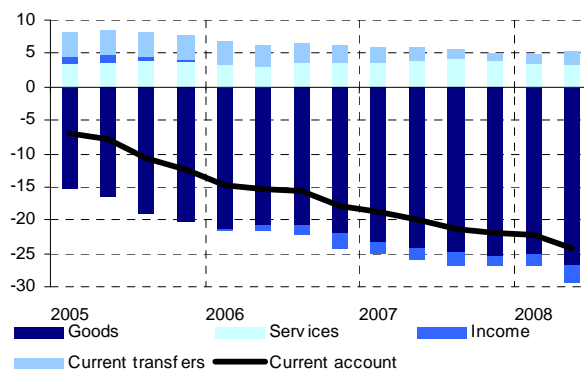
The growth of wages gained momentum (over the first three quarters of 2008 it averaged nearly 24% vis-à-vis 20% in 2007) due to favourable developments in the labour market. The robust growth of wages coupled with a buoyant increase in employment accounted for the increase in the ULC growth in Bulgaria.

### External imbalances

The widening trade deficit in goods (and also some increase in the negative trade balance) accounted for most of the widening in the current account deficit in Bulgaria. In 2008, the deficit rose to nearly 25% of the GDP and qualified as one of the highest in the region (along Latvia).

Figure 8.6.

Current account and its components (balance, % of GDP, 4Q average)



Source: Ecowin Economic

Figure 8.7

Sources of financing current account deficit (% of GDP, 4Q average)

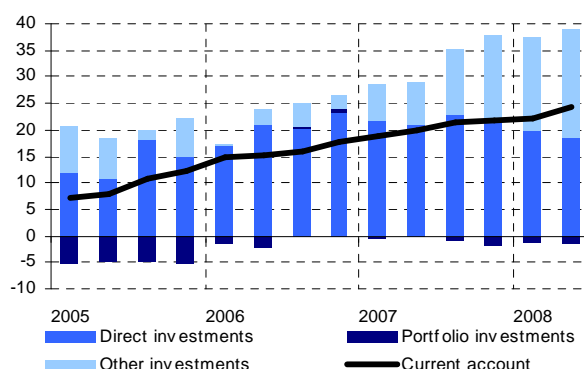


Table 8.3

	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
Current account	-1 065	-2 403	-1 913	-2 219	-1 249
Goods	-1 797	-2 324	-1 798	-2 510	-2 142
Services	920	-115	-144	360	990
Income	-261	-73	-107	-418	-151
Current transfers	74	109	136	348	53
Capital account	30	77	174	0	8
Financial account	1 259	2 535	2 167	2 181	1 235
Direct investments	1 927	1 742	657	1 504	1 085
Portfolio investments	-3	-283	-20	-225	-294
Other investments	1 426	1 254	1 673	2 030	1 893

Source: Ecowin Economic

In 2008 the inflow of direct investments posted a decline, most of which concentrated in the real estate sector. In contrast to the remaining countries of the region, not only did Bulgaria escape the decline in the inflows of other investments but even recorded a growth in this category. It was this category that represented the major item in the financial account in the first half of 2008.

### Interest rates and exchange rates

2008 witnessed a steady growth in the interbank interest rates in Bulgaria. Between January and August 2008, a three-month Sofibor rose by ca. 80 bps, from 6.5% to 7.3%. This year, Bulgaria was also affected by the turmoil in the global markets, with a much weaker effect, though, than the other countries of the region, most specifically than the neighboring Romania. Due to the increased risk aversion, the three month

interbank rates rose by further 70 bps, to attain nearly 8% as at the end of November.

### Forecasts

According to forecasts, the economy of Bulgaria, after a rapid development for the first three quarters of 2008, will gradually slow down its growth over 2008 Q4 and 2009, due to a flagging domestic demand, particularly in investments. It seems that first symptoms of a downturn include the decline in industrial output and deterioration in business sentiment. Even though the economy suffered a considerable downturn in 2009, no crash landing scenario is envisaged.

Inflation in Bulgaria should remain on the downside over the coming quarters, in the wake of economic slowdown both in the domestic and international market. Looking ahead, the major risks to the inflationary developments in Bulgaria include signals from the labour market and the anticipated hikes in energy prices (of gas and electricity). This was one of the reasons for the upward adjustment in the inflation forecast for Bulgaria for 2008.

The forecasts of the current account deficit remained unchanged; it is still anticipated to exceed 20% of the GDP both in the current and the oncoming year.

Table 8.4

Forecasts			
	KE	IMF	Consensus Economics
	11.2008 (04.2008)	10.2008 (04.2008)	10.2008 (05.2008)
GDP, %, y/y			
2008	6,5 (5,8)	5,5 (5,5)	5,9 (5,7)
2009	4,5 (5,6)	5,0 (4,8)	4,2 (5,3)
CPI, %, y/y			
2008	12,4 (9,9)	12,2 (9,7)	12,7 (9,5)
2009	7,9 (5,9)	7,0 (6,0)	7,6 (6,0)
Current account balance, % of GDP			
2008	-23,8 (-21,2)	-15,8 (-21,9)	
2009	-22,3 (-20,9)	-13,5 (-18,9)	

## ROMANIA

### Economic growth

Romania was the fastest developing country in the region in the 1<sup>st</sup> half of 2008. Not only did the economy evade downturn over the recent quarters, but it picked up to the highest level since 2004. The GDP reached 9.3% y/y in 2008 Q2 against 6.0% in 2007. Most of this growth was attributable to the acceleration in the domestic demand, both the investment expenditure and consumption. As compared to 2007, the contribution of net exports remained broadly unchanged over the first half of 2008. Whereas on the one hand robust domestic demand contributed to the higher growth in imports, on the other hand the growth in exports also accelerated, fuelled by the depreciation of the domestic currency in the 1<sup>st</sup> half of 2008. According to preliminary estimates, the GDP in Romania continued its buoyant growth in 2008 Q3, at an annual rate of 9.1%. While the domestic demand remained robust, the contribution from the change in inventories recorded a decline.

Figure 9.1

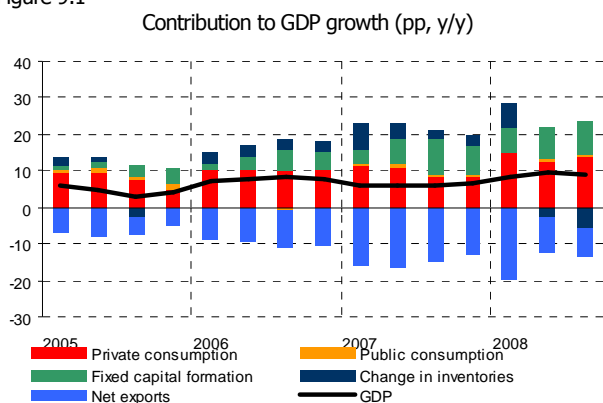


Table 9.1

GDP and its components (% y/y)

	2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
GDP	6,0	6,6	8,2	9,3	9,1
Private consumption	11,3	10,3	15,6	13,5	16,1
Public consumption	5,7	4,8	3,0	3,1	4,5
Fixed capital formation	28,0	28,0	33,2	30,0	24,3
Exports	8,8	14,9	24,6	26,9	17,4
Imports	26,1	28,6	35,2	24,4	18,7

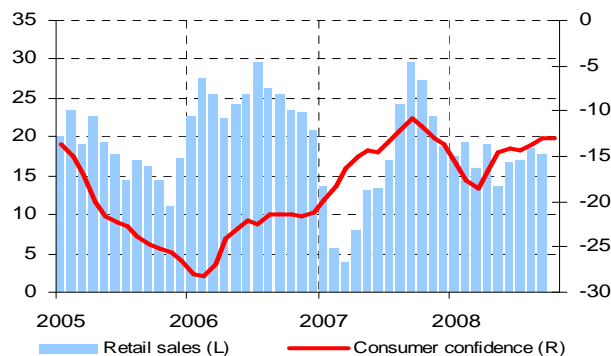
Source: Ecowin Economic

Following the decline in the 2<sup>nd</sup> half of 2007, the growth in retail sales in Romania stood anchored at ca. 15-20% y/y in 2008. The sustained favorable tendencies in consumer confidence are also evidenced by the Romanian consumers confidence index, which increased since mid-2008.

Even though business confidence declined in comparison with 2007, the business confidence index stabilized in 2008 Q2. As from 2008 Q2 the growth rate of industrial output recorded a dramatic decline.

Figure 9.2

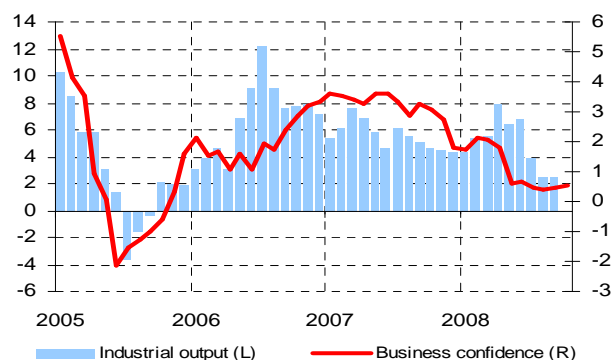
Growth in retail sales (% y/y) and consumer confidence indicator



Source: Ecowin Economic

Figure 9.3

Industrial output (3m average, % y/y) and business confidence



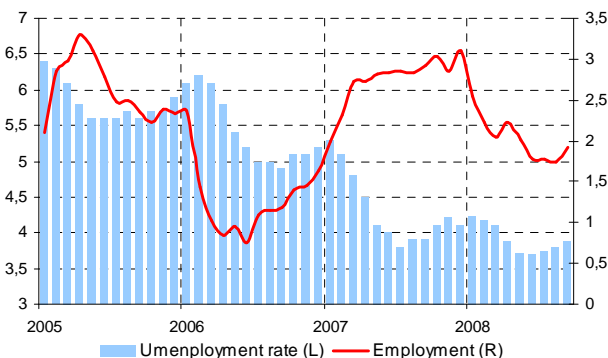
Source: Ecowin Economic

### Labour market

The unemployment rate in Romania continued to decline over the first six months of 2008 (to reach 3.7% last June), as the employment sustained its growth. Nonetheless, the growth rate steadily moderated since early 2008 (to reach 1.8% in Q3). The record low level of unemployment and mass migration over recent years (as estimated, the labour market in Romania recorded the outflow of ca. 2 million people since early 2007), which may imply Romanian labour market tightening.

Figure 9.4.

Unemployment rate and employment growth rate (% y/y)



Source: Ecowin Economic



## Inflation and labour costs

Inflation in Romania climbed to its maximum in July 2008 (9.1%), and thereafter began to diminish slowly until it reached 7.4% in October. Most of the decline in inflation in the 2<sup>nd</sup> half of 2008 was attributable to the lower growth in food prices, particularly those of unprocessed food. The growth in prices of energy slowed down in July 2008, yet remained at a high level. As regards core inflation, it stabilized over the analyzed period.

Figure 9.5

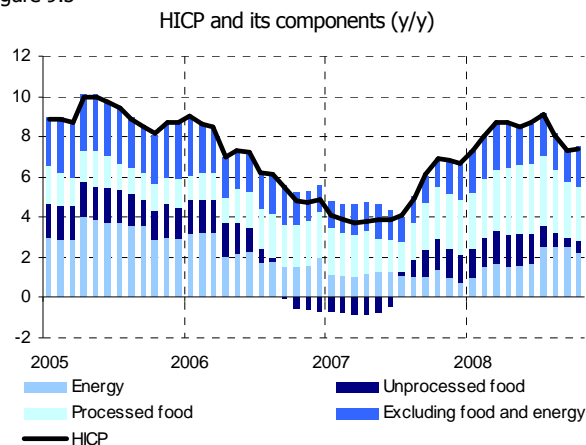


Table 9.2

HICP and its components (y/y)

	Q4 2007	Q1 2008	Q2 2008	Q3 2008	paź- 08
HICP	6,8	8,0	8,6	8,2	7,4
Largest contribution to HICP growth rate (pp, y/y)					
Food and non-alcoholic beverages	3,5	3,9	4,4	3,3	2,6
Housing	1,7	1,7	1,5	2,2	2,1
Transport	0,4	0,9	1,0	1,0	0,8
Alcohol and tobacco	0,6	0,6	0,6	0,6	0,6
Łączność	-0,1	0,4	0,6	0,5	0,4

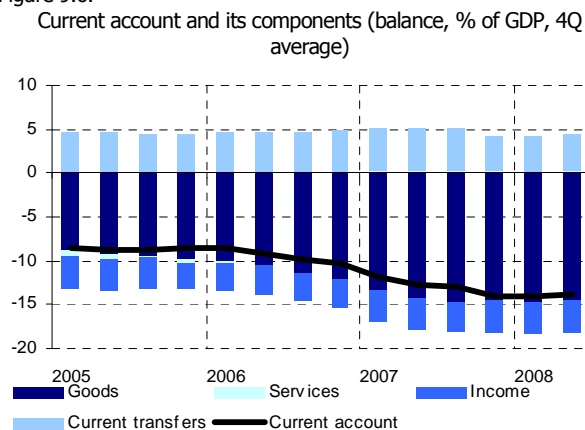
Source: Ecowin Economic

Over the first six months of 2008, the growth in nominal wages rebounded. In 2008 Q2 it reached the highest levels among the countries of the region. As a result of declining growth in employment and sluggish economic activity, the growth in ULC in Romania went down over the corresponding period. Looking ahead, it appears that the high growth in wages in Romania may also prevail in the coming quarters. The parliamentary elections (30 November 2008) contributed to the decision to raise the minimum wages (by 8%, as from October 2008) and teachers' wages - by 50% (postponed until 2009 due to the tight state budget), thereby stimulating a further wage pressure in the public sector.

## External imbalances

In 2008 the high current account deficit persisted and rose to 15% of the GDP in the 1<sup>st</sup> half of 2008, as compared to 14% in 2007. Those developments were fuelled by the widening in both the deficit in the trade in goods and income account (the net inflow of remittances suffered a decline following the economic downturn in the countries of Western Europe). On the other hand, the surplus in trade in services recorded growth.

Figure 9.6.



Source: Ecowin Economic

In 2008 the decline in the inflows of other investments occurred also in Romania. However, growth was recorded in the net inflow of direct investments, most of which concentrated in 2008 Q2.

Figure 9.7

Sources of financing current account deficit (% of GDP, 4Q average)

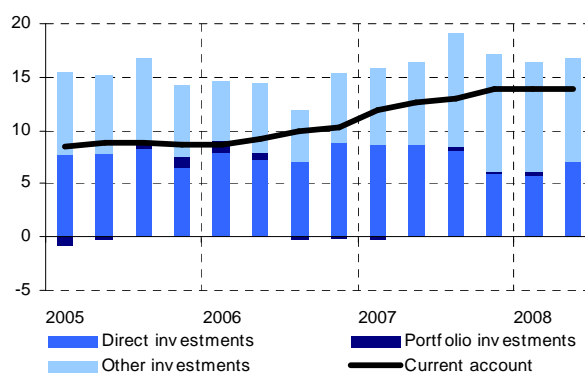


Table 9.3

Balance of payments (net, EUR mln)

	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
Current account	-3 861	-5 725	-3 586	-4 556	-4 562
Goods	-4 358	-5 438	-4 033	-4 788	-4 840
Services	-16	-173	184	323	-110
Income	-965	-1 198	-1 151	-1 429	-1 569
Current transfers	178	359	144	162	0
Capital account	1 477	1 085	1 414	1 338	1 957
Financial account	3 140	4 926	3 421	5 906	
Direct investments	1 973	1 703	1 925	3 384	
Portfolio investments	72	-71	84	-35	
Other investments	4 591	3 618	1 719	2 485	

Source: Ecowin Economic

## Interest rates and exchange rates

Over the period between January and August 2008 the National Bank of Romania raised its interest rates by 225 bps in response to the growing inflation and the possibility of overheating of the economy. The interbank rates followed the growth patterns of the interest rate and increased by ca. 500 bps, to reach ca. 17%, between the beginning of the year and early October. In October the interbank rates skyrocketed temporarily to nearly 50%, but following the

intervention of the central bank, fell again to ca. 17-18% last November.

After a small appreciation in the 1<sup>st</sup> half of 2008, the Romanian Lei experienced a clear depreciation last October, as turmoil intensified in the global financial markets.

#### Forecasts

As a result of a considerably buoyant economic recovery in the 1st half of 2008, growth forecasts for Romania for 2008 were upgraded by ca. 2 pp over recent months. Looking ahead, the 2<sup>nd</sup> half of 2008 and the year 2009 are anticipated to bring about a considerable downturn in the Romanian economy due to a sluggish domestic demand.

Over the further horizon, inflation is likely to continue its declining path, whereas the tightening labour market may pose upward risks to price stability. Inflation forecasts have remained broadly unchanged since last June.

According to the external centres, the current account deficit will show no change in comparison to 2008 but the present forecast is lower than in June.

Table 9.4

	Forecasts			
	KE	IMF	Consensus Economics	BNR
	11.2008 (04.2008)	10.2008 (04.2008)	10.2008 (05.2008)	11.2008 (08.2008)
GDP, %, y/y				
2008	8,5 (6,2)	8,6 (5,4)	8,1 (5,7)	
2009	4,7 (5,1)	4,8 (4,7)	4,5 (5,1)	
CPI, %, y/y				
2008	7,8 (7,6)	8,2 (7,0)	7,8 (7,4)	6,7 (6,6) <sup>1</sup>
2009	5,7 (4,8)	6,6 (5,1)	5,4 (5,2)	4,5 (4,2) <sup>1</sup>
Current account balance, % of GDP				
2008	-13,5 (-16,1)	-13,8 (-14,5)		
2009	-13,0 (-16,2)	-13,3 (-13,0)		

<sup>1</sup> na koniec okresu

BNR – Banca Națională a României

### CEE countries in face of the financial crisis

The developments undergoing in the financial markets in Hungary in October (see Box 1) showed that the CEE countries, though not directly exposed to subprime loans, may suffer considerable damage as a result of the financial crisis observed for over a year.

A growing aversion to risk and liquidity crisis carry risks to the economies of the region. As appears the markets which exhibited the signs of overheating even before the crisis and also in the following months (elevated consumption growth, inflation, external imbalances, rapid loan and credit expansion, fast growth in real property prices) prove to be the most vulnerable.

The most likely list of main threats to the CEE countries includes:

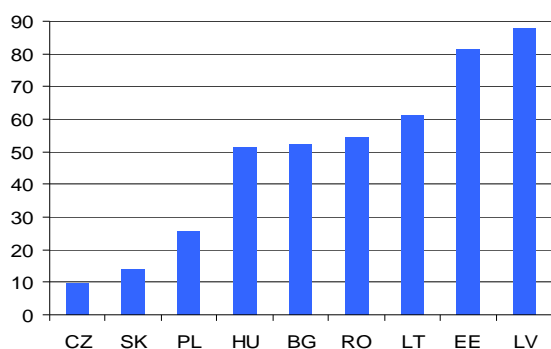
#### Widespread foreign currency loans.

Following the accession to the EU, the NMS saw credit expansion. The annual growth in lending to private sector reached nearly 70% in the Baltic states in mid-2006. Whereby most of the lending was denominated in foreign currencies (except the Czech Republic, Slovakia in Poland, foreign currency lending accounted for over a half of loans and credits total to the private sector, and in the case of Estonia and Latvia for over 80%). Foreign currency loans and credits enjoyed a great popularity, i.a., because:

- foreign banks entered the CEE markets, thereby facilitating the availability of foreign currency loans and credits;
- interest rates were lower in the euro area, the United States and Switzerland than in the CEE countries (except for the Czech Republic and Slovakia, and accordingly the domestic currency loans enjoyed a relatively little demand in those countries);
- fixed exchange rate regime in the Baltic states and in Bulgaria additionally eliminated the exchange rate risk.

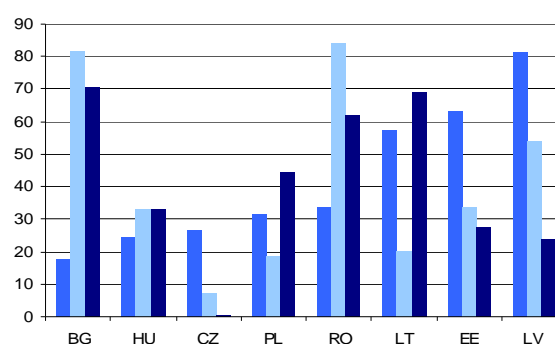
Should the liquidity crisis and elevated aversion to risk persist in the global markets, the value of foreign currency loans and credit may suffer a considerable slump. Furthermore, if the domestic currencies depreciate, interest rates increase in the European financial markets and banks tighten their credit policies, credit costs may go up and narrow access to foreign currency loans. Credits and loans for households and enterprises strongly stimulated the vibrant economic growth in the CEE economies in the recent years. In other words, should this form of funding be restricted, the domestic demand would suffer a slowdown. As regards the Baltic states, the growth in loans and credits has been on decline already since mid-2006, and thereby the economic growth declined by over 10 pp both in Estonia and in Latvia.

FX denominated loans as % of total loans in 2008 r.



Source: EcoWin Economic, Central Banks

FX denominated loans growth rate, in % y/y.

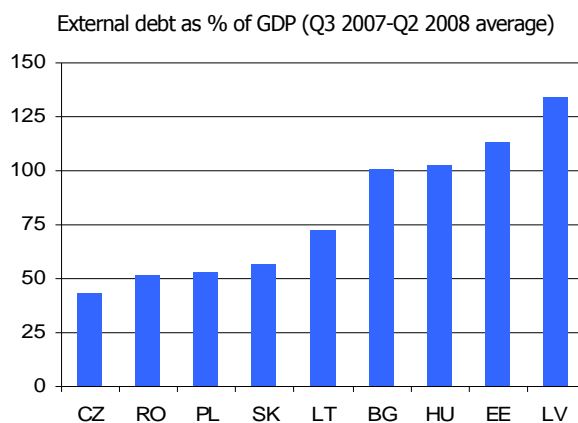


Source: EcoWin Economic, Central Banks

#### High external imbalances and dependence on external financing.

The CEE countries, and most specifically the Baltic states, Romania and Bulgaria record wide current accounts deficits which reach 20% of the GDP. From a financing perspective, current account imbalances in those countries are covered not only by the inflow of direct investments, but in their major part, by loans and credits. The structure of lending was dominated by credits and loans to the banking sector, most of them being extended via the capital groups. In this context, the expansion in lending was inhibited in the CEE countries.

As a consequence of this form of financing, foreign debt rose rapidly in most CEE countries in recent years, in particular in the Baltic states, where nominal foreign debt denominated in euro climbed from 80% in 2000 to 130%.



Source: EcoWin Economic, EcoWin Financial, Central Banks

An additional risk is implied by a widening disparity in the value between credits and deposits on the domestic markets. Only the Czech Republic, Slovakia and Poland reported the value of credits to deposits ratio close to 100%. In other countries the value of loans and credits considerably exceeded the value of general public deposits, e.g., by nearly two-and-half times in Latvia.

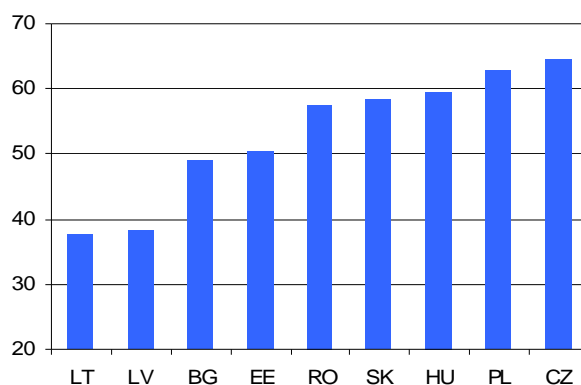
In the context of the global crisis, the risk also occurs that the inflow of foreign direct investments (FDI) will be restricted. Over the period 2005-2007 the inflow of direct investments to the CEE countries ranged between c. 3.5% of the GDP in Poland to nearly 20% of the GDP in Bulgaria and was another important source of funds to the fast developing economies of the region. The slowdown in the EU-15, may trigger the reduction in the net inflow of FDI to the CEE countries and operate as an additional inhibitor to the growth of those economies.

The threat from large economic imbalances did not come unnoticed by rating agencies. Fitch downgraded its ratings of long-term debt for the Baltic states last October, on the rationale that high current account deficits and contingency on the external financing renders those economies particularly vulnerable to the turmoil in the European financial market.

### Weakening of growth in the EU-15.

The financial crisis may also spill over to the CEE countries via external trade channel. EU-15 countries are the main trading partner for the whole region, which received nearly 60% of NMS's exports in 2007. Whereas the economic growth is forecast to de-escalate both in the second half of 2008 and in 2009, the economies of the region may be exposed to a material risk, even more so that most of them are small open economies, with the ratio of exports to the GDP oscillating between 40% and over 80%. As regards trade exchange, the major economies of the region (Poland, the Czech Republic, Romania), seem least vulnerable to the adverse developments; their domestic markets can offset the fall in exports. Furthermore, a large share of the automotive sector to the CEEC exports may contribute to a marked decline in the growth of exports, as the industry faces a deepening crisis. The highest risk occurs in Slovakia, where the automotive sector accounts for 27% of exports total (18% of which are passenger cars). On the other hand, also in the Czech Republic, Hungary, Slovenia and Poland cars and automotive parts account for c. 1/5 of the value of exports.

Udział Eksportu do krajów UE-15 w eksporcie ogółem w 2007 r. (w %)



Source: Eurostat

On considering the above-mentioned risks and channels which may transfer the effects of the global financial crisis onto the real economies, the list of countries most vulnerable to the spread of crisis include the Baltic states (Estonia and Latvia are already facing the recession), Hungary, Bulgaria and Romania.

## Statistical Annex

### 1. National accounts

Table 1. GDP (in %, y/y)

	2006	2007	III 2007	IV 2007	I 2008	II 2008	III 2008
Poland	6.2	6.6	6.5	6.5	6.0	5.8	4.8
Czech Rep.	6.4	6.5	6.4	6.6	5.1	4.6	4.2
Slovakia	8.5	10.4	10.0	12.7	8.7	7.6	7.1
Slovenia	5.7	6.1	6.4	5.4	5.7	5.5	3.8
Hungary	3.9	1.3	0.9	0.8	1.7	2.0	0.8
Estonia	11.2	7.1	5.5	4.4	0.2	-1.1	-3.5
Lithuania	7.7	8.8	10.5	8.8	7.0	5.2	2.8
Latvia	12.2	10.3	10.9	8.1	3.3	0.1	-4.6
Bulgaria	6.3	6.2	4.9	6.9	7.0	7.1	5.6
Romania	7.9	6.0	5.7	6.6	8.2	9.3	9.1

Source: National statistical offices

Table 2. Private consumption (in %, y/y)

	2006	2007	III 2007	IV 2007	I 2008	II 2008	III 2008
Poland	4.9	5.2	4.8	3.5	5.6	5.5	5.1
Czech Rep.	5.4	5.7	6.2	4.2	2.7	3.4	2.5
Slovakia	5.9	7.1	9.3	8.1	8.4	5.7	6.0
Slovenia	4.0	3.1	4.8	3.2	3.5	2.6	2.7
Hungary	1.9	-0.3	-0.6	-0.2	0.4	1.4	0.1
Estonia	15.1	8.9	4.7	3.2	0.1	-2.0	-3.5
Lithuania	11.8	11.5	7.2	12.5	11.1	7.3	9.9
Latvia	21.4	14.0	13.6	0.0	2.3	-5.0	-9.5
Bulgaria	9.5	5.3	4.9	3.4	5.7	5.3	3.2
Romania	12.6	10.4	9.4	9.2	14.3	12.2	16.1

Source: National statistical offices

Table 3. Gross fixed capital formation (in %, y/y)

	2006	2007	III 2007	IV 2007	I 2008	II 2008	III 2008
Poland	15.6	19.3	16.7	15.2	15.7	15.2	3.5
Czech Rep.	5.5	6.1	4.5	7.5	4.6	4.1	4.5
Slovakia	8.1	8.2	7.1	8.5	2.4	9.6	7.3
Slovenia	8.2	17.6	18.7	8.6	16.9	10.8	3.5
Hungary	-2.5	0.7	-2.6	2.6	-5.4	-2.2	-1.5
Estonia	22.4	7.8	-1.8	-3.0	0.6	-2.5	-6.0
Lithuania	17.4	15.8	20.1	10.9	1.6	-2.3	-4.1
Latvia	16.4	8.4	6.9	2.6	5.1	-6.8	
Bulgaria	14.7	21.7	19.7	14.0	15.5	28.6	10.9
Romania	19.3	28.9	32.2	28.0	33.2	30.0	24.3

Source: National statistical offices

Table 4. Exports (in %, y/y)

	2006	2007	III 2007	IV 2007	I 2008	II 2008	III 2008
Poland	14.6	8.4	9.0	8.4	11.1	8.5	7.1
Czech Rep.	14.4	14.5	15.7	13.2	12.8	14.2	5.0
Slovakia	21.0	16.0	9.0	15.5	12.4	8.7	2.7
Slovenia	12.5	13.1	15.1	9.3	6.8	8.5	4.2
Hungary	19.0	14.2	14.9	10.4	13.9	11.1	3.5
Estonia	8.3	1.5	-5.7	-1.3	-2.1	-4.9	6.3
Lithuania	12.2	4.7	11.5	0.6	9.8	13.7	13.4
Latvia	6.5	11.1	10.3	17.1	6.5	2.5	1.9
Bulgaria	8.7	5.2	5.4	6.0	9.2	5.1	3.9
Romania	10.6	8.8	4.8	14.9	24.6	26.9	17.4

Source: National statistical offices

Table 5. Imports (in %, y/y)

	2006	2007	III 2007	IV 2007	I 2008	II 2008	III 2008
Poland	17,4	12,4	13,9	11,5	11,5	8,7	5,9
Czech Rep.	13,8	13,7	15,2	10,9	11,2	9,6	1,6
Slovakia	17,7	10,4	1,6	11,0	14,2	9,0	2,0
Slovenia	12,3	14,3	18,2	8,6	9,7	9,2	4,4
Hungary	14,7	12,1	13,5	9,1	10,2	11,2	2,8
Estonia	17,1	2,8	1,2	-0,3	-6,3	-8,2	-5,1
Lithuania	13,8	9,1	11,4	4,6	18,5	12,1	11,9
Latvia	19,3	15,0	15,5	-1,8	-1,6	-8,2	-10,6
Bulgaria	14,0	9,9	9,3	5,7	5,8	13,7	2,9
Romania	22,4	26,1	24,7	28,6	35,2	24,4	18,7

Source: National statistical offices

## 2. Indices of business cycle and economic activity

Table 6. Industrial output (in %, y/y)

	2006	2007	05.2008	06.2008	07.2008	08.2008	09.2008	10.2008
Poland	12.0	9.7	2.4	7.3	5.9	-3.7	6.7	0.2
Czech Rep.	11.2	8.3	3.1	3.4	6.7	-2.6	9.6	
Slovakia	9.8	13.1	2.0	6.3	3.3	-1.1	5.8	
Slovenia	7.3	7.1	-0.8	1.9	-2.7	-7.1	5.5	
Hungary	10.3	8.3	2.5	-0.7	-0.2	-6.2	-1.0	
Estonia	7.4	6.8	-8.2	-9.8	-2.6	-8.8	0.5	-11.0
Lithuania	7.4	4.1	3.6	4.2	3.0	-3.4	6.2	-2.4
Latvia	7.8	0.4	-8.5	-6.4	-6.5	-11.1	-5.5	-9.6
Bulgaria	6.1	9.2	6.6	4.2	4.4	-6.0	1.2	
Romania	7.2	5.4	2.8	4.0	5.1	-1.7	3.7	

Source: National statistical offices

Table 7. Retail sales (in %, y/y)

	2006	2007	05.2008	06.2008	07.2008	08.2008	09.2008	10.2008
Poland	11.9	14.6	11.2	10.1	10.1	3.9	8.3	5.0
Czech Rep.	6.5	7.8	0.9	1.4	3.6	-3.3	5.9	
Slovakia	6.5	5.4	6.7	3.1	6.9	5.8	4.6	4.6
Slovenia	6.5	9.6	11.9	10.3	12.7	5.8	12.7	
Hungary	4.4	-2.8	-1.6	-2.2	-1.7	-1.4	-1.6	
Estonia	19.0	15.2	-2.0	-7.5	-2.4	-5.2	-6.4	-6.9
Lithuania	14.5	17.7	4.6	-0.2	4.1	-3.6	2.0	-5.2
Latvia	19.8	19.9	-5.0	-8.3	-8.5	-9.0	-13.5	-14.4
Bulgaria	6.6	4.9	4.7	6.2	10.5	3.2	3.0	
Romania	24.3	16.4	8.3	19.8	22.9	13.2	17.1	

Source: National statistical offices

Table 8. Consumer confidence index

	2006	2007	05.2008	06.2008	07.2008	08.2008	09.2008	10.2008
Poland	-12,7	-5,0	-1,0	-6,2	-7,4	-4,1	-5,7	-8,9
Czech Rep.	1,9	-2,2	-5,9	-8,9	-7,9	-6,2	-5,1	-14,6
Slovakia	-9,8	-0,2	-14,0	-9,7	-11,4	-10,9	-8,0	-10,6
Slovenia	-14,2	-9,8	-20,7	-20,1	-19,7	-20,0	-12,1	-18,1
Hungary	-32,9	-48,3	-49,5	-43,6	-40,6	-40,7	-40,4	-51,3
Estonia	10,1	2,8	-19,2	-18,2	-21,5	-20,2	-21,6	-27,5
Lithuania	0,4	4,6	-14,9	-21,6	-23,7	-25,7	-25,8	-32,8
Latvia	-5,0	-7,8	-22,9	-26,6	-24,6	-26,2	-31,3	-32,5
Bulgaria	-31,1	-26,4	-29,5	-32,4	-31,2	-26,4	-24,0	-31,4
Romania	-22,9	-14,3	-13,9	-14,4	-15,0	-11,6	-12,3	-15,1

Source: European Commission

Table 9. Business confidence index

	2006	2007	05.2008	06.2008	07.2008	08.2008	09.2008	10.2008
Poland	-8.0	-0.7	-4.5	-5.5	-7.9	-8.7	-10.6	-12.6
Czech Rep.	10.8	15.4	9.8	7.8	6.2	3.7	-2.9	-12.3
Slovakia	9.0	14.2	-6.0	-0.7	-0.4	-0.5	0.8	-18.0
Slovenia	9.5	12.3	5.5	0.2	0.3	-1.7	-5.2	-14.9
Hungary	-0.7	0.3	-1.9	-8.1	-4.5	-5.4	-8.9	-14.3
Estonia	20.1	15.1	-5.5	-10.7	-8.7	-11.4	-17.9	-23.0
Lithuania	5.1	5.7	-3.6	-3.5	-7.8	-7.0	-11.8	-15.5
Latvia	6.0	4.8	-10.1	-13.3	-15.5	-14.1	-18.0	-21.7
Bulgaria	4.8	11.7	13.2	12.8	11.1	7.7	10.1	6.6
Romania	2.1	3.0	-0.6	1.1	1.0	-0.9	1.3	1.2

Source: European Commission

Table 10. PMI in manufacturing index

	2006	2007	06.2008	07.2008	08.2008	09.2008	10.2008	11.2008
Poland	53.9	52.9	47.8	46.4	45.8	44.9	43.7	40.5
Czech Rep.	55.7	56.8	50.7	49.9	47.3	46.5	41.2	37.8
Hungary	54.0	53.6	56.6	51.7	52.1	50.3	44.7	39.9

Source: EcoWin Economic

### 3. Prices

Table 11. CPI (in %, y/y)

	04.2008	05.2008	06.2008	07.2008	09.2008	09.2008	10.2008	11.2008
Poland	4.0	4.4	4.6	4.8	4.8	4.5	4.2	
Czech Rep.	6.8	6.8	6.7	6.9	6.5	6.6	6.0	
Slovakia	4.3	4.6	4.6	4.8	5.0	5.4	5.1	
Slovenia	6.5	6.4	7.0	6.9	6.0	5.5	4.9	3.1
Hungary	6.6	7.0	6.7	6.7	6.5	5.7	5.1	
Estonia	11.4	11.3	11.4	11.1	11.0	10.5	9.8	8.0
Lithuania	11.7	12.0	12.5	12.2	12.0	11.0	10.5	
Latvia	17.4	17.9	17.7	16.6	15.7	14.9	13.8	
Bulgaria	14.6	15.0	15.3	14.5	11.2	11.0	10.9	
Romania	8.6	8.5	8.6	9.0	8.0	7.3	7.4	

Source: National statistical offices

Table 12. PPI (in %, y/y)

	03.2008	04.2008	05.2008	06.2008	07.2008	09.2008	09.2008	10.2008
Poland	5.6	5.4	6.0	5.8	5.6	5.3	5.1	4.0
Czech Rep.	5.4	4.7	5.2	5.4	5.3	5.7	5.5	3.9
Slovakia	5.2	5.7	6.5	6.4	6.3	6.7	6.8	7.5
Slovenia	5.7	6.3	6.3	6.6	6.9	7.1	5.7	4.8
Hungary	10.8	11.7	11.7	12.1	13.3	13.0	12.7	13.2
Estonia	8.2	7.3	7.2	7.5	7.8	7.3	6.3	6.3
Lithuania	17.4	16.5	15.1	19.3	19.0	20.4	18.1	14.7
Latvia	10.5	12.1	11.9	12.9	12.4	13.1	12.1	11.5
Bulgaria	15.4	13.6	13.6	14.5	15.4	14.4	12.6	10.1
Romania	14.5	14.4	14.9	17.3	18.3	19.1	16.9	15.0

Source: National statistical offices

Table 13. HICP (in %, y/y)

	03.2008	04.2008	05.2008	06.2008	07.2008	09.2008	09.2008	10.2008
Poland	4,4	4,3	4,3	4,3	4,5	4,4	4,1	4,0
Czech Rep.	7,1	6,7	6,8	6,6	6,8	6,2	6,4	5,7
Slovakia	3,6	3,7	4,0	4,3	4,4	4,4	4,5	4,2
Slovenia	6,6	6,2	6,2	6,8	6,9	6,0	5,6	4,8
Hungary	6,7	6,8	6,9	6,6	7,0	6,4	5,6	5,1
Estonia	11,2	11,6	11,4	11,5	11,2	11,1	10,8	10,1
Lithuania	11,4	11,9	12,3	12,7	12,4	12,2	11,3	10,7
Latvia	16,6	17,4	17,7	17,5	16,5	15,6	14,7	13,7
Bulgaria	13,2	13,4	14,0	14,7	14,4	11,8	11,4	11,2
Romania	8,7	8,7	8,5	8,7	9,1	8,1	7,3	7,4

Source: Eurostat

Table 14. HICP – unprocessed food (in %, y/y)

	03.2008	04.2008	05.2008	06.2008	07.2008	09.2008	09.2008	10.2008
Poland	3.0	2.3	2.0	2.7	4.2	2.3	1.3	1.7
Czech Rep.	3.3	1.0	4.7	4.6	4.0	1.5	0.9	0.2
Slovakia	2.5	1.8	3.7	6.8	6.8	6.3	3.8	0.7
Slovenia	6.9	3.7	5.2	5.2	7.0	4.3	3.1	2.8
Hungary	9.3	9.1	9.0	6.7	5.0	1.9	-0.3	-1.5
Estonia	10.5	10.6	13.1	12.7	11.1	11.2	9.6	6.9
Lithuania	15.9	14.3	15.5	17.0	16.0	16.9	16.3	14.9
Latvia	14.3	14.0	16.0	14.7	15.0	13.7	13.5	13.2
Bulgaria	16.2	17.6	18.2	14.7	8.1	1.0	5.3	11.9
Romania	10.2	10.4	10.2	9.7	6.3	4.5	3.3	4.1

Source: Eurostat

Table 15. HICP – processed food (including alcohol and tobacco) (in %, y/y)

	03.2008	04.2008	05.2008	06.2008	07.2008	09.2008	09.2008	10.2008
Poland	8.5	8.7	8.8	8.9	8.6	8.8	7.6	6.5
Czech Rep.	13.7	13.4	12.0	11.0	11.3	10.2	10.9	9.4
Slovakia	8.6	9.3	8.9	8.7	8.7	8.7	8.1	6.8
Slovenia	12.8	13.2	12.9	11.9	10.1	9.4	7.3	5.3
Hungary	11.5	12.4	12.6	12.7	13.4	12.6	10.3	8.7
Estonia	15.9	16.9	16.9	16.3	17.5	19.5	21.3	17.6
Lithuania	17.7	19.0	19.4	19.1	18.7	17.1	14.7	11.9
Latvia	33.0	33.3	33.4	32.8	29.3	27.1	25.1	21.6
Bulgaria	22.0	23.5	24.7	25.2	22.6	15.1	13.0	10.6
Romania	11.3	12.1	12.7	12.9	12.9	11.8	10.0	9.6

Source: Eurostat

Table 16. HICP - energy (in %, y/y)

	03.2008	04.2008	05.2008	06.2008	07.2008	09.2008	09.2008	10.2008
Poland	8.1	6.8	8.8	9.0	9.6	9.5	9.3	9.9
Czech Rep.	12.1	11.0	10.9	11.5	12.8	11.8	11.6	11.8
Slovakia	3.8	3.6	4.1	4.4	4.7	4.7	6.0	6.2
Slovenia	11.8	8.7	10.3	16.1	17.5	14.2	13.3	9.8
Hungary	11.5	11.8	13.2	12.7	15.8	14.8	14.4	14.3
Estonia	24.6	26.9	26.3	30.0	26.1	23.3	20.9	25.5
Lithuania	17.3	17.5	18.9	20.4	21.2	20.9	19.4	19.6
Latvia	25.0	31.1	31.7	33.8	33.0	30.5	28.8	29.7
Bulgaria	13.6	11.3	12.7	15.4	19.2	17.2	16.1	12.5
Romania	9.1	8.1	8.4	8.8	13.6	13.3	13.3	11.9

Source: Eurostat

Table 17. HICP – excluding energy, food, alcohol and tobacco(in %, y/y)

	03.2008	04.2008	05.2008	06.2008	07.2008	09.2008	09.2008	10.2008
Poland	2.4	2.4	2.3	2.1	2.1	2.2	2.2	2.2
Czech Rep.	4.3	4.2	4.2	4.1	4.1	4.1	4.2	3.7
Slovakia	2.5	2.5	2.8	2.9	3.0	3.1	3.4	3.4
Slovenia	4.2	4.4	4.0	3.9	3.9	3.7	3.8	3.9
Hungary	3.7	3.6	3.4	3.3	3.1	3.0	2.8	2.7
Estonia	7.4	7.2	6.5	6.2	6.3	6.1	5.7	5.1
Lithuania	6.5	7.1	7.1	7.3	7.0	7.2	6.8	7.1
Latvia	9.9	10.0	10.0	9.8	9.4	9.0	8.6	7.9
Bulgaria	9.8	9.9	10.1	11.1	11.4	11.1	10.7	11.0
Romania	6.1	5.9	5.1	5.2	5.5	4.6	4.4	5.3

Source: Eurostat



#### 4. Balance of payments

Table 18. Current account balance (in % of GDP, 4Q moving average)

	III 2006	IV 2006	I 2007	II 2007	III 2007	IV 2007	I 2008	II 2008
Poland	-2.1	-2.7	-3.1	-3.9	-4.4	-4.7	-4.9	-4.9
Czech Rep.	-1.7	-2.6	-2.3	-2.2	-2.3	-1.8	-1.6	-2.5
Slovakia	-6.8	-6.7	-5.4	-4.8	-4.9	-4.8	-4.8	-5.5
Slovenia	-2.5	-2.5	-2.3	-3.2	-3.8	-4.3	-5.5	-6.2
Hungary	-7.5	-7.5	-7.0	-6.9	-6.8	-6.4	-6.6	-6.3
Estonia	-14.7	-16.7	-18.4	-18.3	-18.7	-18.1	-15.6	-14.1
Lithuania	-9.5	-10.6	-11.7	-14.0	-14.3	-14.6	-15.6	-15.5
Latvia	-19.1	-22.5	-24.7	-25.9	-26.0	-23.8	-22.0	-19.7
Bulgaria	-15.8	-17.8	-18.9	-19.9	-21.2	-21.8	-22.1	-24.2
Romania	-9.9	-10.4	-11.9	-12.6	-12.9	-14.0	-13.9	-13.9

Source: Eurostat, Central Banks, own calculations

Table 19. Poland: balance of payments components(in % of GDP, 4Q moving average)

	III 2006	IV 2006	I 2007	II 2007	III 2007	IV 2007	I 2008	II 2008
Current account	-2.1	-2.7	-3.1	-3.9	-4.4	-4.7	-4.9	-4.9
Goods	-1.7	-2.0	-2.5	-3.1	-3.4	-4.0	-4.0	-4.0
Services	0.2	0.2	0.4	0.6	0.8	1.1	1.0	1.0
Income	-2.4	-2.8	-3.2	-3.5	-3.7	-3.8	-3.7	-3.6
Current transfers	1.8	1.9	2.2	2.1	2.0	2.0	1.7	1.7
Capital account	0.2	0.2	0.3	0.3	0.3	0.4	0.6	0.6
Financial account	4.1	3.9	4.4	6.1	7.3	9.2	10.4	10.5
Direct investments	2.8	3.2	3.3	3.4	4.4	4.2	3.5	3.3
Portfolio investments	-0.6	-0.8	-1.9	-1.7	-2.0	-1.2	-1.4	-0.5
Other investments	2.2	1.8	3.2	4.6	5.2	6.7	8.6	8.0

Source: Eurostat, Central Banks, own calculations

Table 20. Czech Republic: balance of payments components(in % of GDP, 4Q moving average)

	III 2006	IV 2006	I 2007	II 2007	III 2007	IV 2007	I 2008	II 2008
Current account	-1.7	-2.6	-2.3	-2.2	-2.3	-1.8	-1.6	-2.5
Goods	1.9	2.0	2.5	2.8	3.1	3.4	3.3	3.6
Services	1.4	1.4	1.5	1.6	1.6	1.6	1.9	1.9
Income	-4.7	-5.6	-5.8	-6.0	-6.4	-6.2	-6.4	-7.9
Current transfers	-0.3	-0.4	-0.5	-0.6	-0.6	-0.5	-0.4	-0.1
Capital account	0.2	0.3	0.3	0.3	0.3	0.6	0.7	1.0
Financial account	2.4	2.9	2.9	2.5	2.3	2.7	2.5	4.2
Direct investments	3.8	2.8	3.5	3.6	3.6	4.5	4.0	4.7
Portfolio investments	-2.4	-0.8	-1.2	-0.2	-1.0	-1.5	-1.3	0.1
Other investments	1.1	1.1	0.5	-1.2	-0.2	-0.3	-0.1	-0.2

Source: Eurostat, Central Banks, own calculations

Table 21. Slovakia: balance of payments components(in % of GDP, 4Q moving average)

	III 2006	IV 2006	I 2007	II 2007	III 2007	IV 2007	I 2008	II 2008
Current account	-6.8	-6.7	-5.4	-4.8	-4.9	-4.8	-4.8	-5.5
Goods	-4.0	-4.1	-2.8	-2.3	-1.7	-0.6	-0.4	-0.4
Services	1.0	1.2	1.0	0.9	0.9	0.6	0.5	0.0
Income	-3.9	-3.7	-3.3	-2.9	-3.4	-4.1	-4.1	-4.4
Current transfers	0.1	-0.1	-0.2	-0.5	-0.7	-0.6	-0.8	-0.8
Capital account	-0.1	-0.1	0.2	0.3	0.5	0.9	0.9	1.5
Financial account	-0.2	0.9	1.0	3.4	9.6	8.7	7.9	5.4
Direct investments	6.1	6.7	5.7	3.7	3.8	3.0	2.5	2.5
Portfolio investments	1.6	3.3	0.7	0.8	0.6	-0.3	1.8	1.0
Other investments	-7.7	-8.8	-5.2	-1.0	5.1	5.9	3.5	1.9

Source: Eurostat, Central Banks, own calculations

Table 22. Slovenia: balance of payments components(in % of GDP, 4Q moving average)

	III 2006	IV 2006	I 2007	II 2007	III 2007	IV 2007	I 2008	II 2008
Current account	-2.5	-2.5	-2.3	-3.2	-3.8	-4.3	-5.5	-6.2
Goods	-3.7	-3.8	-3.8	-4.5	-4.8	-5.0	-5.6	-6.4
Services	3.2	3.3	3.5	3.7	3.7	3.6	3.7	4.0
Income	-1.4	-1.4	-1.5	-1.8	-2.2	-2.1	-2.6	-2.6
Current transfers	-0.7	-0.6	-0.5	-0.6	-0.6	-0.8	-1.1	-1.2
Capital account	-0.3	-0.4	-0.4	-0.5	-0.4	-0.2	-0.2	-0.2
Financial account	4.8	4.0	4.7	4.9	4.2	5.3	5.6	7.2
Direct investments	0.3	-0.6	-1.0	-1.0	-1.4	-0.8	0.4	0.5
Portfolio investments	-4.2	-4.7	-5.8	-8.9	-6.5	-6.8	-3.9	-3.6
Other investments	-2.5	-2.5	-2.3	-3.2	-3.8	-4.3	-5.5	-6.2

Source: Eurostat, Central Banks, own calculations

Table 23. Hungary: balance of payments components(in % of GDP, 4Q moving average)

	III 2006	IV 2006	I 2007	II 2007	III 2007	IV 2007	I 2008	II 2008
Current account	-7.5	-7.5	-7.0	-6.9	-6.8	-6.4	-6.6	-6.3
Goods	-2.5	-2.3	-1.6	-1.0	-0.3	0.3	0.7	0.9
Services	1.2	1.4	1.5	1.4	1.3	1.0	0.9	0.9
Income	-6.0	-6.2	-6.5	-6.9	-7.1	-7.3	-7.4	-7.2
Current transfers	-0.3	-0.5	-0.5	-0.5	-0.8	-0.5	-0.8	-0.9
Capital account	0.6	0.6	0.6	0.7	1.1	1.1	1.8	1.8
Financial account	12.1	10.3	7.7	8.8	7.4	7.0	6.8	7.7
Direct investments	6.5	3.2	1.4	0.2	0.3	1.6	1.8	4.2
Portfolio investments	2.2	5.8	3.6	6.0	2.7	-0.8	-2.4	-1.2
Other investments	3.4	1.3	2.8	2.6	4.4	6.2	7.4	4.6

Source: Eurostat, Central Banks, own calculations

Table 24. Estonia: balance of payments components(in % of GDP, 4Q moving average)

	III 2006	IV 2006	I 2007	II 2007	III 2007	IV 2007	I 2008	II 2008
Current account	-14.7	-16.7	-18.4	-18.3	-18.7	-18.1	-15.6	-14.1
Goods	-17.2	-18.3	-19.0	-18.9	-18.5	-17.6	-16.2	-14.6
Services	6.8	6.5	6.4	6.6	6.4	6.3	6.7	7.0
Income	-4.7	-5.3	-6.2	-6.4	-7.1	-7.5	-7.4	-7.8
Current transfers	0.3	0.3	0.3	0.5	0.6	0.7	1.3	1.4
Capital account	0.8	0.6	0.6	0.5	0.4	0.4	0.7	0.6
Financial account	15.6	18.0	20.2	19.4	21.4	16.8	15.5	15.7
Direct investments	2.0	4.2	3.7	3.9	4.0	5.3	4.7	5.4
Portfolio investments	-8.1	-8.0	-2.5	-3.0	-0.8	-2.4	-1.7	0.2
Other investments	21.7	21.8	19.1	18.5	18.4	14.2	12.4	10.0

Source: Eurostat, Central Banks, own calculations

Table 25. Lithuania: balance of payments components(in % of GDP, 4Q moving average)

	III 2006	IV 2006	I 2007	II 2007	III 2007	IV 2007	I 2008	II 2008
Current account	-9.5	-10.6	-11.7	-14.0	-14.3	-14.6	-15.6	-15.5
Goods	-13.0	-13.9	-14.8	-15.7	-15.3	-15.1	-15.6	-14.8
Services	3.7	3.6	3.2	2.4	2.2	1.6	1.3	1.1
Income	-2.8	-2.7	-2.9	-3.1	-3.8	-4.1	-4.2	-4.5
Current transfers	2.5	2.4	2.7	2.5	2.7	3.0	2.9	2.7
Capital account	0.8	0.5	0.4	0.4	0.4	0.3	0.7	0.8
Financial account	8.9	10.4	11.2	13.4	12.5	12.9	13.4	13.4
Direct investments	2.2	5.1	5.5	5.9	6.3	3.6	2.8	2.8
Portfolio investments	-2.2	-0.8	-3.1	-2.5	-2.5	-0.8	0.2	0.0
Other investments	10.6	11.1	12.4	14.6	13.0	13.1	11.3	11.2

Source: Eurostat, Central Banks, own calculations

Table 26. Latvia: balance of payments components(in % of GDP, 4Q moving average)

	III 2006	IV 2006	I 2007	II 2007	III 2007	IV 2007	I 2008	II 2008
Current account	-19.1	-22.5	-24.7	-25.9	-26.0	-23.8	-22.0	-19.7
Goods	-24.0	-25.6	-26.5	-27.2	-27.0	-25.3	-23.7	-21.7
Services	3.9	3.3	3.0	3.0	3.2	3.6	3.6	3.7
Income	-2.1	-2.7	-2.6	-3.2	-3.4	-3.4	-3.6	-3.6
Current transfers	3.1	2.4	1.4	1.6	1.2	1.4	1.7	1.8
Capital account	0.6	0.6	0.3	0.3	0.2	0.8	0.9	0.9
Financial account	18.8	20.6	23.6	25.1	26.1	22.5	21.0	18.1
Direct investments	6.0	7.5	7.4	8.5	8.7	7.1	6.8	5.2
Portfolio investments	0.2	0.2	0.4	-1.8	-2.1	-2.5	0.4	0.8
Other investments	20.6	22.6	23.5	24.3	23.8	20.7	17.5	14.8

Source: Eurostat, Central Banks, own calculations

Table 27. Bulgaria: balance of payments components(in % of GDP, 4Q moving average)

	III 2006	IV 2006	I 2007	II 2007	III 2007	IV 2007	I 2008	II 2008
Current account	-15.8	-17.8	-18.9	-19.9	-21.2	-21.8	-22.1	-24.2
Goods	-20.8	-22.0	-23.3	-24.4	-24.9	-25.3	-25.1	-26.8
Services	3.6	3.7	3.7	4.1	4.3	3.9	3.4	3.2
Income	-1.6	-2.1	-1.7	-1.7	-2.0	-1.6	-1.8	-2.7
Current transfers	3.0	2.7	2.4	2.0	1.4	1.2	1.3	2.1
Capital account	0.1	0.2	0.2	0.3	0.3	0.4	1.0	0.9
Financial account	20.6	20.5	20.8	22.4	23.0	25.8	26.1	25.9
Direct investments	20.3	23.3	21.8	21.1	22.7	21.8	19.9	18.5
Portfolio investments	0.5	0.8	-0.4	-0.3	-0.7	-1.8	-1.1	-1.7
Other investments	4.1	2.4	6.9	7.8	12.6	15.8	17.4	20.3

Source: Eurostat, Central Banks, own calculations

Table 28. Romania: balance of payments components(in % of GDP, 4Q moving average)

	III 2006	IV 2006	I 2007	II 2007	III 2007	IV 2007	I 2008	II 2008
Current account	-9.9	-10.4	-11.9	-12.6	-12.9	-14.0	-13.9	-13.9
Goods	-11.3	-12.0	-13.4	-14.3	-14.6	-14.6	-14.6	-14.6
Services	0.0	0.0	0.2	0.3	0.2	0.2	0.1	0.2
Income	-3.2	-3.3	-3.6	-3.4	-3.3	-3.6	-3.6	-3.7
Current transfers	4.7	4.9	4.9	4.8	4.8	4.0	4.2	4.2
Capital account	-0.1	0.0	-0.1	0.6	0.6	0.7	0.7	0.7
Financial account	8.7	9.7	11.7	12.4	12.7	13.1	12.6	13.6
Direct investments	7.0	8.9	8.6	8.7	8.2	5.9	5.8	7.0
Portfolio investments	-0.4	-0.2	-0.3	0.0	0.4	0.2	0.3	0.0
Other investments	4.8	6.4	7.2	7.7	10.5	11.0	10.4	9.7

Source: Eurostat, Central Banks, own calculations

Table 29. Official reserve assets to external debt (in %, end of quarter)

	III 2006	IV 2006	I 2007	II 2007	III 2007	IV 2007	I 2008	II 2008
Poland	31.2	28.2	28.5	28.2	27.1	27.5	26.5	28.0
Czech Rep.	58.5	55.3	55.2	51.8	49.9	46.2	45.3	39.8
Slovakia	55.1	49.5	50.9	53.2	51.8	50.0	48.3	44.5
Slovenia	27.4	24.9	3.1	2.8	2.4	2.3	2.1	1.8
Hungary	21.0	19.8	19.2	17.9	17.4	16.5	15.6	
Estonia	15.3	15.3	14.1	12.9	13.2	13.0	12.4	13.5
Lithuania	26.5	28.0	28.5	26.4	25.4	26.6	23.2	20.5
Latvia	18.1	18.8	17.1	16.0	15.4	14.5	15.1	14.6
Bulgaria	44.2	43.8	41.8	41.7	42.5	42.9	40.6	41.1
Romania		55.2	53.5	48.6	48.4	46.2	44.8	41.2

Source: Eurostat, Central Banks, own calculations

Table 30. FITCH Long-term foreign currency debt rating

	2003	2004	2005	2006	2007	11.2008
Poland	BBB+	BBB+	BBB+	BBB+	A-	A-
Czech Rep.	A-	A-	A	A	A	A+
Slovakia	BBB	A-	A	A	A	A+
Slovenia	A+	AA-	AA-	AA	AA	AA
Hungary	A-	A-	BBB+	BBB+	BBB+	BBB
Estonia	A-	A	A	A	A	A-
Lithuania	BBB	A-	A-	A	A	A-
Latvia	BBB+	A-	A-	A-	BBB+	BBB
Bulgaria	BB+	BBB-	BBB	BBB	BBB	BBB
Romania	BB	BBB-	BBB-	BBB	BBB	BBB

Source: FitchRatings

Table 30. FITCH Long-term domestic currency debt rating

	2003	2004	2005	2006	2007	11.2008
Poland	A+	A	A	A	A	A
Czech Rep.	A	A	A+	A+	A+	AA-
Slovakia	A-	A+	A+	A+	A+	A+
Slovenia	AA	AA	AA	AA	AA	AA
Hungary	A+	A+	A-	A-	A-	BBB+
Estonia	A+	A+	A+	A+	A+	A
Lithuania	A-	A	A	A+	A+	A
Latvia	A	A	A	A	A-	BBB+
Bulgaria	BBB-	BBB	BBB+	BBB+	BBB+	BBB+
Romania	BB+	BBB	BBB	BBB+	BBB+	BBB+

Source: FitchRatings

## 5. Interest rates and exchange rates

Table 32. Main policy rates (end of period)

	04.2008	05.2008	06.2008	07.2008	09.2008	09.2008	10.2008	11.2008
Poland	5.75	5.75	6.00	6.00	6.00	6.00	6.00	5.75
Czech Rep.	3.50	3.50	3.50	3.75	3.75	3.75	3.75	3.75
Slovakia	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Hungary	7.50	7.50	7.50	7.50	7.50	8.25	8.50	8.50
Romania	7.50	7.50	8.00	9.00	9.50	9.50	9.75	9.75

Source: Banki Centralne, EcoWin Financial

Table 33. 3m interbank rates (monthly average)

	04.2008	05.2008	06.2008	07.2008	09.2008	09.2008	10.2008	11.2008
Poland	6.3	6.4	6.6	6.6	6.5	6.6	6.8	6.7
Czech Rep.	4.1	4.2	4.2	4.0	3.8	4.0	4.5	4.1
Slovakia	4.3	4.4	4.4	4.3	4.3	4.3	4.0	3.5
Slovenia	4.9	4.9	4.9	5.0	5.0	5.3	4.8	3.9
Hungary	8.4	8.7	8.8	8.5	8.6	8.7	11.9	11.1
Estonia	6.3	6.5	6.4	6.4	6.3	6.4	6.9	7.1
Lithuania	5.1	5.2	5.6	5.8	5.8	6.0	8.4	8.3
Latvia	5.8	6.0	6.3	6.2	6.2	7.2	11.8	13.4
Bulgaria	6.8	6.9	7.1	7.3	7.3	7.4	7.9	8.0
Romania	11.9	11.1	11.5	11.7	12.4	13.3	22.2	16.6

Source: EcoWin Financial

Table 34. Exchange rate against the euro (monthly average)

	04.2008	05.2008	06.2008	07.2008	09.2008	09.2008	10.2008	11.2008
Poland	3.44	3.40	3.37	3.25	3.29	3.37	3.58	3.73
Czech Rep.	25.03	25.08	24.26	23.52	24.28	24.42	24.77	25.19
Slovakia	32.34	31.46	30.31	30.30	30.31	30.27	30.45	30.37
Slovenia	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Hungary	253.23	247.41	242.34	231.68	235.66	240.49	260.74	264.80
Estonia	15.64	15.64	15.64	15.64	15.64	15.64	15.64	15.64
Lithuania	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45
Latvia	0.70	0.70	0.70	0.70	0.70	0.71	0.71	0.71
Bulgaria	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Romania	3.63	3.65	3.65	3.57	3.52	3.62	3.74	3.77

Source: Eurostat

Table 35. Exchange rate against the euro (in %, y/y, average)

	04.2008	05.2008	06.2008	07.2008	09.2008	09.2008	10.2008	11.2008
Poland	-9.7	-10.0	-11.2	-13.6	-13.7	-11.0	-3.2	2.1
Czech Rep.	-10.5	-11.2	-15.0	-17.0	-12.8	-11.4	-9.3	-5.6
Slovakia	3.0	-0.5	-3.1	-6.2	-7.6	-4.9	4.0	4.1
Hungary	-3.2	-6.7	-10.7	-9.0	-9.7	-10.4	-9.3	-8.6
Romania	9.1	11.4	13.5	14.0	9.4	8.2	11.7	8.7

Source: Eurostat, own calculations

Table 36. NEER (in %, y/y)

	03.2008	04.2008	05.2008	06.2008	07.2008	09.2008	09.2008	10.2008
Poland	10.2	12.8	14.6	14.1	19.5	16.3	10.2	1.1
Czech Rep.	13.5	15.5	16.3	19.0	20.8	14.3	11.5	6.2
Slovakia	4.1	5.5	9.2	10.6	11.2	11.1	10.2	7.2
Slovenia	1.7	2.1	1.9	1.6	1.5	0.5	-0.1	-1.1
Hungary	-3.3	0.6	3.7	4.2	12.9	8.5	4.4	-4.0
Estonia	2.0	2.5	2.2	2.2	2.3	1.0	0.5	-1.1
Lithuania	1.5	1.9	1.6	1.5	1.2	0.3	0.2	-0.5
Latvia	2.3	1.5	1.0	0.3	0.2	0.1	-0.1	-1.4
Bulgaria	2.3	3.2	2.9	2.6	2.4	1.0	0.5	-0.4
Romania	-8.3	-7.1	-9.6	-12.4	-7.8	-4.3	-6.9	-7.6

Source: BIS, own calculations

Table 37. REER (in %, y/y)

	03.2008	04.2008	05.2008	06.2008	07.2008	09.2008	09.2008	10.2008
Poland	10.0	12.6	14.6	14.1	20.3	16.2	10.0	1.1
Czech Rep.	16.4	18.4	19.5	19.9	22.4	16.6	13.4	8.1
Slovakia	4.2	6.0	8.9	10.3	11.2	11.5	10.9	8.1
Slovenia	3.4	3.6	3.3	3.3	3.1	1.7	0.6	-1.2
Hungary	-1.0	2.8	6.0	6.1	15.0	10.1	5.3	-3.3
Estonia	7.1	9.2	8.0	6.5	8.7	7.1	6.1	4.0
Lithuania	6.6	8.6	7.8	7.0	7.0	5.5	4.5	4.4
Latvia	12.6	13.4	12.0	10.1	10.1	8.2	7.0	6.6
Bulgaria	11.7	13.9	13.3	10.0	8.1	6.1	6.4	4.5
Romania	-4.5	-3.3	-6.3	-9.7	-4.9	-2.0	-4.2	-4.9

Source: BIS, own calculations

## 6. Labour market

Table 38. Employment (in %, y/y)

	IV 2006	I 2007	II 2007	III 2007	IV 2007	I 2008	II 2008	III 2008
Poland	3.6	4.6	4.8	3.5	4.2	4.6	3.5	
Czech Rep.	1.8	1.9	1.5	1.4	1.4	1.2	0.9	
Slovakia	3.5	3.1	1.9	2.0	2.8	2.8	2.9	
Slovenia	2.2	3.3	3.5	3.6	3.7	3.5	3.1	3.0
Hungary	0.9	0.5	0.2	0.0	-1.1	-1.6	-1.9	-0.6
Estonia	5.9	1.9	1.3	1.9	0.5	1.5	-0.3	-0.2
Lithuania	0.9	1.6	2.8	3.2	1.8	0.2	-1.2	
Latvia	5.1	2.6	3.4	1.1	4.3	4.9	3.1	0.2
Bulgaria	5.9	6.6	3.6	3.6	4.6	4.9	3.7	3.1
Romania	1.5	2.3	2.8	2.9	3.0	2.3	2.0	1.8

Source: National statistical offices, own calculations

Table 39. Unemployment rate (in % of labour force)

	03.2008	04.2008	05.2008	06.2008	07.2008	09.2008	09.2008	10.2008
Poland	10.9	10.3	9.8	9.4	9.2	9.1	8.9	8.8
Czech Rep.	5.6	5.2	5.0	5.0	5.3	5.3	5.3	5.2
Slovakia	7.6	7.4	7.4	7.4	7.5	7.4	7.5	7.5
Slovenia	6.9	6.6	6.5	6.4	6.5	6.5	6.3	
Hungary	7.7	7.7	7.6	7.5	7.5	7.7	7.7	
Estonia	4.2	4.0	4.0	4.0	6.2	6.2	6.2	
Lithuania	4.9	4.5	4.5	4.5				
Latvia	4.9	4.8	4.8	4.9	5.1	5.2	5.3	5.6
Bulgaria	6.8	6.5	6.2	6.0	6.0	5.9	5.8	5.9
Romania	4.1	3.9	3.7	3.7	3.7	3.8	3.9	4.0

Source: National statistical offices

Table 40. Nominal wages (in %, y/y)

	IV 2006	I 2007	II 2007	III 2007	IV 2007	I 2008	II 2008	III 2008
Poland	5.3	7.1	8.9	9.7	8.9	10.1	11.6	9.8
Czech Rep.	6.3	7.8	7.4	7.5	6.6	10.2	8.0	
Slovakia	8.6	7.4	7.0	7.1	8.5	10.0	9.5	
Slovenia	5.1	5.4	5.6	5.8	6.7	7.8	8.6	9.9
Hungary	2.8	-0.3	1.4	-0.1	-1.7	-0.6	1.2	-1.1
Estonia	17.5	20.1	21.2	20.2	20.2	19.5	15.2	14.8
Lithuania	19.1	20.9	20.2	17.9	18.5	23.8	22.5	19.0
Latvia	27.8	31.6	32.2	32.9	29.9	27.9	23.6	
Bulgaria	11.5	17.6	19.6	21.7	23.2	24.4	24.2	22.6
Romania	23.7	20.0	23.5	24.1	22.7	24.4	25.9	24.7

Source: National statistical offices, own calculations

Table 41. ULC (in %, y/y)

	IV 2006	I 2007	II 2007	III 2007	IV 2007	I 2008	II 2008	III 2008
Poland	2.3	4.3	7.2	6.7	6.6	8.7	9.4	
Czech Rep.	1.4	3.1	2.4	2.5	1.4	6.3	4.3	
Slovakia	2.4	1.4	-0.6	-0.3	-3.0	4.0	4.8	
Slovenia	1.0	1.6	3.1	3.0	5.7	5.8	6.3	
Hungary	-0.2	-2.3	0.7	-0.7	-3.3	-3.8	-2.7	-2.5
Estonia	13.6	13.0	15.8	16.6	16.2	20.8	16.0	17.9
Lithuania	12.5	15.5	13.9	10.6	11.5	16.9	16.1	
Latvia	21.0	22.9	24.6	23.1	26.1	29.5	26.6	
Bulgaria	11.3	18.8	15.9	20.4	20.9	22.3	20.7	18.9
Romania	17.3	16.2	20.6	21.2	19.1	18.5	18.6	

Source: Eurostat, National statistical offices, own calculations

## 7. Public finance

Table 42. General government balance (in % of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007
Poland	-3.0	-5.1	-5.0	-6.3	-5.7	-4.3	-3.8	-2.0
Czech Rep.	-3.7	-5.7	-6.8	-6.6	-3.0	-3.6	-2.7	-1.0
Slovakia	-12.3	-6.5	-8.2	-2.7	-2.3	-2.8	-3.5	-1.9
Slovenia	-3.7	-4.0	-2.5	-2.7	-2.2	-1.4	-1.2	0.5
Hungary	-2.9	-4.0	-8.9	-7.2	-6.4	-7.8	-9.3	-5.0
Estonia	-0.2	-0.1	0.3	1.7	1.7	1.5	2.9	2.7
Lithuania	-3.2	-3.6	-1.9	-1.3	-1.5	-0.5	-0.4	-1.2
Latvia	-2.8	-2.1	-2.3	-1.6	-1.0	-0.4	-0.2	0.1
Bulgaria			-0.8	-0.3	1.6	1.9	3.0	0.1
Romania	-4.4	-3.5	-2.0	-1.5	-1.2	-1.2	-2.2	-2.6

Source: Eurostat

Table 43. Public debt (in % of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007
Poland	36.8	37.6	42.2	47.1	45.7	47.1	47.6	45.2
Czech Rep.	18.5	25.1	28.5	30.1	30.4	29.8	29.6	28.9
Slovakia	50.3	48.9	43.4	42.4	41.4	34.2	30.4	29.4
Slovenia		26.8	28.0	27.5	27.2	27.0	26.7	23.4
Hungary	54.3	52.1	55.7	58.0	59.4	61.7	65.6	65.8
Estonia	5.2	4.8	5.7	5.6	5.0	4.5	4.3	3.5
Lithuania	23.7	23.1	22.3	21.1	19.4	18.4	18.0	17.0
Latvia	12.3	14.0	13.5	14.6	14.9	12.4	10.7	9.5
Bulgaria	74.3	67.3	53.6	45.9	37.9	29.2	22.7	18.2
Romania	22.6	26.0	25.0	21.5	18.8	15.8	12.4	12.9

Source: Eurostat