ALPHA BANK

Greece and Southeastern Europe
Economic and Financial Outlook

Economic Research Division

May 2009
No 70

Executive Summary

1. Greece

- Negative GDP Growth of -1.0% expected in 2009 (0.3% in Q1 2009), versus 2.9% in 2008, due to the expected decline in both consumption and investment given the recessionary environment in Europe and the world economy. Net exports are expected to support GDP growth by 1.0pps.
- The government's plan to provide € 28 billion in capital, liquidity and guarantees to the banks is expected to sustain credit growth of around 6%.
- The prospects for fiscal adjustment remain rather remote given trends so far. Following the surge of the budget deficit to 5.0% of GDP in 2008, the target for a 3.7% deficit in 2009, will require additional measures aimed at boosting net current revenues and containing current primary expenditure.

2. Romania

- The impact of the international financial crisis became evident in Q4 2008 and Q1 2009 as growth slowed to 2.9% and to -6.5% respectively. GDP growth is now forecast at -3.1% in 2009 (7.8% in 2008) due to the expected substantial decline in domestic demand and exports which should however, be compensated for by the significant decline in imports.
- The current account deficit fell to 12.4% of GDP in 2008 from 13.5% in 2007. Following a near 82% decline in the deficit in Q1 2009, this is expected to fall further to 7.2% of GDP in 2009.
- Thus far roughly € 20 billion of standby financing has been secured from the IMF and the EU. The EC has decided to initiate an excessive deficit procedure against Romania as the general government deficit target is set at 5.1% of GDP in 2009..
- Inflation averaged to 6.7% in Jan.-April 2009 from a peak of 9.1% in July of 2008. However the substantial depreciation of the Leu by about 33% since September 2008 has made further gains in inflation difficult. Even so, lower commodity prices, weaker domestic demand and the stabilization of Leu should lead to an average inflation of 5.8% in 2009.

3. Bulgaria

- Growth contracted by 3.5% in Q1 2009 down from 3.5% in Q4 2008 and 7% in Q1 2008. Declining capital inflows have been at the heart of developments and will likely delay any recovery until next year.
- The contraction in industry was no surprise, considering the state of international trade; however the contraction of agriculture was not similarly expected.
- Notwithstanding the still positive growth rate of wages, consumer demand has declined considerably, implying a decline in the current account deficit to 3.2% of GDP in Q1 2009 from 5.8% in Q1 2008. These developments are set to continue through most of 2009 leading to a current account deficit of around 15% of GDP in 2009 from 25% in 2008.
- The fixed exchange rate regime, both a blessing and a curse in times of recession, will doubtlessly mean that a more painful adjustment will take place in the real economy.

4. Cyprus

- Weaker external demand in the second half of 2008 led to a deceleration of GDP growth to 3.7%, while the international crisis drove GDP growth to 1.4% in Q1 2009. We currently forecast 0.5% GDP growth (EC: 0.3%) on the back of weaker private consumption and investment and a substantial fall in exports of goods and services.
- The general government surplus fell to 0.9% in 2008 from 3.4% of GDP in 2007. Under the international crisis environment, the government is now targeting a deficit of 0.75% of GDP for 2009 (EC: -1.9%).
- While average HICP inflation reached 4.4% in 2008, it is now expected to fall to 1.0% in 2009, while the current account deficit is also expected to fall to 12.5% of GDP in 2009, from 18.2% in 2008.

5. Serbia

- GDP growth slowed to 2.8% yoy in Q4 2008 and to 5.8% in the full-year 2008. In Q1 2009 GDP is forecast to have registered negative growth on the back of declining industrial and construction activity.
- The economic slowdown has inadvertently led to declining household incomes, as the economy undergoes an adjustment. Notwithstanding, the short-term social costs, the scaling back of the recent wage increases to levels which more accurately reflect productivity will boost competitiveness and help the economy emerge from the crisis.
- The IMF stand by loan of € 3.0 billion signed recently is likely to support credit expansion leading to a slow paced recovery from the early 2010

6. Albania

- Economic activity accelerated with a GDP growth of 8.0% in 2008 (8.6% in Q4 2008). Nonetheless, economic activity is now expected to decelerate substantially in 2009 with GDP growth below 1.0%.
- High emigrant's remittances accounts for the low Loan-to-Deposit ratio of below 1.0 and contributes to the healthy functioning of the banking system. Moreover, a surge in infrastructure investments contributes to the positive GDP growth even in the crisis year 2009.

7. Former Yugoslav Republic of Macedonia

- Economic activity decelerated in Q4 2008 to 2.1% yoy, implying a 5.4% growth for 2008 as a whole, from 5.1% in 2007. The global economic crisis is expected to have a significant impact on the country's main growth drivers, namely: exports, remittances and FDI. As such, GDP growth is now expected to contract by -0.3% in 2009.
- CPI inflation averaged at 8.3% in 2008, substantially up from 2.2% in 2007. However, with further declines in food and energy prices forecast, average inflation is now expected to fall to 0.8% in 2009.

8. Ukraine

- The Ukrainian economy has been hit more than most from the onset of the world economic crisis. Reflecting this, Q1 2009 GDP growth is forecast at -10% with an equal decline expected for 2009 as a whole. Industry and consumption have literally slumped with the resulting decline in real wages engineering a more modest contraction in retail trade also.
- Fitch once again downgraded Ukraine's long- rating from "B+" to "B". Looking ahead, a much cheaper Hryvnia will likely help exporters, while the release of the 2nd tranche of $ 2.8 billion, from the IMF $ 16.5 billion stand by loan, also counts as positive news in an otherwise gloomy environment.

9. Turkey

- The economy contracted sharply, with GDP growth -6.2% in Q4 2008 and full-year growth 1.1% for 2008. The contraction in economic activity is expected to worsen in Q1 2009, following significant declines in industrial output and further reductions in both consumer and business demand. While there are some signs that the pace of contraction is easing, with a more upbeat 2H expected, GDP is still forecast to decline by -4.5% in 2009.
- In the face of waning demand, the Central Bank has maintained its easing bias, cutting its benchmark interest rate by 750 bps since last November to 9.25%. The deceleration of inflation and the recent stability in the foreign exchange markets have helped. On the other hand, the deterioration of the government finances may put an early halt on the easing bias, especially in the wake of the long-awaited finalization of the much needed IMF loan.

1. GREECE

Table 1. Basic Conjunctural Indicators (% change from previous period)	2006	2007	2008	2009	
Retail Sales					
Turnover Index	10.8	5.7	2,1	-4,3	Jan-Feb
Volume Index	8.0	2.3	-1,4	-7,3	Jan-Feb
Automobile sales	0.5	4.3	-7,0	-40,3	Jan-April
Tax on Mobile telephony	11.8	114,2	5,3		
VAT Receipts	12.0	9.8	8,4		
Consumption Tax on Fuels	5,4	10,0	29,9		
Total Consumption	3.3	3.0	2,4		
Building activity (Permits)	-19.5	-5,0	-17,1	-31,1	Jan-Feb
Cement Production	3.1	-9.2	-3,1		
Public Investment	8.9	7.6	9,3	272,9	Q1 2009
Total Investments	9,2	4,9	-11,5		
Industrial Production					
Composite Index	0.5	2.2	-3,7	-7,0	Jan.-Mar
Manufacturing Production	0.8	1.8	-4,2	10,3	Jan.-Mar
PMI (Manufacturing)	52.4	53.7	41,0	40,9	April.2009
Turnover in Industry	12.6	4,0	7,1	-28,0	Jan-Feb
New Orders in Industry	12.3	1,6	-0,6	-36,2	Jan-Feb
Exports goods & services	10,9	3,1	2,2		
Imports goods & services	9,7	6,7	-4,4		
GDP	**4,5**	**4,0**	2,9	**0,3**	**Q1 2009**
Current Account (% of GDP)	-9,7	-12,3	-12,7	-1,8	Jan-Feb

Note: Growth rates are calculated on a cumulative basis

ECONOMIC DEVELOPMENTS: The Greek economy grew at a healthy rate of 2.9% in 2008 and 0.3% yoy in Q1 2009, compared with a Eurozone GDP growth of 0.8% in 2008 and -4.6% yoy in Q1 2009. Economic activity in Greece has been slowing down since the beginning of 2008 on the back of rising oil, food and raw materials prices, the excessive appreciation of the Euro and the deepening of the financial crisis. Nevertheless, growth in Q3 and Q4 2008 has been a solid 2.7% and 2.4% respectively, which compares favourably with the 0.5% and -1.5% yoy GDP growth in Q3 and Q4 2008 in the Eurozone. The prevailing heightened uncertainty and the substantial fall in the international economic activity and trade in Q4 2008 and Q1 2009, has also rocked consumer and business confidence in the Greek economy, undercutting economic activity especially in the housing, tourism, manufacturing and retail trade sectors. This has set the stage for a slowdown in consumption and a substantial fall in investment, exports and imports, and in GDP growth.

Credit crunch conditions have worsened in Q1 2009, as Greek banks intensified their re-pricing of customer loans, following a period of negative term deposit spreads and in view of the post-Lehman deterioration in funding conditions in the international markets. In this environment, the Greek government, in line with prevailing international practice, adopted a € 28 billion program of measures aiming to maintaining liquidity and the proper functioning of the domestic financial system, including bank capital injections through the issue of preference shares of € 5 billion, guarantees for bank borrowing in the markets of € 15 billion, and direct liquidity injection through the issue of € 8 billion special government bonds, to be used with the ECB. This plan is coming into operation gradually in H1 2009 with of all the main Greek banks participating.

The weakening of domestic demand in Jan-Sep 2008 was mainly due to the surge in energy and food prices to record levels which, when combined with the overvalued Euro, also exerted substantial negative effects on the main tradable goods sectors of the economy, including tourism. In fact, the deceleration of growth of private consumption in the first nine months of 2008 took place despite the robust 16.3% growth of credit expansion to households until end-September 2008. However, the malfunctioning interbank and corporate bond markets increased the cost of capital for Greek banks, as well as domestic deposits and lending rates, implying an accelerated slowdown of domestic credit expansion in Q4 2008 onwards.

Therefore, final consumption growth decelerated to 2.4% in 2008, down from 3.9% in 2007. This is comprised of private and government consumption growth of 2.2% and 3.2% respectively, compared with 3.0% and 7.7% in 2007. Thus, the contribution to GDP growth of final consumption fell to 2.1 pp in 2008, from 3.4 pp in 2007.

Fixed investment declined by an estimated -11.5% in 2008, compared to an increase of 4.9% in 2007. This fall was mainly due to the accelerated fall of residential investment by -29.1%, versus the -6.8% fall in 2007. Residential investment slowdown coincided with the deceleration in mortgage credit growth to 11.4% in December 2008. General government investment grew 1.4% in 2008, while the absorption of funds under the Public Investment Budget increased by 9.3%. Finally, following the negative developments in the international financial system in Q4 2008, non-residential private sector investment registered a negative -3.7% real growth in 2008. It is now evident that various categories of investment projects were delayed or postponed in H2 2008 on the back of the unprecedented uncertainty plaguing the world in this period.

Domestic demand slowdown in H2 2008 in Greece is reflected mainly in total imports of goods and services, which registered a fall of -4.4% in 2008 as a whole. On the other hand exports of goods and services registered again a robust 2.2% growth in 2008 (3.1% in 2007), implying a sizable positive effect on GDP growth from net exports of 2.1pps in 2008 from a negative effect of -1.3pps in 2007.

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The Greek economy is currently operating in a dismal international economic and financial environment, with the main advanced economies in a deep recession, coupled with a substantial deceleration of growth in the rapidly growing developing economies and negative growth in the countries of Central and Eastern Europe. In this dire economic environment, international trade has fallen in Q1 2009 by more than -20% and is expected to register negative growth by more than -11% in 2009 as a whole, from 4.1% in 2008, while international tourism traffic is also expected to fall much below 2008 levels. Moreover, the malfunctioning of the international financial system have substantially affected the cost of government borrowing for highly indebted countries like Greece putting additional pressure on Greek public finances, which were already in a sore state.

The above adverse conditions for the Greek economy in 2009 are further amplified by the continuing high growth of domestic unit labour costs, which is contributing to a gradual but continuous erosion of its international cost competitiveness. This did not dent Greek export growth until Q3 2008, as domestic supply of exportable goods and services has been boosted by increasing domestic production capacity as a result of high investment growth in the last ten years. Moreover, Greek exports have received a boost by the rapidly growing SE European countries, including Russia, and various other developing countries. These supply side and market growth effects are also expected, ceteris paribus, to mitigate the negative impact on Greek exports of goods and tourism in 2009, despite the expected negative growth in the main countries of destination of Greek exports of goods and of origin of tourist flows.

However, following the depreciation of the Euro from July 2008 onwards, we have also observed a substantial depreciation of many of the currencies in Central and Eastern Europe (including Turkey, Hungary, Romania, Poland, the Check Republic and others), the United Kingdom and in SE Asia, which are in many respects competitors for Greece in export markets. Therefore, the challenge for Greece to reign in domestic wage growth is now more pressing as competition to gain market share in international markets will be even more intensive in the crisis environment of the following years.

The above adverse developments have already had a depressing effect on domestic consumption and investment as well as on shipping, tourism and exports and imports of goods in Q4 2008 and Q1 2009. Moreover, activity in these sectors is expected to fall considerably in 2009, on the following grounds:

Private consumption growth is now expected to ease to 0.5% in 2009, from 2.4% in 2008. This expectation is based on the new estimates for growth of compensation of employees in 2009 of 4.0% (2.8% in real terms), compared with an increase of 9.4% (6.1% in real terms) in 2008. With the assumption of a -1.3% fall in employment and conservative assumptions concerning growth of non-labour income and income transfers, as well as direct tax payments, it is estimated that the rate of growth of real disposable income will exceed 1.0% in 2009, thus justifying the assumption for 0.5% real growth of private consumption. This may be supported by an expected 6.0% (4.8% in real terms) growth of consumer credit. This growth in consumption would imply that more than 50% of the increase of the disposable income in 2009 will be saved. Assuming much lower wage and disposable income growth in 2010, but a higher consumer credit growth, we would again expect private consumption growth of around 0.6%. On the other hand, growth in government consumption, which reached 3.2% in 2008, from 7.4% in 2007, is expected to slow to 1.0% in 2009 as the government will try to cut back spending in H2 2009. Moreover, government consumption growth will remain constrained from 2010 onwards due to the increasing pressure for maintaining the general government deficit below 3.0% of GDP.

Investment's function as the primary growth driver is constrained in 2008-2009 by the abrupt fall of investment in housing. Business investment also registered negative growth of -3.7% in 2008, and it is expected to fall by -2.0% in 2009. Absorption of EU funds by government and private sector business is expected to continue in the final year of the CSF III implementation period (2009), as well as in the initial implementation period of CSF VI (2007-2013). More than € 9.0 billion should be absorbed from the EU during 2009-2010. The Government has now been promoting most of the public sector projects through Public Private Partnerships (PPPs), implying a fall in general government investment by -12.2% in real terms in 2009, following the 1.4% real growth in both 2007 and 2008. However, the implementations of PPPs projects have not taken place in 2008 and are now expected to start in 2009. The government has accelerated the implementation of projects financed through the public investment budget, as public investment expenditure was higher in Q1 2009 by 273% yoy. Finally, the European Commission has indicated its willingness to increase the EU contribution for financing investment projects implemented by member states in 2009 and 2010, thus reducing the burden imposed on the member's budgets. This opportunity may be appropriately exploited by the Greek government.

Business investment may also be boosted in the following years by: (a) The expanding activity of project development via PPPs. Following a relatively long gestation period, a number of important infrastructure projects (budgeted at € 5.7 billion) were awarded to consortia of construction companies (domestic and foreign) in 2007 and 2008 to be implemented mainly in 2009 onwards. (b) The large number of investment projects under the investment incentives law (3299/2004) in the period 2005-2008. About 6.543 projects were submitted, of which 4.300 were approved. Total

budgeted value of investment in these projects reached € 8.9 billion, in which a government subsidy of € 3.7 billion is included. Most of these investment projects were to be implemented and completed in the period 2008-2009, boosting business investment in 2009.

The Greek housing sector is in the midst of a substantial slowdown in 2007-2009 which initially was in response to the extraordinarily high level of residential investment in 2006, following a building permit explosion in 2005 due to impending changes in the tax law affecting real estate transactions. However, it is now evident that this sector has also been negatively affected by uncertainty and tightened credit expansion due to the international financial turmoil. Therefore, residential investment is now expected to fall further in 2009, by about -16.5%, from its already low level in 2008. Housing price growth has also slowed down to around 1.5% in 2008, barely enough to compensate for the substantial increase in the cost of housing construction this year, as compared with price increases of 3.5% in 2007 and 12.2% in 2006. On the other hand, the abrupt fall in residential investment in 2007-2009 imply a high absorption of the number of unsold houses, reducing excess supply in the market. Moreover, Greece's status as a favoured tourist destination, in combination with its increasing attractiveness as a destination for the establishment of second or summer homes, may enable both tourism and the housing sector to benefit more from the expected recovery of the European economies in 2010.

Thus, investment is expected to fall again by -8.7% in 2009, following a fall of -11.5% in 2008 and an increase of 4.9% in 2007. The above assumptions, in combination with the assumption for a fall in stocks by an estimated -43% in 2009, imply that **the overall domestic demand growth is expected to register also negative growth of -1.8%,** contributing to a sizable improvement of the external goods and services deficit (national accounts basis) to 9.1% of GDP in 2009 from 10.0% in 2008 and 12.1% in 2007. More specifically:

Greece's net merchant shipping receipts remained buoyant until September 2008, but have fallen substantially in Q4 2008 and Q1 2009, as expected. These receipts which reached € 9.2 billion in 2007, a 25.0% increase on 2006, have continued to grow at a rapid pace increasing 7.7% in 2008 to € 9.9 billion. This substantial amount of net current account receipts exerts a considerable boost to domestic demand, investment and consumption in the Greek economy contributing to GDP growth. However, Greek net current account receipts from international shipping have fallen in Q1 2009 by -23.1% yoy, from their very high level in Q1 2008 (when they had registered an increase of 22.3%). Overall, these net receipts are now expected to fall by about -25% to around € 7.7 billion in 2009, from their record level of € 9.9 billion in 2008. This is one of the factors which are negatively affecting domestic consumption and investment in 2009, especially housing investment.

International tourist receipts were up by 3.0% in 2008. This is attributed mainly to the substantial increase of tourist arrivals from Russia and SE European countries, which compensated for the slowdown of growth of arrivals from more traditional tourist origin countries (e.g. Germany and United Kingdom). ***However, external tourism receipts were down by -18.2% in Q1 2009,*** from their high level in Q1 2008 when they had registered an increase of 7.8%. These imply an estimated fall of about -15.0% of external tourism receipts in 2009 as a whole. On the other hand, payments by domestic residents for tourism abroad were also lower in Q1 2009 by -15.8% yoy, implying a fall by about -12.5% for 2009.

Exports of goods have registered a -16.7% yoy fall in nominal terms in Q1 2009 (NSSG data), following their positive performance in 2008. Overall, exports of goods and services (on a national accounts basis) are estimated to have registered a -12% fall in real terms in Q1 2009 and are expected to fall by -8.3% in real terms in 2009 as a whole. On the other hand, ***imports of goods*** have registered a much bigger fall of -30,2% in nominal terms in Q1 2009, when registrations of private passenger cars (totally imported) were down by -40% yoy, and domestic retail sales of car fuels and lubricants were down by 39.8% in real terms in Jan.-Febr.2009. Thus, imports of goods and services are estimated to have registered a fall by -18% in real terms in Q1 2009 and are expected to fall by -8.8% in real terms in 2009 as a whole. Overall, ***the contribution of net exports to GDP growth is now expected to remain positive at around 1.0pp in 2009 as well.***

The above assumptions result in GDP fall of -1.0% in 2009, compared with 2.9% in 2008 and 4.0% in 2007. In fact, the substantial deterioration in the international economic environment in the last months, in combination with political rigidities in Greece, imply much higher than usual uncertainties and risks concerning economic developments in 2009.

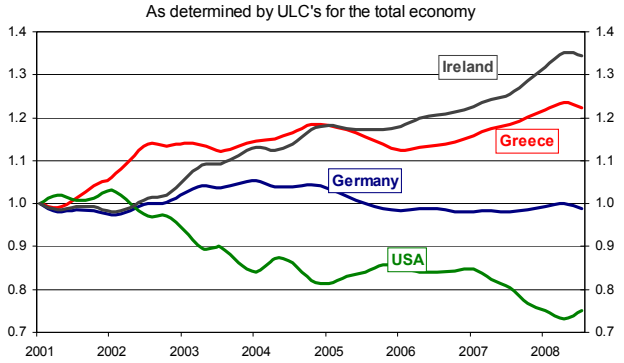
The government itself continues to predict positive GDP growth of about 0,5% in 2009, despite the consensus estimate from the Bank of Greece, the European Commission, the OECD, the IMF and most private sector forecasters, which is for a fall of Greek GDP by -1.0% in 2009. In fact, even with a -1.0% growth, Greece will be a star performer in the Eurozone in the current year, maintaining the gap between the Greek and the Eurozone GDP growth at 3.1pps. The common assumption of the above negative growth projections is that all of the above official and unofficial forecasters assume a similar with us fall of domestic demand and real exports of goods and services, but with the critical assumption that imports of goods and services in Greece will also fall in real terms but at a lower rate than exports. This is contrary to what happened in H2 2008, as well as to the performance of exports and imports of goods in Q1 2009. Moreover, we are basing our own estimates on the

expectation for a better performance of the Greek economy in H2 2009, following an already discernible improvement in the international economic environment in May 2009 and an expected further improvement in the functioning of the Greek financial system in the second half of the current year.

More specifically, concerning the operation of the Greek economy given the new adverse economic environment, the following points need to be considered:

The Greek banking system has been a strong pillar supporting growth in Greece and the SEE region as a whole in the last ten years. In the current period, despite the severe tensions in international financial markets, banks remain fundamentally sound, safe and stable. Their leverage of domestic households and businesses is lower than that in the Eurozone, with loans to GDP at 102%, compared with 119% in the Eurozone and above 170% in some overleveraged economies. Write-offs by Greek banks related to the international crisis are insignificant and their capital base remains relatively strong, even before the support in preference shares provided by the Government. Over 90% of bank lending in Greece is financed by customer deposits, minimising Greek banks' exposure to financing in the international markets. Therefore, despite the expected significant slowdown, domestic credit expansion may still exceed 6% in 2009 (with nominal GDP growth of about 1.8%), given also the utilization of the € 28 billion government program aiming to a healthy growth of domestic finance.

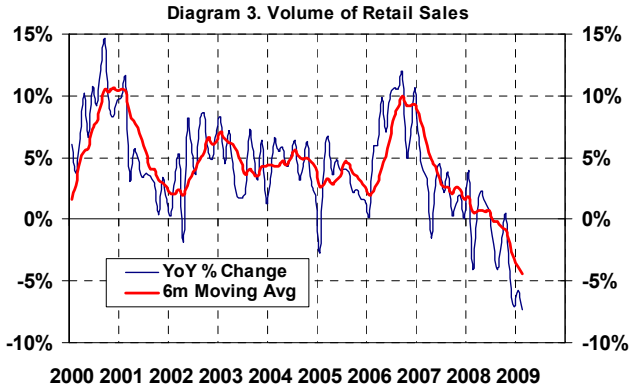
Diagram 1. Real Effective Exchange Rate
As determined by ULC's for the total economy



The continuation of Greece's solid growth, within a crisis environment and deep recession in the international economy, is constrained by the gradual erosion of Greece's international competitiveness in terms of unit labour costs (ULC). Data from the IMF, the European Commission and the Bank of Greece indicate that since 2001, Greece's ULC-based real effective exchange rate (REER) had appreciated at the end of 2008 by as much as 25% relative to its main trading partners and by more than 30% against emerging market economies (Diagram 1). Deteriorating competitiveness is constraining Greek export growth (including tourism), while at the same time contributing to the high growth rate of imports and, as a result, to the high current account deficit. This appreciating trend of Greece's real effective exchange rate was not reversed in H2 2008, despite the substantial depreciation of the Euro since July 2008, due largely to the rapid growth of Greek ULC by 6.3% in 2007, 5.7% in 2008 and expected 4.1% in 2009. As a result, the Greek REER appreciated 3.3% in 2007 and 1.5% in 2008 and is expected to appreciate by a further 0.6% in 2009. In fact, the 0,6 appreciation of 2009 may turn to be zero, if GDP growth in Greece will be positive in this year as well. The needed reversal of the above trends could be achieved in the following years with: (1) an acceleration of structural reforms, which would facilitate the continued high rate of productivity growth and (2) adjusting incomes policy so that wage-growth trends below productivity growth. The above need to be combined with the successful implementation of reform measures of the social security system recently adopted.

ECONOMIC INDICATORS: Retail sales volume posted a decline of -1.4% in 2008, following a 2.3% growth in 2007. Registrations of private new passenger vehicles fell by -7.0% in 2008, following a 4.3% increase in 2007. The above falling trends accelerated in Jan.-Febr.'2009 with retail sales volume (excluding fuels and lubricants) falling by -7.3%, the volume of sales of fuels and lubricants falling by -39.8% and registrations of new private passenger vehicles falling by -40.3%. The retail business confidence index fell abruptly to 60.2 in March 2009, from 65.3 in January 2009, 66.5 in December 2008 and 117 in January 2008, mainly as a result of the surge in uncertainty produced by the rapid deepening of the international financial crisis. It ***rebounded to 64,5 in April 2009*** as the first "green shoots" appeared in the international economy.

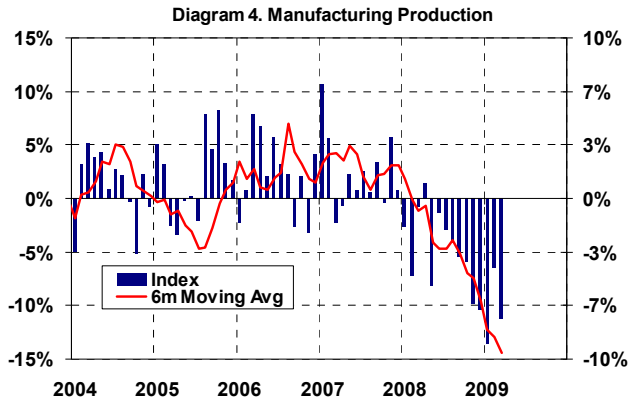
Diagram 3. Volume of Retail Sales



Residential construction activity – as measured by the volume (m^3) of building permits – registered negative growth of -17.1% in 2008, compared with the -5.0% decline for 2007 as a whole. Moreover, the rapid decline of activity in the sector continued in Jan.-Feb.'2009, with a fall by -31.1%, on top of the fall by -2.6% in Jan.-Feb.'2008. Also, negative growth in residential investment is now estimated at -29.1% in 2008, following the fall by -6.8% for 2007, while a substantial fall of the order of -16.5% is also projected for 2009. In fact support of demand for residential investment from high growth of

mortgage lending has also weakened in resent months, as growth of mortgage loans decelerated to 8.7% at end-March 2009, from 11.5% at end-2008, 17.0% end-June 2008 and 21.4% end-2007. A further deceleration in the growth of mortgage lending to around 5% is now expected by end-2009, taking into account the new conditions of operations of the Greek banking system, as well as the expected demand for mortgages in 2009. The unfavourable turn of events in the last months due to the international financial turmoil is also reflected in the substantial deterioration of the construction business confidence index, which fell to 59.1 in March 2009, from 65 in Jan.'2009, 73.0 in Dec.'2008, 105.2 in July 2008 and 110.5 in April 2008. An improvement to 63.0 was registered in April 2009.

The Government has instituted new measures, which are intended to stimulate mortgage credit demand in Greece by reducing the transaction costs (i.e notary fees) on mortgage lending, as well as by expanding the tax deductibility scope for residential mortgage loans originated in 2009 and 2010. Moreover, the government is offering to guarantee mortgage-loan amounts granted in excess of the 75% Loan to Value (LTV) ratio, and up toy 100%, for loans that will be disbursed by the end of the year 2010. These measures may help to revive activity in this market from May 2009 onwards. Therefore for the year as a whole we now expect the volume of building permits to have again negative growth of the order of -7.9% in 2009 and a positive growth of more than 5.0% in 2010. On the other hand, the expected fall of housing investment by -16.5% in 2009 is mainly due to the substantial fall of the volume of building permits issued in 2008 and the early months of 2009.



Manufacturing production recorded negative growth in 2008, of -4.2%, following 1.8% growth in 2007. Here again the falling trend has accelerated in Q1 2009, where manufacturing production fell by 10.3% yoy. This fall in 2008, as well as in Q1 2009, was mainly due to the fall of production of textiles by -28.9% in 2008 and by – 22.9% in Q1 2009 and of the production of clothing by -10.8% in 2008 and by -22.3% in Q1 2009. Moreover, production of non-metallic minerals, basic metals and manufacturing of metal products, registered substantial fall in 2008 which is continuing in Q1 2009, due also to the rapidly falling activity in the housing sector. On the other hand, the food and beverages industry (the biggest industry in Greece, with an 18.5% weight in the index of manufacturing production) registered positive growth of 1.2% in 2008 (3.6% in 2007), but it has also turned to negative growth, of -4.6% yoy in Q1 2009. In fact, an analysis of developments in the main manufacturing sectors of Greece reveals that the substantial deterioration of Greece's international competitiveness in terms of ULC in recent years has indeed exerted a heavy toll on the main labour intensive manufacturing sectors (textiles, domestic assembling processes of electrical and electronic equipment and other imported consumer durables), while negatively affecting the whole manufacturing industry as well. The prospects ahead are again affected negatively by the current international financial turmoil and the continuing deterioration of Greece's international competitiveness, with the PMI index falling below 50, to 40.3 in May 2009, from 40 in January 2009, 51.6 in July 2008 and 54.4 in April 2008. Also, manufacturing business confidence fell substantially to 62.8 in February 2009, rebounding to 68.9 in April 2009, from 68.2 in January 2009, 69.4 in December 2008, 93.7 in July 2008, 101.4 in April 2008 and 97.5 in December 2007.

Finally, ***the general index of industrial production*** also fell by -3.7% in 2008, from 2.2% yoy in 2007, following an increase of 2.2% in 2007, 0.5% in 2006 and a -0.9% decline in 2005. Moreover, the fall of the general index of industrial production reached -7.0% in Q1 2009, indicating the substantial effect of the international economic crisis on the Greek economy. More specifically, mining and quarrying production fell in 2008 by -4.3%, compared with a fall of -0.9% in 2007 and also fell in Q1 2009 by -7.5% yoy, on top of a -12.9% fall in Q1 2008. The production of electricity also fell by -2.8% in 2008, following a 3.5% increase in 2007, but it registered positive growth of 3.0% in Q1 2009, compared with a fall of -3.3% in Q1 2008. Natural gas and water production rose by 5.2% and 2.7% respectively in 2008, from 22.6% and 1.1% in 2007. Water production and distribution fell in Q1 2009 by -0.6% yoy, following an increase by 3.1% in Q1 2008.

FISCAL POLICY: The implementation of the 2009 Budget during Q1 2009 reflects the need for additional measures in order to secure the containment of the general government to 3.7% of GDP in 2009 and bellow 3.0% of GDP in 2010. The main developments in Q1 2009 are as follows: **(a)** Net current revenues reached € 11.01 billion, registering 0.0% growth, compared with a budgeted increase of 20.5% in the Budget 2009, which was adjusted downwards to 14.8% in the January 2009 revision of the Hellenic Stability and Growth Programme (SGP) 2008-2011. Tax rebates surged again by 78% in Q1 2009 on top of a 26.9% increase in Q1 2008, while rebates for the year as a whole are budgeted to decrease by 12.1%. These developments lead to the strong possibility of net revenue growth not exceeding

7.0% in 2009 (2008: 5.1%), failing once more to reach the planned 14.8% growth target for 2009, following their below target growth (5.7%) in 2003-2008.

(b) Current primary expenditure reached € 13.02 billion in Q1 2009, up again 19.1% yoy, following, however, the small 0.4% increase in Q1 2008, comparing with a 10.9% increase for 2008 as a whole. In any case, growth of current primary expenditure remains much higher than the budgeted increase of 8.6% in the Budget 2009 and of 10.2% in the SGP 2008-2011. This increase of current primary expenditure is not in keeping with the need for a more determined move towards fiscal adjustment that is, achieving a general government deficit of 3.7% of GDP in 2009, less than 3.0% of GDP in 2010 and 0.0% of GDP in 2012, maintaining surplus thereafter. In fact, growth in the current primary expenditure may be contained in 2009 by the application of the new policy for 0.0% wage and pension increases in the current year. This will be substituted by a single hand-out of € 500 and € 300 to wage and pension earners with monthly incomes of less than € 800 and € 1.100 respectively. Also, additional measures for a substantial containment of current primary expenditure are expected after the June elections for the European Parliament. On these grounds we expect that the current primary expenditure in 2009 may register a lower (9.4%) growth than the 10.2% growth targeted in the SGP 2008-2011. In fact, even this outcome would imply a 9.8% average growth of primary expenditure for the period 2003-3009, which is considered excessive and destabilizing. Overall, it is now evident that without a further substantial improvement of pension funds finances, aiming at an essential increase of pension savings and at a better connection of pension benefits with contributions, the needed sustainable containment of current primary expenditure growth and a more general improvement of Greek public finances may be elusive.

(c) Interest payments in Q1 2009 were 68.8% higher than in Q1 2007, compared with a targeted increase of 7.0% in the Budget 2009 and 7.9% in the SGP 2008-2011 for the year 2008 as a whole.

(d) In the Public Investment Budget (PIB), expenditure reached € 2.93 billion in Q1 2009, up 273% yoy, compared to the planned fall of -8.8% for the year as a whole in the Budget 2009. On the other hand, PIB revenues reached € 430 million in Q1 2009, down from € 1.36 billion in Q1 2008. It is projected that PIB revenue will reach at the end the targeted level.

The above developments indicate that, without new effective measures aiming to capture current tax revenues and contain current primary expenditure, the Greek general government deficit will exceed 5.5% of GDP in 2009, following the upward revised 5.0% of GDP deficit in 2008. It should be again pointed out that the Greek general government deficit and debt is, to a great extent, related to domestic policies and tax system inefficiencies, implying: a) Abnormally low tax revenues, which in Greece do not exceed 31.4% of GDP in 2006, compared with 40.5% of GDP in the Eurozone and 39.9% in the EU-27. In fact, Greece's percentage has fallen even lower in 2008 as tax revenue growth in the period 2007-2008 was much lower than nominal GDP growth. b) A persistent excessive growth of primary expenditure due mainly to rapidly increasing wage and pension payments in the general government sector and subsidies to pension funds. Therefore, the long-term sustainability of public finances requires on the one hand effective measures to combat tax and social security contribution evasion and, on the other, the fundamental reform of labour relations in the public sector, additional measures to effectively contain the rapidly increasing costs of health care services and further reform of the social security system so that to decelerate the high rate of growth of budget payments for covering the deficits of the main social security funds. ***For a successful fiscal consolidation to be possible, the rate of growth of net tax revenues should be higher, for a number of years, from the rate of growth of current primary expenditure.*** Fiscal adjustment, aimed at achieving a general government surplus even before 2012, is a prerequisite: a) to increasing domestic savings, b) to reducing the excessive cost of borrowing by the public and, as a consequence, by the private sector, c) to containing the further deterioration of our international competitiveness and (iii) to containing our current account deficit at much lower levels.

INFLATION: CPI inflation fell, as expected, to 1.0% in April 2009, from 1.8% in January 2009, 2.0% in Dec. 2008 and 3.9% in January 2008. Core inflation (which in Greece excludes unprocessed food and energy products) also fell to 2.7% in April 2009, from 3.3% in January 2009, 3.5% in Oct. 2008 and 3.7% in July 2008, reflecting the weakening domestic demand. Inflation in both Greece and the Eurozone is expected to fall further in the following months, mainly due to the maintenance of the international price of oil at levels below the $ 55/barel from above $ 145/barrel in July 2008. However, Greek CPI inflation remains higher than the Eurozone, as Greece is still experiencing higher growth in both domestic demand and unit labour costs relative to other Eurozone countries and higher inflation in government services and other non-traded goods sectors. **Taking into account the existing downward base effects in March-July 2009 from the high level of the CPI index in the same period of 2007, it is estimated a fall in CPI inflation to 0.7% in July – August 2009, to be followed by an upward rend in inflation in the last four months of 2009. Average inflation in 2009 is now expected at 1.2% in 2009, from 4.2% in 2008.**

BALANCE OF PAYMENTS: The current account deficit (CAD), which includes net capital transfers, fell in Q1 2009 by -14.5%, reaching € 6.85 billion or 2.76% of GDP, from 3.3% of GDP in Q1 2008. In fact, developments in the Greek BoP in Q1 2008 reveal the

substantial effect of the international economic crisis on the Greek economy.

Of particular importance was the substantial fall of the deficit of the trade balance by -28.9% as a result of the fall of exports of goods by -19.8% and the even higher fall of imports of goods by -26.2%. In fact, payments for imports of fuels were € 1.38 billion lower than in Q1 2009 and payments for imports of goods excluding fuels and ships were lower by € 2.3 billion. On the other hand, the fall in exports excluding fuels and ships did not exceed € 443 million. A second important development was the fall by -33.4% of the surplus of the balance of services, as a result of the fall by 18.24% of earnings from external tourism, as well as the fall of net receipts from international shipping by -23.9%. Payments for services imports were also lower by -15.8%. Thirdly, the deficit of incomes balance was only slightly higher on a yearly basis, mainly due to the deceleration of growth of payments for interest, dividends and profits to foreign investors in Greek financial assets (government bonds and shares) to 3.0% in Q1 2009, from 28.2% in Q1 2008. Finally, the surplus of the balance of current transfers was slightly lower than in Q1 2008, while the surplus on the balance of capital transfers was -66.2% lower on a yearly basis.

A further improvement of the CAD is expected for 2009 as a whole, where the deficit is estimated to fall to 8.5% of GDP, compared with 12.7% of GDP in 2008 and 12.3% of GDP in 2007.

Table 4. Greek Balance of Payments (€ Billions)

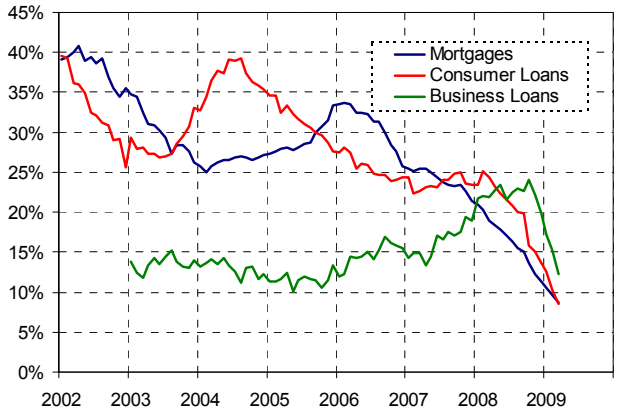
	2006	2007	2008	Jan.Mar.2008	Jan.Mar. 2009
Trade Balance (TB)	-35,29	-41,50	-44,05	-10,84	-7,71
Exports	16,15	17,45	19,81	4,56	3,66
Imports	-51,44	-58,94	-63,86	15,40	11,37
Services Balance	15,34	16,59	17,20	1,87	1,25
Tourism Receipts	11,39	11,32	11,66	0,59	0,48
Shipping Receipts	14,32	16,94	19,19	4,48	3,41
Income Balance	-7,12	-9,08	-10,89	-1,96	-2,25
Payment of Interest, Divid. & Profits	-10,46	-13,37	-16,21	3,29	3,93
Transfers' Balance	6,45	5,92	6,85	2,92	1,86
Current Account (CA)	-20,62	-28,06	-30,89	-8,01	-6,85
CA (% of GDP)	9,6%	12,3%	12,8%	3,3%	2,8%
Capital Account	20,36	27,68	30,19	8,30	6,92

Source: Bank of Greece

With respect to the structure of the capital account of the Greek balance of payments: a) net capital inflows fell to € 6.67 billion in Q1 2009 from € 7.53 billion in Q1 2008. In fact, the international financial crisis has not affected considerably net foreign capital inflows into the Greek economy in 2008, as well as in the first months of 2009: a) Net capital inflow through foreign direct investment (FDI) had an inflow of € 88.3 million in Q1 2009 from an outflow of € 464 million in Q1 2008. This was mainly due to a higher inflow of FDI by foreign firms in Greece of € 341.3 million (Q1 2008: € 40.2 million), as well as to the substantial fall of FDI by Greek firms abroad to € 252.9 million (Q1 2008: € 504.6 million). b) Capital outflows for portfolio investment abroad by Greek residents were increased to of € 6.1 billion, from € 340.9 million in Q1 2008. Furthermore, Q1 2009 witnessed a modest fall of net capital inflows from foreign residents for portfolio investment in Greece to € 9.0 billion, from € 8.9 billion in Q1 2008. c) Finally, there was a net outflow of bank capital of € 8.35 billion in Q1 2009, from a low outflow of € 0.6 billion in Q1 2008. This comprises of liquidation of positions of foreign banks to Greek banks of € 478.1 million and outflows from Greek banks to foreign banks of € 8.8 billion.

MONEY & FINANCIAL MARKETS: (Credit data provided by the Bank of Greece are adjusted for securitisation, which leads in turn to higher growth and penetration rates). Credit expansion to businesses and households decelerated to 10.8% at end-March 2009, from 15.9% at end-Dec 2008. In particular, mortgage and consumer lending growth reached 8.7 % and 8.5% respectively by end-March 2009, from 11.5% and 13.7% respectively at end-December 2008 and 19.5% and 24.3% of end-March 2008. Loans to domestic households reached 48.1% of GDP in end-March 2009, from 48.2% of GDP in end-Dec 2008, compared to 61.0% of GDP in the Eurozone in end-March 2009. On the other hand, lending growth to businesses remained strong to 12.2% yoy at end-March 2009, from 18.7% at end-208. Overall, credit expansion to the private sector is expected to decelerate to 6.0% by year-end 2009, which is still high compared with an expected nominal GDP growth of 1.8%. In fact the on going international credit crisis, some tightening of credit rules applied by Greek banks and the fall of the demand for credit following the substantial slowdown of growth in the Greek economy imply the aforementioned deceleration of Greek credit growth. The application of the € 28 billion government sponsored liquidity boosting program helps to sustain credit expansion, given the expected slowdown of activity in the Greek economy.

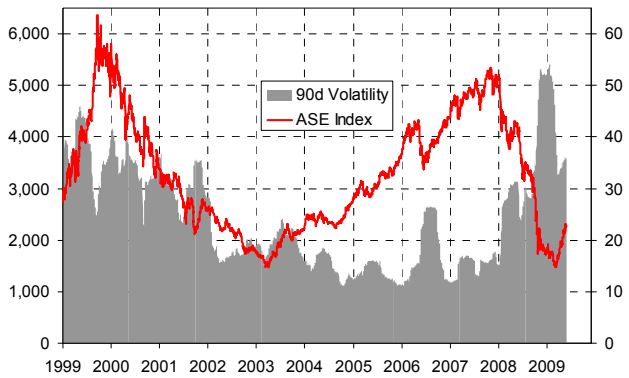
Diagram 5. Credit Expansion



By the 20th of May 2009, the main ASE composite index was down by -55.6% since the start of 2008 (FTSE-20 stocks: -56.3%, mid-cap FTSE-40: -58.8% and small caps FTSE-80: -53.3%). However, in the last two months the Greek stock exchange indices have followed international trends and have registered a notable improvement, as the ASE composite index is now up by nearly 56%, comparing with its low point in early March 2009. In fact it has now rebounded to its October 2008 level. Therefore, Greek shares are now trading at 11.2

and 8.9 times the estimated earnings for 2008 and 2009 respectively. Also, the Greek trading discount compared with European Shares has now reached 0.31% with respect the 2009 PE. According to unofficial estimates, the ASE was boosted by € 1.9 billion of net inflows from abroad in April 2009. These inflows helped to boost trading volumes and stock prices. In fact, in April 2009 non-residents were net buyers of Greek shares of the order of € 119.55 million. Following these developments, at the end of April 2009 47.18% of the total stock exchange value of listed firms (€ 75.7 billion) was in the hands of foreign investors, down from 51.8% at end 2007 (€ 196.4 billion).

Diagram 6. Athens Stock Exchange
1999 - May 2009



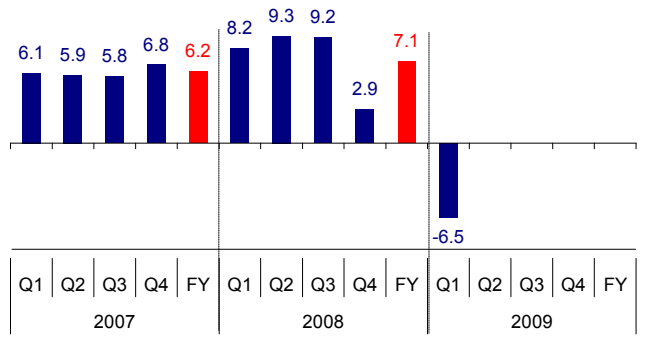
SOUTHEASTERN EUROPE

2. ROMANIA

ECONOMIC OVERVIEW: Strong domestic demand, supported by rapid wage and credit growth, drove full-year GDP growth to 7.1% in 2008 versus 6.2% in 2007. However, the impact of the international financial crisis slowed GDP growth from 8.9% during the first three quarters to 2.9% in Q4 2008. With a significant tightening of international capital inflows, the largely foreign financed domestic demand boom came to a halt. Private consumption fell by -3.7% in Q4 2008, from growth of more than 14% in the first three quarters, posting full-year growth of 9.1% (11.6% in 2007). Investment was also heavily affected, with growth having slowed to 2.8% in Q4 2008, from 29% in the first three quarters, with full-year growth of 19.3% (29.0% in 2007). All-in-all, domestic demand contracted by around -2% in Q4 2008, versus an average increase of 14.5% in the first three quarters of 2008. Despite the growth in exports of goods and services having increased to 19.4% (7.9% in 2007) and weaker growth in imports of goods and services of 17.5% (27.2% in 2007), the contribution from net exports remained negative, subtracting 1.9pps (9.5pps in 2007) from headline GDP growth in 2008.

The decline in output and demand has accelerated in the Q1 2009, with unemployment climbing higher, and credit conditions remaining tight. With both industrial production (-13.0% in Q1 2009) and retail sales falling by -13% and by -5.2% respectively in Q1 2009, GDP growth declined by -6.5%, according to the current flash-estimates. Looking forward, household disposable income is expected to remain weak, while tighter credit conditions will continue depressing household consumption. Under the provisions of the current IMF package, government spending is expected to contract following a significant fiscal adjustment. Meanwhile, the expected decline in private investment should, to some extent, be buttressed by increased public investment, as EU funded investment is safeguarded in the current budget. Therefore, despite the significant decline in economic activity during the first quarter, GDP growth is projected at -3.1% in 2009.

Real GDP (%Δ YoY)



With the aim of softening the impact on Romania's economy from the sharp drop in capital inflows, a two-year stand-by agreement was concluded with the IMF. This agreement will provide roughly € 13 billion in financing, with the first tranche of € 4.9 billion already having been transferred to the central bank. Thus far, Romania has secured around € 20 billion of financing, with the European Union providing € 5 billon, the World Bank € 1billion and the EBRD, EIB and IFC € 1 billion.

FISCAL POLICY: The general government deficit deteriorated from 2.5% in 2007 to 5.4% of GDP in 2008 due to unexpected expenditure increases relating to public wages and social transfers. In addition, revenue growth underperformed, due to overly optimistic revenue projections and the sudden drop in revenue collection in the last two months of 2008. The government deficit currently stands at an estimated 1.5% of forecast GDP for the first quarter and remains in line with the target set by the IMF. The government has also secured € 5 billion financing from the EU which, the pre- and post-accession assistance, will help contain the deficit and cover capital investment. The current budget also includes numerous measures geared towards preventing an expansion of the deficit. These measures include a recruitment freeze, a reduction in bonuses for public sector employees, as well as reduced expenditure for goods and services and subsidies. As such, based on these measures and our relatively optimistic growth projection, we foresee the deficit decreasing to 5.0% in 2009.

The European Commission (EC) has decided to initiate an excessive deficit procedure against Romania. The EC

maintains that Romania undertook "a pro-cyclical budget policy between 2005 and 2008", which accounts for this increase in the budget deficit from 1.2% of GDP in 2005 to 5.4% of GDP in 2008, despite average real GDP growth of 6.5%. The EC does however acknowledge the recent measures undertaken by the government to address these macroeconomic imbalances, including the fiscal consolidation measures discussed above.

External Debt: By the end-March 2009, gross external debt decreased by € 1.4 billion to € 71.63 billion or to roughly 58% of forecast full-year GDP. However, in annualised terms, this still represents a 17% yoy increase (24% yoy end-December 2008 and 32% yoy end-September 2008). Medium and long-term debt increased by € 311 million, boosted by € 696 million in private sector net borrowing. Conversely, the short-term debt shrunk by a significant € 1.7 billion to € 20.5 billion.

Inflation: While inflationary pressures eased in the second half of 2008, from 9.1% in June 2008 to 6.4% in December 2008, due largely to falling international food and energy prices, further gains have been hampered by the depreciation of the RON. In the first four months of 2009 inflation has averaged around 6.7%. Despite the uncertainty regarding exchange rate developments, the combination of low world oil prices, continuing good harvests, and falling international and domestic demand should help to bring inflation down further. Assuming tightened fiscal and incomes policies, average inflation should decline to 5.8% in 2009 from 7.9% in 2008.

Balance of Payments: In 2008 the current account deficit reached € 16.9 billion or 12.4% from the 13.5% of GDP in 2007. The large trade deficit remained the primary driver, having reached € 18.2 billion in 2008. However, export growth (13.8% in 2008) did manage to outpace import growth (9.4% in 2008). Net FDI reached € 9.0 billion, covering 54% of the current account deficit (42.3% in 2007). Overall, net capital inflows covered 105% of the deficit (98.7% in 2007).

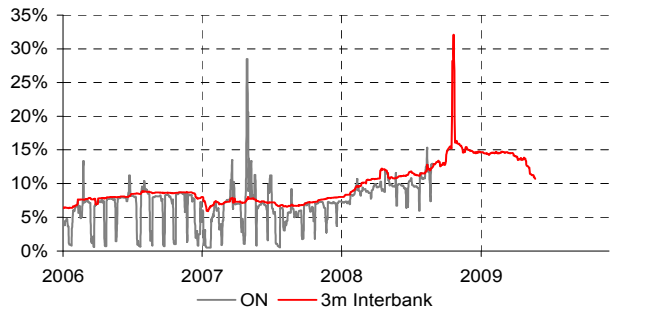
In the first quarter of 2009, current account deficit declined by 82.1% yoy to € 709 million. This correction was largely due to the narrowing of the trade deficit by 67.2% as exports of goods declined by -19.4% yoy versus the decline in imports of goods by -35.4%. Net FDI remained strong given the current environment and reached € 1.55 billion (versus € 1.7 billion in Q1 2008), covering the current account deficit (compared with 42.8% coverage in the same period of 2008).

Money & Financial Markets: The international flight-to-safety and general risk aversion has led to depreciating pressures for the Romanian Leu. Having depreciated by 5.7% versus the euro in 2007, the Leu depreciated a further 12.5% in 2008 to 4.03 RON/€. The worsening economic climate for Central and SE European countries at the start of 2009, led to a further depreciation of Leu an all time high of 4.33 RON/€ in February 2009. It has since recovered to around RON 4.17/€ by mid-May. In this environment, unofficial interventions by the central bank have proved modest. In fact, foreign currency reserves have decreased by € 235 million in April alone and by € 2.4 billion over the past six months, falling to € 24.9 billion by the end of April. This is mainly the result of the substantial fall of the capital account surplus of the country. Reserves will be boosted in May following the inflow of € 4.9 billion from the IMF.

Exchange Rate Developments

Following the drop in inflation to 6.3% in Dec.'2008 and 6.7% in Jan.'2009, the National Bank of Romania (NBR) opted to relax monetary policy and cut its key policy rate by 25bps to 10%. This was then followed by a further and unexpected, 50bps cut in May 2009. The NBR has also initiated open market operations with the aim of reducing the money market rates. To this end, it injected € 692 million into the money market at an interest rate of 10% prior to the 50bps cut and a further € 590 million of one-month funds at the interest rate of 9.5% thereafter. As a result, the 3-month interbank rate has decline from over 30% in Q4 2008 to just over 10% in May 2009.

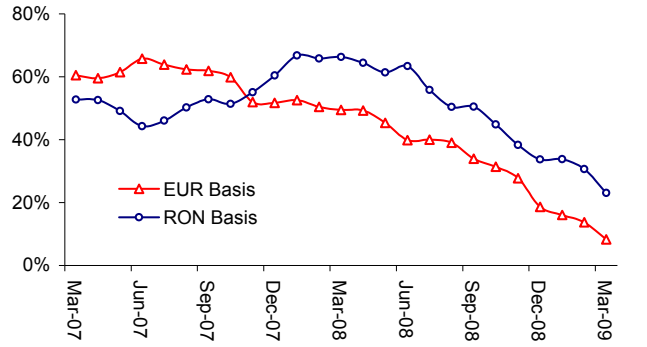
Interbank Market (%)



Credit expansion to the private sector in Leu has continued to decline, registering growth of 23.1% in March 2009 (66.3% in March 2008 and 33.7% in December 2008). Business credit slowed to 19.3% (52.5% in March 2008 and 29.0% in December 2008), while household credit growth slowed to 34.2% (84.1% in March 2008 and 38.7% in December 2008). Despite the rapid credit expansion in recent years, credit penetration remains low at 39.7% of GDP (35.9% in 2007 and 39.3% in 2008). Likewise, private sector deposit growth also slowed, to 15.4% in March 2009 (35.5% in March 2008 and 17.3% December 2008). Business deposit growth slowed to 6.1% (25.6% in March 2008 and 11.0% Dec.'

2008), while household deposit growth slowed to 23.0% (45.0% in March 2008 and 23.1% in Dec.' 2008).

Total Credit Growth (%Δ YoY)



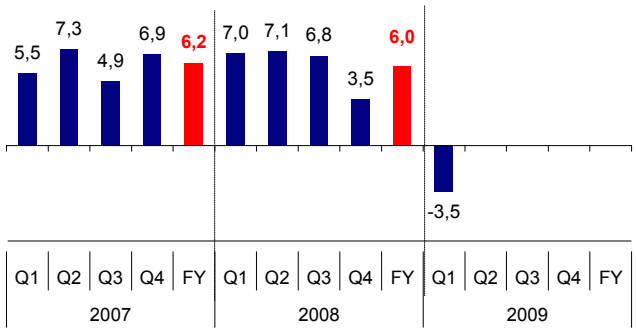
The central bank reduced the required reserve ratio for foreign currency deposits with residual maturities of above 2 years to 0% from 40%. The required reserve ratio for the remainder of forex deposits remains at 40% and at 18% for the local currency deposits. To benefit from the lower reserve ratio, participating banks are required to increase their Capital Adequacy Ratio (CAR) to 10% from 8%. Moreover, in agreement wit the IMF, bank's will have their capital adequacy ratio monitored on a quarterly basis and if they fall below the 10% minimum, public statements will be issued. Thus far, no bank has seen its adequacy ratio fell below the previous limit of 8%, while some are still taking steps to shore-up capital so as to meet the new 10% requirement. Roughly € 1 billion will be required to meet the capital shortfall, with some € 800 million being released to the banks due to the new reserve requirements.

ECONOMIC OVERVIEW: In line with market expectations, growth contracted by -3.5% in Q1 2009, compared with a positive 3.5% growth in Q4 2008 and 7.0% in Q1 2008. Unsurprisingly, considering the extent of the slowdown in international trade, industry was the main drag on growth dropping by -12.2% yoy in Q1 2009. On the other hand we did not foresee the decline by -3.1% in agricultural output. On the positive side, services were up (albeit marginally) by 0.9%.

Consumer and business demand for investment, both of which played a central role in the dynamism of the economy throughout the past decade, were now central to the contraction of GDP. Consumer demand declined by -5.8% and gross fixed capital formation by an even bigger -15.4% yoy in Q1 2009. The decline in external demand notwithstanding, net exports made a positive contribution to GDP growth. Exports of goods and services declined by -20.1% yoy in Q1 2009 whereas imports declined by -28.5%, thus reducing the trade deficit by 47.1%.

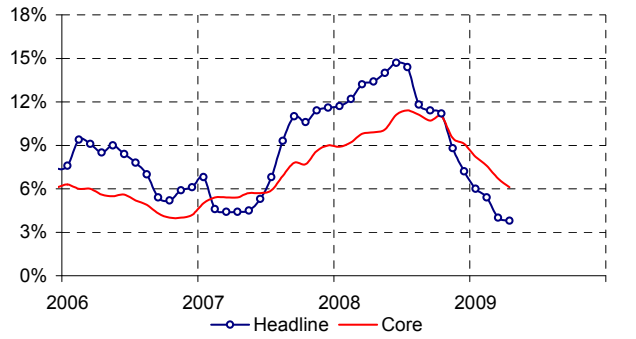
The ratings agencies have reduced the rating for Bulgaria to the lowest investment-grade level (S7P's BBB "negative", Moody's Baa3 "Stable" and Fitch BBB- "stable"), reflecting Bulgaria's perceived difficulties to secure adequate external financing in the international crisis environment of 2009. A possible loan from the IMF could boost investor sentiment and avert further downgrading moves from the ratings agencies. Fiscal prudence is also key to maintaining orderly financing.

Real GDP (%Δ YoY)



FISCAL POLICY: In April'2009 the government took the plunge and adjusted its expectations to a budget surplus of 1% of GDP in 2009 from 3% originally. The data are already showing the negative impact of the economic slowdown on fiscal revenues, which were down by -5% yoy in Q1 2009 during which period fiscal expenditures rose by 15.9% reflecting increased demands for social security spending and a rather ambitious government programme for infrastructure investment. Notwithstanding the recent laxity, fiscal performance has been nothing short of outstanding in recent years and instrumental in creating confidence in the currency board and the overall macroeconomic stability of the economy. It will be a test for the government to maintain fiscal discipline in view of the ongoing crisis and (an even bigger test considering) the forthcoming parliamentary elections in July'2009. All in all, we have pencilled in a budget deficit for 2009 of 0.8% and an increase to the public debt to GDP ratio to (the still sound) 23%. This is likely to be reversed as the government resumes on its path of fiscal prudence.

HICP Inflation - April (%Δ YoY)



INFLATION: There is underway a sharp slowdown in inflationary pressures. CPI inflation slowed to 3.8% in April 2009 down from 7.2% in Dec.'2008 and 13.4% in April 2009. The index for food products actually turned negative (-0.3%) in April 2009 from rates of more than

20% in the first half of last year. Industrial goods price increase also slowed to just 0.3% in April 2009 from 3.3% in Dec.'2008 and 8% in April 2008. Prices in the services sector have also decelerated, but not as much, having recorded growth of 7.6% in April 2009 from 11.4% in Dec.'2008. Electricity, gas and other fuels have shown only moderate price deceleration with the relevant index increasing at 14.2% in April 2009 from 15.4% in Dec.'2008 and 6.7% in April 2008.

Inflation is likely to drop further on the back of weak domestic demand and weak prices of internationally traded goods. Therefore, the average HICP inflation is expected to fall at around 3.2% in 2009 and 2010. This fall in inflation bodes well for the prospect of Bulgaria's participation in the ERM II mechanism, which is a prerequisite for euro adoption. At the current juncture, however, the more urgent concern for Bulgaria is that of international competitiveness. While the economic slowdown has induced an increase in the unemployment rate to 6.9% in March 2009, the average monthly wage continues to rise, albeit at a slower pace, by 2.6% qoq in Q1 2009 from 4.9% in Q4 2008.

BALANCE OF PAYMENTS: The CA deficit fell by -45.5% yoy to € 1.08 billion in Q1 2009 or to 3.2% of the projected full-year GDP as compared to 5.8% of GDP in Q1 2008. The gap has now been declining in every month since last December. The fall of the trade balance by -43.2% yoy contributed the most to this development. Looking at the financial account it is clear that net capital inflows have waned. In absolute terms, net capital inflows were lower by € 2.5 billion in Q1 2009 from their level in Q1 2008. In fact, net capital inflows turned negative in December 2008 and January 2009, but they turned again to positive territory and are increasing on a monthly basis in both February and March 2009. This is particularly encouraging especially taking into account that FDI, which declined overall by -20.1% yoy in Q1 2009, increased by an impressive 96.5% yoy in March 2009. Portfolio investment, which accounts for a much smaller part of the capital account, was similarly higher in a monthly basis in March 2009, though it declined in yearly terms in Q1 2009 as a whole. Furthermore the net FDI to CA ratio actually improved because of the sharp decline of the CA deficit, bringing the ratio to just bellow 59% in Q1 2009, up from 40% in Q1 2008.

Looking ahead, subdued capital inflows are bound to lead to further reductions in the CA deficit, which we estimate at around 15% of GDP in 2009 and 14% of GDP in 2010.

EXTERNAL DEBT & LIQUIDITY: As of end- February 2009 international reserves with the central bank stood at a record low of € 12 billion, following a -5.5% drop from end-Dec.'2008, and down from € 14.2 billion as of end-Oct.'2008. Much of the decline is attributable to the lowering of the reserve requirements on foreign and government deposits as of end last year, but the fall of net capital inflows are also an important factor. The ratio of foreign reserves to short-term debt deteriorated also to 91% as of end- February from 96% in December 2008 and 128% in February 2008.

The gross external debt has kept increasing, albeit at a decreasing rate, 25.3% yoy to € 36.5bn as of end-February 2009 or 99.6% of GDP. The liabilities in the government sector accounted for only 7.4% of total external debt which leaves the private sector accountable for the lion's share of this debt. Short-term debt reached 36% of the total as of end Febr.'2009, from a high of 37.2% in Nov.'2008 and a lower 31.3% at end-Febr.'2008. The fall in the stock of international reserves has raised questions regarding the viability of the currency board.

MONEY & FINANCIAL MARKETS: The central bank amended two regulations in an effort to increase the flexibility of commercial banks for provisioning for bad loans. Commercial banks should secure full provisions on loans in arrears of 180 days instead of 90 days and will thus enjoy higher credit expansion capacity. Non performing loans were last reported at 3% of total loans as of end March 2009, rising from just below 2% at end March 2008 but declining from 3.3% as of end February 2009. The other change refers to expanding the scope of collateral that can be used to guarantee credits. This will support debtors facing temporary difficulties due to the world economic crisis. The central bank has already loosened the reserve requirements of commercial banks in several steps last year to inject liquidity into the system. Credit expansion has further decelerated, albeit from extraordinarily high levels, tough still increasing by 25% yoy in March 2009, from 27.4% in February 2009 and 55.7% in March 2008. Looking forwarded we expect that bank lending will slow to around the 10% mark in 2009 before accelerating somewhat in 2010.

4. CYPRUS

ECONOMIC OVERVIEW: While economic activity remained strong in 2008, driven primarily by domestic demand, weaker external demand in the second half of the year led to a deceleration of GDP growth to 3.7% versus 4.4% in 2008. Private consumption remained solid, registering growth of 7.0% (8.2% in 2007), supported by low interest rates, strong credit expansion and continued wage and income growth. Moreover, disposable incomes received a boost from a 2007 personal income tax cut which was maintained in 2008. Investment posted strong growth of 9.8% (10.4% in 2007), aided by private investment in construction, most notably, in housing. Government expenditure also played a vital role in sustaining demand with growth of 8.7% (0.1% in 2007). While domestic demand contributed around 8.3pps to GDP growth in 2007, this proved insufficient to offset the decline in net

exports, which continue to contribute negatively to GDP growth. Exports of goods and services were heavily affected by weaker external demand and registered growth of just 1.1% (7.2% in 2007) while imports of goods and services registered growth of 9.9% (12.5% in 2007) which lead in turn to the -5.3pps contribution to GDP growth from the external balance.

Based on preliminary data, real GDP growth eased to 1.4% in Q1 (4.3% Q1 2008). This decline was due to the negative growth rates observed in the Hotels & Restaurants, Manufacturing, Trade and Transportation sectors. On the other hand, the positive performance observed in the Financial Services sector and the satisfactory growth rates for both the Construction and broad Services sectors, helped to limit the extent of the growth deceleration. Nevertheless, economic growth is still expected to slow significantly in 2009 albeit remaining in positive territory. For while the projected slowdown in the growth of private consumption and investment should put a brake on import growth, it will most likely prove insufficient to offset the negative contribution to GDP growth from net export growths. As such, the European Commission currently forecasts 0.3% GDP growth for this year.

FISCAL POLICY: The general government surplus is estimated to have fallen to 0.9% in 2008 from 3.4% of GDP in 2007. This is due to both a shortfall in revenues (the outcome of weaker activity in the real estate sector), and to expenditure overruns (due to the drought and the related expenses associated with maintaining water supplies and compensation to farmers). In addition, government expenditures were affected by social transfers and other social cohesion measures (for pensioners and other welfare recipients) which accounted for an expenditure increase equal to roughly 0.5pps of GDP. For 2009, the national budget is now targeting a deficit of 0.75% of GDP versus a surplus of 1.0% as stipulated in the 2009 budget law. This differential is due to the downward revision to revenue projections as a result of the weaker GDP growth projections. According to the European Commission, the revenue-to-GDP ratio is set to decline in 2009 due largely to subdued activity in the real estate sector and reduced corporate profitability, while expenditure is forecast to increase marginally. While fiscal policy will be expansionary in 2009, the debt-to-GDP ratio, which fell to 49.1% in 2008 (59.4% in 2007), is set to decline further, to 47.5% in 2009. However, the Commission points out that the rapidly decreasing primary surplus, in conjunction with measures to support the financial sector, may put some upward pressure on the debt ratio.

INFLATION: While average HICP inflation reached 4.4% in 2008 (due to buoyant domestic demand and high commodity prices, especially for oil and food), towards the end of the year inflation begun to ease sharply owing to base effects, subdued consumer demand and lower international commodity prices. HICP inflation will slow to about 1.0% in 2009 and to rise to 2.0% in 2010, mainly influenced by the impact of projected lower energy prices.

BALANCE OF PAYMENTS: The current account deficit increased by a 69.4% yoy in 2008 and reached an estimated 18.2% of GDP (11.7% of GDP in 2007). This increase reflected not only the sustained strength of consumer demand and the surge in commodity prices during the first half of 2008, but also the weakening of external demand in the second half of 2008. The trade deficit increased by 17.7% yoy driven by the 15.6% yoy growth in imports, versus 6.1% growth in exports. Import demand is expected to weaken gradually due to weakening domestic demand and the decline in international commodity prices, which should in turn, help to offset the weaker growth in the exports of goods. A key contributing factor to the current account deterioration was the weakening of services exports, with growth of 0.5% yoy in 2008 (12.6% in 2007). As a result, the services balance recorded growth of -4.1% yoy versus 9.5% growth in 2007. The services account, was heavily affected by the downturn in the financial services and tourism sectors, with the latter being hard-hit by the sharp economic downturn in the UK and Russia. Net foreign direct investment continued to decline to € 330 million in 2008 from € 710 million in 2007 – a 53.1% yoy decline. Even so, the surplus on the financial account increased by 105% to € 3.1 billion, largely due to the surge in the Other Investment category which saw net inflows reach € 22.9 billion (€ 11.4 billion in 2007). For 2009, the current account deficit is forecast to decline to around 13.0% of GDP.

Money & Financial Markets: The decline in total credit expansion has proven to be relatively modest, with growth easing from 34.3% in December 2008 to 28.5% in March 2009. Likewise, credit to business' has eased to 38.3% in March (44.7% December 2008). Credit expansion to households was 16.4% in March, with mortgage expansion of 22.2% and consumer credit expansion of 11.4%. In August 2008 the Central Bank of Cyprus cut the foreign-exchange reserve requirement for commercial banks from 75% to 70% of total foreign-currency deposits. Non-euro bank deposits amounted to € 14.7 billion in July 2008, implying an increase in the amount available for lending by €733 million. This is equivalent to 1.5% of total outstanding loans, which amounted to €48.9 billion in July 2008. Total deposits were €55.6 billion, well over three times annual GDP.

5. SERBIA

ECONOMIC DEVELOPMENTS: Following a decade of strong economic performance GDP growth slowed to 2.8% yoy in Q4 2008 and to 5.8% for the full-year 2008. In Q1 2009 GDP is forecast to have slowed even more sharply as industrial output has contracted by 16.9% yoy. This contraction was more pronounced in the manufacturing sector where output declined by 22.5% for

the quarter (although the rate of decline has eased somewhat from the 24.5% high in January, to just over 20% in March 2009). Activity in the construction sector has also waned as evidenced by the jump in the rate of decline of new permits to 17.1% in February from 1.4% in January 2009. The economic slowdown has led to a decline in household incomes. Notably, average salaries and wages in March 2009 were down by 3% yoy in real terms, while retail trade registered a fall of 23.2% qoq in Q1 2009.

The overall economic outlook remains subject to a high degree of uncertainty. There are positive developments such as the successful conclusion of a 2-year IMF loan of € 3.0 billion. The IMF has also obtained voluntary assurances from foreign banks to keep their subsidiaries well capitalized. Meanwhile, the government has taken additional steps focused on supporting credit expansion, by subsidizing cheap bank business loans, which are targeted specifically at exporting companies and companies refinancing old loans. Furthermore, there are numerous construction projects under way such as the pan-European transport Corridor 10, for which over € 1.0 billion in international loans is to be disbursed to Serbia. Current forecasts see a decline in GDP growth of 2.0% in 2009.

FISCAL POLICY: In view of the deteriorating economic environment and with an eye towards fulfilling the economic policy restrictions attached to the IMF loan, the government went ahead with sweeping adjustments to the 2009 Budget. It revised the target budget deficit to 2.3% of GDP on the assumption of a 2% decline in GDP which compares with a previous target of 1.8% based on an estimate of 3.5% growth. In absolute terms the revised budget deficit target increased by RSD 20 billion to RSD 70.5 billion. The extra cash is expected to come from reductions in expenditures to the tune of RSD 100 billion (€ 1.0 billion). The public sector will be the main source of savings, with a generalized freeze on wages generating the majority of the desired savings. Additional funds will be secured through tax adjustments. The data that are coming through are in support of the aforementioned revisions with the overall picture being one of reduced fiscal revenues and increased expenditure, by 4.0% and 12.6% yoy respectively, in the first four months of 2009.

INFLATION: Inflation as measured by the Consumer Price Index has shown signs of abating. It stood at 8.2% in April from 10.4% in February 2009. The intransigence of inflationary dynamics in the service sector will dampen the deceleration of inflation, with the RPI posting average growth of 9.7% in 2009 from 10.7% in 2008. However, a combination of positive base effects, the decline in international commodity prices and, importantly, weaker domestic demand, will serve to drive down the average rate of inflation to 6.4% in 2010.

BALANCE OF PAYMENTS: The global liquidity squeeze has exacerbated external financing pressures forcing the central bank to run down $ 2.3 billion in resources to finance the balance of payments gap in 2008. The decrease in capital inflows has expectedly led to a narrowing of the current account deficit in the first quarter of 2009, by 38.2% yoy to € 798 million as merchandise exports fell by 22.8% yoy and imports, which are larger in absolute terms, fell by an even greater 26.1% yoy. The improvement in the trade balance was aided by the moderation in the capital inflows, which reflects lower demand stemming from the economy slowdown. Amid the crisis, the EU remains Serbia's main trading partner, accounting for more than 50% of total external trade. In March alone the trade gap stood at € 552.2 million, with exports down by 18.5% yoy, and imports 18.5 % respectively. All items in the financial account, foreign direct investment, portfolio investment and other investment were down, by 22.6%, 91.6% and 107.1%, respectively. In all, we expect the current account deficit to decline to around 13% of GDP in 2009 and 10% in 2010.

MONEY & FINANCIAL MARKETS: Contrary to market expectations, the Monetary Council of the National Bank of Serbia (NBS) was relatively bold in lowering its key policy rate by a cumulative 375 bps to 14% from January 2009, with the new stand-by deal with the IMF contributing to the decision. In particular, the coordination of economic policy with the IMF will likely strengthen investor confidence reducing exchange rate volatility. Finally credit growth slowed to 16.1% in March 2009 from 18.5% in December 2008 and 36.6% in March 2008.

6. ALBANIA

ECONOMIC OUTLOOK: Economic activity accelerated in 2008, with GDP growth of 8.0% for the year, far in excess of average growth estimates of around 6.0%. Real GDP growth accelerated to 8.6% yoy in Q4 from 8.1% yoy in Q3. The main drivers of growth remained buoyant domestic demand which benefited from the continued pace of domestic credit expansion and solid public investment. On a sectoral basis, growth was aided by buoyant construction and trade and increased export activities – e.g. textiles, footwear and mining. The Durres-Morina motorway project helped to give a boost to the construction sector, which registered growth of 6.5% yoy, while industrial and agricultural growth were more modest at 1.7% yoy and 1.4% yoy respectively. For 2009 growth is set to weaken substantially, with the IMF currently forecasting economic growth of between 0% and 1.0% yoy in 2009, a significant downward revision from the previous forecast of between 3.5% and 4.0%. The main factor driving the lower expectation is the drop in both remittances and exports due to the global financial crisis. The IMF has warned that the government should stick to fiscal discipline in order to maintain macroeconomic stability in the country. As such, the government has been advised to curb salaries and pensions growth. While the government and the IMF

concluded an agreement in January to continue bilateral cooperation, the borrowing programmes were discontinued.

The Albanian government has also announced its intention to submit the application for EU candidate status this coming June. It is hoped that a speedy ratification of the Stabilization and Association Agreement, which entered into force in April, would open the way for further EU integration. However, in response, the European Commission, emphasising that free and fair general elections is key precondition to the integration progress, has urged the government to postpone the submission of the application. Albania will be holding parliamentary elections on June 28, 2009.

ENERGY SECTOR: Energy constraints, in the form of continual power outages have, in the past few years, hampered economic expansion. However, 2008 appears to have been a turning point as domestic electricity generation increased by 30.6% yoy, with output from local hydropower plants having increased by 34% yoy. Hydropower plants account for as much as 98% of total domestic production. As a result, electricity imports dropped by 6% yoy while electricity exports registered a sharp increase of 175% yoy. Recent heavy rainfalls have increased the water levels at the hydropower plants, which has allowed surplus production to be exported. Even so, KESH will continue to import energy in compliance with contracts it had signed earlier. Albania relies heavily on electricity imports as a way of meeting rising domestic demand. Energy imports amounted to 2,758GWh in 2008, equal to 38% of the total annual electricity consumption. The domestic generation of electricity increased 30.6% yoy in 2008 to 3,850GWh, while 98% of it was produced by the hydropower plants.

FISCAL POLICY: For the first three months of 2009, the general government balance recorded a deficit of ALL 3.7bn (€ 28 million), the first quarterly deficit in the past four years. The shortfall was due mainly to a surge in government expenditure by 43.0% yoy during Jan-Mar to ALL 76bn. Government revenues increased by 13.7% yoy to ALL 72 billion, with tax revenues having increased by 6.4% yoy to ALL 64.3 billion. The government currently forecasts a general government deficit of ALL 50 billion equal to 4.2% of projected GDP in 2009, down from 5.6% in 2008.

INFLATION: Higher food and energy prices saw average consumer price inflation accelerate to 3.4% in 2008, from 2.9% in 2007. After reaching a high of 4.6% in March 2008, inflation declined to 2.2% in December 2008. Headline consumer price inflation declined in the first three months of 2009, to 2.1% in January, 1.9% in February and 1.6% in March. However, prices have once again inched higher, increasing 1.9% in April 2009. Food prices increased 4.2% yoy in April (from 2.9% in February 2009) driven by the 10.0% yoy growth in meat prices and the 8.7% yoy increase in the price fish. Prices of food-oil and fats declined by 6.5% in April following substantial gains in 2008. The central bank anchored its annual inflation target at 3% with 1% fluctuation band in 2009-2011. The average annual inflation last year was 3.4% closer to the upper limit of the central bank's target. Inflation is expected to average 2.9% in 2009.

BALANCE OF PAYMENTS: In 2008, the current account deficit increased by 55.3% yoy to € 1.3 billion reaching 14.9% of GDP, up from 11% in 2007. The trade deficit increased by 14.8% yoy, reaching € 2.4 billion with export growth of 16.5% yoy and import growth 15.3% yoy. The services balance also deteriorated, ending with a € 14.6 million deficit in 2008, in comparison to € 13.0 million surplus in 2007. Emigrant remittances, which covered 118% of the current account gap in 2007, declined by 18.3% yoy to € 803 million in 2008, reducing coverage to 62%. Despite the economic crisis and the marked declines in foreign investment in the region as a whole, Net foreign direct investment still increased by 31.7% yoy to € 619 million covering 48% of the current account deficit. It should be noted though, that a substantial part of the increase in investment was due to the privatisation of the single state-owned oil refinery ARMO to a consortium of US and Swiss investors. The deal was finalised in December and was worth € 128.75 million. Furthermore, the privatisation contract with CEZ who is looking to purchase the electricity distribution company OSSH for € 102 million was recently finalised. The government also approved a € 25 million bid for a 25% state stake in insurance firm INSIG towards the end of last year. The government has also recently approved a € 48 million offer for the 12.6% state stake in the largest wireless telecom AMC.

MONEY & FINANCIAL MARKETS: While the risks to the economy arising from the global financial crisis have increased, the financial system remains healthy and the main macroeconomic indicators are well under control. Moreover, to ensure confidence in the banking sector remained unaffected by developments abroad, the government raised the guarantee of bank deposits to € 25,000. The new guarantee will cover more than 80% of all bank deposits. This increase represents a 7-fold increase over the initial € 2,700.

Private sector credit growth remains robust, despite having eased in 2008. Total credit growth declined to 34.9% in December 2008 from 50.3% in December 2007. For 2009, credit growth has continued to ease from 36.1% in January to 31.7% in March. Credit expansion to business (which constitutes 65% of total outstanding credit) has slowed from 40.0% in January to 35.4% in March while credit to households eased from 29.6% January to 17.9% in March.

7. FORMER YUGOSLAV REPUBLIC OF MACEDONIA

ECONOMIC OUTLOOK: The impact of the global economic crisis became evident in the last quarter of 2008 and the first quarter of 2009. While economic activity remained robust, with GDP growth of 5.7% in the first nine months

of 2008, domestic demand contracted in the final quarter leading to weaker GDP growth of 2.1% for the quarter. As a result, full-year real GDP growth slowed to 5.0% versus growth of 5.9% in 2007. As the World Bank has noted, the global economic crisis will have the greatest impact on exports, remittances and FDI, the country's three main growth drivers. Exports will be heavily affected by the recession in the EU which accounts for roughly 63% of FYROM's export market. The impact of the weaker growth abroad is visible by the domestic decline in industrial output which has continued to fall, in year-on-year terms, for the sixth month in a row as production fell by 4.8% in March (although it increased by 9.5% month on month). The year-on-year decrease was largely attributable to lower output in the textiles, manufacturing and iron and steel production sectors. Moreover, while FDI has already declined, the WB still sees a further deterioration of inflows in 2009. For 2009, GDP forecasts vary wildly from the -0.3% from the European Commission, to the -3.0% from the IMF.

FISCAL POLICY: The consolidated government budget turned to a deficit of MKD 1,4 billion (€ 22.8 million), compared to a surplus of MKD 812 million in the same period last year. Total revenues declined by 1.4% yoy in Jan-Fed 2009, while expenditures increased 10.3% yoy. Tax revenues declined by 3.3% yoy due to a sharp decline in VAT revenues, a consequence of weaker domestic demand. VAT revenues declined by 7.1% yoy in Jan-Feb and 14.5% in Feb alone. This development posses a problem for the government given that VAT revenues remain the main source of funding for state budget, accounting for roughly 48.0% of all taxes. In response, the government is to cut spending by 9.0% in the newly adopted revised budget. Moreover, due to the weaker growth outlook and deteriorating state finances, the government has entered into negotiations with the IMF for a loan of between € 50 – 100 million to help and finance the forecast deficit. Unfortunately, negotiations with the IMF have hit an impasse, with government officials refusing to accept the IMF's -2.0% GDP growth forecast, insisting instead that growth would remain around 1.0% for the year. The government has, in the interim, issued € 16 million of 28 day treasury bills, the third such issuance this year. The expected revenues are to be used to cover part of the budget deficit which the Finance Ministry currently forecasts at 2.8% of GDP for 2009, an increase from the 0.5% in 2008. The IMF currently forecasts a government deficit of 5.9% of GDP for 2009.

INFLATION: Inflation continues to decline, benefiting from both base effects and the fall in international energy and food prices. After peaking at more than 10.0% during the summer months of 2008, consumer price inflation averaged 8.3% in 2008, up from 2.2% in 2007. However, by December inflation had eased to 4.1% yoy from a high of 10.1% in June 2008. Consumer price inflation has eased to 1.7% yoy in January, 0.7% yoy in February, 0.2% yoy in March and now -0.5% in April. Food prices continued to decline, registering growth of -1.2% yoy from the peak of 12.2% yoy in October 2008. Transport and communications services also declined for a further month, with prices falling -9.7% yoy. With further declines in food and energy prices forecast, average inflation is expected to decline to 0.8% in 2009, with year-end inflation of around 1.2%.

BALANCE OF PAYMENTS: The current account deficit increased to 13% of GDP in 2008 from 3.5% in 2007. The deficit on the current account doubled in 2008 and reached € 851 million. The trade deficit reached € 1.7 million, an increase of 47% from 2007. Export growth remained low at 10% yoy while imports increased by over 20% yoy. While the balance on the financial account covered 101.7% of the current account deficit, Net Foreign Direct Investment (FDI) decreased by 16.8% yoy to € 422 million from 508 million in 2007. This, in conjunction with the doubling of the current account deficit, reduced FDI coverage to 56% in 2008 from 122% in 2007. There was also a notable surge in the other investments category which reported € 442 million of net inflows versus an outflow of € 75 million in 2007. The external pressures from the worsening global economic conditions were evident by the € 52 million decrease in gross international reserves. Turning to 2009, the trade deficit declined by 1.4% yoy to € 307.9 million in Jan-Feb, the first such decline in many years. Exports shrank 44.4% yoy, while imports dropped by 26.3% yoy during the same period. The global economic slowdown has impacted both the demand for and the prices of the country's main export goods, namely ferronickel, steel and textiles. Meanwhile crude oil, consumer goods and machinery commanded the lions-share of imports. However, with external financing constraints serving to contain import growth, the current deficit is forecast decline to 10.0% in 2009.

MONEY & FINANCIAL MARKETS: The central bank has confirmed that, in an attempt to stabilise the currency, it has, on more than one occasion, intervened on the FX market during the past few months. In Q4 2008 it spent € 162.3 million, while since the start of 2009 it has spent an additional € 280 million. With a view to supporting current monetary policy, the current IMF agreement with FYROM foresees a continuation of the current exchange-rate regime, in which the Dinar is informally pegged to the euro. The Dinar has proven to be highly volatile in recent months, strengthening to MKD58.4/€1 in mid October 2008, only to decline to MKD61.03/€1 in mid-May 2009. In an attempt to improve the signalling role of its key policy rate, the Central Bank switched to a volume tender rate and which gradually rose to 7.0%. Although growing foreign capital inflows have raised the cost of the sterilisation operations, the Central Bank has accumulated a substantial amount of foreign reserves, amounting to € 1.22bn as of the end of April. On the banking front, private sector credit expansion has begun to contract in recent months, from 34.4% yoy in December 2008, credit growth has eased to 25.3% in March 2009. Credit expansion to businesses (which

constitutes 65% of total outstanding credit) has eased from 32.6% in December 2008 to 24.0% in March, while household credit expansion has eased from 32.6% in December 2008 to 27.3% in March.

8. UKRAINE

ECONOMIC OVERVIEW: The Ukrainian economy has been one of the most affected in the region (and globally) from the onset of the world economic crisis. Reflecting this, first quarter GDP is forecast to have declined by more than 10%, following a modest, yet positive, growth of 2.1% in 2008 as a whole. The industrial sector has been hit hard by declining external demand with output down by almost 32% yoy in the first quarter. In this context the small deceleration of the rate of decline from just over 34% in January to 30% in March provides little comfort. The construction sector is also slumming as indicated by the huge decline of over 55% in the volume fulfilled of the build's works. Agriculture seems to be the only sector to have expanded in the first quarter, though the modest increase of agricultural output by 1.7% yoy, as against near zero growth of 0.2% in the first quarter of 2008, has not been nearly enough to counterbalance the decline in production elsewhere. In view of the sharp economic slowdown, average monthly wages and salaries per employee have suffered a decline of 12.3% yoy in Q1 2009, in real terms. The inevitable retreat of consumer spending has served a blow to retail trade where turnover declined by 11.5% in nominal terms in Q1 2009 from an impressive increase of 31.3% in Q1 2008. The deterioration of the economic environment led the ratings' agency Fitch, to downgrade Ukraine's long-term foreign and local currency rating from "B+" to "B". All said we expect a gradual resumption of growth in the second half of 2010.

FISCAL POLICY: The adverse developments in the real economy are set to cut into tax revenues, at the same time as they give rise to more demands in the form of social security benefits. On this basis the IMF has agreed to revise some of the economic conditions attached to the stand-by agreement agreed with Ukrainian authorities last November worth $ 16.5 billion. In particularly the fiscal target was revised to a deficit of 4% of GDP in 2009 from an initial target of zero percent. The long-awaited completion of the first review of Ukraine's economic performance under the IMF loan was definitely a step towards the right direction, not least because of the release of the second tranche of the loan, which was increased to $ 2.8 bn from the originally planned $ 1.9 bn adjusted to reflect delays in the timetable of the program. With this Ukraine has now received a total of $ 7.3 bn of funds from the IMF since last November.

INFLATION: The ongoing and deepening contraction in economic activity and the fall in international commodity prices have diffused inflationary pressures leading the overall consumer price index to a low of 18.1% yoy in March 2009 from a high of 31.1% in May 2008. In March 2009, prices for foods and non alcoholic beverages increased by 15.4%; alcohol, beverages and tobacco by 25.7%; housing, water, electricity, gas and other fuels increased 28.2%. Looking ahead the deceleration of inflation is likely to continue as spare capacity increases and demand remains at subdued levels. We therefore expect inflation to average around 16.5% in 2009. Our forecast of average CPI inflation takes into account the expected increase in the share of the cost of gas imports that is passed on to households, a development championed by the IMF.

BALANCE OF PAYMENTS: The current account deficit doubled in 2008 to $12.9 bn (7.1% of GDP). The advent of the crisis is set to reverse this trend, in view of the much reduced volume of international trade and because of the high dependence of the economy in export growth. Exports in Ukraine comprise some 50% of GDP compared to 30% in Romania and 20% in Turkey. The impact of the global economic crisis will be correspondingly larger. Preliminary figures for Q1 2009 record a decline in the current account deficit of 76.2% yoy, as the merchandise deficit, which comprises by far the largest component of the current account deficit, shrunk by over 70%.

The first quarter figures revealed the extent of the slowdown in capital flows which resulted in a net outflow of $ 4.3 bn as compared to a net inflow of $ 3.6 bn in Q1 2008. The implication is that local businesses are having a much harder time financing themselves and some will inevitably be chocked off. Capital inflows fell precipitously in every category of the financial account; foreign direct investment dropped by over 70% yoy in Q1 2009 and though its coverage of the CA gap increased to 81.3% from 65.7% a year ago, the increase is much too small considering the dramatic fall in the CA deficit. A further decline in the current account deficit to around 2% of GDP is expected in 2009. Notably, this will be the case in spite of the significant depreciation of the hryvnia.

MONEY & FINANCIAL MARKETS: A total of eleven banks are now in receivership and undergoing recapitalisation. Technical assistance from the IMF has helped stabilize the banking sector which is notably less volatile now than at the peak of the crisis. However investors will need sustained evidence that the macro-economy is on a path back to recovery before confidence is restored. Therefore the squeeze in the availability of hard currency is sustained both from subdued steel prices and low external demand and reduced capital from foreign investors. The hryvnia lost more than 60% of its value during the last four months of 2008. Pursuant to the deal with the IMF, the National Bank of Ukraine (NBU) has showed increased commitment towards a flexible exchange rate regime. It has reduced the size of its interventions in the forex market (though these remain a nearly daily occurrence) and has taken steps towards closing the gap between its official rate and the rate on the interbank market.

9. TURKEY

ECONOMIC OVERVIEW: The Turkish economy has shown remarkable dynamism during the period 2002-2007 when it expanded by an average 6.8% yoy. However economic growth slowed to a modest 1.1% in 2008 because of a sharp economic downturn in Q4 2008 when GDP fell by 6.2% yoy. Business investment was hit hardest of all, as indicated by a drop in gross fixed capital formation of 17.5% yoy in Q4 and 4.6% in 2008. Private consumption also faltered, falling by 4.6% yoy in Q4 and barely sustaining a positive 0.3% rate of growth in 2008. Public consumption, which is constrained by impaired fiscal finances, expanded by 6.1% yoy in Q4 and 1.8% in 2008 providing a positive boost to growth. Net exports made a welcome contribution to growth. In 2008 exports increased by 2.6% whereas imports contracted by 3.1%. However in Q4 both exports and imports contracted, though the latter by a greater margin, 8.2% and 23% respectively. On the production side, the sectors that generated the most growth in 2008 were that of financial intermediation (9.1%), real estate, renting and business activities (6.8%) and agriculture (4.1%). The slowdown in Q4 was led by wholesale and retail trade, which contracted by 15.4% yoy, followed by construction (13.4%), manufacturing (10.8%) and the transport storage and communications sector (7.1%).

We expect GDP contracted by even more in Q1 2009. The unemployment rate rose to a record high 16.1% from 11.9% a year ago. Industrial production fell by more than 20% in every month of the first quarter, though the rate of decline slowed in March and the confidence index in manufacturing rose by 17.3 bps. The decline in production has gone hand-in-hand with declining merchandise exports, which fell by 25.7% yoy in Q1. Nevertheless, imports declined by 42.5% resulting in a sharp reduction of the trade deficit by 91.3%. Taking into account what will undoubtedly be a positive contribution to growth from net exports we are forecasting that the economy will contract by 4.5% in 2009. Certainly, any talk of recovery is premature.

Notwithstanding the recent rally in the markets, investors are still hoping that the long-awaited stand-by loan with the IMF will materialise. The government had previously secured a deal with the World Bank for loans of €4.2 bn between 2008 and 2011, aimed at supporting the export-oriented sectors and small & medium sized companies. Of these funds, € 2.8 bn are earmarked for 2009.

FISCAL POLICY: The economic downturn has thrown the finances of the government into disarray, prompting an upward revision of the official target budget deficit for 2009 to TRY 48 bn (from TRY 10.4 bn). The government has also revised its GDP forecast to negative growth of 3.6% in 2009 (from positive 4%). These revisions are widely thought to be prudent and a more honest reflection of actual developments in the economy. In only the first four months of 2009 the deficit soared by a massive 268% yoy to TRY 20.1 billion. We expect that the general government deficit will rise from an estimated 1.8% of GDP in 2008 to 5.3% of GDP in 2009.

INFLATION: Like elsewhere in the region there are signs that inflation is gradually subsiding. The CPI index reached a record low of 6.1% in April 2009 from 10.1% in December 2008. The easing of price growth is more pronounced in food products and in electricity, gas and other fuels with the relevant CPI sub-indices down to 7.6% and 20.7% in April 2009 from 12.1% and 38.6% in December 2009 respectively. Inflation is forecast to continue to decelerate through 2009 as a result of subdued demand. So far, the deceleration of inflation has been cushioned by the weakening of the lira against major currencies, which has inexorably led to higher prices of imported goods. Overall consumer price inflation is currently forecast to average 6.8% in 2009 before increasing to around 7.2% in 2010.

BALANCE OF PAYMENTS: In recent years the current account deficit has ballooned to just shy of 6% of GDP. The onset of the crisis has set in gear the partial reversal of this development. In Q1 2009 alone the CA deficit fell to $ 1.1 bn from $ 12.3 bn in Q1 2008. The change is reflected in a sharp reduction in the financial account of 139% yoy resulting in a negative net balance to the tune of $ 4.7 bn in Q1 2009, which compares with a positive net balance of $ 12.2 bn in Q1 2008. Net foreign direct investment came in at $ 1.9 bn which is 46% down on a yearly basis. However the big impact came from the "other investment" category which includes intra-company loans of international corporations with local subsidiaries. This turned negative in a big way, from a surplus position of $ 10 bn in Q1 2008 to a deficit of $ 3.4 bn in Q1 2009. The balance on portfolio investment remained negative, while the deficit widened by 144% to $ 3.2 billion. The correction of the macro imbalances are expected to lead to a CA gap of 1.3% of GDP in 2009.

MONEY & FINANCIAL MARKETS: There is some light at the end of the tunnel which may be glimpsed from the interbank and stock markets. In the interbank market, where the Turkish Lira depreciated by 57% and 35% vis-à-vis the Dollar and the Euro in the year leading up to March 2009, it has since appreciated by 15% and 11% respectively. In the stock market, the XU100 index, which lost 63.3% of its value from a high of 57,911 pts in October 2007, has since recovered to 33,666 pts.

The deceleration in inflation has enabled the Central Bank of Turkey to maintain its easing bias. The monetary policy rate now stands at 9.25 %, a historic low, down by 750 bps since last November. The Central Bank will likely go ahead with further cuts in the monetary policy rate, with one eye on the rate of decline in output and the other on inflation.

10. Economic Data – Greece

(% change unless otherwise noted)

Yearly Data	2004	2005	2006	2007	2008	2009f
Real GDP Growth	4.9	2.9	4.5	4.0	2.9	-1.0
Gross Fixed Total Investments (including stocks)	0.1	-3.6	8.1	9.7	-5.2	-11.1
- Construction	-5.6	0.6	5.8	1.6	-14.6	-4.5
- Equipment	12.7	-1.0	14.2	9.1	-9.6	-6.7
Manufacturing production	1.2	-0.8	1.4	1.8	-4.2	-0.5
Unemployment (percent)	10.2	9.5	8.6	8.0	7.4	9.0
Employment	0.9	1.5	2.5	1.3	1.2	-0.2
Consumer Price Index (year average)	2.9	3.5	3.2	2.9	4.2	1.2
Producer Price Index (year average)	3.5	5.9	6.9	3.3	8.6	-5.0
Unit Labor Cost	1.8	3.7	4.6	6.3	5.7	5.5
Credit Expansion (Private Sector)	19.5	21.8	19.7	20.0	15.9	6.0
Government Deficit (as % of GDP)	-7.4	-5.1	-2.6	-3.6	-5.0	-5.5
Current Account (as % of GDP)	-4.5	-6.3	-9.6	-12.4	-12.7	-8.5

Source: Official National Accounts, 2007 and Alpha Bank Research

Quarterly Data	2006	2007	2008	2008		2008-2009	
				III	IV	(cumulative period)	
Economic Activity (period average)							
Retail Sales Volume	8.0	2.3	-1.4	-2.6	-4.0	-7.3	(2month 09)
Construction Activity	-19.5	-5.0	-17.1	-16.4	-23.9	-31.1	(4month 09)
Industrial Production (Manufacturing)	0.8	1.8	-4.2	-3.2	-8.2	-10.3	(3month 09)
PMI (manufacturing)	52.4	53.7	50.4	51.6	43.8	40.9	Apr-09
Economic Sentiment Indicator	103.0	108.4	89.0	90.6	68.0	46.4	Apr-09
Index of Business Expectations in Manufacturing	101.5	102.8	91.9	93.3	76.7	68.9	Apr-09
Consumer Sentiment Index	-33.0	-28.0	-46.0	-50.0	-55.0	-51.0	Apr-09
Credit Expansion (end of period)							
Private Sector	21.1	21.5	16.4	19.5	15.9	10.8	Mar-09
Consumer Credit+Other	23.9	22.4	13.7	20.7	13.7	8.5	Mar-09
Housing	26.3	21.9	11.4	14.9	11.5	8.7	Mar-09
Business	17.2	20.6	19.8	22.5	18.7	12.2	Mar-09
Tourism	11.5	23.8	20.8	29.4	19.7	13.4	Mar-09
Prices (end of period)							
Consumer Price Index	3.2	2.9	4.2	4.7	2.9	1.0	Apr-09
Core Inflation	2.7	2.9	3.4	3.7	3.5	2.7	Apr-09
Producer Price Index	6.9	3.3	8.6	11.9	1.0	-6.8	Mar-09
Interest Rates (period average)							
Savings	0.98	1.14	1.17	1.18	1.18	0.74	Mar-09
Short-term Business Loans	7.18	7.54	7.61	7.84	7.48	6.38	Mar-09
Consumer Loans (up to 1 year)	10.37	10.39	11.03	11.04	11.60	11.87	Mar-09
Housing Loans (over 10 years)	4.64	4.61	4.80	4.96	4.87	4.75	Mar-09
3 month Euribor	3.08	4.28	2.89	5.28	2.89	1.37	Apr-09
10 year Bond Yield	4.07	4.50	4.80	4.97	5.03	5.50	Apr-09
National Accounts							
Real GDP	4.5	4.0	2.9	2.7	2.4	0.3	(Q1/09)
Final Consumption	3.9	3.9	2.4	2.2	1.0	1.0	(Q4/08)
Investment	9.2	4.9	-11.5	-16.4	-5.3	-5.3	(Q4/08)
Exports	10.9	3.1	2.2	0.8	-1.6	-1.6	(Q4/08)
Imports	9,7	6,7	-4,4	-9.5	-5.2	-5.2	(Q4/08)
Balance of Payments (in € mn - Cumulative)							
Exports of Goods	16.2	17.5	19.8	15.0	19.8	3.7	(3month 09)
Imports of Goods	51.4	58.9	63.9	49.2	63.9	11.4	(3month 09)
Trade Balance	-35.3	-41.5	-44.1	-34.2	-44.1	-7.7	(3month 09)
Invisibles Balance	14.6	13.5	13.2	12.6	13.2	0.9	(3month 09)
Invisibles Balance / Trade Account	41.4%	32.5%	29.9%	36.7%	29.9%	11.2%	(3month 09)
Current Account	-20.6	-28.1	-30.9	-21.6	-30.9	-6.9	(3month 09)
Direct Investments	0.9	-2.5	1.7	1.1	1.7	0.1	(3month 09)
Portfolio Investments	8.1	17.4	16.4	18.0	16.4	15.2	(3month 09)
Athens Stock Exchange (end of period)							
Composite Index	4,394.1	5,123.4	1,786.5	2,856.5	1,786.5	2,053.0	Apr-09
% change	19.9	17,9	-65,5	-44.2	-65.5	-51.3	Apr-09
Market Capitalization ASE (% of GDP)	74,1	85,7	27,7	43.7	27.7	31.1	Apr-09

Source: National Accounts, 2007 Official and Alpha Bank Research

11. Economic Data – Southeastern Europe

Romania	2006	2007	2008	2009 (f)	2010 (f)
Real Economy					
Real GDP	7.9	6.0	7.8	-3.1	0.2
Private Consumption	12.7	11.6	8.0	-6.0	-1.0
Government Consumption	-4.1	1.6	3.5	-5.0	-1.0
Gross Fixed Investment	19.9	29.0	18.1	-10.8	-11.5
Exports (Goods & Services)	10.4	7.9	10.7	-15.0	-10.0
Imports (Goods & Services)	22.6	27.2	15.2	-20.0	-13.0
HICP Inflation (Avg)	6.6	4.9	7.9	5.8	3.5
Unemployment	7.3	6.4	5.8	8.0	7.7
General Government (%GDP)					
Overall Balance	-2.2	-2.5	-5.2	-5.0	-4.8
Gross Debt	12.4	12.7	13.6	18.2	22.7
Monetary (% Change YoY)					
Credit to Private Sector (In Euro's)	68	52	19	7	10
Balance of Payments (% GDP)					
Current Account Balance	-10.6	-13.5	-12.3	-7.4	-6.1
Trade Balance	-12.0	-14.4	-13.9	-13.1	-12.5

Cyprus	2006	2007	2008	2009 (f)	2010 (f)
Real Economy					
Real GDP	4.1	4.4	3.7	0.3	0.7
Private Consumption	4.5	6.9	7.0	1.0	1.2
Government Consumption	7.4	-0.1	8.7	7.0	2.4
Gross Fixed Investment	10.5	7.6	9.8	1.7	0.6
Exports (Goods & Services)	3.8	7.5	1.1	-6.2	0.2
Imports (Goods & Services)	6.6	11.1	9.9	-3.1	1.3
HICP Inflation (Avg)	2.2	2.2	4.4	1.1	2.0
Unemployment	4.6	4.0	3.0	4.7	3.7
General Government (%GDP)					
Overall Balance	-1.2	3.5	0.9	-1.9	-2.6
Gross Debt	64.6	59.5	48.2	44.7	41.3
Monetary (% Change YoY)					
Credit to Private Sector	12.2	31.9	34.0	7.0	13.0
Balance of Payments (% GDP)					
Current Account Balance	-7.0	-11.7	-18.2	-13.9	-13.5
Trade Balance	-27.2	-30.2	-32.7	-27.4	-27.6

Bulgaria	2006	2007	2008	2009 (f)	2010 (f)
Real Economy					
Real GDP	6.3	6.2	6.0	-3.8	0.9
Private Consumption	9.5	5.3	4.8	-2.0	1.8
Government Consumption	-1.3	3.1	0.1	1.0	2.8
Gross Fixed Investment	14.7	21.7	20.4	-13.0	1.4
Exports (Goods & Services)	8.7	5.2	2.9	-10.5	3.4
Imports (Goods & Services)	14.0	9.9	4.9	-12.2	2.3
HICP Inflation (Avg)	7.4	7.6	12.0	3.2	3.2
Unemployment	9.0	6.9	5.6	7.3	7.8
General Government (%GDP)					
Overall Balance	3.5	3.5	3.0	-0.8	-0.5
Gross Debt	22.7	18.2	14.1	22.8	25.1
Monetary (% Change YoY)					
Credit to Private Sector (In Euro's)	24.7	62.7	32.0	8.0	12.0
Balance of Payments (% GDP)					
Current Account Balance	-18.4	-25.1	-25.3	-15.0	-14.0
Trade Balance	-22.2	-25.1	-25.7	-20.3	-19.9

Serbia	2006	2007	2008	2009 (f)	2010 (f)
Real Economy					
Real GDP	5.2	6.9	5.4	-3.0	0.0
Private Consumption	7.0	7.5	6.0	-2.0	3.0
Government Consumption	2.5	2.0	1.0	0.0	1.5
Gross Fixed Investment	9.0	8.6	10.0	-3.5	4.0
Exports (Goods & Services)	5.8	5.7	5.4	-7.0	3.0
Imports (Goods & Services)	8.4	8.0	7.3	-10.0	0.0
Retail price Inflation (Avg)	12.7	6.5	10.9	9.7	6.4
Unemployment	20.9	18.1	17.6	20.3	18.9
General Government (%GDP)					
Overall Balance	-1.6	-1.9	-2.2	-3.5	-2.0
Net Public debt	45.9	40.0	38.0	35.0	33.0
Monetary (% Change YoY)					
Credit to Private Sector (In Euro's)	27.0	41.0	19.0	6.0	13.0
Balance of Payments (% GDP)					
Current Account Balance	-9.4	-15.2	-17.2	-13.0	-10.1
Trade Balance	-20.0	-21.9	-22.2	-17.5	-14.4

Turkey	2006	2007	2008	2009 (f)	2010 (f)
Real Economy					
Real GDP	6.9	4.6	1.1	-4.5	1.0
Private Consumption	4.6	4.6	0.3	-3.7	0.5
Government Consumption	8.4	6.5	1.8	2.5	2.0
Gross Fixed Investment	13.3	5.4	-4.6	-14.0	1.5
Exports (Goods & Services)	6.6	7.3	2.6	-10.4	2.1
Imports (Goods & Services)	6.9	10.7	-3.1	-15.9	2.5
CPI Inflation (Avg)	9.6	8.8	10.4	6.8	7.2
Unemployment	9.9	9.9	10.7	14.2	14.6
General Government (%GDP)					
Overall Balance	-0.6	-1.6	-1.8	-5.3	-5.2
Gross Public Debt	45.5	39.6	40.0	46.0	49.0
Monetary (% Change YoY)					
Credit to Private Sector	20.3	38.9	10.0	8.0	13.0
Balance of Payments (% GDP)					
Current Account Balance	-6.0	-5.8	-5.7	-1.3	-1.8
Trade Balance	-7.7	-7.2	-7.3	-2.8	-3.8

FYROM	2006	2007	2008	2009 (f)	2010 (f)
Real Economy					
Real GDP	4.0	5.9	5.0	-0.3	1.5
Private Consumption	6.0	9.8	7.8	2.0	3.0
Government Consumption	1.8	0.4	9.5	6.0	7.0
Gross Fixed Investment	11.6	13.1	18.8	-11.6	2.0
Exports (Goods & Services)	14.3	-9.6	-14.0	2.5	8.0
Imports (Goods & Services)	10.9	17.4	-4.9	-9.1	5.6
CPI Inflation (Avg)	3.3	2.8	7.2	0.8	1.7
Unemployment	36.0	34.9	33.7	35.0	36.0
General Government (%GDP)					
Overall Balance	-0.5	0.6	-1.0	-3.5	-3.7
Gross Debt	38.7	25.4	23.2	23.0	22.8
Monetary (% Change YoY)					
Credit to Private Sector (In Euro's)	27	38	34	10	13
Balance of Payments (% GDP)					
Current Account Balance	-0.9	-3.0	-12.4	-10.7	-13.5
Trade Balance	-20.2	-20.3	-26.7	-23.2	-25.4

Ukraine	2006	2007	2008	2009 (f)	2010 (f)
Real Economy					
Real GDP	7.4	7.7	2.2	-10.0	1.0
Private Consumption	14.1	15.3	6.5	-12.5	-1.0
Government Consumption	4.9	2.9	2.0	0.5	0.8
Gross Fixed Investment	20.9	24.9	2.5	-25.0	1.0
Exports (Goods & Services)	-5.8	2.8	-4.8	-7.4	0.0
Imports (Goods & Services)	8.3	20.2	5.0	-16.2	-2.9
CPI Inflation (Avg)	9.1	12.8	25.2	16.5	12.1
Unemployment	2.7	2.3	3.0	5.0	5.3
General Government (%GDP)					
Overall Balance	-0.7	-1.1	-1.5	-4.0	-2.6
Net Public Debt	13.9	11.7	10.0	13.9	15.7
Monetary (% Change YoY)					
Credit to Private Sector	50	57	15	5	8
Balance of Payments (% GDP)					
Current Account Balance	-1.5	-4.2	-7.0	-2.0	-1.1
Trade Balance	-4.8	-7.5	-9.1	-5.1	0.0

Albania	2006	2007	2008	2009 (f)	2010 (f)
Real Economy					
Real GDP	5.4	6.0	8.0	0.5	1.0
Private Consumption	-	-	-	-	-
Government Consumption	-	-	-	-	-
Gross Fixed Investment	-	-	-	-	-
Exports (Goods & Services)	-	-	-	-	-
Imports (Goods & Services)	-	-	-	-	-
CPI Inflation (Avg)	2.4	3.1	1.5	2.2	2.3
Unemployment	-	-	-	-	
General Government (%GDP)					
Overall Balance	-3.2	-3.3	-5.4	-4.8	-3.0
Gross Debt	-	-	-	-	-
Monetary (% Change YoY)					
Credit to Private Sector (In Euro's)	56	54	32	7	14
Balance of Payments (% GDP)					
Current Account Balance	-5.6	-9.2	-13.5	-11.3	-7.4
Trade Balance	-24.1	-26.5	-26.8	-23.4	-21.2

Source: IMF. Economist Intelligence Unit, Central Bank. Eurostat. Alpha Bank Economic Research

Please address any comments or inquiries to: Michael Massourakis, Group Chief Economist, Economic Research Division
Panepistimiou 43, Athens, 10564 Greece
Tel: (+30) 210-326-2828 – Fax: (+30) 210-326-2812
E-mail: dom@alpha.gr – Web Site: www.alpha.gr