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Economic and Financial Outlook

Economic Research Division

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Executive Summary

1. Greece

- With the 2009 tourism outlook not as negative as earlier anticipated and with GDP growth at 0.05% yoy in H1 2009, we revise upwards our 2009 forecast for GDP growth to -0.5%. Therefore, a modest recovery of GDP growth of 0.5% is now expected for 2010.
- The large shortfall in tax revenue and the continuing overruns in primary expenditure in H1 2009 will likely push the 2009 deficit-to-GDP ratio to above 5%, as in 2008, despite the measures being taken. The pace of consolidation, thus, needs to be considerably strengthened if the deficit is to be reduced below 3% of GDP by 2011.
- The pressing need for fiscal consolidation over the next 18 months implies that the Greek economy may not benefit fully from the recovery in the global economy.

2. Romania

- GDP contracted by -7.7% yoy in H1 2009, due to the substantial fall of value added in the main productive sectors, while, on the demand side, the negative effect on GDP growth due to the fall of final consumption and fixed investment was overcompensated by the positive effect on growth due to the fall of the external deficit. Thus, the recorded fall of GDP in H1 is solely attributed to the fall of inventories and statistical discrepancies.
- The current account deficit is set to fall to less than 7.0% of GDP in 2009, from 12.4% in 2008 from 13.5% in 2007, following a 73.3% decline in the deficit in H1 2009.
- On the back of the deeper than expected recession of the Romanian economy in 2009, the target for the general government deficit was shifted to 7.3% (from 4.6%) of GDP. This target was set in agreement with the IMF, under the requirements for the provision to Romania of the standby loan of € 20 billion from the IMF and the EU.
- Inflation fell to 5.1% in July 2009, from 6.7% in Jan.-April 2009 and a peak of 9.1% in July of 2008. Moreover, the stabilization of the Leu since March 2009, lower commodity prices and weaker domestic demand, should lead to lower inflation in the following months.

3. Bulgaria

- GDP contracted by -4.2% in H1 2009, on the back of a -14.6% fall in domestic final consumption and fixed investment, with a negative contribution to GDP growth of -9.8pps, which, however, was compensated for by the positive 12.5pps contribution from net exports. Therefore, decline in GDP was once again due to the fall in stocks and statistical discrepancies.
- The contraction in industry by -9.8% was no surprise, considering the state of international trade; however the contraction of agriculture by 6.6% was not similarly expected. Value added in services registered a positive growth of 1.4% in H1 2009.
- The current account deficit has fallen to 6.3% of GDP in H1 2009, from 13.1% in H1 2008, which implies a CAD of less than 12% of GDP in 2009, from 25% of GDP in 2008.
- The currency board arrangement will doubtlessly mean that a more painful adjustment will take place in the real economy.

4. Cyprus

- GDP registered negative growth of -1.0% yoy in Q2 2009, following a 0.9% yoy growth in Q1 2009 and 3.7% growth in 2008. The unprecedented fall in external demand in 2009 implies much lower revenues from international tourism, exports of goods and other internationally traded services, but the fall in imports is also important. With net exports expected to exert a substantial positive effect on GDP growth, we currently forecast 0.3% GDP growth in 2009, with a modest recovery to 1.0% GDP growth in 2010.
- The budget surplus fell to 0.9% of GDP in 2008 from 3.4% of GDP in 2007, and a deficit higher than 3.5% of GDP is expected for 2009. Moreover, in the absence of effective adjustment measures, both the deficit and the government debt as a percent of GDP are now set rise further.

5. Serbia

- GDP growth slowed to 2.8% yoy in Q4 2008 and -3.5% yoy in Q1 2009 on the back of declining industrial and construction activity. The economic slowdown has 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 is likely to support credit expansion leading to a slow paced recovery from the early 2010

6. Albania

- While GDP growth remained strong at 6.0% yoy in Q1 2009, economic activity is still expected to decelerate in 2009 with GDP growth below 1.0%.
- Despite the modest improvement in the trade account, the current account deficit still deteriorate in the first few months of 2009 following the rapid decline in emigrant remittances.

7. Former Yugoslav Republic of Macedonia

- GDP growth declined by -0.9% yoy in Q1 2009 following growth of 2.1% yoy in Q4 2009. The global economic crisis his has had 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 -2.5% in 2009.
- CPI inflation averaged 8.3% in 2008, up substantially from the 2.2% in 2007. However, with further declines in food and energy prices forecast, average inflation is now expected to fall to 0.5% in 2009.

8. Ukraine

- GDP growth declined by -18% y/y in Q2 2009 following the -20.3% decline in Q1 2009 as a consequence of the country's over dependence on commodity exports and external financing. The Ukraine has been one of the most heavily affected economies in the region in the wake of the global economic crisis.
- The Central Bank was forced to abandon the peg with the US dollar after the hryvnia came under intense downward pressure towards the end of 2008. Now, as part of the IMF agreement reached in April 2009, greater exchange-rate flexibility has been introduced, with the official exchange rate set within 2% of the interbank rate of the previous day.

9. Turkey

- GDP growth declined by -6.2% y/y in Q4 2008 and now by -13.8% y/y in Q1 2009.Economic activity has declined on the back of constrained domestic lending, limited foreign capital inflows, falling real disposable income and weak external demand.
- In response to the current economic crisis, the central bank has opted to reduce its key policy rate by a staggering 900 bps to 7.75% in August 2009 from 16.75% in November 2008.

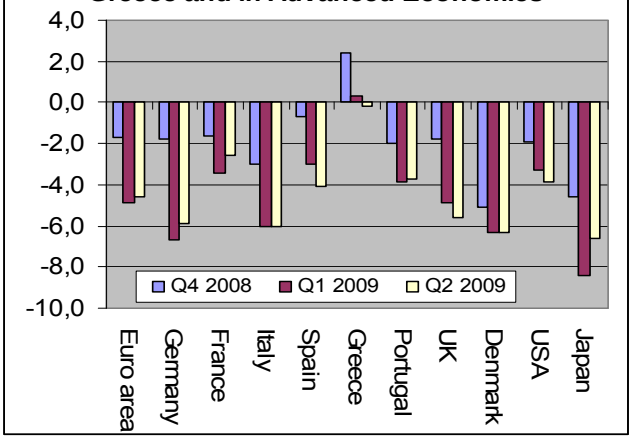
1. GREECE

Table 1. Basic Conjunctural Indicators (% change from previous period)	2006	2007	2008	2009	
				available period	
Retail Sales					
Turnover Index	10.8	5.7	2,1	-8,1	Jan-May
Volume Index	8.0	2.3	-1,4	-10,8	Jan-May
Automobile sales	0.5	4.3	-7,0	-23,5	Jan-July
Tax on Mobile telephony	11.8	114,2	5,3	2,7	Jan-Apr
VAT Receipts	12.0	9.8	8,4	2,4	Jan-Mar
Consumption Tax on Fuels	5,4	10,0	29,9	17,2	Ιουλ-09
Total Consumption	3,9	3,9	2,4	1,1	Q1 2009
Building activity (Permits)	-19.5	-5,0	-17,1	-28,1	Jan-May
Cement Production	3.1	-9.2	-3,1	-23,4	Jan-Jun
Public Investment	8.9	7.6	9,3	45,1	Jan-Jun
Total Investments	9,2	4,9	-11,5	-6,3	Q1 2009
Industrial Production					
Composite Index	0,9	2,3	-4,0	-9,5	Jan.-Jun
Manufacturing Production	2	2,2	-4,7	-12,0	Jan.-Jun
PMI (Manufacturing)	52.4	53.7	50,4	48,8	July.2009
Turnover in Industry	12.6	4,0	7,1	-34,7	Jan-May
New Orders in Industry	12.3	1,6	-0,6	-26,9	Jan-May
Exports goods & services	10,9	3,1	2,2	-20,2	Q1 2009
Imports goods & services	9,7	6,7	-4,4	-16,8	Q1 2009
GDP	**4,5**	**4,0**	2,9	**0,3**	**Q1 2009**
Current Account (% of GDP)	-9,6	-12,4	-12,7	-4,7	Jan-May

Note: Growth rates are calculated on a cumulative basis

ECONOMIC DEVELOPMENTS: The Greek economy has successfully weathered one of the worst financial and economic crisis of the last 80 years afflicting the global economy. Growth in H1 2009 stood at 0.05% which compares favourably with the -4.8% growth in the Euro area. Moreover, the expected improvement of the world economy and financial markets from Q3 2009 onwards may also help the Greek economy to further improve its performance in H2 2009, notwithstanding a possible negative effect on growth arising from intensified efforts towards fiscal adjustment. Already the tendency towards lower risk aversion internationally, has helped bring down the Greek long-term sovereign bond spread vis-à-vis Germany to around 125 bps in the middle of August 2009, from more than 250 bps in Q1 2009.

Diagram 1. Year on Year GDP growth in Greece and in Advanced Economies



In this dismal economic and financial environment, international trade (affecting in particular Greek shipping) has fallen by more than -20% in Q1 2009 and is expected to register negative growth of the order of -11% in 2009 as a whole, from 4.1% in 2008. Also, international tourism traffic was down by about -8.0% yoy world wide in H1 2009 and has fallen by about -10% in the European Mediterranean countries. For Greece in particular, international tourist arrivals were down by about -8.6% in January-July 2009 and are expected to register a -6.5% fall in 2009 as a whole. These developments in combination with the prevailing uncertainty, has rocked consumer and business confidence in Greece, undercutting economic activity especially in the housing, manufacturing and retail commerce sectors.

This set the stage for a substantial slowdown and eventual fall in private consumption, investment and exports. However, the fall in domestic demand was mainly directed towards luxury items, durable consumer and investment goods and energy products, which in Greece are to a great extent imported from abroad. As a result, the fall in domestic production and output is not proportionate to the fall in domestic demand as the increase in net exports compensates for the fall in domestic demand.

The Greek economy grew at a healthy rate of 2.4% in Q4 2008 (2.9% in 2008 as a whole), 0.3% yoy in Q1 2009 and -0.2% in Q2 2009. This fast deceleration of GDP growth was mainly due to the following developments in private and public consumption, in fixed investment and investment in stocks and in exports and imports of goods and services:

PRIVATE CONSUMPTION: Private Consumption growth decelerated initially to 0.94% in Q4 2008, from 3.25% in Q1 2008, and finally turned negative to -0.14% in Q1 2009 and an estimated -1.3% in Q2 2009. In fact, retail sales volume posted a decline of -1.4% in 2008, following a 2.3% growth in 2007. Also, registrations of private new passenger vehicles fell by -7.0% in 2008, following a 4.3% increase in 2007. The above trends were strengthened in H1 2009 with retail sales volume (excluding fuels and lubricants) falling by -10.8% in January-May 2009, the volume of sales of fuels and lubricants falling by -36.8% and registrations of new private passenger vehicles falling by -23.5% in January-July 2009. Also, turnover in many services sectors turned to negative growth in Q1 2009.

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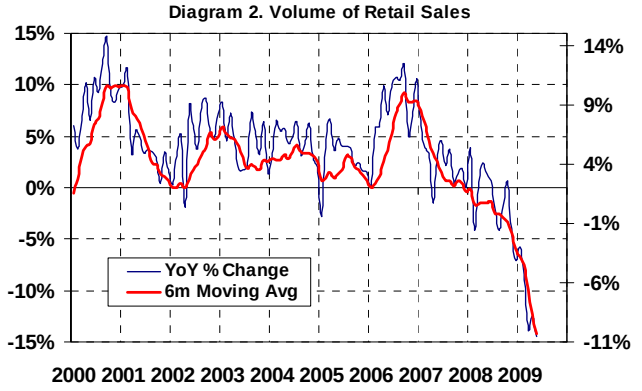
The above negative developments in private consumption were mainly due to the dramatic deterioration of consumer and business confidence in Greece, especially in Q1 2009, in view of the deepening international crisis, but also of the domestic disorder disrupting economic activity in Greece in the period of December 2008 – February 2009. In fact, 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. Also, consumer confidence index plummeted to record low levels of -56 in February and May 2009 from -48 in January 2009 and -34 in February 2008. However, both these indices have rebounded after May 2009, with the retail business confidence index reaching the level of 91.4 in July 2009 and the consumer confidence index improving to -49 in July, despite remaining still at very high level compared with European averages. This ***rebound in confidence followed*** the first "green shoots" that appeared in the international economy.

Diagram 2. Volume of Retail Sales



For the year 2009 as a whole private consumption growth is now expected to stay in negative territory, registering a fall of -0.6%, from an increase of 2.4% in 2008. This expectation is based on the new forecasts for growth of compensation of employees in 2009 of 2.5% (1.3% 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 reach 0.8% in 2009. Therefore, the substantial deceleration of growth of private consumption in 2008 and its actual fall in 2009 is mainly due to the negative impact of weak consumer sentiment, which led to a substantial increase of his precautionary household savings. ***Assuming lower wage and disposable income growth in 2010,*** due to the need for fiscal adjustment and for an improvement of Greece's international competitiveness, ***but with improved consumer sentiment and a higher consumer credit growth,*** we would expect private consumption growth to rebound to around 0.5% in this year.

Growth in government consumption, which reached 3.2% in 2008, from 7.4% in 2007, continued on a high growth trend in H1 2009, increasing by 6.1% in Q1 2009 and by an estimated 3.3% in Q2 2009. It is also expected to eventually slow down to 2.0% in H2 2009, with the government trying to compensate for the exceptionally high growth of government spending in H1 2009. Moreover, government consumption growth will remain constrained from 2010 onwards due to the increasing pressure to bring down the general government deficit to a more acceptable target of 3.5% of GDP in 2010 and eventually to 3.0% of GDP in 2011, from around 5.0% in 2009.

FIXED INVESTMENT: ***Total fixed investment declined by an estimated -11.5% in 2008,*** compared to an increase of 4.9% in 2007, and continues on a rapidly declining trend reaching -6.3% in Q1 2009 and a forecast of -7.8% in Q2 2009 and -5.5% for 2009 as a whole. Moreover, an additional negative growth of fixed investment of the order of -1.2% is expected for 2010.

The fall in fixed investment in 2008 was mainly due to the accelerated ***fall of residential investment*** by -29.1%, versus their -6.8% fall in 2007. This falling trend in residential investment continued with a fall of -19.8% in Q1 2009 and an estimated fall of -19.1% in Q2 2009.

Residential construction activity – as measured by the volume (m^3) of building permits – registered negative growth of -17.1% in 2008, while the rapid decline of continued in Jan.-May.'2009 with a fall by -28.1% yoy. These developments indicate a negative growth of the volume of building permits and of residential investment for 2009 as a whole of -13,5% and -17.2% respectively, following its fall by -17.1% and -29.1% respectively in 2008, and by -5.0% and -6.8% respectively in 2007. Moreover, the falling trend in residential investment is now expected to continue in 2010, with a fall of the order of -9.5%, with recovery seen not earlier than H2 2010. In fact, support of demand for residential investment from growth of mortgage lending has also weakened in resent months, as growth of mortgage loans decelerated to 6.0% at end-June 2009, from 11.5% at end-2008. A further deceleration in the growth of mortgage lending to around 3.0% is now expected by end-2009.

The unfavourable turn of events in H1 2009 due to the international financial turmoil is also reflected in the substantial deterioration of the ***construction business confidence index,*** which fell to 52.8 in May 2009 from 73.0 in Dec.'2008. However, a substantial improvement of this index to 69.0 was registered in June 2009, which settled to 67.4 in July 2009. Finally, ***the Government's efforts to stimulate mortgage credit demand in Greece*** by reducing the transaction costs (i.e notary fees) on mortgage lending, as well as by expanding tax deductibility for residential mortgage loans originated in 2009 and 2010, have not yet had any effect.

General government investment grew by 1.4% in 2008, while spending under the Public Investment Budget (PIB) increased by 9.3%. In H1 2009, spending

under the PIB reached 63% of the total budgeted amount for 2009 and it will be much lower in H2 2009 as this investment is projected to fall by -12.2% in 2009 as a whole. Due to the high level of general government investment spending reached in H1 2009, other construction investment (excluding housing) grew by 35.5% yoy in Q1 2009 and is estimated to have risen by about 27% yoy in Q2 2009.

Finally, following the negative developments in the international financial system in Q4 2008 and H1 2009, ***non-residential private sector investment*** registered a negative -3.7% real growth in 2008, while in Q1 2009 investment in machinery and transportation equipment was down by -23.5% and -30% respectively. It is now evident that various categories of investment projects were delayed or postponed in H2 2008 and H1 2009 on the back of the unprecedented uncertainty due to the global economic and financial crisis.

Overall, investment's function as the primary growth driver in Greece is constrained in 2008-2009 by the abrupt fall of investment in housing and the substantial negative effect of the international crisis on business investment. 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 attempted in the last few years to implement most of the public sector investment projects through Public Private Partnerships (PPP), implying a fall in general government investment by -12.2% in real terms in 2009, following 1.4% real growth in both 2007 and 2008. 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. However, the implementations of these PPP projects have not taken place in 2008, or in H1 2009. In this later period, the government has accelerated the implementation of projects financed through the public investment budget. Public investment expenditure was higher in H1 2009 by 45.1% yoy, but none of the PPP projects have yet entered the implementation phase. We expect, therefore, that some of these projects will go into implementation during H2 2009. Finally, the European Commission has indicated its willingness to increase the EU contribution for financing investment projects, as well as employment support measures in 2009 and 2010, thus reducing the burden imposed on the member-country budgets. There is evidence that the Greek Government has now proceeded to appropriately exploit this opportunity.

Business investment may also be boosted in the following years by: (a) the expansion of project development via PPPs. (b) The large number of investment projects approved 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 mainly in 2009.

Finally, the Greek housing sector is in the midst of a substantial slowdown in 2007-2010. This was initially in response to the extraordinarily high level of residential investment in 2006, following a building permit explosion in 2005 due to the then 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 and 2010 as analyzed above. Housing price inflation has also slowed down to around 1.5% in 2008, barely enough to compensate for the substantial increase in the cost of housing construction in that 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 from the expected recovery of the European economies in 2010.

The above assumptions concerning consumption and fixed investment, in combination with the assumption of a fall in stocks by an estimated -67% in 2009, imply that **the overall domestic demand growth is expected to register negative growth of -2.0%,** contributing to a sizable improvement of the external goods and services deficit (national accounts basis) to 8.6% of GDP in 2009 from 10.0% in 2008 and 12.1% in 2007. We turn now to the analysis of developments in the Greek external sector.

NET EXPORTS OF GOODS AND SERVICES: Domestic demand slowdown in H2 2008 and its fall in H1 2009 is reflected mainly in total imports of goods and services, which registered a fall of -4.4% in 2008 as a whole, -16.8% yoy in Q1 2009, and an estimated fall of – 16.5% in Q2 2009. For 2009 imports of goods and services are expected to fall by -13.9% in real terms, implying also the redirection of a sizable amount of expenditure from payments for imports to domestically produced goods and services. For example, payments for imports of oil are expected to be lower in 2009 by about € 4.5 billion from 2008, supporting to a certain extent disposable income and spending.

On the other hand, ***exports of goods and services*** registered again a robust 2.2% growth in 2008 but fell

by -20.2% in Q1 2009 and are estimated to have fallen also by -15.2% in Q2 2009, with an expected decline of -13.5% in 2009 as a whole. Finally, exports of goods and services are expected to recover slightly in 2010, registering a 1.5% growth. Overall, net exports are expected again to have a positive effect on GDP growth of 1.5pps in 2009 and by 1.0pps in 2010 from 2.2pps in 2008. Developments in the main exporting sectors of Greece (tourism, shipping and exports of goods) are analysed bellow.

Greece's net merchant shipping receipts remained buoyant until September 2008, but have fallen substantially thereafter, as expected. These receipts which reached € 9.9 billion in 2008, provided a considerable boost to domestic demand, investment and consumption in the Greek economy contributing to GDP growth. However, receipts from international shipping have fallen in H1 2009 by -30.9% yoy are now expected to fall by about -22% 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 housing investment in 2009.

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 -14.7% in H1 2009.*** Moreover, arrivals of foreign tourists in Greece in January – July 2009 declined by -8.6%, but the fall in July alone did not exceed -5.9%. These developments imply an estimated drop of arrivals of about -6.8% for 2009 as a whole and an estimated fall in current revenues of about -10.5%. On the other hand, payments by domestic residents for tourism abroad were also lower in H1 2009 by -5.4% yoy, implying a fall by about -5.5% for 2009 as a whole.

Exports of goods have registered a -18.0% yoy fall in nominal terms in H1 2009 (NSSG data), following their positive performance in 2008. On the other hand, ***imports of goods*** have registered a much bigger fall in H1 2009, of -35,1%, when registrations of private passenger cars (totally imported) were down by -23.5% yoy, and domestic retail sales of car fuels and lubricants were down by -36.8% in real terms in Jan.-May.2009.

GDP GROWTH: The above projections imply a GDP fall in 2009, compared with 2.9% in 2008, recovering to positive growth of 0.5% in 2010. In fact, the substantial improvement in the international economic environment and financial system in the last few months could justify an even better performance for the Greek economy in 2009 and 2010. However, the need to improve public finances requires much lower public consumption growth and negative growth of general government investment in H2 2009 and in 2010, which may offset expected improvements elsewhere. Overall, uncertainties and risks concerning economic developments in Greece in 2009 and 2010 remain higher than usual.

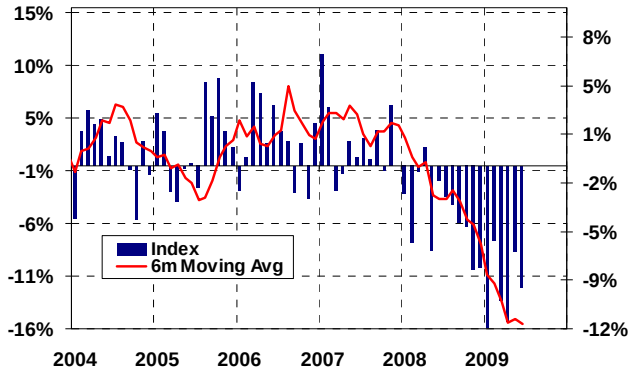
The government itself continues to predict marginally positive GDP growth in 2009, while the Bank of Greece predicts zero growth in 2009 with a strong possibility for negative growth. On the other hand, the main international organizations predict negative growth for Greece in 2009 as follows: the European Commission (-0.9%), the OECD (-1.3%), the IMF (-1.7%). Also, most private sector forecasters predict a fall of Greek GDP by more than -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 about 3.0pps. All of the above mentioned forecasts assume, as do we, a similar fall of domestic demand and real exports of goods and services, but unlike us, with imports of goods and services falling in real terms at a lower rate than exports. This is not consistent with developments in H2 2008 and in H1 2009, especially with regards to the performance of exports and imports of goods.

DEVELOPMENTS IN THE MAIN PRODUCTION SECTORS: ***Manufacturing production*** recorded negative growth, of -4.2% in 2008, following 1.8% growth in 2007. Here again the falling trend has accelerated in H1 2009, where manufacturing production fell by -12.0% yoy. This fall in 2008 and in H1 2009, was mainly due to the fall of production of textiles by -28.9% in 2008 and by – 28.4% in H1 2009 and of the production of clothing by -10.8% in 2008 and by -20.2% 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 H1 2009, primarily due to the rapidly falling activity in the housing sector. On the other hand, production in the food and beverages industry (the biggest industry in Greece, with an 18.5% weight in the index of manufacturing production) fell slightly by -3.8% yoy in H1 2009, following positive growth of 1.2% in 2008 and 3.6% in 2007. In fact, an analysis of developments in the main manufacturing sectors 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..

Recently the prospects ahead have improved slightly, with the PMI index recovering to 48.8 in July 2009, from 40.3 in May 2009, 40.0 in January 2009, 51.6 in July 2008 and 54.4 in April 2008. Also, manufacturing business confidence recovered to 73.8 in July 2009, from 68.9 in April, 62.8 in February, 68.2 in January 2009, 69.4 in December 2008 and 93.7 in July 2008.

Finally, ***the general index of industrial production*** also fell by -3.7% in 2008, from 2.2% yoy in 2007, and by -9.5% in H1 2009, reflecting the substantial impact of the international economic crisis on the Greek economy. ***Mining and quarrying production*** fell by -11.5% in H1 2009, following a fall of -4.3% in 2008 and of -0.9% in 2007. ***The production of electricity*** also fell by -2.1% in H1 2009, from -2.8% in 2008 and +3.5% in 2007. ***Natural gas and crud oil production*** fell by -11.6% in H1 2009, on top of a -17.0% fall in H1 2008. Water production and distribution fell in H1 2009 by -0.9% yoy, following an increase by 2.5% in H1 2008.

Diagram 4. Manufacturing Production



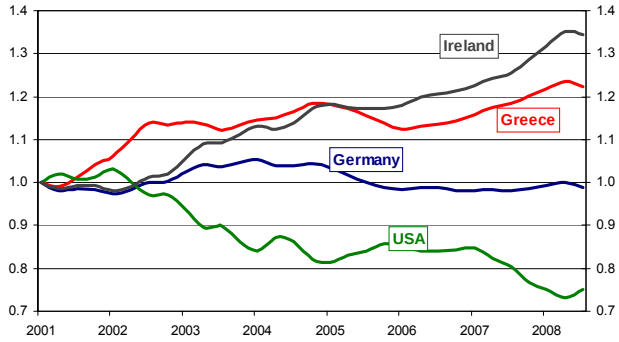
The Greek banking system has been a strong pillar supporting growth in Greece and the SEE region as a whole in the last ten years. In the current period, despite the severe tensions in international financial markets, banks remain fundamentally sound, safe and stable. Leverage of domestic households 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. Toxic asset write-offs by Greek banks related to the global financial crisis were insignificant and their capital base remains relatively strong. 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 reach 3% in 2009 (with nominal GDP growth of about 1.0%).

GREECE'S INTERNATIONAL COMPETITIVENESS: Greece's BoP position and GDP growth are negatively affected 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 erosion in cost competitiveness 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 from the rapidly growing countries in SE Europe, 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 for Greek exports of goods.

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), as well as of the currencies of the United Kingdom and in SE Asia, which are in many respects competitors for Greece in export markets.

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).

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



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 is mainly due to the strong Euro, which is combined in Greece with a rapid growth of its ULC comparing with its main trading partners. According to data published by the European Commission, ULC growth reached 6.3% in 2007 and 5.7% in 2008, compared with 1.7% and 3.3% respectively in the Eurozone. As a result, the Greek REER appreciated by 3.3% in 2007 and by 1.5% in 2008. For 2009, with GDP growth near zero, Greek ULC growth should not exceed 2.8%. This is compared with an expected 3.4% ULC growth for the Eurozone and a 3.3% ULC growth for the EU-24. Therefore, Greek international competitiveness in 2009 has further worsened only with respect to countries which are experiencing exchange rate depreciation with respect to the Euro. Overall, 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 intense in the following years. The need to reverse the loss of international competitiveness since 2001 could be achieved 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 aforementioned points need to be combined with the successful implementation of reform measures in the social security area, as fiscal consolidation necessary for growth.

FISCAL POLICY: The implementation of the 2009 Budget during H1 2009 reflects on the one hand the continuing malfunctioning of the revenue collection mechanism, plagued by large-scale tax and social security contribution evasion, and on the other, the continuing high growth (by more than 3 percentage points above the nominal GDP growth) of current budget primary expenditure. The main developments in H1 2009 are as follows: **(a)** Net current revenues reached € 22.2 billion, registering a -3.3% 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 31.9% in H1 2009 on top of a 25.7% increase in H1 2008 and 31.5% increase in H1 2007, 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 6.4% in 2009 (2008: 5.1%) and falling short of the planned 14.8% growth target for 2009, following their below target growth (5.7%) in 2003-2008.

(b) Current primary expenditure reached € 23.98 billion in H1 2009, up again 14.9% yoy, on top of the 11.6% increase in H1 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 action 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, and maintaining a surplus thereafter. In fact, growth in the current primary expenditure may be contained in 2009 by the application of the new policy of limiting wage and pension increases in the current year to 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 further containment of current primary expenditure are considered. 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 social security contributions as well as a better alignment of pension benefits with contributions, the needed sustainable containment of current primary expenditure growth may be elusive.

(c) Interest payments in H1 2009 reached € 6.61 billion, compared with € 6.18 billion in H1 2008, but their actual level in 2009 are not expected to exceed the budgeted € 12.1 billion. An important development in recent months has been the considerable fall of the spread of Greek bonds over German bonds, with the 10-year spread fluctuating around the 125 bps, from more than 250 bps in Q1 2009.

(d) In the Public Investment Budget (PIB), expenditure reached € 6.14 billion in H1 2009, up 45.2% 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 € 640 million in H1 2009, down from € 2.35 billion in H1 2008. It is projected that PIB revenue will reach at the end the targeted level for 2009.

The above developments indicate that, without new effective measures aiming to raise current tax revenues and contain current primary expenditure, the general government deficit in 2009 will once again exceed the 5.0% of GDP level of 2008. 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 about 32% of GDP in (2007), compared with about 40% of GDP in the Eurozone and the EU-27. In fact, Greece's percentage has fallen even lower in 2008 and in 2009 as tax revenue growth in the period 2007-2009 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 by the private sector, c) to containing the further deterioration of international competitiveness and (iii) to containing the current account deficit at much lower levels.

INFLATION: CPI inflation fell, as expected, to 0.6% in July, from 0.5% in May and June, and 2.0% in Dec. 2008. Core inflation (which in Greece excludes unprocessed food and energy products) also fell to 2.0%

in July from 3.7% in July 2008, reflecting the weakening of domestic demand. Inflation in both Greece and the Eurozone is expected to increase in the two final months of the year, mainly due to base effects, and ***to average to 1.2% for 2009 as a whole, from 4.2% in 2008,*** assuming that the international price of oil will average around $ 72/barel in 2009 from above $ 145/barrel in July 2008. However, Greek CPI inflation remains higher than in 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.

BALANCE OF PAYMENTS: The current account deficit (CAD), which includes net capital transfers, fell in H1 2009 by -18.4%, reaching € 13.8 billion or 5.6% of GDP, from 7.0% of GDP in H1 2008. Developments in the Greek BoP in H1 2009 reveal the effect of the substantial fall of domestic demand in Greece due to the international economic crisis.

Of particular importance was the substantial fall of the deficit of the trade balance by -32.6% as a result of the fall of exports of goods by -21.8% and the even higher fall of imports of goods by -29.4%. In fact, payments for imports of fuels were € 3.04 billion lower than in H1 2009 and payments for imports of goods excluding fuels and ships were lower by € 5.3 billion. On the other hand, the fall in exports excluding fuels and ships in H1 2009 did not exceed € 0.93 billion.

Table 4. Greek Balance of Payments (€ Billions)

	2006	2007	2008	H1 2008	H1 2009
Trade Balance (TB)	-35,29	-41,50	-44,05	-22,78	-15,36
Exports	16,15	17,45	19,81	9,52	7,44
Imports	-51,44	-58,94	-63,86	32,96	22,80
Services Balance	15,34	16,59	17,20	6,28	4,24
Tourism Receipts	11,39	11,32	11,66	3,63	3,10
Shipping Receipts	14,32	16,94	19,19	9,41	6,73
Income Balance	-7,12	-9,08	-10,89	-5,03	-5,07
Payment of Interest, Divid. & Profits	-10,46	-13,37	-16,21	7,66	7,22
Transfers' Balance	6,45	5,92	6,85	4,57	2,35
Current Account (CA)	-20,62	-28,06	-30,89	-16,96	-13,84
CA (% of GDP)	9,6%	12,3%	12,8%	7,0%	5,6%
Capital Account	20,36	27,68	30,19	16,95	14,59

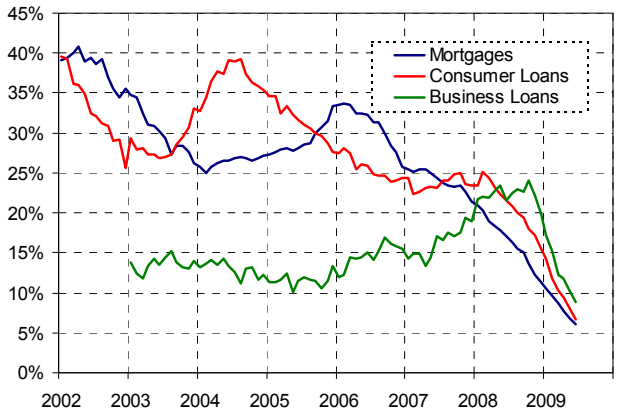
Source: Bank of Greece

A second important development was the fall by -32.4% of the surplus of the balance of services, as a result of the fall by -14.7% of earnings from external tourism, as well as the fall of net receipts from international shipping by -28.4%. Payments for services imports were also lower by -15.6%. Thirdly, the deficit of incomes balance was only slightly higher on a yearly basis, mainly due to the fall of payments for interest, dividends and profits to foreign investors in Greek financial assets (government bonds and shares) by -5.7% in H1 2009, from 16.4% in H1 2008. Finally, the surplus of the balance of current and capital transfers was substantially lower in H1 2009 than in Q1 2008, by € 2.2 billion, constraining an even bigger fall of the current account deficit. A further improvement of the CAD is expected for 2009 as a whole, where the deficit is estimated to fall to 9.0% of GDP, compared with 12.7% of GDP in 2008 and 12.3% of GDP in 2007.

With respect to the structure of ***the capital account*** of the Greek balance of payments, net capital inflows fell to € 14.59 billion in H1 2009 from € 16.96 billion in H1 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) reached € 1.2 billion in H1 2009 from € 1.55 billion in H1 2008. This was mainly due to higher FDI by foreign firms in Greece of € 1.71 billion (H1 2008: € 2.72 billion), as well as to the substantial fall of FDI by Greek firms abroad to € 0.51 billion (H1 2008: € 1.17 billion). b) Net Capital outflows for portfolio investment abroad by Greek residents of an amount of € 8.1 billion in H1 2008 was turned into net capital inflow of € 2.49 billion in H1 2009. On the other hand H1 2009 witnessed a substantial increase of net capital inflows from foreign residents for portfolio investment in Greece to € 20.68 billion, from € 8.4 billion in H1 2008. c) Finally, there was a net outflow of other investments (primarily bank borrowing and lending) of € 9.78 billion in H1 2009, from a substantial net inflow of € 15.1 billion in H1 2008. This comprises of liquidation of positions of foreign banks to Greek banks, implying a small net capital inflow of € 5.7 billion in H1 2009, from € 23.97 billion in H1 2008. On the other hand, outflows from Greek banks to foreign banks increased substantially to € 15.5 billion in H1 2009 from € 8.9 billion in H1 2008.

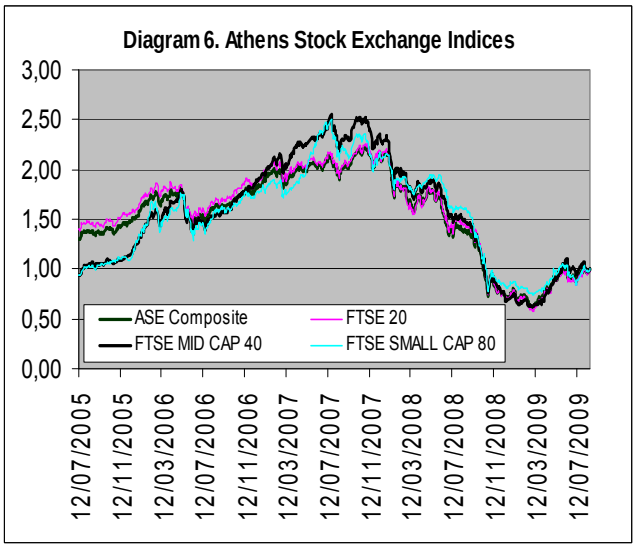
MONEY & FINANCIAL MARKETS: Credit expansion to businesses and households decelerated to 7.6% at end-June 2009, from 10.8% at end-March and 15.9% at end-Dec 2008. In particular, mortgage and consumer lending growth reached 6.0% and 6.6% respectively at end June 2009, from 8.7 % and 8.5% respectively by end-March 2009 and 11.5% and 13.7% respectively at end-December 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 at 8.8% yoy at end June 2009, from 12.2% yoy at end-March 2009 and 18.7% at end-2008. Overall, credit expansion to the private sector is expected to decelerate to 3.0% by year-end 2009, which is still high compared with an expected nominal GDP growth of about 1%. In fact the on going international credit crisis, the tightening of credit rules applied by banks and the fall in demand for credit following the substantial slowdown of growth in the economy imply the aforementioned deceleration of credit growth. The substantial improvement of liquidity and capitalization of banks in recent months, in combination the application as needed of the € 28 billion government sponsored liquidity boosting program, should help to sustain credit expansion at modest levels, given the expected moderation of activity in the Greek economy.

Diagram 5. Credit Expansion



By the 20th of August 2009, the main ASE composite index was down by -53.9% since the end-2007 (FTSE-20 stocks: -54.5%, mid-cap FTSE-40: -56.9% and small caps FTSE-80: -53.7%). However, in the last four months the Greek stock exchange indices have followed international trends and registered a notable improvement, as the ASE composite index is now up by 33.7%, compared with its close at the end of 2008 (FTSE-20 stocks: 34.6%, mid-cap FTSE-40: 41.9% and small caps FTSE-80: 15.9%). In fact the ASE composite index has now rebounded to its October 10, 2008 level. According to unofficial estimates, the ASE was boosted by € 1.9 billion of net inflows from abroad in April 2009 and by € 744.4 million in July 2009. Following these developments, at the end of July 2009 48.13% 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).

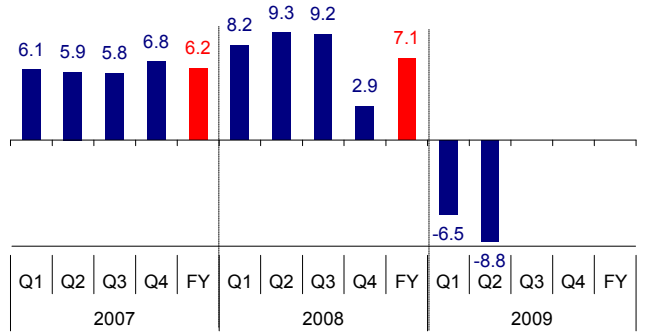
Diagram 6. Athens Stock Exchange Indices



2. Romania

Economic Overview: According to preliminary data, GDP growth declined by -8.8% in Q2 2009. This follows the fall in economic activity in the first quarter of 2009 with GDP growth of -6.2% y/y. Based on Eurostat data, private consumption declined by 12.2% y/y in Q1 2009 (subtracting 12.8pps from growth) while investment in fixed capital declined by -0.3% y/y. The difficulties involved in obtaining external finance and domestic credit are affecting investment which in turn is affecting domestic demand. The rapid decline in Eurozone growth, one of Romania's primary export markets, has severely affected external demand. In Q1 2009, exports of goods and services registered growth of -20.8% compared to 30.4% y/y in Q1 2008. However, this decline was more than offset by the decline in import growth of 33.3% which led to a positive contribution from net exports of 27pps. However, despite this substantial positive contribution to growth, headline growth was negative due to a -21pps contribution from the statistical discrepancy category in the national accounts data, which highlights the difficulties still being encountered when compiling accurate data. In all likelihood, this discrepancy will be reallocated to different subcategories in the national accounts in the coming quarters as the GDP data is revised.

Real GDP (%Δ YoY)



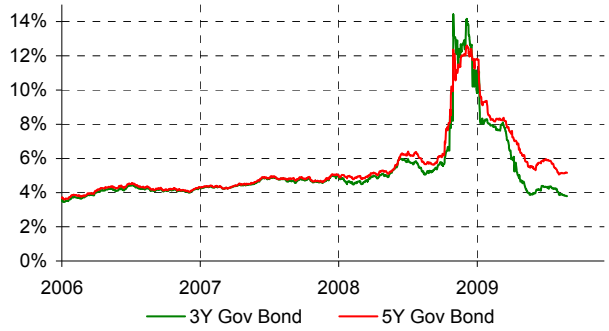
Reflecting the sharp drop in Q2 GDP growth both industrial production and retail sales remain deep in negative territory. Industrial production registered growth of -5.9% y/y in June and -8.7% y/y for Q2 2009 following the -13.0% y/y drop in Q1 2009. Likewise, the decline in retail sales accelerated with growth of -16.4% y/y in June, -13.5% y/y in Q2 2009 and -5.2% y/y in Q1 2009. Unemployment is also starting to inch higher having reached 6.9% in Q1 2009, up from 5.8% the previous quarter and 6.3% in Q1 2008. However, wage growth has proven to be somewhat resilient relative to the current economic downturn. Following real net wage growth of around 15.0% during the past few years, average net monthly wages still managed to increase a nominal 8.7% y/y to RON 1,356 in May, while real growth slowed to 2.6% y/y for May from 3.2% y/y in April.

Indicatively, the Ministry of Finance is now forecasting negative GDP growth of between 8.4-8.5% for 2009. This assessment is inline with that of the IMF's for a growth

decline of up to -8.5%. The IMF and the Romanian government are currently running the first quarterly-review of the two-year stand-by agreement under which Romania is entitled to a € 13.0 billion loan. An additional € 7.0 billion of financing was arranged via the European Union, EBRD, EIB and IFC.

FISCAL POLICY: The general government deficit reached 3.0% of projected full-year GDP in Jan-Jul 2009 having increased from 2.7% of GDP in H1 2009. The government will be revising the budget for the second time in 2009 in order to facilitate a cut in public expenditure a necessary step if it is to meet the new IMF agreed upon deficit target of 7.3% for 2009. The government has also secured € 5 billion financing from the EU which 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. The government has also announced that it will freeze all wages in the public sector until the end of 2010, with the hopes of cutting the budgetary payroll from 9% of GDP this year to 5.9% in 2010.

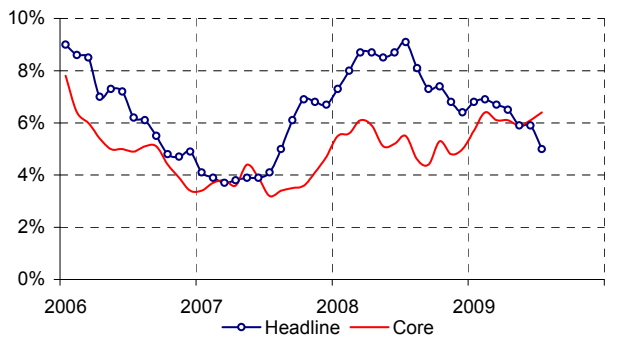
Romania - Government Bond Yields (%)



In May 2009 the European Commission (EC) initiated an excessive deficit procedure against Romania. The EC report maintains that Romania undertook "a pro-cyclic 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 this macroeconomic imbalance, including the fiscal consolidation measures discussed above.

INFLATION: While inflationary pressures eased in the second half of 2008, from 9.1% in June 2008 to 6.5% in December 2008, due to falling international food and energy prices, further gains have been hampered by the depreciation of the RON. More recently, headline CPI inflation has eased to 5.1% y/y in July from 5.9% y/y in June, due to base effects arising from the sharp increase in administered energy prices last year. The -5.0% m/m decline in the price of natural gas in July contributed significantly to the steep moderation in the average price of non-food products from 6.7% y/y in June to 4.5% y/y in July. Following a spike in 2008, food prices have eased to 3.7% y/y despite the depreciation of the RON and the higher agricultural produce prices. The Central Bank, in consultation with the IMF, has established a new year-end inflation forecast of 4.3% y/y in 2009 and 2.8% in 2010, within the 3.5% +/-1pps band set under the inflation targeting regime. Upside risks to inflation concerning the government's income policy remains a concern given the possibility that wages will continue to grow faster than productivity. This should be offset somewhat by the lower energy prices and declines in foreign and domestic demand.

HICP Inflation (%Δ YoY)

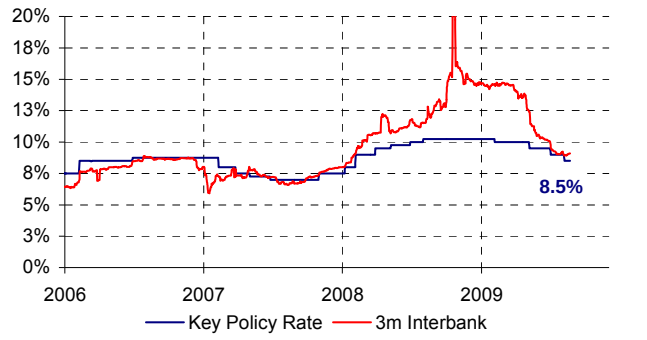


BALANCE OF PAYMENTS: While the current account deficit reached € 16.9 billion or 12.4% of GDP in 2008, a sharp downward adjustment of the deficit to around 7% of GDP is likely in 2009. The deficit has already narrowed by -73.3% y/y to € 2.4 billion or 2.1% of forecast full year GDP. Slower private sector lending and wage growth has helped to facilitate the correction in the trade balance which declined by -67.2% y/y in H1 2009 to € 2.9 billion (€ 9.0 billion in H1 2008). During this period, exports of goods declined by -20.3% to € 13.6 billion while imports declined by -36.6% to € 16.5 billion. The € 377 surplus on the services account in H1 2008 turned to a deficit of € -29.0 billion in H1 2009 while the deficit on the incomes account improved from € -2.8 billion to € -1.5 billion. Direct investment in Romania declined by -43% y/y to € 2.9 billion in H1 2009 from € 5.1 billion in H1 2008. Of the € 2.9 billion inflows, intra-group loans accounted for 49.7%, equity 40.9% and reinvested earnings for 9.4%. Nevertheless, even though FDI inflows have proved to be more resilient than previously anticipated, they are still expected to halve in 2009. Even so, given the loan package agreed to with the IMF, the EU and others, Romania should not have a problem to finance the lower deficit.

EXTERNAL DEBT: By the end-June 2009, gross external debt increased to € 75.6 billion or to roughly 58% of forecast full-year GDP. Medium and long-term external debt increased 11.7% year-to-date to € 57.2 billion (accounting for 75.8% of total external debt). Conversely, the short-term debt shrunk to € 18.3 billion.

MONEY & FINANCIAL MARKETS: Increased risk aversion in international markets has led to a rapid increase in FX-volatility for the Romanian LEU. Having depreciated by 5.7% versus the euro in 2007, the LEU depreciated a further 12.5% in 2008 and reached RON 4.03/€. As markets remained anxious at the start of 2009, the currency depreciated further, reaching an all time high of RON 4.33/€. It has since recovered to around RON 4.22/€ by mid-August 2009. As a result, unofficial interventions have been undertaken by the central bank in the hopes of stabilising the currency.

NBR Policy Rate (%)

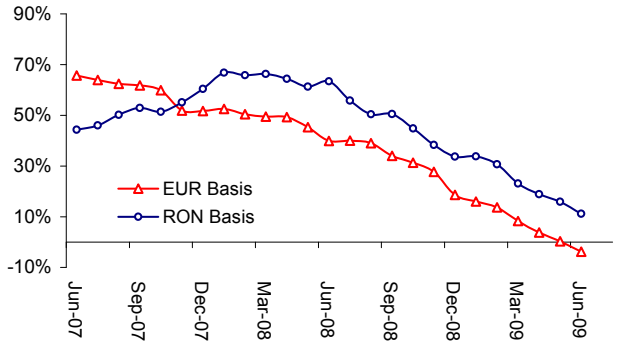


With inflation having fallen by over 1.2pps from 6.3% in December 2008 to 5.1% in July 2009, the National Bank of Romania (NBR) has opted to relax monetary policy having reduced the key policy rate by a total of 175bps to 8.5%. The central bank has also undertaken numerous open market operations with the aim of reducing the money market interest rates. Furthermore, the central bank has reduced the reserve requirement ratios for foreign currency deposits with maturities above 2 years to 0% from 40%, while the reserve requirements for forex and local currency deposits with maturities below 2 years remains at 40% and at 18% respectively.

Exchange Rate Developments

Foreign exchange reserves increased by € 860 million to € 27.3 billion in July following the receipt of € 1.5 billion from the European Commission while roughly € 1.0-1.2bn was released to commercial bank as part of the lower reserve requirements (see below). The use of forex reserves remained high in July, with roughly € 3.4 billion being used on multiple open market operations, as well as for payments to the EU budget and the cut in the required reserves to commercial banks. The monetary gold stock has remained at 103.7 tonnes or € 2.2 billion with international reserves at € 29.54 billion.

Romania - Credit Growth (%Δ YoY)



(Data reported in domestic currency). Credit expansion to the private sector has continued to decline, registering growth of 11.2% in June 2009 (63.4% in June 2008 and 33.7% in December 2008). Business credit slowed to 7.9% (52.0% in June 2008 and 29.0% in December 2008), while household credit growth slowed to 14.6% (77.4% in June 2008 and 38.7% in December 2008). Despite rapid credit expansion in recent years, credit penetration remains low at 38% of GDP (35.9% in 2007 and 39.3% in 2008). Likewise, private sector deposit growth also slowed, to 12.3% in June 2009 (40.2% in June 2008 and 17.3% December 2008). Business deposit growth slowed to 3.2% (33.0% in June 2008 and 11.0% December 2008), while household deposit growth slowed to 19.5% (46.5% in June 2008 and 23.1% in December 2008).

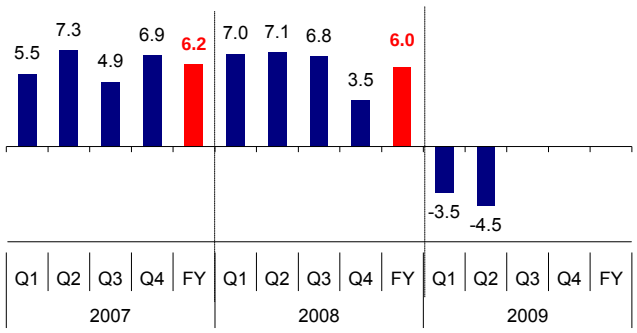
3. BULGARIA

ECONOMIC OVERVIEW: GDP growth declined by -4.8% in Q2 and -4.2% in H1 2009. Limited external financing has lead to an abrupt scaling back of investment activity while private consumption has contracted on the back of increased job losses and the limited availability of borrowing. Indicatively, in the second quarter, both private consumption and investment declined by -8.2% y/y and -13.9% y/y respectively. Although the contribution of net exports has improved, given the faster pace of decline in imports relative to exports (-26.9% vs. -18.8%), imports of goods and services still exceed exports by a factor of about 1.3 making a continued adjustment necessary. From the production side, declines were registered in all the sectors except the services sector which managed marginal growth of 0.3% y/y. In contrast, agriculture declined by -6.6% y/y and industry declined by -9.8% yoy.

Echoing the first half decline in GDP growth, industrial production posted growth of -18.7% y/y in June following a -22% y/y decline in May. For Q2 2009, industrial production has fallen by roughly -20% y/y, following the -17% y/y decline recorded in Q1 2009. Similarly, the contraction in retail sales accelerated in June 2009, having recorded growth of -17.3% y/y (-7.1% y/y in

March). For the year-to-date, retail sales have declined by -8.0% y/y. Meanwhile, construction output declined by -8.6% y/y in June, a marginal improvement from the -14.5% y/y decline in May. Construction of commercial buildings, which accounts for roughly 65% of total construction, declined by -14.9% y/y versus -19.6% y/y a month earlier. Moreover, the unemployment rate continues to inch higher and reached 7.6% at the end of July, up from 6.7% in March 2009 and 5.8% in September 2009.

Real GDP (%Δ YoY)

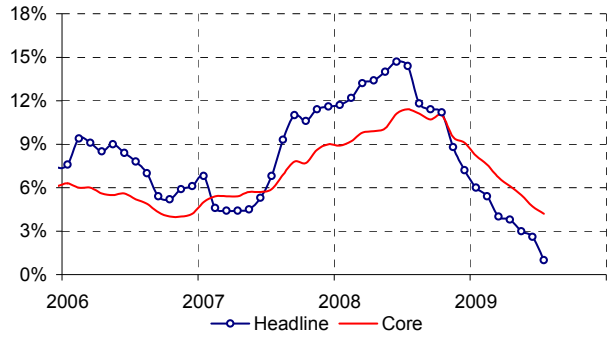


For the year as a whole, GDP growth is forecast at around -5.0%, a downward revision from our previous estimate of -3.8%. While the IMF has taken a more pessimistic view and is forecasting growth of -7.0% for 2009, Moody's sees a contraction of around -5.0%. The Bulgarian Finance Ministry is forecasting that the economy will reach the bottom of the current economic cycle around the end of 2009 or beginning of 2010 as it is expected to follow the recovery of its main trading partners with about a 6-month lag. The Ministry is forecasting that GDP growth will decline by 6.3% in 2009.

FISCAL POLICY: The Ministry of Finance has reported that H1 budget revenues were 16% lower than forecast. The general government reported a budget surplus of 0.3% of GDP in H1 2009, a decline of 95.4% y/y. However, with revised projections for weaker GDP growth, the general budget deficit is forecast to be around 3.8% of GDP for 2009 (BGN 2.5 billion or € 1.3 billion). The higher-than-planned deficit has prompted the Ministry to initiate numerous measures aimed at curbing government expenditure and improving revenue performance. The measures include broad cuts to budget expenditures, steps to improve the business environment, financial support for SMEs, steps to reduce social security contributions, and policies to ensure transparency of the management of state-owned capital. These measures combined with an improved growth outlook for 2010 should ensure a positive general government budget balance of 0.5% of GDP in 2010.

INFLATION: In 2008, CPI inflation reached a high of around 15% following the rapid rise in food and energy prices in the first half of the year and averaged 12.3% for the year as a whole. However, the subsequent decline in world energy prices and a successful harvest in 2008 helped to bring inflation down to 7.8% by end-2008. CPI inflation has continued to decline, slowing to 1.6% y/y in July from 3.7% y/y in June. Average inflation slowed to 4.5% y/y in Jan-Jul from 5.1% y/y in H1 2009. Food prices have also continued to ease, registering a decline of -1.4% m/m and -1.1% y/y growth in July, despite the weaker projections for agricultural output in 2009. Given the relatively low international energy prices and further expected decline in domestic energy prices, average consumer price inflation should continue to trend downwards to 3.2% by December 2009.

HICP Inflation (%Δ YoY)

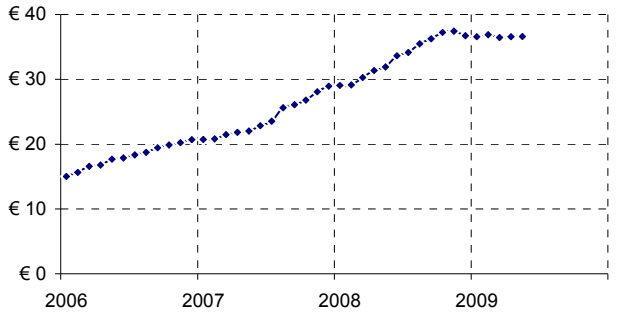


BALANCE OF PAYMENTS: With a correction underway in the merchandise trade deficit, the current account balance is expected to improve from the 25.2% of GDP deficit recorded in 2008, to around 12.0% of GDP in 2009. Already in H1 2009 the deficit has declined by 52.3% y/y to € 2.13 billon. The deficit declined for the seventh consecutive month in June 2009 reaching 6.3% of forecast full-year GDP versus 13.1% during the same period in 2008. The trade deficit improved significantly during the current period and, having registered growth of -44.2% y/y, declined to € 2.4 billion from € 4.3 billion in H1 2008. Merchandise exports declined by 30.2% y/y while imports declined by 35.2%. However, the services balance turned from a € -19.5 million deficit to a € 229 million surplus, while net current transfers declined by -31.7% to € 328.7 million. The financial account remained positive but declined by -80.7% y/y in H1 2009 to € 1.01 billion from € 6.3 billion in H1 2008. Indicatively, net FDI inflows almost halved to € 1.5 billion for the period, covering 72% of the current account deficit.

EXTERNAL DEBT & INT. RESERVES: International reserves declined by 3.8% or **€** 447.9 last week to **€** 11.3 billion by 7th August after having decreased by 1.5% in July 2009. Government deposits held at the central bank declined by 8.2% for the third consecutive week and now account for around 29% of total international reserves versus 30% at the start of year. International reserves have declined by 11.4% since the start of the year. The ratio of foreign reserves to short-term debt deteriorated

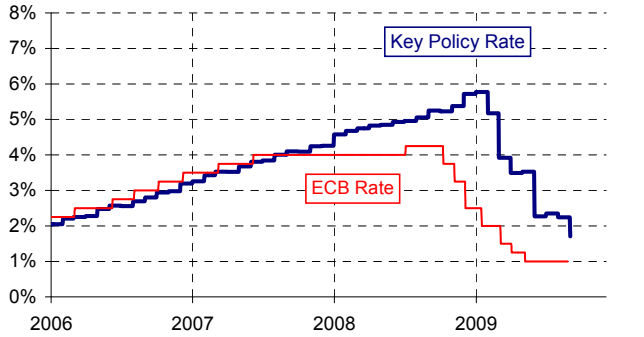
further to 88.7% as of end-May from 89.4% as of end-April and about 300% in 2002-2004.

Bulgaria - Gross External Debt (€ billions)



By end-May 2009, year-to-date gross external debt had declined by € 161.5 million to € 36.6 billion or 107.9% of GDP and decreased by (0.4%). The decline was mainly due to the € 546.2 million decrease in Banks' liabilities. However, on an annual basis, gross external debt increased by 14.7% y/y from the € 31.9 billion at end-May 2008. As of end-May 2009 long-term external debt amounted to € 23.3 billion (63.7% of total debt), and short-term external debt reached € 13,3 billion (36.3% of total debt). The ratio of foreign reserves to short-term external debt deteriorated to 89% by end-May from 101% in December 2008 and 123% in December 2008.

Bulgarian Central Bank - Key Policy Rate (%)



MONEY & FINANCIAL MARKETS: Bank lending continues to slow, from 62.7% and 31.6% in 2007 and 2008 respectively, to 11.3% y/y in June 2009. Year-to-June bank lending increased by 1.6%. Lending to households slowed to 13.0% in June from 31.3% in December 2008, while lending to businesses slowed to 10.3% in June from 31.8% in December 2009. The share of bad and non-performing loans has also increased to 4.69% by end-June, up from 3.66% at end-May, and 2.44% at end-2008. Credit penetration increased to 75.2% in June from 66.7% in 2007. Bank deposits have increased by 1.5% year-to-June and by 5.9% y/y in June, down from 34.4% in 2007 and 9.2% in 2008. Household deposits increased by 10.6% y/y in June from 16.8% end-2008. Business deposits registered negative 0.1% y/y growth in June and have recorded net-withdrawals as year-to-June deposits have actually decreased by 0.9%. The loan-to-deposit ratio now stands at 1.37.

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 2007. 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 stellar 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 was offset to a great extent by the substantial negative effect of -4.9pps from net exports. 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).

Based on preliminary data, real GDP growth eased to 0.9% y/y in Q1 (4.3% Q1 2008) and turned to -1.0% y/y in Q2 2009 (3.8% Q2 2008). This decline was due to the negative growth rates of value added observed in the Hotels & Restaurants, Manufacturing, Trade and Transportation sectors. On the other hand, positive growth was registered in Q1 2009 in the Financial Services, the construction and some other services sectors, which is not certain that it continued in Q2 2009 as well. From the demand side both private and government consumption registered positive growth of 1.5% and 12.5% respectively in Q1 2009, while in Q2 2009 private consumption growth may have turned negative with public consumption growth slowing down. Also, fixed investment growth was still positive at 3.2% y/y in Q1 2009, but it may have also turned negative in Q2.

Contrivutions on yoy GDP Growth in Cyprus in Q1 and Q2 2009			
	Q1 2009	Q2 2009	2009
Change in Stocks and Stats Discrepances	-9,0%	-5,1%	-0,9%
Final Consumption and Fixed Investment	3,8%	1,0%	0,0%
Net Exports of goods and services	6,1%	3,1%	1,4%
GDP Growth (yoy)	0,9%	-1,0%	0,4%
Source: Eurostat and Alpha Bank estimates for Q2 2009			

However, the main demand components affecting y/y GDP growth in 2009 are presented in the above Table. In Q1 both domestic consumption and investment had a substantial positive effect in GDP growth, which was compensated to a great extent from the substantial negative effect due to the fall in stocks and statistical discrepancies. In Q2 the positive contribution from the main domestic demand components was lower, mainly

due to the fall of fixed investment and a possible fall of private consumption, while the still high positive effect from net exports was not enough to compensate for the substantial negative effect from the fall of inventories and statistical discrepancies. Finally, for 2009 as a whole we estimate GDP growth of just 0.4% from 3.7% in 2008. Moreover, GDP growth will remain below 1.0% in 2010 as well despite the substantially improved performance of the international economy. In this year government consumption and investment will adjust properly in order to reduce the general government deficit which is expected to exceed 3.9% of GDP in 2009, from a surplus of 0.9% in 2008.

FISCAL POLICY: The general government surplus fell to 0.9% of GDP in 2008 from 3.4% 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 Government is now targeting a deficit of 3.0% of GDP versus a budgeted surplus of 1.0% of GDP. This differential is due to the downward revision to revenue projections (tax revenues fell by -11.0% in H1 2009) as a result of the international crisis and 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. With current policies the IMF projects an increasing deficit-to-GDP ratio from 2009 onwards, with the primary deficit reaching 1.5% of GDP in 2009 and of an even bigger primary deficit of 3.6% of GDP in 2010 Therefore, the debt-to-GDP ratio, which fell to 49.4% of GDP in 2008 (59.4% in 2007) and was set to decline further, to 47.5% in 2009, it is now projected by the IMF that, in the absence of appropriate adjustment measures, it will reach 52.7% of GDP in 2009, 55.6% of GDP in 2010 and even 72.2% in 2014. Therefore, the IMF urges the Government to proceed with a gradual phasing out of the existing today fiscal stimulus, so that a fall in the deficit of the order of 0.75% of GDP is achieved each year from 2010 onwards. This fiscal adjustment effort is expected to have a minor negative effect on growth in the following years.

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. In fact, CPI inflation fell to -0.8% in July 2009, from 0.2% in June, while average y/y CPI inflation in January – July fell to 0.5%. Therefore, average inflation for 2009 is now expected to fall bellow the 1.0% projected by the European Commission and to remain bellow 2.0% in 2010 as well.

BALANCE OF PAYMENTS: The current account deficit increased by a 69.4% y/y in 2008 and reached the 18.3% of GDP (11.8% 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. This restricted export growth to 6.1%, with imports growing by 15.6%, increasing the trade deficit increased by 17.7% y/y.

Import demand is falling rapidly in 2009 due to the abrupt weakening of domestic demand and the decline in international commodity prices. In Q1, this has implied a fall in imports of goods by -21.2% and a fall in payments for services of -16.1%. On the other hand exports of goods fell by -19.3%, while revenues from export of services registered an increase of 2.7%, mainly due to the continuous buoyancy of revenues from the export of financial ant business services. These developments have led to the substantial fall, by -61.3%, of the current account deficit in Q1 2009, implying an analogous fall of the deficit for 2009 as a whole.

In fact revenues from transport services and external tourism were down in Q1 2009 by -8.3% and -17.7% respectively. Moreover, tourism arrivals fell by 10.9% in January – July 2009 and is estimated that the nights spend in hotels by tourists were down by about 15% in the same period. Therefore, tourism, which contributes by about 11.0% to Cyprus GDP, is expected to register a fall of the order of the order of -10% in 2009 as a whole.

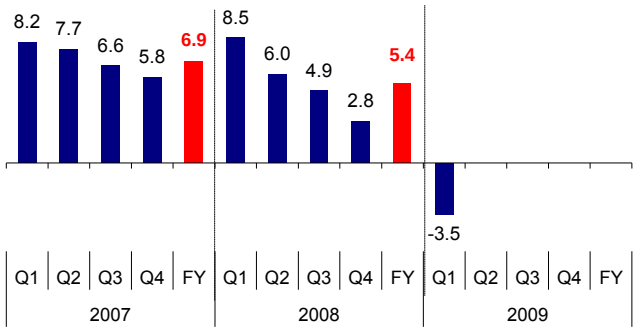
MONEY & FINANCIAL MARKETS: The decline in total credit expansion has proved to be relatively modest, with growth easing from 34.3% in December 2008 to 28.5% in March 2009 and then to 22.8% in June 2009. Likewise, credit to businesses has eased to 30.9% in June 2009, from 38.3% in March and 44.7% December 2008. Credit expansion to households decelerated to 12.5% in June 2009, from 16.4% in March and 21.7% at end-2008, with mortgage expansion of 17% in June 2009, from 22.2% in March and consumer credit expansion of 8.4% in June 2009 from 11.4% in March.

5. SERBIA

ECONOMIC DEVELOPMENTS: Following a decade of stellar economic performance, GDP growth slowed to 2.8% y/y in Q4 2008 and to 5.4% for the full-year 2008. The Serbian economy has continued to contract, registering GDP growth of -3.5% y/y in Q1 2009. Based on preliminary figures, the industrial, retail trade and construction sectors were the hardest hit. The largest decline was recorded in the manufacturing subsector, which posted growth of -20.9% y/y due to the collapse in foreign demand. The construction sector contracted by -14.4% y/y, mining and quarrying by -7.4% and retail trade by -6.2%. Positive contributions to growth were

recorded in the following sectors: transport and telecom sector 10.7% y/y, financial intermediation 5.9% y/y, and real estate 0.9% y/y.

Serbia - Real GDP (%Δ YoY)



Economic activity appears to have remained weak in the second quarter, with indicators pointing towards a deeper contraction ahead. Industrial production declined by -14.1% y/y in June, albeit a slight improvement from -19.5% y/y in May and -21.1% in April. The largest economic sector in Serbia, manufacturing, remains one of the most affected. In the first quarter alone manufacturing output declined by -22.8%. However the rate of the decline has slowed in recent months, to -19.1% y/y in June from -21.1% in May. With a further decline in GDP growth expected for Q2, both Serbia's Ministry of Finance and Central Bank are forecasting full-year growth to drop as low is -5.0%.

Standard & Poor's reaffirmed Serbia's long and short-term sovereign ratings at BB- and B respectively with a negative outlook for the economy. The agency cited Serbia's dependence on external financing, limited economic policy flexibility and the slow progress in structural reforms as areas of concern. The outlook for the economy remained negative due to the potential for a further downgrade in case of greater-than-expected economic and financial pressures, particularly in the banking or fiscal sectors.

FISCAL POLICY: The Ministry of Finance has announced that given lower than forecast GDP projections and weaker revenue performance, the country's fiscal deficit would most likely reach 4.5% of GDP, exceeding the 3.0% agreed to with the IMF. While assurances have been made that funding would be arranged for the deficit, Serbia has stated its intention to request permission to make use of part of the funds it is set to receive under the € 2.94 billion stand-by arrangement with the IMF. For H1 2009 the budget deficit reached RSD 52.9 billion, equal to 1.9% of projected full-year GDP, up from 1.5% in Jan-May. Budget revenues were RSD 295 billion (44% of full-year budget projections) while budget expenditure reached RSD 348 billion (46.7% of full-year budget projections).

INFLATION: While CPI inflation edged higher by 8.5% y/y in July from 8.3% y/y in June, prices actually declined by 0.9% m/m in July from 0.0% m/m in June. Likewise, prices of food and non-alcoholic beverages increased by 5.5% y/y in July from 5.1% y/y in June, but declined by 3.2% m/m. Household and utilities prices increased by 15.2% y/y and 0.9% m/m in July. Transport prices also declined by 0.1% m/m. For the period Jan-Jul annual inflation reached 9.3% and is expected to edge closer to 10% by year-end, near the upper limit of the central bank's target. For 2009, the Central Bank's CPI inflation target is 8% with a ± 2% margin.

BALANCE OF PAYMENTS: In terms of GDP, the current account deficit is expected to decline significantly from the 17.2% reached in 2008. Already in H1 2009, the deficit has more than halved to € 979 million from € 3.1 billion in H1 2008. This decline has come about due to the correction in the trade deficit which declined by -37.4% to € 2.4 billion during the period. Merchandise exports declined by -22.5% to € 2.8 billion as imports declined by -30.1% to € 5.2 billion. The deficit on the services account also narrowed marginally to € 15.5 million from € 17.5 million while the deficit on the net income account improved to € 219 million and net current transfers increased by 36.7% to € 1.6 billion. The surplus on the financial account more than halved to € 1.03 billion from € 3.2 billion. Despite Net FDI having declined by -67.1% to € 894 million, coverage reached 91%. It should be noted that the lions share of FDI in 2009 was due to the privatisation of Serbia's oil giant in which, Naftna Industrija Srbije (NIS), was sold to Russia's Gazprom as part of an energy agreement concluded in 2008.

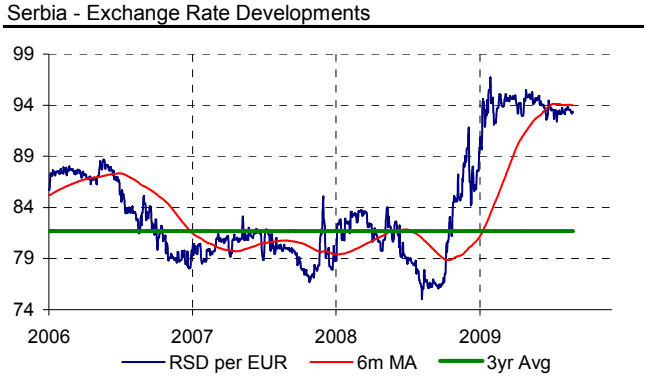
EXTERNAL DEBT & INT. RESERVES: Gross external debt increased by 1.7% m/m or € 354.2 million in June to reach € 21.7 billion. However, since the start of 2009, gross external debt has actually declined by 0.2%. The increase in foreign liabilities in June was due largely to an increase in private sector external debt which increased by € 200.8 million or 1.4% m/m to € 14.5 billion. Similarly, foreign liabilities of commercial banks increased for a second month in a row, increasing by € 81.6 million to € 3.3 billion by the end of June (-15.8% since end 2008). Public sector foreign debt, which accounts for roughly 33% of all foreign debt, has increased by € 875 million since the beginning of 2009 mainly due to withdrawal of the first instalment under the € 2.94 billion stand-by loan arrangement with the International Monetary Fund (IMF).

The foreign exchange reserves of the Central Bank increased by 3% m/m to € 9.2 billion by end-July. The increase was due to the € 199.5 million increase in mandatory reserves for commercial banks and € 49.8 million in loans from the EIB and WB. FX reserves have increased by 13% or € 1.04 billion since the start of the year largely due to first € 788 million tranche of IMF funds. Total international reserves increased by 3% m/m and 8.5% ytd to reach € 9.9 billion at end-July. Reserves are expected to increase once again in August with the allocation of $ 500 million of SDR's under the IMF's

program for supporting the foreign reserves of the country.

MONEY & FINANCIAL MARKETS: The Central Bank of Serbia (NBS) is now targeting the consumer price index as part of a planned transition to a full inflation-targeting regime with the two-week repo rate functioning as the Bank's main policy rate. The Bank has lowered its key policy rate by a cumulative 575 bps to 12% so far in 2009. The NBS has cited the improved outlook for the balance of payments, the recent stability of the Serbian dinar, continued easing of pricing pressures, reduced risk for food price increases, and the stabilisation of inflationary expectations as the motivating factors behind the rapid decline in the key policy. In combination with the 100 bps cut in June, the NBS, in attempt to boost the dinar liquidity, also lowered the mandatory reserve requirements for dinar deposits from to 30% from 35% which should boost bank liquidity by RSD 13.0 billion.

Serbia - Exchange Rate Developments



Between Q4 2008 and Q1 2009, the Serbian dinar lost roughly 25% of its value versus the euro, falling from around RSD 76.0/€ to RSD 94.0/€. Likewise, from around the end of Q3 2008 until Q1 2009, the dinar lost around 45% of its value versus the US Dollar, falling from around RSD 50/$ to around RSD 73/$. However, since the signing of the IMF agreement in March, the dinar has stabilised at around RSD 66/$ and RSD 94/€.

6. ALBANIA

ECONOMIC OUTLOOK: Economic activity remained strong in Q1 2009 with a flash estimate for real GDP growth of 6% y/y. A weakening of both domestic and external demand hit both the industrial sector, which contracted by -13.2% y/y, and retail trade, which increased by a marginal 0.9% y/y in the first quarter. However, positive growth was still recorded in the telecommunications and other services sectors, having increased by 22% y/y and 15.3% y/y. The construction sector also increased by 8% y/y in the first quarter boosted by publicly financed road infrastructure projects. Even so, the World Bank's most recent GDP growth forecast for Albania is still for a deceleration to 1.5% this year, compared to a contraction of 1.6% for the region of Central and Eastern Europe. The IMF also revised its growth projections for 2009 downwards to just 0.4%. Further downside risk in the form of lower remittances (which amounts to roughly 10% of GDP) and weaker than expected export growth could prompt further downward revisions to current GDP growth projections. As such, the IMF has warned that the government should maintain fiscal discipline in order to ensure macroeconomic stability. 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. Looking ahead, the World Bank forecasts a gradual acceleration in GDP growth to 2% in 2010 and 3% in 2011. This expansion will be accompanied by a correction in the current account deficit form 10.7% of GDP in 2009 to 8.1% of GDP in 2011.

The European Commission (EC) recently adopted the Multi-annual Indicative Planning programme for Albania which will provide the country with around € 269 million of assistance to support its path towards EU integration. The funds will be divided in two major components – Transition Assistance and Institution Building (€ 237.9 million) and Cross-Border Cooperation (€ 31.5 million). The primary focus will be the support and reform of public administration and the strengthening the capacity of the state institutions. The financial assistance for the judicial and police reform aims to help fight corruption and strengthen the political system.

FISCAL POLICY: General budget revenues increased by 11.2% y/y to € 751 million in Jan-Apr 2009. Tax revenues increased by 7.4% y/y, boosted by improved personal income tax collection (up 31% y/y), while corporate income tax collection weakened (down -8% y/y). The worsening corporate income tax collection and decline in foreign trade were reflected by the -19.5% y/y decline in customs duties receipts. Nonetheless, the general budget posted a deficit of ALL 9.8 billion (€ 75 million) for Jan-Apr 2009, versus ALL 9.3 billion surplus a year ago. The budget shortfall was largely due to the sharp increase in government expenditure which surged by 36.9% y/y in Jan-Apr 2009 to ALL 107.4 billion. Part of this increase was the result of higher capital expenditures on infrastructure projects (such as the motorway to Kosovo).The government has planned a budget deficit of ALL 50 billion equal to 4.2% of projected GDP in 2009.

The ministry of finance has drawn a second tranche worth € 100 million from a € 250 million syndicated loan. The funds will be used to finance major road infrastructure projects. The first € 100 million tranche was transferred in May, while the remaining € 50 million remains be withdrawn.

INFLATION: Higher food and energy prices saw average CPI inflation accelerate to 3.4% y/y in 2008, from 2.9% y/y in 2007. After reaching a high of 4.6% y/y in March 2008, inflation declined to 2.2% y/y in December 2008. CPI inflation declined in the first three months of 2009, to 2.1% y/y in January, 1.9% y/y in February and 1.6% y/y in March. However, prices have once again inched

higher, increasing 2.1% y/y in May and 2.3% y/y in June 2009. Food prices increased by 5.9% y/y driven by the sharp 28% y/y increase in the price of vegetables. Prices of meat and fruits rose by 8.8% y/y each, which further contributed to the overall increase of CPI. Inflation is expected to average 2.9% in 2009.

BALANCE OF PAYMENTS: In 2008, the current account deficit increased by 55.3% y/y to 14.9% of GDP, up from 11% in 2007. In the first quarter of 2009, the current account deficit increased by 29.6% y/y to € 333 million, despite a modest 2.1% improvement in the trade deficit which reached € 516 million. Driven by weak external demand, exports declined by -14.6% y/y while weak domestic demand drove imports -6.0% y/y lower. The services account registered a deficit of € 27 million, reversing the surplus recorded during the previous two quarters. Capital transfers declined by -11% y/y to € 214 million in Q1, of which remittances accounted for around € 196 million (having declined by -7.5% y/y). The trade deficit increased by 4.2% y/y during Jan-May 2009 reaching ALL 128 billion (€ 1.0 billion). Exports continued to decline and registered growth of -17% y/y, while the decline in imports eased to -1.5% y/y. Exports have been heavily affected by the drop in external demand for construction materials and base metals. The largest export sector, textiles and footwear, shrank by -6.8% y/y but still accounted for as much as 52% of the total exports. Among imports, the minerals, fuels, electricity category and food, beverage and tobacco category registered the largest declines of -32% y/y and -10% y/y respectively.

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.

However, despite this government guarantee, private sector deposits have seen net-withdrawals of around 1.4% in 2009. In June private sector deposit growth was negative at 2.6% from positive 0.2% in May. Household deposits (which account for over 80% of total deposits) have increased only 0.5% since the start of the year and recorded negative growth of 3.7% in June from -3.5% in May. Business deposits are the primary source of the withdrawals, registering negative year-to-date growth of 10.0%. 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. In 2009, private sector credit growth slowed for the ninth consecutive month in June to 20.1% y/y from 26.7% y/y reported in May. Credit expansion to business (which constitutes 65% of total outstanding credit) has slowed from 23.1% in June from 30.9% May while credit to households eased to 14.7% June from 19.2% in May.

7. FYROM

ECONOMIC DEVELOPMENTS: While economic activity remained robust in the first nine months of 2008 with GDP growth of 5.7%, economic activity began to contract in the final quarter, which lead to weaker GDP growth of 2.1% for the quarter. The global economic crisis has had a significant impact on the country's three primary growth drivers, exports, remittances and foreign direct investment. As a result, economic activity has continued to weaken in 2009, with GDP growth of -0.9% y/y in Q1 2009. Growth in private consumption slowed to 3.5% y/y from 7.4% in Q4 2008 and 6.9% in 2008. Surprisingly, investment recovered, registering 16.8% y/y growth following the -19.1% fall in Q4 2008. Driving the first quarter decline in GDP growth was the -21.6% y/y decline in exports of goods and services and the only marginal -5.6% decline in imports of goods and services which resulted in a significant negative contribution to GDP growth from net exports. From the production side, negative growth was recorded in the industrial (-7.0% y/y Q1 '09; 4.7% in 2008), hotels and restaurants (-2.0% y/y Q1 '09; 6.5% in 2008), transportation and communications (-4.7% y/y Q1 '09; 0.2% in 2008) banking (-25.1% y/y Q1 '09; 11.6% in 2008) and financial intermediation (-5.2% y/y Q1 '09; 11.6% in 2008) sectors. The remaining sectors witnessed a rapid growth deceleration, as growth in the agricultural sector slowed to 1.3% y/y from 6.9% in Q4 2008 (7.1% in 2008) in the construction to 1.7% y/y from 23.0% in Q4 2008 (13.7% in 2008).

Pointing to a further decline in GDP growth for the second quarter, the decline in industrial production accelerated to -16.2% y/y in June (-15.3% y/y in May), marking the ninth consecutive month in which it has contracted. It was the second-largest contraction during this period, slightly less than the -16.7% drop in output registered in January, indicating that there are no signs of an imminent recovery. All the primary production sectors recorded further deteriorations in output, except for the utilities sector (25.5% y/y) and the food and beverages sector (1.7% y/y) sector. The largest declines were registered in the manufacturing of "other transport equipment", which registered -76.8% y/y growth while basic metals production declined by -51.8%, furniture production by -50.6%, textiles production by -32.4%, and mining and quarrying production by -30.8%. The World Bank currently forecasts that GDP growth is expected to declined by -1.2% this year, while the Central Bank has forecast GDP growth of -2.5% for 2009.

FISCAL POLICY: Due the combination of a decline in revenues and an increase in expenditure, the general budget posted a deficit of MKD 5.5 billion (€ 90.2 million) in H1 versus a surplus of MKD 4.4 billion in the same period of last year. Budget revenues declined by -2.7%

y/y, as tax revenues declined by -11.8% y/y and non-tax revenues improved by -10.8% y/y. Reflecting the impact of the global economic downturn on domestic demand, VAT revenues (the largest tax revenue component) declined by -11.2% y/y in the six-month period. The government projected budget deficit remained unchanged at 2.8% of the full-year GDP based on GDP growth of 1.0% for the year. The government has announced plans to revise the budget in the third quarter. The IMF currently forecasts a government deficit of 5.9% of GDP for 2009.

INFLATION: 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% y/y from a high of 10.1% in June 2008. In 2009, CPI inflation has averaged 0.1% y/y in January-June, having declined by -2.3% y/y in July. Food prices declined by -1.3% y/y and prices of services declined by -0.4% y/y for the month. Household costs continued to increase, up 6.2% y/y due to a 9.5% y/y increase in fuel and lightning. In month-on-month terms, prices declined by -1.7%, mostly because of a seasonal drop in food and beverage prices, which declined by -3.4%. Likewise, PPI inflation declined by -11.5% y/y in July, compared to the drop of -9.9% y/y and -9.7% y/y in June and May respectively. Prices in the energy sector declined by -19.2% y/y and the manufacturing sector by -16.8% y/y. The deceleration in prices has followed the drop in global food and oil prices. With international oil prices forecast to remain relatively low and domestic demand dropping significantly as a result of the recession and increased unemployment expected in 2009, inflation is forecast to average 0.5% in 2009.

BALANCE OF PAYMENTS: After a near fivefold increase to 13.4% of GDP in 2008, the current account deficit was expected to contract sharply in 2009. However, the deficit has actually widened by 74.3% y/y to € 409 million in Jan-Apr 2009 due to the continued deterioration of the trade account and a substantial decline in remittances. The trade deficit increased by 15% y/y to € 587 million in Jan-Apr as exports declined by -33.9% y/y to € 555 million, while imports declined by -15.4% y/y € 1.14 billion. The deficit on the services account decreased to € 1.9 million while the surplus on the incomes account became a deficit of € 26.5 million. Net current transfers registered a -17.7% y/y decline to € 206 million largely due to the -20.3% decline in private remittances. Net foreign direct investment continued to deteriorate, declining by -42.4% y/y to € 88.9 in Jan-Apr, while the portfolio and other investments accounts declined by -117.1% y/y and -77.4% y/y respectively.

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. 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%. On the banking front, private sector credit expansion has begun to contract in recent months, from 34.4% y/y in December 2008, credit growth has eased to 14.3 in June 2009. Credit expansion to businesses (which constitutes 65% of total outstanding credit) has eased from 32.6% in December 2008 to 13.2% in June, while household credit expansion has eased from 32.6% in December 2008 to 16.0% in March.

8. UKRAINE

ECONOMIC OVERVIEW: As a consequence of its over dependence on commodity exports and external financing, the Ukraine has been one of the most heavily affected economies in the region. Matters have not been aided either by the domestic political instability and the poor economic policy response to the economic crisis. Based on preliminary data, GDP growth declined by -18% y/y in Q2 2009 following the -20.3% decline in Q1 2009. Indicatively, in the first quarter of the year, final consumption declined by -8.6% y/y with household consumption having declined by -11.6% y/y for the quarter. Likewise, investment contracted by -48.7% for the quarter. On a positive note, the -35.6% y/y decline in imports of goods and services facilitated a much needed external balance adjustment, with exports of goods and services having declined by -15.9% y/y. From a production perspective, agriculture was the only sector to record positive growth of 1.3% for the quarter. While on the other end of the spectrum, mining output declined by -16.2% y/y, manufacturing by -36.5% y/y, construction by -54.1% y/y, the electricity and gas sector by -19.3% y/y and wholesale and retail trade by -18.0% y/y. High frequency data support the preliminary GDP growth figure and portend a further decline in the months to come. For the period Jan-Jul industrial production has declined by -30.4% y/y. However, recent data suggest that the deep recession in Ukrainian industry has moderated towards the middle of the year, for while industrial production declined by 26.7% y/y in July, output actually increased for the first by 4.9% m/m.

The World Bank has lowered its GDP growth forecast for 2009 to -15.0% y/y from a previous -9.0% y/y. Likewise, the IMF lowered its GDP growth forecast to -14.0% from -8.0%. Citing the progress made by the government on implementing structural budgetary and financial sector reforms and the $ 16 billion stand-by arrangement with the IMF, Standard & Poor's raised its outlook for the Ukrainian economy from negative to positive.

FISCAL POLICY: After reaching 1.5% of GDP in 2008, the budget deficit is expected to increase dramatically in 2009. While the original IMF agreement targeted a balanced budget for 2009, the parliament approved

budget envisaged a 3.0% of GDP deficit (albeit having been based on highly unrealistic macroeconomic assumptions). Moreover, despite the government having taken various steps to raise revenues, the IMF has now agreed, after having lowered the country's growth outlook for this year, to a general government deficit target of 6.0% of GDP. However, many are still arguing that the economic downturn in the Ukraine will be more severe than anticipated (with GDP growth of -17.0% in 2009), which implies substantial upside risk that the government deficit may reach 7.0% or higher of GDP.

Having approved the recent budget deficit increase, the IMF proceeded to transfer $ 3.3 billion as part of the third tranche of the stand-by loan. Transfer of the funds had been delayed due to negotiations concerning revisions to the economic outlook of the country. In November 2008 the IMF approved the allocation of $ 16.4 billion as part of a stand-by loan agreement aimed at supporting the ailing economy. The first tranche of $ 4.5 billion was transferred in November 2008, with the second tranche of $ 2.8 billion having been transferred in May 2009.

INFLATION: A combination of an overheating economy and international food and energy prices led average annual CPI inflation to reach an eight-year high of 25% in 2008. Since then the sharp decline in domestic demand, combined with lower global prices for food and oil have helped to facilitate the decline in CPI inflation to the recent low of 14.7% in May 2009. Even though inflation has begun to head higher on an annual basis, reaching 15.0% y/y in June and now 15.5% y/y in July, in m/m terms, prices still declined by -0.1% in July. Food and beverage prices declined by -0.2% m/m. For the Jan-Jul period, CPI inflation average 8.5%. While weak domestic demand will continue to aid the disinflationary process, this may be offset by the weaker exchange rate which has increased the cost of imported goods, especially the cost of gas imports which has risen rather substantially as of late.

BALANCE OF PAYMENTS: After nearly doubling to -7.2% of GDP in 2008, the current account deficit is expected to contract sharply in 2009. Already in Q1 2009, the deficit has more than halved from $ 3.7 billion to $ 819 million. This declined is being driven by the correction in the trade account where the deficit has shrunk from $ 4.6 billion in Q1 2008 to $ 1.1 billion in Q1 2009. The incomes account slid from a small surplus of $ 11 million to a deficit of $ 574 million, while the balance on the current transfers account declined by -15% y/y to $ 629 million. The financial account, after having recorded record surplus for the past few years, posted a large deficit of $ 4.95 billion. Net foreign direct investment declined -61% y/y to $ 941 million, while net portfolio inflows of $ 217 million in Q1 2008 turned into net outflows of $ 436 million. The Other Investment account registered a massive reversal from a $ 1.06 billion surplus in Q1 2008 to a $ 5.5 billion deficit in Q1 2009 largely due to the almost tripling in short-term capital outflows which reached $ 6.3 billion for the quarter.

Preliminary data for H1 2009 indicates a further improvement in the trade deficit with merchandise exports having declined by -46.2% y/y to $ 17.7 billion. The decline in exports was due to a -60.1% decline in metallurgical exports, -42.7% decline in machinery and equipment exports and a -55% decline in chemicals exports. Likewise, merchandise imports declined $ 19.5 billion from $ 42.9 billion mainly as a result of a -71.4% y/y decrease in the import of equipment and machinery. These developments indicate a further correction in the current account deficit in the second quarter.

MONEY & FINANCIAL MARKETS: In recent years, monetary policy has been constrained due to the de facto exchange-rate peg at UAH 7.7/$1. However, the Central Bank was forced to abandon the peg after the hryvnia came under intense downward pressure towards the end of 2008. Now, as part of the IMF agreement reached in April 2009, greater exchange-rate flexibility has now been introduced, with the official exchange rate set within 2% of the interbank rate of the previous day. Since April the currency has been gradually depreciating versus the dollar from the UAH 7.7/$1 to around UAH 8.5/$1 by mid-August. The central bank has also reduced its key policy rate by 175 bps this year and now stands at 10.25%.

Bank lending continues to slow, from 77.6% and 66.6% in 2007 and 2008 respectively, to 36% y/y in June 2009. Lending to households slowed to 28.3% in June from 70.1% in December 2008, while lending to businesses slowed to 40.6% in June from 64.6% in December 2009. Bank deposits have declined by -1.8% y/y in June, down from 51.8% in 2007 and 27.7% in 2008. Household deposits increased by 2.3% y/y in June from 30.2% end-2008. Business deposits registered -8.3% y/y growth in June from 24.0% in December 2008.

9. TURKEY

ECONOMIC OVERVIEW: Economic activity has declined on the back of constrained domestic lending, limited foreign capital inflows, falling real disposable income and weak external demand. GDP growth slowed to 1.1% in 2008 following the -6.2% y/y decline registered in the final quarter. The pace of economic contraction has accelerated in Q1 2009 with GDP growth of -13.8% y/y. On a sectoral basis, manufacturing output declined -18.5% y/y in Q1, agriculture production declined by -3% y/y while the wholesale trade and construction sectors declined -25.4% and -18.9% y/y respectively. Private consumption (accounting for roughly 75% of GDP), contracted -9.2% y/y while fixed-capital formation declined 29.7%. Exports of goods and services declined by 11.3% y/y while imports declined by a larger 31.9% y/y in Q1. The outlook for GDP growth in the second quarter remains negative with industrial production having slowed to -9.7% y/y in June from -17.3% y/y in

May. Manufacturing output declined by -10.6% y/y in June, after production fell -18.9% y/y a month earlier. Meanwhile, motor vehicle production registered a -33.6% y/y decline in June after production plummeted -42% y/y in May. While this is the highest level industrial production has reached since November 2008, it still remains around 9.6pps below the June 2008 level.

The IMF and OECD are forecasting that the economy will contract by between 5.1% and 5.9% this year, while Turkey's Ministry of Finance is forecasting a contraction of between 4% and 4.5% this year. The expectation is for a single-digit contraction in both Q2 and Q3 with a return to positive growth of around 2.0% in Q4 2009. The government is also expected to revise its GDP growth forecast for 2010 from the current -3.3% to -3.0%.

FISCAL POLICY: In the Pre-Accession Economic Programme which was presented to the EU in April, the government had projected a budget deficit of around 5.0% of GDP in 2009 (TRY 48.3 billion), which was then forecast to decline to 3.5% of GDP by 2011. However, these original estimates were based on far stronger GDP growth projections. As such, the government has announced that it is in the process of revising both the medium-term programme (MTP) and medium-term fiscal plan (MTFP) so as to reflect the weaker GDP figures.

Interim data show that the Treasury cash balance registered a primary deficit of TRY 3.1 billion while overall deficit amounted to TRY 32.2 billion in Jan-Jun. In the first six months of the year, cash revenues and expenditures were TRY 111 billion and TRY 146 billion, respectively. However, despite weaker economic growth and a ballooning government deficit, Turkey has still successfully concluded four debt auctions, having secured more than TRY 15 billion in financing, which in turn sent benchmark bond yields to historic lows. Moreover, the government also announced that it is hoping to sign a loan deal with the IMF before September. The primary issues delaying the finalisation of the agreement have been disputes pertaining to medium-term fiscal discipline and related structural policies such as the independence of the tax office. In response, the government took two further measures to increase tax revenues: (1) the special consumption tax (SCT) on motor fuels was increased by TRY 0.10 to 0.20 per litre, and (2) the rate of value-added tax (VAT) on food and drink served in "first class" restaurants, hotels with at least three stars and similar facilities was increased from 8% to 18%. These measures are expected to generate roughly TRY 1.5 billion ($ 1.0 billion) in additional tax income by the end of the year. More importantly, these measures strongly suggest that the deal with the IMF should be concluded in due course.

INFLATION: Weak demand and excess capacity has helped to keep the prices of many goods and services subdued in July with CPI Inflation having increased by 0.25% m/m and by 5.39% y/y from 5.7% y/y in June. Given that the seasonal increase in food prices was not as low as in July 2008, food prices increased by 0.64% m/m and 9.7% y/y, while alcoholic beverages & tobacco increased by 10.9% m/m. The central bank recently lowered its end-year CPI inflation forecast for 2009 to 5.9% from 6.0%.

BALANCE OF PAYMENTS: After reaching 5.8% of GDP in 2008, a combination of weak import demand and lower commodity prices should help to reduce current account deficit in 2009. In just the first half of 2009 the current account has already declined by -72.4% y/y to $ 6.73 billion. Driving this correction was the -29.4% decline in exports to $ 51.5 billion from $ 72.96 billion in H1 2008, and the -141.5% decline in imports to $ 59.45 billion from. Net foreign direct investment declined by -57.1% y/y to $ 4.2 billion and there was a net outflow of $ 318 million under the portfolio account versus an inflow of $ 1.65 billion during H1 2008. Turkey's Central Bank has highlighted the significant inflow recorded under the net error & omission. Based on their analysis this record inflow is most likely the result of a repatriation of deposits. Apparently, Turkish nationals' deposits held in foreign banks increased by $ 7.9 billion during Jan-Sep 2008, but then declined by $ 4.4 billion in the final quarter of 2008. While no final data has been released, H1 2009 figures indicate that inflows under the net error & omission item amounted to $ 8.5 billion.

MONEY & FINANCIAL MARKETS: The Turkish Central Bank has decided to resume the forex purchase auctions which it suspended in October 2008. The maximum daily volume in the auctions has been set at $ 60 million. Between the end of Q2 2008 and Q1 2009 the Turkish Lira depreciated by 57% and 35% vis-à-vis the Dollar and the Euro. After reaching a low of around TRY 2.35/€, the Lira has since recovered and is trading around TRY 2.12/€, still around 23% percent above the low of TRY 1.72/€ reach in September 2008. In response to the current economic crisis, the central bank has opted to reduce its key policy rate by a staggering 900 bps to 7.75% in August 2009 from 16.75% in November 2008.

Romania	2006	2007	2008	2009 (f)	2010 (f)
Real Economy					
Real GDP	7.9	6.0	7.8	-6.4	0.2
Private Consumption	12.7	11.6	8.0	-8.5	-1.0
Government Consumption	-4.1	1.6	3.5	-5.0	-1.0
Gross Fixed Investment	19.9	29.0	18.1	-15.0	-11.5
Exports (Goods & Services)	10.4	7.9	10.7	-18.5	-10.0
Imports (Goods & Services)	22.6	27.2	15.2	-25.0	-13.0
HICP Inflation (Avg)	6.6	4.9	7.9	5.2	3.4
Unemployment	. . .	4.1	4.4	7.6	5.9
General Government (%GDP)					
Overall Balance	-2.2	-2.5	-5.2	-7.8	-3.0
Gross Debt	12.4	12.7	13.6	22.4	26.7
Monetary (% Change YoY)					
Credit to Private Sector (In Euro's)	68	52	19	2	8
Balance of Payments (% GDP)					
Current Account Balance	-10.6	-13.5	-12.3	-7.2	-6.4

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	0.8	1.8
Unemployment	4.6	4.0	3.0	4.7	3.7
General Government (%GDP)					
Overall Balance	-1.2	3.5	0.9	-4.0	-4.3
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	13.0	15.0
Balance of Payments (% GDP)					
Current Account Balance	-7.0	-11.7	-18.2	-6.6	-7.2

Bulgaria	2006	2007	2008	2009 (f)	2010 (f)
Real Economy					
Real GDP	6.3	6.2	6.0	-5.0	1.2
Private Consumption	9.5	5.3	4.8	-3.5	1.0
Government Consumption	-1.3	3.1	0.1	1.1	2.4
Gross Fixed Investment	14.7	21.7	20.4	-13.0	0.9
Exports (Goods & Services)	8.7	5.2	2.9	-11.3	2.8
Imports (Goods & Services)	14.0	9.9	4.9	-14.5	2.8
HICP Inflation (Avg)	7.4	7.6	12.0	2.9	3.0
Unemployment	9.0	6.9	5.6	9.0	9.0
General Government (%GDP)					
Overall Balance	3.5	3.5	3.0	-3.8	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	7.0	10.0
Balance of Payments (% GDP)					
Current Account Balance	-18.4	-25.1	-25.3	-12.0	-9.7

Serbia	2006	2007	2008	2009 (f)	2010 (f)
Real Economy					
Real GDP	5.2	6.9	5.4	-4.5	0.5
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	6.0
Imports (Goods & Services)	8.4	8.0	7.3	-10.0	4.5
Retail price Inflation (Avg)	12.7	6.5	10.9	9.8	6.4
Unemployment	20.9	18.1	17.6	20.3	18.9
General Government (%GDP)					
Overall Balance	-1.6	-1.9	-2.2	-4.5	-2.5
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	9.0	13.0
Balance of Payments (% GDP)					
Current Account Balance	-9.4	-15.2	-17.2	-8.4	8.2

Turkey	2006	2007	2008	2009 (f)	2010 (f)
Real Economy					
Real GDP	6.9	4.6	1.1	-5.6	2.3
Private Consumption	4.6	4.6	0.3	-5.5	1.0
Government Consumption	8.4	6.5	1.8	4.5	3.0
Gross Fixed Investment	13.3	5.4	-4.6	-17.0	2.5
Exports (Goods & Services)	6.6	7.3	2.6	-11.2	-0.9
Imports (Goods & Services)	6.9	10.7	-3.1	-22.6	4.1
CPI Inflation (Avg)	9.6	8.8	10.4	6.2	7.2
Unemployment	9.9	9.9	10.7	14.9	14.9
General Government (%GDP)					
Overall Balance	-0.6	-1.6	-1.8	-5.8	-5.6
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	-0.4	-0.8

FYROM	2006	2007	2008	2009 (f)	2010 (f)
Real Economy					
Real GDP	4.0	5.9	5.0	-3.0	0.5
Private Consumption	6.0	9.8	7.8	-1.0	1.5
Government Consumption	1.8	0.4	9.5	0.5	0.5
Gross Fixed Investment	11.6	13.1	18.8	-4.0	2.0
Exports (Goods & Services)	14.3	-9.6	-14.0	-8.0	1.0
Imports (Goods & Services)	10.9	17.4	-4.9	-12.5	1.0
CPI Inflation (Avg)	3.3	2.8	7.2	0.5	1.6
Unemployment	36.0	34.9	33.7	35.0	36.0
General Government (%GDP)					
Overall Balance	-0.5	0.6	-1.0	-2.8	-1.4
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	-9.3	-6.0

Ukraine	2006	2007	2008	2009 (f)	2010 (f)
Real Economy					
Real GDP	7.4	7.7	2.2	-17.0	1.0
Private Consumption	14.1	15.3	6.5	-18.0	-4.0
Government Consumption	4.9	2.9	2.0	0.5	0.8
Gross Fixed Investment	20.9	24.9	2.5	-42.0	2.0
Exports (Goods & Services)	-5.8	2.8	-4.8	-15.4	0.5
Imports (Goods & Services)	8.3	20.2	5.0	-34.4	-1.9
CPI Inflation (Avg)	9.1	12.8	25.2	16.0	12.0
Unemployment	2.7	2.3	3.0	5.0	5.3
General Government (%GDP)					
Overall Balance	-0.7	-1.1	-1.5	-7.0	-4.0
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	-0.5	-0.2

Albania	2006	2007	2008	2009 (f)	2010 (f)
Real Economy					
Real GDP	5.4	6.0	8.0	-1.0	2.0
Private Consumption	-	-	-	-	-
Government Consumption	-	-	-	-	-
Gross Fixed Investment	-	-	-	-	-
Exports (Goods & Services)	-	-	-	-	-
Imports (Goods & Services)	-	-	-	-	-
CPI Inflation (Avg)	2.4	3.1	1.5	1.3	2.3
Unemployment	-	-	-	-	
General Government (%GDP)					
Overall Balance	-3.2	-3.3	-5.4	-5.5	-5.1
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	-8.1

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

(% 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	-0,5
Gross Fixed Total Investments (including stocks)	0,1	-3,6	8,1	9,7	-5,2	-9,7
- Residential Investment	3,7	-1,1	21,5	-6,8	-29,1	-17,2
- Equipment	12,7	-1,0	14,2	9,1	-9,6	-3,5
Manufacturing production	1,2	-0,8	1,4	1,8	-4,2	-8,5
Unemployment (percent)	10,2	9,5	8,6	8,0	7,4	9,1
Employment	0,9	1,5	2,5	1,3	1,2	-1,3
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	3,0
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	-9,0

Source: Official National Accounts, 2007 and Alpha Bank Research

Quarterly Data	2006	2007	2008	2008	2009	2008-2009	
				IV	I	(cumulative period)	
Economic Activity (period average)							
Retail Sales Volume	8,0	2,3	-1,4	-4,0	-9,4	-10,8	(5month 09)
Construction Activity	-19,5	-5,0	-17,1	-23,9	-16,3	-28,1	(5month 09)
Industrial Production (Manufacturing)	0,8	1,8	-4,2	-8,5	-11,7	-12,0	(6month 09)
PMI (manufacturing)	52,4	53,7	50,4	43,8	39,0	48,8	Jul-09
Economic Sentiment Indicator	103,0	108,4	88,9	67,8	48,4	57,2	Jul-09
Index of Business Expectations in Manufacturing	101,5	102,8	91,9	76,7	64,9	73,8	Jul-09
Consumer Sentiment Index	-33,0	-28,0	-46,0	-56,0	-53,0	-49,0	Jul-09
Credit Expansion (end of period)							
Private Sector	21,1	21,5	15,9	15,9	10,8	7,6	Jun-09
Consumer Credit+Other	23,9	22,4	16,0	16,0	10,9	6,6	Jun-09
Housing	26,3	21,9	11,5	11,5	8,7	6,0	Jun-09
Business	17,2	20,6	18,7	18,7	12,2	8,8	Jun-09
Tourism	11,5	23,8	19,7	19,7	13,4	9,4	Jun-09
Prices (end of period)							
Consumer Price Index	3,2	2,9	4,2	2,9	1,5	0,6	Jul-09
Core Inflation	2,7	2,9	3,4	3,5	3,2	2,0	Jul-09
Producer Price Index	7,3	4,1	10,0	1,3	-5,2	-9,5	May-09
Interest Rates (period average)							
Savings	0,98	1,14	1,17	1,18	0,89	0,50	May-09
Short-term Business Loans	7,18	7,54	7,61	7,48	6,56	6,10	May-09
Consumer Loans (up to 1 year)	10,37	10,39	11,03	11,61	11,82	11,44	May-09
Housing Loans (over 10 years)	4,64	4,61	4,80	4,87	4,79	4,76	May-09
3 month Euribor	3,08	4,28	2,89	2,89	1,51	1,27	May-09
10 year Bond Yield	4,07	4,50	4,80	5,03	5,35	5,22	May-09
National Accounts							
Real GDP	4,5	4,0	2,9	2,4	0,3	-0,2	(Q2/09)
Final Consumption	3,9	3,9	2,4	1,0	1,1	1,1	(Q1/09)
Investment	9,2	4,9	-11,5	-5,3	-6,3	-6,3	(Q1/09)
Exports	10,9	3,1	2,2	-1,6	-20,2	-20,2	(Q1/09)
Imports	9,7	6,7	-4,4	-5,2	-16,8	-16,8	(Q1/09)
Balance of Payments (in € mn - Cumulative)							
Exports of Goods	16,2	17,5	19,8	19,8	3,7	7,4	(6month 09)
Imports of Goods	51,4	58,9	63,9	63,9	11,4	22,8	(6month 09)
Trade Balance	-35,3	-41,5	-44,1	-44,1	-7,7	-15,4	(6month 09)
Invisibles Balance	14,6	13,5	13,2	13,2	0,9	1,5	(6month 09)
Invisibles Balance / Trade Account	41,4%	32,5%	29,9%	29,9%	11,2%	9,9%	(6month 09)
Current Account	-20,6	-28,1	-30,9	-30,9	-6,9	-13,8	(6month 09)
Direct Investments	0,9	-2,5	1,7	1,7	0,1	1,2	(6month 09)
Portfolio Investments	8,1	17,4	16,4	16,4	15,2	23,2	(6month 09)
Athens Stock Exchange (end of period)							
Composite Index	4.394,1	5.123,4	1.786,5	1.786,5	1.684,4	2.364,4	Jul-09
% change	19,9	17,9	-65,5	-65,5	-57,7	-30,4	Jul-09
Market Capitalization ASE (% of GDP)	74,1	85,7	27,7	27,7	25,4	35,8	Jul-09

Source: National Accounts, 2007 Official and Alpha Bank Research