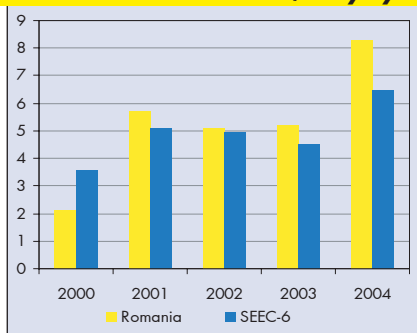


Strategy Romania

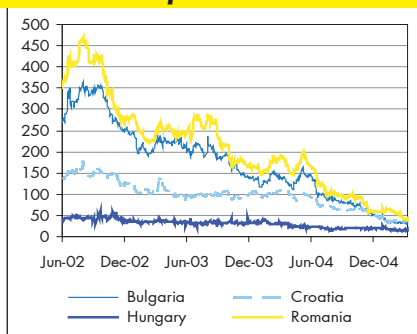
March 2005

Growth acceleration, % yoy



Source: WIIW, National Bank of Romania

Eurobond spreads



Note: EUR EMBIG government spreads (bp)
Source: JP Morgan, Raiffeisen Research

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Highlights

- The parliamentary and presidential elections held at the end of 2004 resulted in a major change in the Romanian political scene, with the former centrist-opposition and leftist-government parties switching places. The centrist D.A. alliance managed to put together a weak majority in the parliament, with support from the Hungarian Democratic Union, the Humanist Party and the minorities' representatives.
- Romanian GDP growth expanded by 8.3% in real terms last year, the highest growth rate recorded so far during the transition process. We expect the Romanian economy to remain strong and to grow above 5% on average for the following years.
- The Board of Directors of the National Bank of Romania decided to liberalize the currency market, allowing free access of foreigners to interbank transactions. The measure prepares the ground for liberalization of the capital account, namely the access of non-residents to short-term ROL deposits. From 1 July 2005 foreigners might have access to leu deposits. Any plan to give non-residents access to domestic bonds hinges on the moves of the national bank to open up non-residents' access to time deposits.
- The Bucharest Stock Exchange (BSE) put in an outstanding performance in 2004, with the EUR-based BET Index gaining 112%. The BET-C composite gained 114% over the same period, while the BET-FI Index posted the strongest performance, gaining 127% in 2004.

Key economic figures

	2000	2001	2002	2003	2004	2005e	2006f
Nominal GDP (EUR bn)	40.3	44.8	48.5	50.7	58.9	76.7	85.1
GDP per capita in EUR	1795	2001	2224	2332	2715	3535	3920
Real GDP (% yoy)	2.1	5.7	5.1	5.2	8.3	5.0	5.0
Industrial output (% yoy)	7.1	8.4	6.0	3.1	5.3	5.0	5.0
Unemployment rate (avg, %)	11.2	9.0	10.2	7.6	6.8	7.0	7.0
Average monthly gross wages, EUR	141	165	174	179	204	281	325
Producer prices (avg, % yoy)	53.4	40.3	24.5	19.6	18.6	13.5	11.0
Consumer prices (avg, % yoy)	45.7	34.5	22.5	15.3	11.9	8.5	7.5
Consumer prices (eop, % yoy)	40.7	30.3	17.8	14.1	9.3	8.0	6.5
General budget balance (% of GDP)	-4.0	-3.2	-2.5	-2.0	-1.1	-0.7	-2.0
Public debt (% of GDP)	29.9	29.0	28.3	26.8	23.6	25.0	26.0
Current account balance (% of GDP)	-3.7	-5.5	-3.3	-6.0	-7.5	-9.2	-9.9
Net foreign direct investment (% of GDP)	2.9	2.9	2.5	3.8	6.9	3.9	3.5
Official FX-Reserves (EUR bn)	2.7	4.4	5.9	6.4	10.8	14.7	16.4
ROL/EUR, avg	19956	26027	31255	37556	40532	36300	37500
ROL/EUR, eop	24118	27881	34919	41117	39663	37500	38500
ROL/USD, avg	21693	29061	33055	33200	32637	27293	26786
ROL/USD, eop	25926	31597	33500	32595	29067	26786	27899
EUR/USD, avg	0.92	0.90	0.95	1.13	1.24	1.33	1.40

Source: Thomson Financial Datastream, WIIW, Raiffeisen Research



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New government old tasks, new approach

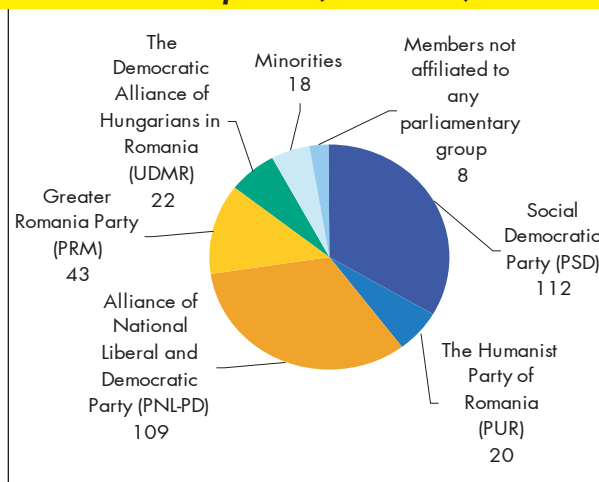
The parliamentary and presidential elections held at the end of 2004 resulted in a major change in the Romanian political scene, with the former centrist-opposition and leftist-government parties switching places. The centrist D.A. alliance (the National Liberal Party and the Democratic Party) managed to put together a weak majority in the parliament, with support from the Hungarian Democratic Union, the Humanist Party and the minorities' representatives. The coalition government thus has the support of 51.2% of the parliament and is led by the National Liberal Party head Calin Popescu-Tariceanu. The new president Traian Basescu is also a centrist, the former president of the Democratic Party and former Mayor of Bucharest. The current government started on a rather clumsy note, showing lack of preparation in both the government team and the manner in which its first measures were taken. Early elections have been brought into discussion by the D.A. alliance and the President and, due to the alliance's improved results in the latest polls compared to the actual elections (58% voter support compared to 34.3% in the parliamentary elections), there is the probability that early elections may take place this year (after the EU accession treaty is signed in April) or next year. The second option would be to merely reshuffle the government. Even if the alliance won an outright majority in the Parliament (and hence the possibility of ruling on its own), the risk on the political scene would still be present, because of differences between the liberal and democratic doctrines. The 1996-2000 administration provided a good example of the kind of internal infighting that can take place and thus affect the alliance's stability. This stability may also be jeopardized by some conflicting personal ambitions within the two component parties. The Social Democratic Party (former ruling party) is currently in the opposition, even though it managed to win both of the speakers' seats in the two Chambers of Parliament. Strong internal struggles currently divide the members of this party into two camps: supporters of Iliescu (former President of Romania, founder of the party and former president thereof) and supporters of Nastase (former Prime-Minister and party president). A cohabitation of them (president and executive president, respectively) has repeatedly been spoken about, but we believe it would be difficult to manage for a long period of time. The internal disputes within the opposition make it more probable that a D.A. alliance government would hold onto the reins of power if early elections were to be held, even if the alliance lost popularity among voters.

Most important parties

- Social Democratic Party (PSD)
- National Liberal Party (PNL)
- Democratic Party (PD)
- Greater Romania Party (PRM)
- The Democratic Alliance of Hungarians in Romania (UDMR)
- The Humanist Party of Romania (PUR)
- New Generation Party (PNG)
- Christian Democratic National Peasants' Party (PNTCD)

Source: www.cdep.ro

Chamber of deputies (332 seats)



Note: 167 seats needed for majority; 314 seats elected; each ethnic minority group that has not gained representation in parliament will be given one deputy seat - 18 seats total

Source: www.cdep.ro

Election results

	Elections 2004, % of vote		Latest polls
	Chamber of deputies	Senate	% of vote
PSD-PUR	36.6	37.1	24.0*
D.A. PNL-PD	31.3	31.8	58.0
PRM	12.9	13.6	9.0
UDMR	6.2	6.2	4.0
PNG	2.2	2.4	n.a.
PNTCD	1.9	1.9	n.a.
Others	8.9	7.0	5.0

Note: * Votes for PSD alone as the Humanist Party (PUR) joined the government of the PNL-PD alliance

Source: www.cdep.ro, IMAS

Next elections to be held (official schedule)

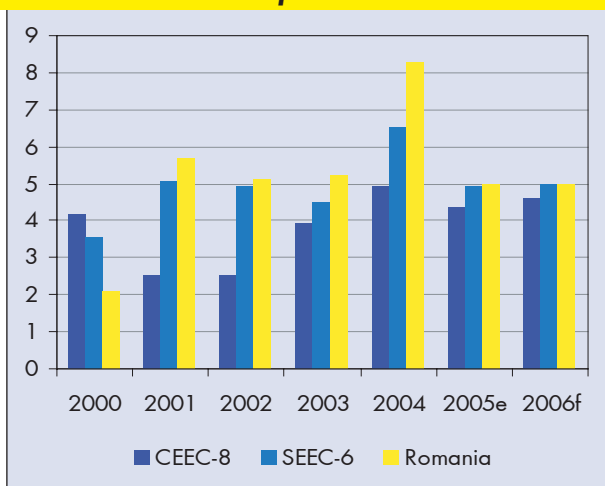
Parliamentary elections	November 2008
Presidential elections	December 2009



Romanian economy

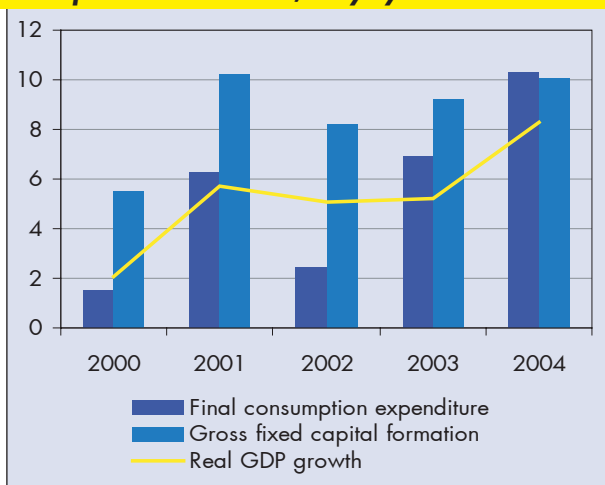
well under way

Romania as an outperformer



Note: Real GDP, % yoy
Source: WIIW, Raiffeisen Research

Components of GDP, % yoy



Source: WIIW, Raiffeisen Research

Contributions to GDP growth rate

	2000	2001	2002	2003	2004
Real GDP, yoy	2.1%	5.7%	5.1%	5.2%	8.3%
By categories of resources					
Industry	5.9%	4.4%	5.1%	4.4%	6.2%
Services	5.5%	3.6%	7.1%	5.3%	6.1%
Agriculture	-18.1%	28.0%	-6.7%	5.0%	22.2%
Construction	6.3%	11.1%	7.6%	7.0%	9.0%
By categories of uses					
Final consumption	1.4%	6.1%	4.9%	6.9%	10.3%
Gross fixed capital formation	5.5%	10.1%	8.2%	9.1%	10.1%
Export	23.4%	12.1%	17.5%	11.4%	14.1%
Import	27.1%	18.4%	12.0%	16.4%	17.8%

Source: WIIW, National Institute of Statistics

Romanian economic growth was around 5.3% in the period 2001-2003, boosted by the improved reforms undertaken in the economy. On the top of this, the higher number of working days and also very good weather conditions, which led to outstanding agricultural production, generated impressive growth in GDP in 2004.

Romanian GDP growth expanded by 8.3% in real terms last year, the highest growth rate recorded so far during the transition process, with GDP estimated at EUR 58.9 bn. According to a statement by the National Institute of Statistics (NIS), growth was significantly determined by gross value added in agriculture, forestry and fish breeding (+22.2%) - with an approximate 13% contribution in GDP formation - and construction (+9%), accounting for some 6% of GDP formation. On the uses side, in 2004 final consumption grew by 10.3% and gross fixed capital formation saw growth of 10.1%. The investment rate for the whole year as a percentage of value added in economy has not been published yet, but the ratio reached 26.2% of GDP for the period January-September 2004, showing increased potential for sustaining strong production growth in the coming years.

Value added in industry registered a growth of 6.2% (above the growth rate of industrial production at 5.3%) in 2004, with qualitative changes in industrial production driven by the greater weight of high value added products. Manufacturing production rose by 6.3% in 2004, higher than the overall growth rate registered for industry. Among the components that contributed to the strong growth in industry, wood and wood product manufacturing increased significantly in the second half of 2004 (between 44% in October and 79% in December), with overall annual growth in 2004 coming in at 42%. Chemicals and chemical products, road vehicles, manufacturing of construction materials and electric machinery also posted annual growth rates well above that recorded by the manufacturing industry as a whole.

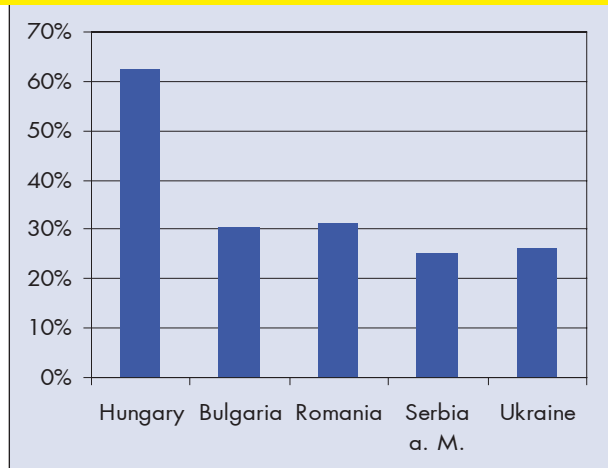
Value added in services increased by 6.1% during 2004, below the GDP growth rate, thus slightly reducing their contribution to GDP to 44%, compared with 45% during the last two years.

The overall outlook for the Romanian economy is positive, with the precautionary stand-by agreement with the International Monetary Fund (IMF) designed to strengthen the country's macroeconomic stability. The European Union (EU) and World Bank (WB) programmes (SAPARD - agricultural and

rural development, ISPA - environment and transport, PAL - public administration and justice) will also have a real impact in the economy, providing financing and expertise to foster sustainable, competitive development. EU accession is a very strong driving force for continuing the required structural reforms to achieve efficiency growth, reduction of costs and qualitative growth in the economy. Given the ongoing difficulties in reaching agreement on reducing the target for the budget deficit (to 0.7% of GDP), containing the current account deficit (to 6.9% of GDP) and meeting the inflation target (7%), which are not fully consistent with some of the government's intentions, (such as increasing pensions and maintaining value added tax (VAT) at the current level), there is a probability of protracted discussions between the government and the IMF on the terms of current agreement, despite the fact that our scenario assumes that the stand-by agreement will be followed through until its end. If this happens, macroeconomic balance could suffer, more likely during the second half of this year.

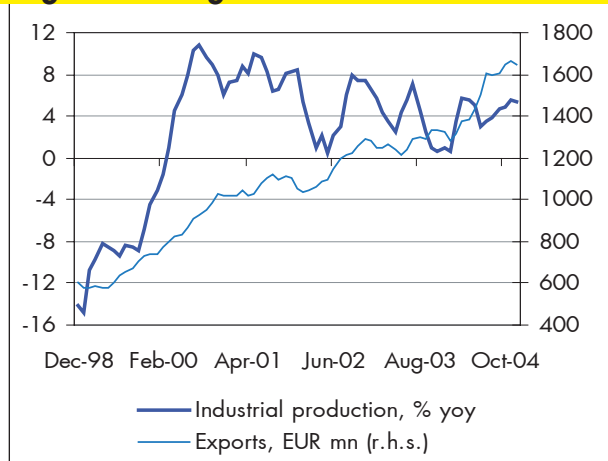
We expect the Romanian economy to grow above 5% on average for the following years as well. As in recent past, the main drivers behind economic growth are expected to be industry, services and agriculture (a volatile component of GDP) on the sources side, and consumption, investments and exports on the uses side. Industry shows increased growth potential due to annual industrial productivity growth of 10-12%, and also due to the fact that European companies could contemplate the relocation of production capacities to Romania, attracted by the low 16% profit tax rate, by utility prices which are still low (but will increase to EU levels by 2007) and by the cheap, well-trained labour force. The hourly wage in Romania is between EUR 0.7 and 22, among the lowest in Europe, according to a survey by the European Employers Federation. According to the NIS, the average monthly gross wage was around EUR 250 in January 2005, with the average net wage at around EUR 190. The minimum wage in Romania also ranks at the bottom of the list of the EU candidate countries, and is about three times less than the minimum wage in the Czech Republic, Hungary or Poland, according to a Eurostat study published in January 2004. According to this study, the minimum wage in Romania at the beginning of 2004 was EUR 69 per month, compared to EUR 207 in the Czech Republic, EUR 191 in Hungary, EUR 177 in Poland, EUR 471 in Slovenia or EUR 1403 in

GDP per capita at PPP, in % of EU-25 avg



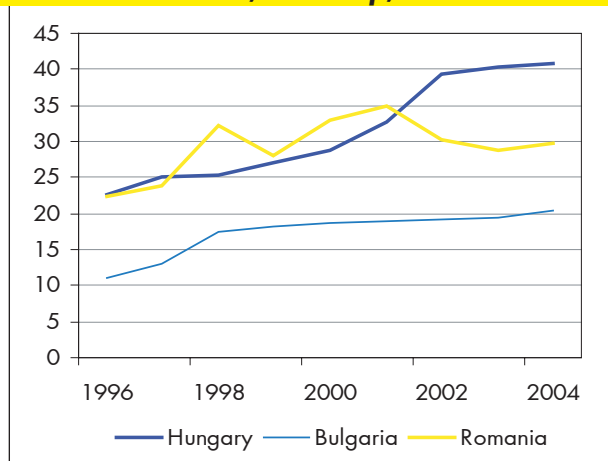
Source: WIIW, Raiffeisen Research

Higher and higher



Source: Thomson Financial Datastream, Raiffeisen Research

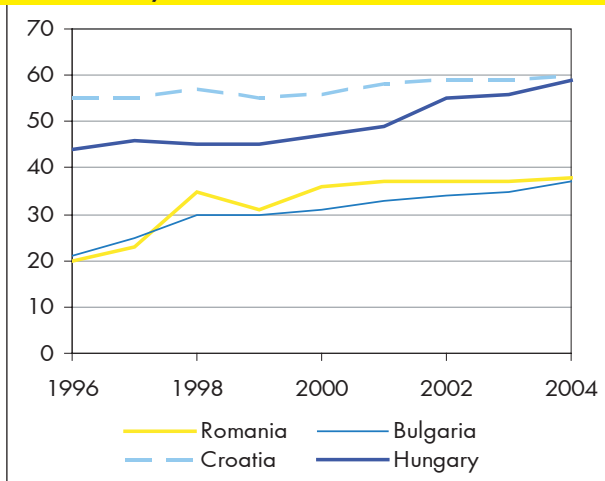
Unit labour costs, PPP adj., Austria=100



Source: WIIW

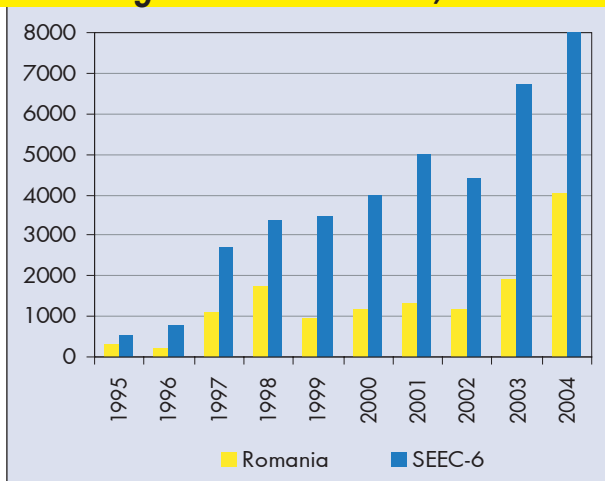


Price level, EU-25=100



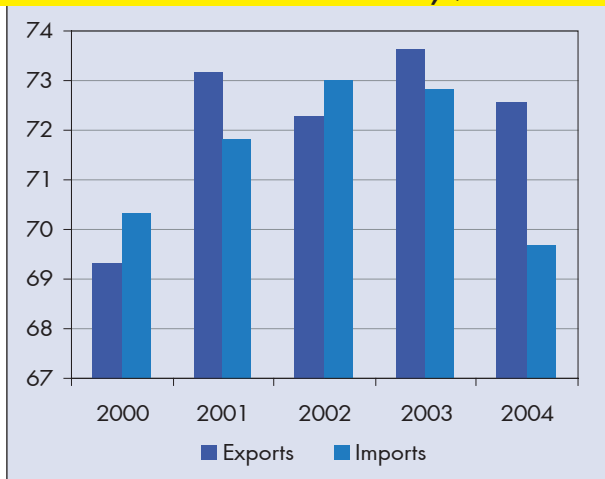
Source: WIIW

Net foreign direct investments, EUR mn



Source: WIIW, Raiffeisen Research

Trade of Romania with EU-25, % of total



Source: WIIW, Raiffeisen Research

Luxembourg. However, employees of multinational companies earn and expect to earn significant higher multiples than the national average. Furthermore, according to a 2001 EIU study, management compensation in multinational companies (except expatriate compensation) is approximately one-half the EU level.

Despite the low wage level in Romania and a flat tax for individual income, other costs related to labour compensation (e.g. social security contribution) lower the comparative advantage of the Romanian labour cost, since they exceed the level of the primary direct competitors. For instance, in order to pay an after tax monthly salary of EUR 1000, the employer will currently bear total costs of approximately EUR 1875 per month (i.e. the equivalent of an EU annual salary of EUR 22500 before tax). This level is lower by EUR 425 than the total cost required in 2004, when the five-tax brackets system (between 18% and 40%) brought an increased burden on the salary costs.

At 44%, the weight of services in GDP formation is low compared to EU member states, but will increase in conjunction with personal income, as services have better potential for development, especially retail sales. Tourism also may exhibit good growth potential despite its poor but improving infrastructure, if marketing strategies are promoted consistently. Tourism's current contribution to the Romanian GDP formation is about 1%, far below the 5-7% level reached in the neighbouring countries. Tourism thus exhibits increased growth potential; with Romania's main strong points being its beautiful sightseeing in the Carpathians, the Danube Delta and the Black Sea coast. Even though a great deal of improvement is necessary in infrastructure and the quality of services, rural tourism has grown lately and European programmes are expected to contribute further to this development.

The EU will provide substantial funds for agricultural development (roughly EUR 0.6 bn in pre-accession aid and over EUR 4 bn for the period 2007-2009). These funds will have a real impact in this sector, despite the fact that the absorption mechanisms in place might not fully disburse them. Within three years from the accession date Romania will have to show that it can boost its production to the levels agreed upon with the European Commission. Officials at the Ministry for Agriculture are optimistic that value added in agriculture will double in

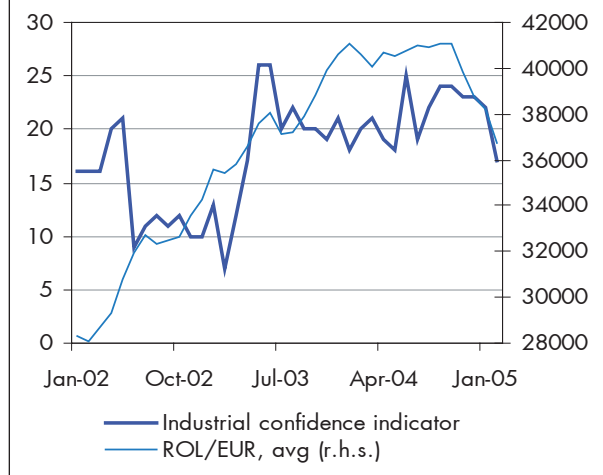
the next 4 to 5 years, but even in that case the agricultural trade balance would remain negative. For example, in 2004 imports of agricultural products to Romania were EUR 1.2 bn compared with only EUR 0.2 bn in exports.

A great deal of improvement is needed in the small and medium-sized enterprises (SME) sector in order to cope with the EU competitive pressure and market forces; otherwise many small businesses will vanish after the EU accession. Romanian SMEs are undercapitalised, with little (if any) investment plans, obsolete technology and poor marketing and management. Investment projects will have to be undertaken to improve quality and productivity (offering a better chance to withstand competition by supplying products with greater value added at competitive prices), as well as for environmental protection. However, lower Romanian tax and labour costs may be attractive for trans-national companies, which may want to relocate part of their production capacities in the East. Some of their production activities would be delegated to local enterprises, leading to an increased development potential of the SME sector over the medium term.

Inflation

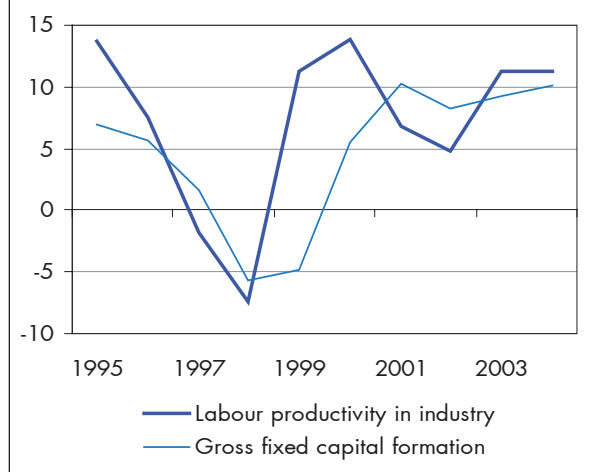
Inflation declined to 9.3% in 2004, from 14.1% in 2003, the first time since the fall of communism in Romania when inflation has come down to single-digit figures for CPI. This confirms the success of the disinflation trend visible during the last five years. This is a good achievement, despite the fact that Romania remains the only candidate country for EU accession which still has high inflation. Price growth was tamed with a favourable policy mix, including very prudent monetary policy, a tight fiscal policy and an almost neutral income policy. Additionally, good trends were also recorded in the real sector, through structural reforms, such as privatisations, loss reductions in the state-owned sector of the economy and increased productivity. In addition to these factors, other positive developments also helped Romania to cut inflation, including an outstanding growth in agriculture and the nominal appreciation of the ROL during the last two months of 2004. Agricultural production kept food prices in check, which increased by 7.4% in 2004, well below the CPI of 9.3%, compared with 2003, when the food prices rose at a rate much closer to the CPI (13.8% against 14.1%). Due to the low

Industrial confidence



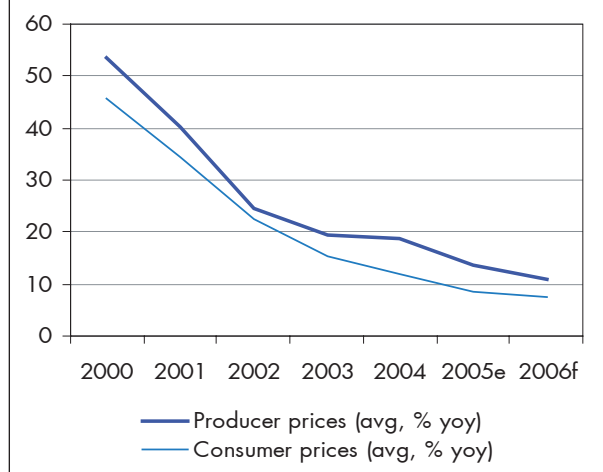
Source: Thomson Financial Datastream, Raiffeisen Research

Labour productivity in industry, % yoy



Source: WIIW, Raiffeisen Research

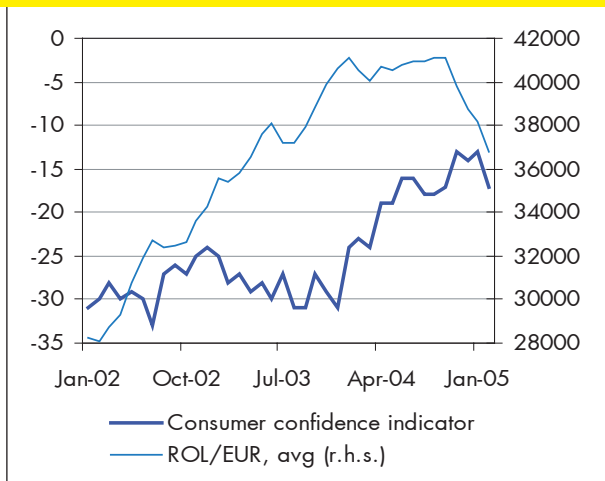
Inflation development



Source: Thomson Financial Datastream, Raiffeisen Research

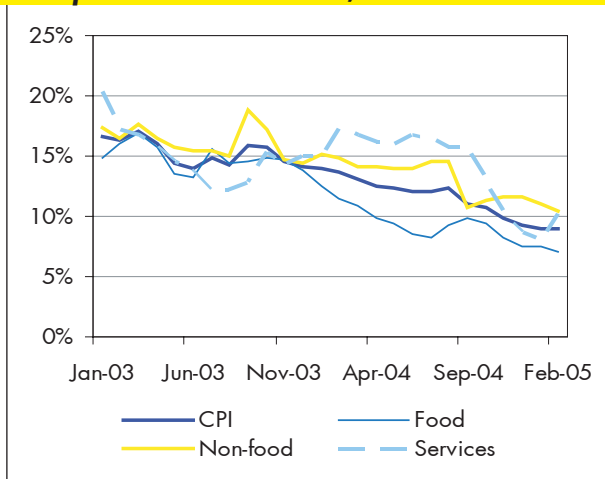


Consumer confidence



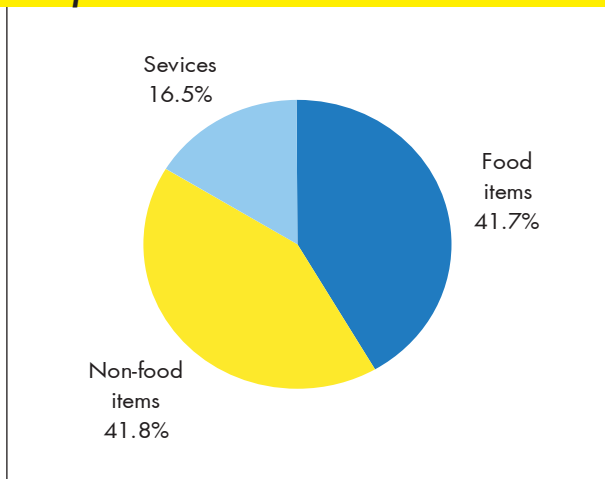
Source: Thomson Financial Datastream, Raiffeisen Research

Components of inflation, %



Source: National Institute of Statistics, Raiffeisen Research

Composition of consumer basket



Source: National Institute of Statistics

level of household income in Romania, food products account for a large share of the consumer product basket used for inflation computation (42.26% in 2004, 41.68% in 2005), which is why food prices have a major influence on overall inflation.

ROL appreciation has mitigated increases in the CPI since November 2004, as some services have tariffs directly linked to the EUR/ROL exchange rate and the prices of some imported goods declined. Consumer prices rose much slower (9.3%) than producer prices (16.3%) in 2004. The main reason for this divergence was the influence of ROL real appreciation (and even in nominal terms lately), which has a stronger impact on the CPI, as well as some reductions in retailers margins due to increased competition (many supermarkets were opened), and producer price hikes in manufacturing and mining, oil and gas extraction, the latter attributable to approximation with international prices levels.

For the coming years, we expect inflation to decline, as the policy mix is expected to remain more or less the same. The official forecasts are 7% in 2005, 4% in 2006 and 3% in 2007. In order to achieve this, the National Bank of Romania (NBR) decided to shift the monetary frame towards inflation targeting from 1 July 2005; hence inflationary expectations might act as a strong anchor. Also starting from the second semester of 2005 redenomination will be implemented, cutting four zeros from the current value of the ROL (1 new ROL equals 10000 old ROL). One of the benefits that the NBR hopes to achieve is better creditworthiness for the national currency as well as a signal effect that hyperinflation has ended in Romania.

Nevertheless, we consider the inflation targets to be very ambitious and would note that they may be missed. The main reasons would be adjustments in administered prices and some excise duties, which must be implemented before accession to the EU. The administered prices bear a weight in the consumption basket of around 25%. In addition, pressure from private demand triggered by higher disposable income and consumer loans, price convergence in the service sector, the outstanding level of payment arrears and volatile growth in agricultural production, which is still highly dependent on weather conditions, increase the inflationary pressures.

Unemployment

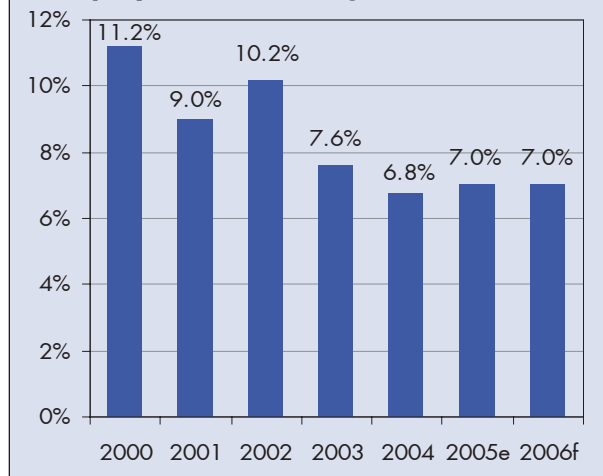
The unemployment rate in Romania is one of the lowest in the region and is even low compared to EU countries. This is a sign of lagging structural reforms on the one hand, and the result of other favourable factors on the other hand.

The unemployment rate fell from 10.5% in December 2000 to 6.2% in December 2004, mainly as a result of the international mobility of the Romanian labour force, especially after the elimination of visa requirements for Schengen states in 2002. Some unofficial estimations postulate that more than one million Romanians are working abroad. Apart from this, another reason that contributed to higher employment is the development of the textile and shoe industry (primarily under the contract production system), where the workforce is mainly female and accounts for more than 5% of active population.

Another factor that explains the low unemployment figure is the fact that many people who were laid off during the restructuring process over the last fourteen years have partially moved to rural areas and are now involved in family-run non-trade economic activities, mainly subsistence agriculture. They are not recorded as unemployed, but as unpaid family workers and account for almost 20% of the active population. Considering this, Romanian statistics shows around 36% of employment involved in agricultural production (compared with approximately 18% in the new EU members or 5% in the EU-15) contributing up to 13% to GDP formation. In addition, a large number of workers dropped out of the labor force in the last decade. They stopped searching for labor market opportunities and are recorded as discouraged in the labor force surveys.

This year, we expect that unemployment will rise slightly, as some contract production will leave Romania for Eastern Asia and the enterprise restructuring process is expected to continue. Against the background of EU accession, the required increase in competitiveness in the real sector, coupled with some reduction in SMEs' activity after 1 January 2007 will lead to some additional lay-offs. However, the investment process is expected to create new jobs, which will probably cover the lost jobs. Unemployment in Romania is thus expected to remain steady, in our view.

Unemployment rate, avg, %



Source: WIIW, Raiffeisen Research

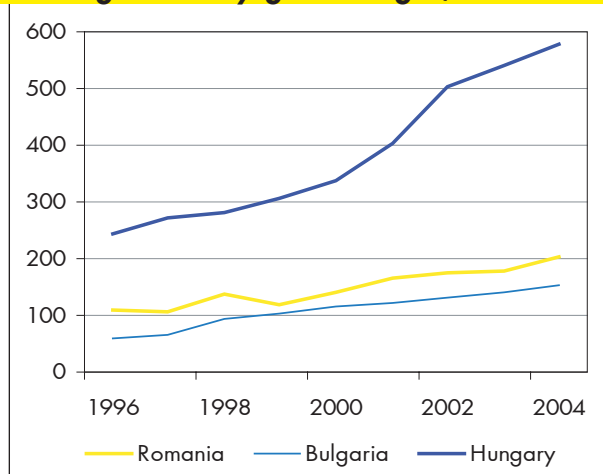
Paid employment by type of activity

Activity	Total (Dec 2004)
Total	4398.3
Agriculture and hunting *	107.9
Industry - total	1733.7
Mining and quarrying	116.7
Manufacturing	1479.2
Energy, gas and water	137.8
Constructions	314
Trade and repair services	564.2
Hotels and restaurants	83.9
Transport and storage	218.4
Post-office and communication	77.3
Financial intermediations	66.9
Real estate, renting; services mainly rendered to enterprises	211.1
Public administration and defence	158.1
Education	401.8
Health and social assistance	315

Note: * Most people working in agriculture (36% of total employment) are not paid; figures per thousand persons

Source: Ministry of Labour and Social Solidarity, Raiffeisen Research

Average monthly gross wages, EUR



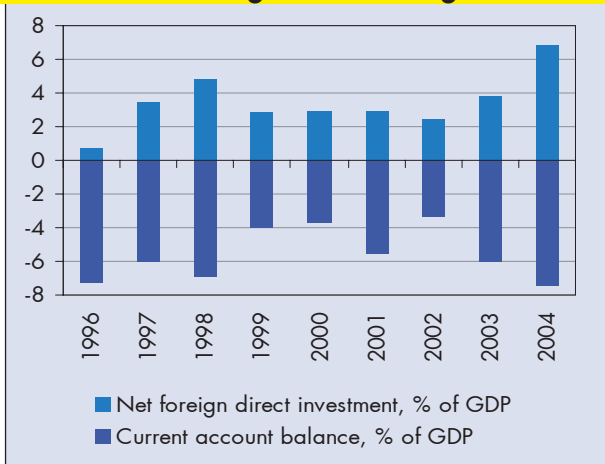
Source: WIIW, Raiffeisen Research



Struggling with the deficit

No pains, no gains

Non debt-creating CA financing



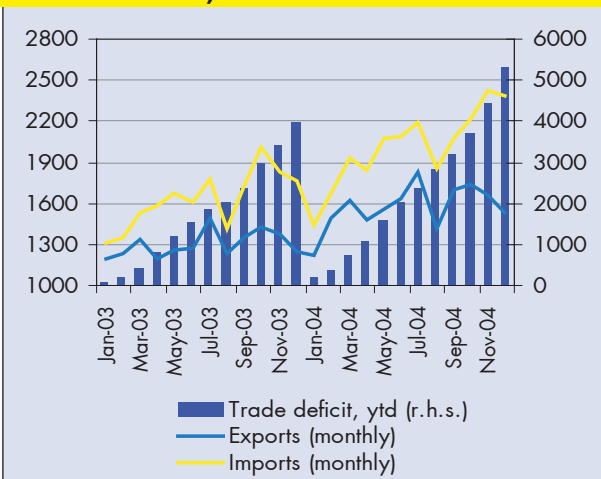
Source: WIIW, Raiffeisen Research

Top 5 privatisations in 2004

Company sold	EUR mn	Buyer
1 Petrom	1500	OMV
2 Distrigaz Sud *	311	Gaz de France
3 Distrigaz Nord *	304	E.ON
4 BCR (minority stake)	225	BERD, IFC
5 Electrica Banat and Dobrogea	112	Enel

Note: * To be completed in 2005
Source: Ministry of Public Finance

Trade balance, EUR mn



Source: National Bank of Romania

The current account (CA) deficit widened to EUR 4.4 bn by the end of 2004, up 43.9% compared to the previous year and officially estimated at 7.5% of GDP for 2004. This figure is computed using a new methodology imposed by the IMF, which also takes into account the profits of foreign companies earned in Romania and reinvested. The increased CA deficit was mainly triggered by a larger trade deficit of EUR 5.3 bn in 2004 (up 34% on 2003), which was only partly offset by transfers from Romanians working abroad. Romanian exports rose by 21.3% and imports by 24%, leading to a coverage degree of imports by exports of only 78.1%. This development was mainly triggered by a significant increase in imports of two classes of goods: machinery and equipment (resulting from increased investments), and mineral products (due to the increase of domestic consumption of fuel and energy and international prices).

Even though the CA deficit was much larger than the 5.5% of GDP target (previous methodology), almost all of it (98.4%) was financed by foreign direct investments (including capital transfers). At EUR 4 bn, FDI was quite impressive last year, and most of this was due to some major privatisations in the banking and energy sector during 2004. The biggest was the EUR 1.5 bn sale of the national oil company SNP Petrom to OMV. Two banks are to be privatised in the next two years, BCR - the leader of Romanian banking system in term of assets, and CEC - the fourth largest Romanian bank. Most of the remaining utilities distribution units and probably some energy producers will also be sold.

After 2006, FDI will probably taper off a bit, being mainly determined by the greenfield investments and by relocation of production capacities and, eventually, some R&D units of the EU companies that want to take advantage of Romania's low profit tax rate and labour force costs.

We expect the CA deficit in 2005-2007 to be larger than the targeted 6.9% of GDP. The increase of available income (due to lower taxation and higher real wages) will trigger higher consumption (hence higher imports), which will also be pushed by ROL appreciation and increased growth in borrowing. Moreover, imports of machinery and equipment will continue to rise, triggered by foreign direct investment and the required process of improving and upgrading technology. On the other hand, we may see a reduction in export rate of growth attributable to exchange rate developments.



Tight policy New government, new taxes

Fiscal policy in Romania has been tight in recent years, with budget deficits well below the Maastricht criteria. The deficit reached 1.2% of GDP in 2004. This has allowed the government to play a major role in inflation reduction, limiting the public component of the aggregate demand.

The first measure taken by the new government was the introduction of a flat tax on profit and personal income of 16%, in force since 1 January 2005. This measure is seen as a catalyst for foreign investments and additional measures to ensure the reduction of tax evasion and corruption are to be taken. In order to limit the impact of the fiscal relaxation on the state budget and to lower the deficit to the target implied by the IMF of 0.7% of GDP for 2005, the reductions in social security taxes have been postponed to the next year. Other taxes have been increased, such as the tax on small business turnover (from 1.5% to 3%), the tax on dividends for individuals (from 5% to 10%), the tax on capital gains and interest payments (10% starting from April, increased from 1%).

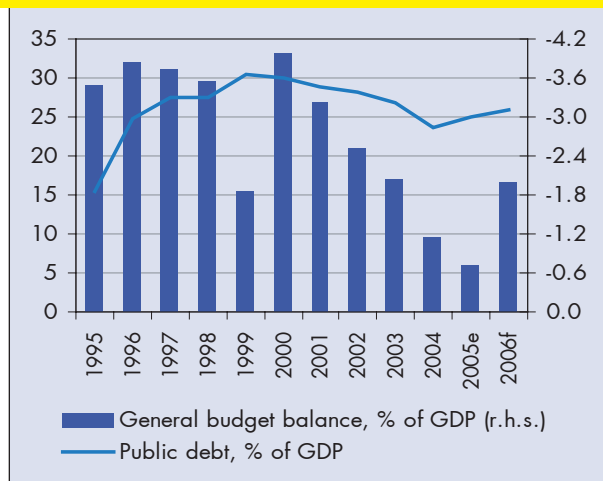
The budget deficit will be reduced by cutting state transfers and subsidies, especially for mining, by postponing the increase in wages of government employees and by the acceleration in the increase of some excise duties.

Moreover, measures still have to be taken to improve revenue collection, in order to benefit from the fiscal relaxation. We hope revenue collection will rise as there is enough room for improvement, confirmed by the trend of the last two years, when the profit tax revenue increased by around 30% in real terms, while the profit tax remained the same (except for exporters' earnings, which were taxed higher from 12.5% in 2003 to 25% in 2004).

For the coming period, we expect the budget deficit to remain tight (much below the Maastricht criteria) in order to support disinflation and contain the current account deficit. Some pressure on the budget will come from the increased contribution of the government for development programmes partially funded by the EU and the acquis implementation. The government plans to reduce social security taxes from the current level of 49.5% to 39.5% in 2008, if revenue collection improves.

On the other hand, the second pillar of the pension reform (a part of mandatory social insurance under private administration) might be postponed until 2008. Starting from the accession date, Romania will have to deliver its share to the EU budget, which accounts for roughly 1% of GDP.

Below the Maastricht criteria



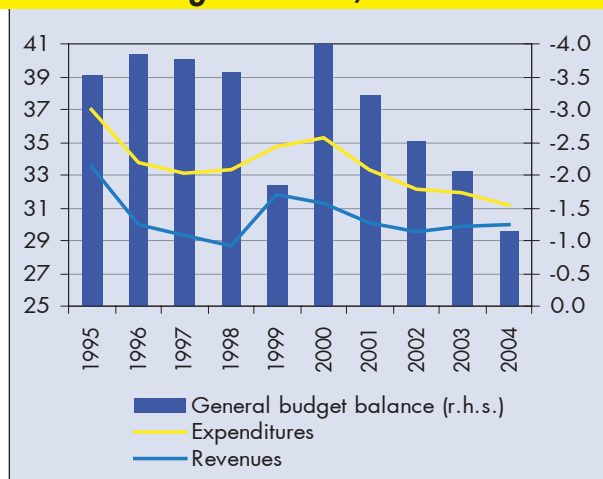
Source: NBR, Raiffeisen Research

Composition of state budget income

Revenues (Dec 2004)	100%
Fiscal revenues	96%
Direct taxes	32%
Tax on profit	15%
Tax on income	16%
Other direct taxes	1%
Indirect taxes	63%
Value added tax	38%
Excise duties	18%
Customs duties	4%
Other indirect taxes	4%
Non-fiscal revenues	4%

Source: Ministry of Public Finance

General budget balance, % of GDP



Source: Thomson Financial Datastream, Raiffeisen Research

Capital liberalization The band begins to play

A new Central Bank Act was approved in 2004, improving the central bank's independence and stipulating price stability as the main monetary policy goal.

Because of the high liquidity in the market, the NBR has a position of net debtor to the banking system; consequently, open market operations were concentrated on draining off the liquidity excess. In order to achieve this, a significant amount (EUR 2.3 bn monthly average in 2004) was taken from the banks via one-month deposits and 3-month certificate of deposits (between EUR 110 mn in June 2004 and EUR 685 mn in February 2005) launched from the second half of the year. The intervention (monetary policy) rate stood at very high levels during the first semester, and was gradually reduced through to year-end by 425 bp. Given the inflation dynamics and expectations, the real rate was still at a high level.

Nevertheless, considering the scheduled capital account liberalization by 1 July 2005, a commitment made with the framework of the negotiations on EU accession, the central bank decided to reduce the effective intervention rate (but not the maximum level) by another 700 bp during the first two months of 2005 in order to cut the interest rate differential between ROL and foreign currencies, thus reducing the non-residents appetite for bringing speculative flows to Romania. Such a sharp reduction in interest rates was made possible by the monetary policy success achieved last year and by the ROL appreciation, which is expected to play a greater role in taming inflation in 2005, at least during the first semester. We expect the banks to follow this trend and to reduce the rates paid for deposits, despite the inertia of the previous year (only 50 bp reduction in deposit rates in 2004, around 200 bp during January-February 2005). Achieving lower deposit rates by the banks, the NBR might slow down rate cuts and continue to reduce the rates only in line with inflation.

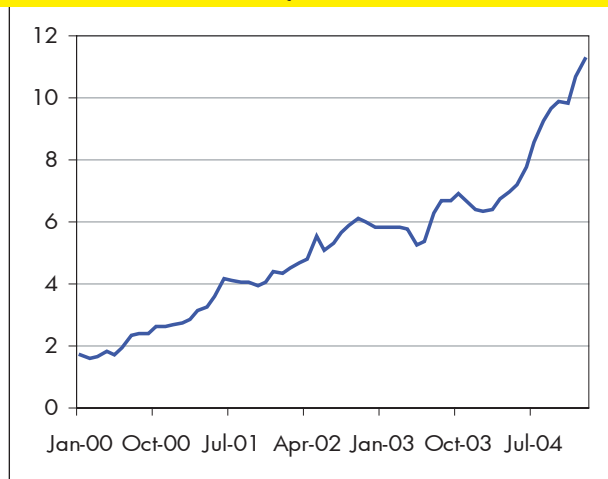
The reserve requirements are also designed to reduce credit growth, featuring very high rates, at 18 % for local currency and 30% for foreign currency (up from 25% since August 2004). Starting from February 2005, foreign exchange funds with a residual maturity of more than two years became subject to reserve requirements. Since February 2004 some restrictions were introduced in lending, rendering access conditions for private individuals to loans more difficult.

Composition of the NBR Board

Governor	Prof. Mugur Isarescu, Ph.D.
First Deputy Governor	Prof. Florin Georgescu, Ph.D.
Deputy Governor	Eugen Dijmarescu
Deputy Governor	Cristian Popa, Ph.D.
Member	Prof. Silviu Cerna, Ph.D.
Member	Maria Ene
Member	Agnes Nagy
Member	Napoleon Pop, Ph.D.
Member	Prof. Virgiliu Stoienescu, Ph.D.

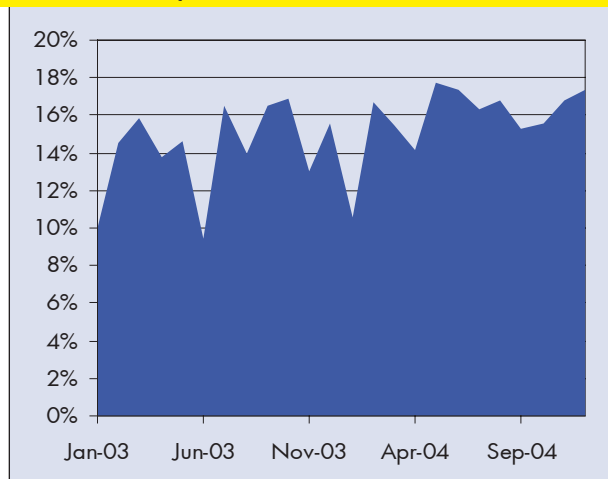
Source: National Bank of Romania

Official FX-reserves, EUR bn



Source: National Bank of Romania

Sterilization, in % of M2



Source: National Bank of Romania

These measures aim to reduce lending, especially in foreign currency, given the fact that around 80% of new loans are originated in EUR and USD; hence the intervention rate does not have a huge impact on lending. By doing so, the central bank reduced growth in consumption and obtained better control over inflation as well as a positive influence on the current account deficit, which is already at a high level.

If prices overshoot the targets by far, the NBR may tighten monetary policy further, using reserve requirements or other administrative measures to control lending. As a tool of last resort, they might increase again the intervention rate. Considering the inflation outlook, we would not rule out a trend reversal in interest rates. This scenario is even more likely if one assumes that no additional stand-by memorandum with the IMF is agreed.

Capital account liberalization

Foreigners can own Romanian stocks but they cannot hold the currency in domestic time deposits. They also cannot own domestic government bonds. Special purpose vehicles (local companies set up by foreigners to have access to the Romanian market) are needed for those who want to open lei deposits or trade in government securities.

On 11 March 2005 the Board of Directors of the National Bank of Romania decided to liberalize the currency market, allowing free access of foreigners to interbank transactions.

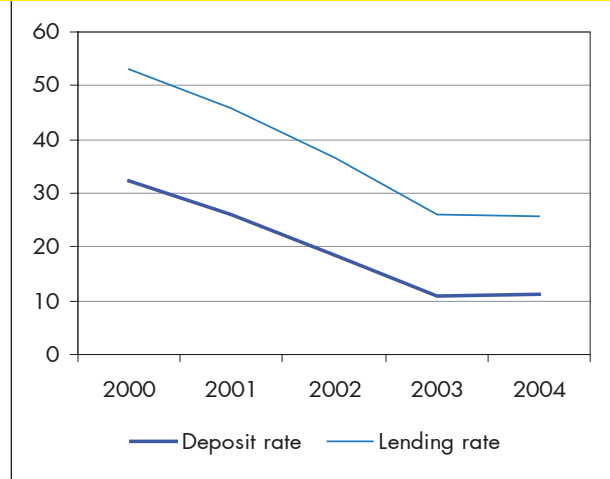
As of 1 July 2005, the leu (ROL), Romania's legal tender, will be subject to redenomination so that 10000 old lei, in circulation on that date, shall be exchanged for 1 new leu (RON). The existing banknotes and coins shall be legal tender until end-December 2006. Then the "old" lei are to be replaced gradually by the new lei.

From 1 July 2005 foreigners might have access to lei deposits. Any plan to give non-residents access to domestic bonds hinges on the moves of the national bank to open up non-residents' access to time deposits.

The Finance Ministry plans to give access to non-residents to government securities on 1 January 2006.

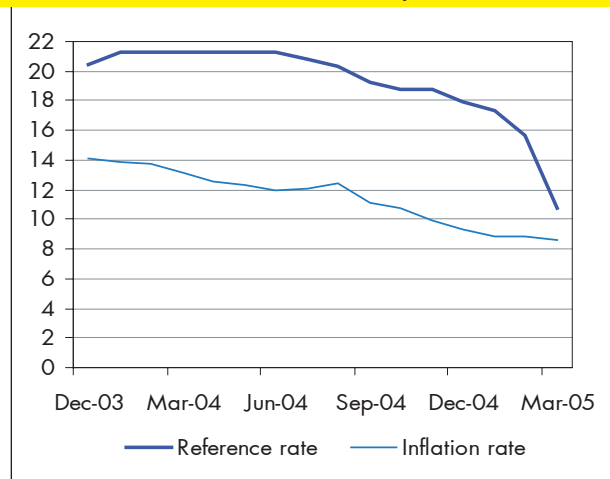
On 1 January 2007 Romania considers to allow foreigners access to short term money market instruments such as T-bills and certificate of deposits (CDs) of the central bank.

Lending & deposit rate, avg, %



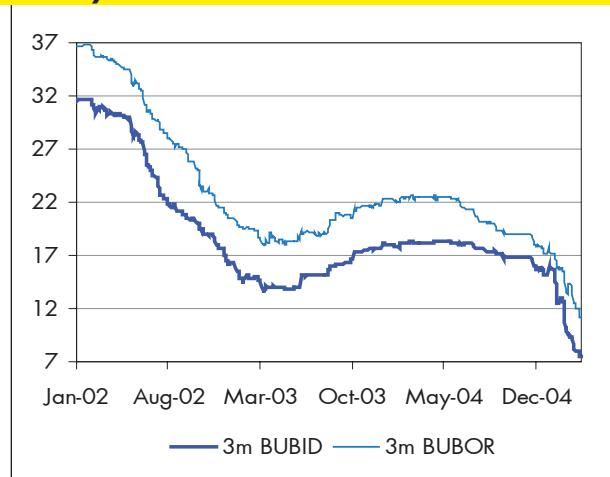
Source: National Bank of Romania

Inflation and reference rate, %



Source: National Bank of Romania

Money market rate, %



Source: National Bank of Romania



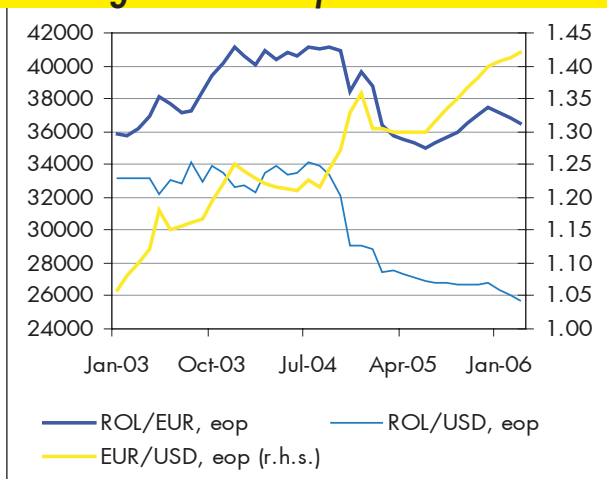
Let's see how the wind blows

Exchange rate outlook

	actual	Jun-05	Sep-05	Dec-05	Mar-06
ROL/EUR	36043	35000	36000	37500	36500
Change from Dec-04	10.0%				
ROL/USD	26915	26923	26667	26786	25704
Change from Dec-04	8.0%				
EUR/USD	1.34	1.30	1.35	1.40	1.42

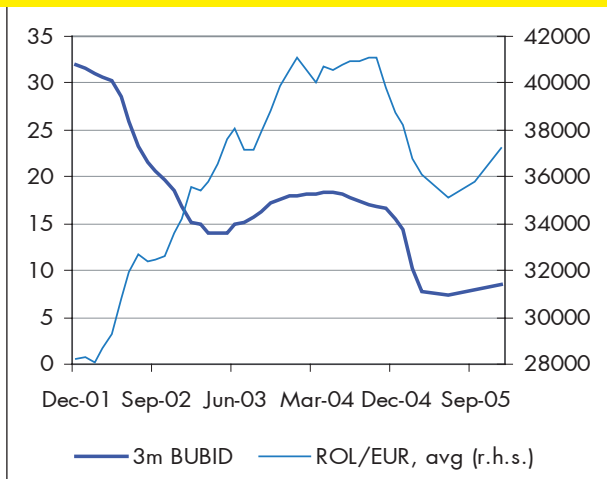
Source: Reuters, Raiffeisen Research

Exchange rate development



Source: National Bank of Romania, Raiffeisen Research

Mad rush



Source: National Bank of Romania, Raiffeisen Research

The National Bank of Romania (NBR) runs a managed float exchange rate system, with EUR as the official reference currency since March 2003.

Until 2 November 2004, the foreign exchange market was characterized by frequent interventions of the NBR in order to keep the national currency within the targeted real appreciation, leading to a highly predictable exchange rate. The capital inflows in 2004 (net FDI: EUR 4 bn, remittances from Romanians working abroad: EUR 2.5 bn, other net capital inflows: EUR 3.2 bn) put pressure on the ROL, and thus the NBR had to buy more than EUR 3 bn of foreign currency to tame ROL appreciation. Those purchases – together with the EU funds and privatisation inflows – increased official foreign reserves by EUR 4.4 bn in 2004, to EUR 10.8 bn in December 2004.

At end-October 2004, the central bank decided to intervene less frequently (and less predictably) in the market and to let the ROL to float more freely, thus dropping any announced target for ROL appreciation. Following this decision, exchange rates volatility increased considerably and the ROL appreciated sharply (by 12% against the euro in the period November 2004 - February 2005), despite the deficit in the FX market on the customers segment (purchases higher than sales). The exchange rate has been driven by the appreciation sentiment prevailing in the market, triggered by the announced liberalization of the capital account by the end of H1 2005, with huge capital inflows expected due to the high differential between ROL and foreign currency interest rates. According to the latest NBR monetary strategy, this differential has dropped significantly and is expected to decline further. Moreover, the NBR "tested" the depth of the market and achieved a depreciation of ROL by almost 10% in just two days, in order to send a clear message to speculators that the exchange rate upside potential may cancel out incomes from interest on deposits when they want to repatriate the profits. Any intervention of the central bank to reverse the trend is likely to prove expensive if runs against market expectations. Given the higher expected current account deficit, further nominal appreciation might not be sustainable over the medium term, and we believe that the market may change its sentiment from appreciation to depreciation towards the end of 2005 or next year, which might lead speculators to exit the Romanian market. The ROL might continue to develop high volatility and – in the medium term – it will appreciate moderately in real terms.

Rating upgrade

Everything's almost fine

Government securities market

ROL-denominated treasury securities sold on the primary market include discounted treasury bills, treasury bonds and treasury inflation-protected securities. The Romanian Ministry of Finance strategy for the domestic market was primarily focused on short-term financing, even though total volumes were very small, due to the fact that fiscal policy was tight, with a low state budget deficit (1.2% of GDP in 2004). For example, the monthly average for discounted T-bills was EUR 160 mn in the period January-August 2004 (when the latest T-bill auction took place) and the monthly average for T-bonds was EUR 8.6 mn last year.

In the second half of 2004, encouraged by the IMF, the Ministry of Finance changed its strategy from short-term to medium-term domestic financing (2y and 3y T-bonds) and in February 2005 it even launched a 5y T-bond issue. Three other issues for 5y T-bonds are scheduled for March and the government securities (GS) yield-curve might be extended to 7y maturities within a few months. By removing short-term maturities from its auction calendar, the Ministry of Finance wanted to discourage speculative short-term inflows attracted by the large differential between ROL and FX interest rates. Even though non-residents have not had direct access to the GS so far, they could invest via special purpose vehicles.

The 5y T-bond issue launched in February was a huge success for the government, with a 7.9% coupon, similar to the one on the Hungarian 5y T-bond issue, even though the inflation expectations are higher in Romania than in Hungary. The margin on 5y TIPS (Treasury Inflation Protection Securities) sharply decreased from 4% at end-December 2004 to 2% in February 2005, this latter real rate being consistent with the 7.9% yield on 5y T-bonds.

The tight fiscal policy for this year will not leave room for significant increases in volumes of GS issues and the reduced offer will trigger low yields. Institutional investors are looking for long-term placement opportunities so we expect increased demand for T-bonds.

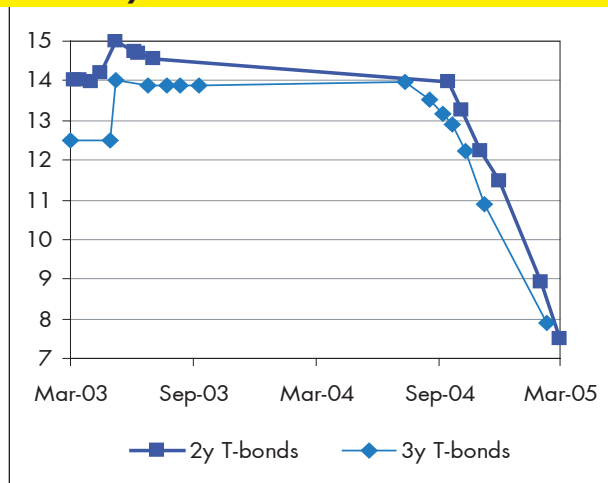
Yields on Romanian sovereign Eurobonds declined along with the improvement in the country's credit-worthiness and rating upgrade. Romania's rating of Fitch is "BBB-" (investment grade) and is one notch below the investment grade level of Moody's (Ba1) and Standard & Poor's (BB+), currently the same as Bulgaria, the outlook being positive. A further

Money & bond market outlook

	1m	3m	2y
actual	7.06	7.50	7.50
Change from Dec-04	-9.19	-8.21	-3.40
Forecast Jun-05	7.20	7.29	7.00
Forecast Sep-05	8.00	7.91	7.00
Forecast Dec-05	8.70	8.52	7.00
Forecast Mar-06	9.00	8.82	6.50

Source: Reuters, Raiffeisen Research

Auction yields, %



Source: Reuters, National Bank of Romania, Raiffeisen Research

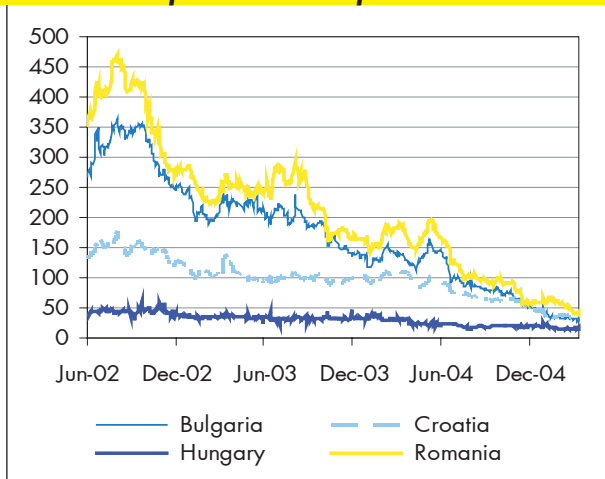
5y government securities

5y T-bonds	Amount (ROL bn)	Coupon
Issue date		
07 Mar-05	540	6.5%
07 Feb-05	400	7.9%

5y TIPS (Treasury Inflation Protection Securities)	Amount (ROL bn)	Margin
Issue date		
21 Feb-05	100	2.0%
20 Dec-04	51	4.0%
25 Oct-04	50	4.5%
26 Jul-04	35	5.0%
26 Apr-04	30	5.0%

Source: National Bank of Romania, Raiffeisen Research

Eurobond spread development



Note: EUR EMBIG government spreads (bp)
Source: JP Morgan, Raiffeisen Research

EUR EMBIG government spreads (bp)

	Bulgaria	Croatia	Hungary	Poland	Romania
mid-2002	305	147	44	113	401
mid-2003	211	94	30	66	278
mid-2004	99	68	23	43	124
actual	31	36	15	25	39

Source: JP Morgan, Raiffeisen Research

Credit ratings

	Moody's	Standard & Poor's	Fitch
Foreign currency			
short-term debt	n.a.	B	F3
long-term debt	Ba1	BB+	BBB-
Local currency			
short-term debt	n.a.	A-3	n.a.
long-term debt	Ba1	BBB-	BBB
Outlook	positiv	positiv	stable

Source: Bloomberg

upgrade of Moody's and S&P to investment grade may be possible in the second half of the year, if macroeconomic stability is preserved. The Romanian government Eurobond spreads declined and became close to those of Bulgaria (EUR EMBIG government spread is 39 bp for Romania, 8 bp larger than the spread of Bulgaria). One Romanian Eurobond matures in November of this year (EUR 300 mn) so the government might apply to the international markets for a new issue.

The ROL GS secondary market is developing with an average monthly volume of EUR 1 bn in 2004. Treasury securities were to be traded on the stock exchange but have not been so far, and the secondary market is actually an interbank market.

Municipal bond market

This market is in an early stage of development, with only 20 issues (as of March 2005) outstanding from 16 municipalities, most of which are small towns. Those issues have initial maturity below 4y and total around EUR 20 mn, with half of them amounting to less than EUR 0.5 mn each. Municipal bonds are traded on the Bucharest Stock Exchange but they are not liquid, due to the absence of potential sellers (all are high yield bonds).

Over the next two years, we expect an improvement on this market, especially by increasing the amounts issued to EUR 10-15 mn and lengthening the initial maturity to 10y-15y. Larger towns and cities are expected to resort to bond-type financing for their long-term investment projects, especially in the field of infrastructure improvement. Due to the fact that the debt service capacity of municipalities for the next 3-4 years is almost exhausted and the law currently forbids debt service higher than 20% of revenue, the new issues will probably have grace periods of 3 to 4 years. The consolidation of this market would require the simplification of the legal framework for sub-national borrowing, as well as the establishment of clear rules for municipal bankruptcy and rating.

Only a few companies have issued corporate bonds so far because loans are still the preferred financing instrument, both for short-term and for medium-and long-term projects. This is partially because few domestic companies meet the eligibility criteria for becoming an issuer.

Romanian stock market

Upcoming IPOs to sustain positive growth

Stellar performance in 2004

The Bucharest Stock Exchange (BSE) put in an outstanding performance in 2004, with the EUR-based BET Index gaining 112%. The BET Index is comprised of the ten largest and most liquid shares listed on the BSE (except SIFs - Financial Investment Companies). The BET-C composite gained 114% over the same period. The price movement of the SIFs is reflected by the BET-FI Index, which posted the strongest performance, gaining 127% in 2004.

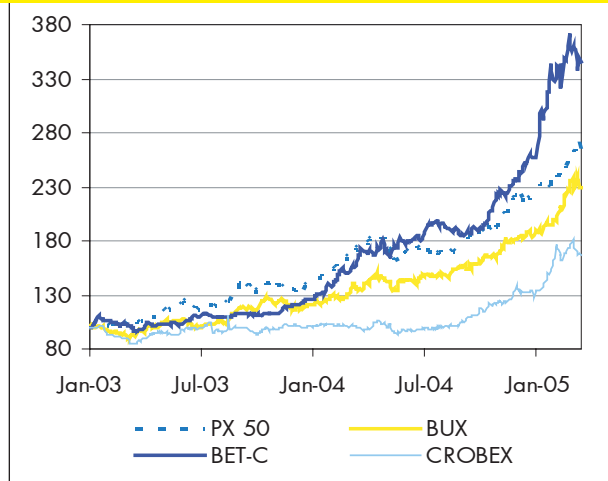
Share price rises, as well as several key share capital additions triggered a 195% increase in overall market capitalization in 2004 to EUR 8.82 bn. In our opinion, the strong market performance seen in 2004 and the beginning of 2005 can be attributed to (i) re-rating of country risk, (ii) declining interest rates, and (iii) the significant appreciation of the local currency.

Positive macro-economic developments stimulated foreign investors' appetite while declining interest rates and a stronger currency pushed domestic investors into equities. During 2003, some EUR 100 mn made its way into the Romanian equity markets from foreign entities, while in 2004, the amount nearly doubled, reaching EUR 199 mn. The net trading amount by non-residents in 2003 represented a positive 8% of the year's total transactions, while in 2004 this figure increased to 12.32% of the total transaction amount. However, it should be noted that the market is still driven by domestic investors, which accounted for 67% of the total sale purchases in 2004. Purchases by local investors rose 137% yoy in 2004 in EUR terms.

2005 outlook

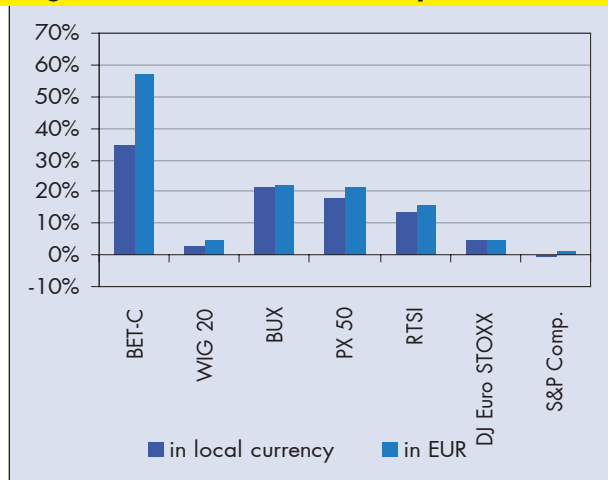
Looking ahead to 2005, we should mention two major issues which will be watched closely by investors, namely (i) signing of the EU Accession Treaty expected in April 2005, which should boost foreign investors' confidence, and (ii) the merger of exchanges, the BSE and the Rasdaq over-the-counter market, expected this year, which will lead to consolidation of the capital market ahead of EU accession. The high growth potential perceived by investors has already resulted in outstanding market performance over January-February 2005, with the BET-C composite gaining 53%. Overall market capitalization stood at EUR 13.7 mn at end-February.

Selected indices of the region



Source: Thomson Financial Datastream

Region's core indices - YTD performance



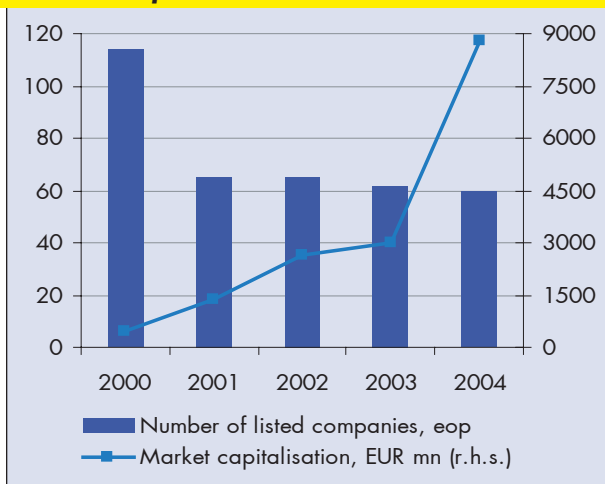
Source: Thomson Financial Datastream, Raiffeisen Research

Breakdown of purchases/sales

Year	Residents/ Non residents	Purchases (EUR mn)	Sales (EUR mn)	Net (P-S) (EUR mn)
2003	Residents	168.2	189.8	-21.6
	Non residents	100.6	79.1	21.5
	Total	268.8	268.9	
2004	Residents	399.0	472.7	-73.7
	Non residents	199.1	125.4	73.7
	Total	598.1	598.1	

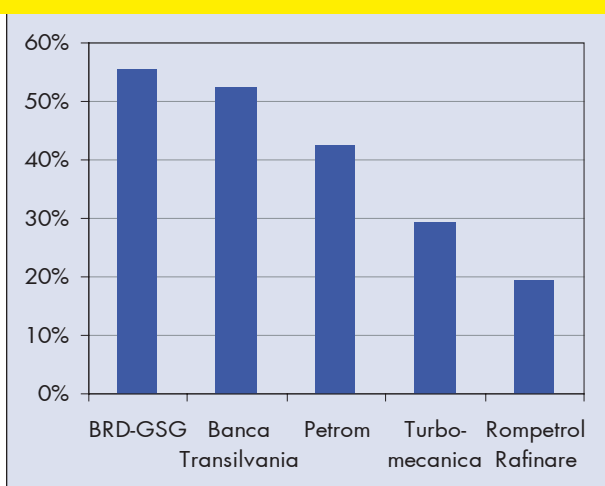
Source: BSE, Raiffeisen Research

Market capitalisation on the BSE



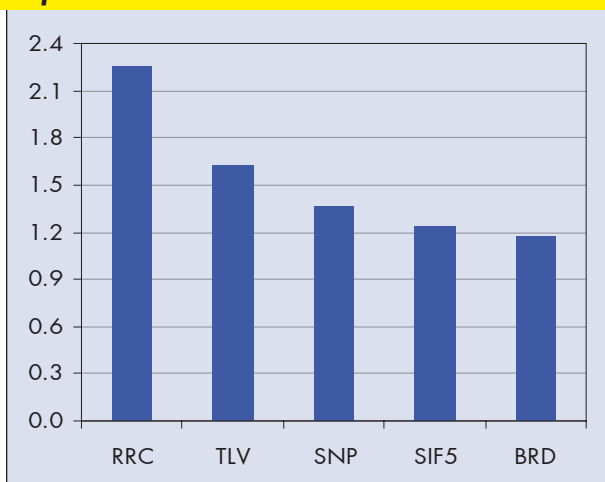
Source: BSE, Raiffeisen Research

Performance YTD of some BET members



Source: Thomson Financial Datastream, Raiffeisen Research

Top five actives on the BSE



Note: Average daily volume YTD, EUR mn

Source: BSE, Raiffeisen Research

Following several years characterized by a lack of interest by the companies in raising funds on the capital market, we expect 2005 to be the year of IPOs. In May of 2004, the government, in conjunction with the capital market institutions, launched the program for 'A strong capital market'. This program aims at accelerating the development of Romania's capital market, making it more suited for the upcoming EU accession. The most significant steps included in this program are: the listing of seven large, wholly-owned state companies; amendments to existing capital market legislation, bringing it in line with EU standards; the merger of the two stock markets, BSE and Rasdaq; improvement of corporate governance and the gradual introduction of pension funds.

The seven companies to be listed starting 2005 include Romgaz (natural gas production), Transgaz (natural gas transportation), Transelectrica (energy transportation), Electrica Muntenia and Transilvania (energy distribution), Bucharest International Airport and the Harbour authority. The government plans to begin by floating between 5% and 15% of each of these companies on the BSE and, depending on the market's response, additional stakes could be floated at a later stage. The new government in turn has also announced plans to list Romania's largest bank, BCR, CEC (the Savings House) and to float an additional 10-15% of Petrom.

Turning to the private sector, we see the current environment as very favourable for businesses for raising capital and expect companies which have achieved 'critical mass' to seize this opportunity. Potential IPOs in our view could come from fast developing sectors of which we mention banking, services, retail and tourism. Several companies, including Flamingo Computers (retailer) and Finansbank (local branch of Turkey's ninth largest bank) have already announced their intentions to raise capital on the equity market.

Taking into consideration Romania's positive macro-economic outlook, the further appreciation of the domestic currency, as well as the upcoming IPOs of state-owned and private sector companies, we expect the positive growth trend on the BSE to continue in 2005.



Romanian equities

a brief overview

Petrom

SNP, a leading integrated oil and gas producer in the CEE region, was privatised last year in a EUR 1.5 bn deal. After the acquisition of a 51% stake by Austria's OMV, we expect SNP to improve its operating performance. We see significant cost restructuring potential that may be achieved by (i) downsizing the workforce and (ii) negotiating many of its contracts while employing better practices in all segments. Finally, the liberalization of gas prices combined with effective liberalization of oil product prices will bode well for company's profitability. In 2005, the company will invest EUR 200 mn in upgrading its exploration technologies that shall result in maintaining the current oil production level of 200000 bpd with lower exploration costs.

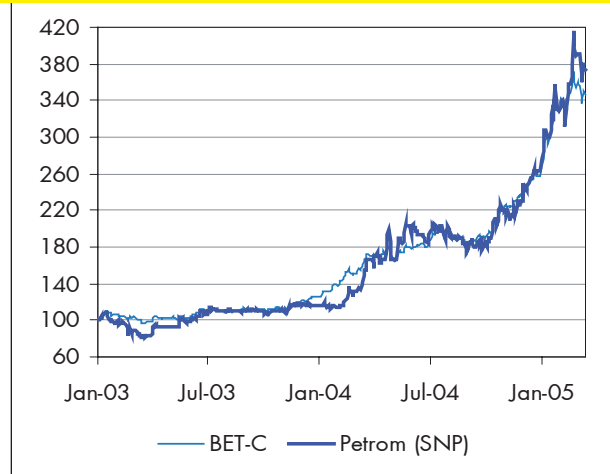
Rompetrol Rafinare

RRC is the second-largest domestic player in the oil sector. In 2004, RRC benefited from high refining margins and from the Brent-Ural price differential, which resulted in a gross profit of USD 81 mn (7.7% gross margin). Recently, RRC completed the acquisition of the Group's retail arm, Rompetrol Downstream, thus integrating the Group's downstream operations. To achieve the target of 15% retail market share, RRC will invest USD 88 mn in retail network expansion. The company is also expected to benefit from effective fuel price liberalization after Petrom's privatisations. In our view, RRC's medium-term growth potential lies in its ability to enter new markets, as well as to fully rehabilitate the petrochemicals operation.

BRD-Groupe Societe Generale

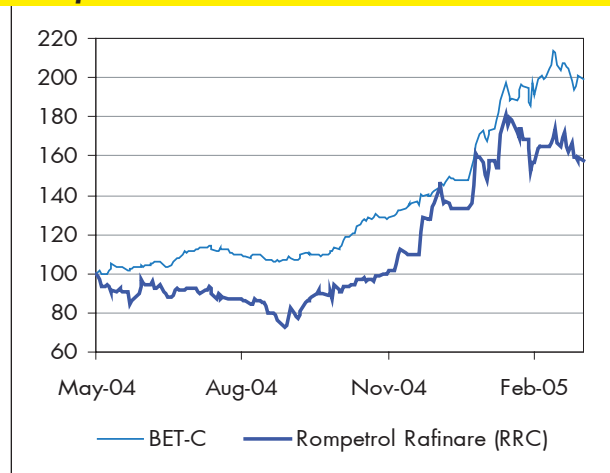
BRD is Romania's second largest bank in terms of assets with an estimated market share of 13% (September 2004). With a network of 212 branches spread across the country, the bank holds a dominant position on the retail market with estimated 1.3 mn retail clients. BRD claims its market shares in different products vary between 15% and 20%. BRD shares posted a strong growth in 2004 and skyrocketed over the first two months of 2005 (up 63% in EUR terms). We maintain our positive view, as Romania is still under-banked compared to its CEE peers. However, at the current price level of ROL 55000 as of end-February BRD stock is trading at a 2006e P/BV multiple of 3.9x, thus making upside potential very limited.

Petrom vs. BET-C



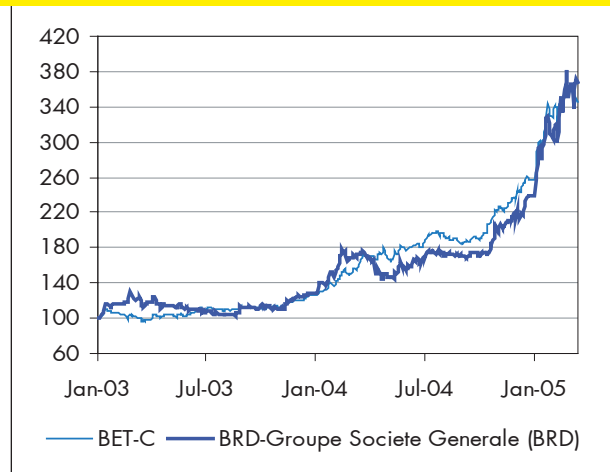
Source: Thomson Financial Datastream

Rompetrol Rafinare vs. BET-C



Source: Thomson Financial Datastream

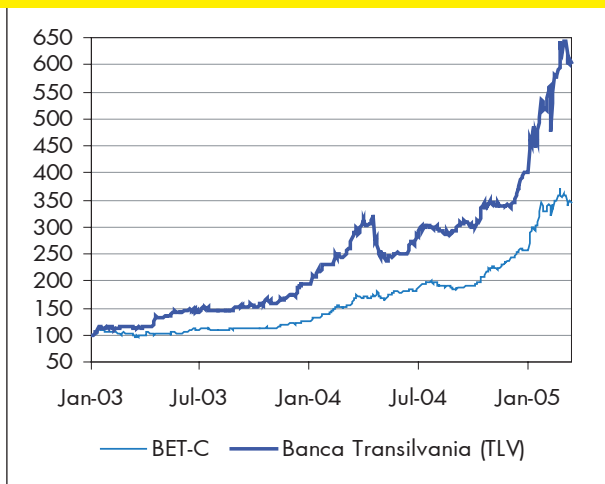
BRD-GSG vs. BET-C



Source: Thomson Financial Datastream

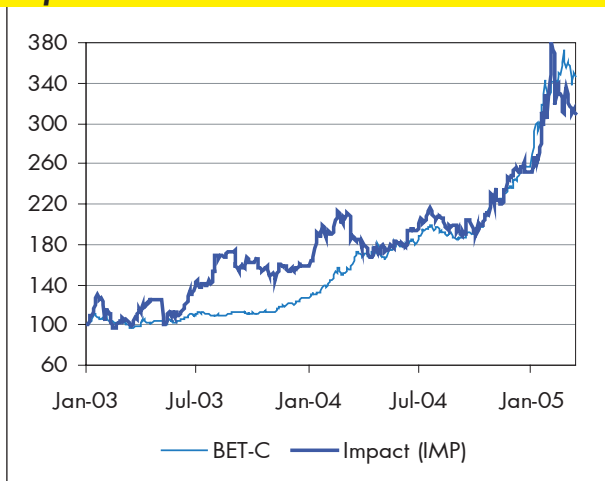


Banca Transilvania vs. BET-C



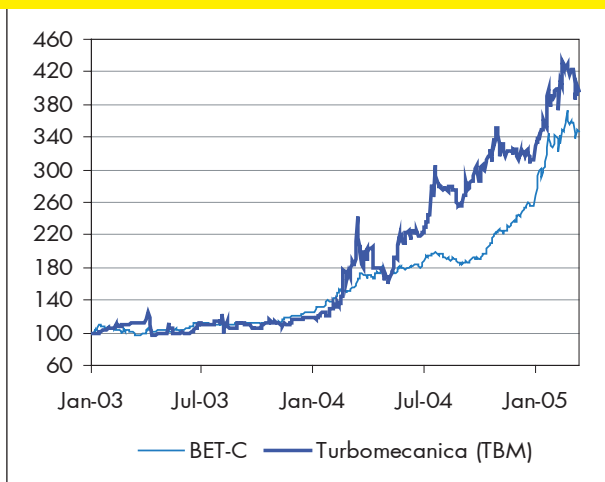
Source: Thomson Financial Datastream

Impact vs. BET-C



Source: Thomson Financial Datastream

Turbomecanica vs. BET-C



Source: Thomson Financial Datastream

Banca Transilvania

TLV is the second largest bank listed on the BSE, with an estimated market share of 2.7% in terms of assets. In 2004, the bank continued to deliver on the expected strong lending and asset growth. According to 2004 preliminary results, the bank's total assets stood at EUR 657 mn, up 83% yoy. TLV posted a gross profit of EUR 19 mn, up 36% yoy. TLV enjoys the constant support of EBRD (largest single shareholder with a 15% stake). In December 2004, EBRD extended a EUR 22.5 mn loan to sustain the expected growth of the TLV's lending operations to SMEs, corporate and retail segments. In 2005, the bank plans to open 50 new branches. Finally, TLV remains a potential target for an acquisition that might happen sometime around 2006.

Impact

IMP is one of the largest residential real estate developers in Romania and the only one listed on the BSE. IMP has recently increased the share capital by EUR 3.9 mn and raised another EUR 8.7 mn through a bond issue. IMP provides home financing to its clients, thus, some EUR 6 mn of the raised funds will be used for client financing, the balance being channelled towards development of new residential projects. While in 2004, IMP's net profit dropped 20% yoy in nominal EUR terms, this year we expect the company to post EUR 6.6 mn in net profit, a 65% increase on the back of significantly higher sales. IMP's success in improving business performance depends on its ability to increase the production capacity in order to capture a larger share of the growing domestic residential market.

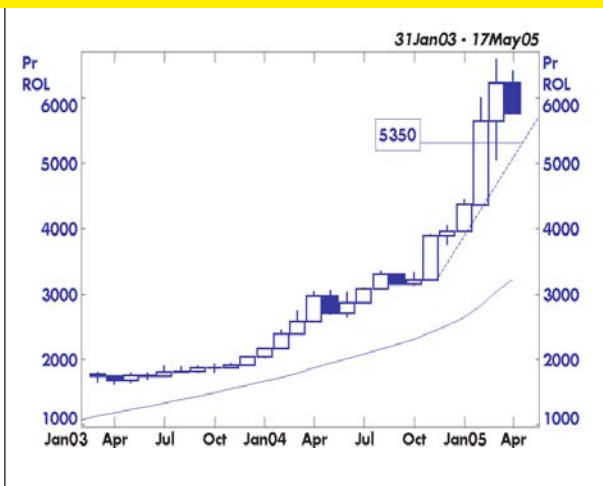
Turbomecanica

TBM is a manufacturer of components and sub-assemblies for turbojets and overhaul/repair of aero engines and dynamic components for PUMA helicopters. In July 2004, TBM signed a long-term contract to become a supplier of aero-engine components to Rolls Royce. The company continues to grow, reaching turnover of EUR 24 mn, 39% up yoy, and a net profit of EUR 4 mn, a 55% increase yoy. The steeper growth in profit than turnover points to improved efficiency. The positive financial evolution is even more significant, when taking into account that the Rolls Royce contract will impact TBM's bottom line in a positive way starting in 2005.

BET Index

BRD-GSG, Petrom, Rompetrol Rafinare

BET Index



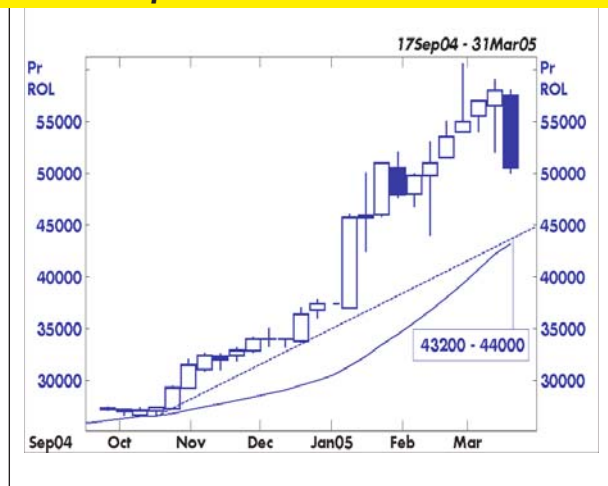
Source: Reuters, Raiffeisen Research

BET Index

Buy target: 7000

The current slump might be continued to the trend line at 5350. In the worst case, this support can be broken, too, which will indicate a further slump to 5100. This decline should not endanger the up trend. Thus, a new high around 7000 will be expectable.

BRD-Groupe Societe Generale



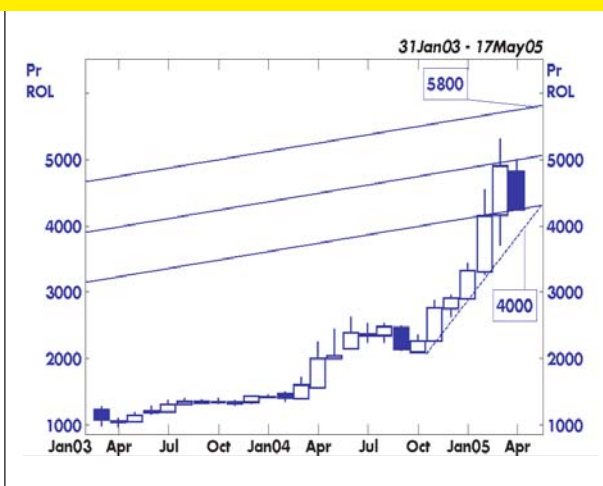
Source: Reuters, Raiffeisen Research

BRD-Groupe Societe Generale

Sell target: 43000

The resistance and former target 58300 has already been triggered. We expect the price now to follow its way down towards the 20-weeks line at 43000. One may place a buy with target 58300 at this support.

Petrom



Source: Reuters, Raiffeisen Research

Petrom

Buy target: 5800

The up-trend is slightly lacking dynamics, which will indicate a drop towards 3930. This level (rising trend line) might be a support that will bring the price back up to 5800.

Rompetrol Rafinare



Source: Reuters, Raiffeisen Research

Rompetrol Rafinare

Buy target: 1620

Heading sideways within the triangle from 1015 to 1160, Rompetrol might slump to 980. This level, the lower line of the trend channel, is expected to be a support. Thus, a rise to the upper channel's line 1620 will be likely in this case.



Real GDP (% yoy)

Countries	2003	2004	2005e	2006f
Poland	3.8	5.3	4.5	5.0
Hungary	2.9	4.0	3.8	3.9
Czech Rep.	3.7	4.0	3.8	3.8
Slovakia	4.5	5.5	4.9	5.5
Slovenia	2.5	4.5	3.5	3.5
CEEC-8*	3.9	4.9	4.4	4.6
Croatia	4.3	3.7	4.0	4.1
Bulgaria	4.3	5.5	5.5	5.5
Romania	5.2	8.3	5.0	5.0
Serbia a. M.	3.0	7.0	5.0	5.0
Bosnia a. H.	3.5	5.0	5.8	6.0
Albania	6.0	6.0	6.0	6.0
SEEC-6	4.5	6.5	4.9	5.0
Russia	7.3	7.1	6.0	5.5
Ukraine	9.4	10.0	8.0	6.0
Belarus	6.8	11.0	10.0	7.5
Turkey	5.8	9.0	6.0	5.5
EU-12	0.5	1.8	1.5	1.5
USA	3.0	4.4	3.7	3.0

* including the Baltic countries

Source: WIIW, Raiffeisen Research

Consumer prices (avg, % yoy)

Countries	2003	2004	2005e	2006f
Poland	0.7	3.5	2.8	2.5
Hungary	4.7	6.8	3.6	3.4
Czech Rep.	0.1	2.8	1.9	2.5
Slovakia	8.5	7.5	2.6	2.3
Slovenia	5.5	3.6	2.0	2.0
CEEC-8*	2.1	4.2	2.7	2.6
Croatia	1.5	2.1	2.7	2.5
Bulgaria	2.3	6.1	4.5	5.0
Romania	15.3	11.9	8.5	7.5
Serbia a. M.	9.9	11.4	10.0	9.0
Bosnia a. H.	0.6	0.2	0.4	0.5
Albania	2.4	2.9	3.0	3.5
SEEC-6	8.5	8.0	6.3	5.8
Russia	13.6	11.0	12.0	9.2
Ukraine	5.2	9.0	9.4	6.5
Belarus	29.0	18.1	12.0	8.5
Turkey	25.3	10.6	10.1	10.8
EU-12	2.1	2.1	2.1	1.9
USA	2.3	2.7	2.5	2.5

* including the Baltic countries

Source: WIIW, Raiffeisen Research

Current account balance (% of GDP)

Countries	2003	2004	2005e	2006f
Poland	-2.0	-1.5	-2.3	-2.3
Hungary	-8.9	-9.3	-7.9	-7.4
Czech Rep.	-6.2	-5.2	-4.9	-4.5
Slovakia	-0.9	-3.4	-4.6	-2.6
Slovenia	-0.4	-0.5	-0.4	-0.5
CEEC-8*	-4.3	-4.3	-4.4	-4.0
Croatia	7.2	-5.6	-4.9	-4.1
Bulgaria	-8.6	-7.5	-7.0	-6.5
Romania	-6.0	-7.5	-9.2	-9.9
Serbia a. M.	-10.0	-13.1	-13.1	-13.9
Bosnia a. H.	-30.5	-27.9	-25.0	-23.0
Albania	-7.6	-7.3	-6.6	-6.0
SEEC-6	-5.5	-8.9	-9.2	-9.3
Russia	8.2	10.0	6.1	2.9
Ukraine	5.8	10.0	9.5	8.0
Belarus	-2.9	-2.6	-1.4	-1.9
Turkey	-3.3	-5.0	-4.0	-3.5
EU-12	0.3	0.6	0.5	0.4
USA	-4.9	-5.7	-6.0	-5.5

* including the Baltic countries

Source: WIIW, Raiffeisen Research

General budget balance (% of GDP)

Countries	2003	2004	2005e	2006f
Poland	-3.9	-5.7	-4.5	-4.0
Hungary	-5.9	-5.1	-4.8	-4.6
Czech Rep.	-12.5	-3.9	-3.8	-3.4
Slovakia	-3.7	-3.8	-3.4	-2.9
Slovenia	-1.8	-1.9	-1.8	-1.5
CEEC-8*	-5.5	-4.6	-4.0	-3.6
Croatia	-6.3	-4.5	-4.0	-3.5
Bulgaria	0.0	1.7	-0.5	-0.9
Romania	-2.0	-1.1	-0.7	-2.0
Serbia a. M.	-4.0	-2.5	-2.0	-2.5
Bosnia a. H.	0.4	-0.1	-0.2	-0.5
Albania	-4.6	-4.9	-4.6	-4.0
SEEC-6	-2.9	-1.7	-1.7	-2.2
Russia	1.6	4.1	2.5	1.5
Ukraine	0.2	-3.3	-3.0	-2.5
Belarus	-1.3	0.1	-1.5	-1.3
Turkey	-11.7	-7.8	-4.9	-4.3
EU-12	-2.7	-2.9	-2.9	-2.7
USA	-4.6	-4.4	-4.0	-4.0

* including the Baltic countries

Source: WIIW, Raiffeisen Research

Exchange rate LCY/EUR (avg)

Countries	2003	2004	2005e	2006f
Poland	4.40	4.53	4.10	4.00
Hungary	253.8	251.6	250.9	251.9
Czech Rep.	31.8	31.9	30.2	29.8
Slovakia	41.5	40.1	37.8	37.0
Slovenia	234.0	239.0	239.6	239.6
Croatia	7.56	7.50	7.49	7.56
Bulgaria	1.96	1.96	1.96	1.96
Romania	37556	40532	36300	37500
Serbia a. M.	65.3	72.6	81.3	83.3
Bosnia a. H.	1.96	1.96	1.96	1.96
Albania	137.6	127.6	127.5	126.0
Russia	34.7	35.8	36.5	38.5
Ukraine	6.0	6.6	6.9	7.2
Belarus	2348	2686	2939	3150
Turkey	1.69	1.77	1.71	1.86
EU-12	1.13	1.24	1.33	1.40

* TRY/EUR (Lira new redenominated)

Source: WIIW, Raiffeisen Research

Exchange rate LCY/USD (avg)

Countries	2003	2004	2005e	2006f
Poland	3.89	3.64	3.08	2.86
Hungary	224.2	202.3	187.0	179.0
Czech Rep.	28.2	25.7	22.7	21.3
Slovakia	36.7	32.3	28.4	26.4
Slovenia	206.8	192.2	180.2	171.1
Croatia	6.68	6.03	5.63	5.40
Bulgaria	1.73	1.58	1.47	1.40
Romania	33200	32637	27293	26786
Serbia a. M.	57.7	58.4	61.2	59.5
Bosnia a. H.	1.73	1.57	1.47	1.40
Albania	121.9	102.6	95.9	90.0
Russia	30.7	28.8	27.4	27.5
Ukraine	5.3	5.3	5.3	5.2
Belarus	2075	2160	2210	2250
Turkey	1.50	1.43	1.29	1.33
EU-12	0.88	0.81	0.75	0.71

* TRY/USD (Lira new redenominated)

Source: WIIW, Raiffeisen Research

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Abbreviations

Currencies and countries

BAM	Bosnian Marka
BGL	Bulgarian Lev
CSD	Serbian Dinar
CZK	Czech Koruna
EKK	Estonian Kroon
HRK	Croatian Kuna
HUF	Hungarian Forint
LVL	Latvian Lats
LTL	Lithuanian Litas
PLN	Polish Zloty
ROL	Romanian Lei
RUB	Russian Rouble
SIT	Slovenian Tolar
SKK	Slovak Koruna
TRL	Turkish Lira
UAH	Ukrainian Hryvnia

Economic abbreviations

avg	average
yoy	year on year
eop	end of period
GDP	Gross Domestic Product
CA	Current Account
TB	Trade Balance
FDI	Foreign Direct Investments
CPI	Consumer Price Index
PPI	Producer Price Index
FX	Foreign Exchange
ULC	Unit Labour Costs
%-chg	Percentage change (not in percentage points)
bp	basis points
LCY	Local Currency
PPP	Purchasing Power Parity

Stock Exchange Indices

BUX	Budapest Stock Exchange
CECE	Central Eastern Countries Europe
CROBEX	Croatian Eastern Exchange
PX 50	Prague Stock Exchange
SAX	Slovakian Stock Exchange
RTSI	Russian Trading System Index
WIG 20	Warsaw Index General - Top 20

Equity related

PBV	Price Book Value Ratio
PCF	Price Cash Flow Ratio
P/E	Price Earning Ratio
P/CE	Price Cash Earning Ratio
EV/EBIT	Equity Value/Earning before Interest and Taxation

CEEC-4 Central and Eastern European Countries - 4: Czech Republic, Hungary, Poland, Slovakia

CEEC-8 CEEC-4 + Estonia, Latvia, Lithuania, Slovenia

SEEC-6 South Eastern European Countries - 6: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania, Serbia and Montenegro

SEEC-7 SEEC-6 + Macedonia

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