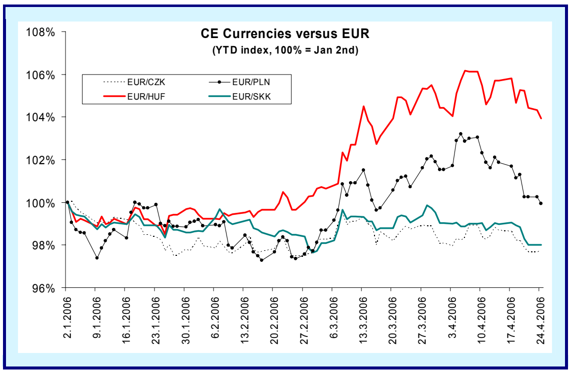
CENTRAL EUROPEAN WEEKLY

APRIL 25, 2006

- **Czech Republic**
  Market awaits Thursday's CNB's Board meeting
- **Slovakia**
  Privatisation contract with Italy's Enel is expected
- **Poland**
  Economy speeds up without inflation
- **Hungary**
  Socialist-led ruling coalition retains power
- **Slovenia**
  C/A deteriorates slightly

HIGHLIGHTS

This year's first parliamentary elections in the Central-European region are over. The parties of the existing ruling coalition (the Socialists and the Free Democrats) won the Hungarian elections, and this is obviously positive news for markets because their pre-election promises were much less populist than those of the main opposition force (Fidesz).
Thus the forint, which is clearly the most vulnerable currency in the region at the moment, opened the week in an upbeat mood, just like Hungarian bonds. The Polish zloty partly followed suit since it firmed slightly too. By and large, the impact of the result of the Hungarian elections on the other markets of the region was negligible.
Now that the political uncertainty in Hungary has petered out, the question is whether the forint can follow the example of the other currencies in the region and start to appreciate against the euro at last. Our opinion is that much will depend on how well the old-and-new government succeeds in convincing markets that it is really going to cut the high budget deficit. To date, we have heard very vague promises about the necessary reforms in the public sector from key representatives of the Hungarian ruling opposition. If the government really fulfils these promises, the recovery of the Hungarian currency may be permanent. Otherwise we should expect the forint to return to this year's lows. Moreover, it may even break through these lows if Moody's or S&P's runs out of patience with Hungary and downgrades the country's rating.



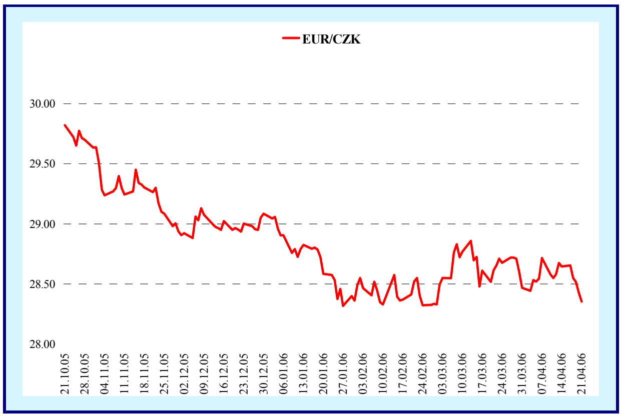
CZECH REPUBLIC

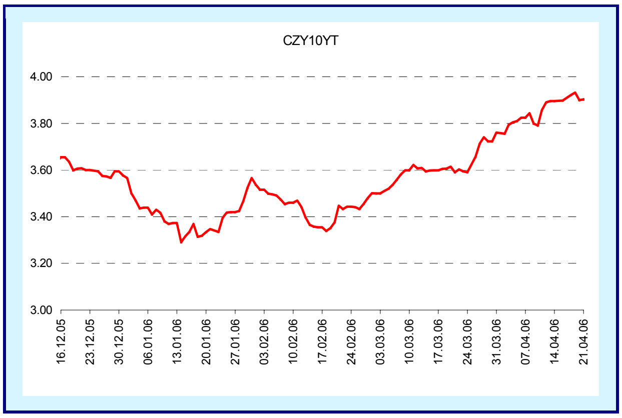
The mood on emerging markets improved (due to the depreciation of the dollar), and thus the Central-European region started to recover. Particularly because of the appreciation of the Polish zloty, the Czech koruna dipped below the euro resistance level of CZK 28.46 per EUR.

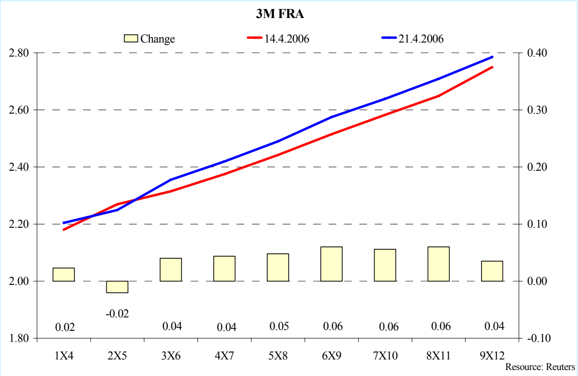
The regional mood will again play the key role this week. It will be particularly influenced by the political scenes in Poland and Hungary. As far as Poland is concerned, we expect that a more stable ruling coalition will be formed, and it will continue to push economic reforms, in spite of the participation of extremists in this government. In addition, the rapidly improving domestic fundamentals (the retail sales and CPI data, which will be released on April 26) will continue to encourage the Polish currency. The outcome of the ‘political riddle’ in Hungary is much less clear at the moment. The first impression of a probable election victory for the Socialists can be viewed positively. However, the new government is particularly expected to present a trustworthy public finance reform concept, which will hardly occur within the first few weeks of the elections. Thus the Hungarian currency will continue to be a burden rather than a benefit to the region. Markets will also pay close attention to Bernanke’s hearing before congressmen and senators on Thursday. If the dovish rhetoric persists, more dollar sales may be triggered, and this should encourage Central-European currencies.

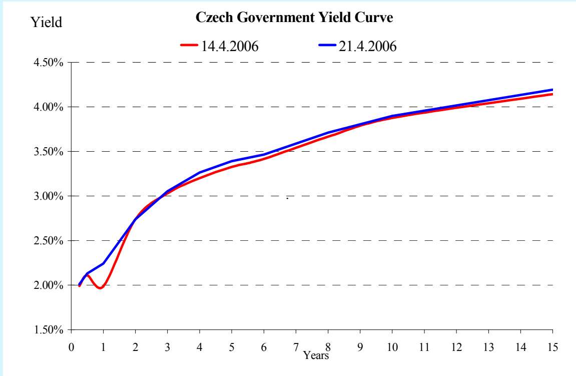
A CNB Board meeting (scheduled for April 27), at which the Czech National Bank will most probably leave rates unchanged, is the only major domestic event. However, the CNB’s new macroeconomic forecast, which may be slightly more hawkish than the markets expect, may encourage the koruna somewhat. By and large, our outlook for the koruna for the days to come is thus positive; the technical analysis bears this out to a certain extent.

Czech bond prices fell slightly last week. Given the lack of domestic events, the Czech bond market mostly followed on the heels of neighbouring markets; however, as Czech bond trading sessions close earlier than those of the American and European markets, Czech bonds usually failed to react to afternoon fluctuations on these markets. The main event of the week was the auction of government bond 3.80/2015 for CZK 6 bn. Demand exceeded supply 1.4 times. Nevertheless, bonds for CZK 6.75 bn at an average yield of 3.865% were sold in the end. Bonds closed the week with only a minimum change; the 10Y bond remained unchanged compared to the previous week after Friday’s rise.
The main event of this week is Thursday’s CNB Board meeting. Although no rate change is expected, Governor Tůma’s accompanying comment should be interesting. Given the lack of other events, Czech bonds should pay attention to the Eurozone, where we expect yields to continue rising.









Comparative table for government bonds

Title	Price 21.04.06	Yield 21.04.06	Price change (bps.) to 14.04.06	Yield change (bps.) to 14.04.06	Modif. Duration 21.04.06
GOV/ 2.9 / 17.03.08	100.13	2.83	10	-6	1.8
GOV/ 2.3 / 26.09.08	98.49	2.95	4	-1	2.3
GOV/ 3.8 / 22.03.09	102.00	3.07	0	0	2.7
GOV/ 2.55 / 18.10.10	96.47	3.41	-4	1	4.1
GOV/ 6.55 / 05.10.11	115.00	3.47	-5	0	4.5
GOV/ 3.7 / 16.06.13	99.95	3.71	-5	1	6.0
GOV/ 3.8 / 11.04.15	99.26	3.90	-16	2	7.5
GOV/ 6.95 / 26.01.16	124.32	3.90	-13	1	7.3
GOV/ 4.6 / 18.08.18	105.07	4.07	-30	3	9.1
GOV/ 3.75 / 12.09.20	95.33	4.19	-18	2	10.6

EXPECTED DATA

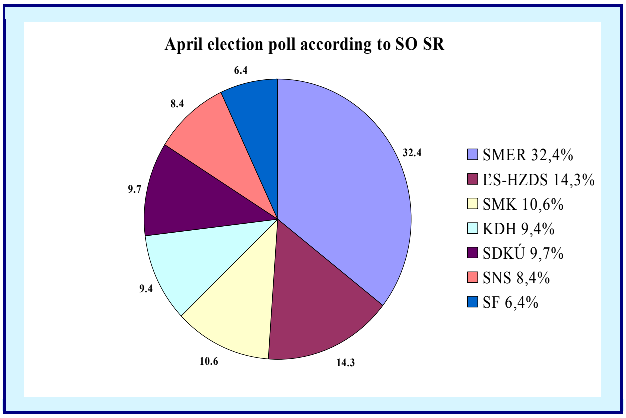
■ **Thursday, April 27**

CNB Board meeting **no rate change**

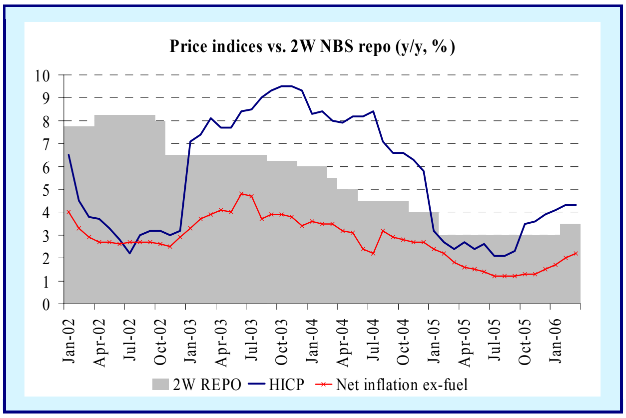
The Czech National Bank will leave rates unchanged and indicate that they will remain stable in the medium term. Although inflation is rising rapidly, it is still low. Only the widening interest-rate differential against the Eurozone indicates that Czech rates might increase slightly. The new macroeconomic forecast should favour a moderate rise in rates from the middle of the year.

SLOVAKIA

Opinion polls indicate that the turnout in the upcoming **elections** may be even lower than 60%. Only 40% of people are determined to cast a vote according to MVK's survey. A low turnout may be unfavourable for parties such as Smer and the Slovak Democratic and Christian Union (SDKÚ) because only some 55% of the voters of these parties are sure that they will vote for them, according to the survey. On the other hand, the low turnout may suit parties with a disciplined electorate such as the Movement for Democratic Slovakia (HZDS), the Slovak National Party (SNS), the Christian and Democratic Movement (KDH), and the Party of the Hungarian Coalition (SMK). Left-wing Smer, with 32.4%, leads the latest opinion poll conducted by the Statistical Office. Even so, voter support for this party has decreased slightly compared to 34.5% in March and an all-time high of 36.8% in January. Mečiar's HZDS is second (14.3%), and the SMK (10.6%) and the SDKU (9.7%) are third and fourth respectively.



Consumer prices (the HICP) did not change in March compared to February. Month-on-month inflation of 0.0% means that prices rose by 4.3% y/y. The price rise stabilised at this level for a second consecutive month. The released figure sprang a smaller surprise. It was 0.2% lower than the national CPI. The released data lowered expectations of another rate hike. Nevertheless, the inflation rise should speed up again over the next few months. Inflationary pressures will occur particularly from the increased excise taxes on cigarettes and the rise in petrol prices. Slovakia had the second highest inflation rate of all EU countries after Latvia (with 6.6%). Poland, by contrast, showed the lowest inflation rate of 0.9%. The yearly inflation rate of the whole of the EU was 2.1% in March. Higher inflation than the central bank originally predicted involves a risk of increased inflation expectations. This may lead to an accelerated rise in nominal wages in the year when compliance with the Maastricht criteria will be assessed. Therefore it also involves a slightly increasing risk of failing to comply with the inflation criterion.

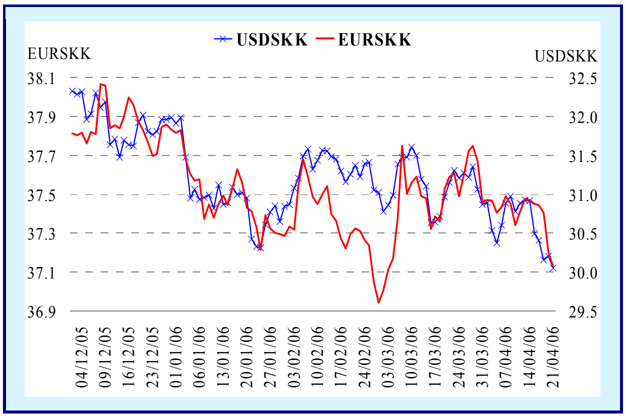


The Italian press reported that the **privatisation** contract with Italy's Enel should be signed this Friday. The Italian concern will pay EUR 840 m for a 66% interest in power utility Slovenské elektrárne. More importantly, Enel should announce an investment of EUR 2 bn to complete the Mochovce nuclear power plant upon signing the contract. If the news is confirmed, this massive investment inflow should boost the appreciation of the Slovak koruna.

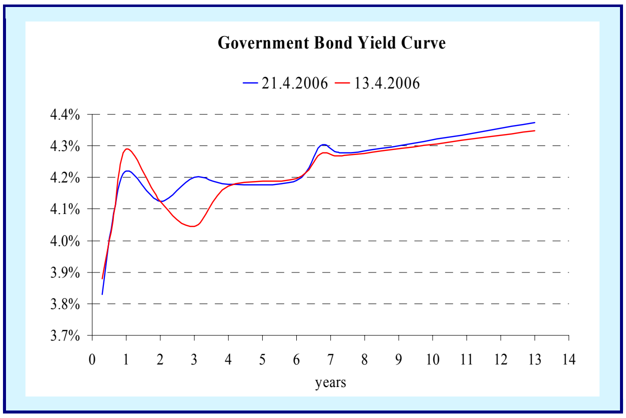
The world's third largest computer manufacturer is coming to Slovakia. China's Lenovo (which bought IBM's computer production division) will establish a new technical support centre in Slovakia, where it will employ approximately 340 staff by the end of 2006. The centre will be moved from Scotland. The firm did not divulge the amount of the overall investment and does not require investment stimuli either. The Finance Minister says this is evidence that investors do not come to Slovakia only for the sake of receiving state subsidies. Slovak Investment and Trade Development Agency SARIO has published a report on implemented projects. For the first quarter of 2006 it implemented eight investment projects for EUR 22.4 m (SKK 839.6 m). The investments should create 2,085 new jobs, with a planned extension to 2,707 jobs. SARIO is currently assisting in implementing 149 projects.

The **koruna** strengthened during trading in the shortened business week, the most on Wednesday and Thursday. The reasons were speculations on the EUR 2 bn investment and on the conclusion of the privatisation contract with Enel. A few London banks in particular were responsible for the appreciation of the koruna, which consequently hit SKK 37.300 per EUR. Then, at the end of the week, the currency even broke through the technical barrier of SKK 37.200 per EUR. The hallmark of this week's trading will be the reaction to neighbouring markets. The EUR/SKK currency pair will be particularly influenced by the result of the Hungarian elections and the fluctuation of the EUR/PLN. Thursday's decision of the National Bank of Slovakia should spring no surprises. If the NBS really raises rates, it should encourage the koruna. The current account, by contrast, should be unfavourable for the Slovak currency.

Nonetheless, foreign trade data, which is an important component of the current account, has already been published. Hence the market reaction should be moderate, as usual. The conclusion of the contract for EUR 840 m with Enel should encourage the Slovak currency at the end of the week.



The development of the **Slovak yield curve** was mixed. The short end went down slightly while the long end remained unchanged. One-year maturities fell by 6 bps while 2-3Y maturities went down by approximately 2-3 bps. Slovak yields practically followed on the heels of the euro market. The released HICP figure is not favourable for tightening the monetary policy. We do not expect a rate change at the next meeting. However, the NBS may decide to tighten its monetary policy by 25 bps (our basic scenario) in May or June (after the elections), under pressure from the weak koruna (the effect of the dividend outflow and political risks) and the rise in ECB rates.



Indicative yields of government bonds

	Coupon	Maturity	Issue volume	Bid	Ask
SD200	0.0	14.1.2007	SKK 40.0 bn	4.05	3.80
SD191	5.0	5.3.2008	SKK 15.0 bn	4.25	4.00
SD203	4.8	14.4.2009	SKK 40.0 bn	4.30	4.10
SD189	4.9	5.2.2010	SKK 15.00 bn	4.30	4.04
SD174	7.5	13.3.2012	SKK 8.31 bn	4.28	4.10
SD188	5.0	22.1.2013	SKK 15.0 bn	4.35	4.20
SD199	4.8	2.7.2013	SKK 6.8 bn	4.37	4.21
SD202	4.9	11.2.2014	SKK 24.7 bn	4.38	4.23
SD204	5.3	18.5.2019	SKK 34.4 bn	4.45	4.30

Source: Bratislava Stock Exchange, CSOB

Interest rate fixing on the money market

% p.a.	O/N	1W	2W	1M	2M	3M	6M	9M	12M
18/04/2006	2.52/2.82	3.23/3.50	3.25/3.51	3.31/3.59	3.44/3.73	3.58/3.86	3.82/4.10	3.96/4.24	4.01/4.29
24/04/2006	2.40/2.70	3.17/3.47	3.19/3.49	3.29/3.56	3.44/3.71	3.58/3.84	3.78/4.06	3.85/4.12	3.94/4.21

EXPECTED DATA

- **Tuesday, April 25, 11:00**
  NBS Bank Board meeting - no rate change expected

  Current account

  Quarterly Forecast of the NBS

  Survey of the government securities held by non-residents

- **Friday, April 28, 9:00**
  PPI (March) **0.9% m/m, 9.4% y/y**

  Privatisation contract with Italy's Enel

POLAND

The latest Central Statistical Office (CSO) data indicates that the **Polish economy is pushing forwards, ignoring the uncertain political environment** that could potentially be unfavourable in the future. Industrial production increased by 16.4% y/y in March, surprising the market, which expected a rise of 13.5% y/y. Such a good result is partly the effect of the larger number of working days in March this year. However, as the CSO announced, seasonally adjusted production was 13.6% higher than in the same month of 2005. This is almost 4 percentage points more than in February. A closer look at the data indicates that manufacturing is invariably pulling production upwards. Manufacturing was joined by construction and assembly production in March after two weaker months. The good results in the first of these categories are doubtless due to the unfaltering demand for Polish exports, which was supported by the weakening of the zloty and the recovery of the economy in the euro zone. However, the situation is slightly different to 2005. This is because salaries and employment have been increasing at a sharper pace since the end of last year, resulting in a rise in the national payroll and hence domestic consumption. At the same time, the relatively low interest rates are supporting the reconstruction of investment demand, which could rise at a double-figure rate in the first half of the year. Therefore, the economy is being driven by not one, but at least two engines - exports and gradually increasing domestic demand. Last week's data suggests that economic growth in 1Q, which we have been estimating to date at 4.5% - 5.0% y/y, will be closer to the upper threshold of this range. Furthermore, we do not discard the possibility that construction, which is making up for its arrears from the beginning of the year, will push growth in 2Q up to more than 5%.

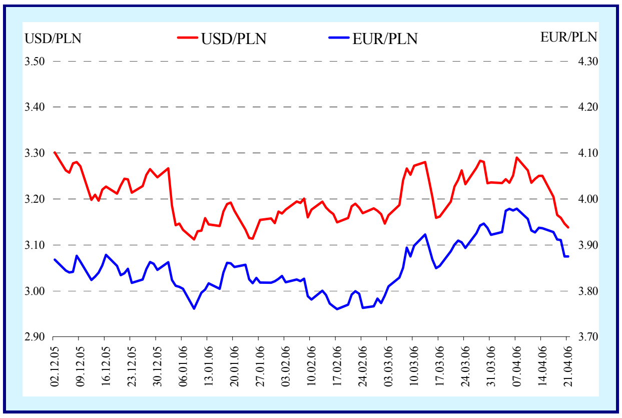
The stronger than expected increase in prices of industrial production sold also proved to be somewhat of a surprise. The rate of increase in PPI rose in March to 0.9% y/y from 0.7% y/y a month earlier, compared to market expectations of 0.5% y/y. This was largely due to rising raw material prices (including copper and oil). Does this mean that the economy, which has been accelerating so far almost without pressure on price rises, is starting to generate inflationary pressure? This appears unlikely at present. This is because it should be remembered that the recovery of domestic demand is still at an early stage and the situation on the labour market is improving at a moderate pace at best. In line with our expectations, the average salary in the companies sector increased in March by 5.4% y/y, which was 0.6 of a percentage point higher than a month earlier and more than the market expected. However, the rate of increase in salaries is largely due to rising productivity. It is worth remembering that the strong rise in the rate of increase in production, as mentioned above, would not have been possible if not for the larger number of working days this year. Therefore, it can be expected that this trend will weaken somewhat over the coming months, and that the rate of increase in salaries will eventually return to the "natural" level of approximately 4.0% y/y. Even so, this data, combined with the good IO results, dispelled all hopes that the MPC will cut interest rates this week, despite the record low inflation. The key to April's decision will be the latest inflation projection, although, as the Council members emphasised, it's unlikely to be essentially different from that of January. It appears to be a foregone conclusion that the Council will want to wait with its decision to cut the cost of money until the summer, when inflation will reach its minimum level, perhaps even below zero.

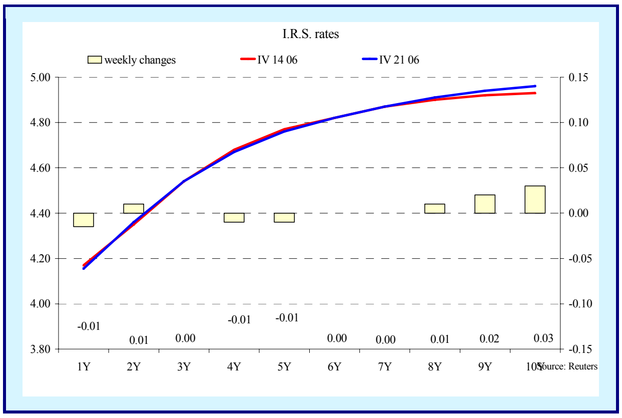
Taking advantage of the better sentiment in the region, the **zloty** continued its march south that started a week earlier, and reached its highest level against the euro in almost a month last week. This positive trend was additionally underpinned by the prospect of temporary stability on the political scene and the surprisingly good data from the real area of the economy, including the data on salaries and, perhaps most importantly, industrial production in March. As a result, despite the delicate pre-weekend correction, the EUR/PLN was quoted at 3.87 at the end of trading on Friday.

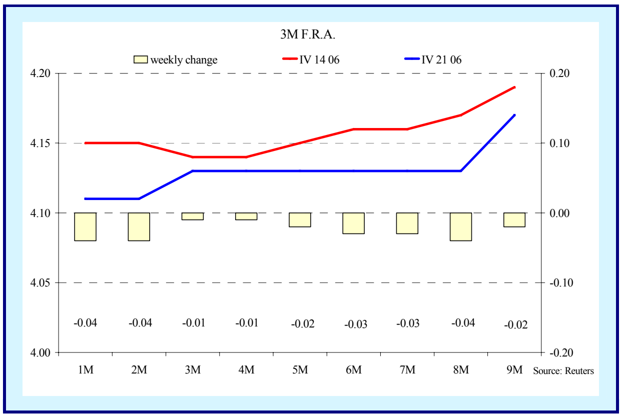
In the first half of the week the zloty should look for inspiration from other regional currencies, particularly the Forint and its reaction to the results of the general elections in Hungary. Later in the week the decision on rates and the MPC communiqué will come into the spotlight. The Council will probably leave rates unchanged, but if the decision is followed by soft wording from the MPC we would expect a fairly positive reaction from bonds and hence also from the zloty.

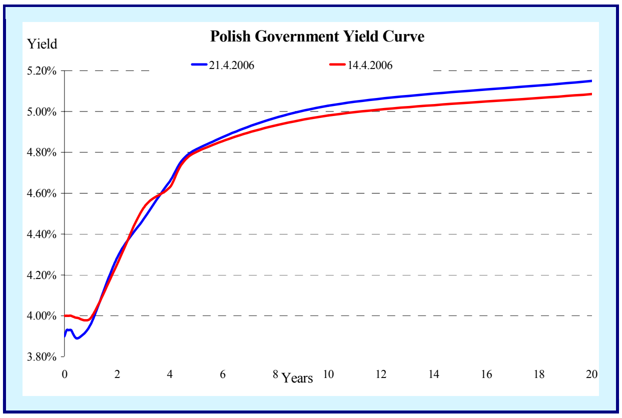
Despite the releases of macroeconomic data supporting price drops on the debt market, **Polish Treasury bond yields** did not change significantly last week. This surprising resilience to good information on salaries and industrial production is partly explained by the fact that, despite the continuing record good prospects for inflation, the market is still almost unanimously expecting interest rates to remain unchanged at least until the end of this year. The fairly strong core markets also prevented a greater correction.

The event of this week will doubtless be the meeting of the Monetary Policy Council. It appears that the strong data on industrial production virtually destroyed the chances of a cut this month and therefore the Council's decision should not be a major surprise. In this situation, of key importance to the market's behaviour will be the tone of the statement after the decision and the new inflation projection. A drop in bond yields can be expected if the Council members do not clearly suggest that the cycle of cuts has come to an end, or if the inflation path in the latest projection proves lower than planned in the already soft projection from January. However, the market will first receive the data on retail sales, which we believe will be better than the market consensus (a moderately strong negative reaction from bonds is possible here), as well as the slightly positive data on core inflation.









Comparative table for Polish government bonds

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GOV/ 6 / 24.05.09	104.25	4.49	7	-3.18	2.64
GOV/ 5.75 / 24.03.10	103.73	4.68	17	-5.25	3.44
GOV/ 4.25 / 24.05.11	97.41	4.84	-735	2.15	4.28
GOV/ 6.25 / 24.10.15	108.85	5.05	-11	1.22	6.99
GOV/ 5.75 / 23.09.22	106.62	5.14	-18	1.54	10.38

EXPECTED DATA

- **Wednesday, April 26, 10:00**

Retail sales (March) +11.5%

We believe that retail sales improved slightly in March. This was supported by the increase in salaries and employment, as well as low inflation and the increase in activity in the retail loans segment.

Unemployment Rate (April) 17.8%

We believe that retail sales improved slightly in March. This was supported by the increase in salaries and employment, as well as low inflation and the increase in activity in the retail loans segment.

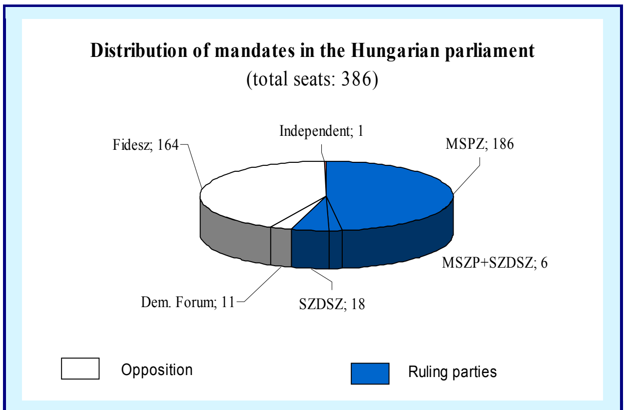
MPC meeting no change in rates

We believe that despite the level of inflation, which was surprisingly low for the MPC, it will not be inclined to cut interest rates at the coming meeting mainly because of the significant increase in activity in the real zone and the weakening of the zloty. In the light of the latest attacks on the central bank, the so-called “castle under siege syndrome” may also not be insignificant.

HUNGARY

The result of the second round of the Hungarian parliamentary elections eventually came as no surprise because the ruling Socialist Party (MSPZ) and the Free Democrats (SZDSZ) succeeded in bringing their good starting position to a victorious end. The main opposition force – the right-wing Fidesz – gained only 164 seats overall, and thus the above-mentioned ruling parties will have a safe majority in the 386-Member Parliament. Moreover, the ruling coalition parties gained 12 parliamentary seats more than they held in the previous electoral term. In other words, the ruling coalition parties definitely have a stronger mandate to carry out their own policy now.

Let us add that the leader of the Socialist Party and the current Prime Minister Gyurcsany is going to start coalition talks with the Free Democrats this Thursday, and would like to form a new government by mid-June.



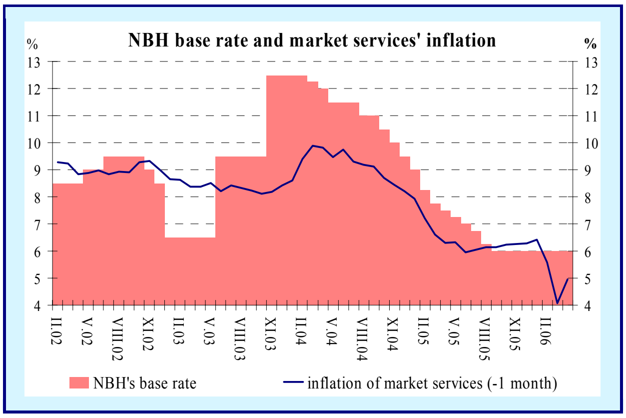
The victory of the existing government coalition is the most favourable election result for markets because the main opposition force, the Fidesz, presented the most populist campaign. While a government of the Fidesz is definitively out of the question now, a coalition government of the Socialists and the Free Democrats is simply more acceptable in terms of possible reforms than the rule of the Socialists alone.

The **forint and bond prices have also reacted positively to Sunday's election results**. However, whether the recovery will last long will depend on the ability of the new government to present a credible economic programme relatively quickly. Obviously, markets are most interested in those measures that will lead to a reduction in the government deficit. The deficit is currently 6-8% of GDP (depending on the accounting methodology used), with the existing convergence programme still unrealistically envisaging a deficit reduction to less than 3% of GDP by 2008.

In this respect its worth to noting an outcome of the first press conference of he expected PM of the future coalition government Gyurcsany after the elections. He again pledged that his government would attain the budget target for 2006 and that it would make sure that the country meets the Maastricht criteria in 2008. Unfortunately, just as previously, Gyurcsany failed to specify even a single restrictive measure to make his words more credible. Hence the reaction of the forint and bonds to these general promises was neutral or slightly negative, and that speaks for itself. The **price action after the PM's press conference might also indicate that a positive post-election correction is over and it is time to take a profit in the FX and fixed-income markets**.

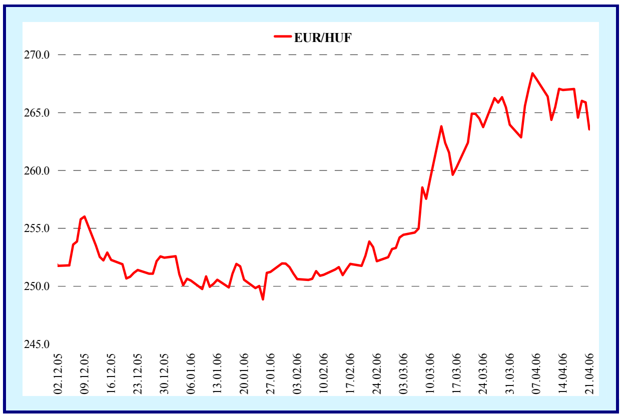
The NBH Monetary council met expectations and left the base interest rate unchanged, despite, according to the Board, the fact that inflationary risks, stemming from the weak forint and high oil prices, have increased. On the other hand, the Council appreciates the low inflation prospects and the favourable inflation development of market services. Let us add that according to NBH President Jarai the decision to leave rates unchanged was unanimous.

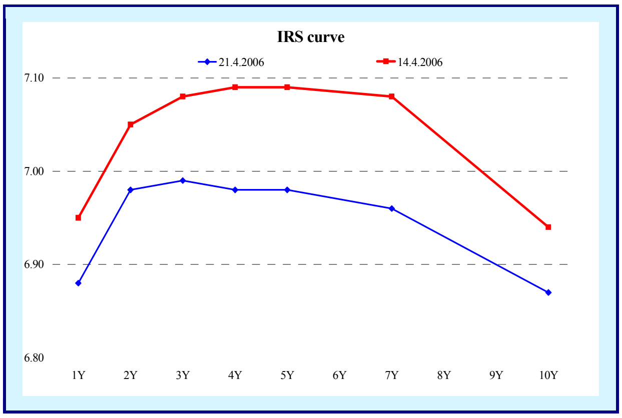
The Council is definitely right when it says that the medium-term inflation outlook is really deteriorating. According to our forecasts it is on the cards that the year-on-year headline inflation rate will exceed the upper 4%, i.e. the upper limit of the target inflation band of the NBH, in the first half of next year. Nevertheless, we believe that the Council, where the doves have clearly the upper hand, will not react to the increased inflation outlook by raising the base interest rate soon. The Council would prefer to wait and see whether the depreciation of the forint is permanent and perhaps also whether increases in petrol prices will involve secondary effects that might influence the inflation expectations of the public.

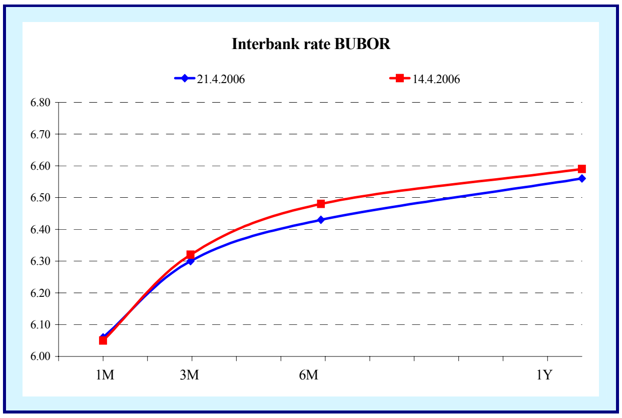


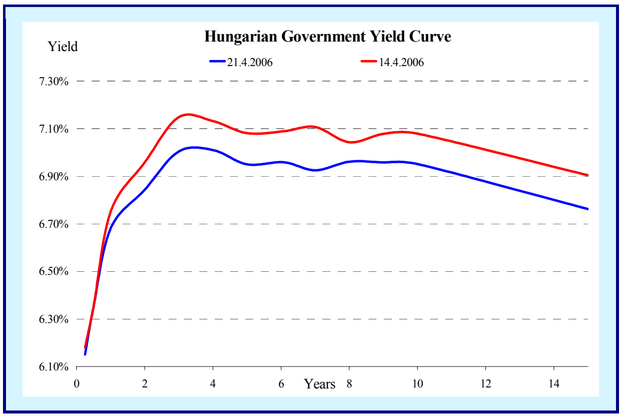
The latest data shows that consumer appetite for spending has not diminished recently. **Retail sales continued to rise quite rapidly in February** (by 5.9% y/y and 7.2% according to the unadjusted data that includes all sales including cars). Although constantly strong consumer demand should benefit the state budget, the contrary is true because the deficit is much higher (by more than HUF 90 bn) than the government expected. The problem is not only expenditure but also revenue. An unpleasant surprise was the lower-than-expected VAT revenue, which, according to the Finance Ministry, is related to the cut in the upper VAT rate from 25% to 20%, i.e. businesses paid VAT calculated according to the 20% rate while VAT refunds were calculated according to the 25% rate. Nonetheless, we must emphasise that public budgets suffer from revenue problems in spite of relatively high domestic consumption.

Let us add that the accumulative public budget deficit has already reached 81% of the full-year plan after three months. Our opinion is that hitting the budget target is very improbable without a target revision, i.e. unless the 'refurbished' old government adopts additional restrictive measures during the year. Officials have been rejecting the implementation of additional expenditure cuts as early as 2006 so far (although speculations on this have occurred). Nevertheless, this may change, and we cannot rule out that success in the elections will give the ruling coalition enough self-confidence to take at least negligible unpopular restrictive measures before autumn's municipal elections.









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Title	Price 21.04.06	Yield 21.04.06	Price change (bps.) to 14.04.06	Yield change (bps.) to 14.04.06	Modif. Duration 21.04.06
GOV/ 6.25 / 24.04.09	98.00	7.01	49	-18	2.6
GOV/ 6 / 12.10.11	95.57	7.00	68	-16	4.4
GOV/ 5.5 / 12.02.16	89.68	6.99	85	-13	7.1
GOV/ 7.5 / 12.11.20	105.43	6.89	23	-3	8.6

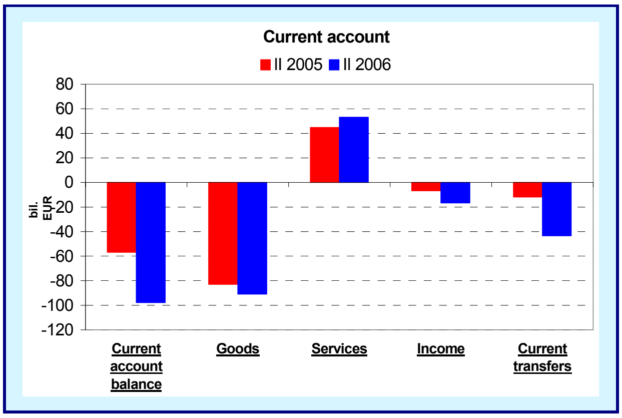
EXPECTED DATA

■ **Tuesday, April 27, 9:00**
Rate of unemployment (Jan-March) 7.9%
Unemployment continued to seasonally rise, and probably hit a five-year high.

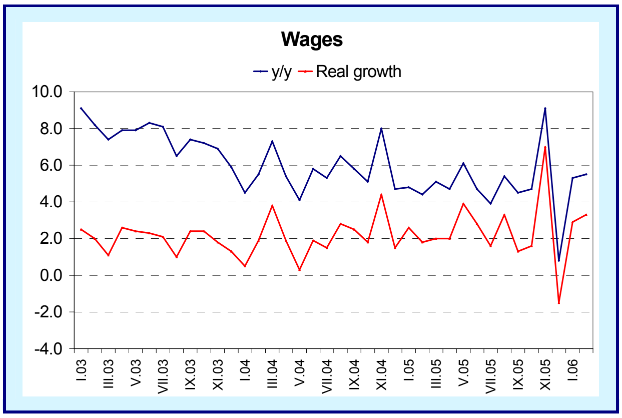
■ **Friday, April 28, 9:00**
PPI (March) +1.2 % m/m, +4.8% y/y
High raw material prices (of oil, gas and metals in particular), along with the weak forint, drove industrial prices up.

SLOVENIA

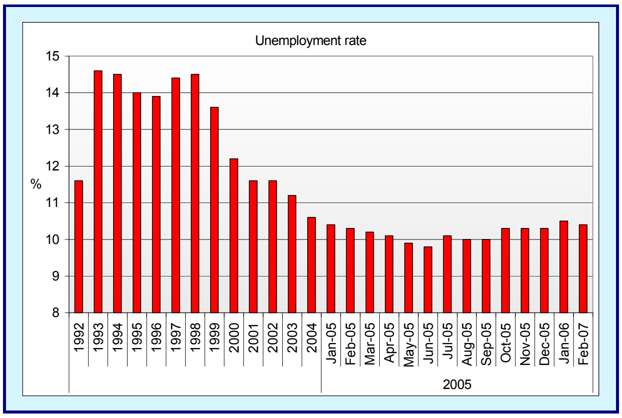
According to preliminary data, the balance on the **current account of the balance of payments** stood at EUR 97.8 million in February. Compared to January, the balance was reduced by € 165.2 million, and by € 40.9 million compared to last February. Such deteriorated current account balance was negatively impacted above all by trade balance which stood at € -90.9 million in February while it was positive in January, the difference being € 124.9 million. As usually, the February service balance was positive, amounting to € 53.2 million which somewhat mitigated the high trade deficit. In spite of positive service balance, it still dropped by € 15.4 million compared to January and grew by € 8.5 million over February 2005. Among exported services, the largest share (38%) was recorded in tourism, followed by transport (33%). Among imported services, the largest share (29%) was recorded in business services, followed by transport (26%). The income balance was negative (€ 16.7 million) which is by € 6.8 million more favourable than in January and by almost €10 million less favourable than last February. The balance of current transfers had a negative impact on total balance, recording € - 43.4 million. Compared to January, the balance was reduced by € 31.7 million, and by € 31.5 million compared to last February. In the first two months of 2005, there was a cumulative deficit of € 13.5 million on the current account of the balance of payments. In the same period of 2005, the balance was negative in the amount of € 53.3 million.



Average monthly net salary totalled SIT 177,856 in February, which is a monthly decrease of 1.3% over January and a rise of 5.5% compared to February 2005. The average monthly gross salary equalled SIT 277,403 in February. This was 1.5% less than in January and 5.5% more than in February 2005. Real growth in gross salaries was 3.2%, which was positively influenced by lower February inflation (2.2%). If we look at the growth in gross salaries at the annual level in the last few months we will notice a significant difference between the November and the December growth. This is mainly due to changed accounting of the thirteenth salaries and the Christmas bonuses. According to the new method, about 80% of all thirteenth salaries and the Christmas bonuses are accounted in November and merely 20% in December. In the previous years, those extra payments were equally distributed between the two abovementioned months. In January, gross salary at the annual level and in accordance with the standard classification of activities grew the most in the sector of fisheries (12.7%), electricity, gas and water supply (9.6%) and manufacturing (7.1%).

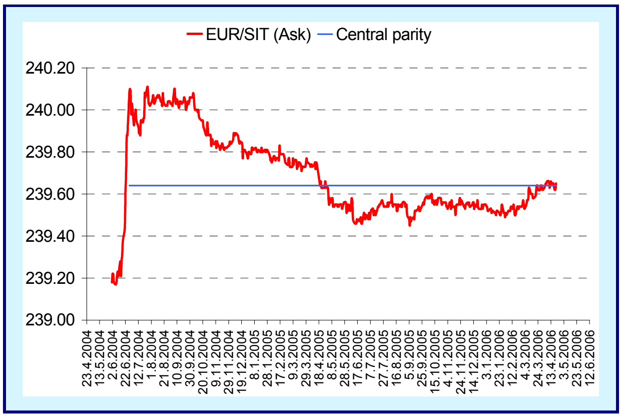


In the first two months of the year, **the registered unemployment** rate stood at 10.5% and 10.4%. There were more women than men among the unemployed, namely 8.9% men and 12.4% women in January and 8.7% men and 12.4% women in February. The level of employment keeps falling in industry. The number of employees dropped considerably in the textile, food and wood industry, electricity industry and mining. Among manufacturing activities, the most considerable increase was noticed in the number of employees in the automotive and metal industry and to a certain extent also in metal, rubber and engineering industry. The number of employees in the electricity, gas and water supply sector also grew compared to last year. What causes some concern is the fact that there are more and more unemployed among those with higher education. According to the latest data for November 2005, there were 12.5% more registered unemployed persons with higher education than in November 2004. The unemployment trend in Slovenia is growing which means that the engagement of human capital is not successful. This is an additional negative impact on the growth in productivity and competitiveness and last but not least well-being.



The average EUR/SIT exchange rate on the **foreign-currency market** was just below the central parity (SIT 239.63 per € 1) last week. There were no major changes in exchange rate, nor are any expected. The USD/SIT exchange rate was at the level of SIT 196.5 per USD 1 as it depends on the EUR/USD exchange rate.

At its last session, the Governing Board of the Bank of Slovenia discussed and adopted the orientations on FX reserves management, which comprise all the necessary adaptations needed for the BS' entry in the eurosystem. The plan is that the Bank of Slovenia will transfer part of its FX reserves to the ECB on 1 January 2007 with the introduction of the euro. The currency structure and the exact amount will be determined in September. According to the estimates of the Bank of Slovenia, the amount of FX reserves transferred to the ECB will be around € 190 million.



The Slovene interbank interest rates have not changed much since the last reduction of the Bank of Slovenia's interest rates. SITIBORs ranged between 3.38% and 3.55%. The spread between domestic reference interest rates and the euro area reference interest rates is still around 90 basic points for short-term and 18 basic points for long-term maturities. It is expected that such interest spread will only be possible until summer when the EUR/SIT exchange rate is expected to be set, followed by the alignment of interest rates. Until then, the ECB will probably raise its interest rates once again which will bring the tolar and the euro interest rates even closer together.

The auction of government bonds was organised on the primary market of **Government securities**, namely the 3rd issue of the RS61 and RS62 bonds, which fall due on 23 January 2011 and 23 March 2017. In the first round, the yield of all valid bids for the **RS61** bond with fixed interest rate of 3.25% annually, totalling SIT 32.9 billion, was 4.011%. Accepted bids amounted to SIT 17.865 billion in the first round and further SIT 4.2 billion in the second round. The total amount of accepted bids was SIT 22.098 billion, while the average yield of all accepted bids stood at 3.935%. The price of this bond on the secondary market ranged between 3.55% and 3.95%. The demand of potential investors for the **RS62** bond with a fixed interest rate of 3.50% was somewhat lower, as they submitted bids in the amount of SIT 26 billion while their average yield was 4.347%. Accepted bids amounted to SIT 16 billion in the first round and further SIT 3.7 billion in the second round. The total amount of accepted bids was SIT 19.7 billion, while the average yield of all accepted bids stood at 4.298%. The yield of this bond on the secondary market ranged between 4.10% and 4.34%. Trading also increased on the secondary market because of the two abovementioned auctions on the primary market. Transactions in treasury bills totalled slightly over SIT 1 billion last week and those in bonds approximately SIT 16 billion. The yields of treasury bills did not change much compared to the week before. Active trading is also expected this week, as the auctions of 3- and 6-month treasury bills will be held.

Slovenian government bonds - currency clause

Bond			Price	Yield	Price change bps	Yield change bps	MDuration (cls)
			21.4.2006	**21.4.2006**	**21.4.2006**	**21.4.2006**	**21.4.2006**
SIRS26=LJ	1.VI.11	5.375%	106.16	4.02%	-44	9	4.25
SIRS29=LJ	15.I.12	5.375%	106.50	4.08%	0	0	4.85
SIRS48=LJ	2.XII.12	4.750%	103.51	4.13%	1	0	5.52
SIRS50=LJ	24.II.13	4.500%	103.02	3.99%	2	0	5.78
SIRS38=LJ	19.IV.17	5.625%	114.49	3.97%	-1	0	8.34
SIRS53=LJ	8.IV.18	4.875%	108.00	4.02%	0	0	9.07
SIRS49=LJ	10.I.22	4.750%	107.50	4.09%	0	0	11.01

Slovenian government bonds

SIRS55=LJ	11.II.07	5.000%	101.42	3.16%	-14	13	0.78
SIRS52=LJ	8.IV.08	6.250%	105.50	3.31%	-11	3	1.85
SIRS58=LJ	17.IV.08	3.250%	99.81	3.35%	0	0	1.89
SIRS56=LJ	11.II.09	4.875%	103.80	3.43%	-20	6	2.58
SIRS60=LJ	31.III.10	3.500%	99.80	3.55%	-10	3	3.61
SIRS61=LJ	23.I.11	3.250%	98.72	3.54%	0	0	4.30
SIRS54=LJ	15.X.13	5.750%	112.00	3.87%	-150	21	5.98
SIRS57=LJ	15.X.14	4.875%	107.60	3.81%	-60	8	6.79
SIRS59=LJ	17.II.16	4.000%	102.03	3.75%	-7	1	7.98
SIRS62=LJ	23.III.17	3.500%	95.65	4.00%	-129	15	8.84

FOREX TECHNICALS

- **EUR/CZK:** (28.3700)

DAILY CHARTS:

In channel off 2005 high ands testing bearish Flag bottom off year low (see graph): 1st support area at 28.3350 (weekly projection band bottom), with next levels at 28.2500/ .2200 (year low): tough on 1st tests.
If wrong, next level at 28.2080/ .1810 (weekly channel midline off 2004 high/ weekly envelope), ahead of 28.1540 (weekly Bollinger bottom), where rebound expected.
1st Resistance area at 28.5000 (ST breakdown weekly, with next levels at 28.6230/ .6550 (weekly Bollinger midline/ last week high), ahead of 28.7080 (Apr 07 high): tough on 1st tests.
Sustained activity above 28.9100 (year high) would signal something wrong with LT Downtrend (channel top off 2004 high on daily charts would be broken).

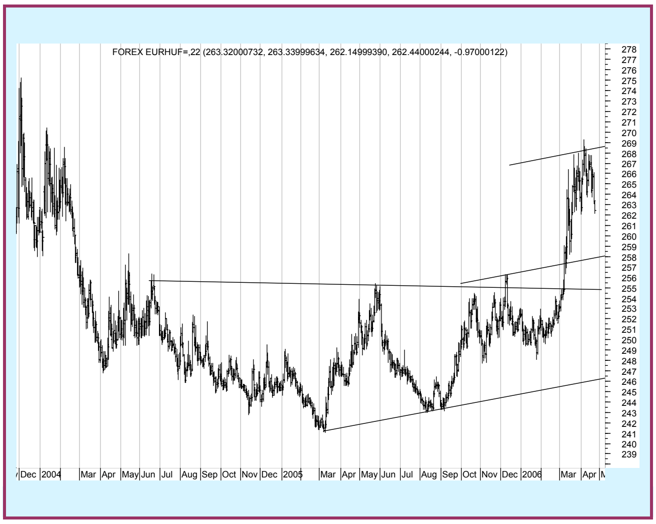
- **EUR/PLN** (3.8640)

Above LT Falling Wedge top/ Downtrendline off 2005 high (see graph): 1st Support area at 3.8563 (weekly MT MA↑), with next levels at 3.8429 (61.8% 3.7490 to 3.9448), ahead of 3.8300 (weekly envelope): favored to hold.
If wrong, 3.8037 = broken LT weekly Downtrendline off high, where rebound expected.

1st Resistance comes in at 3.9121/ .29 (ST breakdown weekly/ weekly envelope), with next levels at 3.9457 (last week high) and 3.9586 (weekly Bollinger top): tough.
If wrong, next levels at 3.9948/ .72 (year high/ neckline MT Double Top on weekly charts) and 4.0000 (psycho): tough on 1st tests.

- **EUR/HUF** (262.50)

Pair above key area of 255.37 (see graph: neckline LT Double Bottom: 2nd target of 269.67 has been approached): 1st Resistance area at 264.50 (ST breakdown daily); with next levels at 266.58 (weekly envelope), ahead of 267.79/ .85 (Apr 13 high): tough.
If wrong, next levels at 268.41/ .62 (weekly Bollinger top/ previous MT reaction high hourly): tough on 1st tests.
Failure to hold would have next levels at 269.30/ .67 (see above), where pause expected.
Support at 262.15 (weekly projection band bottom + Apr 13 low), with next levels at 261.55/ .27 (break-up daily Mar 27/ 38.2% 248.30 to 269.30) and 260.00/ 259.90 (psycho/ MT break-up weekly): favored to hold.



- **EUR/SKK** (37.0800)

New historic low retested LT channel bottom off July 2003 high, with first 2 targets of Triple Tops from 38.1000 met (36.9970: see graph): 1st Resistance at 37.2880 (weekly envelope), with next levels at 38.3100/ .3210 (previous reaction low/ weekly ST MA↓), ahead of 37.4300 (weekly Bollinger midline): tough on 1st tests.
If wrong, next levels at 37.5000 (last week high), ahead of 37.5600/ .5900 (Apr 10 high/ MT breakdown hourly): favored to cap.

Support area at 37.0700 (current week low?), with next levels at 37.0340 (broken weekly channel top off July 2003 high) and 37.000 (weekly Bollinger bottom), ahead of 36.9250/ .9070 (historic low/ weekly envelope): tough
If wrong, next levels at 36.7000/ .5600 (Irregular B limits off 37.8800), where pause expected.

TABLES

Official interest rates

		Current	VI.06	IX.06	XII.06	III.07	Last change	
Czech Rep.	2W repo rate	2,00	2,00	2,00	2,25	2,75	25 bps	27.10.2005
Hungary	2W deposite rate	6,00	6,00	6,00	6,00	6,00	-25 bps	19.9.2005
Poland	2W intervention rate	4,00	3,75	3,75	3,75	3,75	-25 bps	28.2.2006
Slovakia	2W repo rate	3,50	3,75	3,75	3,75	4,00	50 bps	28.2.2006

*Sort-term interest rates 3M *IBOR*

		Current	VI.06	IX.06	XII.06	III.07
Czech Rep.	PRIBOR	2,11	2,10	2,22	2,45	2,85
Hungary	BUBOR	6,26	6,30	6,15	6,10	6,10
Poland	WIBOR	4,13	3,85	3,85	3,85	3,85
Slovakia	BRIBOR	3,84	3,85	3,85	3,90	4,10

Long-term interest rates 10Y IRS

	Current	VI.06	IX.06	XII.06	III.07
Czech Rep.	3,96	3,95	4,00	4,10	4,20
Hungary	6,74	6,85	6,80	6,75	6,70
Poland	5,035	5,10	5,40	5,30	5,20
Slovakia	4,44	4,15	4,20	4,25	4,25

Exchange rates

		Current	VI.06	IX.06	XII.06	III.07
Czech Rep.	EUR/CZK	28,36	28,70	28,40	28,00	27,60
Hungary	EUR/HUF	262,60	262	258	255	251
Poland	EUR/PLN	3,8625	3,90	3,90	3,80	3,80
Slovakia	EUR/SKK	37,12	37,80	37,00	36,60	36,60
	EUR/USD	1,2395	1,230	1,240	1,200	1,190

GDP

	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006
Czech Rep.	*6,9*	7,5	6	5,5	5
Hungary	*4,3*	4,6	3,8	4	4,2
Poland	*4,2*	4,5	5,2	5,1	5,1
Slovakia	*7,6*	6	6	5,5	5,7

Inflation (CPI y/y)

	II.06	III.06	VI.06	IX.06	XII.06
Czech Rep.	*2,8*	2,8	2,5	2,6	2,6
Hungary	*2,5*	2,3	2	2,2	2,7
Poland	*0,7*	0,4	0,3	0,5	1,2
Slovakia	*4,4*	4,5	4,6	4,4	3,4

C/A in Pct of GDP

	2005	2006
Czech Rep.	-2,7	-2,2
Hungary	-7,3	-7,9
Poland	-1,6	-2,3
Slovakia	-7,8	-4,2

Public finance balance in Pct of GDP

	2005	2006
Czech Rep.	-2,6	-3,2
Hungary	-6,1	-6,6
Poland	-2,9	-2,6
Slovakia	-2,95	-3,1

CALENDAR

				Period	Reality	Consensus	Previous
Monday - April 17							
		SK	National holiday				
Tuesday - April 18							
	14:00	PL	Budget Deficit PLN bn	March 06	8.98	8.76	6.69
	14:00	PL	Wages y/y	March 06	5.4	4.0	4.8
Wednesday - April 19							
	09:00	HU	Wages (gross nominal, y/y)	February 06	8.5		6.1
	12:00	CZ	T-Bond Auction (3.8/2015, CZK bn)		6.0		
	12:00	PL	5Y T-bonds auction (bln PLN)		2.4	-	1.88
		SLO	5-years government bond				
		SLO	11-years government bond				
Thursday - April 20							
	09:00	SK	HICP m/m	March 06	0.0		0.3
	09:00	SK	HICP y/y	March 06	4.5	4.5	4.3
	09:00	SK	HICP y/y, %	March 06	4.3	4.4	4.3
	14:00	PL	Industrial Production y/y	March 06	16.4	13.5	10.2
	14:00	PL	PPI y/y	March 06	0.9	0.5	0.7
	14:00	PL	PPI m/m	March 06	0.7	0.3	-0.3
Friday - April 21							
	09:00	HU	Retail sales y/y	February 06	7.0		7.2
Sunday - April 23							
		HU	Elections (2nd round)				
Monday - April 24							
	11:00	SK	T-bond auction SD202 4.9% / 2014				
	11:00	SK	T-bond auction 4.9%/ 2014				
	14:00	HU	Monetary council NBH (base rate)		0 bps	0 bps	0 bps
	14:00	PL	Manufacturing Climate Index	April 06	15.0	-	12.0
	14:00	PL	Core inflation y/y	March 06	0.7	-	0.8

				Period	CSOB	Consensus	Previous
Tuesday - April 25							
	09:00	SK	NBS rate decision		3.5	3.5	3.5
	c. 11:00	SK	NBS Bank Board meeting		0 bps	0 bps	0 bps
Wednesday - April 26							
	10:00	PL	Unemployment rate	March 06	17.8	17.8	18.0
	10:00	PL	Retail sales y/y	March 06	11.5	8.9	10.2
	-	PL	MPC Meeting	April 06	0 bps	0 bps	0 bps
Thursday - April 27							
	09:00	HU	Unemployment rate (%)	March 06	7.9		7.8
	11:00	HU	T-bond Auction (3-year)				
	c. 14:00	CZ	CNB Board Meeting		0 bps	0 bps	0 bps
Friday - April 28							
	09:00	HU	PPI y/y	March 06	4.8		4.4
	09:00	HU	PPI m/m	March 06	1.2		0.1
	09:00	SK	PPI m/m	March 06	0.2		1.4
	09:00	SK	PPI y/y	March 06	9.4	9.5	9.8
	09:00	SK	Indicator of economic sentiment	April 06			111.4
	09:00	SK	PPI m/m, %	March 06	0.2	0.3	1.4
	09:00	SK	PPI y/y, %	March 06	9.4	9.5	9.8

				Period	CSOB	Consensus	Previous
Monday - May 1							
	09:00	SK	National holiday				
Tuesday - May 2							
	09:00	SK	State budget (SKK bn)	April 06			0.157
	10:00	SK	State budget (SKK bn)	April 06			-6.2
Wednesday - May 3							
	09:00	HU	Foreign trade (EUR mn), details	February 06			
Friday - May 5							
	10:00	CZ	CNB Minutes	27/04/06			
	11:00	SK	T-bond auction SD 206/ 2026				

(Figures are in % and not seasonally adjusted: m/m-month on month rise; y/y-year on year rise; r-revised; p-preliminary)

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