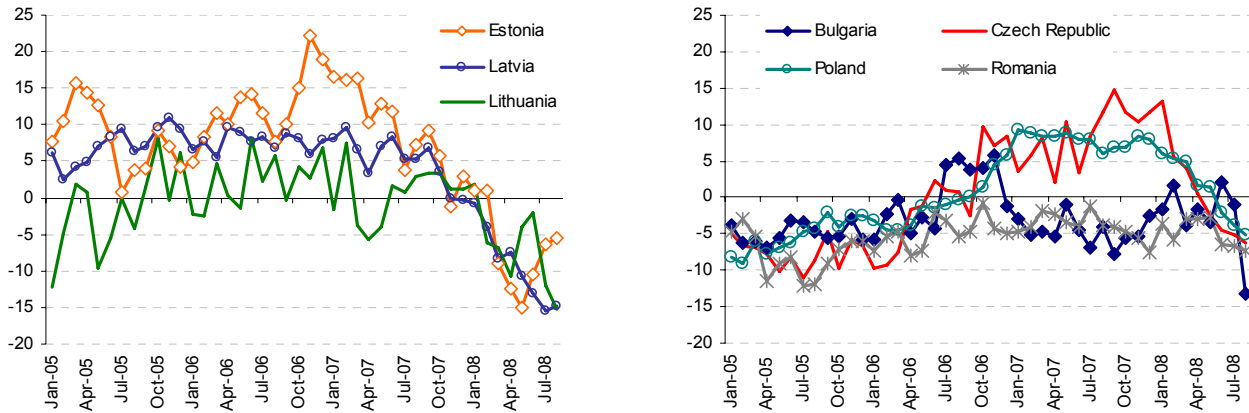


economies, led by Romania (16 percent from a year earlier), Bulgaria (11 percent) and Poland (7 percent). Real wage growth appears to have slowed to 5 percent in Latvia and 10 percent in Lithuania from 20 percent last year and is likely to slow further in the region in 2009, except maybe for Romania where a 50-percent increase has been granted to teachers likely to be followed by other public administration.

**Figure 17. Employment Expectations for Three Months Ahead**

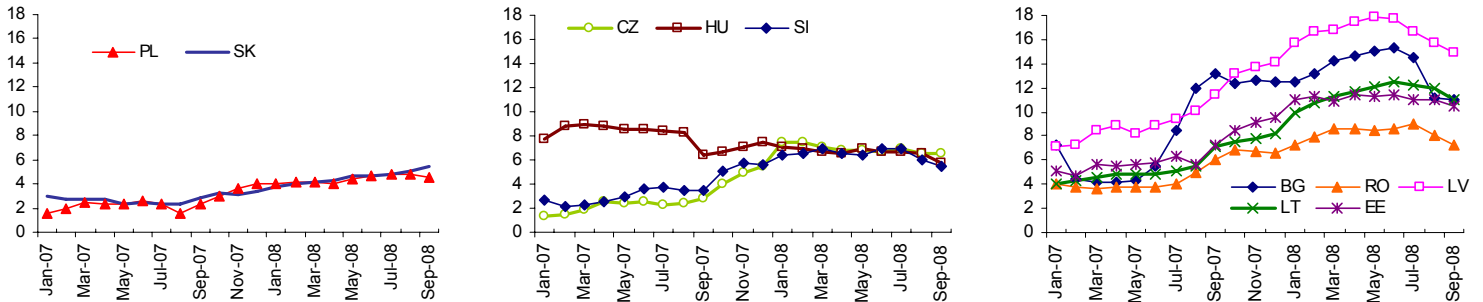


Source: European Commission. Note: A negative value indicates no plans to increase employment.

## Inflation

Inflation has begun to decline in most countries in the region, after price increases surged in early 2008 because of higher prices for food and imported energy (Figure 18). Prospects that commodity prices will continue to fall suggest that further decreases in inflation are likely. The ongoing financial turmoil and slowing global growth are complicating policy-makers' choices even as inflation remains high.

**Figure 18. Consumer Price Inflation (% change, yoy)**



Source: Central Statistical Offices.

The recent slowdown in inflation has been most pronounced in those countries where increases were the largest earlier, namely in Bulgaria, Estonia and Latvia. Despite easing for the fourth month in a row, 12-month inflation in Latvia is still very high, at 14.9 percent in September. Inflation has also eased in Romania, the Czech Republic and Hungary but remains far above the central banks' target range. In Poland and Slovakia, 12-month consumer price inflation has remained little changed in recent months at about 5 percent, but core inflation has continued rising in Slovakia.

Inflation is likely to slow in 2009, reflecting the decline in commodity prices and weak domestic demand. The Baltics and the Czech Republic should see faster reductions in inflation, in the latter also due to the lag effect of sizeable strengthening of the koruna until September. Double-digit wage increases for certain categories of public employees in Romania and Slovenia, along with currency weakness in the former, and pressures to boost spending ahead of the parliamentary elections in several countries, could limit the pace of decline in inflation, however. Decreases in inflation are also likely to be moderated by the continued tight labor conditions or upward adjustments in administered prices (Bulgaria, Lithuania, Poland and Romania).