

ZEW, the Centre for European Economic Research, Mannheim, and Erste Group Bank AG, Vienna, carry out a monthly survey for Central and Eastern Europe, Austria, as well as the Eurozone asking financial market experts for their assessments and expectations with regard to economic and financial market data. The results of the present survey, conducted between January 30 and 16 February, 2009, are published in the March 2009 issue of the "Financial Market Report CEE". 72 financial market experts participated in this month's survey.

Economic prospects for Central and Eastern Europe recover

Concerns about the difficult economic conditions in some Central- and Eastern European (CEE) countries have caused turbulences on the stock and exchange markets recently. Hence, it is not surprising that the participants of the February ZEW-Erste Group Bank survey acknowledge the currently fraught situation. In spite of the critical assessment of the pre-

sent economic conditions and the negative discussion in context with the recently released assessment of the rating agency Moody's, the economic expectations for the CEE region on a six-month time horizon have improved significantly. Although, the CEE indicator is still negative, the experts hold out hope of a reviving business cycle in the second half of 2009.

Economic outlook for CEE countries, Austria and the Eurozone

The ZEW-Erste Group Bank sentiment indicator for Central and Eastern Europe which captures the negative and positive assessments on the region's future economic development rises in February by 15.8 points to minus 33.3 points, increasing for the second time in a row. The economic expectations of the financial market experts improve also for Austria. The increase of the respective indicator by 16.5 points to minus 24.0 points implies that the expected economic conditions in the second half of the year are going to recover compared to the difficult current situation. Only the economic forecast for the Eurozone changes for the worse, the associated indicator reaches minus 46.4 points - the lowest value in this category within the February survey.

The balance reflecting the assessment of the current economic situation in the CEE region declines by 0.7 points to minus 58.1 points. Its currently low value indicates that the respondents take a pessimistic view on the business conditions in the CEE area. The balance for Austria remains almost unchanged at minus 32.7 points. As to the Eurozone, the respondents' valuation worsens most strongly again. The respective balance loses 9.6 to minus 74.5 points in February.

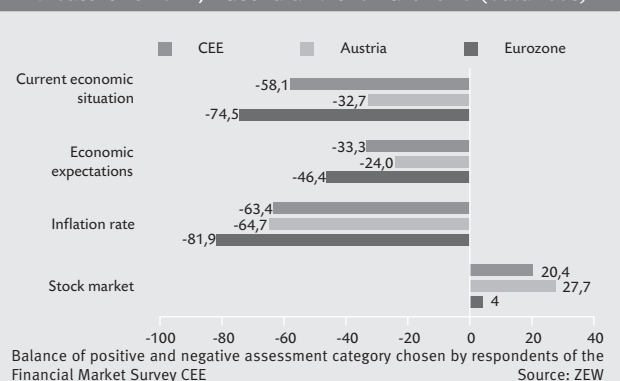
In the current survey, the participants increasingly assume that the reduction of inflation will abate in the CEE region as a whole, in Austria and the Eurozone. Nonetheless, the majority of the respondents still expect falling inflation rates and the respective balances remain negative. The balances for the CEE region and Austria increase by 23.5 points and 15.7 points to minus 63.4 points and minus 64.7 points respectively.

The balance for the Eurozone remains almost stable at minus 81.9 points.

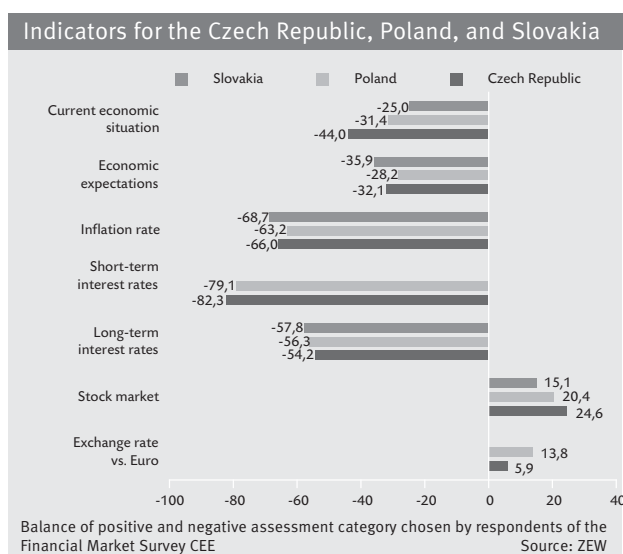
Regarding the short-term interest rates in the Eurozone the majority of the financial experts (74.5 percent) anticipate further cut of the key interest rate by the ECB within the next six months.

With the exception of the Eurostoxx 50, the balances for the development on the stock markets in the CEE region remain positive by double-digits. As opposed to this, the Eurostoxx 50 reaches 4.0 points, having lost 21.5 points. 49.0 percent of the experts reckon with an ascending CEE stock index NTX over the coming six months. The associated indicator remains unchanged at 20.4 points. The balance for the Austrian stock index ATX, however, notes a slight improvement.

Indicators for CEE, Austria and the Eurozone (balances)



Czech Republic, Poland and Slovakia: Recovering economic prospects



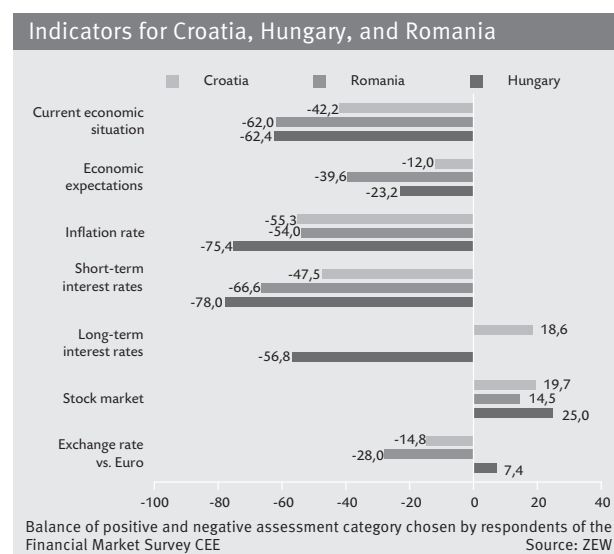
Consistent with last month's survey and in contrast to the recently released report by Moody's on the more severe downturn in some CEE countries, the economic expectations for the Czech Republic, Poland and Slovakia keep on recovering in February. The share of the financial experts anticipating an economic slowdown in the three countries has declined by double-digits, mostly in favour of a neutral assessment, which now prevails. Consequently, all three corresponding balances increase considerably, reaching minus 32.1 points (plus 15.2 points compared to the previous month), minus 28.2 points (plus 21.8 points) and minus 35.9 points (plus 15.9 points).

According to the analysts, Slovakia currently features the best economic conditions among all analysed countries. In spite of remaining in the red, the associated indicator rises markedly by 14.6 points to minus 25.0 points. With regard to the present circumstances in Poland, the respondents are more optimistic, too, which is reflected in the respective balance gaining 9.0 points to minus 31.4 points. In contrast, the Czech Republic is the only CEE country, where the participants take a more critical stance at the economic situation in February. The respective balance drops by 7.6 points to minus 44.0 points.

Although still constituting a clear majority, the share of the experts counting on falling inflation rates in the three countries has decreased significantly in February. A growing number of respondents expect the inflation rates to remain constant over the coming six months.

Concerning the expected development on the stock markets of the selected countries, a stabilisation of the analysts' evaluations, which worsened in the previous month, takes place in February. The indicators for the Czech PX 50 and the SAX gain 1.2 points and 7.3 points, reaching 24.6 points and 15.3 points respectively. As to Poland, the corresponding balance recedes slightly, now standing at 20.4 points. Overall, every second financial expert predicts rising share prices on a six-month time horizon for all three countries.

Hungary, Romania and Croatia: Economic expectations improve



In the February survey, the economic expectations for Hungary, Romania and Croatia have improved markedly, which is reflected in all three balances increasing by double-digits. According to the financial experts, the Croatian economy even offers the best future prospects among all analysed countries. The corresponding indicator soars 32.7 points, reaching minus 12.0 points. The balances for Hungary and Romania gain significantly, as well – 26.9 points and 20.0 points to minus 23.2 points and minus 39.6 points respectively. Despite the growing positive assessments, however, a clear majority of the financial experts still regard an economic slowdown or, at most, an unchanged business cycle to be most probable.

While last month's results were characterised by a growing scepticism about the current economic situation in the three countries, the analysts' assessments recover slowly in February. The corresponding indicators improve slightly, but remain deeply in the red.

In line with the upward movement of the economic expectations, the respondents increasingly assume that the reduction of inflation will end within the coming half year.

The expectations of the survey participants concerning long-term interest rates in Croatia change substantially in February. A distinct majority of the experts (plus 31.0 percentage points compared to the previous month) forecast rising yields on 10-year bonds. With regard to Hungary and Romania, the analysts still assume decreasing long-term interest rates.

The balances for the stock markets in the selected countries gain in value this month. In particular, the analysts look more favourably upon the Romanian share index BET, as the associated indicator increases by 16.9 points, turning positive again (14.5 points at present). The respective balance for the Hungarian BUX rises by 8.4 points to 25.0 points, which is the highest value in this category. Remaining nearly unchanged, the stock market expectations for Croatia improve by 0.2 points to 19.7 points.

Special Question: Sector Analysis 2009 - Winners and losers in the CEE region

Within the scope of this month's special question, we were interested in the financial experts' view on the performance potential of major CEE branches of industry in 2009. Moreover, we wanted to find out, in how far the chances of different CEE countries – namely Bulgaria, the Czech Republic, Croatia, Hungary, Poland, Romania and Slovakia – vary in these sectors.

Summarising the results for all industries the outcomes for Bulgaria, the Czech Republic, Croatia, Romania and Slovakia show many parallels. According to the financial experts, the majority of the industries in the five countries will remain stable this year. With respect to Poland and Romania, the analysts are more cautious in their evaluation of the industry perspectives.

One part of the special question comprises the comparison of the prospects of the single industries in the CEE region as a whole. Which sector is going to achieve the best performance and which will experience the biggest loss, given the difficult current economic conditions?

According to a large share of the analysts, namely 28 percent and 19 percent respectively, the food and the agricultural sectors feature the brightest perspectives for 2009. This outcome did not come as a surprise, as both branches are generally little vulnerable to shifts in demand.

Apart from that, 14 percent of the experts believe that the communication industry will achieve the best results.

The outcomes for the "machinery and equipment" sector, however, are most striking. Despite the unfavourable investment climate, resulting from the financial crisis, 25 percent of the respondents share the view that the CEE machinery sector will perform most strongly this year. Still, the analysts' assessments on this topic are highly heterogeneous, since 19 percent of the participants foresee severe struggles for the producers of industrial goods.

With regard to the future prospects of hotels and restaurants in CEE, a clear majority of the respondents (31 percent) are pessimistic, as demand is traditionally cyclical and elastic in this branch and a decline in the tourism sector is to be expected.

Concerning the construction industry (25 percent), many analysts make a comparably negative assessment. Presumably, the experts bear the high funding requirements as well as the diminishing local demand and foreign investment activities in mind, having already caused a downturn in the construction sector worldwide.

Moreover, we were particularly interested in the analysts' view on the prospects of the troubled financial institutions. Is a recovery of the industry in sight? 3 percent of the analysts share this opinion, counting the sector to the potential "winners" in 2009, whereas 8 percent forecast further difficulties.

When regarding the individual chances of the selected CEE countries in different branches of industry, some assessments of the financial experts are particularly remarkable:

Concerning the food and agricultural sectors, the analysts believe that the traditionally strong industries in Hungary and Romania will recover from their recent slowdown in 2009. Around 90 percent of the respondents share the view that the

Figure A: Best performing industries in the CEE region in 2009

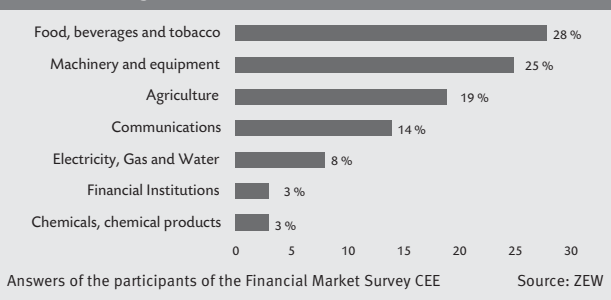
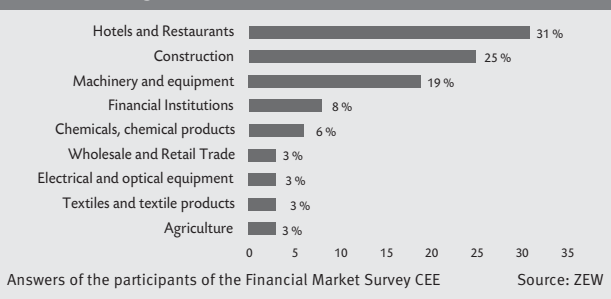


Figure B: Worst performing industries in the CEE region in 2009



respective industry sectors are going to perform best or remain at least stable compared to the other CEE countries analysed in the survey. As to Romania, the share of the experts counting on top results even constitutes a clear majority.

The same holds for the export-reliant Bulgarian textile industry, which has adjusted its expectations for the first half of 2009 downwards in December facing lower demand from abroad. Every second respondent, however, is convinced that the economic conditions and perspectives for the branch will brighten in the course of this year, clearly considering it to be the best performing CEE country in the textile sector.

The experts' evaluations on the machinery and equipment sector are mixed as well. According to the majority of the experts, the producers of industrial goods from the Czech Republic, Hungary and Poland will face tougher times this year. The outlook for Croatia, Slovakia and Romania remains rather unchanged, whereas most analysts regard the Bulgarian mechanical engineers to be "best performing" in this sector, despite the declining investment activity in the context of the financial crisis worldwide.

From the respondents' point of view, Croatia is the only county featuring predominantly positive future perspectives in the restaurant and hotel sector. Although most (42 percent) participants expect the branch to achieve stable results, 38 percent of the respondents are more optimistic.

2008 was a year of crisis for financial institutions all around the globe. For the coming year the experts predominantly predict stable results in this sector for the Czech Republic, Croatia, Poland and Slovakia, but further troubles in Bulgaria, Hungary and Romania.

Mariela Borell, Oliver Herrmann

ZEW-Financial Market Survey: February 2009

Current economic situation	good		acceptable (normal)		bad		balance									
Austria	4.3	(+2.1)	58.7	(-4.3)	37.0	(+2.2)	-32.7	(-0.1)								
Croatia	0.0	(+/-0.0)	57.8	(+6.6)	42.2	(-6.6)	-42.2	(+6.6)								
Czech Republic	2.0	(-1.6)	52.0	(-4.4)	46.0	(+6.0)	-44.0	(-7.6)								
Hungary	1.8	(-2.0)	34.0	(+7.6)	64.2	(-5.6)	-62.4	(+3.6)								
Poland	19.6	(+17.7)	29.4	(-26.4)	51.0	(+8.7)	-31.4	(+9.0)								
Romania	2.0	(+2.0)	34.0	(+/-0.0)	64.0	(-2.0)	-62.0	(+4.0)								
Slovakia	22.9	(+19.1)	29.2	(-23.6)	47.9	(+4.5)	-25.0	(+14.6)								
CEE	3.7	(+3.7)	34.5	(-8.1)	61.8	(+4.4)	-58.1	(-0.7)								
Eurozone	0.0	(+/-0.0)	25.5	(-9.6)	74.5	(+9.6)	-74.5	(-9.6)								
Economic expectations	improve		no change		worsen		balance									
Austria	12.0	(+1.4)	52.0	(+13.7)	36.0	(-15.1)	-24.0	(+16.5)								
Croatia	26.0	(+17.5)	36.0	(-2.3)	38.0	(-15.2)	-12.0	(+32.7)								
Czech Republic	9.4	(-1.5)	49.1	(+18.2)	41.5	(-16.7)	-32.1	(+15.2)								
Hungary	23.2	(+14.0)	30.4	(-1.1)	46.4	(-12.9)	-23.2	(+26.9)								
Poland	9.5	(-0.1)	52.8	(+22.0)	37.7	(-21.9)	-28.2	(+21.8)								
Romania	3.8	(-3.9)	52.8	(+27.8)	43.4	(-23.9)	-39.6	(+20.0)								
Slovakia	9.4	(+0.1)	45.3	(+15.7)	45.3	(-15.8)	-35.9	(+15.9)								
CEE	8.8	(-0.3)	49.1	(+16.4)	42.1	(-16.1)	-33.3	(+15.8)								
Eurozone	12.5	(+1.9)	28.6	(-8.2)	58.9	(+6.3)	-46.4	(-4.4)								
Inflation rate	increase		no change		decrease		balance									
Austria	4.1	(+1.9)	27.1	(+11.9)	68.8	(-13.8)	-64.7	(+15.7)								
Croatia	8.5	(+4.1)	27.7	(+21.2)	63.8	(-25.3)	-55.3	(+29.4)								
Czech Republic	4.0	(+0.2)	26.0	(+14.7)	70.0	(-14.9)	-66.0	(+15.1)								
Hungary	7.6	(+0.1)	9.4	(+3.7)	83.0	(-3.8)	-75.4	(+3.9)								
Poland	4.1	(+0.1)	28.6	(+20.6)	67.3	(-20.7)	-63.2	(+20.8)								
Romania	8.0	(-2.2)	30.0	(+25.9)	62.0	(-23.7)	-54.0	(+21.5)								
Slovakia	4.2	(+0.4)	22.9	(+11.6)	72.9	(-12.0)	-68.7	(+12.4)								
CEE	5.8	(+2.1)	25.0	(+19.3)	69.2	(-21.4)	-63.4	(+23.5)								
Eurozone	5.4	(+/-0.0)	7.3	(+0.2)	87.3	(-0.2)	-81.9	(+0.2)								
Short-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	10.0	(-0.5)	30.8	(-0.4)	32.5	(+8.8)	51.3	(+13.8)	57.5	(-8.3)	17.9	(-13.4)	-47.5	(+7.8)	12.9	(+13.0)
Czech Republic	4.4	(+0.4)	37.2	(+19.8)	8.9	(-8.7)	32.6	(-10.9)	86.7	(+8.3)	30.2	(-8.9)	-82.3	(-7.9)	7.0	(+28.7)
Hungary	6.0	(+0.2)	14.9	(+6.2)	10.0	(+6.2)	17.0	(-0.4)	84.0	(-6.4)	68.1	(-5.8)	-78.0	(+6.6)	-53.2	(+12.0)
Poland	6.3	(+2.1)	15.5	(+6.2)	8.3	(-4.5)	48.9	(+7.0)	85.4	(+2.4)	35.6	(-13.2)	-79.1	(-0.3)	-20.1	(+19.4)
Romania	6.7	(-8.8)	38.1	(+8.1)	20.0	(+4.4)	26.2	(+1.2)	73.3	(+4.4)	35.7	(-9.3)	-66.6	(-13.2)	2.4	(+17.4)
Eurozone	3.7	(-2.2)			21.8	(+15.9)			74.5	(-13.7)			-70.8	(+11.5)		
Long-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	44.2	(+31.0)	24.3	(-6.0)	30.2	(-14.5)	24.3	(-6.0)	25.6	(-16.5)	51.4	(+12.0)	18.6	(+47.5)	-27.1	(-18.0)
Czech Republic	10.4	(-2.1)	4.9	(-6.2)	25.0	(-8.3)	61.0	(+18.8)	64.6	(+10.4)	34.1	(-12.6)	-54.2	(-12.5)	-29.2	(+6.4)
Hungary	15.7	(+3.7)	33.4	(+15.7)	11.8	(-0.2)	22.2	(+6.6)	72.5	(-3.5)	44.4	(-22.3)	-56.8	(+7.2)	-11	(+38.0)
Poland	8.3	(-11.3)	14.3	(-2.4)	27.1	(+1.0)	45.2	(+7.1)	64.6	(+10.3)	40.5	(-4.7)	-56.3	(-21.6)	-26.2	(+2.3)
Slovakia	11.1	(+2.4)	5.1	(-6.8)	20.0	(-14.8)	56.4	(+4.0)	68.9	(+12.4)	38.5	(+2.8)	-57.8	(-10.0)	-33.4	(-9.6)
Germany	25.4	(+3.8)			27.3	(-8.0)			47.3	(+4.2)			-21.9	(-0.4)		
Stock market indices	increase		no change		decrease		balance									
EURO STOXX 50	32.0	(-14.8)			40.0	(+8.1)			28.0	(+6.7)			4.0	(-21.5)		
ATX (Austria)	53.2	(+5.4)			21.3	(-8.2)			25.5	(+2.8)			27.7	(+2.6)		
NTX (CEE)	49.0	(+1.3)			22.4	(-2.6)			28.6	(+1.3)			20.4	(+/-0.0)		
CROBEX (Croatia)	43.2	(-0.7)			33.3	(+1.6)			23.5	(-0.9)			19.7	(+0.2)		
PX 50 (Czech Rep.)	51.1	(+6.4)			22.4	(-11.6)			26.5	(+5.2)			24.6	(+1.2)		
BUX (Hungary)	51.9	(+8.2)			21.2	(-8.0)			26.9	(-0.2)			25.0	(+8.4)		
WIG (Poland)	49.0	(+1.2)			22.4	(-7.1)			28.6	(+5.9)			20.4	(-4.7)		
BET (Romania)	45.8	(+13.3)			22.9	(-9.7)			31.3	(-3.6)			14.5	(+16.9)		
SAX (Slovakia)	43.4	(+10.0)			28.3	(-12.7)			28.3	(+2.7)			15.1	(+7.3)		
SBI 20 (Slovenia)	48.8	(+8.8)			26.8	(-16.1)			24.4	(+7.3)			24.4	(+1.5)		
Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance									
Kuna (Croatia)	19.2	(+0.1)			46.8	(-0.8)			34.0	(+0.7)			-14.8	(-0.6)		
Koruna (Czech Rep.)	29.4	(-0.8)			47.1	(+5.6)			23.5	(-4.8)			5.9	(+4.0)		
Forint (Hungary)	35.2	(+0.6)			37.0	(-1.5)			27.8	(+0.9)			7.4	(-0.3)		
Zloty (Poland)	37.3	(-7.6)			39.2	(+10.6)			23.5	(-3.0)			13.8	(-4.6)		
Lei (Romania)	18.0	(-11.1)			36.0	(+4.7)			46.0	(+6.4)			-28.0	(-17.5)		
US-Dollar	25.5	(-0.4)			15.7	(-8.4)			58.8	(+8.8)			-33.3	(-9.2)		

Note: 72 Financial experts participated in the February survey which was conducted during the period 01/30/09-02/16/09. Analysts were asked about their expectations for the next 6 months. Numbers displayed are percentages (month-over-month percentage point changes compared to the survey in January 2009 in parentheses). Balances refer to the differences between positive and negative assessments.

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