

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 current survey, conducted between March 1 and March 15, 2010, are published in the April 2010 issue of the "Financial Market Report CEE". 70 financial market experts participated in this month's survey.

## Positive Economic Expectations for Central and Eastern Europe

The ZEW-Erste Group Bank Sentiment Indicator CEE increases in March considerably by 16.8 points to 37.3 points. 47.1 percent of the polled financial market experts expect the business cycle in the CEE region to improve within the next six months and only 9.8 percent foresee a decline. The economic expectations for Austria and the Eurozone as a whole improve in the current survey as well. The economic outlook for Austria increases by 8.2 points to 27.3 points. The respective indicator for the Eurozone

improves by 5.8 points to 26.6 points. The evaluation of the current economic situation in the CEE region improves in the March survey by 17.0 points to minus 23.0 points. The evaluation of the economic conditions for Austria and the Eurozone brightens up as well. In the current survey an increasing share of financial market experts predict the stock market indices for the CEE-region (NTX), Austria (ATX) and the Eurozone (Eurostoxx 50) to develop positively within the next six months.

### Economic Outlook for the CEE Region, Austria and the Eurozone

The Economic Sentiment Indicator CEE which is conducted monthly by the Centre for European Economic Research (ZEW), Mannheim, with the support from the Erste Group Bank, Vienna, improves in March considerably by 16.8 points to 37.3 points. The indicator reflects the assessment of the economic development for the CEE region on a six month time horizon and is calculated as the balance of positive and negative expectations. In the current survey the CEE region demonstrates the strongest improvement compared to Austria and the Eurozone. 47.1 percent of the surveyed experts anticipate an improvement of the business cycle in the CEE region within the next six month. 43.1 percent predict the economic activity to remain unchanged and only 9.8 percent of the polled analysts foresee a decline.

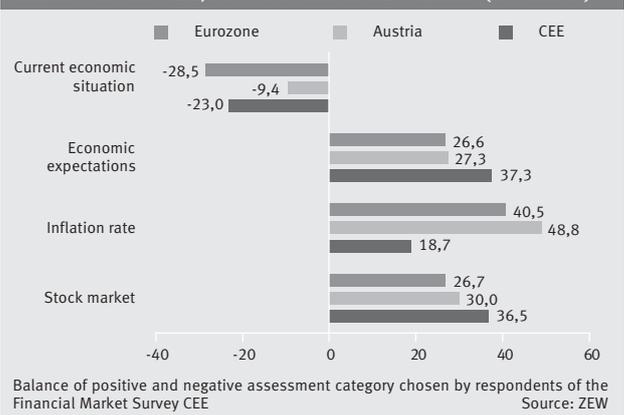
In March the economic expectations for Austria and the Eurozone improve as well. The sentiment indicator for Austria increases by 8.2 points to 27.3 points. The economic outlook for the Eurozone improves by 5.8 points to 26.6 points.

The expectations regarding the inflation rate in the CEE region do not change significantly in March. The corresponding indicator rises by 4.4 points to 18.7 points. This relatively low level is caused by some individual CEE countries for which decreasing inflation rates are expected. 56.3 percent of the survey participants predict an unchanged inflation rate in the CEE region within the next six months. By contrast, the expectations concerning a rising inflation rate in Austria and in the Eurozone as a whole build the majority of the answers.

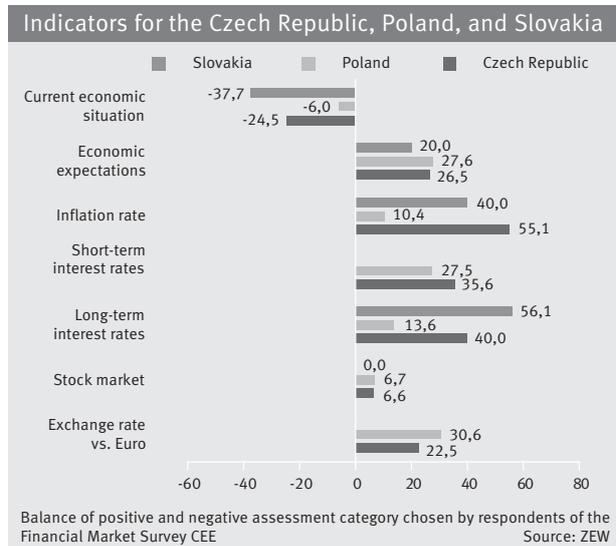
The corresponding indicators increase to 48.8 points and 40.5 points, respectively.

52.2 percent of the polled experts predict rising interest rates within the next six month in the Eurozone. The respective indicator climbs by 9.9 points to 49.9 points. In the current survey an increasing share of participants expect the stock market indices for the CEE-region (NTX), Austria (ATX) and the Eurozone (Eurostoxx 50) to ascend within the next six months. Reaching 36.5 points the indicator reflecting the assessment of the development of the NTX receives the best position in this category.

Indicators for CEE, Austria and the Eurozone (balances)



## Czech Republic, Poland and Slovakia: Rising Inflation Concerns



The economic expectations for the Czech Republic, Poland and Slovakia improve in March. The Polish sentiment indicator rises by 8.5 points reaching 36.1 points. This is the best value compared to the Czech Republic and Slovakia. The economic expectations for Slovakia grow by 7.6 points to 27.6 points this month. The respective indicator for the Czech Republic increases by 4.8 points to 31.1 points. This represents the smallest improvement in this category in the country comparison.

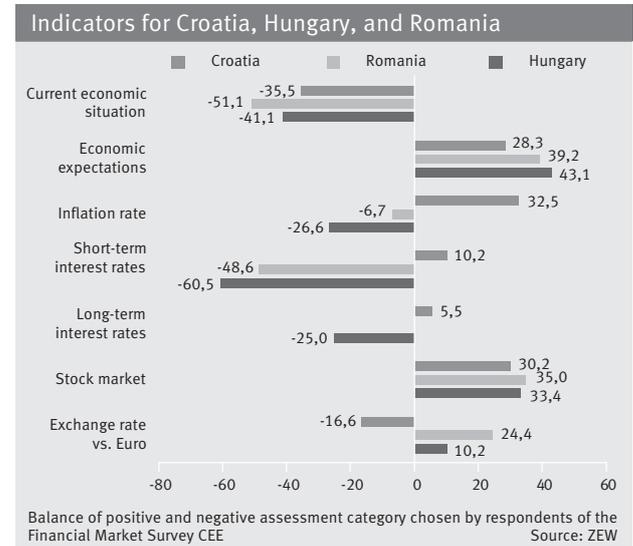
A significant disparity is examined in the indicators that reflect the assessment of the current economic situations in the three countries as Poland's corresponding indicator is the only one to reach a positive value in this category. The indicator for Poland increases considerably by 23.1 points to 17.1 points. For Slovakia and the Czech Republic the respective balances rise by 18.2 points and 20.3 points to minus 19.5 points and minus 4.2 points.

The share of analysts who expect an increasing inflation rate remains considerably high in the Czech Republic and Slovakia. In the Czech Republic 59.6 percent of the survey participants predict a rise in the inflation rate in the next half year. These expectations are in concordance with the inflation forecasts of the National Bank of the Czech Republic. In line with the high share of financial market experts predicting an increasing inflation rate, the indicator regarding the assessment of the exchange rate development in the Czech Republic demonstrates the highest values of 46.4 points in country comparison.

The expectations regarding the development of long-term interest rates achieve the highest values in the Czech Republic and Slovakia compared to the other CEE countries. About 60 percent of the participants see increasing long-term interest rates in both countries on a six month time horizon.

In March the predictions regarding an appreciation of the Czech Koruna and the Polish Zloty against the Euro gain additional weights.

## Hungary, Romania and Croatia: Improved Economic Outlook



After the significant drop of the respective indicators in February the economic expectations for Hungary, Romania and Croatia partly recover in March. The respective indicators show double-digit improvements again similar to the beginning of the year 2010. The indicator for the economic outlook in Croatia improves by 16.9 points to 28.3 points. Romania's respective balance climbs 16.9 points to 39.2 points representing the second best value among all analysed CEE countries in this category. The economic expectations for Hungary climb by 17.1 points to the 43.1 mark. Thus, Hungary wins the first place in this category among the analysed CEE countries. 52.9 percent of the surveyed experts expect the economic momentum to improve in Hungary within the next six month.

The assessment of the current business conditions for the three countries shows an overall improvement even though the evaluation still remains more cautious than for the other CEE countries. The respective indicator for Croatia improves by 5.8 points to minus 35.5 points. Although the respective balance for Romania increases by 14.9 points to minus 51.1 points, the indicator is last in line this month. Hungary's corresponding indicator for the current economic situation increases by 23.7 points reaching minus 41.1 points which is the second lowest value in country comparison.

Almost 50 percent of the polled experts predict the inflation rate in Hungary to fall within the next six months. These results are in line with the predictions of the National Bank of Hungary that the inflation rate is expected to fall significantly in the second half of the year. Romania's respective balance for the inflation rate is the other one with a negative value (minus 6.7 points) within the positive balances for all other analysed CEE countries. Consistent to the inflation expectations the share of analysts expecting the national banks of Hungary and Romania to lower the short-term interest rates is at highest in country comparison. For Hungary nearly 70 percent and for Romania nearly 62 percent expect decreasing short-term interest rates in the next six months.

## Special Question: Private Consumption in CEE in 2010

This month's special question deals with the development of private consumption with special regard on demand of goods and services and marketing strategies in the CEE region in 2010. Private consumption is dependent of various factors such as disposable income, budget restraints and the real interest rate and includes all household spending on all goods and services. Since the different factors, which affect private consumption, diverge significantly between the individual CEE countries, an expectation for the whole region could be difficult.

However, the survey results provide a clear picture of the analysts' expectations. 72 percent of the polled analysts do not expect a decrease in private consumption in 2010 compared to 2009. 38 percent expect an increase and one percent even predicts a significant increase in private consumption. This prediction for the CEE region is far more positive compared to the expected growth rate in private consumption of the EU as a whole as the European Spring Forecast still anticipates a decrease in private consumption for 2010. Only one out of four experts anticipates less private consumption in 2010 than last year in the CEE region. Thus, an overall improvement in private consumption can be expected in the CEE region.

The responses regarding the different development of the demand for different goods show that the demand for services is likely to rise more slowly than the demand for consumer and industrial goods. 35 percent of the survey participants agree with this statement and nine percent even completely agree with it. However, 35 percent of the participants remain neutral towards this question. 17 percent disagree with this statement.

Marketing strategies are usually the result of deep analysis of consumer's behaviour and try to influence the purchase decision in order to increase future consumption. The financial market experts were asked to evaluate the importance of different factors such as price, quality & innovation, advertising and promotion campaigns in respect to marketing in the current economic situation in the CEE region. The highest rate of agreement achieves the statement suggesting that the focus should be on quality & innovation. 55 percent of our survey participants agree and only four percent disagree with this statement. A large share of participants (54 percent) evaluates the focus on low prices as a successful marketing strategy in order to stimulate private consumption. However, ten percent do not share this opinion.

While only a third of the survey participants believe in the importance of advertising the half of financial market experts evaluate special campaigns as promotion campaigns such as a summer sale or Christmas promotions as appropriate in the current economic situation in CEE.

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Figure A: Expectations for private consumption in CEE in 2010 compared to 2009

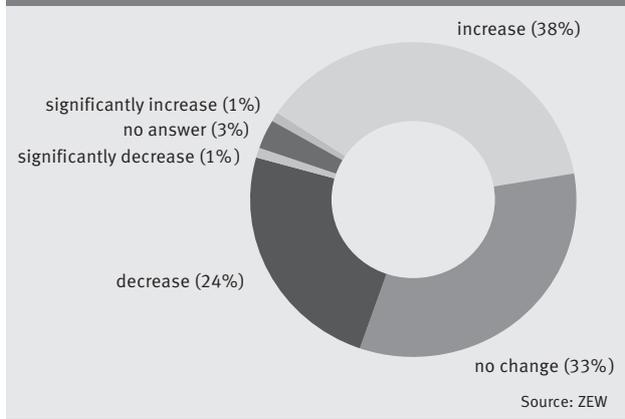


Figure B: The demand for services in CEE is going to rise more slowly than the demand for consumer and industrial goods

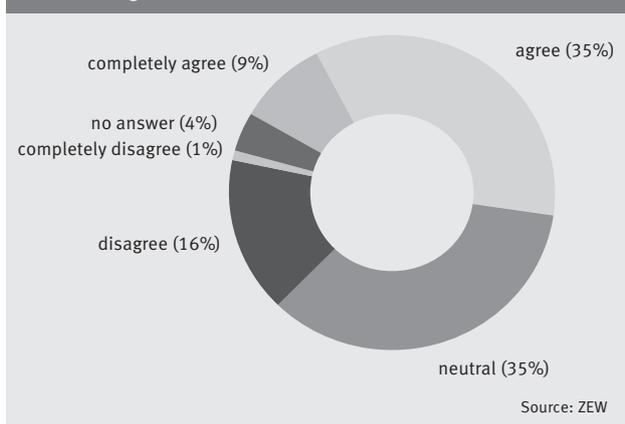
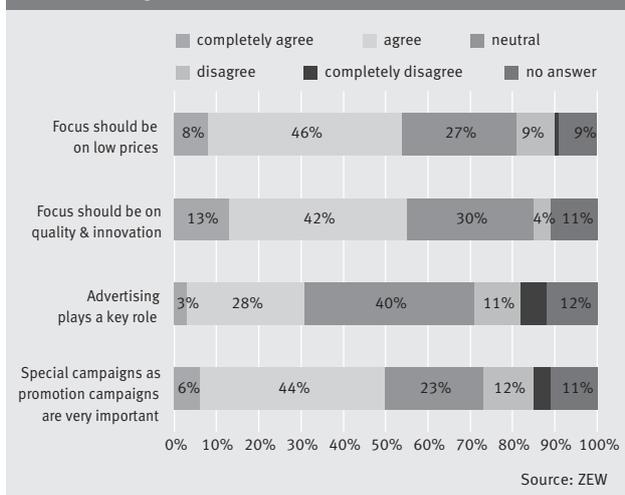


Figure C: Evaluation of following statements with regard to marketing in CEE



**ZEW-Financial Market Survey: March 2010**

<b>Current economic situation</b>	<b>good</b>		<b>acceptable (normal)</b>		<b>bad</b>		<b>balance</b>									
Austria	13,9	(+2,5)	62,8	(+3,7)	23,3	(-6,2)	-9,4	(+8,7)								
Croatia	8,9	(+2,4)	46,7	(+1,0)	44,4	(-3,4)	-35,5	(+5,8)								
Czech Republic	20,8	(+14,7)	54,2	(-9,1)	25,0	(-5,6)	-4,2	(+20,3)								
Hungary	7,9	(+6,0)	43,1	(+11,7)	49,0	(-17,7)	-41,1	(+23,7)								
Poland	34,1	(+18,1)	48,9	(-13,1)	17,0	(-5,0)	17,1	(+23,1)								
Romania	8,9	(+6,8)	31,1	(+1,3)	60,0	(-8,1)	-51,1	(+14,9)								
Slovakia	13,1	(+8,6)	54,3	(+1,0)	32,6	(-9,6)	-19,5	(+18,2)								
CEE	13,5	(+9,5)	50,0	(-2,0)	36,5	(-7,5)	-23,0	(+17,0)								
Eurozone	8,2	(+6,3)	55,1	(-2,6)	36,7	(-3,7)	-28,5	(+10,0)								
<b>Economic expectations</b>	<b>improve</b>		<b>no change</b>		<b>worsen</b>		<b>balance</b>									
Austria	40,9	(+0,4)	45,5	(+7,4)	13,6	(-7,8)	27,3	(+8,2)								
Croatia	41,3	(+7,2)	45,7	(+2,5)	13,0	(-9,7)	28,3	(+16,9)								
Czech Republic	41,7	(-5,2)	47,9	(+15,2)	10,4	(-10,0)	31,3	(+4,8)								
Hungary	52,9	(+2,9)	37,3	(+11,3)	9,8	(-14,2)	43,1	(+17,1)								
Poland	48,9	(+/-0,0)	38,3	(+8,5)	12,8	(-8,5)	36,1	(+8,5)								
Romania	52,2	(+5,5)	34,8	(+5,9)	13,0	(-11,4)	39,2	(+16,9)								
Slovakia	40,4	(+0,4)	46,8	(+6,8)	12,8	(-7,2)	27,6	(+7,6)								
CEE	47,1	(+4,2)	43,1	(+8,4)	9,8	(-12,6)	37,3	(+16,8)								
Eurozone	42,9	(-4,3)	40,8	(+14,4)	16,3	(-10,1)	26,6	(+5,8)								
<b>Inflation rate</b>	<b>increase</b>		<b>no change</b>		<b>decrease</b>		<b>balance</b>									
Austria	56,1	(+7,3)	36,6	(-5,3)	7,3	(-2,0)	48,8	(+9,3)								
Croatia	39,5	(-2,4)	53,5	(+7,0)	7,0	(-4,6)	32,5	(+2,2)								
Czech Republic	59,6	(-1,6)	34,0	(+1,3)	6,4	(+0,3)	53,2	(-1,9)								
Hungary	22,4	(-4,7)	28,6	(-4,7)	49,0	(+9,4)	-26,6	(-14,1)								
Poland	34,8	(-0,6)	50,0	(+10,4)	15,2	(-9,8)	19,6	(+9,2)								
Romania	31,9	(+0,1)	29,5	(-4,6)	38,6	(+4,5)	-6,7	(-4,4)								
Slovakia	53,3	(+4,4)	37,8	(-4,4)	8,9	(+/-0,0)	44,4	(+4,4)								
CEE	31,2	(+0,6)	56,3	(+3,2)	12,5	(-3,8)	18,7	(+4,4)								
Eurozone	51,1	(+2,0)	38,3	(-3,2)	10,6	(+1,2)	40,5	(+0,8)								
<b>Short-term interest rates</b>	<b>increase</b>		<b>no change</b>		<b>decrease</b>		<b>balance</b>									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	25,6	(-2,2)	12,1	(+/-0,0)	59,0	(+6,2)	66,7	(+15,2)	10,2	(+1,8)	-9,1	(+15,2)				
Czech Republic	48,8	(+8,4)	16,2	(+5,0)	48,8	(-6,0)	67,6	(-1,8)	2,4	(-2,4)	16,2	(-3,2)	46,4	(+10,8)	0,0	(+8,2)
Hungary	9,3	(-9,8)	2,6	(-8,5)	20,9	(-0,5)	15,8	(+1,9)	69,8	(+10,3)	81,6	(+6,6)	-60,5	(-20,1)	-79,0	(-15,1)
Poland	42,9	(+10,4)	21,6	(+9,9)	50,0	(-12,5)	51,4	(-4,5)	7,1	(+2,1)	27,0	(-5,4)	35,8	(+8,3)	-5,4	(+15,3)
Romania	12,9	(-9,6)	8,9	(-2,6)	25,6	(+10,6)	17,6	(+0,5)	61,5	(-1,0)	73,5	(+2,1)	-48,6	(-8,6)	-64,6	(-4,7)
Eurozone	52,2	(+6,2)			45,5	(-2,5)			2,3	(-3,7)			49,9	(+9,9)		
<b>Long-term interest rates</b>	<b>increase</b>		<b>no change</b>		<b>decrease</b>		<b>balance</b>									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	32,5	(-9,6)	20,0	(-1,9)	40,5	(+14,2)	36,7	(+8,6)	27,0	(-4,6)	43,3	(-6,7)	5,5	(-5,0)	-23,3	(+4,8)
Czech Republic	61,9	(+13,0)	25,0	(+/-0,0)	28,6	(-13,6)	50,0	(+10,0)	9,5	(+0,6)	25,0	(-10,0)	52,4	(+12,4)	0,0	(+10,0)
Hungary	25,0	(-7,6)	15,4	(-4,6)	25,0	(+5,4)	12,8	(+7,8)	50,0	(+2,2)	71,8	(-3,2)	-25,0	(-9,8)	-56,4	(-1,4)
Poland	37,5	(-1,1)	24,4	(-1,2)	42,5	(+6,1)	27,0	(+3,9)	20,0	(-5,0)	48,6	(-2,7)	17,5	(+3,9)	-24,2	(+1,5)
Slovakia	57,5	(-5,9)	20,0	(-1,6)	37,5	(+8,2)	51,4	(+/-0,0)	5,0	(-2,3)	28,6	(+1,6)	52,5	(-3,6)	-8,6	(-3,2)
Germany	69,8	(+7,3)			27,9	(+0,8)			2,3	(-8,1)			67,5	(+15,4)		
<b>Stock market indices</b>	<b>increase</b>		<b>no change</b>		<b>decrease</b>		<b>balance</b>									
EURO STOXX 50	46,7	(+4,2)	33,3	(+12,0)	20,0	(-16,2)	26,7	(+20,4)								
ATX (Austria)	55,0	(+7,4)	20,0	(-1,4)	25,0	(-6,0)	30,0	(+13,4)								
NTX (CEE)	58,5	(+9,7)	19,5	(+3,2)	22,0	(-12,9)	36,5	(+22,6)								
CROBEX (Croatia)	48,8	(+1,1)	32,6	(+13,6)	18,6	(-14,7)	30,2	(+15,8)								
PX 50 (Czech Rep.)	53,6	(+11,4)	24,4	(+2,2)	22,0	(-13,6)	31,6	(+25,0)								
BUX (Hungary)	55,6	(+13,0)	22,2	(-1,2)	22,2	(-11,8)	33,4	(+24,8)								
WIG (Poland)	54,8	(+11,7)	19,0	(-1,5)	26,2	(-10,2)	28,6	(+21,9)								
BET (Romania)	60,0	(+10,0)	15,0	(-1,7)	25,0	(-8,3)	35,0	(+18,3)								
SAX (Slovakia)	40,6	(+5,6)	35,1	(+5,1)	24,3	(-10,7)	16,3	(+16,3)								
SBI 20 (Slovenia)	44,4	(+6,5)	27,8	(+6,2)	27,8	(-12,7)	16,6	(+19,2)								
<b>Exchange rates (vs. Euro)</b>	<b>appreciate</b>		<b>no change</b>		<b>depreciate</b>		<b>balance</b>									
Kuna (Croatia)	16,7	(-3,3)	50,0	(+5,0)	33,3	(-1,7)	-16,6	(-1,6)								
Koruna (Czech Rep.)	49,0	(-4,1)	31,9	(+15,6)	19,1	(-11,5)	29,9	(+7,4)								
Forint (Hungary)	34,7	(+4,1)	40,8	(+4,1)	24,5	(-8,2)	10,2	(+12,3)								
Zloty (Poland)	65,2	(+6,0)	17,4	(+5,2)	17,4	(-11,2)	47,8	(+17,2)								
Lei (Romania)	40,0	(+0,5)	44,4	(+18,8)	15,6	(-19,3)	24,4	(+19,8)								
US-Dollar	52,1	(-3,7)	20,8	(+1,6)	27,1	(+2,1)	25,0	(-5,8)								

Note: 70 Financial experts participated in the March survey which was conducted during the period 03/01/10-03/15/10. 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 February in parentheses). Balances refer to the differences between positive and negative assessments.