

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 May 31 and June 14, 2010, are published in the July 2010 issue of the "Financial Market Report CEE." 61 financial market experts participated in this month's survey.

## Economic Expectations for Central and Eastern Europe Decline

The ZEW-Erste Group Bank Sentiment Indicator CEE declines by 14.8 points to 20.4 points in June. However, the majority of the financial market experts continue to expect an improvement of the business cycle in the CEE region within the next six months. This month the economic expectations for Austria and the Eurozone decrease strongly as well. The respective indicators drop by 14.0 points to 19.4 points and by 11.6 points to 20.4 points, respectively. The assessment of the current

economic situation in the CEE region remains nearly unchanged at minus 23.2 points. The appraisal of the current economic situation in Austria increases by 4.0 points to minus 5.4 points. The respective indicator for the Eurozone declines by 1.6 points to minus 38.6 points. In spite of the significant increase of the indicator which represents the inflation expectations for the CEE region by 19.7 points to 38.1, more than half of the surveyed experts continue to foresee unchanged inflation rates.

### 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 support from the Erste Group Bank, Vienna, declines by 14.8 points to 20.4 points in June. Nevertheless, 40.9 percent of the financial market experts still foresee a positive development of the business cycle in the CEE region on a six month time horizon. After a decrease of the economic expectations for the Eurozone by 11.6 points the respective indicator achieves the same value, namely 20.4 points, as the respective indicator for the CEE region. The economic expectations for Austria decrease by 14.0 points to 19.4 points in June. The majority of surveyed analysts expect, however, no change of the business development in Austria in the next six months.

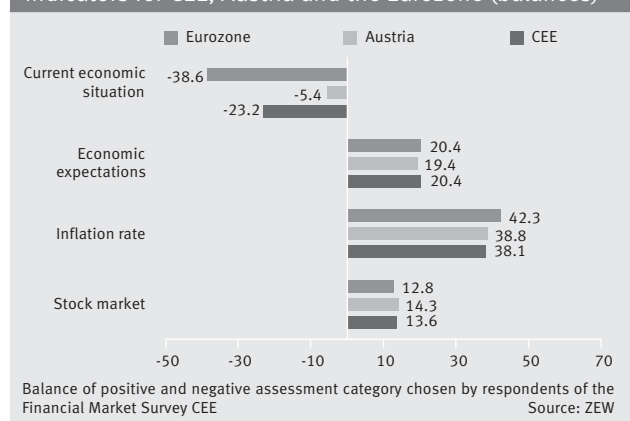
The assessment of the current economic situation in the CEE region remains nearly unchanged at the minus 23.2 points mark. 62.8 percent of the survey participants evaluate the current conditions as acceptable. The balance which reflects the evaluation of the current business conditions in Austria increases by 4.0 points to minus 5.4 points. The appraisal of the current economic situation in the Eurozone declines by 1.6 points to minus 38.6 points.

The indicator which represents the inflation expectations for the CEE region increases by 19.7 points to 38.1 points. However, 57.1 percent of the surveyed experts continue to foresee unchanged inflation rates within the next six months.

The expectations of the financial market experts concerning the development of the interest rates for the Eurozone decrease marginally to 40.0 points. Similar to the previous month, the majority of the participants, namely 55.6 percent, predict constant short-term interest rates in the Eurozone.

According to the opinions of around 40 percent of the analysts the stock indices for the CEE region (NTX), Austria (ATX) and the Eurostoxx 50 will improve within the next six months. Even though the relevant balances decline in June they remain positive at the 13.6 mark for the NTX, 14.3 points for the ATX and 12.8 points for the Eurostoxx 50.

Indicators for CEE, Austria and the Eurozone (balances)



## Czech Republic, Poland and Slovakia: Increasing Inflation Expected



After the significant improvements of the economic expectations in May this month's economic outlook for the Czech Republic, Poland and Slovakia declines. The economic expectations for Poland continue their volatile development and decline by 14.0 points to 23.0 points in the current survey. The economic expectations for Slovakia decrease by 9.0 points to 29.3 points. The economic sentiment indicator for the Czech Republic decreases only slightly in June by 2.3 points to 38.1 points. The indicator defends its leading position among all the analysed CEE countries in this category. 52.4 percent of the polled experts predict an improvement of the Czech economy.

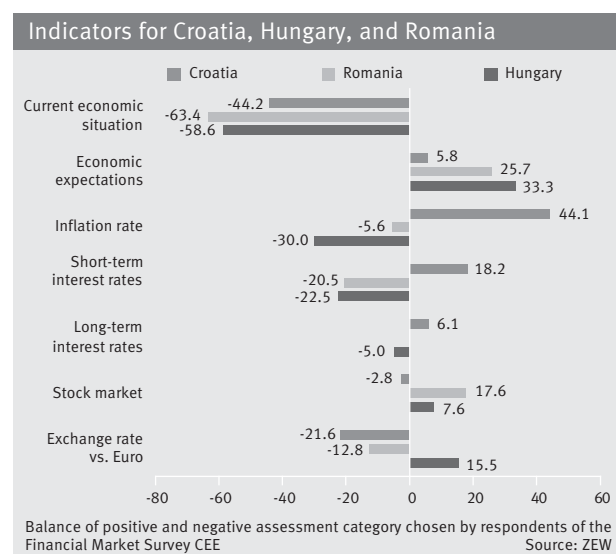
In contrast to the economic expectation the evaluation of the current business conditions in Poland only worsens marginally in June by 1.4 points to 7.3 points. Thus, the respective indicator exhibits the only positive value in this category. The balance which depicts the assessment of the current business cycle in the Czech Republic increases by 1.9 points to minus 2.3 points. It exhibits the second best value in this category among all the analysed countries. The indicator for Slovakia declines by 5.6 points to minus 12.0 points.

Nearly 60 percent of the analysts predict an increasing inflation rate in the Czech Republic for the next half year. The corresponding indicator rises by 18.8 points to 57.1 points, the highest value in country comparison. The corresponding indicator for Slovakia increases significantly as well by 16.9 points to 56.1 points. In contrast, the indicator for Poland achieves a rather moderate value of 18.5 points.

56.8 percent of the surveyed experts prognosticate a rise in short term interest rates by the Polish National Bank within the next six months. The relevant indicator reaches the highest value in country comparison, namely 56.8 points.

More than 60 percent of the survey participants predict an appreciation of the Polish and the Czech currencies against the Euro within the next six months. The respective indicators achieve 45.2 points and 40.0 points, respectively.

## Croatia, Hungary and Romania: Cautious Economic Outlook



The assessment of the business outlook for Croatia, Hungary and Romania for the next half year is mixed. While the economic expectations for Croatia decline by 17.5 points to 5.8 points in June, which is the lowest value in country comparison, the sentiment indicator for Hungary achieves the second highest value among the analysed CEE economies in this category of 33.3 points after a slight decline by 6.7 points. The indicator reflecting the economic expectations for Romania decreases by 1.5 points to 25.7 points in June.

In contrast to the relatively good economic expectations for Hungary the balance reflecting the assessment of the current economic situation displays the second lowest value among all the analysed CEE countries after a decrease by 15.6 points to minus 58.6 points in this month's survey. The respective indicator for Croatia decreases by 7.9 points reaching minus 44.2 points. Slovakia also continues to receive the most cautious evaluation of the current business situation by the financial market experts in this month's survey. The respective indicator decreases by 15.6 points reaching minus 63.7 points which is the lowest value in country comparison.

Hungary and Romania are the only two analysed countries which demonstrate negative balances concerning the development of the inflation rates. The indicator for Hungary even decreases by 10.5 points to minus 30.0 points. Half of the financial market experts predict a disinflationary growth within the next six months for Hungary. Despite the expected disinflationary growth of the inflation rate the majority of polled experts do not expect any changes in the short term interest rate which is in line with the press release of the 7th June 2010 by the National Bank of Hungary which reported constant short term interest rates.

The stock index of Croatia, CROBEX, is the only stock market index which demonstrates a negative growth among all the other analysed stock market indices. The respective indicator decreases significantly by 20.2 points reaching minus 2.8 points in June.

## Special Question: Greek Crisis – The Weakness of the Euro

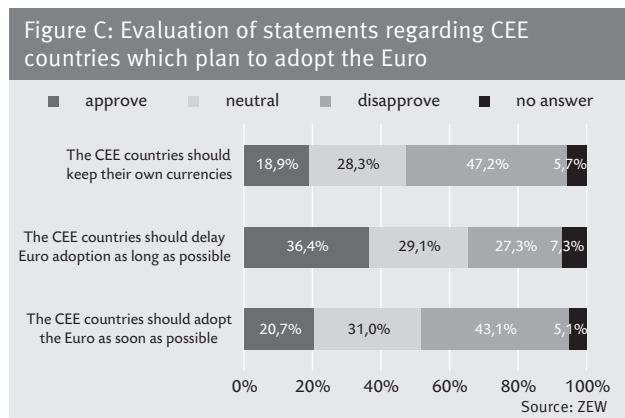
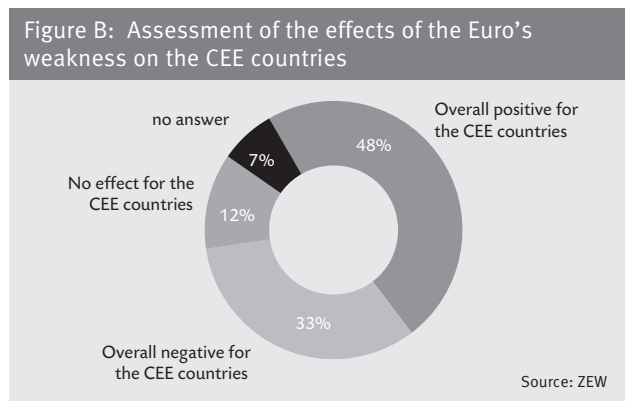
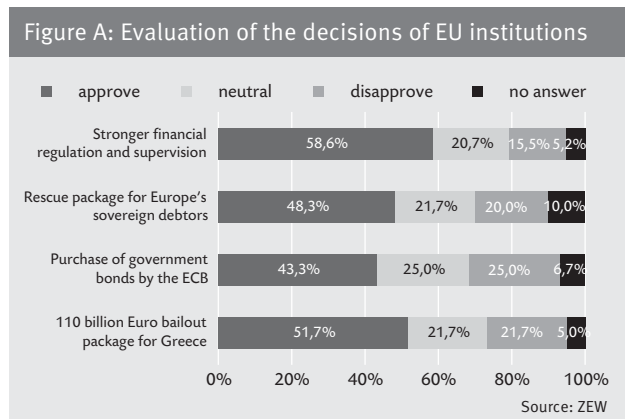
In light of the recent resolutions of the EU institutions concerning the Greek financial crisis and the maintenance of the stability of the Euro we first asked the financial market experts to evaluate the main decisions. Furthermore, this month’s special question deals with the effect of the Euro weakness on Central and Eastern European countries as well as with their ambitions to adopt the single European currency.

The majority of the polled analysts support all the resolutions of the EU institutions to prevent the spreading of the Greek debt. The bailout package for Greece’s financial crisis by the members of the European Union and the International Monetary Fund (IMF) allows Greece to receive 110 billion Euros worth of credits within the next three years. One third of the sum is contributed by the IMF and the rest by the Eurozone. The majority of financial market experts, specifically 52 percent of the participants, approved of the bailout package also looking past the no bail out agreement of the European Union. The highest approval, namely 59 percent, is found in the decision of stronger financial regulations and supervision. 43 percent and 48 percent of the financial market experts also approved the purchase of government bonds by the ECB and the rescue package for Europe’s sovereign debtors. However, the highest percentage of disapproval, namely 25 percent of the participants, is found in the decision of the ECB to buy government bonds.

Considering the negative impact of the Greek credit crisis on the Euro the nearly the half of the surveyed participants are confident that the weak Euro has an overall positive effect on the CEE countries. Around one third of the survey participants, however, do not regard the weaker Euro to be beneficial for the CEE region after balancing the advantages and disadvantages. 12 percent of the polled analysts believe that the weaker Euro has no effect on the CEE countries.

In the last months some CEE governments (e.g. Bulgaria, Romania and Poland) decided to abandon their target dates for Euro adoption after the global financial crisis drove up their budget deficit to significantly more than the 3 percent of gross domestic product ceiling allowed under the EU’s Maastricht Treaty. In line with these decisions the majority of financial market analysts, namely 36 percent, are of the opinion that the CEE countries should delay the Euro adoption as long as possible. 21 percent of the polled analysts approve of an early adoption of the Euro. Only a small fraction of the survey participants (19 percent) approve the statement that the CEE countries should keep their own currencies. In contrast 47 percent disapprove this statement.

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

<b>Current economic situation</b>	<b>good</b>		<b>acceptable (normal)</b>		<b>bad</b>		<b>balance</b>									
Austria	13.5	(+3.9)	67.6	(-3.8)	18.9	(-0.1)	-5.4	(+4.0)								
Croatia	2.9	(-1.7)	50.0	(-4.5)	47.1	(+6.2)	-44.2	(-7.9)								
Czech Republic	16.3	(+1.4)	65.1	(-0.9)	18.6	(-0.5)	-2.3	(+1.9)								
Hungary	4.4	(+0.3)	32.6	(-16.4)	63.0	(+16.1)	-58.6	(-15.8)								
Poland	24.4	(+0.5)	58.5	(-2.4)	17.1	(+1.9)	7.3	(-1.4)								
Romania	7.3	(+2.8)	22.0	(-21.2)	70.7	(+18.4)	-63.4	(-15.6)								
Slovakia	16.6	(+1.3)	54.8	(-8.2)	28.6	(+6.9)	-12.0	(-5.6)								
CEE	7.0	(-2.6)	62.8	(+5.1)	30.2	(-2.5)	-23.2	(-0.1)								
Eurozone	2.3	(-1.4)	56.8	(+1.2)	40.9	(+0.2)	-38.6	(-1.6)								
<b>Economic expectations</b>	<b>improve</b>		<b>no change</b>		<b>worsen</b>		<b>balance</b>									
Austria	36.1	(-6.8)	47.2	(-0.4)	16.7	(+7.2)	19.4	(-14.0)								
Croatia	22.9	(-19.0)	60.0	(+20.5)	17.1	(-1.5)	5.8	(-17.5)								
Czech Republic	52.4	(-0.8)	33.3	(-0.7)	14.3	(+1.5)	38.1	(-2.3)								
Hungary	51.1	(-4.9)	31.1	(+3.1)	17.8	(+1.8)	33.3	(-6.7)								
Poland	38.4	(-13.8)	46.2	(+13.6)	15.4	(+0.2)	23.0	(-14.0)								
Romania	43.6	(-1.8)	38.5	(+2.1)	17.9	(-0.3)	25.7	(-1.5)								
Slovakia	43.9	(-2.9)	41.5	(-3.2)	14.6	(+6.1)	29.3	(-9.0)								
CEE	40.9	(-6.1)	38.6	(-2.6)	20.5	(+8.7)	20.4	(-14.8)								
Eurozone	40.9	(-5.1)	38.6	(-1.4)	20.5	(+6.5)	20.4	(-11.6)								
<b>Inflation rate</b>	<b>increase</b>		<b>no change</b>		<b>decrease</b>		<b>balance</b>									
Austria	44.4	(-5.6)	50.0	(+7.1)	5.6	(-1.5)	38.8	(-4.1)								
Croatia	44.1	(+6.0)	55.9	(+1.1)	0.0	(-7.1)	44.1	(+13.1)								
Czech Republic	59.5	(+14.8)	38.1	(-10.8)	2.4	(-4.0)	57.1	(+18.8)								
Hungary	20.0	(+0.4)	30.0	(-11.3)	50.0	(+10.9)	-30.0	(-10.5)								
Poland	36.9	(+8.0)	44.7	(-4.2)	18.4	(-3.8)	18.5	(+11.8)								
Romania	25.0	(+0.6)	44.4	(-4.4)	30.6	(+3.8)	-5.6	(-3.2)								
Slovakia	56.1	(+10.4)	43.9	(-3.9)	0.0	(-6.5)	56.1	(+16.9)								
CEE	40.5	(+11.9)	57.1	(-4.1)	2.4	(-7.8)	38.1	(+19.7)								
Eurozone	46.7	(-2.3)	48.9	(+3.8)	4.4	(-1.5)	42.3	(-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	30.3	(-5.6)	20.0	(-9.8)	57.6	(+11.4)	56.7	(+10.8)	12.1	(-5.8)	23.3	(-1.0)	18.2	(+0.2)	-3.3	(-8.8)
Czech Republic	47.5	(-0.1)	24.3	(+4.3)	50.0	(+2.4)	59.5	(-5.5)	2.5	(-2.3)	16.2	(+1.2)	45.0	(+2.2)	8.1	(+3.1)
Hungary	17.5	(+6.2)	13.5	(+6.4)	42.5	(-0.7)	35.1	(-3.0)	40.0	(-5.5)	51.4	(-3.4)	-22.5	(+11.7)	-37.9	(+9.8)
Poland	56.8	(+15.3)	41.2	(+20.7)	43.2	(-3.1)	41.2	(-10.1)	0.0	(-12.2)	17.6	(-10.6)	56.8	(+27.5)	23.6	(+31.3)
Romania	17.7	(+7.5)	16.2	(+5.4)	44.1	(+0.5)	29.0	(-6.1)	38.2	(-8.0)	54.8	(+0.7)	-20.5	(+15.5)	-38.6	(+4.7)
Eurozone	42.2	(-2.9)			55.6	(+4.6)			2.2	(-1.7)			40.0	(-1.2)		
<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	36.4	(+0.5)	27.6	(+1.9)	33.3	(-5.2)	37.9	(-2.1)	30.3	(+4.7)	34.5	(+0.2)	6.1	(-4.2)	-6.9	(+1.7)
Czech Republic	62.5	(-4.9)	29.8	(-10.2)	25.0	(-2.9)	35.1	(-17.4)	12.5	(+7.8)	35.1	(+27.6)	50.0	(-12.7)	-5.3	(-37.8)
Hungary	35.0	(+0.2)	29.8	(+8.9)	25.0	(-7.6)	24.3	(-8.3)	40.0	(+7.4)	45.9	(-0.6)	-5.0	(-7.2)	-16.1	(+9.5)
Poland	34.2	(+0.1)	28.6	(+6.1)	34.2	(-9.0)	25.7	(-16.8)	31.6	(+8.9)	45.7	(+10.7)	2.6	(-8.8)	-17.1	(-4.6)
Slovakia	61.5	(+0.0)	44.4	(+20.8)	30.8	(-5.1)	38.9	(-16.4)	7.7	(+5.1)	16.7	(-4.4)	53.8	(-5.1)	27.7	(+25.2)
Germany	60.4	(+1.7)			34.9	(+0.1)			4.7	(-1.8)			55.7	(+3.5)		
<b>Stock market indices</b>	<b>increase</b>		<b>no change</b>		<b>decrease</b>		<b>balance</b>									
EURO STOXX 50	41.0	(-12.5)	30.8	(+19.2)	28.2	(-6.7)		12.8	(-5.8)							
ATX (Austria)	40.0	(-15.0)	34.3	(+16.8)	25.7	(-1.8)		14.3	(-13.2)							
NTX (CEE)	40.6	(-9.4)	32.4	(+13.4)	27.0	(-4.0)		13.6	(-5.4)							
CROBEX (Croatia)	22.9	(-20.6)	51.4	(+21.0)	25.7	(-0.4)		-2.8	(-20.2)							
PX 50 (Czech Rep.)	44.7	(-4.1)	31.6	(+8.3)	23.7	(-4.2)		21.0	(+0.1)							
BUX (Hungary)	38.4	(-10.5)	30.8	(+13.0)	30.8	(-2.5)		7.6	(-8.0)							
WIG (Poland)	44.4	(-3.3)	30.6	(+11.6)	25.0	(-8.3)		19.4	(+5.0)							
BET (Romania)	44.1	(-3.2)	29.4	(+8.3)	26.5	(-5.1)		17.6	(+1.9)							
SAX (Slovakia)	38.2	(-0.3)	41.2	(+15.6)	20.6	(-15.3)		17.6	(+15.0)							
SBI 20 (Slovenia)	35.7	(-10.3)	39.3	(+15.0)	25.0	(-4.7)		10.7	(-5.6)							
<b>Exchange rates (vs. Euro)</b>	<b>appreciate</b>		<b>no change</b>		<b>depreciate</b>		<b>balance</b>									
Kuna (Croatia)	13.5	(-9.2)	51.4	(+8.2)	35.1	(+1.0)		-21.6	(-10.2)							
Koruna (Czech Rep.)	60.0	(+4.9)	20.0	(-6.5)	20.0	(+1.6)		40.0	(+3.3)							
Forint (Hungary)	51.1	(+5.0)	13.3	(-17.5)	35.6	(+12.5)		15.5	(-7.5)							
Zloty (Poland)	61.9	(+7.8)	21.4	(-5.7)	16.7	(-2.1)		45.2	(+9.9)							
Lei (Romania)	23.1	(-5.5)	41.0	(+7.7)	35.9	(-2.2)		-12.8	(-3.3)							
US-Dollar	36.9	(-11.2)	17.4	(-1.8)	45.7	(+13.0)		-8.8	(-24.2)							

Note: 61 Financial experts participated in the June survey which was conducted during the period 05/31/10-06/14/10. 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 May in parentheses). Balances refer to the differences between positive and negative assessments.

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