

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 August 25 and September 14, 2009, are published in the October 2009 issue of the "Financial Market Report CEE." 71 financial market experts participated in this month's survey.

## The CEE Economic Sentiment Indicator Continues to Rise

The upward trend of the ZEW-Erste Group Bank Sentiment Indicator for Central and Eastern Europe (CEE) continues in September 2009. The expectations of the financial market experts concerning the economic development within the next six months improve by 2.8 points with the indicator rising to 38.8 points. While the sentiment indicators both for Austria and the Eurozone have slightly deteriorated, the economic outlook for almost all analysed CEE countries has im-

proved in September. The current economic conditions in the CEE region, in the individual CEE countries and in the Eurozone are assessed much better in September compared to the previous month. Nevertheless, all balances remain negative. The indicator reflecting the current economic condition in the CEE region shows minus 47.3 points. The expectations for the development of the CEE stock market index (NTX) improve by 1.5 points to a value of 18.5 points in the current survey.

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

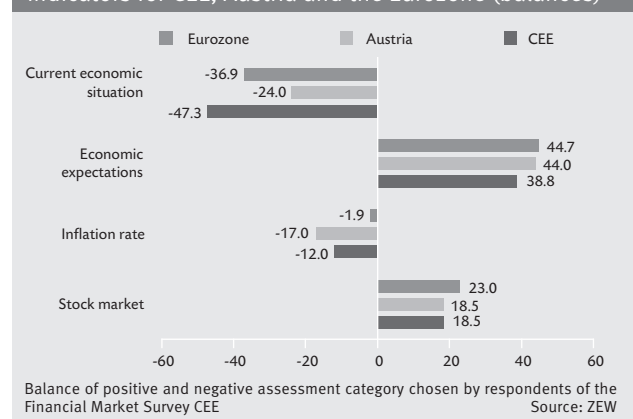
The CEE Economic Sentiment Indicator, which is calculated monthly as the balance of positive and negative assessments of the economic development on a six months horizon, continues to rise in September. The analysts' expectations concerning the economic development over the next half year improve by 2.8 points and the indicator achieves 38.8 points. While 48.1 percent of the surveyed experts anticipate an improvement, only 9.3 percent of the participants assume the business activity in the CEE region to worsen within the next six months. The amount of experts anticipating no change has significantly increased to 42.6 percent. The expectations regarding the economic development both in Austria and in the Eurozone have deteriorated in September. The Austrian indicator decreases by 6.0 points to 44.0 points. The indicator for the Eurozone drops most strongly this month with a decrease of 7.3 points to 44.7 points.

The current economic conditions in the CEE region, Austria and the Eurozone are assessed much better in September compared to the previous month. All balances achieve double-digit improvements. Despite that, the scores remain negative. The indicator reflecting the current economic condition in the CEE region shows minus 47.3 points in September. Austria's corresponding indicator stands at minus 24.0 points and the indicator for the Eurozone rises to minus 36.9 points.

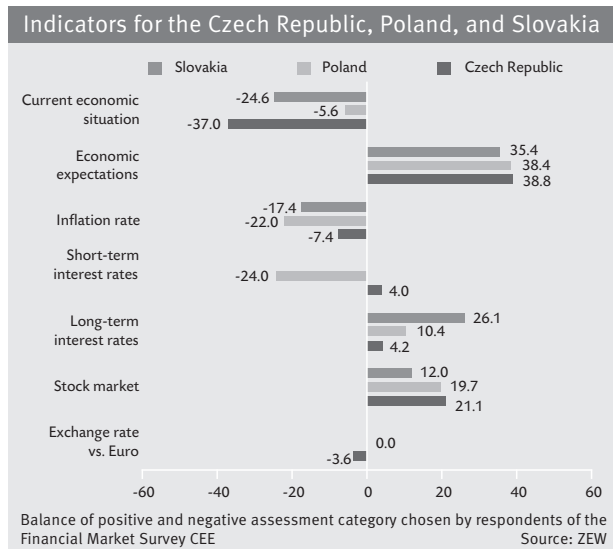
The balance indicating the expectations of the financial market experts on inflation in the CEE region rises in Septem-

ber by 4.3 points to now minus 12.0 points. This shows that the majority of the participants in the survey believe in declining inflation rates in Central and Eastern Europe. In contrast, the majority of the financial market experts await inflation rates to be unchanged in both Austria and the Eurozone over the next six months. Consequently, 74.5 percent of the analysts think of the current key interest rate in the Eurozone as being appropriate and do not anticipate interest rate increases by the ECB over the upcoming six months. Expectations for the development of stock indices in CEE (NTX) and Austria (ATX) assimilate at 18.5 points in the current survey.

Indicators for CEE, Austria and the Eurozone (balances)



## Czech Republic, Poland and Slovakia: Clearly Improved Current Situation



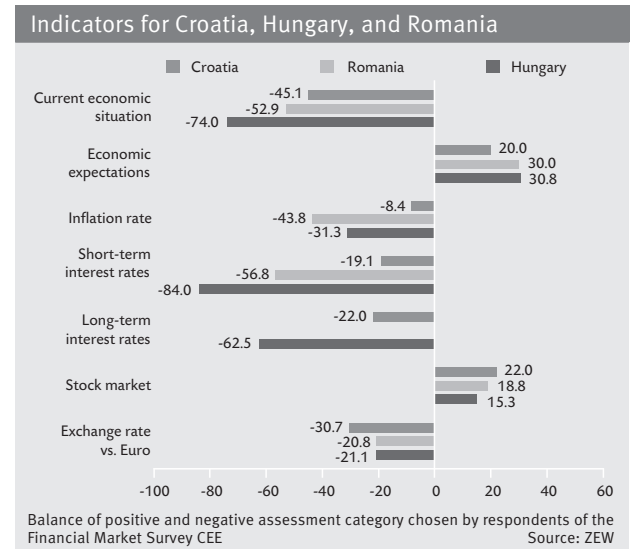
The sentiment indicator for the Czech Republic remains unchanged at 38.8 points in September. Although the previous month's strong boost was not to be continued in September, the Czech indicator shows the best value among the CEE countries analysed in this survey. In September, Poland's economic outlook further improves. By rising 7.3 points, the Polish sentiment indicator now stands at 38.4 points which is the second best value across the analysed countries. After having shown the strongest increase in August, the Slovakian sentiment indicator stays nearly unchanged at 35.4 points this month. 49.0 percent of the analysts expect an unchanged development of the economy over the next six months.

The estimations of the analysts regarding the current economic situation in the Czech Republic, Poland and Slovakia clearly improve in September. The assessment for the Czech Republic recovers by 14.0 percent to minus 37.0 percent. The analysts evaluate the current situation in Poland most positive in September compared to all other CEE countries. The respective indicator reaches the strongest upswing in the current survey with an improvement by 40.4 points to minus 5.6 points. The appraisal of the current economic situation in Slovakia increases also strongly by 35.9 points to minus 24.6 points.

The balances representing the analysts' expectations of inflation rates in the three countries remain negative in September. This indicates that more survey participants still expect decreasing inflation rates.

After the cautious forecasts concerning the development of the Czech stock market in August, the indicator for the stock index PX50 improves significantly this month. With a current value of 21.1 points, the balance beats expectations for the stock markets of most other CEE countries. The expectations for the Slovakian stock index SAX improve by 4.1 points to 12.0 points and for the Polish stock market index WIG by 4.7 points to 19.7 points in September.

## Hungary, Romania and Croatia: Depreciation of Currencies Expected



The assessment of the economic development in Hungary, Romania and Croatia within the next six months improves in September again. The Hungarian sentiment indicator rises by 3.4 points to 30.8 points. The indicator for Romania increases by 7.8 points to 30.0 points. 50.0 percent of the participants in this month's survey assume the economic development in Romania not to change over the next six months. Although, the Croatian sentiment indicator climbs most strongly by 15.3 points to a value of 20.0 points, it still achieves the lowest figure across the analysed CEE countries.

Despite the improved economic expectations, the financial market experts continue to take a critical stance towards the current business conditions in the three countries. With a balance of minus 74.0 points Hungary ranks last among the CEE countries analysed in this survey. The balances for the current economic situation in Romania and Croatia increase significantly by 24.3 points and 21.5 points, however, they remain clearly negative at minus 52.9 points and minus 45.1 points. Nevertheless, the majority of 54.9 percent of the survey participants evaluate the current business conditions in Croatia as acceptable.

The majority of financial market experts expect decreasing inflation rates and in line with this decreasing short term interest rates in Hungary, Romania and Croatia. The clearest picture arises for the Hungarian interest rates. 86.0 percent of the analysts assume a decrease in short-term interest rates in Hungary over the next six months.

The participants in the September survey appraise the outlook for Croatia's domestic stock market most bullish compared to all CEE countries covered. The balance showing the expected development of the CROBEX climbs to the highest value amongst all analysed countries.

Considering the exchange rate expectations, a shift of the forecasts towards a depreciation of the Romanian and the Hungarian currencies compared to the Euro can be identified in September.

## Special Question: CEE Labour Markets

Following Eurostat, the harmonised seasonally adjusted unemployment rate in the Euro area has increased from 8.5 percent in January to 9.5 percent in July 2009. Interestingly, many of the CEE countries achieve significantly lower unemployment rates than the countries from the Euro area (e.g. the Czech Republic with 4.6 percent, and Slovenia with 6.0 percent).

Within the scope of the special question in the September survey, financial market experts were asked to analyse some aspects of the CEE labour markets. A similar survey was already conducted in March 2008.

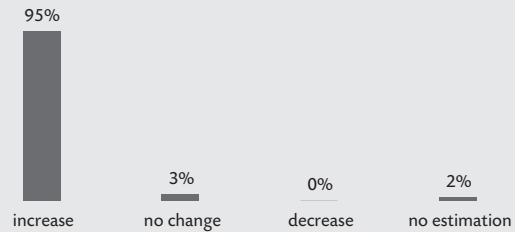
While the overall perception of the participants regarding estimations of the unemployment rates was rather mixed in 2008, a clear picture can be drawn for 2009. 95.0 percent of the financial market experts who answered the question expect the mean unemployment rate of the CEE region to increase by the end of the year of 2009. In March 2008, only 22.1 percent of the participants had this opinion. Considering the separate CEE countries, the participants' expectations differ from country to country. 41.7 percent of the financial market experts predict Slovakia's unemployment rate to be the highest one among all CEE countries at the end of 2009. This is also in line with the Eurostat figures which report an increase of the unemployment rate in the Slovak Republic from 9.7 percent in January to 12.0 percent in July 2009. With a clear gap, Slovakia is followed by Romania and Croatia with only approximately one out of ten participants ranking these two CEE countries as the ones with the highest unemployment rates at the end of this year. Poland, mentioned as the country with the highest unemployment rate in the March 2008 survey, plays only a minor role in the current survey (5.6 percent).

Concerning CEE countries not or very little affected by unemployment, the Czech Republic can defend its top position compared to the survey in 2008. 42.4 percent of the financial market experts believe that the lowest unemployment rate will be measured in Germany's Eastern neighbour. In the March 2008 survey this share was even 50.0 percent. Romania (21.2 percent) and Austria (15.2 percent) are allocated at the second and third position. For Romania participants seem to have very diverse opinions: As seen above, the country at the Black Sea ranks top both amongst the CEE countries least (21.2 percent) and most affected (13.9 percent) by unemployment.

Regarding sectors and the impact of unemployment on certain industries, financial market experts draw a more common picture. According to the participants, construction and (heavy) industry are affected most by growing unemployment (both 26.9 percent each). The automotive sector also ranks amongst the industries heavily affected by unemployment due to the current economic crisis (23.1 percent). When asked for their estimation concerning sectors least affected by unemployment, most participants nominate the food sector and the agriculture industry (34.8 percent), followed by utilities/energy (21.7 percent) and healthcare/pharma (17.4 percent).

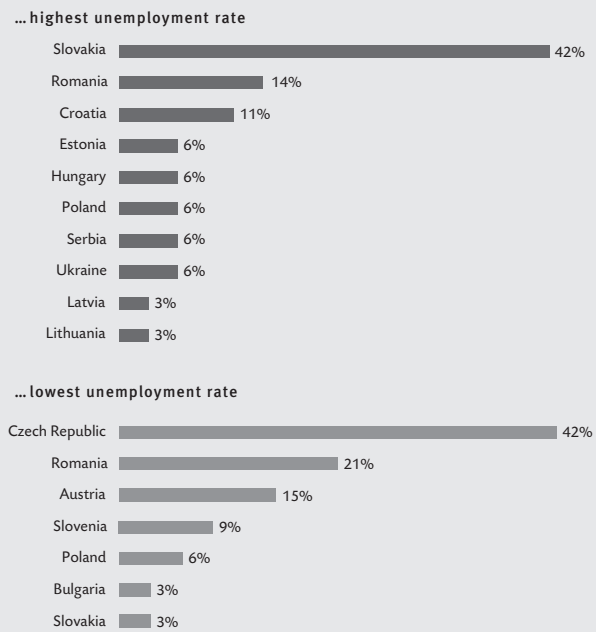
Mariela Borell, Thomas Wolf

Figure A: Estimations for the change of the average CEE unemployment rate in 2009



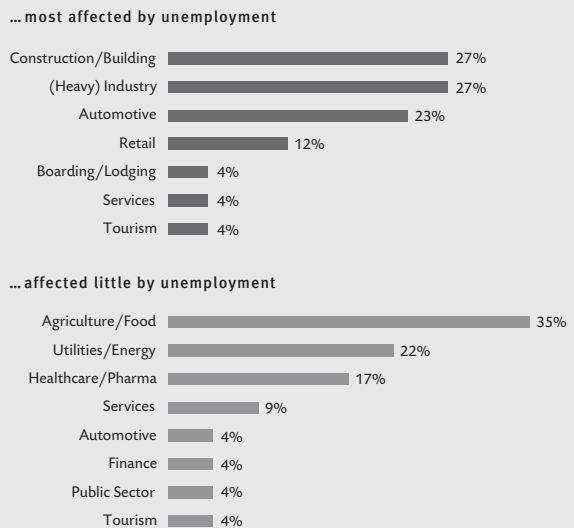
Source: ZEW

Figure B: Estimations for the CEE country with the ...



Source: ZEW

Figure C: Sectors likely to be ...



Source: ZEW

**ZEW-Financial Market Survey: September 2009**

<b>Current economic situation</b>	<b>good</b>		<b>acceptable (normal)</b>		<b>bad</b>		<b>balance</b>									
Austria	8,0	(-0,9)	60,0	(+20,0)	32,0	(-19,1)	-24,0	(+18,2)								
Croatia	0,0	(-4,8)	54,9	(+31,1)	45,1	(-26,3)	-45,1	(+21,5)								
Czech Republic	3,7	(-0,4)	55,6	(+14,8)	40,7	(-14,4)	-37,0	(+14,0)								
Hungary	1,9	(-2,0)	22,2	(+4,9)	75,9	(-2,9)	-74,0	(+0,9)								
Poland	32,1	(+24,1)	30,2	(-7,8)	37,7	(-16,3)	-5,6	(+40,4)								
Romania	5,9	(+1,8)	35,3	(+20,7)	58,8	(-22,5)	-52,9	(+24,3)								
Slovakia	24,5	(+20,4)	26,4	(-4,9)	49,1	(-15,5)	-24,6	(+35,9)								
CEE	1,8	(-0,1)	49,1	(+18,3)	49,1	(-18,2)	-47,3	(+18,1)								
Eurozone	3,5	(-0,2)	56,1	(+17,2)	40,4	(-17,0)	-36,9	(+16,8)								
<b>Economic expectations</b>	<b>improve</b>		<b>no change</b>		<b>worsen</b>		<b>balance</b>									
Austria	52,0	(-12,3)	40,0	(+18,6)	8,0	(-6,3)	44,0	(-6,0)								
Croatia	32,0	(-3,7)	56,0	(+22,7)	12,0	(-19,0)	20,0	(+15,3)								
Czech Republic	48,1	(-7,0)	42,6	(+14,0)	9,3	(-7,0)	38,8	(+/-0,0)								
Hungary	42,3	(-6,7)	46,2	(+16,8)	11,5	(-10,1)	30,8	(+3,4)								
Poland	46,1	(-3,8)	46,2	(+14,9)	7,7	(-11,1)	38,4	(+7,3)								
Romania	40,0	(-8,9)	50,0	(+25,6)	10,0	(-16,7)	30,0	(+7,8)								
Slovakia	43,2	(-12,2)	49,0	(+23,5)	7,8	(-11,3)	35,4	(-0,9)								
CEE	48,1	(-7,9)	42,6	(+18,6)	9,3	(-10,7)	38,8	(+2,8)								
Eurozone	53,6	(-10,4)	37,5	(+13,5)	8,9	(-3,1)	44,7	(-7,3)								
<b>Inflation rate</b>	<b>increase</b>		<b>no change</b>		<b>decrease</b>		<b>balance</b>									
Austria	21,3	(-5,5)	40,4	(-8,4)	38,3	(+13,9)	-17,0	(-19,4)								
Croatia	33,3	(-0,9)	25,0	(-14,0)	41,7	(+14,9)	-8,4	(-15,8)								
Czech Republic	28,4	(+6,2)	35,8	(-10,9)	35,8	(+4,7)	-7,4	(+1,5)								
Hungary	21,6	(-7,5)	25,5	(-5,8)	52,9	(+13,3)	-31,3	(-20,8)								
Poland	22,0	(+3,8)	34,0	(-20,5)	44,0	(+16,7)	-22,0	(-12,9)								
Romania	18,7	(+5,7)	18,8	(-18,2)	62,5	(+12,5)	-43,8	(-6,8)								
Slovakia	21,1	(+3,4)	40,4	(-6,3)	38,5	(+2,9)	-17,4	(+0,5)								
CEE	28,0	(+7,1)	32,0	(-9,9)	40,0	(+2,8)	-12,0	(+4,3)								
Eurozone	30,8	(-5,9)	36,5	(-6,4)	32,7	(+12,3)	-1,9	(-18,2)								
<b>Short-term interest rates</b>	<b>increase</b>		<b>no change</b>		<b>decrease</b>		<b>balance</b>									
	<b>[abs.]</b>	<b>[rel.]</b>	<b>[abs.]</b>	<b>[rel.]</b>	<b>[abs.]</b>	<b>[rel.]</b>	<b>[abs.]</b>	<b>[rel.]</b>								
Croatia	7,1	(-7,2)	9,6	(-6,0)	66,7	(+6,7)	57,1	(+10,2)	26,2	(+0,5)	33,3	(-4,2)	-19,1	(-7,7)	-23,7	(-1,8)
Czech Republic	16,0	(+8,8)	4,0	(+1,5)	72,0	(+12,5)	52,0	(-0,5)	12,0	(-21,3)	44,0	(-1,0)	4,0	(+30,1)	-40,0	(+2,5)
Hungary	2,0	(-2,4)	0,0	(-2,4)	12,0	(-3,2)	18,0	(+6,4)	86,0	(+5,6)	82,0	(-4,0)	-84,0	(-8,0)	-82,0	(+1,6)
Poland	10,0	(+3,0)	6,1	(+3,7)	56,0	(+7,2)	32,7	(-12,5)	34,0	(-10,2)	61,2	(+8,8)	-24,0	(+13,2)	-55,1	(-5,1)
Romania	0,0	(-2,5)	2,4	(+2,4)	43,2	(+18,2)	11,6	(-12,1)	56,8	(-15,7)	86,0	(+9,7)	-56,8	(+13,2)	-83,6	(-7,3)
Eurozone	20,0	(+1,7)			74,5	(-3,1)			5,5	(+1,4)			14,5	(+0,3)		
<b>Long-term interest rates</b>	<b>increase</b>		<b>no change</b>		<b>decrease</b>		<b>balance</b>									
	<b>[abs.]</b>	<b>[rel.]</b>	<b>[abs.]</b>	<b>[rel.]</b>	<b>[abs.]</b>	<b>[rel.]</b>	<b>[abs.]</b>	<b>[rel.]</b>								
Croatia	14,6	(-26,0)	14,6	(-9,5)	48,8	(+26,9)	17,1	(-10,5)	36,6	(-0,9)	68,3	(+20,0)	-22,0	(-25,1)	-53,7	(-29,5)
Czech Republic	31,9	(-4,7)	10,9	(+0,1)	40,4	(+11,1)	32,6	(+2,9)	27,7	(-6,4)	56,5	(-3,0)	4,2	(+1,7)	-45,6	(+3,1)
Hungary	12,5	(-8,4)	8,5	(-1,5)	12,5	(-3,8)	14,9	(+2,4)	75,0	(+12,2)	76,6	(-0,9)	-62,5	(-20,6)	-68,1	(-0,6)
Poland	33,3	(+5,8)	17,4	(+3,9)	43,8	(-1,2)	26,1	(+7,2)	22,9	(-4,6)	56,5	(-11,1)	10,4	(+10,4)	-39,1	(+15,0)
Slovakia	42,8	(-1,1)	9,5	(-3,7)	40,5	(+6,4)	28,6	(-5,6)	16,7	(-5,3)	61,9	(+9,3)	26,1	(+4,2)	-52,4	(-13,0)
Germany	64,2	(+9,1)			26,4	(-6,3)			9,4	(-2,8)			54,8	(+11,9)		
<b>Stock market indices</b>	<b>increase</b>		<b>no change</b>		<b>decrease</b>		<b>balance</b>									
EURO STOXX 50	44,2	(-6,9)			34,6	(+19,0)			21,2	(-12,1)			23,0	(+5,2)		
ATX (Austria)	40,9	(-9,1)			36,7	(+16,7)			22,4	(-7,6)			18,5	(-1,5)		
NTX (CEE)	40,9	(-5,4)			36,7	(+12,3)			22,4	(-6,9)			18,5	(+1,5)		
CROBEX (Croatia)	46,0	(-4,0)			30,0	(+16,1)			24,0	(-12,1)			22,0	(+8,1)		
PX 50 (Czech Rep.)	44,2	(+1,3)			32,7	(+8,9)			23,1	(-10,2)			21,1	(+11,5)		
BUX (Hungary)	38,4	(-9,2)			38,5	(+14,7)			23,1	(-5,5)			15,3	(-3,7)		
WIG (Poland)	43,2	(-1,8)			33,3	(+8,3)			23,5	(-6,5)			19,7	(+4,7)		
BET (Romania)	41,7	(-5,6)			35,4	(+14,3)			22,9	(-8,7)			18,8	(+3,1)		
SAX (Slovakia)	34,0	(-5,5)			44,0	(+15,1)			22,0	(-9,6)			12,0	(+4,1)		
SBI 20 (Slovenia)	34,0	(-5,4)			44,7	(+26,5)			21,3	(-21,1)			12,7	(+15,7)		
<b>Exchange rates (vs. Euro)</b>	<b>appreciate</b>		<b>no change</b>		<b>depreciate</b>		<b>balance</b>									
Kuna (Croatia)	12,2	(+/-0,0)			44,9	(+10,8)			42,9	(-10,8)			-30,7	(+10,8)		
Koruna (Czech Rep.)	37,1	(-5,4)			22,2	(-5,5)			40,7	(+10,9)			-3,6	(-16,3)		
Forint (Hungary)	23,1	(-16,1)			32,7	(+3,3)			44,2	(+12,8)			-21,1	(-28,9)		
Zloty (Poland)	42,6	(-24,1)			14,8	(+6,5)			42,6	(+17,6)			0,0	(-41,7)		
Lei (Romania)	27,1	(-17,3)			25,0	(-3,9)			47,9	(+21,2)			-20,8	(-38,5)		
US-Dollar	18,2	(-10,3)			29,1	(+10,7)			52,7	(-0,4)			-34,5	(-9,9)		

Note: 71 Financial experts participated in the September survey which was conducted during the period 08/25/09-09/14/09. 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 August 2009 in parentheses). Balances refer to the differences between positive and negative assessments.

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