

ZEW, the Centre for European Economic Research, Mannheim, and Erste Bank der oesterreichischen Sparkassen, Vienna, carry out a monthly survey for Central and Eastern Europe, Austria, and the Eurozone asking financial market experts about their assessment and expectations with regard to economic and financial market data. The results of the present survey conducted between 27 November and 17 December 2007 are published in this issue of the "Financial Market Report CEE", January 2008. 78 financial market experts participated in this month's survey.

Economic Expectations for the CEE Region: Downward Trend Slows down

The economic expectations of the financial market experts surveyed by the ZEW, the Centre for European Economic Research, Mannheim, supported by Erste Bank der Oesterreichischen Sparkassen, Vienna, for Central and Eastern Europe decline slightly in the December survey. The ZEW-Erste Bank sentiment indicator CEE for economic expectations

stands at -22.7 points. However, the drop of 5.0 points seems low compared to the fall in previous months. The clear majority of the experts assess the current economic situation in the CEE region as acceptable. Although the corresponding indicator has declined, the positive balance of 33.2 points indicates that the positive evaluations still prevail.

Economic Outlook for CEE countries, Austria and the Eurozone

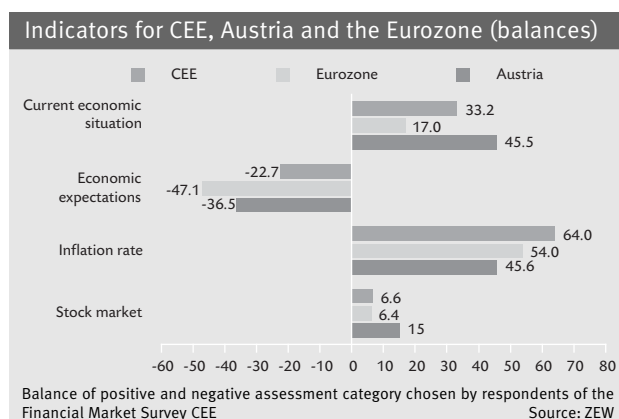
The CEE indicator, calculated as the balance of positive and negative assessments for the economic development in CEE countries within the next six months, has continued its downward trend in December, but at a slower rate. The fraction of analysts expecting a business cycle improvement dropped slightly, and forecasts for an already peaked cycle still dominate the indicator movement. The CEE indicator fell 5.0 points down to -22.7 points. Nevertheless, the downward movement of the indicator is relatively small compared to the 19.7 points drop in October and 6.3 points drop in November. The majority (58.5 percent) of the surveyed analysts, however, still believes that no significant change is to be expected. Expectations for Austria's economy in the next half of the year worsened strongly this month. The frac-

tion of analysts forecasting a slowdown in the next six months rose by 15.7 points. The corresponding balance has thus hit a record low since the start of the survey (-36.5 points). The balance for the euro area also reached its lowest level of -47.1 points, even though it has declined only slightly by 1.1 points.

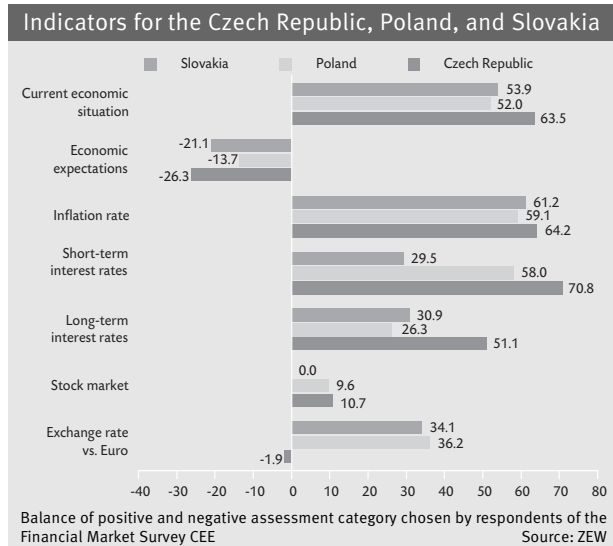
The results of the December survey continue to indicate a positive assessment of the current economic situation in the Central and Eastern European countries.

However, the number of positive assessments dropped in favour of neutral positions. The balance declined markedly by 17.8 points to 33.2 points. Although none of the surveyed experts regard the current economic situation in Austria as negative, the indicator has dropped 17.0 points down to 45.5 points. This is due to the contraction (from 62.5 percent to 45.5 percent) in the percentage of participants that assessed the economic situation as good. The balance for the euro area decreased as well even though the clear majority of financial market experts (79.2 percent) evaluate the current situation as acceptable.

Similar to the results of the November survey the experts expect higher inflation rates within the next six months for Austria, the euro area as well as for the Central and Eastern European countries but the balances increased only slightly. Fewer and fewer participants forecast rising short-term interest rates. The majority still expects no change in short-term interest rates in the euro area. The balance fell to only 2.0 points.



Good current situation; slight improvement of the economic expectations for Poland



As in the previous surveys the majority of the financial market experts characterizes the current state of the three economies as good. The balances for the Czech Republic and Poland declined moderately (by 3.2 points and by 1.2 points), whereas the balance for Slovakia dropped markedly by 12.1 points. The economic expectations for Slovakia worsened as well while those for Poland improved slightly by 1.2 points, forming a balance of -13.7 points. Though all balances are negative, the majority of the survey participants does not expect the business cycle development of the three countries to change.

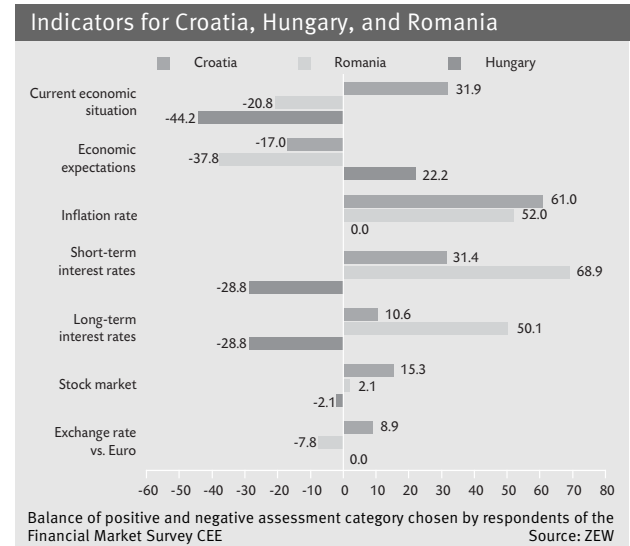
Moreover, financial experts evaluate the risk of increasing inflation rates as relatively high. The Czech Republic is still showing the highest balance of 64.2 despite the moderate decrease of 5.4 points.

The expectations with regard to short-term interest rates are quite similar to last month's survey. A clear majority of participants forecasts increasing interest rates for the Czech Republic and Poland with balances of 70.8 points and 58.0 points.

The low but still positive balances for the stock market indices in the Czech Republic and Poland (10.7 and 9.6 points respectively) point out that a higher share of experts forecasts further increasing share prices in these countries. By contrast, the balance for the Slovakian SAX amounts to 0.0 points (a fall of 22.3 points compared to the month before).

The expectations for the development of exchange rates in the next six months of the Polish currency have increased noticeably on balance. With 36.2 points the Zloty balance stands at the highest level compared to the other currencies. This forecast is consistent with the significant appreciation of the Zloty since September 2007. Due to the fact that the export enterprises use to a large extent imported goods in their production, the negative impact of the appreciation of the Zloty on their financial situation is limited. The balance for the Slovakian Koruna is also positive, however, the majority forecasts no change.

Better economic prospects for Hungary; increasing short-term interest rates in Croatia and Romania expected



The negative development of the financial market experts' expectations for the Croatian and Romanian economies slowed down. The indicators of -17.0 and -37.8 points decreased in December by only 4.2 points and 4.4 points respectively, compared to the drop of 15.0 and 10.0 points in the November survey. For the Hungarian business cycle development the experts' assessments have even improved (+4.6 points). Having the sole positive indicator of 22.2 points and in the same time the worst balance for the current economic situation (-44.2 points), Hungary asserts once again its position as the country with the most pessimistic evaluation for the present situation and the best prospects for the future situation within the CEE region.

Expectations regarding the change in the inflationary risk of the three countries are fairly heterogeneous. While experts see the risk of a rise in inflation in Romania lower, they forecast inflation risks to rise in Croatia. For the first time no decrease in the inflation rate in Hungary has been forecasted. The corresponding balance climbed from -16.4 up to 0.0 points.

The survey participants forecast rising short- and long-term interest rates for Croatia and Romania and falling rates for Hungary similar to the November survey.

The downward trend of the stock market expectations for the three countries continues this month. A marked drop characterizes the balance for the Hungarian BUX which declined by 35.5 points. In the current survey more analysts forecast decreasing than increasing share prices in Hungary. Next to the Slovenian stock index, which shows a balance of -7.8 points, the BUX is now the second stock market indicator within the CEE countries for which the balance of the expected development is negative.

The experts project a different exchange rate development for the three countries. On balance they forecast, just as in November, an appreciation of the Kuna and depreciation of the Lei, and for the first time no change for the Forint.

Special Question: Global equity portfolio allocation 2008

The special question at the end of the year deals with the intended equity portfolio allocation for the year 2008 on a global base. At first the financial market experts are asked to forecast the level of four stock indices – NTX, S&P 500, Eurostoxx 50 and Nikkei 225 – at the end of 2008. For all indices the survey participants expect higher levels compared to the current levels. They project an increase of 6.0 percent for the NTX, 4.0 percent for the S&P 500, nearly 4.0 percent for the Eurostoxx 50 and 5.5 percent for the Nikkei 225. For the first three indices the medians of the expected values are higher than the mean values, which is due to a few low outliers and a higher concentration of the values in the field above the mean value. The experts forecast for the NTX to reach a level of 2,079 points. The two most pessimistic analysts expect a level of 1,500 and the most optimistic one a level of 2,450 points. The expected values for the other indices are: for the S&P 500 1,530 points on average (lowest 1,100 points; highest 2,000 points); for the Eurostoxx 50 4,478 points on average (lowest 3,300 points; highest 5,200 points); for the Nikkei 225 16,085 points on average (lowest 12,000 points; highest 19,000 points).

Looking at the six months' expectations of the analysts, asked in the main part of the questionnaire, the stock market picture is not such optimistic as on the one year basis. The balance for the European stock market fell slightly by 2.5 points to 6.4 points. 43.4 percent (40.0 percent in the previous month) of analysts expect an advance while 37.0 percent (31.1 percent in the previous month) expect a downward movement in the Eurostoxx 50 index. Even more positive is the outlook concerning the Austrian stock market. 45.0 percent (39.1 percent in the previous month) expect the ATX to advance in the next six months. The indicator reached 15.0 points (+2.7 points) in December. In contrast, forecasts for the stock indices in Central and Eastern Europe dropped again. The indicator for the NTX sank 22.0 points and now stands at 6.6 points. (See figure on page 1).

In the second part of the special question the experts evaluate the global sector allocation for their stock portfolios in 2008. They indicate which sectors will be underweighted, neutral or overweighted versus the overall portfolio. The results show that 38 percent of the experts intend to overweight energy as well as utilities and telecommunication stocks in their portfolios. By contrast 41 percent aim to underweight stocks in the field of cyclical consumer goods. Consistent with the current weakness of the financial sector, 28 percent of the participants plan to reduce their investment in shares of financial services companies while 18 percent plan to increase it.

The intended investment focus represents the overall expected earnings growth in these sectors. This is of interest in the third part of the question, where the experts forecast the global earnings growth in the eight sectors in 2008 compared to 2007. For the three overweighted sectors the experts predict higher earnings growth. By contrast 43 percent of the participants expect lower and 2 percent negative earn-

Figure A: Expected levels of the indices at the end of 2008

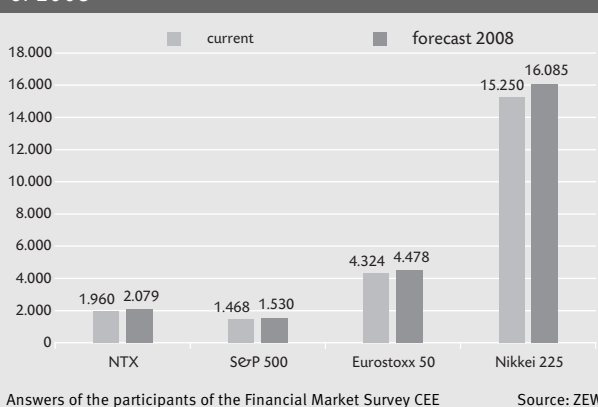


Figure B: Intended global sector allocation in the stock portfolio in 2008

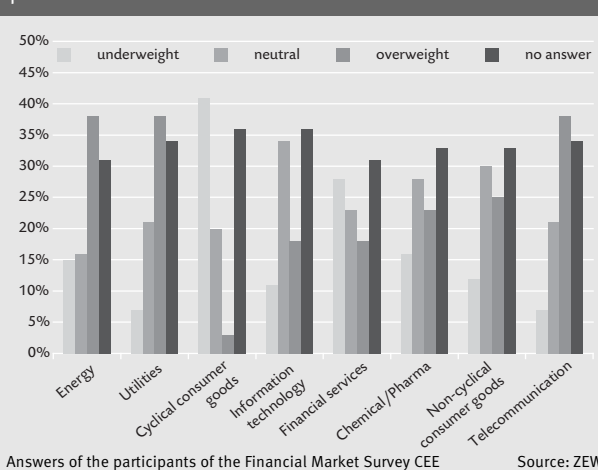
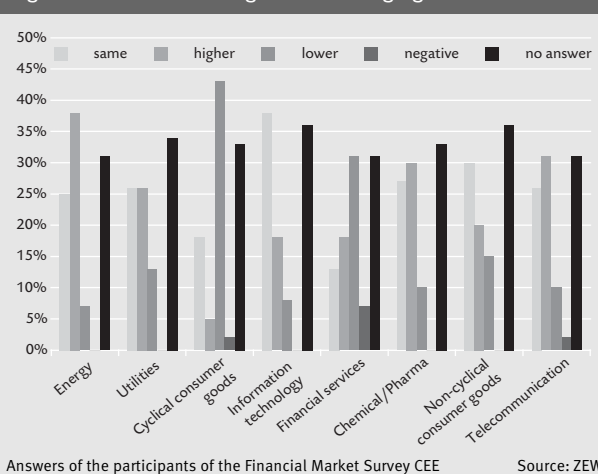


Figure C: Forecasts for global earnings growth in 2008



ings for the cyclical consumer goods. 7 percent of the analysts expect shares in the financial services sector to realize negative earnings, and 31 percent expect lower earnings growth compared to 2007.

ZEW-Financial Market Survey: December 2007

Current economic situation	good		acceptable (normal)		bad		balance									
Austria	45.5	(-17.0)	54.5	(+17.0)	0.0	(+/-0.0)	45.5	(-17.0)								
Croatia	31.9	(-12.8)	68.1	(+14.9)	0.0	(-2.1)	31.9	(-10.7)								
Czech Republic	63.5	(-3.2)	36.5	(+3.2)	0.0	(+/-0.0)	63.5	(-3.2)								
Hungary	5.8	(-5.9)	44.2	(-2.9)	50.0	(+8.8)	-44.2	(-14.7)								
Poland	54.0	(-5.6)	44.0	(+10.0)	2.0	(-4.4)	52.0	(-1.2)								
Romania	13.2	(-16.8)	52.8	(+8.8)	34.0	(+8.0)	-20.8	(-24.8)								
Slovakia	55.8	(-10.2)	42.3	(+8.3)	1.9	(+1.9)	53.9	(-12.1)								
CEE	35.1	(-15.9)	63.0	(+14.0)	1.9	(+1.9)	33.2	(-17.8)								
Eurozone	18.9	(-10.5)	79.2	(+10.6)	1.9	(-0.1)	17.0	(-10.4)								
Economic expectations	improve		no change		worsen		balance									
Austria	9.0	(+0.5)	45.5	(-16.2)	45.5	(+15.7)	-36.5	(-15.2)								
Croatia	8.5	(+/-0.0)	66.0	(-4.2)	25.5	(+4.2)	-17.0	(-4.2)								
Czech Republic	9.5	(+3.3)	54.7	(-12.0)	35.8	(+8.7)	-26.3	(-5.4)								
Hungary	42.6	(+3.4)	37.0	(-2.2)	20.4	(-1.2)	22.2	(+4.6)								
Poland	11.8	(+5.4)	62.7	(-9.6)	25.5	(+4.2)	-13.7	(+1.2)								
Romania	9.4	(+1.6)	43.4	(-7.6)	47.2	(+6.0)	-37.8	(-4.4)								
Slovakia	5.8	(-2.9)	67.3	(-8.8)	26.9	(+11.7)	-21.1	(-14.6)								
CEE	9.4	(-0.4)	58.5	(-4.2)	32.1	(+4.6)	-22.7	(-5.0)								
Eurozone	9.8	(+3.8)	33.3	(-8.7)	56.9	(+4.9)	-47.1	(-1.1)								
Inflation rate	increase		no change		decrease		balance									
Austria	56.5	(+8.7)	32.6	(-15.1)	10.9	(+6.4)	45.6	(+2.3)								
Croatia	65.3	(+0.2)	30.4	(+4.8)	4.3	(-5.0)	61.0	(+5.2)								
Czech Republic	73.6	(-2.5)	17.0	(-0.4)	9.4	(+2.9)	64.2	(-5.4)								
Hungary	39.6	(+7.0)	20.8	(+2.4)	39.6	(-9.4)	0.0	(+16.4)								
Poland	63.2	(-1.3)	32.7	(+10.5)	4.1	(-9.2)	59.1	(+7.9)								
Romania	61.6	(-9.5)	28.8	(+15.5)	9.6	(-6.0)	52.0	(-3.5)								
Slovakia	65.3	(+6.6)	30.6	(-4.2)	4.1	(-2.4)	61.2	(+9.0)								
CEE	72.0	(+5.3)	20.0	(-9.4)	8.0	(+4.1)	64.0	(+1.2)								
Eurozone	66.0	(+10.9)	22.0	(-16.8)	12.0	(+5.9)	54.0	(+5.0)								
Short-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	40.0	(+21.6)	38.2	(+13.9)	51.4	(-14.4)	50.0	(-4.5)	8.6	(-7.2)	11.8	(-9.4)	31.4	(+28.8)	26.4	(+23.3)
Czech Republic	75.0	(+7.6)	58.7	(+16.6)	20.8	(-2.5)	19.6	(-1.5)	4.2	(-5.1)	21.7	(-15.1)	70.8	(+12.7)	37.0	(+31.7)
Hungary	24.5	(+12.0)	18.2	(+6.3)	22.2	(-0.7)	22.7	(+6.0)	53.3	(-11.3)	59.1	(-12.3)	-28.8	(+23.3)	-40.9	(+18.6)
Poland	62.7	(+4.6)	67.5	(+20.1)	32.6	(-4.6)	27.5	(-6.7)	4.7	(+/-0.0)	5.0	(-13.4)	58.0	(+4.6)	62.5	(+33.5)
Romania	71.1	(-1.6)	76.2	(+11.3)	26.7	(+8.5)	21.4	(-2.9)	2.2	(-6.9)	2.4	(-8.4)	68.9	(+5.3)	73.8	(+19.7)
Slovakia	38.6	(+7.5)	26.2	(+5.7)	52.3	(-9.9)	52.4	(-4.0)	9.1	(+2.4)	21.4	(-1.7)	29.5	(+5.1)	4.8	(+7.4)
Eurozone	24.0	(-2.0)			54.0	(+/-0.0)			22.0	(+2.0)			2.0	(-4.0)		
Long-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	29.0	(+0.8)	28.6	(+19.5)	52.6	(+1.3)	37.1	(-20.5)	18.4	(-2.1)	34.3	(+1.0)	10.6	(+2.9)	-5.7	(+18.5)
Czech Republic	59.6	(+3.8)	34.8	(+15.9)	31.9	(-5.3)	32.6	(-24.2)	8.5	(+1.5)	32.6	(+8.3)	51.1	(+2.3)	2.2	(+7.6)
Hungary	24.5	(+5.4)	11.9	(-5.2)	22.2	(-7.6)	23.8	(+9.2)	53.3	(+2.2)	64.3	(-4.0)	-28.8	(+3.2)	-52.4	(-1.2)
Poland	45.3	(+7.2)	34.3	(+14.9)	35.7	(-7.2)	28.9	(-12.8)	19.0	(+/-0.0)	36.8	(-2.1)	26.3	(+7.2)	-2.5	(+17.0)
Romania	69.1	(+10.6)	60.5	(+15.1)	11.9	(-12.5)	15.8	(-11.5)	19.0	(+1.9)	23.7	(-3.6)	50.1	(+8.7)	36.8	(+18.7)
Slovakia	45.2	(+8.7)	13.2	(-0.3)	40.5	(-13.2)	57.9	(-1.6)	14.3	(+4.5)	28.9	(+1.9)	30.9	(+4.2)	-15.7	(-2.2)
Germany	48.0	(+13.2)			38.0	(-9.8)			14.0	(-3.4)			34.0	(+16.6)		
Stock market indices	increase		no change		decrease		balance									
EURO STOXX 50	43.4	(+3.4)			19.6	(-9.3)			37.0	(+5.9)			6.4	(-2.5)		
ATX (Austria)	45.0	(+5.9)			25.0	(-9.1)			30.0	(+3.2)			15.0	(+2.7)		
NTX (CEE)	44.4	(-5.6)			17.8	(-10.8)			37.8	(+16.4)			6.6	(-22.0)		
CROBEX (Croatia)	45.7	(-4.3)			23.9	(-7.1)			30.4	(+11.4)			15.3	(-15.7)		
PX 50 (Czech Rep.)	44.7	(-1.8)			21.3	(-11.3)			34.0	(+13.1)			10.7	(-14.9)		
BUX (Hungary)	38.3	(-17.3)			21.3	(-0.9)			40.4	(+18.2)			-2.1	(-35.5)		
WIG (Poland)	45.3	(-5.9)			19.0	(-0.5)			35.7	(+6.4)			9.6	(-12.3)		
BET (Romania)	39.1	(-6.4)			23.9	(-1.1)			37.0	(+7.5)			2.1	(-13.9)		
SAX (Slovakia)	35.0	(-6.7)			30.0	(-8.9)			35.0	(+15.6)			0.0	(-22.3)		
SBI 20 (Slovenia)	30.7	(-11.0)			30.8	(-2.5)			38.5	(+13.5)			-7.8	(-24.5)		
Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance									
Kuna (Croatia)	28.9	(+3.9)			51.1	(-3.4)			20.0	(-0.5)			8.9	(+4.4)		
Koruna (Czech Rep.)	32.7	(+6.0)			32.7	(-11.7)			34.6	(+5.7)			-1.9	(+0.3)		
Forint (Hungary)	23.1	(+6.5)			53.8	(-0.4)			23.1	(-6.1)			0.0	(+12.6)		
Zloty (Poland)	53.2	(+12.3)			29.8	(-6.6)			17.0	(-5.7)			36.2	(+18.0)		
Lei (Romania)	31.4	(+2.5)			29.4	(+2.7)			39.2	(-5.2)			-7.8	(+7.7)		
Koruna (Slovakia)	43.2	(+8.3)			47.7	(-1.1)			9.1	(-7.2)			34.1	(+15.5)		
US-Dollar	41.6	(+11.2)			27.1	(+1.0)			31.3	(-12.2)			10.3	(+23.4)		

Note: 78 Financial experts participated in the December survey which was conducted during the period 11/27/07-12/17/07. 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 November in parentheses). Balances refer to the differences between positive and negative assessments.