

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 21 December 2007 and 14 January 2008 are published in this issue of the "Financial Market Report CEE", February 2008. 81 financial market experts participated in this month's survey.

Real GDP Growth of 5 percent in 2008 and 2009 for CEE expected

The monthly survey among financial market experts conducted by the Centre for European Economic Research (ZEW), Mannheim, and supported by Erste Bank der oesterreichischen Sparkassen, Vienna, recorded slightly lower expectations for the Central and Eastern European (CEE) region's economy in January. The CEE indicator fell by 6.3 points

to -29.0 points. However, more than half of the survey participants still do not expect a significant change of business activity in the region. The experts assess the current situation of the CEE countries as increasingly positive. Within the special question in January the experts forecast a GDP growth for the CEE region of nearly 5 percent in 2008 and 2009.

Economic Outlook for CEE countries, Austria and the Eurozone

The CEE indicator, calculated as the balance of positive and negative assessments of the economic outlook over the next six months, fell by 6.3 points to -29.0 points in January. However, the majority (54.8 percent) of surveyed analysts still do not expect a significant change of the economic development in the region. The proportion of financial experts who are pessimistic about the economic outlook gained five percentage points. This resulted in a slight drop of the indicator. In contrast, the experts assess the current situation of the CEE countries as increasingly positive. The balance rose by 4.7 points and reaches 37.9 points in January. The fraction of participants who judge the current situation as good increased on the account of those who judge the situation as acceptable.

Concerning Austria, the survey results developed in just the opposite way. While economic expectations for the upcoming months have improved, the assessment of the current situation has moderately declined. The respective indicator balances of Austria and the CEE countries thus move toward each other. The sentiment indicator for Austria lies at -30.1 points and the balance for the current situation at 43.4 points. In both cases the majority of experts chose "neutral" as their answer. The economic expectations for the euro area continued to worsen. The balance declined markedly by 16.2 points to -63.3 points.

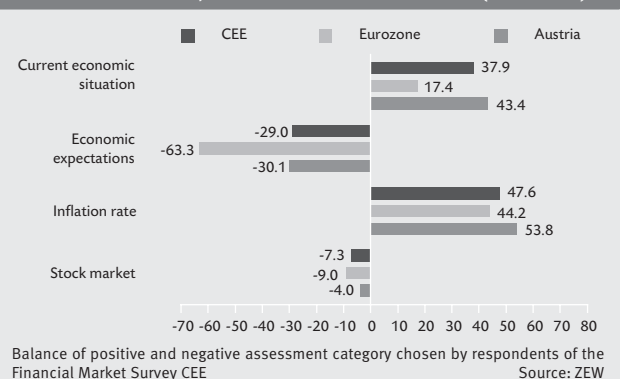
Just like in the December survey, the financial experts predict rising inflation rates in the upcoming six months for CEE, Austria and Eurozone. The respective balances for the CEE and the Eurozone fell, but remain on a high level. The balance for

the CEE region fell most strongly by 16.4 points to 47.6 points. The balance for Austria was the only one within the surveyed countries that rose in January (+8.2 points to 53.8 points).

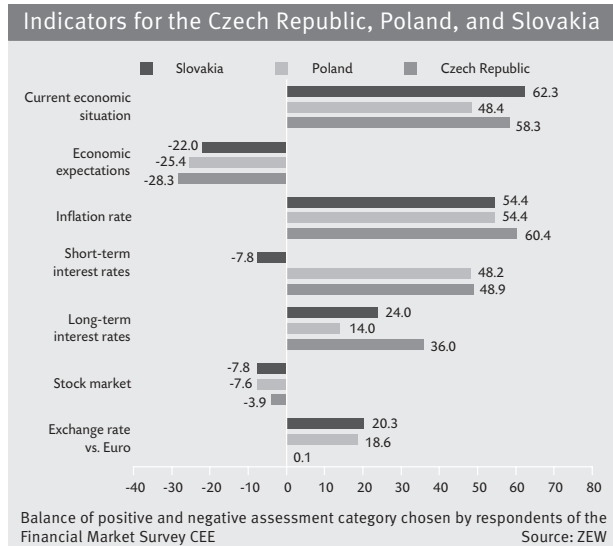
Concerning long and short term interest rates, significantly fewer financial experts predict rising rates. For the first time they forecast a cut of the three-month-interbank rate in the Eurozone. The corresponding balance fell by 20.6 points to -18.6 points. Nevertheless, 57.6 percent of the participants do not expect a change in the interest rate.

The expectations for the development of the stock markets sagged in January. The balances for the ATX, NTX and Eurostoxx 50 dropped by 19.0 points, 13.9 points and 15.4 points respectively to -4.0 points, -7.3 points and -9.0 points.

Indicators for CEE, Austria and the Eurozone (balances)



Strong business activity in Slovakia and the Czech Republic; declining economic expectations in Poland



One of the most positive results of this month's survey are the assessments of the current economic situation in Poland, the Czech Republic and Slovakia. The indicator for Slovakia gained 8.4 points, rising to 62.3 points, the highest of all countries and regions in this month's issue. While the Czech Republic achieved the second best score for the current situation (58.3 points), the balance declined slightly (-5.2 points). The balance for Poland fell by 3.6 points to 48.4.

The economic expectations for the next six months are all negative and have declined slightly compared to the last month. The indicator for Poland fell most pronouncedly by 11.7 points to -25.4 points, however, the other countries' balances remain nearly unchanged.

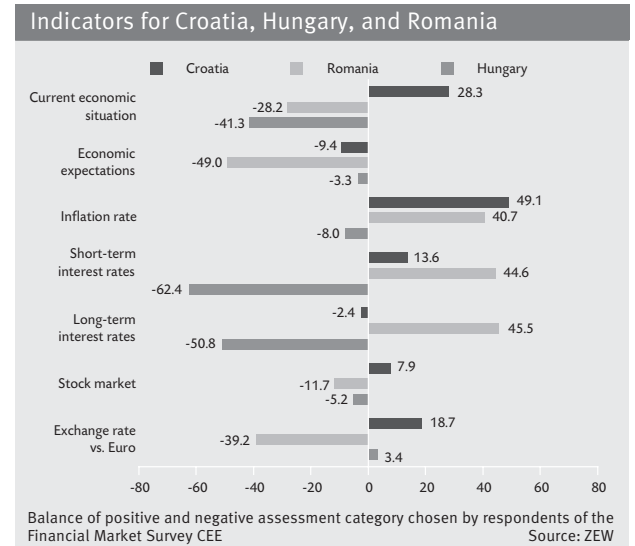
With regard to inflation rates, the survey participants quite clearly expect rising rates. The balances remain on a high level and are nearly unchanged from December's results. The highest balance within all CEE countries was achieved in the Czech Republic (60.4 points), followed by the balances in Poland and Slovakia (both 54.4 points).

In line with the predictions for the inflation rates, the short term interest rates in Poland and the Czech Republic are expected to rise (48.2 and 48.9 points in balance). Slovakia is an exception as the balance is only -7.8. The analysts predict the long-term interest rates to increase, with a balance of 24.0 points for Slovakia, 14.0 points for Poland and 36.0 points for the Czech Republic.

The expectations concerning the stock market development in the three countries are rather cautious. The balances for the PX 50, WIG and SAX dropped and turned negative. This indicates that the majority of experts predict a decrease of all three indices in the next six months.

Finally, the majority of financial experts do not predict a change in the exchange rates. However, the balances point towards an appreciation of the local currencies against the Euro in Poland and Slovakia.

Good current economic environment in Croatia; weaker prospects for Romania



Starting with the current state of the three economies, Croatia is the only one that the analysts assess positively with a balance of 28.3 points after a slight drop by 3.6 points. Although more than 40 percent of the experts evaluate the current economic environment in Hungary and Romania as acceptable, the two countries achieved in January again the sole negative balances within the CEE countries (-41.3 points and -28.2 points). The economic expectations are in a declining process for all three countries at the moment, especially for Romania with a balance of -49.0 points. The picture is less clear regarding Croatia (increase by 7.6 points to -9.4 points), and Hungary took a sharp drop by 25.5 points to -3.3 points.

Inflation rates are anticipated to go up in Croatia (49.1 points) and Romania (40.7 points), except Hungary where the balance is -8.0 points. The financial experts are very decided on short-term interest rate drops in Hungary (-62.4 points). Reversely, Romania's short-term interest rate is expected to jump (44.6 points), whereas Croatia's balance is only 13.6 points.

Looking at the long-term interest rates, the results are also mixed. Most of the experts forecast rate cuts in Hungary (-50.8 points), but ascending rates in Romania. There is no clear picture concerning Croatia (-2.4 points after a drop by 13.0 points).

Stock market balances do not point towards a clear statement either. While 49.0 percent of the survey participants expect the Romanian BET to decrease (up 12.0 percentage points compared with December) and the balance became negative (-11.7 points), the balance for the Hungarian BUX fell only marginally by 3.1 points to -5.2 points. The balance for the Croatian CROBEX is the only positive one (7.9 points) despite the decrease by 7.4 points.

Concluding with the exchange rates, the Croatian KUNA is expected to appreciate, while Romania's Lei should depreciate against the Euro. The indicator balance in Romania lost 31.4 points and now reaches -39.2.

Special Question: Real GDP growth of nearly 5 percent expected for CEE region in 2008 and 2009

This edition's special question deals with expectations and anticipations concerning GDP growth and inflation rates. The financial experts were asked to give their estimation of the average annual rate. On that basis mean values were calculated.

In 2007 inflation rates increased toward the end of the year. In the Eurozone the inflation rose from 1.8 percent (annual rate) in January to 3.1 percent in December. In the United States, inflation rates climbed from 2.1 percent in January to 4.3 percent in November. Energy prices hovering near record levels and rising food prices among others contributed to this development. The CEE states were not spared of this. Strong growth additionally fuelled inflation in Central and Eastern Europe.

In the second half of 2007, the US housing market crisis impaired GDP growth. Growth in the fourth quarter 2007 is supposed to be decidedly lower than in the third quarter 2007, not only in the United States, but also in Europe.

To a certain extent, the survey results reflect this development. In 2008 the financial experts expect GDP growth in the United States (1.85 percent) to be lower than in the EU (2.19 percent). According to the survey, the economies should pick up speed a year later. In 2009 growth in the two economies is supposed to be roughly on par, 2.40 percent in the United States and 2.37 percent in the EU. In the CEE countries the survey participants expect to see a solid performance. They estimate the growth rate to be 4.90 percent in 2008 and 4.97 percent in 2009. Thereby 53 percent (55 percent) of the experts predict a GDP growth in 2008 (2009) in the range between 4.1 and 5.0 percent and 27 percent (31 percent) expect a growth between 5.1 percent and 6.0 percent.

Concerning inflation rates, the survey participants generally expect inflation rates to be lower in 2009 than in 2008. They predict a fall in the CEE region from 4.59 percent to 4.05 percent, and in the EU a fall from 2.73 percent to 2.39 percent. The US inflation rate in both years is anticipated to be higher

Figure 4a: Forecasts for GDP growth in 2008 and 2009

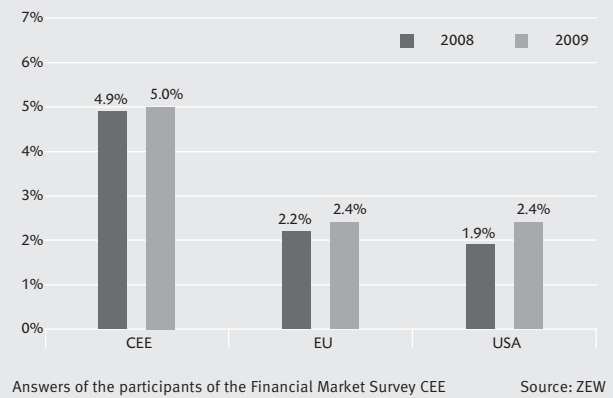
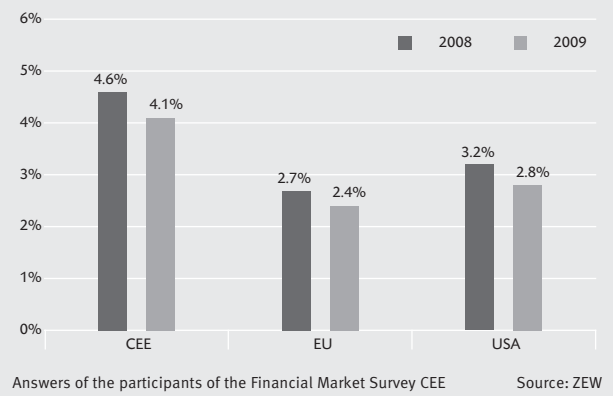
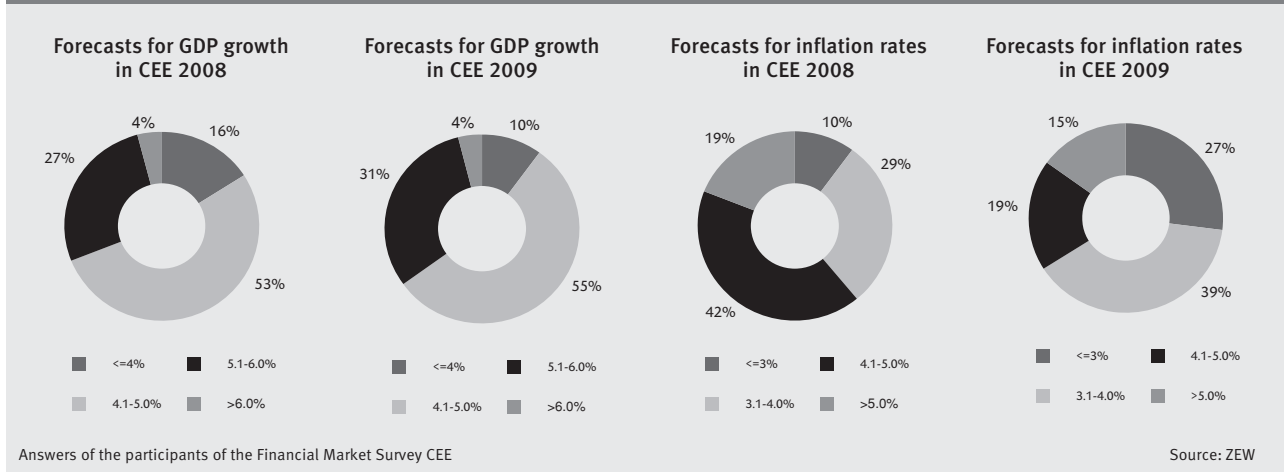


Figure 4b: Forecasts for inflation rates in 2008 and 2009



than in the EU: 3.18 percent in 2008 and 2.05 percent in 2009. It is noteworthy that the survey participants do not expect the current economic difficulties to persist over a longer period of time. The outlook for the European economy in 2008 is more positive than the forecast concerning the United States, while the CEE states hold their course.

Figure 4c: Forecasts for GDP growth and inflation rates in CEE 2008 and 2009



ZEW-Financial Market Survey: January 2008

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	43.4	(-2.1)	56.6	(+2.1)	0.0	(+/-0.0)	43.4	(-2.1)
Croatia	30.2	(-1.7)	67.9	(-0.2)	1.9	(+1.9)	28.3	(-3.6)
Czech Republic	58.3	(-5.2)	41.7	(+5.2)	0.0	(+/-0.0)	58.3	(-5.2)
Hungary	7.9	(+2.1)	42.9	(-1.3)	49.2	(-0.8)	-41.3	(+2.9)
Poland	51.7	(-2.3)	45.0	(+1.0)	3.3	(+1.3)	48.4	(-3.6)
Romania	12.2	(-1.0)	47.4	(-5.4)	40.4	(+6.4)	-28.2	(-7.4)
Slovakia	65.6	(+9.8)	31.1	(-11.2)	3.3	(+1.4)	62.3	(+8.4)
CEE	39.4	(+4.3)	59.1	(-3.9)	1.5	(-0.4)	37.9	(+4.7)
Eurozone	22.2	(+3.3)	73.0	(-6.2)	4.8	(+2.9)	17.4	(+0.4)
Economic expectations	improve		no change		worsen		balance	
Austria	5.7	(-3.3)	58.5	(+13.0)	35.8	(-9.7)	-30.1	(+6.4)
Croatia	18.9	(+10.4)	52.8	(-13.2)	28.3	(+2.8)	-9.4	(+7.6)
Czech Republic	6.7	(-2.8)	58.3	(+3.6)	35.0	(-0.8)	-28.3	(-2.0)
Hungary	32.2	(-10.4)	32.3	(-4.7)	35.5	(+15.1)	-3.3	(-25.5)
Poland	10.2	(-1.6)	54.2	(-8.5)	35.6	(+10.1)	-25.4	(-11.7)
Romania	10.6	(+1.2)	29.8	(-13.6)	59.6	(+12.4)	-49.0	(-11.2)
Slovakia	5.1	(-0.7)	67.8	(+0.5)	27.1	(+0.2)	-22.0	(-0.9)
CEE	8.1	(-1.3)	54.8	(-3.7)	37.1	(+5.0)	-29.0	(-6.3)
Eurozone	1.7	(-8.1)	33.3	(+/-0.0)	65.0	(+8.1)	-63.3	(-16.2)
Inflation rate	increase		no change		decrease		balance	
Austria	61.5	(+5.0)	30.8	(-1.8)	7.7	(-3.2)	53.8	(+8.2)
Croatia	61.3	(-4.0)	26.5	(-3.9)	12.2	(+7.9)	49.1	(-11.9)
Czech Republic	69.0	(-4.6)	22.4	(+5.4)	8.6	(-0.8)	60.4	(-3.8)
Hungary	35.5	(-4.1)	21.0	(+0.2)	43.5	(+3.9)	-8.0	(-8.0)
Poland	64.9	(+1.7)	24.6	(-8.1)	10.5	(+6.4)	54.4	(-4.7)
Romania	57.4	(-4.2)	25.9	(-2.9)	16.7	(+7.1)	40.7	(-11.3)
Slovakia	61.4	(-3.9)	31.6	(+1.0)	7.0	(+2.9)	54.4	(-6.8)
CEE	60.7	(-11.3)	26.2	(+6.2)	13.1	(+5.1)	47.6	(-16.4)
Eurozone	55.7	(-10.3)	32.8	(+10.8)	11.5	(-0.5)	44.2	(-9.8)
Short-term interest rates	increase		no change		decrease		balance	
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]
Croatia	25.0	(-15.0)	44.8	(+6.6)	63.6	(+12.2)	44.7	(-5.3)
Czech Republic	60.7	(-14.3)	52.2	(-6.5)	27.5	(+6.7)	23.9	(+4.3)
Hungary	9.0	(-15.5)	14.0	(-4.2)	19.6	(-2.6)	20.0	(-2.7)
Poland	59.7	(-3.0)	53.2	(-14.3)	28.8	(-3.8)	31.9	(+4.4)
Romania	57.4	(-13.7)	60.9	(-15.3)	29.8	(+3.1)	29.3	(+7.9)
Slovakia	15.7	(-22.9)	19.5	(-6.7)	60.8	(+8.5)	52.2	(-0.2)
Eurozone	11.9	(-12.1)			57.6	(+3.6)		
							30.5	(+8.5)
							11.4	(+2.8)
							10.5	(-1.3)
							13.6	(-17.8)
							34.3	(+7.9)
							48.9	(-21.9)
							28.3	(-8.7)
							-62.4	(-33.6)
							-52.0	(-11.1)
							48.2	(-9.8)
							38.3	(-24.2)
							44.6	(-24.3)
							51.1	(-22.7)
							-7.8	(-37.3)
							-8.8	(-13.6)
							-18.6	(-20.6)
Long-term interest rates	increase		no change		decrease		balance	
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]
Croatia	23.2	(-5.8)	32.5	(+3.9)	51.2	(-1.4)	45.9	(+8.8)
Czech Republic	54.0	(-5.6)	26.7	(-8.1)	28.0	(-3.9)	53.3	(+20.7)
Hungary	12.8	(-11.7)	12.3	(+0.4)	23.6	(+1.4)	22.4	(-1.4)
Poland	34.0	(-11.3)	27.3	(-7.0)	46.0	(+10.3)	38.6	(+9.7)
Romania	61.4	(-7.7)	65.8	(+5.3)	22.7	(+10.8)	18.4	(+2.6)
Slovakia	37.0	(-8.2)	14.6	(+1.4)	50.0	(+9.5)	56.1	(-1.8)
Germany	32.2	(-15.8)			44.6	(+6.6)		
							25.6	(+7.2)
							21.6	(-12.7)
							-2.4	(-13.0)
							10.9	(+16.6)
							36.0	(-15.1)
							6.7	(+4.5)
							-50.8	(-22.0)
							-5.3	(-0.6)
							14.0	(-12.3)
							-6.8	(-4.3)
							45.5	(-4.6)
							50	(+13.2)
							24.0	(-6.9)
							-14.7	(+1.0)
							9.0	(-25.0)
Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	33.9	(-9.5)	23.2	(+3.6)	42.9	(+5.9)	-9.0	(-15.4)
ATX (Austria)	36.8	(-8.2)	22.4	(-2.6)	40.8	(+10.8)	-4.0	(-19.0)
NTX (CEE)	32.7	(-11.7)	27.3	(+9.5)	40.0	(+2.2)	-7.3	(-13.9)
CROBEX (Croatia)	41.2	(-4.5)	25.5	(+1.6)	33.3	(+2.9)	7.9	(-7.4)
PX 50 (Czech Rep.)	34.6	(-10.1)	26.9	(+5.6)	38.5	(+4.5)	-3.9	(-14.6)
BUX (Hungary)	36.2	(-2.1)	22.4	(+1.1)	41.4	(+1.0)	-5.2	(-3.1)
WIG (Poland)	35.8	(-9.5)	20.8	(+1.8)	43.4	(+7.7)	-7.6	(-17.2)
BET (Romania)	37.3	(-1.8)	13.7	(-10.2)	49.0	(+12.0)	-11.7	(-13.8)
SAX (Slovakia)	30.7	(-4.3)	30.8	(+0.8)	38.5	(+3.5)	-7.8	(-7.8)
SBI 20 (Slovenia)	29.1	(-1.6)	29.2	(-1.6)	41.7	(+3.2)	-12.6	(-4.8)
Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	31.2	(+2.3)	56.3	(+5.2)	12.5	(-7.5)	18.7	(+9.8)
Koruna (Czech Rep.)	24.6	(-8.1)	50.9	(+18.2)	24.5	(-10.1)	0.1	(+2.0)
Forint (Hungary)	22.4	(-0.7)	58.6	(+4.8)	19.0	(-4.1)	3.4	(+3.4)
Zloty (Poland)	37.1	(-16.1)	44.4	(+14.6)	18.5	(+1.5)	18.6	(-17.6)
Lei (Romania)	19.6	(-11.8)	21.6	(-7.8)	58.8	(+19.6)	-39.2	(-31.4)
Koruna (Slovakia)	33.3	(-9.9)	53.7	(+6.0)	13.0	(+3.9)	20.3	(-13.8)
US-Dollar	41.7	(+0.1)	25.0	(-2.1)	33.3	(+2.0)	8.4	(-1.9)

Note: 81 Financial experts participated in the January survey which was conducted during the period 12/21/07-01/14/08. 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 December in parentheses). Balances refer to the differences between positive and negative assessments.

Financial Market Report CEE – published monthly

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