

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 3 and 17, 2010, are published in the June 2010 issue of the "Financial Market Report CEE." 70 financial market experts participated in this month's survey.

## Optimistic Economic Expectations for Central and Eastern Europe

The ZEW-Erste Group Bank Sentiment Indicator CEE increases by 7.2 points to 35.2 points in May. The economic expectations for Austria rise by 5.8 points to the 33.4 points mark and the respective indicator for the Eurozone improves only by 2.4 points to the 32.0 points threshold. According to the financial market experts, the CEE region seems not to be affected by the uncertainty regarding the debt crisis of certain Eurozone countries. The evaluation of the current economic situation in the

CEE region is even slightly more positive in May than in the previous month. The respective indicator increases to minus 23.1 points. In contrast, the current concerns about the stability of the Eurozone surely influence the assessment of the current economic situation in the Eurozone which declines significantly to minus 37.0 and lead to an adjustment of the expectations of the experts towards an appreciation of the Polish and Czech currencies against the Euro 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 by 7.2 points to 35.2 points in May. The majority of financial market experts (47.0 percent) foresee a positive development of the business cycle in the CEE region on a six month time horizon.

In this month's survey, the economic expectations for Austria and the Eurozone improve as well. The sentiment indicator for the Eurozone rises by 2.4 points to the 32.0 points threshold in May. The respective balance for Austria climbs by 5.8 points to the 33.4 points mark.

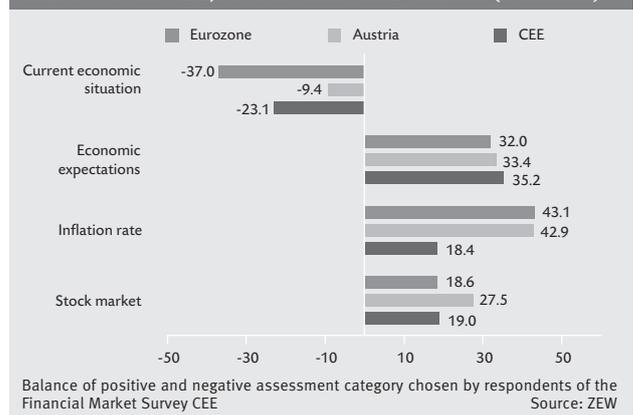
The evaluation of the current economic situation in the CEE region is slightly more positive in May than in the previous month. The respective indicator increases by 1.4 points to minus 23.1 points. The assessment of the current business condition in Austria improves marginally as well, reaching minus 9.4 points this month. In contrast, the evaluation of the current economic situation in the Eurozone declines significantly by 13.7 points to minus 37.0 points. For the CEE region as well as for Austria and the Eurozone the majority of experts assess the current conditions as neutral.

The majority of 61.2 percent of the participants are of the opinion that the inflation rates in the CEE countries will stay unchanged in the next half year. On the contrary, around 50 percent of the surveyed experts predict higher inflation risks

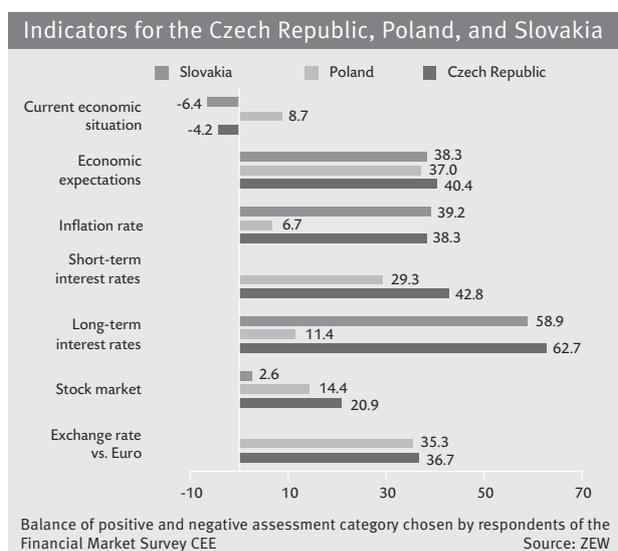
in Austria and the Eurozone within the next six months. The expectations concerning the interest rates in the Eurozone remain nearly unchanged. The respective indicator reaches 41.2 points. 51.0 percent of the financial market experts foresee unaltered short-term interest rates in the Eurozone.

The forecasts of the analysts regarding the development of the stock indices for the CEE region (NTX), Austria (ATX) and the Eurostoxx 50 show different patterns for each of the stock indices. While the balances for the Eurostoxx 50 and the ATX rise significantly the balance for the NTX decreases slightly.

Indicators for CEE, Austria and the Eurozone (balances)



## Czech Republic, Poland and Slovakia: Optimists Prevail



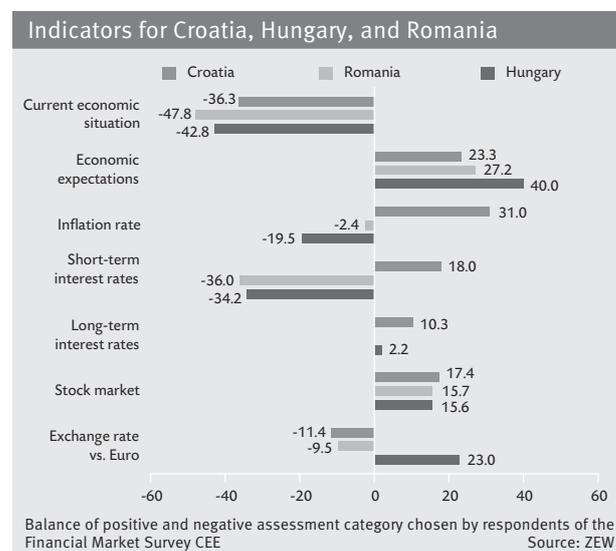
This month's economic expectations for the Czech Republic, Poland and Slovakia on a six months time horizon have improved significantly. After a strong decline in April the indicator for Poland presents the highest improvement in country comparison with an increase by 15.9 points reaching 37.0 points. The economic expectations for Slovakia achieve the second highest increase in country comparison in May. The respective indicator gains 10.3 points thus reaching 38.3 points now. The indicator reflecting the economic expectations for the Czech Republic remains the best value compared to other countries in this category. It increases by 8.3 points reaching the 40.4 points mark.

While the indicators reflecting the assessment of the current economic situation in the Czech Republic and Slovakia show improvements the respective balance for Poland declines slightly. However, the respective indicator for Poland continues to exhibit the only positive value in this category with 8.7 points. The evaluation of the current economic situation in Slovakia experiences the greatest improvement compared to the other CEE countries in May. The balance increases by 12.4 points to minus 6.4 points. The respective indicator for the Czech Republic increases by 1.8 points to the minus 4.2 points mark remaining on the second place in this category.

The majority of financial market experts continue to forecast unchanging inflation rates in the Czech Republic, Poland and Slovakia. The indicator reflecting the inflation expectations for Slovakia reaches the highest value of 39.2 points. However, the share of experts (47.8 percent) that expect an unchanged inflation rate for the next six months.

In the course of the current weakness of the Euro the majority of the polled experts adjust their expectations towards an appreciation of the Polish and Czech currencies against the Euro within the next six months. The respective indicators reach the highest values in this category namely 36.7 points for the Czech Koruna and 35.3 points for the Polish Zloty.

## Hungary, Romania and Croatia: Cautious Evaluation of the Situation



The economic expectations of Hungary remain stable at 40.0 points in May. This is the second highest value among the analysed CEE countries in this category. 56.0 percent of the participants predict an improvement of the economic situation in Hungary within the next six months. The economic sentiment indicator for Romania decreases by 8.2 points to 27.2 points in May. After a significant increase in the previous month the economic expectations for Croatia decline by 8.5 points to 23.3 points reaching the lowest balance compared to other countries in this category.

The assessment of the current business conditions in Hungary decreases by 3.2 points to minus 42.8 points in May. The respective balance for Romania declines by 7.3 points to minus 47.8 points and reaches the lowest value in country comparison in this category. The appraisal of the current economic situation in Croatia remains the second month in a row nearly unchanged with a balance of minus 36.3 points.

The share of financial market experts who predict decreasing inflation rates in Hungary and Romania diminishes significantly this month. The relevant balances increase by 24.5 points and 25.8 points to minus 19.5 points and minus 2.4 points. These indicators still represent the lowest values in country comparison. However, the majority of financial market experts believe that the inflation rate will remain unaltered in Hungary and Romania as well as in Croatia.

Although the National Banks of Romania and Hungary already lowered their interest rates in April and in May the majority of participants still expect further declines of the short term interest rates. However, the share of analysts predicting constant interest rates for Hungary and Romania increased in May.

In spite of the current depreciation of the Euro, most of the experts predict a depreciation of the Romanian currency, Lei, against the Euro. The respective indicator drops to the minus 9.5 points mark.

## Special Question: Wage Development and Income Distribution in the CEE Region

According to Eurostat gross wages and salaries have been increasing in all CEE countries from 1998 until 2009. In light of this development we asked the financial market experts within the framework of the special question in May to give a view of their expectations regarding the development of wages for 2010 in CEE and in comparison to the Eurozone. Furthermore, we were interested in the experts' opinion on income distribution in the CEE region compared to the Eurozone as well as the income inequality in CEE countries.

The Eurostat figures show, that the growth of wages over the last 2 years was much stronger in the CEE region than in the Eurozone. The majority of the polled financial market experts, namely 43 percent, believe that this pattern will also continue in 2010. Less than one fourth of the participants anticipate a smaller rise in wages in the CEE region than in the Eurozone and 15 percent of the surveyed experts predict the same rise in wages for the CEE region and the Eurozone. Only 11 percent of the analysts believe that the wages will stay constant in the CEE countries.

From the cross country comparison regarding the wage expectation for each CEE country we can depict that the majority of financial market experts, namely 42 percent, predict the highest rise of wages to be in Poland. The Czech Republic wins the second place in country comparison since 27 percent of the surveyed experts believe that the Czech Republic will face the highest rise of wages among all analysed CEE countries. A significant share of experts (45 percent) anticipates the lowest increase of wages to be in Romania. However, in the opinion of 18 percent of the polled experts Croatia will face the lowest increase of wages in 2010.

In the second part of this month's special question, we analyse the specialists' view on the distribution of income in the CEE region compared to the Eurozone. An overwhelming majority of financial market experts, namely 69 percent, perceive the income distribution in the CEE region to be less balanced than in the Eurozone. Only 5 percent of the participants are of the opinion that there is a higher inequality of income in the Eurozone than in the CEE region. 7 percent of the analysts believe that the CEE region and the Eurozone have the same income distribution.

When we focus on the income distribution in the individual CEE countries, the survey shows a clear outcome. The majority of analysts assess the Czech Republic as the country with the most balanced income distribution and Romania as the country with the highest income gap in the CEE region. These results are in line with the Gini-Indices published by Eurostat. The Gini-Index measures the inequality of income distribution in one country where 0 represents a perfectly balanced income distribution and 100 the highest possible income gap. The Gini-Indices for the Czech Republic and Romania amount 25 and 36. In our survey Poland and Slovakia take up the second and the third place in country comparison regarding the most balanced income distribution.

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Figure A: Expected development of wages in the CEE region compared to the Eurozone in 2010

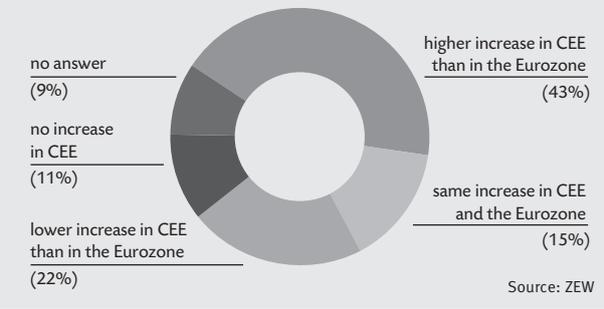


Figure B: Expected development of wages in 2010



Figure C: Income distribution in the CEE region compared to the Eurozone

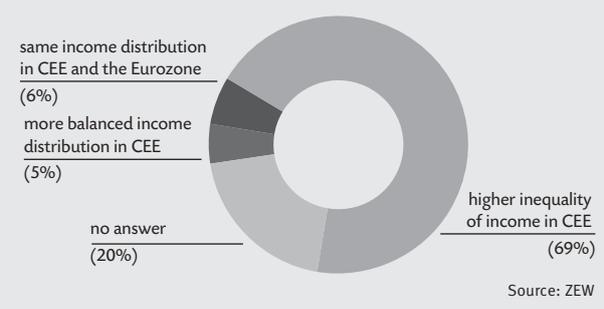
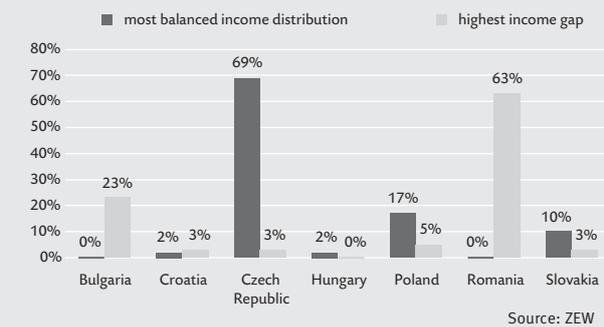


Figure D: Expected inequality of income distribution in 2010



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

<b>Current economic situation</b>	<b>good</b>		<b>acceptable (normal)</b>		<b>bad</b>		<b>balance</b>									
Austria	9,6	(+0,9)	71,4	(-0,3)	19,0	(-0,6)	-9,4	(+1,5)								
Croatia	4,6	(+0,3)	54,5	(-0,8)	40,9	(+0,5)	-36,3	(-0,2)								
Czech Republic	14,9	(+2,9)	66,0	(-4,0)	19,1	(+1,1)	-4,2	(+1,8)								
Hungary	4,1	(+0,3)	49,0	(-3,8)	46,9	(+3,5)	-42,8	(-3,2)								
Poland	23,9	(-0,1)	60,9	(-1,1)	15,2	(+1,2)	8,7	(-1,3)								
Romania	4,5	(-6,1)	43,2	(+4,9)	52,3	(+1,2)	-47,8	(-7,3)								
Slovakia	15,3	(+7,0)	63,0	(-1,6)	21,7	(-5,4)	-6,4	(+12,4)								
CEE	9,6	(+5,8)	57,7	(-10,2)	32,7	(+4,4)	-23,1	(+1,4)								
Eurozone	3,7	(-1,6)	55,6	(-10,5)	40,7	(+12,1)	-37,0	(-13,7)								
<b>Economic expectations</b>	<b>improve</b>		<b>no change</b>		<b>worsen</b>		<b>balance</b>									
Austria	42,9	(+0,4)	47,6	(+5,0)	9,5	(-5,4)	33,4	(+5,8)								
Croatia	41,9	(-2,7)	39,5	(-3,1)	18,6	(+5,8)	23,3	(-8,5)								
Czech Republic	53,2	(+7,9)	34,0	(-7,5)	12,8	(-0,4)	40,4	(+8,3)								
Hungary	56,0	(+1,4)	28,0	(-2,9)	16,0	(+1,5)	40,0	(-0,1)								
Poland	52,2	(+17,6)	32,6	(-19,3)	15,2	(+1,7)	37,0	(+15,9)								
Romania	45,4	(-4,6)	36,4	(+1,0)	18,2	(+3,6)	27,2	(-8,2)								
Slovakia	46,8	(+4,8)	44,7	(+0,7)	8,5	(-5,5)	38,3	(+10,3)								
CEE	47,0	(+7,0)	41,2	(-6,8)	11,8	(-0,2)	35,2	(+7,2)								
Eurozone	46,0	(+3,4)	40,0	(-4,4)	14,0	(+1,0)	32,0	(+2,4)								
<b>Inflation rate</b>	<b>increase</b>		<b>no change</b>		<b>decrease</b>		<b>balance</b>									
Austria	50,0	(+11,4)	42,9	(-9,4)	7,1	(-2,0)	42,9	(+13,4)								
Croatia	38,1	(+1,1)	54,8	(+0,5)	7,1	(-1,6)	31,0	(+2,7)								
Czech Republic	44,7	(+4,7)	48,9	(-3,1)	6,4	(-1,6)	38,3	(+6,3)								
Hungary	19,6	(+9,6)	41,3	(+5,3)	39,1	(-14,9)	-19,5	(+24,5)								
Poland	28,9	(+4,9)	48,9	(-3,1)	22,2	(-1,8)	6,7	(+6,7)								
Romania	24,4	(+13,5)	48,8	(-1,2)	26,8	(-12,3)	-2,4	(+25,8)								
Slovakia	45,7	(-1,3)	47,8	(+0,9)	6,5	(+0,4)	39,2	(-1,7)								
CEE	28,6	(+6,2)	61,2	(-8,2)	10,2	(+2,0)	18,4	(+4,2)								
Eurozone	49,0	(+1,9)	45,1	(-2,1)	5,9	(+0,2)	43,1	(+1,7)								
<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	35,9	(+17,0)	29,8	(+18,4)	46,2	(-16,0)	45,9	(-8,4)	17,9	(-1,0)	24,3	(-10,0)	18,0	(+18,0)	5,5	(+28,4)
Czech Republic	47,6	(+18,3)	20,0	(+6,9)	47,6	(-15,8)	65,0	(+9,7)	4,8	(-2,5)	15,0	(-16,6)	42,8	(+20,8)	5,0	(+23,5)
Hungary	11,3	(-0,3)	7,1	(-0,4)	43,2	(+10,6)	38,1	(+13,1)	45,5	(-10,3)	54,8	(-12,7)	-34,2	(+10,0)	-47,7	(+12,3)
Poland	41,5	(+5,1)	20,5	(+3,0)	46,3	(-8,2)	51,3	(-1,2)	12,2	(+3,1)	28,2	(-1,8)	29,3	(+2,0)	-7,7	(+4,8)
Romania	10,2	(-2,6)	10,8	(+2,0)	43,6	(+2,6)	35,1	(+14,5)	46,2	(+0,0)	54,1	(-16,5)	-36,0	(-2,6)	-43,3	(+18,5)
Eurozone	45,1	(+0,2)			51,0	(-2,1)			3,9	(+1,9)			41,2	(-1,7)		
<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	35,9	(+12,9)	25,7	(+14,3)	38,5	(-7,7)	40,0	(+0,0)	25,6	(-5,2)	34,3	(-14,3)	10,3	(+18,1)	-8,6	(+28,6)
Czech Republic	67,4	(+11,6)	40,0	(+3,2)	27,9	(-14,0)	52,5	(-2,8)	4,7	(+2,4)	7,5	(-0,4)	62,7	(+9,2)	32,5	(+3,6)
Hungary	34,8	(+7,5)	20,9	(+3,0)	32,6	(+7,6)	32,6	(+17,2)	32,6	(-15,1)	46,5	(-20,2)	2,2	(+22,6)	-25,6	(+23,2)
Poland	34,1	(-6,3)	22,5	(+2,0)	43,2	(-11,6)	42,5	(-6,2)	22,7	(+17,9)	35,0	(+4,2)	11,4	(-24,2)	-12,5	(-2,2)
Slovakia	61,5	(+12,7)	23,6	(+10,0)	35,9	(-12,9)	55,3	(+6,7)	2,6	(+0,2)	21,1	(-16,7)	58,9	(+12,5)	2,5	(+26,7)
Germany	58,7	(-3,7)			34,8	(+3,5)			6,5	(+0,2)			52,2	(-3,9)		
<b>Stock market indices</b>	<b>increase</b>		<b>no change</b>		<b>decrease</b>		<b>balance</b>									
EURO STOXX 50	53,5	(+11,6)			11,6	(-9,3)			34,9	(-2,3)			18,6	(+13,9)		
ATX (Austria)	55,0	(+8,6)			17,5	(-2,0)			27,5	(-6,6)			27,5	(+15,2)		
NTX (CEE)	50,0	(+0,0)			19,0	(-2,4)			31,0	(+2,4)			19,0	(-2,4)		
CROBEX (Croatia)	43,5	(-5,4)			30,4	(+0,2)			26,1	(+5,2)			17,4	(-10,6)		
PX 50 (Czech Rep.)	48,8	(+1,2)			23,3	(-2,9)			27,9	(+1,7)			20,9	(-0,5)		
BUX (Hungary)	48,9	(-5,6)			17,8	(-0,4)			33,3	(+6,0)			15,6	(-11,6)		
WIG (Poland)	47,7	(-3,5)			19,0	(-1,9)			33,3	(+5,4)			14,4	(-8,9)		
BET (Romania)	47,3	(-2,7)			21,1	(+1,1)			31,6	(+1,6)			15,7	(-4,3)		
SAX (Slovakia)	38,5	(-3,6)			25,6	(-0,7)			35,9	(+4,3)			2,6	(-7,9)		
SBI 20 (Slovenia)	46,0	(-1,3)			24,3	(+3,2)			29,7	(-1,9)			16,3	(+0,6)		
<b>Exchange rates (vs. Euro)</b>	<b>appreciate</b>		<b>no change</b>		<b>depreciate</b>		<b>balance</b>									
Kuna (Croatia)	22,7	(+8,4)			43,2	(-13,9)			34,1	(+5,5)			-11,4	(+2,9)		
Koruna (Czech Rep.)	55,1	(+10,2)			26,5	(-10,2)			18,4	(+0,0)			36,7	(+10,2)		
Forint (Hungary)	46,1	(+14,9)			30,8	(-10,9)			23,1	(-4,0)			23,0	(+18,9)		
Zloty (Poland)	54,1	(+5,1)			27,1	(+0,6)			18,8	(-5,7)			35,3	(+10,8)		
Lei (Romania)	28,6	(+3,0)			33,3	(-13,2)			38,1	(+10,2)			-9,5	(-7,2)		
US-Dollar	48,1	(-8,1)			19,2	(+0,4)			32,7	(+7,7)			15,4	(-15,8)		

Note: 70 Financial experts participated in the May survey which was conducted during the period 05/03/10-05/17/10. 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 April in parentheses). Balances refer to the differences between positive and negative assessments.

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