

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 September 28 and October 12, 2009, are published in the November 2009 issue of the "Financial Market Report CEE." 73 financial market experts participated in this month's survey.

## Economic Expectations for Central and Eastern Europe Remain Optimistic

The expectations of financial market experts for the economic development in Central and Eastern Europe (CEE) have further improved in October. The ZEW-Erste Group Bank Sentiment Indicator CEE climbs 12.1 points to 50.9 points in the current survey. Thus, the upswing that has started early this year continues. The indicators for Austria and the whole Eurozone develop positive in October as well. However, they show weaker increases than the CEE indicator. The economic ex-

pectations for Austria gain 7.1 points reaching 51.1 points. The corresponding indicator for the Eurozone increases by 11.9 points to 56.6 points. The assessment of the current economic situation in the CEE region worsens in the October survey. The respective balance drops 9.3 points to minus 56.6 points. Although, the balances for Austria and the Eurozone develop similar this month the analysts assess the current business conditions there less critical.

### Economic Outlook for the CEE Region, 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 its upward trend in October. After an increase by 12.1 points the CEE Indicator achieves a level of 50.9 points in the current survey. A clear majority of 54.7 percent of the survey participants believe in a recovery of the CEE economy within the next six months. Only 3.8 percent expect a deterioration of the economic development. The indicators for Austria and the whole Eurozone develop similar in October, as the Austrian indicator gaining 7.1 points to 51.1 points and the indicator for the Eurozone rising by 11.9 points to 56.6 points.

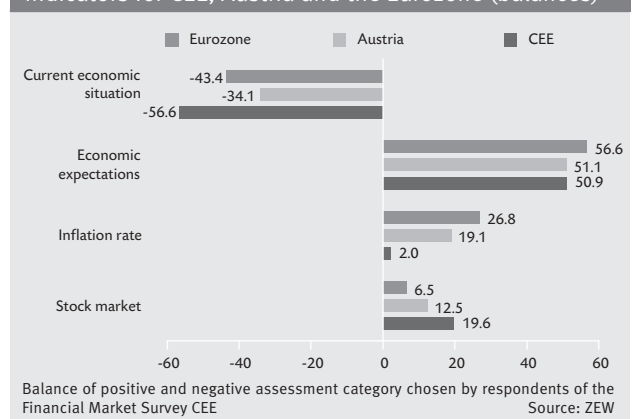
In contrast to the improved economic expectations, the assessment of the current economic situation in the CEE region worsens. The respective balance drops 9.3 points to minus 56.6 points. The proportion of critical assessments increases by 9.4 percentage points to 58.5 percentages. Only 1.9 percent of the financial market experts evaluate the present state of the economy in the CEE region as good. The balances for Austria and the Eurozone worsen in October as well. After a 10.1 point decline, the balance for Austria reaches minus 34.1 points. In the Eurozone the corresponding balance falls 6.5 points to minus 43.4 points.

Regarding the financial experts' inflation expectations there is a clear tendency. All three balances soar by double-digit points and switch from negative to positive. This is likely to in-

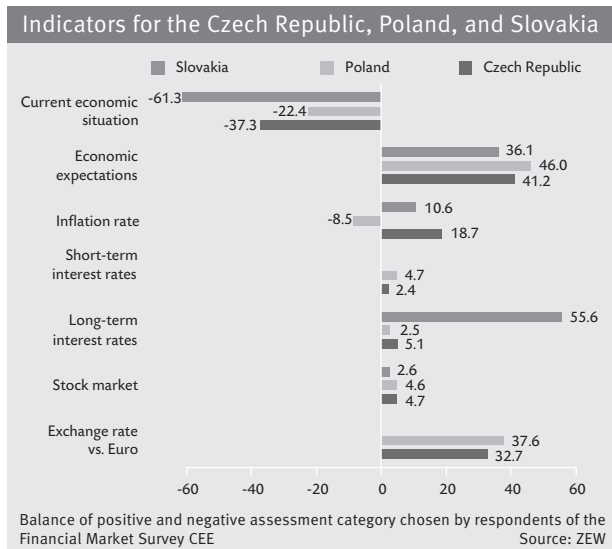
dicade rising inflation rates. However, an increasing majority of analysts predict constant inflation rates for the next six months. In line with this, 54.2 percent of the experts still consider the current interest rate in the Eurozone as appropriate.

The changes in balances regarding the stock market indices for the CEE region (NTX), Austria (ATX) and for the Eurostoxx 50 vary a lot in the current survey. While the balance for the NTX gains 1.1 points up to 19.6 points, the expectations for the ATX fall 6.0 points to 12.5 points. The balance representing the prospects for the Eurostoxx 50 within a horizon of six months decreased the most by 16.5 points to 6.5 points.

Indicators for CEE, Austria and the Eurozone (balances)



## Czech Republic, Poland and Slovakia: Appreciation of Currencies Expected



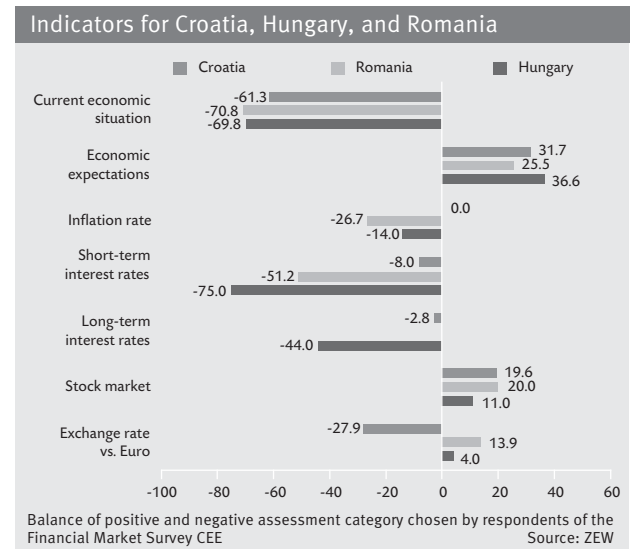
The economic expectations for the Czech Republic improve in October slightly by 2.4 points to 41.2 points, handing over the leading position to Poland. The financial market experts evaluate Poland's economic development in the following six months as the most positive among the analysed CEE countries. Accordingly, the business outlook indicator for Poland gains 7.6 points and reaches 46.0 points. The Slovakian economic sentiment indicator increases for the second month in a row slightly and equals 36.1 points in October.

The analysts' evaluation of the current economic situation in the Czech Republic remains nearly unchanged at minus 37.3 points. Contrary to the previous month, the evaluation of the Slovakian current business conditions deteriorates considerably by 36.7 points to minus 61.3 points. The survey participants may keep in mind the steeper than expected economic contraction in Slovakia in the second quarter of 2009. Although, the balance representing the assessment of Poland's current economic situation decreases by 16.8 points, the realised score of minus 22.4 points is still the best among the analysed economies.

While the development of the Czech stock market has been assessed very optimistically last month, the expectations in October are more cautions. The respective indicator for the Czech stock market index PX50 declines by 16.4 points to 4.7 points. The prospects for the Poland's WIG index are evaluated similarly this month. The balance decreases 15.1 points to 4.6 points. Also the development of the Slovakian stock market index SAX is rather carefully evaluated. Ranking only 2.6 points the respective indicator remains on last position in the CEE country comparison.

Regarding the currency expectations most surveyed experts anticipate an appreciation of the Polish Zloty and the Czech Koruna compared to the Euro. The two balances increase considerably in October from a zero and a negative value to 37.6 points and 32.7 points respectively.

## Hungary, Romania and Croatia: Decreasing Interest Rates Predicted



The upswing of the economic outlook for Hungary continues in October. The respective indicator climbs 5.8 points to 36.6 points. The sentiment indicator for Croatia keeps on rising as well. After improving by 11.7 points to 31.7 points, the indicator no longer takes the last position among the analysed CEE countries. The business expectations for Romania worsen in October by 4.5 points to a level of 25.5 points. That represents the weakest value in a cross-country comparison.

The financial market experts still assess the Hungary's and Romania's current economic situation more cautious. The corresponding balances of minus 69.8 points and minus 70.8 points range at the lower end in this category. While the expert's assessment of the current economic situation in Romania worsens, falling 17.9 points this month, Hungary's balance is increasing as the only one among the CEE countries by 4.2 points. In contrast to last month, the experts' assessment of Croatia's current economic situation drops by 16.2 points to minus 61.3 points.

The indicator representing the inflation rate expectations of the survey participants increases for all three countries in October. However, the majority of analysts still expect the inflation rates in Hungary and Romania to decrease and in Croatia to remain constant.

Regarding the development of the Croatian stock market within the next six months the financial market experts remain optimistic. With a balance of 19.6 points the forecast for the Croatian stock market index CROBEX is the second best in comparison to the other countries. The balance reflecting the development of the Romanian stock market index BET increases slightly by 1.2 points and obtains 20.0 points, the highest score in this category.

In line with the previous month, the majority of survey participants expect a depreciation of the Croatian currency with respect to the Euro in October. In contrast to the last month however, the Hungarian and the Romanian currencies are expected to appreciate over the next six months.

## Special Question: G-20 Summit in Pittsburgh

The Group of Twenty (G-20) Finance Ministers and Central Bank Governors from industrialised and emerging market economies has a crucial role in tackling the international financial and economic crisis and restoring the worldwide financial stability and thus to lead the international economic recovery.

In the context of the last G-20 Summit that took place on September 24 to 25 in Pittsburgh, we asked the financial market experts to evaluate the results of the meeting.

The majority of experts (75 percent) evaluate the outcomes neutral when comparing them with their previous expectations. This could indicate that the analysts consider the summit results as being pledges rather than binding commitments. 18 percent of the polled financial market experts state that their expectations have been met and 7 percent of the analysts seem to be dissatisfied.

Furthermore, the survey participants have been asked about the main issues and their coverage in the last G-20 Summit.

The majority of experts evaluate the decisions concerning financial regulation and reforms of international financial institutions (i.e. IMF, world bank) nameable (72 percent and 67 percent). At the same time, 61 percent of the respondents still think there could have been more emphasis on financial regulation and 25 percent wished more emphasis on reforms international financial institutions. On financial regulatory issues, the G-20 agreed to strengthen the regulation of areas where financial industry activities were responsible for the credit crisis. However, some rules as the requirement on financial institutions to raise adequate cash reserves and the rule on how much capital they must have to absorb potential losses should be completed not until the end of 2010. The discussion on executive compensation for senior managers has not come to a clear consensus either.

36 percent of the financial experts assess that the G-20 Summit could give nameable results on macroeconomic issues. Two agreements with regard to the leaders' macroeconomic policies are to keep emergency economic support in place until a recovery was secured and to reduce the imbalance between export-dominated economies like China and debtors like the United States in order to reach a sustainable and balanced growth of the world economy. 56 percent of the respondents declared that the macroeconomic topic could have been more emphasized in the discussion though.

The ability of the G-20 to influence the restoring of lending seems not to be believed in. 69 percent of the questioned experts wished more emphasis on restoring lending while only 28 percent of them suppose there may have been nameable results in this field.

In general, the experts do not agree upon the relevance of the outcomes of the G-20 Summit for the CEE region. 32 percent of the analysts consider the Summit as being relevant and 32 percent of the experts assess it as being irrelevant for the CEE region. However, 13 percent consider it as not relevant at all.

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Figure A: To which extent do the results of the G-20 Summit in Pittsburgh fulfil your previous expectations?

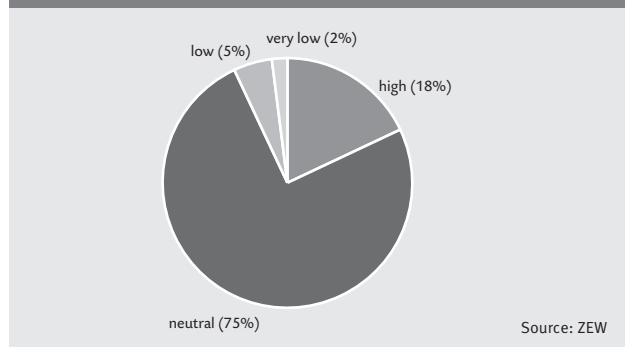


Figure B: Nameable results could be regarding the following main issues...

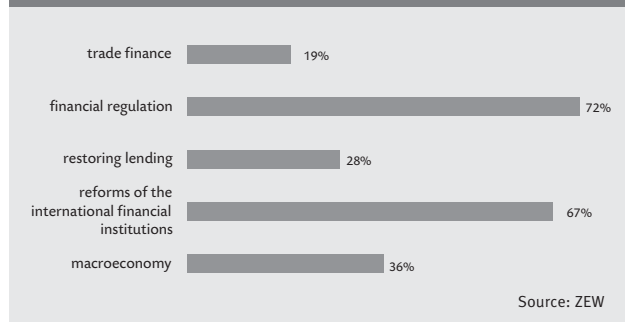


Figure C: More emphasis could have been put on...

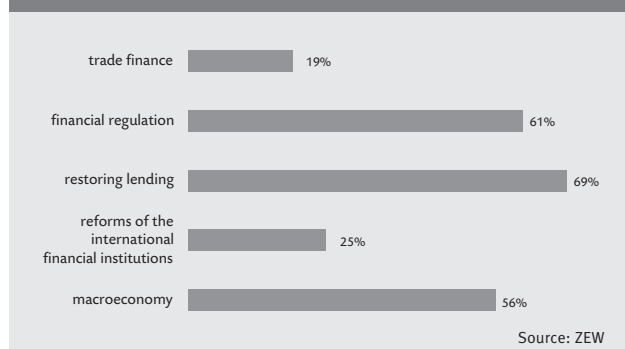
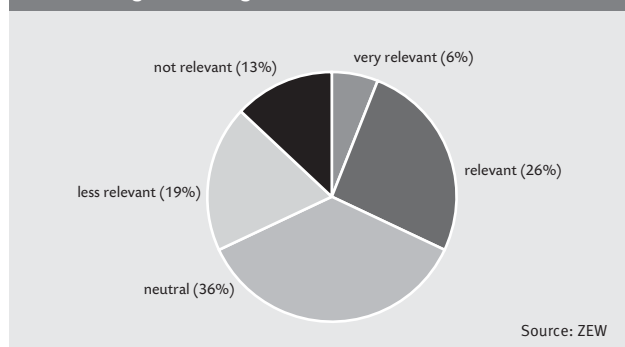


Figure D: Do you regard the results of the G-20 Summit in Pittsburgh as being relevant for CEE?



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

<b>Current economic situation</b>	<b>good</b>		<b>acceptable (normal)</b>		<b>bad</b>		<b>balance</b>									
Austria	9,1	(+1,1)	47,7	(-12,3)	43,2	(+11,2)	-34,1	(-10,1)								
Croatia	2,3	(+2,3)	34,1	(-20,8)	63,6	(+18,5)	-61,3	(-16,2)								
Czech Republic	7,8	(+4,1)	47,1	(-8,5)	45,1	(+4,4)	-37,3	(-0,3)								
Hungary	1,9	(+/-0,0)	26,4	(+4,2)	71,7	(-4,2)	-69,8	(+4,2)								
Poland	14,3	(-17,8)	49,0	(+18,8)	36,7	(-1,0)	-22,4	(-16,8)								
Romania	4,2	(-1,7)	20,8	(-14,5)	75,0	(+16,2)	-70,8	(-17,9)								
Slovakia	2,0	(-22,5)	34,7	(+8,3)	63,3	(+14,2)	-61,3	(-36,7)								
CEE	1,9	(+0,1)	39,6	(-9,5)	58,5	(+9,4)	-56,6	(-9,3)								
Eurozone	1,9	(-1,6)	52,8	(-3,3)	45,3	(+4,9)	-43,4	(-6,5)								
<b>Economic expectations</b>	<b>improve</b>		<b>no change</b>		<b>worsen</b>		<b>balance</b>									
Austria	55,8	(+3,8)	39,5	(-0,5)	4,7	(-3,3)	51,1	(+7,1)								
Croatia	43,1	(+11,1)	45,5	(-10,5)	11,4	(-0,6)	31,7	(+11,7)								
Czech Republic	51,0	(+2,9)	39,2	(-3,4)	9,8	(+0,5)	41,2	(+2,4)								
Hungary	53,9	(+11,6)	28,8	(-17,4)	17,3	(+5,8)	36,6	(+5,8)								
Poland	52,0	(+5,9)	42,0	(-4,2)	6,0	(-1,7)	46,0	(+7,6)								
Romania	40,4	(+0,4)	44,7	(-5,3)	14,9	(+4,9)	25,5	(-4,5)								
Slovakia	42,5	(-0,7)	51,1	(+2,1)	6,4	(-1,4)	36,1	(+0,7)								
CEE	54,7	(+6,6)	41,5	(-1,1)	3,8	(-5,5)	50,9	(+12,1)								
Eurozone	60,4	(+6,8)	35,8	(-1,7)	3,8	(-5,1)	56,6	(+11,9)								
<b>Inflation rate</b>	<b>increase</b>		<b>no change</b>		<b>decrease</b>		<b>balance</b>									
Austria	38,1	(+16,8)	42,9	(+2,5)	19,0	(-19,3)	19,1	(+36,1)								
Croatia	31,7	(-1,6)	36,6	(+11,6)	31,7	(-10,0)	0,0	(+8,4)								
Czech Republic	35,4	(+7,0)	47,9	(+12,1)	16,7	(-19,1)	18,7	(+26,1)								
Hungary	34,0	(+12,4)	18,0	(-7,5)	48,0	(-4,9)	-14,0	(+17,3)								
Poland	21,3	(-0,7)	48,9	(+14,9)	29,8	(-14,2)	-8,5	(+13,5)								
Romania	20,0	(+1,3)	33,3	(+14,5)	46,7	(-15,8)	-26,7	(+17,1)								
Slovakia	38,3	(+17,2)	34,0	(-6,4)	27,7	(-10,8)	10,6	(+28,0)								
CEE	28,0	(+/-0,0)	46,0	(+14,0)	26,0	(-14,0)	2,0	(-14,0)								
Eurozone	40,3	(+9,5)	46,2	(+9,7)	13,5	(-19,2)	26,8	(+28,7)								
<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	24,4	(+17,3)	21,9	(+12,3)	43,2	(-23,5)	37,5	(-19,6)	32,4	(+6,2)	40,6	(+7,3)	-8,0	(+11,1)	-18,7	(+5,0)
Czech Republic	23,3	(+7,3)	9,8	(+5,8)	55,8	(-16,2)	43,9	(-8,1)	20,9	(+8,9)	46,3	(+2,3)	2,4	(-1,6)	-36,5	(+3,5)
Hungary	6,8	(+4,8)	2,4	(+2,4)	11,4	(-0,6)	14,3	(-3,7)	81,8	(-4,2)	83,3	(+1,3)	-75,0	(+9,0)	-80,9	(+1,1)
Poland	21,4	(+11,4)	10,0	(+3,9)	61,9	(+5,9)	47,5	(+14,8)	16,7	(-17,3)	42,5	(-18,7)	4,7	(+28,7)	-32,5	(+22,6)
Romania	10,3	(+10,3)	5,4	(+3,0)	28,2	(-15,0)	21,6	(+10,0)	61,5	(+4,7)	73,0	(-13,0)	-51,2	(+5,6)	-67,6	(+16,0)
Eurozone	45,8	(+25,8)			54,2	(-20,3)			0,0	(-5,5)			45,8	(+31,3)		
<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	28,6	(+14,0)	12,1	(-2,5)	40,0	(-8,8)	42,4	(+25,3)	31,4	(-5,2)	45,5	(-22,8)	-2,8	(+19,2)	-33,4	(+20,3)
Czech Republic	35,9	(+4,0)	5,4	(-5,5)	33,3	(-7,1)	37,8	(+5,2)	30,8	(+3,1)	56,8	(+0,3)	5,1	(+0,9)	-51,4	(-5,8)
Hungary	17,0	(+4,5)	2,5	(-6,0)	22,0	(+9,5)	27,5	(+12,6)	61,0	(-14,0)	70,0	(-6,6)	-44,0	(+18,5)	-67,5	(+0,6)
Poland	27,5	(-5,8)	10,2	(-7,2)	47,5	(+3,7)	38,5	(+12,4)	25,0	(+2,1)	51,3	(-5,2)	2,5	(-7,9)	-41,1	(-2,0)
Slovakia	63,9	(+21,1)	9,1	(-0,4)	27,8	(-12,7)	42,4	(+13,8)	8,3	(-8,4)	48,5	(-13,4)	55,6	(+29,5)	-39,4	(+13,0)
Germany	61,3	(-2,9)			36,4	(+10,0)			2,3	(-7,1)			59,0	(+4,2)		
<b>Stock market indices</b>	<b>increase</b>		<b>no change</b>		<b>decrease</b>		<b>balance</b>									
EURO STOXX 50	39,1	(-5,1)	28,3	(-6,3)	32,6	(+11,4)	6,5	(-16,5)								
ATX (Austria)	42,5	(+1,6)	27,5	(-9,2)	30,0	(+7,6)	12,5	(-6,0)								
NTX (CEE)	46,4	(+5,5)	26,8	(-9,9)	26,8	(+4,4)	19,6	(+1,1)								
CROBEX (Croatia)	46,4	(+0,4)	26,8	(-3,2)	26,8	(+2,8)	19,6	(-2,4)								
PX 50 (Czech Rep.)	35,7	(-8,5)	33,3	(+0,6)	31,0	(+7,9)	4,7	(-16,4)								
BUX (Hungary)	37,7	(-0,7)	35,6	(-2,9)	26,7	(+3,6)	11,0	(-4,3)								
WIG (Poland)	37,2	(-6,0)	30,2	(-3,1)	32,6	(+9,1)	4,6	(-15,1)								
BET (Romania)	47,5	(+5,8)	25,0	(-10,4)	27,5	(+4,6)	20,0	(+1,2)								
SAX (Slovakia)	30,8	(-3,2)	41,0	(-3,0)	28,2	(+6,2)	2,6	(-9,4)								
SBI 20 (Slovenia)	32,4	(-1,6)	38,2	(-6,5)	29,4	(+8,1)	3,0	(-9,7)								
<b>Exchange rates (vs. Euro)</b>	<b>appreciate</b>		<b>no change</b>		<b>depreciate</b>		<b>balance</b>									
Kuna (Croatia)	18,6	(+6,4)	34,9	(-10,0)	46,5	(+3,6)	-27,9	(+2,8)								
Koruna (Czech Rep.)	49,0	(+11,9)	34,7	(+12,5)	16,3	(-24,4)	32,7	(+36,3)								
Forint (Hungary)	27,5	(+4,4)	49,0	(+16,3)	23,5	(-20,7)	4,0	(+25,1)								
Zloty (Poland)	58,4	(+15,8)	20,8	(+6,0)	20,8	(-21,8)	37,6	(+37,6)								
Lei (Romania)	37,2	(+10,1)	39,5	(+14,5)	23,3	(-24,6)	13,9	(+34,7)								
US-Dollar	26,0	(+7,8)	24,0	(-5,1)	50,0	(-2,7)	-24,0	(+10,5)								

Note: 73 Financial experts participated in the October survey which was conducted during the period 09/28/09-10/12/09. 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 September 2009 in parentheses). Balances refer to the differences between positive and negative assessments.

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