

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 present survey, conducted between October 23 and November 10, 2008, are published in the December 2008 issue of the "Financial Market Report CEE". In this month's survey 63 financial market experts participated.

## Economic expectations for Central and Eastern Europe decline slightly

The CEE sentiment indicator decreases slightly by 3.4 points, reaching minus 54.5 points in November. The majority of the questioned financial market experts (65.9 percent) are not persuaded that the competitive advantages of the fast-growing CEE countries will obviate the transmission of the impending economic slowdown from the Eurozone and anticipate a de-

celerating economic development in the CEE region within the coming six months. However, 11.4 percent of the analysts expect a positive future potential for the region. 22.7 percent anticipate unchanged economic conditions for the CEE region as a whole. The experts' forecasts for the economic development in Austria and in the Eurozone improve slightly.

### Economic outlook for CEE countries, Austria and the Eurozone

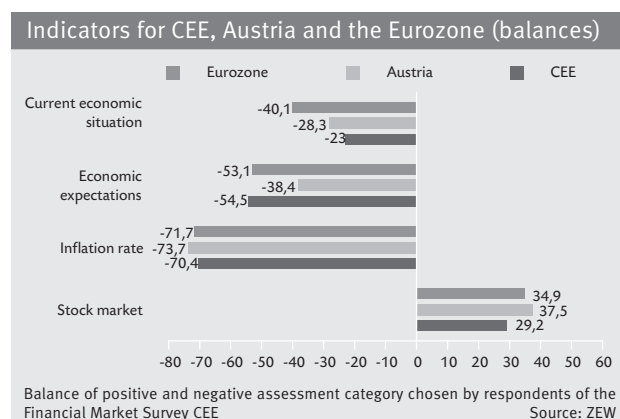
The ZEW-Erste Group Bank Sentiment Indicator CEE that shows the balance of positive and negative assessments of the economic outlook within the next six months declines slightly by 3.4 points to minus 54.5 points in November. Although the share of participants expecting an improvement of the economic conditions increases by 2.5 percentage points to 11.4 percent, the negative expectations dominate this month's results. Unlike the outlook for the CEE region the experts' forecasts for the economic development of the Eurozone improve once again, gaining 3.7 to currently minus 53.1 points. The rescue plans for the financial sector, government stimulus packages in several countries and interest rate cuts by many central banks seem to have a slight positive impact, compared to the previous month, on the analysts' confidence

in the economic development of the Eurozone. The sentiment indicator for Austria rises marginally by 3.6 points to minus 38.4 points, too.

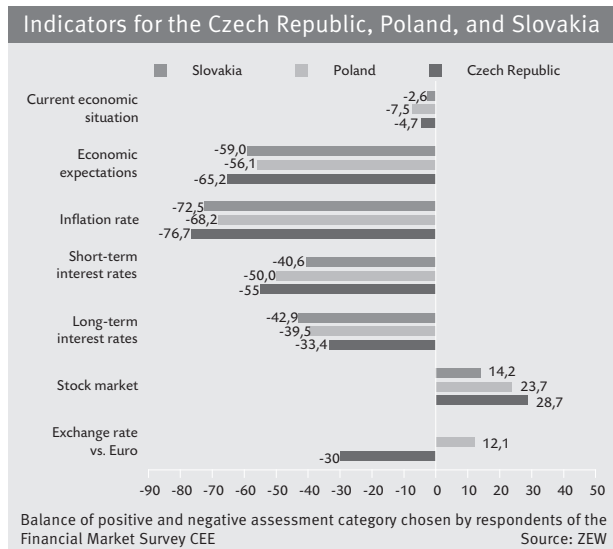
The balances presenting the assessment of the current economic situation in the CEE region as a whole and Austria turn negative in November. Despite the drops of these balances by more than 30.0 points, a clear majority of the financial experts (60.4 percent for the CEE region and 66.7 percent for Austria) still consider the present economic conditions to be "normal". For the Eurozone 46.7 percent of the analysts evaluate the current business situation neutral and the same percentage characterise the situation as "bad".

Even though the ECB has cut its prime interest rate on the occasion of an extraordinary session in October and again in its regular meeting on monetary policy in early November to currently 3.25 percent, 80.0 percent of the respondents anticipate a further downward adjustment. Against the background of a looming economic slowdown and an already decreased risk of inflation, the easing of the ECB monetary policy was possible and urgently needed. Moreover, the analysts' inflation forecasts suggest a further moderation of the price risks within the coming six months in the CEE region, Austria and the Eurozone. All corresponding balances are highly negative (lower than minus 70.0 points), as more than 80.0 percent of the experts anticipate falling inflation rates.

Although declining in November, the participants' expectations concerning the development on the CEE stock markets remain predominantly positive.



## Czech Republic, Poland and Slovakia: acceptable current economic situation



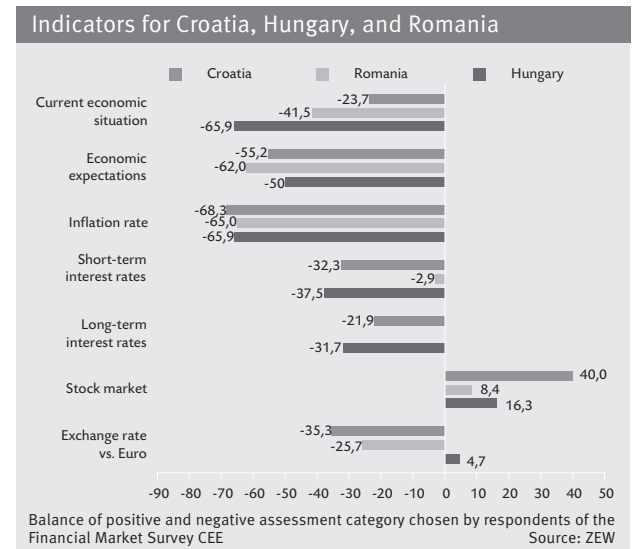
Last month's evaluations of the present economic situation in the three countries were characterised by a shift from "good" to "neutral". In November, this development continues partly for Slovakia, where 71.8 percent of the experts assess the situation as "acceptable". However, the share of the respondents taking a more critical stance grew in the current survey. As a consequence, the corresponding balances for the Czech, Polish and Slovak economies turn negative. Nevertheless the three countries remain the best rated countries in this category, though. Despite the growing doubts, a clear majority of the financial experts still consider the momentous economic conditions in the three states to be "normal".

The results of the current survey show that the financial experts look more sceptically upon the business prospects for the Czech Republic, Poland and Slovakia in November, which is reflected in the decrease of all three balances. In particular with regard to Poland, the analysts seem to worry increasingly about an economic slowdown, as the corresponding indicator declines by 22.9 points to currently minus 56.1 points. The sentiment indicator for Slovakia reaches minus 59.0 points after a drop of 12.9 points, whereas the respective balance for the Czech Republic remains lowest among all analysed countries (minus 65.2 points).

As to inflation forecasts for the Czech Republic, Poland and Slovakia, the analysts increasingly suggest a further moderation of the price risks within the coming six months. Despite the recent cuts of the base interest rates in the Czech Republic by 75 basis points to currently 2.75 percent and in Slovakia by 50 basis points to 3.25 percent, the experts still predict further lowering of the interest rates within the next six months.

Although the balances for the development on the stock markets in the selected countries decline in November, the expectations of the analysts remain predominantly positive. The corresponding balances for the Czech Republic and Poland ease 12.4 points and 10.5 points to 28.7 and 23.7 points respectively. The forecast for the Slovak stock index SAX losses 27.0 points to 14.2 points.

## Hungary, Romania and Croatia: weaker economic expectations



Similar to the November results for the other analysed CEE countries, more than half of the participants still regard the present economic situation in Romania and Croatia as "normal". Nonetheless, an increased share of respondents evaluates the momentous conditions with "bad" resulting in declines of the corresponding balances. The associated indicators for the two countries recede by 29.3 points and 29.1 points, now standing at minus 41.5 points and minus 23.7 points respectively. The sharpest decline suffers the Hungarian indicator going down by 40.2 points to minus 65.2 points.

The outlook for the future economic conditions in Croatia worsens slightly in November by 7.9 to minus 55.2 points, whereas the respective indicator for Romania falls markedly by 35.2 points to minus 62.0 points. This is the most vigorous decline in this category. The corresponding indicator for Hungary loses 24.4 points and reaches the minus 50.0 points mark in November.

In line with the results for the CEE region as a whole and the outcomes last month, 75 percent of the financial experts count on falling inflation rates for Hungary, Romania and Croatia within the next half year. All three balances remain highly negative. Corresponding to the inflation forecast, most analysts assume decreasing short-term interest rates in the cases of Croatia and Hungary. Due to the raise of the Hungarian prime rate in late October, slightly fewer experts than in the previous month reckon on falling interest rates. Nonetheless, they still form 60.0 percent of the respondents. As to Romania, the outcomes are rather mixed. 35.3 percent of the experts assume an interest hike, whereas 38.2 percent consider a cut to be most likely.

The analysts' growing scepticism concerning the current economic situation and future prospects in Hungary, Romania and Croatia is only partly reflected in the stock market expectations. Although declining, all three stock market balances remain clearly positive 16.3 points (minus 16.2 points compared to the survey in October), 8.4 points (minus 25.0 points) and 40.0 points (minus 4.7 points).

## Special question: CEE exports in 2009

The CEE countries have experienced strongly growing exports within the last years, mainly due to high demand from the Western European states – their principal trade partners. The European Union absorbs roughly 60 percent of exports from the CEE region. Against the background of an economic slowdown in the Eurozone, it could be expected that the lower demand from these countries will influence the CEE export performance.

Within the scope of this month's special question, we asked the financial market experts to evaluate the development of CEE exports in 2009. In doing so, we differentiated between the trade connections with Western Europe and the rest of the world. 73 and 66 percent of the survey participants respectively perceive decreasing exports of CEE companies. Only one in ten analysts believes that this year's export results will be exceeded.

Within the second part of the special question, we were interested in the experts' assessment on the specific perspectives of major CEE industry sectors in 2009. Are all branches affected by the slowdown in exports anticipated by the survey respondents? For this purpose, we asked the analysts, in how far the export activities of companies belonging to the automotive, the chemical/pharma, the steel/metal, the electronics and machinery industries, the food and service sectors as well as the industry for information-technologies will change. An overwhelming majority of the experts, namely 90 percent, expect the CEE automotive industry to export less in 2009.

During the past fifteen years the CEE region has become one of the key growth markets in the global automotive sector. The region has been the recipient of major inward investments, both to serve local markets and as a low-cost base for export to Western Europe.

In connection with the current problems of automobile manufacturers worldwide and due to the constrained investments of European corporations at the global level, including those in CEE, the automotive industry in CEE is preparing for difficult times. The Czech VW subsidiary Skoda plans to manufacture 13,000 cars less than expected in 2008 and has stopped its production for five days in October. Nevertheless, some stabilisation could occur, as a consequence of the rescue plan for supporting carmakers which was introduced in the USA and the similar steps which are discussed in many European countries, for instance France, Italy and Germany, as well.

The financial experts predominantly (75 percent) anticipate decreasing export activities of CEE steel and metal companies, too, as the flagging automotive industry is their principal customer. Nonetheless, 6 percent and 19 percent respectively of the participants perceive better or at least unchanged export chances for CEE steel and metal firms in 2009.

With regard to the export activities of the machinery sector, most respondents are sceptical as well. Most probably, they share the view that the unfavourable investment climate resulting from the crisis on the financial markets may have a particularly negative impact on the producers of industrial goods. 78 percent of the experts anticipate decreasing export chances for this branch.

Figure A: How do you evaluate the development of CEE exports in 2009?

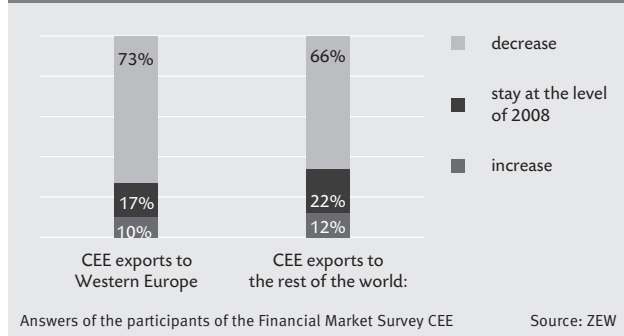
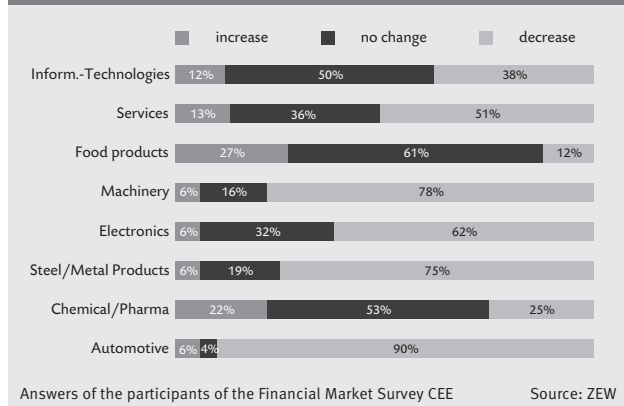


Figure B: In 2009 the export activity of CEE companies/enterprises in the following sectors/industries will:



The analysts' assessments on the electronics industry are very similar except for the share of the participants foreseeing constant exports being slightly higher, namely 32 percent. 62 percent of all experts expect declining exports.

By contrast, the CEE chemical/pharma industry seems to be quite immune to the current economic uncertainties. More than half (53 percent) of the respondents count on unchanged export activities in this sector, whereas nearly equal proportions of the experts anticipate lower or higher exports for the next year. The pharmaceutical companies profit on the one hand from the demand for medicaments being relatively independent of the economic conditions and on the other hand from insurance structures in many countries covering the expenses for therapies and from a highly diversified product portfolio.

According to the analysts, the demand for food products from Central and Eastern Europe will remain high, too. A vast majority of 88 percent anticipate unvaried or increasing export activities in this sector. Still, the proportion of the experts expecting constant exports (61 percent) clearly outweighs.

From the respondents' point of view, the CEE service sector and the industry for information-technologies resemble each other very much, featuring moderate future perspectives. 13 percent and 12 percent respectively of the experts consider increasing exports in these branches to be most likely. In case of the service industry, however, the share of the analysts making a pessimistic assessment is slightly higher and constitutes a majority (51 percent).

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**ZEW-Financial Market Survey: November 2008**

| Current economic situation | good       |         | acceptable (normal) |         | bad        |         | balance |         |      |         |      |         |       |         |       |         |
|----------------------------|------------|---------|---------------------|---------|------------|---------|---------|---------|------|---------|------|---------|-------|---------|-------|---------|
| Austria                    | 2.5        | (-13.3) | 66.7                | (-7.0)  | 30.8       | (+20.3) | -28.3   | (-33.6) |      |         |      |         |       |         |       |         |
| Croatia                    | 2.6        | (-8.2)  | 71.1                | (-12.7) | 26.3       | (+20.9) | -23.7   | (-29.1) |      |         |      |         |       |         |       |         |
| Czech Republic             | 14.3       | (-7.2)  | 66.7                | (-4.7)  | 19.0       | (+11.9) | -4.7    | (-19.1) |      |         |      |         |       |         |       |         |
| Hungary                    | 2.3        | (-4.6)  | 29.5                | (-31.0) | 68.2       | (+35.6) | -65.9   | (-40.2) |      |         |      |         |       |         |       |         |
| Poland                     | 17.5       | (-12.5) | 57.5                | (-2.5)  | 25.0       | (+15.0) | -7.5    | (-27.5) |      |         |      |         |       |         |       |         |
| Romania                    | 2.4        | (-9.8)  | 53.7                | (-9.7)  | 43.9       | (+19.5) | -41.5   | (-29.3) |      |         |      |         |       |         |       |         |
| Slovakia                   | 12.8       | (-17.2) | 71.8                | (+6.8)  | 15.4       | (+10.4) | -2.6    | (-27.6) |      |         |      |         |       |         |       |         |
| CEE                        | 8.3        | (-5.6)  | 60.4                | (-21.0) | 31.3       | (+26.6) | -23.0   | (-32.2) |      |         |      |         |       |         |       |         |
| Eurozone                   | 6.6        | (+2.1)  | 46.7                | (-15.5) | 46.7       | (+13.4) | -40.1   | (-11.3) |      |         |      |         |       |         |       |         |
| Economic expectations      | improve    |         | no change           |         | worsen     |         | balance |         |      |         |      |         |       |         |       |         |
| Austria                    | 10.3       | (-0.3)  | 41.0                | (+4.2)  | 48.7       | (-3.9)  | -38.4   | (+3.6)  |      |         |      |         |       |         |       |         |
| Croatia                    | 5.3        | (-3.0)  | 34.2                | (-1.9)  | 60.5       | (+4.9)  | -55.2   | (-7.9)  |      |         |      |         |       |         |       |         |
| Czech Republic             | 4.6        | (-0.3)  | 25.6                | (-6.1)  | 69.8       | (+6.4)  | -65.2   | (-6.7)  |      |         |      |         |       |         |       |         |
| Hungary                    | 9.1        | (-9.5)  | 31.8                | (-5.4)  | 59.1       | (+14.9) | -50.0   | (-24.4) |      |         |      |         |       |         |       |         |
| Poland                     | 7.3        | (-13.3) | 29.3                | (+3.7)  | 63.4       | (+9.6)  | -56.1   | (-22.9) |      |         |      |         |       |         |       |         |
| Romania                    | 4.7        | (-12.4) | 28.6                | (-10.4) | 66.7       | (+22.8) | -62.0   | (-35.2) |      |         |      |         |       |         |       |         |
| Slovakia                   | 7.7        | (+0.0)  | 25.6                | (-12.9) | 66.7       | (+12.9) | -59.0   | (-12.9) |      |         |      |         |       |         |       |         |
| CEE                        | 11.4       | (+2.5)  | 22.7                | (-8.4)  | 65.9       | (+5.9)  | -54.5   | (-3.4)  |      |         |      |         |       |         |       |         |
| Eurozone                   | 10.7       | (+1.6)  | 25.5                | (+0.5)  | 63.8       | (-2.1)  | -53.1   | (+3.7)  |      |         |      |         |       |         |       |         |
| Inflation rate             | increase   |         | no change           |         | decrease   |         | balance |         |      |         |      |         |       |         |       |         |
| Austria                    | 10.5       | (+5.2)  | 5.3                 | (-21.0) | 84.2       | (+15.8) | -73.7   | (-10.6) |      |         |      |         |       |         |       |         |
| Croatia                    | 10.6       | (-3.3)  | 10.5                | (-3.4)  | 78.9       | (+6.7)  | -68.3   | (-10.0) |      |         |      |         |       |         |       |         |
| Czech Republic             | 9.3        | (+6.9)  | 4.7                 | (-19.7) | 86.0       | (+12.8) | -76.7   | (-5.9)  |      |         |      |         |       |         |       |         |
| Hungary                    | 9.1        | (+4.5)  | 15.9                | (-7.4)  | 75.0       | (+2.9)  | -65.9   | (+1.6)  |      |         |      |         |       |         |       |         |
| Poland                     | 9.8        | (+4.7)  | 12.2                | (-10.9) | 78.0       | (+6.2)  | -68.2   | (-1.5)  |      |         |      |         |       |         |       |         |
| Romania                    | 11.7       | (+1.7)  | 11.6                | (-15.9) | 76.7       | (+14.2) | -65.0   | (-12.5) |      |         |      |         |       |         |       |         |
| Slovakia                   | 10.0       | (+4.9)  | 7.5                 | (-23.3) | 82.5       | (+18.4) | -72.5   | (-13.5) |      |         |      |         |       |         |       |         |
| CEE                        | 11.4       | (+4.6)  | 6.8                 | (-18.2) | 81.8       | (+13.6) | -70.4   | (-9.0)  |      |         |      |         |       |         |       |         |
| Eurozone                   | 10.9       | (+3.9)  | 6.5                 | (-14.4) | 82.6       | (+10.5) | -71.7   | (-6.6)  |      |         |      |         |       |         |       |         |
| Short-term interest rates  | increase   |         | no change           |         | decrease   |         | balance |         |      |         |      |         |       |         |       |         |
|                            | [abs.]     | [rel.]  | [abs.]              | [rel.]  | [abs.]     | [rel.]  | [abs.]  | [rel.]  |      |         |      |         |       |         |       |         |
| Croatia                    | 20.6       | (-2.0)  | 28.1                | (-5.2)  | 26.5       | (-21.9) | 31.3    | (-25.4) | 52.9 | (+23.9) | 40.6 | (+30.6) | -32.3 | (-25.9) | -12.5 | (-35.8) |
| Czech Republic             | 10.0       | (-0.5)  | 33.3                | (+8.9)  | 25.0       | (-1.3)  | 38.9    | (-7.0)  | 65.0 | (+1.8)  | 27.8 | (-1.9)  | -55.0 | (-2.3)  | 5.5   | (+10.8) |
| Hungary                    | 22.5       | (+9.7)  | 33.3                | (+9.6)  | 17.5       | (+7.2)  | 15.4    | (-26.7) | 60.0 | (-16.9) | 51.3 | (+17.1) | -37.5 | (+26.6) | -18.0 | (-7.5)  |
| Poland                     | 15.8       | (+7.0)  | 46.0                | (+13.7) | 18.4       | (-11.0) | 29.7    | (-26.2) | 65.8 | (+4.0)  | 24.3 | (+12.5) | -50.0 | (+3.0)  | 21.7  | (+1.2)  |
| Romania                    | 35.3       | (+23.9) | 46.9                | (+13.6) | 26.5       | (-16.4) | 28.1    | (-8.3)  | 38.2 | (-7.5)  | 25.0 | (-5.3)  | -2.9  | (+31.4) | 21.9  | (+18.9) |
| Slovakia                   | 18.9       | (+1.8)  | 20.6                | (+1.8)  | 21.6       | (-12.7) | 50.0    | (-15.6) | 59.5 | (+10.9) | 29.4 | (+13.8) | -40.6 | (-9.1)  | -8.8  | (-12.0) |
| Eurozone                   | 11.1       | (+1.3)  |                     |         | 8.9        | (-17.9) |         |         | 80.0 | (+16.6) |      |         | -68.9 | (-15.3) |       |         |
| Long-term interest rates   | increase   |         | no change           |         | decrease   |         | balance |         |      |         |      |         |       |         |       |         |
|                            | [abs.]     | [rel.]  | [abs.]              | [rel.]  | [abs.]     | [rel.]  | [abs.]  | [rel.]  |      |         |      |         |       |         |       |         |
| Croatia                    | 25.0       | (+7.1)  | 35.5                | (+9.6)  | 28.1       | (-29.0) | 22.6    | (-33.0) | 46.9 | (+21.9) | 41.9 | (+23.4) | -21.9 | (-14.8) | -6.4  | (-13.8) |
| Czech Republic             | 17.9       | (+6.8)  | 25.0                | (+7.4)  | 30.8       | (-5.3)  | 36.1    | (-19.8) | 51.3 | (-1.5)  | 38.9 | (+12.4) | -33.4 | (+8.3)  | -13.9 | (-5.0)  |
| Hungary                    | 24.4       | (+13.9) | 36.8                | (+15.1) | 19.5       | (-6.8)  | 13.2    | (-16.5) | 56.1 | (-7.1)  | 50.0 | (+1.4)  | -31.7 | (+21.0) | -13.2 | (+13.7) |
| Poland                     | 18.4       | (+3.7)  | 27.7                | (+6.5)  | 23.7       | (-5.7)  | 30.6    | (-14.9) | 57.9 | (+2.0)  | 41.7 | (+8.4)  | -39.5 | (+1.7)  | -14   | (-1.9)  |
| Slovakia                   | 11.4       | (+5.5)  | 15.1                | (+2.9)  | 34.3       | (-18.6) | 57.6    | (-6.0)  | 54.3 | (+13.1) | 27.3 | (+3.1)  | -42.9 | (-7.6)  | -12.2 | (-0.2)  |
| Germany                    | 27.9       | (+10.4) |                     |         | 25.6       | (-11.9) |         |         | 46.5 | (+1.5)  |      |         | -18.6 | (+8.9)  |       |         |
| Stock market indices       | increase   |         | no change           |         | decrease   |         | balance |         |      |         |      |         |       |         |       |         |
| EURO STOXX 50              | 53.5       | (-1.5)  |                     |         | 27.9       | (+5.4)  |         |         | 18.6 | (-3.9)  |      |         | 34.9  | (+2.4)  |       |         |
| ATX (Austria)              | 55.0       | (-6.1)  |                     |         | 27.5       | (+10.8) |         |         | 17.5 | (-4.7)  |      |         | 37.5  | (-1.4)  |       |         |
| NTX (CEE)                  | 51.2       | (-9.9)  |                     |         | 26.8       | (+10.1) |         |         | 22.0 | (-0.2)  |      |         | 29.2  | (-9.7)  |       |         |
| CROBEX (Croatia)           | 55.0       | (-2.9)  |                     |         | 30.0       | (+1.1)  |         |         | 15.0 | (+1.8)  |      |         | 40.0  | (-4.7)  |       |         |
| PX 50 (Czech Rep.)         | 47.7       | (-11.3) |                     |         | 33.3       | (+10.2) |         |         | 19.0 | (+1.1)  |      |         | 28.7  | (-12.4) |       |         |
| BUX (Hungary)              | 46.5       | (-11.0) |                     |         | 23.3       | (+5.8)  |         |         | 30.2 | (+5.2)  |      |         | 16.3  | (-16.2) |       |         |
| WIG (Poland)               | 47.4       | (-9.7)  |                     |         | 28.9       | (+8.9)  |         |         | 23.7 | (+0.8)  |      |         | 23.7  | (-10.5) |       |         |
| BET (Romania)              | 41.7       | (-11.1) |                     |         | 25.0       | (-2.8)  |         |         | 33.3 | (+13.9) |      |         | 8.4   | (-25.0) |       |         |
| SAX (Slovakia)             | 37.1       | (-18.8) |                     |         | 40.0       | (+10.6) |         |         | 22.9 | (+8.2)  |      |         | 14.2  | (-27.0) |       |         |
| SBI 20 (Slovenia)          | 40.0       | (-9.9)  |                     |         | 36.7       | (+5.4)  |         |         | 23.3 | (+4.5)  |      |         | 16.7  | (-14.4) |       |         |
| Exchange rates (vs. Euro)  | appreciate |         | no change           |         | depreciate |         | balance |         |      |         |      |         |       |         |       |         |
| Kuna (Croatia)             | 5.9        | (-10.8) |                     |         | 52.9       | (+8.5)  |         |         | 41.2 | (+2.3)  |      |         | -35.3 | (-13.1) |       |         |
| Koruna (Czech Rep.)        | 12.5       | (-0.4)  |                     |         | 45.0       | (+11.7) |         |         | 42.5 | (-11.3) |      |         | -30.0 | (+10.9) |       |         |
| Forint (Hungary)           | 30.9       | (-0.7)  |                     |         | 42.9       | (+8.7)  |         |         | 26.2 | (-8.0)  |      |         | 4.7   | (+7.3)  |       |         |
| Zloty (Poland)             | 41.4       | (+2.5)  |                     |         | 29.3       | (-9.6)  |         |         | 29.3 | (+7.1)  |      |         | 12.1  | (-4.6)  |       |         |
| Lei (Romania)              | 20.5       | (-12.8) |                     |         | 33.3       | (-5.6)  |         |         | 46.2 | (+18.4) |      |         | -25.7 | (-31.2) |       |         |
| US-Dollar                  | 44.2       | (-7.0)  |                     |         | 20.9       | (+3.8)  |         |         | 34.9 | (+3.2)  |      |         | 9.3   | (-10.2) |       |         |

Note: 63 Financial experts participated in the November survey which was conducted during the period 10/23/08-11/10/08. 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 November in parentheses). Balances refer to the differences between positive and negative assessments.