Moody's ANALYTICS

News

FOR IMMEDIATE RELEASE

KERSTIN VOELKEL
Communications Strategist
Moody's Analytics
+44 20 7772 5207
kerstin.voelkel@moodys.com

MOODY'S ANALYTICS CENTRAL AND EASTERN EUROPE OUTLOOK

FISCAL EXPANSION AND MONETARY EASING EXPECTED TO SUPPORT ECONOMIC RECOVERY IN SECOND HALF OF 2013

LONDON/PRAGUE, June 5, 2013 — Moody's Analytics, a leading independent provider of economic forecasting, today released its economic outlook for Central and Eastern Europe (CEE) for 2013. According to the report, Central and Eastern Europe: Policy Turns, Hungary's economy has ended its recession, whereas the latest Polish and Czech GDP numbers were lower than expected.

"The overall fiscal situation in Central and Eastern Europe has been improving, but weak investment and lack of competitiveness represent major constraints on long-term growth", stated Tomas Holinka, Economist at Moody's Analytics.

Because of weaker growth in the first quarter, Moody's Analytics has revised its GDP forecast for this year downwards and predicts the Czech economy will contract 0.6%, while Poland's growth will likely slow to 1.4%. Hungary's GDP, however, is expected to shrink only by 0.3%, less than the previously anticipated 1.8% drop.

"We believe that a moderate fiscal expansion together with further easing monetary policy will support economic recovery in Central and Eastern Europe in the second half of 2013", said Anna Zabrodzka, Economist at Moody's Analytics.

Hungary's Central Bank has cut its policy rate ten times in recent months to 4.5% and introduced a "funding for growth scheme" to boost lending and counter the constraint of high level of foreign currency debt. The National Bank of Poland lowered its policy rate by 25 basis points to 3% at its May meeting, while the Czech National Bank held its main rate at a record low, after annual inflation remained below the central bank's target in both countries.

According to the Moody's Analytics report, the fiscal situation in CEE has been improving despite continuing pressure. The Czech Republic's fiscal deficit narrowed to CZK40 billion in the five months ending in May from CZK79 billion a year earlier. The country's deficit should narrow to 2.8% of GDP in 2013 from around 5% in 2012, bringing the shortage back under the EU's 3% ceiling. In Hungary, the strict austerity measures resulted in lowering the deficit below the 3% threshold last year. With further austerity amounting to 0.3% of GDP for 2013 and 0.7% for 2014, the Hungarian deficit will likely remain under the EU's 3% ceiling.

While the current floods in the Czech Republic will have an adverse impact on household consumption in the short term, it may boost infrastructure investments and construction in the second half of 2013. With strong tax receipts, the government will likely propose more spending on infrastructure, science and research, boosting output. Prime Minister Petr Necas has promised to spend CZK5.3 billion to cover the damages, and more may come from EU funds.

The Moody’s Analytics report also notes that although the CEE economies are still relatively attractive for western companies as business location, their competiveness has been weakening. In the annual IMD World competitiveness scoreboard the Eastern European countries are looking rather bleak, with most of them receiving a weaker ranking than in the previous year.

For more information, visit Moody’s Analytics Dismal Scientist.

About Moody’s Analytics

Moody’s Analytics helps capital markets and risk management professionals worldwide respond to an evolving marketplace with confidence. The company offers unique tools and best practices for measuring and managing risk through expertise and experience in credit analysis, economic research and financial risk management. By providing leading-edge software, advisory services and research, including proprietary analyses from Moody’s Investors Service, Moody’s Analytics integrates and customizes its offerings to address specific business challenges. Moody's Analytics is a subsidiary of Moody's Corporation (NYSE: MCO), which reported revenue of $2.7 billion in 2012, employs approximately 6,800 people worldwide and has a presence in 28 countries. Further information is available at www.moodysanalytics.com.

# # #