MOODY'S ANALYTICS

News

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MOODY'S ANALYTICS CENTRAL AND EASTERN EUROPE OUTLOOK

GROWTH STALLS DUE TO EURO ZONE CRISIS AND WEAK HOUSEHOLD SPENDING

LONDON/PRAGUE, March 14, 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 Outlook: Growth Stalls, the major CEE economies will struggle again this year, following a very challenging 2012. Growth in Poland, Hungary and the Czech Republic will continue to be hampered by the euro zone crisis and weak domestic consumption.

Moody's Analytics expects Hungary's GDP to shrink by 1.2% in 2013, whereas the Czech economy is likely to grow by 0.3%. Poland's growth rate will likely slow further this year to 1.9% following a 2% growth in 2012 and 4.3% in 2011.

"Exports were the only source of growth for all three economies in 2012 as rising unemployment, negative real wage growth and fiscal austerity have restrained consumer spending at home", said Tomas Holinka, Economist at Moody's Analytics. "But with around 75% of the countries' exports going to the EU this could be problematic for future growth."

Households in Poland, Hungary and the Czech Republic will also face tighter credit as banks cut back on lending. Most banks in the region are owned by Western financial institutions, which have been deleveraging by withdrawing capital from their local subsidiaries. This trend has been most pronounced in Hungary, where outflows from mid-2011 through mid-2012 amounted to 14.2% of the country's GDP.

The Moody's Analytics report notes that weak investment poses another key risk to long-term growth prospects in the region. In Hungary, the fixed investment share of GDP shrank to 18% in 2012 from 22% before the European debt crisis. An unfriendly business environment, unpredictable fiscal policy and increasing labour costs have been key impediments to investment in the country.

In the Czech Republic, the fixed investment share of GDP declined to 25% last year from 28% pre-crisis. Although its share of GDP remains stable in Poland, investment slowed significantly in late 2012 with little sign of improvement. A new government scheme to boost investment into large infrastructure projects, expected to begin in the second quarter of 2013, might be insufficient to significantly affect Poland's future economic growth.

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.

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