

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 November 29 and December 13, 2010, are published in the January 2011 issue of the "Financial Market Report CEE." 92 financial market experts participated in this month's survey. The answers of all survey participants are included in the calculation of the indicators for the CEE region, the Eurozone and Turkey. The answers of the Turkish participants are not considered for the calculation of the indicators for the individual CEE countries and Austria.

## Reduced economic expectations for Central and Eastern Europe

The ZEW-Erste Group Bank Indicator for CEE drops in December 2010 by 8.7 points to a level of 22.7 points. This reflects more cautious economic expectations on a six-month time horizon for Central and Eastern Europe, including Turkey (CEE) compared to the previous month. The assessment of the current economic situation in the CEE region improves in December once again. The respective indicator climbs by 5.3 points to 22.0 points. The economic expectations for the Euro-

zone decrease by 7.2 points to minus 1.7 points. This is the sole negative indicator in this category. The experts' view on the current situation in the Eurozone deteriorates as well. The respective indicator drops by 7.6 points to minus 29.1 points. The economic sentiment indicator for Austria increases slightly by 1.3 points and reaches a value of 21.4 points. A similar development shows the evaluation of the current business conditions in Austria which improves to 26.1 points.

### Economic Outlook for the CEE Region, Austria and the Eurozone

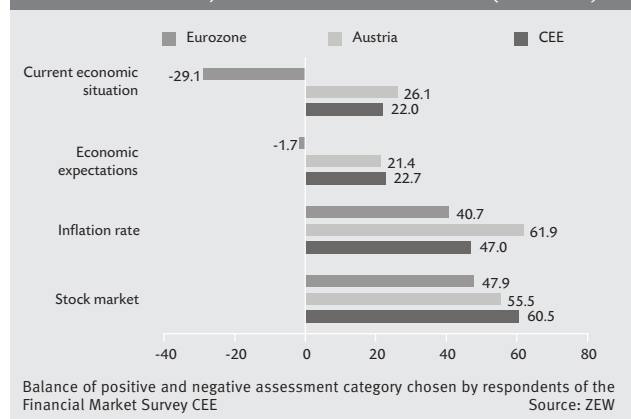
The ZEW-Erste Group Bank Economic Sentiment Indicator for Central and Eastern Europe including Turkey (CEE), which is calculated as the balance of positive and negative expectations for the economic development on a six-month time horizon, decreases by 8.7 points to 22.7 points in December. However, the decline in the expectations of the financial market experts should be considered in the context that 58.5 percent of them do not expect the economic sentiment in the CEE region to deteriorate or to rise within the next six months. This assessment of a widely stable economic situation is not included in the calculation of the indicator. The economic expectations for the Eurozone drop in the current survey by 7.2 points to a value of minus 1.7 points. In contrast the predictions for the economic development in Austria improve by 1.3 points to 21.4 points.

While the evaluation of the current economic conditions in the CEE region and Austria improves in December, the respective indicator for the Eurozone drops this month. The balance representing the assessment of the current economic situation in the CEE region climbs by 5.3 points to 22.0 points and the respective indicator for Austria rises by 3.9 points to 26.1 points. The balance for the Eurozone deteriorates by 7.6 points to minus 29.1 points. After the strong increase in November, the expectations regarding the inflation

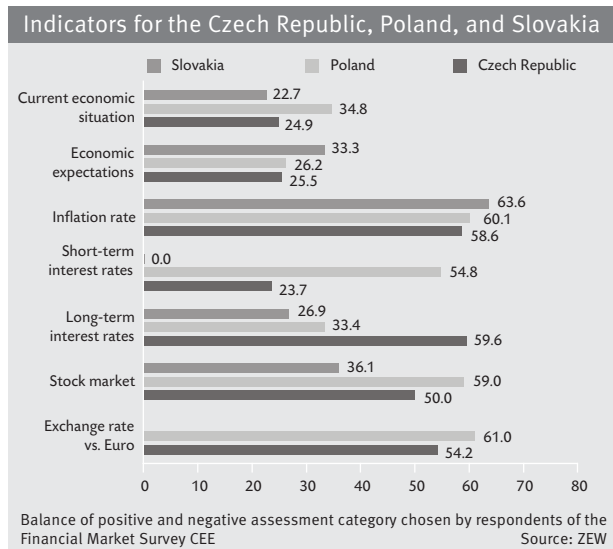
rate in the CEE region within the next six months do rise by 4.8 points to 47.0 points. Almost all survey participants predict an increasing or unchanged inflation rate in the CEE region. For Austria and the Eurozone the inflation indicators increase stronger by 11.9 points to 61.9 points and by 14.1 points to 40.7 points, respectively.

While the forecasts for the development of the CEE stock market index (NTX) improve slightly the expectations for the Austrian ATX and the Eurostoxx 50 worsen in December.

Indicators for CEE, Austria and the Eurozone (balances)



## Czech Republic, Poland, and Slovakia: Brighter Outlook for Slovakia



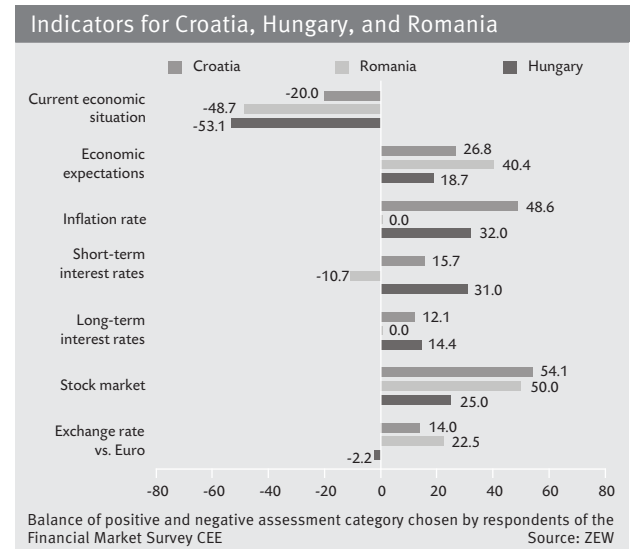
The expected economic development in Slovakia exhibits fairly positive results in December compared to the Czech Republic and Poland. The economic sentiment indicator for Slovakia increases by 8.3 points to 33.3 points while Poland's and the Czech Republic's indicators decrease by 6.3 points to 26.2 points and by 5.4 points to 25.5 points, respectively. This indicates that the financial market experts are confident that the newly planned austerity measures by the Slovak government will not significantly affect the economy negatively. The Slovak indicator achieves the second highest value in country comparison in this category.

The indicator reflecting the assessment of the current business cycle in Slovakia gains 12.7 points reaching 22.7 points in December. It depicts the highest increase among all the analysed CEE economies. The assessment of the current business situation in Poland and the Czech Republic changes only marginally. The respective indicator for Poland decreases slightly by 0.2 points to 34.8 points. However, the evaluation of the current economic situation in Poland still remains the best in country comparison apart from Turkey. The respective indicator for the Czech Republic increases by 1.6 points to 24.9 points.

Expectations of higher inflationary pressure for Poland are reflected in the double digit increase of the inflation indicator by 12.6 points to 60.1 points. The Polish National Bank also expressed worries about higher core inflation due to the impact of global factors such as the rise in commodity prices in the world markets. More than 60 percent of the survey participants agree with the forecast of higher inflation rates. The inflation indicators of Slovakia and the Czech Republic also continue to depict high values at 63.6 points and 58.6 points.

More than 60 percent of the analysts expect an appreciation of the Czech Koruna against the Euro. The respective indicator rises significantly by 30.4 points to 54.2 points. The exchange rate indicator for the Polish Zloty achieves with 61.0 points the highest value in country comparison.

## Croatia, Hungary and Romania: Higher Interest Rates in Hungary



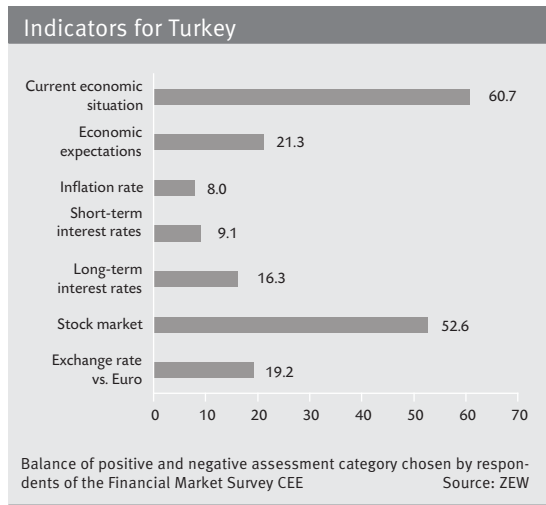
The indicators reflecting the expected economic development and the assessment of the current economic situation in Hungary decrease significantly in December by 12.1 points to minus 53.1 points and by 17.7 points to 18.7 points. Thus, Hungary exhibits the lowest indicators among all the analysed CEE economies in these two categories. Romania's economic sentiment indicator wins the first place in country comparison after a rise by 8.8 points to 40.4 points. In contrast the evaluation of the current business cycle shows a more cautious picture. Still more than 50 percent of the survey participants regard the current business conditions in Romania as bad and the respective indicator stands at a level of minus 48.7 points. The economic expectations for Croatia recover marginally by 0.4 points to 26.8 points and the assessment of Croatia's current economic situation improves by 7.0 points to minus 20.0 points.

The inflation indicator for Hungary increases significantly by 27.5 points which is the highest increase in country comparison. In line with this result, the indicator reflecting the expected development of the short-term interest rates shows a strong increase as well. The forecasts of the majority of experts for an interest rate increase were confirmed by the recent decision of Hungary's Central Bank to increase the central bank base rate by 25 basis points to 5.75.

The inflation indicators for Croatia and Romania decrease by 6.7 points and 16.3 points to 48.6 points and 0.0 points. The balance of Romania's inflation indicator exhibits the strongest decline among all the other CEE economies. More than 60 percent of the polled participants also anticipate an increase in Polish short term interest rates within the next six months.

The indicators reflecting the developments of the stock market index and the exchange rate in Hungary on a six-month horizon exhibit the strongest declines by 11.9 points and 24.7 points and achieve the lowest values in country comparison of 25.0 points and minus 2.2 points.

## Turkey: Positive Development of Indicators Abates

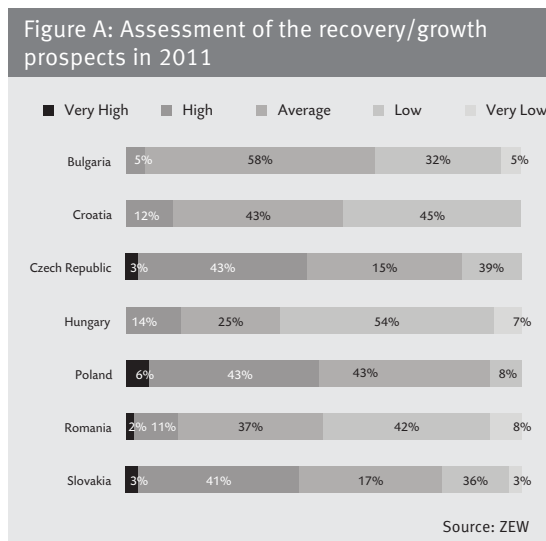


The positive evaluation of the Turkish economy diminishes slightly in this month's survey. The economic sentiment indicator which reflects the expected development of the Turkish economy on a six-month horizon declines by 5.4 points to 21.3 points in December. More than half of the financial market experts do not anticipate any significant changes of the Turkish economy within the next six months.

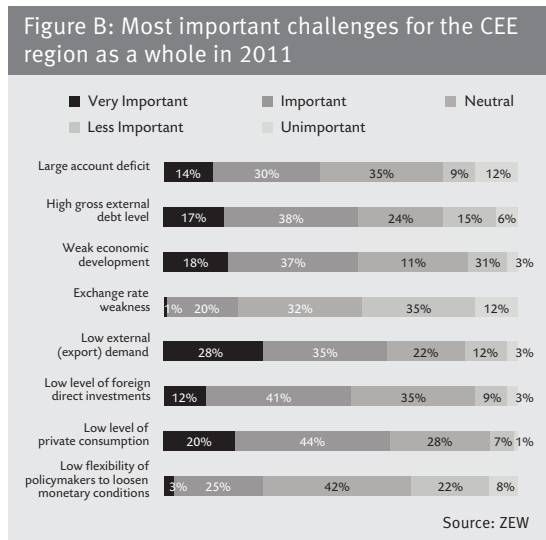
However, the current business situation in the country seems to outperform the other analysed CEE economies as its respective indicator exhibits the highest value at 60.7 points. More than 60 percent of the survey participants regard Turkey's current economic situation as good.

The inflationary pressure in Turkey seems to be fairly small as its inflation indicator decreases by 14.1 points to 8.0 points. The short-term interest rate indicator also decreases by 19.7 points to 9.1 points. The exchange rate expectations of the polled participants rise by 6.1 points to 19.2 points in December.

## Special Question: Recovery/Growth Prospects of the CEE Economies in 2011



According to the growth expectations of the financial market experts published in the April issue of the Financial Market Report CEE in 2009, Poland and the Czech Republic had the best medium-term prospects in 2009. These positive expectations for Poland and the Czech Republic have not ceased after more than one and a half year. The polled participants still evaluate these two countries to have the best chances for growth even after the dynamic phase of the economic recovery in the CEE region is decelerating. 43 percent of the survey participants foresee high recovery prospects for both countries. 6 percent of the financial analysts even perceive the growth prospects for Poland to be very high. Slovakia also seems to have a promising future economic development as 44 percent of the financial market analysts describe the growth prospects in Slovakia as either very high or high. The business prospects in Hungary and Romania remain critical as more than half of the polled participants evaluate their expected growth to be low or very low. The results for Croatia and Bulgaria prognosticate a subdued growth for the next year.



In 2010 the CEE region was mostly challenged by low consumption demand, high debt level and the consequences of austerity measures. Following the financial market experts, the challenges for economic growth do not change significantly in 2011. More than 60 percent of the participants fear that the low level of private consumption and the low demand for exports from the CEE region will be a major challenge in 2011. Additionally, more than 40 percent of the analysts regard the large account deficit, the gross external debt level and the weak economic development as either most important or between most important and neutral. The importance of the exchange rate weakness decreased immensely since the survey in 2009 as it was described as the second most important challenge for recovery prospects while in this month's survey the participants described it as the least important challenge for 2011. The surveyed analysts still regard the low flexibility of policymakers to loosen monetary conditions as a secondary problem for the prospects of growth. Some financial market experts warned of other challenges for 2011 such as inflation, political instability, fiscal consolidation and postponing new financial regulations.

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**ZEW / Erste Group Bank - Financial Market Survey CEE: December 2010**

Current economic situation	good		acceptable (normal)		bad		balance									
Austria	30.9	(+5.9)	64.3	(-7.9)	4.8	(+2.0)	26.1	(+3.9)								
Croatia	10.0	(+7.3)	60.0	(-7.6)	30.0	(+0.3)	-20.0	(+7.0)								
Czech Republic	29.1	(+3.5)	66.7	(-5.4)	4.2	(+1.9)	24.9	(+1.6)								
Hungary	4.3	(-0.2)	38.3	(-11.7)	57.4	(+11.9)	-53.1	(-12.1)								
Poland	41.3	(+3.8)	52.2	(-7.8)	6.5	(+4.0)	34.8	(-0.2)								
Romania	9.8	(+7.2)	31.7	(-10.4)	58.5	(+3.2)	-48.7	(+4.0)								
Slovakia	31.8	(+14.3)	59.1	(-15.9)	9.1	(+1.6)	22.7	(+12.7)								
Turkey	65.2	(+3.5)	30.3	(-4.7)	4.5	(+1.2)	60.7	(+2.3)								
CEE (incl. Turkey)	30.0	(+2.9)	62.0	(-0.5)	8.0	(-2.4)	22.0	(+5.3)								
Eurozone	4.8	(-2.3)	61.3	(-3.0)	33.9	(+5.3)	-29.1	(-7.6)								
Economic expectations	improve		no change		worsen		balance									
Austria	35.7	(-1.5)	50.0	(+4.3)	14.3	(-2.8)	21.4	(+1.3)								
Croatia	39.0	(+2.1)	48.8	(-3.8)	12.2	(+1.7)	26.8	(+0.4)								
Czech Republic	38.3	(-6.9)	48.9	(+8.4)	12.8	(-1.5)	25.5	(-5.4)								
Hungary	43.7	(-8.6)	31.3	(-0.5)	25.0	(+9.1)	18.7	(-17.7)								
Poland	39.2	(-5.8)	47.8	(+5.3)	13.0	(+0.5)	26.2	(-6.3)								
Romania	57.1	(+9.7)	26.2	(-10.6)	16.7	(+0.9)	40.4	(+8.8)								
Slovakia	42.2	(+2.2)	48.9	(+3.9)	8.9	(-6.1)	33.3	(+8.3)								
Turkey	34.9	(-10.1)	51.5	(+14.8)	13.6	(-4.7)	21.3	(-5.4)								
CEE (incl. Turkey)	32.1	(-13.0)	58.5	(+17.3)	9.4	(-4.3)	22.7	(-8.7)								
Eurozone	20.9	(-8.7)	56.5	(+10.2)	22.6	(-1.5)	-1.7	(-7.2)								
Inflation rate	increase		no change		decrease		balance									
Austria	61.9	(+9.1)	38.1	(-6.3)	0.0	(-2.8)	61.9	(+11.9)								
Croatia	51.2	(-4.1)	46.2	(+1.5)	2.6	(+2.6)	48.6	(-6.7)								
Czech Republic	60.8	(+5.0)	37.0	(-7.2)	2.2	(+2.2)	58.6	(+2.8)								
Hungary	49.0	(+10.4)	34.0	(+6.7)	17.0	(-17.1)	32.0	(+27.5)								
Poland	64.5	(+9.5)	31.1	(-6.4)	4.4	(-3.1)	60.1	(+12.6)								
Romania	35.9	(-7.4)	28.2	(-1.5)	35.9	(+8.9)	0.0	(-16.3)								
Slovakia	63.6	(-7.2)	36.4	(+9.6)	0.0	(-2.4)	63.6	(-4.8)								
Turkey	40.3	(-5.5)	27.4	(-3.1)	32.3	(+8.6)	8.0	(-14.1)								
CEE (incl. Turkey)	49.0	(+0.1)	49.0	(+4.6)	2.0	(-4.7)	47.0	(+4.8)								
Eurozone	44.1	(+13.7)	52.5	(-13.3)	3.4	(-0.4)	40.7	(+14.1)								
Short-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	31.3	(-2.1)	25.0	(+2.8)	53.1	(-0.2)	53.6	(-5.7)	15.6	(+2.3)	21.4	(+2.9)	15.7	(-4.4)	3.6	(-0.1)
Czech Republic	40.4	(-2.8)	25.6	(+2.0)	42.9	(-11.2)	51.3	(-7.5)	16.7	(+14.0)	23.1	(+5.5)	23.7	(-16.8)	2.5	(-3.5)
Hungary	52.4	(+34.0)	51.3	(+39.9)	26.2	(-29.1)	20.5	(-22.4)	21.4	(-4.9)	28.2	(-17.5)	31.0	(+38.9)	23.1	(+57.4)
Poland	66.7	(+2.8)	53.8	(+6.8)	21.4	(-11.9)	30.8	(-10.4)	11.9	(+9.1)	15.4	(+3.6)	54.8	(-6.3)	38.4	(+3.2)
Romania	24.4	(+2.6)	23.5	(+6.2)	40.5	(-18.9)	35.3	(-9.5)	35.1	(+16.3)	41.2	(+3.3)	-10.7	(-13.7)	-17.7	(+2.9)
Turkey	30.9	(-11.4)	30.6	(+1.4)	47.3	(-4.7)	44.9	(-5.1)	21.8	(+8.3)	24.5	(+3.7)	9.1	(-19.7)	6.1	(-2.3)
Eurozone	38.6	(+3.3)			56.1	(-6.6)			5.3	(+3.3)			33.3	(+0.0)		
Long-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	39.4	(+9.7)	30.0	(+7.0)	33.3	(-11.1)	40.0	(+9.2)	27.3	(+1.4)	30.0	(-16.2)	12.1	(+8.3)	0	(+23.2)
Czech Republic	66.7	(-11.1)	42.1	(-0.8)	26.2	(+4.0)	42.1	(+2.1)	7.1	(+7.1)	15.8	(-1.3)	59.6	(-18.2)	26.3	(+0.5)
Hungary	47.7	(+16.1)	46.2	(+19.2)	19.0	(-12.6)	17.9	(-1.0)	33.3	(-3.5)	35.9	(-18.2)	14.4	(+19.6)	10.3	(+37.4)
Poland	52.4	(-3.1)	46.2	(+14.8)	28.6	(-10.3)	28.2	(-17.5)	19.0	(+13.4)	25.6	(+2.7)	33.4	(-16.5)	20.6	(+12.1)
Slovakia	46.4	(-9.1)	28.9	(+8.9)	34.1	(-7.6)	50.0	(-7.1)	19.5	(+16.7)	21.1	(-1.8)	26.9	(-25.8)	7.8	(+10.7)
Turkey	43.6	(-11.5)	37.5	(-11.5)	29.1	(+0.5)	29.2	(-4.8)	27.3	(+11.0)	33.3	(+16.3)	16.3	(-22.5)	4.2	(-27.8)
Germany	57.4	(-9.2)			27.7	(-3.3)			14.9	(+12.5)			42.5	(-21.7)		
Stock market indices	increase		no change		decrease		balance									
EURO STOXX 50	62.5	(-4.2)			22.9	(+3.9)			14.6	(+0.3)			47.9	(-4.5)		
ATX (Austria)	69.4	(-8.0)			16.7	(+10.2)			13.9	(-2.2)			55.5	(-5.8)		
NTX (CEE)	69.8	(-0.2)			20.9	(+0.9)			9.3	(-0.7)			60.5	(+0.5)		
CROBEX (Croatia)	67.6	(+5.9)			18.9	(-7.6)			13.5	(+1.7)			54.1	(+4.2)		
PX 50 (Czech Rep.)	60.0	(-6.7)			30.0	(+7.8)			10.0	(-1.1)			50.0	(-5.6)		
BUX (Hungary)	45.0	(-10.3)			35.0	(+8.7)			20.0	(+1.6)			25.0	(-11.9)		
WIG (Poland)	66.7	(-7.6)			25.6	(+11.3)			7.7	(-3.7)			59.0	(-3.9)		
BET (Romania)	63.9	(-5.8)			22.2	(+10.1)			13.9	(-4.3)			50.0	(-1.5)		
SAX (Slovakia)	47.2	(-9.9)			41.7	(+13.1)			11.1	(-3.2)			36.1	(-6.7)		
ISE-100 (Turkey)	71.2	(+2.0)			10.2	(-5.2)			18.6	(+3.2)			52.6	(-1.2)		
Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance									
Kuna (Croatia)	33.4	(+15.2)			47.2	(-22.5)			19.4	(+7.3)			14.0	(+7.9)		
Koruna (Czech Rep.)	64.6	(+28.9)			25.0	(-27.4)			10.4	(-1.5)			54.2	(+30.4)		
Forint (Hungary)	30.4	(-7.1)			37.0	(-10.5)			32.6	(+17.6)			-2.2	(-24.7)		
Zloty (Poland)	74.0	(+9.0)			13.0	(-14.5)			13.0	(+5.5)			61.0	(+3.5)		
Lei (Romania)	42.5	(+8.3)			37.5	(-5.4)			20.0	(-2.9)			22.5	(+11.2)		
Lira (Turkey)	40.3	(+6.4)			38.6	(-6.7)			21.1	(+0.3)			19.2	(+6.1)		
US-Dollar	48.4	(+6.3)			26.6	(+2.0)			25.0	(-8.3)			23.4	(+14.6)		

Note: 92 Financial market experts, 26 from which from Turkey, participated in the December survey which was conducted during the period 11/29/10-12/13/10. 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 November in parentheses). Balances refer to the differences between positive and negative assessments.

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