

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 28, 2011 and December 12, 2011, are published in the January 2012 issue of the "Financial Market Report CEE." 86 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.

Economic Sentiments Slightly Decrease – Current Situation Dives into Negative Territory

The economic expectations for Central and Eastern Europe including Turkey (CEE region) on a six-month time horizon has slightly worsened in December. The respective indicator has decreased by 4.6 points to minus 41.4 points. Experts' evaluation of the current economic situation in the CEE region has dropped by 19.5 points to a level of minus 14.2 points. Thus, the indicator displays a negative value for the first time since September 2009. The economic expectations for the Eurozone

within the next six months have also worsened by 8.3 points to minus 63.6 points. The assessment of the current business cycle in the Eurozone has diminished by 4.7 points to a value of minus 57.8 points. Both economic expectations and the assessment of the current situation in Austria have worsened significantly in December – by 16.1 points and 16.4 points respectively and currently stand at minus 47.1 points and minus 3.0 points respectively.

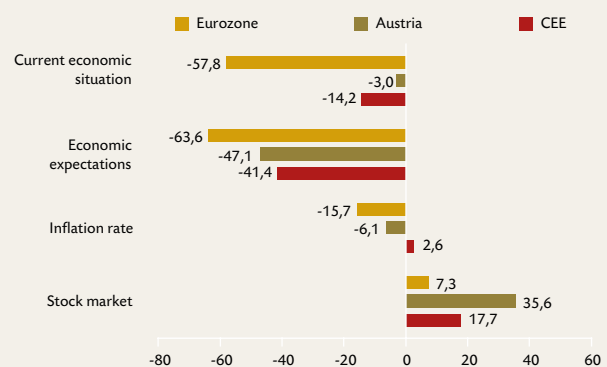
Economic Outlook for the CEE Region, Austria and the Eurozone

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 assessments of the economic development on a six-month time horizon, has slightly worsened by 4.6 points to minus 41.4 points in December. Economic Expectations for the Eurozone have declined by 8.3 points to a level of minus 63.6 points. The respective indicator for Austria has diminished significantly by 16.1 points to a level of minus 47.1 points in December. Experts' assessment of the current economic situation has worsened in the CEE region, the Eurozone and Austria. The respective indicators have dropped by 19.5 points, 16.4 points and 4.7 points respectively to levels of minus 14.2 points, minus 57.8 points and minus 3.0 points respectively. The indicator for the CEE region thereby displays a negative value for the first time since September 2009. The results indicate that repeated pessimism on the economic prospects of the region for the last six months has been passed on experts' assessment of the current economic situation.

Inflation concerns for the CEE region and the Eurozone are relaxed in December. The respective indicators have decreased by 16.0 points and 8.5 points. However, there is a major heterogeneity in experts' expectations on the six-month inflation rate in the CEE countries and the Eurozone. Similarly, inflation expectations for Austria are marked by a large dispersion of opinions. The respective indicator for Austria has remained almost unchanged at minus 6.1 points in December.

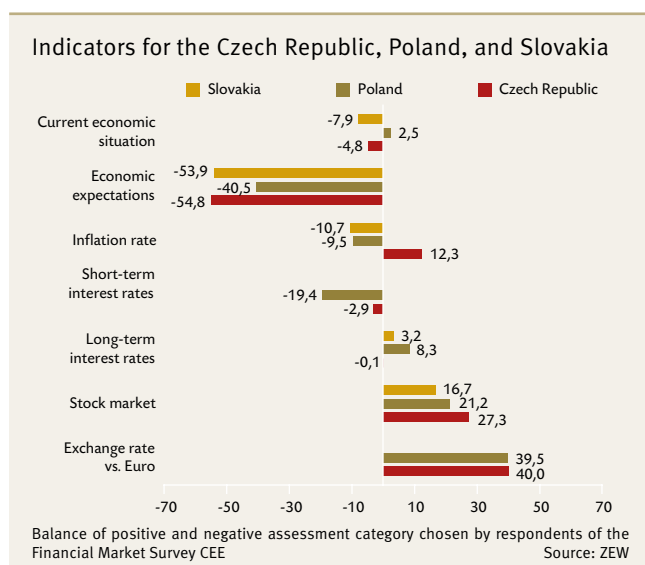
Experts' sentiments are slightly more bullish as compared to last month on the development of the stock market indices for Austria (ATX) and the CEE region (NTX). The respective indicators have increased by 5.9 points and 7.3 points respectively to levels of 35.6 points and 17.7 points respectively. The Austrian ATX thereby displays the highest value among all stock market indices included in the survey. In contrast, the sentiment indicator for the EUROSTOXX 50 has decreased this month by 7.0 points to a level of 7.3 points – the lowest among all stock market indices in the survey.

Indicators for CEE, Austria, and the Eurozone (balances)



Balance of positive and negative assessment category chosen by respondents of the Financial Market Survey CEE
 Source: ZEW

Czech Republic, Poland, and Slovakia: Current Situation Deteriorates

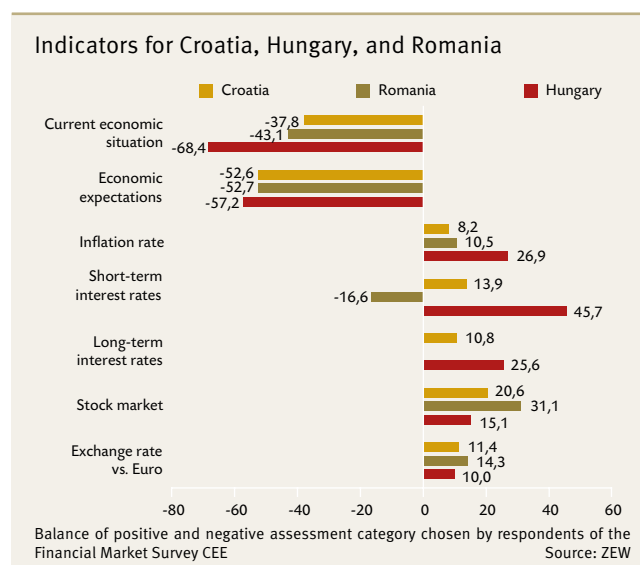


Economic Expectations for Poland and Slovakia have slightly changed in December. The sentiment indicator for Poland has increased by 6.8 points to a level of minus 40.5 points whereas the indicator for Slovakia has decreased by 5.5 points to a level of minus 53.9 points in this month's survey. A significant decrease is displayed by experts' expectations for the Czech Republic – the respective indicator drops by 10.3 points to a level of minus 54.8 points. Experts' assessment of the current situation diminishes significantly for all three countries in December. The respective indicators for the Czech Republic, Poland and Slovakia drop by 10.4 points, 23.1 points and 11.0 points respectively. The levels of the indicators thereby remain in the neutral area as the majority of participants assert that the current situation in all three countries remains rather acceptable or normal.

Inflation concerns for Slovakia are raised in December as indicated by an increase of the respective indicator by 21.6 points. Roughly one fourth of the experts who have expected inflation to decrease last month have now changed their beliefs to neutral in this month's survey. The revision of expectations may be due to last month's increase in the Slovakian Consumer Price Index (CPI). For the Czech Republic, in contrast, the results reveal a relaxation of experts' inflation concerns. Short-term interest rates in the Czech Republic and Poland are expected to decrease relative to the short-term rates in the Eurozone as the latter are expected to increase within the next six months. The expectations of a wider interest rate differential in Poland are in line with expected depreciation of the Polish Zloty. The respective indicator for the Polish Zloty has dropped by 8.9 points in December.

Financial market experts have revised downwards their stock market expectations for all three countries. The indicators of experts' expectations on the development of the Czech PX 50, the Polish WIG and the Slovakian SAX for the next 6 months have diminished by 12.7 points, 10.9 points and 7.3 points respectively. Nevertheless, a slight majority between 40 and 50 per cent of the experts retain bullish expectations on all three indices.

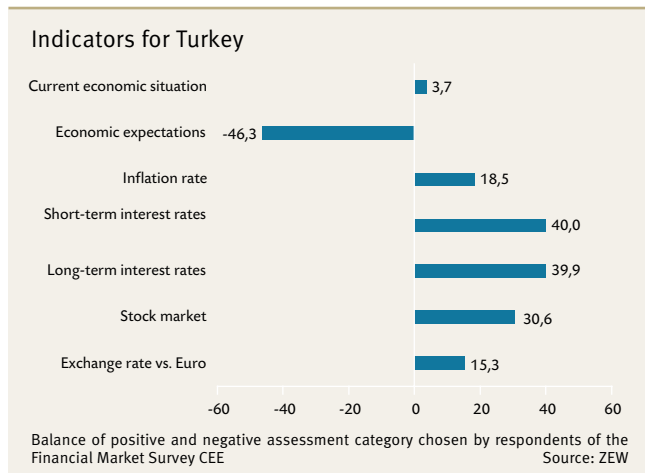
Croatia, Hungary, and Romania: Economic Sentiments Decrease



Economic expectations for Croatia and Romania have deteriorated significantly in December. The respective indicators have dropped by 24.1 points and 20.4 points respectively and have thus reached levels of minus 52.6 points and minus 52.7 points. The indicator of economic sentiments for Hungary has remained almost unchanged in this month's survey. The indicator currently ranks at the lowest level of minus 57.2 points among all CEE countries. Experts' assessment of the current situation in Croatia, Hungary and Romania has also been revised downwards. The respective indicators have dropped by 10.5 points, 6.2 points and 15.0 points respectively. The indicator for Hungary thereby displays the lowest level among all economies included in the survey. Whereas for Croatia the majority of 56.8 per cent still assert that the current situation is rather acceptable, for Hungary the economic situation is assessed as bad by a large majority of 73.2 per cent of the experts.

Inflation expectations have been slightly relaxed for Croatia, Hungary and Romania. The respective indicators have declined by 1.1 points, 9.5 points and 2.8 points respectively. However, experts' disagreement on the future development of the inflation rate is rather high as indicated by a large dispersion of opinions among all three answer categories. An increase in the short-term interest rates is expected for Hungary and Romania in both nominal terms and relative to the Eurozone rates. In spite of this result the indicators of expected currency rate have increased for both the Hungarian Forint and the Romanian Lei by 15.9 points and 10.9 points respectively. The expected appreciation of the Hungarian Forint is good news for domestic FX debtors. For the Croatian Kuna the majority of experts (60 per cent) retain neutral expectations. Nevertheless a stronger upwards revision of bullish expectations has led to an overall increase of the indicator for the Croatian Kuna by 8.3 points. A bullish revision is observed for the sentiments for the Hungarian stock market. Experts' expectations on the Hungarian BUX for the next six months have dropped by 14.6 points. Nevertheless a majority of 42.4 per cent hold bullish expectations for the Hungarian stock market.

Turkey: Increasing Inflation Concerns



Expectations for Turkey have worsened in this month's survey. The indicator of economic sentiments has decreased by 8.3 points to minus 46.3 points. Similarly, experts' assessment of the current economic situation has decreased by 16.7 points to a level of 3.7 points - nevertheless the highest value among all considered economies. The indicator reflecting inflation concerns decreased this month significantly by 25.3 points to a level of 18.5 points. Short-term interest rate expectations have been revised downwards this month relative to short-term rates in the Eurozone. This result has further led to a major revision in experts' expectations on the Turkish Lira against the Euro. The respective indicator decreased by 20.0 points to a level of 15.3 points. Sentiments on the Turkish stock market have improved by 8.8 points to a level of 30.6 points. Roughly half of the financial market experts report bullish expectations for the next six months.

Special Question: Portfolio Allocation 2012

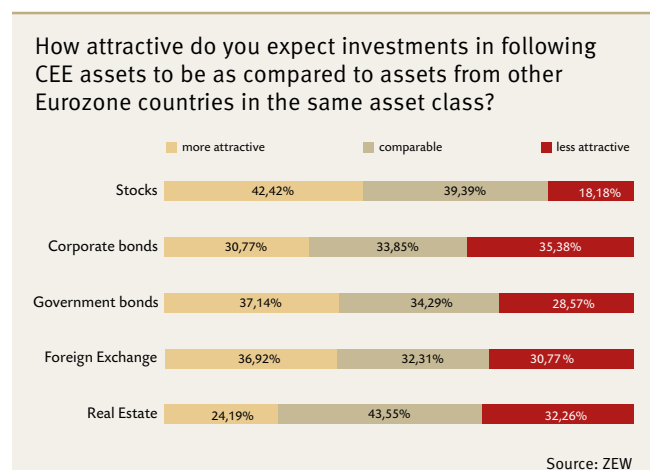
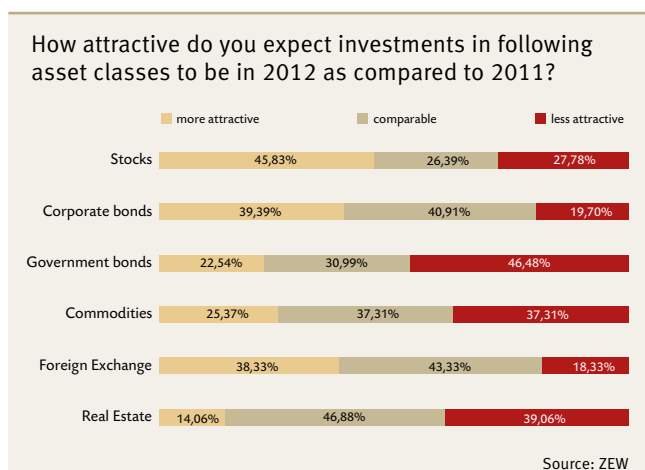
Stocks and foreign exchange are expected to become more attractive investment next year as compared to 2011. In contrast, investors will deemphasize their investments in government bonds and real estate. These are results of this month's special question. A total of 86 financial market experts have participated in the survey and shared their insights and expectations on the investors' portfolio decision in 2012.

Almost half of the responding experts expect stocks to become more attractive for investors as compared to their last year's ranking. More than one third of the experts further assert that foreign exchange will gain importance in investors' portfolio decision. A different picture arises with respect to real estate, government bonds and commodities. A large majority of 86 per cent does not expect real estate to become more attractive next year. Almost half of the respondents expect government bond investments to take a backseat. Year 2011 was marked by a sovereign debt crisis and on-going discussions on regulatory measures as well as the role of private rating agencies therein. In this background the responses indicate a higher perceived uncertainty of investments in government bonds.

Nevertheless, roughly 52 per cent of the respondent trust that investors will retain or even increase the weighting of government bonds in their portfolios. A similar picture arises for the case of commodities – only one fifth of the respondents claim that investors should have a stronger focus on commodities next year as compared to last year.

Comparing stocks from the CEE region and stocks from the Eurozone, the former are expected to be comparably more attractive. This is the opinion of more than two fifth of the financial market experts. Only 18.2 per cent of the respondent would be reluctant to recommend CEE stocks over Eurozone stocks. In contrast, real estate in the CEE region will remain outside the focus of investors in 2012. According to 75 per cent of the survey participants CEE real estate will not attract investors next year stronger than in 2011. With regard to other asset classes, however, there is high dispersion in experts' opinions. Concerning government bonds a slight majority of 37.1 per cent assess CEE bonds to be more attractive than Eurozone bonds. Similarly, CEE foreign exchange is considered a better investment than the Euro.

Zwetelina Iliewa



ZEW / Erste Group Bank - Financial Market Survey CEE: December 2011

Current economic situation	good		acceptable (normal)		bad		balance									
Austria	9,1	(-7,6)	78,8	(-1,2)	12,1	(+8,8)	-3,0	(-16,4)								
Croatia	2,7	(-0,3)	56,8	(-9,9)	40,5	(+10,2)	-37,8	(-10,5)								
Czech Republic	9,5	(-7,2)	76,2	(+4,0)	14,3	(+3,2)	-4,8	(-10,4)								
Hungary	4,8	(-0,6)	22,0	(-5,0)	73,2	(+5,6)	-68,4	(-6,2)								
Poland	17,1	(-11,4)	68,3	(-0,3)	14,6	(+11,7)	2,5	(-23,1)								
Romania	5,5	(-3,9)	45,9	(-7,2)	48,6	(+11,1)	-43,1	(-15,0)								
Slovakia	10,5	(-5,1)	71,1	(-0,8)	18,4	(+5,9)	-7,9	(-11,0)								
Turkey	16,4	(-14,2)	70,9	(+11,7)	12,7	(+2,5)	3,7	(-16,7)								
CEE (incl. Turkey)	7,2	(-6,0)	71,4	(-7,5)	21,4	(+13,5)	-14,2	(-19,5)								
Eurozone	1,8	(-2,5)	38,6	(+0,3)	59,6	(+2,2)	-57,8	(-4,7)								
Economic expectations	improve		no change		worsen		balance									
Austria	14,7	(+7,8)	23,5	(-31,7)	61,8	(+23,9)	-47,1	(-16,1)								
Croatia	7,9	(-0,7)	31,6	(-22,7)	60,5	(+23,4)	-52,6	(-24,1)								
Czech Republic	9,5	(-1,6)	26,2	(-7,1)	64,3	(+8,7)	-54,8	(-10,3)								
Hungary	9,5	(+1,4)	23,8	(-3,2)	66,7	(+1,8)	-57,2	(-0,4)								
Poland	11,9	(+6,4)	35,7	(-6,0)	52,4	(-0,4)	-40,5	(+6,8)								
Romania	13,1	(+1,3)	21,1	(-23,0)	65,8	(+21,7)	-52,7	(-20,4)								
Slovakia	12,8	(+6,7)	20,5	(-18,9)	66,7	(+12,2)	-53,9	(-5,5)								
Turkey	7,4	(-0,6)	38,9	(-7,1)	53,7	(+7,7)	-46,3	(-8,3)								
CEE (incl. Turkey)	9,8	(+4,5)	39,0	(-13,6)	51,2	(+9,1)	-41,4	(-4,6)								
Eurozone	9,1	(+0,6)	18,2	(-9,5)	72,7	(+8,9)	-63,6	(-8,3)								
Inflation rate	increase		no change		decrease		balance									
Austria	30,3	(-3,1)	33,3	(+7,4)	36,4	(-4,3)	-6,1	(+1,2)								
Croatia	29,8	(-1,4)	48,6	(+1,7)	21,6	(-0,3)	8,2	(-1,1)								
Czech Republic	39,1	(-12,3)	34,1	(+11,2)	26,8	(+1,1)	12,3	(-13,4)								
Hungary	46,4	(-2,1)	34,1	(-5,3)	19,5	(+7,4)	26,9	(-9,5)								
Poland	23,8	(-7,7)	42,9	(+11,5)	33,3	(-3,8)	-9,5	(-3,9)								
Romania	44,7	(+4,7)	21,1	(-12,2)	34,2	(+7,5)	10,5	(-2,8)								
Slovakia	27,1	(-1,9)	35,1	(+25,4)	37,8	(-23,5)	-10,7	(+21,6)								
Turkey	46,3	(-18,3)	25,9	(+11,3)	27,8	(+7,0)	18,5	(-25,3)								
CEE (incl. Turkey)	30,8	(-19,1)	41,0	(+22,2)	28,2	(-3,1)	2,6	(-16,0)								
Eurozone	23,5	(-9,8)	37,3	(+11,1)	39,2	(-1,3)	-15,7	(-8,5)								
Short-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	31,1	(+5,2)	40,0	(-16,0)	51,7	(-18,7)	48,0	(+4,0)	17,2	(+13,5)	12,0	(+12,0)	13,9	(-8,3)	28,0	(-28,0)
Czech Republic	17,1	(+0,5)	40,6	(+2,6)	62,9	(-13,8)	25,0	(-12,9)	20,0	(+13,3)	34,4	(+10,3)	-2,9	(-12,8)	6,2	(-7,7)
Hungary	51,4	(+25,6)	80,6	(+27,1)	42,9	(-5,5)	9,7	(-8,2)	5,7	(-20,1)	9,7	(-18,9)	45,7	(+45,7)	70,9	(+46,0)
Poland	13,9	(+1,0)	42,4	(+4,4)	52,8	(-2,0)	30,3	(-14,5)	33,3	(+1,0)	27,3	(+10,1)	-19,4	(+/-0,0)	15,1	(-5,7)
Romania	16,7	(+6,4)	44,5	(+14,8)	50,0	(-5,2)	25,9	(-7,4)	33,3	(-1,2)	29,6	(-7,4)	-16,6	(+7,6)	14,9	(+22,2)
Turkey	51,1	(-1,2)	56,1	(-16,4)	37,8	(-3,1)	24,4	(+1,9)	11,1	(+4,3)	19,5	(+14,5)	40,0	(-5,5)	36,6	(-30,9)
Eurozone	14,5	(+5,0)			31,3	(+2,7)			54,2	(-7,7)			-39,7	(+12,7)		
Long-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	32,2	(-10,1)	29,1	(-10,9)	46,4	(+0,2)	41,7	(+1,7)	21,4	(+9,9)	29,2	(+9,2)	10,8	(-20,0)	-0,1	(-20,1)
Czech Republic	30,5	(-19,5)	25,8	(-7,5)	38,9	(-4,4)	32,3	(-4,4)	30,6	(+23,9)	41,9	(+11,9)	-0,1	(-43,4)	-16,1	(-19,4)
Hungary	48,5	(-7,7)	54,8	(+17,3)	28,6	(+3,6)	19,4	(-8,7)	22,9	(+4,1)	25,8	(-8,6)	25,6	(-11,8)	29	(+25,9)
Poland	33,3	(-15,2)	35,5	(-2,0)	41,7	(+2,3)	35,5	(+7,4)	25,0	(+12,9)	29,0	(-5,4)	8,3	(-28,1)	6,5	(+3,4)
Slovakia	38,7	(-6,4)	33,4	(+5,8)	25,8	(-19,4)	29,6	(-1,4)	35,5	(+25,8)	37,0	(-4,4)	3,2	(-32,2)	-3,6	(+10,2)
Turkey	55,5	(+1,1)	47,4	(-8,2)	28,9	(-10,2)	26,3	(+1,9)	15,6	(+9,1)	26,3	(+6,3)	39,9	(-8,0)	21,1	(-14,5)
Germany	42,1	(-15,1)			42,1	(+5,0)			15,8	(+10,1)			26,3	(-25,2)		
Stock market indices	increase		no change		decrease		balance									
EURO STOXX 50	39,0	(-6,7)			29,3	(+6,4)			31,7	(+0,3)			7,3	(-7,0)		
ATX (Austria)	53,5	(-5,8)			28,6	(+17,5)			17,9	(-11,7)			35,6	(+5,9)		
NTX (CEE)	41,2	(-0,2)			35,3	(+7,7)			23,5	(-7,5)			17,7	(+7,3)		
CROBEX (Croatia)	41,2	(-0,2)			38,2	(+3,7)			20,6	(-3,5)			20,6	(+3,3)		
PX 50 (Czech Rep.)	48,5	(-11,5)			30,3	(+10,3)			21,2	(+1,2)			27,3	(-12,7)		
BUX (Hungary)	42,4	(-9,5)			30,3	(+4,4)			27,3	(+5,1)			15,1	(-14,6)		
WIG (Poland)	48,5	(-8,6)			24,2	(+6,3)			27,3	(+2,3)			21,2	(-10,9)		
BET (Romania)	48,3	(-3,9)			34,5	(+8,4)			17,2	(-4,5)			31,1	(+0,6)		
SAX (Slovakia)	40,0	(-4,0)			36,7	(+0,7)			23,3	(+3,3)			16,7	(-7,3)		
ISE-100 (Turkey)	51,0	(+5,3)			28,6	(-1,8)			20,4	(-3,5)			30,6	(+8,8)		
Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance									
Kuna (Croatia)	25,7	(-1,6)	60,0	(+11,5)	14,3	(-9,9)			11,4	(+8,3)						
Koruna (Czech Rep.)	50,0	(-1,5)	40,0	(+6,7)	10,0	(-5,2)			40,0	(+3,7)						
Forint (Hungary)	47,5	(+12,2)	15,0	(-8,5)	37,5	(-3,7)			10,0	(+15,9)						
Zloty (Poland)	55,3	(-11,3)	28,9	(+13,7)	15,8	(-2,4)			39,5	(-8,9)						
Lei (Romania)	28,6	(+4,5)	57,1	(+1,9)	14,3	(-6,4)			14,3	(+10,9)						
Lira (Turkey)	37,0	(-15,0)	41,3	(+10,0)	21,7	(+5,0)			15,3	(-20,0)						
US-Dollar	58,8	(-5,5)	19,6	(+2,9)	21,6	(+2,6)			37,2	(-8,1)						

Note: 86 Financial market experts, 25 from which from Turkey, participated in the December survey which was conducted during the period 11/28/11-12/12/11. 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 2011 in parentheses). Balances refer to the differences between positive and negative assessments.

Financial Market Report CEE – published monthly

Author and Editor Centre for European Economic Research (ZEW) Mannheim

L 7, 1 · 68161 Mannheim · P.O. Box 10 34 43 · 68034 Mannheim · Germany · www.zew.de, www.zew.eu

Zwetelina Iliewa · Dept. International Finance and Financial Management · Phone +49 (0)621 1235-346 · E-mail: iliewa@zew.de

Erste Group Bank AG

Friedrich Mostboeck · Head of Group Research · A-1010 Vienna · Neutorgasse 17 · Dachgeschoss 1

Phone +43 (0)5 0100-11902 · Fax +43 (0)5 0100-13016 · E-mail: friedrich.mostboeck@erstegroup.com · www.erstegroup.com

Reprint and further distribution: only with mention of reference and sending of a voucher copy