

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 June 4, 2012 and June 18, 2012, are published in the July 2012 issue of the "Financial Market Report CEE". 84 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 Expectations for Central and Eastern Europe: Pessimism Returns

The economic expectations for Central and Eastern Europe including Turkey (CEE region) on a six-month time horizon have worsened in June. The respective indicator has dropped by 14.6 points to 0.0 points. The evaluation of the current economic situation in the CEE region has worsened slightly by 2.8 points to a level of minus 0.1 points. The economic expectations for the Eurozone within the next six months have displayed a double digit decrease by 19.2 points to a level of minus 10.1 points.

The assessment of the current business cycle in the Eurozone has worsened by 14.5 points and now reaches a value of minus 66.7 points. The indicator reflecting the economic expectations for Austria within the next six months has worsened by 18.9 points but remains in the positive territory at 6.1 points. The evaluation of the current economic situation in Austria has slightly decreased by 0.4 points and is now at a rather balanced level of 5.7 points.

Economic Outlook for the CEE Region, Austria and the Eurozone

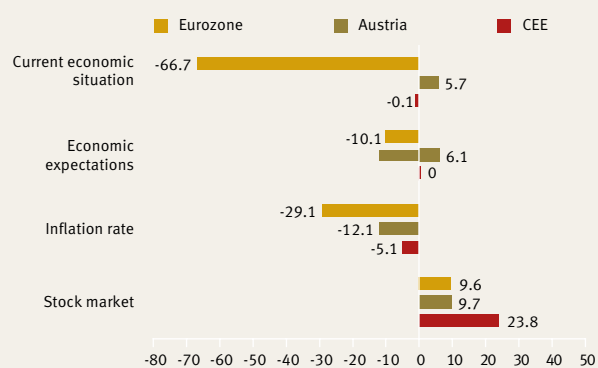
The ZEW-Erste Group Bank Economic Sentiment Indicator for Central and Eastern Europe including Turkey (CEE), which is calculated as the balance of positive and negative assessments of the economic development on a six-month time horizon, has decreased by 14.6 points to 0.0 points in June. Sentiments are thus perfectly balanced with neither optimism nor pessimism taking prevail.

The Greek elections this month are observed to have a large impact on experts' expectations. A large part of the respective indicator's decrease this month (10.3 points) is due to the experts' responses after the announcement of the Greek election results. Economic sentiments for the Eurozone have decreased significantly by 19.2 points to a level of minus 10.1 points. In contrast to the result for the CEE region, the decline of sentiments for the Eurozone is rather independent from the outcome of the Greek election vote, because the decline is mostly due to expert's responses before the elections. The assessment of the current economic situation for the CEE region has slightly decreased by 2.8 points to a level of minus 0.1 points in June. The respective indicator for the Eurozone has decreased by 14.5 points to a value of minus 66.7 points.

Inflation expectations for the CEE region and Austria have remained almost unchanged in June after a slight decrease by 2.0 points and a slight increase by 0.5 points respectively. For both economies the majority of 48.7 per cent and 45.5 per cent respectively would expect no changes of the inflation rate in the

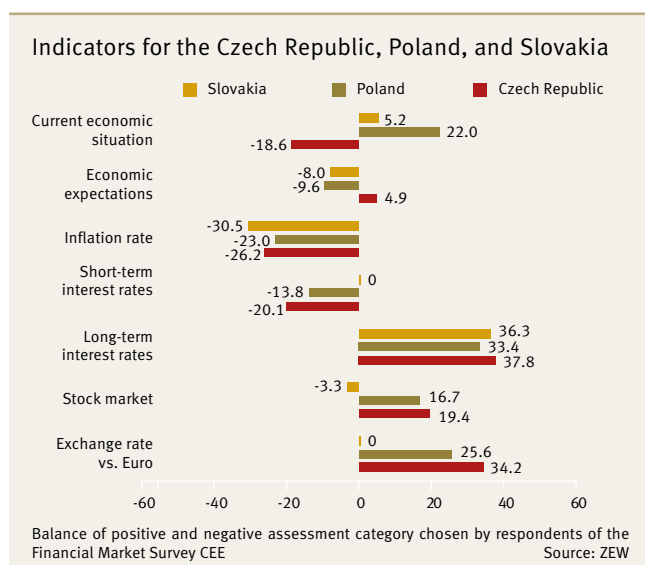
next six months. In contrast, inflation concerns for the Eurozone have diminished by 12.0 points in June. The respective indicator currently stands at minus 29.1 points reflecting the majority opinion of a decreasing inflation rate in the Eurozone until the end of the year. Stock market expectations on all three stock market indices – NTX (CEE), EURO STOXX 50 (Eurozone) and ATX (Austria) display a major bearish revision this month. The respective indicators have dropped by 21.4 points, 24.7 points and 36.5 points respectively.

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: Bearish Stock Market Revision



The economic expectations for Poland have worsened significantly this month. The respective indicator has fallen by 34.7 points to a level of minus 9.6 points. In line with this, indicators for the Czech Republic and Slovakia have also decreased – by 19.4 and 21.5 points respectively.

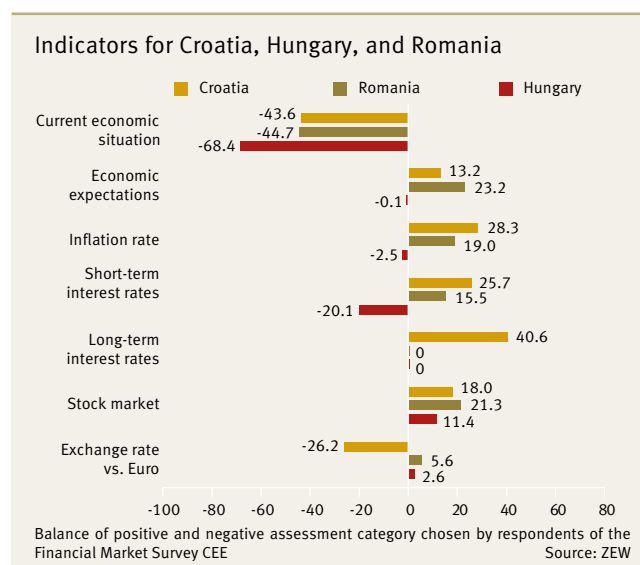
The assessment of the current economic situation for Poland and Slovakia has improved in June. The respective indicator of the current business cycle has increased by 3.1 points and 5.3 points to a level of 22.0 and 5.2 points respectively. For the Czech Republic the respective indicator has decreased by 15.9 points to a level of minus 18.6 points.

Inflation concerns have decreased for the majority of the CEE countries this month. The indicators reflecting experts' expectations on the development of the inflation rate on a six-months' horizon for the Czech Republic, Poland and Slovakia have fallen by 9.5 points, 17.7 points and 13.9 points respectively. The indicators currently stand at levels of minus 26.2 points, minus 23.0 points and minus 30.5 points respectively.

Following the opinion of the financial market experts the Czech short-term interest rates are about to decline. After last month's great decrease (by 34.6 points) the indicator has further fallen by 5.5 points to a level of minus 20.1 points. Short-term interest rates in Poland are expected to decrease as well. The respective indicator has slightly decreased by 1.6 points to a level of minus 13.8 points.

Stock market expectations have highly worsened this month for all three countries – the Czech Republic, Poland and Slovakia. The respective indicators reflecting experts' expectations on the development of the respective stock market indices – the Czech PX 50, the Polish WIG and the Slovakian SAX have fallen by 18.6 points, 23.2 points and 27.4 points respectively. In comparison to last month, when the indicators of all currencies were expected to appreciate, this month the Croatian Kuna is thought to depreciate by 36.8 per cent of the surveyed financial market experts. The indicator has fallen by 34.0 points to a level of minus 26.2 points. Half of the survey participants consider the Czech Koruna to appreciate within the next six month.

Croatia, Hungary and Romania: Positive Economic Outlook

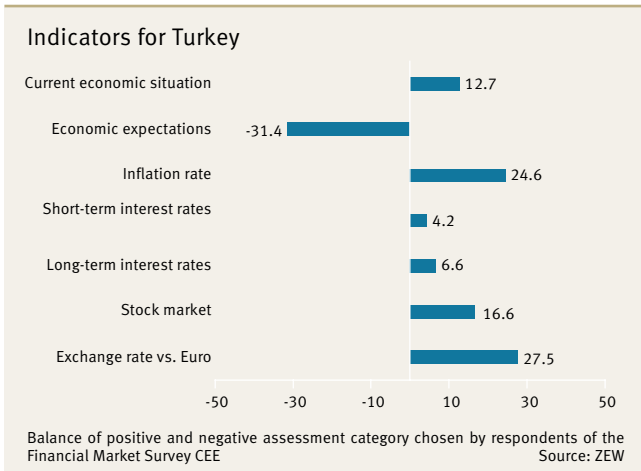


Economic expectations have remained almost unchanged for all three countries - Croatia, Hungary and Romania. The respective indicators have decreased marginally by 5.1 points, 2.6 points and 2.6 points respectively. The indicators currently hover at 13.2 points, minus 0.1 points, and 23.2 points. Croatia and Poland thereby display the highest values among all considered economies. The assessment of the current economic situation has also remained rather unchanged for Croatia and Poland. After a change by 3.9 points and minus 3.1 points respectively the indicators approach levels of minus 43.6 and minus 44.7 points respectively. The indicator for Hungary displays a double digit decrease by 11.9 points and currently stands at a level of minus 68.4 points which is the lowest value among all surveyed economies.

Inflation concerns have decreased for Croatia and Hungary. The respective indicators have fallen by 15.0 points and 16.1 points respectively to levels of 28.3 points and minus 2.5 points respectively, while expectations for Romania have remained almost unchanged. Inflation concerns for all three economies - Croatia, Hungary and Romania display the highest values among all considered economies. Expectations on the short-term interest rates of Croatia and Romania display a double-digit positive revision this month by 13.3 points and 25.6 points respectively. These are also the only economies for which the balance of expectations is positive with 25.7 points and 15.5 points respectively. The respective indicator for Hungary has decreased by 6.2 points. The interest rate differential between the short-term rates in Hungary and in the Eurozone is also expected to diminish by 48.1 per cent of the pooled participants.

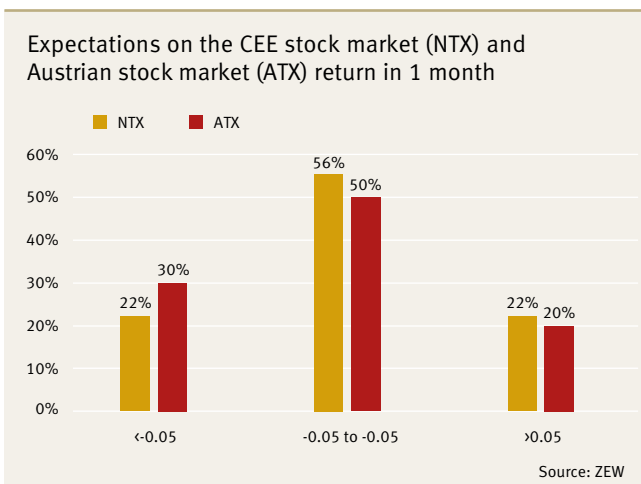
Stock markets expectation displayed a bullish revision for all three stock markets of Croatia, Hungary and Romania. The respective indicators of experts' expectations on the development of the Croatian CROBEX, the Hungarian BUX and the Romanian BET have decreased by 2.6 points, 7.3 points and 12.1 points respectively. Exchange rate expectations have worsened this month for Croatia, Hungary and Romania. The indicators have fallen by 34.0 points, 10.2 points and 16.2 points respectively.

Turkey: Bearish Revision of Stock Market Expectations

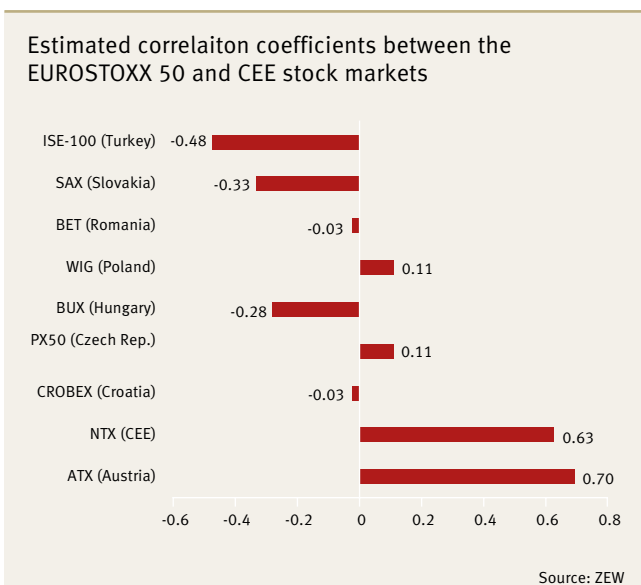


Economic expectations for Turkey have remained almost unchanged in June. After a decrease of the respective indicator by 2.5 points it currently stands at a level of 9.1 points. Experts' assessment on the current situation in Turkey has also remained largely unchanged. The respective indicator has decreased by 1.4 points and currently displays a level of 14.2 points. Largely unchanged are experts' inflation concerns as well. The respective indicator currently displays a level of minus 36.4 and thereby the lowest level among all surveyed economies. A majority of 53.8 per cent of the experts expect the inflation rate to decrease on a six-month time horizon. Stock market expectations for the Turkish ISE-100 have displayed a major bearish revision in June. The indicator has dropped by 28.0 points and currently stands at 28.0 points. However, the majority of experts expects (52.0 per cent) a positive development of the Turkish stock market.

Special Question: International Diversification Potential of CEE Stock Markets



This month's special question deals with financial market experts' stock market expectations. Experts were also asked to assess the diversification potential of CEE stock markets by providing their estimates on the correlation of domestic stock market indices with the EUROSTOXX 50. There is large disagreement in the expectations on the development of the NTX in the next month. Nearly half of the experts expect the return to fluctuate by more than 5 per cent. One fourth of the respondents thereby expect the stock market index return to drop below minus 5 per cent. The average of minus 0.2 per cent indicates that bearish expectations slightly prevail. Expectations on the Austrian ATX are also bearish. Almost one third of the experts expect the index to decrease by more than 5 per cent within the next month. The majority of survey participants, however, do not expect the index to break out of the minus 5 to 5 per cent range. Experts indicate substantial diversification potential from the CEE stock markets. The estimated correlation coefficient between the CEE stock market index NTX and the European EUROSTOXX 50 lies at 0.63. Thereby the Turkish stock market index ISE-100 displays the lowest average estimated correlation coefficient among all surveyed CEE economies and the highest diversification potential. Expert on average estimate the correlation of stock market returns between the Turkish ISE-100 and EUROSTOXX 50 to lie at minus 0.47. Negative correlation is also expected between the returns of the EUROSTOXX 50 and the Slovakian SAX. The correlation coefficient between both stock market indices is estimated at minus 0.33. Similarly, the Hungarian BUX is expected to be negatively correlated with the EUROSTOXX with the correlation coefficient displaying a level of minus 0.28. Almost zero correlation is estimated for the Croatian CROBEX and the Romanian BET – the estimated correlation coefficients both display a level of minus 0.03. Relatively high correlation with the EUROSTOXX 50 is estimated for the Austrian ATX. The estimated correlation coefficient displays a level of nearly 0.70, indicating that for investors putting high weight on EUROSTOXX in their portfolio, CEE stock markets are more attractive for the purposes of international diversification.



ZEW / Erste Group Bank - Financial Market Survey CEE: June 2012

Current economic situation	good		acceptable (normal)		bad		balance									
Austria	14.3	(+5.2)	77.1	(-10.8)	8.6	(+5.6)	5.7	(-0.4)								
Croatia	5.1	(+2.6)	46.2	(-1.3)	48.7	(-1.3)	-43.6	(+3.9)								
Czech Republic	9.3	(+1.2)	62.8	(-18.3)	27.9	(+17.1)	-18.6	(-15.9)								
Hungary	4.8	(+2.3)	22.0	(-16.5)	73.2	(+14.2)	-68.4	(-11.9)								
Poland	29.3	(+5.0)	63.4	(-6.9)	7.3	(+1.9)	22.0	(+3.1)								
Romania	5.3	(-0.3)	44.7	(-2.5)	50.0	(+2.8)	-44.7	(-3.1)								
Slovakia	18.4	(+13.2)	68.4	(-21.1)	13.2	(+7.9)	5.2	(+5.3)								
Turkey	19.6	(-0.4)	75.0	(-0.6)	5.4	(+1.0)	14.2	(-1.4)								
CEE (incl. Turkey)	9.7	(+1.4)	80.5	(-5.6)	9.8	(+4.2)	-0.1	(-2.8)								
Eurozone	3.9	(+1.6)	25.5	(-17.7)	70.6	(+16.1)	-66.7	(-14.5)								
Economic expectations	improve		no change		worsen		balance									
Austria	27.3	(-10.2)	51.5	(+1.5)	21.2	(+8.7)	6.1	(-18.9)								
Croatia	31.6	(+0.1)	50.0	(-5.3)	18.4	(+5.2)	13.2	(-5.1)								
Czech Republic	29.3	(-5.8)	46.3	(-7.8)	24.4	(+13.6)	4.9	(-19.4)								
Hungary	30.9	(-2.4)	38.1	(+2.2)	31.0	(+0.2)	-0.1	(-2.6)								
Poland	21.4	(-12.0)	47.6	(-10.7)	31.0	(+22.7)	-9.6	(-34.7)								
Romania	41.1	(-1.8)	41.0	(+1.0)	17.9	(+0.8)	23.2	(-2.6)								
Slovakia	24.4	(-2.6)	43.2	(-16.3)	32.4	(+18.9)	-8.0	(-21.5)								
Turkey	29.1	(+1.2)	50.9	(-4.9)	20.0	(+3.7)	9.1	(-2.5)								
CEE (incl. Turkey)	25.6	(-0.8)	48.8	(-13.0)	25.6	(+13.8)	0.0	(-14.6)								
Eurozone	26.6	(-7.5)	36.7	(-4.2)	36.7	(+11.7)	-10.1	(-19.2)								
Inflation rate	increase		no change		decrease		balance									
Austria	21.2	(+2.5)	45.5	(-4.5)	33.3	(+2.0)	-12.1	(+0.5)								
Croatia	46.2	(-5.2)	35.9	(-4.6)	17.9	(+9.8)	28.3	(-15.0)								
Czech Republic	14.3	(-7.9)	45.2	(+6.3)	40.5	(+1.6)	-26.2	(-9.5)								
Hungary	37.5	(+2.3)	22.5	(-20.7)	40.0	(+18.4)	-2.5	(-16.1)								
Poland	18.0	(-6.4)	41.0	(-4.9)	41.0	(+11.3)	-23.0	(-17.7)								
Romania	46.0	(+8.6)	27.0	(-16.8)	27.0	(+8.2)	19.0	(+0.4)								
Slovakia	16.7	(-2.8)	36.1	(-8.3)	47.2	(+11.1)	-30.5	(-13.9)								
Turkey	17.4	(+1.1)	28.8	(-1.4)	53.8	(+0.3)	-36.4	(+0.8)								
CEE (incl. Turkey)	23.1	(-1.9)	48.7	(+1.8)	28.2	(+0.1)	-5.1	(-2.0)								
Eurozone	16.7	(-2.8)	37.5	(-6.4)	45.8	(+9.2)	-29.1	(-12.0)								
Short-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	40.0	(+18.2)	48.3	(+23.3)	45.7	(-23.1)	41.4	(-22.9)	14.3	(+4.9)	10.3	(-0.4)	25.7	(+13.3)	38.0	(+23.7)
Czech Republic	22.8	(+13.9)	25.0	(+21.4)	34.3	(-33.3)	39.3	(-35.7)	42.9	(+19.4)	35.7	(+14.3)	-20.1	(-5.5)	-10.7	(+7.1)
Hungary	22.8	(+0.6)	29.7	(+10.4)	34.3	(-7.4)	22.2	(-13.3)	42.9	(+6.8)	48.1	(+2.9)	-20.1	(-6.2)	-18.4	(+7.5)
Poland	19.5	(+4.4)	39.3	(+17.9)	47.2	(-10.4)	28.6	(-25.0)	33.3	(+6.0)	32.1	(+7.1)	-13.8	(-1.6)	7.2	(+10.8)
Romania	34.3	(+17.7)	44.0	(+16.0)	46.9	(-9.8)	44.0	(-8.0)	18.8	(-7.9)	12.0	(-8.0)	15.5	(+25.6)	32.0	(+24.0)
Turkey	18.2	(+5.0)	24.4	(+12.3)	43.2	(-17.3)	32.4	(-28.2)	38.6	(+12.3)	43.2	(+15.9)	-20.4	(-7.3)	-18.8	(-3.6)
Eurozone	15.9	(+4.5)			56.8	(-15.9)			27.3	(+11.4)			-11.4	(-6.9)		
Long-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	54.1	(+10.3)	43.4	(+22.7)	32.4	(-20.7)	33.3	(-25.3)	13.5	(+10.4)	23.3	(+2.6)	40.6	(-0.1)	20.1	(+20.1)
Czech Republic	43.2	(+18.2)	16.6	(+10.0)	51.4	(-8.0)	36.7	(-10.0)	5.4	(-10.2)	46.7	(+/-0.0)	37.8	(+28.4)	-30.1	(+10.0)
Hungary	38.9	(+4.6)	38.0	(+18.7)	22.2	(-9.2)	3.4	(-28.9)	38.9	(+4.6)	58.6	(+10.2)	0.0	(+/-0.0)	-20.6	(+8.5)
Poland	44.5	(+7.1)	27.6	(+14.3)	44.4	(+0.6)	31.0	(-15.7)	11.1	(-7.7)	41.4	(+1.4)	33.4	(+14.8)	-13.8	(+12.9)
Slovakia	45.4	(+3.5)	18.6	(-2.8)	45.5	(+0.3)	40.7	(-9.3)	9.1	(-3.8)	40.7	(+12.1)	36.3	(+7.3)	-22.1	(-14.9)
Turkey	17.8	(-5.0)	18.4	(-3.4)	40.0	(-8.6)	26.3	(-20.6)	42.2	(+13.6)	55.3	(+24.0)	-24.4	(-18.6)	-36.9	(-27.4)
Germany	59.5	(+13.5)			37.8	(-5.4)			2.7	(-8.1)			56.8	(+21.6)		
Stock market indices	increase		no change		decrease		balance									
EURO STOXX 50	45.3	(-7.8)			19.0	(-9.1)			35.7	(+16.9)			9.6	(-24.7)		
ATX (Austria)	48.4	(-9.3)			12.9	(-17.9)			38.7	(+27.2)			9.7	(-36.5)		
NTX (CEE)	52.7	(-5.4)			18.4	(-10.6)			28.9	(+16.0)			23.8	(-21.4)		
CROBEX (Croatia)	46.2	(+10.9)			25.6	(-24.4)			28.2	(+13.5)			18.0	(-2.6)		
PX 50 (Czech Rep.)	50.0	(+1.7)			19.4	(-22.0)			30.6	(+20.3)			19.4	(-18.6)		
BUX (Hungary)	45.7	(+5.1)			20.0	(-17.5)			34.3	(+12.4)			11.4	(-7.3)		
WIG (Poland)	52.8	(-3.8)			11.1	(-15.6)			36.1	(+19.4)			16.7	(-23.2)		
BET (Romania)	54.6	(+2.7)			12.1	(-17.5)			33.3	(+14.8)			21.3	(-12.1)		
SAX (Slovakia)	29.0	(-8.9)			38.7	(-9.6)			32.3	(+18.5)			-3.3	(-27.4)		
ISE-100 (Turkey)	52.0	(-13.8)			24.0	(-0.4)			24.0	(+14.2)			28.0	(-28.0)		
Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance									
Kuna (Croatia)	10.6	(-18.3)			52.6	(+2.6)			36.8	(+15.7)			-26.2	(-34.0)		
Koruna (Czech Rep.)	50.0	(-14.1)			34.2	(+6.0)			15.8	(+8.1)			34.2	(-22.2)		
Forint (Hungary)	38.5	(-2.5)			25.6	(-5.2)			35.9	(+7.7)			2.6	(-10.2)		
Zloty (Poland)	48.7	(-15.4)			28.2	(+2.6)			23.1	(+12.8)			25.6	(-28.2)		
Lei (Romania)	28.5	(-2.7)			48.6	(-10.8)			22.9	(+13.5)			5.6	(-16.2)		
Lira (Turkey)	49.0	(-1.0)			34.7	(-0.3)			16.3	(+1.3)			32.7	(-2.3)		
US-Dollar	55.8	(+12.9)			25.0	(-8.3)			19.2	(-4.6)			36.6	(+17.5)		

Note: 84 Financial market experts 21 from which from Turkey, participated in the June survey which was conducted during the period 06/04/12-06/18/12. 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 May 2012 in parentheses). Balances refer to the differences between positive and negative assessments.

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