

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 2 and 15, 2010, are published in the December 2010 issue of the "Financial Market Report CEE." 85 financial market experts participated in this month's survey. The answers of all survey participants are included into 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 Improve

The ZEW- Erste Group Bank indicator for Central and Eastern Europe rises by 12.1 points reaching 31.4 points in November. Thus, the economic expectations on a six months time horizon for the CEE region including Turkey improve significantly in the current survey in comparison to the previous month. The expectations of the surveyed financial market experts regarding the economic outlook for the Eurozone also improve in November compared to the expectations in October. However,

the increase of the indicator for the Eurozone by 3.4 points to 5.5 points is clearly slighter than for the CEE region.

The assessment of the current economic situation in the CEE region increases considerably by 13.5 points to 16.7 points. In contrast to this evaluation, the financial market experts assess the current economic situation in the Eurozone more sceptical. The respective indicator decreases by 6.4 points to minus 21.5 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 months time horizon, increases by 12.1 points to 31.4 points in November. The majority of 45.1 percent of the survey respondents predict an improving economic development in the CEE region for the upcoming half year. The predictions for the economic development in Austria and the Eurozone improve this month as well. However, the increases of the respective indicators are less significant than for the CEE region. The relevant indicator for Austria rises by 6.3 points to 20.1 points. The economic expectations for the Eurozone take again the last place among all the other analysed countries after a slight increase by 3.4 points to 5.5 points.

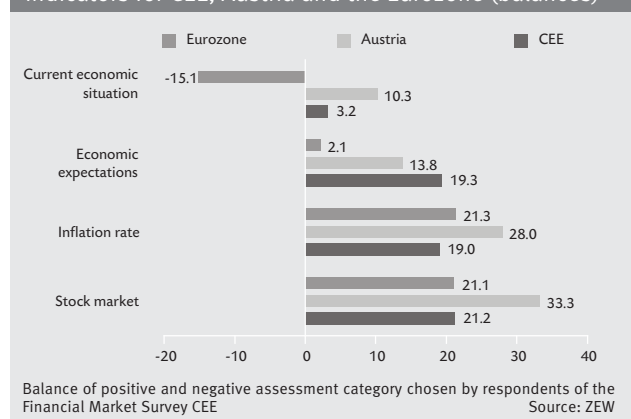
The current economic situation in the CEE region and in Austria receives a significantly better evaluation in November compared to the previous month. The respective indicator for the CEE region rises by 13.5 points to 16.7 points and the indicator for Austria increases by 11.9 points to 22.2 points. The assessment of the current business situation in the Eurozone worsens by 6.4 points to minus 21.5 points.

In November, the financial market experts predict significantly higher inflationary risks for the CEE region and Austria

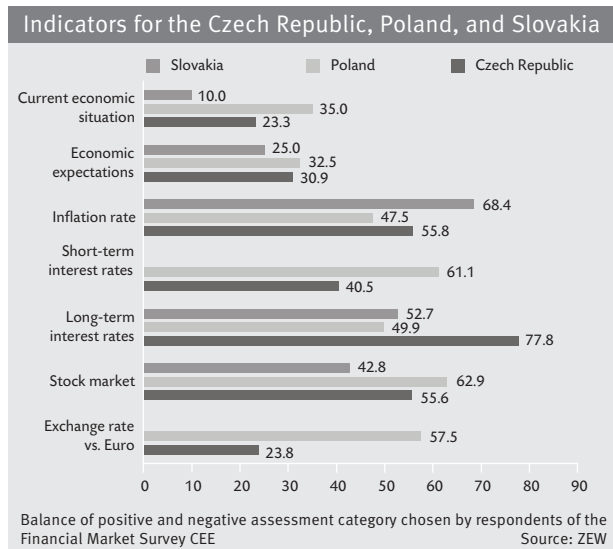
within the next six months. The respective indicators rise by 23.2 points to 42.2 points for CEE and by 22.0 points to 50.0 points for Austria. The relevant indicator for the Eurozone increases much slower by 5.3 points to 26.6 points.

In contrast to the survey in October, the indicators which represent the expected development of the stock market indices for CEE (NTX), Austria (ATX) and the Eurostoxx 50 on a six months time horizon improve in November. More than two third of the analysts foresee a rise of the three stock indices.

Indicators for CEE, Austria and the Eurozone (balances)



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



The economic sentiment indicators of the Czech Republic, Poland and Slovakia improve significantly in November. Especially the respective indicator for the Czech Republic exhibits an immense increase by 19.1 points which is the largest improvement among all analysed CEE indicators. The indicator reaches 30.9 points in the current survey. The economic expectations regarding the development of the Polish economy within the next six months improve by 14.2 points in November reaching 32.5 points. The positive evaluation regarding the economic outlook also applies to Slovakia as its respective indicator rises by 7.7 points to 25.0 points.

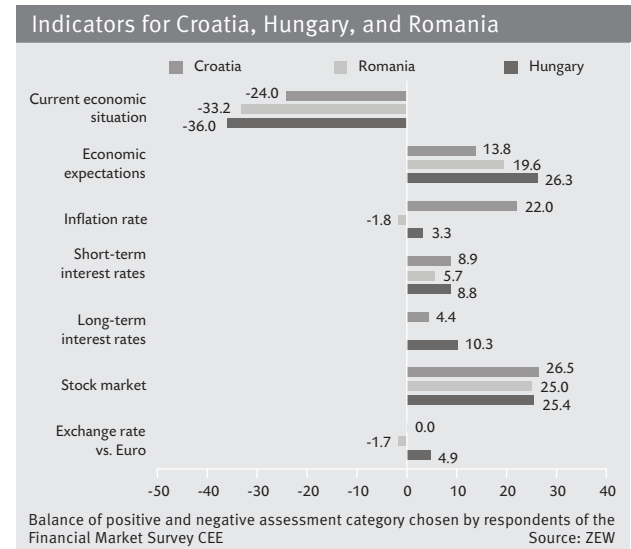
The appraisal of the current economic situation in the three countries improves in November. Poland receives the second best evaluation regarding its current economic situation among all the analysed CEE countries. Its respective indicator also depicts the highest increase by 18.4 points and reaches a considerable value of 35.0 points in November. The relevant indicator for the Czech Republic also presents a positive evaluation of the financial market experts as it increases by 6.4 points to 23.3 points. The assessment of the current business cycle in Slovakia improves by 6.6 points. Its respective indicator reaches 10.0 points.

A considerable percentage of financial market experts, namely 70.8 percent, predict an increase in the Slovak inflation rate within the next six months. The respective indicator takes up the first place in country comparison in this category with a value of 68.4 points. This forecast is in line with the forecasts of the Slovak Central Bank.

The indicator which represents the expectations concerning the development of the long-term interest rates of the Czech Republic within the next 6 months exhibits a high value of 77.8 points.

65.0 percent of the financial market analysts expect further appreciation of the Polish Zloty. The respective balance exhibits the highest increase by 28.6 points reaching a current level of 57.5 points.

## Croatia, Hungary, and Romania: Decreasing Interest Rates for Hungary



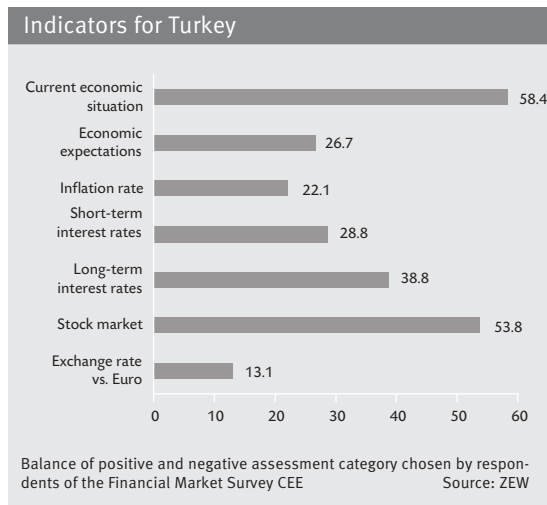
The economic outlook on a six months time horizon for Croatia, Hungary and Romania also develops positively in November as all respective indicators present double-digit increases. The relevant indicator for the economic development in Hungary depicts the highest value in country comparison, namely 36.4 points. Croatia's and Romania's economic expectations also improve significantly by 12.6 points and 12.0 points and reach 26.4 points and 31.6 points in this month.

In contrast to the positive development of the economic expectations, the evaluation of the current situation in Croatia, Hungary and Romania experience a decrease. Romania's business cycle indicator exhibits the strongest decline by 19.5 points reaching minus 52.7 points which is the weakest assessment among all the CEE countries. The respective indicators for Croatia and Hungary only decrease marginally by 3.0 points and by 5.0 points. However, the relevant balances of this group are all negative which means that more financial market experts appraise the current business cycle as bad than as good.

As none of the polled participants predict a decrease in the Croatian inflation rate within the next half year the respective inflation indicator for Croatia reaches a considerably high value of 55.3 points. The indicator also depicts the highest increase in country comparison as it increases by 33.3 points. In contrast to the expected inflationary pressure in Croatia, Hungary's inflation indicator exhibits the smallest value among all the analysed CEE economies with a value of 4.5 points.

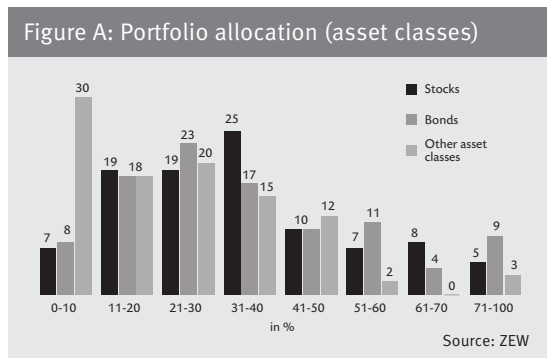
Even though the Central Bank of Hungary has systematically been decreasing its base interest rate the financial market experts predict further decrease of the short-term and long-term interest rates in Hungary. Both interest rate indicators are the only negative balances in their categories, namely minus 7.9 points for the short-term interest rates and minus 5.2 points for the long-term interest rates.

## Turkey: Economic Indicators Develop Positively



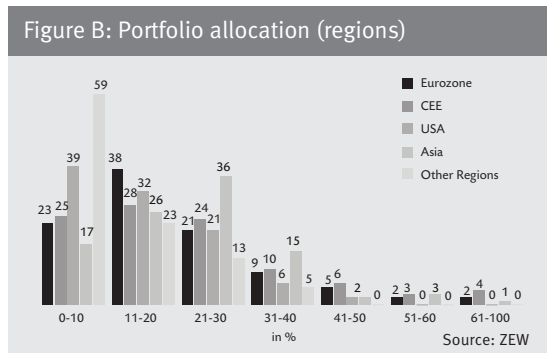
The evaluation of the economic outlook for Turkey improves by 5.8 points. Thus, its relevant economic sentiment indicator reaches 26.7 points in its second survey month. A significant majority of financial market experts, namely 61.7 percent, evaluate the current Turkish economy to be good while only 3.3 percent of the surveyed analysts are more cautious about the assessment of the current business cycle. The respective indicator reaches by far the highest value in country comparison, namely 58.4 points. Increasing inflationary pressure for Turkey is predicted within the next six months as the inflation indicator rises by 21.0 points reaching 22.1 points. The Turkish stock market index, ISE-100, exhibits a relatively strong value among the analysed individual CEE countries with a value of 53.8 points. Nearly 70 percent of the financial market experts expect the ISE-100 to increase within the next half year. The indicator which reflects the predicted development of the exchange rate between the Turkish Lira and the Euro depicts a decrease by 1.2 points to 13.1 points in November.

## Special Question: Optimal Portfolio Allocation in 2011

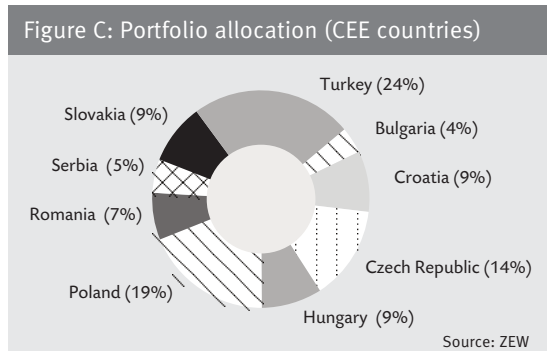


In the November issue of the special question, we ask the financial market analysts to give their opinion on the optimal portfolio allocation for 2011. We compare the current results with the February issue of the special question where we have analysed the preferred portfolio allocation of the survey participants for 2010.

The average optimal portfolio allocation in November only depicts marginal differences to the average allocation from February. The financial market experts would invest 37 percent both in stocks and in bonds. An average of 26 percent of the portfolio would be allocated to other asset classes. In November the assurance in the stock market has increased as a significant share of polled participants, namely 25 percent, would allocate 31 percent to 40 percent of their portfolio in stocks. In the February issue only 14 percent of the financial market analysts wanted to invest such a high share of their portfolio in stocks. The highest frequency concerning the allocation of bonds is found in the 21 percent to 30 percent category, namely 23 percent of the experts.



In the second part of the special question concerning the portfolio allocation within different regions it was evident that the attractiveness of Asian financial products has improved since February. 36 percent of the financial market experts would allocate 21 percent to 30 percent of their portfolio in Asia while in February only 25 percent of the participants agreed with this opinion. The assurance in the Eurozone, USA and the CEE region decreased slightly in November as the majority of financial market analysts would not invest more than 20 percent of their portfolio in these regions.



The positive assessment of our newest analysed CEE country, Turkey, is evident in the last question of our survey as the financial market experts favour Turkish stocks compared to all the other CEE stocks. They would allocate 24 percent of their portfolio on average in Turkey. The Czech Republic and Poland continue to exhibit strong positions with average portfolio shares of 14 percent and 19 percent. However, Hungary and Romania's stock credibility decreases in this issue as the financial market experts are only willing to invest less than 10 percent on average in stocks of these countries.

Melissa Li, Mariela Borell

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

<b>Current economic situation</b>	<b>good</b>		<b>acceptable (normal)</b>		<b>bad</b>		<b>balance</b>									
Austria	25.0	(+9.5)	72.2	(-7.1)	2.8	(-2.4)	22.2	(+11.9)								
Croatia	2.7	(-3.3)	67.6	(+3.6)	29.7	(-0.3)	-27.0	(-3.0)								
Czech Republic	25.6	(+3.6)	72.1	(-0.8)	2.3	(-2.8)	23.3	(+6.4)								
Hungary	4.5	(+1.2)	50.0	(-7.4)	45.5	(+6.2)	-41.0	(-5.0)								
Poland	37.5	(+14.2)	60.0	(-10.0)	2.5	(-4.2)	35.0	(+18.4)								
Romania	2.6	(-1.0)	42.1	(-17.5)	55.3	(+18.5)	-52.7	(-19.5)								
Slovakia	17.5	(+2.0)	75.0	(+2.6)	7.5	(-4.6)	10.0	(+6.6)								
Turkey	61.7	(+12.7)	35.0	(-12.9)	3.3	(+0.2)	58.4	(+12.5)								
CEE (incl. Turkey)	27.1	(+18.3)	62.5	(-23.1)	10.4	(+4.8)	16.7	(+13.5)								
Eurozone	7.1	(+2.8)	64.3	(-12.0)	28.6	(+9.2)	-21.5	(-6.4)								
<b>Economic expectations</b>	<b>improve</b>		<b>no change</b>		<b>worsen</b>		<b>balance</b>									
Austria	37.2	(+9.6)	45.7	(-12.9)	17.1	(+3.3)	20.1	(+6.3)								
Croatia	36.9	(+9.4)	52.6	(-6.2)	10.5	(-3.2)	26.4	(+12.6)								
Czech Republic	45.2	(+19.8)	40.5	(-20.5)	14.3	(+0.7)	30.9	(+19.1)								
Hungary	52.3	(+12.9)	31.8	(-15.7)	15.9	(+2.8)	36.4	(+10.1)								
Poland	45.0	(+16.7)	42.5	(-19.2)	12.5	(+2.5)	32.5	(+14.2)								
Romania	47.4	(+15.3)	36.8	(-18.6)	15.8	(+3.3)	31.6	(+12.0)								
Slovakia	40.0	(+14.1)	45.0	(-20.5)	15.0	(+6.4)	25.0	(+7.7)								
Turkey	45.0	(+8.5)	36.7	(-11.2)	18.3	(+2.7)	26.7	(+5.8)								
CEE (incl. Turkey)	45.1	(+16.1)	41.2	(-20.1)	13.7	(+4.0)	31.4	(+12.1)								
Eurozone	29.6	(+11.0)	46.3	(-18.6)	24.1	(+7.6)	5.5	(+3.4)								
<b>Inflation rate</b>	<b>increase</b>		<b>no change</b>		<b>decrease</b>		<b>balance</b>									
Austria	52.8	(+19.5)	44.4	(-17.0)	2.8	(-2.5)	50.0	(+22.0)								
Croatia	55.3	(+27.3)	44.7	(-21.3)	0.0	(-6.0)	55.3	(+33.3)								
Czech Republic	55.8	(+17.9)	44.2	(-12.7)	0.0	(-5.2)	55.8	(+23.1)								
Hungary	38.6	(+13.6)	27.3	(-26.0)	34.1	(+12.4)	4.5	(+1.2)								
Poland	55.0	(+17.0)	37.5	(-15.9)	7.5	(-1.1)	47.5	(+18.1)								
Romania	43.3	(+20.5)	29.7	(-22.9)	27.0	(+2.4)	16.3	(+18.1)								
Slovakia	70.8	(+29.4)	26.8	(-26.6)	2.4	(-2.8)	68.4	(+32.2)								
Turkey	45.8	(+15.7)	30.5	(-10.4)	23.7	(-5.3)	22.1	(+21.0)								
CEE (incl. Turkey)	48.9	(+22.0)	44.4	(-20.8)	6.7	(-1.2)	42.2	(+23.2)								
Eurozone	30.4	(+3.8)	65.8	(-2.3)	3.8	(-1.5)	26.6	(+5.3)								
<b>Short-term interest rates</b>	<b>increase</b>		<b>no change</b>		<b>decrease</b>		<b>balance</b>									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	33.4	(+13.4)	22.2	(+6.9)	53.3	(-15.6)	59.3	(-12.4)	13.3	(+2.2)	18.5	(+5.5)	20.1	(+11.2)	3.7	(+1.4)
Czech Republic	43.2	(+5.7)	23.6	(+6.0)	54.1	(-6.6)	58.8	(-13.1)	2.7	(+0.9)	17.6	(+7.1)	40.5	(+4.8)	6.0	(-1.1)
Hungary	18.4	(-6.2)	11.4	(-4.1)	55.3	(-4.3)	42.9	(-19.2)	26.3	(+10.5)	45.7	(+23.3)	-7.9	(-16.7)	-34.3	(-27.4)
Poland	63.9	(+16.6)	47.0	(+15.9)	33.3	(-17.6)	41.2	(-19.1)	2.8	(+1.0)	11.8	(+3.2)	61.1	(+15.6)	35.2	(+12.7)
Romania	21.8	(+0.7)	17.3	(-3.4)	59.4	(-4.1)	44.8	(-17.5)	18.8	(+3.4)	37.9	(+20.9)	3.0	(-2.7)	-20.6	(-24.3)
Turkey	42.3	(+13.6)	29.2	(+7.8)	44.2	(-17.9)	50.0	(-14.0)	13.5	(+4.3)	20.8	(+6.2)	28.8	(+9.3)	8.4	(+1.6)
Eurozone	35.3	(+14.6)			62.7	(-11.2)			2.0	(-3.4)			33.3	(+18.0)		
<b>Long-term interest rates</b>	<b>increase</b>		<b>no change</b>		<b>decrease</b>		<b>balance</b>									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	29.7	(+3.6)	23.0	(+6.0)	44.4	(-7.8)	30.8	(-28.8)	25.9	(+4.2)	46.2	(+22.8)	3.8	(-0.6)	-23.2	(-16.8)
Czech Republic	77.8	(+35.7)	42.9	(+27.4)	22.2	(-26.9)	40.0	(-25.5)	0.0	(-8.8)	17.1	(-1.9)	77.8	(+44.5)	25.8	(+29.3)
Hungary	31.6	(+2.3)	27.0	(+8.3)	31.6	(-20.1)	18.9	(-33.6)	36.8	(+17.8)	54.1	(+25.3)	-5.2	(-15.5)	-27.1	(-17.0)
Poland	55.5	(+15.2)	31.4	(+15.9)	38.9	(-12.0)	45.7	(-25.0)	5.6	(-3.2)	22.9	(+9.1)	49.9	(+18.4)	8.5	(+6.8)
Slovakia	55.5	(+9.9)	20.0	(+4.4)	41.7	(-9.2)	57.1	(-17.0)	2.8	(-0.7)	22.9	(+12.6)	52.7	(+10.6)	-2.9	(-8.2)
Turkey	55.1	(+17.9)	49.0	(+25.1)	28.6	(-22.6)	34.0	(-26.2)	16.3	(+4.7)	17.0	(+1.1)	38.8	(+13.2)	32	(+24.0)
Germany	66.6	(+21.6)			31.0	(-19.0)			2.4	(-2.6)			64.2	(+24.2)		
<b>Stock market indices</b>	<b>increase</b>		<b>no change</b>		<b>decrease</b>		<b>balance</b>									
EURO STOXX 50	66.7	(+29.1)	19.0	(-26.9)	14.3	(-2.2)	52.4	(+31.3)								
ATX (Austria)	77.4	(+31.1)	6.5	(-34.2)	16.1	(+3.1)	61.3	(+28.0)								
NTX (CEE)	70.0	(+36.3)	20.0	(-33.8)	10.0	(-2.5)	60.0	(+38.8)								
CROBEX (Croatia)	61.7	(+16.8)	26.5	(-10.2)	11.8	(-6.6)	49.9	(+23.4)								
PX 50 (Czech Rep.)	66.7	(+24.1)	22.2	(-20.4)	11.1	(-3.7)	55.6	(+27.8)								
BUX (Hungary)	55.3	(+11.7)	26.3	(-11.9)	18.4	(+0.2)	36.9	(+11.5)								
WIG (Poland)	74.3	(+30.6)	14.3	(-29.3)	11.4	(-1.3)	62.9	(+31.9)								
BET (Romania)	69.7	(+29.3)	12.1	(-32.1)	18.2	(+2.8)	51.5	(+26.5)								
SAX (Slovakia)	57.1	(+21.3)	28.6	(-18.6)	14.3	(-2.7)	42.8	(+24.0)								
ISE-100 (Turkey)	69.2	(+20.4)	15.4	(-17.6)	15.4	(-2.8)	53.8	(+23.2)								
<b>Exchange rates (vs. Euro)</b>	<b>appreciate</b>		<b>no change</b>		<b>depreciate</b>		<b>balance</b>									
Kuna (Croatia)	18.2	(+2.5)	69.7	(+1.1)	12.1	(-3.6)	6.1	(+6.1)								
Koruna (Czech Rep.)	35.7	(+9.8)	52.4	(-6.2)	11.9	(-3.6)	23.8	(+13.4)								
Forint (Hungary)	37.5	(+10.9)	47.5	(-4.2)	15.0	(-6.7)	22.5	(+17.6)								
Zloty (Poland)	65.0	(+17.5)	27.5	(-6.4)	7.5	(-11.1)	57.5	(+28.6)								
Lei (Romania)	34.2	(+14.5)	42.9	(-16.0)	22.9	(+1.5)	11.3	(+13.0)								
Lira (Turkey)	33.9	(+3.1)	45.3	(-7.4)	20.8	(+4.3)	13.1	(-1.2)								
US-Dollar	42.1	(+13.1)	24.6	(-24.4)	33.3	(+11.3)	8.8	(-1.8)								

Note: 85 Financial market experts, 24 from which from Turkey, participated in the November survey which was conducted during the period 11/02/10-11/15/10. 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 October in parentheses). Balances refer to the differences between positive and negative assessments.

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