

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 May 2, 2011 and May 16, 2011, are published in the June 2011 issue of the "Financial Market Report CEE." 81 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.

Stable Economic Expectations for CEE – Inflationary Risk Concerns Decline

The economic expectations for Central and Eastern Europe including Turkey (CEE region) on a six-month time horizon have remained almost unchanged. The indicator has increased by 2.2 points to 20.9 points. The indicator for the inflation concerns in the CEE region has displayed a double digit drop by 23.9 points reflecting relaxation of inflation concerns especially in Poland, Romania, Hungary and Austria. The evaluation of

the current economic situation in the CEE region declined by 1.3 points to a level of 21.2 points. The economic expectations for the Eurozone and Austria have risen by 5.4 points and 6.2 points to levels of 3.6 and 21.6 points respectively. The assessment of the current business cycle in the Eurozone has dropped by 7.6 points to the minus 7.6 mark. The respective indicator for Austria remains almost unchanged at 32.4 points.

Economic Outlook for the CEE Region, Austria and the Eurozone

The ZEW-Firste 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 improved only slightly by 2.2 points to 20.9 points in May. The respective indicators of economic expectations in the Eurozone and Austria have also increased by 5.4 points and 6.2 points respectively. This month's increase brings the indicator for the Eurozone back to a positive level of 3.6 points.

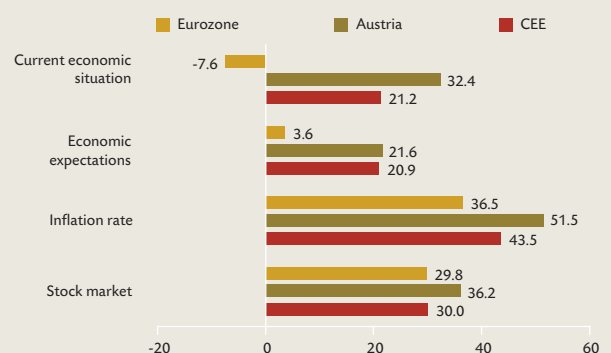
The indicator of assessment of the current economic situation in the CEE region has slightly decreased by 1.3 points to a level of 21.2 points in this month's survey. The respective indicator for Austria has remained almost unchanged at a level of 32.4 points. The indicator of the current economic situation in the Eurozone has again displayed a negative value of minus 7.6 points this month after a drop from the 0.0 mark. The indicator is remaining in the negative range since mid-2008.

The indicator of the expected six-month inflation rate in the CEE region has displayed a double digit decrease by 23.9 points in this month's survey. This is the first decrease of the indicator in this year and the largest one among all economies included in the survey. The relaxation of the inflation expectations is mainly due to double digit decline of the inflation concerns for Poland, Romania, Hungary and Austria. The expectations of the inflation rate in the Eurozone have also declined significantly by 23.2 points in this month's survey fol-

lowing last month's European Central Bank's interest rate increase. This clearly indicates that financial market experts anticipate further interest rate increases.

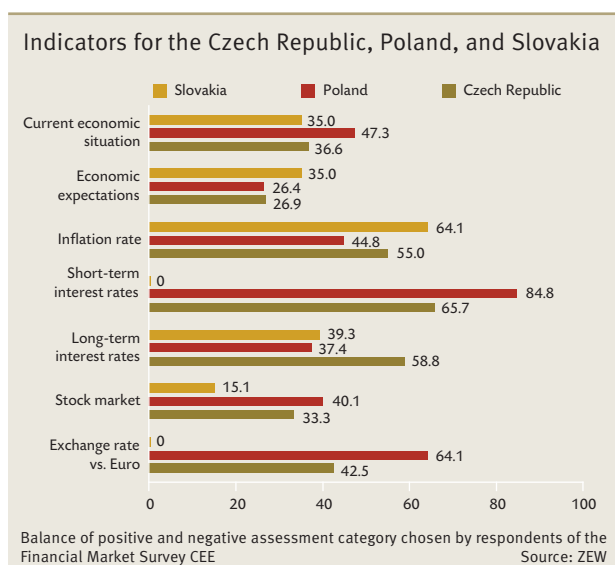
The indicator of the expectations for the stock market index for the CEE region (NTX) has dropped by 23.8 points to a level of 30.0 points. This is due to a decrease in the indicators for all stock market indices in the region in this month's survey. For the Eurostoxx 50 experts' expectations have worsened by 11.2 points.

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: Improved Situation and Outlook



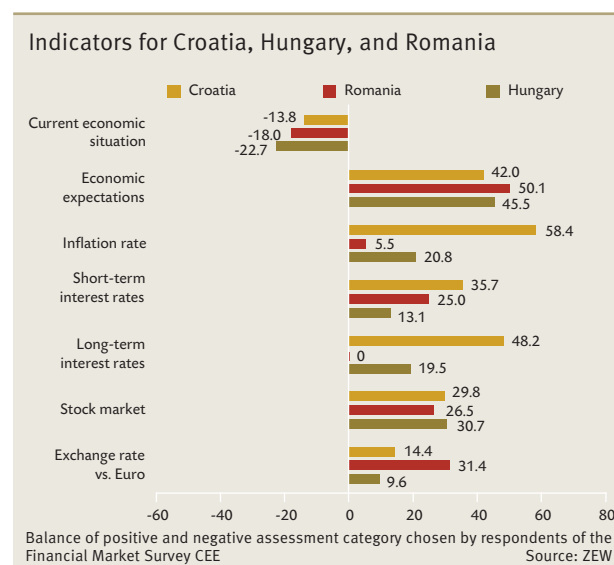
The economic sentiment for the Czech Republic, Poland and Slovakia has slightly improved in this month's survey. The indicators reflecting experts' expectations on the economic development in the next six months have increased for the three countries – Czech Republic, Poland and Slovakia by 0.3 points, 3.7 points and 4.8 points respectively.

Experts also assess an improvement of the current economic situation in the three countries. The respective indicators for the Czech Republic, Poland and Slovakia have increased by 5.4 points, 10.1 points and 2.5 points respectively.

This month's survey responses indicate a relaxation of inflation concerns in all countries in the CEE region. The decrease in the indicator of expected inflation rate on a six-month basis is thereby at largest for Poland. The respective indicator for Poland is with 44.8 points at its lowest level for this year. The indicators of inflation expectations for Slovakia and the Czech Republic decrease by 9.6 points and 4.1 points respectively. Both indicators retain relatively high levels of 64.1 points and 55.0 points respectively. The majority of experts expect an increase in the short-term interest rates in Poland (84.8 per cent) and the Czech Republic (71.4 per cent) consistent with the relaxed inflation expectations in this month's survey.

More than half of the experts expect an increase of the Polish stock market index (WIG). The proportion of optimists is lower compared to last month's survey as the indicator of expectations for the WIG has decreased by 14.0 points. A similar picture arises for the Czech stock market index PX 50. The indicator for the PX 50 has decreased this month by 12.7 points but still half of the respondents retain bullish expectations for the Czech stock market. The Slovakian SAX is expected to remain unchanged by a majority of 48.5 per cent. The Polish Zloty is expected to appreciate by a majority of 71.8 per cent. For the Czech Koruna expert's sentiments have rather worsened as the indicator fo has decreased by 16.9 points. Still half of the experts expect an appreciation.

Croatia, Hungary and Romania: Relaxed Inflation Concerns



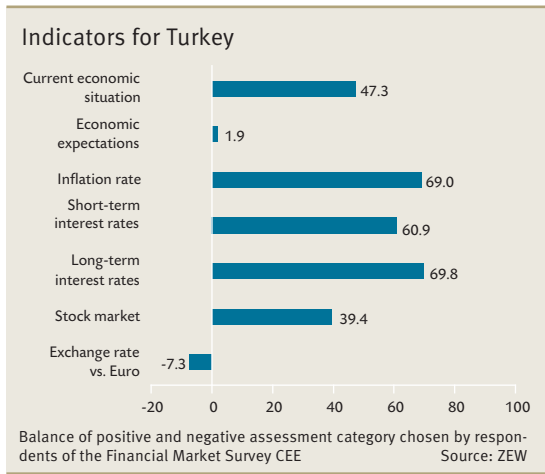
The Indicator of Economic Sentiment for Croatia displays a double digit improvement by 13.1 points in this month's survey. A slight improvement in the respective indicators is also obtained for Hungary and Romania – the indicators increase by 5.1 points and 0.1 points respectively. Overall the economic sentiments for the three countries – Croatia, Hungary and Romania, remain at the highest levels for the CEE region.

The indicators of the current situation in Croatia, Hungary and Romania remain in the negative range in May. For Croatia and Romania the indicators thereby slightly increase by 9.9 points and 4.0 points respectively to levels of minus 13.8 points and minus 18.0 points respectively. The indicator for Hungary drops further by 8.1 points to the lowest level of minus 22.7 points among the surveyed economies.

This month's responses record double digit decrease in inflation concerns in Romania. The indicator of inflation rate expectations has dropped by 20.1 points to a level of 5.5 points. This is by far the lowest level of concerns among all surveyed economies. The respective indicators for Hungary and Croatia have also decreased by 15.5 points and 8.2 points in this month's survey. Short-term interest rates are not expected to increase in the next six months in Hungary and Croatia as indicated by more than half of the experts. A majority of 46.4 per cent also expect the short-term interest rates in Romania to remain unchanged.

Roughly half of the experts expect an increase in the stock market indices of Croatia (CROBEX), Hungary (BUX) and Romania (BET). The balance of the bullish and bearish opinions has deteriorated compared to last month by 9.6 points, 11.3 points and 24.9 points respectively. This indicates a tendency towards revision of the bullish expectations. A revision in the expert's expectations is also observed in the responses regarding the Croatian Kuna after last month's large depreciation of the currency. The percentage of respondents expecting an appreciation in the next six months has decreased by 10.9 percentage points to 31.5 per cent.

Turkey: Expectations towards Currency Depreciation



The Indicator of Economic Sentiment for Turkey has decreased this month by 6.1 points to a level of 1.9 points. This is the only decreasing sentiment indicator among all surveyed economies. The assessment of the current situation for Turkey has also slightly decreased by 3.6 points to a level of 47.3 points. The indicator remains at the highest level among all surveyed economies. The inflation concerns for Turkey have decreased this month by 5.3 per cent to a level of 69.0 points. The indicator thus remains at by far the highest level among all surveyed economies. For the Turkish Lira experts expect a continuation of this year's depreciation trend. The proportion of experts indicating bearish expectations for the Lira has significantly increased this month by 15.2 percentage points to 40.7 per cent. This results in a double digit decrease of the balance of bullish and bearish expectations by 23.6 points to a level of minus 7.3 points. This is in line with the 8.1 points decrease in the indicator of expected short-term interest rates in Turkey.

Special Question: Inflation and Interest Rate Expectations

Figure A: Assessment of inflationary risks in the CEE countries since the beginning of 2011

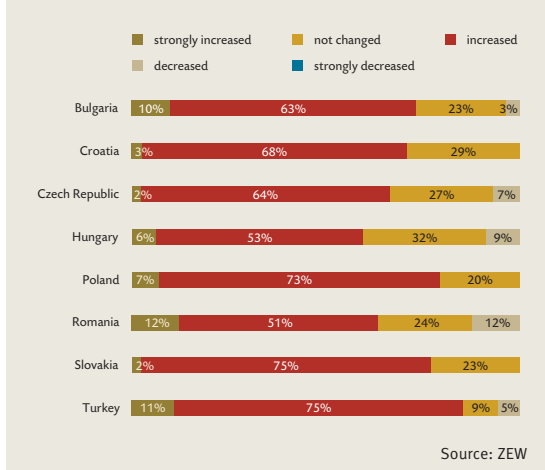
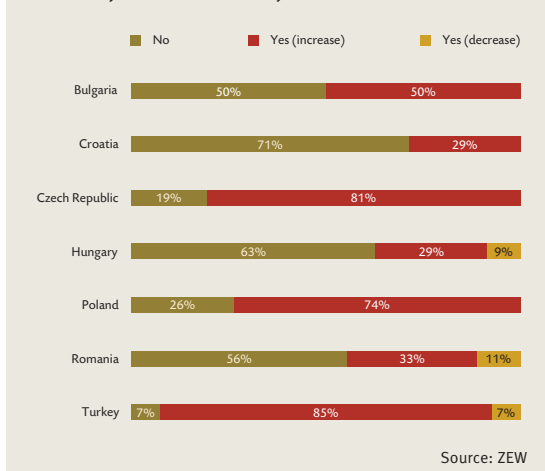


Figure B: Expectations on Central Banks' decisions on the key interest rates by the end of 2011



In the Special Question in the February issue analysts anticipated a high inflationary risk in Central and Eastern Europe. Consequently, in May experts were asked to give a feedback on their assessment of the recent development since the beginning of 2011. Furthermore, the analysts were asked to provide their expectations on national Central Banks' policy due to the high inflationary risk. For all countries, analysts anticipate increased or even strongly increased inflationary risks in the last six months. According to the experts, Turkey and Poland are particularly concerned. 79.5 per cent and 84.5 per cent of the experts, respectively, assess an increased inflationary risk in these countries. For Hungary, however, only six experts out of ten anticipate an increased inflationary risk. This may be due to the increase of the Hungarian Central Bank's interest rate by 25 basis points in January. While the anticipated inflationary risk has increased since the beginning of the year, expert's inflation concerns for the second half of the year have decreased significantly. The indicator for the expected inflation in the CEE region has displayed a double-digit decline by 23.9 points this month. Last month the European Central Bank increased the key interest rate for the Eurozone by 25 basis points to 1.25 per cent. The polled analysts anticipate the same strategy for some CEE countries. In the Czech Republic and Poland 80.6 and 73.5 per cent, respectively, expect the Central Banks to raise the key interest rate due to high inflationary pressure. For Croatia and Poland an interest rate increase is on average expected in the next 3 to 4 months. Among all surveyed economies the inflation concerns indicator for Turkey is with 69.0 points at the highest level, thus it is not surprising that a large majority of experts (85.4 per cent) expect the Turkish Central bank to respond by increasing key interest rate. The increase is rather expected by the end of the year – on average in 5 to 6 months. For Croatia, Hungary and Romania experts expect the key interest rate to remain unchanged on a six-month horizon and only a minority of the polled analysts would not be surprised by an interest rate cut. This is in line with the reported double-digit decline of inflation expectations for these countries in this month's survey. Finally, regarding Bulgaria, experts' opinions are split between an increase and no change of key interest rates.

Sebastian Voigt, Zwetelina Ilieva

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

Current economic situation	good		acceptable (normal)		bad		balance									
Austria	32.4	(-2.6)	67.6	(+5.1)	0.0	(-2.5)	32.4	(-0.1)								
Croatia	8.4	(+0.5)	69.4	(+8.9)	22.2	(-9.4)	-13.8	(+9.9)								
Czech Republic	36.6	(+1.0)	63.4	(+3.4)	0.0	(-4.4)	36.6	(+5.4)								
Hungary	9.1	(-3.4)	59.1	(-1.3)	31.8	(+4.7)	-22.7	(-8.1)								
Poland	52.6	(+8.4)	42.1	(-6.7)	5.3	(-1.7)	47.3	(+10.1)								
Romania	12.8	(+5.5)	56.4	(-7.0)	30.8	(+1.5)	-18.0	(+4.0)								
Slovakia	35.0	(-2.2)	65.0	(+6.9)	0.0	(-4.7)	35.0	(+2.5)								
Turkey	47.3	(-5.2)	52.7	(+6.8)	0.0	(-1.6)	47.3	(-3.6)								
CEE (incl. Turkey)	25.5	(-3.1)	70.2	(+4.9)	4.3	(-1.8)	21.2	(-1.3)								
Eurozone	9.4	(-6.1)	73.6	(+4.6)	17.0	(+1.5)	-7.6	(-7.6)								
Economic expectations	improve		no change		worsen		balance									
Austria	32.4	(+1.6)	56.8	(+3.0)	10.8	(-4.6)	21.6	(+6.2)								
Croatia	47.3	(+10.5)	47.4	(-7.9)	5.3	(-2.6)	42.0	(+13.1)								
Czech Republic	34.2	(-1.3)	58.5	(+2.9)	7.3	(-1.6)	26.9	(+0.3)								
Hungary	59.1	(+10.2)	27.3	(-15.3)	13.6	(+5.1)	45.5	(+5.1)								
Poland	36.9	(-1.7)	52.6	(+7.1)	10.5	(-5.4)	26.4	(+3.7)								
Romania	60.6	(-1.9)	28.9	(+3.9)	10.5	(-2.0)	50.1	(+0.1)								
Slovakia	45.0	(+5.5)	45.0	(-6.2)	10.0	(+0.7)	35.0	(+4.8)								
Turkey	25.5	(-5.1)	50.9	(+4.1)	23.6	(+1.0)	1.9	(-6.1)								
CEE (incl. Turkey)	29.2	(-2.0)	62.5	(+6.2)	8.3	(-4.2)	20.9	(+2.2)								
Eurozone	21.8	(-4.0)	60.0	(+13.4)	18.2	(-9.4)	3.6	(+5.4)								
Inflation rate	increase		no change		decrease		balance									
Austria	62.9	(-8.1)	25.7	(+4.6)	11.4	(+3.5)	51.5	(-11.6)								
Croatia	66.7	(-5.5)	25.0	(+2.8)	8.3	(+2.7)	58.4	(-8.2)								
Czech Republic	62.5	(-5.7)	30.0	(+7.3)	7.5	(-1.6)	55.0	(-4.1)								
Hungary	44.1	(-10.4)	32.6	(+5.3)	23.3	(+5.1)	20.8	(-15.5)								
Poland	55.3	(-18.6)	34.2	(+15.2)	10.5	(+3.4)	44.8	(-22.0)								
Romania	44.4	(-4.3)	16.7	(-11.5)	38.9	(+15.8)	5.5	(-20.1)								
Slovakia	71.8	(-6.7)	20.5	(+3.8)	7.7	(+2.9)	64.1	(-9.6)								
Turkey	74.5	(-4.6)	20.0	(+3.9)	5.5	(+0.7)	69.0	(-5.3)								
CEE (incl. Turkey)	52.2	(-21.7)	39.1	(+19.5)	8.7	(+2.2)	43.5	(-23.9)								
Eurozone	51.0	(-19.2)	34.5	(+15.2)	14.5	(+4.0)	36.5	(-23.2)								
Short-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	39.3	(-10.7)	12.5	(-15.5)	57.1	(+14.2)	70.8	(+30.8)	3.6	(-3.5)	16.7	(-15.3)	35.7	(-7.2)	-4.2	(-0.2)
Czech Republic	71.4	(+0.7)	19.4	(+3.6)	22.9	(+0.9)	41.9	(-8.1)	5.7	(-1.6)	38.7	(+4.5)	65.7	(+2.3)	-19.3	(-0.9)
Hungary	21.0	(+0.1)	6.1	(-6.8)	71.1	(+15.3)	24.2	(-1.4)	7.9	(-15.4)	69.7	(+8.2)	13.1	(+15.5)	-63.6	(-15.0)
Poland	84.8	(+7.3)	34.5	(+4.8)	15.2	(-7.3)	48.3	(-13.9)	0.0	(+0.0)	17.2	(+9.1)	84.8	(+7.3)	17.3	(-4.3)
Romania	39.3	(+2.2)	29.2	(+5.8)	46.4	(-2.2)	20.8	(-12.5)	14.3	(+0.0)	50.0	(+6.7)	25.0	(+2.2)	-20.8	(-0.9)
Turkey	67.4	(-7.1)	46.5	(-12.7)	26.1	(-5.8)	32.6	(+8.1)	6.5	(+1.0)	20.9	(+4.6)	60.9	(-8.1)	25.6	(-17.3)
Eurozone	75.5	(-15.6)			20.4	(+11.5)			4.1	(+4.1)			71.4	(-19.7)		
Long-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	59.3	(+7.6)	33.4	(-2.3)	29.6	(-4.9)	45.8	(+6.5)	11.1	(-2.7)	20.8	(-4.2)	48.2	(+10.3)	12.6	(+1.9)
Czech Republic	70.6	(+6.5)	25.8	(+0.1)	17.6	(-8.0)	48.4	(-0.3)	11.8	(+1.5)	25.8	(+0.2)	58.8	(+5.0)	0.0	(-0.1)
Hungary	38.9	(-0.1)	21.3	(-10.4)	41.7	(+0.2)	24.2	(+12.0)	19.4	(-0.1)	54.5	(-1.6)	19.5	(+0.0)	-33.2	(-8.8)
Poland	56.2	(-0.2)	20.0	(-13.3)	25.0	(-5.8)	36.7	(+0.8)	18.8	(+6.0)	43.3	(+12.5)	37.4	(-6.2)	-23.3	(-25.8)
Slovakia	45.4	(-13.0)	12.9	(-6.1)	48.5	(+15.2)	54.8	(+6.2)	6.1	(-2.2)	32.3	(-0.1)	39.3	(-10.8)	-19.4	(-6.0)
Turkey	72.1	(-2.5)	54.7	(-6.6)	25.6	(+8.0)	31.0	(+14.7)	2.3	(-5.5)	14.3	(-8.1)	69.8	(+3.0)	40.4	(+1.5)
Germany	78.9	(-5.6)			15.8	(+2.5)			5.3	(+3.1)			73.6	(-8.7)		
Stock market indices	increase		no change		decrease		balance									
EURO STOXX 50	46.8	(-7.8)	36.2	(+4.4)	17.0	(+3.4)	29.8	(-11.2)								
ATX (Austria)	55.6	(+4.1)	25.0	(-12.1)	19.4	(+8.0)	36.2	(-3.9)								
NTX (CEE)	50.0	(-14.1)	30.0	(+4.4)	20.0	(+9.7)	30.0	(-23.8)								
CROBEX (Croatia)	46.0	(-5.5)	37.8	(+1.4)	16.2	(+4.1)	29.8	(-9.6)								
PX 50 (Czech Rep.)	50.0	(-4.1)	33.3	(-4.5)	16.7	(+8.6)	33.3	(-12.7)								
BUX (Hungary)	53.8	(-1.4)	23.1	(-8.5)	23.1	(+9.9)	30.7	(-11.3)								
WIG (Poland)	57.2	(-5.0)	25.7	(-4.0)	17.1	(+9.0)	40.1	(-14.0)								
BET (Romania)	50.0	(-10.0)	26.5	(-4.9)	23.5	(+14.9)	26.5	(-24.9)								
SAX (Slovakia)	33.3	(-5.0)	48.5	(-4.4)	18.2	(+9.4)	15.1	(-14.4)								
ISE-100 (Turkey)	59.0	(-4.1)	21.4	(+0.3)	19.6	(+3.8)	39.4	(-7.9)								
Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance									
Kuna (Croatia)	31.5	(-10.9)	51.4	(-0.1)	17.1	(+11.0)	14.4	(-21.9)								
Koruna (Czech Rep.)	50.0	(-14.2)	42.5	(+11.5)	7.5	(+2.7)	42.5	(-16.9)								
Forint (Hungary)	31.0	(-1.6)	47.6	(+4.1)	21.4	(-2.5)	9.6	(+0.9)								
Zloty (Poland)	71.8	(+5.9)	20.5	(-4.5)	7.7	(-1.4)	64.1	(+7.3)								
Lei (Romania)	45.7	(-3.0)	40.0	(+4.9)	14.3	(-1.9)	31.4	(-1.1)								
Lira (Turkey)	33.4	(-8.4)	25.9	(-6.8)	40.7	(+15.2)	-7.3	(-23.6)								
US-Dollar	63.0	(+9.2)	18.5	(+0.0)	18.5	(-9.2)	44.5	(+18.4)								

Note: 81 Financial market experts, 22 from which from Turkey, participated in the May survey which was conducted during the period 05/02/11-05/16/11. 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 April 2011 in parentheses). Balances refer to the differences between positive and negative assessments.

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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

Mariela Borell · Dept. International Finance and Financial Management · Phone +49 (0)621 1235-144 · E-mail: borell@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

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