

Financial Market Report CEE

International Finance Market Data: Assessments and Expectations

ZEW Economic Sentiment Indicator for Central and Eastern Europe, Supported by Erste Group Bank AG

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 July 4, 2011 and July 18, 2011, are published in the August 2011 issue of the "Financial Market Report CEE." 74 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 the CEE Region Stabilise

The economic expectations for Central and Eastern Europe including Turkey (CEE region) on a six-month time horizon have slightly decreased in July. The respective indicator has worsened by 2.5 points and thus remains in the negative range, at minus 5.0 points. In contrast, the evaluation of the current economic situation in the CEE region has improved this month. The respective indicator has increased by 8.2 points to 12.9 points. The

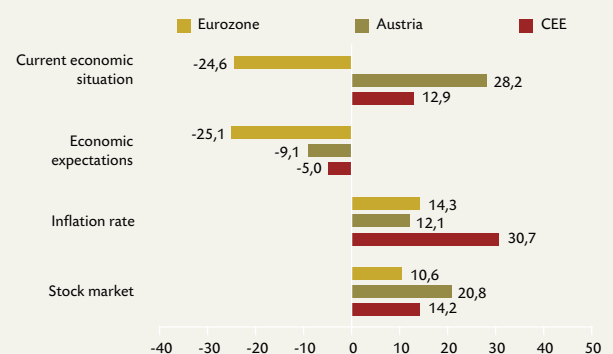
economic expectations for the Eurozone and Austria within the next six months have significantly dropped by 10.3 points and 12.4 points respectively and thus continue the negative trend. The assessment of the current economic situation in the Eurozone has dropped by further 10.0 points in this month's survey and has reached a value of minus 24.6 points. The respective indicator for Austria has improved by 8.8 points to 28.2 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 slightly decreased by 2.5 points to a level of minus 5.0 points in July. In comparison to last month's major decrease, the current slight decrease rather displays a stabilisation in experts' expectations. Furthermore, more than half of the experts (53.8 per cent) do not expect any changes in the economic development in the CEE region on a six-month basis. The economic expectations for Austria and the Eurozone, in contrast, retain a negative trend. The respective indicator for the Eurozone has decreased by 10.3 points to a level of minus 25.1 points this month. After a decrease by 12.4 points the respective indicator for Austria has crossed the 0.0 mark as the indicators for the Eurozone and CEE did last month. The indicator of economic expectations for Austria has reached a level of minus 9.1 points. The indicator of experts' assessment of the current economic situation in the CEE region has improved by 8.2 points to a level of 12.9 points. Similarly, the respective indicator for Austria has increased 8.8 points and reached a level of 28.2 points – the second highest among all surveyed economies. The assessment of the current situation for the Eurozone has retained a negative trend. The respective indicator has dropped by 10.0 points to a level of minus 24.6 points in July.

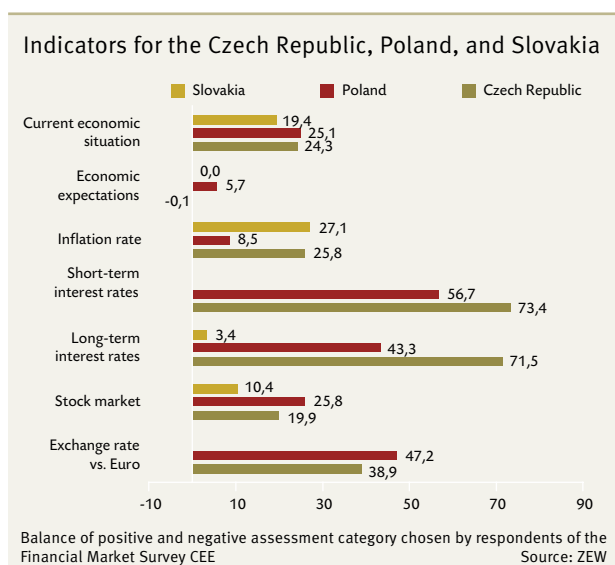
The indicator of inflation expectations for Austria has displayed a major decrease by 26.6 points to a level of 12.1 points this month. This is the largest decrease in inflation expectations among all surveyed economies. The respective indicators for CEE and the Eurozone have also decreased by 11.8 points and 12.8 points to 30.7 points and 14.3 points respectively. A revision of experts' bullish expectations to neutral has caused the indicators for stock market indices Euro Stoxx 50, ATX and NTX to drop by 11.6 points, 7.8 points and 14.0 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: Inflation Concerns Relaxed

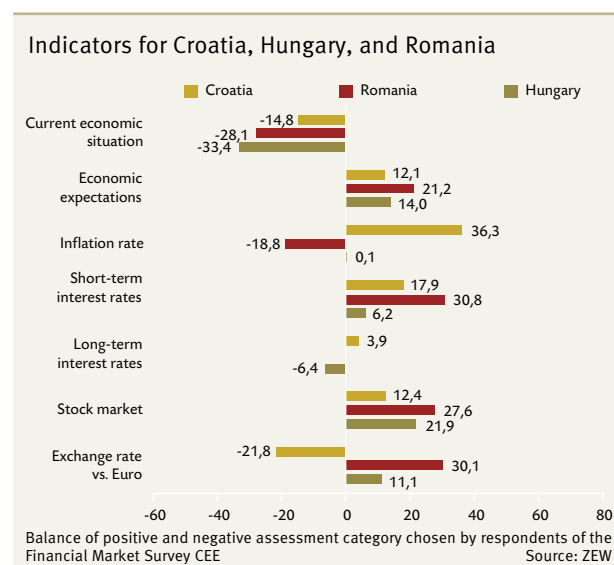


The economic expectations for the Czech Republic, Poland and Slovakia have worsened in this month's survey. The respective indicators for the Czech Republic and Slovakia have dropped by 14.9 points and 14.8 points respectively and approach the 0.0 mark for the first time for two years. Thereby, the indicator of experts' expectations for Poland has displayed a comparably moderate decrease by 6.7 points and remains positive at a level of 5.7 points. The assessment of the current economic situation has slightly improved this month for the Czech Republic and Slovakia. The respective indicators have increased by 4.9 points and 8.0 points respectively to 24.3 points and 19.4 points respectively. In contrast, the indicator of experts' assessment of the current situation for Poland has slightly decreased by 4.3 points to a level of 25.1 points this month.

Experts' inflation concerns have significantly dropped for all three countries in this month's survey. The respective indicator for Slovakia has dropped by 24.2 points – the second-largest decrease among all surveyed economies. For the third consecutive month experts are expecting a decrease in the inflation rates in Slovakia. For the Czech Republic and Poland the majority of experts (51.4 per cent and 45.7 per cent respectively) rather expect no changes in the inflation rates in the next six months. This is in line with the expectations on the development of the short-term interest rates in Poland as 21.1 per cent of the experts have changed expectations compared to last month's survey and rather expect no further changes in the short-term interest rates in Poland.

Concerning experts' stock market expectations, roughly 10 per cent of the experts have revised their bullish expectations on the Czech PX 50 and the Polish WIG. A larger revision is observed for the Slovakian SAX as 17.2 per cent of last month's optimists have revised their expectations in July. The expectations for the Czech Koruna and the Polish Zloty remain stable. The indicators have dropped only moderately by 1.0 point and 2.8 points respectively.

Croatia, Hungary and Romania: Bullish Sentiments Revised

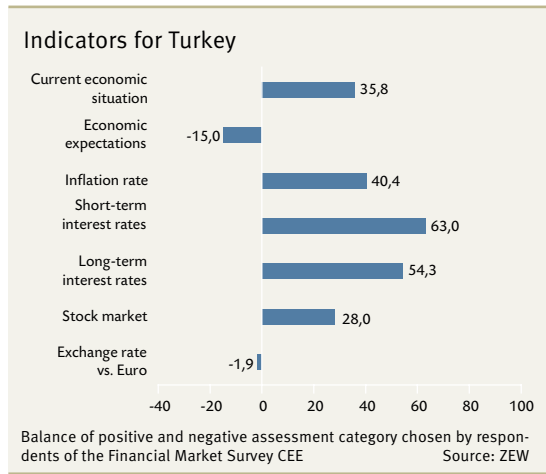


The indicator of economic expectations has further decreased this month for Croatia, Hungary and Romania. The largest decrease among all surveyed economies is observed for Hungary – 20.4 points. The respective indicators for Croatia and Romania have also decreased by 12.2 points and 4.6 points respectively. Nevertheless, the indicators of economic sentiment for the three countries - Croatia, Hungary and Romania, remain at the highest levels among all surveyed economies. The highest value of the indicator is observed for Romania – 21.2 points. In contrast, the assessment of the current economic situation in the three countries remains at the lowest levels among all surveyed economies. The respective indicators for Croatia, Hungary and Romania have dropped this month moderately by 0.3 points, 1.7 points and 2.3 points respectively to minus 14.8 points, minus 33.4 points and minus 28.1 points respectively.

The indicators of inflation expectations on a six-month basis have slightly decreased for Croatia and Hungary by 1.9 points and 2.7 points this month. The respective indicator for Hungary thus reaches the second smallest value among all surveyed economies – 0.1 points. This month's responses record double digit decrease in inflation concerns in Romania. The indicator of inflation rate expectations has dropped by 20.4 points to a level of minus 28.8 points. This is by far the lowest level of concerns among all surveyed economies. A majority of 81.3 per cent of the experts would not expect the inflation rate in Romania to increase in the next six months. The result may be due to the recent decrease in the Romanian consumer price index (CPI) in June, which was the first decrease for the last two years.

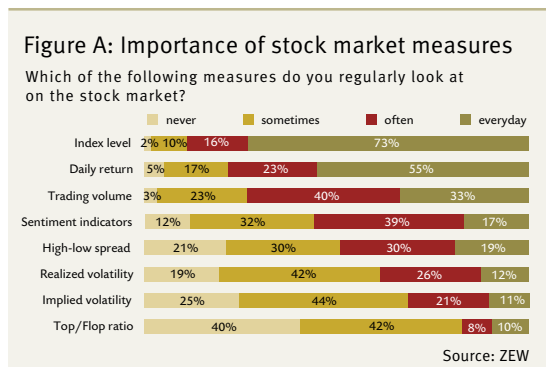
The indicator of experts' expectations regarding the development of the stock market indices in Croatia, Hungary and Romania have shifted from bullish to neutral this month. For the Croatian CROBEX 20.5 per cent of last month's optimists have revised their expectations. For the Hungarian BUX and the Romanian BET this percentage is smaller but still significant – 14.3 per cent and 11.0 per cent of the respondents have revised their former bullish expectations.

Turkey: Inflation Concerns Slowly Ease

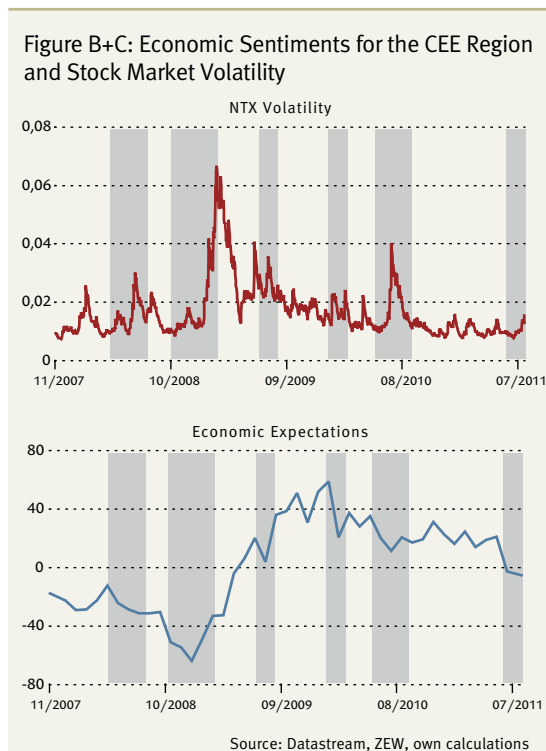


Both the assessment of the current situation and the economic expectations for Turkey have improved in this month's survey. The economic expectations for Turkey have slightly improved by 3.0 points to a level of minus 15.0 points. The indicator of the assessment of the current economic situation has increased by 9.8 points to a level of 35.8 points. The indicator of experts' assessment of the current situation thus remains at the highest level among all surveyed economies. The decrease of the inflation concerns for Turkey has continued in July. The indicator has dropped by 10.6 points to 40.4 points. In line with this result, more than 60 per cent of the survey participants expect increasing interest rates in Turkey on a six-month time horizon. Nevertheless, the indicator of inflation expectations for Turkey displays the highest level among all considered economies. The indicator reflecting the expected stock market development has remained almost unchanged. Almost half of the respondents (48 per cent) have anticipated an improvement in the ISE-100 within the next six months.

Special Topic: Experts' Sentiments and the CEE Stock Markets



Within the scope of the financial market survey we monthly provide a snapshot of the development of experts' economic and stock market expectations - their sentiments. Therefore this month we take a look at the importance of sentiment indicators – do they attract the attention of market participants at all and why is it so? In order to gain insights on the use and importance of sentiment indicators we asked financial market experts what measures do they regularly track on the stock market. Thereby we asked the participants to focus on stock market indices they most closely track. Not surprisingly, the majority of our experts (69.1 per cent) most frequently get informed about CEE stock market indices. Beside the basic index measures – index level and daily return, experts acknowledge the importance of being informed about trading volumes and sentiment indicators. More than half of the experts reveal that they often or even on a daily basis keep up to date on the development of sentiment indicators. A minority of 11.9 per cent ignores sentiment indicators for the stock market. For comparison, indicators such as realised volatility or implied volatility are often or daily tracked by roughly one-third of the experts.



Why is it that market participants and research analysts pay attention on sentiment indicators? The question is frequently addressed in academic literature as academic scholars as well as practitioners acknowledge that financial markets are made out of people, so subjective expectations inevitably play an important role for the market development. Studies across international stock markets for instance repeatedly evidence a significant reaction of stock market returns on announcement of sentiment indicators. Sentiments are not only argued to have an impact on excess stock market returns but also on volatility of returns. Empirical evidence across international stock markets shows that in times, when optimistic (bullish) expectations prevail, market returns stabilize. In contrast, in times of pessimistic (bearish) stock market expectations returns seem to get more volatile. The finding is illustrated for the case of the CEE stock market on Figure B+C. Although it is still debatable whether it is the bearish sentiments which cause high volatility or the high volatility which makes experts pessimistic, getting informed about investors' sentiments is the first step in understanding their reactions. In the end it is investors' reactions which trigger price development.

Zwetelina Iliewa

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

Current economic situation	good		acceptable (normal)		bad		balance									
Austria	31,3	(+8,7)	65,6	(-8,6)	3,1	(-0,1)	28,2	(+8,8)								
Croatia	11,7	(+5,6)	61,8	(-10,9)	26,5	(+5,3)	-14,8	(+0,3)								
Czech Republic	27,0	(+4,8)	70,3	(-4,7)	2,7	(-0,1)	24,3	(+4,9)								
Hungary	5,5	(+0,1)	55,6	(+1,5)	38,9	(-1,6)	-33,4	(+1,7)								
Poland	33,4	(-1,9)	58,3	(-0,5)	8,3	(+2,4)	25,1	(-4,3)								
Romania	9,4	(-0,3)	53,1	(-1,7)	37,5	(+2,0)	-28,1	(-2,3)								
Slovakia	25,0	(+5,0)	69,4	(-2,0)	5,6	(-3,0)	19,4	(+8,0)								
Turkey	41,5	(+3,5)	52,8	(+2,8)	5,7	(-6,3)	35,8	(+9,8)								
CEE (incl. Turkey)	18,0	(+4,0)	76,9	(+0,2)	5,1	(-4,2)	12,9	(+8,2)								
Eurozone	8,1	(-0,2)	59,2	(-9,6)	32,7	(+9,8)	-24,6	(-10,0)								
Economic expectations	improve		no change		worsen		balance									
Austria	21,2	(-8,8)	48,5	(+5,2)	30,3	(+3,6)	-9,1	(-12,4)								
Croatia	30,3	(-15,2)	51,5	(+18,2)	18,2	(-3,0)	12,1	(-12,2)								
Czech Republic	26,4	(-11,9)	47,1	(+8,9)	26,5	(+3,0)	-0,1	(-14,9)								
Hungary	33,4	(-18,1)	47,2	(+15,8)	19,4	(+2,3)	14,0	(-20,4)								
Poland	31,4	(+0,2)	42,9	(-7,1)	25,7	(+6,9)	5,7	(-6,7)								
Romania	42,4	(-9,2)	36,4	(+13,8)	21,2	(-4,6)	21,2	(-4,6)								
Slovakia	22,2	(-16,1)	55,6	(+17,4)	22,2	(-1,3)	0,0	(-14,8)								
Turkey	20,8	(+0,8)	43,4	(+1,4)	35,8	(-2,2)	-15,0	(+3,0)								
CEE (incl. Turkey)	20,6	(-4,4)	53,8	(+6,3)	25,6	(-1,9)	-5,0	(-2,5)								
Eurozone	16,6	(-2,6)	41,7	(-5,1)	41,7	(+7,7)	-25,1	(-10,3)								
Inflation rate	increase		no change		decrease		balance									
Austria	33,3	(-18,3)	45,5	(+10,0)	21,2	(+8,3)	12,1	(-26,6)								
Croatia	45,4	(-4,6)	45,5	(+7,3)	9,1	(-2,7)	36,3	(-1,9)								
Czech Republic	37,2	(-7,2)	51,4	(+1,4)	11,4	(+5,8)	25,8	(-13,0)								
Hungary	27,1	(-2,7)	45,9	(+2,7)	27,0	(+/-0,0)	0,1	(-2,7)								
Poland	31,4	(-15,7)	45,7	(+16,3)	22,9	(-0,6)	8,5	(-15,1)								
Romania	18,7	(-15,6)	43,8	(+9,4)	37,5	(+6,2)	-18,8	(-21,8)								
Slovakia	46,0	(-8,2)	35,1	(-7,8)	18,9	(+16,0)	27,1	(-24,2)								
Turkey	50,0	(-11,2)	40,4	(+11,8)	9,6	(-0,6)	40,4	(-10,6)								
CEE (incl. Turkey)	41,0	(-9,0)	48,7	(+6,2)	10,3	(+2,8)	30,7	(-11,8)								
Eurozone	28,6	(-11,0)	57,1	(+9,2)	14,3	(+1,8)	14,3	(-12,8)								
Short-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	25,0	(-26,9)	29,2	(+12,5)	67,9	(+27,2)	45,8	(-12,5)	7,1	(-0,3)	25,0	(+/-0,0)	17,9	(-26,6)	4,2	(+12,5)
Czech Republic	76,7	(-0,7)	33,4	(+4,8)	20,0	(+0,6)	40,7	(-9,3)	3,3	(+0,1)	25,9	(+4,5)	73,4	(-0,8)	7,5	(+0,3)
Hungary	18,7	(-15,6)	13,8	(+3,8)	68,8	(+12,5)	27,6	(-12,4)	12,5	(+3,1)	58,6	(+8,6)	6,2	(-18,7)	-44,8	(-4,8)
Poland	60,0	(-21,3)	26,0	(+4,6)	36,7	(+21,1)	40,7	(-20,0)	3,3	(+0,2)	33,3	(+15,4)	56,7	(-21,5)	-7,3	(-10,8)
Romania	42,3	(-14,9)	26,1	(-1,9)	46,2	(+10,5)	34,8	(-9,2)	11,5	(+4,4)	39,1	(+11,1)	30,8	(-19,3)	-13,0	(-13,0)
Turkey	65,2	(-7,6)	46,5	(-2,3)	32,6	(+0,4)	41,9	(+16,3)	2,2	(-2,3)	11,6	(-14,0)	63,0	(-5,3)	34,9	(+11,7)
Eurozone	73,4	(-6,6)			22,2	(+4,4)			4,4	(+2,2)			69,0	(-8,8)		
Long-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	30,8	(-13,2)	26,9	(-9,1)	42,3	(-1,7)	34,6	(-5,4)	26,9	(+14,9)	38,5	(+14,5)	3,9	(-28,1)	-11,6	(-23,6)
Czech Republic	78,6	(+12,0)	32,1	(+2,1)	14,3	(-12,4)	53,6	(-6,4)	7,1	(+0,4)	14,3	(+4,3)	71,5	(+11,6)	17,8	(-2,2)
Hungary	32,3	(+5,6)	29,0	(+12,4)	29,0	(-1,0)	22,6	(-4,1)	38,7	(-4,6)	48,4	(-8,3)	-6,4	(+10,2)	-19,4	(+20,7)
Poland	60,0	(+3,3)	41,4	(+11,4)	23,3	(-10,0)	31,0	(-5,7)	16,7	(+6,7)	27,6	(-5,7)	43,3	(-3,4)	13,8	(+17,1)
Slovakia	37,9	(-17,3)	27,6	(+2,6)	27,6	(+/-0,0)	24,1	(-18,8)	34,5	(+17,3)	48,3	(+16,2)	3,4	(-34,6)	-20,7	(-13,6)
Turkey	65,2	(+4,8)	59,1	(+0,1)	23,9	(-8,7)	27,3	(+9,4)	10,9	(+3,9)	13,6	(-9,5)	54,3	(+0,9)	45,5	(+9,6)
Germany	69,4	(+11,8)			25,0	(-8,3)			5,6	(-3,5)			63,8	(+15,3)		
Stock market indices	increase		no change		decrease		balance									
EURO STOXX 50	39,5	(-10,5)			31,6	(+9,4)			28,9	(+1,1)			10,6	(-11,6)		
ATX (Austria)	44,9	(-8,7)			31,0	(+9,6)			24,1	(-0,9)			20,8	(-7,8)		
NTX (CEE)	42,8	(-13,5)			28,6	(+13,0)			28,6	(+0,5)			14,2	(-14,0)		
CROBEX (Croatia)	34,3	(-20,5)			43,8	(+21,2)			21,9	(-0,7)			12,4	(-19,8)		
PX 50 (Czech Rep.)	46,6	(-10,1)			26,7	(+6,7)			26,7	(+3,4)			19,9	(-13,5)		
BUX (Hungary)	46,9	(-14,3)			28,1	(+8,7)			25,0	(+5,6)			21,9	(-19,9)		
WIG (Poland)	51,6	(-10,5)			22,6	(+5,4)			25,8	(+5,1)			25,8	(-15,6)		
BET (Romania)	48,3	(-11,0)			31,0	(+8,8)			20,7	(+2,2)			27,6	(-13,2)		
SAX (Slovakia)	34,5	(-17,2)			41,4	(+13,8)			24,1	(+3,4)			10,4	(-20,6)		
ISE-100 (Turkey)	48,0	(-5,2)			32,0	(+12,9)			20,0	(-7,7)			28,0	(+2,5)		
Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance									
Kuna (Croatia)	18,8	(+/-0,0)			40,6	(-25,0)			40,6	(+25,0)			-21,8	(-25,0)		
Koruna (Czech Rep.)	52,8	(+4,3)			33,3	(-9,6)			13,9	(+5,3)			38,9	(-1,0)		
Forint (Hungary)	36,1	(+8,3)			38,9	(-13,9)			25,0	(+5,6)			11,1	(+2,7)		
Zloty (Poland)	63,9	(-0,8)			19,4	(-1,2)			16,7	(+2,0)			47,2	(-2,8)		
Lei (Romania)	53,4	(+13,4)			23,3	(-16,7)			23,3	(+3,3)			30,1	(+10,1)		
Lira (Turkey)	31,4	(-1,9)			35,3	(+4,2)			33,3	(-2,3)			-1,9	(+0,4)		
US-Dollar	36,0	(-18,3)			34,0	(+14,4)			30,0	(+3,9)			6,0	(-22,2)		

Note: 74 Financial market experts, 22 from which from Turkey, participated in the July survey which was conducted during the period 07/04/11-07/18/11. 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 June 2011 in parentheses). Balances refer to the differences between positive and negative assessments.