

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 2, 2012 and July 16, 2012, are published in the August 2012 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 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 Decline

The economic expectations for Central and Eastern Europe including Turkey (CEE region) on a six-month time horizon have worsened in July. The respective indicator has decreased by 7.6 points to minus 7.6 points. The largest decrease of expectations is observed for the respective sentiment indicators for Croatia and Slovakia. The evaluation of the current economic situation in the CEE region has slightly declined in the current survey. The respective indicator has dropped by 2.6 points to a level of minus 2.7 points. The economic expectations for the Eurozone within the next six months have risen by 4.0 points to minus 6.1

points. The assessment of the current business cycle in the Eurozone has remained largely unchanged at a level of minus 68.0 points after a decrease by 1.3 points. The indicator reflecting the economic expectations for Austria within the next six months has worsened by 6.1 points and has thereby reached a balanced level of 0.0 points. The evaluation of the current economic situation in Austria has improved by 5.4 points to 11.1 points.

Economic Outlook for the CEE Region, Austria and the Eurozone

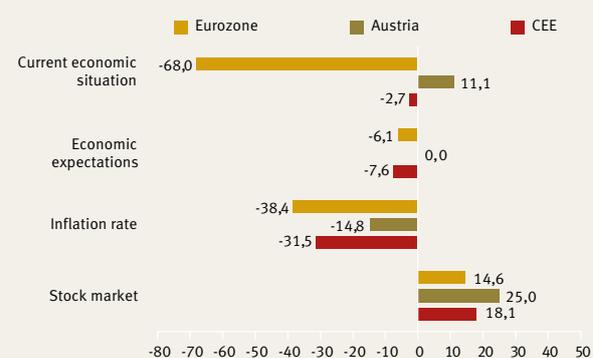
The ZEW-Erste Group Bank Economic Sentiment Indicator for Central and Eastern Europe including Turkey (CEE), which is calculated as the balance of positive and negative assessments of the economic development on a six-month time horizon, has decreased by 7.6 points to a level of minus 7.6 points in July. The indicator thereby displays a negative value for the first time after four consecutive months. Revision is however observed in the expectations of both pessimists and optimists in direction of neutral (no change) expectations. Overall, roughly one-fourth of the experts have revised their expectations to neutral (no change) in July. Economic expectations for the Eurozone have slightly improved by 4.0 points to a level of minus 6.1 points this month. In contrast the respective indicator for Austria has deteriorated by 6.1 points and has reached the balanced 0.0 points-mark. Experts' assessment of the current economic situation in the CEE region and the Eurozone has remained almost unchanged after a slight decrease by 2.6 points and 1.3 points respectively. In contrast the respective indicator for Austria has slightly improved by 5.4 points to a level of 11.1 points.

Inflation concerns for the CEE region have been largely relaxed in July as indicated by a major decrease by 26.4 points of the respective indicator. Roughly half of the surveyed participants expect the inflation rates in the region to decrease over the next six months. Analogous expectations are displayed by the respective indicator for the Eurozone. The indicator has de-

creased by 9.3 points in July to a level of minus 38.4 points. The inflation rate in Austria is expected to remain rather unchanged by half of the participants. The respective indicator has remained almost unchanged at a level of minus 14.8 points.

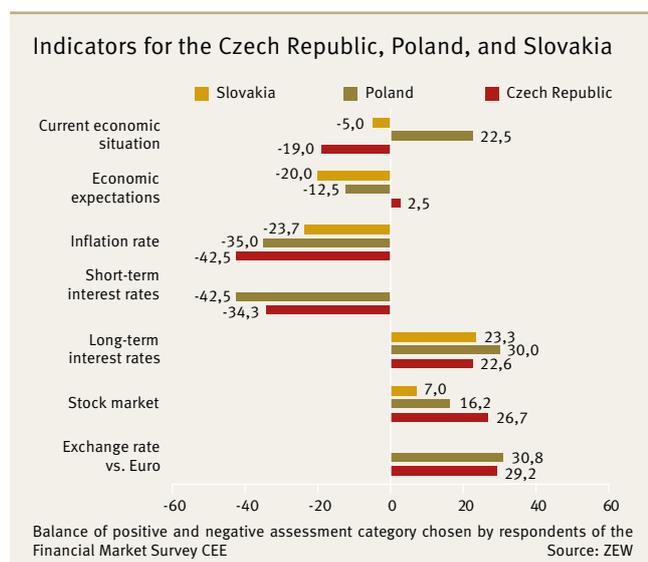
A bullish revision is observed in experts' expectations on the Austrian stock market index ATX. The respective sentiment indicator has increased by 15.3 points this month. The respective sentiment indicator for the CEE stock market index NTX displays a slight bearish revision of expectations by 5.7 points.

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: Bullish Stock Market Revision



Economic expectations for the Czech Republic and Poland remain almost unchanged in July. The respective indicators have slightly decreased by 2.4 points and 2.9 points respectively to levels of 2.5 points and minus 12.5 points respectively. The respective indicator for Slovakia has displayed a double digit decrease by 12.0 points to a level of minus 20.0 points – the lowest level among all surveyed economies. Experts' assessment on the current economic situation in the Czech Republic and Poland has remained largely unchanged at levels of minus 19.0 points and 22.5 points respectively. The respective indicator for Slovakia has displayed a double digit decrease by 10.2 points to a level of minus 5.0 points.

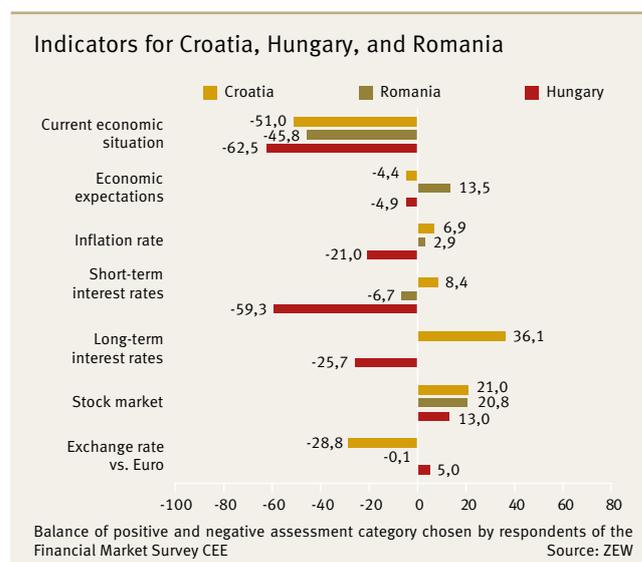
Inflation concerns for the Czech Republic and Poland have been further relaxed in July. The respective indicators of inflation rate expectations have dropped by 16.3 points and 12.0 points in this month's survey. In contrast, the respective indicator for Slovakia has increased by 6.8 points to a level of minus 23.7 points.

Expectations on the short-term interest rates in Poland have decreased in July. Subsequent to the decision of the Polish central bank in the beginning of July to leave key interest rates unchanged, 15 per cent of the surveyed financial market experts have revised their expectations to a forecasted decrease of interest rates within the next six months. Interest rates in Poland are also expected to decrease in relative terms as compared to the short-term rate in the Eurozone. Expectations on the development of the Polish Zloty revealed an upwards revision by 5.2 points in July.

The expected appreciation of the Polish Zloty is in line with the expected decrease of the interest rate differential between Poland and the Eurozone according to the uncovered interest rate parity.

Bullish revision of stock market expectations for the Czech PX 50 and Slovakian SAX is displayed in the survey responses this month. The respective indicators have increased by 7.3 points and 10.3 points respectively. Expectations on the Polish WIG remain almost unchanged at a level of 16.2 points

Croatia, Hungary and Romania: Economic Sentiments Deteriorate

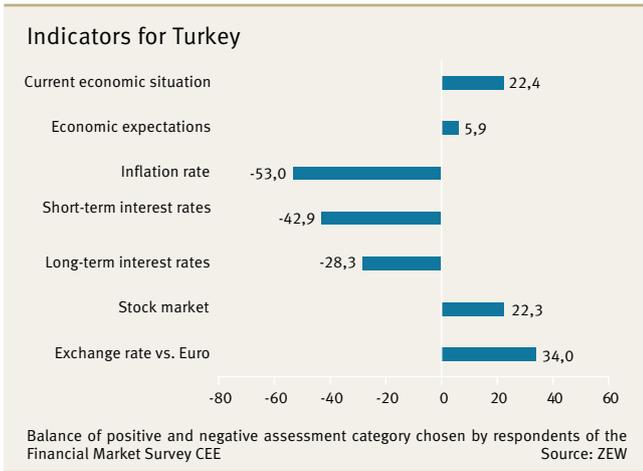


Economic expectations have decreased for all three countries - Croatia, Hungary and Romania. The respective indicators have fallen by 17.6 points, 4.8 points and 9.7 points to levels of minus 4.4 points, minus 4.9 points, and 13.5 points. The indicator for Romania thereby displays the highest value among all considered economies. Experts' assessment of the current economic situation has also decreased for Croatia by 7.4 points to a level of minus 51.0 points. The indicator for Romania has remained almost unchanged at a level of minus 45.8 points. The respective indicator for Hungary has slightly increased by 5.9 points, however, the indicator displays a value of minus 62.5 points which is the lowest value among all surveyed economies.

Inflation concerns have decreased for all three economies - Croatia, Hungary and Romania. The respective indicators of inflation rate expectations on a six months' time horizon have fallen by 21.4 points, 18.5 points and 16.1 points to levels of 6.9 points, minus 21 points and 2.9 points. Inflation concerns in Croatia and Romania are at the highest values among all considered economies. The indicator of expected short-term interest rates in Croatia displays with 8.4 points the only positive value/balance among the surveyed countries, even though it has fallen by 17.3 points this month. A major decrease by 39.2 points is displayed by the respective indicator for Hungary which currently stands at minus 59.3 points and thereby the by far lowest level among all surveyed economies. The respective indicator for Romanian short-term interest rates has also decreased by 22.2 points after the double digit increase last month and is now at a level of minus 6.7 points.

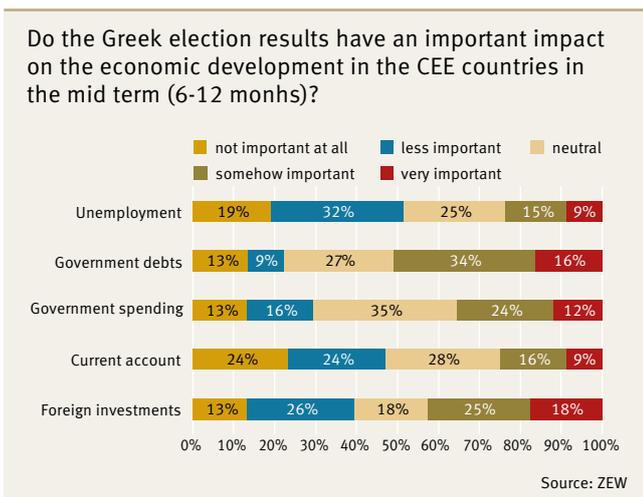
After last month's bearish revision stock market expectations for the Croatian CROBEX have increased by 3.0 points in July to a level of 21.0 points. The indicator for the Romanian BET and the Hungarian BUX have remained almost unchanged at a level of 20.8 points and 13.0 points respectively. Exchange rate expectations have worsened this month for Croatia and Romania. The respective indicators are have fallen by 2.6 points and 5.7 points to levels of minus 28.8 points and minus 0.1 points.

Turkey: Decreased Inflation Rate Expectations



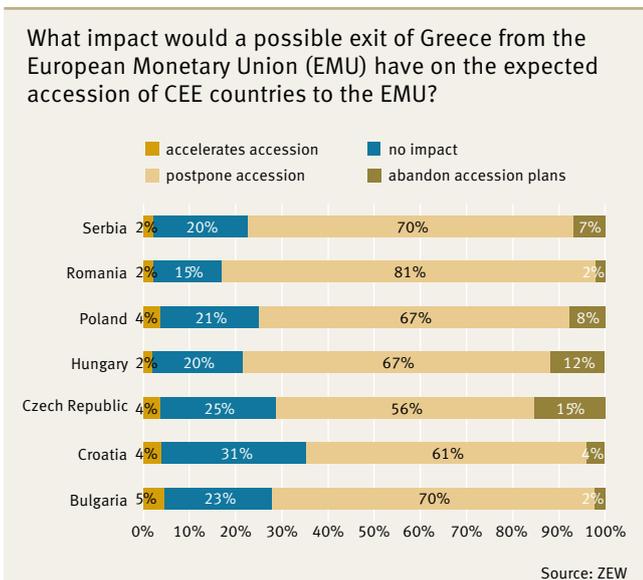
Economic expectations for Turkey have slightly decreased by 3.2 points in July. The respective indicator thereby remains in positive territory at a level of 5.9 points. Experts' assessment of the current economic situation has improved by 8.2 points in July. The indicator thereby displays the second highest level of 22.4 points among all surveyed economies. Inflation rate expectations have further decreased in July by 16.6 points. The respective indicator thereby stands at minus 53.0 points – the by far lowest level among all surveyed economies. Expectations on the short-term interest rates have decreased in July by 22.5 points to a level of minus 42.9 points. Short-term rates are also expected to decrease relative to the Eurozone interest rates. The respective indicator has decreased by 12.7 points in July. Expectations on the Turkish stock market index ISE-100 reveal a bearish revision in July. The respective indicator has dropped by 5.7 points.

Special Question: Impact of Election Results in Greece on the CEE Region



This month's special question deals with the impact of the parliamentary elections in Greece last month. The parliamentary elections were widely seen as a last chance for the country to remain in the Eurozone and have resulted in a rally on world financial markets. The special question in July therefore asks financial market experts to assess the impact of the elections on the CEE region particularly. Experts were further asked to assess whether the widely discussed scenario of an exit of Greece from the European Monetary Union will make the CEE countries, which are scheduled to join the Eurozone, change their accession plans.

The parliamentary election in Greece is expected to be important or very important for government debt and foreign investments in the countries of the CEE region in the mid-term (6 to 12 months). This opinion is shared by the majority of 51 per cent and 43 per cent of the experts respectively. The vote is expected to shape government debt and foreign investments in the CEE countries also on a longer time horizon up to three years. In contrast, the majority of experts (40 per cent and 47 per cent respectively) do not see a direct link between the election results in Greece and unemployment or current account of the CEE countries. On a long-term (1-3 years) the election results are expected to have an impact on government spending in the CEE countries. This is the opinion of roughly half of the participants. However, only one-third expect the governments to adjust spending faster, on a 6 to 12 months horizon.



All CEE countries are expected to postpone their planned accession in case Greece would exit the European Monetary Union. The largest majority is thereby displayed in the responses for Romania – 80 per cent of the surveyed participants foresee a postponement if this scenario would occur. For the Czech Republic 15.4 per cent of the experts even predict that a possible exit of Greece will lead the country to completely abandon its accession target. Such reaction is also expected from the Hungarian government by 11.8 per cent of the experts. Roughly one-third of the experts would not expect Croatia to change its accession plans in case of an exit of Greece. Roughly one-fourth of the surveyed participants share the same opinion for Bulgaria.

Zwetelina Iliewa

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

Current economic situation	good		acceptable (normal)		bad		balance									
Austria	22,2	(+7,9)	66,7	(-10,4)	11,1	(+2,5)	11,1	(+5,4)								
Croatia	6,4	(+1,3)	36,2	(-10,0)	57,4	(+8,7)	-51,0	(-7,4)								
Czech Republic	14,3	(+5,0)	52,4	(-10,4)	33,3	(+5,4)	-19,0	(-0,4)								
Hungary	2,5	(-2,3)	32,5	(+10,5)	65,0	(-8,2)	-62,5	(+5,9)								
Poland	25,0	(-4,3)	72,5	(+9,1)	2,5	(-4,8)	22,5	(+0,5)								
Romania	2,8	(-2,5)	48,6	(+3,9)	48,6	(-1,4)	-45,8	(-1,1)								
Slovakia	12,5	(-5,9)	70,0	(+1,6)	17,5	(+4,3)	-5,0	(-10,2)								
Turkey	26,5	(+6,9)	69,4	(-5,6)	4,1	(-1,3)	22,4	(+8,2)								
CEE (incl. Turkey)	5,4	(-4,3)	86,5	(+6,0)	8,1	(-1,7)	-2,7	(-2,6)								
Eurozone	2,0	(-1,9)	28,0	(+2,5)	70,0	(-0,6)	-68,0	(-1,3)								
Economic expectations	improve		no change		worsen		balance									
Austria	14,3	(-13,0)	71,4	(+19,9)	14,3	(-6,9)	0,0	(-6,1)								
Croatia	21,7	(-9,9)	52,2	(+2,2)	26,1	(+7,7)	-4,4	(-17,6)								
Czech Republic	22,0	(-7,3)	58,5	(+12,2)	19,5	(-4,9)	2,5	(-2,4)								
Hungary	24,4	(-6,5)	46,3	(+8,2)	29,3	(-1,7)	-4,9	(-4,8)								
Poland	12,5	(-8,9)	62,5	(+14,9)	25,0	(-6,0)	-12,5	(-2,9)								
Romania	27,0	(-14,1)	59,5	(+18,5)	13,5	(-4,4)	13,5	(-9,7)								
Slovakia	7,5	(-16,9)	65,0	(+21,8)	27,5	(-4,9)	-20,0	(-12,0)								
Turkey	21,6	(-7,5)	62,7	(+11,8)	15,7	(-4,3)	5,9	(-3,2)								
CEE (incl. Turkey)	10,3	(-15,3)	71,8	(+23,0)	17,9	(-7,7)	-7,6	(-7,6)								
Eurozone	18,4	(-8,2)	57,1	(+20,4)	24,5	(-12,2)	-6,1	(+4,0)								
Inflation rate	increase		no change		decrease		balance									
Austria	17,6	(-3,6)	50,0	(+4,5)	32,4	(-0,9)	-14,8	(-2,7)								
Croatia	32,5	(-13,7)	41,9	(+6,0)	25,6	(+7,7)	6,9	(-21,4)								
Czech Republic	10,0	(-4,3)	37,5	(-7,7)	52,5	(+12,0)	-42,5	(-16,3)								
Hungary	23,7	(-13,8)	31,6	(+9,1)	44,7	(+4,7)	-21,0	(-18,5)								
Poland	13,6	(-4,4)	37,8	(-3,2)	48,6	(+7,6)	-35,0	(-12,0)								
Romania	34,3	(-11,7)	34,3	(+7,3)	31,4	(+4,4)	2,9	(-16,1)								
Slovakia	15,8	(-0,9)	44,7	(+8,6)	39,5	(-7,7)	-2,7	(+6,8)								
Turkey	14,3	(-3,1)	18,4	(-10,4)	67,3	(+13,5)	-53,0	(-16,6)								
CEE (incl. Turkey)	17,1	(-6,0)	34,3	(-14,4)	48,6	(+20,4)	-31,5	(-26,4)								
Eurozone	12,7	(-4,0)	36,2	(-1,3)	51,1	(+5,3)	-38,4	(-9,3)								
Short-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	19,5	(-20,5)	32,3	(-16,0)	69,4	(+23,7)	67,7	(+26,3)	11,1	(-3,2)	0,0	(-10,3)	8,4	(-17,3)	32,3	(-5,7)
Czech Republic	6,3	(-16,5)	13,8	(-11,2)	53,1	(+18,8)	62,1	(+22,8)	40,6	(-2,3)	24,1	(-11,6)	-34,3	(-14,2)	-10,3	(+0,4)
Hungary	6,3	(-16,5)	7,1	(-22,6)	28,1	(-6,2)	42,9	(+20,7)	65,6	(+22,7)	50,0	(+1,9)	-59,3	(-39,2)	-42,9	(-24,5)
Poland	6,0	(-13,5)	20,7	(-18,6)	45,5	(-1,7)	41,4	(+12,8)	48,5	(+15,2)	37,9	(+5,8)	-42,5	(-28,7)	-17,2	(-24,4)
Romania	23,3	(-11,0)	34,6	(-9,4)	46,7	(-0,2)	46,2	(+2,2)	30,0	(+11,2)	19,2	(+7,2)	-6,7	(-22,2)	15,4	(-16,6)
Turkey	11,9	(-6,3)	10,9	(-13,5)	33,3	(-9,9)	45,9	(+13,5)	54,8	(+16,2)	43,2	(+0,0)	-42,9	(-22,5)	-32,3	(-13,5)
Eurozone	7,1	(-8,8)			66,7	(+9,9)			26,2	(-1,1)			-19,1	(-7,7)		
Long-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	47,2	(-6,9)	45,7	(+2,3)	41,7	(+9,3)	42,9	(+9,6)	11,1	(-2,4)	11,4	(-11,9)	36,1	(-4,5)	34,3	(+14,2)
Czech Republic	38,7	(-4,5)	17,3	(+0,7)	45,2	(-6,2)	51,7	(+15,0)	16,1	(+10,7)	31,0	(-15,7)	22,6	(-15,2)	-13,7	(+16,4)
Hungary	29,1	(-9,8)	17,3	(-20,7)	16,1	(-6,1)	17,2	(+13,8)	54,8	(+15,9)	65,5	(+6,9)	-25,7	(-25,7)	-48,2	(-27,6)
Poland	40,0	(-4,5)	27,6	(+0,0)	50,0	(+5,6)	44,8	(+13,8)	10,0	(-1,1)	27,6	(-13,8)	30,0	(-3,4)	0	(+13,8)
Slovakia	43,3	(-2,1)	31,0	(+12,4)	36,7	(-8,8)	48,3	(+7,6)	20,0	(+10,9)	20,7	(-20,0)	23,3	(-13,0)	10,3	(+32,4)
Turkey	17,9	(+0,1)	19,0	(+0,6)	35,9	(-4,1)	37,8	(+11,5)	46,2	(+4,0)	43,2	(-12,1)	-28,3	(-3,9)	-24,2	(+12,7)
Germany	54,1	(-5,4)			37,8	(+0,0)			8,1	(+5,4)			46,0	(-10,8)		
Stock market indices	increase		no change		decrease		balance									
EURO STOXX 50	47,0	(+1,7)	20,6	(+1,6)	32,4	(-3,3)	14,6	(+5,0)								
ATX (Austria)	50,0	(+1,6)	25,0	(+12,1)	25,0	(-13,7)	25,0	(+15,3)								
NTX (CEE)	45,4	(-7,3)	27,3	(+8,9)	27,3	(-1,6)	18,1	(-5,7)								
CROBEX (Croatia)	44,7	(-1,5)	31,6	(+6,0)	23,7	(-4,5)	21,0	(+3,0)								
PX 50 (Czech Rep.)	50,0	(+0,0)	26,7	(+7,3)	23,3	(-7,3)	26,7	(+7,3)								
BUX (Hungary)	42,0	(-3,7)	29,0	(+9,0)	29,0	(-5,3)	13,0	(+1,6)								
WIG (Poland)	45,2	(-7,6)	25,8	(+14,7)	29,0	(-7,1)	16,2	(-0,5)								
BET (Romania)	51,8	(-2,8)	17,2	(+5,1)	31,0	(-2,3)	20,8	(-0,5)								
SAX (Slovakia)	31,1	(+2,1)	44,8	(+6,1)	24,1	(-8,2)	7,0	(+10,3)								
ISE-100 (Turkey)	46,7	(-5,3)	28,9	(+4,9)	24,4	(+0,4)	22,3	(-5,7)								
Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance									
Kuna (Croatia)	15,6	(+5,0)	40,0	(-12,6)	44,4	(+7,6)	-28,8	(-2,6)								
Koruna (Czech Rep.)	46,3	(-3,7)	36,6	(+2,4)	17,1	(+1,3)	29,2	(-5,0)								
Forint (Hungary)	40,0	(+1,5)	25,0	(-0,6)	35,0	(-0,9)	5,0	(+2,4)								
Zloty (Poland)	51,3	(+2,6)	28,2	(+0,0)	20,5	(-2,6)	30,8	(+5,2)								
Lei (Romania)	28,5	(+0,0)	42,9	(-5,7)	28,6	(+5,7)	-0,1	(-5,7)								
Lira (Turkey)	54,0	(+5,0)	26,0	(-8,7)	20,0	(+3,7)	34,0	(+1,3)								
US-Dollar	54,4	(-1,4)	21,7	(-3,3)	23,9	(+4,7)	30,5	(-6,1)								

Note: 85 Financial market experts, 19 from which from Turkey, participated in the July survey which was conducted during the period 07/02/12-07/16/12. 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 June 2012 in parentheses). Balances refer to the differences between positive and negative assessments.

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