

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 August 08, 2011 and August 22, 2011, are published in the September 2011 issue of the "Financial Market Report CEE". 70 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 Deteriorate

The economic expectations for Central and Eastern Europe including Turkey (CEE region) on a six-month time horizon have worsened in August. The respective indicator has dropped by 21.4 points to 26.4 points. The major decrease of experts' optimism is likely to reflect the increasing concerns regarding the Eurozone's economic prospects. The economic expectations for the Eurozone have decreased by 16.7 points to minus 41.8 points. The evalua-

tion of the current economic situation in the CEE region has also declined in the current survey by 10.1 points to 2.8 points. The assessment of the current situation in the Eurozone has declined by 14.6 points to minus 39.2 points. The indicator reflecting the economic expectations for Austria has dropped by 16.6 points to minus 25.7 points. The evaluation of the current situation in Austria has worsened by 8.3 points to 19.9 points.

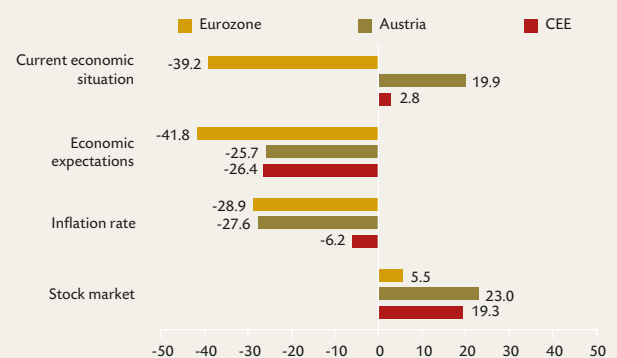
Economic Outlook for the CEE Region, Austria and the Eurozone

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 worsened by 21.4 points to minus 26.4 points in August. The respective indicator for the Eurozone has also decreased by 16.7 points to a level of minus 41.8 points. This is the third consecutive decrease of the indicators of both regions (CEE and the Eurozone). Whereas for the CEE region the majority of experts (50 per cent) retain neutral economic expectations, for the Eurozone 55 per cent are rather pessimistic. The major decrease of experts' optimism for the CEE region is likely to be a result of the increasing concerns regarding the Eurozone's economic prospects as the Eurozone is key driver of growth for the region. The deterioration of sentiments also reflects the increasing uncertainty on the financial markets. The indicator of economic expectations for Austria has also decreased by 16.6 points to a level of minus 25.7 points.

The experts' assessment of the current economic situation has worsened in August. The respective indicator for the CEE region has dropped by 10.1 points to 2.8 points. Nevertheless, the level of the indicator is above its historical mean of minus 0.5 points. The respective indicator for the Eurozone has dropped by 14.6 points to minus 39.2 points. The respective indicator for Austria has displayed a slight decrease by 8.3 points. Inflation concerns have decreased significantly in all

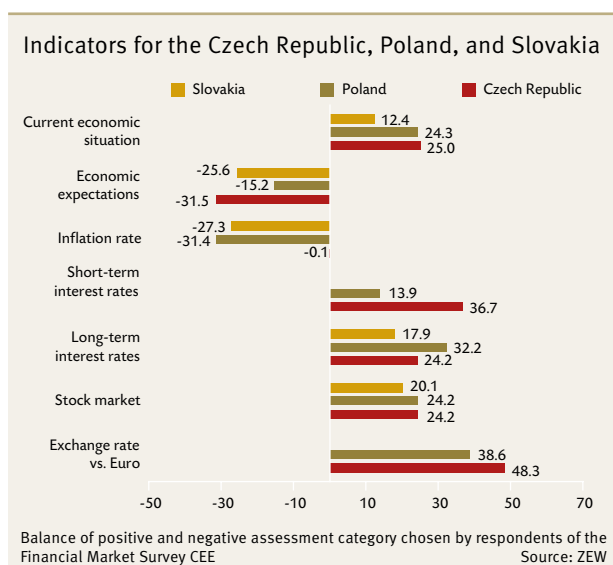
three economies – CEE, Eurozone and Austria. The indicators of inflation concern display negative values for the first time in almost two years. For the Eurozone, more than a quarter of the participants have revised their inflation concerns forcing the respective indicator to drop by 43.2 points to minus 28.9 points. Changes are expected on the stock markets in the next six months. However, experts' sentiments for the stock market indices EURO STOXX 50, ATX and NTX are split between bullish and bearish.

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: Interest Rates on Hold

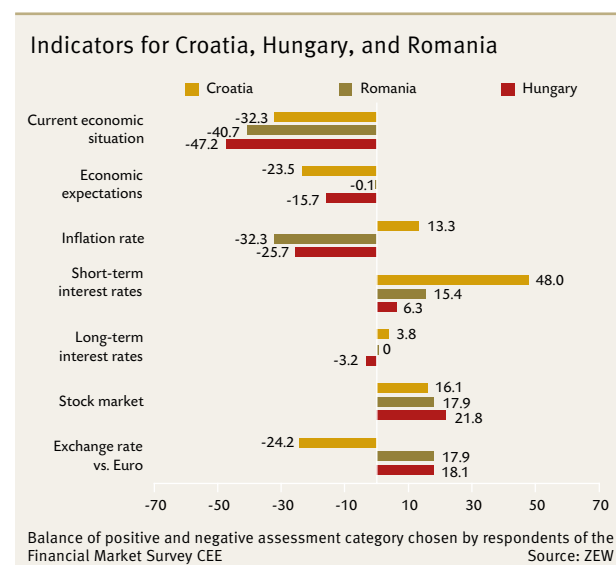


Deteriorated economic sentiments are displayed by the survey responses for the Czech Republic, Poland and Slovakia as well. The respective indicators of economic expectations on a six-month time horizon have decreased this month by 31.4 points, 20.9 points and 25.6 points respectively. All three indicators are at their lowest levels since March 2009. In contrast, the indicators of experts' assessment on the current situation remain almost unchanged for the Czech Republic and Poland and display an only slight decrease by 7.0 points for Slovakia. The indicators of the current situation in the Czech Republic and Poland remain at the highest levels among all surveyed economies – 25.0 points and 24.3 points respectively.

In line with the decreased economic expectations financial market experts have revised their inflation concerns downwards. The indicators of expected inflation rate in the Czech Republic, Poland and Slovakia have displayed major decreases by 25.9 points, 39.9 points and 54.4 points respectively. The three indicators are below their respective historical average and have displayed negative levels for the first time for almost two years. As a result of the blurred economic expectations in the Czech Republic and Poland, financial market experts seem to have revised their expectations on Central Banks' monetary policies. Whereas in the previous survey the majority of respondents clearly expected a short-term rate increase, in this months' survey a majority of 63.3 per cent and 65.5 per cent respectively rather expect the short-term interest rates to remain unchanged at least in the next six months.

Regarding the stock market indices in the Czech Republic (PX 50) and Slovakia (SAX) bullish expectations are strengthened. The respective indicators of experts' expectations for the stock market indices have increased by 4.3 points and 9.7 points and remain at comparably high levels of 24.2 points and 20.1 points. The decrease of the Polish WIG in August has led more experts to expect changes in the index in the next months. Due to increased disagreement in experts' sentiments, the indicator has remained almost unchanged.

Croatia, Hungary and Romania: Current Situation Worsened

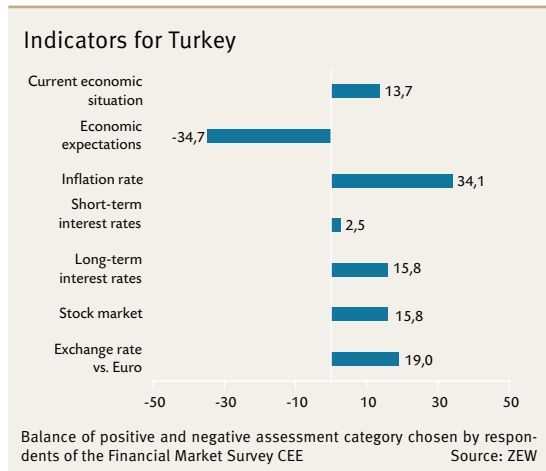


The indicators of economic expectations on a six-month basis for Croatia, Hungary and Romania have decreased by 35.6 points, 29.7 points and 21.3 points respectively. The indicator for Croatia displays the largest decrease among all surveyed economies. The indicators for Croatia and Hungary have thus reached levels of minus 23.5 points and minus 15.7 points respectively and are thus far below their historical means at 5.0 points and 16.3 points respectively. In contrast, the indicator for Romania is with minus 0.1 points only slightly below its historical mean of 2.5 points. The indicators of experts' assessment of the current economic situation have decreased in August in Croatia, Hungary and Romania by 17.5 points, 13.8 points and 12.8 points respectively. With a percentage of participants assessing the situation as good below 5 per cent the indicators for Croatia, Hungary and Romania display the lowest levels among almost all surveyed economies.

In line with the deteriorating economic expectations experts' inflation concerns have further eased in August. The respective indicators of for Croatia, Hungary and Romania on a six-month time horizon have decreased by 23.0 points, 25.8 points and 13.5 points respectively. For Croatia almost one third of the experts still expect the inflation rate to increase. In line with this result the indicators of short-term interest rate expectations has increased in both absolute and relative terms (relative to the Eurozone short-term interest rates). For Hungary and Romania a majority of 62.5 per cent and 53.8 per cent rather expect the short-term interest rates to remain unchanged in the next six months.

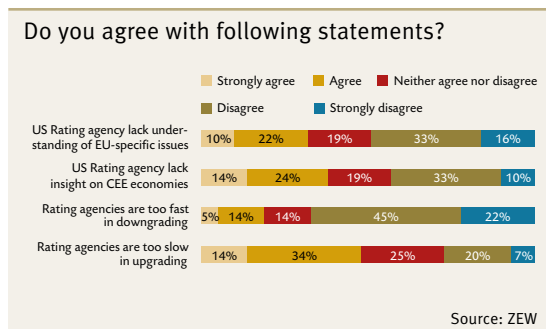
The decreases of the Hungarian stock market index BUX and the Croatian CROBEX in the last month have led to larger disagreement in experts' stock market sentiments. The levels of the indicators, however, have remained almost unchanged at 21.8 points and 16.1 points respectively. In the background of increasing concerns about the high percentage of consumer foreign currency debt in Hungary almost half of the experts (45.4 per cent) expect the Hungarian Forint to appreciate.

Turkey: Current Situation and Expectations at One-Year Low

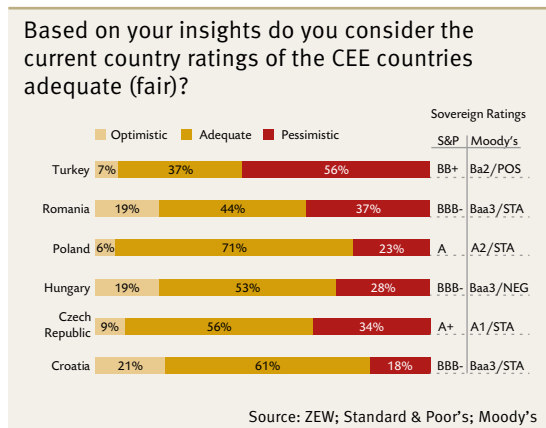


The indicator of economic expectations for Turkey on six-month time horizon has dropped by 19.7 points to a level of minus 34.7 – the lowest level since Turkey has been included in the survey. Experts’ assessment of the current economic situation in Turkey has also worsened in this month’s survey. The respective indicator has decreased by 22.1 points to a level of 13.7 points – the lowest level since October 2010. Inflation concerns for Turkey have slightly decreased by minus 6.3 points to a level of 34.1 points – by far the highest level among all considered economies. As a result of Turkey’s Central Bank announcement to cut key interest rates at the beginning of August, experts’ short-term interest rate expectations have decreased significantly by 60.5 points. According to the majority of the experts (47.5 per cent) no further changes are expected in the next six months. Expectations for the Turkish stock market index ISE-100 have deteriorated. The respective indicator has decreased by 12.2 points. The Turkish Lira is expected to appreciate by the majority of experts (45.2 per cent).

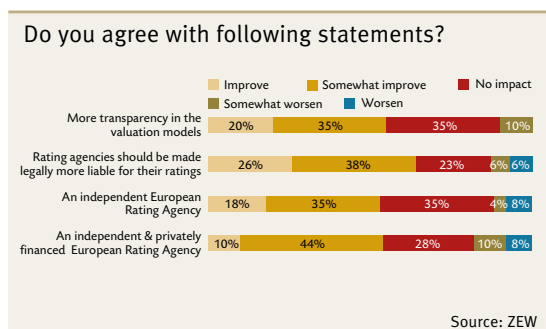
Special Question: Rating Agencies and Sovereign Ratings in the CEE Region



In the recent months discussions have focused on rating agencies. In the context of the current sovereign debt crisis rating agencies are blamed to be too fast in downgrading and too slow in upgrading. Discussions have focused on the monopoly power of the three US rating agencies – Standard & Poor’s, Moody’s and Fitch, and the high dependence of the financial sector on their ratings. Furthermore, the ability of US rating agencies to access EU specific and small country specific issues has been brought into question. That is why this month’s special question addresses financial market experts’ insights on rating agencies behaviour and experts’ contribution to the discussion on conceivable (regulatory) measures with regard to sovereign credit ratings.



According to the survey results almost half of the experts agree or strongly agree to the statement that rating agencies are too slow in upgrading. In contrast, over 65 per cent disagree or strongly disagree with the statement that rating agencies are too fast in downgrading. Almost one half of the experts hold the opinion that US Rating agencies have sufficient knowledge to assess EU-specific issues. A slightly smaller percentage of participants (42.9 per cent) trust US rating agencies to do ratings of CEE economies. For Poland, Croatia and the Czech Republic the majority of participants (71 per cent, 61 per cent and 56 per cent respectively), assess the credit rating as rather adequate. In contrast, for Turkey 56 per cent of the experts evaluate the rating as pessimistic or far too pessimistic. Analogously, for Romania 37 per cent of the experts distrust the current credit rating and consider it rather pessimistic.



The survey participants were thus asked to evaluate the impact of currently discussed policy measures regarding rating agencies on the adequacy of the credit rating of CEE countries. In this context the majority of experts (64 per cent) anticipate an improvement in the adequacy if rating agencies are made more liable for their ratings. Furthermore, 53 per cent would expect an improvement if an independent European Rating Agency is established. There is not much controversy about the question if the European rating agency should be privately or rather publicly financed. Comparable results arise regarding a privately financed European rating agency - about 54 per cent of the experts expect an improvement in the adequacy of the country ratings.

Zwetelina Iliewa, Jan Fritz

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

Current economic situation	good		acceptable (normal)		bad		balance									
Austria	26.6	(-4.7)	66.7	(+1.1)	6.7	(+3.6)	19.9	(-8.3)								
Croatia	0.0	(-11.7)	67.7	(+5.9)	32.3	(+5.8)	-32.3	(-17.5)								
Czech Republic	28.1	(+1.1)	68.8	(-1.5)	3.1	(+0.4)	25.0	(+0.7)								
Hungary	2.8	(-2.7)	47.2	(-8.4)	50.0	(+11.1)	-47.2	(-13.8)								
Poland	36.4	(+3.0)	51.5	(-6.8)	12.1	(+3.8)	24.3	(-0.8)								
Romania	3.1	(-6.3)	53.1	(+/-0.0)	43.8	(+6.3)	-40.7	(-12.6)								
Slovakia	18.7	(-6.3)	75.0	(+5.6)	6.3	(+0.7)	12.4	(-7.0)								
Turkey	27.3	(-14.2)	59.1	(+6.3)	13.6	(+7.9)	13.7	(-22.1)								
CEE (incl. Turkey)	16.7	(-1.3)	69.4	(-7.5)	13.9	(+8.8)	2.8	(-10.1)								
Eurozone	6.5	(-1.6)	47.8	(-11.4)	45.7	(+13.0)	-39.2	(-14.6)								
Economic expectations	improve		no change		worsen		balance									
Austria	16.2	(-5.0)	41.9	(-6.6)	41.9	(+11.6)	-25.7	(-16.6)								
Croatia	11.8	(-18.5)	52.9	(+1.4)	35.3	(+17.1)	-23.5	(-35.6)								
Czech Republic	11.4	(-15.0)	45.7	(-1.4)	42.9	(+16.4)	-31.5	(-31.4)								
Hungary	21.1	(-12.3)	42.1	(-5.1)	36.8	(+17.4)	-15.7	(-29.7)								
Poland	21.2	(-10.2)	42.4	(-0.5)	36.4	(+10.7)	-15.2	(-20.9)								
Romania	31.2	(-11.2)	37.5	(+1.1)	31.3	(+10.1)	-0.1	(-21.3)								
Slovakia	11.5	(-10.7)	51.4	(-4.2)	37.1	(+14.9)	-25.6	(-25.6)								
Turkey	13.1	(-7.7)	39.1	(-4.3)	47.8	(+12.0)	-34.7	(-19.7)								
CEE (incl. Turkey)	11.8	(-8.8)	50.0	(-3.8)	38.2	(+12.6)	-26.4	(-21.4)								
Eurozone	14.0	(-2.6)	30.2	(-11.5)	55.8	(+14.1)	-41.8	(-16.7)								
Inflation rate	increase		no change		decrease		balance									
Austria	6.9	(-26.4)	58.6	(+13.1)	34.5	(+13.3)	-27.6	(-39.7)								
Croatia	30.0	(-15.4)	53.3	(+7.8)	16.7	(+7.6)	13.3	(-23.0)								
Czech Republic	27.2	(-10.0)	45.5	(-5.9)	27.3	(+15.9)	-0.1	(-25.9)								
Hungary	8.6	(-18.5)	57.1	(+11.2)	34.3	(+7.3)	-25.7	(-25.8)								
Poland	12.4	(-19.0)	43.8	(-1.9)	43.8	(+20.9)	-31.4	(-39.9)								
Romania	16.1	(-2.6)	35.5	(-8.3)	48.4	(+10.9)	-32.3	(-13.5)								
Slovakia	12.1	(-33.9)	48.5	(+13.4)	39.4	(+20.5)	-27.3	(-54.4)								
Turkey	50.0	(+/-0.0)	34.1	(-6.3)	15.9	(+6.3)	34.1	(-6.3)								
CEE (incl. Turkey)	21.9	(-19.1)	50.0	(+1.3)	28.1	(+17.8)	-6.2	(-36.9)								
Eurozone	11.1	(-17.5)	48.9	(-8.2)	40.0	(+25.7)	-28.9	(-43.2)								
Short-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	48.0	(+23.0)	39.2	(+10.0)	52.0	(-15.9)	56.5	(+10.7)	0.0	(-7.1)	4.3	(-20.7)	48.0	(+30.1)	34.9	(+30.7)
Czech Republic	36.7	(-40.0)	21.4	(-12.0)	63.3	(+43.3)	64.3	(+23.6)	0.0	(-3.3)	14.3	(-11.6)	36.7	(-36.7)	7.1	(-0.4)
Hungary	21.9	(+3.2)	13.8	(+/-0.0)	62.5	(-6.3)	58.6	(+31.0)	15.6	(+3.1)	27.6	(-31.0)	6.3	(+0.1)	-13.8	(+31.0)
Poland	24.2	(-35.8)	15.4	(-10.6)	65.5	(+28.8)	69.2	(+28.5)	10.3	(+7.0)	15.4	(-17.9)	13.9	(-42.8)	0.0	(+7.3)
Romania	30.8	(-11.5)	37.5	(+11.4)	53.8	(+7.6)	45.8	(+11.0)	15.4	(+3.9)	16.7	(-22.4)	15.4	(-15.4)	20.8	(+33.8)
Turkey	27.5	(-37.7)	32.4	(-14.1)	47.5	(+14.9)	38.2	(-3.7)	25.0	(+22.8)	29.4	(+17.8)	2.5	(-60.5)	3.0	(-31.9)
Eurozone	29.3	(-44.1)			58.5	(+36.3)			12.2	(+7.8)			17.1	(-51.9)		
Long-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	26.9	(-3.9)	36.0	(+9.1)	50.0	(+7.7)	32.0	(-2.6)	23.1	(-3.8)	32.0	(-6.5)	3.8	(-0.1)	4	(+15.6)
Czech Republic	41.4	(-37.2)	17.9	(-14.2)	41.4	(+27.1)	46.4	(-7.2)	17.2	(+10.1)	35.7	(+21.4)	24.2	(-47.3)	-17.8	(-35.6)
Hungary	25.8	(-6.5)	29.1	(+0.1)	45.2	(+16.2)	29.0	(+6.4)	29.0	(-9.7)	41.9	(-6.5)	-3.2	(+3.2)	-12.8	(+6.6)
Poland	42.9	(-17.1)	28.6	(-12.8)	46.4	(+23.1)	39.3	(+8.3)	10.7	(-6.0)	32.1	(+4.5)	32.2	(-11.1)	-3.5	(-17.3)
Slovakia	28.6	(-9.3)	22.3	(-5.3)	60.7	(+33.1)	37.0	(+12.9)	10.7	(-23.8)	40.7	(-7.6)	17.9	(+14.5)	-18.4	(+2.3)
Turkey	31.6	(-33.6)	38.7	(-20.4)	52.6	(+28.7)	29.0	(+1.7)	15.8	(+4.9)	32.3	(+18.7)	15.8	(-38.5)	6.4	(-39.1)
Germany	59.4	(-10.0)			28.1	(+3.1)			12.5	(+6.9)			46.9	(-16.9)		
Stock market indices	increase		no change		decrease		balance									
EURO STOXX 50	44.4	(+4.9)	16.7	(-14.9)	38.9	(+10.0)	5.5	(-5.1)								
ATX (Austria)	53.8	(+8.9)	15.4	(-15.6)	30.8	(+6.7)	23.0	(+2.2)								
NTX (CEE)	51.6	(+8.8)	16.1	(-12.5)	32.3	(+3.7)	19.3	(+5.1)								
CROBEX (Croatia)	41.9	(+7.6)	32.3	(-11.5)	25.8	(+3.9)	16.1	(+3.7)								
PX 50 (Czech Rep.)	55.2	(+8.6)	13.8	(-12.9)	31.0	(+4.3)	24.2	(+4.3)								
BUX (Hungary)	53.1	(+6.2)	15.6	(-12.5)	31.3	(+6.3)	21.8	(-0.1)								
WIG (Poland)	55.2	(+3.6)	13.8	(-8.8)	31.0	(+5.2)	24.2	(-1.6)								
BET (Romania)	50.0	(+1.7)	17.9	(-13.1)	32.1	(+11.4)	17.9	(-9.7)								
SAX (Slovakia)	43.4	(+8.9)	33.3	(-8.1)	23.3	(-0.8)	20.1	(+9.7)								
ISE-100 (Turkey)	52.2	(+4.2)	11.4	(-20.6)	36.4	(+16.4)	15.8	(-12.2)								
Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance									
Kuna (Croatia)	10.3	(-8.5)	55.2	(+14.6)	34.5	(-6.1)	-24.2	(-2.4)								
Koruna (Czech Rep.)	55.2	(+2.4)	37.9	(+4.6)	6.9	(-7.0)	48.3	(+9.4)								
Forint (Hungary)	45.4	(+9.3)	27.3	(-11.6)	27.3	(+2.3)	18.1	(+7.0)								
Zloty (Poland)	58.0	(-5.9)	22.6	(+3.2)	19.4	(+2.7)	38.6	(-8.6)								
Lei (Romania)	42.9	(-10.5)	32.1	(+8.8)	25.0	(+1.7)	17.9	(-12.2)								
Lira (Turkey)	45.2	(+13.8)	28.6	(-6.7)	26.2	(-7.1)	19.0	(+20.9)								
US-Dollar	35.7	(-0.3)	42.9	(+8.9)	21.4	(-8.6)	14.3	(+8.3)								

Note: 70 Financial market experts, 19 from which from Turkey, participated in the August survey which was conducted during the period 08/08/11-08/22/11. 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 July 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

Zwetelina Iliewa · Dept. International Finance and Financial Management · Phone +49 (0)621 1235-346 · E-mail: iliewa@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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