

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 December 23, 2010 and January 17, 2011, are published in the February 2011 issue of the "Financial Market Report CEE." 72 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.

Weaker Economic Expectations for Turkey Weight on CEE Sentiment

The ZEW-Erste Group Bank CEE Indicator for Central and Eastern Europe including Turkey (CEE region) drops by 6.5 points to 16.2 points in January 2011. The economic expectations for the CEE region on a six months time horizon are mostly influenced by the cautious expectations for Turkey. The sentiment indicator for Turkey declines by 9.0 points to 12.3 points in the current survey. The evaluation of the current economic situation in the CEE region worsens slightly in January. The respective indicator decreases by 2.0 points to 20.0 points. The indicator reflecting the economic expecta-

tions for the Eurozone within the next six months increases significantly by 18.4 points and achieves a positive value of 16.7 points. The assessment of the current business cycle in the Eurozone improves also considerably by 15.1 points and reaches a value of minus 14.0 points. The economic sentiment indicator for Austria shows the highest increase in the current survey. It rises by 27.2 points and achieves 48.6 points. This is the best value in country comparison. The evaluation of the current economic situation in Austria improves by 8.1 points to 34.2 points in January.

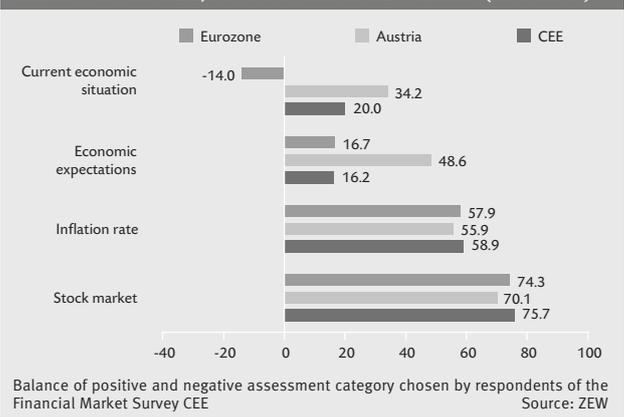
Economic Outlook for the CEE Region, Austria and the Eurozone

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, declines by 6.5 points to 16.2 points in January 2011. The weaker economic expectations for the CEE region are mostly influenced by the cautious outlook for Turkey. The sentiment indicator for Turkey declines by 9.0 points to 12.3 points in the current survey. The expectations of the financial market experts surveyed by ZEW and Erste Group Bank are in line with the forecasts of leading economists who also expect a weaker economic development for Turkey in 2011 in comparison to the previous year. The economists believe that the high current account deficit is the main risk factor for the development of Turkey's economy.

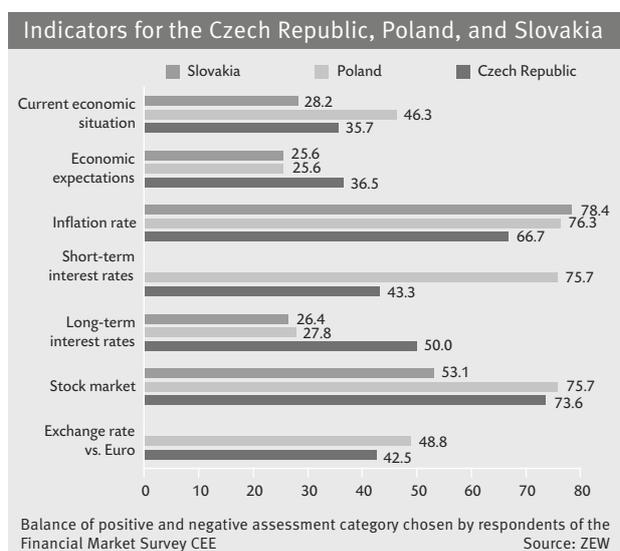
The evaluation of the current economic situation in the CEE region has worsened slightly in January. The respective indicator has decreased by 2.0 points to 20.0 points. The indicator reflecting the economic expectations for the Eurozone within the next six months has increased significantly by 18.4 points and achieves a positive value of 16.7 points. The assessment of the current business cycle in the Eurozone has improved also considerably by 15.1 points and reaches a value of minus 14.0 points. The economic sentiment indicator for Austria shows

the highest increase in the current survey of 27.2 points and achieves the best value in this category of 48.6 points. The evaluation of the current conditions in Austria improves by 8.1 points to 34.2 points in January. A clear majority of the polled financial market experts expect the inflation rates to increase in the CEE region, the Eurozone and Austria within the next six months. The indicators reflecting the expected development of the stock market indices NTX, ATX and Eurostoxx 50 within the next six months improve considerably in January.

Indicators for CEE, Austria and the Eurozone (balances)



Czech Republic, Poland, and Slovakia: Increasing Inflation Risks



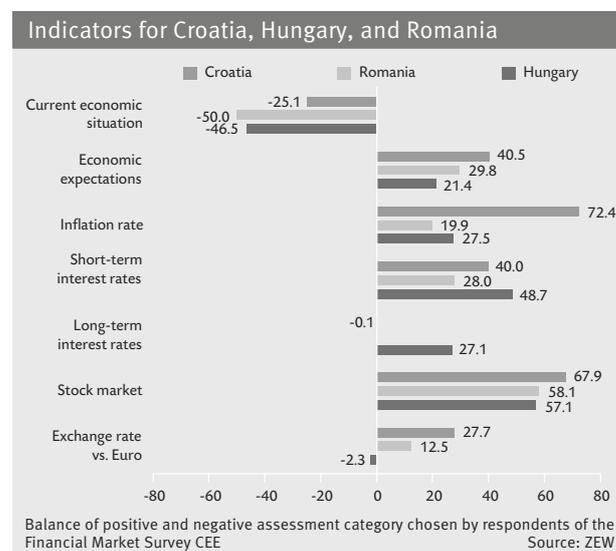
The Czech Republic has exhibited a strong recovery from the crisis in 2010 and the financial market experts expect this development to continue in 2011. Therefore, the economic sentiment indicator for the Czech Republic increases significantly by 11.0 points reaching 36.5 points in January 2011. The expectations for Poland and Slovakia on a six months time horizon, however, worsen in January. The respective indicators decline by 0.6 points and by 7.7 points to a value of 25.6 points.

The indicator which reflects the evaluation of the current economic situation in Poland remains to exhibit the highest value for the CEE region excluding Turkey. Its balance increases significantly by 11.5 points to 46.3 points. Due to Poland's large internal market its economy continuously showed a positive performance even during the crisis. The assessment of the current business cycle in the Czech Republic and Slovakia also improve in this month's survey. The respective indicator for the Czech Republic increases by 10.8 points to 35.7 points while the relevant indicator for Slovakia rises by 5.5 points reaching 28.2 points in January.

The expectations of the financial market experts regarding the inflationary risks for the Czech Republic, Poland and Slovakia increase significantly. The three inflation indicators exhibit the three highest values in this category. No financial market experts foresee decreasing inflation rates within the next six months for the three countries. This explains why more than half of the polled analysts expect that the Polish and the Czech Central Bank will increase its short-term interest rates within the next six months. The Polish interest rate indicator reaches the highest value in country comparison with a value of 75.7 points.

More than 80 percent of the surveyed analysts expect the Polish stock market index (WIG) to increase within the next six months. The respective indicator rises by 16.7 points to 75.7 points which is equal to the indicator for the NTX and represents the highest value in this category.

Croatia, Hungary and Romania: Positive Economic Outlook for Croatia



After a significant improvement by 13.7 points the economic expectations for Croatia are the best among all the analysed CEE economies with a value of 40.5 points in January. The main growth drivers for the positive economic improvement might be the tourism sector which is boosted by better flight connections. Growth rates may also profit from agriculture, forestry and fishing as well as telecommunications. The Romanian GDP contracted in 2010 due to stricter fiscal policy and austerity measures. Although Romania's exports are expected to strengthen the economy in 2011 the country might still suffer from the output contraction of 2010. This could be the reason for the decrease of the economic sentiment indicator for Romania by 10.6 points to 29.8 points in January. The economic sentiment indicator for Hungary shows a slight increase by 2.7 points to 21.4 points.

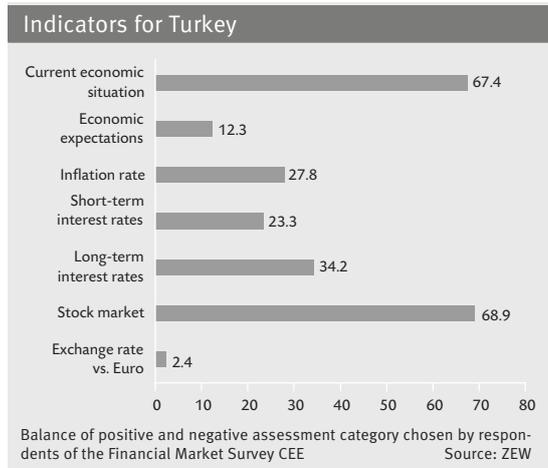
The strained economic situation in Romania is reflected by the cautious evaluation of the current business conditions in the country. The respective indicator drops by 1.3 points and reaches the lowest value in country comparison, namely minus 50.0 points. The assessment of the current business cycle in Hungary improves by 6.6 points to minus 46.5 points. Croatia achieves a decrease by 5.1 points to minus 25.1 points.

The indicator representing the inflation expectations of the analysts for Croatia exhibits the second highest increase among all analysed CEE countries reaching 72.4 points. None of the polled participants foresees a decreasing inflation rate in Croatia within the next six months.

The interest rate indicators for Croatia and Romania increase significantly by 24.3 points and by 38.7 points indicating that a higher share of almost half of the financial market experts predict higher short-term interest rates.

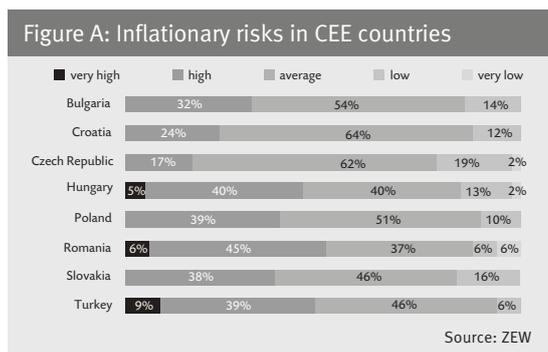
The expectations regarding the development of the Hungarian stock market index BUX present the highest increase of 32.1 points in country comparison in January. However, the respective indicator achieves a lower level of 57.1 points compared to the other analyzed indicators.

Turkey: Weaker Economic Outlook

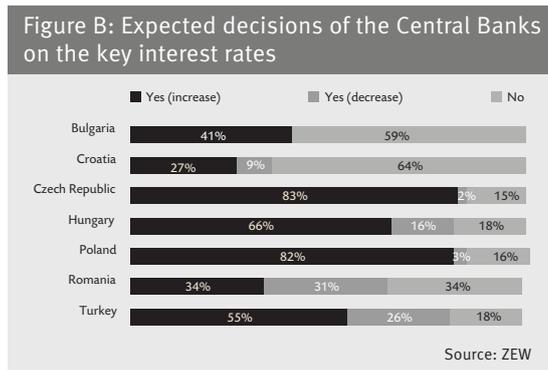


The economic outlook for Turkey on a six months time horizon declines by 9.0 points reaching 12.3 points. This is the lowest value of all the analysed CEE economies. Many economists warn about the risks of the increasing current account deficit. However, the current economic momentum in Turkey remains strong and the recovery from the crisis remains stable. The assessment of the current economic situation increases by 6.7 points and represents the highest value in country comparison at 67.4 points. The inflation indicator for Turkey increases immensely by 19.8 points but compared to the other economies the balance remains relatively low at 27.8 points. The percentage of polled analysts who foresee higher interest rates within the next six months increases by 11.0 percentage points to a majority of 41.9 percent. The indicator which reflects the development of the Turkish Lira on a six months time horizon presents the strongest decline in country comparison by 16.8 points reaching 2.4 points in the January survey.

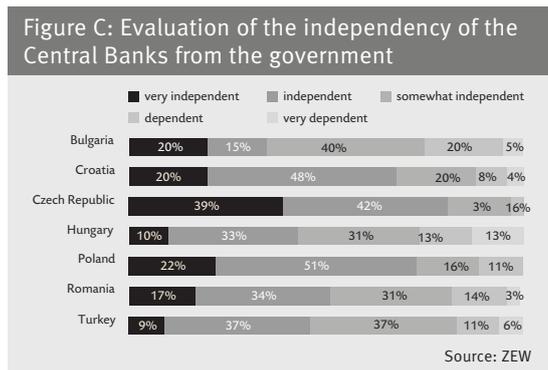
Special Question: Inflation and interest rate expectations for 2011



This month's special question deals with the expectations of the financial market experts regarding the inflationary and monetary policy of the Central Banks in the CEE region in the year 2011.



Following the opinion of the survey participants, Romania, Turkey and Hungary are expected to face the highest inflation risks in 2011. More than 50 percent of the polled participants foresee high or even very high inflationary risks for Romania in the year 2011. However, 6 percent of the polled experts foresee very low inflation risks. The inflation forecast for Turkey shows a relatively clear result as nearly half of the participants expect high or very high inflationary risks for Turkey. Nine percent of the experts even prognosticate very high inflation risks. More than half of the survey participants evaluate the risk of price instability in Bulgaria, Croatia and Poland in 2011 as average. According to the survey results the Czech Republic will experience the lowest inflation risk for 2011 as it exhibits the largest share of financial market experts which forecast low or very low inflation risks, namely 21 percent.



A considerable share of polled participants expects that the Bulgarian and the Croatian Central Banks will not change the interest rates in their countries in 2011. In contrast, the majority of financial market experts prognosticate the Central Banks of the Czech Republic, Hungary, Poland and Turkey to raise the key interest rates this year. Especially for the Czech Republic and Poland more than 80 percent of the experts predict an increase of the key interest rate in 2011. The results for Romania are balanced with similar shares of participants who expect increasing, decreasing and unchanged key interest rates in the country. While 55 percent of the analysts predict an increasing interest rate in Turkey, 26 percent expect the Central Bank to cut the key rate.

According to the survey participants, Poland and the Czech Republic have the most independent Central Banks in the CEE region. More than 70 percent of the polled participants regard the respective Central Banks to be either independent or even very independent. In contrast, Turkey, Romania, Hungary and Bulgaria exhibit a high share of financial market experts who believe that the respective government has great influence on the countries' Central Banks.

Melissa Li, Mariela Borell

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

Current economic situation	good		acceptable (normal)				bad		balance							
Austria	37.1	(+6.2)	60.0	(-4.3)	2.9	(-1.9)	34.2	(+8.1)								
Croatia	6.2	(-3.8)	62.5	(+2.5)	31.3	(+1.3)	-25.1	(-5.1)								
Czech Republic	35.7	(+6.6)	64.3	(-2.4)	0.0	(-4.2)	35.7	(+10.8)								
Hungary	9.3	(+5.0)	34.9	(-3.4)	55.8	(-1.6)	-46.5	(+6.6)								
Poland	46.3	(+5.0)	53.7	(+1.5)	0.0	(-6.5)	46.3	(+11.5)								
Romania	7.9	(-1.9)	34.2	(+2.5)	57.9	(-0.6)	-50.0	(-1.3)								
Slovakia	35.9	(+4.1)	56.4	(-2.7)	7.7	(-1.4)	28.2	(+5.5)								
Turkey	69.4	(+4.2)	28.6	(-1.7)	2.0	(-2.5)	67.4	(+6.7)								
CEE (incl. Turkey)	28.9	(-1.1)	62.2	(+0.2)	8.9	(+0.9)	20.0	(-2.0)								
Eurozone	12.0	(+7.2)	62.0	(+0.7)	26.0	(-7.9)	-14.0	(+15.1)								
Economic expectations	improve		no change				worsen		balance							
Austria	54.3	(+18.6)	40.0	(-10.0)	5.7	(-8.6)	48.6	(+27.2)								
Croatia	46.8	(+7.8)	46.9	(-1.9)	6.3	(-5.9)	40.5	(+13.7)								
Czech Republic	46.3	(+8.0)	43.9	(-5.0)	9.8	(-3.0)	36.5	(+11.0)								
Hungary	45.2	(+1.5)	31.0	(-0.3)	23.8	(-1.2)	21.4	(+2.7)								
Poland	41.0	(+1.8)	43.6	(-4.2)	15.4	(+2.4)	25.6	(-0.6)								
Romania	46.0	(-11.1)	37.8	(+11.6)	16.2	(-0.5)	29.8	(-10.6)								
Slovakia	35.9	(-6.3)	53.8	(+4.9)	10.3	(+1.4)	25.6	(-7.7)								
Turkey	28.6	(-6.3)	55.1	(+3.6)	16.3	(+2.7)	12.3	(-9.0)								
CEE (incl. Turkey)	32.5	(+0.4)	51.2	(-7.3)	16.3	(+6.9)	16.2	(-6.5)								
Eurozone	37.5	(+16.6)	41.7	(-14.8)	20.8	(-1.8)	16.7	(+18.4)								
Inflation rate	increase		no change				decrease		balance							
Austria	55.9	(-6.0)	44.1	(+6.0)	0.0	(+/-0.0)	55.9	(-6.0)								
Croatia	72.4	(+21.2)	27.6	(-18.6)	0.0	(-2.6)	72.4	(+23.8)								
Czech Republic	66.7	(+5.9)	33.3	(-3.7)	0.0	(-2.2)	66.7	(+8.1)								
Hungary	42.5	(-6.5)	42.5	(+8.5)	15.0	(-2.0)	27.5	(-4.5)								
Poland	76.3	(+11.8)	23.7	(-7.4)	0.0	(-4.4)	76.3	(+16.2)								
Romania	48.5	(+12.6)	22.9	(-5.3)	28.6	(-7.3)	19.9	(+19.9)								
Slovakia	78.4	(+14.8)	21.6	(-14.8)	0.0	(+/-0.0)	78.4	(+14.8)								
Turkey	46.9	(+6.6)	34.0	(+6.6)	19.1	(-13.2)	27.8	(+19.8)								
CEE (incl. Turkey)	61.5	(+12.5)	35.9	(-13.1)	2.6	(+0.6)	58.9	(+11.9)								
Eurozone	62.3	(+18.2)	33.3	(-19.2)	4.4	(+1.0)	57.9	(+17.2)								
Short-term interest rates	increase		no change				decrease		balance							
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]						
Croatia	48.0	(+16.7)	22.2	(-2.8)	44.0	(-9.1)	55.6	(+2.0)	8.0	(-7.6)	22.2	(+0.8)	40.0	(+24.3)	0.0	(-3.6)
Czech Republic	51.4	(+11.0)	31.2	(+5.6)	40.5	(-2.4)	46.9	(-4.4)	8.1	(-8.6)	21.9	(-1.2)	43.3	(+19.6)	9.3	(+6.8)
Hungary	59.5	(+7.1)	56.3	(+5.0)	29.7	(+3.5)	15.6	(-4.9)	10.8	(-10.6)	28.1	(-0.1)	48.7	(+17.7)	28.2	(+5.1)
Poland	78.4	(+11.7)	67.8	(+14.0)	18.9	(-2.5)	29.0	(-1.8)	2.7	(-9.2)	3.2	(-12.2)	75.7	(+20.9)	64.6	(+26.2)
Romania	46.8	(+22.4)	42.3	(+18.8)	34.4	(-6.1)	26.9	(-8.4)	18.8	(-16.3)	30.8	(-10.4)	28.0	(+38.7)	11.5	(+29.2)
Turkey	41.9	(+11.0)	33.3	(+2.7)	39.5	(-10.9)	36.1	(-8.8)	18.6	(-3.2)	30.6	(+6.1)	23.3	(+14.2)	2.7	(-3.4)
Eurozone	50.0	(+11.4)	47.7	(-8.4)	47.7	(-8.4)	2.3	(-3.0)					47.7	(+14.4)		
Long-term interest rates	increase		no change				decrease		balance							
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]						
Croatia	41.6	(+2.2)	40.0	(+10.0)	16.7	(-16.6)	40.0	(+/-0.0)	41.7	(+14.4)	20.0	(-10.0)	-0.1	(-12.2)	20	(+20.0)
Czech Republic	61.1	(-5.6)	43.7	(+1.6)	27.8	(+1.6)	46.9	(+4.8)	11.1	(+4.0)	9.4	(-6.4)	50.0	(-9.6)	34.3	(+8.0)
Hungary	46.0	(-1.7)	48.5	(+2.3)	35.1	(+16.1)	33.3	(+15.4)	18.9	(-14.4)	18.2	(-17.7)	27.1	(+12.7)	30.3	(+20.0)
Poland	50.0	(-2.4)	50.0	(+3.8)	27.8	(-0.8)	34.4	(+6.2)	22.2	(+3.2)	15.6	(-10.0)	27.8	(-5.6)	34.4	(+13.8)
Slovakia	52.9	(+6.5)	30.0	(+1.1)	20.6	(-13.5)	53.3	(+3.3)	26.5	(+7.0)	16.7	(-4.4)	26.4	(-0.5)	13.3	(+5.5)
Turkey	53.7	(+10.1)	46.0	(+8.5)	26.8	(-2.3)	37.8	(+8.6)	19.5	(-7.8)	16.2	(-17.1)	34.2	(+17.9)	29.8	(+25.6)
Germany	51.3	(-6.1)			28.2	(+0.5)			20.5	(+5.6)			30.8	(-11.7)		
Stock market indices	increase		no change				decrease		balance							
EURO STOXX 50	85.7	(+23.2)	2.9	(-20.0)	11.4	(-3.2)	74.3	(+26.4)								
ATX (Austria)	83.4	(+14.0)	3.3	(-13.4)	13.3	(-0.6)	70.1	(+14.6)								
NTX (CEE)	84.8	(+15.0)	6.1	(-14.8)	9.1	(-0.2)	75.7	(+15.2)								
CROBEX (Croatia)	78.6	(+11.0)	10.7	(-8.2)	10.7	(-2.8)	67.9	(+13.8)								
PX 50 (Czech Rep.)	82.4	(+22.4)	8.8	(-21.2)	8.8	(-1.2)	73.6	(+23.6)								
BUX (Hungary)	71.4	(+26.4)	14.3	(-20.7)	14.3	(-5.7)	57.1	(+32.1)								
WIG (Poland)	81.8	(+15.1)	12.1	(-13.5)	6.1	(-1.6)	75.7	(+16.7)								
BET (Romania)	74.2	(+10.3)	9.7	(-12.5)	16.1	(+2.2)	58.1	(+8.1)								
SAX (Slovakia)	62.5	(+15.3)	28.1	(-13.6)	9.4	(-1.7)	53.1	(+17.0)								
ISE-100 (Turkey)	77.8	(+6.6)	13.3	(+3.1)	8.9	(-9.7)	68.9	(+16.3)								
Exchange rates (vs. Euro)	appreciate		no change				depreciate		balance							
Kuna (Croatia)	44.9	(+11.5)	37.9	(-9.3)	17.2	(-2.2)	27.7	(+13.7)								
Koruna (Czech Rep.)	50.0	(-14.6)	42.5	(+17.5)	7.5	(-2.9)	42.5	(-11.7)								
Forint (Hungary)	31.8	(+1.4)	34.1	(-2.9)	34.1	(+1.5)	-2.3	(-0.1)								
Zloty (Poland)	61.6	(-12.4)	25.6	(+12.6)	12.8	(-0.2)	48.8	(-12.2)								
Lei (Romania)	40.6	(-1.9)	31.3	(-6.2)	28.1	(+8.1)	12.5	(-10.0)								
Lira (Turkey)	31.9	(-8.4)	38.6	(+/-0.0)	29.5	(+8.4)	2.4	(-16.8)								
US-Dollar	52.1	(+3.7)	33.3	(+6.7)	14.6	(-10.4)	37.5	(+14.1)								

Note: 72 Financial market experts, 16 from which from Turkey, participated in the January survey which was conducted during the period 12/23/10-01/17/11. 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 December 2010 in parentheses). Balances refer to the differences between positive and negative assessments.

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