

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 February 27, 2012 and March 12, 2012, are published in the April 2012 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.

## Major Improvement of Economic Expectations for the CEE Region

The economic expectations for Central and Eastern Europe including Turkey (CEE region) on a six-month time horizon have improved significantly in March. The respective indicator has increased by 36.1 points to 16.6 points. The evaluation of the current economic situation in the CEE region has also improved in the current survey. The respective indicator has increased by 8.3 points to 8.4 points. The economic expectations for the Eurozone within the next six months have similarly improved by

36.0 points to 4.6 points. The assessment of the current business cycle in the Eurozone has gained 13.8 points and reached a value of minus 36.3 points. The indicator reflecting the economic expectations for Austria within the next six months has increased by 19.9 points to 9.6 points in March. The evaluation of the current economic situation in Austria has slightly worsened. The respective indicator has dropped by 6.9 points to the 0.0 mark.

### Economic Outlook for the CEE Region, Austria and the Eurozone

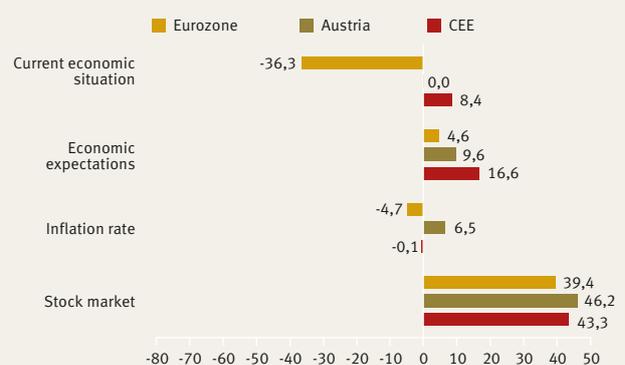
The ZEW-Erste Group Bank Economic Sentiment Indicator for Central and Eastern Europe including Turkey (CEE), which is calculated as the balance of positive and negative assessments of the economic development on a six-month time horizon, has increased by 36.1 points in March 2012 to a level of 16.6 points. The indicator thereby reaches a positive level for the first time since May 2011. Similarly, economic sentiment for the Eurozone has climbed up by 36.0 points to a level of 4.6 points. The indicator of experts' sentiment on Austria has also increased significantly by 19.9 points in March. The indicator thereby reaches a level of 9.6 points. The assessment of the current economic situation for the CEE region has slightly increased by 8.3 points to a level of 8.4 points. Optimism continues to increase also in the assessment of the current economic situation for the Eurozone. The respective indicator has increased by 13.8 points to a value of minus 36.3 points in March. A slight decrease is observed in experts' assessment of the current situation in Austria. The respective indicator had dropped by 6.9 points to the neutral 0.0 mark in March.

Experts' responses indicate a double digit increase in inflation pressure in most of the countries in the CEE region. The indicator for the region has increased by 28.5 points. Experts' expectations in March are almost balanced signalled by a value of the indicator of minus 0.1. A similar picture arises for the Eurozone and Austria – the respective indicators have increased by 28.7 points and 31.5 points. Expectations on the short-term

interest rates in the Eurozone remain almost unchanged at minus 20.0 points. The majority of 60 per cent, however, does not expect any changes of the short-term interest rates in the next six months.

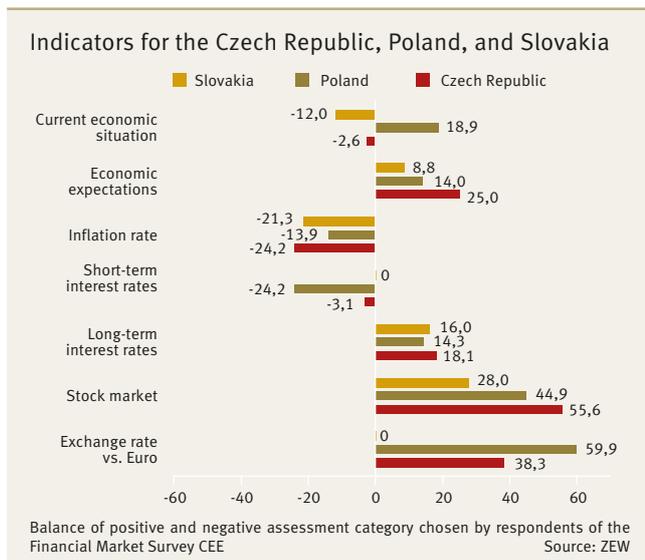
Bullish stock market expectations continue to prevail in March. Roughly 60 per cent of the survey participants anticipate the NTX, EURO STOXX 50 and ATX to increase within the next six months. The respective indicators have changed only slightly in March – by 2.7 points, 3.3 points and minus 5.7 points 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: Further Increase of Economic Sentiments

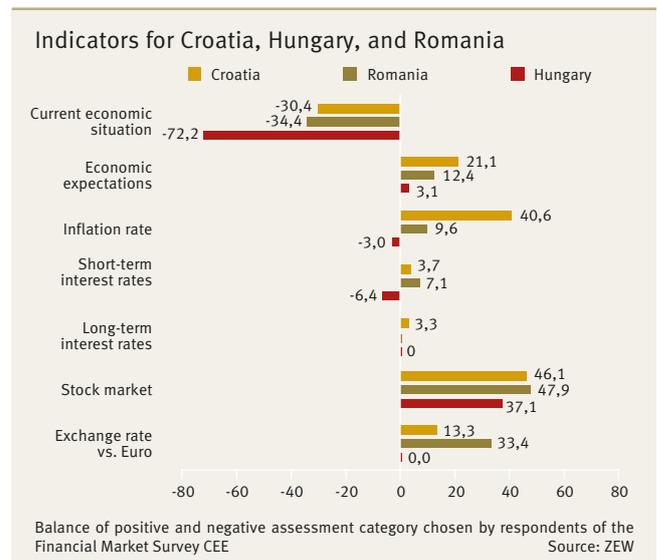


Economic Sentiments have improved significantly for the Czech Republic, Poland and Slovakia in March – by 35.4 points, 30.7 points and 20.6 points respectively. According to the responses, the three economies feature bright chances for a good medium-term development as indicated by relatively high values of the indicators at 25.0 points, 14.0 points and 8.8 points respectively. The development of the indicator for the Czech Republic is a continuation of the consecutive increases of the previous two months. In contrast, the assessment of the current situation has slightly worsened for all three countries – Czech Republic, Poland and Slovakia. The corresponding indicators have dropped by 2.6 points, 24.0 points and 12.0 points to a level of minus 2.6 points, 18.9 points and minus 12.0 points. The decrease of the indicator for Poland is the largest among all surveyed economies. Nevertheless, the indicator remains at the highest level of 18.9 points among all countries included in the survey.

The expectations of the financial market experts regarding the inflationary risks for Poland and Slovakia have increased significantly and have thereby reversed last month's decrease. The respective indicators have risen by 23.3 points and 18.1 points to levels of minus 13.9 points and minus 21.3 points respectively. In contrast, the inflation concerns for Czech Republic have continued their downswing with a decline by 13.5 points a level of minus 24.2 – the lowest value among all surveyed economies. Following the option of the financial market experts short-term interest rates in Poland are anticipated to decrease in both absolute terms and relative to the interest rates in the Eurozone.

The Czech stock market index PX 50 is expected to increase in the next six months according to two-thirds of the financial market experts. In March, experts' expectations on the index have displayed a further bullish revision by 8.9 points. Despite a slight decrease of expectations on the Polish stock market index WIG by minus 3.4 points, more than 60 per cent of the experts still expect a bullish development in the next six months. In contrast, the majority of experts expect the Slovakian stock market index SAX to remain unchanged. The majority of 48.0 per cent would not expect any changes in the stock market index in the mid-term.

## Croatia, Hungary and Romania: Stronger Economic Outlook

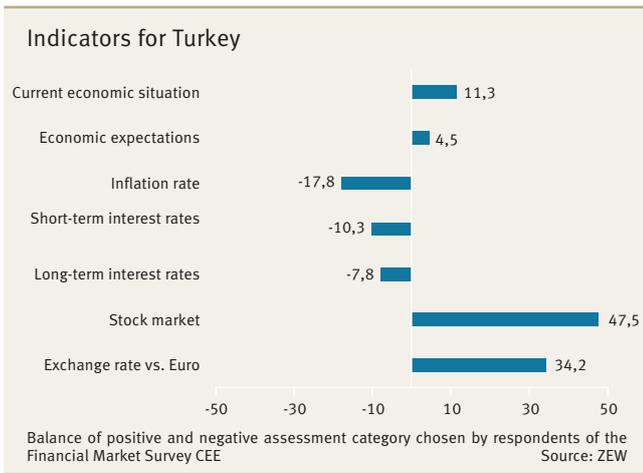


After the significant improvements of the economic expectations for Hungary and Croatia since beginning of 2012, the respective indicators further improve in March. The economic outlooks for Hungary and Croatia have increased by 23.2 points and 27.5 respectively to 3.1 points and 21.1 points respectively. Similarly, the economic sentiments for Romania have risen by 6.3 points to a level of 12.4 points. In contrast to the optimism in the economic outlook, the assessment of the current situation has worsened for all three countries – Hungary, Romania and Croatia. The respective indicators decreased by 6.4 points, 3.1 points and 4.6 points to levels of minus 72.2 points, minus 34.4 points and minus 30.4 points respectively. Thereby the indicator for Hungary has displayed the lowest value among all surveyed economies – 75.0 per cent of the financial market expert's assess the current economic situation as rather bad.

The inflation concerns for Croatia have further worsened in this month's survey. The corresponding indicator has increased by 30.7 points to a level of 40.6 points - the highest value among all considered economies. Inflation concerns for Romania have increased by 25.7 points to a level of 9.6 points. Experts have revised their expectation on the spread between short-term interest rates in Hungary and the Eurozone. The indicator reflecting the development of the short term interest rates in Hungary relative to the Eurozone has decreased by 24.7 points to a level of 3.8 points.

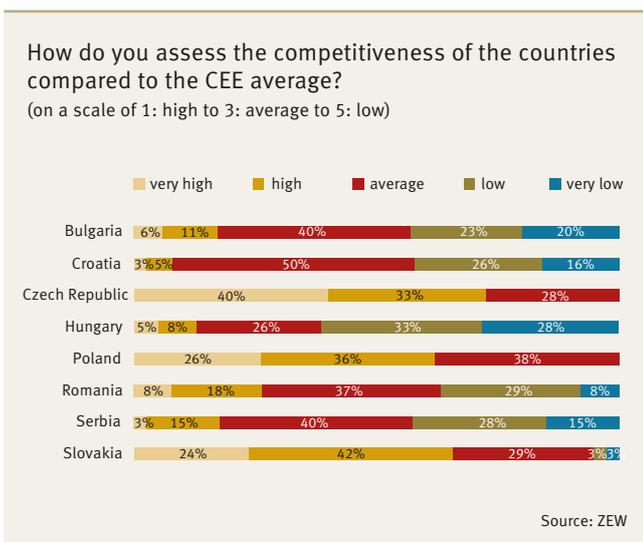
Financial market experts hold bullish stock markets for all three stock market indices – the Hungarian BUX, the Croatian CROBEX and the Romanian BET. More than 60 per cent of the experts anticipate the Romanian and Croatian stock market indices to increase within the next six months. For the Hungarian BUX about 52 per cent of the survey participants expect an increase as well. The Hungarian indicator reflecting the development of the Forint versus the Euro decreased by 12.2 points to the 0.0 mark, despite of the positive development of almost all other European currency indicators.

## Turkey: Increasing Inflation Expectations

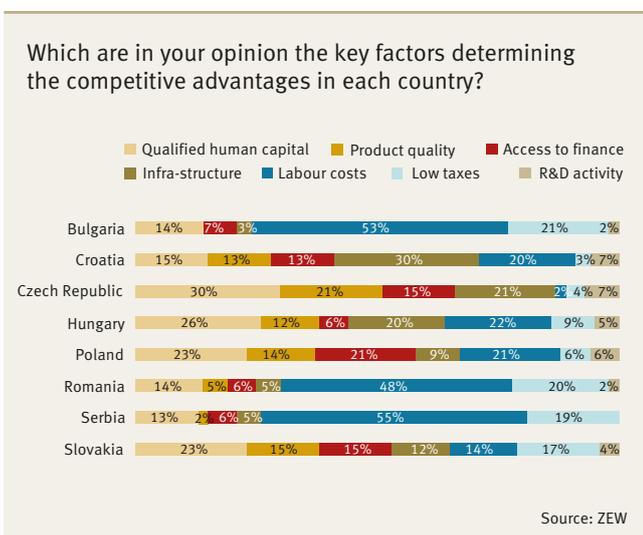


Economic expectations for Turkey have displayed a double digit increase in March. The respective indicator has gained 21.9 points in this month's survey and has reached a positive value of 4.5 points. Experts' assessment of the current situation in the country has slightly decreased by 4.2 points to a level of 11.3 points. The inflation rate is expected to decrease by a majority of 40 per cent of the survey participants. The indicator of expected interest rates in Turkey has decreased by 12.5 points indicating a revision of interest rate expectations towards decreasing interest rates. Stock market expectations have slightly improved in March. The respective indicator for the Turkish ISE-100 has increased by 8.1 points to a level of 47.5 points. Thereby a majority of roughly two-thirds of the experts expect a bullish development in the next six months. A major bullish revision is observed with respect to the Turkish Lira.

## Special Question: Competitive advantages of CEE economies



This month's special question targets experts' assessment on the comparative competitive advantages of the CEE economies. Experts were further asked to evaluate which are the key factors driving the competitiveness of each individual country in the CEE region. Financial market experts consider Czech Republic by 73 per cent to be the most competitive state in the CEE region, directly followed by Slovakia (66 per cent) and Poland, whereas especially Hungary is assessed by 61 per cent as having a low or even very low competitiveness. Demonstrative is the fact that the experts' assessment of the competitiveness of Hungary has decreased significantly since November 2007, when the participants were first asked to evaluate the competitiveness of the CEE economies. In November 2007 only 29 per cent of the survey participants considered the competitiveness of Hungary to be below average. A significant part of the respondents thereby assess the competitiveness in these countries as average.



The economies in the CEE region can be divided in two groups according to the key factors for competitiveness: For Czech Republic, Hungary, Poland and Slovakia, most of the participants anticipate qualified human capital to be a key driving factor; For Bulgaria, Romania and Serbia, the majority of experts rather assess the low labour costs as the most important factor for the competitiveness of the economies. The assessed importance of product quality also varies among the CEE economies. In the Czech Republic this factor is one of the three most important drivers of competitiveness, whereas in Bulgaria, Romania and Serbia it is not considered important at all. A developed infrastructure is also considered important factor for Hungary and the Czech Republic according to round 20 per cent of the participants. Surprisingly, research and development activities are only considered important by a minority of up to 10 per cent. In contrast, low taxes are considered a relevant factor and thus a key driver in several CEE economies – Bulgaria, Romania, Serbia and Slovakia. Surprisingly, access to financing is considered an important driver of competitiveness in Poland by round one fifth of the experts, whereas it plays an inferior role in Romania, Bulgaria and Serbia.

Astrid Kiekert, Zwetelina Iliewa

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

Current economic situation	good		acceptable (normal)		bad		balance									
Austria	9.7	(-4.1)	80.6	(+1.3)	9.7	(+2.8)	0.0	(-6.9)								
Croatia	6.0	(-3.7)	57.6	(+2.8)	36.4	(+0.9)	-30.4	(-4.6)								
Czech Republic	15.8	(+/-0.0)	65.8	(-2.6)	18.4	(+2.6)	-2.6	(-2.6)								
Hungary	2.8	(+/-0.0)	22.2	(-6.4)	75.0	(+6.4)	-72.2	(-6.4)								
Poland	27.0	(-21.6)	64.9	(+19.2)	8.1	(+2.4)	18.9	(-24.0)								
Romania	12.5	(+6.3)	40.6	(-15.7)	46.9	(+9.4)	-34.4	(-3.1)								
Slovakia	12.2	(-0.3)	63.6	(-11.4)	24.2	(+11.7)	-12.0	(-12.0)								
Turkey	22.7	(-1.7)	65.9	(-0.8)	11.4	(+2.5)	11.3	(-4.2)								
CEE (incl. Turkey)	16.7	(+8.3)	75.0	(-8.3)	8.3	(+/-0.0)	8.4	(+8.3)								
Eurozone	4.6	(+0.5)	54.5	(+12.8)	40.9	(-13.3)	-36.3	(+13.8)								
Economic expectations	improve		no change		worsen		balance									
Austria	29.0	(+15.2)	51.6	(-10.5)	19.4	(-4.7)	9.6	(+19.9)								
Croatia	36.3	(+23.9)	48.5	(-20.3)	15.2	(-3.6)	21.1	(+27.5)								
Czech Republic	38.9	(+20.4)	47.2	(-5.4)	13.9	(-15.0)	25.0	(+35.4)								
Hungary	36.4	(+13.6)	30.3	(-4.0)	33.3	(-9.6)	3.1	(+23.2)								
Poland	33.4	(+22.3)	47.2	(-13.9)	19.4	(-8.4)	14.0	(+30.7)								
Romania	34.3	(+9.4)	43.8	(-12.5)	21.9	(+3.1)	12.4	(+6.3)								
Slovakia	29.4	(+14.7)	50.0	(-8.8)	20.6	(-5.9)	8.8	(+20.6)								
Turkey	26.7	(+18.0)	51.1	(-14.1)	22.2	(-3.9)	4.5	(+21.9)								
CEE (incl. Turkey)	33.3	(+25.0)	50.0	(-13.9)	16.7	(-11.1)	16.6	(+36.1)								
Eurozone	27.9	(+15.5)	48.8	(+5.0)	23.3	(-20.5)	4.6	(+36.0)								
Inflation rate	increase		no change		decrease		balance									
Austria	32.3	(+21.6)	41.9	(-11.7)	25.8	(-9.9)	6.5	(+31.5)								
Croatia	53.1	(+16.5)	34.4	(-2.3)	12.5	(-14.2)	40.6	(+30.7)								
Czech Republic	19.0	(-5.4)	37.8	(-2.7)	43.2	(+8.1)	-24.2	(-13.5)								
Hungary	29.4	(-3.9)	38.2	(-1.2)	32.4	(+5.1)	-3.0	(-9.0)								
Poland	25.0	(+13.6)	36.1	(-3.9)	38.9	(-9.7)	-13.9	(+23.3)								
Romania	29.0	(+6.4)	51.6	(+12.9)	19.4	(-19.3)	9.6	(+25.7)								
Slovakia	15.1	(+3.0)	48.5	(+12.1)	36.4	(-15.1)	-21.3	(+18.1)								
Turkey	22.2	(+7.0)	37.8	(+5.2)	40.0	(-12.2)	-17.8	(+19.2)								
CEE (incl. Turkey)	22.8	(+11.4)	54.3	(+5.7)	22.9	(-17.1)	-0.1	(+28.5)								
Eurozone	30.2	(+14.7)	34.9	(-0.7)	34.9	(-14.0)	-4.7	(+28.7)								
Short-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	18.5	(-7.4)	38.1	(-9.7)	66.7	(+3.7)	47.6	(+4.1)	14.8	(+3.7)	14.3	(+5.6)	3.7	(-11.1)	23.8	(-15.3)
Czech Republic	3.0	(-22.7)	32.2	(-2.3)	90.9	(+28.0)	57.1	(+8.8)	6.1	(-5.3)	10.7	(-6.5)	-3.1	(-17.4)	21.5	(+4.2)
Hungary	32.3	(-5.2)	42.3	(-14.8)	29.0	(-8.5)	19.2	(+4.9)	38.7	(+13.7)	38.5	(+9.9)	-6.4	(-18.9)	3.8	(-24.7)
Poland	6.1	(-5.6)	25.0	(-13.0)	63.6	(+1.8)	46.4	(+15.4)	30.3	(+3.8)	28.6	(-2.4)	-24.2	(-9.4)	-3.6	(-10.6)
Romania	25.0	(+8.4)	52.2	(+8.2)	57.1	(+0.4)	30.4	(+2.4)	17.9	(-8.8)	17.4	(-10.6)	7.1	(+17.2)	34.8	(+18.8)
Turkey	20.5	(-5.0)	37.2	(-6.1)	48.7	(-2.5)	37.1	(+7.4)	30.8	(+7.5)	25.7	(-1.3)	-10.3	(-12.5)	11.5	(-4.8)
Eurozone	10.0	(-3.9)			60.0	(+6.5)			30.0	(-2.6)			-20.0	(-1.3)		
Long-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	30.0	(-4.5)	20.0	(-5.0)	43.3	(+8.8)	44.0	(+2.3)	26.7	(-4.3)	36.0	(+2.7)	3.3	(-0.2)	-16	(-7.7)
Czech Republic	33.3	(-3.9)	7.4	(-9.3)	51.5	(+14.4)	51.9	(+8.6)	15.2	(-10.5)	40.7	(+0.7)	18.1	(+6.6)	-33.3	(-10.0)
Hungary	42.4	(+1.8)	21.5	(-11.9)	15.2	(+5.8)	21.4	(+2.9)	42.4	(-7.6)	57.1	(+9.0)	0.0	(+9.4)	-35.6	(-20.9)
Poland	34.3	(-8.6)	13.3	(-10.9)	45.7	(+14.3)	46.7	(+1.9)	20.0	(-5.7)	40.0	(+9.0)	14.3	(-2.9)	-26.7	(-19.9)
Slovakia	35.4	(+3.2)	28.0	(+8.8)	45.2	(+9.7)	40.0	(-6.2)	19.4	(-12.9)	32.0	(-2.6)	16.0	(+16.1)	-4	(+11.4)
Turkey	23.0	(-15.1)	22.9	(-12.4)	46.2	(+17.6)	45.7	(+16.3)	30.8	(-2.5)	31.4	(-3.9)	-7.8	(-12.6)	-8.5	(-8.5)
Germany	48.4	(+5.5)			45.5	(-0.2)			6.1	(-5.3)			42.3	(+10.8)		
Stock market indices	increase		no change		decrease		balance									
EURO STOXX 50	57.6	(-3.5)			24.2	(+10.3)			18.2	(-6.8)			39.4	(+3.3)		
ATX (Austria)	57.7	(-12.7)			30.8	(+19.7)			11.5	(-7.0)			46.2	(-5.7)		
NTX (CEE)	60.0	(-2.5)			23.3	(+7.7)			16.7	(-5.2)			43.3	(+2.7)		
CROBEX (Croatia)	61.5	(+9.6)			23.1	(-6.5)			15.4	(-3.1)			46.1	(+12.7)		
PX 50 (Czech Rep.)	66.7	(+6.7)			22.2	(-4.5)			11.1	(-2.2)			55.6	(+8.9)		
BUX (Hungary)	51.9	(+1.9)			33.3	(+1.2)			14.8	(-3.1)			37.1	(+5.0)		
WIG (Poland)	62.1	(-5.6)			20.7	(+7.8)			17.2	(-2.2)			44.9	(-3.4)		
BET (Romania)	60.9	(+3.2)			26.1	(+3.0)			13.0	(-6.2)			47.9	(+9.4)		
SAX (Slovakia)	40.0	(-2.3)			48.0	(+9.5)			12.0	(-7.2)			28.0	(+4.9)		
ISE-100 (Turkey)	62.5	(-0.2)			22.5	(+8.5)			15.0	(-8.3)			47.5	(+8.1)		
Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance									
Kuna (Croatia)	30.0	(-10.0)			53.3	(+13.3)			16.7	(-3.3)			13.3	(-6.7)		
Koruna (Czech Rep.)	47.1	(+1.1)			44.1	(+0.9)			8.8	(-2.0)			38.3	(+3.1)		
Forint (Hungary)	30.3	(-15.2)			39.4	(+18.2)			30.3	(-3.0)			0.0	(-12.2)		
Zloty (Poland)	68.5	(+14.2)			22.9	(-8.5)			8.6	(-5.7)			59.9	(+19.9)		
Lei (Romania)	51.9	(+16.4)			29.6	(-22.0)			18.5	(+5.6)			33.4	(+10.8)		
Lira (Turkey)	50.0	(+12.2)			34.2	(+0.9)			15.8	(-13.1)			34.2	(+25.3)		
US-Dollar	40.4	(-9.6)			28.6	(+2.4)			31.0	(+7.2)			9.4	(-16.8)		

Note: 70 Financial market experts, 16 from which from Turkey, participated in the March survey which was conducted during the period 02/27/12-03/12/12. 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 February 2012 in parentheses). Balances refer to the differences between positive and negative assessments.

Financial Market Report CEE – published monthly

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