

ZEW, the Centre for European Economic Research, Mannheim, and Erste Group Bank AG, Vienna, carry out a monthly survey among approximately 160 financial market experts for Central and Eastern Europe (CEE), Austria, as well as the Eurozone. The experts are asked for their assessments and expectations with regard to economic and financial market data. The September issue of the "Financial Market Report CEE" contains the results of the current survey, conducted between July 28, 2014 and August 11, 2014, as well as an overview of the development of the indicators over the last three months. 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.

## Expectations for the CEE Region Deteriorate

During the past three months (from June 2014 until August 2014) the economic expectations for Central and Eastern Europe have displayed an overall deterioration. The ZEW-Erste Group Bank Economic Sentiment Indicator for the CEE region has decreased by overall 14.8 points over this period. At the beginning of the period, in June 2014, the indicator reached its highest level since December 2013 but subsequently dropped to its current level of 11.2 points. The decline of the sentiments for the CEE region over the past three months has been driven by an overall decline in the sentiments for almost all individual countries except Croatia. The respective indicator for Croatia has remained roughly unchanged at a level of 18.6 points which is the third-lowest level of sentiments after Turkey (minus 16.7 points in August) and Hungary (7.1 points in August).

Most of the declines in expectations come at odds with the most recent GDP growth figures of the individual countries. The growth rate in the Czech Republic marks with 2.9 per cent (seasonally adjusted) the fastest pace for the last three years. Poland has grown by 3.1 per cent (yoy) in the first quarter of 2014 which marks the largest growth in two years. Hungary has grown by 3.9 per cent (yoy) in the second quarter of 2014 which marks the fastest growth in seven years. In contrast, the preliminary estimates for the economic growth in Romania in the second

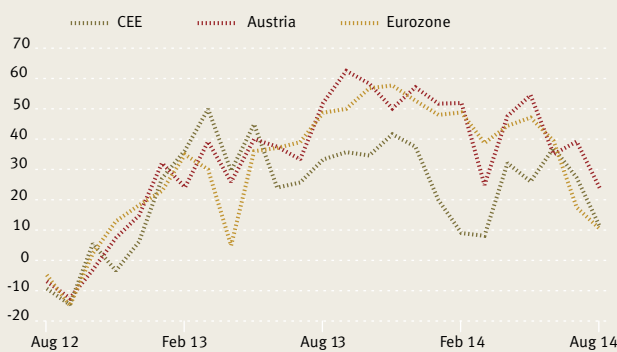
quarter of 2014 signal a slowdown. The growth rate was estimated at 1.2 per cent (yoy) which is the slowest pace of economic growth for the last years and a half.

Experts' assessment of the current situation has been largely volatile over the past three months. In June the respective indicator reached a level of 14.2 points which is its highest level since November 2013. However, the increase has been reversed to roughly the level of the indicator at the end of May 2014. The overall change over the past three months is minus 0.4 points.

Economic sentiments for the Eurozone and Austria have largely decreased over the past three months. Both sentiment indicators have dropped at the beginning of the period – a decrease by 19.5 points for Austria and by 7.7 points for the Eurozone. The indicator for the Eurozone has continued to decrease since then and displays an overall drop by 36.7 points over the past three months. A similar decrease by 30.6 points is displayed by the respective indicator of economic sentiments for Austria.

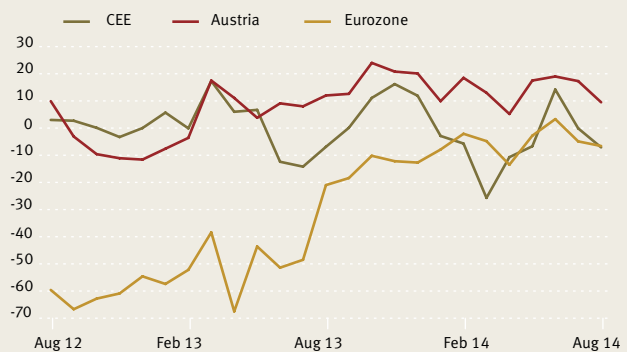
A moderate decrease is displayed by the indicators of experts' assessment of the current situation. The respective indicator for the Eurozone, albeit volatile, has dropped by 3.8 points overall. The total decrease of the indicator for Austria amounts to eight points.

Economic Expectations for CEE, Austria and the Eurozone



Balance of positive and negative economic expectations for the next 6 months.  
Source: ZEW

Assessment of Current Economic Situation in CEE, Austria and the Eurozone



Balance of positive and negative assessment of the current economic situation.  
Source: ZEW

## Czech Republic, Poland, and Slovakia: Stable Economic Sentiments

Economic expectations for the Czech Republic have again deteriorated over the past three months but have retained the highest ranking among the individual economies in the CEE region. The indicator of experts' expectations on the development of the economic conditions in the Czech Republic over the next six months currently stands at 32 points which is the highest level among all individual economies but at the same time 34.7 points lower than the value of the indicator three months ago. The opinion of the majority of survey participants is rather split between positive (44 per cent of the respondents) and neutral (44 per cent of the respondents) with only twelve per cent of the experts foreseeing a worsening in the economic conditions in the country in the mid-term. The current situation in the country is assessed as normal according to the majority of 76 per cent of the survey participants. The rather optimistic forecast is in line with recently published macroeconomic indicators. According to the revised GDP growth figures published by the Czech Statistical Office at the beginning of July, the economy has grown by 2.9 per cent (seasonally adjusted) which marks the fastest growth for the last three years.

Economic expectations for Poland have also decreased over the past three months. The indicator of experts' sentiments currently stands at 26.9 points, which is 18.0 points down from its value three months ago. The decline in expectations comes at odds with the most recently announced GDP growth figures. In the first quarter of the year the economy has grown by 3.1 per cent (yoy) which marks the largest growth in two years. At the same time, the Polish economy has recently faced a surprising ban on its fruits and vegetables exports to Russia. According to Itar-Tass the ban which applies to virtually all vegetables and fruits and all suppliers in the country was imposed on the ground of frequent violations of the thresholds for the concentration of pesticides and nitrates in fruits and vegetables.

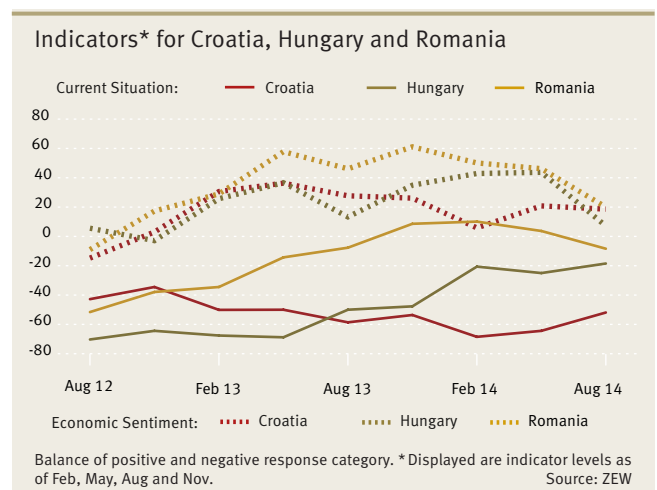
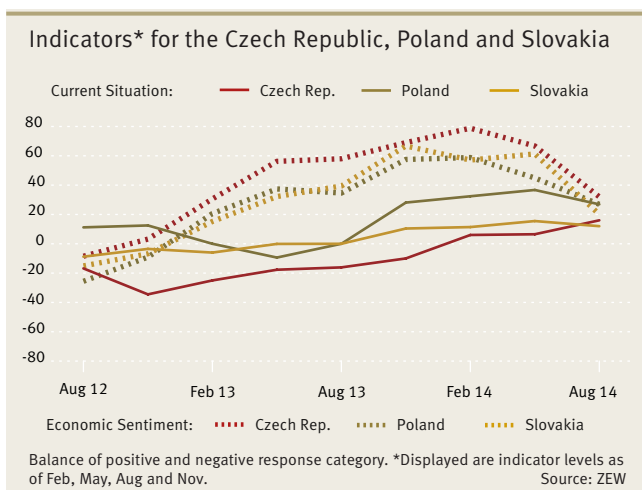
Experts' expectations on the future economic development of Slovakia have deteriorated over the past three months. The respective indicator is down 41.3 points over this period and currently stands at a level of 20 points. The majority of respondents (56.0 per cent) retain neutral expectations.

## Croatia, Hungary and Romania: Economic Outlook Deteriorates

Economic expectations for Hungary have deteriorated significantly over the past three months. The respective indicator is down overall 36.6 points over this period to a rather balanced current level of 7.1 points in August. Experts' assessment of the current economic situation, in contrast, has improved to a moderately negative level of minus 18.5 points, which is 6.5 points up over the past three months. The decline in expectations is at odds with the recently announced positive GDP growth figures. According to the Hungarian Central Statistical Office the economy has grown by 3.9 per cent (yoy) in the second quarter of 2014 which marks the fastest growth in seven years. At the same time the uncertainty in the banking sector has increased as the Hungarian lawmakers approved a law at the beginning of July, which requires banks to refund retail borrowers for exchange-rate margins on foreign-exchange loans and unilateral increases of fees as the latter are deemed unfair (Source: The Wall Street Journal).

Economic expectations for Romania have deteriorated significantly during the past three months. The respective indicator of experts' expectations with respect to the economic development in the country over the next six months has dropped sequentially by overall 26.2 points to a moderately optimistic level of 20 points in August. A majority of 80 per cent of the participants still retain their optimistic or neutral sentiments whereas one fifth of the survey respondents claim that the economy will deteriorate in the next half year. The decline is in line with the most recently announced GDP growth figures. According to the preliminary estimates of the National Institute for Statistics released in the middle of August, the economic growth in the second quarter of 2014 was estimated at 1.2 per cent (yoy) which is the slowest pace of economic growth for the last eighteen months.

Economic expectations for Croatia have remained roughly unchanged over the past three months. The respective indicator is down by 2.2 points to a level of 18.6 points. Experts' assessment of the current situation in the country has remained rather unchanged at a level of minus 51.9 points, up 12.5 points from its level three months ago. As of August, the majority of 51.9 per cent of the survey respondents claim that the current situation in the country is rather bad.

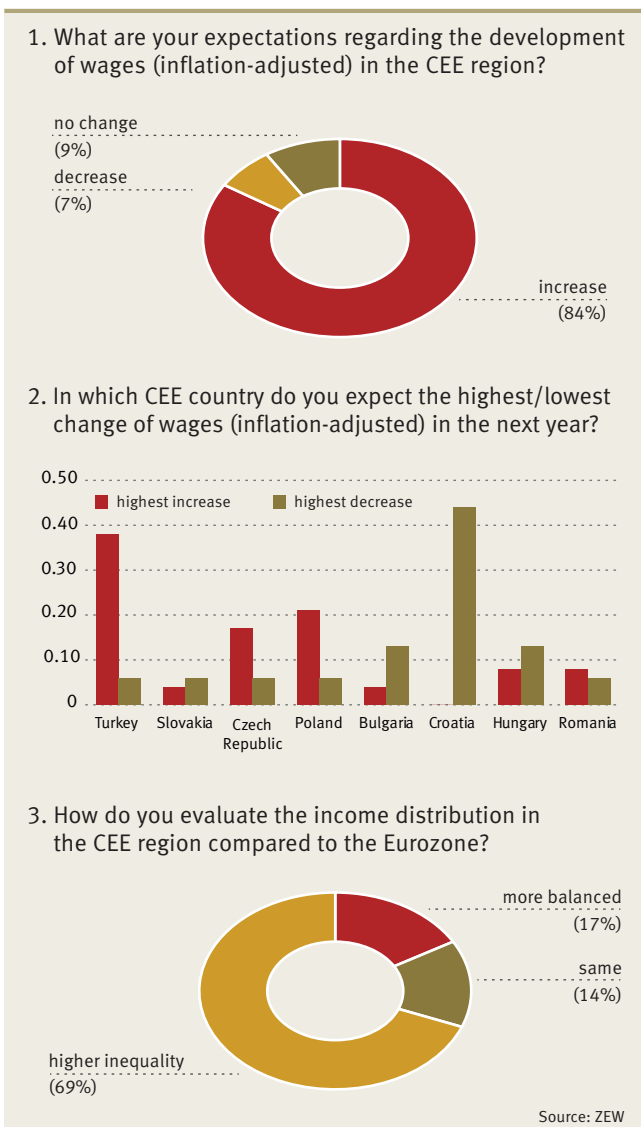


## Turkey: Economic Expectations Deteriorate



The indicator of economic expectations for Turkey has decreased over the past three months. Experts' expectations concerning the economic development in Turkey have dropped by overall 19.5 points. The decline can be ascribed to a considerable decrease of the indicator, in August 2014. The indicator has then dropped by 25.7 points and has therewith entered again negative territory. In August 2014 the indicator reflected experts' outlook on the economy after the presidential elections on August, 10th. Experts' assessment of the current economic situation has remained largely stable over the past three months. The respective indicator has decreased only marginally by 0.2 points since June 2014. In contrast to the indicator of economic expectations, experts' assessment of the current situation has improved by three points in August 2014, mirroring the partly positive assessment of the results of the presidential elections.

## Special Question: Wage Expectations and Wage Inequality in the CEE Region



Despite an overall increase in real wages in Eastern Europe during the last years, wage inequality in Europe is still a big issue. While wages in the CEE region are still distributed more unequally than in the Eurozone, financial experts expect the gap to close further during the next year. The highest increase in wages is expected for Turkey, followed by Poland and the Czech Republic, whereas the respondents expect the highest decrease in wages in Croatia. That is the result of this month's special question.

According to roughly 70 per cent of the survey members the CEE region is still characterized by a higher income inequality compared to the Eurozone. Only 17 per cent evaluate the income distribution as more balanced, while 14 per cent do not see any difference to the EU-18 countries. As the majority of the respondents (84 per cent) expect wages to increase in the CEE region, the gap between Central- and Eastern Europe and the Eurozone is likely to close further. Only seven per cent of the participants forecast decreasing wages.

Participants were also asked in which CEE country they expect the highest or lowest change of wages during the upcoming year. The majority of respondents (38 per cent) expect the highest change of wages in Turkey. This result is similar to the assessment of the survey participants one year ago. As respondents were asked about the inflation-adjusted wages, high inflation rates in Turkey cannot explain the optimistic assessments. Turkey is followed by Poland and Czech Republic, where real wages growth rates are expected to remain positive but moderate. More negative are the expectations for Croatia, Hungary and Bulgaria. 44 per cent of the respondents expect by far the highest decrease of real wages in Croatia, which is higher than the percentage of respondents sharing this opinion one year ago (24 per cent as of August 2013). This comes along with an unemployment rate of 17.8 per cent (as of July 2014, source: Croatian Bureau of Statistics) and a still shrinking economy with negative GDP growth rates for the last ten consecutive quarters (Source: Croatian Bureau of Statistics).

ZEW / Erste Group Bank - Financial Market Survey CEE: August 2014								
Current economic situation	good		acceptable (normal)		bad		balance	
Austria	9.5	(-11.2)	90.5	(+14.6)	0.0	(-3.4)	9.5 (-7.8)	
Croatia	0.0	(-2.8)	48.1	(-1.9)	51.9	(+4.7)	-51.9 (-7.5)	
Czech Republic	20.0	(+2.4)	76.0	(-6.4)	4.0	(+4.0)	16.0 (-1.6)	
Hungary	0.0	(-8.5)	81.5	(+18.6)	18.5	(-10.1)	-18.5 (+1.6)	
Poland	26.9	(-3.4)	73.1	(+3.4)	0.0	(±0.0)	26.9 (-3.4)	
Romania	8.3	(-7.3)	75.0	(-6.3)	16.7	(+13.6)	-8.4 (-20.9)	
Slovakia	16.0	(-7.5)	80.0	(+3.5)	4.0	(+4.0)	12.0 (-11.5)	
Turkey	11.8	(+7.3)	70.6	(-11.6)	17.6	(+4.3)	-5.8 (+3.0)	
CEE (incl. Turkey)	3.6	(-4.9)	85.7	(+2.8)	10.7	(+2.1)	-7.1 (-7.0)	
Eurozone	6.7	(-0.6)	80.0	(-0.5)	13.3	(+1.1)	-6.6 (-1.7)	
Economic expectations	improve		no change		worsen		balance	
Austria	33.4	(-9.4)	57.1	(+3.5)	9.5	(+5.9)	23.9 (-15.3)	
Croatia	37.1	(-1.8)	44.4	(-8.4)	18.5	(+10.2)	18.6 (-12.0)	
Czech Republic	44.0	(+1.6)	44.0	(-7.5)	12.0	(+5.9)	32.0 (-4.3)	
Hungary	35.7	(-8.4)	35.7	(+3.3)	28.6	(+5.1)	7.1 (-13.5)	
Poland	42.3	(+4.8)	42.3	(-7.7)	15.4	(+2.9)	26.9 (+1.9)	
Romania	40.0	(-8.3)	40.0	(-5.2)	20.0	(+13.5)	20.0 (-21.8)	
Slovakia	32.0	(-1.3)	56.0	(-4.6)	12.0	(+5.9)	20.0 (-7.2)	
Turkey	22.2	(-14.1)	38.9	(+2.5)	38.9	(+11.6)	-16.7 (-25.7)	
CEE (incl. Turkey)	37.1	(-2.3)	37.0	(-11.5)	25.9	(+13.8)	11.2 (-16.1)	
Eurozone	27.6	(-2.4)	55.2	(-2.3)	17.2	(+4.7)	10.4 (-7.1)	
Inflation rate	increase		no change		decrease		balance	
Austria	16.7	(+4.2)	61.1	(-22.2)	22.2	(+18.0)	-5.5 (-13.8)	
Croatia	37.5	(+10.2)	45.8	(-5.7)	16.7	(-4.5)	20.8 (+14.7)	
Czech Republic	31.9	(-14.5)	54.5	(+4.5)	13.6	(+10.0)	18.3 (-24.5)	
Hungary	46.1	(-7.2)	38.5	(+11.8)	15.4	(-4.6)	30.7 (-2.6)	
Poland	39.2	(-9.1)	47.8	(+6.4)	13.0	(+2.7)	26.2 (-11.8)	
Romania	31.8	(-9.6)	50.0	(+12.1)	18.2	(-2.5)	13.6 (-7.1)	
Slovakia	34.8	(-4.5)	52.2	(+5.8)	13.0	(-1.3)	21.8 (-3.2)	
Turkey	21.2	(-1.5)	39.4	(+3.0)	39.4	(-1.5)	-18.2 (±0.0)	
CEE (incl. Turkey)	30.5	(-2.8)	56.5	(-0.2)	13.0	(+3.0)	17.5 (-5.8)	
Eurozone	28.0	(+4.3)	52.0	(-13.8)	20.0	(+9.5)	8.0 (-5.2)	
Short-term interest rates	increase		no change		decrease		balance	
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]
Croatia	0.0 (-15.1)	4.8 (-8.6)	90.9 (+21.2)	85.7 (+12.4)	9.1 (-6.1)	9.5 (-3.8)	-9.1 (-9.0)	-4.7 (-4.8)
Czech Republic	15.0 (+2.1)	15.8 (+5.0)	75.0 (-2.4)	73.7 (-8.4)	10.0 (+0.3)	10.5 (+3.4)	5.0 (+1.8)	5.3 (+1.6)
Hungary	23.1 (-1.1)	25.0 (+1.7)	61.5 (+22.1)	62.5 (+22.5)	15.4 (-21.0)	12.5 (-24.2)	7.7 (+19.9)	12.5 (+25.9)
Poland	18.2 (+0.9)	15.7 (-0.3)	63.6 (+11.9)	63.2 (+11.2)	18.2 (-12.8)	21.1 (-10.9)	0.0 (+13.7)	-5.4 (+10.6)
Romania	18.2 (-6.1)	20.0 (-3.3)	68.2 (+16.7)	65.0 (+8.3)	13.6 (-10.6)	15.0 (-5.0)	4.6 (+4.5)	5.0 (+1.7)
Turkey	38.7 (+1.2)	48.3 (+6.7)	45.2 (+12.7)	34.5 (+6.7)	16.1 (-13.9)	17.2 (-13.4)	22.6 (+15.1)	31.1 (+20.1)
Eurozone	10.8 (-2.4)		82.1 (+3.2)		7.1 (-0.8)		3.7 (-1.6)	
Long-term interest rates	increase		no change		decrease		balance	
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]
Croatia	40.9 (-1.5)	38.1 (+10.5)	45.5 (-3.0)	42.9 (-19.2)	13.6 (+4.5)	19.0 (+8.7)	27.3 (-6.0)	19.1 (+1.8)
Czech Republic	45.0 (-6.6)	10.0 (-4.8)	40.0 (+4.5)	65.0 (-1.7)	15.0 (+2.1)	25.0 (+6.5)	30.0 (-8.7)	-15.0 (-11.3)
Hungary	38.4 (-14.5)	36.0 (-12.3)	46.2 (+13.8)	40.0 (+9.0)	15.4 (+0.7)	24.0 (+3.3)	23.0 (-15.2)	12.0 (-15.6)
Poland	22.8 (-15.1)	10.0 (-10.8)	54.5 (+6.2)	60.0 (+10.0)	22.7 (+8.9)	30.0 (+0.8)	0.1 (-24.0)	-20.0 (-11.6)
Slovakia	31.8 (-10.1)	14.3 (-4.2)	50.0 (+4.8)	66.7 (-3.7)	18.2 (+5.3)	19.0 (+7.9)	13.6 (-15.4)	-4.7 (-12.1)
Turkey	51.6 (+2.9)	44.9 (+0.8)	38.7 (+10.5)	37.9 (+5.5)	9.7 (-13.4)	17.2 (-6.3)	41.9 (+16.3)	27.7 (+7.1)
Germany	24.0 (-11.3)		68.0 (+15.1)		8.0 (-3.8)		16.0 (-7.5)	
Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	34.8	(-15.2)	30.4	(+14.8)	34.8	(+0.4)	0.0 (-15.6)	
ATX (Austria)	36.8	(-19.2)	31.6	(+15.6)	31.6	(+3.6)	5.2 (-22.8)	
NTX (CEE)	45.0	(-18.0)	20.0	(+16.3)	35.0	(+1.7)	10.0 (-19.7)	
CROBEX (Croatia)	42.8	(-13.1)	28.6	(+5.1)	28.6	(+8.0)	14.2 (-21.1)	
PX 50 (Czech Rep.)	42.9	(-19.2)	23.8	(+13.5)	33.3	(+5.7)	9.6 (-24.9)	
BUX (Hungary)	42.3	(-14.4)	30.8	(+17.5)	26.9	(-3.1)	15.4 (-11.3)	
WIG (Poland)	36.4	(-15.4)	31.8	(+7.7)	31.8	(+7.7)	4.6 (-23.1)	
BET (Romania)	40.0	(-29.0)	25.0	(+14.7)	35.0	(+14.3)	5.0 (-43.3)	
SAX (Slovakia)	23.8	(-20.2)	47.6	(+11.6)	28.6	(+8.6)	-4.8 (-28.8)	
ISE-100 (Turkey)	29.4	(-14.5)	23.5	(+1.5)	47.1	(+13.0)	-17.7 (-27.5)	
Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	8.7	(+5.7)	47.8	(-9.8)	43.5	(+4.1)	-34.8 (+1.6)	
Koruna (Czech Rep.)	23.8	(+4.5)	66.7	(-7.5)	9.5	(+3.0)	14.3 (+1.5)	
Forint (Hungary)	12.0	(-13.8)	48.0	(+15.7)	40.0	(-1.9)	-28.0 (-11.9)	
Zloty (Poland)	47.7	(+1.3)	33.3	(-16.7)	19.0	(+15.4)	28.7 (-14.1)	
Lei (Romania)	30.0	(+8.6)	55.0	(-9.3)	15.0	(+0.7)	15.0 (+7.9)	
Lira (Turkey)	16.1	(+0.3)	35.5	(-1.3)	48.4	(+1.0)	-32.3 (-0.7)	
US-Dollar	68.0	(+11.6)	28.0	(-0.2)	4.0	(-11.4)	64.0 (+23.0)	

Note: 65 Financial market experts, 13 from which from Turkey, participated in the August survey which was conducted during the period of 7/28-8/11/2014. 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 2014 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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