

The Centre for European Economic Research (ZEW), 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, and the Eurozone. The experts are asked for their assessments and expectations with regard to economic and financial market data. The June issue of the “Financial Market Report CEE” contains the results of the current survey, conducted between July 27, 2015, and August 10, 2015, as well as an overview depicting 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.

Fluctuations in Economic Expectations for the CEE Region

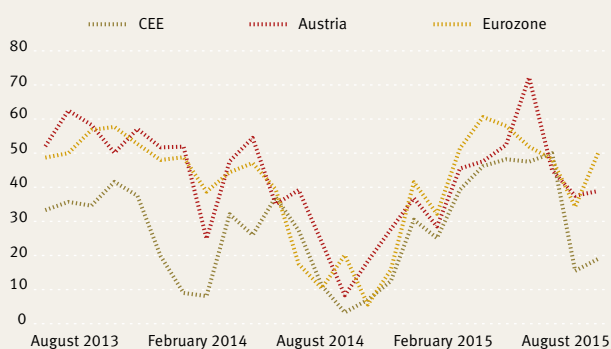
Over the past three months (from June 2015 until August 2015) the economic expectations for Central and Eastern Europe varied strongly. The ZEW-Erste Group Bank Economic Sentiment Indicator for the CEE region has shown an overall decrease of 28.5 points during this period. At the beginning of the period, in June 2015, the indicator increased by 2.5 points, followed by a major drop of 34.5 points in July and a subsequent recovery in August. In June the indicator reached its all-time high of 50.0 points. A majority of 55 per cent of the respondents expected economic conditions to improve in the medium term (over the next 6 months), whereas the opposite opinion was held by a minority of 5 per cent. In the following month, in July 2015, the indicator dropped significantly to 15.5 points, reaching its lowest level since November 2014. The decrease 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 for Romania. The respective indicator for Romania has remained stable at a level of 50.0 points in the period covered by the survey. Among the individual countries, Poland recorded the largest decline in economic sentiments. The respective indicator has dropped by 30.5 points over the past three months.

Experts’ assessment of the current situation in the CEE region has varied considerably over the past three months. In June, the respective indicator dropped by 24.4 points and subsequently overcompensated for the decline by improving by 30.4 points in July. In August, the indicator settled at a level of minus 4.7 points.

Economic sentiments and experts’ assessment of the current situation in Austria have undergone similar changes to the respective CEE indicators over the past three months. Following large fluctuations, the indicator of experts’ economic expectations for Austria has settled at a level of 38.9 points after an overall drop of 33.3 points over the past three months. The respective indicator for experts’ assessment of the current situation in Austria has settled at a slightly negative level of minus 5.6 points after an overall decrease of 22.2 points over the past three months.

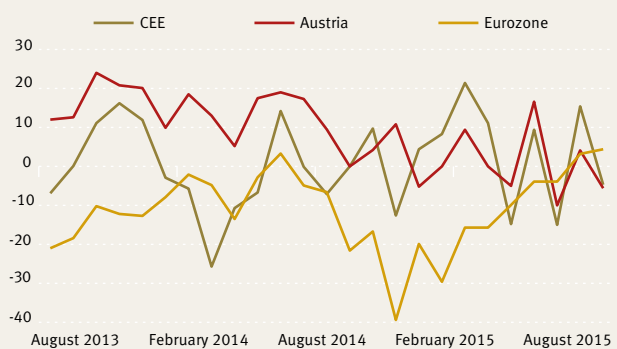
Experts’ assessment of the economic situation in the Eurozone has improved over the past three months. The indicator has improved by altogether 8.3 points over the past three months, reaching 4.4 points. In July, the indicator entered positive territory for the first time in over a year (a positive level of the indicator was last measured in June 2014). With 4.4 points, the indicator is currently at its highest level since June 2008.

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



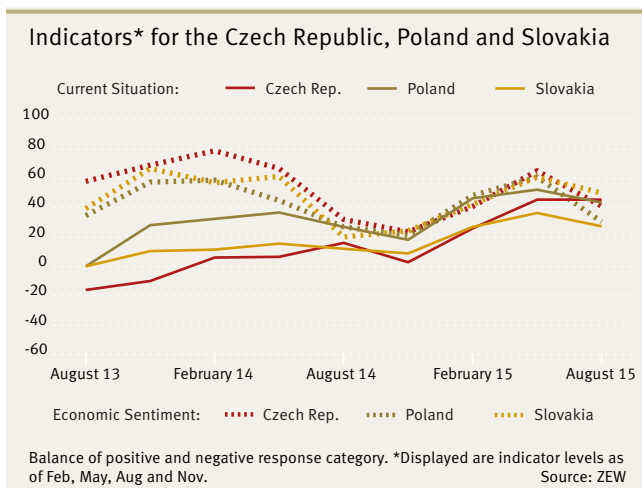
Balance of positive and negative assessment of the current economic situation.
Source: ZEW

Czech Republic, Poland, and Slovakia: Stable Current Situation

The surveyed experts' expectations for the Czech economy have been decreasing slowly from a very high balance of 68.0 points in April 2015 to 41.0 points in August 2015. However, the financial analysts' assessment of the current situation of the Czech economy has been showing a rising trend, after recovering from a slight drop in the balance in June 2015 to a balance of 45.5 points in August 2015. This overall very positive assessment of the Czech economy may be linked to very high preliminary GDP estimates of 4.4 per cent (yoy) for the second quarter of 2015 (Czech Statistical Office), which would make the Czech Republic the currently fastest growing economy of the EU (Source: Bloomberg).

Economic expectations for Poland have fallen over the last three months, dropping from a high balance of 60.9 points in May 2015 to a balance of 30.4 points in August 2015. The sentiment indicator for Poland displayed the largest decrease of all CEE countries for Poland may be linked to high political uncertainty preceding the Polish parliamentary election in October 2015. The assessment of Poland's current economic situation remains positive and stable, at a balance of 43.5 points in August 2015. The indicator has now largely recovered from a drop of 19 points to 33.3 points in June 2015. This could be linked to the high and stable levels of GDP growth, since the Polish Central Statistical Office reported a growth in GDP for the sixth consecutive quarter, with a growth rate of 3.6 per cent (yoy) in the second quarter of 2015.

The surveyed financial analysts' assessment of the current economic situation in Slovakia declined by 10 points from a level of 36.4 points in May 2015 to 26.1 points in June 2015. It has since stabilized, and stood at 27.3 points in the August 2015 survey. The assessment of Slovakia's economic outlook is more positive, the corresponding indicator currently standing at a balance of 50 points. The indicator has thus recovered by nearly 15.4 points after having dropped to 34.6 points in July 2015. This may be a positive reaction to Slovakia's raised credit rating to A+ by Standard & Poor's, as a result of increased economic growth and the government's resolve to decreasing the budget deficit (Source: Bloomberg).

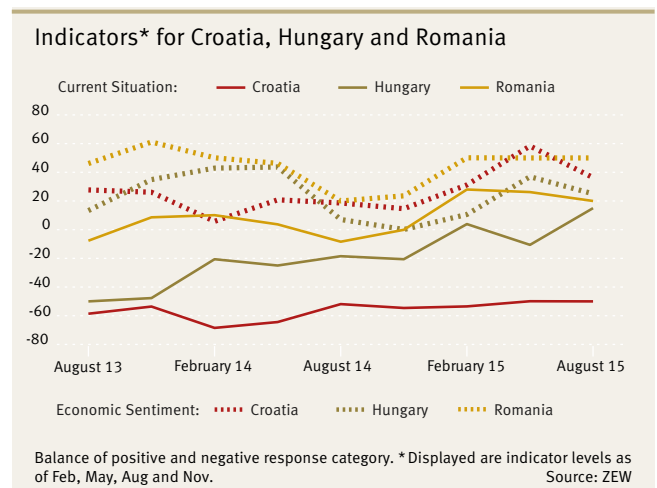


Croatia, Hungary and Romania: Economic Sentiments Deteriorate

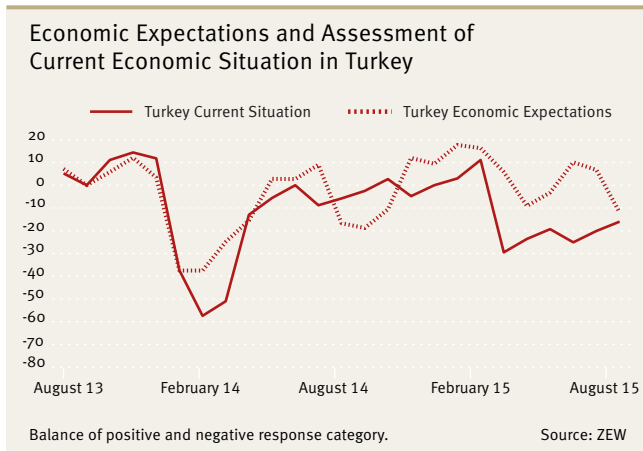
Croatia's current economic situation continues to be rated very poorly by the surveyed financial analysts, standing at a balance of -50.0 points in August 2015, with 50 per cent of the survey respondents rating the current situation of Croatia as "bad". The indicator has been fluctuating around this very low balance since 2012. The assessment of the economic outlook for Croatia is more positive, standing at a balance of 36.3 points in August 2015. However, the indicator has dropped slightly after reaching its highest level since January 2010, with a balance of 58.3 points in May 2015. Despite the negative assessment of Croatia's current economic situation, the optimism reflected in the positive economic expectations may be a result of the Croatian Bureau of Statistics reports of a positive GDP growth for the third consecutive quarter, with a growth of 1.2 per cent (yoy) for the second quarter of 2015, after many years of recession.

The assessment of Hungary's current economic situation by the surveyed financial analysts has reached its highest balance since the start of the Financial Market Survey CEE in May 2007, although it still records a relatively modest balance of 15.0 points in August 2015. The indicator for the economic expectations for Hungary stands at a balance of 25.0 points in August 2015, having dropped from its peak of 47.9 points in April 2015 over the last few months. However, a majority of 65 per cent of the surveyed financial analysts, respectively, rates both the current economic situation and the economic outlook for Hungary as "normal" in August 2015.

The surveyed experts' expectations for Romania's economy remain positive and stable, standing at a balance of 50.0 points in the August 2015 survey, and having fluctuated around the 50.0 point balance since February 2015. The indicator for the current economic situation in Romania stands at 20.0 points in August 2015, after having dropped from 26.2 points in May 2015 to 14.2 points in June 2015. The overwhelming majority of surveyed financial analysts rate Romania's current economic situation as "normal" (70.0 per cent in August 2015). This generally positive assessment of both the current situation and the economic outlook in Romania is in line with a 4.3 per cent GDP growth surge in Romania for the first quarter of 2015 (yoy).

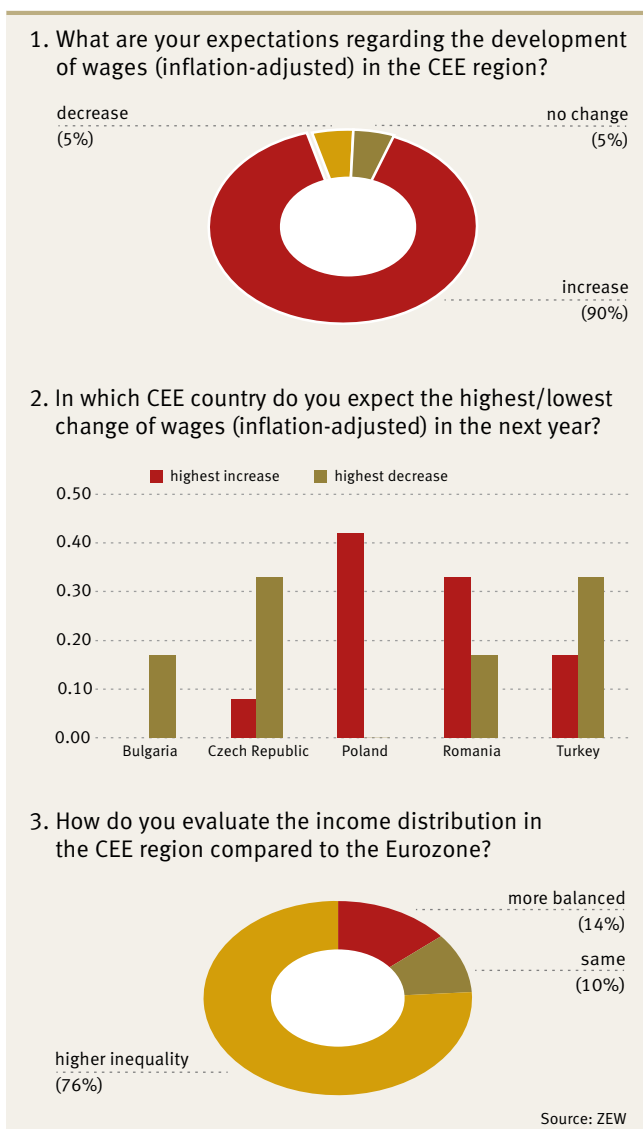


Economic Expectations Deteriorate to Match Weak Current Situation



The financial experts' assessment of the economic outlook for Turkey has fallen to -12.0 points in August 2015, after a brief climb to 10.1 points in June. The economic expectations are now at a similar level as the assessment of the country's current situation, which stood at -16.0 points in the last survey wave in August 2015. While economic expectations have been fluctuating slightly around the 0.0 point mark over the last six months, the assessment of the current situation has been steadily low at around -20.0 points since March 2015. This generally negative view of the prospects and current situation of the Turkish economy may be linked to political uncertainty in the country, with the announcement of new elections due in November and a renewed flare-up of geopolitical conflicts. However, a majority of the financial analysts rate both the current economic situation (76 per cent) as well as the expectations as "normal" (64 per cent) in August 2015.

Special Question: Wage Expectations and Wage Inequality



In this month's Special Question, the participants were asked to give their assessment of the development of wages and the income distribution in the CEE region and the individual CEE countries. While most survey correspondents agreed that there is a higher inequality of income in the CEE region compared to the Eurozone, a majority of the surveyed financial analysts also expect real wages to increase at a higher rate in the CEE region than in the Eurozone. The highest increase is expected for Poland, followed by Romania. The highest decreases in real wages are expected for Turkey and the Czech Republic.

With 76 per cent, a large majority of the surveyed financial experts assert that the CEE region is still characterized by a higher income inequality than the Eurozone countries. However, experts are largely optimistic about the development of the real wages in the CEE countries in the future. Around 90 per cent of the experts expect the real wages in the CEE region to increase over the course of the next year. Among them, around 60 per cent expect the real wages in the CEE region to increase at a higher rate than the real wages in the Eurozone in the next year. Thus, the gap in income distribution between the CEE region and the Eurozone is expected to decrease over the next year.

The highest increase in real wages is expected for Poland in the next year. This opinion is shared by 42 per cent of the survey respondents. This is in line with recent trends, as the Central Statistical Office of Poland reported a 3.5 per cent increase in real wages in 2014. Similarly, the surveyed financial analysts expect Romania to have one of the highest rates of real wage increases in the CEE region in the next year. For Croatia, 45 per cent of survey respondents expect the lowest increase in real wages to take place. This result comes against the backdrop of positive GDP growth projections for the next year. About 30 per cent of survey respondents expect the highest decrease in real wages to take place in the Czech Republic. There is a large disagreement regarding the expected development of the real wages in Turkey. A majority of about 30 per cent of the participants expect that Turkey will face the highest decrease in real wages in the next year.

Henrietta Sandmann, Zwetelina Iliewa

| ZEW / Erste Group Bank - Financial Market Survey CEE: August 2015 | | | | | | | | | | | | | | | | |
|---|------------|---------|---------------------|---------|------------|---------|---------|---------|------|---------|------|---------|-------|---------|-------|---------|
| Current economic situation | | | | | | | | | | | | | | | | |
| | good | | acceptable (normal) | | bad | | balance | | | | | | | | | |
| Austria | 0.0 | (- 8.3) | 94.4 | (+ 6.9) | 5.6 | (+ 1.4) | -5.6 | (- 9.7) | | | | | | | | |
| Croatia | 0.0 | (- 6.5) | 50.0 | (+11.3) | 50.0 | (- 4.8) | -50.0 | (- 1.7) | | | | | | | | |
| Czech Republic | 45.5 | (+12.2) | 54.5 | (- 8.0) | 0.0 | (- 4.2) | 45.5 | (+16.4) | | | | | | | | |
| Hungary | 25.0 | (+ 2.2) | 65.0 | (+10.5) | 10.0 | (-12.7) | 15.0 | (+14.9) | | | | | | | | |
| Poland | 43.5 | (- 0.9) | 56.5 | (+ 0.9) | 0.0 | (± 0.0) | 43.5 | (- 0.9) | | | | | | | | |
| Romania | 25.0 | (+ 4.2) | 70.0 | (- 5.0) | 5.0 | (+ 0.8) | 20.0 | (+ 3.4) | | | | | | | | |
| Slovakia | 27.3 | (- 3.5) | 72.7 | (+ 7.3) | 0.0 | (- 3.8) | 27.3 | (+ 0.3) | | | | | | | | |
| Turkey | 4.0 | (- 2.6) | 76.0 | (+ 9.3) | 20.0 | (- 6.7) | -16.0 | (+ 4.1) | | | | | | | | |
| CEE (incl. Turkey) | 4.8 | (-10.6) | 85.7 | (+ 1.1) | 9.5 | (+ 9.5) | -4.7 | (-20.1) | | | | | | | | |
| Eurozone | 8.7 | (+ 2.4) | 87.0 | (- 3.6) | 4.3 | (+ 1.2) | 4.4 | (+ 1.2) | | | | | | | | |
| Economic expectations | | | | | | | | | | | | | | | | |
| | improve | | no change | | worsen | | balance | | | | | | | | | |
| Austria | 38.9 | (+ 1.4) | 61.1 | (- 1.4) | 0.0 | (± 0.0) | 38.9 | (+ 1.4) | | | | | | | | |
| Croatia | 45.4 | (- 1.3) | 45.5 | (- 4.5) | 9.1 | (+ 5.8) | 36.3 | (- 7.1) | | | | | | | | |
| Czech Republic | 45.5 | (+ 7.0) | 50.0 | (-11.5) | 4.5 | (+ 4.5) | 41.0 | (+ 2.5) | | | | | | | | |
| Hungary | 30.0 | (+ 6.0) | 65.0 | (- 7.0) | 5.0 | (+ 1.0) | 25.0 | (+ 5.0) | | | | | | | | |
| Poland | 39.1 | (- 5.3) | 52.2 | (+ 0.3) | 8.7 | (+ 5.0) | 30.4 | (-10.3) | | | | | | | | |
| Romania | 50.0 | (+18.0) | 50.0 | (-18.0) | 0.0 | (± 0.0) | 50.0 | (+18.0) | | | | | | | | |
| Slovakia | 50.0 | (+15.4) | 50.0 | (-15.4) | 0.0 | (± 0.0) | 50.0 | (+15.4) | | | | | | | | |
| Turkey | 12.0 | (- 8.0) | 64.0 | (- 2.7) | 24.0 | (+10.7) | -12.0 | (-18.7) | | | | | | | | |
| CEE (incl. Turkey) | 33.3 | (+ 6.3) | 52.4 | (- 9.1) | 14.3 | (+ 2.8) | 19.0 | (+ 3.5) | | | | | | | | |
| Eurozone | 58.4 | (+14.7) | 33.3 | (-13.6) | 8.3 | (- 1.1) | 50.1 | (+15.8) | | | | | | | | |
| Inflation rate | | | | | | | | | | | | | | | | |
| | increase | | no change | | decrease | | balance | | | | | | | | | |
| Austria | 38.9 | (- 2.8) | 61.1 | (+ 2.8) | 0.0 | (± 0.0) | 38.9 | (- 2.8) | | | | | | | | |
| Croatia | 36.4 | (- 2.3) | 59.1 | (+ 1.0) | 4.5 | (+ 1.3) | 31.9 | (- 3.6) | | | | | | | | |
| Czech Republic | 63.6 | (+ 9.7) | 36.4 | (- 5.9) | 0.0 | (- 3.8) | 63.6 | (+13.5) | | | | | | | | |
| Hungary | 75.0 | (+16.6) | 25.0 | (- 8.3) | 0.0 | (- 8.3) | 75.0 | (+24.9) | | | | | | | | |
| Poland | 59.1 | (- 0.2) | 36.4 | (- 0.8) | 4.5 | (+ 0.8) | 54.6 | (- 1.0) | | | | | | | | |
| Romania | 30.0 | (-11.7) | 45.0 | (- 0.8) | 25.0 | (+12.5) | 5.0 | (-24.2) | | | | | | | | |
| Slovakia | 69.6 | (+ 6.6) | 30.4 | (- 2.9) | 0.0 | (- 3.7) | 69.6 | (+10.3) | | | | | | | | |
| Turkey | 56.0 | (+ 4.4) | 36.0 | (- 2.7) | 8.0 | (- 1.7) | 48.0 | (+ 6.1) | | | | | | | | |
| CEE (incl. Turkey) | 55.0 | (+ 8.8) | 40.0 | (-10.0) | 5.0 | (+ 1.2) | 50.0 | (+ 7.6) | | | | | | | | |
| Eurozone | 66.7 | (+10.4) | 33.3 | (- 7.3) | 0.0 | (- 3.1) | 66.7 | (+13.5) | | | | | | | | |
| Short-term interest rates | | | | | | | | | | | | | | | | |
| | increase | | no change | | decrease | | balance | | | | | | | | | |
| | [abs.] | [rel.] | [abs.] | [rel.] | [abs.] | [rel.] | [abs.] | [rel.] | | | | | | | | |
| Croatia | 5.0 | (- 6.1) | 10.6 | (- 4.8) | 85.0 | (+10.9) | 78.9 | (+ 2.0) | 10.0 | (- 4.8) | 10.5 | (+ 2.8) | -5.0 | (- 1.3) | 0.1 | (- 7.6) |
| Czech Republic | 0.0 | (- 4.3) | 0.0 | (± 0.0) | 90.0 | (+11.7) | 88.2 | (+ 2.5) | 10.0 | (- 7.4) | 11.8 | (- 2.5) | -10.0 | (+ 3.1) | -11.8 | (+ 2.5) |
| Hungary | 0.0 | (- 9.1) | 5.3 | (+ 0.3) | 85.0 | (+30.5) | 78.9 | (+ 8.9) | 15.0 | (-21.4) | 15.8 | (- 9.2) | -15.0 | (+12.3) | -10.5 | (+ 9.5) |
| Poland | 0.0 | (- 8.7) | 0.0 | (± 0.0) | 95.0 | (+25.4) | 94.1 | (+14.1) | 5.0 | (-16.7) | 5.9 | (-14.1) | -5.0 | (+ 8.0) | -5.9 | (+14.1) |
| Romania | 0.0 | (- 4.6) | 5.5 | (+ 5.5) | 84.2 | (+11.5) | 77.8 | (- 7.2) | 15.8 | (- 6.9) | 16.7 | (+ 1.7) | -15.8 | (+ 2.3) | -11.2 | (+ 3.8) |
| Turkey | 39.1 | (+ 0.7) | 40.9 | (- 2.6) | 43.5 | (- 2.7) | 40.9 | (- 2.6) | 17.4 | (+ 2.0) | 18.2 | (+ 5.2) | 21.7 | (- 1.3) | 22.7 | (- 7.8) |
| Eurozone | 0.0 | (- 3.5) | | | 100.0 | (+ 7.1) | | | 0.0 | (- 3.6) | | | 0.0 | (+ 0.1) | | |
| Long-term interest rates | | | | | | | | | | | | | | | | |
| | increase | | no change | | decrease | | balance | | | | | | | | | |
| | [abs.] | [rel.] | [abs.] | [rel.] | [abs.] | [rel.] | [abs.] | [rel.] | | | | | | | | |
| Croatia | 40.0 | (- 4.5) | 26.3 | (- 8.3) | 55.0 | (+18.0) | 63.2 | (+13.2) | 5.0 | (-13.5) | 10.5 | (- 4.9) | 35.0 | (+ 9.0) | 15.8 | (- 3.4) |
| Czech Republic | 61.9 | (+16.5) | 15.0 | (+15.0) | 38.1 | (- 7.4) | 75.0 | (-10.7) | 0.0 | (- 9.1) | 10.0 | (- 4.3) | 61.9 | (+25.6) | 5.0 | (+19.3) |
| Hungary | 55.0 | (+12.2) | 36.8 | (+15.7) | 40.0 | (- 2.9) | 47.4 | (- 5.2) | 5.0 | (- 9.3) | 15.8 | (-10.5) | 50.0 | (+21.5) | 21.0 | (+26.2) |
| Poland | 61.9 | (+24.4) | 26.3 | (+21.5) | 38.1 | (- 7.7) | 68.4 | (- 3.0) | 0.0 | (-16.7) | 5.3 | (-18.5) | 61.9 | (+41.1) | 21.0 | (+40.0) |
| Slovakia | 50.0 | (+19.6) | 4.7 | (+ 4.7) | 50.0 | (-10.9) | 90.5 | (+ 8.7) | 0.0 | (- 8.7) | 4.8 | (-13.4) | 50.0 | (+28.3) | -0.1 | (+18.1) |
| Turkey | 56.5 | (+ 2.6) | 54.6 | (+ 4.6) | 34.8 | (- 7.5) | 31.8 | (-14.0) | 8.7 | (+ 4.9) | 13.6 | (+ 9.4) | 47.8 | (- 2.3) | 41.0 | (- 4.8) |
| Germany | 54.1 | (+13.4) | | | 41.7 | (-13.9) | | | 4.2 | (+ 0.5) | | | 49.9 | (+12.9) | | |
| Stock market indices | | | | | | | | | | | | | | | | |
| | increase | | no change | | decrease | | balance | | | | | | | | | |
| EURO STOXX50 | 55.0 | (-11.7) | 35.0 | (+14.2) | 10.0 | (- 2.5) | 45.0 | (- 9.2) | | | | | | | | |
| ATX (Austria) | 81.2 | (+ 9.7) | 12.5 | (- 6.5) | 6.3 | (- 3.2) | 74.9 | (+12.9) | | | | | | | | |
| NTX (CEE) | 71.5 | (+10.4) | 21.4 | (-11.9) | 7.1 | (+ 1.5) | 64.4 | (+ 8.9) | | | | | | | | |
| CROBEX (Croatia) | 63.2 | (+14.9) | 36.8 | (- 8.0) | 0.0 | (- 6.9) | 63.2 | (+21.8) | | | | | | | | |
| PX50 (Czech Rep.) | 76.5 | (+14.6) | 23.5 | (- 9.8) | 0.0 | (- 4.8) | 76.5 | (+19.4) | | | | | | | | |
| BUX (Hungary) | 70.6 | (+18.2) | 29.4 | (- 3.9) | 0.0 | (-14.3) | 70.6 | (+32.5) | | | | | | | | |
| WIG (Poland) | 83.3 | (+16.7) | 11.1 | (- 5.6) | 5.6 | (-11.1) | 77.7 | (+27.8) | | | | | | | | |
| BET (Romania) | 75.0 | (- 1.2) | 25.0 | (+ 6.0) | 0.0 | (- 4.8) | 75.0 | (+ 3.6) | | | | | | | | |
| SAX (Slovakia) | 57.1 | (+ 1.5) | 42.9 | (- 1.5) | 0.0 | (± 0.0) | 57.1 | (+ 1.5) | | | | | | | | |
| ISE-100 (Turkey) | 40.9 | (- 5.6) | 27.3 | (- 4.8) | 31.8 | (+10.4) | 9.1 | (-16.0) | | | | | | | | |
| Exchange rates (vs. Euro) | | | | | | | | | | | | | | | | |
| | appreciate | | no change | | depreciate | | balance | | | | | | | | | |
| Kuna (Croatia) | 9.1 | (+ 2.4) | 54.5 | (- 5.5) | 36.4 | (+ 3.1) | -27.3 | (- 0.7) | | | | | | | | |
| Koruna (Czech Rep.) | 8.4 | (- 9.0) | 83.3 | (+13.7) | 8.3 | (- 4.7) | 0.1 | (- 4.3) | | | | | | | | |
| Forint (Hungary) | 19.0 | (± 0.0) | 28.6 | (- 9.5) | 52.4 | (+ 9.5) | -33.4 | (- 9.5) | | | | | | | | |
| Zloty (Poland) | 38.1 | (- 9.7) | 38.1 | (- 5.4) | 23.8 | (+15.1) | 14.3 | (-24.8) | | | | | | | | |
| Lei (Romania) | 26.3 | (+ 2.5) | 57.9 | (-13.5) | 15.8 | (+11.0) | 10.5 | (- 8.5) | | | | | | | | |
| Lira (Turkey) | 17.4 | (+ 2.0) | 26.1 | (- 4.7) | 56.5 | (+ 2.7) | -39.1 | (- 0.7) | | | | | | | | |
| US-Dollar | 50.0 | (± 0.0) | 26.9 | (- 1.7) | 23.1 | (+ 1.7) | 26.9 | (- 1.7) | | | | | | | | |

Note: 48 Financial market experts, 6 from which from Turkey, participated in the August survey which was conducted during the period of 7/27-8/10/2015. 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 2015 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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