

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 September 3, 2012 and September 17, 2012, are published in the October 2012 issue of the "Financial Market Report CEE". 77 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 the Central and Eastern European Region Decline

Economic expectations for Central and Eastern Europe including Turkey (CEE region) on a six-month time horizon have worsened in September. The respective indicator has dropped by 5.3 points to minus 14.6 points. The evaluation of the current economic situation in the CEE region remained almost unchanged at a level of 2.7 points after a decrease by 0.3 points. Economic expectations for the Eurozone within the next six months display a double digit decrease by 10.1 points to minus 14.9 points

this month. The assessment of the current business activity in the Eurozone has dropped by 7.1 points and reached a value of minus 66.7 points this month. The indicator reflecting the economic expectations for Austria within the next six months has slightly worsened by 5.6 points and has reached a level of minus 12.5 points. The evaluation of the current economic situation in Austria has diminished by 13.0 points to a level of minus 3.1 points in September.

Economic Outlook for the CEE Region, Austria and the Eurozone

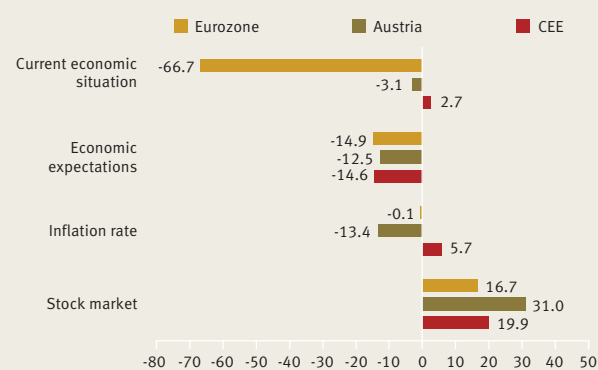
The ZEW-Erste Group Bank Economic Sentiment Indicator for Central and Eastern Europe including Turkey (CEE), which is calculated as the balance of positive and negative assessments of the economic development on a six-month time horizon, has dropped by 5.3 points to a level of minus 14.6 points in September. The respective indicators of economic sentiments for the Eurozone and Austria have declined by 10.1 points (Eurozone) and 5.6 points (Austria) as well to levels of minus 14.9 points (Eurozone) and minus 12.5 points (Austria). Experts' assessment on the current economic situation in the CEE region has remained almost unchanged at a level of 2.7 points after a marginal decrease by 0.3 points this month. The indicator of the current business activity in the Eurozone has decreased by 7.1 points to a level of minus 66.7 points. The respective indicator for Austria has decreased by 13.0 points – the largest decrease among all surveyed economies. The indicator thereby reaches negative territory for the first time since January 2012.

Inflation expectations for the CEE region display a large disagreement among financial market experts. Roughly one third of the respondents allege that the inflation rate in the region is going to increase and another almost one third rather expects a decreasing inflation rate. For the Eurozone and Austria the majority of participants expect a stable level of inflation within the next six months. This is the opinion of 45.5 per cent (Eurozone) and 60.0 per cent (Austria) of the survey participants. An upwards revision of experts' expectations on the development of the

short-term interest rate in the next six months is displayed in the responses in September.

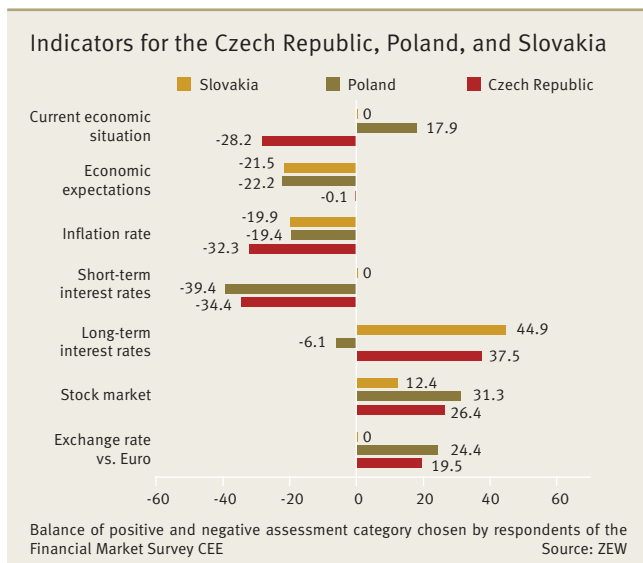
Experts have revised their expectations on the CEE stock market index NTX in September. Although the majority of the respondents expect a bullish development on the CEE stock markets, the respective indicator has decreased in September by 11.1 points indicating a strong bearish revision of stock market sentiments. Expectations on the European EUROSTOXX 50 and the Austrian ATX have remained roughly unchanged.

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: Currency Depreciation in Sight



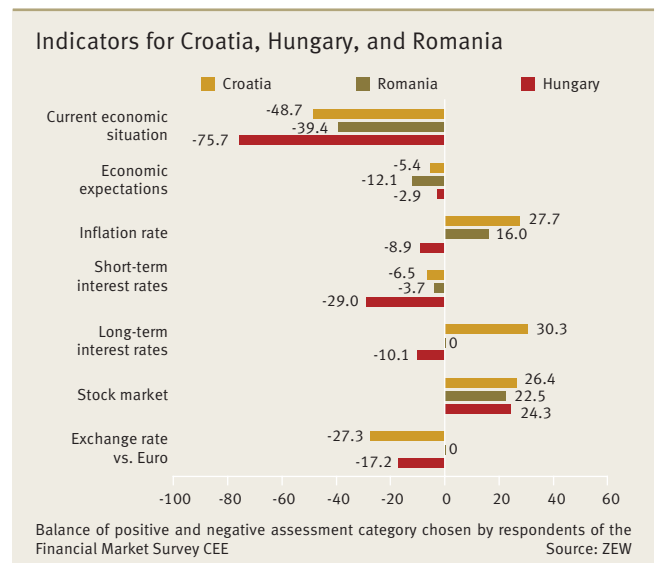
Economic expectations for Poland and the Czech Republic have improved in September. The respective indicators have increased by 3.4 points (Poland) and 8.4 points (Czech Republic). Despite its slight increase the indicator of economic sentiment for Poland remains at the lowest level among all surveyed economies standing at the minus 22.2 points-level. The sentiment indicator for the Czech Republic almost crawls back to the balanced 0.0 points-mark. The respective indicator for Slovakia has decreased by 6.4 points to a level of minus 21.5 points this month. Experts' assessment of the current economic situation has improved for Poland and Slovakia. The respective indicators have increased by 6.7 points (Poland) and 8.8 points (Slovakia) to levels of 17.9 (Poland) and a balanced 0.0 points-mark (Slovakia). The indicator of the current business activity for the Czech Republic has displayed a double digit decline by 11.4 points to a level of minus 28.2 points.

The indicators reflecting the expected inflation rate for Czech Republic and Poland have fallen by 2.9 points and 4.6 points to minus 32.3 points and minus 19.4 points respectively.

Following the opinion of the financial market experts the Czech short-term interest rates are expected to decline. The short-term interest rates in Poland are expected to decrease as well. The respective indicator has fallen by 7.2 points to a level of minus 39.4 points.

Stock market expectations display a bullish revision for all three stock market indices – the Czech PX50, the Polish WIG and the Slovakian SAX. The indicators of experts' stock market sentiments have increased by 11.1 points (Czech Republic), 10.5 points (Poland) and 12.4 points (Slovakia). A major revision has been observed in experts' expectations for the Czech Koruna and the Polish Zloty. The respective indicators have decreased by 21.1 points (Czech Koruna) and 10.0 (Polish Zloty) indicating a revision of expectations towards depreciation within the next six months. Despite the revision, the majority of survey participants expect both currencies to remain stable or appreciate with less than one fifth of the experts expecting a depreciation of both currencies.

Croatia, Hungary and Romania: Bullish Stock Market Revision

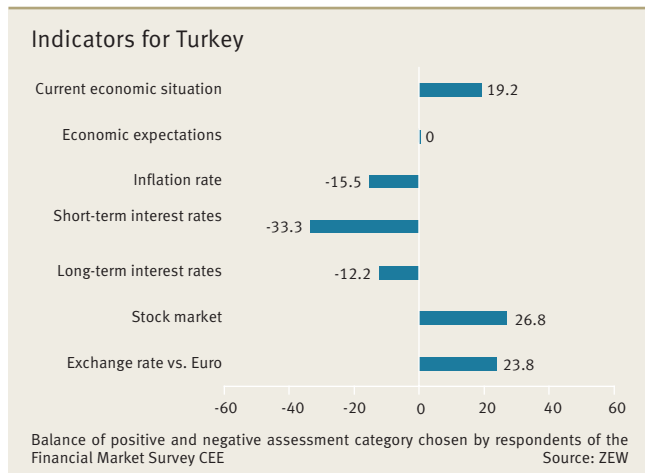


Economic expectations for Croatia have improved this month. The respective indicator has increased by 9.4 points to a level of minus 5.4 points. The expectations for Hungary and Romania have in contrast slightly decreased by 8.5 points (Hungary) and 3.1 points (Romania). The respective indicators currently hover at minus 2.9 points (Hungary) and minus 12.1 points (Romania). Experts' assessment of the current economic situation in Croatia and Hungary has slightly decreased this month. After a change by minus 5.9 points and minus 5.4 points respectively the indicators approach levels of minus 48.7 and minus 75.7 points respectively. The indicator for Romania displays a double digit increase by 12.2 points and currently stands at a level of minus 39.4 points.

Inflation concerns for Romania have decreased in this month's survey. The respective indicator has fallen by 6.6 points to a level of 16.0 points. Expectations for Croatia and Hungary have remained almost unchanged. The respective indicator for Croatia has fallen by 0.4 points to a level of 27.7 points. Inflation concerns for Croatia and Romania thereby stand at the highest levels among all surveyed economies. The respective indicator for Hungary has remained almost unchanged at a level of minus 8.9 points. Financial market experts' expectations on the short-term interest rates of Croatia and Romania have decreased this month by 10.3 points (Croatia) and 7.2 points (Romania) to levels of minus 6.5 (Croatia) and minus 3.7 points (Romania). In contrast, the respective indicator of expectations on the short-term interest rates for Hungary has increased by 8.5 points to a level of minus 29 points.

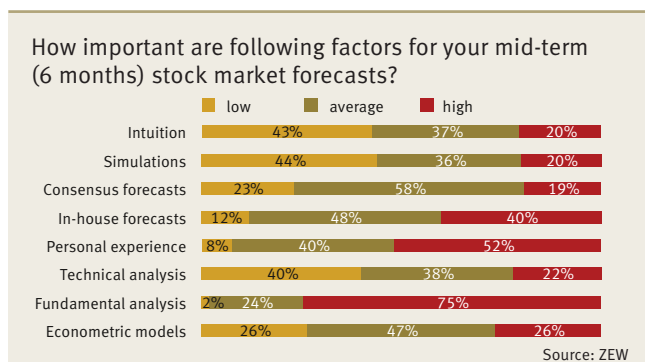
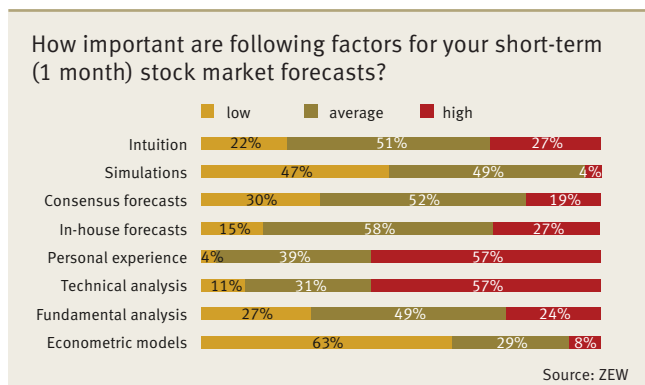
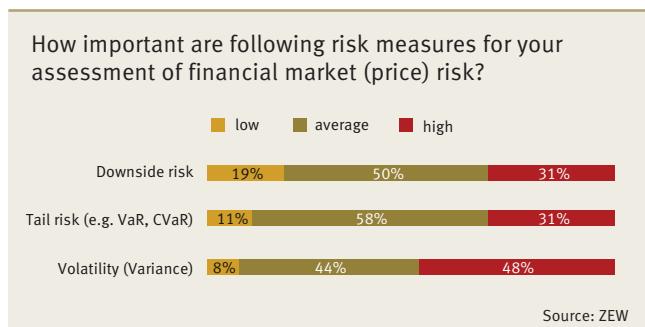
Stock market expectation displayed a bullish revision for all three national stock markets of Croatia, Hungary and Romania. The respective indicators reflecting experts' expectations on the development of the Croatian CROBEX, the Hungarian BUX and the Romanian BET have increased by 15.6 points, 10.1 points and 6.5 points respectively. Exchange rate expectations have worsened this month for Croatia, Hungary and Romania. The respective indicators have fallen by 27.4 points, 14.0 points and 17.2 points respectively.

Turkey: Bearish Revision of Stock Market Expectations



Economic sentiments for Turkey have slightly decreased in September. The respective indicator has declined by 2.2 points to the balanced 0.0 points-mark. Experts' assessment on the current economic situation in the country has improved by 5.8 points to 19.2 points. A slight increase is further observed in experts' expectations on the inflation rate on a six-months' time horizon. The respective indicator has increased by 3.5 points to a level of minus 15.5 points. A majority of 44.4 per cent of the experts expect the inflation rate in the country to decrease over the next six months. Consequently, a majority of 47.6 per cent expect the short-term interest rates to decrease as well. The respective indicator of short-term interest rate expectations has decreased by 17.5 per cent this month. Respondents indicate a bearish revision of stock market sentiments on the Turkish ISE-100. The respective indicator has dropped by 8.2 points.

Special Question: Stock Market Forecasts and Risk Assessment



The recent financial market crisis and the subsequent sovereign debt crisis have turned forecasting on financial markets and especially risk assessment and risk management into a real challenge. Therefore, within the scope of this month's special question financial market experts were asked to share their insights on forecasting methods that have been helpful based on their personal experience. Almost half of the experts consider volatility measured by the variance of the return distribution to be an accurate measure of financial market risk. This is namely used by roughly 48 per cent of the survey respondents. Almost one third of the experts highlight the drawback of the variance measure, namely that positive returns (gains) and negative returns (losses) are treated equally. This group of experts rather trust downside risk measures such as semivariance or tail risk measures such as Value at Risk or Conditional Value at Risk in their individual risk assessment. When conducting mid-term stock market forecasts the majority of experts (75 per cent) highly rely on fundamental analysis. In contrast, fundamental models play a secondary role for the purposes of short-term forecasts as indicated by 49 per cent of the surveyed experts. Another tool appears to have convinced financial market professionals at least when it comes to forecasting the stock markets in the short-term (1 month), namely technical analysis. The majority of 57 per cent of the survey respondents indicate that technical rules based solely on patterns and formation in the historical charts of stock market time series play a high role for their own stock market expectations. Experts further highly rely on their own experience both when making short-term and mid-term forecasts. This was indicated by 57 per cent (short-term) and 52 per cent (mid-term) of the experts. Surprisingly, econometric models of univariate and multivariate time series analysis have not proven useful at all to 63 per cent of the experts for the purposes of short-term stock market forecasting. In the mid-term, however, experts indicate that they rely slightly more heavily on econometrics when forming their stock market expectations. Nevertheless, only one-fourth of the respondents would categorize econometric models as a highly important forecasting technique.

Zwetelina Iliewa

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

Current economic situation	good		acceptable (normal)		bad		balance									
Austria	9.4	(-7.2)	78.1	(+1.4)	12.5	(+5.8)	-3.1	(-13.0)								
Croatia	5.4	(-3.2)	40.5	(+0.5)	54.1	(+2.7)	-48.7	(-5.9)								
Czech Republic	7.7	(-6.1)	56.4	(+0.8)	35.9	(+5.3)	-28.2	(-11.4)								
Hungary	5.4	(+2.7)	13.5	(-10.8)	81.1	(+8.1)	-75.7	(-5.4)								
Poland	25.6	(+6.1)	66.7	(-5.5)	7.7	(-0.6)	17.9	(+6.7)								
Romania	9.1	(+3.1)	42.4	(+6.0)	48.5	(-9.1)	-39.4	(+12.2)								
Slovakia	18.9	(+7.1)	62.2	(-5.4)	18.9	(-1.7)	0.0	(+8.8)								
Turkey	29.8	(+12.0)	59.6	(-18.2)	10.6	(+6.2)	19.2	(+5.8)								
CEE (incl. Turkey)	10.8	(-1.0)	81.1	(+1.7)	8.1	(-0.7)	2.7	(-0.3)								
Eurozone	0.0	(-4.7)	33.3	(+2.3)	66.7	(+2.4)	-66.7	(-7.1)								
Economic expectations	improve		no change		worsen		balance									
Austria	15.6	(-5.1)	56.3	(+4.6)	28.1	(+0.5)	-12.5	(-5.6)								
Croatia	21.6	(+4.0)	51.4	(+1.4)	27.0	(-5.4)	-5.4	(+9.4)								
Czech Republic	21.0	(+3.8)	57.9	(+0.8)	21.1	(-4.6)	-0.1	(+8.4)								
Hungary	27.7	(-2.9)	41.7	(-2.7)	30.6	(+5.6)	-2.9	(-8.5)								
Poland	16.7	(+5.2)	44.4	(-7.0)	38.9	(+1.8)	-22.2	(+3.4)								
Romania	21.2	(-3.1)	45.5	(+3.1)	33.3	(+/-0.0)	-12.1	(-3.1)								
Slovakia	16.3	(-1.9)	45.9	(-2.6)	37.8	(+4.5)	-21.5	(-6.4)								
Turkey	22.2	(-0.5)	55.6	(-1.2)	22.2	(+1.7)	0.0	(-2.2)								
CEE (incl. Turkey)	17.1	(-1.7)	51.2	(-1.9)	31.7	(+3.6)	-14.6	(-5.3)								
Eurozone	23.4	(-0.4)	38.3	(-9.3)	38.3	(+9.7)	-14.9	(-10.1)								
Inflation rate	increase		no change		decrease		balance									
Austria	13.3	(-20.1)	60.0	(+19.3)	26.7	(+0.8)	-13.4	(-20.9)								
Croatia	44.4	(-5.6)	38.9	(+10.8)	16.7	(-5.2)	27.7	(-0.4)								
Czech Republic	13.6	(-7.0)	40.5	(+11.1)	45.9	(-4.1)	-32.3	(-2.9)								
Hungary	32.3	(-4.0)	26.5	(+8.3)	41.2	(-4.3)	-8.9	(+0.3)								
Poland	16.7	(-9.7)	47.2	(+14.8)	36.1	(-5.1)	-19.4	(-4.6)								
Romania	35.4	(-16.2)	45.2	(+25.8)	19.4	(-9.6)	16.0	(-6.6)								
Slovakia	11.5	(-7.3)	57.1	(+16.5)	31.4	(-9.2)	-19.9	(+1.9)								
Turkey	28.9	(+2.7)	26.7	(-1.9)	44.4	(-0.8)	-15.5	(+3.5)								
CEE (incl. Turkey)	34.3	(-0.1)	37.1	(-3.5)	28.6	(+3.6)	5.7	(-3.7)								
Eurozone	27.2	(+0.1)	45.5	(+10.4)	27.3	(-10.5)	-0.1	(+10.6)								
Short-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	16.1	(-3.1)	20.7	(-12.7)	61.3	(-4.1)	58.6	(+1.5)	22.6	(+7.2)	20.7	(+11.2)	-6.5	(-10.3)	0.0	(-23.9)
Czech Republic	15.6	(+6.2)	16.1	(+5.8)	34.4	(-18.7)	51.6	(-17.4)	50.0	(+12.5)	32.3	(+11.6)	-34.4	(-6.3)	-16.2	(-5.8)
Hungary	25.8	(+10.2)	25.8	(+4.3)	19.4	(-11.9)	25.8	(-6.3)	54.8	(+1.7)	48.4	(+2.0)	-29.0	(+8.5)	-22.6	(+2.3)
Poland	9.1	(+2.6)	12.5	(-6.7)	42.4	(-12.4)	46.9	(-3.1)	48.5	(+9.8)	40.6	(+9.8)	-39.4	(-7.2)	-28.1	(-16.5)
Romania	22.2	(-5.4)	38.5	(-1.5)	51.9	(+3.6)	42.3	(+2.3)	25.9	(+1.8)	19.2	(-0.8)	-3.7	(-7.2)	19.3	(-0.7)
Turkey	14.3	(-1.5)	12.5	(-12.4)	38.1	(-14.5)	45.0	(+1.2)	47.6	(+16.0)	42.5	(+11.2)	-33.3	(-17.5)	-30.0	(-23.6)
Eurozone	10.0	(+7.2)			77.5	(+8.1)			12.5	(-15.3)			-2.5	(+22.5)		
Long-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	48.5	(-5.1)	37.9	(-3.7)	33.3	(-2.4)	41.4	(-0.3)	18.2	(+7.5)	20.7	(+4.0)	30.3	(-12.6)	17.2	(-7.7)
Czech Republic	53.1	(+9.4)	27.6	(-0.9)	31.3	(-6.2)	55.2	(+12.3)	15.6	(-3.2)	17.2	(-11.4)	37.5	(+12.6)	10.4	(+10.5)
Hungary	36.6	(+14.1)	30.8	(+16.0)	16.7	(-15.6)	19.2	(-3.0)	46.7	(+1.5)	50.0	(-13.0)	-10.1	(+12.6)	-19.2	(+29.0)
Poland	33.3	(-3.3)	24.1	(+1.0)	27.3	(+0.6)	41.4	(+6.8)	39.4	(+2.7)	34.5	(-7.8)	-6.1	(-6.0)	-10.4	(+8.8)
Slovakia	55.2	(+6.9)	37.1	(+9.1)	34.5	(+3.5)	48.1	(+0.1)	10.3	(-10.4)	14.8	(-9.2)	44.9	(+17.3)	22.3	(+18.3)
Turkey	19.5	(-12.1)	21.7	(-4.1)	48.8	(+9.3)	43.2	(+7.7)	31.7	(+2.8)	35.1	(-3.6)	-12.2	(-14.9)	-13.4	(-0.5)
Germany	40.0	(+1.3)			51.4	(-3.4)			8.6	(+2.1)			31.4	(-0.8)		
Stock market indices	increase		no change		decrease		balance									
EURO STOXX 50	41.7	(-2.0)			33.3	(+2.0)			25.0	(+/-0.0)			16.7	(-2.0)		
ATX (Austria)	51.7	(+1.7)			27.6	(-3.2)			20.7	(+1.5)			31.0	(+0.2)		
NTX (CEE)	48.5	(-3.2)			22.9	(-4.7)			28.6	(+7.9)			19.9	(-11.1)		
CROBEX (Croatia)	44.8	(+12.6)			36.8	(-9.6)			18.4	(-3.0)			26.4	(+15.6)		
PX 50 (Czech Rep.)	47.0	(+8.6)			32.4	(-6.1)			20.6	(-2.5)			26.4	(+11.1)		
BUX (Hungary)	45.5	(+2.7)			33.3	(+4.7)			21.2	(-7.4)			24.3	(+10.1)		
WIG (Poland)	54.2	(+9.3)			22.9	(-8.1)			22.9	(-1.2)			31.3	(+10.5)		
BET (Romania)	45.1	(+5.1)			32.3	(-3.7)			22.6	(-1.4)			22.5	(+6.5)		
SAX (Slovakia)	34.3	(+2.3)			43.8	(+7.8)			21.9	(-10.1)			12.4	(+12.4)		
ISE-100 (Turkey)	51.2	(+1.2)			24.4	(-10.6)			24.4	(+9.4)			26.8	(-8.2)		
Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance									
Kuna (Croatia)	12.1	(-21.3)			48.5	(+15.2)			39.4	(+6.1)			-27.3	(-27.4)		
Koruna (Czech Rep.)	38.9	(-14.2)			41.7	(+7.3)			19.4	(+6.9)			19.5	(-21.1)		
Forint (Hungary)	25.7	(-5.5)			31.4	(-3.0)			42.9	(+8.5)			-17.2	(-14.0)		
Zloty (Poland)	43.3	(-6.7)			37.8	(+3.4)			18.9	(+3.3)			24.4	(-10.0)		
Lei (Romania)	27.6	(-17.2)			44.8	(+17.2)			27.6	(+/-0.0)			0.0	(-17.2)		
Lira (Turkey)	47.6	(+6.1)			28.6	(-10.4)			23.8	(+4.3)			23.8	(+1.8)		
US-Dollar	45.3	(+11.0)			33.3	(-3.5)			21.4	(-7.5)			23.9	(+18.5)		

Note: 77 Financial market experts, 16 from which from Turkey, participated in the September survey which was conducted during the period 09/03/12-09/17/12. 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 August 2012 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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