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Financial Market Report CEE

International Finance Market Data: Assessments and Expectations
ZEW Economic Sentiment Indicator for Central and Eastern Europe, Supported by Erste Group Bank AG

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 December issue of the "Financial Market Report CEE" contains the results of the current survey, conducted between November 02, 2014 and November 18, 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.

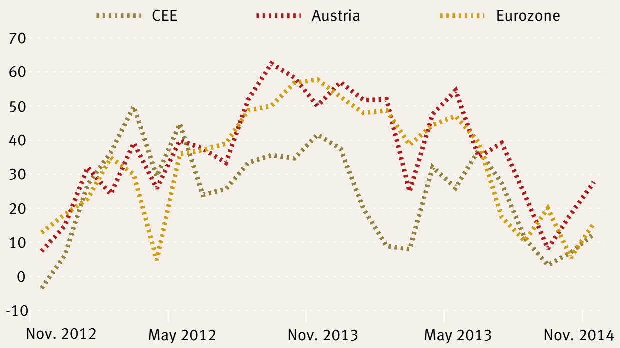
Economic Sentiments for the CEE Region Fluctuate

During the past three months the economic expectations from September 2014 until November 2014 for Central and Eastern Europe have lingered around moderately positive values. The ZEW-Erste Group Bank Economic Sentiment Indicator for the CEE region has slightly increased by overall 1.3 points over this period. At the beginning of the period in September 2014, the indicator reached its lowest level since November 2012 but subsequently climbed up to its current level of 12.5 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 for Slovakia and Romania. The respective indicators for Slovakia and Romania have improved slightly by 4.2 points (Slovakia) and 3.6 points (Romania). Thus, the economic sentiment indicators have reached the highest level (Slovakia) and the second highest level (Romania) among all individual economies from the CEE region included in the survey.

The Experts' assessment of the current situation in the CEE region has also fluctuated considerably over the past three months. Starting from the perfectly balanced 0.0 mark in September the respective indicator has taken an upward direction to a level of 9.7 points in October, which is up to now the second-highest level of the indicator for this year. In November, however, the indicator has plunged by 22.3 points back into negative territory to its current level of minus 12.6 points. As of November, a large majority of 75 per cent of the survey participants claim that the current situation in the CEE region is normal whereas 18.8 per cent maintain that the current situation is bad.

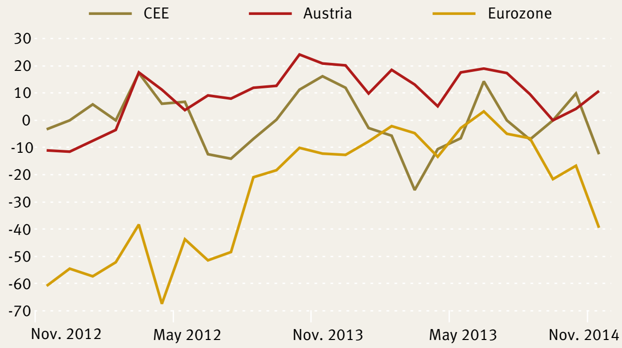
Economic sentiments for the Eurozone and Austria have improved slightly over the past three months. Nevertheless, during this period both indicators have dropped to their lowest levels for more than one and a half years. In September 2014, the indicator of economic sentiments for Austria has displayed a level of 8.3 points, which is its lowest level since November 2012. One month after that, in October 2014, the respective indicator for the Eurozone has dropped to a level of 5.6 points, which is its lowest level since April 2013. Experts' assessment on the current situation in Austria has lingered around moderately positive levels over the past three months. The current level of the indicator with 10.8 points is 1.3 points above its level three months ago. In contrast, the current situation in the Eurozone has deteriorated according to the assessment of the financial market experts. The respective indicator for the Eurozone has sequentially dropped by 32.8 points over the past three months and currently stands at minus 39.4 points. This is the lowest value of the indicator since July 2013.

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: Current Situation Deteriorates

Economic expectations for the **Czech Republic** have deteriorated over the past three months. Over this period, the indicator has lost its standing as the top-ranked indicator among all surveyed economies. The diminishing expectations are at odds with the accelerating growth registered for the Czech economy for the third quarter of 2014. According to preliminary estimates of the Czech Statistics Office, the GDP has increased by 2.3% seasonally adjusted over the same quarter last year driven by growth in manufacturing. Experts' assessment of the current situation in the country has also decreased sequentially over the past three months. The indicator currently stands at a rather balanced level of 2.8 points.

Economic expectations for **Poland** have displayed large fluctuations over the past three months. At the beginning of the period, the indicator has entered negative territory and reached a level of minus 6.4. This was the lowest level of the indicator since November 2012. Subsequently, the indicator has quickly recovered to its current level of 21.1 points. This is still 5.8 points short of its level three months ago. Experts' assessment of the current situation has also fluctuated over the past three months. Currently, the indicator stands at 18.1 points, which is 8.8 points short of its level three months ago. The slightly negative expectations are in line with the macroeconomic figures. In the third quarter of 2014, the Polish economy has expanded by 3.3 per cent over the same quarter a year ago, which is 0.2 percentage points short of the economic growth displayed in the second quarter of 2014. The economic growth was largely driven by domestic consumption whereas external demand has been rather sluggish.

Experts' expectations on the future economic development of **Slovakia** have improved over the past three months. The respective indicator is up 4.2 points over this period and currently stands at a level of 24.2 points. Experts' assessment of the current situation has decreased by 3.2 points to a level of 8.8 points. The improvement of the expectations is at odds with the recently announced slowing down of economic growth. In the third quarter of 2014 the economy has expanded by 2.4 per cent over the same period one year ago which is 0.2 percentage points short of the economic growth in the previous quarter.

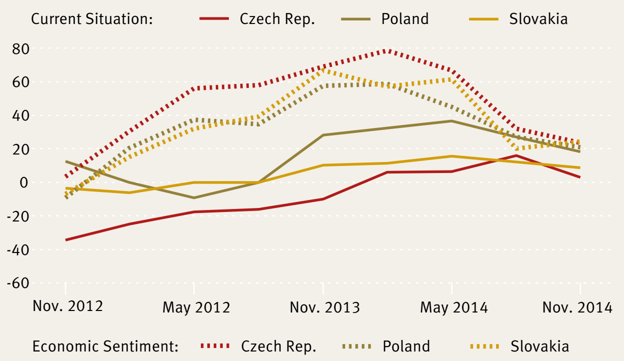
Croatia, Hungary and Romania: Stable Economic Outlook

Economic expectations for **Romania** have remained rather stable over the past three months. Over this period the indicator has slightly improved by 3.6 points in total to its current level of 23.6 points. Among the individual CEE countries, however, Romania is the country with the second highest increase of economic sentiments over the past three months. The slight increase comes against the background of the recent presidential elections in November. Largely, there is an agreement among the experts regarding the current situation in the country. The majority of 81.3 per cent of the survey participants describe the situation in Romania as rather normal. The respective indicator has wavered around the 0.0 mark over the past three months and is currently standing at the rather balanced level of minus 0.1 points.

Economic expectations for **Hungary** have deteriorated over the past three months. The respective indicator has dropped by 7.0 points to an almost balanced level of 0.1 points over this period. Over the past three months the indicator has reached negative territory plunging to minus 6.9 points in October, which was the lowest level of the sentiment indicator for the country since April 2012. Analogously, experts' assessment of the current situation in the country has slightly decreased to a level of minus 20.6 points. However, in September the indicator displayed a short-lived upturn, entered positive territory for the first time since its establishment, and reached its historical high of 6.2 points. Hungary implemented a measure against the increasing default rates on household loans in Hungary caused by the high proportion of foreign exchange debt in the country and the depreciation of the forint during the 2008 financial crisis. The law, was introduced at the beginning of November and requires banks to refund retail borrowers for exchange-rate margins on foreign-exchange loans and unilateral increases of fees,

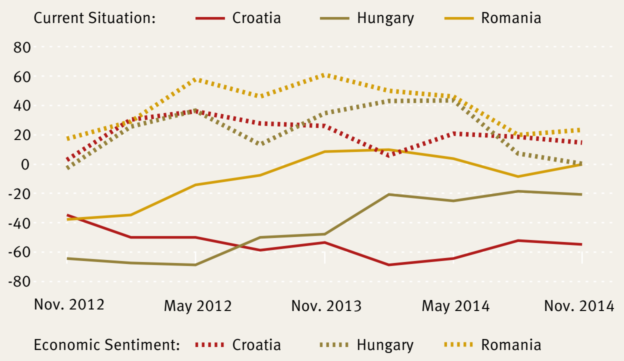
Economic expectations for **Croatia** have remained roughly unchanged over the past three months. The respective indicator is down by 4.0 points to a level of 14.6 points. Experts' assessment of the current situation in the country has remained rather unchanged at a level of minus 54.6 points, down 2.7 points from its level three months ago.

Indicators* for the Czech Republic, Poland and Slovakia



Balance of positive and negative response category. *Displayed are indicator levels as of Feb, May, Aug and Nov. Source: ZEW

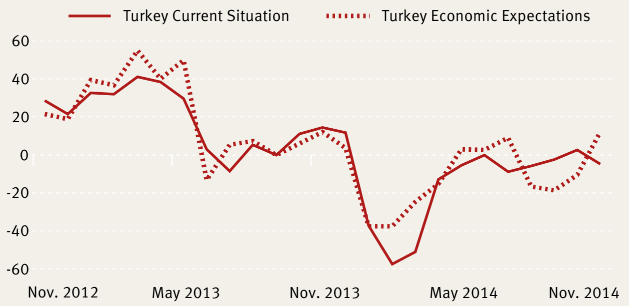
Indicators* for Croatia, Hungary and Romania



Balance of positive and negative response category. *Displayed are indicator levels as of Feb, May, Aug and Nov. Source: ZEW

Turkey: Economic Expectations on Highest Level for 2014

Economic Expectations and Assessment of Current Economic Situation in Turkey



Balance of positive and negative response category. Source: ZEW

The indicator of economic expectations for Turkey has increased by 28.7 points overall over the past three months. The improvement can be ascribed to a considerable increase of the indicator in the last wave in October 2014. The indicator has then gained 22.6 points and has therefore entered again positive territory. Moreover, this is the highest level of the indicator since November 2013. Experts' assessment of the current economic situation has remained lingered around the 0.0 mark over the past three months. Starting from a negative value of minus 5.8 points in August the indicator has entered positive territory and reached 2.7 points in October. Subsequently, the indicator dropped back to a level of minus 4.8 points – one point above its level in August 2014. The fluctuation of the indicator comes against the background of the victory of former Prime Minister of Turkey, Recep Tayyip Erdogan, in the Presidential elections in August 2014.

Special Question: Portfolio Allocation 2015

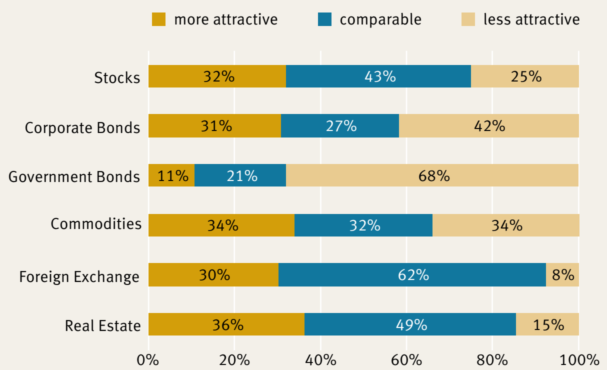
Real Estate is expected to become more attractive investment in 2015 as compared to 2014. Experts consider government bonds and corporate bonds less attractive than a year before. These are results of this month's special question.

More than 36 per cent of the responding experts expect real estate to become more attractive for investors as compared to their last year's ranking. More than one third of the experts further assert that commodities will gain importance in investors' portfolio decision. Simultaneously, more than one third of the investors expect commodities to lose in importance which indicates high disagreement among experts regarding the relative prospects of commodities as an asset class. A different picture arises with respect to government and corporate bonds. A large majority of 68 per cent expects government bonds to become less attractive next year. More than 41 per cent of the respondents expect corporate bond investments to take a backseat. Only 7.5 per cent of experts expect foreign exchange to become less attractive while more than 60 per cent rate investment in foreign exchange in 2015 as comparable to 2014. While 30 per cent of the respondents indicate increase in attractiveness of the stocks, 32 per cent of the respondent trust that stocks are to become more attractive.

Financial market experts foresee advantages in investing in CEE assets as compared to Eurozone assets. Stocks from the CEE region for instance are considered a more attractive investment for 2015 than stocks from the Eurozone by the majority (51 per cent) of the participants. Only 14.3 per cent of the respondent would be reluctant to recommend CEE stocks over Eurozone stocks. On average, the experts expect the annual return of NTX in 2015 to be slightly above 5 per cent. The average survey respondent expects the NTX to stay in the interval between -5.3 per cent and 13.8 per cent with high probability (probability of 90 per cent). The respondents expect the annual return of EUROSTOXX50 and DAX in 2015 to be around 3 per cent. Dow Jones is on average expected to yield a return of 2.2 per cent.

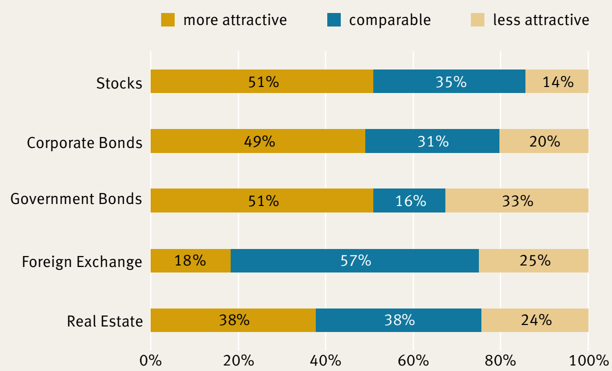
Daria Fomenko, Zwetelina Iliewa

How attractive do you expect investments in following asset classes to be in 2015 as compared to 2014?



Source: ZEW

How attractive do you expect investments in following CEE assets to be as compared to assets from other Eurozone countries in the same asset class?



Source: ZEW

ZEW / Erste Group Bank - Financial Market Survey CEE: November 2014

Current economic situation	good	acceptable (normal)	bad	balance
Austria	17.9 (+ 5.4)	75.0 (- 4.2)	7.1 (- 1.2)	10.8 (+ 6.6)
Croatia	3.0 (- 0.3)	39.4 (+10.4)	57.6 (-10.1)	-54.6 (+ 9.8)
Czech Republic	11.4 (- 2.4)	80.0 (+ 0.7)	8.6 (+ 1.7)	2.8 (- 4.1)
Hungary	5.9 (- 4.1)	67.6 (- 2.4)	26.5 (+ 6.5)	-20.6 (-10.6)
Poland	24.2 (- 5.8)	69.7 (+ 3.0)	6.1 (+ 2.8)	18.1 (- 8.6)
Romania	9.3 (- 3.2)	81.3 (+ 6.3)	9.4 (- 3.1)	-0.1 (- 0.1)
Slovakia	14.7 (-11.2)	79.4 (+ 9.0)	5.9 (+ 2.2)	8.8 (-13.4)
Turkey	9.5 (- 4.0)	76.2 (+ 0.5)	14.3 (+ 3.5)	-4.8 (- 7.5)
CEE (incl. Turkey)	6.2 (- 6.7)	75.0 (- 8.9)	18.8 (+15.6)	-12.6 (-22.3)
Eurozone	5.3 (- 3.0)	50.0 (-16.7)	44.7 (+19.7)	-39.4 (-22.7)

Economic expectations	improve	no change	worsen	balance
Austria	38.0 (+ 6.1)	51.7 (- 2.8)	10.3 (- 3.3)	27.7 (+ 9.4)
Croatia	26.4 (+ 6.4)	61.8 (- 8.2)	11.8 (+ 1.8)	14.6 (+ 4.6)
Czech Republic	35.3 (+ 8.7)	52.9 (- 3.8)	11.8 (- 4.9)	23.5 (+13.6)
Hungary	23.6 (+ 2.9)	52.9 (+ 1.2)	23.5 (- 4.1)	0.1 (+ 7.0)
Poland	36.3 (+ 6.3)	48.5 (- 4.8)	15.2 (- 1.5)	21.1 (+ 7.8)
Romania	32.4 (+ 0.4)	58.8 (+ 2.8)	8.8 (- 3.2)	23.6 (+ 3.6)
Slovakia	33.3 (+16.0)	57.6 (- 7.9)	9.1 (- 8.1)	24.2 (+24.1)
Turkey	33.4 (+12.4)	45.2 (- 2.2)	21.4 (-10.2)	12.0 (+22.6)
CEE (incl. Turkey)	28.1 (+ 3.9)	56.3 (- 2.3)	15.6 (- 1.6)	12.5 (+ 5.5)
Eurozone	34.2 (+ 6.4)	47.4 (- 2.6)	18.4 (- 3.8)	15.8 (+10.2)

Inflation rate	increase	no change	decrease	balance
Austria	22.2 (+ 1.4)	55.6 (- 6.9)	22.2 (+ 5.5)	0.0 (- 4.1)
Croatia	34.3 (+ 5.3)	46.9 (-11.2)	18.8 (+ 5.9)	15.5 (- 0.6)
Czech Republic	43.7 (- 1.1)	50.0 (+ 1.7)	6.3 (- 0.6)	37.4 (- 0.5)
Hungary	53.1 (+ 1.3)	37.5 (- 0.4)	9.4 (- 0.9)	43.7 (+ 2.2)
Poland	38.7 (+ 5.4)	51.6 (- 5.1)	9.7 (- 0.3)	29.0 (+ 5.7)
Romania	46.7 (- 1.3)	43.3 (+11.3)	10.0 (-10.0)	36.7 (+ 8.7)
Slovakia	40.6 (+ 2.6)	53.1 (+ 1.4)	6.3 (- 4.0)	34.3 (+ 6.6)
Turkey	31.7 (- 0.8)	26.8 (- 5.6)	41.5 (+ 6.4)	-9.8 (- 7.2)
CEE (incl. Turkey)	25.0 (-12.0)	60.7 (+ 8.8)	14.3 (+ 3.2)	10.7 (-15.2)
Eurozone	21.6 (- 4.8)	67.6 (+ 5.8)	10.8 (- 1.0)	10.8 (- 3.8)

Short-term	increase		no change		decrease		balance	
interest rates	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]
Croatia	3.4 (- 3.5)	3.6 (- 4.4)	75.9 (+17.3)	75.0 (+15.0)	20.7 (-13.8)	21.4 (-10.6)	-17.3 (+10.3)	-17.8 (+ 6.2)
Czech Republic	11.1 (+ 7.5)	8.3 (+ 3.9)	81.5 (- 7.8)	87.5 (- 3.8)	7.4 (+ 0.3)	4.2 (- 0.1)	3.7 (+ 7.2)	4.1 (+ 4.0)
Hungary	21.4 (± 0.0)	28.0 (+ 6.3)	67.9 (+ 3.6)	68.0 (- 1.6)	10.7 (- 3.6)	4.0 (- 4.7)	10.7 (+ 3.6)	24.0 (+11.0)
Poland	14.8 (+ 4.1)	16.0 (+ 7.0)	51.9 (+ 9.0)	60.0 (+14.5)	33.3 (-13.1)	24.0 (-21.5)	-18.5 (+17.2)	-8.0 (+28.5)
Romania	11.1 (+ 2.8)	9.1 (- 6.7)	55.6 (+ 5.6)	63.6 (+21.5)	33.3 (- 8.4)	27.3 (-14.8)	-22.2 (+11.2)	-18.2 (+ 8.1)
Turkey	32.5 (+ 2.2)	40.6 (+ 3.5)	35.1 (+ 1.8)	31.3 (+ 5.4)	32.4 (- 4.0)	28.1 (- 8.9)	0.1 (+ 6.2)	12.5 (+12.4)
Eurozone	5.4 (- 0.3)		81.1 (- 4.6)		13.5 (+ 4.9)		-8.1 (- 5.2)	

Long-term	increase		no change		decrease		balance	
interest rates	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]
Croatia	29.6 (- 2.5)	32.0 (+ 8.0)	51.9 (+ 1.9)	48.0 (-12.0)	18.5 (+ 0.6)	20.0 (+ 4.0)	11.1 (- 3.1)	12.0 (+ 4.0)
Czech Republic	35.7 (- 1.3)	8.3 (- 0.1)	42.9 (- 9.0)	75.0 (- 8.3)	21.4 (+10.3)	16.7 (+ 8.4)	14.3 (-11.6)	-8.4 (- 8.5)
Hungary	51.7 (+ 1.7)	40.8 (- 4.7)	34.5 (+ 3.7)	44.4 (+ 3.5)	13.8 (- 5.4)	14.8 (+ 1.2)	37.9 (+ 7.1)	26.0 (- 5.9)
Poland	28.5 (- 1.2)	16.7 (- 1.5)	42.9 (+ 2.2)	58.3 (+17.4)	28.6 (- 1.0)	25.0 (-15.9)	-0.1 (- 0.2)	-8.3 (+14.4)
Slovakia	38.5 (± 0.0)	13.0 (± 0.0)	42.3 (± 0.0)	69.6 (± 0.0)	19.2 (± 0.0)	17.4 (± 0.0)	19.3 (± 0.0)	-4.4 (± 0.0)
Turkey	43.3 (+ 0.8)	51.5 (+ 6.6)	32.4 (- 0.9)	27.3 (+ 3.2)	24.3 (+ 0.1)	21.2 (- 9.8)	19.0 (+ 0.7)	30.3 (+16.4)
Germany	32.4 (+ 9.9)		58.8 (+ 0.7)		8.8 (-10.6)		23.6 (+20.5)	

Stock market indices	increase	no change	decrease	balance
EURO STOXX 50	47.0 (+ 9.1)	26.5 (- 1.1)	26.5 (- 8.0)	20.5 (+17.1)
ATX (Austria)	57.7 (- 1.4)	26.9 (+ 4.2)	15.4 (- 2.8)	42.3 (+ 1.4)
NTX (CEE)	51.9 (+ 4.3)	14.8 (- 9.0)	33.3 (+ 4.7)	18.6 (- 0.4)
CROBEX (Croatia)	54.9 (+10.0)	29.0 (- 8.9)	16.1 (- 1.1)	38.8 (+11.1)
PX 50 (Czech Rep.)	44.8 (-11.8)	27.6 (+ 5.9)	27.6 (+ 5.9)	17.2 (-17.7)
BUX (Hungary)	46.7 (+ 0.5)	20.0 (- 6.9)	33.3 (+ 6.4)	13.4 (- 5.9)
WIG (Poland)	44.9 (- 8.9)	31.0 (+ 7.9)	24.1 (+ 1.0)	20.8 (- 9.9)
BET (Romania)	61.6 (- 2.1)	19.2 (- 3.5)	19.2 (+ 5.6)	42.4 (- 7.7)
SAX (Slovakia)	26.9 (+ 3.0)	50.0 (- 7.1)	23.1 (+ 4.1)	3.8 (- 1.1)
ISE-100 (Turkey)	51.4 (+ 2.9)	18.9 (+ 0.7)	29.7 (- 3.6)	21.7 (+ 6.5)

Exchange rates (vs. Euro)				
Kuna (Croatia)	12.1 (+ 1.7)	60.6 (- 4.9)	27.3 (+ 3.2)	-15.2 (- 1.5)
Koruna (Czech Rep.)	15.6 (- 2.2)	68.8 (- 9.8)	15.6 (+12.0)	0.0 (-14.2)
Forint (Hungary)	14.7 (- 9.5)	26.5 (-11.4)	58.8 (+20.9)	-44.1 (-30.4)
Zloty (Poland)	30.0 (-10.0)	43.3 (± 0.0)	26.7 (+10.0)	3.3 (-20.0)
Lei (Romania)	19.4 (- 0.6)	64.5 (+ 4.5)	16.1 (- 3.9)	3.3 (+ 3.3)
Lira (Turkey)	20.5 (+ 6.9)	38.5 (- 4.7)	41.0 (- 2.2)	-20.5 (+ 9.1)
US-Dollar	75.7 (+16.9)	18.9 (-22.3)	5.4 (+ 5.4)	70.3 (+11.5)

Note: 71 Financial market experts, 13 from which from Turkey, participated in the November survey which was conducted during the period of 11/2-11/18/2014. 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 October 2014 in parentheses). Balances refer to the differences between positive and negative assessments.

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