

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 April 30, 2012 and May 14, 2012, are published in the May 2012 issue of the "Financial Market Report CEE." 74 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 Europe Region Brighten Up

The economic expectations for Central and Eastern Europe including Turkey (CEE region) on a six-month time horizon have improved in May. The respective indicator has increased by 9.2 points to 14.6 points. The evaluation of the current economic situation in the CEE region has slightly decreased by 2.8 points to a level of 2.7 points in May. The economic expectations for the Eurozone within the next six months have remained almost unchanged at

9.1 points after a slight increase by 2.4 points. The assessment of the current business cycle in the Eurozone has dropped by 8.6 points and reached a value of minus 52.2 points. The indicator reflecting the economic expectations for Austria within the next six months has improved by 21.8 points and thereby reaches 25.0 points. The evaluation of the current economic situation in Austria has slightly worsened by 4.0 points to a level of 6.1 points in May.

### 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 improved by 9.2 points to 14.6 points in May. Experts' economic expectations for Austria exhibit a major improvement of 21.8 points. The indicator thereby reaches a level of 25.0 points – one of the highest levels among all surveyed economies. Economic sentiments for the Eurozone have remained almost unchanged after a slight increase by 2.4 points to a moderately balanced level of 9.1 points.

The indicator of experts' assessment on the current situation in the CEE region decreases slightly by 2.8 points to a level of 2.7. Similarly small decrease is observed for the respective indicators for the Eurozone and Austria – by 8.6 points and 4.0 points respectively. Experts' assessment of the current situation is most negative for the Eurozone (minus 52.2 points) and rather balanced for Austria (6.1 points).

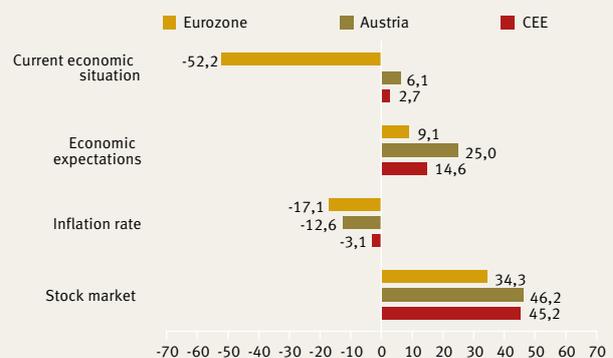
Inflation expectations have decreased in this month's survey for all CEE countries. The indicator of inflation concerns for the CEE region has thus dropped by 16.3 points in May and currently stands at minus 3.1 points. Experts' opinions are rather balanced with roughly one-fourth of the experts expecting both increase and a decrease in the inflation rate.

A similar, yet slightly more reassuring picture arises for the inflation expectations for the Eurozone and Austria. Roughly one-half of the experts expect an unchanged inflation rate for

the next six months, but an opinion of decreasing future inflation prevails among the remaining part of the survey poll.

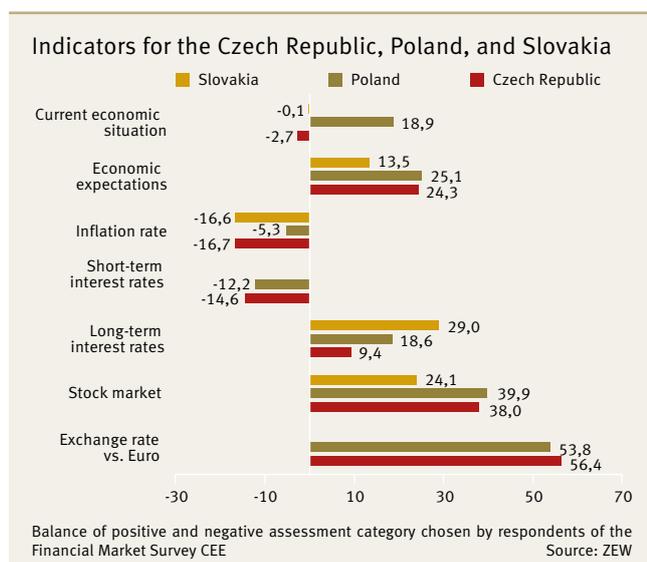
After a significant drop of all three indicators in the first week of May, experts expect a reversion of the stock market indicators at least in the mid-term (six months horizon). This results in a major bullish revision of all three stock market indices – NTX (CEE), EUROSTOXX 50 (Eurozone) and ATX (Austria) by 42.1 points, 31.5 points and 38.5 points respectively. The indicators last month were at rather balanced levels, hence the bullish revision results in bullish overall current sentiments.

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: Stock Market Sentiments Improve



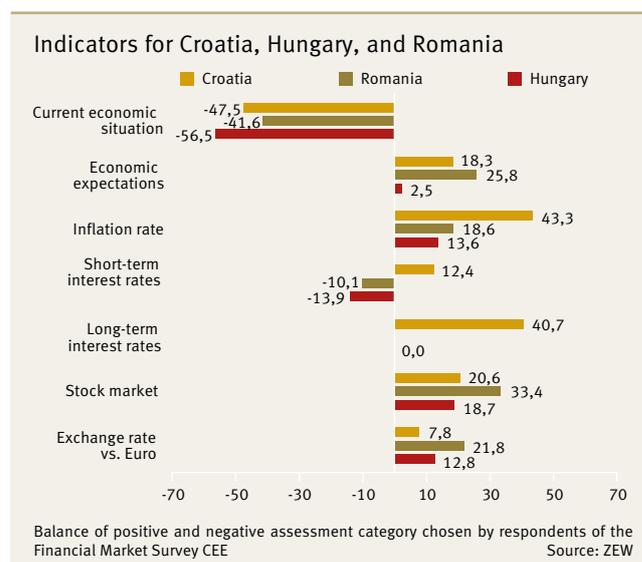
The economic sentiment for Poland has increased significantly this month. The respective indicator has risen by 22.4 points to a level of 25.1 points. However, the respective sentiment indicators for the Czech Republic and Slovakia have increased only slightly - by 8.5 and 2.7 points respectively.

In contrast, the assessment of the current economic situation has worsened for all three countries - Czech Republic, Poland and Slovakia. The respective indicator has decreased by 10.3 points, 18.9 points and 5.6 points to levels of minus 2.7 points, 18.9 points and minus 0.1 points respectively. Despite the large decrease of the indicator for Poland, a large majority of 94.6 per cent describe the current economic situation in the country as good or normal.

The inflation concerns have decreased significantly for all CEE countries. The indicators reflecting the expected inflation rate for Czech Republic, Poland and Slovakia have fallen by 27.5 points, 19.2 points and 27.7 points to minus 16.7 points, minus 5.3 points and minus 16.6 points. Following the opinion of the financial market experts the Czech short-term interest rates are expected to decline in the next six months. The respective indicator displays the highest decreases among all surveyed economies. It has fallen by 34.6 points to a level of minus 14.6 points. Polish short-term interest rates are expected to decrease as well. The respective indicator has fallen 12.1 points to minus 12.2 points.

After a bearish development on the Czech and Polish stock markets in the first week of May, experts have revised their expectations to bullish. The respective indicators for the Czech PX 50 and the Polish WIG have increased largely by 23.7 points and 22.7 points respectively. The Slovakian SAX which exhibits a positive trend for the duration of the survey has also made investors optimistic. This results in an increase of the indicator by 20.1 points in May. Following the opinion of the experts the Czech Koruna and the Polish Zloty are expected to appreciate. The respective indicators have increased by 35.9 points and 15.0 points to levels of 56.4 points and 53.8 points – the highest among all surveyed economies.

## Croatia, Hungary and Romania: Inflation Concerns Decrease



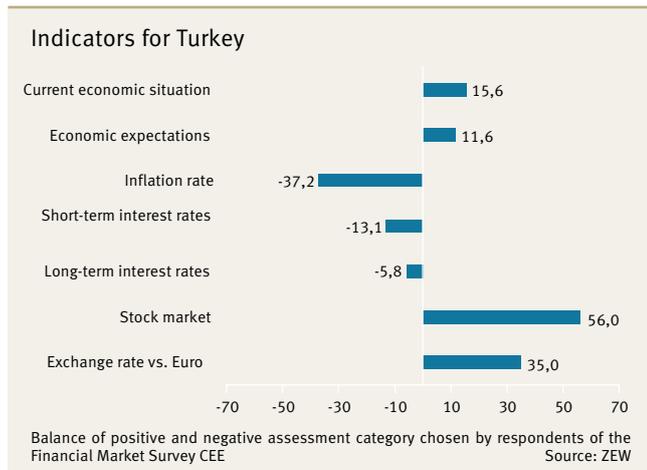
Economic expectations have increased for all three countries - Croatia, Hungary and Romania. The respective indicators have risen by 1.6 points, 13.1 points and 13.6 points to levels of 18.3 points, 2.5 points, and 25.8 points – the highest value among all considered economies.

In contrast, the assessment of the current economic situation has decreased for Croatia and Romania by 4.6 points and 12.6 points to levels of minus 47.5 points and minus 41.6 points. The indicator reflecting the current economic situation for Hungary has increased by 15.4 points to a level of 56.5 points. Despite the increase, the indicator displays the lowest value among all surveyed economies. The majority of 59.0 per cent of financial market experts still assess the economic situation in Hungary as bad.

Inflation concerns of inflation expectations on a six months horizon have decreased for all three countries. The respective indicators for Croatia, Hungary and Romania have fallen by 3.9 points, 21.6 points and 23.9 points to levels of 43.3 points, 13.6 points and 18.6 points respectively. The Croatian indicator displays by far the highest value – more than 50 per cent of the financial market experts foresee the inflation rate to increase within the next six months. The Croatian short-term interest rate indicator displays with 12.4 points the only positive value among all considered economies.

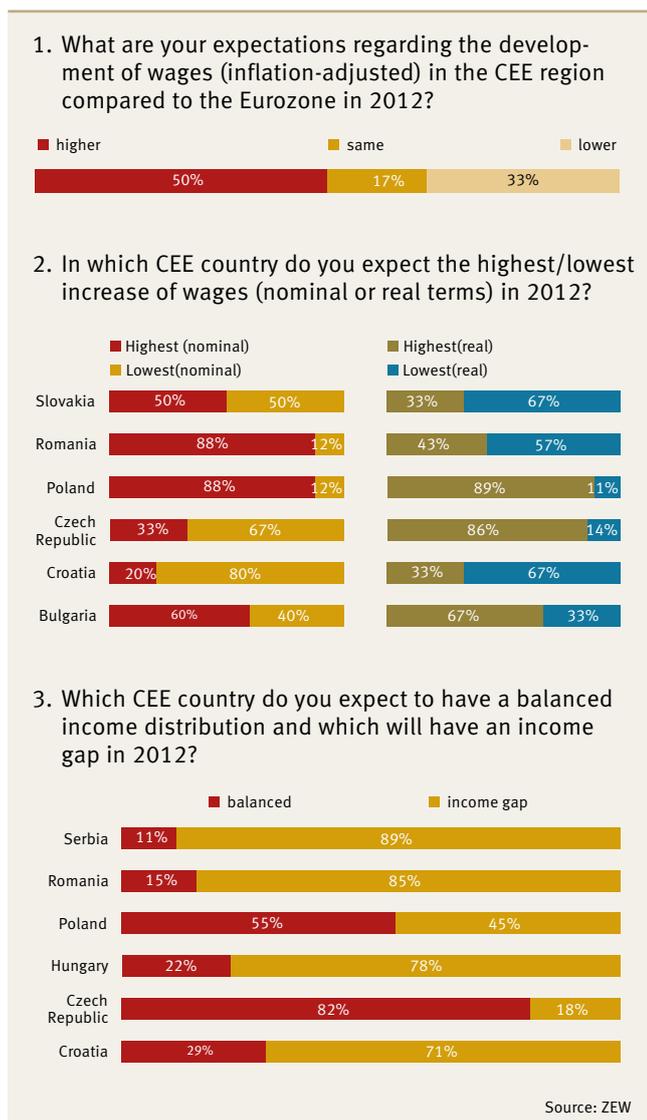
After a bearish development on almost all CEE stock markets in the first week of May, experts have revised their expectations to bullish. The stock market expectations have increased in the double digits for Croatia and Romania. The respective indicators have risen by 17.3 points and 10.3 points to levels of 20.6 points and 33.4 points. Expectations for the Hungarian BUX have remained rather unchanged at the level of last month. The respective indicator displays thereby with 18.7 points the lowest value among all surveyed economies. Experts are also bullish regarding the expected development of the exchange rates of the Hungarian Forint and the Romanian Lei against Euro. The respective indicators have increased by 15.6 points and 21.9 points in May.

## Turkey: Positive Assessment of Current Economic Situation



Economic expectations for Turkey have improved in this month's survey. The respective indicator has increased by 7.6 points to a level of 11.6 points. Experts' assessment on the current situation in the country has improved only slightly. The respective indicator has increased by 2.9 points to a level of 15.6 points – the second highest among all surveyed economies. Inflation concerns for the country further relax in May. The respective indicator has dropped by 28.9 points to a level of 37.2 points – the lowest among all surveyed economies. The majority of 53.5 per cent of the experts would expect inflation rates in Turkey to decrease in the next six months. Experts' sentiments on the Turkish stock market have improved in May. The indicator exhibits a bullish revision by 37.4 points. A majority of 65.8 per cent of the participants expect the Turkish ISE-100 to increase in the next six months. Expectations on the Lira remain roughly constant.

## Special Question: Income Distribution in the CEE countries in 2012



In this month's special question financial market experts were asked to assess the income distribution in CEE countries as well as to share their expectations on the future development of the income in the separate countries. Thereby experts are asked to distinguish between inflation driven by nominal development and wage development in real terms. Experts were asked to indicate whether the countries in the region exhibit a rather undispersed income distribution or whether a large income gap between the lowest and highest income quantiles becomes apparent.

Aggregate expectations on the whole CEE region indicate that the majority of the polled experts (47 per cent) expect the wages in the CEE countries to rise this year more than the wages in the Eurozone. The optimistic prospects are regarding real wages, meaning that the result is not driven by inflation expectations. Roughly one-third of the participants hold the opposite opinion and share pessimistic expectations regarding the development of the real wages in the CEE region. The highest real increase of wages is predicted for the Czech Republic (86 per cent) and Poland (89 per cent). Slovakia and Croatia are expected to have rather low real increases of wages by 67 per cent of the experts respectively. In nominal terms a similar picture arises for almost all countries except for the Czech Republic and Romania. Negative inflation expectations for the Czech Republic and positive for Romania appear to drive the difference between nominal and real term wage expectations.

Survey participants were also asked to share their insights on the current income distribution in the CEE countries. Comparably high income equality is assessed for the Czech Republic (by 82 per cent of the experts) followed by Poland (by 55 per cent of the experts). In all other CEE countries a large majority of experts assess high income inequalities resulting in a measurable income gap. This is particularly the case for Serbia and Romania for which 89 per cent and 85 per cent of the experts respectively agree in their assessment of a rather unequal income distribution. The assessment of income inequality for Croatia, Bulgaria und Hungary are not as optimistic, too. Between 71 and 78 per cent of the participants assess an unbalanced income distribution in these countries.

Zwetelina Iliewa, Astrid Kiekert

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

Current economic situation	good		acceptable (normal)		bad		balance									
Austria	9,1	(-4,3)	87,9	(+4,6)	3,0	(-0,3)	6,1	(-4,0)								
Croatia	2,5	(+2,5)	47,5	(-9,6)	50,0	(+7,1)	-47,5	(-4,6)								
Czech Republic	8,1	(-9,8)	81,1	(+9,3)	10,8	(+0,5)	-2,7	(-10,3)								
Hungary	2,5	(+/-0,0)	38,5	(+15,4)	59,0	(-15,4)	-56,5	(+15,4)								
Poland	24,3	(-13,5)	70,3	(+8,1)	5,4	(+5,4)	18,9	(-18,9)								
Romania	5,6	(-4,1)	47,2	(-4,4)	47,2	(+8,5)	-41,6	(-12,6)								
Slovakia	5,2	(-5,9)	89,5	(+6,2)	5,3	(-0,3)	-0,1	(-5,6)								
Turkey	20,0	(+0,9)	75,6	(+1,1)	4,4	(-2,0)	15,6	(+2,9)								
CEE (incl. Turkey)	8,3	(-2,8)	86,1	(+2,8)	5,6	(+/-0,0)	2,7	(-2,8)								
Eurozone	2,3	(+0,2)	43,2	(-9,0)	54,5	(+8,8)	-52,2	(-8,6)								
Economic expectations	improve		no change		worsen		balance									
Austria	37,5	(+11,7)	50,0	(-1,6)	12,5	(-10,1)	25,0	(+21,8)								
Croatia	31,5	(-7,4)	55,3	(+16,4)	13,2	(-9,0)	18,3	(+1,6)								
Czech Republic	35,1	(+0,9)	54,1	(+6,7)	10,8	(-7,6)	24,3	(+8,5)								
Hungary	33,3	(+12,3)	35,9	(-11,5)	30,8	(-0,8)	2,5	(+13,1)								
Poland	33,4	(+2,9)	58,3	(+16,6)	8,3	(-19,5)	25,1	(+22,4)								
Romania	42,9	(+6,5)	40,0	(+0,6)	17,1	(-7,1)	25,8	(+13,6)								
Slovakia	27,0	(-2,7)	59,5	(+8,1)	13,5	(-5,4)	13,5	(+2,7)								
Turkey	27,9	(+5,5)	55,8	(-3,4)	16,3	(-2,1)	11,6	(+7,6)								
CEE (incl. Turkey)	26,4	(-0,6)	61,8	(+10,4)	11,8	(-9,8)	14,6	(+9,2)								
Eurozone	34,1	(+5,2)	40,9	(-8,0)	25,0	(+2,8)	9,1	(+2,4)								
Inflation rate	increase		no change		decrease		balance									
Austria	18,7	(-23,3)	50,0	(+8,1)	31,3	(+15,2)	-12,6	(-38,5)								
Croatia	51,4	(-6,9)	40,5	(+9,9)	8,1	(-3,0)	43,3	(-3,9)								
Czech Republic	22,2	(-7,5)	38,9	(-12,5)	38,9	(+20,0)	-16,7	(-27,5)								
Hungary	35,2	(-16,2)	43,2	(+10,8)	21,6	(+5,4)	13,6	(-21,6)								
Poland	24,4	(-11,7)	45,9	(+4,2)	29,7	(+7,5)	-5,3	(-19,2)								
Romania	37,4	(-17,2)	43,8	(+10,5)	18,8	(+6,7)	18,6	(-23,9)								
Slovakia	19,5	(-16,6)	44,4	(+5,5)	36,1	(+11,1)	-16,6	(-27,7)								
Turkey	16,3	(-10,8)	30,2	(-7,3)	53,5	(+18,1)	-37,2	(-28,9)								
CEE (incl. Turkey)	25,0	(-6,6)	46,9	(-3,1)	28,1	(+9,7)	-3,1	(-16,3)								
Eurozone	19,5	(-11,6)	43,9	(-2,8)	36,6	(+14,4)	-17,1	(-26,0)								
Short-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	21,8	(+5,7)	25,0	(+3,6)	68,8	(-5,4)	64,3	(+/-0,0)	9,4	(-0,3)	10,7	(-3,6)	12,4	(+6,0)	14,3	(+7,2)
Czech Republic	8,9	(-16,8)	3,6	(-18,3)	67,6	(-1,0)	75,0	(+9,4)	23,5	(+17,8)	21,4	(+8,9)	-14,6	(-34,6)	-17,8	(-27,2)
Hungary	22,2	(-2,8)	19,3	(-8,8)	41,7	(-5,5)	35,5	(-2,0)	36,1	(+8,3)	45,2	(+10,8)	-13,9	(-11,1)	-25,9	(-19,6)
Poland	15,1	(-13,4)	21,4	(-7,7)	57,6	(+14,7)	53,6	(+11,7)	27,3	(-1,3)	25,0	(-4,0)	-12,2	(-12,1)	-3,6	(-3,7)
Romania	16,6	(-10,1)	28,0	(+1,1)	56,7	(+6,7)	52,0	(+9,7)	26,7	(+3,4)	20,0	(-10,8)	-10,1	(-13,5)	8,0	(+11,9)
Turkey	13,2	(-10,6)	12,1	(-17,9)	60,5	(+15,3)	60,6	(+25,6)	26,3	(-4,7)	27,3	(-7,7)	-13,1	(-5,9)	-15,2	(-10,2)
Eurozone	11,4	(-12,4)			72,7	(+6,0)			15,9	(+6,4)			-4,5	(-18,8)		
Long-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	43,8	(+5,1)	20,7	(-6,9)	53,1	(+7,9)	58,6	(+13,8)	3,1	(-13,0)	20,7	(-6,9)	40,7	(+18,1)	0	(+/-0,0)
Czech Republic	25,0	(-12,1)	6,6	(-11,6)	59,4	(+10,8)	46,7	(+4,3)	15,6	(+1,3)	46,7	(+7,3)	9,4	(-13,4)	-40,1	(-18,9)
Hungary	34,3	(-2,8)	19,3	(-15,0)	31,4	(+8,5)	32,3	(+22,9)	34,3	(-5,7)	48,4	(-7,9)	0,0	(+2,9)	-29,1	(-7,1)
Poland	37,4	(-5,5)	13,3	(-11,0)	43,8	(+6,7)	46,7	(+4,3)	18,8	(-1,2)	40,0	(+6,7)	18,6	(-4,3)	-26,7	(-17,7)
Slovakia	41,9	(-2,2)	21,4	(+2,6)	45,2	(+1,1)	50,0	(-3,1)	12,9	(+1,1)	28,6	(+0,5)	29,0	(-3,3)	-7,2	(+2,1)
Turkey	22,8	(-5,8)	21,8	(-5,3)	48,6	(+15,3)	46,9	(+14,5)	28,6	(-9,5)	31,3	(-9,2)	-5,8	(+3,7)	-9,5	(+3,9)
Germany	46,0	(-12,3)			43,2	(+4,3)			10,8	(+8,0)			35,2	(-20,3)		
Stock market indices	increase		no change		decrease		balance									
EURO STOXX 50	53,1	(+17,0)	28,1	(-2,5)	18,8	(-14,5)	34,3	(+31,5)								
ATX (Austria)	57,7	(+15,4)	30,8	(+7,7)	11,5	(-23,1)	46,2	(+38,5)								
NTX (CEE)	58,1	(+22,7)	29,0	(-3,3)	12,9	(-19,4)	45,2	(+42,1)								
CROBEX (Croatia)	35,3	(+3,0)	50,0	(+11,3)	14,7	(-14,3)	20,6	(+17,3)								
PX 50 (Czech Rep.)	48,3	(+9,0)	41,4	(+5,7)	10,3	(-14,7)	38,0	(+23,7)								
BUX (Hungary)	40,6	(-4,2)	37,5	(+9,9)	21,9	(-5,7)	18,7	(+1,5)								
WIG (Poland)	56,6	(+11,8)	26,7	(-0,9)	16,7	(-10,9)	39,9	(+22,7)								
BET (Romania)	51,9	(+1,9)	29,6	(+6,5)	18,5	(-8,4)	33,4	(+10,3)								
SAX (Slovakia)	37,9	(+9,9)	48,3	(+0,3)	13,8	(-10,2)	24,1	(+20,1)								
ISE-100 (Turkey)	65,8	(+19,3)	24,4	(-1,2)	9,8	(-18,1)	56,0	(+37,4)								
Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance									
Kuna (Croatia)	28,9	(+2,4)	50,0	(-5,9)	21,1	(+3,5)	7,8	(-1,1)								
Koruna (Czech Rep.)	64,1	(+28,2)	28,2	(-20,5)	7,7	(-7,7)	56,4	(+35,9)								
Forint (Hungary)	41,0	(+4,9)	30,8	(+5,8)	28,2	(-10,7)	12,8	(+15,6)								
Zloty (Poland)	64,1	(+8,6)	25,6	(-2,2)	10,3	(-6,4)	53,8	(+15,0)								
Lei (Romania)	31,2	(+4,6)	59,4	(+12,7)	9,4	(-17,3)	21,8	(+21,9)								
Lira (Turkey)	50,0	(+/-0,0)	35,0	(+7,7)	15,0	(-7,7)	35,0	(+7,7)								
US-Dollar	42,9	(-13,6)	33,3	(+0,7)	23,8	(+12,9)	19,1	(-26,5)								

Note: 74 Financial market experts, 14 from which from Turkey, participated in the May survey which was conducted during the period 04/30/12-05/14/12. 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 April 2012 in parentheses). Balances refer to the differences between positive and negative assessments.

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