

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 June issue of the “Financial Market Report CEE” contains the results of the current survey, conducted between April 29, 2015 and May 18, 2015, 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.

Stable Economic Expectations for the CEE Region

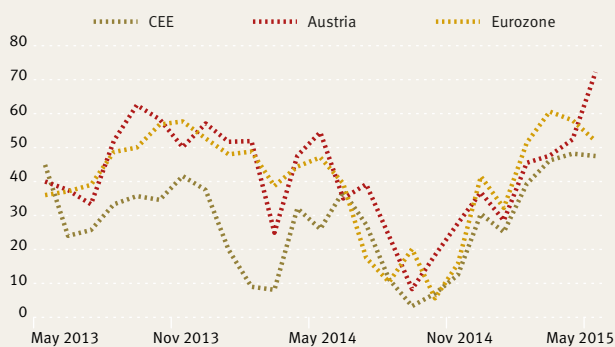
Over the past three months (from March 2015 until May 2015) the economic expectations for Central and Eastern Europe have displayed an overall stable positive trend. The ZEW-Erste Group Bank Economic Sentiment Indicator for the CEE region has shown overall improvement of 8.2 points during this period. At the beginning of the period, in March 2015, the indicator increased by 6.9 points, followed by a further increase of two points in April and a slight correction of minus 0.7 points in May. In April 2015 the indicator reached a level of 48.2 points, which is the highest level reached by the economic sentiments indicator since March 2013 and the second-highest level reached since January 2010. The improvement of the sentiments for the CEE region over the past three months has been driven by an overall improvement in the sentiments for almost all individual countries except Romania and Turkey. The respective indicator for Romania has experienced large fluctuations over the past three months, displaying an overall marginal decrease of 0.1 point to a level of 50.0 points. The respective economic sentiments indicator for Turkey has displayed a significant drop, from a stable positive level of 16.3 at the beginning of the period to a negative level of minus 9.1 in April 2015, and finally its current level of minus 3.2 in May 2015. The indicator has thus plunged and strayed into negative territory for the first time since November 2014.

Experts' assessments of the current situation in the CEE region has fluctuated considerably over the past three months. In March and April the respective indicator dropped by 10.3 points and 25.9 points respectively. A subsequent correction of 24.2 points was observed in May 2015. The indicator has undergone an overall change of minus 12 points over the past three months.

Economic sentiments for Austria have largely improved over the past three months. The respective indicator has improved gradually from a level of 45.5 at the beginning of this period to its all-time highest level of 72.2 points, displayed in the survey in May 2015. Experts' assessments of the current situation in the country has shown overall improvement, albeit with considerable fluctuation over the past three months. The respective indicator stands, with its current level of 16.6 points, at its highest level since July 2014.

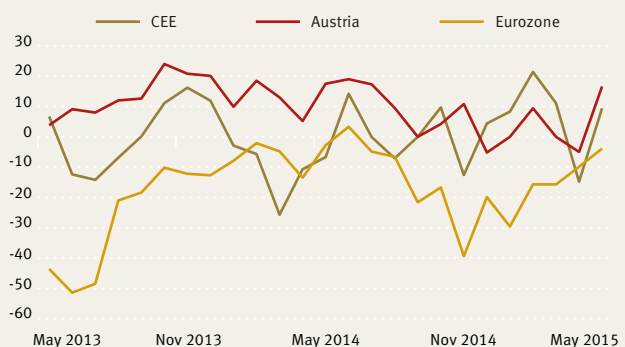
Economic sentiments for the Eurozone have somewhat fluctuated over the past three months. The indicator reached a level of 60.6 points in March 2015 which is its highest level since January 2010. The peak; however, was followed by a correction, bringing the indicator back to a level of 51.9 points as of May 2015 – only 0.5 points higher than its level at the beginning of the three-month period. Experts' assessments of the current situation in the Eurozone remain in the negative territory.

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: Positive Current Situation

The experts' assessments of the current economic situation and the economic expectations for the Czech Republic have been steadily increasing since November 2014. With a positive balance of 45.5 points, the assessment of the current situation is at its highest level since June 2008. In the last two months, a large majority of surveyed analysts have assessed the economic expectations for the Czech Republic as, "good", with 68 per cent doing so in April and 65.2 per cent doing so in May. This very positive assessment of the Czech economy is in line with recently published data from the Czech statistical Office, reporting a 4.2 per cent (yoy) increase in GDP for the first quarter of 2015.

Economic expectations as well as the experts' assessments of the current situation of Poland have also been increasing since November 2014. With a level of 52.3 points in May 2015, the indicator for the current economic situation of Poland is at its highest level since September 2008. While the indicator dropped to 29.6 points in April, there was a strong upswing of 22.7 points in May. At the same time, however, the rise in economic sentiment for Poland has been steady over the last three months. In May 2015, a majority of survey respondents assessed both the current economic situation of Poland as, "good" (56.6 per cent) and the economic prospects of Poland as, "good" (60.9 per cent). The highly positive assessment of the Polish economy reflects data published by the Central Statistical Office of Poland, which has indicated that unemployment is at its lowest level since 2009 and that GDP growth is steady at 3.4 per cent (yoy) for the first quarter of 2015.

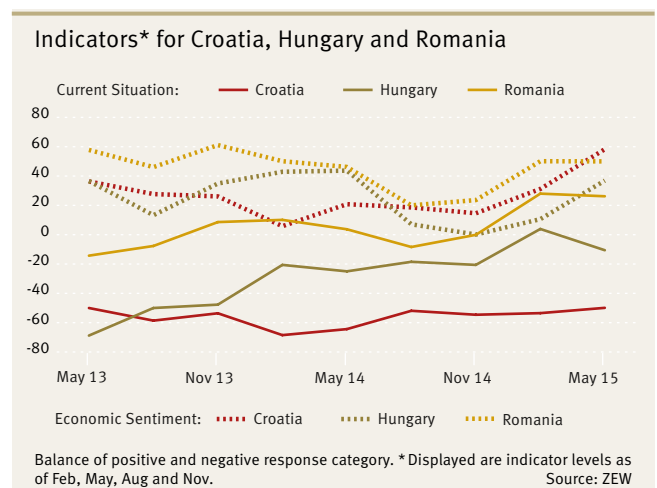
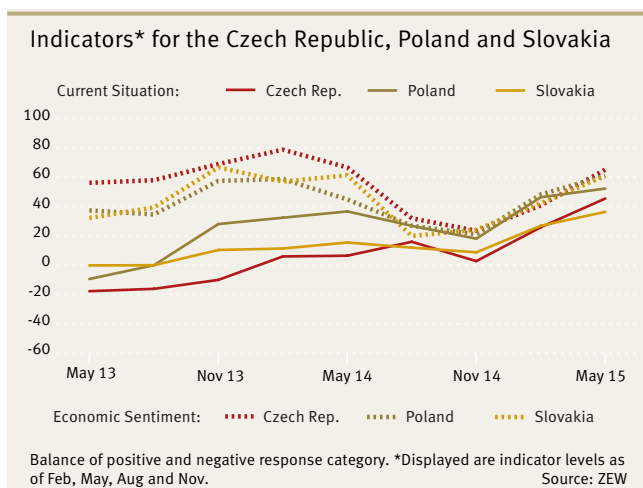
The financial experts' assessments of the current economic situation in Slovakia is extremely positive. Similarly, experts' expectations in regard to the economic development in the country over the next six months are highly optimistic. The indicator of economic sentiment has been consistently rising since January 2015, reaching a balance of 60.9 points in May. The development of the indicator for the current situation of the Slovak economy has been less consistent, with a small decline in the balance from January to April. In May, however, an increase of 24 points in the balance has meant that the indicator has reached its highest level since September 2008 – 36.4 points.

Croatia, Hungary and Romania: Improved Economic Outlook

The indicator of experts' assessments of the current economic situation in Croatia remains, as it has done over the last two years, pessimistic. The indicator of economic sentiment in the country has, however, increased significantly since November 2014. Over the last five months the balance has been rising relatively steadily. In May 2015 it has reached its highest level of 58.3 points since January 2010. This may reflect the fact that Croatian GDP has been growing at its highest level in the first quarter of 2015 since 2008, with 0.5 per cent (yoy).

In Hungary, the financial experts' assessments of the current economic situation have once again fallen back into the negative since February 2015. The decline of the indicator has been relatively steady over the last three months, reaching a balance of minus 10.6 points in May. The economic sentiment indicator, however, has been moving in the opposite direction. The assessment of the economic outlook for Hungary has been increasing steadily since December 2014 to April 2015, dropping slightly in May 2015 to a balance of 36.9 points. Reasons for these somewhat optimistic economic expectations for Hungary may include a steady rate of GDP growth, with 3.5 per cent (yoy) for the first quarter of 2015, as published by the Hungarian Central Statistical Office, or a return of the rate of unemployment to a level similar to that pre-crisis.

The analysts' assessments of the current situation and the economic sentiment in Romania have been largely positive and continue to move in a positive direction. Economic expectations have been increasing almost consistently since November 2014 to April 2015. In May there was a drop of 14 points, leaving the indicator at a balance of 50 points. The indicator of the experts' assessments of the current situation in Romania dropped in March and April to a balanced level of 0.0 points. The level of the indicator has subsequently increased by 26.2 points to a level of 26.2 points in May. The general tendencies of the indicators, however, indicate a positive assessment of the current economic situation of Romania, as well as a positive outlook for the future economic development. This evaluation of Romania's economy might be seen as a positive response to the results of the presidential elections in November 2014.



Turkey: Large Fluctuations in Economic Expectations and Current Situation



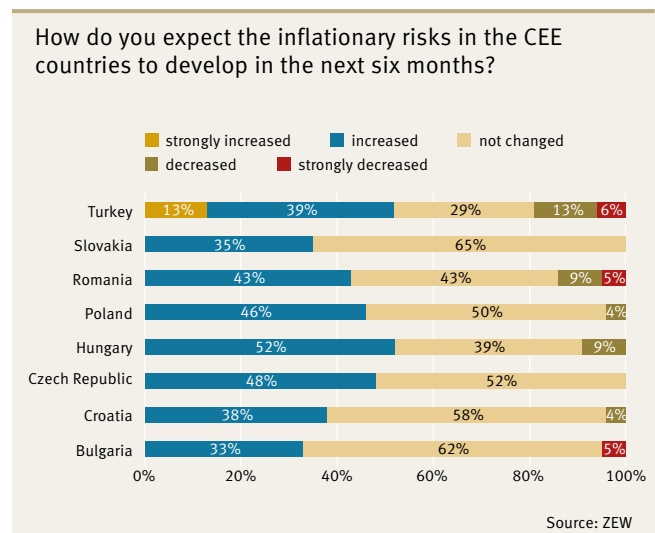
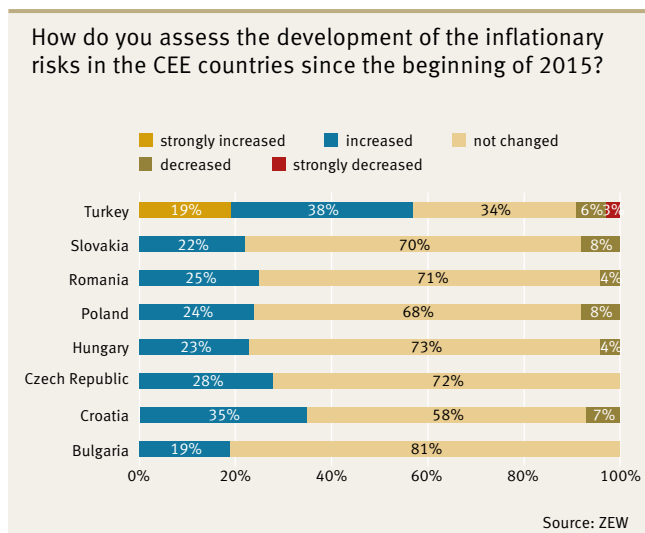
In March 2015 the experts' assessments of the current situation in Turkey deteriorated considerably and the respective indicator dropped by 40.6 points to a level of minus 29.5 points. Subsequently, the balance has slowly started to recover, creeping up by approximately ten points over the last two months – April and May. The indicator of the economic expectations for Turkey has been falling consistently since January 2015, but managed to recover slightly by 6.1 points in May. This constitutes an only slightly negative outlook. Potential reasons for this overall pessimistic perception of the Turkish economy might include the political uncertainty in the months leading up to the parliamentary election on June 7. Having said this, the balances are far above their level in February 2014, shortly before the local elections held in March of that same year, when the perception of the current situation reached a historically low level of minus 57.4 points.

Special Question: Inflationary Risk in the CEE countries

In the Special Question in May 2015 experts were asked to assess the development of the inflationary risks in the CEE countries since the beginning of 2015. In addition, they were asked to share their expectations regarding the development of inflationary risks in the CEE countries over the next six months. According to the majority of experts, the inflationary risks have not changed since the beginning of 2015 in Slovakia (70 per cent), Romania (71 per cent), Poland (68 per cent), Hungary (73 per cent), the Czech Republic (72 per cent), Croatia (58 per cent) and Bulgaria (81 per cent). In contrast, experts' opinions regarding the inflationary risk in Turkey are widely split. A slight majority of survey respondents (38 per cent) see an increased risk of inflation in Turkey since the beginning of 2015. Another 34 per cent of surveyed financial market experts assess no change in the inflationary risk and 19 per cent assess a strong increase since the beginning of the year. The financial market experts were also asked to give their expectations of the development of inflationary risk in the CEE countries over the next six months.

A clear majority of the surveyed financial experts consider that the inflationary risk will remain stable in Slovakia (65 per cent), Croatia (58 per cent) and Bulgaria (62 per cent). Expectations are, however, more divided in regards to the future inflation developments in Romania, Poland and the Czech Republic. For Romania, 43 per cent of experts predict no change in inflationary pressure in the next six months, while 43 per cent expect to see an increase. Similarly, 50 per cent of financial experts expect to see no change in inflationary risk in Poland, while 46 per cent expect an increase in inflationary risk over the next six months. A similar disagreement is revealed by the responses regarding the Czech Republic, with 48 per cent of experts expecting an increase, and 52 per cent expecting no change. The respondents had a relatively pessimistic outlook when it came to Hungary, with the majority, 52 per cent, expecting an increased inflationary pressure over the next six months. For Turkey, the majority of experts (39 per cent) also predict an increase in inflationary risk.

Henrietta Sandmann, Zwetelina Iliewa



ZEW / Erste Group Bank – Financial Market Survey CEE: May 2015																
Current economic situation	good		acceptable (normal)		bad		balance									
Austria	22.2	(+22.2)	72.2	(-22.8)	5.6	(+ 0.6)	16.6	(+21.6)								
Croatia	8.4	(+ 8.4)	33.3	(- 9.6)	58.3	(+ 1.2)	-49.9	(+ 7.2)								
Czech Republic	45.5	(+21.5)	54.5	(-21.5)	0.0	(± 0.0)	45.5	(+21.5)								
Hungary	21.0	(+ 8.0)	47.4	(-22.2)	31.6	(+14.2)	-10.6	(- 6.2)								
Poland	56.6	(+27.0)	39.1	(-31.3)	4.3	(+ 4.3)	52.3	(+22.7)								
Romania	31.5	(+23.5)	63.2	(-20.8)	5.3	(- 2.7)	26.2	(+26.2)								
Slovakia	36.4	(+19.8)	63.6	(-15.6)	0.0	(- 4.2)	36.4	(+24.0)								
Turkey	6.5	(+ 3.6)	67.7	(- 2.9)	25.8	(- 0.7)	-19.3	(+ 4.3)								
CEE (incl. Turkey)	14.2	(+10.5)	81.0	(+ 3.2)	4.8	(-13.7)	9.4	(+24.2)								
Eurozone	11.5	(+ 8.1)	73.1	(-10.2)	15.4	(+ 2.1)	-3.9	(+ 6.0)								
Economic expectations	improve		no change		worsen		balance									
Austria	72.2	(+19.8)	27.8	(-19.8)	0.0	(± 0.0)	72.2	(+19.8)								
Croatia	62.5	(+16.1)	33.3	(-20.3)	4.2	(+ 4.2)	58.3	(+11.9)								
Czech Republic	65.2	(- 2.8)	34.8	(+ 2.8)	0.0	(± 0.0)	65.2	(- 2.8)								
Hungary	47.4	(- 4.8)	42.1	(- 1.4)	10.5	(+ 6.2)	36.9	(-11.0)								
Poland	60.9	(+ 5.3)	39.1	(- 5.3)	0.0	(± 0.0)	60.9	(+ 5.3)								
Romania	50.0	(-14.0)	50.0	(+14.0)	0.0	(± 0.0)	50.0	(-14.0)								
Slovakia	60.9	(+ 0.9)	39.1	(- 0.9)	0.0	(± 0.0)	60.9	(+ 0.9)								
Turkey	25.8	(+ 7.6)	45.2	(- 9.3)	29.0	(+ 1.7)	-3.2	(+ 5.9)								
CEE (incl. Turkey)	52.3	(+ 0.4)	42.9	(- 1.5)	4.8	(+ 1.1)	47.5	(- 0.7)								
Eurozone	55.6	(- 8.9)	40.7	(+11.7)	3.7	(- 2.8)	51.9	(- 6.1)								
Inflation rate	increase		no change		decrease		balance									
Austria	38.9	(- 6.1)	50.0	(± 0.0)	11.1	(+ 6.1)	27.8	(-12.2)								
Croatia	36.4	(- 2.9)	54.5	(+ 4.5)	9.1	(- 1.6)	27.3	(- 1.3)								
Czech Republic	66.7	(+18.7)	33.3	(- 6.7)	0.0	(-12.0)	66.7	(+30.7)								
Hungary	61.1	(+ 8.9)	27.8	(-15.7)	11.1	(+ 6.8)	50.0	(+ 2.1)								
Poland	61.9	(- 1.1)	28.6	(- 1.0)	9.5	(+ 2.1)	52.4	(- 3.2)								
Romania	52.6	(+ 4.6)	15.8	(-20.2)	31.6	(+15.6)	21.0	(-11.0)								
Slovakia	65.2	(+ 1.2)	34.8	(+ 6.8)	0.0	(- 8.0)	65.2	(+ 9.2)								
Turkey	32.1	(- 3.2)	39.3	(+ 1.1)	28.6	(+ 2.1)	3.5	(- 5.3)								
CEE (incl. Turkey)	55.0	(+ 3.1)	35.0	(- 5.7)	10.0	(+ 2.6)	45.0	(+ 0.5)								
Eurozone	57.1	(+ 5.5)	39.3	(- 5.9)	3.6	(+ 0.4)	53.5	(+ 5.1)								
Short-term interest rates	increase		no change		decrease		balance									
[abs.] [rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	0.0	(± 0.0)	5.0	(+ 0.6)	87.0	(+11.0)	85.0	(+ 2.4)	13.0	(-11.0)	10.0	(- 3.0)	-13.0	(+11.0)	-5.0	(+ 3.6)
Czech Republic	0.0	(- 4.2)	5.0	(+ 0.4)	90.9	(+20.1)	85.0	(+ 3.2)	9.1	(-15.9)	10.0	(- 3.6)	-9.1	(+11.7)	-5.0	(+ 4.0)
Hungary	5.0	(+ 0.7)	5.6	(+ 0.8)	70.0	(+26.5)	72.2	(+15.1)	25.0	(-27.2)	22.2	(-15.9)	-20.0	(+27.9)	-16.6	(+16.7)
Poland	0.0	(-11.6)	5.5	(- 7.6)	85.7	(+16.5)	77.8	(+ 3.9)	14.3	(- 4.9)	16.7	(+ 3.7)	-14.3	(- 6.7)	-11.2	(-11.3)
Romania	5.0	(+ 5.0)	5.5	(+ 0.9)	85.0	(+22.5)	88.9	(+16.2)	10.0	(-27.5)	5.6	(-17.1)	-5.0	(+32.5)	-0.1	(+18.0)
Turkey	35.7	(+ 4.4)	30.8	(- 3.7)	39.3	(- 1.3)	42.3	(+ 0.9)	25.0	(- 3.1)	26.9	(+ 2.8)	10.7	(+ 7.5)	3.9	(- 6.5)
Eurozone	17.3	(+10.8)			79.3	(- 1.3)			3.4	(- 9.5)			13.9	(+20.3)		
Long-term interest rates	increase		no change		decrease		balance									
[abs.] [rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	22.7	(+10.2)	9.5	(+ 0.8)	50.0	(+ 4.2)	61.9	(+ 1.0)	27.3	(-14.4)	28.6	(- 1.8)	-4.6	(+24.6)	-19.1	(+ 2.6)
Czech Republic	33.3	(+ 2.8)	0.0	(- 9.1)	42.9	(+ 3.8)	68.4	(+ 0.2)	23.8	(- 6.6)	31.6	(+ 8.9)	9.5	(+ 9.4)	-31.6	(-18.0)
Hungary	36.9	(+18.8)	16.7	(+ 2.4)	36.8	(+ 0.4)	50.0	(+11.9)	26.3	(-19.2)	33.3	(-14.3)	10.6	(+38.0)	-16.6	(+16.7)
Poland	38.1	(+ 0.6)	10.5	(-21.3)	33.3	(± 0.0)	57.9	(+26.1)	28.6	(- 0.6)	31.6	(- 4.8)	9.5	(+ 1.2)	-21.1	(-16.5)
Slovakia	36.3	(+10.2)	9.6	(+ 9.6)	45.5	(+10.7)	71.4	(+ 3.2)	18.2	(-20.9)	19.0	(-12.8)	18.1	(+31.1)	-9.4	(+22.4)
Turkey	46.1	(+ 4.2)	38.4	(+ 1.8)	30.8	(+ 5.0)	23.1	(-13.6)	23.1	(- 9.2)	38.5	(+11.8)	23.0	(+13.4)	-0.1	(-10.0)
Germany	41.7	(+ 7.1)			45.8	(+11.2)			12.5	(-18.3)			29.2	(+25.4)		
Stock market indices	increase		no change		decrease		balance									
EURO STOXX 50	66.7	(- 6.4)	20.8	(+ 1.6)	12.5	(+ 4.8)	54.2	(-11.2)								
ATX (Austria)	81.2	(+ 7.5)	12.5	(-13.8)	6.3	(+ 6.3)	74.9	(+ 1.2)								
NTX (CEE)	81.2	(+ 7.6)	12.5	(- 8.6)	6.3	(+ 1.0)	74.9	(+ 6.6)								
CR OBEX (Croatia)	60.0	(+ 2.3)	35.0	(- 3.5)	5.0	(+ 1.2)	55.0	(+ 1.1)								
PX 50 (Czech Rep.)	76.4	(+14.5)	11.8	(-16.8)	11.8	(+ 2.3)	64.6	(+12.2)								
BUX (Hungary)	70.6	(+ 3.9)	17.6	(- 6.2)	11.8	(+ 2.3)	58.8	(+ 1.6)								
WIG (Poland)	84.2	(- 2.8)	10.5	(+ 1.8)	5.3	(+ 1.0)	78.9	(- 3.8)								
BET (Romania)	70.6	(-15.1)	23.5	(+14.0)	5.9	(+ 1.1)	64.7	(-16.2)								
SAX (Slovakia)	66.6	(+22.2)	26.7	(-23.3)	6.7	(+ 1.1)	59.9	(+21.1)								
ISE-100 (Turkey)	57.1	(+ 7.1)	17.9	(+ 1.2)	25.0	(- 8.3)	32.1	(+15.4)								
Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance									
Kuna (Croatia)	26.1	(- 2.5)	47.8	(-12.9)	26.1	(+15.4)	0.0	(-17.9)								
Koruna (Czech Rep.)	36.8	(+ 3.4)	57.9	(- 0.4)	5.3	(- 3.0)	31.5	(+ 6.4)								
Forint (Hungary)	31.6	(- 7.5)	31.6	(- 3.2)	36.8	(+10.7)	-5.2	(-18.2)								
Zloty (Poland)	42.9	(-17.1)	47.6	(+19.6)	9.5	(- 2.5)	33.4	(-14.6)								
Lei (Romania)	35.0	(+ 1.7)	60.0	(- 2.5)	5.0	(+ 0.8)	30.0	(+ 0.9)								
Lira (Turkey)	20.7	(- 6.9)	44.8	(+10.3)	34.5	(- 3.4)	-13.8	(- 3.5)								
US-Dollar	46.7	(- 1.8)	33.3	(- 9.1)	20.0	(+10.9)	26.7	(-12.7)								

Note: 55 Financial market experts, 11 from which from Turkey, participated in the May survey which was conducted during the period of 4/29-5/18/2015. 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 April 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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