

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 September issue of the “Financial Market Report CEE” contains the results of the current survey, conducted between July 29, 2013 and August 12, 2013, 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.

## Increasing Optimism for the CEE Region During the Last Three Months

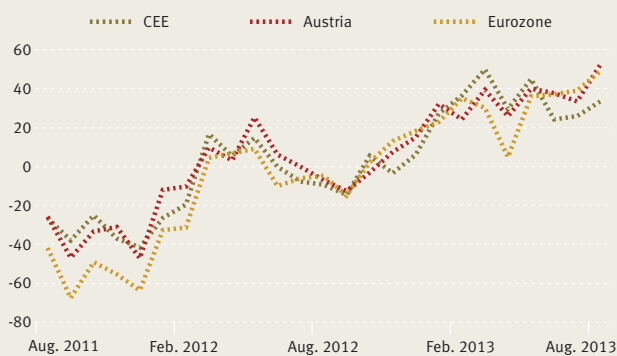
After reaching its historical high in March 2013 the ZEW-Erste Group Bank Economic Sentiment Indicator for the CEE region fluctuated between June and August 2013 in an optimistic range between 24 and 33.3 points. The indicator started in June with a sharp drop by 20.9 points. This decrease was most importantly driven by political turmoil in two of the seven countries of the CEE region – the Czech Republic and Turkey – but has partly rebounded during the last three months. The indicator of experts’ assessment on the current economic situation in the CEE region displays roughly the same pattern over the last three months. After starting with a 19.1 points plunge into negative territory the indicator has partly rebounded to a level of minus 6.9 points. The current situation in the region is thus assessed more positively than the situation in the Eurozone, however more negatively as compared to the situation in Austria. It is remarkable that both the indicator of economic sentiment and the indicator for the current economic situation, have improved in spite of the ongoing political crises in both the Czech Republic and Turkey.

Economic sentiment for the Eurozone has also increased over the last three months and ranks higher than the respective sentiment indicator for the CEE region for the first time this year.

Survey participants also report a significant increase in their positive assessment of the current economic situation in the Eurozone. The respective indicator has increased in August to its highest level since June 2011. In August almost two-thirds of the financial market experts in the survey have indicated that the situation in the Eurozone is normal. This is a significantly more positive result than the assessment of their German colleagues: According to the results of the ZEW Financial Market Survey conducted with financial market participants from Germany at the same time the majority of 74.5 per cent of the experts consider the current situation in the Eurozone as bad.

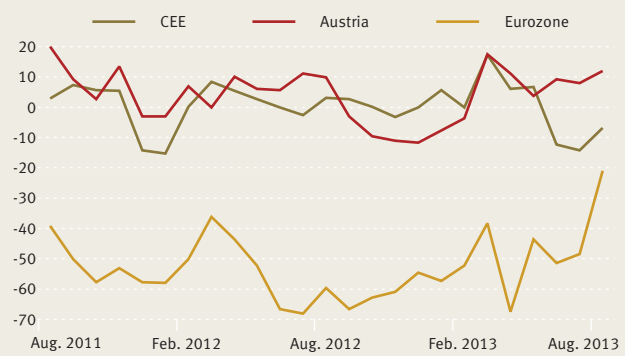
Austria ranks highest among the three regions observed in our survey regarding both economic sentiment and state of the current business cycle. The indicator of economic sentiment for Austria gradually reached its highest level since January 2010 in the most recent wave of the survey in August. The indicator of experts’ assessment of the current economic situation in the country has remained stable over the last three months at levels close to 10.0 points – a moderately positive level due to the fact that the large majority of participants (88 per cent) actually assess the current situation as normal.

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: Improved Current Situation

In August experts' assessment of the current economic situation in the Czech Republic improves significantly for the first time since the beginning of the political turmoil in June. After the resignation of the former Prime Minister Petr Necas in June and a lost confidence vote by the assigned caretaker government, the preparation of the budget for 2014 remains uncertain until the new legislative elections at the end of October. In the light of the political situation experts' assessment of the current economic situation in the country improves by 10.5 points. The improvement may also be due to slightly more optimistic GDP figures for the second quarter of 2013 – the Czech economy records a seasonally-adjusted GDP growth of 0.6% qoq, which is the first increase after six consecutive decreases (Source: FocusEconomics). In contrast to the improved assessment of the current economic situation experts seem rather reluctant to revise upwards their expectations for the next six months. The respective indicator of economic sentiment has increased by 3.1 points and reaches a level of 58.0 points. This is nevertheless the highest level among all surveyed economies. After inflation figures for the Czech Republic fell in June to the lowest levels in three years, financial market experts have revised their inflation expectations upwards over the last three months.

Experts' assessment of the current situation in Poland has been very volatile since the beginning of the year ranging from 17.9 points in March to minus 17.9 points in July. The indicator is currently at the balanced 0.0 mark with 58.6 per cent of the experts describing the current situation as normal. Experts' sentiments regarding the economic development of Poland over the next six months, in contrast, display a stable optimism.

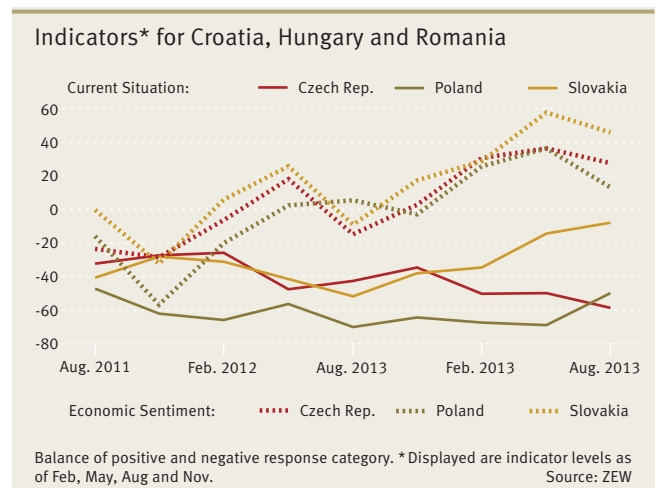
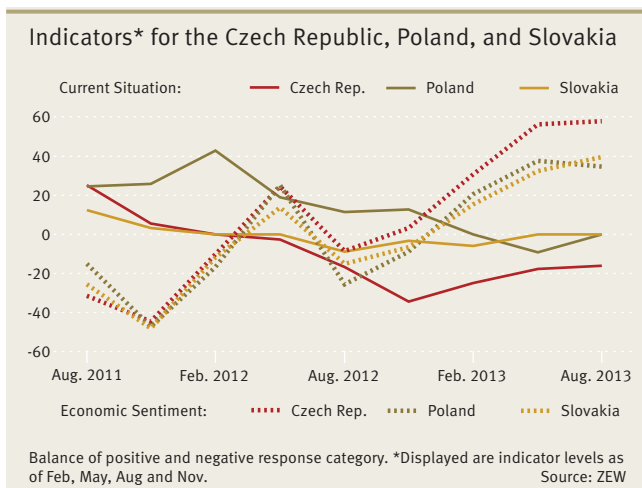
Economic expectations for Slovakia peaked at 39.4 points in August which is the highest level of the indicator since January 2010. Experts' optimism is in line with the accelerating GDP growth (yoy) as published by the Statistical Office of the Slovak Republic in mid-August as well as accelerating industrial production in the second quarter of the year. Survey participants currently hold a rather balanced assessment of the current economic situation. The indicator of the current business cycle is rather stable at the 0.0 mark since the end of 2011.

## Croatia, Hungary and Romania: Rising Inflation Concerns

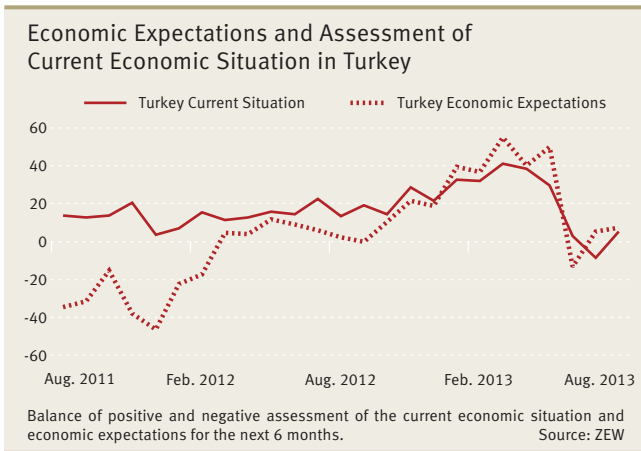
The indicator of economic sentiment for Hungary displays the largest movement of all the indicators included in the survey this month – a rapid decrease by 30.5 points. The decrease is due to those 13.6 per cent of the experts who have revised their expectations from optimistic to pessimistic. The decrease comes in spite of positive industrial production figures for June. In June the industrial production in Hungary rebounded (yoy) after dropping to a five-month low in May. In contrast, the indicator of experts' assessment of the current economic situation escaped from its extremely negative range and remained close to minus 50 over the last three months. The indicator of inflation concerns has increased by 17.9 points in August and currently ranks highest among all surveyed economies. This is not surprising considering the fact that Hungary has the largest VAT rate in the EU and the government has just proposed the introduction of an additional tax on luxury goods. In addition the Hungarian Central Bank breaks records by continuously lowering the interest rates. A further factor may be the introduction of the dual interest rate system which started in June this year and which aims to boost the economy by providing retail banks zero-interest funding provided that they pass it on to small companies.

The indicator of experts' assessment of the current situation in Croatia reaches its lowest level since October 2009. The indicator currently stands at minus 58.6 points which is also the lowest level among all surveyed economies. Experts' assessment is not surprising in the light of the GDP figures indicating a contraction for already eight consecutive quarters. After peaking in March 2013, the indicator of economic sentiment has fluctuated at rather high levels during the last three months and currently stands at 27.7 points. Inflation concerns have increased drastically over the last three months from a level of minus 35.5 points in June to a level of 17.8 points in August. The inflation rate in Croatia dropped in May to its lowest level for more than a year.

After peaking in May, the economic sentiment for Romania has settled in the positive range between 44.5 points to 46.1 points during the last three months. In August a majority of 53.8 per cent were optimistic about the next six months.

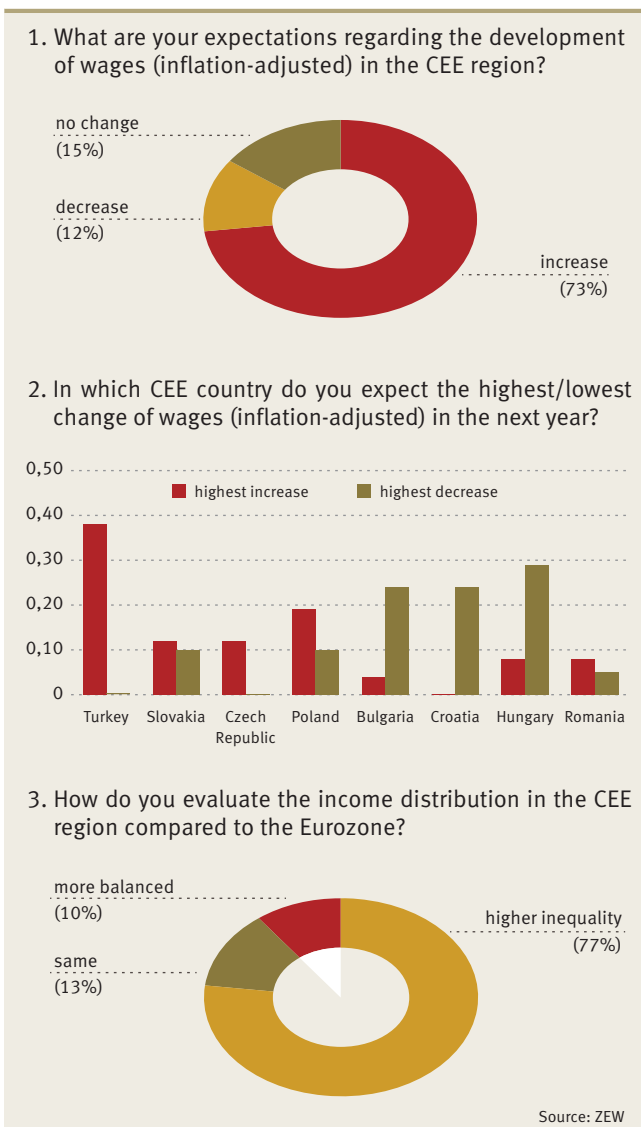


## Turkey: Uncertain Current Economic Situation



After reaching this year’s lowest level in June, the indicator of economic sentiment for Turkey partly returned to its positive path over the last three months. In contrast, experts’ assessment of the current economic situation plunged in June by 26.8 points and reached in July an all-times low of minus 8.7 points to return in August to 5.2 points. Macroeconomic indicators in combination with the political turbulences in the country since the end of May paint a mixed picture for the economic prospects of the country. Positive industrial production figures published in June were reversed by a slowdown of industrial production as published in July. The current account figures published in June and July raised further concerns as the deficit of the country widened sharply. In contrast, the consumer confidence index conducted and published by the national Statistical Institute and the Turkish Central Bank reaches its highest level since March 2012.

## Special Question: Wage Expectations and Wage Inequality in the CEE Region



Wage inequality in the CEE region is still higher as compared to the Eurozone but real wages in the region will increase overall during the next year. The highest increase of inflation-adjusted income is expected for Turkey or Poland. In contrast, some countries in the region are expected to even report negative real wage growth by the end of the year. The most negative figures are thereby expected for Hungary. This is the opinion of the majority of financial market participants surveyed in August. This month’s special question asks participants for their assessment of the development of the wages and the income distribution in the CEE region.

According to the majority of 76.9 per cent of the experts the CEE region is still characterized by higher income inequality as compared to the Eurozone. However, the majority of experts (73 per cent) expect the inflation-adjusted income in the region to increase overall during the next year. Thereby, 27 per cent of the experts expect the wage gap between the Eurozone and the CEE region to diminish. Another 24 per cent of the experts expect the wages in the Eurozone to increase even more than the wages in the CEE region and thus the wage gap to even widen. A decrease in the wages of the CEE region is considered likely by a minority of 12 per cent of the respondents. Participants were further asked in which countries they expect the highest increase and the highest decrease of wages. The majority of 38 per cent of the respondents agrees that the highest real wage increase is to be expected in Turkey. Another 19 per cent argue that the wage increase in Poland will be even higher. A real wage development in the Czech Republic is expected to remain in positive territory, however moderate. Roughly one-third of the respondents indicate that among the countries which are expected to register increasing real wages during the next year, the Czech Republic is expected to display the most modest increase. On the downside, Hungary is expected to display the highest wage decrease among all CEE countries by 29 per cent of the respondents. Other candidates are Croatia and Bulgaria which are expected to rank first in real wage decreases by 24 per cent of the respondents respectively.

Zwetelina Iliewa

ZEW / Erste Group Bank - Financial Market Survey CEE: August 2013																
Current economic situation	good		acceptable (normal)		bad		balance									
Austria	12.0	(± 0.0)	88.0	(+ 4.0)	0.0	(- 4.0)	12.0	(+ 4.0)								
Croatia	0.0	(- 6.4)	41.4	(+ 5.9)	58.6	(+ 0.5)	-58.6	(- 6.9)								
Czech Republic	12.9	(+ 6.2)	58.1	(- 1.9)	29.0	(- 4.3)	-16.1	(+10.5)								
Hungary	0.0	(- 3.5)	50.0	(+ 5.2)	50.0	(- 1.7)	-50.0	(- 1.8)								
Poland	20.7	(+13.6)	58.6	(- 9.3)	20.7	(- 4.3)	0.0	(+17.9)								
Romania	15.4	(+15.4)	61.5	(- 5.2)	23.1	(-10.2)	-7.7	(+25.6)								
Slovakia	14.8	(+ 7.4)	70.4	(± 0.0)	14.8	(- 7.4)	0.0	(+14.8)								
Turkey	18.0	(+ 3.8)	69.2	(+ 6.3)	12.8	(-10.1)	5.2	(+13.9)								
CEE (incl. Turkey)	6.9	(- 0.3)	79.3	(+ 7.9)	13.8	(- 7.6)	-6.9	(+ 7.3)								
Eurozone	7.9	(+ 5.0)	63.2	(+17.5)	28.9	(-22.5)	-21.0	(+27.5)								
Economic expectations	improve		no change		worsen		balance									
Austria	56.0	(+19.0)	40.0	(-19.3)	4.0	(+ 0.3)	52.0	(+18.7)								
Croatia	38.0	(+ 8.6)	51.7	(-10.1)	10.3	(+ 1.5)	27.7	(+ 7.1)								
Czech Republic	67.7	(+ 9.6)	22.6	(-16.1)	9.7	(+ 6.5)	58.0	(+ 3.1)								
Hungary	30.0	(-16.9)	53.3	(+ 3.3)	16.7	(+13.6)	13.3	(-30.5)								
Poland	44.9	(- 1.8)	44.8	(- 5.2)	10.3	(+ 7.0)	34.6	(- 8.8)								
Romania	53.8	(+ 5.6)	38.5	(- 9.6)	7.7	(+ 4.0)	46.1	(+ 1.6)								
Slovakia	46.5	(+ 8.5)	46.4	(-12.2)	7.1	(+ 3.7)	39.4	(+ 4.8)								
Turkey	29.2	(+ 2.9)	48.8	(- 3.8)	22.0	(+ 0.9)	7.2	(+ 2.0)								
CEE (incl. Turkey)	43.3	(+11.1)	46.7	(-14.6)	10.0	(+ 3.5)	33.3	(+ 7.6)								
Eurozone	56.8	(+ 9.5)	35.1	(- 9.3)	8.1	(- 0.2)	48.7	(+ 9.7)								
Inflation rate	increase		no change		decrease		balance									
Austria	20.8	(-10.0)	79.2	(+17.7)	0.0	(- 7.7)	20.8	(- 2.3)								
Croatia	32.1	(+13.4)	53.6	(+ 3.6)	14.3	(-17.0)	17.8	(+30.4)								
Czech Republic	16.7	(-14.5)	60.0	(+ 3.7)	23.3	(+10.8)	-6.6	(-25.3)								
Hungary	34.5	(+ 8.7)	58.6	(+ 0.5)	6.9	(- 9.2)	27.6	(+17.9)								
Poland	33.3	(± 0.0)	59.3	(+ 9.3)	7.4	(- 9.3)	25.9	(+ 9.3)								
Romania	20.0	(+ 8.9)	52.0	(+ 0.1)	28.0	(- 9.0)	-8.0	(+17.9)								
Slovakia	20.0	(- 4.2)	72.0	(+ 6.5)	8.0	(- 2.3)	12.0	(- 1.9)								
Turkey	27.5	(- 8.7)	45.0	(+ 0.6)	27.5	(+ 8.1)	0.0	(-16.8)								
CEE (incl. Turkey)	27.6	(-13.8)	69.0	(+10.4)	3.4	(+ 3.4)	24.2	(-17.2)								
Eurozone	24.9	(- 0.8)	68.8	(+ 3.1)	6.3	(- 2.3)	18.6	(+ 1.5)								
Short-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	16.7	(- 4.0)	23.8	(+ 3.8)	62.5	(+ 7.3)	61.9	(+ 9.9)	20.8	(- 3.3)	14.3	(-13.7)	-4.1	(- 0.7)	9.5	(+17.5)
Czech Republic	0.0	(- 6.5)	7.7	(- 3.0)	92.9	(- 0.6)	80.8	(- 4.9)	7.1	(+ 7.1)	11.5	(+ 7.9)	-7.1	(-13.6)	-3.8	(-10.9)
Hungary	14.8	(+14.8)	16.0	(+16.0)	25.9	(-24.1)	24.0	(-13.0)	59.3	(+ 9.3)	60.0	(- 3.0)	-44.5	(+ 5.5)	-44.0	(+19.0)
Poland	7.4	(- 5.9)	13.1	(+ 5.4)	77.8	(+11.1)	65.2	(- 0.2)	14.8	(- 5.2)	21.7	(- 5.2)	-7.4	(- 0.7)	-8.6	(+10.6)
Romania	4.3	(- 4.0)	4.5	(- 0.3)	52.2	(- 2.0)	50.0	(+ 2.4)	43.5	(+ 6.0)	45.5	(- 2.1)	-39.2	(-10.0)	-41.0	(+ 1.8)
Turkey	37.9	(+ 2.6)	37.5	(- 3.1)	37.8	(+ 2.5)	37.5	(+ 3.1)	24.3	(- 5.1)	25.0	(± 0.0)	13.6	(+ 7.7)	12.5	(- 3.1)
Eurozone	12.5	(+ 3.4)			75.0	(- 6.8)			12.5	(+ 3.4)			0.0	(± 0.0)		
Long-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	28.0	(+ 0.4)	29.2	(+ 2.3)	52.0	(+ 7.2)	62.5	(+24.0)	20.0	(- 7.6)	8.3	(-26.3)	8.0	(+ 8.0)	20.9	(+28.6)
Czech Republic	42.8	(+ 9.4)	22.2	(+ 3.7)	42.9	(-20.4)	70.4	(+ 3.7)	14.3	(+11.0)	7.4	(- 7.4)	28.5	(- 1.6)	14.8	(+11.1)
Hungary	33.4	(+13.4)	30.7	(+12.1)	29.6	(-17.1)	30.8	(- 9.9)	37.0	(+ 3.7)	38.5	(- 2.2)	-3.6	(+ 9.7)	-7.8	(+14.3)
Poland	32.0	(+ 0.9)	30.4	(+ 8.1)	52.0	(+ 7.2)	60.9	(+20.2)	16.0	(- 8.1)	8.7	(-28.3)	16.0	(+ 9.0)	21.7	(+36.4)
Slovakia	47.9	(+11.9)	22.8	(- 4.5)	39.1	(-20.9)	63.6	(- 4.6)	13.0	(+ 9.0)	13.6	(+ 9.1)	34.9	(+ 2.9)	9.2	(-13.6)
Turkey	23.7	(- 8.6)	21.3	(- 7.7)	52.6	(+20.2)	54.5	(+22.2)	23.7	(-11.6)	24.2	(-14.5)	0.0	(+ 3.0)	-2.9	(+ 6.8)
Germany	35.7	(+ 8.1)			50.0	(-15.5)			14.3	(+ 7.4)			21.4	(+ 0.7)		
Stock market indices	increase		no change		decrease		balance									
EURO STOXX 50	66.7	(+13.1)			13.3	(-22.4)			20.0	(+ 9.3)			46.7	(+ 3.8)		
ATX (Austria)	77.3	(+12.0)			13.6	(-16.8)			9.1	(+ 4.8)			68.2	(+ 7.2)		
NTX (CEE)	72.0	(+12.7)			12.0	(-21.3)			16.0	(+ 8.6)			56.0	(+ 4.1)		
CROBEX (Croatia)	44.0	(- 7.7)			40.0	(- 1.4)			16.0	(+ 9.1)			28.0	(-16.8)		
PX 50 (Czech Rep.)	63.0	(+ 9.4)			25.9	(-13.4)			11.1	(+ 4.0)			51.9	(+ 5.4)		
BUX (Hungary)	44.0	(- 2.5)			36.0	(-10.4)			20.0	(+12.9)			24.0	(-15.4)		
WIG (Poland)	59.3	(+11.1)			29.6	(- 7.4)			11.1	(- 3.7)			48.2	(+14.8)		
BET (Romania)	69.6	(+13.1)			17.4	(-17.4)			13.0	(+ 4.3)			56.6	(+ 8.8)		
SAX (Slovakia)	52.2	(+23.0)			34.8	(-27.7)			13.0	(+ 4.7)			39.2	(+18.3)		
ISE-100 (Turkey)	46.0	(- 1.0)			27.0	(+ 0.5)			27.0	(+ 0.5)			19.0	(- 1.5)		
Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance									
Kuna (Croatia)	14.8	(- 0.8)			55.6	(+ 2.5)			29.6	(- 1.7)			-14.8	(+ 0.9)		
Koruna (Czech Rep.)	34.5	(- 6.1)			51.7	(+ 7.9)			13.8	(- 1.8)			20.7	(- 4.3)		
Forint (Hungary)	33.4	(+13.4)			33.3	(-20.0)			33.3	(+ 6.6)			0.1	(+ 6.8)		
Zloty (Poland)	50.0	(- 6.7)			46.2	(+16.2)			3.8	(- 9.5)			46.2	(+ 2.8)		
Lei (Romania)	41.6	(- 4.5)			41.7	(+ 3.2)			16.7	(+ 1.3)			24.9	(- 5.8)		
Lira (Turkey)	28.9	(-17.1)			31.6	(+15.4)			39.5	(+ 1.7)			-10.6	(-18.8)		
US-Dollar	56.8	(- 3.8)			27.0	(- 6.3)			16.2	(+10.1)			40.6	(-13.9)		

Note: 65 Financial market experts, 16 from which from Turkey, participated in the August survey which was conducted during the period of 7/26-8/13/2013. 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 2013 in parentheses). Balances refer to the differences between positive and negative assessments.

Financial Market Report CEE – published quarterly

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

Reprint and further distribution: only with mention of reference and sending of a voucher copy