

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 30, 2011 and October 17, 2011, are published in the November 2011 issue of the "Financial Market Report CEE." 84 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 Sentiments for CEE Brighten Up for the First Time in Five Months

The economic expectations for Central and Eastern Europe including Turkey (CEE region) on a six-month time horizon have brightened up in October. The respective indicator has improved by 13.0 points to minus 25.0 points. The improvement of the economic expectations for the CEE region can be mainly ascribed to the positive outlook for the economies in Poland and Turkey. The assessments of the current economic situation in the CEE region have slightly declined by 1.5 points to the 5.7 points mark. The

economic expectations for the Eurozone have also improved by 18.3 points to minus 49.1 points. The evaluation of the current economic situation in the Eurozone has worsened by 7.6 points to a level of minus 57.7 points. This is the sixth consecutive decline of the index. The indicator reflecting the economic expectations for Austria within the next six months has improved by 13.5 points to minus 33.4 points. The evaluation of the current economic situation in Austria has deteriorated by 6.6 points.

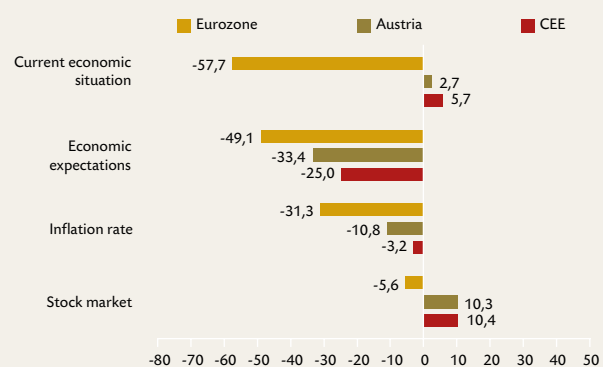
### Economic Outlook for the CEE Region, Austria and the Eurozone

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 13.0 points to minus 25.0 points in October. Increasing optimism for the CEE region is mainly due to an improvement of the experts' economic sentiments for Poland and Turkey. The respective indicators for the Eurozone and Austria have also improved by 18.3 points and 13.5 points respectively. Experts' assessment of the current economic situation has slightly deteriorated in October for the three economies – CEE, Eurozone and Austria. The respective indicators have decreased by 1.5 points, 7.6 points and 6.6 points respectively. Whereas the indicators for CEE and Austria remain positive, the indicator for the Eurozone displays the second-lowest level of minus 57.7 points among all surveyed economies.

Inflation expectations remain almost unchanged for the CEE region and Austria. More than half of the respondents expect no changes in the inflation rate in the CEE region and Austria on a six months basis. In contrast, almost half of the respondents (49.0 per cent) rather expect the inflation rate to decrease in the Eurozone. Experts have significantly revised their short-term interest rate expectations downwards this month. More than one-fifth of the respondents have changed their opinion and rather expect the European Central Bank to decrease the key interest rate in the next six months.

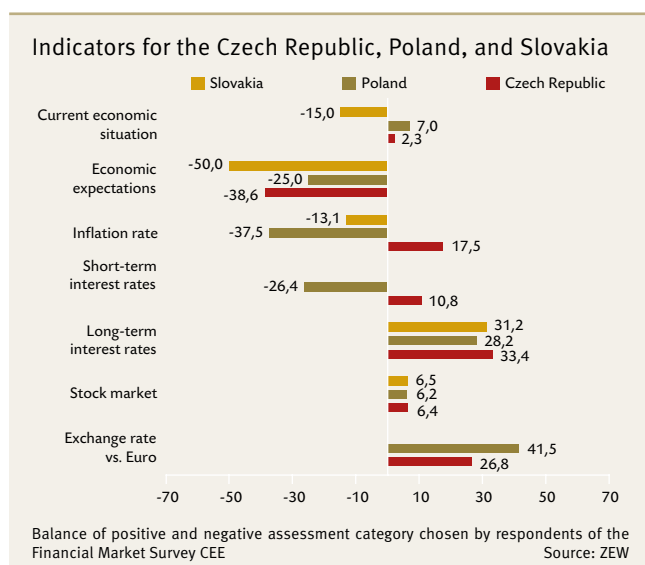
Experts' stock market expectations have been revised downwards this month. The indicators of experts' sentiments on the stock market indices for the CEE region (NTX), the Eurozone (EURO STOXX 50) and Austria (ATX) have decreased by 9.5 points, 5.6 points and 21.9 points in this month's survey. The significant decrease of the sentiments for the Austria stock market index indicates that financial market expert expect a continuation of last months' negative trend.

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

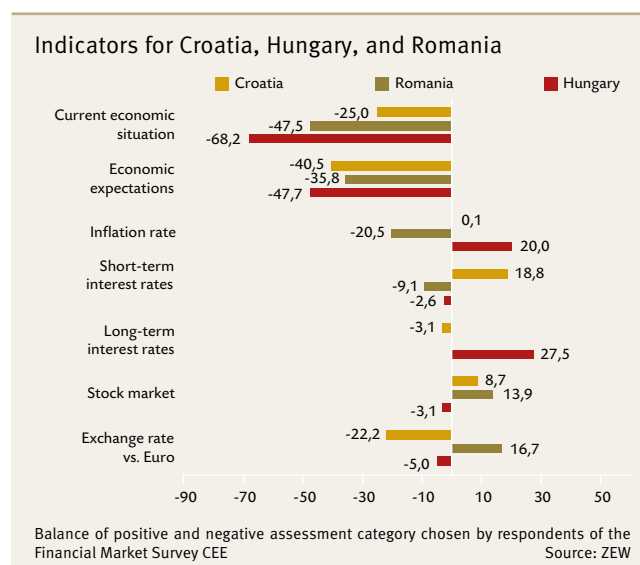
## Czech Republic, Poland, and Slovakia: Stock Market Sentiments Drop



Economic expectations for the Czech Republic and Slovakia have deteriorated in October. The respective sentiment indicators have decreased by 2.7 points and 15.0 points respectively to respective levels of minus 38.6 points and minus 50 points. The indicator for Slovakia thereby displays the lowest level among all surveyed economies. In contrast to the expectations for the Czech Republic and Slovakia, experts' expectations for Poland have brightened up this month. The respective indicator has improved by 11.8 points to the second-highest level of minus 25.0 points. Rising industrial production may have contributed to the improvement of experts' expectations. Furthermore the rising optimism for Poland indicates a positive assessment of the Polish Parliament election results this month. Experts' assessment of the current economic situation in the Czech Republic, Poland and Slovakia has deteriorated significantly this month. The respective indicators have dropped by 13.1 points, 13.4 points and 27.8 points respectively. The indicator of experts' assessment of the current situation for Slovakia thus falls significantly below its historical average of 12.4 points to a level of minus 15.0 points.

Survey responses indicate rising inflation concerns for the Czech Republic in October. The respective indicator of experts' expectations on the development of the inflation rate on six months' basis has displayed a major increase by 28.3 points this month. Thereby the indicator returns to the positive range after displaying negative values for two consecutive months. In contrast, inflation concerns remain relatively stable for Poland and Slovakia. The respective indicators for Poland and Slovakia have slightly changed by minus 4.3 points and plus 4.5 points respectively. The Polish Central Bank is expected to consider decreasing the key interest rates. More than a quarter of the surveyed experts (25.2 per cent) have revised their expectations on the short-term interest rates in Poland downwards in October. Expectations are blurring this month for all three stock market indices – Czech PX50, Polish WIG and Slovakian SAX. The respective indicators have dropped by 22.6 points, 18.8 points and 8.9 points respectively.

## Croatia, Hungary and Romania: Rising Inflation Concerns



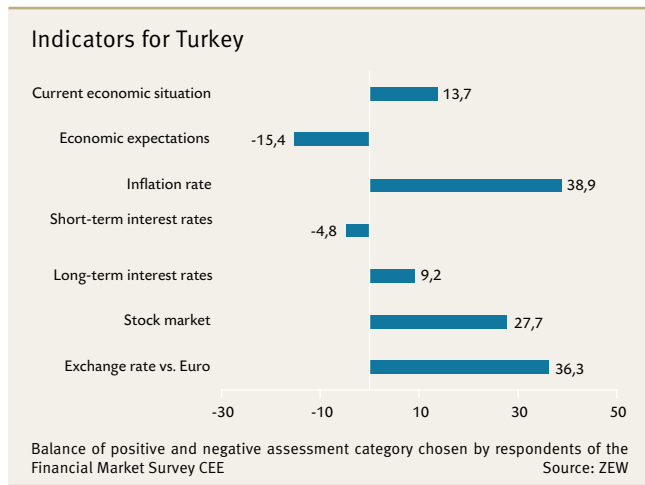
Economic sentiments for Croatia and Hungary remain as good as unchanged in October. The respective indicators change only marginally by 0.7 points and minus 0.2 points respectively. In contrast, the indicator of economic expectations for Romania has significantly dropped by 30.0 points and thus below its historical average of 2.3 points. The indicator has thus reached a value of minus 35.8 points – the lowest value since March 2009. Experts' assessment of the current situation in Romania has also deteriorated. The respective indicator has decreased by 10.3 points in October. Similarly, the indicator of the current business cycle for Hungary has dropped by 11.9 points to a level of minus 68.2 points – the lowest level among all surveyed economies. In contrast, the assessment of the current situation in Croatia has brightened up by 11.5 points.

Responses indicate sharpened inflation concerns for Hungary and Romania in October. The indicator for Hungary has increased by 17.2 points to a level of 20.0 points and thus displays a second consecutive major increase. The indicator for Croatia has returned to the positive range after last month's drop to minus 3.1 points and currently displays a level of plus 3.2 points. The indicator for Romania has increased by 18.8 points to a level of minus 20.5 points.

Experts' expect the Romanian Central Bank to act towards reducing key interest rates. This has led the respective indicator of short-term interest rate expectations to decrease by 15.5 points this month. A similar reduction of interest rates is expected for the Eurozone. As a result the interest rate differential is expected to remain almost unchanged. In line with this result experts' expectations on the Romanian Lei have also remained almost unchanged. The respective indicator displays only a slight increase of 6.6 points this month.

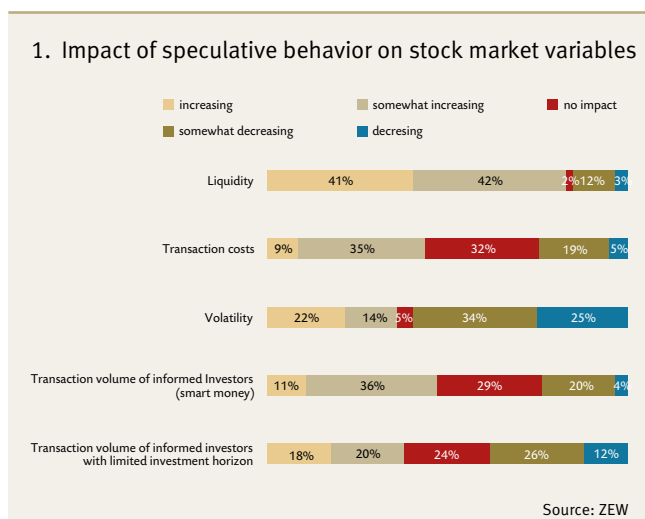
Stock market expectations have deteriorated for all three CEE stock market indices – the Hungarian BUX, the Croatian CROBEX and the Romanian BET. A major decrease by 32.1 points is displayed for the BUX, which is the only CEE stock market index for which bullish expectations prevail among the surveyed experts.

## Turkey: Current Situation Assessed most Positive this Month



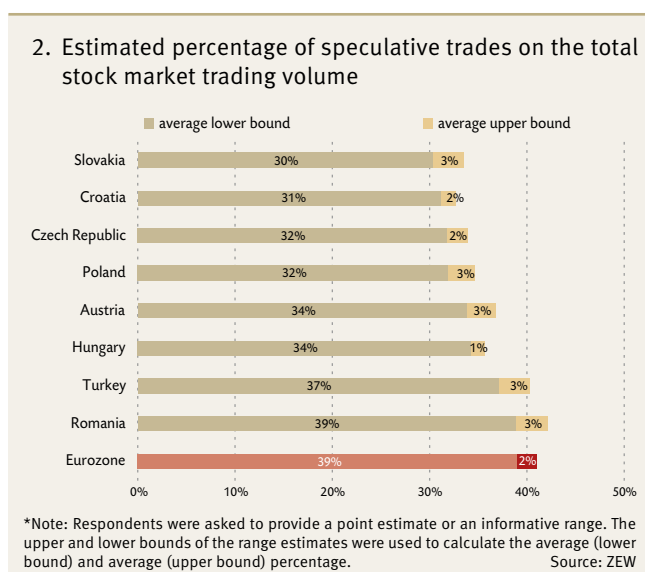
Economic sentiments for Turkey have brightened up in October. The respective indicator has improved by 16.0 points and has reached a level of minus 15.4 points. The improvement may be induced by rising industrial production figures. Experts' assessment of the current situation remains almost unchanged at a level of 13.7 – the most positive assessment among all economies included in the survey. Short-term interest rates are expected to decrease in absolute terms as indicated by a 9.0 points decline of the respective indicator. As the Eurozone interest rates are expected to decrease more, however, the interest rate differential is expected to increase as indicated by a 3.6 points increase of the respective indicator. In line with this result, the Turkish Lira is expected to appreciate against the Euro. The respective indicator has increased by 8.8 points to a level of 36.3 points. Experts have revised their stock market expectations for the Turkish ISE-100 upwards. The respective indicator has increased by 11.1 points in October.

## Special Question: Impact and Scope of Speculation on Stock Markets



In light of a high intraday volatility on the stock markets in the recent months discussions on the adverse impact of high frequency trading and speculation have been intensified. This month's special question targets the assessment of financial market experts on the impact of speculation on stock markets in general. As in public discussions there is an apparent disagreement on the scope of speculation itself, experts are further asked to share their insights and estimate the scope of speculation on CEE stock markets.

The presence of speculators on the market is expected to increase the stock market liquidity. This is indicated by a large majority of 83 per cent of the surveyed participants. This result is not surprising considering that all other things equal the presence of speculators on the market increases the number of market participants and hence increases total trading volume. Interestingly, survey respondents expect the presence of speculators to also affect the trading behaviour of informed investors (smart money investors). Almost half of the respondents (46 per cent) assert that the transaction volume of smart money investors increases in the presence of speculators on the market. According to the survey responses, however, this argument no longer holds if the smart money investors have a limited investment horizon. Survey participants are rather uncertain on the impact of speculation on the trading behaviour of smart money investors in this case. A prominent argument in academic literature states that if smart money investors have limited investment horizons they might rather stay out of the market as the unpredictable behaviour of the speculators creates additional short-term risk. Regarding the impact of speculation on the volatility of stock market returns, the majority of experts (59 per cent) rather expect volatility to diminish. Financial market experts were further asked to estimate the percentage of speculative trades on the total trading volume on national stock markets in the CEE. For all CEE countries included in the survey the estimated average share of speculative trades is lower than the respective share on Eurozone stock markets and varies between 30 per cent and roughly 40 per cent. The average estimate is thereby lowest for the Slovakian and Croatian stock market and highest for the stock markets in Romania and Turkey.



## ZEW / Erste Group Bank - Financial Market Survey CEE: October 2011

Current economic situation	good		acceptable (normal)		bad		balance									
Austria	8,1	(-10,6)	86,5	(+14,6)	5,4	(-4,0)	2,7	(-6,6)								
Croatia	2,5	(-6,5)	70,0	(+24,5)	27,5	(-18,0)	-25,0	(+11,5)								
Czech Republic	9,3	(-13,8)	83,7	(+14,5)	7,0	(-0,7)	2,3	(-13,1)								
Hungary	0,0	(-5,2)	31,8	(-1,5)	68,2	(+6,7)	-68,2	(-11,9)								
Poland	16,3	(-14,4)	74,4	(+15,4)	9,3	(-1,0)	7,0	(-13,4)								
Romania	2,5	(-3,2)	47,5	(-3,9)	50,0	(+7,1)	-47,5	(-10,3)								
Slovakia	10,0	(-10,5)	65,0	(-6,8)	25,0	(+17,3)	-15,0	(-27,8)								
Turkey	23,5	(-5,6)	66,7	(+12,2)	9,8	(-6,6)	13,7	(+1,0)								
CEE (incl. Turkey)	11,4	(-7,7)	82,9	(+13,9)	5,7	(-6,2)	5,7	(-1,5)								
Eurozone	0,0	(-5,3)	42,3	(+3,0)	57,7	(+2,3)	-57,7	(-7,6)								
Economic expectations	improve		no change		worsen		balance									
Austria	12,8	(+9,7)	41,0	(-5,9)	46,2	(-3,8)	-33,4	(+13,5)								
Croatia	11,9	(+3,1)	35,7	(-5,5)	52,4	(+2,4)	-40,5	(+0,7)								
Czech Republic	11,4	(+3,7)	38,6	(-10,1)	50,0	(+6,4)	-38,6	(-2,7)								
Hungary	11,4	(-1,1)	29,5	(+2,0)	59,1	(-0,9)	-47,7	(-0,2)								
Poland	15,9	(+8,0)	43,2	(-4,2)	40,9	(-3,8)	-25,0	(+11,8)								
Romania	16,6	(-14,9)	31,0	(-0,4)	52,4	(+15,3)	-35,8	(-30,2)								
Slovakia	9,5	(+1,3)	31,0	(-17,6)	59,5	(+16,3)	-50,0	(-15,0)								
Turkey	17,3	(+4,3)	50,0	(+7,4)	32,7	(-11,7)	-15,4	(+16,0)								
CEE (incl. Turkey)	11,1	(+3,9)	52,8	(+5,2)	36,1	(-9,1)	-25,0	(+13,0)								
Eurozone	11,3	(+7,5)	28,3	(+3,3)	60,4	(-10,8)	-49,1	(+18,3)								
Inflation rate	increase		no change		decrease		balance									
Austria	18,9	(-1,1)	51,4	(+4,7)	29,7	(-3,6)	-10,8	(+2,5)								
Croatia	27,1	(+5,2)	45,9	(-7,2)	27,0	(+2,0)	0,1	(+3,2)								
Czech Republic	35,0	(+16,1)	47,5	(-3,9)	17,5	(-12,2)	17,5	(+28,3)								
Hungary	40,0	(+7,5)	40,0	(+2,2)	20,0	(-9,7)	20,0	(+17,2)								
Poland	15,0	(+3,8)	32,5	(-11,9)	52,5	(+8,1)	-37,5	(-4,3)								
Romania	20,5	(+5,3)	38,5	(+8,2)	41,0	(-13,5)	-20,5	(+18,8)								
Slovakia	23,7	(+3,1)	39,5	(-1,7)	36,8	(-1,4)	-13,1	(+4,5)								
Turkey	51,1	(+3,9)	36,7	(+6,5)	12,2	(-10,4)	38,9	(+14,3)								
CEE (incl. Turkey)	22,6	(-9,9)	51,6	(+16,5)	25,8	(-6,6)	-3,2	(-3,3)								
Eurozone	17,7	(+0,4)	33,3	(-9,0)	49,0	(+8,6)	-31,3	(-8,2)								
Short-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	34,4	(+2,3)	40,8	(+2,4)	50,0	(-3,6)	40,7	(-5,5)	15,6	(+1,3)	18,5	(+3,1)	18,8	(+1,0)	22,3	(-0,7)
Czech Republic	29,7	(+4,7)	19,4	(-1,8)	51,4	(-4,2)	38,7	(-9,8)	18,9	(-0,5)	41,9	(+11,6)	10,8	(+5,2)	-22,5	(-13,4)
Hungary	32,5	(+6,8)	43,7	(+13,4)	32,4	(-19,0)	18,8	(-23,6)	35,1	(+12,2)	37,5	(+10,2)	-2,6	(-5,4)	6,2	(+3,2)
Poland	13,1	(-6,9)	25,8	(-4,5)	47,4	(-18,3)	48,4	(+6,0)	39,5	(+25,2)	25,8	(-1,5)	-26,4	(-32,1)	0,0	(-3,0)
Romania	21,2	(-7,8)	44,8	(+12,7)	48,5	(+0,1)	27,6	(-22,4)	30,3	(+7,7)	27,6	(+9,7)	-9,1	(-15,5)	17,2	(+3,0)
Turkey	23,8	(-3,3)	42,4	(+4,1)	47,6	(-2,4)	27,3	(-4,6)	28,6	(+5,7)	30,3	(+0,5)	-4,8	(-9,0)	12,1	(+3,6)
Eurozone	20,8	(-1,0)			27,1	(-20,7)			52,1	(+21,7)			-31,3	(-22,7)		
Long-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	34,4	(-10,1)	26,9	(-23,1)	28,1	(-20,0)	38,5	(+11,6)	37,5	(+30,1)	34,6	(+11,5)	-3,1	(-40,2)	-7,7	(-34,6)
Czech Republic	51,3	(-0,2)	23,5	(+7,4)	30,8	(-5,6)	50,0	(-1,6)	17,9	(+5,8)	26,5	(-5,8)	33,4	(-6,0)	-3,0	(+13,2)
Hungary	52,5	(+1,0)	38,2	(-10,3)	22,5	(+4,3)	32,4	(+20,3)	25,0	(-5,3)	29,4	(-10,0)	27,5	(+6,3)	8,8	(-0,3)
Poland	48,7	(-2,8)	35,3	(+5,0)	30,8	(+3,5)	35,3	(+17,1)	20,5	(-0,7)	29,4	(-22,1)	28,2	(-2,1)	5,9	(+27,1)
Slovakia	53,1	(-5,0)	32,1	(+6,3)	25,0	(-4,0)	28,6	(-0,4)	21,9	(+9,0)	39,3	(-5,9)	31,2	(-14,0)	-7,2	(+12,2)
Turkey	38,7	(+1,7)	45,7	(+7,4)	31,8	(-0,8)	25,7	(-4,1)	29,5	(-0,9)	28,6	(-3,3)	9,2	(+2,6)	17,1	(+10,7)
Germany	46,8	(-8,7)			40,4	(+9,8)			12,8	(-1,1)			34,0	(-7,6)		
Stock market indices	increase		no change		decrease		balance									
EURO STOXX 50	33,3	(-4,8)			27,8	(+4,0)			38,9	(+0,8)			-5,6	(-5,6)		
ATX (Austria)	44,8	(-8,8)			20,7	(-4,3)			34,5	(+13,1)			10,3	(-21,9)		
NTX (CEE)	41,4	(-7,1)			27,6	(+4,7)			31,0	(+2,4)			10,4	(-9,5)		
CROBEX (Croatia)	41,1	(+8,9)			26,5	(-21,9)			32,4	(+13,0)			8,7	(-4,1)		
PX 50 (Czech Rep.)	38,7	(-16,1)			29,0	(+9,6)			32,3	(+6,5)			6,4	(-22,6)		
BUX (Hungary)	37,5	(-17,3)			21,9	(+2,5)			40,6	(+14,8)			-3,1	(-32,1)		
WIG (Poland)	40,6	(-12,5)			25,0	(+6,2)			34,4	(+6,3)			6,2	(-18,8)		
BET (Romania)	44,9	(-3,3)			24,1	(-1,8)			31,0	(+5,1)			13,9	(-8,4)		
SAX (Slovakia)	35,5	(-6,8)			35,5	(+4,7)			29,0	(+2,1)			6,5	(-8,9)		
ISE-100 (Turkey)	51,1	(+6,7)			25,5	(-2,3)			23,4	(-4,4)			27,7	(+11,1)		
Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance									
Kuna (Croatia)	11,1	(-5,6)			55,6	(+2,3)			33,3	(+3,3)			-22,2	(-8,9)		
Koruna (Czech Rep.)	51,2	(+9,1)			24,4	(-9,8)			24,4	(+0,7)			26,8	(+8,4)		
Forint (Hungary)	37,5	(+2,3)			20,0	(-1,6)			42,5	(-0,7)			-5,0	(+3,0)		
Zloty (Poland)	61,0	(+8,4)			19,5	(-1,6)			19,5	(-6,8)			41,5	(+15,2)		
Lei (Romania)	38,9	(+5,5)			38,9	(-4,4)			22,2	(-1,1)			16,7	(+6,6)		
Lira (Turkey)	54,5	(+7,4)			27,3	(-6,0)			18,2	(-1,4)			36,3	(+8,8)		
US-Dollar	51,1	(+8,5)			22,4	(-10,9)			26,5	(+2,4)			24,6	(+6,1)		

Note: 84 Financial market experts, 22 from which from Turkey, participated in the October survey which was conducted during the period 09/30/11-10/17/11. 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 September 2011 in parentheses). Balances refer to the differences between positive and negative assessments.

Financial Market Report CEE – published monthly

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