

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 October 1, 2012 and October 16, 2012, are published in the November 2012 issue of the "Financial Market Report CEE." 75 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.

Rising Optimism in the CEE Region

The economic expectations for Central and Eastern Europe including Turkey (CEE region) on a six-month time horizon have improved in October. The respective indicator has increased by 20.1 points to 5.5 points. The evaluation of the current economic situation in the CEE region remained almost unchanged at a balanced level of 0.1 points after a decrease by 2.6 points. The economic expectations for the Eurozone within the next six months have also improved significantly. The respective indi-

cator has increased by 17.2 points to a level of 2.3 points. The assessment of the current business cycle in the Eurozone has slightly improved by 3.9 points and reached a value of minus 62.8 points. The indicator reflecting the economic expectations for Austria within the next six months has increased by 9.4 points but remains in the negative territory at minus 3.1 points. The evaluation of the current economic situation in Austria has slightly worsened by 6.5 points to a level of minus 9.6 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, increased by 20.1 points to a level of 5.5 points in October. Furthermore, rising optimism can be seen in all of the surveyed countries. The economic outlook for each country included in the survey is brightening up in October.

Experts are most optimistic for Croatia where economic expectations have augmented by 28.2 points. Economic expectations for the Eurozone display a double digit increase in October. The respective indicator has risen by 17.2 points to a level of 2.3 points. An increase by 9.4 points is further observed for the indicator of economic sentiments for Austria.

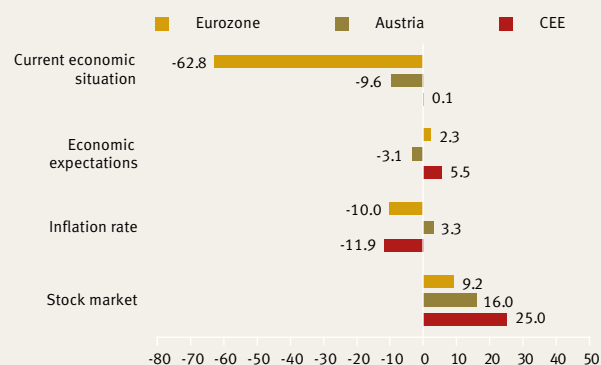
The indicator, however, remains in negative territory at a level of minus 3.1 points. The assessment of the current economic situation for the CEE region has remained almost unchanged in October. The respective indicator has declined slightly by 2.6 points to a level of 0.1 points. Experts' assessment of the current economic situation in the Eurozone has improved slightly in this month's survey. The respective indicator has increased by 3.9 points to a value of minus 62.8 points. In contrast, the respective indicator for Austria has slightly decreased by 6.5 points to a level of minus 9.6 points.

Inflation concerns have decreased for the CEE region. The respective indicator has decreased by 17.6 points to a level of minus 11.9 points in October. Inflation expectations for the Eurozone have also decreased this month as the respective indi-

cator displayed a decrease by 9.9 points to a level of minus 10.0 points. In contrast, experts have raised their inflation concerns for Austria. The respective indicator has increased by 16.7 points and has thereby reached positive territory and settled at a level of 3.3 points.

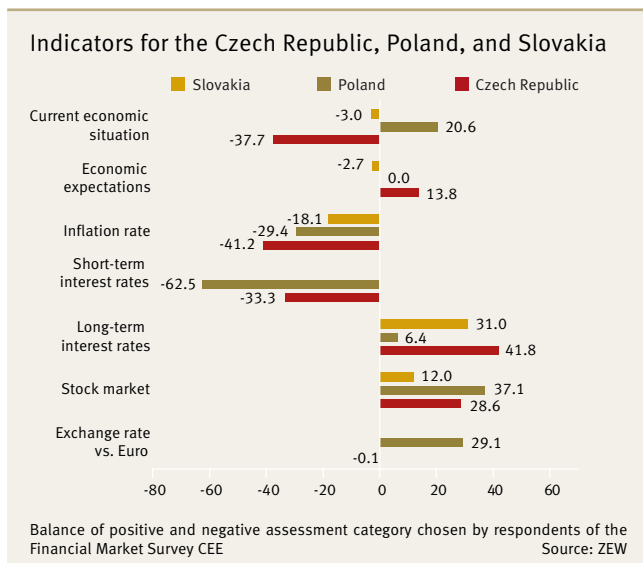
Stock market expectations display a bearish revision of sentiments on the Austrian stock market index ATX. The respective indicator has decreased by 15.0 points to a still positive level of 16.0 points. A slight bearish revision is also observed in the sentiments on the EUROSTOXX 50 (Eurozone).

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: Positive Economic Sentiments

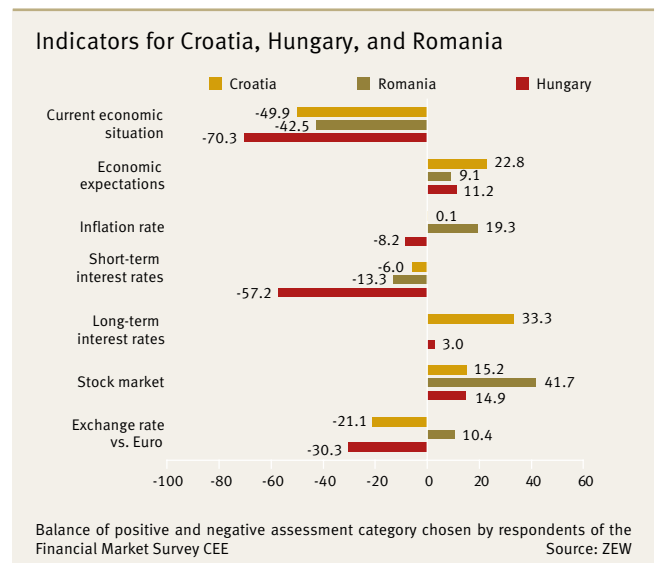


Economic sentiments for all three countries – the Czech Republic, Poland and Slovakia, have improved significantly in October. The respective indicators have increased by 13.9 points (Czech Republic), 22.2 points (Poland) and 18.8 points (Slovakia). The indicator for Poland and Slovakia thereby reach rather balanced levels of 0.0 points (Poland) and minus 2.7 points (Slovakia), whereas the sentiments for the Czech Republic settle at a clearly positive 13.8 points level. Experts' assessment of the current economic situation in the Czech Republic has diminished by 9.5 points to a level of minus 37.7 points. The assessment of the current business cycle in Poland and Slovakia displays a slight change of 2.7 points (Poland) and a minus 3.0 points (Slovakia).

Inflation concerns have been relaxed for the Czech Republic and Poland. The respective indicators have decreased by 8.9 points and 10.0 points respectively to levels of minus 41.2 (Czech Republic) and minus 29.4 (Poland). The indicator reflecting inflation expectations for the Czech Republic displays the by far lowest level among all surveyed economies. The respective indicator for Slovakia has remained almost unchanged at a level of minus 18.1 points after an increase by 1.8 points. The indicator of short-term interest rate expectations for Poland has increased by 12.5 points. In line with falling inflation concerns, experts have revised their expectations on the short-term interest rates as well resulting in an indicator decrease by 23.1 points. Roughly two-thirds of the survey participants expect the key interest rates to decrease within the next six months. The indicator of short-term interest rate expectations for the Czech Republic has remained almost unchanged at a level of minus 33.3 points.

Stock market expectations have remained almost unchanged in October for all three stock market indices – the Czech PX50, the Polish WIG and the Slovakian SAX. The majority of survey participants thereby expect an uptrend in the Czech PX 50 and the Polish WIG, whereas the Slovakian SAX is rather anticipated to move sideways. A double digit downside revision is displayed by the indicator of experts' expectations on the Czech Koruna. The respective indicator has decreased by 19.6 points.

Croatia, Hungary and Romania: Revision of Stock Market Sentiments

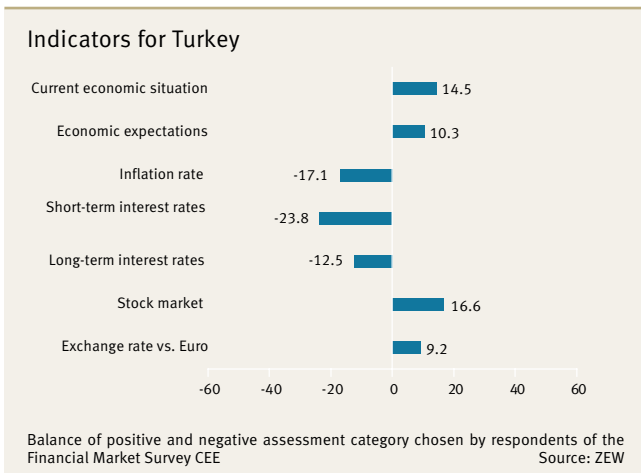


Economic expectations have displayed a major improvement in all three countries – Croatia, Hungary and Romania. The respective indicators have increased by 28.2 points (Croatia), 14.1 points (Hungary) and 21.2 points (Romania). In contrast to the balances in September, the indicators display positive values in October – 22.8 points (Croatia), 11.2 points (Hungary) and 9.1 points (Romania). Experts' assessment on the current economic situation in Croatia remains rather unchanged at a level of minus 49.9 points. A slight improvement is displayed by the respective indicator of Hungary. Nevertheless the indicator displays a value of minus 70.3 points, which is by far the lowest value among all surveyed economies. The indicator of the current business cycle in Romania has decreased by 3.1 points to a level of minus 42.5 points this month.

Experts' inflation expectations for Croatia have been largely relaxed in October. This is reflected by a decrease of the respective indicator by 27.6 points this month. The indicator has currently reached the almost balanced 0.1 points mark. Experts' expectations are almost perfectly split between the three response categories indicating large disagreement and uncertainty about the development of the inflation rate in the next six months. The respective indicator for Hungary has remained almost unchanged at a level of minus 8.2 points. A slight increase of inflation concerns for Romania is observed in this month's responses. The respective indicator has increased by 3.3 points to a level of 19.3 points.

Stock market sentiments display a bearish revision for the Croatian stock market index CROBEX. The respective indicator has decreased by 11.2 points to a level of 15.2 points this month. In contrast, a bullish revision is displayed by experts' sentiments on the Romanian BET. The respective indicator has increased by 19.2 points to a level of 41.7 points in October. The indicator of stock market sentiments for the Hungarian stock market index BET has decreased by 9.4 points and currently displays a level of 14.9 points. Experts' expectations on the Hungarian Forint and the Romanian Lei have been revised by minus 13.1 points and 10.4 points respectively.

Turkey: Bearish Revision of Stock Market Expectations



Economic sentiments for Turkey have increased by 10.3 points in October. The respective indicator thereby moves from the 0.0 mark where it stood last month. Experts' assessment on the current business cycle has decreased in October. The respective indicator has dropped by 4.7 points to a level of 14.5 points. Inflation expectations have remained roughly unchanged in October. The respective indicator displays a level of minus 17.1 points after a decrease by 1.6 points. Experts' expectations on the short-term interest rates have increased by 9.5 points. The interest differential between the short-term rates in Turkey and Eurozone is also expected to broaden. Stock market expectations on the Turkish ISE-100 display a bearish revision. The respective indicator has decreased by 10.2 points. Sentiments on the Turkish Lira have also experienced a revision towards depreciation. The respective indicator has decreased by 14.6 points to a level of 9.2 points this month.

Special Question: Inflation and Interest Rate Expectations



Within the scope of this month's special question financial market experts were asked about their assessment on the the development of the inflationary risks in the CEE countries since the beginning of 2012 and their expectations for the development until the end of the year.

There is generally large disagreement in experts' assessment on the development of the inflationary risk since the beginning of the year. An increase in the inflationary risk is perceived mainly for Hungary, Romania and Turkey by 64 per cent (Hungary), 59 per cent (Romania) and 52 per cent (Turkey) of the participants respectively. Roughly half of the experts assess the inflationary risk in Bulgaria and Croatia to have increased as well. For Slovakia the Czech Republic the majority of the participants - 45 per cent and 40 per cent respectively, assert that the inflationary risk has remained unchanged for the last nine months. Asked about their expectation about the development of the inflationary risks in the next three months experts share rather neutral expectations regarding most of the CEE countries. This is not surprising considering the short forecasting horizon. More than half of the surveyed participants do not expect the inflation rate to change in the next quarter in Croatia, the Czech Republic and Slovakia. A slightly lower majority shares the same opinion concerning the inflationary risk in Poland and Turkey. In contrast, the majority of experts anticipate high inflationary pressure in Romania (47 per cent), Hungary (44 per cent) and Bulgaria (44 per cent).

The experts were further asked on their expectations about the reaction of the national Central Banks on the anticipated inflationary pressure, whether they expect the Central Banks to meet decisions on the key interest rates. The high anticipated pressure for Hungary is expected to result in a decision of the Hungarian Central Bank to decrease the key interest rates. Survey respondents expect this to happen within the next one to six months. On average financial market experts expect the decision to be made in four months. A large majority of 72 per cent of the experts also expect the Polish Central bank to decrease the key interest rates. For all other CEE countries the majority of experts claim that there are no anticipated Central Bank decisions in sight

Zwetelina Ilieva, Astrid Kiekert

ZEW / Erste Group Bank - Financial Market Survey CEE: October 2012																
Current economic situation	good		acceptable (normal)		bad		balance									
	Austria	6.5	(-2.9)	77.4	(-0.7)	16.1	(+3.6)	-9.6	(-6.5)							
Croatia	3.0	(-2.4)	44.1	(+3.6)	52.9	(-1.2)	-49.9	(-1.2)								
Czech Republic	8.2	(+0.5)	45.9	(-10.5)	45.9	(+10.0)	-37.7	(-9.5)								
Hungary	2.7	(-2.7)	24.3	(+10.8)	73.0	(-8.1)	-70.3	(+5.4)								
Poland	26.5	(+0.9)	67.6	(+0.9)	5.9	(-1.8)	20.6	(+2.7)								
Romania	3.0	(-6.1)	51.5	(+9.1)	45.5	(-3.0)	-42.5	(-3.1)								
Slovakia	9.1	(-9.8)	78.8	(+16.6)	12.1	(-6.8)	-3.0	(-3.0)								
Turkey	20.8	(-9.0)	72.9	(+13.3)	6.3	(-4.3)	14.5	(-4.7)								
CEE (incl. Turkey)	8.4	(-2.4)	83.3	(+2.2)	8.3	(+0.2)	0.1	(-2.6)								
Eurozone	2.3	(+2.3)	32.6	(-0.7)	65.1	(-1.6)	-62.8	(+3.9)								
Economic expectations	improve		no change		worsen		balance									
Austria	21.9	(+6.3)	53.1	(-3.2)	25.0	(-3.1)	-3.1	(+9.4)								
Croatia	31.4	(+9.8)	60.0	(+8.6)	8.6	(-18.4)	22.8	(+28.2)								
Czech Republic	30.5	(+9.5)	52.8	(-5.1)	16.7	(-4.4)	13.8	(+13.9)								
Hungary	33.4	(+5.7)	44.4	(+2.7)	22.2	(-8.4)	11.2	(+14.1)								
Poland	20.0	(+3.3)	60.0	(+15.6)	20.0	(-18.9)	0.0	(+22.2)								
Romania	27.3	(+6.1)	54.5	(+9.0)	18.2	(-15.1)	9.1	(+21.2)								
Slovakia	16.7	(+0.4)	63.9	(+18.0)	19.4	(-18.4)	-2.7	(+18.8)								
Turkey	27.0	(+4.8)	56.3	(+0.7)	16.7	(-5.5)	10.3	(+10.3)								
CEE (incl. Turkey)	22.2	(+5.1)	61.1	(+9.9)	16.7	(-15.0)	5.5	(+20.1)								
Eurozone	27.3	(+3.9)	47.7	(+9.4)	25.0	(-13.3)	2.3	(+17.2)								
Inflation rate	increase		no change		decrease		balance									
Austria	20.0	(+6.7)	63.3	(+3.3)	16.7	(-10.0)	3.3	(+16.7)								
Croatia	31.5	(-12.9)	37.1	(-1.8)	31.4	(+14.7)	0.1	(-27.6)								
Czech Republic	14.7	(+1.1)	29.4	(-11.1)	55.9	(+10.0)	-41.2	(-8.9)								
Hungary	36.2	(+3.9)	19.4	(-7.1)	44.4	(+3.2)	-8.2	(+0.7)								
Poland	14.7	(-2.0)	41.2	(-6.0)	44.1	(+8.0)	-29.4	(-10.0)								
Romania	41.9	(+6.5)	35.5	(-9.7)	22.6	(+3.2)	19.3	(+3.3)								
Slovakia	15.2	(+3.7)	51.5	(-5.6)	33.3	(+1.9)	-18.1	(+1.8)								
Turkey	27.6	(-1.3)	27.7	(+1.0)	44.7	(+0.3)	-17.1	(-1.6)								
CEE (incl. Turkey)	20.5	(-13.8)	47.1	(+10.0)	32.4	(+3.8)	-11.9	(-17.6)								
Eurozone	17.5	(-9.7)	55.0	(+9.5)	27.5	(+0.2)	-10.0	(-9.9)								
Short-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	18.2	(+2.1)	27.6	(+6.9)	57.6	(-3.7)	48.3	(-10.3)	24.2	(+1.6)	24.1	(+3.4)	-6.0	(+0.5)	3.5	(+3.5)
Czech Republic	0.0	(-15.6)	10.3	(-5.8)	66.7	(+32.3)	48.3	(-3.3)	33.3	(-16.7)	41.4	(+9.1)	-33.3	(+1.1)	-31.1	(-14.9)
Hungary	11.4	(-14.4)	18.7	(-7.1)	20.0	(+0.6)	12.5	(-13.3)	68.6	(+13.8)	68.8	(+20.4)	-57.2	(-28.2)	-50.1	(-27.5)
Poland	0.0	(-9.1)	3.4	(-9.1)	37.5	(-4.9)	33.3	(-13.6)	62.5	(+14.0)	63.3	(+22.7)	-62.5	(-23.1)	-59.9	(-31.8)
Romania	16.7	(-5.5)	25.9	(-12.6)	53.3	(+1.4)	51.9	(+9.6)	30.0	(+4.1)	22.2	(+3.0)	-13.3	(-9.6)	3.7	(-15.6)
Turkey	14.3	(± 0.0)	19.0	(+6.5)	47.6	(+9.5)	43.2	(-1.8)	38.1	(-9.5)	37.8	(-4.7)	-23.8	(+9.5)	-18.8	(+11.2)
Eurozone	2.6	(-7.4)			81.6	(+4.1)			15.8	(+3.3)			-13.2	(-10.7)		
Long-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	51.5	(+3.0)	38.7	(+0.8)	30.3	(-3.0)	45.2	(+3.8)	18.2	(± 0.0)	16.1	(-4.6)	33.3	(+3.0)	22.6	(+5.4)
Czech Republic	48.3	(-4.8)	25.0	(-2.6)	45.2	(+13.9)	57.1	(+1.9)	6.5	(-9.1)	17.9	(+0.7)	41.8	(+4.3)	7.1	(-3.3)
Hungary	39.4	(+2.8)	32.2	(+1.4)	24.2	(+7.5)	22.6	(+3.4)	36.4	(-10.3)	45.2	(-4.8)	3.0	(+13.1)	-13.0	(+6.2)
Poland	29.0	(-4.3)	10.7	(-13.4)	48.4	(+21.1)	53.6	(+12.2)	22.6	(-16.8)	35.7	(+1.2)	6.4	(+12.5)	-25.0	(-14.6)
Slovakia	44.8	(-10.4)	25.9	(-11.2)	41.4	(+6.9)	55.6	(+7.5)	13.8	(+3.5)	18.5	(+3.7)	31.0	(-13.9)	7.4	(-14.9)
Turkey	17.5	(-2.0)	11.7	(-10.0)	52.5	(+3.7)	55.9	(+12.7)	30.0	(-1.7)	32.4	(-2.7)	-12.5	(-0.3)	-20.7	(-7.3)
Germany	35.4	(-4.6)			58.1	(+6.7)			6.5	(-2.1)			28.9	(-2.5)		
Stock market indices	increase		no change		decrease		balance									
EURO STOXX 50	42.5	(+0.8)			24.2	(-9.1)			33.3	(+8.3)			9.2	(-7.5)		
ATX (Austria)	44.0	(-7.7)			28.0	(+0.4)			28.0	(+7.3)			16.0	(-15.0)		
NTX (CEE)	50.0	(+1.5)			25.0	(+2.1)			25.0	(-3.6)			25.0	(+5.1)		
CROBEX (Croatia)	36.4	(-8.4)			42.4	(+5.6)			21.2	(+2.8)			15.2	(-11.2)		
PX50 (Czech Rep.)	50.0	(+3.0)			28.6	(-3.8)			21.4	(+0.8)			28.6	(+2.2)		
BUX (Hungary)	44.5	(-1.0)			25.9	(-7.4)			29.6	(+8.4)			14.9	(-9.4)		
WIG (Poland)	51.9	(-2.3)			33.3	(+10.4)			14.8	(-8.1)			37.1	(+5.8)		
BET (Romania)	54.2	(+9.1)			33.3	(+1.0)			12.5	(-10.1)			41.7	(+19.2)		
SAX (Slovakia)	32.0	(-2.3)			48.0	(+4.2)			20.0	(-1.9)			12.0	(-0.4)		
ISE-100 (Turkey)	45.2	(-6.0)			26.2	(+1.8)			28.6	(+4.2)			16.6	(-10.2)		
Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance									
Kuna (Croatia)	12.2	(+0.1)			54.5	(+6.0)			33.3	(-6.1)			-21.1	(+6.2)		
Koruna (Czech Rep.)	28.5	(-10.4)			42.9	(+1.2)			28.6	(+9.2)			-0.1	(-19.6)		
Forint (Hungary)	18.2	(-7.5)			33.3	(+1.9)			48.5	(+5.6)			-30.3	(-13.1)		
Zloty (Poland)	45.2	(+1.9)			38.7	(+0.9)			16.1	(-2.8)			29.1	(+4.7)		
Lei (Romania)	34.5	(+6.9)			41.4	(-3.4)			24.1	(-3.5)			10.4	(+10.4)		
Lira (Turkey)	32.5	(-15.1)			44.2	(+15.6)			23.3	(-0.5)			9.2	(-14.6)		
US-Dollar	52.5	(+7.2)			32.5	(-0.8)			15.0	(-6.4)			37.5	(+13.6)		

Note: 75 Financial market experts, 17 from which from Turkey, participated in the October survey which was conducted during the period of 10/1-10/16/2012. 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 2012 in parentheses). Balances refer to the differences between positive and negative assessments.

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