

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 31, 2011 and November 14, 2011, are published in the December 2011 issue of the "Financial Market Report CEE." 80 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 CEE Region: Pessimism Returns

Economic expectations for Central and Eastern Europe including Turkey (CEE region) on a six-month time horizon have worsened again in November. The respective indicator has dropped by 11.8 points to minus 36.8 points. The economic expectations for the CEE region may be affected by increasing pessimism for Turkey and Poland as well as the fading of the Eurozone's economic prospects. The evaluation of the current economic situation in the CEE region remains almost unchanged at a level of 5.3 points. The economic expecta-

tions for the Eurozone have dropped by 6.2 points to minus 55.3 points. The assessment of the current business cycle in the Eurozone has increased by 4.6 points and reached a value of minus 53.1 points. The indicator reflecting the economic expectations for Austria within the next six months has continued to increase by another 2.4 points this month. The indicator is currently at a level of minus 31.0 points. The evaluation of the current economic situation in Austria has improved significantly by 10.7 points to 13.4 points.

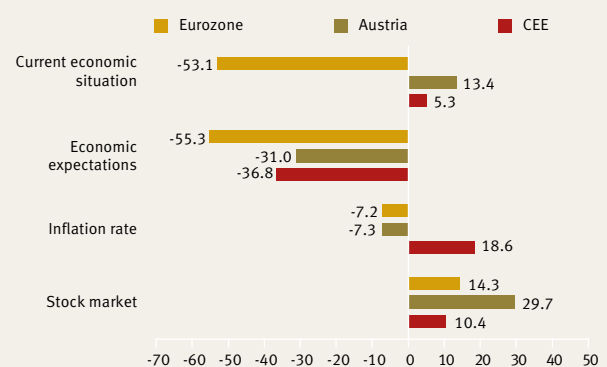
## Economic Outlook for the CEE Region, Austria and the Eurozone

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 decreased by 11.8 points to a level of minus 36.8 points in November. This almost fully reverses the increase of the indicator by 13.0 points in October. For the last six months the indicator has decreased by a total of 34.3 points. The decline of economic expectations for the region this month is mainly due to an increase of the pessimism for Turkey and Poland. The respective indicators have dropped by 22.6 points and 22.3 points respectively. Furthermore, the development of the sentiment indicator for the CEE region is likely to be affected by the fading of the economic prospects in the Eurozone. Economic Expectations for the Eurozone have declined by 6.2 points to a level of minus 55.3 points. The respective indicator for Austria has slightly improved by 2.4 points to a level of minus 31.0 points this month.

Experts' assessment of the current economic situation for Austria and the Eurozone has improved this month. The respective indicators have increased by 10.7 points and 4.6 points respectively. For the CEE region the respective indicator remains almost unchanged at 5.3 points. Whereas for the Eurozone the majority of experts (57.4 per cent) assess the current state as bad, a large majority assess the situation in Austria and the CEE region as rather normal (80.0 per cent and 78.9 per cent respectively). Inflation expectations have increased for the CEE region

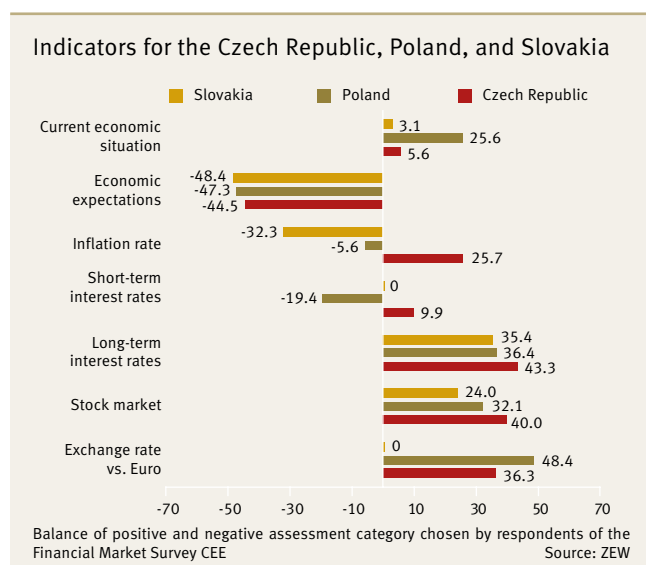
in November. This is indicated by a 21.8 increase of the respective indicator this month. Roughly 30 per cent of the experts have revised their opinion and expect an increase in the inflation rate in the next six months. Bullish expectations prevail for almost all CEE national stock markets included in the survey except for Turkey. All indicators except the indicator for Turkey have displayed significant increases in this month's survey which range from 8.6 points for the Croatian CROBEX to 33.6 points increase for the Czech PX 50.

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: Bullish Stock Markets

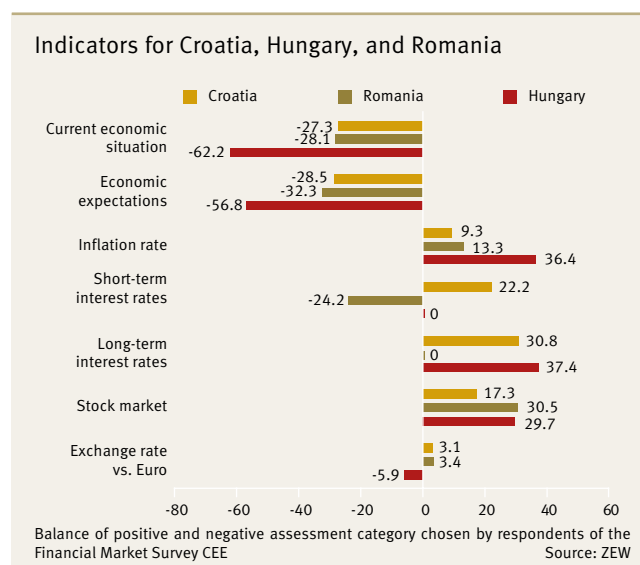


Economic expectations for Poland and the Czech Republic have decreased in November. The respective indicators have dropped by 22.3 points and 5.9 points respectively. Concerning experts' sentiments for Poland this month's decrease outweighs last month's increase of the indicator by 11.8 points. Expectations for Slovakia stayed with a level of minus 48.4 points almost unchanged after an only slight increase by 1.8 points. Surprisingly, the economic expectations for Poland have decreased by minus 22.3 Points to minus 47.3 points after the double digit increase last month. In contrast, experts' assessment of the current economic situation has improved for all three countries – Poland, Slovakia and the Czech Republic. The indicators of the current business situation have increased by 18.6 points, 18.1 points and 3.3 points respectively. For these countries a majority of around 70 per cent assess the situation as acceptable.

Inflation concerns are rising for Poland and the Czech Republic. The respective indicators have displayed a major increase by 31.9 points for the former and a moderate increase of 8.2 points for the Czech Republic. Despite of the major increase of the indicator there is no clear majority concerning the inflation expectations for Poland - a large disagreement of experts' opinions becomes apparent. Short-term interest rates are expected to remain unchanged in the Czech Republic and Poland by the majority of experts (76.7 per cent and 54.8 per cent respectively). The result is not surprising since both the Central Bank of Poland and the Central Bank of the Czech Republic have reliably signalled to remain the rates unchanged for a while.

Financial market experts hold more bullish expectations for the stock market indices in all three countries as compared to last month. This is indicated by a double digit increase of the indicators for the Czech PX 50 (increased by 33.6 points), the Polish WIG (increased by 25.9 points) and the Slovakian SAX (increased by 17.5 points). An appreciation is expected by the majority of experts both for the Czech Koruna (51.5 per cent) and the Polish Zloty (66.6 per cent) which is good news for the FX debtors in the countries.

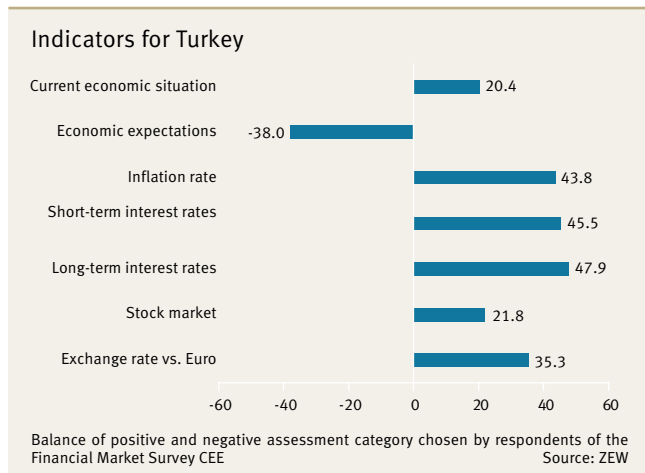
## Croatia, Hungary and Romania: Current Situation Improved



The economic situation is expected to improve in Croatia and Romania in the next six months. This is indicated by an increase of experts' economic expectations for both countries in November. The respective indicators have increased by 12.0 points for Croatia and 3.5 points for Romania. The improvement of experts' sentiment has started last month with a slight increase of 0.7 points and verifies a reversion of the strong negative trend since June. Economic expectations for Hungary have decreased by 9.1 points to a level of minus 56.8 points - the lowest among all economies included in the survey. The indicator for Hungary furthermore reaches its historical low (since the beginning of the survey in May 2007). Experts' assessment of the current economic situation has somewhat improved for Hungary. The respective indicator has increased by 6.0 points but retains the lowest rank among all surveyed economies with a level of minus 62.2 points. Experts' assessment of the current business situation in Romania has improved significantly. The respective indicator has increased by 19.4 points to a level of minus 28.1 points. For Croatia only a slight change in experts' assessment is obtained – the respective indicator has decreased by 2.3 points.

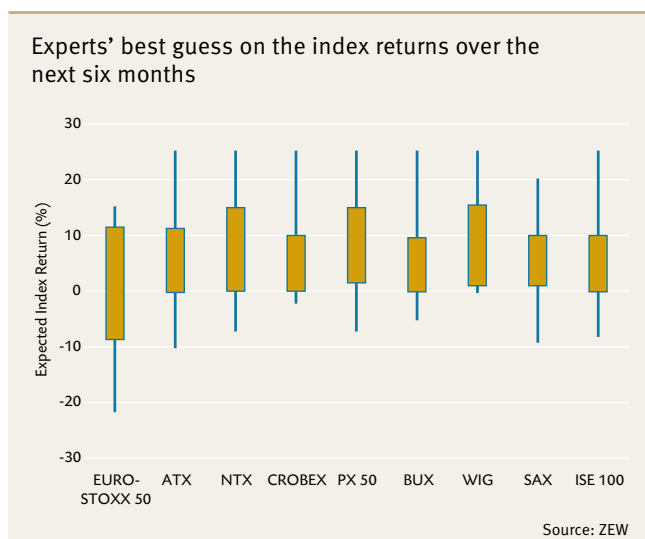
Inflation concerns have sharpened for Romania. This is indicated by a major increase of the respective indicator by 33.8 points to a level of 13.3 points this month - the largest increase among all surveyed economies. The respective indicators for Hungary and Croatia have increased by 16.4 points and 9.2 points respectively. The interest rate differential between the short-term interest rates in Croatia and Hungary is expected to increase in the next six months. The respective indicators have increased by 33.7 points and 18.7 points respectively. This is mostly due to an expected decrease of the short-term rates in the Eurozone for the next six months. In line with this result, experts have revised their expectations on the Croatian Kuna and indicate slight tendency towards appreciation. As the European Central Bank announced a lowering of the key interest rate at the beginning of November the results indicate that another rate cut is anticipated for the next half year.

## Turkey: Increasing Inflation Concerns

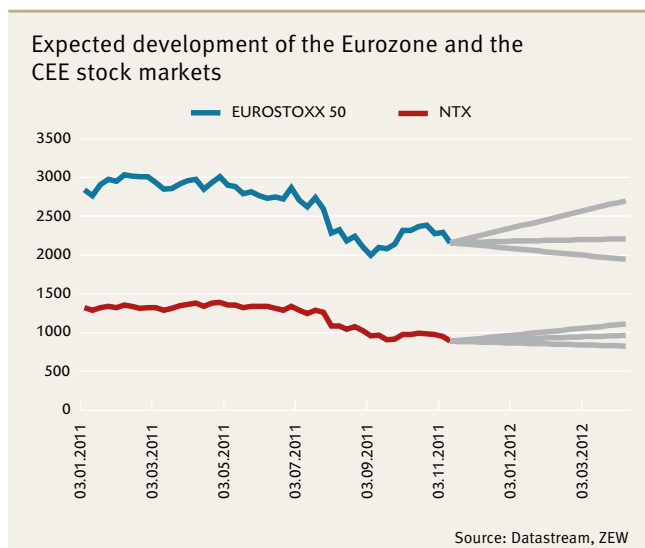


The indicator of experts' economic expectations for Turkey has dropped by 22.6 points to a level of minus 38.0 points this month. This is the largest decrease of the sentiment indicator among all economies included in the survey. In contrast, the assessment of the current situation in the country has slightly improved. The respective indicator has increased by 6.7 points to 20.4 points. The indicator of experts' expectations on the development of the short-term interest rates has largely increased by 50.3 points to a level of 45.5. This is likely to be the result of the Central Bank's announcement to raise the overnight interest rate. Experts' sentiments for the Turkish stock markets have displayed a bearish revision this month. The indicator for the ISE-100 has dropped by 5.9 points and is thereby the only CEE stock market indicator revised downwards. A majority of 52.0 per cent of the respondents assert that the Turkish Lira will continue last month's appreciation trend.

## Special Question: Stock Market Expectations



Within the scope of this month's special question experts were asked to provide their best guess on the return of stock market indices for CEE countries in the next six months. In the last half year a bearish trend prevails on all CEE stock markets included in the survey which has led to a decrease of index returns as large as 10 per cent for the Slovakian SAX to roughly 36 per cent for the Austrian ATX. The downward trend has resulted in an increasing disagreement among experts' about the future development of the stock prices. In the results of the current survey, a slight majority of roughly 40 to 60 per cent are optimistic for the future development of CEE stock markets. Experts' responses thus indicate that a reversal of the bearish trend can be expected in the next 6 months. In this background the current special question aims to provide a quantification of the strength of the expected trend reversal. On average experts expect the Polish WIG and the Czech PX 50 to yield the highest returns among all stock market indices included in the survey. The average estimate for the WIG lies at 9.5 per cent and for the PX 50 – at 9.0 per cent. The stock market index for the CEE region (NTX) is also expected to yield a return of 8.5 per cent in the next six months. Compared to the decrease of the index by roughly 30 per cent in the last six months, however, the results indicate that a full reversal of the bearish pattern is not to be expected. Comparably moderate returns are expected for the Austrian ATX, the Slovakian SAX and the Hungarian BUX. The indices are on average expected to yield 5.8 per cent, 6.5 per cent and 5.5 per cent. The most pessimistic forecasts for the three indices reach minus 10.0 per cent for the ATX, minus 9.0 per cent for the SAX and minus 5.0 per cent for the BUX. The Croatian CROBEX is expected to yield a slightly lower return of 5.2 per cent but the most pessimistic forecasts are rather moderate – a negative return of minus 2.0 per cent would not be surprising to some of the survey participants. The lowest return is expected for the EUROSTOXX 50. The average forecast for the European stock market index lies at 2.3 per cent and the most pessimistic forecast – at minus 21.5 per cent. The expected performance is significantly lower than the performance of the CEE stock markets.



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

Current economic situation	good		acceptable (normal)		bad		balance									
Austria	16.7	(+8.6)	80.0	(-6.5)	3.3	(-2.1)	13.4	(+10.7)								
Croatia	3.0	(+0.5)	66.7	(-3.3)	30.3	(+2.8)	-27.3	(-2.3)								
Czech Republic	16.7	(+7.4)	72.2	(-11.5)	11.1	(+4.1)	5.6	(+3.3)								
Hungary	5.4	(+5.4)	27.0	(-4.8)	67.6	(-0.6)	-62.2	(+6.0)								
Poland	28.5	(+12.2)	68.6	(-5.8)	2.9	(-6.4)	25.6	(+18.6)								
Romania	9.4	(+6.9)	53.1	(+5.6)	37.5	(-12.5)	-28.1	(+19.4)								
Slovakia	15.6	(+5.6)	71.9	(+6.9)	12.5	(-12.5)	3.1	(+18.1)								
Turkey	30.6	(+7.1)	59.2	(-7.5)	10.2	(+0.4)	20.4	(+6.7)								
CEE (incl. Turkey)	13.2	(+1.8)	78.9	(-4.0)	7.9	(+2.2)	5.3	(-0.4)								
Eurozone	4.3	(+4.3)	38.3	(-4.0)	57.4	(-0.3)	-53.1	(+4.6)								
Economic expectations	improve		no change		worsen		balance									
Austria	6.9	(-5.9)	55.2	(+14.2)	37.9	(-8.3)	-31.0	(+2.4)								
Croatia	8.6	(-3.3)	54.3	(+18.6)	37.1	(-15.3)	-28.5	(+12.0)								
Czech Republic	11.1	(-0.3)	33.3	(-5.3)	55.6	(+5.6)	-44.5	(-5.9)								
Hungary	8.1	(-3.3)	27.0	(-2.5)	64.9	(+5.8)	-56.8	(-9.1)								
Poland	5.5	(-10.4)	41.7	(-1.5)	52.8	(+11.9)	-47.3	(-22.3)								
Romania	11.8	(-4.8)	44.1	(+13.1)	44.1	(-8.3)	-32.3	(+3.5)								
Slovakia	6.1	(-3.4)	39.4	(+8.4)	54.5	(-5.0)	-48.4	(+1.6)								
Turkey	8.0	(-9.3)	46.0	(-4.0)	46.0	(+13.3)	-38.0	(-22.6)								
CEE (incl. Turkey)	5.3	(-5.8)	52.6	(-0.2)	42.1	(+6.0)	-36.8	(-11.8)								
Eurozone	8.5	(-2.8)	27.7	(-0.6)	63.8	(+3.4)	-55.3	(-6.2)								
Inflation rate	increase		no change		decrease		balance									
Austria	33.4	(+14.5)	25.9	(-25.5)	40.7	(+11.0)	-7.3	(+3.5)								
Croatia	31.2	(+4.1)	46.9	(+1.0)	21.9	(-5.1)	9.3	(+9.2)								
Czech Republic	51.4	(+16.4)	22.9	(-24.6)	25.7	(+8.2)	25.7	(+8.2)								
Hungary	48.5	(+8.5)	39.4	(-0.6)	12.1	(-7.9)	36.4	(+16.4)								
Poland	31.5	(+16.5)	31.4	(-1.1)	37.1	(-15.4)	-5.6	(+31.9)								
Romania	40.0	(+19.5)	33.3	(-5.2)	26.7	(-14.3)	13.3	(+33.8)								
Slovakia	29.0	(+5.3)	9.7	(-29.8)	61.3	(+24.5)	-32.3	(-19.2)								
Turkey	64.6	(+13.5)	14.6	(-22.1)	20.8	(+8.6)	43.8	(+4.9)								
CEE (incl. Turkey)	49.9	(+27.3)	18.8	(-32.8)	31.3	(+5.5)	18.6	(+21.8)								
Eurozone	33.3	(+15.6)	26.2	(-7.1)	40.5	(-8.5)	-7.2	(+24.1)								
Short-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	25.9	(-8.5)	56.0	(+15.2)	70.4	(+20.4)	44.0	(+3.3)	3.7	(-11.9)	0.0	(-18.5)	22.2	(+3.4)	56.0	(+33.7)
Czech Republic	16.6	(-13.1)	38.0	(+18.6)	76.7	(+25.3)	37.9	(-0.8)	6.7	(-12.2)	24.1	(-17.8)	9.9	(-0.9)	13.9	(+36.4)
Hungary	25.8	(-6.7)	53.5	(+9.8)	48.4	(+16.0)	17.9	(-0.9)	25.8	(-9.3)	28.6	(-8.9)	0.0	(+2.6)	24.9	(+18.7)
Poland	12.9	(-0.2)	38.0	(+12.2)	54.8	(+7.4)	44.8	(-3.6)	32.3	(-7.2)	17.2	(-8.6)	-19.4	(-7.0)	20.8	(+20.8)
Romania	10.3	(-10.9)	29.7	(-15.1)	55.2	(+6.7)	33.3	(+5.7)	34.5	(+4.2)	37.0	(+9.4)	-24.2	(-15.1)	-7.3	(-24.5)
Turkey	52.3	(+28.5)	72.5	(+30.1)	40.9	(-6.7)	22.5	(-4.8)	6.8	(-21.8)	5.0	(-25.3)	45.5	(+50.3)	67.5	(+55.4)
Eurozone	9.5	(-11.3)			28.6	(+1.5)			61.9	(+9.8)			-52.4	(-21.1)		
Long-term interest rates	increase		no change		decrease		balance									
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]								
Croatia	42.3	(+7.9)	40.0	(+13.1)	46.2	(+18.1)	40.0	(+1.5)	11.5	(-26.0)	20.0	(-14.6)	30.8	(+33.9)	20	(+27.7)
Czech Republic	50.0	(-1.3)	33.3	(+9.8)	43.3	(+12.5)	36.7	(-13.3)	6.7	(-11.2)	30.0	(+3.5)	43.3	(+9.9)	3.3	(+6.3)
Hungary	56.2	(+3.7)	37.5	(-0.7)	25.0	(+2.5)	28.1	(-4.3)	18.8	(-6.2)	34.4	(+5.0)	37.4	(+9.9)	3.1	(-5.7)
Poland	48.5	(-0.2)	37.5	(+2.2)	39.4	(+8.6)	28.1	(-7.2)	12.1	(-8.4)	34.4	(+5.0)	36.4	(+8.2)	3.1	(-2.8)
Slovakia	45.1	(-8.0)	27.6	(-4.5)	45.2	(+20.2)	31.0	(+2.4)	9.7	(-12.2)	41.4	(+2.1)	35.4	(+4.2)	-13.8	(-6.6)
Turkey	54.4	(+15.7)	55.6	(+9.9)	39.1	(+7.3)	24.4	(-1.3)	6.5	(-23.0)	20.0	(-8.6)	47.9	(+38.7)	35.6	(+18.5)
Germany	57.2	(+10.4)			37.1	(-3.3)			5.7	(-7.1)			51.5	(+17.5)		
Stock market indices	increase		no change		decrease		balance									
EURO STOXX 50	45.7	(+12.4)	22.9	(-4.9)	31.4	(-7.5)	14.3	(+19.9)								
ATX (Austria)	59.3	(+14.5)	11.1	(-9.6)	29.6	(-4.9)	29.7	(+19.4)								
NTX (CEE)	41.4	(+0.0)	27.6	(+0.0)	31.0	(+0.0)	10.4	(+0.0)								
CROBEX (Croatia)	41.4	(+0.3)	34.5	(+8.0)	24.1	(-8.3)	17.3	(+8.6)								
PX 50 (Czech Rep.)	60.0	(+21.3)	20.0	(-9.0)	20.0	(-12.3)	40.0	(+33.6)								
BUX (Hungary)	51.9	(+14.4)	25.9	(+4.0)	22.2	(-18.4)	29.7	(+32.8)								
WIG (Poland)	57.1	(+16.5)	17.9	(-7.1)	25.0	(-9.4)	32.1	(+25.9)								
BET (Romania)	52.2	(+7.3)	26.1	(+2.0)	21.7	(-9.3)	30.5	(+16.6)								
SAX (Slovakia)	44.0	(+8.5)	36.0	(+0.5)	20.0	(-9.0)	24.0	(+17.5)								
ISE-100 (Turkey)	45.7	(-5.4)	30.4	(+4.9)	23.9	(+0.5)	21.8	(-5.9)								
Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance									
Kuna (Croatia)	27.3	(+16.2)	48.5	(-7.1)	24.2	(-9.1)	3.1	(+25.3)								
Koruna (Czech Rep.)	51.5	(+0.3)	33.3	(+8.9)	15.2	(-9.2)	36.3	(+9.5)								
Forint (Hungary)	35.3	(-2.2)	23.5	(+3.5)	41.2	(-1.3)	-5.9	(-0.9)								
Zloty (Poland)	66.6	(+5.6)	15.2	(-4.3)	18.2	(-1.3)	48.4	(+6.9)								
Lei (Romania)	24.1	(-14.8)	55.2	(+16.3)	20.7	(-1.5)	3.4	(-13.3)								
Lira (Turkey)	52.0	(-2.5)	31.3	(+4.0)	16.7	(-1.5)	35.3	(-1.0)								
US-Dollar	64.3	(+13.2)	16.7	(-5.7)	19.0	(-7.5)	45.3	(+20.7)								

Note: 80 Financial market experts, 22 from which from Turkey, participated in the November survey which was conducted during the period 10/31/11-11/14/11. 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 October 2011 in parentheses). Balances refer to the differences between positive and negative assessments.

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