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Financial Market Report CEE

Volume 3 · January 2009
International Finance Market Data: Assessments and Expectations
ZEW Economic Sentiment Indicator for Central and Eastern Europe, Supported by Erste Group Bank AG

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 present survey, conducted between November 20 and December 08, 2008, are published in the January 2009 issue of the "Financial Market Report CEE". 73 financial market experts participated in this month's survey.

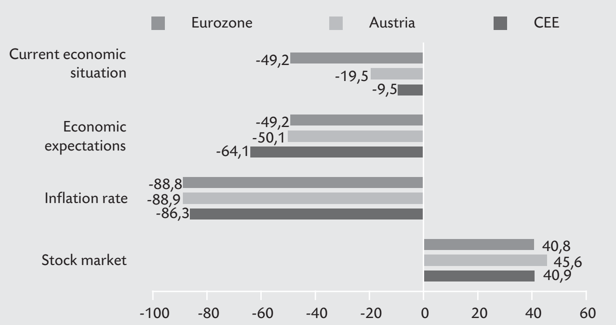
Despite pessimistic economic expectations, improved current situation in CEE

In December the CEE sentiment indicator declines by 9.6 points to minus 64.1 points. However, the financial market experts clearly assess the current economic conditions in the CEE region better than in November. The respective balance increases by 13.5 points to minus 9.5 points this month. In spite of the deterioration of the economic expectations for the CEE region as a whole, the survey participants predict better prospects for almost all individual countries within the next six months. Merely the Austrian indicator is characterised by more pessimistic expectations. The outlook for Austria seems to influence the assessment of the economic prospects for the whole CEE region considerably.

Economic outlook for CEE countries, Austria and the Eurozone

The sentiment indicator for Central and Eastern Europe, which shows the economic expectations of the financial market experts, surveyed by the Centre for European Economic Research (ZEW), Mannheim, and the Erste Group Bank AG, Vienna, declines in December. The CEE indicator for the economic development within the next six months decreases by 9.6 points and now stands at minus 64.1 points. This decrease is mainly due to a shift of the analysts' expectations from an "improvement" of the economy to "no change" of the future business conditions in the CEE region. 32.1 percent of the participants predict an unchanged economic situation within the next six months. Additionally, the more pessimistic outlook for the Austrian economy seems to carry weight for the overall view of the region. After a decline by 11.7 points, the indicator for Austria now stands at minus 50.1 points. As in the previous month, the economic expectations for the Eurozone increase slightly in December again. The indicator climbs by 3.9 points to minus 49.2 points.

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

Regarding the current business conditions in the CEE region, the survey participants are more optimistic than in November. The respective balance increases by 13.5 points to minus 9.5 points this month. The balance for Austria increases by 8.8 points to minus 19.5 Points, the balance for the Eurozone drops by 9.1 points to minus 49.2 points.

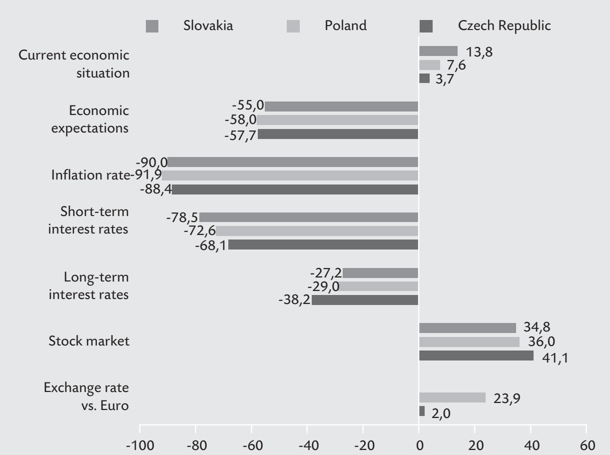
More than 90 percent of the financial market experts participating in this month's survey predict a further decline of the inflation in the CEE region, in Austria and the Eurozone. The respective balance for the CEE region decreases by 15.9 points to minus 86.3 points in December. The experts seem to be convinced of a future slow-down of the inflation due to the diminishing prices of fuel and food.

Despite the recent cuts of the key interest rate by the ECB – the last reduction by 75 basis points was the strongest in the ECB's 10 years history – an increasing majority of the respondents envision further rate reductions within the next six months in the Eurozone.

The experts' view on the development of the stock indices within the next six months improves significantly in December. The balance for the CEE stock index NTX climbs by 11.7 points to 40.9 points. Furthermore, the balance for the Austrian index ATX and the Eurostoxx 50 increase by 8.1 points and 5.9 points to 45.6 points and 40.8 points respectively.

Czech Republic, Poland and Slovakia: current economic situation recovers

Indicators for the Czech Republic, Poland, and Slovakia



Balance of positive and negative assessment category chosen by respondents of the Financial Market Survey CEE Source: ZEW

The economic expectations for the Czech Republic and Slovakia improve in December. The proportion of experts forecasting a deterioration of the economy in both countries drops by about 10 percentage points, while the answers shift to neutral statements. The indicators for the Czech Republic and Slovakia increase by 7.5 points and 4.0 points to minus 57.7 points and minus 55.0 points respectively. The economic outlook for Poland worsens slightly by 1.9 points to a value of 58.0 points, which is the overall lowest value among the analysed countries.

The current business conditions in the three countries improve significantly, the respective balances even turn positive. Especially in Slovakia the positive answers clearly dominate the negative ones, and the balance increases most strongly by 16.4 points, achieving the best evaluation this month again. The balances for Poland and the Czech Republic improve by 15.1 points and 8.4 points reaching the second and third best position among the surveyed CEE countries with 7.6 points and 3.7 points, respectively.

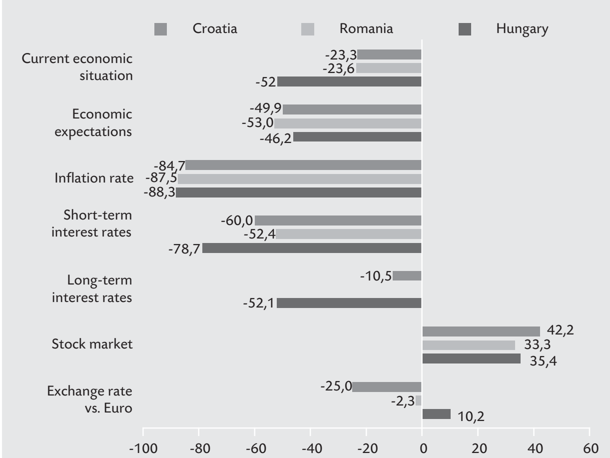
Over 92.0 percent of the participating analysts consider further decreasing inflation rates within the next half-year in the Czech Republic, Poland and Croatia to be possible.

The Polish and the Czech National Bank have cut the key interest rates to counteract the weaker domestic economic growth. Moreover, the Slovakian National Bank reduced its base interest rate in December on the basis of the gradual harmonisation with the euro area interest rates. Nevertheless, an increasing majority of the experts predict further reductions of the benchmark interest rates in all three countries.

All balances for the development on the stock markets in the selected countries improve in December. About 60 percent of the survey participants expect stock prices to rise within the next six months. The balance for the Slovakian index SAX increases most strongly by 20.6 points to 34.8 points.

Hungary, Romania and Croatia: economic expectations brighten

Indicators for Croatia, Hungary, and Romania



Balance of positive and negative assessment category chosen by respondents of the Financial Market Survey CEE Source: ZEW

In contrast to the economic expectations in November, the view of the financial market experts on the economic development within the next six months in Hungary, Romania and Croatia brightens in December. The indicator for Romania improves most strongly among the three countries by 9.0 points to minus 53.0 points. The indicator for Hungary rises by 3.8 points to minus 46.2 points, which is the best value among all analysed CEE countries in the current survey. The indicator for Croatia gains 5.3 points and achieves the second best score in December.

While the assessment of the current economic conditions for Romania and Hungary improve significantly by 17.9 points and 13.9 points to the values of minus 23.6 points and minus 52.0 points respectively, the balance for Croatia only grows slightly by 0.4 points to minus 23.3 points. 72.3 percent of the survey participants evaluate the Croatian economy today as "normal" and only 2.2 percent as "good".

About 90 percent of the experts anticipate further falling inflation rates for Hungary, Romania and Croatia within the next half-year.

The share of experts who expect interest rate cuts by the national banks climbs significantly for all three countries in December. 58.1 percent of the survey participants believe a downward movement of the short-term interest rate in Hungary to be very probable. The base interest rate in Hungary has recently been reduced twice: at the end of November and at the beginning of December.

The analysts' optimism in December also concerns the development of the stock markets in Hungary, Romania and Croatia. The balances for the stock market indices in all three countries improve in the current survey. The balances for the Hungarian BUX and the Romanian BET even improve by double-digit points (plus 19.1 points and plus 24.9 points). Although the balance for the Croatian stock index Crobex only rises by 2.2 points to 42.2 points, it achieves the best assessments among the three indices.

Special question: CEE exports in 2009

Until the financial turmoil, Central and Eastern Europe has won recognition for its dynamic economic growth and convergence towards the criteria of the European Union. In times of global economic slowdown, concerns about the transmission of the recession to the CEE countries, higher risk aversion of the investors and worsened conditions for capital importing countries, it would be very harmful for the CEE economies and their currencies were they to be regarded as particular risky targets.

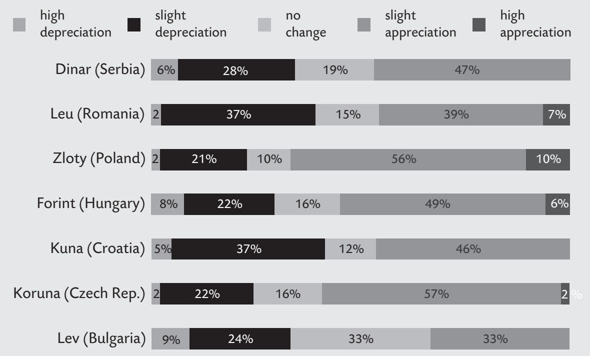
In this context it is interesting to analyse the expectations of the market participants for the development of the currencies in the CEE countries in 2009. Could the regional advantages, such as the lower credit level in the CEE than in the EU, the domestic economic growth that seems to stay brighter than in Western Europe and overseas, prevent the regional currencies from undergoing a depreciation during the year 2009?

In addition to the six months view on the CEE currencies compared to the Euro, which we document monthly, we asked the experts within the special question in December to share their expectations for the exchange rates on a one-year basis. The results show a tendency to a slight appreciation of all CEE currencies until the end of 2009. Accordingly, the experts see an appreciation of the Polish and the Czech currency as most likely. 10.4 percent of the experts anticipate a high appreciation and 56.3 percent predict a slight appreciation of the Polish currency. In contrast, nearly 30 percent of the survey participants expect a slight or high depreciation and 10.4 percent predict a constant exchange rate between the Zloty and the Euro for the time period of twelve months. For the Czech Koruna nearly 60 percent of the analysts anticipate a high or slight appreciation and nearly 25 percent expect depreciation. Although nearly 41.5 percent of the participants see a depreciation of the Croatian Kuna as probable, the answers indicating an expected appreciation prevail (46.3 percent). The exchange rate of the Bulgarian Lev against the Euro, however, should remain unchanged. This is due to the fact that the Bulgarian government decided to keep a fixed exchange rate in the currency board arrangement under which the Bulgarian Lev is pegged to the Euro - until it joins the Eurozone.

The expectations of the experts concerning the exchange rates are mainly driven by investors' judgement on the situation in the individual CEE countries. On average, 38.1 percent of the survey participants consider the investor sentiment to be the key factor for the development of the CEE currencies. For the individual countries, this factor seems to be most important in Romania (46.5 percent) and less important in Croatia (23.7 percent). In the latter the interest rates exert a dominating influence on the Kuna (42.1 percent of the answers). The GDP growth achieves the second most important position with 23.7 percent of the answers, followed by the budget situation (17.8 percent). The inflation rate and the interest rates receive on CEE average 6.0 percent and 13.4 percent of the experts' responds, respectively.

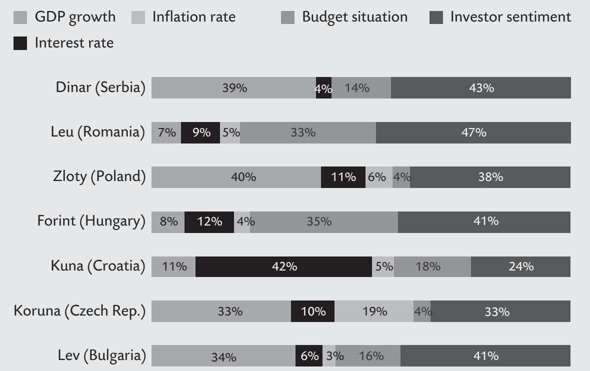
The majority of the financial market experts do not expect the development of the exchange rates to lead to a relocation of production. A clear majority of nearly 80 percent evaluate the concerns about a migration of the production away from the CEE countries as causeless. However, at the same time more than 45 percent expect a movement of production to the CEE countries in 2009. 55 percent do not expect production relocation to the CEE countries.

Figure A: How do you assess the level that the CEE currencies will reach at the end of 2009 compared to the Euro



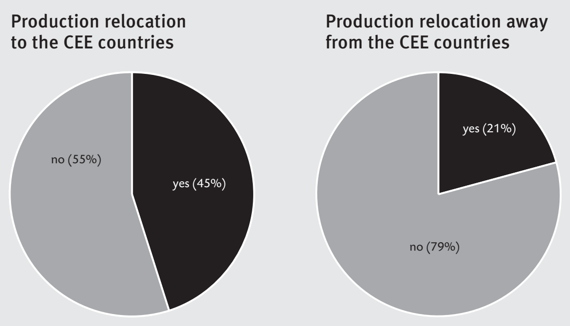
Answers of the participants of the Financial Market Survey CEE Source: ZEW

Figure B: The development of which factors mainly drives your currencies' expectations:



Answers of the participants of the Financial Market Survey CEE Source: ZEW

Figure C: Do you expect the development of the exchange rates to lead to relocations of production in 2009?



Answers of the participants of the Financial Market Survey CEE Source: ZEW

ZEW-Financial Market Survey: December 2008

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	4.4	(+1.9)	71.7	(+5.0)	23.9	(-6.9)	-19.5	(+8.8)
Croatia	2.2	(-0.4)	72.3	(+1.2)	25.5	(-0.8)	-23.3	(+0.4)
Czech Republic	22.2	(+7.9)	59.3	(-7.4)	18.5	(-0.5)	3.7	(+8.4)
Hungary	3.8	(+1.5)	40.4	(+10.9)	55.8	(-12.4)	-52.0	(+13.9)
Poland	28.8	(+11.3)	50.0	(-7.5)	21.2	(-3.8)	7.6	(+15.1)
Romania	23.5	(+21.1)	29.4	(-24.3)	47.1	(+3.2)	-23.6	(+17.9)
Slovakia	27.5	(+14.7)	58.8	(-13.0)	13.7	(-1.7)	13.8	(+16.4)
CEE	19.3	(+11.0)	51.9	(-8.5)	28.8	(-2.5)	-9.5	(+13.5)
Eurozone	1.7	(-4.9)	47.4	(+0.7)	50.9	(+4.2)	-49.2	(-9.1)

Economic expectations	improve		no change		worsen		balance	
Austria	2.2	(-8.1)	45.5	(+4.5)	52.3	(+3.6)	-50.1	(-11.7)
Croatia	4.4	(-0.9)	41.3	(+7.1)	54.3	(-6.2)	-49.9	(+5.3)
Czech Republic	1.9	(-2.7)	38.5	(+12.9)	59.6	(-10.2)	-57.7	(+7.5)
Hungary	9.6	(+0.5)	34.6	(+2.8)	55.8	(-3.3)	-46.2	(+3.8)
Poland	2.0	(-5.3)	38.0	(+8.7)	60.0	(-3.4)	-58.0	(-1.9)
Romania	3.9	(-0.8)	39.2	(+10.6)	56.9	(-9.8)	-53.0	(+9.0)
Slovakia	1.9	(-5.8)	41.2	(+15.6)	56.9	(-9.8)	-55.0	(+4.0)
CEE	1.9	(-9.5)	32.1	(+9.4)	66.0	(+0.1)	-64.1	(-9.6)
Eurozone	7.2	(-3.5)	36.4	(+10.9)	56.4	(-7.4)	-49.2	(+3.9)

Inflation rate	increase		no change		decrease		balance	
Austria	2.2	(-8.3)	6.7	(+1.4)	91.1	(+6.9)	-88.9	(-15.2)
Croatia	4.4	(-6.2)	6.5	(-4.0)	89.1	(+10.2)	-84.7	(-16.4)
Czech Republic	3.9	(-5.4)	3.8	(-0.9)	92.3	(+6.3)	-88.4	(-11.7)
Hungary	3.9	(-5.2)	3.9	(-12.0)	92.2	(+17.2)	-88.3	(-22.4)
Poland	2.0	(-7.8)	4.1	(-8.1)	93.9	(+15.9)	-91.9	(-23.7)
Romania	2.1	(-9.6)	8.3	(-3.3)	89.6	(+12.9)	-87.5	(-22.5)
Slovakia	2.0	(-8.0)	6.0	(-1.5)	92.0	(+9.5)	-90.0	(-17.5)
CEE	3.9	(-7.5)	5.9	(-0.9)	90.2	(+8.4)	-86.3	(-15.9)
Eurozone	1.9	(-9.0)	7.4	(+0.9)	90.7	(+8.1)	-88.8	(-17.1)

Short-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	12.5	(-8.1)	22.8	(-5.3)	15.0	(-11.5)	48.6	(+17.3)	72.5	(+19.6)	28.6	(-12.0)	-60.0	(-27.7)	-5.8	(+6.7)
Czech Republic	8.5	(-1.5)	14.2	(-19.1)	14.9	(-10.1)	54.8	(+15.9)	76.6	(+11.6)	31.0	(+3.2)	-68.1	(-13.1)	-16.8	(-22.3)
Hungary	6.4	(-16.1)	18.6	(-14.7)	8.5	(-9.0)	25.6	(+10.2)	85.1	(+25.1)	55.8	(+4.5)	-78.7	(-41.2)	-37.2	(-19.2)
Poland	6.9	(-8.9)	12.9	(-33.1)	13.6	(-4.8)	61.5	(+31.8)	79.5	(+13.7)	25.6	(+1.3)	-72.6	(-22.6)	-12.7	(-34.4)
Romania	11.9	(-23.4)	23.7	(-23.2)	23.8	(-2.7)	47.4	(+19.3)	64.3	(+26.1)	28.9	(+3.9)	-52.4	(-49.5)	-5.2	(-27.1)
Slovakia	4.8	(-14.1)	7.7	(-12.9)	11.9	(-9.7)	66.7	(+16.7)	83.3	(+23.8)	25.6	(-3.8)	-78.5	(-37.9)	-17.9	(-9.1)
Eurozone	4.0	(-7.1)			8.2	(-0.7)			87.8	(+7.8)			-83.8	(-14.9)		

Long-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	23.7	(-1.3)	27.3	(-8.2)	42.1	(+14.0)	51.5	(+28.9)	34.2	(-12.7)	21.2	(-20.7)	-10.5	(+11.4)	6.1	(+12.5)
Czech Republic	10.7	(-7.2)	11.9	(-13.1)	40.4	(+9.6)	52.4	(+16.3)	48.9	(-2.4)	35.7	(-3.2)	-38.2	(-4.8)	-23.8	(-9.9)
Hungary	10.9	(-13.5)	11.9	(-24.9)	26.1	(+6.6)	28.6	(+15.4)	63.0	(+6.9)	59.5	(+9.5)	-52.1	(-20.4)	-47.6	(-34.4)
Poland	17.7	(-0.7)	12.8	(-14.9)	35.6	(+11.9)	46.2	(+15.6)	46.7	(-11.2)	41.0	(-0.7)	-29.0	(+10.5)	-28.2	(-14.2)
Slovakia	11.4	(+/-0.0)	5.1	(-10.0)	50.0	(+15.7)	56.4	(-1.2)	38.6	(-15.7)	38.5	(+11.2)	-27.2	(+15.7)	-33.4	(-21.2)
Germany	23.5	(-4.4)			37.3	(+11.7)			39.2	(-7.3)			-15.7	(+2.9)		

Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	59.3	(+5.8)	22.2	(-5.7)	18.5	(-0.1)	40.8	(+5.9)
ATX (Austria)	65.2	(+10.2)	15.2	(-12.3)	19.6	(+2.1)	45.6	(+8.1)
NTX (CEE)	63.3	(+12.1)	14.3	(-12.5)	22.4	(+0.4)	40.9	(+11.7)
CROBEX (Croatia)	62.2	(+7.2)	17.8	(-12.2)	20.0	(+5.0)	42.2	(+2.2)
PX 50 (Czech Rep.)	62.7	(+15.0)	15.7	(-17.6)	21.6	(+2.6)	41.1	(+12.4)
BUX (Hungary)	58.9	(+12.4)	17.6	(-5.7)	23.5	(-6.7)	35.4	(+19.1)
WIG (Poland)	60.0	(+12.6)	16.0	(-12.9)	24.0	(+0.3)	36.0	(+12.3)
BET (Romania)	58.3	(+16.6)	16.7	(-8.3)	25.0	(-8.3)	33.3	(+24.9)
SAX (Slovakia)	58.7	(+21.6)	17.4	(-22.6)	23.9	(+1.0)	34.8	(+20.6)
SBI 20 (Slovenia)	58.1	(+18.1)	23.3	(-13.4)	18.6	(-4.7)	39.5	(+22.8)

Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	7.5	(+1.6)	60.0	(+7.1)	32.5	(-8.7)	-25.0	(+10.3)
Koruna (Czech Rep.)	33.3	(+20.8)	35.4	(-9.6)	31.3	(-11.2)	2.0	(+32.0)
Forint (Hungary)	40.8	(+9.9)	28.6	(-14.3)	30.6	(+4.4)	10.2	(+5.5)
Zloty (Poland)	47.8	(+6.4)	28.3	(-1.0)	23.9	(-5.4)	23.9	(+11.8)
Lei (Romania)	38.6	(+18.1)	20.5	(-12.8)	40.9	(-5.3)	-2.3	(+23.4)
US-Dollar	25.5	(-18.7)	39.2	(+18.3)	35.3	(+0.4)	-9.8	(-19.1)

Note: 73 Financial experts participated in the December survey which was conducted during the period 11/20/08-12/08/08. 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 November in parentheses). Balances refer to the differences between positive and negative assessments.

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