www.zew.de · www.zew.eu

ZEW

ERSTE

Financial Market Report CEE

Volume 4 · January 2010

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 current survey, conducted between December 1 and December 14, 2009, are published in the January 2010 issue of the "Financial Market Report CEE." 67 financial market experts participated in this month's survey.

Economic Expectations for Central and Eastern Europe Recover

The economic expectations for Central and Eastern Europe (CEE) improve considerably by 21.1 points, reaching 52.0 points in December. 60 percent of the financial experts surveyed expect the economic situation in this region to get better within the next six months compared to the current conditions. Consequently, the observed decline of the CEE indicator in the previous month only seems to be a one-time adjustment. The economic expectations for all analysed CEE countries and for the Eurozone as a whole improve in December as well. In contrast to the expectations, the assessment of the current economic situation in the considered economies is mixed. While the evaluations for the CEE region and Austria brighten up slightly, the balances for some selected countries decline. The indicators representing the estimated development of the stock markets in the next six months improve significantly in the current survey.

Economic Outlook for the CEE Region, Austria and the Eurozone

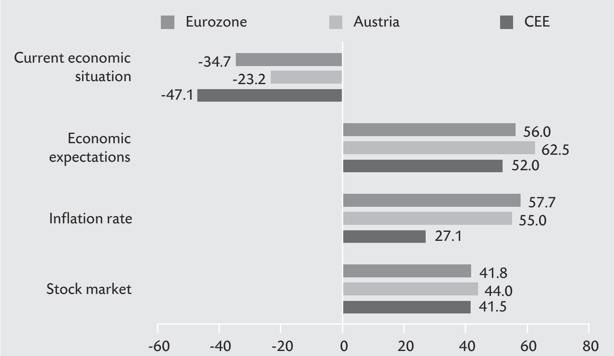
The ZEW - Erste Group Bank Economic Sentiment Indicator CEE which reflects the expectations for the economic development in the CEE region for the next six months recovers in December. After the downward correction in the previous month, the economic expectations for Central and Eastern Europe improve considerably by 21.1 points, reaching 52.0 points in December. A clear majority of 60 percent of the survey participants which represents 18.2 percentage points more than in November expect an improvement of the economic situation in this region within the next six months. The economic expectations for Austria and the Eurozone also improve in December. The indicator for Austria rises by 14.7 points to 62.5 points. The economic expectations for the Eurozone increase by 7.7 points to 56.0 points.

The assessment of the current economic situation in the CEE region and in Austria brightens up slightly. Both balances rise marginally by 1.0 point and 0.7 points, to minus 47.1 points and minus 23.2 points, respectively. The balance for the Eurozone even improves by 7.9 points to minus 34.7 points.

While the development of inflation expectations for Austria and the Eurozone suggests an increase in inflation rates on a six-month horizon with balances of 55.0 and 57.7 points, the majority of financial experts still predict no change in the inflation rate for the CEE region. The respective indicator is significantly lower with a level of 27.1 points. The balance for interest rate expectations in the Eurozone increases marginally in December, reaching 47.9 points. 50 percent of the analysts expect the European Central Bank to increase the key interest rate in the next six months. 47.9 percent predict a constant interest rate.

The indicators representing the estimated development of the stock markets in the next six months improve significantly in December. In particular, the balance for the stock index in the CEE region (NTX) increases by 32.4 points to 41.5 points. More than 56 percent of the experts expect a positive development in the next six months for the NTX, the Austrian index (ATX), and for the Eurostoxx 50.

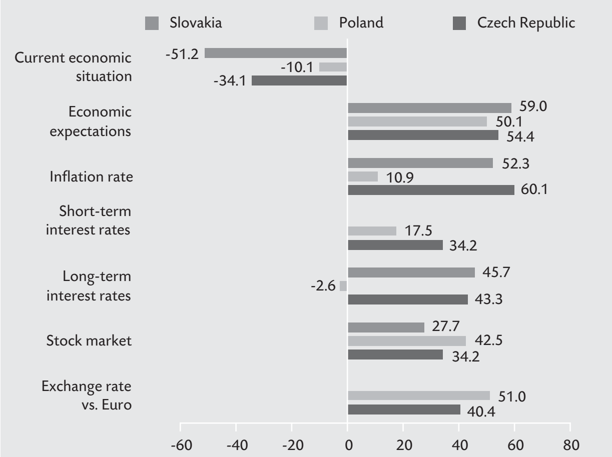
Indicators for CEE, Austria and the Eurozone (balances)



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

Czech Republic, Poland and Slovakia: Economic Expectations Improve

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 business outlook indicators for the Czech Republic, Poland and Slovakia continue to be the top-ranking values in this category within the analysed CEE countries. The largest increase this month was realised by the Slovakian indicator. The economic expectations for Slovakia improve by 29.0 points to a value of 59.0 points and achieve the lead position in December. More than 70 percent of survey participants expect an economic improvement in the country within the next six months. The sentiment indicator for Poland climbs by 5.1 points, reaching 50.1 points and for the Czech Republic increases by 16.0 points to 54.4 points.

The balance reflecting the assessment of the current economic situation in Poland remains almost unchanged at 10.1 points and defends its leading position in country comparison. The evaluation of the economic conditions in Slovakia deteriorates by 10.0 points to minus 51.2 points and for the Czech Republic by 1.4 points to a balance of 34.1 points.

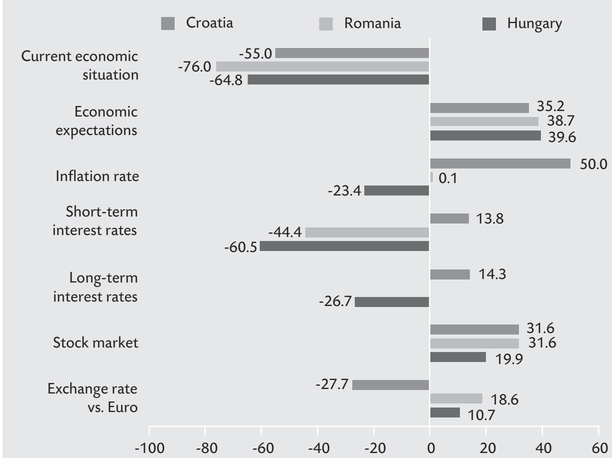
While the inflation expectations for Poland remain nearly unchanged, the analysts increasingly expect a rise in the inflation rates in the Czech Republic and Slovakia within the next six months. Both balances undergo a double-digit growth and achieve the highest values in this category among the CEE countries, with 60.1 points and 52.3 points, respectively. In line with these results considerably more financial market experts predict increasing short-term interest rates within the next six months in the Czech Republic.

The balances reflecting the expectations of the survey participants for the development of the stock markets on a six-month horizon improve significantly for all three countries in December. Nevertheless, the survey results show that the analysts assign the highest appreciation potential to the Polish stock market. The respective indicator climbs 31.1 points to 42.5 points.

The share of survey participants predicting an appreciation of the Polish and the Czech currencies for the next six months increases further in December.

Hungary, Romania and Croatia: Economic Outlook Brightens Up

Indicators for Croatia, Hungary, and Romania



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

After the decrease in the previous month, the economic expectations for Hungary, Romania and Croatia brighten up in December. Especially the sentiment indicator for Croatia improves by 22.4 points to 35.2 points. Nevertheless, Croatia still exhibits the lowest value in country comparison. The economic expectations for Romania rise by 16.7 points to 38.7 points. This is still the second lowest value compared to the results for all other analysed countries. However, more than half of the experts predict an improvement of the Romanian economy within the next six months. The business outlook for Hungary improves less than in the other analysed CEE countries. The sentiment indicator rises by 5.0 points to 39.6 points in December.

The development of the indicators which show the assessment of the current economic situation in the three countries is heterogeneous this month. While the corresponding balance for Croatia worsens slightly and the balance for Romania stays the same, the evaluation of the current economic conditions in Hungary improves. The balance for Croatia increases by 3.9 points to minus 55.0 points. The more careful evaluation of the Romanian current economic conditions by the experts is indicated by the balance of minus 76.0 points, which is the lowest value in country comparison. The indicator for Hungary increases by 4.8 points. Its current level of minus 64.8 points is the second lowest value among the CEE economies.

In contrast to the other analysed countries, the majority of experts (46.8 percent) predict a decreasing inflation rate in Hungary within the next six months. The respective indicator is the only one with a negative value. The vast majority of survey participants (69.8 percent and 58.3 percent) continue to expect the Hungarian and the Romanian national banks to cut the respective reference interest rates in the coming six months.

The outlook for the Croatian Kuna, as the only currency expected to depreciate against the Euro, remains unchanged

Special Question: Impact of the Treaty of Lisbon on CEE countries

On 1 December 2009 the Treaty of Lisbon came into effect which amends the treaty on the European Union and the treaty establishing the European Community, without replacing them.

In this context we asked the financial market experts in December 2009 to evaluate selected changes induced by the treaty with respect to their impact on the sovereignty and the political and economic position of the CEE countries within the EU.

One distinctive change brought about by the Treaty of Lisbon is the enhancement of the legislative power of the European Parliament with the Council of Ministers through an extended co-decision in almost all areas of EU policy. Further prominent changes refer to the voting procedure in both the Council of Ministers and the European Council and include a shift towards qualified majority voting and a redistribution of the member states' voting weights in both institutions.

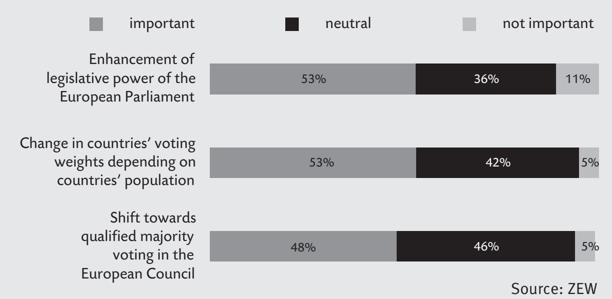
According to the qualified majority voting procedure a law comes into effect when it is supported by 55% of the member states, which represent 65% of all EU citizens. In comparison to currently applied unanimity voting the qualified majority procedure requires more votes in order to block proposed legislation, making it easier for countries with a large population to pass legislation. Additionally the countries' voting weights are redistributed to reflect their population share, thus, most CEE countries loose voting weights. More than half of the experts consider all three changes to be important for both the sovereignty and the position of the CEE countries within the EU. Experts mostly agree upon the importance of the change in countries' voting weights. Nearly two-thirds of them acknowledge its importance for retaining the economic position of the CEE countries. Slightly less (53 percent) gauge its influence on retaining the countries' sovereignty as important as well. In contrast, there is hardly any consensus about the importance of the new qualified majority voting procedure.

Moreover, the Treaty of Lisbon enhances the role of national parliaments in the legislative process by giving them the right to require reconsideration of legislation proposals which violate the principle of subsidiary. This measure is considered important for the CEE region by more than half of the experts. Still, a large part of nearly 40 percent remains neutral and roughly 5 percent of the experts consider it as unimportant.

When asked to estimate the impact of the treaty on each country individually, most experts retain a neutral position. However the comparison between countries reveals prevailing optimism for Poland and Romania with the most positive answers of 44 percent and 39 percent respectively. To the contrary, experts are least optimistic about the impact of the treaty on the Czech Republic. Indeed, the Czech Republic was the last to sign the treaty, but still the evidence is striking since Czech Republic is one of the few countries for which an opt-out from the Fundamental Rights Charter has finally been approved.

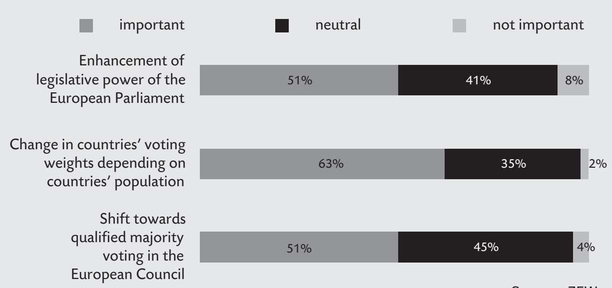
Zwetelina Iliewa, Mariela Borell

Figure A: Importance of changes resulting from the Treaty of Lisbon in respect to the sovereignty of CEE



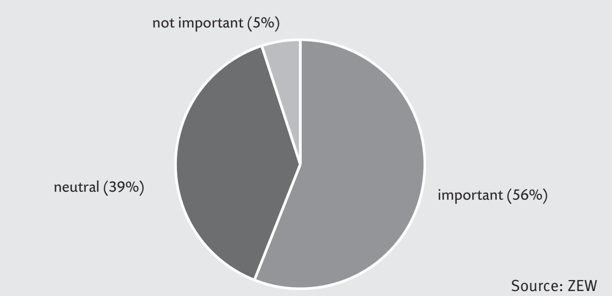
Source: ZEW

Figure B: Importance in respect to the political and economic position of CEE within the EU



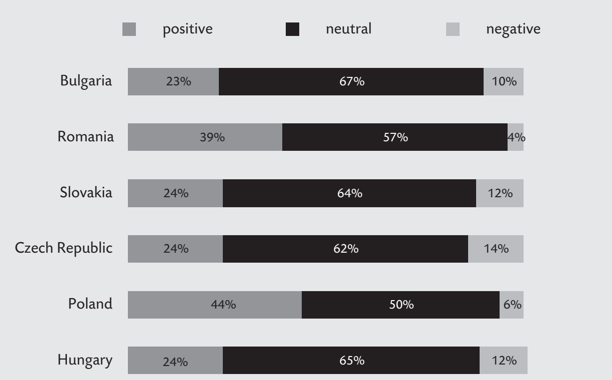
Source: ZEW

Figure C: Importance of the enhancement of control functions of National Parliaments



Source: ZEW

Figure D: Impact of the Treaty of Lisbon on CEE countries



Source: ZEW

ZEW-Financial Market Survey: December 2009

Current economic situation	good	acceptable (normal)	bad	balance
Austria	7,0 (-1,7)	62,8 (+4,1)	30,2 (-2,4)	-23,2 (+0,7)
Croatia	2,5 (+2,5)	40,0 (-8,9)	57,5 (+6,4)	-55,0 (-3,9)
Czech Republic	8,5 (-1,1)	48,9 (+0,8)	42,6 (+0,3)	-34,1 (-1,4)
Hungary	1,9 (+1,9)	31,4 (+1,0)	66,7 (-2,9)	-64,8 (+4,8)
Poland	16,4 (+3,2)	57,1 (-7,1)	26,5 (+3,9)	-10,1 (-0,7)
Romania	4,4 (+2,4)	15,2 (-4,8)	80,4 (+2,4)	-76,0 (+/-0,0)
Slovakia	4,4 (-5,4)	40,0 (+0,8)	55,6 (+4,6)	-51,2 (-10,0)
CEE	5,7 (+0,1)	41,5 (+0,8)	52,8 (-0,9)	-47,1 (+1,0)
Eurozone	3,8 (+0,1)	57,7 (+7,7)	38,5 (-7,8)	-34,7 (+7,9)

Economic expectations	improve	no change	worsen	balance
Austria	67,5 (+8,8)	27,5 (-2,9)	5,0 (-5,9)	62,5 (+14,7)
Croatia	46,0 (+9,8)	43,2 (+2,8)	10,8 (-12,6)	35,2 (+22,4)
Czech Republic	58,7 (+4,9)	37,0 (+6,2)	4,3 (-11,1)	54,4 (+16,0)
Hungary	52,1 (+3,0)	35,4 (-1,0)	12,5 (-2,0)	39,6 (+5,0)
Poland	54,4 (-2,4)	41,3 (+9,9)	4,3 (-7,5)	50,1 (+5,1)
Romania	52,3 (+2,3)	34,1 (+12,1)	13,6 (-14,4)	38,7 (+16,7)
Slovakia	70,4 (+26,4)	18,2 (-23,8)	11,4 (-2,6)	59,0 (+29,0)
CEE	60,0 (+18,2)	32,0 (-15,3)	8,0 (-2,9)	52,0 (+21,1)
Eurozone	62,0 (+4,8)	32,0 (-1,9)	6,0 (-2,9)	56,0 (+7,7)

Inflation rate	increase	no change	decrease	balance
Austria	55,0 (+6,1)	45,0 (+2,8)	0,0 (-8,9)	55,0 (+15,0)
Croatia	50,0 (+10,0)	50,0 (+7,5)	0,0 (-17,5)	50,0 (+27,5)
Czech Republic	64,5 (+11,5)	31,1 (-7,7)	4,4 (-3,8)	60,1 (+15,3)
Hungary	23,4 (+2,7)	29,8 (-0,4)	46,8 (-2,3)	-23,4 (+5,0)
Poland	26,1 (-2,5)	58,7 (+3,6)	15,2 (-1,1)	10,9 (-1,4)
Romania	30,3 (+7,6)	39,5 (-1,4)	30,2 (-6,2)	0,1 (+13,8)
Slovakia	59,1 (+13,3)	34,1 (-9,7)	6,8 (-3,6)	52,3 (+16,9)
CEE	39,6 (+8,8)	47,9 (-5,9)	12,5 (-2,9)	27,1 (+11,7)
Eurozone	59,6 (+12,4)	38,5 (-7,0)	1,9 (-5,4)	57,7 (+17,8)

Short-term interest rates	increase		no change		decrease		balance	
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]
Croatia	20,7 (-2,1)	21,4 (-0,4)	72,4 (+29,5)	60,7 (+26,3)	6,9 (-27,4)	17,9 (-25,9)	13,8 (+25,3)	3,5 (+25,5)
Czech Republic	42,1 (+27,2)	11,1 (+8,8)	50,0 (-22,3)	61,1 (+6,6)	7,9 (-4,9)	27,8 (-15,4)	34,2 (+32,1)	-16,7 (+24,2)
Hungary	9,3 (+3,5)	7,3 (+1,1)	20,9 (+1,7)	19,5 (+2,8)	69,8 (-5,2)	73,2 (-3,9)	-60,5 (+8,7)	-65,9 (+5,0)
Poland	25,0 (+3,3)	26,3 (+17,0)	67,5 (+6,6)	39,5 (-4,7)	7,5 (-9,9)	34,2 (-12,3)	17,5 (+13,2)	-7,9 (+29,3)
Romania	13,9 (+/-0,0)	19,5 (+7,0)	27,8 (+4,5)	11,1 (-8,9)	58,3 (-4,5)	69,4 (+1,9)	-44,4 (+4,5)	-49,9 (+5,1)
Eurozone	50,0 (+2,7)		47,9 (-3,0)		2,1 (+0,3)		47,9 (+2,4)	

Long-term interest rates	increase		no change		decrease		balance	
	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]	[abs.]	[rel.]
Croatia	39,3 (+5,0)	24,0 (+3,3)	35,7 (+4,4)	48,0 (+10,1)	25,0 (-9,4)	28,0 (-13,4)	14,3 (+14,4)	-4 (+16,7)
Czech Republic	51,4 (+16,6)	20,0 (+1,4)	40,5 (-11,7)	45,7 (+10,8)	8,1 (-4,9)	34,3 (-12,2)	43,3 (+21,5)	-14,3 (+13,6)
Hungary	19,6 (-1,9)	12,8 (-4,2)	34,1 (+12,5)	23,1 (+6,1)	46,3 (-10,6)	64,1 (-1,9)	-26,7 (+8,7)	-51,3 (-2,3)
Poland	28,2 (-2,9)	13,6 (-5,4)	41,0 (+9,9)	40,5 (+11,9)	30,8 (-7,0)	45,9 (-6,5)	-2,6 (+4,1)	-32,3 (+1,1)
Slovakia	54,3 (-2,5)	12,1 (-2,5)	37,1 (+9,8)	60,6 (+16,7)	8,6 (-7,3)	27,3 (-14,2)	45,7 (+4,8)	-15,2 (+11,7)
Germany	64,4 (+3,6)		28,9 (-2,5)		6,7 (-1,1)		57,7 (+4,7)	

Stock market indices	increase	no change	decrease	balance
EURO STOXX 50	58,1 (+16,1)	25,6 (-0,4)	16,3 (-15,7)	41,8 (+31,8)
ATX (Austria)	58,6 (+14,4)	26,8 (+1,2)	14,6 (-15,6)	44,0 (+30,0)
NTX (CEE)	56,1 (+15,2)	29,3 (+2,0)	14,6 (-17,2)	41,5 (+32,4)
CROBEX (Croatia)	50,0 (+5,8)	31,6 (+1,4)	18,4 (-7,2)	31,6 (+13,0)
PX 50 (Czech Rep.)	53,7 (+12,4)	26,8 (-3,6)	19,5 (-8,8)	34,2 (+21,2)
BUX (Hungary)	46,6 (+9,1)	26,7 (+5,9)	26,7 (-15,0)	19,9 (+24,1)
WIG (Poland)	60,0 (+16,8)	22,5 (-2,5)	17,5 (-14,3)	42,5 (+31,1)
BET (Romania)	50,0 (+5,0)	31,6 (+11,6)	18,4 (-16,6)	31,6 (+21,6)
SAX (Slovakia)	44,4 (+5,4)	38,9 (+14,5)	16,7 (-19,9)	27,7 (+25,3)
SBI 20 (Slovenia)	45,1 (+6,2)	35,5 (+7,7)	19,4 (-13,9)	25,7 (+20,1)

Exchange rates (vs. Euro)	appreciate	no change	depreciate	balance
Kuna (Croatia)	16,7 (+2,4)	38,9 (+3,2)	44,4 (-5,6)	-27,7 (+8,0)
Koruna (Czech Rep.)	55,3 (+5,3)	29,8 (+2,9)	14,9 (-8,2)	40,4 (+13,5)
Forint (Hungary)	36,2 (+3,5)	38,3 (-3,5)	25,5 (+/-0,0)	10,7 (+3,5)
Zloty (Poland)	63,8 (+6,9)	23,4 (+3,8)	12,8 (-10,7)	51,0 (+17,6)
Lei (Romania)	44,2 (+4,2)	30,2 (+8,0)	25,6 (-12,2)	18,6 (+16,4)
US-Dollar	26,5 (-11,7)	20,4 (+5,9)	53,1 (+5,8)	-26,6 (-17,5)

Note: 67 Financial experts participated in the December survey which was conducted during the period 12/01/09-12/14/09. 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 2009 in parentheses). Balances refer to the differences between positive and negative assessments.

IMPRINT

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
Mariela Borell · Dept. International Finance and Financial Management · Phone +49 (0)621 1235-144 · E-mail: borell@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