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Financial Market Report CEE

Volume 4 · March 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 February 1 and February 15, 2010, are published in the March 2010 issue of the "Financial Market Report CEE." 71 financial market experts participated in this month's survey.

Economic Expectations for Central and Eastern Europe Decline

The ZEW-Erste Group Bank Sentiment Indicator CEE declines by 38.6 points in February. Nevertheless, the economic expectations for the CEE region remain clearly positive at 20.5 points. The share of survey participants expecting an unchanged economic development in Central and Eastern Europe within the next half year increases considerably by 10.2 percentage points to 34.7 percent. The economic expectations for the Eurozone drop stronger than those for the CEE region. The respective indicator declines by 41.9 points to 20.8 points in February. The economic outlook for Austria falls in the current survey by 36.6 points to 19.1 points. The assessment of the current economic situation in the CEE region decreases 6.0 points to minus 40.0 points in February. The respective balance for the Eurozone falls by 9.2 points to minus 38.5 points. For Austria the assessment of the current economic situation improves by 4.1 points to minus 18.1 points.

Economic Outlook for the CEE Region, Austria and the Eurozone

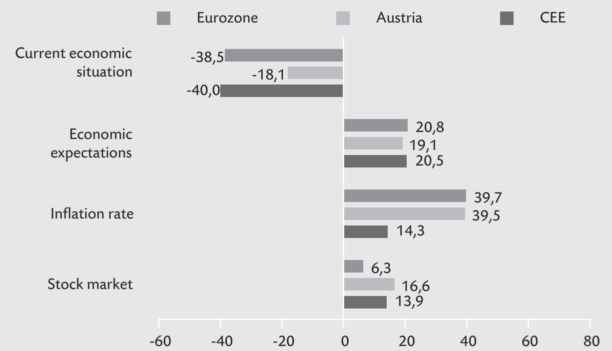
The CEE Sentiment Indicator that reflects the expectations of the financial market experts regarding the economic development in Central and Eastern Europe on a six month time horizon declines by 38.6 points to 20.5 points in February. The decline of the indicator can be put into perspective by the fact that the share of survey participants expecting an unchanged economic development in the CEE region within the next half year increases strongly by 10.2 percentage points to 34.7 percent. These answers are not incorporated into the calculation of the sentiment indicator.

The economic expectations for the Eurozone drop stronger than those for the CEE region in the current survey. The respective indicator declines by 41.9 points to 20.8 points. The economic outlook for Austria falls by 36.6 points to 19.1 points in February. One of the reasons for the decline of the economic expectations for the CEE region, the Eurozone and Austria might be the concerns about Greece's debt situation and the worries about other EU-countries also facing budgetary difficulties.

The assessment of the current economic situation in the CEE region decreases 6.0 points to minus 40.0 points. The respective balance for the Eurozone falls by 9.2 points to minus 38.5 points. The decline of the balances can be mitigated somewhat due to the fact that more than 50 percent of the survey participants evaluate the current situation in the CEE region and the Eurozone as normal. For Austria the assessment of the current economic situation even increases by 4.1 points to minus 18.1 points.

The financial market experts evaluate the development of the stock markets within a six month time horizon more cautious than in January. All three balances drop by double-digit points, however, they remain positive. The balance for the CEE stock market index NTX equals 13.9 points, for the Austrian ATX index 16.6 points and for the Eurostoxx 50 index 6.3 points. Almost 50 percent of the survey respondents expect the CEE index NTX and the Austrian index ATX to rise in the coming half year.

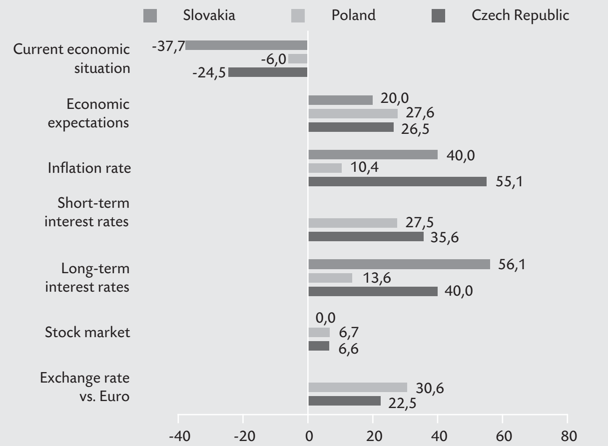
Indicators for CEE, Austria and the Eurozone (balances)



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

Czech Republic, Poland and Slovakia: Acceptable Current Situation

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 outlook for the Czech Republic, Poland and Slovakia diminish in February. However, all three sentiment indicators remain clearly positive. The decrease of the economic expectations for Poland of 28.5 points is the lowest one in the current survey. The respective indicator achieves the highest value (27.6 points) among the analysed CEE countries. The indicator for the Czech Republic drops by 41.5 points to 26.5 points. This is the second best value in country comparison. The indicator for Slovakia drops by 41.7 points to 20.0 points.

The assessment of the current business conditions for the three countries is more cautious in February than in January, as well. The respective indicator for Poland decreases by 1.9 points to minus 6.0 points. This is still the best value in this category. For the Czech Republic and Slovakia the respective balances decline by 4.1 points and 12.7 points to minus 24.5 points and minus 37.7 points. Despite the drop of the indicators, the majority of experts evaluate the current economic situation in all three countries as acceptable. These answers are not taken into account into the calculation of the balances.

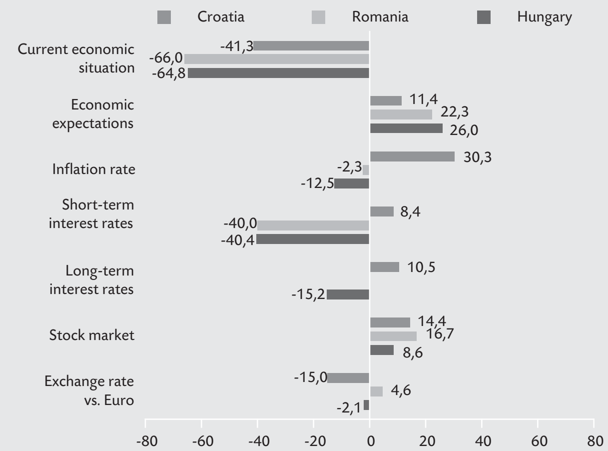
With the decline of the economic expectations the inflation expectations for the Czech Republic, Poland and Slovakia diminish. However, the share of analysts which expect increasing inflation rates within the next six months prevail and the respective indicators remain positive.

The analysts' expectations for the development of the stock market indices in Poland, Czech Republic and Slovakia are more careful in comparison to the other countries as well as to the previous month. Despite this, the respective balances remain positive.

The balances reflecting the assessment of the exchange rate development show the highest values for Poland and the Czech Republic. This indicates that the majority of survey participants still expect the Polish Zloty and the Czech Koruna to appreciate against the Euro within a six month horizon.

Hungary, Romania and Croatia: Weaker Economic Outlook

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 double-digit improvements of the economic expectations for Hungary, Romania and Croatia in January, the respective indicators drop considerably in February. The economic outlook for Hungary goes down 38.8 points to 26.0 points. Nevertheless, Hungary shows with 50 percent the largest share of survey participants that expect an improvement of the economy within the next six months. The economic outlook for Romania drops 42.1 points to 22.3 points in February. The economic expectations for Croatia fall 48.7 points to 11.4 points. This is the strongest decrease in country comparison. However, the share of survey respondents that expects an unchanged economic development in Croatia prevails with 43.2 percent.

The evaluation of the current economic situation in Hungary and Romania worsens by 3.2 points and 7.4 points to minus 64.8 points and minus 66.0 points, respectively. The evaluation of the current business situation in Croatia improves by 3.4 points to minus 41.3 points.

Similar to the January-survey the majority of the financial experts (39.6 percent) predict a decrease of the inflation rate in Hungary. The respective balance has the lowest value (minus 12.5 points) within this category. For Romania and Croatia the inflation expectations are not clear. A significant share of survey participants expects an unchanged inflation rates.

With regard to the expectations for the short-term interest rates, nearly 60 percent of the analysts predict the Hungarian National Bank to cut the interest rates in the coming six months. The share of experts that expect the Romanian National Bank to reduce the short-term interest rates rises to 62.5 percent in February.

In spite of double-digit decreases in February, the indicators reflecting the expectations about the stock index performances in the three countries remain positive and achieve higher values than for the other analysed CEE countries. The outlook for the development of the Romanian stock index BET realises the best value (16.7) in country comparison.

Special Question: Foreign Direct Investments in the CEE region

The Special Question in February examines the expectations of the financial market experts regarding the development of Foreign Direct Investments (FDI) in the CEE Region for the year 2010. Foreign Direct Investments have been one major driver for the expansion of these economies.

Three out of four polled analysts expect that FDI in the CEE region as a whole will not decrease. 38 percent of them even expect an increase. Only a small share of 19 percent of the survey respondents is skeptical about the future attractiveness of investments in this region and expects the FDI activity to decrease this year. It seems that the majority of experts do not share the concerns that the high budget deficit in Greece and the expected decrease of Greek FDI in some CEE countries (e.g., Bulgaria) will have a crucial impact on the overall FDI development in CEE.

Various factors including infrastructure, labour costs, real estate costs, regulatory framework, taxation and political and economic stability are crucial for the investors' decision in which country to invest. In the following, the analysts have been asked about their assessment which country is the most attractive to foreign investors at the moment.

In the opinion of the experts, Poland, which passed through the financial crisis without going into recession, is clearly the most attractive location for investment among the analysed economies. 45 percent of the survey participants select Poland as the most attractive country. With 18 percent of the expert's votes, Romania is considered the second most interesting country for foreign investors. Slovakia and Hungary follow with respective 11 percent and 7 percent. The remaining countries are rarely considered attractive to foreign investors. The Czech Republic and Serbia are currently perceived by only respective 5 percent of the polled analysts the most attractive in this region. Bulgaria and Croatia achieve only 4 percent in this regard. These results are in line with the special question results from the Financial Market Report CEE of April 2008, especially with regard to the less attractive countries. Romania however, was considered far more attractive back then, achieving 37 percent of the votes, closely followed by Poland with 34 percent.

Governments in Central and Eastern Europe have often used different means to attract foreign investors to their countries, e.g. special economic zones, tax concessions and subsidies. In the meantime this turns out to be more complicated for those countries that have joined the European Union and underlie the competition-promoting ruling of the European Commission. In view of that, we asked the financial market analysts how reasonable they consider such kind of government support to attract foreign investments.

The results are clearly in favor of the governmental incentives for foreign investors. The majority of the survey participants, 52 percent, assess them as reasonable and 21 percent consider them even very reasonable. Only 11 percent regard the governmental incentive creation as being less reasonable and none of the experts questioned consider it not reasonable at all.

Karl Trela, Mariela Borell

Figure A: Expected development of FDI in CEE in 2010

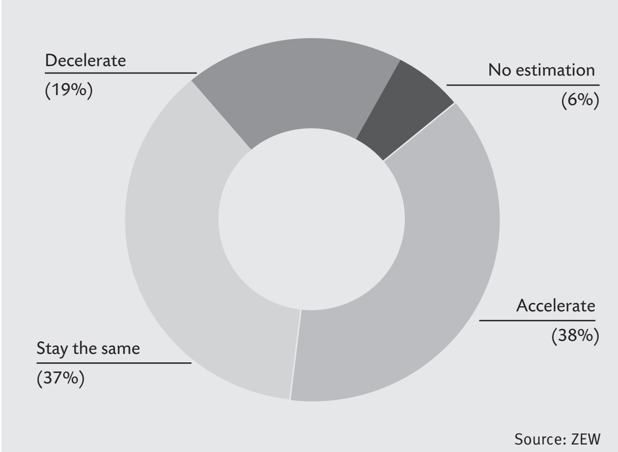


Figure B: Most attractive countries for foreign investors in 2010

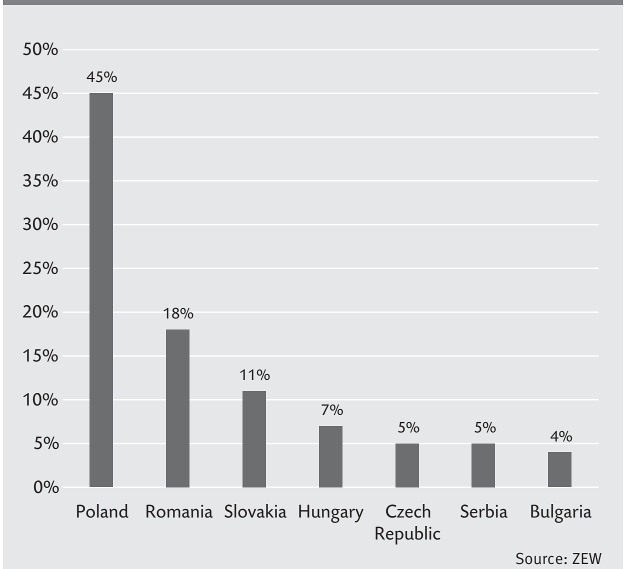
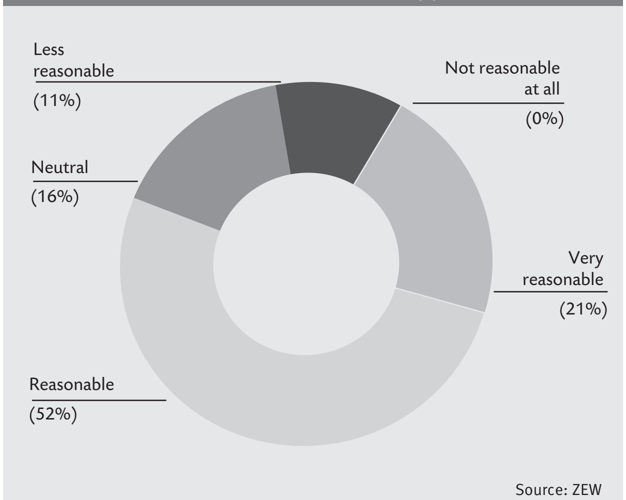


Figure C: Evaluation of government support to attract FDI



ZEW-Financial Market Survey: February 2010

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	11,4	(+0,3)	59,1	(+3,5)	29,5	(-3,8)	-18,1	(+4,1)
Croatia	6,5	(+4,4)	45,7	(-5,4)	47,8	(+1,0)	-41,3	(+3,4)
Czech Republic	6,1	(-4,1)	63,3	(+4,1)	30,6	(+/-0,0)	-24,5	(-4,1)
Hungary	1,9	(+/-0,0)	31,4	(-3,2)	66,7	(+3,2)	-64,8	(-3,2)
Poland	16,0	(-2,8)	62,0	(+3,7)	22,0	(-0,9)	-6,0	(-1,9)
Romania	2,1	(-2,3)	29,8	(-2,8)	68,1	(+5,1)	-66,0	(-7,4)
Slovakia	4,5	(-5,9)	53,3	(-0,9)	42,2	(+6,8)	-37,7	(-12,7)
CEE	4,0	(+/-0,0)	52,0	(-6,0)	44,0	(+6,0)	-40,0	(-6,0)
Eurozone	1,9	(-2,1)	57,7	(-5,0)	40,4	(+7,1)	-38,5	(-9,2)

Economic expectations	improve		no change		worsen		balance	
Austria	40,5	(-19,9)	38,1	(+3,2)	21,4	(+16,7)	19,1	(-36,6)
Croatia	34,1	(-30,4)	43,2	(+12,1)	22,7	(+18,3)	11,4	(-48,7)
Czech Republic	46,9	(-25,1)	32,7	(+8,7)	20,4	(+16,4)	26,5	(-41,5)
Hungary	50,0	(-22,6)	26,0	(+6,4)	24,0	(+16,2)	26,0	(-38,8)
Poland	48,9	(-13,5)	29,8	(-1,5)	21,3	(+15,0)	27,6	(-28,5)
Romania	46,7	(-24,4)	28,9	(+6,7)	24,4	(+17,7)	22,3	(-42,1)
Slovakia	40,0	(-30,2)	40,0	(+18,7)	20,0	(+11,5)	20,0	(-41,7)
CEE	42,9	(-24,4)	34,7	(+10,2)	22,4	(+14,2)	20,5	(-38,6)
Eurozone	47,2	(-21,4)	26,4	(+0,9)	26,4	(+20,5)	20,8	(-41,9)

Inflation rate	increase		no change		decrease		balance	
Austria	48,8	(-20,2)	41,9	(+13,3)	9,3	(+6,9)	39,5	(-27,1)
Croatia	41,9	(-1,2)	46,5	(+1,0)	11,6	(+0,2)	30,3	(-1,4)
Czech Republic	61,2	(-9,7)	32,7	(+11,9)	6,1	(-2,2)	55,1	(-7,5)
Hungary	27,1	(+2,6)	33,3	(+2,7)	39,6	(-5,3)	-12,5	(+7,9)
Poland	35,4	(-8,1)	39,6	(+0,5)	25,0	(+7,6)	10,4	(-15,7)
Romania	31,8	(-5,4)	34,1	(-0,8)	34,1	(+6,2)	-2,3	(-11,6)
Slovakia	48,9	(-21,3)	42,2	(+18,8)	8,9	(+2,5)	40,0	(-23,8)
CEE	30,6	(-13,4)	53,1	(+9,1)	16,3	(+4,3)	14,3	(-17,7)
Eurozone	49,1	(-17,5)	41,5	(+10,1)	9,4	(+7,4)	39,7	(-24,9)

Short-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	27,8	(+7,8)	12,1	(-3,1)	52,8	(-10,1)	51,5	(+/-0,0)	19,4	(+2,3)	36,4	(+3,1)	8,4	(+5,5)	-24,3	(-6,2)
Czech Republic	40,4	(-4,6)	11,2	(-9,8)	54,8	(-0,2)	69,4	(+11,5)	4,8	(+4,8)	19,4	(-1,7)	35,6	(-9,4)	-8,2	(-8,1)
Hungary	19,1	(+5,1)	11,1	(+3,4)	21,4	(+0,5)	13,9	(-6,6)	59,5	(-5,6)	75,0	(+3,2)	-40,4	(+10,7)	-63,9	(+0,2)
Poland	32,5	(+1,7)	11,7	(-1,8)	62,5	(-1,6)	55,9	(+1,8)	5,0	(-0,1)	32,4	(+/-0,0)	27,5	(+1,8)	-20,7	(-1,8)
Romania	22,5	(+9,3)	11,5	(+2,4)	15,0	(-11,3)	17,1	(-7,1)	62,5	(+2,0)	71,4	(+4,7)	-40,0	(+7,3)	-59,9	(-2,3)
Eurozone	46,0	(-3,0)			48,0	(-1,0)			6,0	(+4,0)			40,0	(-7,0)		

Long-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	42,1	(+6,6)	21,9	(+4,7)	26,3	(-22,1)	28,1	(-13,3)	31,6	(+15,5)	50,0	(+8,6)	10,5	(-8,9)	-28,1	(-3,9)
Czech Republic	48,9	(-17,8)	25,0	(-2,1)	42,2	(+14,0)	40,0	(+2,2)	8,9	(+3,8)	35,0	(-0,1)	40,0	(-21,6)	-10,0	(-2,0)
Hungary	32,6	(+5,1)	20,0	(+2,9)	19,6	(-12,9)	5,0	(-15,0)	47,8	(+7,8)	75,0	(+12,1)	-15,2	(-2,7)	-55	(-9,2)
Poland	38,6	(-2,5)	25,6	(-0,2)	36,4	(+10,8)	23,1	(+6,0)	25,0	(-8,3)	51,3	(-5,8)	13,6	(+5,8)	-25,7	(+5,6)
Slovakia	63,4	(-2,4)	21,6	(+2,1)	29,3	(+0,4)	51,4	(+4,2)	7,3	(+2,0)	27,0	(-6,3)	56,1	(-4,4)	-5,4	(+8,4)
Germany	62,5	(-1,3)			27,1	(-4,8)			10,4	(+6,1)			52,1	(-7,4)		

Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	42,5	(-25,6)	21,3	(+9,9)	36,2	(+15,7)	6,3	(-41,3)
ATX (Austria)	47,6	(-22,4)	21,4	(+6,4)	31,0	(+16,0)	16,6	(-38,4)
NTX (CEE)	48,8	(-24,4)	16,3	(+4,1)	34,9	(+20,3)	13,9	(-44,7)
CROBEX (Croatia)	47,7	(-21,4)	19,0	(+/-0,0)	33,3	(+21,4)	14,4	(-42,8)
PX 50 (Czech Rep.)	42,2	(-24,5)	22,2	(+7,9)	35,6	(+16,6)	6,6	(-41,1)
BUX (Hungary)	42,6	(-21,9)	23,4	(+10,1)	34,0	(+11,8)	8,6	(-33,7)
WIG (Poland)	43,1	(-21,2)	20,5	(+1,5)	36,4	(+19,7)	6,7	(-40,9)
BET (Romania)	50,0	(-18,3)	16,7	(+2,1)	33,3	(+16,2)	16,7	(-34,5)
SAX (Slovakia)	35,0	(-22,5)	30,0	(+7,5)	35,0	(+15,0)	0,0	(-37,5)
SBI 20 (Slovenia)	37,9	(-27,9)	21,6	(+4,5)	40,5	(+23,4)	-2,6	(-51,3)

Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	20,0	(-7,5)	45,0	(-7,5)	35,0	(+15,0)	-15,0	(-22,5)
Koruna (Czech Rep.)	53,1	(-8,9)	16,3	(-3,7)	30,6	(+12,6)	22,5	(-21,5)
Forint (Hungary)	30,6	(-0,7)	36,7	(+1,3)	32,7	(-0,6)	-2,1	(-0,1)
Zloty (Poland)	59,2	(-8,2)	12,2	(-0,8)	28,6	(+9,0)	30,6	(-17,2)
Lei (Romania)	39,5	(-11,6)	25,6	(+/-0,0)	34,9	(+11,6)	4,6	(-23,2)
US-Dollar	55,8	(+7,8)	19,2	(+1,2)	25,0	(-9,0)	30,8	(+16,8)

Note: 71 Financial experts participated in the February survey which was conducted during the period 02/01/10-02/15/10. 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 January in parentheses). Balances refer to the differences between positive and negative assessments.

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