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Financial Market Report CEE

Volume 5 · March 2011

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 January 31, 2011 and February 14, 2011, are published in the March 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 CEE Brighten Up

The economic expectations for Central and Eastern Europe including Turkey (CEE region) on a six-month time horizon have brighten up in February. The respective indicator has improved by 8.3 points to 24.5 points. The improvement of the economic expectations for the CEE region can be mainly ascribed to the positive outlook for the economies in Poland and Hungary. The evaluation of the current economic situation in the CEE region has again slightly declined in the current survey. The respective indicator has dropped by 1.6 points to 18.4 points.

The economic expectations for the Eurozone within the next six months have risen by 5.9 points to 22.6 points. The assessment of the current business cycle in the Eurozone has gained 6.9 points and reached a value of minus 7.1 points. The indicator reflecting the economic expectations for Austria within the next six months has made a correction of the strong increase in January and has deteriorated significantly by 19.6 points to 29.0 points in February. The evaluation of the current economic situation in Austria has improved slightly by 3.6 points to 37.8 points.

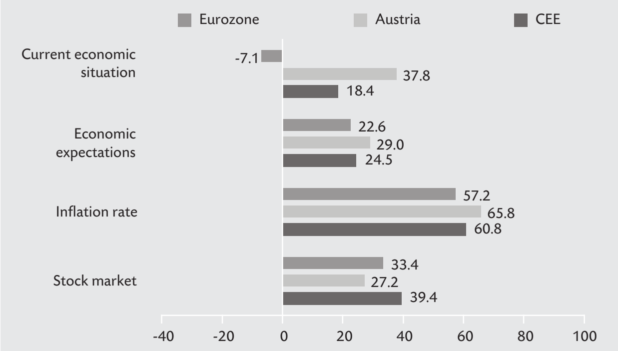
Economic Outlook for the CEE Region, Austria and the Eurozone

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 improved by 8.3 points to 24.5 points in February. Within the CEE countries the outlook for Poland and Hungary has shown the most positive development. Both economic indicators have increased by double-digit points. Therefore, the improvement of the economic expectations for the CEE region may be ascribed to the positive expectations for these economies.

While the economic sentiment indicator for the Eurozone has risen by 5.9 points to 22.6 points, the indicator for Austria has dropped by 19.6 points to a level of 29.0 points. In contrast to the strong increase of the positive forecasts for the Austrian economy in January, in the current survey the expectations of the financial market experts seem to shift towards an unchanged development. The evaluation of the current economic situation in the CEE region has again slightly decreased in February. The respective indicator has dropped by 1.6 points to 18.4 points. The assessments of the current business cycles in the Eurozone and Austria have gained 6.9 points and 3.6 points and reached values of minus 7.1 points and 37.8 points, respectively.

After the considerable improvement of the indicators reflecting the expected development of the stock market indices for the CEE region (NTX), Austria (ATX) and the Eurozone (Eurostoxx 50) in January, the three indicators have dropped significantly in February. However, the majority of analysts still expect a positive development of the stock markets within the next six months. The indicator representing the expected development of the NTX has shown the highest value in country comparison of 39.4 points this month.

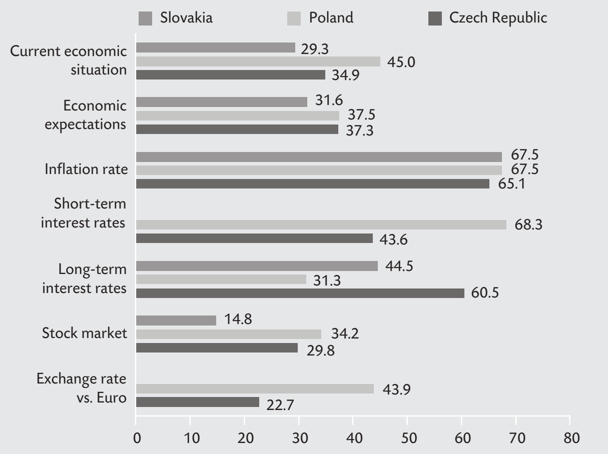
Indicators for CEE, Austria and the Eurozone (balances)



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 Development

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

Poland's good recovery from the crisis is documented by the recently published strong performance of the country in industry, construction and retail sales in the last quarter of 2010. In line with these results the financial market experts continue to predict a strong growth for Poland's economy. The respective indicator which represents the economic expectations for Poland on a six-month time horizon has experienced the strongest rise by 11.9 points in country comparison, thus reaching 37.5 points in February. Slovakia's economic expectations have improved by 6.0 points to 31.6 points in the current survey. According to the assessment of the polled participants, the economy of the Czech Republic will remain stable within the next six months as its respective indicator only shows a slight increase by 0.8 points to 37.3 points. Though the assessment of the current economic situation in Poland has decreased by 1.3 points it still displays the best balance in country comparison with a value of 45.0 points. The respective balances for the Czech Republic and Slovakia have changed slightly by 0.8 points to 34.9 points and by 1.1 points to 29.3 points.

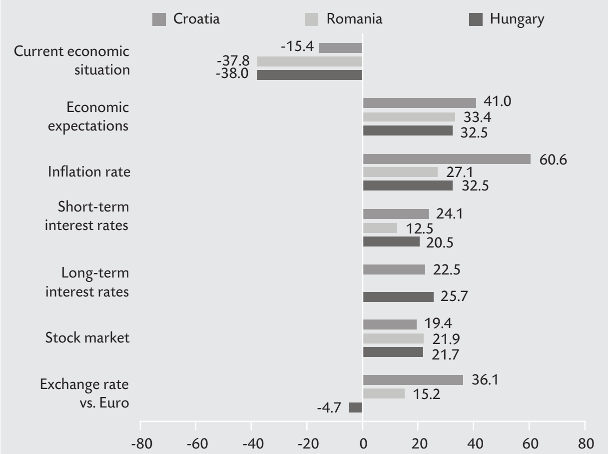
The inflation indicators for Slovakia and Poland have declined significantly by 10.9 points and by 8.8 points to the same value of 67.5 as the expectations of the survey participants have shift from increasing to unchanging inflation rates for the next half year.

The expectations for Poland may be a result of the decision of the Polish National Bank to raise the short-term interest rates by 0.25 percentage points. The indicator representing the expectations for the short-term interest rates for Poland has declined by 7.4 points in February. However, it remains the highest value in this category.

The indicators which reflect the expectations for the development of the stock market indices in the three countries have experienced double-digit declines in February. However, the indicators remain clearly positive, as the majority of the analysts still predict increasing indices for the next six months.

Croatia, Hungary and Romania: Improved Current Situation

Indicators for Croatia, Hungary, and Romania



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

Hungary's economic outlook on a six-month time horizon has improved by 11.1 points reaching 32.5 points in February. Following the statements of the National Bank of Hungary, rising domestic demand and large scale investment projects are driving the recovery. The economic sentiment indicators for Croatia and Romania have changed slightly by 0.5 points to 41.0 points and by 3.6 points to 33.4 points.

Though the balances which reflect the current business situations in Romania, Croatia and Hungary remain negative, they have risen significantly in February. The indicator for Romania has shown the largest increase by 12.2 points to minus 37.8 points. The current economic situations in Croatia and Hungary have improved by 9.7 points to minus 15.4 points and by 8.5 points to minus 38.0 points.

The polled participants have predicted lower inflationary pressures for Croatia within the next six months as the respective indicator has decreased by 11.8 points reaching 60.6 points in this month's survey.

Since the Hungarian National Bank raised its short-term interest rate by 0.25 percentage points in January, the percentage of financial market experts who predict increasing short-term interest rates in Hungary has decreased by 18.5 percentage points. Its respective indicator has deteriorated significantly by 28.2 points reaching 20.5 points in February.

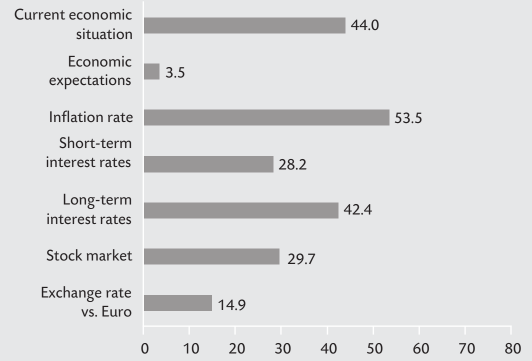
The long-term interest rate indicator for Croatia has shown a drastic increase by 22.6 points; however the indicator still displays the lowest value in country comparison with 22.5 points.

The indicator reflecting the expectations of the analysts regarding the development of the Croatian stock market index (CROBEX) has declined most strongly among all the CEE economies, namely by 48.5 points. However, it remains positive with a value of 19.4 points.

The indicator reflecting the expected development of the Hungarian Forint compared to the Euro has declined in February and the majority of the experts continue to expect a depreciation of the Forint.

Turkey: Increasing Inflation Concerns

Indicators for Turkey



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

The economic sentiment indicator for Turkey has continued its downward development in February. The economic expectations have worsened by 8.8 points reaching 3.5 points. This remains by far the lowest value in country comparison. However, 57.9 percent of the financial market experts predict no change of the economic development on a six-moth time horizon. The assessment of the current economic conditions in Turkey has lost 23.4 points in the current survey. Nevertheless, the indicator remains strong with a value of 44.0 points compared to the other analysed countries.

The strong increase of the inflation indicator for Turkey has continued in February. The indicator has risen significantly by 25.7 points to 53.5 points. More than 60 percent of the survey participants predict increasing inflationary pressure in Turkey on a six-month time horizon. In line with this, nearly the half of the financial market experts anticipates an increase of the short-term interest rates in the country.

Special Question: Development of the CEE stock market index NTX in 2011

Figure A: Development of the NTX compared to the Eurostoxx 50 and the MSCI World

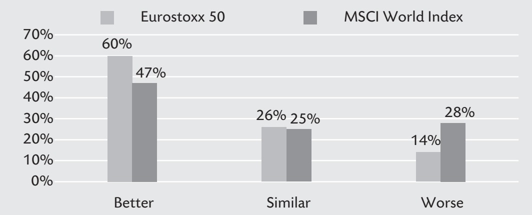
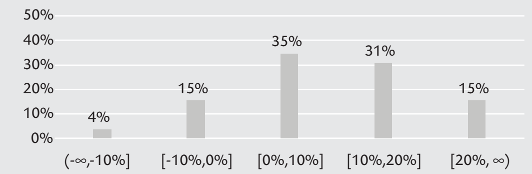
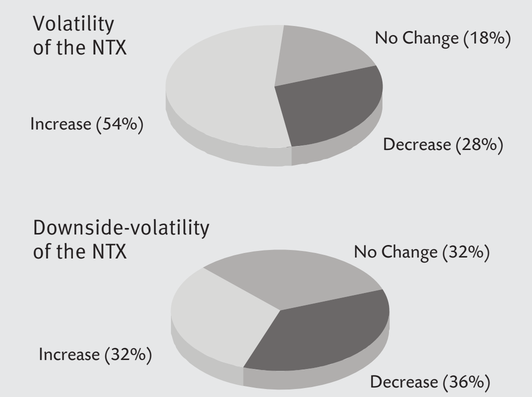


Figure B: At the end of 2011 the NTX Index is expected to yield ...



Source: ZEW

Figure C: Expected volatility of the NTX in 2011 compared to 2010



Source: ZEW

Stock markets in CEE are expected to have an above average performance in international comparison. Compared to last year, however, there would be a slight decrease in performance. Although CEE stock markets are expected to be more volatile compared to last year, the high volatility expectations are invoked by anticipated chances rather than risks. These are results of this month's special question.

Compared to international stock markets, measured by the world stock market index MSCI, stocks in the CEE region are expected to have a better performance according to almost half (47 percent) of the respondents. An even more optimistic picture reveals in comparison to the European stock market index EUROSTOXX 50 - the majority of the experts (60 percent) anticipate an a better performance of CEE stocks in 2011. It is only a minority of 14 percent of the experts who disagree. Therefore, the expected outperformance is in line with the positive six months outlook for the NTX. As mentioned above, the respective indicator has shown the highest value in country comparison. The difference between the performance expectations relative to MSCI and EUROSTOXX 50 reflects experts' scepticism regarding the development of the European stock markets by the end of the year.

In 2011, the survey participants expect the index to yield an average return of roughly 8.5 percent. Compared to last year's index return of 12 percent there is an expected decrease in the performance. However, the return expectations are broadly spread and skewed. Expectations range from -13.4 percent to as much as 28.7 percent. Thereby, more than one third (38.5 percent) of the experts expect a better performance than last year (return higher than 12 percent).

The financial market experts anticipate more turbulences on the CEE stock markets this year as compared to last year. An increase in the volatility of the NTX index is indicated by more than half of the respondents to the survey. It is, however, only the minority who expect the downside-volatility to increase in line with the total volatility. More than two thirds of the respondents (68 percent) rather suggest that risk, measured by downside volatility, would not increase despite of the expected increase in total volatility. This indicates that survey participants expect chances rather than risks to drive the volatility on the CEE markets in 2011.

Zwetelina Iliewa

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

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	37.8	(+0.7)	62.2	(+2.2)	0.0	(-2.9)	37.8	(+3.6)
Croatia	7.7	(+1.5)	69.2	(+6.7)	23.1	(-8.2)	-15.4	(+9.7)
Czech Republic	34.9	(-0.8)	65.1	(+0.8)	0.0	(+/-0.0)	34.9	(-0.8)
Hungary	7.2	(-2.1)	47.6	(+12.7)	45.2	(-10.6)	-38.0	(+8.5)
Poland	47.5	(+1.2)	50.0	(-3.7)	2.5	(+2.5)	45.0	(-1.3)
Romania	5.4	(-2.5)	51.4	(+17.2)	43.2	(-14.7)	-37.8	(+12.2)
Slovakia	31.7	(-4.2)	65.9	(+9.5)	2.4	(-5.3)	29.3	(+1.1)
Turkey	49.1	(-20.3)	45.8	(+17.2)	5.1	(+3.1)	44.0	(-23.4)
CEE (incl. Turkey)	24.5	(-4.4)	69.4	(+7.2)	6.1	(-2.8)	18.4	(-1.6)
Eurozone	14.3	(+2.3)	64.3	(+2.3)	21.4	(-4.6)	-7.1	(+6.9)

Economic expectations	improve		no change		worsen		balance	
Austria	39.5	(-14.8)	50.0	(+10.0)	10.5	(+4.8)	29.0	(-19.6)
Croatia	48.7	(+1.9)	43.6	(-3.3)	7.7	(+1.4)	41.0	(+0.5)
Czech Republic	48.9	(+2.6)	39.5	(-4.4)	11.6	(+1.8)	37.3	(+0.8)
Hungary	48.8	(+3.6)	34.9	(+3.9)	16.3	(-7.5)	32.5	(+11.1)
Poland	47.5	(+6.5)	42.5	(-1.1)	10.0	(-5.4)	37.5	(+11.9)
Romania	51.3	(+5.3)	30.8	(-7.0)	17.9	(+1.7)	33.4	(+3.6)
Slovakia	41.4	(+5.5)	48.8	(-5.0)	9.8	(-0.5)	31.6	(+6.0)
Turkey	22.8	(-5.8)	57.9	(+2.8)	19.3	(+3.0)	3.5	(-8.8)
CEE (incl. Turkey)	35.6	(+3.1)	53.3	(+2.1)	11.1	(-5.2)	24.5	(+8.3)
Eurozone	39.6	(+2.1)	43.4	(+1.7)	17.0	(-3.8)	22.6	(+5.9)

Inflation rate	increase		no change		decrease		balance	
Austria	65.8	(+9.9)	34.2	(-9.9)	0.0	(+/-0.0)	65.8	(+9.9)
Croatia	63.2	(-9.2)	34.2	(+6.6)	2.6	(+2.6)	60.6	(-11.8)
Czech Republic	65.1	(-1.6)	34.9	(+1.6)	0.0	(+/-0.0)	65.1	(-1.6)
Hungary	48.8	(+6.3)	34.9	(-7.6)	16.3	(+1.3)	32.5	(+5.0)
Poland	67.5	(-8.8)	32.5	(+8.8)	0.0	(+/-0.0)	67.5	(-8.8)
Romania	48.7	(+0.2)	29.7	(+6.8)	21.6	(-7.0)	27.1	(+7.2)
Slovakia	67.5	(-10.9)	32.5	(+10.9)	0.0	(+/-0.0)	67.5	(-10.9)
Turkey	63.8	(+16.9)	25.9	(-8.1)	10.3	(-8.8)	53.5	(+25.7)
CEE (incl. Turkey)	63.0	(+1.5)	34.8	(-1.1)	2.2	(-0.4)	60.8	(+1.9)
Eurozone	64.3	(+2.0)	28.6	(-4.7)	7.1	(+2.7)	57.2	(-0.7)

Short-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	39.3	(-8.7)	27.0	(+4.8)	45.5	(+1.5)	53.8	(-1.8)	15.2	(+7.2)	19.2	(-3.0)	24.1	(-15.9)	7.8	(+7.8)
Czech Republic	51.3	(-0.1)	20.0	(-11.2)	41.0	(+0.5)	57.1	(+10.2)	7.7	(-0.4)	22.9	(+1.0)	43.6	(+0.3)	-2.9	(-12.2)
Hungary	41.0	(-18.5)	24.2	(-32.1)	38.5	(+8.8)	36.4	(+20.8)	20.5	(+9.7)	39.4	(+11.3)	20.5	(-28.2)	-15.2	(-43.4)
Poland	73.6	(-4.8)	51.6	(-16.2)	21.1	(+2.2)	35.5	(+6.5)	5.3	(+2.6)	12.9	(+9.7)	68.3	(-7.4)	38.7	(-25.9)
Romania	37.5	(-9.3)	26.0	(-16.3)	37.5	(+3.1)	29.6	(+2.7)	25.0	(+6.2)	44.4	(+13.6)	12.5	(-15.5)	-18.4	(-29.9)
Turkey	49.0	(+7.1)	44.4	(+11.1)	30.2	(+0.4)	28.9	(-7.2)	20.8	(+2.2)	26.7	(-3.9)	28.2	(+4.9)	17.7	(+15.0)
Eurozone	53.9	(+3.9)			44.2	(-3.5)			1.9	(-0.4)			52.0	(+4.3)		

Long-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	45.1	(+3.5)	33.4	(-6.6)	32.3	(+15.6)	48.1	(+8.1)	22.6	(-19.1)	18.5	(-1.5)	22.5	(+22.6)	14.9	(-5.1)
Czech Republic	65.8	(+4.7)	28.6	(-15.1)	28.9	(+1.1)	54.3	(+7.4)	5.3	(-5.8)	17.1	(+7.7)	60.5	(+10.5)	11.5	(-22.8)
Hungary	45.7	(-0.3)	30.3	(-18.2)	34.3	(-0.8)	24.2	(-9.1)	20.0	(+1.1)	45.5	(+27.3)	25.7	(-1.4)	-15.2	(-45.5)
Poland	54.2	(+4.2)	34.4	(-15.6)	22.9	(-4.9)	28.1	(-6.3)	22.9	(+0.7)	37.5	(+21.9)	31.3	(+3.5)	-3.1	(-37.5)
Slovakia	52.8	(-0.1)	21.2	(-8.8)	38.9	(+18.3)	51.5	(-1.8)	8.3	(-18.2)	27.3	(+10.6)	44.5	(+18.1)	-6.1	(-19.4)
Turkey	53.9	(+0.2)	43.8	(-2.2)	34.6	(+7.8)	35.4	(-2.4)	11.5	(-8.0)	20.8	(+4.6)	42.4	(+8.2)	23	(-6.8)
Germany	53.6	(+2.3)			36.6	(+8.4)			9.8	(-10.7)			43.8	(+13.0)		

Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	54.8	(-30.9)	23.8	(+20.9)	21.4	(+10.0)	33.4	(-40.9)
ATX (Austria)	54.5	(-28.9)	18.2	(+14.9)	27.3	(+14.0)	27.2	(-42.9)
NTX (CEE)	63.1	(-21.7)	13.2	(+7.1)	23.7	(+14.6)	39.4	(-36.3)
CROBEX (Croatia)	44.4	(-34.2)	30.6	(+19.9)	25.0	(+14.3)	19.4	(-48.5)
PX 50 (Czech Rep.)	51.4	(-31.0)	27.0	(+18.2)	21.6	(+12.8)	29.8	(-43.8)
BUX (Hungary)	51.4	(-20.0)	18.9	(+4.6)	29.7	(+15.4)	21.7	(-35.4)
WIG (Poland)	57.1	(-24.7)	20.0	(+7.9)	22.9	(+16.8)	34.2	(-41.5)
BET (Romania)	50.0	(-24.2)	21.9	(+12.2)	28.1	(+12.0)	21.9	(-36.2)
SAX (Slovakia)	38.3	(-24.2)	38.2	(+10.1)	23.5	(+14.1)	14.8	(-38.3)
ISE-100 (Turkey)	55.6	(-22.2)	18.5	(+5.2)	25.9	(+17.0)	29.7	(-39.2)

Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	50.0	(+5.1)	36.1	(-1.8)	13.9	(-3.3)	36.1	(+8.4)
Koruna (Czech Rep.)	34.1	(-15.9)	54.5	(+12.0)	11.4	(+3.9)	22.7	(-19.8)
Forint (Hungary)	31.0	(-0.8)	33.3	(-0.8)	35.7	(+1.6)	-4.7	(-2.4)
Zloty (Poland)	56.1	(-5.5)	31.7	(+6.1)	12.2	(-0.6)	43.9	(-4.9)
Lei (Romania)	39.4	(-1.2)	36.4	(+5.1)	24.2	(-3.9)	15.2	(+2.7)
Lira (Turkey)	40.8	(+8.9)	33.3	(-5.3)	25.9	(-3.6)	14.9	(+12.5)
US-Dollar	50.9	(-1.2)	27.3	(-6.0)	21.8	(+7.2)	29.1	(-8.4)

Note: 80 Financial market experts, 23 from which from Turkey, participated in the February survey which was conducted during the period 01/31/11-02/14/11. 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 January 2011 in parentheses). Balances refer to the differences between positive and negative assessments.

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