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Financial Market Report CEE

Volume 2 · March 2014

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 among approximately 160 financial market experts for Central and Eastern Europe (CEE), Austria, as well as the Eurozone. The experts are asked for their assessments and expectations with regard to economic and financial market data. The March issue of the "Financial Market Report CEE" contains the results of the current survey, conducted between January 28, 2014 and February 17, 2014, as well as an overview of the development of the indicators over the last three months. 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.

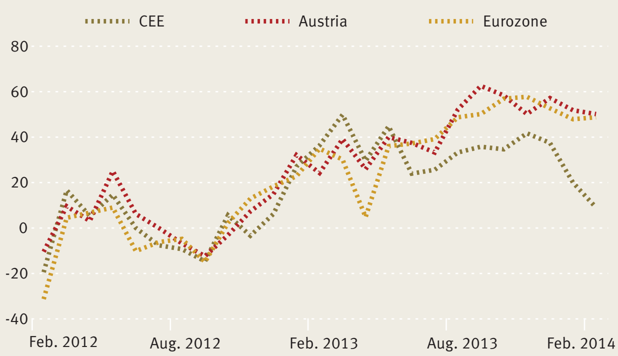
Economic Expectations for the CEE Region Gradually Decline

Over the past three months (from December 2013 until February 2014) the economic expectations for Central and Eastern Europe have gradually declined. The ZEW-Erste Group Bank Economic Sentiment Indicator for the CEE region has decreased by overall 32.6 points and now stands at a level of 9.0 points – its lowest level for more than a year. To a large extent the decrease of the indicator can be ascribed to the major drop of expectations for Turkey. The country has been in the spotlight since the end of 2013 when a corruption scandal triggered a political crisis forcing foreign investors to sell Turkish debt and the Lira to depreciate (Source: Bloomberg). Blurred economic sentiments for Croatia have also contributed to the decreased optimism for the CEE region. The economic sentiment indicator for Croatia has dropped in February to its lowest level for more than a year. In contrast, economic sentiments for Slovakia and Hungary have recorded historical peaks over the last three months. Economic optimism for Slovakia has reached its all-time peak in January 2014. In the same survey the optimism for Hungary also rose to its historical second-highest level. Among the other CEE countries sentiments have remained rather stable and positive for both Poland and Romania. The respective indicator for the Czech Republic has entered in December 2013 positive territory for the first time since July 2011 and since then has displayed a stable positive trend. The indicator of experts' assessment of the current situation in the CEE region has also declined gradually over the last three months in line with the sentiment indicator for the region. The indicator has thereby entered negative territory in January 2014 after previously retaining positive values for four consecutive months.

Economic sentiment for the Eurozone has also decreased over the last three months but continues to rank higher than the respective sentiment indicator for the CEE region for the third consecutive quarter. However, experts' assessment of the current economic situation in the Eurozone continues to improve. In February 2014 the indicator has reached a level of minus 2.1 points – its highest level since April 2011.

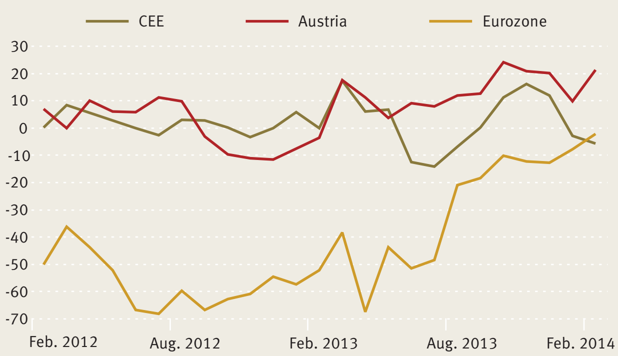
The economic outlook of Austria has not changed significantly over the past three months. After an increase in December the indicator for economic expectations for Austria has gradually dropped back to a level of 50.0 points. An opposite development is recorded by experts' assessment of the current economic situation n the country – the indicator ranks roughly as high as at the end of the previous month in spite of a large drop in between.

Economic Expectations for CEE, Austria and the Eurozone



Balance of positive and negative economic expectations for the next 6 months.
Source: ZEW

Assessment of Current Economic Situation in CEE, Austria and the Eurozone



Balance of positive and negative assessment of the current economic situation.
Source: ZEW

Czech Republic, Poland, and Slovakia: Optimistic Economic Outlook

Ahead of the upcoming elections in Slovakia, experts' assessment of the current situation in the country has improved in February by 8.5 points. However, experts have become less optimistic on the economic prospects of the country in the next six months. The relevant economic sentiment indicator has decreased by 14.3 points. This comes right after the sentiment indicator for the country reached its all-time peak at 71.4 points in January 2014. The decline comes in spite of the announcement of the government to strengthen its nation-wide program for employment of young people. Positive news have also been announced by the Statistical Office of the Slovak Republic in mid-February – GDP growth (yoy) marks its highest rate since the third quarter of 2012.

The assessment of the current situation in the Czech Republic has gradually improved over the last three months. The respective indicator has entered positive territory in February 2014 for the first time since November 2011. Experts' economic expectations have similarly recorded a positive trend over the last three months. In February, the respective indicator has climbed to its historical high of 78.8 points. The optimism of the survey respondents is in line with the newly announced positive GDP figures. According to the Czech Statistical Office, the GDP has marked its first expansion in two years by growing 0.8 per cent (yoy). Positive macroeconomic figures and experts' optimism for the country sets the stage for the new centre-left coalition. The coalition agreement marked the end of the recent political crisis in the Czech Republic which started in mid-2013 when the former government was forced to resign after a corruption scandal.

Economic expectations for Poland have remained roughly unchanged over the past three months. The respective indicator is currently at the second-highest level among all surveyed economies. The majority of 58.8 per cent of the survey participants assert that the economic situation in the country will improve over the next six months. Concerning the current situation in Poland, the majority of 67.6 per cent of the experts describe it as normal and the rest of the respondents already assess it as good. The positive assessment is in line with the positive macroeconomic figures announced in the end of February. The GDP in Poland has recorded its largest expansion since the first quarter of 2012.

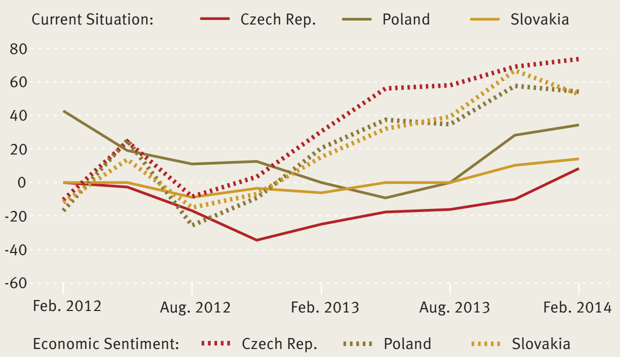
Croatia, Hungary and Romania: Economic Optimism Prevails

In February 2014, less than two months before the upcoming parliamentary elections in Hungary on the 6th of April– the first election conducted according to the new electoral law which was enforced in January 2012 – experts' sentiments for Hungary drop significantly. In February 2014 the indicator of economic expectations drops by 13.5 points from its historical second-highest level of 56.4 points. This comes in spite of the optimistic preliminary GDP figures announced by the Hungarian Central Statistics Office in mid-February, indicating the largest growth rate (yoy) since December 2006. In mid-January 2014 the country's prime minister Viktor Orban signed an agreement with Russian president Vladimir Putin to increase Hungary's nuclear power (Source: Reuters). Subsequently, the government has pledged to cut gas prices for households. The deal itself has been met with criticism and is likely to be in the spotlight for the pre-election debates. Experts' assessment of the current situation in Hungary has become less and less negative over the last three months. Currently the indicator stands at minus 20.6 points which is its highest level since April 2011.

Economic expectations for Romania linger on positive values for the last three months. The majority of 66.7 to 53.4 per cent of the survey respondents expect the situation in the country to improve over the next six months. The experts' assessment of the current situation crossed the zero line four months ago after remaining for more than six years in negative territory. The positive assessment of the financial market experts is in line with the positive review of the International Monetary Fund and the European Commission in the beginning of February. According to the IMF and the EC, Romania has largely met the performance criteria and structural benchmarks. At the end of January, the Romanian president announced to expect the country to enter the Eurozone within the next five years.

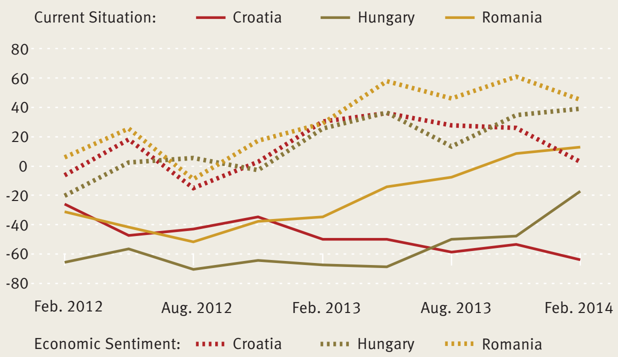
Both the assessment of the current situation in Croatia and experts' expectations on the economic development of the country over the next six months have gradually deteriorated over the past three months. The indicator of experts' assessment of the current situation in Croatia has thereby dropped to its lowest level since July 2009. Economic expectations for the country record its lowest level since November 2012.

Indicators* for the Czech Republic, Poland and Slovakia



Balance of positive and negative response category. *Displayed are indicator levels as of Feb, May, Aug and Nov. Source: ZEW

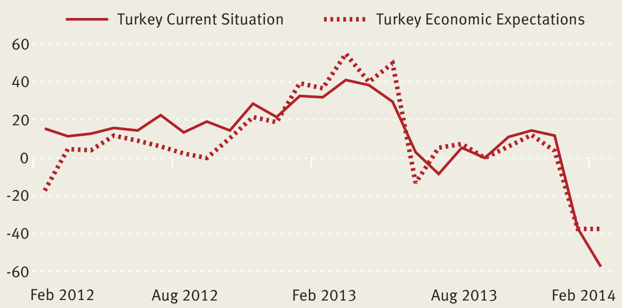
Indicators* for Croatia, Hungary and Romania



Balance of positive and negative response category. *Displayed are indicator levels as of Feb, May, Aug and Nov. Source: ZEW

Turkey: Political Instability Blurs Economic Outlook

Economic Expectations and Assessment of Current Economic Situation in Turkey



Balance of positive and negative response category. Source: ZEW

Both the indicator of experts' assessment of the current situation and the indicator of economic expectations for Turkey have plunged to reach its historical lowest levels during the past quarter. As of February, the majority of 61.7 per cent of the expert consider the current situation in the country as bad and 52.1 per cent also expect it to even worsen. This is in sharp contrast to the large agreement as of the beginning of December 2013 that the situation in Turkey was normal and would remain this way in the mid-term. The outlook has significantly blurred in the January survey reflecting an increased uncertainty triggered by the corruption scandal in Turkey starting at the end of 2013. Sentiments for the Turkish stock markets show large disagreement as of February 2014. Over the quarter the Turkish ISE-100 has decreased by roughly 15 per cent driving the sentiment indicator down by overall 14.2 points over the past three months.

Special Question: Growth Prospects of the CEE Countries in 2014

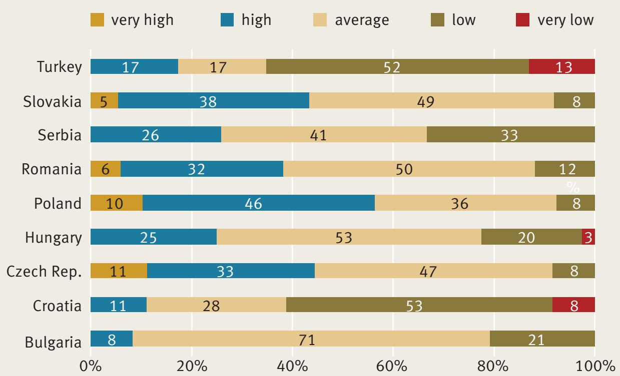
The special question in February asks financial market experts to provide their assessment on the growth prospects of the countries in the CEE region as well as the economic challenges the region faces. Experts are most optimistic for Poland, the Czech Republic and Slovakia and least optimistic for the growth prospects of Turkey and Croatia. The biggest challenges for the entire CEE region are seen in the low levels of domestic private consumption and the low levels of foreign investments.

The majority of survey participants are pessimistic about Turkey, as more than 65 per cent consider the growth prospects of the country to be low or very low. This has likely been triggered by the increased political uncertainty in the country. Survey participants are also rather pessimistic about Croatia, as more than 60 per cent consider the growth prospects of the country to be low or very low. Compared to experts' assessment of the growth prospects of the country last year, in January 2013, the pessimistic view has even strengthened. In January 2013, 47 per cent of the participants have assessed the growth prospects of Croatia as below average.

According to the experts the most important challenges for 2014 are the low level of foreign direct investments and low level of private consumption. A majority of roughly 67 per cent assess the importance of these two challenges as high or very high. Political uncertainty in the individual countries is also an important burden for the economic growth of the region. The majority of 59 per cent or the survey participants consider political uncertainty an important or very important challenge for the development of the CEE region. Another 47 per cent of experts consider the low external demand an important challenge. Although still a significant concern, experts appear less concerned with the external demand than one year ago, in January 2013 (in January 2013 a large majority of 81 per cent of the experts saw external demand as a major burden for the economic growth of the CEE region).

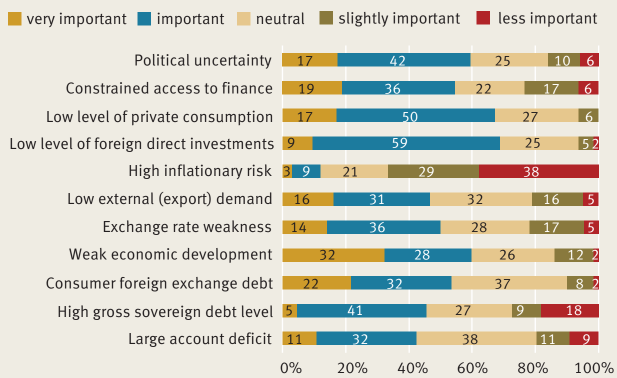
Daria Fomenko, Zwetelina Ilieva

How do you assess the recovery/growth prospects of the different CEE countries within the next year?



Source: ZEW

Which will be the most important challenge for the CEE region as a whole resulting from the weakness of all or individual CEE countries?



Source: ZEW

ZEW / Erste Group Bank - Financial Market Survey CEE: February 2014

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	18.5	(+ 1.9)	81.5	(+ 4.8)	0.0	(- 6.7)	18.5	(+ 8.6)
Croatia	2.9	(+ 0.1)	25.7	(- 7.6)	71.4	(+ 7.5)	-68.5	(- 7.4)
Czech Republic	8.9	(- 4.6)	88.2	(+17.9)	2.9	(-13.3)	6.0	(+ 8.7)
Hungary	5.9	(- 2.0)	67.6	(+12.3)	26.5	(-10.3)	-20.6	(+ 8.3)
Poland	32.4	(+ 1.0)	67.6	(+ 4.7)	0.0	(- 5.7)	32.4	(+ 6.7)
Romania	13.4	(- 2.2)	83.3	(+11.4)	3.3	(- 9.2)	10.1	(+ 7.0)
Slovakia	11.4	(- 2.9)	88.6	(+14.3)	0.0	(-11.4)	11.4	(+ 8.5)
Turkey	4.3	(- 4.1)	34.0	(-11.8)	61.7	(+15.9)	-57.4	(-20.0)
CEE (incl. Turkey)	8.6	(- 3.2)	77.1	(+ 3.6)	14.3	(- 0.4)	-5.7	(- 2.8)
Eurozone	10.9	(- 2.8)	76.1	(+11.4)	13.0	(- 8.6)	-2.1	(+ 5.8)

Economic expectations	improve		no change		worsen		balance	
Austria	51.9	(+ 0.2)	48.1	(- 0.2)	0.0	(± 0.0)	51.9	(+ 0.2)
Croatia	17.2	(-15.2)	71.4	(+11.9)	11.4	(+ 3.3)	5.8	(-18.5)
Czech Republic	78.8	(+ 6.6)	21.2	(- 6.6)	0.0	(± 0.0)	78.8	(+ 6.6)
Hungary	48.6	(- 7.8)	45.7	(+ 2.1)	5.7	(+ 5.7)	42.9	(-13.5)
Poland	58.8	(+ 0.5)	41.2	(- 0.5)	0.0	(± 0.0)	58.8	(+ 0.5)
Romania	53.4	(- 5.9)	43.3	(+ 8.9)	3.3	(- 3.0)	50.1	(- 2.9)
Slovakia	57.1	(-14.3)	42.9	(+14.3)	0.0	(± 0.0)	57.1	(-14.3)
Turkey	14.6	(+ 2.1)	33.3	(- 4.2)	52.1	(+ 2.1)	-37.5	(± 0.0)
CEE (incl. Turkey)	24.2	(- 4.3)	60.6	(- 2.3)	15.2	(+ 6.6)	9.0	(-10.9)
Eurozone	53.1	(+ 1.1)	42.6	(- 1.4)	4.3	(+ 0.3)	48.8	(+ 0.8)

Inflation rate	increase		no change		decrease		balance	
Austria	25.9	(+ 2.8)	74.1	(+12.6)	0.0	(-15.4)	25.9	(+18.2)
Croatia	25.7	(- 9.6)	60.0	(+18.8)	14.3	(- 9.2)	11.4	(- 0.4)
Czech Republic	55.9	(+10.2)	41.2	(- 1.7)	2.9	(- 8.5)	53.0	(+18.7)
Hungary	54.6	(+ 3.1)	33.3	(+ 1.9)	12.1	(- 5.0)	42.5	(+ 8.1)
Poland	69.7	(+ 5.2)	30.3	(+ 4.5)	0.0	(- 9.7)	69.7	(+14.9)
Romania	44.9	(- 5.1)	44.8	(+18.1)	10.3	(-13.0)	34.6	(+ 7.9)
Slovakia	38.2	(- 2.9)	61.8	(+14.7)	0.0	(-11.8)	38.2	(+ 8.9)
Turkey	75.6	(+ 9.0)	20.0	(+ 3.3)	4.4	(-12.3)	71.2	(+21.3)
CEE (incl. Turkey)	53.0	(+ 1.5)	44.1	(+ 7.7)	2.9	(- 9.2)	50.1	(+10.7)
Eurozone	25.6	(- 5.7)	63.8	(+ 5.5)	10.6	(+ 0.2)	15.0	(- 5.9)

Short-term interest rates	increase [abs.]		increase [rel.]		no change [abs.]		no change [rel.]		decrease [abs.]		decrease [rel.]		balance [abs.]		balance [rel.]	
Croatia	25.8	(+ 7.0)	38.5	(+10.9)	64.5	(- 1.1)	50.0	(- 5.2)	9.7	(- 5.9)	11.5	(- 5.7)	16.1	(+12.9)	27.0	(+16.6)
Czech Republic	9.7	(- 2.0)	10.8	(+ 3.9)	87.1	(+ 4.7)	82.1	(- 7.6)	3.2	(- 2.7)	7.1	(+ 3.7)	6.5	(+ 0.7)	3.7	(+ 0.2)
Hungary	21.9	(+ 2.9)	27.6	(+ 9.4)	40.6	(+ 5.5)	34.5	(+ 1.2)	37.5	(- 8.4)	37.9	(-10.6)	-15.6	(+11.3)	-10.3	(+20.0)
Poland	25.8	(+ 7.6)	33.3	(+18.5)	71.0	(+ 1.3)	63.0	(-11.1)	3.2	(- 8.9)	3.7	(- 7.4)	22.6	(+16.5)	29.6	(+25.9)
Romania	13.8	(- 8.1)	19.2	(+ 1.4)	58.6	(+18.0)	50.0	(+10.7)	27.6	(- 9.9)	30.8	(-12.1)	-13.8	(+ 1.8)	-11.6	(+13.5)
Turkey	55.8	(-12.9)	60.0	(-12.0)	37.2	(+10.1)	27.5	(+ 4.2)	7.0	(+ 2.8)	12.5	(+ 7.8)	48.8	(-15.7)	47.5	(-19.8)
Eurozone	11.3	(- 6.3)			70.5	(- 6.0)			18.2	(+12.3)			-6.9	(-18.6)		

Long-term interest rates	increase [abs.]		increase [rel.]		no change [abs.]		no change [rel.]		decrease [abs.]		decrease [rel.]		balance [abs.]		balance [rel.]	
Croatia	61.3	(+ 3.3)	50.0	(+ 6.7)	25.8	(- 6.5)	34.6	(-15.4)	12.9	(+ 3.2)	15.4	(+ 8.7)	48.4	(+ 0.1)	34.6	(- 2.0)
Czech Republic	56.7	(+10.3)	23.1	(+ 8.3)	40.0	(-10.0)	57.7	(-20.1)	3.3	(- 0.3)	19.2	(+11.8)	53.4	(+10.6)	3.9	(- 3.5)
Hungary	54.8	(- 5.8)	40.8	(- 2.9)	35.5	(+ 5.2)	33.3	(- 1.1)	9.7	(+ 0.6)	25.9	(+ 4.0)	45.1	(- 6.4)	14.9	(- 6.9)
Poland	70.9	(+14.3)	44.5	(+13.4)	22.6	(-14.1)	44.4	(-14.2)	6.5	(- 0.2)	11.1	(+ 0.8)	64.4	(+14.5)	33.4	(+12.6)
Slovakia	54.8	(+ 1.5)	17.9	(+ 3.7)	38.7	(- 1.3)	71.4	(+ 3.5)	6.5	(- 0.2)	10.7	(- 7.2)	48.3	(+ 1.7)	7.2	(+10.9)
Turkey	61.0	(-12.4)	57.8	(-12.0)	31.7	(+ 9.5)	21.1	(+ 2.5)	7.3	(+ 2.9)	21.1	(+ 9.5)	53.7	(-15.3)	36.7	(-21.5)
Germany	41.7	(-13.6)			47.2	(+ 5.1)			11.1	(+ 8.5)			30.6	(-22.1)		

Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	57.6	(- 9.0)	21.2	(+ 4.5)	21.2	(+ 4.5)	36.4	(-13.5)
ATX (Austria)	62.5	(-16.1)	20.8	(+10.1)	16.7	(+ 6.0)	45.8	(-22.1)
NTX (CEE)	60.0	(- 9.0)	20.0	(+ 6.2)	20.0	(+ 2.8)	40.0	(-11.8)
CROBEX (Croatia)	45.2	(-12.4)	41.9	(+ 8.6)	12.9	(+ 3.8)	32.3	(-16.2)
PX 50 (Czech Rep.)	55.6	(- 8.7)	22.2	(- 2.8)	22.2	(+11.5)	33.4	(-20.2)
BUX (Hungary)	44.5	(-16.8)	33.3	(+ 7.5)	22.2	(+ 9.3)	22.3	(-26.1)
WIG (Poland)	57.1	(- 8.5)	28.6	(+11.4)	14.3	(- 2.9)	42.8	(- 5.6)
BET (Romania)	65.4	(-12.4)	19.2	(+ 8.1)	15.4	(+ 4.3)	50.0	(-16.7)
SAX (Slovakia)	33.4	(-10.1)	45.8	(- 2.0)	20.8	(+12.1)	12.6	(-22.2)
ISE-100 (Turkey)	40.0	(+ 3.0)	27.5	(+ 5.8)	32.5	(- 8.8)	7.5	(+11.8)

Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	32.4	(+15.3)	44.1	(-18.8)	23.5	(+ 3.5)	8.9	(+11.8)
Koruna (Czech Rep.)	36.4	(+ 7.0)	51.5	(-10.3)	12.1	(+ 3.3)	24.3	(+ 3.7)
Forint (Hungary)	33.4	(+22.0)	33.3	(-15.3)	33.3	(- 6.7)	0.1	(+28.7)
Zloty (Poland)	53.1	(+16.8)	31.3	(-17.2)	15.6	(+ 0.4)	37.5	(+16.4)
Lei (Romania)	24.1	(+ 1.6)	48.3	(- 9.8)	27.6	(+ 8.2)	-3.5	(- 6.6)
Lira (Turkey)	25.6	(+ 4.7)	34.9	(+ 1.6)	39.5	(- 6.3)	-13.9	(+11.0)
US-Dollar	51.2	(-10.0)	24.4	(- 0.1)	24.4	(+10.1)	26.8	(-20.1)

Note: 88 Financial market experts, 20 from which from Turkey, participated in the February survey which was conducted during the period of 1/28-2/17/2014. 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 2014 in parentheses). Balances refer to the differences between positive and negative assessments.

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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
Zwetelina Iliewa · Dept. International Finance and Financial Management · Phone +49 (0)621 1235-346 · E-mail: iliewa@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