www.zew.de · www.zew.eu
ZEW
ERSTE

Financial Market Report CEE

Volume 5 · April 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 February 28, 2011 and March 14, 2011, are published in the April 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.

Weaker Economic Expectations for CEE

The ZEW-Erste Group Bank Economic Sentiment Indicator for Central and Eastern Europe including Turkey (CEE) has declined by 10.6 points to 13.9 points in March 2011. The weaker expectations for the economic development in Poland and Slovakia have influenced the outlook for the CEE region in the current survey. The disastrous incidents in Japan didn't influence the assessment of the polled financial market experts till now. The indicator which reflects the assessment of the current economic conditions in the CEE region has dropped by 16.1 points to 2.3 points in March. The economic expectations for the Eurozone on a six-month time horizon have worsened in March stronger than the expectations for the CEE region. The respective indicator decreased by 14.7 points and has achieved 7.9 points. The evaluation of the current economic situation in the Eurozone has improved by 3.6 points to a value of minus 3.5 points. The indicator reflecting the economic expectations for Austria has declined by 10.8 points to 18.2 points and the evaluation of the current economic situation in Austria has dropped by 14.2 points to 23.6 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 declined by 10.6 points and has achieved a value of 13.9 points in March. Among the analyzed CEE countries the expectations for the economic development in Poland and Slovakia have declined most strongly. The disaster in Japan has not influenced the assessment of the polled experts. The answers collected prior to and after the disaster do not differ significantly.

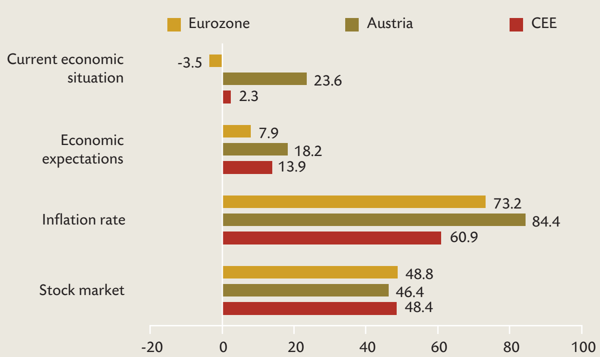
The economic sentiment indicators for Austria and the Eurozone have declined this month as well. The expectations for Austria have dropped by 10.8 points to a value of 18.2 points. After a decline of 14.7 points the economic sentiment indicator for the Eurozone has now achieved 7.9 points which is the next to last value in this category.

The assessments of the current economic conditions in the CEE region and Austria have decreased by 16.1 points to 2.3 points and by 14.2 points to 23.6 points, respectively. Despite the slight increase by 3.6 points, the indicator of the current economic situation in the Eurozone has remained negative with a value of minus 3.6 points.

The inflation expectations for the CEE region are nearly unchanged with a value of 60.9 points. Two-thirds of the experts expect the inflation rates in the CEE region to increase during the next six months. The inflation concerns for Austria and the Eurozone have increased strongly to values of 84.4 points and 73.2 points in the current survey. In line with these results a clear majority (75.6 per cent) predict a rise of the short-term interest rates in the Eurozone.

The indicators of the expected development of the stock market indices for the CEE region (NTX), Austria (ATX) and the Eurozone (Eurostoxx 50) on a six-month time horizon have increased considerably.

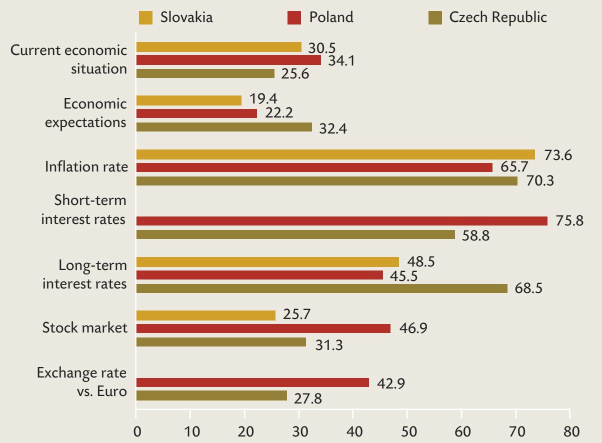
Indicators for CEE, Austria and the Eurozone (balances)



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

Czech Republic, Poland, and Slovakia: Improved Stock Market Indices

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 indicator which reflects the expected economic development in Poland has dropped by 15.3 points to 22.2 points in March. This represents the highest decrease in country comparison for this category and indicates the more cautious outlook of the financial market experts on Poland's vigorous economic recovery. Several factors such as the deepening of the public debt or the decline in Polish exports may have affected the experts' expectation for the Polish economic sentiment within the next six months. The assessments of the economic development in the Czech Republic and Slovakia have declined by 4.9 points to 32.4 points and by 12.2 points to 19.4 points, respectively. More than 50 per cent of the survey participants expect no change of the economic development in all three countries during the next half year.

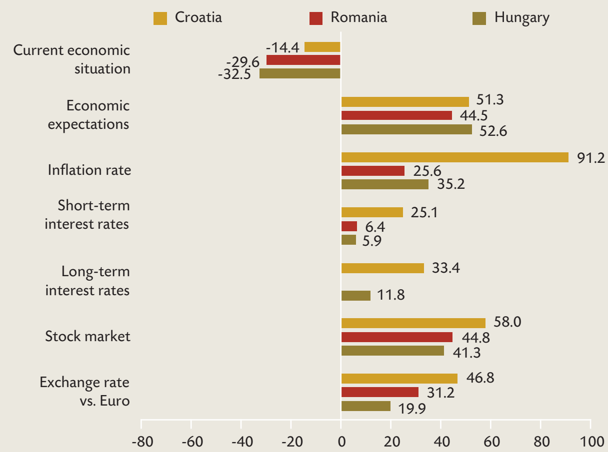
After a drop by 10.9 points to 34.1 points the Polish indicator reflecting the evaluation of the current Polish business situation has lost its first place in country comparison. The respective indicator for the Czech Republic has decreased by 9.3 points to 25.6 points. In contrast, the assessment of the current business cycle in Slovakia has improved slightly by 1.2 points to 30.5 points.

Although the Central Bank of Poland raised the key interest rate by 0.25 percentage points in January, an increasing majority of 78.7 per cent of the polled participants predict a further short-term interest hike. The short-term interest rate indicator for the Czech Republic has risen significantly by 15.2 points to 58.8 points as well. This development is in line with the relatively high expectations denoting inflationary risks for the country. The respective indicator reaches 70.3 points in March.

The value of the balance representing the expected development of the Polish stock market WIG has improved by 12.7 points reaching 46.9 points. The respective balance for the Slovak stock market indices SAX has also risen by 10.9 points to 25.7 points. The Czech PX 50 has gained only 1.5 points to a value of 31.3 points in March.

Croatia, Hungary and Romania: Improved 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

The indicators reflecting the economic outlook for Croatia, Hungary and Romania display double digit improvements in March. Hungary has not only achieved the highest increase (20.1 points) but also with 52.6 points the highest value in country comparison. The main driver of the Hungarian economic growth is the strong external demand as domestic demand still remains relatively restrained.

Though the indicators of the current economic situation in the three countries still display negative values they all have improved in March. The respective balance for Romania has even presented the highest increase in this category by 8.2 points reaching minus 29.6 points.

After an immense rise by 30.6 points to 91.2 points, the inflation indicator for Croatia has achieved the highest value in country comparison. This indicates that the experts expect for Croatia the highest inflationary risks among all the analysed CEE economies.

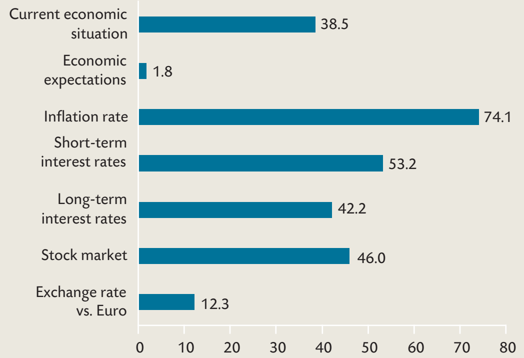
The Hungarian short-term interest rate indicator has decreased by 14.6 points to 5.9 points this month. The long-term interest rate indicator for Hungary has also decreased by 13.9 points to 11.8 points – highest decline in this category.

The expectations of the respondents regarding the development of the stock market indices in Croatia, Hungary and Romania have improved significantly. The sentiment indicator for the Croatian stock market indices, CROBEX, has displayed the strongest rise in country comparison by 38.6 points to 58.0 points which is also the highest value in this category. More than 60 per cent of the experts foresee an improvement of the CROBEX within the next six months. The prospects for the stock market indices in Hungary and Romania have risen by 19.6 points and 22.9 points to values of 41.3 points and 44.8 points, respectively.

A higher share of experts expect an appreciation of the Croatian Kuna, the Hungarian Forint and the Romanian Lei against the Euro within the next six months as all the respective indicators have increased in March.

Turkey: Inflation Expectations Persist

Indicators for Turkey



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

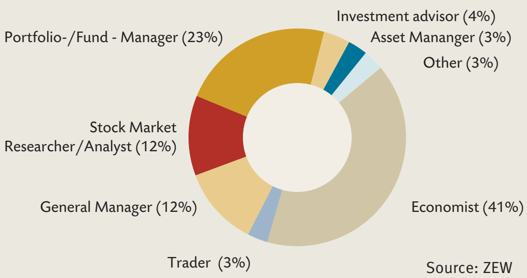
The economic sentiment indicator for Turkey has remained relatively unchanged after a slight decline by 1.7 points to 1.8 points in March. The majority of respondents have not predicted any changes for the Turkish economy within the next six months. The appraisal of the current economic situation has dropped by 5.5 points to 38.5 points.

The assessment of the inflation risk in Turkey on a six-month time horizon has increased significantly, namely by 20.6 points to 74.1 points which is the second highest increase in country comparison. In line with the experts' inflation expectations the expected short-term interest rate in Turkey has increased significantly by 25 points to a value of 53.2 points which is the highest increase in this category as well.

The balance reflecting the expected stock market development in Turkey has improved by 16.3 points to 46.0 points. 64.0 per cent of the experts have predicted the ISE-100 to improve within the next half year. The exchange rate indicator has dropped by 2.6 points to 12.3 points.

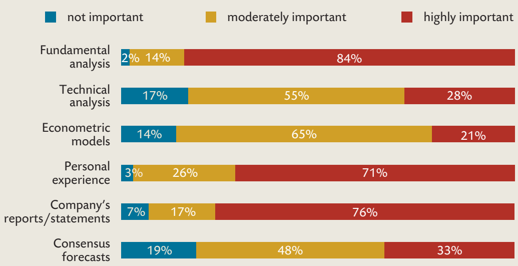
Special Question: Background Information on Participants' Forecasts

Figure A: Expert's position



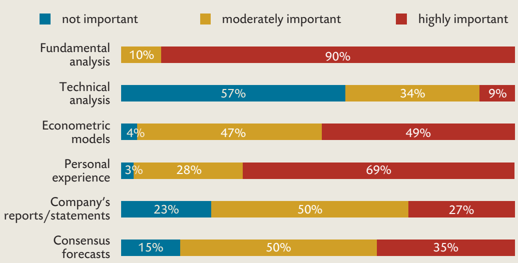
Source: ZEW

Figure B: Factors important for stock market forecasts



Source: ZEW

Figure C: Factors important for economic forecasts



Source: ZEW

This month's special question aims at shedding some light on the sample of survey participants who regularly provide their expert opinion. The participants themselves further provide insights on how useful they consider different available sources of information and different forecasting methods to be.

More than half of the survey participants (53 per cent) are economist or analysts. Traders and portfolio managers constitute the next largest proportion of our sample (26 per cent). Furthermore, general managers (12 per cent of our sample) are also very active in regularly revealing their expectations.

When it comes to forecasting economic variables such as inflation, interest rates or exchange rates most experts (90 per cent) apply fundamental analysis. The majority (69 per cent) further rely on their own professional experience. In contrast, econometric models are considered not important or in the best case only moderately important by more than half of the respondents.Lower attention is further paid on consensus forecasts, company reports and historical charts.

Forecasting stock market variables requires different tools than forecasting economic development, as has been revealed by the responses. Most experts agree on the high importance of fundamental analysis and personal experience for stock market forecasts as well. Both methods are considered equally important by the majority of forecasters (69 per cent) but the percentage of proponents of fundamental analysis (21 per cent) still slightly outweighs the percentage of experts who rather rely on their personal experience (10 per cent). Econometric models, in contrast, are less often considered useful in forecasting stocks than in forecasting economic variables. When forecasting stocks experts more often rely on company reports and charts. Surprisingly, the assessment of the use of technical trading rules is comparable among the group of economists and analysts and the group of portfolio managers and traders. This result contradicts the argument on the widespread use of technical trading rules in trading and their impact on stock market volatility. This result, however, might be due to the long horizons (typically 6 months) of the forecasts in the survey as it is frequently argued that technical trading rules are applied to shorter horizons.

Zwetelina Iliewa

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

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	26.5	(-11.3)	70.6	(+8.4)	2.9	(+2.9)	23.6	(-14.2)
Croatia	8.5	(+0.8)	68.6	(-0.6)	22.9	(-0.2)	-14.4	(+1.0)
Czech Republic	28.2	(-6.7)	69.2	(+4.1)	2.6	(+2.6)	25.6	(-9.3)
Hungary	7.5	(+0.3)	52.5	(+4.9)	40.0	(-5.2)	-32.5	(+5.5)
Poland	39.4	(-8.1)	55.3	(+5.3)	5.3	(+2.8)	34.1	(-10.9)
Romania	10.9	(+5.5)	48.6	(-2.8)	40.5	(-2.7)	-29.6	(+8.2)
Slovakia	33.3	(+1.6)	63.9	(-2.0)	2.8	(+0.4)	30.5	(+1.2)
Turkey	43.8	(-5.3)	50.9	(+5.1)	5.3	(+0.2)	38.5	(-5.5)
CEE (incl. Turkey)	15.6	(-8.9)	71.1	(+1.7)	13.3	(+7.2)	2.3	(-16.1)
Eurozone	10.3	(-4.0)	75.9	(+11.6)	13.8	(-7.6)	-3.5	(+3.6)

Economic expectations	improve		no change		worsen		balance	
Austria	30.3	(-9.2)	57.6	(+7.6)	12.1	(+1.6)	18.2	(-10.8)
Croatia	54.2	(+5.5)	42.9	(-0.7)	2.9	(-4.8)	51.3	(+10.3)
Czech Republic	37.8	(-11.1)	56.8	(+17.3)	5.4	(-6.2)	32.4	(-4.9)
Hungary	60.5	(+11.7)	31.6	(-3.3)	7.9	(-8.4)	52.6	(+20.1)
Poland	33.3	(-14.2)	55.6	(+13.1)	11.1	(+1.1)	22.2	(-15.3)
Romania	55.6	(+4.3)	33.3	(+2.5)	11.1	(-6.8)	44.5	(+11.1)
Slovakia	33.3	(-8.1)	52.8	(+4.0)	13.9	(+4.1)	19.4	(-12.2)
Turkey	25.0	(+2.2)	51.8	(-6.1)	23.2	(+3.9)	1.8	(-1.7)
CEE (incl. Turkey)	27.9	(-7.7)	58.1	(+4.8)	14.0	(+2.9)	13.9	(-10.6)
Eurozone	27.5	(-12.1)	52.9	(+9.5)	19.6	(+2.6)	7.9	(-14.7)

Inflation rate	increase		no change		decrease		balance	
Austria	87.5	(+21.7)	9.4	(-24.8)	3.1	(+3.1)	84.4	(+18.6)
Croatia	91.2	(+28.0)	8.8	(-25.4)	0.0	(-2.6)	91.2	(+30.6)
Czech Republic	73.0	(+7.9)	24.3	(-10.6)	2.7	(+2.7)	70.3	(+5.2)
Hungary	48.7	(-0.1)	37.8	(+2.9)	13.5	(-2.8)	35.2	(+2.7)
Poland	65.7	(-1.8)	34.3	(+1.8)	0.0	(+/-0.0)	65.7	(-1.8)
Romania	48.5	(-0.2)	28.6	(-1.1)	22.9	(+1.3)	25.6	(-1.5)
Slovakia	76.5	(+9.0)	20.6	(-11.9)	2.9	(+2.9)	73.6	(+6.1)
Turkey	77.8	(+14.0)	18.5	(-7.4)	3.7	(-6.6)	74.1	(+20.6)
CEE (incl. Turkey)	65.8	(+2.8)	29.3	(-5.5)	4.9	(+2.7)	60.9	(+0.1)
Eurozone	77.0	(+12.7)	19.2	(-9.4)	3.8	(-3.3)	73.2	(+16.0)

Short-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	32.2	(-7.1)	20.0	(-7.0)	60.7	(+15.2)	35.0	(-18.8)	7.1	(-8.1)	45.0	(+25.8)	25.1	(+1.0)	-25.0	(-32.8)
Czech Republic	64.7	(+13.4)	11.1	(-8.9)	29.4	(-11.6)	55.6	(-1.5)	5.9	(-1.8)	33.3	(+10.4)	58.8	(+15.2)	-22.2	(-19.3)
Hungary	41.2	(+0.2)	25.9	(+1.7)	23.5	(-15.0)	11.1	(-25.3)	35.3	(+14.8)	63.0	(+23.6)	5.9	(-14.6)	-37.1	(-21.9)
Poland	78.8	(+5.2)	50.0	(-1.6)	18.2	(-2.9)	30.8	(-4.7)	3.0	(-2.3)	19.2	(+6.3)	75.8	(+7.5)	30.8	(-7.9)
Romania	29.0	(-8.5)	26.1	(+0.1)	48.4	(+10.9)	8.7	(-20.9)	22.6	(-2.4)	65.2	(+20.8)	6.4	(-6.1)	-39.1	(-20.7)
Turkey	59.6	(+10.6)	53.8	(+9.4)	34.0	(-18.9)	30.8	(+1.9)	6.4	(-14.4)	15.4	(-11.3)	53.2	(+25.0)	38.4	(+20.7)
Eurozone	75.6	(+21.7)			22.4	(-21.8)			2.0	(+0.1)			73.6	(+21.6)		

Long-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	48.2	(+3.1)	34.8	(+1.4)	37.0	(+4.7)	47.8	(-0.3)	14.8	(-7.8)	17.4	(-1.1)	33.4	(+10.9)	17.4	(+2.5)
Czech Republic	77.1	(+11.3)	30.0	(+1.4)	14.3	(-14.6)	50.0	(-4.3)	8.6	(+3.3)	20.0	(+2.9)	68.5	(+8.0)	10.0	(-1.5)
Hungary	41.2	(-4.5)	36.7	(+6.4)	29.4	(-4.9)	20.0	(-4.2)	29.4	(+9.4)	43.3	(-2.2)	11.8	(-13.9)	-6.6	(+8.6)
Poland	69.7	(+15.5)	51.7	(+17.3)	6.1	(-16.8)	20.7	(-7.4)	24.2	(+1.3)	27.6	(-9.9)	45.5	(+14.2)	24.1	(+27.2
Slovakia	60.6	(+7.8)	24.2	(+3.0)	27.3	(-11.6)	37.9	(-13.6)	12.1	(+3.8)	37.9	(+10.6)	48.5	(+4.0)	-13.7	(-7.6)
Turkey	51.1	(-2.8)	59.0	(+15.2)	40.0	(+5.4)	25.6	(-9.8)	8.9	(-2.6)	15.4	(-5.4)	42.2	(-0.2)	43.6	(+20.6
Germany	65.8	(+12.2)			28.9	(-7.7)			5.3	(-4.5)			60.5	(+16.7)		

Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	61.6	(+6.8)	25.6	(+1.8)	12.8	(-8.6)	48.8	(+15.4)
ATX (Austria)	60.7	(+6.2)	25.0	(+6.8)	14.3	(-13.0)	46.4	(+19.2)
NTX (CEE)	63.6	(+0.5)	21.2	(+8.0)	15.2	(-8.5)	48.4	(+9.0)
CROBEX (Croatia)	64.5	(+20.1)	29.0	(-1.6)	6.5	(-18.5)	58.0	(+38.6)
PX 50 (Czech Rep.)	46.9	(-4.5)	37.5	(+10.5)	15.6	(-6.0)	31.3	(+1.5)
BUX (Hungary)	58.9	(+7.5)	23.5	(+4.6)	17.6	(-12.1)	41.3	(+19.6)
WIG (Poland)	59.4	(+2.3)	28.1	(+8.1)	12.5	(-10.4)	46.9	(+12.7)
BET (Romania)	58.6	(+8.6)	27.6	(+5.7)	13.8	(-14.3)	44.8	(+22.9)
SAX (Slovakia)	45.1	(+6.8)	35.5	(-2.7)	19.4	(-4.1)	25.7	(+10.9)
ISE-100 (Turkey)	64.0	(+8.4)	18.0	(-0.5)	18.0	(-7.9)	46.0	(+16.3)

Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	53.1	(+3.1)	40.6	(+4.5)	6.3	(-7.6)	46.8	(+10.7)
Koruna (Czech Rep.)	36.1	(+2.0)	55.6	(+1.1)	8.3	(-3.1)	27.8	(+5.1)
Forint (Hungary)	42.8	(+11.8)	34.3	(+1.0)	22.9	(-12.8)	19.9	(+24.6)
Zloty (Poland)	62.9	(+6.8)	17.1	(-14.6)	20.0	(+7.8)	42.9	(-1.0)
Lei (Romania)	53.1	(+13.7)	25.0	(-11.4)	21.9	(-2.3)	31.2	(+16.0)
Lira (Turkey)	38.8	(-2.0)	34.7	(+1.4)	26.5	(+0.6)	12.3	(-2.6)
US-Dollar	51.0	(+0.1)	23.5	(-3.8)	25.5	(+3.7)	25.5	(-3.6)

Note: 80 Financial market experts, 25 from which from Turkey, participated in the March survey which was conducted during the period 02/28/11-03/14/11. 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 February 2011 in parentheses). Balances refer to the differences between positive and negative assessments.

I M P R I N T

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