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Financial Market Report CEE

Volume 2 · May 2008

International Finance Market Data: Assessments and Expectations
ZEW Economic Sentiment Indicator for Central and Eastern Europe, Supported by Erste Bank

ZEW, the Centre for European Economic Research, Mannheim, and Erste Bank der oesterreichischen Sparkassen, 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 present survey conducted between 27 March 2008 and 14 April 2008 are published in the May 2008 issue of the "Financial Market Report CEE". In this month's survey 70 financial market experts participated.

Economic Sentiment for Central and Eastern Europe continues to rise

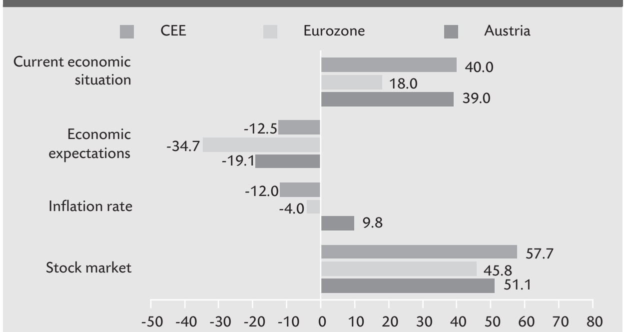
The economic optimism for Central and Eastern Europe (CEE) continues to rise in April. This is signalled by the considerable increase of the CEE indicator by 9.9 points to now minus 12.5 points. It is the largest improvement since the indicator was first conducted in May 2007. The CEE indicator is calculated on a monthly basis by the Centre for European Economic Research (ZEW), Mannheim, supported by Erste Bank der oesterreichischen Sparkassen, Vienna. The increasingly positive forecasts for the development of the CEE stock index (NTX) and the expected inflation decrease also indicate a further improvement of the region's economic sentiment.

Economic outlook for CEE countries, Austria and the Eurozone

The CEE indicator, that shows the balance of positive and negative assessments of the economic outlook for Central and Eastern Europe over the next six months, increases by 9.9 points to now minus 12.5 points in April. The economic outlook brightens but the assessment of the current economic situation in Central and Eastern Europe in April remains unchanged at a balance of 40.0 points. Like in the previous months, the majority of the experts participating in the survey do not expect any change of the current economic situation in the region and therefore assess the situation as acceptable.

Among all considered countries, the economic outlook for Austria in April improved the most by 14.3 points and now stands at a value of minus 19.1 points. The current economic situation is mostly assessed positively with a slight decrease of the respective balance by 1.5 points to 39.0 points. Like in the previous month, neutral answers were predominant in both balances.

Indicators for CEE, Austria and the Eurozone (balances)



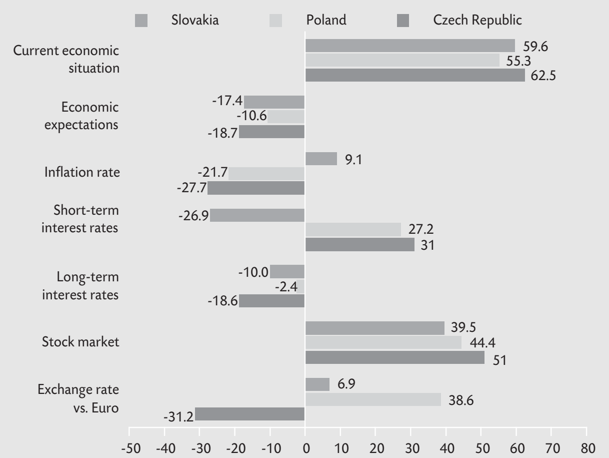
Balance of positive and negative assessment category chosen by respondents of the Financial Market Survey CEE
Source: ZEW

In April, a considerable shift in the financial experts' inflation forecasts in favour of falling inflation rates took place in the CEE region and the Eurozone. The balance for the CEE region decreased by minus 30.4 points to minus 12.0 points. Albeit the inflation rate in the Eurozone in this month reached its highest level since 1999 at 3.5 percent and the ECB rated the current danger of inflation higher, the experts expect a falling inflation rate in the next six months. This is shown in the balance for the Eurozone which decreased by 18.0 points and now stands at a negative value of minus 4.0 points. The decreasing fear of inflation is in accordance with the expectations regarding the development of short-term interest rates in the Eurozone. The respective balance reached minus 34.8 points. Despite the increase of the balance of 9.0 points in April, considerably more experts expect an interest rate cut rather than an interest rate rise by the ECB in the next six months.

Unlike March, the forecasts for the stock markets in April are characterised by a distinct optimism. The increase of the balances is double-digit in all countries, like in the February survey. The clear majority of survey participants forecast increasing stock indices in the next six months. 73.3 percent of the experts expect an increase of the CEE stock index (NTX). Only 15.6 percent expect a decrease of the NTX. Therefore, the NTX-balance improves by 32.0 points and achieves a value of 57.7 points. Thus, the NTX-balance is ahead of all surveyed stock indices.

Czech Republic, Slovakia, Poland: clearly stronger stock markets expected, more positive economic outlook

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 assessment of the current economic situation for the Czech Republic, Slovakia and Poland remains overall very good in April. The financial experts evaluate particularly the Czech Republic's economy most positive this month with a balance of 62.5 points, down 2.8 points from March. Slovakia's balance slides 7.7 points to 59.6 points. The balance for Poland rests nearly unchanged at 55.3 points, gaining 3.2 points.

The economic expectations for the three countries have clearly improved, but the financial experts still forecast a slowdown of economies. The outlook for the Czech Republic has advanced by 14.0 points to minus 18.7 points. Slovakia's indicator now stands at minus 17.4, points up 11.2 points from March. The outlook for Poland has also improved. The indicator now stands at minus 10.6 points, gaining 10.7 points.

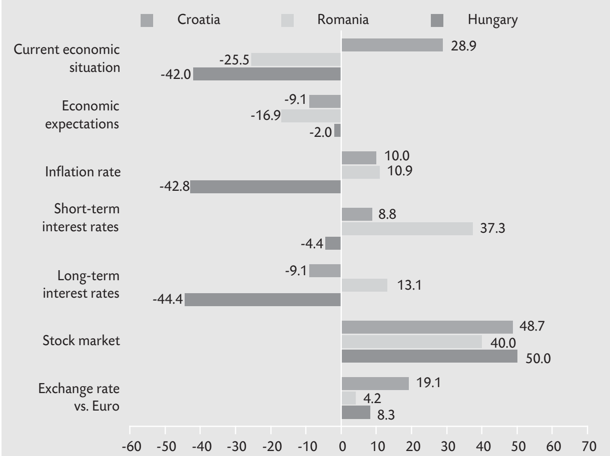
In April, some major changes in the expectations concerning inflation rates have taken place. The balances are now significantly lower than last month and the values for the Czech Republic and Poland turn negative. This indicates that the majority of experts forecast decreasing inflation rates in these two countries in the next six months. The expectations for price increase in Poland show the greatest movement: a decline of 41.3 points to minus 21.7 points in balance. The balance for the Czech Republic fell 34.0 points to minus 27.7 points. The indicator for Slovakia lost 29.2 points to 9.1 points.

Consistent with the inflation forecasts the expectations for short-term interest rates also declined. Nevertheless, similar to last month the majority of the survey respondents expect increasing interest rates in Poland and unchanged rates in the Czech Republic as well as in Slovakia.

Stock market expectations have improved significantly this month. All balances are at a high positive level, thus predicting rising stock prices in Slovakia, Poland and the Czech Republic.

Hungary, Romania, Croatia: mixed economic situations; stronger stock markets predicted

Indicators for Croatia, Hungary, and Romania



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

Regarding the assessment of the current economic situation in Hungary, Romania and Croatia, the general view of the experts has not changed. The balance for Hungary stands at minus 42.0 points, only a slight increase from last month by 1.2 points. Romania's balance also shows a negative indicator value of minus 25.5 points, a decline of 2.7 points. Croatia's assessment climbs 7.5 points to 28.9 points in balance.

The economic outlook for the countries is slightly negative. While the indicator for Croatia rises by 7.5 points to minus 9.1 points, the indicator for Hungary loses 15.6 points and now stands at minus 2.0 points. The economic expectations for Romania are nearly unchanged with a slight increase of 3.1 points to minus 16.9 points in balance.

Inflation rate expectations for the three countries are lower in April. The balance for Croatia dropped by 10.5 points, but the indicator value is still positive (10.0 points). Similarly, the majority of experts predict rising inflation rates in Romania. The indicator rests at 10.9 points, down 4.6 points from last month. According to the survey participants, we should see falling inflation rates in Hungary. The indicator remains on a very low level (minus 42.8 points), a decrease of 27.1 points.

Hungary is the only country this month where short-term interest rate expectations have risen: an increase by 10.6 points to minus 4.4 points in balance. The experts forecast rising short-term interest rates in Romania and Croatia with balances of 37.3 points and 8.8 points respectively. Long-term interest rate expectations in general decline this month, too.

Stock market expectations have improved extensively this month. As for the whole CEE region the balances for the three countries are at higher positive levels, thus predicting bullish stock markets in the upcoming six months.

According to the survey, we should see the three countries' currencies appreciating over the Euro. The Croatian Kuna scores the highest indicator value of the three countries with 19.1 points.

Special Question: Portfolio allocation within the next six months

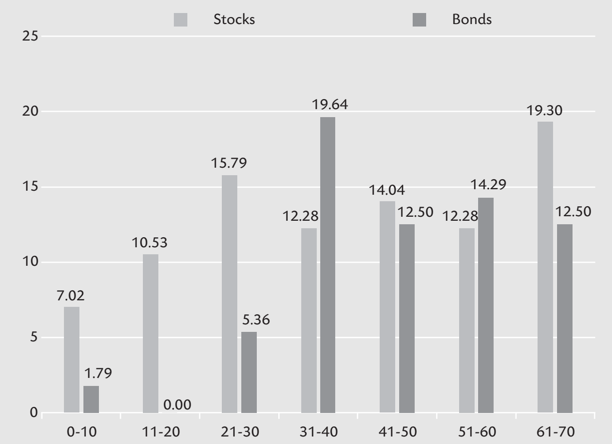
This month's special question deals with portfolio allocation within the next six months. We ask the financial market experts this question for the second time. The same special question was already included in the July 2007 survey when stock markets were performing very well. Now stock markets around the globe are very volatile in the wake of the subprime crisis and the slowdown of parts of the world economy. In this challenging environment it is particularly interesting to evaluate the impact of the change of the market situation on the investment decision of the financial experts.

In the first part of the special question the financial experts were asked to indicate their preferred portfolio allocation given the choice between stocks and bonds. The average survey participant would slightly overweight bonds investing 47 percent in stocks and 53 percent in bonds, over a time period of six months. These results let us infer that most market participants are trying to reduce risk by favouring the relatively safe bond market. In the July 2007 survey the result were vice versa with a portfolio of 54 percent in stock and 46 percent in bonds. When looking at the individual responses, one notices that more than 60 percent of the respondents would overweight bonds. 40 percent would invest more than half of their portfolio in company shares. The extreme positions are occupied thinly. Only two financial experts would invest the whole portfolio into companies' shares and only one would invest 95 percent of his capital in bonds. The category with the highest relative frequency is the one with 60 percent up to 70 percent stocks and 30 percent up to 40 percent bonds, the same as last year's result. Figure A shows the relative frequencies of allocations between stocks and bonds for different categories in the current portfolio.

In the second part of the question, we wanted to find out which regions of the world stock markets the financial market experts are viewing critically or favourably. We asked the participants to reveal which share of their stock portfolio they would allocate to the following regions over the next six months: Eurozone, USA, Asia and CEE. Most of the participants, 36 percent and 33 percent, would choose to allocate 20 percent up to 30 percent of their portfolio to stocks from the Eurozone and the CEE region. 63 (48) percent of the participants would invest under 20 percent of their portfolio in the USA (Asia) (see Figure B). The average respondent would invest 30.4 percent in the Eurozone, 30.3 percent in the CEE region, 21.2 percent in the USA and 18.9 percent of their stock portfolio in Asia.

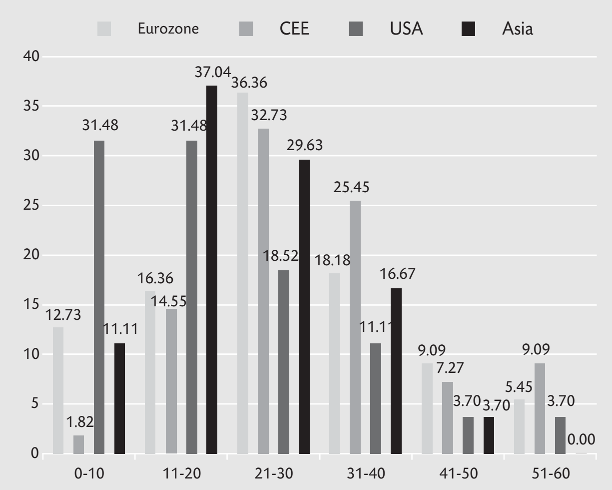
Finally, we questioned the experts on how they would divide their stock portfolio between the CEE countries Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia and Slovenia. Poland attracts the largest share of the average portfolio (26 percent), followed by the Czech Republic (17.5 percent) and Hungary (15.2 percent). Croatia (13.4 percent) and Romania (11.9 percent) also obtain a considerable fraction of the hypothetical investment. Bulgaria (6.0 percent), Slovenia (6.1 percent), Serbia (5.5 percent) and Slovakia (5.5 percent) form the rearguard. Because the displayed values are averages, they do not add up to 100 percent.

Figure A: Portfolio allocation between stocks and bonds (relative frequencies)



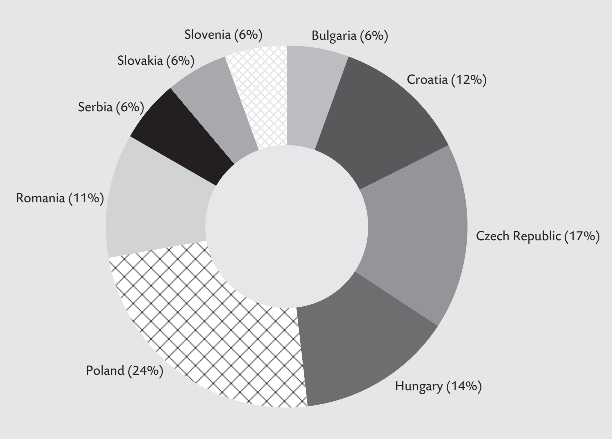
Answers of the participants of the Financial Market Survey CEE Source: ZEW

Figure B: Portfolio allocation of stocks between Eurozone, USA, Asia and CEE (relative frequencies)



Answers of the participants of the Financial Market Survey CEE Source: ZEW

Figure C: Portfolio allocation of stocks for CEE countries (averages)



Answers of the participants of the Financial Market Survey CEE Source: ZEW

ZEW-Financial Market Survey: April 2008

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	39.0	(-1.5)	61.0	(+1.5)	0.0	(+/-0.0)	39.0	(-1.5)
Croatia	31.1	(+4.9)	66.7	(-2.3)	2.2	(-2.6)	28.9	(+7.5)
Czech Republic	62.5	(-2.8)	37.5	(+2.8)	0.0	(+/-0.0)	62.5	(-2.8)
Hungary	4.0	(+0.1)	50.0	(+1.0)	46.0	(-1.1)	-42.0	(+1.2)
Poland	55.3	(+1.0)	44.7	(+1.2)	0.0	(-2.2)	55.3	(+3.2)
Romania	12.8	(+8.3)	48.9	(-19.3)	38.3	(+11.0)	-25.5	(-2.7)
Slovakia	61.7	(-7.8)	36.2	(+7.9)	2.1	(-0.1)	59.6	(-7.7)
CEE	42.0	(+2.0)	56.0	(-4.0)	2.0	(+2.0)	40.0	(+/-0.0)
Eurozone	22.0	(+6.3)	74.0	(-6.4)	4.0	(+0.1)	18.0	(+6.2)

Economic expectations	improve		no change		worsen		balance	
Austria	11.9	(+2.4)	57.1	(+9.5)	31.0	(-11.9)	-19.1	(+14.3)
Croatia	15.9	(-0.8)	59.1	(+9.1)	25.0	(-8.3)	-9.1	(+7.5)
Czech Republic	14.6	(+2.4)	52.1	(+9.2)	33.3	(-11.6)	-18.7	(+14.0)
Hungary	26.0	(-16.4)	46.0	(+17.2)	28.0	(-0.8)	-2.0	(-15.6)
Poland	14.9	(+/-0.0)	59.6	(+10.7)	25.5	(-10.7)	-10.6	(+10.7)
Romania	17.1	(-2.9)	48.9	(+8.9)	34.0	(-6.0)	-16.9	(+3.1)
Slovakia	8.7	(-1.5)	65.2	(+14.2)	26.1	(-12.7)	-17.4	(+11.2)
CEE	12.5	(-1.8)	62.5	(+13.5)	25.0	(-11.7)	-12.5	(+9.9)
Eurozone	10.2	(-3.5)	44.9	(+3.7)	44.9	(-0.2)	-34.7	(-3.3)

Inflation rate	increase		no change		decrease		balance	
Austria	29.3	(-8.8)	51.2	(+10.7)	19.5	(-1.9)	9.8	(-6.9)
Croatia	30.0	(-13.6)	50.0	(+16.7)	20.0	(-3.1)	10.0	(-10.5)
Czech Republic	25.5	(-16.2)	21.3	(-1.6)	53.2	(+17.8)	-27.7	(-34.0)
Hungary	18.4	(-11.0)	20.4	(-5.1)	61.2	(+16.1)	-42.8	(-27.1)
Poland	26.1	(-23.9)	26.1	(+6.5)	47.8	(+17.4)	-21.7	(-41.3)
Romania	41.3	(-3.1)	28.3	(+1.6)	30.4	(+1.5)	10.9	(-4.6)
Slovakia	34.1	(-21.2)	40.9	(+13.2)	25.0	(+8.0)	9.1	(-29.2)
CEE	26.0	(-18.9)	36.0	(+7.4)	38.0	(+11.5)	-12.0	(-30.4)
Eurozone	28.0	(-12.0)	40.0	(+6.0)	32.0	(+6.0)	-4.0	(-18.0)

Short-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	23.5	(-15.4)	39.4	(-20.0)	61.8	(+9.0)	48.5	(+11.0)	14.7	(+6.4)	12.1	(+9.0)	8.8	(-21.8)	27.3	(-29.0)
Czech Republic	40.5	(-15.1)	51.3	(-14.5)	50.0	(+18.9)	34.1	(+12.1)	9.5	(-3.8)	14.6	(+2.4)	31.0	(-11.3)	36.7	(-16.9)
Hungary	30.4	(+2.8)	40.0	(-0.9)	34.8	(+5.0)	26.7	(-0.6)	34.8	(-7.8)	33.3	(+1.5)	-4.4	(+10.6)	6.7	(-2.4)
Poland	45.4	(-15.1)	56.1	(-2.9)	36.4	(+6.2)	29.3	(-6.6)	18.2	(+8.9)	14.6	(+9.5)	27.2	(-24.0)	41.5	(-12.4)
Romania	58.2	(-7.6)	63.4	(-12.9)	20.9	(-3.5)	19.5	(-4.2)	20.9	(+11.1)	17.1	(+17.1)	37.3	(-18.7)	46.3	(-30.0)
Slovakia	14.6	(-1.6)	33.3	(+4.1)	43.9	(+2.0)	35.9	(-12.9)	41.5	(-0.4)	30.8	(+8.8)	-26.9	(-1.2)	2.5	(-4.7)
Eurozone	8.1	(-2.3)			49.0	(+13.6)			42.9	(-11.3)			-34.8	(+9.0)		

Long-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	21.2	(-4.6)	28.1	(-15.6)	48.5	(+0.1)	40.6	(+9.3)	30.3	(+4.5)	31.3	(+6.3)	-9.1	(-9.1)	-3.2	(-21.9)
Czech Republic	18.6	(-18.9)	14.7	(-12.8)	44.2	(+6.7)	46.3	(-3.7)	37.2	(+12.2)	39.0	(+16.5)	-18.6	(-31.1)	-24.3	(-29.3)
Hungary	17.8	(-1.7)	15.9	(-12.0)	20.0	(-4.4)	20.5	(-7.4)	62.2	(+6.1)	63.6	(+19.4)	-44.4	(-7.8)	-47.7	(-31.4)
Poland	30.2	(+5.2)	22.0	(-15.9)	37.2	(-7.2)	39.0	(+6.6)	32.6	(+2.0)	39.0	(+9.3)	-2.4	(+3.2)	-17	(-25.2)
Romania	34.2	(-9.9)	47.1	(-1.3)	44.7	(+12.3)	29.4	(-7.0)	21.1	(-2.4)	23.5	(+8.3)	13.1	(-7.5)	23.6	(-9.6)
Slovakia	20.0	(-6.4)	8.1	(-17.5)	50.0	(+5.3)	56.8	(+13.2)	30.0	(+1.1)	35.1	(+4.3)	-10.0	(-7.5)	-27	(-21.8)
Germany	29.1	(-2.7)			39.6	(-3.6)			31.3	(+6.3)			-2.2	(-9.0)		

Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	60.4	(+18.5)	25.0	(-5.2)	14.6	(-13.3)	45.8	(+31.8)
ATX (Austria)	60.9	(+14.9)	29.3	(+2.3)	9.8	(-17.2)	51.1	(+32.1)
NTX (CEE)	73.3	(+19.4)	11.1	(-6.8)	15.6	(-12.6)	57.7	(+32.0)
CROBEX (Croatia)	62.7	(+3.7)	23.3	(+2.8)	14.0	(-6.5)	48.7	(+10.2)
PX 50 (Czech Rep.)	66.6	(+19.0)	17.8	(-6.0)	15.6	(-13.0)	51.0	(+32.0)
BUX (Hungary)	64.6	(+15.7)	20.8	(+0.8)	14.6	(-16.5)	50.0	(+32.2)
WIG (Poland)	64.4	(+16.9)	15.6	(-6.9)	20.0	(-10.0)	44.4	(+26.9)
BET (Romania)	57.5	(+15.4)	25.0	(-1.3)	17.5	(-14.1)	40.0	(+29.5)
SAX (Slovakia)	57.9	(+10.6)	23.7	(+4.3)	18.4	(-14.9)	39.5	(+25.5)
SBI 20 (Slovenia)	52.9	(-0.2)	35.3	(+16.5)	11.8	(-16.3)	41.1	(+16.1)

Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	26.2	(-0.8)	66.7	(-0.9)	7.1	(+1.7)	19.1	(-2.5)
Koruna (Czech Rep.)	6.6	(-13.4)	55.6	(+26.7)	37.8	(-13.3)	-31.2	(-0.1)
Forint (Hungary)	30.7	(-8.4)	46.9	(+23.0)	22.4	(-14.6)	8.3	(+6.2)
Zloty (Poland)	47.7	(+19.8)	43.2	(-14.9)	9.1	(-4.9)	38.6	(+24.7)
Lei (Romania)	31.9	(+5.1)	40.4	(+3.8)	27.7	(-8.9)	4.2	(+14.0)
Koruna (Slovakia)	11.6	(-4.7)	83.7	(+18.6)	4.7	(-13.9)	6.9	(+9.2)
US-Dollar	56.0	(+13.5)	30.0	(+0.2)	14.0	(-13.7)	42.0	(+27.2)

Note: 70 Financial experts participated in the April survey which was conducted during the period 03/27/08-04/14/08. 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 March in parentheses). Balances refer to the differences between positive and negative assessments.

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