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Financial Market Report CEE

Volume 3 · May 2009
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 present survey, conducted between April 2 and 20, 2009, are published in the May 2009 issue of the "Financial Market Report CEE". 75 financial market experts participated in this month's survey.

Recovery of the Economic Expectations for the CEE Area Continues

The economic outlook for Central and Eastern Europe (CEE) keeps on recovering in April 2009. The CEE sentiment indicator, reflecting the surveyed analysts' economic expectations on a six month time horizon rises in the current survey by 28.8 points to minus 3.9 points. Hence, in accordance to the stabilisation of other indicators, the recovery prospects of the CEE region improve. Nonetheless, more than 45 percent of the questioned financial experts forecast no significant change of the business cycle in the region. The optimistic mood of the financial experts with regard to the region as a whole applies to the individual CEE countries, as well. The analysts' view on the future development of the stock market indices for the CEE region and the individual countries as well as for the Eurostoxx 50 is predominantly positive on a six month horizon.

Economic Outlook for CEE Countries, Austria and the Eurozone

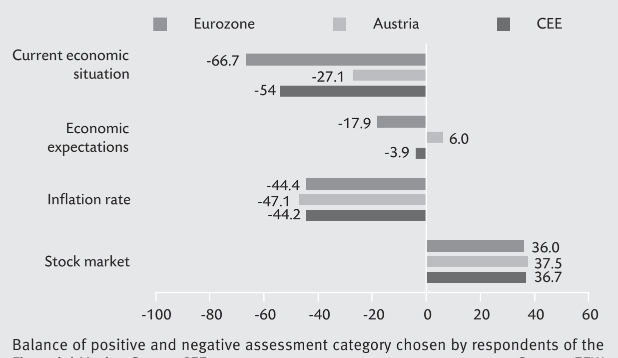
The ZEW-Erste Group Bank sentiment indicator for Central and Eastern Europe, which is calculated monthly as the balance of negative and positive assessments on the region's future economic development, rises markedly in the current survey, ascending 28.8 points to minus 3.9 points. While the share of optimistic economic expectations increases by 15.6 percentage points to 25.5 percent, the share of pessimistic answers decreases by 13.2 percentage points to 29.4 percent this month. Nonetheless, more than 45 percent of the survey participants forecast no significant change of the business cycle in the CEE region. With respect to Austria, the questioned experts show more optimism, too. The wage and income tax reform which was introduced in March in the context of an economic stimulus package seems to have influenced the respondents' assessments regarding the country's business prospects in a distinctly favourable way. Turning positive, the corresponding indicator gains 24.7 points in April and reaches 6.0 points. The economic expectations for the Eurozone improve least in the current survey. The associated balance increases by 7.2 points to minus 17.9 points. Thus, the Eurozone achieves the lowest value among all calculated economic sentiment indicators this month.

The balance reflecting the current business conditions in the CEE region mounts 3.4 points to minus 54.0 points in April. The respective indicator for Austria rises by 8.4 points to minus 27.1 points. More than 50 percent of the financial experts take a neutral stance upon the present state of the Austrian economy. In contrast, the assessment of the current economic situation in the Eurozone worsens slightly by 1.9 points to minus 66.7 points.

As in the previous months, the participants' inflationary expectations predominantly suggest falling inflation rates for the CEE region and the Eurozone. More than 70 percent of the surveyed financial experts expect the European Central Bank to further cut interest rates in the Eurozone in the coming half year.

The analysts' view on the future development of the stock market indices for the CEE region (NTX), Austria (ATX) and for the Eurostoxx 50 is predominantly positive on a six month horizon. All three balances gain in value in April.

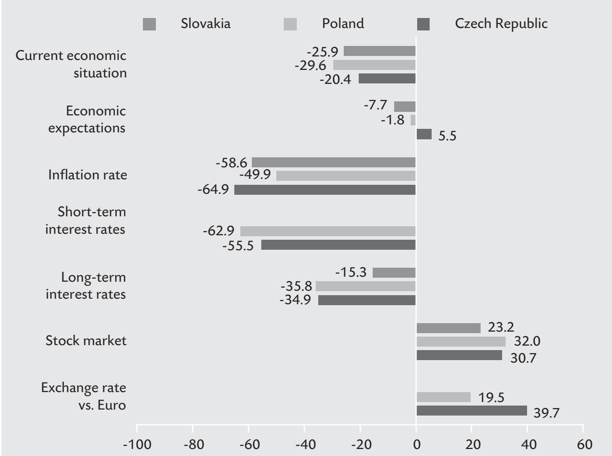
Indicators for CEE, Austria and the Eurozone (balances)



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

Czech Republic, Poland and Slovakia: Business Prospects Keep Improving

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

According to the respondents, the Czech Republic and Poland belong to the countries that feature bright chances for a medium-term recovery of the economy. In line with the results of the previous months, the financial experts' economic expectations for the Czech Republic, Poland and Slovakia further improve in April. Soaring 31.4 points to 5.5 points, the sentiment indicator for the Czech Republic notes the sharpest rise and even turns positive. The analysts' business outlook for Poland improves as well. The respective balance reaches minus 1.8 points (plus 21.4 points compared to the March survey) and the evaluation of Slovakia's future potential ameliorates by 21.7 to minus 7.7 points.

After a steep rise of the balance by 20 points to minus 20.4 points, the analysts look most positively upon the current economic situation in the Czech Republic this month. The respondents' view on the momentary state of the Slovak economy has brightened, too. The corresponding balance gains 9.3 to minus 25.9 points. By contrast, the indicator capturing the present economic situation in Poland is the only one to deteriorate in this category, receding marginally to minus 29.6 points. Overall, the share of survey participants regarding the current situation in the three countries as "bad" declines, still constituting a majority, though.

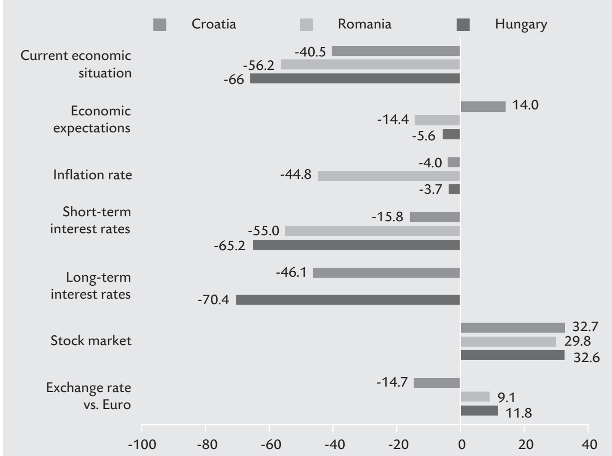
In opposition to the outcomes in March, the inflation forecast for the Czech Republic, Poland and Slovakia shows a distinct tendency towards falling inflation rates. The corresponding proportion of the questioned analysts has grown by double-digits to more than 60 percent, leading to significant declines of the associated balances.

The financial experts' optimism as to the future development on the stock markets holds this month, since all three associated balances improve slightly.

As to the anticipated exchange rate, the experts share a more positive view on the Czech than on all other analysed currencies. 51 percent consider an upward revaluation of the Koruna versus the Euro to be most probable for the next half year.

Hungary, Romania and Croatia: Clearly More Positive 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 financial experts' medium-term business expectations for Hungary, Romania and Croatia have brightened up significantly in April, as all three indicators note increases by double-digits. The best recovery prospects are attributed to the Croatian economy. The associated sentiment indicator mounts 28.9 points to 14.0 points, reaching, as in the previous month, the highest value among all analysed countries. With regard to Hungary, the analysts' economic forecast improves by 15.1 points to minus 5.6 points. In spite of the clear amelioration of the business outlook for Romania by 23.2 points, the indicator brings up the rear again within our survey, standing at minus 14.4 points.

Concerning the current economic situation in the three countries, the financial experts hold a slightly more optimistic view this month, too. However, the corresponding balances, although increasing, remain deeply in the red. The indicators capturing the assessment of the present business conditions in Hungary and Romania close at minus 66.0 points (plus 2.7 points) and minus 56.2 points (plus 3.5 points) respectively. As to Croatia, the analysts are less sceptical. The corresponding balance rises by 9.5 points to minus 40.5 points, since more than 55 percent of the respondents characterise the present situation in Croatia as normal.

In opposition to the outcomes for the CEE region as a whole, significantly more survey participants perceive a risk of increasing inflation rates with regard to Hungary and Croatia. By contrast, the inflation forecast for Romania increasingly suggests falling inflation rates.

The growing confidence in the economic prospects of the three countries on a six month horizon is reflected in the analysts' stock market expectations, as well. The corresponding balances improve significantly.

Compared to the results of the March survey, the experts' currency expectations with a view to the Croatian Kuna have changed most. The associated balance declines, due to an increased share of the participants anticipating depreciation.

Special Question: Medium-term Recovery Prospects of the CEE Economies

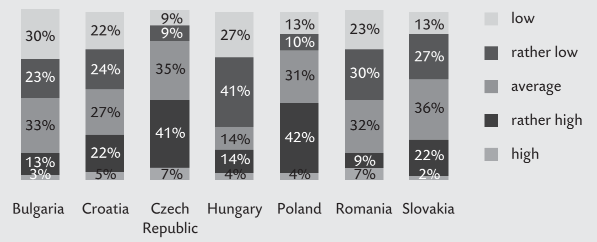
Since late 2008, many booming CEE economies have been caught in the maelstrom of the global recession, being faced with shrinking demand from abroad, capital outflows and tight liquidity. Moreover, the debt in foreign currencies, combined with depreciating domestic currencies, put some nations in Central and Eastern Europe, particularly Hungary and Romania, heavily under pressure and necessitated financial aid by the IMF.

Against this background, we were interested in the financial experts' view on the specific medium term (six months) recovery prospects of different CEE nations after the slowdown at the end of 2008. Which country, according to the analysts, is most likely to overcome the current recession soon? The respondents' assessments for the recovery prospects of the countries in question rank on an average between 2.72 in the case of the Czech Republic and 3.71 with respect to Hungary on a scale from 1 (high) to 5 (low), showing many country-specific differences. From the financial experts' point of view, the Czech Republic and Poland feature the brightest business outlook for the coming six months. 48 percent and 46 percent respectively of the participants describe the recovery prospects of these economies as "high" or at least "rather high". Most survey participants (36 percent) spot "average" chances for a rebound in the Slovakian economy, the corresponding valuation amounting to 3.27 on average. Every forth respondent even shares a more optimistic view, presumably because the new Eurozone member is untroubled by currency risks and, thus, features a comparably stable financial sector. With regard to Croatia, the assessments are highly diverse, since nearly equally large shares of the analysts perceive economic prospects for the next half year ranging from "low" to "rather high". As expected, the experts are more doubtful about the Hungarian and Romanian economies. An absolute majority of the survey participants – 68 percent and 53 percent respectively – consider that chances for a stronger business revival in both countries are complex. Probably against the background of the huge current account deficit in conjunction with a fixed exchange rate, the respondents' forecast for Bulgaria is rather sceptical, too.

In the second part of this month's special question we asked the analysts to identify the most important challenges for the CEE region as a whole in 2009 resulting from the current weaknesses of individual or even all member countries on the respective domains. According to the financial experts, the cyclical downturn, represented by the options "economic slowdown" and "low external demand" in our survey, is by far the most important problem for the CEE states to overcome. 87 percent of the respondents believe that the recession in individual countries is the "most" or at least "rather important" challenge for the entire region this year. With regard to the drop in demand from abroad, the analogous share constitutes 83 percent of all participants. Despite the intense political and economic debate about the financial situation in some Central and Eastern European countries at present, the survey participants attach somewhat less importance to the "exchange rate weakness" in connection with the "high gross external debt level" in foreign currencies and the "large current account deficit" in many CEE states. Most respondents assess the significance of these economic facts with regard to the business prospects of the whole CEE region as "rather important" or even "neutral" as in the case of the current account deficit. Foreign direct investments in CEE have strongly declined in the context of high uncertainty and liquidity shortages on global markets. For every second financial expert within the April survey this development is an at least rather important challenge for the region in 2009, as many CEE countries need capital imports to finance their current account deficits. The importance of the "low flexibility of policymakers to loosen monetary conditions" in some CEE states, e.g. due to the design of the currency system, is predominantly evaluated as "neutral" or "rather low", leading to an average appraisal of 3.16. The financial market experts identify as further very important challenges for the CEE region the lack of differentiation between countries by rating agencies, the high interest rates in some countries as well as the increasing labour costs versus labour productivity in view of the weak currencies.

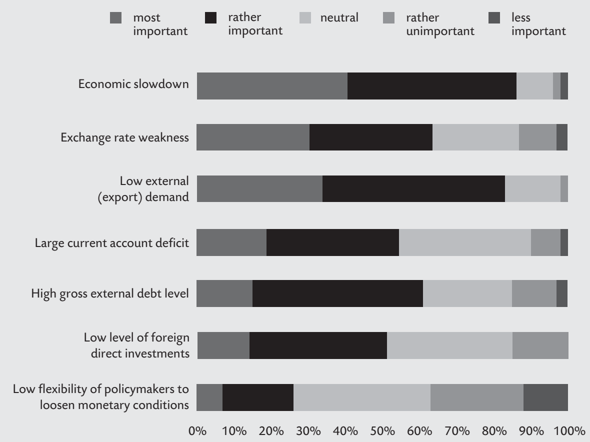
Mariela Borell, Oliver Herrmann

Figure A: Assessment of the medium-term (six months) recovery prospects of the different CEE countries



Source: ZEW

Figure B: Most important challenges for the CEE region as a whole in 2009



Source: ZEW

ZEW-Financial Market Survey: April 2009

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	10.4	(+4.2)	52.1	(+/-0.0)	37.5	(-4.2)	-27.1	(+8.4)
Croatia	2.1	(+2.1)	55.3	(+5.3)	42.6	(-7.4)	-40.5	(+9.5)
Czech Republic	22.2	(+12.6)	35.2	(-5.2)	42.6	(-7.4)	-20.4	(+20.0)
Hungary	1.9	(+/-0.0)	30.2	(+2.7)	67.9	(-2.7)	-66.0	(+2.7)
Poland	20.4	(-2.7)	29.6	(+4.6)	50.0	(-1.9)	-29.6	(-0.8)
Romania	4.2	(+0.4)	35.4	(+2.7)	60.4	(-3.1)	-56.2	(+3.5)
Slovakia	20.4	(-3.2)	33.3	(+15.7)	46.3	(-12.5)	-25.9	(+9.3)
CEE	2.0	(-1.7)	42.0	(+6.8)	56.0	(-5.1)	-54.0	(+3.4)
Eurozone	3.5	(+1.6)	26.3	(-5.1)	70.2	(+3.5)	-66.7	(-1.9)

Economic expectations	improve		no change		worsen		balance	
Austria	26.0	(+11.4)	54.0	(+1.9)	20.0	(-13.3)	6.0	(+24.7)
Croatia	40.0	(+23.0)	34.0	(-17.1)	26.0	(-5.9)	14.0	(+28.9)
Czech Republic	25.5	(+12.5)	54.5	(+6.4)	20.0	(-18.9)	5.5	(+31.4)
Hungary	20.8	(+3.8)	52.8	(+7.5)	26.4	(-11.3)	-5.6	(+15.1)
Poland	24.1	(+8.8)	50.0	(+3.8)	25.9	(-12.6)	-1.8	(+21.4)
Romania	18.3	(+12.1)	49.0	(-1.0)	32.7	(-11.1)	-14.4	(+23.2)
Slovakia	17.3	(+7.5)	57.7	(+6.7)	25.0	(-14.2)	-7.7	(+21.7)
CEE	25.5	(+15.6)	45.1	(-2.4)	29.4	(-13.2)	-3.9	(+28.8)
Eurozone	23.2	(+9.8)	35.7	(-12.4)	41.1	(+2.6)	-17.9	(+7.2)

Inflation rate	increase		no change		decrease		balance	
Austria	7.8	(-0.7)	37.3	(+22.4)	54.9	(-21.7)	-47.1	(+21.0)
Croatia	36.8	(+21.9)	22.4	(-18.0)	40.8	(-3.9)	-4.0	(+25.8)
Czech Republic	5.5	(-5.8)	24.1	(-19.3)	70.4	(+25.1)	-64.9	(-30.9)
Hungary	35.9	(+17.0)	24.5	(+9.4)	39.6	(-26.4)	-3.7	(+43.4)
Poland	11.6	(-7.6)	26.9	(-3.9)	61.5	(+11.5)	-49.9	(-19.1)
Romania	16.4	(-2.8)	22.4	(-10.3)	61.2	(+13.1)	-44.8	(-15.9)
Slovakia	5.6	(-6.4)	30.2	(-13.8)	64.2	(+20.2)	-58.6	(-26.6)
CEE	13.5	(-1.9)	28.8	(-7.7)	57.7	(+9.6)	-44.2	(-11.5)
Eurozone	13.0	(+3.7)	29.6	(+7.4)	57.4	(-11.1)	-44.4	(+14.8)

Short-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	13.7	(-10.1)	22.5	(-2.5)	56.8	(+18.7)	55.0	(+2.5)	29.5	(-8.6)	22.5	(+/-0.0)	-15.8	(-1.5)	0.0	(-2.5)
Czech Republic	6.7	(-5.6)	44.1	(+22.8)	31.1	(+8.7)	32.6	(+0.7)	62.2	(-3.1)	23.3	(-23.5)	-55.5	(-2.5)	20.8	(+46.3)
Hungary	8.7	(-4.7)	15.9	(+1.9)	17.4	(-5.7)	34.1	(+4.1)	73.9	(+10.4)	50.0	(-6.0)	-65.2	(-15.1)	-34.1	(+7.9)
Poland	6.9	(-5.1)	13.9	(-5.3)	23.3	(+1.3)	41.9	(+10.0)	69.8	(+3.8)	44.2	(-4.7)	-62.9	(-8.9)	-30.3	(-0.6)
Romania	15.0	(-10.0)	48.6	(+18.1)	15.0	(-5.8)	11.4	(-10.3)	70.0	(+15.8)	40.0	(-7.8)	-55.0	(-25.8)	8.6	(+25.9)
Eurozone	4.3	(-1.4)			25.5	(+2.9)			70.2	(-1.5)			-65.9	(+0.1)		

Long-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	18.0	(-7.0)	23.7	(-34.1)	17.9	(-29.6)	52.6	(+31.5)	64.1	(+36.6)	23.7	(+2.6)	-46.1	(-43.6)	0	(-36.7)
Czech Republic	9.3	(-2.7)	39.5	(-4.3)	46.5	(-5.5)	27.9	(+7.1)	44.2	(+8.2)	32.6	(-2.8)	-34.9	(-10.9)	6.9	(-1.5)
Hungary	9.1	(-12.4)	41.9	(-9.1)	11.4	(-10.2)	11.6	(-4.7)	79.5	(+22.6)	46.5	(+13.8)	-70.4	(-35.0)	-4.6	(-22.9)
Poland	7.1	(-10.9)	14.2	(-6.6)	50.0	(+28.0)	54.8	(+31.9)	42.9	(-17.1)	31.0	(-25.3)	-35.8	(+6.2)	-16.8	(+18.7)
Slovakia	18.0	(-1.2)	15.0	(-32.8)	48.7	(-6.6)	60.0	(+36.1)	33.3	(+7.8)	25.0	(-3.3)	-15.3	(-9.0)	-10	(-29.5)
Germany	24.5	(-0.5)			44.4	(+13.6)			31.1	(-13.1)			-6.6	(+12.6)		

Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	48.0	(-0.2)	40.0	(+3.0)	12.0	(-2.8)	36.0	(+2.6)
ATX (Austria)	50.0	(+1.1)	37.5	(+1.3)	12.5	(-2.4)	37.5	(+3.5)
NTX (CEE)	51.0	(+2.1)	34.7	(+4.9)	14.3	(-7.0)	36.7	(+9.1)
CROBEX (Croatia)	48.1	(+12.7)	36.5	(-5.2)	15.4	(-7.5)	32.7	(+20.2)
PX 50 (Czech Rep.)	47.0	(+1.0)	36.7	(-1.3)	16.3	(+0.3)	30.7	(+0.7)
BUX (Hungary)	46.1	(+1.0)	40.4	(+9.0)	13.5	(-10.0)	32.6	(+11.0)
WIG (Poland)	48.0	(+2.9)	36.0	(+0.7)	16.0	(-3.6)	32.0	(+6.5)
BET (Romania)	44.7	(+9.3)	40.4	(+0.8)	14.9	(-10.1)	29.8	(+19.4)
SAX (Slovakia)	39.5	(-2.0)	44.2	(+5.2)	16.3	(-3.2)	23.2	(+1.2)
SBI 20 (Slovenia)	47.8	(+4.9)	38.6	(+0.5)	13.6	(-5.4)	34.2	(+10.3)

Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	14.5	(-1.8)	56.3	(+2.8)	29.2	(-1.0)	-14.7	(-0.8)
Koruna (Czech Rep.)	51.0	(-9.4)	37.7	(+7.5)	11.3	(+1.9)	39.7	(-11.3)
Forint (Hungary)	47.1	(-4.7)	17.6	(-10.2)	35.3	(+14.9)	11.8	(-19.6)
Zloty (Poland)	41.1	(-21.2)	37.3	(+14.7)	21.6	(+6.5)	19.5	(-27.7)
Lei (Romania)	31.8	(-6.5)	45.5	(+11.5)	22.7	(-5.0)	9.1	(-1.5)
US-Dollar	24.0	(+7.0)	12.0	(-25.7)	64.0	(+18.7)	-40.0	(-11.7)

Note: 75 Financial experts participated in the April survey which was conducted during the period 04/02/09-04/20/09. 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 2009 in parentheses). Balances refer to the differences between positive and negative assessments.

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