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Financial Market Report CEE

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 October 28 and November 9, 2009, are published in the December 2009 issue of the "Financial Market Report CEE." 71 financial market experts participated in this month's survey.

CEE Indicator Declines – Economic Sentiment Remains Overall Positive

The upward trend of the ZEW-Erste Group Bank Economic Sentiment Indicator for Central and Eastern Europe (CEE) is interrupted for the time being. The CEE indicator that reflects the economic expectation of financial market experts within a six month horizon drops 20.0 points in November. However, the indicator still shows a positive value of 30.9 points. This indicates that the overall economic sentiment remains optimistic. The economic expectations for Austria, the Eurozone as a whole and the analysed CEE countries undergo a downward adjustment this month as well. This development is not surprising. The basis of comparison for the expectations is the assessment of the current economic situation and this assessment improves considerably this month for the CEE region and for almost all considered economies. The evaluation of the current business conditions in some CEE countries improves even by double-digit points.

Economic Outlook for the CEE Region, Austria and the Eurozone

The CEE Economic Sentiment Indicator, which is calculated monthly as the balance of positive and negative assessments of the economic development on a six months horizon, drops 20.0 points in the current survey. However, the indicator achieves a still strong positive level of 30.9 points. The sharp decrease of the CEE indicator can be put into perspective considering that 47.3 percent of the survey participants expect that the economic development in the CEE region will remain unchanged in the next half a year. Furthermore, the assessment of the current economic situation in the CEE region improves. The respective indicator climbs 8.5 points to minus 48.1 points in November.

The economic expectations for Austria and the Eurozone as a whole undergo a downward adjustment in November as well. The sentiment indicator for Austria decreases 3.3 points to 47.8 points. The indicator for the entire Eurozone looses 8.3 points and now equals 48.3 points. Despite the current declines of the indicators, nearly 60 Percent of the financial market experts predict an improvement of the economic conditions for both, Austria and the whole Eurozone, in a six months horizon.

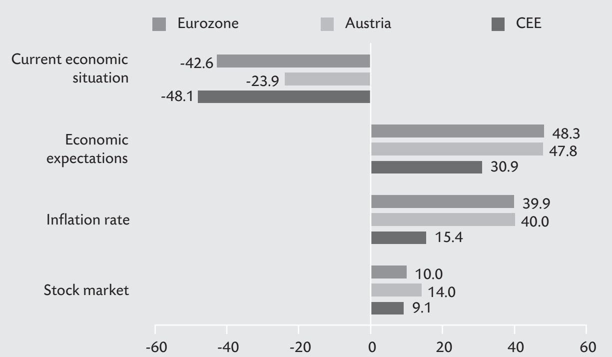
Similar to the evaluation for the CEE region, the assessment of the current economic situation for Austria and the Eurozone improves. The Austrian balance gains 10.2 points reaching minus 23.9 points. The respective balance for the Eurozone slightly increases by 0.8 points to minus 42.6 points.

The inflation expectations of the financial market experts for the CEE region, Austria and the Eurozone develop similarly in November. The respective indicators increase for the second month in a row by double digit points. The majority of analysts expect constant inflation rates for the CEE region as a whole and increasing inflation rates for Austria and the Eurozone.

50.9 percent of the polled experts predict unchanged short term interest rates in the Eurozone and thus the prevalence of the loose monetary policy in Europe.

The expectations for the stock market development at the beginning of the next year remain overall optimistic.

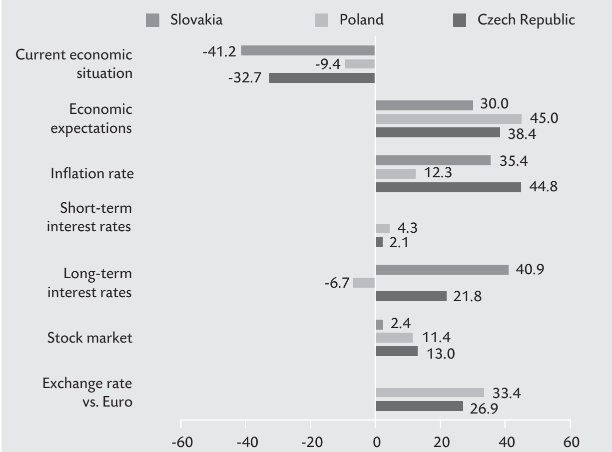
Indicators for CEE, Austria and the Eurozone (balances)



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

Czech Republic, Poland and Slovakia: Improved Current Economic Situation

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 maintains the leading position with regard to the economic expectations of the financial market experts. The respective sentiment indicator falls marginally by one point to 45.0 points in November. A clear majority of 56.8 percent of the analysts reckon that the Polish economy will improve in the next six months. Like in the previous month the Czech Republic follows on second place with an indicator of 38.4 points, falling slightly by 2.8 points in the current survey. After remaining nearly unchanged two months in a row the Slovakian indicator drops this month 6.1 points to 30.0 points.

The current economic situation in all three economies is evaluated better than in the last month by the financial experts. Again Poland is assessed to be positioned best among all analysed economies. The corresponding balance climbs 13.0 points to minus 9.4 points in November. 64.2 percent of the polled experts evaluate Poland's current economic condition as acceptable. The indicator that reflects the assessment of the present state of the economy in the Czech Republic increases by 4.6 points to minus 32.7 points. The evaluation of Slovakia's current business conditions shows the steepest increase, gaining 20.1 points to minus 41.2 points.

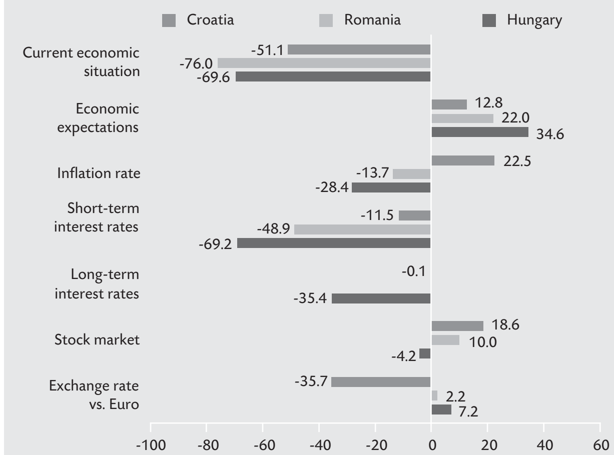
The inflation rate expectations for the three countries increase considerably by over 20 points this month. Especially the corresponding balance for the Czech Republic climbs 26.1 points reaching with 44.8 points the highest value in this category. Thus, considerably more financial market experts anticipate an increasing inflation rate in the Czech Republic in November.

These results are consistent with the view of the Czech National Bank that the current inflation rate ranging near zero is far below the inflation target and with its expectation for an increase of the inflation rate in near future.

A clear majority of polled experts (56.9 percent and 50.0 percent respectively) still assign the Polish and the Czech currencies the highest appreciation potential.

Hungary, Romania and Croatia: Decreasing Interest Rates 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

The economic sentiment indicators for Hungary and Romania decrease slightly by 2.0 points and 3.5 points to 34.6 points and 22.0 points respectively this month. The business outlook for Croatia, however, drops considerably by 18.9 points and reaches the lowest value in country comparison with a balance of 12.8 points. This might be a reflection of the continuing economy fall in Croatia while the recession in most of the other analysed CEE countries has at least slowed down.

In contrast to the expectations for the next six months the assessment of Croatia's current economic situation improves considerably as it climbs 10.2 points to minus 51.1 points. The respective balance for Hungary remains basically unchanged at minus 69.6 points. The current economic situation in Romania is assessed the most cautious this month. The corresponding balance falls 5.2 points to minus 76.0 points.

In regard to the inflation rate expectations for the next half a year the financial market experts predict only for Hungary and Romania among all considered countries decreasing inflation rates. The respective balance for Hungary even falls further 14.4 points to minus 29.4 points in November.

In line with the inflation forecasts a clear majority of analysts (75.0 and 62.8 percent respectively) expect the national banks of Hungary and Romania to cut the key interest rates within the next six months once again.

The view of the analysts for the development of the Croatian stock market is the most positive in the current survey. The respective indicator decreases slightly indeed. However, with 18.6 points it still represents the best value among the analysed countries.

Among the analysed CEE currencies the Croatian Kuna is still the only currency expected to depreciate. This view is represented by 50.0 percent of the survey participants. The corresponding balance equals minus 35.7 points this month, another 7.8 points less than in November. In contrast, the balances for Hungary and Romania amount to 7.2 points.

Special Question: Budget deficits in CEE economies

In view of the expected budget deficits for the year end 2009 in almost all CEE economies we asked the financial market experts in the November survey to evaluate selected measures which could counteract budget deficits.

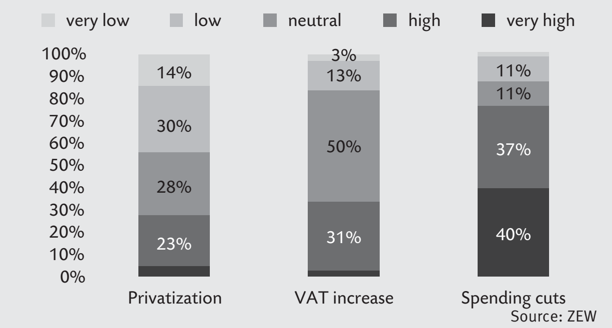
There are several actions governments can undertake to deal with a budget deficit. The three most common instruments are privatisation of state owned assets, increase of the value added tax (VAT) and cuts in public spending. The survey participants clearly evaluate spending cuts as the most effective one among these three measures. 40 percent assess its effectiveness as very high and another 37 percent as high. A VAT increase is evaluated less effective. 50 percent of the analysts appraise it as neutral, only 3 percent as very highly and 31 percent as highly effective. The least effective instrument in the expert's assessment is privatisation, with 5 percent rating its effectiveness very high and only 23 percent as high. 44 percent of the answers are related to a low or a very low effectiveness. This might reflect the short term nature of privatisation in generating a single cash inflow and not affecting the budget in the long run.

Furthermore, the survey participants have been asked which governments they expect to use these instruments in near future. In line with the assessment of effectiveness, spending cuts are the most expected measure which could be applied in all countries. 53 percent of the overall answers refer to this instrument. Especially the Hungarian government is the most anticipated to limit spending. The probability of a VAT increase in near future is assumed to be the highest for Czech Republic and Romania, the lowest for Poland. With 25 percent of the overall expectations the survey participants assign clearly less importance to this instrument than to spending cuts. Privatisation, with 23 percent of the answers, is the least expected instrument to be used among CEE governments. But it is obvious that the financial experts anticipate Poland to use privatisation in near future. 35 percent of the expectations refer to the implementation of this instrument in Poland, compared with 6 percent in Slovakia. This goes along with the plan of the Polish government to raise 36.7 billion Zloty ($12.8 billion) by the end of 2010 through further sale of state owned assets.

The Czech Republic and Romania are the two countries for which the majority of experts believe to succeed in reducing their fiscal deficit by end of 2010. 60 percent expect the Czech Republic and 60 percent expect Romania to reduce its budget deficit compared to the year end 2009. For Hungary and Slovakia the experts do not find a clear consensus with 50 percent positive and 50 percent negative answers for each case. The most cautious expectations receive Croatia with only 36 percent of the experts considering a reduction of the fiscal deficit by end of 2010 as possible.

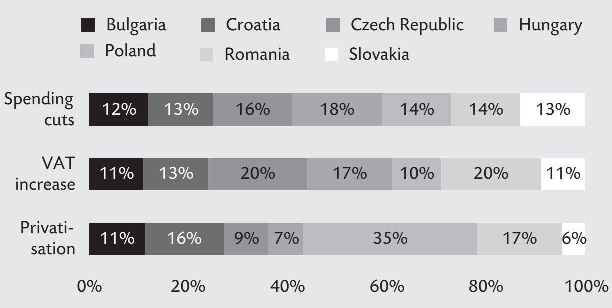
Mariela Borell, Karl Trela

Figure A: Effectiveness of selected governmental instruments to counteract budget deficits in CEE



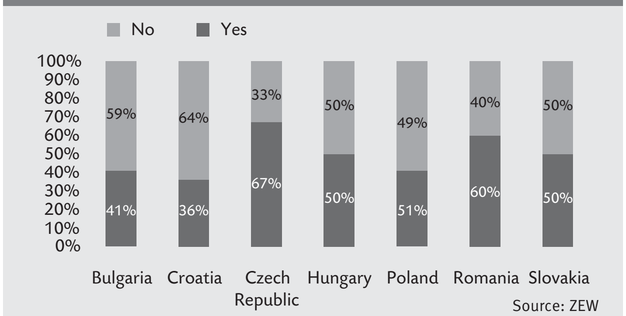
Source: ZEW

Figure B: Most expected instruments



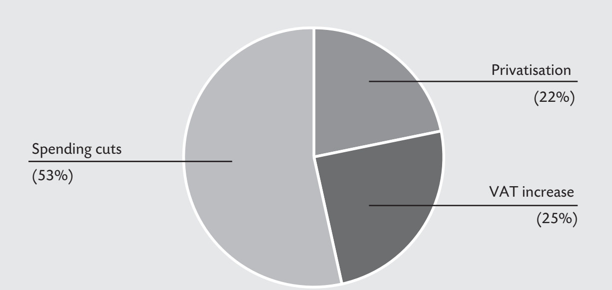
Source: ZEW

Figure C: Governments expected to use the instruments in near future



Source: ZEW

Figure D: Expectations for success in reducing the fiscal deficit by end of 2010 compared to 2009



Source: ZEW

ZEW-Financial Market Survey: November 2009

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	8.7	(-0.4)	58.7	(+11.0)	32.6	(-10.6)	-23.9	(+10.2)
Croatia	0.0	(-2.3)	48.9	(+14.8)	51.1	(-12.5)	-51.1	(+10.2)
Czech Republic	9.6	(+1.8)	48.1	(+1.0)	42.3	(-2.8)	-32.7	(+4.6)
Hungary	0.0	(-1.9)	30.4	(+4.0)	69.6	(-2.1)	-69.6	(+0.2)
Poland	13.2	(-1.1)	64.2	(+15.2)	22.6	(-14.1)	-9.4	(+13.0)
Romania	2.0	(-2.2)	20.0	(-0.8)	78.0	(+3.0)	-76.0	(-5.2)
Slovakia	9.8	(+7.8)	39.2	(+4.5)	51.0	(-12.3)	-41.2	(+20.1)
CEE	5.6	(+3.7)	40.7	(+1.1)	53.7	(-4.8)	-48.1	(+8.5)
Eurozone	3.7	(+1.8)	50.0	(-2.8)	46.3	(+1.0)	-42.6	(+0.8)

Economic expectations	improve		no change		worsen		balance	
Austria	58.7	(+2.9)	30.4	(-9.1)	10.9	(+6.2)	47.8	(-3.3)
Croatia	36.2	(-6.9)	40.4	(-5.1)	23.4	(+12.0)	12.8	(-18.9)
Czech Republic	53.8	(+2.8)	30.8	(-8.4)	15.4	(+5.6)	38.4	(-2.8)
Hungary	49.1	(-4.8)	36.4	(+7.6)	14.5	(-2.8)	34.6	(-2.0)
Poland	56.8	(+4.8)	31.4	(-10.6)	11.8	(+5.8)	45.0	(-1.0)
Romania	50.0	(+9.6)	22.0	(-22.7)	28.0	(+13.1)	22.0	(-3.5)
Slovakia	44.0	(+1.5)	42.0	(-9.1)	14.0	(+7.6)	30.0	(-6.1)
CEE	41.8	(-12.9)	47.3	(+5.8)	10.9	(+7.1)	30.9	(-20.0)
Eurozone	57.2	(-3.2)	33.9	(-1.9)	8.9	(+5.1)	48.3	(-8.3)

Inflation rate	increase		no change		decrease		balance	
Austria	48.9	(+10.8)	42.2	(-0.7)	8.9	(-10.1)	40.0	(+20.9)
Croatia	40.0	(+8.3)	42.5	(+5.9)	17.5	(-14.2)	22.5	(+22.5)
Czech Republic	53.0	(+17.6)	38.8	(-9.1)	8.2	(-8.5)	44.8	(+26.1)
Hungary	20.7	(-13.3)	30.2	(+12.2)	49.1	(+1.1)	-28.4	(-14.4)
Poland	28.6	(+7.3)	55.1	(+6.2)	16.3	(-13.5)	12.3	(+20.8)
Romania	22.7	(+2.7)	40.9	(+7.6)	36.4	(-10.3)	-13.7	(+13.0)
Slovakia	45.8	(+7.5)	43.8	(+9.8)	10.4	(-17.3)	35.4	(+24.8)
CEE	30.8	(+2.8)	53.8	(+7.8)	15.4	(-10.6)	15.4	(+13.4)
Eurozone	47.2	(+6.9)	45.5	(-0.7)	7.3	(-6.2)	39.9	(+13.1)

Short-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	22.8	(-1.6)	21.8	(-0.1)	42.9	(-0.3)	34.4	(-3.1)	34.3	(+1.9)	43.8	(+3.2)	-11.5	(-3.5)	-22.0	(-3.3)
Czech Republic	14.9	(-8.4)	2.3	(-7.5)	72.3	(+16.5)	54.5	(+10.6)	12.8	(-8.1)	43.2	(-3.1)	2.1	(-0.3)	-40.9	(-4.4)
Hungary	5.8	(-1.0)	6.2	(+3.8)	19.2	(+7.8)	16.7	(+2.4)	75.0	(-6.8)	77.1	(-6.2)	-69.2	(+5.8)	-70.9	(+10.0)
Poland	21.7	(+0.3)	9.3	(-0.7)	60.9	(-1.0)	44.2	(-3.3)	17.4	(+0.7)	46.5	(+4.0)	4.3	(-0.4)	-37.2	(-4.7)
Romania	13.9	(+3.6)	12.5	(+7.1)	23.3	(-4.9)	20.0	(-1.6)	62.8	(+1.3)	67.5	(-5.5)	-48.9	(+2.3)	-55.0	(+12.6)
Eurozone	47.3	(+1.5)			50.9	(-3.3)			1.8	(+1.8)			45.5	(-0.3)		

Long-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	34.3	(+5.7)	20.7	(+8.6)	31.3	(-8.7)	37.9	(-4.5)	34.4	(+3.0)	41.4	(-4.1)	-0.1	(+2.7)	-20.7	(+12.7)
Czech Republic	34.8	(-1.1)	18.6	(+13.2)	52.2	(+18.9)	34.9	(-2.9)	13.0	(-17.8)	46.5	(-10.3)	21.8	(+16.7)	-27.9	(+23.5)
Hungary	21.5	(+4.5)	17.0	(+14.5)	21.6	(-0.4)	17.0	(-10.5)	56.9	(-4.1)	66.0	(-4.0)	-35.4	(+8.6)	-49	(+18.5)
Poland	31.1	(+3.6)	19.0	(+8.8)	31.1	(-16.4)	28.6	(-9.9)	37.8	(+12.8)	52.4	(+1.1)	-6.7	(-9.2)	-33.4	(+7.7)
Slovakia	56.8	(-7.1)	14.6	(+5.5)	27.3	(-0.5)	43.9	(+1.5)	15.9	(+7.6)	41.5	(-7.0)	40.9	(-14.7)	-26.9	(+12.5)
Germany	60.8	(-0.5)			31.4	(-5.0)			7.8	(+5.5)			53.0	(-6.0)		

Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	42.0	(+2.9)	26.0	(-2.3)	32.0	(-0.6)	10.0	(+3.5)
ATX (Austria)	44.2	(+1.7)	25.6	(-1.9)	30.2	(+0.2)	14.0	(+1.5)
NTX (CEE)	40.9	(-5.5)	27.3	(+0.5)	31.8	(+5.0)	9.1	(-10.5)
CROBEX (Croatia)	44.2	(-2.2)	30.2	(+3.4)	25.6	(-1.2)	18.6	(-1.0)
PX 50 (Czech Rep.)	41.3	(+5.6)	30.4	(-2.9)	28.3	(-2.7)	13.0	(+8.3)
BUX (Hungary)	37.5	(-0.2)	20.8	(-14.8)	41.7	(+15.0)	-4.2	(-15.2)
WIG (Poland)	43.2	(+6.0)	25.0	(-5.2)	31.8	(-0.8)	11.4	(+6.8)
BET (Romania)	45.0	(-2.5)	20.0	(-5.0)	35.0	(+7.5)	10.0	(-10.0)
SAX (Slovakia)	39.0	(+8.2)	24.4	(-16.6)	36.6	(+8.4)	2.4	(-0.2)
SBI 20 (Slovenia)	38.9	(+6.5)	27.8	(-10.4)	33.3	(+3.9)	5.6	(+2.6)

Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	14.3	(-4.3)	35.7	(+0.8)	50.0	(+3.5)	-35.7	(-7.8)
Koruna (Czech Rep.)	50.0	(+1.0)	26.9	(-7.8)	23.1	(+6.8)	26.9	(-5.8)
Forint (Hungary)	32.7	(+5.2)	41.8	(-7.2)	25.5	(+2.0)	7.2	(+3.2)
Zloty (Poland)	56.9	(-1.5)	19.6	(-1.2)	23.5	(+2.7)	33.4	(-4.2)
Lei (Romania)	40.0	(+2.8)	22.2	(-17.3)	37.8	(+14.5)	2.2	(-11.7)
US-Dollar	38.2	(+12.2)	14.5	(-9.5)	47.3	(-2.7)	-9.1	(+14.9)

Note: 71 Financial experts participated in the November survey which was conducted during the period 10/28/09-11/09/09. 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 October 2009 in parentheses). Balances refer to the differences between positive and negative assessments.

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