www.zew.de · www.zew.eu
ZEW
ERSTE
Financial Market Report CEE
Volume 3 · February 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 January 5 and 19, 2009, are published in the February 2009 issue of the "Financial Market Report CEE". 76 financial market experts participated in this month's survey.

Positive economic development in the CEE region expected

The CEE indicator reflecting the economic expectations of the financial market experts on a six months' time horizon increases significantly by 15.0 points to minus 49.1 points in January. Hence, the economic prospects for the CEE region have improved for the first time since the aggravation of the financial crisis in September 2008. The sentiment indicator for Austria increases by 9.6 points to minus 40.5 points and the indicator for the Eurozone rises by 7.2 points to minus 42.0 points. In contrast, the assessment of the current economic situations worsens in January. The experts' view on the development of the stock market indices within the CEE countries remains positive.

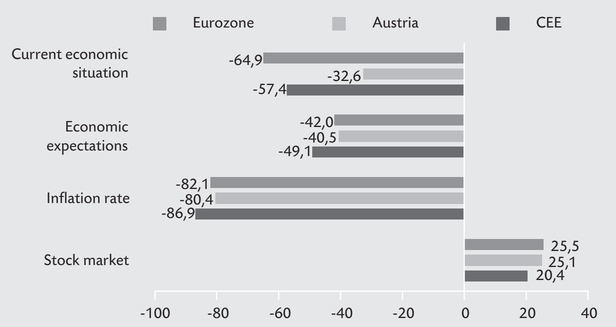
Economic outlook for CEE countries, Austria and the Eurozone

The financial market experts surveyed monthly by the Centre for European Economic Research (ZEW), Mannheim, and the Erste Group Bank AG, Vienna, are considerably more optimistic about the economic development in Central and Eastern Europe (CEE) at the beginning of the new year than in December 2008. Except for Hungary and Romania the six months forecasts for all analysed CEE countries, the CEE region as a whole and the Eurozone have improved. The CEE indicator climbs considerably by 15.0 points to minus 49.1 points in January. The results show a shift by more than 7 percentage points of the answers regarding the economic development from a worsening (in December) to an improvement (in January) of the future economic conditions in the CEE region.

In contrast, the assessment of the current economic situation worsens in January. More or less no financial expert considers the current economic situation in the CEE region to be "good". Instead, 57.4 percent of the survey participants appraise the present circumstances in CEE as "bad". Regarding the Eurozone, the picture is even worse. Nearly 65 percent of the analysts assess the current economic situation in the Eurozone to be "bad".

In line with the outcome of the December-survey, a clear majority of analysts counts on a further ease of the pricing pressure in Europe. Consequently, the survey participants expect further reductions of the interest rates in the CEE region as well as in the Eurozone. With regard to the CEE region as a whole, more than 90 percent of the experts anticipate a decline of the inflation rate. Nonetheless, fewer experts than in December expect falling inflation rates in Austria and the Eurozone. The proportion of the experts considering a decline of the inflation rate most probable recedes by 8.5 percentage points for Austria. For almost all CEE countries the balances for the inflation rates increase. Thus, the expected recovery of the CEE business cycle in the second half of the year could interrupt the downward movement of the inflation. The experts' view on the development of the stock market indices on a six months' horizon remains positive in January. As to the CEE stock index NTX, 47.7 percent of the analysts forecast an ascent for the coming half year. The results for the Austrian stock index ATX and the Eurostoxx 50 are quite alike, with about 47 percent of the analysts counting on an increase and about 22 percent on a decrease of the corresponding share prices.

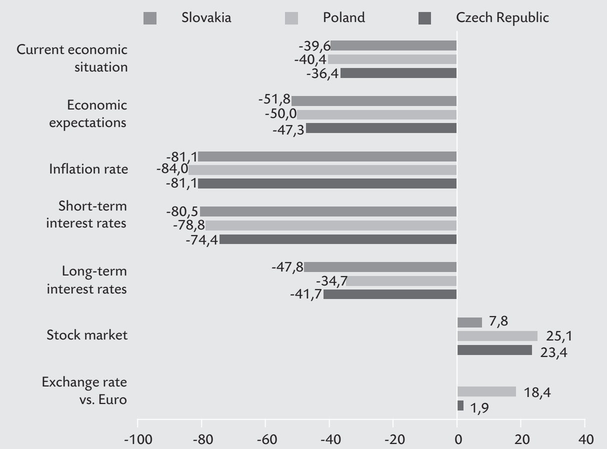
Indicators for CEE, Austria and the Eurozone (balances)



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

Czech Republic, Poland and Slovakia: economic prospects recover

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

In the January survey, the analysts' economic forecasts for the Czech Republic, Poland and Slovakia are characterised by a growing optimism. One possible cause for the improved forecasts is the implementation of economic stimulus packages by governments worldwide, including Poland. The sentiment indicators gain 10.4 points in the case of the Czech Republic, 8.0 points as to Poland and 3.2 points with regard to Slovakia. Even so, the balances for the three countries remain negative. The financial experts' assessments of the current economic situation in the three countries worsen significantly in the current survey. The corresponding balances drop by more then 40 points for the Czech Republic and about 50 points for Poland and Slovakia, turning negative again, as the share of respondents evaluating the present circumstances as "bad" has roughly doubled.

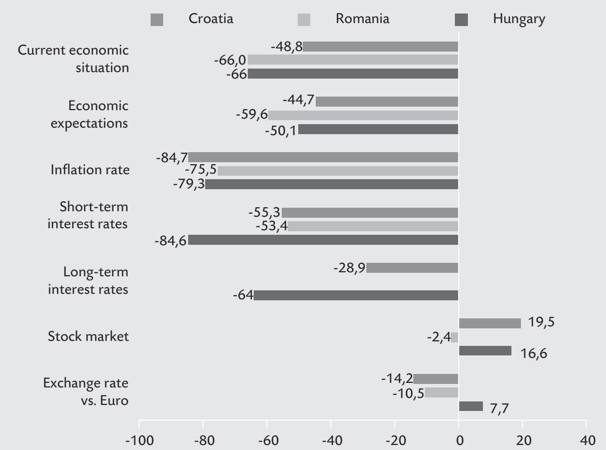
In line with last month's results, a vast majority of the participants, approximately 85 percent, count on a further declining risk of inflation in the Czech Republic, Poland and Slovakia. Nonetheless, the share of the experts anticipating constant or even increasing inflation rates on a six months' horizon has grown slightly, which is reflected in rising balances. Presumably, this result is linked to the recovery of the economic expectations for the second half of 2009.

The analysts increasingly anticipate a further decline of short- as well as long-term interest rates for the three states. Around 80 percent of the respondents assume that the respective National Banks and, in the case of Slovakia the ECB, will stick to their policy of interest rate cuts in the coming half year.

The balances capturing the expectations of the financial experts with regard to the development on the stock markets within the three countries remain positive in January. The indicators for the Czech stock index PX 50 and the Polish index WIG now stand at 23.4 points and 25.1 points respectively, the highest values in this category among the analysed CEE states. The analysts' forecast concerning the Slovak SAX worsens by 27.0 to currently 7.8 points.

Hungary, Romania and Croatia: stock markets hold steady

Indicators for Croatia, Hungary, and Romania



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

With regard to the future economic perspectives for Croatia, last month's cautious optimism holds in January. The respective indicator gains 5.2 points. It now stands at minus 44.7 points and more than half of the participants still anticipate an economic slowdown. The balances for Hungary and Romania, however, decline slightly regardless of their hike in December, closing at minus 50.1 points and minus 59.6 points. At the beginning of the new year, the financial experts take a more cautious stance at the current economic conditions in Hungary, Romania and Croatia. In line with the results for all other countries in this month's survey, the corresponding indicators lose despite the upwards movement in December. The Hungarian balance recedes by 14.0 points to currently minus 66.0 points, bringing up the rear together with Romania (minus 42.4 points to minus 66.0 as well). The analysts' view on the present state of the Croatian economy worsens by 25.5 points to minus 48.8 points.

All three balances capturing the experts' inflation forecast remain highly negative, as more than 80 percent of the respondents count on falling inflation rates. In accordance with the expected inflation rates, the current economic slowdown in CEE and the outcomes in the previous months, the financial experts predominantly anticipate reductions of the short-term interest rates by the National Banks to stimulate the real economies. In spite of the Hungarian National Bank having cut its key rate in January 2009, for the fourth time in less than two months, more than 90 percent of the participants expect further downwards adjustments. The respective balance for Romania falls marginally to currently minus 53.4 points.

Despite the analysts' scepticism with regard to the current economic conditions in Hungary and Croatia and a cautious economic outlook, the stock market expectations for the two states remain predominantly positive, losing 18.8 points and 22.7 points to 16.6 points and 19.5 points respectively. Solely the balance for the Romanian stock index BET turns slightly negative, losing 35.7 points to currently minus 2.4 points.

Special question: EU economic stimulus plan and the role of the CEE governments

In December 2008, the EU agreed upon a € 200 billion economic stimulus package that represents 1.5 percent of the EU's GDP and aims at boosting purchasing power and generating growth and jobs. The economic recovery plan combines national action with EU policy.

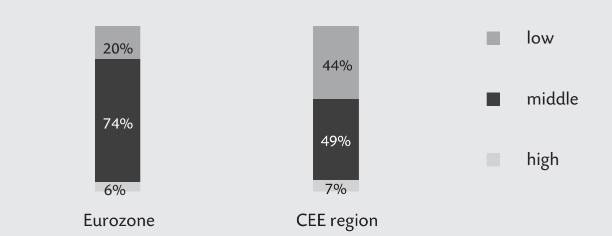
This month's special question deals with the financial market experts' assessment of the effectiveness of the EU stimulus package. Moreover, the impact of the CEE governments, central banks and the ECB in this context is analysed by the respondents as well as the optimal choice of fiscal instruments.

74 percent of the participants in our monthly survey describe the prospects of the multi-billion rescue plan for the Eurozone as "medium", followed by 20 percent of the financial experts, considering its potential for success to be "low". Only 6 percent of the analysts assume that the stimulus package will turn out to be "highly" efficient in this regard. One possible reason for the financial experts' cautious reaction is that many economists criticised the proceeding of the EU for being too little binding and consistent among the member states, concerning the timing, extent and choice of the national stimulus packages. Additionally, we asked the financial experts to specify the probability that the EU stimulus package lessens the downturn in the CEE area, as well. The region may profit from a potentially recovering Eurozone via increased exports and investment activities from abroad. However, the analysts are rather sceptical in this regard, as 49 percent and 44 percent respectively rate the chances of success as "medium" or even "low".

73 percent of the financial market experts do share the opinion that the individual governments in the CEE region should stimulate the real economy, thus supporting the Hungarian, Slovenian and Polish governments for having launched economic stimulus programmes in late 2008. 14 percent of the respondents are neutral on this topic, whereas 13 percent disapprove to it.

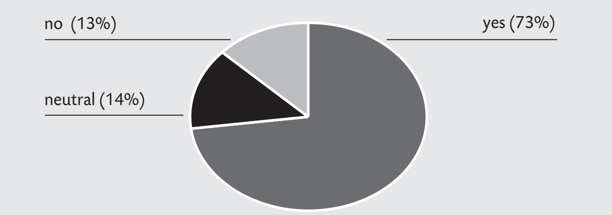
Being questioned on the optimal choice of fiscal measures to counteract the weakness of the markets, the analysts ranked four potential options on a scale from -2 (strongly disapprove) over 0 (neutral) to +2 (strongly approve). The outcomes of the survey indicate that the participants clearly favour an "increasing public spending on infrastructure" and "tax cuts" by assessing these two instruments with 0.9 and 0.6 on average. With regard to increased public spending on infrastructure, however, the share of the respondents "approving" or even "strongly approving" is even larger: 72 percent compared to 59 percent concerning tax reductions. Nonetheless, approximately one out of six financial experts respectively takes a critical stance at both measures. When being asked to evaluate on subsidies as a means to support the real economy, the analysts are more sceptical. This is reflected in significantly lower ratings on average – namely minus 0.16 as to "subsidizing specific industries" and minus 0.56 with respect to "subsidizing household spending on specific goods". Still, the experts' approval of supporting particular branches, for instance the automobile industry, as practised in the USA, France and discussed in many other European countries, is comparably higher.

Figure A: Chances of success of the EU stimulus package to counteract the economic downturn



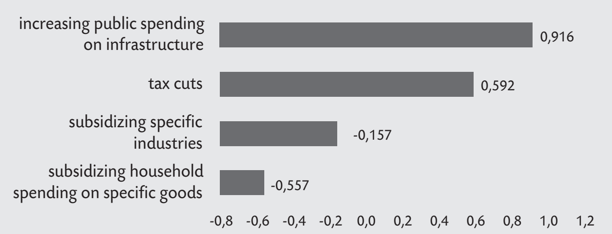
Answers of the participants of the Financial Market Survey CEE Source: ZEW

Figure B: Should the individual governments in the CEE region stimulate the real economy?



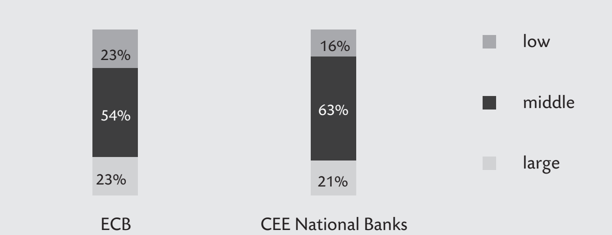
Answers of the participants of the Financial Market Survey CEE Source: ZEW

Figure C: Which measure would you approve?
(-2: strongly disapprove, 0: neutral, +2: strongly approve)



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

Figure D: Scope of the Central Bank's monetary policy to reduce the risks to the CEE real economy



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

The monetary policy of the ECB and the individual CEE National Banks may largely contribute to reducing the risks to the CEE real economies for almost every fourth analyst and every fifth analyst, respectively. The majority of the financial market experts hold the view that the scope of monetary policy is of "medium size".

Mariela Borell, Oliver Herrmann

ZEW-Financial Market Survey: January 2009

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	2.2	(-2.2)	63.0	(-8.7)	34.8	(+10.9)	-32.6	(-13.1)
Croatia	0.0	(-2.2)	51.2	(-21.1)	48.8	(+23.3)	-48.8	(-25.5)
Czech Republic	3.6	(-18.6)	56.4	(-2.9)	40.0	(+21.5)	-36.4	(-40.1)
Hungary	3.8	(+/-0.0)	26.4	(-14.0)	69.8	(+14.0)	-66.0	(-14.0)
Poland	1.9	(-26.9)	55.8	(+5.8)	42.3	(+21.1)	-40.4	(-48.0)
Romania	0.0	(-23.5)	34.0	(+4.6)	66.0	(+18.9)	-66.0	(-42.4)
Slovakia	3.8	(-23.7)	52.8	(-6.0)	43.4	(+29.7)	-39.6	(-53.4)
CEE	0.0	(-19.3)	42.6	(-9.3)	57.4	(+28.6)	-57.4	(-47.9)
Eurozone	0.0	(-1.7)	35.1	(-12.3)	64.9	(+14.0)	-64.9	(-15.7)

Economic expectations	improve		no change		worsen		balance	
Austria	10.6	(+8.4)	38.3	(-7.2)	51.1	(-1.2)	-40.5	(+9.6)
Croatia	8.5	(+4.1)	38.3	(-3.0)	53.2	(-1.1)	-44.7	(+5.2)
Czech Republic	10.9	(+9.0)	30.9	(-7.6)	58.2	(-1.4)	-47.3	(+10.4)
Hungary	9.2	(-0.4)	31.5	(-3.1)	59.3	(+3.5)	-50.1	(-3.9)
Poland	9.6	(+7.6)	30.8	(-7.2)	59.6	(-0.4)	-50.0	(+8.0)
Romania	7.7	(+3.8)	25.0	(-14.2)	67.3	(+10.4)	-59.6	(-6.6)
Slovakia	9.3	(+7.4)	29.6	(-11.6)	61.1	(+4.2)	-51.8	(+3.2)
CEE	9.1	(+7.2)	32.7	(+0.6)	58.2	(-7.8)	-49.1	(+15.0)
Eurozone	10.6	(+3.4)	36.8	(+0.4)	52.6	(-3.8)	-42.0	(+7.2)

Inflation rate	increase		no change		decrease		balance	
Austria	2.2	(+/-0.0)	15.2	(+8.5)	82.6	(-8.5)	-80.4	(+8.5)
Croatia	4.4	(+/-0.0)	6.5	(+/-0.0)	89.1	(+/-0.0)	-84.7	(+/-0.0)
Czech Republic	3.8	(-0.1)	11.3	(+7.5)	84.9	(-7.4)	-81.1	(+7.3)
Hungary	7.5	(+3.6)	5.7	(+1.8)	86.8	(-5.4)	-79.3	(+9.0)
Poland	4.0	(+2.0)	8.0	(+3.9)	88.0	(-5.9)	-84.0	(+7.9)
Romania	10.2	(+8.1)	4.1	(-4.2)	85.7	(-3.9)	-75.5	(+12.0)
Slovakia	3.8	(+1.8)	11.3	(+5.3)	84.9	(-7.1)	-81.1	(+8.9)
CEE	3.7	(-0.2)	5.7	(-0.2)	90.6	(+0.4)	-86.9	(-0.6)
Eurozone	5.4	(+3.5)	7.1	(-0.3)	87.5	(-3.2)	-82.1	(+6.7)

Short-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	10.5	(-2.0)	31.2	(+8.4)	23.7	(+8.7)	37.5	(-11.1)	65.8	(-6.7)	31.3	(+2.7)	-55.3	(+4.7)	-0.1	(+5.7)
Czech Republic	4.0	(-4.5)	17.4	(+3.2)	17.6	(+2.7)	43.5	(-11.3)	78.4	(+1.8)	39.1	(+8.1)	-74.4	(-6.3)	-21.7	(-4.9)
Hungary	5.8	(-0.6)	8.7	(-9.9)	3.8	(-4.7)	17.4	(-8.2)	90.4	(+5.3)	73.9	(+18.1)	-84.6	(-5.9)	-65.2	(-28.0)
Poland	4.2	(-2.7)	9.3	(-3.6)	12.8	(-0.8)	41.9	(-19.6)	83.0	(+3.5)	48.8	(+23.2)	-78.8	(-6.2)	-39.5	(-26.8)
Romania	15.5	(+3.6)	30.0	(+6.3)	15.6	(-8.2)	25.0	(-22.4)	68.9	(+4.6)	45.0	(+16.1)	-53.4	(-1.0)	-15.0	(-9.8)
Slovakia	4.3	(-0.5)	10.0	(+2.3)	10.9	(-1.0)	67.5	(+0.8)	84.8	(+1.5)	22.5	(-3.1)	-80.5	(-2.0)	-12.5	(+5.4)
Eurozone	5.9	(+1.9)			5.9	(-2.3)			88.2	(+0.4)			-82.3	(+1.5)		

Long-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	13.2	(-10.5)	30.3	(+3.0)	44.7	(+2.6)	30.3	(-21.2)	42.1	(+7.9)	39.4	(+18.2)	-28.9	(-18.4)	-9.1	(-15.2)
Czech Republic	12.5	(+1.8)	11.1	(-0.8)	33.3	(-7.1)	42.2	(-10.2)	54.2	(+5.3)	46.7	(+11.0)	-41.7	(-3.5)	-35.6	(-11.8)
Hungary	12.0	(+1.1)	17.7	(+5.8)	12.0	(-14.1)	15.6	(-13.0)	76.0	(+13.0)	66.7	(+7.2)	-64.0	(-11.9)	-49	(-1.4)
Poland	19.6	(+1.9)	16.7	(+3.9)	26.1	(-9.5)	38.1	(-8.1)	54.3	(+7.6)	45.2	(+4.2)	-34.7	(-5.7)	-28.5	(-0.3)
Slovakia	8.7	(-2.7)	11.9	(+6.8)	34.8	(-15.2)	52.4	(-4.0)	56.5	(+17.9)	35.7	(-2.8)	-47.8	(-20.6)	-23.8	(+9.6)
Germany	21.6	(-1.9)			35.3	(-2.0)			43.1	(+3.9)			-21.5	(-5.8)		

Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	46.8	(-12.5)	31.9	(+9.7)	21.3	(+2.8)	25.5	(-15.3)
ATX (Austria)	47.8	(-17.4)	29.5	(+14.3)	22.7	(+3.1)	25.1	(-20.5)
NTX (CEE)	47.7	(-15.6)	25.0	(+10.7)	27.3	(+4.9)	20.4	(-20.5)
CROBEX (Croatia)	43.9	(-18.3)	31.7	(+13.9)	24.4	(+4.4)	19.5	(-22.7)
PX 50 (Czech Rep.)	44.7	(-18.0)	34.0	(+18.3)	21.3	(-0.3)	23.4	(-17.7)
BUX (Hungary)	43.7	(-15.2)	29.2	(+11.6)	27.1	(+3.6)	16.6	(-18.8)
WIG (Poland)	47.8	(-12.2)	29.5	(+13.5)	22.7	(-1.3)	25.1	(-10.9)
BET (Romania)	32.5	(-25.8)	32.6	(+15.9)	34.9	(+9.9)	-2.4	(-35.7)
SAX (Slovakia)	33.4	(-25.3)	41.0	(+23.6)	25.6	(+1.7)	7.8	(-27.0)
SBI 20 (Slovenia)	40.0	(-18.1)	42.9	(+19.6)	17.1	(-1.5)	22.9	(-16.6)

Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	19.1	(+11.6)	47.6	(-12.4)	33.3	(+0.8)	-14.2	(+10.8)
Koruna (Czech Rep.)	30.2	(-3.1)	41.5	(+6.1)	28.3	(-3.0)	1.9	(-0.1)
Forint (Hungary)	34.6	(-6.2)	38.5	(+9.9)	26.9	(-3.7)	7.7	(-2.5)
Zloty (Poland)	44.9	(-2.9)	28.6	(+0.3)	26.5	(+2.6)	18.4	(-5.5)
Lei (Romania)	29.1	(-9.5)	31.3	(+10.8)	39.6	(-1.3)	-10.5	(-8.2)
US-Dollar	25.9	(+0.4)	24.1	(-15.1)	50.0	(+14.7)	-24.1	(-14.3)

Note: 76 Financial experts participated in the January survey which was conducted during the period 01/05/09-01/19/09. 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 December 2008 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