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Financial Market Report CEE

Volume 1 · February 2010

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 January 7 and January 18, 2010, are published in the February 2010 issue of the "Financial Market Report CEE." 71 financial market experts participated in this month's survey.

Economic Expectations for CEE Remain Optimistic

The ZEW-Erste Group Bank Sentiment Indicator CEE increases by 7.1 points to 59.1 points in January. 67.3 percent of the polled financial market experts expect the economic situation to improve in the region till mid of the year. In January the economic expectations improve for the Eurozone as well. They edge up by 6.7 points, reaching the 62.7 mark. In contrast, the economic expectations for Austria decrease by 6.8 points to 55.7 points. The assessment of the current economic situation in the CEE region denotes also a strong improvement in this month. The respective indicator climbs 13.1 points to minus 34.0 points. The balances for Austria and the Eurozone increase slightly by 1.0 point to minus 22.2 points and by 5.4 points to minus 29.3 points, respectively. The indicator representing the estimated development of the stock index in the CEE region (NTX) in the next six months improves significantly in the current survey.

Economic Outlook for the CEE Region, Austria and the Eurozone

The CEE Sentiment Indicator CEE that reflects the business outlook for Central and Eastern Europe (CEE) on a six months time horizon increases in January again. After the huge growth by 21.1 points in the previous month, the economic expectations for the CEE region improve relatively moderate by 7.1 points to 59.1 points in the current survey. A clear majority of experts (67.3 percent) expect the economic situation in the region to recover in the next six months. 24.5 percent of the polled analysts predict the economy to remain unchanged.

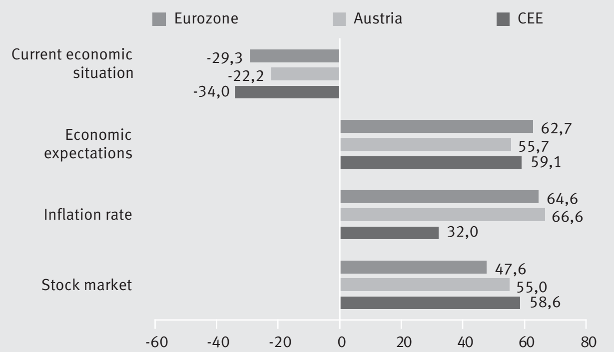
While the economic expectations for the Eurozone improve by 6.7 points to 62.7 points in January, the business outlook for Austria decreases by 6.8 points to 55.7 points. However, this decline results mainly from the increased share of neutral evaluations that do not affect the balance of the sentiment indicator.

The assessment of the current economic situation in the CEE region soars also significantly by 13.1 points to minus 34.0 points. The balances for Austria and the Eurozone increase, however, slightly by 1.0 point to minus 22.2 points and by 5.4 points to minus 29.3 points, respectively.

In the January survey the inflation expectations for Austria and the entire Eurozone continue to rise. Almost 70 percent of the survey participants expect inflation rate increases within the next six months. On the contrary, the inflation expectations for the CEE region differ considerably. 44 percent of the surveyed experts predict increasing and the same share of analysts expect constant inflation rates. There is no clear picture concerning the interest rate development in the Eurozone either. Equal shares of 49 percent of experts anticipate an interest rate raise by the ECB and constant interest rates in the forthcoming half year, respectively.

The expectations of the financial experts regarding the performance of the stock markets stay optimistic. The balance for the stock index in the CEE region (NTX) increases by 17.1 points to 58.6 points. This is the highest value among all analysed stock indices. 73.2 percent of the experts expect a positive development for the NTX in the next six months.

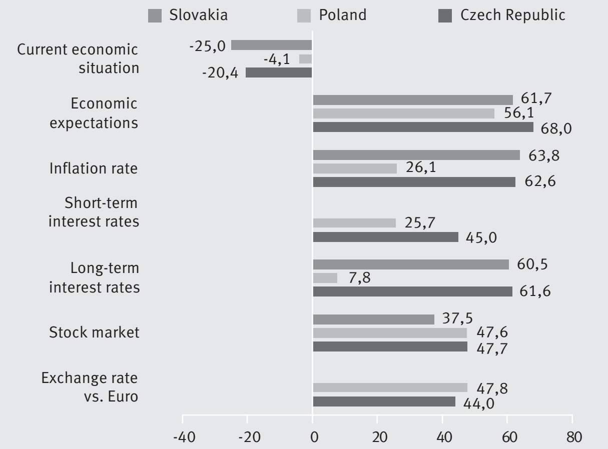
Indicators for CEE, Austria and the Eurozone (balances)



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

Czech Republic, Poland and Slovakia: Current Economic Conditions 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

The economic prospects for the Czech Republic, Poland and Slovakia brighten up further in this month's survey. The Czech Republic gains 13.6 points and reaches a sentiment indicator of 68.0 points, the highest value among all analysed countries. 72 percent of the polled financial market experts predict an economic improvement till the mid of the year. The balances for Poland and Slovakia grow rather moderately in January, increasing by 6.0 points to 56.1 points and 2.7 points to 61.7 points, respectively.

The assessment of the current business conditions for the three countries recovers in January. For the Czech Republic the according balance increases by 13.7 points to minus 20.4 points. The balance representing the assessment of the current economic situation in Poland increases by 6.0 points to now minus 4.1 points, the best value in this category. Slovakia's balance shows the sharpest increase this month gaining 26.2 points to minus 25.0 points.

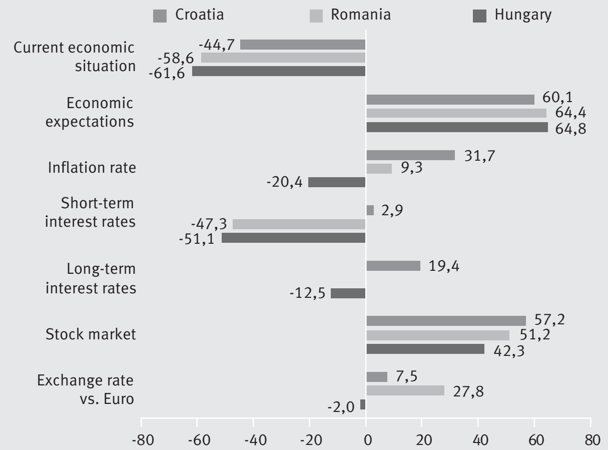
Likewise last month the analysts expect the inflation rates in the Czech Republic and Slovakia to rise within the next six months. While the respective indicator for the Czech Republic remains nearly unchanged at 62.6 points, the indicator for Slovakia's inflation climbs further 11.5 points now equalling 63.8 points, the highest value among the analysed CEE economies. Nearly 70 percent of the experts believe that the inflation rates will increase in both countries within the next six months.

The majority of the financial market experts predict increasing short-term interest rates in Poland and the Czech Republic for the next half a year. The respective balances take the leading positions in this category with 45.0 points and 25.7 points, respectively.

The Czech Koruna and the Polish Zloty are still expected by over 60 percent of the financial market experts to appreciate against the Euro in the forthcoming half a year. The respective balances remain nearly unchanged at 44.0 points and 47.8 points, the highest values in country comparison.

Hungary, Romania and Croatia: Clearly 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 economic expectations for Hungary, Romania and Croatia improve considerably this month and catch up to the other CEE economies. After double-digit growths of 24.9 points for Croatia, 25.2 points for Hungary and 25.7 points for Romania, the sentiment indicators achieve values of 60.1 points, 64.8 points and 64.4 points, respectively, which are not far away from those of the leading country.

Also the experts' evaluation of the current economic situation changes for the better in January for the three countries. The according indicators for Croatia and Romania increase considerably by 10.3 points to minus 44.7 points and by 17.4 points to minus 58.6. Hungary's balance, however, shows only a minor gain of 3.2 points to minus 61.6 points, remaining together with Romania at the rear of the analysed economies.

Contrary to last month, the inflation expectations for Croatia shift from increasing rates back to rather decreasing inflation rates. The according balance drops 18.3 points to 31.7 points, the only decrease among all countries. Regarding Hungary and Romania, however, the predictions of the analysts are mixed. While the balances for Hungary increases slightly to minus 20.4 points the balance for Romania increases to a value of 9.3 points.

Over 60 percent of the polled experts expect Hungary's and Romania's Central Banks to cut the short-term interest rates. The respective balances achieve minus 51.1 points in the case of Hungary and minus 47.3 points in the case of Romania.

The indicators reflecting the expectations about the stock index performances in the three countries exhibit the strongest increase in country comparison. The respective balance for the Croatian stock index CROBEX gains considerably 25.6 points to 57.2 points and constitutes the second best value among all stock indices. The confidence in the performance of the Hungarian stock index BUX and the Romanian stock index BET grows considerably in January as well, by respectively 22.4 points to 42.3 points and 19.6 points to 51.2 points.

Special Question: Optimal portfolio allocation in 2010

The special question in January deals with the view of the surveyed financial market experts about an optimal portfolio allocation for 2010. This kind of special question has already been asked twice, in the surveys from June 2007 and March 2008. While the stock market performed very well in a strong economic environment by the time the portfolio allocation was surveyed for the first time, at the second time the financial crisis was in full progress. Meanwhile most of the stock indices recovered considerable parts of the losses and the turmoil calmed down.

In the first part of the special question the financial experts were asked to indicate their preferred portfolio allocation given the choice between stock, bonds and other asset classes. On average, the experts prefer bonds over stocks and stocks over other assets. The average survey portfolio would consist of a 39 percent in bonds, a 37 percent in stocks and a 24 percent in other assets. One could reason that the confidence in the stock market has still not returned to pre-crisis level when stocks were slightly preferred to the safer bonds by the survey respondents.

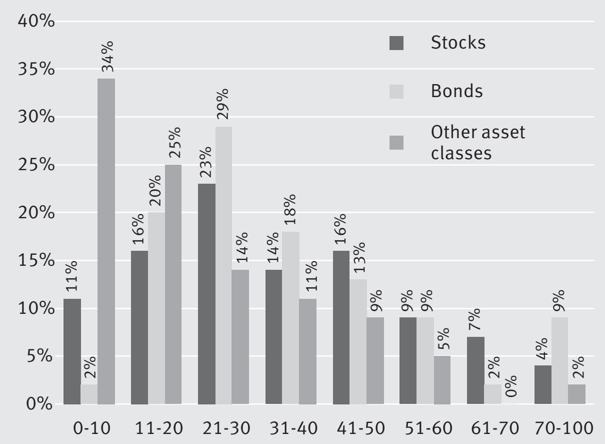
Figure A shows the relative frequencies of allocation choices for the different categories. Both, stocks and bonds have the highest frequency at a share of 20 to 30 percent of the portfolio with respectively 23 and 29 percent of the survey participants choosing a portfolio share within this range. Although possibly including a variety of different instruments the "other assets classes" are the least chosen with 34 percent of the respondents assigning a portfolio share of less than 10 percent to them.

In the second part of the special question the survey participants were asked how they would allocate their stock portfolio to different regions, namely the Eurozone, CEE, USA and Asia. In average the financial experts prefer the CEE stock market to invest in. The average indicated stock holdings in the respective regions are 30 percent from the CEE region, 24 percent from the Eurozone, 23 percent from the USA and 23 percent from Asia. As Figure B shows, all but the CEE region have the highest relative frequency in a share between 10 and 20 percent of the portfolio. The same share survey participants (30 percent) choose a portfolio share from the USA and Eurozone in the range 10 and 20 percent. For Asia this share is 32 percent. The CEE stocks are assigned most frequently a portfolio share of 20 to 30 percent with 38 percent of the respondents.

Finally, the experts were questioned, how they would assign shares of their stock portfolio to the specific CEE countries. Stocks from Poland and the Czech Republic are the most favoured by the survey respondents with an average portfolio share of 23 percent and 21 percent. These are followed by stocks from Hungary and Romania with respective average shares of 17 percent and 15 percent of the stock portfolio. Following the survey participants, the least preferred regions to invest in are Croatia with 9 percent, Serbia with 6 percent, Bulgaria with 5 percent and Slovakia with 3 percent of the stock portfolio assigned to.

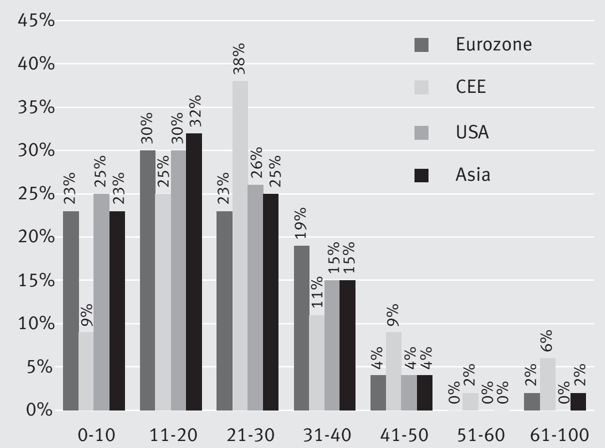
Karl Trela, Mariela Borell

Figure A: Portfolio allocation between stocks, bonds and other asset classes (relative frequencies)



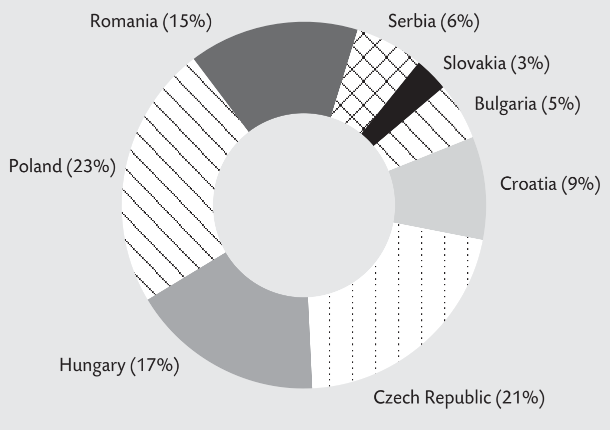
Source: ZEW

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



Source: ZEW

Figure C: Portfolio allocation between CEE countries (averages)



Source: ZEW

ZEW-Financial Market Survey: January 2010

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	11,1	(+4,1)	55,6	(-7,2)	33,3	(+3,1)	-22,2	(+1,0)
Croatia	2,1	(-0,4)	51,1	(+11,1)	46,8	(-10,7)	-44,7	(+10,3)
Czech Republic	10,2	(+1,7)	59,2	(+10,3)	30,6	(-12,0)	-20,4	(+13,7)
Hungary	1,9	(+/-0,0)	34,6	(+3,2)	63,5	(-3,2)	-61,6	(-3,2)
Poland	18,8	(+2,4)	58,3	(+1,2)	22,9	(-3,6)	-4,1	(+6,0)
Romania	4,4	(+/-0,0)	32,6	(+17,4)	63,0	(-17,4)	-58,6	(+17,4)
Slovakia	10,4	(+6,0)	54,2	(+14,2)	35,4	(-20,2)	-25,0	(+26,2)
CEE	4,0	(-1,7)	58,0	(+16,5)	38,0	(-14,8)	-34,0	(+13,1)
Eurozone	4,0	(+0,2)	62,7	(+5,0)	33,3	(-5,2)	-29,3	(+5,4)

Economic expectations	improve		no change		worsen		balance	
Austria	60,4	(-7,1)	34,9	(+7,4)	4,7	(-0,3)	55,7	(-6,8)
Croatia	64,5	(+18,5)	31,1	(-12,1)	4,4	(-6,4)	60,1	(+24,9)
Czech Republic	72,0	(+13,3)	24,0	(-13,0)	4,0	(-0,3)	68,0	(+13,6)
Hungary	72,6	(+20,5)	19,6	(-15,8)	7,8	(-4,7)	64,8	(+25,2)
Poland	62,4	(+8,0)	31,3	(-10,0)	6,3	(+2,0)	56,1	(+6,0)
Romania	71,1	(+18,8)	22,2	(-11,9)	6,7	(-6,9)	64,4	(+25,7)
Slovakia	70,2	(-0,2)	21,3	(+3,1)	8,5	(-2,9)	61,7	(+2,7)
CEE	67,3	(+7,3)	24,5	(-7,5)	8,2	(+0,2)	59,1	(+7,1)
Eurozone	68,6	(+6,6)	25,5	(-6,5)	5,9	(-0,1)	62,7	(+6,7)

Inflation rate	increase		no change		decrease		balance	
Austria	69,0	(+14,0)	28,6	(-16,4)	2,4	(+2,4)	66,6	(+11,6)
Croatia	43,1	(-6,9)	45,5	(-4,5)	11,4	(+11,4)	31,7	(-18,3)
Czech Republic	70,9	(+6,4)	20,8	(-10,3)	8,3	(+3,9)	62,6	(+2,5)
Hungary	24,5	(+1,1)	30,6	(+0,8)	44,9	(-1,9)	-20,4	(+3,0)
Poland	43,5	(+17,4)	39,1	(-19,6)	17,4	(+2,2)	26,1	(+15,2)
Romania	37,2	(+6,9)	34,9	(-4,6)	27,9	(-2,3)	9,3	(+9,2)
Slovakia	70,2	(+11,1)	23,4	(-10,7)	6,4	(-0,4)	63,8	(+11,5)
CEE	44,0	(+4,4)	44,0	(-3,9)	12,0	(-0,5)	32,0	(+4,9)
Eurozone	66,6	(+7,0)	31,4	(-7,1)	2,0	(+0,1)	64,6	(+6,9)

Short-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	20,0	(-0,7)	15,2	(-6,2)	62,9	(-9,5)	51,5	(-9,2)	17,1	(+10,2)	33,3	(+15,4)	2,9	(-10,9)	-18,1	(-21,6)
Czech Republic	45,0	(+2,9)	21,0	(+9,9)	55,0	(+5,0)	57,9	(-3,2)	0,0	(-7,9)	21,1	(-6,7)	45,0	(+10,8)	-0,1	(+16,6)
Hungary	14,0	(+4,7)	7,7	(+0,4)	20,9	(+/-0,0)	20,5	(+1,0)	65,1	(-4,7)	71,8	(-1,4)	-51,1	(+9,4)	-64,1	(+1,8)
Poland	30,8	(+5,8)	13,5	(-12,8)	64,1	(-3,4)	54,1	(+14,6)	5,1	(-2,4)	32,4	(-1,8)	25,7	(+8,2)	-18,9	(-11,0)
Romania	13,2	(-0,7)	9,1	(-10,4)	26,3	(-1,5)	24,2	(+13,1)	60,5	(+2,2)	66,7	(-2,7)	-47,3	(-2,9)	-57,6	(-7,7)
Eurozone	49,0	(-1,0)			49,0	(+1,1)			2,0	(-0,1)			47,0	(-0,9)		

Long-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	35,5	(-3,8)	17,2	(-6,8)	48,4	(+12,7)	41,4	(-6,6)	16,1	(-8,9)	41,4	(+13,4)	19,4	(+5,1)	-24,2	(-20,2)
Czech Republic	66,7	(+15,3)	27,1	(+7,1)	28,2	(-12,3)	37,8	(-7,9)	5,1	(-3,0)	35,1	(+0,8)	61,6	(+18,3)	-8,0	(+6,3)
Hungary	27,5	(+7,9)	17,1	(+4,3)	32,5	(-1,6)	20,0	(-3,1)	40,0	(-6,3)	62,9	(-1,2)	-12,5	(+14,2)	-45,8	(+5,5)
Poland	41,1	(+12,9)	25,8	(+12,2)	25,6	(-15,4)	17,1	(-23,4)	33,3	(+2,5)	57,1	(+11,2)	7,8	(+10,4)	-31,3	(+1,0)
Slovakia	65,8	(+11,5)	19,5	(+7,4)	28,9	(-8,2)	47,2	(-13,4)	5,3	(-3,3)	33,3	(+6,0)	60,5	(+14,8)	-13,8	(+1,4)
Germany	63,8	(-0,6)			31,9	(+3,0)			4,3	(-2,4)			59,5	(+1,8)		

Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	68,1	(+10,0)	11,4	(-14,2)	20,5	(+4,2)	47,6	(+5,8)
ATX (Austria)	70,0	(+11,4)	15,0	(-11,8)	15,0	(+0,4)	55,0	(+11,0)
NTX (CEE)	73,2	(+17,1)	12,2	(-17,1)	14,6	(+/-0,0)	58,6	(+17,1)
CROBEX (Croatia)	69,1	(+19,1)	19,0	(-12,6)	11,9	(-6,5)	57,2	(+25,6)
PX 50 (Czech Rep.)	66,7	(+13,0)	14,3	(-12,5)	19,0	(-0,5)	47,7	(+13,5)
BUX (Hungary)	64,5	(+17,9)	13,3	(-13,4)	22,2	(-4,5)	42,3	(+22,4)
WIG (Poland)	64,3	(+4,3)	19,0	(-3,5)	16,7	(-0,8)	47,6	(+5,1)
BET (Romania)	68,3	(+18,3)	14,6	(-17,0)	17,1	(-1,3)	51,2	(+19,6)
SAX (Slovakia)	57,5	(+13,1)	22,5	(-16,4)	20,0	(+3,3)	37,5	(+9,8)
SBI 20 (Slovenia)	65,8	(+20,7)	17,1	(-18,4)	17,1	(-2,3)	48,7	(+23,0)

Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	27,5	(+10,8)	52,5	(+13,6)	20,0	(-24,4)	7,5	(+35,2)
Koruna (Czech Rep.)	62,0	(+6,7)	20,0	(-9,8)	18,0	(+3,1)	44,0	(+3,6)
Forint (Hungary)	31,3	(-4,9)	35,4	(-2,9)	33,3	(+7,8)	-2,0	(-12,7)
Zloty (Poland)	67,4	(+3,6)	13,0	(-10,4)	19,6	(+6,8)	47,8	(-3,2)
Lei (Romania)	51,1	(+6,9)	25,6	(-4,6)	23,3	(-2,3)	27,8	(+9,2)
US-Dollar	48,0	(+21,5)	18,0	(-2,4)	34,0	(-19,1)	14,0	(+40,6)

Note: 71 Financial experts participated in the January survey which was conducted during the period 01/07/10-01/18/10. 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 2009 in parentheses). Balances refer to the differences between positive and negative assessments.

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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