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Financial Market Report CEE

Volume 2 · March 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 about their assessment and expectations with regard to economic and financial market data. The results of the present survey conducted between 24 January 2008 and 11 February 2008 are published in the March 2008 issue of the "Financial Market Report CEE". 73 financial market experts participated in this month's survey.

Outlook for the CEE stock markets improves significantly

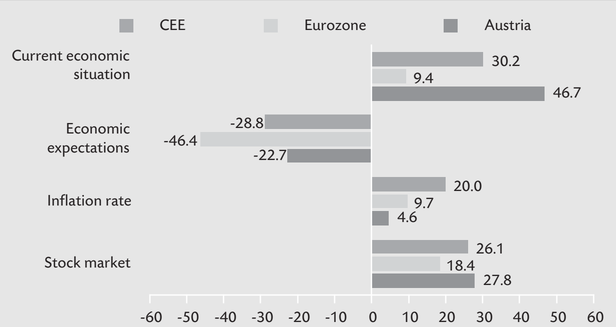
The economic sentiment indicator for Central and Eastern Europe (CEE), which is calculated on a monthly basis by the Centre for European Economic Research (ZEW), supported by Erste Bank der Oesterreichischen Sparkassen, Vienna, stabilises in February showing a slight increase of 0.2 points compared to the previous month. It now reaches a level of -28.8 points. The balance for the current economic situation falls by 7.7 points to a level of 30.2 points. Like in the months before, the majority of the experts do not expect any change of the economic environment in the region and assess the current situation as acceptable . The expectations for the stock market indices clearly indicate a positive turn.

Economic outlook for CEE countries, Austria and the Eurozone

The CEE indicator, calculated as the balance of positive and negative assessments of the economic outlook on a six-month horizon, increases marginally in February and takes a value of minus 28.8 points. However, 55.8 percent of the experts still do not expect a change of the economic situation in the region. The economic expectations for the Eurozone and Austria reflect to a greater extent the improved sentiment of financial market experts in February. Although the corresponding indicators remain negative (-46.4 and -22.7 points), they have gained 16.9 and 7.4 points.

The positive perception of the current economic environment in the CEE region, the Eurozone and Austria prevails in February despite the slight decreases in two of the balances. The share of participants who assess the current situation in the CEE countries as good diminishes to the benefit of those who judge the situation as acceptable. The latter amounts to 66.0 percent. Accordingly, the balance declines by 7.7 points to the mark of 30.2 points. The respective balance for the Eurozone drops by 8.0 points to 9.4 points. The clear majority of participants (83.0 percent) assess the situation as acceptable. The balance for the current economic situation in Austria increases by 3.3 points to the 46.7 mark. The majority of 53.3 percent still rate the country's economy as normal at the present time.

Indicators for CEE, Austria and the Eurozone (balances)



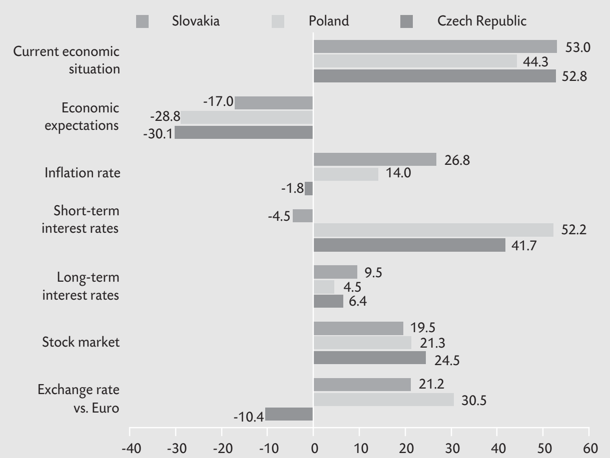
Balance of positive and negative assessment category chosen by respondents of the Financial Market Survey CEE
Source: ZEW

According to the financial market experts the risk of rising inflation rates during the next six months diminishes significantly for the CEE countries as well as for the Eurozone and Austria. The balance for Central and Eastern Europe decreases by 27.6 points to a level of 20.0 points. The decrease is even more pronounced for the Eurozone and Austria (-34.5 points and -49.2 points) with balances of 9.7 and 4.6 points. Thus, inflation should not be a reason for the European Central Bank to refuse to lower interest rates. In line with this, 54.7 percent of the surveyed financial experts consider a cut in short-term interest rates for the Eurozone during the second half of the year to be likely. This is 24.2 percentage points more than in January. Only 3.8 percent forecast an increase of the interest rate.

The growth of the stock market indicators is double-digit in February and the balances of all observed countries turn positive. 50.0 percent (+17.3 percentage points) of the surveyed experts expect an advance of the NTX in the next six months and 51.1 percent (+14.3 percentage points) expect the ATX to increase.

Assessment of Slovakia's economy remains leading in the region; further rise of Poland's interest rates expected

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 February, the majority of financial experts (56.9 percent) assess the current economic environment in Slovakia as good and the balance reaches 53.0 points. As in the previous months, this is the highest balance within the surveyed CEE countries. The experts' view is in line with the recent announcement of flash estimates of Gross Domestic Product (GDP) growth rates of the fourth quarter 2007 by the Statistical Office of the Slovak Republic. In comparison with the fourth quarter 2006, the volume increased by 14.1 percent (9.7 percent if subtracting the impact of the special growth of the volume of taxes on products). The results of the February survey continue to present a positive picture of the current economic situation in the Czech Republic and Poland as well. Furthermore, no expert considers the situation in the Czech Republic as bad, and only 3.8 percent give a negative statement for Poland. Although the balances decline slightly by 5.5 and 4.1 points they remain at a high level (52.8 and 44.3 points respectively).

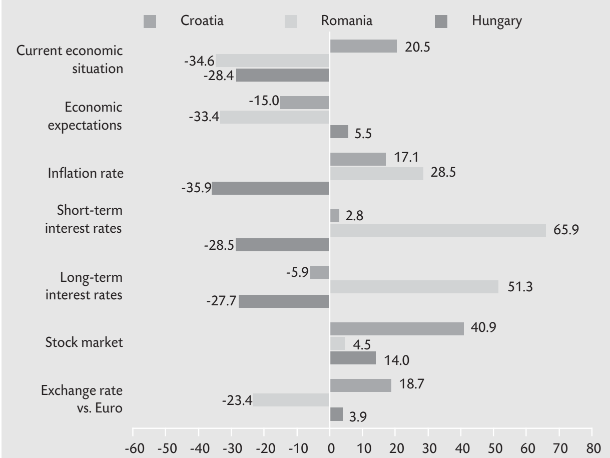
Among the experts the opinion that there will be no change in the economic development of the three countries in the next half year still dominates. Nevertheless, the indicators remain negative. The expectations for the Czech Republic and Poland worsen marginally to -30.1 and -28.8 points and for Slovakia improve slightly to -17 points.

The survey participants' expectations for the inflation rates development change in February. The balance for the Czech Republic declines most significantly (-62.2 points) and turns negative (-1.8 points). Despite the strong drops of 40.4 and 27.6 points the balances for Poland and Slovakia are still positive (14.0 and 26.8 points respectively).

Regarding the short-term interest rates, the majority of experts predict increasing rates in the Czech Republic (41.7 points on balance). After the rise of Poland's interest rates in January, the majority of experts (67.4 percent) expect further increases. The stock markets expectations improve significantly in February by about 28 points and all balances turn positive.

Inflation rates in Hungary expected to fall from 2008 H2; turnaround of the Croatian stock market 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

Economic expectations for Hungary and Romania improve in February. While the indicator for Hungary increases by 8.8 points and turns positive (5.5 points), the balance for Romania remains – even after the increase by 15.6 points – in the red (-33.4 points). The sentiment indicator for Croatia's economy declines slightly by 5.6 points to -15.0 points. Although more than 60 percent of the experts assess the current situation in the three countries as acceptable, the results on balance are mixed. Croatia's balance remains positive at 20.5 points after a slight drop by 7.8 points. In contrast, Hungary's and Romania's balances reach negative values in February again (-28.4 points and -34.6 points).

The proportion of respondents who predict decreasing inflation rates in the next six months increases. As a result the balances in all three countries diminish markedly. In Hungary the drop by 27.9 points leads to a deteriorating balance of -35.9 points. Thus the experts predict the inflation in Hungary to fall in the second half of 2008. This view is in line with the statement of the Central Bank of Hungary in January. Although the inflation in the last months rose at a higher than expected rate, due to increases in processed food prices, the food price shock had not yet affected other product and service prices. That pointed to the absence of second-round effects.

The balance for Romania (28.5 points) is now the highest of the surveyed countries. The National Bank of Romania confirmed the inflationary risks in its meeting in February, particularly those arising from the still overly fast pace of wage increases compared to the increase of labour productivity.

Although the Croatian stock market index fell by more than 20 percent since the beginning of the year, the survey participants expect the CROBEX to increase in the next half year. The balance improves in February notably by 33.0 points to 40.9 points. The predictions for the Hungarian and Romanian indices get better as well and are now also positive (14.0 and 4.5 points).

Special Question: CEE labour markets

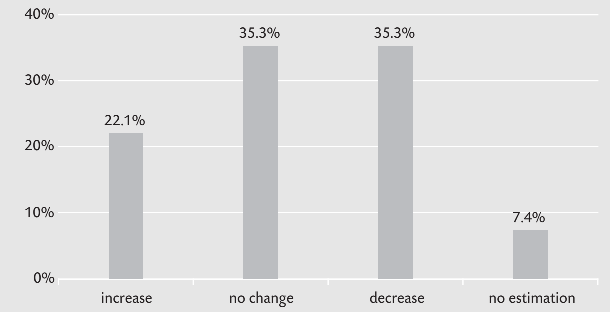
Wide-ranging structural reforms have had a significant impact on labour markets in Central and Eastern Europe. According to the World Bank some of the major characteristics of CEE labour markets are: weak correlation between employment and output growth; high long-term unemployment; falling participation rates, especially among women and older workers; as well as high payroll taxes and the overall tax burden on labour. Most of the CEE countries are characterised by strong regional disparities. Labour mobility is low and investment mainly goes to regions that are already performing better. Evidence shows that wages are only slightly more flexible in these states than in other EU labour markets.

Within the scope of the special question in the February survey, the financial market experts were asked to analyse some aspects of the CEE labour markets. The overall perception of the participants is mixed. 35.3 percent of the financial experts who answered the question expect the mean unemployment rate of the CEE region to fall or to stay the same by the end of the year 2008. On the other hand, 22.1 percent expect the region's unemployment rate to increase. The experts predict the highest rate for Poland (30.8 percent of the answers), followed by Hungary, Slovakia and Croatia (15.4 percent of the answers per country). While 50.0 percent of the survey participants believe that the lowest unemployment rate will be measured in the Czech Republic, 27.3 percent anticipate it in Romania.

The answers concerning the expected wage levels are heterogeneous with 40.9 percent of the experts forecasting rising wages and, at the same time, 40.9 percent anticipating wages to remain unchanged. Inflationary pressure is rated by 45.5 percent of the participants as a rather unlikely consequence and by 42.4 percent as a likely result of rising wages. The experts forecast further price increases for food (41.2 percent) and services (17.6 percent).

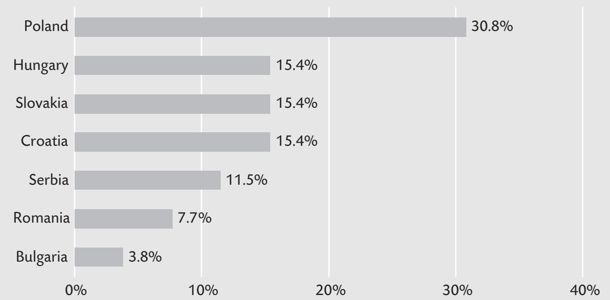
While 40.0 percent of the participants expect lower profit margins as a result of the wage growth. 38.5 percent predict no impact on the companies' profit margins. The manufacturing and financial sector belong to the industries which are likely to be most affected by lower profit margins according to 41.7 and 16.7 percent of the experts respectively.

Figure A: Estimations for the change of the average CEE unemployment rate in 2008



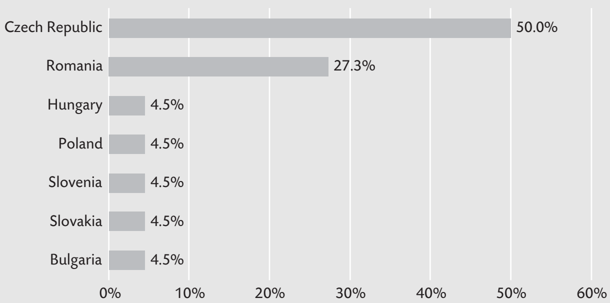
Answers of the participants of the Financial Market Survey CEE Source: ZEW

Figure B: Estimations for the CEE country with the highest unemployment rate



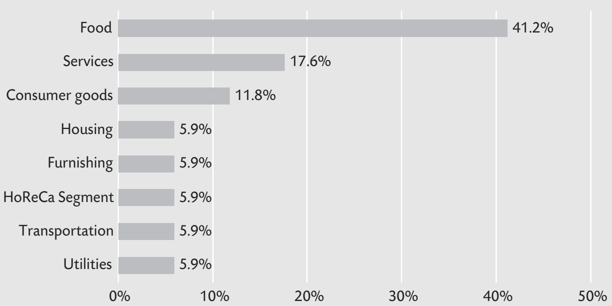
Answers of the participants of the Financial Market Survey CEE Source: ZEW

Figure C: Estimations for the CEE country with the lowest unemployment rate



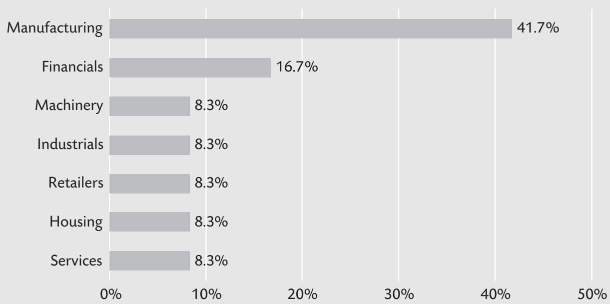
Answers of the participants of the Financial Market Survey CEE Source: ZEW

Figure D: Products/CPI categories likely to be most affected by inflationary pressure



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

Figure E: Industries likely to be most affected by lower profit margins



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

ZEW-Financial Market Survey: February 2008

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	46.7	(+3.3)	53.3	(-3.3)	0.0	(+/-0.0)	46.7	(+3.3)
Croatia	27.3	(-2.9)	65.9	(-2.0)	6.8	(+4.9)	20.5	(-7.8)
Czech Republic	52.8	(-5.5)	47.2	(+5.5)	0.0	(+/-0.0)	52.8	(-5.5)
Hungary	3.7	(-4.2)	64.2	(+21.3)	32.1	(-17.1)	-28.4	(+12.9)
Poland	48.1	(-3.6)	48.1	(+3.1)	3.8	(+0.5)	44.3	(-4.1)
Romania	2.1	(-10.1)	61.2	(+13.8)	36.7	(-3.7)	-34.6	(-6.4)
Slovakia	56.9	(-8.7)	39.2	(+8.1)	3.9	(+0.6)	53.0	(-9.3)
CEE	32.1	(-7.3)	66.0	(+6.9)	1.9	(+0.4)	30.2	(-7.7)
Eurozone	13.2	(-9.0)	83.0	(+10.0)	3.8	(-1.0)	9.4	(-8.0)

Economic expectations	improve		no change		worsen		balance	
Austria	15.9	(+10.2)	45.5	(-13.0)	38.6	(+2.8)	-22.7	(+7.4)
Croatia	12.7	(-6.2)	59.6	(+6.8)	27.7	(-0.6)	-15.0	(-5.6)
Czech Republic	9.5	(+2.8)	50.9	(-7.4)	39.6	(+4.6)	-30.1	(-1.8)
Hungary	38.2	(+6.0)	29.1	(-3.2)	32.7	(-2.8)	5.5	(+8.8)
Poland	7.7	(-2.5)	55.8	(+1.6)	36.5	(+0.9)	-28.8	(-3.4)
Romania	13.7	(+3.1)	39.2	(+9.4)	47.1	(-12.5)	-33.4	(+15.6)
Slovakia	13.2	(+8.1)	56.6	(-11.2)	30.2	(+3.1)	-17.0	(+5.0)
CEE	7.7	(-0.4)	55.8	(+1.0)	36.5	(-0.6)	-28.8	(+0.2)
Eurozone	9.2	(+7.5)	35.2	(+1.9)	55.6	(-9.4)	-46.4	(+16.9)

Inflation rate	increase		no change		decrease		balance	
Austria	34.1	(-27.4)	36.4	(+5.6)	29.5	(+21.8)	4.6	(-49.2)
Croatia	43.9	(-17.4)	29.3	(+2.8)	26.8	(+14.6)	17.1	(-32.0)
Czech Republic	35.9	(-33.1)	26.4	(+4.0)	37.7	(+29.1)	-1.8	(-62.2)
Hungary	22.6	(-12.9)	18.9	(-2.1)	58.5	(+15.0)	-35.9	(-27.9)
Poland	50.0	(-14.9)	14.0	(-10.6)	36.0	(+25.5)	14.0	(-40.4)
Romania	57.1	(-0.3)	14.3	(-11.6)	28.6	(+11.9)	28.5	(-12.2)
Slovakia	48.0	(-13.4)	30.8	(-0.8)	21.2	(+14.2)	26.8	(-27.6)
CEE	48.0	(-12.7)	24.0	(-2.2)	28.0	(+14.9)	20.0	(-27.6)
Eurozone	37.2	(-18.5)	35.3	(+2.5)	27.5	(+16.0)	9.7	(-34.5)

Short-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	27.1	(+2.1)	44.1	(-0.7)	48.6	(-15.0)	41.2	(-3.5)	24.3	(+12.9)	14.7	(+4.2)	2.8	(-10.8)	29.4	(-4.9)
Czech Republic	54.2	(-6.5)	46.7	(-5.5)	33.3	(+5.8)	24.4	(+0.5)	12.5	(+0.7)	28.9	(+5.0)	41.7	(-7.2)	17.8	(-10.5)
Hungary	12.3	(+3.3)	36.1	(+22.1)	46.9	(+27.3)	27.7	(+7.7)	40.8	(-30.6)	36.2	(-29.8)	-28.5	(+33.9)	-0.1	(+51.9)
Poland	67.4	(+7.7)	72.7	(+19.5)	17.4	(-11.4)	20.5	(-11.4)	15.2	(+3.7)	6.8	(-8.1)	52.2	(+4.0)	65.9	(+27.6)
Romania	75.0	(+17.6)	88.1	(+27.2)	15.9	(-13.9)	9.5	(-19.8)	9.1	(-3.7)	2.4	(-7.4)	65.9	(+21.3)	85.7	(+34.6)
Slovakia	22.2	(+6.5)	26.8	(+7.3)	51.1	(-9.7)	51.2	(-1.0)	26.7	(+3.2)	22.0	(-6.3)	-4.5	(+3.3)	4.8	(+13.6)
Eurozone	3.8	(-8.1)			41.5	(-16.1)			54.7	(+24.2)			-50.9	(-32.3)		

Long-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	23.5	(+0.3)	30.0	(-2.5)	47.1	(-4.1)	46.7	(+0.8)	29.4	(+3.8)	23.3	(+1.7)	-5.9	(-3.5)	6.7	(-4.2)
Czech Republic	34.7	(-19.3)	26.9	(+0.2)	37.0	(+9.0)	46.3	(-7.0)	28.3	(+10.3)	26.8	(+6.8)	6.4	(-29.6)	0.1	(-6.6)
Hungary	25.5	(+12.7)	27.3	(+15.0)	21.3	(-2.3)	25.0	(+2.6)	53.2	(-10.4)	47.7	(-17.6)	-27.7	(+23.1)	-20.4	(+32.6)
Poland	38.6	(+4.6)	39.0	(+11.7)	27.3	(-18.7)	31.7	(-6.9)	34.1	(+14.1)	29.3	(-4.8)	4.5	(-9.5)	9.7	(+16.5)
Romania	64.1	(+2.7)	68.6	(+2.8)	23.1	(+0.4)	20.0	(+1.6)	12.8	(-3.1)	11.4	(-4.4)	51.3	(+5.8)	57.2	(+7.2)
Slovakia	33.3	(-3.7)	23.1	(+8.5)	42.9	(-7.1)	56.4	(+0.3)	23.8	(+10.8)	20.5	(-8.8)	9.5	(-14.5)	2.6	(+17.3)
Germany	28.0	(-4.2)			38.0	(-6.6)			34.0	(+10.8)			-6.0	(-15.0)		

Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	44.9	(+11.0)	28.6	(+5.4)	26.5	(-16.4)	18.4	(+27.4)
ATX (Austria)	51.1	(+14.3)	25.6	(+3.2)	23.3	(-17.5)	27.8	(+31.8)
NTX (CEE)	50.0	(+17.3)	26.1	(-1.2)	23.9	(-16.1)	26.1	(+33.4)
CROBEX (Croatia)	56.8	(+15.6)	27.3	(+1.8)	15.9	(-17.4)	40.9	(+33.0)
PX 50 (Czech Rep.)	48.9	(+14.3)	26.7	(-0.2)	24.4	(-14.1)	24.5	(+28.4)
BUX (Hungary)	42.0	(+5.8)	30.0	(+7.6)	28.0	(-13.4)	14.0	(+19.2)
WIG (Poland)	44.7	(+8.9)	31.9	(+11.1)	23.4	(-20.0)	21.3	(+28.9)
BET (Romania)	38.6	(+1.3)	27.3	(+13.6)	34.1	(-14.9)	4.5	(+16.2)
SAX (Slovakia)	36.6	(+5.9)	46.3	(+15.5)	17.1	(-21.4)	19.5	(+27.3)
SBI 20 (Slovenia)	42.8	(+13.7)	40.5	(+11.3)	16.7	(-25.0)	26.1	(+38.7)

Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	30.3	(-0.9)	58.1	(+1.8)	11.6	(-0.9)	18.7	(+/-0.0)
Koruna (Czech Rep.)	27.1	(+2.5)	35.4	(-15.5)	37.5	(+13.0)	-10.4	(-10.5)
Forint (Hungary)	25.5	(+3.1)	52.9	(-5.7)	21.6	(+2.6)	3.9	(+0.5)
Zloty (Poland)	45.7	(+8.6)	39.1	(-5.3)	15.2	(-3.3)	30.5	(+11.9)
Lei (Romania)	23.4	(+3.8)	29.8	(+8.2)	46.8	(-12.0)	-23.4	(+15.8)
Koruna (Slovakia)	34.0	(+0.7)	53.2	(-0.5)	12.8	(-0.2)	21.2	(+0.9)
US-Dollar	50.0	(+8.3)	25.0	(+/-0.0)	25.0	(-8.3)	25.0	(+16.6)

Note: 73 Financial experts participated in the February survey which was conducted during the period 01/24/08-02/11/08. 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 January in parentheses). Balances refer to the differences between positive and negative assessments.

I M P R I N T

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