www.zew.de · www.zew.eu

ZEW

ERSTE BANK

Financial Market Report CEE

Volume 2 · April 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 for their assessment and expectations with regard to economic and financial market data. The results of the present survey conducted between 22 February 2008 and 10 March 2008 are published in the April 2008 issue of the "Financial Market Report CEE". 70 financial market experts participated in this month's survey.

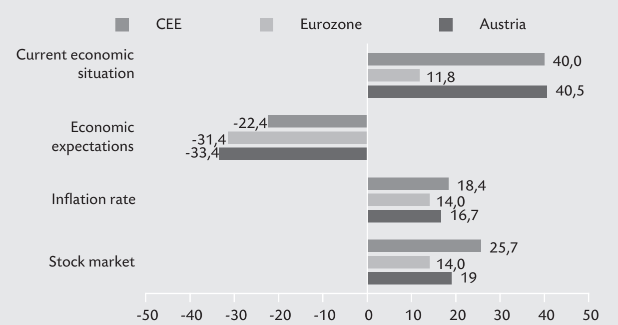
Economic Sentiment for Central and Eastern Europe recovers considerably

The economic sentiment indicator for Central and Eastern Europe (CEE), which is calculated on the basis of a monthly survey conducted by the Centre for European Economic Research (ZEW) and supported by Erste Bank der oesterreichischen Sparkassen AG, Vienna, has recovered in March. The CEE indicator rises by 6.4 points and now stands at minus 22.4 points. In the March survey the financial market experts evaluate the current economic situation for the CEE region and for most CEE countries more optimistically compared to the previous month. The forecasts for the development of the stock markets during the next six months remain favourable, similar to last month's survey.

Economic outlook for CEE countries, Austria and the Eurozone

The CEE indicator, constructed as the balance of positive and negative assessments of the economic outlook for the next half year, increases for the second month in a row in March by 6.4 points to a level of minus 22.4 points. Furthermore, the assessment of the current economic situation in the CEE region also has improved markedly by 9.8 points and reaches 40.0 points. Not a single financial market expert views today's economic environment in the region as bad. The improvement of the balances is caused mainly by a reduction of the fraction of participants who do not expect a change of the economic situation and who evaluate the current state as acceptable. Still, this group remains the largest fraction of financial market experts participating in the survey. 49 percent (minus 6.8 percentage points compared to the February survey) of the respondents predict a stable CEE economy in the next six months and 60.0 percent (minus 6.0 percentage points) assess the current situation as acceptable.

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

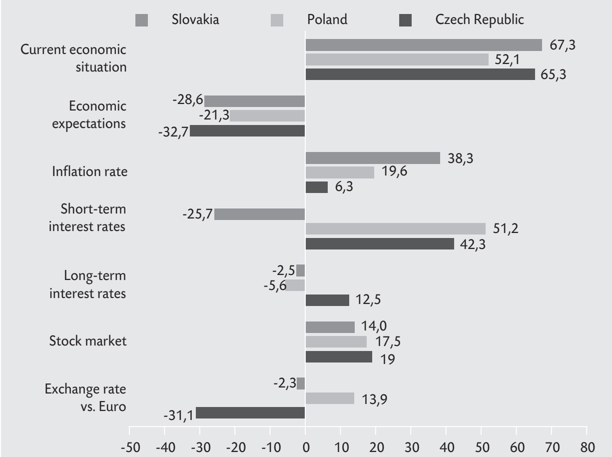
Similar to last month, the economic expectations for the Eurozone have seen the strongest upturn. The indicator climbs by 15.0 points to minus 31.4 points. The current economic situation is assessed as positive as well. The corresponding balance increases by 2.4 points to 11.8 points. In Austria both indicators worsen by minus 10.7 points and minus 6.2 points respectively compared to the February survey.

The strong decreases in the balances for inflation rate expectations in February did not continue in March. While the balance for the CEE region drops slightly by 1.6 points to 18.4 points, the balances for the Eurozone and Austria increase by 4.3 points and 12.1 points to 14.0 points and 16.7 points respectively. Still, 54.2 percent of the participants expect an interest rate cut in the Eurozone in the second half of this year. However, the balance climbs by 7.1 points to minus 43.8 points.

The forecasts for the development of the stock markets remain favourable, similar to last month. While 53.9 percent of the respondents consider a rising NTX probable, 28.2 percent anticipate a weaker CEE stock index. The balance declines slightly by 0.4 points to 25.7 points. The balances for the Austrian ATX and the Euro Stoxx 50 drop by 8.8 points and 4.4 points to 19.0 points and 14.0 points respectively.

Very good economic situation in the Czech Republic and Slovakia; depreciation of both currencies 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

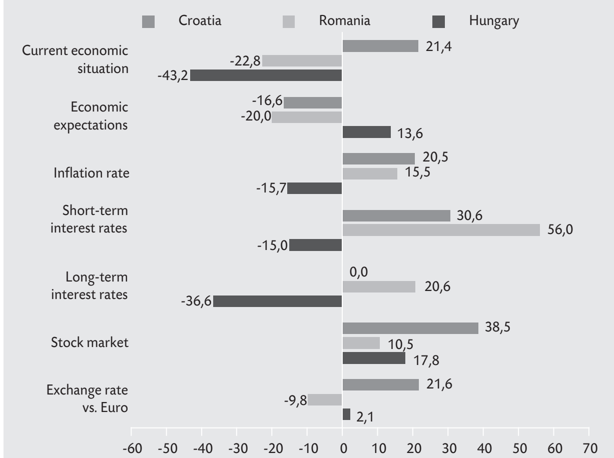
The financial experts assess the current economic situation in the Czech Republic and Slovakia as very good. The balances of answers opting for “good” versus “bad” are above 65.0 points for both countries in March. The balance for Slovakia shows the strongest growth by 14.3 points to 67.3 points, followed by the Czech Republic with an increase of 12.5 points to 65.3 points. The Polish economy is also evaluated mainly as good with a balance of 52.1 points. For Poland the economic expectations for the next six months even improved by 7.5 points, in contrast to the February survey, to a level of minus 21.3 points. The outlook for the Czech Republic deteriorates slightly by 2.6 points. Although the majority of experts (44.9 percent) predict the economic situation to worsen, a high proportion of participants (42.9 percent) do not expect a change. For the Polish and Slovakian economy the majority of survey participants do not expect a change in the next six months.

For all three countries the experts predict rising inflation rates. All in all, the risk for a rise in inflation has increased when compared to last month’s results. Especially for Slovakia the balance rises by 11.5 points to 38.3 points. Consistent with the expectations of rising inflation rates in the Czech Republic and Poland, the financial market experts predict rising short-term interest rates. By contrast, in Slovakia the same proportion of experts (41.9 percent) expects decreasing as well as steady short-term rates. Due to the minority of experts expecting increasing interest rates (16.2 percent), the balance is negative (minus 25.7 points).

The expectations regarding the currency exchange rates are mixed. While a majority of experts predicts a depreciation of the Czech and Slovakian currencies compared to the Euro, they foresee an appreciation of the Polish currency. Especially the very fast appreciation of the Czech Koruna since mid-2007 is seen by the experts as not sustainable. That’s why they believe the Koruna could cede part of its recent strong gains during the next six months.

A brighter outlook for the Hungarian and Romanian economy; almost no change of the expectations for Croatia

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 evaluations of the current situation in Croatia, Hungary and Romania are mixed. While Romania’s balance improves by 11.8 to minus 22.8 points, the balance for Hungary declines by 14.8 to minus 43.2 points. Croatia’s balance rests almost unchanged at 21.4 points. Exactly half of the respondents expect Croatia’s economic situation not to change over the next six months. The corresponding indicator remains almost unchanged at minus 16.6 points. The outlook for Hungary and Romania has improved in this month’s survey. The expectations for the Hungarian economy for the upcoming six months continue to be at the highest level within the considered countries. The indicator climbs by 8.1 to 13.6 points. The balance for Romania is still negative (minus 20.0 points), but 13.4 points higher than in February.

Regarding inflation rates, a majority of survey participants predicts increasing inflation rates in Romania and Croatia, while most financial market experts opt for decreasing inflation rates in Hungary. This is reflected in the balances. Hungary’s balance stands at minus 15.7, an increase of 20.2 points from last month. Again, Croatia’s rests nearly unchanged at 20.5 points. The inflation expectations for Romania have decreased. The balance loses 13.0 points to 15.5 points.

The outlook with respect to short-term interest rates has changed in the three countries. With an almost neutral forecast in February, the absolute balance for Croatia in March increases by 27.8 to 30.6 points. Hungary’s balance gains 13.5 points, but remains negative (minus 15.0 points). 65.8 percent of the respondents are confident that Romania’s short-term interest rates will rise. This results in an indicator value of 56.0 points, down 9.9 points from last month.

Only small changes regarding the predictions for the stock markets can be detected. The outlook in all three countries remains favourable. The balance for the Croatian CROBEX stays on the highest level within the considered countries (38.5 points).

Special Question: Corporate Transactions in the CEE Region

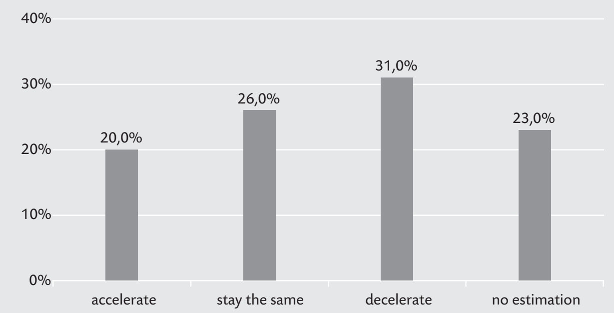
This month's special question focuses on corporate transactions in the CEE region, especially the mergers and acquisitions (M&A) activities. We started out by asking the financial market experts for their expectations concerning M&A-transactions in the CEE region this year. 31 percent of the participants predict decelerating M&A-activities in the CEE countries, while 20 percent expect accelerating activities. 26 percent think that M&A-activities will remain on the same level as last year. The majority of experts expect the CEE M&A-market to be dominated by cross-border transactions (54 percent), not by domestic transactions (14 percent). With regard to the country of origin of foreign investors in the CEE market, most respondents see German investors as the most active (33 percent). Austrian (20 percent) and U.S. investors (13 percent) are ranked second and third.

The CEE countries have been very attractive for foreign direct investment. International capital flows have contributed strongly to the performance of the CEE stock markets. In this context it is important to ascertain which markets are most appealing to international investors. The survey participants make it very clear that they consider Romania (37 percent) and Poland (34 percent) to be the most attractive. The Czech Republic comes in third with 9 percent of the answers.

We see a similar picture when regarding the experts' expectations where the highest number of corporate transactions will take place. According to our survey, this should be in Poland (61 percent), followed by Romania (22 percent). Hungary, Slovakia and Slovenia should experience the lowest number of transactions in 2008.

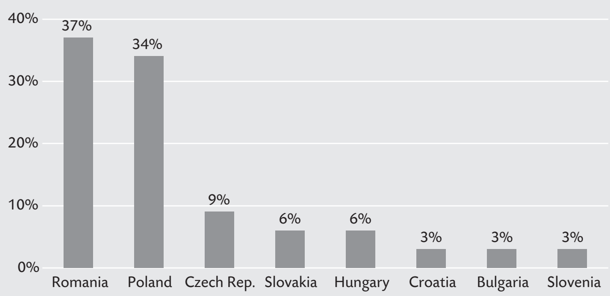
Finally, the financial market experts were asked to assess the intensity of M&A-activities in different sectors of the economy. Telecommunications as well as Food and Beverages are the sectors where a rather low level of transactions is foreseen. In Financial Services a relatively high intensity of M&A-activities is predicted, but most activity should be recorded in the Energy and Utilities sector. When asked about a prominent take over in 2008, the respondents pointed towards the Austrian oil and gas company OMV increasing its stake in its Hungarian competitor MOL.

Figure A: Expected development of M&A-activity in the CEE countries in 2008



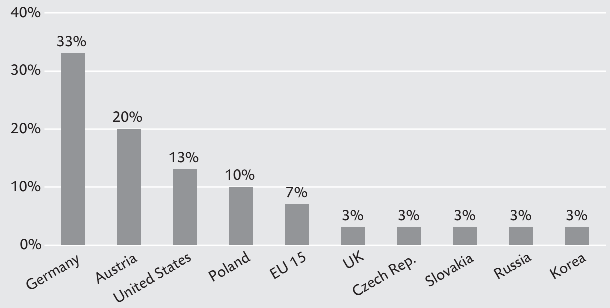
Answers of the participants of the Financial Market Survey CEE Source: ZEW

Figure B: Most attractive CEE country for international investors



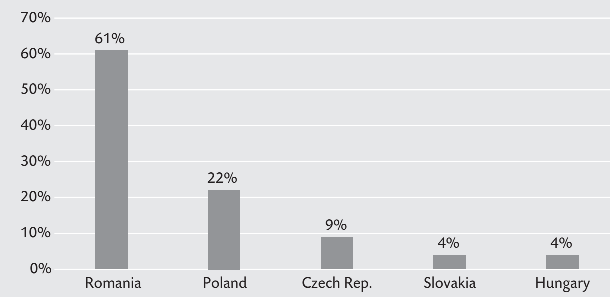
Answers of the participants of the Financial Market Survey CEE Source: ZEW

Figure C: Most active foreign investors on the CEE M&A-market



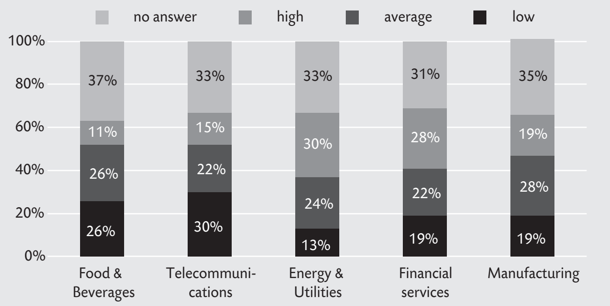
Answers of the participants of the Financial Market Survey CEE Source: ZEW

Figure D: CEE countries with the highest number of M&A-transactions



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

Figure E: Expected M&A intensity by sectors



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

ZEW-Financial Market Survey: March 2008

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	40.5	(-6.2)	59.5	(+6.2)	0.0	(+/-0.0)	40.5	(-6.2)
Croatia	26.2	(-1.1)	69.0	(+3.1)	4.8	(-2.0)	21.4	(+0.9)
Czech Republic	65.3	(+12.5)	34.7	(-12.5)	0.0	(+/-0.0)	65.3	(+12.5)
Hungary	3.9	(+0.2)	49.0	(-15.2)	47.1	(+15.0)	-43.2	(-14.8)
Poland	54.3	(+6.2)	43.5	(-4.6)	2.2	(-1.6)	52.1	(+7.8)
Romania	4.5	(+2.4)	68.2	(+7.0)	27.3	(-9.4)	-22.8	(+11.8)
Slovakia	69.5	(+12.6)	28.3	(-10.9)	2.2	(-1.7)	67.3	(+14.3)
CEE	40.0	(+7.9)	60.0	(-6.0)	0.0	(-1.9)	40.0	(+9.8)
Eurozone	15.7	(+2.5)	80.4	(-2.6)	3.9	(+0.1)	11.8	(+2.4)

Economic expectations	improve		no change		worsen		balance	
Austria	9.5	(-6.4)	47.6	(+2.1)	42.9	(+4.3)	-33.4	(-10.7)
Croatia	16.7	(+4.0)	50.0	(-9.6)	33.3	(+5.6)	-16.6	(-1.6)
Czech Republic	12.2	(+2.7)	42.9	(-8.0)	44.9	(+5.3)	-32.7	(-2.6)
Hungary	42.4	(+4.2)	28.8	(-0.3)	28.8	(-3.9)	13.6	(+8.1)
Poland	14.9	(+7.2)	48.9	(-6.9)	36.2	(-0.3)	-21.3	(+7.5)
Romania	20.0	(+6.3)	40.0	(+0.8)	40.0	(-7.1)	-20.0	(+13.4)
Slovakia	10.2	(-3.0)	51.0	(-5.6)	38.8	(+8.6)	-28.6	(-11.6)
CEE	14.3	(+6.6)	49.0	(-6.8)	36.7	(+0.2)	-22.4	(+6.4)
Eurozone	13.7	(+4.5)	41.2	(+6.0)	45.1	(-10.5)	-31.4	(+15.0)

Inflation rate	increase		no change		decrease		balance	
Austria	38.1	(+4.0)	40.5	(+4.1)	21.4	(-8.1)	16.7	(+12.1)
Croatia	43.6	(-0.3)	33.3	(+4.0)	23.1	(-3.7)	20.5	(+3.4)
Czech Republic	41.7	(+5.8)	22.9	(-3.5)	35.4	(-2.3)	6.3	(+8.1)
Hungary	29.4	(+6.8)	25.5	(+6.6)	45.1	(-13.4)	-15.7	(+20.2)
Poland	50.0	(+/-0.0)	19.6	(+5.6)	30.4	(-5.6)	19.6	(+5.6)
Romania	44.4	(-12.7)	26.7	(+12.4)	28.9	(+0.3)	15.5	(-13.0)
Slovakia	55.3	(+7.3)	27.7	(-3.1)	17.0	(-4.2)	38.3	(+11.5)
CEE	44.9	(-3.1)	28.6	(+4.6)	26.5	(-1.5)	18.4	(-1.6)
Eurozone	40.0	(+2.8)	34.0	(-1.3)	26.0	(-1.5)	14.0	(+4.3)

Short-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	38.9	(+11.8)	59.4	(+15.3)	52.8	(+4.2)	37.5	(-3.7)	8.3	(-16.0)	3.1	(-11.6)	30.6	(+27.8)	56.3	(+26.9)
Czech Republic	55.6	(+1.4)	65.8	(+19.1)	31.1	(-2.2)	22.0	(-2.4)	13.3	(+0.8)	12.2	(-16.7)	42.3	(+0.6)	53.6	(+35.8)
Hungary	27.6	(+15.3)	40.9	(+4.8)	29.8	(-17.1)	27.3	(-0.4)	42.6	(+1.8)	31.8	(-4.4)	-15.0	(+13.5)	9.1	(+9.2)
Poland	60.5	(-6.9)	59.0	(-13.7)	30.2	(+12.8)	35.9	(+15.4)	9.3	(-5.9)	5.1	(-1.7)	51.2	(-1.0)	53.9	(-12.0)
Romania	65.8	(-9.2)	76.3	(-11.8)	24.4	(+8.5)	23.7	(+14.2)	9.8	(+0.7)	0.0	(-2.4)	56.0	(-9.9)	76.3	(-9.4)
Slovakia	16.2	(-6.0)	29.2	(+2.4)	41.9	(-9.2)	48.8	(-2.4)	41.9	(+15.2)	22.0	(+/-0.0)	-25.7	(-21.2)	7.2	(+2.4)
Eurozone	10.4	(+6.6)			35.4	(-6.1)			54.2	(-0.5)			-43.8	(+7.1)		

Long-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	25.8	(+2.3)	43.7	(+13.7)	48.4	(+1.3)	31.3	(-15.4)	25.8	(-3.6)	25.0	(+1.7)	0.0	(+5.9)	18.7	(+12.0)
Czech Republic	37.5	(+2.8)	27.5	(+0.6)	37.5	(+0.5)	50.0	(+3.7)	25.0	(-3.3)	22.5	(-4.3)	12.5	(+6.1)	5.0	(+4.9)
Hungary	19.5	(-6.0)	27.9	(+0.6)	24.4	(+3.1)	27.9	(+2.9)	56.1	(+2.9)	44.2	(-3.5)	-36.6	(-8.9)	-16.3	(+4.1)
Poland	25.0	(-13.6)	37.9	(-1.1)	44.4	(+17.1)	32.4	(+0.7)	30.6	(-3.5)	29.7	(+0.4)	-5.6	(-10.1)	8.2	(-1.5)
Romania	44.1	(-20.0)	48.4	(-20.2)	32.4	(+9.3)	36.4	(+16.4)	23.5	(+10.7)	15.2	(+3.8)	20.6	(-30.7)	33.2	(-24.0)
Slovakia	26.4	(-6.9)	25.6	(+2.5)	44.7	(+1.8)	43.6	(-12.8)	28.9	(+5.1)	30.8	(+10.3)	-2.5	(-12.0)	-5.2	(-7.8)
Germany	31.8	(+3.8)			43.2	(+5.2)			25.0	(-9.0)			6.8	(+12.8)		

Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	41.9	(-3.0)	30.2	(+1.6)	27.9	(+1.4)	14.0	(-4.4)
ATX (Austria)	46.0	(-5.1)	27.0	(+1.4)	27.0	(+3.7)	19.0	(-8.8)
NTX (CEE)	53.9	(+3.9)	17.9	(-8.2)	28.2	(+4.3)	25.7	(-0.4)
CROBEX (Croatia)	59.0	(+2.2)	20.5	(-6.8)	20.5	(+4.6)	38.5	(-2.4)
PX 50 (Czech Rep.)	47.6	(-1.3)	23.8	(-2.9)	28.6	(+4.2)	19.0	(-5.5)
BUX (Hungary)	48.9	(+6.9)	20.0	(-10.0)	31.1	(+3.1)	17.8	(+3.8)
WIG (Poland)	47.5	(+2.8)	22.5	(-9.4)	30.0	(+6.6)	17.5	(-3.8)
BET (Romania)	42.1	(+3.5)	26.3	(-1.0)	31.6	(-2.5)	10.5	(+6.0)
SAX (Slovakia)	47.3	(+10.7)	19.4	(-26.9)	33.3	(+16.2)	14.0	(-5.5)
SBI 20 (Slovenia)	53.1	(+10.3)	18.8	(-21.7)	28.1	(+11.4)	25.0	(-1.1)

Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	27.0	(-3.3)	67.6	(+9.5)	5.4	(-6.2)	21.6	(+2.9)
Koruna (Czech Rep.)	20.0	(-7.1)	28.9	(-6.5)	51.1	(+13.6)	-31.1	(-20.7)
Forint (Hungary)	39.1	(+13.6)	23.9	(-29.0)	37.0	(+15.4)	2.1	(-1.8)
Zloty (Poland)	27.9	(-17.8)	58.1	(+19.0)	14.0	(-1.2)	13.9	(-16.6)
Lei (Romania)	26.8	(+3.4)	36.6	(+6.8)	36.6	(-10.2)	-9.8	(+13.6)
Koruna (Slovakia)	16.3	(-17.7)	65.1	(+11.9)	18.6	(+5.8)	-2.3	(-23.5)
US-Dollar	42.5	(-7.5)	29.8	(+4.8)	27.7	(+2.7)	14.8	(-10.2)

Note: 70 Financial experts participated in the March survey which was conducted during the period 02/22/08-03/10/08. 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 February 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 Bank der österreichischen Sparkassen 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@erstebank.at · www.erstebank.at

Reprint and further distribution: only with mention of reference and sending of a voucher copy