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# Financial Market Report CEE

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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 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 February 27 and 16 March, 2009, are published in the April 2009 issue of the "Financial Market Report CEE". 74 financial market experts participated in this month's survey.**

## Economic Expectations for the CEE Region Further Stabilise

The economic forecast for Central and Eastern Europe (CEE) has further stabilised in March. The ZEW-Erste Group Bank sentiment indicator that shows the balance of positive and negative assessments of the economic outlook within the next six months increases marginally by 0.6 points in the current survey reaching minus 32.7 points. The assessment of the present economic situation in the CEE region improves slightly by 0.7 points to minus 57.4 points. According to the survey respondents, the prospects of the CEE stock market index NTX have clearly improved compared to the previous month. Although the economic outlook for the CEE region as a whole has improved in March, the area should not be treated as a homogeneous group, since some countries are characterised by better recovery prospects for the second half of 2009 than others.

### Economic outlook for CEE countries, Austria and the Eurozone

The ZEW-Erste Group Bank sentiment indicator for Central and Eastern Europe which is calculated as a balance of the negative and positive assessments with regard to the expected economic development on a six month horizon increases marginally by 0.6 points in the current survey reaching minus 32.7 points. The steep rise of the previous months has slowed down and a majority of the queried financial experts (47.5 percent) now consider an unchanged business cycle within the coming six months to be most probable for the CEE region.

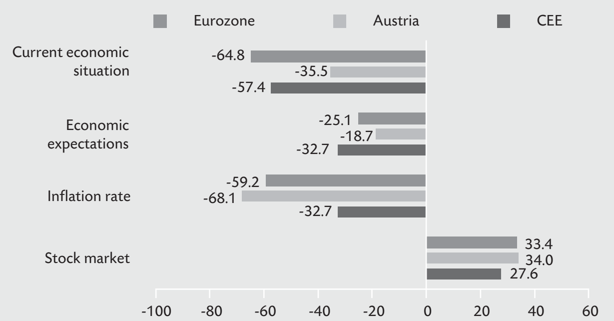
With respect to the economic expectations for Austria, the slightly improved mood of the survey participants can be perceived, as well. In spite of still being negative (minus 18.7 points) the associated indicator gains 5.3 points. As for the CEE region, a clear majority of the analysts (52.1 percent) expect no change in the economic conditions within the next six months for Austria as well. The business forecast for the Eurozone has improved for the first time after months of downward movements, rising actually by 21.3 to minus 25.1 points.

The balance for the present economic situation in the CEE region increases marginally by 0.7 points, closing at minus 57.4 points. The corresponding indicator for Austria recedes by 2.8 to minus 35.5 points in the March survey. Still, the majority of the financial experts, namely 52.1 percent, regard the current conditions as acceptable. By opposition, the analysts' assessment of the present circumstances in the Eurozone remains very critical, despite its hike of 9.7 to minus 64.8 points this month.

The shift of the experts' expectations from falling to constant inflation rates with respect to the CEE region and the Eurozone continues in the March survey. Concerning Austria, however, the share of analysts anticipating decreasing inflation has grown and, consequently, the respective balance is the only one to decline, even though only slightly, in the current survey.

According to the respondents, the prospects of the stock market indices for Central and Eastern Europe (NTX) and Austria (ATX) as well as for the Eurostoxx 50 have clearly improved compared to the previous month. While all three balances gain in value, the evaluation on the Eurostoxx 50 notes the sharpest rise, increasing by 29.4 points.

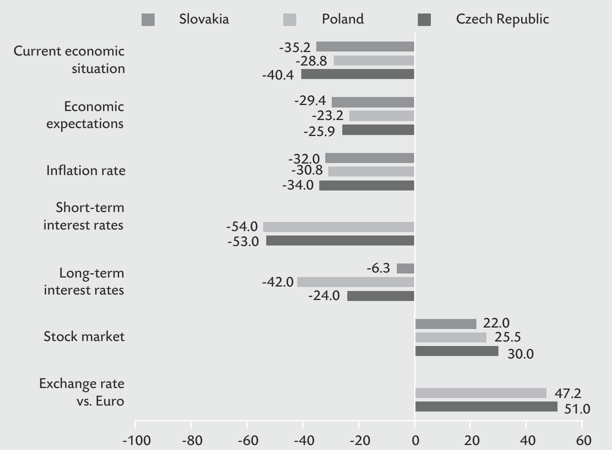
Indicators for CEE, Austria and the Eurozone (balances)




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

## Czech Republic, Poland and Slovakia: Business Outlook Brightens Further

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 March survey, the upward trend of the financial experts' economic forecast for the Czech Republic, Poland and Slovakia continues, as all three corresponding balances gain in value. Nonetheless, similar to the CEE region as a whole, the rise in March was not as meaningful as in February. The indicator capturing the future prospects for the Czech economy increases by 6.2 to minus 25.9 points, whereas the respective assessments for Poland and Slovakia improve to minus 23.2 (plus 5.0 points) and minus 29.4 points (plus 6.5 points).

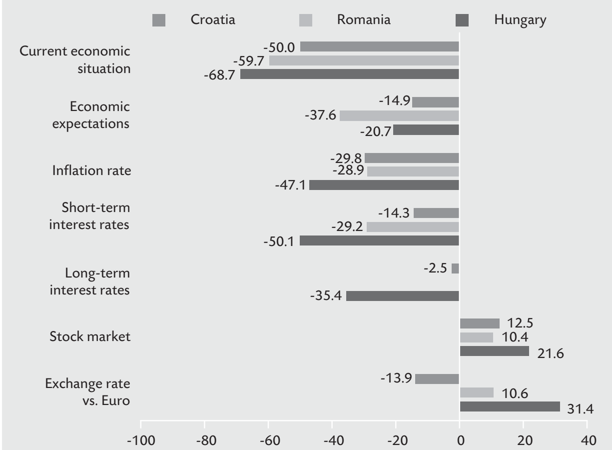
The respondents' assessment on the present conditions in Slovakia has worsened by 10.2 to minus 35.2 points this month. Despite the growing scepticism of some survey participants, however, Slovakia features the largest share of financial experts (23.6 percent) considering the current circumstances to be "good". The balances as to the current economic situation in the Czech Republic and Poland have not noticed any significant changes compared to the previous month, ascending slightly by 3.6 and 2.6 points to minus 40.4 and minus 28.8 points. Thus, Poland reaches the highest value in this category, changing places with Slovakia.

All three indicators reflecting the financial experts' stock market forecast for the Czech Republic, Poland and Slovakia increase in March. The respondents who expect rising share prices constitute a nearly unvaried majority, whereas the proportion of analysts predicting unchanged instead of falling equity indices has risen significantly.

This month's results concerning the expected development of the currencies in the selected countries are characterised by a strong tendency towards appreciations versus the Euro. The associated balances for the Czech Koruna and the Polish Zloty soar markedly, reaching 51.0 (plus 45.1 points compared to the February survey), the highest value among all analysed countries, and 47.2 (plus 33.4 points) points. More than sixty percent of the respondents count on an appreciation of both currencies.

## Hungary, Romania and Croatia: Economic Expectations Move Sideways

Indicators for Croatia, Hungary, and Romania




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

According to the financial experts, the business prospects for Hungary and Romania have improved slightly, which is reflected in the rise of the corresponding balances to minus 20.7 points (plus 2.5 points compared to the previous month) and to minus 37.6 points (plus 2.0 points). Nonetheless, the participants keep on looking most sceptically upon the future perspectives of the Romanian economy – the associated indicator remains overall lowest among the analysed countries. In spite of the analysts' economic forecast for Croatia having worsened marginally within the March survey, the respective indicator asserts its top position now standing at minus 14.9 points.

Like in the previous months, a distinct majority of the financial experts take a critical stance upon the current economic situation within the three selected countries. The corresponding balance for Hungary recedes 6.3 points to minus 68.7 points, since more than 70 percent of the participants judge the present conditions as "bad". The evaluation with regard to Croatia worsens 7.8 points reaching minus 50.0 points. As in the case of the business forecast, the balance for the current economic situation in Romania increases marginally remaining highly negative (minus 59.7 points). It seems that the analysts cannot appraise yet which impact the economic stimulus package that the International Monetary Fund and the European Union agreed to provide to Romania might have for the country.

Despite slight decreases of the corresponding balances, the analysts remain predominantly optimistic concerning the anticipated share prices in the three countries and especially for the Hungarian stock market index.

With regard to the expected exchange rate versus the Euro, the analysts' appraisals are mixed. As to the Croatian currency, most respondents anticipate depreciation. The associated indicator is the only one which is located in the negative range. In contrast, the corresponding balances for Hungary and Romania have increased considerably.

# Special Question: Dependency of the CEE Region on Russian Energy Resources

In early January 2009 the gas conflict between Russia and Ukraine erupted once again as at the turn of each of the past three years. However, the row escalated this time as far, as Russia cut off gas supplies in the middle of winter. As a consequence, Europe suffered disruptions in its gas supplies being highly reliant on imports from Russia. In particular the countries in the CEE region, e.g. Bulgaria and Slovakia, suffered heavily from the suspension of deliveries: Production facilities had to be closed temporarily, some cities lost heating and hot water and several schools were shut.

Against the background of these recent experiences and the ongoing fear that Russia might use its energy resources as a political weapon we were interested in the financial experts' view on the emergency of taking action. How important is it to reduce the dependency of the CEE countries on oil and gas imports from Russia?

According to an absolute majority of the respondents (65 percent), the significance of achieving more energy independency is "very high" or "high". 28 percent of the analysts attach "middle" importance to corresponding measures, while only 7 percent describe the relevance of limiting the reliance on imports from Russia as "low" or "very low". Most financial experts (about 40 percent) attach most importance to negotiations at the level of CEE governments and the EU, as they predominantly characterise the impact of both institutions as "high". Negotiations under contribution of the US government are estimated to carry less weight concerning the reduction of the energy dependency of the CEE nations on Russia. A clear majority of the experts (64 percent) describes the associated impact as "low".

But how is an increased independence as to energy sources to be achieved in the CEE region? According to an overwhelming majority of the respondents, creating a "southern corridor" for the supply of gas from Caspian and Middle Eastern sources appears to be a highly suitable solution in this regard. 54 percent and 39 percent respectively of the analysts "strongly approve" or at least "approve" corresponding projects- such as the planned "Nabucco Pipeline", which will transport natural gas from Central Asia via Turkey, Bulgaria, Romania and Hungary to Austria. Under the impact of the recent gas row between Russia and Ukraine, the Nabucco pipeline has taken political centre stage again and is fostered by the EU.

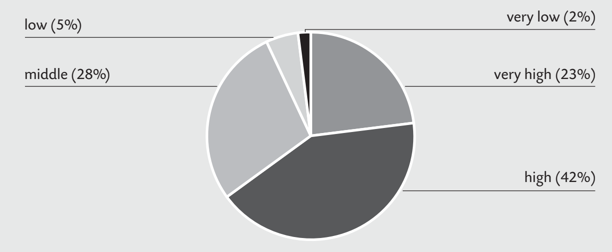
As to be expected, the financial experts predominantly (78 percent) favour incentives to reduce energy consumption. Moreover, most participants share the view that incentives to use renewable forms of energy are appropriate as well in order to reduce the CEE countries' dependency on Russian energy resources. 63 percent of the financial experts "strongly approve" of such measures, while 19 percent at least "approve" of an orientation towards a lasting and sustainable power supply. 20 percent of the financial market experts hold the view that a return to nuclear energy is irresponsible, whereas a surprisingly distinct majority of the participants, namely 62 percent, approve or strongly approve of this measure.

With regard to additional coal production, however, the financial experts take a much more critical stance. The majority of the respondents (64 percent) refuse the technique, most probably on ecological grounds. Nearly two third of the analysts approve or even strongly approve of the alternatives "importing gas in liquefied form from the Middle East" or "building terminals for storing liquefied gas". According to a clear majority of the financial experts, investments in the infrastructure in the CEE region may contribute to more energy independence as well: in increased storage capacities and a smaller intra-regional pipeline network.

Finally, the experts predominantly recommend political solutions, namely the formation of a common energy policy in Europe or a better integration into the EU's electricity market.

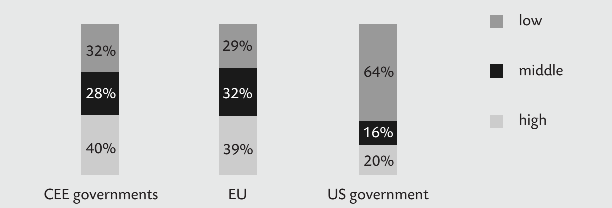
*Mariela Borell, Oliver Herrmann*

Figure A: Assessment of the importance of reducing the dependency of the CEE on Russian energy resources



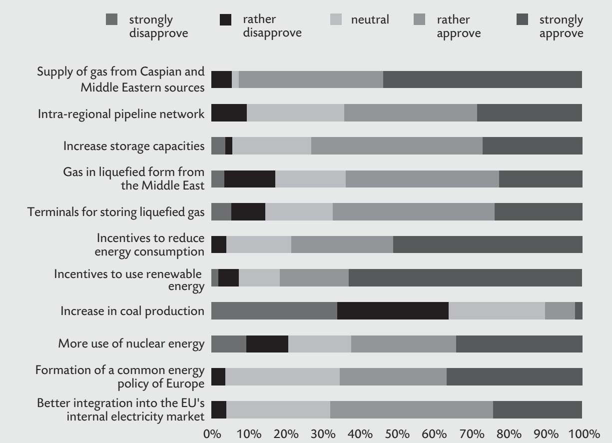

Answers of the participants of the Financial Market Survey CEE Source: ZEW

Figure B: Assessment of the impact of negotiations at different levels on the prospects to reduce the dependency of the CEE countries




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

Figure C: Measures for reducing the dependency




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

## ZEW-Financial Market Survey: March 2009

| Current economic situation | good | | acceptable (normal) | | bad | | balance | |
|---|---|---|---|---|---|---|---|---|
| Austria | 6.2 | ( +1.9 ) | 52.1 | ( -6.6 ) | 41.7 | ( +4.7 ) | -35.5 | ( -2.8 ) |
| Croatia | 0.0 | ( +/-0.0 ) | 50.0 | ( -7.8 ) | 50.0 | ( +7.8 ) | -50.0 | ( -7.8 ) |
| Czech Republic | 9.6 | ( +7.6 ) | 40.4 | ( -11.6 ) | 50.0 | ( +4.0 ) | -40.4 | ( +3.6 ) |
| Hungary | 1.9 | ( +0.1 ) | 27.5 | ( -6.5 ) | 70.6 | ( +6.4 ) | -68.7 | ( -6.3 ) |
| Poland | 23.1 | ( +3.5 ) | 25.0 | ( -4.4 ) | 51.9 | ( +0.9 ) | -28.8 | ( +2.6 ) |
| Romania | 3.8 | ( +1.8 ) | 32.7 | ( -1.3 ) | 63.5 | ( -0.5 ) | -59.7 | ( +2.3 ) |
| Slovakia | 23.6 | ( +0.7 ) | 17.6 | ( -11.6 ) | 58.8 | ( +10.9 ) | -35.2 | ( -10.2 ) |
| CEE | 3.7 | ( +/-0.0 ) | 35.2 | ( +0.7 ) | 61.1 | ( -0.7 ) | -57.4 | ( +0.7 ) |
| Eurozone | 1.9 | ( +1.9 ) | 31.4 | ( +5.9 ) | 66.7 | ( -7.8 ) | -64.8 | ( +9.7 ) |

| Economic expectations | improve | | no change | | worsen | | balance | |
|---|---|---|---|---|---|---|---|---|
| Austria | 14.6 | ( +2.6 ) | 52.1 | ( +0.1 ) | 33.3 | ( -2.7 ) | -18.7 | ( +5.3 ) |
| Croatia | 17.0 | ( -9.0 ) | 51.1 | ( +15.1 ) | 31.9 | ( -6.1 ) | -14.9 | ( -2.9 ) |
| Czech Republic | 13.0 | ( +3.6 ) | 48.1 | ( -1.0 ) | 38.9 | ( -2.6 ) | -25.9 | ( +6.2 ) |
| Hungary | 17.0 | ( -6.2 ) | 45.3 | ( +14.9 ) | 37.7 | ( -8.7 ) | -20.7 | ( +2.5 ) |
| Poland | 15.3 | ( +5.8 ) | 46.2 | ( -6.6 ) | 38.5 | ( +0.8 ) | -23.2 | ( +5.0 ) |
| Romania | 6.2 | ( +2.4 ) | 50.0 | ( -2.8 ) | 43.8 | ( +0.4 ) | -37.6 | ( +2.0 ) |
| Slovakia | 9.8 | ( +0.4 ) | 51.0 | ( +5.7 ) | 39.2 | ( -6.1 ) | -29.4 | ( +6.5 ) |
| CEE | 9.9 | ( +1.1 ) | 47.5 | ( -1.6 ) | 42.6 | ( +0.5 ) | -32.7 | ( +0.6 ) |
| Eurozone | 13.4 | ( +0.9 ) | 48.1 | ( +19.5 ) | 38.5 | ( -20.4 ) | -25.1 | ( +21.3 ) |

| Inflation rate | increase | | no change | | decrease | | balance | |
|---|---|---|---|---|---|---|---|---|
| Austria | 8.5 | ( +4.4 ) | 14.9 | ( -12.2 ) | 76.6 | ( +7.8 ) | -68.1 | ( -3.4 ) |
| Croatia | 14.9 | ( +6.4 ) | 40.4 | ( +12.7 ) | 44.7 | ( -19.1 ) | -29.8 | ( +25.5 ) |
| Czech Republic | 11.3 | ( +7.3 ) | 43.4 | ( +17.4 ) | 45.3 | ( -24.7 ) | -34.0 | ( +32.0 ) |
| Hungary | 18.9 | ( +11.3 ) | 15.1 | ( +5.7 ) | 66.0 | ( -17.0 ) | -47.1 | ( +28.3 ) |
| Poland | 19.2 | ( +15.1 ) | 30.8 | ( +2.2 ) | 50.0 | ( -17.3 ) | -30.8 | ( +32.4 ) |
| Romania | 19.2 | ( +11.2 ) | 32.7 | ( +2.7 ) | 48.1 | ( -13.9 ) | -28.9 | ( +25.1 ) |
| Slovakia | 12.0 | ( +7.8 ) | 44.0 | ( +21.1 ) | 44.0 | ( -28.9 ) | -32.0 | ( +36.7 ) |
| CEE | 15.4 | ( +9.6 ) | 36.5 | ( +11.5 ) | 48.1 | ( -21.1 ) | -32.7 | ( +30.7 ) |
| Eurozone | 9.3 | ( +3.9 ) | 22.2 | ( +14.9 ) | 68.5 | ( -18.8 ) | -59.2 | ( +22.7 ) |

| Short-term interest rates | increase | | | | no change | | | | decrease | | | | balance | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | [abs.] | | [rel.] | | [abs.] | | [rel.] | | [abs.] | | [rel.] | | [abs.] | | [rel.] | |
| Croatia | 23.8 | ( +13.8 ) | 25.0 | ( -5.8 ) | 38.1 | ( +5.6 ) | 52.5 | ( +1.2 ) | 38.1 | ( -19.4 ) | 22.5 | ( +4.6 ) | -14.3 | ( +33.2 ) | 2.5 | ( -10.4 ) |
| Czech Republic | 12.3 | ( +7.9 ) | 21.3 | ( -15.9 ) | 22.4 | ( +13.5 ) | 31.9 | ( -0.7 ) | 65.3 | ( -21.4 ) | 46.8 | ( +16.6 ) | -53.0 | ( +29.3 ) | -25.5 | ( -32.5 ) |
| Hungary | 13.4 | ( +7.4 ) | 14.0 | ( -0.9 ) | 23.1 | ( +13.1 ) | 30.0 | ( +13.0 ) | 63.5 | ( -20.5 ) | 56.0 | ( -12.1 ) | -50.1 | ( +27.9 ) | -42.0 | ( +11.2 ) |
| Poland | 12.0 | ( +5.7 ) | 19.2 | ( +3.7 ) | 22.0 | ( +13.7 ) | 31.9 | ( -17.0 ) | 66.0 | ( -19.4 ) | 48.9 | ( +13.3 ) | -54.0 | ( +25.1 ) | -29.7 | ( -9.6 ) |
| Romania | 25.0 | ( +18.3 ) | 30.5 | ( -7.6 ) | 20.8 | ( +0.8 ) | 21.7 | ( -4.5 ) | 54.2 | ( -19.1 ) | 47.8 | ( +12.1 ) | -29.2 | ( +37.4 ) | -17.3 | ( -19.7 ) |
| Eurozone | 5.7 | ( +2.0 ) | | | 22.6 | ( +0.8 ) | | | 71.7 | ( -2.8 ) | | | -66.0 | ( +4.8 ) | | |

| Long-term interest rates | increase | | | | no change | | | | decrease | | | | balance | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | [abs.] | | [rel.] | | [abs.] | | [rel.] | | [abs.] | | [rel.] | | [abs.] | | [rel.] | |
| Croatia | 25.0 | ( -19.2 ) | 57.8 | ( +33.5 ) | 47.5 | ( +17.3 ) | 21.1 | ( -3.2 ) | 27.5 | ( +1.9 ) | 21.1 | ( -30.3 ) | -2.5 | ( -21.1 ) | 36.7 | ( +63.8 ) |
| Czech Republic | 12.0 | ( +1.6 ) | 43.8 | ( +38.9 ) | 52.0 | ( +27.0 ) | 20.8 | ( -40.2 ) | 36.0 | ( -28.6 ) | 35.4 | ( +1.3 ) | -24.0 | ( +30.2 ) | 8.4 | ( +37.6 ) |
| Hungary | 21.5 | ( +5.8 ) | 51.0 | ( +17.6 ) | 21.6 | ( +9.8 ) | 16.3 | ( -5.9 ) | 56.9 | ( -15.6 ) | 32.7 | ( -11.7 ) | -35.4 | ( +21.4 ) | 18.3 | ( +29.3 ) |
| Poland | 18.0 | ( +9.7 ) | 20.8 | ( +6.5 ) | 22.0 | ( -5.1 ) | 22.9 | ( -22.3 ) | 60.0 | ( -4.6 ) | 56.3 | ( +15.8 ) | -42.0 | ( +14.3 ) | -35.5 | ( -9.3 ) |
| Slovakia | 19.2 | ( +8.1 ) | 47.8 | ( +42.7 ) | 55.3 | ( +35.3 ) | 23.9 | ( -32.5 ) | 25.5 | ( -43.4 ) | 28.3 | ( -10.2 ) | -6.3 | ( +51.5 ) | 19.5 | ( +52.9 ) |
| Germany | 25.0 | ( -0.4 ) | | | 30.8 | ( +3.5 ) | | | 44.2 | ( -3.1 ) | | | -19.2 | ( +2.7 ) | | |

| Stock market indices | increase | | no change | | decrease | | balance | |
|---|---|---|---|---|---|---|---|---|
| EURO STOXX 50 | 48.2 | ( +16.2 ) | 37.0 | ( -3.0 ) | 14.8 | ( -13.2 ) | 33.4 | ( +29.4 ) |
| ATX (Austria) | 48.9 | ( -4.3 ) | 36.2 | ( +14.9 ) | 14.9 | ( -10.6 ) | 34.0 | ( +6.3 ) |
| NTX (CEE) | 48.9 | ( -0.1 ) | 29.8 | ( +7.4 ) | 21.3 | ( -7.3 ) | 27.6 | ( +7.2 ) |
| CROBEX (Croatia) | 35.4 | ( -7.8 ) | 41.7 | ( +8.4 ) | 22.9 | ( -0.6 ) | 12.5 | ( -7.2 ) |
| PX 50 (Czech Rep.) | 46.0 | ( -5.1 ) | 38.0 | ( +15.6 ) | 16.0 | ( -10.5 ) | 30.0 | ( +5.4 ) |
| BUX (Hungary) | 45.1 | ( -6.8 ) | 31.4 | ( +10.2 ) | 23.5 | ( -3.4 ) | 21.6 | ( -3.4 ) |
| WIG (Poland) | 45.1 | ( -3.9 ) | 35.3 | ( +12.9 ) | 19.6 | ( -9.0 ) | 25.5 | ( +5.1 ) |
| BET (Romania) | 35.4 | ( -10.4 ) | 39.6 | ( +16.7 ) | 25.0 | ( -6.3 ) | 10.4 | ( -4.1 ) |
| SAX (Slovakia) | 41.5 | ( -1.9 ) | 39.0 | ( +10.7 ) | 19.5 | ( -8.8 ) | 22.0 | ( +6.9 ) |
| SBI 20 (Slovenia) | 42.9 | ( -5.9 ) | 38.1 | ( +11.3 ) | 19.0 | ( -5.4 ) | 23.9 | ( -0.5 ) |

| Exchange rates (vs. Euro) | appreciate | | no change | | depreciate | | balance | |
|---|---|---|---|---|---|---|---|---|
| Kuna (Croatia) | 16.3 | ( -2.9 ) | 53.5 | ( +6.7 ) | 30.2 | ( -3.8 ) | -13.9 | ( +0.9 ) |
| Koruna (Czech Rep.) | 60.4 | ( +31.0 ) | 30.2 | ( -16.9 ) | 9.4 | ( -14.1 ) | 51.0 | ( +45.1 ) |
| Forint (Hungary) | 51.8 | ( +16.6 ) | 27.8 | ( -9.2 ) | 20.4 | ( -7.4 ) | 31.4 | ( +24.0 ) |
| Zloty (Poland) | 62.3 | ( +25.0 ) | 22.6 | ( -16.6 ) | 15.1 | ( -8.4 ) | 47.2 | ( +33.4 ) |
| Lei (Romania) | 38.3 | ( +20.3 ) | 34.0 | ( -2.0 ) | 27.7 | ( -18.3 ) | 10.6 | ( +38.6 ) |
| US-Dollar | 17.0 | ( -8.5 ) | 37.7 | ( +22.0 ) | 45.3 | ( -13.5 ) | -28.3 | ( +5.0 ) |

Note: 74 Financial experts participated in the March survey which was conducted during the period 02/27/09-03/16/09. 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 February 2009 in parentheses). Balances refer to the differences between positive and negative assessments.

IMPRINT

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