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Financial Market Report CEE

Volume 5 · May 2011

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 March 28, 2011 and April 11, 2011, are published in the May 2011 issue of the "Financial Market Report CEE". 89 financial market experts participated in this month's survey. The answers of all survey participants are included in the calculation of the indicators for the CEE region, the Eurozone and Turkey. The answers of the Turkish participants are not considered for the calculation of the indicators for the individual CEE countries and Austria.

Economic Expectations for Central and Eastern Europe Recover Slightly

The ZEW-Erste Group Bank Economic Sentiment Indicator for Central and Eastern Europe including Turkey (CEE) has increased by 4.8 points to 18.7 points in April 2011. The indicator of the experts' assessment of the current economic situation in the CEE region has increased by 20.2 points to a level of 22.5 points. The indicator displays the strongest increase among all considered economies. The experts' assessment of the current situation has improved in April for all economies with an exception of Croatia. The economic expectations for the Eurozone have slightly worsened again. The respective indicator has decreased by 9.7 points compared to the previous month and has thereby reached a value of minus 1.8 points. The indicator of the assessment of the current economic situation in the Eurozone has improved in April by 3.5 points.

Economic Outlook for the CEE Region, Austria and the Eurozone

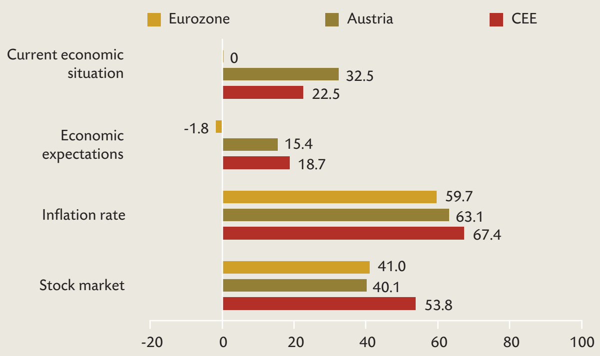
The ZEW-Erste Group Bank Economic Sentiment Indicator for Central and Eastern Europe including Turkey (CEE), which is calculated as the balance of positive and negative assessments of the economic development on a six-month time horizon, has increased by 4.8 points and has thereby reached a value of 18.7 points in April. In contrast, the respective indicators for Austria and the Eurozone display a relatively slight decrease. The expectations for the Eurozone have diminished by 9.7 points and thereby display a negative level of minus 1.8 points this month. The expectations for Austria remain positive at a level of 15.4 points after a slight decrease.

An improvement of the current economic situation is displayed by the respective indicators of the three economies – Austria, CEE and the Eurozone. The strongest improvement of 20.2 points is indicated for the CEE region. The indicator for Austria displays a comparably high level of 32.5 points after an increase of 8.9 points. Similarly to the previous survey the indicator for the Eurozone has increased by 3.5 points in April.

Inflation concerns for the Eurozone have decreased by 13.5 points to a level of 59.7 points in this month's survey. The decrease is mostly due to the responses received after the European Central Bank (ECB) announced an increase in interest rates by 0.25 percentage points. Inflation concerns for Austria have also decreased substantially by 21.3 points to a level of 63.1 points. For the CEE region a slight increase of 6.5 points in inflation concerns is observed. The indicator reflecting the expectations of short-term interest rates in the Eurozone has increased by 17.5 points. Strong expectations towards an interest rate rise were observed in the responses before the ECB announcement. Responses received afterwards indicate that experts expect further increases.

The indicators of the expected development of the stock-market indices for Austria (ATX) and the Eurozone (Eurostoxx 50) have slightly decreased in contrast to the respective indicator for the CEE region.

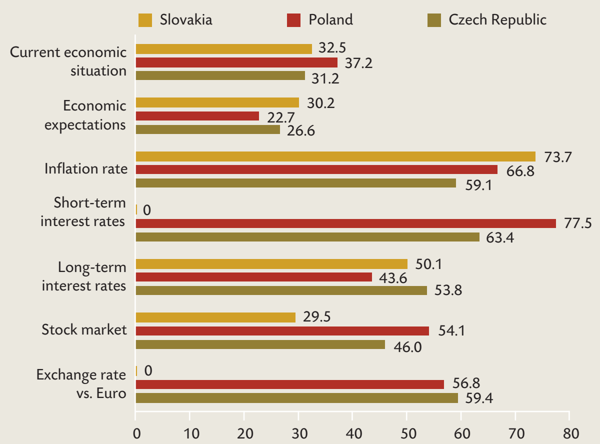
Indicators for CEE, Austria and the Eurozone (balances)



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

Czech Republic, Poland, and Slovakia: Currencies Expected to Appreciate

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 indicator reflecting the economic expectations in Slovakia has increased by 10.8 points and roughly offsets last month's decline. The economic expectations for Poland are almost unchanged at a level of 22.7 points. The indicator for the Czech Republic has slightly decreased by 5.8 points to a level of 26.6 points. The assessment of the current economic situation has slightly improved for the Czech Republic, Poland and Slovakia.

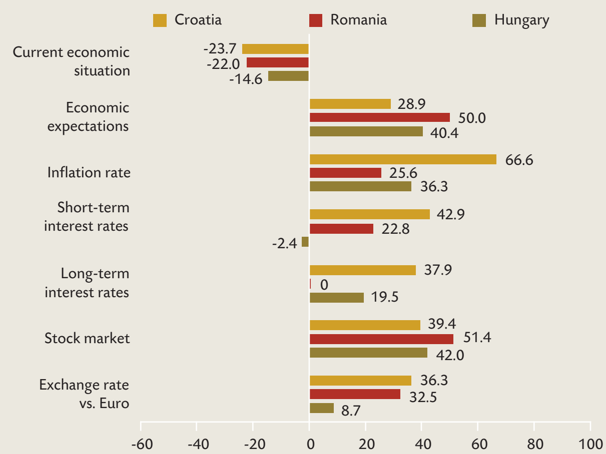
The inflation concerns indicator for the Czech Republic has decreased this month by 11.2 points which is in line with the expectations of an increase of the short-term interest rates. An increase in short-term interest rates in the Czech Republic is expected by 70.7 per cent of the survey respondents. Inflation concerns in Poland and Slovakia are stable indicated by an only slight increase by 1.1 points and 0.1 points in expert's inflation concerns. Still the majority of the experts (73.9 per cent and 78.5 per cent respectively) would expect the inflation rate to increase in the next six months. Although the Central Bank of Poland increased interest rates in April by 0.25 percentage points a large majority of 77.5 per cent of the respondents would expect the short-term rates in Poland to increase. The indicator of expectations on the long-term interest rates in Slovakia has increased only slightly by 1.6 points to a level of 50.1 points.

The value of the balance representing the expected development of the Czech stock market index PX 50 has improved by 14.7 point. The respective balance for the Polish stock market index WIG has also risen by 7.2 points. The Slovak SAX has gained further 3.8 points in April.

A higher share of respondents expects an appreciation of the Czech Koruna against the Euro within the next six months as the respective indicator has increased immensely by 31.6 points this month. Similarly, the respective indicator for the Polish Zloty has increased by 13.9 points to indicate that a higher share of forecasters expects an appreciation of the Polish Zloty against the Euro.

Croatia, Hungary and Romania: Inflation Concerns Slow down

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 indicators reflecting the economic outlook for Croatia and Hungary display a double digit decrease by 22.4 points and 12.2 points respectively to a level of 28.9 points and 40.4 points respectively. In the case of Croatia the decrease in this month's survey more than offsets last month's improvement. The economic outlook for Romania has improved by 5.5 points and has thus reached the highest level of 50.0 points among all economies considered in the survey.

The indicators of assessment of the current economic situation in Hungary and Romania have improved by 17.9 points and 7.6 points respectively. In spite of the improvement the indicators remain negative at minus 14.6 points and minus 22.0 points respectively. The assessment of the current economics situation in Croatia also remains negative at a level of minus 23.7 points after a drop by 9.3 points this month.

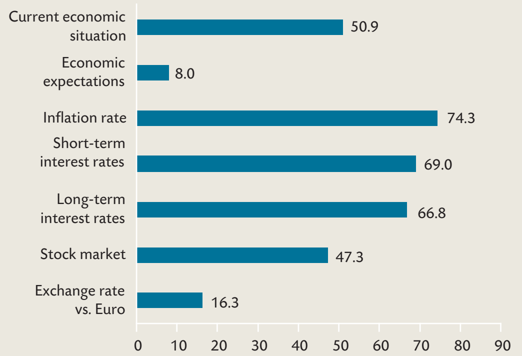
The inflation concerns for Hungary and Romania remain at the lowest levels among the considered economies. The short-term interest rates in Hungary and Romania are expected to remain unchanged by the majority of experts (55.8 per cent and 48.6 per cent respectively). Previous month's high inflationary concerns for Croatia have been largely reversed in this month's survey. The respective indicator decreased by 24.6 which is the largest decrease among all considered economies. The result is in line with the expectations of an increase in short-term and long-term interest rates indicated by the majority of experts.

The expectations of the respondents regarding the development of the stock market index in Croatia (CROBEX) have decreased in this month's survey by 18.6 points. Expectations have also slightly increased for the stock markets indices in Hungary (BUX) and Romania (BET) for which a majority of 55.2 per cent and 60 per cent of the forecasters were bullish.

A higher share of respondents expects an appreciation of the Romanian Leu against the Euro within the next six months. The indicators for Croatian Kuna and the Hungarian Forint have displayed double digit decreases in April.

Turkey: Assessment of Current Situation Improves

Indicators for Turkey

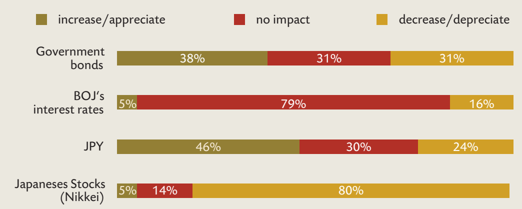


Balance of positive and negative assessment category chosen by respondents of the Financial Market Survey CEE Source: ZEW

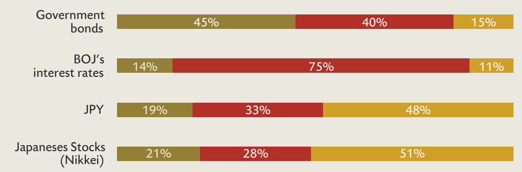
Both the assessment of the current situation and the economic expectations for Turkey have improved in this month's survey. The indicator of the assessment of the current economic situation has reached the highest level of 50.9 points among all considered economies after an increase by 12.4 points. Prevailing optimism for Turkey further results in an increase of the indicator by 6.2 points to a level of 8.0 points. Inflation concerns for Turkey have remained roughly unchanged. The indicator of the assessment of inflation risk remains steady at a level of 74.3. The indicator reflecting the expected stock market development has slightly improved by 1.3 points. Almost two-third (63.1 per cent of the respondents) has predicted the ISE-100 to improve within the next half year. The short-term interest rates are also expected to increase by the majority (74.5 per cent) of the survey participants. In line with this result the responses further indicate an expected appreciation of the Turkish Lira. The respective indicator has increased by 4.0 points.

Special Question: Consequences of the Disasters in Japan

Short-term impact on Japanese economy (‹1 mth)

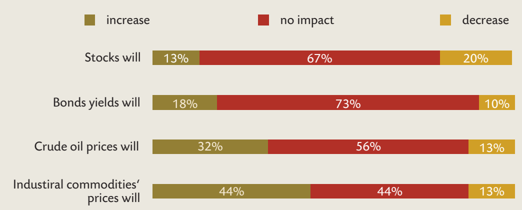


Mid-term impact on Japanese economy (1-6 mths)

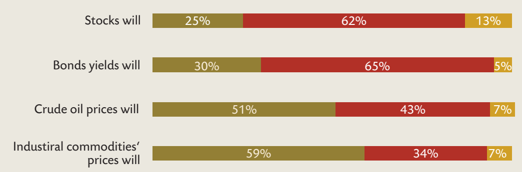


Source: ZEW

Short-term impact on International Markets (‹1 mth)



Mid-term impact on International Markets (1-6 mths)



Source: ZEW

A month after the historic earthquake devastated the Japanese coast its citizens are still struggling to cope with the aftermath. Cities have to be reconstructed; people having lost their belongings are in need of aid and a core meltdown in Fukushima's nuclear reactors has to be prevented. Simultaneously, the damaged industry has to be brought back into operation. These developments have induced the ZEW to pose the monthly special question regarding the crisis' impact in the next six months.

With 80 per cent a vast majority is certain of a short term decline in Japanese stocks and still half of the participants predict a negative impact on the prices in the mid-term. In contrast almost half of the experts believe that government bonds will rise in value in a perspective of six months. Concerning the value of the Yen half of the economists predict an appreciation in the very short term to be followed by depreciation in the following months. This opinion also prevails in the media as the Yen is expected to appreciate in the short-term due to increased demand by insurers.

Regarding international stock markets the experts predict no serious impact. Likewise international bond yields are not expected to be influenced by the crisis in the short run. However, in the medium run with 95 per cent of the panel expecting either no impact (65 per cent) or an increase (30 per cent) the economists predict a positive influence of the Japanese crises on international bond yields by trend. Markets are concerned regarding the impact of the crisis on Japan's demand for crude oil as the country's oil consumption is the third-largest worldwide. The majority of financial market experts in our survey (51 per cent) would expect the crude oil demand and hence crude oil prices to increase within the next half year. In the short term, however, the majority of respondents (56 per cent) rather expect the crisis to have no impact on crude oil prices. Experts' expectations show a slim tendency towards rising prices of industrial commodities in the very short term which grows in perspective of half a year. In fact almost two thirds of the participants predict an increase in commodity prices in this time frame. This result is in line with the prevailing argument that Japan's reconstruction would increase demand for base metals.

Lorenz Kemper and Zwetelina Iliewa

ZEW / Erste Group Bank - Financial Market Survey CEE: April 2011

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	35.0	(+8.5)	62.5	(-8.1)	2.5	(-0.4)	32.5	(+8.9)
Croatia	7.9	(-0.6)	60.5	(-8.1)	31.6	(+8.7)	-23.7	(-9.3)
Czech Republic	35.6	(+7.4)	60.0	(-9.2)	4.4	(+1.8)	31.2	(+5.6)
Hungary	12.5	(+5.0)	60.4	(+7.9)	27.1	(-12.9)	-14.6	(+17.9)
Poland	44.2	(+4.8)	48.8	(-6.5)	7.0	(+1.7)	37.2	(+3.1)
Romania	7.3	(-3.6)	63.4	(+14.8)	29.3	(-11.2)	-22.0	(+7.6)
Slovakia	37.2	(+3.9)	58.1	(-5.8)	4.7	(+1.9)	32.5	(+2.0)
Turkey	52.5	(+8.7)	45.9	(-5.0)	1.6	(-3.7)	50.9	(+12.4)
CEE (incl. Turkey)	28.6	(+13.0)	65.3	(-5.8)	6.1	(-7.2)	22.5	(+20.2)
Eurozone	15.5	(+5.2)	69.0	(-6.9)	15.5	(+1.7)	0.0	(+3.5)

Economic expectations	improve		no change		worsen		balance	
Austria	30.8	(+0.5)	53.8	(-3.8)	15.4	(+3.3)	15.4	(-2.8)
Croatia	36.8	(-17.4)	55.3	(+12.4)	7.9	(+5.0)	28.9	(-22.4)
Czech Republic	35.5	(-2.3)	55.6	(-1.2)	8.9	(+3.5)	26.6	(-5.8)
Hungary	48.9	(-11.6)	42.6	(+11.0)	8.5	(+0.6)	40.4	(-12.2)
Poland	38.6	(+5.3)	45.5	(-10.1)	15.9	(+4.8)	22.7	(+0.5)
Romania	62.5	(+6.9)	25.0	(-8.3)	12.5	(+1.4)	50.0	(+5.5)
Slovakia	39.5	(+6.2)	51.2	(-1.6)	9.3	(-4.6)	30.2	(+10.8)
Turkey	30.6	(+5.6)	46.8	(-5.0)	22.6	(-0.6)	8.0	(+6.2)
CEE (incl. Turkey)	31.2	(+3.3)	56.3	(-1.8)	12.5	(-1.5)	18.7	(+4.8)
Eurozone	25.8	(-1.7)	46.6	(-6.3)	27.6	(+8.0)	-1.8	(-9.7)

Inflation rate	increase		no change		decrease		balance	
Austria	71.0	(-16.5)	21.1	(+11.7)	7.9	(+4.8)	63.1	(-21.3)
Croatia	72.2	(-19.0)	22.2	(+13.4)	5.6	(+5.6)	66.6	(-24.6)
Czech Republic	68.2	(-4.8)	22.7	(-1.6)	9.1	(+6.4)	59.1	(-11.2)
Hungary	54.5	(+5.8)	27.3	(-10.5)	18.2	(+4.7)	36.3	(+1.1)
Poland	73.9	(+8.2)	19.0	(-15.3)	7.1	(+7.1)	66.8	(+1.1)
Romania	48.7	(+0.2)	28.2	(-0.4)	23.1	(+0.2)	25.6	(+/-0.0)
Slovakia	78.5	(+2.0)	16.7	(-3.9)	4.8	(+1.9)	73.7	(+0.1)
Turkey	79.1	(+1.3)	16.1	(-2.4)	4.8	(+1.1)	74.3	(+0.2)
CEE (incl. Turkey)	73.9	(+8.1)	19.6	(-9.7)	6.5	(+1.6)	67.4	(+6.5)
Eurozone	70.2	(-6.8)	19.3	(+0.1)	10.5	(+6.7)	59.7	(-13.5)

Short-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	50.0	(+17.8)	28.0	(+8.0)	42.9	(-17.8)	40.0	(+5.0)	7.1	(+/-0.0)	32.0	(-13.0)	42.9	(+17.8)	-4.0	(+21.0)
Czech Republic	70.7	(+6.0)	15.8	(+4.7)	22.0	(-7.4)	50.0	(-5.6)	7.3	(+1.4)	34.2	(+0.9)	63.4	(+4.6)	-18.4	(+3.8)
Hungary	20.9	(-20.3)	12.9	(-13.0)	55.8	(+32.3)	25.6	(+14.5)	23.3	(-12.0)	61.5	(-1.5)	-2.4	(-8.3)	-48.6	(-11.5)
Poland	77.5	(-1.3)	29.7	(-20.3)	22.5	(+4.3)	62.2	(+31.4)	0.0	(-3.0)	8.1	(-11.1)	77.5	(+1.7)	21.6	(-9.2)
Romania	37.1	(+8.1)	23.4	(-2.7)	48.6	(+0.2)	33.3	(+24.6)	14.3	(-8.3)	43.3	(-21.9)	22.8	(+16.4)	-19.9	(+19.2)
Turkey	74.5	(+14.9)	59.2	(+5.4)	20.0	(+23.3)	24.5	(-6.3)	5.5	(-0.9)	16.3	(+0.9)	69.0	(+15.8)	42.9	(+4.5)
Eurozone	91.1	(+15.5)			8.9	(-13.5)			0.0	(-2.0)			91.1	(+17.5)		

Long-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	51.7	(+3.5)	35.7	(+0.9)	34.5	(-2.5)	39.3	(-8.5)	13.8	(-1.0)	25.0	(+7.6)	37.9	(+4.5)	10.7	(-6.7)
Czech Republic	64.1	(-13.0)	25.7	(-4.3)	25.6	(+11.3)	48.7	(-1.3)	10.3	(+1.7)	25.6	(+5.6)	53.8	(-14.7)	0.1	(-9.9)
Hungary	39.0	(-2.2)	31.7	(-5.0)	41.5	(+12.1)	12.2	(-7.8)	19.5	(-9.9)	56.1	(+12.8)	19.5	(+7.7)	-24.4	(-17.8)
Poland	56.4	(-13.3)	33.3	(-18.4)	30.8	(+24.7)	35.9	(+15.2)	12.8	(-11.4)	30.8	(+3.2)	43.6	(-1.9)	2.5	(-21.6)
Slovakia	58.4	(-2.2)	19.0	(-5.2)	33.3	(+6.0)	48.6	(+10.7)	8.3	(-3.8)	32.4	(-5.5)	50.1	(+1.6)	-13.4	(+0.3)
Turkey	74.6	(+23.5)	61.3	(+2.3)	17.6	(-22.4)	16.3	(-9.3)	7.8	(-1.1)	22.4	(+7.0)	66.8	(+24.6)	38.9	(-4.7)
Germany	84.5	(+18.7)			13.3	(-15.6)			2.2	(-3.1)			82.3	(+21.8)		

Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	54.6	(-7.0)	31.8	(+6.2)	13.6	(+0.8)	41.0	(-7.8)
ATX (Austria)	51.5	(-9.2)	37.1	(+12.1)	11.4	(-2.9)	40.1	(-6.3)
NTX (CEE)	64.1	(+0.5)	25.6	(+4.4)	10.3	(-4.9)	53.8	(+5.4)
CROBEX (Croatia)	51.5	(-13.0)	36.4	(+7.4)	12.1	(+5.6)	39.4	(-18.6)
PX 50 (Czech Rep.)	54.1	(+7.2)	37.8	(+0.3)	8.1	(-7.5)	46.0	(+14.7)
BUX (Hungary)	55.2	(-3.7)	31.6	(+8.1)	13.2	(-4.4)	42.0	(+0.7)
WIG (Poland)	62.2	(+2.8)	29.7	(+1.6)	8.1	(-4.4)	54.1	(+7.2)
BET (Romania)	60.0	(+1.4)	31.4	(+3.8)	8.6	(-5.2)	51.4	(+6.6)
SAX (Slovakia)	38.3	(-6.8)	52.9	(+17.4)	8.8	(-10.6)	29.5	(+3.8)
ISE-100 (Turkey)	63.1	(-0.9)	21.1	(+3.1)	15.8	(-2.2)	47.3	(+1.3)

Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	42.4	(-10.7)	51.5	(+10.9)	6.1	(-0.2)	36.3	(-10.5)
Koruna (Czech Rep.)	64.2	(+28.1)	31.0	(-24.6)	4.8	(-3.5)	59.4	(+31.6)
Forint (Hungary)	32.6	(-10.2)	43.5	(+9.2)	23.9	(+1.0)	8.7	(-11.2)
Zloty (Poland)	65.9	(+3.0)	25.0	(+7.9)	9.1	(-10.9)	56.8	(+13.9)
Lei (Romania)	48.7	(-4.4)	35.1	(+10.1)	16.2	(-5.7)	32.5	(+1.3)
Lira (Turkey)	41.8	(+3.0)	32.7	(-2.0)	25.5	(-1.0)	16.3	(+4.0)
US-Dollar	53.8	(+2.8)	18.5	(-5.0)	27.7	(+2.2)	26.1	(+0.6)

Note: 89 Financial market experts, 26 from which from Turkey, participated in the April survey which was conducted during the period 03/28/11-04/11/11. 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 March 2011 in parentheses). Balances refer to the differences between positive and negative assessments.

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