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Financial Market Report CEE

Volume 3 · June 2009

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 May 4 and 18, 2009, are published in the June 2009 issue of the "Financial Market Report CEE". 69 financial market experts participated in this month's survey.

Economic expectations for Central and Eastern Europe turn positive again

The financial market experts' economic outlook for Central and Eastern Europe (CEE) improves by 9.9 points in May. Currently standing at 6.0 points, the ZEW/Erste Group Bank sentiment indicator CEE has turned positive for the first time since September 2007. Still, 42 percent of the survey participants expect no significant change of the business cycle in the region. As to Austria and the Eurozone, the analysts' predictions are more optimistic, compared to the previous month, as well. The outcomes of this month's survey for the individual CEE countries are characterised by brighter assessments of the economic development on a six month horizon and by scepticism with regard to the present business conditions. In spite of having worsened in May, the anticipated development of the stock market indices for the coming half year remains positive.

Economic Outlook for CEE Countries, Austria and the Eurozone

The ZEW-Erste Group Bank sentiment indicator for Central and Eastern Europe which captures the negative and positive assessments on the region's future economic development rises in May once again by 9.9 points, turning positive to 6.0 points. The share of survey participants forecasting an economic rebound in the CEE area (32 percent) now outweighs the share of respondents anticipating a further cyclical downturn (26 percent), which is a novelty since the outbreak of the financial crisis. As to Austria, the analysts' prediction is more optimistic, compared to the previous month, as well. The indicator covering the assessment of Austria's economic development for the next six months increases in the May survey by 6.6 to 12.6 points. However, the sentiment indicator for the Eurozone notes the most distinct recovery, rising by 31.0 to 13.1 points at present.

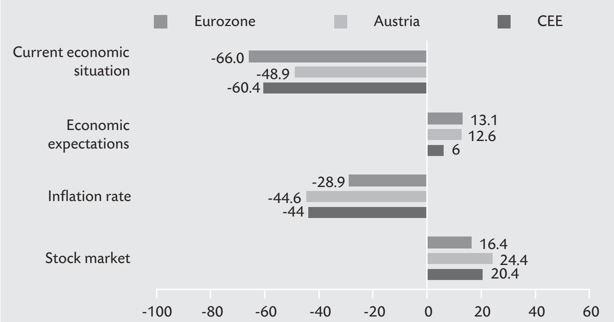
The experts' valuations of the current economic situation in the CEE region as well as in Austria have worsened this month. The respective indicator for the CEE area declines by 6.4 to minus 60.4 points. The balance capturing the appraisal of the present state of the Austrian economy recedes by 21.8 to minus 48.9 points. By opposition, the rating of the current economic situation in the Eurozone stabilises compared to the April survey. The associated indicator increases by 0.7 to minus 66.0 points.

The analysts' inflation forecast for the CEE region and Austria remains nearly unchanged in May. The corresponding indicators rest nearly unaltered at minus 44.0 and minus 44.6 points respectively. The majority of the respondents still reckon with falling inflation rates. In contrast, the expectations for the Eurozone predominantly shift from declining to constant rates of price increase.

Against the background of the recent interest rate cut to one percent in the Eurozone, the share of respondents assuming a further interest rate reduction on a six month horizon has dropped considerably. The respective balance now stands at minus 47.0 points instead of 65.9 points so far.

In spite of having worsened in May, the anticipated development of the stock market indices for the CEE region (NTX) and Austria (ATX) as well as of the Eurostoxx 50 for the coming half year remains predominantly positive.

Indicators for CEE, Austria and the Eurozone (balances)

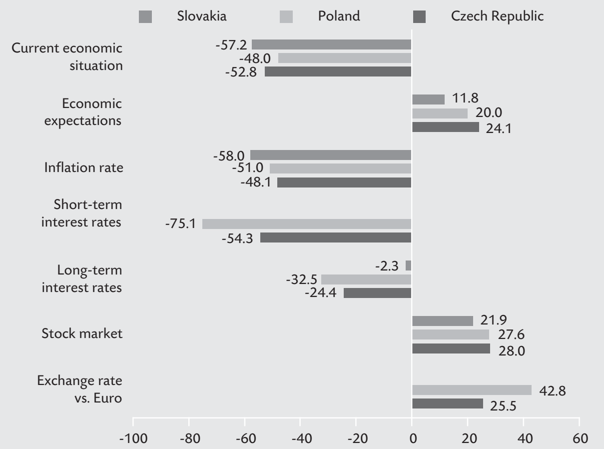


Balance of positive and negative assessment category chosen by respondents of the Financial Market Survey CEE

Source: ZEW

Czech Republic, Poland and Slovakia: Economic Forecasts Keep on Rising

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

According to the financial analysts, the economic prospects for the Czech Republic, Poland and Slovakia have improved considerably again this month. The experts' growing optimism is reflected in distinct rises of the corresponding balances. The sentiment indicator for the Czech Republic increases by 18.6 to 24.1 points in May, maintaining the top position within the country comparison. The appraisals for Poland and Slovakia reach 20.0 points and 11.8 points respectively, both having turned positive this month.

Despite the bright economic prospects, the analysts' valuations of the current economic conditions in the three countries have worsened. The associated balance for the Czech Republic recedes by 32.4 to minus 52.8 points. As to Poland, the indicator loses 18.4 to minus 48.0 points. 70 percent of the respondents are pessimistic about the current economic circumstances in Slovakia, resulting in the corresponding balance dropping by 31.3 to minus 57.2 points.

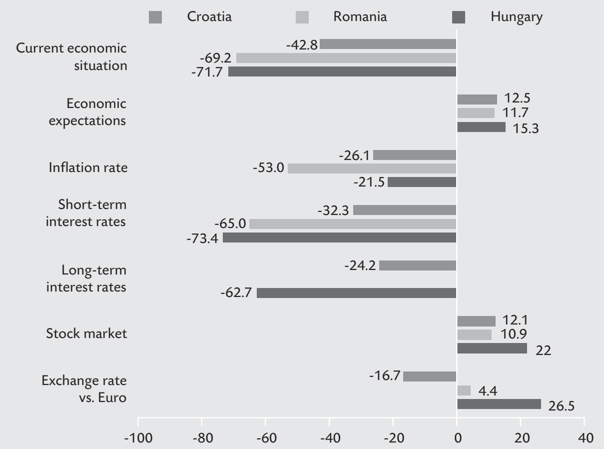
For the coming six months a nearly unchanged majority of more than 60 percent of the survey participants count on declining inflation rates with regard to Poland and Slovakia. The outcomes for the Czech Republic, however, are characterised by a shift of the experts' prognosis from falling to constant inflation rates.

The analysts attach the most favourable future potential to the Czech stock market PX50, the corresponding balance achieving with 28.0 points the highest value among the CEE nations. Nearly equally optimistic prospects are attributed to the Polish WIG, since the associated indicator recedes only marginally to 27.6 points. The respondents' prognosis on the development of the Slovak share index SAX is average among the evaluations for the individual CEE countries, resting almost constant at 21.9 points.

A growing majority of the financial experts anticipate an appreciation of the Polish Zloty versus the Euro within the next half year. The balance capturing the currency expectations jumps by 23.3 points to 42.8 points.

Hungary, Romania and Croatia: Positive Economic Outlook Prevails

Indicators for Croatia, Hungary, and Romania



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

Consistent with the optimistic forecast for the CEE region as a whole, the analysts' economic expectations for Hungary and Romania change for the better in May. The corresponding sentiment indicator for Romania turns positive for the first time since July 2007, rising by 26.1 points to 11.7 points. The positive economic expectations for Hungary prevail over the negative ones for the first time again since September 2008. The indicator rises by 20.9 points to 15.3 points. According to the respondents, the business outlook for Croatia remains nearly unchanged compared to the April survey, as the associated balance recedes marginally to 12.5 points. Thus, Croatia constitutes an exception among the examined CEE countries.

Regardless of the mostly improved economic prospects, the financial experts' view on the current economic circumstances in the three countries remains sceptical. Approximately 75 percent of the survey participants describe the present situation in Hungary and Romania as “bad”, leading to negative balances of minus 71.7 (minus 5.7 compared to the previous month) and minus 69.2 points (minus 13.0 points) respectively – the lowest values in this category. The financial experts' assessment of the Croatian economy worsens slightly to minus 42.8 points.

The analysts' estimations increasingly tend towards falling inflation rates in Hungary, Romania and Slovakia for the coming half year, as all three associated balances decline significantly in May. Accordingly, an overwhelming majority, namely 77.8 percent and 70.0 percent, of all respondents expect the national banks in Hungary and Romania to cut their prime interest rates within the next six months.

With respect to the anticipated development on the stock markets, the experts' appraisal for the Croatian CROBEX recedes by 20.6 points, but remains positive, nonetheless, standing at 12.1 points. The same holds for the prognosis on the development of the Hungarian BUX and the Romanian BET, the associated indicators closing at 22.0 points (minus 10.6 points) and 10.9 points (minus 18.9 points).

Special Question: Monetary Policy During the Crisis

The special question in May deals with the scope of monetary policy measures in the CEE area, the Eurozone and the USA for contributing to an economic recovery. The financial experts are asked to assess potential instruments of central banks, regarding their effectiveness to improve the liquidity situation of commercial banks during the crisis and to stimulate the business cycle. Moreover, the analysts compare the significance of both monetary and fiscal means in this context and appraise potentially arising inflation risks in the above named regions.

With regard to monetary policy instruments, the survey participants are convinced that adjustments to the standing facilities corridor and an extension of eligible collateral are most suitable to foster lending. 66 and 65 percent respectively of the respondents hold the view that both instruments are at least “effective” in this regard, although significantly more experts assess the impact of broadening the range of eligible collateral as “very effective” (25 percent).

Increasing the maturities of open market operations receives approval from the experts, as well. The ECB increasingly uses this option to strengthen the balance sheets of commercial banks. 63 percent of the analysts support this policy, slightly preferring it to the mere extension of regular/short-term open market operations volumes.

The answers of the experts suggest a high approval of the reaction of the ECB to the financial market crisis. The ECB has made changes to the standing facility corridor, increased the range of eligible collateral, and increased volumes and maturities of the open market operations as well. However, the newly introduced policy of the Fed of credit easing or quantitative easing seems to be less supported by the experts. Nearly half of them evaluate their impact as “slightly effective” or even “ineffective”.

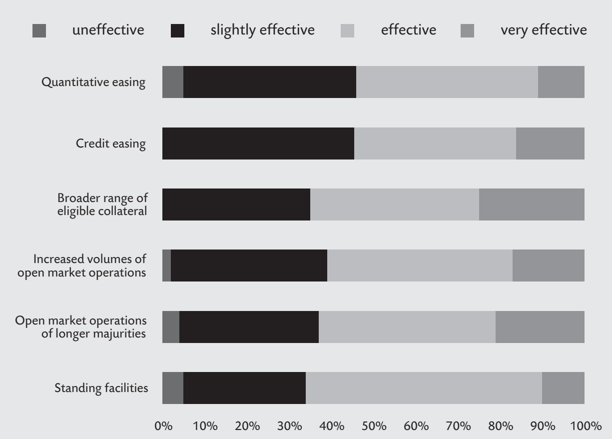
Within the second part of this month’s special question, we asked the financial experts to compare the effectiveness of monetary and fiscal policy measures for stimulating the economic activity in the Eurozone, the CEE area and the United States.

With regard to all three analysed regions, slightly more respondents consider monetary rather than fiscal instruments to be “efficient” or even “very efficient”. Still, the top rating was in each case attributed more often to fiscal policy means.

Nonetheless, some regional differences become apparent, as well. As to the USA, a comparatively large share of respondents, namely 22 and 17 percent respectively, believe that expansive interventions by the government and the Fed will turn out to be highly appropriate for reviving the business cycle. Considerably fewer experts (less than 10 percent) are similarly optimistic concerning the Eurozone and the CEE region. Nonetheless, 8 percent of the participants seem to consider the scope of the Fed to be exhausted with interest rates close to zero, rating the impact of US monetary policy with “ineffective”.

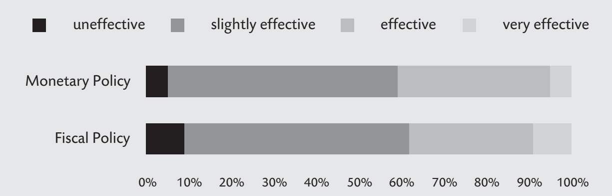
Compared to the outcomes for the Eurozone and the USA, the financial experts predominantly think that both polices will prove to be somewhat less effective in the CEE region.

Figure A: Assessment of the effectiveness of monetary policy measures in the Eurozone



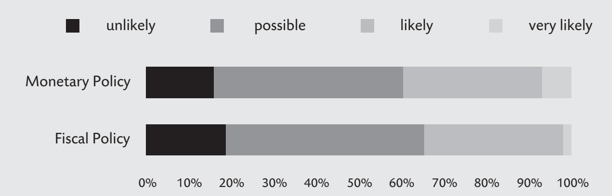
Source: ZEW

Figure B: Assessment of the effectiveness of policy measures for economic activity in CEE



Source: ZEW

Figure C: Assessment of the inflation risk in the long term following the expansive monetary or fiscal policy in CEE



Source: ZEW

More than half of the analysts, approximately 60 percent, evaluate the bearing of expansive policy interventions in the Central European countries as below average.

Finally, we were interested in the financial experts’ view on the consequences of either expansive fiscal or monetary policy measures in the Eurozone, the CEE region and the USA. Is there an increased risk of inflation?

Primarily, the results suggest that the analysts assess the impact of monetary and fiscal policies on inflation risk nearly identically, since the respective valuations differ only marginally. From their point of view, however, the inflation risk varies considerably over the analysed regions. The majority of the respondents believe that the risk of price increases is lower within the CEE economies compared to the Eurozone and the USA.

Mariela Borell, Oliver Herrmann

ZEW-Financial Market Survey: May 2009

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	6.4	(-4.0)	38.3	(-13.8)	55.3	(+17.8)	-48.9	(-21.8)
Croatia	2.4	(+0.3)	52.4	(-2.9)	45.2	(+2.6)	-42.8	(-2.3)
Czech Republic	1.9	(-20.3)	43.4	(+8.2)	54.7	(+12.1)	-52.8	(-32.4)
Hungary	1.9	(+/-0.0)	24.5	(-5.7)	73.6	(+5.7)	-71.7	(-5.7)
Poland	12.0	(-8.4)	28.0	(-1.6)	60.0	(+10.0)	-48.0	(-18.4)
Romania	5.8	(+1.6)	19.2	(-16.2)	75.0	(+14.6)	-69.2	(-13.0)
Slovakia	12.2	(-8.2)	18.4	(-14.9)	69.4	(+23.1)	-57.2	(-31.3)
CEE	1.9	(-0.1)	35.8	(-6.2)	62.3	(+6.3)	-60.4	(-6.4)
Eurozone	1.9	(-1.6)	30.2	(+3.9)	67.9	(-2.3)	-66.0	(+0.7)

Economic expectations	improve		no change		worsen		balance	
Austria	33.4	(+7.4)	45.8	(-8.2)	20.8	(+0.8)	12.6	(+6.6)
Croatia	37.5	(-2.5)	37.5	(+3.5)	25.0	(-1.0)	12.5	(-1.5)
Czech Republic	38.9	(+13.4)	46.3	(-8.2)	14.8	(-5.2)	24.1	(+18.6)
Hungary	38.4	(+17.6)	38.5	(-14.3)	23.1	(-3.3)	15.3	(+20.9)
Poland	44.0	(+19.9)	32.0	(-18.0)	24.0	(-1.9)	20.0	(+21.8)
Romania	39.2	(+20.9)	33.3	(-15.7)	27.5	(-5.2)	11.7	(+26.1)
Slovakia	35.3	(+18.0)	41.2	(-16.5)	23.5	(-1.5)	11.8	(+19.5)
CEE	32.0	(+6.5)	42.0	(-3.1)	26.0	(-3.4)	6.0	(+9.9)
Eurozone	32.0	(+8.8)	49.1	(+13.4)	18.9	(-22.2)	13.1	(+31.0)

Inflation rate	increase		no change		decrease		balance	
Austria	10.7	(+2.9)	34.0	(-3.3)	55.3	(+0.4)	-44.6	(+2.5)
Croatia	19.1	(-17.7)	35.7	(+13.3)	45.2	(+4.4)	-26.1	(-22.1)
Czech Republic	9.6	(+4.1)	32.7	(+8.6)	57.7	(-12.7)	-48.1	(+16.8)
Hungary	27.5	(-8.4)	23.5	(-1.0)	49.0	(+9.4)	-21.5	(-17.8)
Poland	10.2	(-1.4)	28.6	(+1.7)	61.2	(-0.3)	-51.0	(-1.1)
Romania	13.7	(-2.7)	19.6	(-2.8)	66.7	(+5.5)	-53.0	(-8.2)
Slovakia	10.0	(+4.4)	22.0	(-8.2)	68.0	(+3.8)	-58.0	(+0.6)
CEE	14.0	(+0.5)	28.0	(-0.8)	58.0	(+0.3)	-44.0	(+0.2)
Eurozone	11.5	(-1.5)	48.1	(+18.5)	40.4	(-17.0)	-28.9	(+15.5)

Short-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	5.9	(-7.8)	13.4	(-9.1)	55.9	(-0.9)	43.3	(-11.7)	38.2	(+8.7)	43.3	(+20.8)	-32.3	(-16.5)	-29.9	(-29.9)
Czech Republic	2.2	(-4.5)	25.6	(-18.5)	41.3	(+10.2)	44.2	(+11.6)	56.5	(-5.7)	30.2	(+6.9)	-54.3	(+1.2)	-4.6	(-25.4)
Hungary	4.4	(-4.3)	11.6	(-4.3)	17.8	(+0.4)	27.9	(-6.2)	77.8	(+3.9)	60.5	(+10.5)	-73.4	(-8.2)	-48.9	(-14.8)
Poland	2.2	(-4.7)	9.8	(-4.1)	20.5	(-2.8)	39.0	(-2.9)	77.3	(+7.5)	51.2	(+7.0)	-75.1	(-12.2)	-41.4	(-11.1)
Romania	5.0	(-10.0)	27.1	(-21.5)	25.0	(+10.0)	24.3	(+12.9)	70.0	(+/-0.0)	48.6	(+8.6)	-65.0	(-10.0)	-21.5	(-30.1)
Eurozone	6.1	(+1.8)			40.8	(+15.3)			53.1	(-17.1)			-47.0	(+18.9)		

Long-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	9.1	(-8.9)	16.7	(-7.0)	57.6	(+39.7)	50.0	(-2.6)	33.3	(-30.8)	33.3	(+9.6)	-24.2	(+21.9)	-16.6	(-16.6)
Czech Republic	17.8	(+8.5)	16.7	(-22.8)	40.0	(-6.5)	33.3	(+5.4)	42.2	(-2.0)	50.0	(+17.4)	-24.4	(+10.5)	-33.3	(-40.2)
Hungary	14.0	(+4.9)	12.2	(-29.7)	9.3	(-2.1)	17.1	(+5.5)	76.7	(-2.8)	70.7	(+24.2)	-62.7	(+7.7)	-58.5	(-53.9)
Poland	14.0	(+6.9)	12.5	(-1.7)	39.5	(-10.5)	40.0	(-14.8)	46.5	(+3.6)	47.5	(+16.5)	-32.5	(+3.3)	-35	(-18.2)
Slovakia	27.9	(+9.9)	15.3	(+0.3)	41.9	(-6.8)	46.2	(-13.8)	30.2	(-3.1)	38.5	(+13.5)	-2.3	(+13.0)	-23.2	(-13.2)
Germany	33.3	(+8.8)			39.6	(-4.8)			27.1	(-4.0)			6.2	(+12.8)		

Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	47.0	(-1.0)	22.4	(-17.6)	30.6	(+18.6)	16.4	(-19.6)
ATX (Austria)	44.4	(-5.6)	35.6	(-1.9)	20.0	(+7.5)	24.4	(-13.1)
NTX (CEE)	40.8	(-10.2)	38.8	(+4.1)	20.4	(+6.1)	20.4	(-16.3)
CROBEX (Croatia)	34.1	(-14.0)	43.9	(+7.4)	22.0	(+6.6)	12.1	(-20.6)
PX 50 (Czech Rep.)	46.0	(-1.0)	36.0	(-0.7)	18.0	(+1.7)	28.0	(-2.7)
BUX (Hungary)	42.0	(-4.1)	38.0	(-2.4)	20.0	(+6.5)	22.0	(-10.6)
WIG (Poland)	42.5	(-5.5)	42.6	(+6.6)	14.9	(-1.1)	27.6	(-4.4)
BET (Romania)	34.8	(-9.9)	41.3	(+0.9)	23.9	(+9.0)	10.9	(-18.9)
SAX (Slovakia)	39.0	(-0.5)	43.9	(-0.3)	17.1	(+0.8)	21.9	(-1.3)
SBI 20 (Slovenia)	40.0	(-7.8)	40.0	(+1.4)	20.0	(+6.4)	20.0	(-14.2)

Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	11.9	(-2.6)	59.5	(+3.2)	28.6	(-0.6)	-16.7	(-2.0)
Koruna (Czech Rep.)	45.1	(-5.9)	35.3	(-2.4)	19.6	(+8.3)	25.5	(-14.2)
Forint (Hungary)	40.8	(-6.3)	44.9	(+27.3)	14.3	(-21.0)	26.5	(+14.7)
Zloty (Poland)	57.1	(+16.0)	28.6	(-8.7)	14.3	(-7.3)	42.8	(+23.3)
Lei (Romania)	28.3	(-3.5)	47.8	(+2.3)	23.9	(+1.2)	4.4	(-4.7)
US-Dollar	20.4	(-3.6)	14.3	(+2.3)	65.3	(+1.3)	-44.9	(-4.9)

Note: 69 Financial experts participated in the May survey which was conducted during the period 05/04/09-05/18/09. 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 April 2009 in parentheses). Balances refer to the differences between positive and negative assessments.

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