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# Financial Market Report CEE

Volume 2 · June 2014

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 among approximately 160 financial market experts for Central and Eastern Europe (CEE), Austria, as well as the Eurozone. The experts are asked for their assessments and expectations with regard to economic and financial market data. The June issue of the "Financial Market Report CEE" contains the results of the current survey, conducted between April 28, 2014 and May 12, 2014, as well as an overview of the development of the indicators over the last three months. 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.**

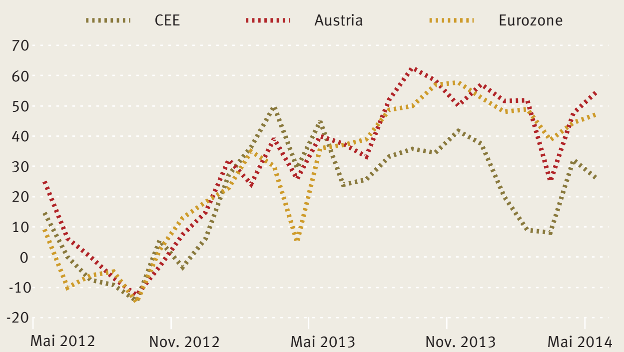
## Economic Sentiments for the CEE Region Improve

During the past three months (from March 2014 until May 2014) the economic expectations for Central and Eastern Europe have displayed an overall improvement. The ZEW-Erste Group Bank Economic Sentiment Indicator for the CEE region has increased by overall 17.0 points over this period and now stands at a level of 26.0 points. A month ago the indicator reached its highest level since the beginning of the year. To a large extent the improvement of the indicator for the region can be ascribed to the improvement of the expectations for Turkey, Hungary and Slovakia. All three countries have displayed a post-elections rise in optimism after the presidential elections in Slovakia in mid-March, the local elections in Turkey at the end of March and the parliamentary elections in Hungary at the beginning of April. In contrast, experts have revised their optimistic outlook for Poland and the Czech Republic over the past three months. The decrease of optimism for both countries appears at odds with the positive economic growth figures announced for the first quarter of 2014. In the first quarter of 2014 the GDP expanded by 3.4% (yoy) in Poland, which is the largest growth rate during the past two years. The GDP growth rate in the Czech Republic was announced at 2.0% (yoy).

Experts' assessment of the current situation in the CEE region has displayed large fluctuations during the past three months. After a major decrease in March the indicator managed to almost entirely rebound and currently stands only 1.0 point short of its level as of February 2014. The drop in March was largely driven by a sharp decrease of the indicators for Hungary (decrease by 16.2 points) and Romania (decrease by 10.2 points). The indicators decrease was only partly reversed during the subsequent survey waves.

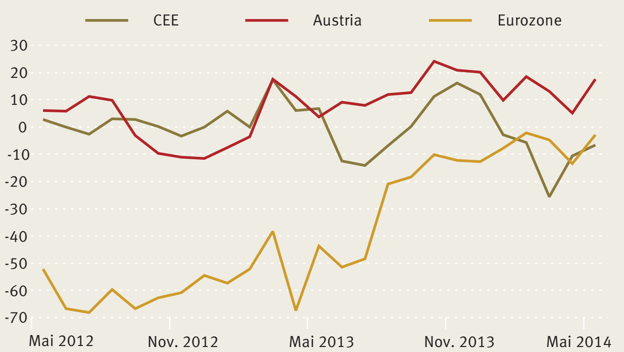
Economic sentiments for the Eurozone and Austria have largely fluctuated over the past three months. Both sentiment indicators have dropped at the beginning of the period – a decrease by 27 points for Austria and by 10.1 points for the Eurozone. The indicator for the Eurozone has almost entirely rebounded, currently ranging only 1.7 points short of its level as of February 2014. The respective sentiment indicator for Austria has even managed to surpass its February-level by 2.6 points and currently stands at 54.5 points, which is at the same time its highest level for 2014. The drop of the sentiment indicators for the Eurozone and Austria was followed by a drop of the indicators of experts' assessment of the current situation in the two economies a month later, in April 2014. The respective indicators dropped in April by 8.7 points (Eurozone) and 7.8 points (Austria) and managed to completely rebound in the subsequent survey wave in May 2014

Economic Expectations for CEE, Austria and the Eurozone




Balance of positive and negative economic expectations for the next 6 months.
Source: ZEW

Assessment of Current Economic Situation in CEE, Austria and the Eurozone




Balance of positive and negative assessment of the current economic situation.
Source: ZEW

## Czech Republic, Poland, and Slovakia: Positive Current Situation

Economic expectations for the Czech Republic have deteriorated over the past three months. After climbing to a historical high of 78.8 points in February, the indicator of experts' sentiments for the development of the economic situation in the country over the next six months displayed a large drop by 31.5 points in March, which was only partly reversed in the consecutive months to reach the current level of 66.7 points. In February, the proportion of optimists was only 52.6 per cent – the lowest proportion since February 2013. Currently two-thirds of the experts share a positive outlook for the country. Experts' assessment of the current situation in the country has also decreased by 3.7 points over the past three months, but the scope of the fluctuations in the respective indicator has been a fraction of the scope of the fluctuations in the indicator of experts' sentiments for the country. The decrease in optimism is at odds with the recent development of the macroeconomic indicators for the country. According to the Czech Statistical Office, the GDP has increased by 2.0% (yoy).

Economic expectations for Poland have also deteriorated over the past three months. The respective indicator has dropped by 18.2 points at the beginning of the period and has currently settled at 44.9 points, which is 13.9 points below its level as of February 2014. In contrast, experts' assessment of the current situation in the country has improved by 4.3 points overall over the last three months. What is more, for the fourth month in a row there is nobody among the survey respondents to share concerns regarding the current situation in Poland. This positive assessment is in line with the macroeconomic indicators for the country. In the first quarter of 2014 the GDP expanded by 3.4% (yoy) which is the largest growth rate in two years.

After the presidential elections in Slovakia, experts' expectations with regard to the economic outlook of the country have improved significantly. The respective indicator of economic sentiments, which stood at 45.6 points prior to the elections on March 15th, has increased by 15.7 points over the last two survey waves. Experts' assessment of the current economic situation in the country has also slightly improved. The respective indicator has increased by 3.7 points.

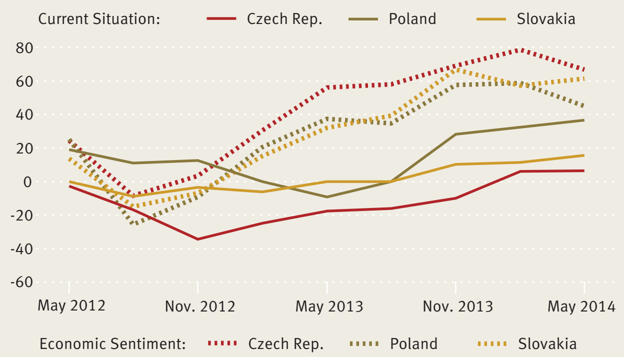
## Croatia, Hungary and Romania: Improved Economic Outlook

Economic expectations for Hungary have improved significantly after the parliamentary elections on April 6th - the first election conducted according to the new electoral law enforced in January 2012. The fact that Viktor Orban was re-elected to his third term as a prime minister of Hungary was well-received by the financial market experts. This is indicated by the economic sentiments indicator as well as the indicator of experts' assessment of the current economic situation in Hungary which increased by 20.6 and 9.6 points as compared to the respective level of the indicators in March 2014. Prior to the elections, in mid-January 2014, the decision of Viktor Orban to sign an agreement with Russian president Vladimir Putin to increase Hungary's nuclear power was met with criticism. The increased optimism of the experts is also in line with the positive macroeconomic figures for the country. The GDP has increased by 3.5% (yoy) in the first quarter. This marks the fastest growth in over seven years.

Economic expectations for Croatia have improved significantly over the past three months. The respective indicator has increased by 15 points to its current level of 20.8 points. This improvement almost entirely reverses the decrease of the economic sentiments over the previous three months (decrease by 16.2 points from December 2013 until February 2014). Similarly, the experts' assessment of the current economic situation in the country has improved by 4.1 points over the last three months. The optimism is in line with the somehow eased contraction of the economy. In the fourth quarter of 2013 the economy contracted by 1.2% (yoy) whereas the contraction was reported to be at 0.4% in the first quarter of 2014.

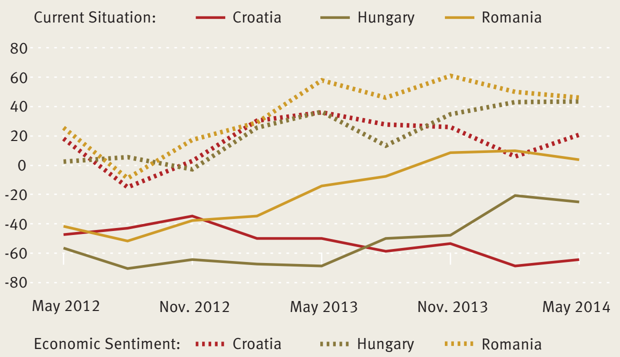
Economic expectations for Romania have fluctuated significantly during the past three months. After a drop by 30.5 points in March the indicator reached its lowest level since December 2012. Subsequently, the indicator almost reversed the plunge rising by 25.7 over the last two survey waves in April and May. The indicator for the experts' assessment of the current situation has displayed a similar pattern. After a drop by 10.1 points in March the respective indicator regained overall 3.7 points over April and May and currently lingers at a rather balanced, yet positive level of 3.7 points.

Indicators* for the Czech Republic, Poland and Slovakia




Balance of positive and negative response category. *Displayed are indicator levels as of Feb, May, Aug and Nov. Source: ZEW

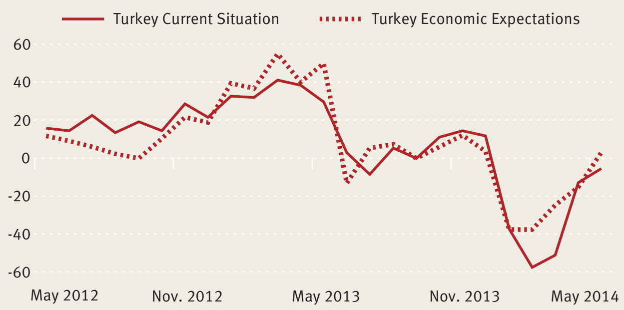
Indicators* for Croatia, Hungary and Romania




Balance of positive and negative response category. *Displayed are indicator levels as of Feb, May, Aug and Nov. Source: ZEW

# Turkey: Economic Situation and Sentiments Back on Track

Economic Expectations and Assessment of Current Economic Situation in Turkey




Balance of positive and negative response category. Source: ZEW

Both the indicator of experts' assessment of the current situation and the indicator of economic expectations for Turkey have considerably increased over the last three waves in March, April and May. Experts' expectations of the economic development in Turkey have gradually improved over the past three months, rising by 40.3 points overall. The indicator currently stands at a rather balanced, yet positive level of 2.8 points. After a plunge to its historical lowest level (in February 2014: minus 57.4) the index for the current economic situation has increased by 51.8 points to the almost balanced current level of minus 5.6 points. A large majority of 77.8 per cent of the experts assess the current economic situation as normal, which is the highest value since August 2012. The large agreement among the experts possibly reflects a decreased political uncertainty after the local elections in March.

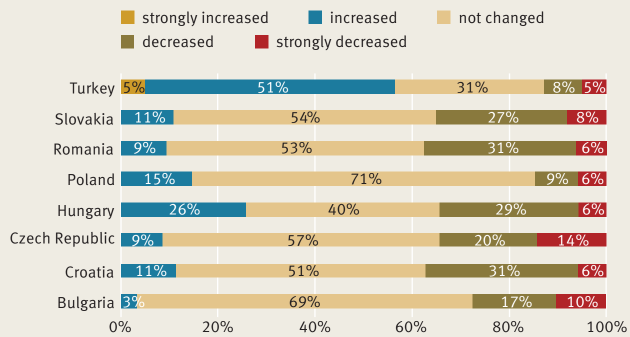
# Special Question: Inflationary Risk in the CEE Countries

In the second Special Question for 2014 the financial market experts were asked to assess the development of the inflationary risks in the CEE region over the past six months. Furthermore, they were asked to provide their expectations regarding the development of the inflation rate over the next six months. According to the majority of the experts, the inflationary risk in Turkey has increased since the beginning of the year. 51 per cent of the respondents say that the risks have increased and 5 per cent observe even a strong increase. In contrast, the majority of the survey respondents observe a decrease of the inflationary risks in Romania (38 per cent) and Croatia (37 per cent). Similarly, 34 per cent of the financial market experts assess the inflationary risk in the Czech Republic as decreasing. There is a disagreement among the experts regarding the situation in Hungary with approximately one third observing a decrease and 25 per cent expecting an increase in inflationary risks in the country. No changes in the inflationary pressure during the last six month were observed by 71 per cent of the experts in Poland, by 69 per cent in Bulgaria, and by 57 per cent in the Czech Republic.

Furthermore, the experts were asked to reveal their forecasts on the further development of the inflationary risk in the CEE countries during the next six months. The experts are the most pessimistic about the prospects for Hungary. 37 per cent expect the inflationary risk to increase or even strongly increase during the next six months. Further deterioration of the inflationary risk in Turkey is expected by 35 per cent of the experts. In contrast, 23 per cent of the survey respondents expect the situation to improve. The positive development of the inflationary pressure in Romania since the beginning of the year is expected to be reversed. 34 per cent of the experts expect an increase of inflationary risk in the country while only 16 per cent expect the inflationary pressure to become stronger. Experts are most optimistic about the inflationary pressure in the Czech Republic - 23 per cent of the respondents expect the inflationary risk to decrease. The inflationary risk in Bulgaria and Croatia is expected to remain stable by 72 and 71 per cent of the experts respectively. Similarly, a majority of 65 per cent of the experts share a stable outlook for Slovakia.

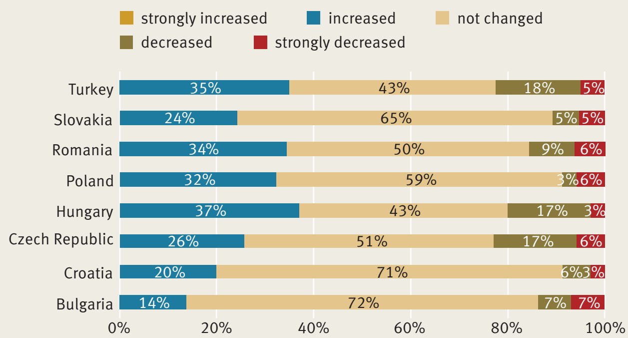
Daria Fomenko, Zwetelina Iliewa

How do you assess the development of the inflationary risks in the CEE countries since the beginning of 2014?




Source: ZEW

How do you expect the inflationary risks in the CEE countries to develop in the next six months?




Source: ZEW

## ZEW / Erste Group Bank - Financial Market Survey CEE: May 2014

| Current economic situation | good | | acceptable (normal) | | bad | | balance | |
|---|---|---|---|---|---|---|---|---|
| Austria | 21.8 | (+11.3) | 73.9 | (-10.3) | 4.3 | (- 1.0) | 17.5 | (+12.3) |
| Croatia | 3.3 | (+ 3.3) | 29.0 | (- 8.9) | 67.7 | (+ 5.6) | -64.4 | (- 2.3) |
| Czech Republic | 9.7 | (- 1.8) | 87.1 | (- 1.4) | 3.2 | (+ 3.2) | 6.5 | (- 5.0) |
| Hungary | 3.1 | (+ 3.1) | 68.8 | (+ 3.4) | 28.1 | (- 6.5) | -25.0 | (+ 9.6) |
| Poland | 36.7 | (- 4.0) | 63.3 | (+ 4.0) | 0.0 | (± 0.0) | 36.7 | (- 4.0) |
| Romania | 22.2 | (+ 9.1) | 59.3 | (-14.6) | 18.5 | (+ 5.5) | 3.7 | (+ 3.6) |
| Slovakia | 21.8 | (+ 5.8) | 71.9 | (- 4.1) | 6.3 | (- 1.7) | 15.5 | (+ 7.5) |
| Turkey | 8.3 | (- 0.4) | 77.8 | (+ 8.2) | 13.9 | (- 7.8) | -5.6 | (+ 7.4) |
| CEE (incl. Turkey) | 3.3 | (- 0.3) | 86.7 | (+ 4.6) | 10.0 | (- 4.3) | -6.7 | (+ 4.0) |
| Eurozone | 11.1 | (+ 3.0) | 75.0 | (+ 4.7) | 13.9 | (- 7.7) | -2.8 | (+10.7) |
| **Economic expectations** | **improve** | | **no change** | | **worsen** | | **balance** | |
| Austria | 54.5 | (+ 6.9) | 45.5 | (- 6.9) | 0.0 | (± 0.0) | 54.5 | (+ 6.9) |
| Croatia | 38.0 | (+ 0.1) | 44.8 | (-10.4) | 17.2 | (+10.3) | 20.8 | (-10.2) |
| Czech Republic | 66.7 | (± 0.0) | 33.3 | (± 0.0) | 0.0 | (± 0.0) | 66.7 | (± 0.0) |
| Hungary | 56.2 | (+10.0) | 31.3 | (-11.0) | 12.5 | (+ 1.0) | 43.7 | (+ 9.0) |
| Poland | 48.3 | (- 3.6) | 48.3 | (+ 0.2) | 3.4 | (+ 3.4) | 44.9 | (- 7.0) |
| Romania | 50.0 | (+10.9) | 46.2 | (-14.7) | 3.8 | (+ 3.8) | 46.2 | (+ 7.1) |
| Slovakia | 64.5 | (+ 6.2) | 32.3 | (- 9.4) | 3.2 | (+ 3.2) | 61.3 | (+ 3.0) |
| Turkey | 27.1 | (+ 9.3) | 48.6 | (- 0.3) | 24.3 | (- 9.0) | 2.8 | (+18.3) |
| CEE (incl. Turkey) | 40.8 | (+ 5.1) | 44.4 | (-16.3) | 14.8 | (+11.2) | 26.0 | (- 6.1) |
| Eurozone | 52.7 | (+ 5.5) | 41.7 | (- 8.3) | 5.6 | (+ 2.8) | 47.1 | (+ 2.7) |
| **Inflation rate** | **increase** | | **no change** | | **decrease** | | **balance** | |
| Austria | 31.9 | (+11.9) | 63.6 | (- 6.4) | 4.5 | (- 5.5) | 27.4 | (+17.4) |
| Croatia | 32.1 | (+ 7.1) | 42.9 | (-10.7) | 25.0 | (+ 3.6) | 7.1 | (+ 3.5) |
| Czech Republic | 55.2 | (+ 7.2) | 34.5 | (-17.5) | 10.3 | (+10.3) | 44.9 | (- 3.1) |
| Hungary | 62.5 | (+10.5) | 21.9 | (-10.1) | 15.6 | (- 0.4) | 46.9 | (+10.9) |
| Poland | 57.2 | (+11.0) | 35.7 | (-14.3) | 7.1 | (+ 3.3) | 50.1 | (+ 7.7) |
| Romania | 66.7 | (+12.2) | 12.5 | (-23.9) | 20.8 | (+11.7) | 45.9 | (+ 0.5) |
| Slovakia | 48.3 | (+19.1) | 44.8 | (-17.7) | 6.9 | (- 1.4) | 41.4 | (+20.5) |
| Turkey | 35.2 | (- 7.9) | 27.0 | (- 9.4) | 37.8 | (+17.3) | -2.6 | (-25.2) |
| CEE (incl. Turkey) | 30.8 | (- 7.7) | 57.7 | (+ 3.9) | 11.5 | (+ 3.8) | 19.3 | (-11.5) |
| Eurozone | 43.7 | (+20.2) | 43.8 | (-12.1) | 12.5 | (- 8.1) | 31.2 | (+28.3) |

| Short-term interest rates | increase [abs.] | | increase [rel.] | | no change [abs.] | | no change [rel.] | | decrease [abs.] | | decrease [rel.] | | balance [abs.] | | balance [rel.] | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Croatia | 14.3 | (- 4.2) | 18.2 | (- 3.6) | 82.1 | (+11.7) | 77.3 | (+12.1) | 3.6 | (- 7.5) | 4.5 | (- 8.5) | 10.7 | (+ 3.3) | 13.7 | (+ 4.9) |
| Czech Republic | 16.7 | (+ 9.0) | 12.0 | (- 1.1) | 80.0 | (- 4.6) | 80.0 | (- 2.6) | 3.3 | (- 4.4) | 8.0 | (+ 3.7) | 13.4 | (+13.4) | 4.0 | (- 4.8) |
| Hungary | 24.2 | (+ 1.9) | 25.0 | (- 4.2) | 48.5 | (+ 4.1) | 50.0 | (+ 4.2) | 27.3 | (- 6.0) | 25.0 | (± 0.0) | -3.1 | (+ 7.9) | 0.0 | (- 4.2) |
| Poland | 27.6 | (- 5.7) | 21.7 | (-21.8) | 65.5 | (+ 6.2) | 60.9 | (+ 8.7) | 6.9 | (- 0.5) | 17.4 | (+13.1) | 20.7 | (- 5.2) | 4.3 | (-34.9) |
| Romania | 27.0 | (-12.1) | 28.6 | (- 6.4) | 53.8 | (+19.0) | 47.6 | (+ 7.6) | 19.2 | (- 6.9) | 23.8 | (- 1.2) | 7.8 | (- 5.2) | 4.8 | (- 5.2) |
| Turkey | 40.6 | (+ 8.1) | 41.9 | (+ 6.0) | 40.5 | (- 1.4) | 32.3 | (-11.3) | 18.9 | (- 6.7) | 25.8 | (+ 5.3) | 21.7 | (+14.8) | 16.1 | (+ 0.7) |
| Eurozone | 18.4 | (+ 6.6) | | | 71.1 | (+ 6.4) | | | 10.5 | (-13.0) | | | 7.9 | (+19.6) | | |
| **Long-term interest rates** | **increase [abs.]** | | **increase [rel.]** | | **no change [abs.]** | | **no change [rel.]** | | **decrease [abs.]** | | **decrease [rel.]** | | **balance [abs.]** | | **balance [rel.]** | |
| Croatia | 44.5 | (+ 3.7) | 19.0 | (- 5.0) | 44.4 | (± 0.0) | 66.7 | (+ 6.7) | 11.1 | (- 3.7) | 14.3 | (- 1.7) | 33.4 | (+ 7.4) | 4.7 | (- 3.3) |
| Czech Republic | 55.2 | (-12.8) | 12.5 | (-13.6) | 37.9 | (+ 9.9) | 75.0 | (+ 1.1) | 6.9 | (+ 2.9) | 12.5 | (+12.5) | 48.3 | (-15.7) | 0.0 | (-26.1) |
| Hungary | 46.9 | (- 3.1) | 40.8 | (+ 7.5) | 37.5 | (+ 6.7) | 40.7 | (- 9.3) | 15.6 | (- 3.6) | 18.5 | (+ 1.8) | 31.3 | (+ 0.5) | 22.3 | (+ 5.7) |
| Poland | 46.5 | (- 7.3) | 21.8 | (-17.4) | 46.4 | (+ 7.9) | 56.5 | (± 0.0) | 7.1 | (- 0.6) | 21.7 | (+17.4) | 39.4 | (- 6.7) | 0.1 | (-34.8) |
| Slovakia | 48.3 | (- 5.9) | 21.8 | (- 0.9) | 37.9 | (+ 0.4) | 73.9 | (- 3.4) | 13.8 | (+ 5.5) | 4.3 | (+ 4.3) | 34.5 | (-11.4) | 17.5 | (- 5.2) |
| Turkey | 47.1 | (+ 6.6) | 48.3 | (+ 7.2) | 35.3 | (- 0.4) | 27.6 | (-13.4) | 17.6 | (- 6.2) | 24.1 | (+ 6.2) | 29.5 | (+12.8) | 24.2 | (+ 1.0) |
| Germany | 35.5 | (- 2.9) | | | 48.4 | (+ 2.2) | | | 16.1 | (+ 0.7) | | | 19.4 | (- 3.6) | | |

| Stock market indices | increase | | no change | | decrease | | balance | |
|---|---|---|---|---|---|---|---|---|
| EURO STOXX 50 | 44.5 | (± 0.0) | 37.0 | (+ 7.4) | 18.5 | (- 7.4) | 26.0 | (+ 7.4) |
| ATX (Austria) | 59.1 | (+ 1.2) | 22.7 | (- 3.6) | 18.2 | (+ 2.4) | 40.9 | (- 1.2) |
| NTX (CEE) | 59.1 | (+ 4.1) | 27.3 | (- 7.7) | 13.6 | (+ 3.6) | 45.5 | (+ 0.5) |
| CROBEX (Croatia) | 50.0 | (- 3.6) | 28.6 | (- 7.1) | 21.4 | (+10.7) | 28.6 | (-14.3) |
| PX 50 (Czech Rep.) | 52.0 | (- 0.2) | 28.0 | (- 6.8) | 20.0 | (+ 7.0) | 32.0 | (- 7.2) |
| BUX (Hungary) | 55.6 | (+12.1) | 22.2 | (- 8.2) | 22.2 | (- 3.9) | 33.4 | (+16.0) |
| WIG (Poland) | 56.0 | (± 0.0) | 16.0 | (- 8.0) | 28.0 | (+ 8.0) | 28.0 | (- 8.0) |
| BET (Romania) | 61.9 | (- 3.1) | 23.8 | (+ 3.8) | 14.3 | (- 0.7) | 47.6 | (- 2.4) |
| SAX (Slovakia) | 45.4 | (+ 7.3) | 45.5 | (- 6.9) | 9.1 | (- 0.4) | 36.3 | (+ 7.7) |
| ISE-100 (Turkey) | 33.3 | (-14.4) | 45.5 | (+18.2) | 21.2 | (- 3.8) | 12.1 | (-10.6) |
| **Exchange rates (vs. Euro)** | **appreciate** | | **no change** | | **depreciate** | | **balance** | |
| Kuna (Croatia) | 27.6 | (- 4.6) | 55.2 | (- 5.5) | 17.2 | (+10.1) | 10.4 | (-14.7) |
| Koruna (Czech Rep.) | 34.5 | (+ 7.6) | 55.2 | (-10.2) | 10.3 | (+ 2.6) | 24.2 | (+ 5.0) |
| Forint (Hungary) | 22.6 | (- 8.1) | 25.8 | (-12.7) | 51.6 | (+20.8) | -29.0 | (-28.9) |
| Zloty (Poland) | 50.0 | (- 7.7) | 33.3 | (+10.2) | 16.7 | (- 2.5) | 33.3 | (- 5.2) |
| Lei (Romania) | 36.0 | (+ 9.9) | 56.0 | (-13.6) | 8.0 | (+ 3.7) | 28.0 | (+ 6.2) |
| Lira (Turkey) | 36.8 | (- 1.8) | 21.1 | (- 3.9) | 42.1 | (+ 5.7) | -5.3 | (- 7.5) |
| US-Dollar | 62.4 | (- 0.4) | 31.3 | (+ 8.4) | 6.3 | (- 8.0) | 56.1 | (+ 7.6) |

Note: 70 Financial market experts, 12 from which from Turkey, participated in the May survey which was conducted during the period of 4/28-5/12/2014. 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 2014 in parentheses). Balances refer to the differences between positive and negative assessments.

IMPRINT

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