ZEW
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Financial Market Report CEE

Volume 2 · July 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 assessments and expectations with regard to economic and financial market data. The results of the present survey conducted between 2 June 2008 and 16 June 2008 are published in the July 2008 issue of the "Financial Market Report CEE". In this month's survey 81 financial market experts participated.

Mostly positive assessment of the current economic situation in CEE

The financial market experts assess the current economic situation in Central and Eastern Europe (CEE) as positive with a balance of 34.5 points, despite a minor decline in June. While the expectations for some CEE countries improve in this month's survey, the outlook for the whole region remains a little bit cautious for the time being. The CEE indicator declined by 4.6 points and now stands at minus 28.7 points. However, a large proportion of financial market experts (42.9 percent) anticipate no change in the economic situation of the region. The majority of survey respondents continue to view the development of the CEE stock markets in the following six months as being positive in spite of decreasing balances.

Economic outlook for CEE countries, Austria and the Eurozone

According to the current survey the CEE indicator, which is calculated monthly by the Centre for European Economic Research (ZEW) in Mannheim supported by the Erste Bank der Oesterreichischen Sparkassen AG in Vienna, as the balance of the positive and negative expectations for the economic development in the CEE region for a time period of six months, has declined by 4.6 points and now stands at minus 28.7 points.

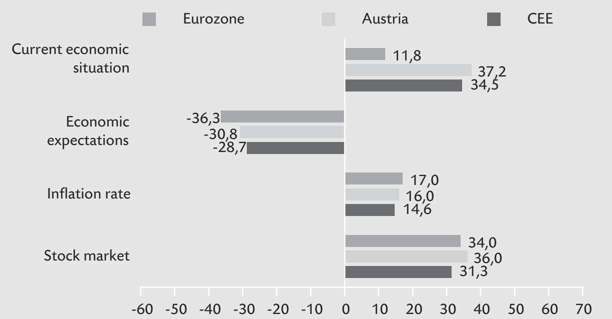
The current situation in the CEE region is still assessed as positive in June. The majority of analysts (65.5 percent) evaluate the situation as "normal" and as already seen in some previous surveys not one single expert considers the current situation to be bad.

The experts' expectations for the Austrian economy show similarities to their assessments for the CEE region. The sentiment indicator for Austria recedes marginally by 2.2 points to minus 30.8 points. However, half of the survey respondents do not expect any change in the Austrian business cycle in the next six months. The current economic situation is still assessed as positive with a balance of 37.2 points after a decline of 4.1 points. The proportion of experts who anticipate a deterioration of the economic situation in the Eurozone decreases in June. Thus, the sentiment indicator for the Eurozone achieves an improvement by 8.5 points to minus 36.3 points in this month.

The expectations of the financial market experts regarding the inflation rates in the surveyed CEE countries have undergone a fundamental change in June. The inflation expectations point to an increase in prices for almost all of the analysed countries. For the CEE region as a whole the corresponding balance rises by 17.9 points to 14.6 points. Furthermore, a growing number of experts now expect increasing inflation rates for Austria as well, the respective balance changes from zero to 16.0 points. The financial experts perceive the increase of the inflation risk to be the highest in the Eurozone. The corresponding balance rises by 26.9 points to 17.0 points. Due to the expected increase of the interest rate by the ECB in July, the balance for the short-term interest rates in the Eurozone increases by 41.7 to 3.8 points.

Approximately half of the survey participants predict a rise of stock market indices for almost all surveyed countries in the following six months. The balance for the Austrian index (ATX) is in June with a value of 36.0 points characterised by the strongest optimism among the analysed stock market indices.

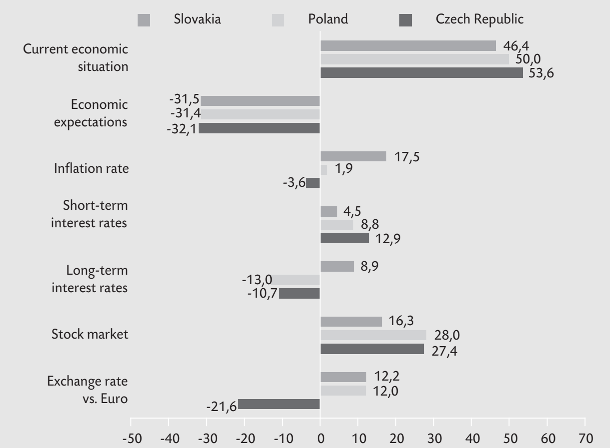
Indicators for CEE, Austria and the Eurozone (balances)



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

Czech Republic and Slovakia: economic expectations brighten up; good current situation assessed for Poland

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

While the financial experts' economic expectations for almost all surveyed CEE countries were rather reserved in May, the prospects improve for some countries in June. In the current survey the sentiment indicator for the Czech Republic increases by 6.9 points to minus 32.1 points. The expectations for Slovakia improve by 3.7 points to minus 31.5 points.

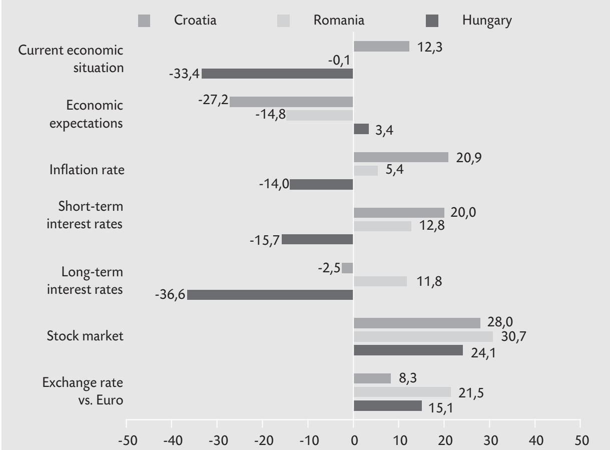
Consistent with the outcomes of the previous surveys, the positive assessments of the analysts concerning the current economic situation in the Czech Republic, Poland and Slovakia exceed the negative ones. Regarding the analysts' view of the current economic situation the most noticeable discrepancy to last month's survey is seen in Slovakia. After a decline of 16.6 points, Slovakia reaches a balance of 46.4 points. 50.0 percent (plus 20.4 percentage points compared to the previous month) of the analysts consider the current economic situation to be "acceptable". Thus, Slovakia loses its leading position and is outpaced by the Czech Republic (53.6 points) and Poland (50.0 points).

Since the inflation risk in Slovakia before joining the Euro is regarded as relatively high – the corresponding indicator reaches a balance of 17.5 points. It seems that the experts expect the National Bank of Slovakia to counteract with a restrictive monetary policy. According to this the balance of the short-term interest rate increases by 40.6 points to 4.5 points. Despite an increase of 17.2 points, the balance for the inflation rate in the Czech Republic remains negative at minus 3.6 points. This indicates that in contrast to the most CEE economies the analysts do not expect a rising inflation rate within the next six months in the Czech Republic. The balance for Poland increases by 8.9 points to 1.9 points.

The majority of analysts anticipate rising share prices in the Czech Republic, Slovakia and Poland. However, respondents are more cautious in their evaluation, which is reflected in decreases of all three indicators.

Hungary, Romania, Croatia: stabilized economic expectations; inflation in Hungary remains under control

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 results of this month's survey concerning the current economic situation in Hungary, Romania and Croatia, do not show any significant changes. The indicator for Romania gained 7.3 points and now stands at minus 0.1 points. The financial market experts have taken somewhat critical stance in their evaluation of the situation in Hungary and Croatia. The rising tendency of the Hungarian economy did not hold, which is reflected by its balance dropping marginally by 1.2 points to minus 33.4 points. The decline of the Croatian balance by 15.4 points to 12.3 points is caused by an increased share of the respondents who characterise the current economic situation as "acceptable" instead of "good".

The economic expectations for Romania and Croatia improve by 4.2 points and 0.8 points to minus 14.8 points and minus 27.2 points respectively. In contrast to this, the expectations for the Hungarian economy worsen slightly by 1.4 points and now stand at 3.4 points. Hungary is still the only country with a positive balance for economic expectations.

A growing number of financial experts perceive the risk of increasing inflation rates in Hungary and Romania. The balance for both countries increased markedly in June. Nevertheless, the balance for Hungary remains negative at minus 14.0 points. Since this value is negative and the lowest among the surveyed countries, the analysts seem to view the inflation in Hungary as being under control. For Croatia a nearly unchanged majority of the financial experts anticipates rising prices. Accordingly, an increased share of the respondents expect rising short-term interest rates, especially in the case of Croatia, where the balance increases by 14.8 points to 20.0 points.

With regard to stock market expectations, the financial experts' view remains overall positive. Although the indicators for Hungary, Romania and Croatia experience a double-digit decline, the majority of the respondents still foresee rising stock prices.

Special Question: Commodity markets (Part 2)

This month's special question covers the analysis of the remaining results concerning commodity markets: the expected price developments in the long-run of selected commodities as well as the factors leading to soaring commodity prices.

The survey results indicate that a majority of the financial experts anticipate rising prices for oil, gold and agricultural goods in the long-run (5 years). Especially with regard to the performance potential of agricultural goods, the respondents are highly optimistic. Furthermore, it is interesting to differentiate between the estimations for selected agricultural goods - wheat, rice, coffee, soybean, and feed corn – and to compare them to the predictions for oil and gold.

The overall assessment of the financial experts concerning these commodities is clearly positive. The highest average rating on a scale from 1 (very high) to 3 (average), to 5 (very low) achieves wheat with a grade of 2.25, followed by feed corn (2.33). The lowest grade (2.8) gets coffee. Though, the distribution of the evaluations differs significantly among the selected commodities.

When being asked on the performance potential of crude oil, 30.0 percent of the respondents answered with "very good", which is the highest value observed in this category. Nonetheless, 9.0 percent of the financial experts do not share this view at all, evaluating the prospects for oil as "very low", which constitutes also the highest pessimistic value among the analysed commodities.

A clear majority of financial market experts (over 60.0 percent) evaluate the perspectives of wheat, rice and feed corn with "high" to "very high". In the same time most of analysts (58 percent) assess the performance potential of coffee as average or lower than the average.

In the case of gold the estimations of the experts were rather mixed. The attractiveness of an investment in gold is evaluated mostly as "average" (32.0 percent). The same proportion respondents (27.0 percent) rate the potential of gold as "high" and "low" respectively. The extreme ratings "very good" and "very low", however, were rare.

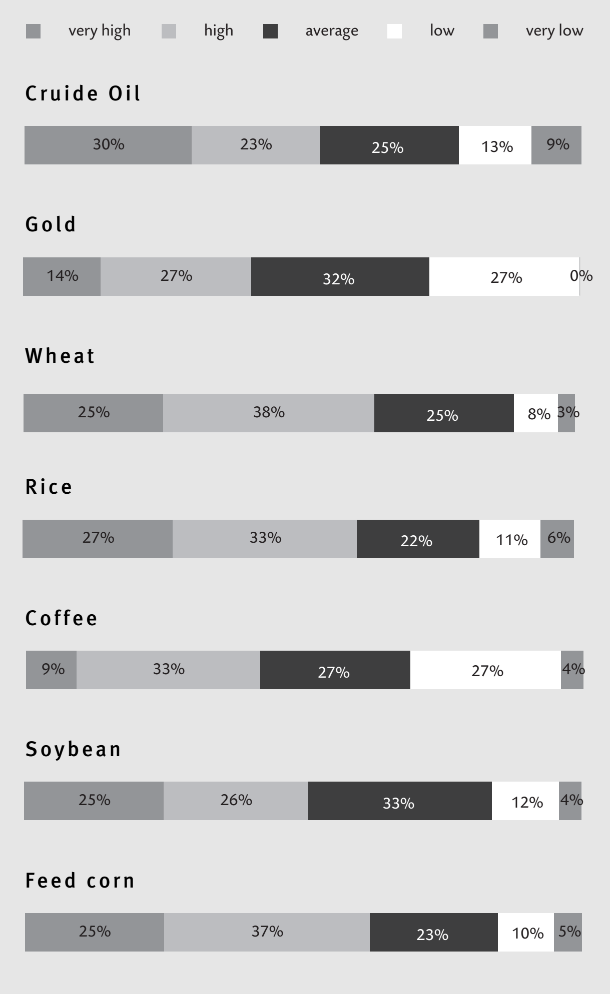
Additionally, we asked the financial experts to name the factors which contribute to the sharp rise in commodity prices and to assess their importance on a scale from 1 (strong) to 4 (no impact). This question led to highly interesting results, as the respondents spotted two reasons that strongly affect the increasing commodity prices, namely "tight markets" and "speculations".

Commodity markets are tight markets, which are characterised by currently consumption rising faster than production. For 56.0 percent of the respondents this is a "strong" argument for the rise in commodity prices.

Financial market speculations leading to artificially high commodity prices is a further important reason for 49.0 percent of the financial experts. Interestingly 15.0 percent see the impact of speculations as "low".

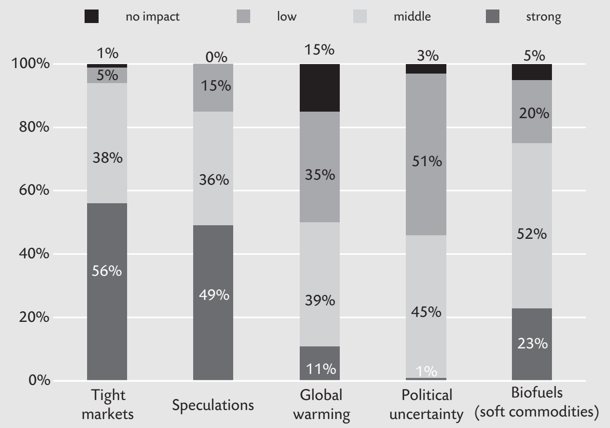
The impact of the factors "global warming", "political uncertainty", and "bio fuels" is significantly lower according to the assessment of the financial experts.

Figure A: Assessment of the performance potential of the following commodities in the long-term (5 years)



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

Figure B: Factors that affect the sharp rise in commodity prices in the long-run



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

ZEW-Financial Market Survey: June 2008

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	39,2	(-2,1)	58,8	(+0,1)	2,0	(+2,0)	37,2	(-4,1)
Croatia	14,3	(-15,5)	83,7	(+15,6)	2,0	(-0,1)	12,3	(-15,4)
Czech Republic	53,6	(-2,5)	46,4	(+2,5)	0,0	(+/-0,0)	53,6	(-2,5)
Hungary	7,0	(+3,6)	52,6	(-8,4)	40,4	(+4,8)	-33,4	(-1,2)
Poland	50,0	(-7,4)	50,0	(+7,4)	0,0	(+/-0,0)	50,0	(-7,4)
Romania	24,0	(+5,5)	51,9	(-3,7)	24,1	(-1,8)	-0,1	(+7,3)
Slovakia	48,2	(-18,5)	50,0	(+20,4)	1,8	(-1,9)	46,4	(-16,6)
CEE	34,5	(-2,2)	65,5	(+2,2)	0,0	(+/-0,0)	34,5	(-2,2)
Eurozone	15,2	(-6,8)	81,4	(+8,5)	3,4	(-1,7)	11,8	(-5,1)

Economic expectations	improve		no change		worsen		balance	
Austria	9,6	(-0,6)	50,0	(-1,0)	40,4	(+1,6)	-30,8	(-2,2)
Croatia	14,5	(+6,5)	43,8	(-12,2)	41,7	(+5,7)	-27,2	(+0,8)
Czech Republic	14,3	(+10,9)	39,3	(-14,9)	46,4	(+4,0)	-32,1	(+6,9)
Hungary	29,3	(+3,5)	44,8	(-8,4)	25,9	(+4,9)	3,4	(-1,4)
Poland	13,0	(+4,2)	42,6	(-11,8)	44,4	(+7,6)	-31,4	(-3,4)
Romania	24,1	(+6,9)	37,0	(-9,6)	38,9	(+2,7)	-14,8	(+4,2)
Slovakia	7,4	(+2,2)	53,7	(-0,7)	38,9	(-1,5)	-31,5	(+3,7)
CEE	14,2	(+0,4)	42,9	(-5,4)	42,9	(+5,0)	-28,7	(-4,6)
Eurozone	10,3	(+3,4)	43,1	(+1,7)	46,6	(-5,1)	-36,3	(+8,5)

Inflation rate	increase		no change		decrease		balance	
Austria	38,0	(+8,0)	40,0	(+/-0,0)	22,0	(-8,0)	16,0	(+16,0)
Croatia	43,8	(-1,1)	33,3	(+4,7)	22,9	(-3,6)	20,9	(+2,5)
Czech Republic	33,9	(+8,1)	28,6	(+1,0)	37,5	(-9,1)	-3,6	(+17,2)
Hungary	31,6	(+17,1)	22,8	(-9,5)	45,6	(-7,6)	-14,0	(+24,7)
Poland	34,6	(+3,0)	32,7	(+2,9)	32,7	(-5,9)	1,9	(+8,9)
Romania	37,5	(+4,7)	30,4	(+8,0)	32,1	(-12,7)	5,4	(+17,4)
Slovakia	36,8	(-6,1)	43,9	(+10,0)	19,3	(-3,9)	17,5	(-2,2)
CEE	38,2	(+8,2)	38,2	(+1,5)	23,6	(-9,7)	14,6	(+17,9)
Eurozone	40,7	(+12,3)	35,6	(+2,3)	23,7	(-14,6)	17,0	(+26,9)

Short-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	35,0	(+16,6)	29,4	(-9,5)	50,0	(-18,4)	50,0	(-2,8)	15,0	(+1,8)	20,6	(+12,3)	20,0	(+14,8)	8,8	(-21,8)
Czech Republic	32,0	(+10,4)	33,3	(-3,7)	48,9	(-15,8)	38,1	(-11,9)	19,1	(+5,4)	28,6	(+15,6)	12,9	(+5,0)	4,7	(-19,3)
Hungary	25,5	(+7,0)	26,7	(+6,3)	33,3	(-9,3)	42,2	(+3,4)	41,2	(+2,3)	31,1	(-9,7)	-15,7	(+4,7)	-4,4	(+16,0)
Poland	39,2	(+15,2)	37,5	(-13,5)	30,4	(-33,6)	47,5	(+4,9)	30,4	(+18,4)	15,0	(+8,6)	8,8	(-3,2)	22,5	(-22,1)
Romania	44,7	(-1,1)	40,0	(-21,3)	23,4	(-5,8)	32,5	(+14,3)	31,9	(+6,9)	27,5	(+7,0)	12,8	(-8,0)	12,5	(-28,3)
Slovakia	26,7	(+22,4)	20,0	(-5,0)	51,1	(-4,2)	50,0	(+6,8)	22,2	(-18,2)	30,0	(-1,8)	4,5	(+40,6)	-10,0	(-3,2)
Eurozone	33,4	(+28,2)			37,0	(-14,7)			29,6	(-13,5)			3,8	(+41,7)		

Long-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	21,9	(+4,9)	11,4	(-7,6)	53,7	(+12,2)	54,3	(+13,8)	24,4	(-17,1)	34,3	(-6,2)	-2,5	(+22,0)	-22,9	(-1,4)
Czech Republic	25,5	(+5,5)	19,6	(+4,7)	38,3	(-9,7)	46,3	(+1,6)	36,2	(+4,2)	34,1	(-6,3)	-10,7	(+1,3)	-14,5	(+11,0)
Hungary	20,5	(+8,9)	15,9	(+3,9)	22,4	(-6,4)	25,0	(+1,0)	57,1	(-2,5)	59,1	(-4,9)	-36,6	(+11,4)	-43,2	(+8,8)
Poland	26,1	(+10,1)	15,0	(-4,6)	34,8	(-7,2)	45,0	(+3,7)	39,1	(-2,9)	40,0	(+0,9)	-13,0	(+13,0)	-25	(-5,5)
Romania	42,8	(+12,3)	40,0	(-1,9)	26,2	(-12,9)	37,1	(+6,9)	31,0	(+0,6)	22,9	(-5,0)	11,8	(+11,7)	17,1	(+3,1)
Slovakia	28,9	(+14,0)	10,6	(+1,1)	51,1	(-2,1)	60,5	(+10,5)	20,0	(-11,9)	28,9	(-11,6)	8,9	(+25,9)	-18,3	(+12,7)
Germany	38,1	(+14,0)			36,4	(-11,9)			25,5	(-2,1)			12,6	(+16,1)		

Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	55,4	(-7,1)	23,2	(+5,3)	21,4	(+1,8)	34,0	(-8,9)
ATX (Austria)	58,0	(-5,3)	20,0	(-0,4)	22,0	(+5,7)	36,0	(-11,0)
NTX (CEE)	52,9	(-15,6)	25,5	(+10,7)	21,6	(+4,9)	31,3	(-20,5)
CROBEX (Croatia)	50,0	(-13,1)	28,0	(+12,8)	22,0	(+0,3)	28,0	(-13,4)
PX 50 (Czech Rep.)	49,0	(-17,0)	29,4	(+12,4)	21,6	(+4,6)	27,4	(-21,6)
BUX (Hungary)	50,0	(-10,3)	24,1	(-3,5)	25,9	(+13,8)	24,1	(-24,1)
WIG (Poland)	52,0	(-12,8)	24,0	(+5,5)	24,0	(+7,3)	28,0	(-20,1)
BET (Romania)	53,1	(-11,0)	24,5	(+5,6)	22,4	(+5,4)	30,7	(-16,4)
SAX (Slovakia)	44,2	(-13,3)	27,9	(+4,5)	27,9	(+8,8)	16,3	(-22,1)
SBI 20 (Slovenia)	50,0	(-6,8)	25,0	(+2,3)	25,0	(+4,5)	25,0	(-11,3)

Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	25,0	(-6,2)	58,3	(-4,2)	16,7	(+10,4)	8,3	(-16,6)
Koruna (Czech Rep.)	19,6	(-3,6)	39,2	(+1,7)	41,2	(+1,9)	-21,6	(-5,5)
Forint (Hungary)	32,1	(-5,4)	50,9	(+8,0)	17,0	(-2,6)	15,1	(-2,8)
Zloty (Poland)	34,0	(+2,0)	44,0	(-3,2)	22,0	(+1,2)	12,0	(+0,8)
Lei (Romania)	43,1	(+6,6)	35,3	(-10,9)	21,6	(+4,3)	21,5	(+2,3)
Koruna (Slovakia)	16,3	(-12,5)	79,6	(+14,2)	4,1	(-1,7)	12,2	(-10,8)
US-Dollar	66,7	(+1,8)	19,3	(-1,8)	14,0	(+/-0,0)	52,7	(+1,8)

Note: 81 Financial experts participated in the June survey which was conducted during the period 06/02/08-06/16/08. 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 May in parentheses). Balances refer to the differences between positive and negative assessments.

I M P R I N T

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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