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Financial Market Report CEE

Volume 3 · July 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 28 and June 15, 2009, are published in the July 2009 issue of the "Financial Market Report CEE". 66 financial market experts participated in this month's survey.

Economic Outlook for Central and Eastern Europe Strengthens

The optimism regarding the economic development in Central and Eastern Europe (CEE) has strengthened in June. The financial market experts' economic outlook for the CEE region has improved by 14.4 points to 20.4 points. Although the economic expectations for the CEE region in general have improved, the forecasts for the individual CEE countries have worsened in the current survey. However, the indicators remain positive in most countries. The current economic environment in all analysed countries and regions is still assessed cautiously by the surveyed experts. With regard to the inflation rate expectations, clearly more experts polled anticipate a growing inflation risk to accompany the cyclical recovery in the CEE region. The analysts' expectations for the stock markets in the next six months have improved for CEE.

Economic Outlook for CEE Countries, Austria and the Eurozone

The ZEW/Erste Group Bank sentiment indicator for the CEE region, which is calculated as the balance of positive and negative assessments of the economic development, has risen by 14.4 points to 20.4 points in the June survey. For the first time since the beginning of the survey, positive expectations (40.8 percent) outweigh the neutral forecasts (38.8 percent). In contrast, the economic sentiment indicator for Austria has fallen slightly; however, it remains clearly positive at 10.0 points. The majority of the analysts (45.0 percent) expect no change in the economic situation within the next six months. The sentiment indicator for the Eurozone has risen by 3.6 points and now stands at 16.7 points.

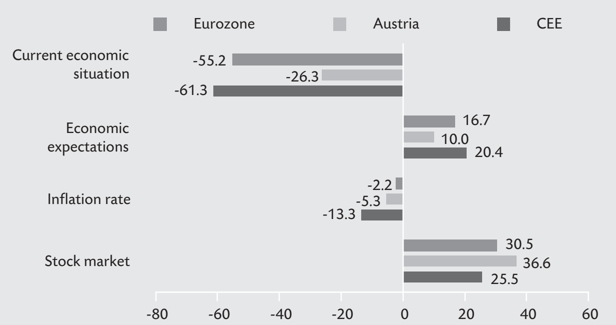
The current economic environment is, however, assessed more cautiously by the surveyed experts. The corresponding indicator for the CEE region dropped slightly by 0.9 points to minus 61.3 points in June. The corresponding indicators for Austria and the Eurozone have improved clearly by 22.6 and 10.8 points, respectively. However, they remain negative at minus 26.3 and minus 55.2 points, respectively.

The experts polled expect a growing inflation risk to accompany the cyclical recovery in the CEE region. Despite this, the majority of survey participants foresee a declining inflation rate in the CEE region. The respective balance has risen 30.7 points and now stands at minus 13.3 points. Similar developments are expected in Austria and the Eurozone in June: the numbers have clearly increased, but remain slightly negative.

The financial market experts have clearly changed their short-term interest rate expectations in the current survey. This balance for the Eurozone has gained 36.4 points and now stands at minus 10.6 points. 63.8 percent of the survey participants hold the opinion that the ECB base rate will remain at a constant level in the next six months.

The analysts' expectations for the stock markets in the next six months have improved in June. The indicator for the stock index NTX in the CEE region has increased by 5.1 points to 25.5 points. The balances for the Austrian ATX and for the Eurostoxx 50 have even climbed by double digits (plus 12.2 points and plus 14.1 points, respectively) to levels over 30 points.

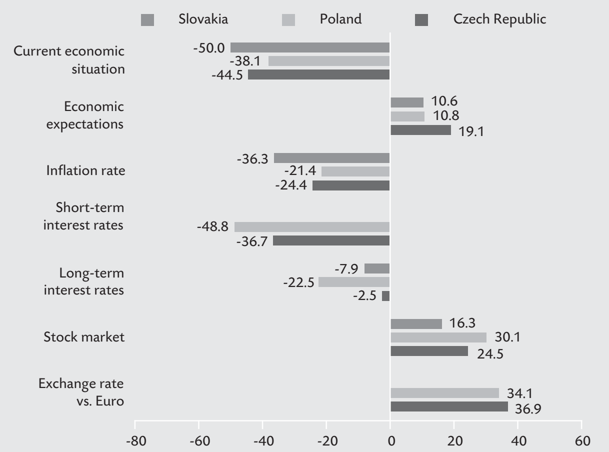
Indicators for CEE, Austria and the Eurozone (balances)



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

Czech Republic, Poland and Slovakia: Current Economic Situation Recovers

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 financial experts' views on the current economic conditions in the Czech Republic, Poland and Slovakia have changed for the better in June. The corresponding balance for Poland has improved by 9.9 points to minus 38.1 points, which is the highest value in this category among the analysed CEE economies. The evaluations with regard to the Czech Republic and Slovakia have risen by 8.3 points and 7.2 points to minus 44.5 points and minus 50.0 points at present. Despite the optimism about the current economic situation, the analysts' economic outlook for the next six months is more cautious compared to the results in May. Notwithstanding the 5.0 point decrease to 19.1 points in the present survey, the Czech sentiment indicator maintains its leading position in comparison to other CEE countries. Although remaining in the positive range, as well, the cyclical indicator for Poland recedes by 9.2 points in June, reaching 10.8 points, as the forecasts shift in the direction of constant economic conditions. The business outlook for Slovakia remains nearly unchanged this month, with the respective indicator declining by 1.2 points to 10.6 points.

This month's inflation forecast is characterised by a strongly growing share of survey participants counting on increasing or at least unvaried price risks. As a consequence, all three corresponding balances for the Czech Republic, Poland and Slovakia surge by more than 20 points in June.

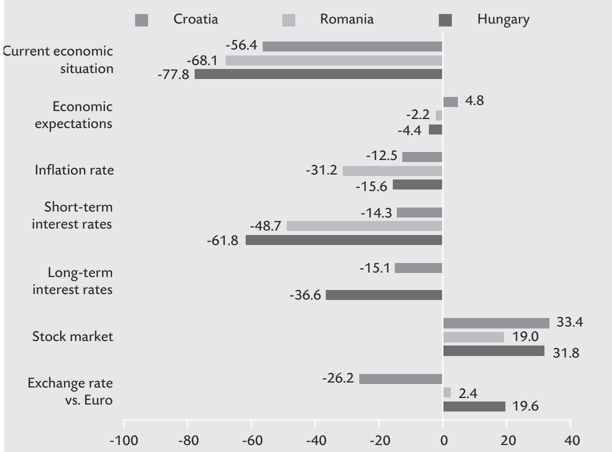
Accordingly, an increasing proportion of the respondents, still forming a minority though, reckon on rising short-term interest rates, which leads to significant hikes of the respective balances for the Czech Republic and Poland

As for stock markets in the three countries, the financial experts' assessments have not changed much compared to the May survey. The prospects for the Czech PX50, the Polish WIG and the Slovak SAX remain predominantly optimistic, as the corresponding indicators show only slight changes.

The analysts attribute the highest appreciation potential to the Czech currency in comparison to the Euro.

Hungary, Romania and Croatia: Improved Stock Market Expectations

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 optimistic expectations for the Hungarian and Romanian economies from the May survey do not continue in June. The indicators for the future prospects recede this month, turning negative again. The balance for Hungary drops 19.7 points, reaching minus 4.4 points, and, hence, the country's future potential is judged most critically in the June survey. Concerning Romania, the respective indicator declines by 13.9 points to minus 2.2 points at present. Nearly half of the participants foresee no changes in the economic situation in Croatia for the next six months. The cyclical indicator falls by 7.7 points this month, but remains positive, closing at 4.8 points.

The financial experts' scepticism with regard to the current business conditions in Hungary, Romania and Slovakia holds in June, since all three respective balances remain deeply in the red. The corresponding indicator for Hungary decreases by 6.1 points featuring with minus 77.8 points, the lowest value in this category among all analysed CEE countries again. Despite a marginal ascent of the associated balance to minus 68.1 points, a huge majority of the analysts characterise the present business circumstances in Romania as "bad". As for Croatia, the valuation of the current economic situation worsens by 13.6 points to minus 56.4 points.

In line with the outcomes for all other regarded CEE countries, a growing share of the financial experts questioned anticipate increasing inflation risks for the three countries. As a result, the respective indicators gain in value, but remain negative. Accordingly, the analysts' predictions for short-term interest rates shift from falling to constant or even increasing rates.

In contrast to the more restrained forecasts in May, the experts' evaluation with respect to the Croatian stock market has improved most considerably in this survey. Regardless of the cautious cyclical expectations for Hungary, the analysts' outlook for the BUX has ameliorated by 9.8 points to 31.8 points at present.

Special question: Financial Aid for Small and Medium Sized Enterprises in CEE

Many small and medium sized enterprises (SMEs) in Central and Eastern Europe were caught in the maelstrom of the global economic crisis, suffering from more difficult access to credit markets, a rise in financing costs and declines in sales. In order to support crisis-stricken SMEs in the CEE region, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the World Bank pledged to provide up to 24.5 billion euro for the banking sector in the region and to refinance loans to affected companies in late February 2009.

Within the scope of this month's special question, we asked the financial experts to appraise this initiative, the instruments deployed and practical incentive problems which might arise. A distinct majority of 75 percent of all survey participants "approves" or even "strongly approves" of the above mentioned package of measures. 23 percent of the analysts are neutral about the efforts of the largest international financial institutions to provide financial aid for SMEs hit by the economic crisis in CEE and only 2 percent of the experts disapprove of the support.

The initiative of the EBRD, EIB and the World Bank combines different measures in order to foster lending to suffering small and medium sized enterprises in the CEE area, namely equity and debt financing, an enlargement of credit lines and political risk insurances. Against this background, we were interested in the analysts' assessment of the specific importance of the instruments deployed as to cushioning the impacts of the global crisis on CEE SMEs.

According to the outcomes of this month's survey, most participants attach the highest importance to an extension of credit lines and banks granting new credit in a tight market environment. 95 and 91 percent of all questioned financial experts consider these measures to be "very important" or at least "important" for supporting struggling CEE companies. Although the experts' approval is even slightly higher with respect to increasing the existing credit lines, a general agreement about the effectiveness of both instruments can be observed. Not a single respondent describes the respective significance as "unimportant" and less than 10 percent of the analysts believe that "debt financing" and expanding credit facilities are "less important".

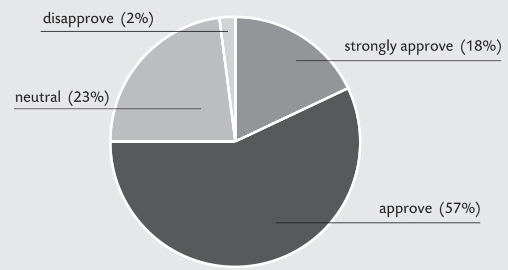
In contrast, the analysts' views on strengthening the equity of SMEs in the CEE countries via equity financing differ strongly. Nearly half of the respondents (46 percent) evaluate the importance of this method in conjunction with providing financial aid as "important", 16 percent even as "very important". Still, 38 percent regard "equity financing" as having little significance in supporting the crisis-stricken CEE real economies.

The EBRD, EIB and World Bank initiative is also comprised of insurance against political risks in order to foster the granting of loans to SMEs. The financial experts, however, are rather doubtful about the impact of this measure, describing the respective significance predominantly (55 percent) as rather low. Nonetheless, 15 percent of the respondents do not share this opinion, considering such insurances to be a "very important" way of supporting struggling CEE companies.

Within the third part of this month's special question we focussed on practical difficulties in identifying particularly needy firms correctly and, thus, avoid free-riding. A clear majority of the financial experts, namely 69 percent, is sceptical in this regard, whereas 31 percent of the respondents do not expect any noteworthy problems.

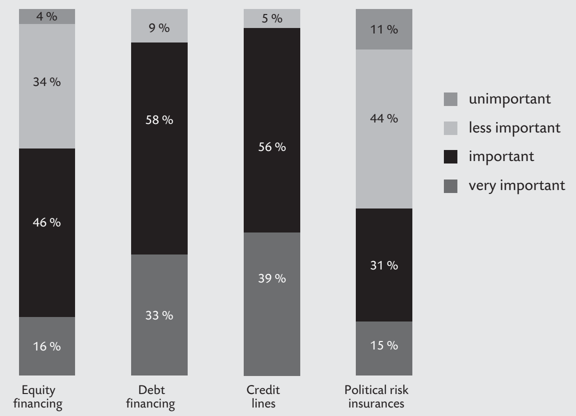
Mariela Borell, Oliver Herrmann

Figure A: Assessment of the efforts of the largest financial institutions to provide financial aid for SMEs in CEE



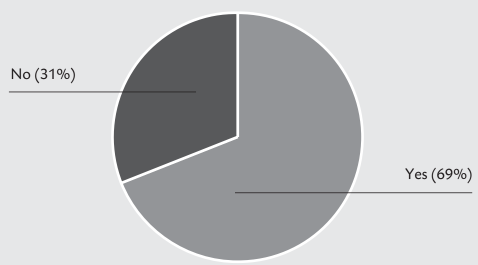
Source: ZEW

Figure B: Evaluation of the importance of different ways of financial support for SMEs in CEE



Source: ZEW

Figure C: Expected difficulties in identifying the really needy SMEs and avoiding free-riding



Source: ZEW

ZEW-Financial Market Survey: June 2009

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	15,8	(+9,4)	42,1	(+3,8)	42,1	(-13,2)	-26,3	(+22,6)
Croatia	0,0	(-2,4)	43,6	(-8,8)	56,4	(+11,2)	-56,4	(-13,6)
Czech Republic	13,3	(+11,4)	28,9	(-14,5)	57,8	(+3,1)	-44,5	(+8,3)
Hungary	0,0	(-1,9)	22,2	(-2,3)	77,8	(+4,2)	-77,8	(-6,1)
Poland	14,3	(+2,3)	33,3	(+5,3)	52,4	(-7,6)	-38,1	(+9,9)
Romania	4,6	(-1,2)	22,7	(+3,5)	72,7	(-2,3)	-68,1	(+1,1)
Slovakia	11,9	(-0,3)	26,2	(+7,8)	61,9	(-7,5)	-50,0	(+7,2)
CEE	2,0	(+0,1)	34,7	(-1,1)	63,3	(+1,0)	-61,3	(-0,9)
Eurozone	2,2	(+0,3)	40,4	(+10,2)	57,4	(-10,5)	-55,2	(+10,8)

Economic expectations	improve		no change		worsen		balance	
Austria	32,5	(-0,9)	45,0	(-0,8)	22,5	(+1,7)	10,0	(-2,6)
Croatia	28,6	(-8,9)	47,6	(+10,1)	23,8	(-1,2)	4,8	(-7,7)
Czech Republic	40,4	(+1,5)	38,3	(-8,0)	21,3	(+6,5)	19,1	(-5,0)
Hungary	23,9	(-14,5)	47,8	(+9,3)	28,3	(+5,2)	-4,4	(-19,7)
Poland	36,9	(-7,1)	37,0	(+5,0)	26,1	(+2,1)	10,8	(-9,2)
Romania	27,0	(-12,2)	43,8	(+10,5)	29,2	(+1,7)	-2,2	(-13,9)
Slovakia	31,9	(-3,4)	46,8	(+5,6)	21,3	(-2,2)	10,6	(-1,2)
CEE	40,8	(+8,8)	38,8	(-3,2)	20,4	(-5,6)	20,4	(+14,4)
Eurozone	37,5	(+5,5)	41,7	(-7,4)	20,8	(+1,9)	16,7	(+3,6)

Inflation rate	increase		no change		decrease		balance	
Austria	24,4	(+13,7)	45,9	(+11,9)	29,7	(-25,6)	-5,3	(+39,3)
Croatia	27,5	(+8,4)	32,5	(-3,2)	40,0	(-5,2)	-12,5	(+13,6)
Czech Republic	20,0	(+10,4)	35,6	(+2,9)	44,4	(-13,3)	-24,4	(+23,7)
Hungary	31,1	(+3,6)	22,2	(-1,3)	46,7	(-2,3)	-15,6	(+5,9)
Poland	23,8	(+13,6)	31,0	(+2,4)	45,2	(-16,0)	-21,4	(+29,6)
Romania	24,4	(+10,7)	20,0	(+0,4)	55,6	(-11,1)	-31,2	(+21,8)
Slovakia	18,2	(+8,2)	27,3	(+5,3)	54,5	(-13,5)	-36,3	(+21,7)
CEE	26,7	(+12,7)	33,3	(+5,3)	40,0	(-18,0)	-13,3	(+30,7)
Eurozone	29,1	(+17,6)	39,6	(-8,5)	31,3	(-9,1)	-2,2	(+26,7)

Short-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	11,4	(+5,5)	15,6	(+2,2)	62,9	(+7,0)	50,0	(+6,7)	25,7	(-12,5)	34,4	(-8,9)	-14,3	(+18,0)	-18,8	(+11,1)
Czech Republic	4,8	(+2,6)	7,9	(-17,7)	53,7	(+12,4)	55,3	(+11,1)	41,5	(-15,0)	36,8	(+6,6)	-36,7	(+17,6)	-28,9	(-24,3)
Hungary	7,2	(+2,8)	5,1	(-6,5)	23,8	(+6,0)	23,1	(-4,8)	69,0	(-8,8)	71,8	(+11,3)	-61,8	(+11,6)	-66,7	(-17,8)
Poland	7,3	(+5,1)	2,6	(-7,2)	36,6	(+16,1)	50,0	(+11,0)	56,1	(-21,2)	47,4	(-3,8)	-48,8	(+26,3)	-44,8	(-3,4)
Romania	7,7	(+2,7)	5,7	(-21,4)	35,9	(+10,9)	34,3	(+10,0)	56,4	(-13,6)	60,0	(+11,4)	-48,7	(+16,3)	-54,3	(-32,8)
Eurozone	12,8	(+6,7)			63,8	(+23,0)			23,4	(-29,7)			-10,6	(+36,4)		

Long-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	18,2	(+9,1)	25,8	(+9,1)	48,5	(-9,1)	35,5	(-14,5)	33,3	(+/-0,0)	38,7	(+5,4)	-15,1	(+9,1)	-12,9	(+3,7)
Czech Republic	32,5	(+14,7)	13,6	(-3,1)	32,5	(-7,5)	37,8	(+4,5)	35,0	(-7,2)	48,6	(-1,4)	-2,5	(+21,9)	-35,0	(-1,7)
Hungary	19,5	(+5,5)	7,9	(-4,3)	24,4	(+15,1)	23,7	(+6,6)	56,1	(-20,6)	68,4	(-2,3)	-36,6	(+26,1)	-60,5	(-2,0)
Poland	22,5	(+8,5)	8,3	(-4,2)	32,5	(-7,0)	36,1	(-3,9)	45,0	(-1,5)	55,6	(+8,1)	-22,5	(+10,0)	-47,3	(-12,3)
Slovakia	26,3	(-1,6)	11,4	(-3,9)	39,5	(-2,4)	45,7	(-0,5)	34,2	(+4,0)	42,9	(+4,4)	-7,9	(-5,6)	-31,5	(-8,3)
Germany	42,2	(+8,9)			35,6	(-4,0)			22,2	(-4,9)			20,0	(+13,8)		

Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	54,4	(+7,4)	21,7	(-0,7)	23,9	(-6,7)	30,5	(+14,1)
ATX (Austria)	56,1	(+11,7)	24,4	(-11,2)	19,5	(-0,5)	36,6	(+12,2)
NTX (CEE)	51,1	(+10,3)	23,3	(-15,5)	25,6	(+5,2)	25,5	(+5,1)
CROBEX (Croatia)	57,2	(+23,1)	19,0	(-24,9)	23,8	(+1,8)	33,4	(+21,3)
PX 50 (Czech Rep.)	48,9	(+2,9)	26,7	(-9,3)	24,4	(+6,4)	24,5	(-3,5)
BUX (Hungary)	56,8	(+14,8)	18,2	(-19,8)	25,0	(+5,0)	31,8	(+9,8)
WIG (Poland)	53,4	(+10,9)	23,3	(-19,3)	23,3	(+8,4)	30,1	(+2,5)
BET (Romania)	47,6	(+12,8)	23,8	(-17,5)	28,6	(+4,7)	19,0	(+8,1)
SAX (Slovakia)	43,3	(+4,3)	29,7	(-14,2)	27,0	(+9,9)	16,3	(-5,6)
SBI 20 (Slovenia)	52,9	(+12,9)	26,5	(-13,5)	20,6	(+0,6)	32,3	(+12,3)

Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	18,5	(+6,6)	36,8	(-22,7)	44,7	(+16,1)	-26,2	(-9,5)
Koruna (Czech Rep.)	56,5	(+11,4)	23,9	(-11,4)	19,6	(+/-0,0)	36,9	(+11,4)
Forint (Hungary)	43,5	(+2,7)	32,6	(-12,3)	23,9	(+9,6)	19,6	(-6,9)
Zloty (Poland)	59,1	(+2,0)	15,9	(-12,7)	25,0	(+10,7)	34,1	(-8,7)
Lei (Romania)	31,7	(+3,4)	39,0	(-8,8)	29,3	(+5,4)	2,4	(-2,0)
US-Dollar	33,3	(+12,9)	15,6	(+1,3)	51,1	(-14,2)	-17,8	(+27,1)

Note: 66 Financial experts participated in the June survey which was conducted during the period 05/28/09-06/16/09. 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 May 2009 in parentheses). Balances refer to the differences between positive and negative assessments.

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