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Financial Market Report CEE

Volume 2 · Oktober 2008
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 present survey conducted between August 28 and September 15, 2008, are published in the October 2008 issue of the "Financial Market Report CEE". In this month's survey 72 financial market experts participated.

Slightly improved prospects for the economic development in CEE

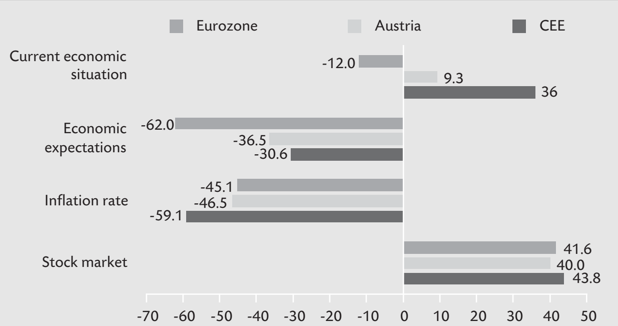
The economic expectations for Central and Eastern Europe improve slightly once again in September. The CEE sentiment indicator increases by 0.7 points to currently minus 30.6 points. A rising share of financial market experts (61.2 percent) forecasts an unchanged development of the business cycle in the CEE-region within the next six months. The assessment of the current economic situation in the region improves considerably by 19.4 points to 36.0 points. Due to the declining oil price the inflation risks in the CEE countries are evaluated to be lower compared to the survey in August.

Economic outlook for CEE countries, Austria and the Eurozone

In the September survey, the ZEW-Erste Group Bank Sentiment Indicator CEE that shows the balance of positive and negative assessments of the economic outlook within the next six months, increases slightly once again and now stands at minus 30.6 points. The share of experts with pessimistic expectations decreases more strongly than the number of participants who predict an improvement of the economic development in the CEE-region. However, a growing majority of experts, 61.2 percent, expects no change at all. For Austria, the balance for the economic expectations has declined by 7.9 points to minus 36.5 points. The economic expectations for the Eurozone worsen significantly and, consequently, the respective balance declines by 21.6 points to minus 62.0 points.

Compared to the last month's results, considerably more survey participants assess the current economic situation in the CEE-region in September as „good". The balance increases by 19.4 points to 36.0 points. In contrast, the balance for the current economic situation in Austria decreases by 5.4 points to 9.3 points and the one for the Eurozone loses 5.7 points to minus 12.0 points. Nevertheless, more than 70.0 percent of the respondents consider the economic conditions in Austria and the Eurozone to be "normal".

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

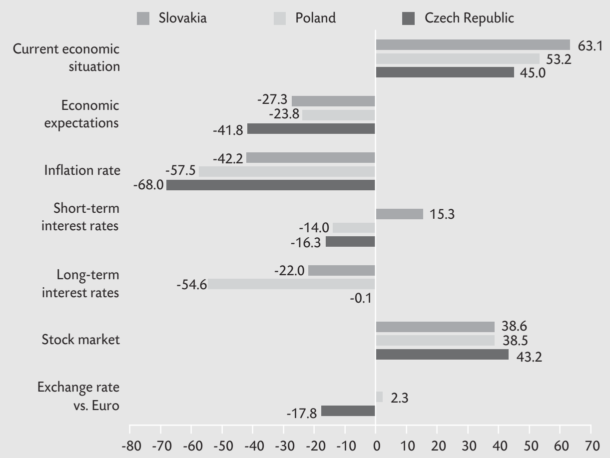
The financial market experts regard the inflation risks in all analysed CEE countries and the CEE-region within the next six months to be lower compared to the August survey. The corresponding balance for the CEE-region drops by 7.0 points to minus 59.1 points and the indicator for Austria decreases marginally to minus 46.5 points. The balance for the Eurozone is the only one that increases in September but remains negative at minus 45.1 points. Consistent to the anticipated lower inflation rates, a growing majority (59.6 percent) of the survey respondents forecasts a cut in the short-term interest rate in the Eurozone within the next six months.

The expectations of the survey participants for the three stock market indices – NTX (CEE-region), ATX (Austria) and Euro Stoxx 50 (Eurozone) – have not changed considerably in September and remain optimistic.

A separate analysis of 16 answers that came in after the announcement of Lehman Brothers' bankruptcy and Merrill Lynch's sell to Bank of America on 14th of September shows that neither the economic expectations nor the stock market forecasts for the CEE-region have deteriorated in the course of these incidents.

Czech Republic, Poland and Slovakia: good current economic situation

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

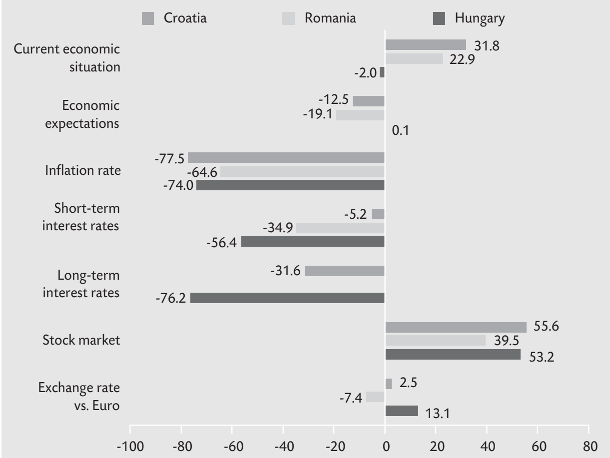
The share of financial market experts who assess the current economic situation in the three countries as “good” increases significantly in the current survey. The balances for Poland and Slovakia grow markedly by 22.8 points and 20.6 points to 53.2 points and 63.1 points respectively. In contrast to the August survey, the economic expectations for Poland and Slovakia brighten up in September. The indicator for Poland gains 14.5 points and now stands at minus 23.8 points. The indicator for Slovakia increases by 5.4 points to minus 27.3 points. For the Czech Republic the survey participants expect a worsening economic development within the next six months. The indicator loses 7.1 points and achieves minus 41.8 points. Despite the negative values of the sentiment indicators clear majorities of the participants forecast unchanged business cycles.

The downward movement of the inflation risk evaluation continues in September. In all three countries the financial market experts anticipate falling inflation rates. Consequently, the three balances describing the inflation risk assessment drop in the current survey. In contrast, the expectations for the short-term interest rates are mixed. Due to the already very low level of the Czech benchmark lending rate a significant share of the analysts (65.1 percent) neither expect the Czech National Bank to continue its expansionary policy after the August quarter-point cut of the key interest rate, nor to switch to increasing interest rates. At the same time the balance for the interest rate expectations in Slovakia is positive at 15.3 points. This indicates that the share of participants anticipating a raise of the interest rate predominate the proportion of experts who count on a cut. For Poland a clear majority of the survey participants (67.4 percent) expects the short-term interest rates to remain unchanged within the next six months.

The analysts’ expectations with regard to the stock market development are clearly positive. The balance for the Czech stock market index PX 50 drops slightly to 43.2 points but remains at the highest level among the three countries.

Hungary, Romania and Croatia: clearly improved economic conditions

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 financial market experts’ assessment of the current economic situation in Hungary, Romania and Croatia improves significantly in September. The balances for Romania and Croatia soar by 31.8 points and 20.2 points, reaching 22.9 points and 31.8 points respectively. After an increase by 18.8 points in September, the valuation of the current economic circumstances in Hungary (minus 2.0 points) is on the verge of turning positive, too.

According to the experts, the future prospects for Croatia recover considerably. In spite of remaining in the red, the corresponding balance climbs 13.5 points to currently minus 12.5 points, switching positions with Romania again. The forecast for the latter economy rests nearly unchanged at minus 19.1 points. In line with the results of the previous months, Hungary remains the only country featuring a predominantly positive business outlook. The respective indicator drops 10.2 points reaching 0.1 points.

Last month’s results were characterised by a strong tendency towards falling inflation rates against the background of the declining oil price and strong CEE currencies. Overall, more than 75 percent of the financial experts forecast declining inflation rates for all three countries. Taking these assessments into consideration, it is not astonishing that a growing majority of the respondents expect falling interest rates in the short-run, as a contractionary monetary policy does no longer seem to be necessary, which already became apparent last month. Accordingly, all respective balances decline and are located in the negative range, now. Especially with regard to Romania and Croatia the shift towards declining interest rates has been very pronounced.

Concerning stock market expectations, the financial experts remain very optimistic. Nearly unchanged majorities of 66.7 percent, 68.1 percent and 55.8 percent of the analysts anticipate rising stock prices for Croatia, Hungary and Romania. The balance for the Croatian stock index CROBEX remains the highest one among all analysed stock market indices.

Special question: The prices for real estate in CEE

The markets for commercial and residential real estate in the CEE-area have been experiencing significant increases in prices over the last decade.

Within the first part of this month's special question, we asked the financial experts to rank potential demand drivers according to their respective significance for the rise in prices on the CEE real estate markets. In doing so, we differentiated between commercial and residential properties.

In the first case, the respondents attach most importance to the strong business conditions in the CEE-area, believing that the increasing prosperity, due to the stable economic growth, fosters the local demand for office space. 61.7 percent of the experts consider the impact of the positive economic circumstances on the prices for commercial real estate to be "high". Furthermore, clear majorities of over 85.0 percent of the financial analysts believe that the dynamic growth in the retail sector, the restructuring of the national economies towards services and the improvement of the infrastructure have at least a medium influence on the soaring property prices. In the context of growing retail activities, supported by the enhanced infrastructure network in the CEE-countries, commercial real estate are needed for logistic facilities, shopping centres or large stores.

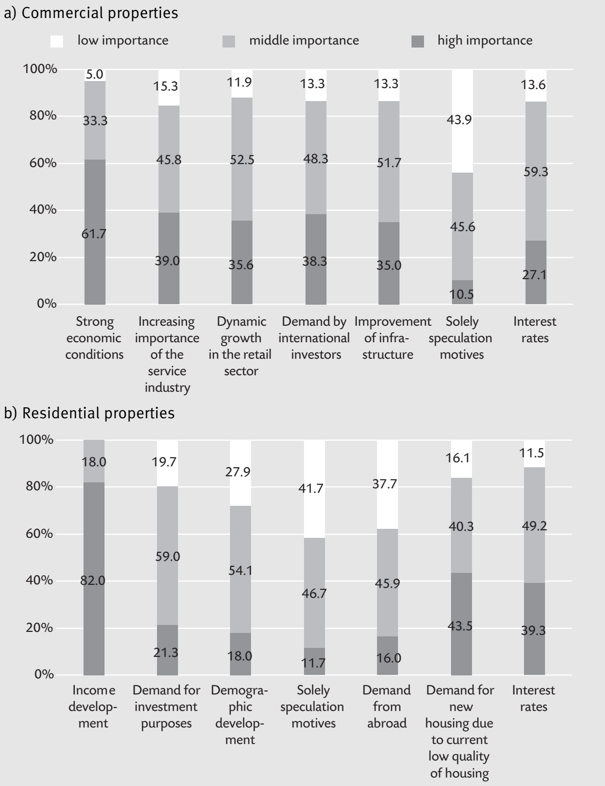
The impact of foreign direct investments, aiming at high yields and new business chances, on the price development at the commercial property markets is assessed likewise by the participants in the survey (86.6 percent). Interestingly, clear majority of the financial experts (89.5 percent) hold the view that pure speculation motives play a minor or merely average role in this regard. According to the experts, the impact of the interest rates is a demand driver of "middle importance" on the market for commercial properties.

An overwhelming majority of the participants (82.0 percent) consider the strongly positive income development in CEE to be the main trigger for the rising demand for housing. Speculation motives have only little bearing on the price development at the CEE residential property markets, as most financial analysts describe the respective influences as low or average. The impact of investment purposes on the prices for housing is considered to be rather moderate, too. In contrast to the commercial real estate, this holds for foreign investments as well. About 85.0 percent of the analysts evaluate the impact of interest rates and often low housing quality on the demand for real estate as average or high.

Additionally, we were interested in the experts' view on the current price level at the CEE property markets. With regard to the commercial properties, most experts (63.0 percent) evaluate the current prices as appropriate. Still, the share of the participants perceiving an overvaluation (27.0 percent) clearly outweighs the analysts who consider the prices for office space to be undervalued.

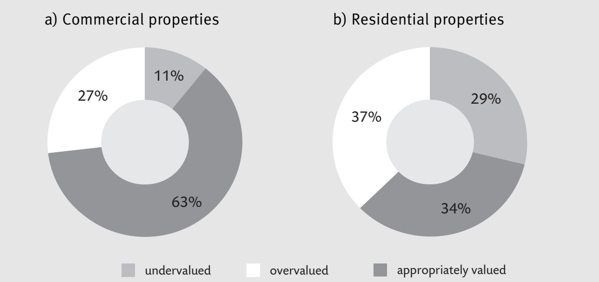
As to residential real estate, the majority of the experts, namely 37.0 percent, believe that private properties are overvalued. In spite of this, a clear majority of the respondents expect further price hikes for housing in the long-run (five years), whereas in the case of office space the proportion of the expects anticipating no price change slightly prevails.

Figure A: Which are in your opinion the main demand and price drivers in the CEE real estate markets?



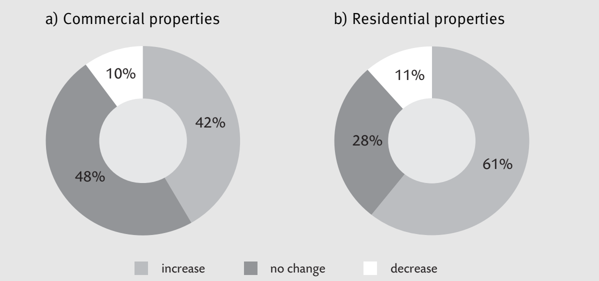
Answers of the participants of the Financial Market Survey CEE Source: ZEW

Figure B: How do you assess the current prices for real estates in the CEE-region?



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

Figure C: In the long-run (five years) the prices for real estates in the CEE-region will...



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

ZEW-Financial Market Survey: September 2008

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	16.3	(-0.8)	76.7	(-3.8)	7.0	(+4.6)	9.3	(-5.4)
Croatia	34.2	(+15.6)	63.4	(-11.0)	2.4	(-4.6)	31.8	(+20.2)
Czech Republic	47.0	(+9.5)	51.0	(-11.5)	2.0	(+2.0)	45.0	(+7.5)
Hungary	22.0	(+17.8)	54.0	(-16.8)	24.0	(-1.0)	-2.0	(+18.8)
Poland	55.3	(+22.7)	42.6	(-22.6)	2.1	(-0.1)	53.2	(+22.8)
Romania	35.4	(+15.4)	52.1	(+1.0)	12.5	(-16.4)	22.9	(+31.8)
Slovakia	67.4	(+20.6)	28.3	(-20.6)	4.3	(+/-0.0)	63.1	(+20.6)
CEE	38.0	(+15.1)	60.0	(-10.8)	2.0	(-4.3)	36.0	(+19.4)
Eurozone	8.0	(-4.8)	72.0	(+3.9)	20.0	(+0.9)	-12.0	(-5.7)

Economic expectations	improve		no change		worsen		balance	
Austria	2.5	(-9.4)	58.5	(+10.9)	39.0	(-1.5)	-36.5	(-7.9)
Croatia	10.0	(-3.1)	67.5	(+19.7)	22.5	(-16.6)	-12.5	(+13.5)
Czech Republic	2.0	(-8.2)	54.2	(+9.3)	43.8	(-1.1)	-41.8	(-7.1)
Hungary	22.5	(-10.2)	55.1	(+10.2)	22.4	(+/-0.0)	0.1	(-10.2)
Poland	6.6	(-1.9)	63.0	(+18.3)	30.4	(-16.4)	-23.8	(+14.5)
Romania	12.8	(-3.9)	55.3	(+7.4)	31.9	(-3.5)	-19.1	(-0.4)
Slovakia	0.0	(-4.3)	72.7	(+14.0)	27.3	(-9.7)	-27.3	(+5.4)
CEE	4.1	(-6.3)	61.2	(+13.3)	34.7	(-7.0)	-30.6	(+0.7)
Eurozone	6.0	(-2.5)	26.0	(-16.6)	68.0	(+19.1)	-62.0	(-21.6)

Inflation rate	increase		no change		decrease		balance	
Austria	7.0	(-8.4)	39.5	(+16.4)	53.5	(-8.0)	-46.5	(-0.4)
Croatia	2.5	(-16.1)	17.5	(-17.4)	80.0	(+33.5)	-77.5	(-49.6)
Czech Republic	6.0	(-2.5)	20.0	(-5.5)	74.0	(+8.0)	-68.0	(-10.5)
Hungary	6.0	(-4.4)	14.0	(+1.5)	80.0	(+2.9)	-74.0	(-7.3)
Poland	10.6	(-2.7)	21.3	(+3.5)	68.1	(-0.8)	-57.5	(-1.9)
Romania	10.4	(-5.1)	14.6	(+5.7)	75.0	(-0.6)	-64.6	(-4.5)
Slovakia	11.1	(-4.2)	35.6	(+5.2)	53.3	(-1.0)	-42.2	(-3.2)
CEE	8.2	(-4.3)	24.5	(+1.6)	67.3	(+2.7)	-59.1	(-7.0)
Eurozone	9.8	(-6.6)	35.3	(+19.0)	54.9	(-12.4)	-45.1	(+5.8)

Short-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	13.2	(-7.8)	22.8	(-11.6)	68.4	(+2.6)	74.3	(+11.8)	18.4	(+5.2)	2.9	(-0.2)	-5.2	(-13.0)	19.9	(-11.4)
Czech Republic	9.3	(+/-0.0)	37.5	(+9.7)	65.1	(+18.6)	42.5	(+6.4)	25.6	(-18.6)	20.0	(-16.1)	-16.3	(+18.6)	17.5	(+25.8)
Hungary	6.6	(-4.7)	22.7	(+12.2)	30.4	(-6.0)	31.8	(+8.1)	63.0	(+10.7)	45.5	(-20.3)	-56.4	(-15.4)	-22.8	(+32.5)
Poland	9.3	(-7.8)	42.5	(+12.0)	67.4	(+8.9)	45.0	(-7.8)	23.3	(-1.1)	12.5	(-4.2)	-14.0	(-6.7)	30.0	(+16.2)
Romania	11.6	(-17.7)	22.0	(-6.6)	41.9	(-4.4)	34.1	(-5.9)	46.5	(+22.1)	43.9	(+12.5)	-34.9	(-39.8)	-21.9	(-19.1)
Slovakia	38.4	(+6.7)	25.7	(+14.9)	38.5	(-12.7)	56.4	(-5.8)	23.1	(+6.0)	17.9	(-9.1)	15.3	(+0.7)	7.8	(+24.0)
Eurozone	2.1	(-4.1)			38.3	(-18.0)			59.6	(+22.1)			-57.5	(-26.2)		

Long-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	10.5	(-11.7)	16.7	(-7.4)	47.4	(-5.4)	44.4	(-17.7)	42.1	(+17.1)	38.9	(+25.1)	-31.6	(-28.8)	-22.2	(-32.5)
Czech Republic	36.3	(+17.3)	35.7	(+29.8)	27.3	(-1.3)	40.5	(-9.5)	36.4	(-16.0)	23.8	(-20.3)	-0.1	(+33.3)	11.9	(+50.1)
Hungary	2.1	(-2.5)	0.0	(-5.2)	19.6	(+3.7)	25.0	(+1.3)	78.3	(-1.2)	75.0	(+3.9)	-76.2	(-1.3)	-75	(-9.1)
Poland	6.8	(-6.0)	9.6	(-5.5)	31.8	(+3.6)	33.3	(-6.1)	61.4	(+2.4)	57.1	(+11.6)	-54.6	(-8.4)	-47.5	(-17.1)
Slovakia	7.3	(-2.7)	2.5	(-6.0)	63.4	(+3.4)	72.5	(+9.6)	29.3	(-0.7)	25.0	(-3.6)	-22.0	(-2.0)	-22.5	(-2.4)
Germany	10.9	(-2.4)			56.5	(+18.7)			32.6	(-16.3)			-21.7	(+13.9)		

Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	56.2	(+0.8)	29.2	(+3.7)	14.6	(-4.5)	41.6	(+5.3)
ATX (Austria)	57.5	(-7.5)	25.0	(+7.5)	17.5	(+/-0.0)	40.0	(-7.5)
NTX (CEE)	60.9	(-4.2)	22.0	(+5.7)	17.1	(-1.5)	43.8	(-2.7)
CROBEX (Croatia)	66.7	(+1.5)	22.2	(-3.9)	11.1	(+2.4)	55.6	(-0.9)
PX 50 (Czech Rep.)	59.1	(-3.9)	25.0	(+5.4)	15.9	(-1.5)	43.2	(-2.4)
BUX (Hungary)	68.1	(+5.6)	17.0	(-5.9)	14.9	(+0.3)	53.2	(+5.3)
WIG (Poland)	59.0	(-1.0)	20.5	(+4.9)	20.5	(-3.9)	38.5	(+2.9)
BET (Romania)	55.8	(-3.7)	27.9	(+4.1)	16.3	(-0.4)	39.5	(-3.3)
SAX (Slovakia)	56.5	(-1.0)	25.6	(+0.6)	17.9	(+0.4)	38.6	(-1.4)
SBI 20 (Slovenia)	60.5	(-0.1)	26.3	(-2.6)	13.2	(+2.7)	47.3	(-2.8)

Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	33.3	(+16.2)	35.9	(-20.2)	30.8	(+4.0)	2.5	(+12.2)
Koruna (Czech Rep.)	11.1	(-2.0)	60.0	(+27.4)	28.9	(-25.4)	-17.8	(+23.4)
Forint (Hungary)	28.3	(+9.1)	56.5	(+9.7)	15.2	(-18.8)	13.1	(+27.9)
Zloty (Poland)	39.5	(+16.8)	23.3	(-19.9)	37.2	(+3.1)	2.3	(+13.7)
Lei (Romania)	21.9	(-7.7)	48.8	(+7.9)	29.3	(-0.2)	-7.4	(-7.5)
US-Dollar	44.9	(-17.5)	28.6	(+9.8)	26.5	(+7.7)	18.4	(-25.2)

Note: 72 Financial experts participated in the September survey which was conducted during the period 08/28/08-09/15/08. 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 August in parentheses). Balances refer to the differences between positive and negative assessments.

I M P R I N T

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Editor and Author 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 · President: Prof. Dr. Dr. h.c. mult. Wolfgang Franz · Business and Administration Director: Thomas Kohl
Mariela Borell · Dept. International Finance and Financial Management · Phone +49 (0)621 1235-144 · E-mail borell@zew.de

Erste Group Bank 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@erstegroup.com · www.erstegroup.com