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Financial Market Report CEE

Volume 1 · December 2013

International Finance Market Data: Assessments and Expectations
ZEW Economic Sentiment Indicator for Central and Eastern Europe, Supported by Erste Group Bank AG

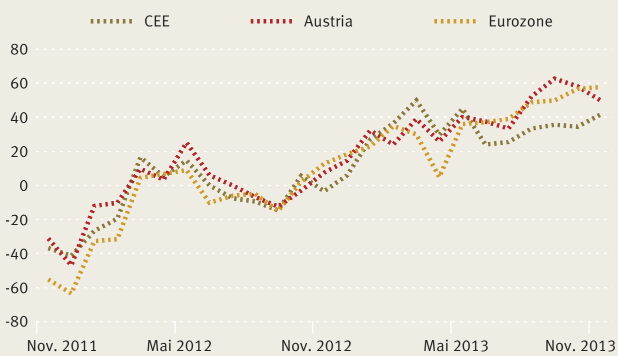
ZEW, the Centre for European Economic Research, Mannheim, and Erste Group Bank AG, Vienna, carry out a monthly survey among approximately 160 financial market experts for Central and Eastern Europe (CEE), Austria, as well as the Eurozone. The experts are asked for their assessments and expectations with regard to economic and financial market data. The December issue of the "Financial Market Report CEE" contains the results of the current survey, conducted between November 4, 2013 and November 18, 2013, 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 Expectations Linger on Positive Levels

In November 2013 economic expectations for Central and Eastern Europe including Turkey (CEE) have slightly improved. The ZEW-Erste Group Bank Economic Sentiment Indicator for the CEE region has increased by 7.0 points and now stands at a level of 41.6 points. The sentiment indicator for the CEE region has been lingering on highly positive levels over the last three months. Among the individual countries the indicators for Poland, Slovakia, Romania and the Czech Republic have displayed record highs over the last three months. In November the indicators for Poland and Slovakia have reached their highest levels since the beginning of the survey in 2007: Thus, the economic sentiment indicators are now hovering at the 57.5 points-mark (Poland), and the 66.7 points-mark (Slovakia). The indicator of the Czech Republic has reached its historical high of 78.1 a little earlier this quarter, in September. Outstanding positive values are also displayed by the indicator of experts' economic expectations for Romania. Reaching a level of 61.1 points the indicator currently ranks at its highest level since January 2010. Experts' assessment of the current economic situation in the CEE region has also improved over the last three months. The respective indicator has increased by overall 16.1 points over the last three survey waves and currently stands at 16.2 points. In November 2013 no survey respondent has reported any negative assessment of the current situation in the CEE region and the large majority of 83.8 per cent assert that the current state is rather normal. Among the individual countries the highest improvement of the current situation is assessed for Romania (increase by 35.5 points), Poland (increase by 28.1 points) and Slovakia (increase by 20.4 points).

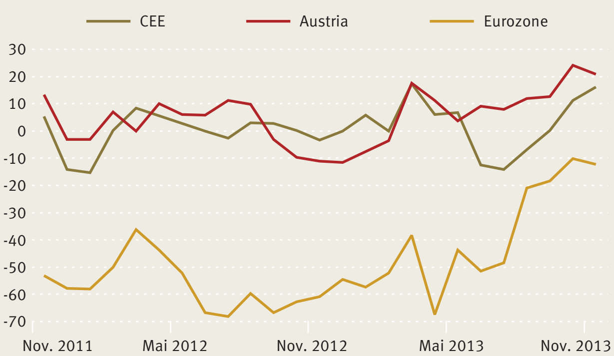
Economic sentiment for the Eurozone has also increased over the last three months and continues to rank higher than the respective sentiment indicator for the CEE region for the second consecutive quarter. Experts' assessment of the current economic situation in the Eurozone continues to improve after last quarter's major increase. In October the indicator reached minus 10.2 points, which is its highest level since May 2011, and then slightly reversed in November (decrease by 2.0 points). However, the majority of 71.4 per cent of the respondents maintain a moderate assessment of the current situation in the Eurozone. The financial market experts from the CEE region thereby continue to hold significantly more positive assessment on the current situation in the Eurozone than the assessment of their German colleagues: According to the results of the ZEW Financial Market Survey conducted with financial market participants from Germany at the same time the majority of 64.2 per cent of the experts classify the current situation in the Eurozone as bad.

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: Economic Sentiments at Historical High

In September experts' expectations on the economic development in the **Czech Republic** reached its highest level since the beginning of the survey in 2007. The indicator of economic sentiments reached 78.1 points. A large majority of 78.1 per cent of the surveyed experts have an optimistic view on the economic potential of the country over the next six months and no one holds the opposite, pessimistic view. In the consecutive months – October and November – the indicator has slightly reversed to 69.0 points in November. Nevertheless, there continues to be no pessimists among the survey respondents. The positive outlook is not in line with the deteriorating economic growth figures released in September and November. In November the Czech Statistical Office announced a preliminary estimate of 1.6% GDP contraction (yoy), which constitutes the seventh consecutive quarter of growth contraction. The strong optimism might reflect experts' evaluation of the results of the recent elections. After the former government resigned in June this year and the subsequent caretaker government lost a confidence vote, the elections in October did not appoint a distinct winner and the Czech Republic is awaiting the results of the currently ongoing coalition negotiations. The optimism of the financial market experts might have been affected by the announcement of the Czech National Bank to intervene in the foreign exchange market in order to boost exports.

Economic expectations for **Poland** have increased in November to their historical high since the beginning of the survey in 2007. The indicator currently stands at 57.5 points and for the first time since the beginning of the survey none of the survey respondents reports a pessimistic view. The indicator of experts' expectations on the current situation in Poland also reaches its highest level since April 2012.

Economic expectations for **Slovakia** have reached their historical high in November. The sentiment indicator for the Slovakian economy currently stands at 66.7 points. This is the highest level of the indicator since the beginning of the survey in 2007. Experts' optimism is in line with the positive industrial production figures released in September (7.5% increase of industrial production yoy) – the strongest increase over the last ten months.

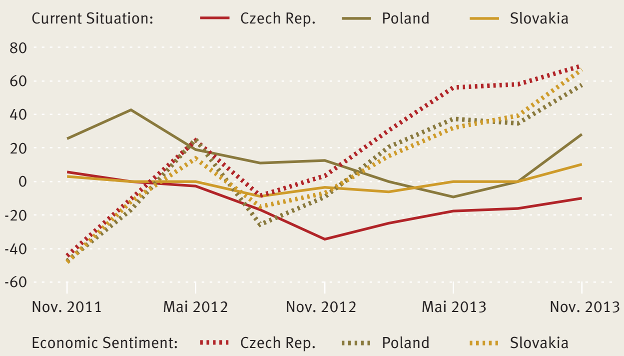
Croatia, Hungary and Romania: Heterogeneous Picture

Over the last three months there has been a tendency towards an improvement of experts' assessment of the current situation in **Romania**, as well as increasing optimism for the development of the economy over the next six months. In November the indicator of experts' assessment on the current economic situation crosses the 0.0 mark for the first time for the last six years. The indicator of economic sentiments for Romania reaches its highest level since January 2010. The rise in both indicators is in line with the recently released macroeconomic data for the economy. In November the preliminary estimate released by the National Institute for Statistics revealed a GDP growth by 4.1 % (yoy), which constitutes the largest growth in five years. Furthermore, the positive picture is maintained by the recent industrial production figures. According to the National Institute for Statistics the industrial production in Romania has risen by 10% yoy. This is likely to be the reason why the rating agency Standard & Poor's upgraded the rating of the country from stable to positive and indicated a possible further upgrade by the second half of next year (Source: Bloomberg).

In September and October the indicator of experts' economic expectations for **Croatia** lingered at its highest levels since March 2011. In November, however, it fell back roughly to last quarter's average. In contrast, the indicator of experts' assessment of the current economic situation in the country reached its four years low of minus 64.2 points in September and then reversed back to its current level of minus 53.6 points. As of November the majority of two thirds of the survey respondents assess the current economic situation as bad. The assessment of the experts is in line with the large fiscal deficit figures announced by the government in November. Earlier, in September, the rating agency Fitch downgraded the credit rating of Croatia because "a structurally weak growth outlook has impaired the prospects for fiscal consolidation" (Source: Bloomberg).

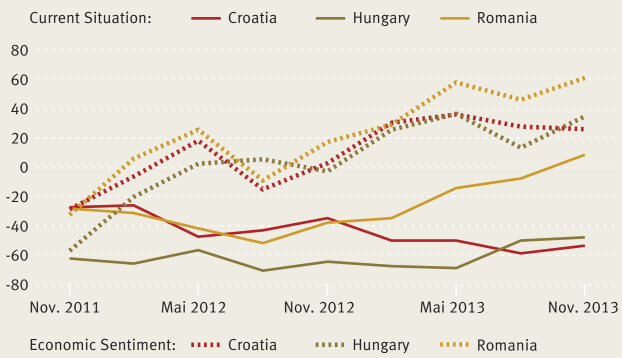
After peaking in September at a level of 45.1 (the highest level since May 2011), the economic sentiments for **Hungary** have reversed back to their current level of 34.9 points. Experts' assessment of the current economic situation in the country has remained roughly unchanged over the last three months.

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

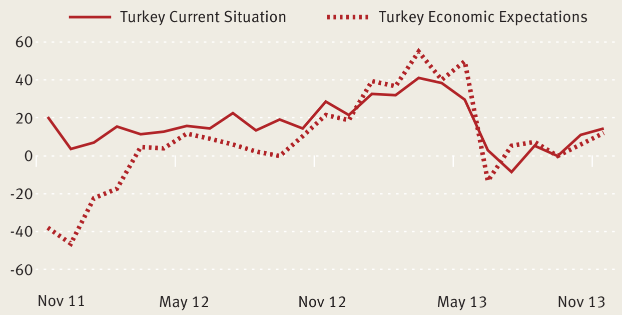
Indicators* for Croatia, Hungary and Romania



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

Turkey: Expected Depreciation of the Turkish Lira

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 economic situation and the indicator of economic expectations for Turkey have slightly improved in the last two survey waves in October and November. The current account deficit in Turkey has widened over the last three months which has led to two consecutive major downwards revisions of experts' expectations on the Turkish Lira. In the last two months the respective indicator has decreased by 17.1 points (October) and 24.9 points (November). In November half of the respondents declared that they expect the Lira to depreciate over the next six months. This is 18.6 percentage points more pessimists as compared to the previous survey in October. The expected depreciation of the Lira raises concerns about the foreign-currency corporate debt since it currently amounts to around 40 per cent of the total corporate debt in the country (Source: Bloomberg).

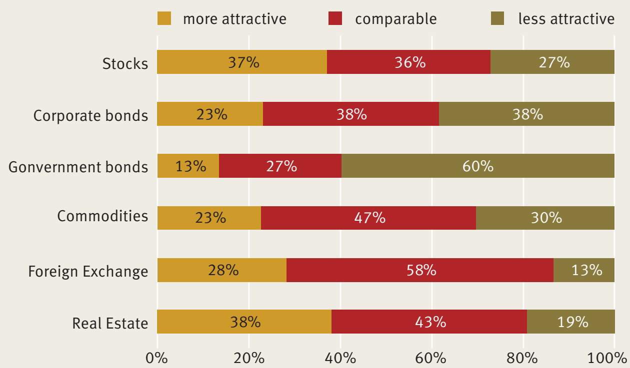
Special Question: Optimal Portfolio Allocation in 2014

In 2014 stocks, corporate bonds and government bonds from the CEE region are going to be more attractive than the respective Eurozone asset categories. Overall, stocks are expected to become more attractive investments next year as compared to 2013. In contrast, investors should deemphasize their investments in government bonds. This is the opinion of the majority of respondents to this month's special question. A total of 86 experts have participated in the survey and shared their insights and expectations on the investors' portfolio decision.

Stocks, corporate bonds and government bonds from the CEE region are expected to be more attractive than stocks, corporate bonds and government bonds from the Eurozone in the next year. This is the opinion of the majority of 56.7 per cent (for stocks), 51.4 per cent (corporate bonds) and 46.4 per cent (government bonds) of the financial market experts. The difference between the stock market return expectations for the CEE region and the Eurozone is rather moderate but the experts also anticipate a lower volatility on the CEE stock markets as opposed to the Eurozone stock markets. On average experts expect the CEE stock market index NTX to increase by 6.76 per cent during the next year, whereas the average expected return for the EUROSTOXX 50 lies at 6.12 per cent. There is a large disagreement in experts' expectations regarding the relative attractiveness of the CEE asset classes foreign exchange and real estate. According to almost 39.3 per cent of the survey participants the foreign exchange rate of CEE currencies against the Euro will remain unchanged. Similarly, 36.8 per cent of the participants expect CEE real estate to be a comparably attractive investment to Eurozone real estate. Overall, 37.1 per cent of the experts expect stocks in general to become more attractive for investors as compared to their last year's ranking and almost the same percentage predicts that they are as attractive as in 2013. A different picture arises with respect to government bonds. A majority of 60 per cent expects them to become less attractive in 2014.

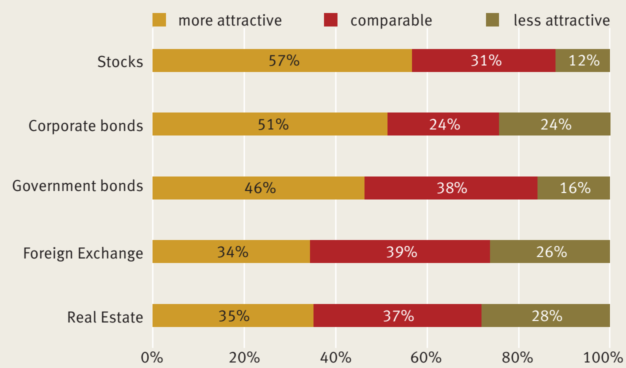
Carina Deppisch, Zwetelina Iliewa

How attractive do you expect investments in following asset classes to be in 2014 as compared to 2013?



Source: ZEW

How attractive do you expect investments in following CEE assets to be as compared to assets from other Eurozone countries in the same asset class?



Source: ZEW

ZEW / Erste Group Bank - Financial Market Survey CEE: November 2013

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	24.2	(- 3.8)	72.4	(+ 4.4)	3.4	(- 0.6)	20.8	(- 3.2)
Croatia	9.8	(+ 6.2)	26.8	(- 8.9)	63.4	(+ 2.7)	-53.6	(+ 3.5)
Czech Republic	15.0	(- 0.6)	60.0	(+ 0.6)	25.0	(± 0.0)	-10.0	(- 0.6)
Hungary	7.1	(+ 7.1)	38.1	(-21.3)	54.8	(+14.2)	-47.7	(- 7.1)
Poland	30.7	(+14.6)	66.7	(-10.7)	2.6	(- 3.9)	28.1	(+18.5)
Romania	20.0	(+12.9)	68.6	(+ 4.3)	11.4	(-17.2)	8.6	(+30.1)
Slovakia	23.6	(+ 4.3)	63.2	(+ 1.9)	13.2	(- 6.2)	10.4	(+10.5)
Turkey	21.5	(- 0.7)	71.4	(+ 4.7)	7.1	(- 4.0)	14.4	(+ 3.3)
CEE (incl. Turkey)	16.2	(- 6.0)	83.8	(+17.1)	0.0	(-11.1)	16.2	(+ 5.1)
Eurozone	8.2	(- 7.2)	71.4	(+12.4)	20.4	(- 5.2)	-12.2	(- 2.0)

Economic expectations	improve		no change		worsen		balance	
Austria	53.4	(- 4.9)	43.3	(+ 1.6)	3.3	(+ 3.3)	50.1	(- 8.2)
Croatia	42.8	(- 5.4)	40.5	(- 3.9)	16.7	(+ 9.3)	26.1	(-14.7)
Czech Republic	69.0	(- 5.2)	31.0	(+ 5.2)	0.0	(± 0.0)	69.0	(- 5.2)
Hungary	44.2	(- 2.7)	46.5	(- 3.5)	9.3	(+ 6.2)	34.9	(- 8.9)
Poland	57.5	(+10.8)	42.5	(- 7.5)	0.0	(- 3.3)	57.5	(+14.1)
Romania	63.9	(+ 3.2)	33.3	(- 6.0)	2.8	(+ 2.8)	61.1	(+ 0.4)
Slovakia	66.7	(+16.7)	33.3	(-16.7)	0.0	(± 0.0)	66.7	(+16.7)
Turkey	34.1	(+11.2)	43.9	(-16.1)	22.0	(+ 4.9)	12.1	(+ 6.3)
CEE (incl. Turkey)	47.2	(+ 4.9)	47.2	(- 2.8)	5.6	(- 2.1)	41.6	(+ 7.0)
Eurozone	59.6	(+ 0.1)	38.5	(+ 0.7)	1.9	(- 0.8)	57.7	(+ 0.9)

Inflation rate	increase		no change		decrease		balance	
Austria	24.2	(+11.1)	58.6	(-15.3)	17.2	(+ 4.2)	7.0	(+ 6.9)
Croatia	26.3	(+ 0.4)	55.3	(- 4.0)	18.4	(+ 3.6)	7.9	(- 3.2)
Czech Republic	26.3	(+ 9.6)	47.4	(- 5.9)	26.3	(- 3.7)	0.0	(+13.3)
Hungary	39.5	(- 2.4)	36.8	(-14.8)	23.7	(+17.2)	15.8	(-19.6)
Poland	47.0	(+ 4.2)	47.1	(- 6.5)	5.9	(+ 2.3)	41.1	(+ 1.9)
Romania	38.7	(+ 6.7)	41.9	(-10.1)	19.4	(+ 3.4)	19.3	(+ 3.3)
Slovakia	28.5	(+ 3.5)	48.6	(-19.3)	22.9	(+15.8)	5.6	(-12.3)
Turkey	38.9	(+ 3.6)	38.9	(- 5.2)	22.2	(+ 1.6)	16.7	(+ 2.0)
CEE (incl. Turkey)	35.3	(+ 0.5)	50.0	(- 6.5)	14.7	(+ 6.0)	20.6	(- 5.5)
Eurozone	35.3	(+19.7)	47.1	(-34.2)	17.6	(+14.5)	17.7	(+ 5.2)

Short-term interest rates	increase [abs.]		increase [rel.]		no change [abs.]		no change [rel.]		decrease [abs.]		decrease [rel.]		balance [abs.]		balance [rel.]	
Croatia	29.0	(-12.7)	34.5	(- 2.3)	51.6	(+ 1.6)	48.3	(+ 6.2)	19.4	(+11.1)	17.2	(- 3.9)	9.6	(-23.8)	17.3	(+ 1.6)
Czech Republic	2.9	(- 7.4)	12.4	(+ 8.4)	91.4	(+ 1.7)	81.3	(+ 1.3)	5.7	(+ 5.7)	6.3	(- 9.7)	-2.8	(-13.1)	6.1	(+18.1)
Hungary	19.4	(+ 5.6)	15.6	(+ 4.1)	30.6	(-14.2)	34.4	(+ 3.6)	50.0	(+ 8.6)	50.0	(- 7.7)	-30.6	(- 3.0)	-34.4	(+11.8)
Poland	20.6	(+ 3.3)	25.0	(+17.0)	64.7	(- 0.8)	64.3	(- 3.7)	14.7	(- 2.5)	10.7	(-13.3)	5.9	(+ 5.8)	14.3	(+30.3)
Romania	20.7	(- 4.3)	26.9	(+ 6.9)	34.5	(- 7.2)	26.9	(-13.1)	44.8	(+11.5)	46.2	(+ 6.2)	-24.1	(-15.8)	-19.3	(+ 0.7)
Turkey	43.7	(- 4.7)	50.0	(+ 1.8)	43.8	(+ 5.1)	34.6	(- 2.4)	12.5	(- 0.4)	15.4	(+ 0.6)	31.2	(- 4.3)	34.6	(+ 1.2)
Eurozone	2.2	(-10.0)			72.3	(-12.5)			25.5	(+22.5)			-23.3	(-32.5)		

Long-term interest rates	increase [abs.]		increase [rel.]		no change [abs.]		no change [rel.]		decrease [abs.]		decrease [rel.]		balance [abs.]		balance [rel.]	
Croatia	48.4	(-15.2)	41.4	(- 8.6)	29.0	(+ 1.7)	41.4	(+ 1.4)	22.6	(+13.5)	17.2	(+ 7.2)	25.8	(-28.7)	24.2	(-15.8)
Czech Republic	38.7	(-11.3)	6.6	(- 5.9)	54.8	(+12.5)	86.7	(+ 7.5)	6.5	(- 1.2)	6.7	(- 1.6)	32.2	(-10.1)	-0.1	(- 4.3)
Hungary	37.5	(- 3.3)	32.3	(-11.7)	40.6	(+11.0)	38.7	(+18.7)	21.9	(- 7.7)	29.0	(- 7.0)	15.6	(+ 4.4)	3.3	(- 4.7)
Poland	55.2	(+ 9.1)	33.3	(+ 8.3)	34.5	(+ 3.7)	59.3	(+ 1.0)	10.3	(-12.8)	7.4	(- 9.3)	44.9	(+21.9)	25.9	(+17.6)
Slovakia	51.6	(-12.4)	17.2	(- 4.5)	29.0	(+ 5.0)	69.0	(- 0.6)	19.4	(+ 7.4)	13.8	(+ 5.1)	32.2	(-19.8)	3.4	(- 9.6)
Turkey	49.9	(- 1.8)	46.4	(+ 0.2)	43.8	(+16.2)	35.7	(+ 1.1)	6.3	(-14.4)	17.9	(- 1.3)	43.6	(+12.6)	28.5	(+ 1.5)
Germany	50.0	(- 1.8)			39.5	(- 5.3)			10.5	(+ 7.1)			39.5	(- 8.9)		

Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	65.9	(- 4.5)	19.5	(+ 1.0)	14.6	(+ 3.5)	51.3	(- 8.0)
ATX (Austria)	69.0	(- 2.5)	17.2	(- 1.8)	13.8	(+ 4.3)	55.2	(- 6.8)
NTX (CEE)	65.4	(-17.3)	19.2	(+ 6.2)	15.4	(+11.1)	50.0	(-28.4)
CROBEX (Croatia)	52.9	(- 3.6)	35.3	(- 8.2)	11.8	(+11.8)	41.1	(-15.4)
PX 50 (Czech Rep.)	46.6	(-23.0)	36.7	(+10.6)	16.7	(+12.4)	29.9	(-35.4)
BUX (Hungary)	58.0	(-10.0)	32.3	(+ 4.3)	9.7	(+ 5.7)	48.3	(-15.7)
WIG (Poland)	60.0	(-19.2)	16.7	(+ 4.2)	23.3	(+15.0)	36.7	(-34.2)
BET (Romania)	61.5	(-17.4)	23.1	(+ 2.0)	15.4	(+15.4)	46.1	(-32.8)
SAX (Slovakia)	39.2	(-17.9)	47.8	(+ 9.7)	13.0	(+ 8.2)	26.2	(-26.1)
ISE-100 (Turkey)	48.7	(- 6.5)	24.3	(+ 0.2)	27.0	(+ 6.3)	21.7	(-12.8)

Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	16.7	(- 4.7)	50.0	(- 3.6)	33.3	(+ 8.3)	-16.6	(-13.0)
Koruna (Czech Rep.)	17.9	(- 7.9)	59.0	(+ 4.2)	23.1	(+ 3.7)	-5.2	(-11.6)
Forint (Hungary)	10.3	(-11.5)	35.9	(-11.0)	53.8	(+22.5)	-43.5	(-34.0)
Zloty (Poland)	40.0	(- 8.3)	42.9	(+ 5.0)	17.1	(+ 3.3)	22.9	(-11.6)
Lei (Romania)	25.8	(- 7.6)	48.4	(+11.4)	25.8	(- 3.8)	0.0	(- 3.8)
Lira (Turkey)	19.4	(- 6.3)	30.6	(-12.3)	50.0	(+18.6)	-30.6	(-24.9)
US-Dollar	69.6	(+16.6)	13.0	(- 4.6)	17.4	(-12.0)	52.2	(+28.6)

Note: 86 Financial market experts, 11 from which from Turkey, participated in the November survey which was conducted during the period of 11/4-11/19/2013. 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 October 2013 in parentheses). Balances refer to the differences between positive and negative assessments.

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