



New ZEW-Erste Bank economic indicator for Central and Eastern Europe (CEE): Robust economic activity in the region

Together with the ZEW, Erste Bank has established a macro sentiment benchmark for the region

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In cooperation with the renowned German economic research institute ZEW (Centre for European Economic Research), Erste Bank will now be publishing the Financial Market Report CEE every month. This Report provides a continuous flow of information on current and future (6-month horizon) economic sentiment in the Central and Eastern European region, including key aspects such as expectations regarding inflation, interest rates, currencies and equity markets. The results derived for the economic situation (sentiment) for the individual countries and the region provide benchmark-quality indicators for the relevant financial markets.

With the support of Erste Bank der oesterreichischen Sparkassen AG in Vienna, the Centre for European Economic Research (ZEW) in Mannheim has carried out a survey of financial market experts on the economic situation and financial markets in Central and Eastern Europe for the first time ever. The expectations and forecasts of the survey respondents for the CEE financial markets reflect solid current performance by the economies in the region and a positive outlook for the coming six months. This new indicator compiled by ZEW in cooperation with Erste Bank pertains to the following countries: Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Serbia and Slovakia. At the time being, 61.9% of the participants viewed the economic situation as good. The majority of the respondents were also optimistic with regard to economic expectations for the next six months. On the whole, 25.0 per cent expected further improvement in the economy, with 68.3 per cent expecting no change and just 6.7% expecting a deterioration. Hence, the balance of the positive and negative expectations for this indicator is at 18.3 points. In most of the countries under review and for the region as a whole, the financial market experts anticipated an increase in inflation rates (the indicator was 25 points). The highest positive outturns for this indicator were found in the Czech Republic (64.2 points) and Poland (56.4 points). In contrast to this, those surveyed for Hungary and Slovakia were anticipating a decline in inflation rates (-48.3 points and -7.1 points).

The forecasts for short-term and long-term interest rates call for a rise in the Czech Republic and Poland and a decline in Hungary and Romania.

Financial market experts were most optimistic about the development of the CEE equity markets. While 80 per cent of the respondents expected a rise in the NTX index, which is comprised of certain selected stocks from the region under review and was developed by Erste Bank and the Vienna Stock Exchange, only 4.4 per cent anticipated a decline in the index. As a result, this indicator was at 75.6 points. According to experts' expectations, positive development is forecast in the equity markets in Slovenia, Romania and Croatia in particular. The corresponding indicators for these markets were 86.1 points, 77.9 points and 76.0 points, respectively.

The majority of the experts participating in the survey expected to see appreciation of the national currencies in their respective countries. Based on the results of the survey, this appears to be most likely for the Polish zloty and the Slovak koruna.

A special question was also posed with regard to current issues in this survey. In this first sounding of the financial markets, experts were asked to estimate the impact of the current political developments in Turkey, in particular the presidential elections and the early general elections. Roughly 31 per cent of respondents expected a negative impact, with 26 per cent expecting a positive impact on Turkey's relations with the EU. Forty-three per cent of participants did not think that the relationship between the EU and Turkey would be affected. The experts are thus of the opinion that the political unrest will not have a major impact on future economic development of Turkey and the EU.

Survey procedures and methodology

An analogous monthly survey has been carried out for Germany by ZEW since 1991, and in Switzerland since June 2006. The goal of the new survey is to develop indicators for the overall economic climate in Central and Eastern Europe and Austria in a regional (CEE) perspective.

In particular, financial market experts are asked about their estimation of the current economic situation and their medium-term expectations with regard to the national financial markets in the region surveyed in terms of the development of the economy, inflation rates and short-term and long-term interest rates, equity prices and exchange

rates. The respondents only provide qualitative trend forecasts as to the prospective direction of developments in their replies. In respect of the financial markets covered, the survey pertains to the regions Central and Eastern Europe and the euro area, as well as the individual countries, which include the Czech Republic, Poland, Hungary, Slovakia, Croatia, Romania and Austria.

Detailed results on the individual Central and Eastern European countries and on Austria are presented in the monthly publication "Financial Market Report CEE".