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# Press Release

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## **ZEW-Erste Bank Sentiment Indicator for Central and Eastern Europe**

### **Experts are more cautious in their economic expectations for Central and Eastern Europe**

After a continuous improvement of the economic expectations for Central and Eastern Europe (CEE) during the last three months, experts appear to be more cautious in May. The CEE-Indicator, which is calculated monthly by the Centre for European Economic Research (ZEW), Mannheim, supported by the Erste Bank der oesterreichischen Sparkassen AG, 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, declines by 11.6 points to minus 24.1 points. Nevertheless, the majority of analysts expect the economic development to remain unchanged.

Despite a slight decrease of 3.3 points, the current economic situation is still assessed as positive with a balance of 36.7 points. 36.7 percent of the participants evaluate the situation in the CEE-region as “good”, 63.3 percent as “normal”, and not one single expert considers the current situation to be bad.

The economic expectations of the analysts have worsened for all surveyed CEE-countries except for Hungary, considering the possible consequences of the international financial market crisis. The analysts' evaluation could be influenced both by the restrained cross border capital stream and the credit tightening involved, as well as by the expected decelerating growth in the Eurozone.

In contrast to the expectations, the current economic situation is still characterised by a positive balance for most countries.

The inflation expectations of the CEE-experts convey a heterogeneous picture. While 30.0 percent of the analysts anticipate an increasing and 33.3 percent anticipate a decreasing inflation rate, 36.7 percent expect the inflation to remain unchanged in the next six months. The balance, which increases by 8.7 points, amounts to minus 3.3 points in May. The number of financial market experts who anticipate a lower inflation rate is higher than the number of analysts who prognosticate a rising inflation rate for the Eurozone as well. In spite of the fact that the ECB highlights the risk of inflation in the Eurozone again and again, the corresponding balance in the current survey recedes by 5.9 points to minus 9.9 points.

Accordingly, the balance for the short-term interest rates in the Eurozone decreases by 3.1 points to minus 37.9 points. Just like in the previous month the majority of the analysts expect unchanged interest rates. 43.1 percent expect the ECB to cut the interest rates within the next six months, while merely 5.2 percent predict an increase in interest rates.

Although Slovakia has fulfilled all of the conditions for the introduction of the Euro on January 1, 2009, the surveyed experts have great doubts concerning the sustainability of the low inflation rate. 42.9 percent of the analysts (plus 8.8

percentage points in comparison to the previous month) expect an increasing inflation rate in Slovakia in the next six months. The corresponding balance increases by 10.6 points to 19.7 points. This is the highest value among the analysed countries.

The inflation predictions for Austria are well balanced with 30.0 percent of the participants expecting a rise and a fall, respectively, in the inflation rate. 40 percent do not expect a change of inflation.

The vast majority of finance experts, mostly more than 60.0 percent, predict an increase of the local stock market indexes in the following six months. Similarly to April, the expectations for the CEE-index (NTX), which has a balance of 51.8 points, are the most strongly shaped by optimism.

The participants' expectations for the exchange rates have not undergone any significant changes in May. An appreciation of the currencies compared to the euro is anticipated for all countries with the exception of the Czech Republic. For the latter country, a depreciation of the koruna vis-à-vis the euro is expected.

The special question in May deals with the medium- and long-term performance of certain commodities, especially oil and gold. In the first part of the special question the financial experts were asked to estimate the medium-term (six months) trend of the oil price (spot price North Sea Brent). Within this time frame, nearly half (48 percent) of the respondents anticipate a decrease of the oil price, compared to only 27 percent of the participants expecting a rise. The financial experts predict an average price of 113 USD/Barrel. 45 percent of the respondents anticipate an oil price below the "magical barrier" of 100 USD/Barrel, whereas 17 percent expect it to climb above 130 USD/Barrel. The results concerning the gold price

expectations after six months show a heterogeneous picture. 32 percent believe that the gold price will stay constant in the medium-term, followed by 25 percent of the respondents who expect it to decline and 21 percent anticipate an increasing gold price. According to the “average participant”, the gold price would stand at 900.26 USD/t oz. in the medium-term.

The survey results regarding the expected price development of selected commodities and especially of agricultural goods in the long-term of five years will be presented in the July issue of the Financial Market Report CEE.

### **Survey Procedure**

The Financial Market Survey CEE is a survey carried out by ZEW Mannheim and Erste Bank der oesterreichischen Sparkassen AG Vienna, among financial market experts and has been conducted monthly since May 2007. It offers insights into the experts' assessment of the current economic situation and their expectations for Central and Eastern Europe, Austria and the Eurozone for the next six months concerning the general economic situation, inflation rates, interest rates, exchange rates and stock market indices. The CEE region observed in the survey consists of Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia and Slovenia.

The indicators reflect the difference between the percentage of analysts who are optimistic and the percentage of analysts who are pessimistic. The possible outcome of the balance lies between -100 and +100 points. Positive values of the balance indicate that the number of participants expecting a rise in the respective variable outweighs the number of participants with negative expectations.

The monthly 'Financial Market Report CEE' contains the results for every Central and Eastern European country in detail.

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**ZEW-Financial Market Survey: May 2008**

Current economic situation		good		acceptable (normal)		bad		balance								
Austria	41,3	(+2,3)		58,7	(-2,3)	0,0	(+/-0,0)	41,3	(+2,3)							
Croatia	29,8	(-1,3)		68,1	(+1,4)	2,1	(-0,1)	27,7	(-1,2)							
Czech Republic	56,1	(-6,4)		43,9	(+6,4)	0,0	(+/-0,0)	56,1	(-6,4)							
Hungary	3,4	(-0,6)		61,0	(+11,0)	35,6	(-10,4)	-32,2	(+9,8)							
Poland	57,4	(+2,1)		42,6	(-2,1)	0,0	(+/-0,0)	57,4	(+2,1)							
Romania	18,5	(+5,7)		55,6	(+6,7)	25,9	(-12,4)	-7,4	(+18,1)							
Slovakia	66,7	(+5,0)		29,6	(-6,6)	3,7	(+1,6)	63,0	(+3,4)							
CEE	36,7	(-5,3)		63,3	(+7,3)	0,0	(-2,0)	36,7	(-3,3)							
Eurozone	22,0	(+/-0,0)		72,9	(-1,1)	5,1	(+1,1)	16,9	(-1,1)							
Economic expectations		improve		no change		worsen		balance								
Austria	10,2	(-1,7)		51,0	(-6,1)	38,8	(+7,8)	-28,6	(-9,5)							
Croatia	8,0	(-7,9)		56,0	(-3,1)	36,0	(+11,0)	-28,0	(-18,9)							
Czech Republic	3,4	(-11,2)		54,2	(+2,1)	42,4	(+9,1)	-39,0	(-20,3)							
Hungary	25,8	(-0,2)		53,2	(+7,2)	21,0	(-7,0)	4,8	(+6,8)							
Poland	8,8	(-6,1)		54,4	(-5,2)	36,8	(+11,3)	-28,0	(-17,4)							
Romania	17,2	(+0,1)		46,6	(-2,3)	36,2	(+2,2)	-19,0	(-2,1)							
Slovakia	5,2	(-3,5)		54,4	(-10,8)	40,4	(+14,3)	-35,2	(-17,8)							
CEE	13,8	(+1,3)		48,3	(-14,2)	37,9	(+12,9)	-24,1	(-11,6)							
Eurozone	6,9	(-3,3)		41,4	(-3,5)	51,7	(+6,8)	-44,8	(-10,1)							
Inflation rate		increase		no change		decrease		balance								
Austria	30,0	(+0,7)		40,0	(-11,2)	30,0	(+10,5)	0,0	(-9,8)							
Croatia	44,9	(+14,9)		28,6	(-21,4)	26,5	(+6,5)	18,4	(+8,4)							
Czech Republic	25,8	(+0,3)		27,6	(+6,3)	46,6	(-6,6)	-20,8	(+6,9)							
Hungary	14,5	(-3,9)		32,3	(+11,9)	53,2	(-8,0)	-38,7	(+4,1)							
Poland	31,6	(+5,5)		29,8	(+3,7)	38,6	(-9,2)	-7,0	(+14,7)							
Romania	32,8	(-8,5)		22,4	(-5,9)	44,8	(+14,4)	-12,0	(-22,9)							
Slovakia	42,9	(+8,8)		33,9	(-7,0)	23,2	(-1,8)	19,7	(+10,6)							
CEE	30,0	(+4,0)		36,7	(+0,7)	33,3	(-4,7)	-3,3	(+8,7)							
Eurozone	28,4	(+0,4)		33,3	(-6,7)	38,3	(+6,3)	-9,9	(-5,9)							
Short-term interest rates		increase		no change		decrease		balance								
	fabs.1	rel.1		fabs.1	rel.1	fabs.1	rel.1	fabs.1	rel.1							
Croatia	18,4	(-5,1)	38,9	(-0,5)	68,4	(+6,6)	52,8	(+4,3)	13,2	(-1,5)	8,3	(-3,8)	5,2	(-3,6)	30,6	(+3,3)
Czech Republic	21,6	(-18,9)	37,0	(-14,3)	64,7	(+14,7)	50,0	(+15,9)	13,7	(+4,2)	13,0	(-1,6)	7,9	(-23,1)	24,0	(-12,7)
Hungary	18,5	(-11,9)	20,4	(-19,6)	42,6	(+7,8)	38,8	(+12,1)	38,9	(+4,1)	40,8	(+7,5)	-20,4	(-16,0)	-20,4	(-27,1)
Poland	24,0	(-21,4)	51,0	(-5,1)	64,0	(+27,6)	42,6	(+13,3)	12,0	(-6,2)	6,4	(-8,2)	12,0	(-15,2)	44,6	(+3,1)
Romania	45,8	(-12,4)	61,3	(-2,1)	29,2	(+8,3)	18,2	(-1,3)	25,0	(+4,1)	20,5	(+3,4)	20,8	(-16,5)	40,8	(-5,5)
Slovakia	4,3	(-10,3)	25,0	(-8,3)	55,3	(+11,4)	43,2	(+7,3)	40,4	(-1,1)	31,8	(+1,0)	-36,1	(-9,2)	-6,8	(-9,3)
Eurozone	5,2	(-2,9)			51,7	(+2,7)			43,1	(+0,2)			-37,9	(-3,1)		
Long-term interest rates		increase		no change		decrease		balance								
	fabs.1	rel.1		fabs.1	rel.1	fabs.1	rel.1	fabs.1	rel.1							
Croatia	17,0	(-4,2)	19,0	(-9,1)	41,5	(-7,0)	40,5	(-0,1)	41,5	(+11,2)	40,5	(+9,2)	-24,5	(-15,4)	-21,5	(-18,3)
Czech Republic	20,0	(+1,4)	14,9	(+0,2)	48,0	(+3,8)	44,7	(-1,6)	32,0	(-5,2)	40,4	(+1,4)	-12,0	(+6,6)	-25,5	(-1,2)
Hungary	11,6	(-6,2)	12,0	(-3,9)	28,8	(+8,8)	24,0	(+3,5)	59,6	(-2,6)	64,0	(+0,4)	-48,0	(-3,6)	-52	(-4,3)
Poland	16,0	(-14,2)	19,6	(-2,4)	42,0	(+4,8)	41,3	(+2,3)	42,0	(+9,4)	39,1	(+0,1)	-26,0	(-23,6)	-19,5	(-2,5)
Romania	30,5	(-3,7)	41,9	(-5,2)	39,1	(-5,6)	30,2	(+0,8)	30,4	(+9,3)	27,9	(+4,4)	0,1	(-13,0)	14	(-9,6)
Slovakia	14,9	(-5,1)	9,5	(+1,4)	53,2	(+3,2)	50,0	(-6,8)	31,9	(+1,9)	40,5	(+5,4)	-17,0	(-7,0)	-31	(-4,0)
Germany	24,1	(-5,0)			48,3	(+8,7)			27,6	(-3,7)			-3,5	(-1,3)		
Stock market indices		increase		no change		decrease		balance								
EURO STOXX 50	62,5	(+2,1)		17,9	(-7,1)	19,6	(+5,0)	42,9	(-2,9)							
ATX (Austria)	63,3	(+2,4)		20,4	(-8,9)	16,3	(+6,5)	47,0	(-4,1)							
NTX (CEE)	68,5	(-4,8)		14,8	(+3,7)	16,7	(+1,1)	51,8	(-5,9)							
CROBEX (Croatia)	63,1	(+0,4)		15,2	(-8,1)	21,7	(+7,7)	41,4	(-7,3)							
PX 50 (Czech Rep.)	66,0	(-0,6)		17,0	(-0,8)	17,0	(+1,4)	49,0	(-2,0)							
BUX (Hungary)	60,3	(-4,3)		27,6	(+6,8)	12,1	(-2,5)	48,2	(-1,8)							
WIG (Poland)	64,8	(+0,4)		18,5	(+2,9)	16,7	(-3,3)	48,1	(+3,7)							
BET (Romania)	64,1	(+6,6)		18,9	(-6,1)	17,0	(-0,5)	47,1	(+7,1)							
SAX (Slovakia)	57,5	(-0,4)		23,4	(-0,3)	19,1	(+0,7)	38,4	(-1,1)							
SBI 20 (Slovenia)	56,8	(+3,9)		22,7	(-12,6)	20,5	(+8,7)	36,3	(-4,8)							
Exchange rates (vs. Euro)		appreciate		no change		depreciate		balance								
Kuna (Croatia)	31,2	(+5,0)		62,5	(-4,2)	6,3	(-0,8)	24,9	(+5,8)							
Koruna (Czech Rep.)	23,2	(+16,6)		37,5	(-18,1)	39,3	(+1,5)	-16,1	(+15,1)							
Forint (Hungary)	37,5	(+6,8)		42,9	(-4,0)	19,6	(-2,8)	17,9	(+9,6)							
Zloty (Poland)	32,0	(-15,7)		47,2	(+4,0)	20,8	(+11,7)	11,2	(-27,4)							
Lei (Romania)	36,5	(+4,6)		46,2	(+5,8)	17,3	(-10,4)	19,2	(+15,0)							
Koruna (Slovakia)	28,8	(+17,2)		65,4	(-18,3)	5,8	(+1,1)	23,0	(+16,1)							
US-Dollar	64,9	(+8,9)		21,1	(-8,9)	14,0	(+/-0,0)	50,9	(+8,9)							

Note: 82 Financial experts participated in the May survey which was conducted during the period 04/29/08-05/19/08. 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 April in parentheses). Balances refer to the differences between positive and negative assessments.