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**CEE REGION: STRUCTURAL STRENGTHS VS CYCLICAL WEAKNESSES**

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London, 18<sup>th</sup> February 2009

# CEE REGION: SOME CYCLICAL WEAKNESSES, BUT WITH STILL REMARKABLE STRUCTURAL STRENGTHS

## STRENGTHS

Long-term real convergence prospects are strong

Strong EU anchor with a strong bank regulatory environment

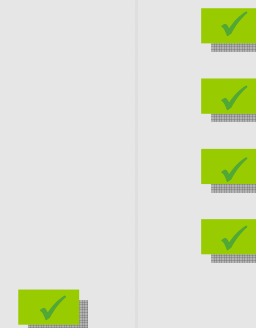
Very strong commitment of non-resident banks to CEE region

Stronger FX reserves in relation to debt maturities than in Argentina, Iceland or Asia

Imbalances to significantly improve in 2009/10

cyclical

structural



## WEAKNESSES

Sharp economic slowdown

Relatively high external financing requirements

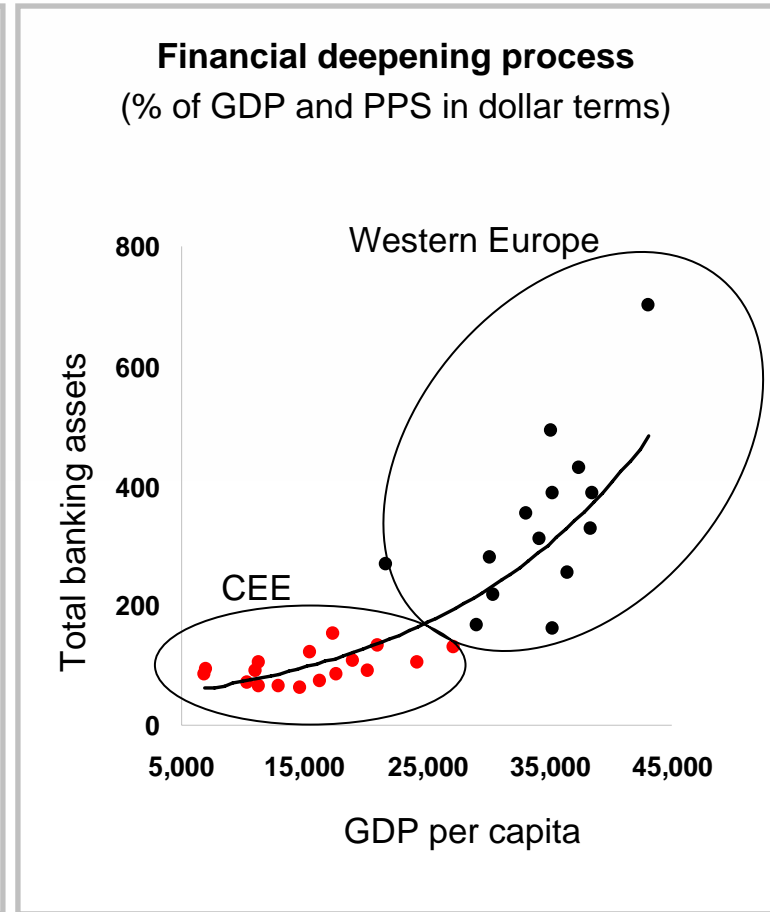
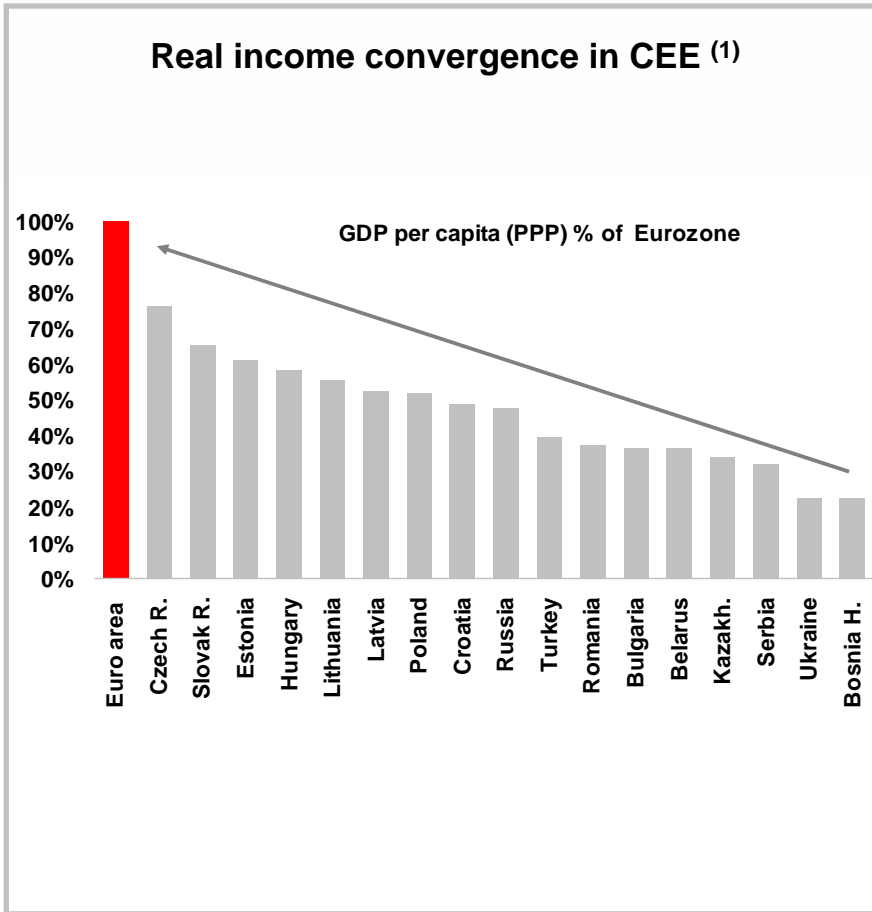
Relatively high FX leverage ratios in some countries

cyclical

structural



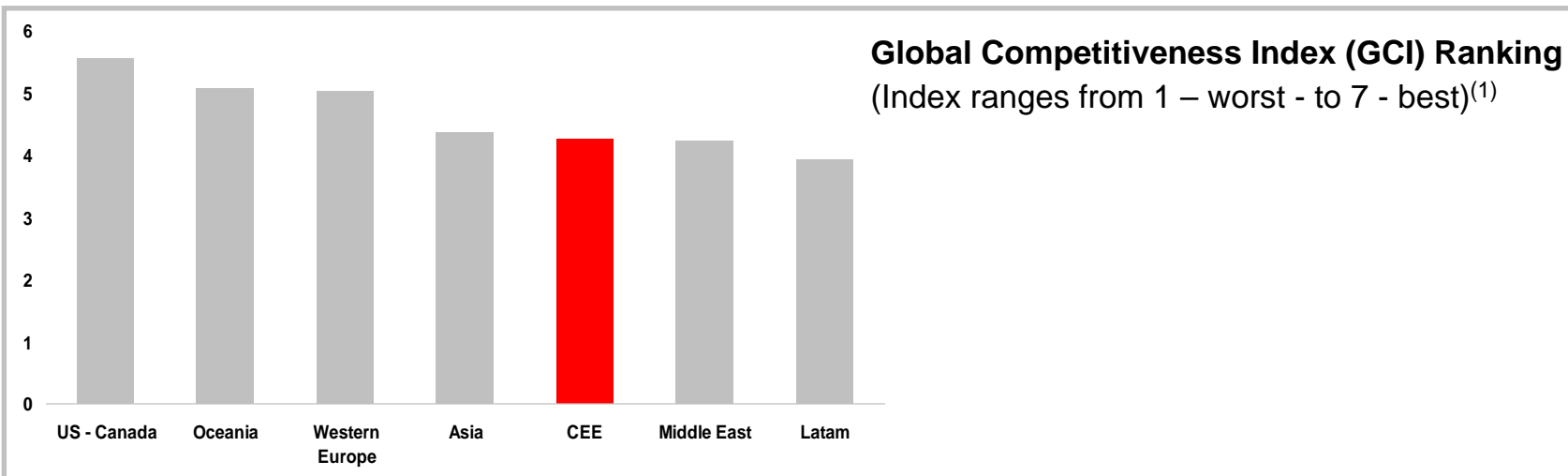
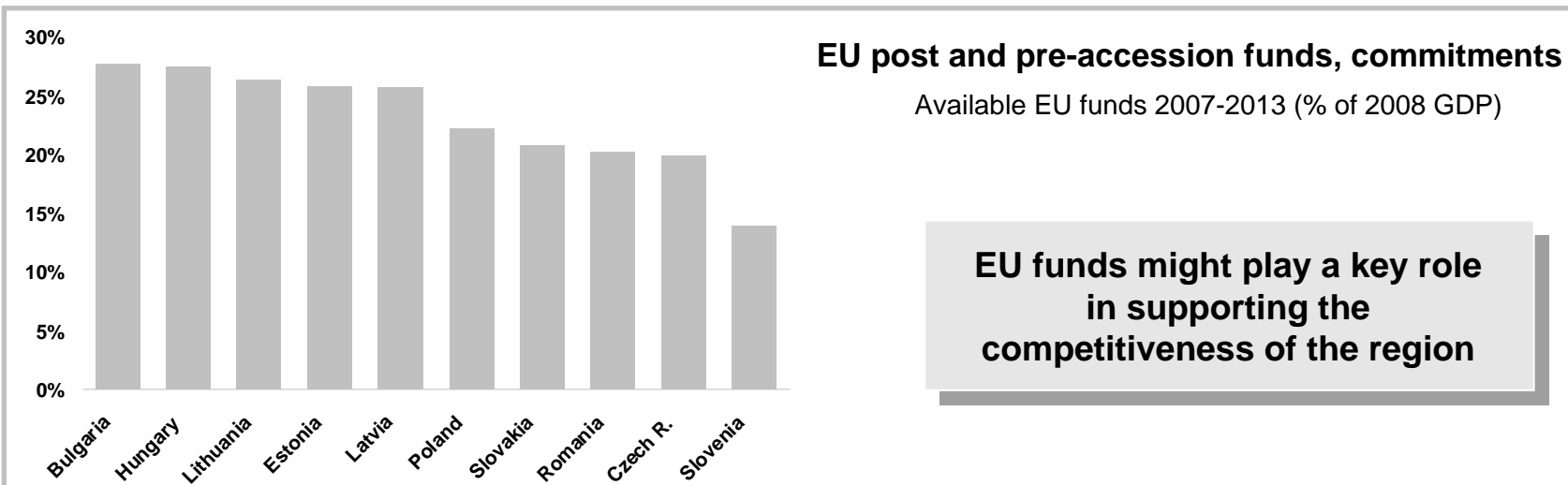
# THE STRUCTURAL POTENTIAL OF THE CEE REGION IS INTACT



**THE STORY OF ECONOMIC AND INCOME CONVERGENCE TOWARDS THE STANDARDS OF WESTERN COUNTRIES, AS WELL AS THE POTENTIAL RELATED TO THE BANKING SECTOR PENETRATION GAP, CONTINUE TO HOLD**

(1) CEE incl. new EU member states+Croatia and Turkey; calculation based on GDP per capita expressed in dollar terms  
Source: UniCredit Group CEE Research, IMF, ECB

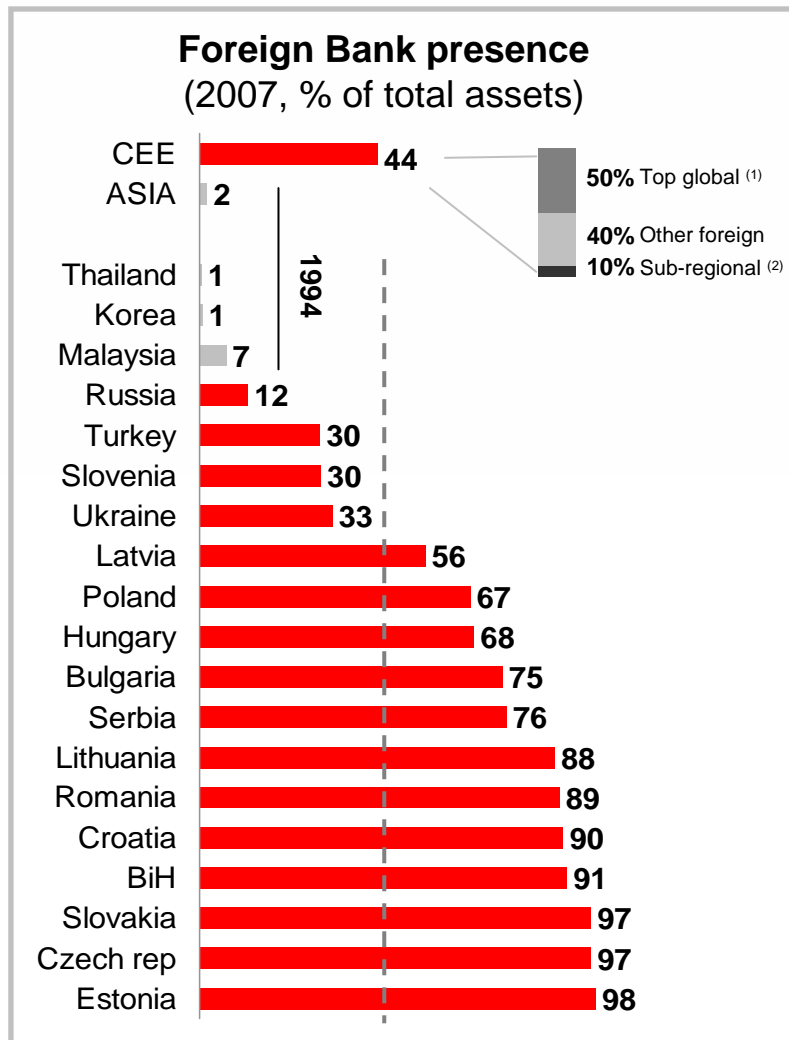
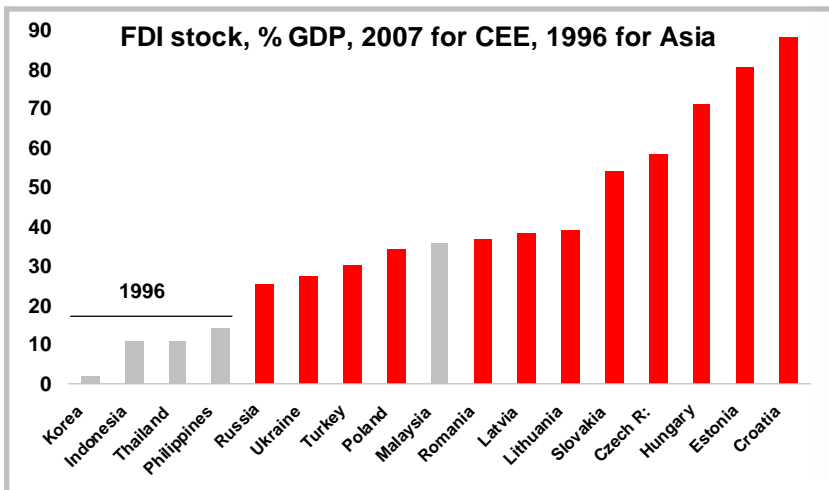
# LONG-TERM FOREIGN INVESTMENT IN THE REGION UNDERPINNED BY ACCESS TO EU FUNDS



<sup>(1)</sup> The GCI (Global Competitiveness Index) is made up of over 90 variables, divided into nine pillars, with each pillar representing an area considered as an important determinant of competitiveness; based on a pool of 134 countries



# FOREIGN DIRECT INVESTMENT AND BANK PRESENCE ARE A BIG DIFFERENCE BETWEEN ASIA 'THEN' AND CEE 'NOW'



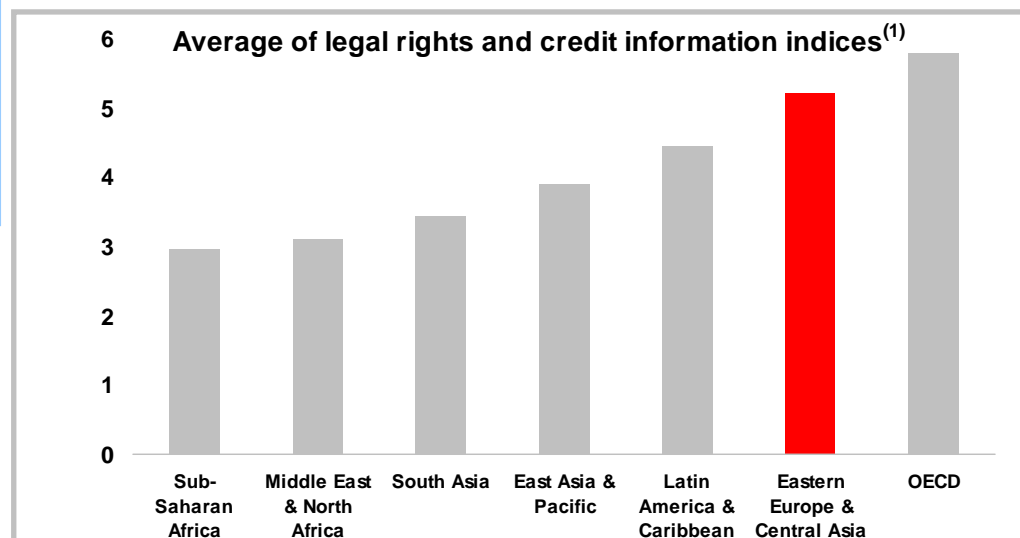
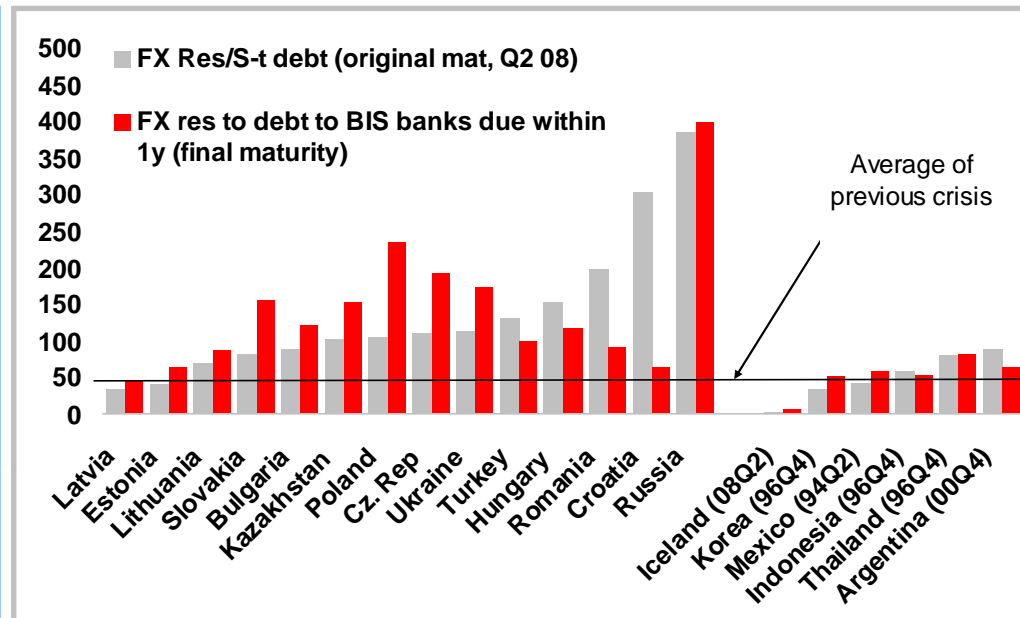
- **Foreign Direct Investment (FDI)** as a percentage of GDP is higher in most Emerging European countries now than in most Asian countries in 1996
- **Foreign Bank presence** In CEE now is higher than in Asia in mid '90. UniCredit and other players in the region act as a "lobby" to support the area and to prompt actions from International Institutions

(1) Top global players: UniCredit Group, RZB, KBC, ERSTE, SOGEN, Intesa San Paolo, OTP

(2) Sub-regional players: EFG, NBG, Nordea, Pireaus, Sampo, SEB, Swedbank

# FX RESERVES ALSO UNDERLINE DIFFERENCES VS THE ASIAN CRISIS

- **FX reserves** in relation to short-term debt are in general higher in Emerging Europe than in Asia.
- **Short-term FX debt** significant in some countries, but most have **ample FX reserves to avoid liquidity crunch risks**
- The quality of **banking regulation** and enforcement of the regulation is arguably far better in CEE now than in pre-crisis Asia.
- A significant number of Emerging European countries are **members of the European Union**.



<sup>(1)</sup> An average of the World Bank Ease of doing Business Indicators for Legal rights and Credit Information

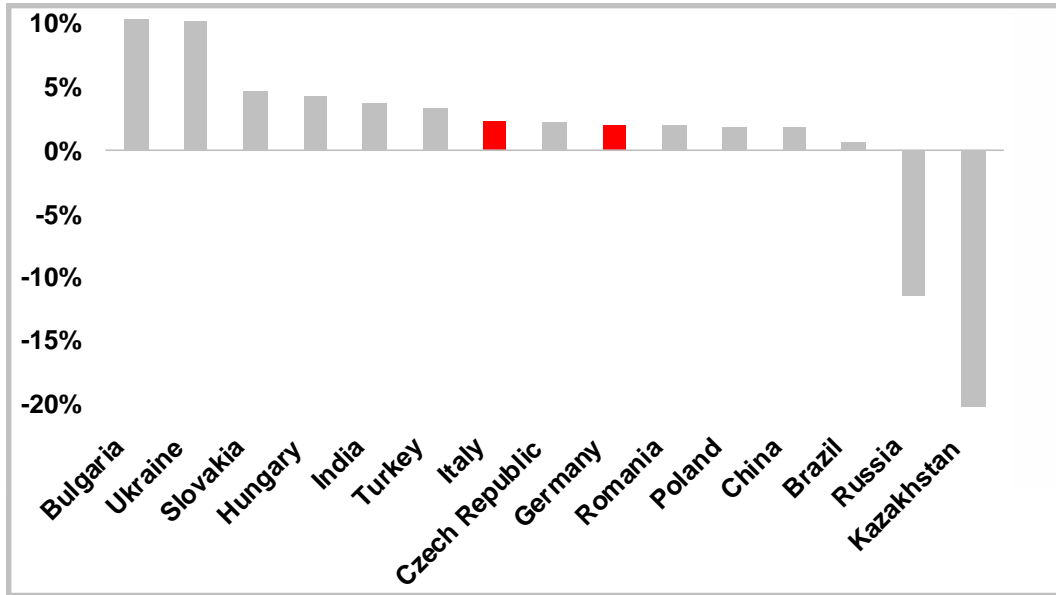
# CEE MACROECONOMIC OUTLOOK: IMBALANCES IN KEY COUNTRIES TO DECLINE ALREADY STARTING FROM 2009...

	GDP real				Inflation, avg				CA/GDP			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
Poland	6.7	4.9	1.2	2.8	2.5	4.2	2.0	1.9	-4.7%	-5.3%	-5.2%	-4.8%
Turkey	4.6	0.8	-1.0	3.4	8.8	10.5	7.8	7.7	-5.9%	-5.5%	-2.8%	-3.1%
Russia	8.1	6.0	-0.8	2.9	9.0	14.1	9.6	9.0	6.1%	5.7%	1.5%	1.1%
Croatia	5.6	2.1	-1.6	1.6	2.9	6.1	2.8	3.1	-8.6%	-11.0%	-8.8%	-7.8%
Czech Rep.	6.0	2.9	-1.2	2.8	2.8	6.3	1.7	1.9	-1.8%	-3.4%	-2.9%	-2.7%
Ukraine	7.6	2.1	-5.8	2.0	12.8	25.2	17.4	12.3	-4.2%	-6.9%	-1.9%	-0.8%
Bulgaria	6.2	5.9	0.2	2.0	8.4	12.4	7.0	5.0	-21.8%	-25.0%	-14.0%	-11.5%
Romania	6.0	8.0	0.6	2.0	4.8	7.9	5.0	4.3	-13.7%	-12.7%	-9.8%	-8.1%
Kazakhstan	8.9	2.8	-1.3	4.0	10.8	17.2	7.0	7.7	-7.0%	6.2%	-7.7%	-4.5%
Hungary	1.1	0.7	-2.8	0.9	8.0	6.2	2.2	2.6	-6.4%	-6.9%	-2.9%	-3.3%
Slovakia	10.4	6.7	1.8	3.3	2.8	4.6	2.9	3.8	-5.3%	-6.2%	-5.7%	-4.7%
Bosnia	6.8	5.8	2.5	3.0	1.5	7.4	3.5	3.0	-12.6%	-15.8%	-8.0%	-8.2%
Serbia	7.1	5.5	1.0	3.5	6.8	10.7	8.8	6.9	-13.2%	-17.9%	-14.7%	-13.7%
Slovenia	6.1	3.9	0.5	2.5	3.6	5.7	1.1	2.5	-4.3%	-6.1%	-5.3%	-4.4%
Estonia	6.3	-2.4	-4.6	0.2	6.6	10.4	2.7	3.2	-18.1%	-10.3%	-6.7%	-3.0%
Latvia	10.3	-2.9	-5.7	-1.9	10.1	15.5	5.4	3.9	-23.8%	-14.5%	-7.8%	-4.7%
Lithuania	8.9	3.2	-4.7	-0.3	5.7	11.0	5.0	3.8	-14.6%	-11.9%	-6.6%	-3.9%
<b>CEE-17 current</b>	<b>6.7</b>	<b>4.3</b>	<b>-0.8</b>	<b>2.7</b>	<b>7.4</b>	<b>11.3</b>	<b>6.9</b>	<b>6.5</b>	<b>-2.0%</b>	<b>-1.8%</b>	<b>-2.8%</b>	<b>-2.5%</b>
<b>West. Europe (AT-GE-IT)</b>	<b>2.2</b>	<b>0.5</b>	<b>-2.4</b>	<b>0.7</b>	<b>2.1</b>	<b>2.9</b>	<b>0.9</b>	<b>1.9</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>

- GDP forecast to contract **0.8% in 2009** but to grow by **2.7% in 2010**
- Inflation to significantly improve in most cases



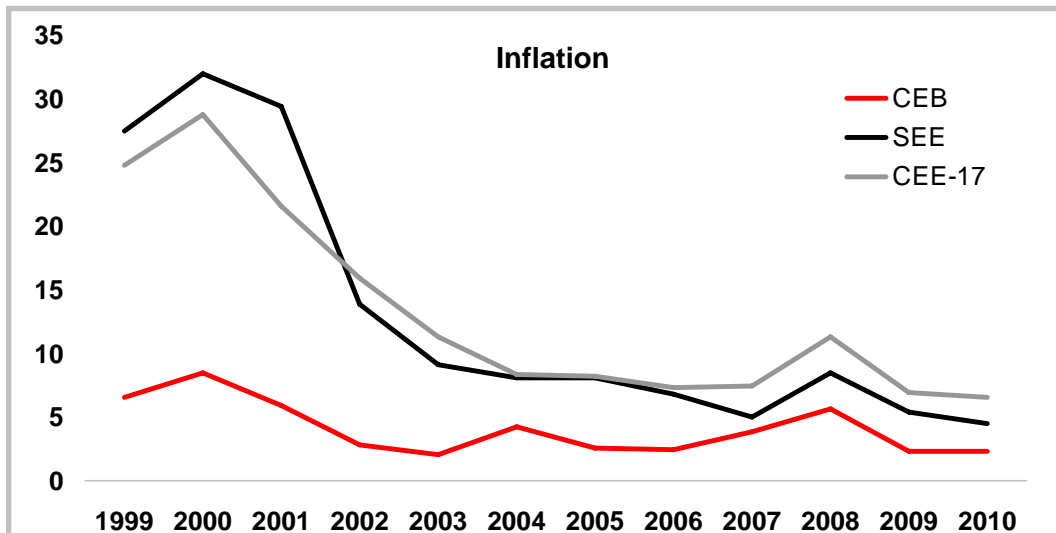
# ...WITH LOWER COMMODITY PRICES HELPING INFLATION AND CURRENT ACCOUNTS IN MOST COUNTRIES...



Impact on net energy balance of a swing in oil from 100 to 50 USD per bbl, % of 2008 GDP (assuming countries are charged market prices)

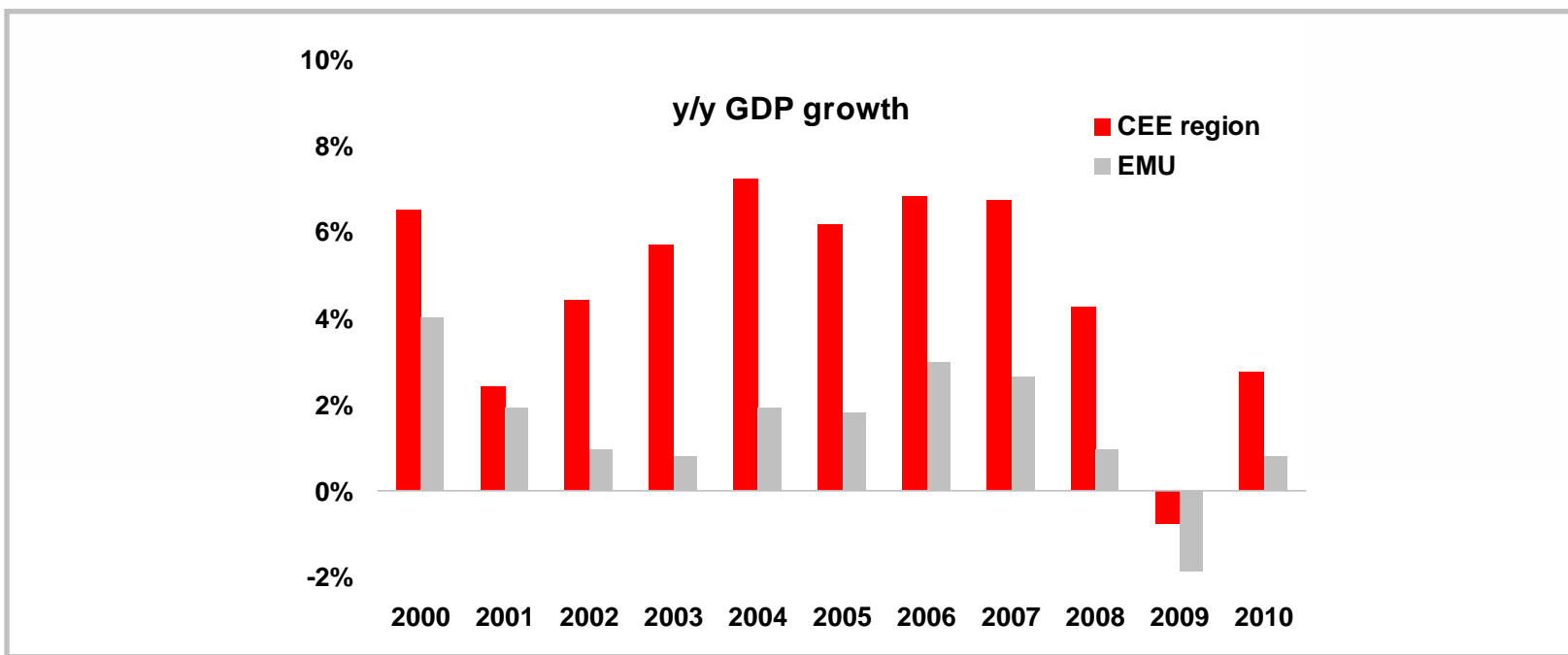
- Current account balances to improve significantly across much of CEE in 2009 given weaker import demand and significantly lower commodities prices

- Inflation to fall significantly in 2009, though deflation is a low risk given currency flexibility



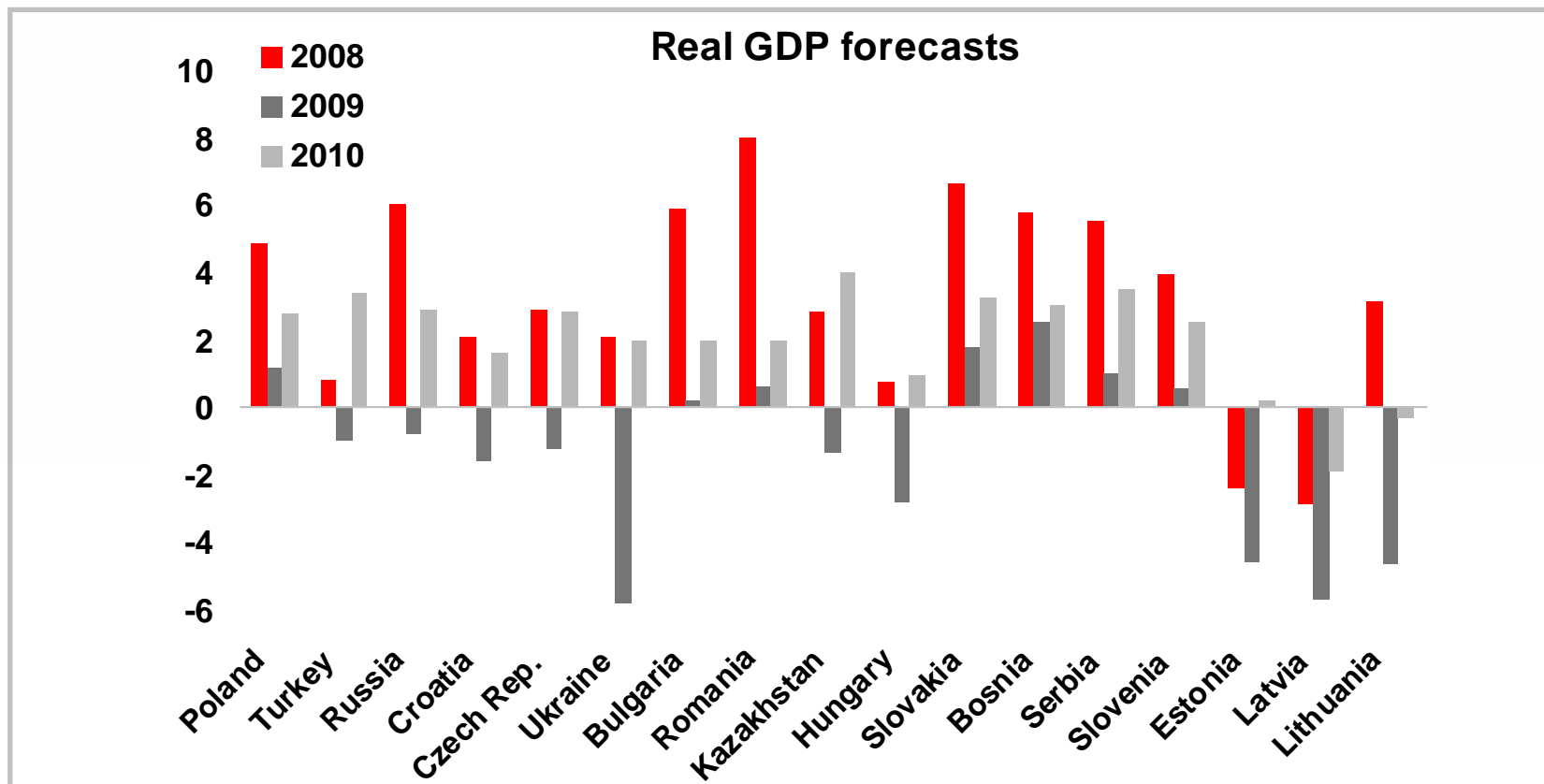
Note: SEE: Croatia, Bosnia, Bulgaria, Romania, Serbia; CEB: Poland, Slovakia, Czech republic, Hungary, Slovenia, Baltics republics

# ...AND GROWTH IN THE REGION STILL OUT PERFORMING EMU



- **CEE growth will continue to outperform EMU in 2009**
- External financing risks are reduced by **strong IMF, EU and bilateral government support** for CEE
- **Czech Republic, Poland and Turkey have strong 2010 recovery prospects** given a proactive policymaker response to the slowdown and solid banking sectors
- **Significant fiscal reserves in Russia, Kazakhstan, Bulgaria and Estonia increase policymaker flexibility** in dealing with the growth slowdown

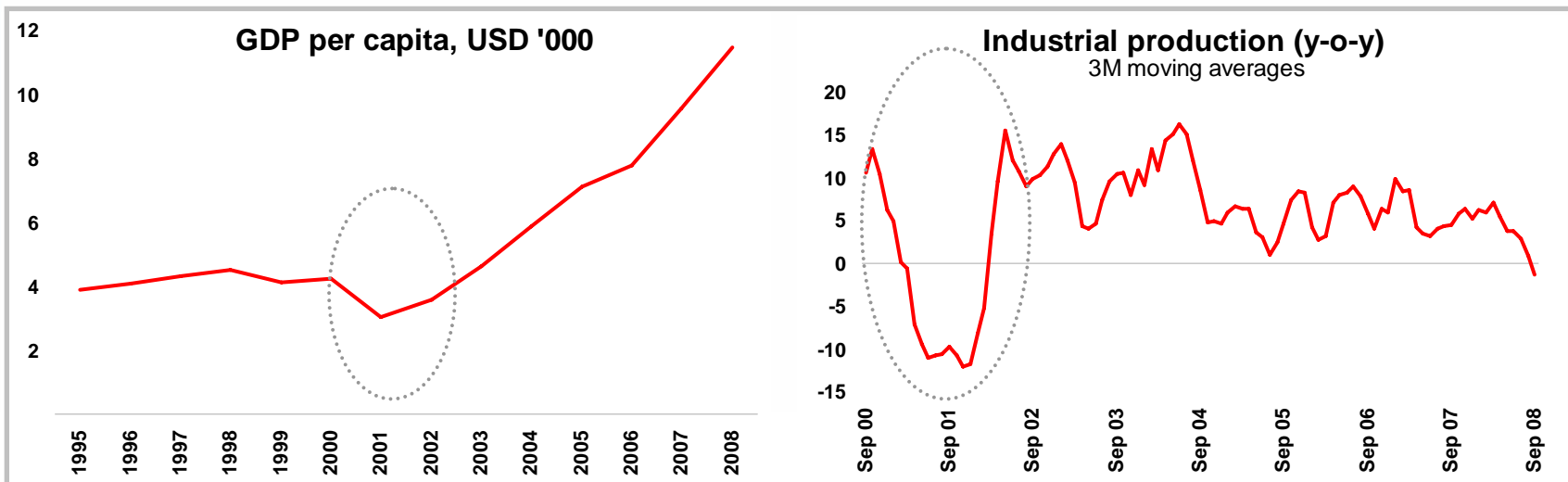
# SLOWDOWNS IN EMERGING MARKETS TEND TO BE SHORT LIVED ...



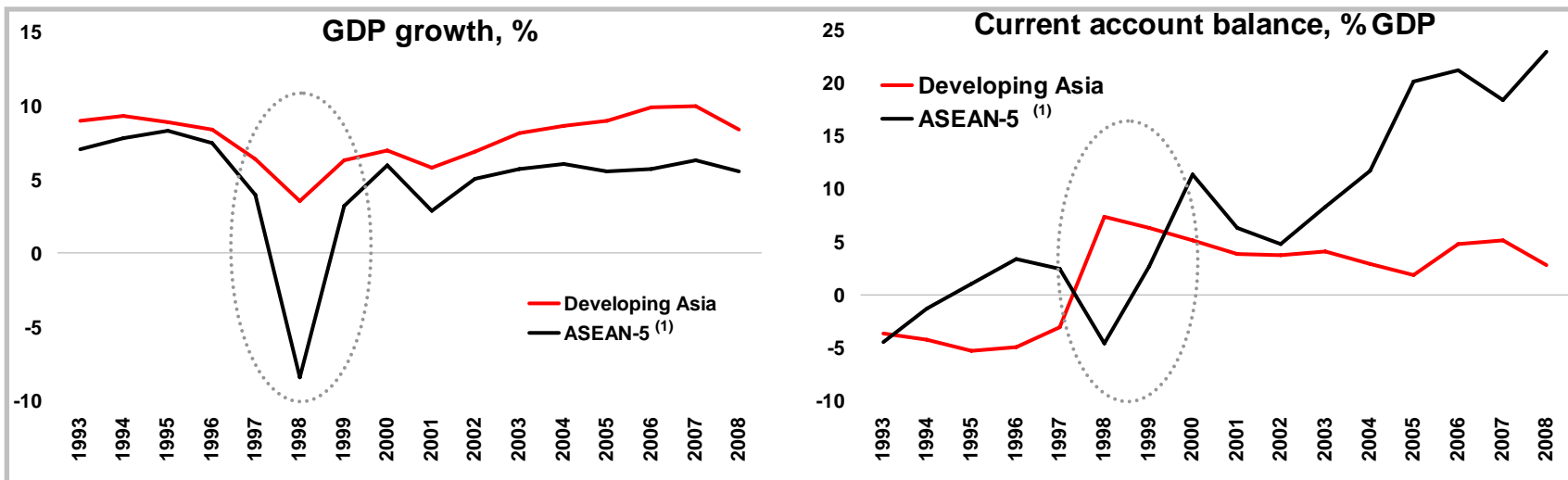
- **Growth recovery following Asian crisis was rapid**, alongside a significant reduction in external financing risks
- **CEE well placed for growth recovery in 2010**
- **Strong Group presence in countries with good possibility of fast recovery: Poland, Czech Republic and Turkey (~55% of CEE region revenues)**

# ... AS LATEST CRISES IN TURKEY AND ASIA PROVED

## TURKEY 2000-2002



## ASIA 1997-1999



(1) ASEAN-5: Indonesia, Malaysia, Philippines, Singapore and Thailand

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