
CEE REGION: STRUCTURAL STRENGTHS VS CYCLICAL WEAKNESSES

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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

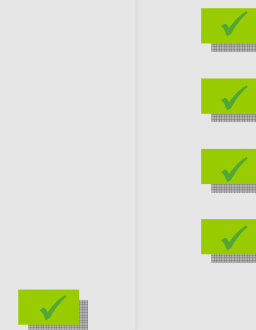
Very strong commitment of non-resident banks to CEE region

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

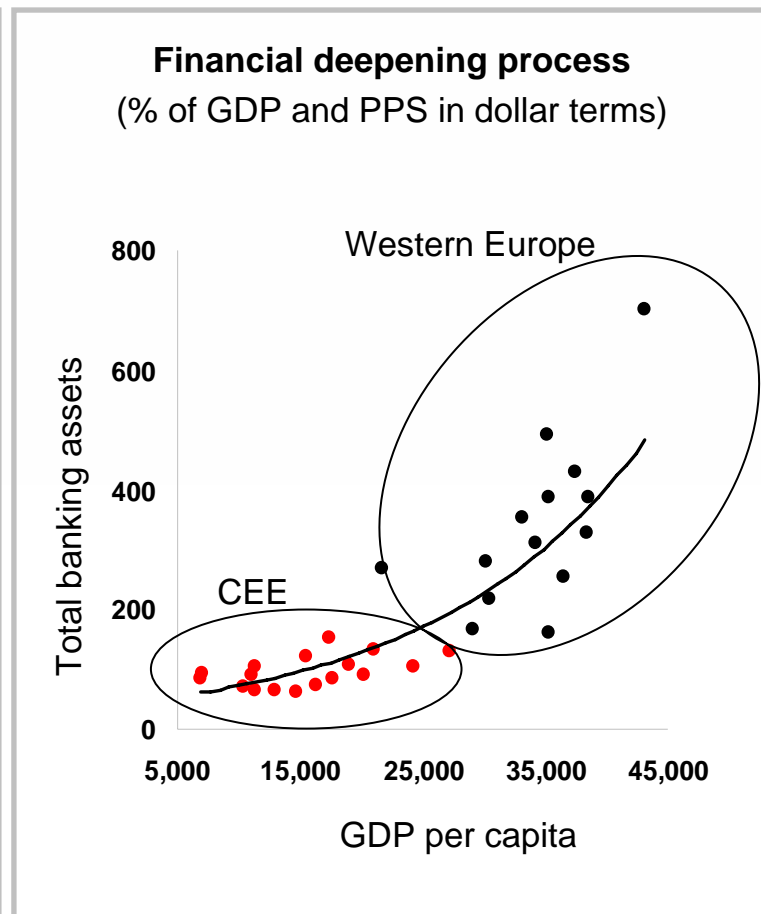
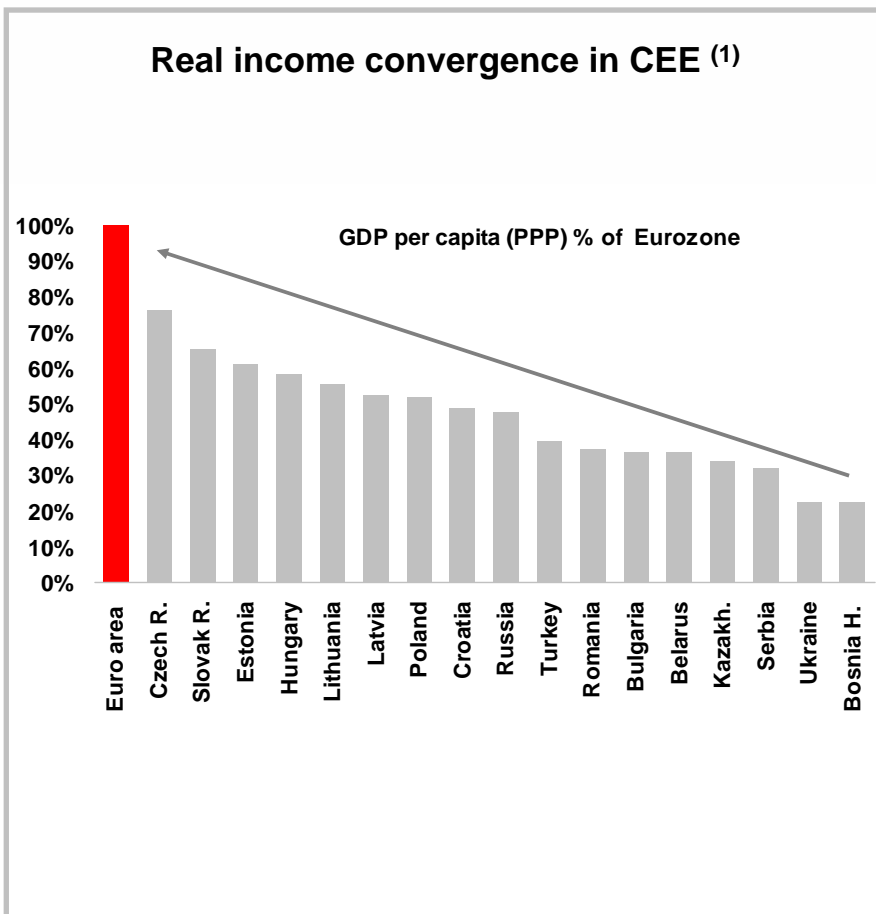
Relatively high FX leverage ratios in some countries

cyclical

structural



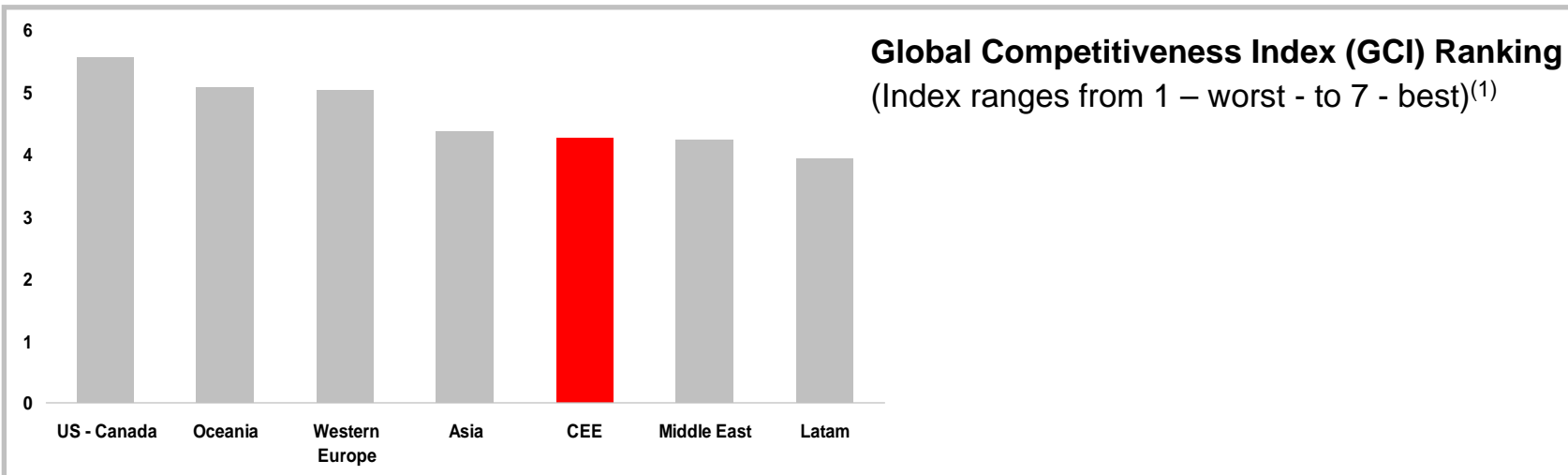
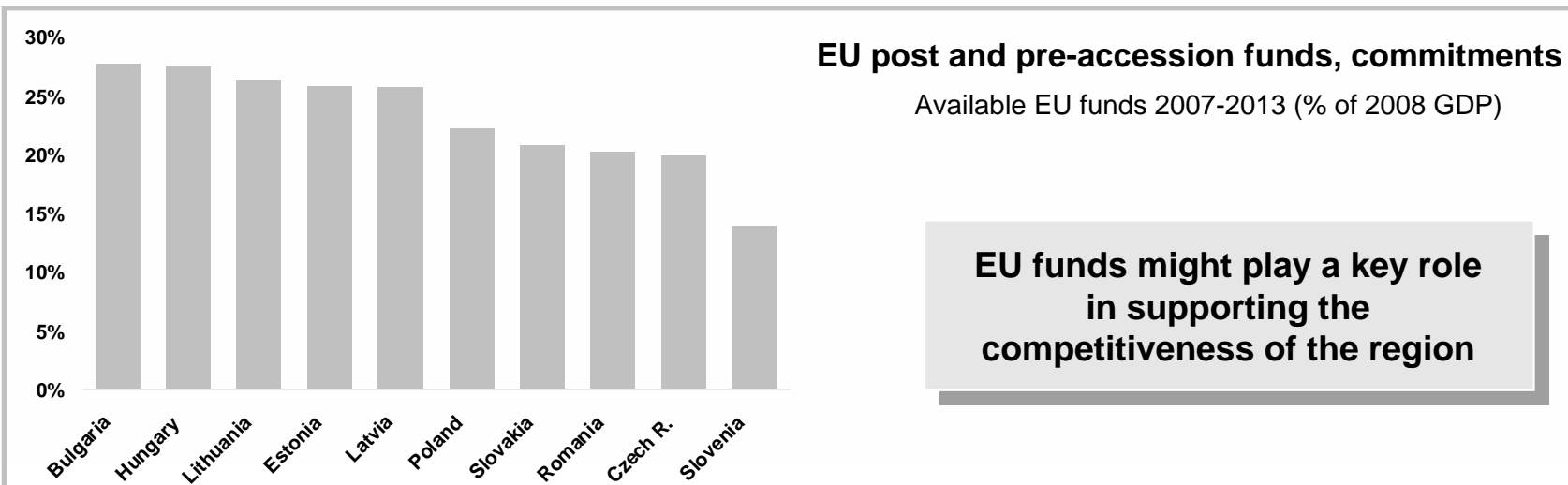
THE STRUCTURAL POTENTIAL OF THE CEE REGION IS INTACT



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

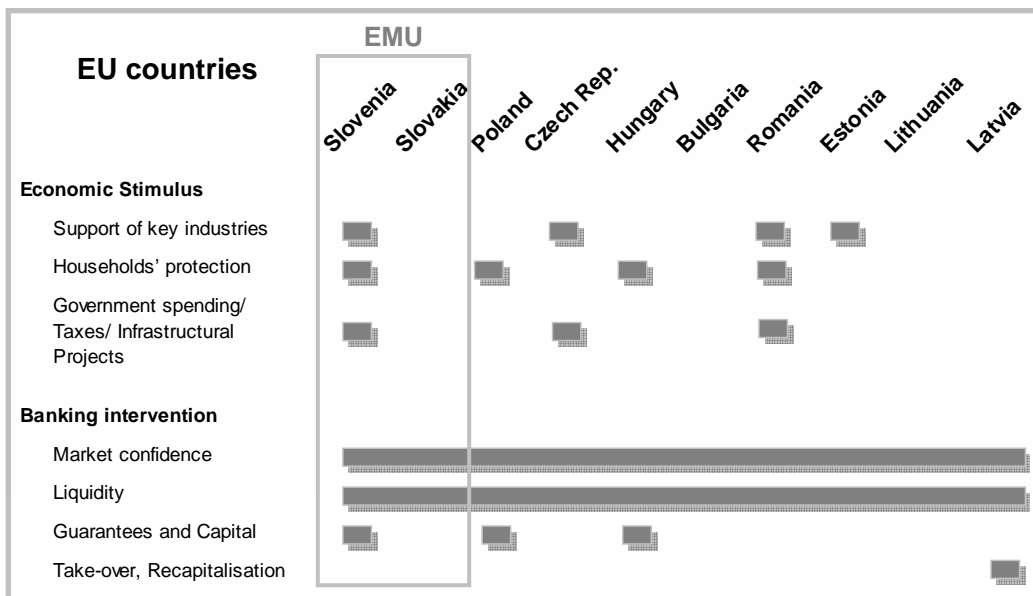
(1) CEE incl. new EU member states+Croatia and Turkey; calculation based on GDP per capita expressed in dollar terms
Source: UniCredit Group CEE Research, IMF, ECB

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

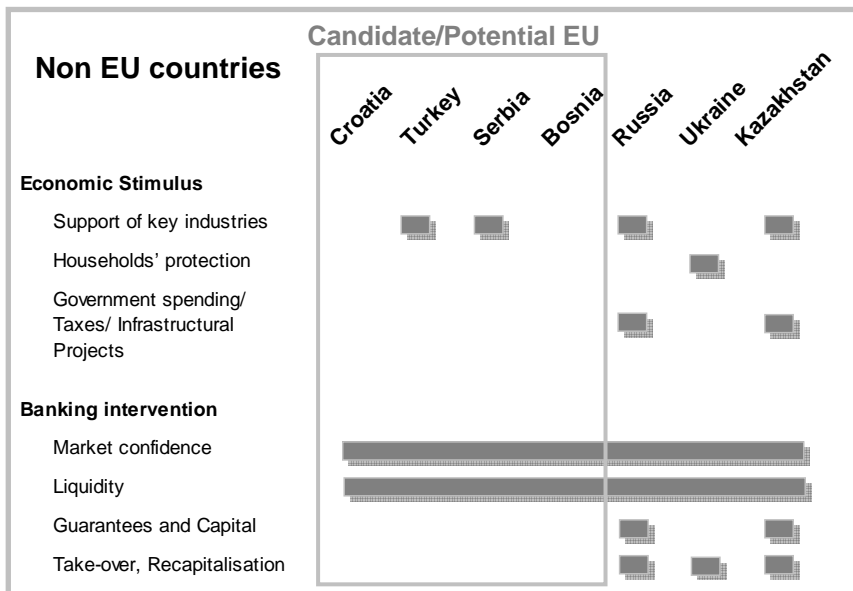


⁽¹⁾ The GCI (Global Competitiveness Index) is made up of over 90 variables, divided into nine pillars, with each pillar representing an area considered as an important determinant of competitiveness; based on a pool of 134 countries

TANGIBLE COMMITMENT OF STATE AND INTERNATIONAL INSTITUTIONS TO THE AREAS'S STABILITY



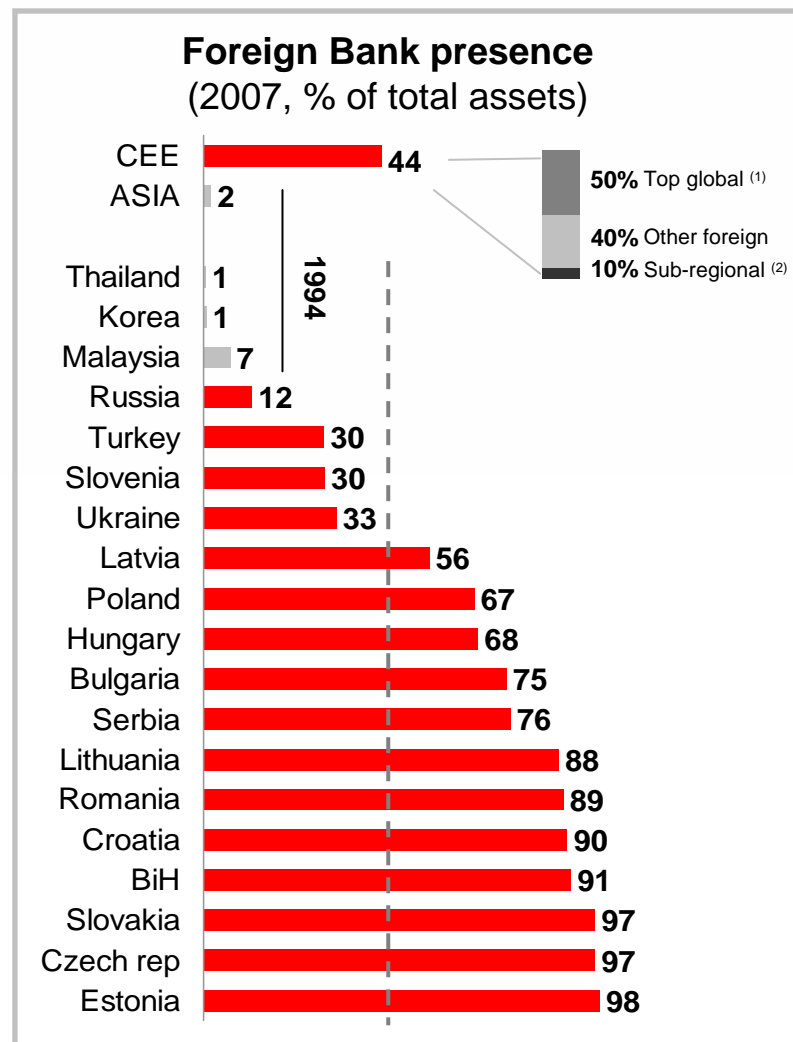
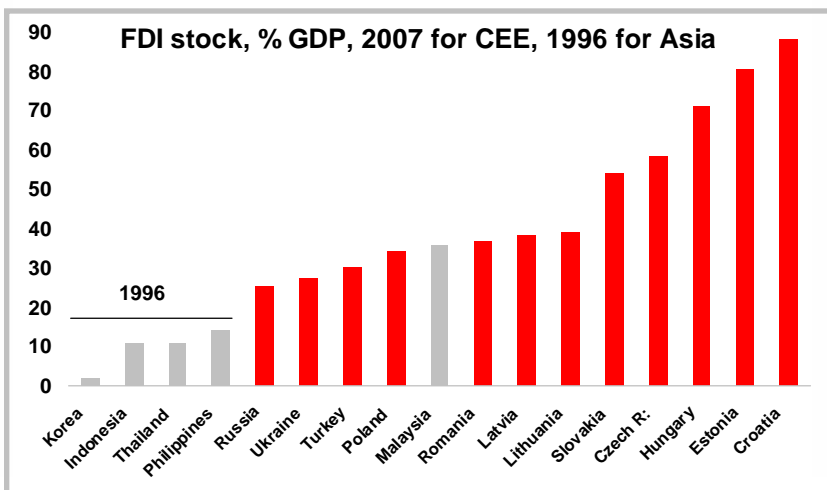
- **Poland** €24bn to support the economy
- **Czech R.** €2.5bn to support the economy
- **Hungary** €3.8bn to government support investment activity and €2.4bn available for banks, after a support of €20bn from IMF/EU/WB
- **Slovenia** €12bn available for banks and ~€0.8bn to support the economy
- **Romania** €13bn in infrastructure, liquidity for banks and support to low income classes, discussion with IMF/EU for more support
- **Latvia** take over of Parex Bank and additional measures, €7.5bn IMF and EU members



- **Serbia** possible €1bn package for the economy and €0.6bn of state guarantees on bank loans to local industry, ~€0.4bn from IMF (discussion about more support by IMF and EU/WB)

- **Russia** anti-crisis package, more than \$200bn (12% of GDP), (incl. refinancing of banks' foreign debt, support to single banks and acquisition of s/m banks) plus further \$40bn to specifically support local banks
- **Ukraine** package to reassess banking stability in accordance with IMF (€11.7bn) plus ad hoc support to single banks (\$10bn of NBU support, \$5bn budgeted by government in 2009 for recapitalization)
- **Kazakhstan** some initiatives (worth as a whole \$15 bn), including entry in the capital of the 4 major banks, support to banks' liquidity, deposit guarantee, support to the mortgage market and other measures

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



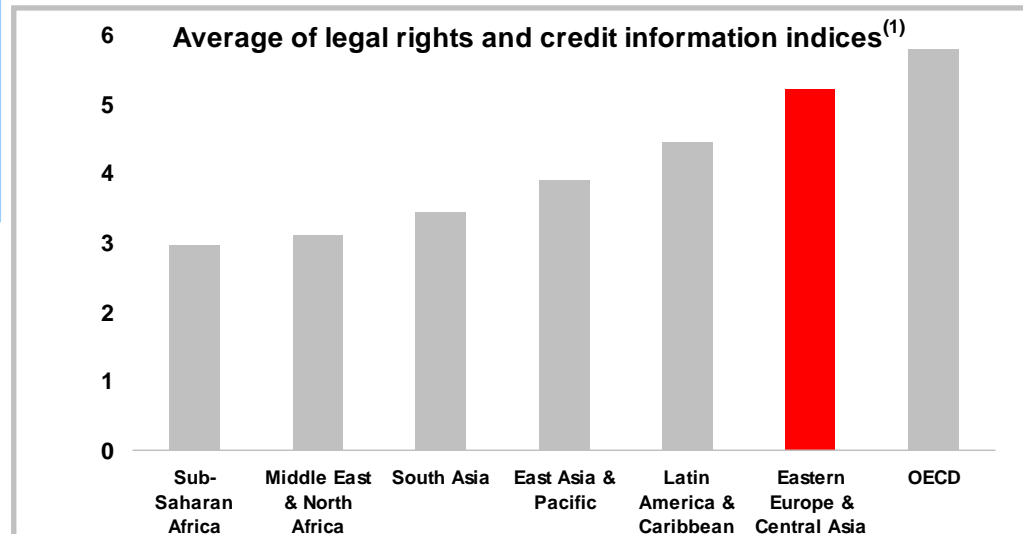
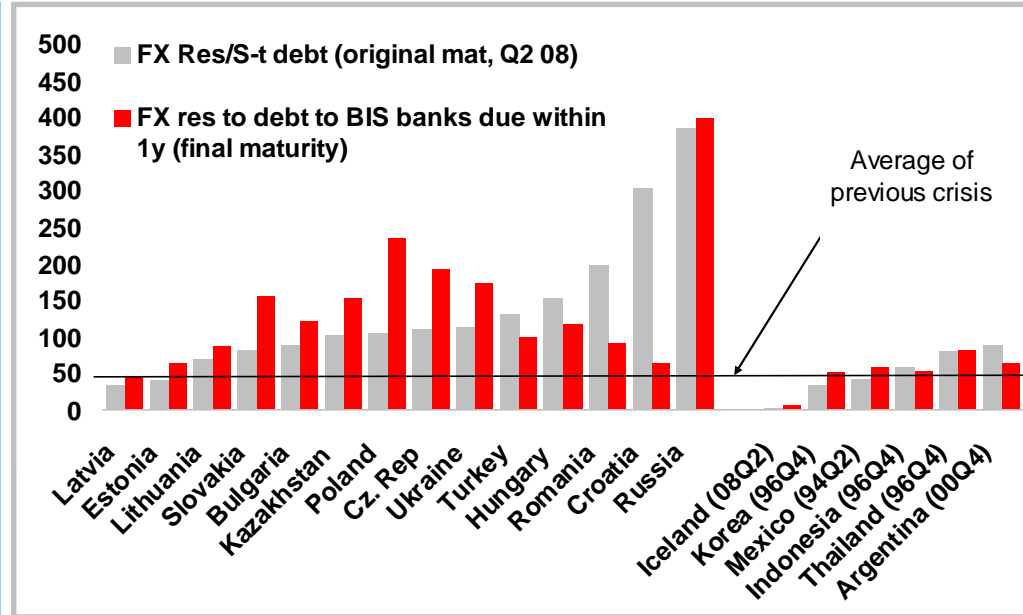
- **Foreign Direct Investment (FDI)** as a percentage of GDP is higher in most Emerging European countries now than in most Asian countries in 1996
- **Foreign Bank presence** In CEE now is higher than in Asia in mid '90. UniCredit and other players in the region act as a "lobby" to support the area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



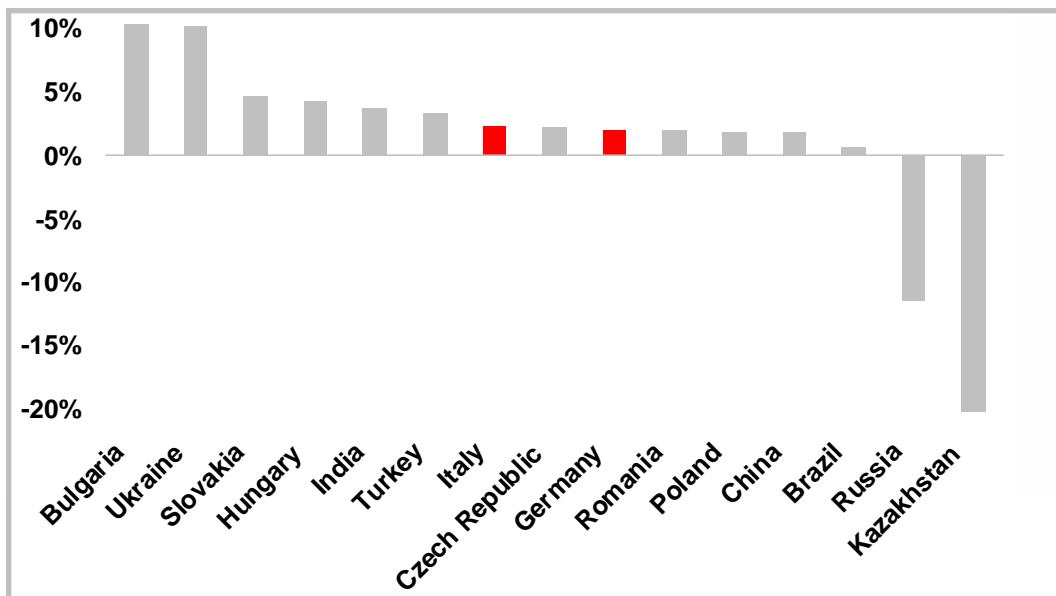
⁽¹⁾ An average of the World Bank Ease of doing Business Indicators for Legal rights and Credit Information

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%
CEE-17 current	6.7	4.3	-0.8	2.7	7.4	11.3	6.9	6.5	-2.0%	-1.8%	-2.8%	-2.5%
West. Europe (AT-GE-IT)	2.2	0.5	-2.4	0.7	2.1	2.9	0.9	1.9	n.a.	n.a.	n.a.	n.a.

- 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...

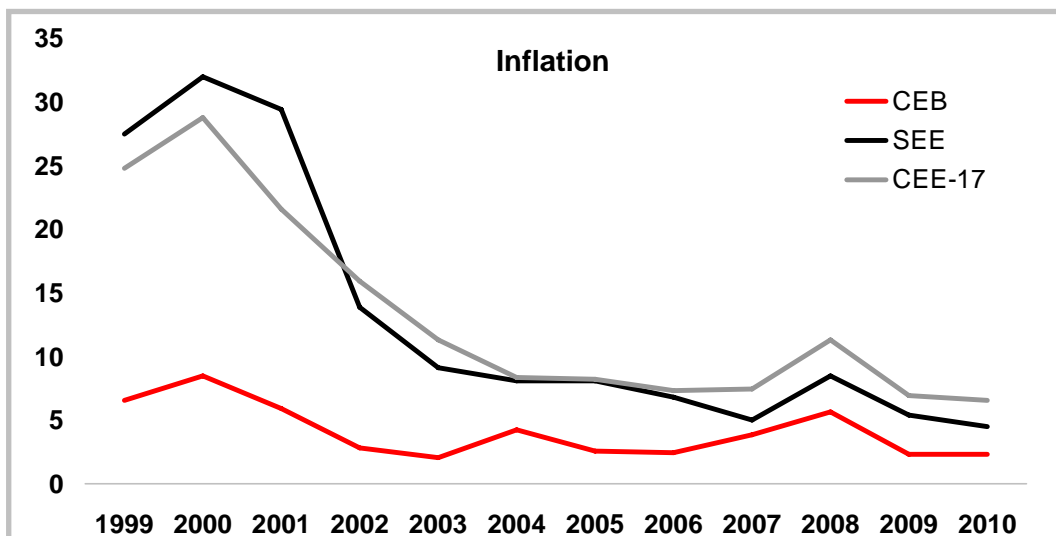


Impact on net energy balance of a swing in oil from 100 to 50 USD per bbl, % of 2008 GDP (assuming countries are charged market prices)



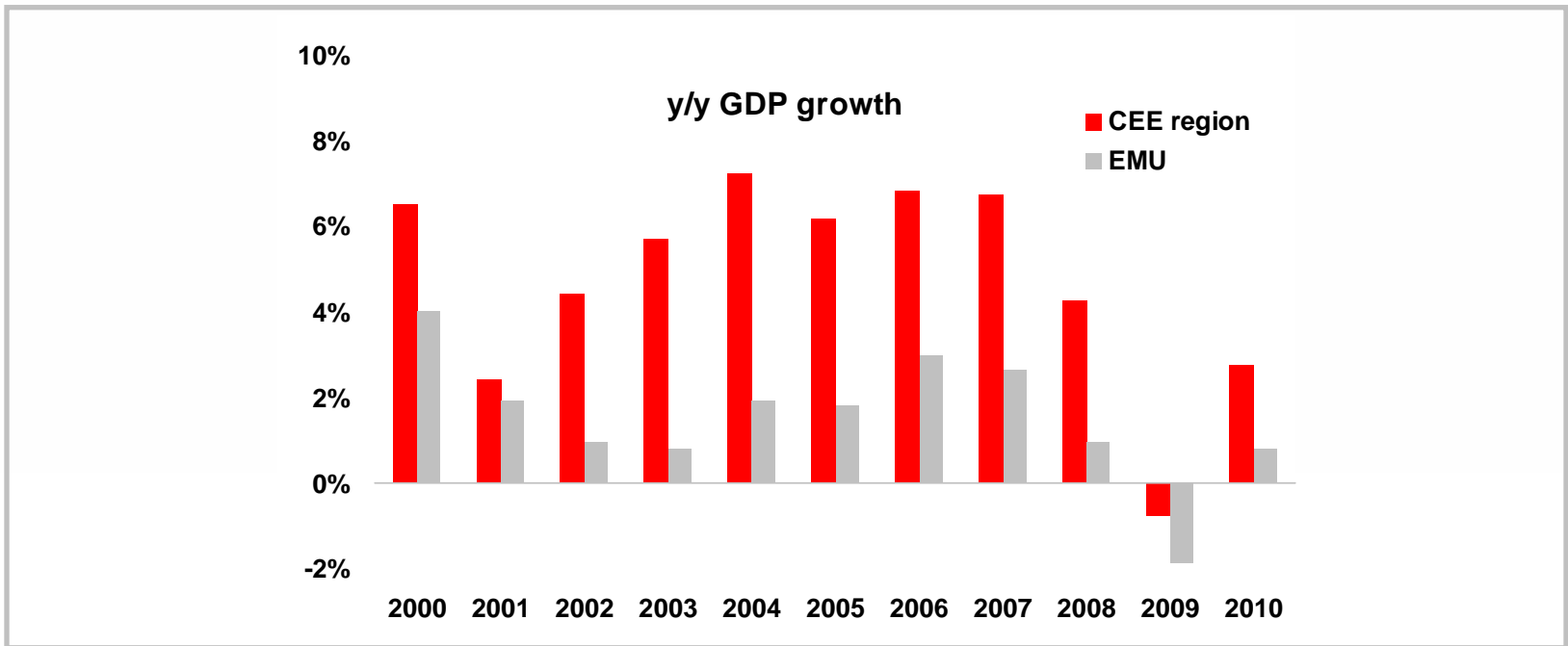
- Current account balances to improve significantly across much of CEE in 2009 given weaker import demand and significantly lower commodities prices

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



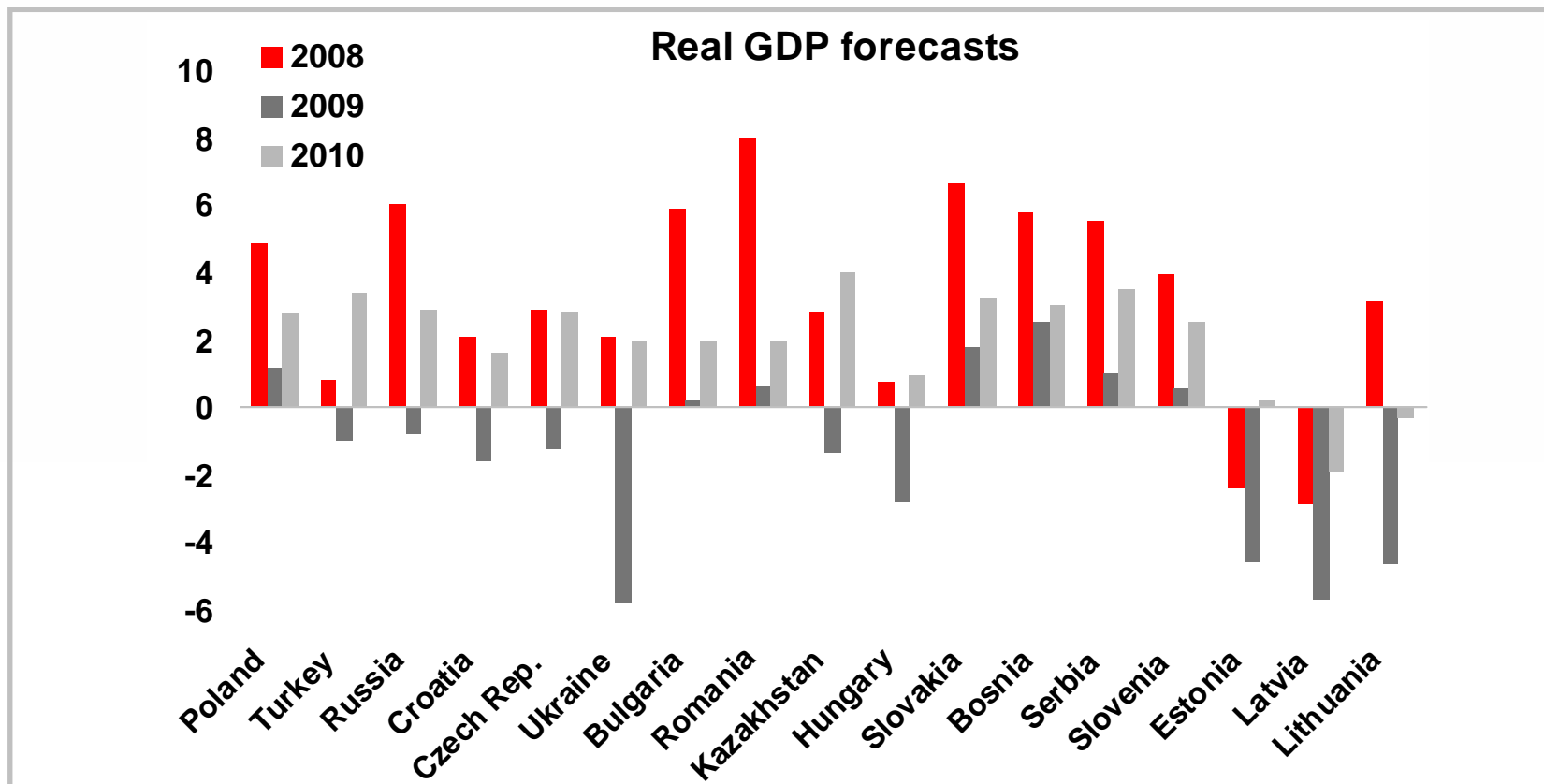
Note: SEE: Croatia, Bosnia, Bulgaria, Romania, Serbia; CEB: Poland, Slovakia, Czech republic, Hungary, Slovenia, Baltics republics

...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

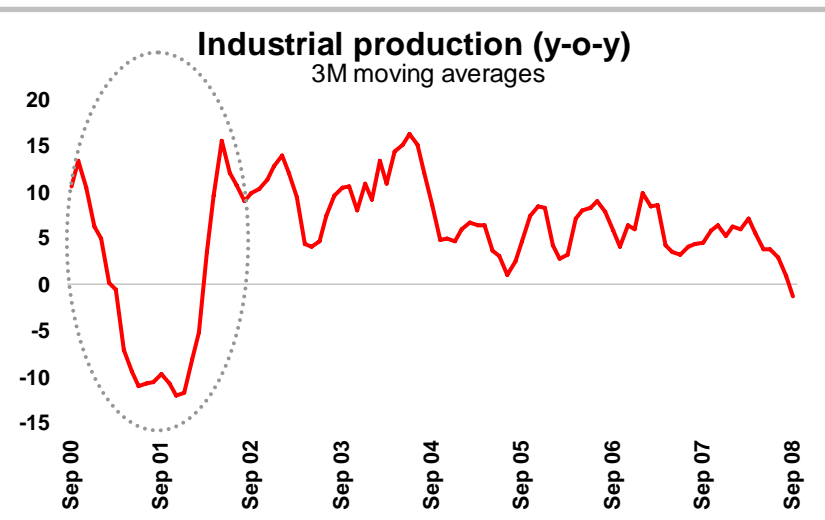
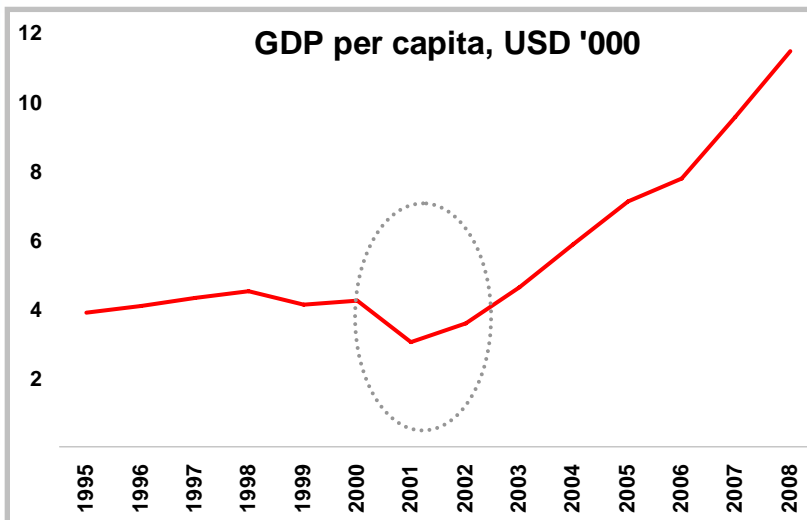
SLOWDOWNS IN EMERGING MARKETS TEND TO BE SHORT LIVED ...



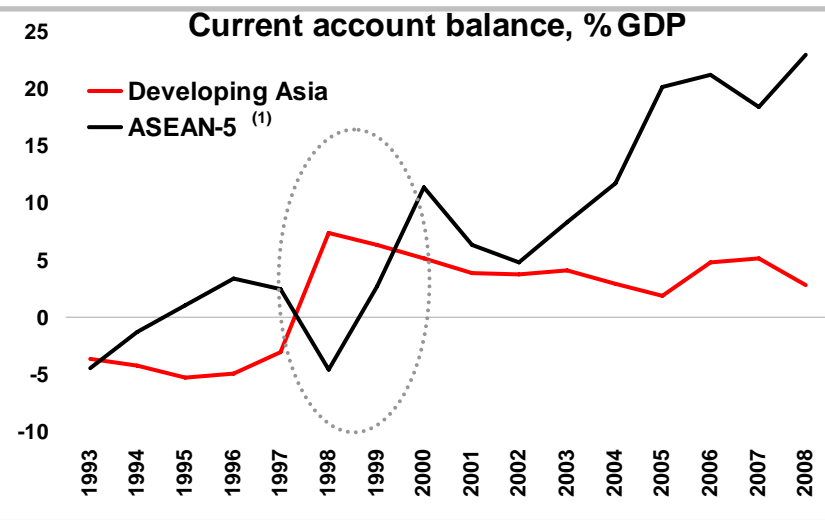
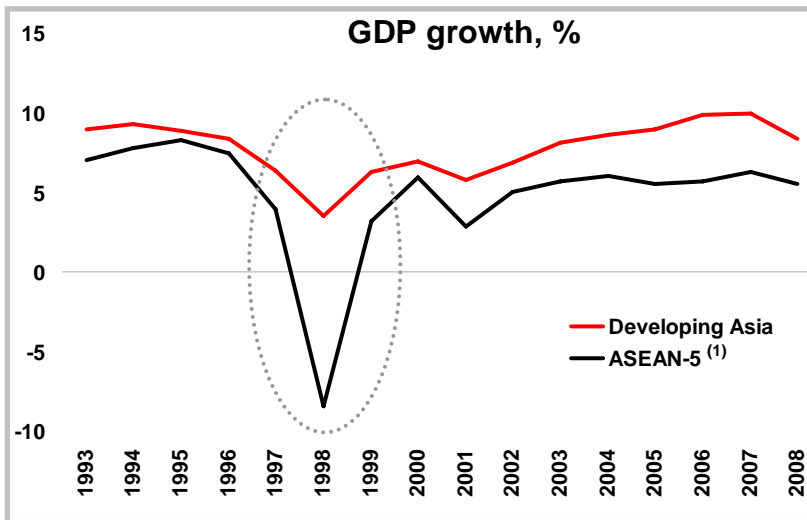
- **Growth recovery following Asian crisis was rapid**, alongside a significant reduction in external financing risks
- **CEE well placed for growth recovery in 2010**
- **Strong Group presence in countries with good possibility of fast recovery: Poland, Czech Republic and Turkey (~55% of CEE region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

... AS LATEST CRISES IN TURKEY AND ASIA PROVED

TURKEY 2000-2002



ASIA 1997-1999



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

DISCLAIMER

- Pursuant to article 154-BIS, paragraph 2, of the “Consolidated Law on Financial Intermediation” of February 24th, 1998, Ranieri de Marchis, in his capacity as Senior Manager in charge of drawing up UniCredit S.p.A.’s company accounts, declares that the accounting information contained in this document are provided in conformity against document results, books and accounts records.

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