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6th Capital Markets Day

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The economic prospects of Central and Eastern Europe

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Presentation topics

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- **Erste Group's CEE outlook**
- **Common concerns**
- **Key risk mitigants in CEE**
- **Appendix: Economic developments in key Erste countries**
  - Austria
  - Romania
  - Czech Republic
  - Slovakia
  - Hungary

Erste Group‘s CEE outlook –
Real GDP growth to come down in 2009

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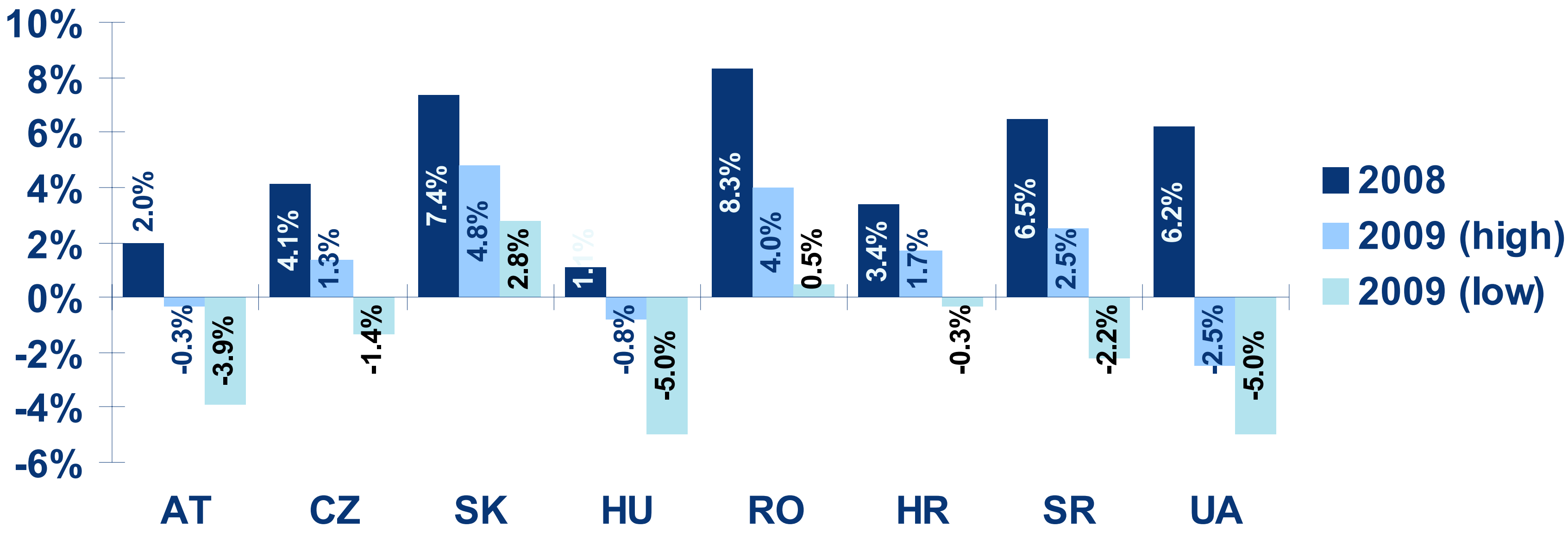

Source: Erste Group Research

- **Deceleration of GDP growth in CEE**
  - Calculates with economic contraction of -0.5% (high) to -3.5% (low) in Euro zone in 2009
- **Reasons**
  - Weaker global demand will have a negative impact on exports
  - Investment growth will decelerate because of denting global demand and increased credit margins
- **Risk factors for CEE**
  - More severe recession in Euro zone
  - Increased national protectionism which would hinder capital from free flow within the EU

Erste Group‘s CEE outlook –
Slowing inflation expected to help comsumers

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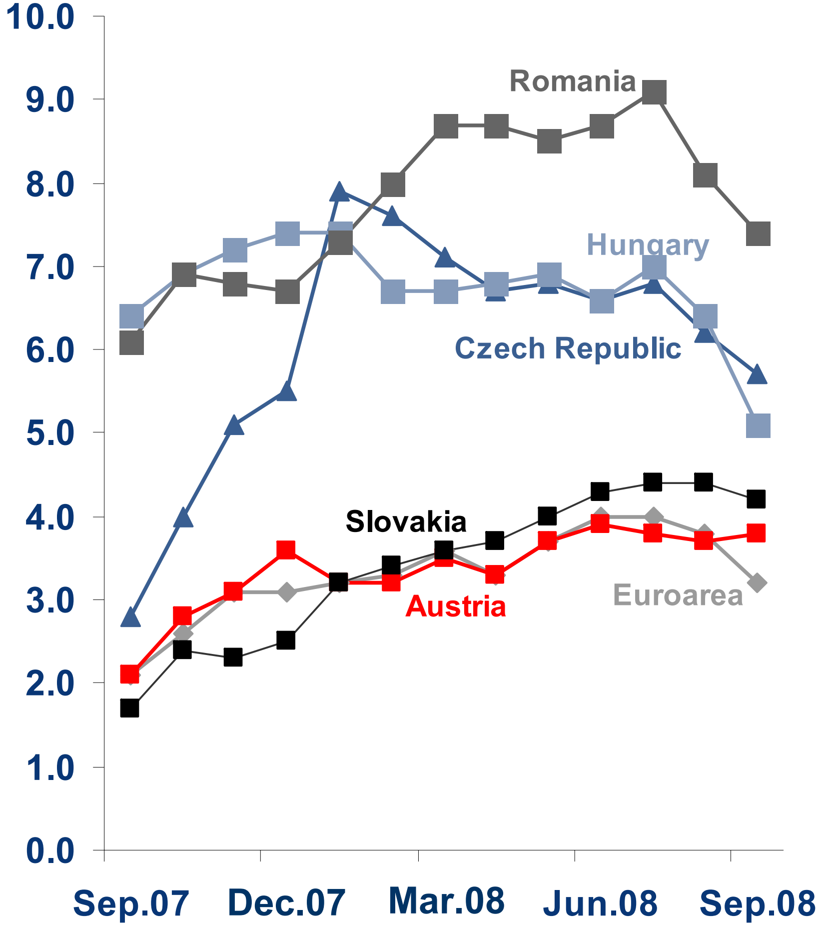
HICP inflation (y/y, %)



Source: Erste Group Research

Inflation forecasts (y/y, %)

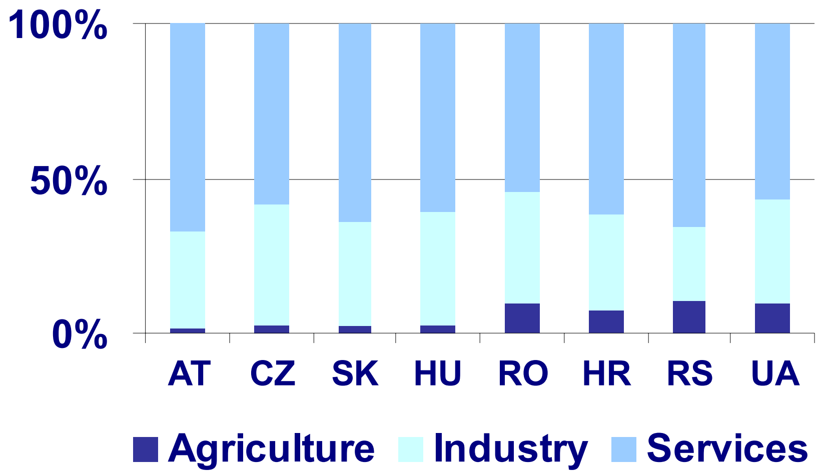
CPI (%), Ø	2007	2008e	2009f
Austria	2.2	3.4	2.2
Czech Rep.	2.8	6.3	2.1
Slovakia	2.8	4.6	4.3
Hungary	8.0	6.2	3.5
Romania	4.8	7.9	6.2
Croatia	2.9	6.4	3.6
Core Erste*	**3.6**	**5.4**	**3.3**
Serbia	6.5	11.0	8.0
Ukraine	12.8	22.8	18.0
Poland	2.5	4.3	3.0
CEE8**	**5.0**	**8.1**	**5.7**

*weighted average

**weighted average incl. Serbia, Poland, Ukraine, without Austria

Erste Group‘s CEE outlook – Agriculture to support Romania and Ukraine

- **Higher share of GDP contribution of agriculture in Romania and Ukraine**
  - In absolute terms agricultural GDP is the highest in Romania, ahead of Ukraine
- **Tremendous efficiency gains possible**
  - Comparison: Austria produces 50% of Romanian GDP with 1/6 farmland
- **Occupational split underscores catch-up potential of Romanian agriculture**
  - 30% of the workforce in agriculture
  - Agriculture produces only 10% of GDP



Source: EIU and Erste Group Research

Erste Group‘s CEE outlook –
Real wages and consumer basket to benefit CEE

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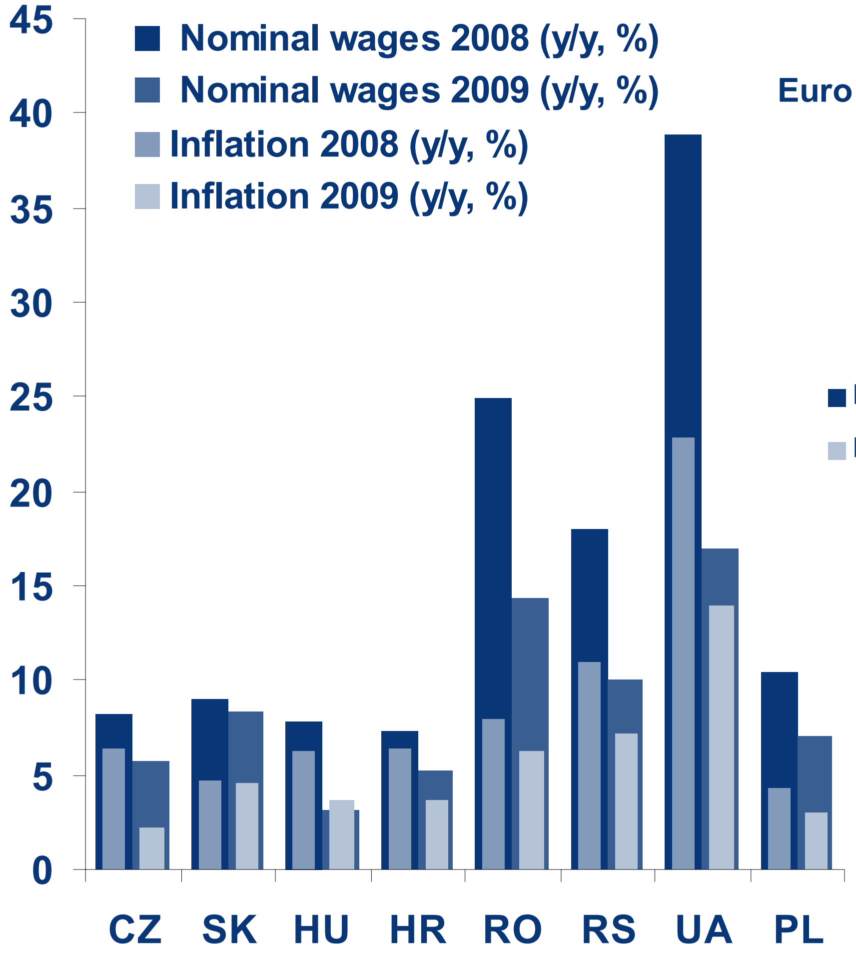
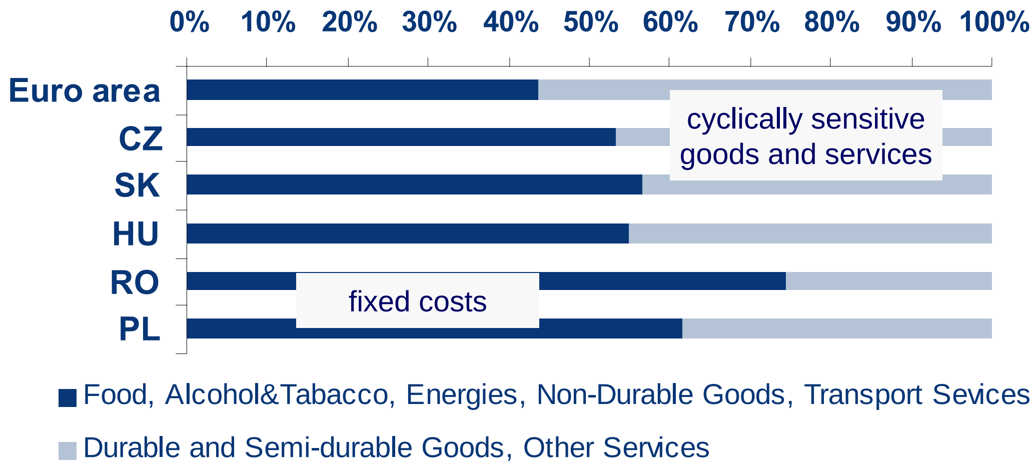
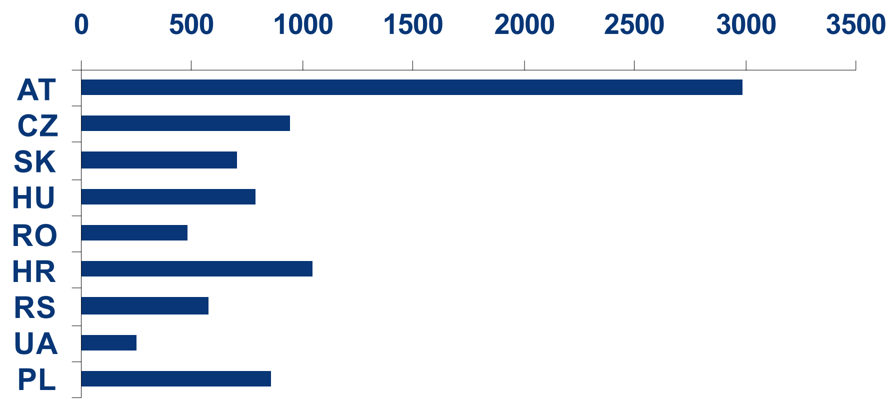
Nominal wages and inflation development (%)



Composition of consumer basket



Average monthly gross nominal wage (2008, EUR)



Source: Eurostat, National statistical offices, Erste Group Research

Erste Group's CEE outlook – Private consumption is major GDP driver

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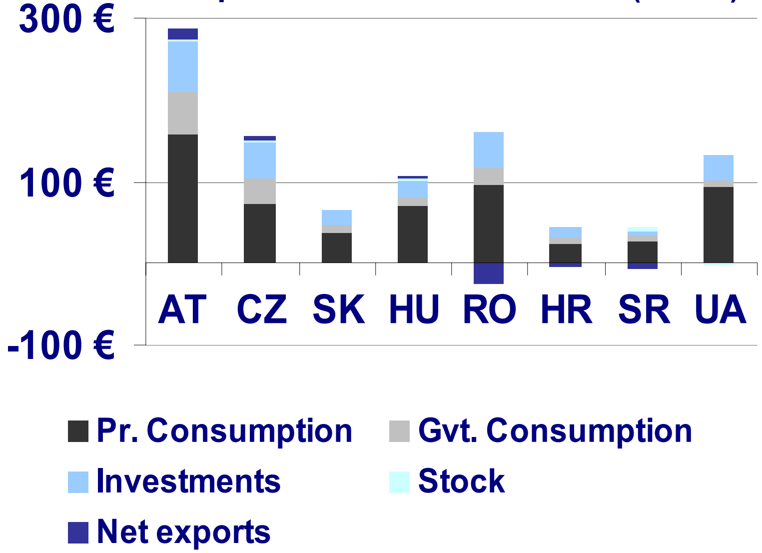
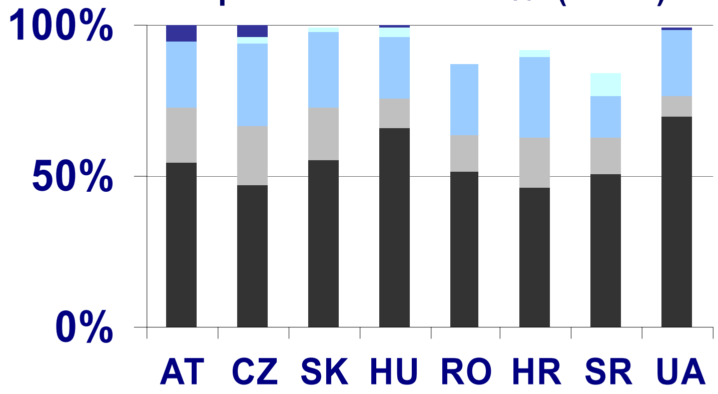
Components of GDP in EUR bn (2008e)



Components of GDP in %* (2008e)



*Due to negative contribution of net exports the split by % doesn't sum up to 100% in some countries

- In RO, HR and SR net exports have a strong negative impact on GDP as a whole
- HU and UA are particularly depending on private consumption
- CZ and AT have a particularly high contribution of positive net exports
- Government consumption is particularly low in countries with high interest rate levels
- With the exception of RS all countries have similar contributions of investments, which points at a significant catch-up potential for RS

Source: EIU, Erste Group Research

Erste Group‘s CEE outlook – Private consumption will remain GDP driver (1)

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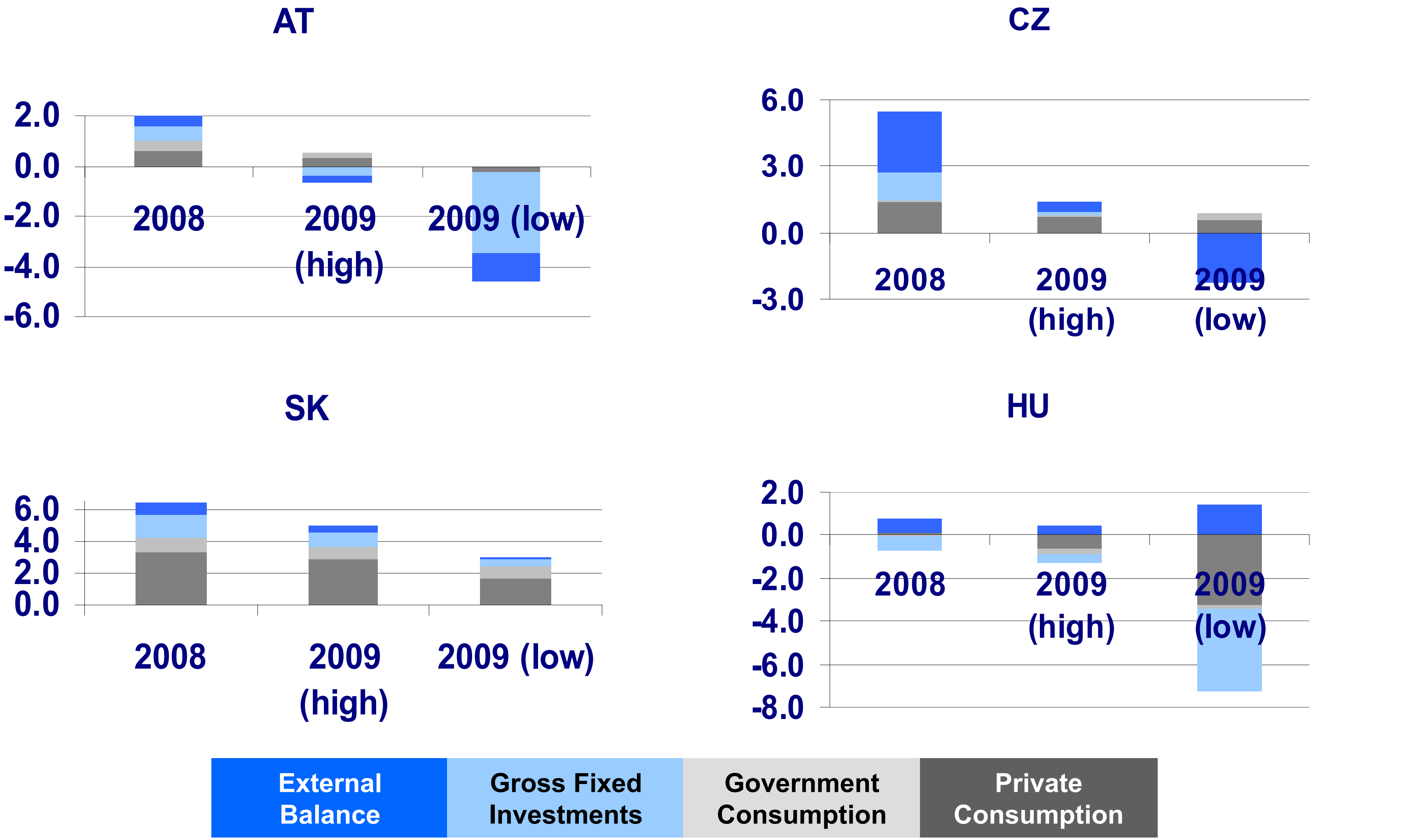
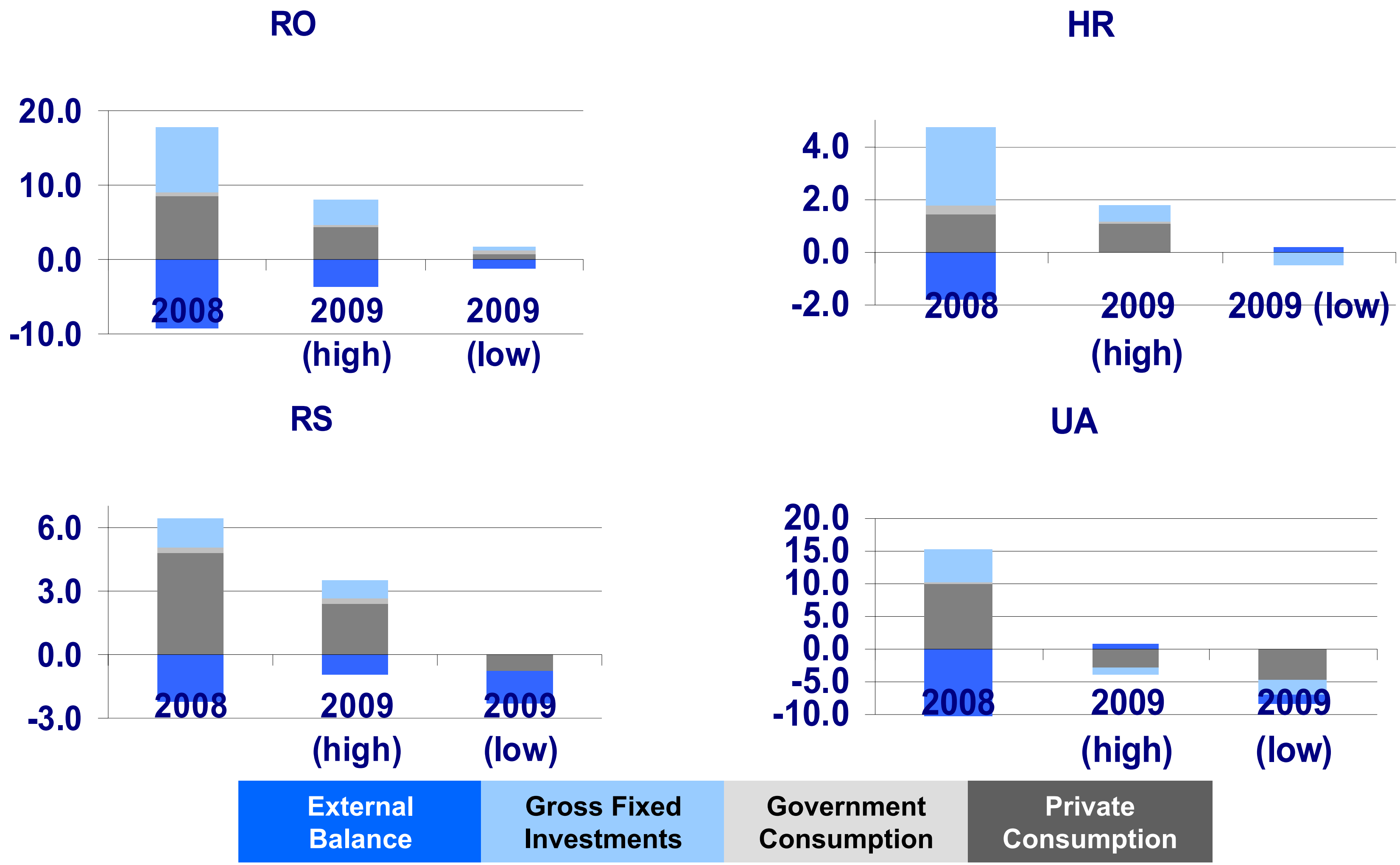


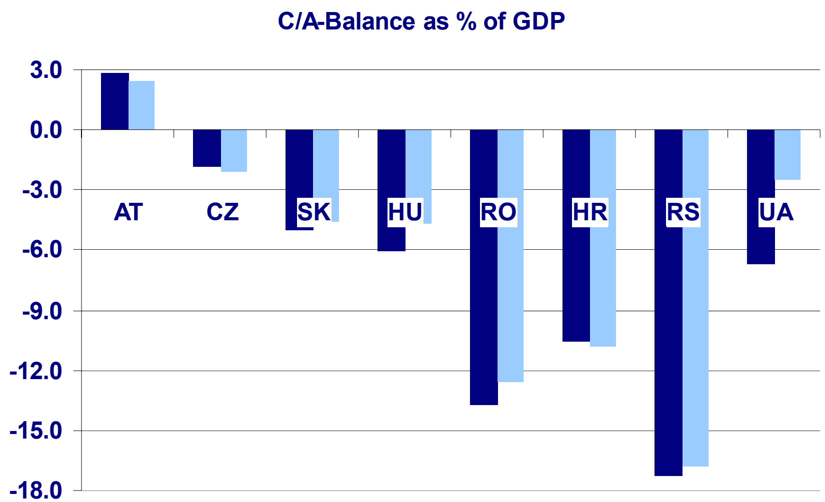
Source: Erste Group Research

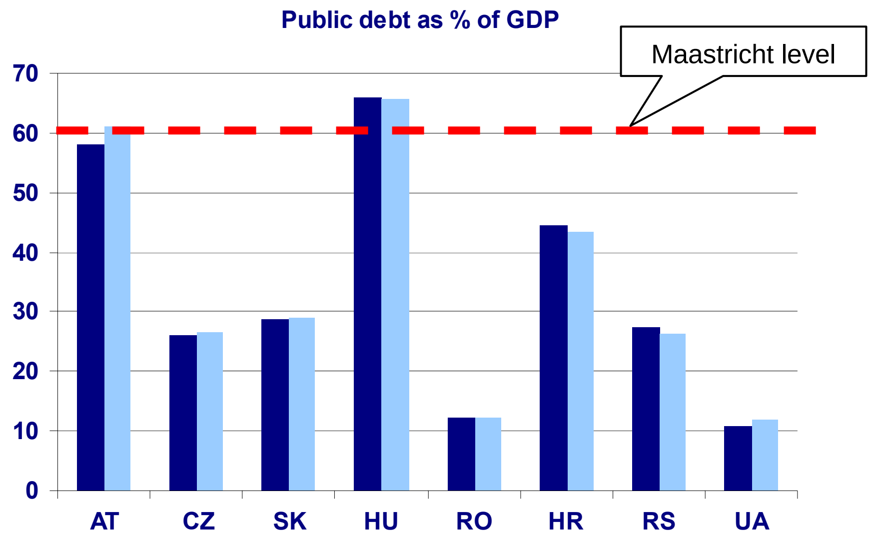
Erste Group‘s CEE outlook – Private consumption will remain GDP driver (2)

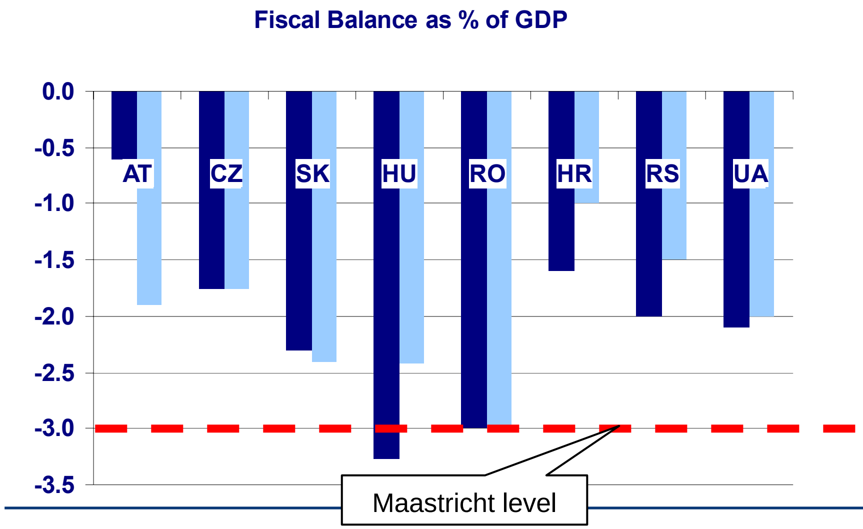


Source: Erste Group Research

Erste Group's CEE outlook – External and internal balances to improve







- **Major Erste markets have either no C/A balance problem or will significantly improve their external position until 2010**
- **With the exception of HU public debt to GDP ratios are relatively healthy**
- **From 2009 all Erste markets will have their fiscal balances in line with Maastricht requirements**

2008e 2009f

Source: Erste Group Research

Presentation topics

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– **Erste Group's CEE outlook**

– **Common concerns**

– **Key risk mitigants in CEE**

– **Appendix: Economic developments in key Erste countries**
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  – Romania
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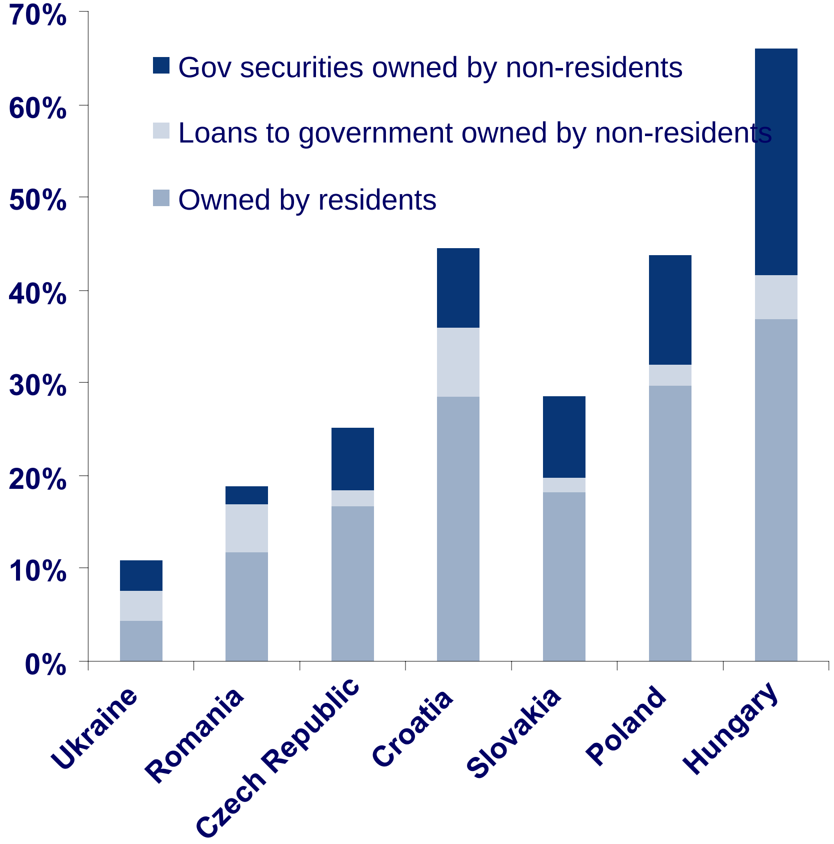
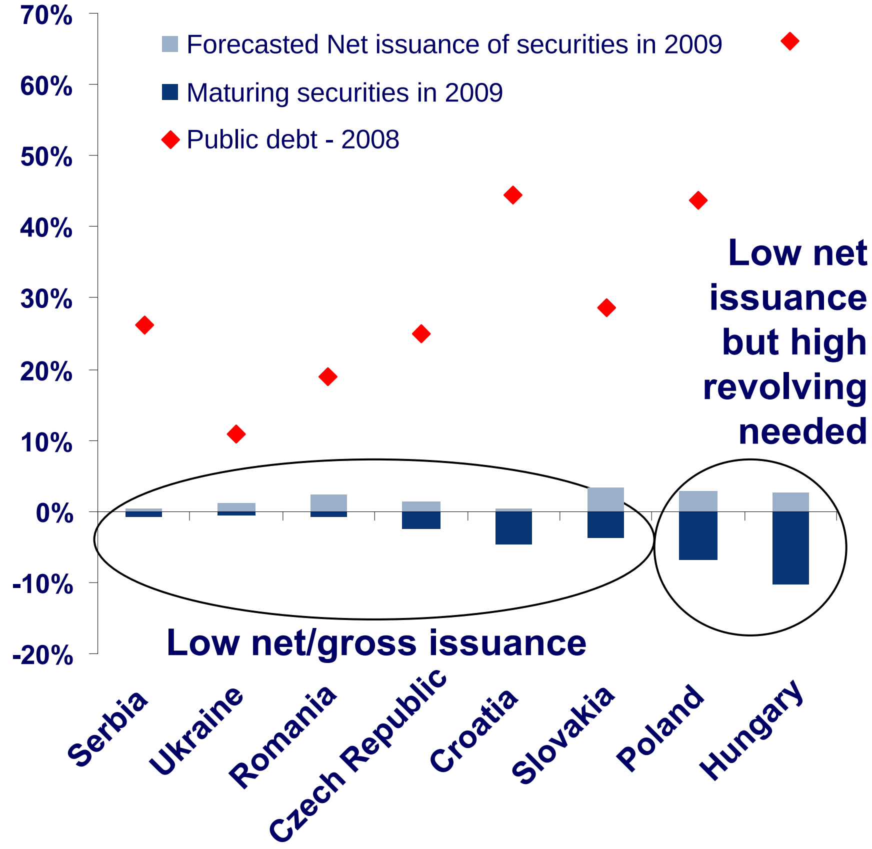
What are the key concerns? –
Foreign ownership of public debt

Public debt (June 2008, % of GDP)



Supply of government bonds (2009f, % of GDP)



Source: Erste Group Research, Reuters, Eurostat, JEHD

What are the key concerns? –
Repayment capacity: FX reserves to external debt

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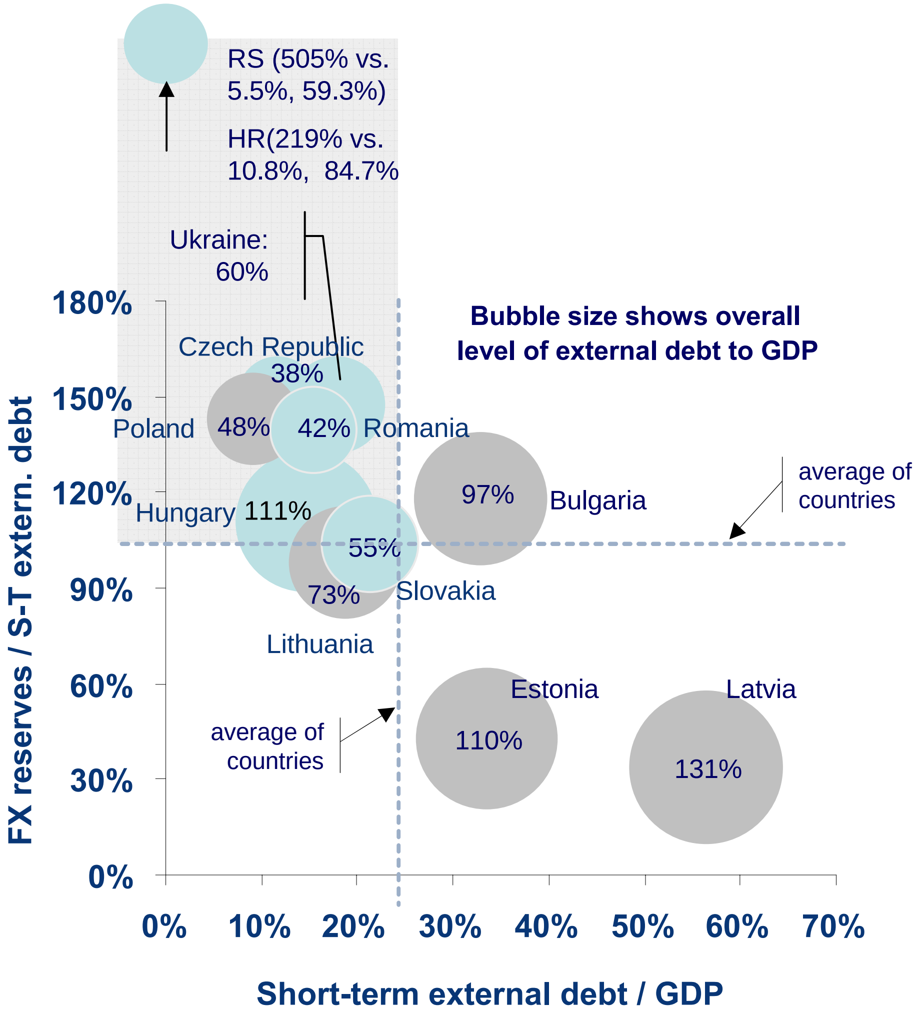
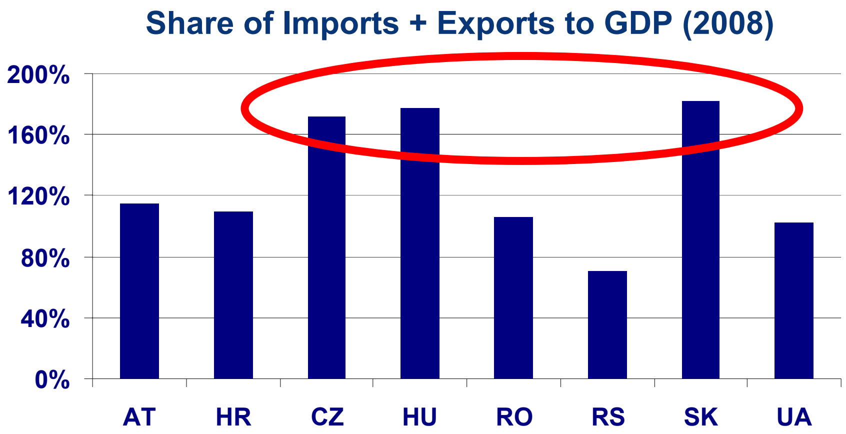


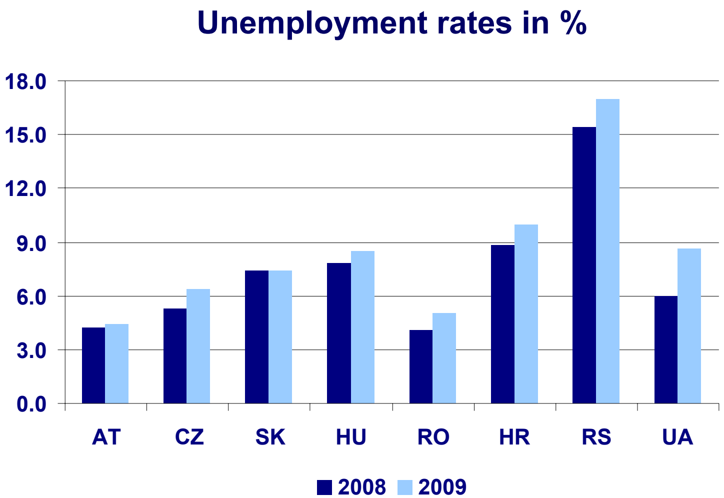
- Erste markets belong to the cluster of countries that are in a comparably favourable situation regarding
  - their overall level of short-term debt to GDP and
  - their ability to cover short-term debt obligations with FX-reserves
  - Bubble sizes show that HU has a high level of overall external debt, in contrast to UA

Source: Erste Group Research

What are the key concerns?
Openness of the economy and unemployment



- High levels of openness in CZ, SK and HU make these countries particularly exposed to global slow down
- Low levels of openness can be considered an advantage of less exposed markets



- Unemployment rates will rise moderately throughout 2009 in most EB markets
- This effect however might not be of lasting nature
- Nevertheless some negative impact on private consumption is to be expected

Source: EIU & Erste Group Research

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Key risk mitigants in CEE –
Business and consumption friendly tax regime

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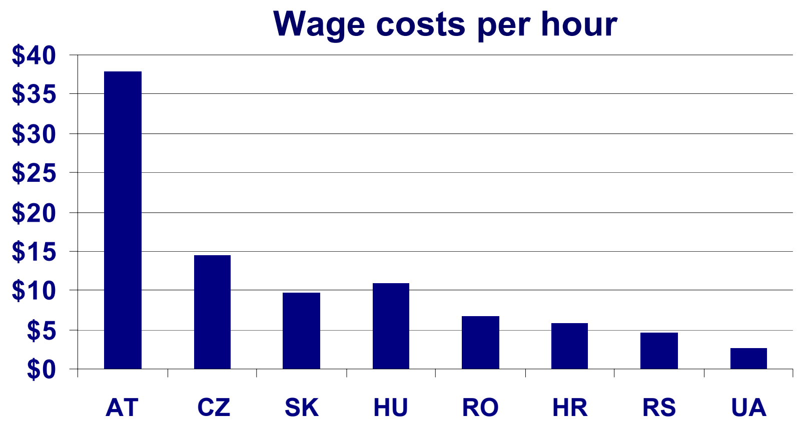
	Tax system	Top Level
AT	progressive	50%
CZ	flat	19%
SK	flat	19%
HU	progressive	36%
RO	flat	16%
HR	progressive	45%
RS	flat	14%
UA	flat	15%



- **All Erste markets in CEE have very competitive wage levels**
- **Taxation has been switched along with regional trends to dominatingly flat rates**
- **Flat-tax countries report to have increased tax revenues due to higher level of transparency and simplicity**

Source: EIU & Erste Group Research

Key risk mitigants in CEE –
On the road towards euro adoption

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Country	Inflation	Gov't deficit / GDP	Gov't debt / GDP	ERM II	Interest rate	Obligation to adopt	Expected date
Reference value	Not more than 1.5% higher than 3 best performing EU states (3.2%)	3.0%	60%	Min. 2 years	Not more than 2% higher than the 3 best performing EU states (6.5%)		
CZ	⊘	✓	✓	0	✓	yes	unset
HU	⊘	⊘	⊘	0	⊘	yes	2012-2014
RO	⊘	✓	⊘	0	⊘	yes	2014
SK	✓	✓	✓	since 11/05	✓	yes	Jan. 2009
HR	⊘	✓	✓	not yet EU member	✓	not yet EU member	na
SR	⊘	✓	✓	not yet EU member	⊘	not yet EU member	na

Source: Erste Group Research

Key risk mitigants in CEE –
EU structural funds to benefit CEE region

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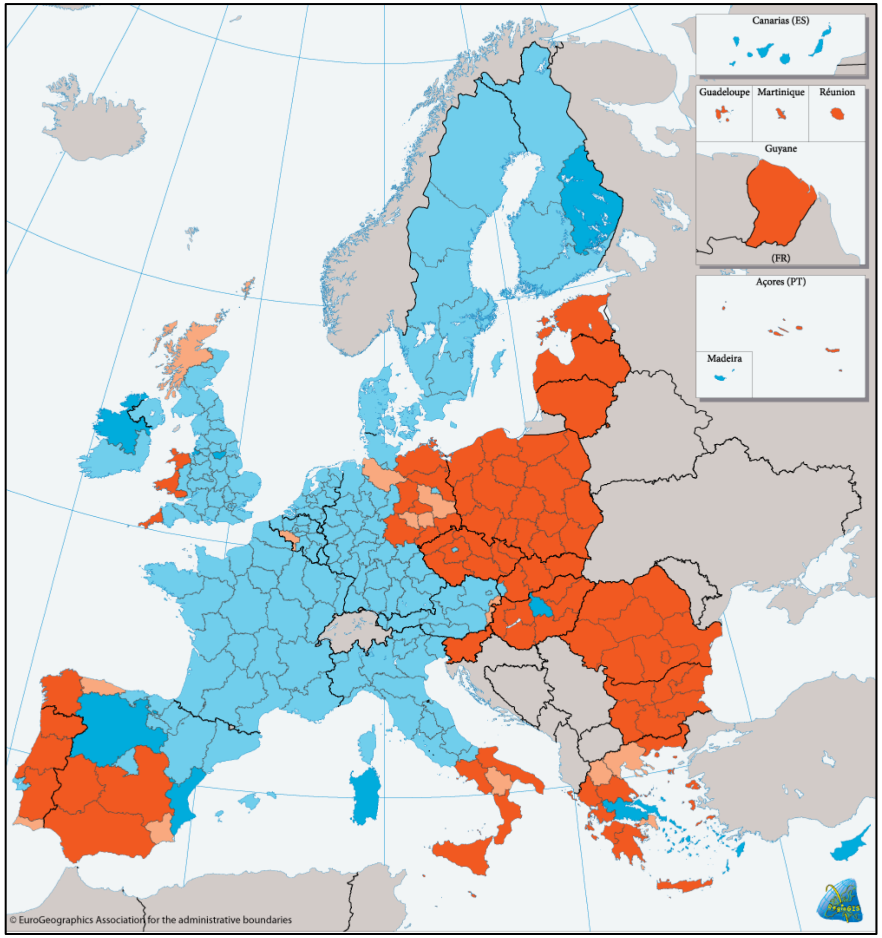
Convergence objective
(Regions > 75% in EU27)

Geographical Eligibility for Structural Funds Support 2007-2013

Objective 'Regional Competitiveness and Employment'
Phasing-in regions, "naturally" above 75%

Objective 'Regional Competitiveness and Employment'



Source: European Commission

Key risk mitigants in CEE –
EU structural + agro funds to benefit CEE region

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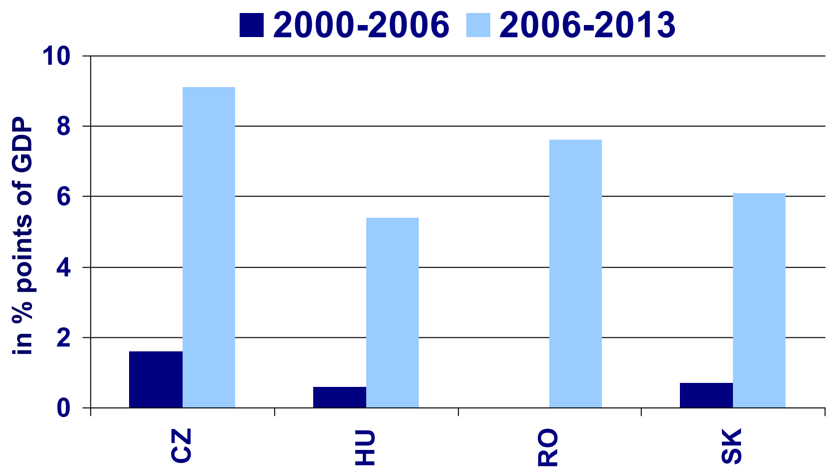
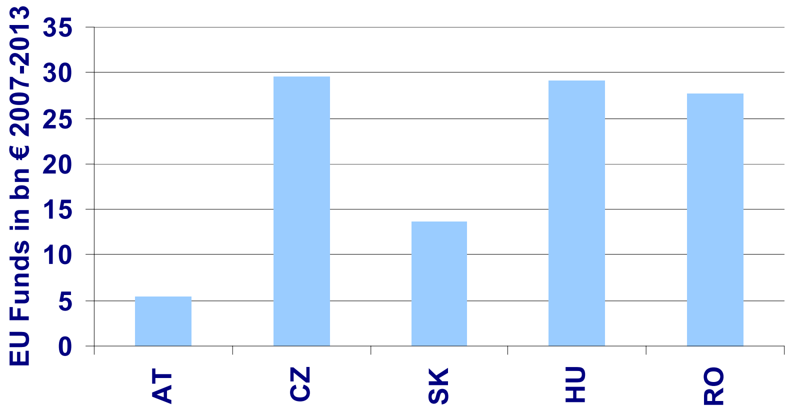
- Estimated GDP growth effect (% above baseline)
- Contribution to overall GDP growth: 5-9% within 5 years
- Growth effect much larger than during previous budget period 2004-2007



- Totals of EU Funds (structural, cohesion & agricultural), 2007-2013
- Almost EUR 100 bn will be transferred to CZ, SK, HU, RO until 2013



Source: European Commission

Key risk mitigants in CEE – Underpenetration with banking services

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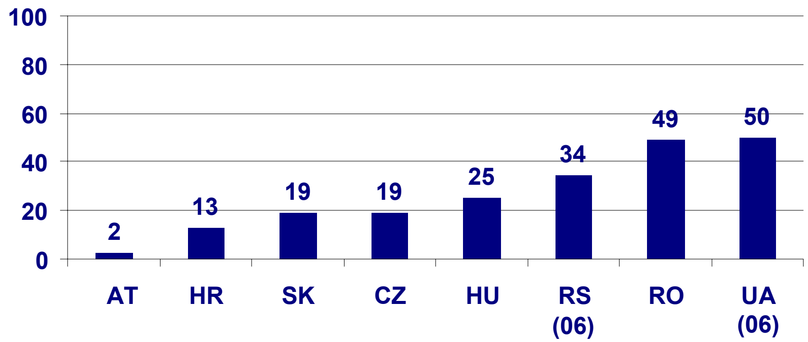
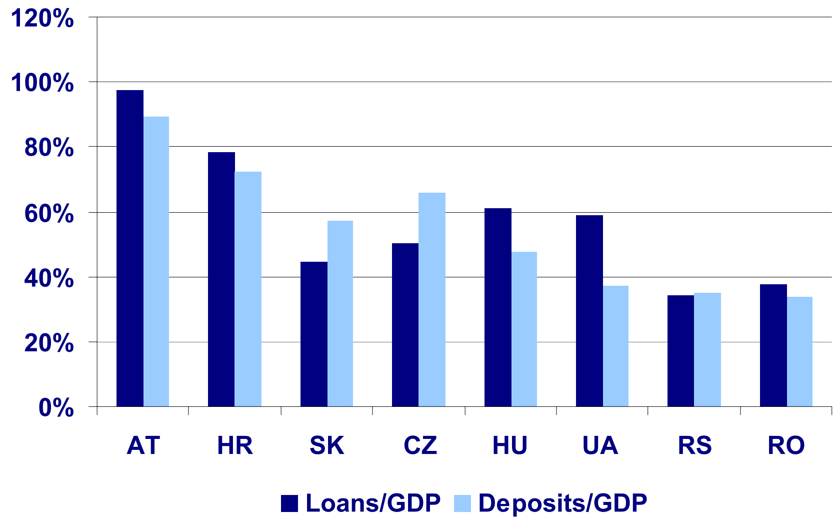
Share of the unbanked in % (2006-07)



- Basically all Erste markets are still underpenetrated in terms of banked population
- This potential is particularly obvious in RO

Loans & deposits to GDP (2007)



- The above mentioned underpenetration is reflected in the loan and deposit ratios to GDP

Source: FMDS, Erste Group Research

Key risk mitigants in CEE –
Remittances as additional source of income

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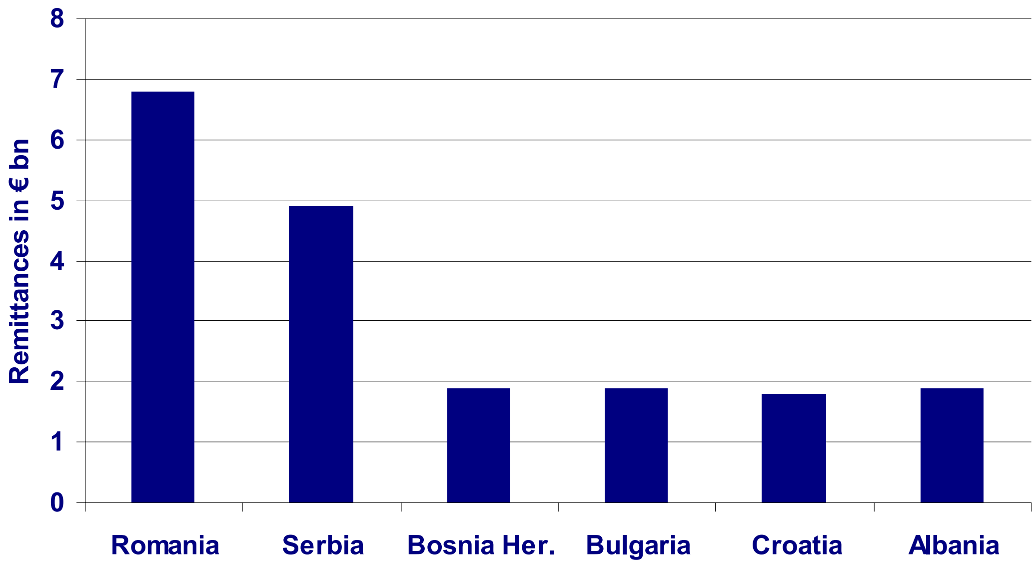
Remittances to selected CE countries (2007 in EUR bn)



Forecast of remittances to RO
2008: 7.2 bn EUR
2009: 7.1 bn EUR

- **In several CE countries remittances play an important role:**
- **securing additional income to private households**
- **reducing the C/A deficit**
- **In some countries, remittances have been of a magnitude comparable to FDI**
- **Economic downturn in Western Europe will affect remittance flows negatively, but they will not dry up**

Source: Source: World Bank, IMF, MPI

Conclusions

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- Whatever the precise economic realities for Europe in 2009 might be, CEE will remain the top performer of the region

- Despite slower growth there will be no decline of income as wages will keep on growing and inflation is slowing

- This translates into a sustained growth potential for retail banking in CEE

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Country Briefing Austria

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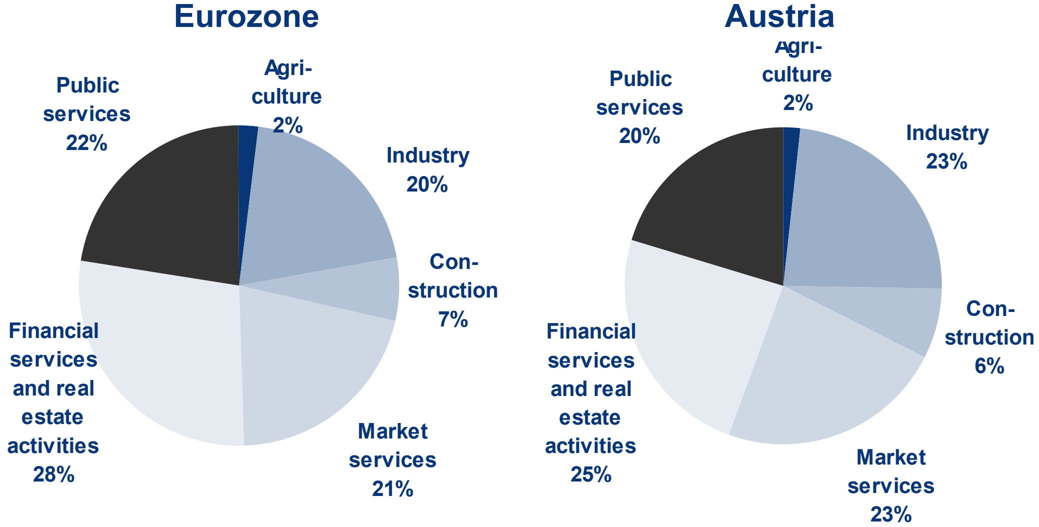
GDP structure (2007)



GDP per capita (€, 2007)	32,600	Corporate income tax	25%
% of EU27 (in PPS, 2007)	127%	Tax on dividends	25%
Ø GDP growth (%, 2005-07)	3.1%	Personal income tax	progres sive
Ø gross nom. wage (€, 2007)	2902	Value added tax	20%
Price level (% of EU27)	100%	Public debt (% of GDP)	59.5%
Population (mn)	8.3	Unemployment (2007)	4.4%

Source: Erste Group Research, Eurostat, Wifo

Structural characteristics

- Austria is one of the richest countries in Europe with a small, open and developed economy with sustainable growth
- The accession to the European Union brought a major advantage to this country as the export sector profited significantly and became an important driving factor of the domestic economy
- Austria is known for its effective social partnership which guarantees a harmonic relationship between employers and employees

Effects of the crisis & growth prospects

- Prospects for the GDP growth forecasts a stagnation of the Austrian economy
- However, Austria's growth will remain stronger than the EU27 average

Austria: Stable macroeconomic environment

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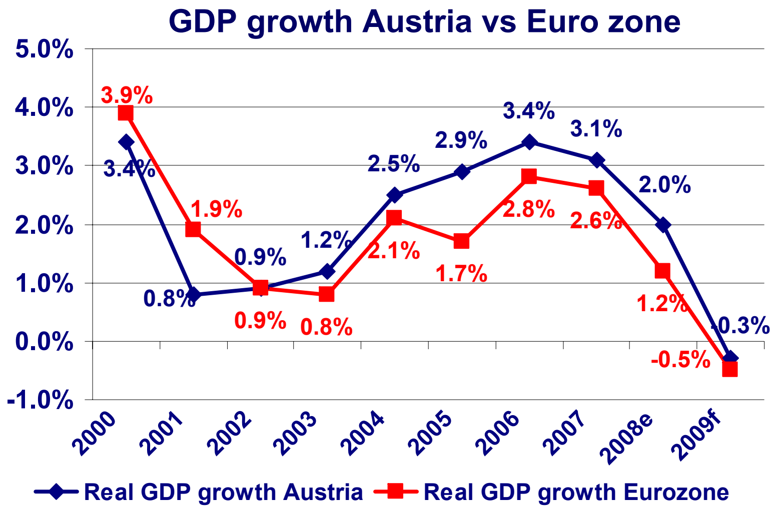
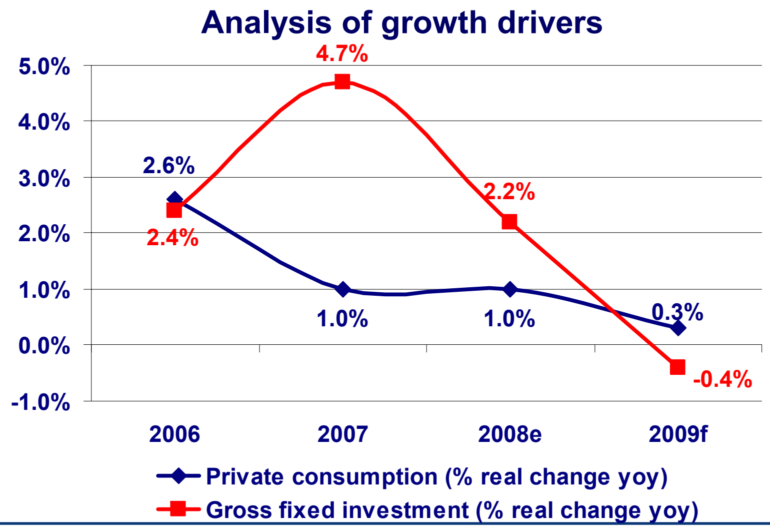
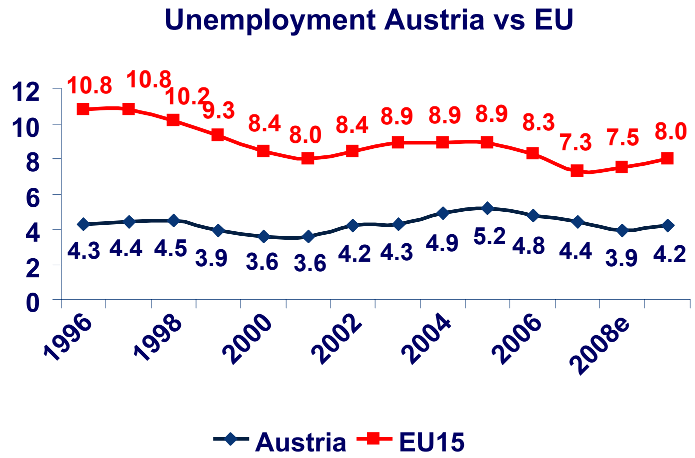
- Since 2002 Austria's GDP growth has been higher as the Eurozone average
- Despite the crises in the years 2000 to 2003 the unemployment rate remained stable and below the European average
- During the current crises private consumption expenditure will level off solidly, but investment activity follows a more volatile development
- In contrast to many other European countries there was no real estate bubble in Austria: average increase of property prices since 2000 <2% p.a.







Source: Erste Group Research, Eurostat, Wifo, OeNB

Exports – Austria's economic strength

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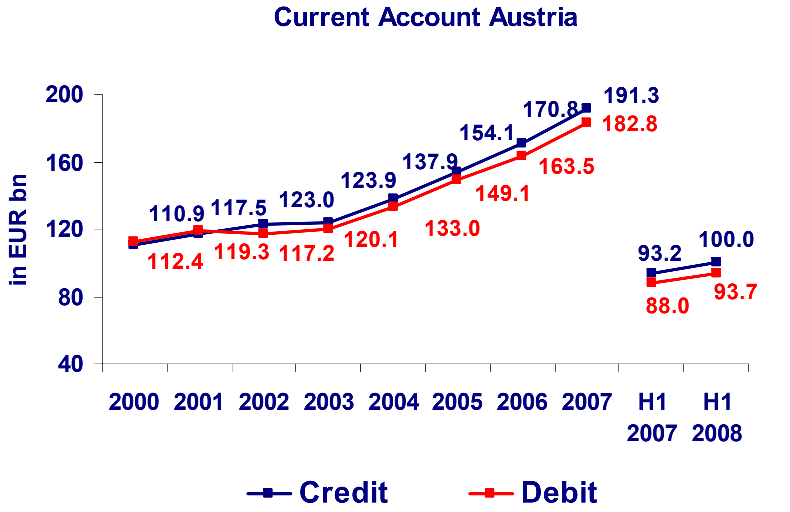
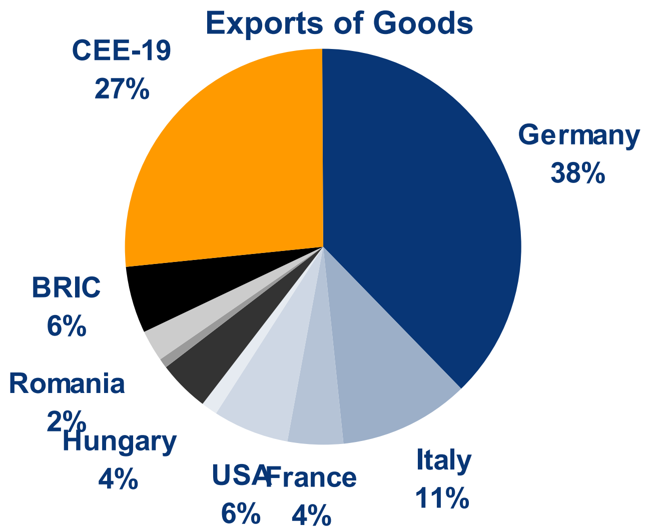
- In 2007 Austrian companies exported goods and services to the value of EUR 156bn
- Austria's current account has been in the black since 2002 to a record in 2007
- 8% of all Austrian companies are engaged in international business activities
- Cross-border trade accounts for 6 Euros in every 10 generated by Austria
- Austria is the world's seventh largest exporter and is ranked among some of the world's major exporters such as Switzerland and Sweden
- Austria has overtaken the world's leading exporter, Germany, in terms of export ratio to the GDP
- Austria's main business partners are Germany and the CEE region





Source: Erste Group Research, Austrian Federal Chamber of Commerce, OeNB

FDI and tourism reflect Austria's attractiveness for investors and guests

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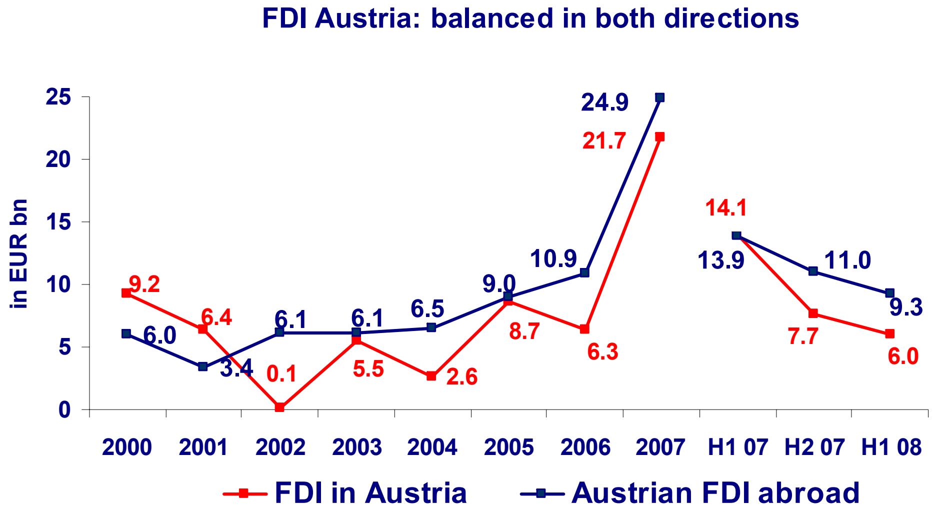
- In the first half of 2008, the amount of Austrian foreign direct investment abroad still exceeded the level of foreign direct investment in Austria (outward FDI EUR 9.3bn, inward FDI EUR 6bn).
- FDI helps to create and underpin jobs in Austria and safeguard Austria's reputation as a leading business location.
- Half of all Austrian jobs are either directly or indirectly dependent on export.



- Tourism forms an important part of Austria's economy, accounting for almost 9% of the Austrian gross domestic product.
- As of 2007, the total number of tourist overnight stays is roughly the same for summer and winter season, with peaks in February and July-August.
- In 2007, Austria ranked 9th worldwide in international tourism receipts. In international tourist arrivals, Austria ranked 12th with 20.8 million tourists.

Source: Erste Group Research, Austrian Federal Economic Chamber, OeNB, Statistic Austria

Country Briefing Romania

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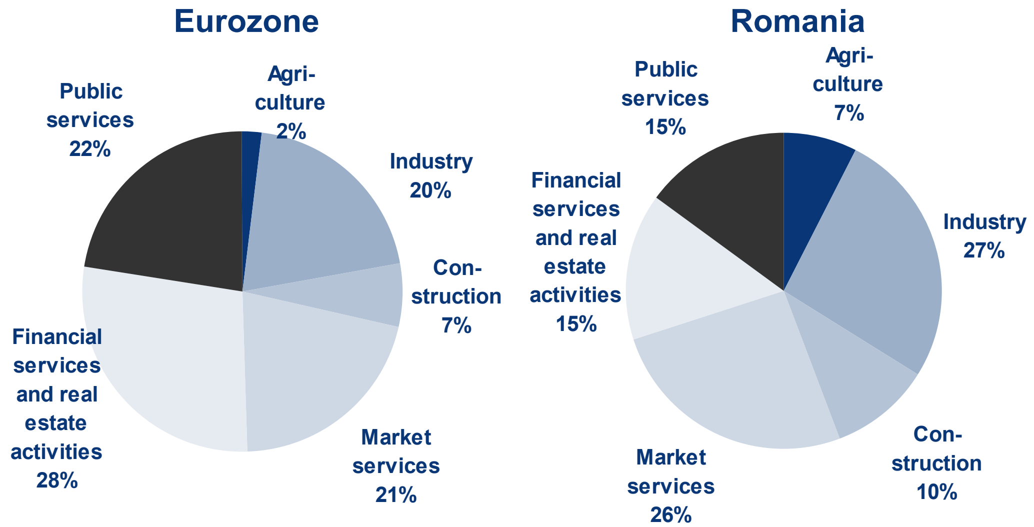
GDP structure (2007)



GDP per capita (€, 2007)	5630	Corporate income tax	16%
% of EU27 (in PPS, 2007)	41%	Tax on dividends	16%
Ø GDP growth (%, 2005-07)	6.1%	Personal income tax	16%
Ø gross nom. wage (€, 2007)	420	Value added tax	9/19%
Price level (% of EU27)	65%	Public debt (% of GDP)	13%
Population (mn)	21.5	Unemployment (2007)	4.1%

Source: Erste Group Research, Eurostat

Structural characteristics

- Public debt/GDP is one of the lowest in Europe (13%), relatively low level of foreign debt/GDP (39%)
- Balanced mix of exposure to different industry types
- Contribution of agriculture to GDP is much higher than the EU27 average

Effects of the crisis & growth prospects

- Moderation of growth along with improving C/A-balance
- Still huge catch-up potential in infrastructure and consumption will help to weather crisis
- Structure of export has improved, positive impact on trade balance and C/A-deficit
- Unemployment will grow, but not excessively

Features of the Romanian economy – Impact of crisis counterbalanced by improved fundamentals

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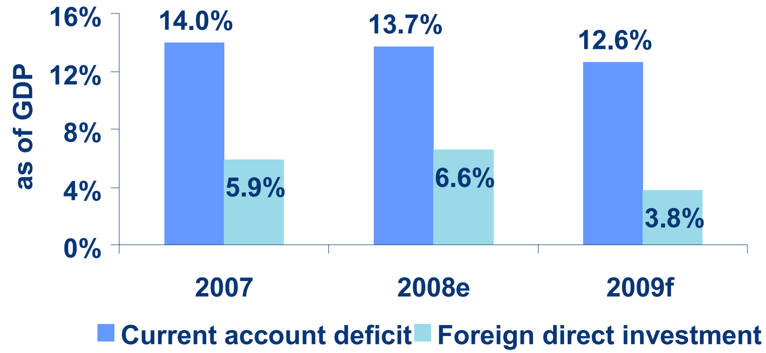
Basically the crisis will inevitably…

- Temperate the growth in domestic demand, FDIs and exports
- cause higher unemployment
  - layoffs expected in constructions, automotive, textiles, and metallurgy
  - new jobs expected in retail, food industry, security services, IT and telecommunication

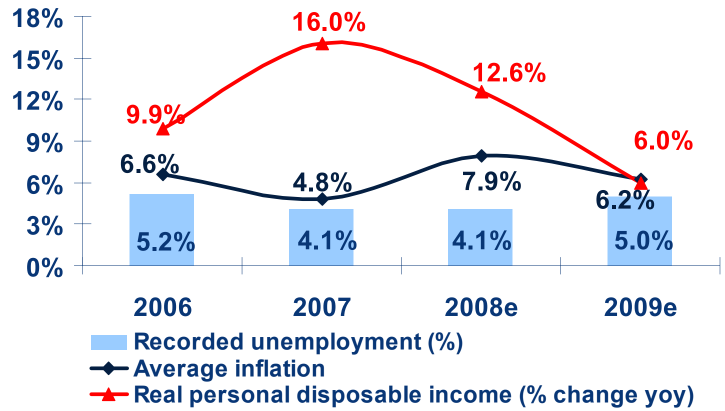
These effects will be counterbalanced by…

- A significant correction of CAD/GDP (below 13%)
- A moderation of wage growth
- A strong downward trend in inflation
- A slower growth of indebtedness
- The still existing catch-up potential

FDI inflows vs current account deficits



Unemployment vs inflation vs wage growth



Source: Erste Group Research

Romania: Imbalances decrease due to improving trade balance and improved export structure

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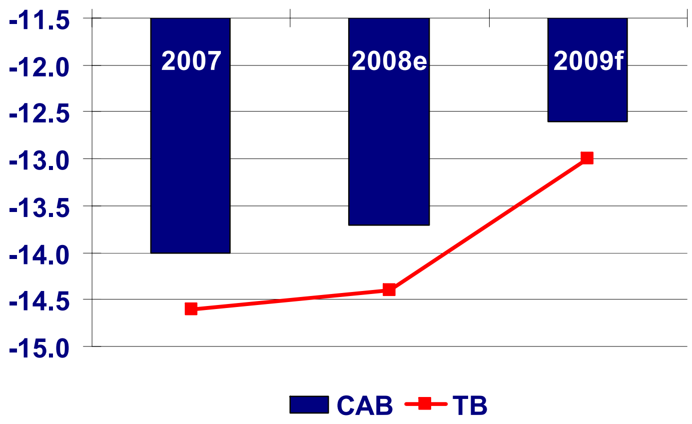
C/A and trade deficits as % of GDP



2007

Major export partners	IT: 17.0% GER: 16.9% FR: 7.7 % TR: 7.0% HU: 5.6% UK: 4.1%
Exports (% of GDP): 24.2% Imports (% of GDP): 42.2%	

- Lower vulnerability to crisis
  - Romania - as a relatively closed economy (share of exports to GDP is only 24%) - will be least affected among by weakening of global demand compared to other new EU member states
- Improving trade balance leads to smaller C/A deficit (below -13%):
  - Export performance improves against imports: This trend is already visible: CAD growth decelerated to 14.8% yoy in 9M 08 vs. 65.6% yoy in 9M 07, exports are brisker than imports by 2.4pp in 9M 08
  - Additionally lower FDIs will improve the external balance, as they are known to strongly support imports (see chart on previous slide)
- Improved export structure enhances this effect:
  - Strong FDI inflows in the recent years - €30bn (2005-2008) have supported the change in exports structure in favour of capital goods and high value added products which now account for 35% (up from 17% 5 years ago) and led to higher productivity gains
  - Positive effects became only recently more visible (2008) when - for the first time - exports grew faster than imports; this may help Romania to limit a more drastic economic slowdown

Source: Erste Group Research, CIA

Romania: Huge catch-up potential will fuel investments and consumption even in bad years

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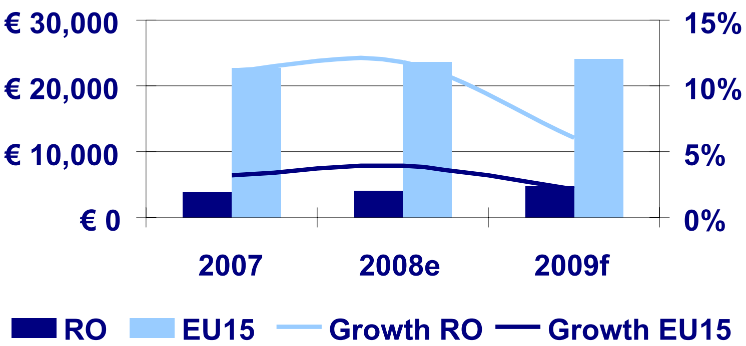
Some facts illustrating the catch-up potential in the Romanian economy:

	RO	AT
1000 people per airports with paved runways	890	328
km paved roadways/per 100 km²	33.5	128
Highways (Km)/1000 km²	1.2	24.9
km railways/per 100 k km²	4.5	8.0
Cars per 1000 cap	130	546
Electricity production kW per cap	2876	7436
Agricultural GDP/ha of arable land - € (2007)	146	393

Final consumption per cap in € in RO and EU15



Source: Erste Group Research, Eurostat, CIA

- **Huge catch-up potential in domestic infrastructure will to some extent secure growth, even in bad years**
  - Large infrastructure projects (see list on next slides) drive growth against slowdown in the Eurozone
  - Moves to stimulate investments will support this (e.g. tax exemptions for reinvested dividends, increased state support for building new social dwellings, higher ceilings for loans guarantees – SMEs)
  - Low levels of investments leave tremendous space for catch-up in agriculture
- **Consumption will continue to grow at lower rates, still way above EU15 average due to**
  - Overall very low levels of consumption
  - Rapid wage growth in the past (which will be somewhat counterbalanced by more rigid loan regulations and increasing unemployment)
  - Returning part of the migrant workers who add to domestic consumption
  - Low level of public debt and actual use of EU funds (so far), which leaves room for stimulating measures by national government, in particular when the financing environment is improving

Overview of selected investment projects contributing to GDP growth (memo: GDP forecast 2009 ≈ 157 bn €)

ERSTE GROUP

Projects	Time frame	Size in bn €
Oil and gas industry: Petrom - OMV	2008 - 2010	1.5 bn €
Romgaz: increase storage capacity	until 2012	0.5 bn €
Energy projects in Borzesti (Electrabel) - Galati (CEZ) – Braila (Enel, E.ON) – Cernavoda (Enel, CEZ, GdF Suez, RWE, Iberdrola, Arcelor Mittal Romania)		6 bn €
Metallurgy – Technological upgrade and modernization	2009-2014	1 bn €
Constructions – 25 commercial centers	2009	2 bn €
Cement industry – Investment in production units (Lafarge and Holcim)	until 2010	0.5 bn €
Automotives: Ford production site in Craiova, additionally supplier industry	until 2010	0.7 bn €
Beverages: Development of existing production capacity (Heineken Romania) plus green fields (Pepsi Americas)	2009	0.2 bn $
FMCG – Procter & Gamble investment in production in Craiova	2009	0.1 bn $

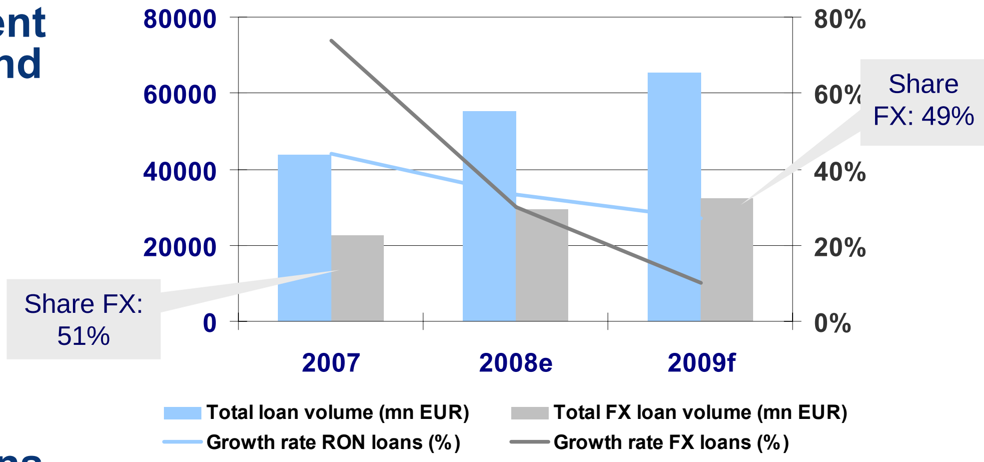
Source: Erste Group Research

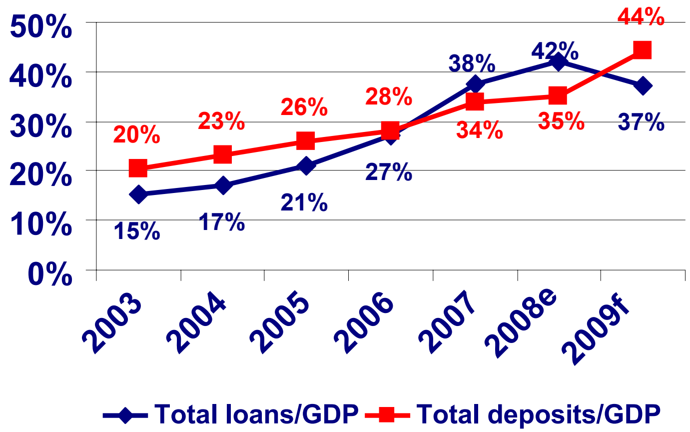
Features of the Romanian economy – Lending will fall back, funding increasingly based on local deposits

ERSTE GROUP

- Changes in FX lending policies
  - The annual growth in EUR equivalent is estimated to go down from around 30% in 2008 to 10% in 2009 due to changing funding and lending conditions
- Retail lending growth lagging behind corporate
  - The strongest drop is supposed to be seen in the retail area (half the 2008 growth) due to NBR restrictions
  - On the corporate side, investments are expected to be postponed (lending will address mainly the working capital needs)
- New lending financed mainly by local deposits
  - This will help to stabilize loans/ deposits ratio at about 118%

Total vs. FX loan volume & growth rates



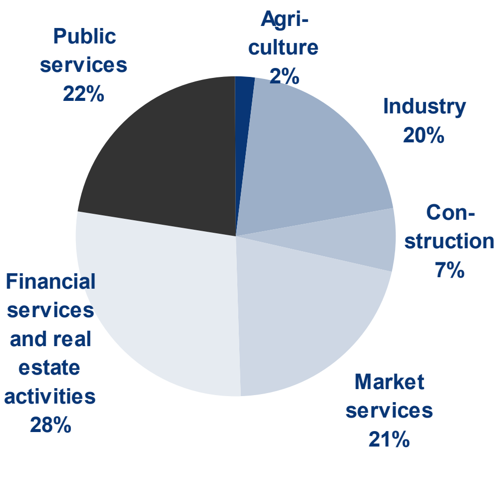


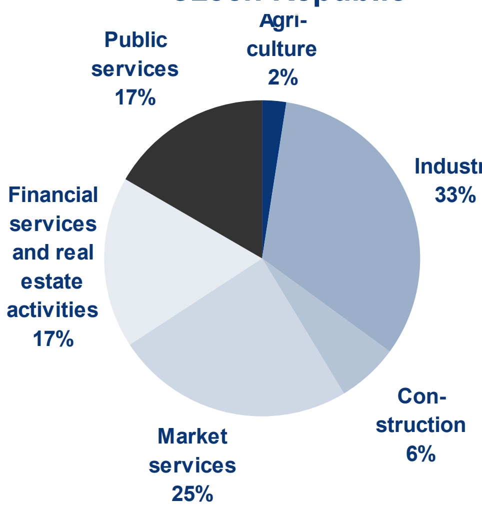
Source: Erste Group Research

Country Briefing Czech Republic

ERSTE GROUP

GDP structure (2007)





GDP per capita (€, 2007)	12428	Corporate income tax	19%*
% of EU27 (in PPS, 2007)	81.5	Tax on dividends	15%
Ø GDP growth (%, 2005-07)	6.6	Personal income tax	19%
Ø gross nom. wage (€, 2007)	727	Value added tax	19%
Price level (% of EU27)	62.6	Public debt (% of GDP)	24.5
Population (mn)	10.3	Unemployment (2007)	6.6%

*planned for 2010, currently 21%

Source: Erste Group Research, Eurostat

Structural characteristics

- One of the most stable and prosperous post-communist states, due to favourable fundamentals (C/A balance, fiscal balance, debt, growth, employment, interest rates)
- High importance of export oriented manufacturing industry, in particular automotive sector (52% of export commodities)

Effects of the crisis & growth prospects

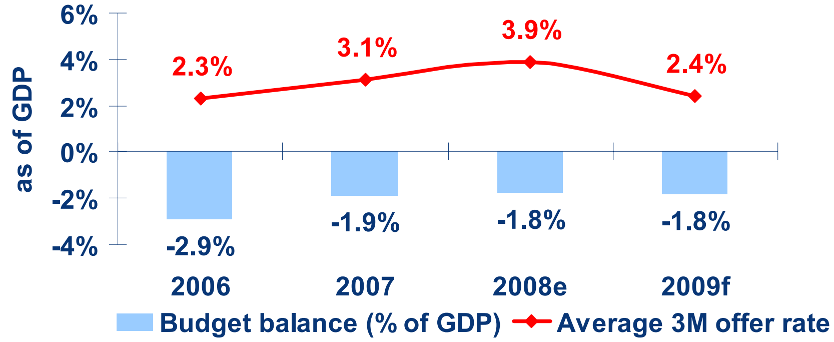
- Slowdown along with development in surrounding markets, growth rates above EU average
- Since no imbalances exist, capability to cope with the turmoil above average, fast pick up of growth following the crisis
- Worsening economic parameters still far from becoming a threat

Features of the Czech economy – Solid macro conditions, temporary slowdown ahead

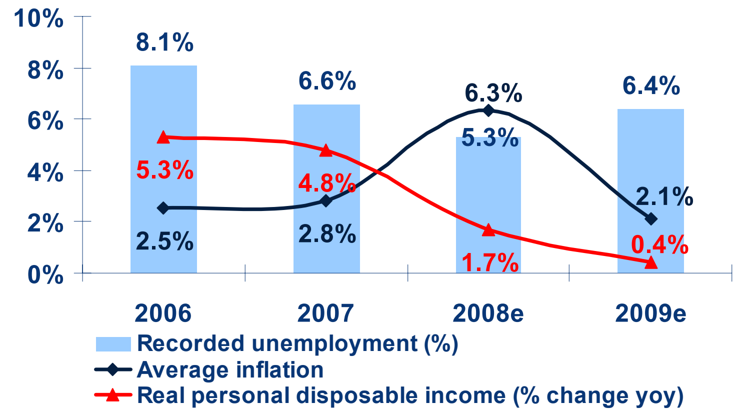
ERSTE GROUP

- Solid fundamentals, deceleration of inflation expected
- GDP to slow to 4.1% in 2008 and to 1.3% in 2009
  - Czech economy still growing (4.7% in 3Q2008), driven by exports
  - Given US/EMU recession & strong CZK net exports expected decrease
- Consumption growth will stay at around 3.5%
  - Two counteracting effects: real wage increase (due to drop in inflation) vs. pick up of unemployment
- Investment growth slows down to 1%
  - Two counteracting effects: EU funds vs economic slowdown in Eurozone incl. domestic effects
- Central bank to ease monetary conditions

Interest rates vs government balance



Unemployment vs inflation vs wage growth



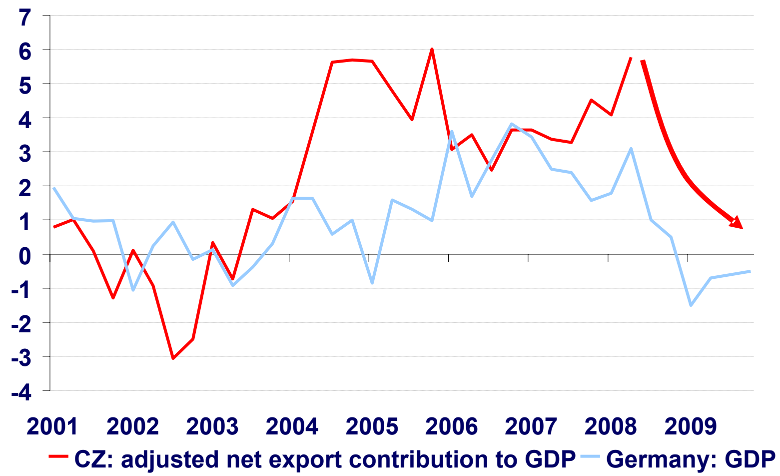
Source: Erste Group Research

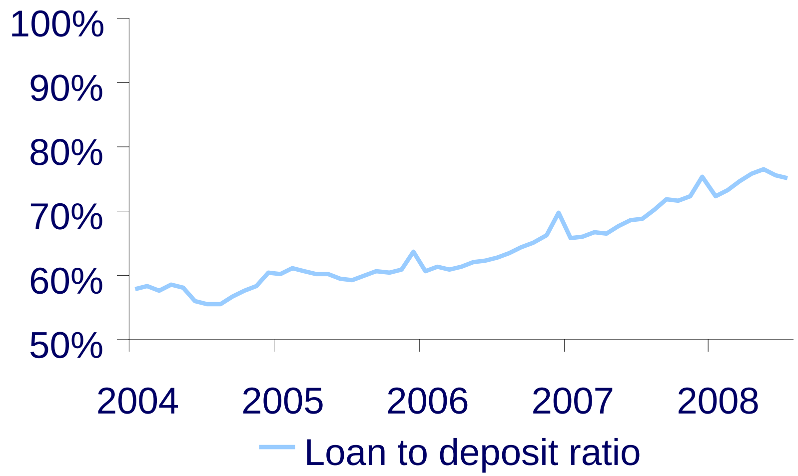
Transmission channels of the crisis to the Czech economy

ERSTE GROUP

- Consumption
  - Theory: negative wealth effect on consumption growth
  - CZ case: 56% of household financial wealth is in form of cash and banking deposits, in EMU it is 30%
- Exports
  - Theory: decrease in demand for exports
  - CZ case: Czech exports represent 80% of GDP, 1pp drop in Germany growth decrease Czech GDP growth approx. 0.4pp
- Credit crunch
  - Theory: transmission of the higher financing costs and crunch in interbank market from US/Eurozone to Czech Rep.
  - CZ case: Czech financial system in liquidity surplus, low loans to deposits rate at 75% (excluding loans and deposits to financial institutions: 72%), convergence story

⇒ Export channel the most important, its impact to be dependent on the extent of EMU slowdown





Source: Erste Group Research

Czech Republics structural strengths will pay off in the long-run

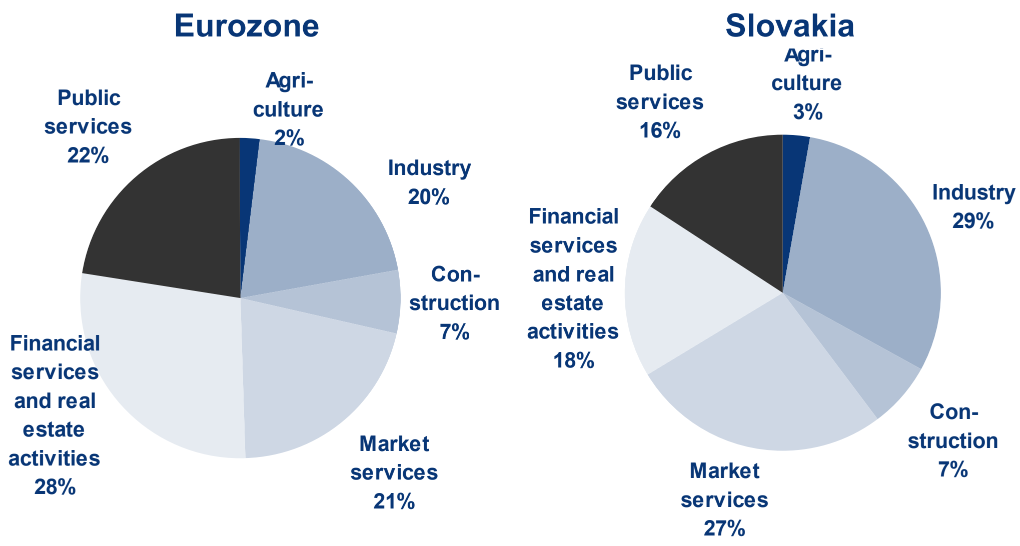
ERSTE GROUP

- Growing and Stable Czech economy
  - Advantageous geographical location, well-connected to East and West alike
  - Slowing but still growing Czech economy
  - Stable economy with no external/internal macroeconomic imbalances, low state debt (as a percentage of GDP), low FX debt
  - Stable banking sector with minuscule exposure to toxic assets and overall good liquidity situation
  - Overall good position to withstand the current turmoil
- Favorable tax regime
  - Gradually declining corporate tax rate (24% in 2007, → 21% in 2008, → planned 19% in 2010; ongoing debate about lowering it further to 15% in response to crisis)
  - 19% flat personal income tax (on gross salary, i.e. salary including social security contributions)
- Growing wealth of Czech population
  - Continuously increasing real disposable income – converging towards EU levels
  - Reduced personal income tax and caps on social and health insurance supported increasing customers‘ wealth
- Well educated labor force

Country Briefing Slovakia

ERSTE GROUP

GDP structure (2007)



GDP per capita (€, 2007)	10,400	Corporate income tax	19%
% of EU27 (in PPS, 2007)	65%	Tax on dividends	0%
Ø GDP growth (%, 2005-07)	5%	Personal income tax	19%
Ø gross nom. wage (€, 2007)	800	Value added tax	19%
Price level (% of EU27)	62%	Public debt (% of GDP)	29%
Population (mn)	5.4	Unemployment (2007)	8.4%

Source: Erste Group Research, Eurostat

Structural characteristics

- **Among the top performers in terms of fundamentals (growth rates, debt), business environment (flat tax, Euro) & competitiveness (wages, productivity) in the EU**
- **Export oriented industry with a significant role of the automotive sector (Industry: 29 % of value added, 12 % of that is car sector)**
- **Former problems (e.g. high unemployment rates) improved significantly, regional disparities still persist**

Effects of the crisis & growth prospects

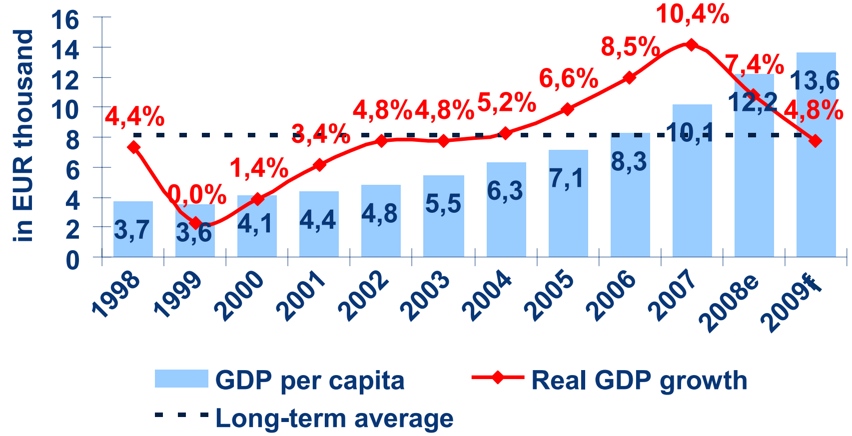
- **The direct effect of the crisis has been very limited so far**
- **Nevertheless, GDP growth should slow in 2009 to due to tighter lending conditions and recession in major export markets.**
- **Sound fundamentals and the overall good shape of the economy support a fast rebound when the crisis ends**

Slovakia's economic environment – Slow-down with a good potential for a fast rebound

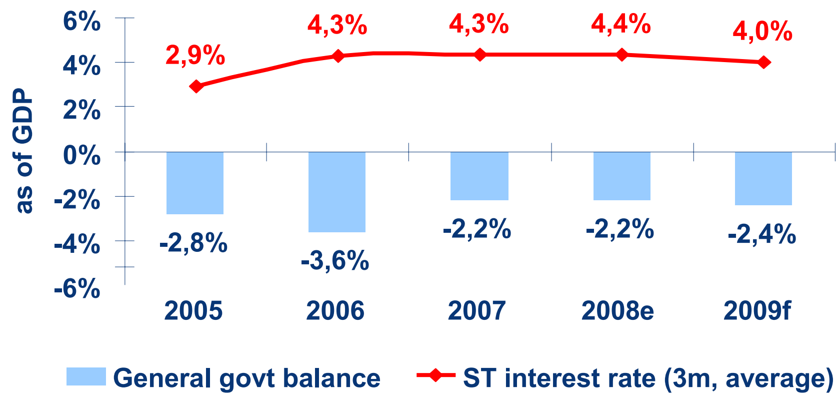
ERSTE GROUP

- Economic growth was so far solid (7.8% in 1-3Q 2008)
  - but will likely slow down in the coming quarters due to global recession and financial crisis
  - In 2009 we expect GDP growth at 4.8%
- Factors helping to weather the crisis
  - Solid finances with a low level of public and private debt as well as favorable interest rates
  - Steady level of household consumption mainly due to significant wage growth
  - Responsible policy: The government approved 2009 fiscal budget with a deficit of 2.1% of GDP, however, economic slowdown poses downside risks to tax income &
  - Speed-up in public or publicly pushed investments (highways, nuclear plants), as well as wage hikes led by public sector

GDP indicators



Interest rates vs government balance

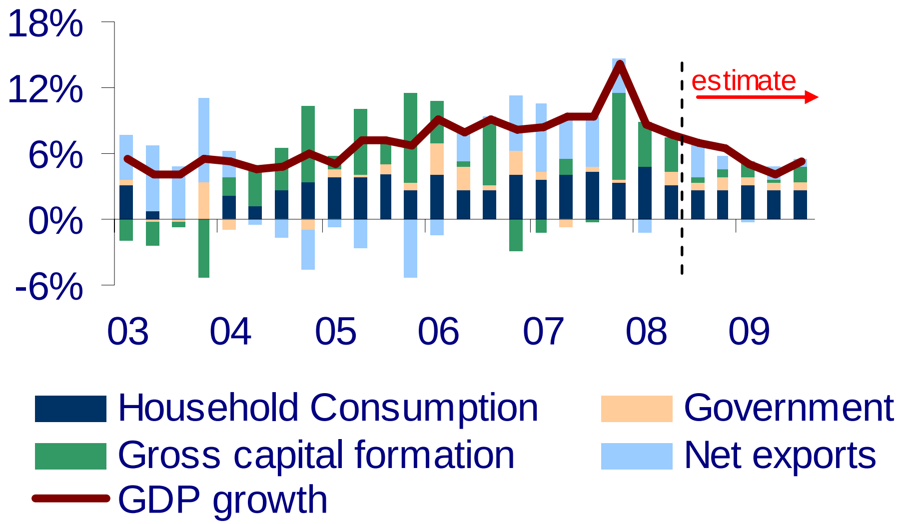


Source: Erste Group Research

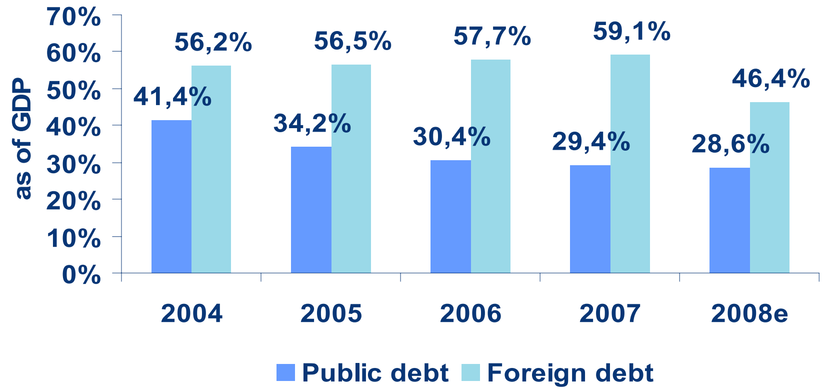
Why we believe that growth in Slovakia will slow, but is here to stay

ERSTE GROUP

- No economic overheating
  - Growth was not driven by credit boom, but by investor-and consumption-friendly tax regime
  - Only minor external and fiscal imbalances
- Continued investment activities
  - Slowdown expected, but still large projects in the pipeline, e.g. highways and power plants
- No real estate bubble
  - price growth is more or less organic, driven by shortage of flats and income growth; currently stagnation in market and continuing price differentiation
- Cost competitive labour force
  - West European companies facing cost pressures could migrate to SK
- Timely Euro adoption
  - Currency stability for foreign investors and local entrepreneurs alike (lower transaction costs, reduced FX-risk, intensified investments and trade)



Public and foreign indebtedness



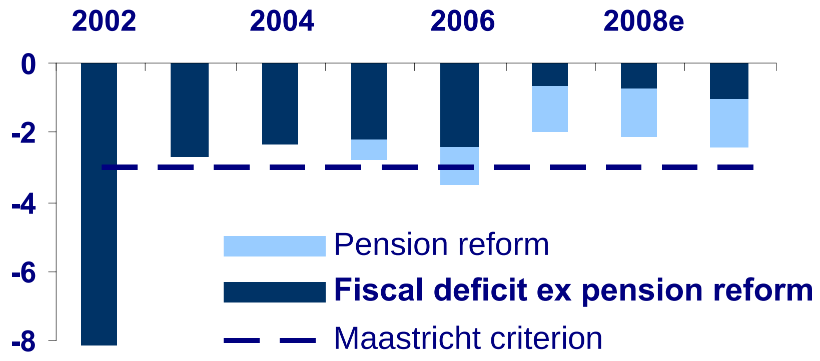
Source: Erste Group Research

These days, Slovakia's early Euro adoption proves to be a major advantage

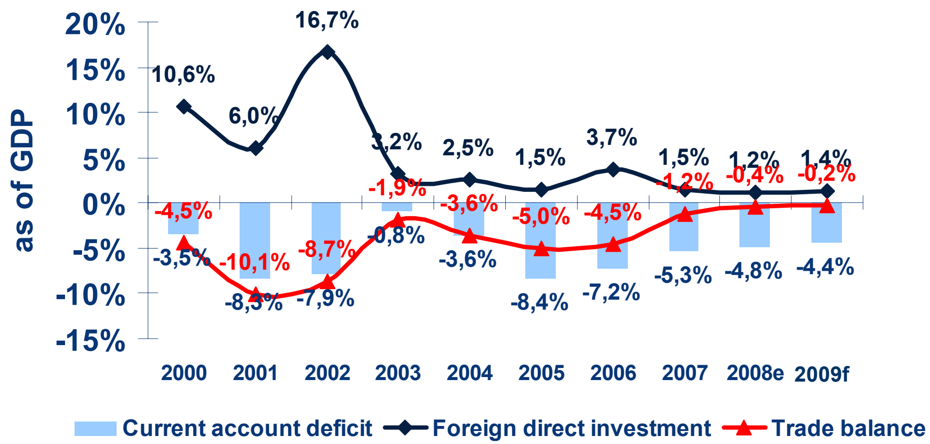
ERSTE GROUP

- Euro adoption in January 2009
  - Slovakia will adopt euro in January 2009
  - Koruna surged by more than 20% in ERM-2 regime (central parity was revalued twice)
  - Government policies were limited by Maastricht criteria, improvement of fiscal balance
  - In recent months, SKK/EUR was the only stable currency in the region
- Euro entry helps in turbulent times
  - For export oriented companies Euro reduce transaction and hedging costs
  - The Euro is a competitive advantage regarding FDI inflow, foreign trade and exchange rate risks
  - Absence of FX-rate movements makes the country less vulnerable to external shocks
- However, the Euro also brings costs and lowers income of banks

Fiscal balance



FDI vs trade and current account balance



Source: Erste Group Research

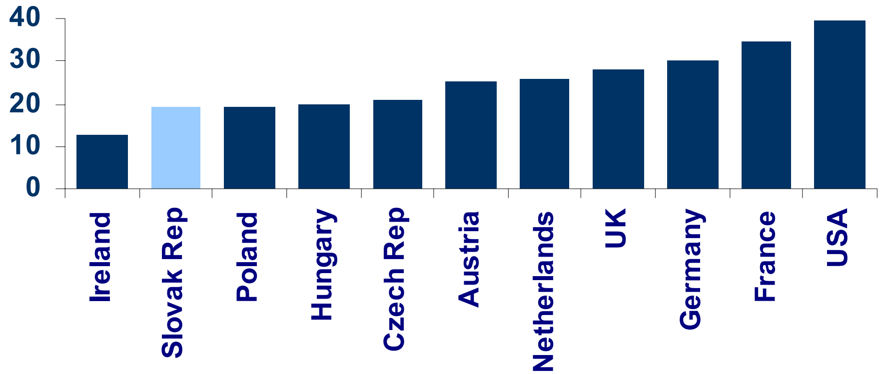
Competitiveness – Another structural advantage of Slovakia in light of the crisis

ERSTE GROUP

- **Wage growth in line with productivity gains, overall wage level still low**
  - 7-9% y/y in nominal terms since 2005 in koruna terms (12-18% p.a. incl. appreciation)
  - expected wage growth 2009-12: ~ 8% p.a.
  - koruna appreciation will no longer push labor costs in EUR up, pressure from higher inflation possible

- **Low direct taxes support both investments and consumption**
  - attractive tax system with flat tax rate 19% for both capital and labour, plus no tax on dividends

Corporate Income Tax Rates in Selected Countries



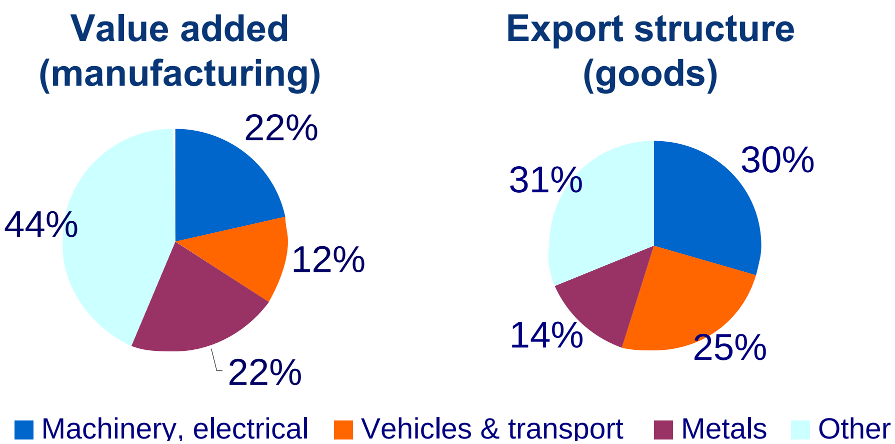
- **More flexible labor market rules compared to Western Europe**

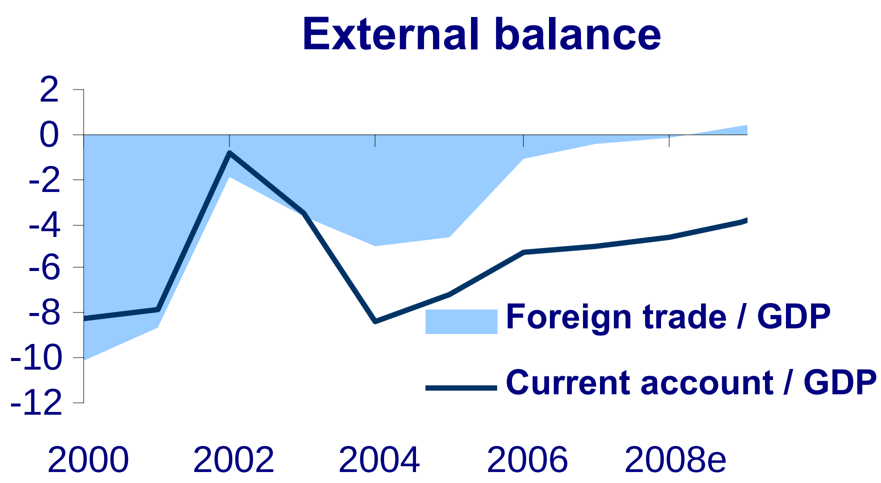
Source: Erste Group Research

Slovak automotive cluster – Short term risk with significant advantages in the long-run

ERSTE GROUP

- Clustered automotive sector
  - Industry: 29% of value added in Slovakia, 12% of that is in the automotive sector
  - Contribution of car exports to GDP is around 17.5% (taking into account car imports the net contribution is around 5-6% plus 2-3% by suppliers)
- Focus on smaller cars (PSA/KIA) as advantage
  - VW/Audi is endangered the most as the recession in target markets deepens
  - However, high flexibility in production line & likely launch of small car "UP!" in 2009
- Arrival of auto makers has numerous advantages in the medium and long-run
  - the foreign trade and C/A-balance improve significantly
  - car and supplier industry are less likely to depart Slovakia, due to regional clusterisation
  - Contracts granting subsidies to car manufacturers reduce risk of job cuts



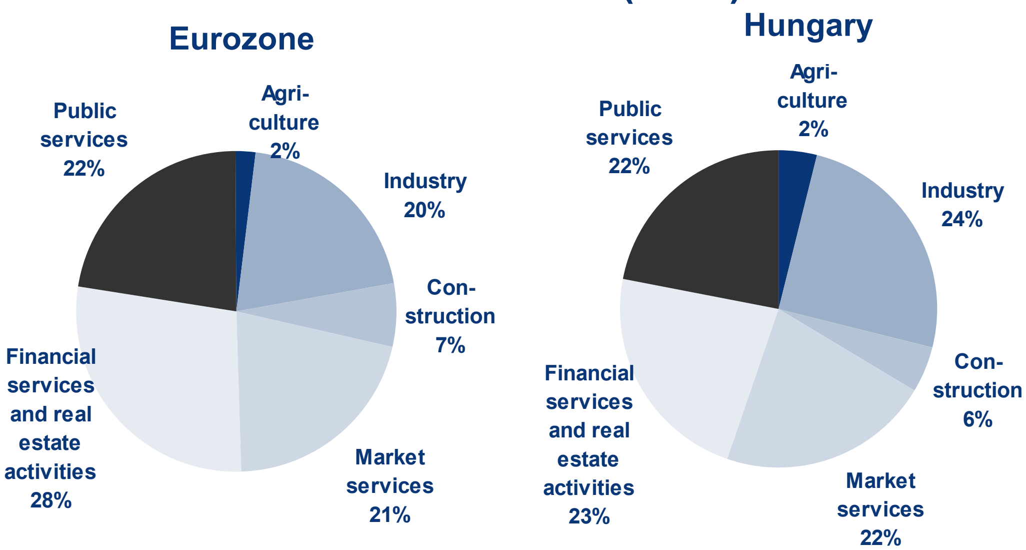


Source: Erste Group Research

Country Briefing Hungary

ERSTE GROUP

GDP structure (2007)



GDP per capita (€, 2007)	10056	Corporate income tax	16%
% of EU27 (in PPS, 2007)	63.3%	Tax on dividends	10%
Ø GDP growth (%, 2005-07)	3.1%	Personal income tax	18-36%
Ø gross nom. wage (€, 2007)	740	Value added tax	20%
Price level (% of EU27)	65.7%	Public debt (% of GDP)	66%
Population (mn)	10.06	Unemployment (2007)	7.7%

Source: Erste Group Research, Eurostat

Structural characteristics

- Being a small and open economy, Hungary has strong relationships with the world market, exports have been the main driver of GDP growth
- The country has managed to curb its unsustainable fiscal deficit by end-2007, but the unfavorable structure of the fiscal adjustment has led to slowdown of economic growth
- High tax wedge and lack of structural reforms seem to be barriers to a spectacular revival of GDP growth

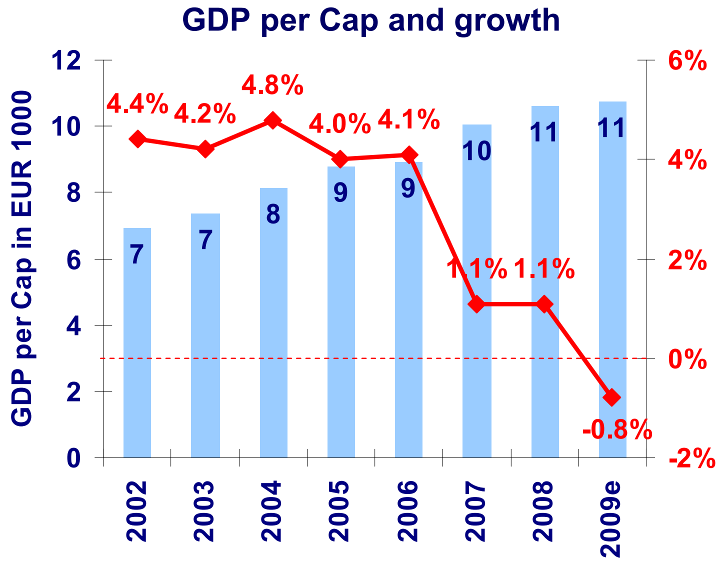
Effects of the crisis & growth prospects

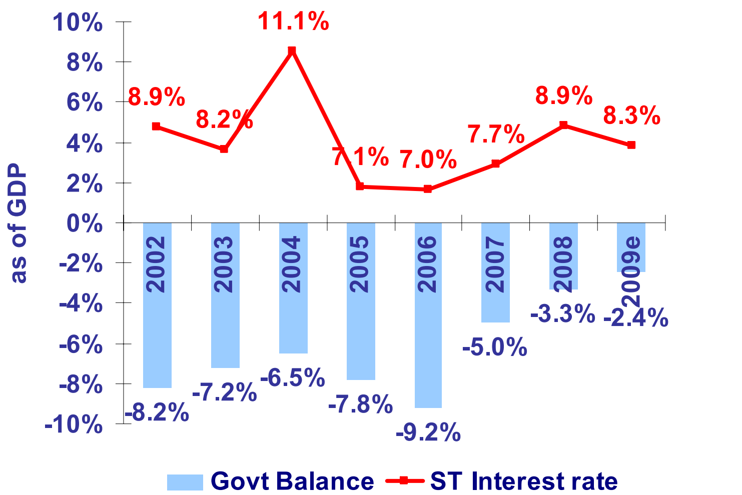
- The direct effect of the crisis has been strong, due to Hungary's high external indebtedness
- The IMF rescue package helped to restore the confidence on capital markets
- Nevertheless, GDP growth would be negative in 2009, due to recession in major export markets and sluggish domestic demand

Economic environment – Problems around the economic growth, improvement of the economic balance in Hungary

ERSTE GROUP

- Economic growth was so far sluggish (just 1.5% y/y in 1-3Q 2008)
  - but will likely to be in negative territory in the coming quarters, due to global recession and tightening credit conditions
  - In 2009 we expect the GDP to contract by 0.8%, with risks pointing to the downside
  - GDP growth is not expected to significantly accelerate in the mid run
- Positive factors in this situation:
  - Inflation will decline, the 12-month rate could be very close to the central bank's mid-term target of 3%, even by the end of the first half of next year. Thus, NBH rate cuts should come
  - Budget consolidation continues, pre-election overspending is unlikely
  - Lower financing needs of the state and the expected improvement in households' propensity to save should decrease the dependence on external financing next year





Source: Erste Group Research

Hungary: on track to reach most Maastricht criteria by 2010 - earliest Euro accession date in 2012

ERSTE GROUP

- **Partly due to government measures, meeting the inflation and budget deficit criteria is relatively safe**
  - Inflation may decrease close to 3% y/y in 2009
  - Budget deficit is expected to be below the Maastricht criteria of 3% next year
- **Long term interest rates are likely to drop as soon as market players see that easing inflation, improving balance situation and strict economic policy assure Euro adoption**
- **Public debt criteria remains a concern, but the EU might accept downward trend**
- **ERM II possible in 2009, as Hungary's enthusiasm for the euro adoption has increased after the October crisis**

Scenarios for adopting the common European currency:

	Optimistic scenario	Base scenario
Enter ERM II. exchange rate mechanism:	**1H2009**	**2H 2009**
EU starts to examine fulfillment of criteria:	**1H2011**	**No earlier than 2H 2011**
Euro adoption:	**1 January, 2012**	**No earlier than 1 January, 2013**