

## Austria will absorb developments in 2012 better than the euro zone

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Low interest rates until 2013

EUR 10.4 billion in fresh loans 2011: "Keep up level"

Evidence of trust in savings bank group: 76,000 new customers in 2011

### Overall economic conditions

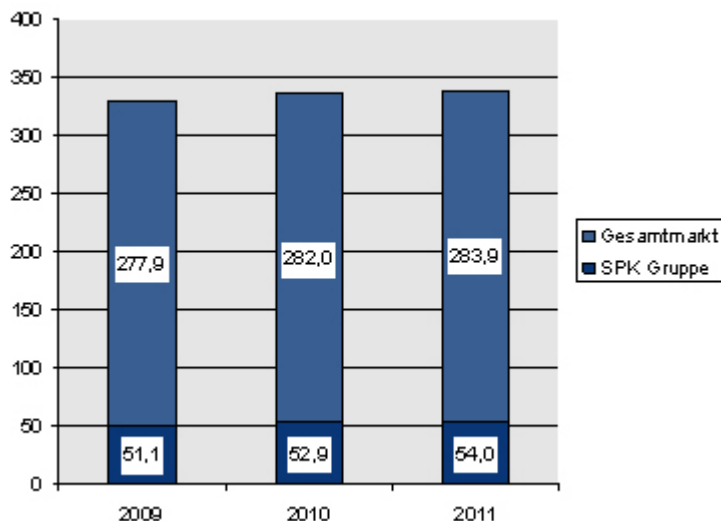
The main theme of the year 2012 will continue to be the euro zone government debt crisis. Even if Austria is already far below the average of the euro zone as regards debt, consolidation measures in the public budget – like in all euro zone states – will be inevitable. The path is likely to remain bumpy this year: "In our view, the euro zone will be preserved, but we do not expect any complete resolution to the sovereign debt crisis in 2012," stated Gudrun Egger, Head of Major Markets & Credit Research. The insecurity prevailing in this context will probably tend to keep sentiment among consumers and businesses subdued.

Austria will continue to fare well in this environment and will grow stronger than the euro zone. Gudrun Egger expects a growth rate for Austria or around 0.9% for this year: "We expect private consumption and net exports to rise moderately. Investment activity is not expected to rise significantly, even though based on the sentiment swings of the past few months, we cannot rule out an upside surprise."

Inflation is expected to remain in a moderate range in an environment of low growth and will stay at around 2.4% in Austria this year. Interest rates in the euro zone are expected to stay low. Recently, the generous liquidity supplied by the ECB had the same effect on money market rates like an interest rate cut. The 3-month Euribor dropped close to the key lending rate of 1% and it might even fall below this level – if further liquidity is pumped into the market – this year.



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Volume of deposits – total market Austria

### Invest when economy slumps

The savings passbook has been the most popular investment instrument among Austrians for years. Despite the worsening economy, the savings ratio did not expand like in 2009 (12.5%). Currently, it is 7.3% and around the same level as one year ago (7.4%). A trend has emerged in savings deposits in 2011: Stagnation at a high level. The savings bank group currently reports around EUR 54 billion in deposits (+1 billion vs. prev. year). *“At present, we are recommending to savers to put their money in term deposits for one year and to wait and see how the market develops further,”* explained Peter Bosek, Member of the Management Board at Erste Bank Oesterreich. The policy of keeping interest rates low of the ECB is, of course, having an impact on interest on savings accounts, and therefore, before a possible drop of the 3-month Euribor, savers should fix the higher interest on savings now. Alternatives to the savings passbook will remain topical due to the situation on the money market. In the case of securities, investor confidence is still ailing, but currently we are seeing some perceptible increases in investments. The trend is moving in the direction of security, minimum returns and tangible assets. Investors that want to invest in real estate but are scared away by the very high prices of flats in some cases – or do not have that much money left over – are recommended to invest in open real estate funds. Erste-Immobilienfonds, for example, invests in mixed properties in the middle segment in Austria and Germany, and has already attained a volume of around EUR 338 million.

As regards investments in gold, Erste Bank expects demand to rise further in 2012. A rule of thumb says that you should not invest more than five percent of assets in gold. Gold does not earn interest or dividends, it should be viewed as insurance for one's own portfolio and as a reasonable admix to achieve a broad diversification. The price of gold is expected to rise this year to around 2,200 USD per ounce.

There are attractive options for investments in 2012: *“We are going to see another year of corporate bonds in which investors can invest money directly in the domestic economy and earn really good returns in some cases,”* said Mr. Bosek. Variable interest bonds were the most popular in 2011 and this year demand is expected to be high as well. As regards equities, if you want to invest in individual stocks, you have to be very knowledgeable and know the risks, because the environment will remain volatile in 2012. Managed equity funds are a good opportunity to diversify risk as broadly as possible.

### Lending in a harsh environment

In times of harsh economic conditions, Erste Bank clearly perceives its role as financier for the domestic economy. With a loan-to-deposits ratio of 78% Erste Bank is in a very comfortable situation. The large volume of savings has helped to create an excellent liquidity base for lending in 2012. *“Even if we were to be confronted with enormous challenges this year, since 2008, nothing can shake us easily anymore,”* stated Mr. Bosek.

The year 2011 was a very good year for the savings bank group. In total, EUR 10.4 billion was granted in new loans, which is an increase of 33% versus the year 2010. *“Our pipeline is open ready to spout new loans.”* However, in 2012, demand for loans might decrease slightly: *“We are not noticing any particularly pronounced propensity to invest, especially among Austrian companies.”*

### New loans to Austrian retail and corporate customers (Sparkassengruppe)

60 million EUR	Full year 2009	Full year 2010	Full year 2011	Change in % (vs. period)
Retail	2,175	2,178	2,851	30.9
Corporates	5,185	4,803	6,257	30.27
Guarantees	1,078	855	1,311	53.33
<b>Summe</b>	<b>8,438</b>	<b>7,836</b>	<b>10,419</b>	<b>32.96</b>

Even though interest rates will remain low in 2012, the economic forecasts are making businesses wary. In the area of private residential housing, demand was higher in 2011 (+6% vs. prev. year). *“We expect this trend to continue in 2012 as well.”* The appeal of Erste Bank to all holders of foreign currency loans remains intact in 2012 as well: Use the opportunity now to convert into a euro loan without extra costs as long as the Swiss National Bank defends the mark of 1.20 franc. Since Erste Bank's campaign in the autumn of 2011, around 1,500 customers have already taken advantage of this chance to switch their loans in francs into euro loans.

### Trust in us growing

*“We are on the right path and will continue to grow together with our customers in 2012,”* stressed Mr. Bosek. Overall the number of customers of Erste Bank and Sparkassen increased net by 76,000 in 2011. Erste Bank alone contributed to this achievement with a record increase of some 34,000 new customers. *“Absolute proof of the trust placed in us by customers and a confirmation of our regional savings bank business model,”* explained Peter Bosek. The share of customers of Erste

Bank and Sparkassen rose in 2011 in Austria by 1% to 30%. We also project an increase by some 70,000 new customers in 2012.

In the area of corporates, Erste Bank is on the right path and in 2012, when the economic setting becomes harsher, it will continue to stand by its customers and grant loans. The customers of the savings bank group break down into around 25% in the SME business; our medium-term target is 33%.