



CEE HOUSEHOLD BEHAVIOUR IN THE MIDST OF THE CRISIS

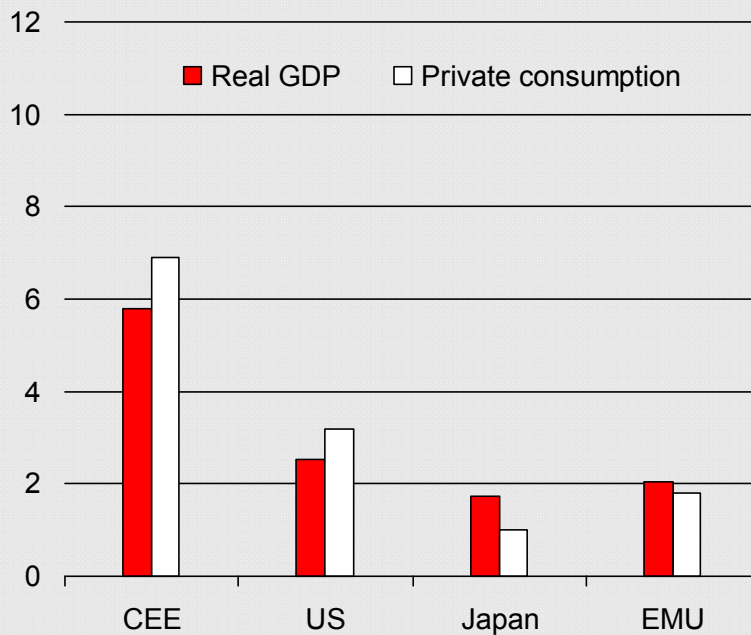
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CEE Strategic Analysis

Sofia, January 30th 2009

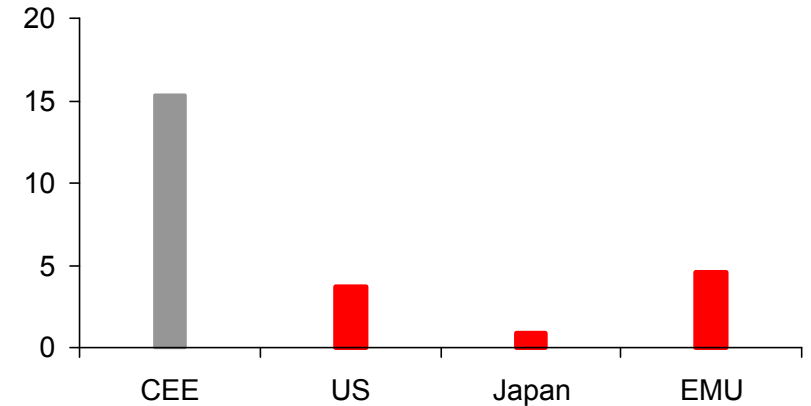
OVER THE LAST YEARS, THE HOUSEHOLD SECTOR IN CEE HAS BENEFITED MOST FROM THE ECONOMIC UPSWING, ENJOYING A PERIOD OF STABLE RISING INCOME, POSITIVE WEALTH EFFECTS AND EASIER ACCESS TO CREDIT

Real GDP and household consumption
(% growth p.a. 2000-2007, real terms)



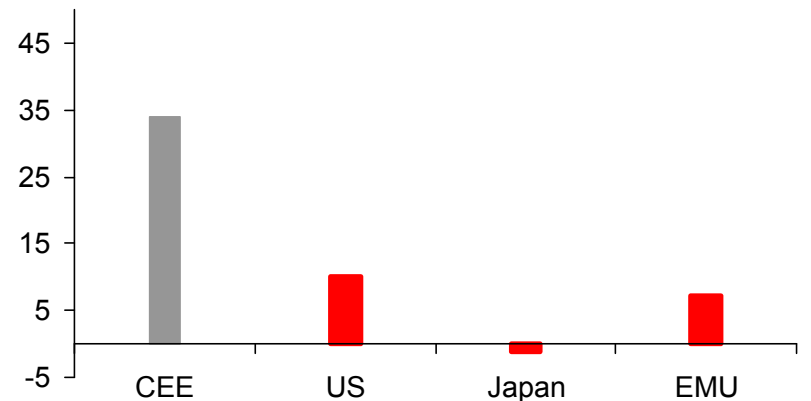
Household financial assets by region

(% growth per annum 2000-2007, in local currency)¹



Household financial liabilities by region

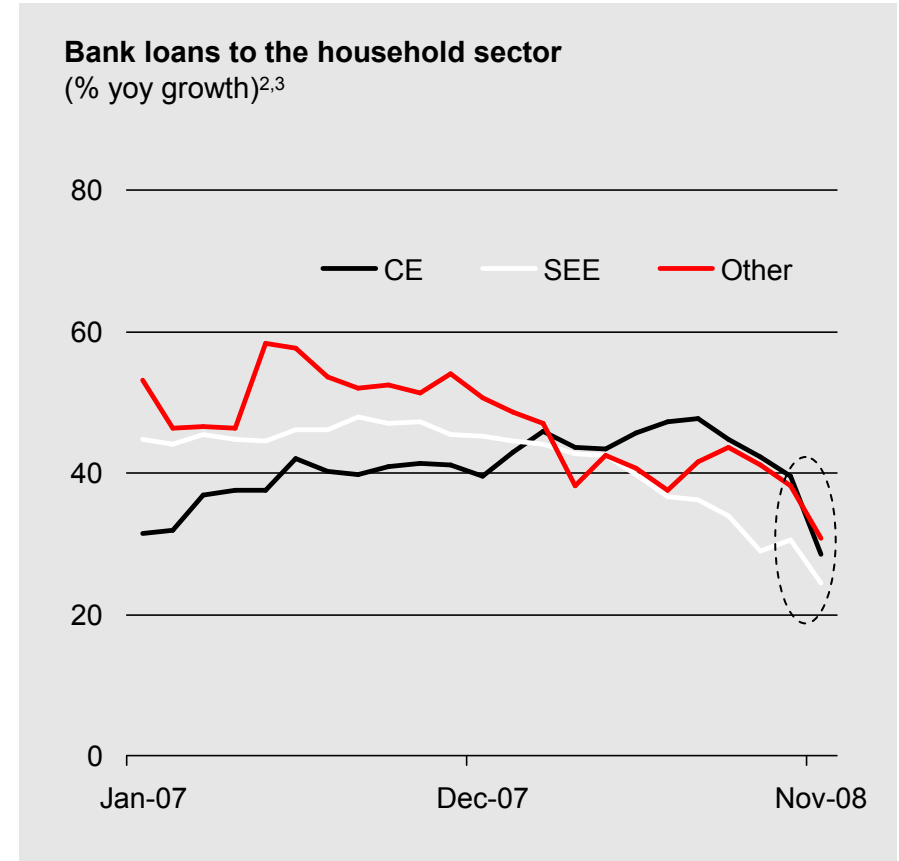
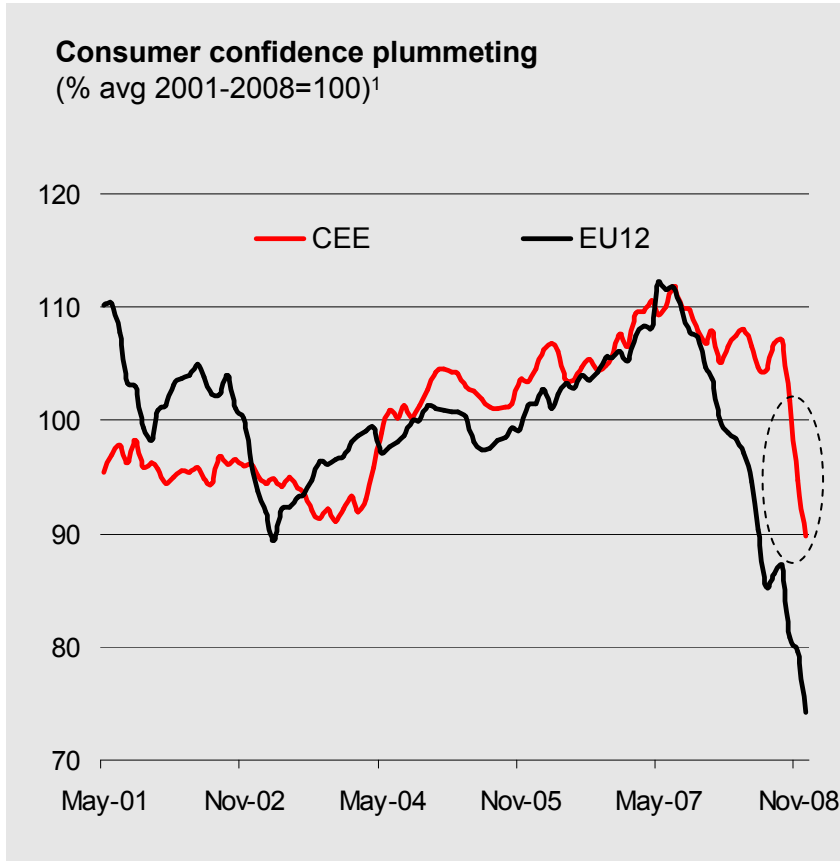
(% growth per annum 2000-2007, in local currency)¹



(1) Expressed in Euro terms for CEE region

Source: UniCredit Group CEE Strategic Analysis, Pioneer Strategy Unit, ECB

THE IMPACT OF THE CRISIS NOW STARTING TO BE FELT



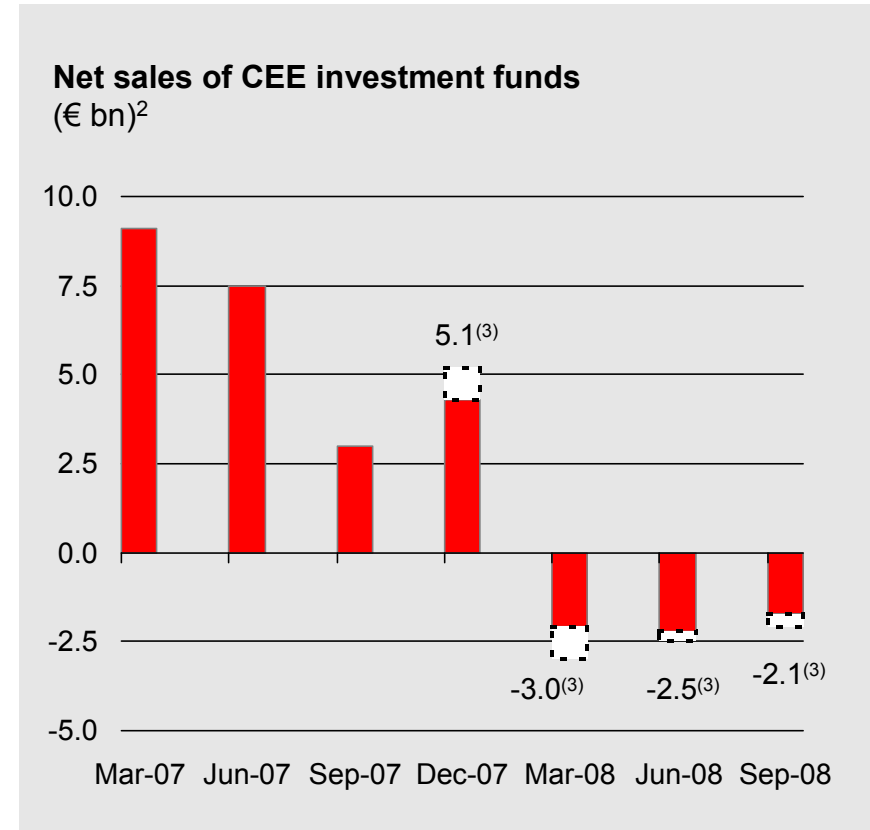
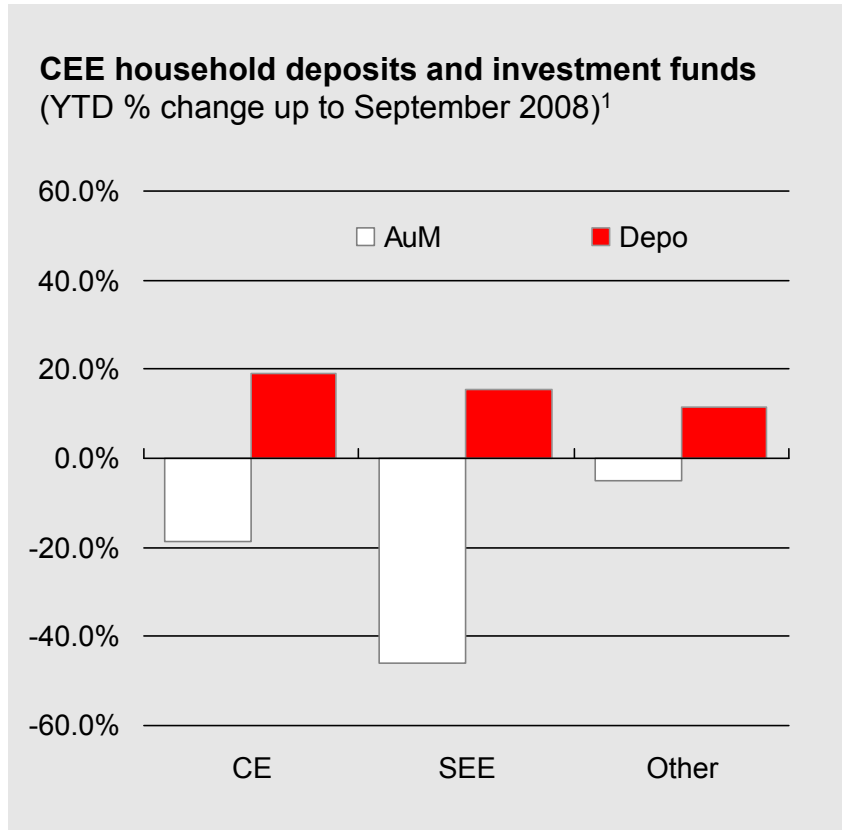
- Worsening economic prospects and tightening credit conditions has dealt a blow to consumer confidence in the last part of 2008, with household starting to retrench consumer spending

(1) Survey on CEE-10 (new EU member States)

(2) Poland, Hungary and Romania corrected for the impact of movements in ER and FX component of Debt; (3) CE: CZ, SK, PL, HU; SEE: HR, BG, RO; Other: RUS, TK

Source: UniCredit Group CEE Strategic Analysis, Eurostat

FALLING ASSET PRICES DRIVING MASSIVE REDEMPTIONS AND FLIGHT TO QUALITY ESPECIALLY SINCE LAST SUMMER



- Most visible decline in stock markets observed in Bulgaria, Romania, Croatia and Russia
- Net redemptions of mutual funds particularly severe in Poland and Croatia
- Household relocating an increasing share of their assets into bank deposits

(1) CE: CZ, SK, PL, HU; SEE: HR, BG, RO; Other: RUS, TK

(2) Incl. Poland, Hungary, Romania, Slovakia, Russia and Turkey

(3) Incl. net sales in Croatia and the Czech Republic

Source: UniCredit Group CEE Strategic Analysis

ACCUMULATION OF NET FINANCIAL WEALTH TO REMAIN SUBDUED

Main factors influencing households financial stance in 2009

Slowdown in income growth



Wealth Effects



✓ Stabilization in financial markets



✓ Cooling Real Estate markets



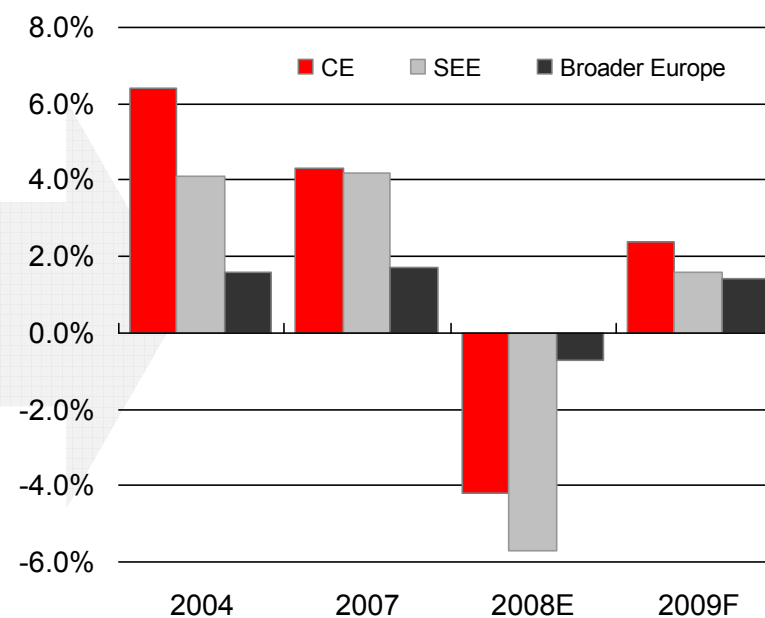
Credit squeeze



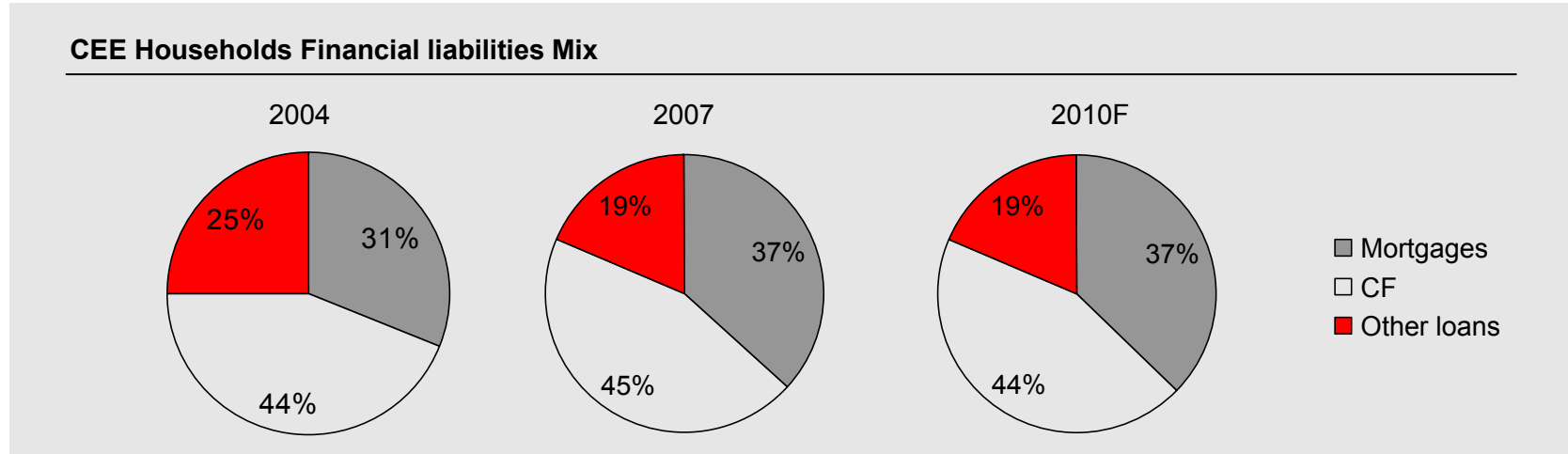
End of consumption boom, but still some consumption



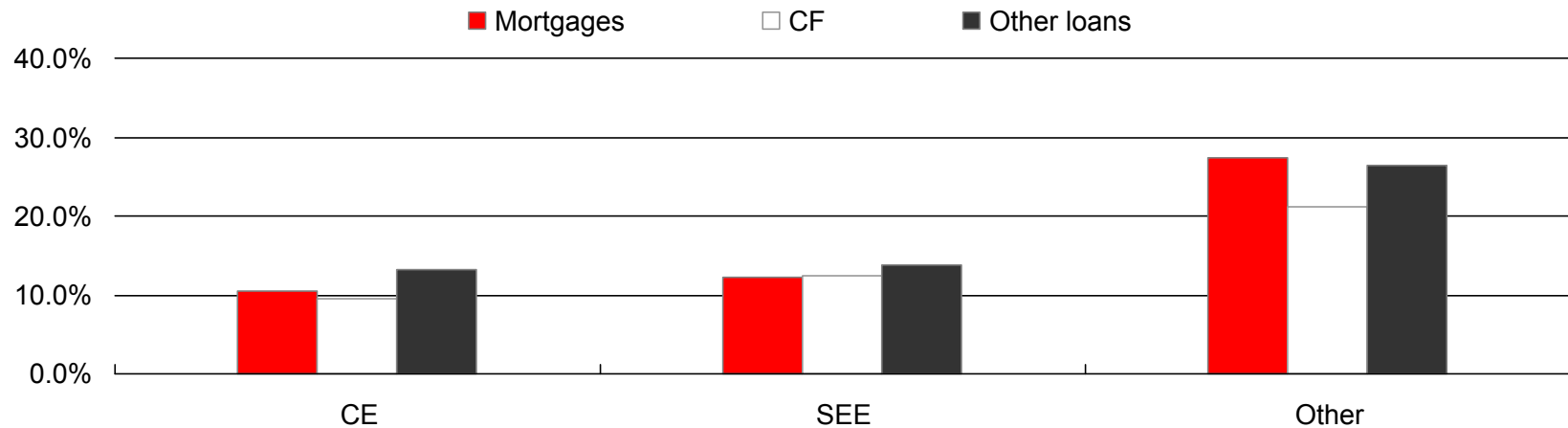
CEE Household Net Financial Assets
(yearly change as a share of GDP)¹



THE IMPACT IN TERMS OF CREDIT SQUEEZE EXPECTED TO BE STRONGER THIS YEAR WITH INCREASING FOCUS ON SHORT TERM AND UNSECURED LENDING



Household financial liabilities growth by region
(avg growth 2008-2010)^{1,2}



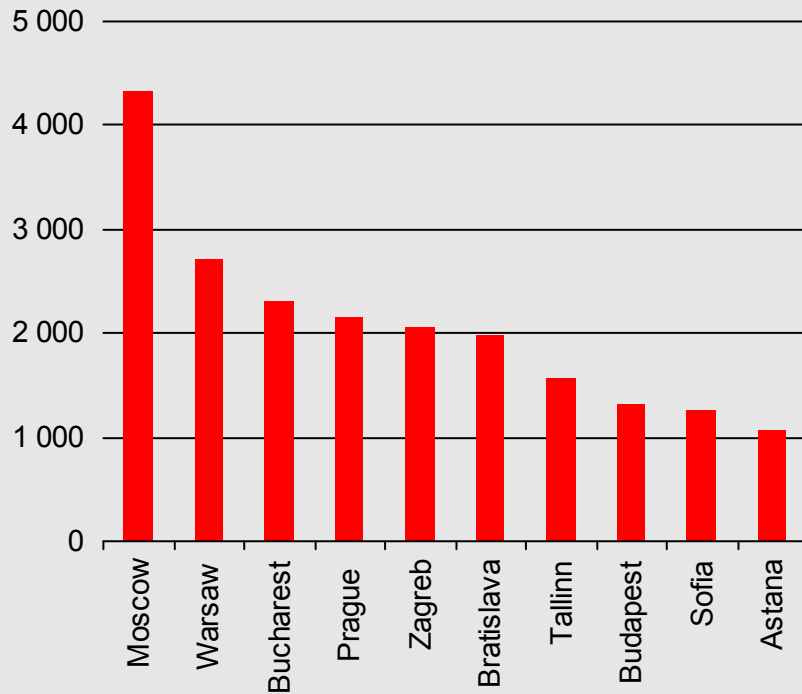
(1) CEE including new EU members (w/o Slovenia and Baltic States) + Russia and Turkey

(2) Other loans include overdraft, credit cards, other bank loans and financial leasing

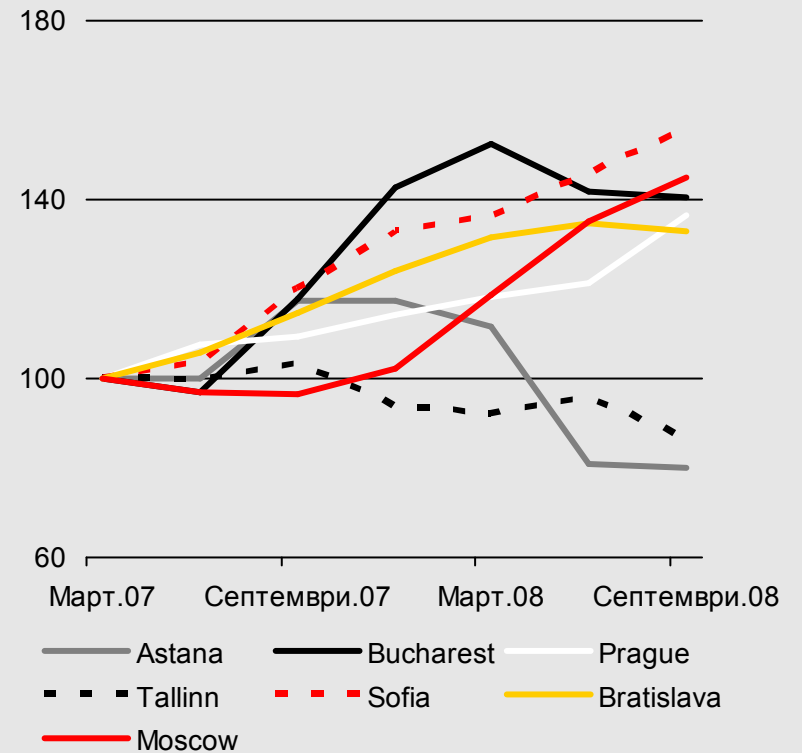
Source: UniCredit Group CEE Strategic Analysis

LOWERING DEMAND AND BURGEONING FINANCIAL CRISIS MAY CONTRIBUTE TO A DEEPER SLOWDOWN IN CEE REAL ESTATE MARKET

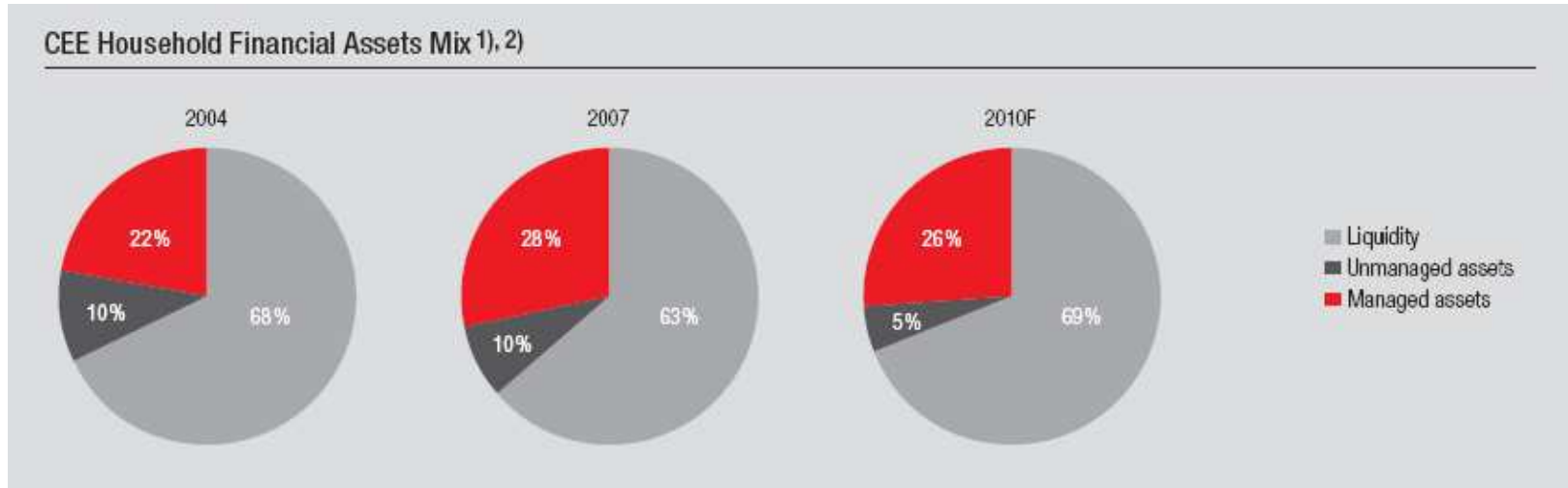
Residential real estate prices
(Q3 2008)



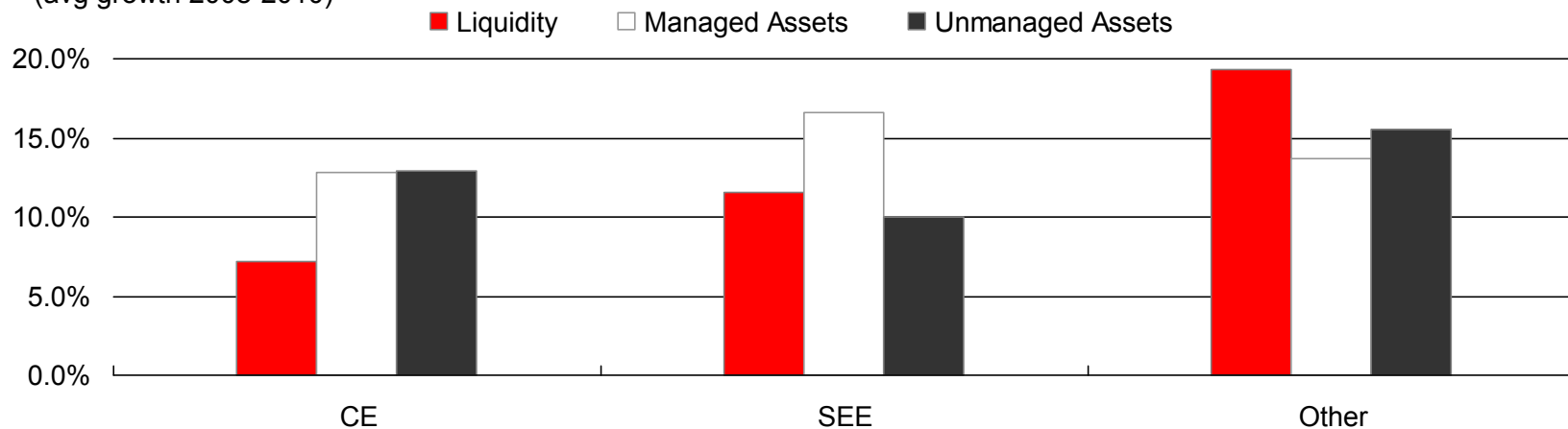
Residential real estate prices
(Index, local currency March 2007 = 100)



TREND FOR A SHIFT TOWARDS SAFER ASSETS AND PREFERENCE FOR CASH TO CONTINUE UNTIL FULL CONFIDENCE INTO FINANCIAL MARKETS IS RESTORED



Household financial assets growth by region
(avg growth 2008-2010)^{2,3}



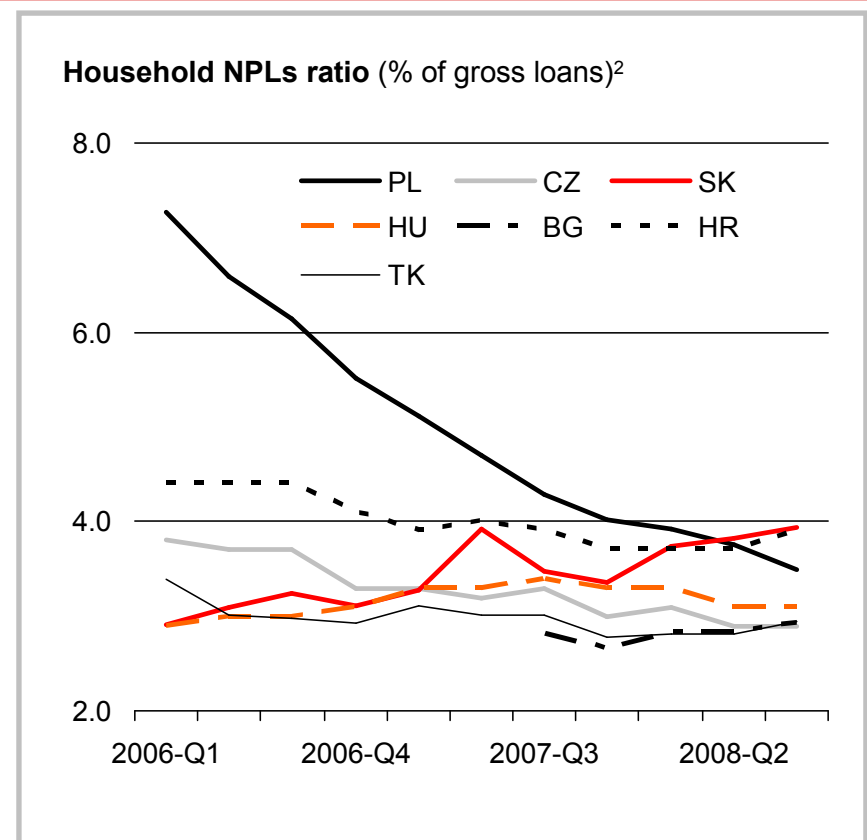
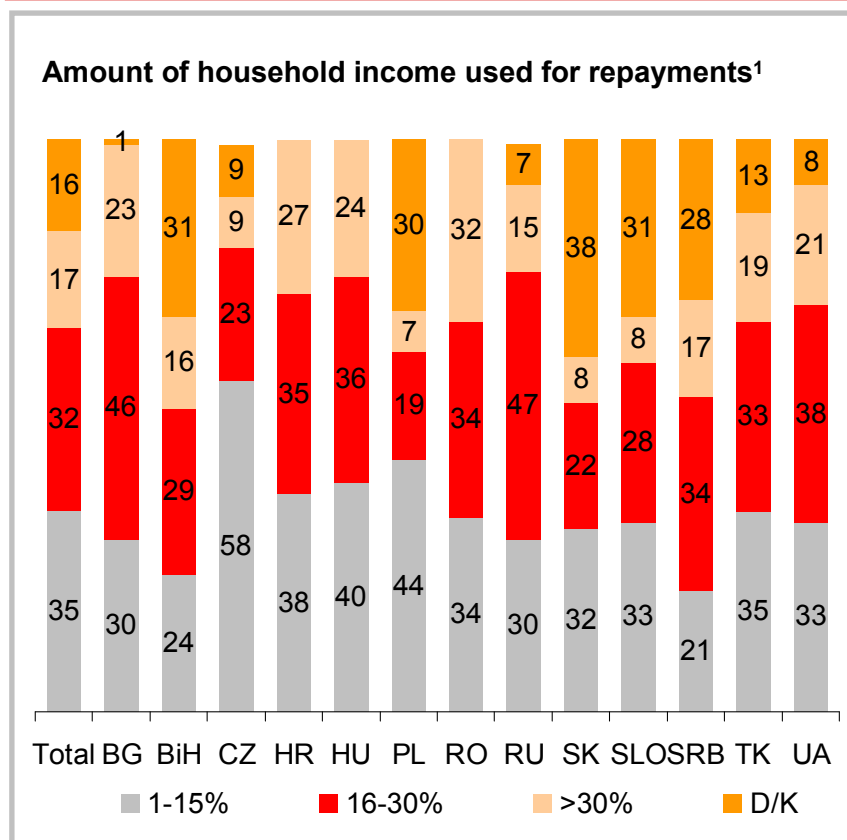
(1) CEE including new EU members (w/o Slovenia and Baltic States) + Russia and Turkey

(2) Liquidity: currency&deposits; unmanaged assets: shares& securities; managed assets: mutual funds, insurance technical reserves &pension funds

(3) CE: CZ, SK, PL, HU; SEE: HR, BG, RO; Other: RUS, TK

Source: UniCredit Group CEE Strategic Analysis

HOUSEHOLDS DEBT BURDEN CAN BE AN ISSUE



- 1/4 of household is spending more than 30% to repay debts
- High leverage among poorer income classes in Ukraine, Romania, Hungary, Bosnia and Poland
- Despite good track record, credit quality might be an issue due to rising debt burden, gloomier prospects on income and seasoning in credit portfolio

1) Survey based on 1,000 interviews in 13 CEE countries. Population aged 15 years and older living in the capital cities, largest cities and villages. All interviews were conducted as face-to-face interviews by Bank Austria's long term partner (GfK, RmPlus, TNS, PENTOR); (2) Comparison among NPLs ratio should be taken with care due to possible differences in the standard applied by each country

Source: Bank Austria Market Research, UniCredit Group CEE Strategic Analysis

WHAT CAN BE DONE?

- **Real income growth to cool down compared to past years but remaining marginally positive on average in Central and South-Eastern Europe**
- **Household to retrench consumer spending, but not completely**
- **The financial position of the household is being stretched by the crisis, but correction of existing unbalances expected to result in a more sustainable dynamic**
- **In the current environment, support to the household sector remains crucial to cushion the impact of a possible downturn:**
 - ✓ **Banks are willing to play their role with specific initiatives activated to ease borrowers' situation** (i.e. safeguard clauses for mortgage in FX, conversion on demand of existing debt into local currency, extension of the term, etc.)
 - ✓ **Regulators are taking proactive approach to resolve household debt problems**
 - ✓ **Social assistance plans remain essential to weather the impact of the crisis especially on poorer income classes**



Thank you for your attention!
