

No reason for rejoicing yet, but economic trend reversal is in sight

- **Macroeconomic development:**
 - Positive GDP growth rates expected in Western and Eastern Europe
 - Credit volumes flatter
 - Sinking unemployment expected first at the end of 2010
 - No immediate pressure on prices in sight
- **Bond markets:**
 - Solid development of CEE bond markets expected
 - EUR corporate bonds: preference for solid investment grade issuers (utilities and telecom) above government bonds

After the fast and hefty economic downswing that has by far exceeded any general expectations imagined and has shaken the confidence in a predictable future of the economic actors to the roots, many leading and sentiment indicators are pointing to an economic trend reversal. **Does this mean that an economic upturn is imminent?**

Positive GDP growth rates q/q in the 2HY in Western and Eastern Europe expected

“The change in direction of some indicators is sending clear signals of an improvement within the next six months. However, this means stabilization at a low level rather than a sustainable recovery. We expect positive GDP growth rates q/q in the 2HY in both Western and Eastern Europe”, states Gudrun Egger, Fixed Income Analyst at Erste Group.

While inventory reduction significantly pushed the downtrend in 1Q, after the adjustments to inventories are over (2nd and 3rd quarters), a short-lived acceleration of an uptrend is expected. This should support the recovery of GDP in 2HY, but does yet not mean that there will be a lasting upswing.

BIP Wachstum in %	2007	2008	2009f	2010f
Österreich	3,1	1,8	-2,7	0,4
Deutschland	2,7	0,8	-4,6	0,4
Frankreich	2,1	0,6	-3,0	0,4
Italien	1,4	0,1	-3,7	0,3
Spanien	3,8	0,5	-3,5	0,0
Niederlande	3,5	1,8	-3,0	0,4
Euroland	2,6	0,7	-3,6	0,3
USA	2,2	1,4	-2,1	1,9
Japan	2,0	-0,7	-6,0	0,5
Schweiz	3,1	1,6	-3,0	0,6
Kroatien	5,5	2,4	-4,5	1,0
Polen	6,5	4,8	1,2	2,6
Rumänien	6,2	7,1	-2,1	2,0
Serbien	7,1	5,4	-2,1	1,9
Slowakei	10,4	6,4	-1,2	2,3
Tschechien	6,0	3,7	-1,7	1,1
Ukraine	7,6	2,1	-8,0	3,0
Ungarn	1,1	0,5	-5,1	0,4

Quelle: Erste Group Research

Producing countries might not return to their former growth as the debt-based consumption spending is over

The historic economic downturn has revealed the magnitude of the globalization of the world economy. There is no doubt that the US economy has determined events in the past years. Based on the high current account deficit, the “rest of the world” benefited from the – partly credit financed – demand from the US. Due to their dependence on exports, the economic downswing affected particularly countries with high foreign trade surpluses. It is possible that producing countries with strongly shrinking exports will not be able to return to their former growth levels for the time being, because the trend of debt-based consumption spending seems to be over for now.

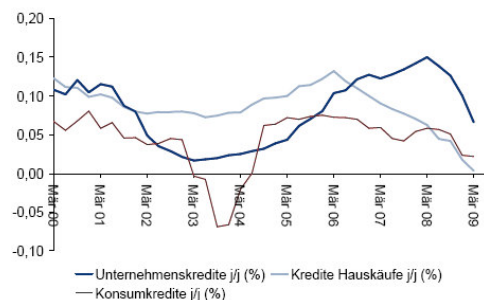
Further crediting dynamic depending on the households' and businesses' confidence

The financial system has stabilized significantly since the failure of Lehman Brothers in September 2008 through the concerted actions of central banks and governments. Still, the credit volume growth rates are decreasing due to the changed framework conditions for banks (recapitalization, refinancing options), the quickly deteriorating creditworthiness of borrowers and the decreasing demand for credit. The further dynamic will also depend on the degree of confidence of households and businesses during the economic upswing.

Sinking unemployment rates not expected before the end of 2010

"The labour market responds with a time lag. Based on our estimates for GDP growth rates and employment, the unemployment rate will continue to rise. We do not expect to see sinking unemployment rates before the end of 2010", Gudrun Egger continued. "This could keep consumption propensity low despite higher real incomes due to disinflation, and therefore, no major impulses are expected to come from private consumption."

Change in the outstanding credit volume y-y



Source: ECB, Erste Group Research

The steep plunge in production means that it will be possible to satisfy a rise in demand in the foreseeable future with existing capacities. Therefore, the analysts at Erste Bank do not expect any direct pressure on prices, which is also indicated by the rising unemployment rates. However, there are a few risk factors (sluggish investment dynamic, money supply expansion, oil price trend) whose effects might become stronger and cause rising inflation rates over the medium term.

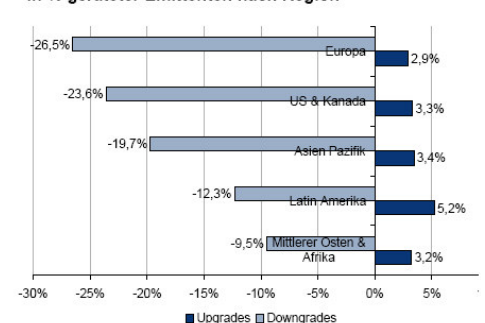
Solid value development for the major bond markets in the CEE region expected

"The interest rate curve has become much steeper in the past few months due to special effects. The interest rate spread between two-year and ten-year maturities has reached historic levels in Germany and in the US. We believe that the negative aspects for government bonds will continue to outweigh. By contrast, we expect a solid value development in both relative and absolute terms for the major bond markets in the CEE region", means Rainer Singer, fixed income analyst at Erste Group.

EUR corporate bonds: preference for solid investment grade issuers (utilities and telecom) above government bonds

"A recovery has been observed on the EUR corporate bond market since the beginning of the year. The reason is the aggressive fiscal and geopolitical measures taken. The weaker-than-expected economic recovery and the uncertainty on how long it will last continue to pose a high risk and make a correction of yield spreads on credit markets quite feasible", said Elena Statelov, corporate bond analyst. *"However, we do not expect spreads to return to their highs of the autumn of 2008 (Lehman failure). In a breakdown by risk class, we have a preference for solid investment grade issuers that seem more attractive than government bonds. As regards the sectors, we still prefer utilities and telecoms, which may definitely be assessed as "safe havens".*

Moody's Globale Rating Aktionen Q1 2009
- in % gerateter Emittenten nach Region



Group Research:**Gudrun Egger** (Head of Major Markets & Credit Research)

Tel: +43-(0) 50100-11909

E-Mail: gudrun.egger@erstegroup.com**Rainer Singer** (Head of CEE Macro-/Fixed Income Research)

Tel: +43-(0) 50100-11185

E-Mail: rainer.singer@erstegroup.com**Elena Statelov** (Major Markets & Credit Research)

Tel: +43-(0) 50100-19641

E-Mail: elena.statelov@erstegroup.comPress department:

Michael Mauritz (Head of Group communications)

Tel: +43 50100 - 19603

E-Mail: michael.mauritz@erstegroup.com

Hana Cygonková (Head of External communications)

Tel: +43 50100 - 11675

E-Mail: hana.cygonkova@erstegroup.com

Ionut Stanimir (Group Press Officer)

Tel: +43 50100 - 11676

E-Mail: ionut.stanimir@erstegroup.com

Alina Costache (Group Press Officer)

Tel: +43 50100 - 11681

E-Mail: alina.costache@erstegroup.com

Erste Group, 1010 Wien, Graben 21, Fax: +43 50100 – 19849

This release is also available on our website at www.erstegroup.com in the Press section.

Erste Group is one of the leading financial providers in CEE. More than 52.000 employees serve 17 million clients in 3,000 branches in 8 countries (Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia, Serbia, Ukraine). As of 31 March 2009 Erste Group has reached EUR 199.1 billion in total assets, a net profit of EUR 232.1 million and cost-income-ratio of 53.8%.