Foreign capital returning to CEE
So far, more quality than quantity

Foreign direct investments have rebounded in CEE; Czech Republic scored best in attracting FDIs

Current account deficits have shrunk considerably - less external financing is needed

Portfolio investments stagnating, apart from Poland and Czech Republic

CEE countries are assessed by markets as more attractive than some better rated countries
Summary

2010 finally brought a reversal of capital inflows into the CEE countries. The most positive news is that, after a deep slump in 2009 (-45% y/y), foreign direct investments have started to pick up (about 9% y/y). The most encouraging development can be seen in the Czech Republic, where FDI inflows more than doubled in 2010, making them the highest in the region (almost 4% of GDP). In nominal terms, they were even higher than FDIs into the Czech Republic in 2008.

Another positive news item came from Hungary, where, according to preliminary data, the negative trend has been reversed and FDIs into Hungary reached about 2% of GDP in 2010. As the Hungarian economy posted a surplus on its current account (2% of GDP), there is now a very solid basis for the sustainability of this factor going forward.

Since 4Q09, we have seen a rebound of portfolio investments, particularly into the Czech Republic and Poland. The vast majority of portfolio investment inflows went into debt instruments, mainly government bonds. Both countries have been favored by foreign investors because of their relatively low level of public debt and their economies’ resilience during the global economic downturn. However, the lack of a fiscal consolidation effort in Poland and the uneven split of financing between domestic and foreign investors make Polish assets more risky than those in the Czech Republic, in our view.

Many CEE economies managed to go through the crisis on their own (the Czech Republic, Slovakia, Poland and Croatia) and without severe tension in external financing. However, some countries had to undergo an economic rebalance (Hungary, Romania, Ukraine) and buy time to adopt corrective measures (including structural reforms). Coordinated IMF & EU assistance has lowered the pressure on their external financing and helped them to install measures leading to a narrowing of imbalances. The recent decision to replace the expiring IMF stand-by program in Romania with just a Precautionary Stand-By Arrangement (drawing funds is not expected) and not extend the previous program demonstrates the progress Romania has achieved.

It is interesting to compare how long it took for markets to realize that many CEE countries are in much better shape than some Euro Area members. We made this point already in 1Q09 and recommended in our special reports relative value trades - invest in CEE and shorten southern Euro Area countries. Access to ECB refinancing helped to buy time for Euro Area countries (Greece, Portugal) that faced a shortage of private capital inflow necessary for financing of their large current account deficits. In contrast to CEE countries, these countries have not utilized the time for a correction of their large external imbalances.

How long will it take for rating agencies to align ratings to fundamentals? The Slovak government (rated A+) pays a lower risk premium compared to the multi-notch better rated Spain (AA) or slightly better rated Italy (AA-). Croatia (BBB-) and Hungary (BBB-), which are both at the low end of the investment grade, and Romania (BB+), which was during the crisis downgraded to junk category, borrow more cheaply than Portugal, which is (even after recent multi-notch downgrades) still rated 1-4 notches higher than Croatia, Hungary and Romania. We expect rating upgrades for several CEE countries, but no earlier than the beginning of next year.

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1 We refer to the Bloomberg composite rating, which calculates the average rating.
Emerging countries enjoyed strong foreign capital inflows before the onset of the global financial crisis. These inflows boosted their economies, but also led to a build-up of some imbalances that later had to be adjusted quickly. Thus, apart from depressed global trade, foreign capital flows or constraints have been determining the path of growth and exchange rate development during the crisis.

In this report, we analyze capital flows into the CEE region in 2008-10 in more detail. Covered countries include the Czech Republic, Croatia, Hungary, Poland, Romania, Slovakia, Ukraine and Turkey. They are benchmarked to some selected EA countries like Germany and Austria, as well as southern Euro Area Countries (Spain, Portugal and Greece). For capital flows, we use the quarterly balance of payment data, particularly financial accounts.

The starting level of capital inflows was pretty high, as 2007 was actually the peak of the economic cycle in many countries. Until that time, their economies could benefit from the global liquidity surplus and foreign capital inflows. The first half of 2008 brought some moderation of the growth, but the sudden shock in capital flows came only after the collapse of Lehman.

The size of capital flows and their composition differed considerably across the CEE region shortly before the crisis. Together with the level of imbalances (the current account, external debt, fiscal deficit), those were the factors that had an impact on the duration of the recession in CEE and were the main reason for the differentiation across CEE countries.

**Hungarian government securities held by non-residents (EUR bn)**

![Bar chart showing Hungarian government securities held by non-residents from 2008 to 2010.](chart.png)

Non-residents reduced their exposure in Hungarian government securities by EUR 4.5bn (4.3% of GDP) in 4Q2008

Source: JEDH, Eurostat, Erste Group Research

The first country hit by a reversal of flows was Hungary, where a reduction of portfolio investments worth about EUR 4.5bn (4.3% of its GDP) in a single quarter (4Q08) paralyzed the Hungarian bond market and put pressure on the currency as well. Thus, the government was not able to issue new debt at reasonable yields and asked the IMF for assistance. The triggers for such a sizable outflow were mainly concerns about Hungary’s fiscal situation, the large currency risk and the high stock of government bonds held by non-residents.
Other CEE countries were not as sensitive to portfolio capital outflows (volume-wise), due to their significantly lower stock of portfolio investments. For instance, foreign investors held only about EUR 3bn (2% of GDP) of Romanian government securities at the time when the crisis emerged, while foreign investors held about EUR 30bn (29% of GDP) of Hungarian government securities. On the other hand, the global financial crisis constrained the opportunities for financing of the Romanian current account deficit (at that time, about 13% of GDP) and the economy had to adjust quickly in order to narrow its current account deficit. The adjustment has been eased by coordinated IMF & EU assistance, which has lowered the pressure on external financing and helped to install measures leading to a narrowing of imbalances. Also, the so-called Vienna initiative has played an important role there, as foreign banks operating in the country promised to maintain their exposure.

Source: JEDH, Eurostat, Erste Group Research
A completely different pattern of capital outflows happened in Ukraine. Pressure on the balance of payments came not so much from foreign capital outflows, but rather residents who, driven by fears of hryvnia devaluation and political uncertainty, massively transferred their money into foreign assets (households mainly into FX cash).

Current account balance + FDI (period 1Q2008-3Q2010, % of GDP, rolling 4Q)

It is interesting to compare how long it took for markets to realize that many CEE countries are in much better shape than some Euro Area members. We made this point already in 1Q09 during the strongest capital outflows from the region, when CDS on many CEE countries peaked and were much higher than for Greece, Portugal and Spain. Obviously, the above-mentioned countries were benefiting from Euro Area membership, as there was no threat of currency devaluation and their financial sector had access to the ECB refinancing facility, which eased the pressure on financing of current accounts. This fact partially served as a substitute for private capital inflows or any kind of external assistance. Unfortunately, this was very short-term and without strict conditions (such as those imposed by the IMF for countries facing a balance of payment or fiscal crisis). Thus, the imbalances of southern Euro Area countries were able to persist or even grow in 2010, while CEE countries narrowed their current accounts substantially.

2 Amount of ECB refinancing to Greek, Portuguese and Spanish financial sector is estimated to total about EUR 180bn in 2010.
Finally, 2010 brought a reversal of capital inflows into the CEE countries. The most positive news is that, after a deep slump in 2009 (-45% y/y), foreign direct investments have started to pick up (about 9% y/y). The most encouraging development can be seen in the Czech Republic, where FDI inflows more than doubled in 2010, making them the highest in the region (almost 4% of GDP). In nominal terms, they were even higher than FDIs into the Czech Republic in 2008. Another positive news item came from Hungary, where, according to preliminary data, the negative trend has been reversed and FDIs into Hungary reached about 2% of GDP in 2010. Given that the Hungarian economy posted a surplus on its current account (2% of GDP), this creates a very solid basis for the sustainability of Hungary’s balance of payments.

Ukraine keeps its FDIs at a high level (close to 4%), which actually covers the entire CA deficit, reducing the necessity of external borrowing.
FDIs also picked up in Slovakia, on a strong rebound of reinvested earnings and improved inter-company financing between parent companies and their local subsidiaries (part of FDIs). Due to the strong economic rebound and improved cash position of parent companies, the amount of receivables due to foreign parents declined, while payables increased at the same time.

Since 4Q09, we have seen rebound of portfolio investments, particularly into the Czech Republic and Poland. The vast majority of portfolio investment inflows went into debt instruments, mainly government bonds. Both countries have been favored by foreign investors because of their relatively low level of public debt and their economies’ resilience during the global economic downturn. However, the lack of a fiscal consolidation effort in Poland and the uneven split of financing between domestic and foreign investors make Polish assets more risky than those in the Czech Republic, in our view.
The chart above shows the big contrast in the structure of government debt financing. While demand for Czech government bonds was very diversified between domestic and foreign demand and, inside the domestic market, diversified between banks, pension funds, mutual funds and insurance companies, the new Polish debt was almost entirely financed by non-residents, while Polish pension funds were the only relevant domestic net buyers of Polish government securities in recent months. Given the prepared changes in the Polish private pension system (a significant reduction of contributions to the private pillar), demand from pension funds will be squeezed and the financing of Polish debt become even more dependent on demand from non-residents. This increased dependence has the result that Polish government bonds bear a much higher risk (potential volatility) than Czech bonds.
Many CEE economies managed to go through the crisis on their own (the Czech Republic, Slovakia, Poland and Croatia) and without severe tension in external financing. However, countries that had to undergo an economic rebalance (Hungary, Romania, Ukraine) and buy time to adopt corrective measures (including structural reforms) and smooth out the economic adjustment over time, had to secure financial assistance for a transitional period of time. The IMF, together with the EU and World Bank, provided to Hungary and Romania financial assistance worth about EUR 14.3bn (15% of GDP) and EUR 19.9bn (17% of GDP), respectively. These funds were included in net other investments\(^3\), which is why we separated them in order to see only private capital flows. We have done the same for the Euro Area countries, where we excluded changes in refinancing position vs. the ECB, given the fact that it was a very unconventional source of financing of the current account deficit. It helped to buy time for some Euro Area countries (Greece, Portugal), but they have not utilized it for a correction of their large external imbalances.

\(^3\) Net Other investments sum up the external assets and liabilities of the financial, corporate and government sectors, other than FDIs and portfolio investments.
Private capital flow, financial assistance and refinancing from the ECB (% of GDP, rolling 4Q)

Croatia

Czech Republic

Hungary

Poland

Romania

Slovakia

Turkey

Ukraine
Never say never. Shortly before the onset of the financial crisis (mid-2008), Greece was rated almost at the same level as Slovakia, the Czech Republic and slightly better than Poland. Ireland and Spain were rated at triple A. Shortly after the Lehman collapse and during 2009, several CEE countries, which had been running high current account deficits, were downgraded. In February and March 2009, we made a strong call in our two special reports⁴, pointing out that many CEE countries are in much better shape than some Euro Area countries (in terms of public and private debt external imbalances) and recommended to shorten these countries against CEE. Indeed, the correction happened and now many CEE countries are charged lower spreads than troubled Euro Area countries.

⁴ "Low attention is paid also to level of overall public debt which should be (normally) a limiting factor for any expansive fiscal actions and reason for differentiation in price paid for insurance against the default on sovereign debt... ...We expect that we should see compression of spreads on CDS and government bonds in CEE in following months ... and at the same time upward risk for spreads for some heavily indebted countries in Western Europe. This creates very good room for value trades like Czech Republic, Slovakia, Hungary and Romania against Ireland, Greece or Spain." February 2009, Special Report – Financing of government debt in CEE in 2009
However, the open question now is how long will it take for rating agencies to align ratings to fundamentals, or if they will become partially ignored by markets as too rigid and outdated. The latter is currently happening; for instance, the Slovak government (rated A+) pays a lower risk premium compared to the multi-notch better rated Spain (AA) or slightly better rated Italy (AA-). Croatia (BBB-) and Hungary (BBB-), which are both at the low end of the investment grade, and Romania (BB+), which was during the crisis downgraded to junk category, borrow more cheaply than Portugal, which is (even after recent multi-notch downgrades) still rated 1-4 notches higher than Croatia, Hungary and Romania.

Source: Bloomberg, Erste Group Research

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5 We refer to Bloomberg composite rating, which calculates the average rating.
The best candidate for the first rating upgrade would have been the Czech Republic (having a positive outlook from two rating agencies) if it had not softened some of their reforms (tax reform and pension reform) too much. That is why we expect the rating agencies to wait until next year for some more hard data on the efficiency of the adopted measures and upgrade only afterwards. Slovakia and Romania (both with a neutral outlook from all three agencies), could be upgraded next year if governments meet their fiscal targets and continue reforms. The trickiest situation is in Hungary, because the main imbalances have been removed (current account surplus and the forth lowest structural deficit in EU) but there are still many question marks about the sustainability of deficit reduction and adverse effects of some measures on the Hungarian economy (such as selective taxes and the nationalization of pension funds). The Hungarian sovereign rating has a negative outlook from all three rating agencies, but could be changed to neutral once measures announced in February are successfully implemented. Given the fact that Croatia has a negative outlook from two rating agencies, it needs to speed up structural reforms as well in order to avert the risk of a potential rating downgrade and worsening of its competitive position relative to its CEE peers.
Croatia

2009 was no exception, having brought a significant slowdown of net FDI inflows, where depleting reinvested earnings had a pronounced negative impact. While 2010 brought some stabilizing pattern on the reinvested earnings side, the absence of any meaningful greenfield FDI (a chronic weakness also evident in the pre-crisis period) remained an obstacle to FDI recovery. Despite the sluggish trends, given the ongoing C/A adjustment, net FDI CAD coverage (after an initial deterioration) stabilized. Equity portfolio investments had no major effect on the financing account, due to the underdeveloped equity market. Thus, debt portfolio investments played a dominant role. While there were no major pressures from a sell-off, the debt market was closed until the end of 1H09, as the CNB stepped in, relaxing monetary policy and allowing smooth public debt refinancing operations in this period. With the market stabilization, the government intensified debt issuance and managed to tap debt markets to close the fiscal gap. Other investments showed a strong uptick in 4Q08 and 1Q09, given the liquidity injection to foreign banks’ subsidiaries during the stressful period. Afterwards, other investments lost momentum, corresponding to a significant slowdown of debt creation from banks and private corporates. However, refinancing risks failed to materialize, thus supporting a stable stock of FX reserves.

Alen Kovac, Erste Bank Croatia

Czech Republic

Before the outbreak of the crisis, the Czech Republic did not have a problem with its current account and was one of the few countries in the EU that covered most of the current account deficit by stable FDI inflows and was thus not over-reliant on (notoriously fickle) portfolio investments. On top of that, for the CZ, we did not really see any panic flight of portfolio investors in the first place, a testimony to the pre-crisis fundamental strength of the Czech economy and lack of imbalances. Even after the recent CA data revision of the Czech Statistical Office (that so far has affected only 2009-10 data, but will extend to other years as well), the deficit of the current account not covered by FDIs is low – at the height of the crisis, the 12M total was CZK 100bn, while for most of the crisis months it hovered around CZK 50bn). Two things then stand out – first, the substantial pickup of portfolio flows in the recovery phase of the crisis and, second, the drop of FDI during the crisis. While the former is evidently due to lax monetary conditions around the world (markets awash with liquidity) and the associated search for a bright outlook, the latter was evidently due to the uncertainty during the crisis, when companies cut down on all expenditures (FDIs first) and conserved cash. This trend reversed itself once the future outlook brightened – base-capital FDI inflows rose from the 12M low of CZK 55bn at the end of 2009 to almost CZK 130bn in January 2011.

Martin Lobotka, Ceska sporitelna
Cumulative Czech current account + FDIs

Geographical breakdown of FDI inflows (1-3Q2010)

<table>
<thead>
<tr>
<th>Year</th>
<th>12M Cumulative CA+FDI, CZK mil.</th>
<th>6M Cumulative CA+FDI, CZK mil.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-04</td>
<td>300,000</td>
<td>-200,000</td>
</tr>
<tr>
<td>Jan-05</td>
<td>250,000</td>
<td>-150,000</td>
</tr>
<tr>
<td>Jan-06</td>
<td>200,000</td>
<td>-100,000</td>
</tr>
<tr>
<td>Jan-07</td>
<td>150,000</td>
<td>-50,000</td>
</tr>
<tr>
<td>Jan-08</td>
<td>100,000</td>
<td>0</td>
</tr>
<tr>
<td>Jan-09</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Jan-10</td>
<td>0</td>
<td>100,000</td>
</tr>
<tr>
<td>Jan-11</td>
<td>50,000</td>
<td>150,000</td>
</tr>
</tbody>
</table>

Geographical breakdown of FDI inflows (1-3Q2010)

- Germany, 26%
- Netherlands, 14%
- United States, 5%
- France, 6%
- Switzerland, 5%
- Austria, 11%
- Other, 29%

TOP5 foreign investments (all-time)

<table>
<thead>
<tr>
<th>Company</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hyundai Motor Company</td>
<td>EUR 970m</td>
</tr>
<tr>
<td>Toyota/PSA</td>
<td>EUR 530m</td>
</tr>
<tr>
<td>Skoda Auto (Volkswagen)</td>
<td>EUR 320m</td>
</tr>
<tr>
<td>Nemak</td>
<td>EUR 282m</td>
</tr>
<tr>
<td>Denso</td>
<td>EUR 240m</td>
</tr>
</tbody>
</table>

Source: CNB, The Czech Investment Agency
Note: ** from planned/announced

Hungary

In Hungary, direct investment inflow (including reinvested earnings) also counterbalanced the significantly negative C/A balance in the early 2000s. Later, capital export started from Hungary, counterbalancing FDI inflows. Then, due to the crisis, we saw a decrease of direct investment inflow. In the meantime, however, we experienced a significant change in the current account - the C/A deficit of above 7% of GDP in 2008 is expected to have turned into a surplus of 1.9%. The role of savings in the country has increased, resulting in a healthier structure for economic growth. In 2010, we saw some big-ticket announcements of new foreign investments (Audi, Opel extensions of plants, in total EUR 1.4bn). These investments, along with the earlier decided Mercedes plant, are expected to launch production in 2012-13. Also, very recent data from the press indicate that FDI inflow increased in 2010 to around EUR 2.1bn, up from EUR 1.5bn a year earlier. Full details of the 2010 BoP data are to be released by the CB on March 31.

Zoltan Arokszallasi, Erste Bank Hungary

Foreign direct investment into Hungary (EURm)

Geographical breakdown of FDI inflows (stock 2009)

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>24%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>15%</td>
</tr>
<tr>
<td>United States</td>
<td>5%</td>
</tr>
<tr>
<td>France</td>
<td>6%</td>
</tr>
<tr>
<td>Austria</td>
<td>13%</td>
</tr>
<tr>
<td>Other</td>
<td>31%</td>
</tr>
</tbody>
</table>

TOP5 foreign investments (all-time)

<table>
<thead>
<tr>
<th>Company</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audi (2010)</td>
<td>EUR 900m</td>
</tr>
<tr>
<td>Mercedes (2008)</td>
<td>EUR 800m</td>
</tr>
<tr>
<td>Hankook (2005)</td>
<td>EUR 525m</td>
</tr>
<tr>
<td>Opel (2010)</td>
<td>EUR 500m</td>
</tr>
<tr>
<td>Nokia (1999)</td>
<td>EUR 160m</td>
</tr>
</tbody>
</table>

Source: MNB, EBH
Note: ** from planned/announced

TOP 5 foreign investments (in 2010**)

<table>
<thead>
<tr>
<th>Company</th>
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<tbody>
<tr>
<td>Audi</td>
<td>EUR 900m</td>
</tr>
<tr>
<td>Opel</td>
<td>EUR 500m</td>
</tr>
</tbody>
</table>

Source:陈名, 费尔登
Poland
Poland has been experiencing a revival of capital flows since mid-2009. After a substantial drop in 2008, FDI started to recover quickly and was a major factor behind the improvement of the financial account in the first half of 2009. Even though their recovery continued, they were quickly outpaced by portfolio investments – foreign investors invested mainly in treasury bonds, thereby creating a major source of demand for Polish debt. The return of foreign investors to Poland was also reflected in a rebound of the equity market and a pickup of M&A activity. Thanks to the narrowing of the C/A balance (lower gap of international trade), it was safely financed by an inflow of FDI throughout 2009. Early 2010 showed a decline in FDI inflow, while the deficit on C/A started to deepen in 3Q10. Portfolio investment, on the other hand, showed record levels in 2010, again thanks to purchases of treasury bonds. The deficit of other investments continued to deepen as banks were repaying foreign liabilities from recent years. One more thing worthy of attention is the quality of Polish balance of payment data – the error term has been disproportionally high in recent years and, according to preliminary data, it has reached about 4% of GDP in 2010 (1.2 times higher than the full-year C/A gap) – the central bank suggested that there might be some discrepancies in the trade balance data and we might see a revision of the data soon – this might be bad news for the financing of the C/A gap.

Jana Krajcova, Ceska sporitelna

Romania
Before 2009, the main type of foreign capital inflows to Romania were FDIs (mainly equity stakes, due to privatizations) and other investments (cross-border loans and funding from parent banks), while portfolio investments have traditionally been low. After the onset of the global financial crisis, FDI inflows diminished, in spite of the fact that Romania remained an attractive business destination. Labor productivity in manufacturing increased by more than 12% in both 2009 and 2010 and real wage growth slowed down. The stand-by arrangement with the IMF and EU substituted for some of the private capital inflows to Romania and provided necessary time for the implementation of reforms and narrowing of the C/A and budget deficit. As the global economy recovers from recession, Romania is likely to benefit again from FDI inflows in areas like the capital goods industry, agriculture and the food industry, IT&C services and renewable energy, while the narrowed current account reduced the external vulnerability of Romania in the future.

Eugen Sinca, Banca Comerciala Romana
Slovakia  

The inflow of FDI to Slovakia slowed down sharply in 2009, mostly due to the net outflow of other capital. Apart from the crisis, the reasons might include Slovakia’s entry into the Eurozone. Subsidiaries of foreign companies that used to manage cash locally moved some of the liquidity abroad, which has since been managed at the euro-wide level. Equity capital inflow dried up, especially in late 2009 and at the beginning of 2010. Since then, the available data suggests a mild recovery in the equity capital investments, fuelled by new investment projects (a new line at VW, a new engine plant at KIA). After some slowdown, reinvested earnings recovered strongly in the second half of 2010, as industry and profits have been improving quickly. Portfolio investment outflow intensified in 1H10, as Slovak entities are buying more foreign obligations than in the past.

Maria Valachyova, Slovenska sporitelna

Ukraine  

A specific aspect of Ukraine’s portfolio investments is their concentration in debt instruments. The equity portfolio investments are insignificant, due to the underdevelopment of the equity market. Investors typically like to take risk exposure to Ukraine in times of high inflation, when yields are at their highest. However, Ukraine has important specifications that are quite unique in CEE. The local currency cash in turnover represents 18% of GDP, while the highest in CEE is 10%. Due to the highest inflation in Europe in recent years and the lack of trust in the government and financial institutions, the population developed a habit of buying foreign currency cash as a safety resort. These flows have the biggest impact on the overall balance of payments. And as foreign currency cash demand is positively correlated with inflation (and portfolios, in turn, negatively), the FX cash flows typically counterbalance the portfolio inflows. Thus, since the beginning of 2002, the Ukrainian population accumulated savings worth EUR 40bn in the form of cash outside banks. This amount is higher than the country’s FX reserves and the total loan program from the IMF. Should the Ukrainian authorities secure lower inflation and higher trust in official institutions, the country’s financial institutions would be flooded with liquidity.

Maryan Zabolotskyy, Erste Bank Ukraine
Special Report – Foreign capital returning to CEE

Portfolio investments and GDP deflator

Geographical breakdown of FDI inflows (1-3Q2010)

<table>
<thead>
<tr>
<th>Geographical breakdown of FDI inflows (1-3Q2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cyprus, 28.2%</td>
</tr>
</tbody>
</table>

Turkey

The quality of financing has deteriorated sharply since after 2008 in Turkey, turning mostly to short-term flows and non-residents’ currency and deposits, instead of FDI and long-term corporate borrowing. The four-quarter rolling current account deficit stood at EUR 27bn in 3Q10, against capital inflows of EUR 32.4bn, while 80% of the financing came from portfolio inflows (EUR 9.8bn), short-term liabilities (EUR 6bn) and currency and deposits of non-residents (EUR 10.3 bn). This ratio was around 10% at end-2008, while almost all of the current account deficit was covered by FDI inflows and long-term corporate borrowing.

Ozlem Derici, Erste Securities Istanbul

FDI and Long Term borrowing (bn EUR, 4quarters)

Geographical breakdown of FDI inflows (1-3Q2010)

<table>
<thead>
<tr>
<th>TOP 5 foreign investments (in 2010**)</th>
<th>USDm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unknown (Zoropisza steel plant purchase)</td>
<td>1304</td>
</tr>
<tr>
<td>VEB (steel assets purchase)</td>
<td>684</td>
</tr>
<tr>
<td>Swedbank (capital increase)</td>
<td>300</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TOP 5 foreign investments* (all-time)</th>
<th>USDm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telsim (Vodafone)</td>
<td>4.5bn</td>
</tr>
<tr>
<td>Akbank (Citigroup)</td>
<td>3.1bn</td>
</tr>
<tr>
<td>Finansbank (NBG)</td>
<td>2.8bn</td>
</tr>
<tr>
<td>Oyakbank (ING)</td>
<td>2.7bn</td>
</tr>
<tr>
<td>Denizbank (Dexia)</td>
<td>2.4bn</td>
</tr>
</tbody>
</table>

Source: NBU, EBU

Note: ** from planned/announced

Note: * does not include privatisation of Turk Telekom (6.5 bn); from planned/announced
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Fixed Income & Credit Institutional Sales

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