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Moscow

### Study of Russian International Purchases Using Credit Cards in 2009. Impact of the Crisis

**In 2009, following 5 years of growth, Russian international purchases in foreign currencies have dropped to 2007 level mainly due to lower shopping expenses. Yet, when denominated in rubles, expenses have remained at 2008 level**

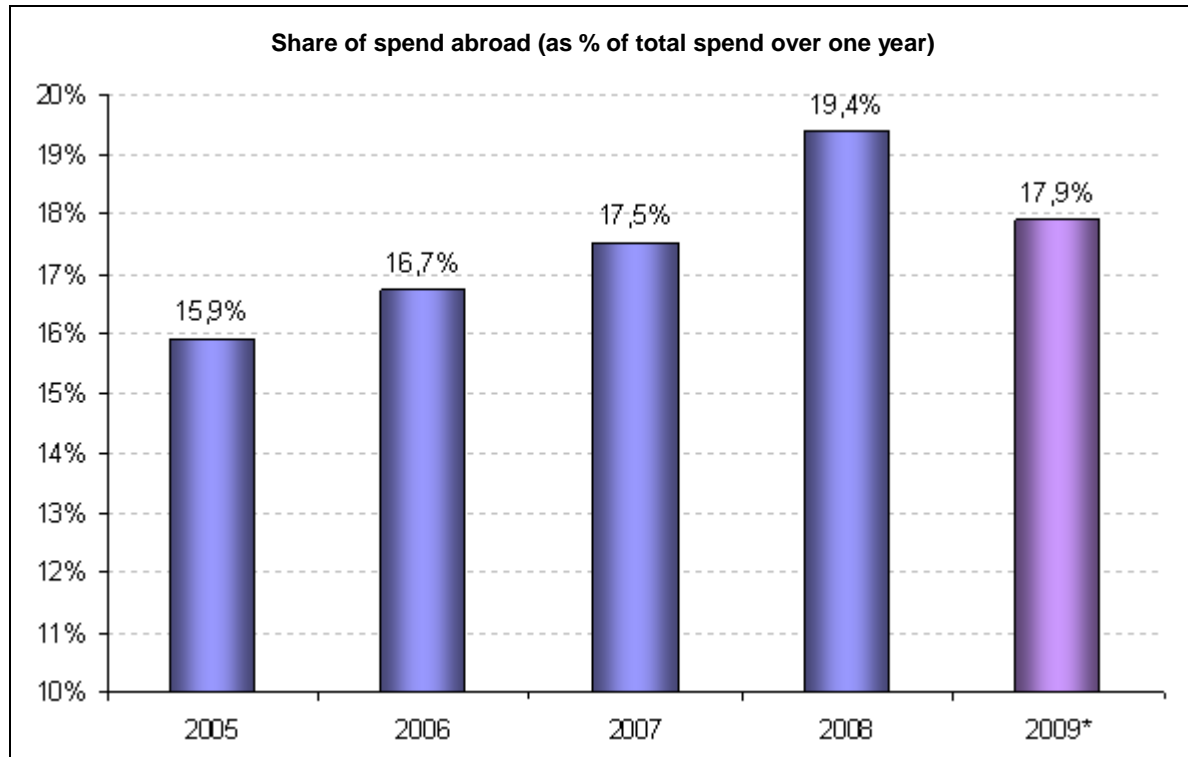
ZAO Citibank published its second annual study of Russian foreign purchases. The study is based on statistical data on purchases made with the use of [credit cards](#) by Citibank's clients outside of Russia. The study analyzes data for the period starting from the beginning of 2005 until the end of the first half of 2009 (June 31), with a sample of at least 100,000 clients that were selected randomly for every year of the study period. It is the first time that data for the first six months of 2009 and the statistical trends for the past five years have been used to build a forecast until the end of 2009.

#### Key Points and Conclusions of the Study:

- Share of expenses incurred abroad, which demonstrated an upward trend before, in 2009 has dropped almost to 2007 level.
- In 2009, the average transaction amount in U.S. dollars has dropped by a quarter from \$220 to \$166, but has remained almost the same when calculated in Russian rubles.
- The same countries and categories remain the expense leaders for 2008 and 2009, those being the US and Italy, Hotels and Clothing, respectively.
- The highest increase in purchase volumes is observed in Airline Tickets, which is largely attributed to the increasing popularity of electronic airline tickets.
- Switzerland and Turkey have improved their positioning in the country rating by the amount of expenses incurred abroad in 2009 (comparing to 2008 year), while Finland and the UAE have moved down.
- Percentage of expenses incurred in such popular categories of international shopping as Clothes & Shoes and Jewelry has dropped in 2009.
- Share of expenses in France, the UAE and Austria in the total volume of all expenses incurred abroad shows negative dynamics in 2009; the above-mentioned categories are dominating in the structure of Russian expenses in these countries.
- The decreasing trend in average purchase volumes is distinct across all major product categories (major drops are in Jewelry and Home Products categories). The only country where the average purchase volume has increased is Cyprus.
- Currently, the most popular country for jewelry shopping among Russians is Turkey; for Clothes and Shoes - Italy; and in the U.S. tourists spend most money on air travel.

The share of expenses incurred outside of Russia has dropped to 17.9% of all credit card expenses in 2009 as compared to 19.4% in 2008, and comparable to the pre-crisis level in 2007. It is important to note that, when calculated in Russian rubles, Russian expenses abroad have been slightly above 2008 level, which goes against the prevalent pessimistic forecasts about the negative effect of the economic crisis on Russian consumer confidence.

Mikhail Berner, Head of Credit Cards at Citi Russia, commented on the key conclusions of the study: "In 2009, there has been no dramatic change in Russian travelling habits. This is obvious from the slight increase we can observe in average ruble transaction volumes and increase in ruble spending volumes across just about all product categories and popular tourist destinations. The crisis manifests itself mainly in the sharp decline of the volumes of expenses incurred abroad: the growth rate is at its lowest for the last five years. We attribute the decline in foreign currency denominated expenses (calculated in absolute numbers) to ruble depreciation."



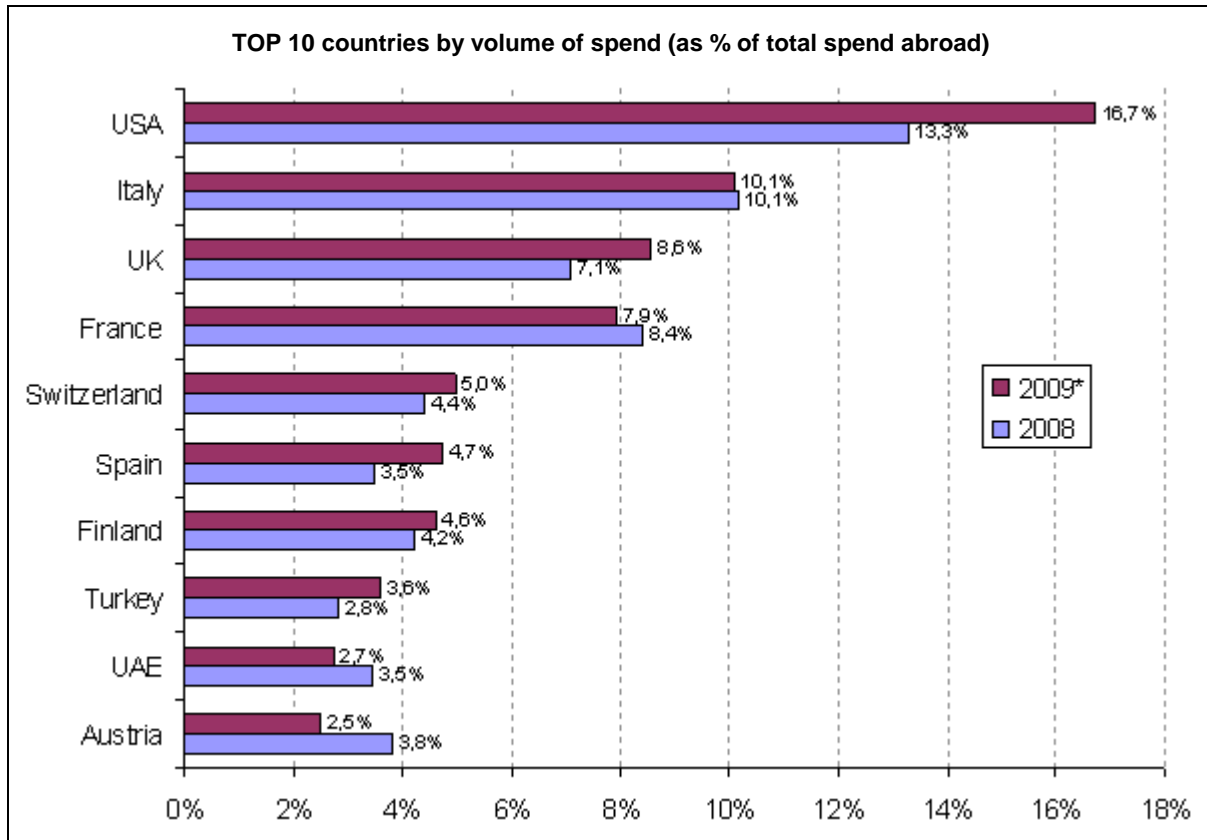
It is interesting to track the trends over the past five years in terms of Russian spending preferences by country. The USA, Italy, United Kingdom, and France are leaders by expense volumes for Russian credit cardholders.

The United States has been the absolute leader over the past five years. The country's confident leadership is partly due to the fact that most of Russian tourists take individual tours to the USA, where these tours are characterized by higher expenses in the destination country that include additional transportation expenses for travelling from one city to another.

Italy has been keeping the honorary second place over the past three years as it retains the title of fashion shopping capital. The United Kingdom got the bronze medal this time having pushed France down to the fourth place. It is worth noting that France has been losing its position in Russian geographical purchasing preferences.

<b>Countries ranking by spend volumes</b>					
<b>Country</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
USA	1	1	1	1	1
Italy	4	3	2	2	2
UK	3	4	4	3	3
France	2	2	3	4	4
Switzerland	5	7	9	8	5
Spain	6	6	6	6	6
Finland	8	5	5	5	7
Turkey	9	8	7	9	8
UAE	10	9	8	7	9
Austria	12	10	10	10	10

Spain has been consistently falling in the footsteps of the leaders, though at a large distance, and has retained its sixth place for the fifth consecutive year. Spain and Turkey are traditional summer resorts, while Austria and Switzerland have only recently become the favorite destinations for Russian skiing enthusiasts. Moreover, Switzerland has managed to elbow Finland out of the seventh to the fifth place over the past year. Geographic proximity of Finland attracts many Russians, especially those who reside in Saint-Petersburg.



The United Arab Emirates have long ago become one of the leading global resorts and shopping destinations - the favorite place for many wealthy tourists from Russia. The UAE has also gained the image of a luxury resort, which may be the reason why the country became the decline leader by the volume of Russian expenses in 2009 as the crisis affects the demand for premium and luxury goods and services. For instance, we observe declining spending on Jewelry/Watches/Luxury Goods for the second consecutive year.

As in the previous years, Russians spend most on hotel services. The share of this category has grown to 22% in 2009, as compared to 19% last year. Here, we take into consideration both the cost of hotel accommodation when the travelers make hotel arrangements on their own and charges for additional hotel services. Across the individual country rankings, Hotels are leading in just about all of the studied countries (the United Kingdom - 17% of all expenses in the country, France - 22%, Spain - 18.2%, Finland - 19%, the UAE - 27%, Austria - 30%). The growth in this category may be attributed to reallocation of Russian expenses from the category of purchases where we observe a declining trend.

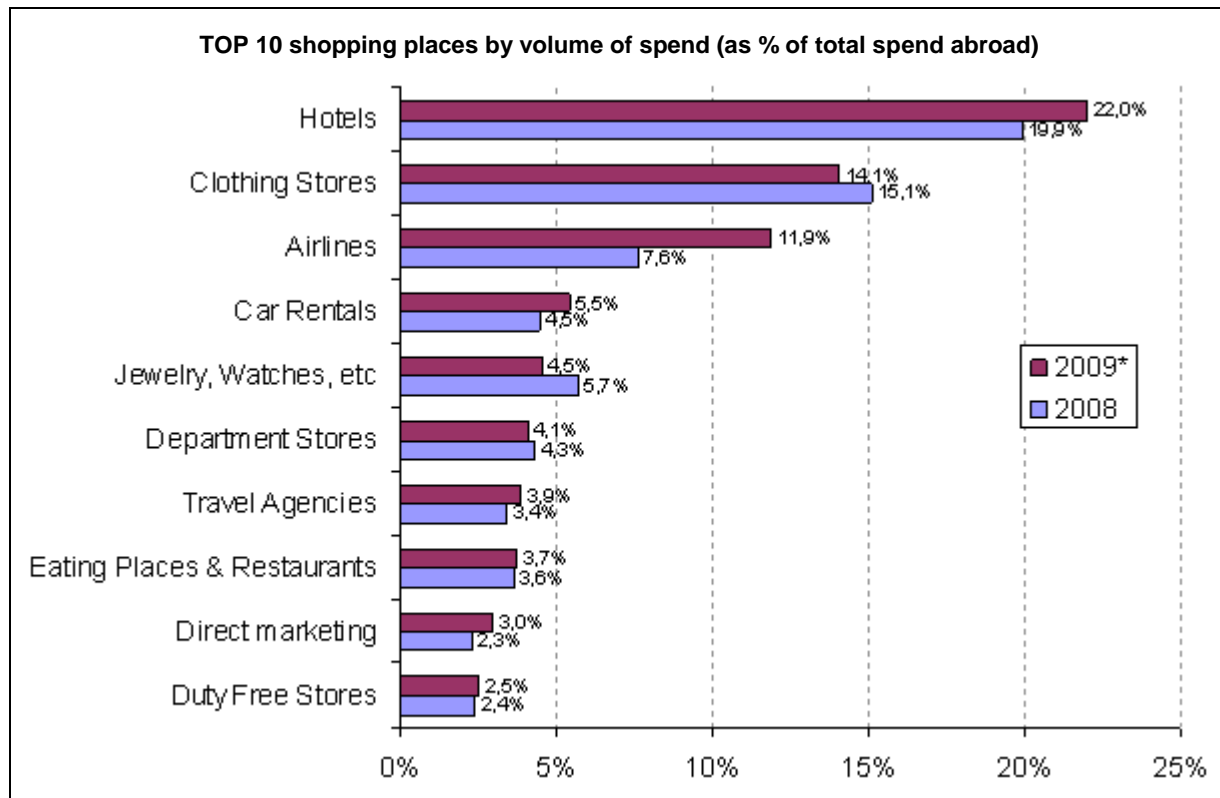
Ruble depreciation has had a negative effect on the purchasing power of Russians. That is the reason why they had to avoid some purchases abroad in favor of direct expenses for the trip itself. This trend is further confirmed by the increased share of Car Rentals from 4% to 5%, and Travel Agency Services from 3% to 4% in 2009.

In 2009, such popular "classic" shopping destinations as Italy, France, and the UAE have demonstrated significant decline in consumer activities among Russians. Nonetheless, Clothing Stores confidently holds the second place in

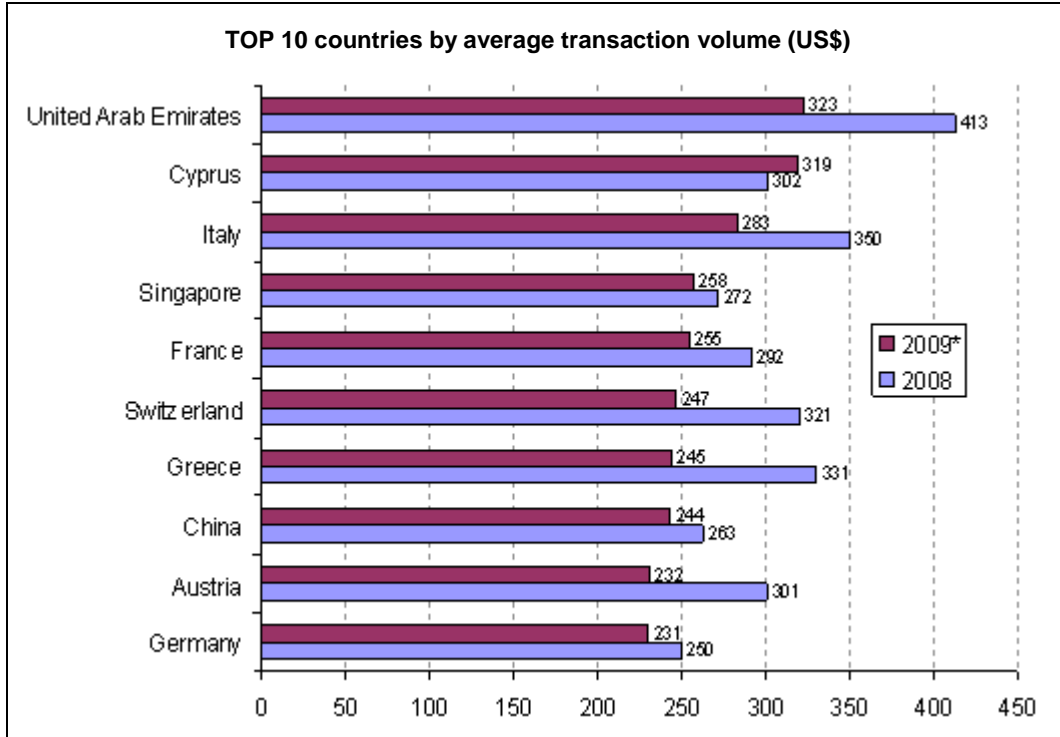
the ranking of shopping categories. We believe that Clothing will retain its leadership position as one of the most popular expense categories of Russians abroad in the future for as long as retail prices of popular clothing and shoes brands remain unjustifiably high in Russia.

Categories ranking by volume of spend					
Merchant category	2005	2006	2007	2008	2009
Hotels	1	1	1	1	1
Clothing Stores	2	2	2	2	2
Airlines	9	7	4	3	3
Car Rentals	4	5	7	6	4
Jewelry etc	7	4	3	4	5
Department Stores	3	3	5	7	6
Travel Agencies	10	10	9	9	7
Restaurants	5	6	8	8	8
Direct marketing	14	11	12	12	9
Duty Free Stores	8	9	10	11	10

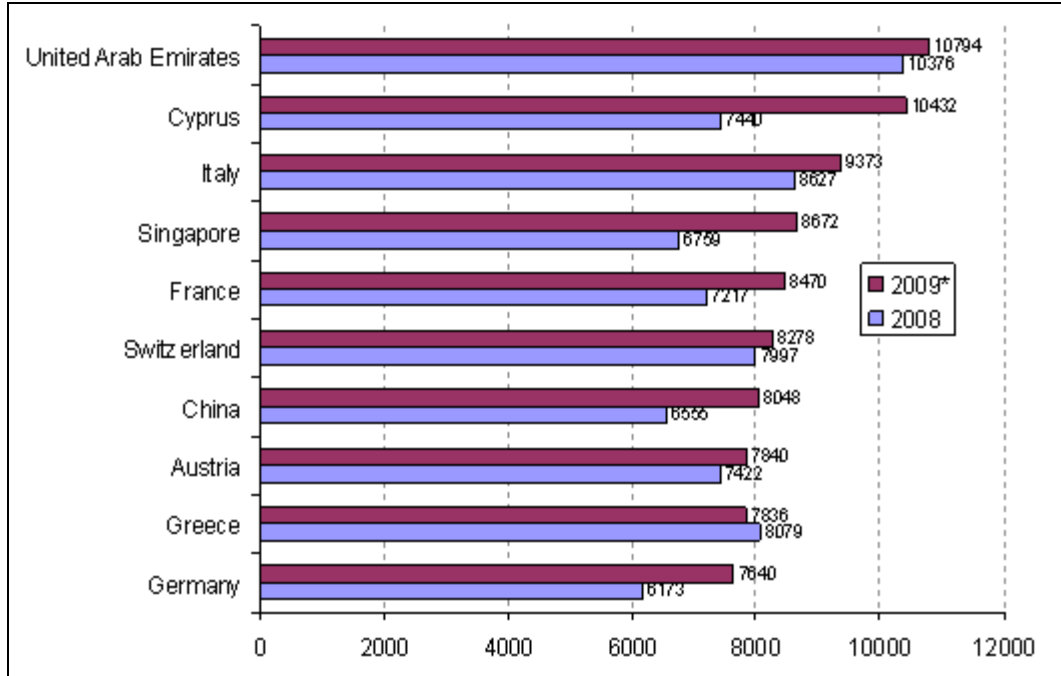
Considerable growth in Plane Tickets was the most significant change in the structure of Russian expenses abroad in 2009. Over the past five years, this category has moved from the ninth to the third place by the volume of Russian expenses; it has grown from 7% to 12% over the past year. For instance, this is the major expense category of Russians in the USA, and second-largest in Switzerland - one of the major transportation hubs in Europe.



On the one hand, significant growth in this category may be attributed to the crisis factors and reallocation of expenses from other categories, as is the case with Hotels. On the other hand (and we consider it to be the most significant factor), the growth in this category is attributed to the increased popularity of electronic plane tickets. Russians increasingly trust online ticket purchases thus saving their time and, most importantly, their money. Airlines, on their part, also pay considerable attention to promotion of cheaper, more efficient sales channels. Since airline Internet billing Web-sites are located abroad, this contributed to the rising foreign expenses in Plane Tickets and promoted it to top positions in the ranking.



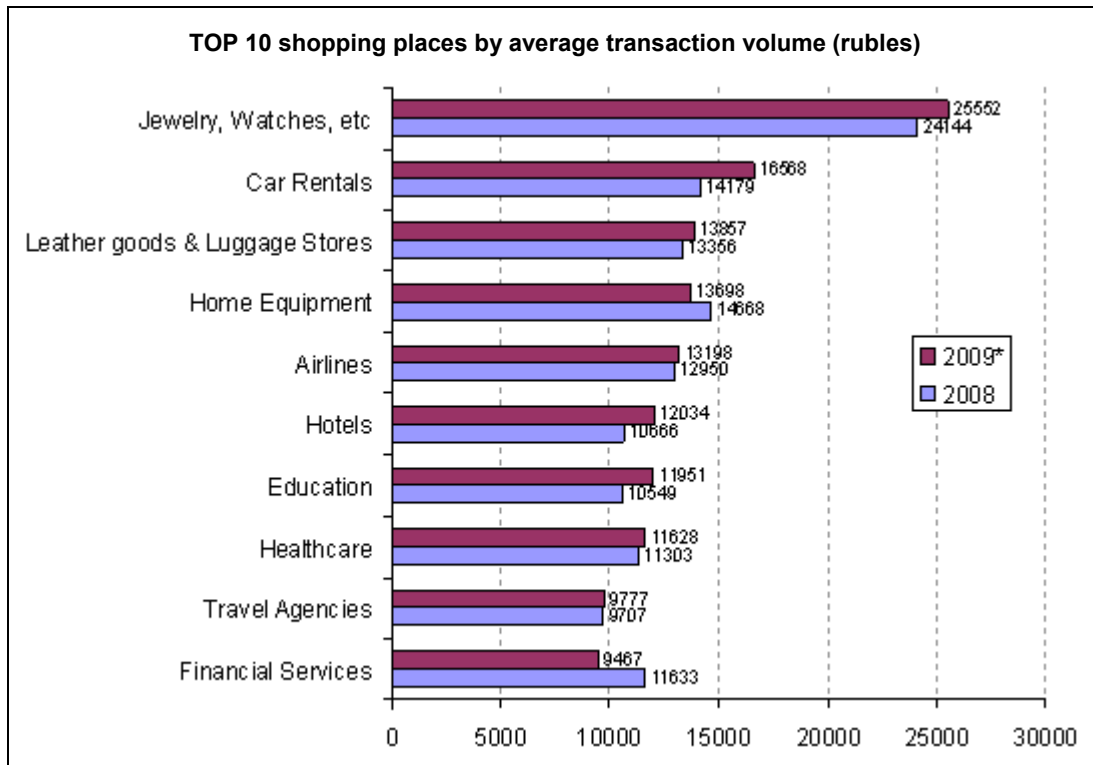
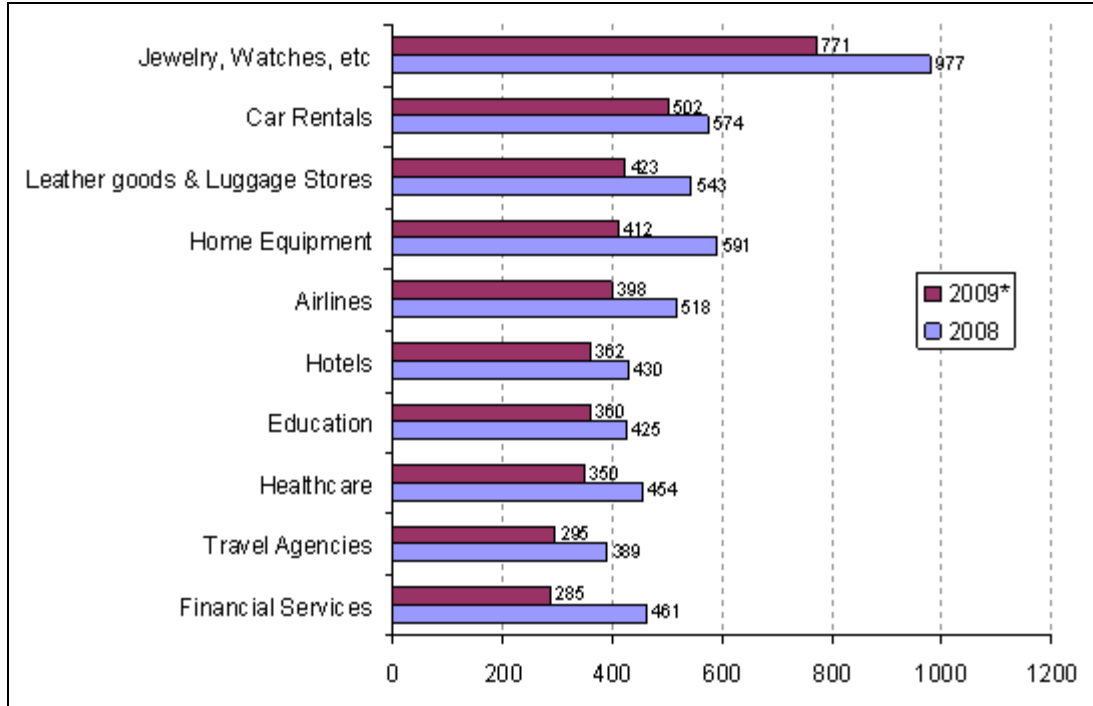
**TOP 10 countries by average transaction volume (rubles)**



In 2009, the declining average purchase volume is observed across all major categories of goods. The largest decline is in Jewelry and Home Products. The latter has recorded average transaction volume decline both in dollars and in rubles. At the same time, all other categories demonstrated small growth in rubles. This may be indirectly linked to the decline of activity in residential housing market - people buy fewer homes, invest less in repairs and decoration, and hence need fewer home products.

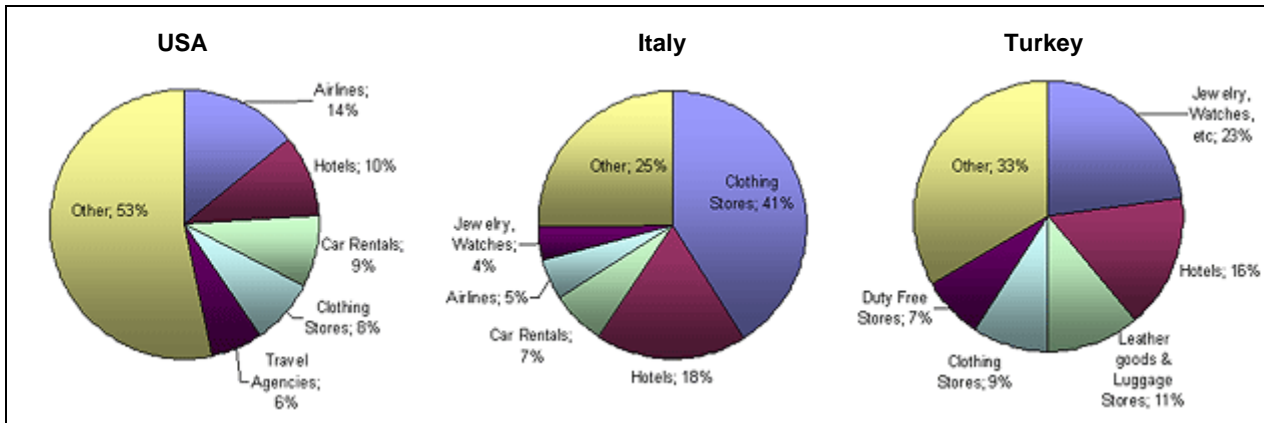
The only country where average purchase volume grew across all product categories was Cyprus - growth from \$300 to \$320. The largest drop is in the UAE, Italy, and Greece. Unlike other leading countries, Greece recorded lower average transaction volumes both in dollars (\$330 in 2008 to \$245 in 2009) and in rubles (8,100 in 2008 to 7,800 in 2009).

**TOP 10 shopping places by average transaction volume (US\$)**



The interesting characteristic of Russian behavior abroad is their high level of commitment to purchasing certain products in certain countries. Currently, the most popular country for jewelry shopping among Russians is Turkey (23% share of all expenses in this country); Clothing and Shoes - Italy (about 41%!!!), whereas in the USA Russians spend most money on air travel (14%). Russians spend most on hotels in the United Kingdom (17%), France (22%),

Switzerland (20%), Spain (18%), Finland (19%), the UAE (27%), and Austria (30%).



In his comments on the study, Mikhail Berner noted: "The data show that over all previous years the share of international expenses of our compatriots had been consistently growing demonstrating that trips abroad were becoming affordable to an increasing number of Russians. We hope that as Russian economy and people's incomes recover, the rise in Russian tourists' spending abroad (that may start as soon as next year) will become one of the indicators of overcoming the crisis."

\* Forecast