

Press release

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CEE Households' Net Financial Wealth:

A more comprehensive role for banks ahead

- In spite of an impressive catch-up process CEE households' net financial wealth in terms of GDP is one fourth that of the major developed countries on average, which indicates a significant scope for further convergence**
- In terms of assets, a moderate shift towards institutionalized assets will continue in the next years, but cash and deposits will likely remain dominant**
- Regarding liabilities, housing loans will outpace consumer loans, when excluding Russia and Turkey**
- Overall, banks will likely continue to be key financial intermediaries in CEE, with further potential to enhance their role as financial advisors for households**

The net financial wealth of CEE households has more than doubled since 2004 and approached around EUR 780 billion in 2013. Nevertheless CEE households' net financial wealth is, in terms of GDP, still roughly one fourth that of the major developed countries on average, showing significant scope for further convergence towards Western Europe. These are some of the key findings of a new study published by UniCredit's CEE Strategic Analysis department. However, the global financial crisis in 2008 / 2009, and to a lower extent the European sovereign debt crisis in 2011, caused a temporary decline in financial wealth mainly due to losses in capital markets as well as a change in the composition of financial assets. In comparison, the net financial wealth of households in Austria, Germany and Italy amounted to EUR 6,800 billion in 2013.

In general, the financial penetration gap between CEE countries and more developed markets is primarily visible on the assets rather than on the liabilities side. "Going forward, convergence of CEE households' net financial wealth towards Western European standards will gradually continue and will mainly be driven by an acceleration of savings and investments", said Gianni Franco Papa, Head of CEE Division at UniCredit.

Some shift towards more sophisticated products, but cash assets to remain dominant

Looking at the composition of financial assets, 'cash assets', comprising currency and bank deposits, still represent the majority. As a consequence of the global financial crisis 2008 / 2009 CEE households have reallocated significant parts of their capital to cash assets. Subsequently, they started to gradually move back to institutionalized assets such as mutual and pension funds and insurance technical reserves, showing again a more long-term orientation and a grown confidence.

“A moderate shift towards institutionalized assets will continue in the coming years”, outlined Carmelina Carluzzo, Deputy Head of CEE Strategic Analysis at UniCredit, “Nevertheless ‘cash assets’ will remain the dominant asset class with some differentiation across countries.”

In this context, the reinforcement of local capital markets is being encouraged, as it would enable households to diversify their portfolio allocation choices and banks to optimise their domestic funding sources.

Housing loans outpace consumer loans due to lower penetration

“On the liabilities side, despite cross-country differentiation, housing loans have generally grown faster than consumer loans in the most recent years”, stated Gianni Franco Papa, adding, “We expect this trend to persist, although households will continue to adjust their debt levels in some CEE countries.” From 2004 to 2008, housing loans grew by a compound annual growth rate of 37.8 per cent, while in the period 2008 to 2013 the CAGR was 8.2 per cent. The compound annual growth rates of consumer loans were 31.6 per cent and 0.8 per cent, respectively. As of last year, housing loans made up for 57 per cent of the total financial liabilities of CEE households¹.

Overall, total financial liabilities made up 21 per cent of the regional GDP in Central and Eastern Europe in 2013, while the figure was 59 per cent in Austria, Germany and Italy. By contrast, total financial assets came to 48 per cent of the regional GDP in CEE and 207 per cent in Austria, Germany and Italy.

Banks to remain important financial intermediaries

In the end, households still seem to rely on traditional banking products. For this reason, banks will continue to be key financial intermediaries in Central and Eastern Europe. “Indeed, there is room for banks to enhance their role as financial advisors for CEE households”, summarised Carmelina Carluzzo. She added, “This would allow households to find the right individual balance between financial investments and debt, thus reinforcing a virtuous cycle for local economies, which has gained ground only recently.”

First in Central and Eastern Europe in terms of expertise and network

Despite several challenges, UniCredit still considers CEE its ‘engine for growth’ and is committed to being a long-term investor in the region. The banking group operates an extensive network with nearly 3,600 branches in 14 countries, which generates around 30 per cent of total Group revenues. Through its International Centers, UniCredit serves more than 19,000 international customers operating in CEE. With its expertise in political contexts, local regulations and market practices, it supports customers running their businesses and identifying new opportunities.

“Over the last two years, we have acquired about 1.4 million new retail customers in Central and Eastern Europe”, explained Gianni Franco Papa, Head of CEE Division at UniCredit, adding, “In

order to perpetuate this positive trend, we are currently investing a great deal of effort into the seamless integration of the real and the virtual world and into transforming our business into a truly multi-channel banking service.” In building sustainable customer relationships, UniCredit focuses on customer centricity, simple products and processes, and innovation and new technologies.

UniCredit

UniCredit is a leading European commercial bank with strong roots in 17 countries. Our overall global network embraces approximately 50 markets with nearly 9,000 branches and more than 147,000 employees (as of 31 December 2013).

In the CEE Region, UniCredit runs the largest and most diversified international banking network with approximately 3,600 branches (Poland included).

The Group operates in Austria, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Germany, Hungary, Italy, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey and Ukraine (as of 31 December 2013).

¹The data in this paragraph refer to CEE excl. Russia and Turkey