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## CEE HOUSEHOLDS - NAVIGATING TROUBLED WATERS

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## Executive Summary



- **The households sector has been hit by the crisis and recovery will take time:**
  - ⇒ Peaking unemployment and falling income growth marked a reversal of the usual trend in terms of convergence in living standards
  - ⇒ Decline in consumption matched to a rising saving propensity, even in a context of poor saving capacity
  - ⇒ Tensions in the labour market are set to hold in 2010 and 2011, as well as low consumption and high saving propensity
  
- **Net financial assets dropped during the crisis, with recovery in 2009 mainly coming from a readjusted trend in consumption**
  - ⇒ Compared to 2008, household net financial savings recovered in 2009, thanks to lower consumption and debt growth and some positive stimulus stemming from higher returns on savings
  - ⇒ We expect in 2010 and 2011 some additional growth, with improving economic conditions and only gradually recovering consumption
  - ⇒ Strong regional differentiation confirmed:
    - ⇒ In SEE, financial saving capacity will remain subdued in both 2010 and 2011, as households struggle with low income and a high share of their consumption being still devoted to primary needs
    - ⇒ Still tense labour market conditions and the persistence of some volatility in capital market performance will lead to only a mild re-acceleration in household financial savings in CE and other CEE countries starting from 2011
  
- **In terms of assets allocation, a gradual return to risky instruments is emerging** following the flight to quality profile kept during whole 2008. Long-term investment vehicles, particularly of pension funds, still provide the most solid potential
  
- **Recovery in the mortgage market will remain gradual**, but the long-term potential is clear, as confirmed by the relative underpenetration. This is not the case in the consumer credit, where penetration levels peaked in the pre-crisis period
  
- **UniCredit has taken a pro-active approach** to support households during the crisis. Lending process has not been ceased. Specific initiatives have been launched in several countries focusing on loan restructuring and credit protection

## AGENDA

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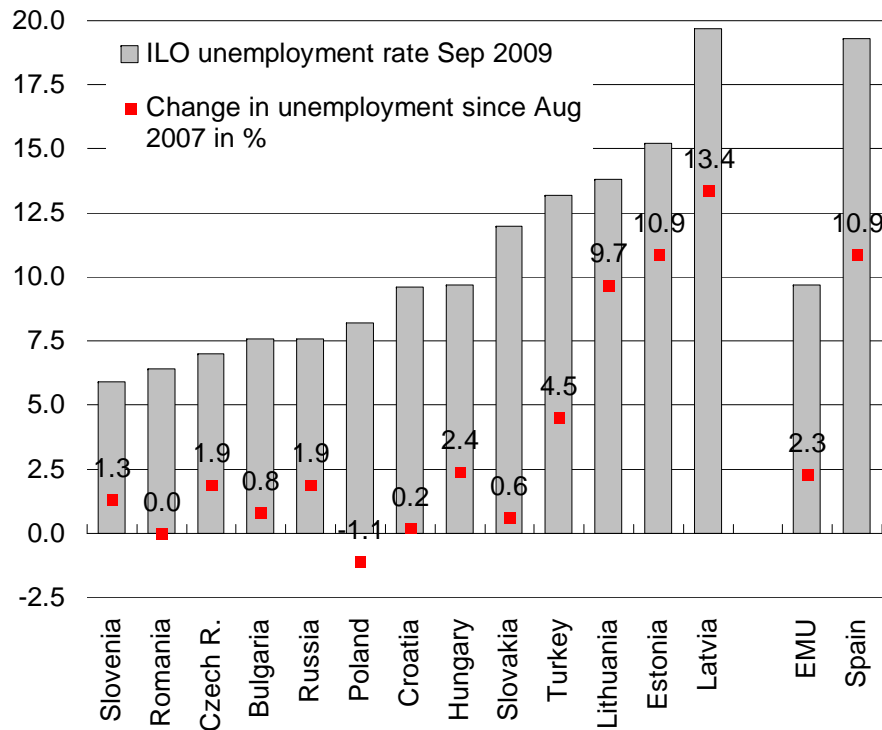


- **CEE Households and the crisis**
  - UniCredit strategy
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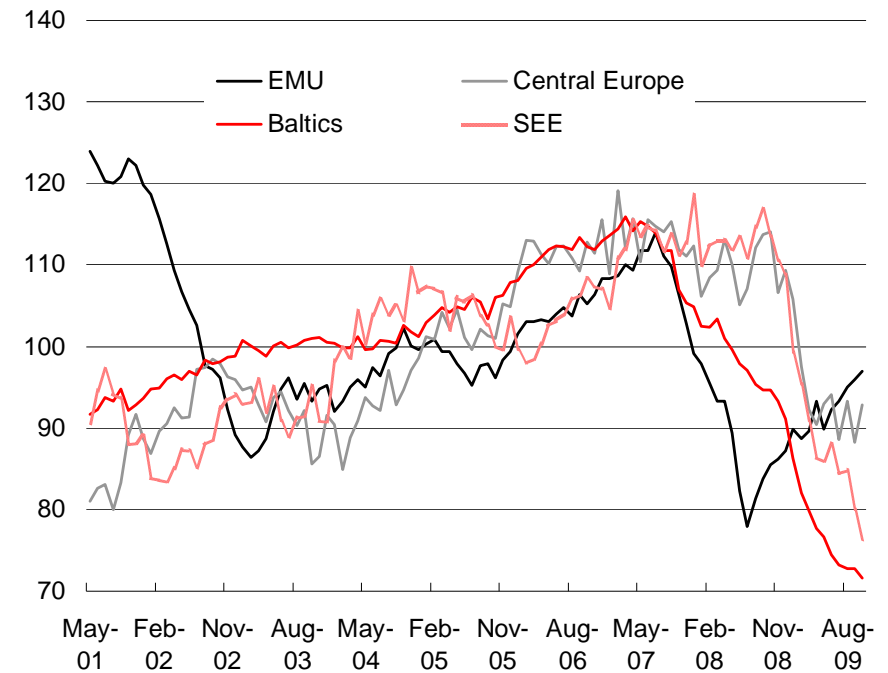
# The deep economic adjustments in 2009 resulted in rising tensions on labour markets and households' financial stress...



Financial crisis hits CEE labour markets<sup>3)</sup>



CEE households' financial conditions under stress<sup>1),2)</sup>

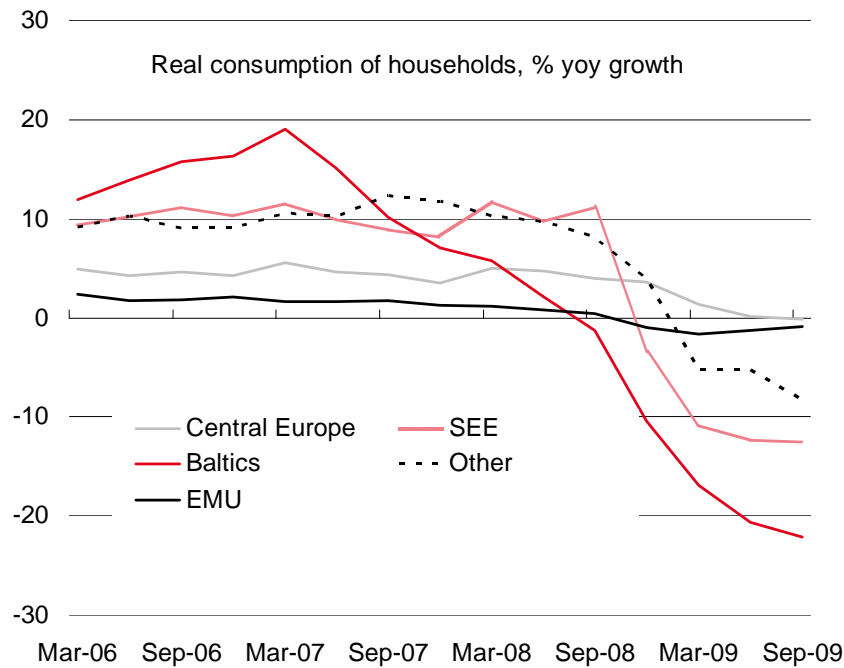


Note: (1) Central Europe: Czech R., Hungary, Poland, Slovenia, Slovakia; SEE: Bulgaria, Romania; (2) Normalised indicator on household financial situation: "How has the financial situation of your household changed over the last 12 months?" (the higher the value the more households are better off); latest data for Lithuania, Romania and Turkey is June 09. Source: UniCredit Group CEE Strategic Analysis, EU Commission Services

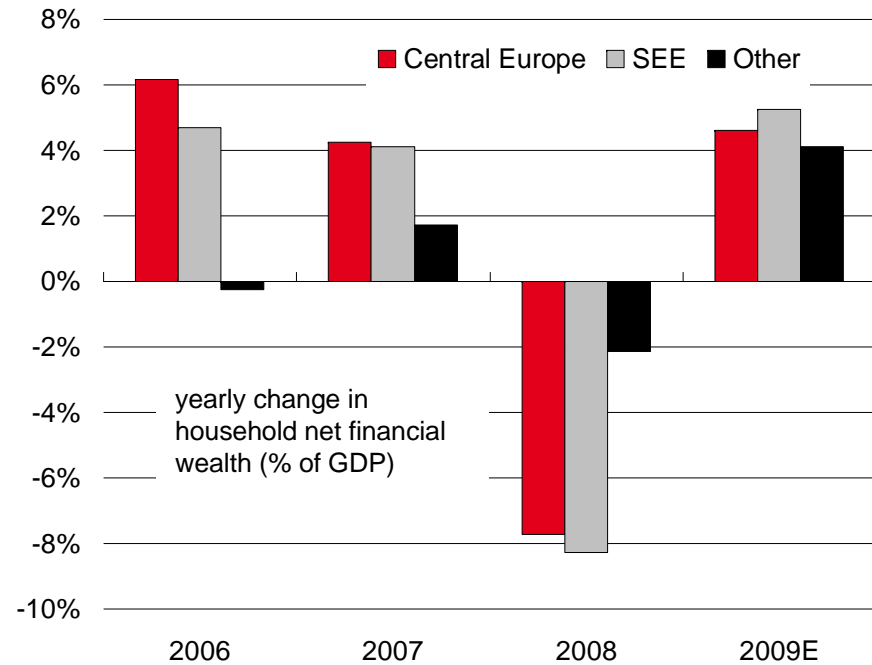
# ...clearly weighting on consumer spending and translating into some additional saving propensity



The crisis led to clear reduction in the consumption attitude of households...<sup>1)</sup>

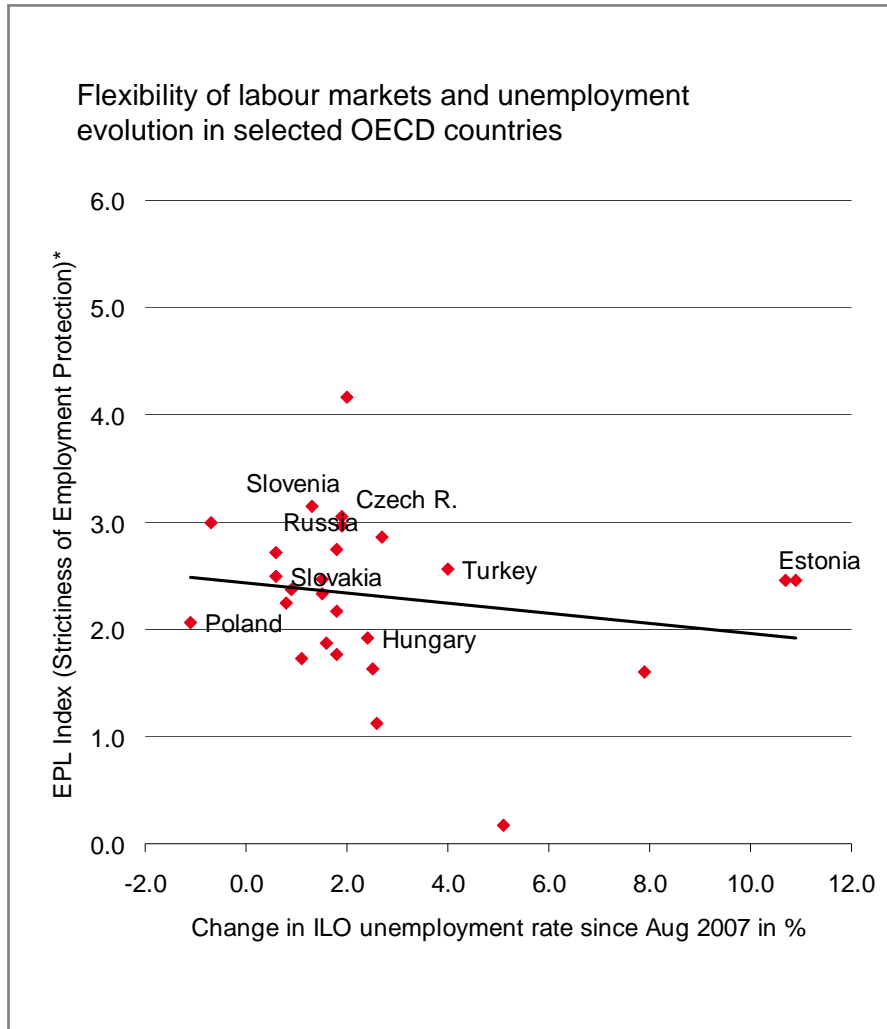


...translating into some additional saving propensity<sup>1)</sup>



Note: (1) Central Europe: Czech R., Hungary, Poland, Slovenia and Slovakia; SEE: Bulgaria, Croatia and Romania; Other: Russia, Turkey  
 Source: UniCredit Group CEE Strategic Analysis

# Flexibility of CEE labour markets weighted a lot. Automatic stabilizers helped but were not enough to fully weather the impact of the crisis



## Automatic stabilisers introduced:

- **Short-time work schemes** in Bulgaria and Croatia (in Croatia with limitations), while in the Czech Republic plans are currently being discussed
- **Resources, also leveraging on the European Social Fund, allocated to support job creation and training:**
  - ⇒ In Romania, the European Social Fund (ESF) is expected to subsidise around 15,000 jobs
  - ⇒ In Russia, participants in a specific training programme are entitled to receive a salary during the training period
- **Initiatives to encourage business start-up initiatives:**
  - ⇒ In Bulgaria, Slovakia and other CIS countries (incl. some co-payments under EU-related programs)
- **Unemployment allowances (amendments to the prevailing regulations regarding the amount, eligibility criteria and duration of entitlement):**
  - ⇒ In the Czech Republic, the government opted for a weighting system in the benefit regime
  - ⇒ In Romania, duration of entitlement has been increased from six to nine months and starting from 2010 the minimum wage for public sector was increased by 18% to RON 705 (~ EUR 165)

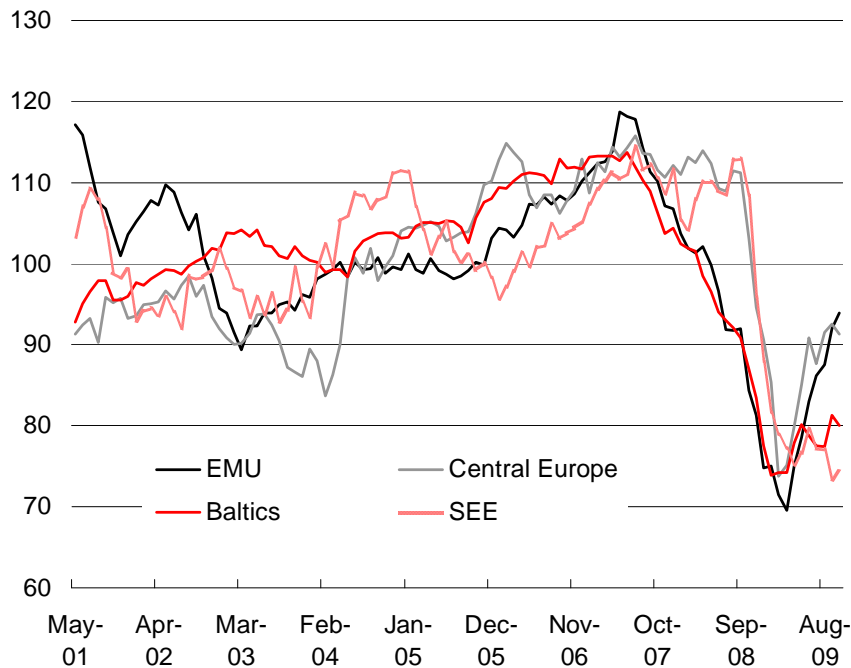
Note: (\*) 2008, regular workers; the OECD indicator of employment protection is a synthetic indicator of the strictness of regulation on dismissals (scale ranges from 0 (least stringent) to 6 (most restrictive))

Source: UniCredit Group CEE Strategic Analysis, Eurostat, OECD

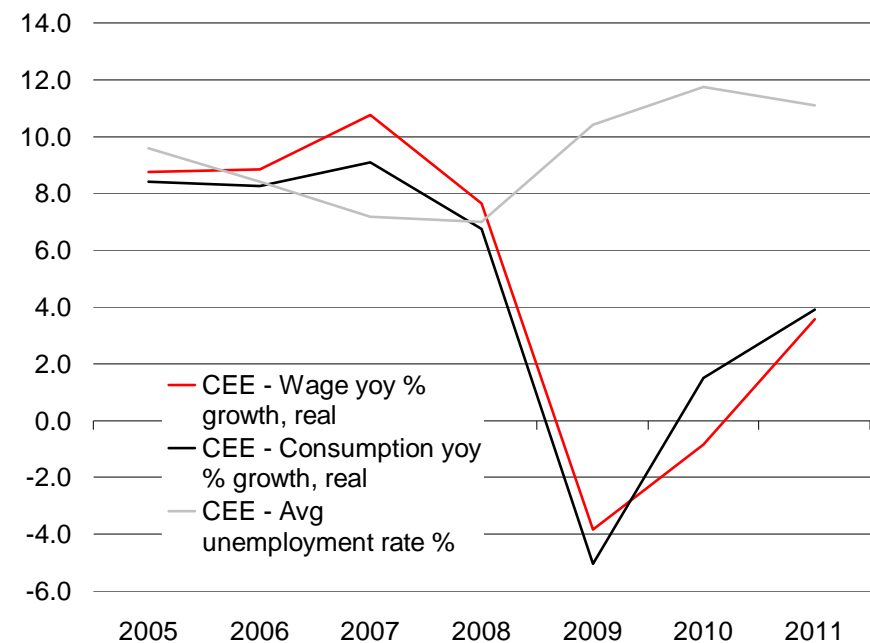
# Timid positive signs emerge, but the road to recovery for the households sector is long



Some marginal improvement in household confidence as the global economy confirmed signs of increased stabilization<sup>1)</sup>



Growth in consumption likely to recovery but still constrained by subdued disposable income growth<sup>2)</sup>

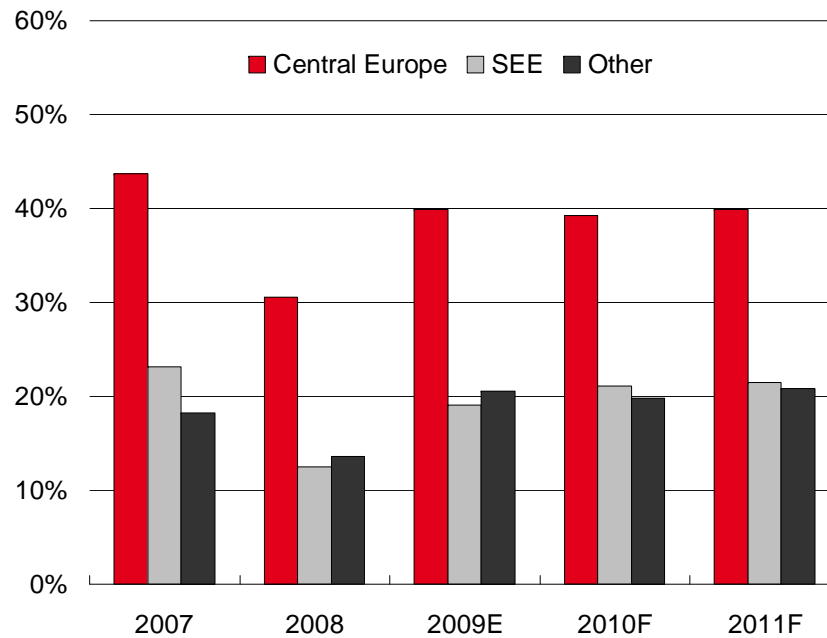


Note: (1) Central Europe: Czech R., Hungary, Poland, Slovenia and Slovakia; SEE: Bulgaria, Romania; (normalised) sentiment indicator developed by the EU Commission; (2) CEE: Baltics, Bulgaria, Croatia, Czech R., Hungary, Kazakhstan, Poland, Romania, Russia, Slovakia, Slovenia, Turkey, Ukraine. Source: UniCredit Group CEE Strategic Analysis, UniCredit CEE Research, EU Commission Services

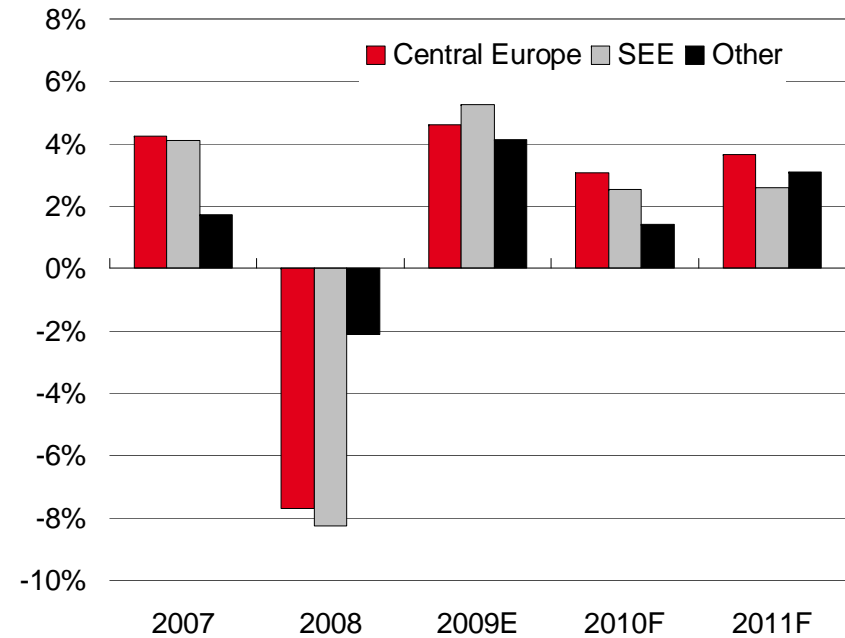
# Stretched financial conditions to hold. Only a mild recovery in 2010-2011 with improving economic conditions and still subdued consumption



Household net financial wealth (% of GDP)<sup>1)</sup>



Household financial savings ratio (% of GDP)<sup>1),2)</sup>

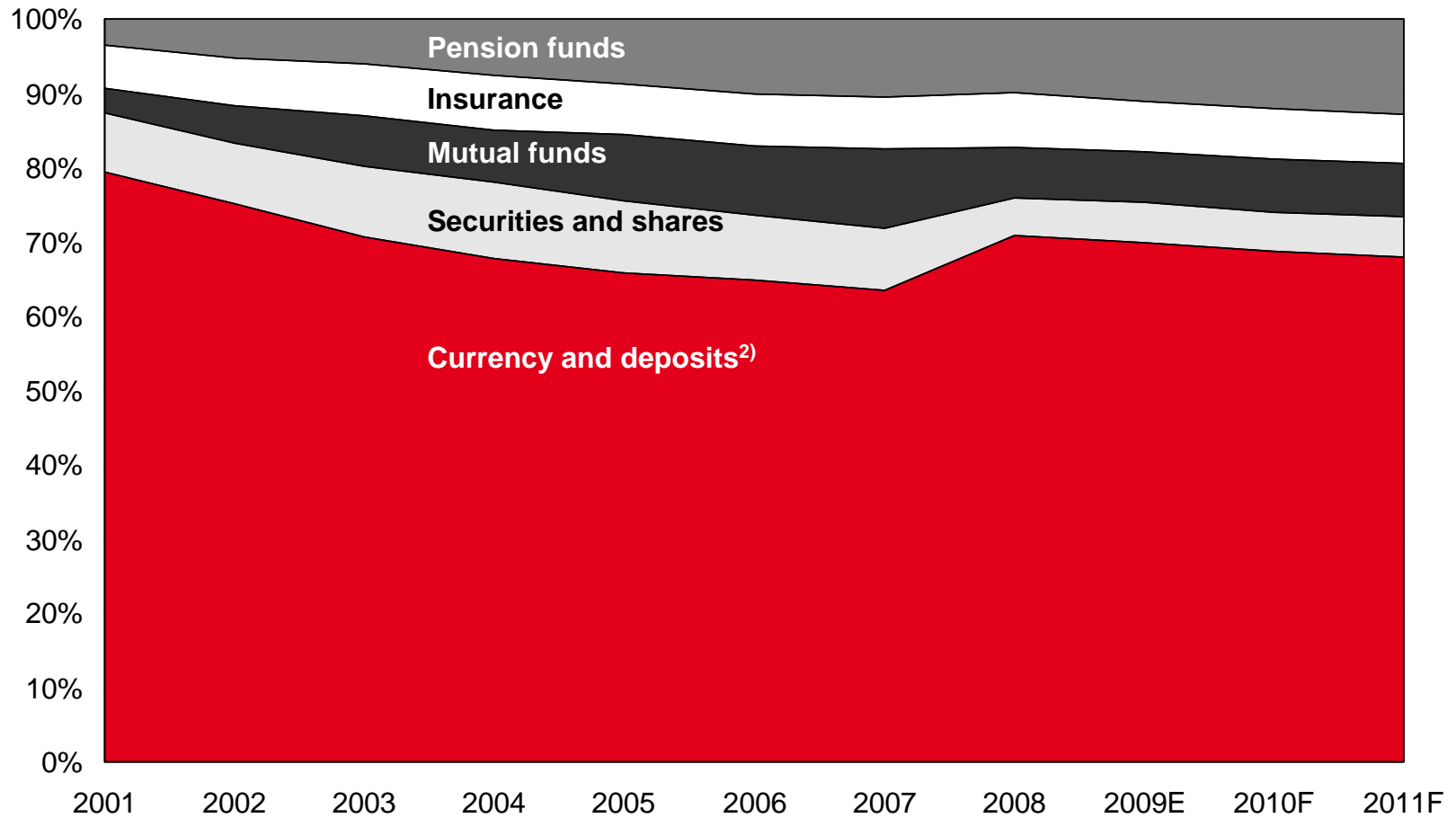


Note: (1) Central Europe: Czech R., Hungary, Poland, and Slovakia; SEE: Bulgaria, Croatia and Romania; Other: Russia and Turkey; (2) Yearly change in household net financial wealth as a share of GDP  
 Source: UniCredit Group CEE Strategic Analysis

# The financial crisis has dealt a major blow to the trend of diversification of CEE household wealth – to be reverted



CEE household financial assets (% on total)<sup>1)</sup>



Note: (1) CEE: Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russia, Slovakia and Turkey; (2) Including savings kept in construction banks and building societies for Croatia, Czech Republic and Slovakia

Source: UniCredit Group CEE Strategic Analysis

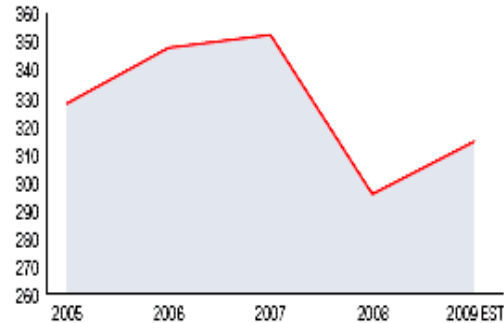
# The USA, the Eurozone and CEE: three areas, three different stories



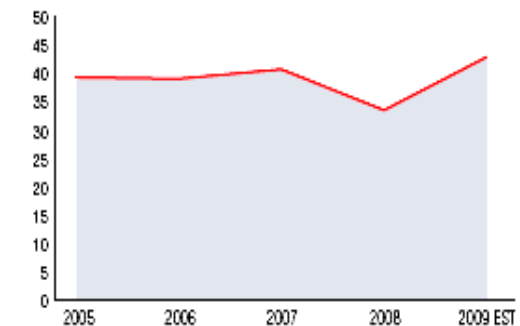
EMU: Total Financial Assets (% of GDP)



US: Total Financial Assets (% of GDP)



CEE: Total Financial Assets (% of GDP)



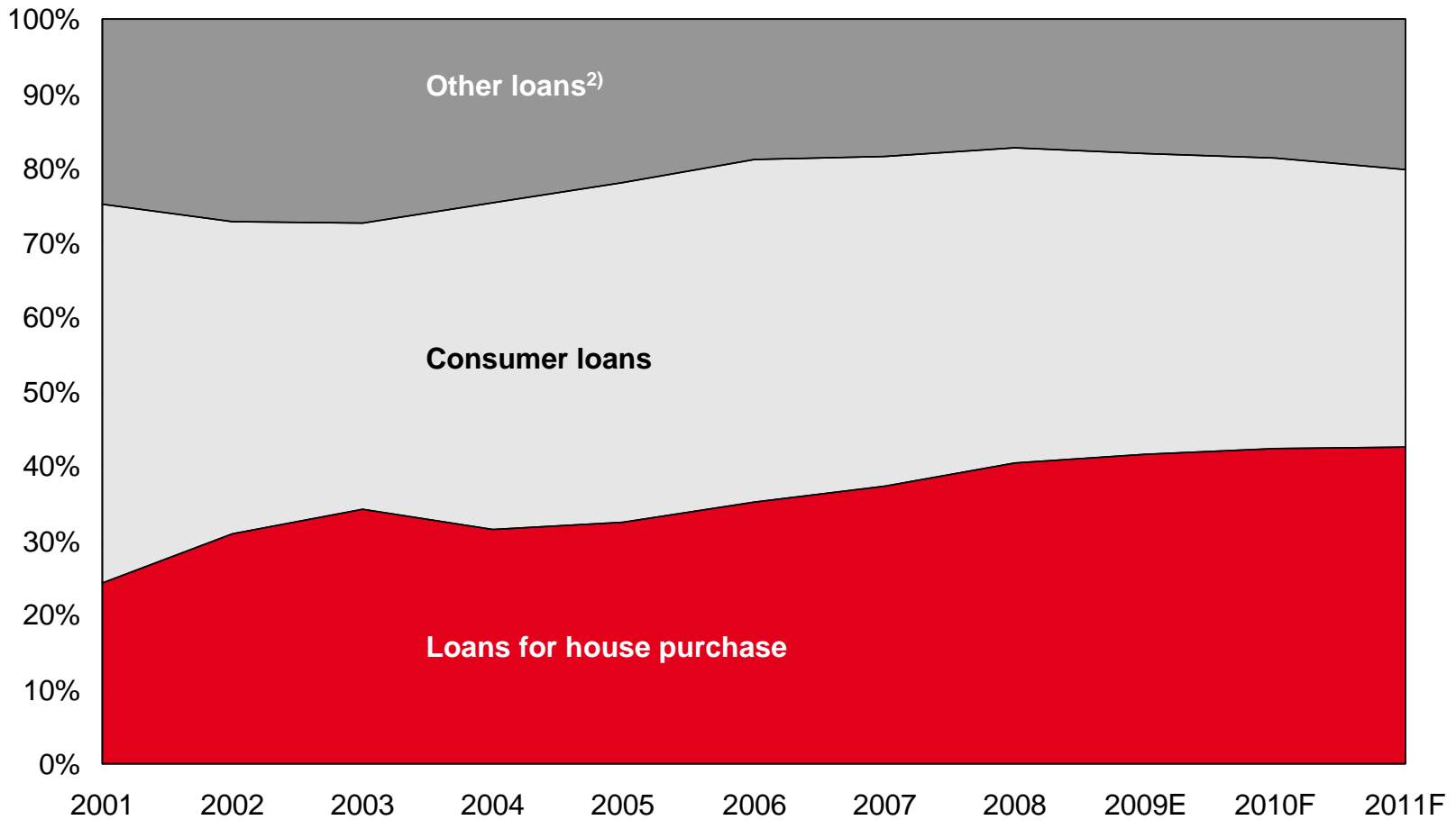
<b>USA</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>
Pension and life insurance (% of GDP)	94.5	100.5	101.4	82.0	85.5
Mutual funds(% of GDP)	29.1	31.8	33.6	24.3	26.5
Currency and deposits (% of GDP)	39.5	41.0	42.4	44.6	44.6
Other non managed assets (% of GDP) <sup>1)</sup>	165.1	174.8	175.3	145.1	158.1
<b>EMU</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>
Pension and life insurance % of GDP	52.2	54.0	54.6	52.1	54.7
Mutual funds as a % of GDP	16.2	16.4	15.0	10.5	12.1
Currency and deposits (% of GDP)	51.3	52.1	53.8	57.4	58.8
Other non managed assets (% of GDP) <sup>1)</sup>	71.6	73.8	70.0	54.3	56.4
<b>CEE<sup>2)</sup></b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>
Pension and life insurance % of GDP	5.6	6.2	6.6	5.3	7.3
Mutual funds as a % of GDP	3.5	3.6	4.4	2.3	3.0
Currency and deposits (% of GDP)	25.9	25.3	25.8	23.7	30.7
Other non managed assets (% of GDP) <sup>1)</sup>	4.3	4.0	4.0	2.1	2.9

Note: (1) Including non-life insurance technical reserves, securities other than shares and listed shares; (2) CEE: Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russia, Slovakia, Turkey  
 Source: UniCredit Group CEE Strategic Analysis, PGAM Research

# On the liabilities side, mortgage lending remained more stable relative to consumer financing

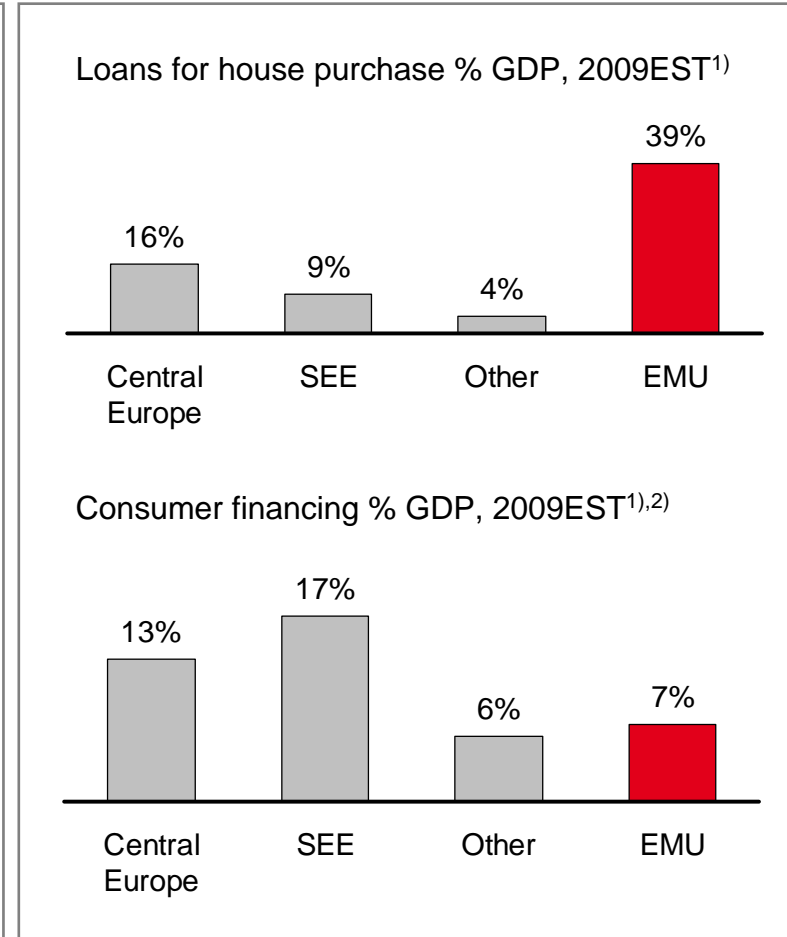
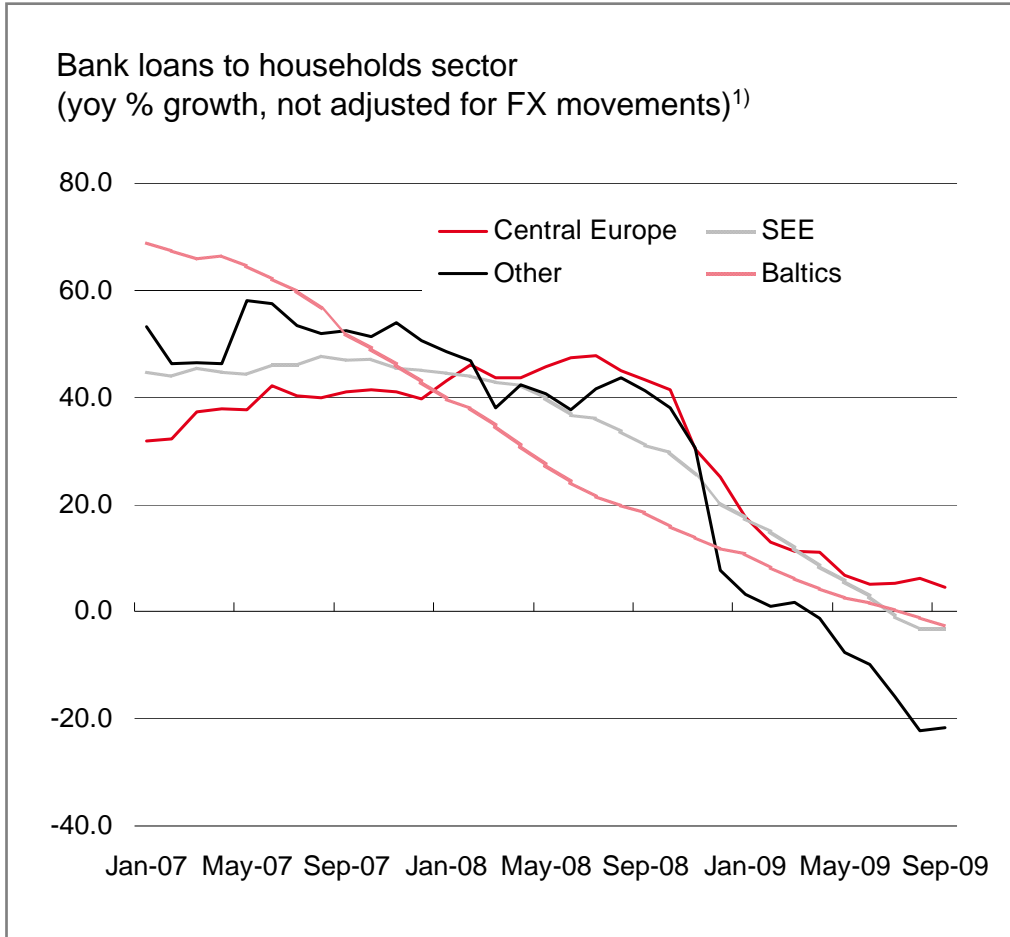


CEE household financial liabilities (% on total)<sup>1)</sup>



Note: (1) CEE: Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russia, Slovakia and Turkey; (2) Other loans include also overdraft, revolving credit cards and financial leasing  
 Source: UniCredit Group CEE Strategic Analysis

The crisis brought a strong reversal of solid growth in lending observed in the recent past. Recovery in the mortgage market will remain gradual, but the long-term potential is clear

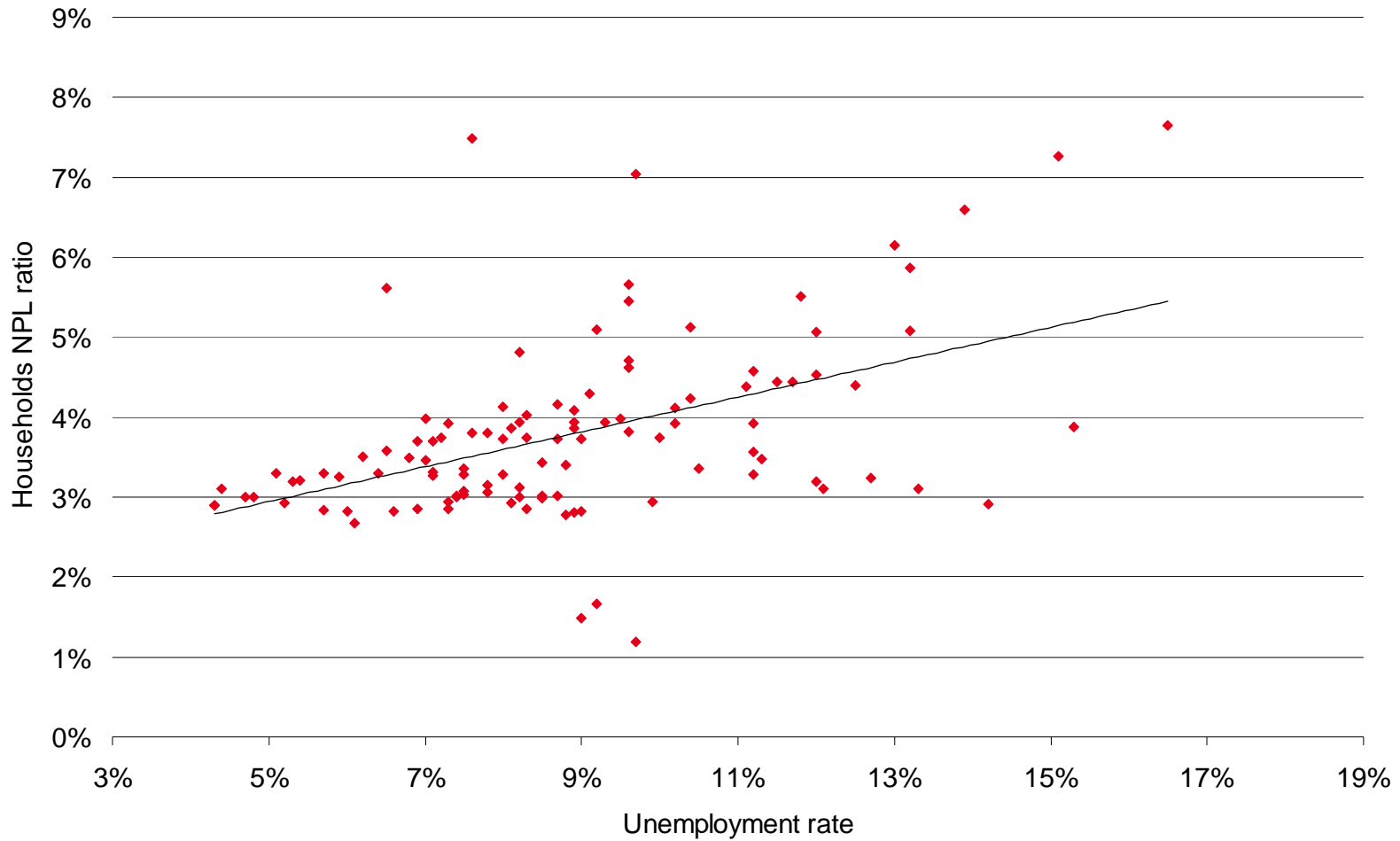


Note: (1) Central Europe: Czech R., Hungary, Poland and Slovakia; SEE: Bulgaria, Croatia and Romania; Other: Russia and Turkey; data for EMU refer to Nov 2009; (2) Incl. pure consumer loans, overdraft and revolving credit cards  
 Source: UniCredit Group CEE Strategic Analysis, ECB

# In the current environment, support to the household sector remains crucial to cushion the impact of the downturn



Credit quality problems strongly linked to tight labour market conditions<sup>1)</sup>



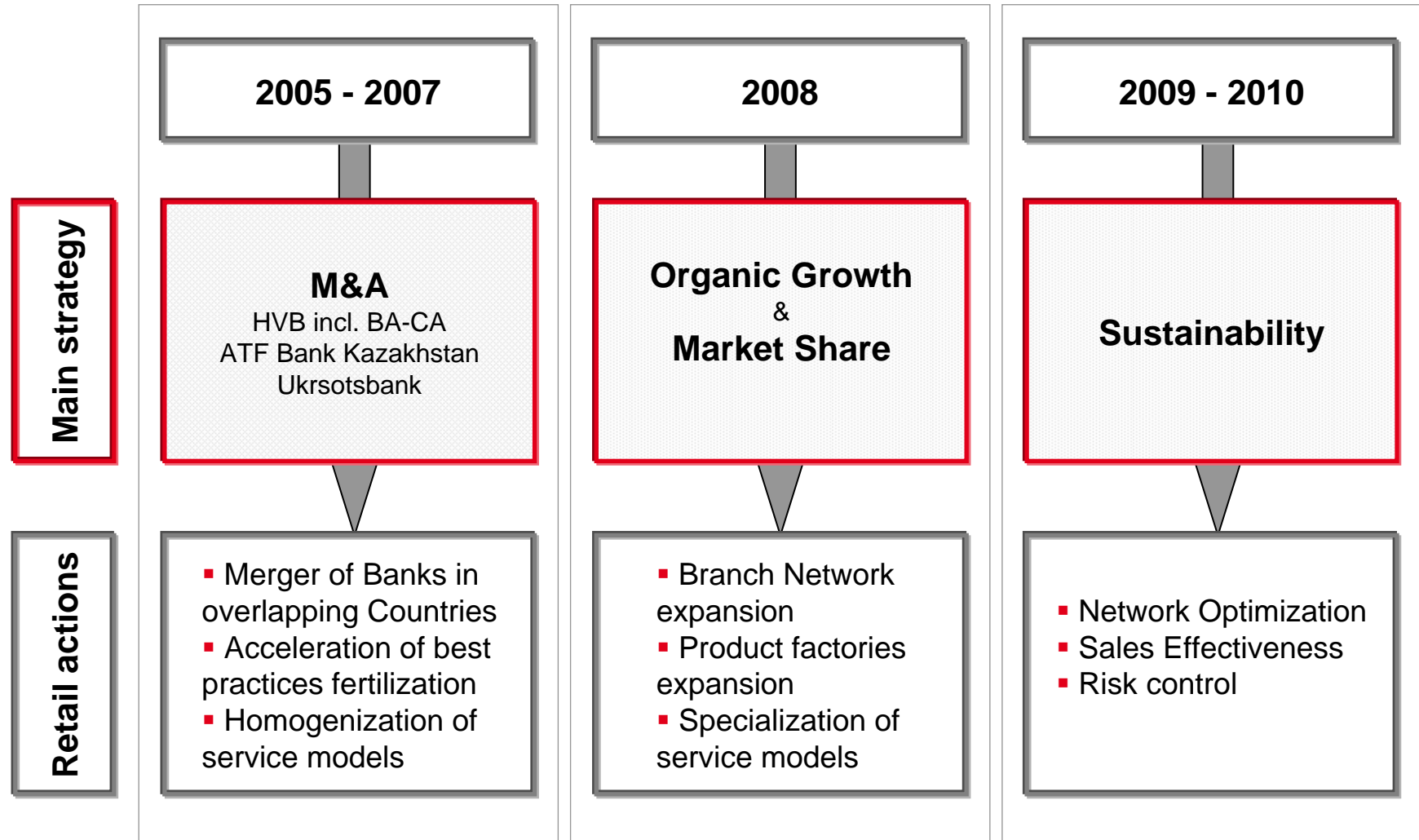
## AGENDA

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- CEE Households and the crisis
- **UniCredit strategy**

# We have deployed a consistent retail strategy in CEE



# UniCredit banks in CEE leveraged on three main pillars to support their clients



## CUSTOMER CENTRICITY

**1**

**NON STOP  
LENDING TO  
EXISTING CLIENTS**

**2**

**CREDIT  
PROTECTION  
INSURANCE**

**3**

**RESTRUCTURING  
OF EXISTING  
LOANS**

# Lending and credit protection hand in hand in supporting the households



## 1 Continuous crediting

- Lending process has not been ceased in CEE banks, despite the regulatory requirements in some of the CEE countries
- In many countries like HU and CZ, even the credit criteria has not been raised

## 2 Credit Protection insurance

Before the economic downturn, UniCredit Group Banks in almost all CEE countries\* are offering credit protection insurance for mortgage and consumer loans. The risk covered are:

- **Permanent disability**
- **Temporary disability**
- **Unemployment**

# Loan restructuring measures have been launched in Bulgaria, Romania, Croatia, Hungary, Russia, Kazakhstan and Ukraine



## 3 Loan Restructuring

**Tailored** repayment solutions for clients in difficulty to repay due to temporary unemployment or financial difficulty of the household. Main criteria for defining the new re-payment conditions :

1. **Origin of the clients' difficulty**
2. **Capability for monthly re-payment**

Product	Mortgage	Consumer loan
Measure	<ul style="list-style-type: none"> <li><b>A</b> Prolongation of tenor</li> <li><b>B</b> Prolongation of tenor + <b>grace period</b> on <b>principal</b> (total)</li> <li><b>C</b> Prolongation of tenor + <b>reduction</b> of <b>installment</b> to a sustainable level<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li><b>A</b> Prolongation of tenor</li> <li><b>B</b> Prolongation of tenor + <b>grace period</b> on <b>principal</b> (total)</li> </ul>
Result	<ul style="list-style-type: none"> <li>•Total of above 169,000 private individuals are contacted between May and october 2009</li> <li>•27,000 clients of the banks accepted the restructuring proposal of the bank</li> <li>•Stable level of NPL ratio</li> </ul>	



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**Thank you for your attention!**

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## Annex - Household Structural Financial Indicators



	2008	2009	2010	2011
<b>Bulgaria</b>				
Household Financial Assets (% GDP)	46.4	49.8	52.2	54.3
Household Financial Liabilities (% GDP)	31.3	32.6	33.3	34.0
Household Net Financial Wealth (% GDP)	15.1	17.3	18.9	20.3
<b>Croatia</b>				
Household Financial Assets (% GDP)	73.2	78.9	80.5	82.8
Household Financial Liabilities (% GDP)	38.3	39.0	38.9	39.1
Household Net Financial Wealth (% GDP)	34.9	39.9	41.6	43.7
<b>Czech Republic</b>				
Household Financial Assets (% GDP)	67.9	72.0	73.8	75.9
Household Financial Liabilities (% GDP)	27.9	29.9	31.7	34.3
Household Net Financial Wealth (% GDP)	40.1	42.1	42.0	41.5
<b>Hungary</b>				
Household Financial Assets (% GDP)	65.5	71.9	73.8	75.8
Household Financial Liabilities (% GDP)	35.8	37.2	36.4	37.0
Household Net Financial Wealth (% GDP)	29.7	34.7	37.5	38.8
<b>Poland</b>				
Household Financial Assets (% GDP)	62.3	66.2	68.5	70.8
Household Financial Liabilities (% GDP)	29.1	30.4	30.8	31.3
Household Net Financial Wealth (% GDP)	33.2	35.8	37.7	39.5
<b>Romania</b>				
Household Financial Assets (% GDP)	26.6	33.3	34.8	35.6
Household Financial Liabilities (% GDP)	21.9	21.7	21.3	21.3
Household Net Financial Wealth (% GDP)	4.7	11.6	13.6	14.3
<b>Russia</b>				
Household Financial Assets (% GDP)	21.2	24.9	24.7	25.2
Household Financial Liabilities (% GDP)	10.7	10.1	9.7	9.8
Household Net Financial Wealth (% GDP)	10.5	14.8	15.0	15.4
<b>Slovakia</b>				
Household Financial Assets (% GDP)	50.0	62.6	64.5	67.1
Household Financial Liabilities (% GDP)	19.2	22.1	23.8	26.0
Household Net Financial Wealth (% GDP)	30.8	40.4	40.7	41.1
<b>Turkey</b>				
Household Financial Assets (% GDP)	39.6	44.3	44.1	46.4
Household Financial Liabilities (% GDP)	12.4	13.3	13.7	15.0
Household Net Financial Wealth (% GDP)	27.2	30.9	30.3	31.4

Source: UniCredit Group CEE Strategic Analysis