UniCredit Group

Romania

Households finally increasing their saving propensity?

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- The financial wealth of households is estimated to have recovered in 2009, mainly on the back of a higher savings propensity and a positive wealth effect resulting from gains on the financial markets and despite rising unemployment and negative real wage growth. The more favourable economic outlook, despite persisting tensions in the labour market, combined with more cautious consumer behaviour may allow further recovery in wealth accumulation over the forthcoming period. Net wealth over GDP is set to reach some 14 % of GDP in 2010 – 2011 from a mere 5 % recorded in 2008
- Traditional savings products such as bank savings have been strongly supported by attractive returns, while investment funds and listed shares recorded a fast and impressive recovery supported by the favourable market performance. The first year of a fully functioning private pension system has also supported wealth accumulation
- The consumption boom phase led by rapid lending growth during recent years approached its end in 2009 due to tightening lending requirements, re-pricing of risk and uncertainty over future earnings. Lending growth is expected to recover only marginally in 2010, with growth returning to double-digit figures only starting mid / end of 2011. A still rising debt burden remains a key issue to monitor

Table 1: **Household real and financial indicators**

	2006	2007	2008	2009 e	2010 f	2011 f
Per capita net financial wealth (€)	663	693	275	646	832	990
Monthly wage (€)	246	312	348	323	343	394
Monthly wage (% YoY LC)	16.1	20.3	23.3	6.3	5.7	10.6
Unemployment rate (%) (1)	5.4	4.3	4.0	6.3	8.5	7.0
Home ownership (%) (2)	96	n.a.	n.a.	n.a.	n.a.	n.a.
Household financial assets (% YoY LC)	36.6	44.1	1.5	24.4	11.2	11.9
Household financial liabilities (% YoY LC)	83.2	81.6	40.0	–1.6	4.3	9.5
Household financial saving ratio (% GDP)	1.4	1.2	–5.9	6.9	2.6	1.9
Household net financial wealth (% GDP)	14.0	12.9	4.7	11.6	13.6	14.3
Housing affordability index (house price per sqm over gross monthly wage) (3)	3.9	3.7	3.4	n.a.	n.a.	n.a.
Mortgage in % GDP	2.4	3.5	4.5	4.6	4.7	4.8
FX indexed / denominated loans (% total) (4)	37.3	46.3	49.8	53.0	53.7	53.4
Households NPLs ratio (%) (5)	n.a.	n.a.	6.4	16.2	18.2	14.6

Note: (1) According to local definition; (2) 2005; (3) The index refers to housing affordability in the capital city (based on prices for old apartments); (4) Also including non-bank financial liabilities; (5) Over gross loans (estimated)
Source: BNR, UniCredit Group CEE Strategic Analysis – UniCredit Tiriac Bank Economic Research

Household wealth accumulation brought some positive surprise in 2009 despite the sharp economic contraction. Following the huge losses in 2008 on the financial markets, the stock exchange's impressive recovery coupled with a slowing dynamic of indebtedness has contributed to the rebound of net financial wealth to an estimated 12 % of GDP, close to the pre-crisis level (the bottom of 4.7 % of GDP was reached in 2008).

Investments by households in listed shares have halved at around 15 % of total wealth in 2008 and are estimated to have probably recovered some weight in 2009 to around 20 %. The high exposure to equities was thus the main driver behind household financial wealth development during these two years. Romania's stock exchange has been one of those most affected by the financial turmoil in the region, with the BET index plummeting 70 % yoy in 2008 and recording a 67 % yoy recovery in 2009 (as of 4 December).

The extremely volatile environment has been impacting the less developed market of investment funds (AUM below 1 % of GDP), which remained in positive territory up to September, outstripping developed Europe. After the 20 % yoy drop in households' investments in mutual funds in 2008, last year most likely recorded record high growth of 306 % yoy. This unexpected growth has been driven by the appearance of bank-related monetary investment funds offering very attractive yields and using their bank networks for promotion.

Despite the historically low saving capacity, the crisis has brought some improvement in the propensity to save, mainly boosted by accumulation in traditional forms of savings. As a result, the dynamic of bank deposits remained robust with 18 % yoy growth estimated for 2009, stimulated by high interest rates as a result of intensified competition. Continuation of double-digit growth rates is expected for the following years. Overall, the share of deposits in total household financial wealth is projected to stay at around 60 % in the following years as well.

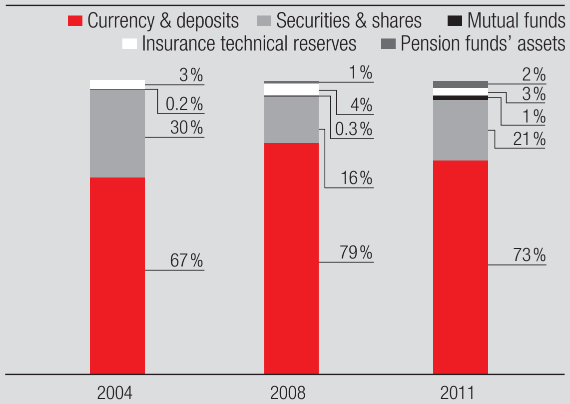
Investment in insurance products proved to be affected by the financial crisis with a lag. Cooling income growth has been affecting in particular the life insurance segment (estimated to have dropped by –5 % yoy in 2009). The outlook for this segment remains clearly grim due to stagnating income and the increasing unemployment rate.

The pension funds segment still provides one of the most solid long-term potential. As confirmation of its bright prospects, the voluntary pension system had more than doubled net assets to RON 181 mn and the number of contributors to 181,000. Moreover, the 2nd pillar pension system (launched in January 2008) has tripled its net assets compared to 2008 to RON 2.1 bn (as of October 2009) while the number of participants reached 4.5 mn. Driven by progressive contribution hikes, we expect the assets managed by pension funds (in both the 2nd and 3rd pillars) to reach RON 3.8 bn (EUR 0.9 bn) in 2010.

Credit market conditions have tightened significantly since September 2008, with the turning point for both lending and leasing activity becoming visible in 2009.

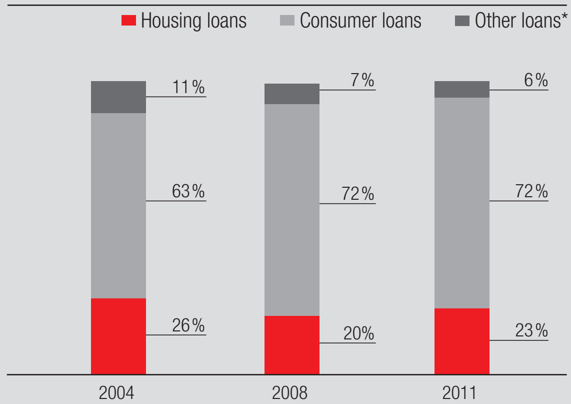
The cooling of wage growth and tighter lending requirements will contribute to keeping demand for loans subdued. Demand for real estate investment and mortgage loans might rebound this year helped by the government's "first home" stimulus programme and a possible change in expectations regarding the future development of house prices. Overall, total household liabilities are estimated to have declined by almost 2 % yoy in 2009, while for 2010 only a marginal recovery is expected (to around 4 % yoy).

Household Financial Assets (% of total)



Source: BNR, UNOPC, UniCredit Group CEE Strategic Analysis – UniCredit Tiriac Bank Economic Research

Household Financial Liabilities (% of total)



*) Other loans also include financial leasing
Source: BNR, ASLR, UniCredit Group CEE Strategic Analysis – UniCredit Tiriac Bank Economic Research