



HOUSEHOLD WEALTH IN THE NEW EUROPE COUNTRIES

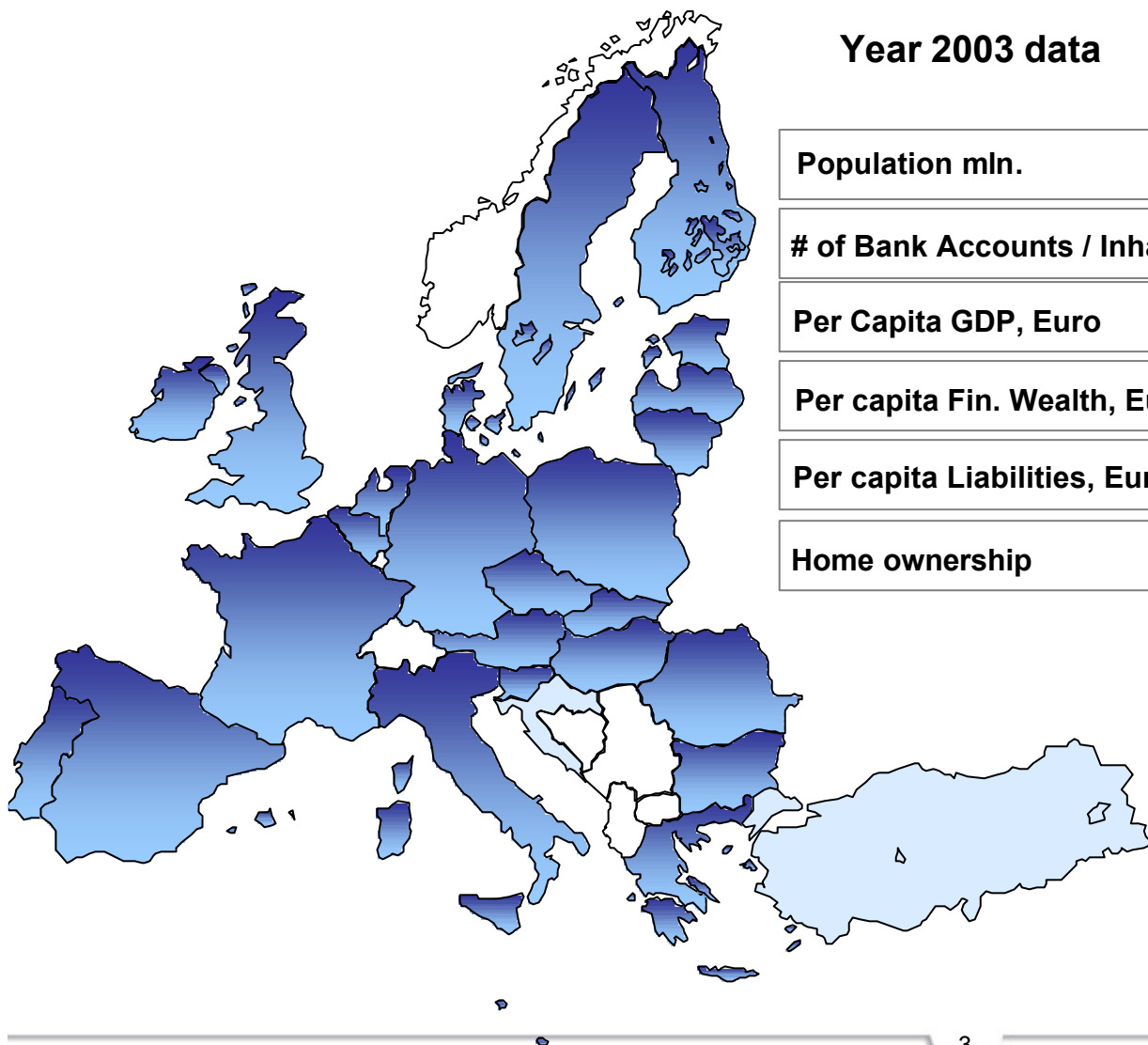
Debora Revoltella,
Head of Research,
UniCredit New Europe Division

and

Daniele Fano,
Head of Economic Research
Pioneer Global Asset Management

- **Wealth and Debt: an overview**
 - Expected trends in the development of the financial sector
 - Conclusions

THE NEW EUROPEAN MARKET – THE CHALLENGE OF REBUILDING A HOMOGENEOUS MARKET THROUGH THE CONVERGENCE IN LIVING STANDARDS



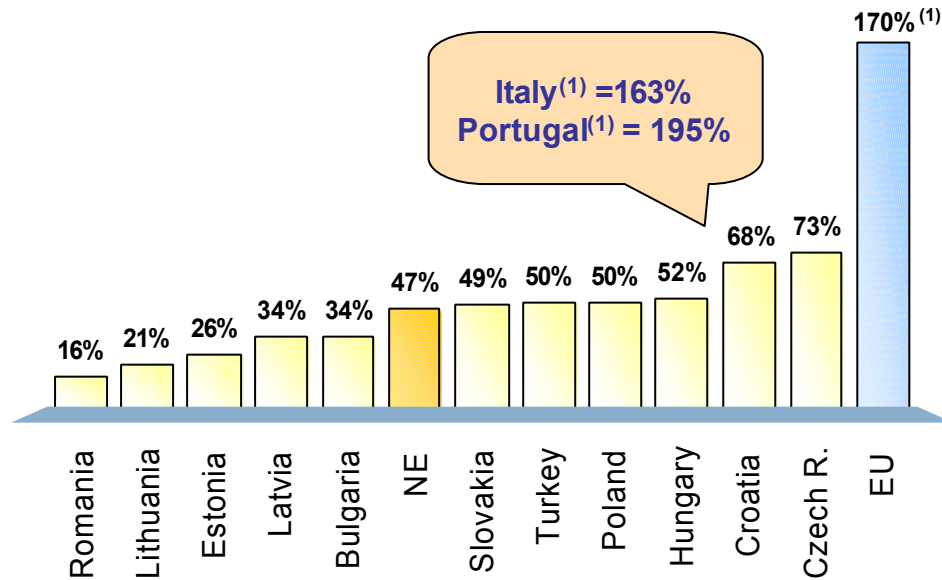
Year 2003 data

	EU-15 ⁽¹⁾	NE-12 ⁽²⁾	ITALY ⁽³⁾
Population mln.	380	177	57
# of Bank Accounts / Inhabitants	134%	53%	63%
Per Capita GDP, Euro	24,174	3,998	21,930
Per capita Fin. Wealth, Euro	41,628 ⁽⁴⁾	1,897	35,800
Per capita Liabilities, Euro	14,498 ⁽⁴⁾	362	5,296
Home ownership	64%	62%	76%

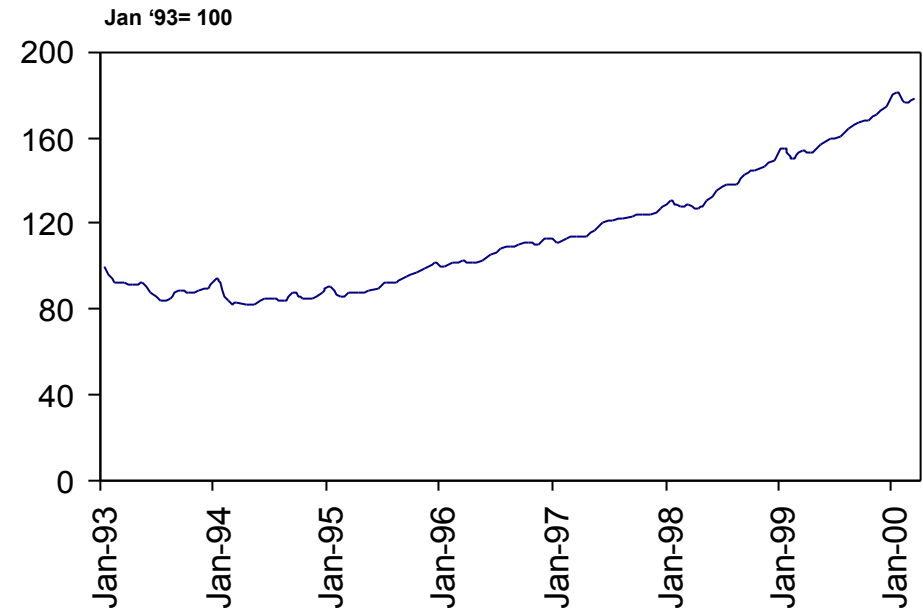
- 50% of EU15 population, but only 2% of financial wealth
- Low financial penetration
- Relatively high home ownership

WEALTH IS ONLY 47% OF GDP, WHILE 170% AT THE EU15 LEVEL

Households' Financial Wealth as % of GDP (2003)

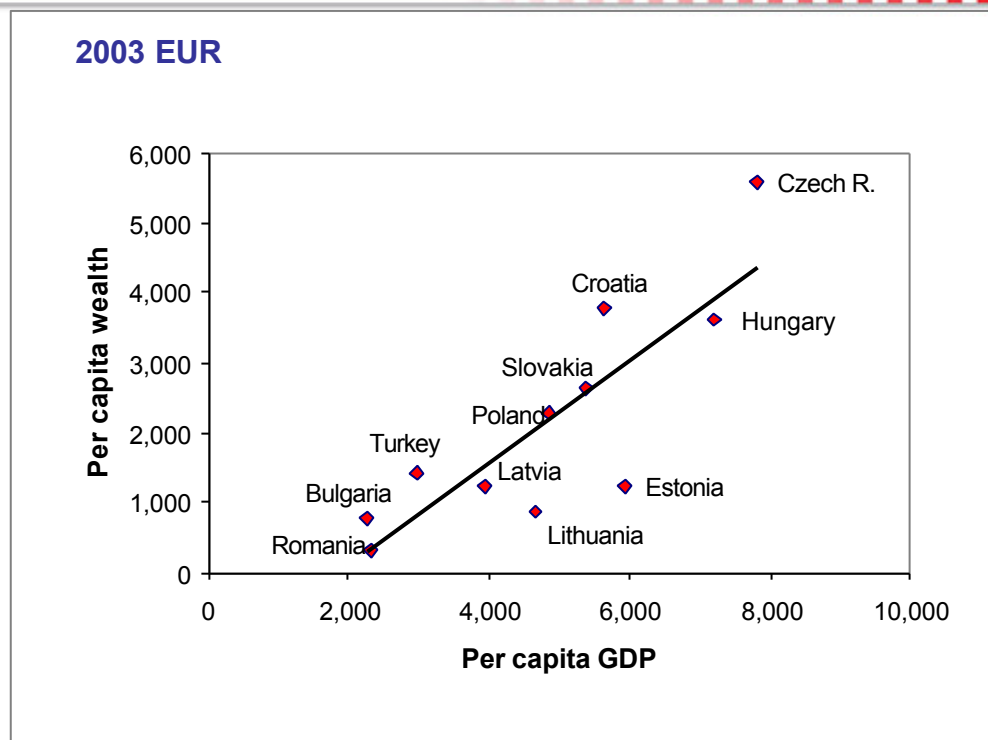
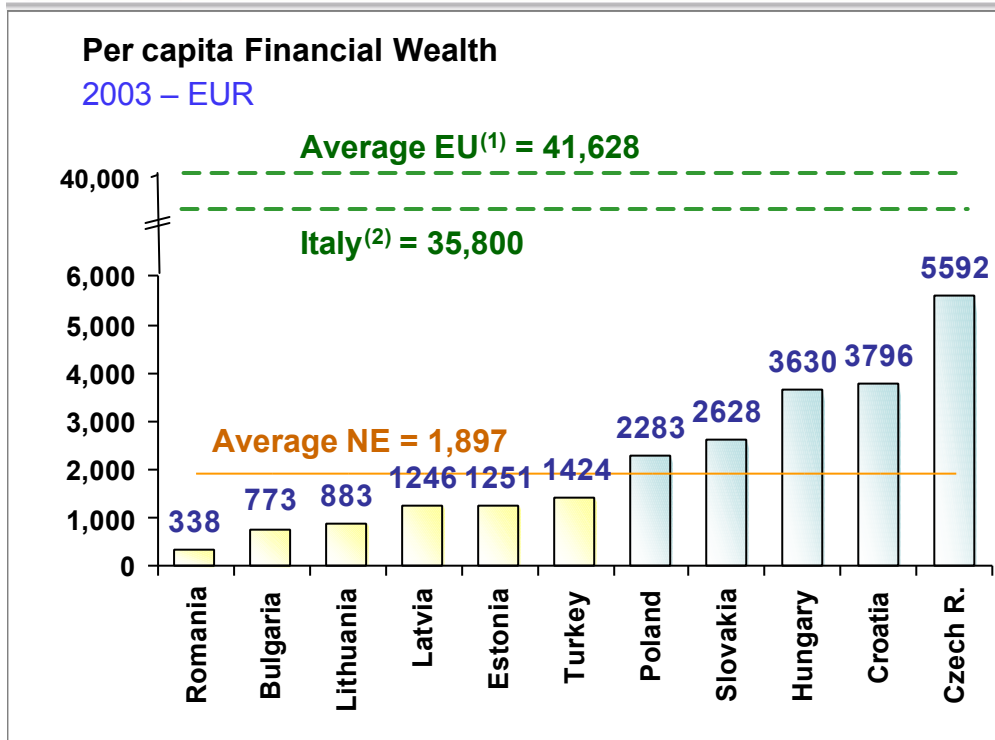


Financial Wealth Developments (1993-2000)⁽²⁾



- Despite high involuntary saving in the pre-transition period, erosion of the real value of assets
- Financial and banking crisis during the first years of transition adding to the accumulation problems
- Central European countries successful in transition benefiting for a longer time of wealth accumulation (strong economic growth, price stabilisation and increasing overall stability)

STRONG DISPARITIES AMONG COUNTRIES, WHILE BEING RICH IS A MATTER OF FLOWS RATHER THAN OF STOCKS

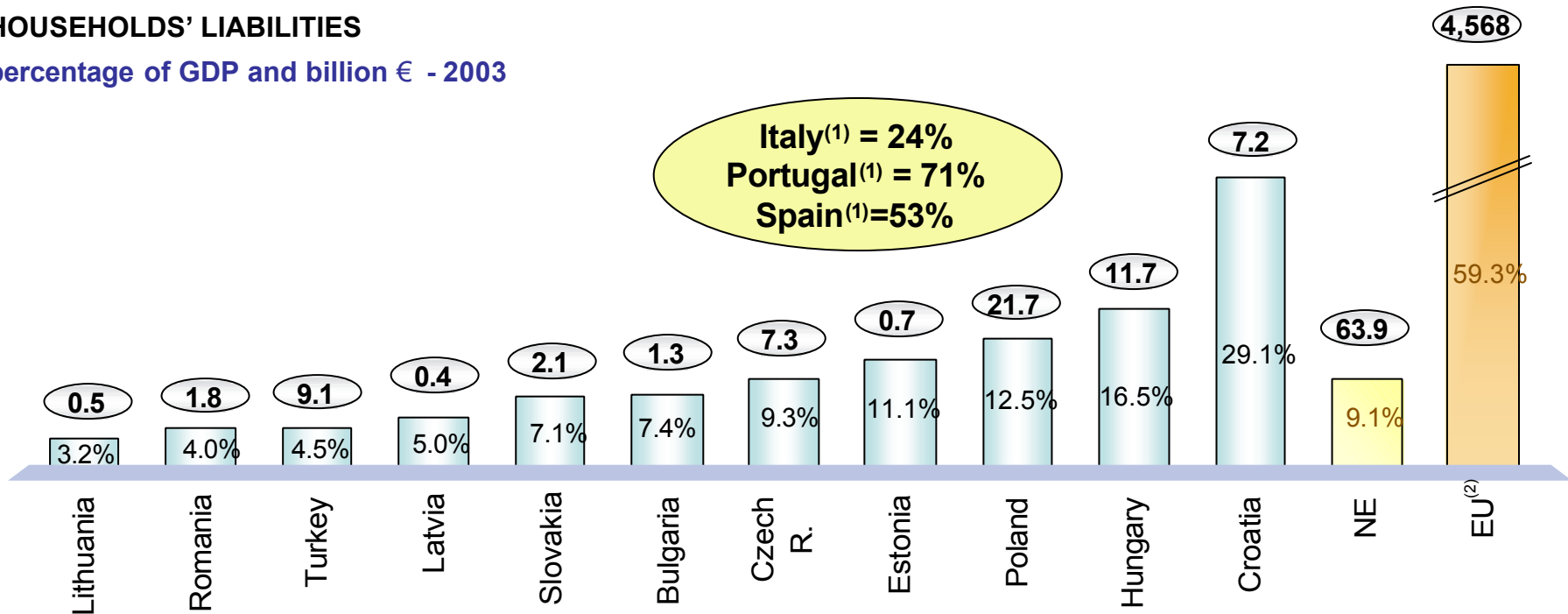


- NE average per capita wealth is less than 5% of EU15 level
- Strong direct relationship between per capita income and per capita wealth, meaning that accumulation is a matter of flows
- Wealth is accumulated by working population while the poorest segment is not able to save

STRUCTURAL DEVELOPEMENT OF THE LENDING MARKET, BUT STILL LOW DEBT COMPARED TO EU LEVELS

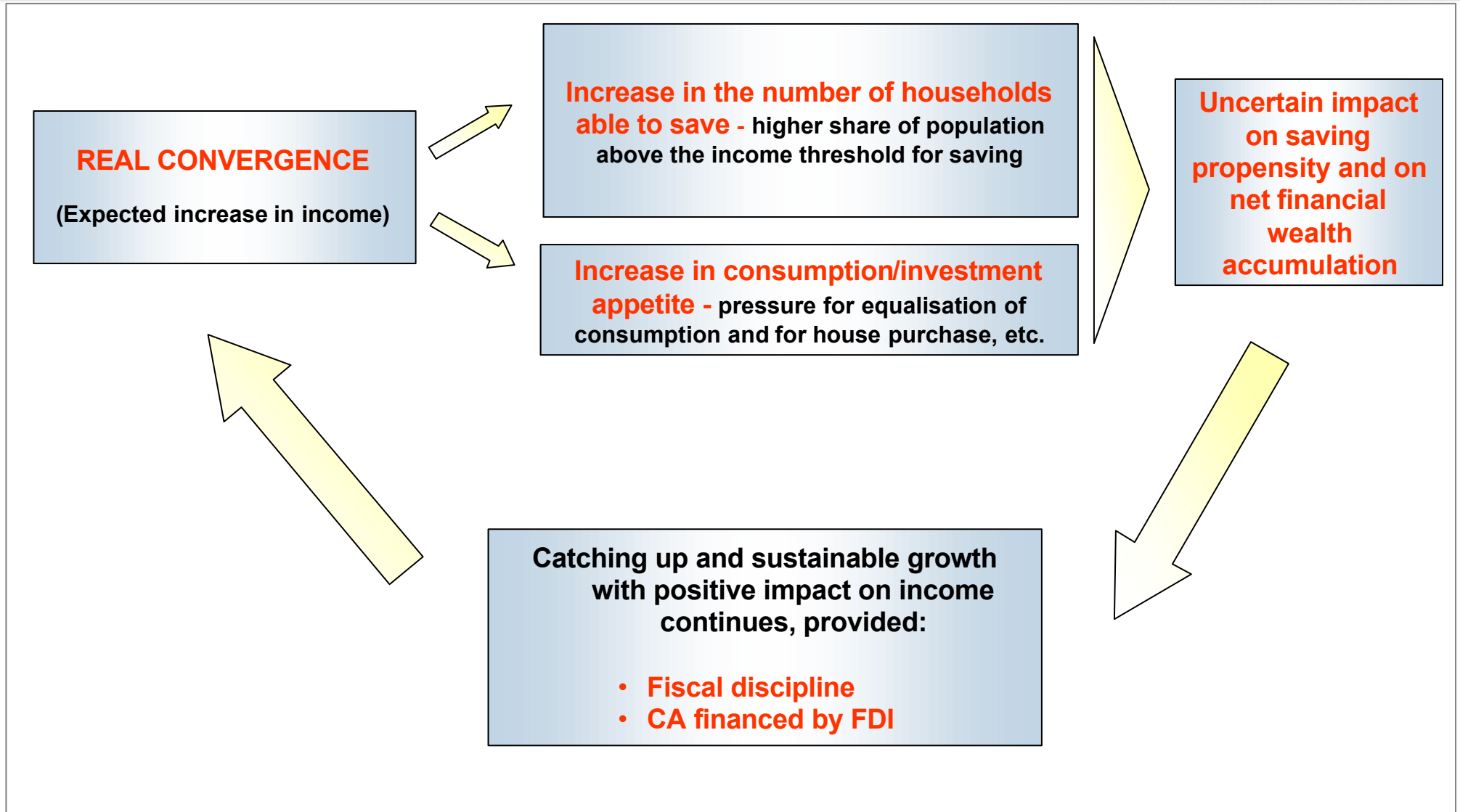
HOUSEHOLDS' LIABILITIES

percentage of GDP and billion € - 2003



- Lending growth is a consequence of structural development of the market
- Credit boom driven by the level of consumption and decreasing cost of debt
- Strong selection on clients – only the richest share of the population, young individuals, with high income and wealth

HOUSEHOLDS SAVING BEHAVIOUR - THE IMPACT OF CONVERGENCE

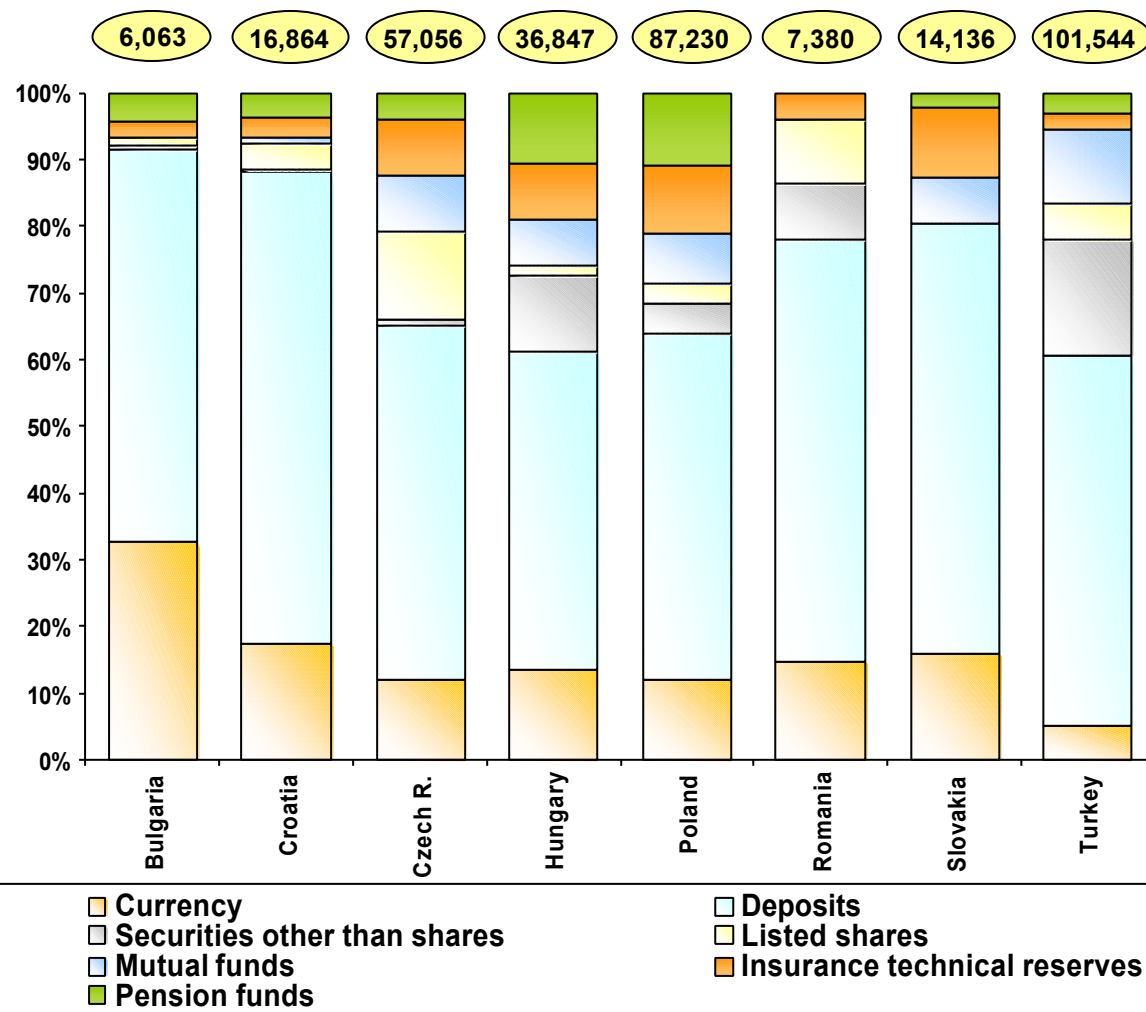


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HOUSEHOLD FINANCIAL ASSETS – PRESENT ALLOCATION

FINANCIAL ASSETS (STOCKS) OF HOUSEHOLDS (S.14)

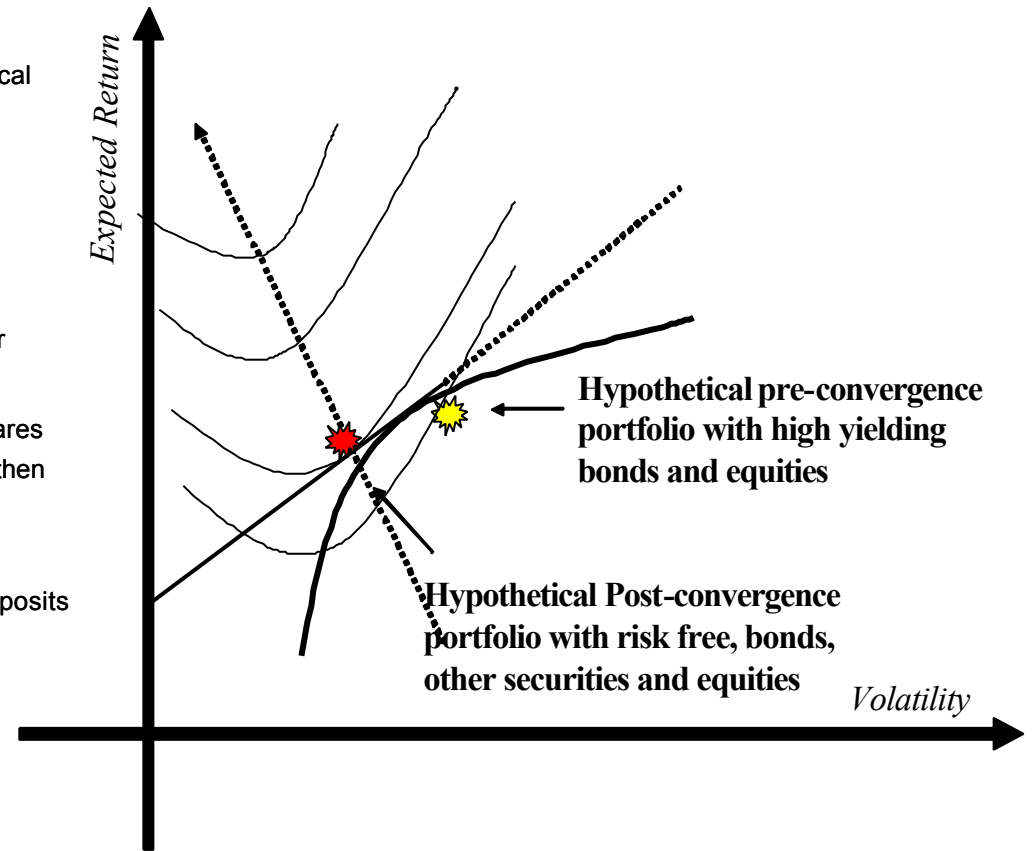
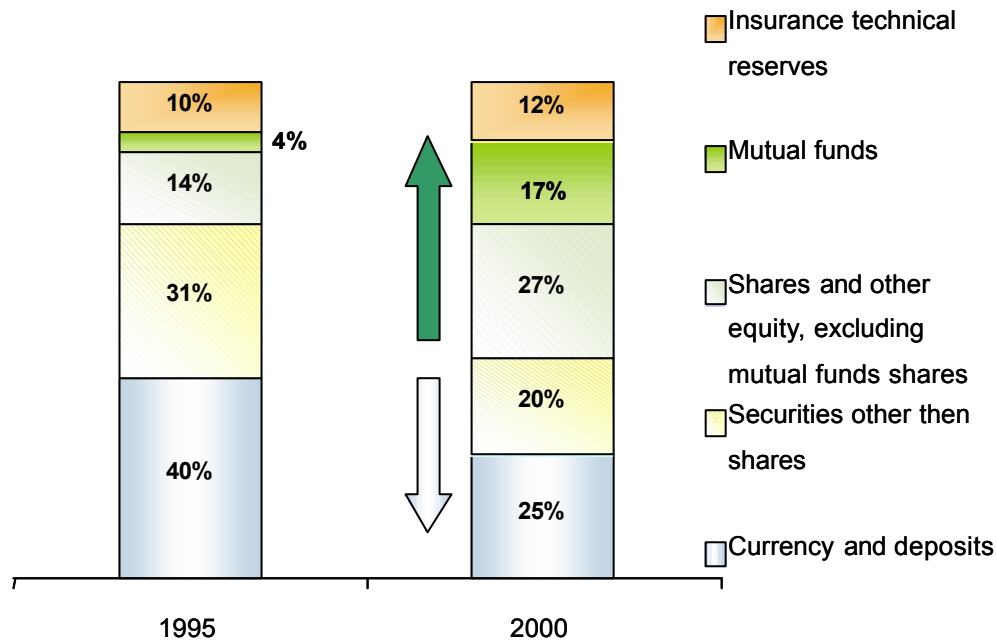
2003 - € million and % of total wealth



- Currency demand - consumption driven
- Bank deposit - most relevant component, strongly decreasing
- Securities relevance dependent on Government debt size – low except Turkey, Hungary, Poland and Romania
- Equities mostly a consequence of the privatisation process. Sizable role in Czech R, Romania, Turkey and Poland
- Mutual funds perceived as advanced and innovative products. Switch is a function of relative wealth and expected returns
- Pension funds and life insurance growth strongly connected with timing of the reform, level of development of the market and tax treatment

CONVERGENCE: ITALY'S EXPERIENCE

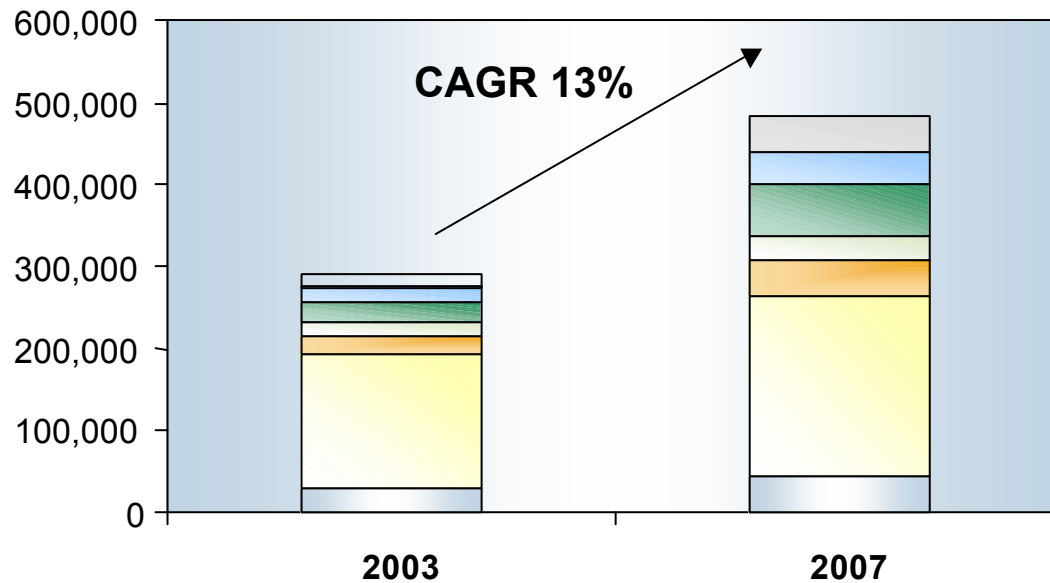
Household financial asset composition 1995-2000



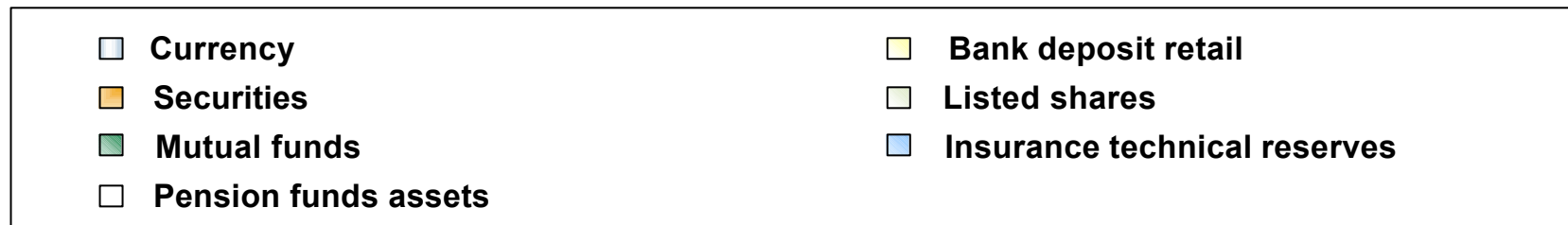
ASSET ALLOCATION – PENSION, INSURANCE AND MUTUAL FUNDS THE LEADING PRODUCTS IN THE REGION

Personal Financial Assets – forecasts 2003 – 2007

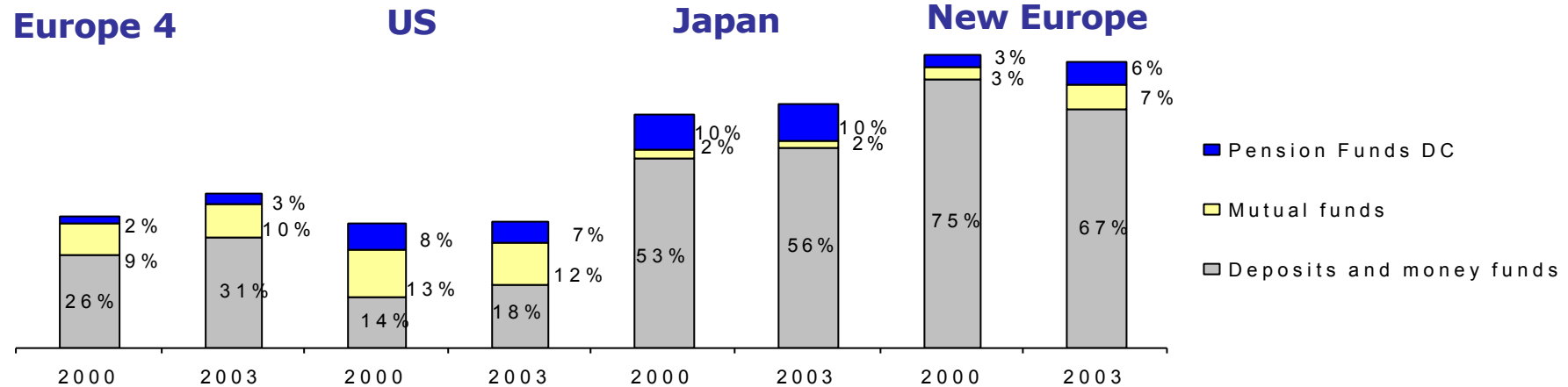
EUR mln



	CAGR '03-07
Currency	9%
Bank deposits retail	8%
Securities	17%
Listed shares	15%
Mutual funds	29%
Insurance techn. Reserves	19%
Pension funds assets	27%



AN INTERNATIONAL COMPARISON: THE NEW EUROPE DIFFERENTIAL TREND: THE DEPOSIT “LION SHARE” DECREASES, A GROWING PRESENCE IN THE MORE SOPHISTICATED SEGMENTS



Data as a percentage of total household financial assets

Household financial assets mix	EUROPE			US			JAPAN			NEW EUROPE (excluding Estonia, Latvia and Lithuania)	
	EU 4	EU 4	EU 4	2003	2000	1995	2003	2000	1995	2003	2000
Deposits and money funds	31%	26%	36%	18%	14%	16%	56%	53%	50%	67%	75%
Bonds	7%	6%	10%	8%	6%	9%	6%	4%	8%	8%	6%
Equity	17%	23%	15%	29%	33%	32%	5%	8%	11%	5%	7%
Mutual funds	10%	9%	5%	12%	13%	10%	2%	2%	2%	7%	3%
Life insurance unit linked	7%	7%	5%	5%	4%	3%	0,1%	0,1%	0,1%	5%	4%
Life insurance non unit linked	13%	13%	12%	4%	3%	4%	17%	18%	17%		
Pension Funds DC	3%	2%	2%	7%	8%	7%	10%	10%	8%	6,2%	3,5%
Pension Funds DB	8%	9%	8%	17%	16%	16%	0%	0%	0%	0,0%	0,0%
Others	5%	5%	6%	3%	2%	2%	4%	4%	4%	2%	1%

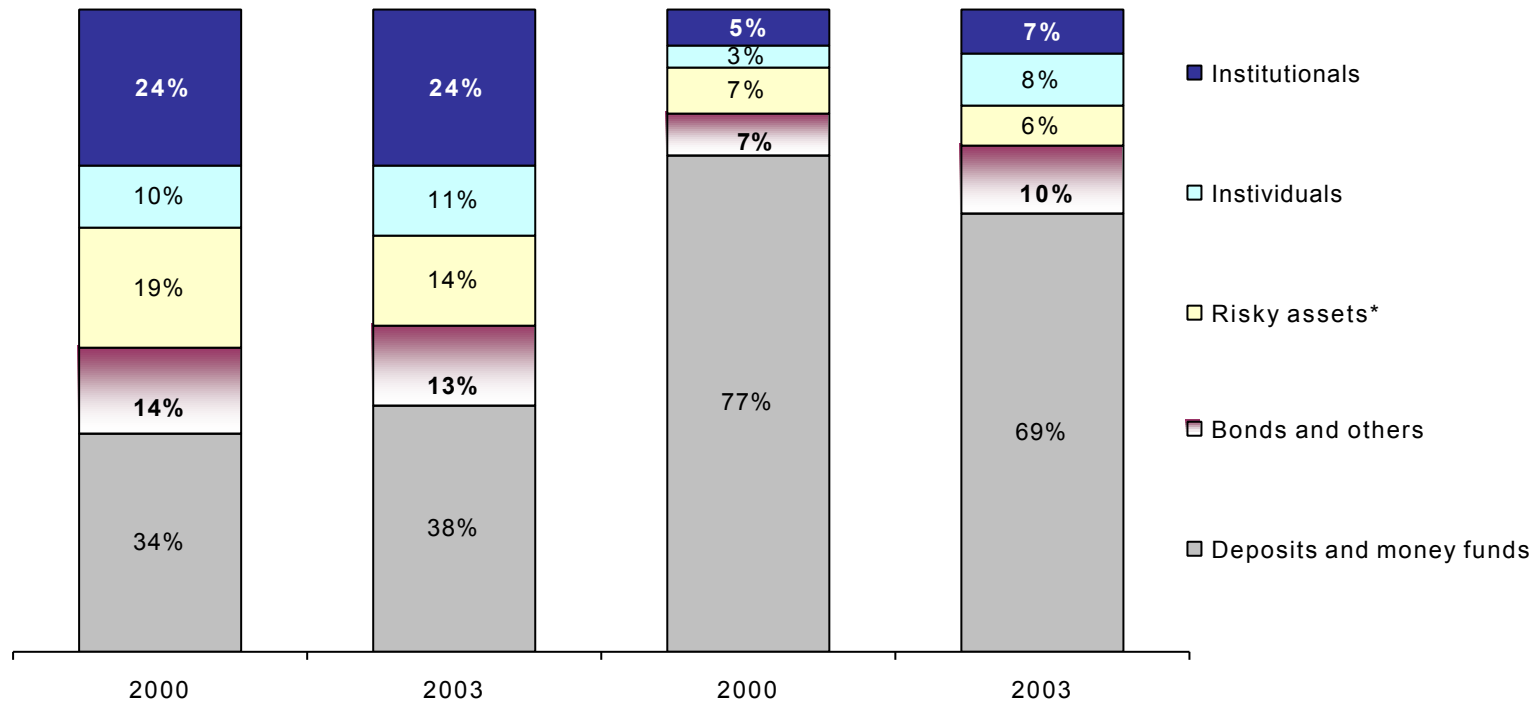
EU 4= France, Italy, Spain, UK

*) unquoted shares excluded

A COMPARISON ACCORDING TO RISK AND INSTITUTIONALIZATION: NEW EUROPE COUNTRIES RIENTED TO REBALANCING PORTFOLIOS TOWARDS RISK AND THE “INSTIVIDUALS”

Europe 4

New Europe 5



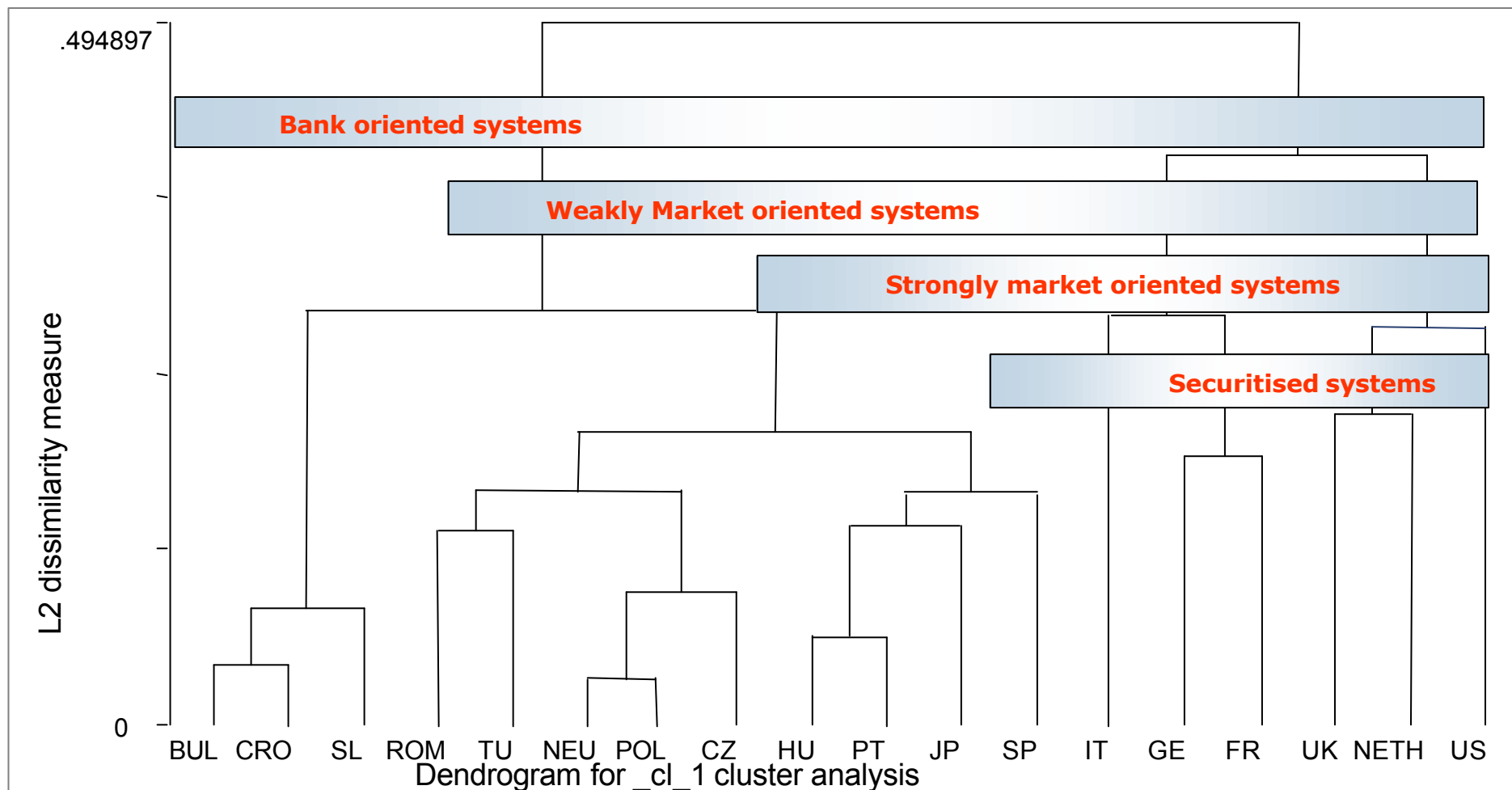
*) Unquoted shares excluded

New Europe 5 = Croatia, Czech R., Hungary, Poland, Slovakia

Europe 4 = France, Italy, Spain, UK

AT THE OVERALL FINANCIAL SYSTEM LEVEL - BANKING BASED SYSTEMS, MOVING TOWARDS CAPITAL MARKETS BANKS TO PLAY A LEADING ROLE IN FINANCIAL AND ECONOMIC GROWTH

Comparing US, European and New Europe countries through cluster analysis we obtain four main groups



- Wealth and Debt: an overview
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CONCLUSIONS

- **Significant convergence challenge in terms of wealth, with per capita wealth in the New Europe still less than half of per capita income**
- **Being “rich” is a matter of flows, with no significant role for heritage. The lowest income segment of the population is not able to save**
- **Increasing indebtedness, to finance consumption, still with strong customers’ selection**
- **Uncertain saving propensity patterns with increasing income, given on the one side Increasing consumption demand, on the other increasing share of the population able to afford saving.**
- **On balance, higher stock of saving and indebtedness, meaning financial sector growth**
- **Macroeconomic stabilisation and infrastructure changes driving new financial allocation choices. Switch towards diversified portfolios is both a consequence of demand and supply forces**
 - **Demand side - more structured products to at least partially preserve returns**
 - **Supply side - EU financial market further integration a key variable to support local market diversification and development**
- **On the overall, structural transformation of the financial sector infrastructure, with gradual evolution towards the market, still with a central role played by banking institutions**