

Consumer finance in Central and Eastern Europe

Reaching their credit limit?

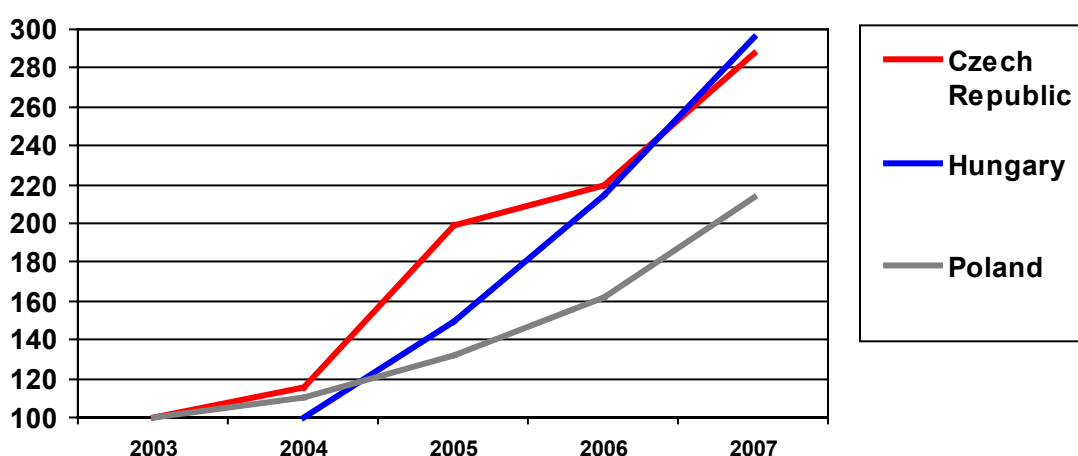
During recent years, the countries of Central and Eastern Europe (CEE) have experienced an astonishing growth in consumer credit. With borrowing relative to GDP now at levels comparable to the eurozone, a slowdown looks inevitable.

Rapid growth in CEE markets

During recent years, the main CEE markets have experienced an astonishing boom in consumer borrowing. Take the markets that have been the focus of much of the foreign investment, namely Poland, the Czech Republic and Hungary. In nominal terms, during the last four years borrowing by individuals and households for consumption has more than doubled in all three markets.

In Poland, the stock of bank loans to individuals, excluding mortgages and loans for the purchase of securities, increased from PLN 42.3 billion at end 2003 to PLN 90.5 billion (approximately €25.2 billion) at end 2007.

1. Consumer Credit Growth 2003-07



Notes:

1. End 2003 = 100 for Czech Republic and Poland. January 2005 = 100 for Hungary.
2. Czech Republic: Consumer and other bank credit (including overdrafts) and non-bank credit of a consumer nature.
3. Hungary: Consumer loans to households. Includes mortgage loans for consumption purpose.
4. Poland: Other MFI loans to individuals, excluding house purchase and other property loans, and excluding loans for the purchase of securities.

Sources: Czech National Bank, Magyar Nemzeti Bank (Hungarian Central Bank), National Bank of Poland, BankEcon analysis.

However, despite the market doubling in size in nominal terms, growth in Poland looks modest compared with the Czech Republic and Hungary.

In the Czech Republic, bank loans to households, excluding housing and other real estate loans, rose from CZK 69.3 billion to CZK 170.9 billion (approximately €6.4 billion) over the same period. In addition, non-bank credit of a consumer nature rose from CZK 40.9 billion to CZK 146.1 billion (approximately €5.5 billion).

In Hungary, comprehensive data is only available from the start of 2005. However, between January 2005 and December 2007, consumer loans to households (including mortgage loans for the purpose of consumption) rose almost threefold, from HUF 712 billion to HUF 2,104 billion (approximately €8.3 billion).

Largely through Western providers

This boom in consumer borrowing has taken place in markets where western banks and consumer finance companies, attracted by the strong growth potential, have become the dominant providers.

Focusing on those CEE countries that are now members of the European Union, almost all the main banks are under Western ownership. The few significant exceptions are OTP in Hungary, PKO BP in Poland and the largest Slovenian banks.

UniCredit, the major Italian banking group, is the largest investor in the region, mainly via its ownership of Bank Austria. Fellow Italian bank Intesa Sanpaolo and Austrian banks Erste and Raiffeisen International also rank among the largest investors in CEE banking, along with Belgian bancassurance group KBC and Société Générale of France.

In addition, all the main European and international consumer finance specialists are now active in the region. BNP Paribas's Cetelem, Société Générale Consumer Finance and GE Money are present across all the main CEE markets. Crédit Agricole owns Lukas, the leading Polish consumer finance company, while its main consumer finance subsidiary Sofinco has operations in the Czech Republic and Hungary. Santander Consumer Finance operates in the Czech Republic, Hungary and Poland. Other important providers in the region include International Personal Finance (IPF), the developing markets consumer finance business spun-off from UK home credit specialist Provident Financial.

Investment continues

Though most of the major local banks and consumer finance specialists have now been acquired, Western investors continue to consolidate and expand their presence in the CEE region.

For example, Cetelem completed its acquisition of Bulgarian consumer credit leader JetFinance International in November 2007. More recently, Cetelem and its 50% owned associate LaSer announced a merger of their activities in Poland to create LaSer Polska, a business with €710 million in outstanding loans at the end of 2007.

Also in Poland, Deutsche Bank began operating in the consumer finance business under the db kredyt brand in February 2007. It had opened 66 dedicated 'db-kredyt'-branded loan shops by the end of 2007.

And in June 2008, GE Money finalised the acquisition of Bank BPH in Poland from UniCredit (a disposal required following UniCredit's own acquisition of Bank BPH's

previous owner HVB). With the acquisition, GE Money becomes a top five universal bank in the Polish market.

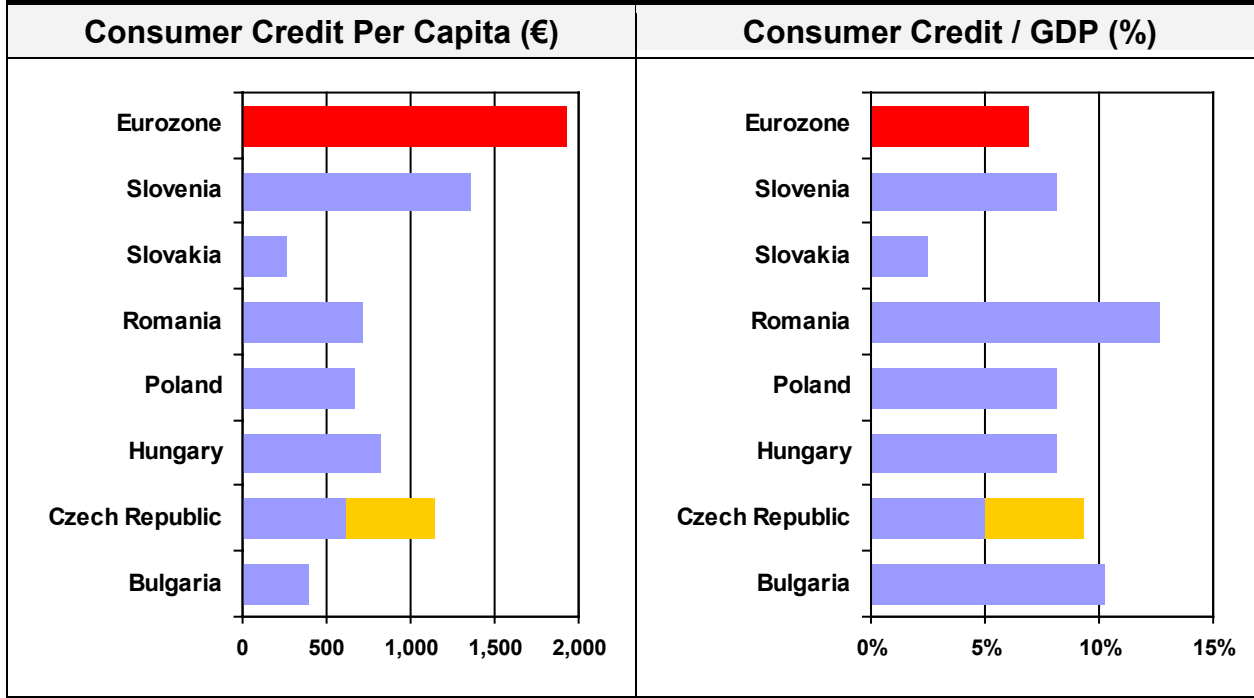
The finalisation of its acquisition of Bank BPH was one of two deals announced by GE Money in June that appeared to mark a shift in its European focus from the mature markets in the west of the continent to the rapidly growing markets in the east. Alongside the Polish acquisition, GE announced a definitive agreement to sell to Banco Santander GE Money’s businesses in Germany, Finland and Austria, its card and auto businesses in the UK and its card business in Ireland.

But can market growth continue?

But does the contrast between the mature markets of “Old” Europe and the emerging markets of “New” Europe remain valid? Given the recent growth in borrowing, does it still make sense to see the CEE markets as developing markets? Where have they reached on the growth curve?

A closer look at the data suggests that the surge in consumer borrowing in the main CEE markets has already taken it to levels comparable to those found in Western Europe.

2. Consumer Borrowing compared with the Eurozone (2007)



Notes:

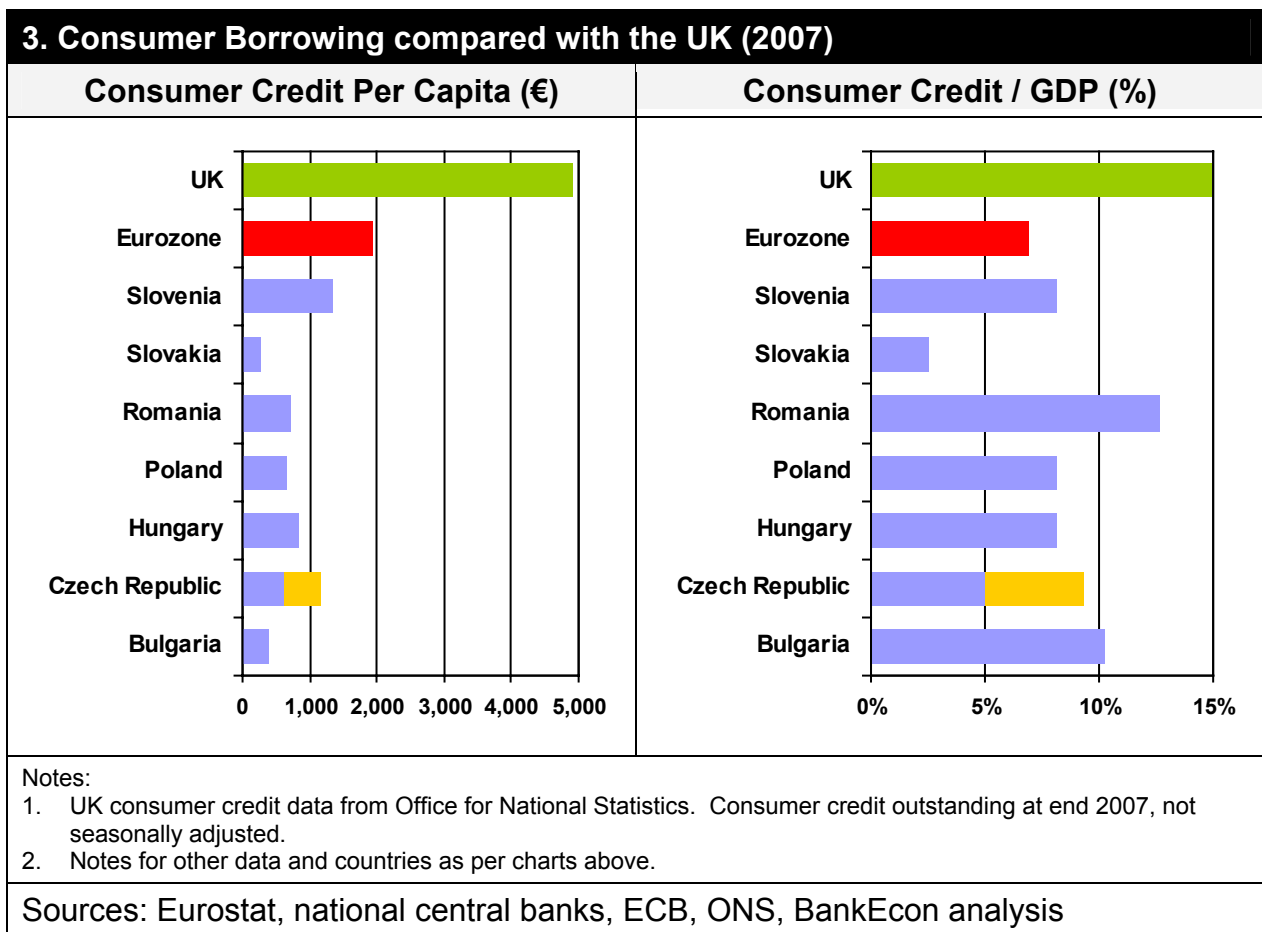
1. Eurozone includes Slovenia, which adopted the euro at the start of 2007.
2. Eurostat is source for population (as at January 1 2008) and GDP (2007) data. Some of the data is provisional.
3. Data in national currencies translated into euros at the year end exchange rate for 2007 (Source: ECB).
4. ECB and national central banks are sources for consumer borrowing data.
5. The consumer borrowing data may not be completely consistent between countries. In most cases, the data covers MFI loans to individuals and households for consumption (see note at the end of the research note for more details). The Czech data comprises consumer borrowing from banks (blue bar) and non-bank credit of a consumer nature (gold bar). See table at the end of the research note for further details.

Sources: Eurostat, national central banks, ECB, BankEcon analysis

Looking at borrowing per capita, the gap between “Old” and “New” Europe remains significant. Consumer credit per capita in the eurozone of almost €2,000 at end 2007 was more than twice the level of per capita borrowing in all the CEE markets other than Slovenia (the richest of the CEE countries, which joined the eurozone at the start of 2007) and the Czech Republic (allowing for non-bank credit which may exaggerate its borrowing levels relative to the other countries). This is unsurprising, reflecting the gap that remains between the eurozone and CEE markets in GDP and income per capita. Per capita GDP in the eurozone of almost €28,000 in 2007 was more than twice the level of per capita GDP in all the CEE markets other than Slovenia.

But, as follows from this, a comparison of consumer credit relative to GDP looks very different. The consumer borrowing numbers may not be wholly consistent between markets and there are differences in borrowing levels between individual CEE markets. However, allowing for these caveats, it is striking that outstanding consumer credit is already higher in most CEE markets as a proportion of GDP than in the eurozone. And within the CEE markets, consumer borrowing is highest relative to GDP in Bulgaria and Romania, the countries with the lowest GDP per capita and the most recent to join the EU.

The levels of borrowing in the CEE markets remain striking even when compared against the UK, which has much the largest consumer finance market in Europe. On a per capita basis, at end 2007 consumer borrowing in the UK was more than twice that of the eurozone and five or more times higher than most of the CEE markets. However, relative to GDP, borrowing in the UK at end 2007 was less than twice the level reached in most CEE markets.



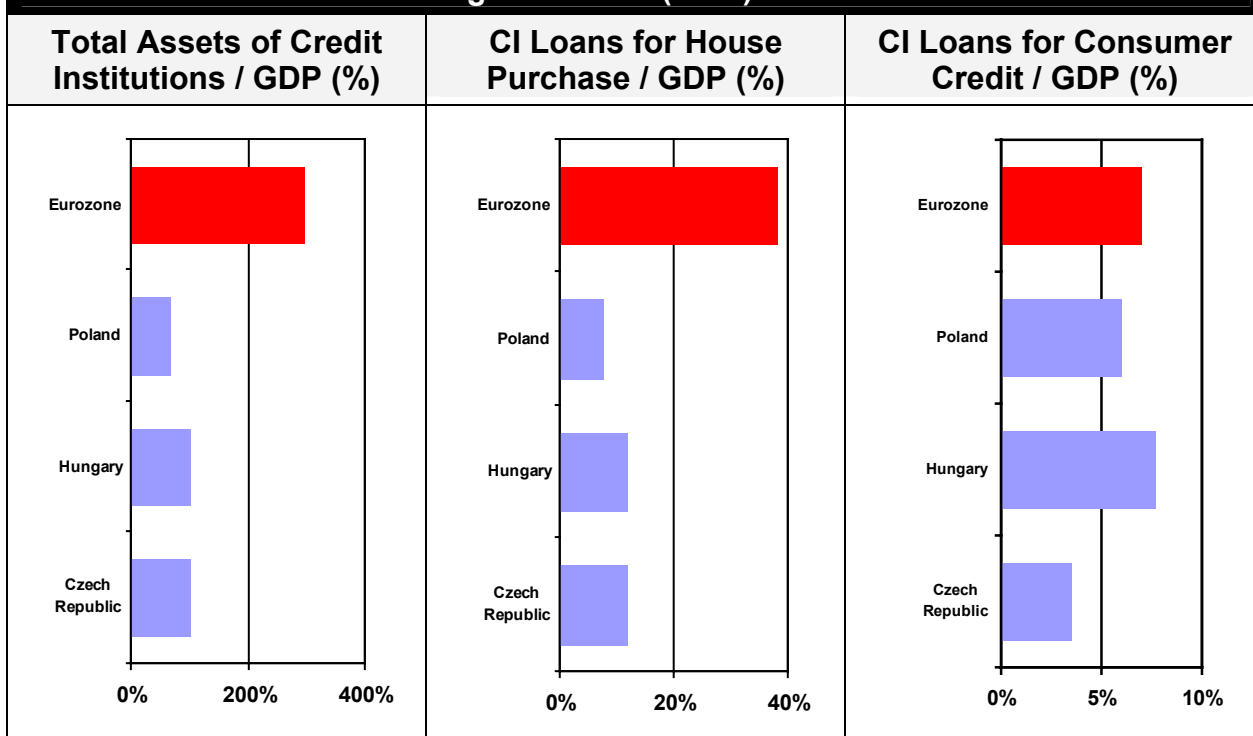
Consumer lending relative to housing and total bank lending

The extent to which borrowing for consumption has grown in the CEE markets is also underlined by a comparison with the eurozone based on overall borrowing levels and borrowing for house purchase.

A comparison with total bank balance sheets puts the growth in consumer credit in its widest context. While consumer borrowing relative to GDP has reached or passed eurozone levels in most CEE markets, overall bank assets relative to GDP remains much lower than in the eurozone. Based on an analysis of data collated by the ECB for 2006, total assets of credit institutions were equivalent to 298% of GDP in the eurozone. This compared with 101% of GDP in the Czech Republic, 104% in Hungary and only 70% in Poland.

Looking more specifically at borrowing by individuals and households, mortgage borrowing is growing rapidly in the CEE markets but remains much lower relative to GDP than in the eurozone. Again based on an analysis of data collated by the ECB for 2006, credit institution loans for house purchase were equivalent to 38% of GDP in the eurozone in 2006. This compared with only 12% of GDP in the Czech Republic and Hungary, and less than 8% of GDP in Poland.

4. Consumer Credit Borrowing in Context (2006)



Notes:

1. Credit institutions (Cis) are a subset of monetary financial institutions or MFIs.
2. Data taken from *Annex I: Structural Indicators of the EU Banking Sector* in the ECB report *EU Banking Structures* of October 2007.
3. Data for 2006 used for the above charts may not be directly comparable with data for 2007 used in preceding charts.

Sources: ECB, BankEcon analysis

Where next?

What conclusions are to be drawn from this analysis?

This briefing does no more than highlight the headline figures for the main CEE markets, using as a reference point the headline figures for the eurozone. Clearly, there are risks in generalising, given differences between both individual CEE markets and eurozone countries. Consumer borrowing in Slovakia for example remains significantly lower than in its CEE neighbours. Meanwhile, consumer borrowing varies within the eurozone, with Italy and the Netherland for example falling below the average and Germany and Greece above it.

But overall it is clear that consumers in the CEE region have taken on significant consumer credit commitments during recent years. In what were historically credit-constrained markets, banking liberalisation and foreign investment have unleashed a surge in borrowing. In their desire to acquire cars, consumer durables and more generally improve their living standards, consumers have taken advantage of the supply of credit suddenly available to them.

With borrowing now at levels comparable to the eurozone as a proportion of GDP, these markets have already “caught up” with Western Europe in many respects. Identifying the extent to which there is scope for significant further growth in consumer credit would require a detailed analysis of each market. But in general terms, particularly in an environment where the “credit crunch” is constraining new lending and credit quality is a growing concern, much slower growth in consumer borrowing in the CEE region seems likely during the next five years.

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Note on coverage and statistics

Coverage

The research note focuses on the CEE countries that have joined the European Union. It does not cover other CEE/Eurasian markets, notably Russia, Turkey and Ukraine.

Statistics

In most cases, the note draws on statistics on the stock of loans to individuals for consumption, as at end 2007, published by the respective central banks. Loans for the purchase of housing and other property are excluded (though the data for Hungary includes mortgage loans for consumption purpose). Loans for consumption in foreign currencies (which are significant in some markets) are included.

However, even allowing for the exclusion of mortgages, the statistics may not be completely consistent between countries (for example on the inclusion or exclusion of current account overdrafts, or on lending by non-bank consumer finance companies) and the charts are intended to be indicative only. See below for further details by region/country.

Region / country	Source	Data series	Comments
Bulgaria	Bulgarian National Bank	Other MFIs loans to households and NPISHs: consumer loans	Excludes overdrafts, which are separately itemised.
Czech Republic	Czech National Bank	<ul style="list-style-type: none"> Consumer and other bank credit (including overdrafts) Non-bank credit of a consumer nature 	Covers both bank and non-bank credit. Sourced by CNB both to the CNB and CLFA (Czech Leasing and Finance Association).
Hungary	Magyar Nemzeti Bank (central bank)	Consumer loans to households by type of loans	Split between: <ul style="list-style-type: none"> Personal loans Car purchase loans Consumer loans for purchase of goods or other Mortgage loans for consumption purpose
Poland	National Bank of Poland	Other MFI loans to individuals	Includes lending on current accounts. Both house purchase and other property loans, and loans for the purchase of securities have been excluded.
Romania	National Bank of Romania	Breakdown of deposits taken and loans extended by institutional sector: Credit to households: consumer credit	
Slovakia	National Bank of Slovakia	Credit institutions: loans to households for consumption + credit card loans	Excludes overdrafts but includes credit cards, both of which are separately itemised.
Slovenia	Bank of Slovenia	Other MFIs loans to households and NPISHs: consumer credit	
Eurozone	ECB	MFI loans to households: consumer credit	Slovenia joined the eurozone at the start of 2007.
UK	Office for National Statistics	Total consumer credit: Amounts outstanding: Not seasonally adjusted	

Note:

NPISHs = Non-Profit Institutions Serving Households.

Sources: Central banks, BankEcon research