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## **SEE HOUSEHOLD FINANCIAL BEHAVIOUR AND THE ROLE OF MIGRANTS' SAVINGS**

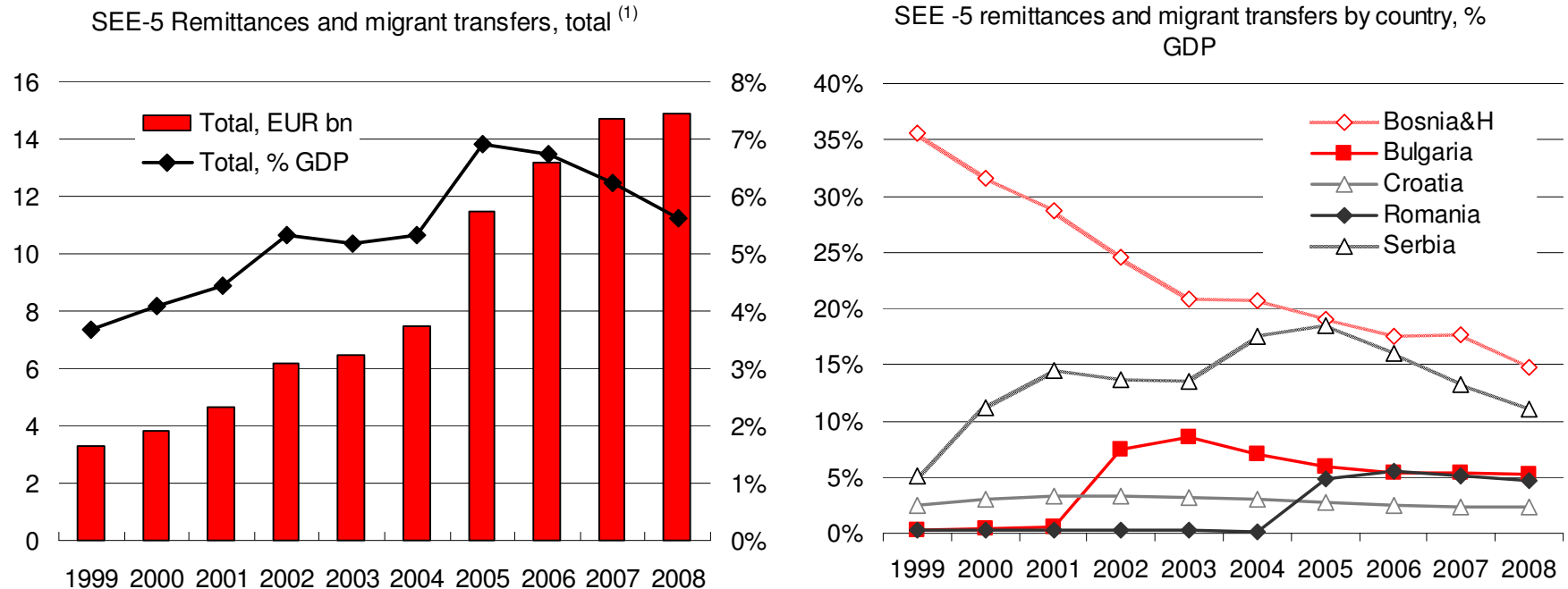
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UniCredit Group CEE Strategic Analysis

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Vienna, November 11<sup>th</sup>, 2009

# Remittance and migrant transfers in SEE have been rising quickly over last decade

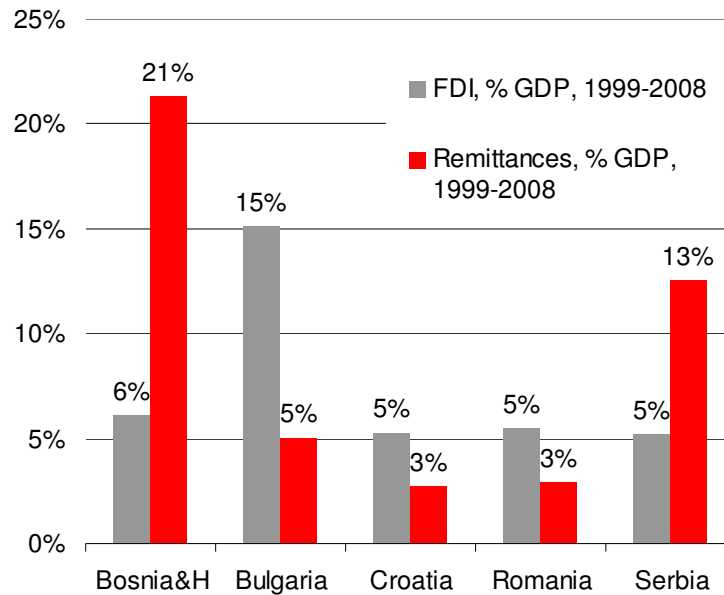


- Remittance flows have been steadily rising in EUR terms over the past decade with only marginal stabilization in their dynamic prior to the crisis
- 2005 was the peak for remittances as a share of GDP

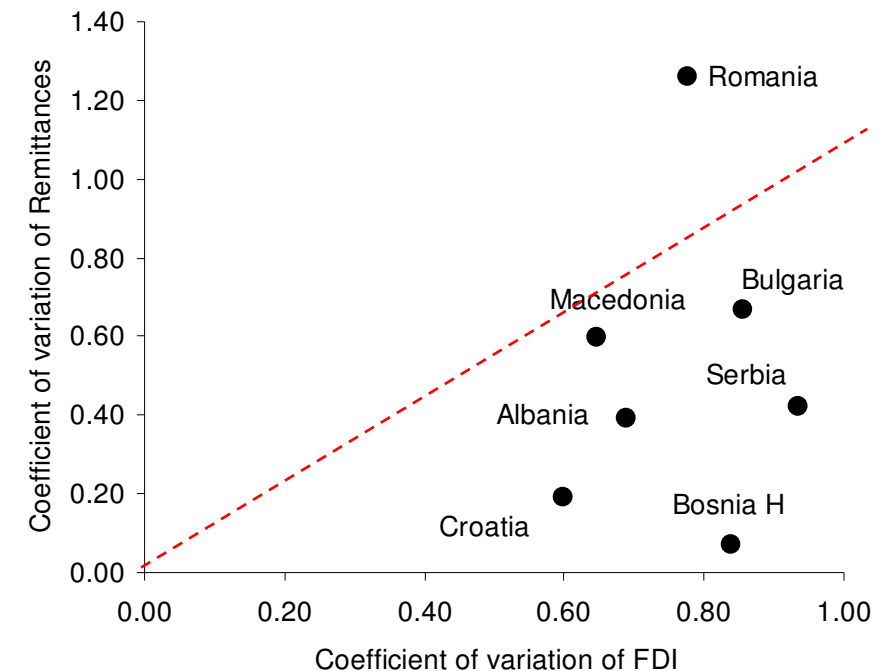
## Remittances are an important and relatively stable source of financing



Remittance flows and FDI in selected SEE countries



Variability of remittances and FDI in SEE countries, 1999-2008



- Remittances have been an important source of finance (in some countries even more important than FDI)
- Remittances flows have been also more stable than FDI (Romania representing an exception in that context)

## Remittances are mainly financing household consumption with some evidence of the relevance of investment into real estate



- Generally, remittances mainly finance consumption. In SEE, a significant portion of remittances also tends to be directed toward the real estate market<sup>(1)</sup>:
  - ✓ Serbia: consumption is the main use, but about 50% of households also used remittances to buy, build or improve their house or apartment
  - ✓ Croatia: anecdotal evidence indicates that the majority of remittances to the country has been invested into real estate and land
  - ✓ Albania: mainly food, house construction and renovation
  - ✓ Moldova: mainly investment in house/apartment procurement/construction or purchase of cars, consumption and savings
  
- ... but they are also an important source of capital investment, especially in countries with a weak financial sector (according to EBRD survey<sup>(2)</sup>, 40% of start-up costs were covered by remittances)

## Business potential connected to remittance flows might be somewhat underestimated due to the still large relevance of informal channels

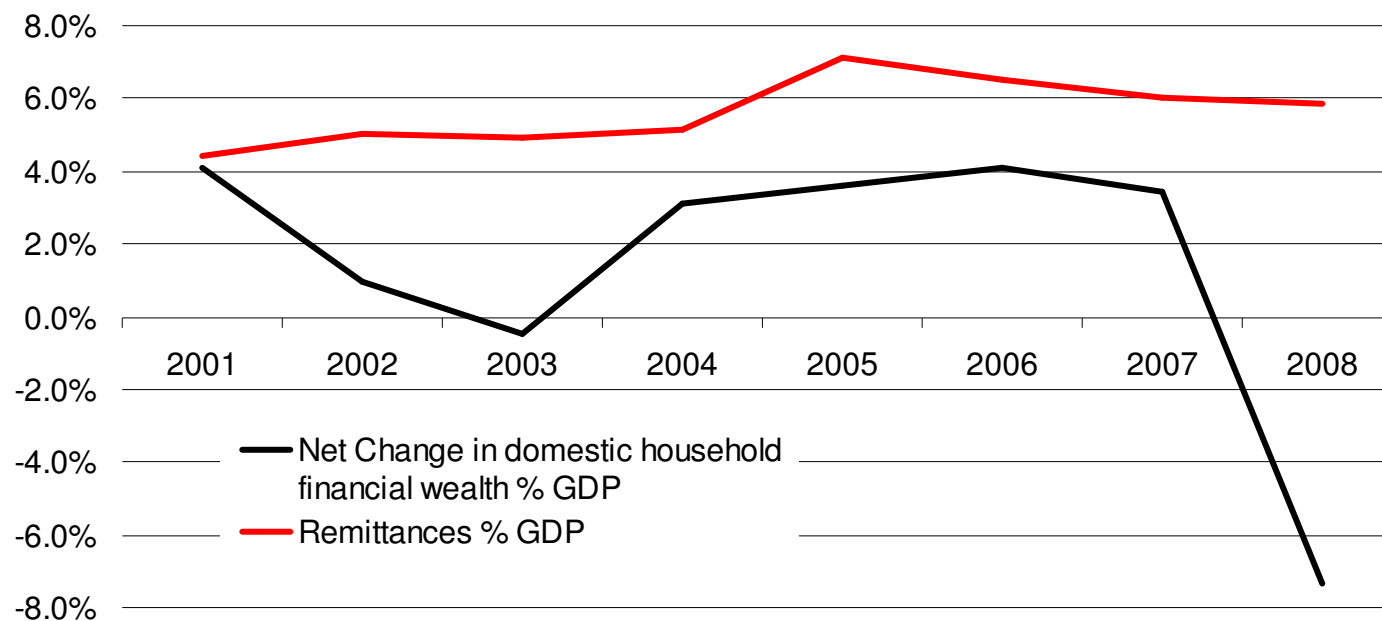


- **According to World Bank estimates, the informal remittance sector globally account for at least 50% of the formal flows<sup>(1)</sup> (Albania: 81%; Moldova: 42 to 50%; Serbia: 50% to 80%)**
- **Adverse effects from the usage of informal channels:**
  - ✓ increased transaction costs, especially due to high risks of theft and fraud
  - ✓ opportunities for money laundering and crime financing
  - ✓ untapped business opportunities for the banking sector

## Remittance flows have provided significant support to counterbalance low saving capacity of SEE households



Development of domestic saving accumulation and remittances in selected SEE countries, 2001-2008<sup>(1)</sup>



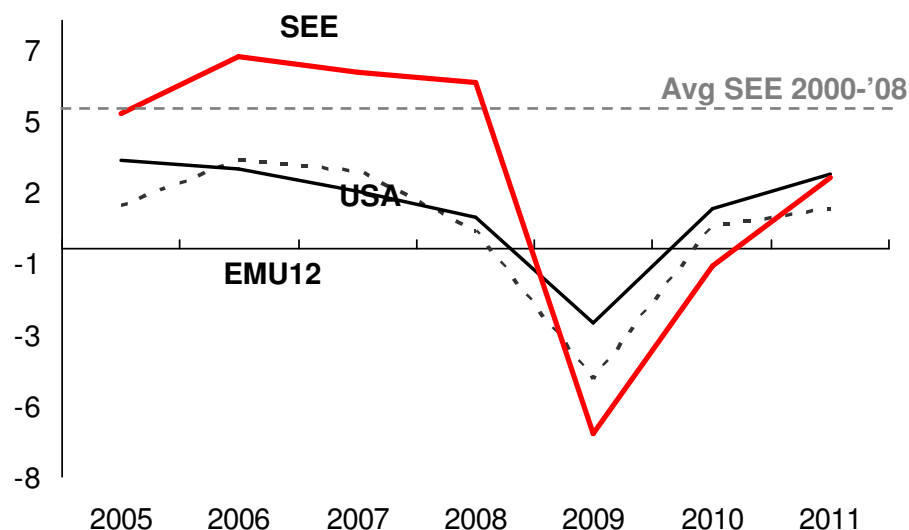
- SEE households tend to be characterised by a lack of accumulated wealth and low saving capacity
- Over the recent years before the crisis, migrants' saving re-directed toward their countries of origins have helped compensating partly this problem

Note: (1) For Serbia and Bosnia Herzegovina, due to lack of data, only retail deposits have been used as a proxy for household financial assets  
Source: UniCredit Group CEE Strategic Analysis

## Some signs of recovery in USA and Western Europe with SEE to come with some lag also compared to the rest of the region: 2010 will still be a challenging year



Real GDP % yoy growth



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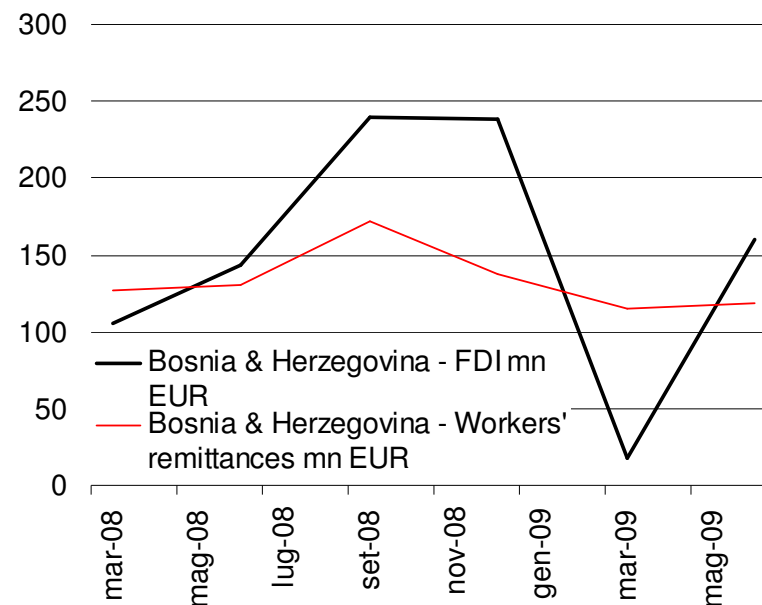
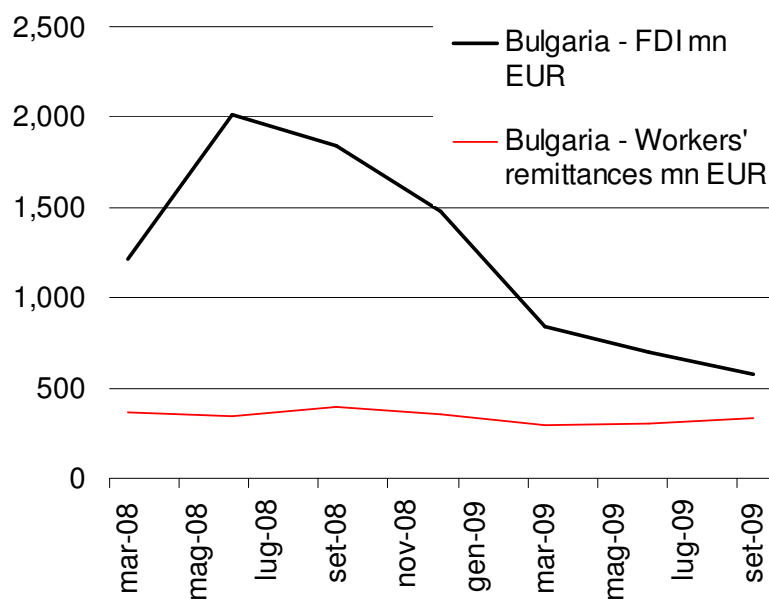
	2009	2010
Bulgaria	-6,3	-2,5
Romania	-7,5	0,4
Croatia	-6,2	-1,5
Bosnia-H.	-3,0	-1,0
Serbia	-4,8	-0,7
<b>SEE</b>	<b>-6.5</b>	<b>-0.6</b>
<b>CEE-17</b>	<b>-5,8</b>	<b>1,4</b>

- Economic recovery to take more time to materialize, notably in Bulgaria, with 2010 still being a challenging year (domestic demand to remain weak with only gradual recovery in export-driven sectors of the economy)
- IMF stand-by agreement provides an important cushion in Serbia, Bosnia and Romania although the persistence of some political risks represents an issue to monitor in the latter two countries
- Narrowing of external imbalances provide some relief but with concerns on mounting pressures on the fiscal side

## Remittance flows proved to be less impacted than FDI during the current phase of economic downturn



Development of workers' remittances and FDI in selected SEE economies through the crisis<sup>(1)</sup>



Note: (1) Excluding other migrant transfers  
Source: UniCredit Group CEE Strategic Analysis, local CBs



## Some further stabilization in remittance flows is on the cards but business potential remains intact



- In Croatia and Bosnia, slowdown of growth in remittances can be expected going ahead mainly due to return of migrants who reach pension age (to receive pension in their home countries). This tendency was in place for several years now
- The financial/economic crisis did not have a dramatic effect on remittances in both countries. They grew in 2008 and are likely to grow in the nearest future, although at a slower pace
- Similar trends are also anticipated in other SEE countries such as Bulgaria and Romania, where the crisis is having somehow an impact but to lower extent compared to other source of foreign capital. In both countries, some stabilisation in the dynamic of migrants' remittances is anticipated in the near future although the business potential connected to improved attraction of migrants' savings remains intact

## Existing banking initiatives to tap the remittances market: a global overview



- Cross-selling of other financial products (Wells Fargo (US) offers bundled service option: a remittance account, a checking account, discounted money orders, check-cashing and insurance services. Also special ATM cards to be used by remittances recipients)
- Including remittances in the assessment of borrower creditworthiness can lead to reduction in credit constraints (leveraging the remittances income): Banco Salvadoreño (El Salvador) gives loans to remittance recipients up to 80% of total remittances received in previous 6 months
- Relaxation of requirements on ID cards for money senders
- Mortgages to migrants to finance real estate in their home countries
- Financial literacy programs to help mitigate the distrust of banks, cooperation with embassies

## UniCredit's initiatives targeting SEE migrants' saving



- Some specific initiatives have been activated to target savings of SEE migrants living abroad aiming also to encourage the foreigners social and economic integration:
  - ✓ A dedicated service has been for example developed for Croatian and Bosnia & Herzegovina residents in Germany and for those who worked in Germany and are now back to their countries of origins, receiving pension
  - ✓ The product and service offers for those clients range from money transfer to accounts in Zagrebačka banka and other Croatian banks, assistance (brokerage) in money depositing to saving accounts in Zagrebačka banka to pension transfers to Croatia and Bosnia and Herzegovina
  - ✓ Other strategic initiatives have been targeting Romanians workers in Italy via a special package named "Familia Ta". It is a service that allows to send money at home, with greater safety and convenience, thanks to the ownership of two accounts: the Romanian account "Familia ta" and the Italian account "Conto tu" provided by Agenzia tu, our bank dedicated to foreign citizens and to temporary workers