

Bulgaria

Household assets and liabilities back to more synchronised growth patterns

Milen Kassabov

- Increasing tensions in the labour market and slower income growth, along with significant levels of indebtedness, are likely to keep saving capacity low and consumers spending more on non-discretionary goods and services, while big ticket purchases may be postponed further. Full recovery in consumption levels might also take some time on the back of only gradual recovery of lending, with mortgages still taking the lead
- Despite the above, we forecast positive growth for household financial assets, on the back of continued opportunities for the re-emergence of the grey economy
- Net household wealth had a very dismal last quarter of 2008 and first quarter of 2009, as liabilities continued growing rapidly, while financial assets posted a half-year of negative growth due to the poor financial market performance. The positive momentum recorded in the second half of 2009 is expected to continue also in 2010 and 2011, although with financial wealth accumulation maintaining a more moderate pace of growth
- Alternative forms of savings, notably pension funds, are likely to outperform growth in traditional instruments such as bank deposits, although the latter will retain their majority stake in total financial wealth

Table 1: Household real and financial indicators

	2006	2007	2008	2009 e	2010 f	2011 f
Per capita net financial wealth (€)	926	1,172	677	759	824	911
Monthly wage (€)	184	220	268	288	274	268
Monthly wage (% YoY LC)	11.3	19.5	21.7	7.5	-5.0	-2.0
Unemployment rate (%) ⁽¹⁾	9.1	6.9	6.3	9.3	12.8	12.6
Home ownership (%)	91 (2)	n.a.	n.a.	n.a.	n.a.	n.a.
Household financial assets (% YoY LC)	32.1	39.4	-6.5	4.8	3.6	6.5
Household financial liabilities (% YoY LC)	33.8	58.5	33.9	1.5	1.2	4.4
Household financial saving ratio (% GDP)	6.6	6.4	-11.2	1.8	1.4	1.9
Household net financial wealth (% GDP)	28.2	31.0	15.1	17.3	18.9	20.3
Housing affordability index (house price per sqm over gross monthly wage) ⁽³⁾	2.3	2.5	2.6	1.8	1.5	1.6
Mortgage in % GDP	7.4	11.2	13.1	13.8	14.6	15.5
FX indexed / denominated loans (% total) ⁽⁴⁾	19.0	20.1	29.2	31.1	32.8	34.0
Households NPLs ratio (%) ⁽⁵⁾	3.1	3.2	3.9	7.2	11.7	11.5

Notes: (1) According to local definition; (2) Latest Census (2001); (3) Housing affordability is calculated based on forecasts for a drop of 35% in average house prices in 2009, a decline of 20% in 2010, and an increase of 5% in 2011; (4) Bank loans only; (5) Over gross loans

Sources: BNB, NSI, Central Depository, BSE, UniCredit Group CEE Strategic Analysis – UniCredit Bulbank Research

Household assets reversed the negative growth trend in Q2 2009, returning to positive territory, albeit at a slow single-digit pace. The positive momentum is expected to have continued until the end of last year with growth estimated in the range of 5%. Looking at the different components on the assets side, major drivers of growth in 2009 have been assets accumulated in pension funds and holdings in corporate shares, as stock markets both internationally and domestically have recorded a very strong rebound since March. Deposits also contributed strongly, although with a declining pace. On the other hand, currency holdings decreased rapidly, due to attractive interest rates offered on bank deposits and some impact of the crisis on households' liquidity.

Looking ahead, financial assets overall are likely to keep growing at a moderate pace through 2011. Alternative forms of savings are anticipated to continue growing faster relative to other instruments, due mainly to pension fund holdings, expected to reach around 10% of total wealth in 2011.

Liabilities of households have experienced a very sharp growth deceleration in 2009, as last year end growth is likely to have recorded just a marginal 1.5% yoy increase, compared to 34% posted in 2008. Thus, 2009 has marked a strong reversal of what has been a very solid growth trend registered since 2000. Labour markets showed visible signs of deterioration during 2009, as de-

mand collapsed and many businesses were forced to reduce activity. We reckon with some continued gradual increase in the unemployment rate, as businesses realise that demand is not likely to recover to pre-crisis levels anytime soon, and many companies are forced to shut down. Along with higher unemployment, lower income growth is also going to constrain households' spending and overall saving capacity. Moreover, faced with depleted wealth as a result of sharply decreased real estate values (28% average market declines in property market values registered as of September on a yearly basis) and securities (the major index SOFIX was still around 75% below its 2007 high as of the end of September), households are likely to become more cautious with respect to further increasing their indebtedness level. Short-to-medium term expectations point to continued bumpiness both on the real estate and financial markets, which is likely to further dampen consumer confidence.

Looking into components on the liabilities side, bank lending has been more robust compared to alternative instruments. Within bank lending mortgage loans have grown faster compared to other technical forms, particularly bank mortgage loans in foreign currency.

Going forward, high levels of ownership and a significant new supply in the past several years is likely to weigh on the market for quite some time. External demand from both foreigners and emigrants is not likely to return to the levels seen in the past, and the demographic picture is also not rosy, with both ageing and negative population growth expected to continue. On the other hand, the ageing stock of housing, migration processes to large cities, and a traditional desire to own a house are going to support housing demand, particularly in the more efficient and economical housing segment.

Within the forecasting period through 2011, due to increasing unemployment, low income growth, the overall still grim economic prospects and the significant debt levels accumulated, consumer spending patterns are likely to remain more balanced, with a higher proportion of income spent on non-discretionary items such as food, pharmaceuticals and clothing, while purchases of bigger-ticket items such as autos, home appliances and furniture, as well as travel, leisure and entertainment spending may be either meaningfully reduced or postponed in the short-to-medium term.

