

Digital banking innovation is shaping CEE growth. CEE economies, banking scenario and the digital landscape in 2018

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CEE economies and the banking scenario

A very benign macroeconomic environment, favouring CEE countries

At a global level, 2018 will be 9th year in a row of world growth higher than or equal to 3.5%. This hasn't happened since the sixties. Current **US** expansion, close to 9 years, is already the second longest in the history (after the post-1991 expansion). At the same time, economic growth in the **Eurozone** is strong and also broad-based across all countries. **CEE** economies are experiencing the strongest pace of growth since the crisis and economic expansion hasn't been so broad-based since the eighties. CEE GDP growth averaged 3.7% in 2017, or 4.6% excluding Turkey and Russia.

UniCredit expects economic expansion in CEE to remain sustained with a GDP of 2.8% in 2018 and some cyclical slowdown going forward. Growth will average 4% in numerous countries such as Hungary, Bulgaria, Romania, Slovenia, Turkey and Slovakia, driven by domestic demand (consumption and investments).

Upward momentum for lending growth in CESEE

The CEE banking sector is in a more stable and sustainable position compared to past years, in terms of the lending dynamic, but also funding and credit quality.

Lending in CEE will remain sustained, in particular in CESEE (Central Eastern Europe excluding Russia and Turkey) that will continue to have a positive growth trend close to 5% for three years in a row (2017-2019), following some moderation in 2012-2016.

In 2018, lending in CESEE will be in line with deposits' growth for the first time in almost a decade, providing some optimism for shifting the economic region's attitude from savings to investment. The data on deposits supports this, showing a peak in growth in 2017, which is now expected to start decelerating. At the country level, the highest lending growth in 2017 was experienced in Turkey (20.7%), Slovakia (9.9%), Bosnia-Herzegovina (6.5%) and Czech Republic (5.7%). In line with economic trends, we expect lending growth to moderate for these countries while accelerating in the countries which were lagging behind in 2017 like Croatia and Serbia.

Since 2011, the **loans/deposit ratio** moved rapidly to below 100% in the CEE banking system (excluding only Turkey and Slovakia), which means self-funding for the majority of CEE banks. Moreover, there is a high

share of short-term deposits — both from corporations and individuals which are currently not investing in Long-term instruments — on hold, ready for opportunities.

In terms of credit quality, the economic expansion over the last years, together with nonperforming Loans (NPL) sales and better collection, is bringing the **NPL ratio** down, with dear benefits for CEE banks' profitability. ALL CEE countries will reach NPL Levels below 9%, except for Russia, with Hungary, Czech Republic, Slovakia and Turkey even below 5%.

Digitalisation and the fintech landscape in CEE countries

CEE countries are well equipped for digital

Digital infrastructures - internet and mobile penetration - in CEE countries is at the same Level as in the more advanced countries. **Mobile** penetration in most CEE countries is bigger than 100 (1 mobile subscription per person) while **internet** penetration is surpassing 60%.

Demographic trends in the region are also in favour of the acceleration of digitalisation going forward, with a significantly greater role of the "digital native" younger generations — the so called Millennials and Generation Z in the economy as almost 50% of the population are Less than 35 years old — compared to Western Europe (40%).

Digital banking, in terms of individuals using the internet for banking operations, is developing fast in CEE, with countries like Czech Republic, Turkey and Serbia doubling the number of individuals using internet banking since 2010.

Fintech in CEE has been booming in recent years

This UniCredit study, the first one of its kind that provides a wide picture specifically on **fintech companies** in CEE, is attesting the boom of the sector in Central Eastern European geographies. The study highlights the years 2012-2016 as particularly strong in terms of new companies being set up, not comparable to the past.

According to the database Tracxn, CEE is currently home to more than **600 fintech companies**. More than **50%** of these companies are working in the segments of **transaction & payments** or **financing**, including peer-2-peer Lending or crowdfunding, while **12%** are companies involved in **investments & asset management** (trading platforms, robo-advice, analysis of personal finances, etc.). The rest cover a wide segment related to a variety of activities, including cryptocurrency, expense tracking, insurance (so called insurtech), risk management and fraud prevention.

In terms of countries, Russia has the Lion's share of fintechs among CEE, followed by Turkey, Bulgaria, Czech Republic and Romania.

Key statistics on digitalisation in CEE:

- Most CEE countries have mobile penetration higher than 100 (1 mobile subscription per person). The gap with Western Europe was absorbed 10 years ago;
- Internet penetration is rapidly surpassing 60%;

- The demographics favour digitalisation in CEE: younger generations (digital natives) are playing an increasingly significant role in society and economy: almost 50% of the population is under 35, versus Western countries (40%);
- Fintech boom in CEE in recent years: according to Tracxn, there are more than 600 fintech companies in the region. More than two thirds of them were established during 2012-2016;
- Two thirds of CEE flntechs are active in the following sectors: 1) transactions & payments, 2) financing, and 3) investments.

*"The macroeconomic and banking fundamentals in CEE countries look very strong today, benefitting from a benign global environment. With a good penetration of mobile and online users, favourable demographic trends and fast increasing digitalisation, the region is ripe for making the most of digital banking that is becoming more and more embedded in the traditional macro and banking analysis" said **Matteo Ferrazzi, Coordinator of CEE Strategy and Corporate Foresight team at UniCredit.***

Sources: IMF April. World Economic Outlook, World Bank, Central Banks, UniCredit Research CEE Quarterly Q2 2018, UniCredit Strategy and Corporate Foresight, International Telecommunication Union, Eurostat, PitchBook, Tracxn.

UniCredit in CEE: the Digital Path

CEE is the perfect testing ground for new digital and IT solutions thanks to the region's innovative attitude.

UniCredit's Digital Journey aims to enhance the customer experience through a multichannel and multi-country client approach leveraging all digital interaction points. The digitalisation of processes also increases the quality of advisory services and helps anticipate our clients' medium-term evolution and needs, including their use of multiple channels. Our investments in digital aim to improve the customer experience as we continue to optimise our processes.

The underlying purpose of this digital path is to understand client needs in order to best serve them and continuously generate value. UniCredit has implemented common platforms offering cross-country solutions applicable to approximately 45.000 corporate clients.

Relevant transformational programmes have been launched, in particular related to innovation and digitalisation, resulting in the strong growth of the CEE digital customer base.

Our Digital Journey is ongoing; it will continue to develop and cover more initiatives in more countries reaching an increasing number of clients. A further strengthening of our analytical capabilities will support relationship managers in their day-to-day activities with the aim of increasing market penetration and cross selling.

*"UniCredit is ranked number 1 in CEE overall with a top 5 ranking in most CEE countries" said **Carlo Vivaldi, Head of CEE Division at UniCredit.** "We aim to further consolidate our solid leadership position in the region with targeted and resilient organic revenue and customer base growth. This will mainly be driven by digitalisation and innovation which, together with more effective credit risk management and better cost discipline, can lead our profitability".*

"CEE countries represent an ideal environment to push digital banking forward. Digitalisation is of course not a new topic, but we are certain that there is a significant CEE angle here and its full potential needs to be explored, particularly in the banking sector. Our unique CEE network is a clear opportunity to complement the current financial and market environment in CEE countries with a fully developed digital banking offering" added **Andrea Diamanti, Head of CEE Corporate & Investment Banking and Private Banking at UniCredit.**

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