

2011 ECRI Statistical Package: Key Findings

Angelo Fiorante, 11 August 2011

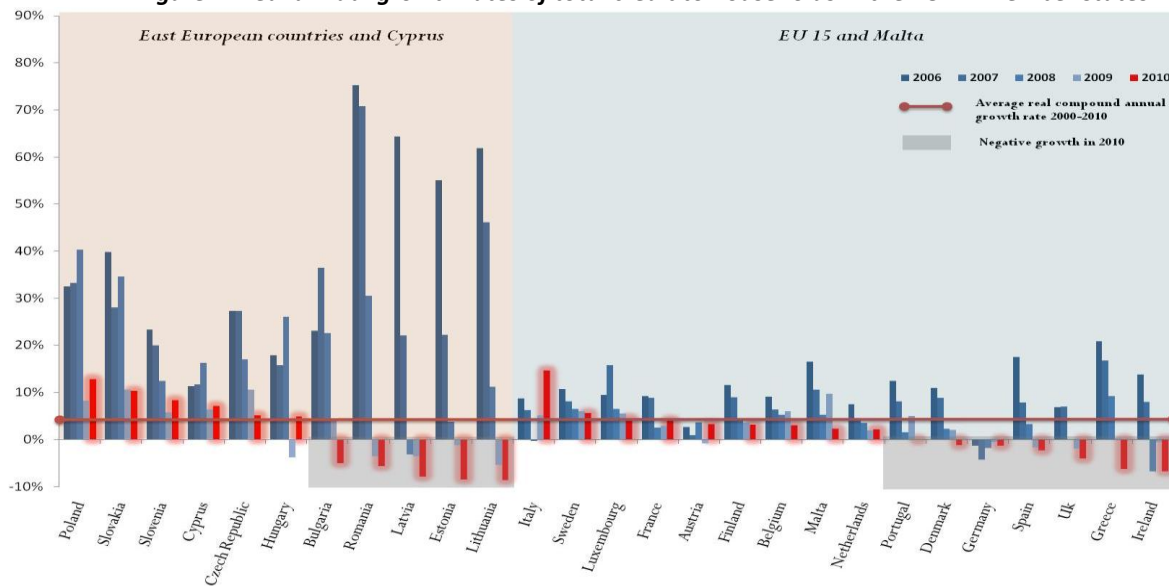
The European Credit Research Institute (ECRI) has just published its 2011 Statistical Package, a comprehensive collection of data on lending to households, covering all European countries and other major global economies for the period 1995-2010. Its purpose is to allow users to make reliable comparisons of the retail credit market across countries, including consumer credit, housing loans and other loans to households.

The data in this year's Statistical Package reveal the following key findings:

1. In 2010, the EU-27 retail credit market saw an increase in real growth for the first time since the financial crisis. Since this century's peak of 8.21% growth in 2005, the weighted average growth of EU-27 countries had been slowing, down to 0.86% in 2009. However, with a growth rate of 0.90% in 2010, this increase is still modest and well below the average compound annual growth rate of 4.25% for the first decade of this century. Furthermore, only 8 of the 27 member states saw a recovery in their real growth rate compared to the previous year, while negative growth rates persist in several Eurozone and Eastern European countries.

Figure 1 highlights these overall and country-specific credit growth developments, which took place during 2006 to 2010. The catching-up economies of the Baltic States – Estonia, Latvia and Lithuania – were particularly affected in 2010, plunging an additional 732bp, 432bp and 320bp and thus experiencing real negative growth of -8.47%, -7.91% and -8.64% respectively. The austerity regimes across the EU are expected to transmit further uncertainty to retail credit markets; an uncertainty that can be seen in the altered perception of risk and overall cautiousness in lending, thereby oppressing credit developments in Europe.

Figure 1. Real annual growth rates of total credit to households in the EU-27 member states



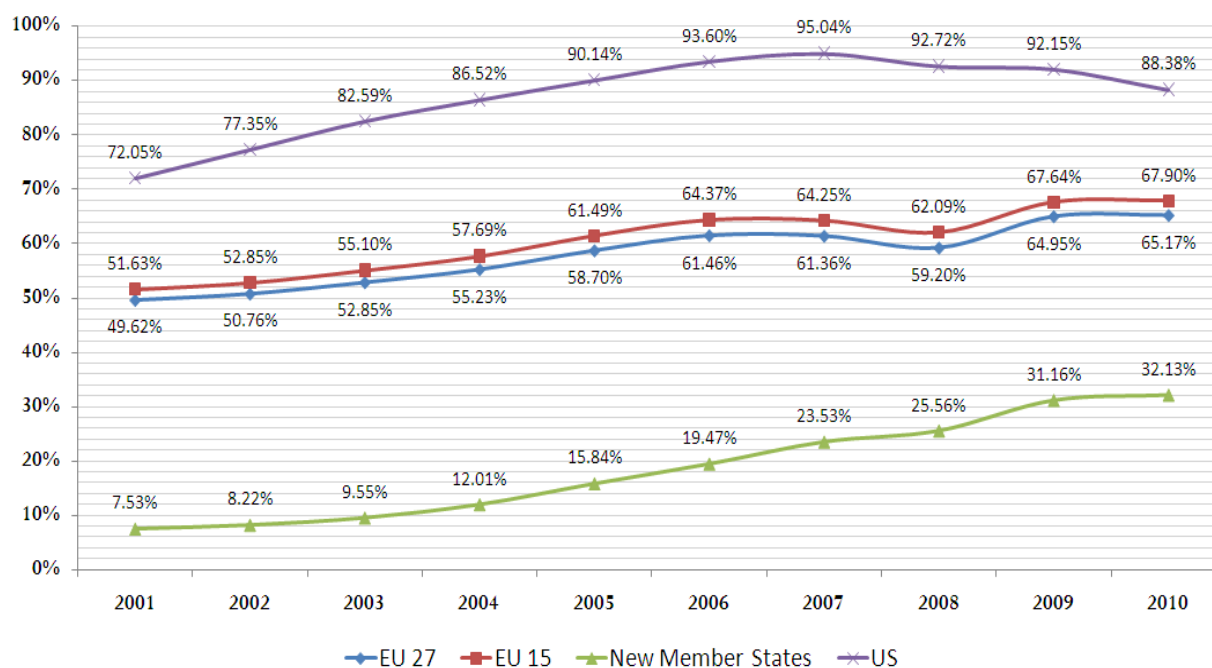
Source: *Lending to Households in Europe (1995-2010)*, ECRI Statistical Package 2011, ECRI, Brussels.

2. The level of relative indebtedness remained stable for EU-27 households, with a modest increase in 2010; total credit now represents roughly 65% of GDP. This level is still well below the 88% observed in the US, where the deleveraging of households persists. Total credit to US households as a percentage of its GDP dropped for the third consecutive year, whereas there was an increase in the relative indebtedness of EU-27 households for the second year in a row. This upward trend is also seen in relation to the disposable income of households.

With negative growth rates of -3.2% reported for both consumer credit and housing loans for the year 2010, the deleveraging in the US retail credit markets is obvious. As for the EU-27 and EU-15, the modest increase in the indebtedness indicator is continuing the positive trend detected in 2009. Similarly, the catching-up economies of new EU member states continued to experience an upward trend in 2010, but with significantly less momentum than in previous years. A clear reduction in credit growth in many countries, also observed in Figure 1, has consequently decelerated the debt accumulation process.

Figure 2 shows how total credit as a percentage of GDP evolved between 2001 and 2010, and it further illustrates the stabilising effect that the financial crisis had upon retail credit markets. What seems to have been a bump in the road for the EU-27 was clearly more severe for the US, which witnessed a 6.66% drop in the indebtedness ratio in only three years.

Figure 2. Development of total credit to households as % of GDP



Source: *Lending to Households in Europe (1995-2010)*, ECRI Statistical Package 2011, ECRI, Brussels.

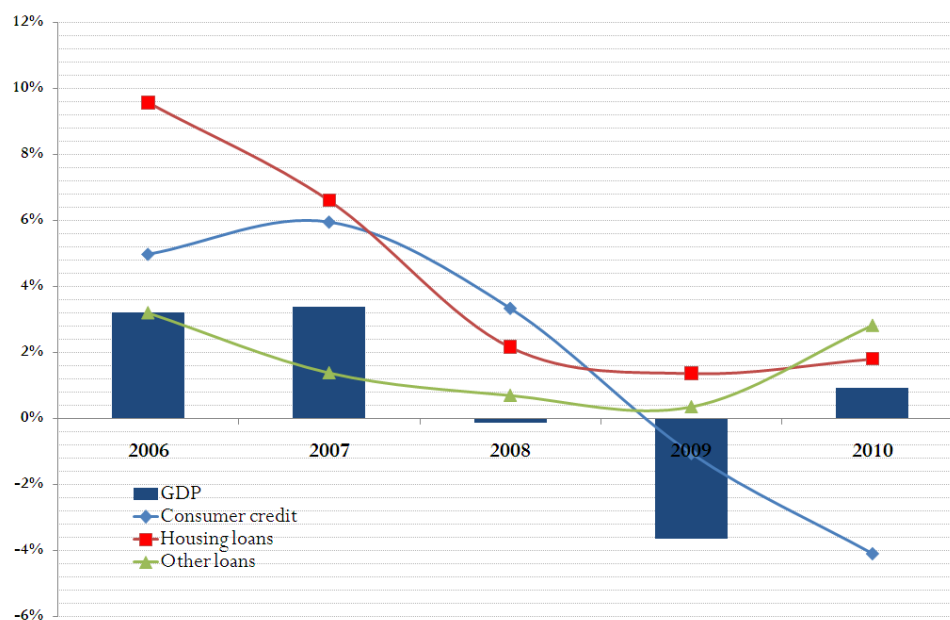
3. A break-down of total credit to households reveals diverging patterns for different types of credit. While consumer credit decreased at a greater rate than in 2009, with a staggering -4.10% in 2010, a slight upward trend emerged in the sector for housing loans and other loans. However, the crisis resilience of the market for housing loans varies among member states, with Ireland showing a strong decrease while Italy, Poland and Slovenia are experiencing increases of over 20%.

The aggregated setback in consumer credit growth is mostly traced to the emerging economies: Cyprus (-30.32%), Lithuania (-20.83%), Romania (-18.30%), Estonia (-16.86%) and Latvia (-11.17%); member states that still have relatively low levels of consumer credit outstanding but which have been forced to cut back their reliance on consumer loans in the past two to three years. Other countries that experienced significant negative growth in consumer credit in 2010 are Ireland (-16.02%), Spain (-13.56%), Denmark (-10.78%) and the United Kingdom (-8.77%).

In contrast, housing loan markets have proven to be more crisis-resilient than consumer credit markets. The slowdown in the property markets in 2007-2009 might be coming to an end, as for 2010 a slight improvement in the growth for housing loans has been registered. However, it might take a while before 'excessive' or disproportionate growth rates are seen again. Negative growth rates have been registered in Ireland (-9.48%) for the third consecutive year, followed by Estonia (-7.28%), Latvia (-6.77%), Greece (-5.02%) and Lithuania (-4.17%). Despite the gloomy economic situation across many member states, real growth rates of housing loans in Italy (+23.32%), Poland (+21.15%) and Slovenia (+20.73%) top the list with positive double-digit numbers for 2010.

Figure 3 demonstrates the development of real growth rates in the EU-27 countries, with respective break-downs for consumer, housing and other loans. It clearly illustrates the negative trend of consumer credit as well as the more stable and improving trend for the housing sector and other loans.

Figure 3. Real growth rates of consumer, housing and other loans, EU 27



Source: *Lending to Households in Europe (1995-2010)*, ECRI Statistical Package 2011, ECRI, Brussels.

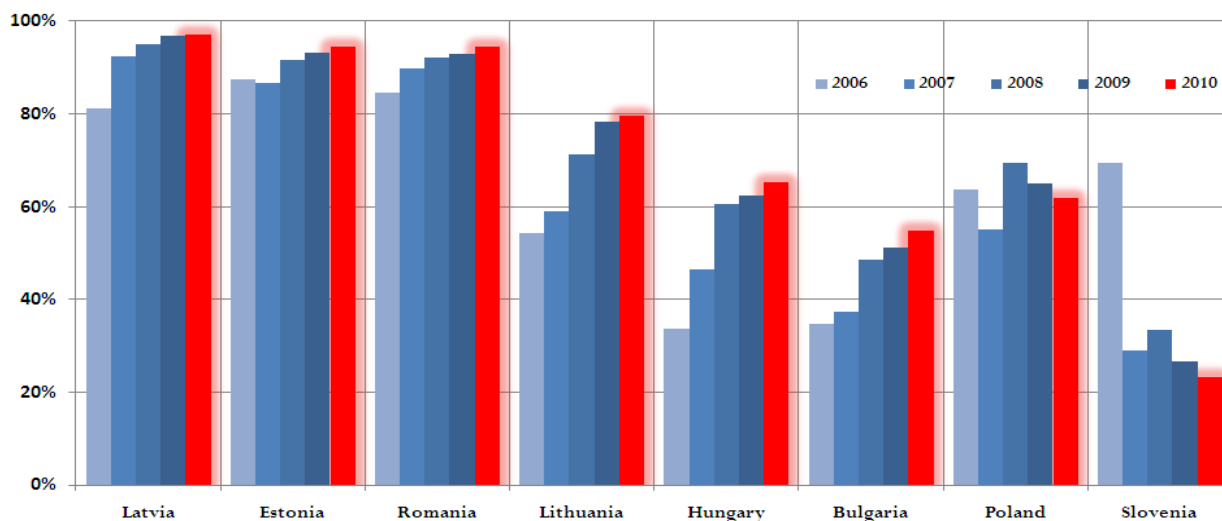
4. The share of foreign currency-denominated housing loans continued to increase in 2010 in selected Baltic and East European countries, with the share reaching almost 100% for Latvia, Estonia and Romania. While Estonia officially replaced the kroon with the euro at the beginning of 2011, this move is not expected in Latvia, Romania, Lithuania, Hungary, Bulgaria and Poland any time soon. The resulting exposure to currency risk therefore continues to cause concern.

The key driver of foreign currency borrowing has been the benefits attained by interest rate differentials between the home currency and the foreign currency, which have made the loans more affordable in a high inflation environment. Financial liberalisation generating more international competition and higher percentages of foreign-owned banks has also played a significant role in this development.

The stylised data in Figure 4 reveal important country-specific differences. Poland and Slovenia are in fact the only countries with a decreasing share of FX housing loans. Poland has been fluctuating over the last four years between 55% and an all time high of 69.45% in 2008. Since 2008, the share was reduced to 62% for 2010. Slovenia adopted the euro in 2007, and saw a significant reduction of FX housing loans, which went from 70% in 2007 down to 23% in 2010.

Latvia, Estonia and Romania, however, are approaching shares of foreign currency dominated loans of 100%. A continuous upward trend can also be distinguished in Lithuania, Hungary and Bulgaria, where the growth has been significant, rising from shares of 54%, 34% and 35% in 2006 to 80%, 65%, and 55% in 2010, respectively.

Figure 4. Share of foreign currency-denominated housing loans in Baltic and East European countries



Source: *Lending to Households in Europe (1995-2010)*, ECRI Statistical Package 2011, ECRI, Brussels.

The ECRI Statistical package is available in an Excel file in two versions:

Lending to Households in Europe (1995-2010) €600 (excl. of VAT)
 Consumer Credit in Europe (1995-2010) €440 (excl. of VAT)

It may be purchased at <http://www.ceps.eu/books>