UniCredit Group

INVITATION

UniCredit Group Lunch Debate - 28 January 2010
13.00 – 14.30

"An analysis of households' and firms' financial health in the eurozone"

UniCredit Group is delighted to present a study which takes an in-depth look at the financial health of the eurozone corporate and household sectors and analyzes the interconnections with the credit industry's development and the macro economic framework.

Agenda

12.00 Registration and buffet lunch
13.00 Presentation of the main findings by the **Chief Economist of UniCredit Group, Marco ANNUNZIATA**

13.20 **Panel Discussion** and Q&A session with the following participants:

- **Marco BUTI** – European Commission, Director General of the DG for Economic and Financial Affairs;
- **Othmar KARAS** – Member of the European Parliament, European People's Party, Member of the Economic and Monetary Affairs Committee and the Committee for Financial, Economic and Social Crisis;
- **Jean PISANI-FERRY** – Director of the European Think Tank BRUEGEL.

14.30 End of the discussion and refreshments

Place: Sofitel Brussels Europe, Place Jourdan, 1 – 1040 Brussels

Registration: Please register by 22 January 2010, by sending an e-mail to: uiinstrelue@unicreditgroup.eu

Abstract

The preliminary findings regarding the corporate sector are quite sobering. After a period of balance sheet restructuring from 2002 to mid-2005, eurozone corporates have witnessed a strong increase in indebtedness, as healthy operating profits were absorbed by a still generous dividend policy and rising interest expenditures. In other words, since mid-2005 eurozone corporates have experienced a reduction in internally-generated funds for investment, and relied increasingly on external financing to fuel an acceleration in investment. Consequently, eurozone corporates now find themselves in a significantly weaker financial position than during the 2002-mid 2005 period and are therefore vulnerable to any increase in their liabilities. Moreover, there are significant cross-country differences: the re-leveraging process described above (2005-08) has involved Italian firms much more than German ones, so that now Italian corporates are in a substantially weaker financial position than their German counterparts.

As for the household sector, while eurozone consumers are not faced with the same deleveraging task as their US counterparts, the steady rise in household indebtedness within the euro area in recent years is increasingly a focus of attention among analysts and policymakers. The overall euro-area picture of relatively sustained household debt accumulation reveals large differences, ranging from a near stagnation in Germany since 2000 to rapid credit growth in most other Member States. Therefore, while the relevant indicators suggest that household indebtedness is not currently a major concern at the level of the euro area, the situation may be more worrying in some Member States where debt levels can be considered to be high and where rapid debt accumulation has been associated with weakened balance sheets, fast growth in household spending and soaring house prices. Highly-indebted households in these countries would be vulnerable to a rise in interest rates which may imply a heavier-than-expected debt servicing burden, and prolonged weakness in house prices; two factors that may impact severely on their net financial wealth.