The housing-finance Sector in Central and Eastern Europe: the Contribution of the Bausparkassen’s contract savings Scheme to an efficient Intermediation in Housing Finance

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Structure of Presentation

- Quality features of an efficient housing finance system.
- Obstacles to an efficient intermediation in Central and Eastern Europe
- Funding through stock markets - an alternative for Central and Eastern Europe?
- Case study: housing finance in Poland
- What do Bausparkassen offer?
- Bausparen in Central and Eastern Europe
- Conclusion - a look into the future
Quality features of an efficient housing finance system.

- Efficient and sustainable housing finance system
- Home ownership
- Constant flow of savings
- Calculable risk and certainty for investors
- Stabilisation of economy
Obstacles to an efficient intermediation in Central and Eastern Europe
Sluggish demand due to unstable economic and political environment

Factors determining demand

- Inflation
- Employment
- Economic Development
- Government policy

Banking sector
- Visegrád Countries +
- Balkan peninsula -
- Russia and CIS-Countries -

Legal framework
- Visegrád Countries +
- Balkan peninsula -
- Russia and CIS-Countries -
Price distortion in the housing sector

**Regional Factors**
- Price-differences between cities and countryside
- Problematic industrial regions
- Border region “western belt” versus “eastern wall”

**General Factors**
- Underdeveloped banking sector
- Restriction on supply in relation with irrational expectations on house price movements
Consequences especially related to a wobbling banking sector

- Low creditworthiness of the average customer towards the bank due to lacking down-payment
- High proportion of grey-market income
- Savings remain in shoe-boxes
- Short credit terms: max. 4 - 5 years
- High interest-rate fluctuations
Funding through stock markets possible? (I)

Total stock market capitalisation of Central and Eastern Europe
= 2 % of total stock market capitalisation in the Euro area

Stock market capitalisation: 17.3 % of GDP
(Europe: 92.5 %)

Inappropriate legal and regulatory framework limits development of sound corporate governance structures

Foreign direct investment has been an important alternative to domestic finance
Funding through stock markets possible? (II)

Failed mass privatisation schemes have dropped public confidence in stock markets until today.

Limited role of bond markets due to low levels of outstanding government securities:
  government debt outstanding to GDP: 37 %
  (Europe: 69 %)

Restrained liquidity: Capital markets are little used as a source of finance. Markets remain bank-based.
Housing Finance in Poland
The financial sector in Poland

Banking sector considered stable, but slow growth

Low level of financial intermediation:
- ratio of domestic credits to GDP: 28.5 % (EU: 138 %)
- ratio of deposits to GDP: 39.4 % (EU: 97 %)
- ratio of housing loans to GDP: 8 % (EU: 40 %)

Due to poor quality in lending, banks concentrate on assets gathering rather than extending credits

Market is underbanked (only 20 % of population has bank account)

Stock market no alternative for funding: stock market capitalisation to GDP 19.7 % (Europe: 92.5 %). Banks are key agents for financial intermediation
Housing in Poland

Average house price per sqm € 700 - € 1,800 not affordable for most people

About 1.5 Mio. houses missing

A further Mio. to be demolished due to bad technical status

High unemployment 17.1 % per 2002

No adequate products to finance housing and high interest rates (9.4 - 10.6 %)

Housing policy of government could not stop housing shortage
The financial sector in Romania

High concentration: the two biggest banks have a market share of 45%

Low market penetration:
25% of population has a bank account
ratio of domestic credits to GDP: 10% (EU: 135%)
ratio of assets to GDP: 25% (EU: 260%)

Bankruptcies (Banca Turco Romana, Banca Romana de Scont)
due to mismanagement, bad loans, undercapitalisation
and lack of supervision
Housing in Romania

Geographical misbalance between metropolitan area of Bucharest and rural regions

High construction costs due to monopolistic structures in the construction industry and import-restrictions on building material

Legal framework is flawed

No adequate products to finance housing and high interest rates

High demand for renovation: only 17% of housing stock provides acceptable shelter in 2020 (projection)

New flat in Bucharest costs between €18,000 and €21,000; average salary is about €113 per month
What do Bausparkassen offer?
Creation of own capital for long-term stabilisation.

Advantages of own funds in the financing structure for a home:

- Better access to bank loans.
- Buffer in case of difficulties.
- Financial burden will be lower.
- Enhances capacity and willingness to repay the loan.
How does a “Bauspar”-contract work?

- Contract on a specific Bauspar amount, e.g. € 20,000
- Up to 40 - 50 % of this amount will be saved (€ 8,000 - € 10,000).
- Saver pays into a pool (closed system).
- Interest on savings.

- Saver has finished saving period.
- Out of the pool, a loan offer will be made to the saver (€ 10,000 - € 12,000).

- Repayment of loan: the interest rate of the loan has already been fixed on conclusion of the Bauspar contract in the saving period.
Bausparen in Central and Eastern Europe
Housing in Czech Republic: correlation between granted bauspar-loans and construction activities

- From 1995 - 2001, the number of bauspar-loans has risen from 880 to 520,000.
- Every second house under construction is financed through bauspar-funds.
- About 4.5 mio. Czechs have concluded a bauspar-contract.
Bausparen in Slovakia

Bausparen exists since 1992

About 60% of the Bauspar customers conclude a new contract after completion of the previous contract.

Bausparkassen are responsible for 78.6% of the total financing volume of the housing finance market.

Thanks to the Bausparkassens’ activities, more than 500,000 dwellings could be built.
Conclusion - a Look into the Future
Joint effects related to Bausparen in Central and Eastern Europe

Fixed interest rate = protection against rising interest rates on capital market = independence from fluctuations on capital market

Saved capital enhances creditworthiness towards bank and reduces cost of finance

Quick and flexible repayment of debt

Housing initiates upswing of economy

Every coin saved is used for housing finance

Less foreclosure sales

Steady demand for construction work safeguards and creates employment

Economy

saver
Housing investments as a percentage of GDP

- EU-15
- Poland
- Romania
- Czech Republic
- Russia
Bausparen

Development - Wealth - Future