

Contract Savings for Housing in Transition Countries

A Window of Opportunity?

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Window of Opportunity for CSH? Supporting Conditions in Transition Countries

Unbroken attractiveness for savers

Foreign currency lending shocks, resulting in regulatory prohibition or curtailing leading to more local currency lending

Lack of alternative long-term local currency funding instruments

Elevated local currency interest rate volatility parts of the region

Elevated income risk and income inequality parts of the region

Incomplete housing loan markets (second mortgages, renovation)

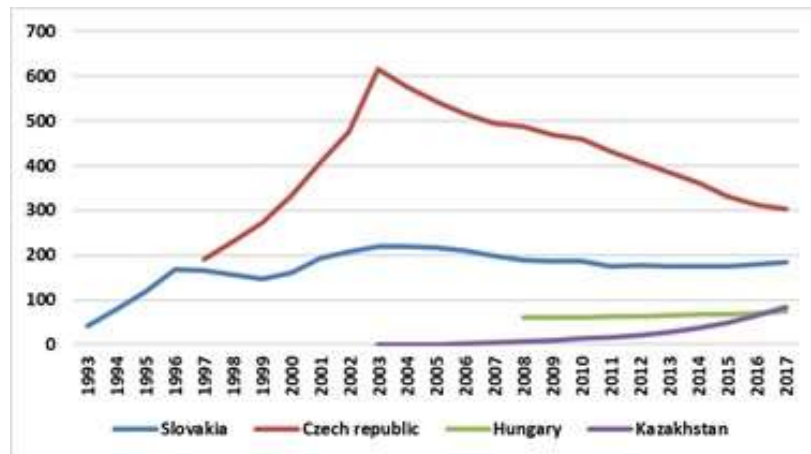
WINDOW OF OPPORTUNITY FOR CSH? UNBROKEN ATTRACTIVITY FOR SAVERS

Popularity has differed, depending on local / foreign currency interest rate and initial premium conditions, but has recently converged

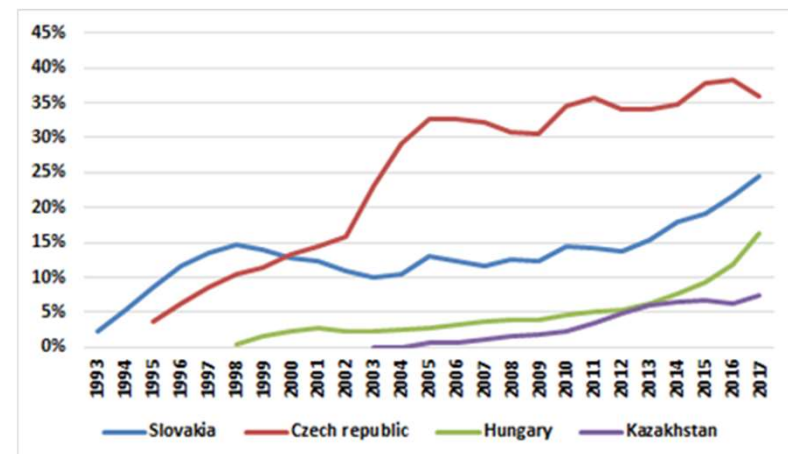
→ Bausparen remains highly popular, even after cutbacks of premium levels, and makes a significant contribution to the long-term savings market

→ Premium level stop and go endangers the contribution

Popularity of the Schemes
Contracts per 1,000 Inhabitants



Contribution to Time Deposit Market
Bauspar Deposits / Time Deposits



Source: national central banks, Bausparkassen, author.

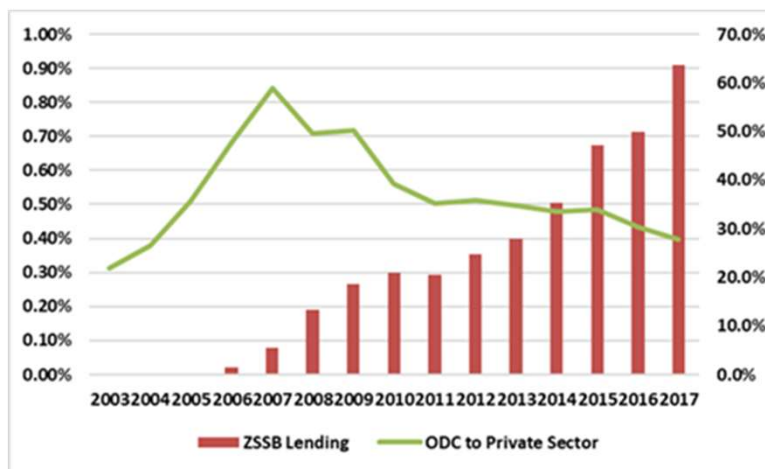
WINDOW OF OPPORTUNITY FOR CSH?

COLLAPSE OF FOREIGN CURRENCY LENDING

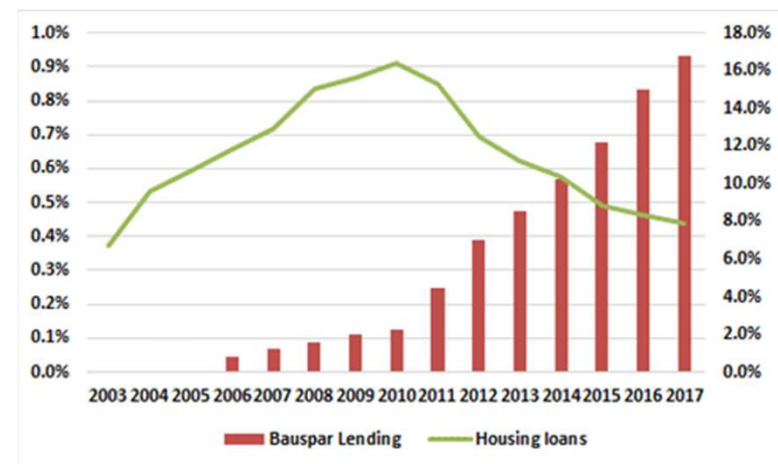
In Kazakhstan and Hungary, the foreign currency lending market collapsed and local currency loans were expensive

→the presence of Bausparen was an insurance policy, demand picked up strongly

Kazakhstan



Hungary



Source: IMF, national central banks, Bausparkassen, Consultant computations.

Notes: % of GDP. Kazakhstan ODC – other depository corporation lending to private sector. ZSSB – Zhilstroysberbank.

WINDOW OF OPPORTUNITY FOR CSH?

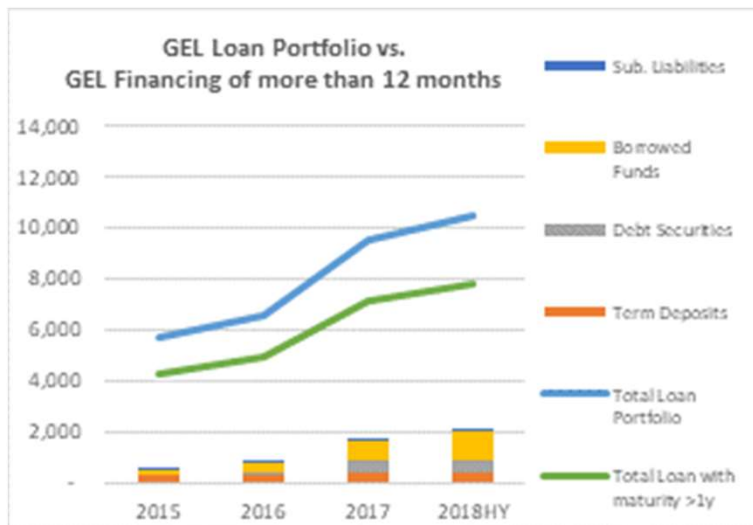
LACK OF ALTERNATIVE LONG-TERM LOCAL CURRENCY FUNDING

Debt securities markets are small, due to the lack of institutional investors

Households save increasingly long-term, but are highly sensitive to financial shocks (term deposits can often be daily called)

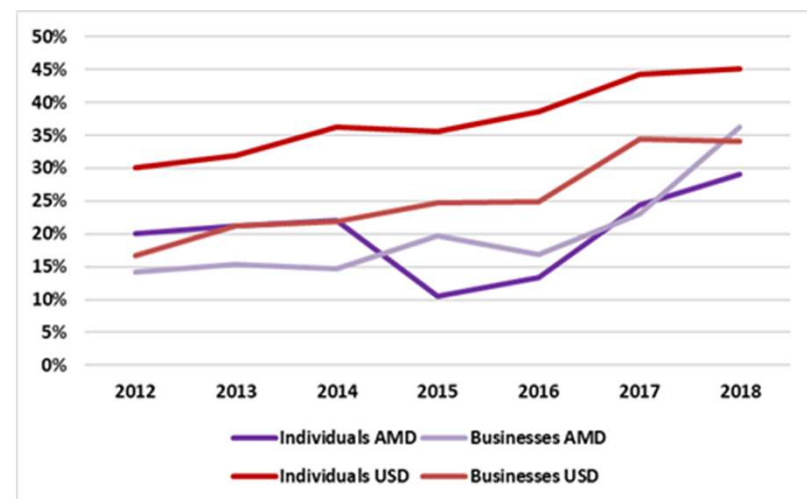
→the Bauspar product provides incentives to continuously save, creates long-term funds

Long-term Funding Gap in the Local Currency in Georgia



Source: National Bank of Georgia

Share of Household and Business Deposits > 1 Year, Armenia



Source: Central Bank of Armenia, Duebel

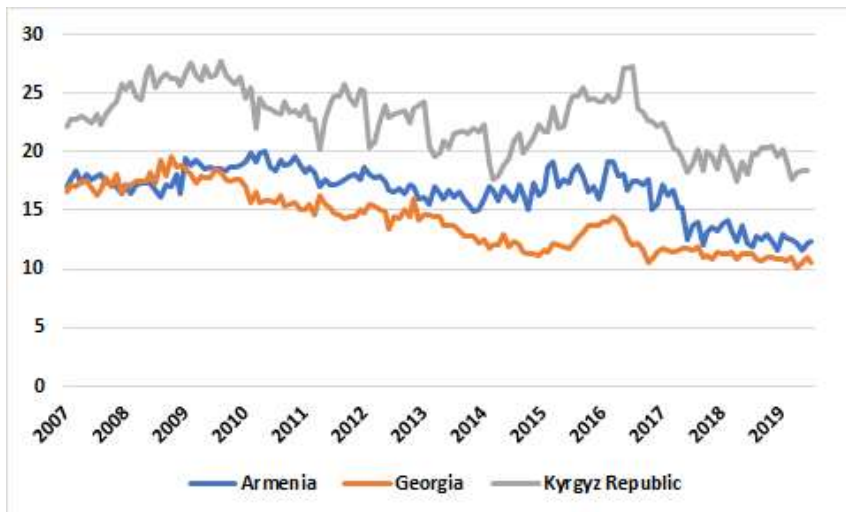
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ELEVATED INTEREST RATE VOLATILITY

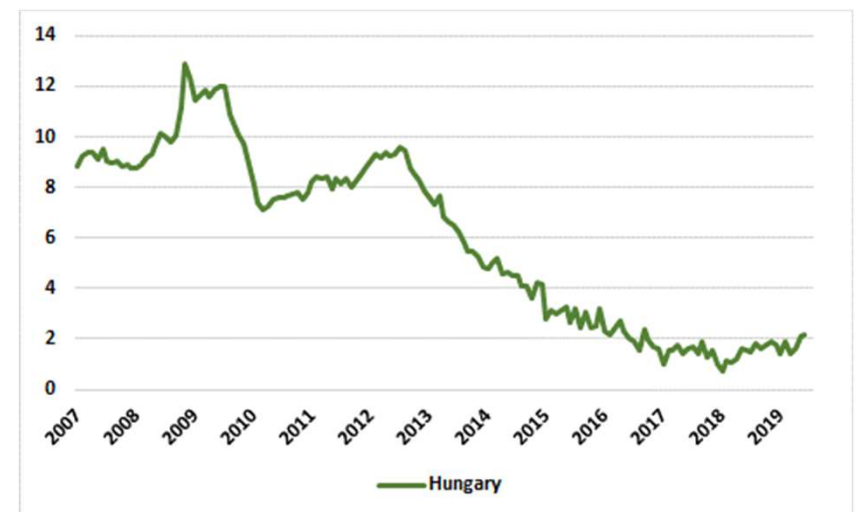
Interest rate levels and volatility remain high in Caucasus, Central Asia
Even where low, the legacy of high and volatile interest rates drives expectations, e.g. Hungary

→ Savers value the interest rate risk protection contained in a Bauspar product

Lending Rates in Caucasus and Central Asia



Lending Rates in Hungary



Source: IMF, International Financial Statistics

WINDOW OF OPPORTUNITY FOR CSH?

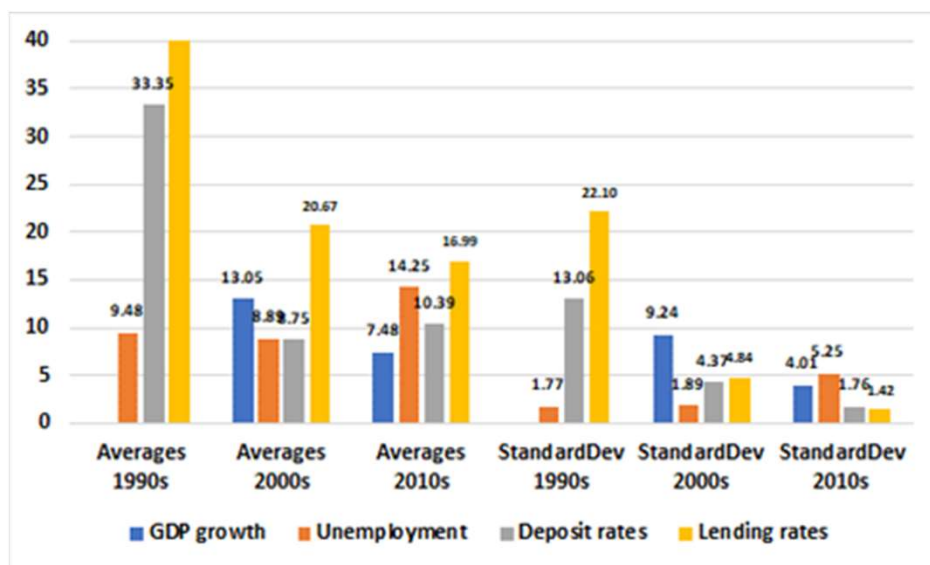
INCOME RISK AND ACCESS TO CREDIT CONSTRAINTS

Unemployment rates and income risk often remain high, deterring access to credit

Lenders discriminate against lower-income households, esp. in smaller and non-mortgage loans

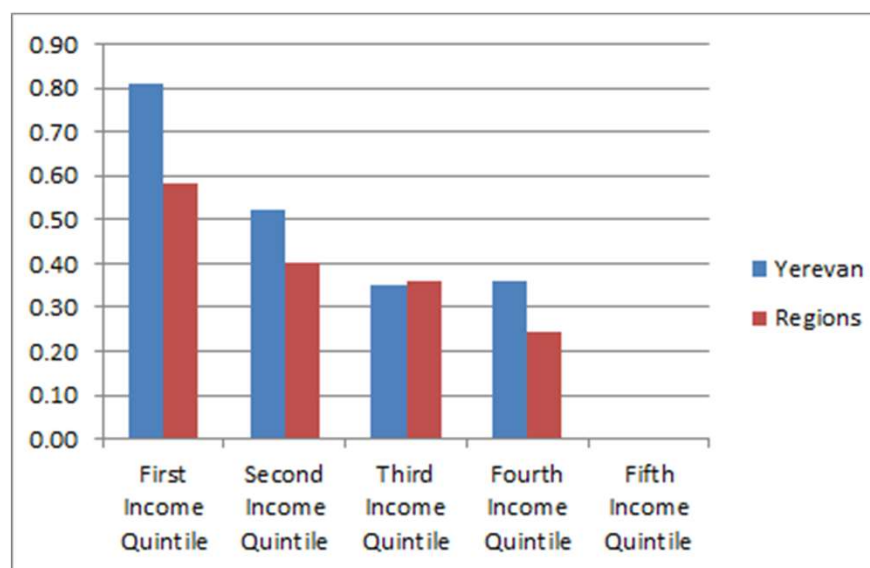
→ Bausparen helps to improve access to credit and remove price discrimination

Average and Standard Deviation of Macro Variables, Armenia



Source: IMF, International Financial Statistics

Price Discrimination in Renovation Lending, Armenia



% difference to highest income group

Source: National Mortgage Company, Duebel

WINDOW OF OPPORTUNITY FOR CSH?

INCOMPLETE HOUSING LOAN MARKETS

Lenders do not rationally price higher LTV lending

Regulations push away borrowers with broken employment records or volatile incomes

→ Bausparen offers uniform pricing within reasonable LTV ranges across a very wide credit spectrum

Example: Higher LTV Pricing Armenian mortgage lenders

PFI code	LTV range, loans in AMD				
	<50%	50-60%	60-70%	70-85%	85-90%
3	9.80%	9.8+0.5%			
8	9.45%	9.75%	12.50%	13.25%	
23	11.20%	11.2+0.2%			
4	risk based pricing, incl. LTV factor consideration				
20	committee decision		10%	11%	
17	11.30%			11.3+0.75%	

Note:
Results in high marginal cost of funds for LTV 70-80% (15% - 25%)

Source: National Mortgage Company

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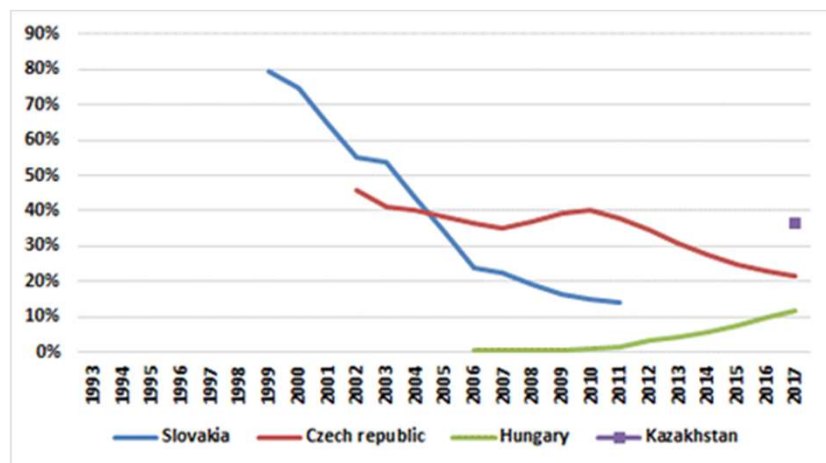
BAUSPARKASSEN HOLD UP THEIR PLACE IN THE MARKET

Housing loan market shares can be expected in the 15-30% range

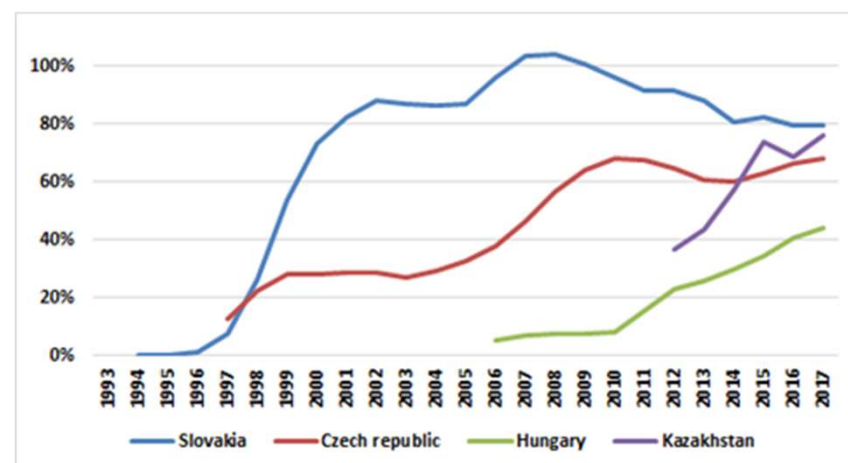
Loan-to-deposit ratios are converging to 60-80%

→ despite headwinds from cutthroat mortgage pricing by banks, Bausparkassen have found their places in the market

Contribution to Housing Loan Market
Bausparkassen Loans / Housing Loans



Institutional Sustainability
Loan-to-Deposit Ratio



Source: national central banks, Bausparkassen, author.

Window of Opportunity for CSH?

Challenges and Opportunities for the Bauspar product

Financial sector development

Return of cheap cross-border funding

EBRD, ADB etc provide foreign currency lending, international banks are returning.

→ however, foreign currency is no longer attractive to local banks due to risk and regulations, often local currency programs require a central bank intervention

Alternative local currency funding

Central banks push lenders increasingly to do local currency lending and close local currency long-term gaps,

Most domestic savings markets are still too shallow to sustain alternatives, such as covered bonds on a larger scale.

→ the Bauspar product comes just in time to support central bank local currency development strategies

Window of Opportunity for CSH?

Challenges and Opportunities for the Bauspar product

Housing finance sector development

Many transition countries are too small to sustain more than one Bausparkasse

→ create single institution focusing on refinancing / ALM benefiting all mortgage lenders?

Mortgage markets innovate and penetrate faster today even a transition country market

→ Bausparen should secure unique core submarkets, such as unsecured lending or second mortgages,

→ Bausparen should position itself as the 'original microfinance' scheme appealing to young and lower-income households,

→ Bausparen should catch its share of expanding green finance market (energetic renovations/capital repairs).

Window of Opportunity for CSH?

Challenges and Opportunities for the Bauspar product

Housing policy development

Housing policy in emerging markets has often no institutional home (ministry or agency),

There is no systematic review of government subsidies for housing and their targeting,

Subsidies for bank mortgage lending are already excessive in many emerging markets,

Household income and wealth is notoriously difficult to measure.

**→Bausparen can position itself as a self-targeted policy instrument
requiring very limited bureaucracy
that appeals to young and lower-income households
and requires only moderate fiscal support**