



Contractual Savings Schemes in Eastern Europe



ZWIĄZEK BANKÓW POLSKICH

Mag. Herbert Pfeiffer
President of the
European Federation of Building Societies
and
Member of the Management Board of
Prvá stavebná sporiteľňa, a. s.
Bratislava

25.07.2001

-
-
-

The housing sector plays an important role in the economy of countries



- On an average up to 20% of the GDP per annum is created by the housing sector in UN ECE countries
- All UN ECE countries have recognized that the annual expenses for housing per household are the biggest personal budget items
- At the same time housing is the biggest asset of wealth for most homeowners



•
•
•

A functioning HFT* is the precondition to gain the qualitative and quantitative effects of the housing sector

The creation of sustainable housing belongs to one of the most important areas of a national economy

* Housing Finance Technique



**The key requirement for a HFT is its capability to mobilize as much funds as possible for housing loans
„ ... it always begins with savings“**

$$\text{GDP} = C + \boxed{I + (\text{Exp} - \text{Imp})}$$

↓
Savings

$S > I \rightarrow (\text{Exp} - \text{Imp}) \text{ positiv}$
 $S < I \rightarrow (\text{Exp} - \text{Imp}) \text{ negativ}$

Without savings no sustainable housing finance techniques

At the end of the day, somebody has to save to finance the investments of the others.

25.07.2001



That's why deposit oriented HFT were chosen in many economies very early

- Since 1992 **19 new Housing Savings Banks (Bausparkassen)** have been created outside the traditional countries (Germany, Austria)
- 16 million new customers demonstrate its success
- **1 trillion Euro deposits are managed by the Bausparkassen (1,000,000,000 Euro = 4,326,350,000 Sloty)**

Countries with Bauspar'-Act

	Germany (1885)
	Austria (1925)
	Slovakia (1992)
	Czech Republic (1993)
	Hungary (1997)
	Croatia (1998)
	Kazakhstan (2003)
	Romania (2004)

Countries without Bauspar'-Act

	Luxemburg (1980)
	Belgium
	Italy
	India (2001)
	China (2004)

25.07.2001

Bausparen historically was founded in times of deep depression



Implemented in

- Germany
- Slovakia
- Czech Republic
- Austria
- Hungary
- Croatia
- Romania
- China
- Kazakhstan
- Luxembourg
- Belgium

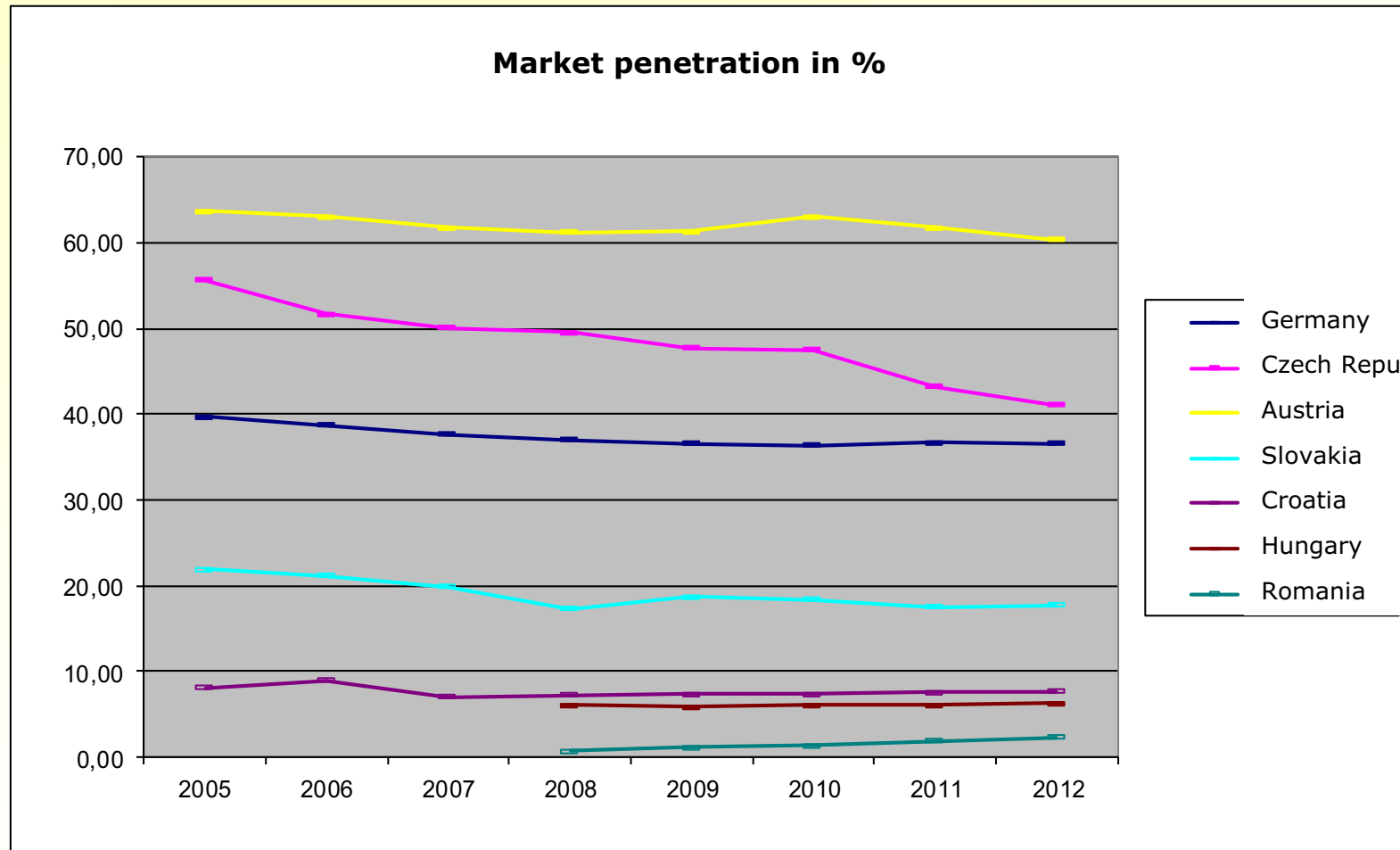


Under discussion in

- Russia
- Ukraine
- Belarus
- Azerbaijan
- Armenia
- South Africa
- Vietnam
- Thailand
- Nigeria
- Chile
- Switzerland



Market Penetration in %



25.07.2011



•
•
•

The fundamental trend in housing is the growth of modernisation, repair and maintenance

- it helps to utilize the higher labor intensity of modernization for the promotion of employment
- it can reduce input of land and material in comparison to new construction
- modernization is accompanied by improving energy conservation

Another major trend is higher costs and prices in the housing sector

- land is often more expensive than construction
- this makes new housing affordable only to max. 10% of the population

25.07.2001

-
-
-

The high ownership rate in transforming economies promotes the demand for small loans

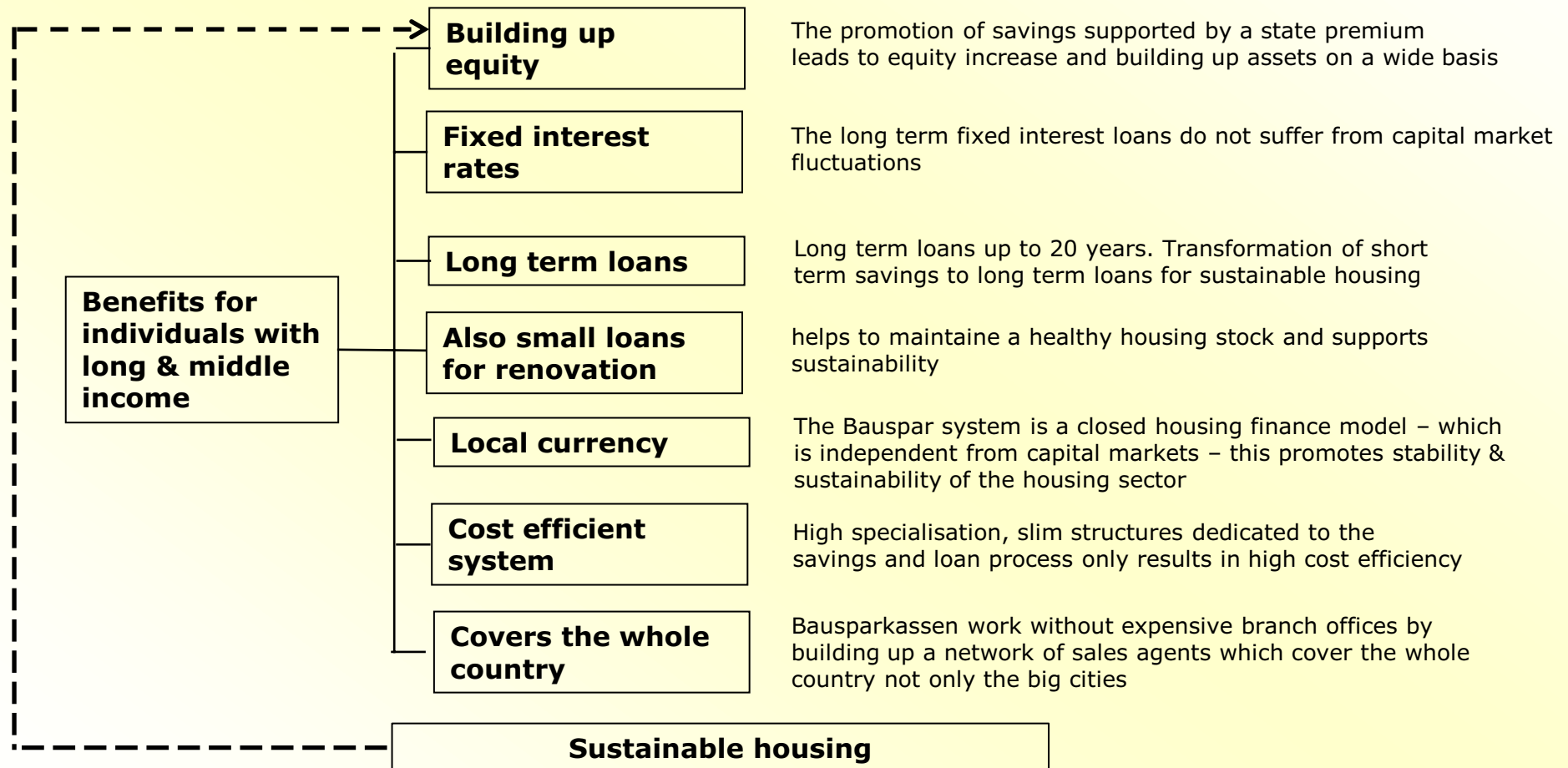


- This high demand for renovation loans can be satisfied by Bausparen ideally. Mortgage banks are not prepared to provide small loans.
- This is a strong contribution to the general housing infrastructure.

25.07.2001



The Bauspar-system for a better and long lasting solution to the needs of lower and middle income families:



25.07.2001

Housing Industry in Slovakia



Inhabitants: 5.4 million	minus 500,000 until 2035
	birth rate: 1.2 (Germany: 1.4)
15 % minorities:	- 67.0 % Hungarians
	- 12.5 % Roma
	- 6.0 % Czech
Households	Ø HH size
	2005 2.5 persons
	2010 2.4 persons
Growing number of HH	2005 2,150,800
	2010 2,233,300
Housing stock	2001 1,884,846
	in use: 1,665,536
Rental flats:	3 %
Labour mobility Slovakia	0.14 %
	USA 3 %
	Germany 1.36 %

25.07.2011

-
-
-

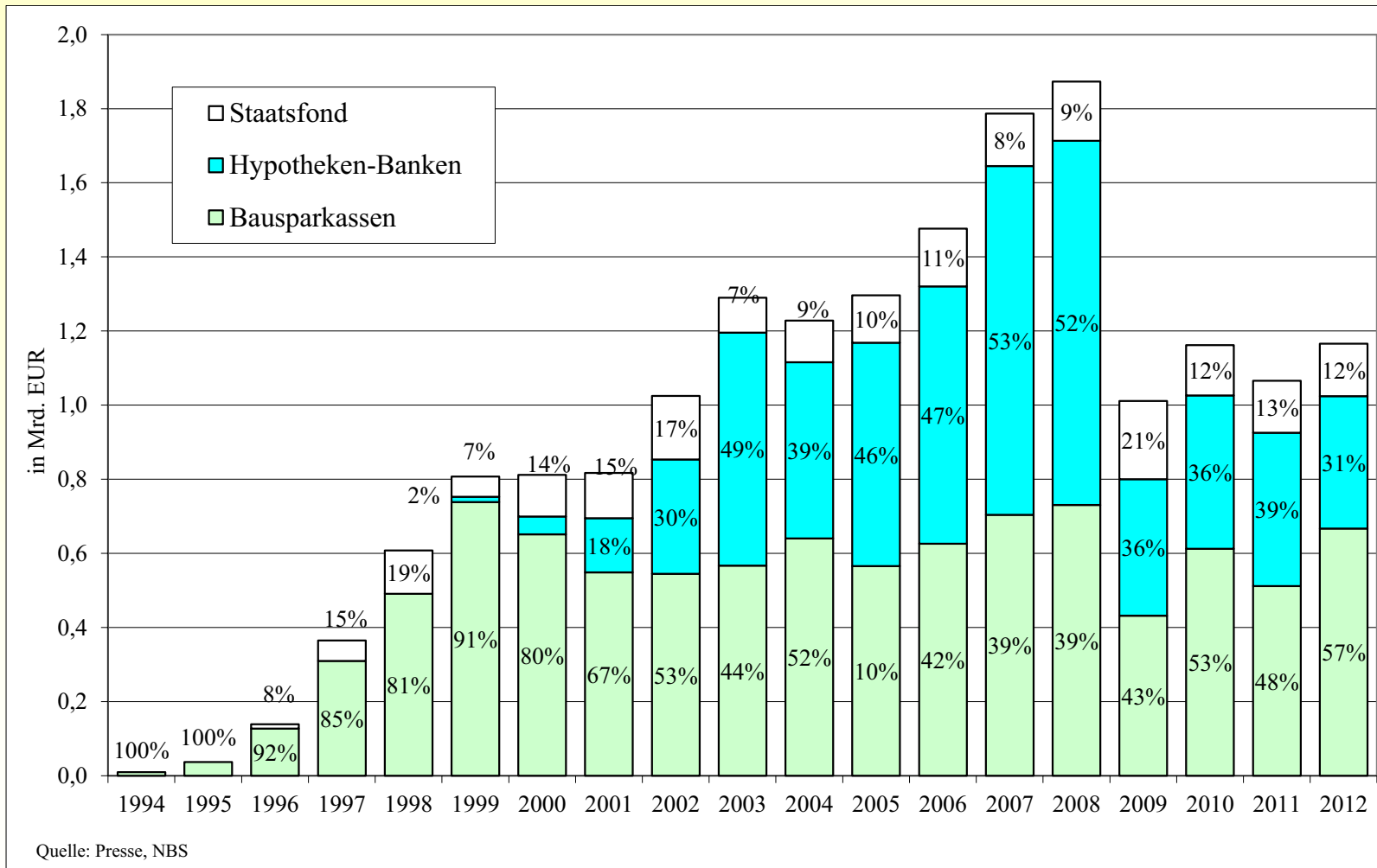
Bausparen has become an important element of the financial market in Slovakia



- The increase in Bauspar savings shows that this system has been widely accepted by citizens since 1992
- Bausparkassen have attracted about 2.6 million clients
- the accumulated funds are already significantly contributing to
 - construction of new houses and apartments
 - home improvements
 - privatization of public housing facilities

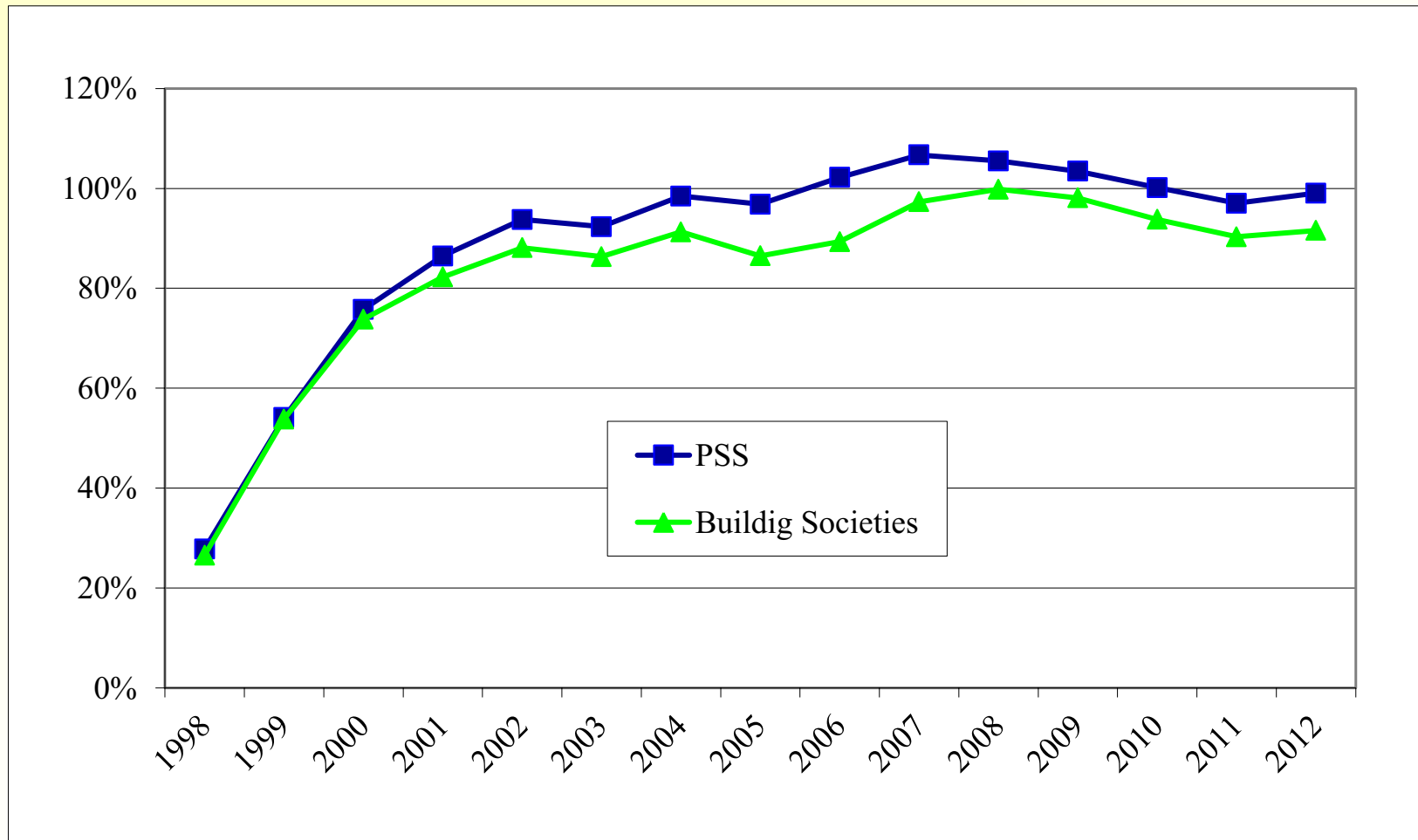
25.07.2001

Bausparen hold 57% of housing finance market share





Today the Bauspar system has transferred 92 % of deposits into loans

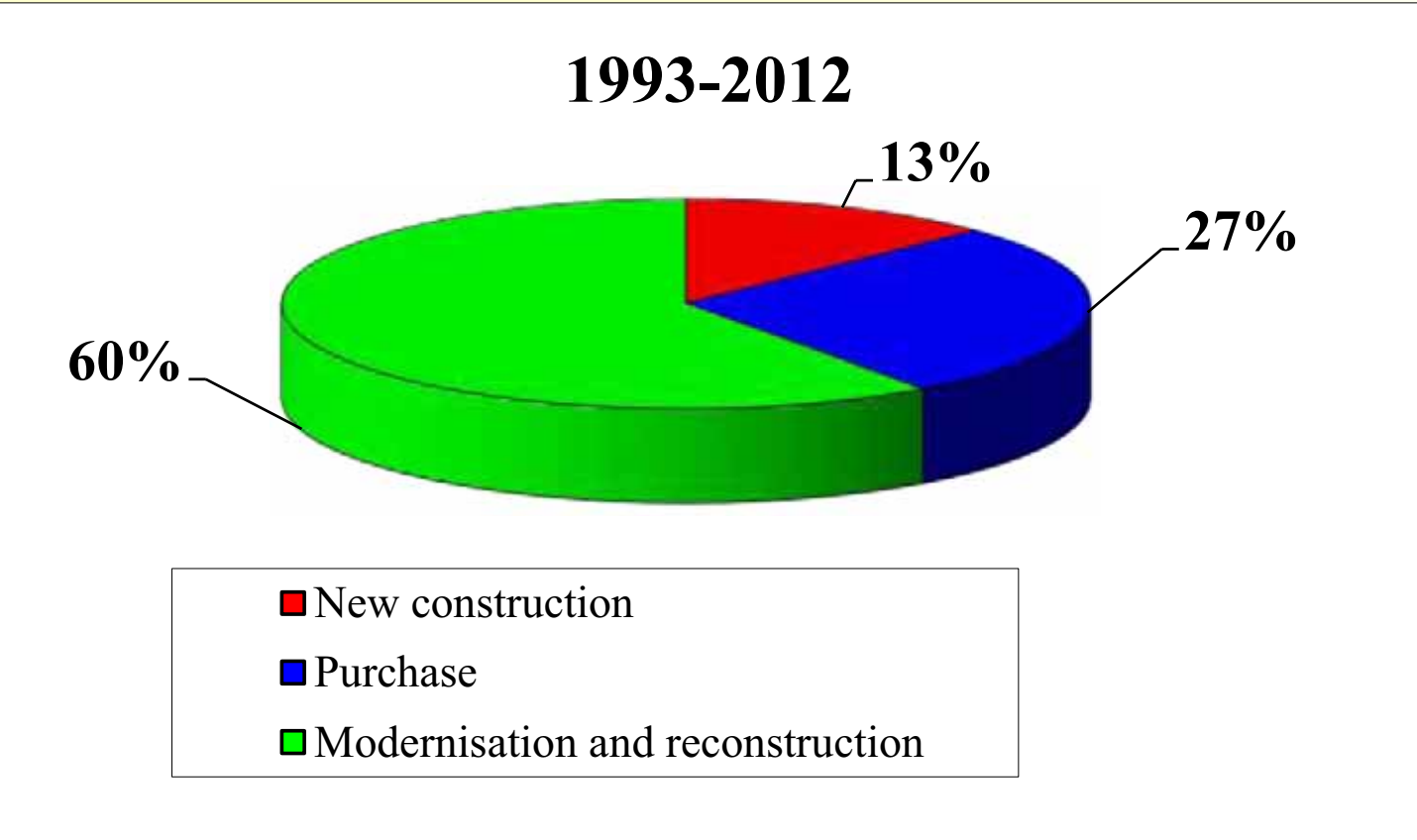


25.07.2001

-
-
-



Financial volume by purpose



25.07.2001

-
-
-



Optimal loan conditions in Slovakia

- Loan terms of 8-20 years after two-year waiting period
- Interest rates are fixed at 2.9 % - 4.7 %
- Interim Loans available at 3.99 % - 6.69 %
- Collateral:
 - less than 50 000 EUR 1 guarantor or 1 co-debtor (husband or wife if married)
 - interim loans less than 25 000 EUR - 1 guarantor or 1 co-debtor (husband or wife if married)
 - over 50 000 / 25 000 EUR - mortgage conditions
- No limitation of the amount of loan

25.07.2001

-
-
-



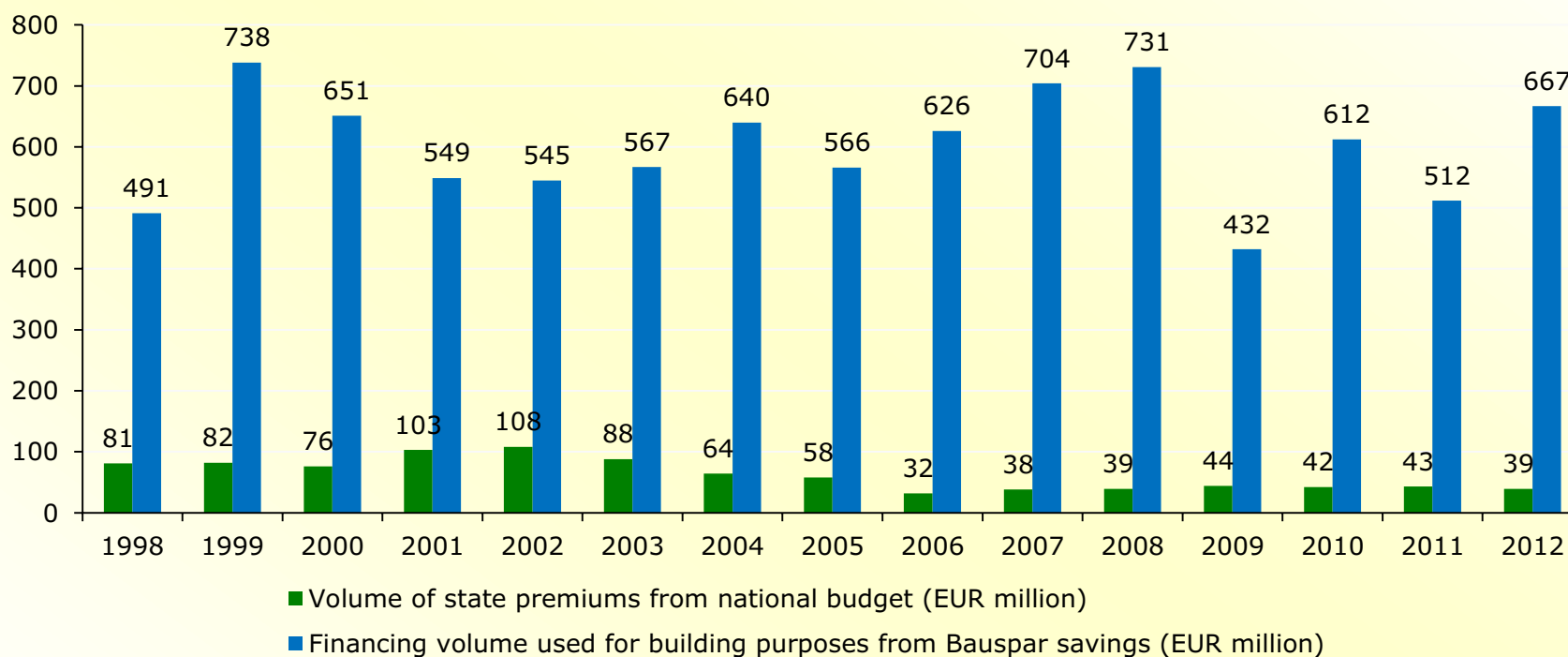
Bausparen proves the creditworthiness of the borrower

**A default rate of 0.21 % underlines this
statement.**

25.07.2001



Comparison of the contribution of state premium and financing volume utilised for building purposes from Bausparkassen savings per year over the last 15 years

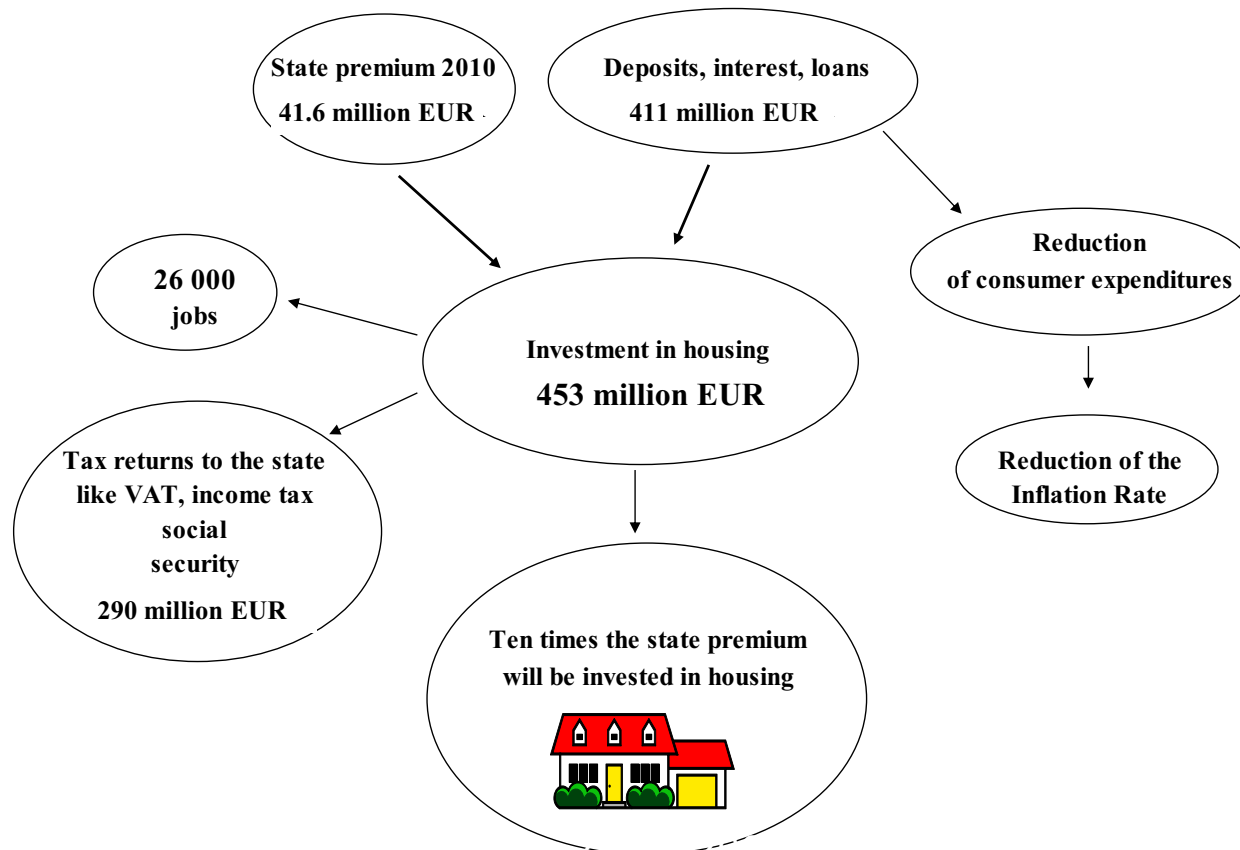


Cumulative financing volume used for building purposes (EUR million)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
974	1712	2364	2913	3458	4025	4666	5231	5858	6562	7293	7724	8337	8849	9516



State premium is the most important form of support for housing



Benefits of Bausparen (BS)



A Deposit Taking Housing Finance System like BS is in the developing phase of a national economy the most effective technique and offers benefits to the customer, the construction industry and the state

- BS is a lifetime savings concept for construction, renovation and repair and to secure living conditions at retirement.
- The system is transparent. BS institutions do not carry out any other business except providing housing loans.

25.07.2001

Benefits of Bausparen (BS)



- The customer knows exactly for what his money is used for, unlike in commercial banks.
- It works in stable conditions independent from the capital market, based on the initiative of individuals.
- BS is increasing the savings ratio and supports building up equity of the individual, without raising the interest rates.

25.07.2001

Benefits of Bausparen (BS)



- BS is shifting short-term savings to long-term loans at stable conditions and at interest rates below or max. 6%.
- BS loans have a low default rate, 0.21 % in Slovakia because regular savers are paying back regularly and punctually.
- The investment of the state vis-a-vis encouraging the saving process through a limited state premium is generating abundant qualitative and quantitative effects on the state budget, exceeding the expenses by far (multiplier effect).



Benefits of Bausparen (BS)

- The promotion of BS is the first step in setting up long term borrower/lender relations.
- BS promotes a countrywide economic up swing and jobs.
- BS is cheaper for the state budget as an uncapped tax deduction model for loan interest.
- The budgetary income exceeds the amount of premium.



Benefits of Bausparen (BS)

- Small loan amounts possible
- Improvement of existing housing stock
- For a better and long lasting solution to the needs of middle and lower income families.

BAUSPAREN CREATES SUSTAINABILITY

-
-
-



Bausparen in emerging markets



Bausparen was successfully implemented in many Eastern European countries, helped improving living conditions and stabilised housing finance system in these countries!

25.07.2001



**Thank you for
your attention!**

Contact details

**European Federation of
Building Societies**

Herbert Pfeiffer
Rue Jacques de Lalaing 28
1040 Brussels
Phone: 0032/2/231.03.71
Email: info@efbs.org

25.07.2001