The housing market and housing finance in Yugoslavia

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THE housing market in Yugoslavia consists of two different almost unrelated segments. The larger has comprised privately-owned housing units while the smaller one has been restricted to so-called socially-owned housing units, mainly apartments in residential buildings in cities. The methods of building, maintenance, finance and sale of housing units in the private and social sectors in Yugoslavia are completely different. This dual structure of the housing market in the country has some important implications for the economy as a whole. This paper surveys the housing market in Yugoslavia with special emphasis on housing finance.

The housing market in Yugoslavia — major trends

The total number of apartments in Yugoslavia in 1988 was about 7.1 million, with 446.4 million square meters of floor space. The average floor space was 62.5 square meters giving an average of 19 square meters per person.

By far the largest part (close to 80%) of the total housing stock is privately owned. Almost all dwellings in rural areas and 55% of all apartments in cities are owned by private owners. As a rule a private owner has a house with often two or more apartments in it. The owner usually builds it by himself with the help of his relatives, friends and colleagues. The building takes years to complete.

While in rural areas, privately-owned housing units have been located on the owner's land, in cities, especially in large ones, a very high proportion of the houses have been built without legal permission on poor locations. The location sometimes implies the absence of access to running water, sewerage and paved streets. The phenomenon of illegal building has been a consequence of two factors. Firstly, low-qualified workers very often do not have any chance to obtain from the firms they work for a socially-owned apartment. To have a socially-owned apartment has been a privilege of managers and white-collar workers mainly. Secondly, communities did not pay the necessary attention to the need of the ordinary workers for cheap lots for housing construction. Instead, they have offered a relatively small number of expensive construction lots in cities, which forced ordinary workers to begin building their houses, for example, on hills around cities. Being aware of the value of the location, they have almost always built houses with more than one flat for their children (when they form their families) and for letting.

Average housing conditions, shown in Table 2, do not really represent the condition of typical housing units in the country. In this sense, the housing stock has been segmented in four parts: modern and old dwellings socially owned in cities, private houses in cities, and rural private housing. While modern dwellings in cities have good facilities (water supply, power supply, sewerage, central heating and sometimes natural gas supply) this is not always the case with the stock of old urban housing. Since their maintenance has been rather poor, the stock usually lacks central heating and natural gas supply with relatively poor bathing facilities. Housing conditions in privately-owned dwellings in cities are mostly quite good which is not the case with rural housing, especially in the less developed parts of Yugoslavia.

Regional disparities in housing conditions in the country have been large. In Slovenia, Croatia and Montenegro conditions are much better than average, in Macedonia and Kosovo they are considerably below the Yugoslav average. The differences are deepest in the private part of the market as the social housing units have been built and maintained on the basis of several similar standards and procedures. This is a very important point: the housing market comprises several different regional markets.

Table 1
The State of the Housing Stock, Yugoslavia, 1974, 1981 and 1988

Feature of the stock	*Year* 1974	1981	1988
1. Total number of apartments (million)	5.5	6.3	7.1
2. Total floor space (million m^2)	280.2	382.5	446.4
3. Average floor space of an apartment (m^2)	50.8	61.4	62.5
4. Average floor space per person	13.2	17.0	19.0
5. Per cent of the stock socially owned			23.5
6. Per cent of the stock in cities		48.6	
7. Per cent of the stock in cities socially owned		45.0	

Source: SGJ, SZS, Belgrade, various years and authors' calculation.

Table 2
Housing conditions in Yugoslavia, 1974, 1981 and 1988

Indicator	*Year* 1974 %	1981 %	1988 %
1. Running water ratio	36.5	68.3	71.8
2. Power supply ratio	88.7	95.8	96.3
3. Bathing facilities ratio	28.1	51.9	56.9

Source: SGJ, SZS, Belgrade, various years and authors' calculation.

In comparison with the housing conditions in some developed market economies, Yugoslav conditions are much poorer. For example, housing conditions in Japan, which is well known for its poor infrastructure, includes a running water ratio of 93.7%, sewerage ratio of 57.9% and bathing facilities ratio of 88.1%.

The growth of the total housing stock in Yugoslavia, when measured by the number of the units, has shown a smooth trend in the last fifteen years. Comparing it with the growth of GDP in the country it is possible to conclude that it exerted huge inertia determined by some other forces not shown in GDP. This conclusion holds especially in the light of two very different development periods (1974-81 and 1981-88) in the country. Of course, with the increase in average floor space of a housing unit, the rate of growth of the total floor space increased more rapidly than the growth of the number of housing units.

Annual investment in the housing stock in Yugoslavia in 1987 accounted for 3.7% of GDP, or 4.5% of GDP with necessary investment in utilities which was in line with appropriate international standards. In absolute money terms this was between $2.2 and $2.7 billion. In the same year, the total estimated value of the housing stock in the country was between $150 and $235 billion (calculated with prices of 550-900 DM per square metre of floor space). As there is no nationwide credit market for housing construction or purchase, and as the social part of the housing stock is not the object of any kind of market transaction, it is very difficult to know the exact value of the total housing stock. In addition, very low labour mobility and an extremely high tax on housing market transactions (about 45% of estimated value of the unit) make it even more difficult to determine the real value of the housing stock in Yugoslavia.

The total housing supply ratio (housing stock divided by number of households) is 1.01 in Yugoslavia. However, this ratio for urban areas is probably below and for rural areas above 1.0, which can be concluded from high demand for renting apartments in large cities.

Housing Finance

Methods of financing housing construction in Yugoslavia are functions of different types of property rights. In the private sector, people mostly finance construction from their savings and current income. They also use very modest credit facilities from the firms they work for and from the banking sector, but their importance is not large. The socially-owned housing stock has been financed through so-called "housing funds" in all firms in the country. The funds have been created from enterprises' incomes and then used largely for the purchase of new apartments. All workers have the right to apply for the use of one of the apartments, new or old, owned by their enterprises. Each firm makes a list of priorities for the housing taking into account position, qualifications, years of work, family circumstances, current housing, etc, of each applicant. Firms sometimes use bank loans in order to anticipate the construction of their housing units.

The central position in the social housing sector is occupied by an institution named Selfmanagement Community of Interest for Housing (or SIZ in Serbo-croatian). This institution is where construction firms,

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Table 4
**Investment in housing as proportion of GDP, selected countries, latest available esti-
mate**

Country	*Share* %
Austria	5.2
France	3.9
West Germany	5.1
Greece	4.2
Italy	6.1
Japan	4.9
South Korea	4.6
UK	3.5
USA	4.8
Yugoslavia	3.7 (4.5*)

Source: The World Bank, Social Indicators of Development 1989, and SZS, SGJ, 1989 p. 182, 207, 222.
* Includes investment in utilities.

Table 3
The growth of the housing stock and GDP, Yugoslavia 1974-1988

Element	*Period* 1974-81 %	1981-88 %	1974-88 %
1. Number of apartments	1.9	1.9	1.9
2. Floor space	4.5	2.2	3.4
3. GDP 4.7	4.7	0.4	2.5
Elasticity			
1/3	0.40	4.75	0.76
2/3	0.96	5.50	1.36

Source: Authors' calculation on the basis of SZS, SGJ, various years.

← 49

firms buying apartments and local governments negotiate location, prices and all other important housing elements for the current and future periods. In other words, it means that there is a real market for purchase and sale of socially-owned housing. Everything has been set in SIZs. Some exceptions exist, mainly in more developed regions of the country where there are small free markets in housing units.

The second important group of institutions in the social housing sector are the maintenance organisations. They have been formed on a local basis. Their revenues come from the rents the users of the social apartments have to pay. The maintenance has been very poor all over the country, however. Very low rents and the organisational structure of the sector are the cause of this.

The absence of market behaviour in the social housing sector, especially in construction, makes it inefficient compared with the private sector. An indicator of the inefficiency is the price of one average square meter of floor space of a new housing unit.

Even after some adjustment of the price difference, shown in Table 6, for the better housing conditions of the social stock, it is clear that housing construction in the social sector has wasted money. With an increase in the efficiency of the construction of the social housing stock, the total yearly additional stock of the dwelling units in Yugoslavia could increase at least by 15-20% from the numbers shown in Table 6.

One very important source of financing private housing construction is the remittances from Yugoslav workers temporarily working abroad, mainly in Western European countries. During the main migratory period (1965-1989) more than 700,000 migrant workers and about 350,000 homecomers (those who returned from abroad) remitted amounts of $30-35 billion (Mikulic). The bulk of this transfer, more than 70%, has been spent on the building, rebuilding and maintenance of their houses in Yugoslavia (Vedris, p. 336).

At the same time, 85-90% of total migrant population have invested their savings and remittances in housing. It means that more than 900,000 migrants' houses have been constructed or reconstructed in the country in the last 25 years. As the average amount of the investment per migrant was about $25,000, it becomes clear that the migrants contributed to the domestic housing sector more than $22 billion.

It is very interesting that the Yugoslav banks have not shown an interest in supporting the migrants' housing investment (say, special loan schemes and other loan incentives). As a result less than 4% of the total migrant population used housing loans (Mikulic, p. 32).

With no government support for the productive investment, the migrants invested heavily in housing construction.

The nature of the housing sector which has been described has produced very important distortions (Jaksics, p. 16). First, the construc-

Table 5
Expenditures on and relative prices of housing construction, Yugoslavia, 1979-88

Sector	*Year %*									
	1979	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*
1. Social	48.2	48.4	48.2	48.4	39.7	41.9	45.9	44.8	48.9	39.6
2. Private	51.8	51.6	51.8	51.6	60.3	58.1	44.1	45.2	51.5	60.4
Ratio of price of 1 m^2 of private to social new dwelling	55	47	55	56	61	56	48	52	37	51

Source: Author's estimates on the basis of SZS, SGJ, various years, and National Bank of Bosnia and Hercegovina, Pregled No. 2, 1990, p.80.

Table 6
The structure of new housing stock, Yugoslavia, 1979-88

Sector	*Year %*									
	1979	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*
	Number of new units 000									
1. Social	38.1	35.5	38.8	38.4	36.9	33.4	33.5	34.8	31.7	30.4
2. Private	61.9	64.5	61.2	62.6	63.1	66.6	66.5	65.2	78.3	69.6
Total	146	137	149	138	140	131	127	130	120	119
	Floor space of new units									
1. Social	33.8	30.8	33.8	33.8	32.5	28.6	28.8	29.5	26.3	22.6
2. Private	66.2	69.2	66.2	66.2	67.5	71.4	71.2	70.5	73.7	77.4
Total space in million m^2	10.0	9.7	10.6	10.0	10.1	9.5	9.2	9.5	8.8	9.8

Source: Authors' calculation on the basis of SZS, SGJ, various years.

Table 7
Yugoslavia guest-workers' investment in housing, 1960-85

Investment $000	*Per cent of guest-workers*
up to 5	15.0
6-10	13.5
10-20	23.6
20-30	18.9
30-40	16.1
40-50	4.0
50-100	7.7
over 100	1.2
Average investment per a guest-worker	$24,500

Source: Baucic, I, Actual Issues of Yugoslav Guest-workers, Center for Migration Studies, 1985, p. 102

tion of a social housing unit is very expensive while the rent of the unit is very cheap. Secondly, to rent a social housing unit is much cheaper than to buy. Thirdly, privately constructed dwelling units cost much less than those built by social construction firms. Fourthly, the life span of a social housing unit has been usually set up to 100 years while the real depreciation period (because of unreasonably low rents) has been extended in some cases even to 1,500 years.

Turning to the role of banking sector in housing finance, it has already been noted that this is not very important. But, taking into account expected economic reforms in the country and the current practice in housing finance in the developed world, the position of the banks in this respect deserves special attention. (Mortgage credit from the formal sector was 28% of all housing investments in a sample of 11 developing countries compared with more than 60% in OECD countries. The difference partially reflects the shallowness of financial systems in developing countries. Years of financial repression not only have minimised the role of the formal sector in housing finance but have raised housing prices because negative real interest rates favoured investment in real assets. In another sample of 11 developing countries the average ratio of house value to annual household income was 5.5 compared with 3.0 in five high income countries. See The World Bank, The World Development Report 1989, Washington DC, p. 102.)

As in most developing countries, the formal financial sector in Yugoslavia finances only a small share of housing investment. The main reason for this has been absence of housing from the priority list for channelling funds. As housing investment, as a long-term investment, requires long-term finance, constantly high inflation, interest rate controls and instability of undeveloped financial markets in Yugoslavia have deterred long-term lending of any kind including for housing.

Yugoslav banks (mainly general banks) have been free to create their own investment policy including in relation to the housing sector, but within very narrow limits given by government regulation related to monetary policy with loan priorities (exports, agriculture etc), limitation of the investment and changes in the required reserve ratio. In this manner, the banks could influence only the terms of savings and loans for specific purposes including housing finance.

In such circumstances it is clear why the banks' investment in total housing finance in Yugoslavia took only about 1% of all their investment.

The main reason for very modest total investment in housing finance has been the orientation of the banking system to finance formation of fixed investment and operating capital of the business sector.

This loan policy has been created by the selective credit system under the control of The National Bank of Yugoslavia. Table 10 reveals major features of the financial relationships between households and the banking sector in Yugoslavia. It is obvious that loan/deposit ratio for the household sector has been not only extremely unfavourable but, in fact, unreasonable.

The loan terms for housing construction for business and the private sector were fairly stable in a long period before 1986. The loans were granted on the basis of down-

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Table 8
Sectoral structure of banking deposits and loans for housing construction, Yugoslavia, 1988

Sector	*Deposits* %	*Loans* %
1. Business	44.5	28.9
2. Public	14.3	4.7
3. Financial	5.5	0.7
4. Households	31.3	64.2
5. Others	4.4	1.4
Shares in total deposits and loans	0.2	0.6

Source: Authors' estimates on the basis of data from "Data from balance sheets of the banks in 1988", Jugoslovensko bankarstvo, No 7-8, 1989 p. 37-43.

Table 9
Sectoral structure of liabilities of the banks, Yugoslavia, 1988

Sector	*Assets* %	*Liabilities* %
1. Business	31.6	5.2
2. Public	0.2	2.3
3. Financial	52.0	34.3
4. Households	0.5	27.9
5. Foreign entities	2.7	21.9
6. Others	13.0	8.4

Source: Authors' estimates on the basis of data from "Data from balance sheets of the banks in 1988", Jugoslovensko bankarstvo, No 7-8, 1989 p. 37-43.

← 51

payments or long-term deposits of the borrowers. Those deposits came from the enterprises' incomes for the business sector and from foreign exchange savings of the household sector. The highest loan deposit ratio was 10:1 and the borrower was assumed to repay the loan in 5 to 25 years. Nominal interest rates up to 1984 were fixed most of the time at about 18% for households while the same rate for the business sector could reach as high as 26%.

With the increase in inflation from the mid-1980s, the nominal interest rates for housing loans on the basis of down-payments were converted to a flexible regime. They have been tied to the inflation rates. At the same time, the same rates for the loans based on deposits locked in the bank during the whole period of the loan repayment were fixed. The interest rates on the deposits were fixed, too, but on much lower level. The maximum loan/deposit ratio has been reduced to only 3:1.

Due to very high and increasing inflation rates since 1987, the banks began to index loans on the basis of coefficients prescribed by the government.

Housing loan policy in the banking sector has been fairly standard. Housing loans can be used for the purchase, construction or reconstruction of housing units in the social and private sectors. The down-payment sometimes must be 50% of the loan while the long-term deposits should be at least 10% of the loan. The repayment period has been shortened and is now between 5 and 10 years. The real interest rate has been flexible, ranging between 5% and 26% (Jovanovics, p. 4-10).

Because of unreasonably high prices of dwelling units built by social construction firms when sold in "the market" and the high price of the housing loans for the household sector, an individual private person has had a very small chance to buy a new housing unit. (For example, in Ljubljana, the capital of the most developed state of Yugoslavia, under current conditions only 10%-15% of total population has been qualified for housing bank loans which could finance at most a 28 square metre apartment. See Jovanovic, p. 7.) The interest of people in purchasing new housing units with the help of a loan further decreased in 1989 with the indexation of the loans at the annual inflation rate of 2,700%.

Conclusion

Economic reform in Yugoslavia has so far not touched the housing sector. The position of the sector, its structure and its relationships with other parts of the economy, mean that no successful economy-wide market reform can be designed and implemented without comprehensive housing reform.

At present, a large part of the housing sector is functioning in the framework set in an age of the old economic system, based on social property, and the practical non-existence of a housing loan market can be considered as a major obstacle in a process of the sector's expected market transformation. The transformation implies the removal of built-in distortions including some monopoly elements and unfavourable transaction conditions, in all parts of the housing sector. ■

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Table 10. Financial relationships between banks and households, Yugoslavia, 1979-88

Year	*Loans to households (billion current YU Din) (1)*	*Share of loans to housing (%) (2)*	*Deposits of households (billion current YU Din) (3)*	*Loans/ deposit ratio (4) (1)/(3)*
1979	124	46.9	329	37.5
1980	161	56.8	433	37.3
1981	212	62.6	578	36.7
1982	276	61.8	824	33.5
1983	310	61.2	1,331	23.3
1984	417	54.8	2,058	20.3
1985	591	52.9	3,874	15.3
1986	886	65.0	7,416	11.0
1987	998	66.7	19,664	5.1
1988	1,689	63.9	71,514	2.4

Source: Authors' calculations.

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