

# **Housing Finance in Transition Economies**

## **A Short Report on the Successful OECD – Workshop in June 2000**

By Dr. Hartwig Hamm  
Managing Director  
Association of Public Bausparkassen,  
Berlin/Bonn (Germany)

More than 80 experts discussed important issues of housing finance in transition economies on a two-day-workshop in Paris on 19-20 June 2000, organized by the OECD. 50 % of the participants came from the OECD member states, including Hungary, Poland and the Czech Republic, the other half from 10 so-called “Target Countries”: the Baltic States, the Slovak Republic, Slovenia, Bulgaria, Romania, Russia, Kazakhstan and the Kyrgyz Republic. They represented various banking institutions and, above all, governments, national banks and supervisory authorities.

The fruitful workshop discussions, based on numerous presentations and country notes, concentrated on home financing (i.e. financing of owner occupied housing) and all questions related to a “supporting environment” in this field. In spite of this main focus some participants stressed the political importance of problems in the rental housing sector, especially the necessary improvement of the existing housing stock.

Participants unanimously agreed that basic prerequisites for any housing finance system are a sound, stable macroeconomic environment as well as an appropriate legal and regulatory framework with well-functioning enforcement systems (under the headings “reliability, simplicity and justice”).

Central workshop questions referred to

- various types of housing finance products and of the mobilization of funds and
- possible ways of public support including subsidies.

With regard to finance, some speakers had a tendency to present “their” model as the “the fittest in an advanced market economy”. This led to critical questions simply because of the fact that the relative contributions of different housing finance products vary a lot, not only from the US to Europe but also in different advanced economies within Europe (and the reporter has to add: in Germany you can practically find

every type of housing finance model, competing with each other and covering different market sectors). Therefore, most participants did not like the idea to see the representatives of different sectors of the housing finance industry arguing against each other. The question of advantages and disadvantages of the various models was rather recommended to be left up to the consumers in the respective countries. That means open competition of all suppliers who match the economic, social and cultural needs, instead of a policy of narrowing the supply of housing finance upon the request of “consultants”, even if they pretend to bring the “economic truth”.

Similar freedom has to be given to the target countries when matters of housing policy are concerned. As housing is important in almost every country in the world, especially because of affordability problems, politicians, in fact, cannot stay away from supporting measures. And, as World Bank Economist Robert Buckley stated, these decisions are fully within the national or regional responsibility, even if – of course – politicians should follow some basic efficiency rules.

From the reporter’s point of view, one could draw two fundamental conclusions from this OECD-workshop:

- (1) There is a broad consensus - which was explicitly mentioned several times - that in the field of housing finance there is not a “single way to happiness”. This means that international conferences on this topic – today and even tomorrow – cannot be organized as “mission trips” promoting specific models as the best solution for any country. On the contrary, there is a great need and desire for in-depth information about every successfully applied model abroad – as a better basis for reliable decisions at home.
- (2) Too often, there is a danger to talk about housing finance models on the one hand and measures of public support on the other hand in a mixed and thus somehow confusing way. Discussions and conclusions, should therefore be separated between:
  - the housing finance models themselves as they are offered to consumers by the public or private credit institutions (which should operate and prove their advantages on the basis of competition, without eliminating alternatives by governmental measures) and
  - the various types of public support like direct subsidies, tax allowances or state guarantees (government measures should not be regarded as a judgement about either “good” or “inefficient” finance models but - hopefully - be politically targeted e.g to enlarge the number of people who can afford a home).

If this distinction is clearer, among other things, the mutual understanding between representatives of the industry itself and of the governments can be facilitated – something that matters in international conferences!

