

Introduction

The objective of this paper is three-fold: 1) investigate current conditions of housing and housing finance markets in transition economies; 2) assess their market potential compared to one another and to the advanced EU countries (EU15 countries); and 3) provide some thoughts for policy makers and for entrepreneurs based on lessons from this research. To this end, study countries are selected from countries targeted in the OECD Market Survey, which are classified into three geographical groups for convenience' sake: 1) Central-Eastern European countries and Baltic States (new EU member states, *Group 1*): the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia; 2) South-Eastern European countries (EU candidate countries, *Group 2*): Croatia and Romania; and 3) Commonwealth Independent States (CIS, *Group 3*): Kazakhstan and Ukraine.

This paper consists of five sections. The first section analyses current housing markets in the study countries to assess the supply and demand potential of housing markets. The second section investigates current conditions of housing finance markets in the region to examine the performance of both primary (lending) and secondary (funding) markets. The third section analyses the regulatory and supervisory framework in both primary and secondary markets and the national housing policy (e.g. government subsidy) to identify the legal infrastructure and the role of government. The fourth section assesses the overall performance of housing finance in transition economies based on aggregate results gleaned from foregoing chapters and provides lessons from this study. Then the final section touches upon the mortgage default insurance markets in the region and discusses the potential for the mortgage insurance business in transition economies.

Methodology

Because of the lack of comprehensive statistics on housing finance, much of the necessary data was collected from a market survey and questionnaire specially elaborated to assess the performance of housing finance markets and systems in study countries. The survey data were supplemented by the most recently available published statistics. The study field consists of three major groups and six sub-categories: 1) housing markets: a) housing demand and b) housing supply; 2) housing finance markets: a) primary market and b) secondary market; and 3) role of the government: a) regulatory structure and b) housing policy. The transition economies are compared with the advanced EU countries (EU15) as a benchmark against which to assess the performance in each study country, which are scored and translated into a performance matrix in respective groups. Then, the dynamics of housing finance markets are explored via the use of spider charts, which consolidate the results of performance matrices, with the SWOT (strength, weakness, opportunity and threat) analysis. The detailed methodology is explained in respective chapters.

1. Housing Markets

From the collected data, six major trends concerning housing markets can be identified in transition economies: 1) new demand potential given the limited growth of the population; 2) small but growing economies; 3) low housing affordability; 4) high level of homeownership but housing shortage; 5) low quality of housing; and 6) small-scale housing supply not targeting typical households. The next sections present the evaluation of housing markets in the region.

1-1. Demand of Housing

Negative population growth will hold back new demand for housing, but a relatively large amount of working age people within the population may constitute potential new demand.

TABLE OF CONTENTS

<i>Part I.</i>	A COMPARATIVE ASSESSMENT OF HOUSING FINANCE MARKETS IN TRANSITION ECONOMIES <i>by Shigehiro Shinozaki</i>	7
	Introduction.....	8
	Methodology.....	8
	1. Housing Markets.....	8
	1-1. Demand of Housing.....	8
	1-2. Supply of Housing.....	13
	1-3. Country Assessments.....	14
	2. Housing Finance Markets.....	17
	2-1. Primary (Lending) Markets.....	17
	2-2. Secondary (Funding) Markets.....	26
	2-3. Country Assessments.....	33
	3. Regulation and Housing Policy.....	35
	3-1. Regulatory Structure.....	35
	3-2. Housing Policy.....	40
	3-3. Country Assessments.....	44
	4. Aggregate Results and Lessons.....	46
	4-1. Dynamics on Housing Finance Markets.....	46
	4-2. SWOT Analysis.....	48
	4-3. Lessons.....	53
	5. Mortgage Insurance.....	55
	5-1. System and Benefits.....	55
	5-2. Mortgage Insurance Markets in Transition Economies.....	57
	Conclusion.....	61
	References.....	63
	Annex 1. General Indicators.....	65
	Annex 2. Findings from Market Survey on Housing Finance in Transition Economies.....	70
	1. Primary (Lending) Market.....	70
	(1) Lender and Borrower Structure.....	70
	(2) Major Lenders.....	71
	(3) Typical Loan Products.....	72
	(4) Loan Conditions.....	73
	(5) Housing Loans Outstanding.....	74
	(6) Mortgage Insurance.....	76
	(7) Contract Savings Schemes (CSS).....	77
	2. Secondary (Funding) Market.....	78
	(1) Funding Instruments.....	78
	(2) Mortgage Bonds.....	78
	3. Government Support (Government Subsidies).....	80
	4. Regulations (Legal Framework).....	81

<i>Part II</i>	HOUSING FINANCE MARKETS IN SELECTED TRANSITION ECONOMIES	83
Chapter 1.	HOUSING FINANCE IN POLAND <i>by Karol Skiba</i>	85
Chapter 2.	HOUSING FINANCE IN HUNGARY <i>by András Bethlendi and Gergely Kiss</i>	103
Chapter 3.	HOUSING FINANCE IN CZECH REPUBLIC <i>by Daniela Grabmüllerová</i>	117
Chapter 4.	HOUSING FINANCE IN SLOVAK REPUBLIC <i>by Dana Rigaszova</i>	141
Chapter 5.	HOUSING FINANCE IN LITHUANIA	155
Chapter 6.	HOUSING FINANCE IN LATVIA <i>by Ilze Osa</i>	185
Chapter 7.	HOUSING FINANCE IN ESTONIA <i>by Jana Kask, Tarmo Klettenberg, Lembit Olev</i>	209
Chapter 8.	HOUSING FINANCE IN SLOVENIA <i>by Barbara Staric-Strajnar</i>	223
Chapter 9.	HOUSING FINANCE IN CROATIA <i>by Mladen Mirko Tepus</i>	237
Chapter 10.	HOUSING FINANCE IN ROMANIA <i>by Diana Popescu, Ion Bejan, Mihaela Kalogerakos</i>	263
Chapter 11.	HOUSING FINANCE IN UKRAINE <i>by Oleksiy Pylypets, Pavlo Matiyash</i>	269
Chapter 12.	DEVELOPMENT OF MORTGAGE SYSTEM IN KAZAKHSTAN <i>by Anuar Karpykov</i>	281
Annex A.	SUMMARY OF THE MEETING	293
	Introduction.....	293
	1. Overview of Mortgage Markets in Transition Economies.....	293
	2. Effective Housing Finance Systems for the Low-Income Market.....	297
	3. Safety and Soundness of Mortgage Markets.....	302
	4. Innovations in Mortgage Insurance.....	305
	5. Development of Different Secondary Mortgage Markets and Instruments	308
	Conclusion	311
Agenda.....		312



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