

*Intervention at on-line Conference on Housing
Affordability*

Organized by Ministry of Finance and Economy

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Bank of Albania

Outline

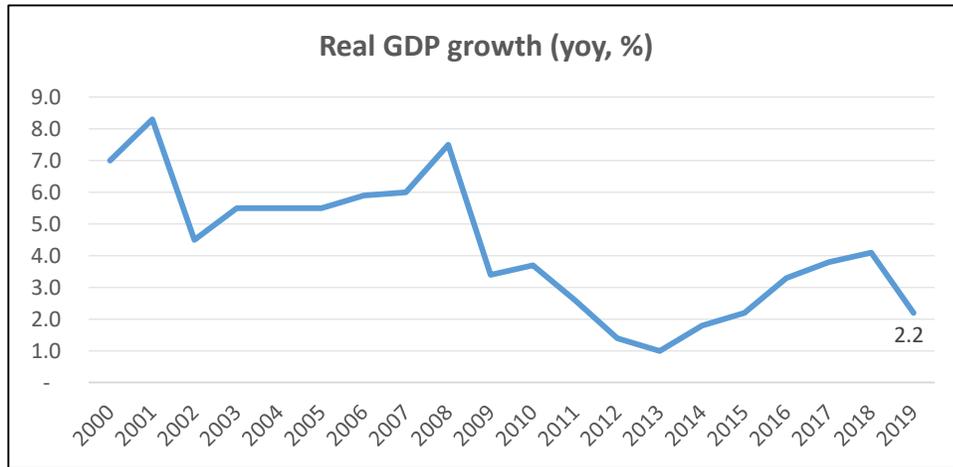
- How affordable is housing in Albania? A quick view.
- Real estate market / Housing, an important indicator for financial stability.
- Conclusion

How affordable is Housing in Albania?

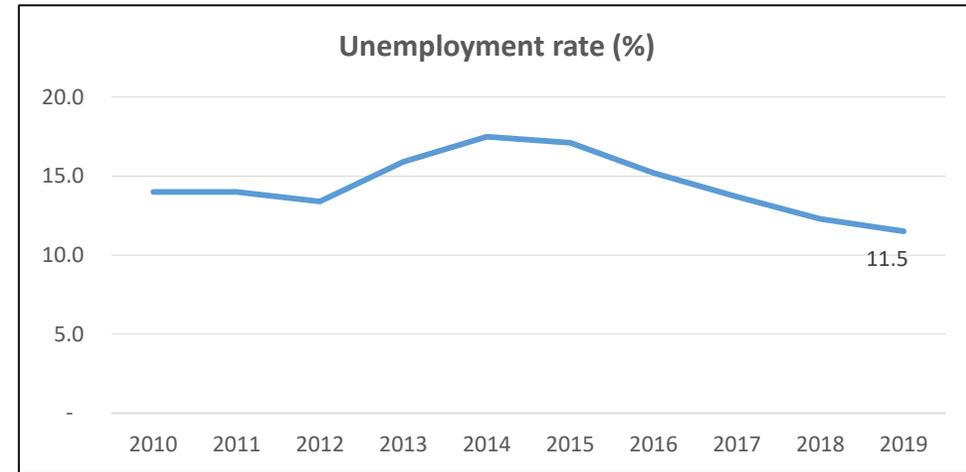
Subject to many factors of different nature; hence difficult to determine. But factors with significant impact could include:

- Factors that improve house affordability:
 - Macroeconomic stability
 - Economic growth and rising income;
 - Cost of finance
 - Contained level of debt, providing space for future House finance and better access to Housing
- Factors that do not support house affordability:
 - Faster rise in House prices than in income;
 - Inequality;
 - Legal uncertainties in real estate market;
 - Insufficient/costly sources of finance

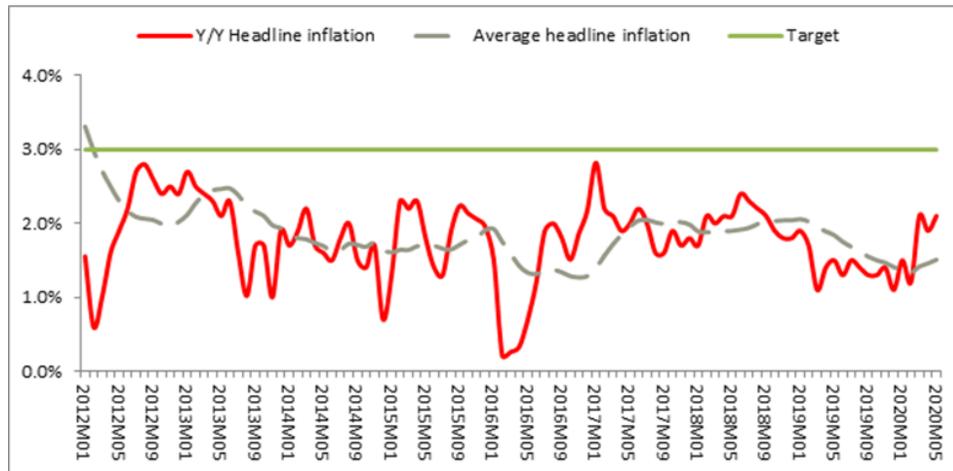
Macroeconomic developments seem to be supportive, as...



Source: INSTAT



Source: INSTAT

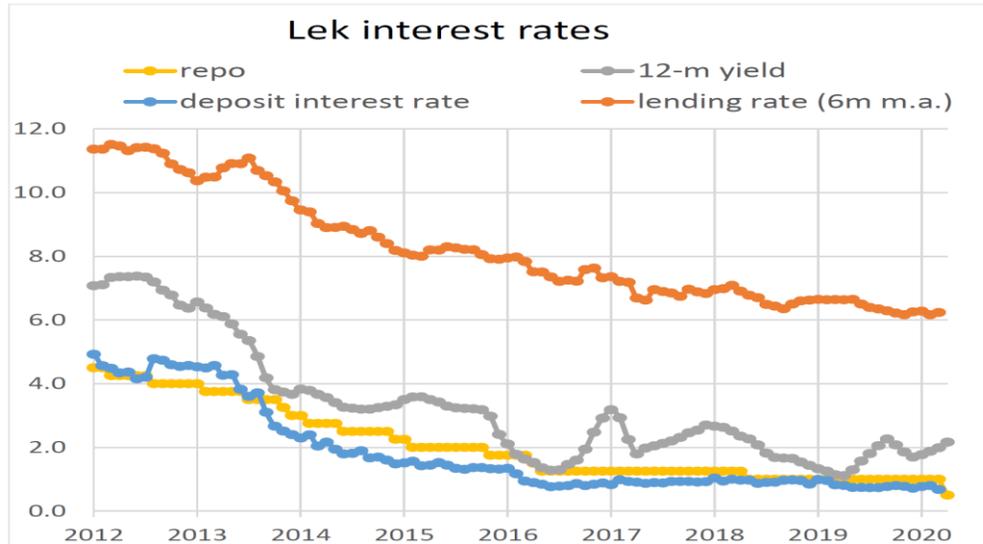


Source: INSTAT and BoA

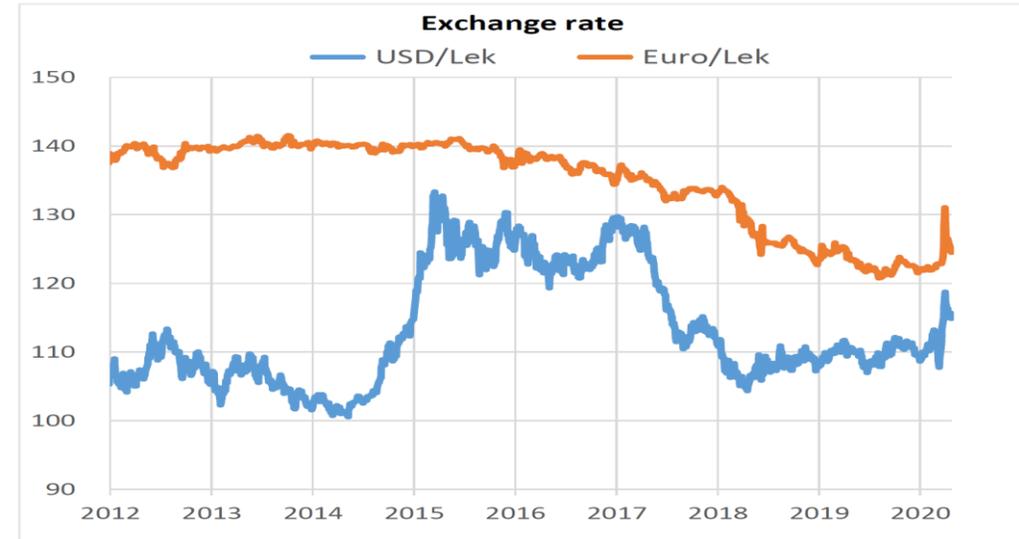
In the last decade or so, Albania has experienced:

- positive, although volatile, economic growth;
- Steady but slow decline in unemployment rate;
- subdued inflationary pressures, and in response, very accommodative monetary policy (policy rate, currently at 0.5%).

Macroeconomic developments, also show that...

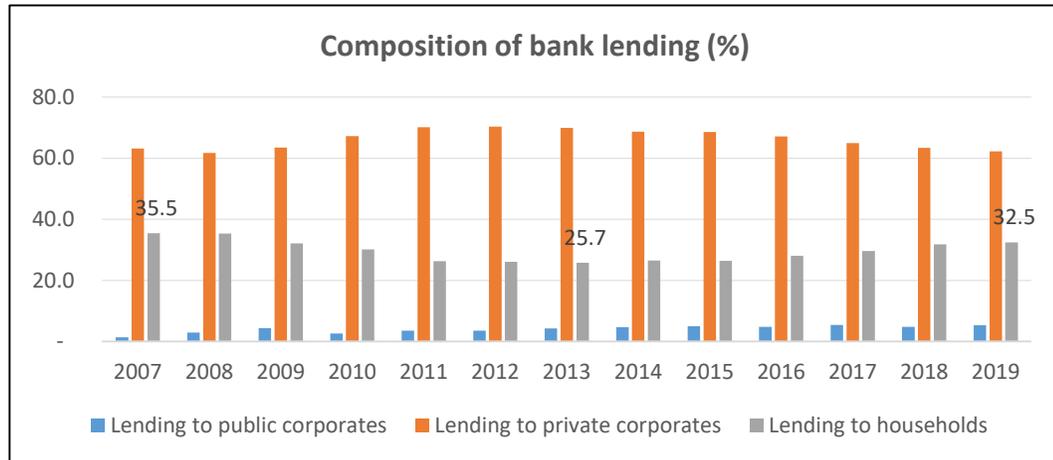


Source: BoA

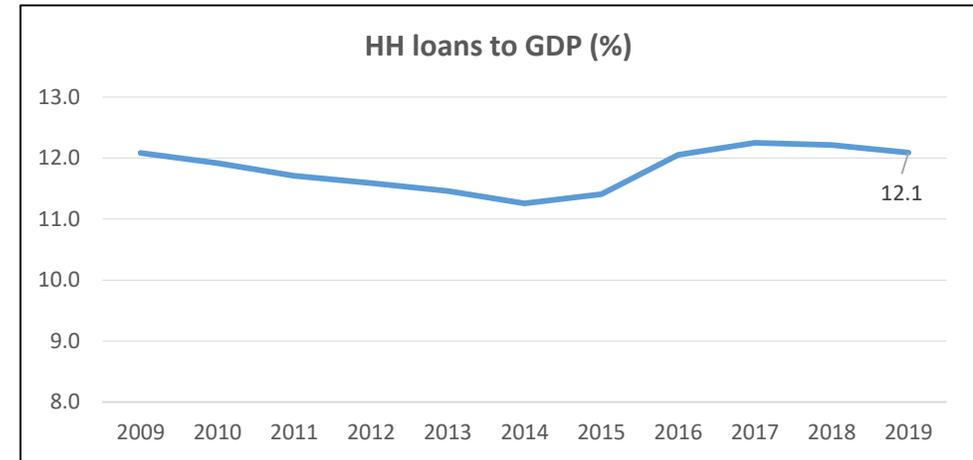


- Overall market interest rates have been declining;
- The exchange rate has been stable or even appreciating over the last 5 years;

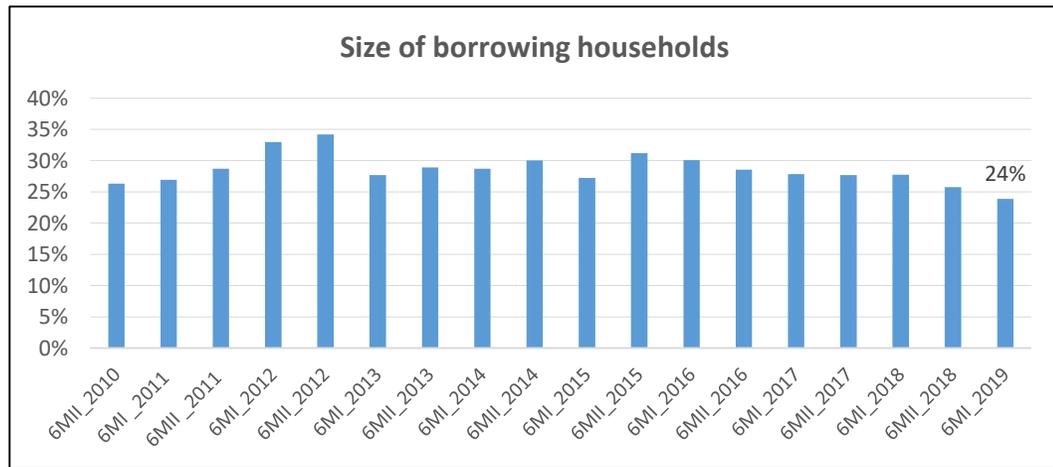
But general HH borrowing has not changed significantly, as...



Source: BoA



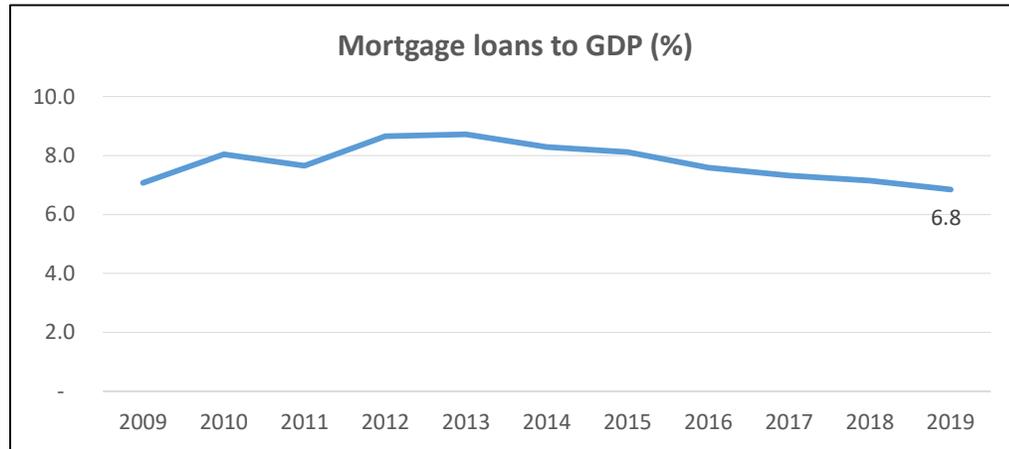
Source: BoA



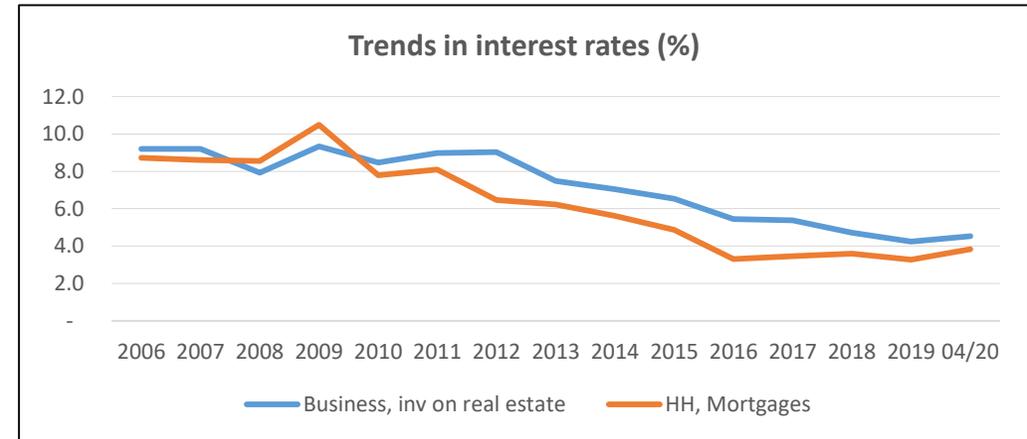
Source: BoA, Survey on HH financial situation and debt burden

- Bank lending to HH has hovered between 25-35% of the total loan portfolio, in the last decade or so;
- The weight of HH that have a debt to pay, has averaged between 25-35% of total number of HH. The last level is at 24%;
- When compared to similar indicators in the region, the level of HH borrowing is significantly lower;
- Nevertheless, the 'potential' for higher borrowing in the future is important.

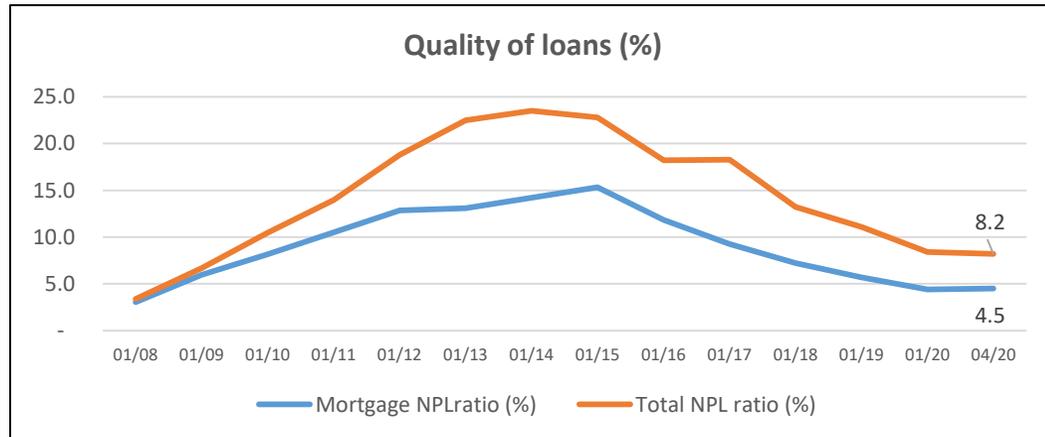
Level and trend in Mortgage Loans is subdued, despite...



Source: BoA



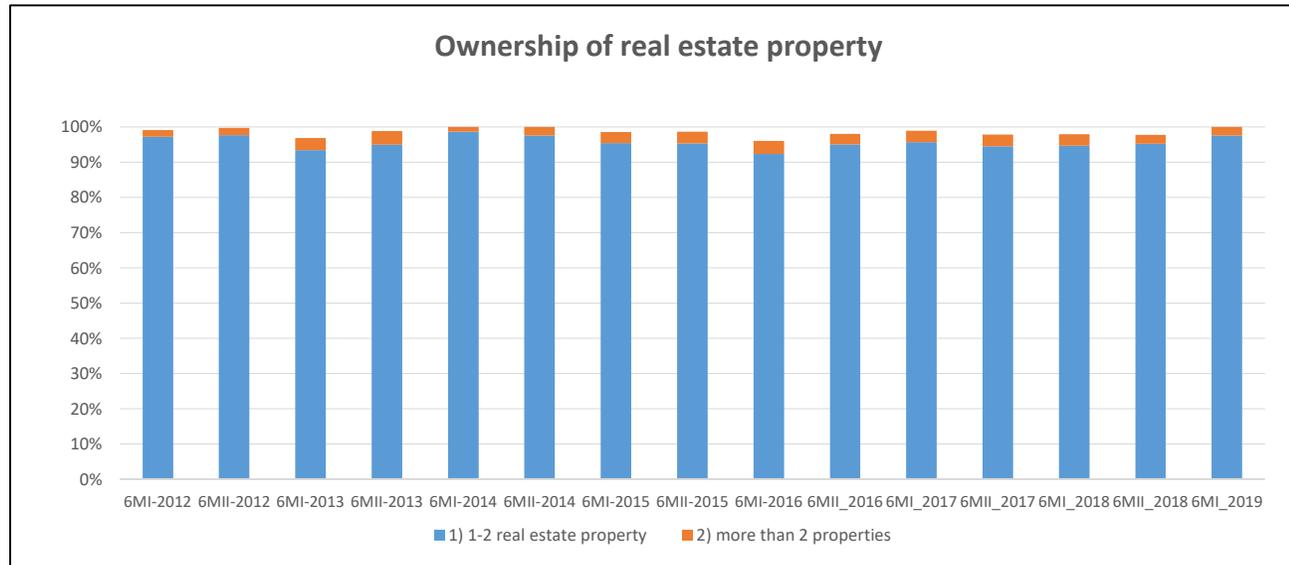
Source: BoA



Source: BoA

- lower interest rates and better comparatively loan quality;
- Why?

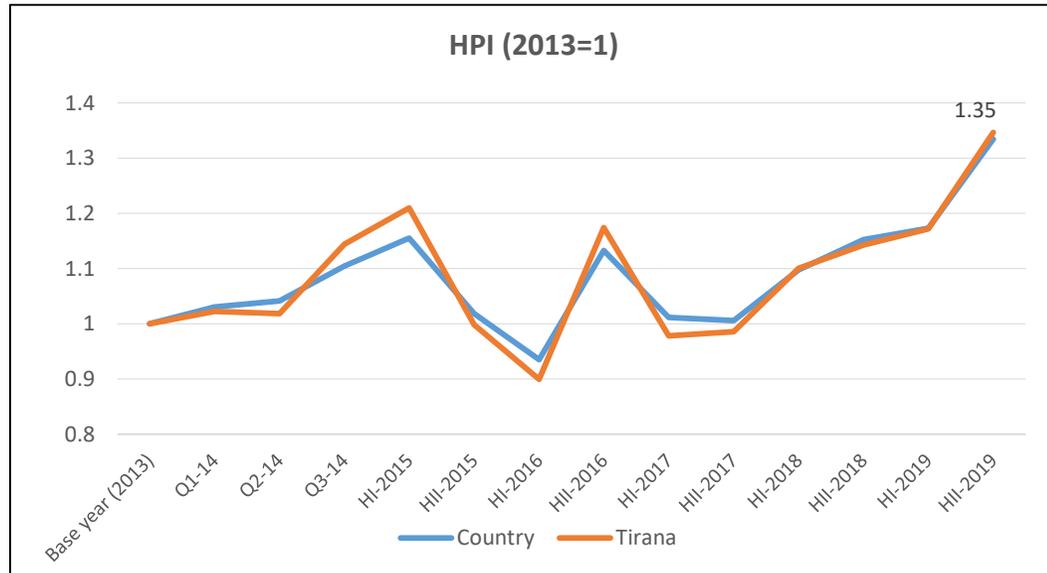
Demand for Mortgages appears to be structurally affected, because...



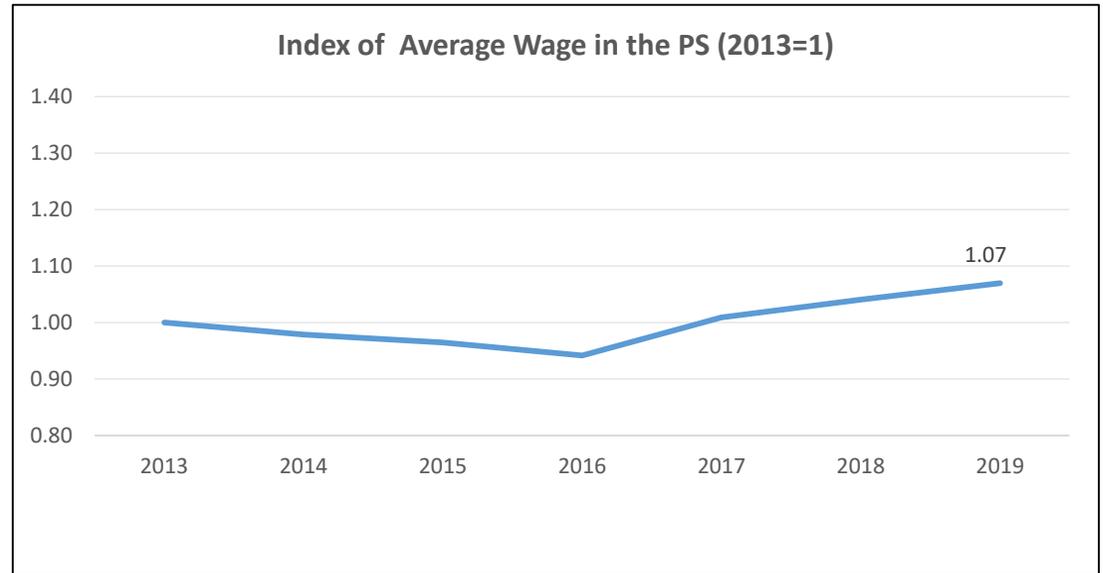
Source: BoA, Survey on HH financial situation and debt burden

- Home ownership is currently high in Albania;
- The stock of housing inherited from house privatization process in 1992-1993, has also contributed.

Demand for Mortgages appears to be subdued, also because...



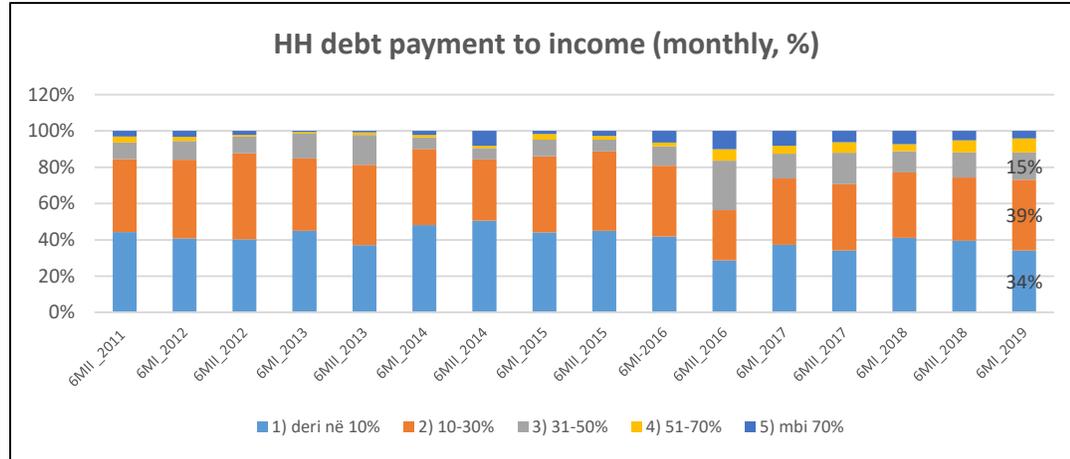
Source: BoA, Survey on House Price Index



Source: INSTAT

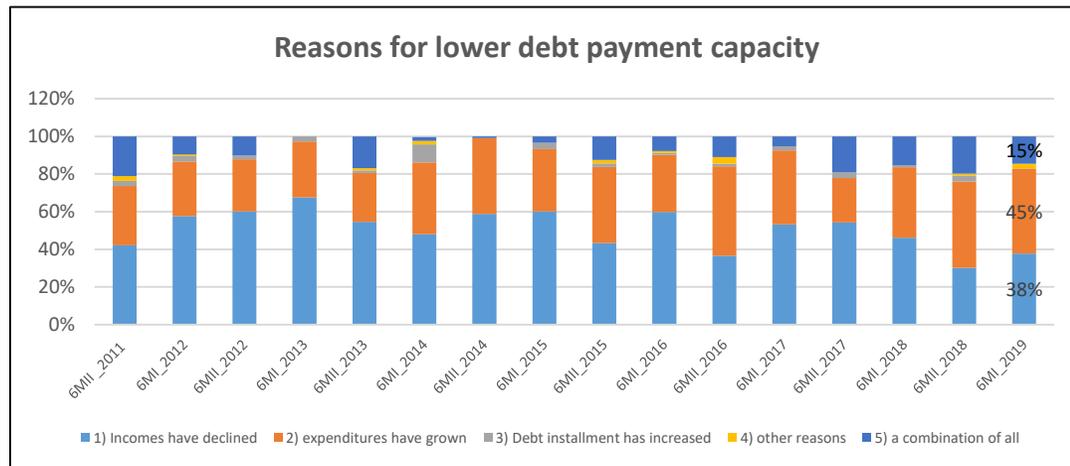
- House prices appear to have been increasing faster than wages;
- Apparently, the rise in wages and the decline in interest rates, have not been sufficient to compensate for the rise in House Prices;
- There may be other sources of finance i.e. remittances

The House affordability seem to have been declined, as...



Source: BoA, Survey on HH financial situation and debt burden

- The weight of those HH where overall debt payment is up to 30% of monthly income has declined (from as high as 86% in 2015, to 73% in H1-2019).
- Higher than 30% is usually considered as “cost burdened”.



Source: BoA, Survey on HH financial situation and debt burden

- The main reason for lower debt payment capacity, is a rise in expenditures and lower income;
- The debt payment capacity has not been negatively affected by the change in debt installment

House market/Housing is also an important Financial Stability indicator, because...

- A house is a non-financial asset, that contributes to the general wealth of the HH, and its ability to access financial markets and service financial products (including debt);
- A house can serve as a collateral, which facilitates the financial intermediation, and hence economic growth;
- How a House purchase is financed (sources, currency composition, interest rate, maturity) and the way it is serviced, is important to understand general sustainability of house prices;
- But all these are impaired if there are uncertainties (legal, limited volumes, valuation difficulties) in the way the real estate market operates and its level of (i)liquidity;
- These uncertainties become critical, especially when combined with unsustainable rises in house prices, fueled by higher level of debt to finance it.

BoA, as the monetary authority and the supervisor of banks, has important responsibilities to enhance and protect financial stability. With reference to real-estate/housing market...

- We are using new mechanisms, to better understand developments in the real-estate market (surveys, cooperation with international financial institutions etc.);
- We have been a party in interinstitutional cooperation to improve legal basis for the functioning of the real estate market;
- We are developing instruments to give us early warnings if the developments in the real estate market are unsustainable and a potential source of risk for financial stability;
- As part of our macroprudential policy, if necessary, we can take measures (usually of a prudential nature) to address such risks.

Public policy measures to support housing affordability, also provide a positive contribution to financial stability, because...

- They can be life-changing for those worse-off;
- Overall, they support the rise in net wealth for HH;
- They help to reduce inequality, reduce inertia and improve house market functioning;
- To the extent they are important or able to engage other (private) financial sources, such public policies can support the economy of regions or cities that are less developed.

To conclude:

- It remains difficult to conclude on Housing affordability levels in Albania (as everywhere); the issue is prone to many factors and necessitates comprehensive data and analysis;
- Macroeconomic stability in the last decade, suggest that economic developments (GDP growth, low inflation, lower interest rates) have positively contributed in Housing affordability; but...
- On the other hand, House Prices rising faster than increases in wages and lower financing costs, in parallel to subdued demand for Mortgages, seem to suggest otherwise;
- Developments in real-estate market and housing, are important indicators for assessing financial stability, identify potential risks and design protective measures;
- Public policies that improve housing affordability, in addition to being life-changing for those that benefit, also contribute positively to functioning of the markets and to overall financial stability.

Thank you for your attention!