

Chapter III ***HOUSING FINANCE***

A. Introduction

Housing is generally viewed as a specific social good that requires some level of State intervention and regulation. In the field of housing finance, market-based tools such as mortgage loans and savings products are therefore mostly accompanied by different types of public subsidies intended to increase housing availability and affordability.

However, such subsidies are to be used only after careful analysis of their short-term and long-term impacts, efficiency and effectiveness. State interventions should: (a) take into account potential positive future economic development; and (b) limit the crowding out of private investment. Generally, the main prerequisites of careful subsidy policies are that such public subsidies should be (a) efficient (i.e. economical with respect to public budgets and also able to satisfy all eligible households in the foreseeable future), (b) effective (i.e. well targeted to people in need), transparent (i.e. easily intelligible), and (c) flexible (i.e. the level of subsidies should be able to respond on changes in both economic situation of eligible households and the macroeconomic situation in general).

Despite the high level of homeownership produced by mass public housing privatization (85 per cent of housing stock) and the dominance of homeownership in new housing construction (in fact, all housing), the housing finance structure in Belarus is still heavily skewed towards the public sector, and the role of private investment and market-based housing finance remains a minor one. The systems of housing finance, construction, maintenance, modernization and management are dominated by State entities, in particular by State-owned companies and banks. In 2006, 71 per cent of total housing output was provided by large public (mostly regional) companies, and this share is expected to increase to 75 per cent in 2010. Public companies (often the same one) are generally responsible for the management, maintenance and reconstruction (capital repairs) of not only the public housing remaining, but also of more than 95 per cent of apartment houses with mostly privatized dwellings, e.g. for the management of the overwhelming majority of

urban owner-occupied housing. Soft loans (loans with below market-level interest) for the purchase of owner-occupied housing are extended only by two State banks. In April 2007, such loans accounted for 72 per cent of the overall outstanding housing loan balance.

Thus the system is based on large, publicly owned companies responsible for housing construction, maintenance and management. For example, the public Minsk City Management Department maintains 6,291 apartment houses with 560,000 flats. State bank lending is accompanied by a set of public subsidies, such as revenue subsidies to cover the major part of management, maintenance and utility costs (about 60 per cent of the total) to all Belarus households. According to the official figures, public housing policy expenditures accounted for 2.5 per cent of GDP in 2006, but this share can be assumed to be higher due to the quasi-fiscal subsidies characteristic of public management and utility companies – which often operate at a loss –and also of State banks. The high level of State influence and subsidization in Belarus when compared to other transition countries may be the consequence of a relatively long period of high inflation and an increasing housing demand not satisfied by the market.

Housing policy is recognized as one of the Government's priorities. Policy is shaped according to five-year national economic plans (the current one being the Programme for the Socio-Economic Development of the Republic of Belarus for 2006–2010, which is elaborated annually and adjusted into one-year strategic programmes). The programme aims to provide each household with decent, affordable and standard qualitative housing. Due to a change in tenure preferences and the State's efforts to increase the responsibility and financial involvement of housing occupants, policy is directed mainly towards supporting homeownership. This reorientation is perceived as the starting point in a transition from State-rental housing model (with the State being responsible for construction and maintenance of State rental housing) to a market-based housing model in which most of the construction costs are borne by the population (homeowners), and in which market-based housing finance gradually takes the place of State subsidies. These policy targets are

implemented through the policy tools described below.

Privatization of public housing (transfer to tenants). This is realized through the distribution of housing vouchers. In the early 1990s (the Law “On Privatization of Housing Stock in the Republic of Belarus” passed in 1992), all adults received housing vouchers with a nominal value corresponding to the time that they had lived and worked in Belarus. Such vouchers could either be sold (for a period at market prices, later only at government-regulated prices) or used for the purchase of occupied (existing) public housing, house construction or the purchase of newly constructed housing for needy households (see below). All public housing tenants received the right to buy their occupied flats at prices that had been set by the Government at a low level. For the overwhelming majority of people, this meant a free-of-charge transfer of dwellings into their full ownership (i.e. they received subsidies in the form of real estate property).

Support of new construction of owner-occupied housing. This is realized mostly by municipal unitary enterprises of capital construction, which operate on a limited-profit basis. (Prices per m² of newly constructed dwellings and profits are regulated.) This housing is allocated to people in need registered on official waiting lists. New construction is accompanied by additional owner-occupied housing provided by industrial enterprises (mostly in State ownership) and agricultural cooperatives for their employees. According to current legislation, the provision of funds (credit) is a licensable bank activity. According to Presidential Decree No. 296 of 5 May 2006 “On Regulating the Use of Financial Resources of State Organizations and Business Companies with a State Share in Authorized Funds”, employees of public sector organizations and business companies who are registered as needy are allowed to borrow funds from State organizations and private companies involved in the construction, reconstruction or purchase of housing.

Enabling the purchase of newly constructed owner-occupied flats through soft loans (credit at below-market interest rates)

allocated to people in need registered on waiting lists. This is carried out by the two dominant State banks: Belarusbank for physical persons and Belagroprombank for legal persons. The State provides interest subsidies to these public banks to cover the difference between qualified interest on soft loans and the discount rate of the National Bank increased by three percentage points margin (i.e. the interest subsidy is equal to 9–11 percentage points). In the case of housing constructed and allocated by enterprises and agricultural cooperatives, the soft loans are extended to employees directly by legal persons, and employees can either ask for the same interest subsidies as State banks or refinance loans via soft loans allocated by Belagroprombank.

Targeted supply-side and demand-side subsidies to people in acute housing need. These subsidies go to Chernobyl resettlers, priority groups (e.g. young couples, families with more than three children, handicapped persons, orphans, people living in unhealthy housing) and people deserving special status due to their public service (e.g. professional soldiers, key public workers, veterans, war heroes). Subsidies can take different forms, e.g. construction and free of charge allocation of owner-occupied housing to Chernobyl resettlers, construction and allocation of social housing, grants to cover part of soft loan values, redemption of part of soft loan values, subsidies to refinance housing vouchers, and allowance covering housing costs exceeding 25 per cent of net household income.

Non-targeted, means-tested revenue subsidies to cover the major part of the maintenance, repairs, reconstruction and utility costs connected with housing (e.g. heating, gas, maintenance, capital repairs). These are distributed from the State budget to public regional maintenance companies, homeowners’ associations and utility providers. Subsidies connected with the building of infrastructure, especially for newly built housing, are allocated to people in need.

B. Public subsidies for housing

The system of public subsidies is relatively complex and eligibility criteria for different types of subsidies overlap. According to Presidential Decree No. 185/2000 (with later amendments), the

main legislative act specifying eligibility for different types of subsidies, each household with less than 15 m² of floor area per person and all households without housing in the place of living or work (including people living in private rental housing) can register themselves on district waiting lists and thus be eligible for soft loans and new housing constructed by public limited-profit companies. As of 1 January 2008, 717,500 citizens were registered on the national list of persons in need of improving their living conditions, of which 160,500 had been waiting for more than 10 years. Approximately 50 per cent were young people under age 31. The average waiting period in Minsk is more than 30 years, but it is shorter in smaller cities and villages. In the middle-sized city of Lagoysk, for example, the average wait is about eight years.

According to another Presidential Decree approved in 2005, several priority groups can register on waiting lists without any conditions and are supposed to receive housing on an immediate basis, namely: (a) young couples (in which at least one person is age 31 or younger); (b) families with more than three children; (c) handicapped people; (d) war veterans; (e) orphans; and (f) people living in houses in disrepair. According to this Presidential Decree – due to the negative demographic situation that is currently one of the country's highest priorities – families with more than three children should obtain housing within the period of one year.

Although the eligibility is related both to the allocation of soft loans and the possibility of buying new housing constructed on a limited-profit basis by public companies, an eligible household can also use a soft loan to purchase existing housing, to construct their own individual family house or – according to the latest programme – for construction of cooperative housing with regulated construction costs. However, in such a case, the loan-to-value ratio for soft loans decreases to 70 per cent and the value itself is limited by two normatives: (a) the maximum price/costs per m² of dwelling floor area set by specific annual resolution of the Government; and (b) the national bank for each region (e.g. the maximum in Minsk in 2007 was \$500 per m² of floor area). The maximum size of dwelling set in the Presidential Decree No. 185/2000 (a maximum of 20 m² of floor area per person in the household).

The remaining part of the costs or purchase price should be covered by the household's own means of or through financing from commercial banks.

The conditions of soft loans are very advantageous when compared to market alternatives: the loans have 20 (for urban areas) or 40 years maturity (for rural areas), with interest rate of 5 per cent (for urban areas) or 3 per cent per year (for rural areas and households with high priority) and a loan-to-value ratio of 90 per cent (for urban areas) or 95 per cent (for rural areas and households with high priority). By comparison, market housing loans in Belarusian roubles have a maximum of 15 years maturity with an interest rate of 16–19 per cent per year. Very strict income eligibility limits are also applied. In addition, even though for both soft and market loans the mortgage of property is required, due to the fact that the rights of mortgagee are still not appropriately legally set, the realization of possible foreclosure and eviction in the case of default is not common. However, these problems will be addressed by the Law "On Mortgage", adopted in June 2008 and due to enter into force in 2009.

Certain vulnerable groups of the population can receive an additional down payment grant to cover a part of a loan's value; the eligibility for grants is specified in the Government Resolution No. 555/2002 and the Resolution of the Ministry for Construction and Architecture No. 15/2003. The grant can be allocated only to households registered on waiting lists that belong to the category of low-income households: those households where the net income per person is lower than the doubled individual subsistence minimum wage. The grant can be used in the same way as a soft loan, (i.e. specifically for construction (in the case of family housing) and purchase of housing (mostly housing constructed by public limited-profit companies)). In some cases, the grant can also be used for reconstruction of a flat, and it can be combined with the soft loan. The maximum grant amounts to 70 per cent of the "normative" price or construction costs; normatives on price/costs per m² of floor area and size of dwelling are the same as in the case of a soft loan. The amount of the grant is dependent on the number of years spent on the waiting list and the level of household income. For example, a household registered on a waiting list for 10 years

Table 7. Nominal value of housing loans extended by Belarusbank for the construction and acquisition of housing, 1996–2007 (in billions of Belarusian roubles)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Total
Total value of extended loans (10^9 BLR)	1.3	7.2	14.0	37.5	71.2	124.8	190.0	338.8	475.6	799.5	1,110.7	1,548.6	4,726.7
Soft loans in line with Decree 185 (10^9 BLR)	1.3	7.1	13.8	36.2	68.5	121.3	161.5	256.8	323.2	607.6	828.4	1,142.8	3,568.7
Loans extended on a common basis (10^9 BLR)	0.04	0.1	0.2	1.2	2.6	3.5	28.5	82.0	152.4	191.9	271.8	358.6	1,100.3
Loans relating to Decree 75/2006 ^a (10^9 BLR)											10.5	39.5	50.0
Loans relating to Decree 368/2006 ^b (10^9 BLR)											9.0	7.7	7.7

^{a)} Presidential Decree No. 75/2006 “On Soft Loans for Capital Repairs and Reconstruction of Housing, Construction of Infrastructure to the Citizens Permanently Living in Municipalities with Less Than 20,000 Inhabitants”.

^{b)} Presidential Decree No. 368/2006 “On Measures of Regulating Relations When Providing Natural Gas Supply to the Existing Housing Stock of Citizens”.

Source: Belarusbank. 2007

with an income per person lower than the subsistence minimum should receive a grant covering 40 per cent of the normative value of the dwelling. For young couples, an exception applies: the number of years spent on the waiting list is not counted. There are many other exceptional cases defined in the resolutions.

Families with children, with no regard to their income, can also ask for the redemption of the part of soft loan value (of the outstanding balance), depending on the number of children. Families with one child can ask for redemption of 10 per cent of the outstanding balance. Families with two children can ask for redemption of 20 per cent, families with three children for 30 per cent, and families with four children for 50 per cent. Families with five and more children can apply for redemption of the full outstanding balance.

Since 2005, based on the Presidential Decree No. 565/2005 and the Housing Code, the State has also fully subsidized the construction of social housing for persons registered on waiting lists whose households became unsuitable for living due to a natural disaster, technological catastrophe, war or terrorist act. Also eligible are households with seriously ill members, orphans, war heroes, war invalids, war veterans or professional soldiers and low-income people who are handicapped or incapable of work (pensioners) or have more than three children. Social housing is allocated from a part of newly

constructed housing and is free of charge, but future privatization to current tenants is not allowed. Social housing is spatially mixed with new owner-occupied housing to prevent social segregation. The rent and utility payments are regulated by tariffs (see below). In 2006, 947 social flats were finished (256 flats in Minsk) and allocated to needy households.

There are several other housing subsidies: grants to professional soldiers, subsidies for repurchasing unused housing vouchers, subsidies for the construction of dwellings for households resettled due to the Chernobyl catastrophe and subsidies for the construction of housing for key public employees. Although subsidies for construction of housing for resettled households from territories affected by the Chernobyl catastrophe (with contamination of more than 15 Ci – about 20 per cent of Belarusian territory) were substantial in the past (almost 65,000 flats have been constructed through this programme), the current resettlement programme is minor. In addition, there is a subsidy covering all homeowners or public tenants whose housing costs exceed 25 per cent of their net monthly income, and there are also additional supply-side subsidies for the construction of small family houses in rural areas. In five years' time, it is expected that another national programme, the Government Programme on Rural Development for 2005–2010, will construct additional 50,000 small-family houses as a part of the plan to improve labour

market performance in rural areas by establishing “agricultural cities” (*agrogorodki*).

In general, the highest volume of public spending from the total above-mentioned subsidies goes to the following categories: (a) subsidies for building of infrastructure for new housing construction (355 billion roubles in 2007); (b) interest subsidies (268 billion roubles); (c) grants to needy households (65 billion roubles); (d) subsidies for social housing construction (54 billion roubles); (d) grants to professional soldiers (33 billion roubles); and (f) subsidies directed at the repurchase of housing vouchers (27 billion roubles). In total, these correspond to about \$375 million, or more than 10 per cent of GDP in 2007. In 2006, the costs of new housing construction were covered through own savings of purchasers (52 per cent), housing loans (39 per cent), State subsidies (5 per cent) and industrial enterprises and agricultural cooperatives (4 per cent). Although these figures confirm a diminishing role for State subsidies, the picture hides price and profit regulations during housing construction and the existence of very long waiting periods to be eligible for subsidies (including soft loans); they also reveal a relatively large share of reliance on personal savings to purchase new housing.

C. Public revenue subsidies

The most important revenue subsidy for existing housing is the one covering the difference between maintenance, management and utility costs and so-called tariffs – i.e. the regulated prices paid by the population. The levels of tariffs are prepared annually by the Ministry for Housing and Communal Services and the Ministry of the Economy based on macro- and microeconomic expectations (e.g. utility prices, housing construction costs, income growth). They are subsequently approved and announced by the Government for the following year. According to a Presidential Order, the total amount of tariffs should not increase annually by more than the Belarusian ruble equivalent of \$5 at the conversion rate set by the National Bank of the Republic of Belarus. Current tariffs are equal to about 30–40 per cent of the total maintenance, management, modernization and utility (mainly water and gas) costs for the normative area of serviced dwelling (20 m^2 per person plus additional 10 m^2 per family); for additional sizes of normatively serviced dwellings, the household has to pay the full costs. The remaining 60–70 per cent of costs is partially covered by leases on

commercial premises (in urban areas), but mainly from public budgets in the form of subsidies to regional management and maintenance companies, homeowners’ associations and utility providers. For example, households in Minsk pay for technical services (management and maintenance) 0.10 United States dollars/ m^2/month , while total costs of services (computed and regulated centrally) come to 0.25 US dollars/ m^2/month – 0.15 is covered by commercial leases and 0.10 by public budget subsidies. All Belarusian households are eligible for this type of subsidy regardless of tenure or income. (The subsidy is a bit higher for households living in urban areas.)

Maintenance, capital repairs (modernization) and management of apartment buildings in cities are in most cases performed by State-owned companies that are subordinated to local executive and administrative bodies. In 2007, 55,993 apartment houses with more than 100 million m^2 housing floor area were maintained by those companies, while private management companies maintained only 516 buildings with more than 1 million m^2 of housing, homeowners’ associations 390 buildings with about 2.3 million m^2 of housing, and housing cooperatives 2,252 apartment houses with about 4 million m^2 of housing. Only 15 private non-government enterprises were active in the field of housing maintenance as of 1 January 2008.

Though most of the flats are privatized, the building structures and common areas of apartment houses with privatized dwellings, based on the signed decisions of new homeowners, mostly continue to be maintained by public maintenance companies. Homeowners’ associations are not established in such case. The system of finance for maintenance and repairs is thus the same as for the remaining part of public rental housing: homeowners’ contributions towards capital repairs and maintenance are set by tariffs and are accumulated in one common budget for capital repairs and maintenance of the public maintenance company, i.e. there are no separate budgets for each apartment house. Repairs and modernizations are planned and realized by maintenance companies according to the general rules on housing management, and homeowners have no power to influence the decision process.

The homeowners’ associations and housing cooperatives can, on the other hand, directly influence housing management and choose the management company. For capital repairs, homeowners and cooperative members contribute

to the separate budgets established for each association or cooperative and may decide on the use of the accumulated resources. They also receive subsidies to cover the difference between tariffs and normative housing costs. However, the operation of associations is connected with additional costs and administrative actions (e.g. payment of awards to board members, the necessity to conclude new agreements with utility providers). The fund for capital repairs starts with “zero” when the association or cooperative is established (which is important for older housing with high hidden debt for housing maintenance) and therefore the switch to a homeowners’ association as the legal type of management is progressing very slowly. There are few incentives for homeowners to establish an association and there is no compulsory time frame set in legislation. In practice, associations are set up almost exclusively in new apartment houses and very few in houses with privatized dwellings. Many inhabitants of privatized flats regard the common areas and structures of their apartment houses as if they were still publicly owned, blaming the State for their poor maintenance.

D. *Financing of subsidies and housing affordability*

Interest subsidies and loan redemptions are paid to the State banks responsible for extending the soft loans directly from the State budget; other subsidies and grants are allocated from oblast budgets. However, public budget incomes and expenditures in Belarus, though divided into several (basically two) levels according to the level of administration (the State and five oblast budgets plus the budget of the city of Minsk), are set up and approved as a single, “consolidated” budget. There is no rule on the share of tax income that should stay within the oblasts where the taxes were collected, nor is there any rule on redistribution of tax income to lower levels of administration. The main goal of pre-approved budget expenditures for each year is to assure that the targets of the national programme (plan) elaborated by the Ministry of the Economy will be met. To fulfil this goal, the oblasts’ budget expenditures may increase or decrease each year, and therefore the redistribution formula (based on revenues from income and VAT taxes) may also change. Relevant legislation is approved in the Parliament as part of the annual State Budget Law. The President can also make substantial changes in the structure of public expenditures. The fact that all national and oblast budgets are finally approved as one consolidated

budget and that expenditures are mainly directed to fulfil central programmes makes separation of budgets less relevant. The deficit of the public “consolidated” budget has usually been very low and it only started to increase in recent years; in 2007, it was about 2 per cent of GDP.

Thanks to capital and revenue subsidies, price and profit regulation in housing construction, soft credits, centrally set tariffs on maintenance and capital repair operations – among other forms of State involvement – household housing costs constitute a smaller share of total household expenditures than is known for other transition countries. In 2007, housing costs constituted, according to the Sample Household Survey, 7.4 per cent of average total household expenditures (7.6 per cent for urban settlements and 6.7 per cent for rural settlements). The percentage of households in arrears (i.e. principal non-payers or in debt) is also low: between 3 and 5 per cent. However, in 1995 the share of housing costs in total household expenditures was only 4.7 per cent and many households may perceive the current situation as a sharp rise in housing costs (especially when 41.5 per cent of average household expenditures were spent on food in 2007). The monthly annuity instalment for a soft loan with 20 years maturity and 5 per cent interest per year on a newly constructed 40 m² flat (for two adult people, normative area) with a regulated price in Minsk is estimated to be around \$120 (2006). The average monthly salary at the same time was about \$250. So even in the case when both adults are working for an average salary, it would require 25 per cent of the household income just to pay off the loan.

The employment and income situation of households may also substantially deteriorate if further structural economic changes are required due to increases in gas and oil prices and global competitiveness pressures. Owing to overemployment, underinvestment in industry and inefficiencies in the production of agricultural cooperatives, such structural changes could substantially worsen the economic situation of 30 per cent of Belarusian households, according to estimates by economists.

E. *Private housing development*

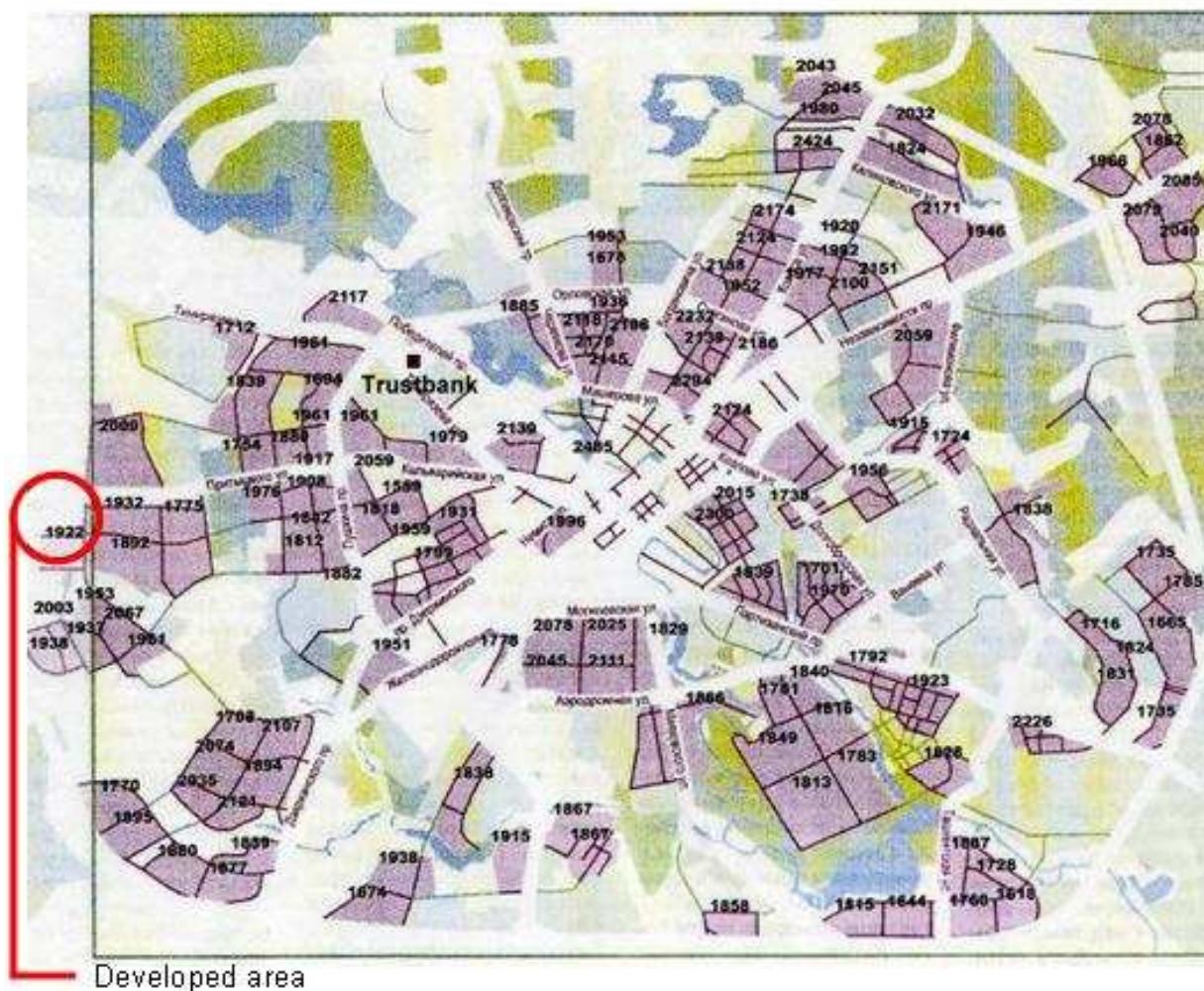
The performance of private housing development as well as of housing finance from private banks remains elementary when compared to more advanced transition countries: the private sector in Belarus is really still in its infancy.

Although it is relatively common to build privately (individually) owned family houses in rural areas, there are relatively few private development and construction companies involved in the construction of apartment housing. This is the case even though there is no VAT for new housing construction. Private developers sell new housing for prices several times higher than those of public limited-profit companies; their sale prices are comparable to those in developed transition countries, e.g. Czech Republic, Hungary or Slovenia (about \$2,000/m² of floor area). The sale prices of existing housing are also relatively high (figure VII).

The high sale prices of new housing are caused by the use of higher-quality building technology (e.g. bricks instead of prefabricated

high-quality materials for flooring, baths, kitchens, etc.), and also the risks connected with the lack of project finance and interference by the public authorities during the construction process, changing “the rules of the game”. Additional costs are connected with the compulsory purchase of different “options”, which are, in fact, used by developers (see below). These costs can include the need to connect to services that are not covered by developers. Problems encountered in this regard include the lack of competition due in part to much regulation (e.g. licensing, requirements for high capital value for construction firms), the necessity of having social connections to buy and develop land, and the high demand for new housing among households who do not want to wait for many years on waiting lists and have decided to buy.

Figure VII. Sale prices of existing apartments in Minsk, May 2007 (in United States dollars per m² of floor area)



Source: Trustbank.

The main obstacles to the improvement of private development performance and lower profit margins seem to be: (a) the high risks connected with non-transparent, unsettled and changing conditions related to housing development; (b) the duties to pay for different unreasonable options; (c) unfair competition during land sales and in the allocation of subsidies for infrastructure between private and public companies; (d) excessive bureaucratic procedures; (e) high requirements on minimum capital value of private construction firms (\$2.5 million); (f) short interval periods for the renewal of housing development licences (every fifth year); and (g) the reported need for gaining access to wide informal networks to finalize the project successfully.

The private developer should, for example, pay to the municipality a certain amount for the right to ask public project officers to prepare a project, even in the case when she or he is not going to use their service. The private developer may ask for subsidies for the building of infrastructure, but public limited-profit companies are – according to the opinion of developers – generally given priority. The same occurs in the case of sale of land at a “cadastre price”. Some part of newly built private housing should be generally transferred free of charge to the municipality. It may happen that during the process of finalizing the building permission, the municipality will ask for another flat or put a price ceiling on part of newly constructed housing. In 2006, advance payments by final clients during housing development were forbidden, and due to the general lack of the appropriate project financing, this situation negatively affected the performance of some developers. The private developers mainly stressed the lack of transparency in the whole process, and the considerable power of the public authorities makes their projects very risky. Foreign investments are restricted and there is a general preference for large, already well-known companies with much capital at the time of land sales and housing construction licensing.

F. Market-based housing finance

Housing finance from private banks is also limited due to the significant market share of State banks and the still relatively high inflation, but also to the low level of competition, the lack of liquidity and the characteristics of the existing legislation.

The issues of eviction and foreclosure remain problematic. The debtor is, due to the

prevalent legislative framework, often asked not to take up permanent residence in a purchased flat until the loan has been repaid (to facilitate potential foreclosure procedures). Sometimes the “lease-housing loans” still appear when the debtor has yet to become the flat owner and to repay the loan, and all instalments made by the debtor to the bank are treated as rental payments. These problems are supposed to be addressed by the entry into force of the draft Law “On Mortgage” in 2009.

Most of the banks have very limited possibilities to match long-term loans with long-term deposits, as there are few possibilities to secure loans outside of the country (Belarusian banks lack international ratings) and legislation on mortgage bonds and on the secondary mortgage market (e.g. refinancing by sale of mortgage-backed securities) is lacking. There is also the question of a lack of markets for those securities, because the capital markets are developing only gradually. There are no deferred payment mortgages or indexed mortgages that would help with the “tilt problem” typical of inflationary economies. As a consequence, there are no loan repayment alternatives and the only option is repayment by the annuity instalments. For most private banks, housing loans are of short maturity (up to 10, and exceptionally 15, years) with interest rates between 16 and 19 per cent per year (13–15 per cent per year for loans denominated in United States dollars) and with a maximum loan-to-value ratio of 75 per cent. The dominant State savings bank, Belarusbank, offers slightly better conditions on “normal” market loans following, presumably, from implicit guarantees of the State for bank liquidity: housing loans with a maturity of 15 years, an interest rate 16 per cent per year and 75 per cent loan-to-value denominated in local currency or, alternatively, loans with maturity of 10 years, an interest rate of 13 per cent per year and a 90 per cent loan-to-value denominated in United States dollars. The US dollars short-term simple deposits generally yield an interest of 8–10 per cent per year, which is relatively high and shows the risks and problems with liquidity in the Belarus banking system.

There are 28 banks operating in Belarus (with another three banks in liquidation processes). In 15, foreign capital has a more than 50 per cent share. The level of market concentration is, however, high. Two State banks – Belarusbank and Belagroprombank – concentrate almost 70 per cent of the total banking capital and 52 per cent of total banking assets. Banks with a State ownership share

of over 50 per cent hold more than 80 per cent of total banking capital and more than 70 per cent of total banking assets. The only important fully private bank is Priorbank, with a majority share owned by the Austrian bank, Raiffeisen. Priorbank has a 7 per cent share of total banking capital and an 11 per cent share of total banking assets.

Housing loans are extended by 15 banks, three of which are in State hands. Belarusbank has a 55 per cent share of the total outstanding housing loan balance. Belagroprombank has a 27 per cent share and three banks have the remaining 18 per cent share. In total, 72 per cent of outstanding housing loan balance relates to soft loans and only 28 per cent of balance relates to market housing loans.

A system of housing savings schemes has not yet been implemented, but efforts are being made to establish one in the near future. Although the details of the scheme are not known, it should be an “open system”, i.e. closer to the French savings system than to the German-Austrian *Bausparkasse* scheme (due to fears of the high subsidy costs generally connected with this scheme). Up to now, Belarusbank has had its own separate housing savings division. People, regardless of whether or not they are registered on a waiting list, can save for their future housing. After some period of savings, they can receive a housing loan with an interest rate equal to the discount rate of the National Bank plus one percentage point (10.25 per cent per year in July 2008).

G. Assessment

The system of housing finance as a whole is clearly half way between a State-based and a market-based one, and it is still more biased towards public finance. This is the case in aspects regarding management and maintenance of housing, construction of new housing and extension of credit for purchase. The level of subsidies is comparatively high, especially when taking into account economic subsidies (house privatization), cross-subsidies (dealing with management and utility consumption) and implicit guarantees for the performance of State companies and banks. Theoretically, it is not important whether the housing services are assured by the public or private sector; the question for the first option, however, is whether public budgets are prepared for long-term commitment in housing and whether there are ways that could save public financing for other purposes.

Generally, the system of subsidies for the acquisition of housing in Belarus is rational and clear in its basic pillars. Interest subsidies are one of the legitimate tools to increase affordability of housing loans during high inflation periods if they are allocated to people in need to improve their housing conditions. The level of interest on the subsidies relates to the discount rate of the National Bank, which allows for immediate flexible changes and potential public savings. Public spending on this subsidy may grow quickly because subsidies are paid both on new loans and old outstanding loan balances. However, if it is a clear common goal of both the Government and the National Bank to further decrease inflation, it can be sustainable over time due to low inflation. The interest subsidies are complemented by targeted down-payment grants to low-income households. Because these households often do not have their own savings or wealth, and due to the negative demographic growth, they are complemented by the possibility to amortize part of the loan balance to families with children, creating incentives for a higher birth rate.

The social housing construction and allocation rationally closes the subsidy system by assisting people who could not afford to repay the loan (even with interest subsidies and down payment grants) due to their age or disability, acute housing need or danger of social exclusion or homelessness. Selected groups of people – due to their merits (e.g. veterans, the disabled and war heroes), importance to the State (e.g. key public workers, professional soldiers) or importance to positive, long-term socio-economic development (e.g. families with more children) – receive priority and even the possibility to choose between different subsidy alternatives. Additionally, particular incentives are created to motivate other stakeholders to finance housing construction, e.g. industrial firms or agricultural cooperatives, and in this way to save public financing. The general framework is therefore well-targeted and theoretically effective.

However, when taking into account particular settings, two main problems occur: (a) the actual number of people eligible for subsidies many times exceeds the possibilities of public budgets; and (b) numerous exceptions in particular settings and some later amendments or presidential decrees have made the eligibility for subsidies less transparent and clear. Due to the changes in eligibility criteria, some households may get priority, but some others may have to wait longer.

Eligibility for interest subsidies and allocation of a new flat constructed on not-for-profit basis is not limited by household income or shortage. This might be understandable for interest subsidies, but it is much less understandable for the right to buy inexpensive, new, not-for-profit owner-occupied housing. Combined eligibility, both for an interest subsidy (soft loan) and for inexpensive new housing, has some drawbacks. First, it substantially prolongs the waiting period for receiving the interest subsidy, especially among those “needy” who do not want to buy new housing. Secondly, it substantially decreases freedom of choice during the purchase of housing, as households on waiting lists are supposed to take the newly constructed flat on offer. In some cases, housing or other types of wealth (inherited, gifted or purchased) outside the place of permanent residence or place of work are generally not taken into account in the eligibility criteria. However, individual ownership of dwellings is taken into account, for instance, when determining the amount of a soft loan. Also, the right to be registered on a waiting list is based mainly on area per person of household. This is not an appropriate measure of housing need (the eligibility is too wide) and it can be abused. The discrepancy between potential and actual eligibility for subsidies (a long waiting period) and frequent changes of rules substantially decrease the transparency, rationality and efficiency of the whole system. Due to their growing complexity, the eligibility criteria are becoming less intelligible, even for the people responsible for implementing the housing policy strategies.

The subsidy to cover a part of maintenance, management and utility costs is very different from the theoretically well-prepared framework of subsidies related to acquisition of housing. The goal of this subsidy is, presumably, to increase housing affordability for Belarusian households already much burdened by food expenditures. In spite of this goal, this subsidy is not income-targeted and mingle with another means-tested subsidy covering all housing costs exceeding 25 per cent of household income. The actual

distribution of this subsidy is most probably skewed in favour of urban households, who are generally higher-income. Such a subsidy does not create any incentive to take seriously the challenges of high future energy prices, nor of the need for immediate measures to decrease energy waste in heating. Moreover, this subsidy is not limited to utility payments, but also covers repair and modernization costs, including in already privatized flats – again with no clear targets. There are few real homeowners’ associations in Belarus that have taken responsibility for maintenance of their houses, and many people cling to the belief that common areas and structures of apartment houses have remained in State ownership. Such a false belief strongly decreases the desired effects of public housing privatization, namely to encourage owners to take responsibility for maintaining and modernizing their dwellings. In addition, spending on capital repairs is low, largely insufficient for the necessary modernization of the housing stock, and additional finance is strongly needed in this field.

With the assumption that there is always a need to save public finance for other areas than housing, additional critical points arise. The positive macroeconomic development and drop in inflation should go hand in hand with giving the private sector more of the playing field. However, both private housing development and private housing finance are relatively underdeveloped in Belarus. In both areas, competition is lacking, and private developers face regulations that are too complex. The private banks face low liquidity (especially for long-term deposits) and high credit risk (due to an inappropriate legal framework). Under such conditions, the private sector cannot outperform the public one, and no private savings can be realized.

Some of the regulations may be understandable, especially in a period of broad legislative change during the transition where there is room for abuse and speculation. On the other hand, such regulations should not hamper competition, because the strength of the private sector is visible only in a competitive environment.