



**Желбата не менува ништо.  
Одлуката менува сè.**

A wish changes nothing. A decision changes everything.



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EUROPEAN FUND FOR SOUTHEAST EUROPE

## **Market Potentials and Products: Housing Finance**

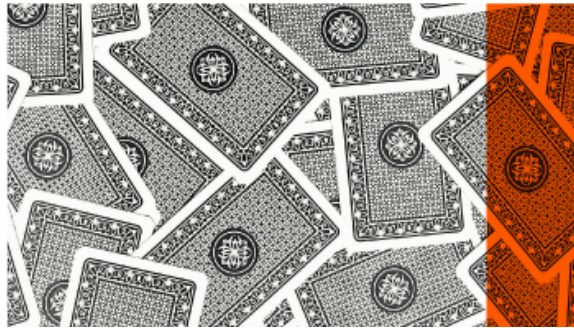
# **Housing Finance in Macedonia**

**May 2007**

**Tomce Tasevski  
Corporate Banking Division  
Export and Credit Bank, inc., Skopje**

**EFSE Annual Meeting 2007**

**Budva, Montenegro**



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туку добра игра со картите кои ги имаш.

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## 1. Facts for Macedonia

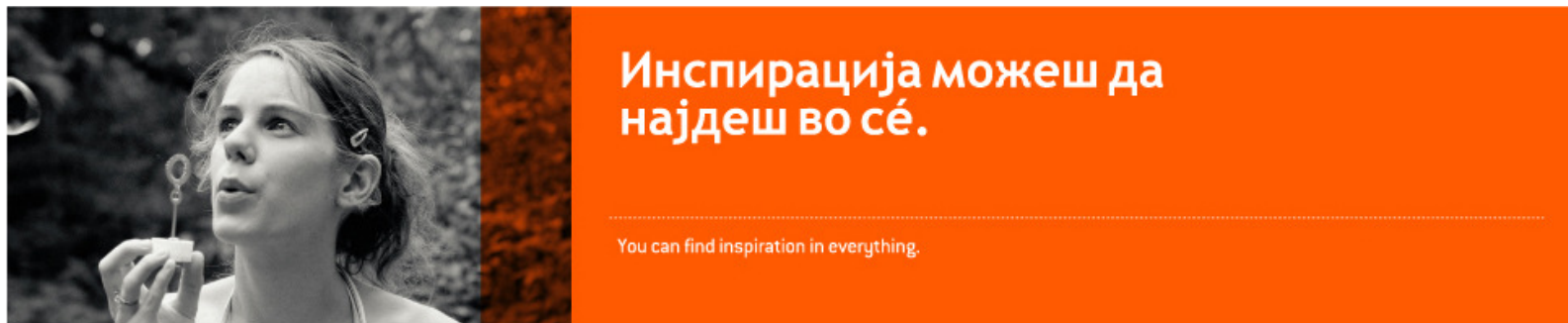
- Area: 25.333 sq km
- Population: 2 million
- Location: Southeastern Europe

### Macedonia Current Ratings

- In 2005 Republic of Macedonia achieved its first international long-term credit rating, both in local and in foreign currency BB+/B by Standard & Poor's.
- In May 2006 the same agency confirmed the credit rating of Republic of Macedonia.

### Statistical and other information

- The Republic of Macedonia is situated in the central part of the Balkan Peninsula;
- 58% of the population live in towns and mainly in the capital – Skopje 509.000 inhabitants, then Bitola 95.000, Kumanovo 82.000, Gostivar 81.000, Tetovo 64.000, Prilep 63.000 inhabitants etc;
- In average 8 inhabitants live per 1 km<sup>2</sup>. The North-West part (including Skopje) is the most densely populated and the South-East part is the most sparsely populated;
- The annual growth of population is 2,5% (23.000 children were born and 18.000 inhabitants die p.a.);
- Almost one half of the population are under the age of 30. The average life is 74 years.;
- 15.000 new marriages are pronounced each year;
- Unemployment rate 36,7%;
- Average salary paid by employee US\$ 256.



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**Table 1: Macroeconomic Indicators / Economic Overview**

Indicator		2005*	2004	2003	2002	2001
Real GDP	%	3,8	4,1	2,8	0,9	-4,5
GDP	USD mil.	5.766	5.368	4.631	3.769	3.437
Inflation (average)	%	0,5	-0,4	1,2	1,8	5,5
Export (F.O.B.)	USD mil.	2.041	1.672	1.359	1.112	1.153
Import (F.O.B.)	USD mil.	3.097	2.785	2.211	1.916	1.677
Trade balance	USD mil.	-1.056	-1.113	-852	-804	-524
Current account balance	USD mil.	-57	-415	-152	-358	-235
Foreign exchange reserves	USD bln.	1,33	0,99	0,90	0,73	0,78
Import coverage	months	3,6	3,3	3,9	4,0	4,7
External debt	USD bln.	2.258	2.044	1.813	1.635	1.506
Foreign direct investments	USD mil.	120,0	150,1	94,3	77,7	440,7

\* Estimation or preliminary data

\*\* Inflation 2006/2005: 3,2%

Source: State Statistical Office, Ministry of Finance of the Republic of Macedonia and the National Bank of the Republic of Macedonia



Цвекето секогаш постои,  
за оние што сакаат да го видат.

There are always flowers for those who want to see them.



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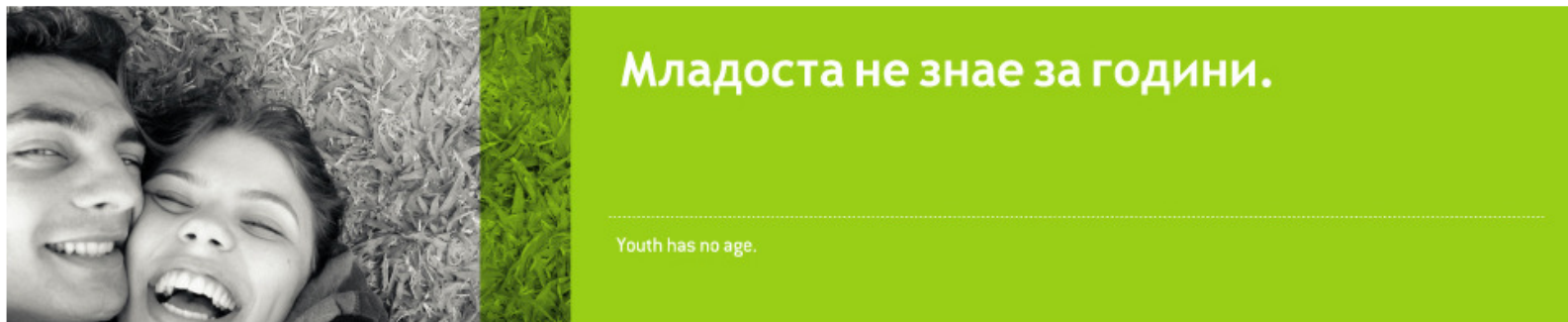
## 2. Market potential

**Table 2: Total population, households and dwellings in Macedonia**

Municipality	Total population	Households	Dwellings (all types of living quarters)
Total	2.022.547	564.296	698.143

**Table 3: Individual households according to the type**

Individual households	Average number of the household members	Married couple with children	Married couple without children	Mother with children	Father with children	Non married couple with children	Non married couple without children	Two or more family households	One person households	Multi person households
564.237	3,58	304.577	92.567	31.074	7.914	3.501	2.526	62.973	53.861	5.244



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**Table 4: Number of dwellings, number of individual households and average floor surface**

Total number of dwellings	Floor surface M2	Floor surface of dwellings occupied by individual households in the dwellings	Number of individual households in the dwellings	Number of member of individual households	Average floor surface by member of the household	% of non-occupied floor surface by individual households
697.529	49.671.709	39.805.865	563.636	2.018.627	19,72	20%

Comment:

- concentration of dwellings with a determined group;
- nobodys live in 20% of the dwellings;
- the number of dwellings exceeds the number of households, but it doesn't mean that the housing issue has been solved;
- a large group of households particularly with young marriage couples the housing issue has not been solved;
- employees in small private companies, owners of small businesses and individual entrepreneurs have not solved the housing issue and have no an access to housing loans.



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### 3. Regulatory environment

#### 3.1 Legal frame

Banking operation has been regulated by the following laws:

- Law on banks (Official Gazette of RM 63/00, 37/02, 51/03 i 85/03);
- Law on companies – in the part of the status and organizational set up of banks (Official gazette of RM 28/04);
- Law on securities – in the part of the securities (Official Gazette of RM 82/05);
- Law on obligations (Official Gazette of RM 18/2001);
- Law on foreign exchange operation (Official gazette of RM 34/01, 49/01, 103/01, 54/02, 51/03);
- Law on the domestic payments (Official gazette of RM 50/01).

The security of claims has been regulated by:

- Law on pledge (Official Gazette of RM 5/03);
- Law on property and other real rights (Official Gazette of RM 18/01);
- Law on survey, cadastre and registration on real estate rights (Official gazette of RM 57/86).

Comments:

- The new legal regulation enables quicker, simple and cheap procedure for regulation of the lien right;
- A record of the real estates has not been established yet in the entire territory of Macedonia due to which there is a high degree of legal unreliability: 1) in the part of registration of the pledge rights and property and 2) in the part of certainty of the realization of these rights.



Задоволството во професијата  
ја доведува работата до перфекција.

Pleasure in the job brings work to perfection.



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The collection of claims before the competent authorities has been regulated by:

- Law on enforcement (Official gazette of RM 28/05);
- Law on the legal proceedings (Official Gazette of RM 79/05).

Comments:

- the new law has provided positive changes in the part of the pledge and mortgage realization, in the enforcement of the effective court decisions and enforcement documents, as well as acceleration and improvement of the legal proceedings efficiency;
- through the acceleration of the enforcement, the creditors have gained a better protection;
- the introduction of the notary public institution made possible for the lien right establishment to be quicker and more efficient and the introduction of the enforcement agencies enabled more simplified procedure for realization of the lien right;
- the modification of the systematic regulations during the last years have caused a small inconsistency of the legal system;
- for the purpose of consistent application it is necessary to make new modifications in the sense of the regulations harmonisation.



Оној што не знае ја бара среќата  
во далечина, мудриот човек ја  
создава со своите раце.

The foolish man seeks happiness in the distance, the wise grows it under his feet.



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### Cadastre:

- Currently 50% of the territory of Macedonia have been included into the register of real estate while the remaining 50% have been covered by the Land cadastre
- For the purpose of solving of this problem the Unique register of real estate (cadastre) is expected to be completed by the end of 2008;
- This will enable 1) a legal security of the investors, 2) use of the land as a loan collateral, and 3) will help in the credit expansion.

### 3.2. Financial framework

- The Central Bank will continue to maintain a fixed foreign exchange regime of the exchange rate supported by adequate foreign exchange reserves;
- Strengthening of the financial stability of NBRM and protection of its independence;
- Comprehensive review of the legal framework for the purpose of improvement of the banking system stability;
- Strengthening of the banking supervision, migration towards the anticipative access of the banking supervision based on risk;
- Start of the project related to the introduction of a completely new credit register.



Најважна работа во тоа да се  
имаат повеќе цели е да се има една.

The most important thing about having goals is having one.



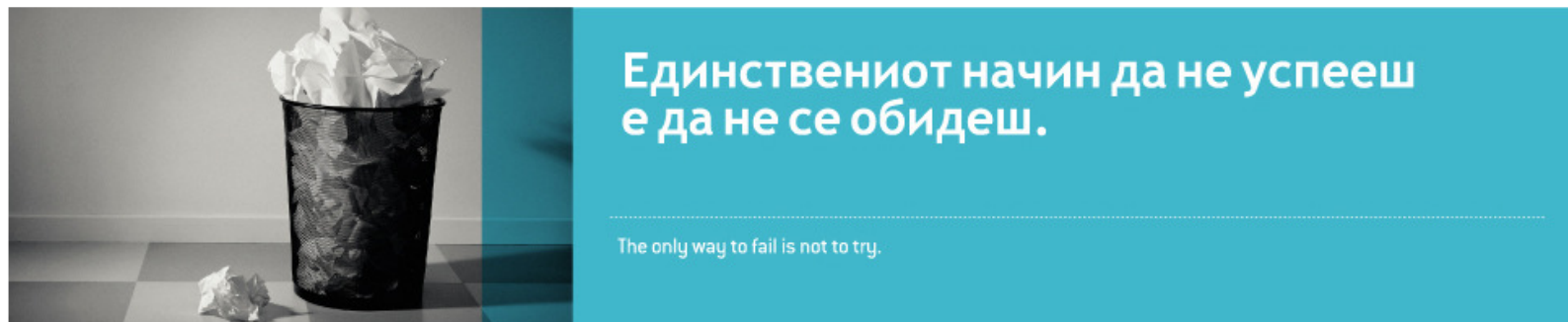
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## 4. Housing finance in Macedonia

A short review of the housing finance

- Specificity in Macedonia and in the region: desire and intention to have an own home/dwelling;
- 70s i 80s years of the last century: social dwellings, dwellings financed from the funds of the socially-owned enterprises and self-government interest communities. There was a relatively easy access to banking loans, whose value was amortized by the high inflation rates;
- End of the 80s years of the last century: enormously high inflation rates suspended the long-term lending and in that framework the housing loans, too;
- End of the 90s years: such trend lasted until 1998 when the housing finance was restarted. The Interest rates in that period of time were 18% per annum. In the period of transition there was a category of buyers who purchased dwellings in cash. The price of the housing space increased 100%. Such practice lasted until 2006 when a price stabilization and decrease in the demand took place;
- 2002: occurrence of housing loans having repayment term of up to 10 years and interest rate of 14%;
- 2007: the presence of a competition and the long-term sources of funds have create housing loans having repayment term of 25 years and interest rate of 8% per annum.



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**Table 5: Gross customer loans, retail loans and housing loans**

EUR Million

	2006	2005	2004
Gross customer loans	1,468	1,125	936
Retail loans	652	424	264
Housing loans	96	63	46
Retail loans/Gross customer loans	44,4%	37,7%	28,2%
Housing loans/Retail loans	14,7%	14,9%	17,4%



Љубопитноста е креативност  
на патот до откритието.

Curiosity is creativity on the way to discovery.



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### Comments:

- Evident increase of the loans to households in the last three years – 147%
- Increase of the share of loans to households in relation to the total loans – 57%
- Increase of the housing finance in the last three years – 109%;
- Housing finance stunting in relation to the consumer loans, decrease of the housing loans share in relation to the consumer loans;
- Large concentration of housing loans with the largest ranked banks : 84,2%;
- Large concentration of housing loans by regions: 99% of the housing loans disbursed in Skopje.

### Characteristics of the housing loans:

- Target group: employees in public, budget financed, financial, insurance and other financially good standing companies practicing regular payment of salaries;
- Collateral: high quality liquid collateral of real estate in the urban regions;
- Uncovered categories: employees in small companies, owners of small companies and individual entrepreneurs;
- Lack of the methodology for an analysis: impossibility for establishment of the creditworthiness through the salary amount.



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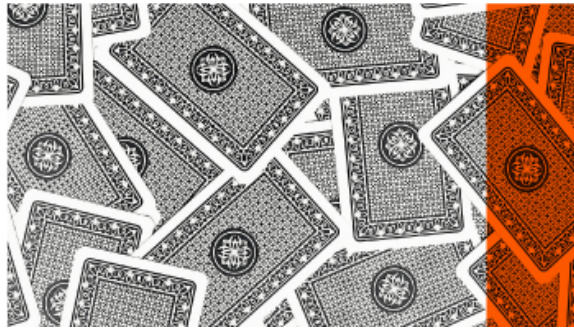


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**Table 6: Terms and conditions of housing loans**

	Banks	Denar and foreign exchange loans	Interest rate	
1.	Komercijalna banka	Amount of funds depending on the creditworthiness	8,5%	
2.	Stopanska banka	EUR 3.300 to 100.000 (depending on the location of the real estate to be given as a security)		
		Through a mortgage	Foreign exchange	5,50%/8,25%
		On the basis of bonds		6,90%
		On the basis of a deposit		5,90%
		Through a mortgage	Denars	12,90%
		On the basis of bonds		11,90%
		On the basis of a deposit		10,90%
		Term of repayment: purchase, construction, reconstruction and upgrade from 5 to 25 years In buying of building land from 5 to 15 years		
3.	NLB Tutunska banka	Up to EUR 75 000		
		Without a deposit	8,5%	
		On the basis of 1/3 deposit	6,5%	
4.	IK Banka	Up to 20 years of repayment term		
		Without a deposit, for the first year	5,9%	
		Without a deposit. for the remaining term	8,5%	
		On the basis of 30% deposit	6,25%	
		On the basis of 50% deposit	5,5%	



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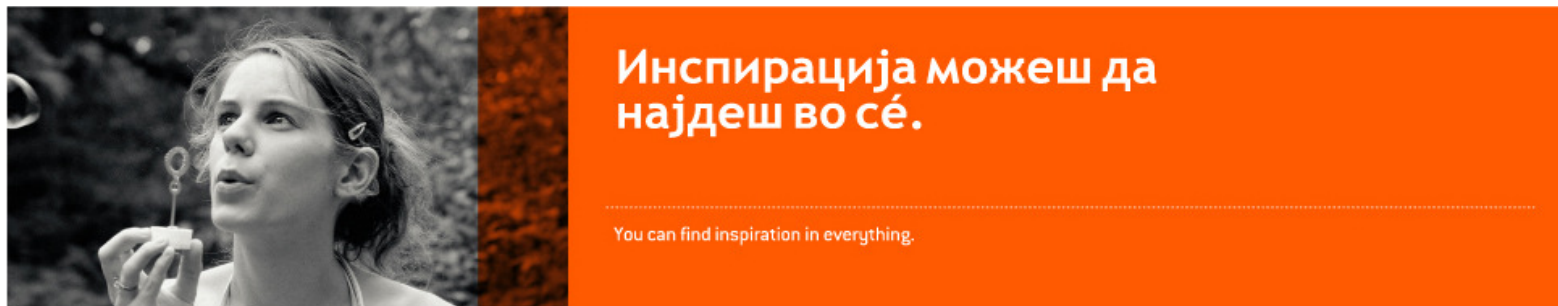
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## 5. IK Banka and housing finance

- Several years lasting experience in the housing finance and mortgage loans;
- The volume of housing finance limited due to the short-term character of the sources of funds;
- At the end of 2004. in cooperation with the German-Macedonian Fund, Bankakademie International and IK Banka designed HIL (Home Improvement Loan), which through its specific purpose and target group occurred in Macedonia for the first time;
- The 2006 EFSE loan agreement enabled to a supply of housing loans on the market, having a long term repayment (more than 10 years) and competitive interest rates.

HIL characteristics:

- target group: marginalized groups who have not an access to the banking funds for that purpose – owners of micro and small business and individual entrepreneurs, in the urban and rural regions;
- methodological approach: socio-economic moment and integrity have the priority in the credit analysis in relation to the collateral;
- creditworthiness: on the basis of the business quality, instead of the salary amount;
- purpose: reconstruction, renovation and reconstruction of a home;
- amount: up to EUR 20.000;
- term: up to 5 years;
- interest rate: 9% per annum.



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### Characteristics of the EFSE housing loans:

- target group: employees in public and private companies, owners of businesses and individual entrepreneurs;
- creditworthiness: on the basis of salary/business quality;
- purpose: purchase, reconstruction, renovation and enlargement of the home;
- amount: up to: EUR 100.000;
- term: up to 20 years;
- interest rate: 5,9% per annum (for the first year).

**Table 7: Outstanding portfolio of Housing loans by type of sources**

EUR

	31.03.2007	31.12.2006	31.12.2005	31.12.2004
EFSE	2.639.312	2.023.339		
HIL	828.573	929.066	469.472	
IK Banka	699.742	532.638	520.051	438.087
Total	4.167.627	3.485.043	989.523	438.087



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## 6. Instead of a conclusion related to the housing finance in Macedonia

### Positive aspects:

- Stable macro economic policy;
- Improved legal regulations;
- Low indebtedness of households in relation to GDP (14,7%);
- Significant interest of banks in housing finance (intensive marketing campaigns, extension of the terms of repayment and the interest rates cutting);
- Immense potential on the market, particularly with the owners of micro and small companies, individual entrepreneurs and employees in small private companies;
- Number of households in relation to the number of dwellings they have been disposing;
- Natural growth and the number of new marriages;
- Significant interest of households in purchase of dwellings on credit.

### Negative aspects:

- Uncompleted cadastre record in the entire territory of Macedonia;
- Harmonization of the legal regulations;
- High rate of unemployment;
- Poor living standard;
- Low level of the average paid salary (US\$ 256);
- 100% increase of the price of housing space;
- Increase of EURIBOR;
- Domination of the short-term sources of funds in the structure of the liabilities of commercial banks;
- Unequal access to the banking loans;
- Possible negative implications due to the getting into debt with external sources of funds (credit lines).



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