

STATE BENEFIT - INCENTIVE FOR SAVINGS AND INVESTMENTS

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ABSTRACT: *The present paper aims to be an answer for many investors with financial powers, seeking financial instruments with yields above the average interest rate on the banking market. One such tool, fairly new to the Romanian banking market, has been implemented for about 14 years, and is becoming more and more an instrument for savings, investments or an aid in the purchase of a house. Regardless of the perspective presented in the table of contents, the incentive for choosing such a banking product is the state benefit, a form through which the administration creates the conditions necessary to update and develop the housing system. In the thesis I have explored aspects of legislation which, in such a short period of time have changed 3 times the amount and the method of granting the state benefit and I have also tried a quick historical and legislative evolution of the implementation of Bauspar system throughout Europe. It is pointed out that in comparison with other countries - namely Germany, England or Austria where this system is well-known and has been implemented for over 120 years - Romania is at the beginning of its journey, a fact proved especially by the number of signed contracts in relation to the number of inhabitants.*

KEY WORDS: *collective home purchase savings and loan system, state benefit, savings, saving period*

JEL CLASSIFICATIONS: *E5, E6.*

1. INTRODUCTION

In old times, a family's financial education began with savings, so that during childhood we were taught about the virtues of savings and about the consequences of waste. Folk wisdom has reflected the ethics and the prudent reasoning of mankind.

Even if the general concept of Romanians is not to save, the financial crisis has changed inappropriate financial habits. Thus, if during the period of economic growth Romanians got into debts - although wages were definitely higher in comparison with

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current ones - the financial crisis brought about salary cuts and an increase in unemployment, two scary factors, especially for those who had significant banking debts and obviously had no savings or they were far too little to alleviate negative financial gap. Nevertheless, bankers assert, obviously based on statistics, that in recent years, Romanians have started saving.

If we look at the statistics, we can observe an increase in the savings rate while bank interest rates are smaller and most of the times they do not cover the tax on the interest charged by the state, the withdrawal fee and the probable rate of inflation.

Classic economists showed that the savings policy was both in the interest of individuals and in the interest of the nation while the rational saver, making stocks for the future, helps the entire community. Personal savings, productivity and technological progress are the key to economic growth. The principle was discovered and developed by the eminent French economist Jean-Baptiste Say in the first part of the 19th century and is also known as "Say's law".

One of the most effective tools of savings is the savings-credit system for housing construction, also known as Bauspar contract (building society in German). Obviously their role is primarily related to estates, and their purpose is accessing a credit with constant interest rate. Considering the fact that until the credit is accessed there must be a period of savings, this product is available to customers with a certain type of financial behaviour and motivation in the savings process.

In order to access a Bauspar credit, customers must first save regularly for several years and in this way they demonstrate that they have the financial capacity to sustain the payments of instalments.

2. HISTORY AND CONCEPT REGARDING THE SAVINGS - CREDIT SYSTEM IN HOUSING

The origins of the concept of "Bauspar" system are in England, they go back 200 years, to the early stages of capitalism. The emergence and the development of this concept were favoured by the existence of a large number of people without access to decent living conditions.

During the period 1780-1841, the population of England doubled due to industrialization in cities such as Liverpool, Leeds, Birmingham and Manchester and the problems related to housing and the development of new urban centres were aggravated. In this context, the underlying principle is the first self-help financial system which is based on the idea of solidarity in order to achieve a common goal (*friendly societies*); one of the goals was real estate.

Approximately 250 such real estate financing firms were set up between 1775 and 1825 in England and in 1836, along with the implementation of specific legal regulations there was a rapid increase in the number of *building societies*, so that in 1895 there were 3,642 companies with 631,000 depositors with a total accumulated capital of £ 52 million, and after 1945 these financing companies were turned into specialized institutions for granting mortgages and attracting savings in the housing field.

At the end of 1998, companies financing the acquisition of housing in the form of *building societies* had over 16 million depositors in England, approximately 2.9 million people were credited and market share of loans granted by these companies to individuals for housing reached 23%.

In parallel with the British system, the Austrian model of financing occurs much later, after 1920; it is different from the British *building societies* and it evolved from self-help organizations, in which all members of a community worked together to build houses and they had drawn lots to decide the first beneficiary and the others in turn, in a system where participants had begun to borrow money in order to speed up the construction of houses. A big difference and a considerable advantage of the Austrian model is that the State is also involved and not just as a regulatory authority but also as financial officer, as a stimulator for the development of the financing system.

In Germany as well, the *bauspar* savings system has a long tradition that dates back in 1870 through savings associations and credit cooperatives. The purpose for setting them up was to solve the problem of housing for people with modest income. In 1883 the economist Friedrich von Bodelschwingh (1831-1910), initiated the construction of a model neighbourhood near Bielefeld and established the *Savings Bank for Housing*, dedicated to workers as the beneficiaries of loans.

Currently, the German banks for housing manage approximately 30 million BAUSPAR contracts worth about EUR 865 billion, with a market share of 19.5%, *bauspar* representing the third source of financing the supply of housing in Germany. Since 1984, Germany has used BAUSPAR funds to build over 13 million homes.

The definition of the concept of *Bauspar* is based upon the activity of savings banks and collective loan systems for housing i.e. *attracting deposits and granting the amounts accumulated as credits for housing activities*.

The sector of savings banks for public housing in Germany (Landesbausparkassen - LBS) defines the system of collective savings and loans for the housing as follows: "*The Bauspar System is a system of collective self-help for the purpose of financing the construction of houses. It includes a saving phase prior to the investment phase, and a loan phase, subsequent to the investment.*"

The basic principles of the savings and loan system are based on the fact that first the customer has to save, and then the Bank grants loans for housing from the Housing Fund to those clients who apply for it and prove to be eligible.

As regards the savings period there are no eligibility criteria, therefore the state benefit may be granted and in the next stage the client is entitled to apply for a loan, but he is not bound to do so.

3. THE SAVINGS AND LOAN SYSTEM FOR HOUSING IN ROMANIA

Obviously, this concept is linked to the elements that define it and to their evolution in time. Thus, in Romania the term was defined by Act No. 541 of September 27th, 2002 regarding collective savings and loans for housing while the *Bauspar* concept means accepting deposits from customers and granting them fixed interest loans from the amounts accrued for housing activities.

The Bauspar system in Romania was introduced in 2002, and has been implemented since 2004 and 2005 when HVB Bank for Housing and Raiffeisen Bank for Housing emerged on the banking market. HVB Bank for Housing was set up in September 2005, having three shareholders: Vereinsbank Victoria Bauspar AG holding 55%, Bank Austria Creditanstalt AG with 35% and UniCredit Tiriac Bank with 10%.

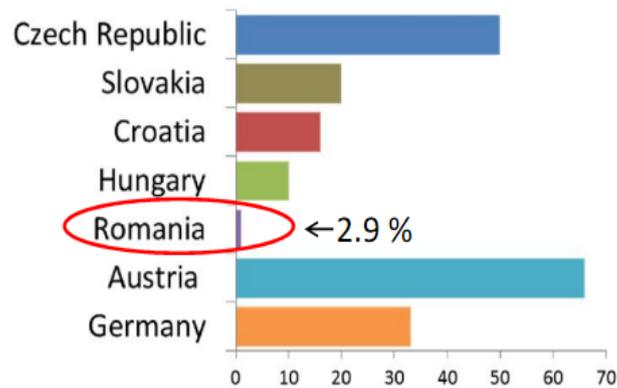


Figure 1. Bauspar savers as a percentage of population

In 2007 the number of contracts increased by 46% compared to the end of 2006, and in 2009 HVB Bank for housing was taken over by Raiffeisen just like it happened in the Czech Republic where Raiffeisen bought Hypo, which entered into the portfolio of Unicredit. In 2009 besides Raiffeisen Bank, another bank for housing enters the Romanian banking market and that is BCR Bank for housing.

The emergence of this bank in 2009 is justified given the fact that the number of collective savings and loan contracts for housing in Romania is very small as compared to other EU countries. Unlike Austria, Germany or the Czech Republic, an analysis of the number of contracts related to the active population in Romania reveals a small share of contracts, 2.9% of the working population, respectively. If we compare our country to Austria, which has the most developed system and most contracts, we'll find that in Romania their number is 24 times smaller.

4. STATE BENEFIT – INCENTIVE FOR SAVINGS

The state benefit and the conditions for granting it differ in time so that, for example, in Romania it is often modified (table 1).

Regardless of the amount of the benefit, it will be granted for a maximum period of 5 years, if the conditions required by the legal framework are met. At present, the formula for calculating the benefit is the following¹:

¹ Ministerul Dezvoltării Regionale și Locuinței. Norma metodologică pentru aplicarea prevederilor cap. V din titlul II partea a II-a din Ordonanța de urgență a Guvernului nr. 99/2006 privind instituțiile de credit și adecvarea capitalului din 10.07.2009

$$P = \sum_{i=1}^5 P_i = \sum_{i=1}^5 0,25 \times D_i, \quad (1)$$

where:

P – the total benefit received from the state for the period of saving

P_i – the benefit that needs to be granted by the state to the client through a savings and loan bank for the year i;

D_i – the amount of deposits made by the client in the savings and loan bank.

Table 1. Evolution of legislative amendments relating to the state benefit

Year	Legal regulations	Amendments regarding the state benefit
2002	Act no. 541 of September 27 th , 2002 regarding collective savings and loans for housing	The state benefit represents 30% of the savings made by the client that year. (2) The state benefit cannot exceed the total of a gross average monthly income set forth by the National Statistics Authority at the end of the year
2006	Order no.1383/1304 of August 21 st , 2006 referring to amendments and additions to the Order of the Ministry of Public Finance, of Transportation, Constructions and Tourism no. 1.682/1.820/2004 on approving the Methodology for implementing the provisions of Law no. 41/2002 regarding collective savings and loans for housing	The state benefit represents 15% of the savings made by the client that year and it cannot exceed the equivalent in lei of EUR 120, calculated at the exchange rate established by the National Bank of Romania for the last working day of the saving year. According to paragraph (1) of article 2, a new paragraph shall be added, referring to: "As an exception to paragraph (1), in the case of people with ages up to 35, as well as in the case of those who have minors in their sustenance, the maximum level of the state benefit cannot exceed 150 euros, as follows: a) people aged up to 35, without children in their sustenance: 135 euros; b) people with one child in sustenance: 140 euros; c) people with two children in sustenance: 145 euros; d) people with three or more children in sustenance: 150 euros
2009	Methodology for implementing provisions of chapter V, title II, part II of the Government Emergency no. 99/2006 of July 10 th , 2009 regarding credit institutions and adjusting	The state benefit is fixed at 25% of the amount saved by the customer that year and shall not exceed the equivalent in lei of 250 euros, calculated at the exchange rate set forth by the National Bank of Romania for the last working day of the saving year.
2016	Legislative proposals	The amount of the state benefit will be established differently: for customers who choose to enter into a loan contract, the benefit will be 25% of the total deposits made each

		calendar year, but not more 250 euros per year; for customers who do not wish to conclude a credit agreement, the benefit shall represent 20% of the total deposits made each calendar year, but not more than 200 euros per year.
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The state benefit is the financial instrument for stimulating a savings-credit contract. Even if initially, this type of systems is addressed to a category of people with low incomes, nowadays this is a financial instrument for all social categories and the purpose is not only to acquire a property but also to the renovate, modernize and last but not least it is the key for investments.

These investments have two forms:

- the first is directly related to the financial side i.e. that upon receiving the state benefit and the interest on the amounts accrued, the economic efficiency is significant, sometimes even almost over 28% of the amount saved that year by the client. The optimal amount to be invested per year is 1000 euros/person but savings contracts can be concluded for all family members. Thus, in the case of four members who annually pay 1000 euros into their personal accounts opened at a housing bank, the state benefit is 1000 euros and after 5 years, the accumulated amount is EUR 20,000;
- Concluding a loan contract for housing, even if the applicant does not need a dwelling but he may acquire it for investment purposes, i.e. for renting. Considering that the 20,000 euros represent 40% of the value of the contract, the maximum credit will be of EUR 30,000. Thus, at a rate approximately equal to the savings rate, the client may acquire the property which can later be rented and a part of the value of the rent can be used to cover instalments.

The allocation of the state benefit was possible due to conventions concluded between the two banks and MDRAP based on a registry with the number of contracts signed by clients who proved eligible.

The values of the state benefits transferred to the two banks, the number of savings-credit contracts and the total amount of the deposits made by customers reveal a significant advantage of BCR Bank for Housing, both in terms of the number of contracts, of the total amount of the deposits made by customers and as regards the average value of deposits on a contract which is 2.254 times higher, that is to say by 2510.56 lei higher in the case of BCR Bank for Housing.

Instead, the rate of success which is calculated according to the number of contracts followed by the phase of credit allocation after completing the phase of saving is in favour of Raiffeisen Bank for Housing, with a significant difference - 246%.

Table 2. Comparison between Raiffeisen Bank for Housing and BCR Bank for Housing

Indicators	Raiffeisen Bank for Housing	BCR Bank for Housing
Period	2005-2014	2008-2014
Value of state benefits	157.519.842 lei	608.260.016 lei
Number of savings and loan contracts	328.805	563.235
Total amount of deposits made by clients	912.957.800 lei	2.977.908.742 lei
Average value of allocated/contracted state benefit	479,06 lei	1079,94 lei
Average value of deposits /contracts	2776,59	5287,15
Rate of success (number of credit contracts opened/ closed)	3,77 %	1,53 %

Regardless of the indicators taken into consideration by the two banks, namely Raiffeisen Bank for Housing and BCR Bank for Housing, the contracting of a savings-credit product is, for many Romanians, an effective alternative to mortgage loans or real estate loans granted by commercial banks and the number of such contracts will continue to grow in the coming years.

4. CONCLUSIONS

In conclusion, housing banks can make a particular contribution to slowing down some downward trends in the economy. The savings accumulated in individual accounts can be used for building construction, modernization or for the acquisition of certain specific goods, thus stimulating consumption and investments.

The granting of the state benefit represents an effective solution to support the construction and modernization of buildings and indirectly, for the long run, it contributes to the state budget revenue through taxes and fees.

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