Restaurant owners, butchers and flats

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Nothing new under the sun

Most of the suggested instruments, however, are already present on the Czech market. For example credit insurance against insolvency due to loss of employment is a rather frequent insurance product, offered by most banks directly with mortgages. A mortgage debtor that runs into trouble can also ask for postponement or interruption of repayments for six months, sometimes even one year. As regards taxes, mortgage debtors are advantaged because they can deduct the paid interest from the tax base. The requirement to depreciate the whole flat – that is asking a bit too much. In that case, carmakers could ask the state to allow private individuals to depreciate cars and electronic producers would be keen on home theatre depreciations. There is also the mechanism of a state interest subsidy for mortgages, called for by the authors of the study, but at the time of the low interest rates, it seems to have been forgotten. Young people aged under 36 can obtain an interest subsidy for their mortgage taken for an older flat or house. The subsidy ranges between 1 and 4%, depending on the average interest on mortgages in the previous year. The client is eligible for the subsidy if the average interest exceeds 5%. It may be too low for some people, but people who do not have a mortgage may think that it is vain that the state uses their taxes to support those who buy better living.

Problems at our neighbours

And then we have the required guarantee fund. What should it serve? The study by Deloitte and Hyposervis may be inspired by Hungary and Poland. It is true that the governments of both these countries took measures to support mortgage debtors this year. The Hungarian parliament approved a guarantee for all those who lost their jobs due to the crisis. The state will guarantee their payments for 24 months and they will have to negotiate new conditions with the bank. On the other hand, the Polish government will provide a non-interest bearing loan to those who lost their jobs, to cover 24 instalments (translated to CZK 3,000 to 7,500 a month). After two years, they will have to start repaying. The problems of the Poles and Hungarians are, however, caused not only by the rapid growth of unemployment in both countries, but also by the fact that they took credits in Euros and Swiss francs. Some time ago, this was an advantageous solution than using their local currencies. Now, when the zloty and the forint are going down, mortgages are getting more expensive. Well, if someone risks to make a profit, he should also bear the consequences. But let our neighbours solve this.

Czech market is healthy

As far as the Czech Republic is concerned, nothing here implies that mortgage debtors would display a mass inability to repay their loans. The answers of banks providing mortgages clearly show that there is no principal deterioration of their credit portfolios. (Even though, of course, the share of classified loans may be higher this year, also because the increment of new credit will be lower than in the past.) The banks claim that they did not underestimate the risks and braced themselves for the potential impact of the economic recession. And they do not expect any large problems. There is not reason to distrust them. Since mid-2008, they have been more cautious, paying more attention to the verification of their clients' financial standing and to the valuation of pledges. They significantly reduced the volume of mortgages provided for 100% and more percent of the estimate value and create an "interest cushion". And it is hefty – just realize that since last autumn, the basic interest rate on the interbank market has declined from 3.5 to 1.75% and, during that same period, the average interest rates on the newly provided mortgages still ranged between 5.6 and 5.8% (see Hypoindex).

It seems that the suggestions made by the authors of the Deloitte and Hyposervis study are not really aimed at “activating” the real estate market which, as the authors claim, is not unhealthy, compared to the US, United Kingdom, Hungary or Spain. It rather looks like a campaign to support property developers, who have or will have huge problems in the coming months. But is this a reason for the state to take pains to activate the sales of flats? Will it not be better if the market itself finds equilibrium between supply and effective demand? The sooner this occurs, the sooner people will start buying and selling.

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