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Housing Uncertainty: Socio-economic Inequality and Forex Loans Trajectories in the Bosnian Housing Market

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Abstract: *This article explores the nexus between the financialisation of housing and socio-economic inequality in Bosnia and Herzegovina (BiH). In this context, since the post-war economic reforms, driven by deindustrialisation, the precarisation of labour, and dependent financialisation, housing loans have become a 'privilege' for a restricted group of people with high and stable incomes. Instead, the housing aspirations of Bosnians are generally met with the aid of consumer loans and the ostensibly cheaper FX loans that were introduced in the mid-2000s. Drawing on quantitative and qualitative data, this paper highlights the enduring features of the polarised credit market in BiH. It particularly focuses on the period after the 2008 crisis when lending policies were only mildly re-regulated. FX loans never became the object of an ad hoc law to convert them to Bosnian convertible marks. This institutional approach has been unable to challenge the extreme class segmentation of housing finance and is still fostering indebtedness and precarious housing conditions among the lower-income segments of Bosnian society even after the pandemic.*

Keywords: Bosnia and Herzegovina; inequalities; forex loans; general-purpose loans; homeownership.

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Introduction

It has been observed that under financialised capitalism the nexus among housing, price, wealth and inequality has become central to a process of an endless 'multiplication of margins' (Allon and Barret 2018). This is true, since financialisation implies a simultaneous increase in wealth and inequality as 'housing, which remains an absolute necessity for the "unhoused", becomes an object of marginal speculation' (Allon and Barret 2018: 119). Aalbers and Christophers similarly argued that financialised housing has come to serve as a 'principal crucible for the exacerbation of multiply-constituted social inequalities' (Aalbers and Christophers 2014: 383). In a political economy approach they considered how inequalities may also be reinforced by households' reproductive strategies and the state's redistributive policies when these tap into the wider processes of housing financialisation. Therefore, from an anthropological-relational perspective on financialisation (Mattioli 2020: 16; Kalb 2020: 2), it is useful to explore the way in which inequalities are related both to households' debt taking and to their exit strategies in specific institutional contexts.

This article will thus explore how the nexus between financialisation and inequalities has materialised in the understudied peripheral context of Bosnia and Herzegovina (BiH), a post-socialist and post-conflict country where ethno-nationalist politics, the forced movement of populations, and the privatisation of the real estate market have shaped a setting in which individual paths to owner-occupied housing tend to be complicated and uneven.

Combining qualitative and quantitative data,[1] this paper will present an analysis of the Bosnian housing credit market to shed light on its enduring and distinctive features. It will show how both credit policies and borrowers' practices were informed by the need to cope with the widespread decrease in income and purchasing power caused by the combined effect of post-war and post-socialist economic reforms. In particular, it will outline how households' socio-economic instability and inequalities intersected with the diffusion of FX loans in a scenario of dependent financialisation and the liberalisation of credit policies. The *laissez- faire* approach to regulating FX loans that persisted after the Global Financial Crisis (GFC) informed class-based strategies of exit from FX over-indebtedness, which contributed to the ongoing instability of housing conditions during and after the pandemic.

Housing and FX loans in a polarised credit market

Like other countries in Eastern and South-East Europe, BiH experienced a credit boom phase from the mid-2000s to the onset of the Global Financial Crisis (GFC) in the region in 2008. This happened during the disintegration of the existing system of financial and banking institutions (which became divided up according to the administrative fragmentation established by the Dayton Peace Agreement), the consequent deregulation of lending policy,

[1] The qualitative data analysed in this article were produced during field research carried out between October 2019 and January 2020 mainly in Sarajevo, Bosnia and Herzegovina's capital city. Data updated during and after the pandemic have been possible thanks to virtual interviews. In-depth interviews were conducted with 30 current and former CHF debtors who took out loans for housing purposes. One-third of the respondents were activists in the 'Swiss' Association of Loan Users (*Udruženje korisnika kredita "Švicarac"*, UKK). Produced data have been analysed observing the relation between emerging social inequalities in housing access with household debt taking and fx debt exit strategies.

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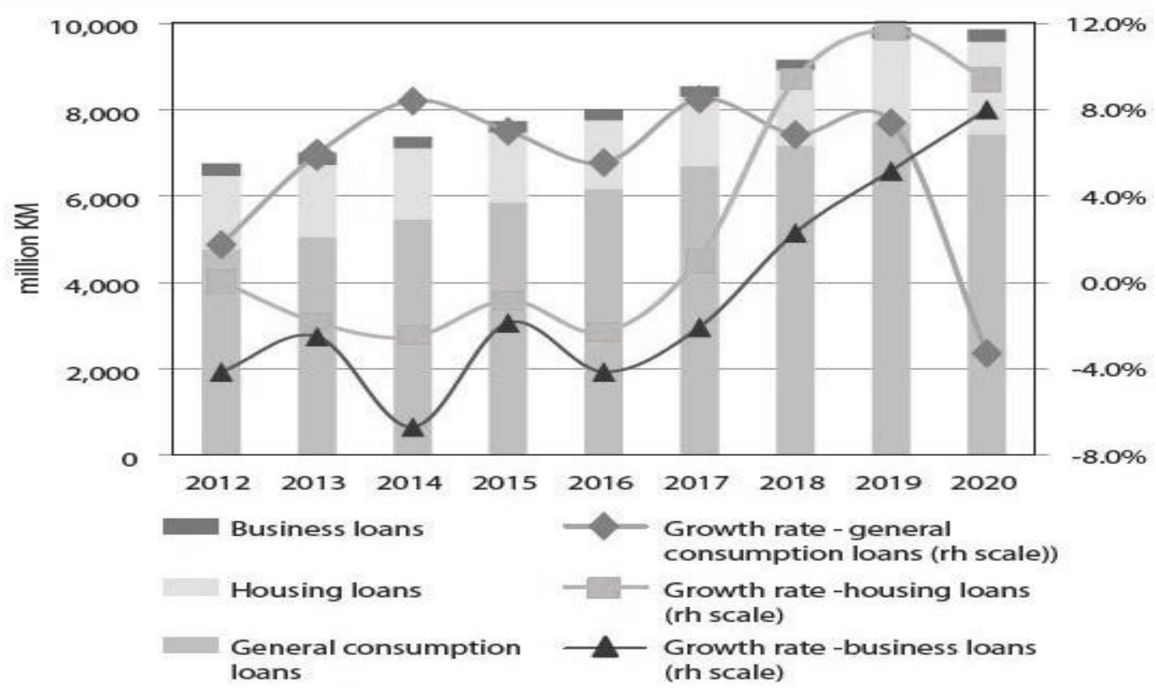
and a process of increasingly dependent financialisation, which saw foreign banks and capital come to dominate the local credit market. The reorganisation of the banking system impacted a socio-economic context that had already been affected by the structural adjustment policies that international financial institutions required as a condition for bringing the country out of the post-war emergency (Pugh 2002). These policies included the privatisation and dismantling of damaged industrial infrastructure and the extreme liberalisation of foreign direct investments and employment policies (Pepić 2018).

BiH only reattained its pre-war level of GDP per capita in 2010 (Papić 2017). Nonetheless, in 2020 BiH's GDP per capita was still 33% below the EU average and was the second lowest in South-East Europe after Albania. Its Purchasing Power Standard was 57% below the EU average (BHAS 2020). In 2008 the unemployment rate reached 31.1% (BHAS 2008), and then decreased only very slowly to reach 27.7% in 2015 and 17.6% in 2021, which was still high compared to the EU average of 6% (BHAS 2015, 2021b). In 2016, 28% of the population was living below the level of absolute poverty (Papić 2017: 4). It is worth noting that 20.4% of households with an employed household head in 2011 were poor, and this percentage had further increased by 2016. This category included many households in which the household head was self-employed or employed without a permanent full-time contract (Papić 2017: 12).

In the expansive phase of the credit cycle, compared to the immediate war aftermath, the generally more accessible loans led to an increase in indebtedness in the household sector (Becker and Ćetković 2015). As a result, the household loans to GDP ratio grew from 20.6% in 2003 to 31.5% in 2019 (CBBiH 2019: 31). Notwithstanding this, significant growth in the volume of housing loans was registered only from 2016 to 2019 (Fig. 1), when it was helped by a reduction of interest rates. Housing loans always constituted a modest percentage of the total number of loans. As the CBBiH makes clear, Bosnian citizens are often unable to meet the conditions to apply for a housing loan (CBBiH 2020: 28). In the post-war credit market, housing loans had become a 'privilege' for people with high and stable incomes employed in public institutions or foreign companies. For a housing loan application to be approved, banks require proof of salary from both the borrower and the guarantor and a down payment of up to 20% of the property's value. Housing loans also have larger monthly repayment instalments and obtaining a mortgage also entails the costs of property value assessment and other administrative costs, which are usually borne by the mortgagor.

Figure 1: BiH – household loans by purpose and credit growth



Source: CBBiH.

The credit market has instead been dominated by general-purpose loans. This category of loans grew from 2010 for nine consecutive years. General-purpose consumer loans are widely used to satisfy a range of household needs including housing. Consumer loans allow low-income homeowners in the older generations to refurbish their homes. They also make it possible for underemployed young people to renovate a flat that used to belong to parents or other relatives who have moved to the countryside or abroad. Larger consumer loans can even be used by Bosnians with middle and stable incomes to buy flats located in peripheral areas or self-build houses in rural areas. Because the amounts are adjustable and the purposes, they can be used for are more flexible, general-purpose loans have become an option for the retired, the ‘working poor’, and the new proletariat affected by the precarisation and casualisation of jobs, especially in the private sector, which is sensitive to exogenous financial shocks.

Notably, during the credit boom banks’ expansive and predatory lending policies allowed potential low-income borrowers to obtain credit and/or to obtain a higher loan amount if they could present a guarantor or co-debtor with a stable income (Lofranco 2021). Banks also generally allowed borrowers to set the parameters of the loan that would enable them to have the lowest possible monthly instalments, which was a crucial variable for low-income households. For this reason, the post-war Bosnian credit market has been dominated so far by long-term consumer loans (Fig. 2), which, particularly during the credit boom, were also accompanied by variable-interest rates and currency (forex) clauses.

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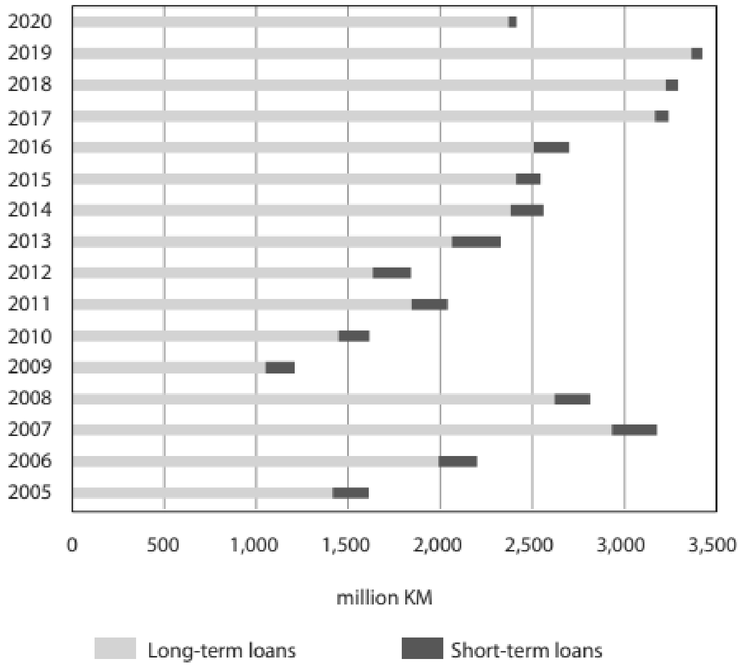
Figure 2: BiH – the maturities of newly approved household loans



Source: CBBiH.

Introduced in the mid-2000s, euro loans accounted for the majority of forex loans and, except in 2019, the majority of total household (both housing and consumer) loans in BiH, while a smaller percentage were CHF loans issued by a single foreign bank (Fig. 3). The latter were mostly advertised as 'affordable' housing loans, but they were also taken out in small and medium amounts as consumer loans. In the highly unstable post-war context, FX loans became the dominant form of borrowing for a broad range of socio-economic categories owing to narratives about the stability of foreign currencies compared to the convertible mark - even if these narratives tended to favour the creditors more than the borrowers. They were also apparently cheaper, as reflected in the lower interest rates and monthly instalments before the GFC.

The experience of Alma and Nijaz, a young couple in their thirties with two five-year-old children, is representative of how several households in BiH were transformed into FX debtors (first in CHF and then in euro). In 2019, when I spoke with them, Alma was working for a foreign company in the real estate sector and Nijaz had recently found a well-paid job as a travel agent for a foreign airline company. He had a fixed-term contract in a local travel agency when he bought their flat in 2007, using a loan indexed to the Swiss franc (CHF) and presenting as guarantors both his spouse and his mother, who worked for a public institution. He told me that he was luckily able to find a stable public-sector job at the city airport when his monthly loan instalments soared in 2009 in response to CHF appreciation. After trying to use the legal support offered by UKK, he decided to take advantage of a special loan that a foreign bank was offering to airport employees. Following the advice of a bank clerk who claimed that the Bosnian currency board would guarantee a stable exchange rate between the euro and the convertible mark (KM), he took out a new euro loan to repay the CHF housing loan.

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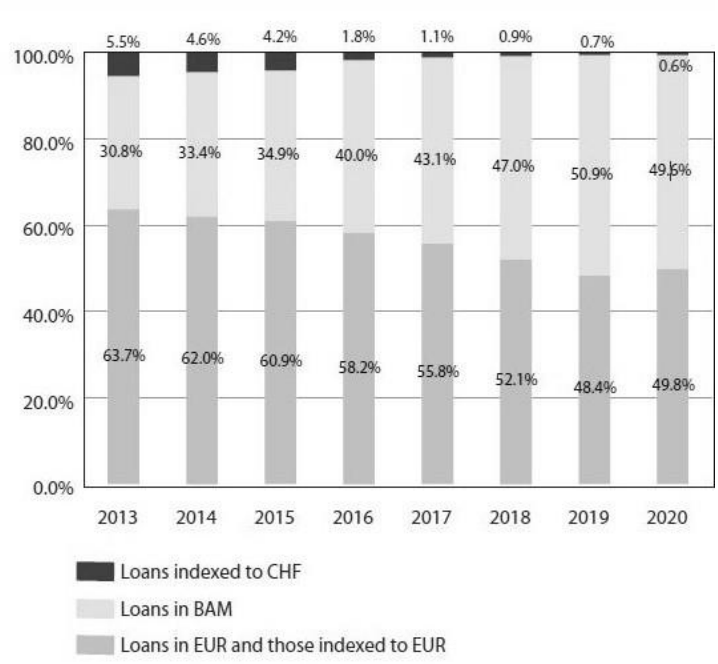
Figure 3: BiH – currency structure of household loans



Source: CBBiH.

As this story shows, the enhancement of short-term benefits (prioritised over the avoidance of long-term risks) was particularly effective in making FX loans popular among Bosnian households. Like in other countries of the region, CHF loans, sold in BiH from 2006 until 2015, were presented by banks as ideal for helping even low-income households fulfil their homeownership aspirations (Bohle 2018; Rodik, Žitko 2015). These households were seemingly given a way of bypassing the class and intergenerational divide in the housing credit market. As emerged from my ethnographic data, this narrative had the effect of promoting CHF over-indebtedness among young individuals or couples with precarious employment contracts, but also among older low-income parents who wanted to provide a home for their children and improve their social status.

In BiH the diffusion of FX and particularly of CHF loans among these categories of households is the result of the significant inequality in access to housing, and particularly homeownership, that exists between the former socialist working and middle classes which benefited the post-socialist privatisation of housing and the new generations (Lofranco 2012). After the Bosnian War (1992–95), property restitutions to internally displaced persons and refugees were followed by the near-total privatisation of the housing stock, which resulted in a high percentage of homeownership in the older generations, who, on the basis of a certificate of employment, were able to claim private ownership of the social property flats they occupied before the war (Lofranco 2012).

By contrast, for the younger generations, which cannot benefit from property restitution, social housing policies are highly insufficient and vary between the administrative units into which the country is divided. In the Sarajevo Canton, the richest region in all of BiH, the housing subsidy for people aged 38 and less in 2021 was only 10,000 KM (€5,000), while the average price per square metre of an apartment was 2,843 KM (€ 1,421) (ISFBiH 2021) and the average

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wage was 1.042 KM (€500) (BHAS 2021a). Therefore, Forex loans helped to establish a generational contract shaped around private (intra-family) transfers in a context marked by the financialisation of housing, which disadvantages younger generations who have been affected by the rising price to wage ratio in recent decades (Ronald 2018:20). For example, Nemanja, a retired man his sixties, took a CHF housing loan to buy a flat for his daughter, who wanted to study and live in Banja Luka, while Adila, a 50-year-old middle-income woman employed in a public institution, used a CHF consumer loan to build a small house for herself on the outskirts of Sarajevo so that she could leave her flat in the city centre to her son and his partner. In all these cases, however, the intergenerational contract was particularly risky, as it was founded on peripheral debt.

'Mild' re-regulation and class-based exit strategies from FX debt after the GFC

The onset of the GFC revealed the consequences that the above-described pattern of peripheral financialisation had for the social reproduction of Bosnian households. The exchange rate with the Swiss franc soared and even holders of euro loans had to cope with rising interest rates and credit restrictions due to the deleveraging strategies of the Western European banks that controlled the domestic banking sector (CBBiH 2009). These dynamics generated an unsustainable debt burden and a risk of default for indebted households and their guarantors, who were treated by financial institutions as a quick source of liquidity in a deregulated credit market. Data from CBBIH indicate that in 2010 the number of guarantors who were repaying someone else's debt began to increase steadily. In 2010 it was 21.5%, higher than the previous year, while the amount guarantors repaid increased by 98.6% (CBBiH 2010:29). Indeed, apart from the UKK, the Bosnian anti-debt movement coalesced mainly around the Association of Guarantors. Unlike in neighbouring countries (Dolenec, Kralj and Balković 2021), in BiH the prevalence of general-purpose loans instead of mortgages meant there was limited scope for foreclosures and mass evictions. Nevertheless, many debtors and guarantors in BiH faced the risk or reality of being forced to sell their home to repay their own or somebody else's debt. This was the case of Nemanja, who was forced to sell the flat he had bought for her daughter, while Adila admitted that she considered selling her newly built house because the bank was putting pressure on her guarantors.

The years following the GFC saw the introduction of measures to mitigate the effects of the deregulation and extreme liberalisation of credit policies. The Central Credit Registry was introduced under the management of the CBBiH to help prevent over-indebtedness. In 2012, the Bill to Protect Guarantors was introduced into the Parliament of the Federation of BiH by the Bosniak centre-right party Union for a Better Future of BiH. In 2013, it formally received support from the ethnonationalist majority parties, which, however, voted against extending 'protection' to the guarantors of loans that had already been signed. As a result, the guarantor issue would continue to impact a significant number of Bosnian households for a long time, as publicly admitted by the CBBiH in 2015 (CBBiH 2015:31). As regards FX loans, there was a sharp decrease in CHF loans after they were prohibited in 2015, among to just 0.6% of total loans in 2020. However, notwithstanding the efforts of the UKK, and unlike in Croatia, Hungary, and Serbia, in BiH a law on the conversion of CHF loans into the KM has never been adopted.

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As regards household debt and FX debt in particular, BiH institutions adopted a *laissez faire* policy that left debt restructuring or refinancing as the only exit strategy for debtors, which often entails longer and deeper indebtedness than was previously the case. This was particularly true for CHF debtors, like Nijaz, who refinanced their CHF loans with new euro loans when the CHF exchange rate was still high, so that the amount of the new loan was higher than the original CHF loan. In the post-crisis years, credit refinancing drove a steady increase in the number and volume of new long-term loans (Fig. 2). This secured lower monthly instalments for borrowers, but at the same time resulted in higher interest being paid and higher rates of profit for banks. Debt refinancing has often been encouraged by financial institutions, though it has not been available to everybody. As my ethnographic data demonstrate, in their search for deposits, banks generally welcomed clients with a stable income regardless of its amount. Debtors with precarious jobs whom I spoke with were unlikely to be offered larger loans to repay their outstanding debts. They were instead pushed to accept multiple jobs, often in the informal sector, or to borrow from microcredit agencies and even from loan sharks to avoid default.

Furthermore, a remarkable difference among individual FX debtors is the varying degree to which they are likely to resort to solutions such as taking the bank to court to seek justice for themselves and obtain public acknowledgment of their consumer rights. As Nijaz's story demonstrates, faced with the real risk of being forced to sell their home to repay their debt, my interlocutors with low but stable income tended to opt for the quicker individual solutions of credit refinancing and reprogramming that ultimately reinforced the banks' extractive strategies.

On the part of foreign banks, the new regulation and multiplication of non-performing FX loans led them to adopt new extractive strategies based on lending in convertible marks. This included a wider use of loan insurance policies instead of guarantors for general-purpose loans with higher principals and some new credit products being branded as 'housing loans without a mortgage'. The post-GFC period saw the remarkable expansion of the microcredit sector, to which the lower echelons of the socio-economic scale in BiH have been resorting since the late 1990s in order to bypass the problem of banks denying them credit (CBBiH 2007: 53). After the GFC, better regulation and re-capitalisation of the sector by foreign promotional and commercial banks multiplied the number of active for-profit and non-profit microcredit organisations. By the end of 2019 the total assets of the microcredit sector had increased by 11.67% from 2018, while microcredit loans recorded an increase of KM 94.4 million, or 13.29%, of which the 16.3% were housing loans (CBBiH 2019:59). The sector's total revenues continued to grow thanks to the extremely high average interest rate of 23% in the two constituent entities of BiH (The Republic of Srpska and the Federation of BiH) (CBBiH 2019:60).

Conclusion: stretching indebtedness and housing uncertainty beyond the pandemic

The post-socialist and post-war reforms in BiH led to a widespread decrease in household incomes and purchasing power. In this context, housing needs came to be satisfied in a segmented and class-based credit market dominated by general consumption loans more accessible to the numerous middle- and low-income Bosnian households. FX loans were used

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to make debt-based homeownership more accessible for some of them and to bypass class and intergenerational divides in access to homeownership and housing.

The post-GFC regulation was insufficient to transform the main structural features of this credit market, and this created the conditions for protracted indebtedness and housing uncertainty for many. With refinancing left as the only possible exit strategy from FX debt, this allowed financial institutions to stretch debt repayment over a longer period and thereby extend its reach into households' social reproduction and intergenerational chains of solidarity.

The pandemic has been a period of further uncertainty. The year 2020 was even marked by an unprecedented decrease in the volume of new consumer loans (see Fig.1) and newly approved loans in general (Fig.2), with the only exception being loans approved for a period longer than ten years (CBBiH 2020:30). The loss of confidence in the domestic economic environment even led to a 4.1% increase in euro loans and a parallel 1.6% decrease in KM loans (CCBiH 2020:29). Despite the post-crisis introduction of lending strategies in local currency, euro loans continue to be sold on the basis of the stability of the euro-KM exchange rate and still have a major presence on the BiH credit market (Fig. 3).

In a small and dependent economy like the Bosnian one, households are again experiencing a crisis in the real estate sector and problems of unemployment and unsustainable debt burdens. Nijaz, for example, lost his job with the airline company, which was adversely affected by travel restrictions, and he is facing problems servicing his thirty-five-year mortgage. He is now taking advantage of measures that BiH constituent entities adopted to stabilise and support the economy, such as putting an end to charging of default interest on late payments. However, these temporary measures only have the effect of postponing the risk of over-indebtedness and prolonging housing insecurity into the post-pandemic period.

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