Rise in value of Swiss franc threatens workers in Eastern Europe with ruin

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16 February 2015

The sharp rise in the value of the Swiss franc against the euro is driving thousands of people in Eastern Europe into ruin.

In mid-January, the Swiss National Bank announced without warning that it would no longer continue to maintain the exchange rate of the franc below 1.20 francs to the euro. As a result, the franc increased in value rapidly. For a time, it was worth more than the euro. Currently, a euro is worth just 1.06 francs.

The sharp rise in the franc has been accompanied by a corresponding rise in the debt burden of hundreds of thousands of people throughout Eastern Europe. Prior to the 2008 financial crisis, loans denominated in Swiss francs were common in these countries. In Poland, around 550,000 mortgages are denominated in Swiss francs. The repayments rose by 15 percent overnight due to the exchange rate rise. Some 150,000 loans are affected in Romania, 60,000 in Croatia and and 22,000 in Serbia. The Swiss National Bank estimates that loans totalling 220 billion francs are currently outstanding in Eastern Europe.

The banks made loans in francs at interest rates far lower than was available in each of the local currencies, while deliberately concealing the exchange rate risk. This is shown by figures from Austria, where loans in francs comprised roughly a third of all private loans prior to 2008. After a warning and a ban from the country's financial supervisor, the number of loans in francs was cut in half.

Many are exposed even if they obtained insurance against currency rises. In order to be protected against severe losses, debtors established so-called stop-loss limits—i.e., if the exchange rate fell below 1.20 to the euro, the loan would automatically be transferred into euros. But the exchange rate change occurred so quickly that the banks could not react fast enough, or did not want to. Many loans were only switched when the exchange rate was 1 franc to the euro. This dubious practice has been covered up by the state.

Many of those affected face disaster. *Deutsche Welle* related the situation of Marko Vasic, who bought a small apartment in the Serbian capital, Belgrade, in 2008 with the help of a loan denominated in Swiss francs. He was able to manage the monthly repayment rate of €350. But now Vasic has to pay €560 per month. "We customers are not gamblers, and despite that we are being buried alive. I don't know any more if I should be angry at the banks or the state. That's why I'm mad at them both," said the electronics technician from Belgrade.

Euronews reported on the situation of a married couple who purchased a three-room apartment in the Romanian capital Bucharest with a loan denominated in francs. Now, with a monthly income of 1,000 lei, they have to pay a monthly rate of 3,700 lei (roughly €830).

The website swissinfo.ch related the story of Agnieszka Gagala, who took on a loan in Swiss francs in Poland in 2009. At that time, her debt amounted to 260,000 zloty (64,000 Swiss francs). After the Swiss National Bank's decision, she now has to repay 500,000 zloty. The monthly repayment rate for the 32-year-old now stands at 2,000 zloty, leaving her with 600 zloty to live. "I cannot explain how disturbed and angry I am," she complained. "Many people who decided to take on loans in Swiss francs were not aware of the risks, and it wasn't explained to them. No one can expect customers to have the same knowledge as economists."

Robery Grausam-Onyszkiewicz from Krakow told TVN24 that for a loan worth 150,000 zloty that he had taken out in 2008, he must now repay 500,000 zloty. His health had been severely affected due to the pressure he is under.

Municipalities have also been hit hard by an explosion in debt. The debt of the Austrian capital Vienna rose overnight by €300 million. Last month, the city's total debt surpassed €5 billion. Other Austrian cities, among them Salzburg and Linz, are similarly affected.

Municipalities in Germany are also affected by the "new plague," as the *Süddeutsche Zeitung* termed the rapid exchange rate shift. Due to low interest rates, many German municipalities have kept their debts in Swiss francs. In North Rhein-Westphalia alone, according to figures from the interior ministry, 26 municipalities took on loans in foreign currency with a total value of €1.9 billion.

It goes without saying that the additional debt will be used to insist on deeper cuts to public budgets. Social infrastructure, which in many areas is already in an extremely bad state, will deteriorate further. Swimming pools, libraries, youth centres and other social institutions will have to deal with cuts or be forced to close down.

Problems first emerged with foreign currency loans following the 2008 crisis. Such loans had been granted by the banks on a massive scale in the 1990s and early 2000s, bringing in huge profits. In Hungary in 2009, 97 percent of the awarded property loans were in Swiss francs.

While the governments at the time cooperated closely with the banks and fostered the conditions for these loans, they are now leaving individuals holding the loans to fend for themselves.

In Croatia, where parliamentary elections are set to follow the presidential election this year, the government has fixed the exchange rate of the kuna to the franc. The exchange rate difference will have to be borne by the banks. A similar approach is being discussed in Poland, where elections are also due, and in Romania. In Hungary, the Fidesz government limited individuals' losses to some extent three years ago by adopting a similar measure. In the process they drew sharp criticism from the finance markets and the European Union's institutions.

In Croatia, approximately 75,000 households took on loans in Swiss francs. According to analysts, the currency peg could cost the government 30 percent of its foreign currency reserves. There is a high risk that exports to Germany, France and Italy will become too expensive and fall sharply. But in the face of economic and social instability, the deeply discredited government in Zagreb feared unrest.

Swissinfo stated, "While the shock of the increased value of the franc probably won't 'threaten' the bankruptcy of the countries or banks… the actual risk for instability for some of the countries is social unrest. Poland and Romania witnessed demonstrations at which the governments were called upon to help the people."