



***How Does a Country
Without a Capital Markets
Implement a Successful
Pension Reform***
The Case of KOSOVO
sidebar: Hungary

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Pension Reform in the Region

- Early reformers - Hungary, Poland, Kazakhstan, Kosovo, and Ukraine
- Hungary and Poland scaled back the existing PAYG (Pillar 1) pension systems and introduced modest fully-funded individual accounts (Pillar 2) to complement the PAYG tier
- Kazakhstan (1998) and Kosovo (2002) introduced larger funded mandatory pensions with a smaller PAYG scheme in a 3 pillar reformed pension system
- Ukraine has adopted reform legislation similar to the reforms in Hungary and Poland with VPFs only currently



Characteristics of the Kosovo Mandatory Pension Scheme

- Kosovo Pension Savings Trust (KPST) - a second pillar pension scheme
- Employer and employee contributions only
- 5% of payroll for each EE and ER
- Benefits = lifetime contributions plus the performance of the financial market
- No government-guaranteed benefit, no government obligation either to contribute to the system or to guarantee any particular level of benefits to retirees
- Risk is with the workers

KPST

- Regulated by the Central Bank
- Managed by a seven member Board, four of whom must have a minimum of 10 years professional experience in finance, economic, or pension studies
- Can invest in 5 classes of international instruments and 4 classes of domestic instruments
- No borrowing allowed
- Initially only certificates of deposit existed in Kosovo

Kosovo's Permissible Domestic Investments

- Limited to bank accounts and deposits with banks licensed by the Central Bank of Kosovo
- Securities of the Kosovo Government
- Corporate securities registered with the securities regulator of Kosovo and listed on a licensed exchange
- Mutual and investment funds regulated by a competent authority in Kosovo

Kosovo's Permissible International Investments

- Bank accounts and deposits in banks regulated by a banking authority in an OECD country
- Securities issued by OECD governments
- Securities issued by local governments of OECD countries if guaranteed by national government
- Securities registered with an OECD securities market regulator and which are listed on a stock exchange regulated by an OECD securities market regulator
- Mutual and investment funds established in OECD countries

OECD Countries' Long-term

Sovereign Standard & Poor's Credit Rating

Country	Rating	Country	Rating
Australia	AAA	Italy	A+
Austria	AAA	Japan	AA-
Belgium	AA+	Korea	
Canada	AAA	Luxembourg	AAA
Chile	A+	Mexico	BBB
Czech Republic	A	Netherlands	AAA
Denmark		New Zealand	AA+
Estonia	A-	Norway	
Finland	AAA	Poland	A-
France	AAA	Portugal	BBB
Germany	AAA	Slovak Republic	
Greece	B	Slovenia	AA
Hungary	BBB-	Spain	AA+
Iceland	BBB-	Sweden	AAA
Ireland	AA	Switzerland	AAA
Israel	A	Turkey	BB
		United Kingdom	AAA
		USA	AAA

Source: Wikipedia



Early Stages of KPST

- From start (August 2002) until March 2003, assets deposited only in Central Bank
- March 2003 **two passive investment managers** chosen through tender – ABN-AMRO (for Euro money market index funds), and Vanguard (for international stock and bond index funds)
- End of 2004, about €85 million under management; targeted allocation: 70% money market / 30% stocks index

2006

- KPST assets **€213 million**
- Centralized administrative fees less than 1% of the AUM
- 62.22% in stock mutual funds
- 35.76% in bonds
- 2.02% with the Central Bank
- 55% of assets with Vanguard's Global Stock Index Fund,
- 20% with ECM's Diversified European Credit Fund and European Credit Luxemburg Fund,
- 20% with Schroders' International Selection Fund
- 5% with ABN AMRO's Interest Growth Fund
- €1.198 unit share price, up from € 1.109 in 2005

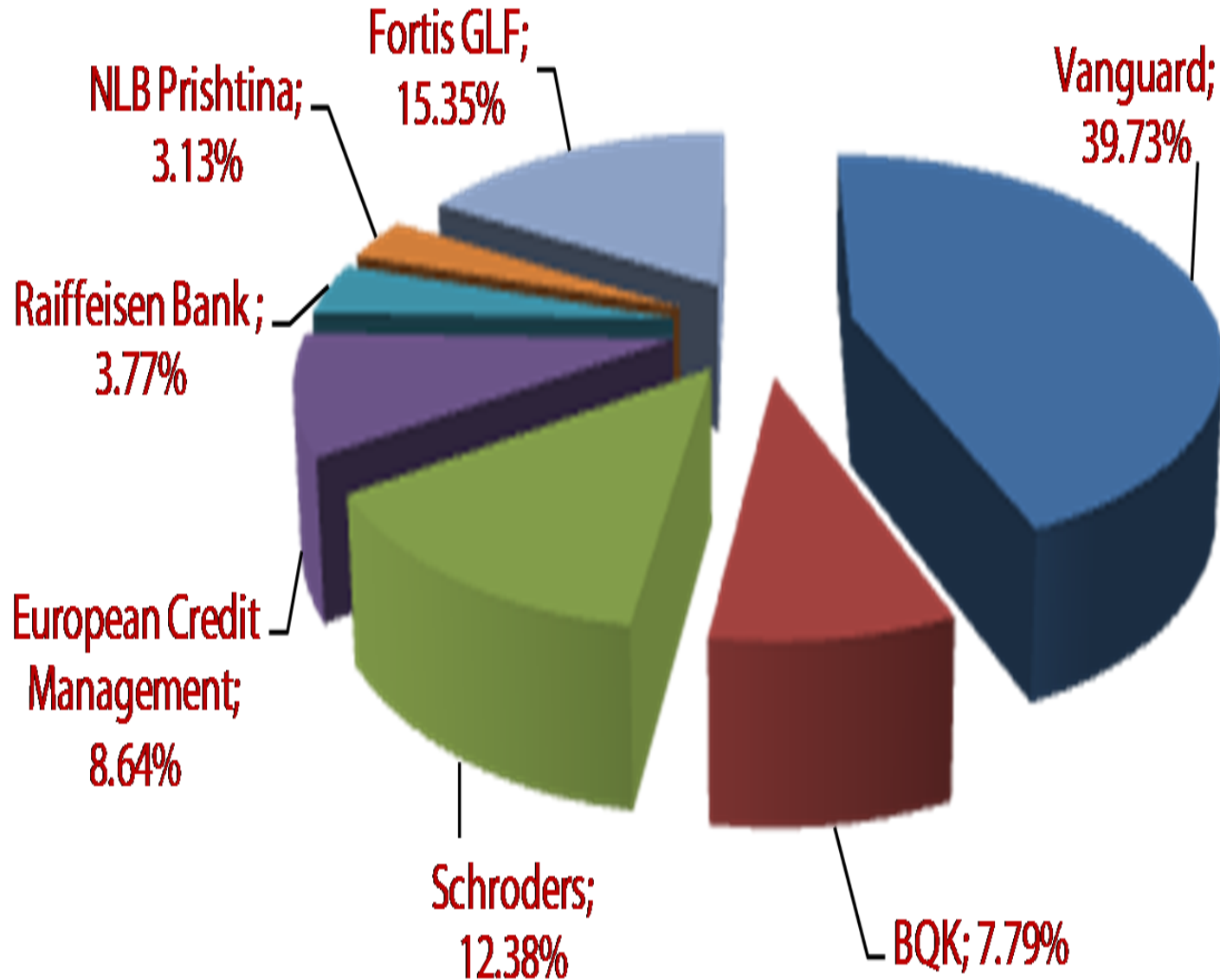
2009

- At end-2008, 7.1% invested in certificates of deposit at Kosovar banks, balance of portfolio invested abroad
- KPST had 286,908 contributors
- Assets under management = **€361.2 million**
- The global financial crisis hit the assets of KPST hard
- The share price fell from € 1.22 to a low of € 0.86, a decline of 29.4% in 2008
- November 2009, the share price rebounded to **€0.96**

Asset Allocation as of February 2011

Institution	Asset Class	Assets	Percentage
Vanguard	Equities	€ 203,659,162.84	39.40%
AXA GILB	Inflation Linked Bonds	€ 75,967,255.97	14.70%
Fortis GLF	Money Markets	€ 63,108,068.54	12.21%
Schroders	Bonds	€ 61,214,584.12	11.84%
European Credit Management	Credit Markets	€ 43,850,394.48	8.48%
Aquila	Diversified	€ 30,176,146.17	5.84%
Raiffeisen Bank	Certificates of Deposit	€ 18,495,990.16	3.58%
NLB Prishtina	Certificates of Deposite	€ 15,391,065.49	2.98%
CBK	Not invested	€ 5,066,600.50	0.98%

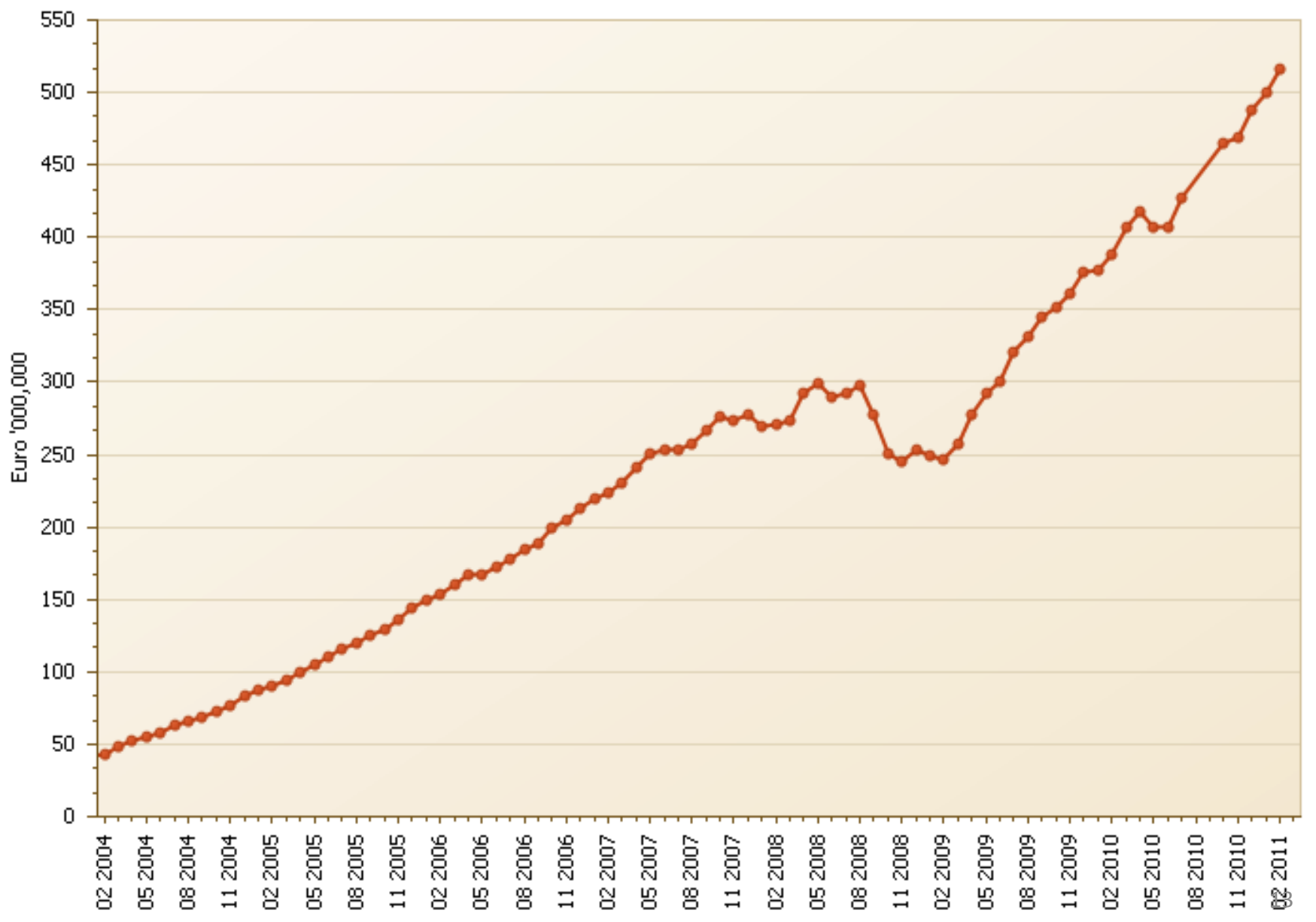
KPST Assets 2010





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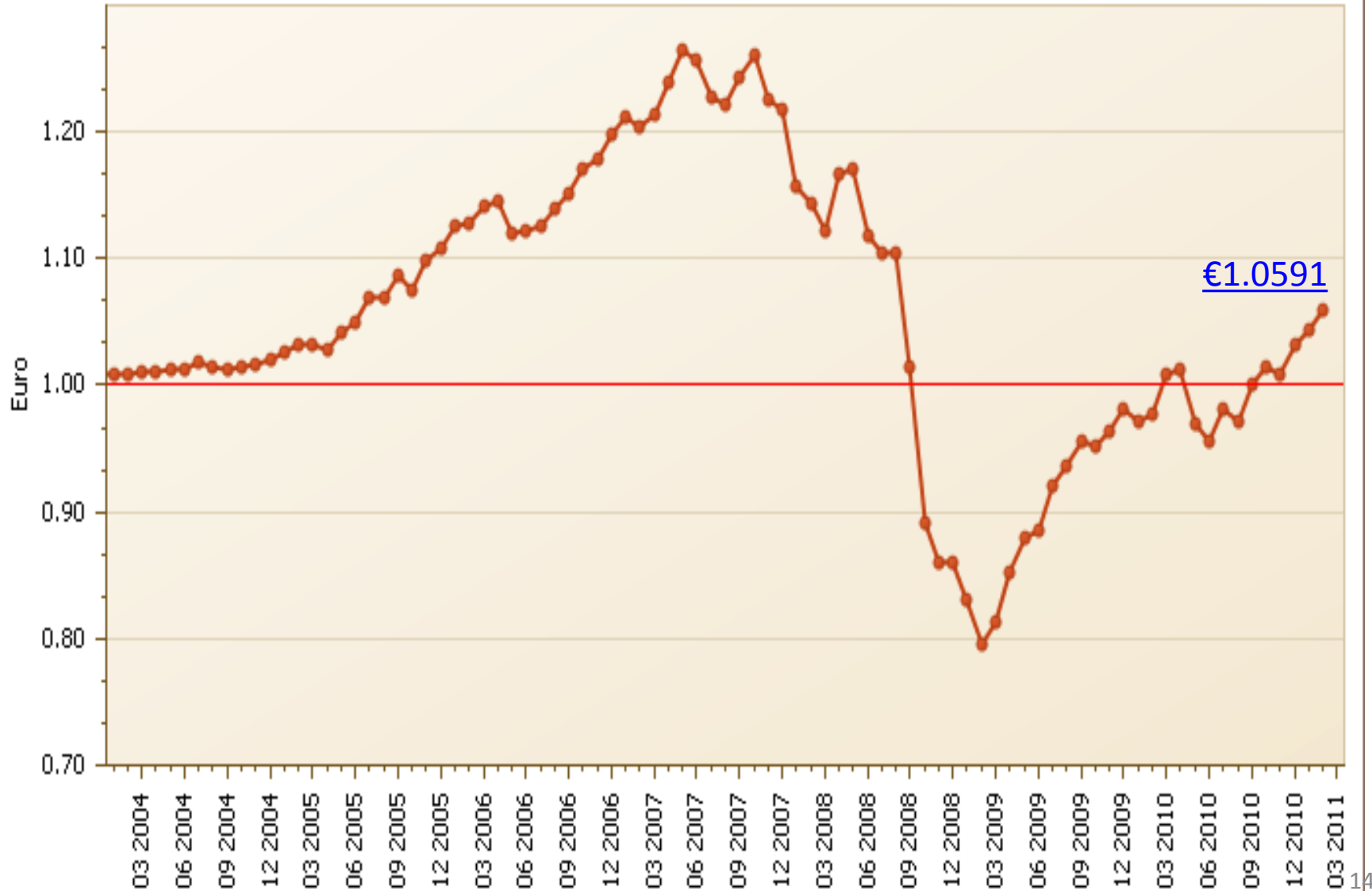
KPST Assets Under Management Since Inception





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KPST Share Price Since Inception

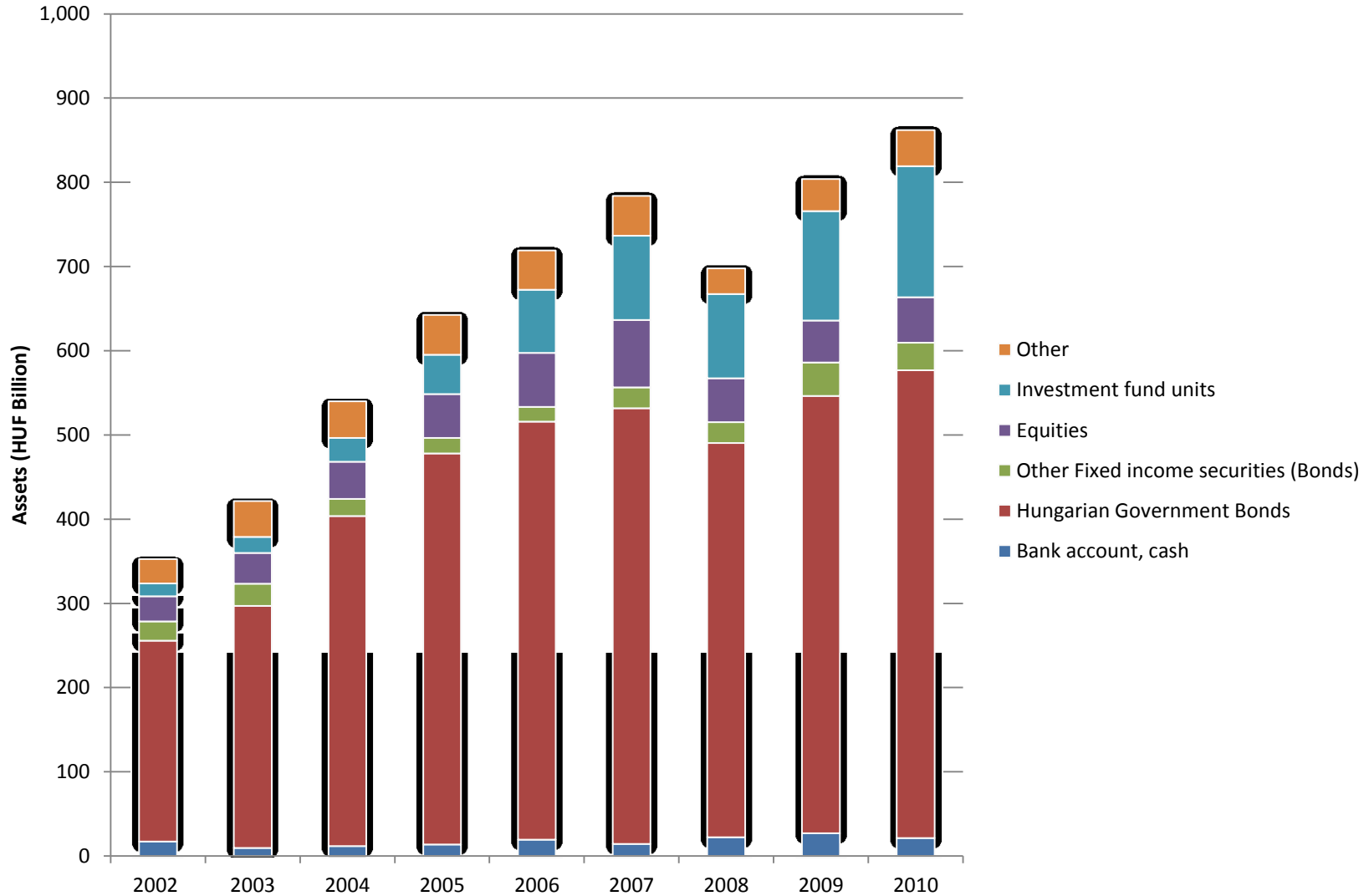




Investment Portfolio of the **Hungarian Pension Funds**

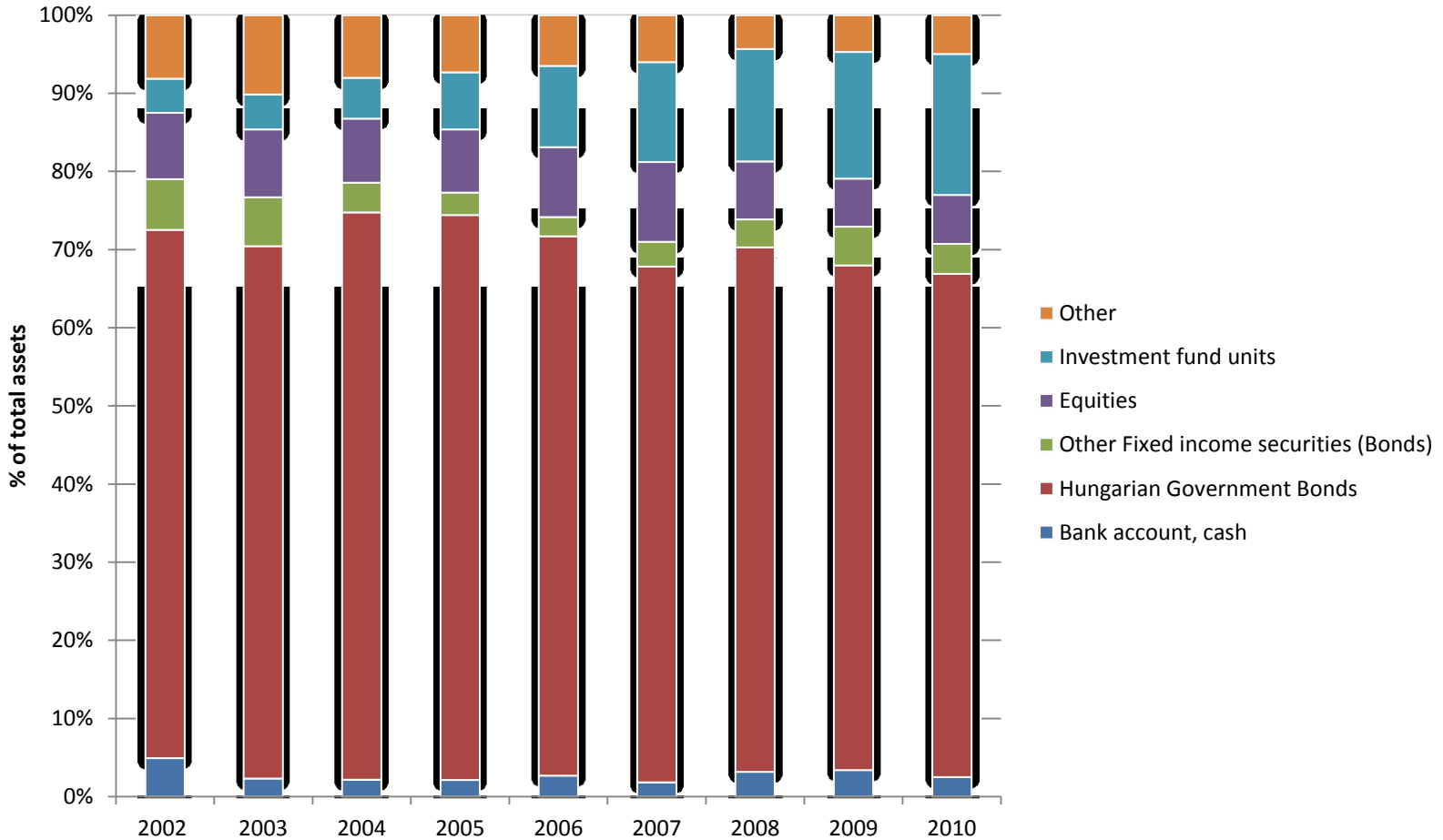
2002 - 2010

Voluntary PFs, in HUF billions



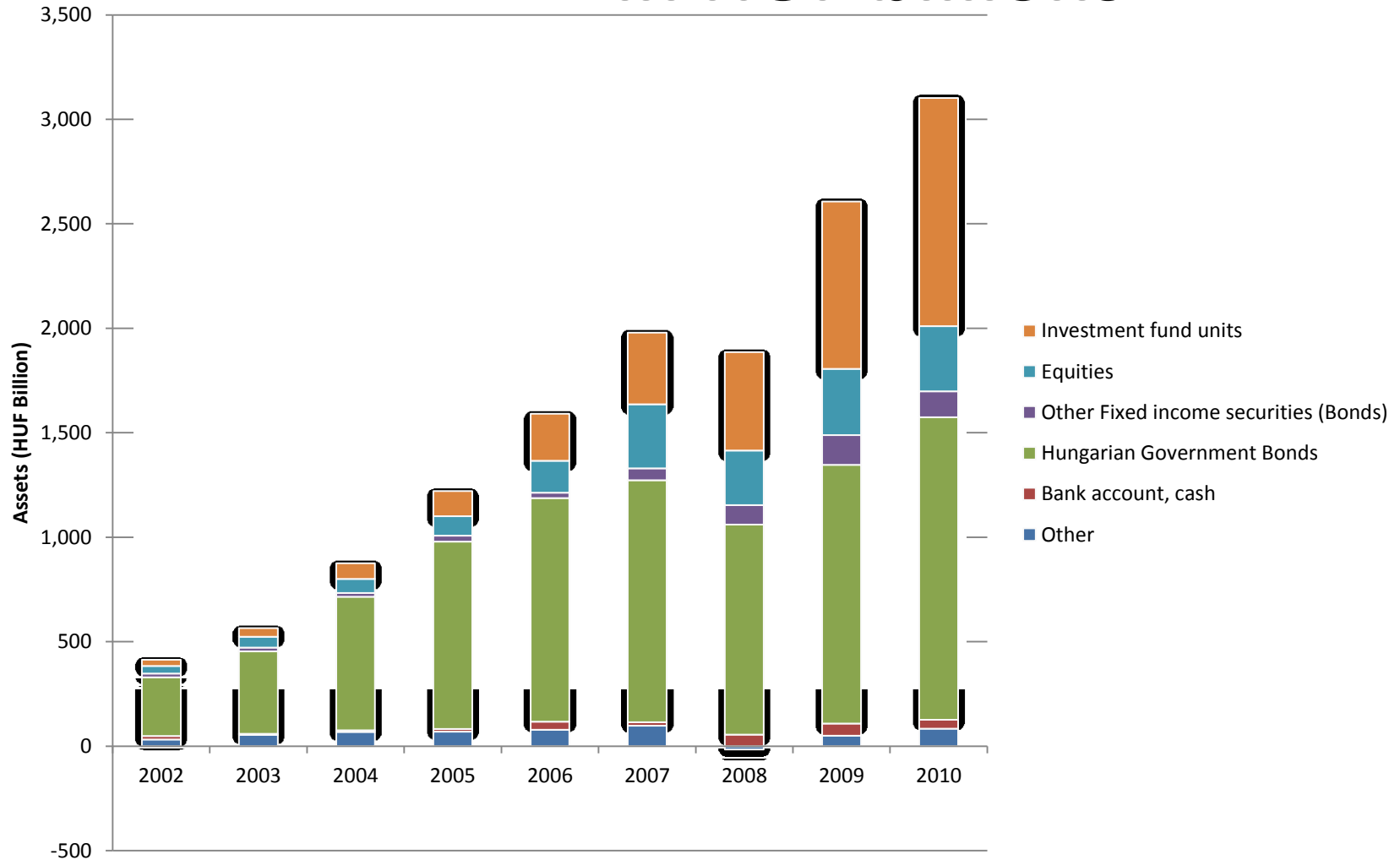


Voluntary PFs, in % of total assets

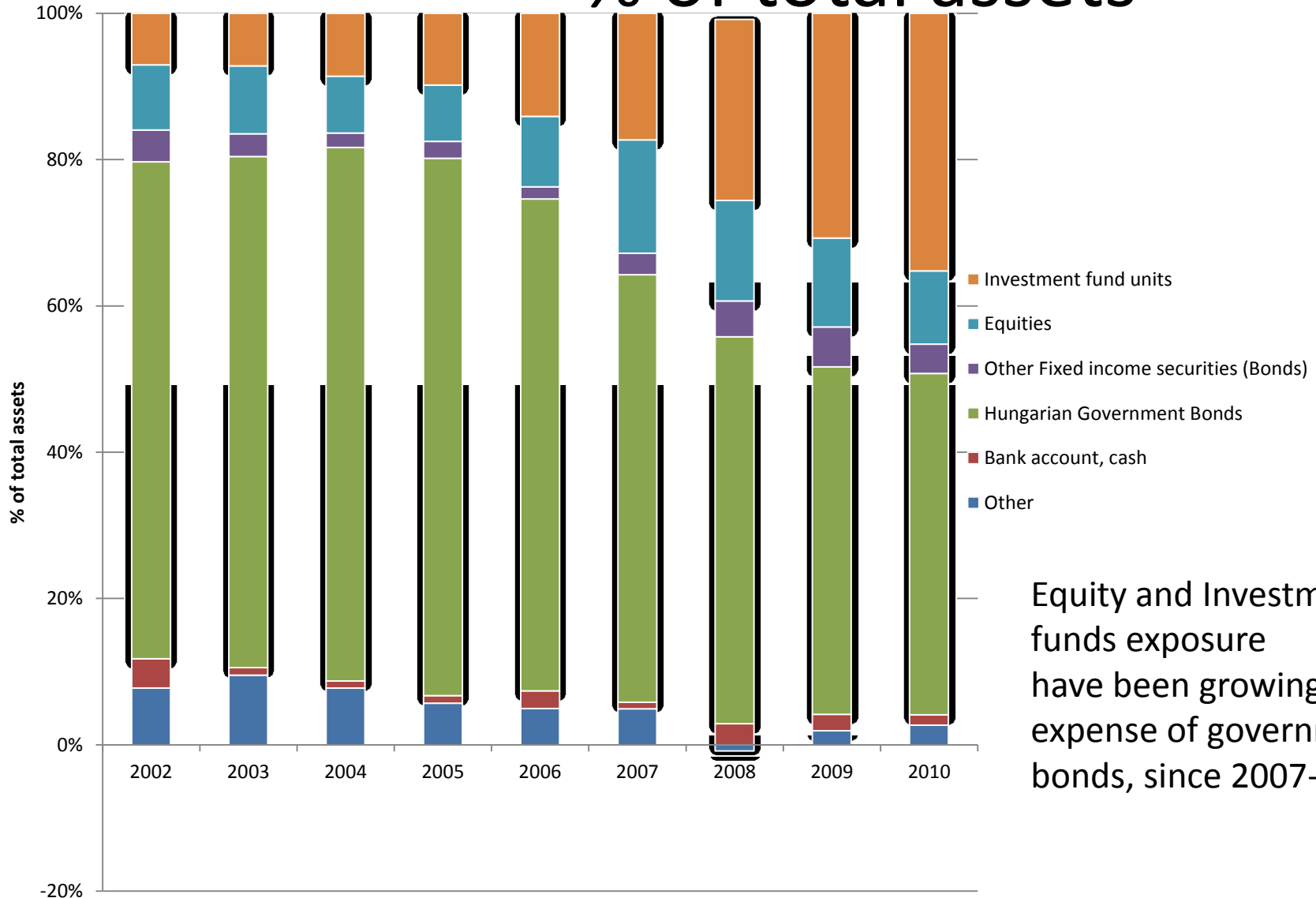


Equity exposure has been growing at the expense of Government Bonds, mainly since 2006/7

Mandatory PFs (1998) in HUF billions



Mandatory PFs, % of total assets



Equity and Investment funds exposure have been growing at the expense of government bonds, since 2007-8.

Hungary's MPF Investments

