

Poland

By Agnieszka Nierodka, Polish Mortgage Credit Foundation

Macroeconomic Overview

According to the preliminary estimates, the increase in real gross domestic product (GDP) in 2013 was 1.6% (in comparison with 2.0% growth in the previous year). GDP growth resulted mainly from the positive impact of net exports and total consumption expenditure with almost a neutral impact of gross fixed capital formation. In terms of activity by sector, the fastest development was recorded in the industrial sector (added value growth of 2.9%).

According to these estimations, Polish GDP growth should recover to 2.5-2.8% in 2014. The unemployment rate in Poland (BAEL) amounted to 10.3% (as compared to 10.1% in 2012).

The annual average consumer price rose in 2013 by 0.8%, y-o-y. Inflation in Poland followed a strong downward trend in 2013: CPI in Q1 2013 was 1.3%, and 0.7% at the end of 2013. In December 2013, core inflation net of administered prices amounted to 0.3%, core inflation net of most volatile prices: 1.4%, core inflation net of food and energy prices: 1.0% (all y-o-y).

In 2013, Poland's budget revenues amounted to 279.2 billion PLN (decrease of 2.9% y-o-y in nominal terms), and expenditures amounted to 321.3 billion PLN (growth of 1.1%). The biggest input into revenues came from indirect taxes (around 62.8% of total revenues), whereas the most significant expenditure was domestic debt servicing (around 10.1% of total expenditures). General government deficit in 2013 stood at 4.3% of GDP and general government debt amounted to 57% of GDP.

Housing and Mortgage Markets

The number of building permits issued in 2013 amounted to about 138,900 units (representing a 16% decrease in comparison to 2012). Around 145,400 dwellings were completed in 2013 and about 127,400 were under construction (4.9% and 10.2% decrease y-o-y respectively). It must be noted that developers are still working on their projects started in previous years, so even if there is a slow-down in the construction industry, it will likely not result in a collapse of the market.

The number of new apartments for sale on the largest Polish housing markets decreased due to increasing housing sales. The increasing demand and decreasing surplus resulted in the inhibition of the downward trend in housing prices on the primary markets of the six largest cities. This also resulted in the stabilisation of house prices on the secondary market in those cities. However, in Warsaw, the most developed of the housing markets in Poland, from the beginning of 2013, a slight increase in the average transaction price in the primary market was observed.

At the end of 2013, there were nearly 1,820,000 residential mortgage loan contracts outstanding – nearly 177,000 new loans were granted in 2013. At the end of the year, outstanding residential debt exceeded 330 billion PLN (increase of around 5% in comparison to 2012). Around 99% of new lending in 2013 was PLN-denominated.

In 2013, the Polish Financial Supervision Authority (KNF) issued an amended version of "Recommendation S" on good practices for mortgage banking, which, inter alia, limited the granting of FX loans to individuals who receive their main salary in FX. The KNF also introduced new requirements with regards to LTV limits (at origination) for residential mortgage loans: from 100% to 85% within 3 years of the regulations taking effect (or 90% if the amount exceeding 85% is insured). As over half of the residential mortgage loans in Poland have LTVs exceeding 80%, the perspective of those restrictions encouraged some clients to take out mortgage loans in 2013, as most of the recommendations should be implemented by the 1st of January 2014.

The new Recommendation also imposed a limit on residential loans' tenure: maximum 35 years, however, banks should recommend to their clients loans a maturity of 25 years. Banks are also obliged to assess clients' ability to maintain their income throughout the entire life of the loan, particularly after the person reaches retirement age. The KNF abolished the previous universal limit of DTI (50/65% for PLN-loans and 42% for FX-loans), allowing banks to set their own DTI limits.

There were two state-subsidised schemes supporting the residential sector in 2013 – the older "Family on their own" was terminated at the end of 2012, the new one – "Flat for youth" was introduced in 2014.

A slight deterioration of the housing loan portfolio was observed in 2013 (the share of NPLs in the portfolio increased from 2.8% to 3.1%), but there are signs of a possible stabilisation of their quality in the future. In addition, the historically low interest rates (in 2013 the reference rate was lowered from 4.0% to 2.5%), significantly reduced the cost of debt servicing, which had a positive impact on the quality of the mortgage portfolio.

Mortgage Funding

Mortgage funding in Poland remains mainly deposit-based. The total value of new issuance of mortgage covered bonds in 2013 amounted to 480 million PLN. No securitisation transactions were concluded on the Polish mortgage market.

As the current legal framework for covered bonds makes them quite an expensive tool for mortgage banks, complex work on amending the Act on Covered Bonds and Mortgage Banks began in 2013. The discussion is mainly focused on: (i) insolvency of the covered bonds issuer; (ii) transfer of liabilities and (iii) tax issues. The new act should be finalised towards mid-2015.

	Poland 2012	Poland 2013	EU 28 2013
Real GDP growth (%) (1)	2.0	1.6	0.1
Unemployment Rate (LSF), annual average (%) (1)	10.1	10.3	10.8
HICP inflation (%) (1)	3.7	0.8	1.5
Outstanding Residential Loans (mn EUR) (2)	79,434	80,650	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	2,530	2,563	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	33.7	33.4	76.2*
Gross residential lending, annual growth (%) (2)	n/a	n/a	n/a
Typical mortgage rate, annual average (%) (2)	7.0	5.1	n/a
Owner occupation rate (%) (2)	82.4	83.8	70.0
Nominal house price growth (%) (2)	-5.5	1.7	n/a

* Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.