

# Poland

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## MACROECONOMIC OVERVIEW

According to the Eurostat estimates, the increase of real GDP in Poland in 2016 was 2.7% (in comparison to 3.8% in 2015), with domestic demand still being the main driver of the GDP growth. In 2016 the industrial gross value grew y-o-y by 3.5%, though it appeared to be shedding momentum vis-à-vis 2015 (+6.5%). The gross value added in the construction sector dropped by -11.9% y-o-y in comparison to an increase of 3.8% in 2015.

The annual average unemployment rate in Poland amounted in 2016 to 6.2% (as compared to 7.5% in 2015).

## INFLATION

The annual rate of harmonised index of consumer price (HICP) was still negative in 2016, mainly as a result of the decrease in the price of oil. Deflation has persisted in Poland since 2014, but in December 2016 a rebound of inflation was observed. In 2016, the year average HICP amounted to -0.2% y-o-y; in December 2016, the HICP amounted to 0.9% (y-o-y).

## PUBLIC FINANCE

In 2016 Poland's budget revenues amounted to PLN 314.7 bn (increase of nearly 9% y-o-y in nominal terms), and expenditures amounted to PLN 360.8 bn (increase of 7.1%). General government deficit in 2016 stood at -2.4% GDP (-2.6% in 2015) and general government debt amounted to 54.4% GDP (from 51.1% in 2015).

## HOUSING AND MORTGAGE MARKETS

### HOUSING MARKET

The year 2016 was another record year in terms of developer activity – both sales and supply of new dwellings were record high.

The number of building permits amounted to nearly 81,000 units (an increase of nearly 12% in comparison to 2015) and around 163,000 dwellings were completed. Nearly 174,000 dwellings were still in the construction phase. These results show that Polish construction sector is in its best shape since 2008.

It should be stressed that developer activity is focused mainly in the biggest cities, where the demand is also the strongest. Smaller towns are dominated by private construction – plots of land are cheaper there and it is easier and more attractive to build one's own house.

Another interesting observation is that the share of cash transactions was very high in 2016. According to the National Bank of Poland's (NBP) estimates, between 57 and 70% of dwelling purchases in the 7 biggest cities were financed by cash. It appears that buyers mainly withdrew their savings from banks/ financial markets and invested them in dwellings for rent.

The intense activity of the housing market did not affect price levels – which remained stable with small increases on regional markets. With an average monthly wage in the corporate sector it is possible to purchase 0.88 square metres, an increase of 0.39 square metres with respect to the record low noted in Q3 2007.

### MORTGAGE MARKETS

Around 170,000 new housing loans were granted in 2016. At the end of the year there were over 2 million residential loan contracts outstanding, with a total housing portfolio of over PLN 400 mn. Mortgage market activity in 2016 was comparable to the year before, even though a considerable number of dwellings was purchased in cash.

As far as legal changes are concerned, those made did not particularly support the development of mortgage market. In January 2016 a new banking tax was introduced, which resulted in an increase in bank fees and mortgage loan margins – and then translated into weaker lending action.

In April 2016 the act on the suspension of the sale of property of the Agricultural Property Stock of the State Treasury entered into force. This act put restrictions on trade in agricultural properties larger or equal to 0.3 hectares and limited the sum of the mortgage to the market value of the property. As a result, banks essentially withdrew from financing investments on such plots. Even a relatively fast amendment of these regulations did not mitigate the negative effects of that act for the market.

Furthermore, since 1 January 2016 a new LTV limit of 85% has been introduced for residential mortgage loans. The requirement came into force by way of an amendment of "Recommendation S on good practices for mortgage banking", issued by the Polish Financial Supervision Authority (KNF). However, banks are still free to grant higher LTV loans (but with additional insurance), so it is still possible for clients to obtain a residential mortgage loan with only a 10% down payment.

The quality of the credit portfolio remained stable in 2016. According to the National Bank of Poland's estimates, the share of NPLs in the portfolio amounted to 2.9%.

### MORTGAGE FUNDING

Mortgage funding in Poland remains mainly deposit-based. According to the Polish Mortgage Credit Foundation's data, the total value of new mortgage covered bonds (CBs) issued in 2016 amounted to over PLN 4.8bn, while covered bonds outstanding amounted to around PLN 9.8bn.

On 1 January 2016 a significant amendment of the "Act on covered bonds and mortgage banks" came into force. The new regulation provides among others:

- statutory over-collateralisation of at least 10%, calculated on a nominal basis regarding the capital amount of outstanding CBs;
- an appropriate liquidity buffer, ensuring full and timely payment of the interest on the CBs due in the next 6 months;
- a higher funding limit for residential mortgage loans increased to 80% (from 60%) of the property's mortgage lending value. The funding limit for mortgage loans secured on commercial properties remains unchanged (60%);
- changes to the bankruptcy law in order to properly guarantee timely and seamless servicing of covered bond holders in case of the issuer's insolvency. During the first year of insolvency, the liquidity buffer will be used directly

to ensure timely payment of interest (while the maturities of CB principal are postponed automatically by statutory law by 12 months). Additional amendments to the Act include the introduction of an asset coverage test, which verifies whether the separate insolvency estate is sufficient to fully satisfy the claims of the bondholders, as well as a liquidity test, which verifies whether the separate insolvency estate is sufficient to fully satisfy the claims of the covered bond holders on the extended redemption dates. These tests are to be conducted also during the course of regular activity of the mortgage bank;

- the new regulation eliminates withholding tax on interest payments from CBs for foreign investors, which should encourage them to invest in Polish covered bonds.

It should be noted that the specialised mortgage business seems to be gaining in importance for Polish banks. Since 2015 there have been 3 mortgage banks active in Poland (PKO Bank Hipoteczny, Pekao Bank Hipoteczny and mBank Hipoteczny) and at least 3 other universal banks are considering the possibility of establishing mortgage banks.

	POLAND 2015	POLAND 2016	EU 28 2016
<b>Real GDP growth (%) (1)</b>	3.8	2.7	1.9
<b>Unemployment Rate (LSF), annual average (%) (1)</b>	7.5	6.2	8.5
<b>HICP inflation (%) (1)</b>	-0.7	-0.2	0.3
<b>Outstanding Residential Loans (mn EUR) (2)</b>	90,901	92,015	6,981,540
<b>Outstanding Residential Loans per capita over 18 (EUR) (2)</b>	2,921	2,957	16,838
<b>Outstanding Residential Loans to disposable income ratio (%) (2)</b>	35.8	35.8	n/a
<b>Gross residential lending, annual growth (%) (2)</b>	3.7	23.1	3.2
<b>Typical mortgage rate, annual average (%) (2)</b>	4.4	4.4	2.6
<b>Owner occupation rate (%) (1)</b>	83.5	83.7	n/a**
<b>Nominal house price growth (%) (2)</b>	1.1	2.5	4.6

\* Please note that this value is the simple average of the typical interest rate of the EU 28 countries

\*\* Please note that for the EU this data has a one year lag. For the latest available data please refer to statistical table 10.

**Sources:**

(1) Eurostat

(2) European Mortgage Federation - Hyppostat 2017, Statistical Tables.

## POLAND FACT TABLE

<b>Entities which can issue mortgage loans:</b>	Banks and credit unions
<b>The market share of the mortgage issuances:</b>	No detailed data available, rough estimates: less than 1% of new lending is granted by credit unions, over 99% – by banks
<b>Proportion of outstanding mortgage loans of the mortgage issuances:</b>	around 99.5% – banks, 0.5% – credit unions (Dec. 2014)
<b>Typical LTV ratio on residential mortgage loans:</b>	45.35% of new loans granted in 2015 had LTVs over 80% 35.44% – LTVs between 50-80% 6.76% – LTVs between 30-50% 12.45% – LTVs below 30%
<b>Any distinction made between residential and non-residential loans:</b>	Borrower's statement – the client must declare (in loan's application) for what purpose the credit will be used; bank is allowed to check whether the loan was used according to that declaration.
<b>Most common mortgage product(s):</b>	Variable rate mortgage credit for residential purpose
<b>Typical maturity of a mortgage:</b>	Between 25 and 35 years (according to data for 4Q 2016, around 64% of new lending belonged to that range; this share has been quite stable in recent years).
<b>Most common way to fund mortgage lending:</b>	Banking deposits + interbank lending
<b>Level of costs associated with a house purchase:</b>	<ul style="list-style-type: none"> <li>• establishment of a mortgage – 0,1% of the secured amount</li> <li>• notary fee (depends on the value of property) – usually: PLN 1,010 + 0,4% over the value of PLN 60,000 (+ VAT 23%)</li> <li>• additional notary documents – PLN 6 per page</li> <li>• entry do mortgage register – PLN 200; if there's no mortgage register for the property - establishment of mortgage register costs additionally PLN 60</li> <li>• tax on civil law transactions (paid only if the property is purchased on secondary market) – 2% of the value of property</li> <li>• property valuation (sometimes covered by the bank) – usually PLN 300-600</li> <li>• commission for the broker (if needed) – around 3% + VAT</li> </ul>
<b>The level (if any) of government subsidies for house purchases:</b>	<p>The most important government subsidy is "Flat for youth". The basic subsidy amounts to 10% of the construction value of the apartment up to 75 square meters (100 sq. m for houses). Higher aid is available for families with children: subsidy of 15% – for families with 1 child, 20% – with 2 children, and 30% – with 3 children (in the last case the square metrage of the eligible property will be: 85 sq. m for flats and 110 sq. m for houses).</p> <p>The beneficiaries of the programme are families and single persons up to 35 years of age, who do not own a housing yet. The subsidy makes a part of the borrower's own equity required by a bank granting a mortgage.</p> <p>In 2016, the total amount of this subsidy was around PLN 700 mn (27,085 loans).</p>