

Poland

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IN A NUTSHELL

- Strong macroeconomic fundamentals support demand for residential properties in Poland.
- Construction market is booming, but supply tensions begin to arise.
- Mortgage lending, influenced by low interest rates and good economy, recorded its best results since 2008.
- Mortgage lending remains mostly deposit-funded, but covered bonds are increasingly gaining in importance.

MACROECONOMIC OVERVIEW

According to the Eurostat estimates, the increase of real GDP in Poland in 2017 was 4.6% (in comparison to 2.9% in 2016), with domestic demand still being the main driver of the GDP growth.

Total gross value added in the national economy in 2017 increased by 4.3% y-o-y versus 2.8% in 2016. Industrial gross value added was 6.2% higher than in 2016 compared with the increase of 3.6% in 2016. Gross value added in the construction sector recorded a 11.5% increase in comparison to the year before, compared with a decrease of 7.2% in 2016.

The annual average unemployment rate in Poland amounted in December 2017 to 4.9% (as compared to 6.2% in Dec. 2016).

After 3 years of deflation, in 2017 inflation picked up in Poland. In 2017, the annual consumer price index amounted to 1.6% y-o-y, in December 2017, the CPI amounted to 2.1% (y-o-y).

In 2017 Poland's budget revenues amounted to PLN 350.5 bn (increase of 11.4% y-o-y in nominal terms), and expenditures amounted to PLN 375.8 bn (increase of 4.1%). General government deficit in 2017 stood at -1.7% GDP (-2.4% in 2016) and general government debt amounted to 50.6% GDP (from 53.4% in 2016).

HOUSING AND MORTGAGE MARKETS

HOUSING MARKET

In 2017 the housing and mortgage markets in Poland continued to grow. The activity in the housing market was very high on both the supply and demand sides. The growing demand in the property market generated modest price increases.

The number of building permits amounted to nearly 90,000 units (an increase of 11% in comparison to 2016) and around 178,000 new dwellings were completed (an increase of 9%). More than 205,000 were still in the construction phase. These were the best results recorded in construction business since 2008. High demand contributed to a considerable rise in the prices of land for developers' construction – particularly in city districts. Emerging problems with the availability of laborers

for construction and the shortage of building materials also pose the challenge for maintaining the housing supply at stable prices. The pool of unsold housing in Poland's six biggest markets amounted to ca. 48.2 thousand dwellings at the end of 2017. The home selling time in the primary market decreased to less than 2.7 quarters in the analysed period.

The average offer and transaction prices on the both primary and secondary markets rose in 2017. The observed increase on the primary market was caused by: (i) the sale of a larger number of higher quality dwellings in better locations' and (ii) the rapid growth of the costs of developers' production. The price changes on the secondary market were similar to those in primary market.

MORTGAGE MARKETS

Market dynamics

The total value of residential mortgage portfolio stood at nearly PLN 388 bn at the end of 2017. During that year banks granted nearly 191,000 residential loans, worth around PLN 45 bn – the best result since 2008.

Generally good economic position of Polish households (low unemployment, growing wages), combined with historically low interest rates (reference rate of 1.50%) resulted in huge demand for mortgage loans. Due to the fact that interest rate on bank deposits is also very low (even below the inflation level), real estate purchase is considered as a good investment opportunity.

Apart from the growing mortgage market it's worth stressing that around 60-65% housing purchase transactions in Poland's six biggest markets were financed by buyers' own funds. The quality of residential mortgage credit portfolio remained good in 2017. At the end of the year the share of NPLs denominated in Polish zlotys amounted to 2.5%.

Non-market led initiatives

Regarding the non-market led initiatives, the mortgage market remained also under strong influence of the government-subsidised "Flat for Youth" scheme. As the funds are activated in the beginning of every year, and get disbursed within days, it has created an additional incentive for customers considering home purchase. The fact that the scheme will be deactivated after 2018 supported the demand even more.

MORTGAGE FUNDING

The main funding instruments for mortgage loans in Poland are deposits and covered bonds. After the amendment of Covered Bonds and Mortgage Banks Act in 2016, the year of 2017 brought a considerable growth in covered bonds market. The outstanding volume of Polish covered bonds exceeded PLN 16.5 bn, and new issues in 2017 exceeded PLN 8.5 bn.

According to the law, only specialised mortgage banks are eligible to issue covered bonds in Poland. There are currently 3 issuers active: mBank Hipoteczny S.A., PKO Bank Hipoteczny S.A. and Pekao Bank Hipoteczny S.A. Another 3 banking groups are considering the possibility of establishing mortgage banks.

It is worth noticing that in 2017 the biggest covered bonds issue in Polish market history was made by mBank Hipoteczny S.A. (in the amount of PLN 1 bn). On the other hand, in 2017 PKO Bank Hipoteczny S.A. made 3 benchmark issues on the euro market (EUR 500 mn each) – also the first ones in the Polish market history.

	POLAND 2016	POLAND 2017	EU 28 2017
Real GDP growth (%) (1)	3.0	4.6	2.4
Unemployment Rate (LSF), annual average (%) (1)	6.2	4.9	7.6
HICP inflation (%) (1)	-0.2	1.6	1.7
Outstanding Residential Loans (mn EUR) (2)	92,015	93,111	7,013,738
Outstanding Residential Loans per capita over 18 (EUR) (2)	2,957	2,991	16,872
Outstanding Residential Loans to disposable income ratio (%) (2)	35.6	33.8	73.8*
Gross residential lending, annual growth (%) (2)	-4.7	13.9	3.5
Typical mortgage rate, annual average (%) (2)	4.4	4.4	2.4**
Owner occupation rate (%) (1)	83.4	n/a	66.4*
Nominal house price growth (%) (2)	2.5	4.7	6.0

* The aggregate EU figure is from 2016.

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

Sources:

(1) Eurostat

(2) European Mortgage Federation - Hyostat 2018, Statistical Tables.

POLAND FACT TABLE

Entities which can issue mortgage loans:	Banks and credit unions
The market share of the mortgage issuances:	No detailed data available, rough estimates: less than 1% of new lending is granted by credit unions, over 99% - by banks
Proportion of outstanding mortgage loans of the mortgage issuances:	Around 99.93% – banks, 0.07% – credit unions (Dec. 2017)
Typical LTV ratio on residential mortgage loans:	45.80% of new loans granted in 2017 had LTVs over 80% 33.08% – LTVs between 50-80% 6.90% – LTVs between 30-50% 14.22% – LTVs below 30%
Any distinction made between residential and non-residential loans:	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.
Most common mortgage product(s):	Variable rate mortgage credit for residential purpose
Typical maturity of a mortgage:	Between 25 and 35 years (around 63% of new lending in 2017 belonged to that range; this share has been quite stable in recent years).
Most common way to fund mortgage lending:	Banking deposits + interbank lending
Level of costs associated with a house purchase:	<ul style="list-style-type: none"> • establishment of a mortgage – 0,1% of the secured amount • notary fee (depends on the value of property) – usually: PLN 1,010 + 0,4% over the value of PLN 60,000 (+ VAT 23%) • additional notary documents – PLN 6 per page • entry do mortgage register – PLN 200; if there's no mortgage register for the property - establishment of mortgage register costs additionally PLN 60 • tax on civil law transactions (paid only if the property is purchased on secondary market) – 2% of the value of property • property valuation (sometimes covered by the bank) – usually PLN 300-600 • commission for the broker (if needed) – around 3% + VAT
The level (if any) of government subsidies for house purchases:	<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 2017, the total amount of this subsidy was around PLN 746 mio PLN.</p>