

Poland

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IN A NUTSHELL

- Record levels of residential construction and mortgage lending.
- Strong macroeconomic fundamentals (low unemployment, rising wages).
- Inflation significantly exceeding the target creating challenges in coming years.
- Large increases in real estate prices and tightening credit policy towards year end will make it harder to ensure the availability of housing loans in coming years.

MACROECONOMIC OVERVIEW

The pandemic caused the first recession in 30 years, GDP fell by 2.2% in 2020 but recovered already in the second half of 2021 and yearly GDP growth reached 5.9%. Domestic demand, the main driver of GDP growth - increased in real terms by 8.2% compared to 2020, when it decreased by 3.4%. Total consumption increased in real terms by 4.8%, including household sector consumption, which grew by 6.2% (in 2020, both indicators decreased by 1.1% and 3.0%, respectively). Gross fixed capital formation increased by 8% (compared to a 9% drop in 2020). Investment relative to GDP was 16.6% (as in 2020). The labour market remained good - according to Eurostat data, the unemployment rate was 3.4%, the second lowest in the European Union.

A problem of particular importance was rising inflation, which averaged 5.2% per year, the highest level in the EU. In December 2021, it was 8%, the highest in 21 years. As a result, the National Bank of Poland started in the second half of the year a series of moderate increases in the reference interest rate, which reached 1.75% by year end.

LOOKING AHEAD

After record low interest rates introduced in 2020, rates rose in the last quarter of 2021, specifically - interbank rates (WIBOR 3M), which increased at a faster pace than NBP reference rate. At the start of 2021, the average mortgage loan rate was 2.8%, by the end of the year, it was 4.6%. As a result of this and the worsening economic outlook most banks in the last quarter of the year started tightening their mortgage lending criteria.

Although in the largest cities 50 to 60% of residential purchases are made either with cash or a small mortgage, ensuring housing affordability in the face of rising mortgage rates will be a major challenge in coming years. Given the soaring prices of construction materials in 2020 - a significant correction in housing prices is not expected for 2021, although a slowdown in the rate of residential construction is likely.

The last quarter of 2021 closed a period in which the main sectoral risks were rising prices and costs of residential construction. Currently, activity has been significantly impacted by rising interest rates and factors related to the conflict in Ukraine.

HOUSING MARKETS

Levels of residential construction were very high; nearly 235,000 dwellings were completed, with a total floor area of 21.8 mn m². Compared to the previous year, dwelling completed increased - by 14.1 thousand (6.4%), as did the floor area - by 2.2 mn m² (11.3%) - and the total number of rooms - by 84.8 thousand (10.2%).

High estimated rates of return on housing projects and sustained investment and consumer demand contributed to a significant increase in the number of new construction and applications for residential building permits. The construction of 277,400 dwellings started, 53,600 more dwellings (23.9%) than in the previous year. Construction permits were issued for 341,200 dwellings, an increase of 65,100 dwellings (23.6%). The average forecast apartment area was 93.5 m², an increase of 1.2 m² compared to the previous year.

The share of new construction in large cities decreased slightly (23% share compared to 24% in 2020) and in Warsaw (10% share compared to over 11% in 2020). Conversely, the number of new buildings in the rest of Poland increased (52% share compared to 51% in 2020) and 10 big cities (15% share compared to 14% in 2020).

Prices increased both on the primary and secondary markets.

On the primary market, price increases were mainly double digit, in the secondary market prices also increased, although at a slower pace.

In relation to 2020, the largest increases in the yearly average transaction price of flats were recorded in:

- Primary market: Szczecin: 17.9%, Lublin: 16.5%, Zielona Góra: 16.3% (Warsaw: 10.8%)
- Secondary market: Kraków: 14.3%, Wrocław: 13.3%, Kielce: 12.5% (Warsaw: 7.7%).

MORTGAGE MARKETS

It was a very good year for both the mortgage and housing markets. Banks granted nearly 256,500 new housing loans, the most since 2008, although the last quarter saw some lending weakening.

The total number of mortgages outstanding at year end was over 2.54 mn with a total value of over PLN 511 bn (PLN 477 bn in 2020). The average value was nearly PLN 335,000 - a record high and an increase of over 12%. In Q4, the average loan reached PLN 350,000, reflecting the growth of property prices.

Loans with the highest LTV (over 80%) are the most popular and accounted for 30.5% of all new loans. The credit quality remained stable - the ratio of NPLs amounted to around 2.31% (compared to 2.46% at the end of 2020).

Due to rising property prices and interest rates the index of estimated housing availability¹ in Warsaw and six large cities decreased slightly by the end of 2021 to 0.7 sq. m., but was still about 0.3 sq. m. higher than the minimum recorded in Q3 2007.

Most mortgage loans are at variable rates. To increase the popularity of fixed

¹ Housing affordability index is a measure of the number of square meters that can be purchased in the 7 largest cities with an average months wages.

rate loans with periodically fixed rate, the Polish Financial Supervision Authority (PFSA or KNF in Polish) ordered that from 01/07/2021 each bank (except cooperative banks) should offer loans with an interest rate fixed for a minimum 5 years). As a result, nearly 16,000 such agreements were signed. In total at the end of 2021, there were over 30 thousand fixed rate loans.

REGULATORY ISSUES

In July 2021 the new version of “Recommendation S concerning good practices related to mortgage-secured credit exposures” came into force. Apart from the above provisions regarding fixed interest rates, the PFSA expects that, when verifying the creditworthiness of a mortgage loan borrower, banks must calculate it for a maximum period of 25 years. The earlier version of the Recommendation S allowed that period to be 30 years.

Since 2014, Polish banks are obliged to match the currency of the mortgage loan with the currency of the borrower’s main income. According to the amended version of Recommendation S, if the borrower earns their income in a foreign currency, when calculating creditworthiness, foreign income must be artificially depreciated by 50% to protect against the exchange rate risk (previously this was 20%).

MORTGAGE FUNDING

The main funding instrument for mortgage loans in Poland are deposits, followed by covered bonds. According to the covered bond law, only specialised mortgage banks are eligible to issue covered bonds in Poland. In 2021, 4 already existing mortgage banks (mBank Hipoteczny S.A., PKO Bank Hipoteczny S.A., Pekao Bank Hipoteczny S.A, and ING Bank Hipoteczny S.A.) were joined by another one: Millennium Bank Hipoteczny S.A.

	POLAND 2020	POLAND 2021	EU 27 2021
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	-2.2	5.9	5.4
Unemployment Rate (LSF), annual average (%) (1)	3.2	3.4	7.0
HICP inflation (%) (1)	3.7	5.2	3.0
HOUSING MARKET			
Owner occupation rate (%) (1)	85.6	85.6	70.0
Gross Fixed Investment in Housing (annual change)(1)	-0.3	11.5	6.6
Building Permits (2015=100) (2)	148.8	184.3	134.0
House Price Index – country (2015=100) (2)	144.4	158.2	145.2*
House Price Index – capital (2015=100) (2)	158.4	173.8	146.1*
Nominal house price growth (%) (2)	11.7	9.6	10.3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	104,607	111,423	6,508,621
Outstanding Residential Loans per capita over 18 (EUR) (2)	3,370	3,604	17,782
Outstanding Residential Loans to disposable income ratio (%) (2)	32.3	33.2	62.8*
Gross residential lending, annual growth (%) (2)	6.3	45.0	12.2
Typical mortgage rate, annual average (%) (2)	3.5	3.1	2.0

* Please note that this value is the simple average of the available values in 2021.

Sources:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2022, Statistical Tables.

POLAND FACT TABLE

Which entities can issue mortgage loans in your country?	Banks and credit unions
What is the market share of new mortgage issuances between these entities?	No detailed data available, rough estimates: less than 1% of new lending is granted by credit unions, over 99% – by banks.
Which entities hold what proportion of outstanding mortgage loans in your country?	Around 99.9% – banks; 0,1% – credit unions.
What is the typical LTV ratio on residential mortgage loans in your country?	30.59% of new loans granted in 2021 had LTVs over 80%; 48.90% - LTVs between 50-80%; 6.53% - LTVs between 30-50%; 13.99% - LTVs below 30%.
How is the distinction made between loans for residential and non-residential purposes in your country?	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.
What is/are the most common mortgage product(s) in your country?	Variable rate mortgage credit for residential purpose.
What is the typical/average maturity for a mortgage in your country?	Between 25 and 35 years (according to yearly data, around 63% of new lending belongs to that range in 2019).
What is/are the most common ways to fund mortgage lending in your country?	Banking deposits and interbank lending.
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	<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 to the 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.
What is the level (if any) of government subsidies for house purchases in your country?	There are currently no government subsidies for house purchases in Poland.