

# Poland

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## IN A NUTSHELL

- High inflation remains the main challenge for the economy.
- Rising interest rates caused a significant reduction in mortgage availability.
- A record number of apartments were completed but with a sharp decline in new construction starts.
- Real estate prices continue to rise, but at a slower pace.
- A new housing program planned for 2023 is expected to revive demand in the market and could further boost prices.

## MACROECONOMIC OVERVIEW

High inflation and the results of the energy crisis had the greatest impact on the economy. Intense growth in HICP inflation began in mid-2021 and in 2022 reached double-digit rates not seen in 20 years. Average annual HICP inflation was 13.2%, and at the end of the year it was 15.3%.

To some extent, the increase in inflation was caused by the energy crisis, which quickly translated into an increase in producer prices – which exceeded 30%. Price increases began to spread rapidly throughout the economy, extending to the service sector, which also led to an intensive increase in core inflation to the highest rates since records began - at the end of the year, core inflation reached 15% y-o-y.

Persistent inflationary tensions resulted in a decline in GDP growth and a series of interest rate hikes. GDP is being driven by domestic demand - despite a significant influx of refugees - the pace of retail sales began to decline strongly in the second half of 2022. As a result, despite good economic growth in 2021 and early 2022 – GDP growth dropped to just 0.6% y-o-y in the last quarter of 2022. In response to the rapid increase in inflation, the National Bank of Poland (NBP) continued the series of increases in the benchmark interest rate started in 2021. The base rate was raised by 5 pps to 6.75%. Although this is the highest level of the reference rate since 2002, it remains below the inflation rate.

## LOOKING AHEAD

The relaxation of the Financial Supervision Authority (KNF) recommendation on the interest rate buffer for calculating creditworthiness - from 500 bps to 250 bps - from February 2023, has contributed to some recovery in demand in the loan market.

In addition, from July 2023, a new mortgage subsidy program is to start. As part of it, it will be possible to obtain a "2% Safe Credit". Those who obtain, as defined below, will for 10 years receive government subsidies that reduce instalments as if the interest rate were 2% plus the bank's margin. Preferential credit will be available for an amount of no more than PLN 500,000 in the case of a single and for a maximum of PLN 600,000 for spouses or people raising at least 1 child. The subsidized loan will be available to a person up to the age of 45 and only for the

purchase or construction of the first-ever apartment or house.

The second element of the program is to a special savings account called "Housing Account." It will pay subsidies to people putting money aside to buy an apartment or house. Payments to the account must be made monthly for a period of 3 to 10 years. The subsidy for a given year will be paid if at least 11 payments of not less than PLN 500 each (PLN 6,000 per year) are made during the year. The premium will be paid each year equal to the greater of inflation and of the change in price of 1 sqm of the usable floor area of a residential building.

## HOUSING MARKETS

Developers have begun to prepare for a fall in demand with the number of new starts reducing from the beginning of the year. In addition, as of July 2022, additional costs were imposed on developers, i.e. the obligation to contribute to the Developer Guarantee Fund.

The reduction of construction was also caused by the Russian invasion of Ukraine, which has i.a. affected the availability of construction labor (esp. in the first half of the year).

In 2022, 238,600 apartments and houses were completed, the most in over 40 years, mainly due to construction started in 2021 and the acceleration of work due to the introduction of the Developer Guarantee Fund in July 2022. In terms of construction started in 2022, there was an unprecedented slump. The number of housing starts fell by 27.8% y-o-y and the number of building permits issued dropped by 26.5% y-o-y.

Prices continued to grow rapidly despite tightening credit terms, demand was sustained by households that viewed property purchases to escape inflation. In relation to 2021, the largest increases in the yearly average transaction price of flats were recorded in:

- Primary market: Białystok: 25%, Zielona Góra: 23.5%, Szczecin: 22.9% (Warsaw: 14.3%)
- Secondary market: Zielona Góra: 19.1%, Szczecin: 18.1%, Białystok: 18.2% (Warsaw: 7.7%)

## MORTGAGE MARKETS

Due to the successive interest rate hikes initiated from October 2021, the entire year of 2022 was marked by a decline in the availability of home loans. The situation was exacerbated by the introduction of the KNF recommendation from March 2022 to apply a 500 bps interest rate buffer in the creditworthiness process. As a result, since mid-2022, not only was there a decline in lending and total loans outstanding as due to the increase in lending rates pre-payments increased. In particular, this was facilitated by the introduction of the so-called "credit vacations" from August 2022, which gave consumers with PLN mortgages the opportunity to suspend repayments of 4 loan instalments in the second half of 2022 and 4 instalments in 2023. Participation in credit vacations was around 71% of eligible customers and some customers used the deferred installment amount to prepay the loan principal, thus reducing the amount of total debt.

The number of active home loan contracts declined over 2022 by more than 182,000 loans, to 2,366,000, and the value of the mortgage portfolio decreased by PLN 15.2bn, to PLN 496 bn.

Banks issued 126 thousand new home loans, down 50.75% from the record in 2021. In value terms, the result of PLN 43.6 bn achieved in 2022 was 49.11% lower than the previous year. A substantial decline in the average value of a new home loan was recorded, from a record high of PLN 353,000 at the end of the first quarter of 2022 to PLN 325,000 at the end of 2022.

## 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 2022 there were 5 mortgage banks registered in Poland: mBank Hipoteczny S.A., PKO Bank Hipoteczny S.A., Pekao Bank Hipoteczny S.A., ING Bank Hipoteczny S.A., and Millennium Bank Hipoteczny S.A.

	POLAND 2021	POLAND 2022	EU 27 2022
<b>MACROECONOMIC VARIABLES</b>			
Real GDP growth (%) (1)	6.9	5.1	3.5
Unemployment Rate (LSF), annual average (%) (1)	3.4	2.9	6.2
HICP inflation (%) (1)	5.2	13.2	9.2
<b>HOUSING MARKET</b>			
Owner occupation rate (%) (1)	86.8	87.2	69.1
Gross Fixed Investment in Housing (annual change)(1)	11.5	-0.6	1.5
Building Permits (2015=100) (2)	184.3	135.6	*
House Price Index - country (2015=100) (2)	160.6	177.4	*
House Price Index - capital (2015=100) (2)	173.8	193.9	*
Nominal house price growth (%) (2)	9.6	10.4	*
<b>MORTGAGE MARKET</b>			
Outstanding Residential Loans (mn EUR) (2)	111,423	106,167	
Outstanding Residential Loans per capita over 18 (EUR) (2)	3,604	3,453	
Outstanding Residential Loans to disposable income ratio (%) (2)	33.2		*
Gross residential lending, annual growth (%) (2)	45.0	-43.9	
Typical mortgage rate, annual average (%) (2)	3.1	7.7	

\* Please note that this value is the simple average of the available values in 2022.

### Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2023, Statistical Tables.

## POLAND FACT TABLE

<b>Which entities can issue mortgage loans in your country?</b>	Banks and credit unions
<b>What is the market share of new mortgage issuances between these entities?</b>	No detailed data available, rough estimates: less than 1% of new lending is granted by credit unions, over 99% - by banks.
<b>Which entities hold what proportion of outstanding mortgage loans in your country?</b>	around 99.9% - banks; 0.1% - credit unions.
<b>What is the typical LTV ratio on residential mortgage loans in your country?</b>	19.55% of new loans granted in 2022 had LTVs over 80%; 52.87% - LTVs between 50-80%; 11.58% - LTVs between 30-50%; 16.01% - LTVs below 30%.
<b>How is the distinction made between loans for residential and non-residential purposes in your country?</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>What is/are the most common mortgage product(s) in your country?</b>	In 2022, there was a significant change in the type of mortgages in terms of their interest rate type. While in earlier years the typical mortgage in Poland was a variable-rate mortgage, in 2022 loans with a periodically fixed interest rate began to prevail among new loans.
<b>What is the typical/average maturity for a mortgage in your country?</b>	Between 25 and 35 years (according to yearly data, around 64.5% of new lending belongs to that range in 2022).
<b>What is/are the most common ways to fund mortgage lending in your country?</b>	Banking deposits and interbank lending.
<b>What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?</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 to the 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>What is the level (if any) of government subsidies for house purchases in your country?</b>	There are currently no government subsidies for house purchases in Poland.