

**Renata Stasiak-Betlejewska**  
Ing. PhD. in Economics,  
Faculty of Management, Czestochowa University of Technology, Poland  
e-mail: renatastasiak@wp.pl

## THE CURRENT SITUATION ON THE MORTGAGE AND HOUSING MARKETS ON THE POLISH EXAMPLE

**Abstract.** The mortgage and housing markets in Europe play a crucial role in the wider economy and in determining people's welfare and quality of life since the housing markets are affected by financial abilities of consumers and banking system products. The mortgage and housing markets both should constitute an efficient system that lead to improving the social living conditions and the household standards quality level. It is reached owing to banking system policy within responsible mortgage offer that allows its consumers for affordable access to home ownership. Activities within the mortgage and housing market support investments creating process in the construction industry and play a key role in the financial European sector, what can be determined as one of the main drivers of the European economy. Recent fluctuations in the currencies ratings caused a sharp debate about mortgages and housing markets. The paper refers the current situation on the mortgage and housing markets in Europe based particularly on the characteristics of the situation in Poland and the banking system reaction.

**Keywords:** mortgage, housing markets, houses price, banking system

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**JEL Classification:** G 21, E 43, D 81.

**Рената Стасяк-Бетлеєська**  
к.е.н. факультету менеджменту,  
Технічний Університет Ченстохова, Республіка Польща  
e-mail: renatastasiak@wp.pl

## ПОТОЧНА СИТУАЦІЯ НА ІПОТЕЧНИХ РИНКАХ ТА РИНКАХ НЕРУХОМОСТІ НА ПРИКЛАДІ ПОЛЬЩІ

**Анотація:** іпотечні ринки та ринки нерухомості в Європі відіграють вирішальну роль в економіці в цілому і у визначенні добробуту і якості життя людей, через те, що на ринки нерухомості впливають фінансові можливості споживачів і результати операцій банківської системи. Стаття зображує поточну ситуацію на іпотечних ринках та ринках нерухомості в Європі, що ґрунтується зокрема на особливостях ситуації в Польщі і реакції банківської системи.

**Ключові слова:** іпотека, ринки нерухомості, ціни на будинки, банківська система

Формул: 0; рис.: 1, табл.: 0, бібл.: 5

**Рената Стасяк-Бетлеєська**  
к.э.н. факультета менеджмента,  
Технический Университет Ченстохова, Республика Польша  
e-mail: renatastasiak@wp.pl

## ТЕКУЩАЯ СИТУАЦИЯ НА ИПОТЕЧНЫХ РЫНКАХ И РЫНКАХ НЕДВИЖИМОСТИ НА ПРИМЕРЕ ПОЛЬШИ

**Аннотация:** ипотечные рынки и рынки недвижимости в Европе играют решающую роль в экономике в целом и в определении благосостояния и качества жизни людей, потому что на рынки недвижимости влияют финансовые возможности потребителей и результаты операций банковской системы. Статья изображает текущую ситуацию на ипотечных рынках и рынках недвижимости в Европе, основанную в частности на особенностях ситуации в Польше и реакции банковской системы.

**Ключевые слова:** ипотека, рынки недвижимости, цены на дома, банковская система

Формул: 0; рис.: 1, табл.: 0, библи.: 5

## **Introduction.**

As the results on the macroeconomic situation, European Union grew very modestly in 2013 (by 0.1%), thus reversing the trend established in 2012, where the region's economy contracted by 0.4%. Growth began to be observed starting in Q2 2013. Overall, net exports contributed positively to growth in 2013, as did gross fixed capital formation. Household expenditure also turned positive after a protracted period of contraction, thus positively contributing to GDP growth. Government expenditure was overall neutral. A high level of fragmentation remains in the EU in terms of GDP growth. This trend has, however, eased, as Southern European countries' GDP contracted much less in 2013 than in 2012, and is expected to increase in 2014. Unemployment remains high, and the picture across the EU very fragmented, with national lows below 5%. Inflation in the EU has fallen across the board, mainly driven by a reduction in the price of commodities and energy. Similarly to employment, the sticky nature of prices also means that they are slower to adjust to wider economic changes (HYPOSTAT 2014. A review of Europe's mortgage and housing markets).

The analysis of data concerning European housing market shows that house prices in the EU countries declined, though at a slower rate than in the years immediately following the start of the crisis. The rate of contraction in house prices has slowed down in most countries, though recovery is weak. Price developments are not only very heterogeneous between the different EU countries, but also within them. Many countries exhibited national house prices moving at different paces depending on the region/city, with capitals and large cities leading the price hike, while rural and remote regions brought the average down.<sup>1</sup>

In terms of the mortgage and housing markets houses prices have the high importance as the indicator, as the demand and supply sides of housing. Changes in houses prices are indicated as the highly correlated with the construction industry indicators (supply), as well as demand indicators (disposable income and house purchase financing through mortgages). Housing supply are measured by the number of building permits issued, housing projects begun and housing projects completed. This indicator showed a continued contraction in 2013, continuing from that observed in 2012. It mainly reflects an excess amount of housing that remained unsold since the boom years, and which still puts downward pressures on prices and, therefore, the profitability of the construction business. General EU value of Residential Debt amounted 6,727,869 EUR million in 2012.

The analysis of the mortgage markets data underlines the rate of growth in mortgage lending that slowed further in 2013, what shows the declining trend that follow the housing boom in the EU. In 2013, there was noted an improvement within the subdued mortgage lending conditions for a number of EU countries. Difference in terms of mortgage lending noted in EU countries resulted in the house prices differences. The highest growth within the gross residential lending was observed for the UK and Sweden. There was also noted a decrease of the interest rates on mortgage loans in EU countries, what can be concluded as the result of the expansionary monetary policy stance of the ECB and other central banks in the EU. The ECB, together with most other non-euro area central banks, has cut benchmark rates over the course of 2013, thus heavily affecting market interest rates, including mortgage rates.

## **The problem statement.**

However, the responsiveness of mortgage interest rates to policy rate changes in the Euro area has been quite weak in 2013, especially in terms of variable mortgage interest rate (which normally moves quite closely to the policy rate). The market structure for mortgage interest rates in the EU is influenced by a number of factors. An important determinant of fluctuations in the market share of variable rate mortgages seems to be the spread between the

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<sup>1</sup> HYPOSTAT 2014. *A review of Europe's mortgage and housing markets.*

long-term fixed rate and the variable rate, for the lower the latter is, the more borrowers will be inclined to pay a little more in order to obtain a fixed rate that will remain unchanged throughout the duration of their mortgage repayment horizon.

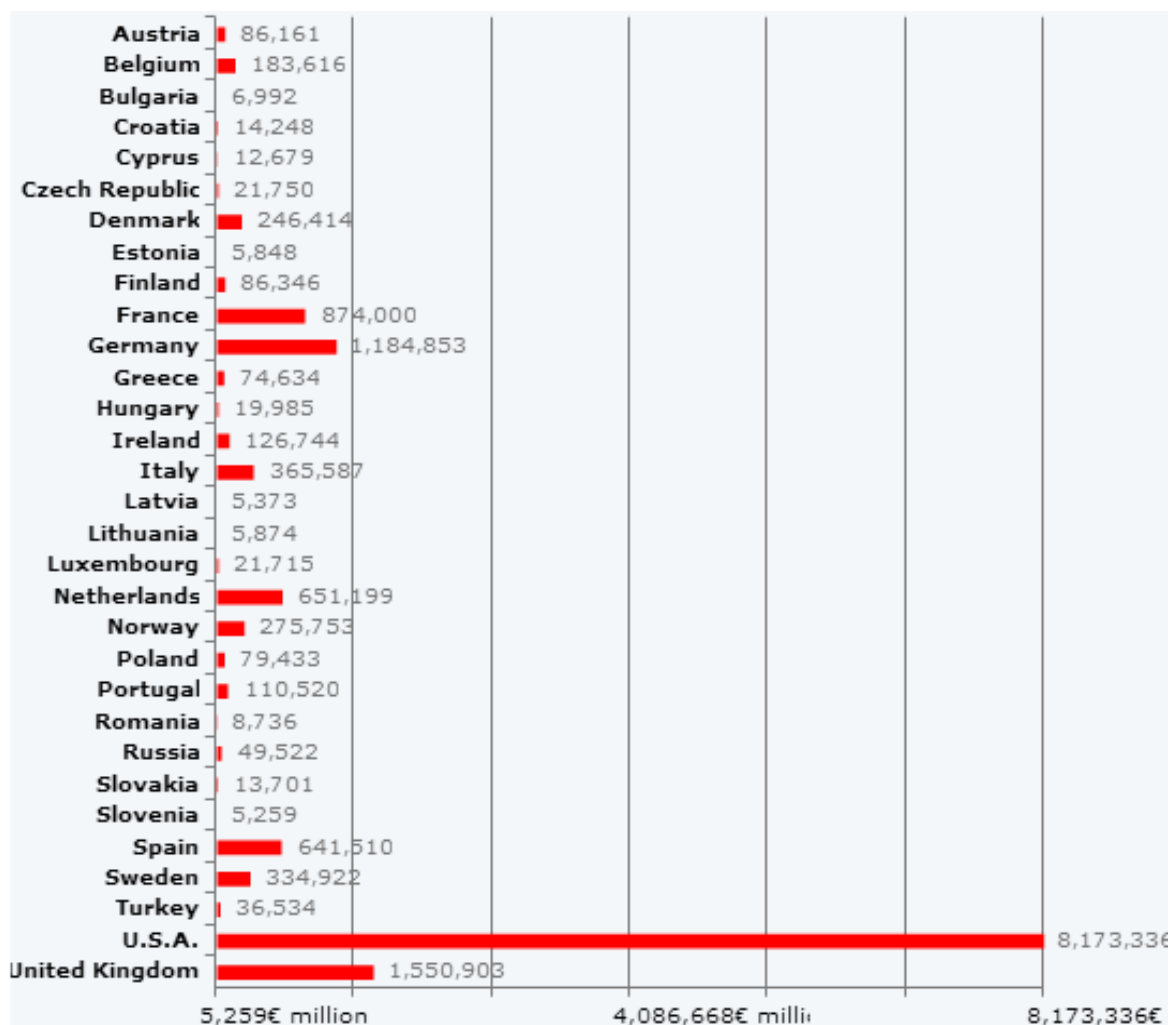


Fig. 1. Value of Residential Debts in European Countries (in million, EUR) in 2012.  
Source: HYPO, The European Mortgage Federation.

The exchange rate of the mortgage is another factor that can be determined as the driven force in the mortgage market. It is connected to the house purchase transactions that are defined in each country as a “typical house purchase”. The “typical” purchase value, mortgage loan value and loan-to-value ratio refer to an existing property for residential purposes (dwelling) on the basis of non-social ownership.<sup>2</sup> The house purchase value including the mortgage lending includes the exchange rate issue.

The average house purchase value for the EU14 is 180,807 EUR, the average mortgage loan is 137,102 EUR, the average loan maturity is around 28 years and the average LTV ratio is 76.4%. As a result, the weighted average for house purchase value is 210,713 EUR, the average loan is 160,000 EUR, the average LTV ratio is 74.9% and the average maturity is still around 28 years.<sup>3</sup>

Some quotes taken from articles in The Economist report on the global housing boom for years: “Real house prices are 82 percent higher than they were in the last quarter of 1999

<sup>2</sup> 2010 EMF Study on the Cost of Housing in Europe

<sup>3</sup> European Mortgage Federation, Hypostat 2014.

and have risen 70 percent relative to household income.” “The...stock market is down by 26 percent since its peak...Banks have been hit harder still...First in the firing-line has been a series of debt-laden financial and real estate companies.”<sup>4</sup>

The house prices are related to the currency rating of the mortgage. One of the most popular currency that has been actively used in global financial markets is Swiss franc. In the years preceding the global financial crisis (GFC), given low interest rates and the relatively stable nominal exchange rate, the Swiss franc was commonly used as a funding currency in carry-trade transactions and as a currency of denomination for loans in emerging European countries and Austria. Since the inception of the crisis, the negative interest rate differential with other major currencies has virtually vanished, as all central banks lowered interest rates to support economic activity. This reduced the attractiveness of the franc as a funding currency, setting the stage for the beginning of an appreciation cycle for the Swiss currency. The extremely low interest rate environment has spurred mortgage lending and pushed up house prices. As the SNB lowered interest rates in late 2008, interest rates on mortgage loans followed down and have reached record low levels. With lower rates, mortgage lending started to grow. Since 2009 the stock of mortgages has increased by about 5 percent per year and reached 140 percent of GDP in 2012. As a result of the increased demand, house prices have shot up and the combination of increased mortgage lending and elevated housing prices is a potential risk to the banking sector that deserves significant attention. However, outstanding mortgages are at an all time high relative to GDP, and the level of mortgage debt is high in international comparison.<sup>5</sup>

Recent fluctuations in the exchange rate, especially within Swiss franc currency, caused a sharp debate about mortgages in Poland last months in 2015. Anyway, not the first time that a specific type of loan is controversial (it distinguishes the special interests of the bank, or mortgage on the real property, usually it is granted for many years and the large amount). There is also a question about ways of financing the purchase of an apartment or building a house in the country, where wages are much lower than in Western Europe, and real estate prices grew rapidly until recently. There is also the problem of relatively high interest rates in Poland (in comparison to the Euro zone), increasing the loans interest.

### **Research results.**

Currently in Poland, the total amount of active mortgages in Poland amounted over 360 billion PLN and it is steadily growing. In 1996 it exceeded a billion PLN and began to increase after the Polish accession to the European Union. In 2009 it slow down when both banks and consumers were afraid of possible effects of the global crisis. Since 2010, the mortgage loans are granted more often again, but still less than the number before 2009. In recent times, the Poles incur an average of 40-50 thousand new loans quarterly, worth approximately 9-10 billion PLN. One-fourth of this amount to the Warsaw real estate market including the most expensive housing. Upper Silesia region in Poland constitutes approximately 8-9 percent of new mortgage loans value. The total number of active (or supported) mortgage loans in Poland is approximately 2 million PLN. The statistical Polish mortgage amounts 10.5 thousand PLN (including persons who does not have loan).<sup>6</sup> That's as much as 28 times less than the amount of the average Norwegian bank consumer, and five times more than the per capita debt of Romania. The average Norwegian mortgage amounts approximately 70.1 thousand Euro of debt secured by a mortgage. It is the highest in Europe.

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<sup>4</sup> Hubbard R.G., Mayer Ch. J., *The Mortgage Market Meltdown and House Prices*, The B.E. Journal of Economic Analysis & Policy, Volume 9, Issue 3, 2009 The Berkeley Electronic Press.

<sup>5</sup> Tchaidez R., *Understanding pressures on the Swiss franc*, Switzerland: Selected Issues Paper. IMF Country Report No. 13/129. International Monetary Fund. Washington D.C. 2013.

<sup>6</sup> Hypostat, 2014.

Next in terms of debts level are Dunes (55.4 thousand Euro per inhabitant), Luxembourg (51.4 thousand Euro) and the Netherlands (48.5 thousand Euros). The high value of the debt is primarily due to the high prices of real estate in the country and a large percentage of people who took out a mortgage to buy an apartment or house. It is according to Hypostat data, that show average mortgage debt per capita an adult, regardless of whether they hold a mortgage. Hypostat data also shows that the average citizen of the European Union has mortgage amounted 16.2 thousand Euros (equivalent to almost 68 thousand PLN). Against this background, the average Pole falls much preferred because of Poles' debt average amounts only 2.5 thousand Euros (equivalent to nearly 10.5 thousand PLN).

According to analysts, it is very important in this context data showing a number of countries that are granted by mortgage loans. Relevant data showing the percentage of the property encumbered credit. Eurostat data show that in most apartments and houses are the subject of the mortgage collateral in Scandinavia and the Benelux countries.<sup>7</sup> Share of real estate as collateral mortgage is in the range of 42.2 to 70.1 percent. The least encumbered real estate loan in Romania and Bulgaria, where the percent average amounts 0.9% and 2% respectively.

As the data Hypostat show, relatively low debt levels is characteristic for countries of the Southern Europe. The average Portuguese, Greek or Italian debt amounts adequately 12.6 thousand Euro, 7.9 thousand Euro and 7.1 thousand Euro. The lowest debt per capita falls on Romania (500 Euro), Turkey (700 Euro) and Bulgaria (1.1 thousand Euro). Such a low level of mortgage debt in these countries may testify yet undeveloped banking market (housing loans) and low real estate prices in these countries.

According to statistics from the Credit Information Bureau in Poland (BIK), 1.3 million of them are loans taken in Polish zloty (PLN), and less than 700 thousand – in other currencies, where Swiss franc concerns over 560 thousand of loans with a total value 134 billion PLN.

In the period 2002 - 2012 loans in foreign currencies exceed a number of loans in PLN. In 2008 there was 70% of all new mortgages that were granted in Swiss franc, while only 30% in PLN. The proportion were changed dramatically in 2009 (loans in Swiss francs have been taken by only 17% borrowers). For a moment it seemed that Swiss franc can replace a bit more stable Euro, which in 2010 amounted 20% of all new mortgages, but it turned out to be too risky in the post-crisis. At this time, Polish currency (PLN) has been monopolized the market. There is approximately 99% of new loans in the Polish currency. This was done by the regulations of the Financial Supervision Commission (Polish: KNF), which led to marginalization of the loans in the foreign currency. At this time, in accordance with the law, only people who have regular income in Euro, Swiss francs and dollars, can take a loan on a house or apartment in the currency in which they earn. And such a system occurs relatively infrequently. Commission (KNF), fearing problems with repaying Poles mortgage, moreover, has introduced in recent years a number of other restrictions. Next to the elimination of risky loans in foreign currencies such as financial supervision lifted, there is also required 5% level of own contribution and then to 10% of the loan value. KNF also discourages banks to lend for more than 25 years.

In Poland, the average mortgage margin of 250 thousand PLN with 30 years term of loan with 20% of own contribution amounted 1.72% in January.<sup>8</sup> Although loans margins in Poland for a long time gradually go up (two years earlier on average it amounted 1.46%), the bank consumers in Poland can still reach a mortgage cheaper than in most EU member countries. According to the Foundation for the Mortgage Credit in Germany, for example, the average margin of more than 2% points, and in the UK - 2.8 percentage points. Nominal

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<sup>7</sup> Eurostat, 2014.

<sup>8</sup> calculated Notus Credit House, the credit intermediary.

interest rate on loans in Poland is higher than in the Euro zone and it is approximately 5%. In the Euro zone, the interest rate on mortgages falls even below 3%. This, however, depends not so much on banks selling mortgage loans as of the level of interest rates. These are in our higher than in the Euro zone. The decline in interest rates in Poland, with which we dealt with the middle of last year, with an allowance offset margin increases to customers. In the opinion of Polish experts, credit spreads in Poland will continue to grow. It is an effect of primarily rising funding costs of lending.

In subsequent years, there is also required the own contribution for the loan, that will increase by 5% and a year up to 20% in 2017. In addition, to the decrease of the value of the loan less than 80% of property value, the customer has to pay insurance low down. According to the recommendations of the Financial Supervision in Poland banks operating in Poland may not grant loans in foreign currencies, unless the customer proves that receives income in foreign currencies.

### **Conclusions.**

Recommendations European Systemic Risk Board Recommendation of the European Systemic Risk Board of 21 September 2011 on lending in foreign currencies (ESRB/2011/1) (2011/C 342/01) having regard to Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board and Decision ESRB/2011/1 of the European Systemic Risk Board of 20 January 2011 adopting the Rules of Procedure of the European Systemic Risk Board were established since foreign currency lending to unhedged borrowers has increased in a number of Union Member States.

It was recommended that the financial system should be made more resilient to negative developments in exchange rates that affect borrowers' capacity to service their debts denominated in foreign currencies, also by proving the borrowers' creditworthiness before the foreign currency loans are granted and by reviewing it throughout the loan life.

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