

Poland

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IN A NUTSHELL

- In economy struggled with record-high inflation of 10.9%.
- The strong labour market and record wage increases stimulated real estate demand.
- The main driver of mortgage market growth in H2 was an exceptionally favourable subsidy scheme.
- With limited supply, the surge in demand led to high property prices - even double-digit increases.

MACROECONOMIC OVERVIEW

The economy slowed considerably with GDP growth reaching only 0.2% compared to 5.6% in 2022, the worst growth since 1995, (not counting the pandemic). Growth was severely undermined by 10.9% inflation, leading to a collapse in consumption as consumers rebuilt savings and as the number of consumers fell due to the departure of Ukrainian refugees, whose spending the Central Statistical Office (GUS) does not distinguish from that of domestic consumers.

Also, a sharp rise in interest rates hit household incomes and made it harder for companies to access financing. This was compounded by a decline in foreign demand for domestically produced goods. On the other hand, fixed asset spending increased 8.0% y-o-y. This increase was mainly caused by the acceleration of public investment, due to the end of the EU's 2014-2020 financial perspective, which meant that all projects had to be completed and accounted for by the end of 2023. Despite the economic slowdown, the labour market remained pretty much unaffected. Unemployment rate was broadly unchanged at 2.8%, one of the lowest in the EU. The unemployment rate will probably remain at a historical low in upcoming years due to negative demographic trends.

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

Forecasts for 2024 assume GDP growth of 3.0-3.5%. The recovery in private consumption is a matter of time, given the strong real wage growth expected in 2024. Most likely, investment will continue to increase – the financing gap associated with the end of the EU's 2014-2020 financial perspective is likely to be filled by National Reconstruction and Recovery Plan, and companies' needs for energy efficiency improvements and automation remain high. After reaching

its peak in 2023, CPI inflation is forecast to fall to around 4.5% y-o-y (still above the inflation target of the central bank).

The growth property prices are likely to slow in 2024, but we do not expect a significant decline in prices. Demand will be sustained by the projected increase in creditworthiness, supported by rising wages and declining interest rates. The issue of the government's new housing support programme (to replace the 2% Secure Credit programme, which will expire in 2023) remains uncertain. Although the government started consultations on the new programme at the end of 2023, current announcements indicate that the new support programme may not be launched until 2025 at the earliest.

HOUSING MARKETS

The number and area of dwellings completed in 2023 fell along with construction starts and permits issues. In 2023, 221.3 td dwellings with a total floor area of 19.9 mn m² were completed, a decline of 7.2% and 9.6% y-o-y, respectively. It was the first year in the last 5 with a decrease in the number and floor area of dwellings completed. The average floor area of a dwelling completed in 2023 was 89.9 m², 2.4 m² less than in 2022.

Construction of 189.1 td dwellings was started in 2023, 11.2 td (5.6%) less than a year earlier.

The average duration of construction of a new residential building in 2023 increased by 0.5 months to 43 months.

In 2023, building permits were issued for 241,700 dwellings - 56,700 fewer (19.0%) than a year earlier. Around 67% of those dwellings will be constructed by developers. Individual investors will build 30% and the remainder (3%) will be built social housing.

The double-digit increase in prices continued in 2023 in both the primary and secondary markets.

The largest increases in average price of residential properties were recorded in major cities in Poland, with the exception of Warsaw (although prices have also risen significantly in the capital, both on the primary and secondary markets). On the primary market the biggest price increases were recorded in Opole: 19.3%, Rzeszów: 15.2%, and Wrocław: 13%, ahead of Warsaw where the rise was 9.2%. For existing properties prices rose less, for example in, Rzeszów by 8.3%, Kraków: 8.1% and Opole: 8%, compared to Warsaw where prices rose by 5.5%.

MORTGAGE MARKETS

MARKET DYNAMICS

The market size increased significantly, mainly due to the 2% Safe Credit programme and the first interest rate cuts in 3 years.

Despite still high rates, customers were more willing to buy residential properties – also as a way of protecting their savings against inflation. As a result, banks granted over 162.3 td housing loans, an increase of 29% y-o-y. Nearly 40% of those new loans were granted under the 2% Safe Credit programme. The number of outstanding mortgages was 2.292 mn, 11% less than the peak in

2021. Their total value was nearly PLN 480 bn (4% less y-o-y). The average loan value was around PLN 375,000 – a record high and an increase of over 10% y-o-y. Loans with an LTV over 80% were nearly 25% of all new loans granted. The credit quality remained stable – NPLs were 2.22% (an increase of 0.10 pps y-o-y). An interesting development in the Polish mortgage market in 2023 was the surge in popularity of loans with periodically fixed interest rates. While as recently as in 2021, nearly 97% of new loans were based on a variable rate – in 2023 it was only about 30%. Fixed-interest loans granted on market terms typically have a 5-year fixed interest, while loans granted under the 2% Safe Loan - have a 10-year fixed rate.

NON-MARKET LED INITIATIVES

The increase in the share of periodically fixed-rate loans is also a result of the '2% Safe Loan' prevailing in 2023. In order to benefit from this, the client had to take a fixed rate for the first 10 years of the loan. Nearly 93 td people (nearly 40%) benefited from the programme and took out mortgage loans totalling PLN 27.2 bn. In total, nearly 67 td preferential loans were granted. It was assumed that 50 td loans would be granted over two years, with the budget for 2023-24 closing at PLN 941 mn. The programme offering preferential credit ended quickly (although it was planned for two years) due to the exhaustion of its budget.

MORTGAGE FUNDING

The main funding instrument for mortgages are deposits, followed by covered bonds. According to the covered bond law, only specialised mortgage banks are

	POLAND 2022	POLAND 2023	EU 27 2023
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	5.6	0.2	0.4
Unemployment Rate (LSF), annual average (%) (1)	2.9	2.8	6.1
HICP inflation (%) (1)	13.2	10.9	6.4
HOUSING MARKET			
Owner occupation rate (%) (1)	87.2	87.3	69.2
Gross Fixed Investment in Housing (annual change) (1)	-0.3	-1.4	-3.1
Building Permits (2015=100) (2)	135.6	107.8	94.0
House Price Index - country (2015=100) (2)	177.5	188.3	170.2*
House Price Index - capital (2015=100) (2)	170.8	182.7	165.1*
Nominal house price growth (%) (2)	10.4	6.1	3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	106,166	110,595	6,782,375
Outstanding Residential Loans per capita over Total Population (EUR) (2)	2,819	3,009	15,114
Outstanding Residential Loans to disposable income ratio (%) (1) (2)	28.5	25.3	71.3
Gross residential lending, annual growth (%) (2)	-45.0	24.0	-26.6
Typical mortgage rate, annual average (%) (2)	7.7	8.3	4.7

* Please note that this value is a simple average of the available values in 2023.

Sources:

(1) Eurostat.

(2) European Mortgage Federation - Hypostat 2024, Statistical Tables.

eligible to issue covered bonds in Poland. In 2023 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.

To stimulate the mortgage covered bond market in Poland and change the structure of mortgage funding, in mid-2023 the Financial Supervision Authority (KNF) began work on introducing a new long-term financing ratio. A draft of this new ratio has gone out for consultation, work on calibrating the indicator should be completed in the summer of 2024.

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?	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%.
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?	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.
What is the typical/average maturity for a mortgage in your country?	Between 25 and 35 years (according to yearly data, around 64.5% of new lending belongs to that range in 2022).
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.