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# MORTGAGE LENDING IN POLAND - 2008



by Marcin Mazurek, Intelace Research  
March 2008

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## RETAIL MORTGAGE LENDING MARKET IN POLAND 2008

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# EXECUTIVE SUMMARY – RETAIL MORTGAGE IN POLAND - 2008

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- **Deficit of residential real estate.** A severe deficit of residential real estate is nowadays one of key social problems in Poland. Around 38 million inhabitants or 14 million households live in ~12 million populated dwellings, meaning a deficit of ~1.5 - 2 million dwellings. The situation looks even worse, when taking into consideration, that existing infrastructure is on average old, partially devastated and in many cases lacking basic amenities: running water or canalization. In 2007 the supply of new dwellings slightly increased (134,000 completions), but it is still far from satisfying the gap
- **Demand for mortgage lending.** In 2007 the demand for mortgage lending kept growing quickly. Private individuals took ~ PLN 54 bn in new mortgage loans, driving the total value of outstanding mortgage of households to PLN 117 bn (EUR ~32 bn). Sales of new loans were driven both: by increasing ticket size (+25% :CAGR 07/05) and increasing number of clients (+24% :CAGR 07/05)
- **Supply of mortgage lending.** The mortgage lending market is competitive, since almost all retail banks and increasing number of intermediaries are nowadays fighting for mortgage clients. Despite several seasonal promotions and special deals offered to new customers, the average lending margins remain relatively stable on a solid level of: 1.2 - 1.4%. At the same time the quality of loans is still very good with NPLs below 2% of total lending portfolio
- **Future opportunities.** Increasing wealth of individuals (wages growth >10% yoy) and deficit of residential real estate are very likely to drive the demand for new mortgage lending in the future. The recent stabilization of real estate prices in top cities will make it difficult for banks to repeat the extreme growth rates of new mortgage recorded in 2007 and 2006. Moreover a regional shift in new lending demand structure towards smaller locations will require banks to adjust their distribution networks accordingly. Intelace Research expect that mortgage lending portfolios of banks will keep growing at ~18 p.a. within next two years, rising to PLN 164 bn in nominal terms in 2009

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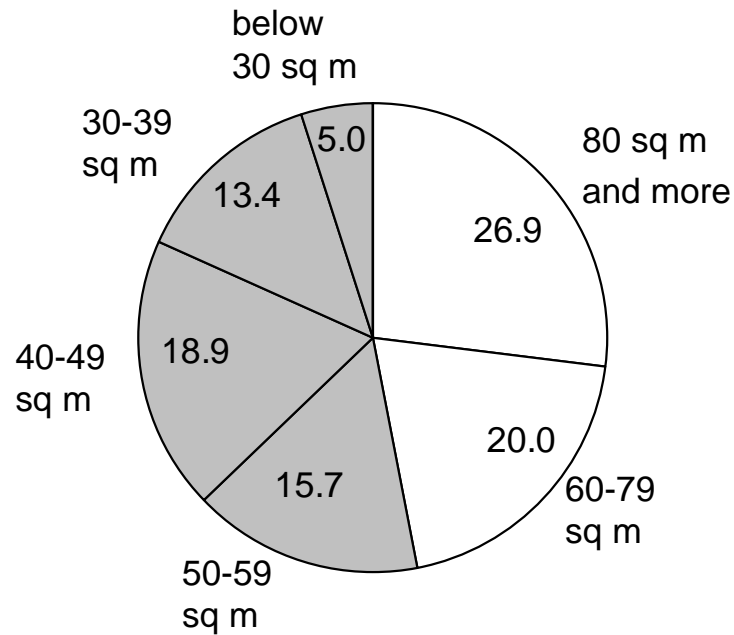
# SMALL DWELLINGS DOMINATE ON THE MARKET

2002 CENSUS

## Inhabited dwellings structure, as of 2002

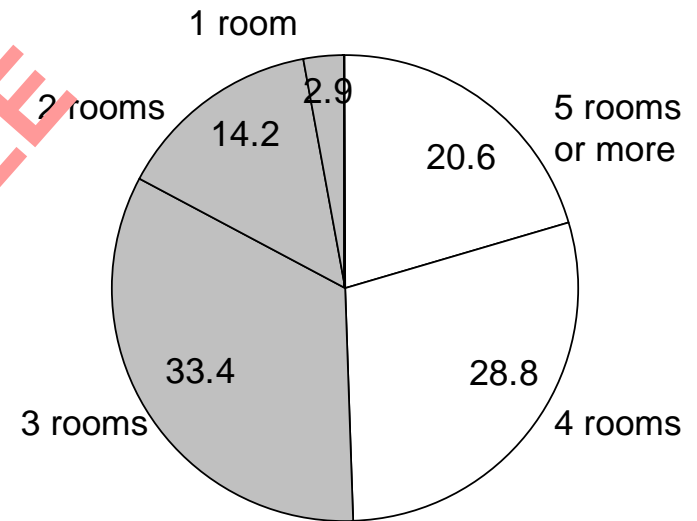
in percent, 100% = 11.6 million

### By floor space

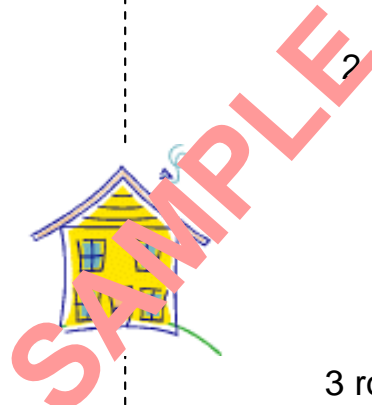


Most dwelling with floor space below 60 sq. m

### By the average number of rooms



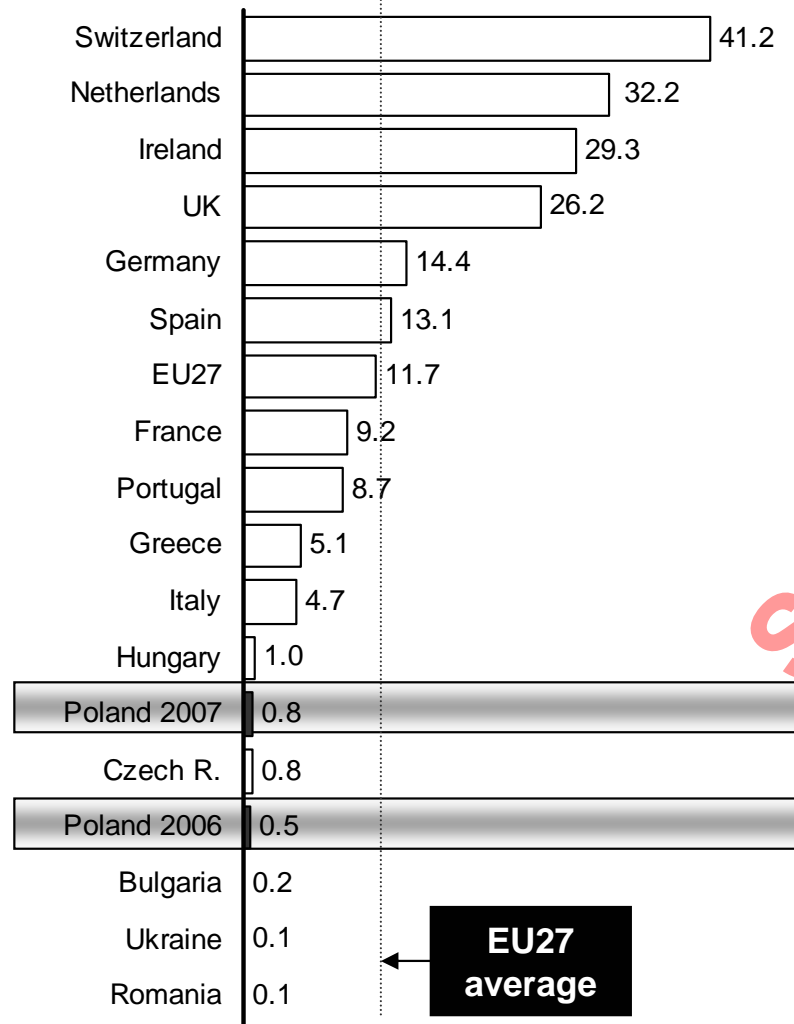
Almost 50% of dwellings with up to 3 rooms



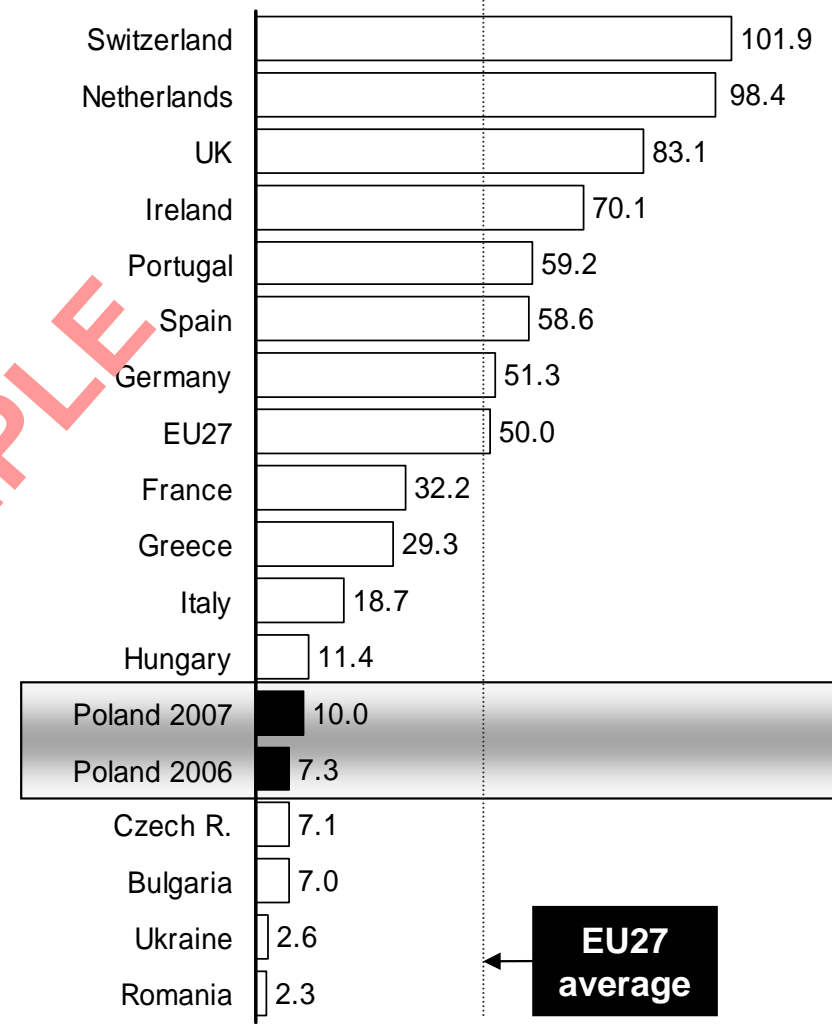
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# IF COMPARED TO OTHER COUNTRIES, POLISH MORTGAGE PENETRATION BENCHMARKS ARE STILL RELATIVELY LOW

**Residential mortgage debt per capita, 2006(7)  
EUR**



**Residential mortgage debt/GDP ratio, 2006(7)  
percent**



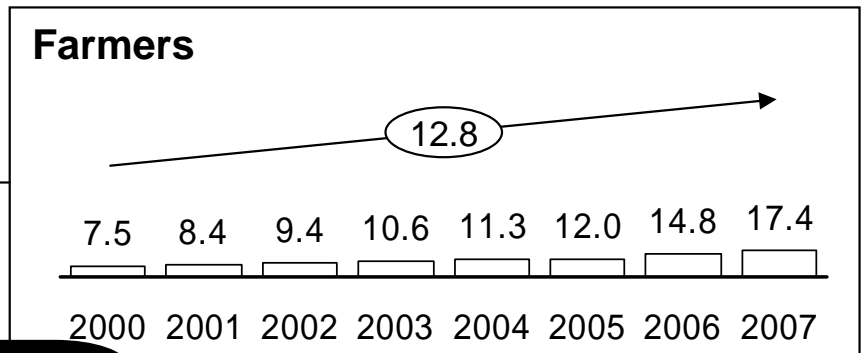
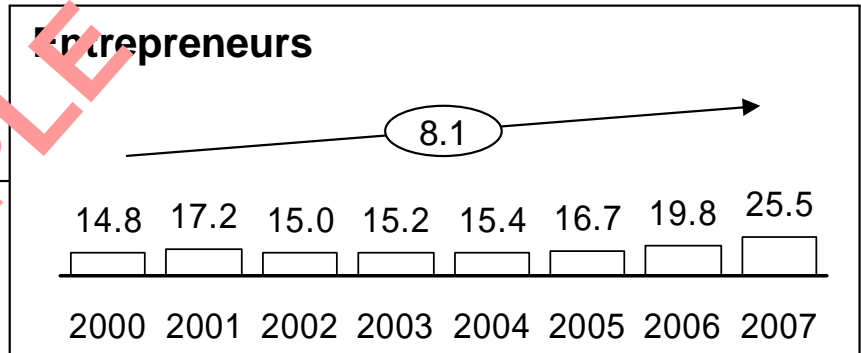
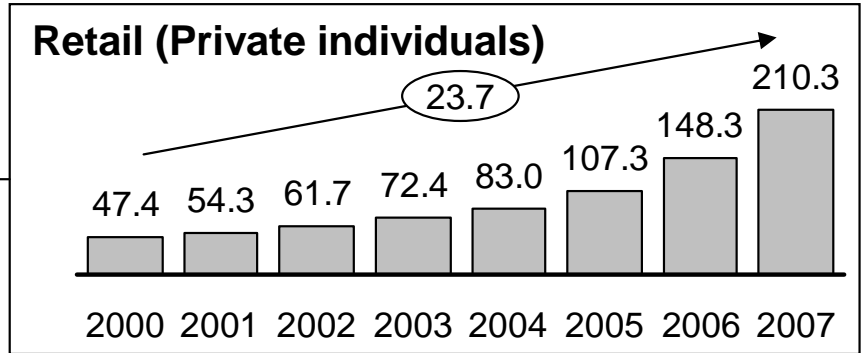
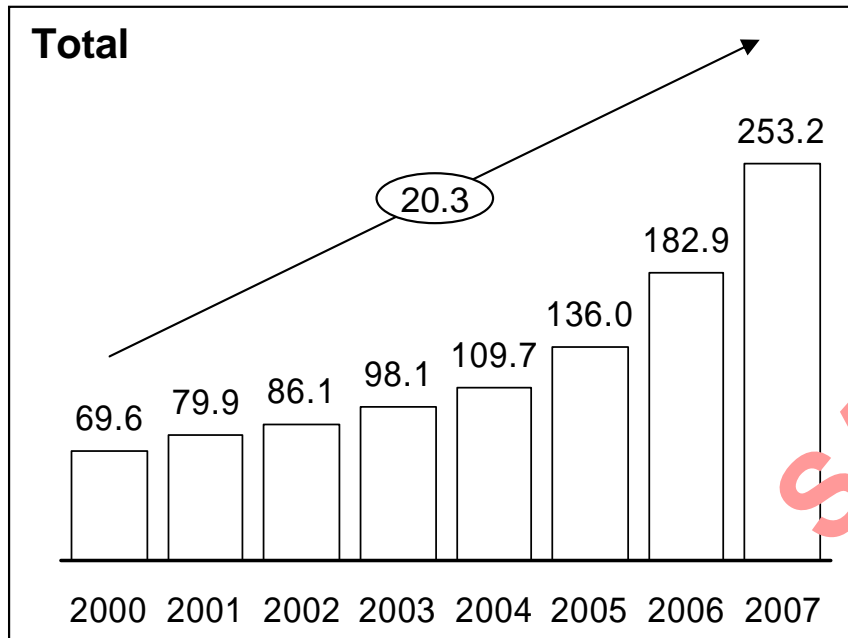
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# HOUSEHOLDS LENDING ACCELERATED IN 2007



## Lending to households\*, 2000-2007

PLN billion, percent



Households lending (as % GDP)

**Household debt in relation to GDP jumped to 22% in 2007**

\* Including individual entrepreneurs and farmers

\*\* Compound Annual Growth Rate

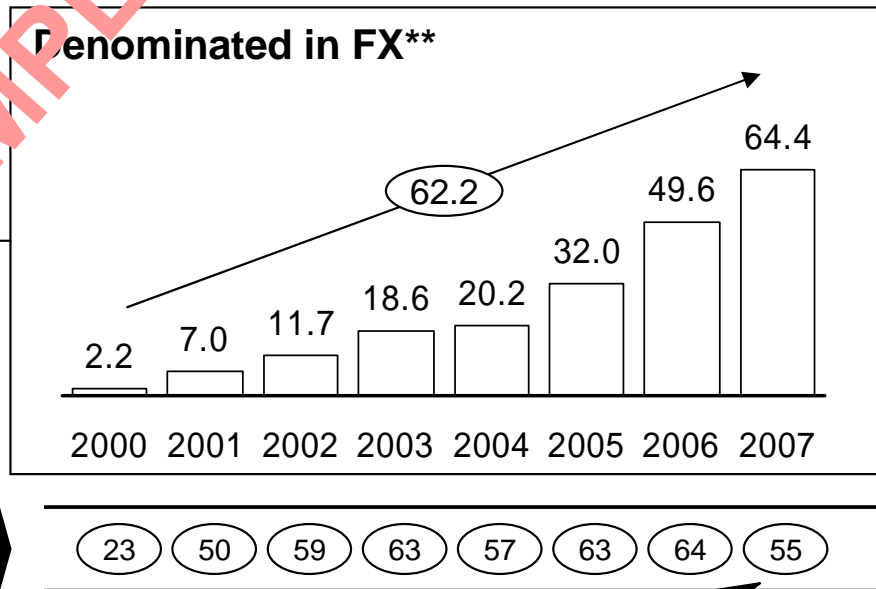
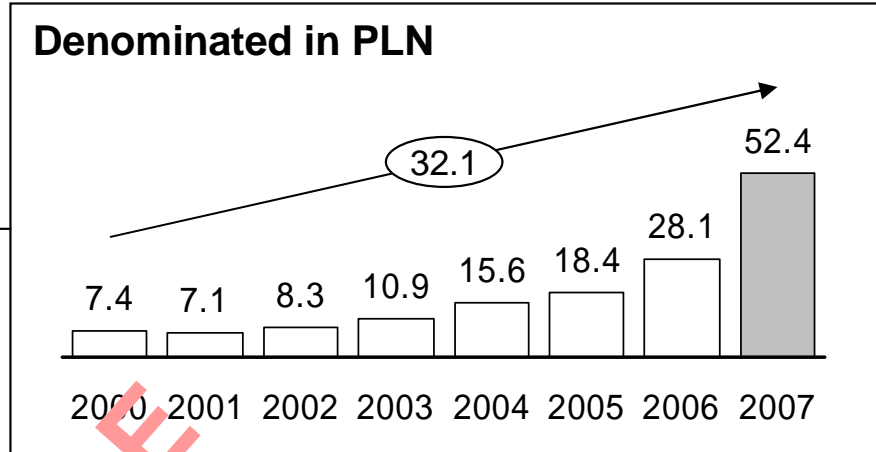
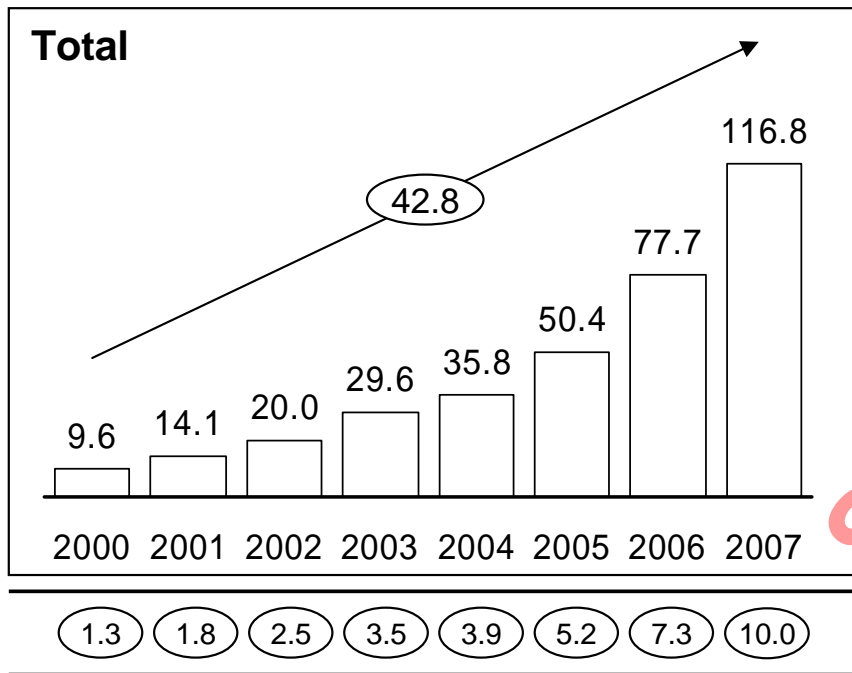
Source: NBP, Intelace Research



# MORTGAGE LOANS DENOMINATED IN LOCAL CURRENCY GAINED ON POPULARITY IN 2007

CAGR\*

Housing loans (mortgage) to households, 2000-2007  
 PLN billion



Housing lending (as % GDP)

1.3 1.8 2.5 3.5 3.9 5.2 7.3 10.0

Share of FX-denominated loans in total lending (%)

23 50 59 63 57 63 64 55

FX denominated loans were increasingly popular through mid-2006, but since then loans in local currency grow most rapidly

\* Compound Annual Growth Rate  
 \*\* Mostly loans denominated in CHF  
 Source: NBP, Intelace Research, GUS

# “REKOMENDACJA S” – A REGULATORY CHANGE TO LIMIT THE FX-DENOMINATED MORTGAGE LENDING HAD ONLY A LIMITED EFFECT

## Background:

As a result of the joint initiative of the Polish Banks Association (ZBP) and the Banking Supervision Commission (KNB), a new regulation concerning FX-denominated retail mortgage lending “**Rekomendacja S**” has been adopted and implemented as of July 1, 2006

The new regulation was intended to prevent possible risks resulting from:

- abrupt currency depreciation (PLN vs. FX)
- increase of FX interest rates (CHF, EUR)

## Key changes:

- Calculation of client’s ability to repay a FX-denominated loan is more rigorous and takes into consideration cumulative effects of possible unfavorable interest and exchange rate evolution
- Loans in the local currency are to be offered by banks as the first choice and preferred option
- Extensive simulations with various scenarios need to be presented by the bank and accepted by the client prior to signing a loan contract

Komisja Nadzoru Bankowego

## Rekomendacja S

dotycząca dobrych praktyk w zakresie ekspozycji kredytowych zabezpieczonych hipotecznie

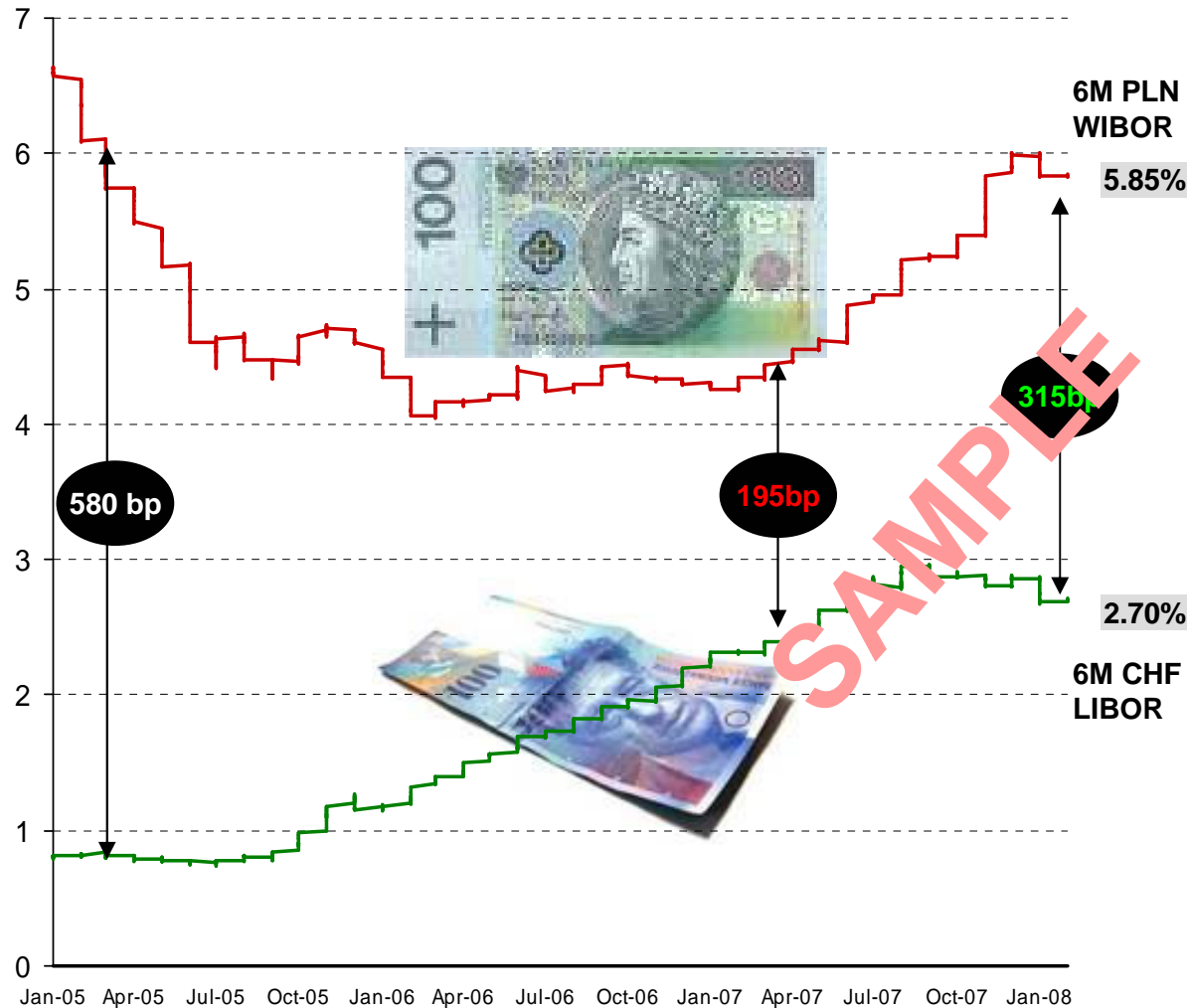
## First observation of the market after July 1, 2006:

- Most banks have reduced maximum FX-denominated loans amount offered\* by more than 20%
- Some banks have eased their general lending criteria and managed to offset in full the new regulation
- Many banks still do not offer local currency loans as the first choice
- The new regulation is often perceived as overdone and adopted against client’s interest
- The share of FX-denominated loans has indeed dropped in early 2007 but today it is growing again since the interest rate difference makes CHF-denominated loans attractive again

# THE CHF/PLN INTEREST RATE SPREAD IS GROWING AGAIN, SUPPORTING THE POSSIBLE COME BACK OF SWISS CURRENCY

Interbank interest rates, 2005 – Feb. 2008

percent



- The difference between PLN and CHF inter-bank rates has been falling until mid-2007 (min=195 bp.) resulting in increased demand for loans in local currency
- Today the difference is widening again, making FX denominated loans more and more attractive again
- The PLN/FX interest disparity will possibly grow further due to restrictive policy of NBP and softening policy of ECB an SNB

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## About this report

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This report has been prepared using publicly available sources including: financial reports, press publications, industry magazines, directories, financial databases and expert opinions.

Views presented in this report reflect solely independent and unbiased opinion of Intelace Research and the author.

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## About Intelace Research

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Intelace Research is an independent and privately owned research firm based in the heart of Eastern Europe in Warsaw / Poland.

Our company is specializing in value-added research services and tailored business intelligence solutions.

Through our customized research services we help our clients to better understand their consumers, competitors and overall market dynamics.

The lead researcher and founder of Intelace Research is Marcin Mazurek.

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# NOTES ON METHODOLOGY

## FX rates:

- As a general rule all “end of year” balances like: assets, deposits, loans and similar volumes have been converted from the local currency into Euro using **end of year** exchange rate
- All results achieved during a period of time like: profits, revenues, new sales etc. have been converted from the local currency into Euro using **average** exchange rate
- Exchange rates used in the report:

EUR / PLN	2000	2001	2002	2003	2004	2005	2006	2007
End of year	3.90	3.53	4.03	4.72	4.09	3.86	3.86	3.63
Average	4.02	3.68	3.85	4.40	4.53	4.03	3.79	3.91

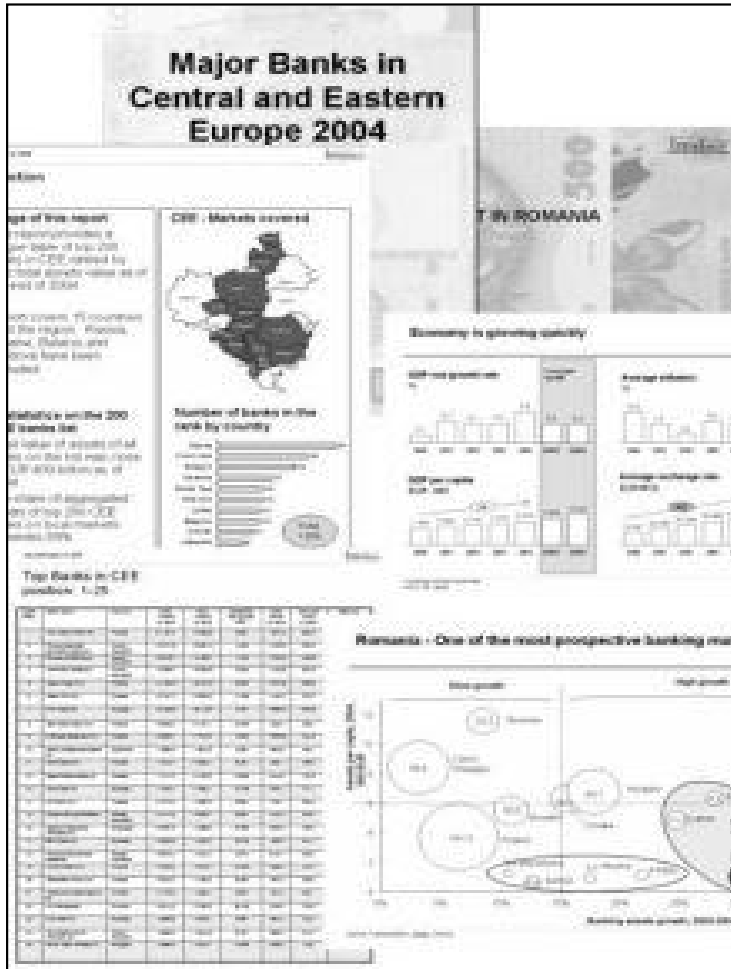
## Estimates and Forecasts:

- In some cases, recent or verified data was not available. Therefore, necessary short-term estimations have been done to fill the gaps. Estimates are always indicated with the letter “E”
- When preparing forecasts/estimates we have built models using latest observed trends, available forecasts of main economic indicators, seasonal changes observed in the past and other specific factors considered important

## Multiple sources:

- In some cases multiple sources of similar data exist. In this situation we always try to select the most appropriate one /in our view/. The source is indicated in the footer area of each slide. Nevertheless in specific cases, before interpreting the data it is recommended to get understanding of the methodology

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