

CHAPTER 1. HOUSING FINANCE IN POLAND

by
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1. Macroeconomic Characteristics

Demographic trends and indicators

The population of Poland has been on a slightly upward trend since the transition period and reached the level of 38.19 million in 2003 as compared to 37.88 million in 1988 (an increase of 306 thousand – 0.8%). Although the rise in the total number of population was insignificant in statistical terms, the total number of households in the same period grew by 13.1% from 11.97 million in 1988 to 13.54 million in 2003. However the average household size decreased by 10.2% mostly as a result of a rise in the number of single-person households (an increase of 6.9 basis points in the same period).

Economic trends and outlook in the medium term

During recent months, Poland's economy has shown signs of a gradual recovery. The average GDP growth was above 5% in 1997-99. Annual GDP growth in 2003 amounted to 3.8% (as against 1.4% in 2002). In the fourth quarter of 2004 as compared to the same period of previous year GDP amounted to 5.3%. The prime reason for this recovery was an increase in domestic demand¹, although not supported by an alteration of unfavourable trends in the employment absorptive capabilities of economy. Moreover, the growth continued to be propped up by export yet now as a result of appreciation of PLN as against EUR (the Euro-zone countries are the Polish main export destination routes), the share of export in GDP is being marginalized.

Consumer price growth in 2002 was slower than in the previous year. Annual CPI inflation (December-on-December) stood at 0.8% (compared to 3.6% in 2001). Annualised average inflation came to 1.9% (compared to 5.5% in 2001). In 2004, annualised average price growth was higher than in the same period of 2003 (3.5%, as against 0.8%), furthermore twelve-month consumer inflation (December-to-December) was running at 4.4% (compared to 1.7% in 2003).

The official interest rates of the National Bank of Poland were cut down six times in 2003, by a total of one and a half percentage point (reference rate), which led to a fall in both the lending and deposit rates offered by the banks to their customers and in the yields on basic money market instruments. In 2004, the Monetary Policy Council increased interest rates three times as a result of inflationary pressure related, among other things, to EU accession and now the basic interest rate stands at 6.5% (central bank reference rate).

Average monthly employee earnings in the corporate sector went up by 5.6% in the fourth quarter of 2004 (as compared to the same period the previous year), to stand at 2,405 zloty (gross).

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The exchange rate for the US dollar at the National Bank of Poland amounted to 3.7405 zloty as at the end of December 2003, with the EUR established at 4.7170 zloty. On the 31st December 2004, in comparison to previous year, the zloty gained both a nominal 20.5% to the dollar and 13.53% to the EUR.

The situation in the labor market has not yet improved. At the end of 2002, the jobless total amounted to over 3.21 million (up by 3.2% on the previous year), while the rate of unemployment stood at 20.2%. At the end of June 2004 the unemployment rate reached 19.5% (compared to 19.7% a year earlier).

2. Demand and Supply of Housing

The total housing stock in Poland at the end of 2003 amounted to 12.6 million dwellings². In years 1997-2003 the average rate of the housing assets increase was about 0.9% a year. The average usable floor area of a dwelling is currently 68.8 m² and was steadily growing since transition period due to a significant increase of the average usable floor area of completed dwellings, especially in individual construction. The same trend was recorded in the average usable floor area per capita. In 2003 the respective index was 29.7% above the 1990 value. The number of dwellings per 1000 inhabitants as at the end of 2003 reached almost 330. Yet despite gradual improvement, the ratio still lags behind the average of European Union countries.

Recently the unfavorable conditions in respect to the level of satisfied housing need, which negatively distinguish Poland among other European countries, have progressively increased. The intensity of housing production seems to be the major reason behind the scale of housing arrears.

With regard to the legal title of housing assets, during the period of 1988-2002³ significant proprietary alterations took place. It stemmed from conversion of rental title to the dwelling – which was predominant prior the transition period – into the ownership right. The results of the census of 2002 revealed that over 55% of inhabited dwellings constituted a separate ownership of natural persons (individuals). The detailed specification as refers to tenure structure is in table below.

Table 1: Tenure structure in 2002

	Total inhabited dwellings (in thousand)	Dwellings which belong to:						
		Natural persons	Co-operative	Municipalities	State Treasury	Enterprises	Social housing association	Others
Total	11,763.5	55.2%	28.6%	11.5%	1.7%	2.2%	0.4%	0.4%

Source: Based upon census data

Additionally, the census of 2002 exposed housing deficit slightly larger than previously predicted (calculated as a difference between the number of households and the number of the total housing assets) as it grew in 2002 to the level 947, 600 dwellings. Notwithstanding the statistical deficit of dwellings (as a difference between the number of households and the number of inhabited dwellings) amounted to 1,567,000 and was about over 314,000 dwellings higher when compared to 1988 figures.

However "the statistical deficit of dwellings" overstates both the dimension of real housing needs and effective demand for housing (it fails to incorporate into calculations the income generated by households). Additionally, the category of housing deficit does not point to the number of households who co-habit and then arrive at a decision to live on their own (the differences could be substantial). As a result the approach, which base upon the simplified assumption of permanent housing crisis in Poland fails to be supported by social expectations and real potential of housing market. On the other

hand, the Central Statistical Office expects the total number of households to grow at a significant rate, which could be translated into acceleration of housing needs in the future. Those factors contribute to the conclusion that the assessment of housing needs seem to be performed with prudent approach.

The level of unsatisfied housing needs is not the only factor which testifies about the upscale of demand in housing sector. A similar situation relates to housing conditions, which in comparison to other European Countries present itself exceptionally poor. In Poland, as an average one dwelling consists of 3.70 rooms where live 3.25 persons (most Central Europe Countries depict their housing conditions more favorable). As a consequence the spatial conditions of housing fall short of 23 square meters per capita.

In terms of average age of dwellings, Poland is doing relatively well even when compared to the Western European countries. The oldest part of the housing stock, i.e. constructed before 1918 accounted only for 10% of the total while 49% of the stocks are dwellings built after 1970. Respective figures for the Western European countries were 15% and 40%. Unfortunately, due to poor technologies and significant rehabilitation backlog, the deterioration of dwellings is often very high even in relatively new stock.

The value (equipment with amenities and technical standard) of existing dwellings is by all means related to their legal title as well as the age of buildings they are situated in. The severe amortization of existing housing assets corresponds mainly with municipal stock (also privatized dwellings in MHS buildings) as well as part of older stock located mostly in rural areas. Low annual level of general repairs coupled with insufficient rental incomes will additionally increase already high rate of technical amortization of that housing stock.

Definitely, the predominant legal form of housing supply is the segment of separate ownership construction (averaged at over 85% of total housing output in recent years). Exceptional adaptive features of this market are not a new phenomenon in Poland. Yet in the period of centrally-planned economy the output of co-operative tenancy construction (the segment backed by several active forms of state assistance), at least two times outnumbered the ownership construction, which used to suffer from financial limitations as well as administrative restrictions. The fundamental obstacle which restricts the demand for dwellings in new ownership segment is a significant disparity of potential purchasers' income and the high prices of dwellings. The purchasing power, expressed as a ratio of net monthly salary to a price of a square meter of usable floor is limited to 0.7 – 0.9 square meter depending on the region.

On the supply side, there is still a problem of serviced land for housing. The infrastructure is the responsibility of the municipalities, which lack the budgetary resources for necessary investments. As a result, overall cost of residential development is higher (either final tender prices for serviced land are higher or cost of construction is transferred onto investors).

Regarding housing output, in 1997 a severe breakdown of dwellings completed was reversed and the number of residential units was more than 73 thousand or about 18% above the 1996 figures. Data for years 1998-2003 confirmed the upward trend in housing. In 2003 162,700 dwellings were completed, which means an increase of 66.7% in comparison to the results of 2002 (see table below). The most dynamic growth was recorded in the new types of housing i.e. in dwellings for commercial sale or rent (8.5%) as well as in dwellings constructed by social housing associations (25.8%). Moreover, individual investors completed over 118 thousand dwellings (125.1% more as compared to 2002 results) yet the boom finds its explanation not only in statistical terms.

Table 2: New construction (in thousand)

	1999	2000	2001	2002	2003
Housing starts	81.9	87.8	105.9	97.6	162.7
Multi-family	48.6	52.3	65.3	45.2	44.6
Single-family	33.3	35.5	40.6	52.4	118.1
Construction source structure					
Private sector	75.9	81.8	96.8	90.3	154.7
Public sector	2.6	1.9	2.3	2.5	1.9
Housing associations**	3.4	4.1	6.8	4.8	6.1
Housing trading volume (in thousand unit)					
Primary market	n/a,	n/a,	n/a,	n/a,	n/a,
Secondary market*	320.6	270.3	262.3	243.2	n/a,

* Estimated data

** Non-profit organizations of which 65% are owned or co-owned by municipalities

Despite large housing needs, annual output of the housing construction industry is still insufficient. In 2001, slightly more than 2.7 newly completed dwellings per 1000 inhabitants were offered on the market while this figure amounted to 2.6 in 2002. Despite an increase of the analysed ratio in 2003 to almost 4.3, such favourable change was caused by a sharp up-growth of dwellings completed by private investors. The reason behind it was expected fines for utilizing a dwelling/house without a filed notification of completed investments. Private investors, who had already finished construction works, delivered a notification to the building authorities, thus avoided penalties and accelerated the number of completed dwellings in 2003.

The size of the rental sector in Poland has been diminishing over the decade. There are several factors shaping the process. New construction is dominated by owner-occupancies: individual, cooperative and provided by developers on profit basis. The tenure structure is also affected by the privatisation of the existing units (sale to sitting tenants – see tables below). The relatively high dynamics of the privatisation is due to considerable discounts offered to buyers, which are typically 80% of the market value and higher.

Table 3: Privatised dwellings in buildings owned or co-owned by municipalities or employers

	1995	1999	2000	2001	2003
- <i>Dwellings in buildings owned or co-owned by municipalities total (thousands of units)</i>	2 035.3	1 999.9	1 929.5	1 828.7	1 314.8
- <i>share of privatised dwellings</i>	14.8%	27.1%	28.9%	30.1%	n/a
- <i>Dwellings in buildings owned or co-owned by employers total (thousands of units)</i>	1 155.3	754.2	676.3	616.7	466.9
- <i>share of privatised dwellings</i>	6.2%	18.2%	19.8%	21.6%	n/a

Central Statistical Office (2002 data not available)

Table 4: Co-operative rental and cooperative owner-occupied dwellings

	1988	1996	1998	1999	2000	2001	2002	2003
Coop dwellings total (<i>thousands of units</i>).	2 800	3 204.6	3 329.3	3 350.2	3 386.8	3 410.4	3 369.1	3 452.2
of which:								
- coop rental	2 333.0 83.3%	1 416.6 44.2%	1 285.7 38.6%	1 185.1 35.4%	1 156.7 34.1%	1 060.3 31.1%	1 097.5 32.6%	1 127.5 32.6%
- coop owner-occupied	467 16.7%	1 788.0 55.8%	2 043.6 61.4%	2 165.1 64.6%	2 230.1 65.9%	2 350.1 68.9%	2 271.6 67.4%	2 323.7 67.4%

Central Statistical Office

3. Housing Finance Market and System

The first half of the 90's did not see a great demand for mortgage loans. There were many reasons for this and some of them were strictly related to macroeconomic performance of Poland. The most important of them were as follows:

1. High cost of loans,
2. Low demand for long-term, market-priced, loans in circumstances of economic uncertainty,
3. Low housing affordability as an effect of the negative relation between households' income, mortgage rates and construction costs.

Yet the situation has completely altered now and according to calculations of National Bank of Poland at the end of first half of 2004 total housing loan outstanding in the whole banking system amounted to 43,446.3 million zlotys. This amount comprises of the sum of housing loan outstanding of individuals that constituted over 77% (33,547.0 million zlotys) and housing loan outstanding of corporations (9,899.3 million zlotys).

Almost 51% of total housing loans outstanding constituted denominated housing loans (22,081.4 million zlotys). With regard to housing loans granted to individuals the ratio is even higher as at the end of June 2004 it amounted to 59% (19,759.2 million zlotys).

Mortgage loans including housing loans are one of the most dynamically developing banking products in recent years, as only in the period of second half of 2000 and second half of 2004 the total housing loan outstanding of households increased over 3.5 times (over 26.2 billion zlotys). Thus the annual growth rate in the same period averaged at over 6.5 billion zlotys. (see also Appendix 1)

Significant housing loan dynamic has been accompanied by considerably low interest rate of denominated loans, additionally supported by a sharp drop of interest of loan in Polish currency in last two years. At the end of first half of 2004 the market-driven interest rate on housing loans in zloty was circa 7.4%.

The first half of 2004 witnessed the prices of dwellings, in both primary and secondary markets, increasing, to some extent as a result of implementation of basic (22%) VAT rate on building materials (previously 7%). Additionally, the increase of prices was caused by a surge in demand, which find its explanation in the anxiety of purchasers about eventual price perturbation following EU accession. The expected further increase of demand for housing loans by mortgage loan providers will probably confirm the upward trend of prices in housing market. In the light of several analyses of real estate brokers it is foreseeable that in the period of oncoming months the prices of housing will increase by 5-7%.

The dynamic growth in value of granted housing loans, which is observed at present, coupled with a more flexible loan policy of mortgage loans providers, indicates that the banks intensively compete to gain over the higher possible share in the market. More flexible loan policy combined with the improvement of income of households as well as the increase of demand for loan have the features of pro-cyclical behavior, which can escalate the amplitude of economic cycles in future.

The influence of the present high growth rate of housing loans on the situation of banks (as well as indirectly on situation of the whole economy) in longer horizon will considerable depend upon the measure of the loan risk management by banks.

At present, the quality of loans for property purposes including especially housing loans is much better than the average quality of loans for non-financial sector. However, the features of loans for property purposes do not allow an unambiguously affirmation that they imply low level of risk. The horizon of repayment performance (usually 20-25 years) as well as short period of offering such financial products by banks indicates that the cycle of worsening of housing loans is not fully well-known.

The high growth rate of housing loans as well as the uncertainty which accompany the future quality of loan portfolio forced the banking supervision to implement⁴ the principles of prudent valuations of loan collateral as well as to introduce the acceptable relation of loan to the value of property being credited (benchmark of 50% of LTV indicator). The higher share of loan is acceptable yet proper relation between bank equity and credit risk exposure should be maintained.

Until recently housing construction was financed almost exclusively with cash (excluding subsidized loans of pre-transition years and early 1990s). In 1998 the share of loans in housing financing accounted for about 9%. In 1999 the figure has risen to 15% while in 2000 and 2001 amounted to 16% and 21% respectively. In 2002 the analyzed figure reached almost 24%. Two years ago the share of housing loans in property financing increased additionally by 4 basic points.

In terms of mortgage insurance, the market has not yet developed to the extent which would satisfy both lenders and borrower of housing loans. Housing loan insurance resolves to limited assistance of granted credit maturity of which expires at the date of registration in land and mortgage book. Yet recently the insurance market has witnessed a new product, which is exclusively directed at enhancing borrowers' opportunities in the event of inadequate amount of equity. However, as a rule the insurance company adapts the products to the requirements of a bank depending upon banking procedures being in force in a given bank.

4. Secondary Mortgage Market

In 1997 the Act on Mortgage Bonds and Mortgage Banks was adopted. It introduced a German model of mortgage securitization - *Pfandbrief*. Mortgage banks are specialised financial institutions with the right to issue mortgage bonds (*Pfandbrief*) against the mortgages in their portfolio. Mortgage bonds, which are long-term safe capital market instruments, are supposed to provide suitable long-term financing for mortgage loans originated by mortgage banks and have positive impact on their interest and maturity. There are currently four mortgage banks in Poland:

1. HypoVereinsbank (since 26th November 2004 BPH Mortgage Bank),
2. Rheinhyp (since 1st January 2005 BRE Mortgage Bank),
3. Slaski Mortgage Bank,
4. Nykredit.

With regard to the number of banks operating in Poland, as well as the dimension of market they can serve, the set up of four mortgage banks up till now cannot be recognized as a fulfillment of hopes placed in the Law. Universal banks with the largest housing loan portfolio (PKO BP S.A., Pekao S.A.) have not yet set up their mortgage banks. Additionally Pekao S.A. despite being authorized by Banking Supervision abandoned the idea of launching the project of mortgage bank.

As a result, the perspective of expansion of mortgage loan market seems still not to have fully explored opportunities for dynamic participation of mortgage banks in the market. After several years of activity the share of the banks in mortgage loan market is still marginal. As at the first half of 2003 the portfolio of mortgage loans which finance the property acquisition reached almost 3% of total value of property loan portfolio in the whole banking sector. Moreover the issuance of mortgage bonds at an aggregate amount of 437 million zlotys, constitute only 1% of total amount of commercial debt securities. (see also Appendix 2)

Commonly expressed obstacles as refers to the development of that market are as follows:

- 1) Necessity of creation the mortgage loan portfolio which distinguish itself by a proper quality being at the same time the basis for the issuance of mortgage bonds,
- 2) Legal limitation (for a time being) of investors' activity in capital market,
- 3) Long lasting procedures of registration in land and mortgage books.

On the other hand, the foundation of the housing financial system based on secondary mortgage market has emerged. The legal basis in that respect is the amendment to the Law *on banking* (2004), which introduces the name "securitization" to legal environment, as well as the approved also in 2004 the Law *on investment funds*, which defines the principles of securitization funds. It is advisable to mention here that yet legally stipulated now, the securitization was previously applied to several market transactions.

Nevertheless, the majority of the housing loans currently offered by Polish banks are still funded with short-term deposits. However, it should be noted that securitization would, to some extent, improve the affordability of mortgage financing. The considerable narrow spread on loans and deposits justifies the application of alternative financial techniques by banks, rather than extend the depositary policy actions.

5. Regulations

Land and Mortgage Books

A key legal institution for the property trade in Poland is the land and mortgage books. Land and mortgage books are registers kept for each individual property by regional courts. They consist of information on the property itself (plot number, address, area, etc.) and on its legal status (i.e. its present owner, mortgages and other encumbrances or third parties rights).

In January 2003 a pilot program of electronic system of land and mortgage books system was launched in 6 courts in Poland. The process of introduction of electronic system is lead within the framework of PHARE 2000, the aim of which is to create an integrated cadastral system.

The initiation of the electronic land and mortgage book system has taken place so far in 30 sections of land and mortgage books in selected regional courts. In November 2004 additional 18 sections of land

and mortgage books were expected to be covered by electronic system. Moreover as early as in January 2005 the total number of regional courts, which benefit from being subject of electronic system of land and mortgage book, will amount to 66.

It is estimated that electronic system of land and mortgage books will cover all regional courts in the period of 10 to 12 years.

The new system should dramatically cut down on the time needed to register title or mortgage, thus making the market safer and accelerating property transactions. Investors and creditors will have basic property data available from the central information office without needing to obtain them from local courts. As changes will be entered promptly, the contents of electronic land and mortgage books will be more up to date and reliable than now.

Notary fees

In June 2004 the notary services fees have been cut down as a result of introduction the amendment to the ordinance *on the maximum notary fees*. As a result the property transactions have taken advantage of lower cost, although the alteration cannot be addressed as revolutionary.

6. Housing Policy

As the most recent government strategy in respect to housing policy had envisaged the introduction of legal environment relating to the housing investment process (the elimination of the legal and administrative bottlenecks) the new law on spatial planning was approved by the Parliament in 2003. It has created a legal basis for more coherent spatial planning process and standardization of spatial documents in order to achieve a higher essential quality. Moreover, it has simplified spatial procedures as well as rationalized the localization of investments of public-purposes. However, the idea of replacing out-of-date general and local plans was highly indispensable. The lack of financial means caused the municipalities to suspend work defining new spatial development plans.

As a result in September 2004 The Ministry Council conditionally accepted the draft Law *on municipal spatial development*. The basic foundation of the draft Law is the urgent introduction of new solutions, which aim at covering by local spatial development laws the whole land areas of municipalities. The targeted system of spatial development in municipalities is expected to rely upon three different kinds of local laws which define the purposes of land areas and the principles of development – the local plans of spatial development:

1. *The plan of purpose* – the basic law obligatory prepared for the whole land area of municipality which determines the purpose of the land areas,
2. *The plan of development* – similarly detailed as the present local plan, is defined for the land area previously determined in the plan of purpose, which requires the transformation of planning structure,
3. *The municipal planning and architectural regulations* – regulate both local principles of building location and its dimension; are prepared for land area defined in the plan of purpose.

On the other hand, the main reason for implementation of amendment to Building Law (approved also in 2003) was to introduce the significant simplifications in the pre-feasibility study as well as on operation stage of the investment project. The most relevant alterations are as follows:

- (a) Simplification and acceleration of administrative procedures in construction process,
- (b) Introduction of legalization opportunities related to lawless built structure,
- (c) Introduction of compulsory inspections of completed structures,
- (d) Modification of the scope of competences of public administration bodies.

Yet in September 2004 the Ministry Council conditionally accepted the draft amendment to Building Law in order to facilitate the regulations to altering construction environment.

The draft Law embraces, among other things the following groups of amendments:

The facilitations for investor related to:

- 1) Elimination of obligation to obtain building permit or to notify the construction related to infrastructure terminals,
- 2) Elimination of group of experts which deal with the alignment of project specification (the scope of competences is to be transferred to county foremen).

Since the middle of 1990's, one of the government housing policy priorities has been development of affordable rental housing co-financed by preferential loan granted from National Housing Fund resources. Now the new amendment of the act which regulates such issues as well as the ordinance to the act was introduced to legal environment. The alterations included in the acts aim at implementation of measures to enhance the performance of legislative regulations e.g. simplification and acceleration of the procedures of preferential loan approval granted to investors.

In terms of new regulations, the government has recently introduced a program of *Housing construction for people who require social assistance*. It intends to both support those families which live on the brink of poverty and prevent the phenomenon of homelessness. The completed initiation of the program is planned following 2005. Till the acceptance of systemic solutions and proclamation of new law, the assistance to municipalities will be granted within the framework of pilot program. According to pilot program, the financial assistance will be directed to municipalities and rely upon the idea of financial support of projects related to renovation and alteration of residential buildings as well as the revision of utilization the non-for-housing building in order to facilitate social units as well as shelter for homeless.

Beside outlined above programs, there are other housing policy tools such as:

- Tax relief for individuals (see additional information):
 - Taxpayer's right to deduct part of the expenditures for renovation and modernisation of dwellings and single-family houses from tax due,
 - Taxpayer's right to deduct interest paid on a housing loan from taxable income,
- Preferential rates of value added tax for selling dwellings as well as for construction renovation and alteration services (see Additional information),

- Low-interest (fixed rate) long-term credit for housing purposes,
- Thermal modernisation program,
- System of assistance for tenants with lower incomes (housing allowances),
- Preferential credit for municipalities, granted from National Housing Fund resources. The purpose of the credit is to finance municipal infrastructure related to housing construction,
- Assistance for those repaying the so-called cooperative "old-portfolio loans",
- Guaranteed bonuses for owners of saving-for-housing booklets,
- Preferential housing loan for natural disasters victims,
- Contract saving system⁵.

Last but not least, in April 2004 Lower Chamber of Polish Parliament –Sejm – passed the Law *on National Plan of Development*, which will form the strategy embracing the country development actions for the period of 2007-2013. Additionally NPD will refer to the actions being outside the present scope of interest of European Union – the housing market. Simultaneously within the framework of NPD it is expected to outline the long-term strategy of housing market development for a period of 2005-2025.

The primary aim accepted in the long-term strategy of housing development is the improvement of the level of satisfied housing needs in Poland as to reflect the current level of satisfied housing needs in European Union Countries. Achievement of this aim will be finalized at separate stages, which do not correspond only with the period covered by NDP 2007-2013.

APPENDIX 1

Individuals

Table 1: Housing loan outstanding (in thousand PLN)

period	2003	2002	2003/2002
January	17 560 572.36	10 551 120.31	66%
February	18 128 505.27	12 181 807.64	49%
March	19 107 591.48	12 403 426.78	54%
April	19 001 083.75	12 729 486.41	49%
May	19 602 724.96	13 565 574.23	45%
June	20 475 016.69	14 590 789.38	40%
July	20 994 343.69	15 373 261.37	37%
August	21 629 612.90	15 743 907.38	37%
September	23 176 478.38	16 183 871.84	43%
October	24 110 244.97	16 193 110.89	49%
November	24 884 215.19	16 408 329.10	52%
December	25 492 926.34	17 038 629.16	50%

Source: Polish Bank Association. Data cover 85% of the housing loan market.

Table 2: Housing loan granted – the average amount (in thousand PLN)

period	2003	2002	2003/2002
January	82.81	69.62	19%
February	84.01	72.52	16%
March	83.06	68.01	22%
April	79.15	72.57	9%
May	82.25	72.68	13%
June	81.34	76.22	7%
July	82.77	73.09	13%
August	82.40	72.34	14%
September	82.58	74.04	12%
October	81.37	71.81	13%
November	85.98	73.94	16%
December	85.89	82.53	4%

Source: Polish Bank Association. Data cover 85% of the housing loan market.

Table 3: Total amount of housing loan grated (in thousand PLN)

period	2003	2002	2003/2002
January	469 798.90	435 886.88	8%
February	559 336.17	457 747.21	22%
March	768 509.56	556 751.07	38%
April	788 496.12	658 952.77	20%
May	823 606.00	671 535.57	23%
June	863 328.80	791 289.00	9%
July	1 022 569.59	748 701.53	37%
August	900 143.76	644 540.36	40%
September	1 031 837.12	665 780.31	55%
October	1 172 401.78	665 524.53	76%
November	1 051 416.33	553 831.89	90%
December	1 150 275.58	605 119.72	90%

Source: Polish Bank Association. Data cover 85% of the housing loan market.

Table 4: The number of housing loan granted

period	2003	2002	2003/2002
January	5 673	6 261	-9%
February	6 658	6 312	5%
March	9 253	8 186	13%
April	9 962	9 080	10%
May	10 014	9 239	8%
June	10 614	10 381	2%
July	12 355	10 244	21%
August	10 924	8 910	23%
September	12 495	8 992	39%
October	14 409	9 268	55%
November	12 228	7 490	63%
December	13 392	7 332	83%

Source: Polish Bank Association. Data cover 85% of the housing loan market.

Corporations

Table 5: Housing loan outstanding (in thousand PLN)

period	2003	2002	2003/2002
January	3 705 098.50	2 629 746.87	41%
February	3 778 761.92	2 757 124.68	37%
March	3 820 886.58	2 679 653.39	43%
April	4 093 765.90	2 694 986.37	52%
May	3 904 810.59	2 928 913.00	33%
June	3 964 913.26	3 206 446.23	24%
July	4 032 549.29	3 270 941.31	23%
August	4 063 452.86	3 367 557.16	21%
September	4 114 902.04	3 470 470.58	19%
October	4 199 134.05	3 533 175.69	19%
November	4 247 382.35	3 569 764.64	19%
December	4 270 746.11	3 652 684.22	17%

Source: Polish Bank Association. Data cover 50% of the housing loan market.

Table 6: Total amount of housing loan grated (in thousand PLN)

period	2003	2002	2003/2002
January	66 767.60	18 849.30	254%
February	52 755.30	17 698.58	198%
March	40 370.04	22 247.36	81%
April	92 541.00	27 608.95	235%
May	44 129.65	61 691.35	-28%
June	97 046.37	120 888.00	-20%
July	150 683.73	170 124.93	-11%
August	90 643.39	123 351.40	-27%
September	124 911.38	180 656.22	-31%
October	115 434.59	91 590.45	26%
November	122 632.00	81 337.00	51%
December	347 580.78	141 143.50	146%

Source: Polish Bank Association. Data cover 50% of the housing loan market.

Table 7: The number of housing loan granted

period	2003	2002	2003/2002
January	20	7	65%
February	22	10	55%
March	19	10	47%
April	23	11	52%
May	19	22	-16%
June	47	32	32%
July	35	45	-29%
August	32	37	-16%
September	46	49	-7%
October	43	33	23%
November	33	18	45%
December	70	34	51%

Source: Polish Bank Association. Data cover 50% of the housing loan market.

APPENDIX 2

Table 1: Mortgage bonds issuances (total)

	2000	2001	2002	2003	<i>TOTAL</i>
Value of issuance (in million EUR)	4.75	21.50	29.54	122.40	178.19

Source: Mortgage Credit Federation

Table 2: Non-public issuances of mortgage bonds by major mortgage bank

Date of issuance	Date of maturity	Currency	Value	Rating Fitch/Moody's
28.06.2000	28.06.2005	PLN	5,000,000	BBB+ / A2
29.07.2002	31.07.2006	PLN	50,000,000	BBB+ / A2
20.05.2002	20.05.2009	EUR	10,000,000	BBB+ / A2
20.05.2003	20.05.2009	EUR	20,000,000	BBB+ / A2
20.05.2004	20.05.2009	EUR	25,000,000	BBB+ / A2
20.11.2001	21.11.2005	USD	10,000,000	BBB+ / A2
20.05.2002	20.05.2008	USD	10,000,000	BBB+ / A2
20.05.2004	20.05.2009	USD	25,000,000	BBB+ / A2

Source: Internet

Table 3: Public issuances of mortgage bonds by major mortgage bank

Date of issuance	Date of maturity	Currency	Value	Interest	Rating Fitch/Moody's
10.04.2003	10.04.2008	PLN	200,000,000	WIBOR 6M+0,60%	BBB+ / A2
23.10.2003	10.10.2008	PLN	200,000,000	WIBOR 6M+0,49%	BBB+ / A2

Source: Internet

Table 4: Mortgage bonds issuances by second major mortgage bank

Date of issuance	Maturity	Currency	Value	Profitability
December 2000	10 years	EUR	3,630,000	5.95% - fixed
April 2003	5 years	PLN	22,000,000	WIBOR 3M+0,60%
May 2003	5 years	PLN	18,000,000	WIBOR 3M +0,50/0,60%

Source: Internet

ADDITIONAL INFORMATION

Taxation Relief

The present forms of the state support in the sphere of housing (basic information)

1. Taxpayer's right to deduct interest paid on a housing loan from taxable income – personal income tax only

To be eligible for tax deduction a taxpayer must comply with several conditions:

- 1) Housing loan or housing credit must be contracted following 1st January 2002.⁶ Previously the taxpayer (or taxpayer's spouse) must not have used taxation relieve for housing purposes including contract saving system⁷;
- 2) Interest on housing loan or housing credit contracted in commercial bank or in co-operative savings and credit union system (SKOK) must be intended for satisfying taxpayer's housing purposes. Credit or loan resources must be directed for one of the below mentioned purposes:
 - Construction of residential building; tax relieve does not apply to the interest on credit or loan for acquisition of a parcel or perpetual usufruct,
 - Providing a construction or housing contribution to co-operative⁸ in order to acquire the right to newly-constructed residential building or a dwelling in such a building,
 - Acquisition of newly-constructed residential building or a dwelling in such a building from municipality or developer,
 - Reconstruction or alteration of a unit or a building or a part of a building previously utilized as a non-for-housing into a residential one (such converted dwelling must comply with regulations stipulated in the Building Law).

First deductions are possible to make when all expenses related to the investment project are known which in fact means in the fiscal year when the investment is completed.

Annual taxable revenues are decreased by the amount of actually incurred interest expenses on housing loan or housing credit. The accumulated amount of interest which was paid in the period since 2002 till the year of investment completion is a subject of deduction in the first year of execution the taxation right or in the following year. The latter implies that deducted is only the difference between the sum of interest to be deducted and the amount of interest actually deducted in the prior year (the year of first deduction).

Deductions of interest are limited on credits or loans the amount of which does not exceed the product of 70 square meters of a dwelling and a value of a square meter of usable floor which is set in order to determine the guaranteed bonuses for owners of saving-for-housing booklets. The basis for determination of such a limit is a value of a square meter set for third quarter of fiscal year in which an investment was completed⁹.

Last not least there are no time-restrictions of execution the right to the tax relieve. In fact it means that the taxpayer is in a position to deduct interest actually paid in a given fiscal year on condition that the deductions does not exceed the amount of interest on limited credit (described above).

2. Taxpayer's right to deduct part of the expenditures for renovation and modernisation of dwellings and single-family houses from tax due

Taxpayer is in a position to decrease a tax due when incurred expenses for modernization and renovation of residential building or a residential unit the legal title of which belong to him/her. Also the payments to renovation fund of condominium or co-operative are subjects of deductions.

Since 1997 all source of expenditures for modernization and renovation of residential building or residential unit are itemized in the ordinance on specification of expenditures for modernization and alteration of residential buildings and residential units by the amount of which a taxation due is reduced. Annexes to the ordinance enumerate the following expenditures:

- 1) Acquisition of materials as well as appliances,
- 2) Acquisition of services (expertise, opinion, delivery of materials and appliances etc.),
- 3) Lease of construction equipment,
- 4) Administrative expenses and others.

To execute the right to taxation relieve the taxpayer must posses a legal title to a unit or to a building. These are as follows:

- 1) Proprietary right,
- 2) Co-operative right under ownership,
- 3) Co-operative right under tenancy,
- 4) Municipal tenancy right,
- 5) Tenancy agreement,
- 6) Sub-tenancy agreement,
- 7) Leasehold agreement,
- 8) Agreement of life-span utilization.

The expenditures must be invoiced and certified by a VAT taxpayer who does not utilize the right to exemptions or SAD evidenced in case of imported materials. Exempted are payments to renovation fund (in this case expenditures are confirmed by the evidence of payment).

The expenditures are subject to deductions only if:

- 1) Relate to units/buildings which are situated in Poland,
- 2) Not classified as cost of obtaining income,

- 3) Not distributed back to the taxpayer in another form.

The limit of deductions of expenditures is prolonged for three consecutive years. The maximum amount of expenditures to be deducted in each of three-year period depends upon the renovation of either a dwelling or a house. In each case the tax due is reduced by 19% of incurred expenses yet no more than:

- 1) 2.5% of the amount equal the product of 70 square meters of a dwelling and a value of a square meter of usable floor which is set in order to determine the guaranteed bonuses for owners of saving-for-housing booklets. The basis is for the first year of a three-year period – if expenses relate to residential unit (dwelling);
- 2) 3% of the same amount – if expenses relate to residential buildings or payments to renovation fund in condominium or co-operative.

The tax relieve is to operate up to the end of 2005.

3. Preferential rates of value added tax for selling dwellings as well as for construction services

According to the Accession Treaty and new bill on Value Added Tax, until the end of 2007 all of the housing sector will take advantage of reduced VAT rate (7%) on supply, construction, renovation and alteration of housing. With the date of Polish accession to UE, however, VAT rate for construction materials was established at the level of 22% (previously at 7%). After 31st December 2007 the reduced VAT rate will only be allowed with respect to housing provided as part of a social policy.

NOTES

- 1 Another factor which significantly contributed to reported growth was gross capital formation.
- 2 Excluding dwellings which are subject to demolition with unknown purpose or desolated/abandoned
- 3 Intervals covered by census data
- 4 Since 1st January 2005
- 5 The contract saving system (kasy mieszkaniowe – KM) institutions which started operations in late 1996 and in 1997, have granted insignificant numbers of loans to date. At present the system of KM tends to a gradual decline. Recent changes in tax relieves made saving for housing purposes less beneficial to users (since January 2002 the tax incentive was abandoned). The average amount of deposited financial means in one account in contract saving system as at the end of 2001 reached 20,340 zlotys. The total number of contract saving system accounts as at the end of 2001 reached approximately 63,700, of which initiated in 2001 – 19,840.
- 6 Until 2002 a different kind of personal income tax relieve was operated. A tax-payer had a right to deduct part of the cost of construction or acquisition of residential building/dwelling from his/her tax. That system was very poorly targeted as the tax-payers with high income who had purchased expensive residential buildings received as much or usually more support than the less affluent, who did not purchase dwellings expensive enough to use up all the limit (19% of the average price of construction of a 70 sq. meter of residential unit).
- 7 Until 2001 there were two different contract savings systems established by separate legal acts. First one is the Act of October 1995, which introduced the institution of *kasa mieszkaniowa* (KM). The other was the Act of June 1997, which regulates the operation of *kasa oszczednosciowo-budowlana* (KOB), modelled on contract savings systems existing in Germany and Austria (*bausparkassen*). The KOB system did not come in operation, due to the government's initiative (supported by the central bank) to stop the licensing process until the Law of 1997 is amended. In 2001 the system of *kasa oszczednosciowo-budowlana* was abolished.
- 8 Co-operative members awaiting for establishment a co-operative tenancy or co-operative ownership right to the residential unit or a proprietary residential unit right are obliged to participate in the construction expenditures by the way of providing a construction or housing contribution or covering other liabilities related to construction works which stem from the resolutions of the co-operative statute.
- 9 Third quarter value of a square meter in 2003 was 2,117 PLN (the € exchange rate as at 30th September was 4.6435 PLN)

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From:
Housing Finance Markets in Transition Economies
Trends and Challenges

Access the complete publication at:
<https://doi.org/10.1787/9789264010178-en>

Please cite this chapter as:

Skiba, Karol (2006), "Housing Finance in Poland", in OECD, *Housing Finance Markets in Transition Economies: Trends and Challenges*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264010178-10-en>

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