

POLAND

MACROECONOMIC BACKGROUND

Poland has followed a policy of economic liberalisation throughout the 1990s and is now one of the most successful of economies moving from the soviet bloc. The Polish economy accounts for about 0.8% of world output. Following the collapse of the soviet regime the Polish economy grew strongly with an average growth rate of 4.5% over the last 10 years. There was significant slowdown in 2001 but since then the economy has picked up and the rate of growth, at 5.8% in 2004, is now stronger than in many Western European countries. Inflation in Poland has fallen significantly over the decade, although there has been a pick up in the run up to joining the European Union as subsidies have been removed. However the economic discipline required to comply with the criteria has helped to increase credibility and allow interest rates to fall to 6.5% in December 2004 from double digit rates ten years ago. In spite of the relatively buoyant economy unemployment is an issue in Poland with the rate running at over 18%. Poland's output was estimated at ZL895 billion (US\$240 billion) and GDP per head (in PPP terms) at US\$11,430.

DEMOGRAPHICS

The population in Poland is estimated at just over 38 million, which accounts for 0.6% of the total world population. It is growing at an estimated rate of 0.2% and there is net migration from the country. The population structure of Poland is atypical with a high birth rate until the 1980s and so a younger population. This will fuel housing demand shortly as this group reaches the usual family formation age. There were approximately 13.3 million households in 2002. As is the trend in the rest of the world, the average household size is falling as the number of single person households increases.

HOUSING MARKET

The total occupied dwelling stock in Poland is estimated at 11.8 million units and the total stock in about 800,000 units higher. Lack of supply is an issue in Poland. At the beginning of the 1990s the stock of housing was insufficient and there was a declining rate of housing production. At that time there were 296 housing units for every 1,000 people and there was an estimated shortfall of the required number of dwellings of 1.5 million or 12% of the 2002 housing stock. The rate of housing construction is improving. There was a significant pick up from 1997 when the numbers of completions increased by 18% in one year. Output has continued to be buoyant and there were over 160,000 dwellings completed in 2003 with new construction predominantly in the owner occupied sector. The housing stock in Poland is relatively young but the quality of construction has been relatively poor.

In 1990 only 22% of urban housing was privately owned and 57% of the 2.7 million cooperative apartments in Poland were rented. By 2002 this proportion had fallen to 33%. Including cooperatives, the rate of owner occupation is now almost 75%. This has been boosted by the privatisation schemes, where sitting tenants qualified for a discount of up to 80%.

Data on house prices in Poland is not readily available, but the Central Bank reported that according to analysts, at the end of 2003 prices were 10-15% higher than in the first half of the year as buyers brought forward purchases in anticipation of price increases resulting from Poland joining the EU.

HOUSING FINANCE

Before transition lending for housing was made by state controlled banks and loans were heavily subsidised. The subsidy accounted for 2-3% of GDP and 8-13% of budget expenditures. There were many schemes with external support from organisations such as USAID and the World Bank, to assist the development of a private system for the finance of mortgage and construction.

The legal framework around property rights also inhibited market growth and these have been or are in the process of being addressed. They include: the absence of adequate, enforceable collateral and eviction laws; an antiquated, slow and often inaccurate title and mortgage registry system; and the low priority of mortgage debt claims under Polish law, which leaves lenders without secure collateral for their loans.

The market is now growing strongly, but from a low base. The value of total outstanding mortgage loans in Poland was ZL35.7 billion in 2004 (US\$ 9.7 billion) compared to 1 billion (US\$ 0.4 billion) in 1996 – an average annual increase of 60%! 57% of these loans are in foreign currency. In spite of rapid growth this

remains a very small proportion of the economy. The mortgage debt to GDP ratio is only 4% and the mortgage debt per capita only ZL937 (US\$ 256). The low take-up has been related to the relatively high mortgage interest rates, a low demand for long-term, market-priced, loans in circumstances of economic uncertainty, and low housing affordability as a result of low household income and high mortgage rates and construction costs.

The majority of loans in Poland are funded with retail deposits, but mortgage bonds have also been issued since the 1987 Act on Mortgage Bonds and Mortgage Banks was adopted. At the end of 2003 the total value of mortgage bonds outstanding was ZL800 million (US\$220 million). Contract savings systems for house purchase have not been very popular.

GOVERNMENT POLICY AND OBJECTIVES

The housing system in Poland has changed dramatically in the last 15 years as the system has been removed from the state. Some subsidies have continued in order to assist borrowers as interest rates have moved to market rates. Tax relief on interest paid on housing loans and renovations is available.

Major issues have been the privatisation of state owned property, development of funding to assist a private mortgage finance system; a commitment to the expansion of housing construction; proposals for the introduction of low-interest (fixed rate), long-term credit for housing purposes; important changes in the legal process to eliminate legal and administrative bottlenecks.

Poland also has to comply with EU rules and will have to change its VAT regime on housing. It can continue to benefit from a reduced VAT rate (at 7%) on the supply, construction, renovation and alteration of housing, until the end of 2007. After then, the reduced VAT rate will be restricted to social housing. However, from 1 May 2004, the VAT rate for all construction materials increased to 22% from its present level of 7%.

Looking forward, the housing policy action plan for 2005- 2006 considers several modifications in the current housing policy tools. The most the substantial are aimed at addressing housing issues of low income groups, to support a long-term saving-for-housing, assist private and public affordable rental housing and prevent negative results from the increase of VAT rates for construction materials.

SUMMARY DATA FOR POLAND 1995-2004

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Real GDP growth	5.8%	3.8%	1.4%	1.0%	4.0%	4.1%	4.8%	6.8%	6.0%	6.8%
Unemployment rate	18.8%	19.2%	19.8%	18.5%	16.4%	13.4%	10.2%	10.9%	12.3%	13.3%
Consumer Price inflation	3.7%	0.8%	1.9%	5.5%	10.1%	7.3%	11.8%	14.9%	19.9%	27.9%
Residential mortgage debt outstanding,ZL billion	35.7	29.5	20.0	14.0	9.5	5.8	3.0	1.8	1.0	n/a
Residential debt /GDP Ratio	4.0%	3.6%	2.6%	1.8%	1.3%	0.9%	0.5%	0.4%	0.2%	n/a
Residential mortgage debt per capita ZL	937	772	517	363	247	151	77	47	26	n/a
Population, 000s	38,131	38,219	38,633	38,645	38,654	38,667	38,660	38,639	38,609	38,581
Home ownership rate	n/a	n/a	55.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a
House price index	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Annual house price growth	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Number of dwellings,000s	11,815	11,800	11,763	11,946	11,845	11,787	11,729	11,613	11,547	n/a
Housing completions (000s)	n/a	163	98	106	80	82	81	74	62	67
Home sales (000s)	n/a	n/a	n/a	262	270	321	293	321	294	287
Mortgage interest rates	8.10%	7.63%	9.62%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mortgage Bonds outstanding ZL millions	n/a	805	382	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Exchange rate,US\$ per ZL1	0.27	0.26	0.25	0.24	0.23	0.25	0.29	0.30	0.37	0.41

Source: IMF, UNECE, National Bank of Poland, EMF, OECD

Notes:

1. Residential debt is loans to individuals for housing; 2. Ownership rate is private ownership. An additional 19.3% are co-operative owned, making the total owner occupation rate 74.5%

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