November 2014

EMF

HYPOSTAT 2014

HYPOSTAT 2014 A REVIEW OF EUROPE'S MORTGAGE AND HOUSING MARKETS

EUROPEAN MORTGAGE FEDERATION

Disclaimer

Contact details Editors

Lorenzo Isgrò
Economic Adviser
E-mail: lisgro@hypo.org
Tel: +32 2 285 40 42

Jennifer Johnson
Head of Economic Affairs
E-mail: jjohnson@hypo.org
Tel: +32 2 285 40 45

LIST OF CONTRIBUTORS OF DATA AND ANALYSIS

AUSTRIA

Wolfgang Amann
Institut für Immobilien, Bauen und Wohnen Gmbh
amann@iibw.at

Karin Wagner
Oesterreichische Nationalbank
karin.wagner@oenb.at

BELGIUM

Frans Meel
Union Professionnelle du Crédit (Febelfin)
frans.meel@febelfin.be

BULGARIA

Lorenzo Isgrò
European Mortgage Federation – European Covered Bond Council
lisgro@hypo.org

Maria Pavlova
European Mortgage Federation – European Covered Bond Council
mpavlova@hypo.org

CROATIA

Branka Jurčević
University of Zagreb, Faculty of Economics and Business
bjurcevic@efzg.hr

Alen Stojanović
University of Zagreb, Faculty of Economics and Business
astojanovic@efzg.hr

CYPRUS

Ioannis Georgiu
Bank of Cyprus
yiannis.georgiou@bankofcyprus.com

CZECH REPUBLIC

Juraj Holec
Hypoteční banka
holec.juraj@hypotecnibanka.cz

DENMARK

Kaare Christensen
Association of Danish Mortgage Banks
kc@rkr.dk

ESTONIA

Olavi Miller
Eesti Pank
olavi.miller@eestipank.ee

FINLAND

Ari Piik
Federation of Finnish Financial Services
ari.piik@fkl.fi

FRANCE

Emmanuel Ducasse
Crédit Foncier Immobilier
emmanuel.ducasse@creditfoncierimmobilier.fr

GERMANY

Thomas Hofer
Verband deutscher Pfandbriefbanken (vdp)
hofer@vdpresearch.de

GREECE

Theodore Mitrakos
Bank of Greece
tmitrakos@bankofgreece.gr

HUNGARY

Gyula Nagy
FHB Mortgage Bank
nagy.gyula@fhb.hu

IRELAND

Anthony O'Brien
Banking & Payments Federation Ireland
anthony.obrien@ibf.ie

ITALY

Marco Marino
Associazione Bancaria Italiana
marco.marino@abi.it

LATVIA

Laura Laube
Latvijas Banka
mikus.arins@bank.lv

LITHUANIA

Jonas Grincius
Banka Citadele
grinciusjr@hotmail.com

LUXEMBOURG

Lorenzo Isgrò
European Mortgage Federation – European Covered Bond Council
lisgro@hypo.org

MALTA

Peter Sant
Bank of Valletta
peterjames.sant@gmail.com

NETHERLANDS

Nico de Vries
ING Bank
nico.de.vries@ing.nl

Dimitry Fleming
ING Bank
dimitry.fleming@ing.nl

POLAND

Agnieszka Nierodka
Polish Mortgage Credit Foundation
a.nierodka@ehipoteka.pl

PORTUGAL

Maria Lúcia Bica
Caixa Economica Montepio Geral
mrbica@montepio.pt

ROMANIA

Ştefan Dina
Romanian Banking Association
stefan.dina@arb.ro

SLOVAKIA

Lorenzo Isgrò
European Mortgage Federation – European Covered Bond Council
lisgro@hypo.org

SLOVENIA

Andreja Cirman
University of Ljubljana
andreja.cirman@ef.uni-lj.si

SPAIN

Irene Peña Cuenca
Asociación Hipotecaria Española
ipcuenca@ahe.es

SWEDEN

Christian Nilsson
Swedish Bankers' Association
christian.nilsson@swedishbankers.se

UNITED KINGDOM

Kathleen Scanlon
London School of Economics and Political Science
k.j.scanlon@lse.ac.uk

Christine Whitehead
London School of Economics and Political Science
c.m.e.whitehead@lse.ac.uk

RUSSIA

Evgenia Zhelezova
Agency for Housing Mortgage Lending
epzhelezova@ahml.ru

TURKEY

Yener Coşkun
Capital Markets Board of Turkey, MRICS
ycoskun@spk.gov.tr

CONTRIBUTORS TO HYPOSTAT ARTICLES

Lorenzo Isgrò
European Mortgage Federation – European Covered Bond Council
lisgro@hypo.org

Branka Jurčević
University of Zagreb, Faculty of Economics and Business
bjurcevic@efzg.hr

Johan Van Gompel
KBC Group
johan.vangompel@kbc.be

Kaare Christensen
Association of Danish Mortgage Banks
kc@rkr.dk

Gyula Nagy
FHB Mortgage Bank
nagy.gyula@fhb.hu

Marco Marino
Associazione Bancaria Italiana
marco.marino@abi.it

Irene Peña Cuenca
Asociación Hipotecaria Española
ipcuenca@ahe.es

Christian Nilsson
Swedish Bankers' Association
christian.nilsson@swedishbankers.se

Note: The views and positions expressed in this publication are of the authors alone, and should not be interpreted as necessarily being those of the institutions to which they are affiliated.

Contents

Foreword

Dear Reader,

The European Mortgage Federation – European Covered Bond Council (EMF-ECBC) is delighted to present the 2014 edition of Hypostat, the organisation's headline statistical publication. As an established source of statistics, information and analysis regarding the European mortgage and housing markets, Hypostat aims at providing a comprehensive picture of these markets. As such, Hypostat is a precious source of information for a range of users, from policy-makers, through to academic researchers and market participants. With historical annual series for over 25 indicators and covering, where data is available, the 28 Member States of the European Union (and beyond), Hypostat is a leading statistical source for all macroeconomic data related to the EU mortgage and housing markets. Moreover, Hypostat brings together over 30 contributors from all countries in the European Union. This helps bring together expertise and knowledge about different jurisdictions in one single publication, which provides a Country Report for every EU 28 Member State, giving details about their specific markets, and outlining developments observed over the past year. Furthermore, Hypostat provides a general analysis of the European mortgage and housing markets and includes external articles focusing on different topics in each edition. This year, in our "Comments" section, our Country Experts focus on the prospects for the mortgage and housing markets in some major EU economies: a topic of particular relevance in the current climate of uncertainty and easing of the financial and economic crisis. Another external contribution focuses on the topic of mortgage funding in Croatia, and is aimed both at analysing the challenges of introducing sophisticated funding techniques in young mortgage markets, and at celebrating the fact that Croatia joined the European Union in 2013.

The mortgage and housing markets in Europe have always played a central role in the wider economy and in determining people's welfare and quality of life. As a matter of fact, efficient mortgage and housing markets improve social conditions and bring stability at the household level. This is achieved through responsible mortgage lending, which in Europe has allowed for affordable and sustainable access for EU citizens to home ownership. Moreover, the activity in the mortgage and housing market encourages investment and fosters job creation in multiple sectors of the economy. Unsurprisingly, therefore, the mortgage and housing markets are main drivers of the European economy, and directly affect most households across the Union. As a matter of fact, around one in four European households currently has a mortgage. The total value of these outstanding mortgages is equal to roughly half of the GDP of the EU, showing just how important a sector this is. Moreover, mortgage lending plays a key role in the financial sector of the EU as well. Homes and buildings are an important asset class, used by financial institutions as collateral to provide more funding through the issuance of covered bonds, thereby generating more lending and fuelling further activity in the economy.

The EMF-ECBC, also on behalf of the EMF Statistics Committee and its Chairman, Christian Nilsson, of the Swedish Bankers' Association, would like to thank all the contributors for making the publication of Hypostat possible. We hope you will find this publication interesting and useful.

Sincerely,

Luca BERTALOT
EMF-ECBC Secretary General

Key Facts

Macroeconomic Situation

- The 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.
- Core EU countries performed weakly in terms of GDP growth, while the UK and Sweden exhibited the most substantial expansion among larger countries in terms of GDP, despite the general circumstances.
- Unemployment remains high, and the picture across the EU very fragmented, with national lows below 5% and peaks above 25%. The labour market normally lags behind other economic indicators, meaning that the situation is likely to improve further down the line.
- 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.

Housing Market

- House prices in the EU as a whole declined further, though at a slower rate than in the years immediately following the start of the crisis.
- The situation among different jurisdictions remained highly fragmented, with some markets recovering, while others continuing to decline. Nonetheless, 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.
- House prices are an important indicator in terms of mortgage and housing markets, as they react to, as well as influence, both the demand and supply sides of housing. In fact, changes in house prices were found to be highly correlated with construction indicators (supply), as well as demand indicators (disposable income and house purchase financing through mortgages).
- Housing supply (as measured by the number of building permits issued, housing projects begun and housing projects completed) showed a continued contraction in 2013, continuing from that observed in 2012.
- This contraction in housing supply 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.

Mortgage Markets

- The rate of growth in mortgage lending slowed further in 2013, continuing on a declining trend that began following the housing boom in the EU. Total outstanding lending remained virtually unchanged from 2012, as did the level of gross lending.
- Again, the picture across the EU remained fragmented, though the second half of 2013 represented an improvement for a number of countries experiencing subdued mortgage lending conditions.
- Differences across the EU in terms of mortgage lending also reflect differences in house prices. It is therefore unsurprising that the highest growth in gross residential lending was observed for the UK and Sweden.
- Interest rates on mortgage loans have fallen in almost all countries in the EU, partly reflecting the subdued demand environment, but mainly as a reaction to 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. 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).
- In terms of market structure for different mortgage interest rates, the EU is, again, highly fragmented. Some countries almost exclusively have variable rate mortgages, whereas others rely more on long-term fixed rates, or on a balanced mix.
- 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 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.

Note

Hypostat, published by the European Mortgage Federation – European Covered Bond Council (EMF-ECBC), presents annual statistics on EU mortgage and housing markets, as well as data and information on a number of non-EU countries. The present edition, "Hypostat 2014", focuses on developments till early 2014[1].

In the Statistical Tables, data is presented in EUR. This may, however, introduce exchange rate distortions for countries outside the euro area. Please see the exchange rates used in this edition on Table 27 of the Statistical Tables.

Finally, though Hypostat aims to publish consistent data across countries and over time, not all data can be fully compared between countries, owing to some methodological differences present at the source. The EMF-ECBC strives, through Hypostat, to provide a comprehensive and comparable source of data and information on the EU (and beyond) mortgage and housing markets. For further information on the definitions and sources used, please refer to Annex: "Explanatory Note on Data".

Please note that:

- Date: "Q1 2014" stands for "the first quarter of 2014";
- Diminutive: "bps" stands for "basis points"; "LTV" stands for "loan-to-value"; "EC" stands for "European Commission", "EP" stands for "European Parliament" and "NPL" stands for "non-performing loans";
- Figures: "bn" stands for billion; "mn" stands for million and "td" stands for thousand;
- Variation: "q-o-q" stands for "quarter-on-quarter"; "h-o-h" stands for "half-on-half" and "y-o-y" stands for "year-on-year".

[1] Please note that the edition presenting developments in housing and mortgage markets till early 2012 is titled "Hypostat 2011"; the edition immediately following that, and focusing on developments until early 2013 is "Hypostat 2013, therefore, due to a change in the naming, there is no "Hypostat 2012".

Housing and Mortgage Markets in 2013

By Lorenzo Isgrò, European Mortgage Federation – European Covered Bond Council

1. Macroeconomic Overview[1]

In 2013, the European Union (EU) grew at a yearly average rate of 0.1%, thus reversing the negative trend of -0.4% which was observed in 2012. The performance of the euro area also improved, though overall, the currency bloc's GDP contracted in 2013 by 0.4%. This is nevertheless a slower rate of contraction than that observed in 2012 (-0.7%). Quarterly data on the evolution of euro area GDP and its components (see Chart 1) shows that GDP picked up slightly from the second quarter of 2013 as the situation progressively improved. Chart 1 also shows that net exports were a large contributor to GDP growth in Q2 and Q4 of 2013, whereas they weighed heavily on the performance in Q3 (which in fact is reflected in a dip in GDP growth). Q3 2013 was characterised by a slowdown in exports and a strong increase in imports. Overall, 2013 performance in terms of current account was very positive. This is due to an increased competitiveness of euro area economies mainly caused by a drop in unit labour costs and a related reduction in wages. Gross fixed capital formation contributed in an increasingly significant way to GDP over the course of 2013, mainly driven by a rise in equipment investment. Household expenditure finally turned around for the first time in 7 quarters, and contributed positively to GDP growth towards the end of 2013, though its impact remains quite modest, reflecting the subdued levels of demand in the euro area following the economic and financial crisis. Throughout 2013, the impact of government expenditure on GDP was almost negligible, reflecting the fiscal consolidation that has been undertaken in much of the euro area since 2011, and that bottomed out in the course of 2013 (Q1 2014 already shows a significant increase in government expenditure). As a matter of fact, the public expenditure stance in the EU in 2013 was close to 0.

Despite the fragile growth experienced by the EU in 2013, the situation remained highly fragmented, with Cyprus experiencing the largest GDP contraction (-5.4%) and Latvia, at the other end of the spectrum, experiencing the largest GDP growth (+4.1%). There was, however, a marked improvement in the EU's most vulnerable regions that in 2012 suffered heavy losses in terms of GDP. The largest Southern European countries (Italy, Spain, Portugal and Greece) all registered a marked deceleration in the rate of GDP contraction, and there are signs that all of them will experience some GDP growth in 2014. Core countries (Germany, France, Netherlands, Belgium, Austria) did not experience any substantial improvement in 2013, and many of these countries performed worse than in 2012 (see Statistical Tables). The best performers among larger economies were the UK and Sweden, whose GDP rose by 1.7% and 1.6%, respectively.

In terms of unemployment, 2013 saw a further worsening of the situation, with the unemployment rate in the EU rising from 10.4% to 10.8%. Again, the picture is highly fragmented, with core countries such as Germany and Austria exhibiting very low unemployment rates, around 5%, while in some countries, mainly in Southern and Eastern Europe, unemployment rates remain well above the EU average, with peaks of 27.5% and 26.1% in Greece and Spain respectively. Unemployment rose in most EU countries, reflecting the stickiness of the labour market and the existing lag between economic activity and employment. Prices, too, exhibited a significant downward trend, with Harmonised Index of Consumer Prices (HICP) inflation in the European Union dropping by over 1 percentage point, from 2.6% to 1.5%. Greece already experienced deflation in 2013, whereas many other countries hover very close to the 0% mark. From this point of view, the effect is rather homogeneous, with the slowdown in inflation having been observed in every country in the EU. This reflects the fact that much of the reduction in inflation was caused by a fall in energy and commodity prices and by a strong appreciation of the euro, both of which had similar effects in most countries. Moreover, subdued demand and the presence of excess capacity further strengthened the downward trend in price developments.

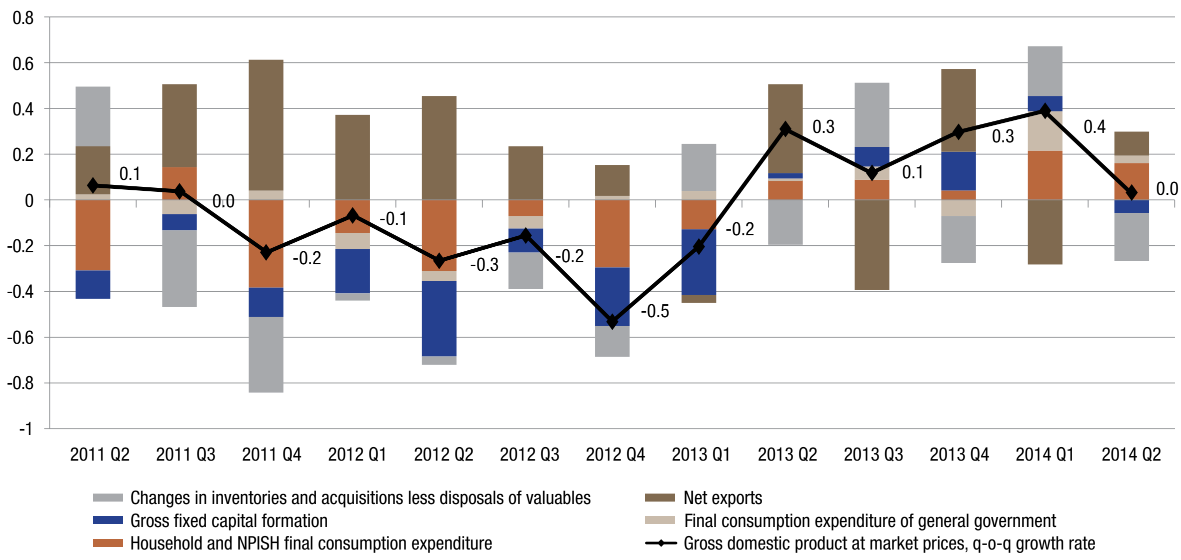
2. Housing Markets

2.1 Trends in House Prices

2.1.1 Cross-country observations

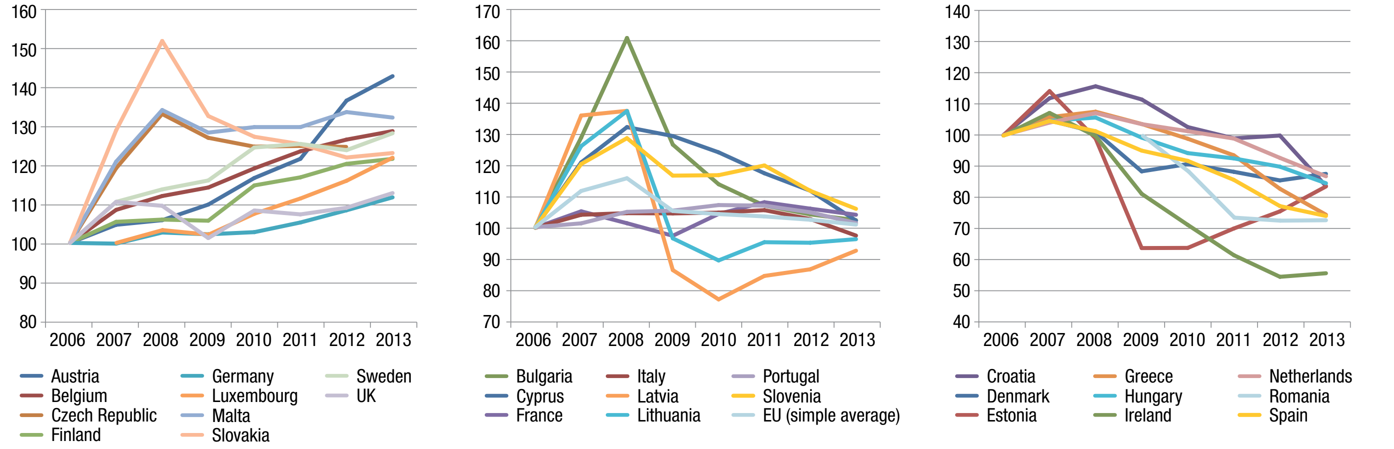
House price developments in 2013 have largely continued on similar paths to those observed in 2012 for most countries (see Chart 2). Some notable exceptions are: Ireland, which experienced the first (slight) rise in house prices after 5 years of consecutive house price declines that brought house prices to almost 50% of their 2006 levels; Croatia, which experienced a sharp drop in property prices despite an easing in price contraction in previous years; Sweden, where prices picked up strongly again after an apparent halt in 2012 in their upward paces; Denmark, where house prices started rising again after two consecutive years of accelerating house price contraction. A simple average of all EU countries' house price indices shows that prices have, overall, returned to 2006 levels;

CHART 1 ▶ Quarterly contributors to GDP growth in the euro area, percent



[1] Source: European Commission: Economic and Financial Affairs: "European Economic Forecast, Winter 2014": http://ec.europa.eu/economy_finance/publications/european_economy/2014/pdf/ee2_en.pdf.

CHART 2 ▶ House Price Indices developments in the EU, 2006=100



Source: European Mortgage Federation

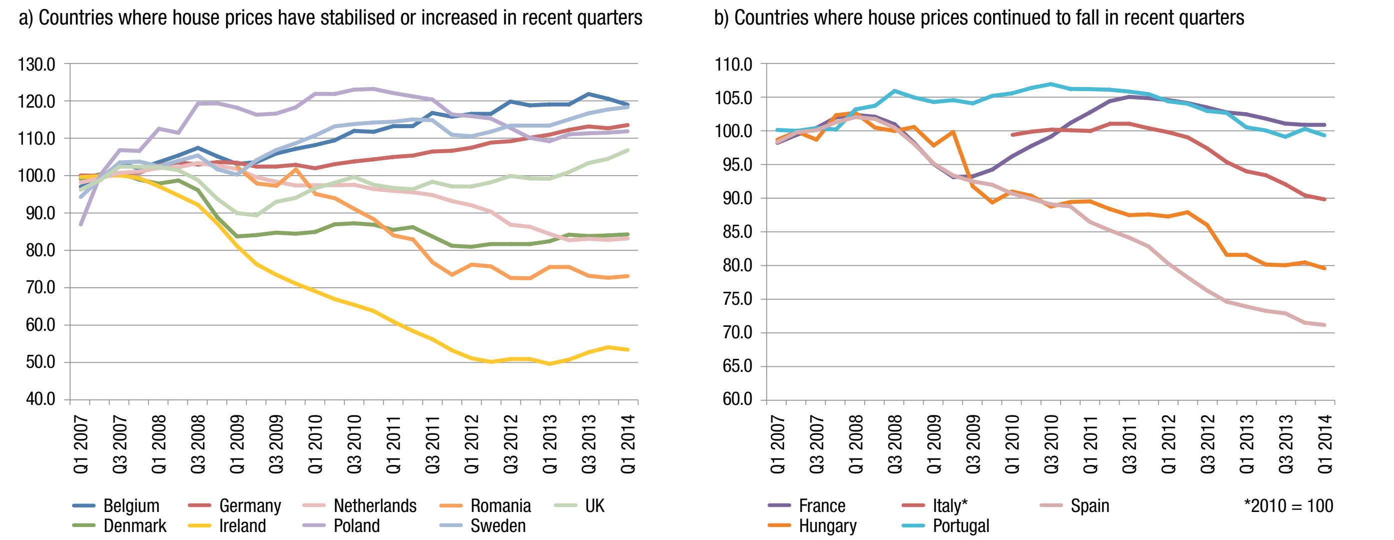
this, however, does not reflect the high level of heterogeneity that is clearly visible in the evolution of house prices across jurisdictions.

In terms of more short-term developments, Chart 3 shows the quarterly evolution of house price indices in some selected EU countries, and divides them according to house price movements in recent quarters. Some countries continue to exhibit relatively sharp q-o-q house price contractions; however, most countries are experiencing a stabilisation in house prices (not necessarily a return to pre-crisis levels though). House price increases across the EU in fact eased in recent quarters, with the notable exceptions of the UK and Sweden, where house prices picked up sharply in the latest quarters (see Country Reports for more detail regarding these developments).

2.1.2 Regional differences

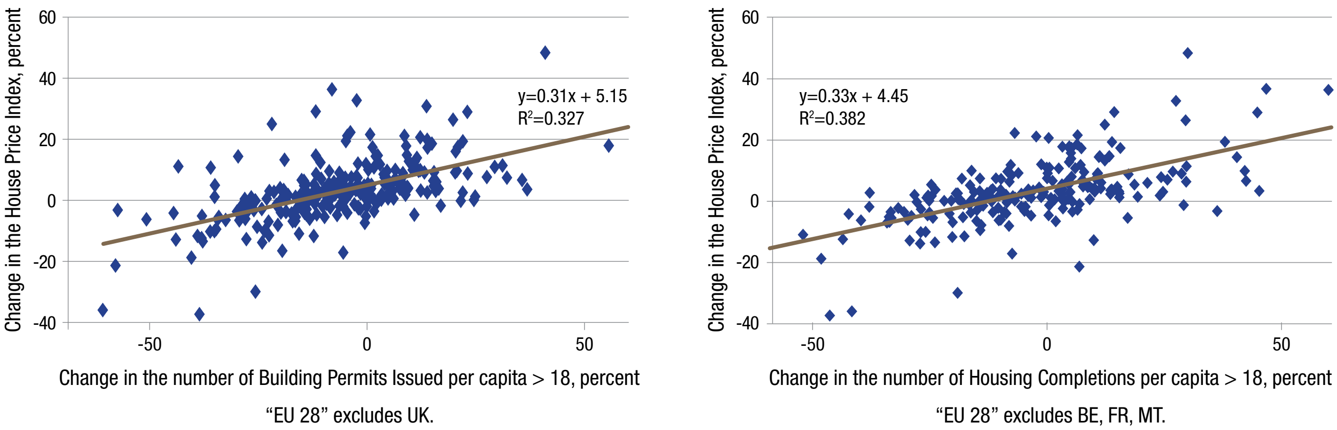
House price developments confirm the presence, in some jurisdictions, of large differences within countries themselves. In Hungary for example, though prices have bottomed out overall, a pick-up is observed in specific areas such as Budapest, holiday destinations, and areas that have been connected to urban centres through newly-built transport networks. By Q1 2014, in Ireland, house prices had risen sharply (+7.8% y-o-y, based on the same quarter of the previous year). The capital city continued to drive the increase, with Dublin house and apartment prices up 14.3% and 16.6% respectively. Prices in the rest of the country were 2.6% higher than in March 2013. Commentators have pointed to a lack of available housing, suitable family accommodation in particular, as the driving force behind the rise in house prices in Dublin. On the other hand, significant oversupply is maintaining downward pressure on prices outside Dublin and other cities. House prices in Portugal were observed to be overall stable in the five quarters up until Q1 2014. This hides a deep internal divide between prices in Lisbon rising to record highs and prices of luxury housing (mainly demanded by foreign investors) that have risen over 50% since 2012, and house prices in the rest of the country. Similar patterns are observable in many EU countries, particularly in Denmark, the UK and Sweden, where house prices in the respective capitals and largest cities are the main drivers of the price increases observed on a country level (where other regions may even experience a price decline). The opposite effect is also observed in countries with overall price contractions, such as Spain, where certain regions of the North, large cities and holiday destinations experienced an increase in

CHART 3 ▶ Nominal House Price Indices, 2007=100



Source: European Mortgage Federation

CHART 4 ▶ Relationship between changes in house prices and changes in construction indicators, 2002-2013 for the EU 28 countries



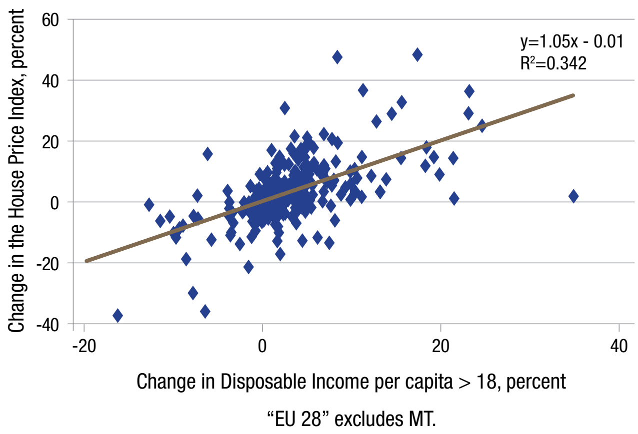
Source: European Mortgage Federation

prices. It is therefore safe to say that aside from international fragmentation of the housing market in Europe, there also exists a deep intra-national fragmentation, reflecting the highly "physical" nature of housing as an asset class and as an investment, and the impact of its location on prices.

2.1.3 Determinants of changes in house prices

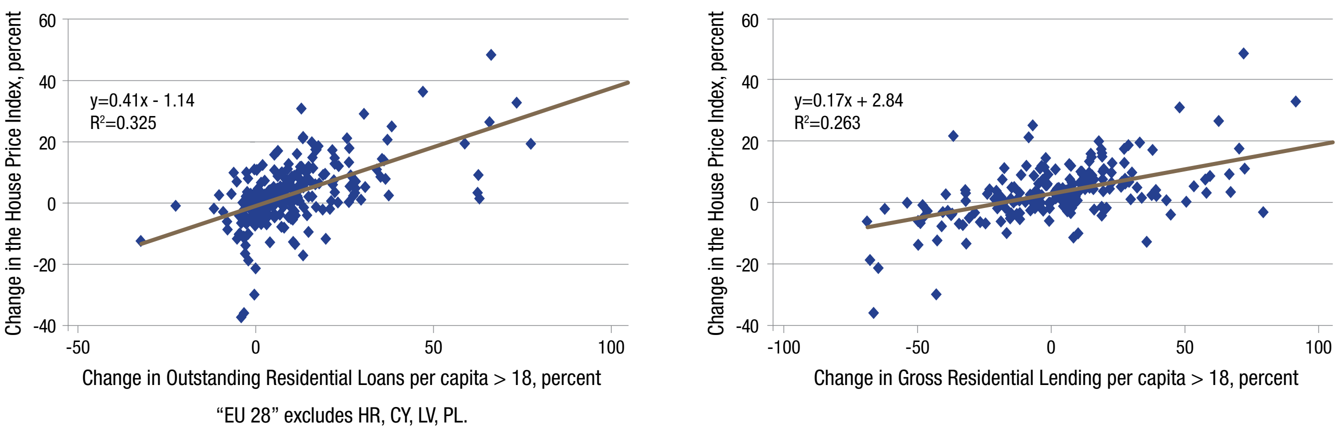
House price developments are influenced by many factors, and they in turn influence many variables that reflect households' behaviour. It is difficult to say if causality really exists between house price developments and other developments in housing and mortgage markets, and especially in which direction such causality is working if contemporaneous developments are analysed. What is clear, however, is that a strong relationship exists between house prices and other indicators of demand and supply. In terms of supply, measures for housing construction, namely the number of building permits issued and the number of housing units completed within a given year, are most definitely related to house price developments. Chart 4 shows the correlation between yearly changes in house price indices and annual changes in building permits issued per capita, as well as annual changes in housing completions per capita. Construction, therefore, seems to be a main determinant of house prices (determining supply), though of course it, too, may react to fluctuations in house prices and demand. Moreover, the demand side of housing, which may partly be determined by disposable income per capita (see Chart 5), also shows a high correlation with house prices developments, meaning that the more disposable income households have, the higher will house prices rise. However, the correlation may simply arise from a more general consideration of economic activity, when growth is associated with rising house prices, as well as higher disposable income.

CHART 5 ▶ Relationship between changes in house prices and changes in disposable income per capita, 2002-2013 for the EU 28 countries



Source: European Mortgage Federation

CHART 6 ▶ Relationship between changes in house prices and changes in mortgage lending, 2002-2013 for the EU 28 countries



Source: European Mortgage Federation

Nonetheless, the link is clear. Finally, Chart 6 also reflects demand in the housing market to some extent, but through the financing side, namely the issuance of mortgage credit. Both gross and net residential lending are highly correlated with house prices, of course, and the reported data confirms this.

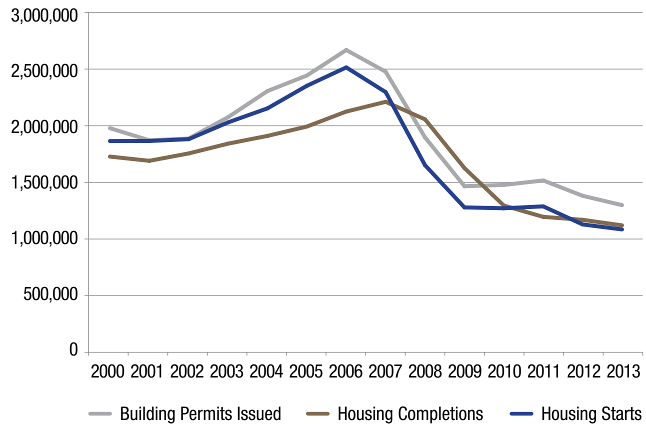
2.2 Housing Supply Developments

Housing supply measures collected and analysed in this publication are: (1) the number of building permits issued; (2) the number of housing projects commenced during the year (housing starts); and (3) the number of housing projects completed during the year (housing completions). Chart 7 shows the evolution of these three indicators from 2000 to 2013 for the European Union (see Chart 7 for details about the samples used). The patterns clearly show building permits and housing starts moving largely together, though the total number of projects that received a permit but were not actually started seems to have increased during the year (reflected by the difference between building permits and housing starts). This may reflect subdued demand conditions, which increase the number of unsold properties already on the market, thus forcing building companies to abandon projects or to postpone their start (though this conclusion must be made with care, bearing in mind that housing start statistics cover a much smaller sample of EU countries, and therefore are likely to underestimate the true number of building starts). Understandably, there exists a lag between movements in housing starts (or building permits issued) and housing completions. Moreover, there is a markedly lower number of housing completions than housing starts (further strengthened by the fact that the sample used to calculate housing completions is larger in terms of countries covered than that used for housing starts). This, too, may reflect abandoned building projects that were not brought to completion due to developments in the housing market during the construction period. Again, this probably is a result of the subdued economic activity, the lower demand for housing in Europe and the subsequent contraction in house prices.

At an aggregate level, it is clear how the housing bubble, which was substantial in a number of EU countries (though large differences exist between them) caused construction to peak around 2006/2007. After the burst of the bubble, construction activity contracted very quickly and very steeply. The housing supply indicators in Chart 7 show a market that is continuing to shrink, almost continuously since 2006, with a timid improvement in 2010-2011. Data for 2012 and 2013 shows a continued contraction in the market, which still is not feeling the positive effect of a pick-up in mortgage activity in many EU countries. This mainly reflects the existence of an overhang in the housing market in terms of unsold units, which therefore makes new construction unnecessary at the moment. It is likely that construction will pick up again in the coming months and years, though it is uncertain when (and whether) it will return to pre-crisis levels in Europe.

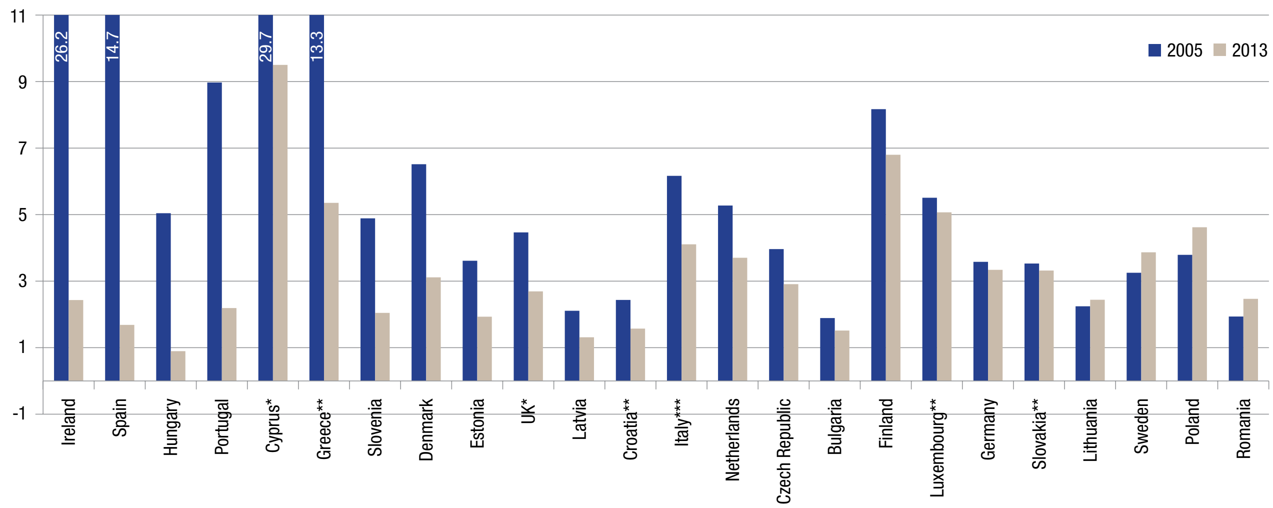
As already mentioned, developments in housing supply across different countries in Europe also reflect a fragmented market that is moving at different paces and in different directions. Chart 8 compares the current level of issuance of building permits to the pre-crisis levels (2005). At that stage, the housing bubble in a number of countries had already started to materialise, as reflected by the very high number of building permits per capita issued in some jurisdictions. Chart 8 shows how the construction market shrunk in most EU countries between these two years, with the

CHART 7 ▶ Evolution of construction indicators in the EU[2], number of residential units



Source: European Mortgage Federation

CHART 8 ▶ Building Permits per 1000 inhabitants above 18 years (ordered by the size of the proportional contraction observed between 2005 and 2013)



*2012 used instead of 2013 **2011 used instead of 2013 ***2010 used instead of 2013

Source: European Mortgage Federation

[2] The three indicators cover all countries in the EU for the stated period, with the exception of the following:

- Building Permits: UK, BG (2000-2005), IT (2001-2002, 2013), LV (2000-2002), RO (2000-2004), SK (2012-2013).
- Housing Starts: AT, CY, HR, DE, LV, LT, LU, NL, PT, EE, MT, BG (2000-2009), HU (2000-2003, 2010-2013), IE (2000-2003), IT (2000-2003, 2012-2013), RO (2000-2001, 2009-2013), SK (2012-2013), SI (2009), UK (2013).
- Housing Completions: AT, BE, FR, MT, BG (2000-2003), HR (2000-2001, 2012-2013), CY (2013), GR (2012-2013), IT (2011-2013), LU (2012-2013), SK (2012-2013), UK (2013).

Please note that in order to achieve a consistent sum for the EU over time, the data gaps (i.e. the years in brackets above) have been filled by using the closest available data to the missing point for the given country.

exception of Lithuania, Sweden, Poland and Romania. Out of the 24 countries for which data is available, construction activity (as represented by building permits issuances) more than halved from 2005 to 2013 for 8 countries. The remaining 12 countries all experienced a moderate contraction of construction activity, mirroring the general trends discussed above. Another notable pattern is, as hinted to in paragraph 2.1.3, the relationship shown in Chart 4 between construction activity (housing supply) indicators and house prices. Many of the countries that experienced a significant contraction in their construction activity are also those whose house prices have contracted most sharply, thus highlighting the fact that housing supply responds to price developments possibly even more so than the reverse.

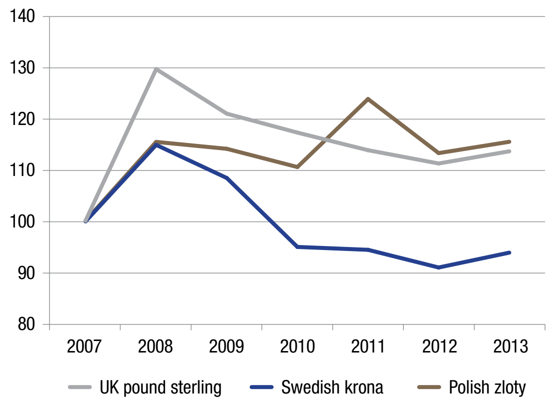
3. Mortgage Markets

3.1 Residential Mortgage Lending

2013 represented a further contraction in mortgage lending in the EU as a whole. Chart 9 shows the evolution of outstanding mortgage loans in EUR in the euro area (18 Members) and the EU (28 Members). The latest data shows a further deceleration in the rate of growth of outstanding mortgage loans. It is important to specify that the value for the EU is heavily influenced by exchange rate fluctuations of non-euro area currencies vis-à-vis the euro. In particular, this is the case for the UK, which is the EU's largest market in terms of mortgage lending volume. Chart 10 shows the evolution of the exchange rates for the 3 largest non-euro area mortgage lending markets (with the exception of Denmark, whose currency does not fluctuate substantially against the euro as it is part of the Exhange Rate Mechanism [ERM II]). The chart provides an explanation of the substantial dip observed in 2008 for EU outstanding mortgage lending, as the euro appreciate sharply between year-end 2007 and year-end 2008 (year-end exchange rates are used in Chart 9). A general depreciation of the euro between 2008 and 2012 vis-à-vis the UK Pound Sterling and the Swedish Krona highlights that the rise observed in outstanding mortgage lending between these two dates in the EU is probably overestimated in national terms. Moreover, it is interesting to see that the euro appreciated again against these three currencies in 2013, thus explaining the first contraction in outstanding mortgage lending in the EU (in EUR) since 2008. Therefore, the true evolution of EU mortgage lending in national terms is much closer to the euro area pattern.

Aside from the exchange rate distortions, the euro area data clearly shows that 2013 represented the lowest y-o-y growth in outstanding mortgage lending since the start of the economic crisis. This reflects very low levels of gross lending, which however has not changed much over the past few years, as it was low already immediately following the start of the crisis (see next paragraph). Mainly, therefore, the marked deceleration in outstanding loans reflects a rising number of redemptions, which causes net mortgage lending to fall.

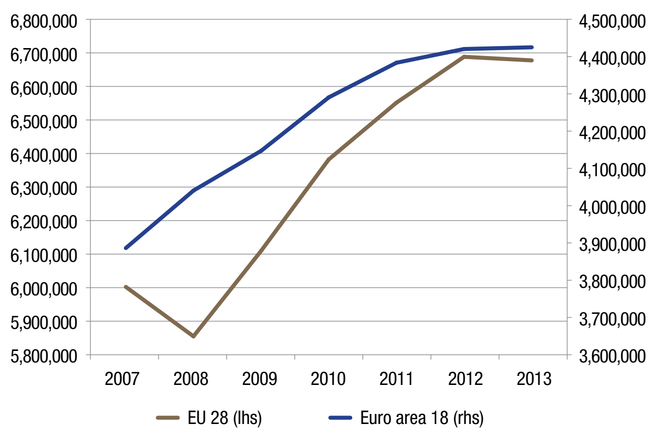
CHART 10 ▶ End-of-year exchange rates for selected currencies vis-à-vis the euro, 2007=100



Source: European Central Bank (ECB)

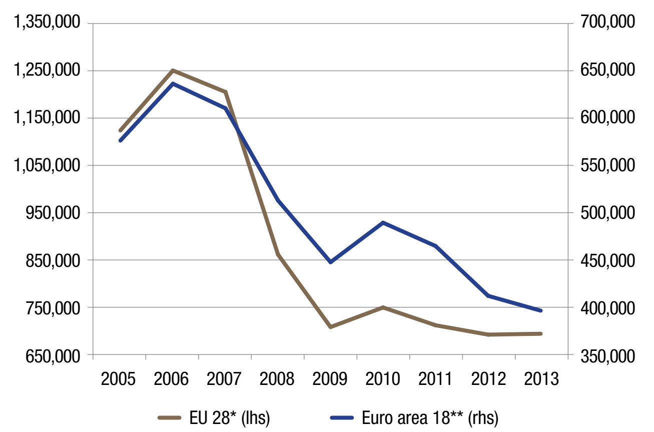
Gross mortgage lending has indeed been low, effectively from 2009, following a sharp drop from the peak reached in 2006, at the height of the housing bubbles in Europe (see Chart 11). Since 2010, both the euro area and the EU as a whole have experienced a continuous contraction in gross mortgage lending. This is particularly true for the euro area, probably partly explained by the exchange rate developments described above. Nonetheless, it is interesting to see that despite the appreciation of the euro in 2013, gross lending in the EU as a whole increased, whereas the euro area data for 2013 shows a further (though less drastic) contraction compared to the previous year. This is mainly due to an increase of about 20% y-o-y in UK gross mortgage lending in local currency, which, due to its market being the largest in the EU, brought up the EU total in 2013. This gives an idea of the different developments that are taking place in different countries across the EU, and of the level of fragmentation that exists in terms of developments. The Country Reports in this year's Hypostat, together with the Statistical Tables, will provide further insight regarding the different trends observed in the EU, alongside analyses explaining these trends. Chart 12 gives an idea of the difference in trends across the EU, as well as the volatility of this indicator over time, even within the same jurisdiction. Moreover, it shows that some countries did not experience a bubble in 2006-2007, and their levels of gross mortgage lending were, by Q4 2013, close to or higher than 2007 levels. However, other countries have reached levels that are a small fraction of 2007 gross mortgage lending. Notably, Hungary, Ireland, Portugal and Spain exhibit the

CHART 9 ▶ Outstanding Mortgage Lending in the euro area 18 and the EU 28, EUR millions



Source: European Mortgage Federation

CHART 11 ▶ Gross Residential Lending in the euro area 18** and the EU 28*, EUR millions



* "EU 28" = AT, BE, BG, CZ, DE, DK, EE, ES, FI, FR, HU, IE, IT, LT, PT, SE, SI, SK, UK.
** "euro area 18" = AT, BE, DE, EE, ES, FI, FR, IE, IT, LT, PT, SI, SK.

Source: European Mortgage Federation

lowest levels of gross lending vis-à-vis their 2007 levels. Many of these markets have been hit hard by the housing bubble bursting, and their mortgage market still has room to recover and get closer to pre-crisis levels. Finally, looking back to Chart 6, it is clear to see that changes in outstanding mortgage loans, as well as changes in gross lending, are important determinants of changes in house prices, thus highlighting the important role of the financial sector (and its ability to lend) in determining house price fluctuations.

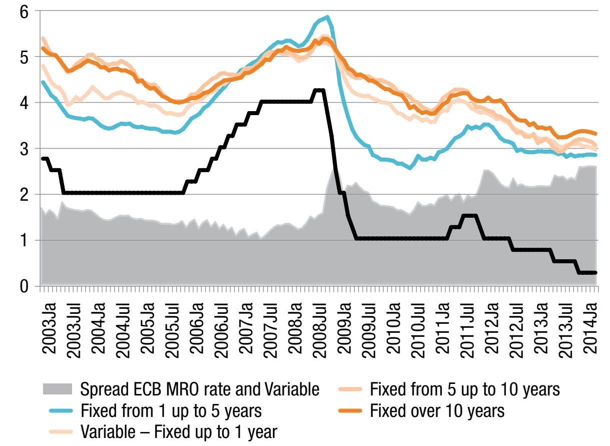
3.2 Mortgage Interest Rates

3.2.1 Trends in representative rates on new mortgage loans and benchmark rates

Interest rates on mortgage loans in the EU contracted across the board (with the exception of Ireland (+5.7% y-o-y) and Finland (+0.3% y-o-y). This development partly reflects the reaction of lenders to subdued demand by borrowers caused by the general economic downturn, and their attempt to attract more clients. More importantly however, the mortgage interest rate movements observed in 2013 followed the general trends set by benchmark policy interest rates, which were lowered by the ECB over the course of 2013, as well as by other central banks across the EU. Chart 13 shows the movement of interest rates on loans for house purchase granted by monetary and financial institutions in the euro area, compared to the ECB main refinancing operations (MRO) policy rate. Mortgage interest rates followed the ECB benchmark rate quite closely (especially the interest rate on variable loans, for which the spread vis-à-vis the ECB MRO rate is shown). 2013 was characterised by an overall continued contraction in rates (though at a moderate pace), with different lengths of initial rate fixation coming closer together. Arguably, the ECB rate cuts had less effect on mortgage lending in 2013 than was previously the case. This was most striking for variable rates, which remained largely unchanged over the course of 2013, as shown in Chart 13. Arguably, in terms of mortgage interest rates, monetary policy had a limited impact in 2013, as rates were already at very low levels, and struggled to respond to further cuts in the benchmark rate.

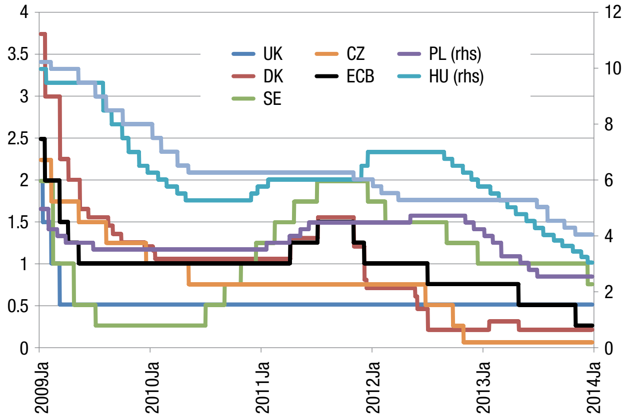
The downward trend in central bank benchmark rates can also be observed for 2013 in most EU countries that do not belong to the euro. Chart 14 shows how benchmark rates have been declining in most countries since the start of 2012. This trend continued (where possible due to the lower bound) throughout 2013, with the exception of the UK, where the central bank rate have remained unchanged at 0.50% since early 2009, and Denmark, where there was a short-lived rise in the rate in early 2013 that was brought down again in May. These trends undeniably influenced the evolution of mortgage interest rates, as lenders were increasingly able to finance their lending at lower rates and therefore offer more competitive mortgage interest rates without much impact on their profit margins.

CHART 13 ▶ Average mortgage interest rates by initial rate fixation for the euro area, percent p.a.



Source: European Central Bank (ECB)

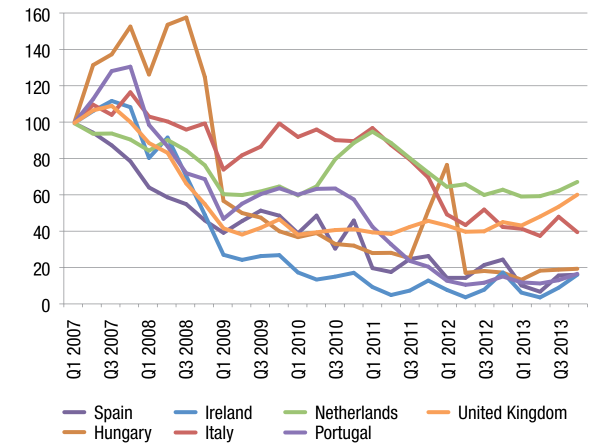
CHART 14 ▶ Benchmark policy rates for some EU central banks, percent p.a.



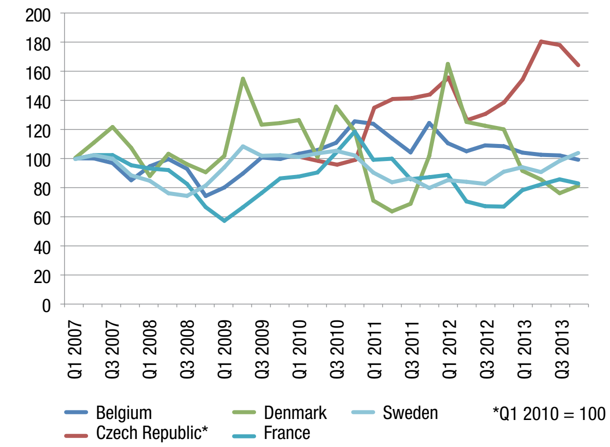
Source: Bloomberg

CHART 12 ▶ Gross Residential Lending (Q1 2007=100; in domestic currency; seasonally adjusted data)

a) Countries where gross residential lending has remained at least 30% below pre-crisis (Q1 2007) level



b) Countries where gross residential lending has returned/remained close to pre-crisis (Q1 2007) levels, or has increased



Source: European Mortgage Federation

The time series have been seasonally adjusted by regressing the gross domestic lending of each country on quarter dummies and a constant, and adding the residuals to the sample means. STATA econometric software has been used.

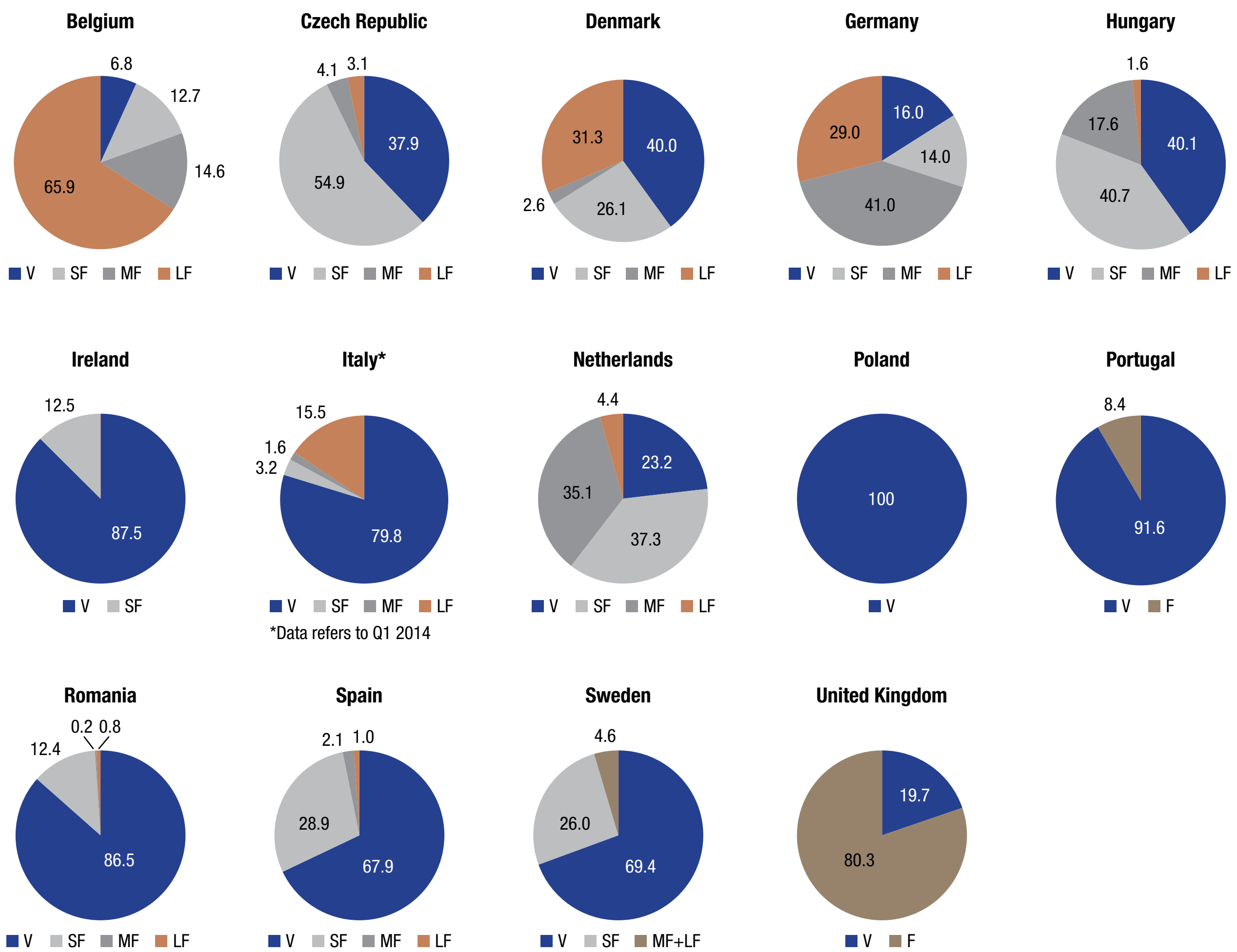
3.2.2 Different types of interest rates on mortgages

The market for interest rates in the EU is highly differentiated, with different products being offered in different countries. Moreover, depending on the market in question, the most common interest rate offered on mortgages may vary greatly. Some countries have predominantly variable rate mortgages, others predominantly use fixed rate mortgages, whereas other still may have a balanced mix. Chart 15 compares the market share for new issuances (end 2013) of mortgage loans by interest rate type in different countries across the EU. The comparison clearly shows the high level of fragmentation between jurisdictions, with variable rate mortgages ranging from 100% of market share (in Poland) to only 6.8% (in Belgium). This picture reflects different considerations, such as culture, different national legislations, different expectations of interest rate movements, as well as different market structures in terms of lenders.

Chart 15 only provides a snapshot of the situation in different markets, but as a matter of fact, the situation is not static for many of these countries, some of which have experienced significant changes in the proportions shown in the chart. Much of the variation over time is probably due to changes in the relative rate offered for fixed and variable contracts, as well as the expectations of interest rate changes in the future. Chart 16 illustrates the evolution over time of the spread between long-term fixed and variable mortgage rates for some EU countries, alongside the market share of variable (up to 1 year initial rate fixation) rate mortgages in the total new issuances each quarter since Q1 2009. The patterns suggest a general tendency (as is expected) of the share of variable rate mortgages to fall as the spread in interest rate between variable and long-term fixed mortgage rates falls. This reflects the fact that, if there is little difference in price (i.e. the spread is low), a fixed rate, that will ensure the borrower an element of certainty with regards to their repayments over the entire horizon of the loan, becomes more attractive. This is particularly true when interest rates are low, and when they are expected to rise at some point in the future, and when therefore, obtaining a mortgage at a low fixed rate will be especially advantageous. Another point that is worth noting is the different proportion by which the share of variable rate mortgages changes over time across countries. For instance, this change has been very large in Belgium and Hungary, whereas it remained quite limited in Germany and in Spain, again, reflecting different factors, among which are both legislative and cultural factors. Overall, therefore, mortgage and housing markets remains

CHART 15 ▶ Market breakdown for new mortgage loans at Q4 2013, by interest rate type, selected EU countries

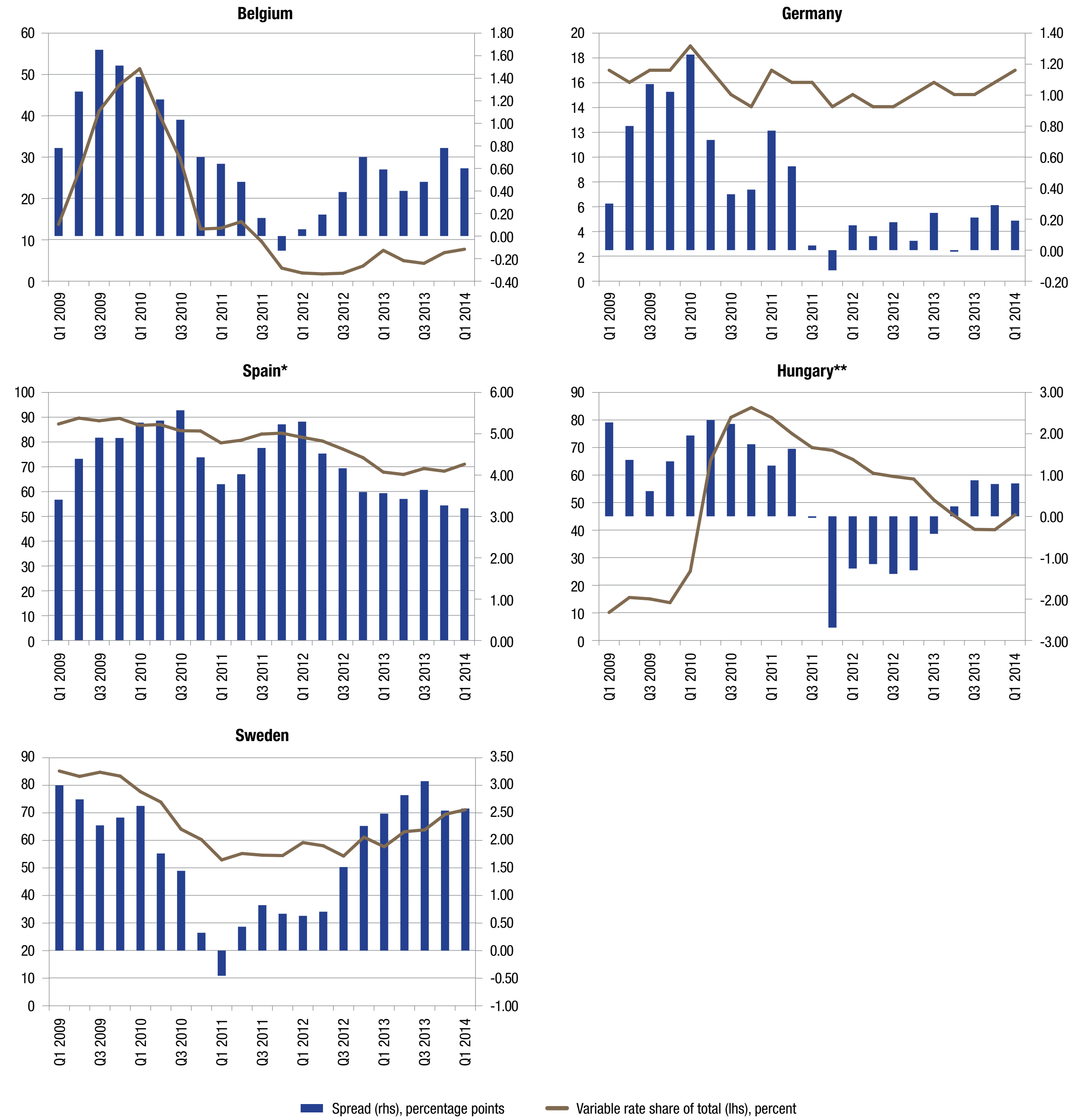
V = Variable Rate (up to 1 year initial rate fixation)
SF = Short-Term Fixed Rate (over 1 year and up to 5 years initial rate fixation)
MF = Medium-Term Fixed Rate (over 5 years and up to 10 years initial rate fixation)
LF = Long-Term Fixed Rate (over 10 years initial rate fixation)
F = Fixed Rate (undefined duration)



Source: European Mortgage Federation

some of the most fragmented at European level in terms of patterns observed between countries. The highly physical nature of housing makes integration and homogenisation difficult, though the ever closer union being achieved in terms of financial services in Europe, which are closely related to housing, is likely to have a substantial impact on the level of heterogeneity exhibited by mortgage and housing markets in the EU over the coming years.

CHART 16 ▶ Comparison of spread between variable (up to 1 year initial rate fixation) and long-term fixed (over 10 years) mortgage interest rates and the market share of variable rates (up to 1 year initial rate fixation) over total new issuances



* The spread refers to the rate on Medium-Term Fixed (initial rate fixation over 5 years and up to 10 years).

** The spread refers to the rate on Short-Term Fixed (initial rate fixation over 1 year and up to 5 years).

Source: European Mortgage Federation

The Potential for Financing Housing Loans in the Republic of Croatia by Issuing Mortgage Covered Bonds

By Branka Jurčević, Ph. D., University of Zagreb, Faculty of Economics and Business

1. Introduction

During the last 20 years of transition, housing policy in the Republic of Croatia has been characterised by a decreasing role of the state in ensuring housing for its citizens, by the privatisation of publicly owned housing and by the strengthening of market-oriented housing financing models. In spite of many positive changes that have taken place in this period, the Croatian housing system still faces numerous obstacles. Croatia is among only a few European countries that still have not adopted a consensus-based national housing strategy. Consequently, there is no permanent, effective and sustainable system in place to ensure financial support for housing on the part of the state.

On the other hand, the market-oriented housing finance system in Croatia is characterised by dominance in bank lending, with deposits being the main funding source. The consequence is a limited supply of housing loans in periods of increased demand, relatively higher interest rates on housing loans, out-dated risk management methods and instruments, as well as significant overcollateralisation of housing loans.

When one takes into consideration high overcrowding rates in owned or rented places of residence, frequently inappropriate living conditions, limited access to and unfavourable conditions for housing loans, a significant share of vulnerable social groups with limited access to housing loans or without any access at all, as well as the long-lasting economic recession in Croatia, it becomes perfectly clear that further changes in the housing finance system are not merely desirable, but are absolutely necessary.

2. Insight into the housing and general financial system in the previous period

In the previous period dating back a few decades, banks dominated the housing finance system in Croatia and also in the former Yugoslavia, of which Croatia was once a part. This is not surprising because of the long-term domination of a planned economy in the region. As a consequence, the financial system had been impoverished and nationalised, essentially comprising only banks, with the exception of some public insurance institutions, a few savings depository institutions and other specialised institutions without any significant role or influence in the housing finance system. This situation remained unchanged until the 1990s and Croatia's independence from Yugoslavia, which led to a thorough social and economic transition. In short, from that period onwards the general financial system in Croatia – albeit with many resolved and still unresolved issues, perennial banking and economic crises, liquidations, consolidations and restructuring – advanced significantly and it is now compatible with and comparable to the financial systems of developed countries.[1]

Nevertheless, the Croatian financial system still lacks sufficient financial techniques and mechanisms for external financing, financial instruments and specialised participants on its financial markets, which considerably enhance contemporary financial structures in the most developed countries. In spite of the aforementioned positive changes, banks continue to play a dominant role in the Croatian financial system (in 2013, banks accounted for 71% of total financial system assets), while the significance of other actors – who are in other countries key competitors to banks – is much lower or is merely symbolic. For example, at the end of 2013 the share of total financial sector assets stood at 10.4% for pension funds, at 6.1% for insurance companies, at 3.7% for leasing companies and at just 2.6% for investment funds. To date, the securities market has not attained a significance that most investors would like to see. Following the short-lived boom period between 2007 and 2009, total turnover, market capitalisation, listed securities and other relevant indicators again started to post a constant decline, or they remained at very low levels. To mention one example, the total securities turnover at the Zagreb Stock Exchange (ZSE is the only stock exchange and organized securities market in Croatia) in 2007 was valued at HRK 66.5 billion (HRK = Croatian Kuna) (this is the equivalent of EUR 9.1 billion), while the market capitalisation of 376 listed securities stood at about HRK 394 billion (EUR 53.8 billion). The total turnover at the ZSE in 2013 had the value of just HRK 3.8 billion (EUR 0.5 billion), with the market capitalisation of 368 listed securities being valued at just under HRK 184 billion (EUR 25 billion).[2]

Given the aforementioned, bank savings remain the dominant investment instrument, while banking loans are most often the only available external financial instrument. In other words, in many market segments banks dominate today, as well. A similar situation, i.e. the domination of banks, is also present in the financing of housing. In such an environment, housing loan offers, their price, housing construction and the overall housing system were, in the past, directly determined by government policies and afterwards by conditions in the banking sector, the credit potential of banks and by independent lending policies.

In the last few years, before the onset of the global financial and economic crisis, Croatian banks and banks worldwide enforced the policy of strong credit expansion. However, the crisis temporarily halted the further expansion of total credit activity of banks, together with housing lending. Furthermore, with the exception of a decrease in the supply of housing loans, more rigorous housing lending conditions by banks in the period after 2008 further decreased demand for housing loans, which ultimately led to a decrease in real estate sales.

The total assets of 30 banks at the end of 2013 amounted to HRK 405.7 billion (EUR 53.1 billion). All loans in the total value of HRK 268 billion (EUR 35.1 billion) had a significant share of 66% of the assets. Therein, residential loans amounted to HRK 118.3 billion (EUR 15.5 billion), or 44% of the total credit assets. Housing loans amounted to HRK 59.2 billion (EUR 7.4 billion), or a low 50% of residential loans granted (developed financial systems in Europe record a share of about 70%), which is just 14.6% of banking sector assets.[3] Consequently, in 2013 the residential mortgage debt in relation to the GDP amounted to a low 18.1%.[4]

[1] For instance, in the 1990s 15 banks were undergoing bankruptcy procedures and one bank was liquidated.

[2] ZSE, *Trading overview in 2007, 2008, Trading overview in 2013, 2014.*

[3] Croatian National Bank, *Aggregated monthly statistical report of banks, 31.12.2013.*

[4] According to the Croatian National Bank, *Aggregated monthly statistical report of banks, 31.12.2013*, outstanding residential housing loans debt amounted to HRK 59.2 billion and according to the Croatian National Bank, *Bulletin, No. 205* GDP at market prices amounted to HRK 326.9 billion. According to the European Mortgage Federation Hypostat 2012, that share was 32.6%.

The volume of housing lending naturally influenced interest rates. The increase in interest rates was stronger in the period 2007-2009 due to the crisis (up to 6.5% for housing loans in HRK, the domestic currency, indexed to a foreign currency, and over 8.0% for housing loans in EUR). Interest rate levels stabilised after that period at between 5.5% and 6.0% (Chart 1). However, these interest rate levels are still significantly higher than average interest rates on housing loans in the euro area (between 3.0% and 3.5%).

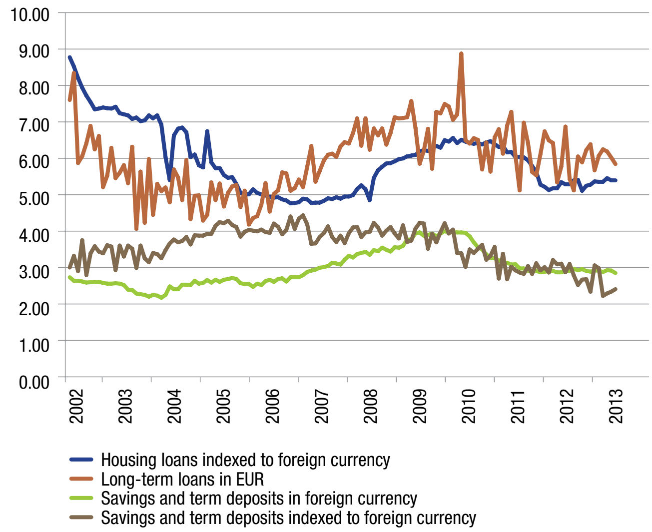
Throughout the past years, deposits have played the most significant role in the liabilities structure of the banking sector. At the end of 2013 they represented 71.3% of liabilities, or HRK 289.1 billion (EUR 37.9 billion). Term and savings deposits were of primary importance here, with their value standing at HRK 235 billion (EUR 30.8 billion). Interest rates on domestic and foreign currency deposits significantly decreased after 2010 (to the level of 3.0%) as a result of high liquidity in the banking system. With regard to other funding sources, long-term loans from financial institutions and other long-term loans stood at the forefront, with their share amounting to 10.3%.[5]

Housing loans from housing savings banks have played a complementary role in housing lending in Croatia, although to a significantly lesser extent. Housing savings banks were introduced to the Croatian financial market in 1998 with the main goal of increasing the supply of housing loans. As a consequence of numerous banking liquidity crises in the 1990s, non-performing loans inherited from the period of planned economy, universal restructuring, immediate and collateral damages resulting from the Croatian War of Independence, as well as all other problems that have marked the transition period, banks do not have adequate potential nor do they possess enough interest for approving long-term loans, especially housing loans with the maturity of over 20 years. Taking into consideration the aforementioned, the introduction of housing savings banks to the Croatian financial market was completely justified at that time. Housing savings banks in Croatia were established according to the German principle of *Bausparkassen*, i.e. they collect dedicated savings of their members with the main goal of financing the construction of housing units, the construction and purchase of flats, the purchase of land-for-construction, its furnishing, etc. However, an analysis of the performance of housing savings banks in Croatia leads us to conflicting conclusions. If we only observe the growth of overall housing savings banks assets or the collection of deposits, on the one hand, and the significance of housing loans granted in the total assets structure, on the other, it can be concluded that housing savings banks in Croatia did not achieve the level of success of German *Bausparkassen* and British building societies, the main models on the basis of which housing savings banks in Croatia were established. Furthermore, if we take into consideration the fact that the lending procedures, insurance instruments and most other conditions set forth by housing savings banks soon became almost equal to those of banks, their operating purpose is further brought into question.

The total assets of five housing savings banks in Croatia at the end of 2013 stood at only HRK 7.6 billion (EUR 1 billion), or 1.9% of the total assets of credit institutions. Residential housing loans amounted to HRK 4 billion (EUR 0.5 billion), or only 52.6% of the total housing savings bank assets, which represented only 6.8% of the overall approved housing loans in Croatia. These fundamental indicators already point to unrealised credit potential.[6] Furthermore, only 37,336 loans were granted in the period 1998 – 2012 through housing savings banks.[7] Half of the arranged loans were granted for adaptation and reconstruction (70% of residences were built before 1980), and approximately only 15,000 loans in the total amount of HRK 3.5 billion (EUR 0.46 billion) were arranged for real estate purchases or the redemption of existing housing loans. In addition, almost 81% of households in Croatia with savings in housing savings banks have already resolved their housing issue (i.e. they already own a housing unit).

The main implications of the aforementioned are the ineffectiveness of housing savings banks in resolving housing issues in Croatia and their unjustified misspending of public funds through governmental incentives for housing savings. It is perfectly clear that, in most cases, clients in housing savings banks do not have an incentive to resolve their housing issue (through the purchase of a dwelling or by increasing the quality of their housing), but only to achieve excess return from the already mentioned governmental incentive funds, apart from interest.

Chart 1 ▶ Interest rates on housing loans and long-term deposits in the Republic of Croatia, 2002-2013, in %



Source: Authors according to Croatian National Bank official data, 2014.

However, in 2013 and due to budget constraints, the state abolished governmental incentive funds for housing savings. This decision is temporary, but it lacks a clear vision for the future, therefore further decreasing the appeal of housing savings and the role of housing savings banks.

Apart from governmental incentives in relation to housing savings, in Croatia the state has also been seeking to address housing issues through the Program of Subsidised Residential Construction (POS) since 2001. Although this Program does not exclusively target residential construction for socially disadvantaged groups, its social component can be indentified in the priority list of potential home buyers. Citizens with lower incomes, young families and persons who have yet to resolve their housing issue have a priority. This Program is an example of organised residential construction, partly based on market principles. The potential home buyer under the Program must provide a deposit amounting to 15% of the total residential unit price, 45% of the value is financed through a preferential housing loan of the bank, while 40% is financed through a loan from the local authority and the Ministry of Construction and Physical Planning. Apart from this, the local authority also has to secure land for construction and put in place the communal infrastructure. The disadvantages of the Program include the major role of the state in its enforcement, budgetary dependence, particularly in the area of preferential lending, and also an inadequate supply of housing, in comparison to the objective needs and the general demand, as well as the questionable quality of construction, etc. Furthermore, the implementation of the Program to date has revealed indifference on the part of local authorities, due to the conditions that require them to grant construction land free of charge and to ensure the existence of a communal infrastructure. In addition, many local authorities do not possess adequate land or sufficient funds to provide utilities, nor do they have any commercial or other incentive to participate.

It can be concluded that a bank housing loan is the only debt instrument available to the majority of citizens to purchase a home. In Croatia, other financial intermediaries specialising in housing lending, except for banks and housing savings banks, still do not exist. Ultimately, the absence of adequate market-oriented mechanisms, institutions, techniques and models of credit and non-credit financing and subsidising of housing – which have long ago been accepted and implemented worldwide – impedes the further advancement of the existing housing finance system. Additionally, problems such as risk exposure, incomplete land registers and drawn-out legal proceedings additionally constrain housing market organisation, housing lending and secondary mortgage market development, which is a required prerequisite for the development of housing financing models oriented on capital markets.

[5] Croatian National Bank, *Aggregated monthly statistical report of banks, 31.12.2013.*

[6] Croatian National Bank, 2014, *Bulletin of banks, No. 27.*

[7] The Institute of Public Finance, 2013, *Analysis of governmental incentives for the housing saving system in the Republic of Croatia* (in Croatian), pp. 35, 39, 49.

3. Housing demand and supply

In the period 2000-2009 the number of completed housing units increased from approximately 13,000 to 19,000 units and reached the number of dwellings sold (Table 1). However, qualitative and quantitative data for housing in Croatia are not completely objective and, consequently, it is difficult to make a reliable assessment of the shortage of quality housing.

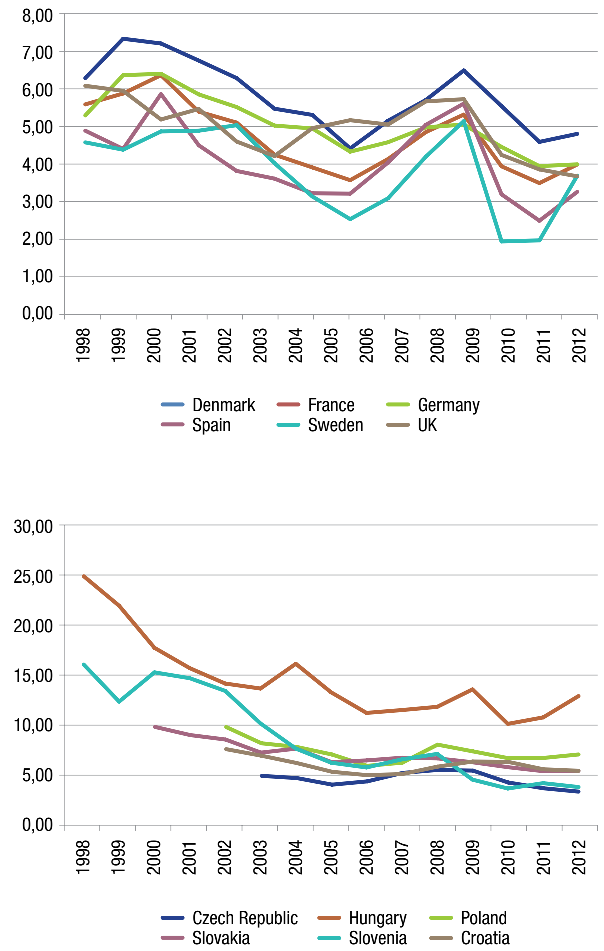
Both indicators posted a significant fall in the period 2008-2010 as a consequence of the last financial crisis. By some estimates, the number of housing completions will grow towards 25,000 units by 2020, while the number of transactions should rise even more significantly, towards 40,000 units.[8]

Apart from the price of housing, which greatly influences the amount of the required housing loan and which is determined by conditions on the real estate market, the disposable income of citizens also directly influences the affordability of housing. In this regard, it is not unusual for housing to be, on average, less affordable in newer EU Member States, including Croatia, in relation to developed EU countries that have higher real estate prices, but also higher GDP and gross earnings.

Croatia, with a *Price to Income Ratio* of 12% (the basic measure for housing purchase affordability; ratio of median dwelling prices to the median disposable income of households), has a lower affordability of housing than developed EU countries (France, Germany, Denmark, UK, Spain, etc.), with a ratio of 8%, but also in relation to newer EU Member States (Bulgaria, Romania, Czech Republic, Slovakia, Poland, Hungary, Slovenia), which recorded a ratio in the range from 10% to 15%. Moreover, the Mortgage Loan Affordability Index (an inverse of mortgage as a percentage of income) supports these results. For the newer EU Member States the Mortgage Loan Affordability Index is in the range of 0.8 to 1.3, while in the developed EU countries it is in the range of 1.5 to 2.5.[9]

The level of interest rates on housing loans, particularly decreases, equally influences the affordability of housing. Here it should be mentioned that the residential housing lending boom of the past 20 years in transition countries was accompanied by an increase in mortgage debt as well, which occurred precisely as a result of a significant reduction in interest rates on housing loans. Specifically, interest rates on housing loans decreased from over 10% in the period before 2000, to a range of between 3.5% and 7% in 2013. This represents a marked movement towards their convergence with interest rates in developed EU countries (between 3.5% and 4% in 2013) (Chart 2).

Chart 2 ▶ Interest rates on housing loans in selected EU countries, 1998-2012, in %



Source: Authors according to the European Mortgage Federation, Hypostat 2013, pp.8

Table 1 ▶ Selected housing data for the Republic of Croatia, 2001-2013

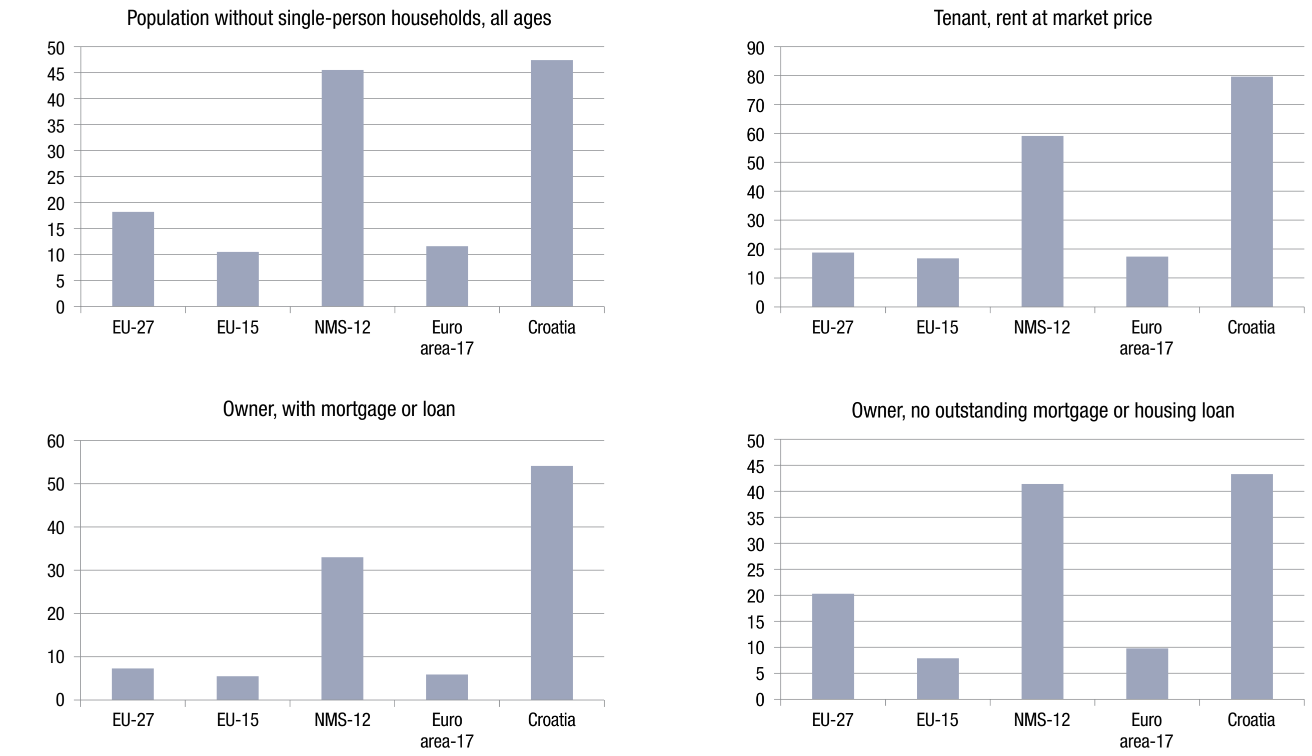
Year	Housing completions-dwellings	Floor area, in '000 m²	Number of building permits issued – resid. buildings	Number of building permits issued – dwellings	Total number of transactions (new dwellings)	Average price of dwellings sold, per m², in EUR
2001	12,862	1,098	8,610	18,088	n/a	1,127
2002	18,047	1,438	8,648	19,549	957	1,128
2003	18,460	1,529	8,781	21,245	1,436	1,120
2004	18,763	1,568	8,558	20,358	2,166	1,170
2005	19,995	1,700	9,243	23,484	2,145	1,208
2006	22,121	1,848	9,342	25,517	3,389	1,217
2007	25,609	2,075	8,730	24,877	3,110	1,536
2008	25,368	2,037	8,399	24,585	3,025	1,651
2009	18,740	1,563	8,048	17,018	2,861	1,635
2010	14,972	1,280	6,320	13,378	2,319	1,486
2011	12,390	1,231	6,062	13,470	2,169	1,562
2012	n/a	902	4,741	9,742	2,357	1,533
2013	n/a	n/a	3632	7,744	n/a	n/a

Source: Croatian Bureau of Statistics, Statistical Yearbook 2013 and Monthly statistical reports, 2014

[8] Raiffeisen Researches, *Housing market 2020 (In Croatian)*, 2010; Croatian Bureau of Statistics, *Statistical Yearbook* 2013.

[9] Numbeo, *Statistical data for 2012, 2013.*

Chart 3 ▶ The comparison of overcrowding rates by age and tenure status, 2011, in %



Source: Authors according to the European Commission, Eurostat, 2013

Note:
EU-15 = AT, BE, DE, DK, ES, FI, FR, GR, IE, IT, LU, NL, PT, SE, UK.
NMS-12 = BG, CY, CZ, EE, HU, LV, LT, MT, PL, RO, SI, SK.
EU-27 = EU-15 + NMS-12
Euro area-17 = AT, BE, CY, DE, EE, ES, FI, FR, GR, IE, IT, LU, MT, NL, PT, SI, SK.

There are significant differences in the overcrowding rates between the EU-15 and the newer EU Member States (NMS-12 + Croatia). Average overcrowding rates for Croatia are significantly higher than in the EU-15 or the euro area -17 and amount to 50% according to all criteria, except for the tenant in rent at market price criteria, where the rate is even higher (80%). These levels are, however, quite close to those observed in the NMS-12. It is important to note that ownership is the preferred housing option in Croatia and because renting comes with numerous disadvantages and problems, it represents only a small share in housing – in contrast to many other countries. These problems include an unregulated housing-for-rent market, and therefore an absence of protection of rights, poor quality housing, lack of good practices and professionalism, uncertainty regarding the future rental price and period, informal arrangements, etc.

These results – as well as the results of a comparative analysis of shares of residential housing ownership in the EU and in Croatia, residential mortgage debt to GDP ratios, lending conditions, affordability of housing loans and demographic indicators and prognoses – highlight the potential for housing demand through ownership, and housing lending in Croatia, accordingly. Consequently, the need to implement advanced market-oriented housing financing techniques becomes even more emphasised. The proposed models must of course be adjusted to the existing conditions and environment that has been affected by the financial and economic crisis, as well as to the numerous particularities of the Croatian financial and economic system as a whole.

4. The potential and interest for financing housing loans by issuing mortgage covered bonds

For institutional investors worldwide, an alternative to investing in T-bills and government bonds is to invest in mortgage covered bonds. Therefore, one of the most important prerequisites for the successful implementation of mortgage covered bonds in housing finance, apart from infrastructure development and the legal and institutional framework, is also institutional investors' interest in investing in these instruments. The main motives for investment in low-risk profile mortgage covered bonds are portfolio diversification and active asset management. In this respect, potential investors in domestic mortgage covered bonds would be domestic and foreign pension funds, insurance companies, investment funds and credit institutions, and also private companies and other risk-averse individual investors. With regard to the investment structure, the fact that institutional investors are restricted here by legal framework determinants must be taken into consideration. A rough estimation of investment potential in mortgage covered bonds by the largest domestic institutional investors was made in accordance with the current investment limits.

Table 2 ▶ Estimation of investment potential in mortgage covered bonds – largest domestic institutional investors in the Republic of Croatia

Investors	Investment potential, in billions of EUR
Credit institutions	Up to 1.9
Pension funds	Up to 2 (6.7*)
Insurance companies	Up to 0.9 (1.7*)
Investment funds	Up to 1.8
TOTAL	Up to 6.6 (12*)

* Formal constraints for investments would not exist in the case that the state offers guarantees for mortgage covered bonds (e.g. Croatian Bank for Reconstruction and Development guarantees).

Source: Author's calculation according to existing legal framework constraints on the investment structure and institutional investors' official financial data from the end of 2013.

If the individual amounts of the estimated maximum investment potential in mortgage covered bonds are summarised, an amount of between EUR 6.6 billion and EUR 12 billion is reached (Table 2). It must be emphasised that this investment potential estimation is rough and not realistic, and that it exclusively represents an estimation of the maximum investment potential in mortgage covered bonds according to legal constraints. If this amount is compared with the value of outstanding residential housing loans at the end of 2013, which amounted to approximately EUR 8.2 billion, a significant portion of housing loans could potentially be refinanced through the issuance of covered bonds.

An additional reason for investing in mortgage covered bonds is the possibility for them to be used in transactions with the central bank. For central banks, this represents an additional instrument for the management of liquidity in the banking system. Precisely for this reason, countries which already use mortgage covered bonds in housing finance included this possibility into their legal frameworks. As a result, there are no constraints for Croatia to also include this same possibility into its legal framework on the issuance of mortgage covered bonds. Moreover, in 2013 Croatia joined the EU, which implies a certain amount of harmonisation of its legal framework with that of the EU. As a result, an increase in interest on the part of domestic and foreign institutional investors for investing in Croatian covered bonds can naturally be expected.

5. Proposal for the mortgage covered bonds issuance structure

For the Croatian housing finance system, the traditional issuance structure of mortgage covered bonds is the most acceptable solution. Such an issuance structure would assume that existing credit institutions issue mortgage covered bonds in the same way as credit institutions in Germany, for instance, issue *Pfandbriefe*. In such an issuance structure, an existing government sponsored enterprise, the Croatian Bank for Reconstruction and Development, besides acting as cover pool monitor, could additionally guarantee credits in a cover pool and/or for the mortgage covered bonds issued, as additional credit enhancement to achieve their better placement (despite the assumed legal obligation for overcollateralisation).

The capital costs of establishing specialised mortgage banks for the purpose of financing housing loans through the issuance of mortgage bonds, according to a specific balance principle that is used, for example, by mortgage banks in Denmark, decrease the possibility of implementing such a structure in Croatia. A disadvantage of such a structure in a small country is also an economy of scale and correspondingly a potentially lower profit, but also an inefficiency at the onset of business activities, until the practice of financing housing loans by issuing mortgage covered bonds develops.

Given the high share of foreign ownership of banks in Croatia, a more realistic approach should be considered, which would call for the implementation of a direct on-balance issuance model in combination with a centralised issuance model (implemented in Switzerland, for example, in the case of *Pfandbrief Institutes*). This structure could organise foreign parent banks by establishing a centralised issuer as a subsidiary. An advantage of such a structure could be the utilisation of existing know-how, ratings and infrastructures of foreign owners, which would potentially decrease the costs and risks of such a financing model. A centralised issuer could also be established by a group of domestic banks interested in the issuance of mortgage covered bonds (a model implemented in Switzerland and Austria, for instance).

Furthermore, funds for housing loans within the framework of the Programme of Subsidised Residential Construction, mentioned earlier in this text, could probably be raised at a lower cost through the issuance of mortgage covered bonds, instead of through budgetary funds. The existing financing model within the framework of the Program assumes the combination of a preferential housing loan of the bank with a preferential loan of the local authority and the Ministry of Construction and Physical Planning, on the basis of budgetary funds. Instead of the current direct role of the state in financing the Program, its alternative function could be realised by ensuring guarantees for mortgage covered bonds, in order to achieve higher ratings, without directly spending budgetary funds. A potential solution here could either be the establishment of a state mortgage bank, or the current Croatian Bank for Reconstruction and Development could serve in this capacity and raise funds for housing lending within the framework of the Program, through the issuance of favourable mortgage bonds.

The state must necessarily play a vital role in all of the aforementioned examples and – apart from providing guarantees, acting as cover pool monitor and/or issuing mortgage covered bonds (Croatian Bank for Reconstruction and Development) – it should also be actively engaged in the institutional organisation and regulation of such financing, as well as in the education of various participants.

6. Forecasting the potential effects of mortgage covered bonds implementation

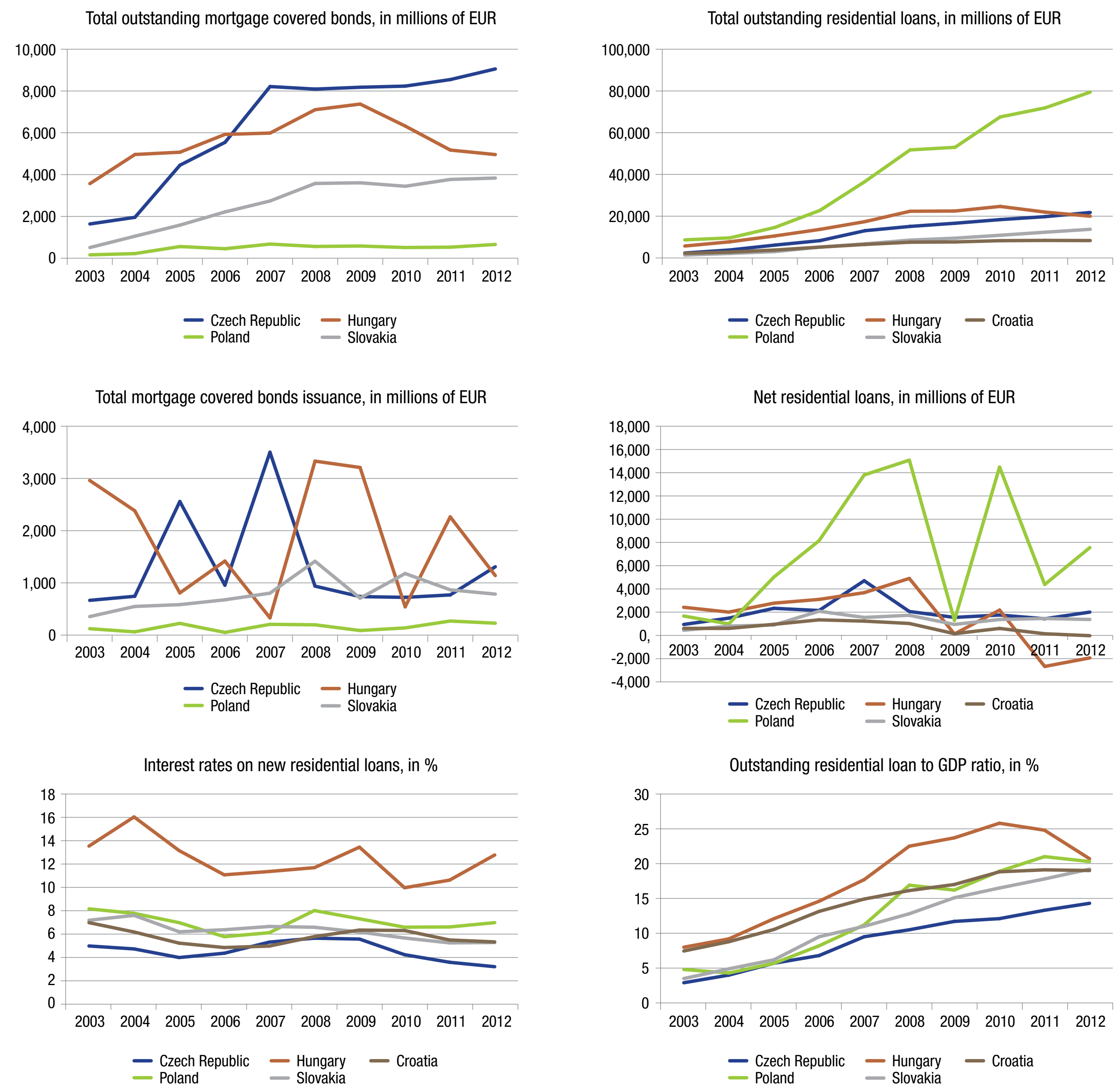
In Croatia, financing housing loans through the issuance of mortgage covered bonds would ensure access to new sources of funding, depending on the present needs of credit institutions. The results of an analysis on a sample of transition countries, which already use mortgage covered bonds in housing finance (Hungary, the Czech Republic, Poland and Slovakia), confirm the benefits of this practice. The total issuance of mortgage covered bonds and the total outstanding mortgage covered bonds in Poland and Slovakia, in the period after the onset of the last financial crisis, retain continuity as in the period before the crisis (Chart 4). In the period after 2003, total outstanding mortgage covered bonds debt in Hungary and the Czech Republic increased markedly, but in the period after the onset of the crisis this trend turned towards stagnation and decrease.

In the period 2003-2012, total outstanding residential loans significantly increased in all of the observed transition countries, but after 2005 this increase was even stronger in Poland. In the same period, net residential loans posted positive values, but this was followed by a significant decrease during and after 2009. In the period after 2010, Hungary recorded a sharper decrease in total outstanding residential loans, as a consequence of negative values of net residential loans. In the same period, the net residential loans decreased in Croatia as well, as a consequence of declining credit activities of banks. According to data for 2003, total outstanding residential loans for Slovakia, the Czech Republic and Poland were at the level closest to the one achieved in Croatia (Chart 4). In the subsequent period until 2012, these three countries posted a significant increase in total outstanding residential loans (between 800% and 900%), while in Croatia this rise was significantly lower (272%).

In the same period, the total outstanding residential loans to GDP ratio in Slovakia and the Czech Republic increased by 500%, while in Croatia the overall increase was somewhat lower, at about 250%, despite the fact that in 2003 Croatia had the highest ratio among all of the compared countries (Chart 4). Had Croatia in the same period used mortgage covered bonds in housing finance, and not taking into account any other circumstances, housing finance indicators could have posted significantly different values. For instance, an increase in housing lending by 800% in the period 2003- 2012 would have resulted in EUR 17.6 billion of issued loans, instead of EUR 8.2 billion, an amount that was in reality achieved in Croatia. Such an increase would also have resulted in a significantly sharper rise in the outstanding residential loans to GDP ratio from 7.5% recorded in 2003 to 37.5% in 2012. At the end of 2013, the outstanding residential loans to GDP ratio that was in reality achieved stood at a markedly lower 18.1%.

However, macroeconomic and other conditions in the observed period were much different in Croatia, in comparison to the analysed countries, also other circumstances that could have impacted the final results were not considered. Therefore, these projections exclusively represent a rough demonstration of the potential effects of implementing mortgage covered bonds in the Croatian housing finance system. Accordingly, it is not possible to confirm with certainty that the differences in the results recorded in the Czech Republic, Slovakia and Poland, in comparison to Croatia, are exclusively the consequence of introducing mortgage covered bonds. Nevertheless, their influence was certainly not negative. The same conclusion can be reached when estimating the cost effectiveness of the implementation of mortgage covered bonds in housing finance in Croatia. In Slovakia and the Czech Republic, for example, interest rates on housing loans declined by 35% to 40% in the same period, while in Croatia this drop was somewhat lower at 25% (Chart 4).

Chart 4 ▶ Selected mortgage market indicators in Hungary, the Czech Republic, Poland, Slovakia and Croatia, 2003-2012



Source: Authors according to European Mortgage Federation, Hypostat 2013; Croatian National Bank statistical data, 2013.

7. Restrictions and prerequisites to the implementation of mortgage covered bonds

Croatia still does not have an effective housing program organised at the state level for vulnerable social groups, particularly for young families, but also for those individuals who still do not have a resolved housing situation due to poverty, old age or disability. Apart from this, macroeconomic restrictions in the process of economic development and recovery are also an important factor in the further improvement of housing finance systems. Such restrictions may include macroeconomic uncertainty and negative trends on the labour market, bankruptcies, high and structural unemployment, fear of layoffs, fixed-term employment contracts, low and irregular wages, etc. The unemployment rate in Croatia has been increasing constantly since 2008 and at the end of the 2013 it stood at 18.6%. In the same period, real wages constantly decreased. The average net wage in 2013 was HRK 5,515 (approximately EUR 725).[10] All of these obstacles not only significantly influence the capability of loan servicing, but also directly and negatively affect supply and demand for housing loans, which consequently leads to a large number of unsold newly built residential dwellings. Above all, the potential for the implementation of mortgage covered bonds in these circumstances greatly depends on the country's credit rating and its negative influence on the funding price. Ultimately, the stabilisation of macroeconomic and financial conditions is a necessary prerequisite for further developing the idea of financing housing through capital markets in Croatia.

[10] Croatian Bureau of Statistics, *official data*, 2014.

Unfortunately, the idea of financing housing loans through the issuance of mortgage covered bonds has not been seriously considered in Croatia, although this model would be acceptable also as a result of Croatia's status as an EU Member State. In this respect, the national legal framework for the issuance of mortgage covered bonds should be harmonised with the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive and the Capital Requirements Directive (CRD), with an emphasis on the more rigorous regulation of investors' protection in case of bankruptcy, in order to achieve a higher level of investor confidence.

Apart from the aforementioned macroeconomic, regulatory and legal obstacles to a quicker introduction of advanced market-oriented housing finance models, other present hurdles include a relatively poor significance of the securities market and the uncertainty of its prompt recovery. In an environment that is additionally burdened by a constantly decreasing country credit rating, which also affects all participants on the domestic securities market, the potential for implementing new financial instruments in the near future is very small. Indeed, in these circumstances the influence of state guarantees on the costs of financing through mortgage covered bonds is unpredictable.

Furthermore, perhaps the greatest obstacle to a more rapid development of structured housing finance in Croatia is the existing banking system. Namely, banks enjoy an abundance of savings and play the most important role as financial intermediaries in Croatia. Given this situation, the lack of interest of banks in the development of contemporary financing techniques and new sources of funding for their lending activities is partially understandable, yet it is not acceptable. Banks in Croatia have, unfortunately, not shown any interest in the development of advanced techniques in the area of risk management. It is difficult to predict at this moment whether a change will take place in the near future and if such a change would create an interest in financing housing through the issuance of mortgage covered bonds.

Finally, the lack of a consensus-based and sustainable state strategy on housing is certainly the greatest obstacle to a more rapid development of the housing finance system. Unfortunately, none of the existing programs or models of state support to housing in the last 20 years have achieved the expected results. Furthermore, they have for the most part not been market-oriented, they have shown strong budgetary dependence, ineffectiveness, lack of transparency and were ultimately influenced by politics. Governments have achieved only limited and short-term effects through such programs and models by spending large sums of budgetary funds, and these programs were abandoned soon after a new political option assumed power. Unfortunately, the state did not invest enough efforts in supporting the development of the necessary financial infrastructure either, which is a prerequisite for structured finance implementation and for redirecting funds of current domestic institutional investors into housing finance – pension funds, investment funds and insurance companies – but also for the introduction of new specialised participants in the housing finance market.

From this perspective, the view that a more robust development of the mortgage market is not possible without a stronger, thought-out and redefined involvement of the state is understandable. The role of the state is not only expected through its direct involvement in facilitating financial and regulatory changes, but also in providing organisational and institutional solutions, education and protection for all interested participants.

8. Conclusion

Housing represents a special public interest in Croatia and in all other countries. Consequently, it is the focus of attention from both the state and the public. Such preferential treatment of this topic is not only clear from the almost daily expert and public discussions on housing issues, but also from the many comprehensive regulatory changes, the final goal of which is to ensure adequate housing for all citizens.

Unfortunately, despite many positive advances in the last few years, achievements in the development of the housing system in Croatia still lag behind those achievements in the developed countries. This is particularly evident from the relatively high prices and overcollateralisation of bank housing loans, a lack of improved loan arrangements and products, no adjustment of lending policies of banks to real housing needs and demand for housing loans, as well as from the absence of effective housing finance model(s) for socially excluded and vulnerable groups. It is also evident from the insufficient competition from financial markets for banks, as well as in the lack of a sustainable state housing strategy and policy in the last 20 years. If we take into consideration the macroeconomic problems of the past 7 years, the need for a continued, more intensive upgrade of the housing finance system in general becomes even more apparent. At the same time, new strategic determinants for the further development of the housing finance system must take into consideration not only the real needs for housing in Croatia, but should also take into account fundamental novelties in contemporary finance that call into question the traditional role of selected credit institutions and housing finance models, as well as the techniques they employ. In this respect, contemporary models and new housing finance techniques are no longer exclusively deposit-oriented; rather, they redirect the funding towards non-depository sources, among others, in order to issue mortgage covered bonds with placements on domestic or international financial markets.

It should be emphasised that the implementation of housing finance practices through the issuing of mortgage covered bonds would not only represent a potentially new source of funding for credit institutions involved in housing lending, but would also mark an important change in the overall business strategy and policy of these institutions. Implementation of mortgage covered bonds in housing finance would also require changes in the investment policies of institutional investors and other interested investors as well, the further development of infrastructure and adjustments to the current legal framework, together with a stronger and redefined role of the state. In this respect, the experience of other EU countries that already use housing finance techniques that employ the issuing of mortgage covered bonds, could be very useful and serve as a model for implementation.

References

Croatian Bureau of Statistics (2014) *Monthly statistical reports*.

Croatian Bureau of Statistics (2014) *Statistical Yearbook* 2013.

Croatian National Bank (2014) *Bulletin of banks, No. 27*.

Croatian National Bank (2014) *Aggregated monthly statistical report of banks, 31.12.2013*.

Croatian National Bank (2014) *Bulletin, No. 205*.

Croatian National Bank (2014) *Statistics*.

European Commission (2014) *Eurostat*.

European Mortgage Federation (2013) *Hypostat 2012*.

Jurčević, B. (2014) *The effectiveness of housing loans financing by issuing mortgage covered bonds*, (in Croatian). Doctoral thesis, Faculty of Economics and Business, Zagreb.

Leko, V., Stojanović, A. (2006) Housing finance in the Republic of Croatia, (In Croatian). *Accounting and Finance*, No. 10, pp. 65-73.

Numbeo (2013) *Statistical data for 2012*.

Raiffeisen Researches (2010) *Housing market 2020* (in Croatian).

The Institute of Public Finance (2013) *Analysis of governmental incentives for the housing saving system in the Republic of Croatia* (in Croatian).

Zagreb Stock Exchange (2008) *Trading overview in 2007*.

Zagreb Stock Exchange (2014) *Trading overview in 2013*.

Austria

By Wolfgang Amann, Institut für Immobilien, Bauen und Wohnen Gmbh and Karin Wagner, Oesterreichische Nationalbank

Macroeconomic Overview

Real GDP growth in Austria reached 0.3% in 2013 (in real terms, seasonally adjusted) with activity picking up speed towards the year-end. Austria's economy performed fairly well in 2012 and 2013, considering that the euro area was in recession. Real GDP growth was admittedly very subdued in Austria, but nevertheless positive, whereas output declined in ten euro area countries in at least one of the two years. However, recovery is gaining an increasingly solid foothold across the globe.

The Austrian economy remained sluggish throughout the first half of 2013. Declining net real wages and flat consumer confidence dampened consumer spending. Despite excellent financing conditions, gross fixed capital formation contracted at the beginning of 2013, as sales prospects were poor. Moreover, companies reduced stocks, which stifled growth further. Although exports expanded at a lacklustre pace, net exports nevertheless propped up GDP growth because imports stagnated.

In the second half of 2013, Austria's economy overcame stagnation and slowly began to recover moderately in the wake of the revival of global activity.

All demand components – now including private consumption – posted positive growth in the fourth quarter of 2013 for the first time in that year. Exports increased through all four quarters of the year and gained momentum quarter on quarter. Gross fixed capital consumption growth had already returned to positive territory in the second quarter of 2013. Changes in inventories have been at zero since mid-2013, appearing to signal the end of destocking for the time being.

Construction investments benefit from the economic recovery. Demographic factors pose an upward pressure to residential construction. As a result, Austrian construction investment expanded by 4.3% in Q4 2013 (after 4.3% in Q3 2013).

Housing and Mortgage Markets

Residential property prices show further increases but less upward surge. They went up in Q1 2014 by 8.1% in Vienna and by 2.2% in the rest of Austria (Q4 2013: 9.1% in Vienna and 1.6% in the rest of Austria, year-on-year). Especially the price of 'second-hand' owner-occupied flats went up. Further increases of housing prices can be expected over the 2014-2015 horizon, but the upward surge is expected to stabilise during 2014. Factors behind these increases since the end of 2007 might be continuing immigration, flight into real assets ("safe haven"), expected low or negative return of alternative investments, low credit interest rates and expectation of further price increases. Diminishing loan growth and declining household indebtedness suggest that a high percentage of equity financing is being used in property investments. Therefore, at present, the recent increases of residential property prices in Vienna and Austria do not pose a serious threat to financial stability.

A significant share of rental market exists in Austria in comparison to other European countries (50.3%, regional differences: Vienna 81.5%, rest of Austria 40.7%). Furthermore, the housing market is characterised by a relatively high share of regulated social tenant housing (21%, in Vienna even 40%). This large share dampens house price increases.

Building permits strongly increased in 2013 and reached 46,000 units, after fewer than 40,000 units in 2012 (only new dwellings in new residential buildings)[1]. This is the highest residential construction output since the mid-1990s. The level of 5.4 permits per 1,000 inhabitants is well above the average of 3.0 for "Euroconstruct" countries[2]. Housing completions are developing more smoothly with an estimated 40,000 units in 2013, after fewer than 38,000 the year before[3]. This amounts to 4.7 completions per 1,000 inhabitants, compared to 2.9 on average in the "Euroconstruct" countries. For 2014 and 2015 a continued positive development is expected. But it seems likely that 2013 saw the peak of building permits.

The year-on-year growth of mortgage loans granted to the household sector in the euro area by Austrian MFIs slowed down from the beginning of the financial crisis, starting at a rate of around 7.5% in March 2008 and slowing down to 2.3% in May 2010. After that, a volatile development started peaking at 4.1% in August 2011, reaching a low of 1.4% in June 2013 and rising again to 3.3% in May 2014.

The euro area data (mortgage loans granted to the household sector in the euro area by euro-area-MFIs) exhibits a similar but more pronounced trend than in Austria. The growth rate fell sharply from January 2007 (6.8%) to May 2010 (-0.5%) pursuing an already existing trend – just to rise and fall considerably again in the following two years (4.5% in March 2011, 0.7% in May 2012). Subsequently, a sideward movement with growth rates of around 1.0% was observed, abruptly dropping to -0.3% in May 2014.

In Austria, foreign currency loans are still quite popular. Although the foreign currency component has decreased since its peak in October 2008 (38.5%), it accounted for around 31% of the outstanding housing loan volume in April 2014. However, this was probably mostly due to exchange rate effects.

As regards Austria's housing policy, regulated rents are adjusted to CPI every two years (Richtwerte, for old stock built before 1945, and rented out after 1994)[4] or after reaching a threshold of 5% (Kategoriemiete, for old stock built before 1945, and rented out before 1994). Both adjustments were made in April 2014. These increases affect around 330,000 households.

The key characteristics of Austria's housing policy are still its focus on regulated (i.e. limited profit) rental housing and its financing tools. In 2013, the main emphasis was also put on state and regional supply-side subsidies, which aim at fostering affordable housing. Public subsidies accounted for around 0.9% of GDP, including a wide range of policy tools. The most important is the "Wohnbauförderung" of the Austrian provinces, with a focus on subsidies on bricks and mortar and subsidiary housing allowances. The financing system of the "Wohnbauförderung" gains its efficiency through the close interaction with the system of limited profit housing construction and additional capital market financing instruments. Social housing supply follows a generalist eligibility approach with high income limits. Hence Austrian housing policy still promotes integrated rental markets.

Other subsidy tools are housing benefits coming from regional social budgets, subsidies for "Bausparkassen" and "housing bonds", very limited fiscal subsidies and a reduced VAT rate for rental housing. The overall state expenditure on housing is below most other European countries, such as the UK, France or Netherlands. At the same time the outputs are quite remarkable, taking into account the quality of housing, affordability and aspects of social integration.

Housing is well positioned in the political agenda and even became a main topic for the federal elections in 2013.

[1] Please note that the source of this data is different from the one used in the Hypostat 2014 Statistical Tables.

[2] Euroconstruct countries are EU15 + CH, CZ, HU, NO, PL, SK.

[3] Source: Euroconstruct estimates.

[4] In 1994, the system of regulated rent (Richtwertmieten) replaced the system of rent that had been based on rent ranges for housing categories (Kategoriemiete). Since then, surcharges or discounts are calculated for regulated rents to take into account a rental property's furnishings or location. Regulated rent is the typical rent system applicable to housing built before May 8, 1945, and applies to all rental contracts for rental property in such buildings completed after March 1, 1994.

	Austria 2012	Austria 2013	EU 28 2013
Real GDP growth (%) (1)	0.9	0.3	0.1
Unemployment Rate (LSF), annual average (%) (1)	4.3	4.9	10.8
HICP inflation (%) (1)	2.6	2.1	1.5
Outstanding Residential Loans (mn EUR) (2)	86,281	87,638	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	12,506	12,604	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	44.8	44.9	76.2*
Gross residential lending, annual growth (%) (2)	6.5	2.8	n/a
Typical mortgage rate (%) (2)	2.4	2.7	n/a
Owner occupation rate (%) (2)	57.5	57.3	70.0
Nominal house price growth (%) (2)	12.4	4.6	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Belgium

By Frans Meel, Union Professionnelle du Crédit (Febelfin)

Macroeconomic Overview

According to the annual report of the National Bank of Belgium, economic activity in the country returned to being positive in the second quarter of 2013, following a long period of stagnation that began in the second half of 2011. Real GDP was up by 0.2% over the whole year under review, whereas it had fallen by 0.1% in 2012. The upturn in activity during the year was driven mainly by the recovery of certain domestic demand components – particularly private consumption and by export growth, primarily as a result of the revival in the euro area.

The manufacturing industry benefited from the resurgence of demand and particularly the recovery of foreign trade. In the first half of 2013, construction, which represents 6% of the value added of the economy as a whole, showed a negative quarterly growth of value added. The quarterly growth of the volume of activity returned to positive territory in the third quarter. The slight improvement in the business climate was most evident in housing construction. In market services, quarterly growth of value added remained positive throughout the year.

Employment continued to feel the effects of the previous weakness of activity. Employment was down by 0.2%, after expanding for three consecutive years. Labour-hoarding mechanisms no longer acted as a buffer to the same extent that they did in 2008 and 2009, due to the long duration of the crisis and the expiry of certain measures supporting demand for labour that had been reinforced in 2010. Overall, domestic employment was down by 11,000 persons compared to the previous year. Between the third quarter of 2008 and the same quarter of 2013, the workforce contracted by 68,000 individuals. The harmonised unemployment rate for active people aged 15 and over rose in 2013 to an average of 8.4%. However, the Belgian unemployment rate is 3.7% below the euro area figure, whereas before the recession the rates had been largely the same.

During the year under review, inflation measured by the year-on-year change in the harmonised index of consumer prices (HICP) averaged 1.2%, compared to 2.6% in 2012. This decline is due mainly to the fall in energy prices. In Belgium, consumer prices of petroleum products are more sensitive to fluctuations in international oil prices, as the level of excise duty is lower on average than in neighbouring countries.

In 2013, the volume of private consumption expenditure was up 0.6% compared to the previous year. That growth was curbed by the negative spill-over effect of its decline in 2012. Conversely, during the year under review, private consumption expanded by an average of 0.4% in each quarter.

Investment in housing has already been falling for three consecutive years, and in 2013 the decline was even steeper than in previous years. Households remained dubious about the economic situation and their income prospects over the longer-term, making them reluctant to proceed with any major investment. Interest rates on mortgages still remained exceptionally low. It is possible that the uncertainty surrounding the (frequently changing) fiscal environment is also a factor here, as a number of measures were abolished or modified in recent years. Moreover, from 2014 onwards, mortgage deductions will be the responsibility of the Regions, which have yet to decide on the arrangements and amounts for replacing the housing bonus system.

Housing and Mortgage Markets

The property market in Belgium did not undergo any severe adjustment in the wake of the financial crisis since 2009, unlike in some EU countries, or, beyond the euro area, the United States. In fact, viewed over a fifteen-year period, house prices have generally followed a pattern comparable to that seen in most other European countries, but the increase has been steady, with no exaggerated booms or abrupt corrections. Even at the height of the financial crisis, the fall in house prices was modest and short-lived. Prices began rising again in 2010 and continued to rise in the course of the following years, including 2013.

Prices of villas stabilised in 2013. In 2013, the average purchasing price for a villa amounted to EUR 332,603, as compared to EUR 329,959 in 2012, i.e. a 0.80% increase (after a -0.30% decrease in 2012).

The average price for apartments has been going up since 2010 and has now reached approximately EUR 207,886, as compared to EUR 202,228 in 2012, i.e. a 2.8% increase.

The outstanding amount of residential mortgage lending reached about EUR 189 bn. at the end of 2013 (against EUR 183.6 bn. at the end of 2012).

2013 saw the total amount of new mortgages granted by UPC members (including refinancing operations) drop by 8% when compared to 2012 (it still was -12.7% in 2012 when compared to 2011). The number of contracts granted by UPC members decreased by 9.2% when compared to 2012 (-32% in 2012 when compared to 2011). If refinancing operations are not taken into account, the number of new mortgages granted decreased by 8.7% when compared to 2012, the decrease one year ago was of 7%.

The instability of the socio-economic context and the damaged consumer confidence certainly played a role in this. In addition, the uncertainty about maintaining the housing bonus may have been another factor.

Nevertheless, the condition of the Belgian mortgage market in 2013 was very close to that observed during the period before the financial and economic crisis. In addition, the level of indebtedness of Belgian households remains low when compared to that observed in other European countries.

Moreover, the number of credits granted in the course of 2013 showed a decrease which continuously became less sharp. The decrease affects all categories, yet most importantly credit for purchase and renovation (-25%) and credit for other purposes (land, garage, swimming pool, etc.), where there was a 20% drop.

There was a 7% decrease in credit for house purchase, and an 8.6% drop in renovation credit. The drop in the category of construction credit was only 2.5%, as a result of a better Q4, during which the number of construction credits granted rose by 15% as compared to the Q4 2012.

"Purchases" represented 47.3% of the number of contracts signed in 2013 and this corresponds to 58.6% of the amounts granted. The market share of "construction loans" stood at 10.8% of the number of contracts and at 13.7% of loans granted. The market share of "renovations" reached 25.1% of the number of contracts.

The average amount of mortgage loans for "purchases" stood at 135,000 EUR, about 1,000 EUR (or almost 1%) less than in 2012 (136,100 EUR). The average amount of mortgage loans for renovation purposes went up to around 41,000 EUR.

In 2013, the market share of new fixed interest rate loans and loans with initial fixed rate for more than ten years represented more or less 82% of loans newly provided. The share taken up by new loans granted with an initial fixed rate for one year doubled to approximately 4.4% of the credits provided. The number of credits with an initial period of variable interest rate between three and five years also showed an increase (7.4% of the credits provided).

In the beginning of 2014, the situation did not change and new credit production showed a further decrease of more than 11% in the first quarter of 2013. So, it looks like 2014 will also be a difficult year, given the fact that the tax incentives for the purchase of a house will become a matter of regional competence and the uncertainty consumers have about the future tax system for mortgage credit.

	Belgium 2012	Belgium 2013	EU 28 2013
Real GDP growth (%) (1)	-0.1	0.2	0.1
Unemployment Rate (LSF), annual average (%) (1)	7.6	8.4	10.8
HICP inflation (%) (1)	2.6	1.2	1.5
Outstanding Residential Loans (mn EUR) (2)	183,615	189,484	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	20,787	21,322	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	79.2	81.7	76.2*
Gross residential lending, annual growth (%) (2)	-7.4	-6.0	n/a
Typical mortgage rate (%) (2)	3.7	3.7	n/a
Owner occupation rate (%) (2)	72.3	0.0	70.0
Nominal house price growth (%) (2)	2.5	1.7	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Bulgaria

By Lorenzo Isgrò and Maria Pavlova, European Mortgage Federation – European Covered Bond Council

Macroeconomic Overview

The Bulgarian economy expanded by 1.1% in 2013, in comparison to 0.6% in 2012. It is expected that the trends of further expansion will continue in 2014, where the GDP y-to-y growth is estimated to reach 1.2%. In accordance with the findings of the European Commission as outlined in the European Economic Forecast for autumn 2014[1], however, there will be a decline in the economic expansion of the country, reaching 0.6% and 1.0% in 2015 and 2016 respectively.

In 2013, the Bulgarian National Bank reported in its quarterly Economic Overview (Q1 2014) that the share of exports to EU Member States increased by 1.2% due to the ongoing recovery trends of EU economies. However, the share of exports to non-EU countries has declined since Q2 2013. With regard to imports from EU Member States during the same year, there was an increase of 3.6%, whereas imports from non-EU countries declined by 0.4%.[2]

Additionally, Bulgaria has one of the lowest budget deficits in Europe, which is estimated to be 1.8% of GDP in 2013, and total debt accounting for 18.5% of GDP in the same year. However, employment has been affected to a significant extent due to the financial crisis in 2008 and therefore a slight increase in unemployment rates could be observed in 2013, *i.e.* 13.0% compared to 12.3% in 2012.[3]

The National Bank of Bulgaria is maintaining an expansionary monetary policy, having lowered the base rate by about 20 pbs in 2012, and having held it at around 0.03 (with fluctuations of ± 1 pb over the year) in 2013 (it stood at 0.02 at the end of 2013). This is also justified by the very sharp fall in inflation that has taken place in Bulgaria, where HICP inflation fell from 2.4% in 2012 to 0.4% in 2013 (more than 1 percentage point lower than the EU average).

Housing and Mortgage Markets

Although investment growth in the country is supported by the comparatively strengthened condition of the financial sector, which has been maintaining high levels of liquidity due to the gradually increasing volume of domestic deposits over the past couple of years, the Bulgarian housing market is recovering slowly. However, there has been an increase in the number of new mortgage loans compared to previous years, based on the legislative improvements in lending conditions and credit availability. Gross lending has increased slightly from 2012 (+6%), reverting the trend observed the previous year (-8.6%). On the other hand, outstanding mortgage loans continued to fall for the fifth consecutive year since 2008, and at a slightly faster pace than in 2012.

This relatively sluggish performance of the housing market was reflected in a continuing fall in house prices (albeit at a slower rate than previous years), which have been contracting since 2008. The house price index for Bulgaria dropped by 1.8%, while the nominal price of housing per square meter was down to 864.5 BGN (based on data provided by the National Statistical Institute).[4] Nevertheless, the price for dwellings shows a slight increase of +0.38% when adjusted for inflation.

With regard to the construction market, there was a slight decline of around 1.2% in the number of building permits issued for the construction of new buildings in 2013 (4120) compared to those issued in 2012 (4238), and the same trend was reflected in the number of building permits issued for dwellings.[5] On the other hand, a decline in the newly built housing units of 7.2% was observed in 2013.

Interest rates on mortgage loans have continued to decline, probably driven both by the lower benchmark rates, as well as subdued demand conditions. Nonetheless, Bulgarian mortgage interest rates are the second highest in the EU (after Hungary), meaning that there is still room for further tightening of rates by lenders to stimulate mortgage lending if needed, and still remain considerably above benchmark rates.

Mortgage Funding

The Law on Mortgage-Backed Bonds from 2000[6] provides the legal basis for the terms and procedures on issuance and redemption of mortgage-backed bonds. In particular, mortgage-backed bonds are defined as securities issued by banks on account of their loan portfolio and secured by one or more mortgage loans[7], whereas outstanding mortgage-bonds are defined as being bonds covered by mortgage loans of the issuing bank, *i.e.* principal cover.[8]

It has been reported that the issuance of mortgage-backed bonds in Bulgaria after the adoption of the aforementioned legislative rules amount to 28 in total with no new issuances in 2013. As far as the amount of outstanding mortgage bonds is concerned, it was estimated to be in the region of 15 million EUR at end 2013.[9]

In addition, there are no specific legal requirements in Bulgaria regarding the lending risk assessment ratio, *i.e.* loan-to-value (LTV) ratio that financial institutions and other lenders evaluate before a given mortgage is approved. The LTV specificities are usually defined in the lending policies of individual banks and depend on the banks' own risk calculations and internal rules.[10]

Notes:

(1) Source: National Statistical Institute;

(2) Source: Bulgarian National Bank;

(3) Source: European Mortgage Federation-European Covered Bond Council.

	Bulgaria 2012	Bulgaria 2013	EU 28 2013
Real GDP growth (%) (1)	0.6	0.9	0.1
Unemployment Rate (LSF), annual average (%) (1)	12.3	13.0	10.8
HICP inflation (%) (1)	2.4	0.4	1.5
Outstanding Residential Loans (mn EUR) (2)	3,573	3,507	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	581	574	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	15.1	n/a	76.2*
Gross residential lending, annual growth (%) (2)	-8.6	6.0	n/a
Typical mortgage rate, annual average (%) (2)	7.5	6.9	n/a
Owner occupation rate (%) (2)	87.4	85.7	70.0
Nominal house price growth (%) (2)	-2.7	-1.8	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

[1] http://ec.europa.eu/economy_finance/eu/forecasts/2014_autumn/bg_en.pdf.

[2] http://www.bnb.bg/bnbweb/groups/public/documents/bnb_publication/pub_ec_r_2014_01_en.pdf.

[3] http://www.nsi.bg/en/content/6503/unemployed-and-unemployment-rates-national-level-statistical-regions-districts.

[4] http://www.globalpropertyguide.com/Europe/Bulgaria/Price-History.

[5] Figure 4 – Building Permits Issued for Construction of New Buildings, *Statistical Reference Book 2014*, p.205.

[6] http://www.bnb.bg/bnbweb/groups/public/documents/bnb_law/laws_mortgages_en.pdf.

[7] Article 2(1) of the Law on Mortgage-Backed Bonds (2000).

[8] Article 5(1) *ibid.*

[9] Chapter 3 – Issuers's Perspective, Country Chapter 3.4 – Bulgaria, *ECBC Fact Book 2014*, p. 220.

[10] p. 216 *ibid.*

Croatia

By Branka Jurčević and Alen Stojanović, University of Zagreb, Faculty of Economics and Business

Macroeconomic Overview

The last few years have been characterised by stagnation in terms of indebtedness levels, as a result of economic crisis and recession in the Croatian economy and financial sector. In general, the negative trends observed in the Croatian economy in the last few years continued in 2013. Annual GDP growth was -0.9% (-2.2% in 2012). Moreover, the budget deficit was approximately at the same level as in 2012, at 4.9% of GDP. The registered unemployment rate increased from 19.0% in 2012 to 20.2% in 2013, while the unemployment rate according to ILO (persons above 15 years of age) increased from 16.1% to 17.3%. The annual rate of inflation fell from 4.7% to 0.3%, and average rate of change of consumer price index (in percentage) continued to decline from 3.4% to 2.3%. Public debt (as a percentage of GDP) increased from 56.2% in 2012 to 67.4% in 2013, as well as gross external debt (as a percentage of GDP), from 103.1% to 105.7%. Current account balance (as a percentage of GDP) continued to increase in 2013 as well, from -0.1% in 2012 to 0.9% in 2013.

	Croatia 2012	Croatia 2013	EU 28 2013
Real GDP growth (%) (1)	-2.2	-0.9	0.1
Unemployment Rate (LSF), annual average (%) (1)	16.1	17.3	10.8
HICP inflation (%) (1)	3.4	2.3	1.5
Outstanding Residential Loans (mn EUR) (2)	8,293	8,059	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	2,381	2,318	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	28.7	n/a	76.2*
Gross residential lending, annual growth (%) (3)	-0.6	-1.9	n/a
Typical mortgage rate, annual average (%) (2)	5.0	5.5	n/a
Owner occupation rate (%) (2)	89.5	n/a	70.0
Nominal house price growth (%) (2)	0.9	-16.5	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

(3) Croatian National Bank, Statistical Survey.

Housing and Mortgage Markets

In 2012 and 2013, negative trends continued in the housing sector. Thus, in 2013, 6.687 building permits (for buildings[1]) were issued, 19.7% fewer than in 2012 (8.330). By type of construction, 76% of building permits were issued for new buildings and 24% for reconstruction (about 70% of residential buildings were built before 1980). The greatest number of building permits was issued in Zagreb, the capital of the Republic of Croatia.

A fall in prices of new dwellings continued in 2013 as well. According to the last available data from the Croatian Central Bureau of Statistics, the average price per square metre of new dwellings sold in Croatia at the end of 2012 had the value of approximately 1,533 EUR. Furthermore, the average price per square metre of new dwellings sold in Zagreb was 1,660 EUR and in all other regions it was 1,355 EUR.

However, this data does not represent the most objective insight into Croatian housing market price levels. Apart from the issue of the sample size, it is important to point out the two main shortcomings of these estimates. First, the calculation of the average price per square meter of sold apartments also includes the apartments built under the government-supported "Publicly Subsidised Residential Construction Programme". Second, the Croatian Central Bureau of Statistics divides the total real estate market within Croatia into only two regions – the city of Zagreb (1,397 dwellings sold at the end of 2012) and all other regions (960 dwellings sold at the end of 2012). All the above-mentioned disadvantages related to the chosen statistical approaches render any further analysis of price trends of newly built dwellings in Croatia difficult. As a consequence, prevailing unofficial estimates of the average prices of new and old dwellings are usually 20 or even 30 percentage points different than the values published in official statistics. Unfortunately, there is an even greater problem in terms of the housing market: it has been characterised by particularly high levels of market illiquidity in recent years, especially in the less developed and rural areas of the country.

Despite the slow decline in the importance of commercial banks in the total Croatian financial sector assets, they still play a dominant role in housing finance in general. If only the free market housing finance system is observed, the dominance of banks is even more evident. Banks' housing loans in 2013 made up almost 94.5% of all housing loans granted in Croatia.

Outstanding residential loans granted by banks stood at 8.05 billion EUR in 2013, which represents a 3% decrease in comparison to 2012 (8.3 billion EUR). Although still far below the euro area average, housing loans in Croatia in 2013 represented 50% of total loans granted to the household sector (50.1% in 2012), or 14.6% of the total bank loan portfolio (15.1% in 2012). The significantly lower importance of housing loans in banking assets could be partially due to incomplete land registers, the very long process of distress, and banks' preference for relatively faster and larger gains from other loans (e.g. loans for non-specified purposes and consumer loans). Still, the continued decrease of housing loans interest rates during the past few years is encouraging. A falling trend in average interest rates of housing loans continued in 2013. At the end of 2012, the average rate of housing loans indexed to foreign currency was 5.22% compared to 5.12% at the end of 2013 (weighted monthly average on annual level). Most commercial banks in Croatia offer housing loans for periods of up to 30 years, in national currency or indexed to foreign currency (mostly in EUR), with fixed or variable interest rates, with different types of insurance and collateral, specialised housing loans for younger people, reconstruction, furnishing, etc.

On the other hand, since housing saving banks were introduced in the Croatian financial market in 1998, they only play a symbolic role in the market-oriented housing finance system. In this respect, housing savings banks' assets represent less than 2% of credit institutions' total assets. Furthermore, their share in total granted housing loans was only 5.5%. In Croatia, unfortunately, there are no other financial institutions involved in the free market for housing financing.

Mortgage Funding

In 2013, there were no changes in the sources of housing financing. Croatian banks and certainly housing savings banks were still primarily deposit-taking institutions, which do not fund loans via mortgage covered bonds or mortgage backed securities, commonly used in many EU countries. The funding structure of credit institutions in Croatia at the end of 2013 was as follows: deposits 84%, loans 14% and other sources 2%. Approximately 20% of loans and deposits were funded through foreign parent banks. The reasons for such a funding structure are mainly banks' continuous and permanent dominance in the financial sector (in the sense of traditional household savings and external financing activities) and at the same time, the evident absence of confidence in the securities market, as well as a slower development of other financial institutions. Frequent economic and banking crises through history, as well as the absence of adequate regulation (which would make the introduction of advanced housing financing techniques possible) explain the existence of such a funding system.

[1] Please note that this value refers to all buildings, whereas the values found in the Hypostat 2014 Statistical Tables refer to total dwellings.

Cyprus

By Ioannis Georgiou, Bank of Cyprus

Macroeconomic Overview

The Cypriot economy had followed a protracted recession and the rescue package agreed between the country and the Troika of Lenders (the International Monetary Fund (IMF), the European Central Bank (ECB) and the European Commission (EC)) in March 2013 changed the macroeconomic environment drastically. A support package of 10 billion EUR combined with a bail-in of unsecured depositors/creditors in the two largest banks, austerity measures, fiscal measures and the temporary imposition of capital controls resulted in a contraction of GDP of 5.4% for 2013 (-2.4% in 2012).

Still, the economy performed better than initially expected (forecast of -8.7% in GDP for 2013 in March 2013) due to sectors of the economy being more resilient and less affected than expected, and mainly the tourism industry.

Unemployment recorded a significant increase (the highest in European Union) from 11.9% in 2012 to 15.9% in 2013. Gross fixed capital formation also decreased by 22.4% (-17.0% in 2012) due to low business confidence, uncertainty and constrained availability of finance to the already highly-indebted non-financial corporations.

Due to the deteriorating macroeconomic outlook and acute challenges of the economy, the 2020 Cyprus government bond had reached yield levels of 15% during March-April 2013. It then retracted to 9% by the end of the year and to less than 5% by June 2014, given the strong performance of periphery bond markets and the strict adherence of Cyprus to the conditions and benchmarks of the rescue package agreed with the Troika.

Housing and Mortgage Markets

Nominal house prices continued to decline at a fast pace of -8.69% in 2013 (-4.83% in 2012) with the decline reaching -22.95% from the end of 2008. The decline was less protracted in the two major urban areas of Nicosia and Limassol, and more protracted in coastal areas with holiday homes.

Demand for housing remained subdued given the uncertainty and volatility of macroeconomic conditions, rising unemployment, restrictive measures imposed in March 2013 in the free movement of funds and restricted availability and demand for new housing loans.

The revision of a real estate tax that, from 2013, covers the majority of property owners (compared with 2012 where it affected only a small minority and at very low rates) and the prospect of a revision in 2014 of real estate prices for tax purposes in 2015, also added to the uncertainty in the demand for housing.

Because of very limited new business, written and increased repayments and pre-payments from borrowers due to the confidence effect of the bail-in of unsecured depositors in two major banks, outstanding residential mortgage loans registered a decrease of 6.5%.

New residential mortgage lending has also been impacted due to the possibility of continuing contraction in house prices, rising unemployment, stricter lending criteria and higher risk aversion to new lending by the banking system given the (then) upcoming stress tests and AQR in 2014 and balance sheet constraints.

Mortgage Funding

Cypriot banks continue to be primarily funded by customer deposits (their traditional funding source). No new issuance of covered bonds occurred in 2013 and most of the outstanding covered bonds of the Cypriot Banks were redeemed and/or cancelled as a result of the disposal of their operations in Greece (resulting in the redemption of Cypriot covered bonds collateralised by Greek mortgage loans) and the assumption of loans and deposits of the second largest bank that was resolved in March 2013 by the Bank of Cyprus. At the end of 2013, there was one outstanding issue of covered bonds with a total size of 1 billion EUR.

The recent capital strengthening of the banking sector in combination with a new legislative template for non-performing loans, bankruptcy and foreclosures aims to normalise the asset side of the balance sheet for banks leading to improved funding conditions.

	Cyprus 2012	Cyprus 2013	EU 28 2013
Real GDP growth (%) (1)	-2.4	-5.4	0.1
Unemployment Rate (LSF), annual average (%) (1)	11.9	15.9	10.8
HICP inflation (%) (1)	3.1	0.4	1.5
Outstanding Residential Loans (mn EUR) (2)	12,679	11,854	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	18,518	17,158	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	97.8	99.2	76.2*
Gross residential lending, annual growth (%) (2)	n/a	n/a	n/a
Typical mortgage rate, annual average (%) (2)	5.2	4.9	n/a
Owner occupation rate (%) (2)	73.2	74.0	70.0
Nominal house price growth (%) (2)	-4.8	-8.7	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Czech Republic

By Juraj Holec, Hypoteční banka

Macroeconomic Overview

In early 2013, the Czech economy emerged from its second and longest recession, and began to grow, primarily driven by the manufacturing industry. Strong growth was first seen in late 2013, when the growth rate approached 1.8% q-o-q, due to extraordinary and unlikely to be repeated effects. Growth was primarily driven by the automotive industry, benefiting from the recovery of the European automotive market, and from domestic firms' innovations in the sector in recent years. Domestic consumer demand, which was curbed by the real drop in household income in the last two years, is also starting to contribute to economic growth. Notably, the improving situation in the Czech labour market, where the rise in unemployment has stopped, and real wage growth has resumed, has had positive effects in that regard. Notwithstanding the improved consumer sentiment, households continue to be strongly conservative, maintaining a high level of savings. Consumption, represented by retail sales to a certain extent, has been clearly improving since the end of last year. Passenger car purchases, which are reaching peak levels, are the primary driver. However, we should bear in mind that some of the cars sold through the retail channel end up abroad as re-exports. Business investment is also rebounding, but the investment activity of the public sector fell by a third in the last four years. Especially investment in buildings, structures and dwellings remains subdued. New housing construction is approximately half of what was observed in 2007-2008. This year might, at last, be the year when new housing construction, as well as housing prices, starts to rebound.

Despite the economic recovery, Czech inflation has been negligible thus far. Owing to January's rapid reduction in electricity and gas prices and the persisting decline in the prices of mobile telecommunication services, inflation has been close to zero, which will thus mean the central bank keeps its base interest rate at technical zero throughout this year at least. The future of the exchange rate mechanism, put in place by the Czech National Bank in November last year in order to avoid 'negative' inflation by means of a weak Koruna, appears to be similar. Although the central bank forecast still envisages the departure from the exchange rate mechanism and the start of monetary tightening for early next year, we believe that this will happen much later, likely in the second half of 2015 at the earliest. Hence the koruna will remain above 27 CZK for 1 EUR, and short-term interest rates close to their current levels for at least a year.

Last year's data on public budgets, which appears to be very good at first glance (-1.4% of GDP) and was based on significant reductions in public sector investment, is unlikely to reoccur. Although this year's state budget figures also appear to be very good at the moment, the multitude of compulsory expenditure and the need to keep at least some of the pre-election promises are likely to come at a cost. Nonetheless, the position of the Ministry of Finance in the financial market will continue to be positive in the eyes of both domestic and foreign investors, and thus pressure on government bond yields to rise will be more likely based on a shift in the European curve rather than on domestic risks. As concerns further developments in the Czech economy as well as in the domestic financial market, we currently tend to see uncertainties abroad. The question is whether the rise in European investment and consumer demand will be maintained. Another significant risk to the development of yields in the financial market is the possibility of the European Central Bank putting in place a quantitative easing policy, which has been discussed for a long time.

Housing and Mortgage Markets

Overall, 2013 was the best year in the history of the mortgage market in the Czech Republic. According to the Ministry for Regional Development (MMR) the mortgage market grew by 22%, with banks providing nearly 93,000 mortgage loans to individuals for a total volume of 149,326 million CZK. One of the key factors influencing the market's performance was the low cost of money on the interbank market and the related low interest rates for mortgage loans. In 2013, interest rates reached their historic lows. In July 2013, their average value according to Hypoindex was 2.95%, which is almost three percentage points less than in 2008, when it was almost 6%. Clients most often fix their loans for five years. Refinancing of existing mortgage loans and other loans for the funding of housing, too, contributed considerably to the total production of mortgage banks in the Czech Republic last year. Although the volume of refinancing in the Czech Republic is growing, the current growth of new business is considered as positive news. In the long term, the mortgage market is concentrated in the hands of the top three players – Hypoteční banka, Česká spořitelna, and Komerční banka. These three banks combined hold over three quarters of the market share in the Czech Republic. Not all banks on the Czech market, however, report their results in the official statistics of MMR. Several minor entities from among new banks, such as Equa Bank also emerged on the mortgage market in recent years. In 2012, the activities of Volksbank were taken over by the Russian bank Sberbank, and, from March 2013 it began operating under this name on the mortgage market.

In 2013, according to figures provided by building societies to the Ministry of Finance, 450,000 new building savings contracts were concluded with an overall value of the target amount of 167.5 billion CZK; the average target amount for contracts entered into by individuals amounted to 371 thousand CZK. The number of new contracts on building savings thus increased by 4% year-on-year, while at the same time the average target amount increased by 5,000 CZK, compared to 2012. The total number of loans (both from building savings and so-called bridging loans) at the end of 2013 reached 815 thousand, which represents a decrease in the loan numbers compared to the end of the previous year by 79,000 (-8.9%). The total volume of loans at the end of 2013 amounted to 261.4 billion CZK, representing a decrease compared to the 31st of December, 2012, of 20.8 billion CZK (-7.4%). The proportion of the volume of loans to the saved amount as of the 31st of December 2013 decreased compared to the end of 2012 by 4 percentage points, to 60.9%.

The residential real estate market in 2013 was mainly characterised by a continuing stabilisation of prices. There were optimal conditions on the market for the purchase of private housing, with low interest rates on mortgages also playing a positive role. Demand was relatively stable; in Prague, demand for new houses increased for the first time in a long period. Last year also saw an increase in the attractiveness of investment in real estate.

In the future, interest rates can be expected to stagnate or increase slightly, assuming that inflation does not rise, which would increase pressure on interest rate growth. Inflationary impulses may include, for example, continued currency interventions by the Czech National Bank, leading to the weakening of the Czech Crown, or significant recovery in economic growth. The estimation of property price development is in the spirit of continued stabilisation of prices. Conversely, we can expect growth in the share of refinancing on new production, which will result in increasing competition on the Czech mortgage market, and lead to the stabilisation of portfolio quality, especially that of large banks.

	Czech Rep. 2012	Czech Rep. 2013	EU 28 2013
Real GDP growth (%) (1)	-1.0	-0.9	0.1
Unemployment Rate (LSF), annual average (%) (1)	7.0	7.0	10.8
HICP inflation (%) (1)	3.5	1.4	1.5
Outstanding Residential Loans (mn EUR) (2)	21,750	21,694	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	2,509	2,500	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	25.3	26.6	76.2*
Gross residential lending, annual growth (%) (2)	-4.0	13.1	n/a
Typical mortgage rate, annual average (%) (2)	3.5	3.3	n/a
Owner occupation rate (%) (2)	80.4	80.1	70.0
Nominal house price growth (%) (2)	-0.2	n/a	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Denmark

By Kaare Christensen, Association of Danish Mortgage Banks

Macroeconomic Overview

The Danish economy grew by 0.4% in 2013, driven by exports, public consumption and business investment. Meanwhile, private consumption remained flat adding no growth to the Danish economy.

Public consumption grew by 0.8% over the year and gross capital formation rose by 0.7%. While business investments grew by 3.4%, housing investments and public investments decreased by -5.0% and -0.7%, respectively. Inventories had a slight positive effect on growth. Net exports had a slight negative contribution of 0.2% on economic activity as imports of goods and services rose by 1.5% while exports only rose by 1.0%.

Interest rates decreased from an already low level, and one-year interest reset mortgages were refinanced at around 0.35% by the end of 2013, while the 30-year fixed rate mortgages were issued with a coupon of 3.00%. A continuation of public initiatives aimed at boosting consumption managed to raise consumer confidence, but like previous years, the tail wind failed to materialise into any significant growth in demand, and households opted for deleveraging instead.

Unemployment decreased to 5.8% (7.0% OECD Harmonised) by the end of 2013. Employment picked up slightly over the year. Unit labour costs in the Danish economy rose by 1.2%, outpacing a consumer price increase of 0.5% in 2013.

The Danish government recorded a budget deficit of 0.9% of GDP for the year. Meanwhile, gross public debt was 44.5% of GDP, which is low in a European context. According to the European Commission, macroeconomic challenges – including the gross debt of the household sector – in Denmark no longer constitute substantial macroeconomic risks. This has led the Commission to omit Denmark from the list of countries under surveillance for macroeconomic imbalances. Meanwhile, Denmark ran a current account surplus of 7.3% of GDP. The current account has been in positive territory for the best part of two decades and in 2005 Denmark became a net creditor to the rest of the world. The net position of Danish assets to the rest of the world was 40% of GDP by the end of 2013.

Housing and Mortgage Markets

The owner occupation rate was 63.0% by the end of 2013. This marks a decrease of 1.3% over the year. Since 2007, the owner occupation rate has decreased by a total of 2.8%. The development contrasts the costs of owner occupation. Lower house prices compared to 2007 accompanied by decreasing finance costs have brought user costs on owner occupied homes down to a level last experienced in the latter part of the 1990s.

Nominal residential house prices (all dwellings) increased by 2.6% (y-o-y) in 2013. The development was prevalent for owner occupied flats as well as houses. While prices of owner occupied flats have been rising for two years, house prices rose in 2013 after price falls the previous year. House price developments are spreading from the biggest cities – especially the Copenhagen area, where prices on owner occupied flats and detached and terraced houses rose by 12.7% and 7.6% (y-o-y) in 2013.

Transaction activity continued to increase at a slow pace. Transaction activity, however, remains low in a historic context.

Developments in the Danish housing market remain divided between developments in the Copenhagen Region and to a certain extent in other large cities and the more rural parts of the country. The underlying demographic movement from the countryside to larger cities is favouring markets in the latter. Hence, demand is picking up quite substantially, and several years of slow construction activity in the whole country means that the overhang in larger cities is relatively small. However, a tendency for more homes – especially owner occupied bid for sale became apparent in larger cities by the second half of 2013. In the countryside, demographic developments are slowing demand for owner occupied homes, and although the number of homes set for sale has been slowing down, the overhang of detached and terraced houses remains quite substantial. As a consequence, the few buyers in these areas have lots to choose from, eventually putting downward pressure on house prices.

As a consequence of the large overhang of detached and terraced houses for sale and slightly increasing construction costs, construction activity has remained very low in 2013.

The amount of outstanding mortgage loans from Danish mortgage banks increased by 0.9% from Q4 2012 to Q4 2013. By year-end 2013, outstanding mortgage loans from mortgage banks amounted to 2,479 billion DKK. Residential mortgage loans make up about 75% of the total amount of mortgage loans outstanding. Hence, the Danish mortgage sector remained a stable source of funding to households and businesses in 2013. To a much smaller extent, commercial retail banks also issue housing loans to Danish households. By year-end 2013, housing loans issued by commercial retail banks amounted to 270 billion DKK, which marks a decrease of 9.0% over the past year. Outstanding mortgage loans issued by mortgage banks are typically split between fixed rate mortgages (27% by year-end 2013), adjustable rate mortgages with an interest rate cap (8% by year-end 2013), adjustable rate mortgages (10% by year-end 2013) and interest reset mortgages with interest reset intervals between one and 10 years (55% by year-end 2013) – of which the shortest interest reset interval of one-year make up 30%.

Gross lending activity by mortgage banks decreased from the previous year that saw much activity due to attractive remortgaging opportunities as a consequence of decreasing mortgage rates. As transaction activity in the housing market still remains subdued, new lending for house purchases also remains at low levels. All in all, total gross lending reached 330 billion DKK. Residential mortgages accounted for 74% of gross lending.

Fixed-rate mortgages (typically fixed for 30 years) accounted for 46% of gross lending in 2013. That is approximately the same share as the year before. Adjustable rate mortgages and interest reset mortgages accounted for 53%, and adjustable rate mortgages with an interest rate cap accounted for 1% of gross lending in 2012.

Early redemptions and amortisation amounted to 299 billion DKK in 2013, and net lending hence came in at 31 billion DKK, which is the lowest level recorded since the mid-1990s.

While the popularity of fixed-rate mortgages has increased, further movements within the interest reset segment also continued in 2013. Borrowers are moving out the interest curve, favouring interest reset mortgages with a longer interest reset interval – typically three or five-year intervals – to the shorter one-year interval. There might be different reasons for that development. One reason that stands out is the Industry's own measures which have increased costs on adjustable rate mortgages (including interest reset mortgages with short interest reset intervals) and deferred amortisation mortgages relative to other loan types. On the margin, this has given borrowers an incentive to choose mortgages with longer interest rate fixation. One other possible reason for borrowers preferring mortgages with longer interest rate fixation could be borrowers' expectations of future interest rate increases. Also, the 30-year fixed rate mortgage provides equity protection from an interest rate increase (and hence expected house price decline) as the price of the mortgage is reduced as interest rates rise – neutralising possible value deterioration.

Mortgage Funding

Mortgage loans issued by mortgage banks are solely funded by the issuance of covered bonds. Mortgage banks continuously supply extra collateral on a loan-by-loan basis if the value of cover assets (properties) deteriorates.

The funding mix – for the main part short-term bullet bonds or convertible long-term bonds – adjusts continuously according to borrower demand. Bonds are tapped and bullet bonds behind interest reset loans are refinanced by month-end in March, September and December. The largest refinancing date has traditionally been December. It still remains the largest refinancing date, but new bullet bonds have not been issued with maturity in December for the past years, spreading refinancing activity and hence the point risk more evenly across the year. In 2013, short-term bullet bonds worth 326 billion DKK were refinanced in December. This compares to 434 billion DKK in 2012. In 2011, 2010, 2009 and 2008 the amounts refinanced in December were 454 billion DKK, 575 billion DKK, 453 billion DKK and 357 billion DKK. In December 2013, the shortest bullet bonds (one-year maturity) were sold at an interest rate of approximately 0.35%.

In 2013, long-term convertible bonds, which fund the fixed rate mortgages, were issued with a coupon of 3%.

	Denmark 2012	Denmark 2013	EU 28 2013
Real GDP growth (%) (1)	-0.4	0.4	0.1
Unemployment Rate (LSF), annual average (%) (1)	7.5	7.0	10.8
HICP inflation (%) (1)	2.4	0.5	1.5
Outstanding Residential Loans (mn EUR) (2)	231,815	233,499	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	52,947	52,920	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	190.3	189.5	76.2*
Gross residential lending, annual growth (%) (2)	76.1	-37.8	n/a
Typical mortgage rate, annual average (%) (2)	n/a	n/a	n/a
Owner occupation rate (%) (2)	64.3	63.0	70.0
Nominal house price growth (%) (2)	-3.2	2.6	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Estonia

By Olavi Miller, Eesti Pank

Macroeconomic Overview

The Estonian real GDP grew by 2.2% in 2013. The growth was largely fuelled by domestic demand, which was mainly driven by increased private consumption. Higher wage incomes last year boosted private consumption, which grew by 4.2%. Growth in investment was slowed by a reduction in general government investment and fixed capital formation increased by only 1.1% over the year.

The 2013 slowdown in GDP growth over 2012 was quite narrowly based across sectors. The value-added of transportation and storage fell by more than 19% during the year, reducing total economic growth by -1.4%. There was a decline in construction as a consequence of the reduction in investment from the general government, and this took -0.4% off economic growth. The retail sector was boosted by rapid growth in private consumption and added 1.1% to growth. The value added from manufacturing, which is mainly directed towards exports, increased by more than 5% over the year and lifted GDP growth by 0.7%.

The Estonian current account remained moderately in deficit in 2013 at 1% of GDP, though it was some 40% smaller than the deficit of the previous year. Lower external demand mainly affected the export of goods, though the restrained investment activity also reduced imports of capital goods. Exports and imports of services continued to grow however, and the balance of the goods and services account was positive at current prices.

Unemployment fell in 2013 by 1.4% over the year and total employment grew by 1%. In the last quarter of 2013 and the first of 2014, the first signs of cooling appeared in the labour market as wage growth slowed and employment growth stopped but unit labour costs continued rising despite this.

Inflation started to fall in the second half of 2013 and continued to do so in the first quarter of 2014 as consumer price inflation fell in March to 0.7%.

Housing and Mortgage Markets

Estonian housing prices have risen faster than in any other European Union Member State in the past three years. Growth in housing prices accelerated to 16% by the fourth quarter of 2013, with apartment prices rising by 20%. At the same time, the stock of mortgage loans has grown less than nominal GDP or disposable income, meaning that the indebtedness of Estonian households has steadily fallen.

The Estonian residential real estate market remained active at the beginning of 2014. Price rises have mainly been driven by apartments, but land with buildings has also contributed. The median price of apartments rose in the first quarter of this year by an average of over 20% over the year, while the number of transactions was up 8%. The median apartment price is still one quarter below the peak reached in early 2007 during the real estate boom, but it is more than 70% higher than the lowest point it reached in the middle of 2009 during the crisis.

Activity in the real estate market is not even across geographical regions. The sharp rises and falls in prices during the boom and the subsequent crisis were quite similar in the real estate markets of different towns, but those markets have not recovered equally after the crisis. The rapid price rises have mainly come from increased activity in the market in large towns, while real estate prices in smaller towns have risen more slowly.

The new building permits issued in the second half of 2013 were for an area 6% larger than a year earlier. The use permits issued at the same time covered 27% more residential spaces, meaning that the number of residential spaces completed in the past year was at its highest for three years. Most of the residential spaces that were built were in single family or two-family buildings, or in apartment terraces, and so their average size was larger than usual. The new residential spaces were mostly built in and around Tallinn.

The supply of new residential space will increase in 2014, which should ease the price pressures caused by supply shortages. Demand from households for new residential space will be maintained at higher levels than in the past by rapidly growing incomes and low interest rates. As wage growth slows in the coming years, so investment in residential space will probably also be somewhat slower.

Growth in prices of residential properties will remain faster than that in household incomes over the short-term, but it is forecast that these rates will converge over the coming years. Low interest rates and rising household incomes increase demand for real estate, which has led to rising prices while supply is tight.

The revitalisation of the real estate market meant that 2013 saw more activity in housing loans. There was an increase of 21% from 2012 in the volume of new housing loans issued, which led the housing loan portfolio to recover gradually and grow over the year by 0.8%. In the first four months of 2014, households took out 12% more in loans and leases than a year earlier with 32% more in new housing loans and 1% less in other household loans. Demand for housing loans is backed by rising incomes, the improved financial position of households, low interest rates, relatively high confidence levels and the entry of new borrowers into the housing loan market. Although the turnover of housing loans has grown rapidly in recent times, the comparison base was low and there is still two thirds less in housing loans being issued now than at the peak of the real estate boom. As the loan stock of households is relatively large, it will continue to grow only moderately in the coming years and will not do so faster than household incomes.

Mortgage Funding

The amount issued in mortgage loans by the banks in the past couple of years has been noticeably below the total number of transactions in the housing market. This means the role of banks in financing housing transactions has been significantly smaller than the last time the real estate market was growing fast. Although households have started to invest more in real estate again in the past two years, transactions are being financed to a relatively large extent by the purchaser's own funds. The steady rise in housing prices has made a return to the real estate market possible for those households that bought property during the real estate boom with bank loans. The average developments in the market show that in general the value of the collateral exceeded the outstanding loan value at the end of 2013 even for the households that had taken mortgages to buy apartments when prices were at their peak in 2007. The fall in the average loan-to-value (LTV) ratio can also be observed in the mortgage portfolio, where the share of loans with LTV of over 100% fell to 12%.

	Estonia 2012	Estonia 2013	EU 28 2013
Real GDP growth (%) (1)	4.5	2.2	0.1
Unemployment Rate (LSF), annual average (%) (1)	10.0	8.6	10.8
HICP inflation (%) (1)	4.2	3.2	1.5
Outstanding Residential Loans (mn EUR) (2)	6,905	6,907	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	6,385	6,416	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	75.7	69.1	76.2*
Gross residential lending, annual growth (%) (2)	12.0	17.5	n/a
Typical mortgage rate, annual average (%) (2)	2.9	2.6	n/a
Owner occupation rate (%) (2)	82.2	81.1	70.0
Nominal house price growth (%) (2)	8.0	10.7	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Finland

By Ari Piik, Federation of Finnish Financial Services

Macroeconomic Overview

In 2013, economic growth in Finland remained negative. During this period, GDP decreased by 1.4% compared to 1.0% in 2012. The deterioration was mainly driven by a slump in fixed capital formation which was -4.6% in 2013, as well as a 0.8% decline in private consumption. Economic uncertainty remained strong despite better results in consumer expectations compared to 2012. Exports increased by 0.3% in 2013.

The current account balance remained negative in 2013 and showed a deficit of 0.8% of GDP. In euros, the current account deficit was about 1.6 billion EUR which is fractionally less than in the previous year because the prices of export products declined less than the prices of import goods. Finnish exports are suffering from the global economic slowdown, since the majority of the exports are industrial products. The most important countries for Finnish exports are Sweden, Germany and Russia.

The weakening economic environment has put increasing pressure on Finnish public finances. Due to the GDP contraction, public finances deteriorated further in 2013. The deficit was 2.0% of GDP in 2013. Lower employment and weaker private consumption is reducing tax revenues. As a result, the government's borrowing will continue to be substantial. The government's debt-to-GDP ratio climbed to 56.9% in 2013 from 53.6% in 2012. According to economic forecasts, general government debt will continue to grow in the near future.

The unemployment rate continued to grow in 2013 and was 7.9% in December. However, the annual average unemployment rate was 8.2%, having been 7.7% in 2012. One factor helping to hold back an increase in unemployment is that the labour force continues to shrink due to population ageing. However, the rapid ageing of the population is one of the main challenges facing the Finnish economy in the future.

In 2013, inflation slowed down in Finland as it did in the euro area as a whole. The national consumer price index went up by only 1.5% during this period. Household real income grew 0.5% in 2013 due to weak inflation. Increased purchasing power of households allows them to increase consumption, which may result in bigger growth for private consumption in the near future.

Housing and Mortgage Markets

Housing construction continued to decline in 2013 but, according to a forecast by the Bank of Finland, there will be a turnaround in 2014. In 2013, new housing starts decreased 3.8% from the previous year compared to an 8.9% decline in 2012. The number of housing starts was 27.271 units in total. Also housing completions decreased 3.9% in 2013. However, renovation investments continued to grow.

Housing prices continued to grow in nominal terms, but were more or less stagnant in real terms. Compared with the year 2012, prices rose by 1.1% in the whole country. In Greater Helsinki, prices went up by 2.5% and in the rest of the country by 0.9%, in nominal terms. The housing market is supported by the healthy Finnish banks as well as an almost historically low interest rate level. The average price per square metre of an old dwelling was EUR 2,269 in the whole country, EUR 3,546 in Greater Helsinki and EUR 1,692 elsewhere in the country.

Around 75% of Finnish households live in owner-occupied housing. Approximately 32% of Finnish inhabitants have a housing loan. The average size of a loan is EUR 89.500, for those families who have a housing loan. Typical maturity for a new housing loan is 20 years.

At the end of 2013, the total housing loan portfolio stood at 88 billion EUR (45.7% of GDP), and the annual growth rate in 2013 averaged 2.3%, which means a slightly declining trend of annual growth. Decline in the growth of household borrowing reflects an increase in economic uncertainty as well as an upswing in unemployment.

In 2013, Finnish households drew down new housing loans for a total amount of 15 billion EUR, which translates to a monthly average of 1.3 billion EUR. This monthly average figure was significantly smaller than in 2012, when the new loans totalled 19 billion EUR.

In December 2013, the average interest rate on new housing loans in Finland stood at 1.97%, which is almost an all-time-low rate. Due to the high prevalence and low level of Euribor rates, interest rates on housing loans in Finland on average are still considerably lower than in the euro area.

Mortgage Funding

Deposits are the main source of mortgage funding for Finnish banks. At the end of December 2013, credit institutions' deposit stock amounted to 142 billion EUR. About 70% of non-MFI deposits are overnight deposits. Deposits continued to increase relatively rapidly in 2013: the non-MFI deposit stock at the end of December grew by 6.3% on average from the previous year.

The share of bonds as a funding source continued to increase in 2013. At the end of 2013, the stock of total debt securities issued by credit institutions stood at 88 billion EUR. The stock grew by 1.3% during the year, reflecting a strong increase in long-term bonds. The outstanding amount of bonds increased by 2.6 billion EUR in 2013 and the total bond stock stood at 68 billion EUR at the end of 2013. On the contrary, the stock of short-term debt securities has been decreasing for several years: the stock outstanding contracted in 2013 from 22 to 21 billion EUR.

The importance of covered bonds as a funding source for credit institutions has increased notably in recent years. 3.5 billion EUR worth of covered bonds was issued in 2013, notably less than in the previous year. The covered bond stock stood at 29.9 billion EUR at the end of 2013. Deposit-taking banks have also been permitted to issue covered bonds since 2010. In Finland, no active RMBS markets exist.

	Finland 2012	Finland 2013	EU 28 2013
Real GDP growth (%) (1)	-1.0	-1.4	0.1
Unemployment Rate (LSF), annual average (%) (1)	7.7	8.2	10.8
HICP inflation (%) (1)	3.2	2.2	1.5
Outstanding Residential Loans (mn EUR) (2)	86,346	88,313	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	19,990	20,311	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	72.5	73.3	76.2*
Gross residential lending, annual growth (%) (2)	-5.0	-20.4	n/a
Typical mortgage rate, annual average (%) (2)	2.0	2.0	n/a
Owner occupation rate (%) (2)	73.9	73.6	70.0
Nominal house price growth (%) (2)	3.0	1.1	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

France

By Emmanuel Ducasse, Crédit Foncier Immobilier

Macroeconomic Overview

While the economic environment improved in other European countries, France was mainly characterised by slower economic growth during 2013.

GDP stagnated (0.2%), despite a rebound in the second quarter (2.2%), and the positive year-end result was mainly due to technical reasons: higher expenses ahead of a VAT increase on 1 January 2014, and increased energy consumption due to unfavourable weather conditions. As a result, employment declined further and unemployment continued to increase (10.5% at year-end), despite government employment schemes.

Business clearly suffered from the structurally low margins of French companies, which restricted their investment capacity.

Moreover, efforts to reduce the public deficit by 1% of GDP led to an unprecedented fiscal shock, initiated in 2011, which resulted in an increase in the tax rates and social security contributions to 46% of GDP in 2013 (against 43.7% in 2011), while failing to contain public debt, which peaked at 93.4% of GDP in 2013.

Household purchasing power suffered the backlash, improving by just 0.2%, mainly due to lower inflation, which fell back to 0.9% (against 2% in 2012).

The combination of these factors thus generated a climate of concern and a wait-and-see attitude among economic players, a slowdown in investment decisions, and sluggish consumption. The delay in adjusting public finances, in particular with regard to the major topics of pensions, the labour market and tax reform, was somewhat acknowledged by the European Commission, which accepted to postpone to 2015 the target of limiting the budget deficit to 3% of GDP.

Housing and Mortgage Markets

Remarkably, existing housing transactions picked up slightly in 2013, reaching 719,000 sales against 704,000 in 2012 (up 2%), while still remaining well below "normal" levels of around 820,000 to 850,000 sales per year.

The market was boosted by lower interest rates on housing loans, which fell below the 3% mark for the first time in 2013.

But more importantly, housing demand in the most developed areas, mainly large towns and cities, strengthened throughout the year, and pressure on these markets increased from the lack of new housing supply.

Construction of a total of 332,000 housing units was started in 2013, 4.2% less than the previous year, and more importantly, well below the level of the strongest years (421,000 housing units under construction in 2011 and 466,000 in 2007).

Despite support from the "Duflot" tax exemption arrangement, new housing sales declined by 1.7% in 2013 for apartments and by 1.8% for houses built by real estate developers. As for "pure" private houses, they were down by 15.5%, reflecting the application on 1 January 2013 of the new insulation standards (RT2012), which mainly affected production in the first quarter and increased prices.

The apparent price stability of existing housing units surprised all commentators, given the significant deterioration in the relationship between sellers and buyers since 2011: price variations of -1.5% in Paris and -1.3% outside Paris conceal the fact that reaching an agreement on price is increasingly difficult between sellers who do not accept a price that reflects the advantages and drawbacks of the units for sale, and buyers who have become increasingly selective and demanding, and who take a wait-and-see attitude when presented with units deemed to be too expensive.

We may therefore consider that many units for sale have not found a buyer because sellers fail to agree the necessary price cuts, which are much greater than suggested by statistics, in particular for poorly located units, or those requiring renovation work.

This wait-and-see attitude that has prevailed for about two years is also due to the increasing difficulty for financially stretched households to obtain bank loans. These households, particularly first-time buyers, have suffered both from the consequences of the economic crisis and the backlash of future Basel III regulations on leverage ratios, which have led banks to better select applications and, in particular, to be more careful on long-term loans (beyond 15 years).

Regardless of these unfavourable issues, loan production nonetheless increased by 11.1% overall during 2013, excluding loan purchases. These purchases, which represented slightly less than 15% of all loans granted in 2013, had never reached such a level in the past.

This upturn is mainly due to credit conditions, which furthermore improved towards the end of the year. With only the "Duflot" tax exemption scheme left to support the production of new rental housing, public action on housing markets stabilised, as there were no more support schemes left to reduce or cancel. Against this backdrop, the market for existing units also experienced a remarkable recovery.

Overall, loan production reached 132,606 million EUR in 2013, against 119,337 million EUR in 2012. The renovation market recovered significantly: up 54.8% in 2013 compared to 2012, with a production of 22,830 million EUR against 14,745 million EURthe previous year. It also achieved a spectacular increase in market share, which has now reached 17.2% (against 12.4% in 2012).

Loans from the private sector drove the entire market, up 13.2% in 2013, and now represent 89.8% of the housing loan market.

As for public loans or loans benefiting from State support, zero-interest loan production (subsidised by the State) was once again down by 34.1% in 2013, after dropping by 52.3% in 2012. As such, zero-interest loans now only represent 1.9% of the market, against 3.1% in 2012.

Building savings loans have all but completely disappeared and represent only 0.5% of 2013 loan production. This is offset by the production of contractual home loans and social housing loans, which has increased by 16.9% in 2013, reaching a 7.9% market share, against 7.5% in 2012.

Mortgage Funding

The amount of demand deposits in French banks, comprising all economic players, reached 617,657 billion EUR at the end of 2013 against 598,009 billion EUR in 2012, or 3.3% year-on-year growth.

As for savings accounts, which are very popular in France (such as the Livret A, Livret bleu, Compte d'épargne logement [Building savings account], Livret de développement durable [Sustainable development savings account], Livret d'épargne populaire [Popular savings account], Livret jeune, or other taxable accounts), outstanding funds increased at the end of 2013 from 611,637 billion EUR to 625,066 billion EUR in a year, up 2.2%.

Meanwhile, outstanding time deposits of less than two years declined from 152,469 billion EUR to 150,720 billion EUR (a 1.1% drop).

Finally, time deposits of more than two years increased from 483,522 billion EUR to 499,255 billion EUR, or a 3.2% increase.

Overall, these resources increased in 2013 by 2.5%.

For the first time in 2013, the net supply of euro-denominated benchmark covered bonds was negative, although covered bonds remain one of the main asset classes benefitting from regulatory support.

As such, since the start of 2013, about 100 billion EUR of EUR-denominated covered bonds were issued, while about 150 billion EUR expired. Bank deleveraging, persistent dependence on Central Bank financing, and the stabilisation or reduction of bank balance sheets have contributed to a slowdown in covered bond issuance.

At 17.9 billion EUR in 2013 (against 24.6 billion EUR in 2012 and 46 billion EUR in 2011), France remains a European leader in terms of benchmark covered debt volumes issued, even if the reopening of the senior unsecured debt market has led French banks to increasingly use this financing instrument and thereby preserve their hedge portfolio. Germany (15.3 billion EUR) is the second largest benchmark issuer after France, followed by Spain (11 billion EUR) and Italy (9 billion EUR).

Outstanding covered jumbo euro-denominated bonds stood at around 954 billion EUR at the end of 2013, putting the French market in first place (26%), followed by the Spanish Cédulas market (23%) and the German Pfandbriefe segment (12.6%).

	France 2012	France 2013	EU 28 2013
Real GDP growth (%) (1)	0.0	0.2	0.1
Unemployment Rate (LSF), annual average (%) (1)	9.8	10.3	10.8
HICP inflation (%) (1)	2.2	1.0	1.5
Outstanding Residential Loans (mn EUR) (2)	870,040	902,640	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	17,130	17,697	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	62.9	64.6	76.2*
Gross residential lending, annual growth (%) (2)	-19.5	-6.1	n/a
Typical mortgage rate, annual average (%) (2)	3.8	3.2	n/a
Owner occupation rate (%) (2)	63.7	64.3	70.0
Nominal house price growth (%) (2)	-2.0	-1.9	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Germany

By Thomas Hofer, Verband deutscher Pfandbriefbanken (vdp)

Macroeconomic Overview

In Germany, the Gross Domestic Product (GDP) grew in real terms by 0.4% y-o-y (after 0.7% in the previous year). The growth was bolstered by domestic demand. Private consumption remained high due to a favourable consumer climate. The labour market remained stable. The unemployment rate continued to decline somewhat and reached 5.3% in 2013. Rising wages, assumed low risk of unemployment, favourable financing conditions and the positive sentiment among private households all combined to make investment in housing attractive.

Housing and Mortgage Markets

In 2013, residential investment and construction activity grew at a stronger pace than during the previous year. Residential investment increased by 1.7%. The number of building permits rose by 12% y-o-y. The number of transactions has been relatively stable for several years. In 2013, the number of transactions rose by 2% to around 573,000.

The growth of construction and transaction activities has been accompanied by increasing residential lending. In 2013, gross residential lending rose by 5.5% y-o-y. The volume of residential loans outstanding amounted to 1,209 billion EUR, which corresponded to an increase of 2.0% on 2012.

Prices for residential properties continued to rise in 2013. As an average for 2013, prices for owner-occupied residential properties rose by 3.2% (2012: 3.1%). Developments in the individual property segments were mixed in the fourth quarter of 2013. For the first time since the first quarter of 2010, the price index for owner-occupied housing fell slightly against the previous quarter. This was due to the decline in prices for single-family houses, which experienced a slight decrease quarter on quarter. Compared with the previous year, both prices for single family houses and for condominiums increased by 2.6% and 4.9%, respectively. Prices for multi-family houses rose too, by 4.7% in 2013 (2012: 4.9%). Demand for residential properties remained strong given the favourable financing conditions and the stability of households' income prospects. Once again, the main focus of interest was on large and university cities.

The completion of new dwellings has been falling to a level lower than the number of new households entering the housing market for almost a decade (2000-2009). Even today, construction activity is not in step with the market situation. Especially in economically prosperous cities, the number of inhabitants (and private households) has seen strong growth in recent years. This development has led to shortages and rising rents in several regional markets. In parallel with this, interest rates for residential mortgage loans have experienced a strong decrease. In 2013, mortgage interest rates in Germany were again lower than in the previous year. The typical mortgage rate went down to 2.75% from 3.06% in 2012. The combination of rising rents, falling interest rates and the shortage of lucrative alternative investments has resulted in a pronounced increase in demand for houses, especially in the larger, more dynamic cities.

Although the prices for residential properties – especially for condominiums – have gone up, the affordability of owner occupied housing has not been negatively affected so far, because the rise in prices has been outweighed by declining interest rates and growing incomes. A study on the financing structures of home ownership creation conducted by the Association of German Pfandbrief Banks in 2013 shows that the main characteristics of mortgage loans for the purchase of condominiums have been rather stable. The price-income-ratio went up from 3.2:1 in 2009 to 3.6:1 in 2012. The debt burden ratio (monthly debt service in relation to the net household income) declined slightly from 19% to 18% during the same period. Since alternative investments seem less attractive, buyers used more of their own capital than in 2009. Hence the average LTV was 79%, which was even a little bit lower than three years ago (83%).

Mortgage Funding

In Germany, the main funding instruments for housing loans are savings deposits and mortgage bonds. Germany has the largest covered bond market in Europe, accounting for almost one quarter of the total market. The sub-sector of this market for mortgage bonds is also strong in Germany and accounts for almost one eighth of the total EU market.

In the year under review, Pfandbriefe totalling 49.5 billion EUR were brought to the market (in 2012 the figure was 56.6 billion EUR). Public Pfandbriefe worth 15.6 billion EUR were sold (14.3 in 2012), and mortgage Pfandbriefe sales accounted for 33.6 billion EUR (38.5 in 2012). Ship and Aircraft Pfandbriefe worth 0.3 billion EUR were issued in 2013 (3.6 in 2012).

As repayments exceeded new sales, the outstanding volume of Pfandbriefe decreased to 452.2 billion EUR in 2013 (from 524.9 billion in 2012). Whereas the volume outstanding of mortgage Pfandbriefe decreased from 216 billion EUR in 2012 to 199.9 billion EUR in 2013, Public Pfandbriefe experienced a strong decline from 301.1 billion EUR to 245.7 billion EUR. In 2013, Ship and Aircraft Pfandbriefe accounted for 6.3 billion EUR (7.8 billion EUR in 2012).

	Germany 2012	Germany 2013	EU 28 2013
Real GDP growth (%) (1)	0.7	0.4	0.1
Unemployment Rate (LSF), annual average (%) (1)	5.5	5.3	10.8
HICP inflation (%) (1)	2.1	1.6	1.5
Outstanding Residential Loans (mn EUR) (2)	1,184,853	1,208,822	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	17,266	17,555	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	65.6	65.5	76.2*
Gross residential lending, annual growth (%) (2)	8.2	5.5	n/a
Typical mortgage rate, annual average (%) (2)	3.1	2.8	n/a
Owner occupation rate (%) (2)	53.3	52.6	70.0
Nominal house price growth (%) (2)	3.1	3.2	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Greece

By Theodore Mitrakos[1], Bank of Greece

Macroeconomic Overview

The contraction of the Greek economy is into its seventh year, but there are some signs that confidence is returning. The cumulative decline in real GDP since the start of the crisis amounts to 25% and unemployment stands at 27.5% with the long-term unemployed accounting for over 65%. Real GDP growth in 2013 came in at -3.9% against -7.0% in 2012, -7.1% in 2011 and -4.9% in 2010, while slightly positive growth of about 0.6% in 2014 is expected. The positive prospects for the rebound of economic activity, likely in the second half of 2014, derive from the lower fiscal drag compared to previous years, competitiveness gains and higher external demand for Greek products, and the benefits of structural and institutional reforms which are expected to be more evident.

The rate of decline of GDP has been slowing for the past one-and-a-half years. According to provisional non-seasonally-adjusted estimates published by the Hellenic Statistical Authority in June 2014, real GDP continued to contract in Q1 2014 although the rate of contraction was significantly lower than in the previous quarters. Specifically, real GDP fell at a rate of -0.9% y-o-y in Q1 2014, significantly lower than in Q4 2013 (-2.3% in real terms), while nominal GDP fell by 2.9% which implies a 2.0% fall in the GDP deflator. The deceleration in the rate of contraction of GDP y-o-y in Q1 2014 is supported by an increase in exports (+5.4%) and the slight rebound of private consumption (+0.7). Investment, on the other hand, continued to decline but at a lower rate (-7.8% in Q1 2014, compared to -15.3% in Q4 2013), reflecting the persistent high rates of decrease in residential investment (-42.3% in Q1 2014) despite investment in equipment and other investment recording positive growth rates. The previous developments are consistent with the improvement in sentiment and confidence indicators, evident since autumn 2012.

On the demand side, private consumption in 2013, 2012 and 2011 fell in real terms by 6.0%, 9.3%, and 7.7% respectively, government consumption decreased by 4.1%, 6.9% and 5.2%, while gross fixed capital formation fell dramatically by 12.8%, 19.2% and 19.6%. On the supply side, gross value added (at basic and constant prices) fell by 3.7% in 2013, 7.0% in 2012 and by 6.6% in 2011. On the income side, annual national accounts' figures for 2013 show a 10.8% y-o-y decrease in remuneration of employees and a 4.5% fall in dependent employment (ESA definition), which imply a 6.6% decrease in remuneration per employee in the whole economy.

Decline in employment rates decelerated significantly in 2013 (-4% against -8% in 2012, -6.8% in 2011 and -2.7% in 2010), indicating a flattening of the strong negative trend of the previous six years. For the first quarter of 2014, Labour Force Survey data suggest an almost stabilisation of employment (-0.6%). The unemployment rate rose from 12.5% in 2010 and 17.7% in 2011 to 24.5% on average in 2012 and 27.5% in 2013. According to the latest available figures from LFS, in Q1 2014 the unemployment rate remained at 27.8% as in the previous quarter, representing a slight increased compared to 27.6% in the corresponding quarter of 2013 (equating with 1,342,300 people in absolute terms). The unemployment rate for females (31.4%) is considerably higher than the unemployment rate for males (25.0%), while the highest unemployment rate is recorded among young people in the age group of 15-24 years (56.7%, 61.5% for young females).

Inflation in Greece in 2013 and 2012 dropped below the euro area average for the first time since Greece's entry into the euro area. Disinflation, and the subsequent deflation observed since March 2013, can largely be attributed to the significant fall in ULCs coupled with the waning impact of indirect taxation and the depth of the economic recession. HICP headline inflation continued its steady decelerating trend throughout 2013 falling from +3.1% in 2011 and +1.0% in 2012 to -0.9% in 2013 and -1.6% y-o-y in April 2014, while core inflation (HICP excluding energy and unprocessed food) has been in negative territory since September 2012 and dropped to -1.8% in April 2014. The GDP deflator fell by 2.1% in 2013 reflecting ULC declines (-7.9%) and adjustments to profit margins.

Over the past four years, Greece has made considerable progress in dealing with its twin – fiscal and external – deficits. The Eurogroup, along with the Troika, considers that programme implementation remains on track, and stresses the need to pursue recovery by intensifying structural reforms. The fiscal outturn of 2013 was recently confirmed by Eurostat, paving the way for further action in support of debt sustainability, in line with Eurogroup decisions. According to the programme definition, the general government's primary balance recorded a surplus of 0.8% of GDP, compared to the target of zero. Over-performance is also projected for 2014, implying that the primary surplus will be higher than the programme target of 1.5% of GDP. In the same direction, external adjustment is proceeding fast. The downward trend in the current account deficit that started in 2009 has resulted in a current account surplus of 1.4 billion EUR in 2013 (0.7% of GDP) against a 4.6 billion EUR deficit in 2012 (2.4% of GDP, a total improvement of 15.6 percentage poits of GDP during the 2009-2013 period). The improvement is a consequence of the substantial decline in the goods deficit (9.4 percentage points) along with an increase in the services surplus (1.9 percentage points). According to the Bank of Greece's provisional Balance of Payment statistics, the current account balance continued to improve over the first four months of 2014, recording a deficit of 2.22 billion EUR vs. a shortfall of 3.39 billion EUR in the same period a year earlier. The current account balance is expected to show further improvement in 2014 with positive effects from higher receipts from tourism (due, inter alia, to the cruise industry) and shipping. Exports of goods as well as current transfers from euro area Member States are also expected to continue to have a positive effect.

Housing and Mortgage Markets

Over the 2010-2013 period, intensifying pressures on market values, prices and rents of both residential and commercial properties were the main characteristic of the Greek real estate market, as a considerable decline in demand resulted in excess supply. The reduced demand can be attributed mainly to a surge in unemployment, a fall in households' disposable income, real estate tax hikes and an unstable – at least until recently – tax regime, coupled with liquidity shortage against the backdrop of banks' tightened credit standards. Furthermore, expectations of a further decline in house prices have had, and are still having, an adverse impact on the real estate market.

The Greek housing market continues to show excessive supply, combined with a large stock of unsold property and dramatic reduction in the number of real estate transactions. Indeed, according to the Hellenic Statistical Authority data collected by notaries throughout the country, the number of sales acts in real estate fell from 117,900 in 2010 to 83.-,700 in 2011 and 57,700 in 2012 (with a Bank of Greece' estimation of about 45,000 for 2013). Private construction activity in terms of building permits continues to show dramatic rates of decline (-28.4% in 2011, -36.9% in 2012, -27.7% in 2013 and -25.5% in Q1 2014), similar to the investment in total construction (-21.0%, -22.7%, -17.9% and -22.4% in 2011, 2012, 2013 and Q1 2014, respectively). However, business expectations in construction reached their lowest point in mid-2011 but have rebounded along with the general economic climate.

In the housing market, the drop in prices continued at a strong pace from 2011 onwards. According to data collected from credit institutions, nominal residential property prices in Greece declined by 5.5% on average in 2011, followed by a stronger decline of 11.7% in 2012 and 10.3% in 2013 (Q1 2014: -7.5%). Apartment prices dropped cumulatively by 34.4% between 2008 (average level) and the first quarter of 2014, while data collected from real estate agencies points to

[1] The views expressed are solely those of the author and should not to be interpreted as reflecting the views of the Bank of Greece.

an even greater decline. The fall in prices was stronger in the two major urban centres (Athens: -37.6% and Thessaloniki: -37.8%), compared with other cities (-31.1%) and other areas (-29.6%), as well as larger properties in relatively higher-cost areas in Greece. The downward trends in house prices should continue in the following quarters, albeit at relatively slower rates, given that the high rates of decline recorded in 2012 and the first half of 2013 appeared to moderate in the third and fourth quarters of 2013. The recovery prospects in the real estate market depend, inter alia, on further improvements in business and household expectations, easing bank financing conditions, reducing uncertainty and boosting the recovery prospects of the Greek economy. Taxes levied on real property amidst the current crisis have accentuated the recession in the real estate market and considerably discouraged demand.

During the crisis, household demand shifted towards smaller, older and more affordable properties in medium-cost areas. Moreover, the percentage of cash transactions and the required down-payment in cash for real estate purchases has increased. According to data from the quarterly survey of real estate agencies and property advisors conducted by the Bank of Greece, a mere 17% of transactions were financed by banks (compared with 82% in early 2009), while the average loan-to-value ratio came to roughly 35% (compared with 70% in early 2009). In addition, the required average time to market more than doubled during the crisis (from about 5 months in early 2009 to almost one year in 2013), while the average difference between initially asked and final purchase prices rose significantly (from 12.6% to 20.7% respectively).

The volume of credit to the private sector has contracted at relatively stable rates in the last four years. This decrease can be partly attributed to a reduced demand for credit as a result of the economic recession, and the liquidity squeeze experienced by commercial banks, by the loss of confidence and the significant losses inflicted on banks by sovereign debt restructuring measures. Credit expansion remains negative and both supply and demand side developments point to a further negative path, despite the positive impact of the inflows of deposits in the Greek banking system.

The outstanding balances of loans from domestic MFIs to households (end of period amounts, including loans and securitised loans) declined at an annual rate of 3.9% in 2011, 3.8% in 2012, 3.5% in 2013 and 3.2% in April 2014. The respective annual changes for housing loans were -2.9%, -3.4%, -3.3% and -3.3%. The annual growth rate for both corporate and households lending bottomed-out by mid-2012 and is gradually improving since, remaining however negative. Lending rates reversed course and started declining at certain points in time from mid-2011 for different loan categories (interest rate on bank loans were 7.02% in October 2011, 6.29% in June 2012 and 5.78% in March 2013, 5.82% in April 2014).

The strong economic recession has affected borrowers' ability to service their outstanding mortgage debt. As a consequence, the share of non-performing housing loans has increased substantially since 2008 (i.e. +14.9% in 2011, +21.4% in 2012 and +26.1% in 2013), despite the increased attempt by commercial banks to restructure loans in order to minimise capital losses. NPLs (on a solo basis) rose to 33.5% in Q1 2014 from 31.9% at end-2013.

Mortgage Funding

The sharp fall in spreads observed over the last year facilitated the return of the Greek sovereign to global capital markets. In early April 2014, Greece returned to global capital markets for the first time since 2010, attracting strong demand for its government bonds (over 20 billion EUR of orders for the 5-year bond in order to raise 3 billion EUR, yield 4.95%). Greek banks have followed suit, issuing 8.3 billion EUR in new equity capital. In addition, two systemic banks have repaid state aid in the form of preference shares while a third systemic bank (Eurobank) returned to private management, following a successful share capital increase. Consolidated financial results of Greek commercial banks were on the positive side in Q1 2014, mainly as a result of cost containment. However, operating profitability still falls short of impairments, resulting in pre-tax losses of 0.6 billion EUR.

The Greek banking system during the current crisis lost about 90 billion EUR of its deposits. However, deposit flows of non-financial corporations and households became virtually consistently positive after June 2012 as perceived redenomination and bank default risks abated. After a sharp rise in deposits in the second half of 2012, they have now largely stabilised. Compared to their low in June 2012, private sector deposits now stand some 12 billion EUR higher (non-financial private sector: 10 billion EUR). Banks have been able to supplement retail funding with financing from international markets and this, combined with deleveraging, has allowed them to continue to reduce their recourse to central bank financing. Total central bank financing declined to 47 billion EUR (June 2014) from 73 billion EUR at end-2013, down by 91 billion EUR from its peak in late June 2012.

Developments in credit to the domestic private sector are expected to remain negative during the rest of 2014. According to the Bank Lending Survey results for Q1 2014 with respect to loan supply, credit standards remained unchanged for all loan categories as warranted by banks' expectations about macroeconomic, industry-specific and housing market developments, and despite the expansionary influences of improving funding conditions across all funding instruments including equity issues. As far as loan demand is concerned, for the first time in more than 5 years, fixed investment needs contributed to increasing the demand of non-financial corporations for bank credit. The demand for consumer loans ceased to contract (following 18 successive quarterly declines) in line with the development in spending on consumer durables. Nevertheless, the demand for housing loans continued to decrease despite the fact that for the first time since 2006 borrowers' assessment of housing market prospects stopped acting as a drag on their demand for credit.

	Greece 2012	Greece 2013	EU 28 2013
Real GDP growth (%) (1)	-7.0	-3.9	0.1
Unemployment Rate (LSF), annual average (%) (1)	24.5	27.5	10.8
HICP inflation (%) (1)	1.0	-0.9	1.5
Outstanding Residential Loans (mn EUR) (2)	74,634	71,055	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	8,143	7,794	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	55.0	58.0	76.2*
Gross residential lending, annual growth (%) (2)	n/a	n/a	n/a
Typical mortgage rate, annual average (%) (2)	3.3	2.9	n/a
Owner occupation rate (%) (2)	75.9	n/a	70.0
Nominal house price growth (%) (2)	-11.7	-10.3	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Hungary

By Gyula Nagy, FHB Mortgage Bank

Macroeconomic Overview

The Hungarian economy produced a positive GDP growth of 1.1% in 2013. The growth followed a 1.7% GDP contraction in 2012. Growth has accelerated during the year and the Q4 performance was a 2.7% increase in GDP over Q4 2012. During the year, the actual final consumption of households stagnated, and the actual final consumption of the government increased by 4.3%. As a result of all these trends, actual overall final consumption rose by 0.5%.

Gross domestic product in Hungary increased by 2.7% in Q4 2013 compared to the corresponding period of the previous year. The performance of agriculture, construction and manufacturing activities all increased. Growth was mostly influenced by the good performance in agriculture and the improving output in construction. Gross fixed capital formation grew by 5.9%, while gross capital formation was up by 2.1%. Exports and imports both rose by 5.3% during the course of the year. Net exports contributed 0.4 % to growth.

The average number of employed people living in private housing was 3,938 thousand in 2013, and thus, the employment rate calculated for the 15–64 age group was 58.4%. This figure was 1.2% higher than in the previous year. The average number of unemployed people according to the criteria of the labour force survey (not in work, searching for a job and available for work) was 449 thousand in 2013, and the unemployment rate was 10.2%, 0.7% lower than in the previous year. During the year, the number of unemployed people decreased continuously; this improvement may be partly explained by public work programmes, which gives some opportunities to those who stopped actively looking for a job because of lack of hope, or because of increasing job search activity (and thereby competition) induced by the crisis. By the end of the year, unemployment had decreased and reached 9.1% in Q4 2013.

Industrial production exceeded 2012 levels by 1.8% in 2013. Exports grew by 4.9% on a yearly basis, at the same time domestic sales contracted by 1.8%. The engine for growth was the vehicle industry in 2013. The construction industry started growing from February 2013, but growth was mostly observed in the infrastructure, public and industrial sectors. In the residential construction sector, on the other hand, the contraction continued further.

Household incomes increased in 2013 both in nominal and real terms (3.8% in Q4 compared to the same period in 2012 for gross nominal income and 3.1% in real terms for the same period).

The annual inflation rate (based on the consumer price index) was 1.7%.

The Central Bank base rate stood at 3% at the end of 2013. Benefiting from the good international investor sentiment – that lasted also into 2014 – the Central Bank has decreased the base rate further in small gradual steps to 2.1% by July 2014.

For 2013, the budget deficit was 2.2% of GDP according to preliminary data of national accounts. According to the figures provided by the National Bank of Hungary, general government debt amounted to 23,068 billion HUF, or 79.2% of GDP at the end of 2013 (82.1% in 2011 and 79.8% in 2012).

Housing and Mortgage Markets

Hungary has a stock of approximately 4.4 million housing units. Due to one of the highest ownership ratios in the EU (around 90%) most of the dwellings are privately owned. About 60% of the houses were built before 1980 and only about 10% of the flats were built in the last 15 years. As a result, the quality of the existing dwelling stock is rather obsolete.

New housing construction in 2013 reached another historically low level since the Great Financial Crisis of the 1930s, as in every year (including the World War II period), there were more new flats built, than in 2013.

In 2013, a total of 7,293 new flats were built in Hungary (in 2012, 10,560 housing units) which accounts for a 31% decrease compared to the previous year. Decreases in smaller cities and villages were even bigger, in large cities there was a smaller decrease, in Budapest the number of new flats even increased in 2013 compared to the previous year (1,770 versus 1,648 in 2012).

According to the estimations of the National Statistical Office, the number of transactions was slightly above 80,000. This figure corresponds to the low transaction volume observed since the outburst of the financial crisis (in the peak years of 2006 and 2007, yearly transactions were around 200,000).

If the trend observed at the end of 2013 (2.7% GDP growth in Q4, gross and real income growth) continues in 2014, there may be a slow turnaround on the housing market. The first buyer segments benefiting from the improving economic conditions may be the so called "First Home Buyers" and the "Buy to Let" investors. For these buyers, the historically low house prices may be a further stimulating factor.

As far as house prices are concerned, according to the 2013 FHB House Price Index data, house prices declined in 2013 by 6.1% (7.72% in real terms) compared with the previous year. House prices have decreased in every year since 2008; however, the rate of decline was slowing between 2009 and 2011. The large decrease recorded in 2013 may be partly explained by the purchases of the Nemzeti Eszközkezelő (National Asset Management Agency)[1]. Even though house prices on a national level were declining in Hungary, there were some areas, (e.g. western counties close to Austria and Slovakia, downtown districts of Budapest and surrounding villages at Lake Balaton) where prices already started to grow in 2013. At the other end of the spectrum, there are areas in north-east Hungary where prices have dropped further and where the housing market is actually frozen.

Deleveraging of households continued in 2013 and the total outstanding residential mortgage loan portfolio decreased in 2013 compared to the previous year by approximately 6% (from 5,841 billion HUF in 2012, to 5,494 billion HUF). In 2012 there was an exceptionally large decrease due to the so-called "Early Repayment Scheme"[2].

New lending in foreign currency has been prohibited by the government since 2010, so new mortgage loans are issued only in HUF. To stimulate the mortgage market and to mitigate the negative effect of the still high interest rates, the government has introduced a new subsidy scheme from September 2012. The subsidy conditions were further improved from January 2013 (fixed proportional interest rate subsidy is granted for the first five years).

[1] The establishment of the National Asset Management Agency (NAMA), was also aimed at helping borrowers that were unable to pay their FX mortgage instalments. NAMA, who buys the properties of defaulted mortgage debtors from their lending banks and rents it to the debtors at preferential rates, has finally started its activity in 2012. Until the end of 2013, they purchased about 15,000 properties. The programme aims at purchasing about 25,000 properties. Purchase prices are between 35-55 % of the collateral value, and the price is paid to the financing bank, at the same time releasing debtors from their mortgage burden. The former borrowers may remain in the property, provided that they pay rental fees to NAMA.

[2] The scheme was announced by the government in 2011 and lasted from September 2011 to April 2012. The main purpose was to allow debtors to repay their foreign currency (mostly CHF) denominated mortgage loans at a preferential exchange rate. Lending banks had to cover the costs of the scheme. The programme also caused an increase in new lending, as many refinanced the repayment of CHF loans from new HUF denominated loans.

The "lump sum" house construction/house buying subsidy, also known as "social subsidy for housing purpose" is also accessible for first time home buyers. This government contribution currently starts from the amount of 800,000 HUF, and is based on the number of children the buyer has, the house's energy classification and size, and can surpass 3 million HUF. Unfortunately, this subsidy type is only available for new homes, so the use of the subsidy was rather limited so far. There were rumours of the extension of this market tool to the buyers of used flats, but this did not happen yet.

According to the latest survey of the Hungarian National Bank, the share of non-performing loans (90 days past due) within the outstanding mortgage portfolio has further deteriorated in 2013. In the second half of 2013, the NPL ratio of households' loans rose to 18.6% from 17.7% in the first half of the year. The highest increase in the non-performing portfolio was observed in the portfolio of foreign currency denominated mortgage loans (23.4 %). HUF denominated housing loans have a much lower NPL rate, at 8.4%, and HUF denominated home equity loans have also "only" 11.4% NPL ratio in Q4 of 2013. The high NPL ratio of foreign currency denominated mortgage loans is maybe the biggest obstacle to the improvement of the mortgage market in Hungary. One of the ongoing programmes intends to help mortgage borrowers with FX currency exposure with the so called "Exchange Rate Cap Scheme". The programme helps borrowers to cover themselves against future exchange rate risks for their future mortgage instalments. At the end of 2013, 38% of the total FX mortgage loan portfolio participated in the programme (one third based on number of contracts). Although eligibility was extended to defaulted debtors and debtors with original loan size over 20 million HUF, this had no perceivable effect.

The establishment of the National Asset Management Agency (NAMA) was also aimed at helping borrowers that were unable to pay their FX mortgage instalments. The programme has accelerated in 2013 but the budget allocated for the programme would allow the buying of approximately 25,000 properties, so even if it is a good programme, it alone can probably not solve the problem of the mortgage debtors indebted in foreign currency.

Mortgage Funding

Covered bonds are a common form of mortgage finance in Hungary. The legal act No. XXX that was introduced for Mortgage Banks and Mortgage Bonds in 1997 significantly helped to establish the covered bond market and provided support to mortgage lending activity. Covered bonds were the main source of funding for HUF-denominated mortgage loans until 2005. Due to the increase in foreign-denominated mortgage lending (EUR and mainly CHF) from 2006 onwards, the proportion of covered bonds for mortgage lending started to decline, but covered bond finance to total mortgage loan portfolio still stood at 22% at the end of 2013.

The overall covered bond volume (both HUF-denominated and foreign currency-denominated) at the end of 2013 amounted to 1,192 billion HUF (around 4 billion EUR). Its volume decreased by about 19% compared to the end of 2012. Mortgage bonds were issued in 2013 for a volume of about 550 million EUR.

Mortgage backed securities are not used for mortgage funding in Hungary.

Given the increased importance of foreign-denominated mortgage loans over the years, the importance of deposit funding or cost-effective foreign funds from parent banks (in the case of foreign-owned banks) was quite significant before the onset of the crisis, but this growing trend came to a halt in 2009.

The loan-to-deposit ratio of the banking sector in Hungary peaked at its maximum around 160% in January 2009. As a result of the financial crisis and due to the deleveraging efforts made by households and the government, it decreased to around 106% by the end of 2013.

	Hungary 2012	Hungary 2013	EU 28 2013
Real GDP growth (%) (1)	-1.7	1.1	0.1
Unemployment Rate (LSF), annual average (%) (1)	10.9	10.2	10.8
HICP inflation (%) (1)	5.7	1.7	1.5
Outstanding Residential Loans (mn EUR) (2)	19,985	18,499	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	2,453	2,269	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	35.0	32.2	76.2*
Gross residential lending, annual growth (%) (2)	4.6	-48.2	n/a
Typical mortgage rate, annual average (%) (2)	12.7	9.6	n/a
Owner occupation rate (%) (2)	90.5	89.6	70.0
Nominal house price growth (%) (2)	-3.0	-6.1	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Ireland

By Anthony O'Brien, Banking & Payments Federation Ireland

Macroeconomic Overview

Ireland successfully completed the European Union (EU) and International Monetary Fund (IMF) financial assistance and economic adjustment programme in December 2013.

"Owing to steadfast policy implementation by the authorities, the EU-IMF supported programme has been completed successfully", reported the IMF following its final review in December 2013. "Ireland has pulled back from an exceptionally deep banking crisis, significantly improved its fiscal position, and regained its access to the international financial markets. Growth, though slower than initially projected, has exceeded the euro area average. Key policy actions have included necessary bank support, restructuring and downsizing, improvements in bank supervision and regulation, fiscal consolidation measures totalling some 8% of GDP and improvements in the institutional framework for fiscal policy. These and other efforts leave Ireland in a much strengthened position and a range of economic indicators suggest a recovery is emerging in the second half of 2013."

Gross Domestic Product grew by 0.2% in 2013 as exports grew faster than imports and government expenditure increased from 2012. However, personal consumption and capital formation both contracted.

"The general government deficit narrowed by over one percentage point of GDP in 2013 to 7.2% of GDP, within the 7.5% limit set under the Excessive Deficit Procedure (EDP)," reported the European Commission (EC) and the European Central Bank (ECB) in May 2014. "In 2013, revenue over-performed compared to plans while overall expenditure was on track; overruns in the health sector were offset by savings in other areas. The 2014 general government deficit is on track to stay within the 5.1% EDP ceiling."

Personal consumption expenditure and domestic demand are expected to grow in 2014. "Early indications on the labour market, retail sales and consumer sentiment indicate a continuation of the broadly positive trends from the second half of 2013 into the first few months of 2014," reported the Central Bank of Ireland in April 2014. "We expect these improving prospects to be reflected in consumer spending this year."

The standardised unemployment rate continued to decline throughout 2013, ending the year at 13.1%, down from 14.2% a year earlier. The three-month moving average ESRI/KBC Bank Consumer Sentiment Index improved each month from April 2013 onwards and by April 2014 had reached its highest level since March 2007. The seasonally adjusted volume of retail sales grew by 0.8% in 2013, although the value of sales fell by 0.1%, pointing to price pressures.

The Consumer Price Index grew by 0.5% in 2013, down from 1.7% in 2012. The largest increases were recorded for Alcoholic Beverages & Tobacco (up 5.2%) and Education (up 4.6%). The largest decreases were recorded for Communications (down 3.7%), Furnishings, Household Equipment & Routine Household Maintenance (down 3.5%) and Clothing & Footwear (down 3.0%). Mortgage interest repayments fell on average by 7.1% compared to a drop of 8.4% in 2012.

The EU Harmonised Index of Consumer Prices showed the 12-month average rate inflation in Ireland for 2013 (0.5%) was well below that of other European economies with the euro area experiencing inflation of 1.4% and the European Union that of 1.5%. This trend has enhanced Ireland's competitiveness relative to other European jurisdictions.

Housing and Mortgage Markets

The housing and mortgage markets experienced another challenging and volatile year. However, while signs of stability appeared in 2012, evidence of recovery emerged in 2013.

Despite ongoing fiscal re-balancing measures, such as expenditure cuts and changes to the tax system, consumer sentiment began to improve and demand for housing and housing loans grew.

There were some 27,500 residential property transactions in 2013, up 10% on 2012, according to the *BPFI Housing Market Monitor* and based on a comparison with properties listed for sale. Growth was spread throughout the country. Dublin accounted for 35% of transactions in 2013 but sales grew by less than 9%. Other Irish cities (Cork, Galway, Limerick and Waterford) accounted for 10% of sales. Transactions in the western and northern counties of Connacht-Ulster (excluding Galway City) grew by 17% to represent 13% of transactions.

Residential property prices, based on transactions funded through mortgages, began to rise in 2013 as demand and activity rose, driven by a sharp rise is Dublin property prices – the first year-on-year growth since January 2008. At the end of December 2013, the national average was up by 6.4% year-on-year, with Dublin prices up 15.7%. While prices outside Dublin began to rise on a month-on-month and quarter-on-quarter basis, the first year-on-year rise only emerged in January 2014.

The divergent trends between Dublin and the rest of the country are also evident from the rental market. Rents began to rise on a year-on-year basis in 2013, driven mainly by increases in Dublin, according to the PRTB Rent Index. In Q4 2013, rents were up by 3.3% year-on-year nationally and by 7.6% in Dublin. Rents for apartments rose by 5.2% compared with 1.6% for houses.

The uplift in demand has not however been matched by increases in the supply of property. The total number of new dwellings completed during 2013 fell by 2% to about 8,300. Growth was driven by activity in urban areas with completions in Dublin, other cities and the rest of Leinster growing by 7%, 20% and 2% respectively.

Similarly, the number of commencements in Dublin effectively doubled to 1,451 in 2013, while commencements for the rest of the country fell slightly to 3,257.

In its Construction 2020 strategy for the construction sector, the government notes that in "recent years in Ireland there has been little connection between the construction and supply of houses and any measured, sustainable level of demand […] we continue to have an over-supply of homes in many part of the country – including some houses that will never be occupied or sold – coupled with rising prices and rent levels in key urban arrears especially in parts of Dublin, evidence of a growing and significant under-supply."

This apparent mismatch between supply and demand seems to have had an impact on the mortgage market where strong growth in mortgage approvals by lenders has not consistently flowed through to drawdowns by customers.

The expiry of tax relief on mortgage interest at the end of 2012 provided a short-term fillip to the mortgage market but in practice significant volumes that would have taken place in Q1 2013 were brought forward by customers to Q4 2012. All tax reliefs on mortgage interest for current property owners will expire at the end of 2017.

As a result, Q1 2013 was exceptionally weak in terms of mortgage drawdowns and by year-end, mortgage drawdown volumes were 6% lower than in 2012, at 14,985, with mortgages for house purchase down 5%, at about 13,500. First-time buyers (FTBs) benefitted significantly more from mortgage interest relief than other buyers, a fact evident from divergent trends after the relief was withdrawn. While FTB volumes fell by 13% year-on-year in 2013, mover purchaser (returning buyer) and residential investment volumes grew by 9% and 1% respectively.

By contrast, the number of approvals for house purchase rose by 4% in 2013 to 18,520. Approvals for house purchase increased by 6%, with 17,058 mortgage approvals for house purchase during the year.

In terms of net lending, the trend of household deleveraging continued with the total amount of residential mortgage debt outstanding, including securitisations, declining from about 131 billion EUR in December 2011 to about 123 billion EUR at the end of 2013. The contraction in net lending (after repayments and other adjustments) continued in 2013, with net lending down by 3% in the year ended December 2013. More than half (53%) of the value of personal mortgages outstanding was on tracker rates linked to the ECB base rate, while a further 40% was on variable rates.

Other factors affecting the mortgage and residential property markets in 2013 included the introduction of the local property tax, payable by owners of residential properties, including rental properties, and based on the market value of the property as assessed by the owner, the development of a tax framework for real estate investment trust (REIT) companies, with the aim of developing a new source of capital for the rental investment market. Two REITs were launched in 2013, both of which were mainly focussed on commercial property.

In line with the improving economic environment and lender efforts to agree sustainable solutions for mortgage customers in difficulty, the number of mortgage accounts for principal dwelling houses (PDH) in arrears of more than 90 days fell to 12.6% in Q4 2013, the first such decrease since the series began in September 2009. Some 21.1% of buy-to-let (BTL) mortgages were in arrears of more than 90 days.

Mortgage lenders are active in assisting borrowers who experience repayment difficulties which is demonstrated by the fact that 11% of PDH mortgages and 15% of BTL mortgages had been restructured by the end of 2013. Some 79.3% of PDH restructures and 76.2% of BTL restructures were meeting the terms of the arrangement. The nature of restructures shifted throughout 2013 from interest-only and reduced payments arrangements, to arrears capitalisation, term extension and split mortgage arrangements.

The number of repossessions remained low by international standards with 766 repossessions in 2013. Two-thirds were voluntarily surrendered or abandoned, while the remainder were repossessed on foot of a court order. However, the IMF and the EC have expressed concern at the length, predictability and cost of repossession proceedings and the capacity of the courts system to deal with the expected increase in legal proceedings as banks seek to meet CBI targets for mortgage arrears resolution.

The CBI also announced a pilot scheme for the restructuring of secured and unsecured debt.

The Insolvency Service of Ireland (ISI) was established in March 2013 and began accepting applications in September 2013. The service offers three debt resolution processes: Debt Relief Notice (DRN) for debts of up to 20,000 EUR, subject to a three-year supervision period, for people with limited assets and income; Debt Settlement Arrangement (DSA) for the resolution of unsecured debts over a period of five years; and Personal Insolvency Arrangement (PIA) for the agreed settlement of secured debt of up to 3 million EUR and unsecured debt over a period of six years.

New bankruptcy legislation reduced the bankruptcy term from 12 year to three years from December 2013 and the Office of the Official Assignee in Bankruptcy was transferred from the Courts Service to the ISI.

Mortgage Funding

IBRC, the state-owned entity formed through the merger of Anglo Irish Bank and the Irish Nationwide Building Society, was liquidated in February 2014. The CBI became the economic owner of the Promissory Notes held by IBRC and the remaining assets will be sold or passed on to the National Asset management Agency (NAMA).

Mortgage funding conditions improved significantly for Irish lenders in 2013.

The Eligible Liabilities Guarantee Scheme ended for new liabilities on 28 March 2013. Banks operating in Ireland (including both Irish-owned and foreign banks) continued to reduce their level of borrowing from the ECB. Total utilisation of ECB facilities by banks declined by about 48% year-on-year to 36.8 billion EUR.

Some 39.3 billion EUR in mortgages outstanding were securitised at the end of 2013, down from 41.8 billion EUR a year earlier, according to the Central Bank of Ireland. In 2013, banks in Ireland issued 1 billion EUR in residential mortgage-backed securities (RMBS), according to AFME.

Deposit levels were broadly stable during 2013. Household deposits were down by 1% year-on-year at the end of December, while non-financial corporation deposits were up 10.4%. Consolidated deposits (from Irish and international operations) in Irish-owned banks fell by about 1 billion EUR during 2013 to 155 billion EUR, according to the Department of Finance.

NAMA, which was established in 2009 to acquire loans linked to land and development from a number of Irish-owned lenders, aims to have redeemed half of its senior debt bonds (15 billion EUR), which were issued to acquire the original loans, by the end of 2014. It had redeemed 7.5 billion EUR by the end of 2013. It has also committed to delivering 4,500 residential units in Dublin by the end of 2016 and to making 2.5 billion EUR in development funding available in Ireland by the end of 201.

Source: European Mortgage Federation, Eurostat, ECB, Central Bank of Ireland, Central Statistics Office, Department of the Environment, Community and Local Government, European Securitisation Forum, BPFI/PwC Mortgage Market Profile, BPFI Mortgage Approvals Report, *BPFI Housing Market Monitor*, DAFT.ie.

	Ireland 2012	Ireland 2013	EU 28 2013
Real GDP growth (%) (3)	-0.3	0.2	0.1
Unemployment Rate (LSF), annual average (%) (1)	14.7	13.1	10.8
HICP inflation (%) (1)	1.9	0.5	1.5
Outstanding Residential Loans (mn EUR) (2)**	97,462	94,862	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	28,474	27,787	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	115.2	110.2	76.2*
Gross residential lending, annual growth (%) (2)	7.0	-5.4	n/a
Typical mortgage rate, annual average (%) (2)	3.2	3.4	n/a
Owner occupation rate (%) (2)	69.6	n/a	70.0
Nominal house price growth (%) (2)	-11.5	2.1	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

*** Please note that this figure excludes "buy-to-let" mortgage loans.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

(3) Irish Central Statistics Office

Italy

By Marco Marino, Associazione Bancaria Italiana

Macroeconomic Overview

In 2013, GDP fell by -1.9% compared to 2012 (-2.4% in 2012). The contraction of the Italian economy has gradually mitigated during the year and it was mainly as a result of domestic demand, which has provided a negative contribution to real GDP, equal to -2.7% (from -5.1% in 2012).

Private consumption contracted y-o-y by 2.6% and contributed to GDP performance by -1.6%. Public consumption contracted y-o-y by 0.8%, with a contribution to GDP equal to -0.2%. Gross fixed capital formation, whose negative contribution to growth was equal to 0.8%, contracted by 4.7% y-o-y (-8.0% in 2012). Finally, changes in inventories and net exports remained essentially stable, but while the former partially affected GDP negative performance (-0.1%), the latter was the only positive contributor to real GDP (+0.8%).

The crisis has had a heavy impact on the number of people in employment and hence on household income. In 2013, the labour market continued to deteriorate. The unemployment rate reached 12.2%, up from 10.7% in 2012. The employment rate fell to 55.6% (56.8% in 2012). In 2013, the number of employed residents has decreased by 2.1%.

In December 2013, the Italian industrial production index (seasonally adjusted) decreased y-o-y by 0.7%. The information available for 2014 shows that in April, industrial production increased y-o-y by 1.6%. This is the highest annual increase since August 2011.

In 2013, the consumer price index increased y-o-y by 0.7%; the average annual growth rate is equal to 1.3% (3.3% in 2012). The inflation index was 1.2% (compared to 3.0% of 2012), and the industrial producer price index on domestic market signed a decrease equal to -1.3% (compared to 3.6% in 2012).

With reference to public finance, Government deficit remained stable, at 3% of GDP, while the Government primary balance was positive and amounted to 2.2%, with a contraction of 0.3% compared to 2012.

Housing and Mortgage Markets

In 2013, the Italian construction market declined y-o-y by 6.9% in terms of new investments. The contraction involved all sectors, from the construction of new residential buildings (-18.4%), to private non-residential construction (-9.1%), and public works (-9.3%). Only the renovation of residential buildings showed an increase of 2.6% in comparison with the previous year.

In this context, the number of building permits issued for the construction of new homes continued to decrease, from 121,299 in 2011 to approximately 92,800 estimated for 2012, with a reduction of 23% in relation to 2011.

The crisis of the Italian real estate market shows some signs of slowing down.

The housing transactions amounted to 406,928 at the end of 2013, with a reduction of about 9.2% compared to 2012. However, quarterly analyses show signs of improvement: the transactions decreased q-o-q by 8% in Q4 2013, from -14% in Q1 2013.

The analysis of sales transactions for macro geographical areas (centre, north, south, islands) shows that the central area – which represents 20.7% of Italian transactions – marked a high decrease, equal to -10.3%, as well as the islands (-10.8%). In the north-west area, the transactions declined by 8.8% compared to 2012, in the north-east, by 7.5% and in the south by 9.8%. Moreover, in the major cities the contraction is lower than the national trend (-6.7%).

The value of transactions decreased by 10.8%. The reduction involved all Italian regions: in the northern regions, the value decreased by around 10%, in the centre and in the islands, by 12%, while in the south by about 13%.

With reference to the evolution of market prices of all residential properties that are purchased by households, both new and existing, in 2013 the Italian Index decreased y-o-y by 5.5%. More in detail, prices of new dwellings decreased by 2.4% compared to 2012 while prices for existing dwellings by 7.1%.

In 2013, the uncertainty about the economic recovery did not encourage the mortgages development for housing purchase.

At the end of the year, the volume of residential loans outstanding amounted to 361,390 million EUR, and it remained stable in relation to 2012 (-0.8%).

In terms of new lending, new mortgage activity for house purchase continued to decrease, but to lower rates compared to 2012. Gross residential lending for house purchase amounted approximately to 26 billion EUR, and decreased by 9% y-o-y (in 2012 the y-o-y contraction was equal to about -44%).

The performance of the mortgage market also continued to be influenced by the negative dynamics of domestic demand and by a contraction in housing transactions. In addition, many investment decisions of households have been postponed, due to the deterioration of the labour market and of disposable income. Finally, the increase of the tax burden on real estate during 2012, mainly represented by the reintroduction of a wealth tax on real estate property (called "IMU" – the Italian acronym for "Unified Municipal Tax"), did not encourage the market's development. In this respect, at the end of 2013, the Stability Law 2014 (Law n. 147/2013) established IMU does not apply to the "principal" house, but continues to apply to other properties, including second homes.

With reference to the average LTV on new loans, in 2013 it was about 67.3%, down from 69% in 2012. Interest rates on short-term loans (with maturity less than one year) fell to 3.2%, from 3.4% at year-end 2012 while the 10-year fixed rate remained stable at 3.7%. In 2013, the average interest rate on new residential mortgage loans decreased to 3.9% (-31 bps). Also, average mortgage loans continued to decrease to around 122,000 EUR (from 126,000 EUR in 2012). On average, the maturity of mortgages was equal to 23 years in 2013.

In the first months of 2014, the mortgage market showed distinct signs of recovery; in March of 2014 – despite a context characterised by a reduction in transactions – new loans for house purchase (with reference to 88 banks) recorded an increase of about 20% compared to the same period of 2013.

The risk indicators remained essentially stable. In September 2013 (latest data available) the serious arrears (three-to-five-months) was stable at the same level as 2012, equal to 1.3%; the low arrears (one-to-two months) rose to 1.9%, from 1.8% of 2012. The loan insolvency rate (more than six unpaid instalments) increased y-o-y from 3% to 3.5%. The default remained stable at 2%.

In March 2013, the "Household Plan" ended. This initiative, launched in 2009 by the Italian Banking Association (ABI) together with Consumers' Associations, allowed households to suspend the payment of the mortgage instalments for 12 months in case of unemployment, reduction of working hours, death or serious illness. The moratorium has involved the suspension of more than 98,000 loans, equal approximately to 10.9 billion EUR in outstanding debt, providing more than 680 million EUR to families in term of liquidity.

In this regard, at the end of moratorium, ABI and Consumers' Associations promoted a change of Law n. 244/2007 to resume the "Solidarity Fund for the first house purchase" in order to allow families to suspend the payment of the mortgage instalments for a maximum period of 18 months in case of unemployment, death or serious illness.

The Fund is managed by State Agency (Consap Spa). Consap will refund the Euribor or EurIRS parameter to the bank meanwhile the household will repay only the difference among the final rate and the parameter for the residual period of amortisation.

Mortgage Funding

In 2013, the funding environment continued to be affected by tensions in the sovereign debt crisis. The difficulty for Italian banks to obtain medium- and long-term funding did not encourage mortgage market development.

At the end of 2013, deposits in Euros of all Italian banks, comprised of resident customer deposits and bonds, decreased y-o-y by 1.8% (+1.6% in December 2012), to about 3.3 billion EUR.

A focus on the various components shows that resident customer deposits grew by 1.9%, while bank bonds decreased by 9.4% (about 2 billion EUR).

The Italian covered bond market has continued to grow. In 2013, Covered bonds issued amounted to around 28.7 billion EUR, while the volume outstanding accounted for more than 131 billion EUR.

With reference to the securitisation market, in 2013 the volume of ABS issues amounted to 51.6 billion EUR.

	Italy 2012	Italy 2013	EU 28 2013
Real GDP growth (%) (1)	-2.4	-1.9	0.1
Unemployment Rate (LSF), annual average (%) (1)	10.7	12.2	10.8
HICP inflation (%) (1)	3.3	1.3	1.5
Outstanding Residential Loans (mn EUR) (2)	365,588	361,390	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	7,401	7,277	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	33.9	33.5	76.2*
Gross residential lending, annual growth (%) (2)	-44.8	-11.4	n/a
Typical mortgage rate, annual average (%) (2)	4.0	3.7	n/a
Owner occupation rate (%) (2)	74.1	73.0	70.0
Nominal house price growth (%) (2)	-2.9	-5.5	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Latvia

By Laura Laube, Latvijas Banka

Macroeconomic Overview

In 2013, Latvia experienced the fastest growth among EU countries for the second consecutive year, when the real GDP grew by 4.1%. Supported by growing disposable income, private consumption increased by 5.4%, thus becoming the main driver of GDP growth in 2013. The rise in disposable income differs from the pre-crisis period, as it is associated with increased productivity and is therefore sustainable. Although many exports, including the largest product groups – wood and wood products, foodstuffs, and machinery grew and Latvia's competitiveness remained strong, weak foreign demand led to a slower real goods and services export growth of 1.0% in 2013. The contribution of net exports to GDP growth was lower than that of private consumption. As a consequence of external uncertainty, completion of some major investment projects, and the stalling attitude towards the introduction of the euro, fixed capital formation experienced an annual decrease in 2013.

Growth in disposable income was led by a gradual improvement in the labour market. Unemployment stood at 11.9% of the economically active population at the end of 2013, which was a 3.1 percentage point drop from the previous year, while average wages grew as well. The unemployment rate had not only reached its long-term average but also dropped below the euro area average. The employment growth of 2.0% was determined by the private sector, which indicates that the growth is sustainable.

Consumer prices were unusually low for a growing economy (an average inflation of 0% in 2013) and were mostly determined by external and supply-side factors.

In 2013, the government balance continued to shrink, reaching 1.0% of GDP, while public debt decreased to 38.1% of GDP. Decreasing imports and growing trade surplus of the services sector also allowed the current account deficit to lower to 0.8% of GDP.

Housing and Mortgage Markets

In line with the stable economic growth and overall improvement of households financial situations, activity in the Latvian real estate market continued to grow. In 2013 the total number of purchase contracts increased by 11.7%. Moreover, in the capital city Riga, the increase was 16.8%.

The number of new housing completions increased by 5.5% in 2013 compared to 2012. Building permits issued for housing construction increased overall by 4.7%, of which permits for new projects increased by 6.5%.

Residential house prices increased both due to higher activity and interest in purchasing a property from residents, as well as impact from non-residents. On average, the house price index increased by 6.9% in 2013 compared to 2012, while the house price index for new dwellings on average grew by 4.5%. The development of prices for recently built and renovated apartments was largely driven by higher non-resident activity, due to the possibility to obtain a temporary residence permit if an investment in real estate is made. The number of purchase contracts made by non-residents in 2013 grew by 43.9% compared to 2012; however, they only have an impact on a specific part of the real estate market, namely the upper-class segment, since the share of non-resident transactions in total number of real estate transactions in Latvia was 6.8% at the end of 2013. Meanwhile, the demand for older standard apartments also continued to recover, and consequently, average prices were increasing gradually.

An important part in the real estate market in 2013 was played by the affiliated companies of credit institutions that engage in real estate management. In contrast with previous years, these companies stopped taking the properties over, and started more actively to sell real estate owned, often offering better lending terms.

The accessibility of standard apartments improved due to higher real income and low interest rates. The fourth quarter of 2013 saw both the average time needed to accrue the down payment amount and the monthly loan payment amount to average wage go down.

The developments in the housing rental market also speak in favour of improvements in households' financial situation in 2013. The high demand for quality apartments for rent, particularly in new housing projects where there was a lack of adequate supply, gave the opportunity to raise rent levels. The rent index increased by 4.5% at the end of 2013 compared to end-2012.

The outstanding amount of mortgage loans to resident non-financial corporations and households continued to decrease as new lending is still weak. The outstanding amount of mortgage loans to residents at the end of 2013 was 7.4 billion EUR, and decreased by 7.0%[1] compared to 2012. Meanwhile, housing loans to households decreased by 5.1% and amounted to 5.1 billion EUR, or 21.7% of GDP. Amid the environment of low interest rates, effective interest rates on EUR-denominated housing loans decreased to an average of 3.53% in 2013 (3.66% in 2012).

Mortgage Funding

Credit institutions in Latvia obtain funding mostly from depositors and funds obtained from parent banks. The importance of domestic deposits as a source of financing has been increasing for the past few years, and the share of domestic deposits reached 35.2% (up from 31.5% a year before) of the total banks' liabilities by end-2013, while the share of liabilities to foreign MFIs decreased to 14.3% (down from 19.3% a year before). In 2013 there were no mortgage covered bonds issued by Latvian MFIs.

	Latvia 2012	Latvia 2013	EU 28 2013
Real GDP growth (%) (1)	5.2	4.1	0.1
Unemployment Rate (LSF), annual average (%) (1)	15.0	11.9	10.8
HICP inflation (%) (1)	2.3	0.0	1.5
Outstanding Residential Loans (mn EUR) (2)	5,373	5,062	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	3,173	3,019	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	40.1	35.4	76.2*
Gross residential lending, annual growth (%) (2)	n/a	n/a	n/a
Typical mortgage rate, annual average (%) (2)	3.9	3.3	n/a
Owner occupation rate (%) (2)	81.5	81.2	70.0
Nominal house price growth (%) (2)	2.5	6.9	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

[1] Decrease in amount of loans outstanding was magnified by revocation of banking licence for one credit institution.

Lithuania

By Jonas Grincius, Banka Citadele[1]

Macroeconomic Overview

Lithuania's economy continued to grow in 2013, although the pace has been dropping from the peak in 2011. In 2013, GDP grew by 3.3%, after growing 3.7% in 2012 and 5.6% in 2011. For 2014-2015, a GDP growth of 4.0-4.5% is forecast, with a positive influence from the planned introduction of the euro on 1 January 2015 and negative pressures related to the exposure to the unpredictable eastern European markets. The growth in 2013 was fuelled by the same factors as in the previous years – growth of exports (17.1%, 14.5% in 2012), retail turnover growth (4.5%) and construction growth, in particular for residential units (4.3%).

Unemployment continued to decrease in 2013 and, at the end of the year, was 11.3%, a noticeable drop from 13% in 2012. Gross wages have increased by 6.3% in 2013 compared to 2012. Annual inflation decreased to almost one third of 2012 levels in 2013, at 1.2% (3.2% in 2012). In 2014, it is expected to be around 1.6%.

The Lithuanian currency, the litas (LTL) remains pegged to euro. Lithuania will adopt the euro in 2015.

Housing and Mortgage Markets

Homeownership rates in Lithuania continue to be amongst the highest in the European Union, above 90%, the reason being the relatively easy privatisation of housing stock following Lithuania's regained independence in 1990. In 2013, there was more optimism in the housing market, and this can be seen in most of the indicators. The majority of residential construction took place in the capital city of Vilnius, although other cities have also registered some smaller signs of revival. 1,330 apartments in 22 different building projects have been constructed in Vilnius in 2013. On the demand side, in the whole country, residential property transactions for apartments increased by 25% and by 10% for houses. The same two indicators in the capital city recorded a 32% increase for apartment sales and 30% for houses, reiterating the previous point that the majority of the activity is concentrated in Vilnius. Property prices also took advantage of increased demand and in 2013 increased by 2.8% after a 1.4% decrease in 2012. The price of new constructions increased by about 3% in 2013.

According to the Bank of Lithuania's statistical information, the outstanding amount of residential mortgage loans decreased only slightly in 2013, by 3%, from 5,811 million EUR in 2012 to 5,652 million EUR in 2013. New loan issuance remained at the same level in 2013 as in 2012 – 856 million EUR. Interest rates have dropped by about 50 bps for both LTL and EUR denominated loans; in December of 2013 the average mortgage loan issued in LTL was priced at 2.75%, and 2.51% in EUR. Around 33% of all the mortgage loans were issued in LTL and the rest were denominated in EUR.

In 2012, the Bank of Lithuania has introduced Responsible Lending Guidelines for all the banks setting a maximum Debt-to-Income (DTI) ratio of 40% and a Loan-to-Value ratio of 85%. This did slow down the new loan issuance as previously DTI was subsideised by a flat amount per borrower, and LTVs were as high as 100%. As seen from housing and mortgage market data, despite the growth in residential supply/demand, mortgage loans did not grow at the same pace, the reasons being the aforementioned DTI and LTV limits, and increased use of savings for the equity part of the mortgage.

Mortgage Funding

In 2013, as in previous years, deposit financed lending remained the primary source of mortgage funding. The competitive landscape is dominated SEB, Swedbank, DNB and Danske Bank (mentioned in the order of their mortgage market share). Together these four banks comprise 97% of the mortgage market and since all of them have strong parent banks, they are in a good position to provide relatively cheap mortgage funding in Lithuania based on local deposits and parent funding. The current economic landscape, especially the total size of the market and the prevailing rates, precludes banks from the use of innovative mortgage funding instruments such as securitisation or covered bonds. It is likely that the adoption of the euro in 2015 may change these attitudes.

	Lithuania 2012	Lithuania 2013	EU 28 2013
Real GDP growth (%) (1)	3.7	3.3	0.1
Unemployment Rate (LSF), annual average (%) (1)	13.4	11.8	10.8
HICP inflation (%) (1)	3.2	1.2	1.5
Outstanding Residential Loans (mn EUR) (2)	5,811	5,652	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	2,374	2,328	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	27.7	n/a	76.2*
Gross residential lending, annual growth (%) (2)	-2.3	0.1	n/a
Typical mortgage rate, annual average (%) (2)	3.0	2.4	n/a
Owner occupation rate (%) (2)	91.9	92.2	70.0
Nominal house price growth (%) (2)	-0.2	1.2	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

[1] The views expressed in this article are those of the author alone, and should not be interpreted as representing the views and/or positions of Banka Citadele.

Luxembourg

By Lorenzo Isgrò, European Mortgage Federation – European Covered Bond Council

Macroeconomic Overview[1]

Luxembourg performed relatively well in 2013 compared to other countries in the EU. As a matter of fact, its GDP growth rate was the highest in Western Europe, with a notable improvement compared to the previous year: real GDP growth reached 2.1% in 2013, up from -0.2% in 2012. The positive trend observed was mainly due to a sharp increase in net exports. Moreover, growth in public and private expenditure remained stable and positive in 2013, further contributing to net GDP growth. However, both inventories and investments fell in 2013, despite a growth in the latter in 2012. Despite this GDP growth, unutilised capacity is still considerably high. Notably, the financial sector, which is a key driver of the Luxembourgish economy, is adapting quite quickly to the new regulatory environment, though growth potential in this sector may not be as great as during previous years. Other sectors of the economy, such as construction and manufacturing, as well as business confidence, are improving.

Luxembourg has one of the lowest unemployment rates in the EU (after Austria and Germany), and in 2013 this stood at 5.9%. However, this rate represents an increase of 0.8 percentage points compared to 2012. This rise in unemployment was mainly driven by job cuts in the construction and industrial sectors. Nonetheless, the situation is expected to improve in the coming years, together with the general economic situation. HICP inflation fell substantially from 2.9% in 2012 to 1.7% in 2013, following developments in energy prices, as well as general trends observed in the euro area as a whole. Nevertheless, inflation in Luxembourg is still significantly higher than in the EU on average, and especially the euro area, where inflation fell below the ECB target level in 2013. Fiscally, Luxembourg recorded a slight surplus in 2013 of about 0.1% of GDP, a trend which is, however, expected to be reversed in the coming years. The positive fiscal position was influenced by revenues from e-commerce VAT-related activities and the implementation of some fiscal consolidation measures, which have not, however, curbed the expected growth of public expenditure.

	Luxembourg 2012	Luxembourg 2013	EU 28 2013
Real GDP growth (%) (1)	-0.2	2.1	0.1
Unemployment Rate (LSF), annual average (%) (1)	5.1	5.9	10.8
HICP inflation (%) (1)	2.9	1.7	1.5
Outstanding Residential Loans (mn EUR) (2)	21,715	23,389	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	52,227	54,839	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	127.4	n/a	76.2*
Gross residential lending, annual growth (%) (2)	n/a	n/a	n/a
Typical mortgage rate, annual average (%) (2)	2.1	2.0	n/a
Owner occupation rate (%) (2)	70.8	n/a	70.0
Nominal house price growth (%) (2)	4.1	5.2	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Housing and Mortgage Markets[2]

Outstanding mortgage loans in Luxembourg rose by almost 8% year-on-year, the largest growth in the EU (after Slovakia). This is partly due to the small size of the Luxembourgish market compared with other EU countries (the same nominal change corresponds to a much greater proportional change), but it also reflects the improving economic situation and a well-performing housing market. Compared to 2012, the net residential loans issuance in Luxembourg rose by 15%, in stark contrast with an EU total contraction of over 100% (there was a net decrease in outstanding mortgage loans in the EU in 2013, if calculated in euros).

Mortgage interest rates have continued to fall (in line with the general trend) for the third consecutive year, remaining among the lowest in Europe. As the Luxembourgish market for mortgage loans is dominated by variable rate loans (70.5% of new loans at end 2013), borrowers are very sensitive to interest rate changes, hence why cuts in policy rates (such as the ECB rate cuts that took place in 2013) have large impacts on borrowing volumes, and ultimately house prices.

With this in mind, it is unsurprising that house prices in Luxembourg have continued to rise for the fourth consecutive year. The year-on-year rise in house prices was over 5%: one of the highest rates of increase in Europe in 2013. The house price level is now roughly 20% higher than in 2009. This rise was driven by increases in prices for new apartments, which rose by more than 7% over the year, while the price of second hand apartments increased by just over 2.5%. Other driving factors for the observed price developments may have been a restricted housing supply on the one hand: there was a 13% fall in building permits issued for housing dwellings in 2013, and sustained demand for housing on the other: the number of transactions in new and second-hand dwellings remained unchanged from 2012, despite the limited supply, which is also reflected by construction output 4-5% lower than in 2012.

[1] *Source:* European Commission (DG-ECFIN) Spring 2014 Economic forecast for Luxembourg *http://ec.europa.eu/economy_finance/eu/forecasts/2014_spring/lu_en.pdf.*

[2] *Source:* Global Property Guide – Luxembourg *http://www.globalpropertyguide.com/Europe/Luxembourg/Price-History.*

Malta

By Peter Sant, Bank of Valletta

Macroeconomic Overview

Gross Domestic Product (GDP) continued to grow at a sustained pace in 2013, driven by domestic demand, and is expected to rise slightly in 2014, to 3%. This resulted in a growth rate of 2.9% in real terms. The services sector extended its positive performance, whereas manufacturing output continued to drop. At the same time, the labour market improved. Employment growth was solid, while the unemployment rate as measured through the Labour Force Survey remained largely stable. The General Government deficit for 2013 stood at 203 million EUR, or 2.8% of GDP. The gross consolidated debt amounted to 5.24 billion EUR, or 73% of GDP. On the economic front, the European Commission has set out the following Country Specific Recommendations for the Maltese authorities:

- Correct the excessive deficit in a sustainable manner by 2014. In 2015, significantly strengthen the budgetary strategy to ensure the required structural adjustment of 0.6% of GDP towards the medium-term objective. Thereafter, pursue a structural adjustment of at least 0.5% of GDP each year, and more in good economic conditions or if needed to ensure that the debt rule is met in order to keep the general government debt ratio on a sustained downward path.
- Step up the ongoing pension reform, notably by significantly accelerating the planned increase in the statutory retirement age and by consecutively linking it to changes in life expectancy. Ensure that a comprehensive reform of the public health system delivers a cost-effective and sustainable use of available resources, such as strengthening primary care.
- Continue policy efforts to address the labour market relevance of education and training and improve basic skills attainment by stepping up efforts on the overdue reform of the apprenticeship system.
- Diversify the energy mix in the economy, including by increasing the share of energy produced from renewable sources.
- Continue efforts to increase the efficiency and reduce the length of public procurement procedures; encourage alternatives to debt-financing of companies through facilitating access to capital markets and developing venture capital funds; and increase the efficiency of the judicial system by ensuring a timely and efficient implementation of the planned judicial reform.

Housing and Mortgage Markets

The Maltese real estate, rental and mortgage markets are registering an encouraging increase in activity, whilst the construction industry is facing a challenging restructuring period. The current sales of residential units to Maltese and foreigners are estimated at 1.25 billion EUR, of which 86% are purchased by Maltese residents, and 14% by foreigners. Out of the 1.25 billion EUR of property sales, it is estimated that 597 million EUR are settled through bank financing, i.e. mortgages. In other words, 41% of property sales in Malta are financed through banks.

The dwelling stock in Malta at the end of 2013 amounted to 223,850 of which 152,770 were primary residents and 29,848 were secondary residents / holiday homes. The amount of vacant property amounted to 41,282 or 18.4% of the total dwelling stock. 149,314 units of the dwelling stock are in very good condition, whilst 74,536 units need some kind of maintenance. In 2013, the Central Bank of Malta's Property Priced Index, based on advertised prices, increased to 3.7%. The number of commercial permits issued by Malta's Environment and Planning Agency (MEPA) was 1,540 whilst the number of dwelling permits decreased to 2,705 compared to the peak of 11,343 registered in 2007. The average interest rate on new mortgages charged was 3.05% whilst that on outstanding loan amounted to 3.86%.

The total amount of loans sanctioned for the purchase of property amounted to 190.2 million EUR. In contrast, a very strong deleveraging effect has been taking place within the construction industry; the total amount of outstanding loans to the industry decreased from 1,024 million EUR in 2012 to 894.7 million EUR in 2013, representing a reduction of 129.3 million EUR, or 12.6%. A number of residential complexes are being financed through corporate bond issues on the Malta Stock Exchange, and not through bank financing. Corporate bonds listed on the Malta Stock Exchange are not rated.

With negative confidence levels within the construction industry, a number of contractors indicated that they intended to reduce their workforce. Of the 152,770 primary residences, 76.45% are owned by the residents whilst the rest is rented out. According to the Maltese National Office of Statistics, the Maltese rental market has a housing stock of 56,296, 40,072 of which belong to the private sector, 14,770 of which are Government owned/ council housing and 1,454 of which belong to the Maltese church.

Mortgage Funding

The vast majority of mortgage loans originated by commercial banks are funded with deposits. In 2013, total resident customer deposits totalled 11.3 billion EUR, whilst the loan to deposit ratio was 75%.

	Malta 2012	Malta 2013	EU 28 2013
Real GDP growth (%) (1)	1.1	2.9	0.1
Unemployment Rate (LSF), annual average (%) (1)	6.3	6.4	10.8
HICP inflation (%) (1)	3.2	1.0	1.5
Outstanding Residential Loans (mn EUR) (2)	3,111	3,302	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	9,128	9,563	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	n/a	n/a	76.2*
Gross residential lending, annual growth (%) (2)	n/a	n/a	n/a
Typical mortgage rate, annual average (%) (2)	3.3	3.2	n/a
Owner occupation rate (%) (2)	81.8	80.3	70.0
Nominal house price growth (%) (2)	3.0	-1.1	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Netherlands

By Nico de Vries and Dimitry Fleming, ING Bank

Macroeconomic Overview

In 2013, Dutch GDP contracted by 0.8%, which was less than in 2012 (-1.2%). The contraction was largely the result of a weak start to the year. In the course of 2013, the economy exited recession as private investment started to recover. Driven by higher capacity utilisation rates and improved corporate profitability, businesses increased spending on new machines and vehicles. Investment in residential constructions (dwellings, offices) expanded too. While business investment picked up, household consumption declined further. Consumers remained worried about the labour market and real disposable household income fell for the sixth consecutive year. In early 2013, consumer confidence hit a record low.

The harmonised unemployment rate averaged 6.7% in 2013, up from 5.3% in 2012. Employment contracted by 1.4%, but most of the decline was in the first half of the year. Public sectors, such as the government and health, experienced the biggest job losses. Consumer price inflation was on average 2.6% in 2013, largely unchanged from the previous year. According to the latest data, in 2013, the government fiscal deficit declined significantly and ended up comfortably below the European threshold of -3%. Helped by one-off effects, the budget balance improved to -2.3% from -4.0% in 2012.

Housing and Mortgage Markets

In the first half of 2013 the effects were felt of the new legislation that entered into force on 1 January 2013. At the end of 2012, there was a spike in the mortgage production due to mortgage takers wanting to make use of the old legislation. Under the new legislation, new mortgages have to be repaid in full in 30 years and at least on an annuity basis in order to be eligible for tax relief. Consequently, the housing market dipped in Q1 2013. The same happened to consumer confidence, which reached an all-time low (measured since 1986) in February 2013, at -44. House prices also continued to drop in the first half of 2013 (-6.6%).

In the second half of 2013, the development of house prices stabilised. Consumer confidence improved considerably to end at -17 in December 2013, and the mortgage market picked up pace with a q-o-q increase of 21% in Q3 and 25% in Q4. Still, the overall y-o-y change remained negative in 2013 (-21%), but the situation is slowly improving.

Furthermore, the outstanding residential mortgage debt dropped for the first time in history, from 653 billion to 632 billion EUR, rewarding the effort of the Dutch government to stimulate the paying-off of mortgages.

All in all, the near future for the Dutch housing market looks promising, with:

- a recovering economy and consumer confidence;
- strong improvement in affordability as a result of historically low mortgage rates and lower house prices;
- no prospect of new legislation giving a sense that the government is not going to take new structural measures in the housing and mortgage market.

	Netherlands 2012	Netherlands 2013	EU 28 2013
Real GDP growth (%) (1)	-1.2	-0.8	0.1
Unemployment Rate (LSF), annual average (%) (1)	5.3	6.7	10.8
HICP inflation (%) (1)	2.8	2.6	1.5
Outstanding Residential Loans (mn EUR) (2)	652,725	632,223	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	49,286	47,478	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	226.1	217.5	76.2*
Gross residential lending, annual growth (%) (2)	-25.6	n/a	n/a
Typical mortgage rate, annual average (%) (2)	4.3	3.8	n/a
Owner occupation rate (%) (2)	67.5	67.4	70.0
Nominal house price growth (%) (2)	-6.5	-6.6	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Poland

By Agnieszka Nierodka, Polish Mortgage Credit Foundation

Macroeconomic Overview

According to the preliminary estimates, the increase in real gross domestic product (GDP) in 2013 was 1.6% (in comparison with 2.0% growth in the previous year). GDP growth resulted mainly from the positive impact of net exports and total consumption expenditure with almost a neutral impact of gross fixed capital formation. In terms of activity by sector, the fastest development was recorded in the industrial sector (added value growth of 2.9%).

According to these estimations, Polish GDP growth should recover to 2.5-2.8% in 2014. The unemployment rate in Poland (BAEL) amounted to 10.3% (as compared to 10.1% in 2012).

The annual average consumer price rose in 2013 by 0.8%, y-o-y. Inflation in Poland followed a strong downward trend in 2013: CPI in Q1 2013 was 1.3%, and 0.7% at the end of 2013. In December 2013, core inflation net of administered prices amounted to 0.3%, core inflation net of most volatile prices: 1.4%, core inflation net of food and energy prices: 1.0% (all y-o-y).

In 2013, Poland's budget revenues amounted to 279.2 billion PLN (decrease of 2.9% y-o-y in nominal terms), and expenditures amounted to 321.3 billion PLN (growth of 1.1%). The biggest input into revenues came from indirect taxes (around 62.8% of total revenues), whereas the most significant expenditure was domestic debt servicing (around 10.1% of total expenditures). General government deficit in 2013 stood at 4.3% of GDP and general government debt amounted to 57% of GDP.

Housing and Mortgage Markets

The number of building permits issued in 2013 amounted to about 138,900 units (representing a 16% decrease in comparison to 2012). Around 145,400 dwellings were completed in 2013 and about 127,400 were under construction (4.9% and 10.2% decrease y-o-y respectively). It must be noted that developers are still working on their projects started in previous years, so even if there is a slow-down in the construction industry, it will likely not result in a collapse of the market.

The number of new apartments for sale on the largest Polish housing markets decreased due to increasing housing sales. The increasing demand and decreasing surplus resulted in the inhibition of the downward trend in housing prices on the primary markets of the six largest cities. This also resulted in the stabilisation of house prices on the secondary market in those cities. However, in Warsaw, the most developed of the housing markets in Poland, from the beginning of 2013, a slight increase in the average transaction price in the primary market was observed.

At the end of 2013, there were nearly 1,820,000 residential mortgage loan contracts outstanding – nearly 177,000 new loans were granted in 2013. At the end of the year, outstanding residential debt exceeded 330 billion PLN (increase of around 5% in comparison to 2012). Around 99% of new lending in 2013 was PLN-denominated.

In 2013, the Polish Financial Supervision Authority (KNF) issued an amended version of "Recommendation S" on good practices for mortgage banking, which, inter alia, limited the granting of FX loans to individuals who receive their main salary in FX. The KNF also introduced new requirements with regards to LTV limits (at origination) for residential mortgage loans: from 100% to 85% within 3 years of the regulations taking effect (or 90% if the amount exceeding 85% is insured). As over half of the residential mortgage loans in Poland have LTVs exceeding 80%, the perspective of those restrictions encouraged some clients to take out mortgage loans in 2013, as most of the recommendations should be implemented by the 1st of January 2014.

The new Recommendation also imposed a limit on residential loans' tenure: maximum 35 years, however, banks should recommend to their clients loans a maturity of 25 years. Banks are also obliged to assess clients' ability to maintain their income throughout the entire life of the loan, particularly after the person reaches retirement age. The KNF abolished the previous universal limit of DTI (50/65% for PLN-loans and 42% for FX-loans), allowing banks to set their own DTI limits.

There were two state-subsidised schemes supporting the residential sector in 2013 – the older "Family on their own" was terminated at the end of 2012, the new one – "Flat for youth" was introduced in 2014.

A slight deterioration of the housing loan portfolio was observed in 2013 (the share of NPLs in the portfolio increased from 2.8% to 3.1%), but there are signs of a possible stabilisation of their quality in the future. In addition, the historically low interest rates (in 2013 the reference rate was lowered from 4.0% to 2.5%), significantly reduced the cost of debt servicing, which had a positive impact on the quality of the mortgage portfolio.

Mortgage Funding

Mortgage funding in Poland remains mainly deposit-based. The total value of new issuance of mortgage covered bonds in 2013 amounted to 480 million PLN. No securitisation transactions were concluded on the Polish mortgage market.

As the current legal framework for covered bonds makes them quite an expensive tool for mortgage banks, complex work on amending the Act on Covered Bonds and Mortgage Banks began in 2013. The discussion is mainly focused on: (i) insolvency of the covered bonds issuer; (ii) transfer of liabilities and (iii) tax issues. The new act should be finalised towards mid-2015.

	Poland 2012	Poland 2013	EU 28 2013
Real GDP growth (%) (1)	2.0	1.6	0.1
Unemployment Rate (LSF), annual average (%) (1)	10.1	10.3	10.8
HICP inflation (%) (1)	3.7	0.8	1.5
Outstanding Residential Loans (mn EUR) (2)	79,434	80,650	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	2,530	2,563	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	33.7	33.4	76.2*
Gross residential lending, annual growth (%) (2)	n/a	n/a	n/a
Typical mortgage rate, annual average (%) (2)	7.0	5.1	n/a
Owner occupation rate (%) (2)	82.4	83.8	70.0
Nominal house price growth (%) (2)	-5.5	1.7	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Portugal

By Maria Lúcia Bica, Caixa Economica Montepio Geral

Macroeconomic Overview

In 2013, the Portuguese economy continued the adjustment process of macroeconomic imbalances, with the further implementation of the Economic and Financial Assistance Programme (EFAP), negotiated with the Troika (the European Commission, the European Central Bank and the International Monetary Fund) in May 2011. This process ran until June 2014 and included the adoption of fiscal consolidation measures and an orderly and gradual deleveraging of the financial sector, which has had significant impacts on economic activity and the unemployment rate.

The year was marked by the continuous deterioration in labour market conditions, with persistently high unemployment of 16.4% in 2013 (+0.8 percentage points from 2012) and steadily increasing unemployment duration, notwithstanding the reduction observed in the previous quarters.

Also, the unfavourable international environment, marked by weak global economic growth and the contraction in the euro area, was also reflected in the evolution of the Portuguese economy, with increased pressure on foreign demand and with the additional effort of adaptability of Portuguese companies regarding other markets for the exportation of their products.

Nevertheless, the considerable additional effort made to conclude the adjustment process has shown some results, with a significant correction in domestic and external accounts, particularly, the balance of public accounts and the improvement of the external demand balance. The Government budget balance (as a percentage of GDP) decreased from a deficit of 6.4% in 2012 to 4.9% in 2013, and the exports of goods and services in volume accelerated to +6.1% in 2013, shifting from a growth rate of +3.2% in 2012.

Portuguese GDP decreased, in real terms, by 1.4% in 2013, which is considerably less than what was the case for 2012 (-3.2%), mainly due to the fall in domestic demand of 2.6% (although at a slower pace than the -6.6% of the previous year). rivate consumption in volume diminished by 1.7% in 2013 (-5.3% in 2012) and Gross Fixed Capital Formation (GFCF) recorded a reduction of 6.6% in volume which compares with a rate of change of -14.5% in 2012. Thus, the positive contribution of the external demand balance compensated for the negative contribution of domestic demand to GDP.

Despite the persistence of economic difficulties, consumer confidence and economic climate indicators recovered throughout 2013, (2012 had registered the lowest figures), due to better perspectives for the evolution of the economy and to the household saving rate having reached 12.6% (up by 0.6 percentage points in 2013 compared with the previous year).

Housing and Mortgage Markets

Nonetheless, 2013 was a year of continued downward adjustment in terms of activity and expectations in the real estate market. It was also a year in which a reversal of this trend began, in particular from the third quarter onwards. The positive signs of economic recovery in the last two quarters of the year, as well as signs of future sustainability of public finances, improved confidence in terms of recovery of the housing market.

Despite the annual change of around -3.5% in house prices in 2013, which was higher than the previous year, there were some signs of stabilisation in residential market prices, mainly due to new buyers' interest and rising foreign demand. Other factors that strengthened this effect were the property discounts and the government benefits for non-residents (i.e. the "Golden Visa") that were largely advertised. As a result, higher expectations for sales drove house prices, in the last quarter, to a recovery. The positive balance of new purchasing instructions, which, for the first time occurred in all regions of the country, reinforced the idea of potential stabilisation of the housing market on a national level, and not only restricted to Lisbon and Oporto. The slight improvement of sales in the residential market, in the Metropolitan Area of Porto and in Algarve, was due to more attractive prices, whereas in the region of Lisbon and its surroundings, house prices, especially of new dwellings, have registered an upward trend, mainly in the last quarter, due to a higher demand from foreigners, with new players looking for modern assets in privileged areas, appreciating the centrality and the quality of the various projects that have been developed in recent years.

Despite these positive effects, the number of new housing completions and the number of building permits for new construction (dwellings for family housing) decreased on an annual basis, respectively by 32.0% and 28.6%. Investments in real estate were more oriented towards urban regeneration, that remains one of the most attractive areas with regards to real estate investment for all its participants, starting with public authorities (led by municipalities), through to owners and private investors and promoters, for whom there are important financial incentives and tax benefits, reflecting a private-public interest agreement.

Credit restrictions by banks, falling disposable income of households, which is perceived as being permanent, the need to reduce household debt and increase liquidity for holders of real estate assets, the economic and social scenario and the difficult outlook all lead to a lower rate of home ownership by domestic households, benefiting the rental market and making properties more desirable for investors and residential tourism.

In 2013, the amount of mortgage lending resumed its further downward movement, with a consecutive decline since 2011, dropping 3.6% vis-à-vis the previous year. The outstanding volume of loans amounted to 106,585 million EUR, thereby reaching the lowest value since 2009.

A contributing factor to these developments was the on-going pursuit of a reasonable standard of deleveraging by the financial sector, albeit at a relatively slow pace, coupled with the fall in credit demand by households. The lower level of loans for housing purposes reflects the adjustment of banks' credit to deposits ratio, i.e. the reduction of mortgage loans, which has limited the evolution of residential loans in line with the flow of reimbursements. The lower level is also due to the restructuring of credit to the economy, with companies outside the real state sector, mainly for those working with tradable goods, being targeted. Furthermore, the uncertainties and risks underlying economic growth, the consequent impact on the labour market, with the unemployment rate reaching historical peaks, and the very low expectations of households, especially related to the housing market, appear to have constrained demand for housing loans which has continued to decline, albeit at a lesser rate than during previous periods. Despite the difficult economic scenario and increased pressure on households' conditions, the non-performing loans ratio, in terms of housing loans, recorded a minor change, only +0.20 percentage points. The ratio did however increase for consumer credit and other lending.

Considering the Portuguese banking sector's exposure to the real estate market and the adjustment in housing prices, in 2013, the financial authorities continued to carry out inspections of the credit portfolios exposed to real estate risk and the review of impairment to credit, especially of the biggest financial institutions, in order to guarantee the correct assessment of real estate value and to avoid the uncertainty relating to financial stability. These inspections are being carried out, in particular, in the context of the implementation of cross-sectional inspections and the review of credit impairment (ETRICC), carried out by the Bank of Portugal. These efforts have contributed to making the Portuguese banking system more resilient, particularly with regard to the mortgage industry.

Mortgage Funding

The risky and uncertain scenario, coupled with the necessary adjustments of the high level of household indebtedness and also the increased stability of the confidence customers place in Portuguese banks, have contributed to a higher savings rate, which reached peak levels. Thus, the growth of deposits has played a key role in the adjustment process of the banking system's financing sources, contributing to a more sustainable structure.

Portuguese banks continued to pursue a sustainable leverage policy, as recommended, and have made efforts to reduce their dependence on Eurosystem liquidity over the medium term, in parallel to the slow reopening of access to wholesale financial markets.

The recent positive data on the evolution of the economy, as well as the recognition by financial markets of the efforts undertaken to strengthen the Portuguese financial sector, made it possible once again, to use funding instruments secured by mortgages.

	Portugal 2012	Portugal 2013	EU 28 2013
Real GDP growth (%) (1)	-3.2	-1.4	0.1
Unemployment Rate (LSF), annual average (%) (1)	15.8	16.4	10.8
HICP inflation (%) (1)	2.8	0.4	1.5
Outstanding Residential Loans (mn EUR) (2)	110,520	106,585	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	12,791	12,382	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	90.0	87.4	76.2*
Gross residential lending, annual growth (%) (2)	-60.1	5.9	n/a
Typical mortgage rate, annual average (%) (2)	3.9	3.2	n/a
Owner occupation rate (%) (2)	74.5	74.2	70.0
Nominal house price growth (%) (2)	-2.2	-3.5	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Romania

By Ştefan Dina, Romanian Banking Association

Macroeconomic Overview

The Gross Domestic Product (GDP) in Romania grew by 3.5% in 2013. There was a shift in the drivers of economic growth from domestic absorption to net exports. The rebound in industry, driven by external demand, accounted for around two thirds of the economic growth and one third stemmed from the faster increase of agricultural production.

The positive economic growth outlook is expected to continue in 2014 as the recent forecasts indicate a growth level above 3%.

Household final consumption saw a doubling of the annual pace of increase rising to 1.8%, following both the pick-up in retail purchases and the advance in the components whose path is in line with the performance of agriculture, according to the National Bank of Romania report.

Sharp fiscal consolidation brought the deficit back into the comfort zone, narrowing further to 2.3% in 2013, down from 9% in 2009. According to recent forecasts, the fiscal deficit will stay below the Maastricht Treaty limit of 3% of GDP. Despite growing rapidly during the crisis, the public debt-to-GDP ratio is still one of the lowest in the EU and is estimated to stabilise below 40% of GDP over the medium-term.

Recent projections for 2014 and 2015 point to the current account deficit being expected to stay relatively close to its 2013 level (between 1% and 2% of GDP). The current account deficit fell further to 1.1% of GDP in 2013 while the trade deficit narrowed by 53.6% y-o-y. The registered unemployment rate stagnated around the previous year's level, at around 7%.

Annual CPI inflation dropped 0.28% versus the preceding month to 1.55% in December 2013, on the back of the fading out of the statistical effect of the hike in electricity prices in the same period a year earlier.

Romania envisages joining the Banking Union and the euro area when the appropriate conditions are in place.

Housing and Mortgage Markets

The number of dwellings built in 2013 dropped by 3,945 compared to 2012, to 40,071, 97% of which were financed by private funds. 22,076 dwellings were built in rural areas, while 17,305 in urban areas. The number of residential construction permits issued in 2013 was 37,776, slightly lower (by 0.23%) than the previous year.

Prices suffered a downward correction in the second half of 2013, although the annual price of residential properties increased by 0.2 %. One determinant is that in August 2013, the *"Prima Casa Programme"* (First Home Programme) reduced financial solutions only to national currency (RON) loans, in order to diminish the exchange rate risk. Therefore, given the RON-EUR interest rate differential (239 basis points in August 2013), customers have begun searching for lower house prices and, as a consequence, owners have slightly decreased the prices.

Market research shows that in Bucharest, the average price at the end of the year was 890 EUR per built square metre, 3% lower than the value at the end of 2012. Due to the change in financing, some residential projects marginally reduced their prices. The small difference in prices in comparison to the end of 2012 is an indication of the market bottoming-out: a theory which is also confirmed by the orientation of financial solutions to RON loans (not only for the First Home Programme) and a EUR-RON interest rate differential which continued to shrink during the year.

The level of outstanding residential mortgage loans recorded a 10% annual increase in 2013, reaching 40.8 billion RON at the end of the year. The RON component, although representing 8.5% of the total mortgage loans outstanding, increased by 90% compared to 2012, whilst the foreign currency component increased by 6%. The natural evolution of the RON component is explained by the decision of banks to support mortgage lending in local currency following the Central Bank's decisions (with respect to borrowers' protection against exchange rate risks) that the First Home Programme could only be used for RON-denominated loans, and by the lower interest rates on RON-denominated loans. This evolution was also supported by the Central Bank's decisions to cut the monetary policy rate by a total of 100 basis points from July through to September 2013, which has also helped to alleviate the currency mismatch in the case of mortgage loans.

The average interest rate on new RON-denominated loans has recorded a decreasing trend during 2013, from a starting point of 8.78% in December 2012 to 6.11% in December 2013. The decrease in RON interest rates, combined with an increase in EUR interest rates from 4.76% in December 2012 to 5.87% in December 2013, led to a mere 24 basis points RON-EUR interest rate differential.

The average LTV on new loans has been constant at the level of 75% in the first three quarters of the year and a slight increase to 78% has been registered for the last quarter's new sales. On the other hand, the LTV ratio on the mortgage loans stock has increased from 82% in Q4 2012 to 87% in Q4 2013, an increase which might also have been driven by banks' existing collateral revaluation.

The average indebtedness ratio registered a slight change in 2013 for new loans, standing at around 45%, whilst for the portfolio it remains constant at 50%.

As for mortgage loans and consumer loans secured with mortgages, the average loss given default (LGD) in Q4 2013 stands at values of approximately 20% and 30% respectively.

Mortgage Funding

In 2013, most mortgage loans were funded by deposits by private financial institutions. According to the National Bank of Romania, the reduction in external financing from parent banks further unfolded in an orderly fashion, with the withdrawal of external credit lines being offset by the rise in domestic deposits. The domestic deposit base continued to cover the largest part (51% in August 2013) of bank asset financing. A rise in domestic savings materialised in the faster real dynamics of bank deposits (up 7.6% at end-2013 compared with the relative stagnation of 2012), contributed to the close-to-balance loan-to-deposit ratio.

The banking community of Romania has initiated steps to raise awareness among authorities regarding the need to align the legal and institutional frameworks, in order to allow the issuance of mortgage-backed bonds. This could help raise resources with longer maturities and at lower costs.

	Romania 2012	Romania 2013	EU 28 2013
Real GDP growth (%) (1)	0.6	3.5	0.1
Unemployment Rate (LSF), annual average (%) (1)	6.8	7.1	10.8
HICP inflation (%) (1)	3.4	3.2	1.5
Outstanding Residential Loans (mn EUR) (2)	8,766	9,327	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	534	575	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	11.4	11.5	76.2*
Gross residential lending, annual growth (%) (2)	n/a	n/a	n/a
Typical mortgage rate, annual average (%) (2)	5.0	4.7	n/a
Owner occupation rate (%) (2)	96.6	95.6	70.0
Nominal house price growth (%) (2)	-1.3	0.2	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Slovakia

By Lorenzo Isgrò, European Mortgage Federation – European Covered Bond Council

Macroeconomic Overview[1]

Slovakia's economy was one of the fastest growing economies in the euro area in 2013. Nonetheless, the rate of real GDP growth fell substantially from 1.8% in 2012 to 0.9% in 2013. The main driver of growth in 2013 in Slovakia was external demand, which more than made up for a fall in internal demand. This decrease was mainly driven by a reduction in investments, which outweighed stable household consumption and a slight rise in government expenditure. The rise in exports, which reached 4.5%, outweighed the rise in imports, which was 2.9%, allowing Slovakia to reach an all-time peak in exports in this year.

The price developments observed in Slovakia were in line with much of the rest of the euro area, with HICP inflation more than halving over the course of one year, to 1.5% in 2013, down from 3.7% in 2012. The unemployment rate, which was already relatively high, rose slightly, from 14% in 2012 to 14.2% in 2013. This ranks Slovakia as the country with the sixth highest unemployment rate in the EU, almost 3.5 percentage points above the average. Nominal wage growth rate did not increase between 2012 and 2013, but due to the low inflation rate, real wages rose slightly, by about 1% in the course of the year. This positive trend was also driven by the increased use of employment contracts instead of work agreements.

Slovakia's external debt increased in 2013 by around 6bn EUR, to reach almost 60bn EUR of outstanding debt, mainly due to government borrowing and higher Central Bank liabilities. Debt per capita increased by around 1,000 EUR in 2013. From a fiscal perspective, another notable development in 2013 was the elimination of the 19% flat tax on income, consumption and profits, which was replaced, from the beginning of the year, by a 23% or 25% rate (depending on income band). This may also have had a negative impact on consumption.

	Slovakia 2012	Slovakia 2013	EU 28 2013
Real GDP growth (%) (1)	1.8	0.9	0.1
Unemployment Rate (LSF), annual average (%) (1)	14.0	14.2	10.8
HICP inflation (%) (1)	3.7	1.5	1.5
Outstanding Residential Loans (mn EUR) (2)	13,701	15,304	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	3,124	3,477	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	31.4	34.5	76.2*
Gross residential lending, annual growth (%) (2)	n/a	n/a	n/a
Typical mortgage rate, annual average (%) (2)	4.7	4.1	n/a
Owner occupation rate (%) (2)	90.4	90.5	70.0
Nominal house price growth (%) (2)	-2.7	0.9	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Housing and Mortgage Markets[2]

The mortgage market performed relatively well in Slovakia in 2013. Outstanding residential loans rose by almost 12% year-on-year, mirroring a level of net residential lending (gross lending minus redemptions) that was 16% higher than in 2012. This increased mortgage lending may have been partly driven by the continuing fall in interest rates, which, following trends observed across the euro area, have fallen substantially, and were, in 2013, on average 4.1%, which is about 2 percentage points below the levels observed in 2008 and 2009. The fall in rates in 2013 was more substantial than that observed between 2011 and 2012, with an average decrease of 600 basis points, in contrast with roughly 100 in the previous year. Nonetheless, the rates on mortgages in Slovakia are still among the highest in the EU, and the highest in the euro area (with the exception of Cyprus). This is likely to reflect a general degree of caution that has remained among banks in lending for house purchase (and in lending activities in general).

House prices increased very slightly for the first time in 4 consecutive years (by about 1%). This may have partly been caused by the increase in home sales in 2013, when levels picked up again from particularly low levels in 2012. Nonetheless, prices on luxury homes have fallen quite sharply, while flats performed the strongest. Owner occupation rates remained largely unchanged at very high levels, with over 90% of the population living in an owned dwelling. Slovakia is one of the EU countries with the highest level of owner occupation (3rd highest in 2013). This makes the Slovak housing market particularly reliant on new housing, as the secondary market turnover is very low. It thus depends heavily on construction. Therefore, despite the lower interest rates, the significantly higher mortgage lending levels, and the rise in home sales, prices have only slightly increased, mainly due to the substantial rise in construction over the course of 2013, which rose by about 20% (according to the Slovak Statistical Office).

[1] National Bank of Slovakia 2013 Annual Report http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-publications/annual-report.

[2] Global Property Guide – Slovakia http://www.globalpropertyguide.com/Europe/Slovak-Republic/Price-History.

Slovenia

By Andreja Cirman, University of Ljubljana

Macroeconomic Overview

Economic activity in Slovenia has been declining since the second half of 2011, with a 1.1% drop in GDP in 2013. The overall decline in economic activity was the result of a decline in consumption and in investments. Household consumption remains constrained, as a result of the decline in purchasing power, high unemployment and fiscal consolidation. Moreover, fiscal consolidation measures have additionally contributed to the decline in domestic demand. With limited demand, high corporate indebtedness and constraints on financing, investment activity remains weak. Nevertheless, in the second half of 2013, there was a significant increase in growth rates due to a more favourable external environment and a gradual recovery of domestic demand. Average inflation as measured by the HICP stood at 1.9% in 2013 (2.8% in 2012). Core inflation has remained low as a result of weak household consumption and cost-cutting in the economy. Although the standardised unemployment rate, measured by ILO methodology, increased from 8.9% in 2012 to 10.1% in 2013, the fall in employment slowed in the second half of the year, particularly in the private sector.

In 2013, the Slovenian government overhauled the largely state-owned banking sector by directing 3.3 billion EUR into troubled local banks, and cleaned up bad loans worth nearly 8 billion EUR, almost a quarter of national output.

Housing and Mortgage Markets

The housing market in Slovenia also remained weak in 2013. Prices of residential real estate fell by 4.3%, primarily as a result of a large fall in real estate prices in the capital city, Ljubljana. The fall in real estate prices was accompanied by an increased segmentation of the market.

On the primary housing market, contraction of supply continued. Housing construction reached an all-time low in 2013, with less than 3,500 housing units completed – about one third of the peak volume in 2008. Additionally, housing starts remained low and building permits continued to decrease. Since the beginning of the crisis, the majority of large construction companies have gone bankrupt. Construction activity continues to face low profits and high risks, as well as severe difficulties in access to finance. The companies that remain therefore focus primarily on smaller projects for known customers and on housing renovations. In 2013, the large part of the foreclosed housing stock from debtors' outstanding loan liabilities to banks was transferred to the Slovenian Bank Assets Management Company and is expected to gradually come to the market.

Demand on the real estate market remained low, marked by the long economic and financial crisis and by expectations of further price decreases. The stagnation of housing loans is limiting demand on the real estate market, and is thereby contributing to the low volume of transactions. The number of residential transactions decreased by 12% in comparison to 2012; the contraction was especially strong in the segment of single-family houses. Low liquidity on the real estate market is hindering the sales of foreclosed real estate from unsettled loan relations, which is increasing the risk of further real estate price falls and the risk of a failure to repay claims from lengthy collateral redemption proceedings (Financial Stability Report 2013, 2014).

Household disposable income in 2013 remained at almost the same level as in the previous year. Growth in housing loans to households almost ceased. The willingness and ability to purchase housing with a loan is being constrained by diminished purchasing power and the rise in unemployment and more flexible forms of employment, which is having an impact on household creditworthiness and is potentially increasing credit risk. Interest rates on housing loans rose by 0.3 percentage points on average in 2013 in Slovenia, compared with a fall of 0.1 percentage points in the euro area overall (Financial Stability Report 2013, 2014).

Banks tightened their credit standards for households last year relative to 2012. The average LTV ratio on newly approved housing loans in 2013 stood at 55% (taking into account only those loans for which a bank requested collateral), and was slightly higher than the previous year. The proportion of newly-approved housing loans for which the LTI ratio was more than 33% declined by 6 percentage points to 36.6% and confirms the increased prudence of households with regard to additional borrowing.

In contrast to the Slovenian corporate sector, the indebtedness of Slovenian households is relatively low. At around 34% of GDP and 52% of disposable income, the financial debt of Slovenian households is much less than that of euro area households overall. In 2013, it declined by a further 2.8% in nominal terms (Financial Stability Report 2013, 2014). Household loans declined by 3.8% in 2013. There was a pronounced contraction in consumer loans (-11%), while housing loans remained at the level of 2012. The developments in housing loans are subject to the economic situation and, in particular, price developments on the real estate market, and have coincided with a decline in household investments. Housing loans account for 60% of total bank loans to households (Financial Stability Report 2013, 2014). With just over 4% of their classified claims that are more than 90 days in arrears, households' loans remain relatively low-risk. The manageable figure is also an indication of the banks' relatively tight credit standards on household loans, particularly in cases of temporary employment and self-employment, that represented already 20% of the workforce in 2013 (Financial Stability Report 2013, 2014).

Mortgage Funding

The mortgage industry in Slovenia is predominantly an integral part of universal banking. Although legislation allows banks to issue mortgage backed securities, no securitisation of residential mortgages has as yet taken place. Before the financial and economic crisis, banks acquired funding on international financial markets to fuel high lending activity; however, the situation afterwards changed. As a result of repayments of liabilities on the wholesale financial markets and their relatively low capital adequacy, banks were facing a contraction in their balance sheets and a tightening of credit standards during recession conditions. Repayments of funding obtained on the wholesale markets accelerated in 2013, which sharply reduced banks' dependence on financial markets. Banks have made net repayments of 11.4 billion EUR of wholesale funding, or two-thirds of the total, since October 2008, including almost 30% in 2013 alone (Financial Stability Report 2013, 2014).

The increasing constraints on funding on the financial markets also led to an increase in the importance of the funding via deposits on the domestic market. Deposits accounted for 57.9% of bank funding, up 14.3 percentage points relative to the end of 2008 (Financial Stability Report 2013, 2014).

	Slovenia 2012	Slovenia 2013	EU 28 2013
Real GDP growth (%) (1)	-2.5	-1.1	0.1
Unemployment Rate (LSF), annual average (%) (1)	8.9	10.1	10.8
HICP inflation (%) (1)	2.8	1.9	1.5
Outstanding Residential Loans (mn EUR) (2)	5,259	5,307	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	3,089	3,117	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	22.9	23.1	76.2*
Gross residential lending, annual growth (%) (2)	-24.0	-15.3	n/a
Typical mortgage rate, annual average (%) (2)	3.3	3.2	n/a
Owner occupation rate (%) (2)	76.2	76.6	70.0
Nominal house price growth (%) (2)	-6.9	-5.3	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Spain

By Irene Peña Cuenca, Asociación Hipotecaria Española

Macroeconomic Overview

During 2013, the Spanish economy recorded a path of progressive recovery that enabled it to exit from a second recession since the beginning of the crisis (the first occurred in 2009). After nine consecutive quarters of decline, the Spanish economy's GDP recorded a small rise in Q3 2013 of 0.1% in quarter-on-quarter terms, followed by a 0.2% increase in the last quarter and 0.4% rise at the beginning of 2014. For the year as a whole, output reduced by 1.2%.

The main determinants behind the performance of the economy were the gradual normalisation in the funding markets, especially related to the easing in sovereign debt tensions, a higher consumer and investor confidence, and better performance of the labour market. On the expenditure side, private consumption and business investment increased by 0.5% and 0.7% respectively in the last quarter, whilst public spending recorded a 3.9% quarterly decline. Net external demand made a positive contribution to GDP (of 2%), underpinned by a sound performance of exports.

In the labour market, unemployment recorded a slowdown in its pace of increase over the year, which positively contributed to an improvement in households' confidence. Nevertheless, the unemployment rate closed the year at a very high level, 26% (27.2% in Q1 2013).

The consumer price index reduced over the year and remained close to zero in the last quarter, after a steep increase observed at the end of 2012 owing to the rise of VAT in the month of September.

Regarding public finances, government debt (as a percentage of GDP) ended 2013 at its highest level (91.4%) and it is expected to continue increasing in the next years and to equal 100% of GDP in 2016 (according to the latest government forecasts). The weak situation in the labour market (i.e. unemployment benefits) and the financial aid programme partly explain this evolution. The sector's net borrowing reduced to 6.3% of GDP (7.1% if the impact of financial assistance is included) from 10.6% at the end of 2012.

Housing and Mortgage Markets

According to the latest census, corresponding to 2011, a gradual increase has been observed in the weight of rental housing over total stock, from 9.5% in 2009 up to 14.9% in 2011. Though there are no statistics available for 2013, this trend is likely to have intensified due to the following three factors:

- The reform of the SOCIMIS (the Spanish version of REITs[1] created in 2009), which took place in 2012, made the vehicle more flexible and entry barriers were reduced, turning the SOCIMI into a feasible tool to enter the rental market (not only residential but also commercial).
- The approval of Law 4/2013 on measures to increase the flexibility and promote the rental market.
- The role that financial institutions have played during the crisis by renting part of the real estate assets that have been increasing in their balance sheets as a consequence of the rise in arrears or accepted as payment of debt.

Housing starts experienced a severe adjustment since the beginning of the crisis. In 2013, 33,869 new dwellings were started, most of them (60%) were self-build housing, which represented a drop of -96% from its peak in 2006 and a -24.6% decrease from 2012. In parallel to the adjustment in new production, housing completions reduced by 43.8% on annual terms, down to 64,636 dwellings.

In terms of demand, total housing transactions (including new and second hand dwellings) amounted in 2013 to 300,568, a 17.3% reduction, corresponding to one third of the 2006 levels. In spite of this drastic adjustment, residential transactions have remained significantly above the levels of new production over the period, thus gradually narrowing the stock of unsold houses.

Prices for residential properties continued to reduce in 2013, though at a more moderate pace than in the recent years. On average, housing prices reduced in 2013 by 4.2%, compared with reductions of 10.0% in 2012 and 6.8% in 2011.

The analysis across regions shows a high level of heterogeneity. Though in general terms most regions recorded annual decreases, some areas of the north (with less exposure to the housing boom), Madrid, and some regions with high demand for second-homes (mainly on the east coast) recorded decreases below the national average or even small increases at the end of the year.

Mortgage activity during 2013 was subdued due to the process of the correction of the excessive indebtedness levels of both the private and the financial sectors.

On the demand side, the high levels of debt assumed by households in the pre-crisis period led to a long process of reduction in households' consumption and of deferral of their real estate investment decisions that continued into 2013.

Meanwhile, after the turmoil of the sovereign debt crisis in the first half of the year, the supply of credit was determined by the efforts made by banks throughout the year to complete the process of restructuring and recapitalisation of the financial system within the deadlines set by the Memorandum of Understanding.

In this framework, total outstanding mortgage lending decreased for the fourth year running by 11.9% down to 772,417 million EUR to stand at 75% of GDP. This evolution was affected, however, by the transfer to the SAREB (Asset Management Company), in a second phase, of real estate assets and loans with a total value of 14.09 billion EUR. Residential mortgage lending remained more resilient owing to the characteristics of the loans. At the end of the year, outstanding residential mortgage lending was 612,819 million EUR, which represents a -4.5% y-o-y variation rate. Residential mortgage lending stood at a 79% of total mortgage lending (73% in 2012).

In terms of new lending, although gross residential mortgage lending continued to decrease in 2013, recording an annual drop of 37% (down to 17,069 million EUR), the pace of this downward trend started to moderate towards the end of the year. In quarterly terms, gross residential lending increased in the last quarter by 32% on the basis of a sounder financial system and a gradual recovery in households' confidence in light of better prospects for the wider economy.

Lending criteria for new residential loans remained stagnant in 2013, with an average maturity for new loans of around 22 years and an average LTV of 57%. Mortgage interest rates remained stagnant with slight monthly movements in the second half of the year, in a context of a more stable access of financial institutions to wholesale funding markets.

The ratio of doubtful loans in mortgage residential lending to households rose in the same period, from 3.8% up to 5.2%, partly affected by:

- The new criteria introduced by the Bank of Spain in April 2013 for the reclassification of loan refinancing and restructuring operations as "doubtful" in the financial statements.
- The decrease in the outstanding amounts of mortgage lending (denominator of the ratio).

[1] Real Estate Investment Trust.

The number of repossessions in the year amounted to 49,694, of which 38,961 were main residences and 10,733 other dwellings. In relative terms, this represents 0.77% of the number of mortgages granted to households for house purchase (0.66% in the case of principal residences).

Mortgage Funding

In Spain, the main funding instruments for housing loans are savings deposits and *cédulas hipotecarias* (Spanish covered bonds).

Saving deposits remained stagnant during the year, at 1,270 billion EUR, recording a slight increase of 0.21% in annual terms. The loan-to-deposits ratio (considering total outstanding mortgage lending) decreased from 69% in 2012 to 61%, reflecting the deleveraging process of the private sector. The market of *cédulas hipotecarias* remained one of the most important in the EU, with an outstanding volume of 333,938 million EUR (in 2012, the figure was 401,540 million EUR), which represents 44% of total outstanding mortgage lending. However, new issuances in 2013 fell compared to 2012, owing to the reduction in both new lending activity and in the outstanding volumes of mortgage lending. In 2013, 24,400 million EUR were brought to the market, compared to 104,470 million EUR recorded the year before.

Securitisation activity showed no signs of reactivation during the year, still affected by a problem of confidence and liquidity in the market for this type of funding. In 2013, the issuance of Mortgage Backed Securities (MBS) amounted to 9,528 million EUR, and the outstanding volumes decreased in the year by 6%, down to 117,006 million EUR.

	Spain 2012	Spain 2013	EU 28 2013
Real GDP growth (%) (1)	-1.6	-1.2	0.1
Unemployment Rate (LSF), annual average (%) (1)	24.8	26.1	10.8
HICP inflation (%) (1)	2.4	1.5	1.5
Outstanding Residential Loans (mn EUR) (2)	641,510	612,819	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	16,680	15,977	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	94.0	90.4	76.2*
Gross residential lending, annual growth (%) (2)	-16.4	-36.6	n/a
Typical mortgage rate, annual average (%) (2)	3.3	3.0	n/a
Owner occupation rate (%) (2)	78.9	77.7	70.0
Nominal house price growth (%) (2)	-10.0	-4.2	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

Sweden

By Christian Nilsson, Swedish Bankers' Association

Macroeconomic Overview

Sweden had the fastest-growing GDP in the EU in the last quarter of 2013, according to the National Institute of Economic Research (NIER). The rise of 1.7% over the previous quarter marked a turnaround in the economy. Both exports and consumption grew much faster than in previous quarters. This very strong growth trend was driven partly by temporary stock effects and supplies of defence material to the military, which means that growth will be much weaker in Q1 2014. GDP growth for the whole of 2013 was 1.6% compared to 0.9% in 2012. Exports have started to grow more strongly after performing poorly in the first half of 2013. The outlook for exports is increasingly bright, with GDP growth continuing to accelerate in the US and the euro area.

Employment growth has been weak in recent months, and unemployment has begun to rise again. However, for the whole of 2013, employment grew unusually strongly relative to GDP growth. Despite the employment growth, unemployment was unchanged from 2012, at 8%.

Inflation, as measured by the CPIF, that is, the CPI with a constant mortgage interest rate, has remained below the Riksbank's inflation target of 2% since 2010. Inflation in Sweden is very low. There are no signs that inflation is about to rise in the near term, and slow growth in unit labour costs and a certain strengthening of the krona mean that inflation will remain low in 2014.

General government net lending was negative at -1.3% of GDP in 2013, and will fall further in 2014 to -2.0% of GDP, mainly due to tax reductions for households introduced at the start of the year. Net lending has been in decline for several years, due partly to the weak economy and partly to active decisions to cut taxes. Even allowing for the weak economic climate, net lending will still be negative in 2014.

Housing and Mortgage Markets

Housing completions continued to increase i 2013 to 29,500 dwellings, up from 26,000 in 2012. However, housing completion figures are comparably low in comparison to demand, and have been so for many years. Housing starts started to take off however in 2013, and amounted to 31,000 compared to 21,300 in 2012. The National Board of Housing expects the construction figures to remain at the same level in 2014. The construction figures have been low in Sweden for several years and in expanding regions there is in many cases a shortage of housing.

In 2013, transactions of one-family homes increased again by 3% after a weak 2012 when transactions decreased by 4%. The housing market saw an upturn again in 2013 and the prices of one-family homes increased by almost 4% compared to a slight decrease of 1.3% in 2012.

The larger cities of Sweden, like Stockholm, Gothenburg and Malmö, have been leading the house price increase which has prevailed since the mid 1990's in Sweden. Other cities or regions, with a vigorous economy or/and with a university, have had similar developments. However, there are many cities and regions where the price development has been more modest or even negative, especially cities with high unemployment or regions with a sparse or diminishing population.

Despite the increasing construction figures and a housing market upturn, residential construction costs increased modestly in 2013, by 1.4%. In 2012, construction costs increased by 2.5%.

Residential mortgages grew by 4.9% in 2013 which is slightly higher than 4.5% in 2012. The growth rate has been falling for several years and it is at its lowest for at least 10 years. However, the growth rate seems to be slightly increasing, and a general economic turnaround, with more positive growth prospects, seems to have influenced the mortgage market. Other factors that work in the other direction are the LTV ceiling of 85% on new mortgage lending and banks increasing pressure on borrowers to amortise.

The variable (3-month) mortgage interest rate decreased in 2013 from 2.9% in December 2012 to 2.3% in December 2013. The variable mortgage interest rate continued to decrease in 2014. Also fixed mortgage interest rates decreased slightly in 2013. Fixed mortgage rates between 1 and 5 years decreased to 2.9% in December 2013, compared to 3.0% in the same month in 2012.

In a mortgage market report by Finansinspektionen (the Swedish FSA), the authority writes that the LTV ceiling (85%) has been working well. The household LTV for new loans increased for several years until 2011, when the LTV for new loans stabilised at around 70%. Also, in 2013, the LTVs for new loans remained at around 70%.

The doubtful loans of mortgage credit institutions are comparatively low in Sweden. According to figures from Finansinspektionen, doubtful loans are equal to 0.03% of total lending.

The net credit losses have been very low for many years and amount to 0% of mortgage credit institutions' total lending to the public since 2010.

Mortgage Funding

Covered bonds are the most common instrument used in the Swedish market for the funding of mortgages. Despite weak global financial markets, during the financial crisis, Swedish institutions managed to issue covered bonds in the Swedish and global market. In 2013, the Swedish stock of covered bonds increased by 2.0% (in SEK) to 218 billion EUR (approximately unchanged in EUR due to exchange rate effects).

	Sweden 2012	Sweden 2013	EU 28 2013
Real GDP growth (%) (1)	0.9	1.6	0.1
Unemployment Rate (LSF), annual average (%) (1)	8.0	8.0	10.8
HICP inflation (%) (1)	0.9	0.4	1.5
Outstanding Residential Loans (mn EUR) (2)	334,922	340,379	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	44,281	44,624	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	155.1	151.6	76.2*
Gross residential lending, annual growth (%) (2)	4.5	10.2	n/a
Typical mortgage rate, annual average (%) (2)	3.5	2.6	n/a
Owner occupation rate (%) (2)	70.1	69.6	70.0
Nominal house price growth (%) (2)	-1.3	3.6	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

United Kingdom

By Kathleen Scanlon and Christine Whitehead, London School of Economics and Political Science

Macroeconomic Overview

The UK economy grew in all four quarters of 2013, the first year this has occurred since the start of the recession in 2008. Over the course of the year, expansion accelerated and exceeded expectations. As a result, the overall annual growth rate in 2013 was 1.7% – more than five times the rate of the previous year. It is now projected to double again in 2014. Growth in 2013 was led by expansion in services, with across-the-board increases in all service industries. Service-industry output has increased in every quarter compared with the same quarter a year before since Q2 2010, and this is the only sector to have overtaken its pre-downturn peak as of end-2013. Manufacturing, production and construction were still around 10% below 2008 levels, although construction in particular was increasing strongly.

Much of the growth since the end of the economic downturn has come from increased household expenditure, but investment also began to pick up in 2013. Household expenditure added 1.3% to GDP growth in 2013, while gross capital formation (GCF) added just 0.2% with a significant recovery during the second half of 2013.

By the end of 2013, the overall unemployment rate was 6.9%, down from a high of 8.4% in late 2011 and the first time it had dipped below 7% since 2009.

The Consumer Prices Index (CPI) grew by an annual 2.6% in 2013, above the Bank of England's target inflation rate of 2% but well down on the 4.5% seen in 2011. An alternative measure of inflation, CPIH, which includes the cost of owner-occupied housing, grew by 2.4% over the same period. As of end-2013 the Bank of England base rate had remained unchanged since March 2009, at 0.5%. Forecasters now do not expect an increase before early 2015.

The coalition government continued to follow an austerity policy, saying that this was vindicated by improvements in macroeconomic indicators.

Housing and Mortgage Markets

The UK housing market in 2013 became increasingly skewed, with quite strong house-price growth in London and the South East, and weak or no growth in much of the rest of the country. According to ONS figures, average growth in the UK in 2013 was 3%. In London it was 8.6%, while average prices continued to fall in Scotland and Northern Ireland. Except in the Northern regions, nominal house prices in England had returned to and exceeded 2007 levels. Scotland had also seen nominal increases, while in Wales prices were still somewhat below their peak. In Northern Ireland, house prices in 2013 were 45% below their 2007 levels.

Statistics on housing tenure are only available up to 2012. Owner-occupation was then running at 64.2% of all households. The rate has been falling in proportional terms since 2002, and in number terms from 2007. Private renting, on the other hand, accounted for nearly 17% of all households in 2012, up from 7% in 2002. This in part reflects constraints on mortgage funding.

Housing output levels have recovered only very slowly since the post-crisis recession. By the end of 2013, site visits and reservations were showing healthy growth but this was only just starting to be reflected in building activity. There were 123,480 housing starts in England in 2013, an increase of 24% on the previous year but still 27% below the peak in 2005/2006. The private sector accounted for around 80% of these units. Completions were down slightly, at 109,640, a 5% fall from 2012 and only just over 60% of pre-crisis levels. About a third of new homes were flats, a proportion that has fallen since 2007, when it was closer to a half. Similar declines in completions were observed in Wales and Scotland, and the position in Northern Ireland was considerably worse.

The output figures for England compare to a projected requirement of over 240,000 units per annum. This disparity between requirements and new supply is putting pressure on the market, resulting in higher densities of occupation particularly in the private rented sector and in London.

Price growth has been slow to feed through into large-scale new development activity in the areas with highest demand pressures. In London in particular, the number of new homes built has lagged the increase of households for some years, and 2013 was no exception, with only 18,000 new homes built in the capital.

HM Revenue and Customs show just over one million transactions across the UK as a whole, of which some 925,000 were in England. This compared with 1.7 mn. transactions overall in 2006, of which more than 1.4 mn. were in England. This reflects the extent to which housing market activity is concentrated in London and the south of England.

In the UK overall there were 606,000 loans for house purchase issued in 2013, up from 545,000 in 2012 as compared to double that number in 2002 and 2004 and over a million in 2006 and 2007.

The number of outstanding loans, however, fell by more than 100,000.

The total value of loans approved was around 177 billion GBP, almost exactly half the level of activity in 2007. Within this, less than 10% came from specialist lenders. Net lending only increased by about 10 billion GBP in 2013 as compared to nearly 110 billion GBP in 2007. Some 63% of approvals by value were for house purchase and 30% involved remortgaging – very similar proportions to 2012. Around 87% of mortgages had loan-to-value ratios under 75%, while fewer than 1% were at 95% or over.

Total balances outstanding on residential mortgages were 1,132 billion GBP at the end of 2013, an increase of 26 billion GBP over the previous year. Two-thirds of this total was loaned at variable rates, down by 5% on 2012. Specialist lenders accounted for only 15% of the total as compared to nearer 30% in 2007.

Arrears over three months declined in 2013 and accounted for only 1.68% of all loans as compared to 2.4% at its peak in 2009. Longer-term arrears fell at around the same rate as those between three and six months in arrears. Properties taken into possession accounted for 0.26 of 1% in 2013, of which 30% were voluntary. Possession rates have been falling since 2009, and the 2013 figure was 22% below that for 2012.

The standard variable rate in 2013 was 4.37% while the rate for a three-year fix was only just over 3%. While the standard variable rate rose slightly over 2012, the discounted variable rate and fixed rates all fell.

The main policy changes that occurred during 2013 were the introduction of two Help to Buy schemes. Help to Buy 1 replaced an earlier FirstBuy scheme. Under the 3.5 billion GBP scheme, the government provides an equity loan of up to 20% of the value of a new build home, to be repaid on sale. Some 15,000 units were sold under this scheme during 2013.

Help to Buy 2 is a mortgage guarantee scheme which aimed to support some 130 billion GBP of higher loan-to-value mortgages over a three-year period. Funders pay a commercial rate for the guarantee and all borrowers must meet the more stringent Mortgage Market Review lending criteria which were not generally applicable until April 2014. The scheme was launched three months early in October 2013, but had little impact before the end of the year.

Mortgage Funding

The vast majority of funding during the year has come from retail deposits. In the first quarter of the year, there were 1,228 billion GBP of loans, of which some 10% were securitised. By the fourth quarter the total had risen to 1,238 billion GBP, but the proportion of securitised loans had fallen to close to 8%, the lowest level since the figures began in 2007.

The reduction in securitised loans arises mainly from the near-closure of the market at the time of the financial crisis, but also from the introduction of the government's Funding for Lending Scheme (FLS) in mid-2012, which meant that it was far cheaper for mortgage lenders to borrow from the government than on the wholesale market. The FLS allows participants to borrow UK Treasury Bills in exchange for eligible collateral and as such provides funding to banks and building societies for an extended period, with both the price and quantity of funding linked to their lending performance. The scheme was used extensively to fund mortgages but has been withdrawn for this purpose from January 2014.

	UK 2012	UK 2013	EU 28 2013
Real GDP growth (%) (1)	0.3	1.7	0.1
Unemployment Rate (LSF), annual average (%) (1)	7.9	7.6	10.8
HICP inflation (%) (1)	2.8	2.6	1.5
Outstanding Residential Loans (mn EUR) (2)	1,553,837	1,531,585	6,679,807
Outstanding Residential Loans per capita over 18 (EUR) (2)	31,070	30,421	16,222
Outstanding Residential Loans to disposable income ratio (%) (2)	117.5	119.2	76.2*
Gross residential lending, annual growth (%) (2)	5.3	18.7	n/a
Typical mortgage rate, annual average (%) (2)	3.7	3.3	n/a
Owner occupation rate (%) (2)	66.7	64.6	70.0
Nominal house price growth (%) (2)	1.6	3.6	n/a

** Please note that this value is a simple average of the outstanding residential loans to disposable income ratio of the EU 28 countries, excluding BG, HR, LT, LU.*

Source:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2014, Statistical Tables.

References (UK)

GDP:
http://www.ons.gov.uk/ons/rel/naa2/second-estimate-of-gdp/q4-2013/stb-second-estimate-of-gdp--q4-2013.html#tab-GDP-analysed-by-output-categories--chained-volume-measures--tables-B1-and-B2

Composition of GDP:
http://www.ons.gov.uk/ons/rel/elmr/economic-review/july-2014/art-july-er.html#tab-Quarterly-National-Accounts

Labour market:
http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Labour+Market#tab-data-tables Reference table A01

Prices:
http://www.ons.gov.uk/ons/datasets-and-tables/data-selector.html?cdid=D7BT&dataset=mm23&table-id=1.1

CPIH:
http://www.statista.com/statistics/306674/united-kingdom-uk-consumer-price-index-cpih-yearly/

House prices:
https://www.gov.uk/government/statistical-data-sets/live-tables-on-housing-market-and-house-prices Table 586

Land registry
http://landregistry.data.gov.uk/

Housing starts and completions:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/311515/House_Building_Release_-_Mar_Qtr_2014v3.pdf

Transactions: DCLG live table 544

Mortgage lending: CML
http://www.cml.org.uk/cml/statistics

Funding sources and mortgage lending: Financial Services Authority MLAR Statistics March 2014

Comments: Future Prospects of Housing and Mortgage Markets

Our Country Experts present some insight as to what is to be expected in the coming years in housing and mortgage markets in a number of EU economies.

In this edition, the focus will be on Belgium, Denmark, Hungary, Italy, Spain and Sweden.

Following a protracted period of financial and economic turmoil, the EU economy has reached a turning point in 2013. Growth is expected to return, albeit slowly, and the housing and mortgage markets are expected to react to these projected changes. The vision of the coming years is important in understanding how this recovery will unfold. Our Country Experts highlight different topics of particular relevance in the respective countries that they believe will shape the future performance of these markets in terms of housing and mortgage lending. These analyses will allow the reader to get a better understanding of where these markets are headed and what policies or trends will most significantly affect their future development.

Belgium

By Johan Van Gompel, KBC Group

This comment will focus on the expected development of house prices in Belgium over the coming years, offering an insight as to which factors have and will influence house price developments, also by looking at past experiences to understand the likelihood of possible corrective movements that may take occur.

In Belgium, house prices rose by almost 15% nominally between the first quarter of 2008 and the second quarter of 2014, in contrast with a drop of almost 6% across the euro area as a whole (according to the ECB). Aside from the new EU Member States, the only countries where prices increased even faster over the same period are Austria and Luxembourg, although previous increases in these countries were much lower than in Belgium. Belgium and Finland are the only countries (among those where prices have risen considerably before the crisis), in which there has not been a significant real estate correction during recent years. Since the beginning of 2008, real house prices in Belgium reached a relatively stable level after correcting for inflation.

The fact that this market has survived the crisis, however, does not mean that there has been no correction at all. Between the autumn of 2008 and the spring of 2009, sales took a dip and prices dropped by 3.4%. The market situation returned to normal as of the summer of 2009. The figures for the latest quarters however point to a slowing down in market activity. This deterioration chiefly affected the number of real estate transactions, which dropped by one fifth, and the number of mortgage loans granted, which decreased considerably: the data provided by the real estate agencies show that selling houses has become more difficult over the last two years. For the time being, the effect of this situation on the evolution of house prices is rather limited: the prices of existing houses have decreased slightly, by 1%-1.5%.

The question of whether or not those indications must be seen as a sign of future price corrections partially depends on the extent to which the market may or may not be overvalued. For the purpose of this assessment, use is being made (by the OECD among others) of the link between house prices on the one hand and income or rent on the other. The conclusion on the basis of the price-to-income ratio could be that the Belgian real estate market is strongly overvalued. If Q1 1980 – Q1 2014 is taken as reference period, this overvaluation amounted to 48% at the beginning of this year. The price-to-rent ratio holds a comparison between house prices and rent. If this ratio is calculated on the basis of rent as included in the general consumer price index, it highlights (even more strongly than the price-to-income ratio) a very expensive real estate market in Belgium. With Q1 1984 – Q1 2014 taken as a reference period, the overvaluation as seen from this angle was no less than 54% at the beginning of 2014.

Both benchmarks have the advantage of being very simple. However, they also present the big drawback of taking into account just one aspect (income or rent) and leaving out other factors which have an influence on the price. The affordability of a house for instance depends not only on income, but also on the evolution of mortgage interest, which is a determining factor of reimbursement and hence also of households' capacity to take up loans. A correction of the price-to-income ratio on the basis of the interest evolution shows an overvaluation peak of 22% at the end of 2008. Afterwards, the benchmark improved thanks to a (temporary) house price correction and interest rate decrease, but at the beginning of 2014, overvaluation was still some 12%.

However, one should be careful of drawing the conclusion that the Belgian housing market is the most overvalued market within the euro area.

An analysis based on more refined price determining factors, such as, among other things, the evolution of households' real disposable income, the actual mortgage interest rate and the number of households, as well as on the assumption that the households funding capacity and the demographic need for housing play a decisive role in pricing, shows that the valuation of the Belgian housing market was almost correct during the first quarter of 2014. Unlike the traditional ratios mentioned above, the more encompassing method rather shows a normal and explainable evolution of house prices.

Just like the more limited traditional approaches, the broader analysis only gives an idea of the extent to which the evolution of house prices can be considered to be 'abnormal'. However, an overvaluation, if any, is not unreasonably high, as can be seen on the basis of the real estate price level in Belgium. The average selling price of 226,000 EUR for houses and 211,000 EUR for apartments in Belgium is rather similar to that in other countries.

The broader econometric approach makes it possible to draw up a prospect of the evolution of the house prices in the coming years by taking into account the estimates as for the future development of the determining factors.

Future prospects for the Belgian housing and mortgage markets are based on a persistently strong household creation ratio of approximately 0.8% per year (compared to an annual population increase of 0.5%). From a financial point of view, nominal mortgage interest rates show a gradual and limited increase. Part of this increase is expected to be absorbed by rising inflation, which means that the real mortgage interest rate will continue to be very low over that particular period. Another assumption is that the real growth of households' income will decline during 2015, yet remain positive. This is due to the fact that wage moderation and the on-going process of restoring health to public finances will bear on the evolution of income. Under these circumstances, there would be another increase in real house prices in 2015, after a period of stabilisation through 2013 and 2014.

An analysis of three alternative developments, i.e. (1) a real interest rate which is twice as high as that in the basic prospect by the end of 2017; (2) an annual decrease of households' income by 0.5%; (3) an annual increase of the number of households being only half of that in the basic prospect, leads to the conclusion that real prices will continue to rise in case of a simple incident, because the other two determining factors will safeguard the market. A correction of prices would occur only if these three developments take place simultaneously.

	Base scenario	Develop-ment 1:	Develop-ment 2:	Develop-ment 3:	Develop-ment 4:
		Real interest rate twice as high by the end of 2017	Real decrease of disposable income	Household creation rate being halved	All three develop-ments simulta-neously
2014	0.3	0.3	-0.4	0.2	-0.5
2015	1.8	1.5	0.3	1.2	-0.8
2016	2.7	2.0	0.7	1.7	-1.7
2017	3.1	1.9	0.4	1.8	-3.0

The remarkable fact is that these incidents (or a combination of them) do not significantly affect house prices. Prices will drop considerably only if several determining factors are subject to a long-term and rather extreme change. Of course, one should be careful when interpreting these results. Any model indeed gives only a simplified view of the economic reality. These developments give an idea of price evolution based on the assumption that past links will not change over time. Those links may well change if a decisive change of trends occurs, for instance due to a fundamental modification of real estate taxation.

Denmark

By Kaare Christensen, Association of Danish Mortgage Banks

This comment will give a general picture of the Danish housing and mortgage markets, and outline how current trends can help understand what will be happening in the country over the coming years.

Housing Market

Having experienced some degree of volatility following the bottoming out of prices observed in 2009, Danish house prices increased at a steadier pace over the past couple of years. Overall, developments remain divided between urban and more rural areas, with larger price increases in larger cities, and flat or slightly decreasing prices elsewhere. However, house prices rose in all parts of the country during the spring of 2014. Meanwhile, transaction activity has received a small boost in the spring of 2014, while still remaining low from a historical perspective. This is the current setting upon which any consideration regarding the prospects of the Danish housing market must be based.

The Danish Central Bank, Nationalbanken, forecasts an annual real house price increase of 2.6% in 2014, and 2.7 % in 2015. The expectations are based on a gradual economic recovery with improved consumer confidence and a prospect of rising real income, combined with a continuation of very low interest rates. The historically low interest rates mean that user costs are below the average observed over the past couple of decades, which means that their current level is expected to further stimulate demand.

Varying prospects in terms of economic recovery in different parts of the country, together with a large overhang of unsold properties in rural parts means that geographical variation is expected.

Mortgage Market

In the wake of the financial crisis, net mortgage lending has been boosted by borrowers transferring loans from commercial banks to mortgage banks. Since 2009, mortgage banks have increased outstanding loans to households and companies by more than 400 billion DKK (about 55 billion EUR), while commercial banks have decreased lending by more than 300 billion DKK (about 40 billion EUR) during the same period. This development will likely recede in the coming months and years.

Going forward, prospects for the Danish mortgage market will mainly depend on transaction activity in the real estate market and more fundamental factors such as economic and demographic developments. While net lending will mainly depend on the above-mentioned factors, gross lending in particular will be influenced by interest rate developments. Owing to the market-based mortgage system, interest rate movements pave the way for early redemption as borrowers can realize economic gains by switching loans, providing a further boost to gross lending. Currently, the popularity of fixed rate mortgages is increasing as long-term rates (30-years interest rate fix to maturity) have fallen below 3% per annum. As has been the case for decades, Danish interest rates will be determined by international developments, as Danish rates are linked to European rates through the currency peg with the euro (as Denmark is part of the Exchange Rate Mechanism [ERM II]). Most public forecasts see interest rates remaining low for a while.

Hungary

By Gyula Nagy, FHB Mortgage Bank

This comment will outline how a number of regulatory initiatives and developments are likely to shape the housing and mortgage markets in Hungary in the coming years. Moreover, an expert assessment of the forecast trend in main indicators is provided.

As a consequence of the financial crisis from 2008, annual new housing construction fell from 36,200 in 2008 to 7,300 in 2013. Real house prices were more than 30% lower in late 2013 than in early 2008. The share of non-performing loans increased from 5% to 20% between 2008 and 2014. The number of sales transactions was around 80.000 in 2013. In many respects, 2013 was another difficult year for the housing and mortgage market in Hungary and many analysts and property experts forecasted that 2014 may be the year when the "bottom will be reached" and a turnaround may finally arrive.

As far as the regulatory environment is concerned, new important regulations entered into force in 2014, which will influence the housing and mortgage markets starting from 2015.

In June 2014, Hungary's Supreme Court (the Curia) made a pro-borrower ruling for the revision of the valid terms and conditions of foreign exchange lending. Based on this statement, the government passed a new act, according to which banks have to retrospectively recalculate the exchange rate spreads originally used and all the so-called "unfair" interest rate increases that occurred since the original disbursement of the loan. Once the amounts due to the debtors will be individually recalculated (this is planned for Q1 2015), banks will have to fully compensate the borrowers by reducing their outstanding debt obligations by the calculated amount. Another programme is in the pipeline for the conversion of almost all outstanding foreign currency-denominated mortgage loans during the first half of 2015.

A new regulation will also enter into force starting in January 2015, and that will be regulating the maximum LTV (loan to value) and PTI (payment to income) ratios.

Maximum LTV for HUF-denominated mortgage loans will be 80% (85% in case of financial leasing).
In case of EUR-denominated mortgage loans, the maximum LTV will be 50%, and in the case of other foreign currencies (e.g. CHF), the maximum LTV will be 35%.

The PTI ratio (monthly debt payment to disposable income) will be capped at 50%, and 60% for households with higher income.

Regarding trends in mortgage lending, based on figures of the first 9 months of 2014, positive trends may be observed already. New residential mortgage lending figures in 2014 were already more than 50% higher than in the same period of the previous year, although the absolute figures are still much lower than the monthly volumes observed before the outbreak of the financial crisis in 2008.

Regarding house prices, a slight increase (1%-2%) was observed in the first half of 2014. If the economy continues the good performance observed in the last 5 quarters, a further house price increase may be forecasted for 2015 and beyond. Nevertheless, regional differences in house price developments will probably remain in the future too: the Western part of Hungary and Budapest's inner districts will probably perform better than other parts of the national housing market, and there may be economically depressed areas, where house prices will continue to decrease in 2014 and 2015.

As far as mortgage interest rates are concerned, the Central Bank base rate has reached the historically low level of 2.1%. As a result of the falling interest rate environment, actual lending rates are about 4 percentage points lower than in 2012, as such, we expect mortgage conditions to further improve due to market competition and a prolonged low interest rate environment

Italy

By Marco Marino, Italian Banking Association (ABI)

This comment will provide an outline of the expected main trends in the housing and mortgage markets in Italy. It will also look at existing and newly-introduced regulations that will shape households' behaviour in the coming years with respect to house purchases.

In the first quarter of 2014, the Italian housing and mortgage market showed distinct signs of recovery.

Housing transactions amounted to about 98,000, a 4% increase compared to the first quarter of the previous year; there has not been any significant increase since Q4 2011. Moreover, lending for house purchase increased by 10%. Furthermore, according to a survey of the Italian Banking Association (ABI) that focused on 84 banks and representing about 80% of the Italian banking sector, residential loans increased on an annual basis by 28.6%.

This positive trend reflects a combination of a number of factors, among which is the improvement of the macroeconomic conditions and the fiscal advantages for the "first home" programme that entered into force in 2014 and that might have postponed investment decisions of households. At the same time, however, the further decline in house prices may have delayed households' decision to buy a home.

In the coming years, the improvement in economic activity will encourage even more the resumption of housing and mortgage markets.

According to the quarterly survey on the housing market in Italy, prepared by the Bank of Italy, together with Tecnoborsa and Agenzia delle Entrate, the number of real estate agents that have sold or leased a house has increased, and the expectations of operators have improved with respect to short-term trends.

In terms of the mortgage market, according to the Prometeia's survey based on expectations of the Bank of Italy, at the end of 2014, the signals of trend reversal recorded at the beginning of this year should be strengthened, and the market should develop again after three years of contraction.

In 2014, but also in the coming years, the increase in demand for mortgages will be driven by the recovery in disposable income, but also by the extension of subsidies granted for refurbishings introduced by the 2013 Financial Law. Moreover, the improvement in the conditions of banks' access to funding markets will further support the granting of new loans for house purchase, which could also be supported, in part, by the reactivation of subrogation.

According Prometeia's survey, in the last part of 2014, the value of outstanding residential mortgages should grow again (by +0.6%) after two years of reduction, reaching 363 billion EUR. In the following two years, the consolidation of economic growth and the recovery of the housing market will also stimulate more growth in outstanding loans for house purchase.

In June 2014, the initiative called the "Household Plan" ended. This initiative, launched in 2009 by the Italian Banking Association (ABI) together with other Consumers' Associations, allowed households to suspend the payment of mortgage installments for 12 months in case of unemployment, reduction of working hours, death or serious illness. Through moratorium, more than 100,000 loans have been suspended, amounting to approximately 10.9 billion EUR of outstanding debt; thus providing more than 700 million EUR to families in terms of additional liquidity.

In this regard, at the end of the moratorium, ABI, together with the Consumers' Associations promoted a change of Law n. 244/2007, to resume the "Solidarity Fund for the First House Purchase", in order to allow families to suspend the payment of the mortgage installments for a period of maximum 18 months in case of unemployment, death, or serious illness. The Fund is managed by State Agency (Consap Spa). Consap will refund the Euribor or EurIRS parameter to the bank meanwhile the household will repay only the difference between the final rate and the parameter for the residual period of amortisation.

At the beginning of October 2014, the Italian Treasury and ABI have launched another important initiative to sustain house purchase by consumers in the coming years, based on a new guarantee fund for homes. The fund's capital amounts to 650 million EUR and it is aimed at providing guarantees up to 50% of the capital share of mortgages not exceeding 250,000 EUR, granted to purchase, refurbish or increase the efficiency of homes; the fund is guaranteed by the State. The fund could represent an important measure to sustain the access to credit for housing purchase and for the revival of the real estate sector, also in terms of energy efficiency.

Spain

By Irene Peña Cuenca, Asociación Hipotecaria Española

This comment will look at how Spain's unique situation has reached a turning point, and what this will mean for the housing and mortgage markets in the years to come.

The improvement of the economic situation, combined with the deep adjustments carried out by the real estate and financial sectors have created favourable conditions for the reactivation of residential and mortgage activity in the coming years in Spain.

On the macroeconomic side, GDP maintained a moderate pace of positive growth from the second half of 2013 up to the second half of 2014. The latest government forecasts estimate an annual growth at the end of the year of 1.2%. The deterioration of the labour market also seems to have come to an end. Reduction in the unemployment rate has been observed in recent quarters.

All in all, this creates a comfortable environment for the recovery of households' confidence and thus of housing demand. This is also supported by the positive evolution of two additional elements that are decisive for demand: interest rates and house prices.

With the ECB' rate on main refinancing operations standing at 0.15%, and the lack of inflationary pressures in the euro area, interest rates are expected to remain at minimum levels for 2014 and 2015. The main interest rate reference for variable mortgage loans in Spain is Euribor 12 months, which, influenced by the decisions of the ECB, has maintained a downward trend since its peak recorded in 2008. It is expected to end the year with an average value below 0.5%.

Moreover, average house prices have experienced a sharp correction since the beginning of the crisis, which has favoured an improvement in affordability levels. Since their maximum levels of 2008, housing prices have recorded an accumulated decrease of 35%, in nominal terms, down to their 2003-04 levels. It is not expected, however, that prices will undergo further substantial decreases; this is confirmed by the recent evolution of the main indicators. Signs of a clear slowing down in the pace of adjustment of prices have been observed since the end of 2013, and slight increases have been recorded in areas where housing demand has proven to be more resilient.

However, in spite of the improving conditions, the reactivation of housing demand will rely particularly on that segment of buyers that is most solvent: those who have kept their job in the last years of crisis, and are willing to purchase a house but postponed their decision due to the uncertainty surrounding the evolution of the economy and house prices.

Regarding young people and lower income groups, it will probably take more time before this segment of demand can access to the housing market. A future challenge will be to try to promote this segment of house purchase, which for reasons of solvency and a more cautious attitude of banks, cannot access mortgage lending.

On the supply side of credit, as a result of the reforms undertaken by the financial sector and that culminated with the positive results of the Asset Quality Review (AQR) carried out by the ECB, the Spanish institutions have proved to be among the healthiest in the euro area, with high levels of capitalisation and provisions. This has been made possible mainly as a consequence of the reforms undertaken by financial institutions in order to meet the requirements established in the Memorandum of Understanding agreed on in July 2012. This included restructuring and recapitalisation plans, along with the segregation of problematic assets linked to the real estate sector into an external Asset Management Company by those banks receiving public support.

The magnitude of the above-mentioned reforms constrained lending supply in recent years, especially in the period 2011-2013. However, the consolidation of the process has allowed financial institutions to gradually reactivate, in 2014, their retail lending policies. Gross residential lending has increased in the first half of the year, by 20% compared with the same period of 2013. However, the increases observed in new lending will be insufficient to compensating for the amortisation levels of the residential portfolio. As a consequence, a decrease is expected in outstanding residential lending for 2014 and, to a lesser extent, 2015.

Additionally, the correct assessment of risk and profitability will be decisive elements in the process of granting loans. The impact of the crisis on households' financial wealth and the trend of higher prudential standards in lending activity will determine a growth of mortgage issuance mainly based on profitability rather than on volume. In this regard, interest rates spreads will better reflect loans' risk and will tend to widen as a consequence.

To conclude, although all the elements for the reactivation of the residential and mortgage market are in place, the consolidation of the recovery will depend on the evolution of both the national and European economy. The complete normalisation of wholesale funding markets will also be an important determinant and, in this regards, the success of the development of the banking union and monetary policies aimed at reducing fragmentation among European banks will have a key role in supporting the recovery.

Sweden

By Christian Nilsson, Swedish Bankers' Association

This comment will look at the expected developments in the housing and mortgage markets in Sweden by focusing on the four main indicators of these markets: construction, mortgage lending, house prices and interest rates.

Construction

Construction increased in 2013 by almost 50%, but from comparatively low levels. The National Board of Housing expects that the construction figures will increase slightly in 2014 compared to 2013, to around 35,000 dwellings. If the economy continues to strengthen in 2015, the National board of housing expects further construction increases in 2015.

Several factors indicate increasing construction. The Swedish economy is expected to see continuing growth over the coming years and demand for housing is still strong. Employment increased in Sweden, despite population growing at the same pace; unemployment is expected to decrease slightly. The interest rates will be low in the coming years; at the end of October, the Swedish Central Bank lowered the repo-rate to a record low of 0%.

Even if there are several factors which will promote construction and mortgage lending, authorities are worried about households' debt, and will probably present new measures to reduce the growth of mortgage debt. In recent years, the Swedish FSA, Finansinspektionen, has introduced some measures, such as an LTV cap of 85% on new loans (2010) and a minimum risk-weight for mortgages of 25% (Pillar II requirement). In addition, banks have followed recommendations from the Swedish Bankers' Association on amortisation, which states that new mortgage loan should normally be amortised down to an LTV of 70%. It was recently announced that Finansinspektionen, the Swedish supervisory authority, will introduce new amortisation rules. New mortgage holders are to repay their mortgages down to 50% LTV. Annual repayments of at least 2% will first be made on loans down to 70% LTV. Thereafter, at least 1% is to be repaid annually down to 50% LTV.

There is a housing shortage in many cities in Sweden, and especially in the larger cities and in other expanding cities and university towns. Population growth and urbanisation continues and so demand for housing grows. The prospected construction growth will probably not be enough to meet the demand from the growing large city populations. Also, the newly-built housing is not affordable to all social groups.

Mortgage Lending

Mortgage lending to households has been quite stable over recent years, with a growth rate of around 4.5%-5%. Lending for the purchase of apartments is however considerably higher, and grew at 9.7% annually in September 2014, compared to 6.5% in September 2012.

Even if the growth rate of total mortgage lending looks quite stable, it has been slowly growing over the last seven months. Looking at the current situation, with sinking interest rates, stable unemployment, a growing economy and strong demand for housing, the observed mortgage lending growth rate will probably continue or even increase in the near future. However, as described above, authorities are worried about increasing household debt and will probably take further measures to slow down this debt increase. Also, banks will demand further amortisations due to increased restrictions against interest-only loans.

There are factors indicating further growth of mortgage lending, but authority and bank measures might indicate the opposite or a stable growth.

House Prices

Prices of houses and apartments have increased continuously since 2012, and in September 2014 prices of single family homes increased by 9.4% annually, and apartments by 14.5%. These price increases are comparatively high, and have not been higher since 2010.

As described above, there are several factors indicating further demand for housing and stable or increasing prices. Construction figures have been too low for many years, and even if construction figures are increasing it will probably not meet the increasing demand. Interest rates are also at record lows, and unemployment is stable or even sinking.

However, house prices are very hard to predict, and as described above, authorities and banks are taking measures to lower the debt increases among households. In the near future, house prices will probably continue to remain high, but the development in the long-run is very difficult to predict.

Interest Rates

Mortgage interest rates have been falling almost continuously since 2011. Variable interest rates have reached their lowest levels since 2010, and fixed interest rates have not been this low in at least 30-40 years.

In the end of October, the Swedish Central Bank lowered the repo rate down to 0%, and this immediately caused mortgage interest rates to drop by 0.1 to 0.2 percentage points. The central bank will keep the interest rate at very low levels until inflation clearly returns toward the target rate of 2%. This will probably take up to two years, and until then, the repo rate will remain comparatively low. This will also put further pressure on mortgage interest rates. Inflation pressure from abroad is also weak, and Swedish banks have low funding costs on the market. There are several indications that mortgage market rates will be low in the near future.

A. The Mortgage Market

1. Total Outstanding Residential Loans

Total amount, end of the year, EUR million

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	35,998	39,746	48,078	54,828	61,793	65,897	72,061	73,455	80,008	83,960	86,281	87,638
Belgium	74,460	81,344	89,414	101,092	114,105	126,383	137,016	151,738	161,723	172,049	183,615	189,484
Bulgaria	n/a	n/a	n/a	n/a	n/a	2,795	3,806	3,798	3,714	3,589	3,573	3,507
Croatia	n/a	n/a	n/a	n/a	5,024	6,168	7,499	7,661	8,258	8,363	8,293	8,059
Cyprus	870	1,162	1,487	4,131	5,421	6,935	8,501	10,388	11,921	12,545	12,679	11,854
Czech Republic	1,493	2,395	3,854	6,178	8,306	13,056	15,099	16,623	18,356	19,761	21,750	21,694
Denmark	109,702	121,725	134,678	156,763	177,449	195,265	206,735	216,741	223,467	228,231	231,815	233,499
Estonia	831	1,230	1,873	3,184	5,194	6,958	7,713	7,494	7,244	7,063	6,905	6,907
Finland	30,599	36,047	41,543	48,489	55,307	62,172	67,632	71,860	76,747	81,781	86,346	88,313
France	350,700	385,400	432,300	503,600	577,800	651,900	700,200	730,500	795,200	843,200	870,040	902,640
Germany	1,139,830	1,156,341	1,157,026	1,162,588	1,183,834	1,155,742	1,145,404	1,146,969	1,152,195	1,163,783	1,184,853	1,208,822
Greece	21,225	26,778	34,052	45,420	57,145	69,363	77,700	80,559	80,507	78,393	74,634	71,055
Hungary	3,306	5,746	7,765	10,565	13,688	17,397	22,346	22,463	24,659	21,950	19,985	18,499
Ireland	47,212	59,621	77,615	99,416	123,988	140,562	148,803	147,947	103,043	100,588	97,462	94,862
Italy	n/a	154,327	184,951	217,147	244,314	265,454	264,288	280,337	352,111	367,645	365,588	361,390
Latvia	n/a	725	1,322	2,513	4,677	6,764	7,136	6,808	6,498	6,019	5,373	5,062
Lithuania	337	668	1,258	2,268	2,997	4,849	6,055	6,027	5,983	5,934	5,811	5,652
Luxembourg	6,647	8,291	9,335	10,586	12,018	14,676	15,940	17,077	18,591	20,255	21,715	23,389
Malta	878	1,030	1,256	1,522	1,775	2,021	2,228	2,472	2,684	2,914	3,111	3,302
Netherlands	373,198	400,153	433,383	480,191	511,156	550,283	592,114	615,487	632,267	646,504	652,725	632,223
Poland	7,061	8,693	9,642	14,646	22,795	36,632	51,750	53,005	67,526	71,883	79,434	80,650
Portugal	64,838	66,425	71,101	79,452	91,896	101,094	105,209	110,685	114,515	113,916	110,520	106,585
Romania	n/a	n/a	n/a	766	2,176	4,203	5,715	5,687	6,722	7,561	8,766	9,327
Slovakia	1,011	1,415	2,196	3,078	5,209	6,773	8,536	9,469	10,849	12,320	13,701	15,304
Slovenia	201	263	800	1,368	1,956	2,670	3,398	3,933	4,844	5,164	5,259	5,307
Spain	261,921	312,916	384,631	475,571	571,803	646,676	674,434	678,872	680,208	666,946	641,510	612,819
Sweden	133,314	146,200	163,713	176,551	205,210	217,881	206,210	238,424	292,263	308,498	334,922	340,379
UK	1,037,928	1,099,022	1,244,573	1,411,090	1,606,490	1,618,895	1,287,432	1,391,257	1,440,258	1,491,974	1,553,837	1,531,585
Euro area 18	2,410,418	2,733,213	2,972,362	3,294,175	3,629,391	3,882,323	4,038,312	4,146,049	4,291,155	4,385,044	4,422,316	4,426,955
EU 28	3,703,559	4,117,663	4,537,846	5,073,002	5,673,525	5,999,464	5,850,960	6,107,735	6,382,360	6,552,789	6,690,501	6,679,807
Iceland	n/a	n/a	n/a	n/a	n/a	5,614	1,962	1,589	2,003	1,908	2,158	2,823
Norway	100,240	98,409	113,088	135,541	151,401	175,091	157,299	190,027	212,462	230,179	262,900	247,343
Russia	n/a	n/a	n/a	1,558	6,744	16,985	25,927	23,425	27,667	35,412	49,522	58,442
Turkey	n/a	n/a	n/a	8,187	12,542	18,905	18,103	20,833	29,381	30,530	36,535	37,326
USA	6,590,922	6,153,127	6,506,424	8,508,858	8,473,576	8,114,598	8,622,907	8,185,478	8,453,076	8,548,497	8,241,246	7,843,666

Source: European Mortgage Federation National Experts, European Central Bank, National Central Banks, Federal Reserve

1) Time series breaks:

- Ireland: 2010 (different definition used from 2010 – see point (3) Notes)
- Italy: 2010 (due to a change of methodology)
- Luxembourg: 2003 (due to a change in the statistical source)
- Netherlands: 2006 (due to a change of methodology)
- Norway: 2009 (due to a change in methodology)
- Poland: 2007 (due to a change of methodology)
- Romania: 2007 (due to a change of methodology)
- Slovakia: 2006 (due to a change of methodology)
- Sweden: 2004 (due to a change in the statistical source)

2) The series has been revised for at least two years in:

- Austria
- Bulgaria
- Croatia
- Belgium
- Estonia
- France
- Iceland
- Ireland
- Latvia
- Netherlands
- Norway
- Romania
- Slovenia
- UK
- USA

3) Notes:

- Please note that for Ireland, this series includes all housing loans until 2009. From 2010, this series represents only housing loans for owner-occupied dwellings.
- For further details on the methodologies, please see "Annex: Explanatory Note on Data".
- n/a: figure not available.
- Please note that the conversion to euros is based on the bilateral exchange rate at the end of the period (provided by the ECB).
- Please note that due to the conversion to euros, changes observed for countries not belonging to the euro area may be due to exchange rate fluctuations. To obtain values in national currency, please refer to the exchange rates used, on Table 27 of this publication.

2. Change in Outstanding Residential Loans

End of period, EUR million

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	6,366	3,748	8,332	6,750	6,965	4,104	6,164	1,394	6,553	3,952	2,321	1,357
Belgium	5,220	6,884	8,070	11,679	13,013	12,277	10,634	14,722	9,985	10,326	11,566	5,869
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	1,011	-8	-85	-125	-16	-66
Croatia	n/a	n/a	n/a	n/a	n/a	1,144	1,331	162	597	105	-70	-234
Cyprus	190	292	325	2,644	1,291	1,514	1,566	1,886	1,533	624	134	-825
Czech Republic	n/a	902	1,459	2,324	2,128	4,750	2,044	1,523	1,733	1,405	1,989	-56
Denmark	8,261	12,023	12,953	22,085	20,686	17,816	11,470	10,006	6,726	4,764	3,584	1,684
Estonia	240	399	643	1,311	2,010	1,764	755	-219	-250	-181	-159	2
Finland	3,503	5,448	5,496	6,947	6,818	6,865	5,460	4,228	4,887	5,034	4,565	1,967
France	26,100	34,700	46,900	71,300	74,200	74,100	48,300	30,300	64,700	48,000	26,840	32,600
Germany	17,021	16,511	685	5,562	21,246	-28,092	-10,338	1,565	5,226	11,588	21,070	23,969
Greece	5,573	5,553	7,274	11,368	11,725	12,218	8,337	2,859	-52	-2,114	-3,759	-3,579
Hungary	1,986	2,440	2,020	2,799	3,124	3,709	4,948	117	2,196	-2,708	-1,965	-1,486
Ireland	8,869	12,409	17,994	21,801	24,572	16,574	8,241	-856	-44,904	-2,455	-3,126	-2,600
Italy	n/a	n/a	30,625	32,195	27,167	21,140	-1,166	16,049	71,775	15,534	-2,057	-4,198
Latvia	n/a	n/a	597	1,192	2,163	2,087	372	-329	-310	-479	-646	-311
Lithuania	149	331	590	1,010	729	1,852	1,206	-29	-44	-49	-123	-159
Luxembourg	490	1,644	1,044	1,251	1,432	2,658	1,264	1,137	1,514	1,664	1,460	1,674
Malta	110	152	226	266	253	246	207	244	212	230	197	191
Netherlands	46,153	26,955	33,230	46,808	30,965	39,127	41,831	23,373	16,780	14,237	6,221	-20,502
Poland	1,297	1,632	949	5,004	8,149	13,837	15,118	1,255	14,521	4,357	7,551	1,217
Portugal	7,473	1,587	4,676	8,351	12,444	9,198	4,115	5,476	3,830	-599	-3,396	-3,935
Romania	n/a	n/a	n/a	n/a	1,410	2,027	1,512	-28	1,035	839	1,205	562
Slovakia	n/a	404	781	882	2,131	1,564	1,763	933	1,380	1,471	1,381	1,603
Slovenia	102	62	537	568	588	714	728	535	911	320	95	48
Spain	41,008	50,995	71,715	90,940	96,232	74,873	27,757	4,438	1,337	-13,262	-25,436	-28,691
Sweden	11,040	12,886	17,512	12,838	28,659	12,671	-11,671	32,214	53,838	16,236	26,424	5,457
UK	66,112	61,095	145,550	166,517	195,400	12,406	-331,463	103,825	49,001	51,716	61,862	-22,252
Euro area 18	169,428	322,796	239,149	321,813	335,215	252,932	155,989	107,736	145,106	93,889	37,272	4,639
EU 28	259,767	414,104	420,182	535,156	600,523	325,940	-148,504	256,774	274,626	170,429	137,713	-10,695
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	-3,652	-373	414	-95	250	666
Norway	18,891	-1,831	14,680	22,452	15,861	23,690	-17,792	32,728	22,435	17,717	32,721	-15,556
Russia	n/a	n/a	n/a	n/a	5,187	10,241	8,942	-2,501	4,242	7,745	14,110	8,920
Turkey	n/a	n/a	n/a	n/a	4,355	6,363	-802	2,729	8,548	1,149	6,005	792
USA	-351,095	-437,795	353,296	2,002,434	-35,282	-358,978	508,309	-437,429	267,598	95,421	-307,251	-397,580

Source: European Mortgage Federation National Experts, National Central Banks, Federal Reserve

1) Time series breaks:
- See Table 1

2) The series has been revised for at least two years in:
- See Table 1

3) Notes:
- For further details on the methodologies, please see “Annex: Explanatory Note on Data”.
- n/a: figure not available.
- Please note that the time series are the result of the variation between two consecutive amounts of outstanding mortgage loans.
- Please note that the conversion to euros is based on the bilateral exchange rate at the end of the period (provided by the ECB).
- Please note that due to the conversion to euros, changes observed for countries not belonging to the euro area may be due to exchange rate fluctuations. To obtain values in national currency, please refer to the exchange rates used, on Table 27 of this publication.

3. Gross Residential Loans

Total amount, EUR million

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	n/a	7,101	7,064	8,861	9,467	10,765	11,130	11,761	12,941	14,501	15,441	15,874
Belgium	11,688	18,134	17,264	25,198	24,323	22,825	21,531	22,076	26,768	28,074	25,994	24,431
Bulgaria	n/a	n/a	n/a	n/a	n/a	1,783	1,648	617	669	656	599	635
Czech Republic	735	1,202	1,590	2,609	4,094	5,395	4,935	2,689	3,216	4,757	4,566	5,453
Denmark	33,870	52,551	46,489	77,592	49,993	43,272	36,964	49,703	47,453	29,716	52,581	32,610
Estonia	375	597	931	1,738	2,918	2,839	1,960	705	634	698	781	918
Finland	10,404	13,139	14,686	18,555	19,756	21,215	19,669	16,161	18,526	20,124	19,114	15,220
France	78,500	95,800	113,400	134,500	149,080	146,800	128,600	109,600	138,437	145,546	117,093	109,953
Germany	103,400	123,000	114,400	123,100	133,600	132,000	132,800	131,300	142,700	150,600	162,900	171,800
Greece	n/a	5,905	8,036	13,610	15,444	15,199	12,435	7,966	n/a	n/a	n/a	n/a
Hungary	n/a	n/a	n/a	2,931	4,197	5,787	6,240	1,907	1,398	1,294	1,214	622
Ireland	10,825	13,524	16,933	34,114	39,872	33,808	23,049	8,076	4,746	2,463	2,636	2,494
Italy	43,138	52,397	62,273	72,678	82,148	83,604	74,102	64,021	67,800	59,196	32,683	28,948
Lithuania	210	348	594	865	1,171	1,852	1,808	1,050	706	876	856	856
Luxembourg	2,308	2,745	3,386	3,957	4,376	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Malta	n/a	n/a	n/a	226	266	245	205	244	210	227	n/a	n/a
Netherlands	81,385	65,208	74,900	102,793	106,661	82,711	73,197	53,107	63,500	73,315	54,580	n/a
Portugal	n/a	12,944	18,260	17,578	18,391	19,632	13,525	9,330	10,105	4,853	1,935	2,049
Romania	n/a	n/a	n/a	2,119	3,648	7,864	n/a	n/a	n/a	n/a	n/a	n/a
Slovakia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,332	3,329	3,922	3,803	4,873
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	672	1,456	1,213	928	705	597
Spain	70,527	91,387	109,028	139,315	156,408	135,576	83,780	68,918	60,986	32,198	26,925	17,069
Sweden	23,735	29,558	33,299	43,885	41,290	43,895	33,776	39,909	45,077	38,887	40,616	46,497
UK	351,028	400,789	429,153	421,585	506,586	530,084	318,958	161,431	157,771	162,799	179,209	207,421
Euro area 18**	n/a	n/a	n/a	575,637	635,963	609,064	510,819	445,735	488,185	463,102	410,010	394,226
EU 28*	738,437	912,470	985,365	1,125,104	1,243,294	1,241,132	915,147	703,041	744,476	702,086	689,650	688,320
Russia	n/a	n/a	n/a	1,601	7,726	15,891	18,006	3,455	9,311	17,166	25,589	29,872
Turkey	n/a	n/a	n/a	6,938	8,626	8,696	8,057	9,811	15,939	12,728	12,305	n/a
USA	3,050,973	3,487,447	2,347,456	2,507,837	2,373,367	1,773,076	1,019,853	1,319,186	1,229,539	1,056,034	1,482,721	n/a

Source: European Mortgage Federation National Experts, National Central Banks, Federal Reserve

1) Time series breaks:
- France (2007)
- The Netherlands (2003: change of source; 2004-2007: change of methodology)

2) The series has been revised for at least two years in:
- Denmark
- Estonia
- France
- Hungary
- Italy
- Russia
- Slovakia
- Sweden
- UK

3) Notes:
- Data includes internal remortgaging for the following countries: Austria, Slovakia.
- For Sweden, only residential lending from mortgage credit institutions is included. Lending by banks is not included in the above. However, mortgage credit institutions are estimated to constitute around 75% of the total residential mortgage credit market.
- For further details on the methodologies, please see "Annex: Explanatory Note on Data".
- n/a: figure not available.
- Please note that the conversion to euros is based on the yearly average bilateral exchange rate (provided by the ECB).

* "EU 28" = AT, BE, BG, CZ, DE, DK, EE, ES, FI, FR, HU, IE, IT, LT, PT, SE, SI, SK, UK.

** "Euro area" = AT, BE, DE, EE, ES, FI, FR, IE, IT, PT, SI, SK.

4. Representative Interest Rates on New Residential Loans

Annual average based on monthly figures, %

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Type	Share	Share of currency
Austria	5.36	4.41	3.90	3.58	3.80	4.79	5.32	3.71	2.71	2.86	2.71	2.39	1		
Belgium	n/a	5.00	4.75	4.10	4.15	4.63	5.02	4.55	4.09	3.95	3.73	3.65	1		
Bulgaria	n/a	n/a	n/a	n/a	n/a	8.31	9.09	10.09	8.97	8.23	7.51	6.90	1 (o)		72 (BGN)
Croatia	7.76	7.02	6.19	5.20	4.81	4.94	5.78	6.36	6.32	5.48	5.45	5.04	1 (o)		>99 (HRK)*
Cyprus	6.75	6.06	6.61	5.90	5.45	5.61	6.43	5.57	4.35	5.08	5.23	4.91	1		
Czech Republic	n/a	5.16	4.79	3.96	4.18	4.69	5.61	5.61	4.90	4.04	3.52	3.26	1		
Denmark**	n/a	4.93	4.28	4.06	4.89	5.81	6.27	3.90	3.27	3.40	2.98	2.61	1 (o)		100** (EUR+DKK)
Estonia	7.41	5.64	4.47	3.27	4.26	5.53	5.83	3.87	3.50	3.42	2.89	2.62	1		
Finland	n/a	3.48	3.14	3.02	3.71	4.71	5.02	2.42	1.99	2.49	1.97	1.98	1		
France	5.21	4.43	4.07	3.67	3.82	4.41	5.01	4.39	3.64	3.80	3.77	3.19	1		
Germany	n/a	5.01	4.93	4.29	4.55	4.96	5.04	4.42	3.89	3.94	3.07	2.75	4	41.0	
Greece	n/a	4.51	4.30	4.06	4.24	4.57	5.10	3.52	3.42	4.28	3.32	2.92	2	100.0	
Hungary	n/a	13.54	16.07	13.15	11.05	11.34	11.67	13.15	9.77	10.87	12.66	9.64	2	40.1	
Ireland	n/a	3.81	3.39	3.38	4.03	4.92	5.16	3.04	3.13	3.44	3.25	3.44	1		
Italy	n/a	4.11	3.69	3.64	4.40	5.46	5.69	3.63	2.67	3.32	4.02	3.65	1		
Latvia	n/a	n/a	5.00	4.43	4.83	5.99	6.65	4.88	3.88	4.05	3.89	3.28	1		
Lithuania	n/a	n/a	n/a	3.32	4.06	5.40	5.83	4.17	3.70	3.71	2.97	2.39	1 (o)		69 (EUR)
Luxembourg	n/a	3.81	3.40	3.52	3.95	4.75	4.90	2.38	2.00	2.25	2.14	1.98	2	70.5	
Malta	n/a	n/a	n/a	n/a	n/a	n/a	4.96	3.41	3.41	3.35	3.35	3.17	1		
Netherlands	5.44	4.50	4.18	3.76	4.38	4.97	5.34	4.86	4.52	4.55	4.27	3.78	1		
Poland	n/a	n/a	7.80	6.98	5.74	6.09	8.05	7.23	6.48	6.70	6.95	5.14	1 (o)		99 (PLN)
Portugal	n/a	3.79	3.45	3.34	3.98	4.78	5.42	2.69	2.43	3.74	3.89	3.24	2	91.6	
Romania	n/a	n/a	n/a	n/a	n/a	6.60	6.67	7.16	5.31	5.84	5.03	4.73	2 (o)	86.5	67 (EUR)***
Slovakia	n/a	n/a	n/a	n/a	n/a	n/a	6.04	5.90	5.24	4.84	4.74	4.10	1		
Slovenia	n/a	5.29	4.99	4.71	5.44	6.13	6.74	4.15	3.27	3.79	3.33	3.17	1		
Spain	n/a	3.59	3.19	3.18	4.03	5.06	5.64	3.16	2.44	3.23	3.15	2.86	2	67.9	
Sweden	5.07	4.03	3.12	2.50	3.07	4.21	5.18	1.78	2.03	3.80	3.50	2.58	2	69.4	
UK	n/a	n/a	4.95	5.17	5.05	5.69	5.75	4.21	3.78	3.56	3.66	3.32	1		
Iceland	n/a	n/a	4.21	4.17	4.69	5.24	6.03	5.66	5.10	4.76	4.11	n/a	6		
Russia	n/a	n/a	n/a	14.90	13.70	12.60	12.90	14.30	13.10	11.90	12.30	12.40	1 (o)		
Turkey	48.26	40.44	27.81	17.65	18.27	18.30	18.63	15.60	11.03	11.59	12.40	9.69	1 (o)		
USA	6.54	5.82	5.84	5.86	6.41	6.34	6.04	5.04	4.69	4.46	3.66	3.98	6		

Source: European Mortgage Federation National Experts, European Central Bank, National Central Banks, Federal Reserve

1) Time series breaks:

- Czech Republic: 2013 (source was changed from 2013 to the Central Bank data; the 2013 value from the old source is 3.07)
- Croatia: 2012 (new series from 2012 onwards due to revised methodology)
- Denmark: 2013 (new series was started by the Central Bank in September 2013, with different MFI and households definitions)
- Iceland: 2005 (in 2004, the average is based on data between September and December)
- Slovakia: 2009 (before 2009, the reference currency for the interest rate was SKK)
- Slovenia: 2007 (before 2007, the reference currency for the interest rate was SIT)
- Sweden: 2005 (before 2005, the average was calculated with quarterly data)

2) The series has been revised for at least two years in:

- Belgium
- Czech Republic
- Denmark
- Hungary
- Luxembourg
- Poland
- Slovakia
- Slovenia
- Sweden
- UK

3) Notes:

- For further details on the methodologies, please see “Annex: Explanatory Note on Data”.
- n/a: figure not available.
- For national definitions of representative interest rates on new residential loans, please see the methodological Annex (“Explanatory Note on data”).
- **Type**: The type of new residential loan related to the published representative interest rate is provided in the column “type”. There are 6 main types:
  (1) Weighted average interest rate on loans to households for house purchase.
  (2) Initial fixed period interest rate up to 1 year on loans for house purchase.
  (3) Initial fixed period interest rate over 1 and up to 5 years on loans for house purchase.
  (4) Initial fixed period interest rate over 5 and up to 10 years on loans for house purchase.
  (5) Initial fixed period interest rate of over 10 years on loans for house purchase.
  (6) Other.
  For countries where, in 2013, there was a significant market share of new residential loans in more than one currency, the symbol “(o)” is added.
- **Share**: The share of the type of national new residential loans in the total national new residential loans is provided in the column “Share” (at end-2013, in %).
- **Share of currency**: For countries where new residential mortgage loans in 2013 were issued in more than one currency, the “Share of currency” column shows the coverage (in percent) of the market referred to the rate reported and the currency(-ies) it refers to.

* The data is based on loans in HRK, indexed to foreign currencies. At end 2013, this represented 70.7% of all loans made by Croatian banks in HRK.

** Due to the series break in September 2013, the 2013 data refers to the average of the 4 months from September using the new series. Data prior to 2013 refers to new mortgage loans only in DKK.

*** This value refers to the proportion of net mortgage lending in 2013 that was issued in EUR, not the new business at end 2013.

5. Total Outstanding Non-Residential Mortgage Loans

Total amount, end of year, EUR million

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Czech Republic	539	966	1,375	1,669	2,515	3,070	4,783	5,304	5,718	5,745	5,982	5,726
Denmark	71,009	76,199	81,686	88,571	96,052	106,807	119,169	127,097	130,974	134,266	137,086	143,532
Estonia	1,240	1,490	2,086	3,380	5,380	7,045	7,464	7,098	6,640	6,076	6,272	6,361
Finland	n/a	33,714	36,701	39,452	42,875	48,386	57,594	54,093	56,471	60,361	63,282	66,724
Germany	232,701	257,432	258,045	258,569	256,332	260,008	254,862	255,721	251,450	259,134	254,014	250,631
Greece	2,903	3,247	4,040	4,190	4,194	4,774	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	n/a	2,073	2,633	2,949	3,609	4,744	7,401	7,838	8,380	7,051	6,805	6,112
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	32,734	29,979	29,269	27,710
Italy	42,983	43,292	50,782	53,888	63,752	69,150	66,240	71,311	74,015	73,212	93,216	87,269
Latvia	n/a	285	470	1,057	2,050	2,650	3,233	3,072	2,571	2,210	1,815	1,629
Netherlands	18,509	20,157	23,204	24,317	25,065	23,440	23,772	n/a	n/a	n/a	n/a	n/a
Poland	718	1,141	1,732	2,316	3,673	5,540	8,755	8,637	14,081	13,702	15,942	15,622
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	18,363	19,135	18,937	18,368
Spain	115,092	154,952	197,801	263,763	339,620	400,765	414,512	420,669	396,719	339,739	235,151	159,599
Norway	n/a	n/a	n/a	n/a	n/a	n/a	n/a	54,235	64,006	69,377	74,798	63,615
USA	1,305,998	1,202,613	1,227,443	1,622,362	1,662,263	1,668,705	1,950,780	1,827,364	1,868,208	1,876,420	1,819,236	1,790,153

Source: European Mortgage Fedearation National Experts, National Central Banks, Federal Reserve

1) Time series breaks:
- Latvia: 2003 (due to a change in the statistical source)

2) The series has been revised for at least two years in:
- Denmark
- Estonia
- Ireland
- Italy
- Romania
- USA

3) Notes:
- For further details on the methodologies, please see “Annex: Explanatory Note on Data”.
- n/a: figure not available.
- Please note that the conversion to euros is based on the bilateral exchange rate at the end of the period (provided by the ECB).
- Please note that due to the conversion to euros, changes observed for countries not belonging to the euro area may be due to exchange rate fluctuations. To obtain values in national currency, please refer to the exchange rates used, in Table 27 of this publication.

6. Total Outstanding Residential Loans to GDP Ratio

%

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	16.3	17.7	20.5	22.4	23.9	24.0	25.5	26.6	28.1	28.1	28.1	28.0
Belgium	27.7	29.5	30.7	33.3	35.8	37.6	39.6	44.5	45.5	46.6	48.9	49.5
Bulgaria	n/a	n/a	n/a	n/a	n/a	9.1	10.7	10.9	10.3	9.3	8.9	8.8
Croatia	n/a	n/a	n/a	n/a	12.6	14.2	15.8	17.1	18.6	18.9	19.1	18.7
Cyprus	7.9	10.0	11.8	30.4	37.0	43.6	49.5	61.6	68.5	70.2	71.6	71.8
Czech Republic	1.8	2.8	4.2	5.9	7.0	9.9	9.8	11.7	12.2	12.7	14.2	14.5
Denmark	59.4	64.6	68.3	75.6	81.1	85.8	87.9	96.9	94.6	94.9	94.5	93.8
Estonia	10.7	14.1	19.3	28.5	38.8	43.3	47.5	53.6	49.9	43.6	39.5	37.1
Finland	21.3	24.8	27.3	30.8	33.4	34.6	36.4	41.7	42.9	43.3	44.9	45.7
France	22.7	24.3	26.1	29.3	32.1	34.6	36.2	38.7	41.1	42.1	42.8	43.8
Germany	53.5	53.8	52.7	52.3	51.2	47.6	46.3	48.3	46.2	44.6	44.4	44.2
Greece	13.6	15.5	18.4	23.5	27.4	31.1	33.3	34.9	36.2	37.6	38.6	39.0
Hungary	4.7	7.8	9.5	11.9	15.3	17.5	21.2	24.6	25.6	22.2	20.6	18.9
Ireland	36.1	42.4	51.7	61.0	69.8	74.1	82.6	91.2	65.2	61.9	59.5	57.8
Italy	n/a	11.5	13.2	15.1	16.4	17.1	16.8	18.4	22.7	23.3	23.3	23.2
Latvia	n/a	7.3	11.8	19.4	29.3	32.2	31.2	36.8	36.0	29.8	24.1	21.7
Lithuania	2.2	4.0	6.9	10.8	12.4	16.9	18.7	22.6	21.6	19.2	17.6	16.3
Luxembourg	27.7	32.1	34.0	35.0	35.4	39.1	42.7	48.0	47.3	48.5	50.6	51.4
Malta	18.9	22.2	26.9	30.9	34.1	36.2	37.4	41.5	41.6	43.5	45.0	45.5
Netherlands	80.2	83.9	88.2	93.5	94.6	96.2	99.6	107.4	107.8	107.9	108.9	104.9
Poland	3.4	4.5	4.7	6.0	8.4	11.8	14.2	17.1	19.0	19.4	20.8	20.7
Portugal	46.1	46.3	47.6	51.5	57.1	59.7	61.2	65.7	66.2	66.6	66.9	64.3
Romania	n/a	n/a	n/a	1.0	2.2	3.4	4.1	4.8	5.4	5.8	6.7	6.6
Slovakia	3.9	4.8	6.5	8.0	11.7	12.4	13.3	15.1	16.5	17.9	19.3	21.2
Slovenia	0.8	1.0	2.9	4.8	6.3	7.7	9.1	11.1	13.7	14.3	14.9	15.0
Spain	35.9	40.0	45.7	52.3	58.0	61.4	62.0	64.8	65.1	63.7	62.3	59.9
Sweden	50.0	52.4	56.1	59.2	64.5	64.5	61.9	81.5	83.5	80.0	82.1	80.9
UK	60.4	66.2	69.6	75.6	81.2	77.6	70.1	87.5	83.2	84.2	80.8	80.6
Euro area 18	33.2	36.6	38.2	40.9	42.9	43.4	44.1	46.5	46.9	46.5	46.6	46.2
EU 28	37.1	40.6	42.6	45.6	48.2	48.1	46.6	51.7	51.7	51.6	51.6	51.1
Iceland	n/a	n/a	n/a	n/a	n/a	37.6	19.1	18.3	21.1	18.9	20.4	25.7
Norway	49.1	49.5	54.0	55.4	55.9	60.9	50.5	69.6	66.8	65.2	67.6	64.1
Russia	n/a	n/a	n/a	0.2	0.9	1.9	2.2	2.8	2.4	2.4	3.2	3.8
Turkey	n/a	n/a	n/a	2.1	3.0	4.0	3.6	4.7	5.3	5.5	6.0	6.0
USA	56.8	60.5	65.9	80.8	76.8	76.8	86.2	79.2	74.9	76.7	65.5	62.1

Source: European Mortgage Federation National Experts, European Central Bank, National Central Banks, Eurostat, Bureau of Economic Analysis, Federal Reserve

1) Time series breaks:
- See Table 1

2) The series has been revised for at least two years in:
- All countries

3) Notes:
- For further details on the methodologies, please see “Annex: Explanatory Note on Data”.
- n/a: figure not available.
- Please note that the GDP at current prices has been taken in euros directly from Eurostat.
- See Tables 1 and 24 for further information on the data used.

7. Total Outstanding Residential Loans to Disposable Income of Households Ratio

%

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	26.2	27.9	32.3	35.0	37.6	38.2	40.5	41.0	44.1	45.2	44.8	44.9
Belgium	43.9	47.3	50.9	55.7	59.5	62.5	64.3	69.9	73.9	76.9	79.2	81.7
Bulgaria	n/a	n/a	n/a	n/a	n/a	16.1	17.8	18.0	17.4	15.6	15.1	n/a
Croatia	n/a	n/a	n/a	n/a	20.5	23.6	26.0	26.7	28.3	29.0	28.7	n/a
Cyprus	10.9	13.5	16.3	42.0	51.1	60.7	67.7	82.7	89.5	90.4	97.8	99.2
Czech Republic	3.2	5.1	7.7	10.9	13.1	18.9	18.3	20.7	21.8	22.8	25.3	26.6
Denmark	125.0	133.8	142.7	160.6	174.9	188.7	193.6	197.8	193.6	191.7	190.3	189.5
Estonia	18.8	25.6	36.9	54.6	76.3	84.7	87.4	90.1	86.9	77.5	75.7	69.1
Finland	39.3	44.0	48.2	55.0	60.1	63.7	65.3	67.4	69.1	70.8	72.5	73.3
France	33.8	36.3	39.0	44.1	48.4	51.9	54.0	56.0	59.7	61.6	62.9	64.6
Germany	78.3	77.7	76.4	75.2	74.9	71.8	69.3	69.6	67.9	66.0	65.6	65.5
Greece	18.6	21.7	25.9	32.2	37.3	41.0	45.1	46.6	50.1	52.5	55.0	58.0
Hungary	7.8	12.9	15.8	19.7	25.8	30.1	37.3	41.9	44.4	37.5	35.0	32.2
Ireland	76.0	89.5	108.1	125.3	145.1	151.9	150.9	160.9	117.9	117.5	115.2	110.2
Italy	n/a	16.4	19.0	21.6	23.5	24.7	24.1	26.3	32.8	33.5	33.9	33.5
Latvia	n/a	11.4	18.1	30.7	46.7	55.3	48.5	55.1	55.3	48.8	40.1	35.4
Lithuania	3.3	6.1	10.5	16.6	19.2	27.7	29.2	31.5	31.0	29.4	27.7	n/a
Luxembourg	n/a	n/a	n/a	n/a	95.2	109.0	108.9	113.9	118.1	123.9	127.4	n/a
Netherlands	148.7	159.3	169.4	184.0	190.3	196.0	208.9	219.6	222.2	223.6	226.1	217.5
Poland	4.6	6.3	6.9	9.0	12.8	18.6	22.5	26.6	29.8	31.2	33.7	33.4
Portugal	66.1	65.5	67.2	72.5	81.5	85.4	85.2	90.0	90.4	91.3	90.0	87.4
Romania	n/a	n/a	n/a	1.5	3.7	5.6	6.4	7.8	8.8	9.7	11.4	11.5
Slovakia	6.2	7.9	10.6	13.2	19.8	20.9	22.3	23.5	25.9	28.7	31.4	34.5
Slovenia	1.2	1.6	4.6	7.4	10.0	12.6	15.0	17.2	21.0	21.9	22.9	23.1
Spain	54.8	61.1	70.4	80.8	90.8	96.3	94.0	94.2	96.8	95.0	94.0	90.4
Sweden	97.9	104.3	114.2	121.6	134.3	133.2	124.3	152.4	162.7	155.0	155.1	151.6
UK	90.0	100.4	107.0	117.6	126.9	124.4	111.3	129.9	123.6	126.1	117.5	119.2
Euro area 18	49.6	54.5	57.1	61.1	64.7	66.3	66.7	68.8	70.4	70.4	70.8	n/a
EU 28	56.5	61.9	65.4	70.3	75.2	76.1	73.0	77.8	79.1	79.3	79.2	n/a
Norway	96.4	93.9	107.8	113.3	132.5	141.5	121.3	146.2	142.8	142.5	149.4	139.2
USA	75.7	80.4	88.0	110.1	103.6	103.7	112.9	102.1	97.5	98.8	84.6	82.1

Source: European Mortgage Federation National Experts, European Central Bank, National Central Banks, National Statistics Offices, Eurostat, Federal Reserve, US Bureau of Census

1) Time series breaks:
- See Table 1

2) The series has been revised for at least two years in:
- See Table 1

3) Notes:
- For further details on the methodologies, please see "Annex: Explanatory Note on Data".
- n/a: figure not available.
- Please note that the disposable income of households at current prices has been taken in euros directly from AMECO (see Table 25).

8. Total Outstanding Residential Loans per Capita

Population over 18 years, EUR

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	5,596	6,137	7,369	8,323	9,296	9,851	10,707	10,845	11,749	12,255	12,506	12,604
Belgium	9,141	9,931	10,866	12,215	13,695	15,051	16,172	17,752	18,749	19,648	20,787	21,322
Bulgaria	n/a	n/a	n/a	n/a	n/a	444	607	608	597	581	581	574
Croatia	n/a	n/a	n/a	n/a	1,444	1,768	2,146	2,190	2,361	2,397	2,381	2,318
Cyprus	1,672	2,189	2,747	7,471	9,595	11,959	14,205	16,781	18,604	18,954	18,518	17,158
Czech Republic	183	292	467	745	996	1,555	1,778	1,938	2,130	2,287	2,509	2,500
Denmark	26,173	29,022	32,076	37,272	42,080	46,127	48,526	50,472	51,738	52,472	52,947	52,920
Estonia	763	1,130	1,722	2,928	4,780	6,406	7,093	6,885	6,658	6,506	6,385	6,416
Finland	7,518	8,811	10,105	11,738	13,321	14,884	16,086	16,969	18,003	19,059	19,990	20,311
France	7,408	8,076	8,985	10,368	11,789	13,201	14,083	14,602	15,812	16,677	17,130	17,697
Germany	16,997	17,182	17,147	17,180	17,440	16,978	16,783	16,788	16,865	17,012	17,266	17,555
Greece	2,386	2,992	3,779	5,010	6,271	7,578	8,448	8,746	8,745	8,553	8,143	7,794
Hungary	407	708	955	1,297	1,679	2,131	2,737	2,747	3,012	2,681	2,453	2,269
Ireland	16,360	20,221	25,792	32,204	39,076	42,763	44,098	43,317	30,081	29,324	28,474	27,787
Italy	n/a	3,261	3,879	4,524	5,076	5,499	5,433	5,727	7,168	7,454	7,401	7,277
Latvia	n/a	399	729	1,392	2,597	3,765	3,983	3,837	3,723	3,511	3,173	3,019
Lithuania	128	253	477	863	1,154	1,878	2,359	2,355	2,356	2,395	2,374	2,328
Luxembourg	19,260	23,779	26,364	29,461	32,851	39,460	42,102	44,094	47,089	50,225	52,227	54,839
Malta	2,909	3,366	4,049	4,842	5,579	6,294	6,846	7,488	8,018	8,641	9,128	9,563
Netherlands	29,771	31,760	34,248	37,787	40,083	43,013	46,046	47,500	48,411	49,150	49,286	47,478
Poland	241	294	323	487	752	1,202	1,690	1,722	2,183	2,298	2,530	2,563
Portugal	7,779	7,909	8,427	9,380	10,817	11,854	12,289	12,892	13,292	13,180	12,791	12,382
Romania	n/a	n/a	n/a	45	128	247	341	342	407	459	534	575
Slovakia	246	342	526	731	1,229	1,588	1,988	2,192	2,498	2,824	3,124	3,477
Slovenia	125	162	491	836	1,186	1,607	2,041	2,333	2,851	3,039	3,089	3,117
Spain	7,778	9,098	10,983	13,329	15,761	17,519	17,922	17,841	17,796	17,388	16,680	15,977
Sweden	19,125	20,886	23,274	24,964	28,848	30,348	28,438	32,520	39,391	41,152	44,281	44,624
UK	22,612	23,788	26,752	30,070	33,908	33,856	26,671	28,565	29,309	30,077	31,070	30,421
Euro area 18	9,403	10,584	11,424	12,563	13,748	14,609	15,081	15,397	15,881	16,169	16,253	16,225
EU 28	9,536	10,533	11,529	12,798	14,222	14,946	14,486	15,041	15,658	16,006	16,289	16,222
Iceland	n/a	n/a	n/a	n/a	n/a	24,601	8,339	6,659	8,452	8,015	9,001	11,662
Norway	29,000	28,307	32,356	38,524	42,678	48,838	43,239	51,417	56,671	60,479	67,974	62,963
Russia	n/a	n/a	n/a	n/a	59	147	224	202	239	304	n/a	n/a
Turkey	n/a	n/a	n/a	173	260	n/a	375	425	589	598	702	705
USA	30,700	28,354	29,641	38,329	37,724	35,714	37,493	35,186	35,939	35,967	34,312	32,358

Source: European Mortgage Federation National Experts, European Central Bank, National Central Banks, National Statistics Offices, Eurostat, Federal Reserve, US Bureau of Census

1) Time series breaks:
- None

2) The series has been revised for at least two years in:
- All countries

3) Notes:
- For further details on the methodologies, please see "Annex: Explanatory Note on Data".
- n/a: figure not available.
- Please note that the population concerns residents who are more than 18 years old.

B. The Housing Market

9. Owner Occupation Rate

%

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	n/a	68.0	n/a	n/a	n/a	59.2	57.7	57.5	57.4	57.5	57.5	57.3
Belgium	n/a	75.0	72.2	72.2	73.7	72.9	73.1	72.7	71.6	71.8	72.3	n/a
Bulgaria	n/a	n/a	n/a	85.4	85.4	87.6	87.1	86.8	86.9	87.2	87.4	85.7
Croatia	n/a	96.0	n/a	n/a	n/a	n/a	n/a	n/a	87.9	90.2	89.5	n/a
Cyprus	n/a	91.0	n/a	n/a	n/a	74.1	72.3	74.1	73.1	73.5	73.2	74.0
Czech Republic	n/a	n/a	n/a	73.5	74.1	74.5	75.8	76.6	78.7	80.1	80.4	80.1
Denmark	n/a	66.0	67.2	66.6	67.4	67.1	66.5	66.3	66.6	67.1	64.3	63.0
Estonia	89.0	89.0	n/a	n/a	87.8	86.8	88.9	87.1	85.5	83.5	82.2	81.1
Finland	70.0	71.0	71.4	71.8	73.3	73.6	73.2	74.1	74.3	74.1	73.9	73.6
France	62.0	n/a	n/a	61.8	62.5	60.5	62.1	63.0	62.0	63.1	63.7	64.3
Germany	n/a	n/a	n/a	53.3	n/a	n/a	n/a	n/a	53.2	53.4	53.3	52.6
Greece	n/a	81.0	n/a	n/a	n/a	75.6	76.7	76.4	77.2	75.9	75.9	n/a
Hungary	94.0	n/a	n/a	88.1	87.6	88.5	89.0	89.8	89.7	89.8	90.5	89.6
Ireland	n/a	92.0	81.8	78.2	78.0	78.1	77.3	73.7	73.3	70.2	69.6	n/a
Italy	n/a	n/a	72.2	72.8	72.9	72.7	72.6	72.5	71.9	72.9	74.1	73.0
Latvia	78.0	n/a	n/a	n/a	n/a	86.0	86.0	87.2	84.3	82.8	81.5	81.2
Lithuania	94.0	n/a	n/a	88.3	91.8	89.4	91.6	91.5	93.6	92.2	91.9	92.2
Luxembourg	n/a	75.0	n/a	n/a	n/a	74.5	73.8	70.4	68.1	68.2	70.8	n/a
Malta	n/a	n/a	n/a	79.6	80.1	79.8	79.9	78.5	79.5	80.2	81.8	80.3
Netherlands	58.0	n/a	n/a	63.9	65.4	66.6	67.5	68.4	67.2	67.1	67.5	67.4
Poland	71.0	n/a	n/a	n/a	n/a	62.5	66.0	68.7	81.3	82.1	82.4	83.8
Portugal	n/a	n/a	74.6	74.4	75.5	74.2	74.5	74.6	74.9	75.0	74.5	74.2
Romania	98.0	n/a	n/a	n/a	n/a	96.1	96.5	96.5	97.5	96.6	96.6	95.6
Slovakia	n/a	n/a	n/a	82.1	88.9	89.1	89.3	89.5	90.0	90.2	90.4	90.5
Slovenia	94.0	n/a	n/a	83.2	84.5	81.3	81.3	81.3	78.1	77.5	76.2	76.6
Spain	88.0	89.0	n/a	n/a	n/a	80.6	80.2	79.6	79.8	79.7	78.9	77.7
Sweden	67.0	n/a	66.6	68.1	68.8	69.5	68.8	69.7	70.8	69.7	70.1	69.6
UK	73.0	73.0	n/a	70.0	71.4	73.3	72.5	69.9	70.0	67.9	66.7	64.6
Euro area 18	n/a	n/a	n/a	63.6	n/a	71.1	71.4	71.5	66.4	66.8	67.0	66.5
EU 28	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	70.6	70.6	70.6	70.0
Iceland	n/a	n/a	85.3	86.8	86.2	86.4	85.8	84.2	81.3	77.9	77.3	77.5
Norway	n/a	85.0	82.9	82.7	83.7	83.8	86.1	85.4	82.9	84.0	84.8	83.5
Turkey	81.0	n/a	n/a	n/a	60.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: Eurostat

1) Time series breaks:
- None

2) The series has been revised for at least two years in:
- All countries

3) Notes:
- For further details on the methodologies, please see “Annex: Explanatory Note on Data”.
- n/a: figure not available.

10. Building Permits
Number issued

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	42,281	43,500	43,500	44,059	47,858	46,951	47,097	47,511	49,723	57,709	51,433	59,491
Belgium	43,149	45,032	52,204	59,378	61,155	53,922	52,611	45,448	49,817	44,330	46,769	48,947
Bulgaria	n/a	n/a	n/a	n/a	53,049	64,185	49,407	20,166	12,832	10,973	10,616	12,278
Croatia	19,549	21,245	20,358	23,484	25,517	24,877	24,585	17,018	13,378	13,470	9,742	7,744
Cyprus	6,856	7,548	8,252	9,098	9,794	9,521	8,896	8,950	8,777	7,506	7,172	5,341
Czech Republic	45,961	51,948	51,464	47,974	49,777	47,298	47,389	41,954	39,158	39,656	34,006	29,475
Denmark	23,993	27,666	29,806	35,934	36,034	23,158	16,320	9,043	17,685	17,403	12,799	10,977
Estonia	3,156	3,419	9,447	9,151	12,863	8,925	5,468	2,081	2,581	2,830	3,035	3,049
Finland	30,762	35,453	34,599	36,964	35,543	33,073	26,516	26,559	32,793	33,894	31,085	26,554
France	348,190	387,448	468,240	513,108	548,084	499,629	404,811	345,485	441,376	474,423	446,843	399,321
Germany	274,120	296,854	268,123	240,468	247,541	182,336	174,595	177,939	187,667	228,311	241,090	270,364
Greece	45,195	45,253	43,447	56,342	45,406	41,790	34,021	27,447	23,380	15,114	9,066	5,675
Hungary	48,762	59,241	57,459	51,490	44,826	44,276	43,862	28,400	17,353	12,488	10,600	7,536
Ireland	19,688	20,915	27,482	25,313	22,749	22,212	17,436	10,338	6,319	4,745	3,626	3,300
Italy	n/a	229,526	268,385	278,602	261,455	250,271	191,783	141,587	119,409	112,391	84,307	n/a
Latvia	n/a	3,048	4,312	5,298	6,461	5,877	3,749	2,244	1,844	2,022	2,262	2,369
Lithuania	2,415	2,989	4,155	5,500	7,482	8,869	8,189	5,994	5,876	4,824	5,768	7,118
Luxembourg	2,956	3,364	3,919	4,692	4,411	4,934	4,017	3,693	3,892	4,323	4,305	3,761
Malta	5,841	6,128	6,707	9,081	10,409	11,343	6,386	5,298	4,444	3,955	3,064	2,705
Netherlands	67,183	72,454	76,180	83,273	96,447	87,918	87,198	72,646	61,028	55,804	37,370	26,184
Poland	39,000	61,000	105,831	115,862	160,545	236,731	223,372	168,440	165,116	184,146	165,282	138,837
Portugal	41,385	36,596	33,423	32,800	31,004	28,406	22,570	16,059	14,797	11,752	8,227	5,871
Romania	n/a	n/a	n/a	43,542	51,065	56,618	61,092	48,833	42,189	39,424	37,852	37,776
Slovakia	14,607	14,065	16,586	19,796	20,592	18,116	28,321	20,325	16,211	12,740	n/a	n/a
Slovenia	4,000	5,000	6,000	6,000	8,000	9,000	8,000	5,209	4,225	3,285	2,700	2,675
Spain	403,271	471,000	543,518	603,633	734,978	633,430	267,876	130,418	91,509	75,894	57,486	31,213
Sweden	18,700	25,400	28,400	34,300	45,100	28,700	24,700	21,600	28,800	29,100	25,000	34,400
Turkey	161,920	202,854	330,446	546,618	600,387	584,955	503,565	518,475	907,451	650,127	768,599	838,748
USA	1,747,700	1,889,200	2,070,100	2,155,300	1,838,900	1,398,400	905,400	583,000	604,600	624,100	829,700	990,800

Source: European Mortgage Federation National Experts, National Statistics Offices, US Bureau of Census

1) Time series breaks:
- Austria: 2005 (source was changed from 2005 onwards)
- Denmark: 2012 (source was changed from 2012 onwards)

2) The series has been revised for at least two years in:
- Belgium
- Croatia
- Denmark
- France
- Germany
- Latvia
- Luxembourg
- Romania
- Sweden
- Turkey

3) Notes:
- For further details on the methodologies, please see "Annex: Explanatory Note on Data".
- n/a: figure not available.

11. Housing Starts
Number of projects started per year

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Belgium	39,374	41,134	48,209	54,569	57,895	54,600	50,473	44,929	47,661	41,290	43,073	40,951
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	8,009	7,096	6,789	7,669
Czech Republic	33,606	36,496	39,037	40,381	43,747	43,796	43,531	37,319	28,135	27,535	23,853	22,108
Denmark	22,915	27,160	28,645	34,039	36,429	25,632	17,171	10,234	15,630	16,608	13,555	8,707
Finland	27,766	31,019	32,029	33,946	33,503	30,175	22,903	22,415	32,833	31,091	28,334	27,271
France	330,100	335,621	356,538	403,721	451,874	478,044	400,100	334,400	346,000	421,300	346,500	331,900
Greece	128,296	127,051	122,148	195,207	125,387	103,865	79,601	61,490	52,344	29,974	18,817	11,748
Hungary	n/a	n/a	42,437	35,545	29,208	27,396	22,314	8,985	n/a	n/a	n/a	n/a
Ireland	n/a	n/a	77,691	77,709	75,602	48,876	22,903	8,599	6,391	4,365	4,042	4,708
Italy	n/a	n/a	301,558	310,978	295,201	281,740	219,143	163,427	131,184	123,499	n/a	n/a
Malta	n/a	6,128	6,707	9,081	10,409	11,343	n/a	n/a	n/a	3,955	n/a	n/a
Poland	77,000	82,000	97,000	102,038	137,962	185,117	174,686	142,901	158,064	162,200	141,798	127,392
Romania	32,950	31,702	37,798	49,795	66,817	87,643	143,139	n/a	n/a	n/a	n/a	n/a
Slovakia	14,607	14,065	16,586	19,796	20,592	18,116	28,321	20,325	16,211	12,740	n/a	n/a
Slovenia	5,000	7,000	6,000	8,000	9,000	11,000	7,000	n/a	4,831	3,844	3,066	3,142
Spain	524,182	636,332	687,051	729,652	865,561	651,427	264,795	111,140	91,662	78,286	44,162	33,869
Sweden	19,100	22,100	27,500	32,000	45,600	28,000	21,500	17,800	27,200	26,600	21,300	31,000
UK	194,370	208,570	227,990	223,910	222,610	218,920	118,570	124,420	138,470	135,300	127,450	n/a
Iceland	2,360	2,688	2,751	4,393	3,746	4,446	3,172	192	321	142	466	769
Norway	22,216	22,263	29,399	30,706	32,559	31,893	25,083	19,021	20,614	26,983	29,492	29,490
USA	1,705,000	1,848,000	1,956,000	2,068,000	1,801,000	1,355,000	906,000	554,000	587,000	609,000	780,000	925,000

Source : European Mortgage Federation National Experts, European Central Bank, National Central Banks, National Statistics Offices, Eurostat, US Bureau of Census

1) Time series breaks:
- Denmark: 2012 (source was changed from 2012 onwards)

2) The series has been revised for at least two years in:
- Belgium
- Denmark
- France
- Italy
- Norway
- Sweden
- UK

3) Notes:
- For further details on the methodologies, please see “Annex: Explanatory Note on Data”.
- n/a: figure not available.

12. Housing Completions

Number of projects completed per year

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	36,286	n/a	n/a	34,259	37,515	43,028	39,859	38,063	n/a	n/a	n/a	n/a
Bulgaria	n/a	n/a	8,267	12,059	13,270	18,864	20,924	22,058	15,771	13,953	9,970	9,250
Croatia	11,040	9,822	9,069	8,449	8,657	8,480	8,148	6,733	6,108	5,468	n/a	n/a
Cyprus	6,059	8,734	11,013	16,416	16,647	16,501	18,195	16,644	13,434	9,091	6,565	n/a
Czech Republic	27,291	27,127	32,268	32,863	30,190	41,649	38,380	38,473	36,442	28,630	29,467	25,246
Denmark	19,328	23,938	26,270	27,405	28,973	31,392	27,575	19,299	11,815	12,545	17,098	13,742
Estonia	1,135	2,435	3,105	3,928	5,068	7,073	5,300	3,026	2,324	1,918	1,990	2,079
Finland	26,667	27,667	30,398	33,754	33,557	34,983	29,995	21,438	25,113	31,117	30,757	29,566
Germany	289,601	268,096	278,008	242,316	249,436	210,739	175,927	158,987	159,832	183,110	200,466	214,817
Greece	90,197	106,777	120,919	120,912	135,267	163,628	121,909	89,956	65,875	48,812	n/a	n/a
Hungary	31,511	35,543	43,913	41,084	33,864	36,159	36,075	31,994	20,823	12,655	10,560	7,293
Ireland	57,695	68,819	76,954	80,957	93,419	78,027	51,724	26,420	14,602	10,480	8,488	8,301
Italy	210,000	214,000	238,000	296,000	317,000	309,000	281,000	246,000	204,000	n/a	n/a	n/a
Latvia	794	830	2,821	3,807	5,865	9,319	8,084	4,187	1,918	2,662	2,087	2,201
Lithuania	4,562	4,628	6,804	5,900	7,286	9,315	11,829	9,400	3,667	5,066	5,221	5,926
Luxembourg	2,475	2,199	2,155	1,979	2,266	3,023	4,444	3,740	2,824	2,162	n/a	n/a
Netherlands	66,704	59,629	65,314	67,016	72,382	80,193	78,882	82,932	55,999	57,703	48,668	49,311
Poland	97,595	162,000	108,123	114,060	115,187	133,778	165,192	160,019	135,818	131,148	152,904	145,388
Portugal	125,603	92,482	74,193	76,001	68,681	67,317	58,957	47,450	34,946	29,574	27,747	18,859
Romania	27,722	29,125	30,127	32,868	39,638	47,299	67,255	62,520	48,812	44,456	44,016	40,071
Slovakia	14,213	13,980	12,592	14,863	14,444	16,473	17,184	18,834	17,076	14,608	n/a	n/a
Slovenia	7,000	7,000	7,000	8,000	8,000	8,000	10,000	8,561	6,352	5,467	4,307	3,484
Spain	426,738	459,135	496,785	524,479	585,583	641,419	615,072	366,887	240,920	157,405	114,991	64,636
Sweden	19,900	20,000	25,300	23,000	29,800	30,500	32,000	22,800	19,500	20,100	26,000	29,500
UK	181,960	190,490	203,490	209,570	219,070	218,530	178,780	152,940	137,400	146,840	135,550	n/a
Iceland	2,140	2,311	2,355	3,106	3,294	3,348	2,978	893	1,148	565	1,076	934
Norway	20,856	20,526	22,809	28,853	27,744	30,094	27,860	20,999	17,030	19,674	25,476	27,733
Russia	396,000	427,000	477,000	515,000	609,000	722,000	768,000	702,000	717,000	786,000	838,000	929,000
Turkey	161,376	162,781	164,734	249,337	294,278	325,255	356,358	469,981	429,755	556,769	555,932	713,664
USA	1,648,000	1,678,000	1,842,000	1,932,000	1,979,000	1,502,000	1,120,000	794,000	651,000	585,000	649,000	764,000

Source: European Mortgage Federation National Experts, National Statistics Offices, US Bureau of Census

1) Time series breaks:
- Denmark: 2012 (source was changed from 2012 onwards)

2) The series has been revised for at least two years in:
- Denmark
- Luxembourg
- Portugal
- Romania
- Spain
- Turkey
- UK

3) Notes:
- For further details on the methodologies, please see “Annex: Explanatory Note on Data”.
- n/a: figure not available.

13. Real Gross Fixed Investment in Housing

Annual % change

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	-4.8	-4.1	0.8	1.4	0.4	1.9	0.8	-1.6	0.7	2.9	0.2	3.1
Belgium	-4.9	3.3	7.5	10.2	6.9	2.9	-1.4	-8.6	3.5	-2.8	-3.2	n/a
Bulgaria	19.6	4.8	2.2	56.3	97.3	-7.2	21.3	-16.2	-44.1	-15.4	n/a	n/a
Cyprus	8.0	16.7	17.4	9.6	6.2	7.5	2.6	-19.5	-11.8	-17.5	-23.7	-33.7
Czech Republic	-12.4	-7.4	-3.4	-2.0	7.3	24.2	5.2	-11.7	10.0	-7.2	-1.6	-5.5
Denmark	0.8	11.8	11.9	17.3	9.6	-6.0	-15.8	-21.3	-5.9	17.8	-8.0	-5.0
Estonia	34.2	33.5	28.1	39.4	43.5	-3.2	-29.2	-35.9	-9.3	21.1	15.7	6.5
Finland	-0.1	11.7	11.5	5.4	4.2	0.0	-9.7	-13.0	24.3	5.5	-4.0	-3.0
France	0.8	2.4	3.1	5.0	6.4	4.8	-2.8	-11.5	-0.7	1.8	-0.2	-2.8
Germany	-6.0	-2.0	-3.4	-4.3	6.0	-1.8	-3.5	-2.6	4.6	8.9	1.1	0.5
Greece	15.2	12.1	-1.0	-0.5	14.8	25.6	-33.6	-20.7	-21.6	-18.0	-32.9	-37.8
Hungary	16.6	6.8	12.5	-12.9	-16.6	6.6	5.9	-3.2	-24.7	-27.4	-10.2	n/a
Ireland	3.7	13.4	10.8	16.8	3.8	-8.0	-16.0	-37.3	-32.9	-18.5	-19.5	10.2
Italy	2.5	3.4	3.1	5.1	4.0	1.0	-1.1	-8.4	-0.3	-6.4	-6.6	-5.9
Lithuania	-10.3	14.4	66.6	0.0	21.2	14.9	24.3	-7.2	-38.7	3.2	2.3	8.8
Luxembourg	-14.1	18.3	-1.7	-2.5	18.0	32.0	16.6	1.8	2.2	0.1	0.3	-1.8
Malta	9.6	32.5	0.6	1.8	16.0	8.5	-23.1	-29.7	-20.4	-2.3	-12.6	-3.2
Netherlands	-6.5	-3.7	4.1	5.0	5.8	4.7	-0.2	-14.8	-14.1	4.5	-8.2	-6.9
Poland	7.2	-3.1	4.9	8.8	9.4	12.0	6.5	-4.3	-3.1	3.4	10.6	-3.7
Portugal	-4.2	-17.0	-2.6	-0.3	-7.3	-7.5	-11.7	-14.6	-11.9	-13.4	-23.5	-20.3
Romania	68.9	20.4	-2.2	35.7	-6.3	50.6	40.9	-10.3	2.2	-10.2	n/a	n/a
Slovakia	-1.5	-3.7	-2.8	8.6	-13.7	9.3	2.1	18.4	-11.4	-1.0	0.1	-7.9
Slovenia	-3.1	-4.7	9.4	15.7	10.3	14.1	12.4	-20.5	-20.4	-12.4	-5.5	-10.1
Spain	6.1	7.6	5.2	6.4	6.6	1.4	-9.1	-20.4	-11.4	-12.5	-8.7	-8.0
Sweden	11.3	4.3	12.4	11.9	15.5	8.0	-13.1	-19.1	15.7	10.4	-11.2	6.3
UK	-3.1	11.0	4.6	-6.6	15.8	-5.0	-15.0	-26.6	14.0	2.5	-6.0	4.4
EU 28	-0.5	3.1	2.8	2.5	7.1	1.7	-6.3	-13.8	-1.6	0.1	-3.7	-2.5
Euro area 18	-0.7	1.9	2.1	3.3	5.6	2.1	-5.7	-11.9	-2.9	-0.4	-3.5	-3.5
Iceland	12.4	3.7	14.2	11.9	16.5	13.2	-21.9	-55.7	-18.0	5.4	6.9	10.8
Norway	-0.7	1.8	16.3	9.7	4.0	2.7	-9.0	-8.2	-1.6	16.1	7.3	6.4
Turkey	12.1	5.9	11.0	12.3	17.8	6.0	n/a	n/a	n/a	n/a	n/a	n/a
USA	6.1	9.1	10.0	6.6	-7.6	-18.8	-24.0	-21.2	-2.5	0.5	12.9	12.2

Source: Eurostat, OECD

1) Time series breaks:

- None

2) The series has been revised for at least two years in:

- All countries, excluding Greece, Iceland and Turkey

3) Notes:

- For further details on the methodologies, please see “Annex: Explanatory Note on Data”.
- n/a: figure not available.

14. Total Dwelling Stock

Thousand units

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	n/a	3,822	3,846	3,872	3,910	3,947	3,983	4,016	n/a	n/a	4,200	n/a
Belgium	4,744	4,782	4,820	4,858	4,903	4,950	4,996	5,043	5,087	5,131	5,180	5,229
Bulgaria	3,697	3,697	3,705	3,716	3,729	3,747	3,767	3,789	3,804	3,900	3,909	3,918
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,924	n/a	n/a
Cyprus	299	305	314	325	341	358	374	392	408	421	430	n/a
Czech Republic	4,394	4,421	4,453	4,486	4,516	4,558	4,596	4,635	4,671	4,700	4,729	4,754
Denmark	2,554	2,572	2,592	2,621	2,645	2,670	2,696	2,722	2,770	2,786	2,797	2,812
Estonia	623	624	626	629	633	638	645	651	654	656	658	n/a
Finland	2,354	2,378	2,402	2,430	2,454	2,477	2,499	2,517	2,537	2,556	2,580	2,600
France	30,490	30,845	31,206	31,582	31,978	32,375	32,756	33,135	33,497	33,842	34,200	34,600
Germany	38,925	39,141	39,362	39,551	39,753	39,918	40,058	40,184	40,479	40,630	40,806	40,995
Greece	5,705	5,829	5,947	6,136	6,257	6,357	6,434	6,493	6,543	6,572	6,590	6,602
Hungary	n/a	n/a	4,134	4,173	4,209	4,238	4,270	4,303	4,331	4,349	4,394	4,402
Ireland	1,506	1,575	1,652	1,733	1,841	1,919	1,971	1,997	2,012	2,003	2,011	2,019
Italy	28,329	28,813	29,289	29,771	30,360	31,211	32,574	n/a	33,074	n/a	n/a	n/a
Latvia	958	967	987	998	1,018	1,036	1,042	1,035	n/a	n/a	n/a	n/a
Lithuania	1,295	1,293	1,300	1,300	1,307	1,316	1,328	1,337	1,341	1,346	n/a	n/a
Luxembourg	121	122	124	125	n/a	n/a	175	n/a	n/a	n/a	n/a	n/a
Malta	n/a	n/a	n/a	192	n/a	n/a	n/a	n/a	n/a	224	n/a	224
Netherlands	6,710	6,764	6,810	6,859	6,912	6,967	7,029	7,104	7,172	7,387	7,449	7,535
Poland	11,763	12,596	12,758	12,872	12,987	12,994	13,150	13,302	13,422	13,560	13,723	n/a
Portugal	5,510	5,572	5,620	5,672	5,706	5,744	5,793	5,826	5,852	5,882	5,910	n/a
Romania	8,129	8,152	8,177	8,202	8,231	8,271	8,399	8,385	8,428	8,468	8,506	n/a
Slovakia	1,899	1,913	1,926	1,940	1,955	1,970	1,987	2,006	2,023	2,036	n/a	n/a
Slovenia	785	791	798	805	812	820	830	838	844	850	854	857
Spain	21,460	21,903	22,380	22,882	23,458	24,027	24,591	24,938	25,131	25,209	25,276	25,257
Sweden	4,329	4,351	4,380	4,404	4,436	4,470	4,503	4,527	4,508	4,524	4,551	4,634
UK	25,618	25,798	25,985	26,197	26,516	26,772	27,047	27,266	27,448	27,614	27,767	n/a
Iceland	109	111	114	117	121	126	129	130	131	131	n/a	n/a
Norway	1,982	2,003	2,026	2,054	2,215	2,243	2,274	2,301	2,324	2,343	2,422	2,449
Russia	56,000	56,400	56,900	57,425	57,983	58,572	59,012	59,546	60,126	60,807	n/a	61,300
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	19,482	n/a	n/a
USA	119,297	120,834	122,187	123,925	126,012	127,958	130,113	130,159	130,599	132,292	132,778	132,799

Source: European Mortgage Federation National Experts, National Statistics Offices

1) Time series breaks:
- Netherlands: 2011 (due to a change in methodology)
- Norway: 2006 (due to a change in methodology)

2) The series has been revised for at least two years in:
- Germany
- Malta
- Portugal
- Spain

3) Notes:
- For further details on the methodologies, please see “Annex: Explanatory Note on Data”.
- n/a: figure not available.
- Please note that the 2013 figure for Russia does not include all regions, and it therefore underestimates the true value.

15. Number of Transactions

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Belgium	116,142	119,935	118,777	118,669	121,136	125,565	121,423	115,011	128,071	128,561	124,219	121,783
Croatia	957	1,436	2,166	2,145	3,389	3,110	3,025	2,861	2,319	2,169	2,357	n/a
Denmark	67,982	70,568	79,566	85,196	71,905	70,225	53,248	46,215	52,955	44,064	45,506	45,732
Estonia	40,523	46,972	50,589	62,905	62,824	49,788	34,431	26,550	31,447	32,505	36,458	41,848
Finland	n/a	n/a	n/a	n/a	n/a	n/a	70,245	71,001	73,991	72,024	76,251	67,305
France	915,400	953,200	1,023,200	1,028,500	1,138,300	1,164,800	930,000	842,000	1,056,000	1,079,000	931,000	928,000
Germany	500,000	492,000	441,000	503,000	442,000	468,000	467,000	486,000	525,000	570,000	575,000	559,000
Greece	158,599	149,629	165,988	215,148	172,897	167,699	157,978	135,967	117,948	83,665	57,650	47,561
Hungary	230,979	270,574	171,678	193,792	225,734	191,170	154,097	91,137	90,300	87,700	86,000	80,500
Ireland	93,136	97,888	104,305	110,495	110,790	84,194	53,616	25,097	18,313	19,992	27,026	31,683
Italy	761,520	762,086	804,126	833,350	845,051	806,225	686,587	609,145	611,878	598,224	444,018	403,124
Latvia	40,524	51,306	63,600	68,700	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Luxembourg	5,170	5,058	4,908	5,011	n/a	5,093	4,409	4,509	5,165	5,749	5,474	5,471
Netherlands	198,386	193,406	191,941	206,629	209,767	202,401	182,392	127,532	126,127	120,739	117,261	110,094
Poland	243,000	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	284,576	324,133	n/a
Portugal	329,301	300,105	276,292	300,044	285,483	281,367	241,040	205,442	209,321	167,496	142,053	n/a
Romania	n/a	n/a	n/a	535,000	682,000	521,000	484,000	352,000	352,324	371,569	434,954	473,319
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	4,900	n/a	10,788	10,578	10,850	9,515
Spain	n/a	n/a	848,390	901,574	955,186	836,871	564,464	463,719	491,287	349,118	363,623	300,568
Sweden	127,912	135,414	141,035	149,072	151,448	163,676	146,882	146,582	152,072	144,946	143,675	150,412
UK	n/a	n/a	n/a	n/a	1,670,450	1,613,810	900,200	858,350	885,770	884,790	932,480	1,073,560
Iceland	10,100	11,960	14,359	15,836	11,897	15,252	6,241	3,679	4,707	6,596	7,623	8,449
Norway	63,353	66,726	69,107	74,435	77,160	81,075	73,321	70,674	76,241	83,189	88,652	86,947
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3,081,526	3,867,324	4,194,451	4,088,947
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	427,105	555,184	607,098	708,275	701,621	1,157,190
USA	6,605,000	7,261,000	7,981,000	8,359,000	7,529,000	5,816,000	4,595,000	4,715,000	4,513,000	4,566,000	5,090,000	5,519,000

Source: European Mortgage Federation National Experts, National Statistics Offices, US Bureau of Census

1) Time series breaks:
- Ireland: 2011 (the source was changed from 2011)
- Germany: 2007 (the source was changed from 2007)

2) The series has been revised for at least two years in:
- Belgium
- Denmark
- France
- Hungary
- Iceland
- Norway
- Romania
- Russia
- UK
- USA

3) Notes:
- For Ireland, please note that data prior to 2011 is an estimation based on mortgage approvals, and must thus be used with caution.
- In Poland, the data for 2012 concerns only the dwellings of the secondary market and excludes single family houses.
- In Croatia, the number refers to new dwelings only.
- For further details on the methodologies, please see "Annex: Explanatory Note on Data".
- n/a: figure not available.

16. Nominal House Prices Indices

(2006=100)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	93.0	93.3	91.5	96.1	100.0	104.7	105.9	109.9	116.8	121.7	136.8	143.1
Belgium	60.1	64.5	68.4	89.5	100.0	108.6	112.2	114.4	119.4	123.8	126.9	129.1
Bulgaria	38.6	43.3	63.8	87.2	100.0	128.9	161.1	126.7	113.9	107.0	104.1	102.3
Croatia	62.5	63.7	77.8	84.9	100.0	112.0	115.9	111.6	102.6	98.9	99.8	83.3
Cyprus	n/a	n/a	n/a	n/a	100.0	121.1	132.6	129.7	124.4	117.6	111.9	102.1
Czech Republic	80.6	88.0	89.2	92.2	100.0	119.4	133.5	127.3	125.0	125.2	124.9	n/a
Denmark	62.5	64.4	70.1	82.3	100.0	104.9	101.1	88.1	90.5	88.0	85.1	87.3
Estonia	n/a	n/a	50.8	67.4	100.0	114.3	99.0	63.4	63.4	69.7	75.3	83.4
Finland	76.8	81.7	87.7	93.1	100.0	105.5	106.1	105.8	115.0	117.2	120.7	122.0
France	60.6	68.3	79.2	91.0	100.0	105.5	101.5	97.2	104.6	108.6	106.4	104.3
Germany	n/a	95.7	96.4	99.8	100.0	99.8	102.8	102.3	102.9	105.5	108.7	112.2
Greece	73.8	77.8	79.6	88.3	100.0	105.9	107.7	103.7	98.9	93.5	82.6	74.1
Hungary	72.2	86.1	92.8	95.1	100.0	104.8	105.9	99.2	94.1	92.4	89.7	84.2
Ireland	n/a	n/a	n/a	87.2	100.0	107.3	99.8	81.1	71.0	61.2	54.2	55.3
Italy	n/a	n/a	n/a	94.7	100.0	104.5	105.0	104.9	105.2	106.0	103.0	97.3
Latvia	n/a	n/a	n/a	n/a	100.0	136.3	137.8	86.4	76.9	84.5	86.6	92.6
Lithuania	n/a	n/a	n/a	n/a	100.0	126.4	137.7	96.5	89.4	95.3	95.1	96.2
Luxembourg	n/a	n/a	n/a	n/a	n/a	100.0	103.3	102.2	107.6	111.6	116.3	122.3
Malta	n/a	n/a	n/a	83.5	100.0	121.1	134.5	128.6	130.0	130.0	133.9	132.5
Netherlands	85.1	88.2	92.0	95.6	100.0	104.2	107.3	103.6	101.3	98.9	92.5	86.4
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100.0	103.3	98.4	93.0	94.5
Portugal	94.1	95.2	95.8	98.0	100.0	101.3	105.3	105.7	107.7	107.5	105.1	101.4
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100.0	88.3	73.2	72.2	72.3
Slovakia	n/a	n/a	n/a	n/a	100.0	129.0	152.1	132.7	127.4	125.5	122.0	123.2
Slovenia	n/a	n/a	n/a	n/a	100.0	120.6	129.0	116.8	117.0	120.1	111.9	106.0
Spain	58.5	69.3	81.3	91.7	100.0	104.8	101.4	95.1	91.7	85.5	76.9	73.7
Sweden	70.1	74.7	81.9	89.8	100.0	110.7	113.9	116.2	124.8	125.8	124.1	128.5
UK	68.9	79.7	89.2	94.1	100.0	110.9	109.9	101.3	108.6	107.6	109.3	113.2
EU (simple average)	n/a	n/a	n/a	n/a	100.0	112.0	116.2	105.4	104.3	103.6	102.5	100.9
Iceland	54.1	58.9	72.7	85.6	100.0	109.4	116.2	104.9	101.7	106.4	113.8	120.3
Norway	72.6	73.8	81.3	88.0	100.0	112.6	111.3	113.5	122.9	132.7	141.6	147.4
Russia	37.2	44.2	54.9	64.8	100.0	120.6	139.1	123.8	125.4	136.4	143.8	136.7
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100.0	110.2	123.1	138.7
USA	72.5	78.0	85.4	94.3	100.0	100.2	92.3	87.0	84.4	80.9	83.6	90.0

Source: European Mortgage Federation National Experts, National Statistics Offices, National central banks, Eurostat, OECD, other sources (see Annex for more details)

1) Time series breaks:
- Croatia: 2005 (change of source)
- Iceland: 2005 (change of source)
- Portugal: 2005

2) The series has been revised for at least two years in:
- Austria
- Belgium
- Croatia
- Cyprus
- Czech Republic
- France
- Hungary
- Ireland
- Latvia
- Luxembourg
- Malta
- Netherlands
- Norway
- Slovakia
- Slovenia
- Turkey
- USA

3) Notes:
- For further details on the methodologies, please see "Annex: Explanatory Note on Data".
- n/a: figure not available.
- (2009 = 100) in Poland; (2007 = 100) in Luxembourg, (2009 = 100) in Romania and (2010 = 100) in Turkey.
- Latvia and Luxembourg have a new source.
- For Poland, this index only includes the secondary market. It reflects transaction prices of dwellings (without single family houses).

17. Change in Nominal House Prices
Annual % change

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	0.6	0.3	-2.0	5.0	4.1	4.7	1.1	3.8	6.3	4.2	12.4	4.6
Belgium	9.6	7.4	6.0	30.8	11.8	8.6	3.3	2.0	4.4	3.7	2.5	1.7
Bulgaria	1.8	12.2	47.5	36.6	14.7	28.9	24.9	-21.4	-10.1	-6.1	-2.7	-1.8
Croatia	5.3	1.8	22.2	9.2	17.8	12.0	3.5	-3.7	-8.1	-3.6	0.9	-16.5
Cyprus	n/a	n/a	n/a	n/a	n/a	21.1	9.5	-2.2	-4.1	-5.5	-4.8	-8.7
Czech Republic	14.4	9.1	1.4	3.3	8.5	19.4	11.8	-4.6	-1.8	0.1	-0.2	n/a
Denmark	3.8	3.0	8.9	17.4	21.5	4.9	-3.6	-12.9	2.7	-2.8	-3.2	2.6
Estonia	n/a	n/a	n/a	32.7	48.3	14.3	-13.5	-35.9	0.1	9.9	8.0	10.7
Finland	7.4	6.4	7.3	6.1	7.5	5.5	0.6	-0.3	8.7	1.8	3.0	1.1
France	10.0	12.7	16.0	14.8	9.9	5.5	-3.8	-4.2	7.6	3.8	-2.0	-1.9
Germany	n/a	n/a	0.7	3.6	0.2	-0.2	3.0	-0.5	0.6	2.5	3.1	3.2
Greece	13.9	5.4	2.3	10.9	13.2	5.9	1.7	-3.7	-4.7	-5.5	-11.7	-10.3
Hungary	14.7	19.3	7.8	2.4	5.2	4.8	1.0	-6.3	-5.1	-1.9	-3.0	-6.1
Ireland	n/a	n/a	n/a	n/a	14.6	7.3	-7.0	-18.8	-12.4	-13.8	-11.5	2.1
Italy	n/a	n/a	n/a	n/a	5.6	4.5	0.5	-0.1	0.3	0.8	-2.9	-5.5
Latvia	n/a	n/a	n/a	n/a	n/a	36.3	1.1	-37.3	-11.0	9.8	2.5	6.9
Lithuania	n/a	n/a	n/a	n/a	n/a	26.4	9.0	-29.9	-7.4	6.6	-0.2	1.2
Luxembourg	n/a	n/a	n/a	n/a	n/a	n/a	3.3	-1.1	5.4	3.7	4.1	5.2
Malta	n/a	n/a	n/a	n/a	19.8	21.1	11.1	-4.4	1.1	0.0	3.0	-1.1
Netherlands	6.3	3.7	4.2	4.0	4.6	4.2	3.0	-3.4	-2.2	-2.4	-6.5	-6.6
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.3	-4.7	-5.5	1.7
Portugal	0.6	1.1	0.6	2.3	2.1	1.3	3.9	0.4	1.8	-0.2	-2.2	-3.5
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-11.7	-17.1	-1.3	0.2
Slovakia	n/a	n/a	n/a	n/a	n/a	29.0	17.9	-12.7	-4.0	-1.5	-2.7	0.9
Slovenia	n/a	n/a	n/a	n/a	n/a	20.6	7.0	-9.5	0.1	2.7	-6.9	-5.3
Spain	17.3	18.5	17.2	12.8	9.1	4.8	-3.2	-6.3	-3.5	-6.8	-10.0	-4.2
Sweden	6.3	6.6	9.6	9.6	11.4	10.7	2.9	2.0	7.4	0.7	-1.3	3.6
UK	17.0	15.7	11.8	5.5	6.3	10.9	-0.9	-7.8	7.2	-1.0	1.6	3.6
Iceland	7.5	9.1	23.3	17.7	16.9	9.4	6.2	-9.7	-3.0	4.6	7.0	5.7
Norway	5.0	1.7	10.1	8.2	13.7	12.6	-1.1	1.9	8.3	8.0	6.7	4.1
Russia	25.3	18.8	24.1	18.0	54.4	20.6	15.3	-11.0	1.3	8.8	5.5	-5.0
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	10.2	11.7	12.7
USA	7.1	7.7	9.5	10.5	6.0	0.2	-7.9	-5.7	-3.0	-4.1	3.3	7.6

Source: European Mortgage Federation National Experts, National Statistics Offices, National central banks, Eurostat, OECD, other sources (see Annex for more details)

1) Time series breaks:
- See Table 16

2) The series has been revised for at least two years in:
- See Table 16

3) Notes:
- For further details on the methodologies, please see "Annex: Explanatory Note on Data".
- n/a: figure not available.
- See Table 16 for further notes.

18. Nominal House Price to Disposable Income of Households Ratio
2006=100)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	111.2	107.8	101.1	100.7	100.0	99.7	97.7	100.9	105.8	107.7	116.7	120.4
Belgium	67.9	72.0	74.7	94.6	100.0	103.1	101.0	101.0	104.6	106.2	105.0	106.8
Bulgaria	52.5	57.5	78.4	96.5	100.0	114.5	116.0	92.8	82.1	71.9	67.6	n/a
Croatia	79.2	77.5	88.3	90.0	100.0	104.6	98.1	95.2	85.9	83.9	84.3	n/a
Cyprus	n/a	n/a	n/a	n/a	100.0	112.4	112.0	109.6	99.1	89.9	91.6	90.7
Czech Republic	108.5	118.0	113.7	103.7	100.0	109.5	102.9	100.5	94.1	91.7	92.3	n/a
Denmark	72.2	71.8	75.4	85.5	100.0	102.9	96.1	81.6	79.5	75.0	70.9	71.9
Estonia	n/a	n/a	68.3	78.7	100.0	94.8	76.4	51.9	51.8	52.1	56.3	56.9
Finland	90.7	91.7	93.6	97.0	100.0	99.3	94.3	91.3	95.2	93.3	93.2	93.1
France	69.9	76.9	85.4	95.2	100.0	100.4	93.4	89.0	93.8	94.7	91.9	89.1
Germany	n/a	101.7	100.6	102.1	100.0	98.0	98.3	98.1	95.8	94.6	95.2	96.0
Greece	99.4	96.7	93.1	95.9	100.0	96.2	96.0	92.0	94.5	96.1	93.3	92.8
Hungary	90.4	102.5	100.0	94.1	100.0	95.9	93.7	98.2	89.4	83.0	79.0	76.7
Ireland	n/a	n/a	n/a	93.9	100.0	99.1	86.5	75.4	69.4	61.1	54.7	54.9
Italy	n/a	n/a	n/a	98.1	100.0	101.0	99.7	102.3	101.8	100.5	99.3	93.7
Latvia	n/a	n/a	n/a	n/a	100.0	111.6	93.8	70.0	65.5	68.6	64.7	64.8
Lithuania	n/a	n/a	n/a	n/a	100.0	113.1	104.1	78.8	72.4	73.8	71.0	n/a
Luxembourg	n/a	n/a	n/a	n/a	n/a	100.0	95.1	91.7	92.1	91.9	91.8	n/a
Netherlands	91.1	94.3	96.6	98.4	100.0	99.6	101.7	99.3	95.6	91.8	86.1	79.8
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100.0	91.1	85.1	78.8	78.1
Portugal	108.2	105.9	102.1	100.8	100.0	96.5	96.2	97.0	95.9	97.1	96.5	93.8
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100.0	83.7	68.2	67.9	64.5
Slovakia	n/a	n/a	n/a	n/a	100.0	104.9	104.3	86.6	79.8	76.7	73.4	73.0
Slovenia	n/a	n/a	n/a	n/a	100.0	111.2	110.9	99.7	98.9	99.4	95.1	89.9
Spain	77.1	85.3	93.7	98.1	100.0	98.3	89.1	83.0	82.2	76.7	71.0	68.5
Sweden	78.7	81.4	87.3	94.5	100.0	103.4	104.9	113.6	106.2	96.6	87.9	87.5
UK	75.7	92.2	97.0	99.3	100.0	107.9	120.2	119.7	118.0	115.1	104.7	111.6
Norway	79.8	80.5	88.5	84.0	100.0	104.0	98.2	99.7	94.4	93.9	92.0	94.8
USA	68.0	83.4	94.5	99.8	100.0	104.6	98.8	88.8	79.6	76.4	70.2	77.0

Source: European Mortgage Federation National Experts, National Statistics Offices, National central banks, Eurostat, OECD, other sources (see Annex for more details)

1) Time series breaks:
- See Table 16

2) The series has been revised for at least two years in:
- See Table 16

3) Notes:
- For further details on the methodologies, please see “Annex: Explanatory Note on Data”.
- n/a: figure not available.
- See Tables 16 and 25 for further notes.

C. Funding of the Mortgage Market

19. Total Covered Bonds Outstanding, Backed by Mortgages

EUR million

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	4,000	4,000	4,000	3,880	4,125	4,973	5,317	7,645	17,174	17,010	18,854
Belgium	0	0	0	0	0	0	0	0	0	2,590	8,188
Cyprus	0	0	0	0	0	0	0	0	5,200	4,550	1,000
Czech Republic	1,638	1,956	4,452	5,543	8,213	8,091	8,179	8,234	8,546	9,056	10,355
Denmark	204,695	216,133	246,411	260,367	244,696	255,140	319,434	332,505	345,529	359,560	359,646
Finland	0	250	1,500	3,000	4,500	5,750	7,625	10,125	18,839	26,684	29,783
Germany	256,027	246,636	237,547	223,306	206,489	217,367	225,100	219,947	223,676	215,999	199,900
Greece	0	0	0	0	0	5,000	6,500	19,750	19,750	18,046	16,546
Hungary	3,568	4,962	5,072	5,924	5,987	7,105	7,375	6,323	5,175	4,958	4,016
Ireland	0	2,000	4,140	11,900	13,575	23,075	29,725	29,037	30,007	25,099	20,827
Italy	0	0	0	0	0	6,500	14,000	26,925	50,768	116,405	122,099
Latvia	35	54	60	63	90	90	85	63	37	0	0
Luxembourg	0	0	0	150	150	150	0	0	0	0	0
Netherlands	0	0	2,000	7,477	15,093	20,534	27,664	40,180	51,970	59,822	61,015
Poland	160	220	558	453	676	561	583	511	527	657	707
Portugal	0	0	0	2,000	7,850	14,870	22,120	28,840	34,347	34,570	34,199
Slovakia	510	1,052	1,583	2,214	2,738	3,576	3,608	3,442	3,768	3,835	4,015
Spain	57,111	94,707	150,213	214,768	266,959	315,055	336,750	343,401	369,208	406,736	334,572
Sweden	n/a	n/a	n/a	55,267	92,254	117,628	133,903	188,750	208,894	220,374	217,854
UK (regulated)	0	0	0	0	0	125,764	109,473	125,250	121,623	147,425	112,715
UK (non regulated)	5,000	15,668	28,384	54,265	84,874	78,092	90,993	77,965	63,429	37,818	18,077
Iceland	0	0	0	467	478	492	685	807	808	893	803
Norway	0	0	0	0	6,371	21,924	53,582	70,401	91,852	107,242	105,202
USA	0	0	0	4,000	12,859	12,937	12,888	11,497	9,546	6,000	6,000

Source: European Covered Bond Council

1) Time series breaks:
- None

2) The series has been revised for at least two years in:
- Iceland
- Netherlands

3) Notes:
- For further details on the methodologies, please see "Annex: Explanatory Note on Data".
- n/a: figure not available.
- Please note that the conversion to euros was performed by the ECBC.

20. Total Covered Bonds Issuances, Backed by Mortgages

EUR million

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	1,029	n/a	214	2,176	1,959	1,321	1,442	3,600	3,664	3,805	6,093
Belgium	0	0	0	0	0	0	0	0	0	2,590	5,598
Cyprus	0	0	0	0	0	0	0	0	5,200	0	0
Czech Republic	666	744	2,558	956	3,501	938	738	723	770	1,309	1,791
Denmark	99,727	95,009	149,708	114,014	70,955	103,230	125,484	148,475	145,147	185,845	149,989
Finland	0	250	1,250	1,500	1,500	1,250	2,125	5,250	9,964	9,368	3,771
Germany	57,621	40,773	33,722	35,336	26,834	57,345	56,852	42,216	40,911	38,540	33,583
Greece	0	0	0	0	0	5,000	1,500	17,250	5,000	0	0
Hungary	2,961	2,381	808	1,418	331	3,331	3,209	542	2,264	1,140	559
Ireland	0	2,000	2,000	7,753	1,675	9,506	14,801	6,000	9,290	5,500	3,235
Italy	0	0	0	0	0	6,500	7,500	12,925	29,261	70,768	24,520
Latvia	11	22	4	20	19	25	0	0	0	0	0
Luxembourg	0	0	0	150	0	0	0	0	0	0	0
Netherlands	0	0	2,000	5,477	7,648	5,355	7,725	13,660	14,143	10,738	4,478
Poland	123	63	224	52	206	197	88	138	269	228	116
Portugal	0	0	0	2,000	5,850	7,020	7,250	11,870	9,300	4,850	3,750
Slovakia	355	549	584	676	803	1,414	707	1,179	867	785	841
Spain	28,502	37,835	57,780	69,890	51,801	54,187	43,580	51,916	72,077	98,846	22,919
Sweden	n/a	n/a	n/a	17,569	36,638	43,488	53,106	79,910	69,800	48,936	51,633
UK (regulated)	0	0	0	0	0	10,145	8,254	25,000	36,983	37,109	1,480
UK (non regulated)	5,000	10,668	12,675	25,813	31,673	110,761	22,177	900	0	0	0
Iceland	0	0	0	467	0	321	0	0	25	113	51
Norway	0	0	0	0	6,458	15,660	30,105	21,062	28,135	22,946	18,339
USA	0	0	0	4,000	8,859	0	0	0	0	0	0

Source: European Covered Bond Council

1) Time series breaks:
- None

2) The series has been revised for at least two years in:
- Iceland
- Netherlands

3) Notes:
- n/a: figure not available.
- Please note that the conversion to euros was performed by the ECBC.

21. Total Outstanding Covered Bonds, Backed by Mortgages

As % of GDP

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	1.8	1.7	1.6	1.5	1.5	1.8	1.9	2.7	5.7	5.5	6.0
Belgium	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	2.1
Cyprus	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	29.1	25.7	6.1
Czech Republic	1.9	2.1	4.3	4.7	6.2	5.2	5.8	5.5	5.5	5.9	6.9
Denmark	108.6	109.7	118.8	119.0	107.5	108.5	142.9	140.7	143.7	146.6	144.5
Finland	0.0	0.2	1.0	1.8	2.5	3.1	4.4	5.7	10.0	13.9	15.4
Germany	11.9	11.2	10.7	9.7	8.5	8.8	9.5	8.8	8.6	8.1	7.3
Greece	0.0	0.0	0.0	0.0	0.0	2.1	2.8	8.9	9.5	9.3	9.1
Hungary	4.8	6.0	5.7	6.6	6.0	6.7	8.1	6.6	5.2	5.1	4.1
Ireland	0.0	1.3	2.5	6.7	7.2	12.8	18.3	18.4	18.5	15.3	12.7
Italy	0.0	0.0	0.0	0.0	0.0	0.4	0.9	1.7	3.2	7.4	7.8
Latvia	0.4	0.5	0.5	0.4	0.4	0.4	0.5	0.3	0.2	0.0	0.0
Luxembourg	0.0	0.0	0.0	0.4	0.4	0.4	0.0	0.0	0.0	0.0	0.0
Netherlands	0.0	0.0	0.4	1.4	2.6	3.5	4.8	6.8	8.7	10.0	10.1
Poland	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.2	0.2
Portugal	0.0	0.0	0.0	1.2	4.6	8.6	13.1	16.7	20.1	20.9	20.6
Slovakia	1.7	3.1	4.1	5.0	5.0	5.6	5.7	5.2	5.5	5.4	5.6
Spain	7.3	11.3	16.5	21.8	25.3	29.0	32.2	32.8	35.3	39.5	32.7
Sweden	n/a	n/a	n/a	17.4	27.3	35.3	45.8	53.9	54.2	54.0	51.8
UK (regulated)	0.0	0.0	0.0	0.0	0.0	6.8	6.9	7.2	6.9	7.7	5.9
UK (non regulated)	0.3	0.9	1.5	2.7	4.1	4.3	5.7	4.5	3.6	2.0	1.0
Iceland	0.0	0.0	0.0	3.5	3.2	4.8	7.9	8.5	8.0	8.4	7.3
Norway	0.0	0.0	0.0	0.0	2.2	7.0	19.6	22.1	26.0	27.6	27.3
USA	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0

Source: European Covered Bond Council, Eurostat

1) Time series breaks:
- None

2) The series has been revised for at least two years in:
- Czech Republic
- Denmark
- Finland
- Germany
- Greece
- Ireland
- Netherlands
- Portugal
- Russia
- Spain
- Sweden

3) Notes:
- n/a: figure not available.
- For a detailed defintion of covered bonds, please see the glossary.
- Please note that the conversion to euros was performed by the ECBC.
- See Tables 19 and 25 for further notes.

22. Total Residential Mortgage-Backed Securities (RMBS) Outstanding
EUR million

	2008	2009	2010	2011	2012	2013
Austria	2,200	2,200	2,100	2,000	1,869	1,816
Belgium	41,000	48,500	61,500	70,800	71,237	63,318
Finland	n/a	5,700	4,400	3,700	0	0
France	12,900	11,200	11,200	17,600	16,703	10,237
Germany	20,300	17,300	22,600	19,800	16,952	15,280
Greece	8,700	9,300	6,800	6,300	6,422	4,274
Ireland	43,900	53,900	68,900	59,500	51,183	37,626
Italy	94,700	139,100	142,700	120,700	98,341	85,585
Netherlands	181,400	197,400	289,000	286,600	269,061	249,710
Portugal	28,700	35,800	41,900	37,500	29,149	26,247
Spain	162,500	167,600	190,000	171,000	127,307	118,040
Sweden	600	300	0	0	0	0
UK	455,800	460,600	453,900	404,000	295,436	252,119
Russia	3,300	3,300	2,900	2,700	1,725	1,319

Source: Association for Financial Markets in Europe (AFME)

1) Time series breaks:
- All countries: 2012 (data before 2012 is reported to the nearest 100 million EUR, and to the nearest 1 million EUR thereafter)

2) The series has been revised for at least two years in:
- No country

3) Notes:
- For further details on the methodologies, please see "Annex: Explanatory Note on Data".
- n/a: figure not available.
- Please note that the conversion to euros was performed by AFME.

23. Total RMBS Issuances
EUR million

	2008	2009	2010	2011	2012	2013
Belgium	n/a	19,100	11,400	19,000	4,699	2,018
France	6,900	200	5,000	13,900	2,628	0
Germany	n/a	1,100	400	0	0	0
Greece	n/a	1,400	0	1,700	1,343	0
Ireland	9,500	13,700	4,200	0	890	1,021
Italy	75,735	53,200	10,000	8,800	31,681	5,777
Netherlands	49,400	40,800	125,000	83,400	34,161	38,599
Portugal	n/a	8,700	9,400	1,300	1,107	1,373
Spain	72,413	26,300	17,800	14,100	2,395	7,322
UK	n/a	62,300	87,900	77,900	38,785	8,400

Source: Association for Financial Markets in Europe (AFME)

1) Time series breaks:
- All countries: 2012 (data before 2012 is reported to the nearest 100 million EUR, and to the nearest 1 million EUR thereafter)

2) The series has been revised for at least two years in:
- No country

3) Notes:
- For further details on the methodologies, please see "Annex: Explanatory Note on Data".
- n/a: figure not available.
- Please note that the conversion to euros was performed by AFME.

D. Macroeconomic Indicators

24. GDP at Current Market Prices

EUR million

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	220,529	224,996	234,708	245,243	259,035	274,020	282,744	276,228	285,165	299,240	307,004	313,067
Belgium	268,620	276,157	291,287	303,435	318,829	335,815	346,375	340,669	355,791	369,258	375,852	382,692
Bulgaria	17,027	18,374	20,388	23,256	26,477	30,772	35,431	34,933	36,052	38,505	39,927	39,940
Croatia	28,166	30,247	33,005	36,030	39,735	43,380	47,538	44,778	44,423	44,191	43,477	43,128
Cyprus	11,081	11,654	12,596	13,598	14,671	15,902	17,157	16,854	17,406	17,878	17,720	16,504
Czech Republic	83,351	84,410	91,850	104,629	118,291	131,909	154,270	142,197	149,932	155,486	152,926	149,491
Denmark	184,744	188,500	197,070	207,367	218,747	227,534	235,133	223,576	236,334	240,487	245,252	248,975
Estonia	7,780	8,724	9,692	11,189	13,396	16,071	16,240	13,973	14,530	16,198	17,460	18,613
Finland	143,646	145,531	152,266	157,429	165,765	179,830	185,670	172,318	178,724	188,744	192,350	193,443
France	1,542,927	1,587,902	1,655,572	1,718,047	1,798,115	1,886,792	1,933,195	1,885,762	1,936,720	2,001,398	2,032,297	2,059,852
Germany	2,132,200	2,147,500	2,195,700	2,224,400	2,313,900	2,428,500	2,473,800	2,374,200	2,495,000	2,609,900	2,666,400	2,737,600
Greece	156,615	172,431	185,266	193,050	208,622	223,160	233,198	231,081	222,152	208,532	193,347	182,054
Hungary	70,462	73,883	82,115	88,766	89,590	99,423	105,536	91,415	96,243	98,921	96,968	97,948
Ireland	130,717	140,635	150,025	162,897	177,574	189,655	180,250	162,284	158,097	162,600	163,939	164,050
Italy	1,301,873	1,341,850	1,397,728	1,436,380	1,493,031	1,554,199	1,575,144	1,519,695	1,551,886	1,579,946	1,566,912	1,560,024
Latvia	9,816	9,943	11,155	12,928	15,982	21,027	22,890	18,521	18,039	20,211	22,257	23,372
Lithuania	15,133	16,576	18,245	20,969	24,104	28,739	32,414	26,654	27,710	30,959	32,940	34,631
Luxembourg	23,982	25,822	27,445	30,270	33,914	37,497	37,372	35,575	39,303	41,730	42,918	45,478
Malta	4,654	4,640	4,670	4,931	5,207	5,575	5,964	5,956	6,459	6,692	6,913	7,263
Netherlands	465,214	476,945	491,184	513,407	540,216	571,773	594,481	573,235	586,789	599,047	599,338	602,658
Poland	209,617	191,644	204,237	244,420	272,089	311,002	363,175	310,681	354,616	370,851	381,480	389,695
Portugal	140,567	143,472	149,313	154,269	160,855	169,319	171,983	168,529	172,860	171,126	165,107	165,690
Romania	48,615	52,577	61,064	79,802	97,751	124,729	139,765	118,196	124,328	131,478	131,579	142,245
Slovakia	25,972	29,489	33,995	38,489	44,502	54,811	64,414	62,794	65,897	68,974	71,096	72,134
Slovenia	24,597	25,819	27,228	28,731	31,051	34,594	37,244	35,420	35,485	36,150	35,319	35,275
Spain	729,258	783,082	841,294	909,298	985,547	1,053,161	1,087,788	1,046,894	1,045,620	1,046,327	1,029,002	1,022,988
Sweden	266,740	278,914	291,634	298,353	318,171	337,944	333,256	292,472	349,945	385,451	407,820	420,849
UK	1,719,805	1,659,741	1,787,299	1,867,129	1,979,498	2,086,520	1,836,126	1,590,858	1,731,809	1,770,910	1,921,905	1,899,098
Euro area 18	7,256,148	7,466,323	7,771,786	8,048,124	8,455,403	8,938,314	9,162,364	8,907,494	9,153,351	9,423,759	9,483,205	9,579,228
EU 28	9,983,702	10,151,452	10,658,019	11,128,703	11,764,657	12,473,649	12,548,546	11,815,747	12,337,154	12,711,207	12,959,736	13,068,601
Iceland	9,474	9,711	10,674	13,112	13,316	14,932	10,292	8,675	9,488	10,087	10,573	11,000
Norway	204,074	198,943	209,424	244,582	271,001	287,712	311,285	272,959	317,862	352,963	389,149	385,747
Russia	329,084	340,735	433,901	647,623	751,656	882,892	1,193,393	848,704	1,141,233	1,472,133	1,529,082	1,520,395
Turkey	243,440	268,331	314,584	386,937	419,232	471,972	498,602	440,367	550,363	555,100	612,405	617,794
USA	11,609,031	10,175,654	9,868,076	10,524,636	11,035,282	10,563,736	10,007,207	10,337,468	11,287,923	11,147,917	12,580,324	12,625,631

Source: Eurostat, World Bank

1) Time series breaks:
- None

2) The series has been revised for at least two years in:
- All countries

3) Notes:
- For further details on the methodologies, please see “Annex: Explanatory Note on Data”.
- n/a: figure not available.
- Please note that the GDP at current prices has been taken in euros directly from Eurostat.

25. Gross Disposable Income of Households

EUR million

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	137,475	142,264	148,679	156,804	164,377	172,650	178,056	179,076	181,492	185,742	192,712	195,335
Belgium	169,795	171,921	175,801	181,429	191,850	202,086	213,171	217,208	218,884	223,600	231,779	231,972
Bulgaria	11,325	11,611	12,555	13,929	15,419	17,359	21,403	21,052	21,373	22,946	23,732	n/a
Croatia	19,289	20,081	21,530	23,071	24,450	26,192	28,892	28,663	29,195	28,809	28,927	n/a
Cyprus	7,988	8,588	9,142	9,839	10,609	11,433	12,555	12,555	13,316	13,871	12,960	11,945
Czech Republic	47,192	47,338	49,809	56,424	63,495	69,197	82,328	80,377	84,309	86,656	85,886	81,638
Denmark	87,793	90,948	94,374	97,629	101,463	103,468	106,788	109,592	115,446	119,045	121,811	123,207
Estonia	4,419	4,808	5,070	5,835	6,812	8,213	8,828	8,315	8,338	9,120	9,115	9,989
Finland	77,930	81,957	86,229	88,182	91,960	97,668	103,509	106,576	111,094	115,516	119,084	120,461
France	1,036,628	1,061,858	1,108,500	1,142,028	1,194,511	1,255,597	1,297,664	1,305,151	1,332,483	1,369,027	1,382,363	1,398,038
Germany	1,455,520	1,487,740	1,513,920	1,545,410	1,580,620	1,608,980	1,653,050	1,648,650	1,697,540	1,762,560	1,805,220	1,845,760
Greece	113,992	123,476	131,279	141,221	153,402	168,987	172,153	173,033	160,586	149,235	135,776	122,516
Hungary	42,299	44,501	49,180	53,514	52,972	57,872	59,877	53,554	55,476	58,497	57,170	57,402
Ireland	62,153	66,643	71,795	79,350	85,441	92,523	98,634	91,922	87,374	85,579	84,597	86,083
Italy	909,001	939,468	973,382	1,003,417	1,039,376	1,074,439	1,095,209	1,065,582	1,073,937	1,096,845	1,077,446	1,079,032
Latvia	6,177	6,351	7,312	8,177	10,012	12,220	14,713	12,350	11,760	12,327	13,397	14,312
Lithuania	10,241	11,000	12,005	13,645	15,650	17,486	20,712	19,160	19,314	20,198	20,958	n/a
Luxembourg	n/a	n/a	n/a	n/a	12,620	13,468	14,638	14,995	15,744	16,354	17,047	n/a
Netherlands	250,969	251,217	255,807	260,967	268,586	280,802	283,487	280,226	284,583	289,179	288,683	290,741
Poland	153,907	137,306	139,781	163,128	178,690	196,490	229,520	199,578	226,266	230,725	235,411	241,622
Portugal	98,111	101,369	105,807	109,614	112,795	118,383	123,499	122,959	126,612	124,810	122,851	121,999
Romania	32,882	31,726	39,556	49,511	59,086	74,823	89,649	72,498	76,441	77,779	77,047	81,316
Slovakia	16,393	17,920	20,677	23,370	26,277	32,333	38,310	40,283	41,954	42,966	43,702	44,330
Slovenia	16,364	16,683	17,378	18,505	19,493	21,145	22,677	22,839	23,043	23,567	22,923	22,979
Spain	477,996	512,136	546,443	588,640	629,835	671,181	717,149	720,999	702,619	702,336	682,376	677,573
Sweden	136,127	140,237	143,330	145,228	152,848	163,591	165,914	156,462	179,642	198,998	215,921	224,582
UK	1,152,711	1,094,862	1,163,346	1,199,506	1,266,266	1,301,060	1,157,179	1,071,057	1,165,513	1,183,366	1,322,263	1,284,543
Euro area 18	4,860,468	5,018,259	5,207,732	5,387,960	5,609,537	5,856,058	6,054,042	6,029,359	6,093,658	6,226,442	6,245,903	n/a
EU 28	6,557,341	6,656,615	6,936,708	7,211,352	7,546,729	7,888,262	8,012,476	7,850,113	8,069,006	8,265,550	8,450,127	n/a
Norway	103,968	104,794	104,928	119,667	114,291	123,711	129,631	130,005	148,779	161,507	175,973	177,637
USA	8,710,800	7,652,230	7,394,070	7,729,990	8,180,160	7,828,800	7,638,590	8,014,730	8,672,440	8,655,880	9,745,260	9,555,020

Source: European Commission (AMECO Database)

1) Time series breaks:
- None

2) The series has been revised for at least two years in:
- No country

3) Notes:
- For further details on the methodologies, please see “Annex: Explanatory Note on Data”.
- n/a: figure not available.
- Please note that the disposable income of households at current prices has been taken in euros directly from AMECO.

26. Population

18 years of age or over

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	6,432,985	6,476,373	6,524,762	6,587,283	6,647,030	6,689,506	6,730,188	6,772,979	6,809,974	6,851,056	6,899,032	6,953,033
Belgium	8,145,996	8,190,878	8,229,047	8,275,919	8,331,936	8,396,748	8,472,359	8,547,467	8,625,749	8,756,344	8,833,129	8,886,633
Bulgaria	6,391,051	6,387,318	6,381,685	6,379,644	6,370,686	6,288,980	6,268,322	6,244,348	6,216,530	6,181,328	6,145,788	6,106,540
Croatia	3,425,890	3,440,093	3,453,827	3,469,438	3,478,511	3,488,997	3,494,947	3,498,699	3,497,844	3,489,108	3,482,850	3,475,931
Cyprus	520,349	530,680	541,397	552,932	564,986	579,869	598,457	619,004	640,785	661,878	684,689	690,884
Czech Republic	8,182,191	8,212,453	8,254,247	8,290,239	8,340,176	8,395,089	8,490,760	8,576,764	8,617,502	8,639,375	8,668,769	8,676,895
Denmark	4,191,428	4,194,204	4,198,678	4,205,916	4,216,893	4,233,174	4,260,307	4,294,246	4,319,228	4,349,596	4,378,227	4,412,327
Estonia	1,088,490	1,088,450	1,087,470	1,087,090	1,086,620	1,086,180	1,087,380	1,088,470	1,087,930	1,085,600	1,081,355	1,076,483
Finland	4,070,122	4,091,233	4,111,020	4,130,843	4,151,882	4,177,242	4,204,459	4,234,754	4,262,971	4,290,980	4,319,501	4,347,944
France	47,338,018	47,721,361	48,115,314	48,572,576	49,010,534	49,384,484	49,720,834	50,026,691	50,289,714	50,561,775	50,790,959	51,004,653
Germany	67,058,890	67,300,023	67,476,832	67,672,014	67,880,591	68,072,756	68,247,754	68,318,799	68,320,564	68,410,713	68,624,472	68,861,003
Greece	8,895,013	8,950,719	9,011,531	9,065,058	9,111,859	9,153,000	9,197,244	9,211,160	9,205,702	9,165,757	9,165,351	9,116,775
Hungary	8,123,487	8,121,171	8,133,136	8,147,132	8,150,716	8,162,060	8,164,552	8,176,847	8,187,583	8,187,767	8,148,079	8,151,220
Ireland	2,885,746	2,948,490	3,009,305	3,087,045	3,173,018	3,286,982	3,374,379	3,415,449	3,425,549	3,430,232	3,422,850	3,413,840
Italy	47,167,918	47,322,519	47,679,397	48,003,440	48,135,168	48,271,301	48,644,498	48,948,648	49,125,682	49,321,210	49,396,435	49,662,299
Latvia	1,821,531	1,817,823	1,812,412	1,804,956	1,800,478	1,796,373	1,791,626	1,774,385	1,745,489	1,714,389	1,693,261	1,676,807
Lithuania	2,632,824	2,640,985	2,639,904	2,628,887	2,598,042	2,582,404	2,567,153	2,559,069	2,539,358	2,477,645	2,447,378	2,428,149
Luxembourg	345,116	348,667	354,077	359,321	365,836	371,924	378,602	387,286	394,805	403,289	415,783	426,500
Malta	301,746	306,098	310,122	314,365	318,159	321,101	325,462	330,123	334,759	337,240	340,819	345,286
Netherlands	12,535,422	12,599,109	12,654,365	12,707,935	12,752,453	12,793,540	12,859,287	12,957,546	13,060,511	13,153,716	13,243,578	13,316,082
Poland	29,246,042	29,554,846	29,840,800	30,086,768	30,293,256	30,464,912	30,627,711	30,786,207	30,936,058	31,286,627	31,391,896	31,466,531
Portugal	8,334,795	8,399,085	8,437,632	8,470,671	8,495,894	8,528,160	8,561,019	8,585,358	8,615,642	8,643,390	8,640,208	8,607,853
Romania	16,956,124	16,943,755	16,967,480	16,973,816	17,004,624	17,035,223	16,735,210	16,632,262	16,525,939	16,465,284	16,405,060	16,234,182
Slovakia	4,108,533	4,143,332	4,177,722	4,210,798	4,238,819	4,266,375	4,293,057	4,320,057	4,343,880	4,361,987	4,385,503	4,401,188
Slovenia	1,609,850	1,619,270	1,628,855	1,636,449	1,648,733	1,661,268	1,665,097	1,685,679	1,698,911	1,699,493	1,702,224	1,702,827
Spain	33,673,699	34,394,753	35,021,216	35,680,164	36,280,525	36,913,705	37,631,695	38,051,708	38,223,380	38,356,620	38,460,731	38,356,537
Sweden	6,970,862	6,999,878	7,034,234	7,072,239	7,113,513	7,179,337	7,251,275	7,331,508	7,419,589	7,496,476	7,563,649	7,627,772
UK	45,902,246	46,201,082	46,521,774	46,926,251	47,377,251	47,817,442	48,271,326	48,704,715	49,140,673	49,605,268	50,010,040	50,346,420
Euro area 18	256,334,219	258,248,863	260,182,476	262,218,859	263,994,521	265,750,514	267,783,397	269,275,563	270,211,997	271,205,669	272,099,880	272,846,627
EU 28	388,356,364	390,944,648	393,608,241	396,399,189	398,938,189	401,398,132	403,914,960	406,080,228	407,612,301	409,384,143	410,741,616	411,772,594
Iceland	208,389	210,314	212,028	214,642	220,441	228,203	235,271	238,587	236,948	238,035	239,724	242,099
Norway	3,456,577	3,476,541	3,495,131	3,518,330	3,547,491	3,585,131	3,637,892	3,695,771	3,749,043	3,805,931	3,867,645	3,928,378
Russia	n/a	n/a	n/a	n/a	114,814,582	115,206,540	115,599,905	115,848,565	115,933,934	116,647,838	n/a	n/a
Turkey	44,634,016	45,553,517	46,468,990	47,369,939	48,237,815	n/a	48,286,261	49,019,859	49,922,901	51,023,485	52,014,986	52,935,210
USA	214,688,736	217,007,175	219,507,563	221,992,930	224,622,198	227,211,802	229,989,364	232,637,362	235,205,658	237,676,867	240,185,952	242,403,199

Source: Eurostat, US Bureau of Census

1) Time series breaks:
- None

2) The series has been revised for at least two years in:
- All countries

3) Notes:
- For further details on the methodologies, please see “Annex: Explanatory Note on Data”.
- n/a: figure not available.

27. Bilateral Nominal Exchange Rate with the Euro

End of the year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU 28												
Bulgarian lev	1.955	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956
Croatian kuna	7.475	7.645	7.665	7.372	7.350	7.331	7.356	7.300	7.383	7.537	7.558	7.627
Czech koruna	31.58	32.41	30.46	29.00	27.49	26.63	26.88	26.47	25.06	25.79	25.15	27.43
Danish krone	7.429	7.445	7.439	7.461	7.456	7.458	7.451	7.442	7.454	7.434	7.461	7.459
Hungarian forint	236.3	262.5	246.0	252.9	251.8	253.7	266.7	270.4	278.0	314.6	292.3	297.0
Latvian lats	0.614	0.673	0.698	0.696	0.697	0.696	0.708	0.709	0.709	0.700	0.698	0.703
Lithuanian litas	3.453	3.452	3.453	3.453	3.453	3.453	3.453	3.453	3.453	3.453	3.453	3.453
Polish zloty	4.021	4.702	4.085	3.860	3.831	3.594	4.154	4.105	3.975	4.458	4.074	4.154
Romanian leu	n/a	n/a	n/a	3.680	3.384	3.608	4.023	4.236	4.262	4.323	4.445	4.471
Swedish krona	9.153	9.080	9.021	9.389	9.040	9.442	10.87	10.25	8.966	8.912	8.582	8.859
UK pound sterling	0.651	0.705	0.705	0.685	0.672	0.733	0.953	0.888	0.861	0.835	0.816	0.834
Non-EU												
Icelandic krona*	n/a	n/a	n/a	n/a	n/a	91.90	169.1	179.5	154.2	158.6	169.3	159.1
Norwegian krone	7.276	8.414	8.237	7.985	8.238	7.958	9.750	8.300	7.800	7.754	7.348	8.363
Russian rouble	33.51	36.96	37.79	33.92	34.68	35.99	41.28	43.15	40.82	41.77	40.33	45.32
Turkish lira	n/a	n/a	n/a	1.592	1.864	1.717	2.149	2.155	2.069	2.443	2.355	2.961
US dollar	1.049	1.263	1.362	1.180	1.317	1.472	1.392	1.441	1.336	1.294	1.319	1.379

Average of the year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU 28												
Bulgarian lev	1.949	1.949	1.953	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956
Czech koruna	30.80	31.85	31.89	29.78	28.34	27.77	24.95	26.44	25.28	24.59	25.15	25.98
Danish krone	7.431	7.431	7.440	7.452	7.459	7.451	7.456	7.446	7.447	7.451	7.444	7.458
Hungarian forint	243.0	253.6	251.7	248.1	264.3	251.4	251.5	280.3	275.5	279.4	289.3	296.9
Latvian lats	0.581	0.641	0.665	0.696	0.696	0.700	0.703	0.706	0.709	0.706	0.697	0.701
Lithuanian litas	3.459	3.453	3.453	3.453	3.453	3.453	3.453	3.453	3.453	3.453	3.453	3.453
Polish zloty	3.857	4.400	4.527	4.023	3.896	3.784	3.512	4.328	3.995	4.121	4.185	4.197
Romanian leu	n/a	n/a	n/a	3.621	3.526	3.335	3.683	4.240	4.212	4.239	4.459	4.419
Swedish krona	9.161	9.124	9.124	9.282	9.254	9.250	9.615	10.62	9.537	9.030	8.704	8.652
UK pound sterling	0.629	0.692	0.679	0.684	0.682	0.684	0.796	0.891	0.858	0.868	0.811	0.849
Non-EU												
Croatian kuna	7.413	7.569	7.497	7.401	7.325	7.338	7.224	7.340	7.289	7.439	7.522	7.579
Icelandic krona	86.18	86.65	87.14	78.23	87.76	87.63	143.8	n/a	n/a	n/a	n/a	n/a
Norwegian krone	7.509	8.003	8.370	8.009	8.047	8.017	8.224	8.728	8.004	7.793	7.475	7.807
Russian rouble	29.70	34.67	35.82	35.19	34.11	35.02	36.42	44.14	40.26	40.88	39.93	42.34
Turkish lira	n/a	n/a	n/a	1.677	1.809	1.787	1.906	2.163	1.997	2.338	2.314	2.534
US dollar	0.946	1.131	1.244	1.244	1.256	1.371	1.471	1.395	1.326	1.392	1.285	1.328

Source: European Central Bank

1) Time series breaks:
- None

2) The series has been revised for at least two years in:
- All countries

3) Notes:
- For further details on the methodologies, please see “Annex: Explanatory Note on Data”.
- n/a: figure not available.

* For Iceland, the source for end-of-year is www.x-rates.com.

Annex: Explanatory Note on Data

A. The Mortgage Market

1. Total Outstanding Residential Loans Total amount, end of the year, EUR million

Total residential loans on lender's books at the end of the period. The definition of residential loans can vary somewhat across EU 28 countries, depending on the collateral system and the purpose of the loans. Some countries only integrate secured residential loans, while some others include both secured and non-secured loans. In some countries, this collateral is generally the property, whilst some others favour a system of personal guarantees.

Regarding the purpose, a few countries exclude residential loans whose purpose is above all commercial (such as purchasing a building to let). In addition, there are some methodological differences across EU 28 countries regarding the statistical treatment of loans made for renovations of existing dwellings: under some assumptions, some of these loans can be considered as consumption loans.

The conversion to EUR is based on the bilateral exchange rate at the end of the period (provided by the European Central Bank). For some countries (such as Hungary), this conversion is partly unreliable since a significant share of outstanding loans is denominated in CHF.

2. Change in Outstanding Residential Loans End of period, EUR million

Year-on-year changes in Table 1. It also corresponds to new residential loans advanced during the period minus repayments.

3. Gross Residential Loans Total amount, EUR million

Total amount of residential loans advanced during the period. Gross lending includes new mortgage loans and external remortgaging (i.e. remortgaging with another bank) in most countries. Internal remortgaging (i.e. remortgaging with the same bank) is not included, unless it is otherwise stated.

The conversion to EUR is based on the average bilateral exchange rate over the given year (provided by the European Central Bank).

4. Representative Interest Rates on New Residential Loans, Annual average based on monthly figures, %

This series aims at providing the most representative figures on interest rates on mortgage loans in the EU 28 countries and beyond. For most of these countries, the source of the data is the European Central Bank (ECB), which in turn collects data from the respective national central bank. The definition of the interest rate reported is the following:

"Dataset name: MFI Interest Rate Statistics; BS reference sector breakdown: Credit and other institutions (MFI except MMFs and central banks); Balance sheet item: Lending for house purchase excluding revolving loans and overdrafts, convenience and extended credit card debt; MFI interest rate data type: Annualised agreed rate (AAR) / Narrowly defined effective rate (NDER); BS counterpart sector: Households and non-profit institutions serving households; Currency of transaction: Euro; IR business coverage: New business"

The data provided normally refers to weighted averages.

Below is a list of countries for which the above does not apply (at least in part):

Bulgaria: Weighted average of interest rates on loans for house purchase, excluding revolving loans and overdrafts, convenience and extended credit card debt, BGN (the monthly data is based on the average of observations through the period). Source: Bulgarian National Bank (BNB).

Croatia: Weighted average interest rate on HRK housing credits indexed to foreign currency (to households). Source: Croatian National Bank.

Czech Republic: Weighted average mortgage rate on loans to households for house purchase. Source: Hypoindex until 2012; Czech National Bank from 2013.

Denmark: Interest rates on new domestic mortgage loans excluding revolving loans from mortgage banks, weighted average. Data prior to 2013 refers to mortgage loans only in DKK, whereas data from 2013 onwards refers to a weighted average of loans in DKK and EUR. There is a series break in 2013 due to the changing definition of MFI and household.

Germany: Initial fixed period interest rate between 5 and 10 years on loans for house purchase, excluding revolving loans and overdrafts, convenience and extended credit card debt, EUR (the monthly data is based on the average of observations through the period). Source: Deutsche Bundesbank.

Greece: Initial fixed period interest rate up to 1 year on loans for house purchase, excluding revolving loans and overdrafts, convenience and extended credit card debt, EUR (the monthly data is based on the average of observations through the period). Source: National Bank of Greece.

Hungary: Monthly average floating rate and up to 1 year initial rate fixation on loans for house purchase, HUF. Source: Hungarian National Bank.

Lithuania: Total initial rate fixation on loans for house purchase. Source: Bank of Lithuania.

Luxembourg: Initial fixed period interest rate up to 1 year on loans for house purchase. Source: Central Bank of Luxembourg.

Malta: Weighted average of interest rates on loans for house purchase to households and NPISH. Source: Central Bank of Malta.

Poland: Weighted average interest rate on housing loans. Source: National Bank of Poland.

Romania: Mortgage loans granted in EUR with a maturity of 10 years or more with a charged rate fixed for 1 year. Source: National Bank of Romania.

Spain: Initial fixed period interest rate up to 1 year on loans for house purchase, excluding revolving loans and overdrafts, convenience and extended credit card debt, EUR, (the monthly data is based on the average of observations through the period). Source: European Central Bank.

Sweden: Housing credit institutions' lending rates on new agreements with variable interest rates, to Swedish households (incl. NPISH) and non-financial corporations. Variable interest rates are defined as interest rates up to 3 months fixed interest rates.

United Kingdom: Weighted average interest rate on loans secured on dwellings, GBP. Source: Bank of England.

Iceland: Average of the lowest mortgage interest rates provided by lending institutions for indexed housing loans; these mortgage interest rates are real mortgage interest rates (nominal mortgage interest rates adjusted for CPI inflation).

Russia: Weighted average interest rates of total new housing mortgage lending in RUB. Source: Central Bank of Russia.

Turkey: Weighted average interest rates for banks' loans in TYR. Source: Central Bank of the Republic of Turkey.

United States: Contract interest rate on 30-year, fixed-rate conventional home mortgage commitments. Source: Federal Reserve.

5. Total Outstanding Non-Residential Mortgage Loans Total Amount, end of the year, EUR million

Total non-residential loans on lender's books at the end of the period. Typically, these loans are the mortgage loans whose main purpose is not residential. The sum of "Total Outstanding Residential Loans" and "Total Outstanding Non-Residential Mortgage Loans" gives the total outstanding housing loans.

6. Total Outstanding Residential Loans to GDP Ratio, %

Total Outstanding Residential Loans is provided by the European Mortgage Federation (Table 1). GDP at current prices is provided by Eurostat (Table 24).

7. Total Outstanding Residential Loans to Disposable Income of Households Ratio, %

Total Outstanding Residential Loans is provided by the European Mortgage Federation (Table 1). Data on Disposable Income of Households at current prices is provided by the European Commission (AMECO Database) (Table 25).

8. Total Outstanding Residential Loans per Capita Population over 18, EUR

Total Outstanding Residential Loans is provided by the European Mortgage Federation (Table 1). Data on population is provided by Eurostat and the US Bureau of Census, and concerns the population whose age is 18 years or more (Table 26).

B. The Housing Market

9. Owner Occupation Rate, %

Distribution of population by tenure status: owner. Source: Eurostat.

10. Building Permits Number issued

A building permit is an authorisation to start work on a building project. As such, a permit is the final stage of planning and building authorisations from public authorities, prior to the start of work. In Hypostat, the building permit concerns only dwellings.

11. Housing Starts Number of projects started per year

Number of new residential construction projects that have begun during a given period. Housing Starts is usually considered to be a critical indicator of economic strength (since it has an effect on related industries, such as banking, the mortgage sector, raw materials, employment, construction, manufacturing and real estate).

12. Housing Completions Number of projects completed per year

Number of new residential construction projects that have been completed during a given period. Housing Completions is directly integrated into the dwelling stocks and, as such, is a determinant of the housing supply.

13. Real Gross Fixed Investment in Housing Annual % change

Real Gross fixed capital investment in housing is measured by the total value of producers' acquisitions, less disposals, of new dwellings during the accounting period. Source: Eurostat, OECD.

14. Total Dwelling Stock Thousand units

According to the "1993 SNA" (System of National Account), dwellings are buildings that are used entirely or primarily as residences, including any associated structures, such as garages, and all permanent fixtures customarily installed in residences; movable structures, such as caravans, used as principal residences of households are included.

For many countries, the yearly change in total dwelling stock is above the number of yearly completions because these two variables have been created with different methodologies.

15. Number of Transactions

Total number of new or second hand dwellings purchased or transferred in the period, including those occupied for the first time.

The national methodologies used to calculate this index are the following:

EU28

Belgium: transactions on second hand houses only.

Croatia: all types of real estate.

Denmark: excludes self-build.

Finland: all dwellings.

France: new apartments as principal and secondary residence or rental.

Ireland: estimate based on mortgage approvals until 2011.

Netherlands: includes commercial transactions.

Portugal: urban areas only – includes commercial transactions.

Sweden: from year 2000, not only one-family homes are included in the transaction figures but also apartment transactions.

NON EU28

USA: number of existing home sales.

16. Nominal House Prices Indices, 2006=100

Indices computed to reflect the changes in house prices observed over the period. Eurostat data is used for a number of countries. The data description is as follows:

Eurostat: House Price Indices (HPIs) measure inflation in the residential property market. The HPI captures price changes of all kinds of residential property purchased by households (flats, detached houses, terraced houses, etc.), both new and existing. Only market prices are considered, self-build dwellings are therefore excluded. The land component of the residential property is included. These indices are the result of the work that National Statistical Institutes (NSIs) have been doing mostly within the framework of the Owner-Occupied Housing (OOH) pilot project coordinated by Eurostat.

For the countries for which Eurostat data is not employed, the following national methodologies are used to calculate the published indices:

EU28

Austria: The RPPI for Vienna and for Austria excluding Vienna (regional breakdown) is a so-called "dummy index." It is calculated on the basis of the euro price per square meter for new and used condominiums and for single-family houses. The dummy index is calculated by Vienna University of Technology on the basis of data provided by the Internet platform Ametanet of the Austrian real estate software company EDI-Real. The calculation uses a hedonic regression model with a fixed structure over time. This approach may produce biased estimates if the effects of the variables change over time. Source: OeNB.

Bulgaria: Annual average market price index of dwellings, flats in the district centres (new flats are excluded). Source: National Statistical Institute.

Cyprus: The indices are based on property valuation data collected since 2006 by the contracted banks, whichreceive the relevant information from independent property surveyors in connection with mortgage transactions, such as housing loans, mortgage refinancing and mortgage collateral. The data, which are representative of the Cyprus property market, cover all the areas under the effective control of the Republic of Cyprus (Nicosia, Limassol, Larnaca, Paphos and Famagusta) and refer to residential properties (houses and apartments). Source: Central Bank of Cyprus.

Czech Republic: Index of realised new and second-hand flat prices. New flats published for Prague only. Source: Czech Statistical Office.

Denmark: All dwellings; annual average. Source: Statistics Denmark and Association of Danish Mortgage Banks.

Estonia: New and existing dwellings, whole country. Source: Estonian Statistics Database.

Finland: These statistics describe the levels of the prices and changes in the prices of single-family houses and single-family house plots quarterly and annually. Source: Statistics Finland.

France: The index of housing prices (IPL) is a quarterly index, average annual base 100 in 2010.
The IPL is a transaction price index measuring, between two consecutive quarters, the pure evolution of prices of homes sold. For a given quarter, the index is obtained as the weighted average of two indices: (1) the Notaries – INSEE index of existing homes; and (2) the price index for new housing. Source: National Institute of Statistics and Economic Studies (INSEE).

Germany: VDP Price Index for Owner Occupied Housing, calculated by vdpResearch.

Greece: Urban areas only.

Hungary: All dwellings, FHB Index.

Italy: Source: Bank of Italy, Istat, Revenue Agency Property Market Observatory (Osservatorio del mercato immobiliare), Consulente Immobiliare and Tecnoborsa.

Poland: Only secondary market; transaction prices; dwellings (without single family houses).

Portugal: Annual average; new series from 2005. Source: Confidencial Imobiliário.

Romania: Source: National Institute of Statistics.

Slovenia: Existing dwellings; y-o-y variation in the last quarter of each year. Source: Statistical Office of the Republic of Slovenia.

Spain: All dwellings. Source: Ministerio de Fomento.

Sweden: One- and two-dwellings buildings; annual average.

NON EU28

Russia: y-o-y variation in the last quarter of each year.

Turkey: Data on house prices, in percentage change over previous period. Source: OECD.

USA: Data on house prices, in percentage change over previous period. Source: OECD.

17. Change in Nominal House Prices Annual % change

The annual percentage change computed using the house price indices found in Table 16.

18. Nominal House Price to Disposable Income of Households Ratio, 2006=100

This indicator is a measure of housing affordability. The nominal house price to disposable income ratio is also used by the OECD to provide a measure of housing affordability. However, this index is partially biased since it does not integrate financing costs: mortgage interest rate, taxes, notary costs, etc.

C. Funding of the Mortgage Market

19. Total Covered Bonds Outstanding, Backed by Mortgages EUR million

Covered bonds are a dual recourse debt instruments issued by credit institutions and secured by a cover pool of financial assets, typically composed of mortgage loans, public-sector debt or ship mortgage. Three different models of covered bonds co-exist in Europe:

- Direct/on-balance issuance (German model): the originator issues the covered bonds and the assets are ring-fenced on the balance sheet of the originator.
- Specialist issuer (French model): an originator establishes a credit institution subsidiary which issues the covered bonds and holds the collateral.
- Direct issuance with guarantee (UK model): the originator issues the covered bonds, which are guaranteed by a special purpose entity of the originator, which holds the cover pool assets.

22. Total Residential Mortgage-Backed Securities (RMBS) Outstanding EUR million

A RMBS is a derivative whose value is derived from home equity loans and residential mortgages. In line with the other mortgage-backed securities, the owner is entitled to a claim on the principal and interest payments on the residential loans underpinning the security.

D. Macroeconomic Indicators

24. GDP at Current Market Prices EUR million

Within the approach of GDP at current prices, the fundamental principle is that output and intermediate consumption is valued at the prices current at the time the production takes place. This implies that goods withdrawn from inventories by producers must be valued at the prices prevailing at the times the goods are withdrawn, and consumption of fixed capital in the system is calculated on the basis of the estimated opportunity costs of using the assets at the time they are used, as distinct from the prices at which the assets were acquired.

25. Gross Disposable Income of Households EUR million

According to the “1993 SNA”, Gross Disposable Income of Households is the sum of household final consumption expenditures and savings (minus the change in net equity of households in pension funds). It also corresponds to the sum of wages and salaries, mixed income, net property income, net current transfers and social benefits other than social transfers in kind, less taxes on income and wealth and social security contributions paid by employees, the self-employed and the unemployed.

The indicator for the household sector includes the disposable income of non-profit institutions serving households (NPISH).

EMF Hypostat 2014

EUROPEAN MORTGAGE FEDERATION