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A review of Europe's Mortgage and Housing Markets

HYPOSTAT 2006

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Content

KEY FACTS

In the European Mortgage Federation (EMF)'s latest yearly compendium of European statistics on housing and mortgage markets - Hypostat 2006 - full year data for 2006 reveals that Europe's markets continued their strong performance of recent years, boosted by strong economic fundamentals and high levels of consumer confidence. However, the first signs of cooling could also be observed especially in the second part of the year, as the monetary tightening of Europe's central banks started to impact the decision-making of existing and potential home-owners.

In summary, Hypostat 2006 provides the following information:

> In the EU 27 the total volume of residential mortgage lending outstanding increased from €5.1 trillion in 2005 to €5.8 trillion[1] in 2006, which corresponds to a growth rate of 12.5%, higher than the 10.8% growth rate recorded in the previous year.

> However, while in the majority of EU countries gross and net lending volumes growth remained high, they were in many cases lower than in 2005. This was true for countries such as Greece, Ireland and Spain, the fastest growing mortgage markets in the EU 15, as well as for the high growth markets of the new Member States of the EU 27.

> Only six of the EU 27's Member States experienced more dynamic mortgage markets in 2006 than in 2005: Germany, Austria, Poland, the Netherlands, Portugal and the UK.

> Interest rate increases by the ECB and other EU central banks were the main reasons reported for the continued easing of the EU's residential mortgage markets. According to ECB data, in the Euro area interest rates increased across all loan maturities and short term interest rates increased more than long term interest rates.

> In a number of the countries analysed, including Belgium, Greece and the UK, the general increase in mortgage interest rates, the narrowing spread between short and long term rates as well as the expectations of further rises, led to a shift in borrowers' preferences for longer term mortgage rates.

> With regards to house price growth, as with mortgage volumes, while remaining high in most EU countries, some moderation has been observed across the EU.

> In certain countries such as Spain, France and Malta, the easing in growth of prices was first observed in 2005, and was confirmed in 2006. In other countries, such as Belgium, Denmark and Greece house price growth rates started declining in 2006.

> A number of EU countries did, however, record increasing house price growth rates in 2006, such as Germany, Ireland, Poland and the UK.

> In 2006, construction activity remained dynamic in many EU countries and countries such as Spain, France, Ireland and Sweden experienced record highs.

> Many of the central and eastern European countries also recorded a strong increase in housing supply in 2006, some of them recording significantly higher growth rates than countries of the EU 15.

1 Or €5.785 trillion and €5.144 trillion to three decimal points. For more details see table 11 in the statistical tables section.

HOUSING AND MORTGAGE MARKETS IN 2006

1. MACROECOMOMIC OVERVIEW

The economies of the European Union grew by 3.0% and those of the euro area by 2.7% in 2006. This compares to growth rates of 1.7% and 1.4% respectively in 2005. These growth rates were higher than expected and were the highest recorded in both areas since 2000. Indeed, 2006 represented a rebound in the EU economy, reflecting a strengthening of both business and consumer confidence, and driven by significant increases in investment and substantial improvements in labour market conditions.

2006 GDP growth outpaced that recorded for 2005 in all but six[2] of the EU27 Member States, with the highest growth rates being recorded, as usual, in the central and eastern European countries. Of the larger economies, 2006 GDP growth exceeded 2005 growth in all, i.e.: France, Italy, Germany, the UK and Spain. In France, investment expenditure strongly contributed to GDP growth, registering 4.1% in 2006, compared to 2.7% in 2005, while consumption expenditure was stable at 2.1% compared to 2.2% in 2005. The Spanish economy grew by 3.9% in comparison to 3.5% in 2005, supported by good growth recorded in exports, which made up for the somewhat more subdued growth in the domestic sector. The German economy experienced a considerably higher GDP growth rate in 2006 compared to 2005, recording a very respectable 2.9% rate of economic growth compared to the 0.8% growth of the previous year. Rises in exports and investments in fixed assets drove this growth, while modest increases in private consumption represented a positive change to the stagnation of the two previous years. In 2006, the UK economy grew by 2.8%, compared to 1.8% in 2005.

Employment in the EU grew by 1.5% and by 1.4% in the euro area, also representing the strongest rises since 2000, and corresponding to an addition of 3.5 million new jobs in the EU area. This led to important falls in the rates of unemployment, which went from 8.7% in the EU and 8.6% in the euro area in 2005, to 7.9% in both economic areas in 2006. In Spain, unemployment fell to 8.5% compared to 9.2% in the previous year. This represents a continuation of the falling trend in unemployment, which was as high as 18.8% as recently as 1995. Unemployment also fell considerably in Germany in 2006, declining from 9.4% in 2005 to 8.4% in 2006. Falls in levels of unemployment were particularly impressive in a number of CEE countries such as Lithuania, Estonia, Latvia, Slovakia and Poland. The rate of unemployment actually increased in the UK in 2006, going from 4.8% in 2005 to 5.3%.

While the overall rates of inflation stayed the same, both in the EU and the euro area in 2005 and 2006 (at 2.3% for the EU and 2.2% for the euro area), the rates of inflation increased in 15 of the 27 EU Member States, driven especially by rises in energy prices. Falls in the rates of inflation were recorded in Germany and Poland.

2. HOUSING MARKETS

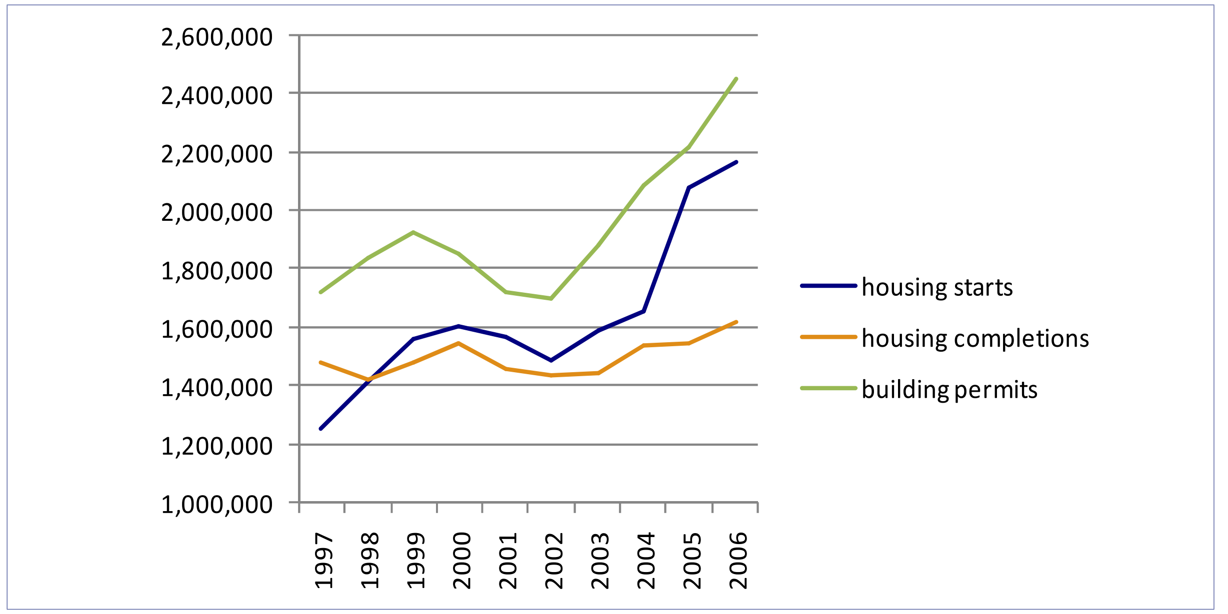
2.1 Developments in housing supply

The number of building permits issued, housing starts and housing completions are indicators of changes in housing supply. All three indicators are not always available for each of the countries included in this report, thus this section looks at different indicators depending on the country analysed.

EMF data show that supply of housing increased in many EU countries during the past ten years (See tables 6, 7 and 8 and chart 1). From 1997 to 2006, housing completions doubled in countries such as Ireland and Spain, housing starts increased by four times in Sweden and building permits rose by ten times in Estonia.

2 The six Member States in question are: the Czech Republic, Cyprus, Lithuania, Hungary, Malta and Bulgaria.

CHART 1 > HOUSING SUPPLY IN THE EU 1997-2006



Source:EMF

In 2006, construction activity remained dynamic in many EU countries and countries such as Spain, France and Ireland experienced record highs.

In Spain the number of housing starts and the number of building permits issued reached an all time high[3], with 584,881 housing starts and 865,861 building permits issued. The performance of the housing market in France was also very positive, with 421,000 housing starts in 2006, which represented an increase of 2.6% from 2005 and the highest level since the 80s. Moreover, building permits issued increased by 9.8%, meaning that strong activity is expected also in the coming years. In Ireland, housing completions rose by 15% to over 93,000 units, the highest number ever recorded[4]. However, housing starts fell slightly, by 2.5%, indicating that the output might have peaked[5].

In other countries, such as Denmark and Greece, the level of housing supply remained high, but it was lower than in 2005.

Housing starts in Denmark decreased by 14% from 2005, but their number was still 15% higher than the average of 23,379 dwellings starts recorded in the period 1995 to 2005[6].

In Greece, the total number of building permits issued dropped by 14.4% from 2005. This was due to the fact that 2005 was an exceptional year, with the number of building permits in the last quarter of that year surging by 60%, compared to the corresponding quarter of 2004. This was due to the expected hike in property prices resulting from the imposition of VAT on new dwellings as well as the increase in "objective" property values for tax purposes in 2006[7].

Other countries experienced interesting developments in 2006, such as Sweden and Germany.

Sweden recorded extremely high growth rates in housing supply due to the announcement of the abolishment of interest rate subsidies and investment grants in the government budget for 2007. In fact, housing starts increased from 31,500 units in 2005 to 44,900 units in 2006 which corresponds to an exceptional growth rate of 42%. Also, housing completions increased by 29% from 23,400 units in 2005 to 30,300 units in 2006[8].

Germany experienced an increase in housing supply for the first time since 1997, after recording progressively declining construction activity throughout the past ten years. In 2006, the total number of building permits issued increased by 4% and the total number of housing completions rose by 3%. The growth in the number of building permits was in part the result of the abolition of subsidies for owner occupied housing announced for 2006. Decisive to claim the subsidy was the filing of the building application by 2006. Another factor which fostered housing investment in 2006 was the announcement of an increase in VAT from 16% to 19% which led to a substantial increase in contracts for modernisation and renovation for the construction industry[9].

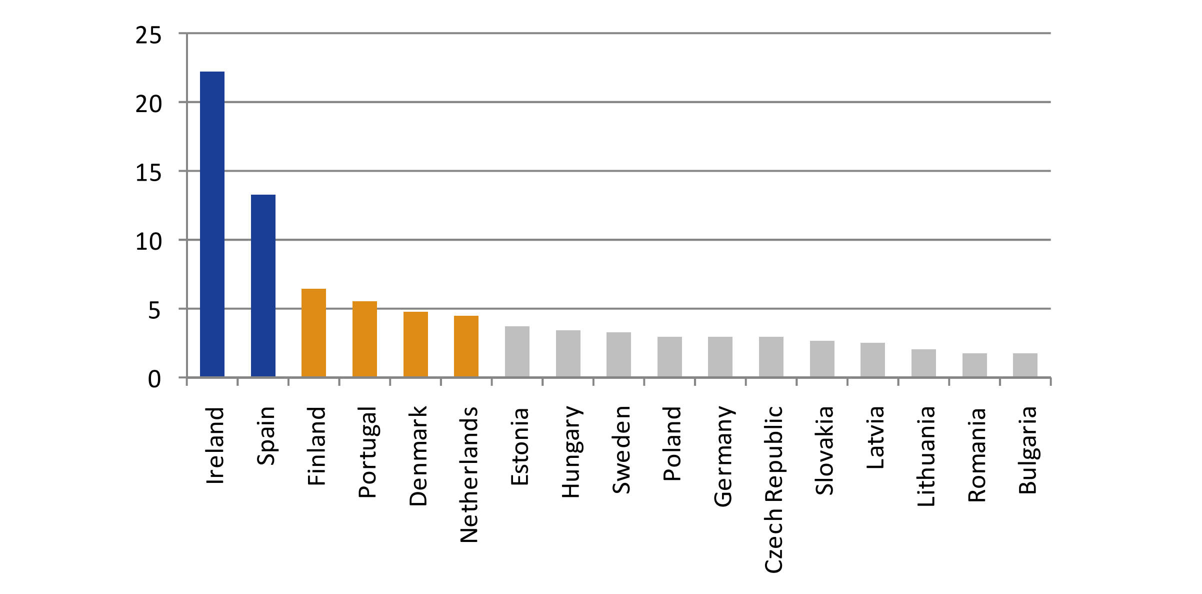
Finally, many of the central and eastern European countries also recorded an increase in housing supply in 2006, some of them recording significantly higher growth rates than countries of the EU 15. In the EU 15 the increase in the issuance of building permits ranged from 2.9% in Belgium to 18% in Spain[10], while in countries such as Estonia, Poland and Latvia, building permits issued increased by 40%, 38% and 36% respectively. Moreover, the rise in housing completions ranged from 4% in Belgium to 15% in Ireland (with the exception of Sweden recording a growth rate of 29%)[11], while in Estonia and Latvia housing completions rose by 31% and 54% respectively.

In spite of such impressive growth rates, housing supply in many central and eastern European countries remains very low when compared to the levels of supply in the EU 15 (See chart 2). According to EMF data on housing completions per 1000 inhabitants in 2006, these do not exceed 3.8 in central and eastern Europe, while in the EU 15 they range from 2.9 in Germany to 22.2 in Ireland. Moreover, building permits per 1000 inhabitants in central and eastern European countries range between 2.2 in Lithuania and 4.9 in the Czech Republic[12], while in the EU 15 they range between 3.0 in Belgium and 19.8 in Spain.

3 According to EMF data that goes back to 1983.
4 According to EMF data that goes back to 1983.
5 See Ireland country chapter.
6 See Denmark country chapter.
7 The "objective" value of a property is that which is set by the Greek government on every property and the purchaser of a property is taxed on the basis of that value. There has been another increase in the "objective" value in 2007. See Greece country chapter.

8 However, the number of building permits decreased from 2005 to 2006.
9 See Germany country chapter.
10 Only positive growth in housing supply is considered. In fact there are some countries, as seen before, which recorded a drop in new supply of housing from 2005 to 2006.
11 Sweden recorded a growth rate of over 40% for housing starts in 2006, as explained before.
12 With the exception of Estonia, which is the only eastern European country where figures resulting from housing supply indicators per 1000 inhabitants are comparable to figures for the EU15.

CHART 2 > HOUSING COMPLETIONS PER 1000 INHABITANTS -2006



Source:EMF

2.2 House price trends

House prices increased substantially over the past decade. The significant growth in house prices was to a large extent due to strong housing demand, fuelled by decreasing interest rates and the introduction of innovative mortgage products, which enabled a larger number of households to gain access to the mortgage credit markets[13]. Moreover, despite increasing significantly in a number of EU countries, housing supply has not adequately met the rising demand in many parts of the EU, and has therefore not served to alleviate house price pressures.

In 2006, while house price growth continued to remain high in most EU countries, some moderation has been observed in a number of them (See chart 3).

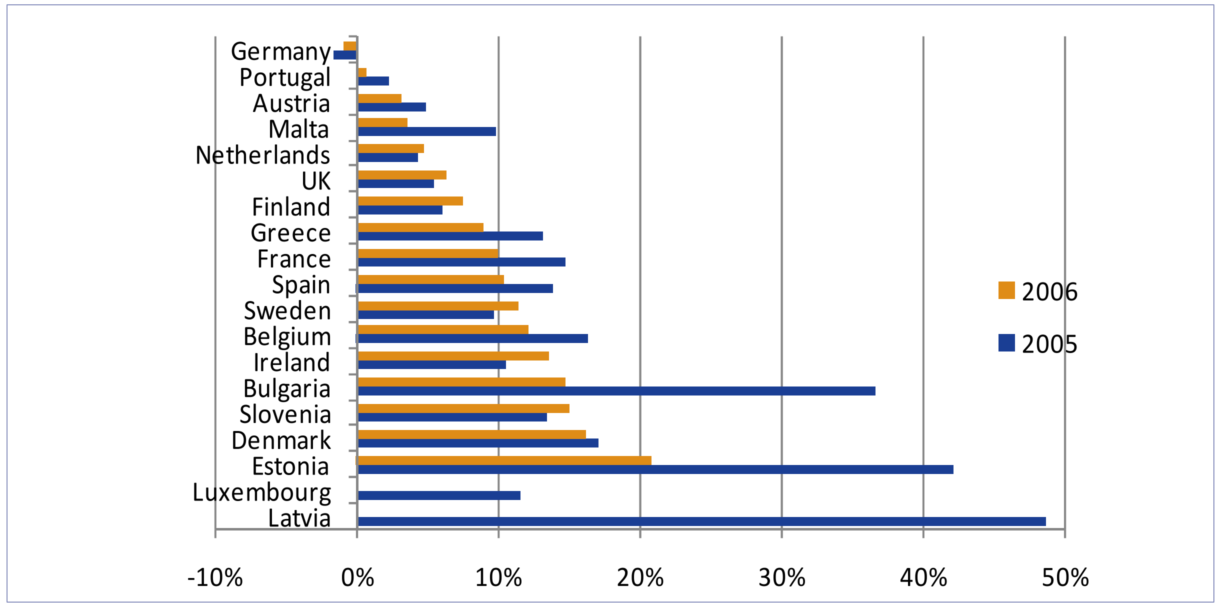
In Spain and France, a slowdown in prices which was first observed in 2005 was confirmed by 2006 data, which showed that house price growth rates decreased from 12.8% in 2005 to 10.3% in 2006 in Spain and from 14.7% in 2005 to 9.9% in 2006 in France.

In other countries such as Denmark and Greece house price growth rates started declining in 2006. In Denmark, house price growth decreased from its 2005 record high of 17.1% to 16% in 2006.

In Greece, official figures for 2006 are not available, but most estimates agree that the average increase in house prices was around 9%, lower than the 2005 figure of 13.2%. This was lower than anticipated, especially in view of the fact that the announcement of the increase in property values (see previous section) was expected to strongly push up house prices[14].

13 Other demand factors such as demographics and income are also considered explanations for the rise in house prices, as explained in: "Recent house price developments : the role of fundamentals", N. Girouard, M. Kennedy, P. van den Noord and C. André, Economic department working papers nr. 475, OECD (2006).
14 For more details, see Greece country chapter.

CHART 3 > HOUSE PRICE GROWTH 2005-2006



Source:EMF

There are, however, a number of EU countries which recorded increasing house price growth rates in 2006.

In Ireland, the overall house price growth rate reached 13.6% from 10.6% in 2005. By the end of the year the average price for a new home in Ireland reached approx. €313,000, an increase of about €26,000 or over 8% on the previous year. The increase in Dublin, the capital city, was even more marked, as a surge in house price inflation of €58,000 brought the average price of a new home in the capital to approx. €419,300[15].

Another example is Poland, which recorded very high house price growth rates in its large cities, where according to anecdotal evidence house price inflation ranged from 50% to 60%. These figures are the result of a large mismatch between housing demand and supply. In fact, construction of new housing remains very low, despite the increase in housing supply as mentioned in the previous section. The low levels of construction activity are due to the lack of local development plans, a consequence of large regulatory obstacles[16].

In the UK, house price growth increased from 5.5% in 2005 to 6.3% in 2006. The increase was largely due to dynamic housing market activity, resulting from strong housing demand relative to supply and the good performance of the UK economy[17].

Finally, it is interesting to refer to German house price developments, as they differ substantially from the trends described above. While German house prices for existing dwellings[18] have been falling over the last few years, and indeed continued to fall in 2006 (by 0.9%), they did so by less than in 2005 (-1.7%). Prices of new dwellings, on the other hand increased by 1.8% in 2006. The moderate upturn in the German housing and mortgage markets experienced in 2006 are explanations for these changes[19].

15 For more details, see Ireland country chapter.
16 For more details, see Poland country chapter.
17 Council of Mortgage Lenders, 2006 Annual Report.
18 In table 10, house price percentage changes are calculated on house prices for existing dwellings.
19 For more details, please see the section on housing supply and the section on mortgage market developments.

3. MORTGAGE MARKETS

3.1 Mortgage market developments

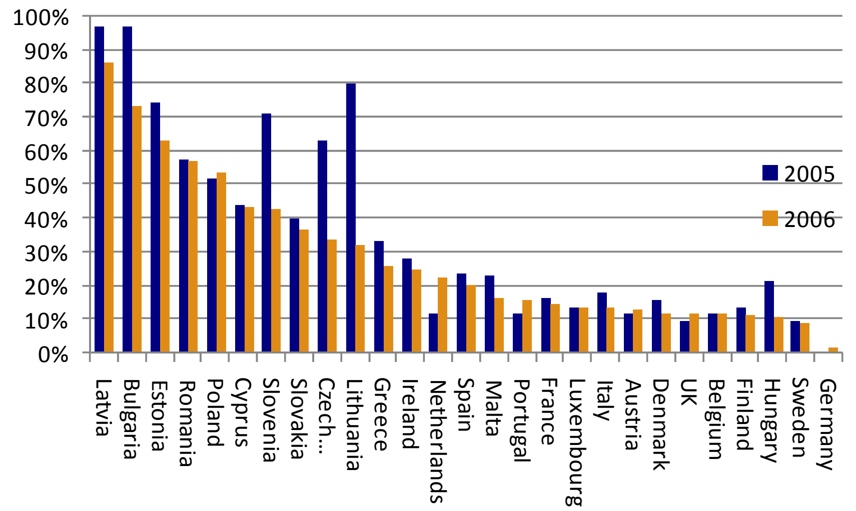
European mortgage markets remained buoyant in 2006. In the EU 27 the total volume of residential mortgage lending outstanding increased from €5.1 trillion to €5.8 trillion, which corresponds to a growth rate of 12.5%, higher than the 10.8% growth rate recorded in 2005.

However, examining the results of individual countries suggests that 2006 can be considered a turning year. In the majority of the EU countries, gross and net lending volumes remained high, but mortgage market growth was more moderate.

A slowdown in activity is evident both in the mature mortgage markets of the EU 15 as well as the young mortgage markets of central and eastern Europe which during recent years experienced very high rates of growth (see chart 4).

Interest rate increases by the ECB and other EU central banks were the main reasons reported for the continued easing of the EU's residential mortgage markets.

CHART 4 > MORTGAGE MARKETS GROWTH 2005-2006



Source:EMF

Greece, Ireland and Spain, the fastest growing mortgage markets in the EU 15, recorded more moderate lending growth rates. Overall, the mortgage market indicators (outstanding, net and gross lending) point to slower growth in lending than in recent years. However, despite the slowdown, growth rates of outstanding residential loans remain high, at close to or slightly over 20% in Greece, Ireland and Spain.

2006 growth rates of residential mortgage lending outstanding in Bulgaria, Latvia and Lithuania, which were the fastest growing markets of the EU 27 in 2005, were lower than in 2005, although they remained very high when compared to growth rates of countries in the EU 15. In Bulgaria, residential mortgage lending outstanding grew by 73.5% in 2006 compared to 97% in 2005 and 149.5% in 2004. In Latvia, although the 2006 growth rate (at 86.5%) was in line with recent years, it was less than the growth rate recorded for 2005 (of 97.2%). In Lithuania the drop was stronger than in Bulgaria and Latvia. The growth rate fell from 80% in 2005 to 32% in 2006 and it was the lowest growth rate recorded since 2001.

In Denmark, the slowdown in mortgage market activity was particularly strong with regards to gross lending, decreasing by 34.7% from the previous year as increasing interest rates brought to an end the high levels of remortgaging activity recorded in 2005[20].

An increase in the growth rate of outstanding balances was however experienced in six EU countries in 2006[21]. Of particular interest are the experiences of the Netherlands, Germany and the UK.

In the Netherlands, the residential mortgage market boomed with a growth rate in residential mortgage lending outstanding of 22%, the highest recorded over the past ten years. Net lending also increased substantially, doubling in volume from 2005 to 2006. However, a slowdown became evident in the 2nd half of the year which was reflected in the fall in remortgaging activity and in a decrease in the number of loans granted[22].

In Germany, while mortgage market activity has been weak over recent years, a slight upturn was recorded in 2006. Residential mortgage lending outstanding grew by 1.8% in comparison to 0.5% in 2005 and gross lending by 3.8% in comparison to 3.2% in 2005. As already commented in the previous sections, the main reasons for this increase were the expected increase in VAT and the abolishment of subsidies. The VAT increase led many households to take up loans for property renovation before the end of 2006, while the abolishment of subsidies increased the number of building permits in 2006[23] which had a trigger effect on lending activity.

In the UK, the mortgage market was buoyant in 2006 and net and gross lending reached record highs of €162,850 million and €505,928 million, respectively. Mortgage market growth was driven mainly by a combination of rising property prices and sales. Property sales were around 16% higher than in the previous year and house price growth increased from 5.5% in 2005 to 6.3% in 2006[24].

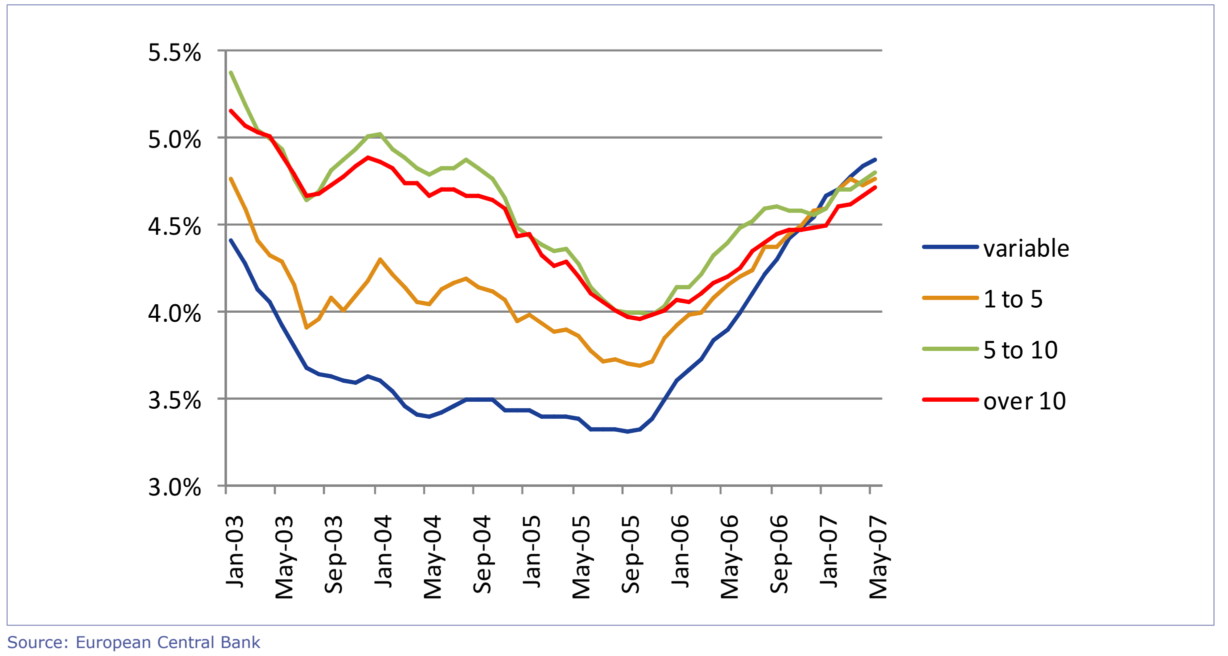
3.2 Developments in mortgage interest rates

Mortgage interest rates have declined substantially over the past ten years and reached historically low levels in 2005. Since the end of 2005, however, they started increasing again, due to several interest rate hikes by the ECB and other European central banks. According to EMF data on annual representative interest rates[25] (table 19), in 2006 interest rates increased in the majority of the EU countries analysed.

ECB monthly aggregate data for the Euro area show that interest rates increased across all loan maturities and that short term interest rates increased by more than long term interest rates (see chart 5). From December 2005 to December 2006, variable interest rates increased by 106 basis points (bp), initial fixed period rates from 1 to 5 years increased by 73 bp, initial fixed period rates from 5 to 10 years increased by 53 bp and initial fixed period rates for over 10 years increased by 48 bp. According to the ECB, the slower interest rates pass through for long term lending rates might be due to deepening competition, which might have favoured the reduction of bank spreads[26].

20 Due to expectations of a rise in interest rates levels of remortgaging activity were very high in 2005, as many borrowers switched from interest rate reset loans to fixed rate loans and variable rate loans with caps.
21 DE, AU, PL, NL, PT and the UK.
22 NIBC Bank, Mortgage Brief, March 2007.
23 For more details see chapter on housing supply.
24 Council of Mortgage Lenders 2006 Annual Report.
25 Representative interest rates are the most representative mortgage rates offered by lenders on loans granted during the period (average period rate).
26 For more details, please see the July 2007 ECB Monthly Bulletin.

CHART 5 > INTEREST RATES EURO AREA: JANUARY 2003-MAY 2007



Source: European Central Bank

This trend is confirmed by EMF quarterly data and can be observed for individual countries[27] . For example in Ireland variable interest rates rose by 89 bp from the 4th quarter of 2005 to the 4th quarter of 2006 and initial fixed period rates from 5 to 10 years by 77 bp. In Spain, during the same period, variable rates increased by 129 bp, while fixed rates increased by only 54 bp.

Of particular note were mortgage interest rate developments in Greece, where variable rates and interest rates fixed for a period over 10 years increased by 50 bp and 26 bp, respectively. These increases are far below the Euro area aggregate figures. Moreover, interest rates fixed for a period between 1 and 5 years and 5 and 10 years actually decreased by 55 bp and 86 bp, respectively. There are two main reasons for these developments: 1) Strong competition in Greece has led lenders to choose not to pass on the full increase of rates on variable rate loans to borrowers; 2) Weak demand for fixed rate loans over a protracted period in the past has meant that there was little competition between banks in this area and thus no pressure on banks to reduce these rates. The hike in ECB rates rejuvenated interest in fixed rate loans spurring competition, which resulted in the banks lowering their fixed rates causing the paradox of having lower average interest rates at a time of consecutive increases of European rates.

The general increase in mortgage interest rates, the narrowing spread between short and long term rates, as well as expectations of further rises, led to a shift in borrowers' preferences for longer term mortgage rates. This trend can be observed in some of the countries analysed, including Belgium, Greece and the UK.

Belgium, traditionally regarded as a fixed rate country, experienced a significant increase in variable rate mortgages in 2004. However, this trend started reversing in 2005 when long term initial fixed period rates of over 10 years gained in popularity again. By 2006, the proportion of initial fixed period rate mortgages fixed for a period over 10 years increased substantially and amounted to 90.3% of total mortgages by December 2006.

27 For more details, see the 2006 issues of the EMF Quarterly Review. .

In Greece, in 2005 around 90% of all new loans were variable rate loans, while at the end of 2006 this share dropped to 36% and figures for June 2007 revealed that variable rate loans accounted for just 24% of all new loans.

Finally, in the UK, traditionally regarded as a variable rate country, mortgages with an initial fixed period rate of two years started to become popular in 2005 and continued to be popular throughout 2006. Their proportion of gross lending throughout 2006 was always close to or above 60%.

FINANCING STRUCTURES OF HOME OWNERSHIP CREATION IN GERMANY

By Thomas Hofer, Verband deutscher Pfandbriefbanken

INTRODUCTION

Despite it being of great political significance, very little information is available on costs, amounts of funds borrowed, debt charge or affordability of residential property in Germany. The Association of German Pfandbrief Banks (vdp) survey on the structure of the financing of residential property goes a long way towards closing this information gap.

In 2006, the vdp conducted for the eighth time since 1984 a survey on the financing structures in home ownership creation among its member institutions. The survey design was only slightly modified compared with the previous study. Two large banks which are not members of the vdp also participated in the survey: Commerzbank AG and Dresdner Bank AG. Thanks to the greater regional spread of the loans observed, the survey may be assumed to have a high degree of representativity.

The findings of the surveys do not reveal any abrupt changes over time, but slow and steady lines of development. This may be taken as a further indication of the stability and resilience of the survey results.

SURVEY METHODOLOGY

Within the scope of the 2006 vdp survey on residential property financing, each participating institution was asked to collect data on 50 randomly selected loans from the first half of 2006 and convey them to the vdp.

After adjusting the original data for implausible or incomplete record sets, the vdp was able to include 669 loans for owner-occupied residential properties in the survey. Of the 669 record sets, 311 were accounted for by new buildings. Given that the newly built and existing properties are approximately uniformly distributed, the partial samples for both segments are sufficiently large to generate resilient results. As with the previous two surveys, the latest survey examined loans from the first half of the year. For the purpose of the survey, residential properties are defined as owner-occupied, detached single-family houses, semi-detached houses and terraced houses. Owner-occupied flats were explicitly not included.

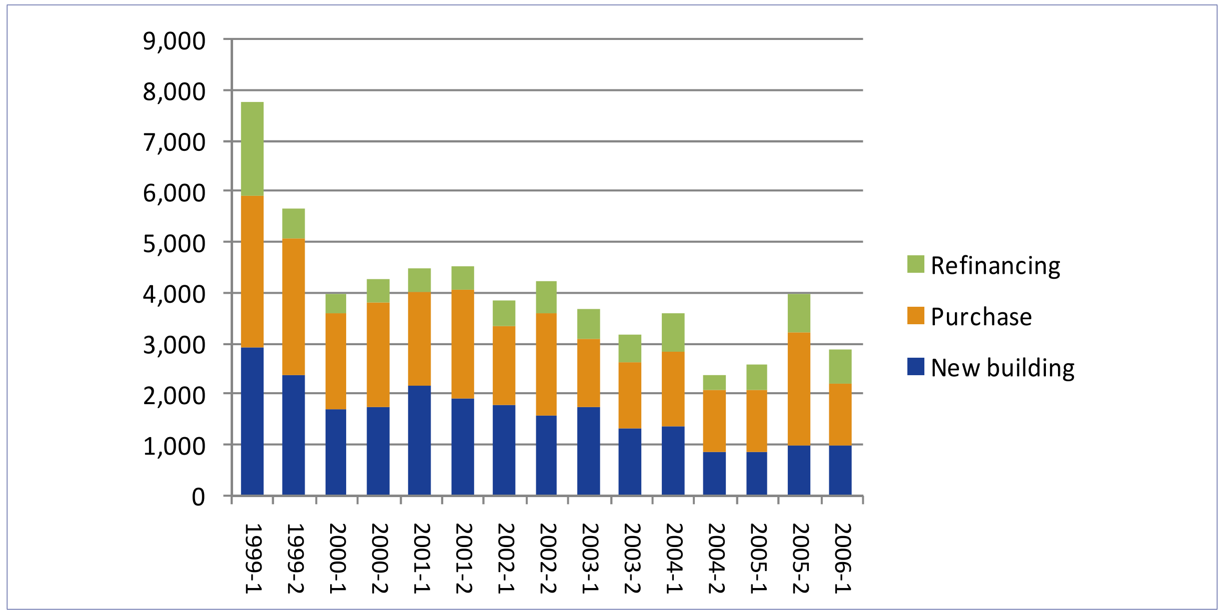
The vdp residential property survey refers to property attributes (plot size, living area, age), region, private households' income and the structures of costs and financing.

STRUCTURES OF RESIDENTIAL PROPERTY FINANCING

The development of demand for funds to finance the construction or purchase of owner-occupied homes has, like the development of the property market, been rather sluggish since the previous survey in 2002 (cf. Chart 1). Although financing terms have again become appreciably more favourable in the meantime (in the first half of 2006, the interest rates for residential property loans included in the study averaged 4.4%), private households' propensity to invest was dampened by various factors. Firstly, household incomes fell in real terms in recent years; secondly, labour market uncertainties have had an impact on the demand for residential property, as potential borrowers are put off by the prospect of no longer being able to service a loan in the event of job loss.

Moreover, changes in home ownership promotion have also had an effect on the development of property finance. For instance, as at the end of 2005 the announced abolition of the government allowance for homebuyers triggered a marked increase in borrowings, in particular to purchase existing properties.

CHART 1 > SINGLE-FAMILY HOME FINANCINGS BY VDP MEMBER INSTITUTIONS



Source: vdp statistics

One especially noticeable fact when comparing the results of the current survey with those of the previous survey is that it was not possible to claim the government allowance for homebuyers for properties bought in 2006, while this was still possible in the observation period of the previous study.

On average, customers of the credit institutions participating in the survey spent approx. EUR 277,000 on their own home in 2006; this is the same amount as in 2002 (cf. Table 1). Note that the property prices stated are based on figures in the financing plan. To avoid the need for supplementary financing, incidental costs (outdoor installations, realty transfer tax, notary's fees and, in the case of existing buildings, renovation costs) are also included in these figures.

TABLE 1 > PROPERTY AND FINANCING DATA 2006 AND 2002 (OVERALL RESULTS)

	2006	2002
Plot area (m^2)	753	635
Living area (m^2)	139	142
Total property value (EUR)	276,633	276,550
Equity (EUR)	78,828	81,314
Borrowed funds (EUR)	197,805	195,236
Equity share	28%	29%
Total monthly charge (EUR)	991	1,182
Monthly net household income (EUR)	3,721	3,633
Debt burden ratio	27%	33%

Source: vdp residential property survey

On average, borrowed funds of approx. EUR 198,000 were availed of for financing purposes (2002: EUR 195,000), equivalent to a share of borrowed funds of 72% (2002: 71%). This confirmed, albeit to a small extent, the trend observed in previous surveys towards higher loan to value ratios. This development is attributable not least to the lower level of interest rates, which gives private households the ability to repay principal on larger loans.

Because the interest rate in the first half of 2006 was markedly more favourable (4.4% as against 5.8% in 2002), the monthly charge borne by borrowers was less than EUR 1,000, whereas it was just under EUR 1,200 in 2002. With a slight rise in the average net household income, this led to a debt burden ratio that is clearly below that for 2002 (27% as opposed to 33%).

When interpreting these overall results, one must bear in mind that there is no equal distribution with regard to property prices and household incomes. Indeed, the distribution is skewed right, i.e. the mean value is above the median - the value that divides the sample into two halves. For property prices, the median is approx. EUR 242,000, whereas the mean value is just below EUR 277,000. The median household monthly income is roughly EUR 3,100, whereas the mean value is just over EUR 3,700. This phenomenon occurred to a similar extent in the previous surveys.

SECTORAL STRUCTURES - NEW BUILDINGS AND EXISTING PROPERTIES

Home ownership creation has become increasingly oriented towards existing properties since the previous survey in 2002. In terms of loan commitments granted by the vdp member institutions, the share accounted for by loans for new buildings in the single-family home segment was 35% in 2006, compared with 46% in 2002.

On average, buyers of newly built single-family homes have to invest an amount that is one quarter greater than buyers of existing properties (cf. Table 2). Whereas families with children tend to invest in new buildings, older, higher-earning households prefer to buy existing properties. For this reason, the net household incomes of house-builders are below those of used property buyers. Whereas the financing structure in the case of the former group shows an equity share of 33%, buyers of used single-family houses employ considerably less equity in absolute and in relative terms (24%). The debt burden ratio for the house-builder category is, at 29%, also above that for house-buyers (25%). As far as the structures are concerned, these results fully confirm the results of the previous survey, although there are of course minor differences with regard to the absolute values.

TABLE 2 > PROPERTY AND FINANCING DATA – NEW BUILDING AND PURCHASE OF EXISTING PROPERTY 2006

	New building	Purchase of existing property
Plot area (m^2)	699	800
Living area (m^2)	141	138
Total property price (EUR)	308,344	249,086
Equity (EUR)	101,323	59,286
Borrowed funds (EUR)	207,021	189,800
Equity share	33%	24%
Total monthly charge (EUR)	1,032	955
Monthly net household income (EUR)	3,602	3,825
Debt burden ratio	29%	25%

Source: vdp residential property survey

REGIONAL STRUCTURES - COMPARISON BETWEEN WEST AND EAST GERMANY

Although the economic structures in west and east Germany are gradually converging, a comparison is still instructive, notably with regard to questions pertaining to the property market. As a comparison of the average property prices shows, the vdp survey does not generally reveal such strong differences between parts of the country situated in the west and the east as do other studies or surveys. The property price indexes of the estate agents associations or analyses based on these indexes for the new federal states show values that are roughly one third below those for the old federal states. According to a study conducted in 2006 by GEWOS and commissioned by the Institute for Urban Development, Housing and Saving Schemes ("Institut für Städtebau, Wohnungswirtschaft und Bausparwesen") on the development of prices for residential property in Germany, the difference in level is approx. 40%. The absolute price level, according to GEWOS' figures, is approx. EUR 173,000 in the west and approx. EUR 99,000 in the east. In view of the fact that the basis for the calculations consists of all property transactions in ordinary business, it may be assumed that a very strong price differential does indeed exist.

The vdp survey shows the price level to be substantially higher, and the differential is only one fifth (cf. Table 3). The higher price level is attributable to several factors. First, as has been mentioned above, the vdp survey considers prices according to the financing plan, which in some cases also include incidental costs. Second, the survey only covers investments or purchases in the case of which borrowed funds had to be employed. Moreover, the spatial distribution of the properties in the vdp survey shows a tendency in favour of urban, and therefore more expensive, regions.

TABLE 3 > PROPERTY AND FINANCING DATA FOR WEST AND EAST GERMANY 2006

	Germany	West Germany	East Germany
Plot area (m²)	753	702	1,018
Living area (m²)	139	139	142
Total property price (EUR)	276,633	285,810	228,432
Equity (EUR)	78,828	79,940	72,988
Borrowed funds (EUR)	197,805	205,870	155,444
Equity share	28%	28%	32%
Total monthly charge (EUR)	991	1,036	750
Monthly net household income (EUR)	3,721	3,744	3,604
Debt burden ratio	27%	28%	21%

Source: vdp residential property survey

In the previous three vdp surveys it was found that the income differentials between house-buyers in west and east Germany were very small. This is also seen in the latest survey. Whereas the monthly net household income in the western parts of the country was EUR 3,744, it was only 4% lower in the east German states, at EUR 3,604. One must take into account here the fact that Berlin was wholly allocated to east Germany, and that the Berlin region accounts for a large share of the lending activity. Yet, not only is the specific regional structure of the financing activity of significance here but also the fact that the private households in the new federal states cannot fall back on savings to the same extent as households in the west. Thus, home ownership creation is to a greater degree an option for households with an above-average income.

FINANCING STRUCTURE AND DEBT CHARGE BY INCOME QUARTILE

It was already seen in the previous survey that house-buyers often conclude loan contracts with more than one bank. Whereas the share of such cases was 53% in 2002, it rose slightly in 2006 to 57%. Loans raised with third parties accounted for 37% of borrowed funds (2002: 46%). In terms of the sample as a whole, the share of total borrowings represented by loans raised with other property finance providers was 16% (2002: 26%).

As has been explained in the previous chapters, there is a divergence in the ratio of own funds (equity) to borrowed funds both in a comparison by property type (new buildings are financed with a higher share of equity than purchased existing properties) and in a comparison of large areas (in the new federal states, relatively more equity is used than in the old states). When examining the financing structure by income quartile (cf. Table 4), it is noticeable that the equity share rises the lower the income. Whereas the equity share in the two upper income quartiles is 26% and 27% respectively, it is 34% for borrowers belonging to the lowest income quartile. At the same time, the debt charge in the case of this group is highest (34%). With the other income groups it decreases steadily as the incomes increase, to 24%.

TABLE 4 > RESIDENTIAL PROPERTY FINANCING BY INCOME QUARTILE

	Monthly net household income in EUR			
	up to 2,354	*2,355-3,137*	*3,138-4,283*	*4,284 and more*
Plot area (m²)	658	642	758	954
Living area (m²)	127	135	131	165
Total property price (EUR)	208,292	238,406	261,814	398,431
Equity (EUR)	70,629	70,571	68,493	105,668
Borrowed funds (EUR)	137,662	167,835	193,321	292,763
Equity share	34%	30%	26%	27%
Total monthly charge (EUR)	613	799	967	1,586
Monthly net household income (EUR)	1,799	2,743	3,618	6,737
Debt burden ratio	34%	29%	27%	24%

Source: vdp residential property survey

INTEREST RATES AND FIXED-RATE PERIODS

In the scope of the latest survey it was possible for the first time to gather information on the loan terms. The participating institutions were asked to state the fixed-rate period and the interest rate for each loan. The sample showed the interest rates to be between 4.1% and 4.6%, depending on the fixed-rate period (cf. Table 5). Long-term financing predominates among residential property loans granted by vdp member institutions. In terms of the total volume of new loans, the categories with a fixed-rate period of more than 5 years accounted for 91% of loans. The category comprising loans with a fixed-rate period of 5 to 10 years alone accounts for roughly two-thirds of the total volume. Within this group, the vast majority of loans were of 10 year fixed-rate variety, short - and medium-term financing playing an insignificant role.

TABLE 5 > FIXED-RATE PERIODS AND INTEREST RATES IN THE FIRST HALF-YEAR 2006

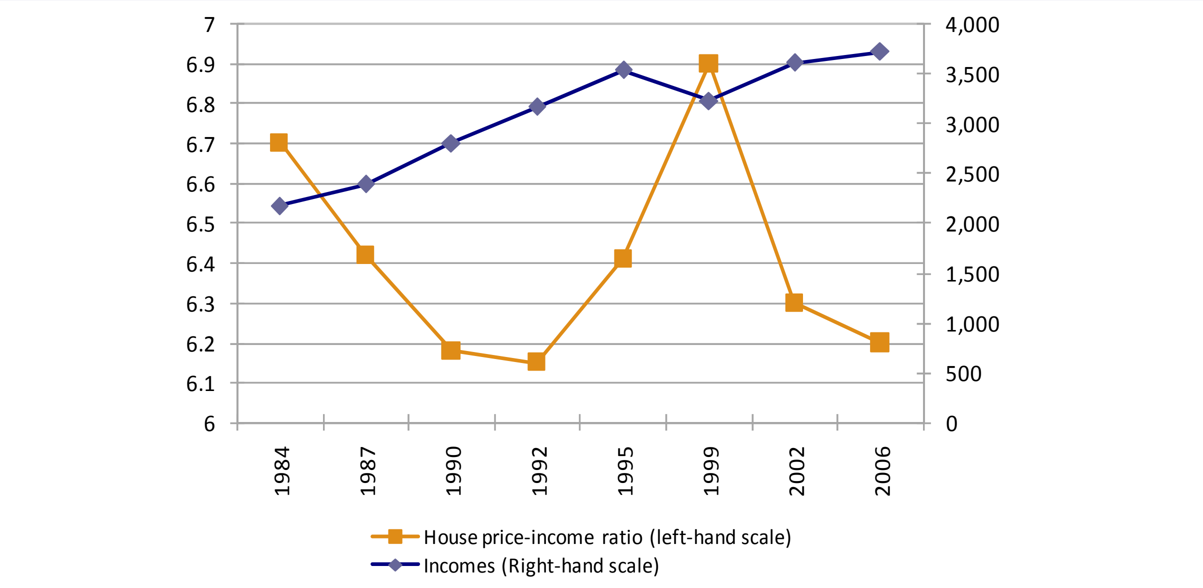
	Fixed-rate period			
	<= 1 year	>1<=5 years	>5<=10 years	>10 years
vdp sample				
Interest rate	4.1%	4.3%	4.4%	4.6%
Share of volume	5.4%	3.4%	65.2%	26.0%

Source: vdp residential property survey

HOUSE PRICE-INCOME RATIO

Although house prices have risen only slightly since the mid-1990s (by only 3% compared with the 1995 survey; or by 6% in respect of the market as a whole, according to information by GEWOS), the ratio of house prices to households' annual net income has changed only marginally due to the development in wages and salaries, which has likewise been very weak. In all vdp residential property surveys from 1984 to 2006, the house price-income ratio was between 6:1 and 7:1 (cf. Chart 2). In terms of the overall survey, this ratio came in 2006 to 6.2:1, which is a low value on the basis of a long-term comparison.

CHART 2 > INCOMES AND HOUSE PRICE TO INCOME RATIO 1984-2006



Source: vdp residential property survey

Within the scope of the vdp residential property surveys, a downward trend was ascertained from the mid-1980s to the beginning of the 1990s. In 1995 and 1999, the ratio rose to as high as 6.9:1. Since then, the trend has receded again.

Other studies present similar results. Rußig and Dorffmeister (ifo-Schnelldienst 13/2005), for example, found that the ratio of prices for terraced houses and owner-occupied flats to the average per capita annual income fell over the same observation period. Given that property prices have almost stagnated since the mid-1990s (prices have dropped in real terms according to the ifo Institute for Economic Research) and that the development of incomes has been somewhat more favourable, the amount needed by private households to buy residential property has grown by less.

The above-mentioned ratio determined from the latest vdp survey applies only to the sample as a whole. When the ratio figures are broken down by region or by reason for finance, in some cases considerable differences may be ascertained (cf. Table 6). For instance, the house price-income ratio in the case of existing properties is, at 5.4:1, clearly below average, whereas more than seven times the annual income has to be raised to buy new buildings. Clear differences are also to be found between the old and new federal states. Whereas house prices in the states in west Germany averaged 6.4 times the net annual income, the ratio in the east German states was appreciably lower at 5.3:1.

TABLE 6 > HOUSE PRICE-INCOME RATIO 2006

	Total price according to financing plan	Net annual income	House price-income ratio
Germany			
All	276,633	44,657	6.2 : 1
New building	308,344	43,227	7.1 : 1
Existing building	249,086	45,898	5.4 : 1
West Germany			
All	285,810	44,925	6.4 : 1
New building	321,183	42,307	7.6 : 1
Existing building	258,471	46,948	5.5 : 1
East Germany			
All	228,432	43,246	5.3 : 1
New building	260,681	46,641	5.6 : 1
Existing building	176,519	37,781	4.7 : 1

Source: vdp residential property survey

SUMMARY

In terms of the development and level of single-family house prices and household incomes, the latest survey on financing structures of home ownership creation has generally confirmed the picture presented by the previous survey from 2002. Regional and sectoral structures show only slight changes. In the latest survey, marked differences are also to be found between new buildings and existing building, and significant differences between west and east Germany remain.

Both property prices and household incomes have developed weakly in recent years, with incomes experiencing a somewhat more favourable development than prices. Thus, the house price-income ratio has improved slightly, i.e. the relative amount needed to buy a house has decreased.

The affordability of residential property has developed especially favourably compared with previous surveys. The debt service required is down perceptibly due to the –over the long term – very low level of interest rates for mortgage loans. On average, the debt charge amounts to 27% of the net household income, as against 33% in the previous survey.

The fact that the residential property market has developed rather weakly in recent years although financing terms have been very favourable is probably explicable by a number of factors: Demand has been weak in quantitative terms in the last few years. The baby-boom generation to a large extent already owns their homes, and the number of persons in the subsequent generation is clearly lower. Moreover, unfavourable developments on the labour market and the resultant income uncertainty has had a dampening effect on demand. Debate conducted – primarily, though not exclusively – in public on demographic trends in Germany and on the future prospects of the residential property market has produced an exaggerated pessimism; this has led to a severe lack of confidence in the future development of the property market and has subsequently curbed propensity to invest. Further factors such as the rising interregional mobility of the workforce are possibly also having an impact. Private households who live with the possibility of having to move house for occupational reasons want to avoid the effort associated with selling residential property, and instead satisfy their needs on the rental housing market.

MORTGAGE LENDING IN CENTRAL AND SOUTHEAST EUROPEAN COUNTRIES – RECENT TRENDS AND PERSPECTIVES

By Friedemann Roy, Frankfurt School of Finance & Management

The last decade has brought about significant economic growth to the countries of central and south east Europe. With an average growth rate of GDP of 6 %, the whole region outpaced western Europe by 2 to 3 percentage points. The resulting rising incomes of households have become one of the main drivers for prosperous banking markets. Since 1989, living standards have increased by nearly 40 %. To benefit from this positive trend, many banks have opted for an expansion into mortgage lending.

The objective of this article is to analyse how these countries have managed to convert the positive economic development into better housing for their citizens (including the access to credit to realise housing projects). The article is organised in the following way: in the first part, an overview of the current situation in the region is given by assessing key macroeconomic indicators, the housing sector and the development stage of mortgage lending. In the second part, the different funding instruments and mechanisms of mortgage loans are looked at, so that conclusions can be made on the further development of the individual markets.

THE CURRENT SITUATION IN CENTRAL AND SOUTH EAST EUROPE (INCLUDING RUSSIA)

Macroeconomic environment

Macroeconomic policy geared towards stabilising inflation as well as achieving a sound institutional and legal framework has brought about higher economic growth in the whole region. Table 1 provides an overview of the main economic indicators.

In the central and eastern European countries (CEE), growth was mainly driven by domestic demand and rising exports. The increasing private consumption has been supported by real wage growth and decreasing interest rates. However going forward, inflation rates are likely to increase, spurred by high energy and food prices. Over the medium term, GDP growth should remain robust although a slight slowdown is forecast from 2007, except for Slovakia which is expected to outperform the whole region with 9% of economic growth, supported by rising exports and a robust internal demand.

In south east European countries (SEE), economic growth appears to be slowing down. The region is however benefiting from an industrial revival and expanding export opportunities while the prospects of EU accession are attracting record inflows of foreign capital (in particular in Bulgaria and Romania). Except for Serbia, inflationary pressures are likely to be weaker. In 2007, Serbia is expected to keep inflation to a single digit rate. One main cause for inflation was the rapid credit expansion (often driven by foreign banks to gain market share). Monetary tightening of the National Bank of Serbia was able to scale bank inflation.

Prospects for SEE countries over the medium term are in general favourable. Challenges will include obtaining EU membership for all SEE countries, final settlement of unresolved conflicts and continued institutional and legal reforms. In this context, Croatia is already negotiating its entry into the EU. However, it is unlikely that the country will become an EU member before 2010.

TABLE 1 > KEY ECONOMIC INDICATORS OF SELECTED COUNTRIES OF THE REGION (2005 – 2006)

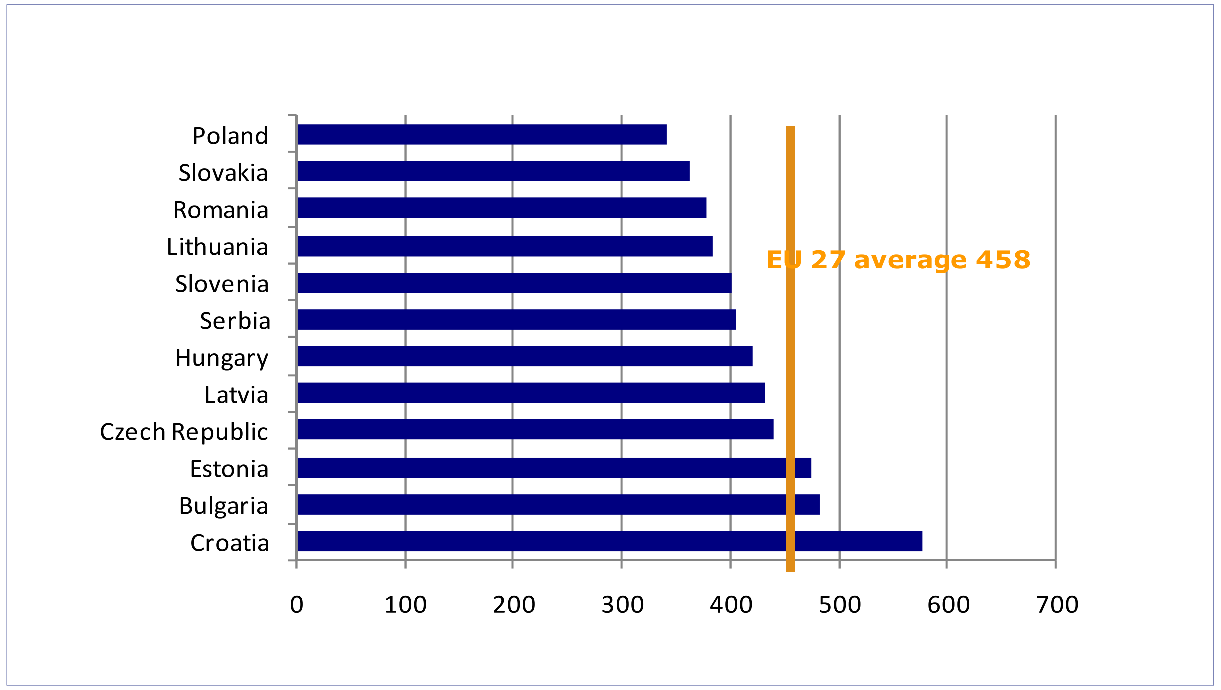
	GDP growth in % (at constant prices)		GDP per capita in EUR		Inflation, % y-o-y, (average)	
	2006	2007 (P)	2006	2007 (P)	2006	2007 (P)
Czech Republic	6.4	5.6	11,070	12,020	2.5	2.7
Hungary	3.9	3.0	8,930	10,290	3.9	7.5
Latvia	11.9	9.4	7,018	8,291	6.5	7.5
Poland	6.1	6.6	7,120	7,860	1.0	2.6
Slovakia	8.3	9.0	8,150	10,010	4.5	2.5
Bulgaria	6.1	6.2	3,268	3,656	6.5	5.0
Croatia	4.8	4.7	7,700	8,310	3.2	2.7
Romania	7.7	6.0	4,500	5,260	6.6	4.3
Serbia	5.7	5.5	3,281	3,808	6.0	6.7

Source: Bank Austria Creditanstalt, CEE Quarterly, Nr. 3 (2007)

Housing markets

At the time of transition, housing investment decreased in most countries and even fell below pre-transition levels. In the last few years, however, construction increased and reached volumes similar to EU levels.

CHART 1 > DWELLINGS PER 1000 INHABITANTS-2006



Source:EMF

As chart 1 shows, most of the countries have almost reached or surpassed EU levels. Poland and Slovakia suffer from a great backlog. In Poland, the housing deficit is estimated at 1.5m apartments.

These figures do not, however, contain any information about the quality of the housing stock. In SEE countries especially, there is a high demand for home improvement and modernisation. As a result, banks often offer so-called home improvement loans besides mortgage loans. The number and volume of these loans can be misleading since customers may take up cash loans to finance the renovation or modernisation of their homes.

As a consequence of economic stabilisation, housing prices in the whole region have risen since the end of the 1990s. Since they rose more strongly than average incomes, housing price-to-income ratios point to an affordability problem. Houses have become unaffordable for an average income household, and that is true especially in the capitals as well as in the metropolitan areas generally[28].

Another reason for the house price hikes has been the increasing availability of mortgage loans which has driven demand for houses. In Serbia for example, the volume of mortgage loans grew by 111 % in 2006. Despite this remarkable rise in mortgage supply, most people cannot afford to buy a house. While the price for an apartment of 55 square metres is around EUR 69,000, the average annual salary is EUR 3,816. In Bulgaria, the ratio of mortgage lending to GDP rose by 2 percentage points in 2005 and by 2.4 percentage points in 2006. During the same period, house prices surged by 36.5 % and 14.7 % respectively.[29]

Since 1997, the supply of mortgages has steadily increased which has fuelled demand for housing. Soaring by 71 %, house prices culminated between 2003 and 2004. It is evident that overall housing affordability has declined.

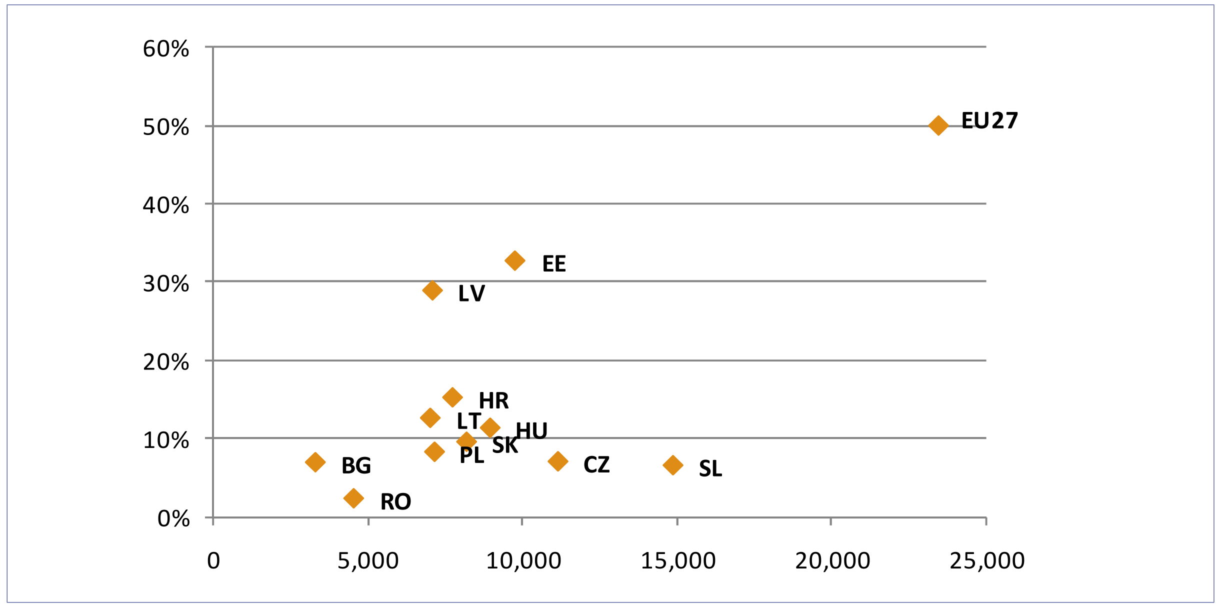
Mortgage markets

Financial markets in the region have experienced rapid growth and a great deal of diversification. Although stock market capitalisation is rising, markets still remain bank based. The progress in bank reform has spurred lending: credit to the private sector increased by 70 % in the CEE countries and almost doubled in SEE countries between 2000 and 2005. Private households have been the biggest beneficiaries of this boom. Consumer loans have reached levels comparable with the euro area. Mortgage debt outstanding in CEE and SEE countries accounts for 5.2 % of GDP and 4.6 % respectively[30]. In the euro area, this ratio amounts to 50%. The low level in Central and southern Europe is due to a lack of clear property rights (in particular in SEE countries) and a lack of clear systems of title deeds. Another reason is the lack of effective institutions for the valuation of non-financial assets.

Although all mortgage markets of the region have been developing at a rapid pace, progress within the markets differs. According to chart 2, there are two groups of countries: the first encompasses all new member countries of central Europe (including Croatia). The second consists of the Balkans. One reason for the gap between these two groups is that the start of the transition process which began in the CEE countries in the early 1990s only got underway in the SEE countries about 5 to 7 years later. Consequently, reforms of the legal and institutional frameworks were taken up earlier in CEE countries. Moreover, foreign banks, whose presence has had a great impact on market development, entered at an earlier stage as well.

28 Data are from J. Hegedüs/R. Struyk, "Housing Finance – New and Old Models in Central Europe, Russia, and Kazakhstan, Open Society Institute, Budapest 2005.
29 Source: Hypostat 2006
30 Data are from Zeb/Rolfes. Schierenbeck Associates: Central and Eastern European Banking Study (2006)

CHART 2 > MORTGAGE DEBT/GDP AND GDP PER CAPITA IN 2006



Source : EMF and Eurostat

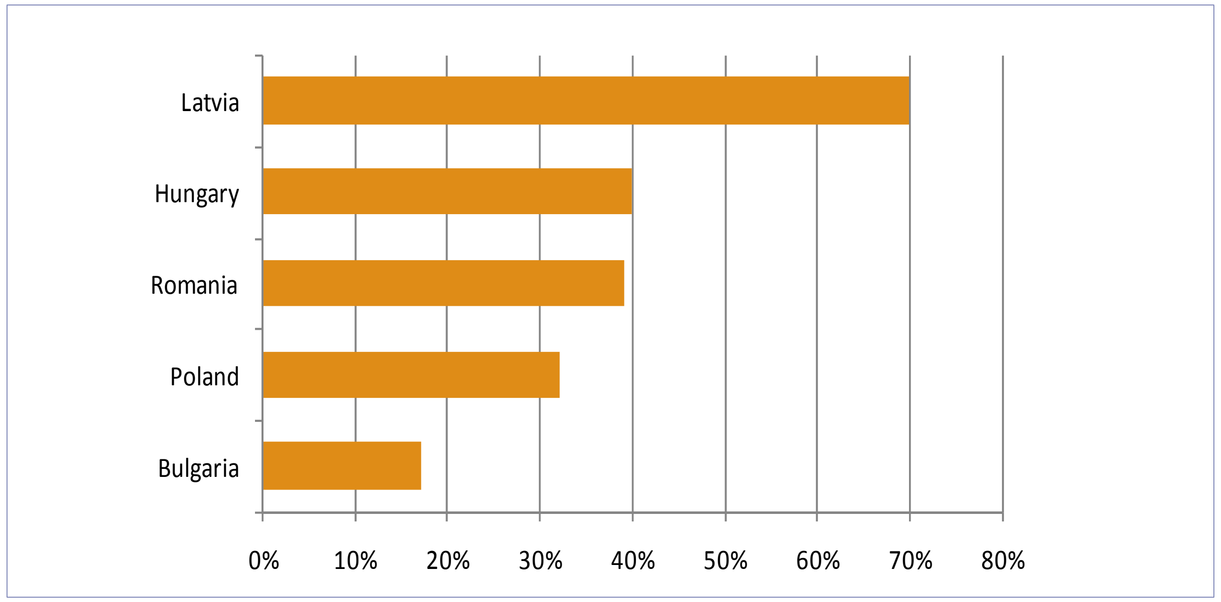
Further growth of the mortgage markets depends on a higher degree of penetration by lenders. For example, many households do not have a bank account (which is typically the basis for the sale of other bank products such as mortgages). In Poland and Hungary, the share of bank accounts/bank relationships to households amounts to about 70 %, whereas in Bulgaria and Romania, it accounts for 33 % and 35 % respectively (EU: 98 %). As already pointed out, another barrier is the limited housing affordability. The decline in interest rates have often led to an increased demand for housing which resulted in higher house prices because of inflexible housing supply (see chart 2).

Foreign banks have been the main drivers of market development across the region. Especially, Austrian (such as Erste Bank or Raiffeisen Group) and Italian banks (Unicredit or Banca Intesa) have built up strong networks there through which they offer mortgage loans. Among specialised housing finance providers, the German and Austrian Bausparkassen have established subsidiaries in the Czech Republic, Slovakia, Hungary, Romania and Croatia. Their activities have been favoured by specialised legislation and savings subsidies which are paid to their customers.

The most common product in the region is a mortgage loan for purchase or construction. In south eastern Europe, home improvement loans have also become a popular product (though it is slowly replaced by cash loans due to simpler loan processing procedures). There is little in the way of incremental construction, although it was popular in some countries, such as in Hungary, before the transition.

Interest rates are fixed or variable. Mortgage loans in the Balkans are usually granted in local currency but indexed to the EUR. In some central and eastern European countries (e.g. Poland, Hungary, Latvia, Lithuania, etc.), loans in foreign currency (CHF or EUR) have become quite popular. Chart 3 provides an overview about the share of foreign currency mortgage loans to the overall loan volume.

CHART 3 > SHARE OF MORTGAGE LOANS IN FOREIGN CURRENCY TO OVERALL LENDING IN SELECTED CEE COUNTRIES (AS PER JUNE 2006)



National Central Banks, PNB Paribas

Borrowers are attracted by the low interest rates in foreign currency in comparison to the interest rates in their national currency. In Hungary, for example, a CHF denominated loan bears an interest rate of 5.75 % p.a. whereas the same loan denominated in HUF would cost a borrower about 14 % p.a.. However, customers are often not aware of the currency risk they are exposed to. At present, banks are maintaining their exposure to loans denominated in foreign currency due to the good margins and the current low default rates. Since most of the banks are owned by western banks, the need for hedging is low. Central banks are concerned about the volume of these loan types. To prevent lending in foreign currencies, the National Bank of Poland introduced new requirements for these loan types. The main rationale behind this decree is to promote safer mortgage lending[31].

Table 2 provides an overview of mortgage loan conditions in some selected countries of the region. Loan conditions in Germany are shown as a comparison.

In Lithuania, interest rates reached a level below the EU average which was the result of increased loan supply by lenders. In Croatia, banks typically target their mortgage products to higher income households. In Poland, the overall volume of mortgage loans amounts to PLN 41 billion (end 2006). For 2007, it is estimated that this should rise to PLN 55 billion[32]. Growth has been spurred by the increasing sophistication of financial instruments, rising demand and general growth of the economy. Mortgage market activities are concentrated around the larger cities or regional centres (Warsaw, Poznan, Gdansk, Wroclaw, etc.).

Since the majority of Polish banks are subsidiaries of international financial institutions, both underwriting and servicing standards are in line with those observed in Western Europe. The standard loan has a fixed interest rate and amortises over a period of up to 30 years. LTV ratios may in some cases exceed 100%. Typically, lenders request life insurance as additional security. Due to fierce competition, many banks have softened their lending standards, leaving borrowers with little safety margins in case of a worsening of their financial situation.

31 See C. Karmin/J. Perry, "Hypothek mit Nebenwirkungen", in Handelsblatt, Nr. 112, 14 June 2007.
32 Figures are from Polish Banking Association.

TABLE 2 > MORTGAGE LOAN CONDITIONS IN SELECTED COUNTRIES

	Lithuania	Poland	Croatia	Slovakia	Germany
Interest rate on average (in %)	4.4 – 4.64 (in EUR variable)	4.95 – 6.7 (in PLN)	5 – 5.71 (in EUR or CHF)	5.09 (fix for 1) year – 5.59 (fix for 15 years)	4.55 – 5.42 (LTV ratio of 60%)
Loan term in years	5 – 40	5 to 35	15 - 20	1 – 30	25 to 30

Source: Bank's websites in respective countries (2007)

In Latvia, demand for housing has been driven by increases in individual wealth. The mortgage market amounts to about 30% of GDP. It consists of primarily EUR and USD denominated loans. Rates start at 4.5 % and terms can go up to 40 years. Underwriting standards appear to be strong. LTV ratios can be as high as 80%.

FUNDING INSTRUMENTS AND MECHANISMS

A well functioning primary market will depend on access to long-term funding. As with the EU 15, a host of different funding instruments have emerged or are being developed in the region. Experience in the CEE countries suggests that those countries which have pursued reforms of their national banking sectors and have opened them to foreign ownership have developed more rapidly. Funding options in the region mainly depend on the progress in transition. In line with chart 3, the following stages can be defined:

1. **Mainly deposit based lending**. Lenders in Serbia, Albania, Bosnia and Herzegovina, Macedonia and Croatia use deposits to refinance their mortgage loans. Since savings terms are typically not longer than one year, lenders are exposed to interest rate and liquidity risk. In this context, credit lines from international financial institutions (such as EBRD or KfW) or a parent credit institution are an alternative source to help mitigate these risks.
2. **Establishment of capital markets**. In Bulgaria, Slovenia and the Baltics, the covered mortgage bond has been introduced as a funding instrument. In Romania, the legal framework for secondary mortgage markets was implemented in 2006[33]. However, deposits and international credit lines still play an important role in refinancing. In Poland, the restrictive design of the Act on Mortgage Banks hampered the development of the covered mortgage bond system.
3. **Transition to market based lending**. Especially in the Czech Republic, Slovakia and Hungary, lenders can select among various funding options. Both the introduction of a regulatory and institutional framework conducive to funding of debt through the capital market and the covered mortgage bond as a funding instrument of mortgage debt has spurred market development in these countries. Table 3 highlights the importance of the covered mortgage bond to fund mortgage loans in these countries. In Hungary and the Czech Republic, its importance exceeds even the EU level.

33 See A. Sacalschi/O. Stöcker, "Neues Gesetz über Covered Bonds in Rumänien", in Immobilien und Finanzierung 15 – 2006. The Covered Bond law that the Romanian Government enacted merges elements of the traditional (German) legislation on covered mortgage bonds with MBS features.

TABLE 3 > COVERED BONDS (BACKED BY MORTGAGES) AS A PERCENTAGE OF TOTAL RESIDENTIAL LENDING OUTSTANDING

Czech Republic	Hungary	Poland	Latvia	Lithuania	EU
68.8%	58%	2%	1.3%	0.5%	16%

Source: EMF

In particular, the adoption of laws on covered mortgage bonds shows that the region has opened up to securitisation. Although the German law on Pfandbriefe serves a model, different variations of the law have been implemented in the CEE and SEE countries. For example, Polish and Romanian covered bond laws stick to the specialty principle whereas Slovakian and Latvian legislation require a license to issue covered mortgage bonds. Some countries even do not require a license (e.g. the Czech Republic and Lithuania)[34]. At present, the volume of assets available for this funding mechanism is still low. However, market participants see a clear potential for development[35].

In most countries, the legislation allows for securitisation, at least as a cross-border transaction (including the transfer of national assets to a special purpose vehicle governed by international law). However, most of the relevant laws require a re-registration of the mortgage which can be time-consuming. An increase in transactions is, however, subject to several obstacles such as the lack of court precedent. Especially in South-East Europe the enabling environment is still weak. For example, in Serbia half of the property is not registered. The different title systems within the country are a further obstacle. The lack of available data due to the short lending history makes it difficult to define the steady-state default experience. This is also one reason why mortgage default insurance has to date not been taken up in the region. As a result, the incipient use of securitisation may now attract those investors with a good knowledge of the market conditions. They appreciate the opportunities which lie ahead for these markets.

The emergence of local capital markets and their integration into international markets has already been beneficial for the pricing of bond issuances. Top-class names are getting extremely fine pricing and the market is also receptive to first-time issuers. In this context, many banks benefit from foreign ownerships which fund their operations through the good rating of their parent company in western Europe or the U.S.

CONCLUSION

What have been the drivers for product development and better access to mortgage credit?

- Rising incomes and falling interest rates: As already outlined, the favourable macroeconomic conditions have fuelled demand for housing. People have experienced income increases, sometimes exceeding productivity rises. In Latvia, for example, wage growth has exceeded productivity increases by 20 % a year.36 Coupled with lower interest rates, many have been able to afford taking out a loan. On the negative side, the improved availability of loans has driven house price inflation.
- Improved regulatory and institutional framework: Central and eastern European countries now possess a regulatory and institutional framework which is comparable to western European countries. In south east European countries, the catch-up process is underway. In this context, Bulgaria and Romania show more progress than the other Balkan countries. In all these countries, the central banks appear to have a strong role which would allow them to push through necessary reforms.

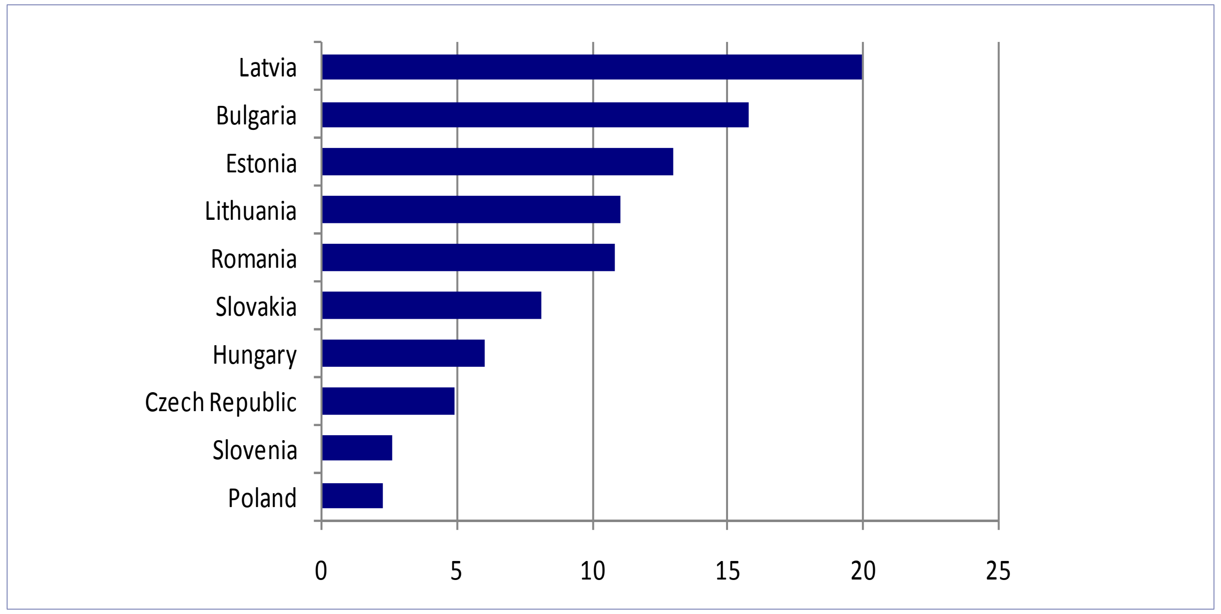
34 See T. Lassen, "Specialisation of Covered Bond Issuers in Europe", in: Housing Finance International, December 2005.
35 Financial Times, "Eastern Europe eyes securitisation", March 31, 2006.
36 See Financial Times, "Baltic Boom states face hard landing, July 5, 2006. In Latvia, wage growth has exceeded productivity increases by 20 % a year.

- Improved risk management techniques: By introducing more sophisticated asset-liability management systems, lenders have been able to better manage liquidity and interest rate risk. Access to international capital markets has so far helped lenders to manage the rising amount of foreign currency loans.
- Better access to funding: As outlined above, the introduction of funding mechanisms (mainly the covered mortgage bond) has assisted in creating the framework for access to banks for long-term funding. In south east Europe, another important funding channel is the funds which are provided by the headquarters of western banks to their subsidiaries in the region.
- Competition: The afore listed positive conditions fostered competition among lenders and drove the introduction of new products and the expansion of banking services to lower and middle groups.
- Impact of housing policy: Another decisive factor has been the government's role in shaping the housing market, although this has sometimes led to ambiguous results. In Hungary, for example, mortgage loan subsidies have been critical to the rising demand for mortgage loans. However, it imposed a mounting burden on the government budget [37].

Economic development in the CEE and SEE countries has been remarkable during the last few years and the whole region has never enjoyed such good fortune. Prospects for the future are favourable. Given the low market penetration (as indicated in chart 2), the region offers potential for continued growth in mortgage lending.

However, despite this positive outlook the countries of these regions have to further pursue adaptations of their legislative and institutional framework. The current reform fatigue, in particular in the new member states of the EU, may point in a different direction. In Romania, for example, the political discipline that preceded accession has ended spectacularly. In Slovakia, reforms may be reversing. As for the euro, no other country in the region looks likely to follow Slovenia's example and join soon.

CHART 4 > CURRENT ACCOUNT DEFICIT AS A PERCENTAGE OF GDP (2006 ESTIMATE)



Source: EIU (2007)

37 The Hungarian budget deficit is also a concern for the EU Commission. See Financial Times, "Hungary on track to cut budget deficit", June 12, 2007. See also R. Rózsavölgyi/V. Kovács, "Housing Subsdies in Hungary: Curse or blessing", Ecfin Country Focus, Volume 2, Issue 18, 10 November 2005.

An indicator for change may be the size of the current account deficit (see chart 5). In Latvia, for example, it was 20 % of GDP. That reflects a ballooning in foreign banks' mortgage lending to locals, denominated mostly in Euro, which has fuelled a property boom. The story in Lithuania and Estonia looks similar. It seems hard to understand why the Baltic capitals should be pricier than Frankfurt or Vienna.

The current bubble may pop when interest rates rise. The fixed exchange rate regimes leave little room for monetary tightening to counterbalance any negative effects deriving from the property markets. Weak coalition politics undermine hopes of fiscal policy or structural reforms that would maintain competitiveness as cost rise. Most of the other CEE and SEE countries are also exposed to weak and indecisive governments. Thus, investors may in the future take a closer look at their investments before pouring more money into those regions.

EU27 COUNTRY REPORTS

BELGIUM

By Frans Meel, Union Professionnelle du Crédit

MACROECONOMIC OVERVIEW

In 2006, the Belgian economy notched up a good performance with GDP growth of 3.2% against 1.1% in 2005. All sectors, including the manufacturing industry, contributed to this growth. The construction industry in particular posted strong growth of around 8%. The economy enjoyed sustained foreign demand (+3.6% against +3.1% in 2005), as well as an increase in domestic demand (+3.6%, against 1.9% in 2005).

Inflation fell to 2.3%, against 2.5% in 2005.

The harmonised unemployment rate came to 8.2% of the working population.

Although the financial commitments of households witnessed growth of 10.4% in 2006 to reach 150.6 billion euros, the net financial capital of households amounted at the end of 2006 to over 670 billion euros (against 635 billion euros at the end of 2005), thanks to the 6.4% increase in the financial assets of households (820.9 billion euros against 771.3 billion euros at the end of 2005).

HOUSING AND MORTGAGE MARKETS

Residential mortgage lending outstanding amounted at the end of the 2006 financial year to 114 billion euros (against 101 billion euros at the end of 2005).

2006 saw the total amount of new mortgages granted (excluding refinancing) increasing by 4.7% compared with 2005.The number of contracts granted (again excluding refinancing) has on the other hand fallen by slightly less than 3% compared with 2005.

However, this annual development conceals an inversion of the trend. While the first quarter of 2006 still posted a significant increase (+30% in volume of mortgage loans granted and +19% in the number of contracts compared with the 1st quarter of 2005), a slow-down was witnessed in the second quarter (+11% in the volume of mortgage loans and +1.5% in number), followed by a sharp downturn in the third quarter (-4% in volume of mortgage loans and -10% in number), which was further exacerbated in the fourth quarter (-12% in volume of mortgage loans and -17% in number).

This decrease in production was due to the rise in interest rates, which reduced the credit capacity of households. This also seems to have corresponded, to some extent, with the start of the saturation of the property market observed in 2006.

Purchases represented 42.6% (+3.7%) of the number of contracts signed in 2006, which corresponds to over 52.7% (+4.1%) of the amounts granted. The market share of constructions stood at 15.3% in the number of contracts (+2.2%) and 17.9% in volume (+2.3%). The market share of renovations which, since 2003, has exceeded that of constructions, has for its part witnessed an increase for the 4th consecutive year and now amounts to over 20%.

The average amount of mortgages is up by almost 50% since 2000 and now stands at 100,000€. The average amount of purchases stood at 123,556€ in 2006 against 73,601€ in 2000 (+68%). This sustained increase can be explained by the evolution of the average prices observed on the property market, where houses, apartments and building plots have witnessed a similar increase over the same period.

The market share of fixed rate mortgages reached over 78% in 2006, the highest percentage of the past 10 years. The market share of variable rate mortgages fell from 50% in 2004 to only 6.6% in 2006. The explanation is clear: the rise in mortgage rates and the small rate differential between the variable and the fixed rates.

MARKET PROSPECTS

As the level of mortgage applications submitted during the last quarter of 2006 is over 25% (in number) below that of the last quarter of 2005, there is a risk that the downward trend observed in 2006 will continue at the beginning of 2007.

In 2007, we can also expect a fall in the number of building permits after an excellent year, which goes hand in hand with a cooling of the residential property market.

	EU 27	Belgium
GDP growth	3.0%	3.2%
Unemployment	7.9%	8.2%
Inflation	2.3%	2.3%
% owner occupied	67.0%	68.0%
Residential Mortgage Loans as % GDP	50.0%	36.3%
Residential Mortgage Loans per capita, € 000s	11.7	10.9
Total value of residential loans, € million	5,785,731	114,105
Annual house price growth (Euro area)	6.5%	12.1%
Typical mortgage rate (Euro area)	4.5%	5.4%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Belgium=2001

BULGARIA

MACROECONOMIC OVERVIEW

The Bulgarian economy continued enjoying high growth in 2006. The GDP grew by 6.1% driven by strong domestic demand and investments in fixed assets. Growing incomes underpinned by employment growth were the main drivers for accelerated household consumption. Another positive change was the fall in the unemployment rate, from 10.1% in 2005 to 9% in 2006.

Conversely, the inflation rate remains high by European standards and increased from 6.0% to 7.4%, after having recorded a slight decrease in 2005.

HOUSING AND MORTGAGE MARKETS

In 2006, the number of dwellings per 1000 inhabitants in Bulgaria was 483, exceeding the EU 27 average which amounted to 458. Indeed, from 2001 to 2006 the dwelling stock increased by approximately 363,665 units. This was driven by increases in housing completions of 45% in 2005 and 10% in 2006.

House price growth slowed down significantly from highs of 48% recorded in 2004 and 37% in 2005 to record an increase of 15% in 2006. Further moderation in house price growth is expected by the National Bank of Bulgaria[38].

The mortgage market also showed signs of easing. Although mortgage lending outstanding reached €1,745 million in 2006 (from €1,006 million in 2005) and while mortgage loans have remained the most rapidly developing segment in the credit markets, the growth rate of residential mortgage lending outstanding has decreased from 97.2% in 2005 to 73.5% in 2006.

Mortgage interest rates increased throughout 2006, from 6.7% in January to 8.5% in December 2006. However, mortgage interest rates rose principally over the first months of 2006 and remained relatively unchanged during the rest of the year. This was most likely due to the strong competition within the banking system.

In 2006 the foreign exchange structure of the net credit portfolio changed. By the end of 2006 domestic currency loans amounted to 54.7% of lending, against 52.2% a year earlier. However, this mainly reflects a change in the consumer credit segment, as a third of mortgage loans were foreign currency loans, roughly the same as 2005.

38 National Bank of Bulgaria, Economic Review 1/2007

	EU 27	Bulgaria
GDP growth	3.0%	6.1%
Unemployment	7.9%	9.0%
Inflation	2.3%	7.4%
% owner occupied	67.0%	96.5%
Residential Mortgage Loans as % GDP	50.0%	7.0%
Residential Mortgage Loans per capita, € 000s	11.7	0.2
Total value of residential loans, € million	5,785,731	1,745
Annual house price growth (Euro area)	6.5%	14.7%
Typical mortgage rate (Euro area)	4.5%	8.5%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Bulgaria=2002

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CZECH REPUBLIC

By Jindřich Thon, Hypoteční banka

MACROECONOMIC OVERVIEW

The Czech economy posted very good results in 2006. GDP rose by 6.1% and was only slightly lower than the previous year (6.5% in 2005). GDP growth was mainly driven by industrial output growth, which rose by 11.2% (6.7% in 2005), construction output growth, which rose by 6.6% (4.2% in 2005) and retail sales growth, which rose by 6.4% (4.0% in 2005). The trade balance reached the best result (+ 47.3 billion CZK) in the post-Velvet Revolution history of the country.

These good results positively influenced the Czech labour market. Unemployment fell to 7.1% (end of the year) from 8.9% in 2005, while the average national wage grew by 7.9%, compared to 6.4% in 2005.

In spite of the fast growth of the Czech economy, inflation was still under control. Consumer price inflation reached 2.1% (end of period), despite increasing from 1.6% in 2005.

Interest rates have increased slightly since February 2006. The most popular interest rates in the mortgage market experienced the following developments: 1Y PRIBOR reached 2.8% (+ 0.3% from the end of 2005), 3Y IRS reached 3.2% (+ 0.3% from the end of 2005) and 5Y IRS reached 3.4% (+ 0.2% from the end of 2005) at the end of 2006.

HOUSING AND MORTGAGE MARKETS

In 2006, the total number of housing starts grew by 8.3% (3.4% in 2005), reaching 43,747 units in comparison with 40,381 units in 2005. The number of housing completions was lower than in 2005, recording 30,190 units compared to 32,863 units in 2005, while the number of building permits increased by 3.8% and reached 49,777 in comparison with 47,974 in 2005. The main reason for the development in the housing market is the increasing supply of good quality real estate, primarily in the area of large development projects in larger towns.

The mortgage market improved on its all time high result from the previous year, with a total volume of new mortgage loans (gross residential and commercial lending) reaching CZK 141.5 billion (€4,992 million), representing a 49.3% increase from 2005. The outstanding amount of mortgage loans (residential and commercial) rose by 30.7% to CZK 297.4 billion (€10,493 million), but this volume corresponds only to 9.1% of GDP (7.0% in 2005), so there is still a big potential for further development.

The increased interest in mortgage loans and the record growth of the mortgage market reflects the fact that many citizens have decided to quickly improve their housing situation. The expected increase in the rate of VAT for construction work from 5% to 19%, to be implemented from the 1st of January 2008, has also contributed to the high levels of activity. Rent deregulation has been another positive factor for the mortgage market – especially in larger towns – by providing visibility to tenants on the amount that their rents will increase by up to 2010.

From an objective standpoint, the very good developments in the Czech economy, the increasing supply of good quality real estate, low interest rates, wage growth, low unemployment as well as contributions from the so-called "strong generations" from the 1970s entering the market are additional factors (to the ones mentioned above) which explain the positive developments in the Czech mortgage market in 2006.

FUNDING

The role of mortgage bonds in mortgage loans funding slightly decreased in 2006. The outstanding volume of mortgage bonds increased by 18.4% to reach CZK 157.1 billion (€5,543 million). This corresponds to 4.9% of GDP and 69% of mortgage loans outstanding. In 2005 it was only 4.4% of GDP but 74% of mortgage loans outstanding. One of the reasons for this decrease was a change in income tax law related to mortgage lending from the 1st of January 2006. Interest gains from mortgage bonds are now only tax exempt when liabilities arising of such mortgage bonds are covered by receivables (or their parts) from mortgage loans that were provided exclusively for the financing of housing investments, including acquisitions or construction or financing of housing needs. The sharp increase of the new issues in the volume of mortgage bonds in 2005 was a result of this tax change.

	EU 27	Czech Republic
GDP growth	3.0%	6.1%
Unemployment	7.9%	7.1%
Inflation	2.3%	2.1%
% owner occupied	67.0%	47.0%
Residential Mortgage Loans as % GDP	50.0%	7.1%
Residential Mortgage Loans per capita, € 000s	11.7	0.8
Total value of residential loans, € million	5,785,731	8,055
Annual house price growth (Euro area)	6.5%	n/a
Typical mortgage rate (Euro area)	4.5%	4.4%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	68.8%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Czech Republic=2001

DENMARK

By Lars Blume-Jensen, Realkreditrådet

MACROECONOMIC OVERVIEW

The Danish economy has experienced a period of strong demand, and GDP rose by 3.5% in 2006. The positive development was caused by the favourable market trends in general, but private consumption in particular. In 2006, private consumption increased by 3.4% . In the second half of 2006, however, private consumption began to slow down mainly because of increasing interest rates.

In 2006, investments increased by 10.9% and foreign trade recorded strong growth rates with increases in exports and imports of respectively 9.6% and 14.0%.

Unemployment continued to decrease during 2006, and at the end of the year it reached a very low level of only 3.9% of the work force. This level of unemployment is estimated to be around 35,000 persons less than the structural level of unemployment. Wages increased by 3.1% in 2006, and are expected to continue to increase by about 4.5% per year in the next few years, due to a shortage of labour. Consumer prices increased by 2.1% in 2006.

After a long period of historically low interest rates, interest rates increased in 2006. The short term interest rate increased by 1.3% and the long term interest rate by almost 1%.

HOUSING AND MORTGAGE MARKETS

By 2006 there were 2.46 million homes in Denmark. Of these, 55% were privately owned. The good economic conditions in Denmark have led to a construction sector boom, and a resulting acute shortage of both labour and materials. In 2006, 26,922 dwellings were started and 26,327 dwellings were completed during the year. The level of started residential construction has decreased by 14% since 2005, but it is still 15% higher than the average of 23,379 started dwellings recorded in the period 1995-2005.

The interest rates increase in 2006 dampened the demand for owner-occupied housing. In 2006 69,500 single family houses and owner-occupied apartments were sold, representing a decrease of 18% compared to 2005.

Prices of owner-occupied houses have increased rapidly in the past few years – especially in the Copenhagen area and in other big cities. In Denmark as a whole, housing prices in general have increased by 16% in 2006 and 230% since 1995. Prices of single family houses have increased by 18% in 2006, while the prices of owner-occupied apartments rose by almost 10%. Since 1995, house prices have increased by 200% and prices of apartments have increased by more than 300%.

Price increases have by far been the highest in the Copenhagen area. In the second and third quarters of 2006, prices of apartments in Copenhagen city started to fall. Between the 3rd and 4th quarters of 2006, they fell by 4.2%.

At the end of 2006, the mortgage banks' outstanding bond debt for owner-occupied housing was DKK 1,120 billion (€ 151 billion) and DKK 1,454 (€ 195 billion) for residential loans in total[39]. The total outstanding bond debt for residential and commercial property was DKK 1,858 billion (€249 billion), having risen by 10% since 2005 and 94% since 1997. On average, total outstanding bond debt has risen by 6.5% per year since 1997. Total outstanding bond debt corresponds to DKK 342,000 (€46,000) per capita and DKK 738,000 (€99,200) per household.

39 Mortgage banks account for approx. 90% of the Danish market. Thus, according to EMF estimates total outstanding residential loans are €195,762 million in 2005 and €221,970 in 2006. Lending data for 2006 in this chapter refers to 87.7% of the market.

In 2006, mortgage banks granted fewer loans than in the record year of 2005. In 2006, gross lending amounted to DKK 469 billion (€63 billion) – a decrease of 37% compared to the previous year. Gross residential lending amounted to DKK 373 billion (€ 50 billion) against DKK 578 billion (€ 78 billion) in 2005. The decrease was primarily due to the fact that few borrowers remortgaged their loans, because of the increasing interest rates. 58% of gross lending was either interest reset loans or variable loans with a cap.

Net lending, which corresponds to gross lending less redemptions and installments, amounted to DKK 161 billion (€22 billion). Hence, net lending remained at a relatively high level despite the low level of gross lending. This indicates a high demand of mortgage loans for newly built properties and for property renovations and extensions.

RISKS AND AFFORDABILITY

In Denmark, loans for owner-occupied houses are typically granted as a combination of mortgage credit loans (about 90% of the total lending against mortgages in real property) and bank loans (the remaining 10%). Bank lending consists of simple bank loans with variable interest and a maturity between 10 and 30 years. The mortgage banks grant loans up to 80% of the property value. The actual LTV in Denmark is about 50%.

The amount overdue for owner-occupied housing was 0.09% at the end of 2006. Also, the total mortgage payment was about DKK 60 billion (€8 billion), while mortgage payments of DKK 50 millions (€6.7 million) were not paid in due time. Compared to earlier times this percentage is extremely low. In the beginning of the 1990's over 2% of loans were not paid in due time.

FUNDING

The Danish mortgage credit system is based on the balance principle, which means there is balance between the borrowers' repayments and mortgage banks' payments to bond owners. The balance principle implies that there is balance between loan types and bonds types.

The mortgage banks have in recent years developed a number of new products e.g. capped variable interest loans (introduced in 2004) and interest-only loans (introduced in 2003). At the end of 2006, capped variable interest loans amounted to DKK 253 billion (EUR 34 billion) or 23% of the total outstanding lending to owner-occupied housing and weekend cottages.

Interest-only loans can be raised in connection with all loans and bond types up to 10 years in maturity. At the end of 2006, 39% of the total outstanding lending to owner-occupied housing and weekend cottages was made up of interest-only loans.

The most popular type of loan for owner-occupied housing and weekend cottages in 2006 was the traditional loan with a fixed interest rate. By then, fixed interest rate loans made up 51% of total outstanding lending, 23% were capped variable interest loans, and 26% were interest reset loans. Because of increasing interest rates, fixed interest rate loans have been gaining in popularity compared to interest reset loans.

The typical life time of a mortgage loan is 30 years.

	EU 27	Denmark
GDP growth	3.0%	3.5%
Unemployment	7.9%	3.9%
Inflation	2.3%	1.8%
% owner occupied	67.0%	55.0%
Residential Mortgage Loans as % GDP	50.0%	100.8%
Residential Mortgage Loans per capita, € 000s	11.7	40.9
Total value of residential loans, € million	5,785,731	221,970
Annual house price growth (Euro area)	6.5%	16.2%
Typical mortgage rate (Euro area)	4.5%	5.2%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	100%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Denmark=2006

GERMANY

By Thomas Hofer, Verband deutscher Pfandbriefbanken

MACROECONOMIC OVERVIEW

The German economy is experiencing a noticeable upswing. According to Eurostat, GDP rose in the year under review by 2.9% (2005: 0.8%). Leading German institutes for economic research expect continued economic growth of 2.6% in 2007 and 2.5% in 2008.

The main drivers for this growth were exports and investments in machinery and equipment. After two years of stagnation, private consumption rose slightly in 2006. Due to the economic upturn the number of unemployed persons declined from 9.4% (2005) to 8.4% (2006). Inflation remained below the EU-average; in 2006, the consumer price index rose by 1.8%, following a 1.9% increase in the previous year.

HOUSING AND MORTGAGE MARKETS

Generally, it can be said that there has been little activity on the housing market in recent years and in 2006 the development remained more or less flat. But the upturn in the economy in 2006 led to increasing consumer confidence, which in turn contributed to rises in the number of housing completions, by 4% to 248,000 units (2005: 239,000 units), as well as building permits, which grew by 3% to 247,500 dwellings (2005: 240,500 units).

This was in part a result of the abolition of subsidies for owner occupied housing from the beginning of 2006. Decisive to claim the subsidy was the filing of the building application in 2005. These building applications in turn resulted in building permits being issued, especially in the first quarter of 2006. Another factor which fostered housing investment in 2006 was the announcement of an increase in VAT from 16% to 19% which led to a substantial increase in contracts for modernisation and renovation for the construction industry.

Unlike the number of building permits issued which increased slightly, the number of transactions went down by 7.8% from 499,000 to 460,000. The cutback was a result of the above-mentioned abolition of subsidies. The plan to cut the subsidies fuelled transactions in the last two months of 2005, so that demand was brought forward.

Due to concerns about income prospects and future population development in parts of the country, investors have been reluctant to invest in housing. Since construction activity in the past few years has been low, it can be expected that the housing market will experience some increases in activity at some point in the future. However, demand will be limited while households perceive the unemployment situation as uncertain.

House prices in Germany have developed differently from house prices in most other European countries. According to calculations by the Deutsche Bundesbank, house prices developed non-uniformly in 2006 (resales: -0.9%, sales of new dwellings: +1.8%). As a result of disadvantageous projections of the long-term population growth, expectations about future house prices are often pessimistic. That being said, exaggerated pessimism is inappropriate. The construction of new houses was at a very low level. In recent years the housing stock has grown at a slower rate than the number of households. Furthermore, a number of apartments were eliminated by demolition, merger and redesign. Taking future demand into account, the current level of construction activities is somewhat too low, rather than too high. As such, in future, slight increases in house prices are likely. These remarks apply to the German housing market as a whole. It should be borne in mind that at the regional level the development of house prices can sometimes vary significantly.

Since 2000 the housing market has seen growing interest by investors. Foreign investors, in particular, seem to see great potential in the German housing market and buy large numbers of apartments. The apartments are sold by corporations and public authorities. The largest and best-known transaction occurred in 2005, when Viterra was sold to Deutsche Annington (140,000 units). The privatisation of big public housing companies continued in the year under review. In 2006, the city of Dresden attracted attention when it sold its housing company to Fortress. The housing company has 48,000 dwelling units, which corresponds to a market share of perhaps 20% in Dresden.

At the end of 2006 mortgage rates in Germany were slightly higher than at the end of the previous year. Given the increasing demand for construction activity (especially modernisation and renovation) in 2006, gross residential lending increased by 3.8%. The volume of outstanding residential loans rose a little. In 2006 outstanding loans amounted to € 1,184 billion (+1.8%).

FUNDING

Germany has the largest covered bond market in Europe, accounting for 50% of the total market. The sub sector of this market for mortgage bonds is also strong in Germany and accounts for 24% of the total mortgage bonds EU market.

In the year under review, Pfandbriefe totalling €167.2 billion were brought to market (2005: €176.7 billion). Whereas Public Pfandbriefe with an aggregate volume of €129.5 (141.3) billion were sold (-8.4%), Mortgage Pfandbrief sales increased by 6.3% from €33.7 billion to €35.3 billion.

As repayments exceeded new sales, the outstanding volume of Pfandbriefe decreased slightly to €948.8 billion in 2006. Compared with the previous year, the volume outstanding of Mortgage Pfandbriefe fell from €241.2 billion to €228.0 billion. Public Pfandbriefe also declined from €734.7 billion to €720.8 billion.

	EU 27	Germany
GDP growth	3.0%	2.9%
Unemployment	7.9%	8.4%
Inflation	2.3%	1.8%
% owner occupied	67.0%	43.2%
Residential Mortgage Loans as % GDP	50.0%	51.3%
Residential Mortgage Loans per capita, € 000s	11.7	14.4
Total value of residential loans, € million	5,785,731	1,183,834
Annual house price growth (Euro area)	6.5%	-0.9%
Typical mortgage rate (Euro area)	4.5%	4.6%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	18.9%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Germany=2002

ESTONIA

By Jonas Grincius, AmCredit AS

MACROECONOMIC OVERVIEW

Estonia's economy grew by 11.4% in 2006, which is more than in 2005 (10.5%). The unemployment rate has been decreasing every year since 2000 and was at 5.9% in 2006 (compared to 7.9% in 2005). The average gross salary increased by 17.5% (4th quarter of 2006 compared to the respective period in 2005)[40]. As of December 2006, yearly inflation in Estonia reached 4.5% which is more than in December 2005 when it was 4.1%. The interbank rate for EEK (national currency) loans TALIBOR increased during 2006 and TALIBOR 3 months stood at 3.85% at the end of 2006 (for comparison, it was 2.6% at the end of 2005)[41].

HOUSING AND MORTGAGE MARKETS

In 2006 more dwellings were completed than in 2005 (5,082 versus 3,865)[42]. Dwelling completions in 2006 have increased by 31% in comparison to the previous year. Also, more building permits were granted in 2006 than in 2005 (12,852 versus 9,166)[43]. The number of transactions has, however, decreased in 2006 (44,925 in 2006 versus 47,280 in 2005)[44].

According to the Real Estate Market Report 2007[45]: "Prices continue to grow in the capital, with residential prices rising by 24% in 2006. Price rises are fuelled by an imbalance of supply and demand, by easy credit from banks, and by speculators betting on further rises. Prices of newly built apartments in suburbs vary from €1,800-2,200 per sqm in the largest districts (Lasnamäe and Mustamäe) and up to €2,500 per sqm in new developments near the sea in Kakumäe and Pirita. These prices are for fully fitted units. In the Old Town prices for flats in newly renovated buildings are €3,800-5,100 per sqm. In the Soviet-era, pre-fabricated concrete suburbs, prices for unrenovated apartments are between €1,200-1,300 per sqm. As a result of more of these flats being sold, the average selling period has lengthened and prices have dropped by over 10% in 2006."

Outstanding housing loans to individuals increased by 63.4% in 2006[46], less than in 2005 when such loans grew by 74.5%. However, in nominal terms the residential mortgage market has increased by 25.9 billion EEK (€1,660 million) in 2006, which is approximately 1.5 times more than in 2005. Gross residential lending was considerably larger in 2006 than the year before (36.6 billion EEK, or €2,339 million, in 2006 versus 23 billion EEK, €1,471 million, in 2005)[47].

Interest rates for loans for home purchase have increased, mainly due to increases in interbank rates. The weighted average of the annual interest rate on housing loans granted to individuals denominated in euros was 3.5% in 2005, but in 2006 the respective rate stood at 4.8%.

40 Source: Dienas Bizness, 26-Feb-2007, reference to Statistics Estonia.
41 Source:http://www.bankofestonia.info/dynamic/itp5/itp_report.jsp?startDay=1&startMonth=1&startYear=2004&endDay=1&endMonth=6&endYear=2007&className=EPSTAT5&reference=572&lang=en&submit=SHOW&show=table
42 Source: Statistical Office of Estonia, „Granted Building Permits and Completed Dwellings (New Construction) by Year, Quarter, Indicator and Type of permit".
43 Source: Statistical Office of Estonia, „Granted Building Permits and Completed Dwellings (New Construction) by Year, Quarter, Indicator and Type of permit".
44 Source: Statistical Office of Estonia, Notarized purchase-sale contracts (sum of purchase-sale contracts of registered immovables with residential buildings, purchase-sale contracts of ownership of dwellings, purchase-sale contracts of residential buildings, purchase-sale contracts of dwellings).
45 Source: Real Estate Market Report 2007 Baltic States Capitals Tallinn, Riga, Vilnius, (Sorainen, Oberhaus, Deloitte), page 7 and 8, http://www.sorainen.com/legal/Real_Estate_Market_Report_2007.pdf
46 Source: Bank of Estonia, 2.8.4.1 Loans granted to individuals (stock). Housing loans.
47 Source: Bank of Estonia, 2.8.4.2 Loans granted to individuals during a month. Housing loans (sum of 12 months).

The increase in rates was not as large for EEK denominated housing loans. The weighted average of the annual interest rate on housing loans granted to individuals denominated in EEK was 3.7% in 2005 and in 2006 the respective rate stood at 4.4%[48].

The residential mortgage debt to GDP ratio stands at 32.7% in 2006.

FUNDING

Deposits are the main funding source in Estonia. Looking at the liabilities of Estonian commercial banks[49], it can be seen that the ratio of deposits to total liabilities and capital has increased in 2006 and stood at 62.6% at the end of 2006 (compared to 58.7% at the end of 2005). The ratio of securities issued against total liabilities and capital decreased and stood at 7.6% at the end of 2006 (compared to 12.3% at the end of 2005). Debt securities make up the great majority of securities issued (96% at the end of 2006 compared to 99% at the end of 2005) with only a minor part being derivative securities and other securities related liabilities. The ratio of subordinated liabilities to total liabilities and capital increased and was 3.07% at the end of 2006 (compared to 0.79% at the end of 2005).

	EU 27	Estonia
GDP growth	3.0%	11.4%
Unemployment	7.9%	5.9%
Inflation	2.3%	4.5%
% owner occupied	67.0%	85.0%
Residential Mortgage Loans as % GDP	50.0%	32.7%
Residential Mortgage Loans per capita, € 000s	11.7	3.2
Total value of residential loans, € million	5,785,731	4,278
Annual house price growth (Euro area)	6.5%	20.9%
Typical mortgage rate (Euro area)	4.5%	4.4%
Outstanding Covered Bonds as % residential outstanding	16.0%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Estonia=2002

Source: UNECE

48 Source: Bank of Estonia, 6.1.5 Weighted average annual interest rates of loans granted to individuals, housing loans.
49 Source: Consolidated balance sheet of commercial banks; http://www.bankofestonia.info/dynamic/itp/itp_report.jsp?startDay=1&startMonth=1&startYear=2004&endDay=1&endMonth=12&endYear=2007&reference=1&className=EPSTAT&step=11&lang=en&submit=SHOW&show=table

GREECE

By Dimitrios Frangopoulos, National Bank of Greece

MACROECONOMIC OVERVIEW

Economic growth for 2006 remained robust. GDP grew by 4.3% against 3.7% in 2005, achieving once again a higher level than the EU average. Prospects for 2007-09 also seem positive with official forecasts predicting an average GDP growth of around 4%.

At the same time, the unemployment rate fell from 9.8% in 2005 to 8.9% in 2006 and it is expected to fall even further to 8.2% in 2007

Inflation (harmonised) was also reduced, albeit only slightly, from 3.5% in 2005 to 3.3%, which is still significantly higher than the EU average.

On the whole, the general economic background is positive and early data for 2007 seem to indicate that this positive trend will continue in the current year.

HOUSING AND MORTGAGE MARKETS

Data are not available for housing starts and completions in Greece, but building permits data showed a significant decline of around 14.4%. However, this was expected, as 2005 was an exceptional year with the number of building permits in the last quarter of that year surging by 60%, compared to the corresponding quarter of 2004, in view of the then expected hike in property values due to the imposition of VAT on new dwellings and the corresponding increase in the objective values i.e. the values on which transaction taxes on property are calculated. The impact of these changes on house prices was in fact much less than original expectations and although no official figures for 2006 have been published, most estimates agree that house prices in 2006 will show an average increase of around 9%, lower than the 2005 figure (13.2%).

This is in line with a deceleration in the rate of growth of the total outstanding balances of mortgages between 2005 and 2006. This trend is expected to continue in 2007 as the impact of higher interest rates on demand is likely to become more pronounced. On the whole, however, the overall financial position of households remains strong, due to a relatively healthy macroeconomic environment combined with the recovery of the Greek stock market.

As mentioned above, residential mortgage lending showed signs of slowing down in 2006. The total value of outstanding residential loans increased by 25.8% in comparison to 33.4% in 2005. In fact, net lending in 2006 grew by just 3.1%, from €11.4bn to €11.7bn, compared to a growth rate of 56% in 2005. Outstanding residential loans as a proportion of GDP grew to 29.3%, from around 25% in 2005 and 20% in 2004, closing the gap but still remaining well below the EU average. Gross lending also showed signs of a slow-down, growing by 13.4% from €13.6 bn to €15.4bn, against an increase of 69% between 2004 and 2005. The rate of credit expansion is expected to slow down even further in 2007, with most predictions converging to an estimated growth rate of close to 20%.

According to the Bank of Greece, overall household indebtedness as a percentage of GDP has risen from 38% in 2005 to 44% in 2006, with mortgages accounting for more than 65% of total lending to households. However, overall indebtedness remains low in comparison with the EU or the US average and in spite of recent concerns expressed by the Bank of Greece, over-indebtedness, given the overall state of the Greek economy, is still not a major issue.

One important development in 2006 was the gradual shift of the Greek mortgage market from a predominantly variable rate market to a fixed rate market. In 2005, around 90% of all new loans were variable rate loans (including loans with a one year fixed rate period). By the end of 2006 (Q4 2006) this had dropped to 44% and figures for April 2007 showed that variable rate loans accounted for just 36% of all new lending.

FUNDING

Banks rely heavily for the financing of mortgage lending activity on retail deposits and equity. There are no mortgage bond issues in Greece yet. The total amount of securitised loans, although still relatively small, has more than doubled over the last year from €2.2bn at the end of 2005 to €4.8bn in December 2006 accounting for 8.1% of total outstanding mortgage balances.

	EU 27	Greece
GDP growth	3.0%	4.3%
Unemployment	7.9%	8.9%
Inflation	2.3%	3.3%
% owner occupied	67.0%	75.0%
Residential Mortgage Loans as % GDP	50.0%	29.3%
Residential Mortgage Loans per capita, ¨ 000s	11.7	5.1
Total value of residential loans, ¨ million	5,785,731	57,145
Annual house price growth (Euro area)	6.5%	9.0%
Typical mortgage rate (Euro area)	4.5%	4.4%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Greece=2006

SPAIN

By Lorena Mullor, Asóciacion Hipotecaria Espanõla

MACROECONOMIC OVERVIEW

In 2006, the Spanish economy performed even better than in 2005. GDP grew by 3.9% in comparison to 3.5% in 2005. The economic growth was supported by acceleration in the foreign sector, which more than outweighed the slowdown in internal demand.

At the end of 2006, the unemployment rate in Spain was 8.5% compared to 9.2% the previous year. This confirms the good performance of the Spanish labour market not only in 2006, but also over the last 10 years, given that the unemployment rate was as high as 18.8% in 1995.

HOUSING AND MORTGAGE MARKETS

Housing construction activity has been very strong over the last decade. Since 1999 the number of housing starts has exceeded 500,000 new starts per year.

The number of new housing starts in 2006 went beyond 700,000 compared to the production of 200,000 new units in 1992 and housing completions have also increased strongly, by exceeding 500,000 new houses in 2006.

Although the average house price in Spain has grown by around 300% since 1995, increases in house prices have started to slow down since 2005.

In 2006 housing prices grew by 10.4% compared to 13.9% in 2005 and 17.4% in 2004. During the first quarter of 2007, prices have only risen 7.2%. The belief is that the declining path in price increases will continue during the course of this year and will converge towards the inflation rate.

The strength of the economy and of the domestic real estate market has enabled the Spanish mortgage market to continue expanding. In December 2006, year on year growth of total mortgage lending outstanding was 23.3% and the increase in gross lending during the year was around 14%. However, a more moderate mortgage market growth was evident during the course of 2006, with the number of mortgage loans granted falling from 1.7 million mortgages in 2005 down to 1.6 million in 2006.

Among the causes for this slow down has been the high levels of house prices and the resulting need for higher loans which has produced a deterioration of debt to income ratios and higher LTVs. This has especially impacted the first-time buyer's market segment, mainly composed of young adults, low-skilled immigrants as well other lower-income groups. Thus, at this moment, there are important affordability issues for this segment of the market.

The other element that may be producing the mortgage market soft landing is the increasing trend of mortgage interest rates, although their impact are more on the mortgage portfolio side rather than on new contracts. The interest rate increases may affect more significantly those people who purchased a house during the last three years at the highest prices and lowest rates.

However, arrears in mortgage credit during 2006 have remained low, and are still representing one of the lowest rates of arrears in Europe. The default for residential loans at the end of 2006 was 0.410%.

FUNDING

The funding activity through mortgage bonds and MBS by Spanish financial institutions revealed the most expansive trend ever in 2006. The total mortgage securities volume outstanding in 2006, composed of *cédulas hipotecarias* and Mortgage Backed Securities, was of 310.5 billion Euros, which represents an annual growth of 40% compared to 2005.

By the end of the year, the proportion of mortgage securities over total mortgage lending outstanding was around 34%.

The new issues of mortgage assets reached a peak in 2006 with more than 106,369 million Euro. That means that during the last year the issuance of MBS and mortgage bonds served to fund approximately 64% of net mortgage lending.

In November 2006, the Treasury Department submitted to public consultation a draft law on the modernisation of the mortgage market, which has yet to be debated and potentially modified by congress.
The law, which is expected to be passed in 2007,has the following main objectives:

- To expand the transparency regime. On this aspect, the mortgage industry has taken the opportunity to continue asking the government for the removal of the regulation's current incompatibilities with the European Code of Conduct, although this question remains unresolved.
- To promote a wider range of mortgage products by removing the existing legal barriers; in particular, those related to prepayment penalties regulation.
- To update regulation on different mortgage funding instruments.
- To allow the development of equity withdrawal and equity release, in the latter case by introducing a new regulation on reverse mortgages (that reduces the costs associated to the subscription of these products)

The passing of this law could mean the start of a new phase for the Spanish Mortgage Market.

	EU 27	Spain
GDP growth	3.0%	3.9%
Unemployment	7.9%	8.5%
Inflation	2.3%	3.6%
% owner occupied	67.0%	86.3%
Residential Mortgage Loans as % GDP	50.0%	58.6%
Residential Mortgage Loans per capita, € 000s	11.7	13.1
Total value of residential loans, € million	5,785,731	571,746
Annual house price growth (Euro area)	6.5%	10.4%
Typical mortgage rate (Euro area)	4.5%	4.0%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	37.6%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:

- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Spain=2005 (Source: Spanish National Institute of Statistics)

FRANCE

By Claude Taffin, Union Sociale pour l'Habitat

MACROECONOMIC OVERVIEW

In 2006, the French economy picked up speed: GDP grew by 2% as against 1.7% in 2005. The internal dynamism is satisfactory, with household consumption relatively sustained (+ 2.1%) although slightly down on 2005 (+2.2%), and an upturn in company investments (+4.1% against 2.7%). On the other hand, exports remain a little more sluggish than imports, which means that the foreign trade balance is continuing to curb growth even if its impact is diminishing.

The unemployment rate for 2006 stands at 9.5%, down on the 2005 figures (9.7%), and the rate of inflation remained low, at 1.9%.

HOUSING AND MORTGAGE MARKETS

In 2006, with 421,000 housing starts, the building of new dwellings exceeded the previous record set in 2005. In fact it is at its highest level since 1980, up by 3% compared with 2005 (+5% for multifamily homes and +1% for single family homes).

Different factors have contributed to such a strong increase. Firstly, the demand for housing has benefited from an abundant supply of credit. The number of mortgage loans once again rose by 11% in 2006 and reached a new peak of 149 billion euros (31% of the mortgages were for new properties and 62% for existing properties, while 6% were for home improvement and maintenance). The demand for mortgages was stimulated by moderate interest rates (for example, a 4% fixed rate deal could be obtained at the end of 2006 for a 15-year mortgage, representing an increase of only 0.5 percentage points in one year), the extension of the maturity of mortgage loans (19 years in 2006 and 18 years in 2005, as against 12.3 years in 1995). Furthermore, the 0% mortgage has been very successful since it was modified in February 2005, allowing the financing of purchases of existing properties. As a result, 238,000 0% mortgages were granted in 2006 as against 195,000 in 2005 and 80,000 in 2004.

The measures to support rental investment (known as the Robien amortization[50]) have also contributed to the construction of collective dwellings. In 2006, new properties sold reached an exceptional record level of 126,300 residential properties (+4% compared with 2005). However, as the rise in the number of residential properties for sale has outstripped the number of actual sales, stocks grew by 50% in only one year. As an annual average, the price of new houses rose by 11% in 2006 and the price per square metre of new apartments rose by 8%.

In 2006, the number of transactions on the second-hand market was estimated at around 800,000[51], staying at a relatively stable level since 2003, while the prices of non-new properties rose by 10%.

The extension of the maturity of mortgage loans has made it possible to maintain the loan repayments despite the rise in interest rates. A 40-year mortgage appeared on the market and a lowering of the age of first-time buyers could be observed.

With the rise in interest rates, households' mortgage intentions are no longer as clear and are falling for the first time in 10 years. However, the rise in mortgage rates for 2007, which has not yet been passed on in full by credit institutions, should remain moderate. The demand should therefore not suffer too much, as the new government reintroduced tax deductibility for mortgage interests. The expected slowdown of the market should not overly affect the regions where there is a shortage of new constructions, in particular the Ile-de-France region.

50 Consists in accelerated depreciation: 6% (first 7 years) then 4% (next 2 years) of the investment price are deductible from rental income; rental deficit may be imputed to overall income.
51 Source: Calculation based on data from the Direction Générale des Impôts (Directorate General for Taxes).

	EU 27	France
GDP growth	3.0%	2.0%
Unemployment	7.9%	9.5%
Inflation	2.3%	1.9%
% owner occupied	67.0%	56.5%
Residential Mortgage Loans as % GDP	50.0%	32.2%
Residential Mortgage Loans per capita, € 000s	11.7	9.2
Total value of residential loans, € million	5,785,731	577,800
Annual house price growth (Euro area)	6.5%	9.9%
Typical mortgage rate (Euro area)	4.5%	3.9%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	7.5%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. France=2004

IRELAND

By Tom O'Connor, Irish Banking Federation

MACROECONOMIC OVERVIEW

The growth of the Irish economy continued at a robust rate in 2006, with gross domestic product expanding by 6%, the strongest growth since 2002. Gross national product expanded by 7.4% in 2006, which is the biggest increase since 2000. Ireland's unemployment rate remains persistently low at 4.4%. The net migration of almost 70,000 people contributed to a population increase of 2.5% for 2006, driving Ireland's population to over 4.23 million. Inflation picked up slightly reaching 2.7%, up 0.5% on 2005. It was anticipated that the four consecutive increases in the ECB base interest rate in 2006 would give rise to the heralded 'soft landing' of the Irish property market.

HOUSING AND MORTGAGE MARKETS

The continued robust general economic performance in 2006 is reflected in resilient and vibrant demand. Completions rose a significant 15% to over 93,000 units. However, the fact that housing starts fell slightly (around 2.5%), indicates that output may have peaked.

House price inflation continued, albeit at a lower rate than previous years. By the end of 2006 the average price for a new home in Ireland reached €313,087, an increase of €25,953 or over 8% on 2005. The increase in Dublin was even more marked - a surge in house price inflation of €58,088 brought the average price of a new home in the capital to €419,330. The divergence in house prices between Dublin and the rest of the country is also illustrated by the statistic that the average second-hand house was €142,288 more expensive in the capital compared to the national average at the end of the year.

The total amount of outstanding residential debt was €123bn by the end of 2006, with net lending for the year totalling €24.3bn, up from €22bn the previous year. While this growth is still significant, overall the indicators point to a slower rate of growth in lending than in recent years. This anticipated cooling-off to more sustainable growth rates has been attributed to a squeeze on affordability triggered by four consecutive ECB interest rate increases in 2006. Political uncertainty over the issue of stamp duty[52] is also thought to have dampened demand, particularly in the first-time buyer segment. However, it is anticipated that the strains on affordability will be offset by moderation in house price inflation and increased mortgage interest relief. The fundamental drivers of the property market remain robust, namely employment and economic growth, favourable demographic trends, and vigorous competition among providers.

The competitiveness of the Irish mortgage market intensified with the introduction of a range of new products and incentives to switch mortgage providers, including cash rewards for switching and products where interest rates are differentiated according to LTV ratios. The proliferation of choice and providers also accelerated in the specialist market and in the area of equity release. The competitiveness of the Irish mortgage market is illustrated by the healthy performance of the switching segment- it accounted for 13% of all mortgages in 2006.

According to Census data from 2006, the rate of owner-occupation in Ireland stands at 74.5%. Although this represents a slight decrease since the last census in 2002, it is still some 10% above the average owner-occupation rate for the EU 25. Available evidence suggests that, at over 60%, the average loan to value (LTV) ratio has remained relatively constant. While further interest rate increases are expected, mortgage providers safeguard credit quality by adhering to the Financial Regulator's stress-testing regime that ensures that consumer's finances can absorb increases of 2% in interest rates in terms of mortgage repayments.

52 Stamp duty in Ireland is a tax payable to the Government based on the documents used in the transfer of property. The value of the property and the buyer's status (i.e., whether you are a first-time buyer, investor, etc.) will determine the amount of stamp duty that is payable.

Overall, general economic commentary asserts that the outlook for the Irish mortgage market will be typified by the continued stabilisation of house price growth rates. The key drivers of demand and the general economic context remain healthy.

FUNDING

In 2006, the Government continued work on amendments to update the Asset-Covered Securities Act of 2001. The Act facilitates the further diversification of mortgage funding. The existing legislation is highly regarded for the high level of protection it affords investors. Four mortgage bonds were issued under the legislation in 2006 with a total value of nearly €8 billion, which represents significant market growth of almost four times the value of what was issued in 2005. Mortgage-backed securities experienced similar growth, doubling in value terms so that 10.3% of outstanding residential mortgage lending was funded by mortgage-backed securities in 2006.

Household savings remain an important source of funding for the mortgage market. Ireland remains a nation of savers, with a savings ratio that is one of the highest in the world. It ranks fourth in the OECD in terms of household savings as a proportion of disposable household income for 2005.

	EU 27	Ireland
GDP growth	3.0%	6.0%
Unemployment	7.9%	4.4%
Inflation	2.3%	2.7%
% owner occupied	67.0%	74.5%
Residential Mortgage Loans as % GDP	50.0%	70.1%
Residential Mortgage Loans per capita, € 000s	11.7	29.3
Total value of residential loans, € million	5,785,731	123,288
Annual house price growth (Euro area)	6.5%	13.6%
Typical mortgage rate (Euro area)	4.5%	4.6%
Outstanding Covered Bonds as % residential lending outstanding in the EU	16.0%	9.7%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Ireland=2006

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ITALY

By Angelo Peppetti, Associazione Bancaria Italiana

MACROECONOMIC OVERVIEW

Triggered by strong global demand and specifically by the expansive cycle of the Euro area, in 2006 the Italian economy grew at an unexpected rate (GDP +1.9%) and at a rate greater than what was forecast by major international institutions (approximately 1.5%). The decrease in tensions in the petroleum market and the moderation of internal unit costs due to improvement in work productivity in the industrial sector, allowed keeping price increases at a level slightly exceeding 2%. Growth in the Italian economy, thriving in the second half of 2005, was boosted by exports and investments, which in turn were favoured by still advantageous credit conditions and by increased business confidence. Consumer spending also increased, notwithstanding the lack of change in disposable income, but drawing strength from family wealth and a reduction in the habit of saving money. The Italian public debt increased with respect to the GDP, from 106.2% to 106.8%.

HOUSING AND MORTGAGE MARKETS

In 2006, the building sector continued to grow. For the eighth consecutive year, investments in construction registered a positive growth of 2.1% with respect to 2005 (the increase in the period from 2005-2006 was 0.5%) and reached Euro 143,882 million.

After exceptional results in 2005, investments in the housing sector proved to be more dynamic, and resulted in almost twice the increase (+4%); non-residential investments continued to be low (0.5%), following a contraction of more than three percentage points with respect to the previous year. The purchase and sale of real estate units continued to rise, as they did in the previous two years, but only slightly (+1.3%). The annual data nevertheless conceals a drop in all sectors (although losses in the residential market were less substantial). The worsening lending conditions during the past year, which had been favourable in the previous three years, foreshadow a dip in purchase and sales in 2007.

The total amount of the residential lending market in 2006 increased by 13.3%, compared to 18% in 2005, reaching Euro 276,102 million. Non-residential lending grew by 16.2%, to Euro 121,300 million.

Net residential lending decreased by 13% (Euro 32,480 million) in 2006 compared with the previous year. Gross lending reached almost Euro 90 billion in 2006 (+13% compared with the previous year).

FUNDING

The legislative process leading to the creation of the Italian covered bond market began in 2005 as the Italian Legislator enacted Law 80/2005, by means of which two new articles were incorporated into the existing Securitisation Law on covered bonds. Subsequently, on the 14th of December 2006, the Ministry of Economy and Finance issued secondary rules for these articles in relation to some key issues of the covered bond structure. As the last procedural step, the Bank of Italy enacted its implementing measures on the 15th of May 2007 providing for:

a) Requirements of issuing banks: banks with a total capital ratio not lower than 9% and a regulatory capital not lower than Euro 500 million;

b) The maximum amount of assets which can be transferred to the SPV by the bank, according to its capitalisation:

	Regulatory capital level	Transfer limit
Class A	Total capital ratio ≥ 11% and, Tier 1 ratio ≥ 7%	No limit
Class B	Total capital ratio ≥ 10% and < 11% and, Tier 1 ratio ≥ 6.5%	Eligible assets can be transferred up to 60% of total
Class C	Total capital ratio ≥ 9% and < 10% and, Tier 1 ratio ≥ 6%	Eligible assets can be transferred up to 25% of total

c) Asset integration rules: integration is allowed solely to maintain the required ratio of the covered bonds to transferred assets;

d) Regulatory treatment: Italian covered bonds have a 10% risk-weight;

e) Asset monitoring and ALM guidelines: asset monitoring must be carried out by both the internal audit department of the bank and a third-party auditor. Issuing banks must adopt proper ALM techniques ensuring that interests arising from the cover pool are always sufficient to pay interest on the covered bonds and the cost of the transaction.

The Italian covered bond is a structured covered bond. The originating bank assigns the covered asset pool to a Special Purpose Vehicle (SPV), constituted pursuant to Law 130 on securitisation. The same originating bank finances the operation, through a subordinated loan. The originating bank issues the covered bonds, which are guaranteed by the cover pool assigned to the SPV. The SPV repays the subordinated debt through the income deriving from the loans included in the cover pool.

	EU 27	Italy
GDP growth	3.0%	1.9%
Unemployment	7.9%	6.8%
Inflation	2.3%	2.2%
% owner occupied	67.0%	80.0%
Residential Mortgage Loans as % GDP	50.0%	18.7%
Residential Mortgage Loans per capita, € 000s	11.7	4.7
Total value of residential loans, € million	5,785,731	276,102
Annual house price growth (Euro area)	6.5%	n/a
Typical mortgage rate (Euro area)	4.5%	4.6%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Italy=2002

CYPRUS

MACROECONOMIC OVERVIEW

In 2006 real GDP grew by 3.8%, which constitutes a slight decrease compared with the previous year (3.9% in 2005). However, the Cypriot economy outperformed the average EU 27 GDP growth rate which amounted to 3% in 2006. The GDP growth was mainly driven by an increase in productivity (1.5% in 2006 compared with 1.3% in 2005) combined with a 2.3% increase in the levels of employment. Unemployment, for its part, decreased from 5.2% in 2005 to 4.6% in 2006.

The inflation rate rose slightly from 2% to 2.3% in 2006 reflecting the rise in the international price of oil and the increase in price of agricultural products.

In the first nine months of 2006, the balance of payments presented a deficit of €58.5 million which was the result of a deterioration in the trade balance following an increase in the value of oil imports and an increase in the demand for imported consumer goods, combined with a decline in exports of goods.

HOUSING AND MORTGAGE MARKETS

In 2006, the total volume of outstanding mortgage residential loans amounted to €3,077 million which represents a 43.5% increase on 2005, slightly below the historical high rate of growth set in 2005 (44.2%), allowing Cyprus to record the sixth highest growth rate[53] in volume of outstanding residential loans within the EU 27.

However, despite this strong growth, the mortgage market is still small in Cyprus. Total outstanding residential home loans per capita only amounts to €4,015; while the mortgage debt to GDP ratio is 21.2%. A recent study[54] concluded that the social norms that create alternatives to mortgage finance have not lost their influence in Cyprus, such as that of offering a home as a gift. Despite the recent financial liberalisation, households' participation in the mortgage market has not increased.

The number of building permits issued in 2006 increased at a more moderate pace than the previous year, growing by 7.7% compared to 10.3% in 2005.

Banks in Cyprus generally lend on a Loan to Value ratio of 70%, but this can vary. The value is normally estimated by a surveyor sent by the bank to evaluate the property and it is on the basis of that valuation that the loan is accorded.

All mortgages in Cyprus have to be backed with a life insurance that will cover the event of death of the applicant.

Mortgage rates decreased to 5.7%[55] in 2006 from 6.2% in 2005, following a downward monthly trend from 7.3% in January 2005 to 5.7% in December 2005. Monthly interest rates began increasing again from September 2006 as the Central Bank of Cyprus started to raise its own interest rates.

53 After Latvia (+86.5%), Bulgaria (+73.5%), Estonia (+63.4%); Romania (+57.1%) and Poland (+53.7%).
54 From "Mortage debt, social customs and financial innovation", February 2007, M. Halliassos, P. Karamanou, C. Syrichas.
55 The interest rates reported refer to the yearly average rate of the housing loans secured by life insurance policy.

FUNDING

There is no covered bond market in Cyprus, housing loans being largely financed by deposits.

	EU 27	Cyprus
GDP growth	3.0%	3.8%
Unemployment	7.9%	4.6%
Inflation	2.3%	2.3%
% owner occupied	67.0%	68.3%
Residential Mortgage Loans as % GDP	50.0%	21.2%
Residential Mortgage Loans per capita, € 000s	11.7	4.0
Total value of residential loans, € million	5,785,731	3,077
Annuals house price growth (Euro area)	6.5%	n/a
Typical mortgage rate (Euro area)	4.5%	5.7%
Outstanding Covered Bonds as % EU residential lending outstanding	16.0%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Cyprus=2001

LATVIA

By Jonas Grincius, AmCredit AS

MACROECONOMIC OVERVIEW

In 2006, Latvia enjoyed rapid real GDP growth of 11.9% which was even greater than in 2005 (10.6%).

The rate of unemployment fell in 2006 and stands at 6.8% (for comparison, it was at 8.9% in 2005). According to the Central Statistics Office there has been a real average wage increase of 15% in 2006[56].

The 2006 rate of inflation in Latvia reached 6.6% which is slightly less than in 2005 when it was 6.9%. The greatest price increases occurred for food and housing maintenance, energy resources, water supply and heating[57].

HOUSING AND MORTGAGE MARKETS

The home ownership rate is increasing; private housing as a proportion of the total housing stock in 2006 stands at 87%, (for comparison, in 2005 it was 85.8% and in 2001 it was 79.4%). Average space per inhabitant is also increasing, but still heavily lags behind the EU average (22.8 m^2 in 2001; 24.8 m^2 in 2005; 25.7m^2 in 2006)[58]. In 2006, more apartments were completed than in 2005 (5,865 in 2006 versus 3,807 in 2005)[59]. Apartment completions in 2006 have increased by 54% in comparison to the previous year. Also, more building permits were granted for the construction of one-dwelling buildings in 2006 than in 2005 (7,246 in 2006 versus 6,003 in 2005)[60].

The great majority of the Latvian population lives in standard Soviet style apartments. In 2006, the prices of such apartments in Riga increased by 58-69% according to different reports by major real estate companies such as Latio, Oberhaus and Balsts. (According to Latio, the average price for standard Soviet style apartments in Riga as of December 2006 was 1,526 EUR per m^2, compared to 903 EUR per m^2 in 2005).

Outstanding loans to households for housing purchases increased by 86.5% in 2006. The growth rate is slightly less than in 2005 (96.7%), but still remains high. In nominal terms the residential mortgage market has increased by 1.5 billion Ls (2.2 billion EUR) in 2006 which is 1.8 times more than the respective nominal growth in 2005. Thus, in nominal terms the mortgage market growth has been considerably larger in 2006 than in 2005. Residential mortgage debt to GDP stood at 28.9% in 2006.

Interest rates on loans for home purchases have increased, mainly due to increases in interbank rates. New loans are mainly in Euro and the share of Euro loans in whole loan portfolios is increasing. As of the end of 2006, 65.8% of all outstanding loans to residents were in Euro in comparison to 52.5% at the end of 2005 (data on mortgage loans for home purchases only are not available by currency). As of December 2006, the weighted average interest rate (floating rate and up to 1 year) on loans for house purchases[61] for Euro denominated loans was 5.4%, compared to 4.2% in December 2005.

56 Source: Diena, 3 March 2007, reference to Central Statistical Bureau of Latvia data.
57 Source: Diena, 10 January 2007, reference to Central Statistical Bureau of Latvia data.
58 Source : Central Statistical Bureau of Latvia, 8-6. Housing Stock at the End of the Year (total floor space; mln m2).
59 Source: Central Statistical Bureau of Latvia, 8-4. Apartments completed – total.
60 Source: Central Statistical Bureau of Latvia, 17.-11. Number of permissions granted for construction of one-dwelling buildings.
61 Source: Bank of Latvia; http://www.bank.lv/images/img_lb/financialdata/latvian/excel/2007-1/Table21.xls

FUNDING

Deposits still remain the main funding source in Latvia. However, looking at the liabilities of Latvian banks (Quarterly report on Banking Activities in the 4th Quarter of 2006)[62], it can be seen that the share of deposits in total bank liabilities has decreased and stands at 48.8% at the end of 2006 (for comparison, 56.7% at the end of 2005). The share of issued bonds and other debt securities in total bank liabilities has slightly increased and stands at 2.0% at the end of 2006 (for comparison 1.6% at the end of 2005). Three banks in Latvia have issued mortgage bonds in 2006 – Mortgage and Land Bank of Latvia, Baltic Trust Bank and Paritate banka.

	EU 27	Latvia
GDP growth	3.0%	11.9%
Unemployment	7.9%	6.8%
Inflation	2.3%	6.6%
% owner occupied	67.0%	87.0%
Residential Mortgage Loans as % GDP	50.0%	28.9%
Residential Mortgage Loans per capita, € 000s	11.7	2.0
Total value of residential loans, € million	5,785,731	4,680
Annual house price growth (Euro area)	6.5%	n/a
Typical mortgage rate (Euro area)	4.5%	4.7%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	1.4%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Latvia= 2006

62 Source: http://www.fktk.lv/texts_files/Bankas_ceturksnis_4_2006_A.xls

LITHUANIA

By Jonas Grincius, AmCredit AS

MACROECONOMIC OVERVIEW

Lithuania's GDP surged by 7.5% in 2006 on the basis of strong performances in the construction, manufacturing, real estate and financial intermediations sectors, with approximately 50% of gross value added coming from these four sectors[63]. Unlike for the other two Baltic neighbours, the growth rate was slightly less than in 2005 (7.6%).

In 2006, the unemployment rate was 5.6%, which represents a 2.7 percentage point decrease from the 8.3% recorded in the previous year. In 2006, inflation in Lithuania increased and reached 3.8% (compared to 2.7% in 2005).

The interbank rate for LTL (the national currency) loans VILIBOR increased during 2006 and VILIBOR 3 months stood at 3.8% at the end of 2006 (compared to 2.5% at the end of 2005)[64].

HOUSING AND MORTGAGE MARKETS

In 2006, 23.5% more dwellings were completed than in 2005 (7,286 versus 5,900)[65]. More building permits were also granted in 2006 than in 2005 (7,482 versus 5,500)[66].

According to the Real Estate Market Report 2007[67]: "After rising 10% in the first quarter of 2006, residential property prices levelled off and remained steady for the remainder of the year. The fast rises in 2005 and early 2006 were fuelled by easy credit from banks, and speculators taking advantage of developers offering units for only 10% pre-payments, with 90% due on delivery. This developer-financed leverage allowed developers to push prices higher. Now speculators are unwinding those positions by selling into the market as delivery of the units (and the 90% payment due date) nears.

After the second quarter, only higher quality apartments showed a further price increase – between 5% and 10% – while prices for mass-market units remained stable. Prices of secondary market apartments in Soviet-era, prefabricated concrete buildings became 5–10% cheaper. Ober-Haus expects the price gap between old and new dwellings to continue to increase. At the end of 2006, a standard two-room apartment (approximately 50 sqm) in an older apartment building located in a bedroom community was priced from €55,000–€75,000. The same size new apartment, fully finished, was fetching €65,000–€95,000."

Outstanding loans to households for house purchase increased by 60% in 2006[68]. The growth rate is slowing down; for comparison the respective growth rate was 87% in 2005. However, in nominal terms the residential mortgage market has increased by 3.9 bn LTL (1.1 bn EUR) in 2006 which is approximately 1.3 times more than in 2005. Also, gross lending was higher in 2006 than the year before.

Interest rates on loans for home purchases have increased, mainly due to increases in interbank rates. The average yearly interest rate for Euro denominated loans for house purchase was 4.0% in 2006 (compared to 3.3% in 2005). The average yearly interest rate for LTL denominated loans for house purchase was 4.2% in 2006 (compared to 3.8% in 2005).

The residential mortgage debt to GDP was 12.6% in 2006.

63 The Baltic Times; February 1-7, 2007, page 12.
64 Source: http://www.lb.lt/statistics/excel.aspx?group=7222&lang=lt
65 Source: Statistic Bureau of Lithuania, Dwellings completed.
66 Source: Statistic Bureau of Lithuania, Number of granted permits, total; granted permits for new residential buildings construction.
67 Source : Real Estate Market Report 2007 Baltic States Capitals Tallinn, Riga, Vilnius, (Sorainen, Oberhaus, Deloitte), page 31 and 32, http://www.sorainen.com/legal/Real_Estate_Market_Report_2007.pdf
68 Source: Bank of Lithuania, Monthly Bulletin. 2.5.5. Loans to Households by purpose and Maturity. Lending for house purchase. Outstanding amounts at the end of period.

FUNDING

Deposits are the main funding source in Lithuania. Looking at the liabilities of commercial banks and foreign bank branches operating in Lithuania[69] it can be seen that the ratio of deposits to total liabilities and capital has remained at relatively the same level since the end of 2005 and was at 79.1% as of the end of 2006 (78.8% at the end of 2005). Liabilities to parent banks or other parent credit or financial institution as a proportion of total liabilities have slightly decreased in 2006 (19.3% as of end of 2006, compared to 20.8% at the end of 2005). Debt securities issued as a percentage of total liabilities have remained at approximately the same level (2.8% compared to 2.6% in 2005).

	EU 27	Lithuania
GDP growth	3.0%	7.5%
Unemployment	7.9%	5.6%
Inflation	2.3%	3.8%
% owner occupied	67.0%	97.0%
Residential Mortgage Loans as % GDP	50.0%	12.6%
Residential Mortgage Loans per capita, € 000s	11.7	0.9
Total value of residential loans, € million	5,785,731	2,997
Annual house price growth (Euro area)	6.5%	n/a
Typical mortgage rate (Euro area)	4.5%	4.0%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	0.5%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Lithuania=2005

69 Source: Bank of Lithuania, Balance Sheet of Commercial Banks and Foreign Bank Branches Operating in Lithuania, **http://**www.lb.lt/eng/institutions/operations.htm

LUXEMBOURG

MACROECONOMIC OVERVIEW

In 2006, Luxembourg GDP is estimated to have grown by 6.2%, its highest level since 2000, compared with 4% in 2005. The economic growth was been mainly fueled by a surplus in foreign trade mainly generated by the exportation of financial services.

Thanks to a positive economic context, the employment rate increased by 3.7% in 2006, producing a net creation of 12,000 new jobs, which represented the best performance since 2001. Despite this favourable context, the unemployment rate increased slightly to 4.7% in 2006. This did not however have a positive impact on the unemployment rate: firstly, 2/3rds of the newly created jobs were taken up by non-residents and secondly, unemployment in Luxembourg is mainly structural.

Inflation, as measured by the European Harmonised indices (HICP), amounted to 3% in 2006 which is 0.8 percentage points less than in 2005. Note that the Central Bank of Luxembourg estimates that this index is not representative of the residents' consumption due to the excessive weighting of certain items (Tobacco, oil products) which are, in fact, mostly consumed by non-residents. In 2006 in comparison, inflation measured by the national indices (IPCN) reached 2.7% in comparison to 2.5% in 2005.

HOUSING AND MORTGAGE MARKETS

Growth in total outstanding mortgage residential loans remained at a high level in 2006 even if it increased at a slightly slower pace than the previous year; respectively 13.4% compared with 13.7% in 2006 and 2005, leading to total outstanding mortgage volume of €11,345 million. This relatively high level of mortgage lending can be explained both by a softening of the lending conditions and the rise of the house prices observed.

The increase in interest rates have not really impacted the mortgage market activity, as rates are still far below their long term average. Also, in spite of the rise of mortgage interest rates, no shift from mortgage variable rate contracts in favour of fixed rate contracts has been observed. The share of the variable rates contracts represented more than 80% of the new contracts delivered at the end of 2006.

The building industry continued to benefit from favourable economic conditions, with a growth in the level activity remaining at a comparable level to that recorded in 2005, which was a year where the level of activity was itself 40% superior to the average of the six previous years.

House prices in 2006 continued to grow, but at a more moderate pace than in previous years (3.9% for houses and 3% for flats).

FUNDING

Covered bonds in Luxembourg can only be issued by specialist banks which are subject to very strict supervision by the supervisory authority of the Luxembourg financial sector (the 'CSSF'), as well as by a special auditor specifically appointed to monitor the cover assets of a bank issuing covered bonds.

In 2006, the issuance of covered bonds outstanding amounted to €150 million.

	EU 27	Luxembourg
GDP growth	3.0%	6.2%
Unemployment	7.9%	4.7%
Inflation	2.3%	3.0%
% owner occupied	67.0%	74.6%
Residential Mortgage Loans as % GDP	50.0%	34.3%
Residential Mortgage Loans per capita, € 000s	11.7	24.7
Total value of residential loans, € million	5,785,731	11,345
Annual house price growth (Euro area)	6.5%	n/a
Typical mortgage rate (Euro area)	4.5%	4.0%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	1.3%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Luxembourg=2005

HUNGARY

By Gabor Botka, FHB Land Credit and Mortgage Bank

MACROECONOMIC OVERVIEW

Economic growth in Hungary is slowing down. According to Eurostat data overall, the 2006 growth rate was 3.9%. Hungarian economic growth was mainly driven by the processing industry and the financial sector. Growth in the processing industry is due, to a large extent, to booming export sales; by contrast, the performance of the building industry was shrinking.

According to Central Statistics Office (CSO) data, industrial production was up by 10.1% in 2006, while industrial exports grew by 14.6% and domestic sales by 4%. The volume of production in the processing industry grew by 11%.

The 2006 inflation followed a U-shaped curve, with an annual average price increase of 4%, not much higher than the 2005 figure of 3.5%.

In the period from October to December 2006 the size of the working population was 3.9 million, the number of unemployed was 320,000. According to Eurostat, the rate of unemployment was 7.5% in 2006.

HOUSING AND MORTGAGE MARKETS

CSO figures showed a decline in housing market activity: license of usage was issued for 34,000 new homes built (in comparison to 41,000 in 2005), and 45,000 building permits were issued for new homes (in comparison to 51,500 in 2005). The number of new homes licensed for usage was 17% less and that of new building permits 13% less than in 2005.

The amount of loans extended to households in Hungary increased by approximately 941.7 billion forints in 2006, reaching 4,729 billion forints. Of the new loans, foreign exchange loans amounted to 903.2 billion forints (approx. 95% of the new loans). The share of foreign exchange loans reached 42.4% of outstanding loans to households.

The slowing down in the growth rate of residential mortgage loans that began in 2005 continued also in 2006. By the end of the year mortgage loans increased by 28.5% as opposed to 38.4% in 2005, and amounted to an aggregate 3,612 billion forints. The growth rate of housing loans also slowed down. Up to the 31st of december 2006, retail home lending increased by 416.3 billion forints (€1,575 million) to reach 2,700 billion forints (€10,215 million). This represents an increase of 18.2%, the same as the preceding year's rate. However, newly issued loans were tens of billions of forints higher, as the 2005 year-end outstanding loans of 2,283 billion forints (€9,205 million) were significantly reduced by repayments and prepayments made throughout the year.

Home equity loans increased dynamically. After a quarterly increase exceeding 20% throughout 2005 the growth pattern was different but the rate was almost the same in 2006.

The seasonal effect conspicuous in the monthly breakdown of increase in retail housing loans (showing a massive one-off increase in the first half and slower growth in the second half) resulted in much slower growth in the first quarter. However, growth picked up in the second and third quarters to exceed that for the same periods of 2004 and 2005, and the trend continued in the fourth quarter of 2006.

The driving engine of the growth of housing loans was foreign exchange-denominated housing loans: their amount and growth rate have surpassed those of forint-based housing loans since August 2004. The amount of forint loans gradually shrank in the first five months of 2006 and stayed around the reduced amount with some volatility until the end of August, followed by stagnation and a minor decline. The reason for this is that banks have no interest in extending the currently existing subsidized schemes and typically try to replace old HUF-based loans by FX-denominated loans. Following the 2005 trend, FX housing loans that amounted to 472.5 billion forints at the end of 2005 increased to 911.2 billion by the end of 2006, which represents a 438.7 billion forints (or 92.8%) increase.

RISK AND AFFORDABILITY

In 2006, similar to the previous year, foreign currency loans and mortgage loans continued to gain ground in the overall loan portfolio, bringing about changes in the structure of the portfolio as well. By year end, half of the entire household loan portfolio was comprised of foreign currency loans (typically Swiss franc), and close to 60% of loans were secured by mortgages. Changes in the structure of indebtedness have a different effect on the magnitude and direction of credit risks. Households with foreign currency loans are more sensitive to external factors than those with forint debts, and the borrowers are typically unable to assess these risks due to the low level of financial knowledge. For them, the most important factor when making a decision in connection with borrowing is the amount of the instalment payments; exchange rate and interest rates risks are not always taken into consideration. Assuming a given credit demand, the growing popularity of foreign currency denominated loans and mortgage loans has a positive effect on the debt service burden of households, thanks to their better initial conditions relative to other loans. Despite these favourable developments, households as a sector (not excluding households without a loan) spend 10% of their disposable income on debt servicing: by international comparison, that is close to the average of the countries with the higher rates of indebtedness. Taking into account only the indebted households, however, the debt service burden amounts to 18% of disposable income on average.

Close to 80% of the exposures considered risky are secured by mortgage where – assuming that the average of 50% LTV applies – full recovery is a distinct possibility even in the case of default. Actual losses in the households sector could therefore only come from vehicle loans and unsecured loans.

FUNDING

Since the majority of new residential lending is foreign currency based which does not require mortgage bond funding, decreasing demand has been observed for this funding instrument. Lending institutions are interested in finding alternative ways of funding using treasury facilities provided by their mother banks. As a consequence, the level of outstanding mortgage bonds did not increase as rapidly as the level of outstanding residential mortgage loans and reached 1,494bn HUF at the end of 2006 compared to 1,278 bn HUF at the end of 2005.

	EU 27	Hungary
GDP growth	3.0%	3.9%
Unemployment	7.9%	7.5%
Inflation	2.3%	4.0%
% owner occupied	67.0%	92.0%
Residential Mortgage Loans as % GDP	50.0%	11.4%
Residential Mortgage Loans per capita, € 000s	11.7	1.0
Total value of residential loans, € million	5,785,731	10,215
Annual house price growth (Euro area)	6.5%	n/a
Typical mortgage rate (Euro area)	4.5%	n/a
Outstanding Covered Bonds as % residential lending outstanding	16.0%	58.0%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Hungary=2003

MALTA

MACROECONOMIC OVERVIEW

In 2006, GDP growth remained stable at 3.3%. The main driver was external demand, which led to a rise in export activity reflecting strong performance in the electronics, pharmaceuticals and fisheries sectors and a rapid expansion in the remote gaming sector. Domestic demand was also strong, due to an increase in real income which fostered private consumption.

The inflation rate was 2.6% in 2006 (2.5% in 2005), reaching a peak in September and then easing during the last three months of 2006. This mainly reflected the developments in fuel and electricity costs, which were influenced by the earlier rise in international energy prices.

The unemployment rate remained stable at 7.3%.

HOUSING AND MORTGAGE MARKETS

In 2006, lending for house purchase remained dynamic and increased by 16.5%, although this was less than the 23% growth recorded in 2005. The more moderate growth can be explained by the increase in mortgage interest rates, a result of the tightening monetary policy stance of the Bank of Malta. Indeed, interest rates on loans for house purchase increased throughout the year and reached 4.95% by December 2006.

The increase in mortgage lending to households was also reflected in the increase in the mortgage debt to GDP ratio which rose from 31.8% in 2005 to 34.7% in 2006. However, it remains far below the EU average of 50%. Moreover, the Central Bank of Malta argues[70] that although households remain vulnerable to shocks, the debt burden still appears to be sustainable. In fact, rising interest rates were offset by the positive influences of higher employment levels and growth of national income.

Malta experienced a remarkable fall in house price growth in 2006, increasing by only 3.5% compared to 9.8% in 2005. The slowdown reflects the weaker house price growth rate of terraced houses, maisonettes and finished flats. Conversely, prices for town houses increased by 2.3% (after having declined in 2005), while prices of flats in 'shell' and villas rose at a faster pace than in the previous year[71].

70 Central Bank of Malta, Annual Report 2006
71 Central Bank of Malta, Annual Report 2006

	EU 27	Malta
GDP growth	3.0%	3.3%
Unemployment	7.9%	7.3%
Inflation	2.3%	2.6%
% owner occupied	67.0%	74.1%
Residential Mortgage Loans as % GDP	50.0%	34.7%
Residential Mortgage Loans per capita, € 000s	11.7	4.4
Total value of residential loans, € million	5,785,731	1,770
Annual house price growth (Euro area)	6.5%	3.5%
Typical mortgage rate (Euro area)	4.5%	4.7%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Malta=2005

References:
- National Bank of Malta, Annual Report 2006

NETHERLANDS

MACROECONOMIC OVERVIEW

After recording moderate growth in 2004 (2.2%) and 2005 (1.5%), GDP grew by 3% in 2006. The economic recovery was mainly driven by exports, and consumption, which gave rise to the first increase in real disposable income since 2001, in part due to employment growth. Indeed, 2006 recorded a large improvement in the labour market with total employment increasing by 1.4%. The increase in the number of jobs also contributed to a rise in consumer confidence, reaching in January 2007 the highest level in the last six years.

Positive labour market developments led to a sharp drop in the unemployment rate, from 4.7% in 2005 to 3.9% in 2006.

Inflation remains low at 1.7%, compared to 1.5% recorded in 2005. Although inflation increased, it remains far below the EU average of 2.3%.

HOUSING AND MORTGAGE MARKETS

Housing supply has increased substantially over the past year. In 2006, the number of housing completions increased by 8% and the number of building permits issued increased by 16%. As building permits increased, the supply of new housing is likely to increase further in 2007.

House price growth was 4.3%, which is slightly lower than the growth recorded in 2005 (4.6%). Thus, house prices kept rising in spite of important increases in the number of housing completions and building permits issued. However, as mortgage rates have increased, house price growth is expected to slow down in 2007.

The mortgage market was extremely dynamic in 2006. It kept expanding strongly and total residential lending outstanding reached €597,990 billion at the end 2006, which was €110,990 billion higher than a year earlier and corresponds to a growth rate of 23%. The strong mortgage market growth is reflected in the significant increase in the mortgage debt to GDP ratio which rose from 96% in 2005 to 112% in 2006. However, mortgage market activity started cooling off in the second half of the year. This was reflected in the fall in remortgaging activity and the decrease in the number of housing loans. In fact, although gross mortgage borrowing reached a record high in 2006 (€119 billion), looking at individual quarters reveals that it started declining in the 3rd and 4th quarters of 2006. Gross mortgage borrowing amounted to €126.9 billion in the second quarter, but declined marginally to €125.9 billion in the third quarter and then further slowed to €119.9 billion in the fourth quarter. Moreover, the annual number of loans increased to 591,000 in the second quarter, but fell to 534,000 by the end of 2006[72].

Due to the high and rising level of mortgage debt held by households, the increasingly high LTV ratios and flexibility of lenders in applying criteria with regards to maximum amounts to be borrowed, a new Code of Conduct tightening rules for providing mortgage credit was adopted in the course of 2006 and came into force on the 1st of January 2007. The new Code introduces a ceiling of 4.5 time gross annual salary on mortgage loans and is meant to ensure that lenders strictly apply rules on maximum amounts.

72 NIBC, January 2007, Mortgage Brief.

FUNDING

Most lending is financed through deposits and the total outstanding of covered bonds backed by mortgages (€7,500 million) accounts for only a minor share of residential lending. However, the covered bonds market is growing quickly: in 2006 the volume of covered bonds issued was €5,500million which was more than double the volume issued in 2005.

Covered bonds are structured on the basis of general Dutch legislation based on contractual arrangements under civil law. However, a covered bond law is expected to be adopted in November 2007.

	EU 27	Netherlands
GDP growth	3.0%	3.0%
Unemployment	7.9%	3.9%
Inflation	2.3%	1.7%
% owner occupied	67.0%	54.2%
Residential Mortgage Loans as % GDP	50.0%	112%
Residential Mortgage Loans per capita, € 000s	11.7	36.6
Total value of residential loans, € million	5,785,731	597,990
Annual house price growth (Euro area)	6.5%	4.7%
Typical mortgage rate (Euro area)	4.5%	4.4%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	1.3%

Source: EMF, EUROSTAT, ECB, Dutch Central Bank, Het Kadaster National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Netherlands=2002

References:
- National Bank of the Netherlands, Annual Report 2006
- National Bank of the Netherlands, Financial Stability Report 2007
- NIBC Bank N.V, Mortgage Brief, March 2007

AUSTRIA

MACROECONOMIC OVERVIEW

In 2006, the Austrian economy recorded substantial growth and at 3.3% Austrian real GDP growth significantly outpaced that of 2005, almost reaching the levels of the boom year 2000 (+3.4%). On the supply side, dynamic investment in construction as well as plant and equipment was a major driver of economic growth. On the demand side, strong exports contributed considerably to investment dynamics.

The average inflation rate decreased from 2.1% in 2005 to 1.7% in 2006, which is far below the EU 27 inflation rate of 2.3%. In 2006, Austria was among the Euro-zone countries with the lowest inflation rate.

Moreover, the labour market performance improved significantly, with the unemployment rate falling for the first time since 2001. The rate dropped from 5.2% in 2005 to 4.7% in 2006.

HOUSING AND MORTGAGE MARKETS

According to the latest data available[73], owner occupation in Austria is about 57%, which is rather low in comparison to European standards. Renting is especially common in cities and to a great extent the popularity of renting is the result of earlier housing policies on promoting and regulating renting[74].

The Austrian housing market differs from the majority of other European housing markets also with regards to house price developments over the past decade. The Austrian housing market is one of the few European markets (along with the German, the Italian and the Slovenian markets) which experienced falling prices over the past 10 years. In Austria, house prices started to fall after the housing boom at the beginning of the 90s at a time of excess supply. Prices for new dwellings fell by 11.2% between 1995 and 1999, while prices for second hand dwellings fell by 12.6% over that same period[75]. In general, prices continued to fall after 1999 but at a much slower pace. In 2004 prices dropped by only 0.3% and in 2005 house prices recorded a substantial upturn, by growing by 6%. However, in 2006 house price growth slowed down again to 3%[76].

Despite the sluggish housing market performance, the mortgage market has been growing at a healthy pace. Residential mortgage lending outstanding more than doubled since 2001 and it reached €60,669 billion in 2006. The strong mortgage market growth is reflected in the increase in the mortgage debt to GDP ratio which rose from only 13.7% in 2001 to 23.5% in 2006. However, the ratio is still less than half of the EU average (of 50%).

Due to the repeated rises in the ECB repo rate, interest rates on loans for house purchase increased for all loan maturities (with the exception of interest rates fixed for a period over 10 years) in 2006. The strongest increase, of 31 bp, was recorded for variable rate loans, which are the most popular and accounted for about 50% of new lending in 2006. However, despite the increase, interest rates on loans for house purchase remained at a relatively low level. In fact, according to the Central bank of Austria the increase in households' interest rate expenditure over 2006 was mainly due to the higher interest burden stemming from stepped-up interest expenditure on consumer loans (more consumer loans are at variable rates than housing loans) and on Swiss franc-denominated foreign currency loans (always at variable rates).

73 Latest data available on owner occupation is from 2001.
74 RICS Housing Review 2005
75 Data is form National Bank of Austria
76 The National Bank of Austria has change the house price index since 2000. There is no difference between new and second hand dwellings anymore.

In 2006, foreign currency loans in Austria continued to remain very popular amounting to 31% of total loans, although they somewhat declined, thus slightly reducing the exchange rate risk in financing them. The decline was due to the lower interest rate differential towards loans denominated in Swiss Francs.

	EU 27	Austria
GDP growth	3.0%	3.3%
Unemployment	7.9%	4.7%
Inflation	2.3%	1.7%
% owner occupied	67.0%	57.0%
Residential Mortgage Loans as % GDP	50.0%	23.5%
Residential Mortgage Loans per capita, € 000s	11.7	7.3
Total value of residential loans, € million	5,785,731	60,669
Annual house price growth (Euro area)	6.5%	3.1%
Typical mortgage rate (Euro area)	4.5%	3.8%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Austria=2003 (Source UNECE)

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POLAND

By Agnieszka Nierodka and Magdalena Mikołajczyk, Fundacja na Rzecz Kredytu Hipotecznego

MACROECONOMIC OVERVIEW

The macroeconomic environment in Poland was very favourable for the mortgage market development. Poland maintained a high rate of economic growth in 2006. The rate of GDP growth reached 6.1% in 2006, compared to 3.6% in 2005. The main drivers of economic growth were the accelerating pace of investments (mainly in the construction sector) as well as domestic demand.

2006 elapsed with signs of a slow but continuous improvement on the labour market – both in terms of supply and demand. Registered unemployment was at 13.8% (a drop of 1.3 percentage points compared with December 2005). Moreover, the number of people in work increased by 2.6%.

The inflation rate for 2006 decreased to a record-low level of 1.3%. This level was driven mainly by continued appreciation of the Polish zloty and high levels of food supply in the domestic market. The economic situation, in particular the level of inflation, resulted in decreases in the market interest rates. The reference rate came down by 50 basis points in comparison to the end of 2005, amounting to 4.0 percent in December 2006.

Most projections show that the coming years should see continuous economic growth, although the pace will no longer be as high as in 2006.

HOUSING AND MORTGAGE MARKETS

In 2006, over 115,000 dwellings were completed (1% more than in 2005), and almost 161,000 building permits were issued, the majority of which were for individual investors. At the end of 2006, an estimated 626,000 dwellings were under construction – almost 4% more than in December 2005.

2006 was a record breaking year in terms of price growth on the residential market. Price increases of 50% to 60% could be observed in the bigger cities as a result of a significant surplus of demand over supply on the market. The increase could be stemmed by a greater supply of construction plots in residential areas. However, the stagnation in the construction business in Poland is caused neither by the lack of buyers, nor by the lack of initiative on the part of developers, but rather by the lack of local development plans. Prices are expected to continue rising in 2007, though not as fast as in the previous year.

The market was booming also due to the activity of investment funds – especially from abroad. Their entry caused sales prices for commercial real estate to grow, thereby helping the industry make a strong recovery (particularly in Warsaw). Strong demand from investors translated into capitalisation rates of 5.5% to 7% in Warsaw and 7% to 8% in other parts of the country. These figures are still higher than in Western Europe.

In the fourth quarter of 2006 the level of home loan debt increased by almost 7 billion PLN, amounting to approximately 40% more than in the fourth quarter of 2005. The share of housing loans in overall household debt of commercial banks increased from 40% in the third quarter to 42.5% at the end of 2006.

In March 2006, the Banking Supervision Committee approved Recommendation S concerning good practices regarding mortgage-secured credit exposures (in force since the 1st of July 2006). Recommendation S advises that the banks offer their products (especially loans) first of all in Polish zloty. If the customer decides to take a foreign currency loan, it is recommended to assess his/her creditworthiness as if the loan was in zlotys and to increase the amount of the loan for the purposes of the assessment to 120% of the requested capital. Although there were some opinions that Recommendation S could have reduced the rate of growth of mortgage loans in Poland by limiting borrowers' access to the above loans, no such phenomenon has occurred on a big scale, and foreign currency mortgages (esp. in CHF) are still very popular in Poland. It must be noted, however, that loans in zlotys are gaining in popularity.

The passing of the law amending the rules from January 2007 for the taxation of property sales and the withdrawal of the so-called interest relief, which permitted the deduction of expenses incurred on the repayment of interest on a housing loan, also contributed to the increase in production of housing loans in the fourth quarter of last year. The increase in production mainly occurred in December - the last month in which the interest relief was in effect.

FUNDING

The structure of mortgage funding in Poland hasn't significantly changed in 2006. As in previous years, the universal banks relied on deposit-based funding. However, the issuance of mortgage covered bonds fell heavily in 2006, the value of new issuance amounting only to 200,000 PLN (€ 52 million).

	EU 27	Poland
GDP growth	3.0%	6.1%
Unemployment	7.9%	13.8%
Inflation	2.3%	1.3%
% owner occupied	67.0%	75.0%
Residential Mortgage Loans as % GDP	50.0%	8.3%
Residential Mortgage Loans per capita, € 000s	11.7	0.6
Total value of residential loans, € million	5,785,731	22,514
Annual house price growth (Euro area)	6.5%	n/a
Typical mortgage rate (Euro area)	4.5%	5.7%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	2.0%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Poland=2004 (Source: IUHF)

PORTUGAL

By Alda Maria Coelho Oliveira Pereira, Caixa Geral de Depositos

MACROECONOMIC OVERVIEW

In 2006, GDP grew by 1.3% in comparison to 0.5% in 2005. Notwithstanding such growth, recovery was still modest in comparison with other European economies as performance has been constrained by external factors such as high dependence on oil in a scenario of rising prices and the growing integration of emerging economies in world trade, competing with lower production costs on export goods which are similar to Portugal's. The need to correct public account imbalances within the Stability and Growth Pact has acted as a further structural constraint to growth.

Inflation grew at an average annual rate of 3.0%, compared to the preceding year's rate of 2.1%. Higher inflation reflects the effects from imported raw materials, commodities and industrial goods, particularly in the first half of 2006, in addition to the staged effect of the increase in VAT in mid 2005 as well as higher taxes on tobacco.

The labour market witnessed a slight increase of 0.7% in employment, moderately in line with the economic recovery. Accordingly, unemployment remained relatively stable at an average annual rate of 7.7%, similar to the 2005 figure.

Keeping pace with the ECB's rise of reference rates, average interest rates on lending and borrowing continued to increase in Portugal. According to Bank of Portugal data, the rate on new loans to non-financial companies with a maturity of up to one year was 5.0% at the end of 2006 against the preceding year's 3.9%. Mortgage lending rates increased from 3.5% to 4.4% in 2006. Interest on term deposits and savings accounts increased from 2.5% to 3.7% for corporate deposits and from 1.9% to 2.4% for private customers.

HOUSING AND MORTGAGE MARKETS

According to INE (the Portuguese Statistics Agency), in 2006 the total number of houses in Portugal was estimated at 3.4 million buildings and 5.5 million dwellings, a rise of 0.7% and 1.0% over the 2005 figures, respectively.

The average annual increase in the number of buildings has been above 1% since 1988. In the period up to 2002, the rate of growth increased systematically having peaked at 1.6% that year. Since then, the trend has been positive but at a decreasing rate achieving its lowest level in 2006 when it was under 1% for the first time in a decade.

Out of the total number of existing dwellings, nearly four million are first homes, about one million are summer and secondary homes, and the remaining 0.5 million homes have other uses. Of first homes, a little over three million are owner occupied and nearly 0.8 million are let for rent. In the last 25 years, the number of owner-occupied dwellings has been increasing, from a level of 52% in 1981 to 76% in 2006. This rate is higher than the European average of 67%, considering a total number of 27 member states.

This growth was supported by the drop in real interest rates that, in the last 15 years went from average levels of 9% to slightly higher than 1%. The reduction of the cost of funding through mortgages stimulated long-term investment by families and led to a reduction in the rate of house letting which, in Portugal, is lower than the European average.

In 2006, house prices in Portugal grew by 2.1% compared to 2.7% in 2005. This relatively small increase only reflects the slowdown in transactions and clearly differentiates the housing market in Portugal from that in Spain where price increases have been above 10% since 2002. In Portugal in the same period, house price changes were erratic with increases in 2003 (1.3% vs. 0.7% in 2002) being reversed the following year (0.8%), and a pick up registering again in 2005 (2.7%) only to be followed with a drop, once more, in 2006. This clearly shows that there is no inflationary bubble in the Portuguese housing market.

Throughout 2006, the construction sector continued a four-year trend of reduction in the level of activity, having dropped by 5.7% compared to the construction level of the previous year and more than 20% compared to the level of 2002. The weakness in demand has been systematically pointed out as the main reason for such a decrease.

The Index of Completed Dwellings clearly indicates a slowdown in construction in 2006. An analysis of the Index reveals that the total number of dwellings completed in that year equates to about half of those completed in 2000, the initial reference year for the index; i.e., a level of 56.5 in 2006 compared to 100 in 2000.

In 2006, 48,352 construction projects were licensed, of which 75.1% were for new buildings, a drop of 4% when compared to the previous year. Of the total building permits, 77.3% were for residential housing, 6.2% less than in 2005. The new residential dwelling permits issued decreased by 6% compared to 2005.

The evolution of the Index of Residential Dwelling Permits in the period from 1995 to 2006 shows a reduction of the number of permits issued beginning in 1999 which became more severe in the following period. Nonetheless, there has been a reduction of that decrease in the more recent years. From a base number of 100 for 2000, there is a peak at 103.2 in 1999 and successive reductions until 2006 when that figure was 64.4.

On average, construction projects completed in 2006 took 22 months to build.

In 2006, out of a total number of 36,737 construction projects completed, 69.2% (25,448) were new residential properties, 19.6% less than the level of 31,644 recorded in 2005. The number of dwellings finished in 2006 was 64,000, a decrease of 17.6% compared to the level in 2005. Out of that total, only 3% were state-financed, with the private sector promoting almost the entirety of dwellings constructed.

At the end of 2006, according to data published by the Bank of Portugal, total housing loans outstanding was € 91,591 million, representing an increase of 15.7% compared to 2005 (€ 79,237 million). This translates to €12,354 million of net lending in 2006, compared to € 8,402 million in 2005.

The amount of housing loans in arrears was €1,177 million at the end 2005 and €1,139 million for 2006. As such, the arrears to loans ratio dropped from 1.48% to 1.24% in that period.

The reference rate for most mortgage contracts in December 2006 was 4.7%, an increase of 1.04 percentage points from 2005. The average mortgage loan, in 2006, was €50,257 compared to €47,915 in 2005 and the average monthly instalment increased from €273 to €309 in the same period.

FUNDING

In 2006, there was a 10.7% increase in total domestic lending. Consumer credit was up by 10.1%, corporate lending by 10.7% and central and local government loans grew by 5.7%. Mortgage lending grew by 10%. At the same time, deposits grew by only 4.5%, demonstrating an increasing reliance of banks on capital markets for funding.

The biggest development in 2006 in terms of mortgage funding was the enactment of a law making it possible for Portuguese banks to issue covered bonds. Decree-Law 59/2006 was published on the 20th of March 2006 and in October 2006, Bank of Portugal released its secondary legislation detailing the workings of the product. This important legislation along with a change in fiscal treatment of bonds held by non-residents, made it possible for issuers to come to the market and, indeed, in November the first issue of Obrigações Hipotecárias came to the market in a € 1 billion issue by CGD.

Nonetheless, the lengthy legislative process led many banks to still rely on RMBS as a key funding instrument of the mortgage business and, in the second half of the year BCP, BES and BPI went to the market to raise a total of € 4.4 billion in RMBS.

	EU 27	Portugal
GDP growth	3.0%	1.3%
Unemployment	7.9%	7.7%
Inflation	2.3%	3.0%
% owner occupied	67.0%	76.0%
Residential Mortgage Loans as % GDP	50.0%	59.2%
Residential Mortgage Loans per capita, € 000s	11.7	8.7
Total value of residential loans, € million	5,785,731	91,895
Annual house price growth (Euro area)	6.5%	2.1%
Typical mortgage rate (Euro area)	4.5%	5.0%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	2.2%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Portugal=2006

ROMANIA

By Ramona Oros, Domenia Credit

MACROECONOMIC OVERVIEW

A trend of overall improvement in the leading Romanian macroeconomic indicators continued in 2006. GDP growth, uninterrupted for 7 years, reached 7.7%, mostly driven by private consumption. Inflation was down to 6.6% in 2006 from 9.0% in 2005. The unemployment rate increased from 7.2% in 2005 to 7.3% in 2006. The budget deficit stood at 1.7% in 2006 from 0.8% in 2005. Euro adoption is set for 2014 and it will start with Romania joining the ERM II in 2012. The current account deficit continued to rise and amounted to 10.3% of GDP in 2006.

HOUSING AND MORTGAGE MARKETS

The mortgage market started in 2003 and at the end of 2006 commercial and residential mortgage loans outstanding amounted to € 3.6 billion of which € 2.3 billion represents residential lending, posting a growth of 71% overall and 57% in the residential segment, since 2005. The residential mortgage market continues to be hard currency denominated (84%) and only 16% RON denominated, as most of the income and real estate prices are hard-currency (€, $) linked. There is an observable downward trend in the evolution of interest rates, and in December 2006 the average interest rates for EURO denominated long term credits[77] (above 5 years) granted to individuals was 9%, while for new credits[78] it was 8.1%.

The Romanian market is split in two segments, home equity (equity release) and housing (acquisition, construction, home improvement). Home equity is reported as part of the consumer credit market, while the mortgage market statistics refer to the housing market only.

The volume of residential mortgage lending as a percentage of the total volume of credits [84] granted to individuals was 21% in 2006, while in the previous year it was 25%. At the end of 2006, total residential mortgages as a percentage of GDP represented only 2.3%.

The number of new completed dwellings in 2006 amounted to 39,638 units, representing an increase of 21% from 2005. The number of building permits issued in 2006 amounted to 51,065 units, 17% more than the previous year. The average useful area of finished dwellings increased substantially over the past years. While in 1990 the average useful area of finished dwellings was 64.5 square metres, it increased to 110 square metres in 2004, and in 2006 the new building permits issued showed an average useful area of 149 square metres.

Official house price indices do not exist. In spite of mixed opinions on house prices, they continue to grow, as large projects for the construction of residential houses are still in their infancy and the old housing stock of apartments still has the greatest share in residential real estate transactions. Restrictive measures regarding currency crediting activity and crediting activity in general continue to be applied by the Romanian National Bank (NBR).

No separate statistics on arrears and defaults for mortgage lending exist yet. However, the latter are included in the statistics on defaults and arrears for total lending[79]. The outstanding volume of arrears and doubtful credits[85] as a percentage of total credit[85] outstanding dropped from 0.3% in 2005 to 0.2% in 2006.

Given its current size, the mortgage market in Romania can only grow. As home equity products are not considered mortgage loans, the statistics are unclear and misleading; especially for 2006 when home equity products registered a boom. This means that the size of the Romanian mortgage market

77 Refers to total credits granted to individuals, not exclusively mortgages
78 Refers to total credits granted to individuals, not exclusively mortgages
79 Refers to total credits granted to the non-governmental sector, not exclusively mortgage loans

is very much underestimated. In 2006 we estimate the home equity market at a size equal to the housing market. Our growth estimates are as follows: 2007- € 3.8 billion housing, € 4.1 billion home equity, 2008- € 5.6 billion housing, € 6.1 billion home equity.

FUNDING

As the primary mortgage market remains 84% hard-currency (€, $) denominated, most of the mortgage funding comes from deposits and private financial institutions (the banking environment being dominated by large international banks, with the local subsidiaries being reliant on the balance sheet of the parent company).

A package of laws were passed with the aim of developing a legal framework for the existence of a secondary mortgage market (i.e: a Mortgage Bond Law, an Asset Backed Securitisation Law, a Mortgage Banks Law and a modification to the current Mortgage Law in 2006). In spite of this, no securitisation has taken place in the market to date.

	EU 27	Romania
GDP growth	3.0%	7.7%
Unemployment	7.9%	7.3%
Inflation	2.3%	6.6%
% owner occupied	67.0%	97.2%
Residential Mortgage Loans as % GDP	50.0%	2.3%
Residential Mortgage Loans per capita, € 000s	11.7	0.1
Total value of residential loans, € million	5,785,731	2,276
Annual house price growth (Euro area)	6.5%	n/a
Typical mortgage rate (Euro area)	4.5%	n/a
Outstanding Covered Bonds as % residential lending outstanding	16.0%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Romania=2002 (Source OECD)

SLOVENIA

MACROECONOMIC OVERVIEW

The Slovenian economy grew by 5.2% in 2006, exceeding the 4% of growth recorded in the previous year. This was the highest growth rate recorded since 1999, and it was mainly driven by strong export demand in the first half of the year, while it was essentially fuelled by domestic consumption and investment during the second half of the year. Future Slovenian economic growth will continue to depend for the most part on the economic climate of its most important trade partners and on its levels of domestic investment.

Inflation in 2006 remained unchanged compared with the previous year at 2.5%, allowing it to meet the inflation target of the Maastricht criteria in preparation to adopt the Euro. Slovenia officially joined the Euro area on the 1st of January 2007.

The situation in the labour market improved during 2006, with the unemployment rate falling by 0.5 percentage points compared with the previous year, from 6.5% in 2005 to 6% in 2006.

As regards interest rates, the Bank of Slovenia achieved the final convergence of its key interest rates with those of the European Central Bank during 2006. The rises in the ECB's interest rates during the year were obviously taken into consideration during the convergence process; this allowed maintaining the Tolar interest rates at levels appropriate to control inflationary pressures.

HOUSING AND MORTGAGE MARKETS

In Slovenia house prices and associated bank lending activity increased significantly in 2006. Real estate prices grew by 15% compared with the previous year, nevertheless with major regional differences in both growth and price levels: the average price of a house in Ljubljana exceeding the national average price by 52%.

As has also been the case in recent years, the increase in house prices in 2006 was mainly due to an imbalance between supply and demand. Despite the response to higher housing prices there is still a delay to adjust to demand and the number of new dwellings is still insufficient to meet the excessive demand.

Housing loans increased significantly in 2006 (+43% compared with the previous year), to reach €1,956 million. 31.9% of the stock of housing loans was in Tolar, whereas the second most common types of loans were in Euro or loans with a clause tied to the Euro. However, Loans in Swiss francs or with a clause tied to the Swiss franc have experienced the largest increase in 2006 which is due to the lower interest rates on Swiss franc loans compared with Euro loans.

The proportion of variable interest rate loans increased greatly in 2006, reaching 72.2% of the total stock of housing loans. In addition, 76.5% of new loans were variable interest-rate loans.

While interest rates have started increasing, the average maturity of new housing loans, at 15.3 years, has not. This has meant that decreasing affordability of loans due to interest rates has not been counterbalanced by increasing maturities, unlike in most of the rest of Europe.

FUNDING

Slovenia still does not have any legislation on covered bonds, however a new "Mortgage Bond and Municipal bond Act", is expected to be issued in a near future which will allow for this type of funding source to be tapped.

	EU 27	Slovenia
GDP growth	3.0%	5.2%
Unemployment	7.9%	6.0%
Inflation	2.3%	2.5%
% owner occupied	67.0%	84.0%
Residential Mortgage Loans as % GDP	50.0%	6.6%
Residential Mortgage Loans per capita, € 000s	11.7	1.0
Total value of residential loans, € million	5,785,731	1,956
Annual house price growth (Euro area)	6.5%	15.0%
Typical mortgage rate (Euro area)	n/a	5.6%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Slovenia=2003

SLOVAKIA

By Miroslava Mitkova, Hypocentrum A.S.

MACROECONOMIC OVERVIEW

GDP at constant prices grew by 8.3% in 2006, reflecting a real increase in both foreign and domestic demand. This represents a 2.3 percentage point increase in comparison to the GDP growth of 6% in 2005. Foreign demand increased by 22.6%, while domestic demand went up by 4.1%.

Average monthly nominal wages per employee have reached SKK 21,131, an increase of 8% compared to 2005, leading to a real wage increase of 3.3%.

The unemployment rate dropped from 16.3% in 2005 to 13.4% in 2006%. This is the lowest level recorded since 1998.

Inflation increased from 2.7% in 2005 to 4.3% in 2006.

The National Bank of Slovakia (NBS) raised interest rates four times during 2006 by 1.75% in total. The NBS base rate at the end of 2006 was 4.75%. The reason for such action was accelerated dynamics of inflation. Long-term market interest rates also increased, as did lending and bank deposit rates.

HOUSING AND MORTGAGE MARKETS

In 2006, there were 20,592 building permits for new apartments issued, 14,444 apartments completed and 54,086 apartments under construction. From the total stock of newly built apartments, 7,657 were built in family houses, equivalent to 53% of the total stock. The existing housing stock fell by 1,442 apartments, due to demolitions.

Compared to 2005, building permits increased by 4% and represented the highest level for the past 16 years. However, total new completed apartments decreased from 14,863 to 14,444 units, i.e. by 2.82%. Despite this fact, the levels of completions in 2006 were the second highest in the past 14 years.

Housing construction intensity reached 2.68 completed apartments per 1000 inhabitants.

In 2006, the average price per square metre increased from 26,088 SKK (end of 2005) to 33,721 SKK (beginning of 2007).

Positive economic developments significantly impacted the banking sector, helping to drive up the supply of loans by 20% in 2006. Housing loans dominated. Increasing property prices were an important factor for the high demand for housing loans. Increased value of collateral was motivating for the banks, too.

In 2006, the share of new housing loans with interest rates fixed for one year in the total number of housing loans secured by property decreased, as a result of increasing interest rates on new loans. Household decision-making regarding interest rate fixation was based on the state of interest rates with short and longer fixation periods and much less on their potential development.

Interest rates for mortgages to households at the end of 2006 reached 5.7 – 6.7% p.a. for rates fixed for one year and 5.9 – 6.9% p.a. for interest rates fixed for 5 years.

Banks were providing mortgages with LTVs from 50 up to 100%. Due to increasing property prices mortgages with approximately 80% LTVs prevailed.

Residential lending to GDP in 2006 reached 15.5%. Housing loans accounted for the largest share of loans. At the end of 2006, they represented 9.6% of GDP.

Bad debts are not significant so far. In 2006, the share of bad debts on total loans represented 3.2% (in 2005 it was 5.3%). The decrease was partially due to the new methodology of the National Bank of Slovakia.

FUNDING

Slovak banks mostly use domestic funding sources. Although, the main funding source remain households' deposits, the growth trend of the loan-to-deposit ratio recorded over the past few years slowed down or almost stopped. Several banks continued to issue bonds, especially mortgage bonds. In 2006, mortgage bonds issued in Slovakia amounted to €617 million.

	EU 27	Slovakia
GDP growth	3.0%	8.3%
Unemployment	7.9%	13.4%
Inflation	2.3%	4.3%
% owner occupied	67.0%	79.0%
Residential Mortgage Loans as % GDP	50.0%	9.6%
Residential Mortgage Loans per capita, € 000s	11.7	0.8
Total value of residential loans, € million	5,785,731	4,209
Annual house price growth (Euro area)	6.5%	n/a
Typical mortgage rate (Euro area)	4.5%	6.3%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	44.2%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Slovakia=2006

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- National bank of Slovakia
- Slovak Statistics Office

FINLAND

By Ari Laine, Statens Bostadsfond

MACROECONOMIC OVERVIEW

The Finnish economy grew by 5.5% in 2006. This was significant compared to recent years. The strong performance of the Finnish economy has been abetted by a number of factors: exports and domestic demand expanded strongly, the strength of the international economy, low interest rates, heightened competition in markets for many goods and services, Finnish households' confidence in the future, continued improvement in the unemployment rate and greater participation in working life by older people. However, GDP growth does not give an accurate picture of Finland's overall economic performance. Strikes in the paper industry in 2005 educed total output that year, and this inflated the growth figure for 2006 by almost a full percentage point.

Real household consumption spending increased by 3% in 2006 i.e. by slightly less than in 2005. Growth in nominal earnings also slowed slightly, from 3.9% to 3.0%. The unemployment rate was 7.7% which was 0.7 percentage points less than in 2005. Inflation in Finland accelerated a bit. Consumer prices rose between 1.3% and 1.8%. Service prices and world prices of oil pushed up general prices. The general government surplus rose to around 4% of GDP, the corresponding figure for the central government being about 1%. Tax revenue and asset earnings increased substantially, while unemployment-related expenditure declined sharply. General government debt decreased and tax cuts led to a 0.5 percentage point drop in the overall tax ratio.

HOUSING AND MORTGAGE MARKETS

The rise in nominal household disposable income accelerated considerably last year, mainly thanks to strong growth in property and entrepreneurial income. On the other hand, the increase in earned income and social benefits was more moderate. With price rises having picked up, growth in household purchasing power remained at last year's level of 1.5%, and the savings ratio is still declining. Strong housing markets and mounting consumer credit raised the amount of household loans, so that the average ratio of debt to annual disposable income increased to over 97% at the end of last year.

In 2004, approximately 12% of indebted households had debts in excess of EUR 100,000, while in 1998 the corresponding figure was only 3%. At the same time, the proportion of households whose debt was over three times their disposable annual income had risen from 5% to 9%. These heavily indebted households accounted for about 29% of the households' total debt in 2004.

In 2006, loans granted by monetary financial institutions to households and corporations increased by 11.5%. Loans granted to households continued to grow rapidly, but their growth rate decelerated significantly during the year. Growth in the loan stock was slowed by the rise in interest rates and cooling down of the markets. Growth in the housing loan stock slowed to 14.1%, and growth in consumer credit and other household credit slowed to 10.1%. All in all, the household loan stock grew by about EUR 9 billion to EUR 78 billion.

The value of households' investment in housing, relative to GDP, was in 2006 at its highest since 1991. Real investment in housing rose by about 6% last year, roughly in line with 2005. In the course of the year, however, growth moderated, while at the same time there was a modest slowdown in the rise of housing prices and the stock of housing loans (as mentioned before).

House prices in 2006 were on average 7.6% higher than a year earlier. However, the rate of growth in house prices slowed down during 2006. Rents rose by 3%, i.e. much less than the increase in the purchase price of housing. The increase in house prices in 2006 was slightly higher in the Helsinki metropolitan area than in the rest of Finland. The price increase was most rapid for apartments. In the past four years, on average, no large differences were observed in price developments between different regions or types of housing. This suggests that the continued rise in house prices has been the result of general economic factors, such as the low level of interest rates and favourable developments in household income. During the last two years, the increase in the prices of construction materials has also accelerated, partly due to higher world market prices for commodities.

	EU 27	Finland
GDP growth	3.0%	5.5%
Unemployment	7.9%	7.7%
Inflation	2.3%	1.3%
% owner occupied	67.0%	58.0%
Residential Mortgage Loans as % GDP	50.0%	43.8%
Residential Mortgage Loans per capita, € 000s	11.7	13.9
Total value of residential loans, € million	5,785,731	73,200
Annual house price growth (Euro area)	6.5%	7.5%
Typical mortgage rate (Euro area)	4.5%	3.7%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	4.1%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Finland=2005 (Statistics Finland)

References:
- Bulletin 1/2007, Bank of Finland.

SWEDEN

By Christian Nilsson, Svenska Bankföreningen

MACROECONOMIC OVERVIEW

The strong international trend has left its mark on Sweden. Together with favourable productivity growth, the strength of external demand led to comparatively high GDP growth in Sweden in recent years. In 2006, the annual GDP growth rate was 4.2%.

Employment has been recovering steadily since Sweden's robust economic growth caused a turnaround in the labour market in 2005. For cyclical reasons, the labour market recovery has boosted labour supply. Despite the rapid expansion of labour supply, strong employment growth in 2006 led to lower unemployment.

The 10 year interest rate increased during 2006 to 3.65% and the development has been in line with international bond markets. Interest rates and the inflation rate are still comparably low, considering the strong economic development of the country.

The Swedish Central Bank continued to raise interest rates in 2006. The repo rate was increased from 1.5% to 3.0% in 2006, and up to 3.5% in 2007.

HOUSING AND MORTGAGE MARKETS

The construction market has developed strongly in recent years, due mainly to increased construction of housing. The number of housing starts has increased by an average of 19% per year from 2002 to 2005.

In the government budget of 2007, interest rate subsidies and investment grants were abolished. It is estimated that 7,000 to 8,500 housing starts were brought forward before the 1st of January 2007 in anticipation. Housing starts increased by around 40% to 44,500 in 2006.

The demand for housing has been increasing. According to a National Board of Housing questionnaire for 2007, 42% of the municipalities claim to have a housing shortage compared to 11% at the end of the 90s. Demand is expected to be high in the coming years. According to the National Board of Housing the number of households will increase until 2010, especially due to the entrance into the market of young adults born in the 80s. Comparably low interest rates, increasing disposable incomes and financial assets should also contribute to the increasing demand.

The demand for housing has resulted in increasing prices of houses and apartments. Prices of one-family homes increased by 11% in 2006 and prices of tenant-owned apartments[80] have also increased strongly in the last year.

The construction market is still strong, but in the long run expectations are more subdued. Despite a strong demand, increases in interest rates and construction costs are expected to dampen construction activity in the coming years. Construction costs increased by 3% yearly between 2000 and 2005, but in 2006 they increased by more than 5%.

The demand for mortgages has continued to be high in 2006, though it was slightly lower than in 2005. The total value of outstanding loans from mortgage institutions increased by 8.2% during 2006. Some of this was undoubtedly to finance general consumption, as well as house purchase.

80 Tenant owned apartments are flats in a housing association/cooperation. Legally the housing association is the owner of the building and the apartments in it. The resident of a tenant owned apartment is a member of the housing association according to his/her owning share and has the apartment at his/her disposal. Tenant owned apartments are traded on the open market. Owner-occupied flats do not exist in Sweden.

Households continued to increase their overall borrowing during 2006, and as for recent years loans have mainly come from mortgage institutions. Rising house prices and comparably low interest rates partly explain this increase. According, to the Swedish Central Bank, however, household indebtedness is not a threat to financial stability.

The interest rate on mortgages decreased to historically low levels during 2005. However, during 2006 interest rates increased considerably. Variable interest rates rose to 3.6% by the end of 2006 compared to 2.4% in 2005 and fixed interest rates between 1 and 5 years rose to 4.3% by the end of 2006 compared to 3.7% in 2005.

According to a study by the Swedish FSA, Loan-to-value (LTV) ratios have increased on the mortgage market. LTVs for new mortgages on one-family homes and tenant owned apartments were on average 59% in 2006 and 50% on the whole stock. According to the same study the amortization periods on mortgage loans have also increased.

According to the Swedish Central Bank changes in loan terms on the Swedish market are one explanation for the increased LTVs and amortization periods. Increased competition in the mortgage market for house purchase has led to depressed interest rate margins, as well as to changes in loan terms, for instance as regards repayment and loan-to-value (LTV) levels.

Creditors accept higher LTV levels than they used to. A larger mortgage reduces the size of the down payment for a house purchase. Today, mortgage loans are normally granted up to a level of 90 to 95%. However, if the borrower's financial situation is very strong, a number of lenders are prepared to allow mortgaging up to or above 100%, subject to a case-by-case assessment. Previously, it was more or less mandatory for all borrowers to make a cash payment of at least 10%. The possibility of mortgaging a larger proportion of a house purchase has provided easier access to the housing market for households with high incomes but little wealth; that applies to many younger households that do not already own a dwelling and lack savings that can be used for a down payment. Mortgage lenders are prepared to mortgage the surplus value that arises as loans are repaid and house prices rise.

Another change has been the increasing frequency of interest-only loans, especially for first mortgages. In some institutions, such loans make up about half of new first mortgage loans. The amount that is no longer required for repayment can be used instead for interest payments on somewhat larger loans. In the case of loans with amortisation, repayment periods have lengthened and that, too, means lower monthly expenditure that can have similar effects.

The Swedish Central Bank has said that in recent years housing loans have been obtained to an increasing extent to finance non-house purchases. Borrowers use their dwelling as security and borrow either for housing investment or for consumption in other forms. Mortgage lenders are prepared to mortgage the surplus value that arises as loans are repaid and house prices rise.

Credit assessments normally focus on debt servicing ability. The major Swedish house mortgage institutions do have one product where security has precedence over debt servicing ability. This is a type of loan that enables elderly borrowers to mortgage their current residence even if their income/ pension is not sufficient to cover regular interest and repayment costs. However, the LTV ratio is low. There is no repayment during the life of the loan and interest regularly accrues to the debt up to the date of repayment. This means that if the value of the dwelling has not risen in the meanwhile, the borrower may have to move when repayment falls due.

The altered terms for mortgaging and loan repayment have not eased the demands on borrowers; rather the opposite. Certain loan terms have been tightened, such as the buffer for interest expenditure in the calculation of what debt-servicing leaves to live on, and a more sophisticated monitoring of credit risk. One factor behind the more sophisticated management of credit risk has been the new capital adequacy rules.

Bad debts of mortgage institutions were almost non-existent in 2006.

FUNDING

Covered bonds are the most common form of funding used in the Swedish market for funding of initial fixed interest rate mortgages. The value of outstanding covered bonds at the end of 2006 was EUR 115 billion.

A new mortgage bond act came into effect on the 1st of July 2004 which introduced directly collateralised bonds, the underlying assets consisting of mortgage loans and loans to central, regional or local governments located within the EEA. Of the outstanding covered bonds, EUR 55 billion are directly collateralised bonds.

	EU 27	Sweden
GDP growth	3.0%	4.2%
Unemployment	7.9%	7.1%
Inflation	2.3%	1.5%
% owner occupied	67.0%	50.0%
Residential Mortgage Loans as % GDP	50.0%	56.7%
Residential Mortgage Loans per capita, € 000s	11.7	19.2
Total value of residential loans, € million	5,785,731	173,499
Annual house price growth (Euro area)	6.5%	11.4%
Typical mortgage rate (Euro area)	4.5%	3.6%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	31.8%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Sweden=2005

UNITED KINGDOM

By Bob Pannell, Council of Mortgage Lenders

MACROECONOMIC OVERVIEW

The UK economy recovered strongly over the course of 2006 to reach an above-trend annual rate of 2.8% and has remained at this level during the first half of 2007.

Inflationary pressures accelerated modestly, but sufficiently to give rise to concerns that above-target inflation might work through into higher wage settlements and so become more embedded. Such concerns prompted two ¼% increases in short-term interest rates by the Bank of England in the second half of 2006, taking the official bank rate to 5.00% by the end of 2006. The strength of the global economy and related upward pressure on commodity prices added to inflationary concerns earlier this year. There have been three further rate increases so far in 2007, taking the current rate to 5.75% with effect from early July – the highest rate since early 2001.

The recent turmoil in financial markets, triggered initially by worries about sub-prime mortgage related developments in the US, and a decline in inflation, have reduced the probability of further monetary tightening in the UK.

HOUSING AND MORTGAGE MARKETS

The mortgage market ended 2006 with lending volumes at record highs - gross mortgage lending totalled £345 billion (€421,231 million) in 2006, a rise of 20% from 2005. New monthly lending records have continued to be set for most of 2007.

Although we expect conditions to soften a little during the second half of the year, progressively higher interest rates have had only a limited impact on the housing and mortgage markets so far. There are several reasons for this, not least because there has also been a substantial switch in favour of fixed rate products, where the effective rates have increased both more slowly and more modestly. In recent months, the take-up of fixed rate mortgages has been close to 80%, more than 20 percentage points higher than two years earlier.

Nevertheless, the impact of higher fixed-term rates on new and existing borrowers looks set to build substantially over 2007-2008, as more than 2 million previous fixed rate deals mature and borrowers have to refinance at higher rates. The impact of this is likely to dampen household discretionary spending over this period

House prices nationally have recently been increasing at an annual rate of about 10%, and the market continues to be underpinned by strength in the wider economy and jobs market and the low rates of new house-building. London and the south east continue to show particular resilience as a result of the capital’s role as an international financial centre, but the housing market is looking more subdued in some other parts of the UK.

Despite affordability pressures associated with strong house price growth and increasing mortgage costs, more flexible mortgage lending criteria and product choice have helped to support house purchase activity. Even first time buyer numbers are holding up reasonably well, albeit that an increasing proportion of young households are now forced to rely on parents for financial help with their deposits.

Although the number of mortgages in arrears of three months or more has changed little, the number of properties taken into possession in the first half of 2007 (14,000) rose by nearly 18% compared with the previous half-year, and nearly 30% compared with the first half of 2006. Much of this reflects the increasing amount of sub-prime lending within the overall market, as well as the impact of higher interest rates and personal debt levels more generally. Although significantly higher than in the recent past, when possessions reached extremely low levels, the number remains low by historical standards.

Buy-to-let demand has also remained strong, with the sector accounting for outstanding loans of £108 billion - 10% of total mortgage balances, compared to just 3% five years ago.

FUNDING

2006 was a buoyant year in both the RMBS and covered bond markets. There was record issuance of €139bn in the UK RMBS market, representing some 57% of total European RMBS issuance, with strong contributions from both the prime and non-conforming markets.

In June 2006, in recognition of the growing importance of the covered bond market, HM Treasury decided to put in place legislation to ensure that UK covered bonds become compliant with the UCITS Directive. This legislation, which should ensure that UK covered bonds receive a preferential risk weight under Basel 2, is expected to be in place by the start of 2008.

	EU 27	UK
GDP growth	3.0%	2.8%
Unemployment	7.9%	5.3%
Inflation	2.3%	2.3%
% owner occupied	67.0%	70.0%
Residential Mortgage Loans as % GDP	50.0%	83.1%
Residential Mortgage Loans per capita, € 000s	11.7	26.2
Total value of residential loans, € million	5,785,731	1,583,372
Annual house price growth (Euro area)	6.5%	6.3%
Typical mortgage rate (Euro area)	4.5%	5.1%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	3.2%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. U.K.= 2005

NON-EU COUNTRY REPORTS

CROATIA

By Alen Stojanović and Vlado Leko, University of Zagreb, Faculty of Economics

MACROECONOMIC OVERVIEW

In general, the positive trends observed in the Croatian economy in the last few years continued in 2006. Annual GDP growth was 4.8% (4.3% in 2005), and GDP per capita reached 7,706 EUR (7,038 EUR in 2005). Also in 2006, the budget deficit decreased from 4% to 3% of GDP, the unemployment rate decreased from 12.6% to 11.1%, and the annual rate of inflation fell from 3.3% to 3.2%. In addition, the average monthly net salary continued to increase. By the end of 2006 it had reached 645 EUR (606 EUR in December 2005).

Last year was marked also by predictable movements in interest rates. In the period from January to December 2006 the average interest rates of banks on national currency credits indexed to foreign currency dropped from 6.4% to 6.3%, while interest rates on national currency credits not indexed to foreign currency fell from 11.16% to 9.07%. In addition, interest rates on EUR credits increased from 4.81% to 5.65%.

The last few years have been characterised by growth in the levels of indebtedness, a result of the combination of the growing needs of the non-financial sector for external financing (due to the restructuring of the corporate sector), governmental investments in infrastructure, increasing demand from households for mortgages and other loans, as well as the credit expansion of banks and the development of the entire financial system. Thus, in the period from 2001 to June 2006 the corporate debt to GDP ratio grew from 42.9% to 55.8%, governmental debt grew from 41.7% to 46.6%, and household debt grew from 19% to 38%.

HOUSING AND MORTGAGE MARKETS

During the same period positive trends were recorded in the housing sector. Thus, in 2006 13,575 building permits were issued, representing 1.8% less than for 2005 (13,818). At the same time the value of planned construction projects grew by 8.6%, from 3.3 billion to 3.6 billion EUR. In addition, the number of planned apartments grew by 8.7%, from 23,484 to 25,517, and their useful floor space grew by 10.5%, from 1.9 million to 2.1 million square metres.

By type of construction, 78.5% of building permits were issued for new dwellings and 21.5% for reconstruction. Looking at the regional distribution of planned housing construction, almost 40% will be in the capital, Zagreb, and the remainder will be spread around the 20 Croatian regions, with a somewhat larger share in coastal regions.

A moderate growth of prices of new apartments was recorded. According to the announcements of the Croatian Central Bureau of Statistics, the average price per square metre of new apartments in Croatia at the end of 2006 amounted to 1,217 EUR, i.e. just 0.3% more compared to 2005 (calculated in the national currency). Still, this estimate has to be treated with caution, because of limitations which result from the scope of applied statistical reporting. For instance, the average price of new apartments also includes the prices of government subsidised apartments, which are considerably lower than market prices. But unlike previous years, the Croatian Central Bureau of Statistics now also shows these figures separately. Thus, at the end of 2006 the average price per square metre of newly built government subsidised apartments was 882 EUR (840 EUR in 2005), while the average of market prices was 1,468 EUR (1,420 EUR in 2005).

Unfortunately, the market prices of new apartments in Croatia are still only statistically processed in terms of Zagreb and the rest of the country, which makes impossible a more complete analysis of their movements. However, according to data available, at the end of 2006 the average price per square metre of a new apartment in Zagreb was 1,247 EUR, and in other regions it was 1,179 EUR.

In the last year, banks granted 1.43 billion EUR more housing loans than in 2005 (an increase of 33.9%), reaching a total of 5 billion EUR. Although still far below the Euro area average, housing loans in 2006 represented 39.5% of total loans granted to the household sector (36% in 2005), or 19.5% of the total bank loan portfolio (17.9% in 2005).

A falling trend in average interest rates of housing loans continued in 2006. At the end of 2005, the average rate was 4.91% compared to 4.75% at the end of 2006. At the same time and for the same period, an increase in the share of non-performing housing loans was observed, growing from a share of 2.8% of all loans in 2005 to 3.2% in 2006.

FUNDING

In 2006, no changes in the sources of housing financing occured. Croatian banks and certainly housing savings banks were still primarily depositary institutions, which didn't take recourse to funding loans via mortgage bonds or securitisation.

Deposits represented 66.6% of total bank liabilities and 94.3% of total housing savings banks' liabilities, while debt securities only had a symbolic importance, representing only 1.2% of total bank liabilities, and less than 1% of the total liabilities of housing savings banks.

One reason for this is the dominance of banks and bank deposits as a saving instrument, and another is the lack of adequate regulation which would make possible the adoption of such financing techniques.

However, further development of the entire financial system in Croatia can be expected and regulatory changes have been announced, in order to comply with existing practices and standards in the EU, in the context of filling the demands of EU accession.

	EU 27	Croatia
GDP growth	3.0%	4.8%
Unemployment	7.9%	11.1%
Inflation	2.3%	3.2%
% owner occupied	67.0%	96.1%
Residential Mortgage Loans as % GDP	50.0%	15.3%
Residential Mortgage Loans per capita, € 000s	11.7	1.2
Total value of residential loans, € million	5,785,731	5,219
Annual house price growth (Euro area)	6.5%	n/a
Typical mortgage rate (Euro area)	4.5%	4.8%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- Owner- occupation rate from Statistical Office of Croatia (2006)

ICELAND

By Magnus Arni Skulason, Reykjavik Economics ehf

MACROECONOMIC OVERVIEW

In 2006, Iceland recorded economic growth of 2.6%. It was mainly driven by 4.6% growth in household final consumption and 13.0% growth in fixed capital formation. However, this was mainly offset by strong growth in imports, which increased by 8.8% in real terms. At the same time exports declined by 5.6% with the consequences that it increased the current account deficit to 303 billion ISK, amounting to 26.5% of GDP, from a deficit of 163 billion ISK, or 16% of GDP[81], in 2005.

The average rate of unemployment in 2006 was 1.3%, compared to 2.5% in 2005. In 2006, on average 18% of all the unemployed were between the ages of 16 to 24. In 2005, the average rate of unemployment for that age group was 21%, so that change in 2006 was considerable[82].

Average inflation in 2006 was 6.8% and has been above target since May 2004. It gained pace over the first half of the year and the twelve-month increase in the CPI peaked in August at 8.4%. Subsequently, inflation slowed down to finish at 7% in 2006. The composition of inflation changed considerably in the course of the year. In 2005, the appreciation of the króna prevented rapid demand growth and soaring unit labour costs from driving up goods prices. With the depreciation in the first half of 2006, however, goods price inflation accelerated, but was offset by slower rises in housing prices, which had been the main driver of inflation the year before. In response to the high inflation, the Central Bank raised its policy interest rate seven times in 2006, by a total of 3.75 percentage points to 14.25% by the end of the year[83].

HOUSING AND MORTGAGE MARKETS

According to a Gallup survey from 2004, home-ownership varies between 80% to 90% depending on age groups.

At the end of 2005 a total of 4,692 housing units were in progress. In 2006, a total of 3,294 housing units were finished and at the end of the year there were 5,144 units in progress. A total of 124,000 housing units were in use at the end of 2006.

The transaction volume in the Greater Reykjavik area real estate market increased substantially from ISK 177.6 billion (10,085 transactions) in 2004 to a record ISK 223.4 billion (9,503 transactions) in 2005, decreasing slightly to represent ISK 204.8 billion (7,501 transactions) in 2006.

Residential house prices in the Reykjavik capital region increased in 2006 by around 5% in nominal terms, though because of high inflation this amounted to a decrease in real terms, of 1.8%. Outstanding total debt of Icelandic households in 2006 was ISK 1,325 billion, which includes overdrafts and other consumer loans. Total household debt increased by 22.3% in 2006 and amounted to 116% of GDP in 2006 and 216% of disposable income.

Real mortgage rates of index linked mortgages were higher in 2006 than the previous year. In July 2004, the real interest rate of mortgages started to decrease, accelerating in August when the Icelandic banks entered the mortgage market with full force. The real rate hit an all time low of 4.15% in November 22, 2004. In mid March 2006, interest rates started to rise again to 4.30%[84]. The Housing Financing Fund's real mortgage rate was 4.70% (incl. penalty) in January 2006 and ended 25 basis points higher at the end of the year. Nominal rates were higher, since most mortgages are index linked. In November 2004, inflation based on CPI was 3.8% over 12 months, but in December 2006 it was 7.0% over 12 months.

81 Source: Statistics Iceland - http://www.statice.is/?PageID=444&NewsID=2405
82 Source: Directorate of Labour - http://www.vinnumalastofnun.is/english/news/nr/1139/
83 Central Bank of Iceland's Annual Report 2006 – page 7
84 Kaupthing bank raised interest rates.

Loan maturity has increased, from 25 years in 1989 to 40 years in 1996. In 2003 only around 1/6th of mortgages issued by the Housing Financing Fund had a maturity of 40 years. By 2006, around half of mortgages had such a maturity.

Total household debt amounted to 1,325 billon ISK by the end of 2006. The LTV ratio fluctuated in the year 2006 from 100% to 80% and again to 90% for first time buyers[85].

FUNDING

At the end of June 2004 the Housing Financing Fund commenced its issuance of the HFF bond series HFF24, HFF34 and HFF44, offering them in exchange for Housing Bonds and Housing Authority Bonds. Since then, the Fund has further strengthened the three series initially issued and in November of the same year, a fourth series was added to the HFF bond class, HFF14.

The HFF bonds are issued and sold by the Fund to capitalize the Fund's mortgage loans and re-capitalize older capita loans. HFF Bonds are government guaranteed and have received Moody's Aaa rating, the same rating as government bonds[86].

The commercial banks finance their mortgages by deposits, bond issue in Icelandic krona and foreign currency, and by issuing equity.

Mortgages in foreign currencies, e.g. yen and Swiss francs, are gaining popularity. People are escaping high real interest rates and inflationary risk on indexed loans, but are instead bearing interest rate risk and exchange rate risk (45.7% of corporate debt in Iceland was in foreign currency by year end 2005).

The mortgage industry (banks and the Housing Financing Fund) is most likely to finance itself with covered bonds in the near future.

	EU 27	Iceland
GDP growth	3.0%	2.6%
Unemployment	7.9%	n/a
Inflation	2.3%	6.8%
% owner occupied	67.0%	80.0 – 82.0%
Residential Mortgage Loans as % GDP	50.0%	75.5%
Residential Mortgage Loans per capita, € 000s	11.7	32.8
Total value of residential loans, € million	5,785,731	9,828
Annual house price growth (Euro area)	6.5%	n/a
Typical mortgage rate (Euro area)	4.5%	n/a
Outstanding Covered Bonds as % residential lending outstanding	16.0%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Iceland=2006

85 Reykjavik Economics – Lecture at EMF March 2007
86 Housing Financing Fund's website - http://www.ils.is/index.aspx?GroupId=362

NORWAY

By Per Åhrén, Norwegian State Housing Bank

MACROECONOMIC OVERVIEW

Norway has experienced a relatively strong general improvement in trade for the last 3-4 years. In 2006, GDP continued to grow at a noticeable rate (by 2.8%), a slight increase compared to the preceeding year. High international economic growth, increased oil investment, increased worker immigration and low interest rates have been the main drivers of the general Norwegian improvement in trade.

As for inflation, consumer prices rose from 1.5% in 2005 to 2.5% in 2006. Norges Bank (the central bank of Norway) operates a flexible inflation targeting regime, so that weight is given to both variability in inflation and variability in output and employment. In 2006, the central bank adjusted its signal interest rate five times in steps of 0.25 percentage points, and the interest rate ended at 3.50%.

The status of the labour market is still satisfying, as the unemployment rate in 2006 was 3.5%. This represents a considerable fall in comparison to the 2005 rate (4.6%). Growth in employment was considerable and exceeded 3% in 2006. However, increased worker immigration contributed to curb pressure on wages.

HOUSING AND MORTGAGE MARKETS

Since 2003, the housing market has seen strong activity, particularly supported by low interest rates, a declining unemployment rate and solid growth in income. In 2006, second-hand house prices rose by 13%, representing an all time high of the last decade. Due to significant rises in house prices, especially in big cities and urban areas, a strong rise in supply of new housing (housing starts were of the order of 30,000 units or more per year in the period 2004 - 2006, while they were closer to 20,000 units during the 10 previous years) has not been sufficient to counter the increase in house prices. Although 75% of housing starts in 2006 took place in cities and urban areas, i.e. in high-cost areas, the growth in building costs has been quite moderate (3-4%). Small increases in building costs, due to both increased productivity and more worker immigration, have contributed to large housing production. In addition, the growth in household income has helped keep housing demand at a high level.

The rise in house prices has resulted in significant growth in mortgage loans. Mortgage loans represented 75% of total household borrowing in 2005 and 2006, which represents an increase of 10 percentage points in comparison to that of the past ten years. Since 2001 total household debt has increased by more than 50%, while total household income has risen by almost 30%. The average debt has increased across most age groups, and has increased in particular for first-time homebuyers. Persons in the 25-34 years age group had average debt of approx. € 82,000 in 2005, which was more than twice the size of their average income. According to the 2006 residential loan survey from the Financial Supervisory Authority of Norway a relatively large share (37%) of these households possess loans with LTVs in excees of 100%. Nevertheless, for 58% of all loans reported LTVs were less than 80%. However, the comparable share for the year 2005 was close to five percentage points higher, which also indicates that in general the debt burden is increasing.

As already mentioned the significant rise in house prices explains a large part of the growth of debt. Also the increased household housing wealth will, of course, have an important impact on the increase in household debt. A special aspect to be mentioned is the extremely low extent of loans with fixed interest rates. Below 1% of the loans in the resident loan survey 2006 were fixed interest loans. A floating loan interest regime will stimulate housing transactions and sales of property. The existence of new loan products, for instance loans with longer repayment periods or periods where only interests are paid, also tend to increase households' debt.

Future developments in house prices are uncertain. The expected rise in interest rates and the additional supply of new housing will certainly contain the rise in house prices. On the other hand Norwegian economists do not expect house prices to fall – at all events they do not expect a return to a situation like the early 1990s when Norwegian banks experienced big losses. Concerning defaults and losses statistics from the Norwegian Financial Services Association show that net non performing assets in commercial banks amounted to 0.6% of net loans to customers in 2006,while loan losses only constitute 0.1% of commercial banks`net lending.

FUNDING

The Norwegian Parliament has now decided that the new statutory provisions on covered bonds shall enter into force on the 1st of June 2007. New legislation enables mortgage institutions to issue covered bonds. The purpose of the legislation is to enable credit institutions to borrow long term at favourable terms, in order to lend in the form of e. g. residential mortgages. Low cost borrowing depends on low risk for the creditors. Bond-holders have a preferential right to the outcome of the sale of certain assets owned by the issuer in the case of liquidation.

The importance of deposits in funding of Norwegian banks has declined. Loans to households are now covered by fifty percent deposits. The relation between deposits and loans has gradually fallen from 89% in 1996. In this decade banks`deposits from households have doubled, while banks`loans to households have increased twice as much as deposits. This means that banks have to make use to a larger extent the bond market to finance their lending activity. The monetary market, which offers short term financing, is the alternative to finance loans by deposits and bonds. The latter is, however, the least favourable way of financing for the banks.

	EU 27	Norway
GDP growth	3.0%	2.8%
Unemployment	7.9%	3.5%
Inflation	2.3%	2.5%
% owner occupied	67.0%	76.7%
Residential Mortgage Loans as % GDP	50.0%	n/a
Residential Mortgage Loans per capita, € 000s	11.7	n/a
Total value of residential loans, € million	5,785,731	n/a
Annual house price growth (Euro area)	6.5%	n/a
Typical mortgage rate (Euro area)	4.5%	n/a
Outstanding Covered Bonds as % residential lending outstanding	16.0%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Norway=2001 (Source: UNECE)

RUSSIA

By Andrey Krysin, European Trust Bank

MACROECONOMIC OVERVIEW

GDP growth in 2007 was 6.7%, compared to 6.4% in 2005. The rate of inflation in 2006 was 9.7%, which was somewhat lower than in 2005, at 12.7%. Unemployment stood at 7.2% in 2005[87].

HOUSING AND MORTGAGE MARKETS

At the current time, demand surpasses supply in Russian real estate. Statistics show that only 40% of Russians are satisfied with their housing conditions. It is no secret that housing construction is currently unable to satisfy even the existing effective demand.

According to Rosstroy's evaluations, a normal housing environment in the country demands the commissioning of a minimum of one square metre of housing per capita annually. The national housing project aims to achieve tangible results as early as 2010, the time when commissioning 80 million square metres of housing will become an annual norm. Thus, it will not be an exaggeration to say that the Russian construction market is currently on the verge of a boom.

The Russian mortgage market is developing rapidly and steadily. The State is contributing a good deal to the increase of the growth rate through the implementation of the priority national project "Affordable and Comfortable Housing for Russian Citizens" which was announced by the Russian President in Autumn 2005 and is aimed at the improvement of the legal environment surrounding mortgage lending, property rights registration, and the issuance of mortgage securities. The Federal Agency for Housing Mortgage Lending (AHML) has also made a significant contribution to this work.

Mortgages currently constitute about 1.2% of the Russian GDP, and by 2010 that may reach 6.6%. In 2006, the mortgage market grew 2.6 times against 2005 in quantitative terms and totalled over 206,000 loans and credits granted to banking and non-banking organisations. In terms of volume it increased by 4.5 times, exceeding 264 billion roubles (from 58 billion roubles in 2005).

The share of mortgage loans in the housing market has doubled from 3.5% in 2005 to 8.6% in 2006. Each quarter the number of mortgage loans increased by 30%. Good economic growth, the favourable macroeconomic situation and a federal budget surplus have created the background for vigorous growth of the Russian mortgage market in 2006. Some of the growth factors include an increase of actual income among the population, more confidence in mortgage lending on the part of potential buyers and sellers alike, a general decrease in the average interest rate on mortgage loans from 14% to 11% per annum, regional expansion of Moscow banks, and active participation by medium and small banks in the mortgage market.

According to the Bank of Russia, the quality of the housing mortgage portfolio is fairly high: the level of overdue debts on housing mortgage loans as of the 1st of January 2007 was 0.021% (averaging 2.68% for all other types of personal loans).

The popularity of mortgage lending, added to the decreasing rate of inflation and a favourable economic environment are enabling creditors to improve the terms and parameters of granting mortgage loans. Long-term loans for periods of up to 20-30 years are available and the interest rate on mortgage loans has decreased over the last three years from 22-23% to 10-13% in roubles and from 19-20% to 9-11% in foreign currency. Loans with LTV's of 90%, and in some cases even 100% are now available.

An important feature of the Russian mortgage market is the share of standard mortgage deeds. Its increase shows that the process of refinancing mortgage loans is underway. While in 2004 only 25% of loans were secured by mortgage deeds, in 2005 this figure grew to 47%, and in 2006 – to 61%.

87 Data for 2006 are not available

In 2006, at an extended meeting of the Mortgage Lending Committee of the Association of Russian Banks (ARB), a draft standard mortgage deed form prepared as a first step towards standardisation of documents for all mortgage market participants was reviewed.

FUNDING

Over the last three years, the Russian mortgage market has become a recognised leader among eastern Europe and the CIS countries in terms of volume and number of bank assets securitisation deals.

In the last two years, the refinancing system has chiefly developed via unit investment trusts in the domestic market, as well as via cross-border securitisation and the issuing of mortgage securities involving SPV in the West. At present, the volume of securitisation of mortgage assets in the domestic market stands at 13 billion roubles, and in the international market at USD 161 million.

Analysts believe that the securitisation market is highly promising and the number of such transactions will increase in 2007. The total volume of securitised mortgage assets in the Russian market could amount to 15 billion roubles.

In light of this it is easy to forecast a boom in mortgage lending. The Russian financial market today is among the most rapidly growing. Nowhere in the world will bank incomes grow as fast as in Russia until 2015, McKinsey estimates. Experts estimate that the average income growth rate in Russia in the next 10 years will be around 15-20%, i.e. three times higher than the global average. One of the main sources of growth for the Russian banking sector will be development of personal loans, including mortgage lending.

Thus, by now the necessary market infrastructure is in place in Russia, the legal base is developed, key market participants are determined including leading banks originators of mortgage loans, relations between parties are regulated, and this has all come together in the priority National project widely supported by governmental structures in the centre and at a local level.

	EU 27	Russia
GDP growth	3.0%	6.7%
Unemployment	7.9%	n/a
Inflation	2.3%	9.7%
% owner occupied	67.0%	63.8%
Residential Mortgage Loans as % GDP	50.0%	n/a
Residential Mortgage Loans per capita, € 000s	11.7	n/a
Total value of residential loans, € million	5,785,731	n/a
Annual house price growth (Euro area)	6.5%	n/a
Typical mortgage rate (Euro area)	4.5%	n/a
Outstanding Covered Bonds as % residential lending outstanding	16.0%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks, World Bank

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Russia=2003 (Source: World Bank)

SERBIA

By Goran Milicevic, Faculty of Economics, University of Belgrade

MACROECONOMIC OVERVIEW

GDP grew by 5.7% in 2006, slightly less than the 6.3% growth recorded in the previous year. The rate of unemployment in 2006 was 20.9%, while the rate of inflation was 6.6%, compared to 15.4% in 2005. The National Bank of Serbia (NBS) was almost single-handedly responsible for this greatly reduced rate of inflation, which in turn enabled the reduction of the basic lending rate in the domestic currency almost to a single digit earlier this year.

Average wages grew by almost 40% in 2006 (when expressed in euros), which helped to considerably boost savings to 3 billion euros, the highest level in 15 years. This indicates that mistrust in the banks, after the mishaps of the 1990s, is considerably diminishing.

HOUSING AND MORTGAGE MARKETS

Official statistics for 2006 are not indicating any growth in housing construction (16,500 units, almost the same as in the previous year), but this may be due to underreporting, which is not unusual in this sector. This, combined with a rather subdued market of second-hand housing units (well below 10,000 units) has meant that house prices (after doubling in the months before the switch of European currencies into the euro in 2002) have not fallen to the level at which they would be more affordable. Thus, in spite of construction costs growing more or less in line with the rate of inflation, it still takes more than 15 average yearly wages to buy an average flat.

In spite of this, both the volume of consumer and mortgage loans are constantly growing. In 2006, the strongest growth was experienced in the mortgage sector, which increased its share in total lending from 5.4% to 8.7%. This increase happened despite the midyear precautionnary measures of the National Bank aimed at reducing the inflation rate, which, as a collateral damage, suppressed further expansion of mortgage lending. Still, total volume of outstanding residential mortgage loans reached almost 650 million euros, or 2.9% of GDP. Reaching this level of GDP in just 4 years seems to be unprecedented in Europe (see Hypostat 2005, statistical table 1, p. 129). Without the aforementioned NBS measures it is likely that this figure would be much closer to the first billion euros in mortgage loans. Since refinancing of mortgage loans has just started, and for a very limited percentage of already approved loans, the difference between gross and net lending is practically negligible.

The impressive performance of the mortgage sector has been almost entirely a result of the domestic affiliations of foreign banks in their attempt to enlarge their market share in the banking business.

Data for 2007 suggests that this expansion is continuing, and that in 2007 total volume of outstanding mortgage loans is likely to reach 4% of GDP. Further, growth is also likely as a result of the newly formed government's halving of the tax rate on real estate transactions. Other indicators of growth include the Corporation for Insurance of Housing Loans' doubling of its portfolio in just 5 months. The percentage of mortgage loans insured by the Corporation is constantly growing, as well as the number of banks signing agreements with it.

But in spite of this, and in spite of the mortgage sector's performance, some arrears have already occurred (some sources are indicating that about 1.5% of loans are 60 days in arrear). It is unclear whether this covers only residential mortgage loans, or whether home equity loans are included too. But this is certainly going to be a growing problem in the future.

There were no big changes in terms of LTV ratios (the maximum LTV is 90%, but in practice loans of 60% LTV's are common). The interest rate for euro loans insured with the Corporation is around 4.75%, and for non-insured loans it is around 7.5%. Loans denominated in Swiss francs have lower interest rates, but they became popular only a few weeks before the end of the year and so they didn't have an influence on the overall interest rate of around 6.5%.

FUNDING

For the moment, mortgages are not financed by mortgage bonds or mortgage backed securities. The size of both the mortgage and financial market in general is still too small, and the required legislation is lacking. Banks are therefore funding mortgages out of long term saving deposits, or in the case of foreign bank affiliations getting their funding via internal channels within their banking system. Purely domestic banks are at a disadvantage in this regard, due to strict foreign borrowing limits. Given also that the level of long term savings is still rather symbolic, this may prove to be a considerable obstacle for the future expansion of mortgage lending in Serbia.

	EU 27	Serbia
GDP growth	3.0%	5.7%
Unemployment	7.9%	20.9%
Inflation	2.3%	12.7%
% owner occupied	67.0%	89.0%
Residential Mortgage Loans as % GDP	50.0%	2.9%
Residential Mortgage Loans per capita, € 000s	11.7	0.1
Total value of residential loans, € million	5,785,731	650
Annual house price growth (Euro area)	6.5%	n/a
Typical mortgage rate (Euro area)	4.5%	6.0%
Outstanding Covered Bonds as % EU residential lending outstanding	16.0%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks, World Bank, International Monetary Fund

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Serbia=2002 (Source: World Bank)

References:
- All macroeconomic data refer to Quarterly Monitor of economic trends and policies in Serbia, October-December 2006. (www.fren.org.yu/en/publications.htm).
- Housing indicators are taken from the Statistical Office of Serbia web site (http://www.statserb.sr.gov.yu);
- Data on mortgage loans are taken from the National Bank of Serbia site (http://www.nbs.yu/english/external/index.htm), and modified by the response from the banks that are the major mortgage lenders

SWITZERLAND

MACROECONOMIC OVERVIEW

In 2006 GDP increased by 2.8% which represents the highest growth since 2000. Even if a modest easing is predicted for 2007 and 2008 the economic outlook is still expected to remain favourable.

At 3.5% in 2006, the Swiss rate of unemployment is low compared with the EU 27 average rate (7.9%). The rate of unemployment in 2005 was 4.4%.

In line with other central banks, the Swiss National Bank continued to increase the level of interest rates throughout 2006. The real short term interest rates have reached levels in line with their long term average. Conversely, long term average rates were still noticeably lower than their fifteen-year average, in spite of the increases[88].

HOUSING AND MORTGAGE MARKETS

During 2006, house prices increased moderately, rising by 1.4% in real terms, which is in line with the growth rates observed in the previous years. Indeed, the real estate market in Switzerland has experienced a prolonged period of moderate growth: over the last ten years, the average house price growth rate did not even reach 1% per annum. The level observed at the end of 2006 was 35% below the peak of 1989.

The moderate increase recorded in 2006 has to be nuanced as some regions and market segments have experienced more rapid development (In Geneva, for instance, prices for single-family homes increased by more than 25% in real terms over the past five years).

Total volume of mortgage outstanding grew by 3.4% in 2006; this is two percentage points less than the previous year (5.4% in 2005). This constitutes one of the lowest among the countries observed. Note, however, that with a total mortgage outstanding at the end of 2006 of €307,348 million, Switzerland has the 6th biggest mortgage market of the countries reported on in this publication in terms of market size.

Housing starts increased by 5% in 2006 to 60,232 units, which is the largest number over the last decade, even if it grew at a slower pace than in 2005 (9%). However, the growth of housing completions and of building permits increased significantly (more than 10.5% for both of them), whereas in 2005 housing completions and building permits grew only by 2.8% and 3.3% respectively.

FUNDING

In Switzerland, the law states that covered bonds ("Pfandbriefe") can only be issued by two types of institutions: the "Pfandbriefzentrale der scheizerischen Kantonalbanken", the central covered bond issuing vehicle of the Swiss cantonal banks[89], and the "Pfandbriefbank schweizerischer Hypothekarinstitute", the covered bond issuing vehicle for Swiss banks other than cantonal banks.

These two types of institutions must to be authorized by the government ("Bundesrat") to issue covered bonds (Pfandbriefgesetz Art. 2) and are supervised by the Swiss banking regulator, the "Eidgenössische Bankenkommission".

In 2006, the outstanding volume of covered bonds increased to €23,096 million. This represents an increase of 6.6% from 2005. Moreover, covered bonds issuance increased by 27% to €4,093 million, which represents the most important issuance since 2003.

88 It was 80 bp below the fifteen-year average by mid-May 2007.
89 Cantonal banks are public sector banks majority-owned by the cantons (Swiss regions). Source: European Covered Bond Factbook - 2007 edition.

	EU 27	Switzerland
GDP growth	3.0%	2.8%
Unemployment	7.9%	3.5%
Inflation	2.3%	n/a
% owner occupied	67%	34.6%
Residential Mortgage Loans as % GDP	50.0%	101.9%
Residential Mortgage Loans per capita, € 000s	11.7	41.2
Total value of residential loans, € million	5,785,731	307,348
Annual house price growth (Euro area)	6.5%	3.3%
Typical mortgage rate (Euro area)	4.5%	3.0%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	1.3%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Switzerland=2000 (Source: Swiss Federal Statistics Office)

TURKEY

By Onur Ozsan, Istanbul Finans- and Cem Karakas, Erdemir Eregli

MACROECONOMIC OVERVIEW

Turkey is among the 20 largest economies in the world and the largest in southeastern Europe with a gross domestic product (GDP) of €318,586 million. It is also one of the fastest growing investment markets.

GDP grew by 6.1% in 2006. One particularly positive economic development is the decreasing rate of inflation. From 54% in 2001, it went down to 9.3% in 2006, and prime interest rates are down to 13.3%.

In 2005 and early 2006, economic stabilisation continued along with a better balancing of the sources of growth. During the first half of 2006, strong domestic demand led to an increase in output by 7%. Unemployment decreased to 8.4%. Public finances achieved a primary surplus of 6.5% of the GDP. Hence, public sector debt to GDP dropped below 70%.

HOUSING AND MORTGAGE MARKETS

Outstanding mortgage residential loans increased by 65% in 2006 and reached TRY 22,136 million (€12,237 million). The total volume of gross lending was TRY 15,604 million (€ 8,626 million), 34% higher than last year. Remarkable was the rise in the mortgage debt to GDP ratio over the past 5 years, from 0.2% to 3.8%.

Home loans are a subset of consumer loans in general, extended by commercial banks. Falling inflation and stabilization in the interest rates have boosted consumer confidence in borrowing instruments with longer terms and hence encouraged banks to extend more aggressively with an expectation of continuing low inflation and dropping interest rates.

With an improving economy and a high urban growth rate, there seems to be an increasing demand for new real estate development projects, which is also supported by decreasing interest rates and increased availability in financing tools. The construction sector grew by 21.5% in 2005 compared to 4.6% in 2004. In 2006, data on building permits provided by municipalities revealed that the average floor area, the price of buildings, and the number of dwelling units increased by 9.6%, 31.4% and 4.1%, respectively, while the number of buildings decreased by 5.4%. In fact, the number of residential buildings fell from 99,220 in 2005 to 94,309 in 2006, decreasing by 5.0%[90]. During the same period, the floor area of residential buildings rose from 82,297,998 m^2 to 88,546,012 m^2, an increase of 7.6%.

According to 2000 Census data, 68.2% of total householders own their houses, 23.9% are leaseholders, 2.1% live in government housing and 4.9% are neither leaseholders nor own their own houses[91].

95% of housing finance in Turkey is under the scope of commercial banking institutions, the rest is covered by the Housing Development Administration, leasing companies, consumer finance companies and housing cooperatives.

The Housing Development Administration (HDA) runs affordable housing programs by developing housing projects in cities with housing shortage and sells them out on a cost only basis with no profit and sometimes with a subsidy. HDA's primary task is to provide housing for the lower and middle income classes at affordable rates.

90 Buildings are either single family or multi family properties. The decrease in number (despite of the increase in the dwellings) was mainly due to the conversion of illegal squatter areas (gecekondus) to legal apartment blocks (buildings). Demolition of earthquake irresistant buildings is also a factor (but could be neglected). In other words, in the gecekondu case around 50 separate buildings (illegal single family units) turn into a "single" building with 50 units inside (1/50 decrease in number of buildings).

91 Source: Turkey Real Estate Yearbook 2007

Historically, housing cooperatives have been the primary vehicle for middle income families for home ownership for the past four decades. Being a member of a cooperative, a home buyer pays in installments for a certain period of time, usually longer than the actual expected construction period, until the key delivery. One of the main problems with this vehicle is the members' obligation towards the cooperative and his existing landlord. Making two payments at a time (rent and installments) usually causes affordability problems. There are 38,826 housing cooperatives with around 1.8 million members outstanding[92].

The new mortgage bill which has the aim to create a modern, institutional housing finance scheme in Turkey (and which was mentioned in Hypostat 2004 and 2005) was submitted to the Parliament in 2006. The new regulation is expected to eliminate certain obstacles towards the establishment of a robust mortgage system and to provide some tax benefits to borrowers, lenders and investors. The home loan market will have to meet certain standards set out in the framework for the new mortgage system. The size of the primary market is expected to increase rapidly and it is hoped that this will foster a robust secondary market. The new regulation will also enable new players to enter the primary and secondary mortgage markets. The bill will enter into effect in 2007.

	EU 27	Turkey
GDP growth	3.0%	6.1%
Unemployment	7.9%	8.4%
Inflation	2.3%	9.3%
% owner occupied	67.0%	68.3%
Residential Mortgage Loans as % GDP	50.0%	3.8%
Residential Mortgage Loans per capita, € 000s	11.7	0.2
Total value of residential loans, € million	5,785, 731	12,237
Annual house price growth (Euro area)	6.5%	n/a
Typical mortgage rate (Euro area)	4.5%	19.6%
Outstanding Covered Bonds as % residential lending outstanding	16.0%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Turkey=2000

92 Source: Turkish National Housing Cooperatives Assoc. http://www.turkiyemillikoop.org.tr

UKRAINE

By Oleksiy Pylypets and Iryna Kovalyshyn, Ukrainian National Mortgage Association

MACROECONOMIC OVERVIEW

The Ukrainian economy recorded its 7th year of uninterrupted growth in 2006, with a growth in GDP for that year of 7.1%. Nominal GDP in 2006 amounted to UAH 570 billion.

Consumer prices grew by 12.1% in 2006, compared to 14.2% in 2005. The increased growth rate of consumer prices in comparison with the previous year is a demonstration of an increase in tariffs for housing and communal services, which took place in the second half of 2006. According to inflation forecasts by the Ministry of Economy, the yearly inflation rate will be around 8% in 2007 and 2008 and will gradually fall to 5.7% between 2009-2011.

The official UAH (domestic currency)/USD exchange rate remained unchanged during the year at UAH 505/USD 100. But the domestic currency has weakened with respect to the Euro. The official UAH/Euro exchange rate increased by 9% and as of January the 1st 2007 was UAH 665 /Euro 100.

Positive macroeconomic trends and growth of personal income have had a positive impact on credit investments. As of January the 1st 2007, the total volume of debt on loans reached UAH 245.3 billion, a year on year increase of 71% (compared to 61.9% in 2005). Volumes of loans to individuals increased in 2006 by 2.3 times to UAH 78.5 billion, and the portion of such loans in the total loan portfolio of banks was 32% as of the 1st of January 2007 compared to 23.4% at the beginning of 2006.

In 2006, the rate of unemployment was 7.4% compared to 7.8% in 2005.

HOUSING AND MORTGAGE MARKETS

2006 marked the history of Kyiv's real estate market development as a year of rapid growth in house prices, and confirmed again the thesis that this sector in the Ukraine represents the most risky and unpredictable sphere of business. The price of housing in 2006 increased by 66% in the secondary market and by 55.8% in the primary market. As of the 1st of January 2007, the price of one square metre in one-room secondary market apartments was USD 2,658, two-room – USD 2,655, three-room – USD 2,490, four-room and larger – USD 2,513. Primary market prices have reached USD 1,800-2,100.

The main factors impacting on the development of the Kyiv real estate market in 2006 were as follows:

1. The dynamic development of mortgage lending directly determining the level of affordability of housing – approximately 50-60% of Kyiv apartments are bought with housing mortgage loans.
2. Growth in household income of 16.1%.
3. Increased prices of construction materials and energy sources by 20% and 56.1%, respectively.
4. Migration from other regions to Kyiv of high-capital holding members of the population.
5. Psychological factors deferred demand and expectations of a market collapse.
6. Speculators' demand for real estate – 30-50% in Kyiv, 20-30% in regions.

In 2006, mortgage lending provided by banks grew by 155%. The total value of loans secured on residential property at the end of 2006 amounted to UAH 27.2 billion (€4,301 million), and the net value of mortgage loans amounted to UAH 16.6 billion (€ 2,617 million). The share of mortgage lending in the country's GDP rose from 2.5% to 5.1%. The proportion of mortgages is increasing in both the general loan portfolio and in the portfolio of loans to individuals. At the beginning of the year, the proportion of mortgage loans in the general loan portfolio was 7.5%; by the end of the year it had reached 11.1%. The proportion of mortgages out of total loans made to individuals was 34.7%.

In 2006, nominal interest rates on residential mortgage loans in national currency increased by 1.75%, while decreasing by 0.5% in USD and by 0.75% in Euro. As of January 2007, nominal median interest rates on residential mortgage loans were 17.8% in hryvnia, 12.0% in US dollars and 11.25% in euro. Banks continue charging monthly commission fees on the outstanding debt or the whole loan amount. When the monthly commission is added, the real annual interest rate paid by the borrower is 2.2 - 4.2% higher than the nominal interest rate.

Borrowers' down payment varies between 10% and 30% depending on the market for the property used as a collateral for the loan (primary/secondary market). Mortgage lending terms offered by some banks make it possible to take a loan with an LTV of 100%, if additional collateral is used.

A typical term of residential mortgage loan in Ukraine is 20 years. Some lenders offer their clients maximum terms of up to 30 years.

The default rate on mortgage loans in Ukraine does not exceed 1.5%.

FUNDING

A three tier funding system of mortgage loans exists in Ukraine:

- International banks (BNP Paribas, Calyon, UniCredit, Intesa, SEB, OTP, Raiffeisen, etc subsidiaries), tapping into parent group "cheap resources"
- Leading local banks (Privat, F&C, Nadra, etc) relying on deposits and some international borrowing (Eurobonds and syndicated loans)
- Small and medium size local banks- relying fully on deposits

Deposits are still the main source of mortgage financing for Ukrainian small and middle-size banks. In total, bank deposits increased in 2006 by 38.8% and reached UAH 184.4 billion. Funds from individuals were growing much faster than funds from legal entities, by 45.8% versus 30.1%.

The weighted average interest rate on term deposits in the national currency decreased insignificantly – only by 0.2% and was 10% as of the 1st of January 2007. Actual bank interest rates on term deposits for 1 year as of the beginning of 2007 were 15% for deposits in UAH, 10.5% for deposits in USD and 8.5% for deposits in Euro.

	EU 27	Ukraine
GDP growth	3.0%	7.1%
Unemployment	7.9%	7.4%
Inflation	2.3%	12.1%
% owner occupied	67.0%	n/a
Residential Mortgage Loans as % GDP	50.0%	2.6%
Residential Mortgage Loans per capita, € 000s	11.7	0.1
Total value of residential loans, € million	5,785,731	4,301
Annual house price growth (Euro area)	6.5%	n/a
Typical mortgage rate (Euro area)	4.5%	n/a
Outstanding Covered Bonds as % residential lending outstanding	16.0%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks, International Monetary Fund

Notes:
- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data.

STATISTICAL TABLES

1. Residential mortgage debt to GDP Ratio %

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	25.0%	26.5%	27.6%	27.8%	26.7%	27.8%	30.2%	30.9%	33.9%	36.3%
Bulgaria	n/a	n/a	0.4%	0.4%	0.5%	0.7%	1.2%	2.6%	4.6%	7.0%
Czech Republic	n/a	n/a	n/a	n/a	n/a	1.9%	3.0%	4.2%	6.0%	7.1%
Denmark	70.7%	75.0%	76.2%	71.2%	74.7%	77.0%	82.6%	86.0%	94.0%	100.8%
Germany	49.4%	51.9%	55.6%	53.2%	53.1%	53.2%	53.5%	52.4%	51.9%	51.3%
Estonia	n/a	3.7%	4.1%	4.7%	5.6%	7.6%	11.2%	16.0%	23.7%	32.7%
Greece	5.3%	6.3%	7.3%	9.0%	11.8%	14.8%	17.2%	20.2%	25.1%	29.3%
Spain	20.6%	23.9%	26.7%	29.9%	32.5%	35.9%	40.0%	45.8%	52.5%	58.6%
France	20.2%	20.0%	20.8%	21.2%	21.7%	22.6%	24.2%	26.0%	29.3%	32.2%
Ireland	24.0%	26.5%	28.9%	31.1%	32.8%	36.3%	42.7%	52.2%	61.4%	70.1%
Italy	7.1%	7.8%	9.0%	9.8%	9.9%	11.0%	13.0%	14.8%	17.1%	18.7%
Cyprus	n/a	3.6%	5.4%	5.8%	6.3%	7.8%	9.9%	11.7%	15.7%	21.2%
Latvia	n/a	n/a	0.7%	1.6%	2.4%	4.1%	7.6%	11.4%	19.3%	28.9%
Lithuania	0.6%	0.9%	1.4%	1.1%	1.4%	2.2%	4.1%	6.9%	11.0%	12.6%
Luxembourg	22.1%	23.3%	22.4%	25.0%	27.3%	27.6%	30.6%	32.6%	34.0%	34.3%
Hungary	n/a	n/a	n/a	n/a	2.1%	4.5%	8.0%	9.2%	10.4%	11.4%
Malta	n/a	n/a	8.0%	8.0%	17.9%	19.6%	23.4%	27.6%	31.8%	34.7%
Netherlands	49.3%	55.3%	60.8%	68.4%	73.2%	80.4%	84.4%	88.7%	95.7%	111.9%
Austria	n/a	n/a	n/a	n/a	13.7%	16.3%	17.6%	20.4%	21.9%	23.5%
Poland	1.5%	1.5%	1.7%	2.1%	2.7%	3.4%	4.5%	4.7%	6.0%	8.3%
Portugal	n/a	n/a	36.9%	41.5%	44.4%	47.9%	47.8%	49.3%	53.3%	59.2%
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.5%	1.8%	2.3%
Slovenia	n/a	n/a	0.3%	0.3%	0.4%	0.8%	1.1%	3.0%	5.0%	6.6%
Slovakia	n/a	n/a	n/a	n/a	n/a	3.9%	4.8%	6.5%	8.1%	9.6%
Finland	29.3%	29.5%	30.3%	30.2%	31.0%	32.6%	35.0%	38.2%	42.0%	43.8%
Sweden	48.9%	44.5%	46.4%	45.3%	46.9%	48.0%	49.6%	51.8%	55.3%	56.7%
UK	54.9%	50.6%	54.2%	55.9%	58.9%	63.9%	69.3%	74.1%	78.4%	83.1%
Croatia	n/a	n/a	5.2%	5.4%	5.7%	6.9%	8.6%	10.1%	12.2%	15.3%
Iceland	52.9%	49.4%	53.6%	56.7%	59.4%	61.1%	66.2%	71.0%	80.8%	75.5%
Norway	37.7%	39.6%	41.6%	39.1%	42.1%	47.6%	52.0%	53.3%	51.6%	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.4%	0.8%	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	0.0%	0.1%	0.5%	1.5%	2.9%
Switzerland	76.8%	77.9%	74.7%	74.3%	76.2%	78.3%	82.7%	97.2%	101.0%	101.9%
Turkey	n/a	n/a	n/a	0.3%	0.2%	0.2%	0.4%	1.0%	2.5%	3.8%
Ukraine	n/a	n/a	n/a	n/a	0.1%	0.1%	0.3%	0.3%	1.1%	2.6%

Source: European Mortgage Federation National Experts, National Central Banks, National Statistics Offices, Eurostat
Notes:
- n/a: figures not available
- Denmark: The figure for the Danish market is an estimate; the data provided by the Danish Mortgage Association represent lending by mortgage banks only, which account for approx. 90% of the market.
- Spain: Data include only residential lending. However, data for commercial lending in Spain include loans to developers for residential lending. The data published by the Spanish Mortgage Association includes both, commercial and residential lending.

2. Residential Mortgage Debt per Capita, 000s

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	5.41	5.92	6.44	6.84	6.75	7.22	8.01	8.60	9.68	10.86
Bulgaria	n/a	n/a	0.01	0.01	0.01	0.02	0.03	0.07	0.13	0.23
Czech Republic	n/a	n/a	n/a	n/a	n/a	0.15	0.24	0.36	0.59	0.79
Denmark	20.17	21.99	23.41	23.20	25.03	26.51	28.93	31.25	36.18	40.90
Germany	11.50	12.34	13.64	13.36	13.65	13.83	14.01	14.02	14.09	14.36
Estonia	n/a	0.13	0.16	0.21	0.28	0.44	0.70	1.11	1.94	3.18
Greece	0.53	0.63	0.79	1.03	1.43	1.94	2.43	3.08	4.10	5.14
Spain	2.64	3.24	3.88	4.70	5.46	6.39	7.51	9.08	11.05	13.07
France	4.25	4.40	4.74	5.05	5.33	5.72	6.24	6.96	8.06	9.17
Ireland	4.70	5.65	7.02	8.62	10.00	12.11	14.98	19.12	24.08	29.29
Italy	1.32	1.49	1.78	2.06	2.17	2.51	3.02	3.56	4.17	4.70
Cyprus	n/a	0.46	0.72	0.85	0.98	1.23	1.62	2.04	2.86	4.02
Latvia	n/a	n/a	0.02	0.06	0.09	0.17	0.33	0.55	1.09	2.04
Lithuania	0.01	0.02	0.04	0.04	0.05	0.10	0.19	0.37	0.66	0.88
Luxembourg	8.67	9.56	10.43	12.67	14.03	14.97	17.47	19.48	21.99	24.69
Hungary	n/a	n/a	n/a	n/a	0.12	0.31	0.59	0.75	0.91	1.01
Malta	n/a	n/a	0.77	0.89	1.96	2.22	2.60	3.09	3.77	4.38
Netherlands	10.80	12.72	14.90	18.02	20.50	23.23	24.86	26.80	29.89	36.61
Austria	n/a	n/a	n/a	n/a	3.69	4.46	4.91	5.91	6.56	7.34
Poland	0.05	0.06	0.07	0.10	0.15	0.18	0.23	0.25	0.38	0.59
Portugal	n/a	n/a	4.16	4.98	5.59	6.28	6.36	6.79	7.55	8.69
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.04	0.07	0.11
Slovenia	n/a	n/a	0.03	0.03	0.05	0.10	0.13	0.40	0.68	0.98
Slovakia	n/a	n/a	n/a	n/a	n/a	0.19	0.26	0.41	0.57	0.78
Finland	6.22	6.68	7.22	7.73	8.37	9.02	9.80	11.14	12.59	13.93
Sweden	12.17	11.20	12.47	13.42	13.06	13.93	14.96	16.21	17.65	19.18
UK	11.10	11.08	12.82	14.97	16.12	18.13	18.83	21.66	23.55	26.22
Croatia	n/a	n/a	n/a	0.24	0.28	0.38	0.51	0.65	0.86	1.17
Iceland	12.82	13.36	15.90	19.11	18.47	20.10	22.23	25.99	35.95	32.77
Norway	11.98	12.08	13.98	15.95	17.85	21.47	22.73	24.24	27.19	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.01	0.04	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	0.00	0.00	0.01	0.04	0.09
Switzerland	25.12	26.42	26.07	27.67	29.58	31.65	32.32	38.25	40.09	41.20
Turkey	n/a	n/a	n/a	0.01	0.01	0.01	0.01	0.03	0.10	0.17
Ukraine	n/a	n/a	n/a	n/a	0.00	0.00	0.01	0.01	0.04	0.09

Source: European Mortgage Federation National Experts, National Central Banks, National Statistics Offices, Eurostat
Notes:
- n/a: figures not available
- Denmark: The figure for the Danish market is an estimate; the data provided by the Danish Mortgage Association represent lending by mortgage banks only, which account for approx. 90% of the market.

3. Covered Bonds as % GDP

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Czech Republic	n/a	n/a	n/a	n/a	n/a	n/a	2.0%	2.2%	4.4%	4.9%
Denmark	n/a	n/a	n/a	n/a	n/a	n/a	120.3%	127.5%	137.5%	136.4%
Germany	n/a	n/a	n/a	n/a	n/a	n/a	11.8%	11.2%	10.6%	9.7%
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	n/a	n/a	n/a	n/a	n/a	n/a	7.3%	11.3%	16.6%	22.0%
France	n/a	n/a	n/a	n/a	n/a	n/a	1.3%	1.6%	1.9%	2.4%
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.4%	2.5%	6.8%
Italy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	0.4%	0.5%	0.5%	0.4%
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.1%	0.1%	0.1%
Luxembourg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.5%
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	4.8%	6.0%	5.7%	6.6%
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.4%	1.4%
Austria	n/a	n/a	n/a	n/a	n/a	n/a	1.8%	n/a	1.5%	1.3%
Poland	n/a	n/a	n/a	n/a	n/a	n/a	0.1%	0.1%	0.2%	0.2%
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.3%
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovenia	n/a	n/a	n/a	n/a	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	1.3%	2.3%	3.2%	4.2%
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.2%	1.0%	1.8%
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	18.0%
UK	n/a	n/a	n/a	n/a	n/a	n/a	0.3%	0.9%	1.5%	2.7%
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland	n/a	n/a	n/a	n/a	n/a	n/a	7.3%	7.1%	7.4%	7.7%
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: European Covered Bond Council, Eurostat
Notes:
- n/a: figures not available
- Covered bonds are debt instruments secured by a cover pool of mortgage loans (property as collateral) or public-sector debt to which investors have a preferential claim in the event of default. The covered bonds included in this table are only the first ones.

4. Owner Occupation rate, %

	Latest data available	Owner occupation rate
Belgium	2001	68.0%
Bulgaria	2002	96.5%
Czech Republic	2001	47.0%
Denmark	2006	55.0%
Germany	2002	43.2%
Estonia	2002	85.0%
Greece	2006	75.0%
Spain	2005	86.3%
France	2004	56.5%
Ireland	2006	74.5%
Italy	2002	80.0%
Cyprus	2001	68.3%
Latvia	2006	87.0%
Lithuania	2005	97.0%
Luxembourg	2005	74.6%
Hungary	2003	92.0%
Malta	2005	74.1%
Netherlands	2002	54.2%
Austria	2003	57.0%
Poland	2004	75.0%
Portugal	2006	76.0%
Romania	2002	97.2%
Slovenia	2003	84.0%
Slovakia	2006	79.0%
Finland	2005	58.0%
Sweden	2005	50.0%
UK	2005	70.0%
EU 27	/	67.0%
Croatia	2006	96.1%
Iceland	2006	80-82%
Norway	2001	77.0%
Russia	2003	63.8%
Serbia	2002	89.0%
Switzerland	2000	34.6%
Turkey	2000	68.3%
Ukraine	n/a	n/a

Source: European Mortgage Federation, National Statistics Offices, World Bank, United Nations Economic Commission for Europe, International Union for Housing Finance, Organisation for Economic Co-operation and Development
Notes:
- n/a: figures not available
- Luxembourg: households only
- Malta: households only
- The EU27 average has been weighted with the total dwelling stock

5. Total dwelling stock

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	n/a	4,581,738	4,624,970	4,659,202	4,711,435	4,743,974	4,782,060	4,819,612	4,858,339	4,902,629
Bulgaria	n/a	n/a	n/a	n/a	3,352,225	3,697,322	3,697,322	3,704,798	3,715,890	3,728,554
Czech Republic	n/a	n/a	n/a	n/a	4,366,293	4,393,584	4,420,711	4,452,979	4,485,842	4,516,032
Denmark	2,479,000	2,495,000	2,513,000	2,526,000	2,541,000	2,554,000	2,572,000	2,592,000	2,620,885	2,644,640
Germany	37,050,000	37,529,000	37,984,000	38,384,000	38,682,000	38,925,000	39,141,000	39,367,000	39,550,600	39,740,000
Estonia	619,500	620,400	621,200	621,900	622,500	623,600	626,100	629,000	633,100	638,200
Greece	5,116,000	5,187,000	5,258,000	5,329,000	5,476,162	n/a	n/a	n/a	n/a	n/a
Spain	19,121,600	19,471,634	19,903,802	20,419,834	21,062,851	21,722,757	22,359,162	23,077,828	23,830,417	24,678,186
France	28,267,000	28,530,000	28,816,000	29,133,000	29,451,000	29,768,000	30,096,000	30,425,000	n/a	n/a
Ireland	1,144,000	1,173,000	1,201,000	1,230,000	1,259,000	1,288,000	1,554,000	1,630,900	1,711,857	1,805,276
Italy	26,406,000	26,451,000	26,498,000	26,548,000	26,526,000	26,649,000	26,700,000	n/a	n/a	n/a
Cyprus	268,000	275,000	282,000	288,000	293,000	299,000	305,000	314,000	325,000	341,000
Latvia	n/a	n/a	n/a	796,000	877,000	958,000	967,000	986,557	997,821	1,003,683
Lithuania	1,277,600	1,306,000	1,324,000	1,309,300	1,291,700	1,295,000	1,293,029	1,300,038	1,299,500	1,306,786
Luxembourg	114,082	115,465	116,849	118,232	119,616	121,000	122,383	123,767	125,150	n/a
Hungary	4,005,000	4,021,000	4,038,000	4,076,800	4,070,000	4,104,000	4,134,000	4,172,787	4,209,472	4,238,000
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	6,441,000	6,522,000	6,590,000	6,651,000	6,710,000	6,764,000	6,809,581	6,861,877	6,858,719	6,912,405
Austria	3,610,058	3,649,524	3,690,956	3,726,696	3,754,526	n/a	n/a	n/a	n/a	n/a
Poland	11,613,000	11,729,000	11,787,000	11,845,000	11,946,000	11,763,000	12,596,000	12,758,000	12,872,060	12,987,247
Portugal	4,760,000	4,857,000	4,953,000	5,050,000	5,052,000	5,053,000	5,055,000	5,463,000	5,462,430	5,519,654
Romania	7,837,000	7,860,000	7,885,000	7,908,000	8,107,000	8,129,000	8,152,400	8,176,500	8,201,508	8,231,295
Slovenia	690,146	696,749	740,100	746,700	753,200	784,912	791,268	797,981	805,203	n/a
Slovakia	n/a	n/a	n/a	n/a	1,884,846	1,899,059	1,913,030	1,925,631	1,940,494	1,954,938
Finland	2,416,000	2,449,000	2,478,000	2,512,000	2,544,000	2,574,000	2,603,000	2,635,000	2,669,177	n/a
Sweden	4,260,000	4,271,000	4,283,000	4,294,000	4,308,000	4,329,000	4,351,000	4,380,000	4,404,000	4,436,000
UK	24,721,000	24,913,000	25,098,000	25,283,000	25,478,000	25,605,000	25,787,000	25,977,000	26,194,000	n/a
Croatia	n/a	n/a	n/a	n/a	1,877,126	n/a	n/a	2,561,000	n/a	n/a
Iceland	n/a	n/a	n/a	103,230	105,276	107,912	107,912	110,687	120,000	n/a
Norway	1,885,117	1,904,225	1,923,333	1,942,440	1,961,548	1,982,404	2,002,930	2,025,739	2,054,592	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	2,965,516	2,976,229	2,990,100	3,006,488	3,022,905
Switzerland	3,472,355	3,507,522	3,542,171	3,569,181	3,604,341	3,638,187	3,671,892	3,709,857	3,748,920	3,791,574
Turkey	n/a	n/a	n/a	16,235,830	n/a	n/a	n/a	n/a	n/a	n/a
Ukraine	18,784,000	18,858,000	n/a	18,921,000	18,960,000	19,023,000	19,049,000	19,075,000	19,132,000	n/a

Source: European Mortgage Federation National Experts, European Central Bank, National Central Banks, National Statistics Offices, Eurostat
Notes:
- n/a: figures not available
- Luxembourg: Households only
- Data from most countries come from irregular surveys

6. Housing Starts

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	47,460	40,564	41,670	41,087	42,047	39,374	41,134	46,193	51,068	53,483
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Czech Republic	33,152	35,027	32,900	32,377	28,983	33,606	36,496	39,037	40,381	43,747
Denmark	17,594	18,447	17,737	16,205	20,777	23,243	27,869	29,426	31,400	26,922
Germany	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	322,700	407,380	510,767	533,700	523,747	543,060	622,185	691,027	716,219	760,179
France	264,300	285,000	317,000	309,500	303,000	302,900	322,600	363,400	410,200	420,900
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	77,691	77,709	75,602
Italy	155,626	150,421	162,034	177,615	169,573	171,269	174,352	n/a	296,201	317,391
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Luxembourg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	98,002	85,871	83,400	80,100	74,700	n/a	n/a	n/a	n/a	n/a
Austria	54,000	48,000	46,000	39,000	37,000	36,450	n/a	n/a	n/a	n/a
Poland	n/a	91,000	90,000	125,000	114,000	77,000	82,000	97,000	102,038	137,962
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	39,688	n/a
Slovenia	5,634	5,925	7,386	5,087	5,816	4,863	7,141	6,303	n/a	n/a
Slovakia	12,844	16,857	11,168	9,884	12,128	14,607	14,065	16,586	19,796	20,592
Finland	29,804	31,597	34,590	32,309	27,625	28,154	31,377	32,380	34,275	33,353
Sweden	12,000	12,700	14,600	16,900	19,500	19,200	22,220	27,000	31,500	44,900
UK	200,701	187,197	189,501	188,814	193,607	193,407	207,303	227,875	226,766	231,583
Croatia	n/a	n/a	n/a	n/a	n/a	19,500	21,200	20,400	23,500	25,500
Iceland	1,165	1,016	1,266	1,643	1,811	2,360	2,688	2,751	4,400	4,962
Norway	21,259	19,646	20,492	22,536	24,191	22,216	22,263	29,399	30,706	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	9,975	8,789	12,739	10,406	14,560	17,000	n/a
Switzerland	39,426	39,880	38,741	39,025	40,643	36,157	45,048	52,652	57,340	60,232
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: European Mortgage Federation National Experts, National Statistics Offices
Note:
- n/a: figures not available

7. Housing Completions

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	n/a	n/a	n/a	40,253	38,255	36,386	n/a	n/a	n/a	n/a
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	8,267	12,059	13,270
Czech Republic	16,757	22,183	23,734	25,207	24,759	27,291	27,127	32,268	32,863	30,190
Denmark	17,725	18,434	17,446	16,414	17,295	18,898	24,387	27,152	27,580	26,327
Germany	570,596	500,718	472,805	423,062	326,197	289,601	268,096	278,019	238,977	248,435
Estonia	1,003	882	785	720	619	1,135	2,435	3,105	3,865	5,082
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	272,333	275,596	321,177	366,775	365,660	426,738	459,135	496,785	524,479	584,881
France	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	38,842	42,349	46,512	49,812	52,602	57,695	68,819	76,954	80,957	93,419
Italy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cyprus	7,148	6,599	6,327	5,083	6,641	6,059	8,734	11,013	16,416	n/a
Latvia	1,480	1,351	1,063	899	800	794	828	2,821	3,807	5,862
Lithuania	5,562	4,176	4,364	4,463	3,785	4,562	4,628	6,804	5,900	7,286
Luxembourg	2,277	2,572	3,067	1,671	2,342	2,475	2,199	2,155	n/a	n/a
Hungary	n/a	n/a	19,287	21,583	28,054	31,511	35,543	43,913	41,084	33,864
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	92,315	90,516	78,625	70,650	73,200	66,704	59,629	65,314	67,016	72,382
Austria	58,029	57,489	59,447	53,760	45,850	41,914	n/a	n/a	n/a	n/a
Poland	74,000	80,000	82,000	87,800	106,105	97,595	162,000	108,123	114,060	115,187
Portugal	78,403	84,520	105,348	107,887	102,904	50,238	34,839	66,505	59,412	58,376
Romania	n/a	n/a	n/a	26,400	27,041	27,722	29,125	30,127	32,868	39,638
Slovenia	6,615	6,955	5,446	6,751	7,986	7,778	6,502	6,073	6,272	n/a
Slovakia	7,172	8,234	10,745	12,931	10,321	14,213	13,980	12,592	14,863	14,444
Finland	26,854	29,842	28,939	32,740	30,592	27,171	28,101	30,662	34,177	33,683
Sweden	13,000	11,500	11,700	13,000	15,400	19,900	20,000	25,300	23,400	30,300
UK	191,075	179,719	182,122	178,433	175,178	182,988	190,618	203,376	209,560	n/a
Croatia	12,854	n/a	n/a	n/a	n/a	n/a	4,900	5,000	4,600	7,200
Iceland	1,369	1,427	1,381	1,258	1,711	2,140	2,311	2,355	3,100	3,294
Norway	18,659	20,659	19,892	18,873	22,147	20,856	20,526	22,809	28,853	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	10,372	10,496	10,713	13,871	16,388	19,500	n/a
Switzerland	35,961	33,734	33,108	32,214	28,873	28,644	32,096	36,935	37,958	41,989
Turkey	n/a	n/a	n/a	90,849	86,155	65,180	57,542	39,540	64,126	65,800
Ukraine	219,000	74,000	n/a	63,000	65,000	64,000	62,000	71,000	76,000	82,000

Source: European Mortgage Federation National Experts, National Statistics Offices
Note:
- n/a: figures not available

8. Building Permits

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	50,194	37,893	45,726	42,921	41,284	43,149	45,032	52,204	59,269	60,962
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Czech Republic	30,819	36,874	47,035	45,100	45,279	45,961	51,948	51,464	47,974	49,777
Denmark	17,947	18,771	17,720	17,154	20,702	24,359	28,665	30,694	35,618	29,180
Germany	530,263	477,707	437,584	350,549	291,084	274,120	296,854	268,123	240,468	247,541
Estonia	1,334	1,133	988	1,076	1,430	3,156	3,419	9,447	9,166	12,852
Greece	69,867	71,790	66,327	68,580	75,757	82,648	81,978	80,842	95,032	81,301
Spain	337,730	429,820	515,493	535,668	499,605	524,182	636,332	687,051	729,652	865,561
France	299,400	375,100	340,800	358,800	356,200	350,900	385,300	460,800	511,700	561,700
Ireland	13,729	16,719	23,595	26,332	23,613	19,728	20,949	27,512	n/a	n/a
Italy	34,910	31,530	31,980	35,548	n/a	n/a	n/a	n/a	n/a	n/a
Cyprus	6,614	6,558	6,429	6,096	6,499	6,856	7,548	8,252	9,098	9,794
Latvia	n/a	n/a	n/a	n/a	2,256	2,838	2,277	4,077	6,003	7,246
Lithuania	n/a	n/a	n/a	2,038	2,053	2,415	2,989	4,155	5,500	7,482
Luxembourg	3,411	3,215	3,739	3,411	2,846	2,956	3,364	3,919	4,692	4,411
Hungary	n/a	n/a	30,577	44,709	47,867	48,762	59,241	57,459	51,490	44,826
Malta	3,411	3,004	2,273	2,369	4,180	5,481	6,128	6,707	9,081	10,409
Netherlands	101,501	87,673	84,201	78,563	60,000	67,183	72,454	76,180	83,273	96,447
Austria	56,925	50,789	45,459	41,460	40,229	42,281	n/a	n/a	n/a	n/a
Poland	62,000	78,000	106,000	70,000	81,000	39,000	61,000	105,831	115,862	160,545
Portugal	44,200	47,998	52,004	49,673	47,647	47,194	43,095	79,236	73,112	68,615
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	43,542	51,065
Slovenia	n/a	n/a	6,915	6,100	5,567	5,249	5,660	5,541	5,839	6,676
Slovakia	12,844	16,857	11,168	9,884	12,128	14,607	14,065	16,586	19,796	20,592
Finland	32,750	33,947	39,045	36,939	30,162	31,235	35,923	35,046	37,135	35,465
Sweden	12,500	13,800	15,300	18,500	22,000	18,700	25,200	26,200	32,700	30,500
UK	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Croatia	n/a	n/a	n/a	n/a	n/a	13,200	13,600	12,700	13,818	13,575
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland	33,284	29,112	26,427	27,909	25,190	26,715	29,023	30,923	31,928	35,416
Turkey	n/a	n/a	n/a	79,140	77,430	47,242	53,843	72,005	114,254	108,109
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: European Mortgage Federation National Experts, National Statistics Offices
Note:
- n/a: figures not available

9. Number of Transactions

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	108,544	107,714	114,577	108,073	110,973	116,142	119,935	118,777	119,257	116,563
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Czech Republic	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Denmark	78,068	76,438	70,622	71,290	67,953	67,982	70,568	79,566	85,196	69,558
Germany	569,000	623,000	567,000	483,000	498,000	500,000	492,000	441,000	499,000	460,000
Estonia	28,319	24,036	25,896	28,494	30,700	28,622	33,901	35,744	47,280	44,925
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	n/a	n/a	n/a	n/a	n/a	n/a	n/a	848,390	901,574	955,187
France	589,000	658,000	742,000	785,000	778,000	792,000	803,000	804,000	802,000	n/a
Ireland	64,652	68,925	78,572	80,856	69,062	93,136	97,888	104,305	120,037	114,593
Italy	523,646	576,340	639,617	688,284	661,379	753,578	807,157	804,126	833,350	845,051
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	22,473	31,647	40,524	51,306	63,600	68,700	n/a
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Luxembourg	4,341	4,350	4,734	4,613	4,791	5,170	5,058	4,908	5,011	n/a
Hungary	n/a	n/a	n/a	295,900	240,000	353,000	298,363	261,010	171,136	184,530
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	281,000	280,000	292,000	269,000	265,000	269,000	260,000	na	n/a	n/a
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Poland	321,000	293,000	321,000	270,000	262,000	243,000	n/a	n/a	n/a	n/a
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovenia	n/a	n/a	n/a	n/a	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	n/a	n/a	n/a
Finland	81,400	90,467	93,736	68,540	68,757	68,112	71,374	73,939	81,208	77,121
Sweden	54,700	48,600	56,900	51,000	50,700	51,600	54,300	56,200	58,200	57,900
UK	1,441,000	1,348,000	1,469,000	1,431,000	1,456,759	1,585,768	1,344,517	1,791,772	1,529,466	1,777,209
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	120,418	112,658	119,025	125,177	130,383	133,149	n/a	n/a	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	12,000	14,000
Switzerland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Turkey	n/a	18,589	10,586	58,615	2,911	10,915	25,999	100,449	242,582	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: European Mortgage Federation National Experts, National Central Banks, National Statistics Offices
Notes:
- n/a: figures not available
- Belgium: transactions on second hand dwellings only
- Denmark: excludes self build
- France: new apartments as principal and secondary residence or rental
- Spain: New data published by the Ministry of Housing. It only covers 2004-2006. The data includes transactions for all type of dwellings (new, second-hand, subsided, etc.)
- Ireland: estimate based on mortgage approvals
- Netherlands: includes commercial transactions
- Portugal: urban areas only - includes commercial transactions
- Sweden: one and two dwelling buildings only
- UK: England and Wales only- includes commercial transactions

10. House Prices (national) annual % change

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	14.9%	4.8%	6.5%	3.9%	5.1%	7.1%	7.2%	5.5%	16.3%	12.1%
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	47.6%	36.5%	14.7%
Czech Republic	n/a	n/a	7.3%	14.4%	6.9%	27.5%	7.0%	0.1%	n/a	n/a
Denmark	11.0%	10.6%	8.3%	7.2%	7.9%	5.3%	5.2%	11.7%	17.0%	16.2%
Germany	-0.8%	0.0%	0.0%	0.8%	0.0%	-1.6%	-0.8%	-0.8%	-1.7%	-0.9%
Estonia	n/a	n/a	n/a	n/a	n/a	16.9%	19.7%	42.7%	42.1%	20.9%
Greece	9.6%	14.4%	8.8%	10.5%	14.6%	13.0%	5.7%	5.2%	13.1%	9.0%
Spain	2.8%	5.8%	7.7%	8.6%	9.9%	15.7%	17.6%	17.4%	13.9%	10.4%
France	2.0%	2.9%	7.5%	7.9%	8.1%	9.0%	11.5%	17.6%	14.7%	9.9%
Ireland	17.6%	28.8%	20.4%	15.3%	8.0%	3.6%	14.1%	11.2%	10.6%	13.6%
Italy	-3.8%	2.0%	6.7%	8.6%	7.9%	10.0%	10.7%	n/a	n/a	n/a
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	14.0%	17.5%	4.9%	48.6%	n/a
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Luxembourg	4.0%	5.2%	6.5%	6.4%	10.4%	9.8%	12.2%	13.6%	11.5%	n/a
Hungary	n/a	7.8%	30.9%	28.4%	8.6%	-1.1%	n/a	n/a	n/a	n/a
Malta	8.8%	8.5%	4.9%	3.2%	5.0%	8.7%	13.3%	20.3%	9.8%	3.5%
Netherlands	12.3%	11.7%	16.2%	16.5%	11.2%	8.5%	5.0%	4.3%	4.3%	4.7%
Austria	n/a	n/a	n/a	n/a	3.5%	-0.2%	0.4%	-2.8%	4.9%	3.1%
Poland	n/a	n/a	n/a	7.2%	10.0%	-4.2%	-6.9%	n/a	n/a	n/a
Portugal	4.4%	5.8%	8.6%	8.8%	5.3%	0.7%	1.3%	0.8%	2.7%	2.1%
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	12.0%	13.4%	15.0%
Slovakia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Finland	17.6%	10.2%	8.8%	5.9%	-0.9%	7.4%	6.4%	7.1%	6.1%	7.5%
Sweden	7.0%	9.6%	9.2%	11.0%	8.0%	6.3%	6.6%	9.6%	9.6%	11.4%
UK	9.4%	10.9%	11.5%	14.3%	8.4%	17.0%	15.7%	11.8%	5.5%	6.3%
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	n/a	n/a	n/a	n/a	10.6%	4.8%	11.6%	10.5%	28.5%	n/a
Norway	11.3%	8.5%	11.2%	15.7%	7.0%	5.0%	1.7%	10.2%	8.3%	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland	-5.5%	-4.0%	-2.1%	0.3%	1.9%	2.8%	2.3%	2.3%	6.2%	3.3%
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: European Mortgage Federation National Experts, National Statistics Offices

Notes:

- n/a: figures not available
- Germany: It covers second hand dwellings only
- Denmark: second hand dwellings only
- Greece: urban areas only; the figure for 2006 is an estimate.
- Spain: price for all dwellings (except those subsidised by the government)
- France: second hand dwellings only
- Ireland: average price of all residential property approved for mortgage
- Italy: urban areas only
- Latvia: average price for a flat in Riga
- Sweden: one and two dwellings buildings
- UK: mix adjusted all dwellings
- Bulgaria: average price for dwellings

11. Building Prices, annual % change

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	0.0%	2.7%	1.7%	4.2%	5.7%	1.5%	2.3%	5.3%	3.4%	6.1%
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Czech Republic	n/a	11.3%	0.3%	-0.6%	4.5%	2.3%	6.4%	4.7%	7.5%	5.6%
Denmark	2.8%	2.9%	3.4%	2.3%	3.7%	2.2%	2.6%	2.0%	2.4%	4.7%
Germany	-0.9%	-0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.9%	0.9%	2.6%
Estonia	n/a	9.9%	1.0%	3.3%	5.4%	3.0%	3.2%	6.1%	6.8%	14.0%
Greece	5.9%	6.7%	4.8%	2.3%	2.2%	3.0%	2.5%	3.0%	3.2%	5.0%
Spain	2.4%	0.0%	3.9%	6.0%	0.0%	3.5%	1.4%	7.0%	4.5%	5.9%
France	2.8%	0.0%	0.9%	2.7%	3.4%	2.5%	2.4%	5.6%	2.3%	6.6%
Ireland	3.4%	4.1%	4.8%	3.8%	18.2%	6.2%	2.6%	3.1%	2.7%	3.8%
Italy	2.4%	-0.8%	1.6%	3.1%	9.8%	n/a	n/a	n/a	n/a	n/a
Cyprus	3.5%	2.6%	2.6%	1.1%	4.3%	4.6%	9.9%	16.8%	12.2%	n/a
Latvia	n/a	n/a	n/a	n/a	-2.3%	0.1%	2.4%	6.3%	-0.6%	21.9%
Lithuania	-6.0%	-3.9%	-3.1%	-1.3%	-1.4%	0.5%	1.0%	5.0%	1.4%	2.0%
Luxembourg	1.5%	1.8%	2.1%	3.1%	4.2%	2.6%	2.0%	2.9%	3.1%	2.7%
Hungary	n/a	n/a	n/a	n/a	10.1%	-5.1%	1.1%	-0.9%	-0.6%	2.8%
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	3.8%	3.7%	6.2%	5.0%	7.2%	10.4%	4.1%	-2.6%	n/a	n/a
Austria	1.8%	1.0%	0.2%	0.9%	1.1%	0.7%	0.9%	2.0%	1.8%	2.7%
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.0%	2.9%
Portugal	3.7%	2.6%	3.3%	3.2%	n/a	n/a	n/a	n/a	n/a	n/a
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovenia	n/a	n/a	n/a	n/a	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	n/a	n/a	n/a
Finland	2.5%	2.3%	2.2%	2.7%	2.7%	0.9%	2.6%	3.7%	3.7%	3.8%
Sweden	0.9%	2.9%	1.5%	4.5%	4.5%	3.5%	2.6%	3.1%	3.8%	5.2%
UK	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	3.7%	2.4%	2.3%	3.9%	6.8%	5.8%	3.3%	6.1%	3.9%	n/a
Norway	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland	n/a	n/a	n/a	4.6%	1.6%	-1.8%	-1.5%	2.2%	1.8%	3.6%
Turkey	n/a	n/a	n/a	n/a	56.5%	35.9%	21.3%	14.6%	10.3%	14.1%
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: European Mortgage Federation National Experts, National Statistics Offices

Note:

- n/a: figures not available

12. Total Outstanding Residential Loans, € million

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	55,058	60,373	65,789	69,988	69,240	74,460	82,900	89,414	101,092	114,105
Bulgaria	n/a	n/a	43	54	79	120	205	510	1,006	1,745
Czech Republic	n/a	n/a	n/a	n/a	n/a	1,531	2,438	3,682	6,016	8,055
Denmark	106,382	116,425	124,373	123,639	133,894	142,333	155,755	168,678	195,762	221,970
Germany	942,845	1,012,998	1,118,786	1,097,914	1,122,809	1,139,830	1,156,341	1,157,026	1,162,588	1,183,834
Estonia	n/a	185	215	286	387	593	954	1,500	2,618	4,278
Greece	5,646	6,844	8,593	11,272	15,652	21,225	26,775	34,052	45,420	57,145
Spain	104,294	128,328	154,556	188,165	220,913	261,921	312,916	384,631	475,571	571,746
France	254,000	263,500	285,100	305,300	324,600	350,700	385,400	432,300	503,600	577,800
Ireland	17,195	20,855	26,186	32,546	38,343	47,212	59,362	77,029	98,956	123,288
Italy	75,124	84,652	101,037	117,020	123,831	142,844	173,357	206,341	243,622	276,102
Cyprus	n/a	308	490	584	680	870	1,162	1,487	2,144	3,077
Latvia	n/a	n/a	48	133	220	410	760	1,273	2,509	4,680
Lithuania	n/a	87	142	136	188	337	668	1,258	2,268	2,997
Luxembourg	3,615	4,037	4,458	5,494	6,157	6,647	7,830	8,797	10,006	11,345
Hungary	n/a	n/a	n/a	n/a	1,261	3,205	5,951	7,591	9,205	10,215
Malta	n/a	n/a	292	337	768	878	1,034	1,236	1,519	1,770
Netherlands	168,156	199,154	234,900	285,899	327,770	374,124	402,488	435,654	487,322	597,990
Austria	n/a	n/a	n/a	n/a	29,632	35,998	39,746	48,078	53,815	60,669
Poland	2,037	2,252	2,745	3,968	5,764	7,061	8,693	9,642	14,646	22,514
Portugal	n/a	n/a	42,180	50,735	57,365	64,838	66,233	71,101	79,452	91,895
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	921	1,449	2,276
Slovenia	n/a	n/a	52	65	99	201	263	800	1,368	1,956
Slovakia	n/a	n/a	n/a	n/a	n/a	1,011	1,415	2,196	3,078	4,209
Finland	31,930	34,360	37,240	39,990	43,370	46,873	51,025	58,125	65,946	73,200
Sweden	107,651	99,135	110,417	118,896	115,979	124,144	133,732	145,491	159,025	173,499
UK	646,734	647,291	750,991	880,198	950,922	1,073,696	1,119,367	1,293,013	1,414,425	1,583,372
EU 27	2,520,668	2,680,785	3,068,633	3,332,619	3,589,923	3,923,061	4,196,769	4,641,825	5,144,428	5,785,731
Croatia	n/a	n/a	973	1,087	1,265	1,680	2,257	2,904	3,803	5,219
Iceland	3,459	3,640	4,384	5,333	5,233	5,759	6,412	7,551	10,553	9,828
Norway	52,608	53,377	62,148	71,416	80,370	97,129	103,460	110,967	125,260	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,015	5,072	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	4	23	89	307	650
Switzerland	177,890	187,513	185,707	198,249	213,115	229,667	236,379	281,676	297,274	307,348
Turkey	n/a	n/a	n/a	619	401	349	870	2,430	7,387	12,237
Ukraine	n/a	n/a	n/a	n/a	66	134	380	487	1,670	4,301

Source: European Mortgage Federation National Experts, European Central Bank, National Central Banks, National Statistics Offices, Eurostat

Notes:

- n/a: figures not available
- Denmark: The figure for the Danish market is an estimate; the data provided by the Danish Mortgage Association represent lending by mortgage banks only, which account for approx. 90% of the market.
- Spain: Data include only residential lending to households. However, data for commercial lending in Spain include loans to developers for residential lending. The data published by the Spanish Mortgage Association includes both, commercial and residential lending.
- Latvia: Exchange rates before 1999 are in DEM which are then converted in EUR
- Poland: Exchange rates before 1999 are in DEM which are then converted in EUR
- Iceland: Exchange rates before 1998 are in DEM which are then converted in EUR

13. Gross Residential Loans, € million

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	13,339	12,341	17,622	9,513	9,622	11,688	18,134	17,264	25,198	24,328
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Czech Republic	n/a	n/a	n/a	n/a	n/a	735	1,202	1,590	2,609	4,094
Denmark	24,750	37,634	32,559	19,808	35,273	35,282	55,317	49,988	86,213	56,171
Germany	n/a	n/a	n/a	n/a	110,900	105,900	113,100	99,900	103,100	107,000
Estonia	n/a	63	87	120	176	301	508	806	1,471	2,339
Greece	n/a	n/a	n/a	n/a	n/a	n/a	5,905	8,035	13,609	15,444
Spain	29,317	35,910	40,959	47,420	55,265	70,527	91,387	109,028	139,319	156,676
France	46,940	52,128	70,347	63,700	66,200	78,500	95,800	113,400	134,500	149,080
Ireland	3,589	4,587	6,517	7,598	7,664	10,825	13,524	16,933	34,114	39,872
Italy	20,999	26,446	41,162	42,704	44,245	53,173	59,850	68,544	79,500	89,657
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,734	n/a
Lithuania	n/a	n/a	49	52	105	211	348	594	865	1,171
Luxembourg	1,263	1,483	1,651	1,676	1,906	2,308	2,745	3,386	3,957	4,376
Hungary	n/a	n/a	n/a	n/a	597	2,031	n/a	n/a	1,933	2,611
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	48,310	60,028	78,032	69,593	72,609	81,385	95,996	87,164	114,134	119,000
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	18,260	17,578	n/a
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovenia	n/a	n/a	n/a	n/a	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	n/a	n/a	n/a
Finland	6,593	9,058	8,443	7,457	8,787	8,202	13,851	19,494	28,806	27,000
Sweden	19,155	16,705	19,506	19,467	22,290	23,731	29,559	33,296	43,880	41,289
UK	115,792	126,691	174,132	196,551	257,486	351,028	400,789	429,193	421,439	505,928
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	862	1,378
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Turkey	n/a	n/a	n/a	731	54	293	873	2,702	6,938	8,626
Ukraine	n/a	n/a	n/a	n/a	92	188	493	585	1,837	n/a

Source: European Mortgage Federation National Experts, National Central Banks

Note:

- n/a: figures not available

14. Net Residential Loans, € million

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	3,456	2,568	5,417	2,478	443	4,720	6,253	6,302	9,864	11,077
Bulgaria	n/a	n/a	15	11	24	41	85	306	496	741
Czech Republic	n/a	n/a	n/a	n/a	n/a	984	957	1,247	2,073	1,733
Denmark	7,015	8,181	6,103	5,768	7,919	8,898	10,372	9,368	19,757	20,034
Germany	60,761	60,357	68,942	40,172	27,004	19,311	20,600	7,858	5,738	3,421
Estonia	n/a	48	30	71	101	206	361	546	1,118	1,660
Greece	1,086	1,197	1,749	2,679	4,380	5,573	5,309	7,274	11,368	11,725
Spain	18,115	24,034	26,228	33,608	43,048	41,008	50,995	71,715	90,940	96,175
France	9,435	9,500	21,600	20,200	19,300	26,100	34,700	45,200	65,500	74,200
Ireland	3,316	3,659	5,331	6,360	5,797	8,869	12,151	17,787	21,927	24,332
Italy	4,441	10,050	16,384	14,982	6,811	19,013	30,513	32,980	37,281	32,480
Cyprus	n/a	73	180	89	99	189	305	321	644	929
Latvia	n/a	n/a	48	80	88	196	350	575	1,186	2,171
Lithuania	24	37	40	-64	44	145	331	590	872	1,127
Luxembourg	232	421	421	1,036	663	490	1,183	967	1,209	1,339
Hungary	n/a	n/a	n/a	n/a	528	1,874	2,881	1,598	1,505	1,575
Malta	n/a	n/a	n/a	40	424	144	184	208	271	248
Netherlands	23,488	30,998	35,746	50,999	41,871	46,354	28,364	33,166	51,668	110,990
Austria	n/a	n/a	n/a	n/a	n/a	6,366	3,748	8,332	5,737	6,854
Poland	221	295	673	1,073	1,433	1,574	2,502	1,193	3,909	7,390
Portugal	n/a	n/a	n/a	8,555	6,630	7,473	1,395	5,569	8,351	12,443
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,194	789
Slovenia	n/a	n/a	n/a	5	32	107	95	563	570	588
Slovakia	n/a	n/a	n/a	n/a	n/a	n/a	375	729	801	1,018
Finland	1,470	2,430	2,880	2,750	3,380	3,503	4,816	5,497	6,945	6,808
Sweden	n/a	158	3,611	3,742	7,488	6,975	9,097	11,760	16,009	13,998
UK	35,733	35,770	57,302	66,873	86,661	125,355	146,076	148,443	133,519	162,850
Croatia	n/a	n/a	n/a	104	161	404	612	625	862	1,376
Iceland	n/a	260	541	672	805	451	684	1,175	2,142	421
Norway	2,401	4,883	4,701	7,448	8,723	10,597	12,334	12,036	9,298	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3,021	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	4	19	66	218	343
Switzerland	9,964	7,044	4,622	7,488	8,645	10,233	14,894	48,758	16,416	14,724
Turkey	n/a	n/a	n/a	n/a	n/a	238	593	1,901	5,321	5,395
Ukraine	n/a	n/a	n/a	n/a	n/a	71	267	141	1,166	2,617

Source: European Mortgage Federation National Experts, National Central Banks
Note:
- n/a: figures not available

15. Total Outstanding Non Residential Loans, € million

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Czech Republic	n/a	n/a	n/a	n/a	n/a	553	983	1,314	1,625	2,439
Denmark	21,030	21,625	22,705	29,679	30,892	34,977	35,923	34,524	30,680	27,068
Germany	185,971	199,058	207,797	217,645	223,644	232,701	257,432	258,045	258,569	256,332
Estonia	n/a	117	191	262	409	607	813	1,279	2,278	4,145
Greece	1,365	1,505	1,608	1,811	2,172	2,903	3,247	4,040	4,190	4,194
Spain	44,162	51,296	64,483	73,864	91,200	115,092	154,952	197,801	263,724	339,677
France	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	2,824	3,409	4,251	4,925	6,384	8,046	7,257	10,072	11,792	16,137
Italy	56,820	58,866	66,030	69,298	74,745	78,297	80,805	93,101	104,399	121,294
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	203	300	498	779	1,669	3,345
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Luxembourg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands			n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Austria	n/a	n/a	n/a	n/a	36,712	35,184	35,371	31,929	31,673	n/a
Poland	n/a	n/a	n/a	n/a	n/a	718	1,141	1,732	2,316	3,673
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	352	670	1,366
Slovenia	n/a	n/a	n/a	n/a	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	n/a	n/a	n/a
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Sweden	7,701	8,008	8,781	9,609	8,375	8,015	8,181	7,434	7,314	7,015
UK	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	43	100
Switzerland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Turkey	n/a	n/a	n/a	20	12	11	27	76	1,154	1,095
Ukraine	n/a	n/a	n/a	n/a	7	13	38	49	167	n/a

Source: European Mortgage Federation National Experts, National Central Banks
Note:
- n/a: figures not available

16. Gross Non Residential Loans, € million

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Czech Republic	n/a	n/a	n/a	n/a	n/a	249	293	546	709	899
Denmark	7,116	10,562	10,289	4,850	9,627	9,386	13,563	8,806	14,205	6,732
Germany	n/a	n/a	n/a	n/a	22,100	22,100	24,900	25,000	26,900	35,000
Estonia	n/a	105	105	194	256	363	412	702	1,564	2,893
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	16,552	23,440	28,458	27,857	34,472	44,843	63,411	86,266	110,715	127,965
France	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Italy	6,214	16,044	22,444	23,358	21,963	26,832	29,320	31,241	35,821	43,527
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Luxembourg	120	413	552	638	828	823	1,108	779	784	906
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	21,244	33,564	40,270	36,988	49,226	42,972	64,138	n/a	n/a	n/a
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovenia	n/a	n/a	n/a	n/a	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	n/a	n/a	n/a
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Sweden	1,818	2,737	2,412	2,214	1,927	1,959	2,089	1,469	1,553	1,595
UK	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Turkey	n/a	n/a	n/a	23	2	9	27	85	218	601
Ukraine	n/a	n/a	n/a	n/a	9	19	49	58	184	n/a

Source: European Mortgage Federation National Experts, National Central Banks
Note:
- n/a: figures not available

17. Net Non Residential Loans, € million

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Czech Republic	n/a	n/a	n/a	n/a	n/a	n/a	449	332	218	731
Denmark	85	-3,486	1,327	892	2,035	2,557	2,443	2,944	1,970	1,604
Germany	8,831	11,155	8,742	6,123	2,822	2,978	-6,840	-2,441	-4,673	-5,073
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Greece	76	141	103	203	330	731	585	551	150	4
Spain	5,523	7,134	13,090	9,382	7,146	23,882	39,860	42,849	65,923	75,915
France	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	240	585	842	674	1,459	1,662	-790	959	1,720	4,345
Italy	-209	34,387	7,163	4,269	5,627	3,552	2,508	12,300	11,298	16,895
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	336	103	265	322	935	1,676
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Luxembourg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovenia	n/a	n/a	n/a	n/a	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	n/a	n/a	n/a
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Sweden	n/a	927	159	450	-389	-448	110	-745	11	-323
UK	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	39	103	7	189	n/a

Source: European Mortgage Federation National Experts, National Central Banks
Note:
- n/a: figures not available

18. Representative interest rates on new mortgage loans

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	7.6%	5.4%	7.1%	7.3%	6.9%	6.6%	6.0%	5.2%	5.0%	5.4%
Bulgaria	17.2%	17.8%	17.9%	15.9%	15.1%	13.1%	12.6%	10.6%	6.9%	8.5%
Czech Republic	n/a	n/a	n/a	n/a	n/a	n/a	5.0%	4.7%	4.0%	4.4%
Denmark	7.1%	6.3%	7.4%	7.2%	6.4%	5.7%	5.5%	5.0%	4.4%	5.2%
Germany	6.7%	5.3%	6.4%	6.4%	5.9%	5.5%	5.1%	4.6%	4.2%	4.6%
Estonia	12.3%	12.7%	11.8%	13.1%	10.3%	7.4%	4.6%	3.7%	3.7%	4.4%
Greece	15.3%	13.8%	11.8%	7.0%	6.7%	6.7%	5.5%	4.5%	4.0%	4.4%
Spain	5.6%	4.9%	4.4%	5.9%	4.5%	3.8%	3.2%	3.3%	3.5%	4.0%
France	6.7%	5.6%	5.9%	6.4%	5.4%	5.1%	4.4%	4.3%	3.5%	3.9%
Ireland	7.5%	6.0%	4.4%	6.2%	4.7%	4.7%	3.5%	3.5%	3.7%	4.6%
Italy	7.2%	5.5%	6.1%	6.5%	5.3%	5.0%	4.8%	4.5%	4.1%	4.6%
Cyprus	8.0%	8.0%	8.0%	8.0%	7.0%	6.8%	6.3%	7.3%	6.2%	5.7%
Latvia	n/a	n/a	14.2%	11.4%	11.1%	8.6%	8.3%	5.0%	4.1%	4.7%
Lithuania	n/a	n/a	10.1%	9.9%	8.8%	6.1%	5.0%	4.5%	3.3%	4.0%
Luxembourg	5.5%	5.0%	5.0%	6.0%	4.8%	4.4%	3.4%	3.4%	3.5%	4.0%
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Malta	n/a	n/a	n/a	n/a	n/a	n/a	4.5%	4.3%	4.5%	4.7%
Netherlands	6.2%	5.3%	6.0%	6.4%	5.5%	5.2%	4.9%	4.8%	4.1%	4.4%
Austria	6.5%	6.0%	6.0%	7.1%	6.0%	5.4%	4.4%	3.9%	3.6%	3.8%
Poland	n/a	n/a	n/a	n/a	n/a	9.6%	7.6%	8.1%	6.0%	5.7%
Portugal	8.0%	5.7%	5.0%	6.8%	5.0%	5.1%	4.3%	4.1%	4.1%	5.0%
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovenia	19.6%	16.2%	12.4%	15.4%	14.8%	13.5%	10.2%	7.6%	6.1%	5.6%
Slovakia	n/a	n/a	n/a	10.0%	9.1%	8.6%	7.2%	6.9%	4.7%	6.3%
Finland	5.9%	5.6%	5.0%	6.5%	5.3%	4.1%	3.5%	3.1%	3.0%	3.7%
Sweden	5.4%	4.6%	4.4%	4.9%	4.7%	4.9%	3.7%	3.0%	2.4%	3.6%
UK	5.8%	6.1%	6.0%	5.2%	5.5%	4.6%	4.2%	5.0%	5.2%	5.1%
Croatia	n/a	n/a	n/a	n/a	n/a	7.4%	6.0%	5.7%	5.0%	4.8%
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6.0%	6.0%
Switzerland	4.5%	4.2%	4.0%	4.3%	4.2%	3.8%	3.3%	3.1%	2.9%	3.0%
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	17.5%	15.0%	19.6%
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: European Mortgage Federation, National Central Banks
Notes:
- n/a: figures not available

Defintions of representative interest rates are available in the Annex: Explanatory Note on data

19. Total Covered Bonds Outstanding(backed by mortgages), € million

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Czech Republic	n/a	n/a	n/a	n/a	n/a	n/a	1,638	1,956	4,452	5,543
Denmark	n/a	n/a	n/a	n/a	n/a	n/a	226,695	250,133	286,411	300,367
Germany	n/a	n/a	n/a	n/a	n/a	n/a	256,027	246,636	237,547	223,306
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	n/a	n/a	n/a	n/a	n/a	n/a	57,111	94,707	150,213	214,768
France	n/a	n/a	n/a	n/a	n/a	n/a	21,079	26,816	32,133	43,012
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,000	4,000	11,900
Italy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	35	54	60	63
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	14	14	14
Luxembourg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	150
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	3,622	4,962	5,072	5,924
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,000	7,500
Austria	n/a	n/a	n/a	n/a	n/a	n/a	4,000	n/a	3,560	3,420
Poland	n/a	n/a	n/a	n/a	n/a	n/a	160	220	558	453
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,000
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovenia	n/a	n/a	n/a	n/a	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	370	792	1,235	1,861
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	250	1,500	3,000
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	55,208
UK	n/a	n/a	n/a	n/a	n/a	n/a	5,000	14,987	26,776	50,594
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland	n/a	n/a	n/a	n/a	n/a	n/a	20,735	20,606	21,670	23,096
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: European Covered Bond Council
Notes:
- n/a: figures not available

20. Total Covered Bonds Issuance (backed by mortgages), € million

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Czech Republic	n/a	n/a	n/a	n/a	n/a	n/a	666	744	2,558	956
Denmark	n/a	n/a	n/a	n/a	n/a	n/a	99,727	95,009	149,708	114,014
Germany	n/a	n/a	n/a	n/a	n/a	n/a	57,621	40,773	33,722	35,336
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	n/a	n/a	n/a	n/a	n/a	n/a	28,502	37,835	57,780	69,890
France	n/a	n/a	n/a	n/a	n/a	n/a	6,181	5,737	6,397	12,637
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,000	2,000	7,900
Italy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	11	22	4	20
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	14	14	n/a
Luxembourg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	150
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	2,924	2,388	808	1,418
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,000	5,500
Austria	n/a	n/a	n/a	n/a	n/a	n/a	1,029	n/a	214	n/a
Poland	n/a	n/a	n/a	n/a	n/a	n/a	123	63	224	52
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,000
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovenia	n/a	n/a	n/a	n/a	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	258	414	455	617
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	250	1,250	1,500
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	17,550
UK	n/a	n/a	n/a	n/a	n/a	n/a	5,000	9,987	11,795	23,812
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland	n/a	n/a	n/a	n/a	n/a	n/a	3,661	3,061	3,212	4,093
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: European Covered Bond Council
Notes:
- n/a: figures not available

21. Total RMBS Issues, € million

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	n/a	n/a	n/a	39	60	n/a	2,270	1,050	n/a	n/a
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Czech Republic	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Denmark	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100	n/a
Germany	n/a	n/a	n/a	n/a	n/a	3,030	2,860	1,130	1,100	6,200
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Greece	n/a	n/a	n/a	n/a	n/a	n/a	250	741	1,500	3,600
Spain	705	3,542	6,261	3,124	6,858	8,235	16,167	20,059	27,300	36,400
France	n/a	n/a	n/a	n/a	n/a	4,590	6,080	4,690	4,000	300
Ireland	n/a	508	1,150	2,790	1,830	520	1,820	n/a	n/a	10,200
Italy	n/a	n/a	n/a	3,080	11,400	7,490	9,070	8,862	8,200	16,500
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	51	n/a	n/a
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Luxembourg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	1,361	924	3,843	7,430	9,171	17,611	17,900	16,060	25,000	26,500
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	n/a	n/a	n/a	n/a	1,000	1,900	8,000	4,920	7,000	4,400
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovenia	n/a	n/a	n/a	n/a	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	n/a	n/a	n/a
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Sweden	n/a	n/a	n/a	n/a	280	1,470	1,000	1,513	n/a	n/a
UK	n/a	n/a	n/a	22,669	25,393	35,336	55,301	80,441	70,700	138,800
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: European Securitisation Forum
Notes:
- n/a: figures not available

22. GDP at Market Prices, € million

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	220,129	227,985	238,248	251,741	258,883	267,652	274,658	289,509	298,541	314,084
Bulgaria	9,219	11,386	12,164	13,704	15,250	16,623	17,767	19,875	21,882	25,100
Czech Republic	50,406	55,383	56,415	61,495	69,045	80,004	80,924	88,344	100,544	113,969
Denmark	150,414	155,163	163,200	173,598	179,226	184,744	188,500	196,158	208,267	220,163
Germany	1,907,246	1,952,107	2,012,000	2,062,500	2,113,160	2,143,180	2,161,500	2,207,200	2,241,000	2,309,100
Estonia	4,364	4,955	5,226	6,103	6,916	7,757	8,494	9,375	11,061	13,074
Greece	107,103	108,977	117,850	125,892	133,105	143,482	155,543	168,417	181,088	195,213
Spain	505,438	536,917	579,942	630,263	680,678	729,206	782,531	840,106	905,455	976,189
France	1,257,248	1,315,262	1,367,965	1,441,373	1,497,187	1,548,559	1,594,814	1,660,189	1,717,921	1,791,953
Ireland	71,718	78,811	90,612	104,553	116,756	129,946	138,942	147,568	161,162	175,795
Italy	1,052,554	1,087,220	1,127,091	1,191,057	1,248,648	1,295,226	1,335,354	1,390,539	1,423,048	1,475,401
Cyprus	7,848	8,532	9,163	10,079	10,801	11,153	11,755	12,700	13,629	14,522
Latvia	5,508	6,015	6,818	8,496	9,320	9,911	9,978	11,176	13,012	16,180
Lithuania	8,818	9,968	10,241	12,360	13,562	15,023	16,452	18,126	20,621	23,746
Luxembourg	16,342	17,294	19,887	22,001	22,572	24,081	25,607	26,996	29,396	33,055
Hungary	40,352	41,931	45,075	52,025	59,512	70,714	74,682	82,322	88,914	89,884
Malta	3,206	3,402	3,661	4,221	4,301	4,489	4,421	4,482	4,782	5,096
Netherlands	341,139	359,859	386,193	417,960	447,731	465,214	476,945	491,184	508,964	534,324
Austria	184,287	191,076	200,025	210,392	215,878	220,841	226,175	236,149	245,330	257,897
Poland	138,705	153,429	157,470	185,714	212,294	209,617	191,644	204,237	244,420	271,530
Portugal	98,831	105,760	114,193	122,270	129,308	135,434	138,582	144,128	148,928	155,216
Romania	n/a	37,436	33,388	40,346	44,904	48,442	52,613	60,842	79,551	97,118
Slovenia	17,399	18,794	20,152	20,814	22,018	23,699	24,860	26,232	27,634	29,742
Slovakia	19,020	19,981	19,314	22,096	23,570	26,034	29,229	33,863	38,113	43,945
Finland	108,817	116,391	122,747	132,272	139,868	143,974	145,938	152,345	157,162	167,062
Sweden	220,162	222,887	238,020	262,550	247,253	258,878	269,548	281,124	287,706	305,989
UK	1,178,502	1,279,815	1,384,378	1,573,359	1,613,355	1,678,980	1,615,984	1,745,051	1,804,586	1,906,359
EU 15	7,419,930	7,755,524	8,162,351	8,721,781	9,043,609	9,369,397	9,530,621	9,976,662	10,318,555	10,817,799
EU 27	7,724,774	8,126,735	8,541,435	9,159,234	9,535,101	9,892,863	10,053,439	10,548,236	10,982,717	11,561,706
Croatia	17,739	19,305	18,677	19,955	22,138	24,448	26,216	28,677	31,260	34,212
Iceland	6,543	7,363	8,172	9,398	8,806	9,425	9,691	10,632	13,058	13,010
Norway	139,572	134,701	149,262	182,579	190,956	204,074	199,146	208,256	242,582	267,381
Russia	n/a	n/a	181,880	280,790	341,998	364,630	381,981	475,949	614,410	771,901
Serbia	n/a	n/a	17,915	26,431	13,186	16,812	18,009	19,724	21,108	22,311
Switzerland	231,504	240,557	248,637	266,724	279,699	293,474	285,803	289,746	294,255	301,723
Turkey	167,799	177,796	173,097	216,736	161,836	192,803	212,268	242,262	290,503	318,586
Ukraine	49,521	37,069	23,300	21,546	24,570	24,736	22,630	23,118	24,558	26,521

Source: Eurostat, International Monetary Fund, World Bank
Note:
- n/a: figures not available

23. Inflation, HICP, Annual % change

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	1.5%	0.9%	1.1%	2.7%	2.4%	1.6%	1.5%	1.9%	2.5%	2.3%
Bulgaria	n/a	18.7%	2.6%	10.3%	7.4%	5.8%	2.3%	6.1%	6.0%	7.4%
Czech Republic	8.0%	9.7%	1.8%	3.9%	4.5%	1.4%	-0.1%	2.6%	1.6%	2.1%
Denmark	1.9%	1.3%	2.1%	2.7%	2.3%	2.4%	2.0%	0.9%	1.7%	1.8%
Germany	1.5%	0.6%	0.7%	1.4%	1.9%	1.3%	1.0%	1.8%	1.9%	1.8%
Estonia	9.3%	8.8%	3.1%	3.9%	5.6%	3.6%	1.4%	3.0%	4.1%	4.5%
Greece	5.4%	4.5%	2.1%	2.9%	3.7%	3.9%	3.4%	3.0%	3.5%	3.3%
Spain	1.9%	1.8%	2.2%	3.5%	2.8%	3.6%	3.1%	3.1%	3.4%	3.6%
France	1.3%	0.7%	0.6%	1.8%	1.8%	1.9%	2.2%	2.3%	1.9%	1.9%
Ireland	1.3%	2.1%	2.5%	5.3%	4.0%	4.7%	4.0%	2.3%	2.2%	2.7%
Italy	1.9%	2.0%	1.7%	2.6%	2.3%	2.6%	2.8%	2.3%	2.2%	2.2%
Cyprus	3.3%	2.3%	1.1%	4.9%	2.0%	2.8%	4.0%	1.9%	2.0%	2.3%
Latvia	8.1%	4.3%	2.1%	2.6%	2.5%	2.0%	2.9%	6.2%	6.9%	6.6%
Lithuania	8.8%	5.4%	1.5%	1.1%	1.6%	0.3%	-1.1%	1.2%	2.7%	3.8%
Luxembourg	1.4%	1.0%	1.0%	3.8%	2.4%	2.1%	2.5%	3.2%	3.8%	3.0%
Hungary	18.5%	14.2%	10.0%	10.0%	9.1%	5.2%	4.7%	6.8%	3.5%	4.0%
Malta	3.9%	3.7%	2.3%	3.0%	2.5%	2.6%	1.9%	2.7%	2.5%	2.6%
Netherlands	1.9%	1.8%	2.0%	2.3%	5.1%	3.9%	2.2%	1.4%	1.5%	1.7%
Austria	1.2%	0.8%	0.5%	2.0%	2.3%	1.7%	1.3%	2.0%	2.1%	1.7%
Poland	15.0%	11.8%	7.2%	10.1%	5.3%	1.9%	0.7%	3.6%	2.2%	1.3%
Portugal	1.9%	2.2%	2.2%	2.8%	4.4%	3.7%	3.3%	2.5%	2.1%	3.0%
Romania	154.9%	59.1%	45.8%	45.7%	34.5%	22.5%	15.3%	11.9%	9.1%	6.6%
Slovenia	8.3%	7.9%	6.1%	8.9%	8.6%	7.5%	5.7%	3.7%	2.5%	2.5%
Slovakia	6.0%	6.7%	10.4%	12.2%	7.2%	3.5%	8.4%	7.5%	2.8%	4.3%
Finland	1.3%	1.3%	2.9%	2.7%	2.0%	1.3%	0.1%	0.8%	0.8%	1.3%
Sweden	1.8%	1.0%	0.6%	1.3%	2.7%	2.0%	2.3%	1.0%	0.8%	1.5%
UK	1.8%	1.6%	1.4%	0.8%	1.2%	1.3%	1.4%	1.3%	2.1%	2.3%
EU 15	1.7%	1.3%	1.2%	1.9%	2.2%	2.1%	2.0%	2.0%	2.0%	2.0%
EU 27	2.6%	2.1%	1.6%	2.1%	2.5%	2.1%	1.9%	2.1%	2.1%	2.1%
Croatia	3.6%	5.7%	4.0%	4.6%	3.7%	1.7%	1.8%	2.1%	3.3%	3.2%
Iceland	1.8%	1.7%	3.4%	5.1%	6.6%	4.8%	2.1%	3.2%	4.0%	6.8%
Norway	2.6%	2.0%	2.1%	3.0%	2.7%	0.8%	2.0%	0.6%	1.5%	2.5%
Russia	n/a	n/a	n/a	18.6%	15.1%	12.0%	11.7%	10.9%	12.7%	9.7%
Serbia	n/a	30.0%	41.1%	70.0%	91.8%	19.5%	11.7%	10.1%	17.3%	12.7%
Switzerland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Turkey	85.0%	83.6%	63.5%	54.3%	53.9%	44.8%	25.2%	10.3%	8.1%	9.3%
Ukraine	15.9%	10.6%	22.7%	28.2%	12.0%	0.8%	5.2%	9.0%	14.2%	12.1%

Source: Eurostat, International Monetary Fund, World Bank
Notes:
- n/a: figures not available

24. Population, 000s

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	10,170	10,192	10,214	10,239	10,263	10,310	10,356	10,396	10,446	10,511
Bulgaria	8,341	8,283	8,230	8,191	7,929	7,892	7,846	7,801	7,761	7,719
Czech Republic	10,309	10,299	10,290	10,278	10,267	10,206	10,203	10,211	10,221	10,251
Denmark	5,275	5,295	5,314	5,330	5,349	5,368	5,384	5,398	5,411	5,427
Germany	82,012	82,057	82,037	82,163	82,260	82,440	82,537	82,532	82,501	82,438
Estonia	1,406	1,393	1,379	1,372	1,367	1,361	1,356	1,351	1,348	1,345
Greece	10,745	10,808	10,861	10,904	10,931	10,969	11,006	11,041	11,083	11,125
Spain	39,525	39,639	39,803	40,050	40,477	40,964	41,664	42,345	43,038	43,758
France	59,726	59,935	60,159	60,513	60,915	61,326	61,735	62,130	62,519	62,999
Ireland	3,655	3,694	3,732	3,778	3,833	3,900	3,964	4,028	4,109	4,209
Italy	56,876	56,904	56,909	56,924	56,961	56,994	57,321	57,888	58,462	58,752
Cyprus	666	675	683	690	698	706	715	730	749	766
Latvia	2,445	2,421	2,399	2,382	2,364	2,346	2,331	2,319	2,306	2,295
Lithuania	3,588	3,562	3,536	3,512	3,487	3,476	3,463	3,446	3,425	3,403
Luxembourg	417	422	427	434	439	444	448	452	455	460
Hungary	10,301	10,280	10,253	10,222	10,200	10,175	10,142	10,117	10,098	10,077
Malta	374	377	379	380	391	395	397	400	403	404
Netherlands	15,567	15,654	15,760	15,864	15,987	16,105	16,193	16,258	16,306	16,334
Austria	7,965	7,971	7,982	8,002	8,021	8,065	8,102	8,140	8,207	8,266
Poland	38,639	38,660	38,667	38,654	38,254	38,242	38,219	38,191	38,174	38,157
Portugal	10,073	10,110	10,149	10,195	10,257	10,329	10,407	10,475	10,529	10,570
Romania	22,054	21,989	21,946	21,908	21,876	21,833	21,773	21,711	21,659	21,610
Slovenia	1,987	1,985	1,978	1,988	1,990	1,994	1,995	1,996	1,998	2,003
Slovakia	5,379	5,388	5,393	5,399	5,379	5,379	5,379	5,380	5,385	5,389
Finland	5,132	5,147	5,160	5,171	5,181	5,195	5,206	5,220	5,237	5,256
Sweden	8,844	8,848	8,854	8,861	8,883	8,909	8,941	8,976	9,011	9,048
UK	58,239	58,395	58,580	58,785	59,000	59,218	59,438	59,700	60,060	60,393
EU 15	374,223	375,072	375,941	377,213	378,756	380,536	382,701	384,978	387,373	389,545
EU 27	479,712	480,383	481,076	482,188	482,958	484,541	486,520	488,632	490,898	492,965
Croatia	4,572	4,501	4,554	4,442	4,437	4,444	4,442	4,442	4,444	4,443
Iceland	270	272	276	279	283	287	288	291	294	300
Norway	4,393	4,418	4,445	4,478	4,503	4,524	4,552	4,577	4,606	4,640
Russia	n/a	n/a	n/a	n/a	146,300	145,200	145,000	144,200	143,500	142,800
Serbia	7,831	7,800	7,773	7,661	7,736	7,500	7,481	7,463	7,441	7,463
Switzerland	7,081	7,096	7,124	7,164	7,204	7,256	7,314	7,364	7,415	7,459
Turkey	63,485	64,642	65,787	66,889	67,896	68,838	69,770	70,692	71,610	72,521
Ukraine	50,600	50,200	49,900	48,923	48,457	48,004	47,623	47,281	46,930	46,646

Source: Eurostat, International Monetary Fund, World Bank
Note:
- n/a: figures not available

ANNEX: EXPLANATORY NOTE ON DATA

Macroeconomic data

Macroeconomic data on GDP, inflation, unemployment and population are mainly from Eurostat. They are from the International Monetary Fund and the World Bank when not provided by Eurostat.

Representative Interest Rates

Definitions of interest rates used, where available:

BG: Interest rate (December) on long term loans to households.

BE: Long term initial fixed period interest rate, 10 years or more maturity.

DK: Adjustable mortgage interest rate. (Mortgage rate referenced to 6 months CIBOR).

DE: Loans with an initial fixed period interest rate (5 to 10 years).

EE: It is the weighted average of the annual interest rate on housing loans granted to households for new EUR denominated loans.

GR: Reviewable interest rate after a fixed term of 1 year.

ES: Effective average interest rate not including costs during the first period of the loan. The interest rate usually floats every 6 or 12 months, according to an official reference rate for mortgages secured on residential property.

FR: The rate communicated is the fixed average rate of secured loans "PAS" with a maturity of 12 and 15 years.

IE: Variable interest rate (≤1).

IT: Variable interest rate on a loan of EUR 100,000 with a maturity of 20 years.

CY: Interest rate on housing loans secured by assignment of life policy.

LV: Variable interest rate on new EUR denominated loans to households (≤1).

LT: Variable interest rate on new EUR denominated loans to households (≤1).

LU: Variable interest rate (≤1).

MT: Interest rate on loans for house purchase to households and individuals.

NL: Interest rate on total new lending for house purchase.

AU: APRC on new loans for house purchase to households

PL: Variable interest rate (≤1).

PT: The variable interest rate indexed to Euribor (≤1).

SI: APRC on new loans for house purchase to households in domestic currency.

SE: Variable interest rate (≤1).

UK: The average mortgage rate charged on all regulated mortgage contracts except lifetime mortgages newly advanced in the period. This interest rate is an average rate for fixed and variable rate products.

CH: Average rate of interest on domestic mortgage claims.